HSBC Holdings plc

Middle East – Economy

HSBC
The world's local bank

Presentation by Simon Jon Williams

Forward-looking statements

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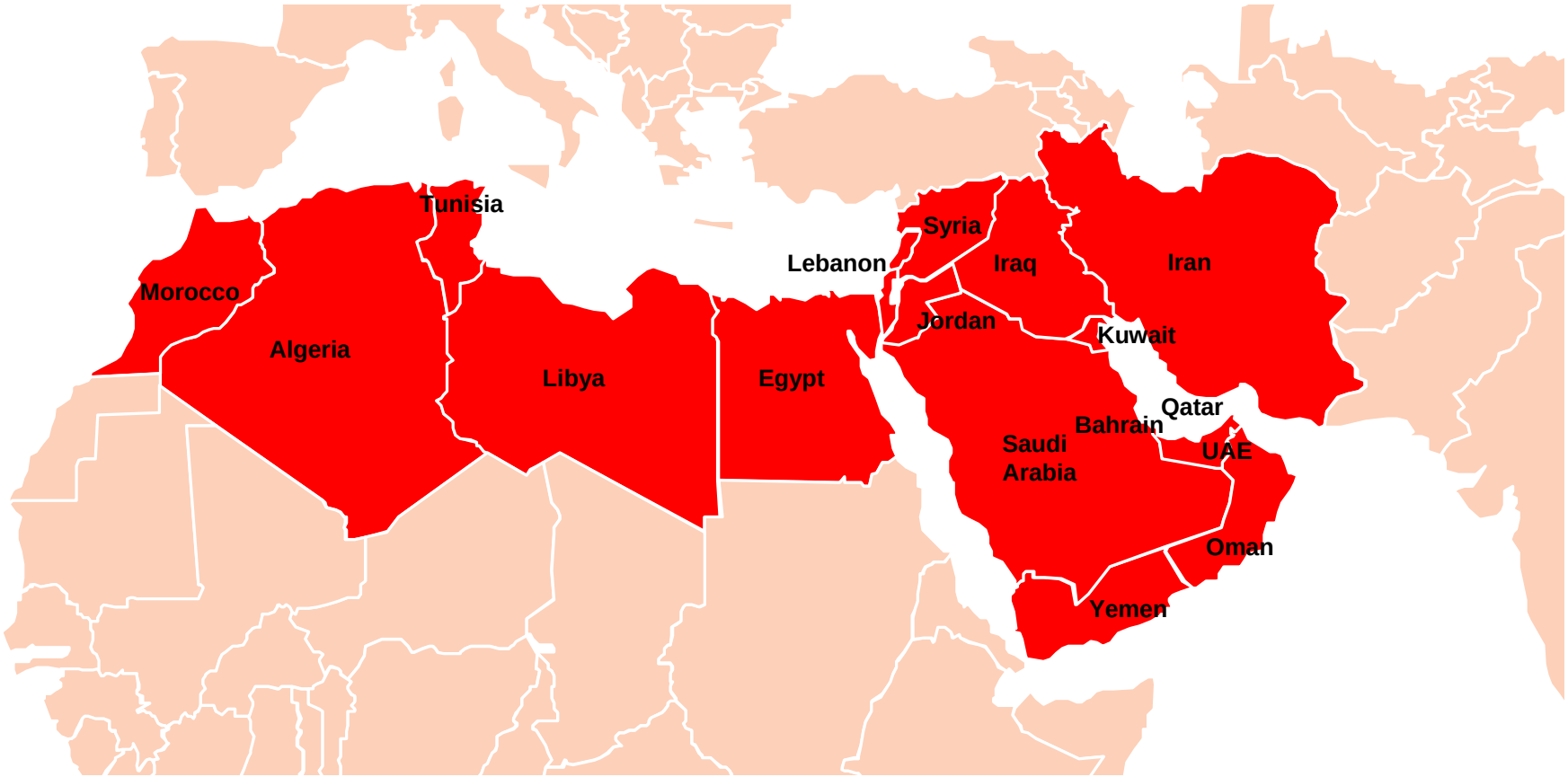
The Middle East Economy

HSBC

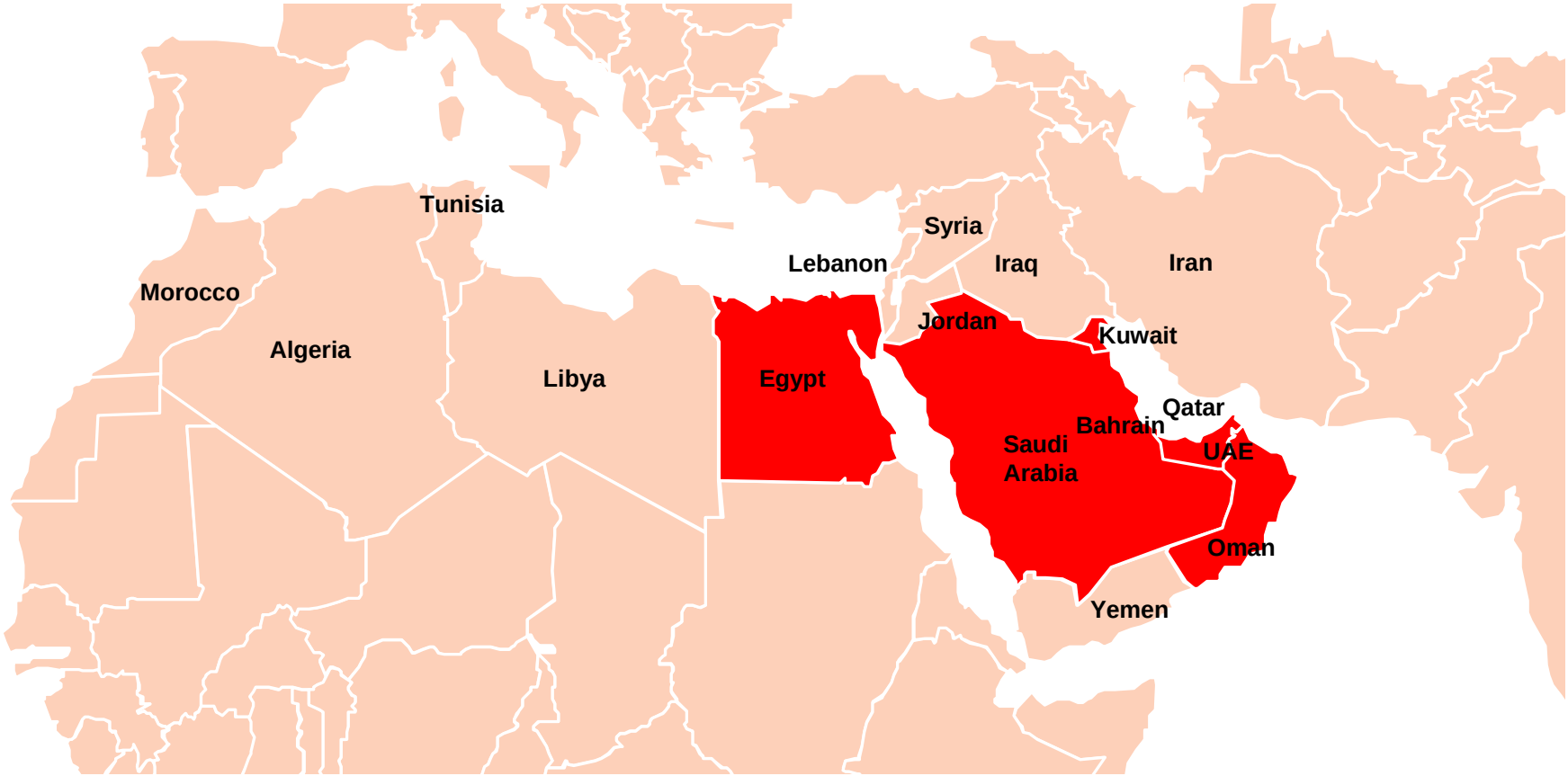
The world's local bank

What does the Middle East do well?



