DIFC | Dubai International Financial Centre

MENA's Economic Renaissance and its Sustainability

Presentation to
MasterCard Asia/Pacific Regional Advisory Board Meeting
Dubai
March 4, 2007

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MENA Renaissance & Sustainability

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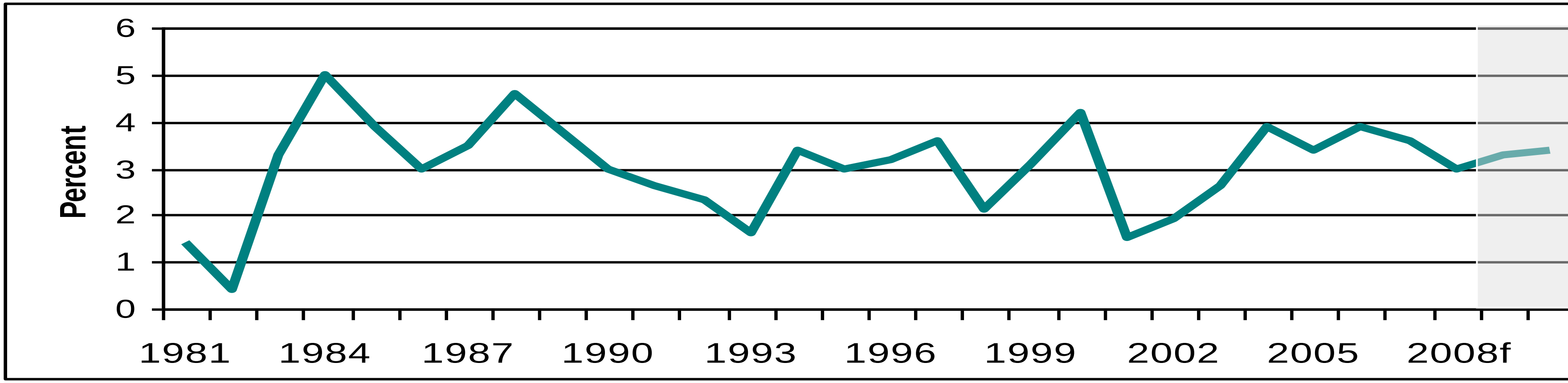
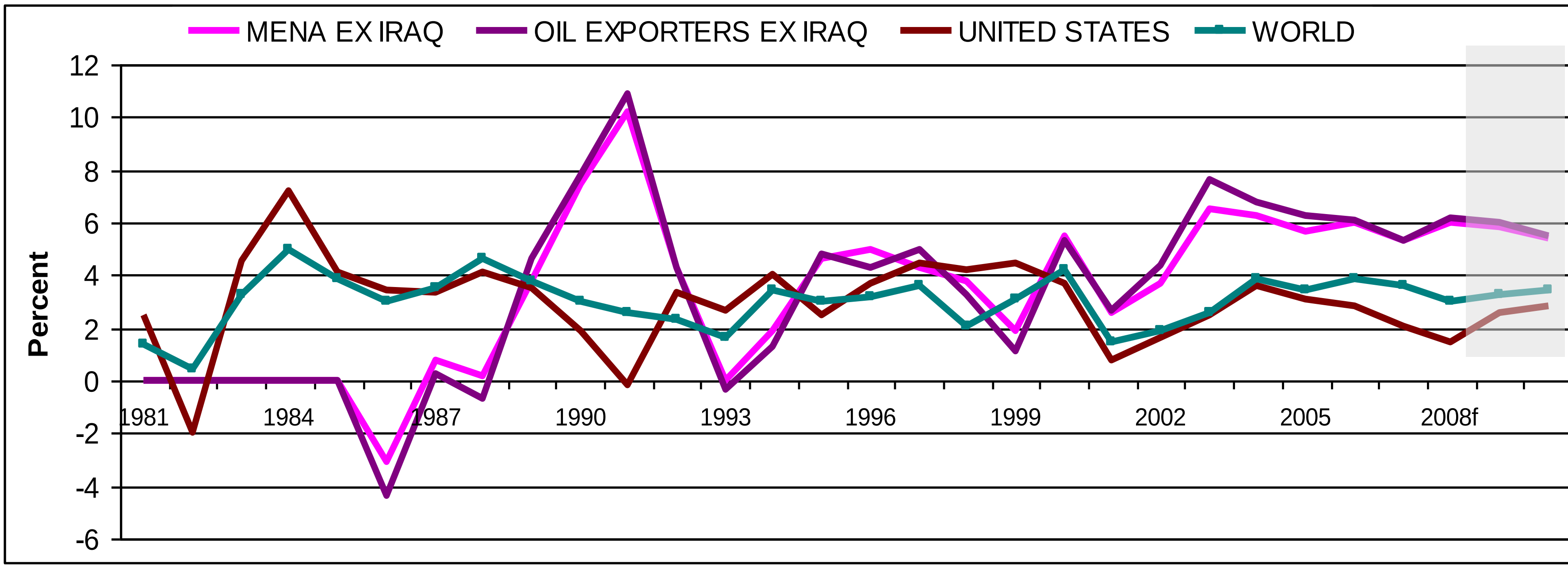
- **Structural Change & Drivers of Economic Growth**
- **Investment, Infrastructure & Productivity**
- **Demographics, Migration & Remittances**
- **Liquidity, Markets & Volatility**
- **Prospects & Challenge of Financial Markets**

