



Middle East business intelligence since 1957

The economic outlook for the Middle East

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MEED

The Middle East is at a generational turning point....

- The Middle East in general and the Arab world in particular is at a political and economic turning point unparalleled since the 1979 Iranian revolution and one as important as the changes that followed British and French withdrawal from the region in 1945-62.
- Potential outcomes range from a long period of political turbulence and economic stagnation to an era of sustained economic and social progress.

THERE ARE FEW CERTAINTIES
ABOUT THE NEXT DECADE

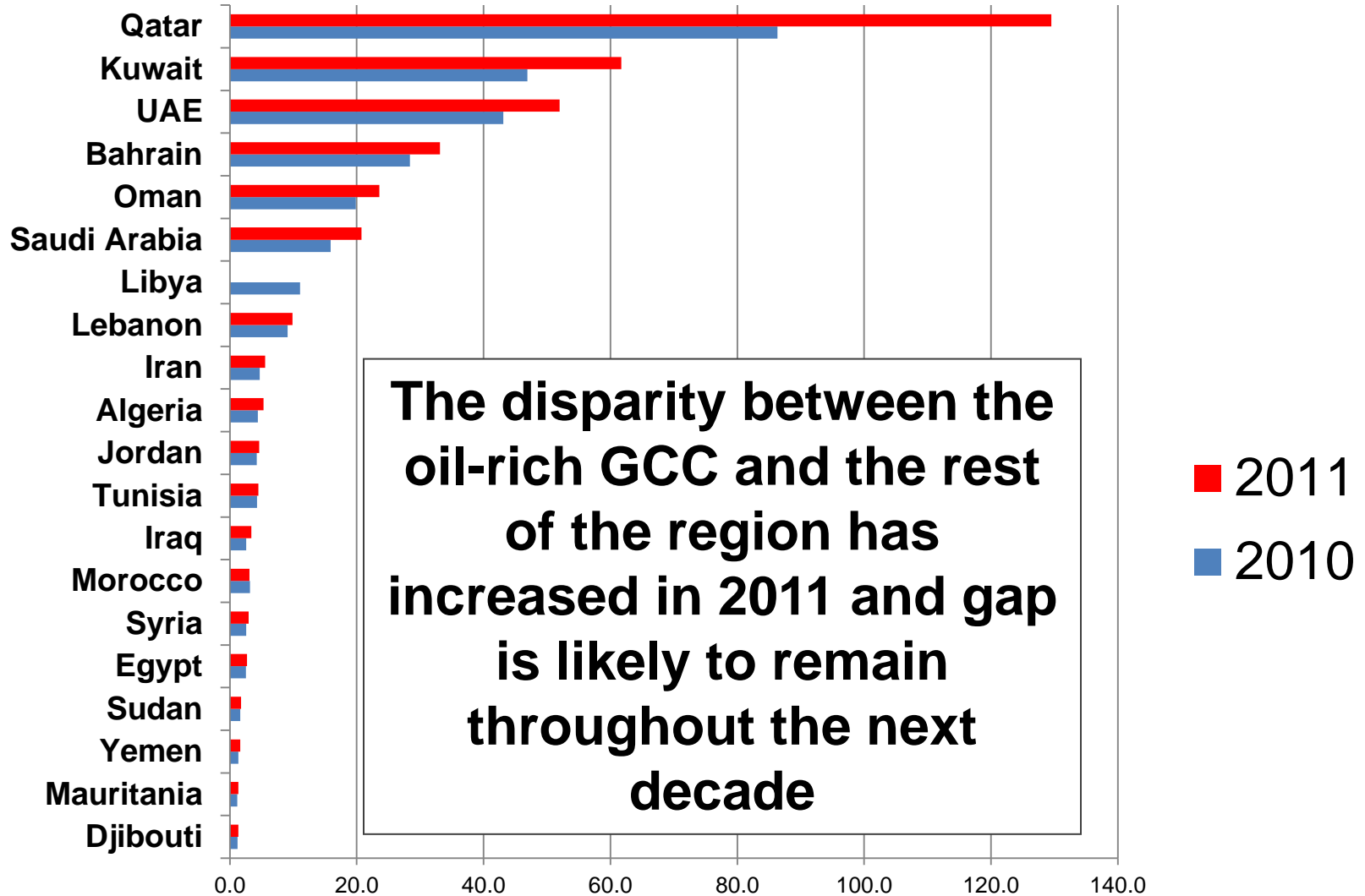
Factors driving the region include...

- The declining capacity of central government.
- Economic change mainly driven by population growth and youth.
- The consequences of foreign interventions in the Middle East including the Gulf reflagging campaign, the Kuwait Crisis, the Lebanon crisis, the 2001 invasion of Afghanistan and the 2003 invasion of Iraq.
- The failure of the Arab-Israel peace process launched in 1991.
- The declining capacity of the US to intervene in the Middle East and Islamic world.
- Russia's economic recovery, the rise of China as a global economic power and the emergence of Turkey as a force in regional events.
- Generational change in the leadership of Arab countries.
- The rise of new political forces in the Arab world, notably the Muslim Brother and associated movements which will dominate the Arab political debate for a generation.
- The Iranian challenge to the regional status quo.

- Recognise the new facts.
- Identify long-term structural factors upon which to build your regional strategy.
- Take into account irresistible local factors and actors.
- Adapt to the impact of new global and regional players.
- Don't expect technology to make your job easier.
- Engagement and commitment are vital.

- **Economies vary:** Saudi Arabia has more than 20 per cent of world oil; Qatar has about 14 per cent of world gas. Morocco and Jordan have effectively no hydrocarbon reserves.
- Systems of government **differ**.
- The region is **divided** by distance, desert, religion, tribe, history and language.
- To succeed in the region companies need to be **nuanced, flexible, pragmatic and consistent**.
- Developments in 2011/12 have increased the gap between the GCC and the rest.

No region on earth has such a wide and growing income gap



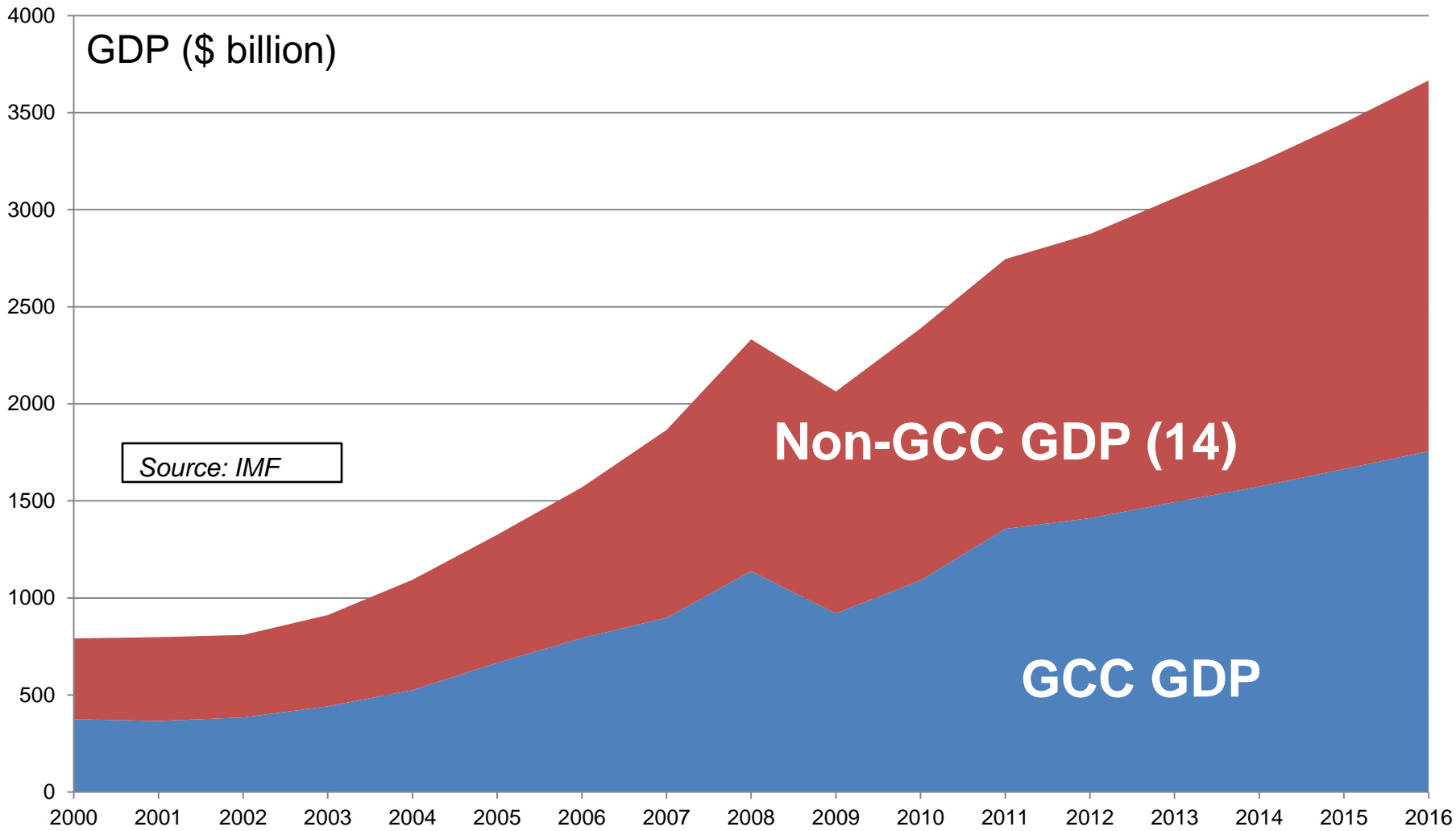
The disparity between the oil-rich GCC and the rest of the region has increased in 2011 and gap is likely to remain throughout the next decade

■ 2011
■ 2010

GDP per capita (\$)

Source: IMF

Fact 2: The GCC has become more influential since 2010



Source: IMF

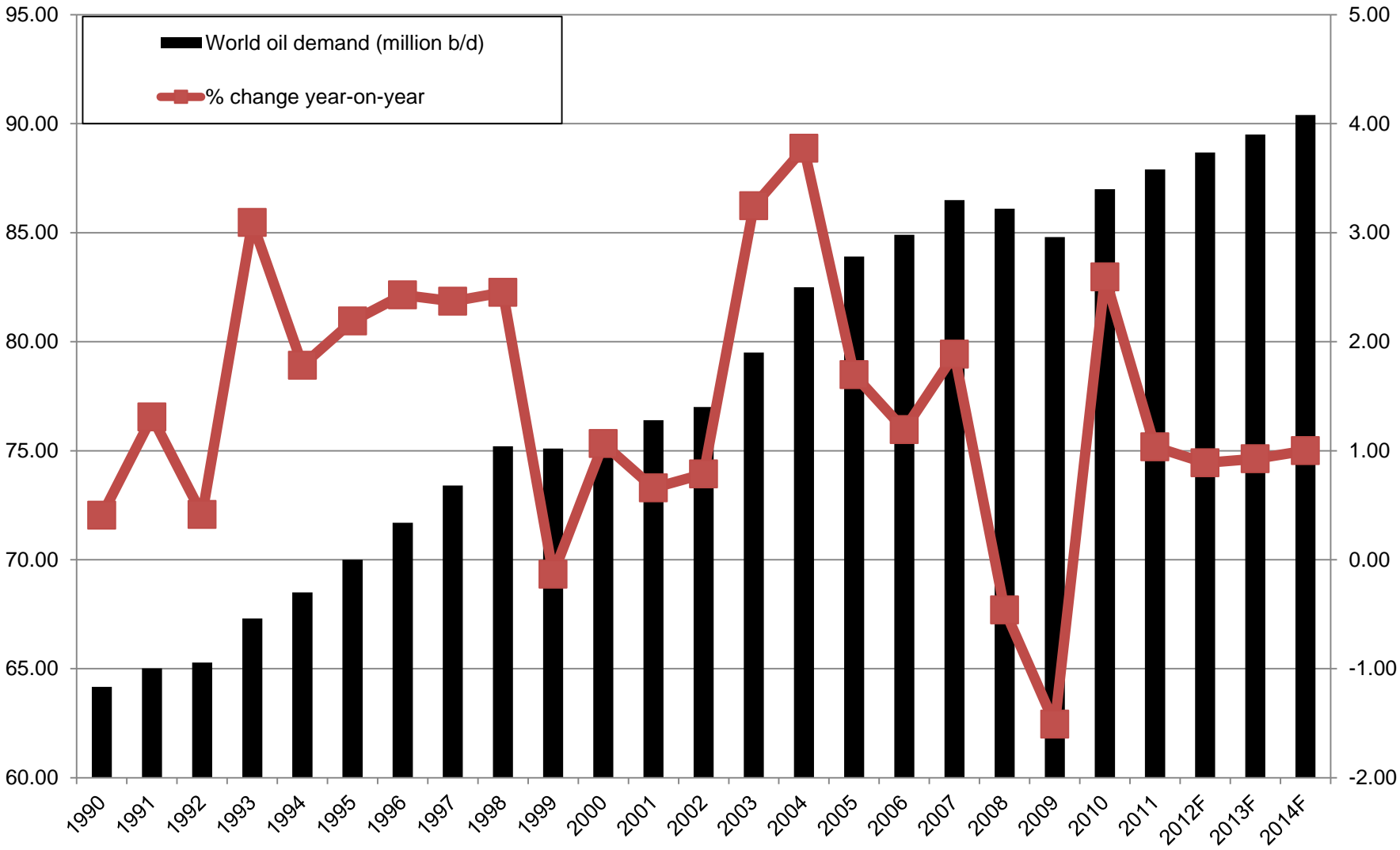
Non-GCC GDP are Algeria, Djibouti, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Sudan, Syria, Tunisia

