Hogan Lovells

Investment Outlook 2019 Report: Economic trends and corporate transactions in the GCC

04 February 2019

On the surface, 2018 looked like a good year for the Gulf region. The oil price averaged over US$70/barrel for the year, compared to an average of US$50 for the previous three years. Combined with increased production, that allowed for increased spending while governments continued to improve the fiscal environment.

Under the surface, however, the reality for investors and the private sector has been more mixed. M&A picked up as corporates restructured, sovereign wealth funds moved aggressively into global technology ventures and loans drove growth in debt markets, but in key areas such as privatization sales, foreign investment and IPOs progress was minimal, despite continued reform.

Three factors slowed commercial transactions in 2018 – and these will continue to shape Gulf markets in 2019:

- **GDP growth has not translated into a better environment for the private sector.** The private sector has been hit by rising costs, cautious consumer demand and lower government demand. Larger Gulf companies are looking outside their home markets to diversify revenues and are investing heavily in technology to boost their global competitiveness. But many smaller family companies – especially in Saudi Arabia – are struggling to wean themselves off cheap expatriate labor, protectionist regulations and local government spending.
- **The low-hanging fruit has gone.** The UAE, long the focus of investor interest as a hub, is no longer a growth story. Private sector jobs are declining as companies restructure and cut costs. Expats are squeezed by rising taxes and stagnant wages, so consumer demand is down. The government too has kept spending low. In Saudi Arabia, the growth potential is huge, the reform drive is continuing and government spending has grown in a few key areas. But actual transactions are hampered by a difficult business environment, lack of investor confidence and local worries about the impact of opening up to outside influence. Qatar has bounced back from the blockade and is opening itself to investment, but regional logistical links have disappeared, making operations difficult. Oman and Bahrain are no longer in crisis, and Kuwait remains stable, but progress in all three is slow.
- **The global and regional framework has become more challenging.** The oil price is highly volatile and will remain so – which helps to focus minds on the need for private sector development and foreign investment, but makes it more difficult to guarantee stability while opening up. The US is becoming a less predictable partner, with growing opposition in Congress to the White House's alignment with particular GCC jurisdictions and support of its

foreign policy goals. Gulf countries are making more resolute efforts to develop ties in new markets, but growing protectionism at home and abroad increases the tension between jobs and the pressure to produce locally, on the one hand, and opening to foreign investment on the other.

However, there are also key opportunities shaping Gulf markets over the next 12 months. In this year's report, alongside trends for capital markets, privatization and PPPs, we take a close look at the prospects for foreign direct investment (FDI), growing trade and investment ties with Africa and China, and the Gulf region's emergence as Silicon Valley's leading venture investor.

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