MENA Economic and Financial 'Renaissance'

- MENA has achieved above trend average real GDP growth 6.2% over 2003-2007 vs. 3.8% in 1998-2002.
- Growth has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity and ↑ in productivity growth
- Private sector is leading and driving regional economic integration of markets, FDI tourism, labour flows
- Region's companies are becoming multinationals: Emaar, Orascom, Etisalat, MTC, Dubai Ports, Mittal…
- Growing private sector participation in infrastructure in GCC
- Infrastructural investment: estimated value of projects planned or under development in the Gulf exceeds USD 1.6 trillion.
- Greater regional economic integration (GCC Monetary Union in 2010 (?), lower trade barriers Greater Arab FTA)
- Economic reforms, diversification and state divestment & privatisation: non-oil growing faster than oil sector
- Positive demographics & migration sustaining labour & output growth

World Real GDP Growth @ 30 Year High & Less Volatile





Source: EIU, February 2008

Investment, Infrastructure & New Linkages

- Forecast EM infrastructure investment: Asia 67% of total, with China and India 43% and 13% of total; Russia 10%; Brazil 5%, Middle East 4%

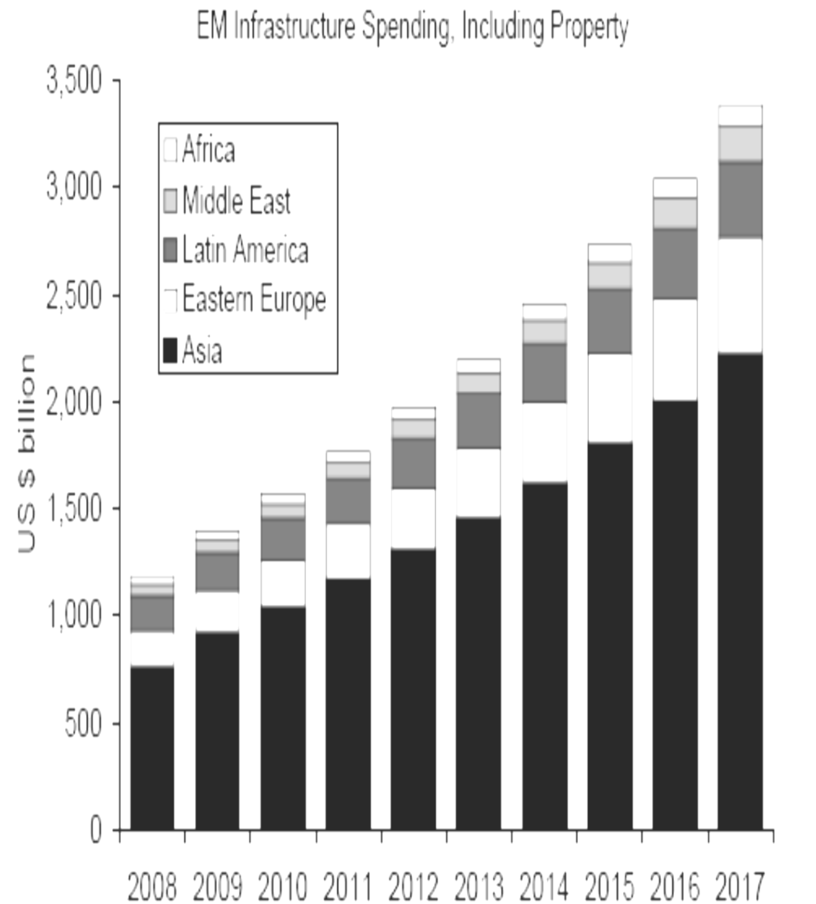
Infrastructure drivers:

- Demographics
- Urbanisation
- Policy reforms, Increased openness and move to market-based economies

Infrastructure investment will:

- Increase productive capacity and export capacity through improved logistics
- Enable economic diversification
- Underlie economic development and higher growth
- Lead to higher total factor productivity (TFP) and labour productivity growth
- Underpin growth of financial markets

US$21.7 trillion in EM Infrastructure Spending: 2008-17e



Source: World Bank, Global Insight, Morgan Stanley Research estimates

Gulf Infrastructure Projects (Millions USD)

(Source: MEED)

	28-Jan-08	28-Jan-07	% change, pa
Bahrain	27,821	33,155	-16.1
Kuwait	274,597	213,225	28.8
Oman	51,023	41,106	24.1
Qatar	156,192	132,325	18
Saudi Arabia	400,882	312,451	28.3
UAE	717,223	486,422	47.4
GCC total	**1,627,738**	**1,218,684**	**33.6**
Iran	151,685	103,213	47
Iraq	33,465	28,460	17.6
Regional total	**1,812,888**	**1,350,357**	**34.3**

