

JACQUES MICHEL

Chairman of BNP Paribas Middle East and Africa for Corporate and Institutional Banking

Jean-Claude Trichet, European Chairman of the Trilateral Commission, former President of the ECB

Jacques Michel, you have the floor.

Jacques Michel

Thank you, Mr. Chairman. I will take another angle to complement what has been said before. As a practitioner on the ground, I will draw the first lessons of this pandemic, even though this unprecedented and disruptive period is not over, and I will also focus on the Gulf economies. We have been in Abu Dhabi for two days and I believe it will be of interest to the participants to give some highlights about the main trends related to the Gulf economies.

First of all, as mentioned and underscored by Abdul Aziz, the pandemic has been a catalyst in many fields, and internally, at BNP Paribas, we indeed intensified digitalization, automation and new ways of working. For Corporate & Investment Banking, it is not easy, for instance, to ask a trader/ Front Office people to work from home. It requires security protocols and a lot of IT support. We have been agile and anticipatory, and we have been resilient. On the CIB segment and as a whole, BNP Paribas, like many other global banks, has performed well and has weathered the storm pretty well. We exercise our social and civil responsibility by supporting the real economy, adhering to some programs put in place by the policymakers, but we also exercise diligence, selectiveness, strong discipline at origination, anticipation and thoughtful management so that we could, so far, weather the crisis well, and we accelerated some changes internally, notably digitalization.

As far as the Gulf economies are concerned, of course it has been disruptive. The SME segment and individuals have been much impacted, but overall, the combination of massive support packages in the region, with very low interest rates, and markets flush with liquidity made financial stability possible across the board in the Gulf countries, and some of them took the opportunity to pursue some structural reform or tax reform. Despite all these support measures, as you know, the Gulf countries in 2020 were in recession and their GDP contracted by an average of 5.3%.

I would like to also highlight the very large amount of debt raised by the Gulf countries, which is something new. In fact, we have been in a new paradigm since 2015 when oil prices dropped by more than 50% and the Gulf countries came to the loan and bond markets. I will focus on the bond market. Between 2015 and today, the Gulf countries, the six GCC countries, raised USD 390 billion. 2020 has been a record year with USD 107 billion bonds

issued. In 2021 so far USD 77 billion in bonds have been raised for the six GCC countries, which makes the GCC the most vibrant segment of the emerging markets, and due to massive liquidity all the transactions, mainly for the sovereign, but also in 2021 for the first time for large corporations, have been massively oversubscribed, with whatever underlying asset, whatever the rating of the sovereign, be investment grade or non-investment grade, with limited pricing differentiation, and I am afraid that this situation might not last long.

So far, the Gulf countries have benefitted from a very conducive environment and could successfully tap the bond market and borrow money at a very low cost of funding. Another characteristic that is still overall under control is indebtedness. Debt to GDP ratios have increased. In the case of Saudi Arabia, it started from nil in 2014 to around 30% today and with the weaker economies of Oman and Bahrain this ratio is above 75% or 100%. There is this new trend which has been amplified by the pandemic since the countries had to finance their Covid relief packages and capex.

What are the prospects and the challenges ahead? Oil markets constitute the main uncertainty and these economies have been and continue to be very dependent on the oil market. Even though the estimates for 2021 are quite positive at 75 USD/ barrel and above, observers and experts anticipate a decline in 2022. Therefore, the economic rebound in the GCC countries will be of limited amplitude. For 2022, the average economic growth has been estimated at 2% only. It will take time before business returns to normal.

Another point, a new paradigm, a new normal, are appearing in that part of the world, with new priorities: energy transition and ESG requirements are definitely becoming top priorities across the board among sovereign funds and large corporates, market perception might change rapidly regarding hydrocarbon-intensive economies. There is still a long way to go. Policymakers and corporate stakeholders are very much aware that it is of critical importance that they have to put in place robust ESG frameworks, many international banks have signed the Net-Zero Banking Alliance, they will have to progressively reduce their exposure on the oil and gas sector. I would say access to the loans and bond markets might be more selective. Investors will be also more selective. Lenders will try to identify the winners of tomorrow and to gradually phase out from what they consider the losers of tomorrow in terms of energy transition. It is a sensitive transition period with new priorities and requirements. In a worst-case scenario, the weakest economies might face a liquidity squeeze. Major changes are ahead, but what is positive is that all of these countries are very much aware of this new environment and the new requirements related to energy transition. Thank you.

Jean-Claude Trichet

Thank you, Jacques.