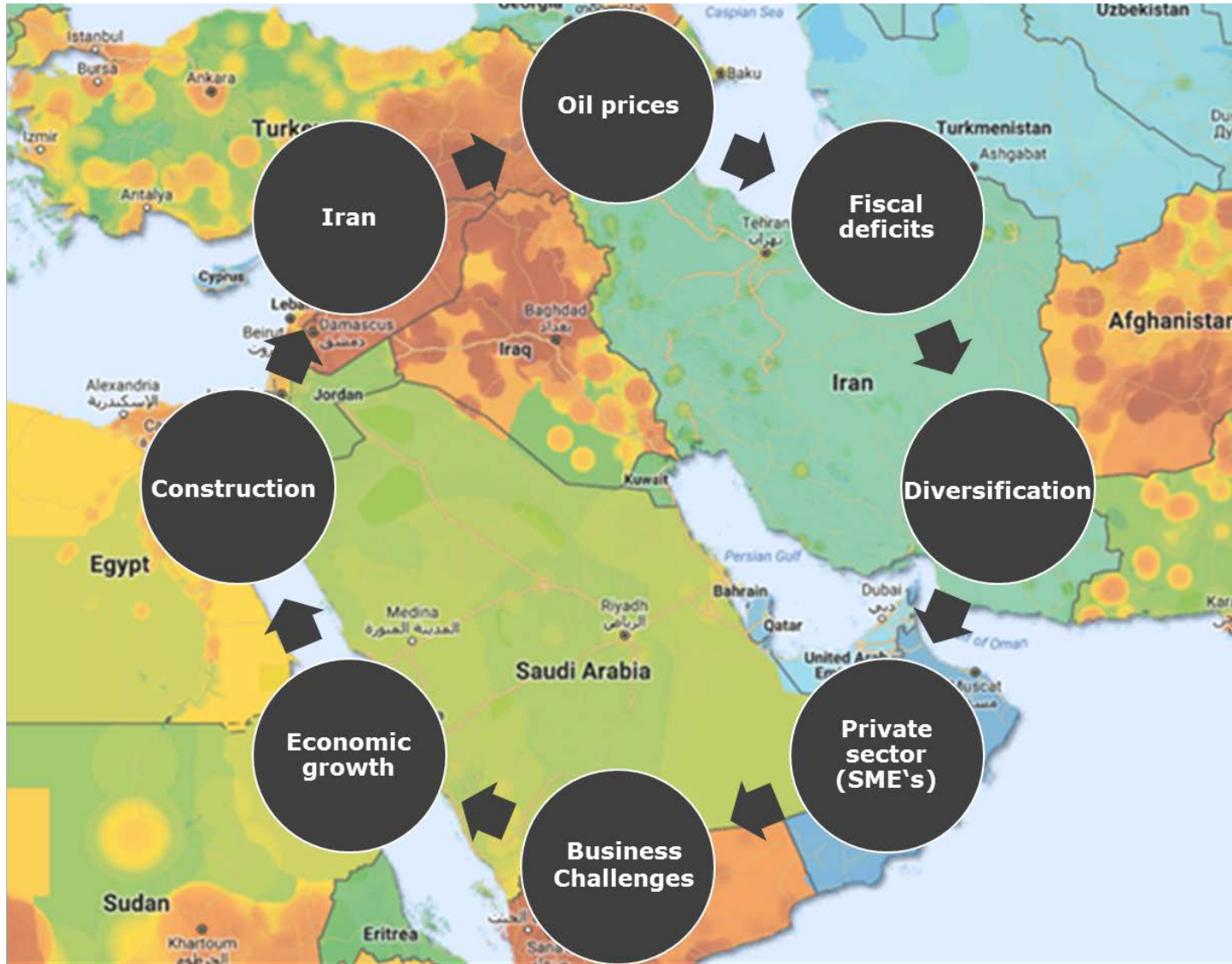


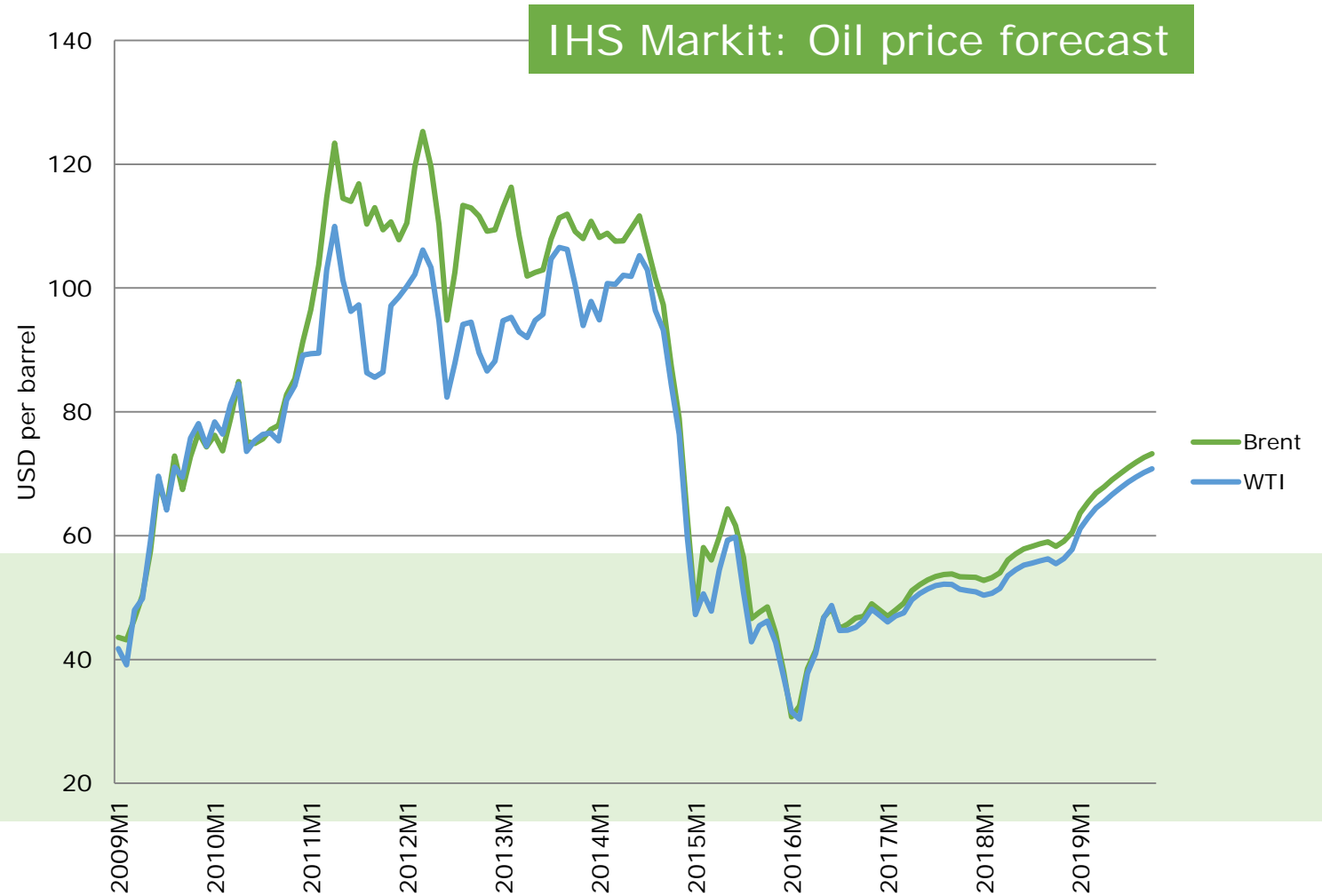
The Middle East economy

Oil & Gas, Construction and Iran