Demographics, Migration & Transmission Effects

- Demographics & migration sustaining low labour costs & output growth
- Transmission effects affecting labour exporters India, Egypt, Jordan, Lebanon, South Asia, North Africa:
  - Higher incomes of migrant populations
  - ↑ remittance flows to labour exporting countries
  - ↑ Portfolio investment
  - ↑ FDI
- Oil producers have introduced reforms to the property market and to commercial laws and regulations facilitating ownership of assets, leading to their attracting capital and people ‘voting with their feet’
- High-skill and professional categories migration towards the oil producing countries of the GCC is more likely to be permanent than in oil induced booms in the 1970s and early 1980s.
- Reverse ‘Brain Drain’ & ↑ **expenditure on human capital**

Migration and Remittances

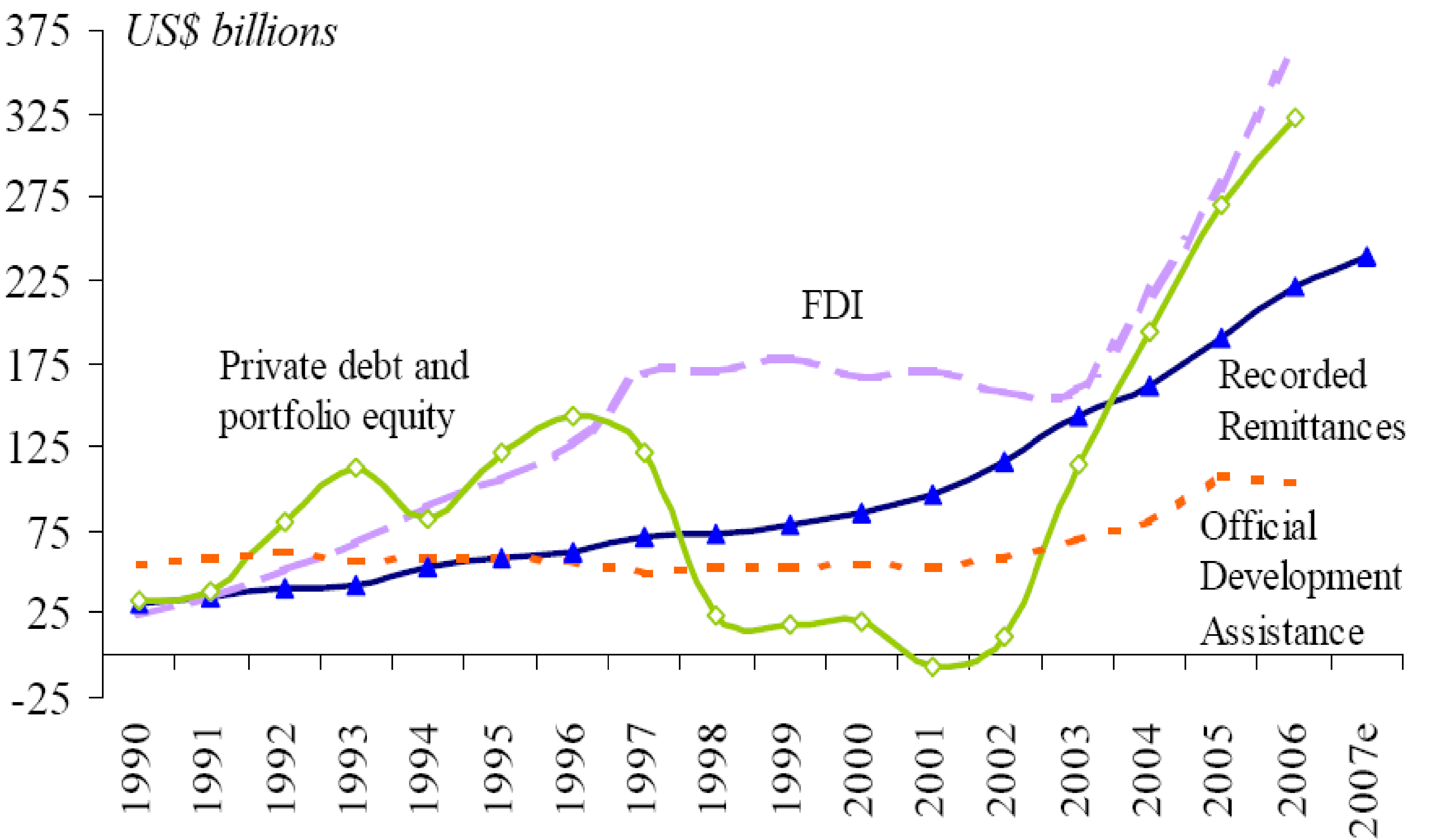
- **Higher growth in the oil producers has been transmitted to the labour exporting countries of the SAMEA region (Egypt, India, Lebanon).**

- **Officially recorded inward remittance flows worldwide have risen from an estimated $131.5billion in 2000, to more than $231billion in 2004 and $317billion in 2007e (versus 12.9, 23.1, and 28.5 billion USD for MENA).**

