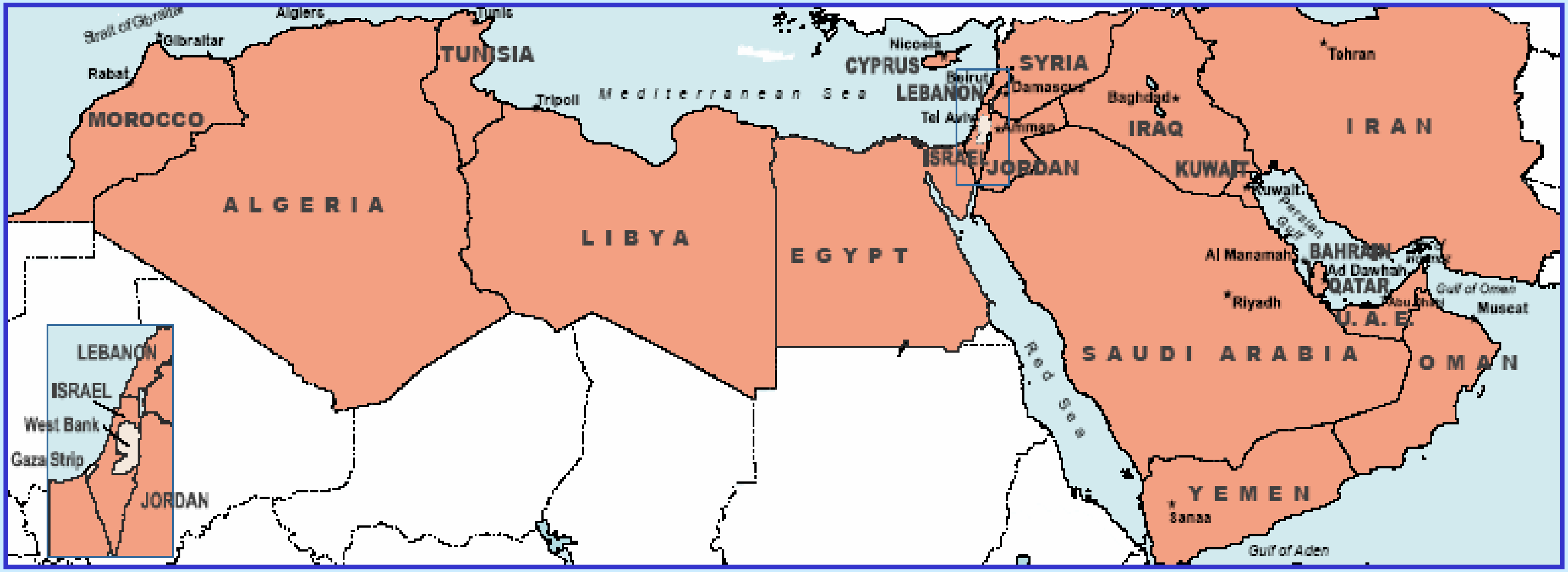
"Bridging the gap: the role of trade and FDI in the Mediterranean"

June 8-9 2006



Oil boom and regional economic prospects

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MENA:
a strong economic performance

- real GDP growth in 2003-2005: 5.8% a year (3% on per capita terms); major improvements in fiscal & CA balances, and in external financial position; declining unemployment rate (13.2% in 2005; 14.9% in 2000)

- 2004-2005: booms in stock market and real estate markets; I-2006: significant corrections in GCC & Turkey, new gains in the rest of the region

- Investment climate improves in some key markets (e.g. Egypt since mid-2004)

- Issues: sustainability; asset price risk; regional diffusion; political challenges

Outline

I – A quick look at the oil boom

II – Old and new oil booms: what has changed?

