Gulf Research Center
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GCC and Türkiye
FINANCE AND INVESTMENT INDUSTRY OUTLOOK

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GCC and Türkiye

Finance and Investment Sector Outlook

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1. Executive Summary

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

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

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

1.1 Türkiye

Türkiye has a dynamic and evolving financial and investment industry that plays a significant role in its economy. The country has a well-developed banking sector consisting of 55 major banks, including state-owned, private, and foreign banks. The Banking Regulation and Supervision Agency (BRSA) regulates this sector.

Economic activity in Türkiye was strong in the first half of 2022, driven by local and overseas demand, but it decelerated in the second half due to deterioration of external demand. Despite the Russia-Ukraine conflict, the country managed to maintain a robust, increasing trend in exports in the first half of 2022 owing to a favorable external demand forecast and exporters' adaptability to market changes. As per the Central Bank of the Republic of Türkiye (CBRT), the annual growth rate of Türkiye was 5.6% in 2022, and the national economy has ranked well among G20 and Organisation for Economic Co-operation and Development (OECD) countries in terms of economic performance since the fourth quarter of 2019.

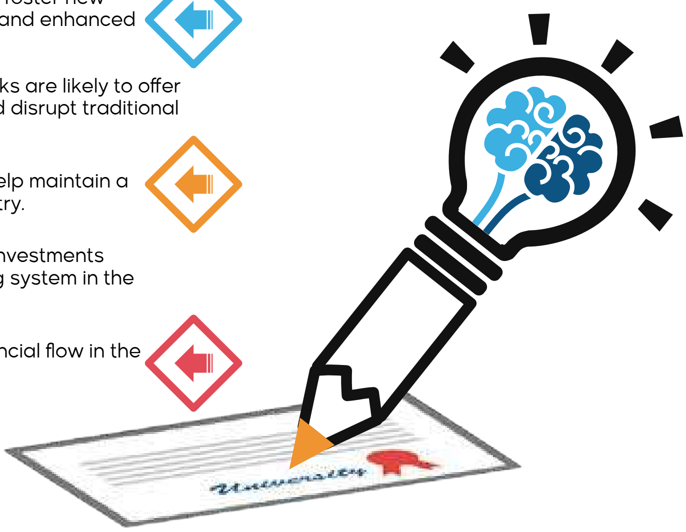
According to the CBRT, annual consumer inflation in Türkiye fell by 13.8% points in the first quarter of 2023 to 50.5%; it further continued to fall to reach 43.7% in April. The inflation rate was estimated to be 22.3% at the end of 2023, 8.8% at the end of 2024, and 5.0% by the end of 2025, with the further projection of a downward trend in the upcoming years. Domestic demand drove a quarterly recovery in economic activity in Türkiye in the fourth quarter of 2022. Indicators for the first quarter of 2023 imply that domestic economic growth was maintained by milder external demand and a buoyant course of domestic demand, notwithstanding the earthquake-related consequences. While global inflation has been dropping, it remains substantially above long-term averages. As a result, central banks around the world are continuing their efforts to curb inflation. Recent indications in Türkiye point out an upsurge in the underlying inflation trend, which can be attributed to the high trajectory of domestic demand, cost pressures, and the stickiness of service inflation. The Monetary Policy Committee (It is the decision-making body for monetary policy under the inflation targeting regime, as per the Central Bank of Türkiye, CBT. The committee is comprised of the Governor, Deputy Governors, a member appointed from among the members of the Board and another member to be appointed with the approval of the President of the Republic on the recommendation of the Governor) predicts worsening pricing would trigger inflationary pressures further. Thus, the committee decided to raise the policy rate (the one-week repo auction rate) from 8.5% to 15% as of June 2023.

In 2022, the CBRT implemented a comprehensive policy framework that prioritized the Türkish currency in all of its policy tools with an aim to gain and maintain price stability on a long-term basis. The Liraization Strategy, a crucial component of this policy framework, was made public in 2022. Moreover, Türkiye has a relatively stable capital market that includes the Istanbul Stock Exchange (Borsa Istanbul), which operates in equity, debt, and derivative markets. The Capital Markets Board of Türkiye (CMB) regulates and supervises the capital markets, ensuring transparency and investor protection. Further, the regulation and oversight operations in the payment services sector in Türkiye are governed under the Law on Payment and Securities Settlement Systems, Payment Services, and Electronic Money Institutions No: 6493 and secondary legislation.

Overall, the financial and investment industry in Türkiye is characterized as a dynamic and evolving industry with a robust banking sector and a mature capital market. Changes in monetary policies and upcoming financial decisions are expected to offer new opportunities to domestic and foreign investors.

1.1.1 Potential Future Outlook – Türkiye

- Türkiye would focus on Islamic banking growth, especially on providing Sharia-compliant financial products, which would help the banking industry meet the expectations of majority of the opulation.
- The upcoming open banking regulations could foster new collaborations, streamlined financial solutions, and enhanced customer services.
- New entrants and digital-only challenger banks are likely to offer alternative and modern banking solutions and disrupt traditional banking models in Türkiye.
- Sustainable finance and digitalization would help maintain a positive approach among bankers in the country.
- Green finance and renewable energy-based investments would extend the scope of the Türkish banking system in the coming years.
- Adopting digital currency would boost the financial flow in the country in the future.
- The growing financial technology (FinTech) sector and the use of FinTech in transactions are expected to propel digital banking systems in the country.



1.2 Gulf Cooperation Council (GCC)

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

The GCC has established capital markets facilitating trading equity, bonds, Sukuks (Islamic bonds), and other financial instruments. Major stock exchanges in the region include Dubai Financial Market, Abu Dhabi Securities Exchanges, and Saudi Stock Exchange (Tadawul). In contrast to the declining global capital market activity since 2022, the GCC region continued strongly in Q1 2023 with the significant initial public offering (IPO) activity, which earned it the second biggest Q1 proceeds since 2015. In Q1 2023, 9 IPOs earned US$ 3.3 billion in proceeds, compared to US$ 4.9 billion in Q1 2022 and US$ 7.2 billion in Q4 2022 from 15 IPOs each. The UAE accounts for over 90% of GCC IPOs.

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

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

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

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

1.2.1 Potential Future Outlook – GCC

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

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

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

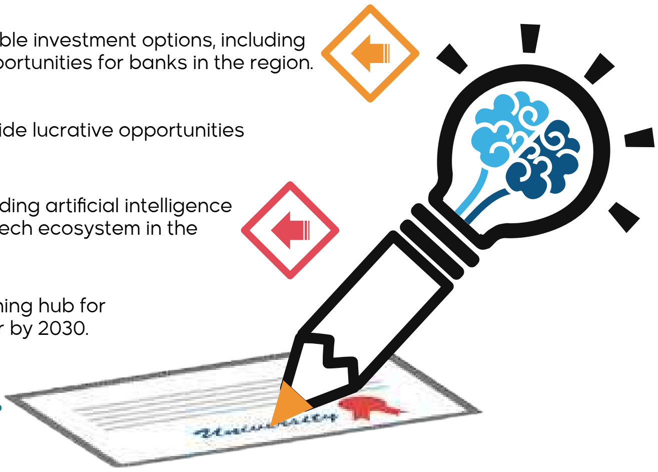
GCC is anticipated to increase its focus on sustainable investment options, including the green economy, which would create diverse opportunities for banks in the region.

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

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

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

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



1.3 Financial Development Index (2020) Comparison

Table 1. Financial Development Index (2020) Comparison

2020		Türkiye	Saudi Arabia	Qatar	Kuwait	UAE	Oman	Bahrain
Financial Development Index		0.54	0.45	0.53	0.37	0.46	0.37	0.41
Financial Institutions	Overall	0.48	0.34	0.48	0.48	0.35	0.41	0.32
	Depth	0.22	0.18	0.60	0.19	0.22	0.19	0.30
	Access	0.54	0.38	0.24	0.50	0.32	0.34	0.00
	Efficiency	0.58	0.38	0.35	0.71	0.47	0.69	0.74
Financial Markets	Overall	0.58	0.54	0.74	0.25	0.55	0.32	0.48
	Depth	0.45	0.74	0.70	0.42	0.63	0.36	0.66
	Access	0.31	0.56	0.89	0.13	0.83	0.49	0.71
	Efficiency	1.00	0.25	0.17	0.15	0.16	0.08	0.03

Source: IMF

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

1.4 GCC and Türkiye - Summarized Cooperation Opportunities

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

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

2. Türkiye

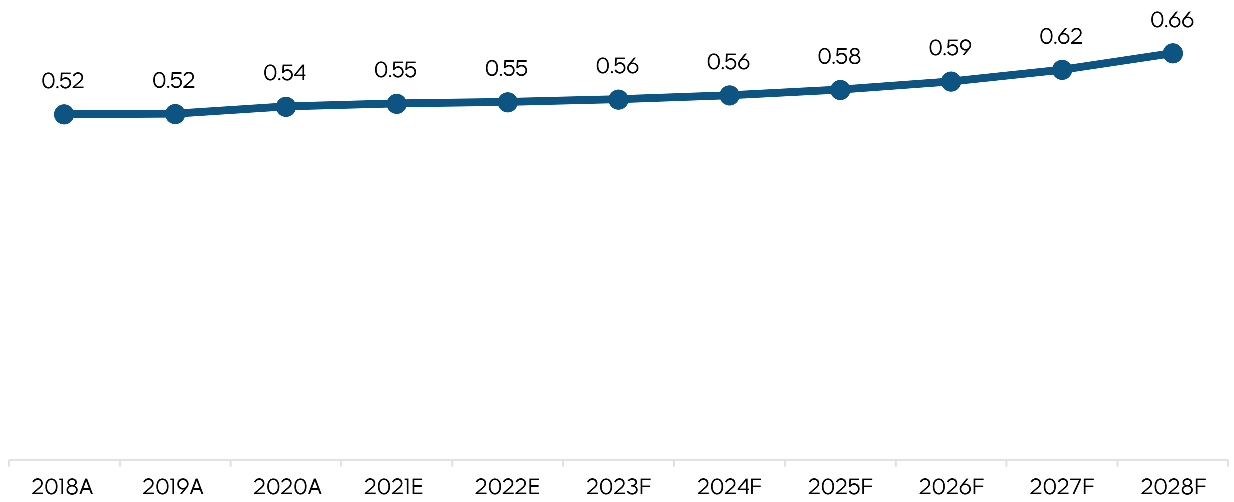
2.1 Introduction to Türkiye's Finance and Investment Sector

2.1.1 Overview and Key Industry Trends

Türkiye has a well-established banking sector, with domestic, foreign, and private banks. Türkish banks offer numerous services, including asset management, investment banking, and commercial banking. As of April 2023, there were 55 banks in the banking sector, including 35 total deposit banks and 20 investment and development banks. Moreover, the total assets of the banking sector in Türkiye stood at ~US$ 766.1 billion in December 2022, while total loans stood at ~US$ 404.9 billion.

2.1.2 Türkiye's Financial Development Index Forecast (2018–2028)

Figure 1. Türkiye's Financial Development Index Forecast



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

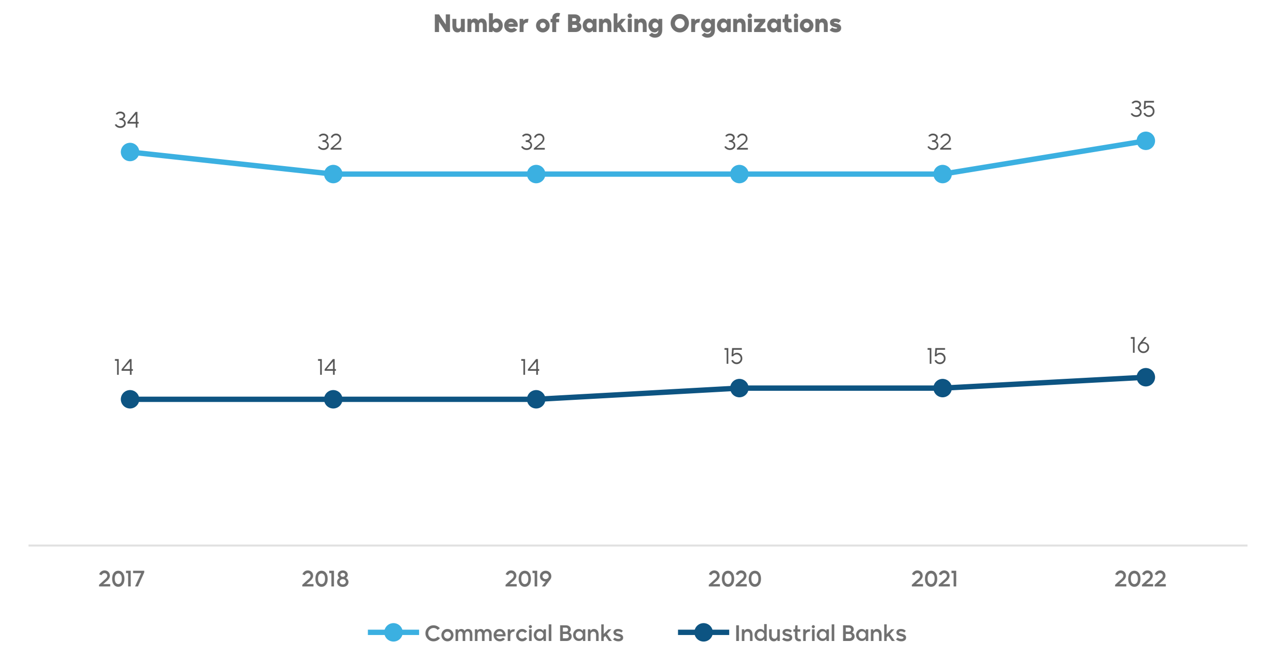
The above graph showcases the forecasted growth of the country in FD Index. Investments from banks to promote different sectors of the economy have borne fruit and aided the growth of the finance and investment sector. Türkiye has invested much in expanding its energy, telecommunications, and transportation infrastructure. Its FinTech sector has grown rapidly as a result of the greater acceptance of digital technologies, which can be mainly attributed to its young, tech-savvy population. As of 2022, Türkiye had ~94 million active users of digital banking transactions, per the Banks Association of Türkiye.

2.2 Finance and Investment Sector in Details

2.2.1 Types of Banks

As of April 2023, Türkiye had 55 banking organizations of which 35 were commercial banks (comprising both deposit and participation banks), and 20 were banks for development and investment. The latter have been considered as industrial banks in succeeding sections.