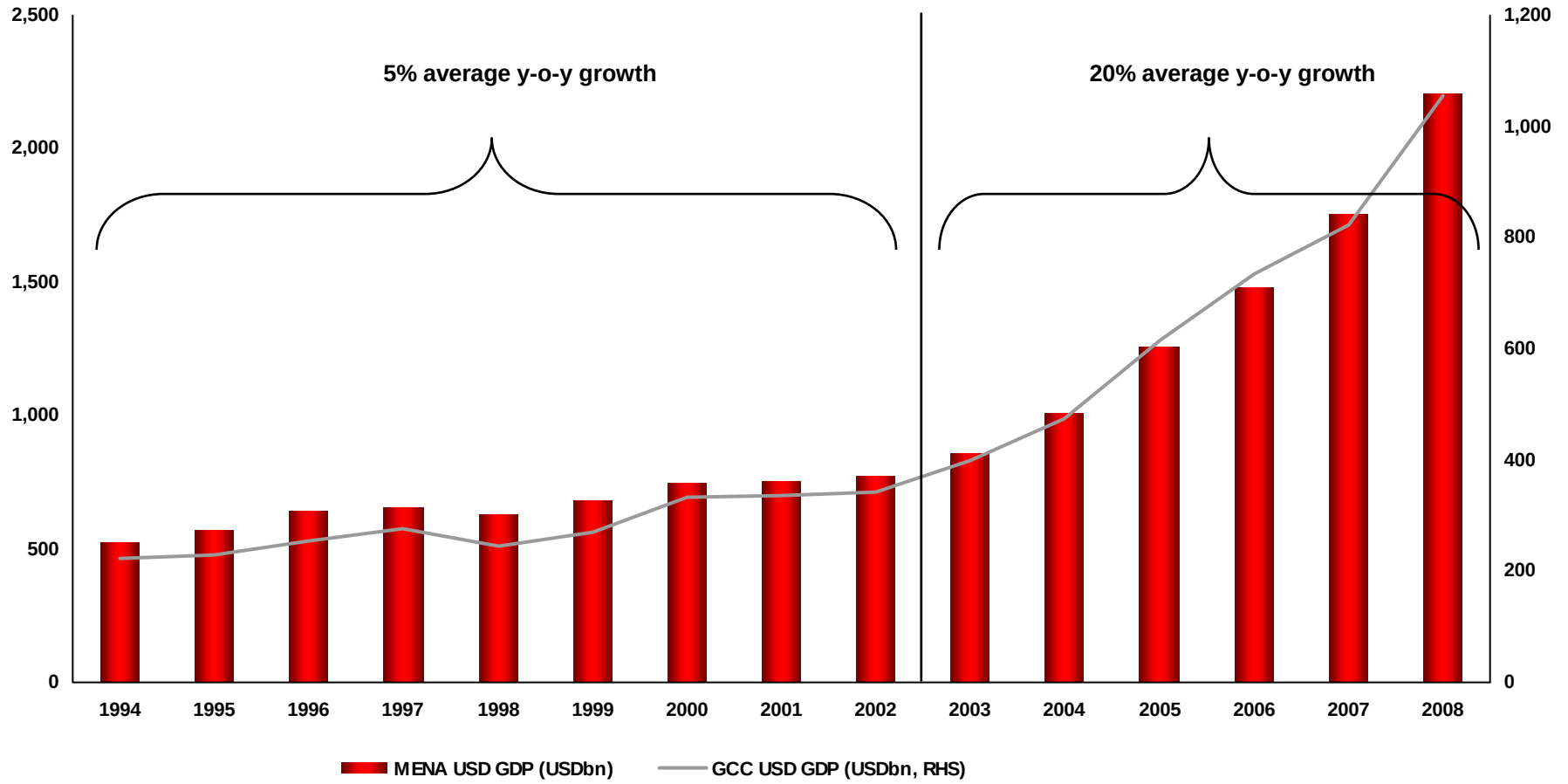
Source: HSBC

The GCC and Egypt



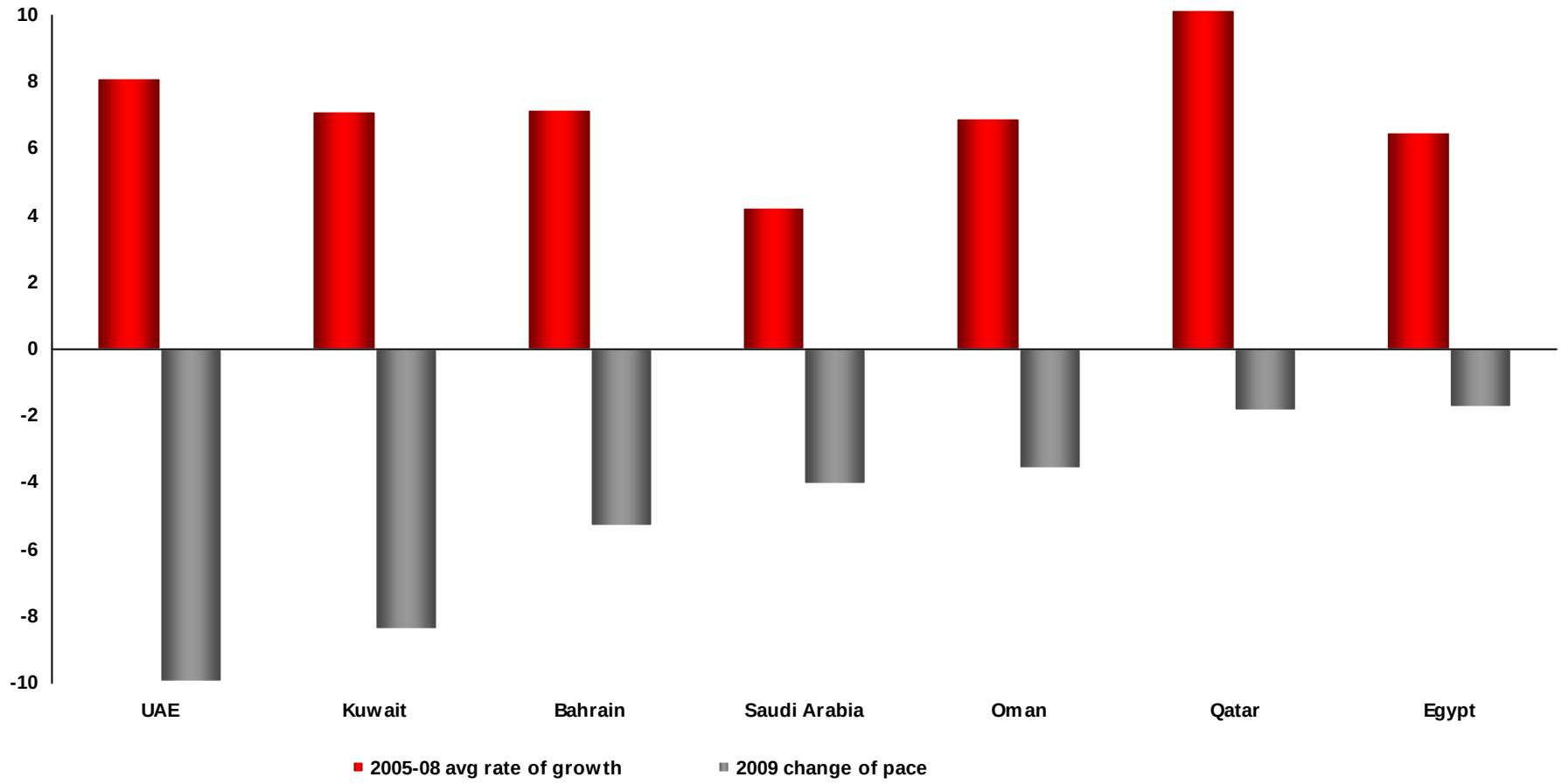
Source: HSBC

A five-year period of exceptional growth was led by the Gulf…



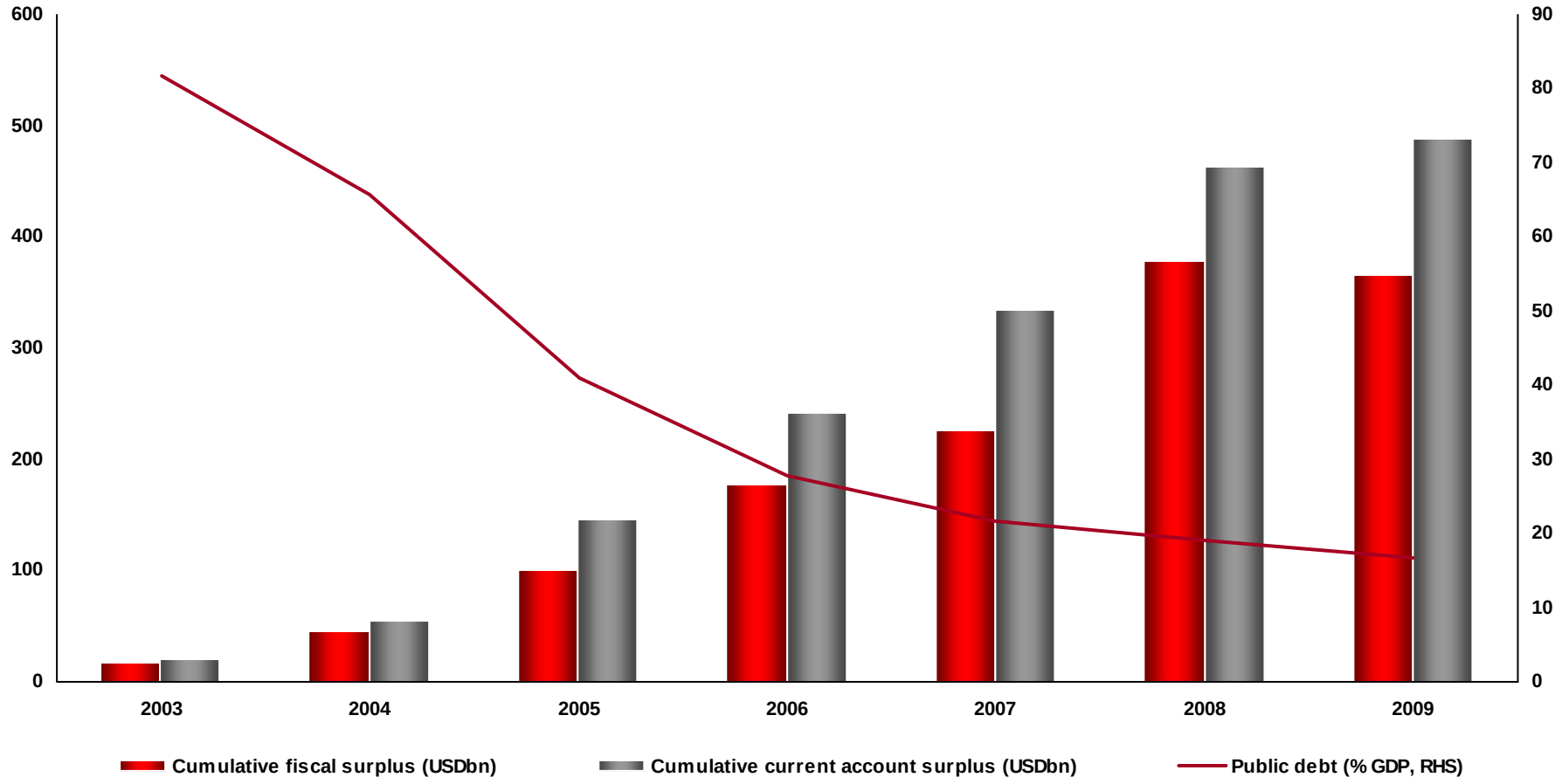
