

Growth, Transition & Transformation in the MENA region

Keynote Address @ FundForum Middle East

Dr. Nasser Saidi
22 September 2014

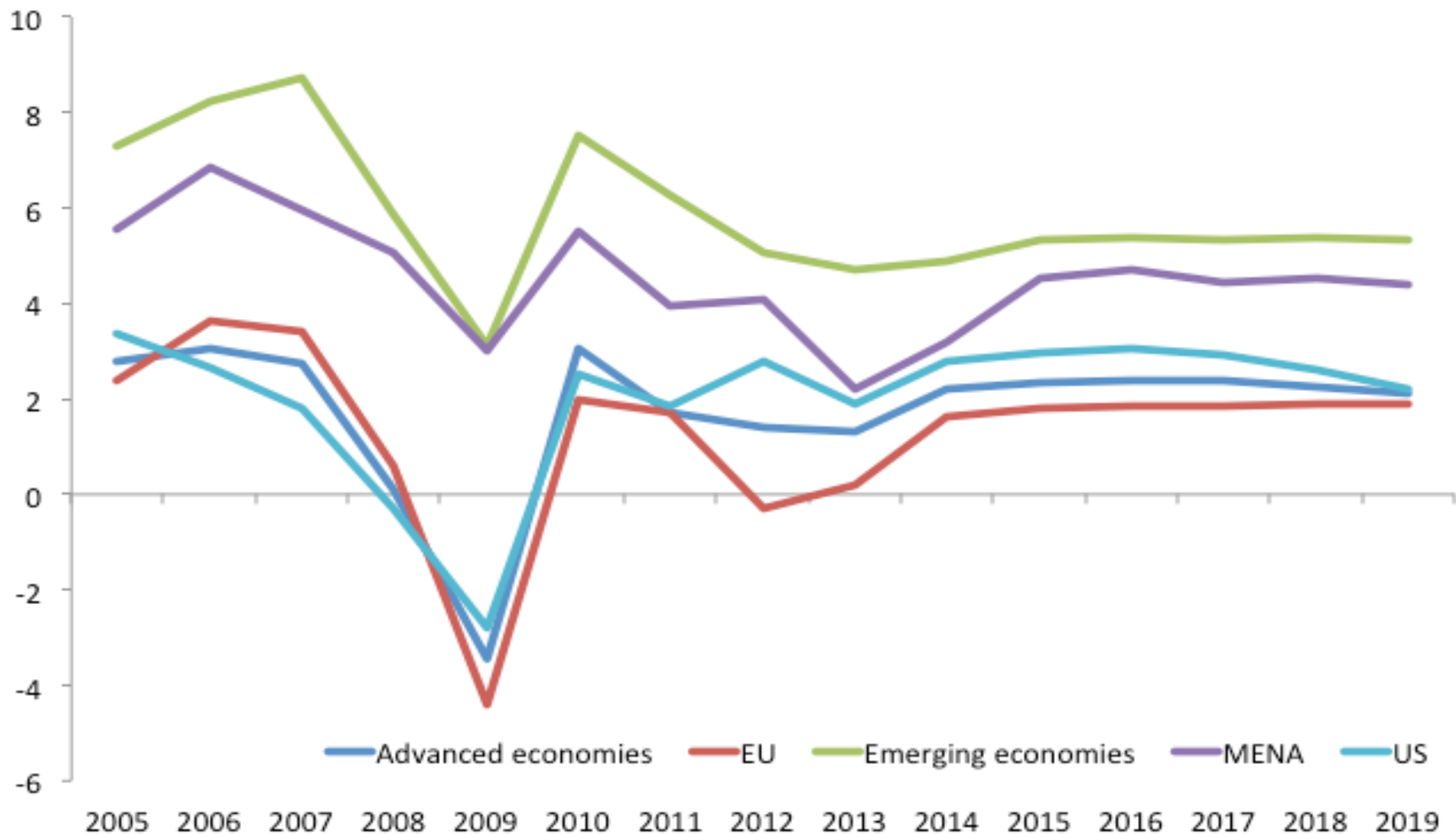
NASSER SAIDI

— & ASSOCIATES —

Agenda

- ✓ **Global Economic Developments & New Economic Geography; MENA Implications**
- ✓ Regional Economic Outlook
 - Opportunities & Challenges
 - Policy Reforms
 - Transformational Factors

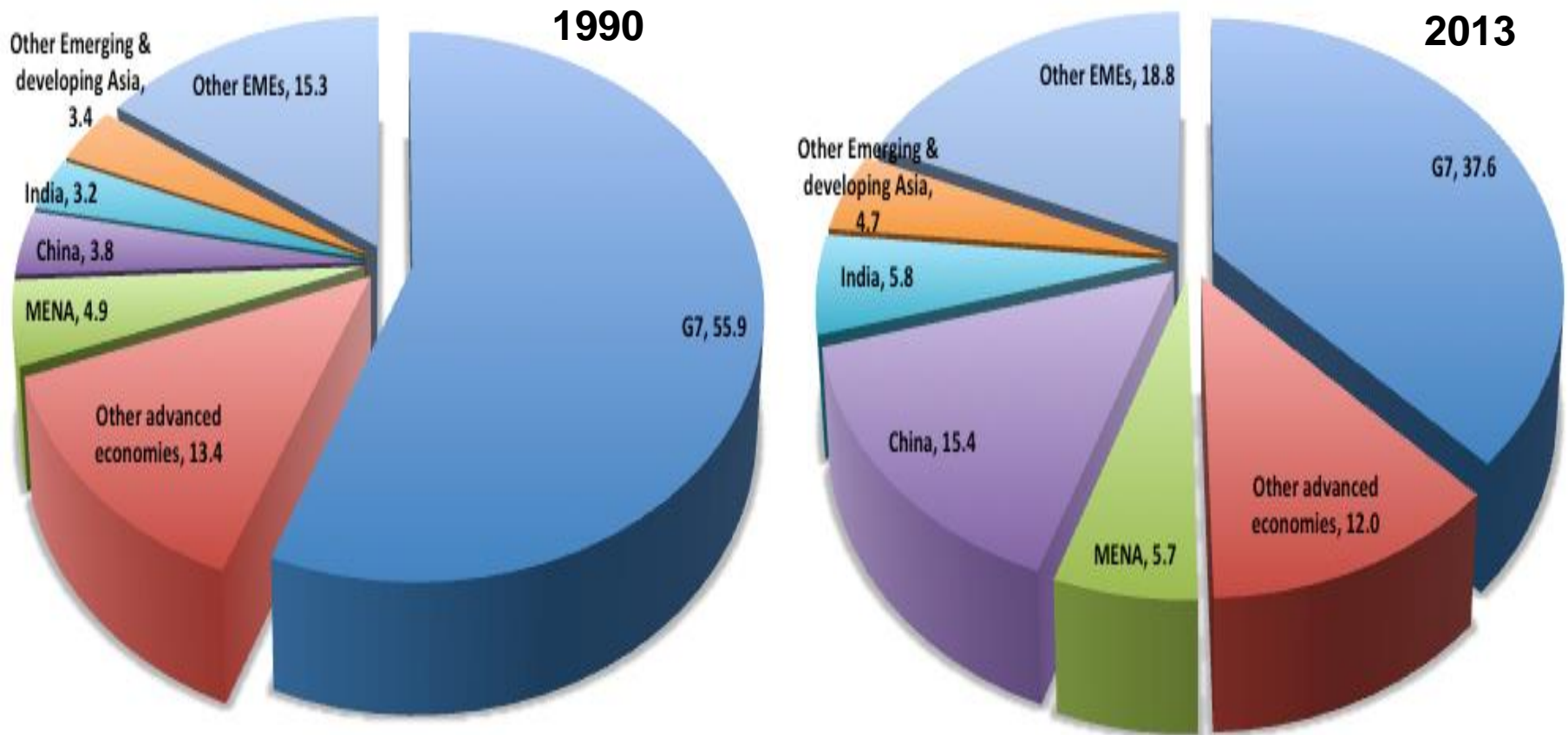
3-Speed Recovery from Great Recession & Great Financial Crisis; Secular Stagnation for Advanced Economies?



Source: IMF World Economic Outlook, Apr 2014. GDP growth in yoy terms.