III – Growing intra-regional ties

IV – Future challenges

I – A quick look at the oil boom

2003-2005 G&S export growth (US$)

GCC*	+128.1
Iran	+102.3
Algeria	+142.8
Libya	+198.0

*Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

Source: IMF

Real and nominal GDP growth

	Real GDP growth, 2003-2005	Nominal GDP growth, 2003-2005
GCC	23%	65%
Iran	19%	52%
Algeria	20%	62%
Libya	18%	91%

Source: IMF, EIU

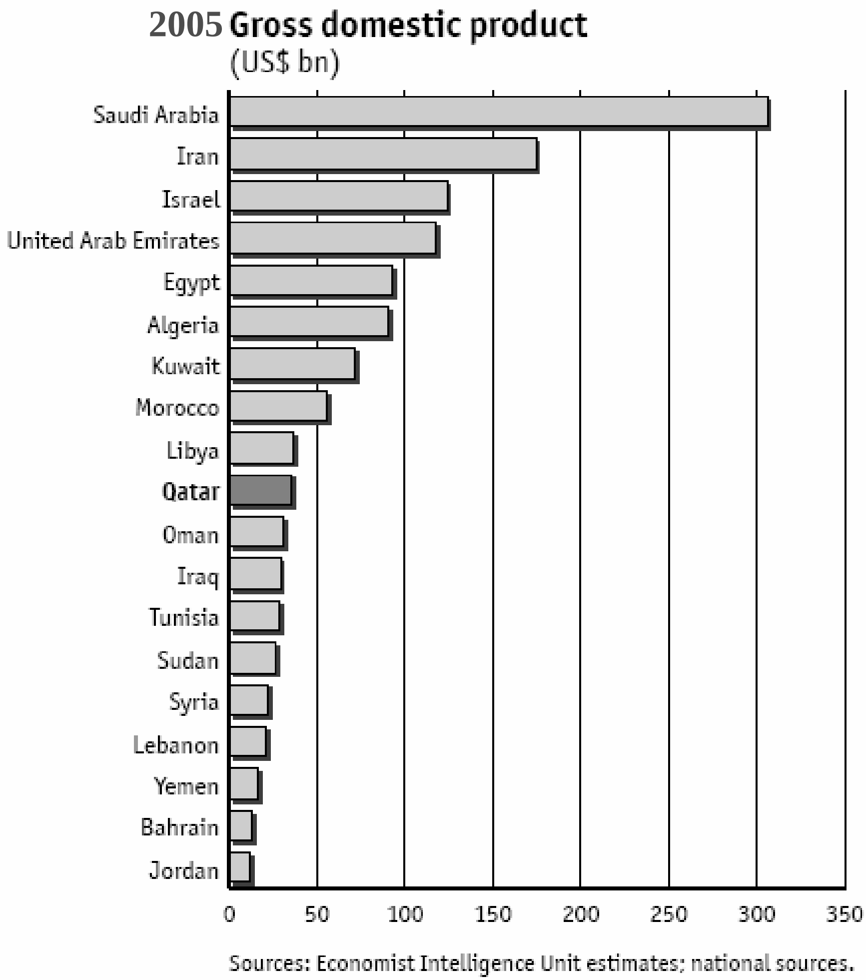
Economic diversification and a strong private sector gives GCC a potential key role in MENA