Source: IMF, MENA central banks

…which also led the slowdown when it came



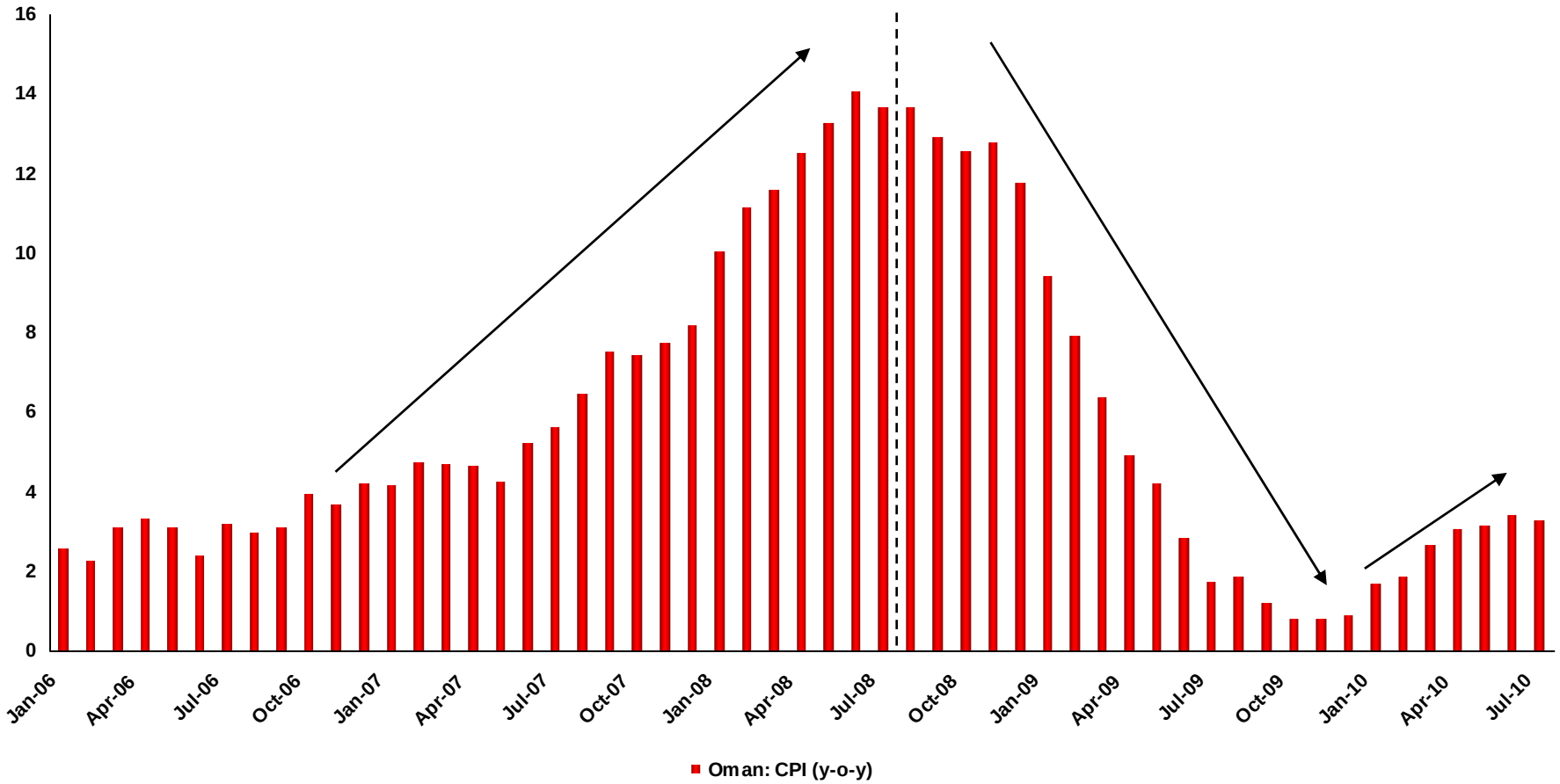
Source: MENA central banks

The region's strengths kept drama out of the crisis



