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CHARACTERISTIC FEATURES OF SECURITIES DEVELOPMENT IN THE MIDDLE EAST

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Abstract. *The stages of development of the securities market of the Middle East are analyzed. The countries listed in the article traditionally represent countries whose economies exist in accordance with the requirements of the Islamic model. Religion as a worldview has had a huge impact on the conditions for the formation of countries with Islamic economies. The securities market of the Middle East countries as a component of the financial market along with the bank credit market and the foreign exchange market has been studied. The development of the regional capital market and standardization of systems of regulation of national markets, as well as the establishment of relations between the stock markets of individual Arab countries as a priority for the development and regulation of the stock market of the Middle East.*

Key words: *securities market, securities market structure, Middle East countries, Islamic economy, investments, financial systems of Arab countries.*

Introduction.

For the analysis of the Islamic economy, such principles as: 1) building relations between the participants and a transaction on the basis of the principle of partnership (musharaka) are distinguished; 2) charity (sadaqa and waqf); forbidden (haram) types of business. It should be noted that a special place is occupied by zakat - a tax in favor of needy Muslims. In Jordan, there is a whole Zakat Office that collects and distributes Zakat. In Saudi Arabia, there is a Directorate General for Zakat and Income Tax within the Ministry of Finance and the National Economy. Moreover, today in many countries zakat has become a regular state tax, which is collected with the help of special individuals Zakat is levied on assets that meet certain conditions: 1) the amount of assets at the time of calculating the amount of tax exceeds the nisab (minimum property subject to taxation zakat); 2) assets owned by the taxpayer during the year; 3) assets are legally acquired; 4) commercial transactions with these assets do not contradict Sharia; 5) assets are intended for personal use. If all the above conditions are met, the following assets are subject to taxation: 1) cash, which means cash, positive balance of bank accounts, gold and silver; 2) shares; 3) stocks in the form of finished goods intended for sale.

Main text.

The securities market of the Middle East refers to emerging markets, e markets that are in the process of transformation, growth and complexity of its structure. The securities market is part of the financial market along with the bank loan market and the foreign exchange market. Consider the volume, dynamics and structure of the securities market in the Middle East [8].

Thus, in July 2002, Iran issued its first post-revolution Eurobonds for 5 years worth 500 million euros, which were not structured according to the Islamic model. Today, the Iranian economy has a huge public sector, in which 85% of resources are controlled and managed by 2,500 state-owned enterprises and agencies. They produce the bulk of goods and services, which are financed largely by the Central Bank and, on preferential terms, by commercial banks, and the prices are subsidized. A financial system organized in this way is a powerful source of inflation and budget deficits.

Pakistan's securities market is the most developed in the Middle East. The main participants are state-owned banks. Investment financing is carried out in the form of joint commercial activities; equity participation and acquisition of shares; acquisition of securities, for example, so-called term certificates of participation; joint rental operations. Widespread non-banking organizations, the so-called mudarabs, operate on the same principle as mutual funds. Their funds can be invested only in projects that do not contradict Sharia and are approved by the Mudarab religious council. In 1992, 52 registered mudarabs had a total market capitalization of Rs 10 billion. Unfavorable changes in the tax regime have sharply weakened their position on the stock exchange, capitalization has fallen in three years to 4 billion rupees and the level of activity has declined markedly.