- **Inward remittance flows between 12%-15% of GDP for Egypt, around 5%, for India, and more than 22% for Lebanon.**
  - **India** world's top remittance recipient with $27.0 bn in 2007, or 5.7% of GDP.
  - **Saudi Arabia**: world's top 2nd remittance sender with $15.6bn in 2006 or 5.0% of GDP.
  - **Lebanon**: world's top 8th recipient of remittances in 2006 (22.8%),
  - **India-UAE** is top migration corridor for high-income non-OECD countries. **India-Saudi Arabia**, and **Egypt-Saudi Arabia** come in 2nd and 3rd places.
- **Official remittances represent only a fraction of total remittances**

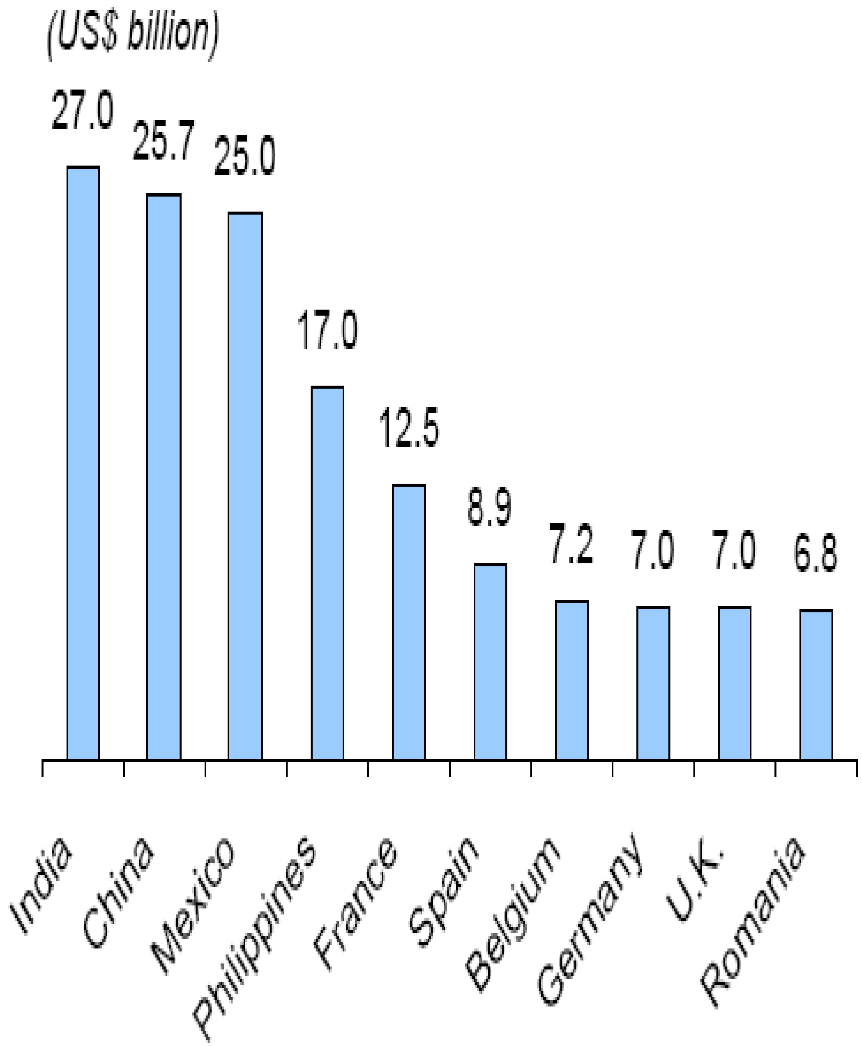
Source: ***Migration and Remittances Fact book 2008, World Bank.***

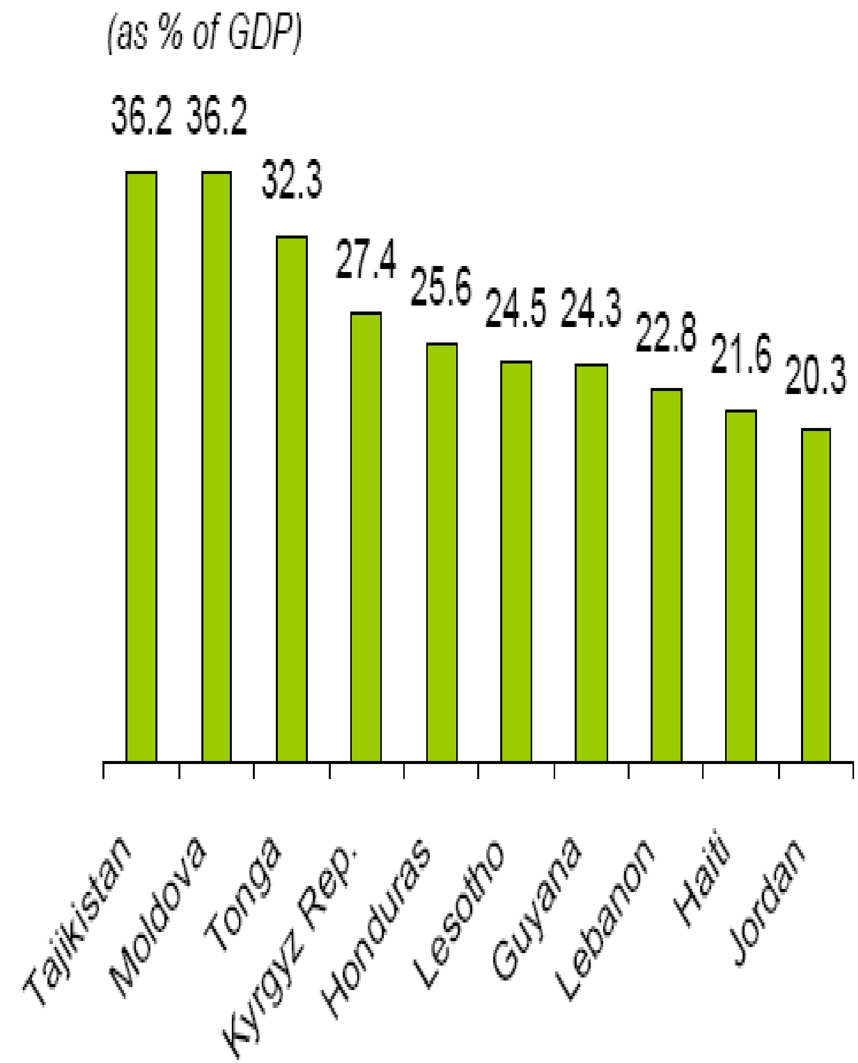
Remittances growing; more stable than capital flows, FDI or ODA



