

MEED

Middle East business intelligence

The outlook for business in the Middle East in 2020

Breakbulk Middle East 2020
26 February 2020



Richard Thompson, Editorial Director, MEED

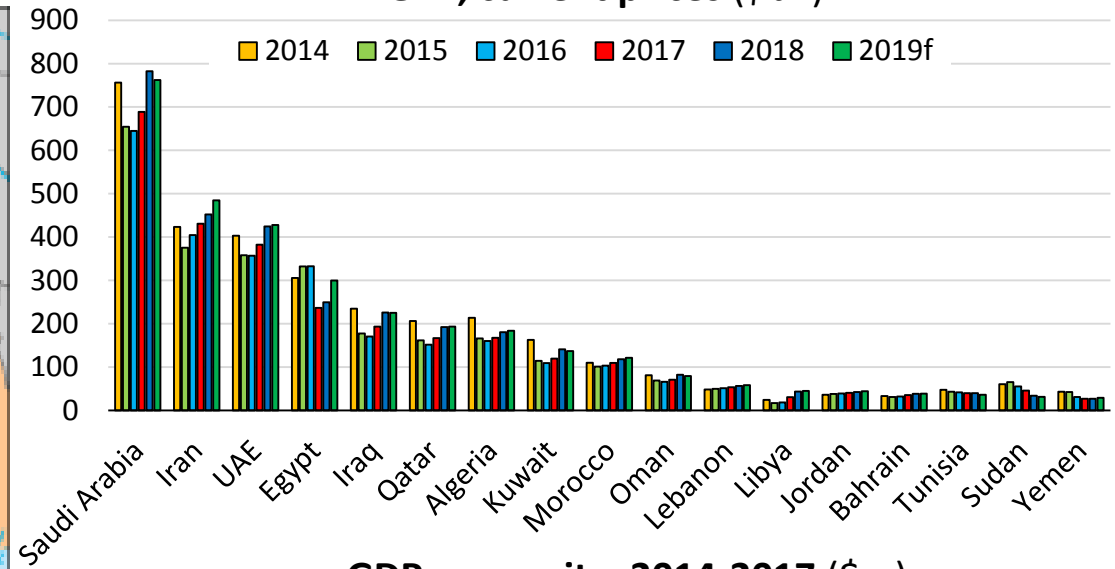


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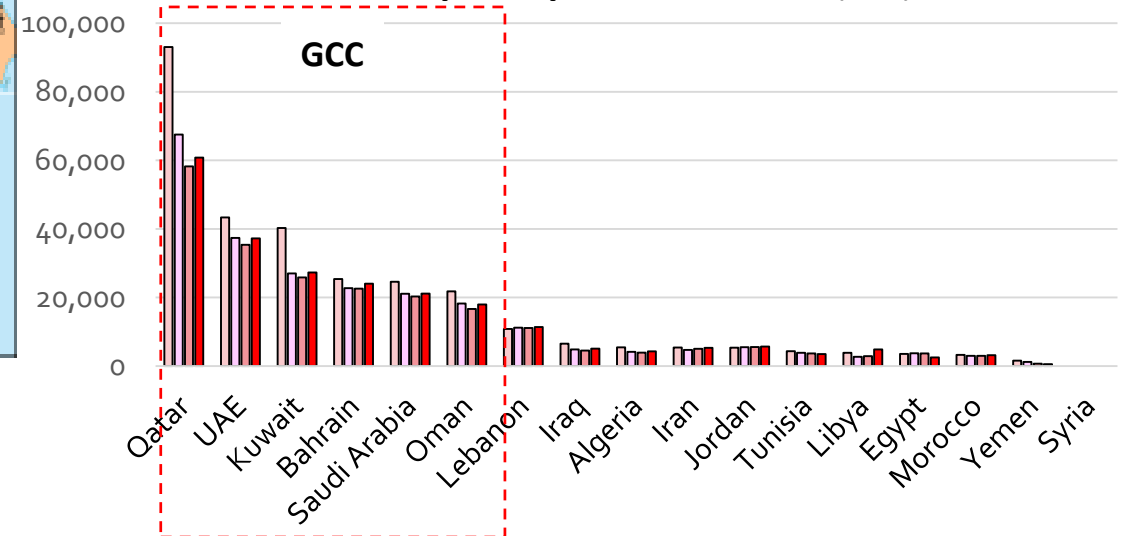
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GDP, current prices (\$bn)



GDP per capita, 2014-2017 (\$m)

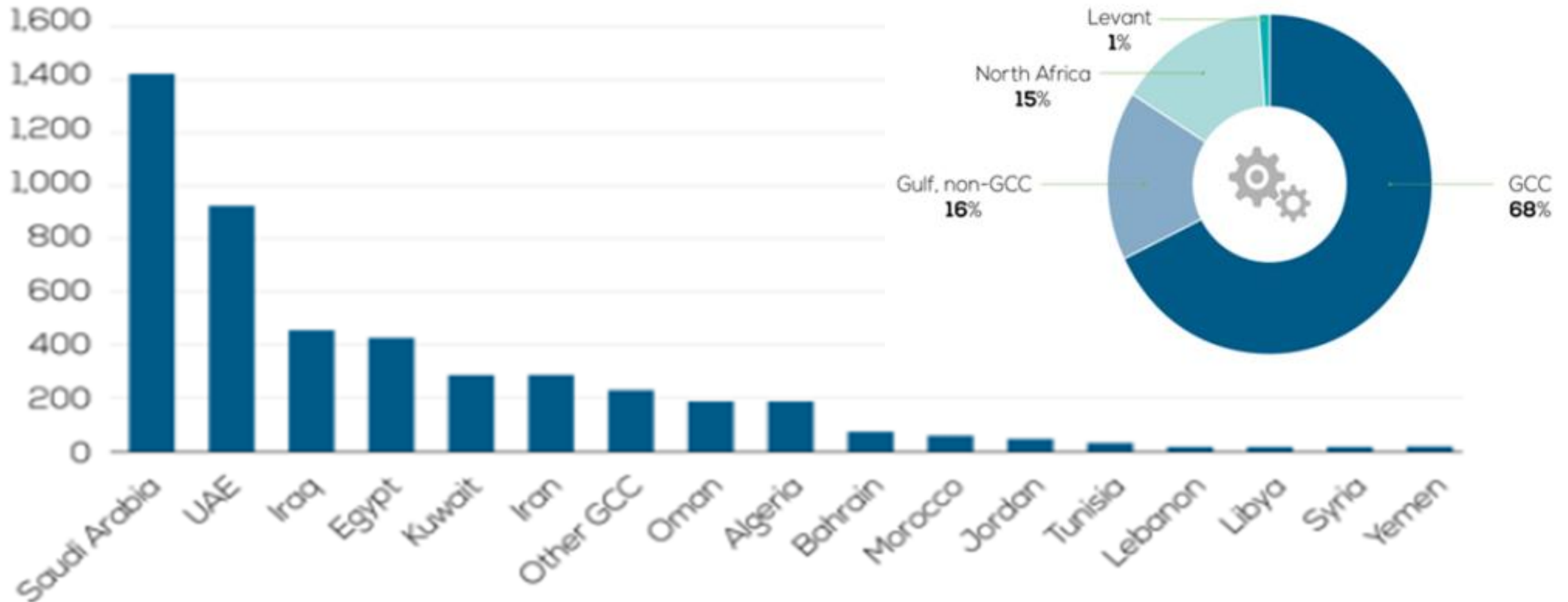


- Population growth/Youth bulge
- Creating high-value jobs
- Urbanisation
- Inadequate infrastructure
- Economic diversification
- Security and stability
- Abundant low-cost energy reserves
- Financially strong GCC. Huge reserves and low debt
- Hub between Asia, Europe and Africa
- National visions driving investment and diversification