**The GCC is the starting point
for your strategy in the
Middle East.**

The five factors that support GCC growth

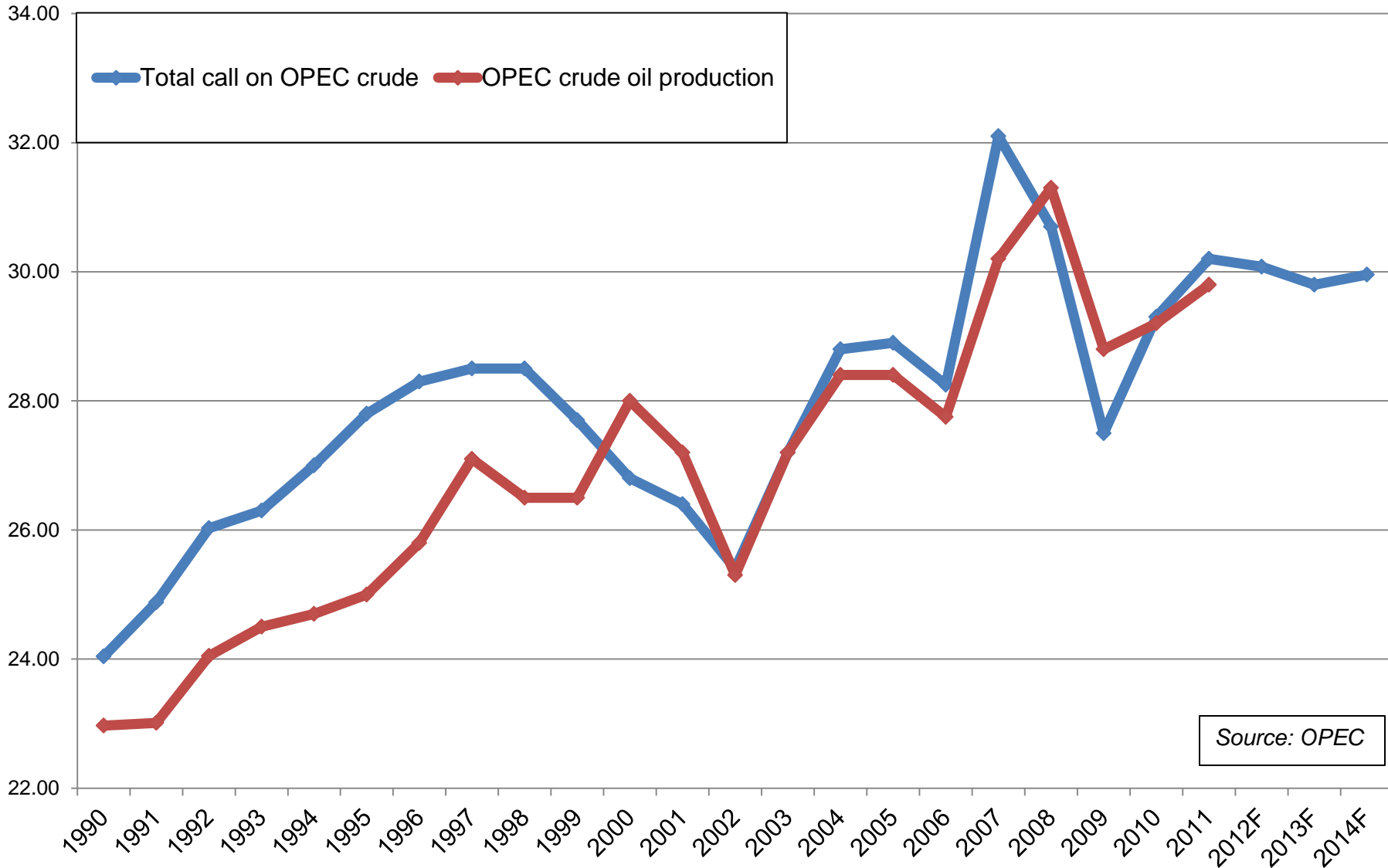
- **Oil and gas**
 - Oil price to average \$100 a barrel/plus
 - World oil demand growing by about 1 per cent a year
 - Buoyant gas demand
- **Economic diversification**
- **Population growth**
- **Globalisation**
- **Governance.**
 - GCC has mainly avoided or contained Arab Spring.
 - The region remains largely subject to non-military rule.

Fact 3: no sign that world energy or oil demand is falling



Source: OPEC

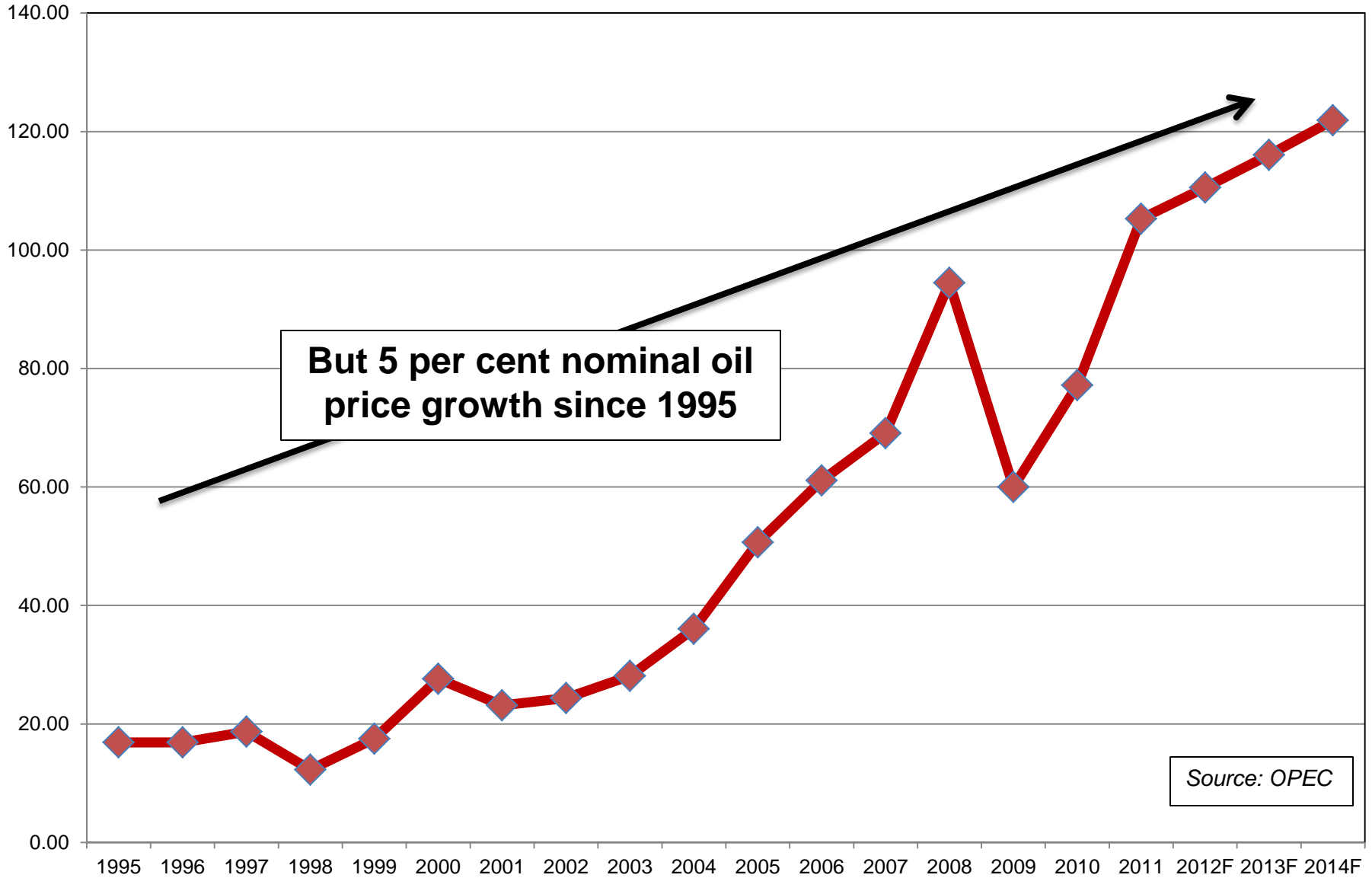
OPEC covered 24 per cent of increase in world oil demand



Source: OPEC

Oil price was flat until 2004 and has since soared

OPEC basket price (\$ a barrel)



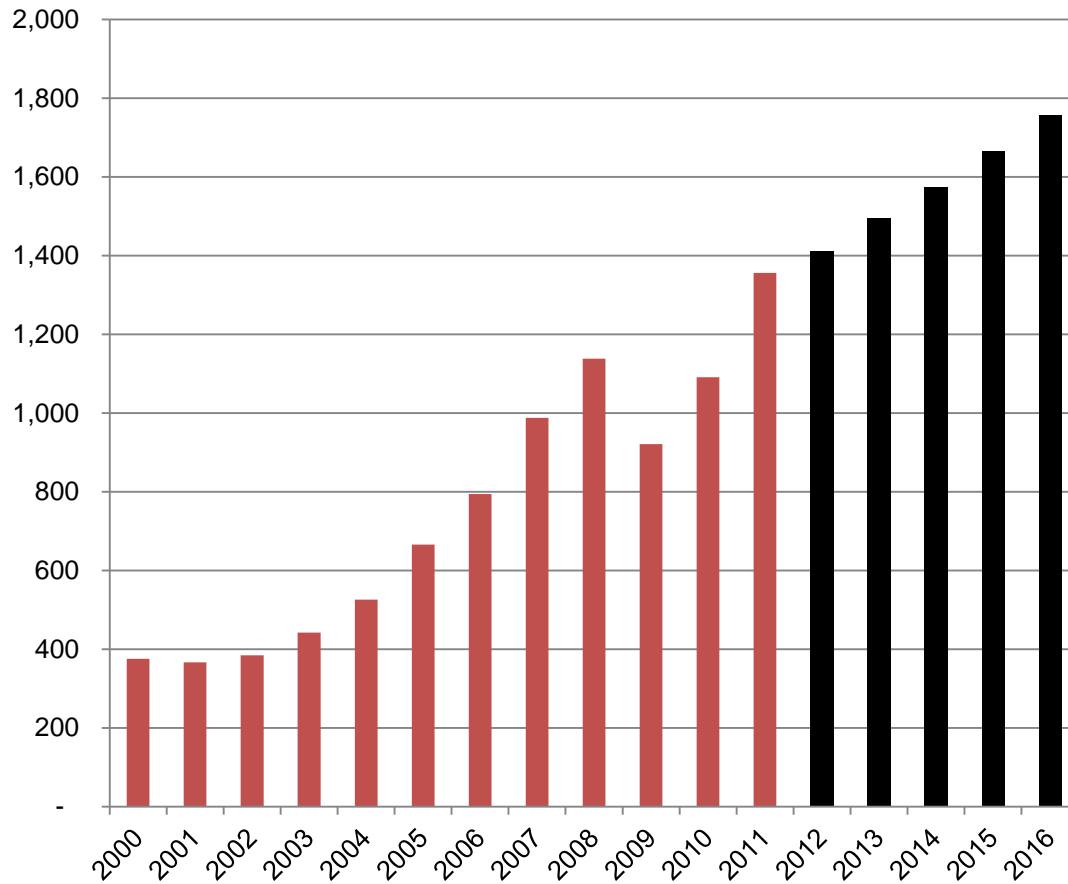
However

US energy policy is producing major change in the structure of American oil and gas supply and demand. This is reducing the US' demand for Middle East oil, and consequently, Middle East influence in the US.

.....In contrast, Chinese dependence upon Middle East oil is growing.

The result: GCC has been world's most buoyant region

GCC GDP (\$ billion)



GCC \$ dollar GDP grew by almost 12.5 per cent pa 2000-11

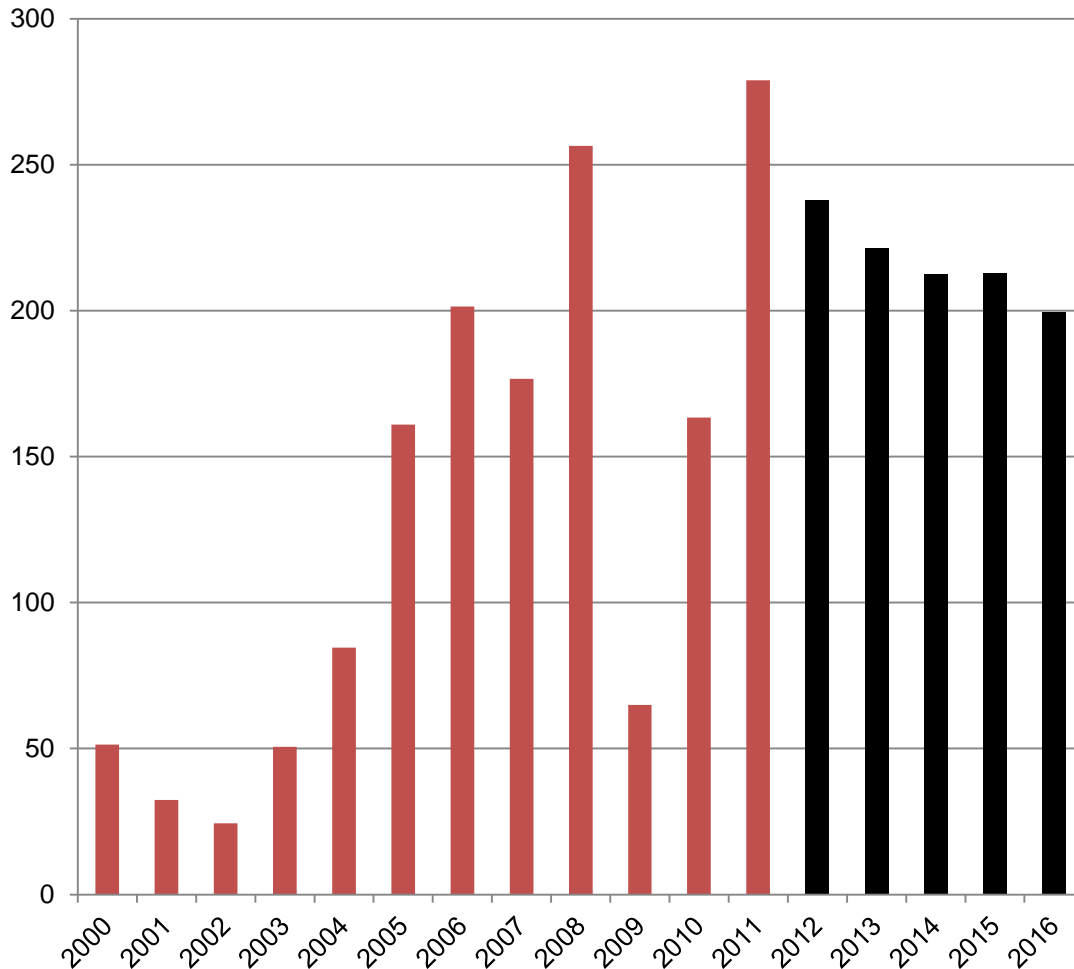
GDP has almost quintupled in this period from more than \$350 million to almost \$1,400 million this year.