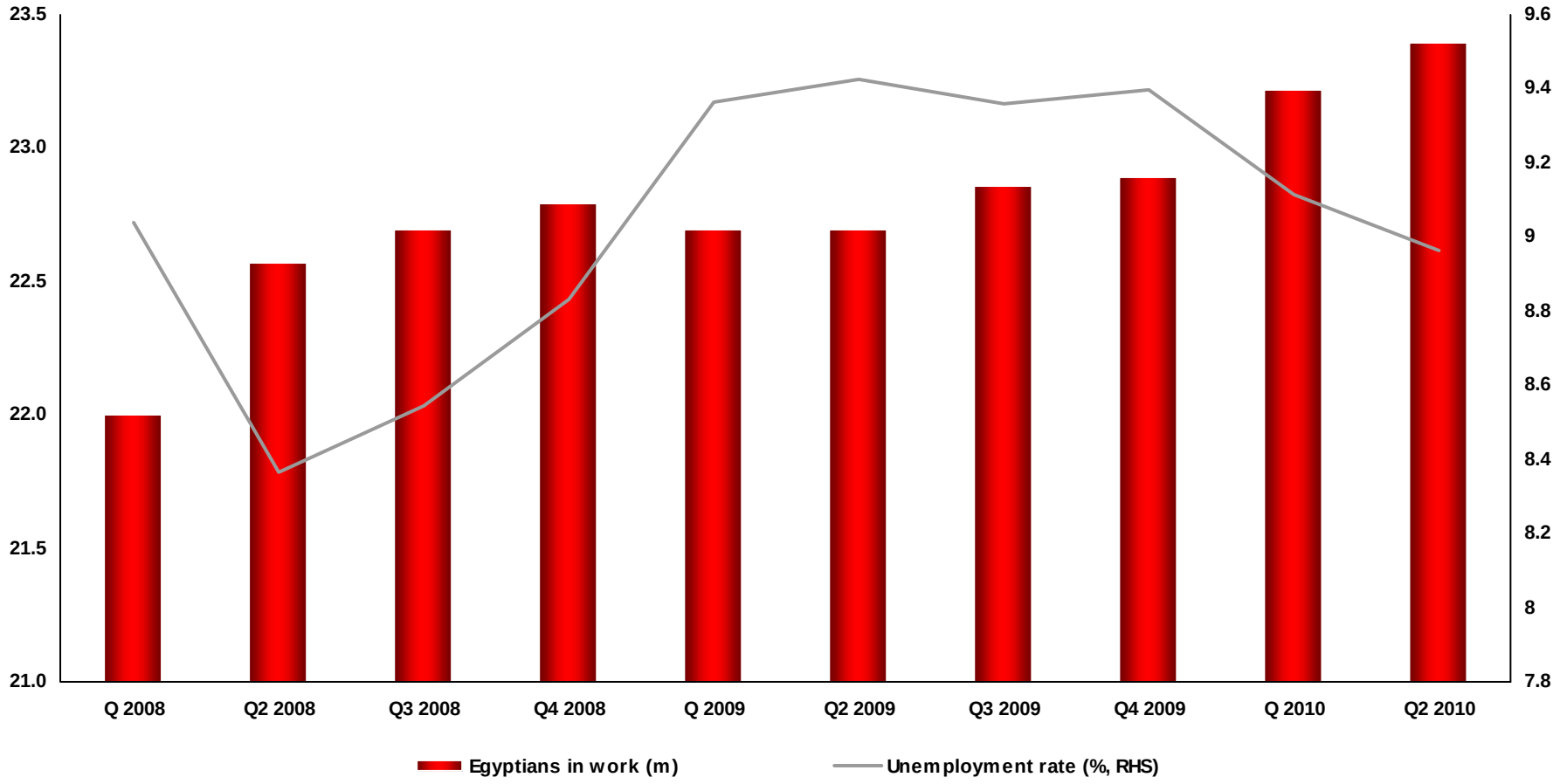
Source: GCC central banks, GCC Ministries of Finance

There are convincing signs of recovery across the Gulf…



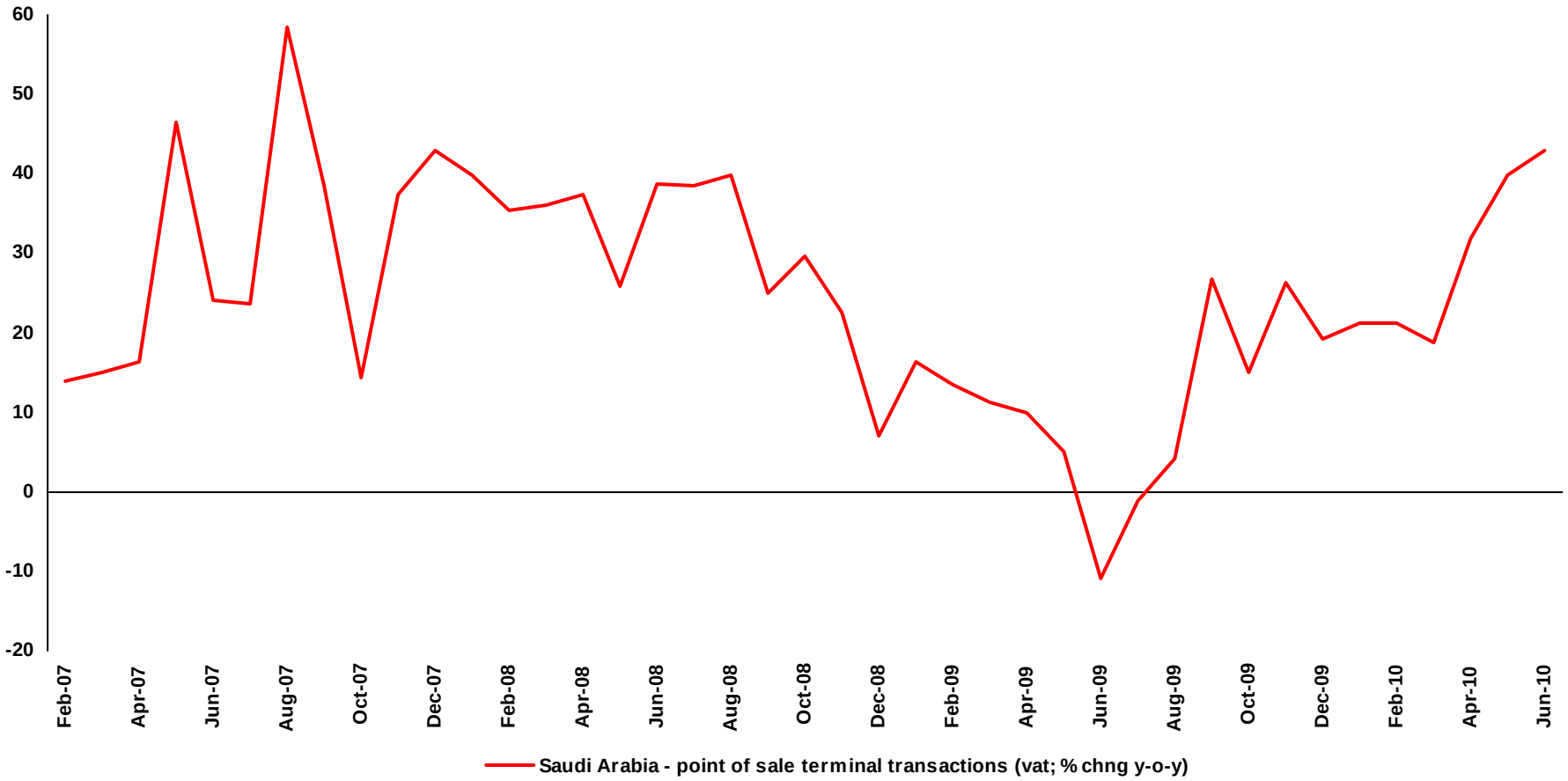
Source: Oman Ministry of National Economy