The Bank of Sudan has open market instruments at its disposal, such as government securities - the Central Bank's Certificate of Equity. A government funding certificate is under study. Encouraging the active participation of foreign investors in the development of the securities market in the Middle East is directly dependent on the improvement of financial legislation that provides guarantees to investors and creditors who invest in securities. In addition, it is necessary to create an adequate listing system not only for shareholders, but also for subscribers on the stock exchanges of Arab countries. For example, the development of Arab capital markets could be facilitated, in particular, by the exemption from taxation on interest and dividend payments. At the same time, the countries of the Middle East are at the initial stage of creating a securities market. Therefore, for their emerging market, an important prerequisite is the development of a system of offshore banking services in order to meet the financial needs of enterprises engaged in foreign economic activity. As a rule, the foreign investment regulation system existing in a given country has a decisive influence on a foreign bank's decision on where to open a branch or outlet. Among the many regulatory instruments that encourage banks to conduct their operations through branches, the most important are currency control of monetary policy, measures to comply with financial discipline, and the nature of the customs system. These components of the country's foreign economic policy and state regulation of investment will contribute to the development of offshore financial markets in the Arab region. The basic principle of managing the "offshore banking system" is extraterritoriality. This means that national authorities refrain from extending certain supervisory functions and some of their prerogatives in the domestic economy to offshore banking. At the same time, they are taking the institutional and regulatory measures necessary to manage these activities. When creating an "offshore banking system", Arab countries need to take into account its impact on the following points: 1) the emergence of new sources of financing and the possibility of reducing financial costs; 2) reduction of banking formalities; 3) increasing the competitiveness of local banks; 4) development of the interbank market; 5) internationalization of the internal banking system [2].

The study of world practice shows that there are two basic conditions that must be met by the legislative and institutional system of a country seeking to attract foreign investment. 1) the stability of the fundamental principles of the system; 2) transparency of the national regulatory system.

It should be noted that the improvement of the policy in the field of attracting foreign investments is more connected with the privatization programs of this region. The attractiveness of privatization programs for foreign investors can be increased in the Middle East by using a debt-for-equity scheme, which helps to improve the investment climate in the country. Privatization programs are implemented in Arab countries through: 1) direct negotiations; 2) bids; 3) with the help of the securities market. In any case, the democratization of privatization measures largely depends on the availability and development of stock markets.

Cooperation between the Arab countries in order to optimize the activities of their financial systems is an important prerequisite for the further development of their securities market. It is important to note that in addition to the efforts of individual countries to develop, improve and refine capital market legislation, initiatives have been taken under the auspices of the Union of Arab Stock Exchanges to strengthen links between existing stock markets, namely a cross-listing mechanism. "(Cross-listing" to interact with other markets in the region, developed a system of calculation and repayment of payments. Such measures create the conditions for harmonization of existing systems of capital markets in the Arab world and their practical application. In addition, they could be a starting point for the successful functioning of stock markets in the Arab East, which, in turn, would support the demand for securities issued in Arab countries. Thus, in the mid-90s, for example, an agreement on cooperation was signed between the stock exchanges of Beirut, Cairo and Kuwait, which entered into force on 6.01.97.

The countries of the Middle East are members of the Council for Islamic Financial Services, which was established in 2002. The Council brings together representatives of the central banks of Bahrain, Indonesia, Iran, Kuwait, Malaysia, Pakistan, Saudi Arabia, the Sudan and the Islamic Development Bank.

The Central Bank of Iran has the broadest powers to regulate the activities of banks and supervise their operations. Along with non-interest instruments of the open market - national participation bonds - administrative measures are also applied: determination by the state of the upper and lower limits of the expected return on banking operations, participation of banks in the capital of financed projects; the upper limit of the commission fee for trust management of funds on time deposits.

The Central Bank of Pakistan has been operating on an interest-free basis since the end of 1985. The Central Bank of Pakistan identifies 12 types of transactions permitted by commercial banks. They are divided into three main groups: 1) loans (card hasan); 2) financing of trade transactions (murabaha) and 3) investment financing (mudaraba, musharaka). Loans are interest-free loans with preferential repayment terms. Financing of trade operations involves the purchase by banks of goods with their further sale to customers on the terms of Murabah; purchase of promissory notes of trading companies; acquisition of movable and immovable property; ijara; financing of developers on the basis of commission. Investment financing is carried out in the form of joint commercial activities; equity participation and acquisition of shares; purchase of securities - urgent certificates of participation; joint rental operations.

Sudan's banking system has a two-tier system: the Central Bank of Sudan and 27 commercial banks. The Bank of Sudan has open market instruments at its disposal, such as government securities - the Central Bank's Certificate of Equity. A government funding certificate is under study. Sudan relies on the technical assistance of the International Monetary Fund to develop Sharia-compliant securities and other aspects of economic modernization.