PROJECTS PLANNED OR UNDER WAY BY COUNTRY

(\$bn)



- 1 – Investing in infrastructure for life (healthcare, education)
- 2 – Urbanisation and smarter cities for happier communities
- 3 - Smart grids for energy efficiency
- 4 – Adding value through downstream oil and petrochemicals
- 5 - Vocational training
- 6 – Adding value through diversification
- 7 – A growing global hub
- 8 – A decade of 5G investment
- 9 – The drive to privatise/PPP
- 10 - Circular economy adds waste to clean energy agenda



Business environment challenging

Tight fiscal controls limit spending

16% fall in Mena projects in execution in 2019

23% fall in Mena project contract awards in 2019

Increased competition eroding margins

Payment delays and disputes squeezing cash flow

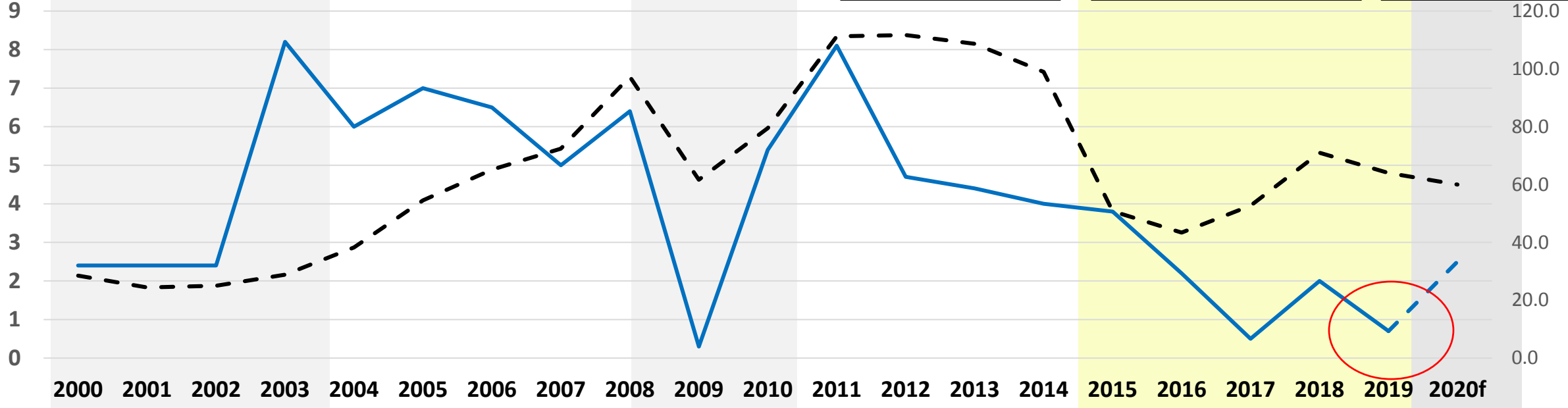
New taxes, fees, tariff reforms and localisation adding cost and red tape

Corporate downsizing and many experienced people leaving the region

Outlook for economic growth in 2020 downgraded in late 2019

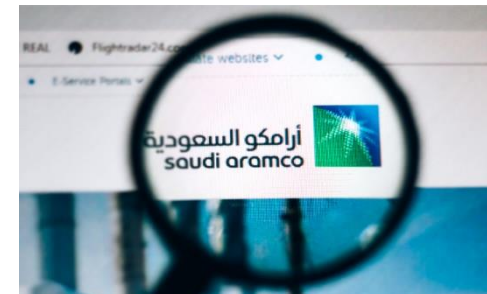


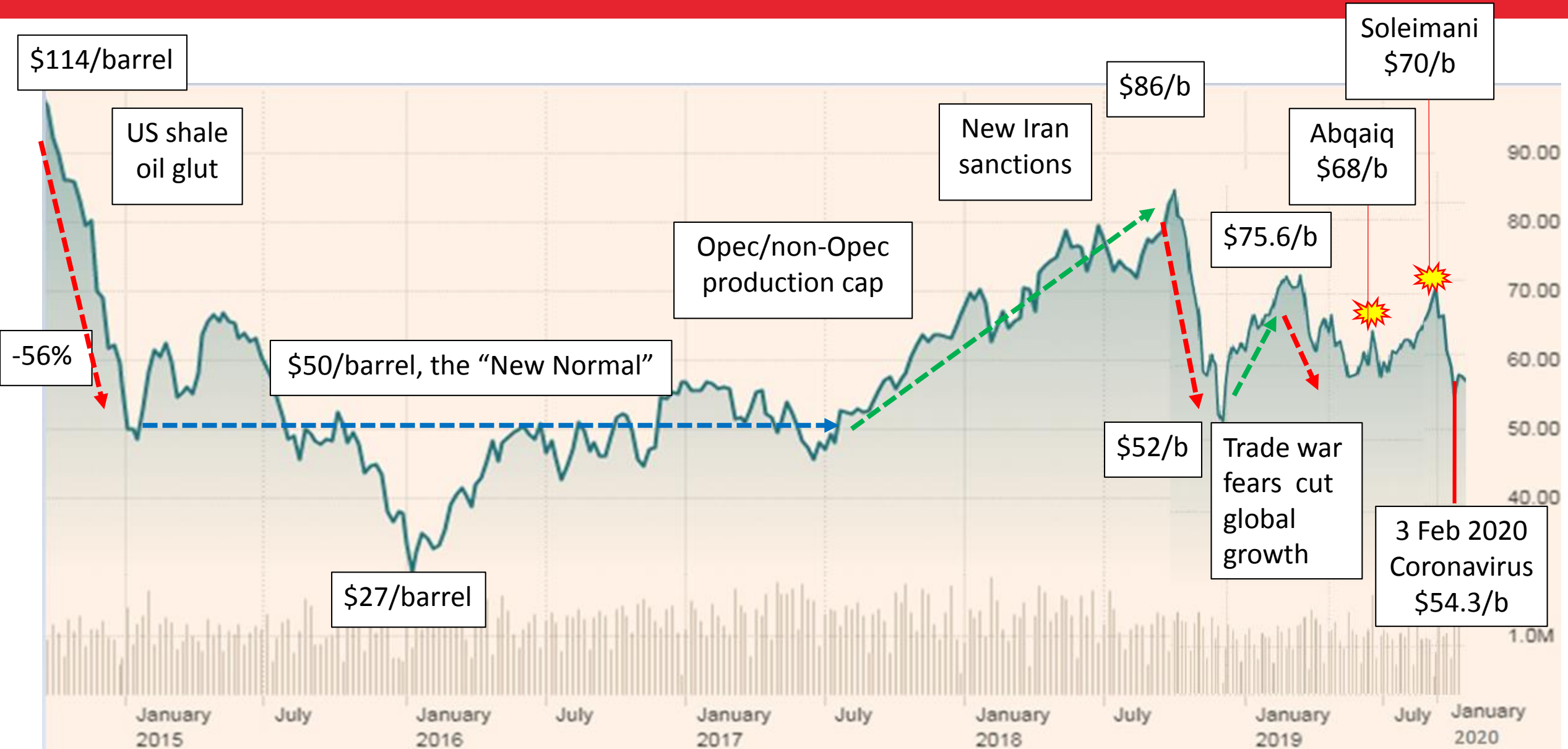
| 2000-2003 | 2004-2008 | 2009-2010 | 2011-2014 | 2015-2019 | 2020- |
|---|--|---|---|---|--|
| GCC boom begins SARS Oil prices climb 9/11 Iraq invasion Dubai foreign ownership Property market picks up | Credit boom Oil prices Economic cities LNG Real estate booms | Credit Crunch Recession Oil prices Dubai crash | Oil prices climb Stimulus spending Arab Spring Dubai recovers EPC awards pick up Age of rail | Oil Glut Oil Crash Fiscal adjustment Oil prices climb Economic reforms Oil production cap King Salman/Vision 2030 | Coronavirus Low oil prices Oil projects Saudi tourism 5G Expo 2020 and G20 US/Iran |