GDP conservatively forecast to grow by about 7 per cent annually to 2016

Source: IMF

The GCC on average is solvent and liquid

**GCC current account surpluses
2000-16 (\$ billion)**



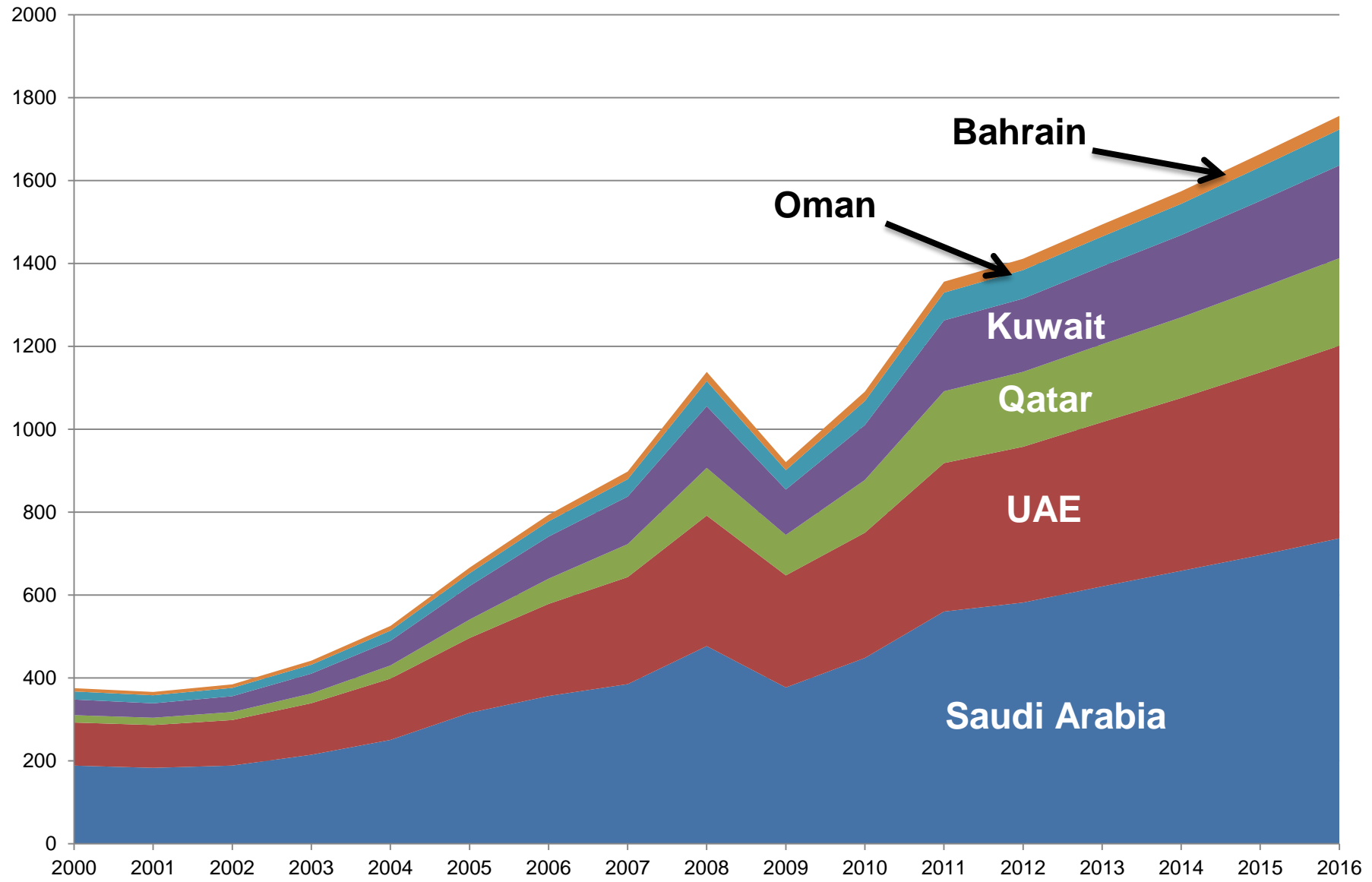
GCC countries have accumulated almost \$1.5 trillion in surpluses since 2000

Debt is low

GCC states are forecast by the IMF to generate at least \$1 trillion worth of surpluses 2011-16.

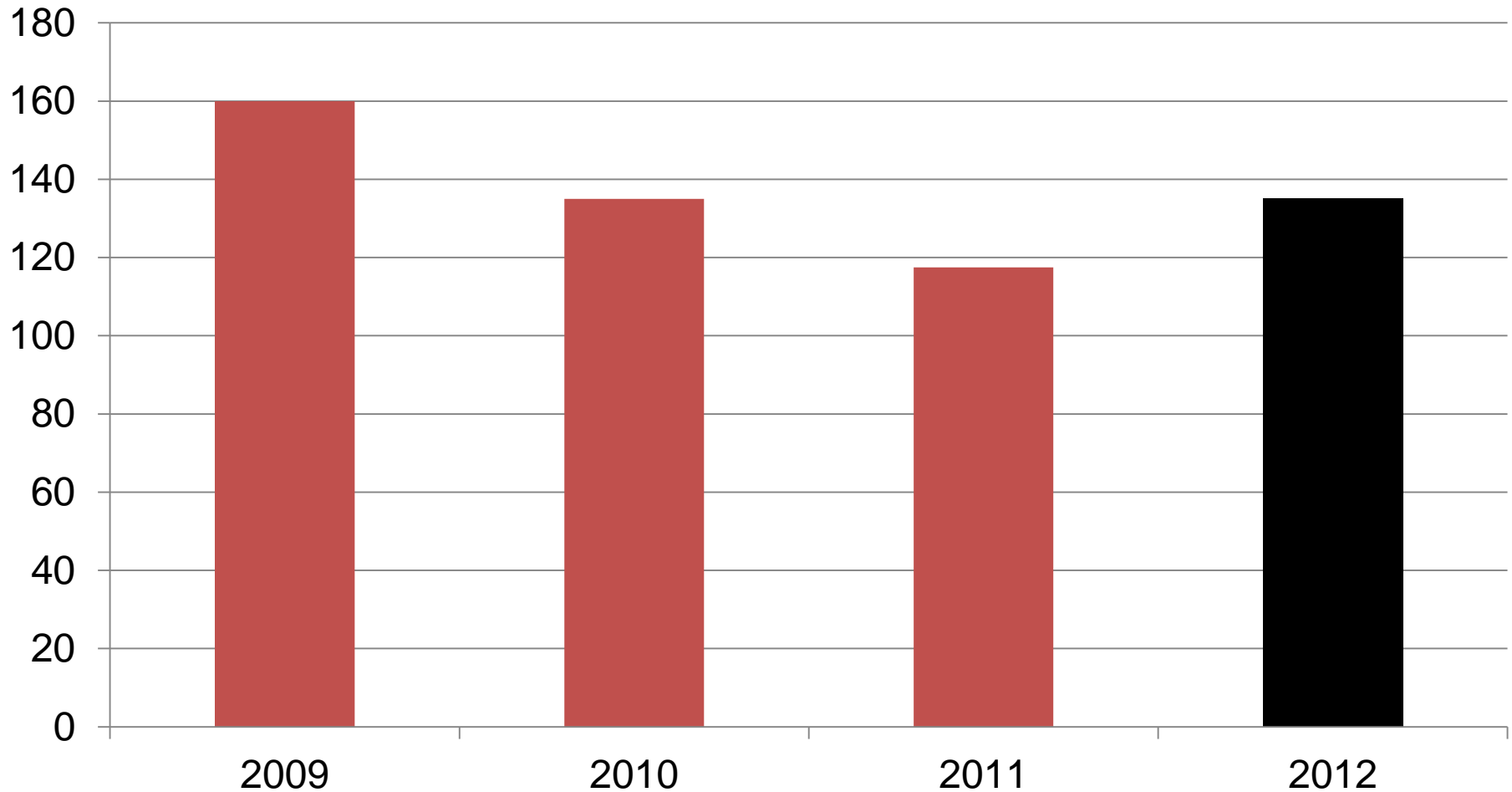
This is more than enough to finance all foreseeable infrastructure requirements and support continuing external investments

The GCC itself is diverse and divided



GCC project market is rebounding in 2012

Value of contract awards (\$ billion)



Saudi Arabia

By far the largest economy in the Middle East
Solvent, liquid and comparatively well-managed
Ageing leadership but increasingly autonomous
meritocracy

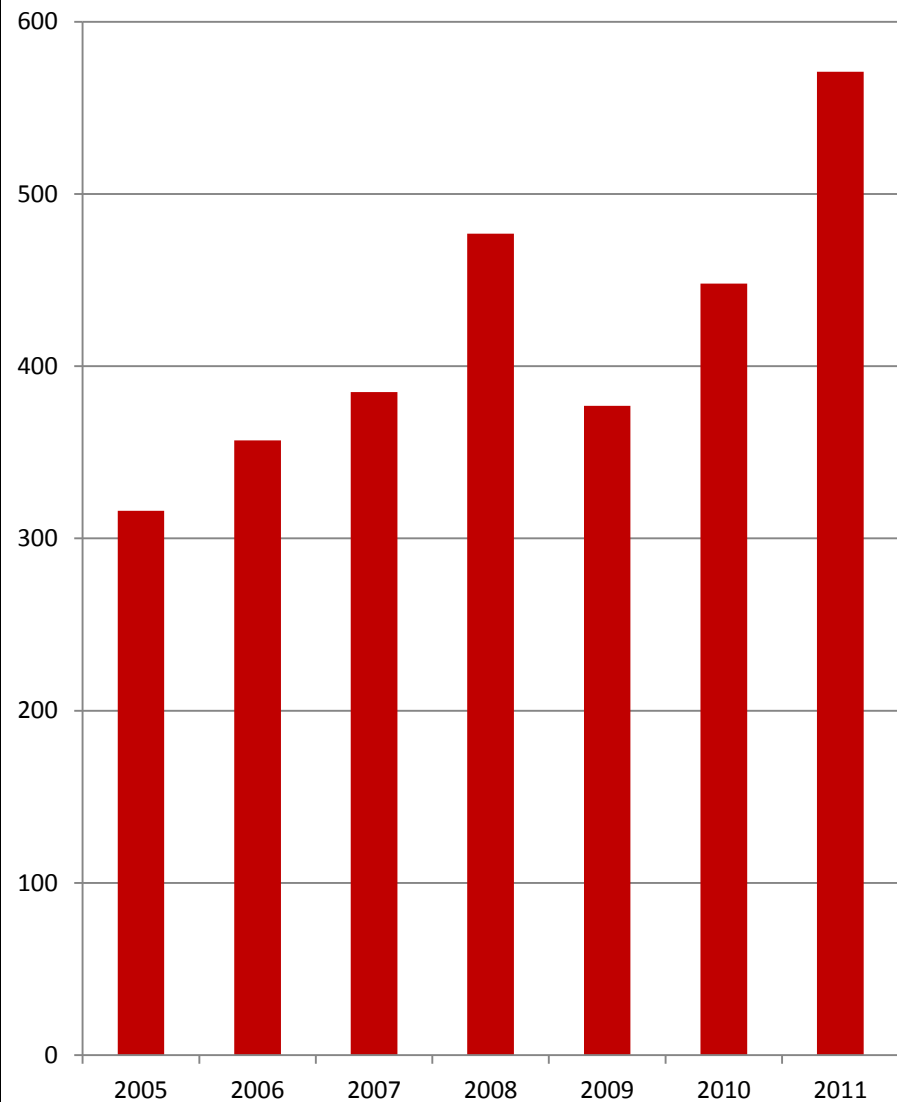
Ambitious business sector looking for
opportunities at home and abroad

Growing pressure coming from regions

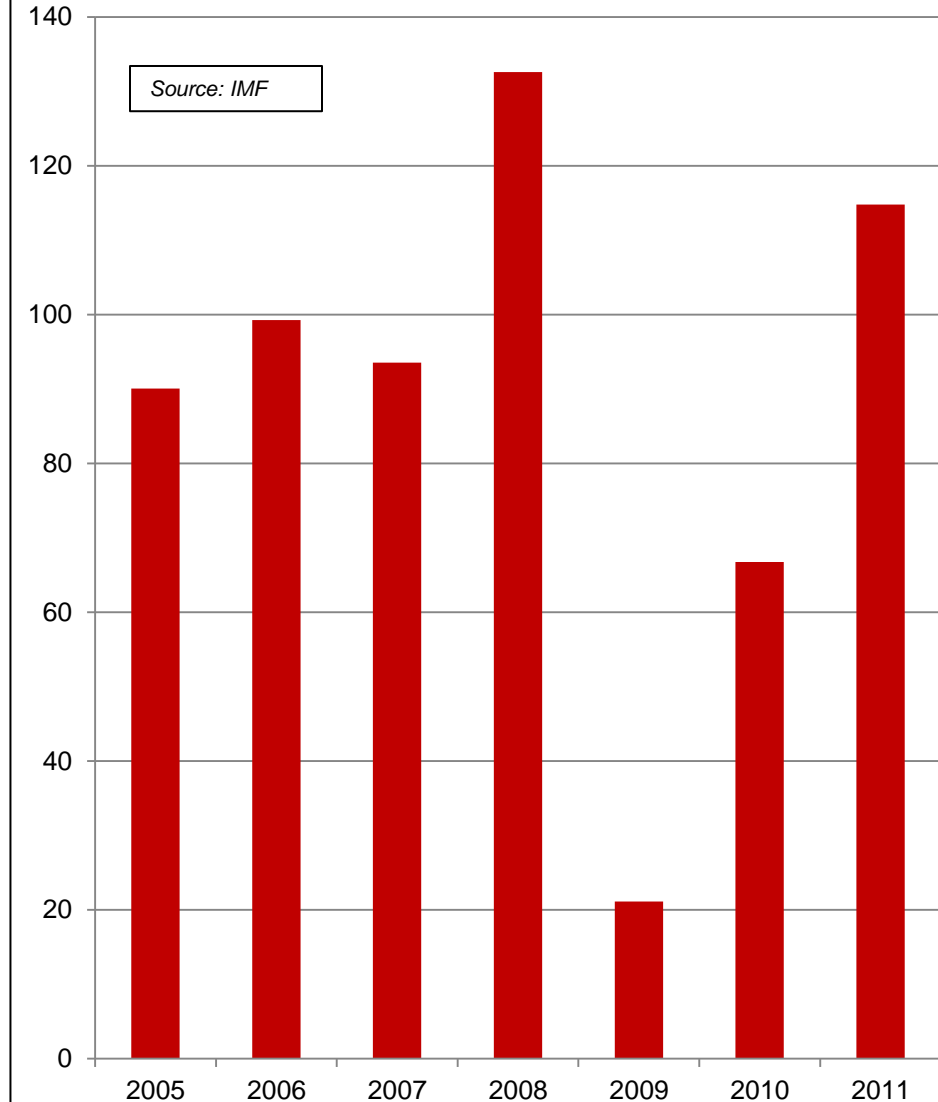
**Result is a huge wave of investment and
growing concern about delivery capacities**

Economic trends are very positive

Nominal GDP (\$bn)