Due to high interest rates on loans from Western financial institutions and fierce competition for world markets, Indonesian companies are increasingly turning to the growing Islamic market. In the last year, many large Indonesian corporations have issued Islamic or, as they are also called, Sharia bonds (Islamic bonds) or included Sharia tranches in their bond issues. Although the size of these issues was not large, its success encourages other companies to get involved in this process.

Currently, only in three countries - Pakistan, Iran and Sudan - the banking system operates entirely on the basis of Sharia principles. However, the Islamic banking community is the fastest growing segment of the financial sector in the Middle East. According to the International Association of Islamic Banks, today there are approximately 200 such credit institutions in 35 countries (including Russia). In the last two years, there has been a rapid growth of Islamic banks in the Gulf countries, and the stable development of this sector continues in the countries of Southeast Asia, especially in Malaysia.

At present, the total amount of assets managed on the basis of Sharia principles is, according to various estimates, from 100 to 160 billion dollars. By world standards, this is a little - much less than the assets of one large Japanese or American bank. However, the dynamics of the development of Islamic banks, especially in recent years, shows that they have a great future: the annual growth rate in this sector is 10-15 percent. Already in Kuwait, Islamic banks have a quarter to a third of all savings. now Islamic banks offer instruments with a yield of 5-6%. In the future, to make a "quantum leap", moving to medium- and long-term products with a return of fifteen, twenty and even thirty percent in the field of project financing and venture capital [5].

According to many experts, the Western financial system can learn an important lesson from the experience of Islamic banks: decisions on project financing should be made not on the basis of anticipation of phantom speculative superprofits, but on the basis of a responsible assessment of its profitability prospects. An authoritative Western business body, the Economist, wrote of the Islamic financial operation of Musharraq (the bank's involvement in the company's profits and losses): "Some people in the West find this idea attractive. It is unfortunate that Western banks did not have such an incentive to make many of their investment decisions during the 1970s and 1980s, and Musharaka emphasizes the division of responsibilities between all users of money.

The commercial norms of Sharia are not invented by theologians. They only codified those of the pre-Quranic business procedures that were deemed morally acceptable. However, nowadays not all financial structures in the Middle East operate with a view to Sharia. The royal families of Saudi Arabia and Kuwait place their capital in Western financial markets, and the largest Arab financial-industrial groups use Western methods of business. Western-style financial institutions emerged in Islamic countries at the end of the last century, mainly as branches of major banks in European metropolises. However, their activities were limited mainly to export-import operations of foreign companies. The local trading community avoided the services of Western banks for nationalist and religious reasons.

Modernization processes in the economy have forced Muslim businessmen to open current accounts in banks for settlements, but many of them still refused to make interest deposits and take loans. Therefore, in the late 1940s, a number of Islamic economists began to theoretically develop a financial model of "Islamic capitalism" that excluded lending interest [3].

The specific history of Islamic banking dates back to the 1960s. The first Islamic savings bank was founded in 1963 in Egypt, but it did not last long. In the 1970s, practical work began on the establishment of Islamic financial institutions. In 1974, the Organization of Islamic States decided to establish an interstate Islamic Development Bank to finance Sharia-based economic and social programs. In 1975, the commercial Dubai Islamic Bank was established. Central figures in Saudi Arabia include Prince Mohammed al-Fais-la, now head of Faisal Finance / DarAI Mal, and Sheikh Saleh Kamel, the founder of Albaraca. In 1977, two Faisal banks opened in Egypt and Sudan. In 1979, the first Islamic bank in Bahrain was founded.

The psychological preconditions for the emergence of Islamic banks were created by the process of "Islamic revival", the strengthening of commitment to traditional Islam among the general population of the Middle East (its culmination was the revolution of Imam Khomeini in Iran). The material preconditions for the emergence of Islamic banks were created by the oil crisis of 1973, when a flow of petrodollars flowed into the Middle East as a result of a sharp rise in oil prices.