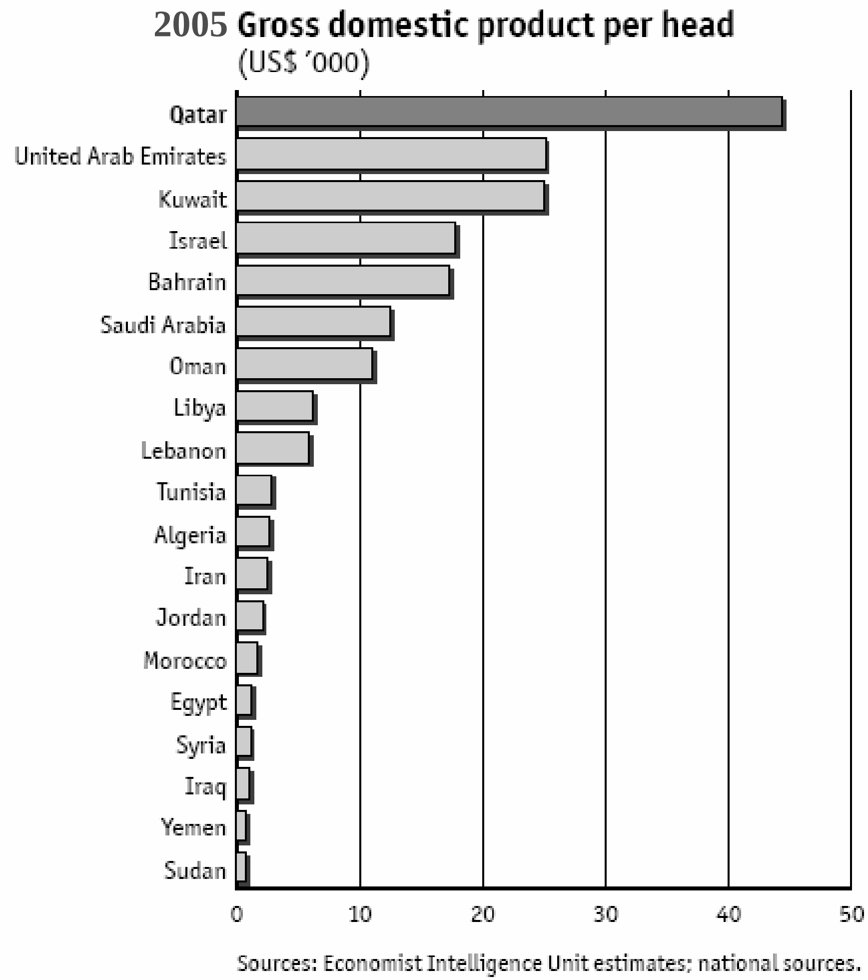
non oil private sector in Saudi Arabia
(% of real GDP)

1974	1980	2005
25.4	36.7	44.2

Source: SAMA