…and in Egypt…



Source: Egypt CAPMAS

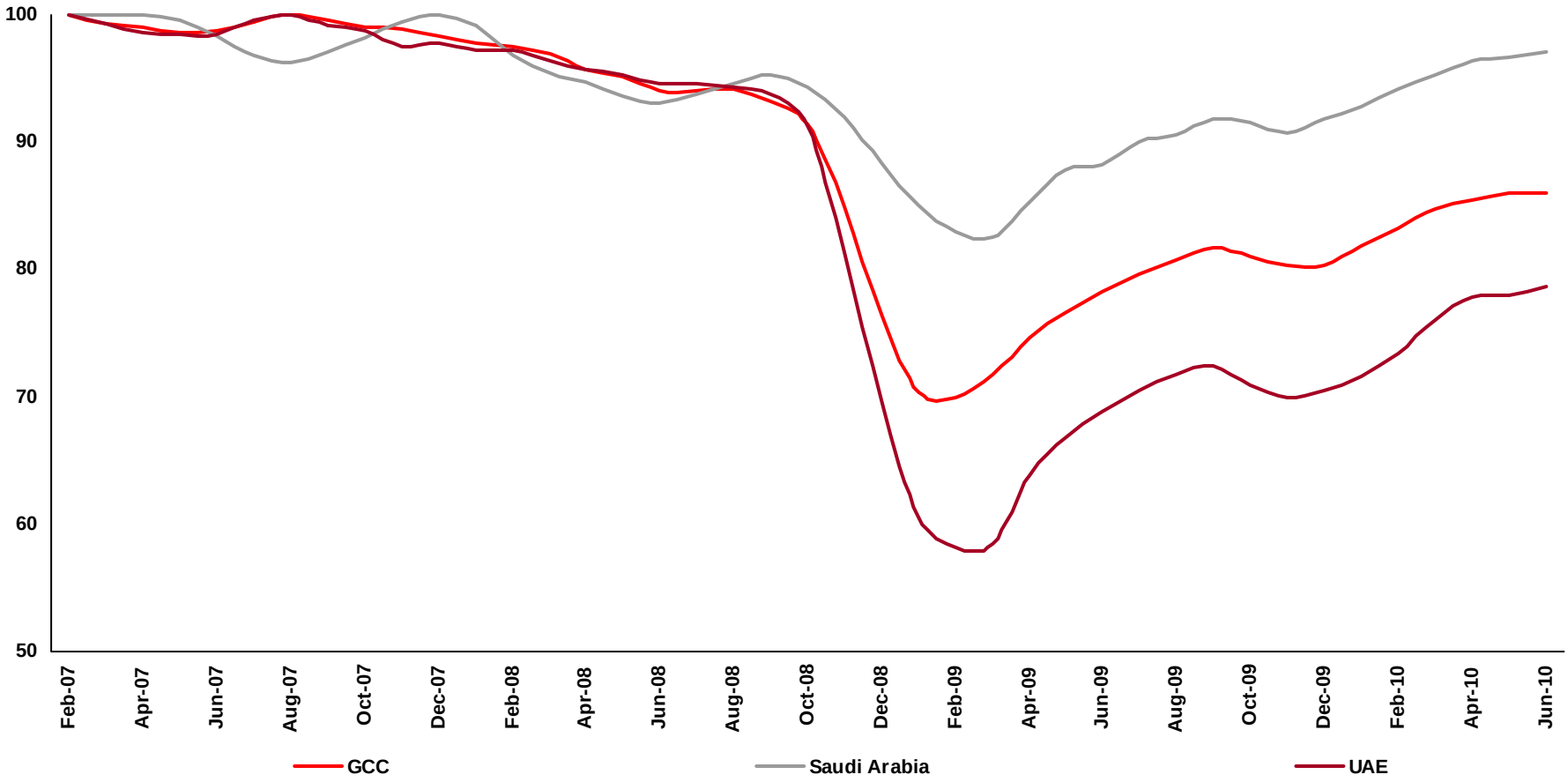
…as consumption picks up…



Source: SAMA

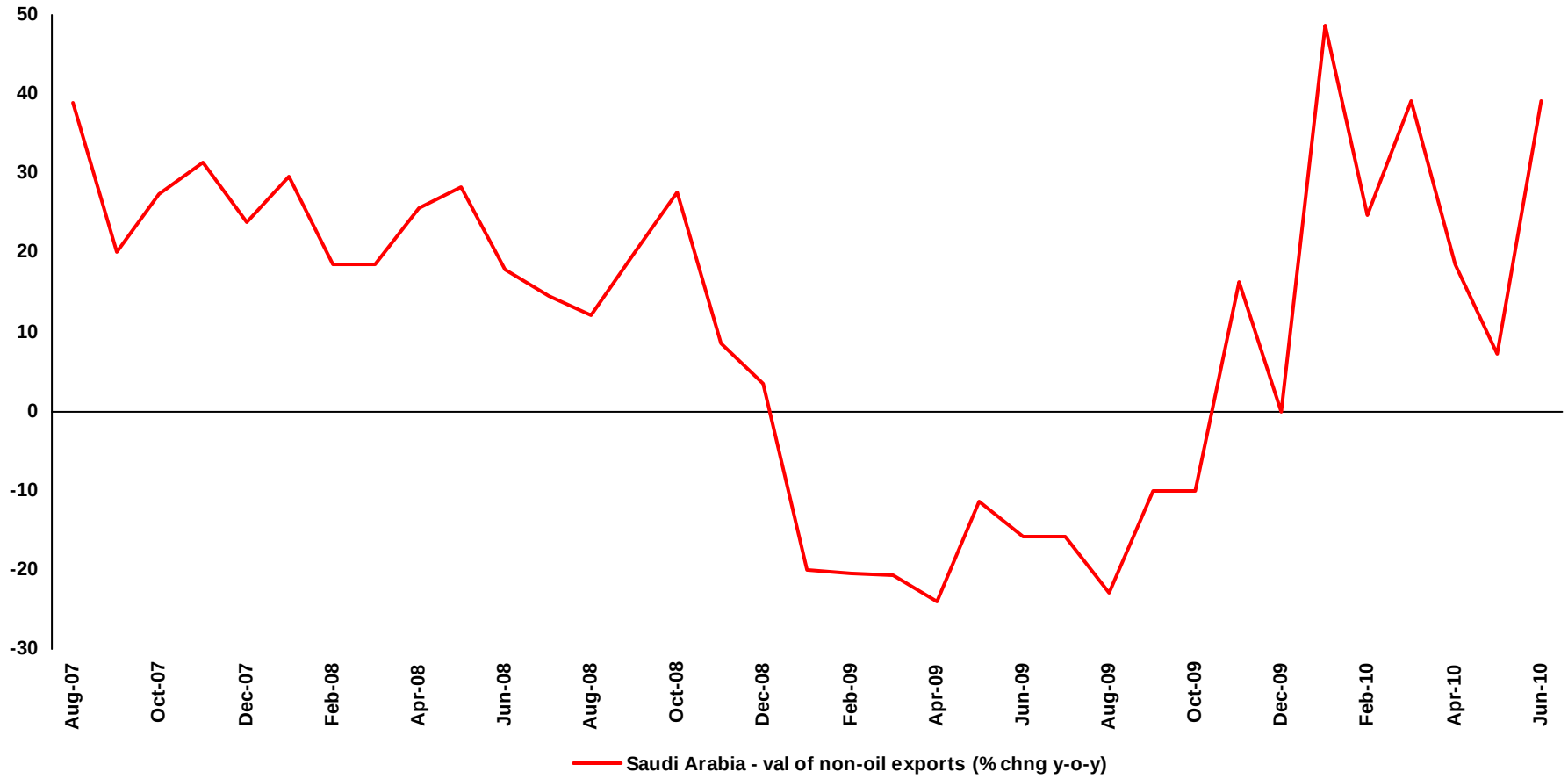
…business confidence recovers…

HSBC Middle East Business Confidence Survey (February 2007 = 100)