Tectonic Shift in Global Economic Geography Toward EMEs & Asia

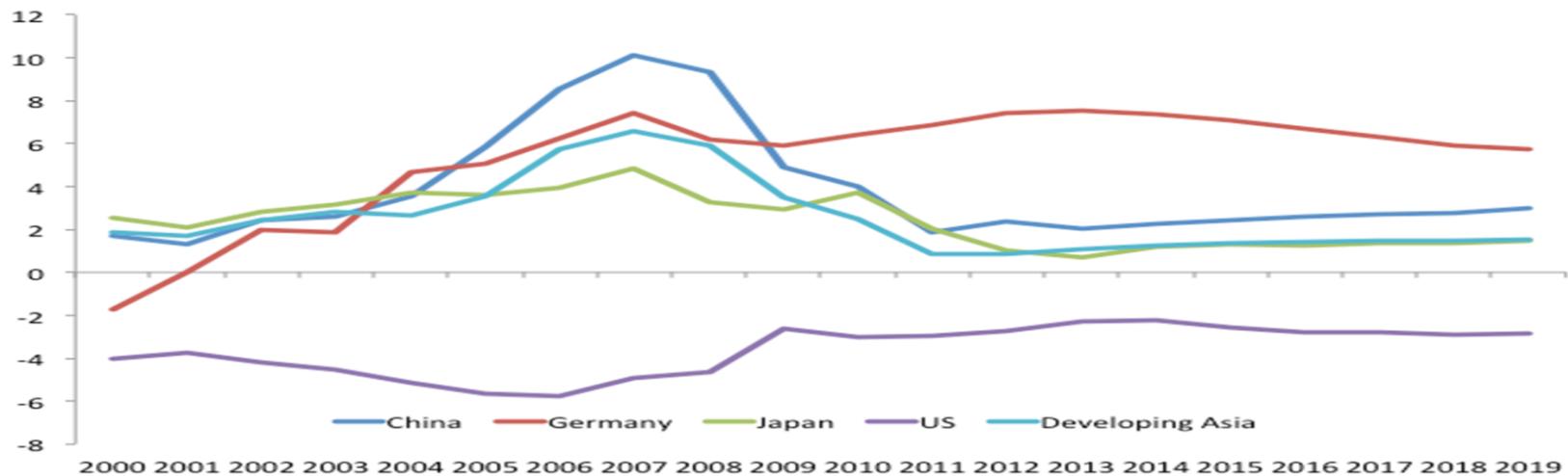
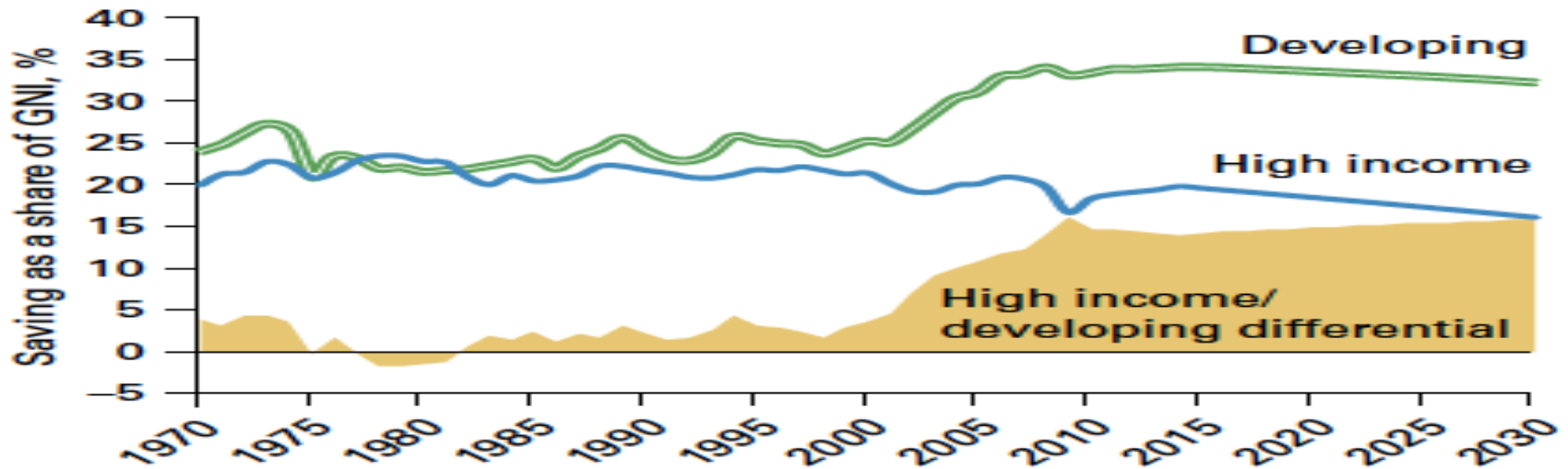
GDP based on purchasing-power-parity (PPP), shares of world total



Source: IMF WEO Apr 2014

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Global Imbalances reflect Structural high EME Saving Rates & Competitiveness



Source: IMF WEO Apr 2014;

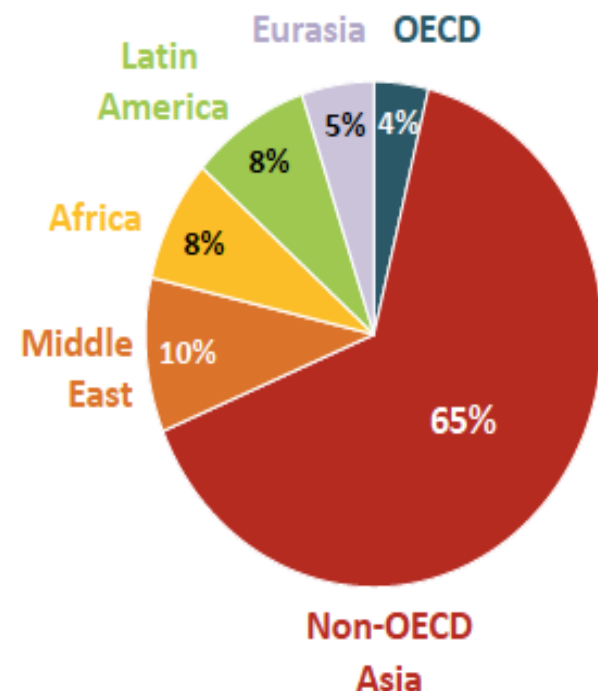
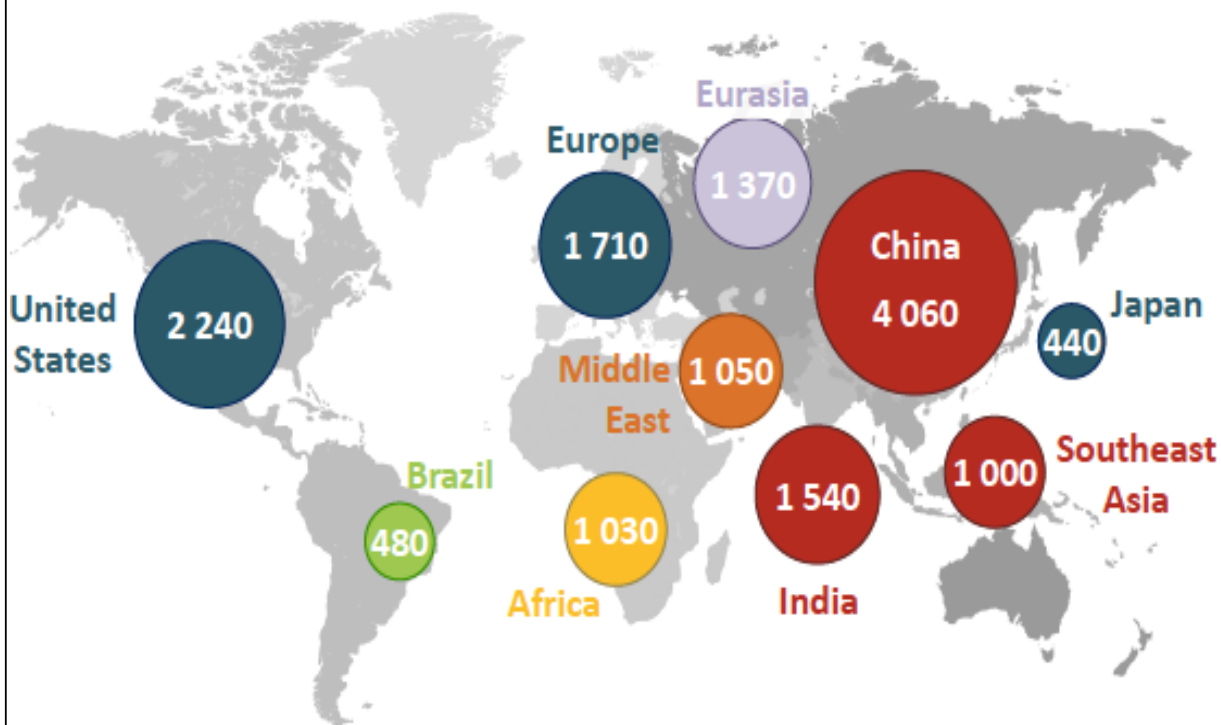
Current Account Balances (as % of GDP)