GCC countries:
a pivotal role in MENA?





GCC countries:
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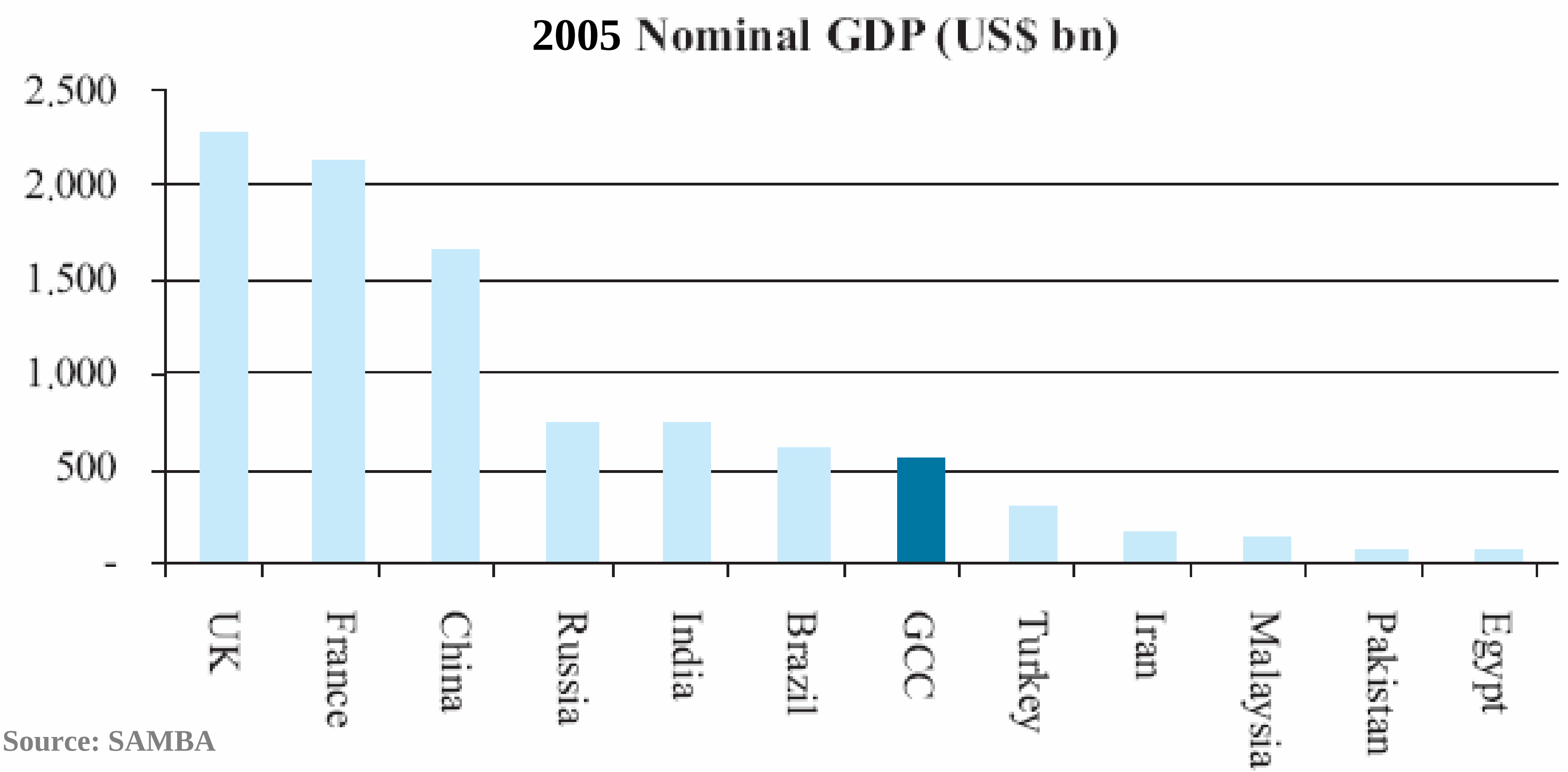