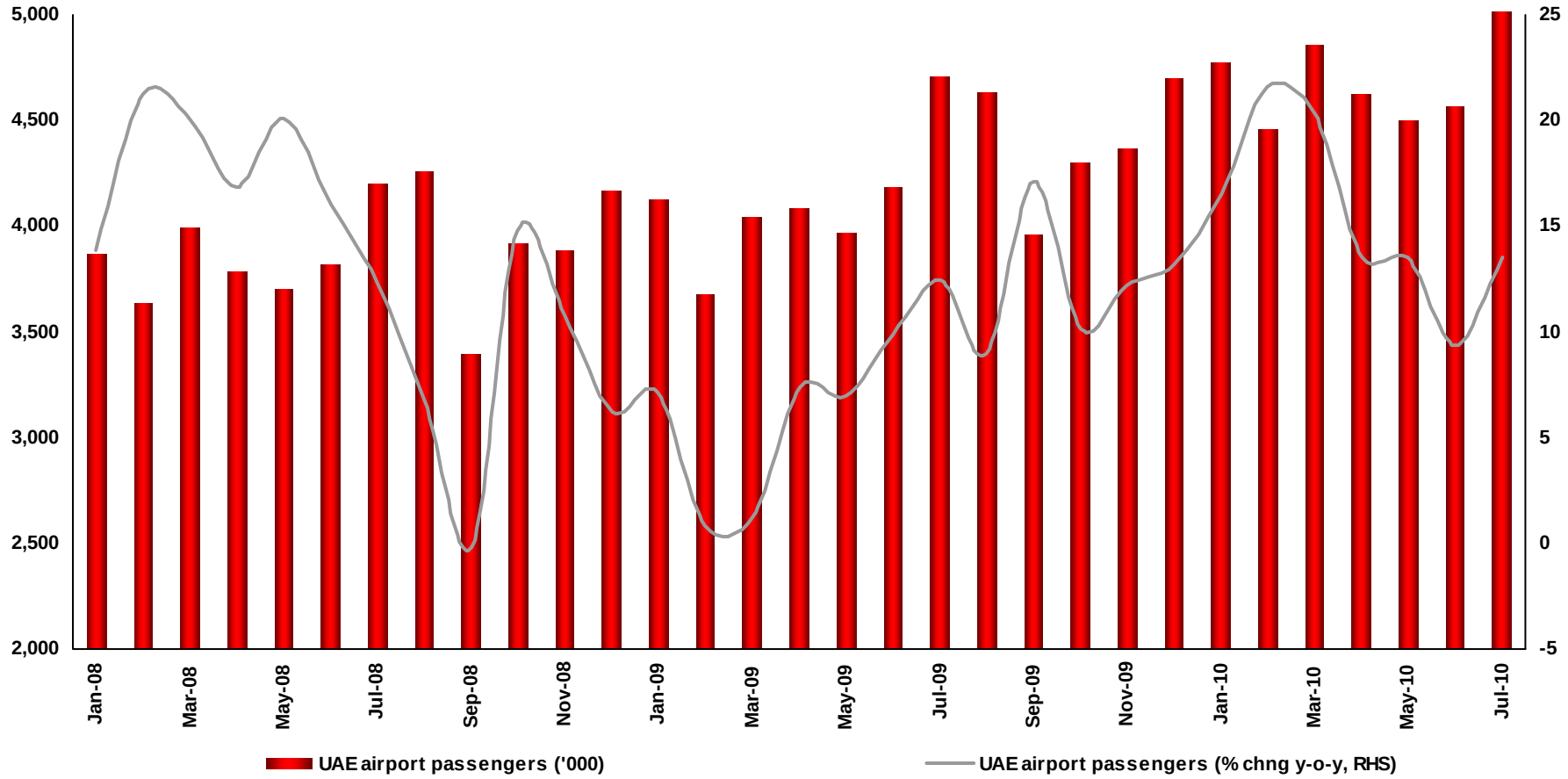
Source: HSBC

…and external demand picks up for non-oil goods…



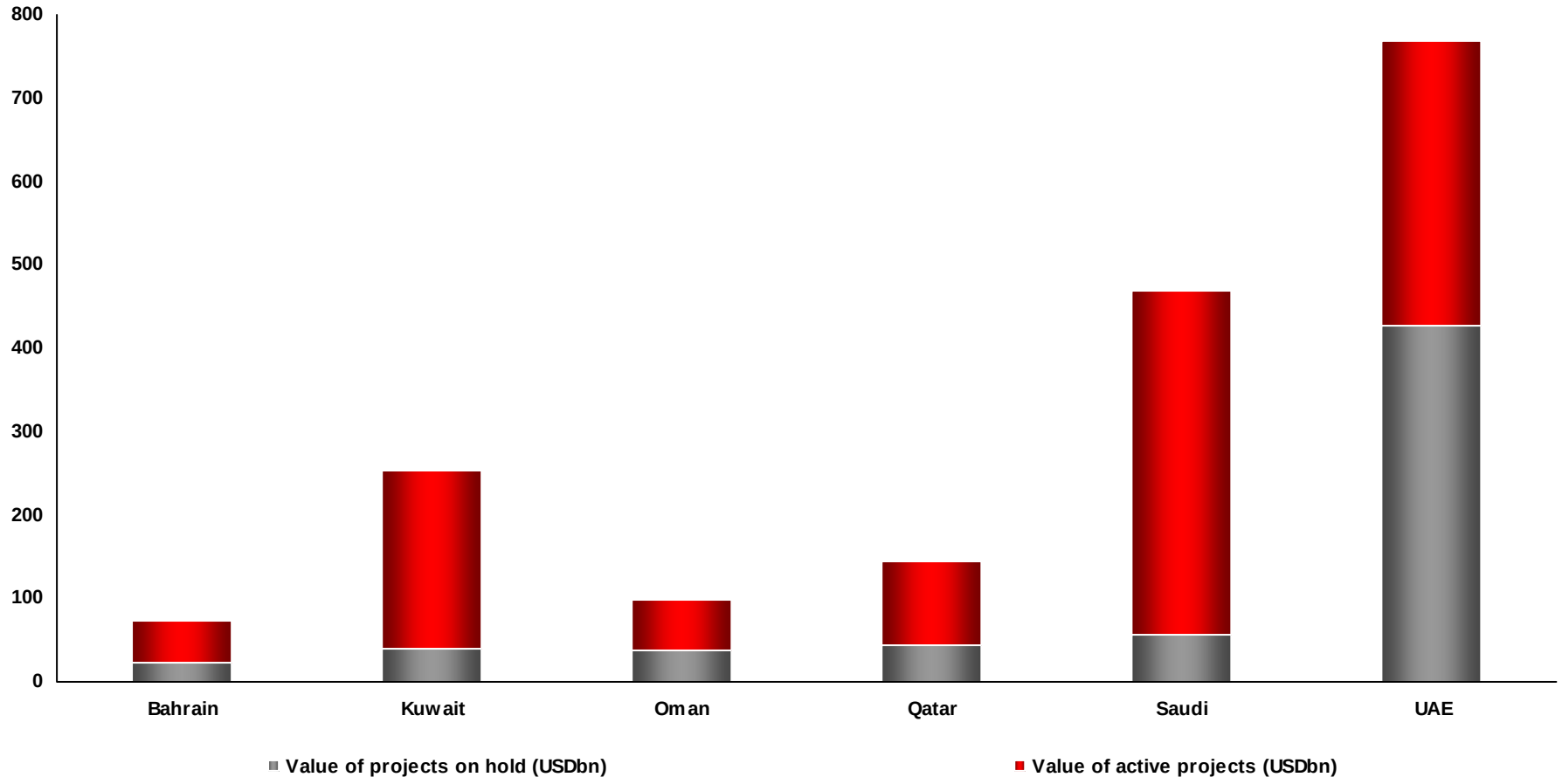
Source: JADWA, Bloomberg, Saudi CDSI

…and for MENA's export-orientated services



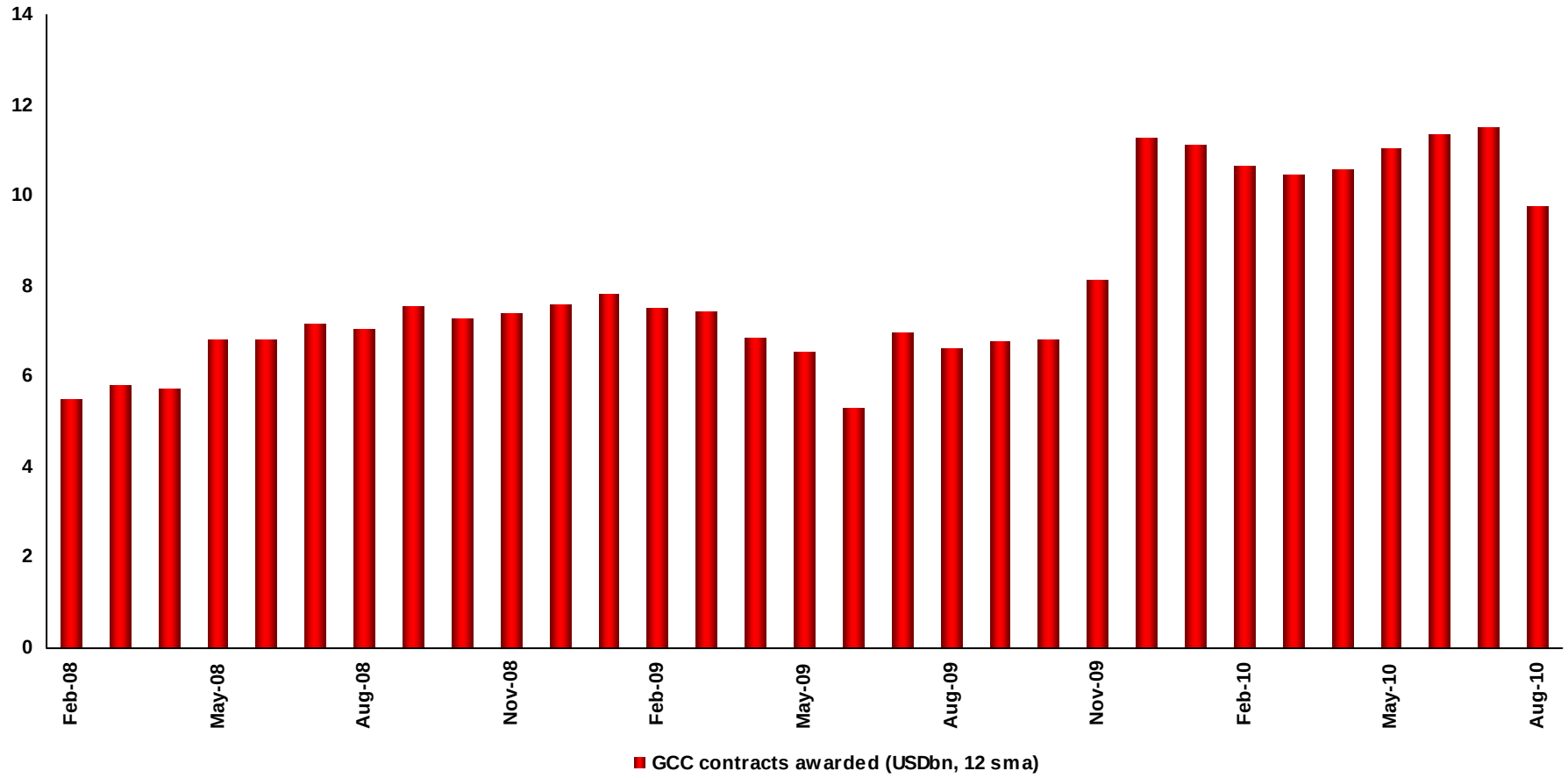