The Middle East: Towards diversification



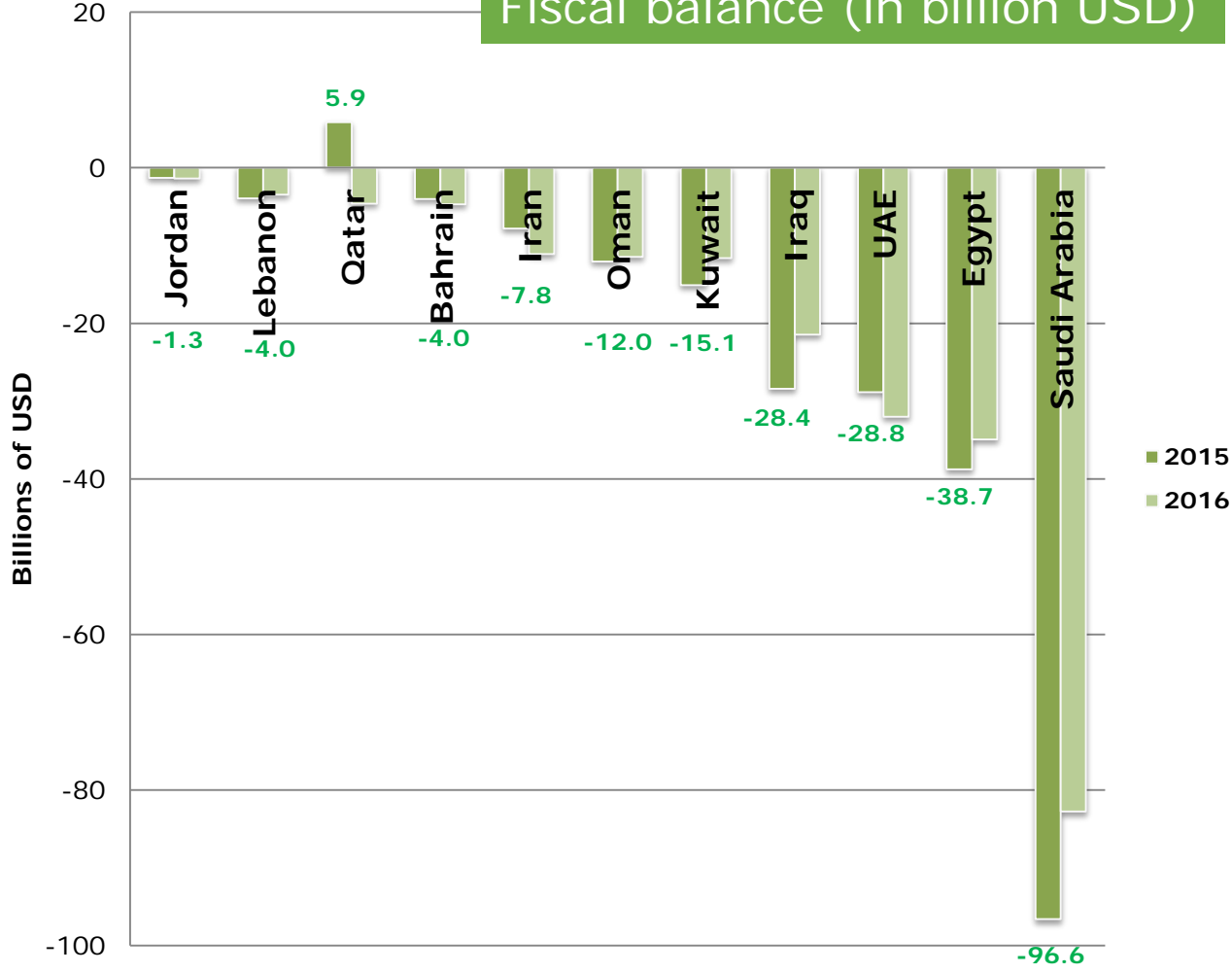
The global crude-oil market returns to balance