— GCC real GDP growth (% change) - - Ave oil price (\$/barrel)

Mena projects market slows
Dubai real estate reforms
Saudi tourism opens up
Gulf oil facilities attacks
Aramco IPO
Women's rights in Saudi
Opec+ oil production agreement

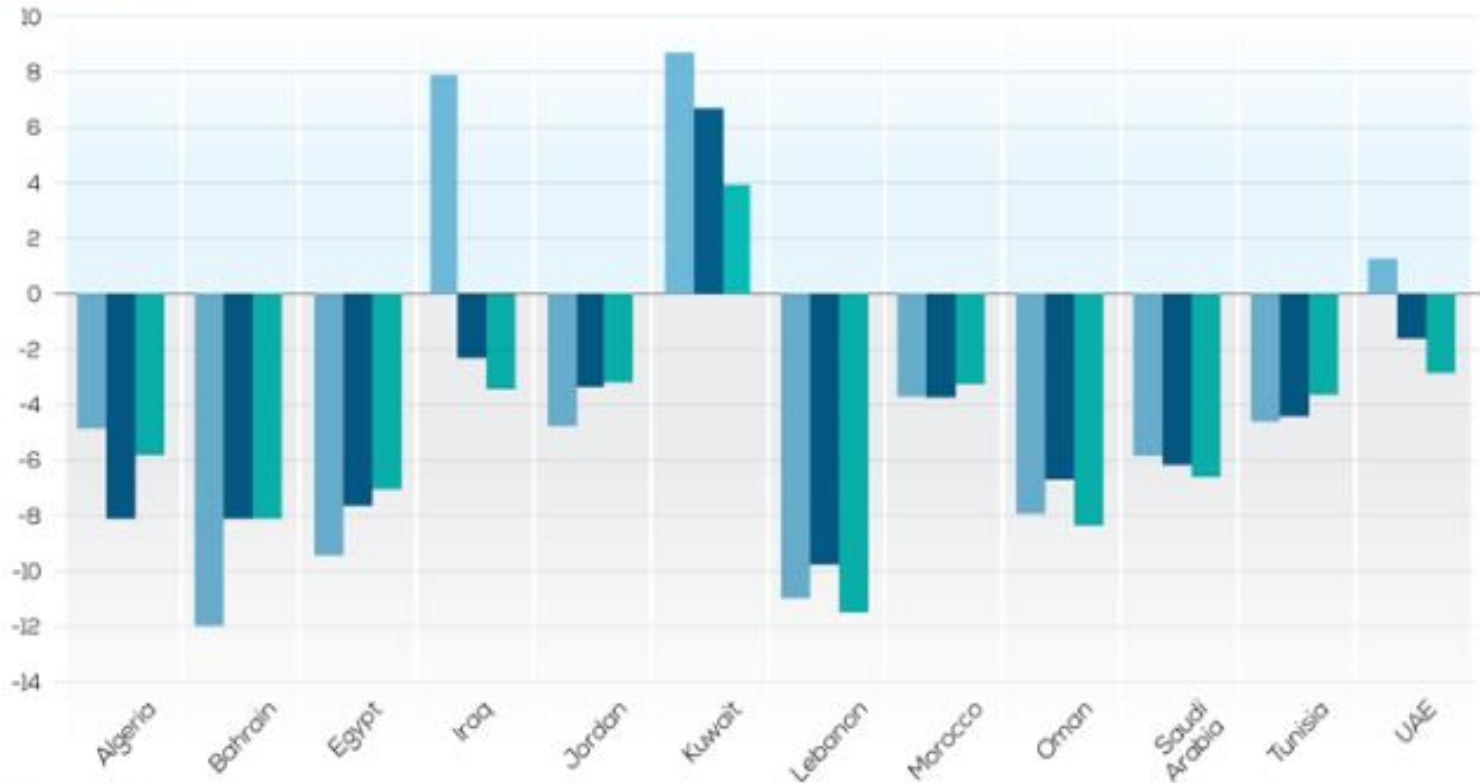




Low oil price presents fiscal challenge for oil-exporters. The primary challenge facing Mena governments is to address fiscal imbalance and rising debt while furthering efforts to encourage non-oil and private-sector growth.

FISCAL BALANCE

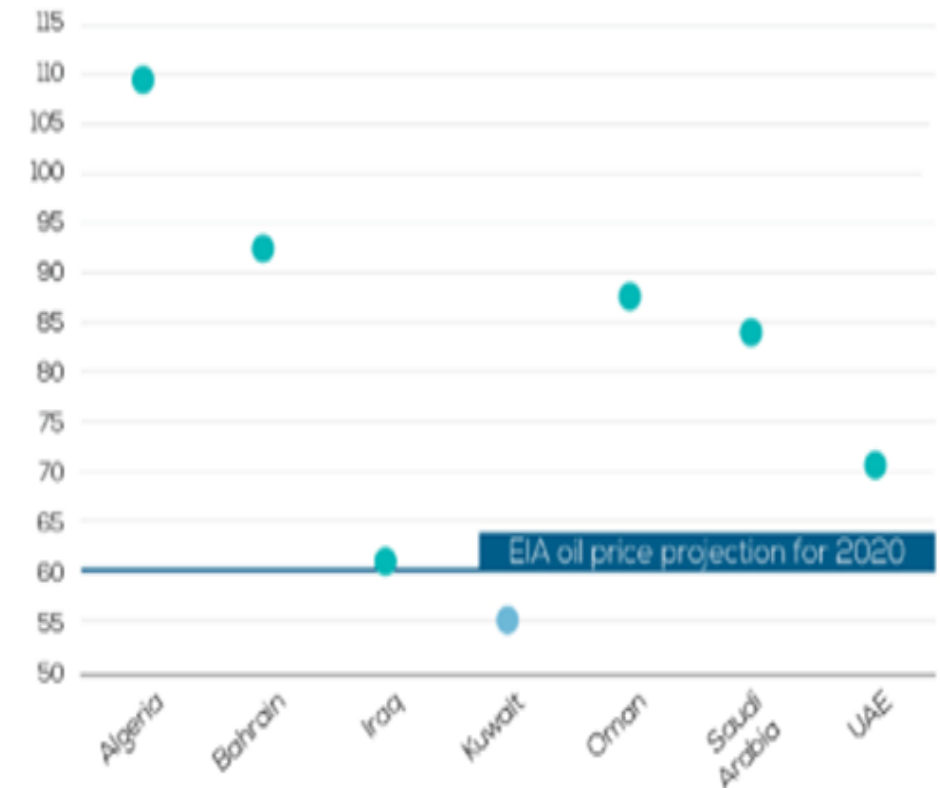
(% of GDP)



