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PANORAMA MENA

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How do the Middle East and North Africa (MENA) economies perform after the social and political turmoil caused by the so-called "Arab Spring" late in 2010? Have social and economic demands of protesters resulted in a healthier economic outlook in these countries?

In the MENA region, there was always a divergence in economic performance between oil importing and oil exporting countries, which was reflected in the political and social situation. These differences in economic performances seem to have increased despite the protests and demand for revolution since the start of uprisings in the Arab world. The GDP of hydrocarbon exporting countries increased from 4 times that of the importing countries in 2010 to almost 5 times in 2013. The GDP of Saudi Arabia, the highest in the area is nearly three times that of Egypt.

The current situation varies across the countries. The Gulf Cooperation Council (GCC) economies continue to record relatively high growth rates, but still below the average growth performance between 2000 and 2010. The current account and fiscal surpluses remain ample. However the political and social turmoil rise in some countries like Iraq, Syria, Yemen and Libya negatively affecting the economy.

The oil exporters have diversified their economies successfully into other sectors than hydrocarbon such as construction, tourism, transportation, automotive etc. However in terms of budget and exports revenues, these economies continue to depend mainly on the hydrocarbon sector. Therefore a continued decline in oil prices could weigh on non-hydrocarbon investments, funded by hydrocarbon revenues. In this sense, there are still some challenges to be addressed in these countries. Oil importers face higher risks of geopolitical tensions and regional turmoil. Higher influx of refugees from Syria and further worsening of social and political environment in the region would affect negatively the economic environment, drain resources in the economy and reduce the trade volume.

The panorama will focus on hydrocarbon sector for the GCC countries and on the textile sector for the North Africa region, especially Tunisia and Morocco as for both of the regions, these sectors are the main drivers of the economic growth and employment. Despite the ongoing efforts to support non-hydrocarbon industries, the GCC countries remain still quite dependent on the hydrocarbon sector in terms of exports and budget revenues. In the GCC region, hydrocarbon revenues accounted for an average 74 percent of total exports and around 83 percent of total government income in 2013. So the diversification is still a challenge. Further decline in oil prices, regional conflicts, lower demand from China seem to represent principal sources of risk in the sector.

Both Tunisia and Morocco prioritize the development of the textile and clothing sector. In Morocco the textile sector is the largest employer of the industrial workforce with 40 percent and in Tunisia it is the largest exporter and provides 7 percent of the total employment. The main clients of the textile and clothing companies in these countries are European firms which create a risk in case of a sluggish recovery in Western Europe. There are also other challenges such as the need for innovation, access to finance and the political uncertainty.

The panorama will also assess the latest trends in construction, tourism and automotive sectors across the MENA region to evaluate possible corporate risks.

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MENA: WHAT PROGRESS AFTER THE "ARAB SPRING"?

QUOTES BY ECONOMISTS

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INTRODUCTION

How do the Middle East and North Africa (MENA) economies perform after the social and political turmoil caused by the so-called "Arab Spring" late in 2010? Have social and economic demands of protesters resulted in a healthier economic outlook in these countries?
The Arab Spring resulted partly of economic requirements. There was always a divergence in economic performance across the countries in the MENA region as well as within the populations in terms of wealth distribution.
Currently, the economic growth is more solid in oil exporting countries than in oil importing countries. However the growth rates remain below the average of the period between 2000 and 2010.
The oil exporters have implemented successful diversification strategies. Although they are still largely dependent on oil revenues, the ample fiscal and current account surpluses allow the funding of massive projects and the improvement of the business environment.
The economic performance of oil importing countries is also improving with the relative return to stability in some countries like Tunisia and Iran, the latter in talks with the P5+1 countries for easing of international sanctions. The recovery in Europe and the capital inflows coming from the GCC countries also help these countries to support the government spending.
However it would be difficult to talk about a sustainable growth, social welfare and suitable business environment as long as the social and political turmoil continues. The political risks are still present in countries like Iraq, Syria, Libya which also threaten the trade activities and sustainable economic performance across the region.

1 AN ECONOMIC TRANSFORMATION?

Challenges in the aftermath of the «Arab Spring »

The social unrest and riot that started late in 2010 in the Arab world were mainly a result of social and economic dissatisfaction of people living in these countries. The GDP of oil exporting countries was nearly 4 times that of the importing countries in 2010, before the "Arab Spring". The total GDP of the MENA region was around 2.8 trillion USD in 2012.
However, instead of going away, these differences still exist in the region. In fact, the GDP of oil exporting countries rose to almost 5 times that of the importing countries in 2013. The GDP of Saudi Arabia, the highest in the area is 1.5 times that of Egypt.
Oil importing countries (Egypt, Jordan, Lebanon, Morocco, Tunisia) suffer from high unemployment, persistent macroeconomic imbalances and challenging political perspectives. But the situation is improving on the economic front.
Nearly four years after the protests of the Arab Spring, several oil importing countries in the MENA region are still facing problems related to the political transitions. In Egypt, the transition has progressed. The civil war in Syria continues and it destroys the political, economic and social structure of the country.
The Lebanon political system is paralyzed, partly due to the fallout of the Syrian conflict. Other non-oil countries, including Morocco and Jordan were first shaken by the uprisings of the "Arab Spring", but managed to maintain stability and growth with substantial foreign aid from Gulf countries.
The outlook for oil exporting countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Algeria, Iran, Iraq, Libya) remains more favorable with the exception of Libya, Iran, and Iraq, on the back of strong growth and significant financial surpluses. Most of these countries remained free of conflict. The growth would remain solid on high public spending for mega projects and the improvement in security issues. These economies possess ample financial resources, sound banking systems and improving business environment which support investment and growth in the private sector. But their fiscal surplus is expected to slightly decline in the upcoming period mainly due to the drop in oil prices and high government spending. The rise in public expenditure leads to a constant upward pressure on the fiscal balance in oil (breakeven oil price) price, exposing public finances to risk of further decline in oil prices. The strengthening of economic diversification remains also a major challenge for oil exporting countries.

Chart 1: GCC countries fiscal breakeven oil prices (USD per barrel)

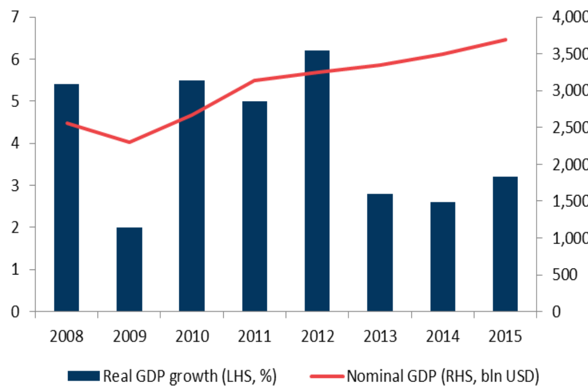
	2007-2011	2012	2013	2014P	2015P
Saudi Arabia		77.9	89	97.5	106
UAE	70.3	77.6	83.7	79.3	77.3
Qatar	53	69.2	44.5	54.8	60
Kuwait		49	50.5	54.2	54
Bahrain	88.2	119.4	125.3	125.4	127.1
Oman	61.9	79.8	83.9	99	102.6

Source: IMF, REO, October 2014

Growth performances still lower than pre-Arab Spring period…

Countries in the MENA region recorded an overall GDP growth of 2.8 percent in 2013 and expected to grow 2.6 percent in 2014, according to Coface. The growth is expected to rise to 3.2 percent in 2015 on the back of stronger global recovery and preliminary signs of political consensus in some countries of the region. However the growth performance will continue to stand below the 2000-2010 average of 5.4 percent.

Chart 2: MENA region growth performance



Source: Coface

The regional growth rate averages mask a divergence between oil exporting countries, mainly the GCC region (Bahrain, UAE, Saudi Arabia, Kuwait, Oman, Qatar) which is expected to grow 4.2 percent in 2014 and 4.1 percent in 2015, leading the economic growth in the region. The main factors supporting the growth would be the robust non-hydrocarbon activities and large budget surpluses. The decline in oil prices would weigh on growth performance in 2015. The pace of economic growth would vary across the countries. Coface expects Qatar to grow 5.9 percent in 2014 and 6.7 percent in 2015 thanks to double digit growth in non-hydrocarbon sector such as finance, real estate, construction. Saudi Arabia is expected to grow close to 4.2 percent in 2014 and 3.8 percent 2015 due to lower oil prices. However the regional turmoil would weigh heavily on the economic performance of some countries like Iraq and Libya. Iraq and Libya are expected to contract 2.5 percent and 19.8 percent in 2014 respectively.

On the oil importers side, the recovery in tourism, investor' confidence and exports, supported by the recovery in European countries, are expected to contribute positively to the growth performance. Besides, many oil importing countries have announced stimulus packages to support their economies in the aftermath of social unrests. Egypt announced a first stimulus package of 30 billion pounds in August 2013 and a second one of around 34 billion pounds in February 2014, mostly financed by the inflows coming from the United Arab Emirates. Lebanon's central bank also announced a package of 1.4 billion USD in 2013 as its economy was hit by the civil war in Syria and domestic political contests. According the country's central bank, the stimulus package had accounted for around half of Lebanon's annual growth rate in 2013. On the back of these supports, Lebanon's economy is expected to grow 1.5 percent in 2014 and 2.5 percent in 2015.Saudi Arabia, the UAE and Kuwait have provided crucial economic aid to Egypt which is expected to post a growth rate of 2.2 percent in 2014 and 3.5 percent in 2015.
Morocco and Tunisia are expected to be the outperformers in the region. The growth rate is expected to accelerate in the upcoming period on the back of the improvement in global economic conditions, better domestic political scene, stronger domestic demand and structural reforms. The recovery in European economies, the main trading partners of Tunisia and Morocco, and improving political situation in this part of the region would support the economic activity through higher exports and tourism revenues.

Chart 3: Main economic indicators for MENA

Real GDP (annual growth, %)				
	2012	2013	2014f	2015f
GCC	5.8	4.1	4.2	4.1
MENA oil importers	2	2.6	2.4	3.4
Fiscal Balance (% of GDP)				
	2012	2013	2014f	2015f
GCC	14.2	10.9	7.5	4
MENA oil importers	-8.7	-10.5	-10	-9.1
Current Account Balance (% of GDP)				
	2012	2013	2014f	2015f
GCC	24.6	20.9	17.8	13.4
MENA oil importers	-7.5	-6.2	-4.2	-4.6

Source: Coface

Large fiscal deficits and public debt still the main issues in oil importers…

The increase in public spending of oil importers during the period of political turmoil and the system of subsidies have resulted in high fiscal deficits and public debts. The overall fiscal deficit to GDP ratio in these countries is expected to remain wide at 10 percent in 2014 and 9.1 percent in 2015.
Due to the high government spending resulting from the subsidies and the need to calm social unrest, the fiscal deficits in many oil importers are higher than 5 percent of the GDP. This is increasing the public debt burden. In 2015, the general government gross debt is expected to hover around 50 percent in Tunisia, 66 percent in Morocco, 91 percent in Jordan and 94 percent in Egypt and it is expected to stand as high as 146 percent in Lebanon. The high level

of government deficit leaves these countries vulnerable to economic or political shocks.