Current account \$bn



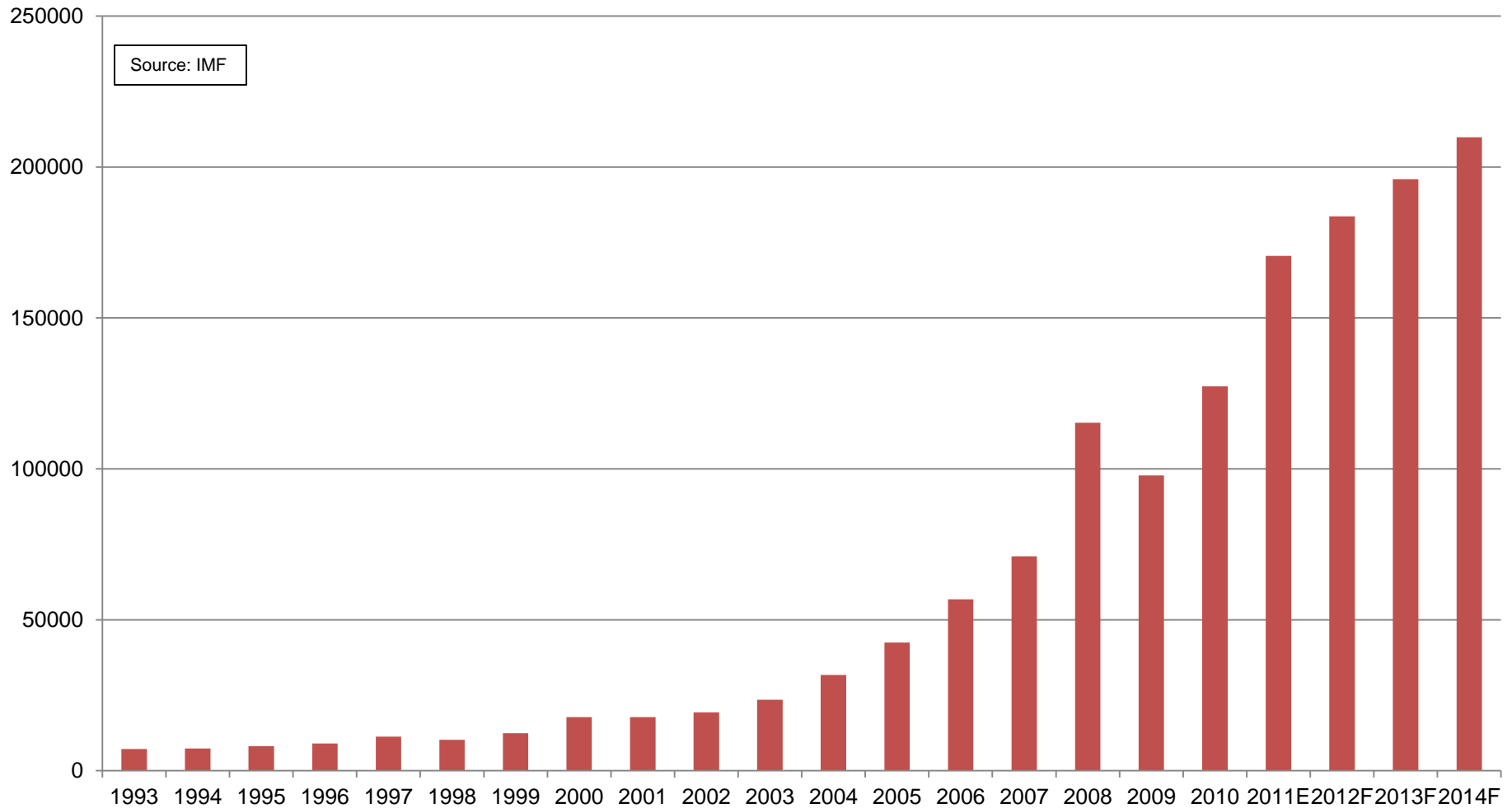
The UAE is second market for many

- Dubai has completed one of history's most successful debt recovery plans
- A large proportion of the cost has been shouldered by Abu Dhabi
- Review of Abu Dhabi plans is being completed but is likely to involve fewer visionary projects and more focus on the needs of local and national populations
- Growth is consequently like to be less robust more sustainable than in 2004-09.

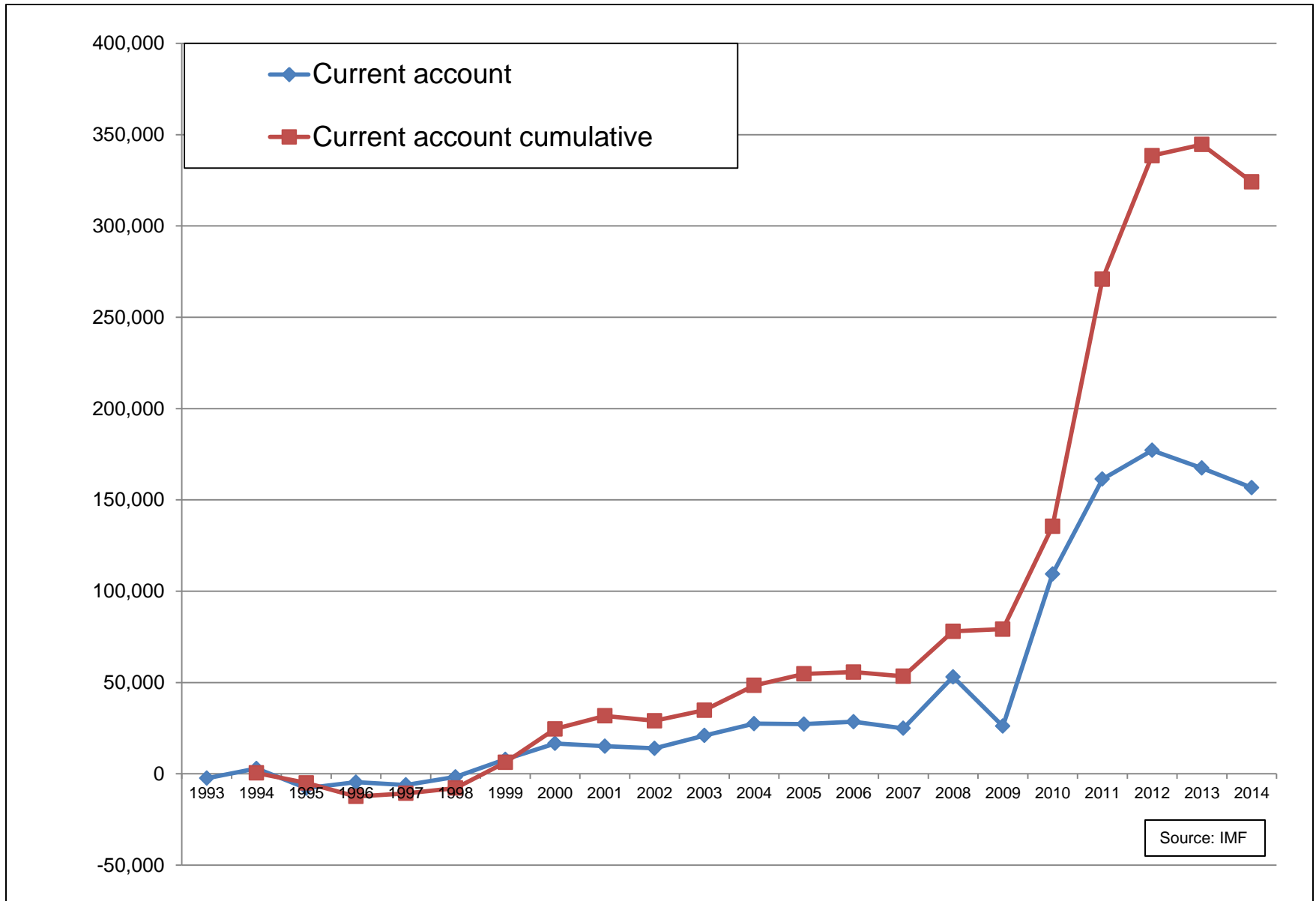
- Euphoria following FIFA 2022 World Cup win has given way to a realistic reassessment of Qatar's capacity to deliver massive projects in the next eight years.
- Pause for serious thought must eventually come to an end.
- The autumn to be a critical period and will shape the next decade.

Qatar's growth story is unprecedented

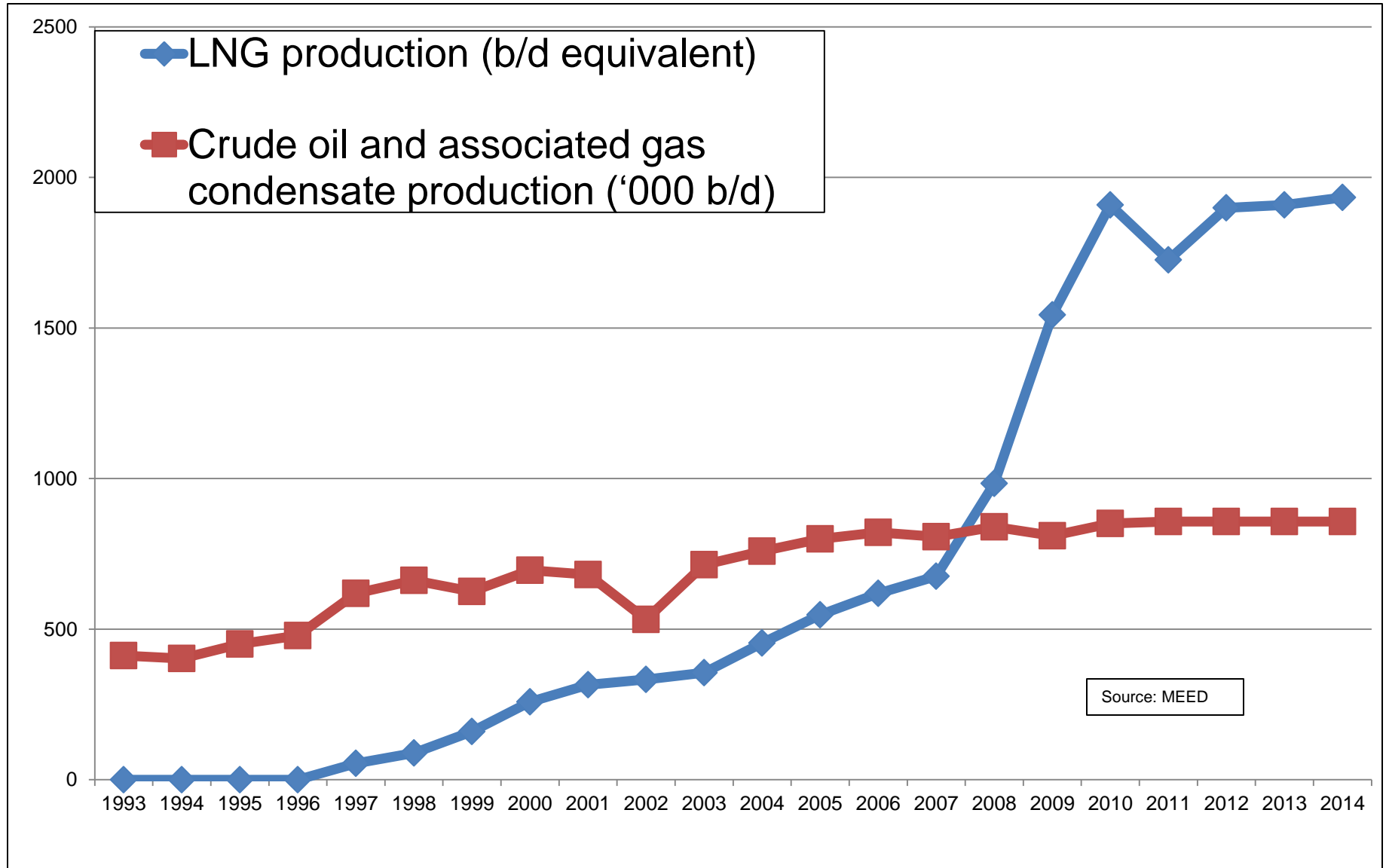
GDP at current prices (\$ million)