Figure 2. Number of Banking Organizations in Türkiye



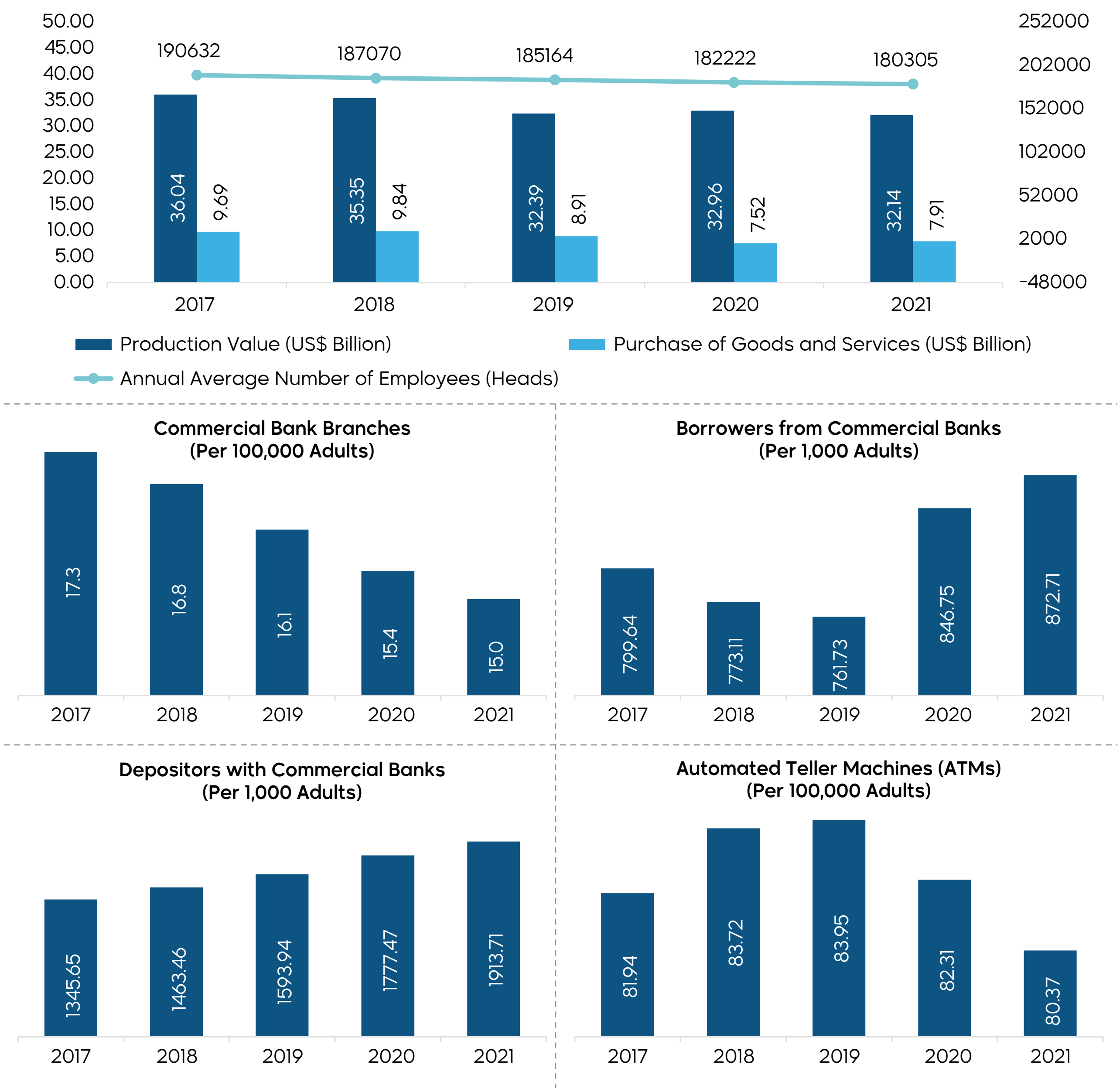
Source: Tuik Info and Central Bank of the Republic of Türkiye (CBRT)

The Banking Regulation and Supervision Agency (BRSA) regulates all the banks under the Banking Law and applicable secondary regulations. Foreign individuals or firms may establish and operate banks in the country and have branches or representative offices in adherence to all required laws, subject to clearance from BRSA. Representative offices are allowed to advertise foreign banks and their services, and conduct market research in Türkiye, with certain restrictions on banking or other commercial activities.

2.2.1.1 Commercial Bank

Under the Banking Law, commercial banks may accept deposits (participation funds in the case of participation banks), carry out any type of payment and collection transaction, grant cash and/or non-cash loans, provide safe-keeping services, complete commercial bill transactions, trade in money market instruments, issue payment instruments, carry out foreign exchange transactions, undertake guarantees, trade precious metals and stones, trade and intermediate contracts of derivative instruments and capital market instruments, provide investment counseling services, manage portfolios, among others.

Figure 3. Commercial Bank Statistics of Türkiye



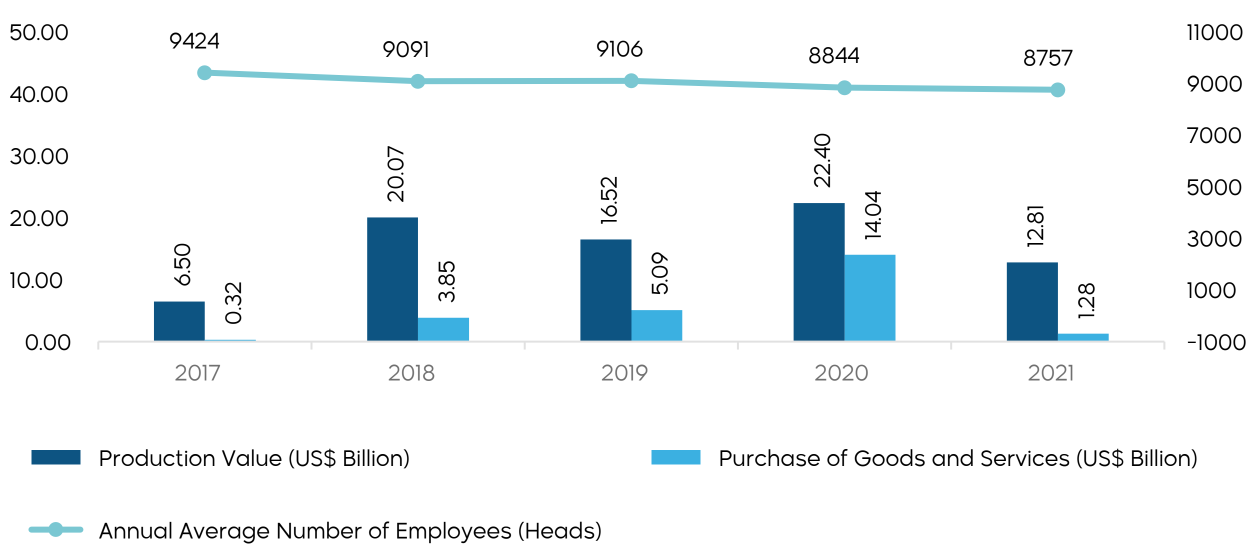
Source: IMF and World Bank

As can be seen from the above graphs, commercial banks dominated the banking sector in Türkiye. It had higher annual average number of employees, than industrial banks. The decline in commercial bank branches and ATM machines (per 1,00,000 adults) is primarily due to the fast rise in population and doesn't indicate a decline in the sector. The same is verifiable when the statistics for borrowers and depositors are seen. It shows an upward trend, since there have been a rise in digital banking, and tech-savvy youngsters of Türkiye highly prefer such mode of banking.

2.2.1.2 Industrial Bank

Industrial banks in Türkiye serve domestic and foreign institutional investors of all sizes from different sectors. These banks offer investment loans, working capital loans, and small and medium enterprises (SMEs) development loans, among others. Medium and long-term loans are often provided to finance, tourism, education, health, and energy companies. A few banks provide investment services such as government bonds, mutual, variable, and liquid funds; treasury bills; and repo services. Additionally, these banks offer electronic money transfer services, foreign currency and security transfer services, and account-to-account money transfer services, among other financial services. Depending on client requirements, such institutions also provide economic research, and mergers and acquisition (M&A) consulting services.

Figure 4. Industrial Bank Statistics of Türkiye



Source: Tuik Info and CBRT

Unlike commercial banks. Industrial banks hold a much lower share of the Türkish finance and investment sector. 2020 witnessed high growth rates owing to greater demand for credit from different sectors of the economy. Additionally, higher automation in the sector is leading to a gradual decline in total workforce for the sector.

2.2.2 Other Financial Institutions

Other financial institutions include asset management companies, leasing companies, factoring companies, finance companies, and insurance companies. Such institutions contribute less than 10% towards the financial sector of Türkey, as per data from BRSA. Asset management companies are the largest subsector amongst other financial institutions. The sector is expected to undergo a widespread transformation, supported by conscious steps undertaken by the regulators and industry alike. Capital Markets Board's (CMB) 'twinning project' is one such step that aims to twin CMB's fund law with EU's UCITS III, a supportive and proactive approach towards asset management. Again, in November 2021, the CMB submitted draft guidelines for public opinion on Green Debt Instruments and Green Lease Certificates. The guidelines were intended to regulate the principles concerning green debt instruments and lease certificates, which are to be issued to finance investments for contributing to sustainability. Following the public opinion process, the guidelines were accepted and published in February 2022. With the issuance of such guidelines, the CMB anticipates taking a step towards sustainability and aims to make Türkish issuances compliant with global standards by introducing green and sustainable debt instruments.

Table 2. Debt Securities Issued Abroad, Türkiye:

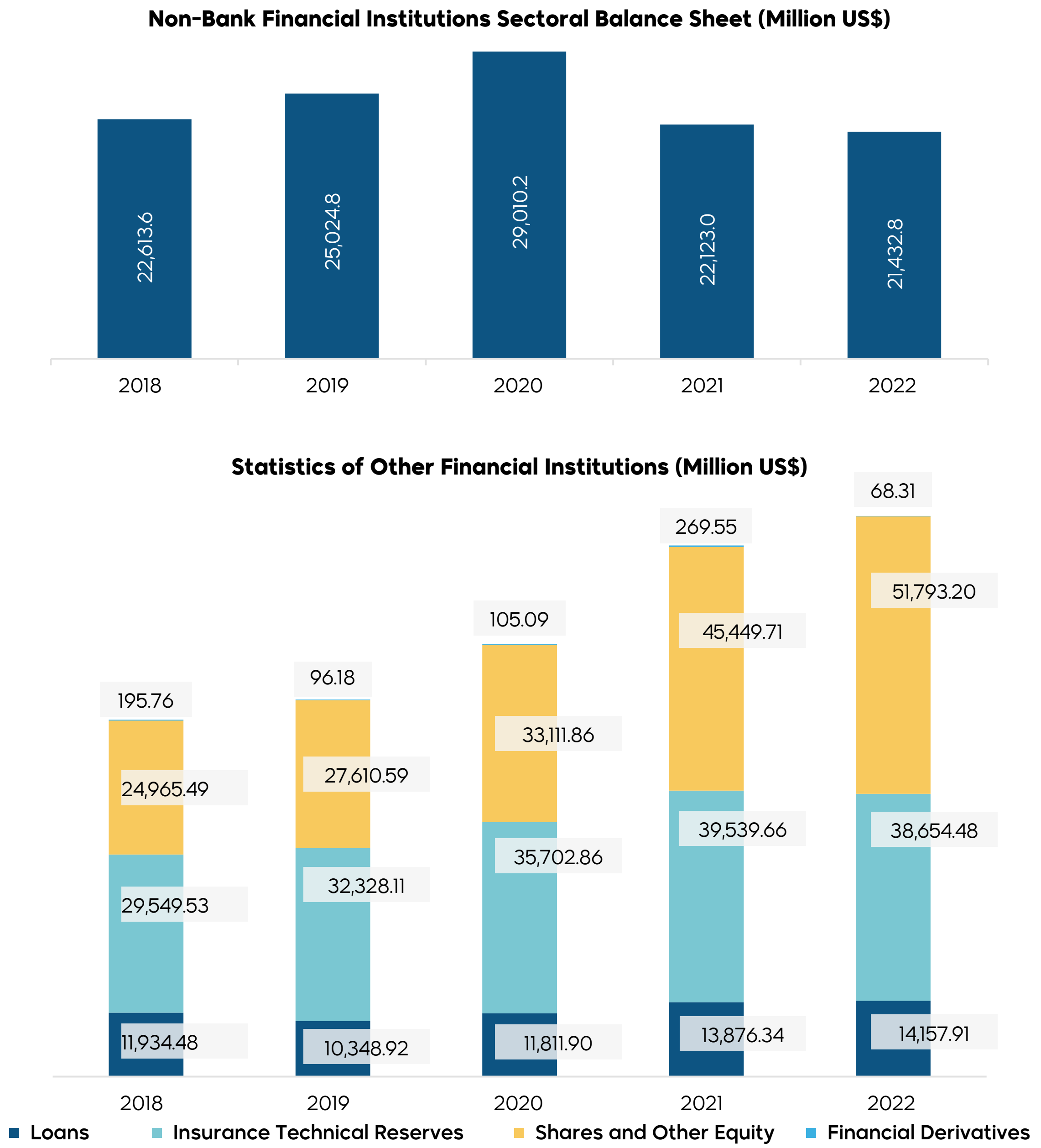
Debt Security Statistics	Debt Securities Issued Abroad by the General Government (Market Value, Million US$)				Debt Securities Issued Abroad by Sectors Except for General Government (Market Value, Million US$)			
Year	2020	2021	2022	2023	2020	2021	2022	2023
Financial Institutions	30043.46	32377.90	37234.10	39102.85	212.26	348.16	759.37	875.57
Banks	23546.77	24963.08	27153.60	26851.53	169.85	139.04	139.92	234.33
Mutual Funds	1068.41	2194.72	3828.24	4938.79	19.79	168.08	555.55	594.54
Other Financial Intermediaries	122.99	55.71	258.58	233.35	0.15	0.64	7.51	3.88
Financial Auxiliaries	1351.85	935.06	1085.50	1400.00	0.00	0.00	0.00	0.23
Insurance Companies	1209.57	1212.81	1980.02	2399.04	11.83	19.80	9.82	8.48
Pension Funds	2743.86	3016.52	2928.17	3280.14	10.64	20.60	46.56	34.11

Source: CBRT

Per the IMF definition, "debt securities are negotiable financial instruments serving as evidence of a debt. Debt securities should display all, or most, of the following characteristics: an issue date, an issue price, a face value, a redemption date, the coupon rate, the coupon dates, and the currency of denomination and settlement." The debt market allows the government to raise money to finance various developmental activities. It plays an important role in efficiently mobilizing and allocating economic resources. The development of the debt securities market broadens financing options for corporates and diversifies a firm's funding sources. From an economy-wide viewpoint, debt markets ease the concentration of credit and maturity risks in the banking system, lowering potential disruption to credit supply.

The below figure gives an overview of the capital held by non-bank financial institutions in the country:

Figure 5. Statistics of Other Financial Institutions



Source: CBRT and IMF

As can be seen from the image, the disruptions from the pandemic, the Russia-Ukraine conflict and the presidential elections had led to a fall in the sector's overall value. The sector is anticipated to return to its pre-pandemic growth trajectory by 2024, despite the earthquake-related disruptions in early 2023. Loans granted have risen gradually and were higher than pre-pandemic levels. The same observation is also recorded for financial derivatives and shares and other equity, demonstrating the sector's growth.

2.2.3 Economic Contribution

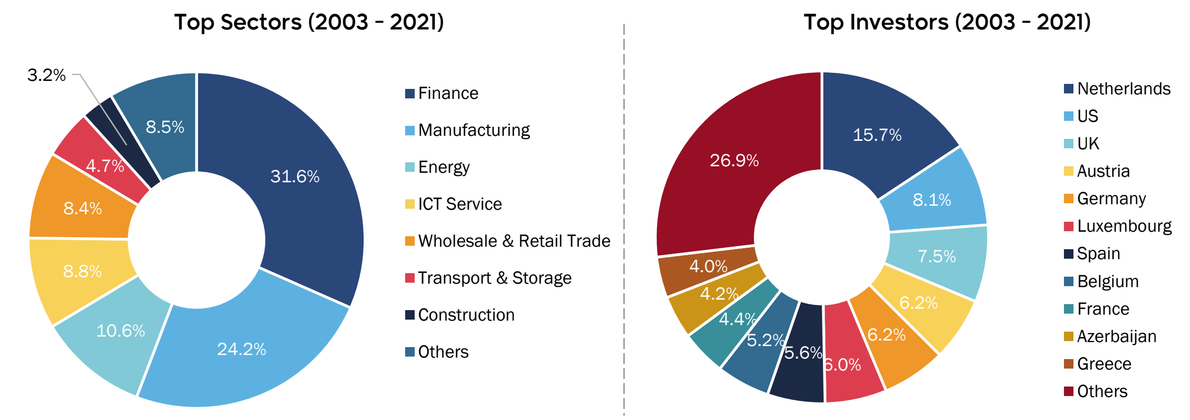
The financial sector in Türkey is a key contributor to the economy and has developed rapidly over the past few years. Banks handle most of the money and capital market transactions and financial activities, and commercial banks make up most of Türkey's financial sector. The banking sector's total credit portfolio structure supports growth as most loans are extended to businesses. Per 2021's data from BRSA, corporate and commercial sectors account for ~53% of the total loan book, while another ~24% is provided to SMEs. Mortgages constitute ~8% of the portfolio, and consumer loans ~15%. Such a diverse loan portfolio indicates the sector's critical role in the development of businesses of various sizes. Additionally, the growth of financial institutions has boosted the rise in the number of financial technology (FinTech) startups in the country. It has thus aided in Fintech penetration and adoption amongst the Türkish population. Thus, the sector is instrumental in promoting economic growth of the country.