Source: SAMBA

II – Old and new oil booms: what has changed?

	1973-4 & 1979-80 oil booms	current oil boom
Public sector	Dominant role in the economic development – including the very development of the private sector	Still strong due to the oil rent, but often heavily indebted and unable to deliver on public expectations
Private sector	Very backward, financially and industrially; largely dependent on the state	Very strong, financially and industrially; largely independent of the state

During the current oil boom, many governments focused on reducing debt and increasing financial assets

Saudi Public Debt				
(end-year)	1989	1999	2001	2005
(% of GDP)	22	119	97	41

Source: SAMBA

Algeria External Position ($ bn; end-year)					
	1999	2001	2003	2004	2005
External debt	28.3	22.6	23.3	21.8	16.6
Official reserves	4.5	18.1	33.1	43.2	56.2

Source: IMF, EIU

While governments are cautious (2006 budgets based on 30-36 $/b oil prices), the private sector fuels the economic boom

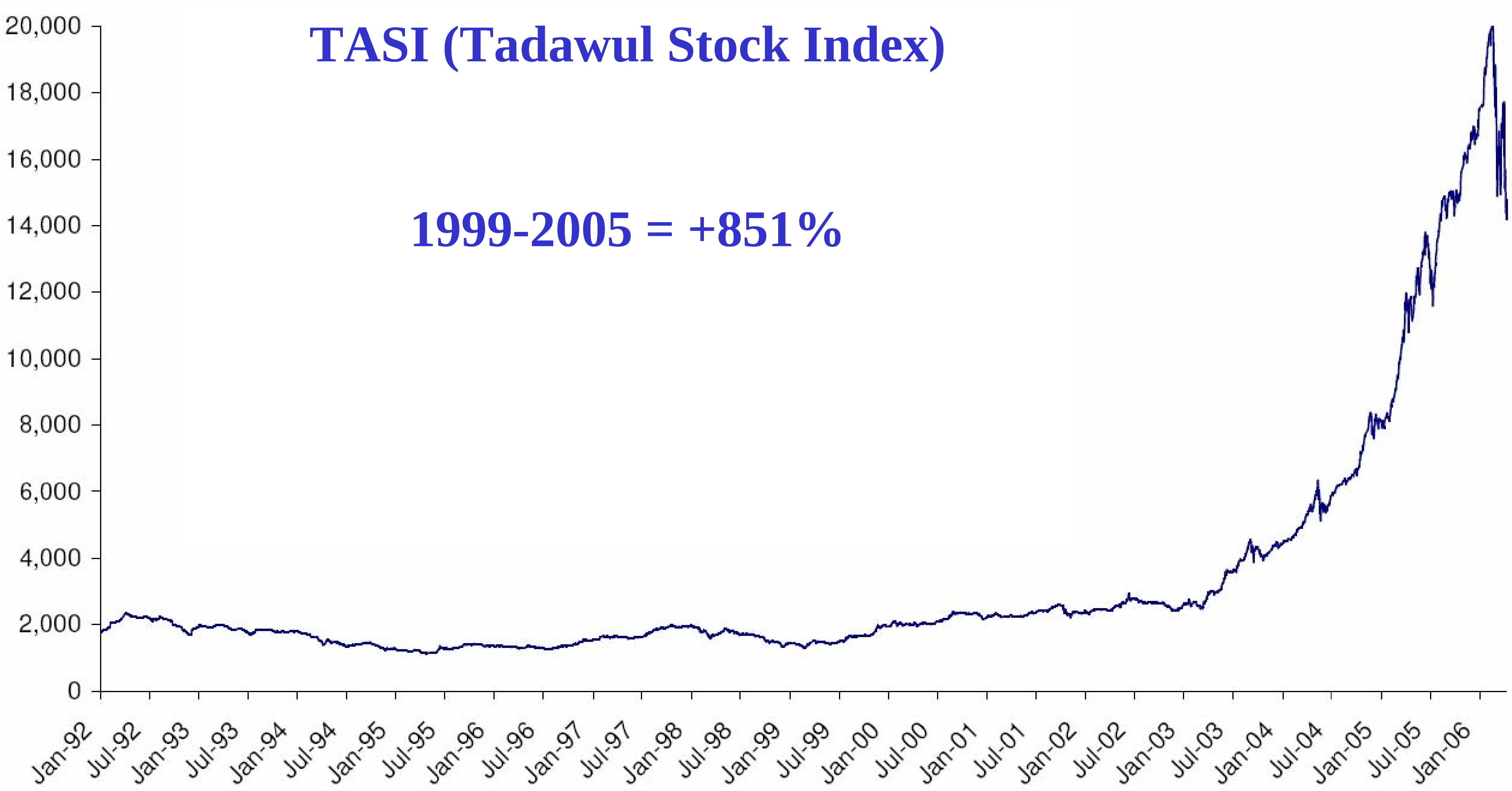
A significant role was played by the partial repatriation of financial assets previously invested abroad.
In SA public domestic debt repayment and privatizations through attractively priced IPOs further increased private sector role

IPOs on the Saudi Stock Market

Company	Year	Offering Price (SR)	Offered Shares	Over-Subscription	Price (SR) on 1st Trading Day	Price (SR) 17, April '06	% Gain Offer - 17 Apr
Saudi Telecommunications Co.	2003	170	90,000,000	2.4x	237	745	338%
Sahara Petrochemicals	2004	50	6,000,000	125x	150	256	412%
Ettihad Ettisalat	2004	50	20,000,000	50x	300	510	920%
NCCI	2005	205	7,000,000	11x	372	805	293%
Bank Al-Bilad	2005	50	30,000,000	51x	765	605	1110%
SADAFCO	2005	260	1,950,000	6x	506	230	-12%
Al-Marai Dairy	2005	512	4,500,000	4x	782	547	7%
Yansab Petrochemicals	2006	50	39,750,000	2.8x	611	1440	2780%
Al Drees Petr. & Trans. Co.	2006	185	1,200,000	12.9x	347	820	343%