Sources: *Global Economic Prospects 2006: Economic Implications of Remittances and Migration* (World Bank), *World Development Indicators 2007*, and *Global Development Finance 2007*.

Top Ten Remittance Recipient Countries





MENA: Power of Regionalism & Networks

- **Location & New Geography:**
  - Increased de-linking from the US business cycle
  - MENA well located to benefit from relocation of trade & economic activity. Asia now represents about 40% of world GDP
  - Regionalism & investment in network infrastructure (power, telecoms, energy) permit economies of scale and scope in output and trade
  - GCC Common Market: core for regional integration
  - Liberal Trade policies has increased openness through multilateral (WTO) and bilateral FTAs
- But lack of MENA Financial Sector development is now a Barrier to sustained growth and competitiveness

ME/GCC Will Benefit from New Global Economic Geography

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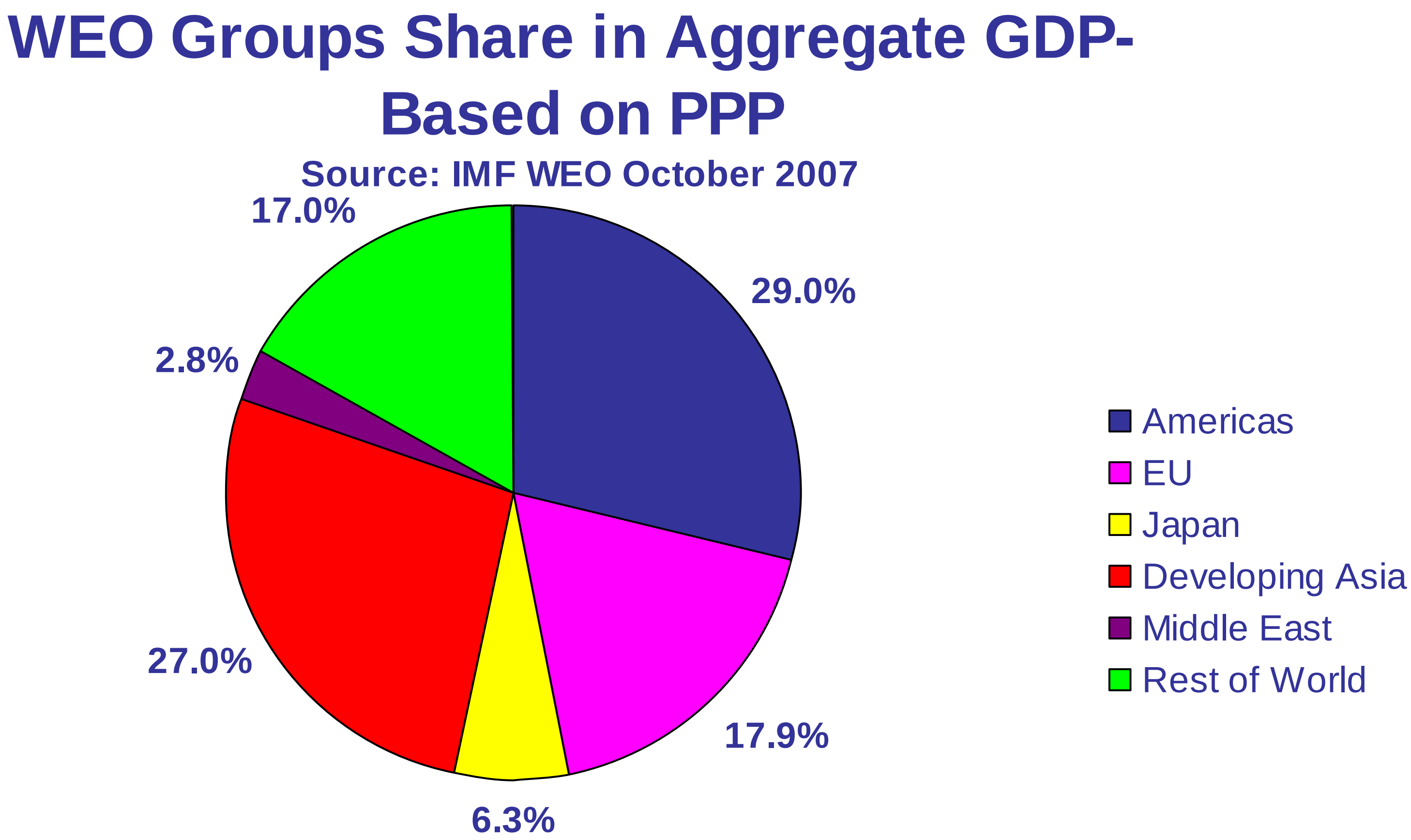