Source: IMF

FISCAL BREAK-EVEN OIL PRICES IN 2020

(\$ a barrel)



Tight economic management

Public spending is trimmed to contain the budget deficit

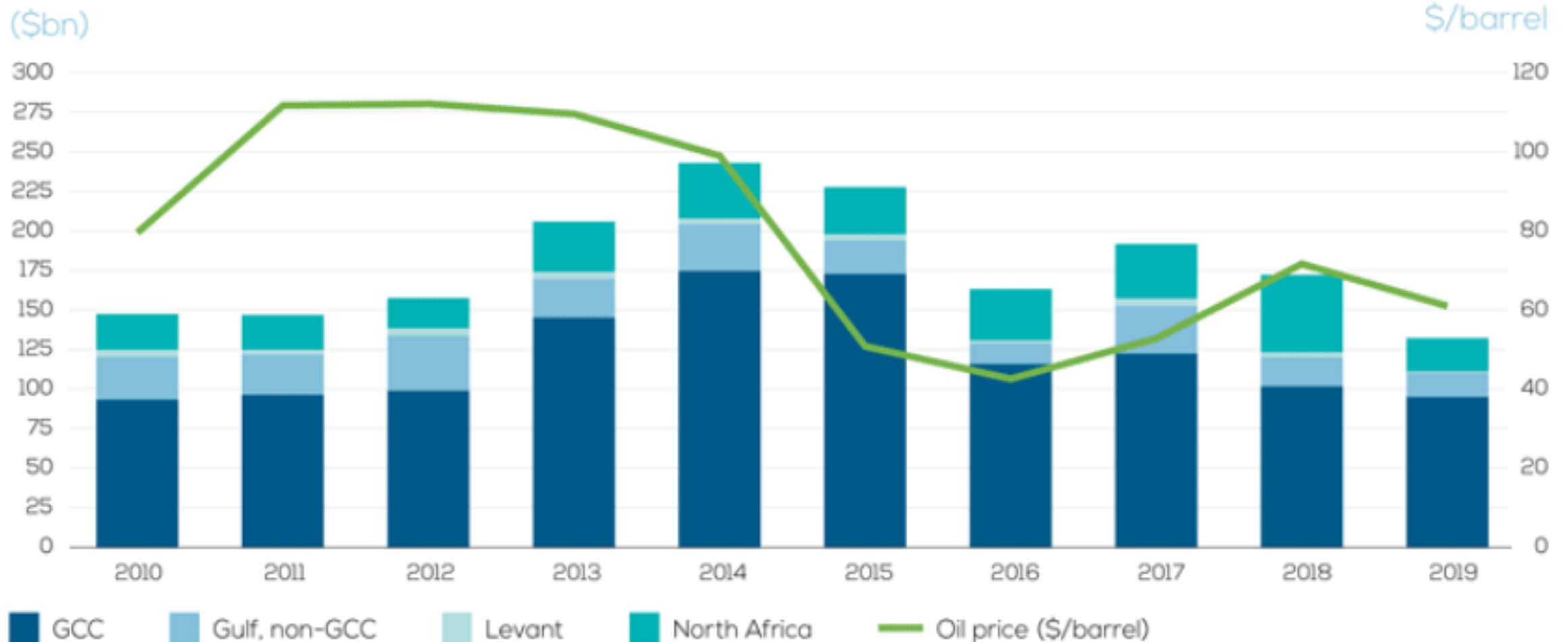
Deficit financed by increased borrowing and drawdown on reserves