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Changing Energy Market Structure & Dynamics as Asia dominates demand

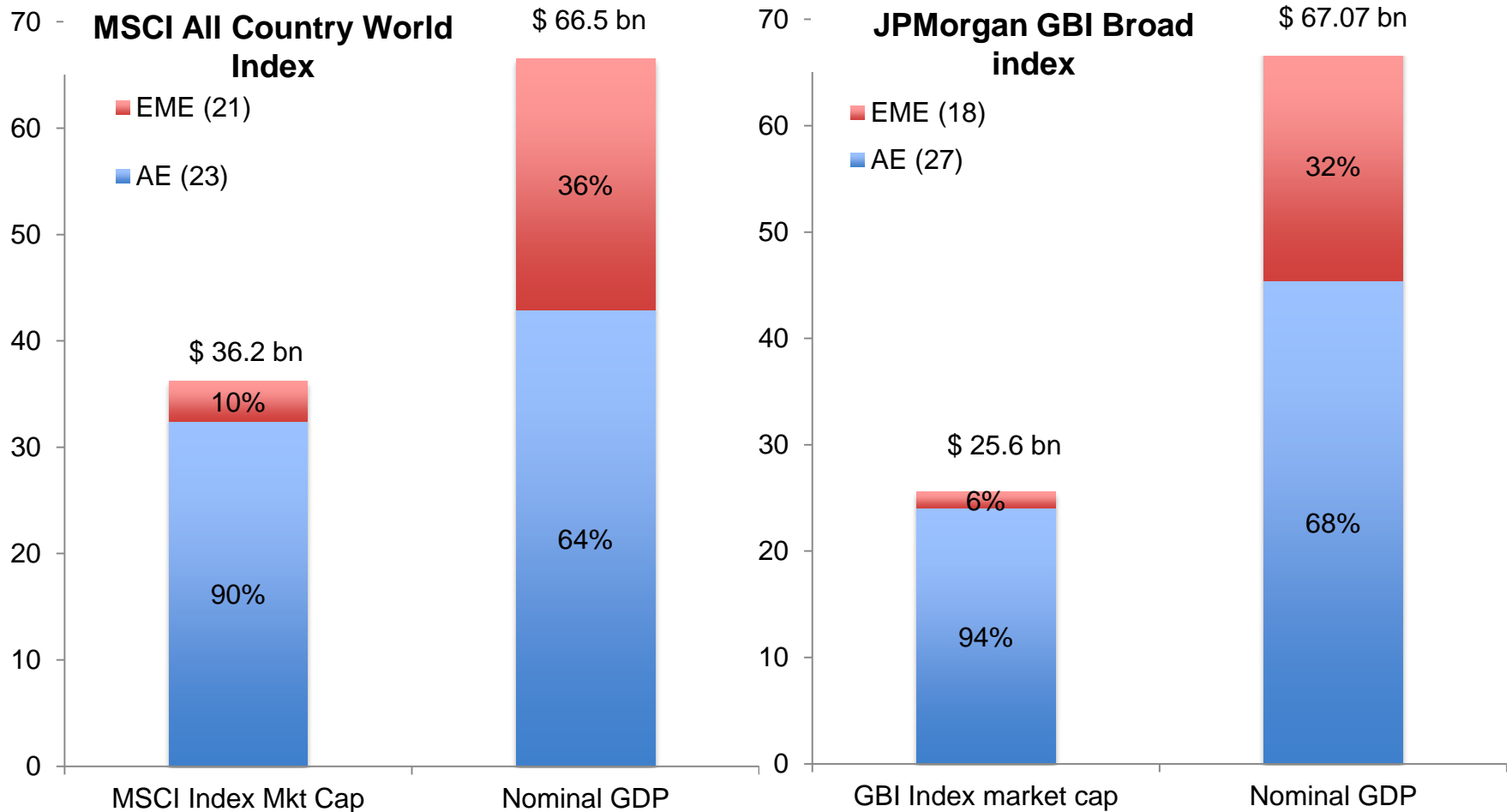
Primary energy demand, 2035 (Mtoe)

Share of global growth 2012-2035



China is the main driver of increasing energy demand in the current decade, but India & Africa will take over as the principal sources of growth

EMEs share in Global Equity & Bond indices underrepresents their share of Global GDP



Tectonic Shift in Global Economic & Financial Geography Towards Emerging Markets

- ✓ **Shift in Economic Geography driven by Demographics, Investment, Globalisation of Technology, Liberalisation & International Integration**
- ✓ **China is overtaking the US as world's largest economy by 2015/2016 & India has surpassed Japan**
- ✓ **Trade:** Emerging markets account for 48% of world trade; Asia 31.5%;
- ✓ **Energy Markets:** OECD 35%; Non-OECD 65% (China dominant)
- ✓ **Tourism:** EME tourists & EME destinations increasingly dominant
- ✓ **Investments:** 52% of FDI flows into EMEs; 30% into Asia; South-South growing
- ✓ **Savings:** In EMEs, savings account for 33% of GDP compared to less than 20% of GDP in advanced economies!
- ✓ **New Wealth** is being created in EMEs & will be deployed internationally; EMEs account for 42% of top 10 SWFs by asset size

EME Shift: Implications for MENA/GCC

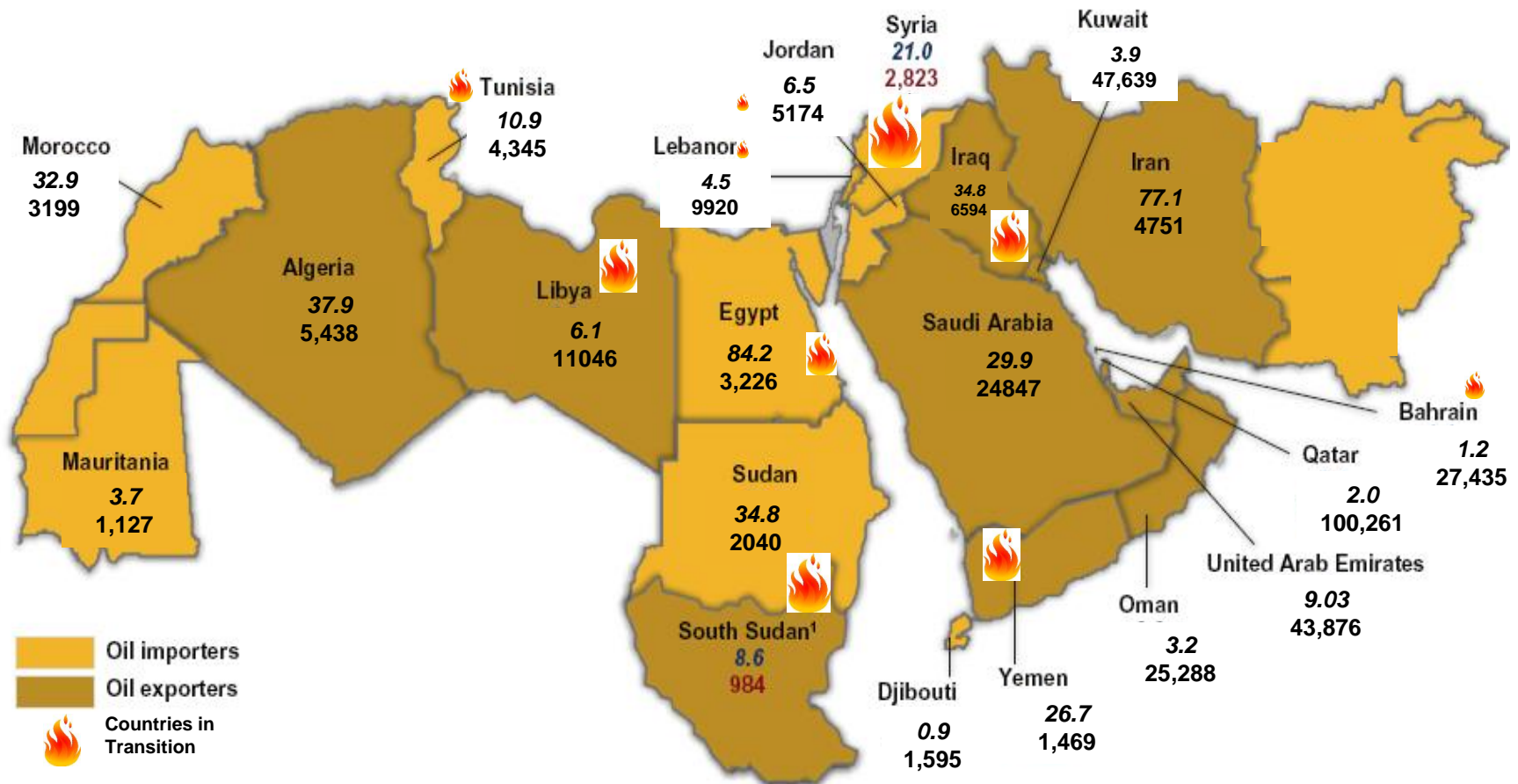
1. Shrinking share of global activity in advanced economies, expanding in EMEs/Asia: 2 growth drivers no longer 1
2. Radical change in Structure & Dynamics of Energy Market: Asia & Africa will be main export markets
3. Monetary Policy conflicts: GCC Peg to US\$ & US Monetary Policy vs. Business Cycle links to Asia
4. Re-orient Trade, Labour, Investment, Financial Policies & Linkages to the EMEs; Asia/Africa main economic partners
5. MENA needs to integrate its economies into ‘New Silk Road’ & new emerging supply chains