Qatar has generated surpluses since 1998

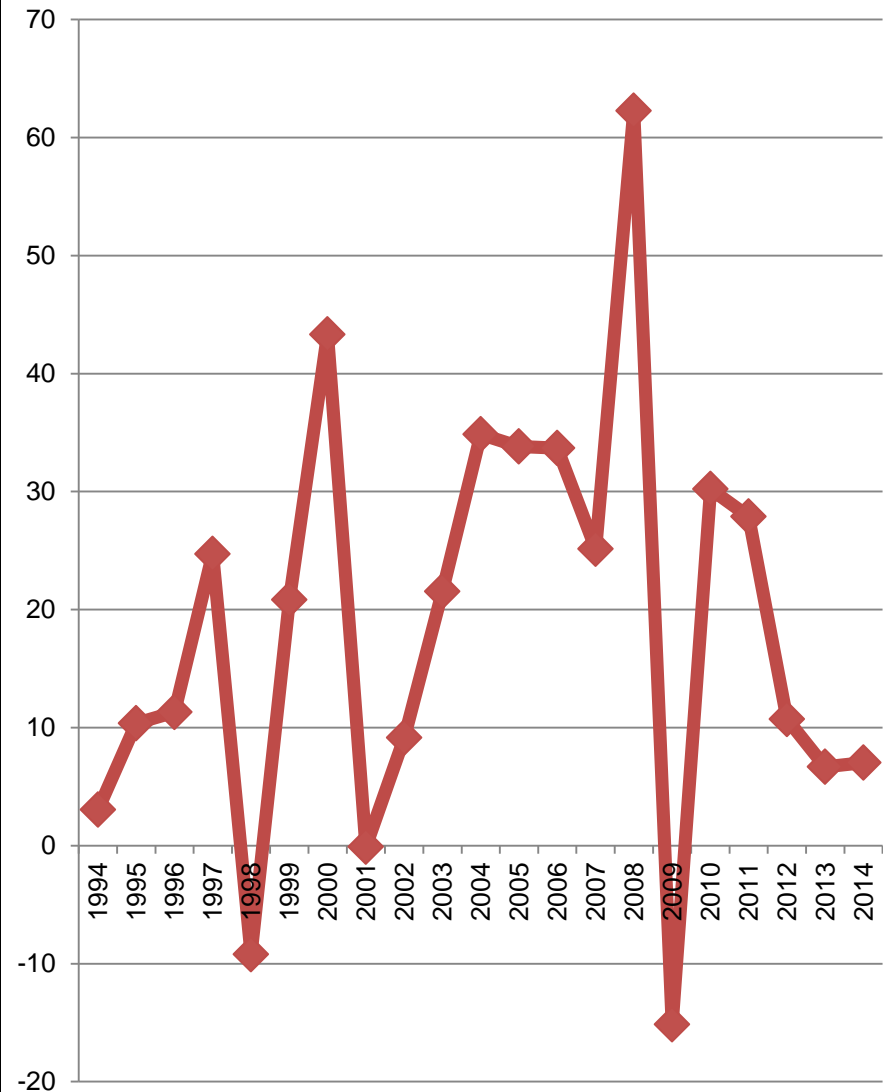


What makes Qatar unique

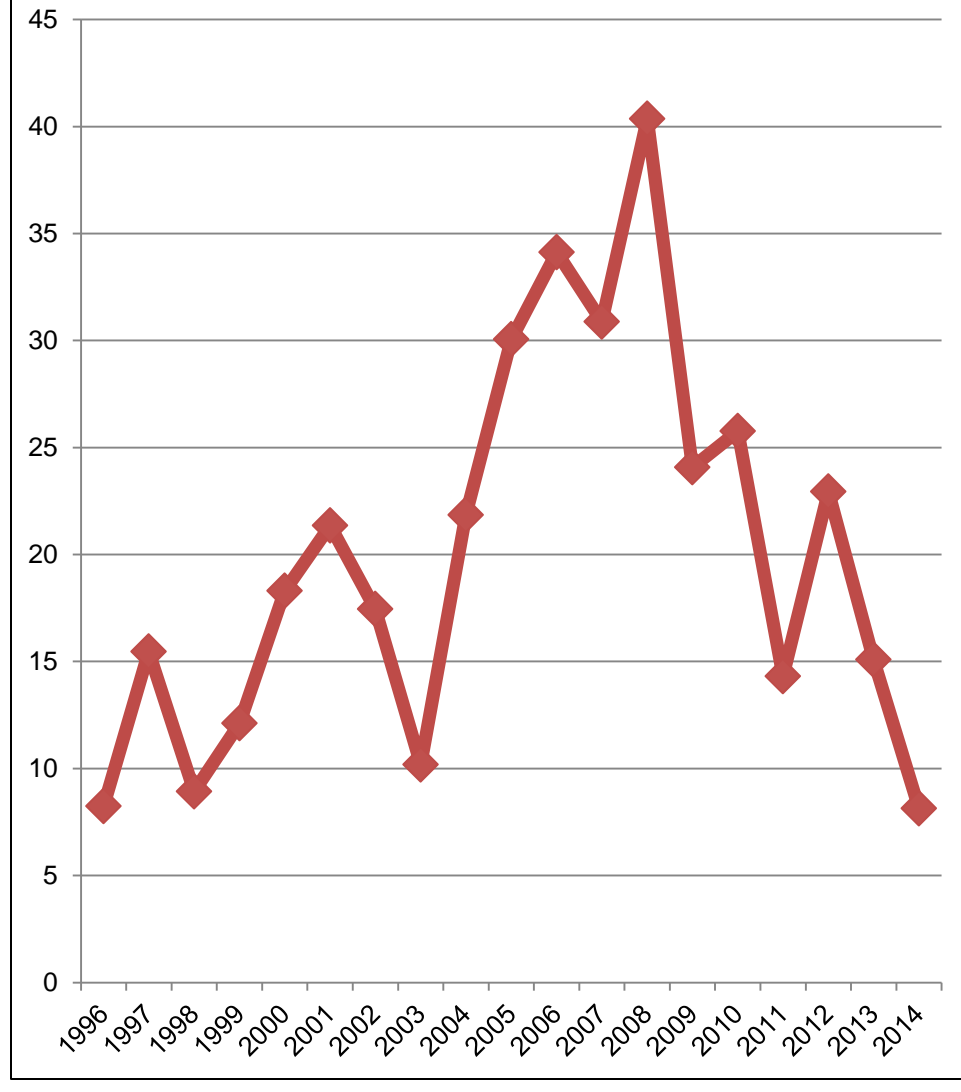


But growth rate is now slowing

GDP growth

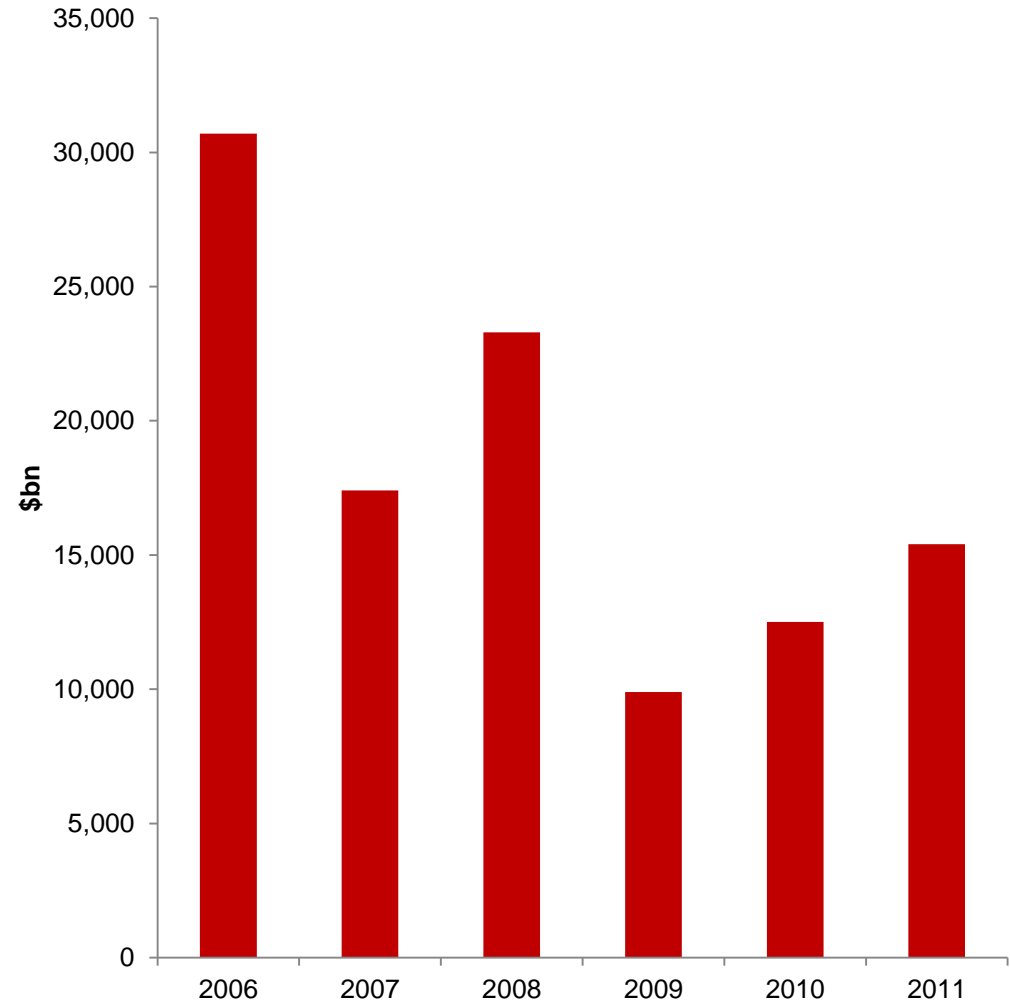


Growth (3-year rolling av)



New contract awards have halved since the peak year of 2006, but have edged up from the 2009 low, reaching an estimated \$15bn in 2011

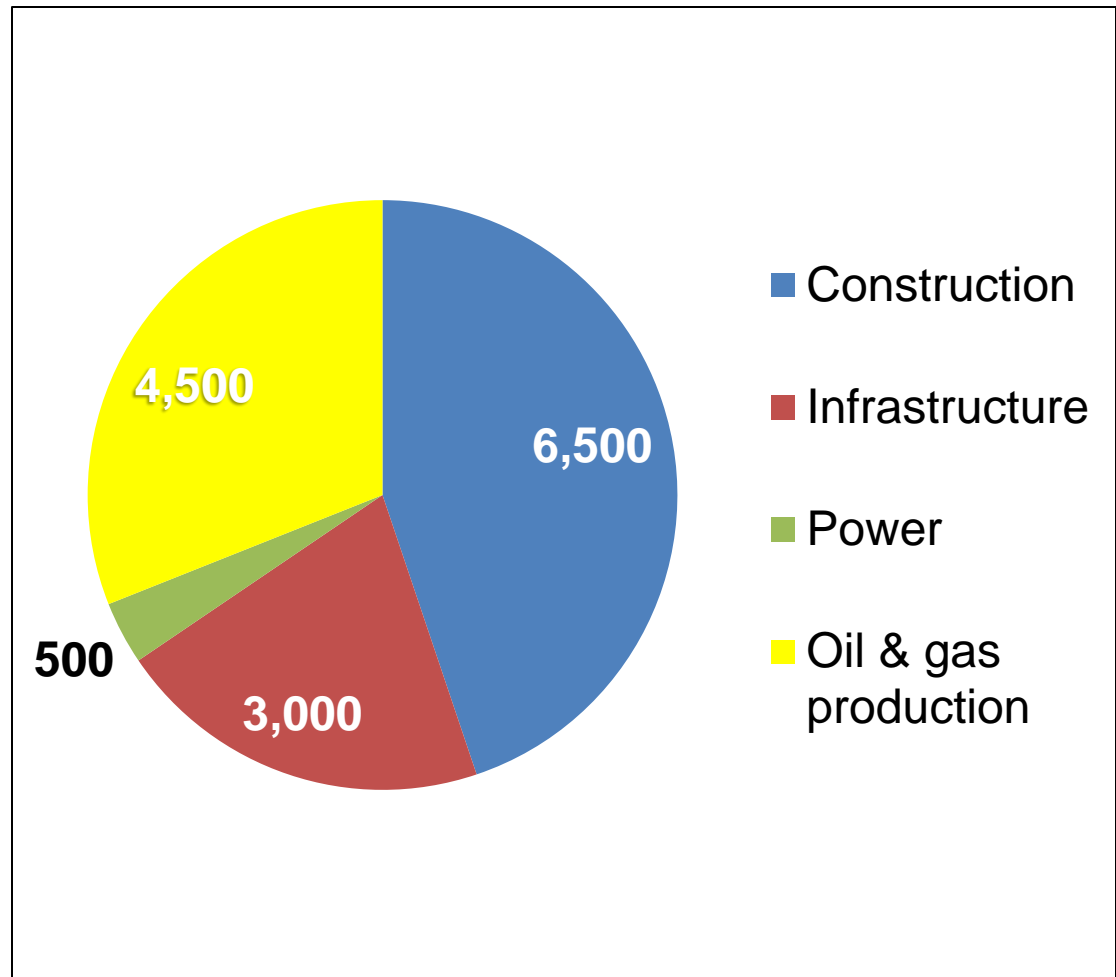
Total contract awards in Qatar, 2006-11



The Qatari projects market performance

Breakdown of 2011 contract awards by key sectors (\$m)

Three sectors accounted for over 90 per cent of contract awards in 2011

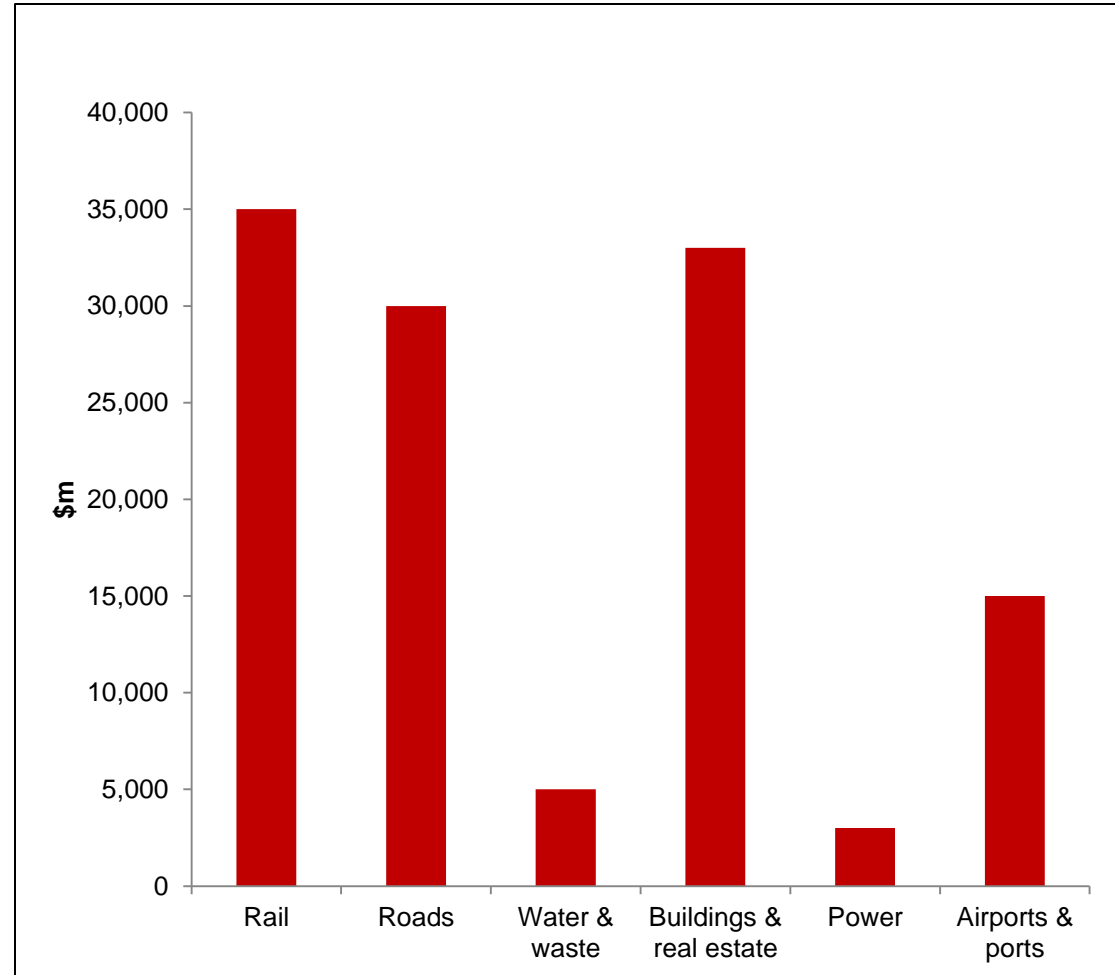


Source: MEED Insight

The Qatari projects market outlook

Qatar has over \$120bn of announced and planned non-oil and gas projects that have still to be awarded, with the majority set to take place in the transportation sector

Breakdown of unawarded infrastructure contracts in Qatar



Source: MEED Insight, MEED Projects

- **Oman** is about to launch the \$20bn Kazzan Deep oil project; pushing hard for more job-creation and becoming increasingly open to international and regional engagement
- **Kuwait's** massive reserves support healthy operational indicators but politics is slowing progress
- **Bahrain's** effective integration into Saudi Arabia offers the best long-term economic opportunities for business and workers.

- The GCC is the largest and most important element of the Middle East economy
- On average, the region has grown robustly and is solvent and liquid
- Events in 2011/12 have marginally affected the GCC as a whole and have raised its regional and global significance.
- Provided a large oil price crash is avoided, 2012 should see general economic growth in the GCC and strong growth in the projects sector.
- Can it complete important economic integration programmes: power; transport and trade?
- And will GCC stability withstand yet more regional shocks?