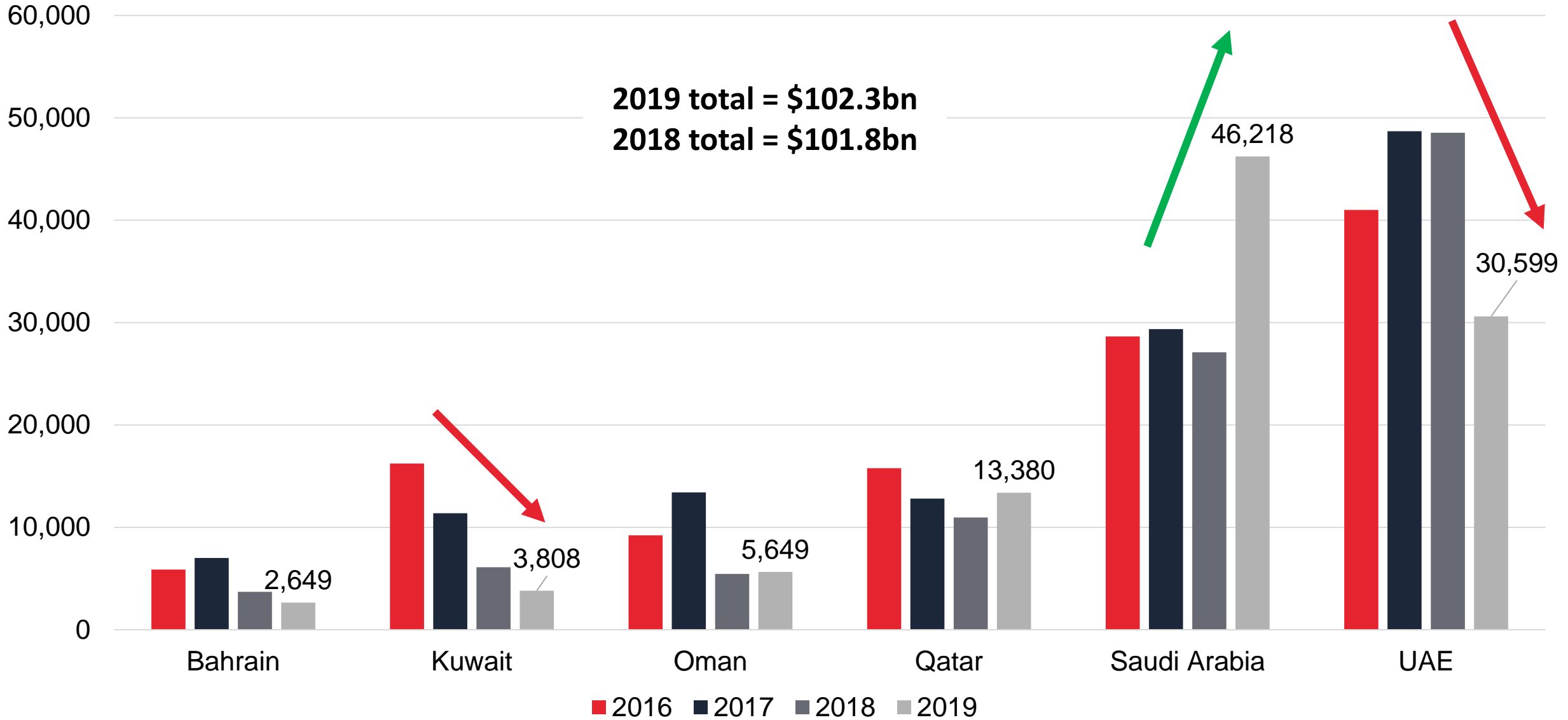
Government debt rising

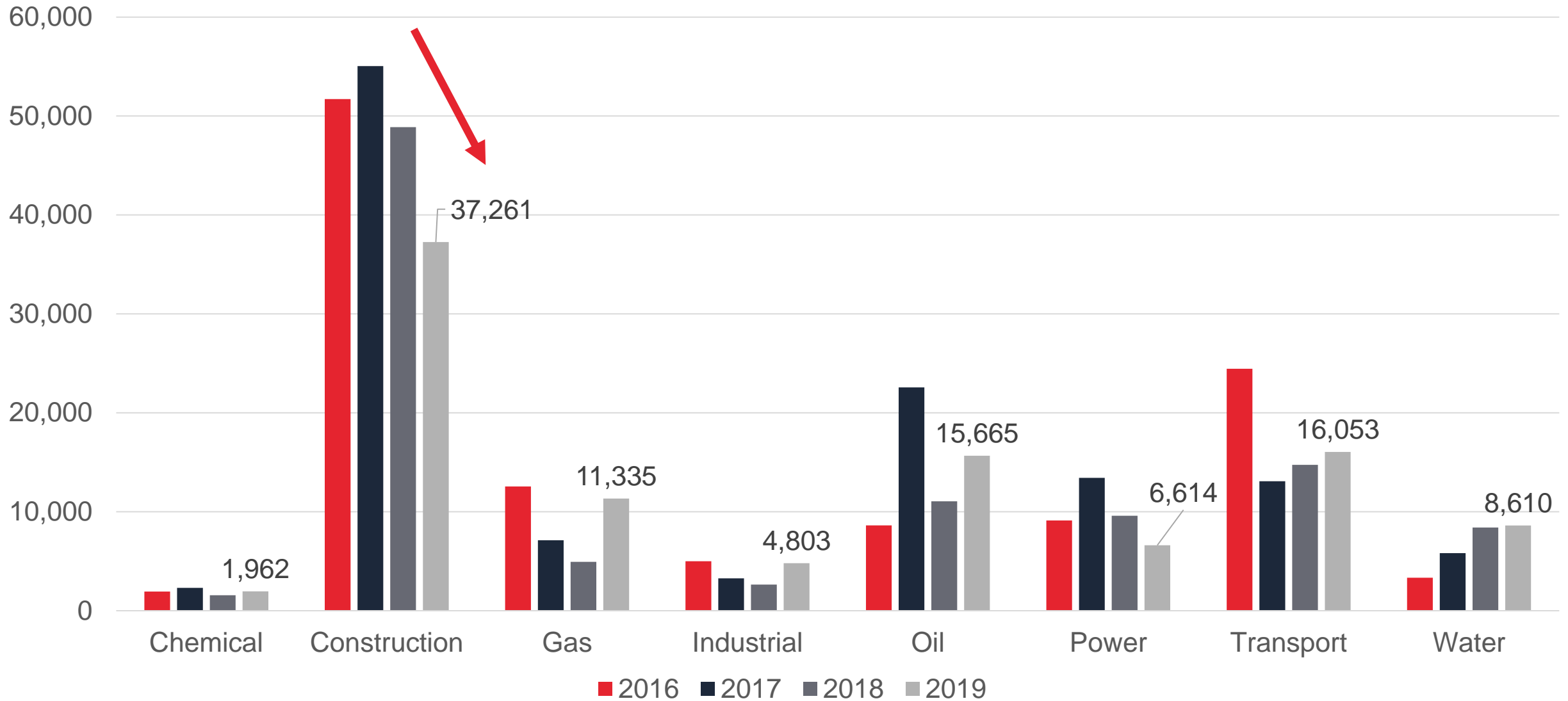
Economic reform visions aim to:

- Shift decisively away from depending on oil
- Boost private sector involvement in more areas of the economy
- Create high-value jobs and localisation of value-added manufacturing and services
- Phase out outdated social restrictions