2.2.3.1 Government Initiatives and Programs

- In June 2023, the Central Bank of the Republic of Türkey (CBRT) simplified securities maintenance regulation to improve the functionality of market mechanisms, ease and improve the existing micro-prudential and macroprudential framework and reinforce macro-financial stability.
- In June 2023, CBRT increased its key rate by 650 basis points to 15% to reduce inflation in the country. Additionally, the Labor Ministry raised the minimum wage by 34% in a bid to boost consumer spending.
- In May 2023, the Monetary Policy Committee Meeting summary was published. The meeting mainly focused on the following aspects:
  - Plans to prioritize establishing supportive financial conditions to lessen the ill effects of the earthquake and support the necessary recovery.
  - Improvements in financing costs of loans to provide efficiency gains in targeted areas.
  - Efforts to stabilize the general price level to foster macroeconomic stability and financial stability.
  - Continuation of the reversal in currency substitution and an upward trend in foreign exchange reserves.
- In December 2022, the CBRT announced the continuation of its "liraization" strategy to increase the share of Türkish lira deposits in the banking system to 60% of all deposits during the Q2 of 2023. As part of the strategy, the central bank raised the securities maintenance ratio required for foreign exchange (forex) deposits to 5% from 3% of deposits in October 2023.
- In February 2022, the Türkish government launched the Deposit and Participation Scheme for Nonresident Türkish Citizens—YUVAM—to urge expats to repatriate their savings to Türkiye. In March 2022, it launched an informational website regarding the scheme. The YUVAM account enabled nonresidents and their foreign companies to invest their savings in Türkish liras (TL) in Türkish banks. The CBRT provided an additional return guarantee and the exchange rate protection guarantee for all YUVAM accounts.

2.2.4 Capital Investments and Major Investors

Figure 6. Investments in Türkiye



Source: Central Bank of the Republic of Türkiye, World Bank, UNCTAD, and ITA

As depicted in the above pie chart, Türkiye's finance sector is a significant receiver of investments. The European Investment Bank, Council of Europe Development Bank, and Islamic Bank are significant lenders in Türkey. Other prominent lenders include the International Finance Corporation, the International Development Association, and the International Bank of Reconstruction and Development. The UK, Germany, the Netherlands, and the US are the prominent investors for Türkey, whereas Bahrain and the UAE are noteworthy investors from the GCC. The Türkish government is adopting relatively homogeneous and transparent strategies. It is expected to bolster growth, halt the depreciation of Türkish Lira, and promote the country's image as an investment destination. A few of the key investments carried out in Türkiye in recent years are mentioned below. Further, others in the pie chart held the major market share which covers GCC and other countries such as Iraq, Iran, Yemen, etc.

In February 2023, Norway's state wealth fund announced the investment it made, worth US$ 1.2 billion, in the stocks of various Türkish companies in 2022.

In January 2023, the European Bank for Reconstruction and Development (EBRD) announced that it invested ~US$ 1.74 billion in Türkiye in 2022. As per the bank, this was the highest annual investment volume in all the economies wherein it operates.

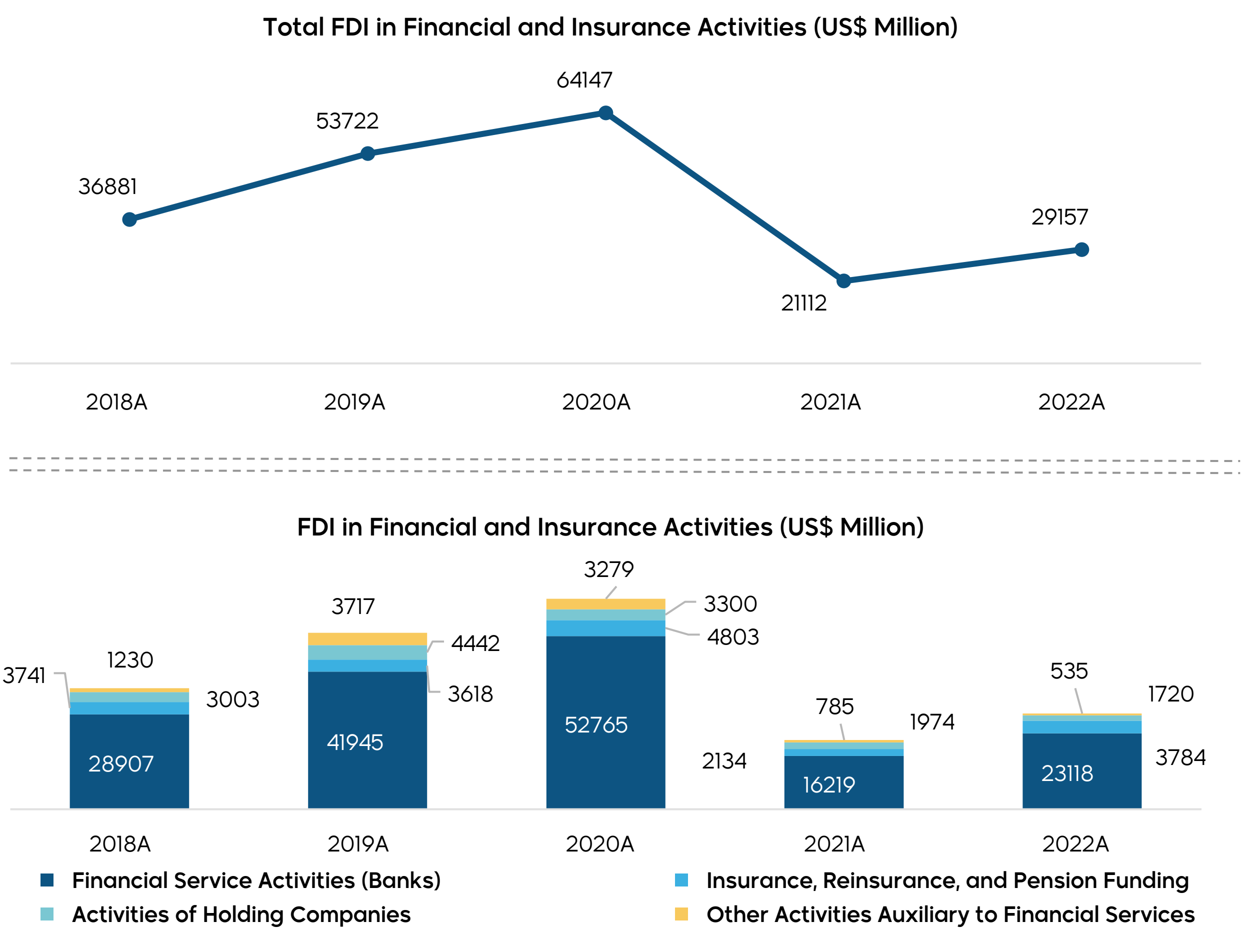
In October 2022, a Türkish FinTech start-up providing fast, easy, and low-cost financing for SMEs and facilitating supplier financing for corporate enterprises raised Series A funding of US$ 11 million. The funding was backed by several organizations, including a leading Türkish asset management company and the Development Investment Bank of Türkiye (TKYB). This financing initiative aided the start-up in reaching a US$ 50 million valuation.

In January 2022, EBRD and a Netherlands-based finance company extended a US$ 80 million financing package for a Türkish renewable energy company, which is a joint venture of a leading German utility company and a Türkish conglomerate. The new venture runs two solar plants, nine wind farms, and one hydro-electrical power plant, presenting a total of 720 megawatts (MW) of installed capacity.

2.2.5 Foreign Direct Investment (FDI) – Sectoral Analysis

Financial and Insurance Activities comprise of all the banking and non-banking financial activities within the country. Türkish banks have been the major attractor of FDI, followed by the insurance, reinsurance, and pension funding sector.

Figure 7. Total FDI Inflows in Finance and Investment Sector, Türkiye, (US$ Million)



Source: CBRT

As can be seen in the above charts, the finance and investment sector in Tukey have been drawing significant amounts of FDI from various countries. However, the global economic downturn has resulted in a slight decline in the past two years but is expected to bounce back from 2024. Positive initiatives being undertaken by the Türkish government is expected to aid in the same.

2.2.6 Ongoing and Upcoming Financial and Investment Projects

In May 2023, the EBRD provided a financing package of US$ 143.25 million to a leading Türkish bank through a Diversified Payment Rights Program. Through this package, the bank plans to prioritize providing funds for green investments, women-led businesses, and earthquake response programs.

In April 2023, the Istanbul Financial Center (IFC), with a total valuation of US$ 3.4 billion, was inaugurated. As per the country's Presidential Finance Office, IFC can meet changing global and regional needs by providing the country with a financial ecosystem containing dynamic, qualified human resources. The center is also expected to aid in achieving Türkiye's goal of improving its rank among global financial centers.

In April 2023, the Industrial Development Bank of Türkiye (TSKB) and the Investment Bank of Türkiye (TKYB) secured a climate finance loan of ~US$ 240 million from the German Development Bank (KfW). With this loan amount, the abovementioned banks intend to invest in projects involving renewable energy and electric vehicle technology, among others, in Türkiye.

In March 2023, EBRD announced its plans to invest up to US$ 1.6 billion in the next 2 years to support the reconstruction and recovery of the earthquake-hit regions of Türkey.

In November 2021, the EBRD extended a new long-term loan to one of the largest utility companies in Türkey. The new loan was provided to finance the company's investment plan for 2021–2025. The investment plan focused on upgrading its network, introducing smart metering and smart grid systems, digitizing networks, improving the reliability of power supply, and integrating renewables, among other measures.

2.3 Industry Dynamics

2.3.1 Drivers

2.3.1.1 Strong Banking Sector

The strong and well-managed banking sector in Türkiye creates a stable financial climate. Domestic credit to the private sector (% of GDP) was 75.2 in 2020 and 72.4 in 2021. While it declined by some extent (54.5) in 2022, owing to economic downturns worldwide and business disruptions due to the Russia-Ukraine conflict, the IMF expects it to increase significantly by the end of 2023. Additionally, Türkish banks' nonperforming loans to total gross loans declined to 2% in 2022 from 5% in 2019. Türkish banks are well regulated and provide both individuals and businesses with a wide range of services. They offer services such as securities brokerage and basic banking services to different industries.

Commercial banks make up the majority of Türkiye's financial sector, accounting for ~90% of its assets as of the end of 2021. Asset management firms' control ~5% of the total assets of the financial sector, whereas leasing, factoring, insurance, and finance firms have small businesses in the country with little impact on the nation's financial intermediation. The monetary policy regulatory framework and economic growth in 2021 significantly influenced the activity of the banking sector in Türkey. The strength and stability of the banking sector boost investor confidence and make it easier to finance projects and businesses. Hence, a strong banking sector favors the growth of the finance sector in Türkiye, along with attracting investors to invest in the country.

2.3.1.2 Robust Economic Growth

Türkiye ranks as the world's 19th largest economy, with a GDP of over US$ 906 billion. It is one of the G20 countries and is a significant provider of official development assistance. During 2006–2017, Türkiye undertook ambitious reforms, following which it had rapid development rates that helped the nation reach upper-middle income status and lessen poverty. The share of people living below the US$ 6.85 per day poverty level nearly dropped to 9.8% during 2006–2020.

With the robust post-COVID-19 pandemic recovery, the Türkish economy expanded at a rate of 5.6% in 2022 as opposed to 11.4% in 2021. The industrial and service sectors exhibited the highest improvements by 3.3% and 9.7%, respectively, in value addition. The work market could fully recover from the pandemic because of the strong economic growth of the country.

Banking in Türkiye is a large sector of the economy with strong capital and liquidity buffers. The banking sector's asset-to-GDP ratio climbed from 80% in 2010 to 120% by the end of 2020. Moreover, the banking sector supports economic activity through regular and widespread funding. Thus, robust economic growth promotes various investment initiatives and bank activities, thereby driving the investment and banking sector growth in Türkiye.

2.3.1.3 Lucrative Incentives and Tax Relief

Türkiye offers a comprehensive set of investment incentives that lessen the burden of up-front costs and speed up the return on investment. Through a variety of grants, incentives, and loans, the Türkish government also offers extensive assistance programs for research and development, innovation efforts, and staff training programs. Türkiye has signed double taxation prevention agreements with 86 nations, including the US, the UK, Germany, China, India, and Japan. This makes it possible to deduct taxes paid in one of two nations against taxes owed in the other. The country has one of the most lucrative programs to promote foreign direct investment (FDI), which boosts the trust of both domestic and foreign investors. Tax reductions, government assistance, social security contributions, land allotments, and Türkish citizenship are a few of the incentives offered by the government to investors.

Businesses investing in Türkiye are eligible for several tax benefits, including lower corporation tax rates, exemptions from value-added tax on imported machinery and equipment for investment projects, and waivers from customs duty on imported raw materials for manufacturing. The government of Türkiye offers business support services for financing employee and individual training, business counseling, and establishing operations in the nation. The Türkish Ministry of Trade would compensate social security premiums paid by international enterprises for Türkish employees for 7-12 years. Land allocation may be available for certain investments, such as those in solar energy or chip fabrication. The Türkiye citizenship by investment program grants the primary applicant and their family members Türkish citizenship in exchange for foreign investment. Although many of these awarded projects require significant resources, they illustrate Türkiye's strong policy of promoting economic development. Such developments are expected to promote the lending activities of banks, thereby fueling the investment and banking sector in the country.

2.3.1.4 Sustainable and ESG Investments

The importance of environmental, social, and governance (ESG) factors is rising in different countries in the world, including Türkiye. These factors are anticipated to receive more attention from Türkish firms and financial institutions, as investors are showing more interest in finding ways to create ethical and sustainable investments. The government of Türkiye is likely to pass legislation to promote green investments and sustainable development. .

Despite being a developing nation, an emerging market, and a territory that has recently been hit by devastating natural disasters (wildfires and floods), Türkiye has made great advancements in sustainability and ESG. The country has ratified the Paris Agreement on Climate Change that aims to limit the global temperature increase to 1.5°C by 2030, halve emissions by 2030, and achieve net-zero emissions by 2050. Through these goals, the Paris Agreement seeks to strengthen the international response to climate change. Although Türkiye signed the deal in 2016, it ratified it in November 2021. As a G20 member that has ratified the agreement, Türkiye will strive to reduce its reliance on fossil fuels, increase its investment in clean energy sources, and encourage the business sector to be more environmentally conscious and sustainable. Thus, the focus on sustainable and ESG investments will help Türkiye to fetch good amounts of investment in the future, thereby fueling the finance and investment sector in the country.

2.3.2 Challenge

2.3.2.1 Inflation Rates

Per the Türkish Statistical Institute, the inflation rate was 85.5% in October 2022. In an attempt to combat inflation, the Central Bank of the Republic of Türkiye has announced to raise interest rates to 15% in 2023. The bank stated that there will be additional gradual monetary tightening until the improvement of the country's inflation situation. Despite the massive increase of 650 basis points in interest rate for the first time since March 2021, it fell short of experts' predictions of a 1,150-basis point increase to 20%. Following the announcement, the Türkish lira lost ground against the US dollar, falling to a record low of nearly 24.1 from 23.54 before the decision was made. Inflation soared, crossing 80% in late 2022 and falling to just under 40% in May 2023. Thus, with the rise in inflation, Türkish banks would further strive to bring down the interest rates, which in turn would hamper the lending rates and the overall economy of the country in the coming years. Additionally, high inflation rates have an inverse statistical correlation with real GDP, since value of GDP in real term decreases with higher inflation. A decrease in real GDP is interpreted as a sign that the economy is not performing well. When real GDP declines, unemployment increases since companies tend to reduce workforce. It results in reduced spending, affecting various businesses in the country. Thus, high inflation rates are leading to challenges in growth of the financial market.

2.3.2.2 Profit Slump for Banks in Türkiye with De-Dollarization

The annual growth of major financial institutions in Türkiye is projected to witness a slight decline post the de-dollarization campaign and is also expected to hamper their profitability in 2023. De-dollarization at banks was aimed at tackling high inflation, by making the lira the only medium of exchange in domestic commercial transactions. However, it was followed by further rate cuts, leading to lower profitability of banks. The Türkish government's support for state-owned banks, which have deliberately excluded profitability from their plans, makes operations further difficult for private lenders. State banks receive capital infusions every year, which support their expansion objectives, resulting in unfavorable competitive dynamics and an inefficient banking system.

On March 29, 2023, the sovereign wealth fund of Türkiye provided ~US$ 4.27 billion in combined funding to three leading banks, with the trio expected to increase lending, to assist in rebuilding areas affected by the earthquake that struck in February 2023. However, no such support is extended towards private banks, and hence it became challenging. The government has realized the detrimental effect of such rate cuts, and hence in June 2023 interest rates were hiked by 15%. Such a move is expected to lower the impact of de-dollarization by some extent.

2.3.2.3 Rising Impact of Natural Disasters and Climate Change

Türkiye is one of the Organization for Economic Cooperation and Development (OECD) member nations. It is at a high risk of climate change. According to the Disaster and Emergency Management Authority of Türkiye, the country recorded 39 landslides, 66 forest fires, 16 snowstorms, and 107 floods in 2021. Meanwhile, as climate change progresses, the annual probability of flash floods, droughts, high-heat events, and wildfires is anticipated to rise. These factors have various effects on the banking sector and the economy. For instance, heat stress is predicted to lower labor productivity, whereas drought can affect other water consumers, including those in urban areas. Other calamities, such as earthquakes, pandemics, and food price hikes internationally amplify these risks.