- **Main focus of Arab Spring**
 - Tunisia
 - Egypt
 - Yemen
 - Syria
 - Smaller manifestations in Algeria, Morocco, Jordan and Iraq
- **Systems generally based on military/security force rule, with exceptions**
 - Morocco, Libya Jordan, Lebanon
- **They are being forced to accommodate new forces, principally MB-related parties**

But some are doing better than others:

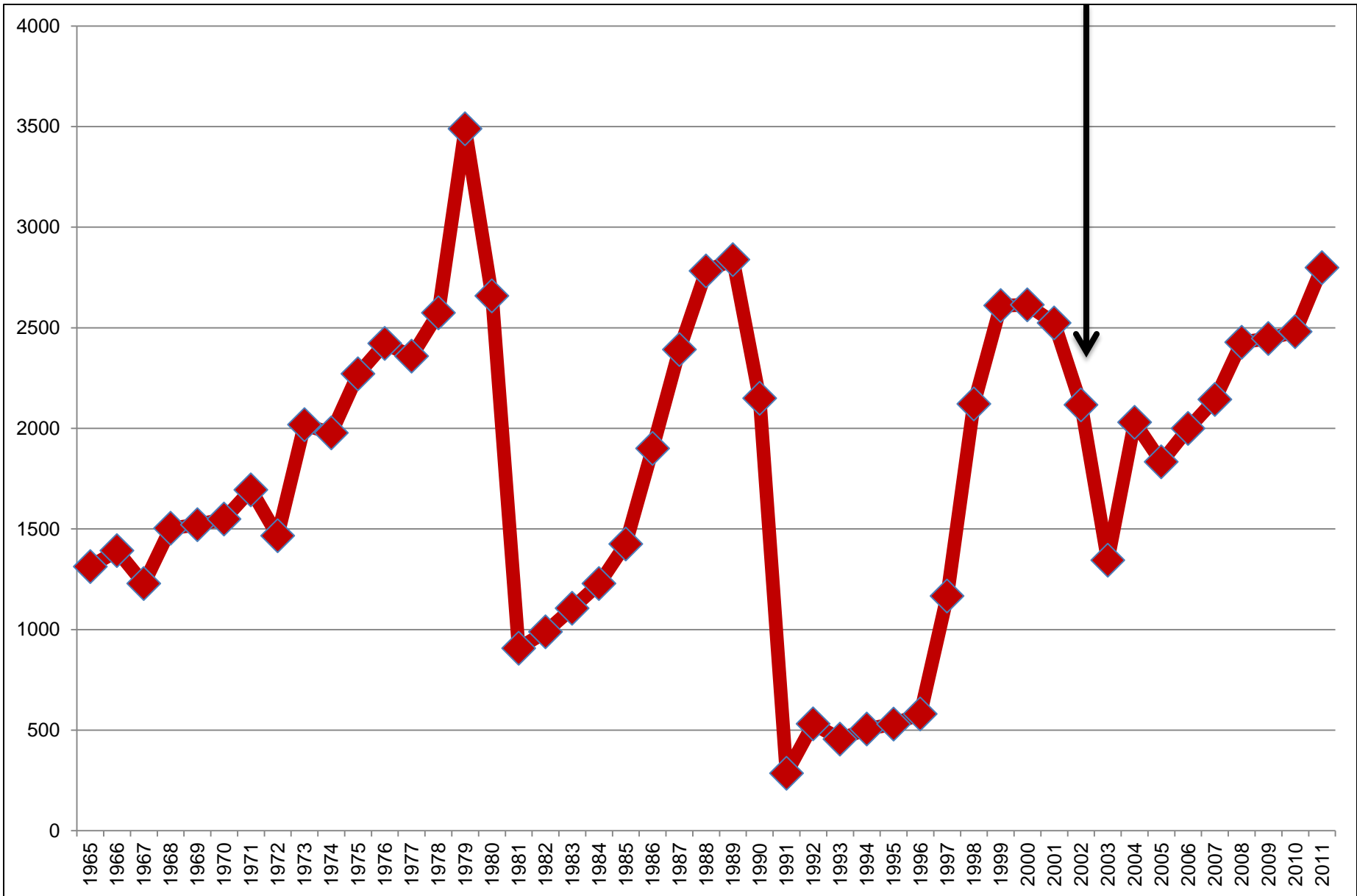
- Iraq
- Algeria
- Libya

.....and Egypt's position remains unclear.

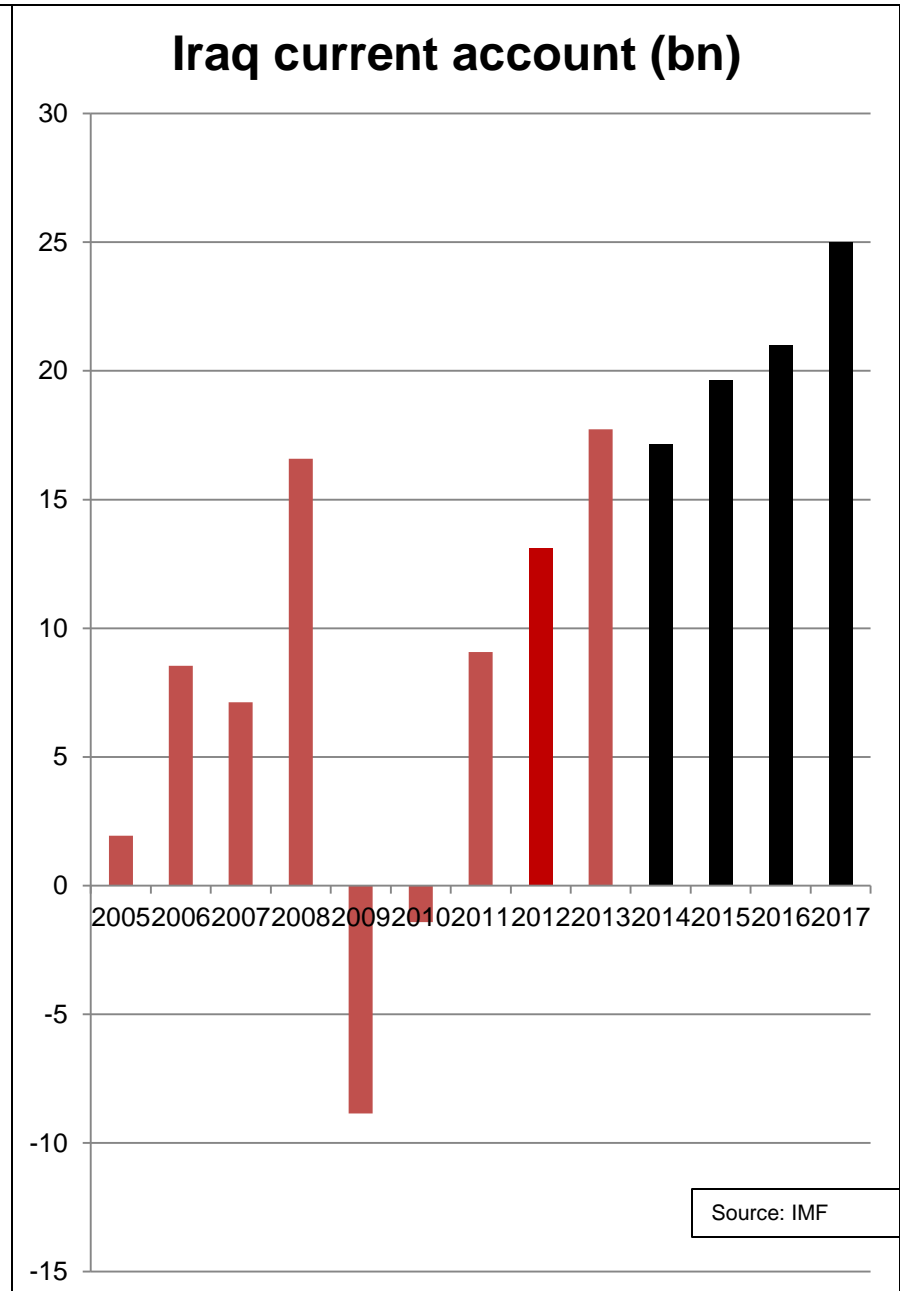
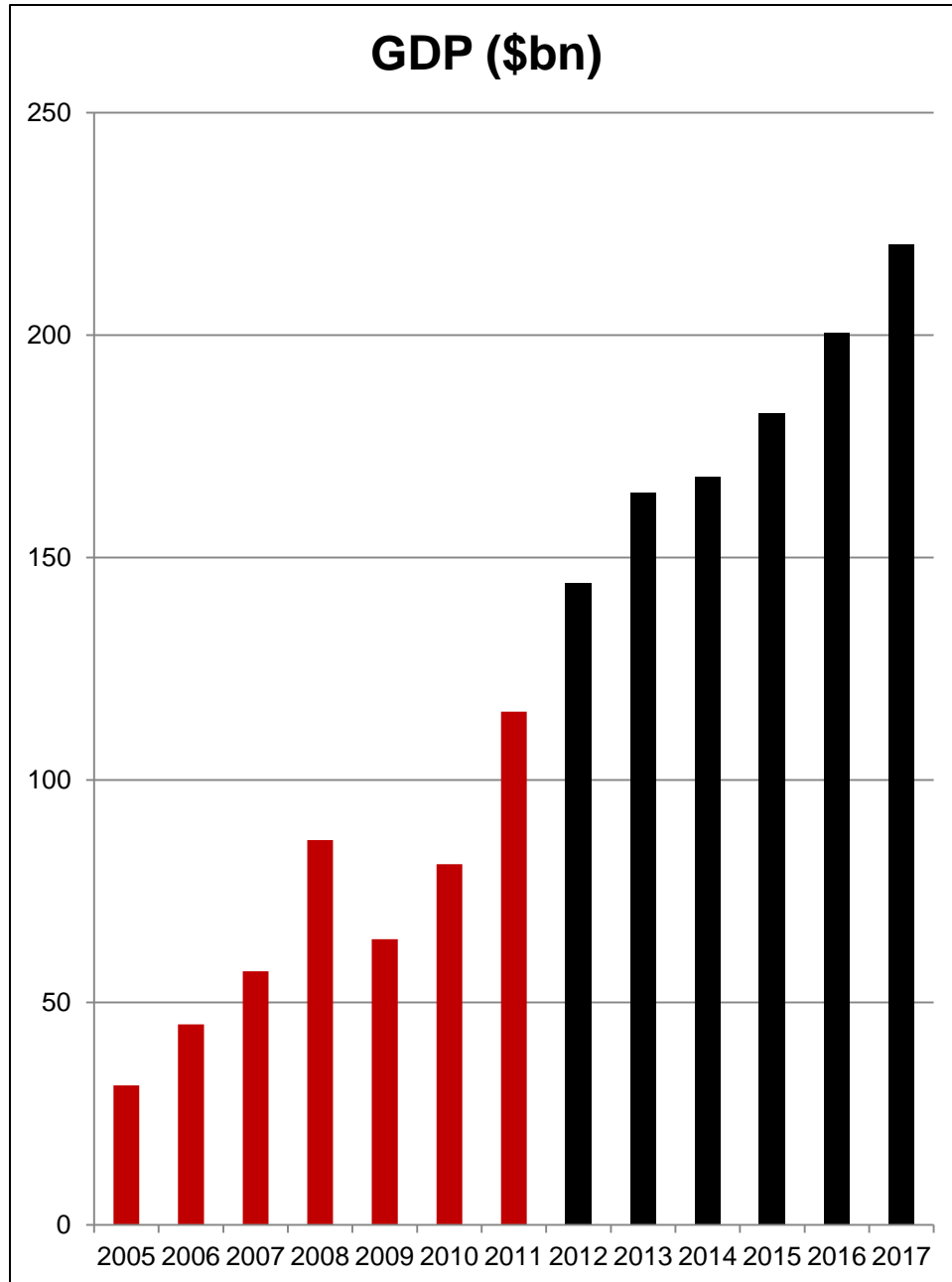
Iraq: uncertainty but high potential

- Iraq has now emerged as the Middle East market with the greatest business potential outside the GCC.
- Sentiment is being driven by record oil revenues and plans to lift oil production to 12 million b/d in 2017.
- Competition between the centre and the periphery is becoming an increasing issue
- Violence in Baghdad and other parts of Iraq is a continuing threat to the conduct of normal business.

Iraq oil production since 1965 (000 b/d)



IMF forecasts GDP to double by 2017 and surpluses



Source: IMF

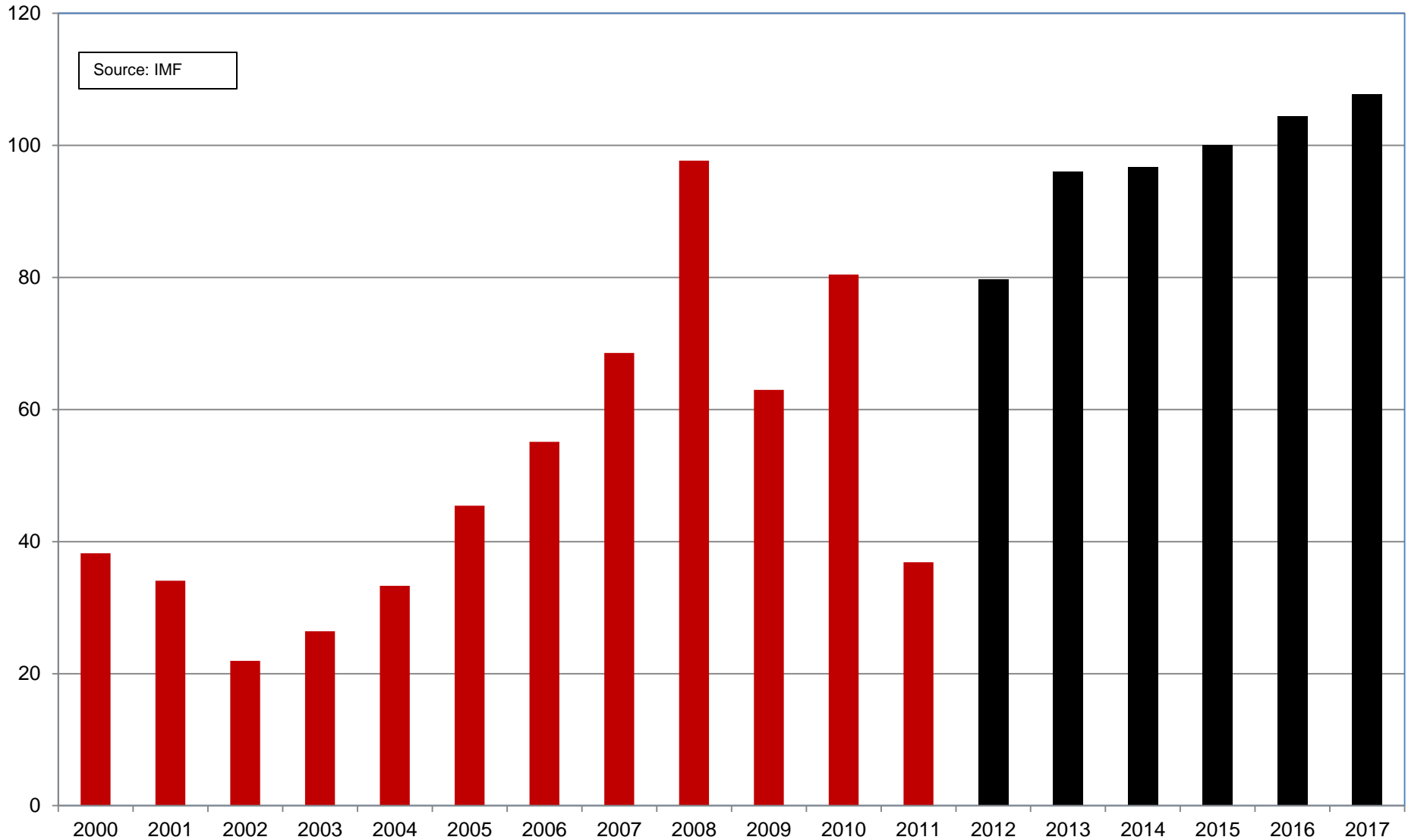
- 300,000 b/d of production now
- Aiming for 2 million b/d in 2017
- Aiming for 3 million b/d of oil passing through its territory
- Looking for gas deals with Turkey.
- Poised to grant sovereign guarantee for project finance

Libya: uncertainty but high potential

- Extreme violence in 2011 will leave a lasting legacy.
- Successful first free elections is only the first step in a long process of political and economic reform.
- Government being formed.
- First issue is the freeze on Qaddafi era contracts and role of armed militia.
- Potential for political degeneration is high.