Source: DIA, ADIA

The region is still ambitious…



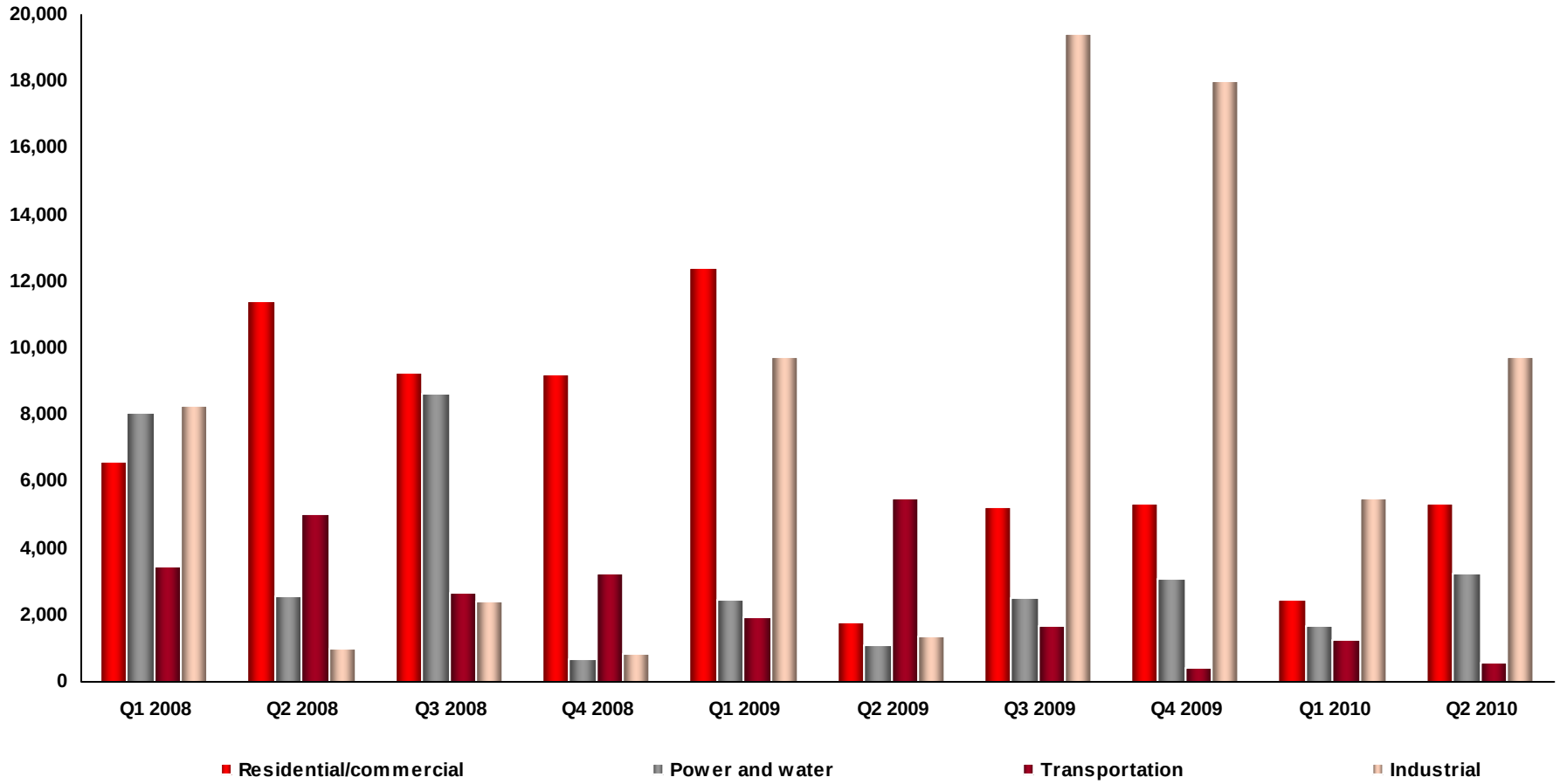
Source: MEED Projects

…and core investment projects are ongoing…



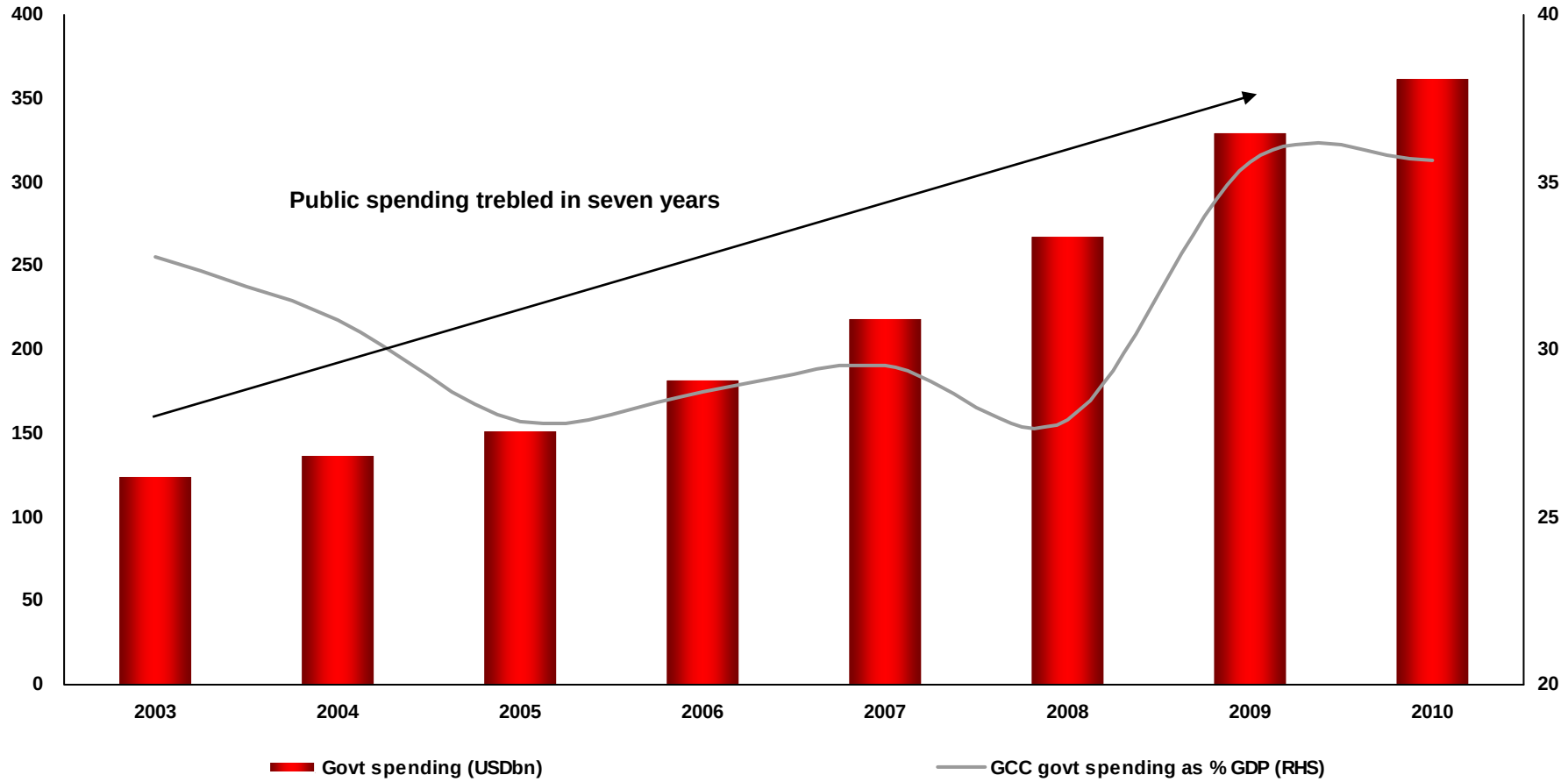
Source: MEED

…and the focus is shifting away from real estate