Türkish banks are exposed to significant physical risks, given their geographically concentrated loan portfolios. For example, nearly 42% of all bank loans are concentrated in Istanbul, Tekirdag, and Kocaeli, which are at a high risk of drought and earthquake. Tourism sector loans are mostly concentrated in Antalya and Muğla, which were hit by the massive forest fires in 2021. Considering the impact of climate change, major global finance and investments players might show reluctance in entering the Türkish market, which would restrain the growth of the sector.

2.3.3 Opportunities

2.3.3.1 Competent and Skilled Workforce

The young and educated population of Türkiye is perceived as an asset by investors while they face substantial hurdles in establishing and operating businesses in other parts of Europe owing to the aging and declining population. The country offers considerable opportunities with its burgeoning, young, and vibrant population generating a robust labor pool and a rich domestic market. Türkiye recorded an annual population hike of 599,280 persons in 2022, reaching 85,279,553 (~85.28 million) as of December 31, 2022. The Türkish Statistical Institute predicts that the national population is likely to reach 100.3 million by 2040 and 107.6 million by 2069. ~34.3 million people in the country constitute the total labor force of the country, which makes it the 2nd largest labor force in Europe.

Additionally, Türkiye is prioritizing science, technology, engineering, and math (STEM) skill development in education to form the foundation for facilitating rapid digitalization. Türkish corporate entities are utilizing their Corporate Social Responsibility (CSR) activities to boost STEM skills. In July 2022, a leading Türkish multinational appliance manufacturer launched a STEM education initiative intending to encourage women to pursue careers in STEM and related fields. The initiative was designed for women pursuing their third or final year of undergraduate studies in STEM areas. Such education sector trends are expected to aid in technology developments, and also promote growth of the fintech sector.

Furthermore, the young population contributes significantly to the labor force. Thus, the availability of a competent and skilled workforce attracts more investors and encourages finance frameworks and initiatives, thereby offering notable opportunities to the finance and investment sector in Türkey.

2.3.3.2 Capital Market

The Istanbul Stock Exchange (Borsa Istanbul) is the main exchange in the country, which provides a trading platform for stocks, bonds, derivatives, and other financial instruments. Investment banking services such as initial public offerings (IPOs) and mergers & acquisitions are also key components of capital market activity. Türkish stock markets dropped in 2020 due to the onset of the COVID-19 pandemic. However, the number of IPOs upsurged in 2021, with 32 companies launching IPOs and raising ~US$ 1.27 billion. This upward trend continued in 2022 as well. The number of investors in Türkish equity capital market rose from 2.4 million in 2021 to 3.7 million investors as of December 24, 2022, with a total market capitalization of ~US$ 532 billion. The majority of this rise was attributable to increased interest shown by domestic investors. Thus, the flourishing Türkish capital market is providing opportunities for investment bankers, dealers, and asset managers.

2.3.3.3 Rising FinTech Industry

FinTech have always been one of the most dynamic sectors in Türkiye finance industry. The FinTech industry in the country has been rapidly evolving, mainly, due to the growing adoption of digital technologies and the increase in the young tech-savvy population. Start-ups and established financial institutions are actively investing in technology-driven solutions to enhance customer experience and financial inclusion. The country ranked 6th in the world and 1st in Europe in terms of credit card transactions. According to the Digital, Internet and Mobile Banking Statistics published by the Banks Association of Türkiye, the number of active retail digital banking customers reached 86.7 million in June 2021. In the Türkish startup ecosystem, there are 629 active FinTech companies and there is a rise in trend of the FinTech sector across Türkey. This in turn will boost the finance sector across the country.

2.3.3.4 Regional Trade Hub

Türkiye is a major commerce hub, connecting Europe, Asia, and the Middle East due to its strategic location and well-developed transportation. Within a 4-hour flight radius, the country benefits from a unique geographic location that allows easy access to over 11.3 billion people and a combined market of US$ 28 trillion in GDP throughout Europe, the Middle East, and Central Asia. Germany, the US, the UK, Iraq, and Italy are the top export partners for Türkiye. Further, China, Russia, Germany, the US, and Italy are its top import partners. According to preliminary data generated with the assistance of the Türkish Statistical Institute and the Ministry of Trade, exports by Türkiye were valued at US$ 22.91 billion in December 2022, up 3.0% from December 2021. Further, its imports were valued at US$ 32.61 billion in December 2022, up 12.2% from December 2021. Thus, investors can benefit from the geographic location of Türkiye to gain access to various markets and participate in international trade.

2.3.3.5 Emerging Market Potential

Türkiye is a developing market with a huge and dynamic economy. Per the Türkish government, the country's economy is expanding rapidly, with an average annual GDP growth rate of 5.4%. Its population (currently 85.3 million) is expanding by approximately one million people each year. The rapid urbanization trend in the country has resulted in more than 24 urban centers with populations exceeding one million. Türkiye has implemented public-private partnership (PPP) projects worth US$ 195 billion across a wide range of sectors. The country has capitalized on this tendency in recent years and would continue the same in the future.

Türkiye offers favorable investment legislation for PPP investments, which can be realized through a variety of models, including build-operate, build-operate-transfer, transfer of operating rights, and so on. Domestic and international legislation that safeguards investments and allows international arbitration can help boost the investment scenario in the country. Macroeconomic policies, investments, and, most crucially, good public financial management in Türkiye support PPP ventures requiring guaranteed purchase. Thus, as the market continues to grow in coming years the country is expected to witness more development, which will in turn surge its overall growth potential.

2.3.4 Macroeconomic Factors Impacting the Sector

GOVERNMENT		• Türkish government is undertaking steps to contain inflation and promote economic growth. While the earthquake has caused significant damage to the short-term growth prospects of the country, supportive financial measures undertaken are expected to stabilize the economy and financial markets.
ECONOMICAL		• Türkiye has had moments of strong economic growth, but it has also encountered issues such as high inflation and currency depreciation. These factors can have an impact on investment decisions and the general health of the finance sector. • The ability of Türkiye to attract international investment is critical for the expansion of the finance sector. Improvements in government policies and economic stability is expected to boost investor confidence, and aid in attracting investors.
SOCIAL		• The large Türkish population and shifting demographics have an impact on consumer behavior, cultural elements, and the banking and investment sector's demands. The 85.3 million-strong population of the nation is increasing by nearly 1 million annually, and so is adoption of technology. • The acceptance of financial products and services can be influenced by people's attitudes toward investments, savings, and financial planning. Growing tech savvy population and the acceptance of financial products is thus positively influenced by the shifting demographics.
TECHNOLOGICAL		• The financial sector in Türkiye has changed as a result of technological development and digital platform adoption. The sector's fast growth can be attributed to the young tech-savvy population and the increased acceptance of digital technologies. An average of 9% of new ventures are formed each year in the startup ecosystem of Türkiye, which includes 629 active FinTech companies.
ENVIRONMENTAL		• Although Türkiye is a developing country and an emerging market, which was lately affected by devasting natural disasters (wildfires and floods), it has made significant achievements in sustainability and ESG. • The significance of environmental, social, and governance (ESG) factors is increasing in Türkiye, like other countries. Investors are showing increasingly high interest in learning how to make sustainable and ethical investments. Türkish businesses and financial institutions are expected to pay more attention to ESG factors, and the government may introduce legislation to encourage green investments and sustainable growth.
LEGAL		• Türkish legislative system for investor protection, which includes securities, disclosure requirements, and resolution processes, positively impacts investor confidence. • Adherence to laws and regulations is crucial in the finance sector. However, such laws require updates, with changing times. Thus, changes in financial legislation and consequent compliance measures are crucial for institutions and investors, and the Türkish government strongly focuses on the same.

Source: Analyst Team

3. GCC

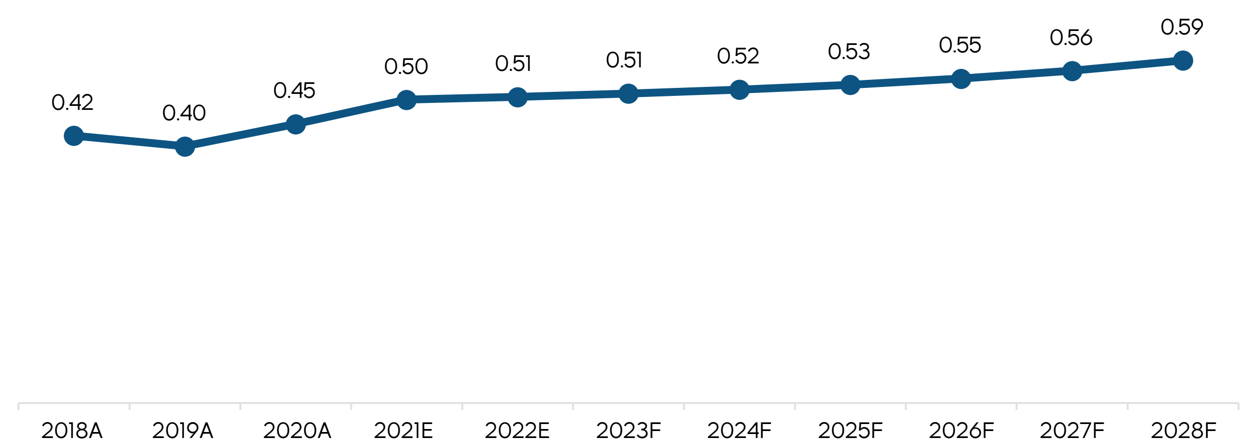
3.1 Introduction to GCC's Finance and Investment Sector

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

3.1.1 GCC Financial Development Index Forecast (2018-2028)

3.1.1.1 Saudi Arabia

Figure 8. Saudi Arabia's Financial Development Index Forecast



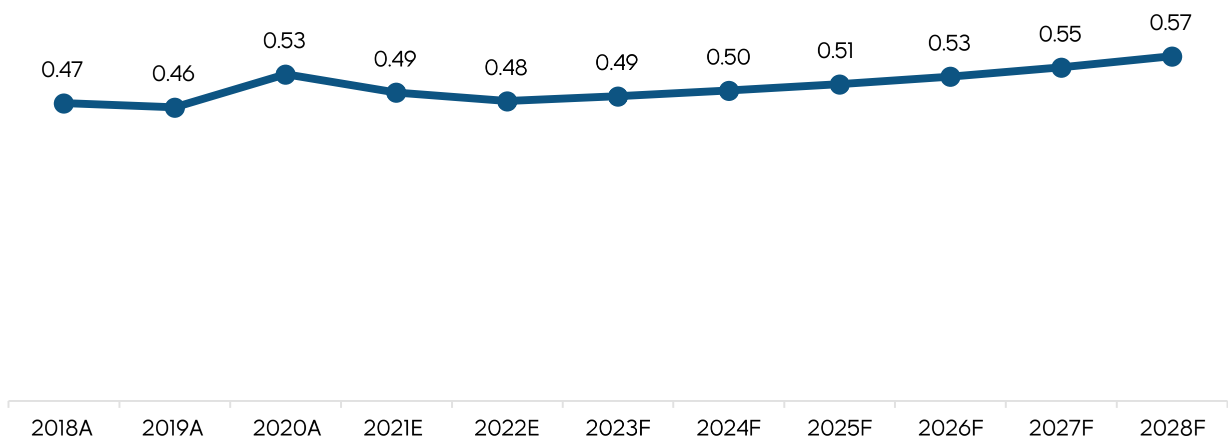
A – Actual, E-Estimated, F-Forecasted || Source: A – IMF, E & F – Analyst Team

The above graph showcases the forecasted growth of the country in FD Index. Tadawul, the Saudi stock exchange, is the largest stock exchange in the Middle East, with a well-developed capital market. The stock market of Saudi Arabia experienced the most initial public offerings (IPOs) and the largest overall offering value among GCC stock markets from 2016 to 2022. It raised a total of US$ 38.9 billion through 60 IPOs. The Saudi government has been encouraging the development of FinTech and digital banking to increase financial inclusion and access to financial services. In Saudi Arabia, cashless payments surpassed cash transactions for the first time in 2021, reaching 57% of the total transactions. In 2021, the number of FinTech companies licensed by the Saudi Central Bank reached 18.

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

3.1.1.2 Qatar

Figure 9. Qatar's Financial Development Index Forecast



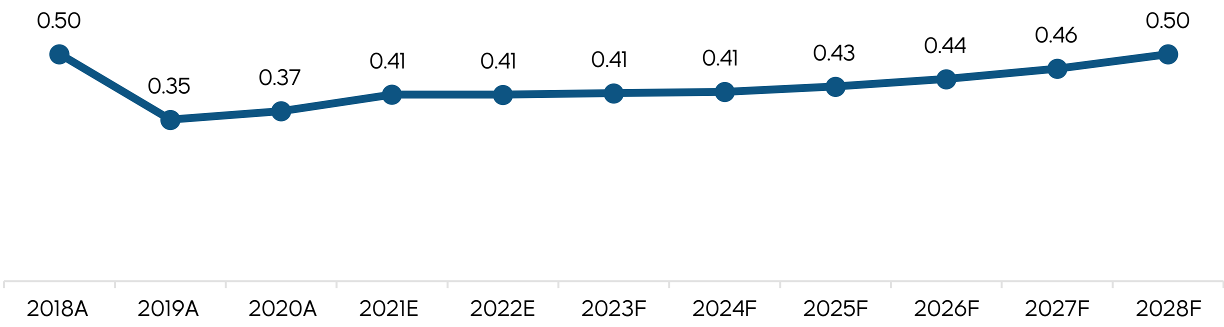
A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

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

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

3.1.1.3 Kuwait

Figure 10. Kuwait's Financial Development Index Forecast



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

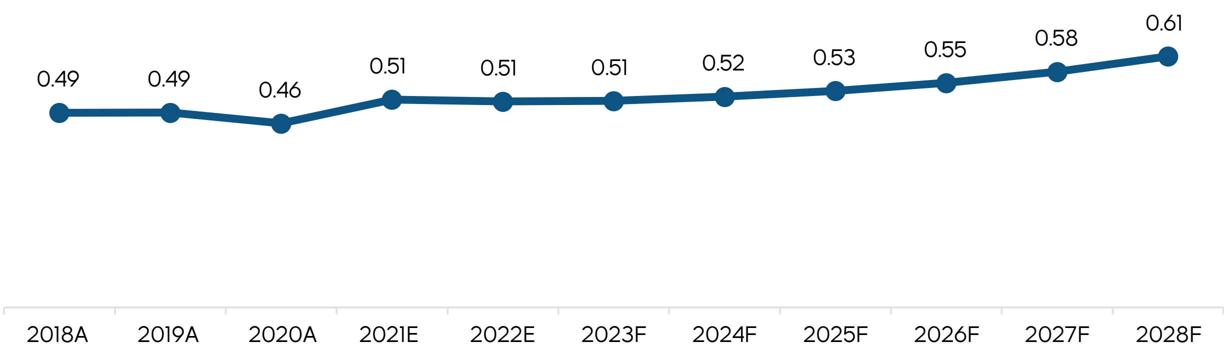
The above graph showcases the forecasted growth of the country in FD Index. Kuwait has one of the most efficient and rapidly rising banking sectors among all GCC countries. The Kuwait Central Bank supervises the banking sector in the country. The country had 11 local commercial banks as of 2022, including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

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

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

3.1.1.4 UAE

Figure 11. UAE's Financial Development Index Forecast



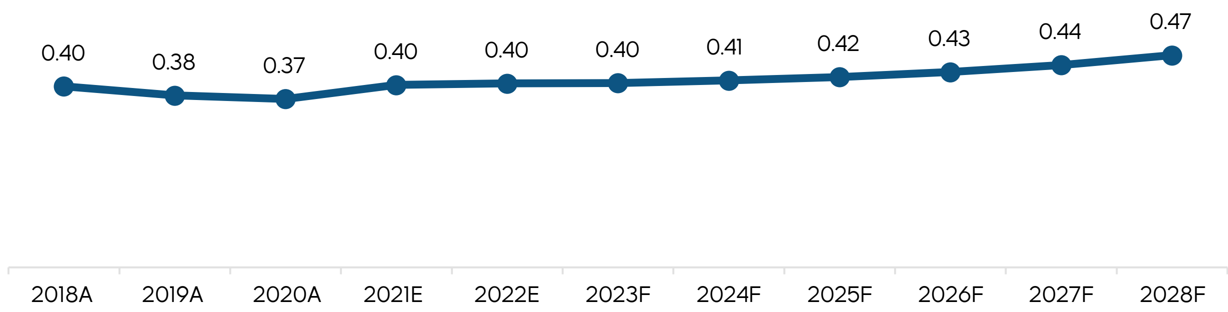
A – Actual, E-Estimated, F-Forecasted || Source: A – IMF, E & F – Analyst Team