It will take five years to recover from 2011

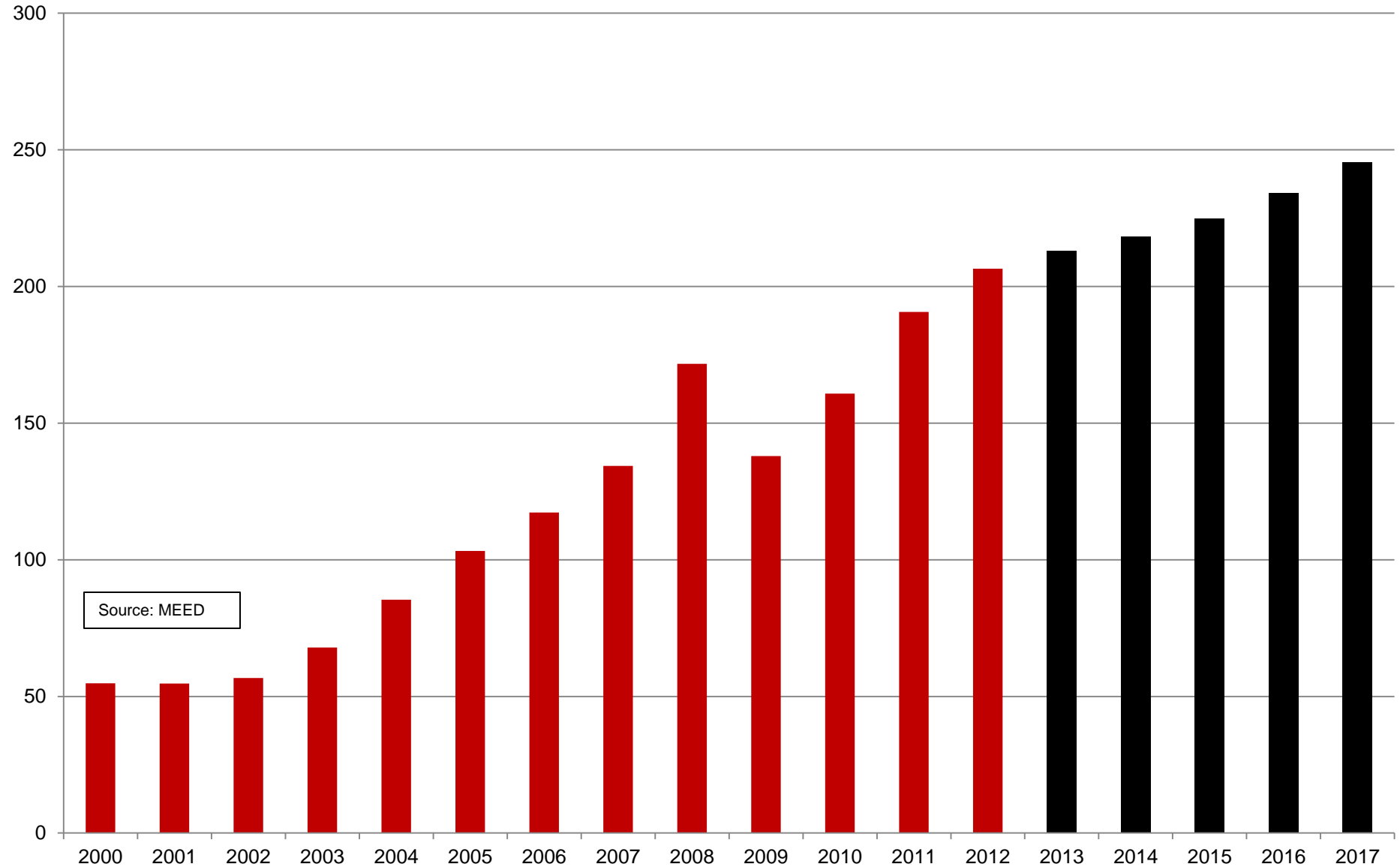
Libyan GDP (\$bn)



- Arab Spring movement contained.
- Enjoying boom in oil and gas revenues.
- Government is stepping up investment.

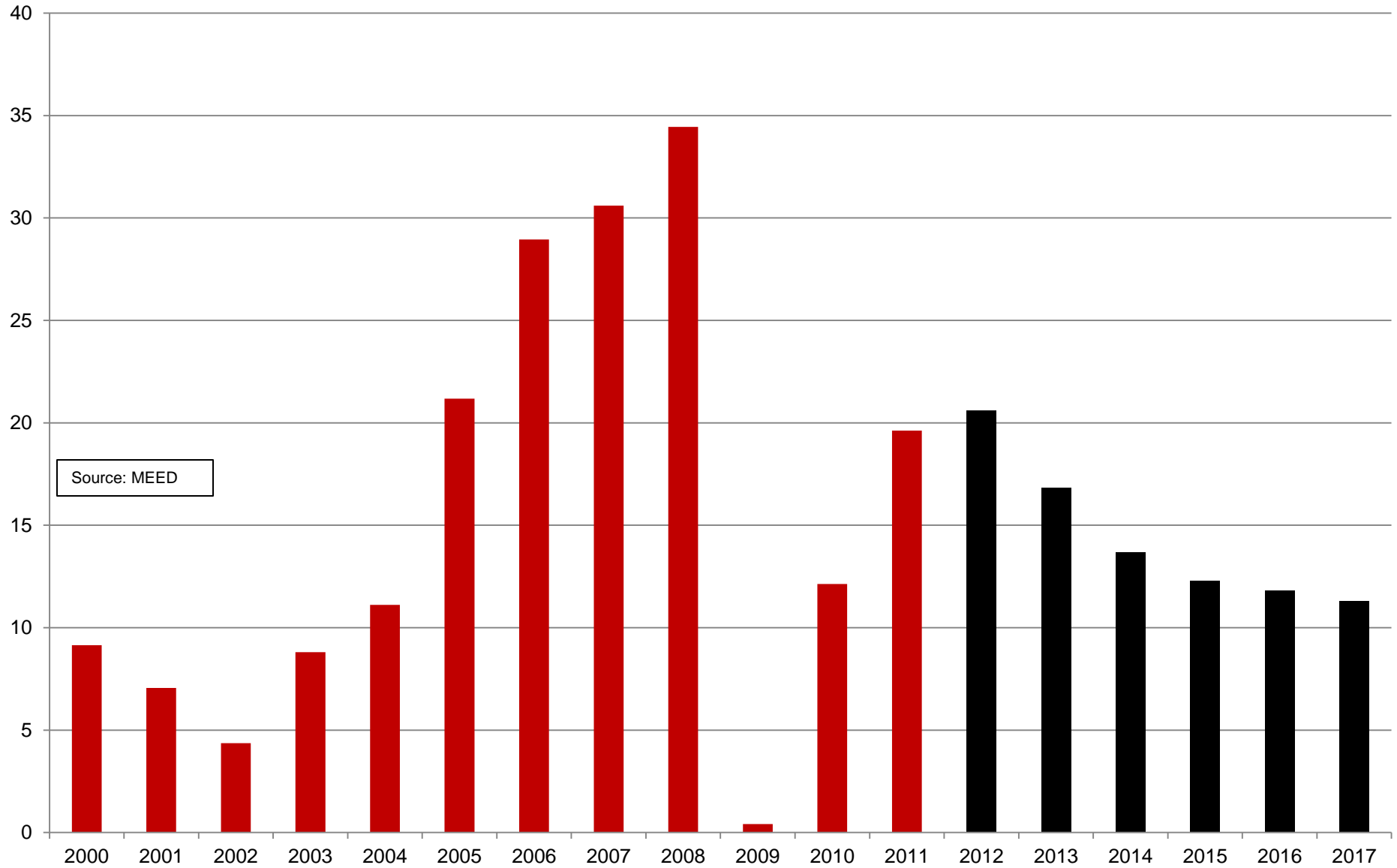
Algerian GDP has doubled in less than 10 years

Algerian GDP at current prices, 2000-17 (\$ billion)



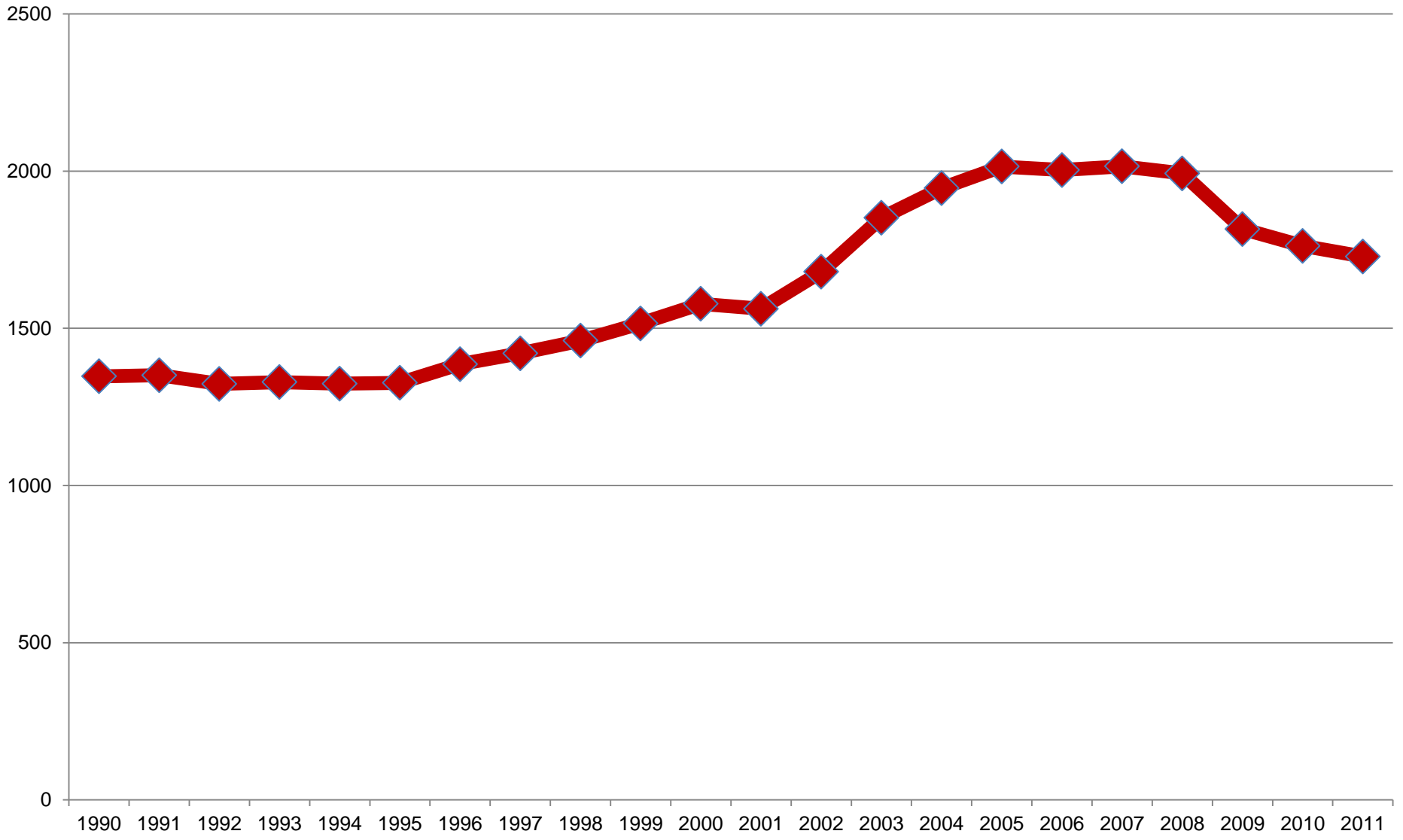
And has enjoyed a surplus throughout the same period

Algerian current account surplus (\$bn)



Oil output has peaked

Algerian oil production since 1990 (000 b/d)