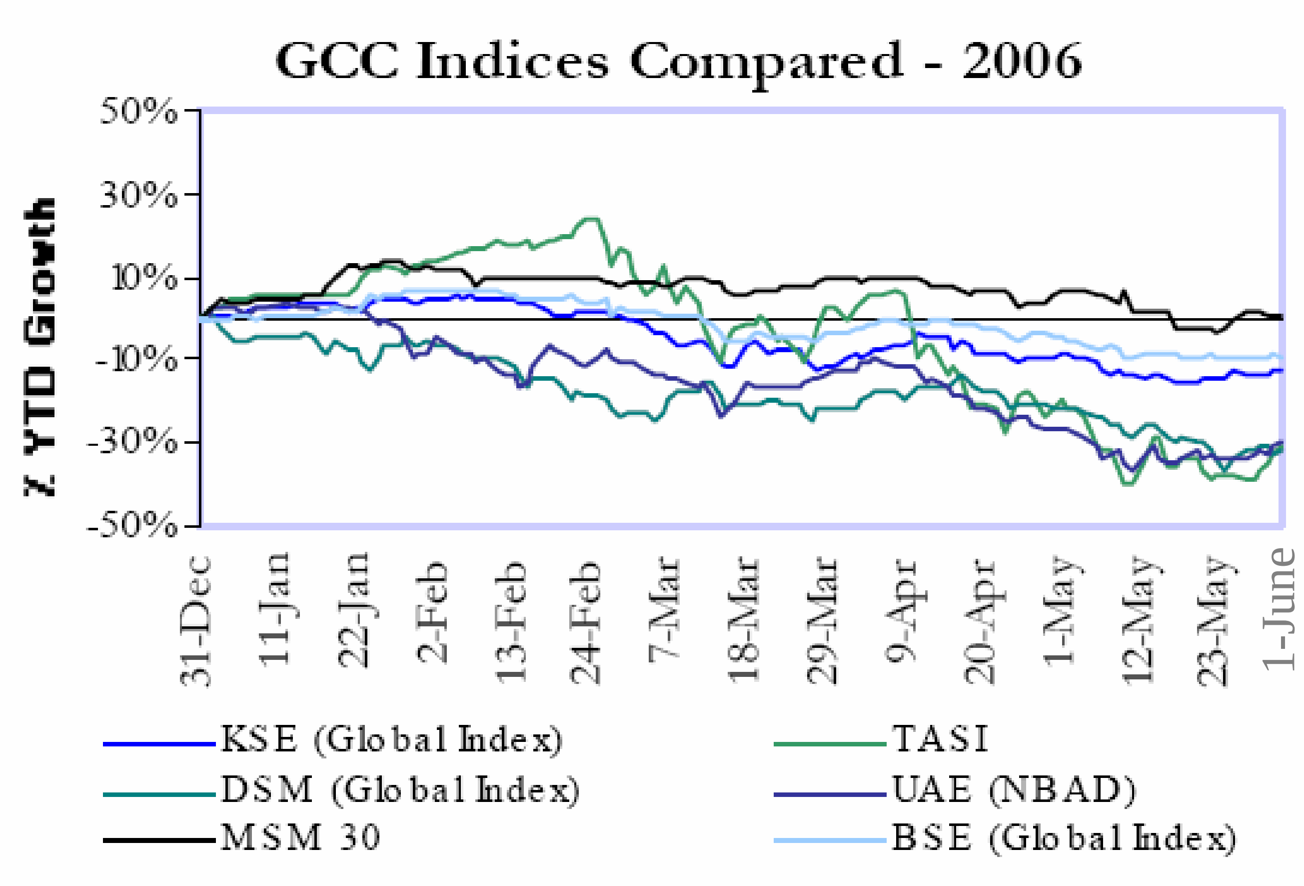
Source: SAMBA

IPOs were also used also for financing corporations: all were substantially oversubscribed, fuelling a major bubble in the Saudi SE..



Source: SAMBA

…partially corrected in 2006, as similar bubbles in other GCC Stock Exchanges



Source: Global Finance House

		Index Close	WTD Growth (%)	YTD Growth (%)
BSE (Global Index)	▲	156.62	0.20%	-9.17%
KSE (Global Index)	▲	280.27	1.60%	-12.48%
MSM 30 Index	▲	4,920.37	1.71%	0.93%
DSM (Global Index)	▲	528.16	2.47%	-32.21%
Tadawul Index	▲	11,610.93	11.80%	-30.53%
UAE (NBAD Index)	▲	12,018.00	6.27%	-29.75%

III – Growing intra-regional ties

- ’70s-’80s: attempts at regional integration grounded on inter-governmental agreements and official aid of a political nature (e.g. in 1978 the Arab League committed $3.5 billion per year to Jordan, Palestine, Syria for a 10-year period)
- today: a series of regional and sub-regional trade agreements of limited relevance. Rather than in the balance of trade, growing intra-regional economic ties show up in private investment, tourism flows and remittances