* includes US, Canada, Western Hemisphere

GCC and Asia: Prospects and Trends

- Economic complementarity between GCC-Asia blocs
- Increased Economic and Financial Integration, supported by free trade and investment agreements
- Increased integration will be private sector led
- Asia already main trade partner, but future will be trade in tasks in an integrated global supply chain
- Asia already main source of labour and human capital
- New links:
  - Joint ventures in infrastructure and projects
  - Financial markets: DIFC is open to listing of Asia companies and to Joint Ventures between the region’s and Asian companies
  - Financial Markets: DIFC will be linking to Asian financial markets
  - Bilateral FDI

Increase in Wealth and Liquidity

- Value of oil wealth of Middle East oil exporters increased by an estimated $32 trillion between 1995 and 2007
- Massive Wealth Creation:
  - Currently, the GCC region's proven oil reserves stand at 484.3 billion barrels and natural gas reserves at 41.4 trillion cubic meters accounting for 40.3% of the world's proven oil and 23% of natural gas reserves, respectively.
  - Given global energy demand growth projections, using conservative estimates for oil prices at $48/bbl, the projected cumulative oil and natural gas revenues for the GCC in the 2005-2030 period totals $5.1 trillion. [Goldman Sachs]
- Permanent Income increase of some **$650** billion at a real rate of 3%

Increase in Wealth and Liquidity

- Accumulation of Net Foreign Assets with cumulative Current Surpluses (2003-2007) of oil producers $934 billion (GCC $702 billion) & international reserves
- MENA international reserves have tripled between 2003 and 2007: $242.9bn (2003) to $776.6bn (2007)
- ***GCC have become ‘asset based’ economies*** *with income from net foreign assets more important than income from energy exports*

Conservative Fiscal Policies

- Fiscal Policy:
  - Oil producers policy reaction has been fiscally conservative: ½ of increased oil revenues have been saved
  - But expenditure rapidly rising
  - Fiscal position of GCC remains in surplus for an oil price in the range of $35-$38
- Investment policies less dependent on oil revenues