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- ✓ **Regional Economic Outlook**
 - **Opportunities & Challenges**
 - **Policy Reforms**
 - **Transformational Factors**

MENA: 48.1% of World's proven Oil reserves and 38.4% of proven Natural Gas resources but Wide Inequality in Wealth, Resources & Incomes. Many countries in turmoil

Population, millions (2013)
GDP per capita, USD (2013)



Source: IMF WEO database

Arab Firestorm => Growing Vulnerabilities

- ✓ MENA region going through a historic end of 'Sykes-Picot' transition period with many 'fault lines' :
 - Role of Islam in Politics; 'Mosque or Secularism'
 - Growing Sunni-Shia Schism
 - Role of Army/Security Forces in Politics
 - Change of Economic Development Model from high dependence on Government to Private sector led growth
- ✓ MENA countries share a number of common vulnerabilities and legacies: *Socio-Demographic, Political & Governance, Economic*

Regional macroeconomic developments: growth, inflation & foreign assets accumulation in oil exporters; stressed economies in oil importers/transition countries

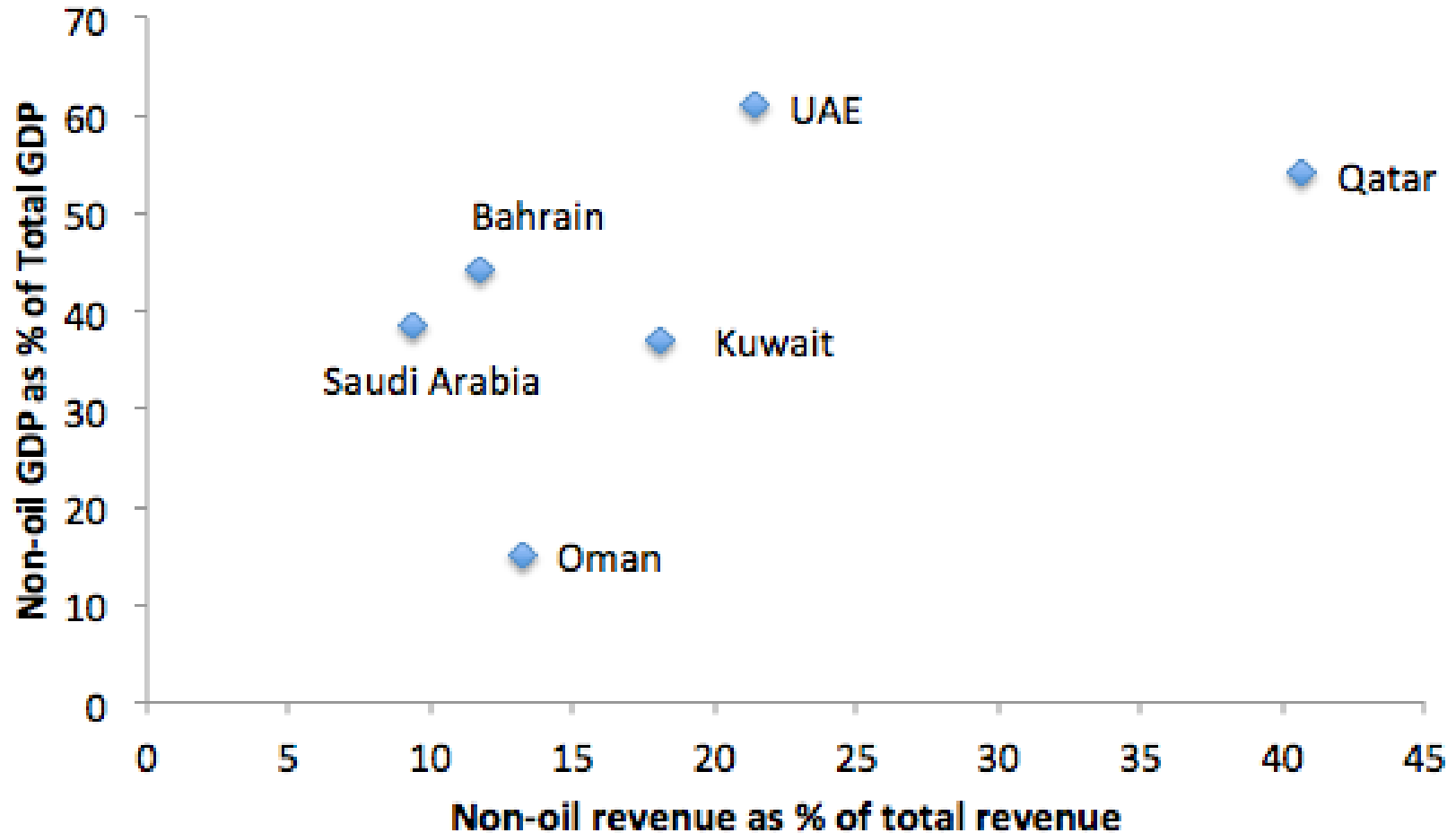
	Average 2000-08	2009	2010	2011	2012	2013	2014	2015
Oil Exporters								
Real GDP growth	5.9	2.3	5.9	4.6	4.7	2.0	3.4	4.6
Nominal GDP (USD bn)	1028.0	1656.4	1968.5	2443.3	2538.7	2550.6	2674.9	2788.2
CPI	8.1	5.3	6.1	9.8	11.8	12.2	8.7	8.6
Non-oil fiscal balance (% of non-oil GDP)	-31.6	-40.5	-42.5	-43.7	-41.7	-40.9	-38.2	-36.7
Current account balance (% of GDP)	14.0	4.3	10.1	18.3	18.4	14.1	11.9	9.7
Gross International Reserves	361.5	857.3	934.2	1082.9	1268.3	1388.5	1456.3	1507.1
GCC								
Real GDP growth	6.1	0.9	6.4	7.7	5.6	4.1	4.2	4.4
Nominal GDP (USD bn)	638.6	958.8	1143.8	1449.3	1603.3	1642.2	1699.8	1750.3
CPI	2.9	2.8	2.6	3.1	2.4	2.9	3.0	3.2
Non-oil fiscal balance (% of non-oil GDP)	-34.4	-47.5	-52.1	-56.0	-51.4	-50.6	-47.8	-45.5
Current account balance (% of GDP)	15.9	6.6	12.4	23.6	24.0	20.2	18.3	15.6
Gross International Reserves	204.9	485.8	543.7	631.9	773.8	881.2	958.2	1021.1
Oil importers								
Real GDP growth	5.1	3.8	3.9	2.5	3.1	3.0	2.8	4.1
Nominal GDP (USD bn)	396.8	675.1	741.7	754.2	791.4	837.4	862.1	932.5
CPI	5.7	10.4	8.5	10.1	9.1	8.6	8.8	8.6
Fiscal balance (% of GDP)	-4.7	-5.1	-5.9	-7.0	-8.3	-9.3	-7.2	-6.9
Current account balance (% of GDP)	-1.3	-4.8	-3.2	-3.6	-6.0	-4.6	-4.0	-4.8
Gross International Reserves	70.9	137.2	150.0	123.1	102.9	102.2	112.1	124.1

