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## How Exchanges can Evolve in Economies Dominated by the Banking Sector

Analysts speak passionately about the complementarity between the capital markets sector and the banking sector. From my end, I have never doubted the complementarity within this relationship which can be illustrated as sibling rivalry.

Just as siblings are an elementary part of the family, the capital markets sector and the banking sector are an elementary part of the economy. However, I've always avoided talking about the other side of the coin which is the sibling rivalry, causing a conflict of interest between those two.

One of the simplest principles of competition between the capital markets sector and the banking sector is the eagerness to attract economic savings. The capital markets sector invites the investor to invest in listed companies, highlighting the benefits of wise risk-taking, while the banking sector invites the investor to be more of a risk averter by placing his savings into a safe deposit.

On the other hand, the two sectors compete to provide the investors with the liquidity needed. One calls for issuing Bonds on the financial market, while the other one offers several attracting loan packages.

Similar to the head of the family, where a father would interfere to maintain a fair competition between his sons; the Government separates between the sectors and determines each sector's main task in order to keep it a fair competition.

However, the fundamental question that I raise, which no economist has dared to ask, is: What if there is a tremendous difference between the elder and the younger brother? Is separating them in this case considered as a fair competition? Would it be sufficient to sit around and wait for the younger to grow up to his brother's level and potentials?

The answer would be positive if the father provides his little son with the right supplements in order to grow, similar to the Government if it provides privatization of government-owned institutions to be listed on the Exchange, same method used by developed countries. But what if the father suffers from lack of means? In other terms, what if the government-owned institutions aren't ready for privatization? Would it be fair for the father to leave his younger son face his older brother alone?

The principle of separation between the capital and banking sectors is well known; but when it becomes complicated, the father must let his elder son take care his little brother by letting him partake in his business so they can both benefit from each other's potential. By doing so, the Government should give to the Exchange the concrete opportunity to trade Treasury Bonds on its platform instead of keeping them traded between banks; inviting banks to trade in a transparent way on the Exchange platform.

It goes without saying that any cooperation between the capital market sector and the banking sector will stay incomplete as long as they don't make mutual efforts to encourage SMEs to list on the Exchange.

We have seen internationally some examples of small Exchanges playing the role of an electronic platform used by the banks for specific bank transactions, for example the case of Algiers Stock Exchange and Armenian Stock Exchange (managed by Nasdaq) which have been trading treasury bills for a while. It is worth mentioning that Bahrain Bourse and the Beirut Stock Exchange are preparing to follow the same step in addition to other treasury instruments.

This step has pushed the Algerian and Armenian Exchanges forward, as it will definitely support the persistence of other Exchanges. However, will these small Exchanges be able to grab the opportunity to build a real and active stock market in the future? Time will tell.

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