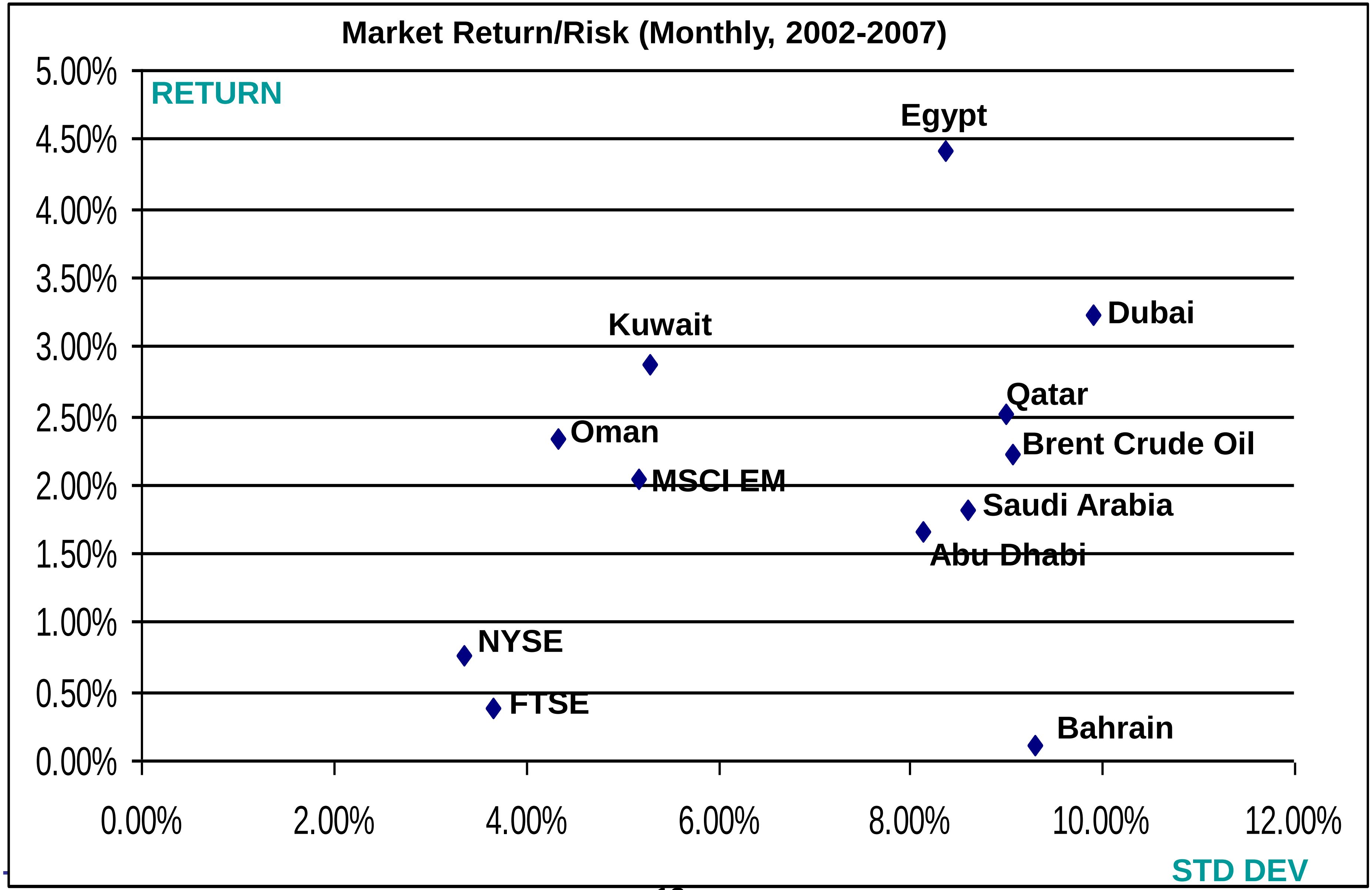
Monetary Policy and Asset Markets

- Accommodating monetary policies leading to high money and credit growth rates; financing real estate and financial market booms with spectacular gains and returns in equity and debt market instruments
- Real exchange rate appreciation with pegged rates: pressure increasing to change exchange rate policy
- Inflation higher, mainly in non-traded goods & services, with limited pass-through of higher oil prices to consumers
- Low or negative real interest rates & high liquidity growth resulted in an investment driven boom:
  - **Real estate boom and asset price appreciation**
  - **Stock market boom**
  - **Credit market boom**

Strong macroeconomic fundamentals imply low macro risks:

- **High growth rates driven by higher oil prices, diversification and economic liberalization policies imply high expected corporate profits and investment returns**
- **Investment-led growth with large infrastructure component →increased productivity growth & ↑private sector investment**
- **Expectations of GCC Regional Economic Integration: lower the cost of equity capital and lead to convergence of asset prices**
- **Gradual Market de-segmentation & liberalization of access to real assets and financial markets, de jure & de facto: free zones, property freehold**
- **Safe haven: attracting capital and elites from neighboring countries.**

Capital Markets: Strong Fundamentals but High Volatility



ME/GCC Economic Outlook 1

- ME/GCC and Central Asia are living an 'economic renaissance' with above trend growth.
- Continued high growth is forecast in 2008: ME/GCC at 6.2% with oil exporters (including Central Asia) growing at 6.8% and GCC at 5.8%
- Growth is investment led with strong private sector participation and record FDI levels. Investment is leading to an increase in productivity and absorptive capacity.
- Inflation rate is forecast to decline from 8.8% in 2007 to 7.7% in 2008 for MENA and from 4.5% to 3.9% for GCC

ME/GCC Economic Outlook 2

- External position positive with MENA current AC surplus at 15.4% for 2007 and forecast at 14.8 for 2008; for GCC countries surpluses are running at 25.4% of GDP for 2007 and 24.8% in 2008.
- Surpluses are being recycled back into regional economies leading to greater regional & international economic integration. Cumulative current account surplus for the GCC countries is expected to grow to $954.6 billion by 2008.
- MENA international reserves have tripled between 2003 and 2007: $242.9bn (2003) to $776.6bn (2007) and forecast at $967.5 billion for 2008. For GCC international reserves have quadrupled from $90.5 (2003) to $365 (2007) and forecast at $ $455 billion by 2008.

ME/GCC Risks and Prospects

- Security issues and geo-political instability are a source of risk
- A global slowdown induced by slower growth in the US is likely to have less of an effect than in previous business cycles. The world's economic geography has changed with its 'epicenter' moving towards Asia.
- Lower oil prices along with increased government spending may reduce the current account surpluses of the oil producers; however, this is not likely to have a substantial impact on investment spending or on government budget surpluses, as long as oil prices remain above $38 to $40 per barrel.
- High levels of liquidity available and growth of Islamic finance imply lower sensitivity of local asset markets to movements in global interest rates
- Increased Regionalism, Diversification, Infrastructure investment, Openness and growing Linkages to Asia are resulting in progressive de-linking from US-EU business cycles

CHALLENGES & POLICY ISSUES

- **Inflation & Exchange Rate Policy**
- **Sovereign Wealth Funds**
- **Capital Market Development**