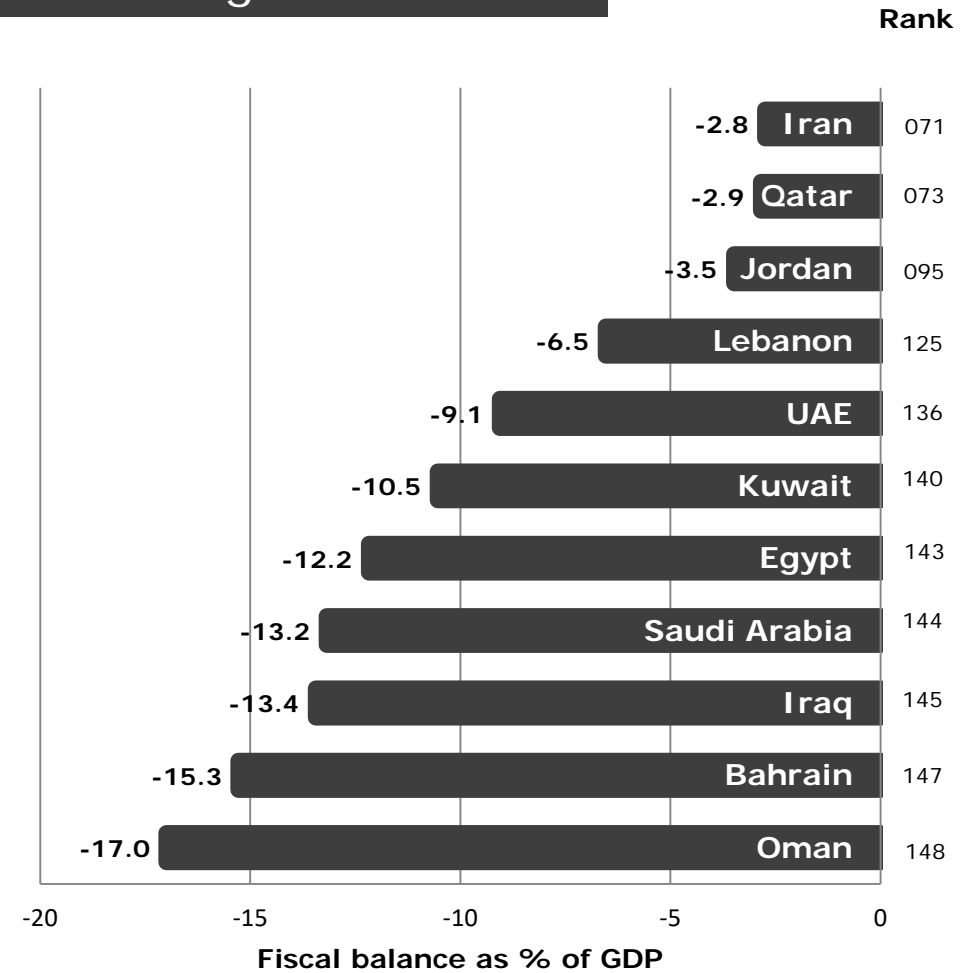
OPEC production cuts
US crude bottoming out

Government budget cuts and fiscal deficits

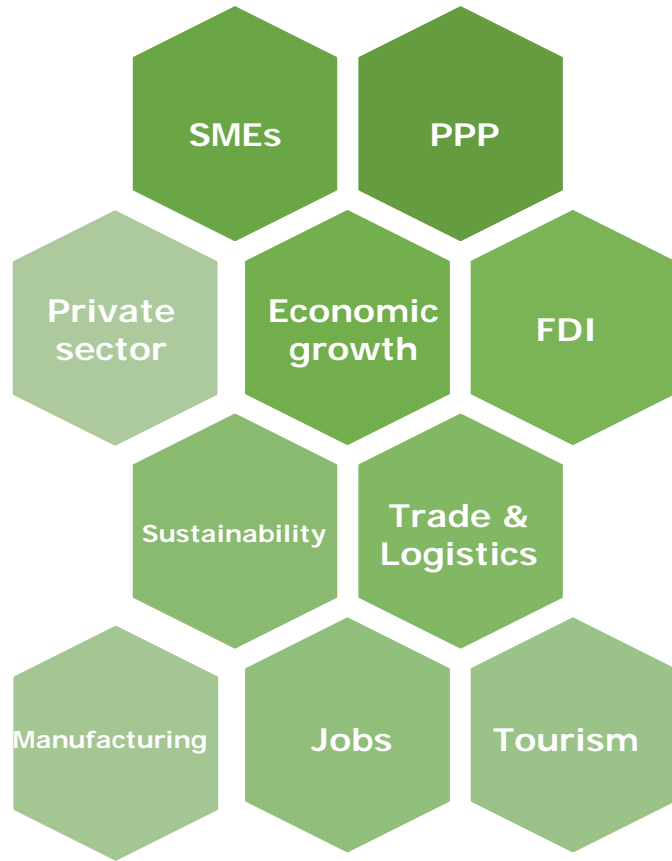
Fiscal balance (in billion USD)