Chart 4: General government gross debt to GDP (%)

	2010	2011	2012	2013	2014f*	2015f*
Egypt	73.2	76.6	78.9	89.2	94	93.5
Jordan	67.1	70.7	80.2	85.8	90.8	91.5
Lebanon	138.4	133.9	134.3	141	145	146.1
Morocco	51.3	54.4	60.4	64.6	66.1	65.9
Tunisia*	40.7	44.5	44.5	44.8	50.1	49.5

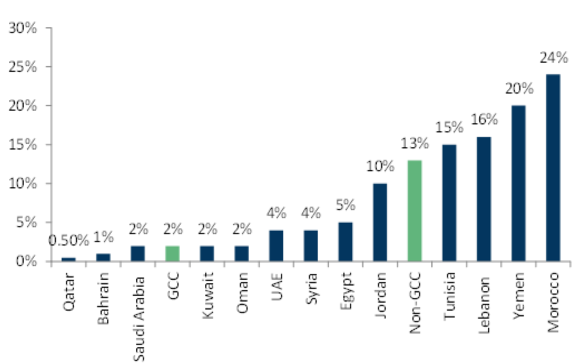
Source: IMF WEO November 2014, *Coface forecasts

Although the fiscal situation is better in the oil exporting countries, the outlook may deteriorate in the upcoming period in line with the decline in oil prices. The budget balance to GDP ratio continues to gradually decline in these countries since 2012 and Coface estimates the ratio to decline as low as to 4 percent in 2015. Kuwait which possesses ample oil reserves is seen to have continuously highest surplus to GDP ratio across the GCC region. Other countries like United Arab Emirates and Qatar would also have wide fiscal surpluses while Bahrain and Saudi Arabia are expected to record fiscal deficits in 2015. The political unrest inspired by the protests in the Arab World pushed Bahrain to increase the budget spending, putting pressure on fiscal balance. Saudi Arabia is projected to fall into deficit in 2015 due to lower oil prices and high government spending.

The high borrowing need of the public sector creates a crowding out effect for the private sector as the external financial support remains limited and most of the deficits are financed through banking system. Total lending to the private sector in MENA countries is lower compared with other regions in the world. In Egypt, loans to private sector increased 7.4 percent in June 2014 from a year ago while loans to public sector jumped 29 percent at that time, according to Emirates NBD research paper on MENA outlook of September 2014.

The SME loan portfolio in MENA region was less than 8 percent of total loans, according to a World Bank working paper published in March 2011. The share of SME lending in GCC countries was 2 percent on average while it was 13 percent in the non-GCC region, reflecting the concentration of the GCC economies on oil industries with the presence of very large companies.

Chart 5: SME Loans/Total Loans (%) in MENA region



Source: World Bank working paper "The Status of Bank Lending to SMEs in the MENA region", March 2011

A structural problem: Unemployment

There are still some challenges in the implementation of structural reforms and governance issues concerning oil importing countries. This situation weighs on the business environment, hampering investor confidence.

The main challenge is about the energy subsidies provided by the governments of these countries mainly to appease their citizens, protect them from volatility in commodity prices and share with them the income coming from the natural resources (for hydrocarbon exporters). These subsidies are costly. Energy subsidies amounted to 236.5 billion USD in 2011, equivalent of half of the total world subsidies and 8.6 percent of regional GDP, according to the IMF while food subsidies amounted to 22 billion USD, equivalent of 0.7 percent of GDP in 2011.

Since the start of social turmoil in 2010, the subsidies have been increasing in MENA countries, especially in hydrocarbon importers which suffer from high budget and current account deficits. Although the main goal of these subsidies is helping the poor, most of the time they benefit the rich as they are the biggest consumers of the subsidized goods. According to the IMF, the poorest 40 percent of the population in Egypt acquired only 3 percent of gasoline subsidies in 2008. In addition, fuel intensive industries are already capital intensive and more subsidies reduce further the level of labor necessary in these industries despite the high unemployment level in these countries. The unemployment among the MENA countries reached 11.7 percent in 2013, according to the regional economic update of the World Bank (April 2014) and it is estimated to increase gradually to 12 percent in 2015. The jobless remains higher in oil importing countries compared with the oil exporters. In 2015, the unemployment rate is expected to sit over 14 percent in Egypt and 12 percent in Jordan while it is expected to slightly decline to 15 percent in Tunisia, according to the World Bank.

Chart 6: Unemployment rate (%)

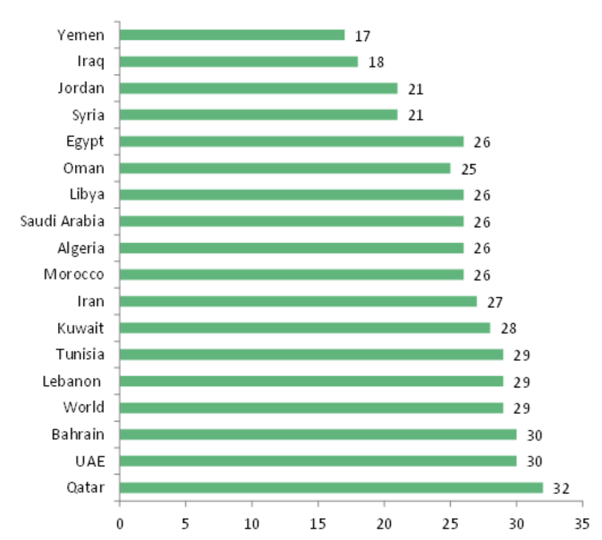
	2011	2012	2013e	2014p	2015p
MENA	11.7	11.7	11.7	11.9	12
GCC	6.6	5.8	5.9	2.9	2.9
Bahrain	4	3.9	4.3	4.1	4.3
Kuwait	2.1	2.1	2.1	2.1	2.1
Algeria	10	11	9.8	10.8	11.3
Egypt	10.4	12.4	13	13.4	13.9
Iran	12.3	12.2	10.4	11.6	12.2
Jordan	12.9	12.2	12.2	12.2	12.2
Morocco	8.9	9	9.2	9.1	9
Tunisia	18.9	16.7	15.3	15.3	15

Source: WB, WEO, Oct. 2014

The unemployment is a structural problem in the region. The growth pace is expected to stand below the pre-Arab Spring period. Historically, the countries in this region were able to create around 3.5 million jobs per year with an average growth rate of 5 percent. The World Bank' estimates suggest the region needs to create around 4 million jobs per year in the period ahead in order to avoid the unemployment rate from rising.

However this represents a difficult challenge considering the high level of new entrants into the job market. In fact, one in five people in the region are between the ages of 15 and 24 and the number of youth across the region is estimated close to 90 million in 2010, according to the United Nations. The unemployment among young people was around 27 percent in 2012, a high level which makes this region vulnerable to social and political shocks. Although MENA countries had a late start in investing in human capital, most of the countries invested an important part of their GDP on education. According to the World Bank, the region invested around 5 percent of GDP and 20 percent of government budgets in education over the past 40 years. This increased the level of schooling. The fertility and infant mortality indicators improved. However MENA countries do not fully benefit from the improvement in the education system, as the graduates are employed mostly by the public sector, especially in oil exporting countries.

Chart 7: Median age in MENA countries, 2010

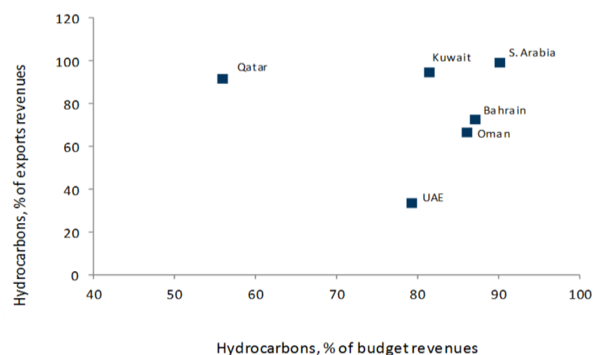


Source: United Nations Population Division, World Population Prospects, the 2010 Revision

Successful diversification in oil exporters but hydrocarbon dependence continues

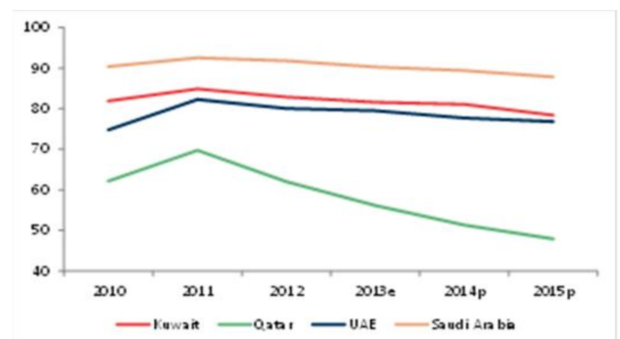
The main characteristic of the growth model for the GCC region was the reliance on oil production as the main export and fiscal revenue source. Over the past decade these countries had important transformation based on diversifying of their oil-dependent economies.
The ongoing policies helped the GCC region to support the non-hydrocarbon industries. Dubai has become an important hub of logistics and tourism. The emirate has created zones to develop different sectors such as manufacturing, media, information technologies, healthcare, financial services and ports. The construction constitutes another important pillar of the economic diversification. Abu Dhabi also has created industrial zones to develop energy and capital consumer industries.
Saudi Arabia has identified automotive, plastics, mineral and metal processing, solar energy and home appliances sectors as the main pillar of its diversification policy. Recently, the country announced it would open its stock market to foreign investors in 2015. In Qatar, the non-hydrocarbon activity leads the economic growth with the driving sectors such as financial services, construction, trade and government services. Bahrain is targeting the development of communication and transport facilities. Kuwait, which is one of the GCC countries depending on oil revenue the most, is trying to support the development of small and medium enterprises. The enormous oil reserves of Kuwait and the massive resources of the country's sovereign wealth fund (Kuwait Investment Authority) allows the government to show less efforts of economic diversification compared with the other countries of GCC.
These efforts have been relatively successful especially in Saudi Arabia, the UAE and Qatar as the hydrocarbon share in their GDP is seen to slightly decline, although it would still represent around 20 percent of GDP in Saudi Arabia, 31 percent of GDP in the UAE and 38 percent of GDP in Qatar as of 2014. Overall in GCC countries, the share of the hydrocarbon sector's contribution to GDP declined from 41 percent in 2000 to 33 percent in 2014, according to the IIF.
The diversification varies among the countries. The dependence of countries such as Saudi Arabia, Qatar and Kuwait on oil exports revenues remains high (above 90 percent of the total export revenues at the end of 2013 according to the IIF data) while it is lower for the UAE where hydrocarbon exports accounted for only about a third of exports in 2013.

Chart 8: Dependence of GCC countries on hydrocarbon revenues, 2013



Source: IIF, Coface calculations

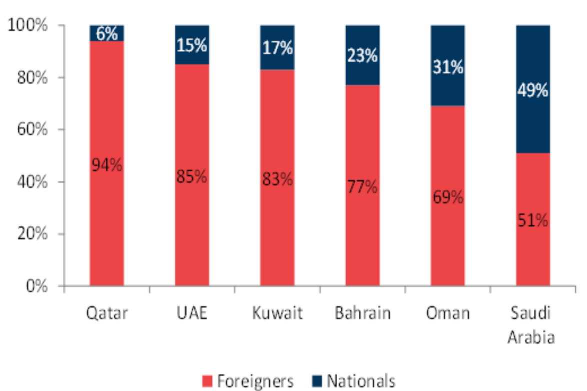
Chart 9: Share of hydrocarbon revenue in total fiscal revenues (%)



Source: IIF

The diversification and the rapid economic growth resulted in high inflows of labor force from abroad towards these countries. These low-wage foreign employees worked mostly in the private sector while the majority of the nationals were employed in the public sector due to the higher wages.