- **FDI and other investment are flowing from the Gulf states into Mediterranean countries:**
  - ✓ **real estate**
  - ✓ **tourism infrastructure**
  - ✓ **financial sector**
  - ✓ **telecoms**
  - ✓ **heavy industry (fertilizers, cement)**
- **Both privatizations and new projects**

FDI in the Mediterranean countries, 2005

announced FDI projects – % of value

Europe	42%
MENA exc. MED	28%
North America	16%

Source: ANIMA

Major GCC countries as investors in the Mediterranean countries, 2005

(announced FDI projects – value)	1st investor	2nd investor	3rd investor	4th investor
Saudi Arabia	MED as a group, Lebanon, Turkey			Egypt
UAE	Jordan	Egypt, Morocco, Syria	Lebanon	
Kuwait	Algeria	Lebanon	Jordan	

Source: ANIMA

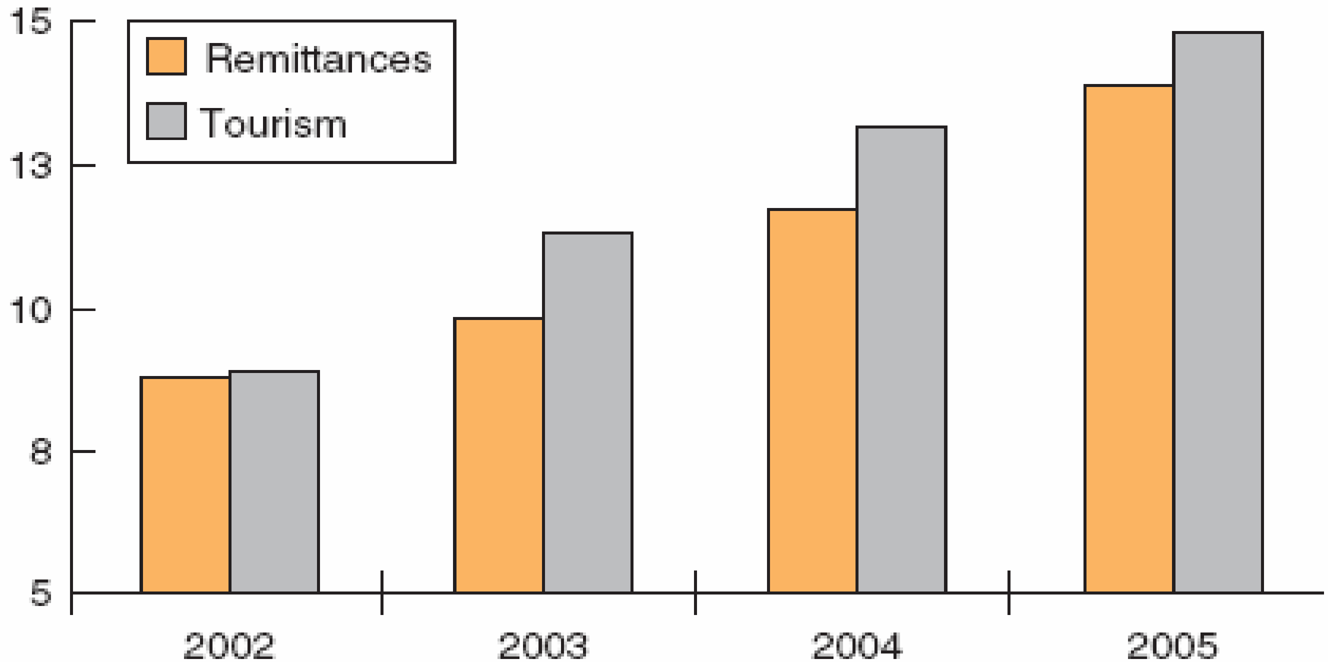
Major GCC investment in the Mediterranean countries, 2005

Home economy	Host economy	Industry	Value(€ million)
Saudi Arabia	Turkey	Telecoms	5,265
Kuwait	Algeria	Telecoms	804
Saudi Arabia	Egypt	Fertilizers	563
UAE	Egypt	Construction	536
UAE	Egypt	Construction	402
UAE	Morocco	Tourism	322
UAE	Syria	Construction	314
Kuwait	Egypt	Tourism	249
Qatar	Jordan	Banking	190
Saudi Arabia	Lebanon	Tourism	188
Saudi Arabia	Egypt	Fertilizers	161
EAU	Jordan	Construction	151