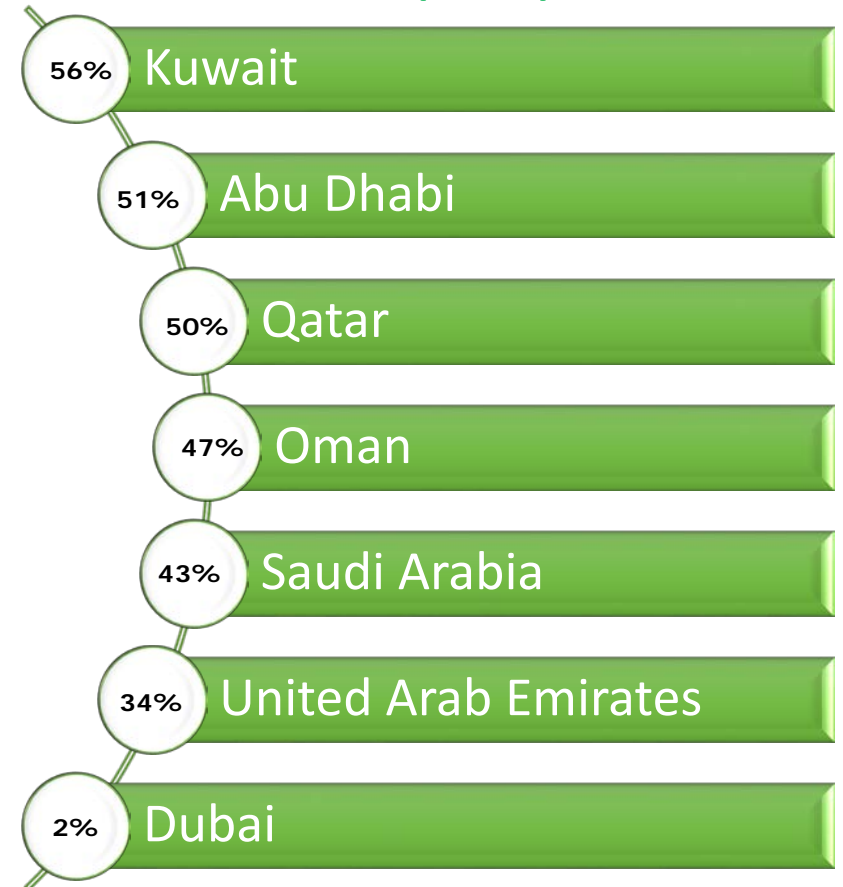
Increasing fiscal deficits



Diversification in the GCC



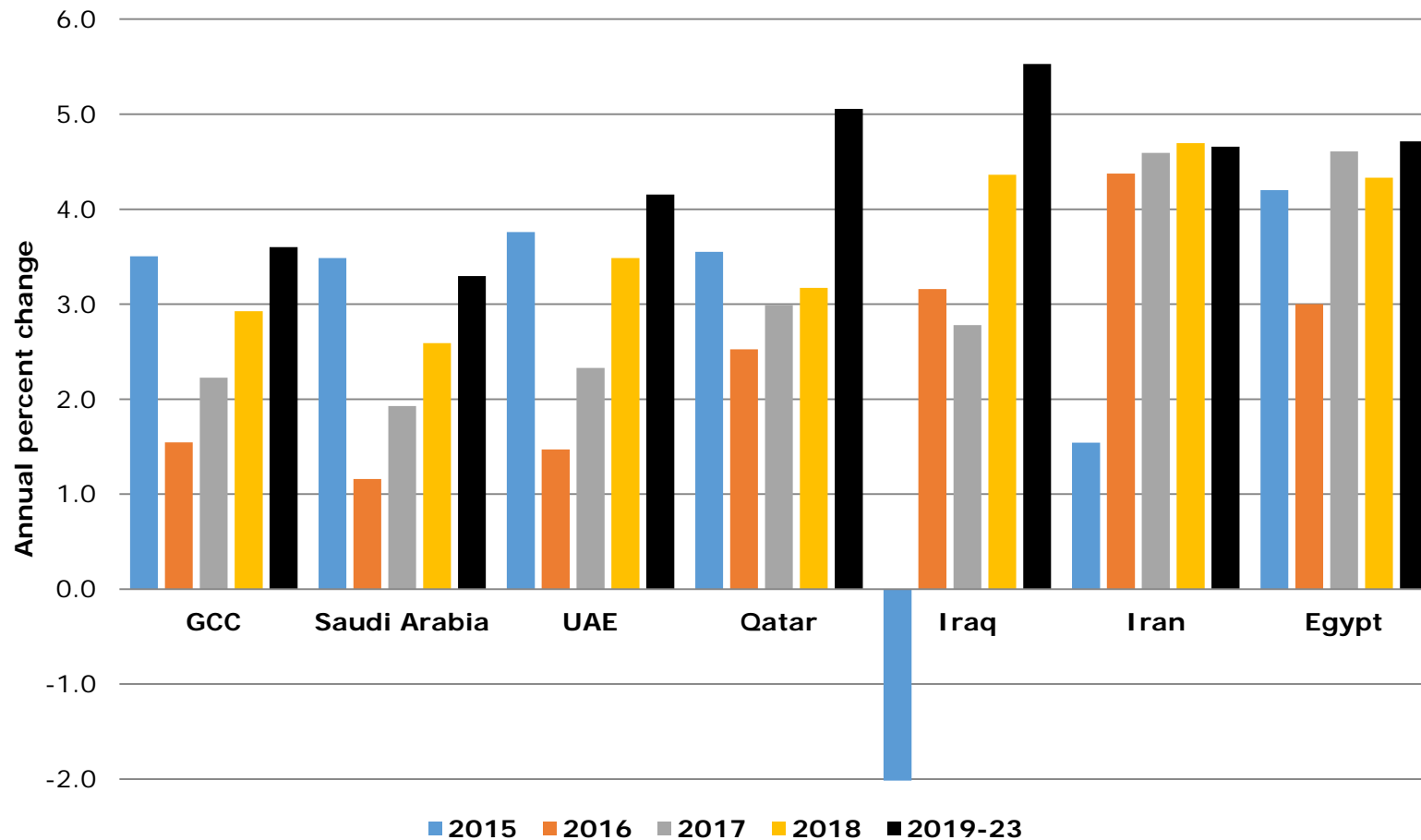
Hydrocarbons share in nominal GDP (2014)



Sources: National statistics, IMF, IHS Markit

Economic growth in the MENA region

Real GDP growth in the Middle East



Nominal GDP in bn USD

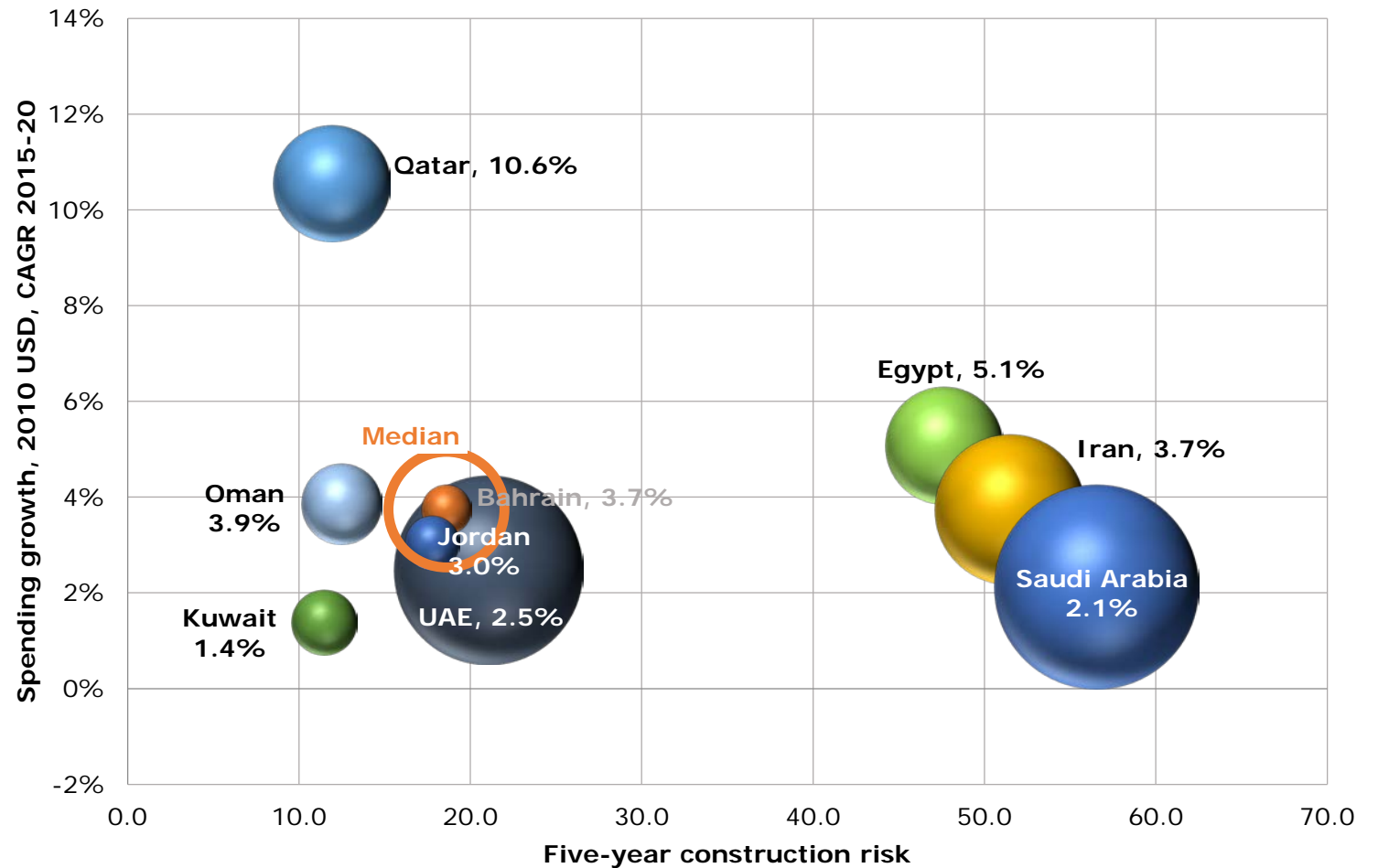
| Rank | Geography | 2016 |
|------|---------------|--------|
| 1 | United States | 18.564 |
| 2 | China | 11.086 |
| 3 | Japan | 4.718 |
| 20 | Saudi Arabia | 628 |
| 27 | Iran | 404 |
| 31 | UAE | 353 |
| 42 | Egypt | 287 |
| 52 | Qatar | 162 |
| 53 | Iraq | 160 |
| 57 | Kuwait | 110 |
| 71 | Oman | 67 |
| 79 | Lebanon | 53 |
| 90 | Jordan | 40 |
| 96 | Bahrain | 31 |