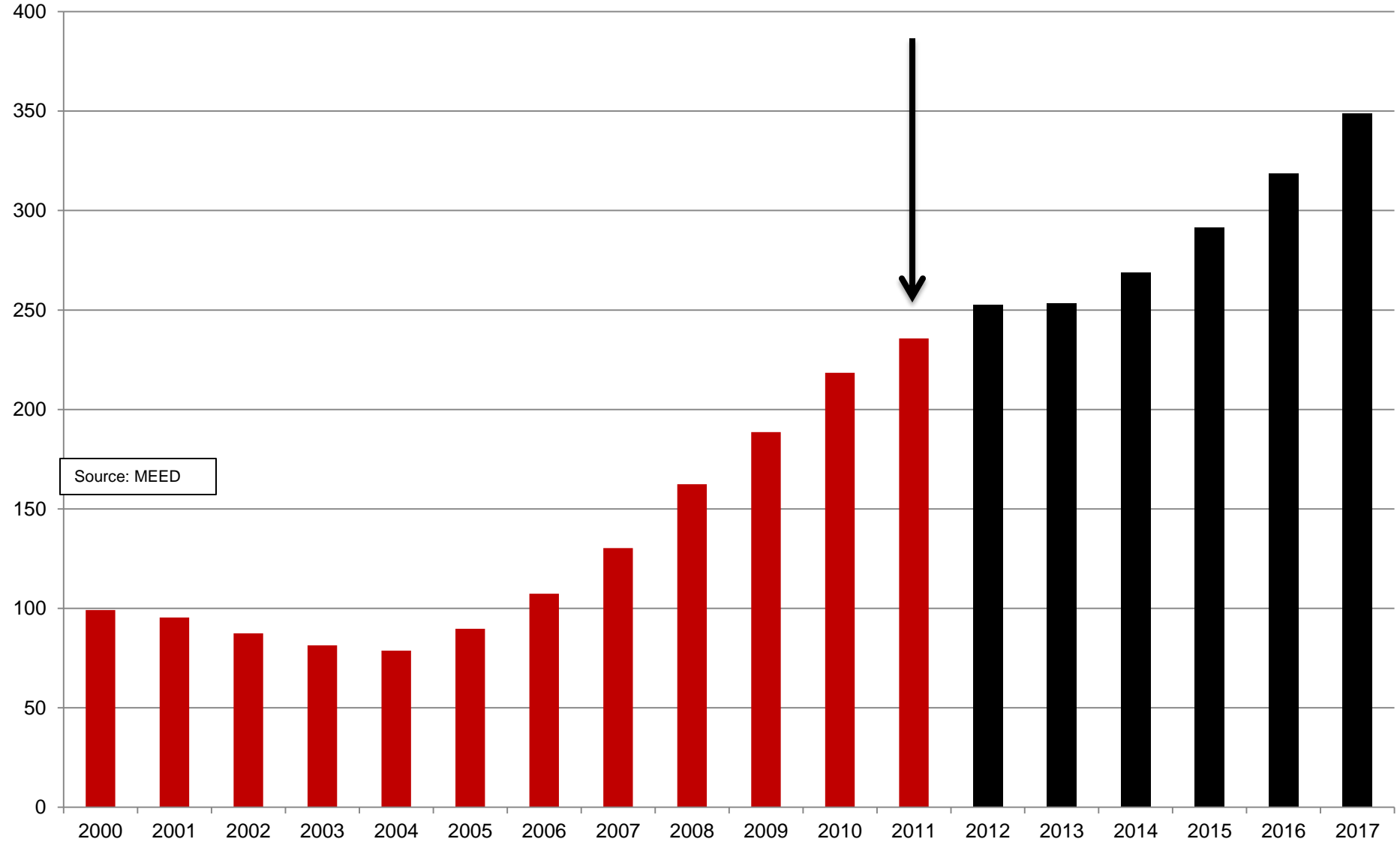


Egypt is critical in the long-run

- The most populous Arab state has entered a new era in which populist Islamism will be the main influence on national life.
- Stability has been maintained but economic price of the events since the start of 2011 is high.
- Security forces/military are being forced to accommodate rather than repress Muslim Brotherhood.

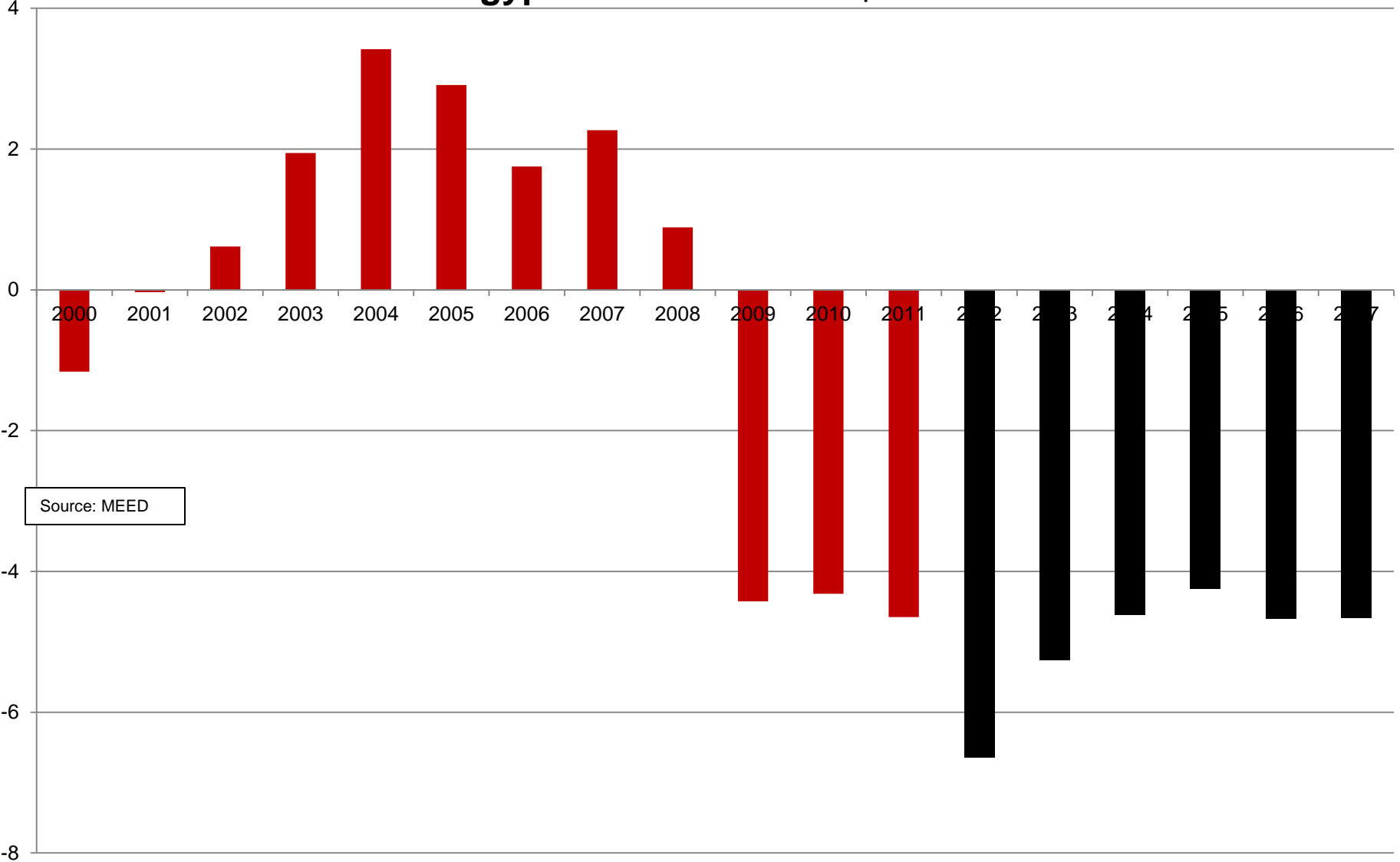
The Arab Spring has hit Egypt's growth

Egypt's GDP (\$bn)



...and has intensified balance of payments problem

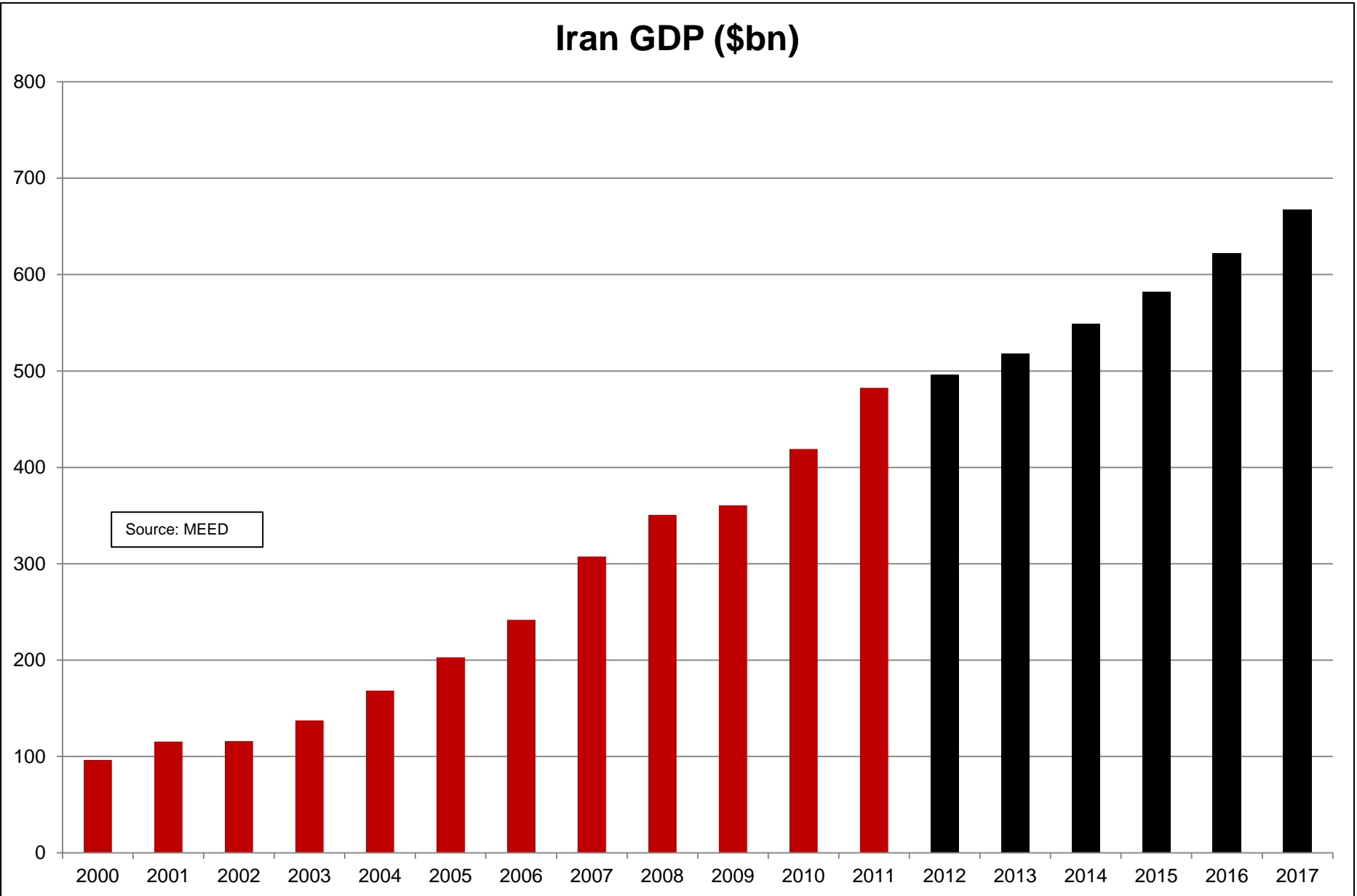
Egypt current account \$bn



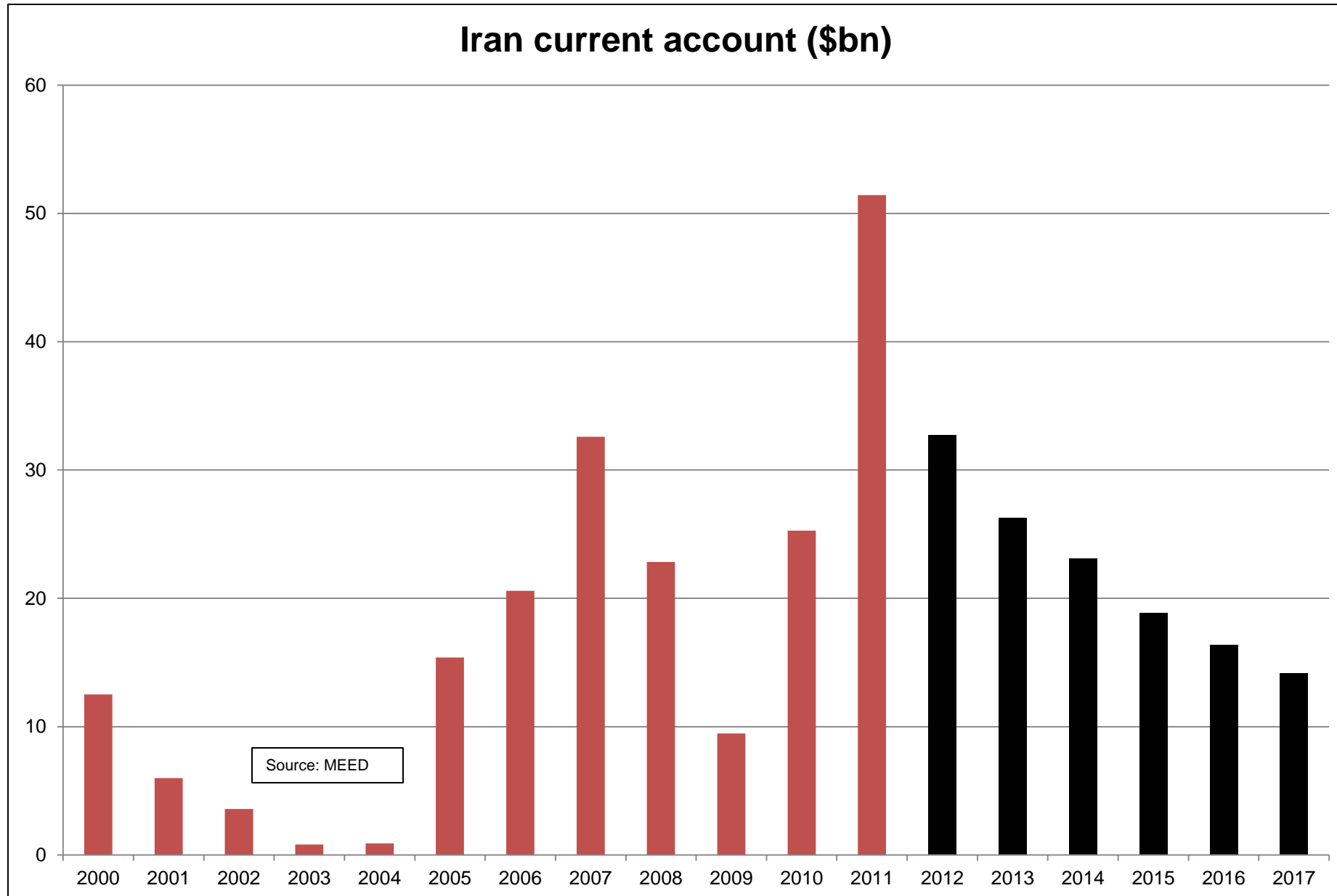
Source: MEED

- US position on nuclear issue will remain unrelenting
- Israel unlikely to embarrass Washington
- Issue is polarising attitudes in the Arab world
- Confrontation over nuclear power is spilling into other areas in the region
- Issue is accelerating investment in transport projects that avoid the Strait of Hormuz.

Growth to be robust, though sanctions raise questions



And its financial position will be solid....



Iran's oil potential constrained by sanctions

Iran oil production since 1965 (000 b/d)



- Morocco still struggling with unbalanced economy and high levels of rural poverty.
- Tunisia is pondering its future.
- Levant in torment and Palestinian state now off the agenda for foreseeable future.
- Horn of Africa needs stability and order
- Yemen offers possible model for divided Arab states.

Thank you

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