News release

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PwC Middle East Economy Watch:

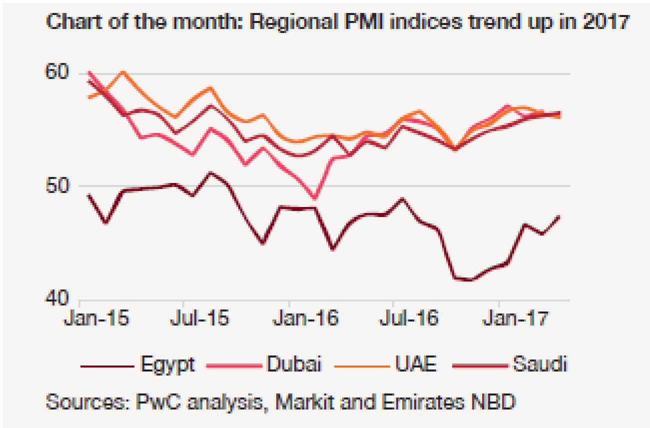
Immediate and long-term opportunities on the horizon after a difficult 2016

- *PwC issues first quarterly economic bulletin on the Middle East*
- *Oil prices, new taxes and growing interest in public-private partnerships cited as dominant themes driving most Middle Eastern economies in 2017*

Dubai, UAE, 31 May 2017 - PwC issued today the first in a series of regular economic bulletins on the Middle East. The report, which builds on a range of similar publications published by the firm globally, looks at the dominant themes driving Middle Eastern economies and the opportunities and challenges ahead for the region.

Key findings

2016 was probably the low point for oil exporters. According to PwC economists, economic prospected in 2017 should improve, helped by stronger oil prices over the year. The monthly Purchasing Managers Indices (PMIs), support this outlook with all showing an ongoing upswing in Jan-Apr 2017, indicating better growth prospects ahead.



Nevertheless, oil prices still remain well below break-even levels for most oil exporters and fiscal reform and deficit financing will continue to be key policy priorities in 2017 and beyond.

PwC stressed three key challenges for the region's economies:

- First, low oil prices resulted in large fiscal deficits for oil producing countries that now need to be reined in. GCC governments collectively registered a deficit of around -11.1% of GDP in 2016, ranging from an estimated -3.6% in Kuwait to a burdensome -20.6% for Oman
- Second, fiscal reforms are hard to do and even harder to sustain: energy subsidies were cut across the board (resulting in a GCC average of 2.8% inflation); popular backlash against rising petrol prices has caused some governments to reconsider this policy and yet many more difficult reforms are in the pipeline
- And finally, the issue of hidden costs for oil importing countries manifested in sizable structural deficits in countries like Egypt and indirectly, negatively affecting countries that heavily rely on remittances and exports from the GCC

But is there cause for concern?
Whilst this environment creates challenges for business, such as managing new taxes, the report identified a growing number of opportunities, particularly as the major Gulf economies look for alternative sources of financing. This includes the debt markets and privatisation initiatives.

Richard Boxshall, PwC Middle East's Economist echoed the positive sentiment for the region's economic outlook:
"The flurry of activity in debt markets, privatisation and PPPs has only just got started and should generate interesting business opportunities in the next few years. Investors can expect to see GCC economies make increasing use of international debt markets and to work harder to attract foreign direct investment in the next few years."

He added:
"Foreign investors will want to see that governments have credible and committed plans to control the public finances. Introduction of VAT and excise tax in the GCC is an early opportunity for GCC governments to signal to international investors their commitment to fiscal reforms."

The issue also highlights the growth potential of Egypt and Saudi Arabia, viewed by PwC as "pockets of opportunity" in the region.

Data and projections: May 2017

	GDP share 2016		Real GDP growth (% y/y)			Inflation (% y/y)			Fiscal bal. (% GDP)	
	PPP	MER	2016	Q16 - 4	2017p	2016	Mar - 17	2017p	2016	2017p
Middle East	**100%**	**100%**	**3.0**	**-**	**2.0**	**4.5**	**6.0**	**6.8**	**- 11.1**	**- 6.9**
GCC	**62.0%**	**68.3%**	**2.0**	**-**	**1.0**	**2.8**	**1.1**	**3.4**	**- 11.1**	**- 6.1**
Saudi	32.8%	31.8%	1.3	1.2	0.4	3.5	- 0.4	- 3.8	- 16.9	- 9.8
UAE	12.5%	18.5%	2.7	-	1.5	1.6	3.0	2.8	- 3.9	- 2.6
Qatar	6.2%	7.8%	2.2	1.7	3.4	3.0	0.9	2.6	- 4.1	- 3.1
Kuwait	5.7%	5.5%	2.5	-	- 0.2	3.2	2.6	4.2	- 3.6	3.6
Oman	3.5%	3.1%	3.1	-	0.4	1.1	2.8	4.1	- 20.6	- 10.0
Bahrain	1.3%	1.6%	3.3	1.1	2.3	2.3	0.8	1.3	- 17.7	- 12.2
Non-GCC	**38.0%**	**31.7%**	**5.0**	**-**	**4.2**	**8.1**	**16.9**	**14.1**	**- 11.1**	**- 8.7**
Egypt	21.2%	16.5%	3.8	3.8	3.5	13.8	30.9	22.0	- 9.8	- 10.9
Iraq	12.1%	8.3%	11.0	-	- 3.1	0.4	0.3	2.0	- 8.3	- 4.2
Jordan	1.6%	1.9%	2.1	-	2.3	14.2	4.3	2.3	- 3.4	- 2.9
Lebanon	1.6%	2.6%	2.0	2.0	2.0	- 0.5	5.1	2.6	- 8.1	- 8.8
Libya	1.0%	1.7%	- 4.4	-	53.7	- 0.8	N/A	32.8	- 53.4	- 16.4
Palestine	0.4%	0.7%	4.1	1.3	3.5	- 0.2	1.7	1.3	- 5.6	- 7.6

Sources: PwC analysis, National statistical authorities, IMF (mission reports and the World Economic Outlook). All inflation indicators relate to the Consumer Price Index (CPI). Only 6 countries publish quarterly GDP data. The Middle East region is defined here based on PwC's business coverage. It excludes two conflict affected countries (Syria and Yemen), typically defined as being part of the Middle East, and also non-Arab countries.

The full report can be accessed through the following link: ***http://www.pwc.com/meeconomywatch***

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