Sources: National statistics, IMF, IHS Markit Forecast

The construction sector

- **In 2016:** 2.3% total construction spending growth
- **Between 2015-20:** 3.9% total construction spending growth
- All segments will experience growth that averages above 3.5% over the next five years
- **2020-25:** 3.5% total construction spending

Middle East: Total real construction spending, 2015



Sources: IHS Markit Global Construction Service

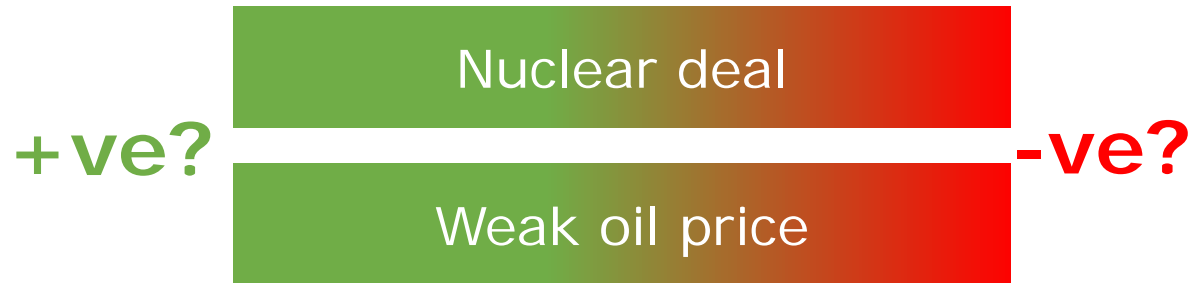
Upcoming construction projects



Business challenges for construction companies

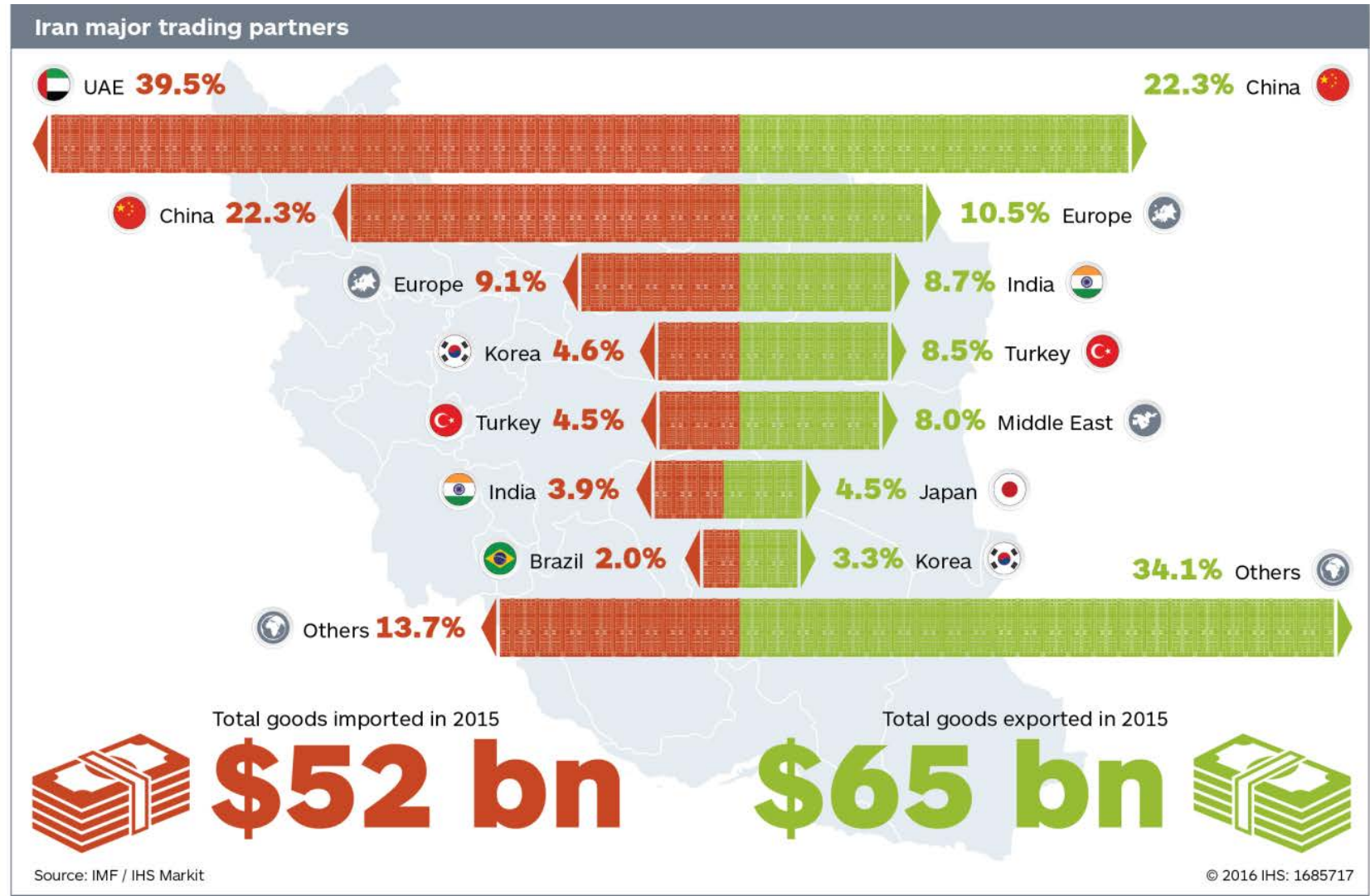
| | |
|----------------------|---|
| Project award | Re-announcing, postponing or cancelling of governmental tenders |
| Costs | Increasing costs for contractors due to design modifications |
| Payments | Late payments by government to contractors |
| Licensing | Lengthy periods for issuing construction licenses |
| Competition | Governmental entities competing with private sector companies |
| Information | Lack of awareness of government plans and priorities by private companies |