Chart 10: Share of foreigners and nationals in total labor force



Source: London School of Economics and Political Science, Al Masah Capital Limited

As economic growth increases in line with the diversification level, the diversified economies are expected to be less affected from volatile economic conditions. Implementation of structural reforms, especially in the education system and improvement of the business environment are expected to boost the private sector growth.
The share of private sector in non-hydrocarbon GDP is also another indicator of the economic diversification. According to BNP Paribas report of July-August 2013 about the diversification in the GCC region, the private sector's share in non-hydrocarbon GDP is below 50 percent for Kuwait and Qatar while it is around 70 percent for Saudi Arabia and Oman. The contribution of the private sector to non-hydrocarbon GDP would be the highest in Bahrain and Dubai, according to the report, as the limited hydrocarbon reserves pushed the authorities to involve more the private sector in the economy.

Signs of economic improvement…

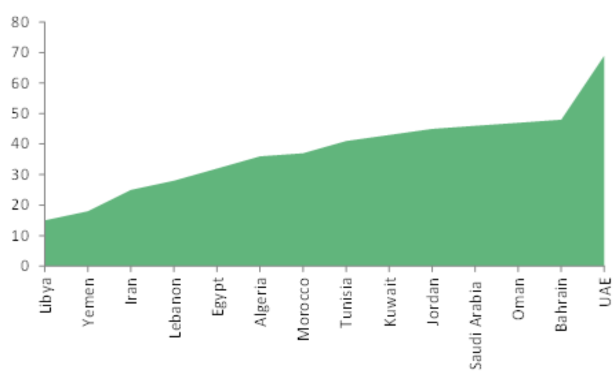
With the current fiscal deficits amid moderate growth performance, some oil importing countries have started to implement subsidy reforms in order to raise fuel prices and electricity tariffs.
According to the IMF report on subsidy reforms in the Middle East and North Africa of July 2014, Morocco has eliminated gasoline and industrial fuel subsidies in January 2014 and has reduced the per-unit subsidy of diesel in February 2014. In Egypt, electricity prices to households were increased 16 percent on average in January 2013 while fuel and natural gas prices were increased 40 to 78 percent and electricity tariffs 20 to 50 percent in July 2014. Tunisia has eliminated energy subsidies to cement companies in June 2014 and has raised gasoline prices 6.4 percent and diesel prices around 7 percent in July 2014. In Yemen, private sector agreed to buy diesel at market prices in June 2014. Yemen's government has raised fuel prices after spending around 3 billion USD for energy subsidies in 2013. In Jordan, subsidies for commodities have been replaced by cash handouts to citizens and the tariff on electricity prices were adjusted in order to sell the electricity at market prices by 2017.
Some oil exporters have also implemented subsidy reforms such as Iran, Qatar, Saudi Arabia and Bahrain. Iran has put into operation a subsidy reform plan in 2010 to remove gradually the subsidies on food and energy. Saudi Arabia increased electricity tariffs for government, commercial and industrial users in 2010. Bahrain announced late in 2013 it would raise gradually the domestic selling prices for diesel to almost double it by 2017 aiming at reducing the fiscal burden of subsidies.
The recovery in Europe, although it is still fragile, and strengthening of the economic activity around the globe would support the growth performance in these countries. The progress in structural reforms (i.e. greater transparency, labor market reforms, support to small enterprises to reduce unemployment) and in the subsidy systems would also support confidence and growth potential. Fiscal consolidation and savings from the subsidy reforms allows containing public deficits and the overall fiscal deficit in the oil importers is expected to narrow in 2015, leaving more resources available for the economy and private sector as well as reducing financing pressures.

But some major risks still need to be addressed…

The emergence of political consensus in some countries across the MENA region is another factor that would contribute to the economic recovery.
Tunisia had adopted a new constitution early in 2014, sending out a political and economic stability message. This can be considered as a positive step to boost the investor confidence as it reduces the political uncertainty and increases the possibility to achieve economic reforms. In October 2014, Nidaa Tounes, a secular party won around 40 percent of the seats in the parliament. The successful elections encouraged expectations for more stability and better business climate.
The talks between Iran and the countries known as P5+1 (United States, Russia, China, France, UK and Germany) concerning Iran's nuclear program constitute also a positive move to reduce the effects of the sanctions on Iran's economy. The objective of the negotiations is to reach an agreement to put some constraints on Iran's nuclear program in return for a lifting of the international sanctions on Iran. Improving relations with the Western countries could support the country's exports, the business environment and foreign investments to Iran. It would also help to reduce the inflation.
In Egypt, the new government has sworn in June 2014 and the prime minister added a new investment minister in the cabinet, indicating the government's commitment to attract foreign funds. This relative political stability would help the country's economy to recover after several years of social and political turmoil.
The recovery in the global economic outlook is another

positive factor which would contribute to the economic performance of these countries. A stronger growth in the world economy, especially in Europe which is the main trading partner of the region would help to increase MENA exports on the back of a stronger external demand. However these developments are not enough to have a sustainable growth and to eliminate all the risks on the corporate sector. According to the transparency international index for 2013, the corruption seems widespread in many of MENA countries with the corruption perception index score lower than 50. The corruption perceptions index indicates the level of corruption perceived for the public sector of a country with scores ranging from 0 (highly corrupt) to 100 (very clean).

Chart 11: Corruption perception index level for some MENA countries, 2013



Source: Transparency international

On the other hand, serious security issues and social tensions in the region weigh on the perspectives of better economic performance and discourage investments. Oil importing countries are still facing major risks resulting from the intensifying regional conflicts, security issues and high debt burden. The actions of the extremist group of Islamic State, as well as separatist movements and political turmoil in countries like Iraq, Syria, Libya threaten the stability by making complicated the trade and hindering governments' economic efforts.

The rising conflict in Syria, the increasing refugee influx in Lebanon and the risk of spillover from the ongoing security issues in Syria can lead to higher destabilization. The large influx of refugees fleeing Syria absorbs already limited resources of the hosting countries. The political destabilization weighs negatively on the investment and consumption appetite and disrupts trade. The possible widening of Syria conflicts and the influx of refugees constitutes an important risk for the neighboring countries.

The business environment has deteriorated weighing on domestic demand. As the governments in oil importers support the investment through higher public investment spending, the public debt burden increases. The governments partly finance the debt by the funds coming from the GCC and European countries. So a slowdown in these economies would represent another source of risk as it would reduce the capital inflows going to the oil importers, decrease the trade volume and tourism activities.

Due to these higher risks, Coface evaluates Egypt, Tunisia and Lebanon business climate assessment as B. Coface's business climate assessment can be considered as a business confidence indicator. It measures the quality of the country to do business based on the availability and reliability of the company accounts, the fairness and efficiency of the judicial system about creditor protection. It also takes into account whether the country's institutions constitute a favorable framework for transactions. The assessment of the business environment is made from the international organization data. It also includes the experience of Coface entities worldwide. It is offered on a scale of seven levels A1, A2, A3, A4, B, C, D in descending order of quality of the business environment. The business climate of Morocco and Jordan stand at A4, on the back of gradual reforms. But if the security issues deepen in Syria and Iraq, this could weaken confidence, discourage investments and weigh on tourism revenues.

Economic and political risks

Despite the ongoing efforts to support non-hydrocarbon industries, the GCC countries remain still dependent on the hydrocarbon sector in terms of exports and budget revenues. In the GCC region, hydrocarbon revenues accounted for an average 74 percent of total exports and around 83 percent of total government income in 2013, according to the Business Monitor. So the diversification is still a challenge, especially for the countries where the oil resources are high. This situation makes them vulnerable to changes in oil prices and limiting the productivity and the job creation.

Another economic challenge would be related to oil prices. If the decline in oil prices continues in the upcoming period, the resources to finance the non-hydrocarbon activities and to meet essential needs in oil exporting countries would decrease and the fiscal balances would deteriorate faster than expected. This deterioration in the GCC region would threaten, in turn, countries like Egypt, Jordan and Lebanon as the capital flows towards the latters and the trade volume would weaken. This risk would be limited for Morocco and Tunisia as their major trading partner is Europe. A slowdown in economic growth in the GCC countries due to lower oil prices could result in a decline of labor demand for North African countries. This would also reduce the current transfers. But as the non-oil sector is expected to remain solid, this risk would be limited.

The U.S. Federal Reserve's exit strategy may also create a source of risk in terms of capital outflows, especially from the countries having a current account of budget deficit. In this sense, the GCC countries would be in a better situation on the back of their current account and budget surpluses as well as their ample sources in Sovereign Wealth Funds. According to the IMF, the impact of the Federal Reserve's statement about tapering its quantitative easing program in May 2013 was less negative for the GCC countries compared with the other emerging markets. Between May 2013 and July 2014 cumulative outflows for GCC countries totaled 780 million USD, equivalent of 0.05 percent of GDP, compared with 79 billion USD, equivalent of 0.35 percent of GDP, for other emerging countries, the IMF said.

The security conditions are also deteriorating in Yemen amid sectarian clashes and unrest. The threat of a civil war in Libya is increasing. These developments throw the economic activities into disorder and destroy the trade activities weighing negatively on the corporate sector and business environment.

Governance

The business climate assessment for these countries remains higher. It stands at A3 for the United Arab Emirates, Kuwait and Qatar, at A4 for Oman and at 3 for Saudi Arabia as the business environment in this country still needs some improvement. In fact, the modernization of the Kingdom is hampered by limited institutional capacity and burdensome bureaucracy. On the other hand, the fact that company accounts are often opaque complicates the risk assessment. The business climate of countries like Yemen, Syria, Iraq and Libya remain at D as the business environment is extremely problematic due to the rising regional conflicts, regulatory uncertainty and administrative inefficiency. As long as these problems exist, payment delays and debt collection difficulties would remain.

Chart 12 : Coface country risk assessment (CRA) and business climate assessment (BC)

	CRA	BC
Algeria	A4	B
Bahrain	A4	A4
Egypt	C	B
Iran	D	C
Jordan	B	A4
Kuwait	A2	A3
Lebanon*	C	B
Libya	D	D
Morocco	A4	A4
Qatar	A2	A3
Saudi Arabia	A4	B
Tunisia	B	B
UAE	A3	A3
Yemen	D	D

Source: Coface
*Under watch list

The country assessment which measures corporate risk usually stands solid across the region, especially for the countries having more stable political conditions and stronger macroeconomic figures.
In the long run, as the political relations are getting tighter, the involvement of the GCC countries in the North Africa would continue. Recently UAE-based Al Dahra Agriculture announced it was looking to produce 300,000 tons of wheat from its investment in Egypt. The UAE investments in Egypt rose above 5 billion USD and the number of UAE companies operating in the North African country increased to 677, according to media reports. Gulf States also invest in tourism infrastructure in Morocco. Wessal Capital, a joint venture between Morocco and Gulf states (Qatar, Saudi Arabia, Kuwait and the UAE) announced in May 2014 it would invest 1.1 billion USD in Morocco.
Falling oil prices would reduce the energy bill for oil importing countries and contribute to a narrowing in budget imbalances. As Jordan, Tunisia and Morocco have agreements with the IMF, the chances for savings coming from the drop in oil prices to be spent by the governments are low.
Under such circumstances, GCC countries having accomplished a successful diversification in their economies seem to represent better business conditions for investors and companies. Positive developments after the period of political and social tensions in other countries such as Egypt, Tunisia and Morocco may also put these countries in an advantageous position in terms of economic growth and support to the corporate sector. The end of political and social unrest would be crucial for the economic stability of the region and the improvement of the business environment in these countries.