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

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

3.1.1.5 Oman

Figure 12. Oman's Financial Development Index Forecast



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

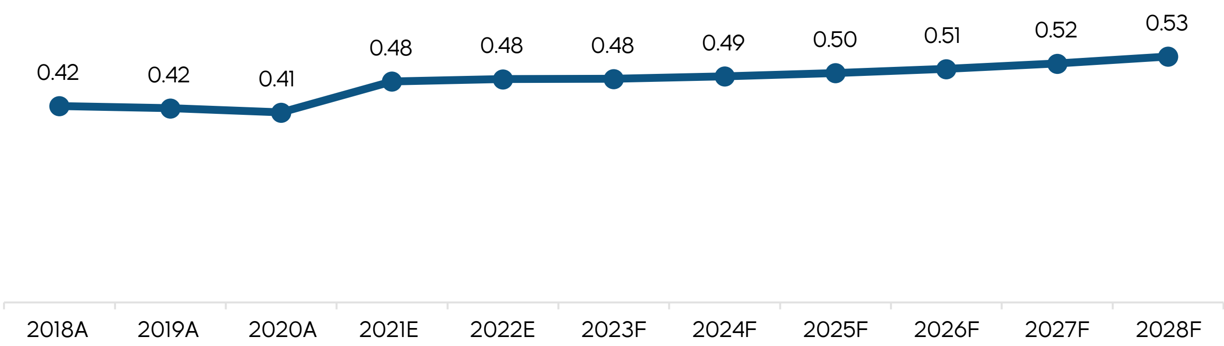
The above graph showcases the forecasted growth of the country in FD Index. The banking sector in Oman includes both domestic and international banks. Bank Muscat, the National Bank of Oman, and Bank Dhofar are the major domestic banks. Retail banking, corporate banking, and investment banking are among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

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

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

3.1.1.6 Bahrain

Figure 13. Bahrain's Financial Development Index Forecast



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

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

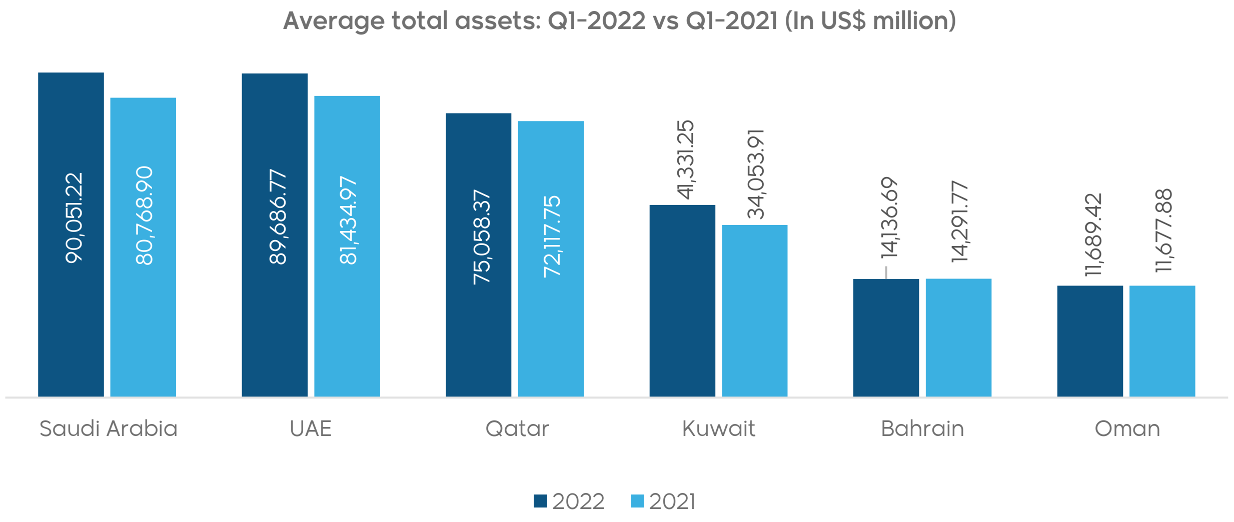
The financial sector is the largest non-oil contributor to the real GDP of Bahrain. It contributed 18.6% to its GDP in 2022 and had total assets of US$ 225.2 billion in February, 2023. Bahrain FinTech Bay, the largest FinTech hub in the country, has a specialized coworking space, innovation laboratories,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

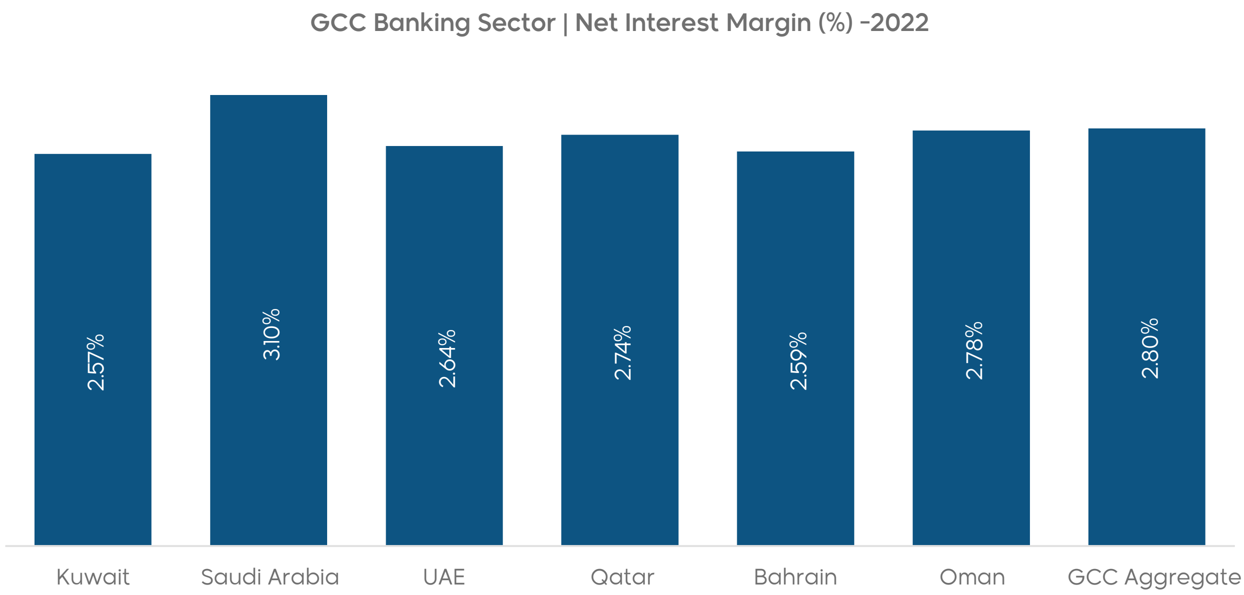
3.2 Finance and Investment Sector in Details

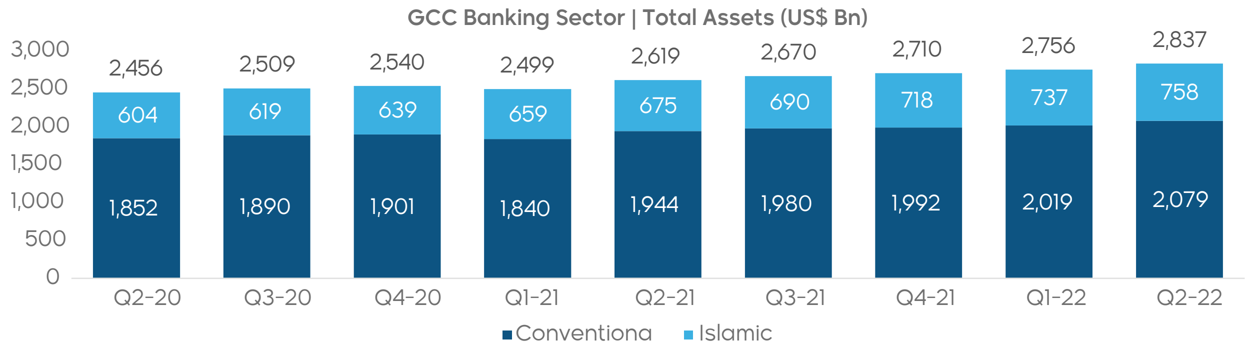
3.2.1 Types of Banks

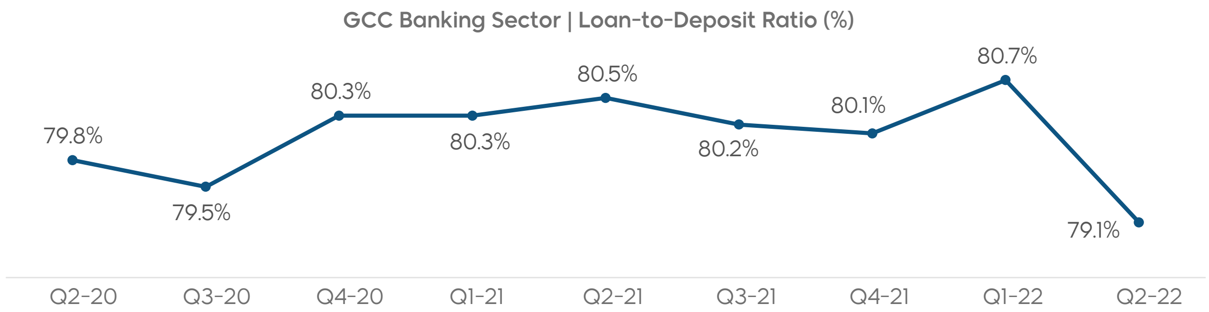
In GCC, the banking sector is led by large banks, with the top 5 banks accounting for about 65-95% of total assets. The nonbank financial institutions (NBFIs) sector, comprised of asset management, finance companies, pension funds, and insurance, is relatively small and is generally not concerned with credit intermediation. Debt market development has stayed limited, although there are variations, with few countries making strides in strengthening their sovereign debt markets. Banks remain at the core of financial intermediation, including firms' foreign exchange (FX) borrowing. Intersectoral lending and borrowing have increased considerably over the past decade, intensifying a powerful transmission channel for shocks such as potential worsening in asset quality and surges in nonperforming loans (NPLs) once regulatory forbearance and other extraordinary support measures expire. Furthermore, the pandemic-related initiatives have deepened the nexus and increased the sensitivity of public finances to future corporate and financial sector developments.

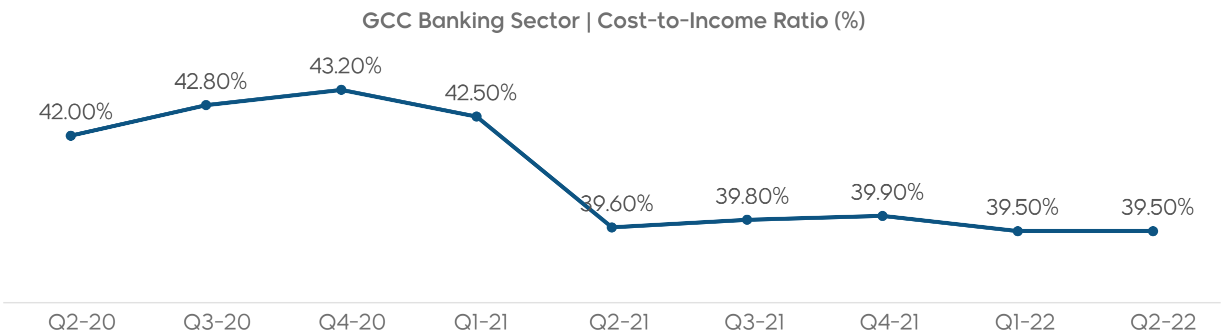
Figure 14. Finance Sector Statistics

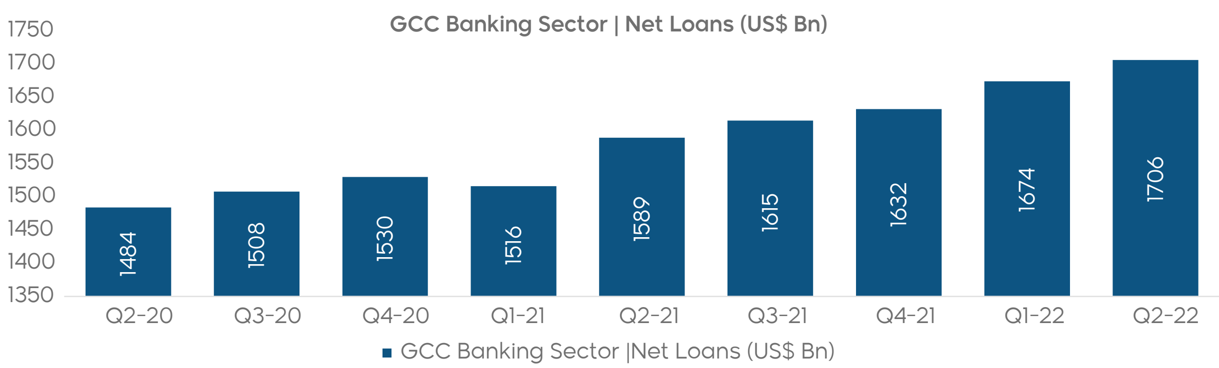












Source: Country Authorities, Company & Banks Financials, and the Analyst Team

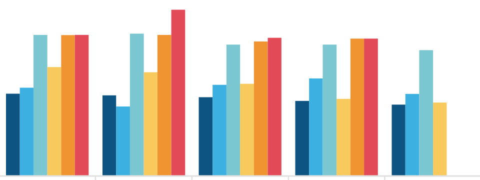
As depicted, the finance and investment sector grew further in 2022. Banking sector's assets rose significantly in 2021, while cost-to-income ratio also grew. However, the economic downturn has led to lower consumer spending and domestic consumption. It hampered several sectors of the Türkish society, leading to a decline in credit provided to private sector.