Source: ANIMA

- **Current oil boom spilled over also through remittances and tourism spending to Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia**
- **In Egypt, Jordan, Morocco, and Tunisia tourism revenues - increasingly of an intra-regional nature - reached $15 billion in 2005 (+13%; +17% in 2004)**
- **In 2005 remittances to Egypt, Jordan, Morocco, and Tunisia, as a group, increased 19% (+18% in 2004)**

Tourism and remittances: Morocco, Tunisia, Egypt, Jordan, $ billions



Sources: National agencies, IMF, and World Bank.

IV – Future challenges

1. Economic challenges: sustainability & regional diffusion

- 2003-2005 savings (2/3 of additional oil revenues: approx $300 billion) allow for a medium term fiscal expansionary policy in the GCC countries
- Massive assets have been accumulated by Gulf HNWI ($1-1.3 trillion)
- To attract a portion of this surplus capital, economic reforms may accelerate in the region

IV – Future challenges

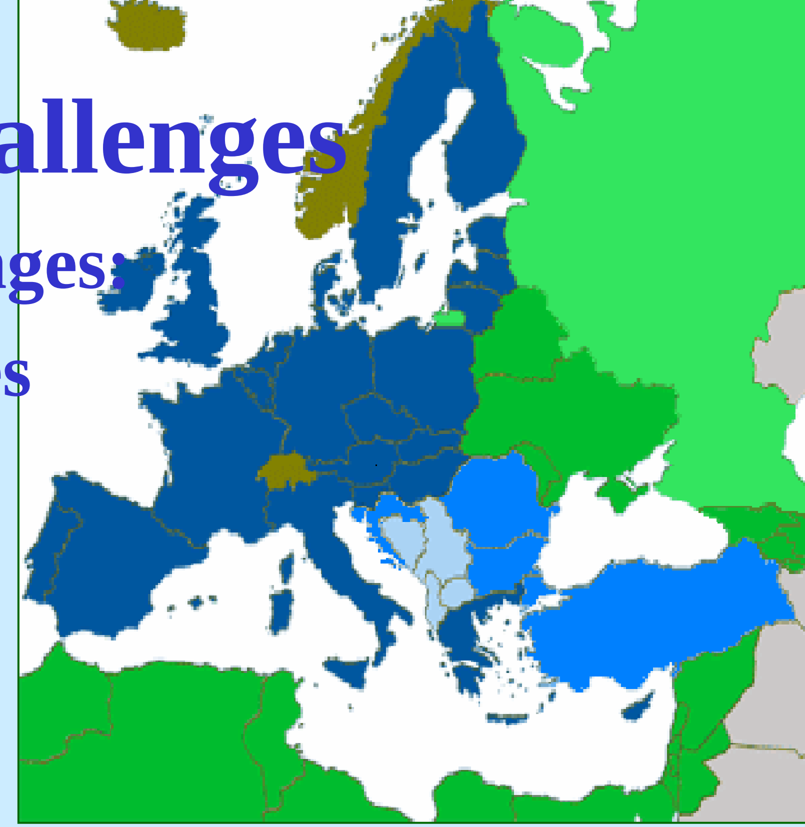
2. Political challenges: old and new powers

- Growing oil rent and increasing investment in the Mediterranean region will strengthen GCC countries vis-à-vis traditional Arab Mediterranean powers
- This trend may be resisted, putting at risk the development of intra-regional ties

IV – Future challenges

3. Political challenges:

European policies



- Both EMP & ENP ignore Gulf countries
- Highly counterproductive in the current economic environment
- EU may risk to be perceived as obstructing, rather than facilitating, regional ties

Summing up

- Good macroeconomic outlook
- Growing private investment and tourism flows are strengthening intra-regional ties
- Massive GCC official reserves and private assets abroad may support this trend in the medium term
- Mediterranean countries may liberalize and relax procedures in order to attract GCC surplus capital
- However, a growing regional role of the Gulf countries may be resisted
- Weak European policies