Conclusion

The economic transition following the social unrest continues as the countries are still trying to recover economically and the politic risks are still present. The divergence between the oil exporters and oil importers persists and the real growth rates remaining below the 2000-2010 average for both groups. Nevertheless most of the GCC countries were able to stay out of the geopolitical tensions which allowed them to continue to attract foreign investments and record solid growth rates. Their financial fundamentals are strong. They continue to invest heavily in non-oil sectors to transform their economies. This also reduces their vulnerability to a sharp decline in energy prices. Therefore Coface assessments of business environment are better in these countries. But there are still some challenges that need to be addressed regarding future deterioration of fiscal balances, high level of bureaucracy and improvement of transparency.
The impact of the social and political turmoil was heavier for oil importers. They still suffer from political uncertainties, high unemployment and public debt, deficit of current account balance and fiscal imbalances. However these countries are also making some progress in terms of structural reforms to improve fiscal performance, labor market conditions and business environment. Tunisia and Morocco are expected to have better economic performance due to the economic recovery in Europe, their main trading partner. Recent elections in Tunisia also support the optimism for a better business environment.

Chart 13: Real GDP growth (%)

	2010	2011	2012	2013	2014f	2015f
MENA	5.5	5	6.2	2.8	2.6	3.2
Algeria	3.6	2.8	3.3	2.8	3.5	3.2
Bahrain	4.3	2.1	3.4	5.3	3.9	3
Egypt	5.1	1.8	2.2	2.1	2.2	3.5
Iran	6.6	3.9	-6.6	-1.9	1.7	2.2
Jordan	2.3	2.6	2.6	2.9	3.3	3.8
Kuwait	-2.4	10.2	8.3	-0.4	2.2	2.5
Lebanon	8	2	2.5	1.5	1.5	2.5
Morocco	3.6	5	2.7	4.4	2.9	4.2
Oman	4.8	4.1	5.8	4.8	3.8	4
Qatar	16.7	13	6.1	6.5	5.9	6.7
Saudi Arabia	7.4	8.6	5.8	4	4.2	3.8
Tunisia	2.6	-1.9	3.7	2.3	2.8	3.9
UAE	1.6	4.9	4.7	5.2	4.3	4.2

Source: Coface

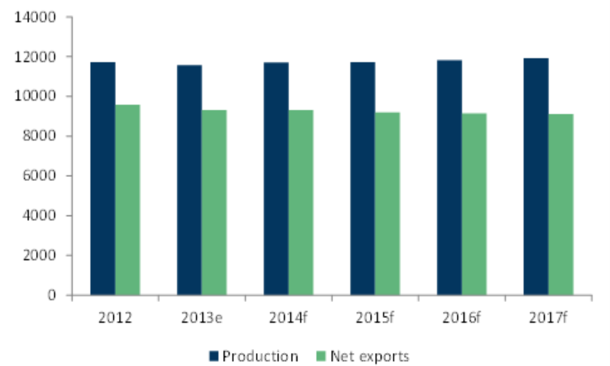
2 OUTLOOK FOR MAIN SECTORS

Despite the diversification efforts in GCC countries, the oil and gas sector still constitutes the main source in terms of the export and budget revenues. On the other hand, other sectors such as tourism, textile and automotive are also becoming gradually more important. The textile sector can be cited among the vital sectors in the North African countries such as Morocco and Tunisia as it creates an important part of employment. But as the subcontracting seems to be the main activity in the sector, the companies remain vulnerable to any changes in the order volumes coming from the major European brands and their payment performance.

Hydrocarbon sector: regional strength exposed to price volatility, regional tensions…

This sector is the major source for the GCC countries in terms of exports and budget revenues. Indirectly this sector provides the necessary funding for the development of other industries within the strategy of economic diversification.
The GCC is an oil-based region and possesses the largest proven reserves in the world. Kuwait, Qatar, Saudi Arabia and the United Arab Emirates represented around 41 percent of the Organization of Petroleum Exporting Countries (OPEC) proven crude oil reserves at the end of 2013.
The cost for producing crude oil and natural gas is lower in the Middle East region compared with all the other regions. During 2007-2009 period, the total upstream costs of oil and natural gas production was 16.88 dollars per barrel of oil equivalent in the Middle East compared with 24.76 dollars in Canada, 45.32 dollars in Africa, 26.64 dollars in Central and South America and 33.76 dollars on average in the United States, according to the US Energy Information Administration (EIA) figures.
Saudi Arabia has the largest proven oil reserves in the region. The country represents 22 percent of the total crude oil reserves of the OPEC countries with 265.8 billion barrels in 2013. The country has around 100 important oil and gas fields however most of the reserves are in eight fields. Ghawar, Safaniya, Khurais and Manifa are among the major oil fields, having a total capacity of around 9 million b/d. According to the data from the EIA, Saudi Arabia produced on average 11.6 million b/d of total petroleum liquids in 2013. The crude oil production capacity of the country is the world largest and is estimated to attain 12 million b/d in 2014. The country said in 2012 it could raise the output capacity to 15 million b/d by using new oil fields if needed. Saudi Arabia remains as the largest oil consumer in the region with a consumption of 2.9 million b/d of oil in 2013 due to the growing industrial sectors in line with the diversification efforts.
The country also had 291 trillion cubic feet of natural gas reserves as of January 2014, the world's fifth largest reserves after Russia, Iran, Qatar and the United States, according to the figures of the Oil and Gas Journal provided by the EIA.
Most of the operations in oil and gas sector are dominated by Aramco, the state-owned oil company of the Kingdom. According to the EIA, the country has eight domestic refineries, with a crude throughput capacity of around 2.5 million bbl/d of which Aramco dominates 1.8 million bbl/d. Saudi Arabia exports around 70 percent of crude oil and around 80 percent of refined products to Asia, according to the EIA figures.

Chart 14: Saudi Arabia crude oil production and net exports, 000 b/d

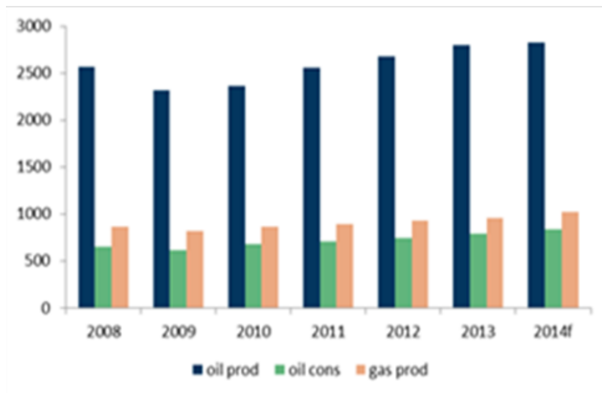


Source: BMI, EIA

The country maintains an ambitious investment plan concerning the oil and gas sector which creates an opportunistic environment. Aramco announced late in August 2014 that it was planning to invest around 40 billion USD a year over the next 10 years in order to maintain oil production capacity steady and double gas production.
The United Arab Emirates has also implemented some investment projects to improve the infrastructure at existing oilfields. The country, having a crude oil production capacity of around 2.8 million b/d, recently announced it was aiming to raise it to 3.5 million b/d by 2017 aiming to meet the rising demand. The UAE produces 3.5 percent of the global crude oil, representing 7 percent of the proven reserves, ranked 7th in the world and 4th within the OPEC countries.
The Ruwais refinery in Abu Dhabi, biggest refinery of the country, has a refining capacity of 400,000 barrels per day. The refinery is owned by Abu Dhabi Oil Refining Company (Takreer), a public joint-stock company, undertaking refining operations previously executed by Abu Dhabi National Oil Company (ADNOC). The expansion of Ruwais refinery is expected to be completed by end-2014, adding another capacity of 417,000 barrels per day. The total budget of the expansion project is estimated at 10 billion USD. The Jebel Ali refinery of Dubai has a refining capacity of 120,000 barrels per day.
Around 94 percent of the country's oil resources (about 92 billion barrels) are in Abu Dhabi. Dubai has around an estimated 4 billion barrels while Sharjah and Ras al-Khaimah have 1.5 billion and 500 million barrels, respectively, according to the data provided by the UAE embassy in Washington. In total Abu Dhabi said it was planning to spend 60 billion USD to increase its production capacity above 3.6 million b/d by 2019, according to the Business Monitor International.
Large international oil companies are highly involved in the oil and gas sector of the UAE as the country is the only Gulf state which offers them equity. This situation results in a

strong presence of joint ventures between the country's oil and gas companies and the large European and U.S. companies. The operating units of ADNOC such as Adma-Opco, are structured as joint ventures with foreign oil companies. Adma-Opco is a joint venture between ADNOC, Japan Oil Development Company, BP and Total. Al Hosn Gas is also a joint venture between ADNOC (60%) and Oxy (40%) undertaking gas exploration of Shah and drilling operations. ADNOC also selected Shell as its partner in a 30-year joint venture to develop Bab sour gas reservoirs

Chart 15: UAE oil production and consumption, gas production, b/d thousand



Source: IIF

The country also has the 7th proved natural gas reserves of the world at around 6.1 trillion cubic meters according to OPEC. Approximately 90 percent of the natural gas sources are in Abu Dhabi. The country is expected to produce 8.6 percent of the total natural gas production of the Middle East countries. The UAE develops projects of units of liquefied natural gas, the most recent to be installed in the emirate of Fujairah.

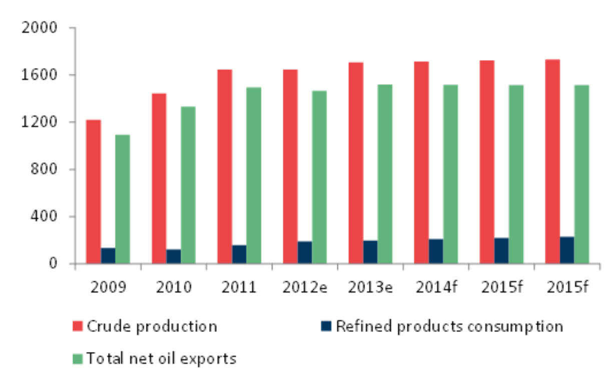
Qatar is the world's largest exporter of liquefied natural gas (LNG). However rising competition from new suppliers of LNF could weigh on Qatar's main hydrocarbon revenue.

As the country's crude oil production is one of the lowest of the OPEC countries, Qatar is intensifying its economic diversification efforts. But this increases the country's energy demand and natural gas consumption in return. The country's proven crude oil reserves were 25.2 billion barrels, having a share of around 2 percent in the OPEC. According to the EIA estimates, the country gained 55 billion USD from net oil exports in 2012. Qatar produced 1.6 million b/d of liquid fuels in 2013 out of which 730.000 b/d was crude oil.

Qatar Petroleum, the state-owned petroleum company, dominates the operations in oil and gas sector in the country. The operations include exploration, production, refining, transport etc. all the upstream and downstream sectors. The company announced early in 2014 it was planning to invest around 11 billion USD in the development of the existing Bul Hanine oil field to boost oil production capacity. Qatar estimates to increase the current production capacity by 50,000 b/d to 90,000 b/d by 2020.

The country allows international oil companies to be involved in large-scale projects as it benefits from the technical knowledge and technological expertise. Total, ExxonMobil, Mitsui & Co, Shell are among the shareholders of Qatargas consortium.