3.2.1.1 Commercial Bank

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

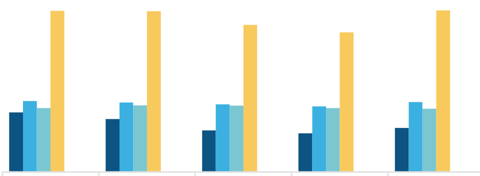
Figure 15. Commercial Bank Statistics of GCC

Commercial Bank Branches (Per 100,000 Adults)



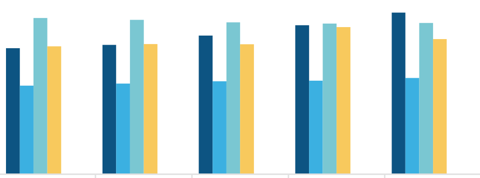
	2017	2018	2019	2020	2021
Saudi Arabia	8.50	8.34	8.16	7.78	7.38
Qatar	9.12	7.19	9.44	10.09	8.50
Kuwait	14.59	14.72	13.58	13.60	13.01
UAE	11.27	10.74	9.53	7.98	7.60
Oman	14.57	14.59	13.91	14.20	N/A
Bahrain	14.6	17.2	14.3	14.2	N/A

Borrowers from Commercial Banks (Per 1,000 Adults)



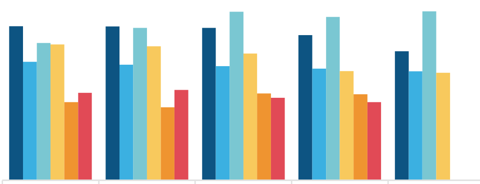
	2017	2018	2019	2020	2021
Saudi Arabia	200.18	177.95	139.89	130.20	148.32
Qatar	238.50	233.82	227.69	220.28	234.85
Kuwait	215.18	223.93	223.23	215.03	212.84
UAE	541.59	540.49	494.18	469.65	543.12
Oman	N/A	N/A	N/A	N/A	N/A
Bahrain	N/A	N/A	N/A	N/A	N/A

Depositors with Commercial Banks (Per 1,000 Adults)



	2017	2018	2019	2020	2021
Saudi Arabia	1047.24	1075.53	1153.20	1238.95	1343.97
Qatar	736.50	753.25	773.10	777.90	799.85
Kuwait	1298.64	1283.69	1263.35	1253.00	1256.96
UAE	1063.09	1082.67	1080.40	1223.65	1123.49
Oman	N/A	N/A	N/A	N/A	N/A
Bahrain	N/A	N/A	N/A	N/A	N/A

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



	2017	2018	2019	2020	2021
Saudi Arabia	74.10	73.96	73.34	69.80	62.04
Qatar	56.95	55.55	54.84	53.66	52.41
Kuwait	65.98	73.26	81.07	78.56	81.21
UAE	65.37	64.48	60.91	52.49	51.70
Oman	37.58	35.13	41.77	41.33	N/A
Bahrain	42.10	43.50	39.70	37.60	N/A

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

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

3.2.1.2 Industrial Bank

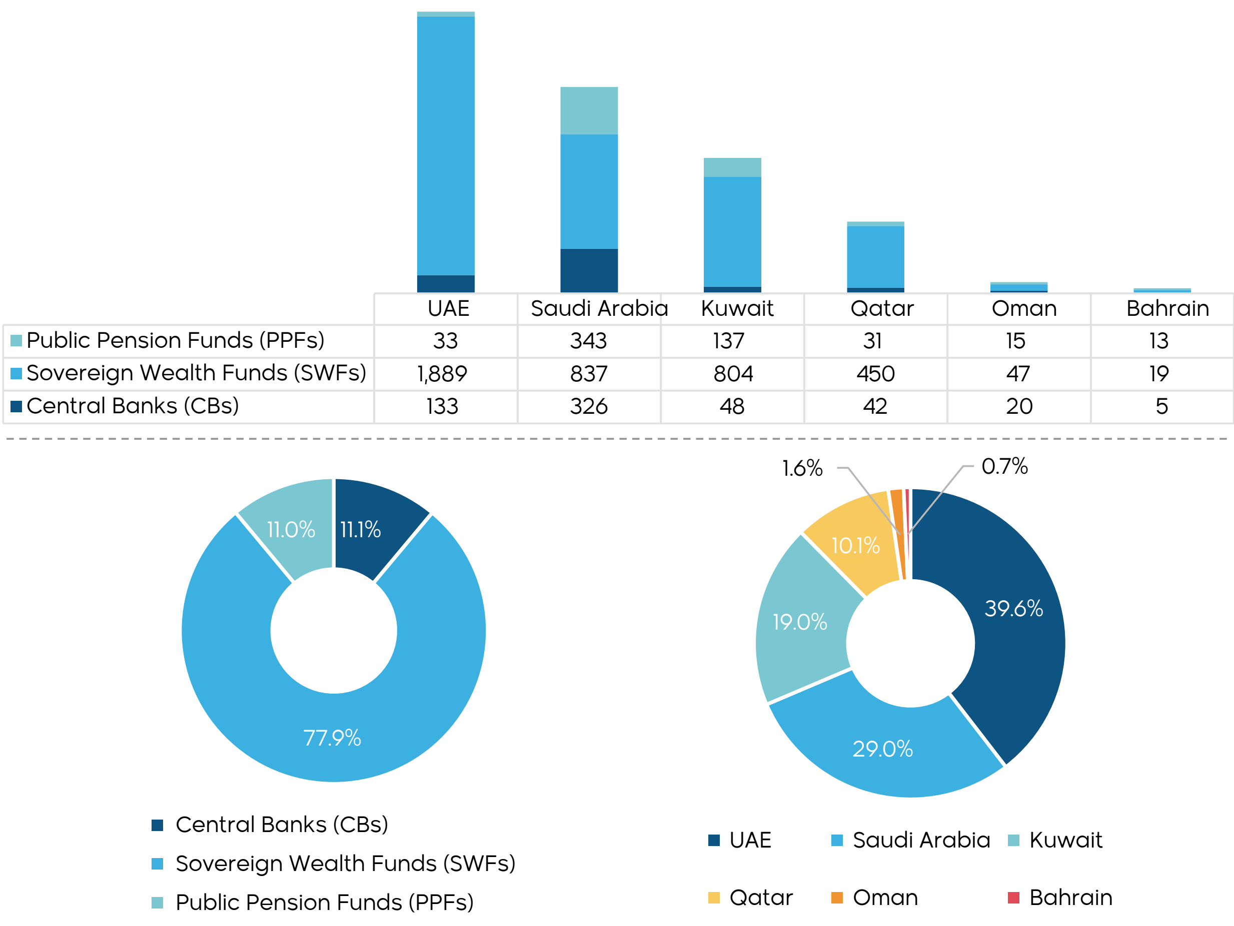
The industrial banking space in GCC involve of a plethora of services such as brokerage, debt capital markets, equity capital markets, loans, mergers & acquisitions (M&A), private equity, and others. Industrial banks in the GCC aim to create value for their customers and enhance their financial position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

3.2.2 Other Financial Institutions

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

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

Figure 16. Statistics of GCC's State Owned Investors (SOIs)



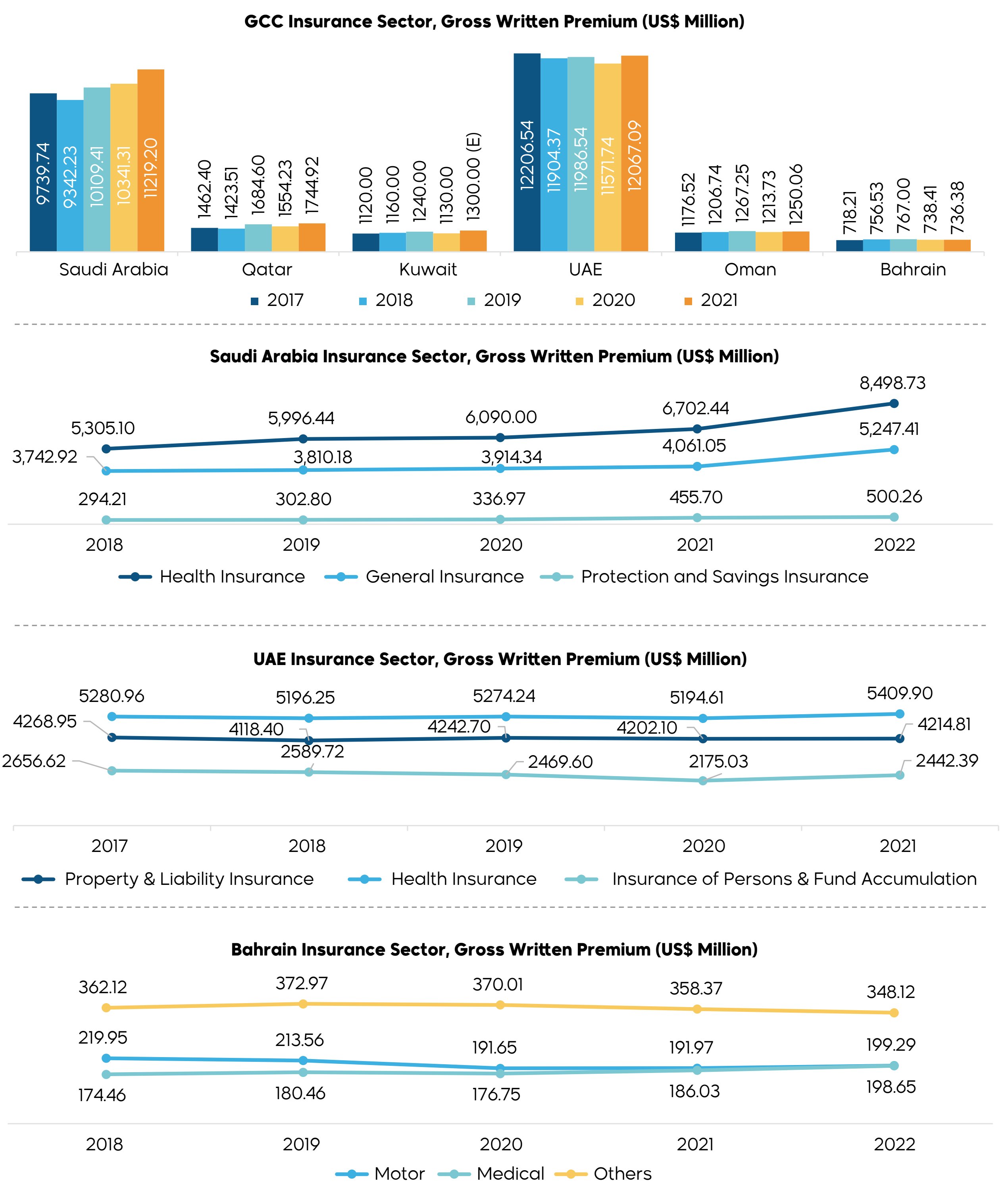
	UAE	Saudi Arabia	Kuwait	Qatar	Oman	Bahrain
Public Pension Funds (PPFs)	33	343	137	31	15	13
Sovereign Wealth Funds (SWFs)	1,889	837	804	450	47	19
Central Banks (CBs)	133	326	48	42	20	5

*Source: Company Financials and The Analyst Team, *cumulative data June 2023*

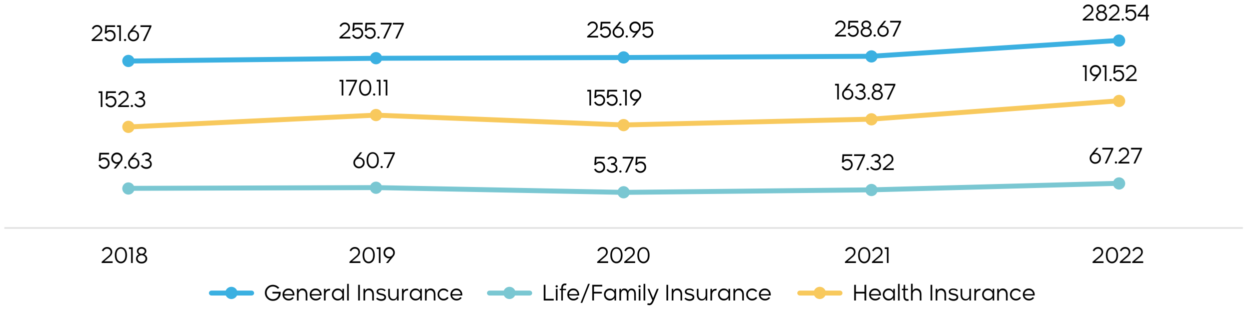
As can be seen from the line graphs, UAE's SOIs had the largest investment portfolio, totaling US$ 2,055.00 billion, followed by Saudi Arabia and Kuwait, with US$ 1,506.00 billion and US$ 989.00 billion, in June 2023. SWFs of GCC nations have largely gained from external surpluses generated by the recent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

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

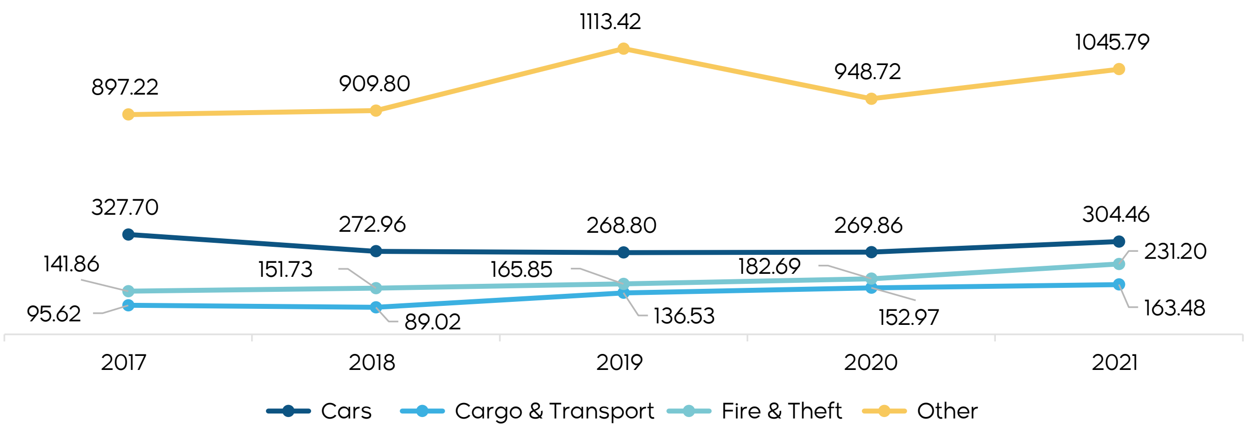
Figure 17. Statistics of GCC's Insurance Sector



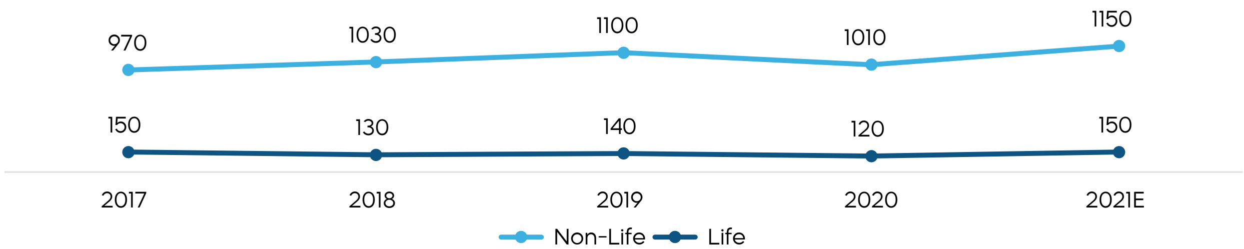
Oman Insurance Sector, Gross Written Premium (US$ Million)



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



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



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

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

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

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

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

3.2.3 Economic Contribution

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

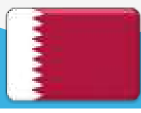
3.2.3.1 Government Initiatives and Programs

Saudi Arabia

- Saudi Arabia is recovering robustly following a pandemic-induced recession. Liquidity and fiscal support, Vision 2030-guided reforms, and a better hydrocarbon market have been helping the economy recover and develop a resilient financial sector while improving the fiscal and external positions.
- The government of Saudi Arabia implemented BASEL III standards to enhance supervisory scrutiny of credit risks and risk management of banks.
- The government also implemented International Financial Reporting Standards (IFRS) 9 requirements for banks and rolled out a risk-based supervisory framework that relies on regular Internal Capital Adequacy Assessment Process (ICAAP) results.
- Loans to the private sector grew by 15.4% in 2021, primarily driven by mortgages and small & medium enterprise (SME) lending.
- The government plans to establish a sovereign-asset liability management framework owing to the increasing importance of the Public Investment Fund (PIF).

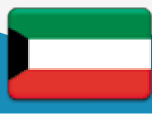
Qatar

- The Government of Qatar initiated the 3rd National Development Strategy as a step toward achieving the goals of Qatar National Vision 2030.
- Strong progress was made toward technical compliance with the Financial Action Task Force (FATF) standards.
- Qatar Central Bank implemented several macroprudential measures to decrease dependence on non-resident deposits.
- The Ministry of Finance developed a Sovereign Green Financing Framework to strengthen the domestic debt market.



Kuwait

- The Central Bank of Kuwait (CBK) lowered the discount rate and deployed measures to support the liquidity of the financial system.
- CBK formed guidelines on sustainable financing, and environmental, social, and corporate governance (ESG) standards in line with the principles of the Bank for International Settlements for efficient management and control of climate-related financial risks.
- The Government of Kuwait established the Disciplinary Board under the Competition Protection Agency to handle business complaints regarding fair competition.
- The Government of Kuwait enacted the new Bankruptcy Law in 2020 to provide insolvency related protection for corporates.
- The government further plans to develop and implement a medium-term fiscal framework to support long-term reforms.



UAE

- The UAE government implemented the Dirham Monetary Framework for reforming capital mobility and exchange rate policies.
- The Central Bank of the UAE (CBUAE) endorsed a new floor-rate corridor system to improve its liquidity management capacity, and support money market development and collateralization, among others.
- The government has begun preparing an implementation plan for the transition to a new operational framework prepared by the Monetary Management Department of the CBUAE in consultation with key external stakeholders.
- The UAE government is expected to transition from the Emirates Interbank Offered Rate (EIBOR) to the Dirham Overnight Index Average (DONIA) benchmark for the overnight market.

Oman

- The government is persistently implementing structural reforms under the Vision 2040.
- It introduced Value Added Tax (VAT) in April 2021, in line with GCC VAT Treaty.
- Fiscal measures under the auspices of the Medium-Term Fiscal Plan aided in reaching a surplus fiscal balance.
- The government created Energy Development Oman (EDO) to manage government investments in oil, gas, and renewables.
- The Central Bank of Oman (CBO) issued the Financial Consumer Protection Regulatory Framework (FCPRF) in December 2021 to provide a better consumer protection regime and benefit consumers.