Source: IMF Regional Economic Outlook, May 2014

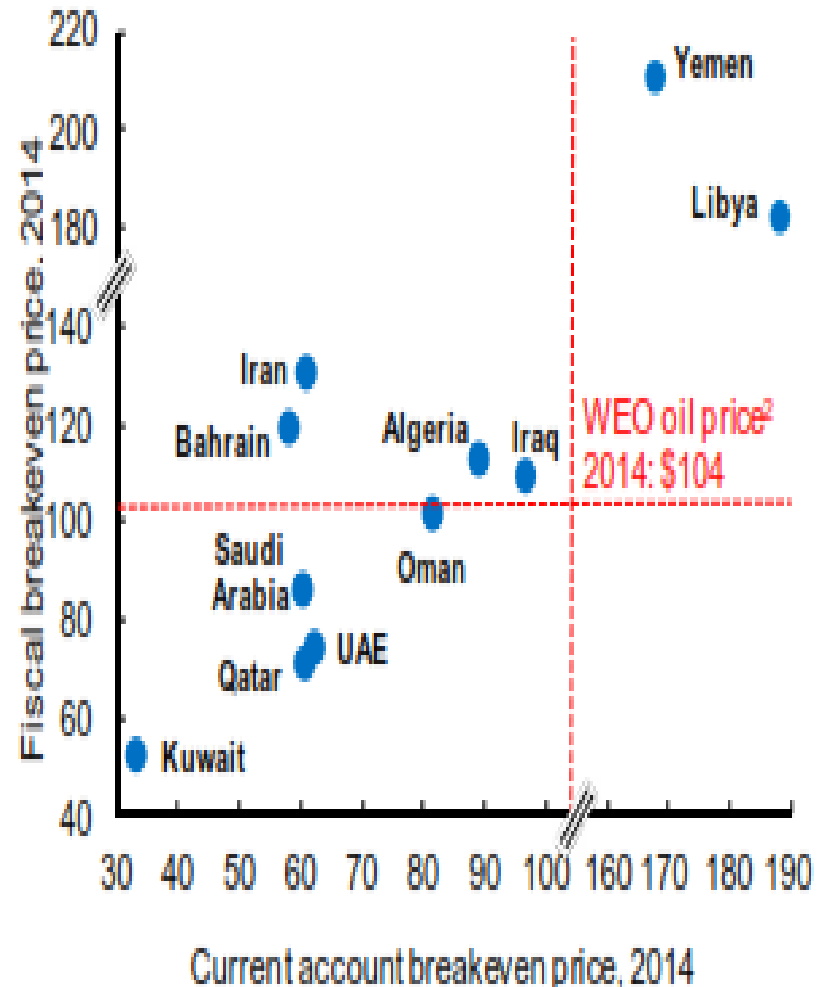
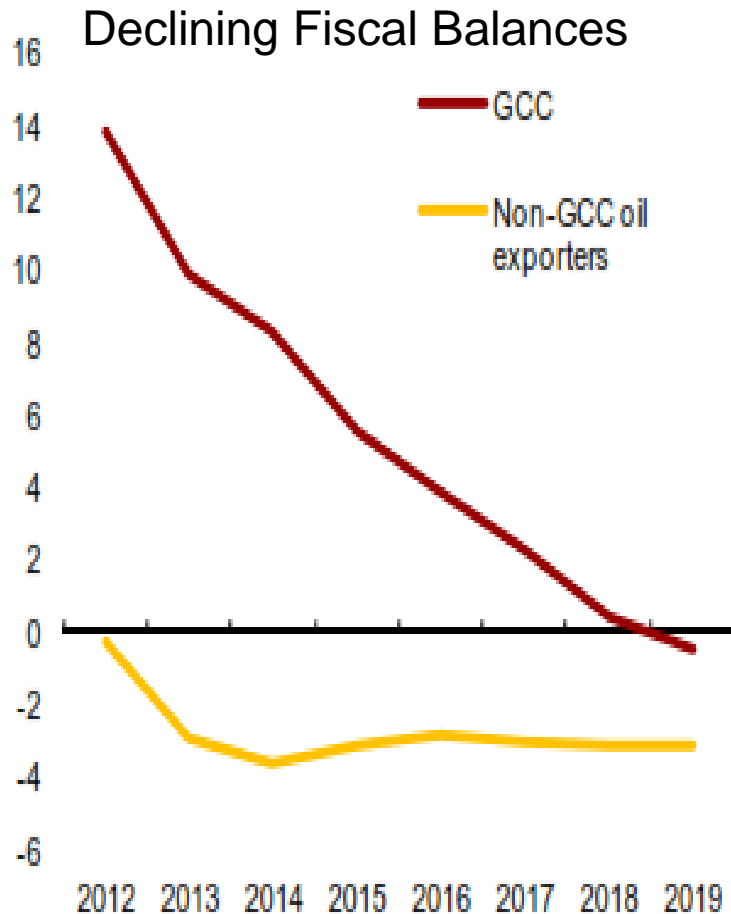
Egypt, Iran, Turkey are 'Next-11 Countries'

<u>Country</u>	<u>Population</u>	<u>GDP (PPP) (2013)</u>	<u>GDP (nominal) (2013)</u>	<u>GDP per capita (PPP) (2014)</u>	<u>GDP per capita (nominal) (2013)</u>	<u>Exports (2012)</u>	<u>Imports (2012)</u>	<u>Trade (2012)</u>	<u>HDI (2012)</u>
Bangladesh	150,039,000	\$324.6 bn	\$153.6 bn	\$2,575	\$1,044	\$30.2 bn	\$29.3 bn	\$59.5 bn	0.515
Egypt	84,550,000	\$576.4 bn	\$275.7 bn	\$6,964	\$3,213	\$28.4 bn	\$58.8 bn	\$87.1 bn	0.662
Indonesia	237,641,000	\$1,285 bn	\$867.5 bn	\$5,433	\$3,498	\$187.0 bn	\$178.5 bn	\$365.5 bn	0.629
Iran	77,176,930	\$988.4 bn	\$548.6 bn	\$13,337	\$7,207	\$67.0 bn	\$70.0 bn	\$137.1 bn	0.742
Mexico	118,337,000	\$1,845 bn	\$1,327 bn	\$16,002	\$11,224	\$370.9 bn	\$370.8 bn	\$741.7 bn	0.775
Nigeria	174,507,539	\$509.9 bn	\$292.0 bn	\$3,027	\$1,725	\$95.7 bn	\$53.4 bn	\$149.0 bn	0.471
Pakistan	182,490,721	\$574.1 bn	\$236.5 bn	\$3,623	\$1,295	\$29.7 bn	\$33.0 bn	\$62.7 bn	0.515
Philippines	99,622,900	\$454.3 bn	\$272.2 bn	\$4,771	\$2,792	\$52.0 bn	\$57.2 bn	\$109.2 bn	0.654
South Korea	50,004,441	\$1,666 bn	\$1,198 bn	\$34,155	\$23,837	\$552.6 bn	\$514.2 bn	\$1,066.8 bn	0.909
Turkey	73,723,000	\$1,167 bn	\$821.8 bn	\$16,263	\$10,744	\$163.4 bn	\$228.9 bn	\$392.3 bn	0.722
Vietnam	90,388,000	\$358.9 bn	\$170.0 bn	\$4,231	\$1,896	\$109.4 bn	\$109.6 bn	\$219.0 bn	0.617

GCC economic diversification is a strategic priority for job creation, private sector expansion & international competitiveness. But **revenue diversification is also a priority** to avoid dependence on volatile oil revenue



Deteriorating Fiscal Balances Across Region, with Oil Exporters Vulnerable to Cheaper Oil



Economic Policy Challenges

GCC

1. Economic Diversification & Private Sector Participation
2. Job Creation in High Value Added, Export Oriented Sectors
3. Remove Distortionary Energy Subsidies
4. Fiscal Sustainability

Arab Firestorm Countries

1. Job creation & “Pull–Up”/”Trickle Down”
2. Macroeconomic stability
3. Reduce Cost of Doing Business & Investment Barriers
4. Reduce subsidies & Increase Capital/ Infrastructure Expenditures

Risks to GCC/Oil exporters vs. 'Firestorm' countries/labour exporters/oil importers

Oil Importers

- ✓ Geopolitics: spreading unrest from Syria/Iraq into Turkey/Jordan
- ✓ Growing economic & social unrest
- ✓ EU stagnation negatively impacting trade, employment & remittances in Maghreb
- ✓ High oil prices & high fuel + food subsidies
- ✓ Budgetary deficits threatening macroeconomic stability, inflation & exchange rate depreciation
- ✓ Lack of access to international banking & financial markets

Oil Exporters

- ✓ Geopolitics: spreading unrest from Syria/Iraq; Sunni-Shia divide
- ✓ Lower oil prices
- ✓ Lower growth in EMEs/ Asia/ China
- ✓ Crowding out of private sector
- ✓ Insufficient diversification & job creation for nationals
- ✓ Trade finance & capital market refinancing risks from end of QE policies and CB deleveraging