CHALLENGE OF INFLATION

- **Two sources of inflation:**
  - Non-Traded Goods & Services: housing, services
  - Imported: international commodity prices, weak US$

- **Inflation & GCC exchange rate peg:**
  - Real rate appreciation from high inflation
  - Misalignment of monetary policy
  - Pressure to move to currency basket
  - Adopt inflation targeting

But:

- Have to build central banks’ monetary & exchange rate management capacity; build money, debt markets
- Requires GCC policy coordination

Sovereign Wealth Funds

- Total value of SWFs estimated by IMF at between $1.9 trillion and $2.9 trillion, growing to about $12 trillion by 2012
- Distinguish between Stabilization Funds & Intergenerational Funds
- Surplus countries need to diversify against commodity price volatility and revenue risks; earn higher returns than on central bank portfolios
- SWFs allow countries to separate the management of their revenues from natural resources from their fiscal and monetary policies.
- Increased investment & financial protectionism
- Need cooperative solution to resolve global imbalances

Financial Sector Development: Central Challenge for Region

- **Change in Global Economic Geography requires accompanying change in Global Financial Geography**
- **Time to build the linkages and stronger economic integration within ME/GCC and with Asia**
- **Financing Infrastructure & Regional Economic Integration**
- **Enable & support economic and financial reforms:**
  - **Enable separation of oil revenue management from fiscal policy & investment**
  - **Privatisation and Private sector Participation in Infrastructure**
- **DIFC will play a central role in MENA's Renaissance**

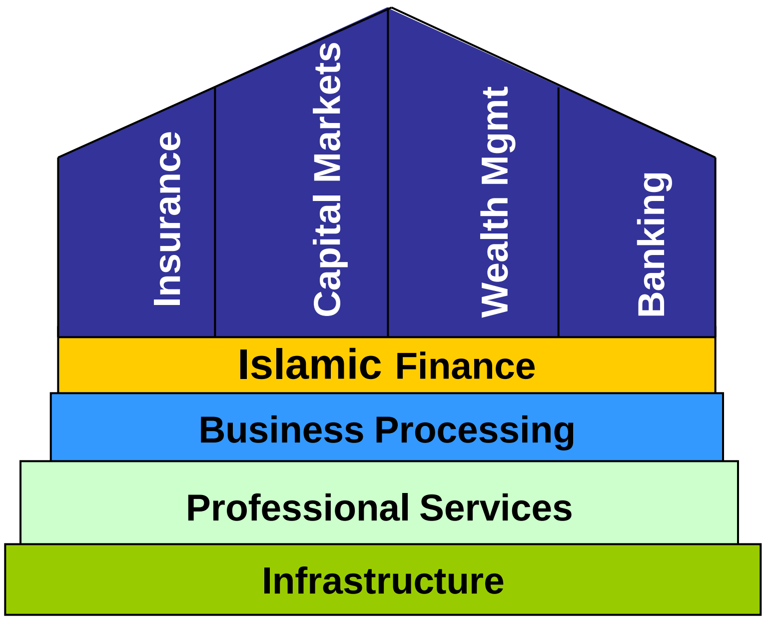
Hawkamah Institute for Corporate Governance

Since its official launch in Q2-2006, Hawkamah has:

- Attracted over 200 members
- Signed 28 MOU's with international and regional partners
- Received institutional support from all regulatory authorities and Central Banks of all GCC and ME countries.
- Launched the Mudara Institute of Directors
- Conducted jointly with the IFC a CEO survey of over 400 firms throughout the MENA region on private sector CG practices and perspectives
- Partnered with Capital Market Regulators in the GCC to develop CG frameworks
- Conducted an assessment of the corporate governance environment in the GCC Countries from an investor's perspective with over 100 stakeholders all over the GCC.
- Launched the Hawkamah – UAB Bank Award on Corporate Governance, the first of its kind in the Arab world.
- Launched 4 CG Task Forces:
  - Banks

DIFC: Integrated Banking & Financial Services

- **Banking & Brokerage Services**
- (Investment Banking, Corporate Banking & Private Banking)
- **Capital Markets**
- (Equity, Debt Instruments, Derivatives and Commodity Trading)
- **Wealth Management**
- (Family Office, Trust Services)
- **Islamic Finance**
- **Fund Registration & Domiciliation**
- **Insurance & Reinsurance**
- (Takaful/Retakaful, Captives)
- **Business Processing Operations**
- **Professional Services**



DIFC: MENA Financial Sector Development

- Invest, Manage and Control region's financial wealth of $2+ trillion and growing as a result of high energy prices:
  - Financial sector to be an engine of growth
  - Strategic issue: security and safety of assets
- Develop new markets and instruments
  - **Shari'a compliant financial sector & market**
  - **Bond market**
  - **Securitisation and structured finance**
  - **Housing Finance & Mortgage markets**
- **Payment systems to support GCC Common Currency: potential global currency alongside US$, Euro and Remimbi**

MENA RENAISSANCE & SUSTAINABILITY

A Time for Vision
A Time for Action
A Time for Architects and Designers
A Time for Builders & Investors

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March 2008