MENA PROJECT CONTRACT AWARDS BY REGION, 2010-19







Mena growth to improve in 2020

2019 Mena real GDP growth = 0.1%

2020 Mena real GDP growth = 2.7%

Improving non-oil growth and potential oil production recovery

Non-oil growth is current success story for the Mena region

Oil importers expect 4.4% GDP growth, up from 3.9% in 2019

GCC non-oil growth to rise to 2.8% in 2020, from 2.4% in 2019

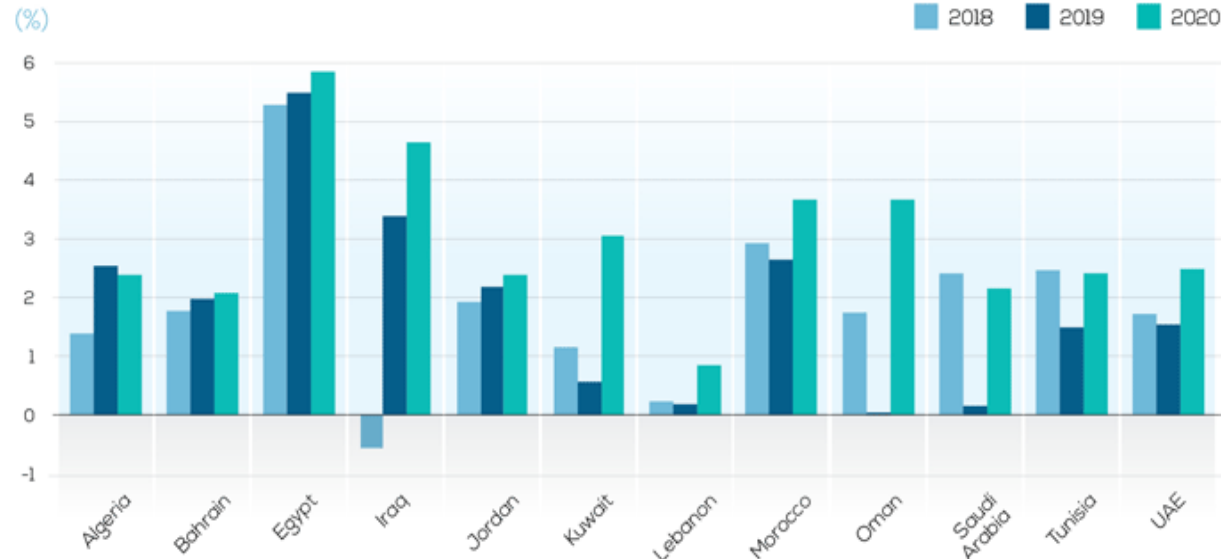
But significant risks

Weak global trade and volatility in oil prices remain a threat

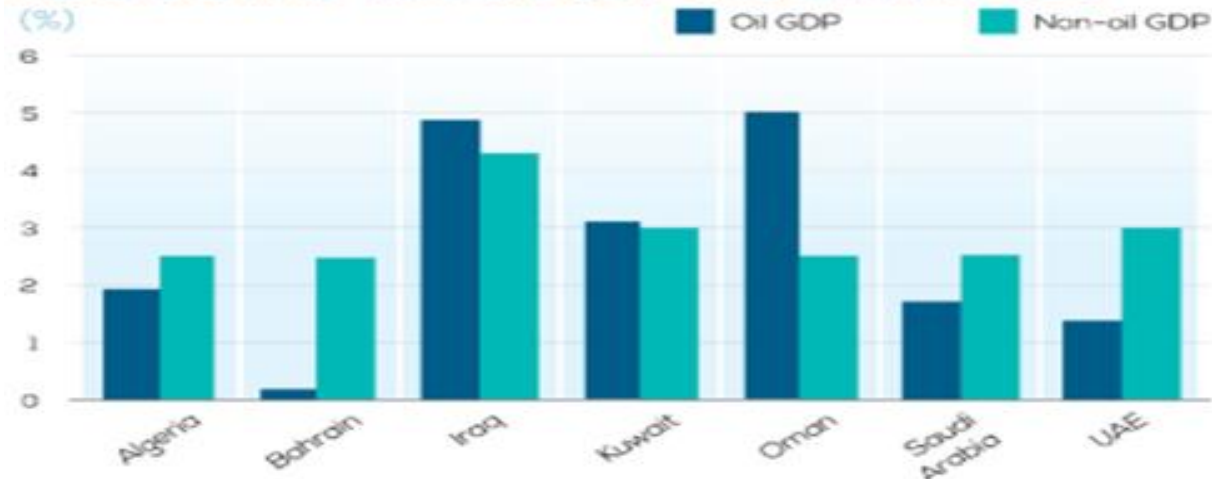
Weak job creation and rising unemployment across region