Chart 16: Qatar oil production, consumption, net oil exports, 000 b/d



Source: BMI, EIA

Qatar has the world's third-largest proves natural gas reserves with 885 trillion cubic feet. The gas in North Field provides major part of the supply in the country. The Barzan Gas Project signed in 2011 between Qatar Petroleum and ExxonMobil would also contribute significantly to the country's natural gas production. Train 1 and Train 2 are expected to supply around 2 billion standard cubic feet per day of sales gas. The exploration activities in the country could result in the opening of new oil and gas reserves in the country, which represents a significant opportunity for the companies operating in this sector. The rising demand due to the energy intensive industries also creates an opportunity for the companies on the demand side.

The country exports around 85 percent of its natural gas as LNG, according to the EIA. Majority of the exports is addressed to Asian markets which creates a heavy dependence for the country on the economic health of its clients.

Kuwait represents 8.4 percent of the total OPEC (around 6 percent of the world total) with an estimated 101.5 billion barrels proven crude oil reserves in 2013. It is one of the world's largest oil producer and net exporter. As the country's economy depends heavily on hydrocarbon, the authorities have implemented a strategy of diversification by developing non-associated natural gas fields.

The country has become a net importer of natural gas with its natural gas reserves standing at the same level, an estimated 63 trillion cubic feet, since 2006.

As in many GCC countries, the government controls the oil sector. The Supreme Petroleum Council, headed by the Prime Minister, sets the energy policy of the country along with the Ministry of Oil and the Kuwait Petroleum Corporation, Kuwait's national oil company.

However, the Partitioned Neutral Zone (PNZ), the divided zone between the borders of Saudi Arabia and Kuwait possesses its own companies. Two countries share additional reserves in this zone on a 50-50 basis.

Kuwait aims to increase its oil production to 4 million b/d by 2020 from currently around 3 million b/d (Project Kuwait) which pushed the state-run Kuwait Oil Company to develop new oilfields. The country plans to compensate the decline in the maturing Burgan field by rising production in five northern oilfields (Ratqa, Abdali, Bahra, Sabriya and Raudhatain). The drop in oil prices seem unlikely to weigh on the decision to develop oil production as the prices fluctuate over the time and after a period of decrease usually follows

a period of recovery in prices. In the last period Kuwait Oil Company inked deals worth around 10 billion USD. According to media reports, Kuwait invested BP, Royal Dutch Shell, Total, ExxonMobil and Chevron to develop the oilfields.

Chart 17: Summary

Source: BMI, EIA

Total hydrocarbons production (000 boe/d)				
	2012	2013e	2014f	2015f
Saudi Arabia	13,504.0	13,457.0	13,657.5	13,802.1
UAE	4,148.9	4,185.4	4,283.0	4,495.7
Qatar	4,112.5	4,193.6	4,277.2	4,311.2
Kuwait	3,061.2	3,095.9	3,163.3	3,233.9
Total hydrocarbons consumption (000 boe/d)				
	2012	2013e	2014f	2015f
Saudi Arabia	4,464.5	4,710.0	4,930.7	5,185.6
UAE	2,009.7	2,087.8	2,188.1	2,291.1
Qatar	543.1	570.0	599.5	625.6
Kuwait	719.7	754.7	793.7	835.0
Crude oil, NGPL and other liquids production (000 b/d)				
	2012	2013e	2014f	2015f
Saudi Arabia	11,717.3	11,582.0	11,697.7	11,725.0
UAE	3,203.6	3,212.0	3,236.9	3,287.5
Qatar	1,645.5	1,707.0	1,716.2	1,724.8
Kuwait	2,786.9	2,811.1	2,868.8	2,927.7
Crude oil, NGPL and other liquids production (USD bn)				
	2012	2013e	2014f	2015f
Saudi Arabia	468.3	447.7	459.0	451.5
UAE	128.0	124.2	120.2	120.0
Qatar	65.8	66.0	63.7	63.0
Kuwait	111.4	108.7	106.5	106.9
Crude and other liquids net exports (000 b/d)				
	2012	2013e	2014f	2015f
Saudi Arabia	9,571.5	9,316.4	9,309.8	9,199.6
UAE	2,786.8	2,771.7	2,771.7	2,797.0
Qatar	1,362.0	1,422.0	1,429.4	1,436.5
Kuwait	1,826.2	1,829.8	1,866.6	1,904.1
Crude and other liquids net exports (USD bn)				
	2012	2013e	2014f	2015f
Saudi Arabia	382.5	360.1	365.3	354.3
UAE	111.4	107.1	102.9	102.1
Qatar	54.4	55.0	53.1	52.4
Kuwait	73.0	70.7	69.3	69.5
Crude oil refining capacity (000 b/d)				
	2012	2013e	2014f	2015f
Saudi Arabia	2,112.0	2,212.0	2,512.0	2,912.0
UAE	527.0	527.0	527.0	527.0
Kuwait	930.0	930.0	930.0	930.0

Boe: barrels of oil equivalent,
b/d: barrels per day, e: estimate, f: forecast

Risks exist but seem mitigated so far…

Despite the advantages of the GCC region such as having the largest proven oil reserves of the world, lower costs of production and new investment plans, some risks remain.
The first risk would be the drop in oil prices. The decline in oil prices may result in a slide in budget and export revenues of all the oil exporters in the GCC region as the dependence on oil revenues is still high despite the efforts of economic diversification. The weakening demand from Asia, major export market, and painful recovery in Europe may also drag down the oil prices in the upcoming period, putting downward pressures on the profit margin of companies operating in this sector across the region. A rise in Iranian oil production in case of an easing of international sanctions and the increasing oil production from the North America may also reduce the demand for oil of the GCC countries.
The fall in oil prices may also play against the investors' confidence for some projects through the squeeze of corporate profit margins and result in delays or cancellations. Further fall in oil prices could discourage expensive production activities in the sector as the production costs are already high and this could constrain supply.
The second risk would concern the higher fiscal break-even prices across the region. Together with the decline in oil prices, this could make rising social spending unsustainable. Lower capital expenditures could also weigh on growth performances. This brings up the subject of unsustainability of the subsidy system in the GCC region. For instance, in 2013, Kuwait's prime minister said the country's welfare system was unsustainable and the State would need to reduce the spending and the consumption of natural resources. The central budget surplus is gradually decreasing in the country (although still estimated to a robust 20.2 percent of the GDP in 2015 by Coface) and the government spending may soon exceed oil revenues.
The third source of risk would be the political tensions and the violence in the zone. Regional conflicts remain a key threat for the oil exporting countries, resulting in a necessity to ensure security of energy complexes against possible attacks. Other regional issues such as the tensions about the Strait of Hormuz which is a strategic choke point for global oil shipment also constitute a risk for the companies. Iran and the UAE already had some growing tensions in 2012 after Iranian threats in the past to block the Strait of Hormuz. This encouraged the UAE inaugurated Abu Dhabi Crude Oil Pipeline (ADCOP) in 2012, a 380-kilometers pipeline carrying oil from the Habshan oil fields of Abu Dhabi to Fujairah oil storage hub, bypassing the Strait of Hormuz. Qatar's gas exports and oil shipping also depend heavily on the Strait of Hormuz. A possible increase of tensions in this area may weigh on companies related to oil and gas sector and put them at risk because of the closure of export routes and these companies' operations would be affected.
On the other hand, one should note that almost the totality of the companies in the oil and gas sector are held by the governments in the region. These companies are very solid, globally connected and they make colossal investments with long term business plans between 10 to 50 years. Therefore, the impact of the decline in oil prices would be limited.
The fourth risk would be the economic slowdown in China. In recent years, the relations between the GCC countries and Asia has become more pronounced as Asian countries accounted for approximately 60 percent of the region's total external trade. The rise in economic activity especially in India and China resulted in an important increase of energy demand. According to the EIA, China has become the world's largest net importer of petroleum and other liquid fuels in 2013, exceeding the US. China's liquid fuels use is seen at 11 million barrels b/d in 2014. Due to the regional uncertainties and tensions in countries like Iran, Sudan and

Libya, China imported the largest part of its crude oil needs from the Saudi Arabia which provided 19 percent of China's daily oil need. The shale gas revolution in the US also reduced the need of this country to import oil from abroad, which had an important impact on the GCC countries. These countries mainly export oil, gas, petrochemical products and plastics to Asia. According to a research conducted by Deutsche Bank, India imports more than 40 percent of its total oil needs from the GCC countries while the ratio is 30 percent for China. Japan oil imports from the GCC region is no less than 70 percent while for Korea it is around 60 percent. Under these circumstances, a sustained slowdown in Asian economies would pose a threat to the extremely high budgeted infrastructure projects and social spending across the GCC region. China's strategy to diversify its energy sources could also hit GCC exports to this zone. Although most of the GCC countries have large fiscal and trade surpluses, a sharp slowdown in major Asian economies and an intensification of capital outflows could weigh negatively on GCC economies through the decline in oil prices. However, these countries possess extremely large funds under their official assets which would act as a buffer if such a situation happens. According to Standard & Poor's (S&P) estimation, the official assets under management of Qatar, Abu Dhabi, Saudi Arabia and Kuwait national sovereign wealth funds total 1.6 trillion USD, some media reported.
Although the impact of the US shale gas on the GCC countries has been limited so far, it could represent an opportunity and a threat at the same time. The impact would vary for the GCC countries which are rich on gas and for those which have a lack of gas reserves. Qatar, being the world's largest exporter of liquefied natural gas, could be threatened by the shale gas because downward pressures on pricing. Currently, the country's long-term gas contracts are linked to oil prices however customers could ask for shorter term contracts having more flexibility on prices. In the medium to long term, this could result in agreements with lower prices for the country.
On the other hand, the GCC countries like the UAE and Kuwait which became a net natural gas importer could benefit from the shale gas revolution. These countries are investing in LNG in order to meet their domestic demand. The UAE invested 10 billion USD in the Shah gas project and considers investing in shale gas projects in the US and Canada. Additionally, the UAE develops other projects such as Emirates LNG, a joint venture between Mubadala Petroleum and International Petroleum Investment Company aiming to secure additional gas supplies. Kuwait Foreign Petroleum Exploration Company (KUFPEC) announced it would invest 1.5 billion USD in Western Canada with Chevron's Canadian unit in order to develop shale technology.
It is possible to summarize the strengths of this sector as:

- Largest proven oil reserves in the world
- Lower cost of exploitation compared with other regions of the world
- Openness to foreign investments and large multinational companies
- Investments aiming at increasing production capacities
- High production potential
- Successful economic diversification

But some risks remain:

- Regional conflicts, risk of instability
- Drop in oil prices, deterioration of fiscal balances
- Growing energy consumption due to the rising diversification
- Risk of unused production capacity due to global oil supply higher than demand
- Concentration of main export markets (Asia)

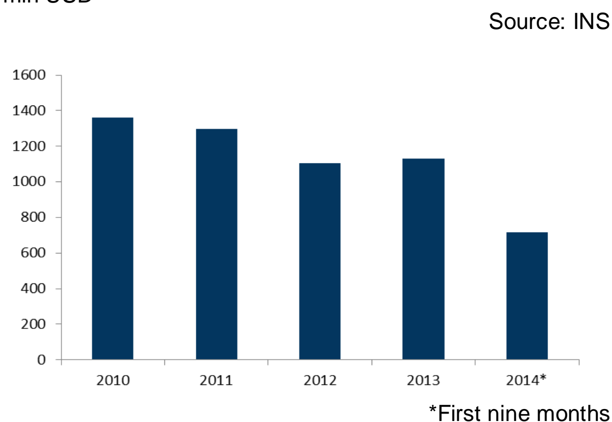
Textile sector: recovery after the instability

Why the textile is important?