Bahrain

- In Bahrain, authorities are committed to Economic Recovery Plan, and the 2023-2024 budget is tailored around the Fiscal Balance Program (FBP) targets.
- The country plans to freeze the central bank's government overdraft account to bolster capital reserves and support external position.
- Preparatory work is underway to advance Central Bank Digital Currency (CBDC).

3.2.4 Capital Investments and Major Investors

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

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

3.2.5 Foreign Direct Investments – Sectoral Analysis

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

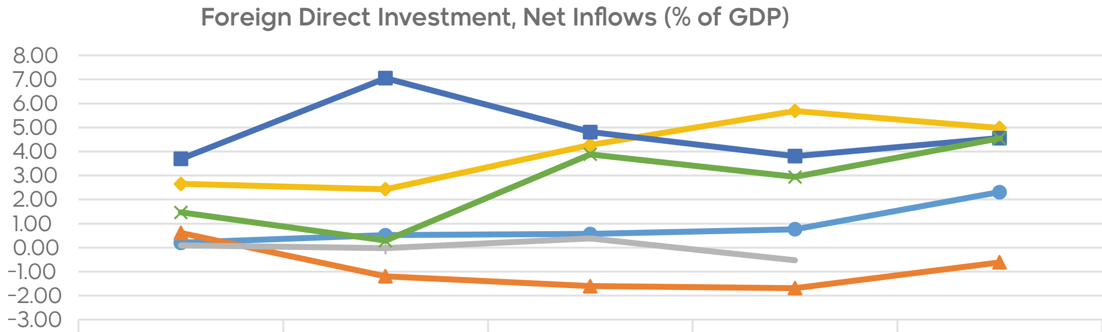
In June 2023, a leading bank in Saudi Arabia started offering open banking services after receiving necessary clearances from Saudi Central Bank. Dubai has also been attracting large amounts of interest from investors planning to invest in FinTech start-ups. In March 2023, a UAE-based FinTech start-up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

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

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

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

Figure 18. Foreign Direct Investment, Net Inflows (% of GDP)



	2017	2018	2019	2020	2021
Saudi Arabia	0.21	0.52	0.57	0.77	2.31
Qatar	0.61	-1.19	-1.60	-1.69	-0.61
Kuwait	0.09	-0.02	0.38	-0.53	
UAE	2.65	2.43	4.28	5.69	4.98
Oman	3.70	7.05	4.81	3.81	4.56
Bahrain	1.46	0.29	3.88	2.94	4.54

Source: World Bank, UNCTAD, and ITA

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

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

3.2.6 Ongoing and Upcoming Financial and Investment Projects

July 2023

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

July 2023

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

July 2023

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

June 2023

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

June 2023

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

May 2023

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

May 2023

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

May 2023

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

April 2023

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

April 2023

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

March 2023

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

March 2023

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

February 2023

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

February 2023

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

January 2023

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

3.3 Industry Dynamics

3.3.1 Driver

3.3.1.1 Surging Foreign Direct Investments (FDIs)

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

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

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

3.3.1.2 Surge in e-Commerce

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

3.3.1.3 Islamic Finance

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

3.3.1.4 Wealth Management

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

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

3.3.2 Challenge

3.3.2.1 Regulatory Frameworks, Investor Protection, and Sharia Compliance

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

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

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

3.3.2.2 Inflation

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

3.3.3 Opportunities

3.3.3.1 Profitability Rebound

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

A leading bank of Qatar reported the highest net interest income of around US$ 2.11 billion in the third quarter of 2022. A leading bank of Saudi Arabia earned US$ 1.74 billion, while a leading bank in Dubai earned US$ 1.67 billion. A leading bank in Kuwait posted a profit of US$ 1.7 billion for the twelve months that ended in December 2022. It was up by 40.5% from the previous year. One of Oman's largest lenders by assets reported the first half of 2023's net profit of ~US$ 270 million, 5% higher than the first half of 2022. A large Bahrani bank's net profit increased by 26% for the financial year 2022, and the total comprehensive income attributable to its shareholders increased by 73% to ~US$ 207 million compared with ~US$ 120 million in 2021. Lending in Saudi Arabia is expected to increase, supported by projects linked to the government's Vision 2030 framework. Higher interest rates are expected to have an impact on new mortgage initiations. As the economic situation reaches back to the pre-COVID-19 levels, the GCC economy would get stronger owing to cash flows in the market, which is likely to improve the overall profitability of banks.

3.3.3.2 Initial Public Offerings (IPO) Boom

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

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

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

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

3.3.3.3 Surging Real Estate Investments

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

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

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

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

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

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

3.3.3.4 Technology Trends

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

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

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

3.3.4 Macroeconomic Factors Impacting the Sector

GOVERNMENT	• Taxation, subsidies, and monetary policies implemented by governments can have a considerable impact on the finance and investment sector. The GCC has been politically stable in general, creating a favorable climate for the financial and investment sectors. • Governments in GCC nations have been updating their laws, incentive measures, and initiatives in recent years to draw foreign investments.
ECONOMICAL	• The overall economic expansion of GCC countries, spurred by infrastructure development and diversification efforts, may present opportunities for the financial and investment industries. • Governments have taken many initiatives to attract foreign investors, including relaxing limitations on foreign investment, improving business accessibility, and establishing free zones. The UAE is ranked 17th in the world in terms of FDI inflows in 2021; the investments totalled US$ 22.5 billion in 2021, with a 19% increase over the previous year.
SOCIAL	• Most GCC nations are undergoing social transformations and experiencing profound demographic changes in local societies. Focus on nationalization is supporting social development as well. • The large youth population in GCC countries is highly tech-savvy and seeks new financial services. Islamic finance is important in the GCC as a large percentage of the population prefers Sharia-compliant financial goods and services.
TECHNOLOGICAL	• The finance and investment sector in the GCC is undergoing digital transformation with the adoption of financial technologies (FinTech) such as Internet banking, mobile apps, and blockchain technology. • The UAE government has been taking various actions to encourage further developments in FinTech. The DIFC Innovation Hub, the GCC's first ecosystem devoted to uniting the FinTech and innovation communities, was launched in the UAE in May 2021
ENVIRONMENTAL	• GCC countries increasingly emphasize investing in ESG issues and sustainable financing. Governments encourage investors to take environmental considerations into account when making investment decisions, which has resulted in green finance projects and sustainability-related products.
LEGAL	• Intellectual property rights must be protected to stimulate innovation and ensure fair competition in the finance and investment sector. Islamic finance necessitates a distinct legal framework to ensure Sharia compliance. Each GCC country has its unique foreign investment regulations, including ownership limitations and incentives. Understanding these policies becomes critical for international investors.

Source: The Analyst Team

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

4.1 Türkiye

The COVID-19 pandemic had a considerable impact on the economy of Türkiye, particularly on its financial and investment sector. The pandemic led to the deceleration of economic activity, disruption of supply networks, decrease in consumer spending, and curtailment of business investments. To stop the spread of SARS-CoV-2, the government of Türkiye enacted lockdowns, travel restrictions, and social distancing, among other measures, which hampered its economy. During the early phases of the COVID-19 pandemic, the Türkish stock exchange, Borsa Istanbul, suffered high volatility. The uncertainty about the duration and severity of the epidemic weighed heavily on investor behavior. However, the stock market began to rebound as the government and central banks implemented stimulus packages and monetary easing measures to support the economy.

The COVID-19 pandemic had a negative influence on foreign direct investment (FDIs) in Türkiye. The global economic instability and travel restrictions hampered investor confidence, thereby limiting new investment initiatives. However, the strategic location and diverse economy of Türkiye continued to position itself as an appealing long-term investment destination. Further, the pandemic has hastened the deployment of digital technologies in the finance and investing industries. Remote work, online banking, and digital payment alternatives gained popularity amid the social distancing measures. Thus, established financial institutions accelerated their digital transformation efforts to meet shifting consumer behavior.

To lessen the monetary impact of COVID-19, the Türkish government enacted a variety of stimulus programs and support measures. Key fiscal measures include –

- Provided loan guarantees to firms and households (Value - 6.4% of GDP)
- Provided loan service deferrals by stateowned banks (Value - 2.6% of GDP)
- Deferred tax for businesses (Value - 1.4% of GDP)
- Injected equity into public banks (Value - 0.4% of GDP).
- Initiated a short-term work scheme (Value - 0.6% of GDP) till March 2021, to support affected low-income families.
- VAT was reduced on certain goods, suchas food and accommodation services, until May 2021.
- A nationwide ban on layoffs was enforced until May 2021

Businesses investing in Türkiye are now eligible for many tax benefits, including lower corporation tax rates, exemptions from value-added tax on imported machinery and equipment for investment projects, and waivers from customs duty on raw materials imported for manufacturing. The government of Türkiye has been offering various business support services, including finance for employee and individual training, business counseling, and business establishment assistance. In continuation of the robust COVID-19 pandemic recovery, the economy expanded at a rate of 11% year-over-year in 2021 and 5.6% in 2022. The estimated negative impact of the COVID-19 pandemic on the growth of the industrial sector in various countries is depicted below.

4.2 GCC

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

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

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

Table 3. Monetary and Financial Policy Measures in Response to the Pandemic

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

Source: Country Authorities and IMF

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

Table 4. Monetary and Financial Measures to Mitigate Pandemic Effect

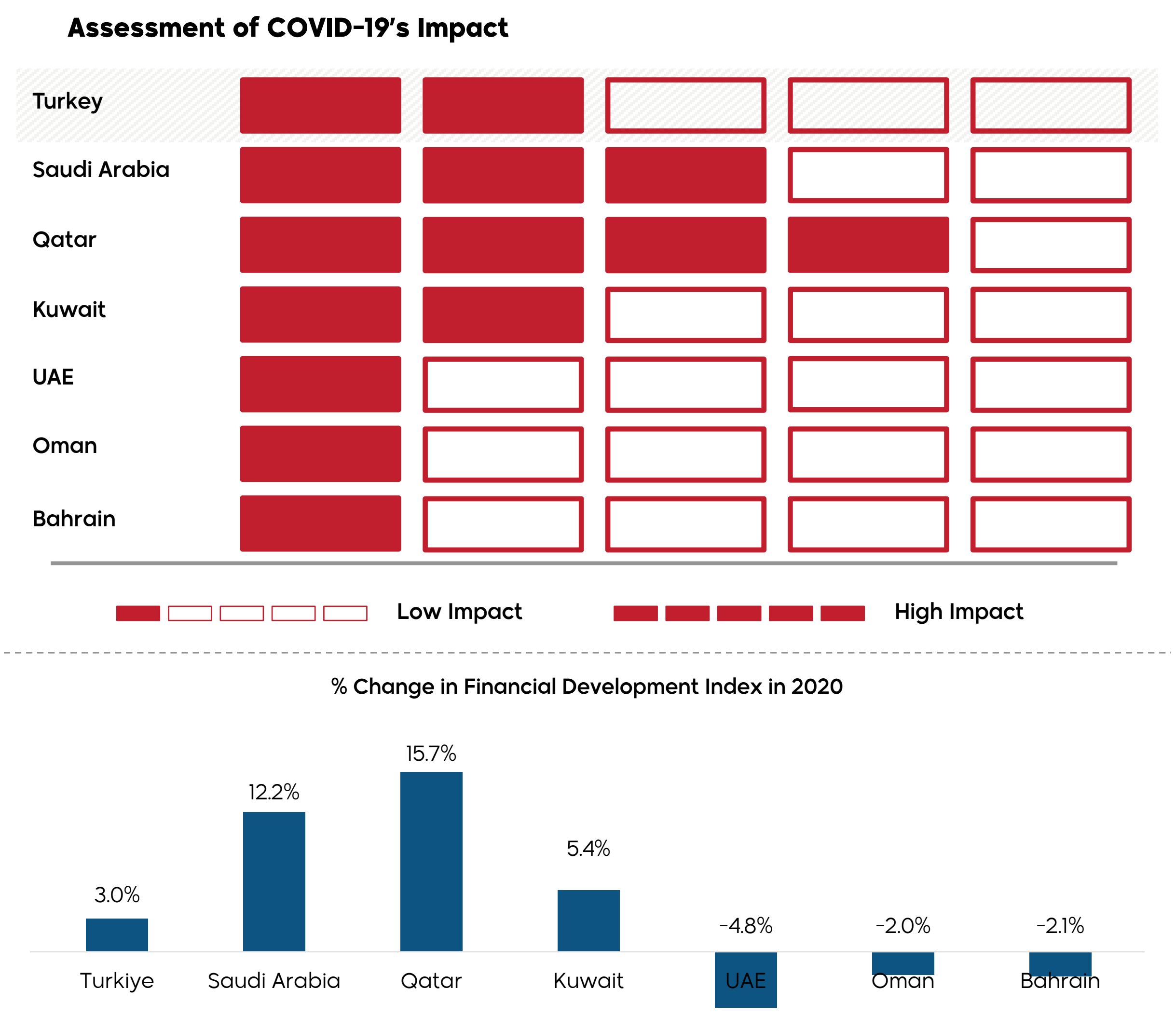
Country	Reduced policy rates	Liquidity support offered	Loan payments deferral	Concessional financing	Loan guarantees	Regulatory and prudential
Bahrain	Yes	BD 4.5 billion zero interest repo	For private sector until December 2021	Redirected Tamkeen (Labor Fund) programs to provide financing to SMEs affected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

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

Source: Country Authorities and IMF

4.3 Impact Assessment of the Pandemic

Figure 19. Impact of COVID-19 Pandemic



Source: IMF and World Bank & OECD estimates

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

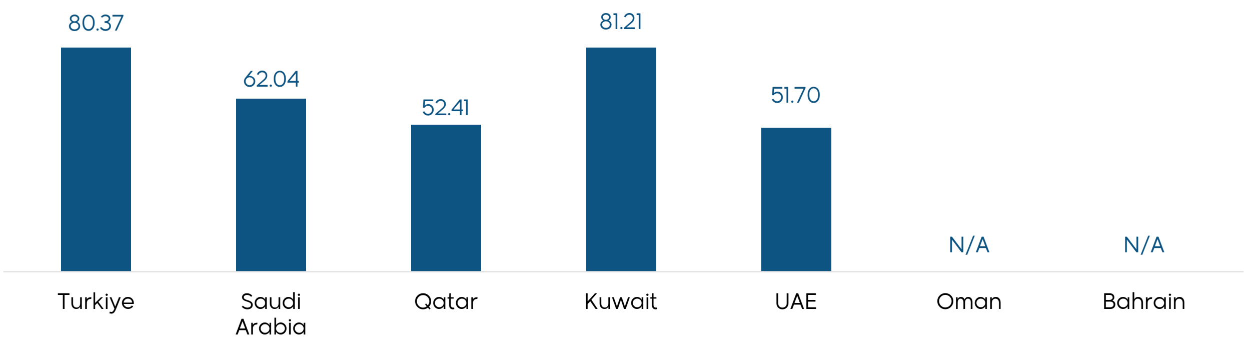
5. GCC and Türkiye Sector Outlook Comparison

5.1 Statistics Comparison Between GCC and Türkiye

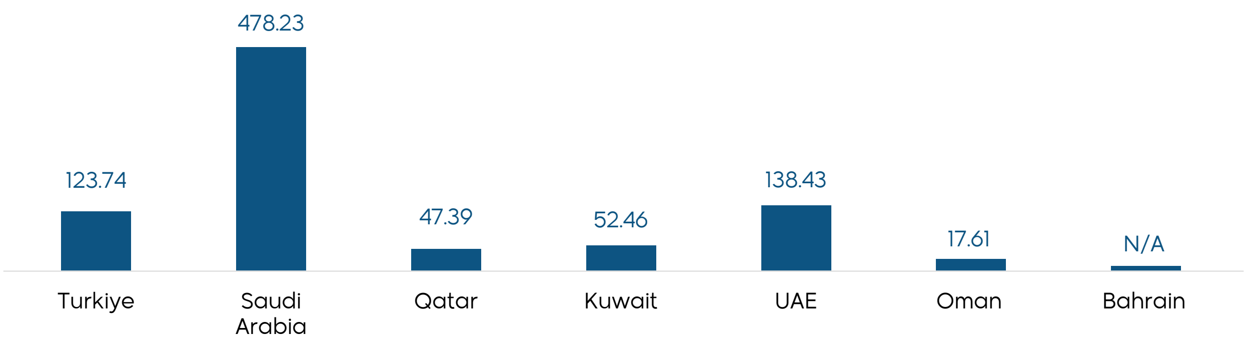
Some of the statistical comparison between GCC nations and Türkiye are as follows:

Figure 20. Statistics Comparison

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



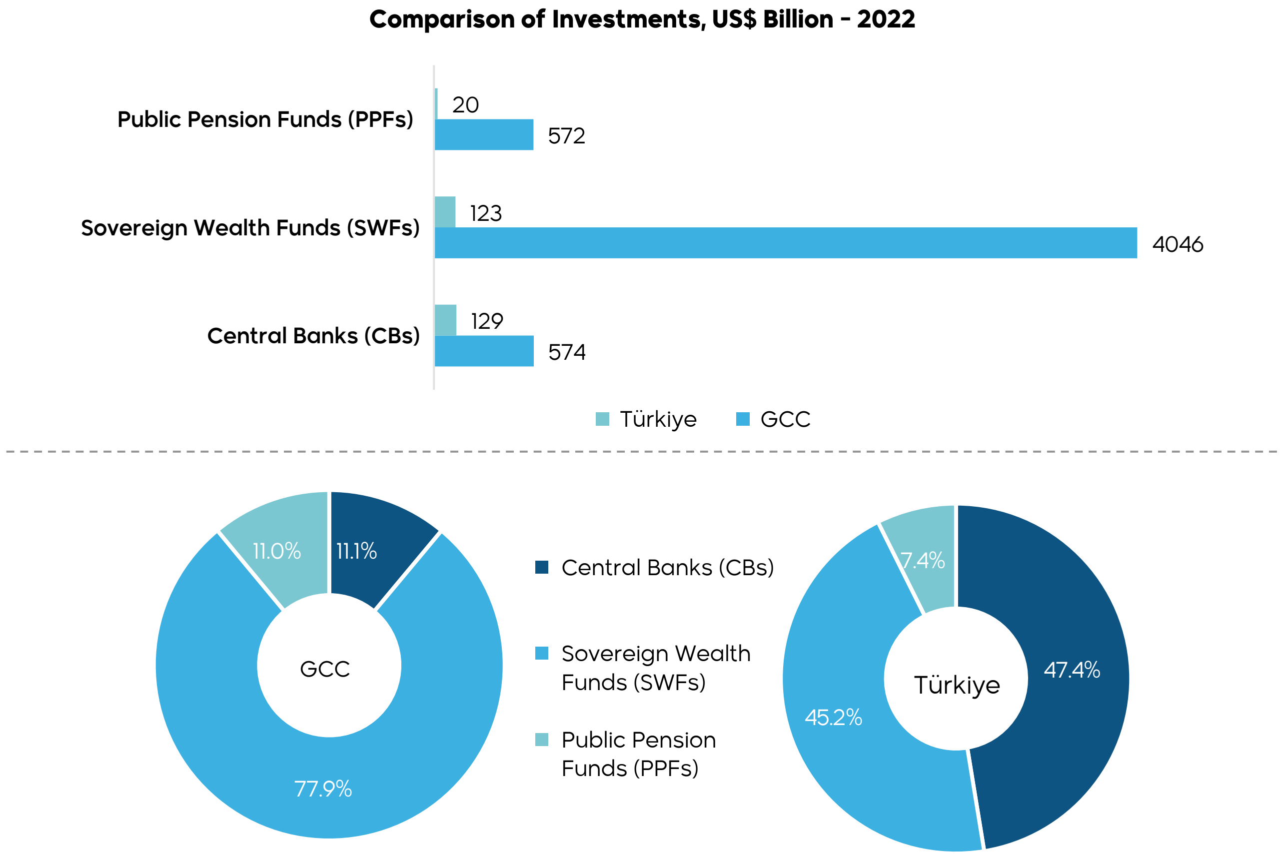
Total Reserves {Includes Gold, Current US$ Billion), 2022



Source: World Bank

The above figures provides a comparison between Türkiye and the GCC nations, with respects to various parameters. As can be seen, GCC nations had larger credit % to private sector, when compared to Türkiye. In contrast, the statistics for commercial banking in Türkiye showcases that the sector is much more advanced than those of GCC nations.

Figure 21. SOI Investment Statistics Comparison



*Source: Company Financials and The Analyst Team, *cumulative data June 2023*

As showcased from the above figure, the investment by SOIs from GCC is nearly nineteen times that of Türkiye. While Türkish CB and SWFs have similar investment amounts, the SWFs of GCC have more than 75% share of the overall investment from SOIs of the region. This also reflects the dominance of GCC based SWFs globally.

5.2 Opportunities for Cooperation and Investment Between GCC Countries and Türkiye

The financial and investment sector in the GCC and Türkiye has witnessed significant growth and development over the years. The countries have robust financial sectors, and they are attractive destinations for investment. However, various opportunities for cooperation and investment in the banking sector between GCC and Türkiye are still unexplored. Therefore, the Government of Türkiye plans to follow a new foreign policy approach to create deeper economic and political ties with its neighbors, especially with the GCC. Türkiye's strong political and financial ties with GCC countries would open up new economic and political collaboration pathways among these countries, reducing its dependency on partnerships with the Western world, European countries, and others.

5.2.1 Blockchain-Based Banking

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

5.2.2 Central Bank Digital Currencies (CBDC)

CBDCs are a new tool for implementing fiscal policy. They can permit central banks to control the money supply more efficiently, which can facilitate to stabilize the economy besides preventing inflation. CBDCs can also offer central banks with real-time data on the state of the market, which can help them make improved policy decisions. Several banks in GCC countries and Türkiye have been exploring the possibilities of issuing digital currencies that can be synced for fast and safe transactions. They have the prospective to improve payment efficiency, accessibility, boost financial inclusion, and raise security and transparency. They offer rapid transactions, which can assist in reducing the time and cost of cross-border payments. CBDCs can provide individuals who do not have access to traditional banking services with a safe, secure, and affordable way to store and transfer money. By introducing central bank digital currencies (CBDCs), central banks in GCC can enhance financial inclusion by providing a secure and accessible digital payment infrastructure for Türkish banks. In December 2022, the Central Bank of the Republic of Türkiye (CBRT) announced the completion of the first round of tests for its long-awaited digital currency. The bank announced its intentions to continue testing its digital lira next year. Digital currencies could ease international transactions, leading to swift and uninterrupted transactions, including currency exchanges with Dinar, Dirham, Rial, etc.

5.2.3 Underpenetrated Banking and Financial Sector

GCC countries, particularly Qatar and the UAE, have positioned themselves as regional financial hubs with robust banking systems and vast assets. On the other hand, Türkiye, with its expanding economy and banking system, can explore partnerships and collaborations in fields such as correspondent banking and treasury services.

The Kingdom of Saudi Arabia intends to expand the financing choices available for small and medium-sized projects by addressing the major problems faced by financing firms, enabling them to collaborate with international banks and compete more effectively with commercial banks. Grabbing these opportunities, Türkish banks could provide investment aid to SMEs in agreement with Saudi banks in the near future. The Türkish insurance sector is underexplored compared to peer countries. As GCC set up banks and acquire access to the relatively new Türkish market, it is prepared to capitalize on its considerable potential.

5.2.4 Capital Market and Wealth Management Collaboration

Strengthening associations between the GCC and Türkish financial markets can lead to cross-listings, dual listings, and investment diversification. Enhanced collaborations among stock exchanges, regulatory bodies, and market participants can improve capital movement, promote liquidity, and attract overseas investors. Joint initiatives such as forming cross-border investment funds, and harmonizing listing and disclosure standards would help both regions in easy capital flow and overall wealth management would be streamlined.

GCC countries have many high-net-worth individuals looking for professional wealth management services. With the help of GCC's banking expertise, these individuals can fund indirectly to the Türkish banks which will further help Türkiye in wealth creation and management. Collaborative wealth management solutions can benefit banking professionals, portfolio managers, estate planners, and so on. The high-net-worth individuals looking for new investment prospects would seek wealth and capital management services. In contrast, Türkiye needs financial assistance, as it is going through infrastructural upgrades due to destructions caused by recent calamities. Thus, Türkish enterprises can collaborate with GCC enterprises to provide better wealth management services to high-net-worth individuals.

5.2.5 Digital Asset Management

The GCC and Türkiye have huge wealth pools, which pose great opportunities for asset management partnerships. Türkish digital asset management firms can benefit from high-net-worth individuals and wealth funders in the GCC who are looking for varied investment alternatives. Moreover, investors in GCC countries can access dynamic capital available with digital asset management firms in Türkiye through partnerships and joint ventures, resulting in the development of investment funds and portfolio diversification.

5.2.6 Joint Banking Consolidation

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

5.2.7 Advancements in Islamic Finance

The GCC and Türkiye substantially adopt Islamic banking, Islamic bonds known as sukuk, Islamic insurance known as takaful, and so on. Islamic financial institutions in the GCC may access Türkiye's big and diverse market, while Türkish banks can profit from the GCC's experience and liquidity. Collaborations and joint ventures can aid in the development of innovative Islamic financial products and services.

In Türkiye, Islamic banks, technically known as participation banks, have developed at a healthy rate in recent years; these banks have ambitions for even quicker growth in the future. The banking sector raised its share of the broader banking market to ~7.2% of assets at the end of 2020, up from 5.1% at the end of 2015. Meanwhile, sukuk issuance jumped from US$ 2 billion to US$ 14 billion within the same period. Strong support from GCC countries for Türkish authorities, who have often stated their belief in the importance of Islamic finance as an extra tool for financing the Türkish economy, has been a key factor favoring the expansion of Islamic finance in Türkiye. According to a freshly updated plan by the Participation Banks Association of Türkiye, the share of participation banks in the overall banking market in the country would double to 15% by 2025 as compared to approximately 7.5% in 2021.

5.3 Challenges and Possible Solutions

5.3.1 Türkiye

Differences between regulatory frameworks in GCC countries and Türkiye can pose challenges for GCC investors. Türkiye differs from GCC countries (especially Qatar and Oman) in terms of regulations, licensing requirements, and supervisory authorities. The finance sector in Türkiye has witnessed periods of volatility and currency fluctuations in recent years. GCC countries may perceive higher risks than their domestic providers, particularly in terms of foreign exchange, political stability, and shifting economic conditions. In contrast, Türkiye has a mature and competitive financial market, with 55 well-established banks.

The recession predicted in the global economy at the end of 2024 could mostly affect the region through high commodities prices. According to a leading consultant firm, Brent oil prices would average US$ 85 per barrel in 2023 and US$ 55 or more per barrel in 2024, hampering the growth of the GCC economies and lowering the probability for their banking systems to invest in Türkiye. However, the diverse population and robust banking system are likely to unveil notable financial opportunities for GCC countries to invest in Türkish banks in the future.

GCC countries are expected to work toward establishing bilateral agreements and memorandums of understanding (MOUs) with Türkiye to enhance cooperation and promote investments. Establishing communication channels and collaborations between regulatory authorities in GCC and Türkiye can help address regulatory challenges which have been mandated for the financial institutions. Further, GCC-based investors need to conduct comprehensive risk assessments for investing in the financial sector in Türkiye. Also, building strong relationships with local partners, consultants, and banking experts can help them succeed in Türkiye's banking sector. Türkiye has established certain economic goals for the near future. One of these goals is to establish Istanbul as a major financial center. Istanbul is an outstanding option for a worldwide financial hub due to its vast young population, qualified labor force, fast-rising markets, and geo-strategic location. Since the government began the Istanbul Financial Center initiative in 2021, Istanbul has reported remarkable growth and is currently regarded as one of the world's emerging financial capitals. The Istanbul Finance Center, with an investment value of US$ 65,000 million, will be the world's largest and most advanced financial center, which would employ over 50,000 people. Hence, GCC countries can overcome challenges arising through varying regulatory frameworks in the GCC and Türkiye with various prospective solutions.

Financial systems in the GCC also find it difficult to operate securely with their openness to outside participation and competition. While the recent good performance of banks in the region has been largely attributed to improved overall economic conditions and increased efficiency in providing financial services, the prevalence of quasi-monopolistic situations and low competition from foreign banks have also played a noteworthy role in strengthening the regions local banking sector.

Opening up the financial sector to foreign investment, whether in banks, mutual funds, or investment advisory services, would add depth to GCC markets, help strengthen management practices and financial service provision, foster the transfer of technology and know-how, and help raise productivity and lower the cost of financial services through increased competition.

As per a leading credit rating agency, GCC banks with Türkish subsidiaries recorded ~US$ 1.9 billion in net monetary losses in 2022. This affected Dubai's leading financial service provider and Kuwait's finance company in terms of the operating profit/risk-weighted assets (RWA) ratio. These records might challenge Türkish banks to get investments from GCC-based subsidiaries or GCC banking sectors.

5.3.2 GCC

Local banks in the GCC have huge cash and asset deposits. The GCC is one of the largest Islamic banking markets, with ~US$ 300 billion in financial assets and nearly one-third of global Islamic banking assets. Hence, they prefer local banks to international banks for any investment or finance-related projects. Also, banking sectors in GCC countries have a minimum level of competition, unlike other regions in the world. Stringent licensing requirements; a lack of non-bank financial institutions, and relatively shallow capital markets; low competition from foreign banks due to limits on foreign ownership; and the inability of banks to engage in non-traditional banking activities due to activity restrictions result in a low level of competition in the GCC. However, the effective development of capital markets, including debt markets, can help promote competition in the finance sector in the region to reduce lending rates by allowing investments by cross-border banks, particularly for long-term finance arrangements. However, the GCC can take advantage of this situation by signing bilateral trade agreements over fixed lending rates and providing various government incentives for collaborating with Türkish banking systems instead of giving preference to Islamic banks. This would provide Türkiye with an investment opportunity in the GCC banking sector.

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

The GCC countries are focused on raising funds to support their respective "Vision" plans, which are one-of-a-kind transformative economic and social reform blueprints that allow them to open up to the rest of the world. Under these Vision plans, they are planning to set up their banking subsidiaries in countries that are in need, wherein they can fund them and gain capital flow in their national banks. Türkiye, being economically hit due to the earthquake, is looking to strengthen its bank deposits, which results in the need for loans at cheaper interest rates. Thus, this would allow the GCC to attain sustainability and adopt financially beneficial models.

5.4 The Top Existing Cooperation Projects

Table 5. Top Existing Cooperation Projects

Year	News	Partners
June 2023	Banks in the UAE are boosting their lending to Türkish peers. Two of the Gulf state's largest lenders negotiated 61% of all syndicated loans to Türkish banks in the first half of 2023, compared to ~15% of loan negotiations achieved during the same period in 2022.	Türkiye and UAE
Jan 2023	Türkiye and the UAE signed a US$ 5 billion agreement to increase Ankara's foreign currency reserves, the latest sign of improving relationships between the two countries. Central banks of the two major countries announced a swap arrangement for ~US$ 4.9 billion and ~US$ 2.5 billion. The deal is expected to reflect each nation's desire to strengthen bilateral financial cooperation, particularly in trade and investment.	Türkiye and UAE
May 2023	The UAE's largest Islamic lender announced the acquisition of a 25% share in a Türkish banking business as part of its global development strategy. In a regulatory statement, this lender listed on the Dubai Financial Market refrained from renaming the digital bank or providing value for the acquisition. According to the company, the acquisition is subject to regulatory approval. DIB's net profit in the first quarter of 2023 increased 12% year-on-year (YoY) to US$ 408 million, owing to stronger revenues and decreased impairments.	Türkiye and UAE
April 2023	A prominent digital bank in the UAE teamed with a B2B FinTech firm based in Türkiye, which is currently active in MENA. With this collaboration, they aim to provide a digital wallet integrated with next-generation financial solutions for users in the UAE.	Türkiye and UAE
December 2022	Saudi Export-Import Bank signed a US$ 26 million financing line arrangement with Türkish banks. The two deals are part of Saudi collaborations with Türkish financial institutions.	Türkiye and Saudi Arabia
June 2022	Saudi Arabia invested US$ 5 billion in Türkiye's central bank to support the country's faltering economy.	Türkiye and Saudi Arabia
February 2022	A leading federation of UAE-based banks signed an MoU with a leading representative association of Türkish banks to exchange expertise to support the banking sector and financial sector. The MoU also intends to strengthen links between both the financial institutions to actively contribute to the development and growth of all banking operations.	Türkiye and UAE
January 2022	Following a bilateral currency exchange agreement signed by Türkiye and the UAE in January, the central banks of the UAE and Türkiye are looking to expand their collaboration. The authorities reviewed measures to improve coordination in the financial and banking sectors.	Türkiye and UAE

6. Appendix

6.1 Word Index

Table 6. List of Abbreviations

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

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

Source: Analyst Team

6.2 Key Sources

Table 7. Key Sources

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

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