Coronavirus

REAL GDP GROWTH



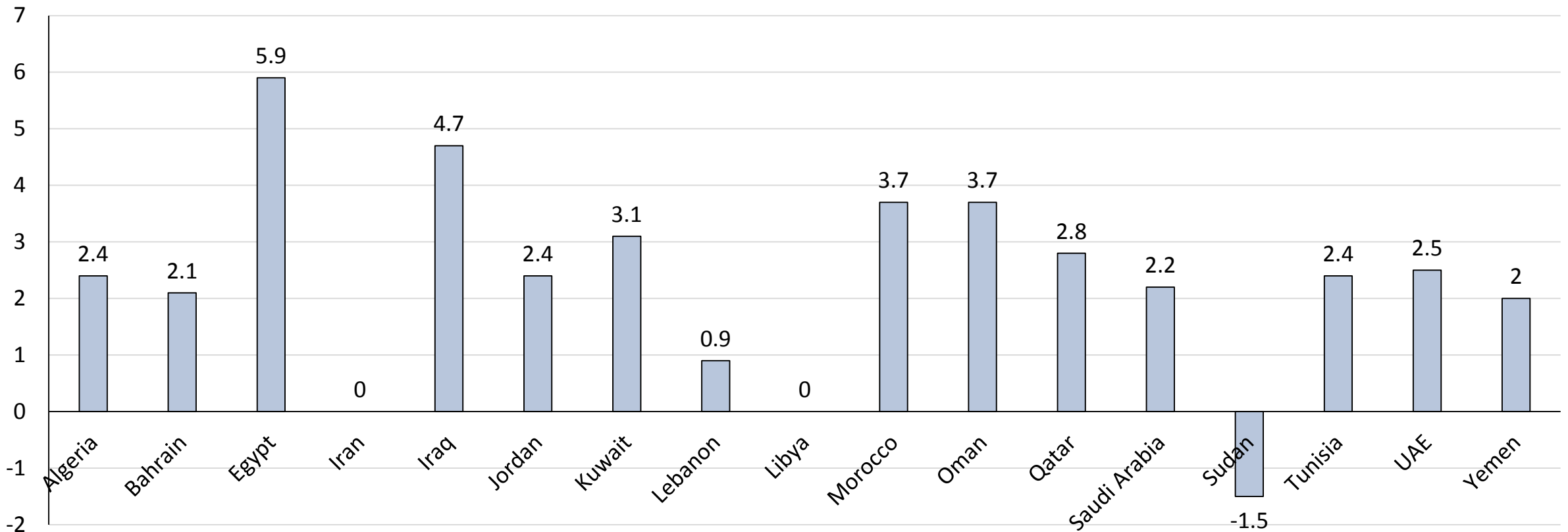
REAL OIL AND NON-OIL GDP GROWTH IN 2020

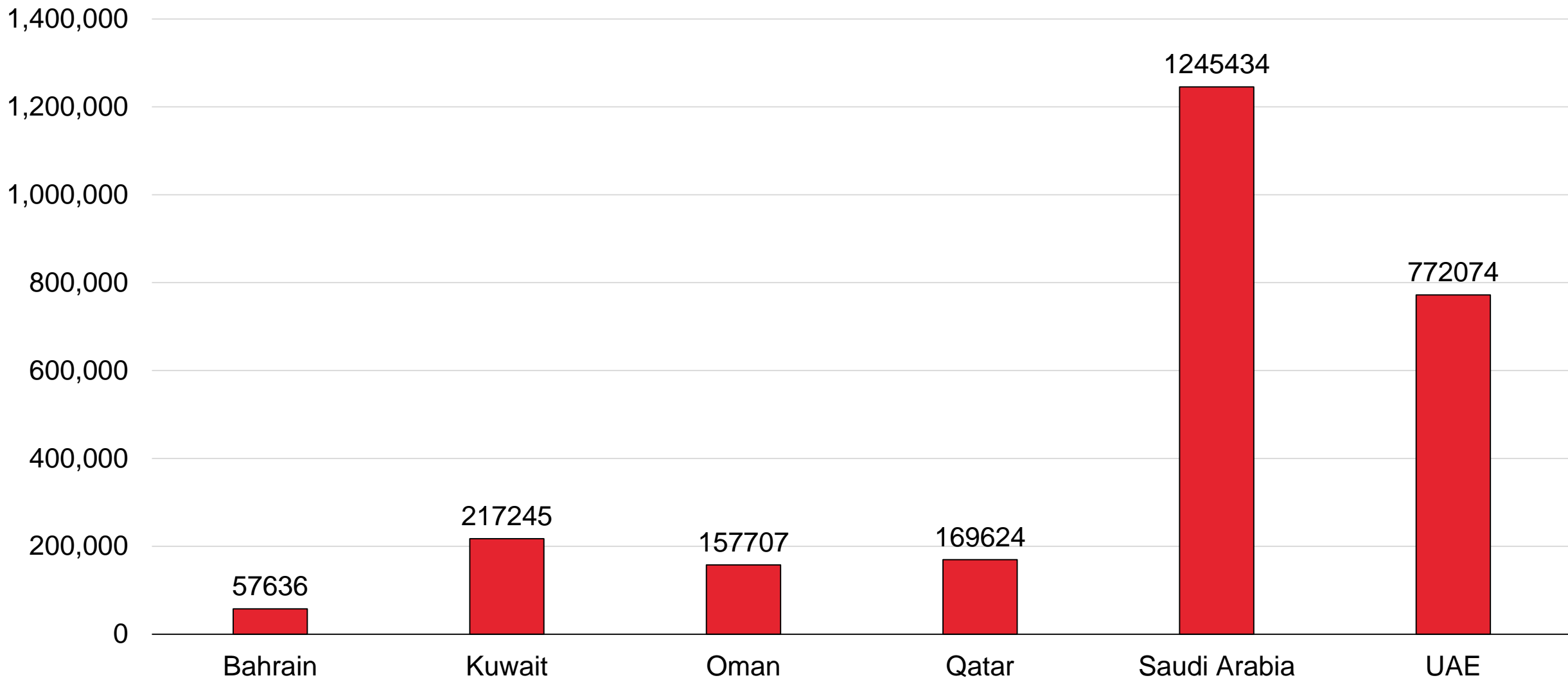


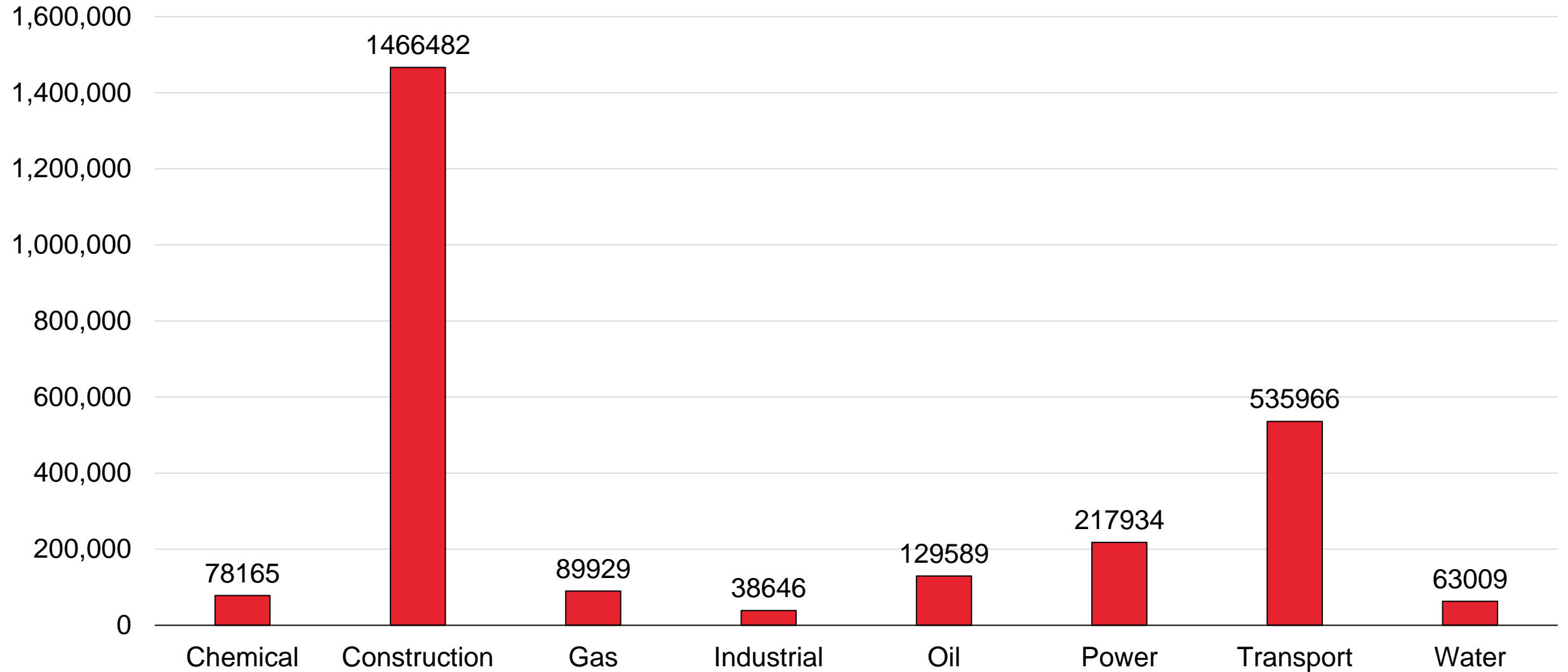
EIA=Energy Information Administration. Source: IMF

- 2020 expected to be better than 2019 in terms of regional growth but recovery still fragile
- On 28 October 2019, IMF downgraded growth forecast for region due to low oil prices and worsening global outlook
- GCC growth to rise to 2.5 per cent. This is down from the 2.8 per cent growth projected six months previously
- Factors such as Coronavirus, US/China trade and Brexit could have significant negative impact in 2020

2020 real GDP growth in the Mena region by country (%)







- No major rebound in government spending or business landscape
- Trade deal between the US and China improved mood
- Coronavirus, Brexit, slow Chinese growth, doubts about trade deal will weigh on recovery
- Slow oil demand growth (1.5%) and increasing supply from unconventional sources = perceptions of oversupply
- Without recovery in demand or significant disruption to supplies, oil prices likely to remain low
- Reduced output as part of the producers' agreement will further limit growth in oil revenues in 2020
- There is real risk of disruption to Middle East supplies but that is not necessarily a good thing
- Private investment vital to recovery
- Three-year recovery window as large-scale schemes get restructured to make them more bankable
- Increased investment in social infrastructure (healthcare, education) and IT/innovation

Lower oil prices

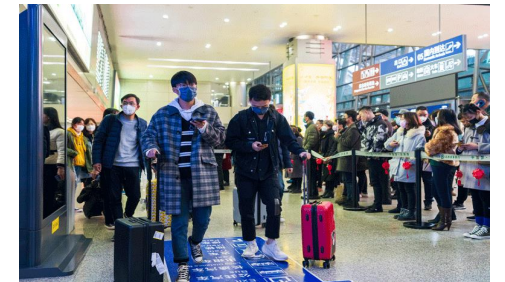
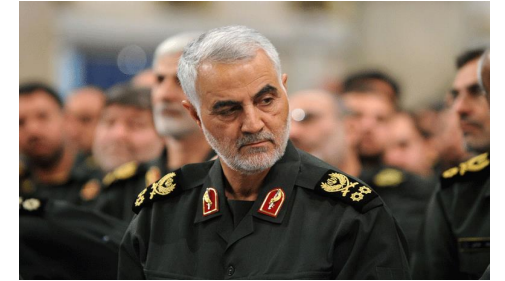
Coronavirus