Transformational Factors

- A. Socio-Demographics: Labour Force Growth & Job Creation; Women Empowerment**
- B. Fiscal Reform & Energy Subsidies**
- C. Development of Local Financial Markets**
- D. Détente with Iran**
- E. Islamic Finance**

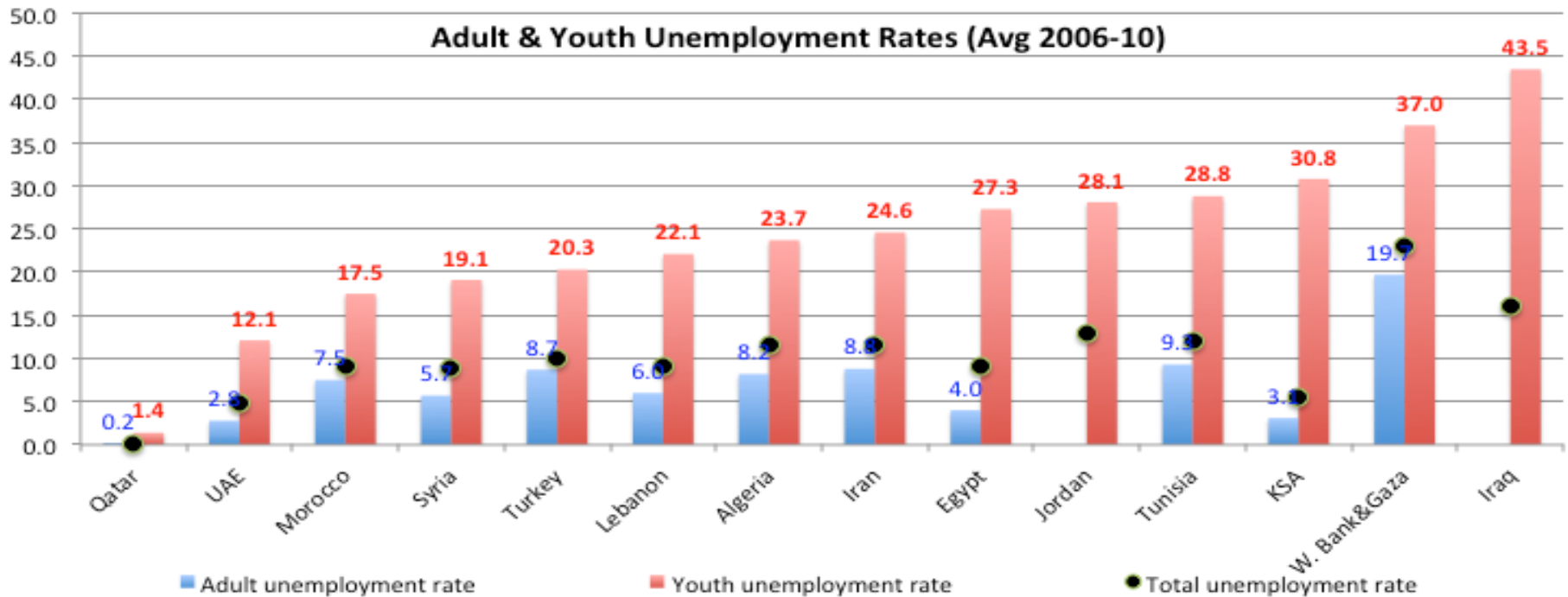
Explosive Demographics: Growth & Job creation are policy priorities to counter extremism

✓ Arab Demographics:

- ❖ Pop: 355 mn but 500 mn by 2025
- ❖ 55% below 24yrs, 2/3 below 30yrs
- ❖ **Need growth rates of 6-8%**

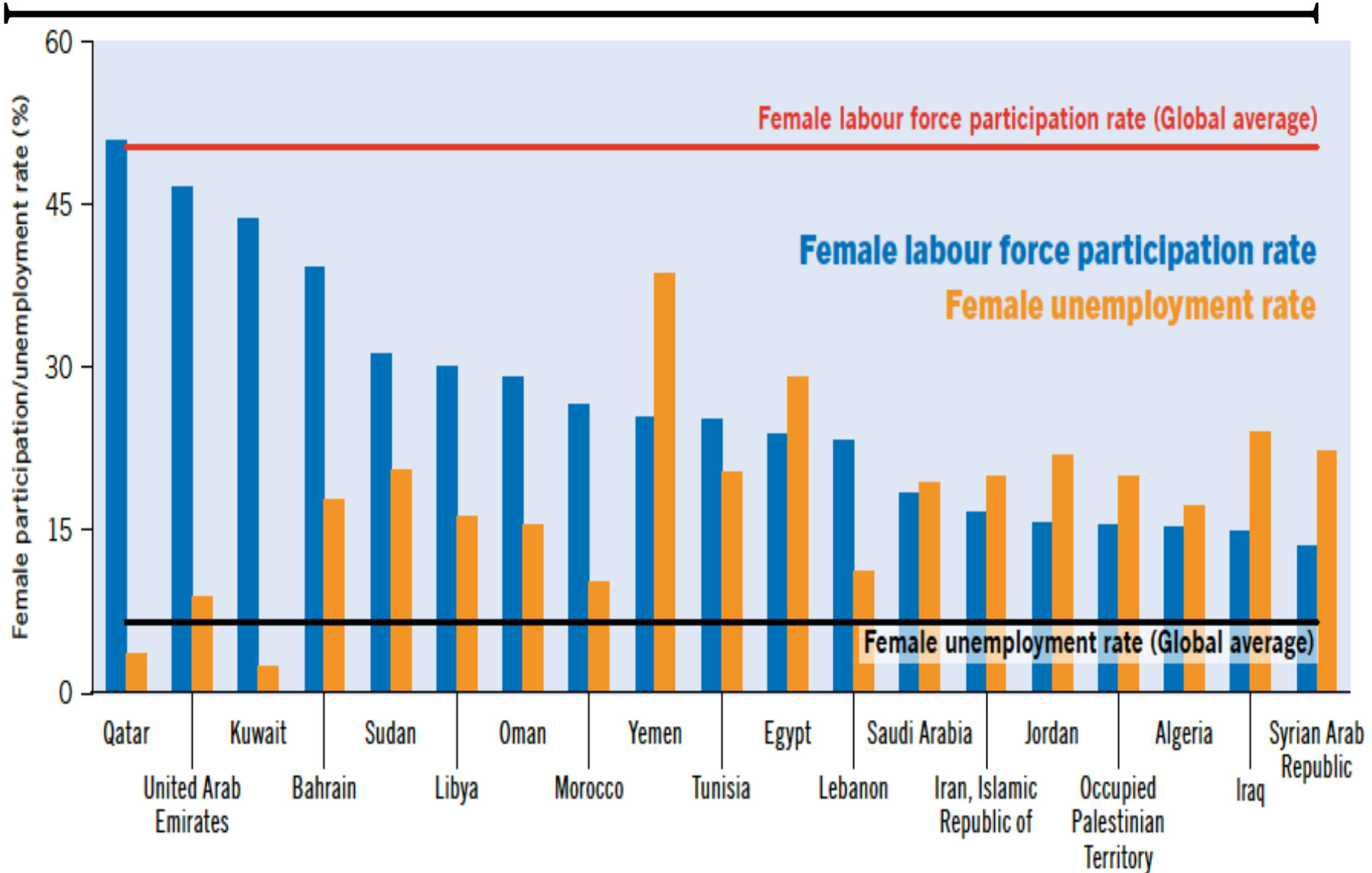
✓ Unemployment:

- ❖ 18-20mn unemployed; 18% U rate; Youth U rate 35%, Female U rate 45%
- ❖ Lost generations



