03

REGIONAL OUTLOOK

APICORP estimates that investment in the MENA energy sector could reach USD 1 trillion.

Medea Province, Algeria

MENA Economic Outlook

As the countries of the region adjust to oil price volatility, grapple with ambitious structural reform and work to gradually diversify their economies away from oil, pockets of opportunity still remain. APICORP is perfectly positioned to capitalise on the growth opportunities and support the reform and development agendas of its member countries and the broader Arab region.

The International Monetary Fund (IMF) revised its GDP growth forecast for the MENA region in April 2019 by 0.1 percentage points to 1.3% growth for 2019, as expectations for Saudi Arabia and Iran are downgraded. Growth in the region is however expected to pick up over the medium term to reach 2.9% by 2024.

In the key energy exporting countries, growth expanded in 2018 due to the strength in the oil sector on the back of increased production after OPEC+ agreed to boost production quotas in June 2018 and recovering non-oil activity in GCC countries. However, weaker oil output growth, driven by OPEC+ production policies, will erode gains in 2019, although higher-than-expected oil prices will offset some of the supply losses.

Saudi Arabia's growth has been revised downward by 0.6% points for 2019, but revised upward by 0.2% to 2.1% in 2020. The Kingdom will face headwinds and is expected to experience a more prolonged and moderate recovery in non-oil economic activity. On the other hand, growth in the UAE is expected to accelerate to 3.5% in 2019 due to fiscal stimulus in Abu Dhabi and Dubai. Furthermore, in preparation for Expo 2020, the initiation of projects in Dubai should also provide a boost to the economy.

Ongoing energy price reforms and the implementation of a 5% VAT in some GCC countries (Bahrain in January 2019, Oman later in the year) will contribute to direct and some secondary inflation. But these measures will also alleviate fiscal pressures, allowing some governments to increase spending in key industries and on critical projects. Aside from Kuwait, GCC countries have dollar pegs, and will likely follow the US Federal Reserve's interest rate policy.

Overall, GCC growth in the medium term will depend on the ability of governments to rationalise spending and continue their efforts to introduce much-needed structural economic reforms, in addition to an easing of geopolitical tensions and oil price stability.

Outside of the GCC, United States sanctions sent the Iranian economy into recession, with visible declines in oil production and exports, which will continue to weigh heavily on the country's ability to push through with energy investments. The economy is expected to shrink 4% in 2019, with only a modest recovery thereafter. The country will continue to face mounting pressures on inflation and currency risks.

Iraq will also face a slowdown to 1.7% growth in 2019 due to weaker oil output, as oil export revenues make up close to 90% of the government's budget.

Elsewhere in the region, North African economies, with the exception of Libya, are expected to place upward pressure on the region's economic outlook. According to the IMF, Algeria's economy is expected to expand over the medium-term, but will be subdued in 2019. The prospects in Egypt have improved after it agreed to loan terms with the IMF and other multilateral agencies. Gas production from the Zohr field and higher utilisation of export facilities are expected to improve the country's net trade balance. Continued progress on reform will be critical in ensuring the continuation of the positive momentum. Egypt's growth in 2019 should average 5.5% and continue to rise to 6% by 2024, whilst Morocco and Tunisia will also see growth rates exceeding 4% over the medium term.

Two major concerns for most countries in the region remain—the high level of unemployment, particularly amongst women and youth, and security. Despite the defeat of ISIS in Iraq and arguably modest improvements in Syria and Libya, the region's geopolitical backdrop remains fragile. Persistent conflicts in Syria, Libya, and Yemen are reshaping the region's geopolitical landscape. Tensions in the Gulf also remain. Regional instability and weakened institutional structures are unlikely to improve in the immediate future, and investors will be wary of spill-over effects in surrounding countries.

+4%

Growth is expected for the north African countries of Egypt, Tunisia, and Morocco in 2019

2.9%

Regional growth is expected by 2024

> “GCC growth in the medium term will depend on the ability of governments to rationalise spending and continue their efforts to introduce much-needed structural economic reforms.”