The textile and apparel sectors are one of the traditional industries in the North African countries as it provides an important part of employment and industrial production. These industries include a wide range of activities that use labor and capital in different proportions.
In Morocco, the textile sector is the largest employer of the industrial workforce with 40 percent. The sector accounts for 10 percent of GDP and 20 percent of exports, according to the ministry of commerce. During the last decade, thanks to its strategic position and its geographical proximity to the European market, the textile sector in Morocco benefited from the rising power of fast fashion which allowed the sector to be among the top five providers of the European Union.
The textile sector has a central position of government's vision for accelerating the industrial activities by 2020 as it can be a growth driver by stimulating job creation and income. The sector could also be a source of capital inflows towards the country by attracting foreign investments.
In Tunisia, the textile and clothing sector is the second largest exporter in the manufacturing industries as it accounts for 19 percent of the total export of the country. The sector provided 7 percent of the total employment, 262,500 people in the first quarter of 2014. The sector of textile, clothing and leather accounted for approximately 25 percent of total exports in 2010 and 2011 period. In the first nine months of 2014, the sector accounted for 23 percent of the total exports. At the beginning of 2000's, the sector was making around 5.5 percent of the value added in the economy. This ratio declined to around 3 percent in recent years in line with the increasing share of other sectors such as non-manufacturing activities and the activities related to public services.

Chart 19: Textile, clothing, leather trade surplus of Tunisia, mln USD

Source: INS



*First nine months

Drop in oil prices

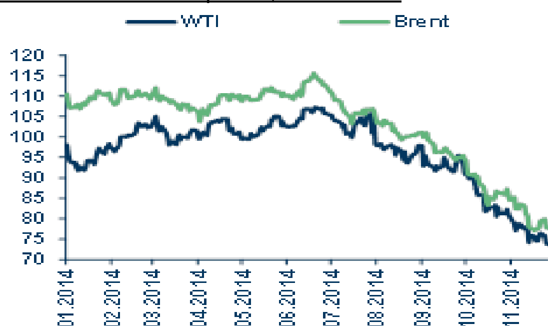
Since June2014 the Brent crude oil plunged more than 40 percent to hover around 65 USD a barrel late in November, far below the average price of around 104 USD a barrel since the start of 2011. The fall in prices accelerated after OPEC decision late in November 2014 not to cut oil output. Coface estimates Brent oil prices to stand on average at 90 USD in 2014 and at 75 USD in 2015.

Several factors explain this drop. The sluggish economic recovery in Europe, slowdown in China's economy and regional tensions, rising shale oil production in the North America put downward pressure on prices. Although it is uncertain how low the prices could go, Iraqi oil minister Abel Abdel Mehdi recently said he considers the floor for oil prices between 65 USD and 70 USD a barrel, according to media reports.

The fall in oil prices may be good news for the oil importing countries like Turkey, India, China and Indonesia in terms of lower prices on energy imports. The economists stated a 10 percent change in oil price is associated with around 0.2 percent change in global GDP, citing Tom Helbling of the IMF.

The oil importers in the MENA region would also benefit from the fall in oil prices as it would reduce the cost of the energy subsidies. But the drop may represent a risk for the oil exporters. Russia's Finance Minister Anton Siluanov recently said the Western sanctions imposed on Russia due to the Ukraine conflict and the drop in oil prices will cost the country around 130-140 billion USD a year, equivalent of approximately 7 percent of the GDP. The minister said the country was losing around 100 billion USD a year due to the drop of 30 percent in oil prices. Russia's economy is highly dependent on oil and gas exports which account for around two-third of the country's exports. The impact on the oil exporters vary as the cost of production and the income saved from the period of higher oil prices are different among the countries. The high level of government spending has raised the fiscal breakeven prices of these countries. Therefore a continued fall in oil prices may contribute to an early deterioration of the fiscal surpluses. Saudi Arabia is seen to record a central government overall fiscal deficit after 2015. On the other hand the large foreign assets and huge funds in the SWFs (sovereign wealth funds) of these countries would enable them to tolerate further lower oil prices. In this regard Saudi Arabia would be the able to tolerate more the fall in oil prices having 894 billion USD as foreign assets in 2013 according to the IIF, followed by the UAE (458 billion USD), Kuwait (424 billion USD) and Qatar (229 billion USD). But Iraq and Iran would be more vulnerable countries.

Chart 18: Crude oil prices, USD/barrel



Source : Thomson Reuters

The countries mainly exports to the European markets. 95 percent of Tunisian exports are addressed to the European Union. According to CEPEX figures, the country was the 5th largest supplier of Europe in 2013. France, Italy and Ger many were the main clients in textile of Tunisia. The country attracted the major part of foreign investments in this sector from Italy, France and Belgium in 2013 according to the Foreign Investment Promotion Agency (FIPA) of Tunisia.

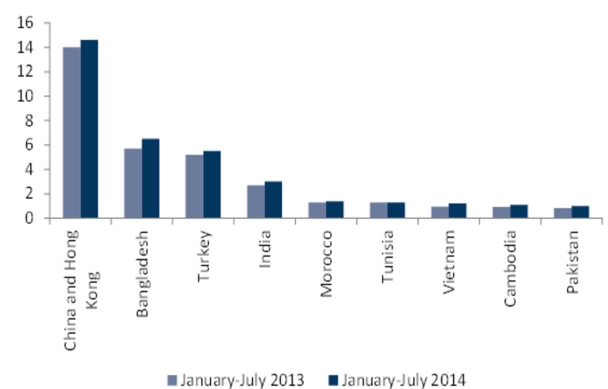
The number of companies operating in the textile sector was 1,079 in 2012 in Tunisia while in Morocco 1600 companies produce one billion pieces per year according to the figures of the Association Marocaine des Industries du Textile et de L'Habillement (AMITH).

Recovery after global crisis

During the crisis of 2008-2009, Morocco's textile industry had been hit by lower commands from Europe, especially from Spain and France which resulted in the loss of around 18,000 jobs in 2008. The turnover of exports was declined 30 percent in the first quarter of 2010. In Tunisia, around 20,000 people working in the textile and clothing sector lost their jobs, the textile and clothing production declined around 15 percent and exports dropped 8.4 percent yoy in 2009.

However, the sector has largely recovered since the crisis and now represents major opportunities. The domestic market in Morocco, estimated around 20 milliards Moroccan dirham (Dh) in 2007, is expected to reach 35 milliards Dh by 2015. This represents an important opportunity of growth for companies operating in this sector given only 10 percent of this market is covered by the domestic production. The study on the textile sector of AMITH known as “Vision 2025” suggests the turnover of the sector could rise to 130-140 milliards Dh in 2025 from 46 milliards Dh in 2010, the exports could reach 85-95 milliards Dh in 2025 up from 29 milliards in 2010 and the employment could more than double to 450-500,000 people at that time.

Chart 20: UE clothing imports, bln euro



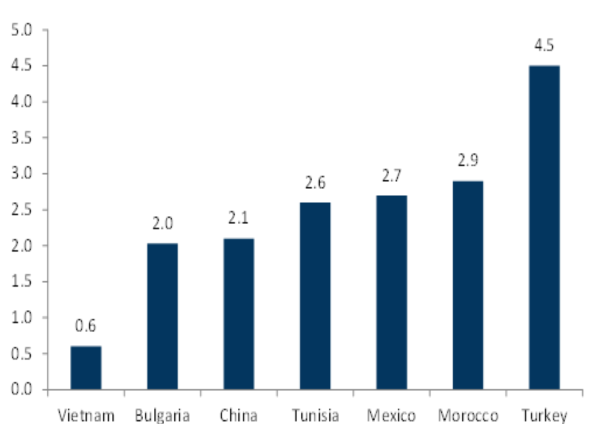
Source: Institut français de la mode, AMITH

Small and medium businesses with subcontracting as the main strategy

In Morocco, more than 50 percent of the textile production is accomplished by small and medium size enterprises (SME).

These SMEs account for around 85 percent of the sector. This allows the textile producers to have a certain degree of flexibility enabling them to meet the orders of the fashion retailers. The country imports mostly textile materials and tissues exempt from the custom tax necessary for manufacturing production and exports. Textile producers in Tunisia and Morocco enjoy the advantage of factors such as the proximity to Europe, the relatively lower wage costs and the natural skill of their workers.
According to a research conducted by Werner International in 2011 and published by AMITH, the wage costs in Tunisia tend to be lower compared with other textile producers like Turkey, Mexico and even Morocco while the latter tends to be cheaper compared with Turkey, an important competitor. Although the study includes the segments of spinning, weaving and finishing, it is still a good approximation for the clothing industry. The study concludes that hourly labor costs observed in 2011 in the textile sector were 2.9 USD in Morocco and 2.6 USD in Tunisia, slightly higher than 2.1 USD in China but still below 4.5 USD in Turkey, one of the major competitors. Lower labor costs constitute an important advantage for Tunisia and Morocco to attract foreign investors and commands from retail brands. However these countries have partly lost their advantages over production costs after the entry of China and India in the global textile market.

Chart 21: Hourly wages in textile sector, USD, 2011



Source: Werner International, AMITH

China's focus on its domestic market and changing consumption patterns in Europe encourage global textile and clothing brands for local sourcing. However these brands usually don't prefer Morocco instead of Tunisia to pass their orders or vice versa. Usually they secure their production by making a sort of mix supply from Morocco and Tunisia.
However the textile and clothing exports of these countries are highly concentrated in European markets, especially France, Italy, Belgium and Germany. The clothing industry is largely dependent on European partners both in terms of supply and marketing. This dependence creates important risks for the companies as the consumption in many European countries is still below the period before the crisis. Although the economic conditions in Europe are slowly improving, any weakening on the demand side would have negative effects on the financial situation of the textile companies in Tunisia and Morocco through the deterioration of payment performances.
The subcontracting remains the main activity of the companies in this sector. Outsourcers, usually powerful retailers, subcontract to Tunisian and Moroccan companies the most repetitive tasks. The consolidation of the clients gives the latter a "bargaining power" over the producers which are usually small and medium size companies. This results in a narrower profit margin for the producers as usually clients ask for the best terms.
The rising pressure from the international competition is another challenge. Especially Chinese firms represent an important source of risk for these companies in terms of high production capacities and product diversification. Turkey also remains as a strong competitor as the country has invested massively in productive capacity in spinning, fabric and buttons.
Another challenge for the textile and clothing companies would be the access to the financial funds that they need to ensure the production and to regulate the cash flow management. The sector is dominated by the SMEs. Especially during the periods of higher macroeconomic volatility, the access to finance becomes more difficult for this type of companies. In order to reduce the risk, commercial banks tend to create some obstacles before giving loans. The limited access to finance and business development services prevent these companies from investing in capital that they need for growing. The existence of informal sector also makes harder for the companies to have access to funding as they prefer to give limited information about their real turnover in order to reduce tax burden.
Political instability also is another risk factor. During the period of political instability in Tunisia, most of the outsourcers preferred Moroccan companies to place their orders as the country's political and economic environment was considered more stable. The foreign direct investments to Tunisia fell nearly 23 percent in 2013 to 1994.5 million TND from a year ago, according to the figures of the Foreign Investment Promotion Agency of Tunisia (FIPA). Recent elections may represent the beginning of a new are of stability in the country.
It is possible to summarize the strengths of this sector as:

- Rising orders from the European companies on the back of better political conditions, economic recovery
- Lower production costs compared with some competitors like Turkey
- Geographic proximity to core export markets
- Strong presence of SMEs providing flexibility in terms of production and exports

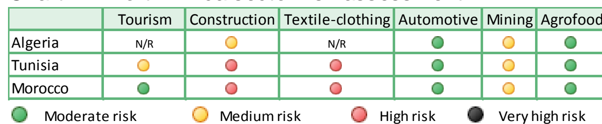
But some risks remain:

- Risk of political instability continues
- Dependence on European companies in terms of exports
- Sector still based on subcontracting, giving a bargaining power to clients
- Need for innovation, more investment in technology and government assistance to develop an industrial strategy
- Difficult access to finance especially for companies without credit insurance, presence of strong informal activities

3 OTHER SECTORS

Except the oil and textile sectors, there are other industries which can be considered strategic for the MENA countries. The governments support especially tourism infrastructure and construction as these are among the key drivers of the economic growth and contribute to the employment. Coface also assesses the risks related to sectors. The statistical credit risk indicator simultaneously summarizes changes in four financial indicators: turnover, profitability, net indebtedness, and cash flow, completed by the claims recorded through Coface's network. The sector risk assessment is divided into four risk categories: moderate, medium, high and very high.