The influx of religious Muslim clients has allowed Islamic banks to create significant liabilities, but the embryonic state of the Islamic capital market has prevented them from fully exploiting them. In the 1980s, the main goal of Islamic banks was to gain experience in passive operations, standardize financing and investment methods.

In the early 1980s, Islamic banking began to grow rapidly in Southeast Asia. As early as 1963, a charity fund was established in Malaysia to raise the savings of Muslims who were going to make a pilgrimage to Mecca. Subsequently, one of the world's largest Islamic investment funds, Tabung Haji, emerged on its basis. The rapid growth of the Islamic banking sector in Malaysia began after 1983 as part of the government's policy to improve the living standards of the Muslim majority. In addition to purely economic reasons, the policy had domestic political reasons: although Muslims make up 75 percent of Malaysia's population, much of the private sector capital is controlled by ethnic Chinese.

The last decade has been a time of rapid development and innovation for passive operations for Islamic banks. The customer base continues to grow, but current investors want their investments to be not only religiously sound but also profitable. There is an active creation of Islamic investment banks and funds of a new type, dealing with asset management, shares, real estate investments. Islamic investment banks operate in the market of leasing operations and venture capital. Especially since Middle Eastern banks have to fight for customers with giant Western competitors who are actively opening Islamic branches.

Serious problems arose during the transition to the Islamic system, due to the financing of public expenditures through domestic debt, as the issuance of interest-bearing bonds became impossible. In Iran, for example, even after the transition to an interest-free banking system, government debt continued to be financed by loans provided by the central bank to nationalized commercial banks at a fixed interest rate. Commercial banks, in turn, provided loans to public sector enterprises on favorable terms. But, for example, in Iran, the situation changed after the administration of President Khatami began economic reforms [7].

In 1995, the Iranian state began issuing special Islamic bonds based on the PLS principle: during the planned privatization, the bonds will be converted into shares of former state-owned enterprises. The funds raised as a result of the loan will be used for their reform and modernization, and the yield on bonds will be determined by the profits of companies included in the fund used to secure government loans. The experience of Malaysia was used in the issuance of bonds, where such securities appeared even earlier.

In June 2002, Malaysia undertook the world's first global issue of Islamic bonds, organized by HSBC. $ 600 million worth of securities were offered to the market, half of which were purchased by investors from the Middle East; the second half was located in Hong Kong, London, New York, Singapore. The instrument is structured as Ijara: the government has sold part of the real estate assets, including the Ministry of Finance building, to a specially established company, Malaysia Global Sukuk Inc. The latter leased the property to the government. The purchase of assets was financed through the issuance of trust certificates with a floating rate, that is, the actual bonds, giving ownership of the asset and, thus, the object of leasing. The government makes floating lease payments on these securities in favor of Malaysia Global Sukuk Inc., pegged to LIBOR. She, in turn, pays investors an income calculated on the same basis every six months. In 2007, the property was sold to the government at the original price, and investors received back the principal amount of the investment.

Conclusion.

The development of the regional capital market and the standardization of systems for regulating national markets, as well as the establishment of links between the stock markets of individual Arab countries are the priorities for the development and regulation of the stock market in the Middle East. A necessary prerequisite for the emergence and development of the securities market in the Middle East are privatization programs, which make an indisputable contribution to improving the investment climate in the country.

The main regulatory issues related to investment legislation in the Arab world are as follows: 1) the rules applicable to foreign direct investment when entering and leaving the country; 2) guarantees provided to investors; 3) investment benefits and incentives; 4) the procedure for settling investment disputes. Many Arab and Western experts rightly believe that the investment activities of TNCs in Arab countries could be more in the interests of the region's development in the context of the gradual liberalization of trade between countries with Islamic economies. In this regard, the League of Arab States approved in February 1997 a plan to establish an Arab Free Trade Area, comprising the following countries: Iraq, the UAE, Jordan, Libya, Mauritania, Yemen, Palestine, Sudan and Somalia. Currently, the following organizations have been established to address the liquidity problem: the International Islamic Financial Market and the Liquidity Management Center.

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