Source: ILO Global Employment Trends 2013, ILOSTAT

Raising Female Labour Participation Rate is a Transformational Necessity



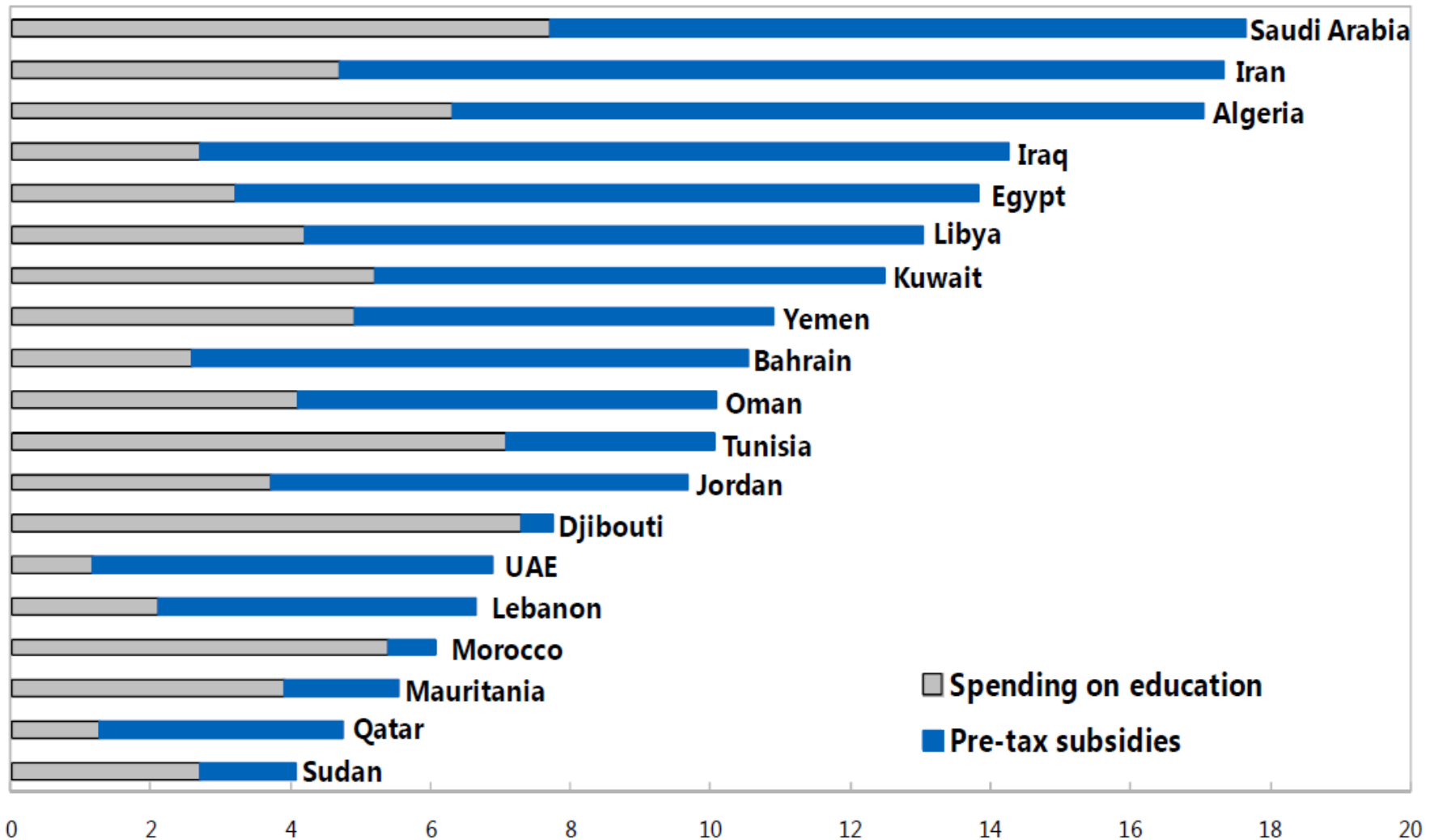
Reduction in LFPR Gap would lead to a Growth Explosion in MENA!

			Projected average annual growth rate in GDP		
	Male LFPR	Female LFPR	Male and female LFPR gap reduced by 50%, by 2030	Male and female LFPR gap reduced by 75%, by 2030	Male and female LFPR gap reduced by 100%, by 2030
Algeria	75.4	15.7	8.73	9.25	9.78
Bahrain	88.5	40.6	7.00	7.42	7.85
Egypt	78.1	25.3	7.72	8.18	8.65
Iraq	71.7	15.2	8.26	8.76	9.26
Jordan	68.9	16.3	7.69	8.15	8.62
Kuwait	84.5	44.7	5.82	6.17	6.52
Lebanon	75.3	24.8	7.38	7.83	8.28
Libya	79.9	32.0	7.00	7.42	7.85
Morocco	78.3	26.4	7.59	8.04	8.50
Oman	81.6	29.2	7.66	8.12	8.59
Palestinian Authority	68.6	15.4	7.78	8.25	8.72
Qatar	95.6	53.0	6.23	6.60	6.98
Saudi Arabia	76.1	18.3	8.45	8.96	9.47
Syrian Arab Republic	74.7	13.7	8.92	9.46	10.00
Tunisia	74.0	27.5	6.80	7.21	7.62
United Arab Emirates	92.4	44.0	7.07	7.50	7.93
Yemen	73.6	25.8	6.99	7.41	7.83

Source: Nasser Saidi & Associates (based on OECD estimates)

MENA Energy Subsidies cost \$240bn: 8.5% of regional GDP, or 22% of government revenue. Despite young populations, more spent on subsidies than on education!

In % of GDP



Building Local Financial Markets

- Current landscape: **underdeveloped financial markets; absence of government debt markets; banks dominating finance (65%)**
- Banks facing growing regulatory pressure & cannot provide **long-term finance for development & infrastructure projects**
- Broad, Deep, Liquid Financial Markets in Local Currencies allow:
 - ✓ **Finance reconstruction (\$1.4tn) & infrastructure (\$2.8tn) over 10 yrs**
 - ✓ **Open economies to better absorb volatile capital flows;**
 - ✓ **Provide institutional investors with instruments** that satisfy their demand for safe and stable long-term yields;
- Oil-rich GCC countries should finance infrastructure by issuing securities backed by future cash flows from the infrastructure services
- Open GCC markets to regional/international government, corporate issuers
- MSCI Reclassification of Qatar, UAE with Saudi next can be transformational: institutional investors, encourage IPOs, improve governance & liquidity

Détente with Iran would be Game Changer for the Region, a 'defining moment'

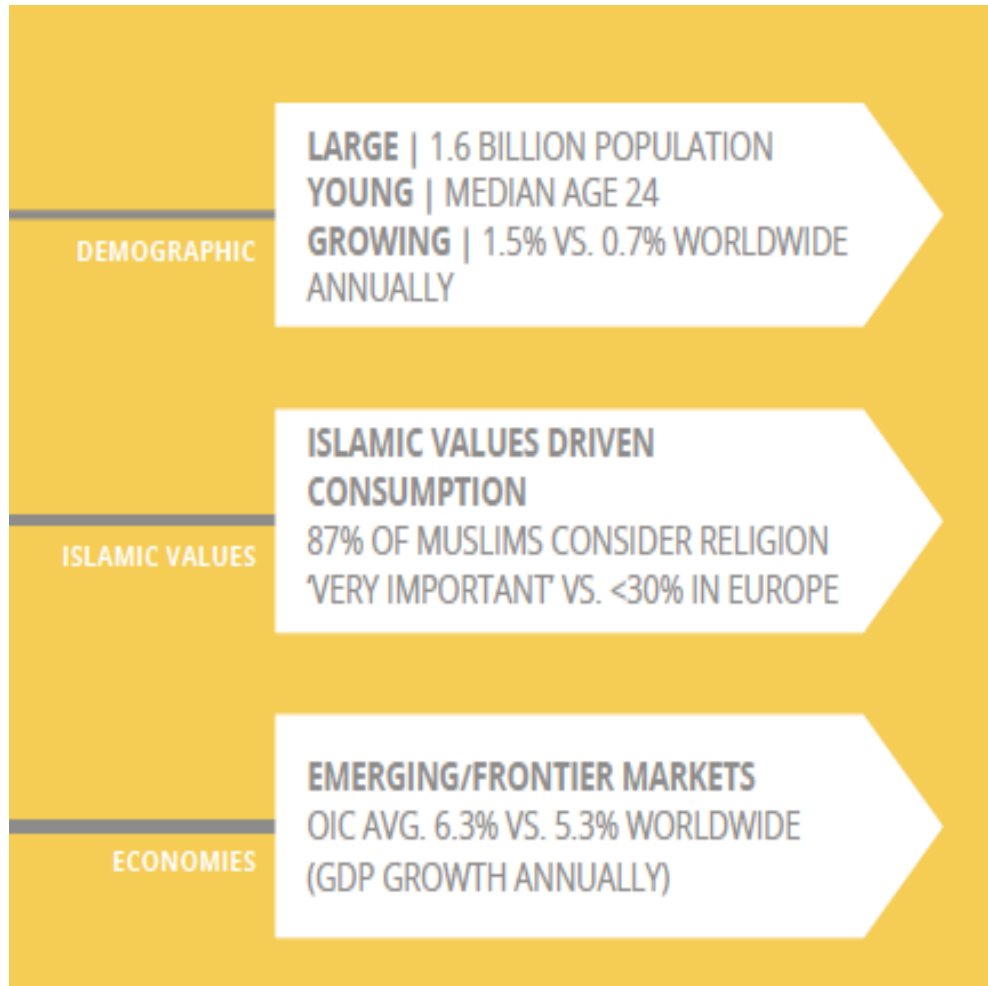
- Opens up very substantial trade, investment and financial opportunities in Iran
- Change in regional **Energy Infrastructure** with growing links to Asia/China
- Détente with Iran + resulting stabilization in Iraq => **infrastructure and reconstruction expenditures of some \$1.4 trillion that would be 'growth lifting' and create jobs across the region**
- Lowers risk of supply interruptions leading to reduction of oil price premium & sovereign risk premia and cost of borrowing for Gulf
- Key to **stabilisation** in Afghanistan-Pakistan-Iraq-Syria-Lebanon
- Changes long-standing Geo-Strategic and Political equilibrium of Gulf and ME
- Potential to lead to the creation of a **Zone of Peace & Prosperity in the Gulf**

Could Iran & Saudi Arabia become the France & Germany of the Gulf?