Chart 22: North Africa sector risk assessment

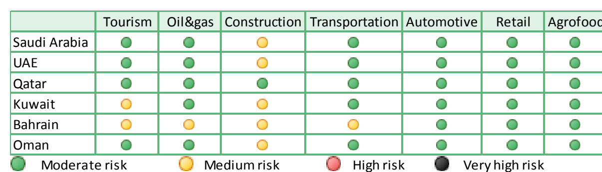


	Tourism	Construction	Textile-clothing	Automotive	Mining	Agrofood
Algeria	N/R	Medium risk	N/R	Moderate risk	Medium risk	Moderate risk
Tunisia	Medium risk	High risk	High risk	Moderate risk	Medium risk	Moderate risk
Morocco	Moderate risk	High risk	High risk	Moderate risk	Medium risk	Moderate risk

Moderate risk · Medium risk · High risk · Very high risk

Source: Coface

Chart 23: GCC sector risk assessment



	Tourism	Oil&gas	Construction	Transportation	Automotive	Retail	Agrofood
Saudi Arabia	Moderate risk	Moderate risk	Medium risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk
UAE	Moderate risk	Moderate risk	Medium risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk
Qatar	Moderate risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk
Kuwait	Medium risk	Moderate risk	Medium risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk
Bahrain	Medium risk	Medium risk	Medium risk	Medium risk	Moderate risk	Moderate risk	Moderate risk
Oman	Moderate risk	Moderate risk	Medium risk	Moderate risk	Moderate risk	Moderate risk	Moderate risk

Moderate risk · Medium risk · High risk · Very high risk

Source: Coface

Construction: Booming vs. uncertainty

Risk level is moderate in Qatar, medium in Saudi Arabia, UAE, Kuwait, Bahrain, Oman, Algeria, high in Tunisia and Morocco. Construction is one of the strategic sectors across the MENA region as it provides jobs and boosts the economic growth due to the many other subsectors implemented during the construction process. Although there are some risks especially related to the regional tensions, the growth opportunities remain strong on the back of better growth performances, supports from the governments and rising tourism in politically stable countries.

The size and the development of the construction sector vary across the countries in the MENA region. Countries like United Arab Emirates, Saudi Arabia and Qatar make colossal investments in mega projects.

In the UAE, the Dubai Land Department (DLD) announced in May that the investments in Dubai's real estate sector totaled 35 billion AED during the first quarter of 2014, an increase of 57 percent compared with the same period of last year.

On the other hand, Dubai won the rights to organize World Expo 2020, a universal exposition organized every five years. As the government spending for hosting the event is estimated around 8.7 billion USD, the Dubai Expo 2020 is expected to contribute significantly to the development of non-hydrocarbon sector of the country. The government would mainly invest in a range of infrastructure projects. The UAE remains the largest construction and infrastructure project market with an estimated under construction project value of around 940 billion USD, according to some analysis.

Saudi Arabia plans to spend 100 billion USD over the next ten years to upgrade the country's transportation infrastructure. Qatar also enjoys an increasing level of construction activities and real estate. The projects are related to the infrastructure and urban planning. The country has been selected to host the FIFA World Cup in 2022 which provides huge growth opportunities for the construction sector. Qatar is expected to invest over 200 billion USD in construction projects by 2022, according to a report published by Deloitte in 2013.

The construction activities are also strengthening in the North Africa, especially in Morocco with the government's support. Moroccan construction sector has recorded a real growth rate of 4.2 percent in 2011, recovering from a period of lower growth performance between 2009 and 2010, according to a report of the BMI.

The political stability in Morocco is encouraging for investors' confidence. The government' support to develop infrastructure projects and social housing, coupled with a rising tourism sector would also boost the growth pace of the construction sector in the upcoming period.

Despite the positive growth momentum perspectives, there are some risks weighing on the sector across the MENA region. Political and social turmoil in the region is an important risk factor for the construction as it resulted in cancellation or slowdown of many projects in countries such as Egypt, Iraq and Libya.

The deadlines for the mega projects such as World Cup 2022 for Qatar and Expo 2020 for Dubai could be considered another challenge for the companies as these projects require a huge work including the realization of all the infrastructure and services needed around the main facilities.

On the other hand, the GCC economies are still heavily dependent on oil and gas revenues, despite the ongoing efforts of diversification. Therefore any disruption in the oil and gas sector would have a negative impact on the economy including the construction sector as it would reduce the capacity of the government to support the mega projects.

Another factor that could have an adverse effect on the companies could be the difficulties of debt funding as the exit strategy of the US Federal Reserve signals the global liquidity would be less abundant and more expensive in the upcoming period. Higher interest rates could reduce the profitability of projects.

A major part of the workers in these projects are foreigners. The dependence on expatriate labor is another challenge which pushes the governments to implement different strategies aiming at improving the skill of local people. However the reforms such as Saudization also impose penalties and additional fees which could reduce the profits of the companies.

Tourism: Privileged sector for economic development but very sensitive to socio-political stability

Risk level is moderate in Saudi Arabia, UAE, Qatar, Oman, Morocco, medium in Kuwait, Bahrain, Tunisia. The tourism sector plays an important role in the diversification of the oil-

dependent GCC economies. In order to reduce this reliance on oil and develop the tourism sector, the governments across the MENA region have implemented in recent years aggressive investment projects on infrastructure and technology. In North Africa, the tourism sector grew significantly between 2001 and 2010, until the beginning of the Arab Spring. The sector is an important source of foreign inflows for these countries with a total direct contribution to the GDP estimated at 12.1 percent in 2013, according to the World Travel & Tourism Council (WTTC) figures. The total contribution of the sector to the employment including the jobs indirectly created totaled nearly 6 million jobs, equivalent of 11.6 percent of the total employment in 2013.
After taking a sharp hit during the Arab Spring, the tourism in MENA is recovering. Tourist arrivals were down by 9 percent to 72 million in 2011, according to the World Bank. Tourism revenues declined 30 percent in Egypt and 45 percent in Tunisia at that time. The ongoing general tension in the region also affected tourism in Jordan where it fell by 17 percent between 2010 and 2011, according to the Eurostat data.

Chart 24: Travel&tourism direct contribution to GDP (% share, 2013)

Country	%
Morocco	8.6
Tunisia	7.3
Egypt	5.6
Lebanon	6.9
Jordan	5.3
Bahrain	4.1
UAE	4.0
Oman	3.0
Yemen	2.9
Qatar	1.8
Saudi Arabia	1.7
Kuwait	1.5

Source : WTTC

However in line with the improvement of the social and political conditions in many countries of the region, there is an increase in the tourist arrivals. The number of international tourist arrivals to the North Africa reached 19.6 million people in 2013, rising 6.1 percent from a year ago, according to the data of the World Tourism Organization (UNWTO). The number of international tourist arrivals to the Middle East however slightly declined to 47.7 million people in 2013, down 2.8 percent compared with the previous year. But in the first eight months of 2014 the number of tourists was estimated to be up by 3 percent.
As tourism is an important contributor to the GDP and a foreign currency provider, the governments support the investments in this sector. In Morocco, the government implements some tax exemption concerning the projects related to the tourism sector. Within its plan of “Vision 2020”, the governments also aims to double the accommodation capacity with the construction of 200,000 new beds, create 470,000 new direct jobs across the country, increase by two points the share of tourism in the national GDP to nearly 150 billion dirhams against 60 billions today. In Tunisia, since the launch of the program of upgrading institutions in the hospitality sector in 2005, the projects to upgrade 125 hotels with an accommodation capacity of over 64,000 beds were approved.
The Gulf States also invest aggressively in the tourism sector as a part of their economic diversification strategy. Higher income levels, political and social stability in the region, the attractiveness of these countries for business, luxury and leisure tourism and the governmental supports are factors behind the development of this sector. Significant infrastructure investments constitute a pillar of the development of tourism sector. The capital investment for projects related to the tourism sector rose at an annual growth rate of 21.2 percent between 2002 and 2011 and reached 30 billion USD in 2011, according to Alpen Capital. The tourist arrivals to the GCC region are expected to rise from 2.5 percent of global tourist arrivals in 2002 to 4.1 percent in 2022. The organization of mega events such as Dubai World Expo 2020 and Qatar World Cup 2022 support the exhibition and sports tourism.
The GCC countries invest in other countries as well. Egypt seeks investments from the GCC countries in order to support tourism. The country is planning to sell a land on a 65-kilometer stretch of the Mediterranean coast near the town of el-Alamein. The government said also it would offer incentives to investments in the tourism sector to attract foreign companies. Morocco recently announced that Gulf States would invest 6 billion dirhams in tourism infrastructure in Casablanca port. The GCC governments also discuss to implement a unified tourism action plan including topics such as the issue of a common tourist visa for the GCC, the framing of unified domestic regulations etc.
Despite the growth opportunities offered by the global economic recovery and the relatively more stable social and political environment, some challenges remain for the tourism sector in MENA. There are still some deficiencies that impede the development of the tourism such as the low quality of maintenance of touristic facilities and sites as well as the security issues. On the other hand, tourism is very sensitive to the social and political stability. Any deterioration would impact negatively the international tourism demand for these countries and therefore weigh on the financial performance of the companies having an activity in tourism sector. During the events of the Arab Spring, the number of tourist arrivals to Egypt declined by a third in 2011 and dropped more than 30 percent in Tunisia, according to the Eurostat data.
The need for skilled workers is another challenge. With the rising demand of tourists for these countries, it becomes gradually more important for the companies to hire and retain employees with higher qualifications to offer better services and attract more clients.