MENA Energy Outlook

1 USD TN

Planned and committed MENA energy investments over the next 5 years

22 %

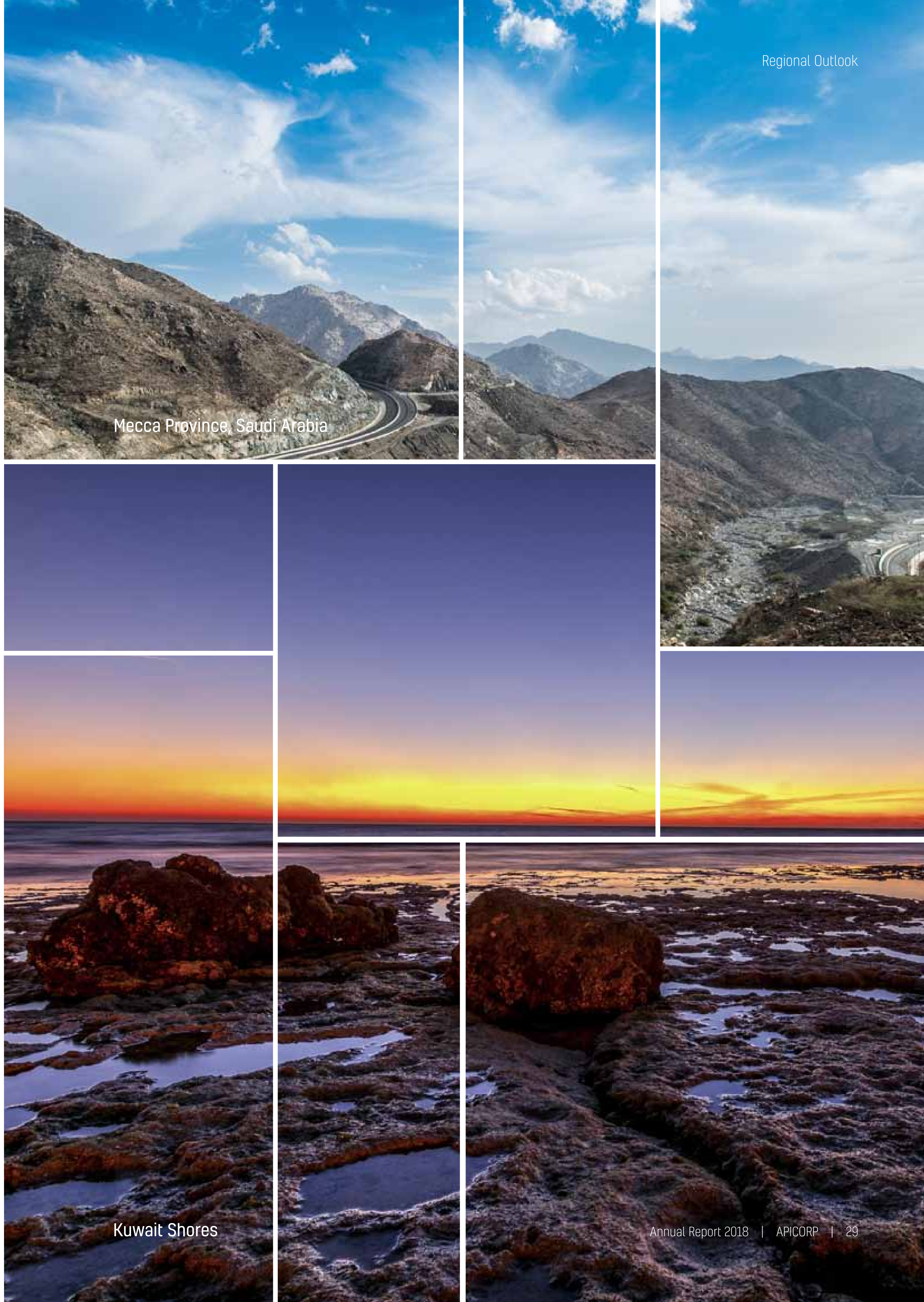
Increase Y-O-Y in the share of non-government-led energy investments

As the energy sector transitions towards a new future that is characterised by private sector-led growth and more reliance on clean energy sources, such as natural gas and renewables, APICORP is also transitioning and turning the page on a new chapter in its journey as the Arab world's leading energy sector financier of transformative energy projects that will spur growth and job creation throughout the MENA region.

Before Brent prices collapsed in the fourth quarter of 2018, analysts were already projecting ending 2018 at USD 100/b in a market marred by falling crude stocks and supply risks – including sanctions on Iran, falling Venezuelan output and fragile Nigerian and Libyan production. By the end of the year, the sentiment had reversed. United States shale continued to surprise, waivers were placed on eight countries for the import of Iranian crude, and concerns grew about the broader macroeconomic environment and the rising protectionist policies, all of which led to Brent prices closing the year at USD 51/b. The International Energy Agency (IEA) estimates global demand growth at 1.3mb/d in 2018 and rising narrowly to 1.4mb/d in 2019. The OPEC+ agreement to curb production in November 2018 continues to provide some floor for oil prices in the first half of 2019. On the other hand, non-OPEC production is set to grow by 2.6mb/d in 2019, marking a 1mb/d increase on the year before.

Looking ahead, the oil market outlook will be governed by macro concerns over the prospects of oil demand and the uncertainty around supplies from Iran and Venezuela. Based on pure fundamentals, a balanced market is consistent with a wide range of prices, and until the market starts showing signs of stock drawdowns, oil prices will continue to be under pressure. As market fundamentals reassert themselves, APICORP's base case forecast remains for Brent to trade between the USD 60-70/b range towards the second half of the year, barring a sharp slowdown in the global economy.