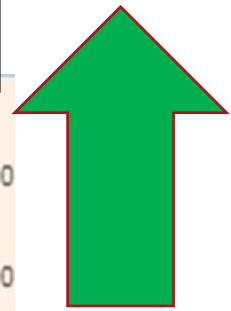
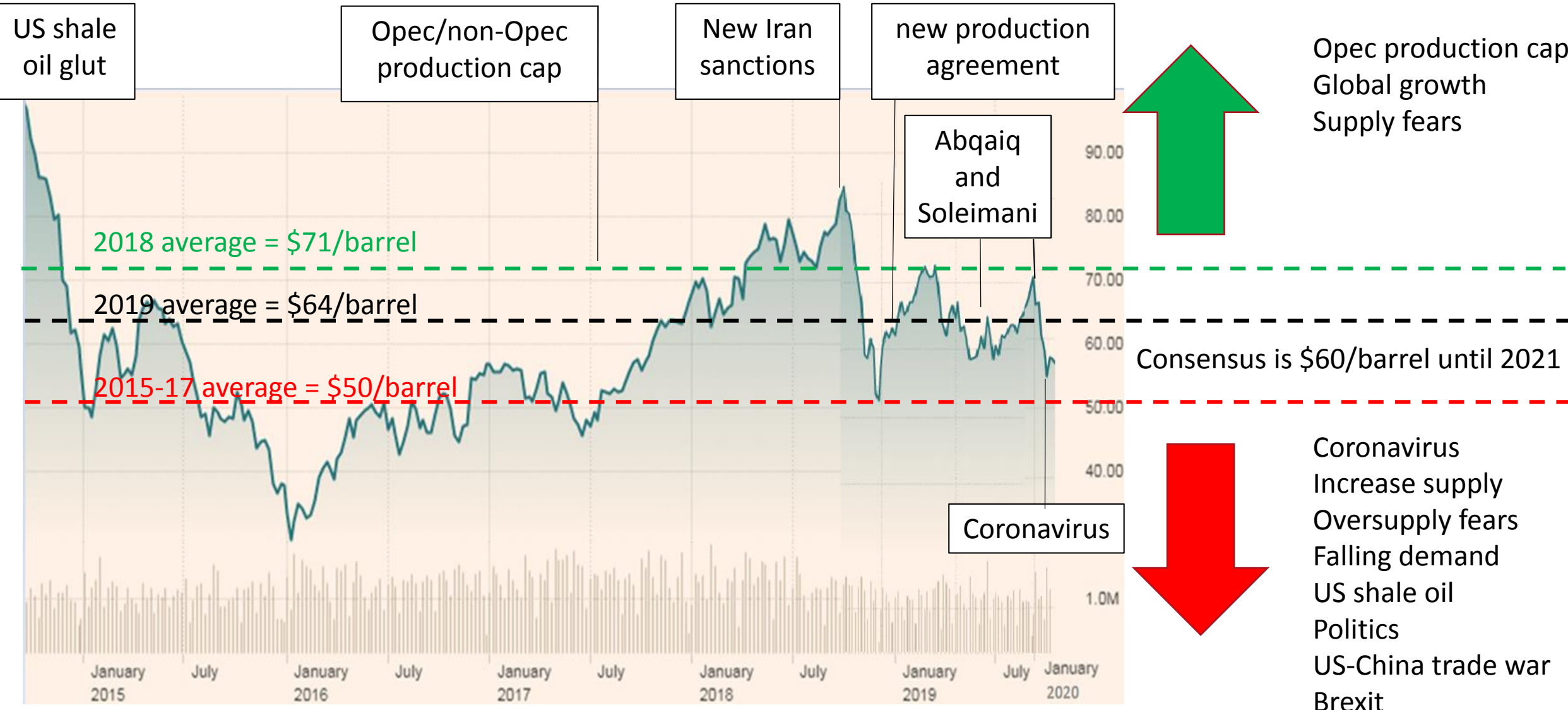
US presidential elections

US/Iran

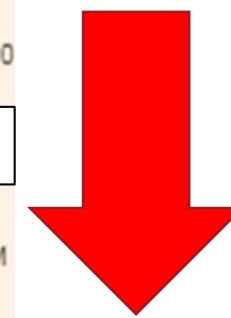
Saudi Arabia's G20 presidency

Dubai Expo 2020





Opec production cap
Global growth
Supply fears



Coronavirus
Increase supply
Oversupply fears
Falling demand
US shale oil
Politics
US-China trade war
Brexit

- Over 76,000 people in 27 countries infected by Covid-19. 2,200 people have died
- Iran has reported eight deaths and 43 infections. The UAE has reported 13 cases
- Sharp falls in global financial markets. Dow Jones fell 3.5% on 24 Feb
- IIF says Covid-19 could drive oil to \$57/b in 2020 down from forecasted \$60/b
- Lower oil prices will hit GCC revenues potentially leading to further spending cuts.
- Chinese demand for gasoline, diesel and jet fuel declined by 36 per cent in Q1
- IATA said it projected a 13% loss of passenger demand for carriers in the Asia-Pacific. Emirates and Qatar Airways have the most connections from GCC to Chinese cities. Chinese travellers accounted for 3.9% of DXB passenger in 2018
- China receives 4-45 per cent of the GCC's exported goods, with Oman being the most exposed (45.1 per cent) and the UAE being the least exposed (4.2 per cent)
- Impact on supply chains and construction costs could rise
- Possible impact on insurance premiums



On 1 Dec 2019, Saudi Arabia formally assumed the presidency of the G20

On 21-22 Nov 2020, King Salman hosts the 15th G20 leaders' summit in Riyadh

Opportunity to present a new Saudi Arabia to the world, and can benefit region

The world's leading politicians, business people and NGOs will meet in Riyadh to agree to promote economic stability, sustainable development, female empowerment, human capital enhancement, and an increased trade flows

Riyadh plans to host more than 100 events in the year ahead of the summit.

Increasing kingdom's international outreach is a key part of the reform agenda

The G20 objectives align closely with the vision of Saudi Arabia's modernisers

Riyadh, Abu Dhabi, Cairo and Manama to carve out new relationships

Support Saudi Arabia's soft power expansion



THANK YOU

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The screenshot shows the MEED website homepage. At the top, there is a red navigation bar with the MEED logo and the tagline 'Middle East business intelligence'. To the right of the logo is a profile picture of John Bambridge and the text 'JOHN BAMBRIDGE' and 'Coronavirus trumps Middle East's impact on oil prices'. Below the navigation bar is a horizontal menu with items: News, Analysis, Sectors, Countries, Magazine, Technology, Influencers, Reports, Events, Editor's choice, and My Account. The main content area is divided into several sections. On the left, under 'TOP STORIES', there is a large image of a city skyline at night with the headline 'Abu Dhabi entity to invest in PPP projects' and a sub-headline '02 FEBRUARY 2020 12:16 PM | BY JENNIFER AGUINALDO'. On the right, under 'LATEST ISSUE', there is a cover image for the 'MEED BUSINESS REVIEW' with the headline 'EMERGING RISK' and the text 'Read the February 2020 MEED Business Review'. Below this, under 'ON THE AGENDA', there is a large image of an industrial site with the headline 'Getting to grips with Middle East risk'. At the bottom, there are three smaller article thumbnails: 'Trump's Middle East peace plan is a futile wish list' (30 JANUARY 2020 3:52 PM | BY JOHN BAMBRIDGE), 'Marubeni emerges as Fujairah F3 IPP frontrunner' (30 JANUARY 2020 1:02 PM | BY JENNIFER AGUINALDO), and 'Sabic posts first quarterly loss in a decade' (30 JANUARY 2020 3:06 PM | BY NEHA BHATIA). A fourth thumbnail on the far right shows an industrial site with the headline 'The risk of US shale hype in global energy pricing'.