| Finance | Difficulty in obtaining financing coupled with high interest rates |
| Legal | Absence of a clear legal framework to manage public-private partnerships |

Iran: opportunity and/or risk?



| Key Macro-Economic Indicators | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Real GDP (% change) | 4,3 | 1,5 | 4,4 | 4,6 | 4,7 | 4,9 | 4,7 |
| Nominal GDP (USD bn.) | 378 | 378 | 404 | 444 | 492 | 551 | 612 |
| Nominal GDP Per Capita (USD) | 4.835 | 4.772 | 5.049 | 5.480 | 6.012 | 6.670 | 7.332 |
| Consumer Price Index (% change) | 17,2 | 13,7 | 8,7 | 12,1 | 11,4 | 10,1 | 8,8 |
| Fiscal Balance (% of GDP) | -1,2 | -2,1 | -2,8 | -3,0 | -3,0 | -2,8 | -2,7 |
| Population (mn.) | 78,1 | 79,1 | 80,0 | 81,0 | 81,8 | 82,6 | 83,4 |
| Unemployment Rate (%) | 10,6 | 10,7 | 10,4 | 10,1 | 10,0 | 9,9 | 9,8 |
| Current Account Balance (% of GDP) | 4,2 | 2,4 | 3,7 | 4,0 | 4,0 | 4,0 | 4,1 |
| BOP Exports of Goods (USD bn.) | 86,5 | 64,6 | 77,9 | 89,1 | 98,6 | 108,5 | 122,5 |
| BOP Imports of Goods (US bn.) | 65,1 | 52,4 | 59,1 | 67,6 | 74,4 | 81,1 | 91,4 |
| Exchange Rate (LCU/USD, eop) | 32.140 | 34.105 | 34.951 | 35.895 | 37.215 | 38.431 | 39.623 |