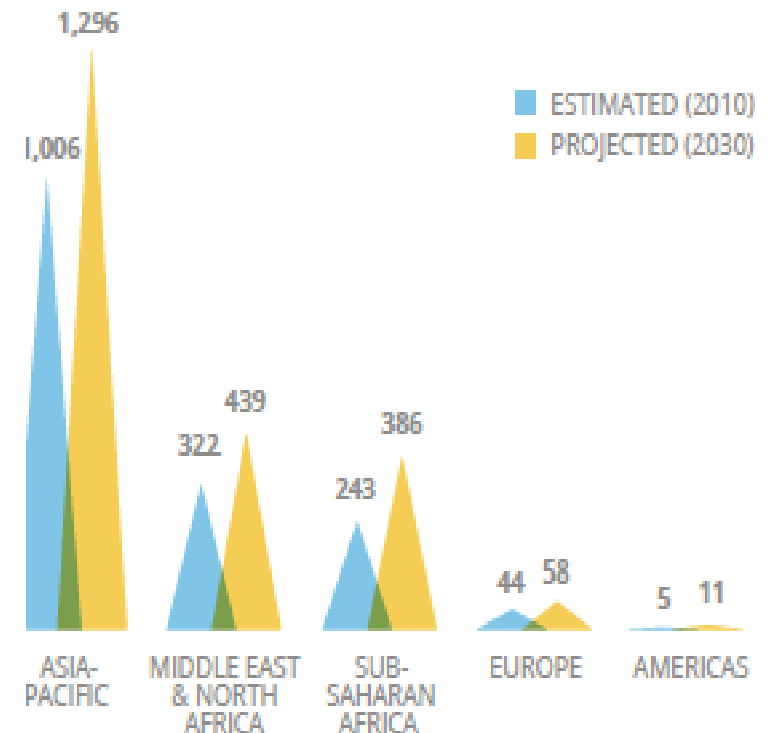
	Iran	KSA
Size (sq km)	1,648,195	2,149,690
Nominal GDP (USD bn)	366.3	745.3
GDP per capita	4750.7	24847.2
Non-oil GDP growth (% change)	7.3%	5.0%
Oil reserves (thousand mn barrels)	157.0	265.9
Oil reserves (% share of global reserves)	9.4%	15.9%
Government total expenditure (% of GDP)	14.8%	36.1%
Non-oil fiscal balance (% of non-oil GDP)	-8.6%	-54.1%
Imports (% of GDP)	19.8%	30.1%
Exports (% of GDP)	27.4%	50.8%
Non-oil exports (% of total exports)	9.6%	7.3%
Current account balance (% of GDP)	8.1%	17.4%
Gross official reserves (USD bn)	108.20	718.40

*Source: IMF database, BP Statistics
Figures represent 2013 data, except for oil reserves (2012).*

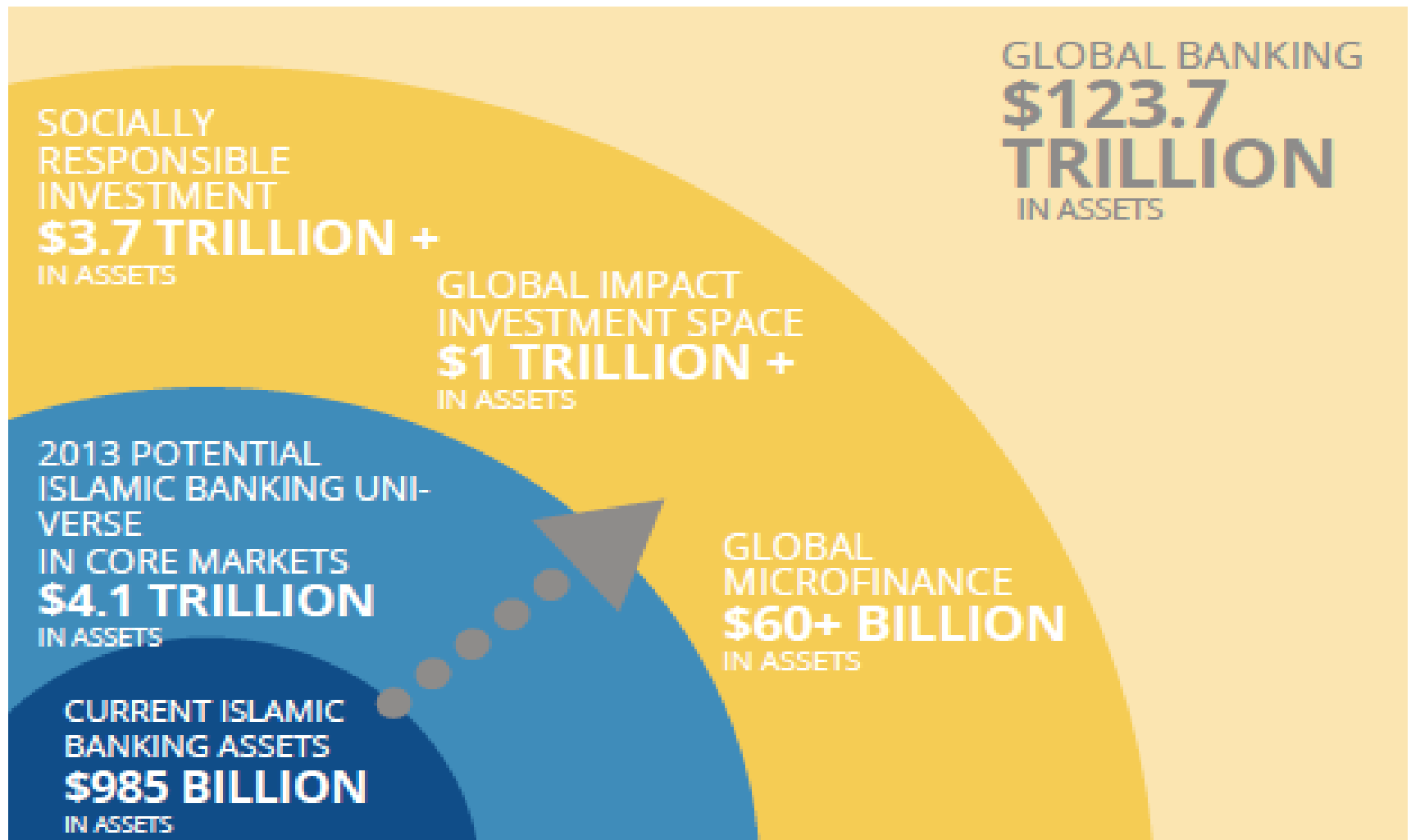
Key Drivers of Islamic Finance: young, largely unbanked EME Muslim population



Current & projected Muslim population estimates by region => scope for housing & development finance



Islamic Finance has large growth potential



Source: State of the Global Islamic Economy 2013, Thomson Reuters.

Main Messages & Key Takeaways

1. Region in transition and turmoil. There is no 'road map' and no unified vision or leadership; no fast transitions.
2. Fundamentals remain strong but focus of economic development must switch to the private sector for job creation: change role of State, focus on infrastructure investments for job creation, build local financial markets, empower women, reduce subsidies
3. Infrastructure, Reconstruction, Energy/Renewables, Health, Education, Water & Finance will be major sectors in coming decade
4. Gulf region will be focus of economic growth and regional integration with growing links to Asia and Africa
5. Détente with Iran can be a game changer for the region

Thank you

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