In terms of gas, 2018 was a good year, with reasonable demand growth and higher oil and coal prices driving prices across most global gas hubs and key indices upwards. The 2018 annual average for the LNG Japan-Korea Marker (JKM) stood at just over USD 9.7/mmBtu, higher than the 2017 average of USD 7.14/mmBtu and almost double the 2016 average of USD 5.72/mmBtu. In Europe, TTF prices in 2018 averaged USD 7.82/mmbtu,



Mecca Province, Saudi Arabia

Kuwait Shores

> "The UAE has embarked on an ambitious programme to develop its gas reserves and increase the share of renewables and nuclear in the power mix."

higher than the average for 2017 of USD 5.68/mmbtu. In the US, Henry Hub prices in 2018 were slightly higher than in 2017 (USD 3.19/mmbtu versus USD 2.99/mmbtu).

Global gas demand is expected to grow at an average rate of 1.6% a year over the next five years reaching 4,293 billion cubic metres (bcm) in 2023. The momentum towards a more liquid LNG market persists. The development of small scale and flexible distribution models opened new markets and offered smaller consumers greater opportunities to import/transport gas through Floating Storage and Regasification Units (FSRUs) and relinquish substantial capital costs for the construction of permanent regasification facilities. China is expected to account for around 43% of the growth in global LNG demand in the next five years.

In 2019, US LNG production is expected to exceed 52 bcma due to additions from Freeport, Cameron, Sabine Pass, and Corpus Christi. To regain supply-demand balance in the medium term, the LNG market is counting on continuing strong demand growth in Asia and from the Middle East, despite competition from renewables and nuclear power. A wave of new final investment decisions (FIDs) are expected in 2019 and 2020 totalling 148 bcma (109 mtpa). Finding buyers who are willing to enter into long-term supply agreements in a more competitive environment has become a challenge for financing new projects. This plays to the strengths of the integrators who (as in the recent Shell LNG Canada and US Golden Pass LNG FIDs) can fund projects without the need for non-recourse financing. For smaller players or newcomers, the environment has pushed developers to explore innovative commercial structures or attractive pricing terms.

Natural gas is still expected to be the fastest growing fossil fuel, driven by overall primary energy demand growth, an increased role of gas in the energy mix, and government policy aimed at reducing emissions and air pollution particularly in cities. However, the future outlook represents a wide range of scenarios with a risk of seeing some gas assets remain stranded.

MENA is a growth area, expected to grow annually at 2%, an increase of 293 bcma by 2040, largely driven by utilities, power, and desalination. This will primarily be met with incremental domestic supply. While some countries exhibit sizeable gas reserves, such as Saudi Arabia and Iraq, and a high share of liquids in power generation, the case for switching from oil to gas and renewables in the power sector remains strong. To meet the expected increase in gas demand, countries in the region will follow different paths. For instance, in Kuwait, increasing reliance on LNG is expected to accelerate, despite efforts to increase domestic production of non-associated gas in the north of the country. In 2018, Kuwait ramped up production from the Jurassic reservoir sour gas project. Saudi Arabia has ambitious plans to develop its unconventional gas reserves and increase its gas production from 14 bcf/d to 23 bcf/d by 2030. The UAE has also embarked on a very ambitious programme to develop its gas reserves and increase the share of renewables and nuclear in the power mix, limiting the potential for LNG demand growth.

As far as energy investments are concerned, total planned and committed investments in the next five years come to USD 1 trillion, a 5% increase on APICORP's 2018 outlook despite a lower medium-term GDP growth outlook. This is equivalent to the total reserves, excluding gold, built by MENA countries. The share of government-led investments continues to be important, despite a decline from 85% in APICORP's 2017 outlook, to 78% this year. Countries with lower fiscal reserves (particularly net hydrocarbon importing countries) and more importantly those with a higher share of investments in the power sector have greater private sector participation.

36%

Of total energy investments in the region will come from the power sector

Planned and Committed MENA Energy Investments Estimated to be USD 1 Trillion over the Next Five Years

- The share of non-government led investments increased to 22% from last year
- Saudi Arabia has the largest committed and planned investments in the medium term
- The power sector constitutes 36% of total investment in the region
- The oil sector remains important with just over half of projects now committed accounting for USD 304 billion of investments
- MENA remains a primary growth region for gas demand over the next five years with 2% growth per year
- The petrochemical sector is in the ascendant, with total investments marking over USD 123 billion
- Most of the MENA region will see a greater transition towards gas, downstream and petrochemicals sector, and significant renewable energy additions