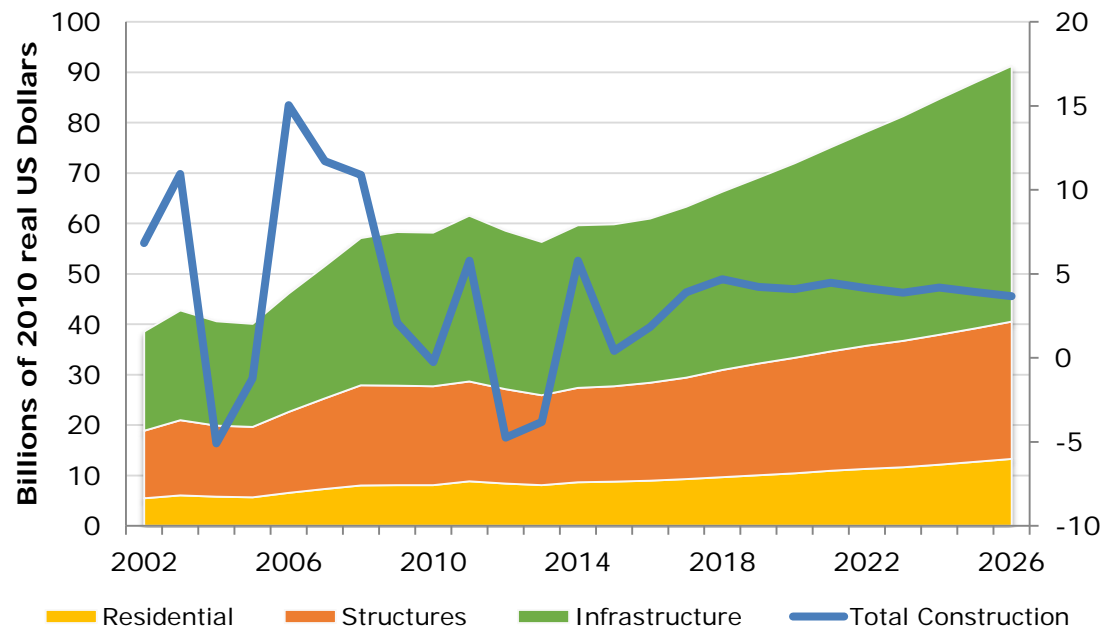
Iran: already a player



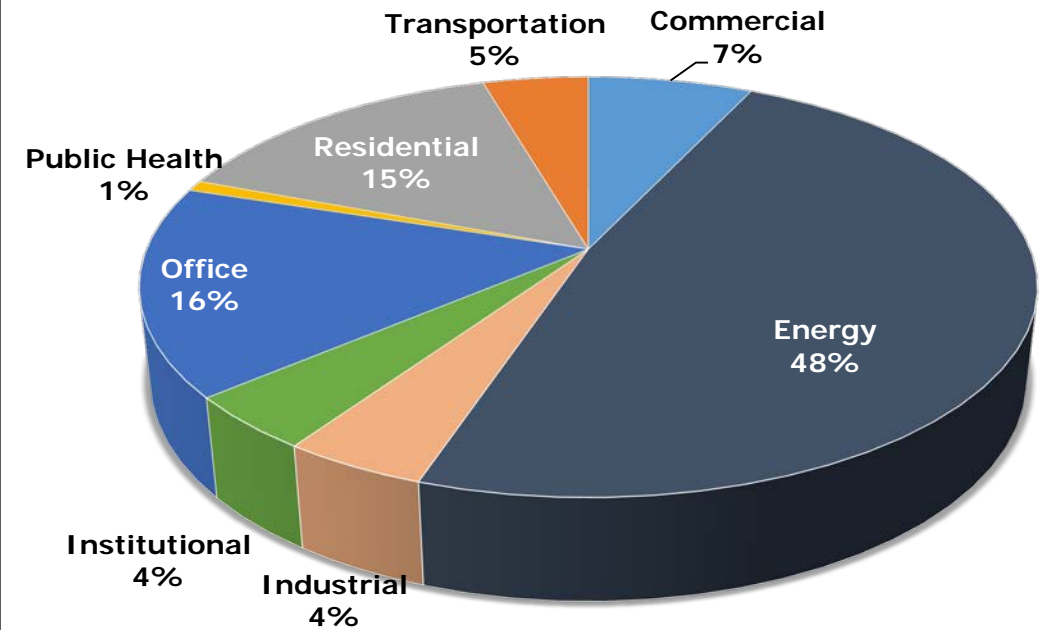
Iran: The construction sector

- **2016/17:** Total construction spending expected growth of 1.8% and 3.9% respectively
- **2015-20:** Construction spending at 3.7% CAGR – led by the **nonresidential structures** segment
- **2020-25:** Growth remains relatively steady with 4.1% CAGR – mainly for **infrastructure**

Iran: Total construction by category



Iran: Allocation of total construction in 2016



Source: IHS Global Construction Service

Iran sanctions: Significant risks to JCPOA under Trump

- Although multilateral and UNSC-endorsed, it is ultimately a political agreement, requires Iranian nuclear compliance and US and EU willingness to suspend application of sanctions
- Trump:
 - > **tear it up** (US can do unilaterally through a UNSC resolution)
 - > **re-negotiate it** (Iran unlikely to accept one-sided US demands)
 - > **rigorously implement it** (high risk of escalation by US if technical issues or minor non-compliance)
- All options significantly increase the risk of JCPOA breakdown
- JCPOA implementation requires affirmative US action (such as renewing sanctions waivers) — Trump administration has to take a stance
- Republican-majority congress opposed JCPOA, reducing Trump administration flexibility

Iran: Business challenges

STRENGTHS

- Iran likely to continue nuclear compliance, does not eliminate risk of minor violations
- Internal political consensus most likely when there is an economically-compelling case, such as in energy, petrochemicals, and auto, and when Khamenei and/or IRGC benefit
- Higher state stability compared to other regional states

- Preferential treatment of local firms, particularly those connected to Khamenei and IRGC
- Higher risk of politicization and discriminatory commercial measures affecting Western companies
- Residual sanctions, including US primary sanctions prohibiting access to US financial system
- IRGC's widespread economic footprint, posing high supply chain risks, as well as high risk of expropriation of competitors in sectors dominated by IRGC, such as large-scale construction

WEAKNESSES

Addressing strategic challenges with interconnected capabilities

We deliver on the promise of The New Intelligence

IHS Markit provides leaders from multiple industries with the perspective and insights they need to make the best choices and stay ahead of their competition.

Matthias Herles – Director Consulting Economics & Country Risk

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