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In this Issue:

Housing, Real Estate & Construction Sector Exposure

Following the announcement of U.S. Treasury Secretary, July 13, 2008, that the US government plans to save Fannie Mae and Freddie Mac, two mortgage giants that owe or guarantee $ 5.2 trillion[1], the US Congress passed last week the "Housing and Economic Recovery Act of 2008". The Act gives the US Treasury Department permission to purchase both debt and equity securities of the government-sponsored enterprise (GSEs) without an explicit limit.

The new bill establishes permanently higher loan limits for both of GSEs and federal housing Agency FHA[2]. So far so good, but then came the announcement that Standard & Poor's may downgrade the subordinated bonds of the Federal national Mortgage Association, Fannie Mae, which was created in the 1930 and Freddie Mac which does pretty much the same thing and which, both now finance most of the home loans being made in America[3]. The announcement surprised investors who had anticipated the securities would be supported by any Treasury rescue plan[4]. Sentiments and views on the merits of the Federal and Congress plan varies from all for it to against it on the claims that the two agencies were part and parcel of the subprime problem.

So what is of similar concern in our region?

Our region has several housing and loans banks under variant titles in a few countries including Kuwait, Saudi Arabia and Jordan. The objectives and terms vary from country to country and from bank to another but the overall purpose is more or less the same: to operate in the housing/real estate markets which are vital for economic growth and basic entitlements in modern economies. It should be noted however that government housing banks, particularly in the GCC and most notably perhaps in Kuwait have offered heavily subsidized housing loans to the poor and middle-income strata which affected the construction industry as well as the income distribution outcomes in society, the so-called post-fiscal distribution.

Other banks have of course tapped the housing/construction sectors and extended credit to investors who want to invest in that sector. In recent days, however, there have been claims that a lot of speculation has been going-on in the land/real estate sector of the GCC countries which caused land prices to surge to extremely high levels. For example, according to Kuwait International Bank, 2007 represented a boom of real estate in Kuwait with residential land prices rising between 26-47%[5]. Meanwhile, in KSA, the average housing prices, land prices and commercial office space prices grew by 13.7 %, 16.5 % and 15.2% per year respectively between 2002 and 2005[6]. More recently, and in Riyadh only, real estate prices rose by 40 to 90 percent[7].

Fingers have even pointed out at some "new banks' as well as Islamic banks as major drivers of the soaring land prices in the Gulf because of their underlying "speculative" behavior. The argument goes as follows: Islamic and "other new" banks have bought extensive land parcels from governments and from well-off individuals and hoarded the purchased land with the intention of selling it to the poor and middle class at "much higher prices" when their "effective demand" allows them to do so. The claim implies that such speculative behavior will lead to land price collapse because of lack of sufficient numbers of effective buyers. If it ever materializes, such collapse could invariably affect the whole markets and increase the exposure of all stakeholders and banks irrespective of whether they were or were not party to the land speculations "game"[8].

Now, irrespective of the credibility of the claims about speculation, official data suggest that credit facilities earmarked for the construction/housing sector have been rising in our region. However, as shares of total credit facilities, construction loans have declined in 2007 relative to 2006 for GCC countries, Figure 1. It is worth noting that the exposure is highest in Jordan, where nearly 17% of credit

[1] The Economist Magazine, "Twin twisters" July 25, 2008.
[2] Merrill Lynch July 25 2008: "Analysis of the housing Econ & Recovery Act of 2008".
[3] Econobrowser, July 15.
[4] Bloomberg Jul 27, 2008.
[5] alraimedia, 23 April 2008
[6] "Saudi Arabia and the Real Estate Sector", SAMBA
[7] Khaleej Times, 11 April 2008
[8] Aleqtisadyah July 26, 2008: "Speculations and the real estate markets in the GCC"

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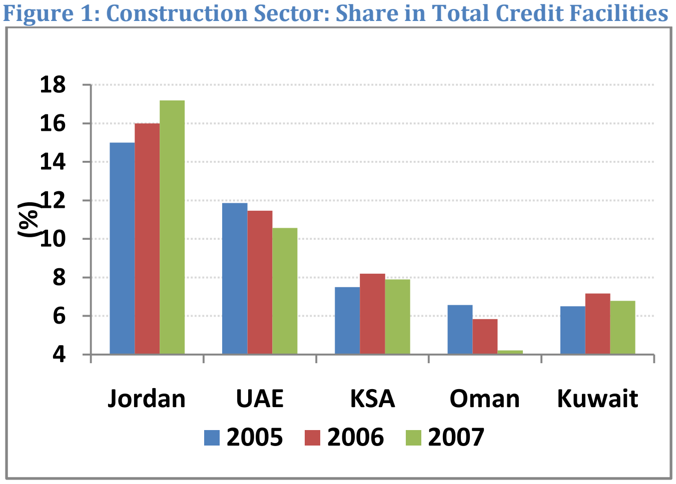
goes to the construction sector. The lower shares in the GCC economies might reflect the availability of other investment opportunities in the local, regional and international markets. As well, one should note that recent research has shown that there is an effective transmission mechanism between financial markets of the GCC and that of Jordan[9].

Figure 1: Construction Sector: Share in Total Credit Facilities



Source: Central Banks

MENA Markets

The Egyptian market recovered this week with strong buying from foreign investors[10]. The optimistic outlook for mining corporations' profits caused the ASE general index to rise by 3.24%[11]. Meanwhile, 72% of new capital issues in the Middle East during the second quarter of 2008 were raised in KSA. This meant that KSA, along with China, Brazil and the US accounted for half of the USD 37.4 billion in global IPOs between April and June[12].

Table 2: Selected Market Indices

Index	Week ending 7/18/2008	Week ending 7/25/2008	Change
Jordan	4563	**4711**	3.24%
KSA	8,861.24	**9,080.87**	2.48%
Morocco	14,425.14	**14,463.40**	0.27%
Egypt	9,356.25	**9,382.51**	0.28%

Sources: Bloomberg and Official Markets

DID YOU KNOW?

- That the retirement age in France is 60, not 65 as in most advanced countries. In 2005, only 37.8% of people aged 55-64 had jobs, which are much lower than the corresponding rates in Britain, 56.8% and 45% in Germany. Now contrast those rates with the current rate in Jordan: in 2007 only 22.7% of people in the age group 55-64 were employed (Source Jordan DOS 2008 and The Economist, July 25, 2008).

- The value of global trading in carbon markets has increased remarkably to US $ 30.1bn in 2006. One year earlier in 2005, the corresponding value was US $ 10.9bn; that is almost tripled in one year! (M. King, Bank of Canada Discussion paper 2008/1).

- Saudi Arabia experienced blackouts in four of its major cities, Riyadh, Al-Qassem, Hail and parts of the Eastern province. The blackouts convey messages about the importance of the GCC grid interconnection project (El-eqtisadeyah, July 27, 2008).

- There is definitely a bidding war for hard-to-find talent & specializations in the Middle East (MEED, July 3, 2008). Internationally, costs of talent turnover for an average organization hover around $27mn per year. Almost half of these organizations that lose their human capital talent have no formal strategy for addressing the retention of highly specialized and talented employees (DDi, HR-Benchmark Group)

INFORMATION

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[9] Al-Qudsi, S. Obeid, S. Kaloti A. and Numan F. "ASE: A Blooming rose in the backyard of the Jordanian Economy" Arab Bank Review, Vol. 9, July 2007-July 2008.

[10] EGY News, 24 July 2008

[11] Al-Rai

[12] The Saudi Gazette via Zawya