Automotive: rising star

Risk level is moderate in Saudi Arabia, UAE, Qatar, Kuwait, Bahrain, Oman, Algeria, Tunisia, Morocco. The crisis in the EU forced the automotive companies to look for other countries for sales and profitability. The GCC is among the most attractive regions for the manufacturers as better economic growth perspectives, high per capita income and the advantages provided by the economic stability represent opportunities for the sector. The governments’ support to the infrast-

ructure and transportation projects is another reason for the strengthening of the automotive sector in these countries. According to media reports, Frost & Sullivan expect the sales of cars and pickups to post a cumulative growth rate (CAGR) of 5.9 percent between 2012 and 2017 and reach 1.7 million units for the region. Additionally, the positive trend in the automotive sector increases the demand for auto components and services. The Frost & Sullivan anticipate a CAGR of around 13 percent between 2012 and 2017 for parts, accessories, lubricants and batteries, with tires and inner tubes keeping pace at a rate of 12 percent during the same period, media reports say.
Saudi Arabia and the United Arab Emirates are the largest markets for the sector. Saudi Arabia is trying to position itself as a hub for the automotive sector in the Middle East. The country is currently the largest importer of vehicles and auto parts in the region. The total automotive imports of the country stood at 23.4 billion USD in 2013 while the exports and re-exports totaled 2.5 billion USD. New car sales are estimated to rise around 7 percent annually, reaching the one million mark by 2020. Isuzu established a production unit in Dammam while Daimler AND and E.A.Juffali & Brothers operate together a truck assembly facility in Jeddah. Saudi Arabia accounted for 183 of the Gulf region's 300 auto assembly and parts manufacturing plants as of 2012, according to the data provided by the US-Saudi Arabia Business Council. The growth is also dynamic in the UAE where the car sales in January-May 2014 period rose 12 percent compared with the same period of last year, according to media reports. The annual sales growth is estimated to hover around 10 percent in 2014. The automotive trade in Jebel Ali Free Zone of Dubai boomed from 1.1 billion USD in 2004 to 4.7 billion USD in 2013.
The automotive sector is strengthening across the whole MENA region. Sector representatives estimate the total vehicle to increase nearly to 7 million by 2020 based on a report of the Boston Consulting Group. Leading players of the sector such as GM, Toyota, Ford, Mercedes, Caterpillar, Mitsubishi have established their distribution centres for the auto parts in the region. The Moroccan automotive sector has achieved remarkable growth over the last decade. Morocco has improved its competitive position in the global market as its market share in global automotive trade reached 0.23 percent in 2012, exceeding those of neighboring countries Tunisia and Egypt having a share of 0.15 percent and 0.08 percent respectively, according to a study of the Office des Changes of Morocco. Revenue from foreign direct investments in Moroccan automotive industry rose 3.6 billion dirhams in 2012 from 913 million dirhams in 2010 on the back of rising investments for the construction segment. According to figures published by the International Organization of Motor Vehicle Manufacturers and compiled by the Oxford Business Group, Morocco produced 108,743 vehicles in 2012, an increase of 83 percent from the previous year. The country is positioned as the largest automaker in North Africa, a title held by Egypt in 2011, and the second in Africa after South Africa. Morocco's strategy in the automotive industry lies in the attraction of auto equipment manufacturers, of assembling units and the major manufacturers. The value of automotive exports in Morocco rose 17.5 percent in the first nine months of 2013 compared with the same period of the previous year while the vehicle sales were up 58.3 percent, amounting to 8 billion dirhams, according to the Office des Changes. While the political and social stability provide strength to Morocco to attract more investments, the uncertainty in Egypt had negative. The car production in this country fell 30 percent in 2011, 31 percent in 2012 and again 31 percent in 2013.
One of the biggest risks for the automotive industry in the MENA region is the political and social instability. The social unrest and violence cause interruption in the production activities. Many major manufacturers including GM, Toyota and Suzuki had to halt operations in 2013 due to the turmoil in Egypt. The shutdown of factories or the suspension of production activities could increase seriously investment costs and lengthen the delivery terms.
The automotive sector in the MENA region is mostly based on the assembling activities. This makes the domestic market highly dependent on global car makers which decide about the repartition of the profit. Another threat would be the rising competition from other regional suppliers such as Turkey and Eastern Europe. The automotive industry in Turkey is very strong and produces more than 900,000 vehicles per year. Recently, the car makers have started to invest in countries like India, Brazil and Russia due to the more advantageous production costs and incentives. This pushes the countries in the MENA region to offer more competitive market and business environment to attract more investments.

4 INTERVIEWS

Belhassen Gherab
President of Tunisia Textile Federation

"If the company is struggling to finance its purchases, exports and at the same time the credit insurances are on the alert; the company is reluctant as it would be automatically sanctioned."

What are the difficulties of the textile companies in Tunisia?

In Tunisia there are two categories of firms in the textile and clothing sector:
- Those specialized in what is called "the subcontracting". They do only manufacturing the clothes with the material and accessories provided by the customer.
- Those providing "a finished product" taking charge of the fabric and accessories in addition to the services related to the clothing. These companies are mainly in relation with the European market.
Companies specialized in subcontracting do not need to raise large funds as their commitments are limited: human resources, means of production and other resources.
The complication concerns mainly companies in the second category, those that provide a finished product. Indeed, these companies must have much greater financial capacity compared with the first ones to meet the needs of finance material supplies and accessories for commitments on multiple operations, upstream and downstream to result in the finished product and its export. Not to mention the burden of funding alone, the entire circuit of the business star-

ting with the order until the payment by the client which can be spread over few months.

Was there any insolvency?

Some companies suffer from difficulties in certain cases, large enough to halt production activity sometimes. Almost all companies are struggling to resist to difficult economic conditions at the national and international level. The danger is that some foreign customers do not respect their commitments. Here, the risk becomes unbearable for Tunisian companies whose resilience is usually quite small and limited.

Does the macroeconomic volatility have a negative effect on these companies?

Today we are witnessing a return to Tunisia of the European brands as they reduce their budget on Asia and direct a larger portion of their production to Tunisia. But if the company is struggling to finance its purchases, exports and at the same time the credit insurances are on the alert; the company is reluctant as it would be automatically sanctioned.

Tunisia had lost market share during the period of political and social instability. Did it change in favor of Tunisia?

We believe the success of the recent elections and the hope of establishing a government with new economic policies to support and sustain more the companies was a serious step. This gave a strong signal to our partners in Europe and to our subcontractors in the textile sector. We hope this will be confirmed quickly with a growth in the volume of business in the coming days.

How does the fragile economic recovery in Europe affect the Tunisian textile companies?

It creates a favorable reaction for Tunisian firms. Indeed, being always on their guard, European companies do not take big commitments and they buy more short-term favoring short circuits. In this context, Tunisia is very favorably positioned by the responsiveness of its businesses, and its excellent geographical location.

What are the weaknesses concerning the access to finance?

Like all financial institutions around the world, the main requirement of the Tunisian banks, especially when it comes to finance export operations, is "guarantees." As soon as you prove that your operations abroad are insured, banks finance exports.

How would you evaluate the cost of funding?

The Central Bank of Tunisia has already increased its key rate. The (commercial) banks add a higher margin (to this key rate) compared to previous years. Companies seeking funding in Euro can do it given the relatively low interest rate. If they do not want to take risks and prefer a dinar financing, they can do it too.

What are the opportunities and risks in the textiles and clothing sector in Tunisia?

There are more opportunities than risks. Tunisia gradually recovers, we hope to have exceeded the period of lethargy, and the situation is improving with the confidence coming back. We see a gradual return to Tunisia but we are still closely linked to the evolution of the economic situation in Europe.

What are the government strategies for the development of the sector?

As already said, we accomplished an important and fundamental stage with the successful elections, with the assurance of the formation of a government which has a good perception of the economic situation, which would be skilled enough to implement an economic policy which take into account the specific macro and micro economic elements in Tunisia. For now, we do not know the recommended strategy yet. We know some general guidelines about creating a dynamic for new investments, strengthening of industrial structures and creating jobs. The government that will be formed will certainly work with the business people to prepare industrial strategies taking into account the constraints of the situation and applying all settings for quick results.

"We see a gradual return to Tunisia but we are still closely linked to the evolution of the economic situation in Europe."

Haitham ALKHAZALEH
Coface Information and Claims Manager, UAE

"Reducing oil production or further decline in oil prices can affect companies' revenues which may affect profitability and expansion plans in general"

How do you evaluate the impact of falling oil prices on companies in the oil and gas sector?

Majority of the oil and gas companies in the GCC are state owned or linked to the state and therefore the Impact of falling oil prices on companies is somehow linked to the overall impact on the entire economy of the country. GCC countries have different oil breakeven prices. Oman and Bahrain seem to be the most exposed economies to the impact of the recent decline in oil prices with Kingdom of Saudi Arabia, United Arab Emirates, Kuwait and Qatar seem to be less impacted.
In general the GCC countries were cautious in balancing their budget based on a low breakeven oil price which makes them less vulnerable to the current fall in oil prices. These countries have an accumulated reserve of income revenues from the previous years when the oil prices were above 95 USD which will also give these economies flexibility to deal with the declining oil prices.
However, sustained decline in oil prices can impact the GDP growth and budget revenues which highly depend on oil.

How the shale gas revolution would affect the oil and gas sector in the Gulf countries?

Shale gas and oil production can increase the overall global supply which can of course affect prices. However, further

decline of oil prices below 85 USD can put shale oil and gas production at risk as it costs around 50 USD - 100 USD to produce an oil barrel from shale oil.
The United States and Europe are likely to benefit from shale gas and oil which can particularly impact the Russian economy, for the GCC exports, China and Asia remain the biggest markets.

What kind of impact the geopolitical tensions (intra-GCC or outside of the GCC countries) would have on oil sector?

Geopolitical tensions have been always a common reason for oil price increase over the past 10 years. However, this does not seem to be the case nowadays. With geopolitical tensions around in the GCC countries, in Iraq, Yemen, Libya, Egypt, Syria and the ISIS crises, the oil prices continued to decline and production continued to increase. Geopolitical tensions are one factor that may affect production and budget revenues, but we need to also keep in mind the global supply and demand levels.

What are the opportunities and challenges for oil companies in the period ahead?

The GCC economies are expected to continue recording a 4 percent GDP growth in the next 2 years which holds a lot of opportunities to companies in the region. The latest drop in oil prices will increase the pressure on GCC countries to control budget spending, focus more on non-oil trade and GDP diversification which could boost various sectors and make oil companies more competitive. Reducing oil production or further decline in oil prices can affect companies' revenues which may affect profitability and expansion plans in general.

Asia is the largest market for the GCC hydrocarbon exports. How would you evaluate the risk of a slowdown in China on the GCC hydrocarbon sector?

The slowdown of Chinese economy has an impact on the global economy in general. China is the largest importer of Middle Eastern oil and one of the biggest trade partners to the Middle East and GCC. The effects of the slowdown of the Chinese economy will directly be reflected on the revenues and trade activities of the GCC countries, mainly KSA and Qatar due to heavy dependence on oil and liquefied gas exports.
This effect however is likely to be insulated by the huge amount of sovereign wealth funds of those countries.

"Geopolitical tensions are one factor that may affect production and budget revenues, but we need to also keep in mind the global supply and demand levels"

Conclusion

The Arab Spring underlined the need of economic and political transformation in MENA countries. Although there are some signs of political transformation, the reflection on economic indicators and corporate performance takes time. So far, the recovery in global economy supports the economic activity in the region. The implementation of diversification strategies and some structural reforms also ensure the economic growth.
However the political and social unrest continues in some countries across the region which threatens the improvement of business climate and trade.
For the GCC region, the hydrocarbon sector is the major source of revenues while the textile sector provides an important part of the employment and industrial production in Tunisia and Morocco.
The drop in oil prices seem to be the principal concern for the oil exporters however the impact on the companies would be limited as the investments in this sector are very expensive and implemented by long-term business plans. However further decline in prices may deteriorate fiscal balances of the GCC countries and narrow companies profit margins.
The fragile recovery in European countries and a possible deterioration in payment performance constitute major corporate risks for the textile and clothing producers in Morocco and Tunisia. The improvement of the political conditions encourages hopes for the creation of industrial strategies which result in better business environment.

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