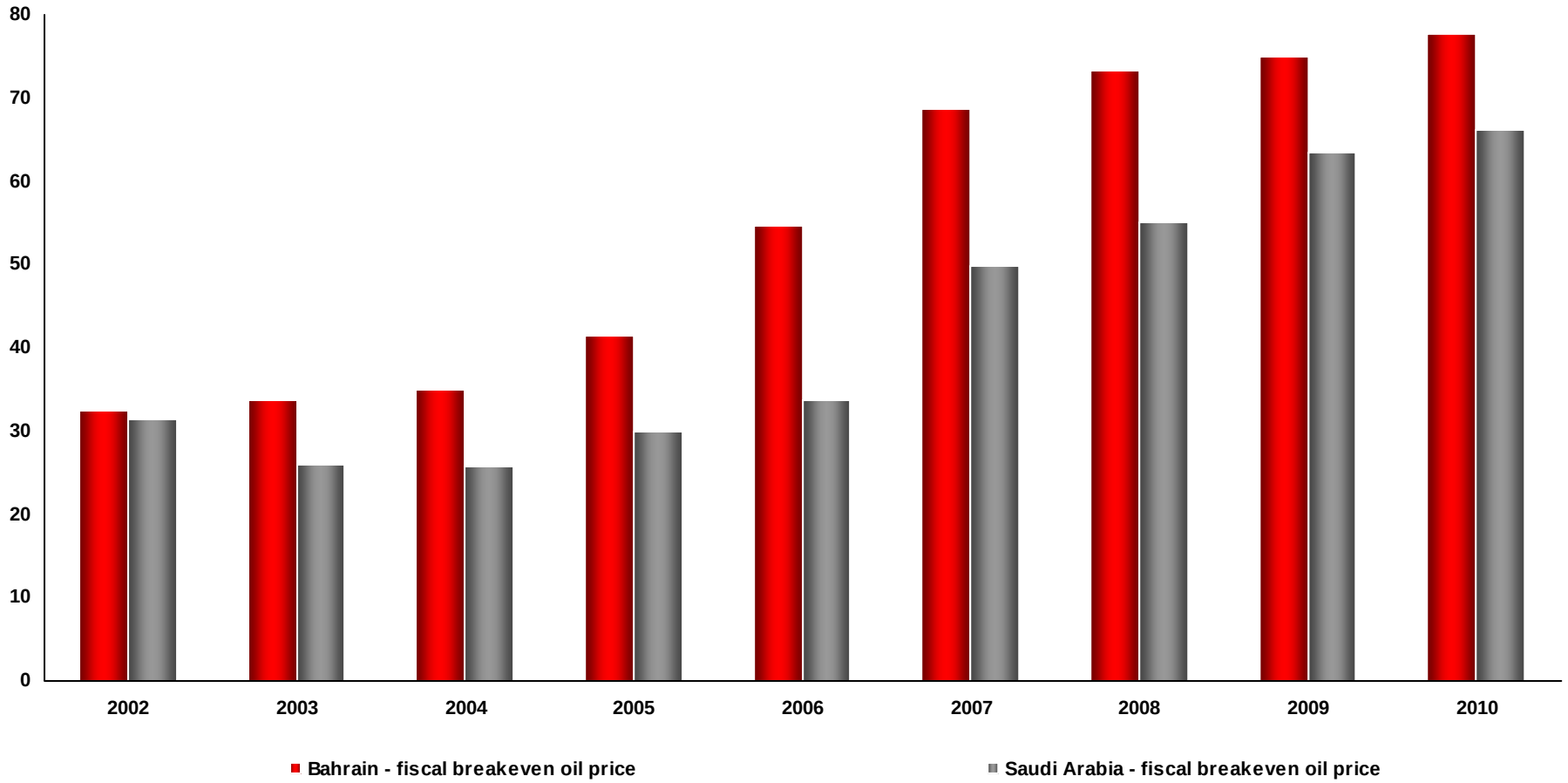
Source: MEED Projects

Governments have spent aggressively…



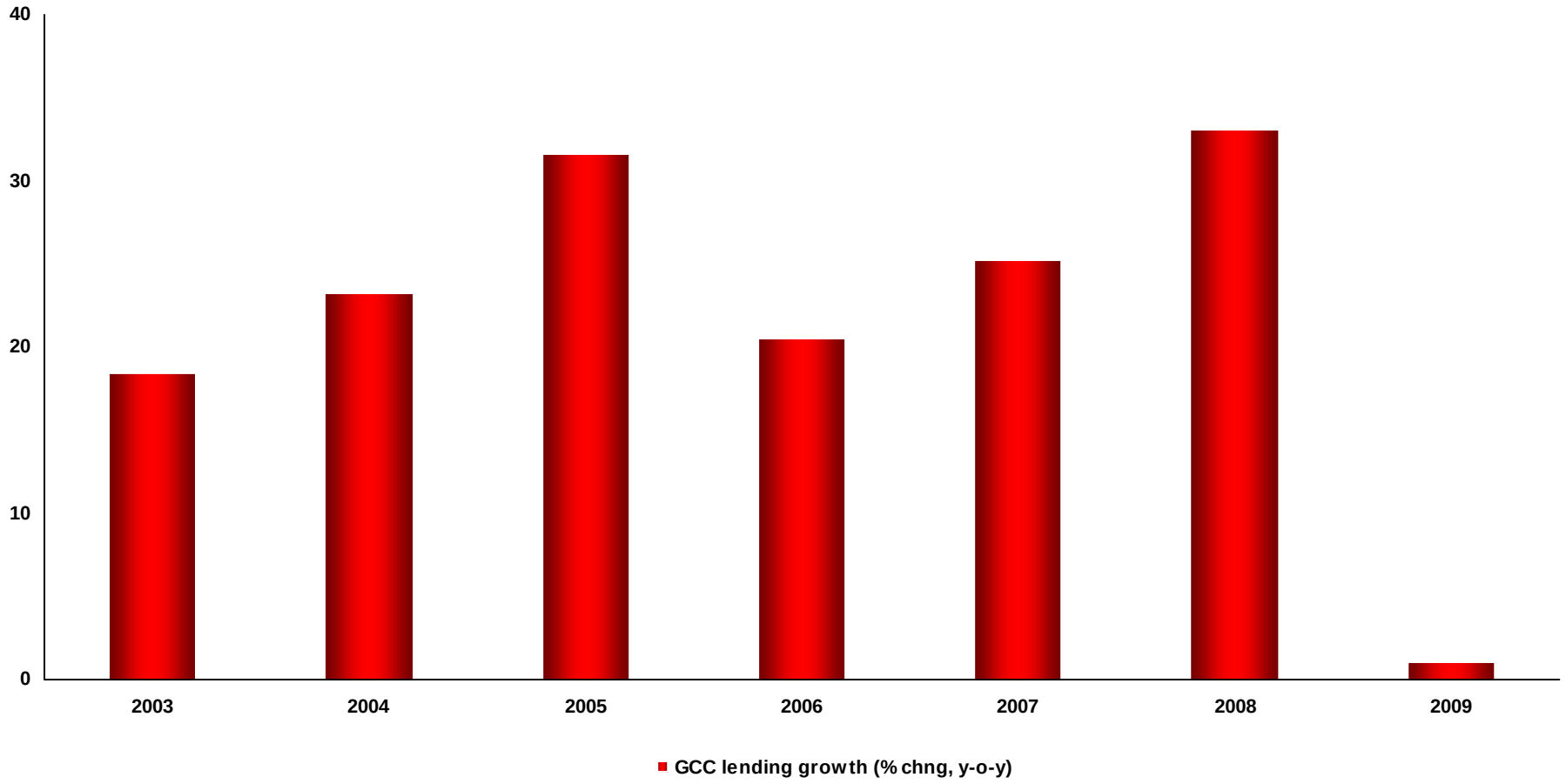
Source: GCC Ministries of Finance

…though funding limits may constrain the pace of increase



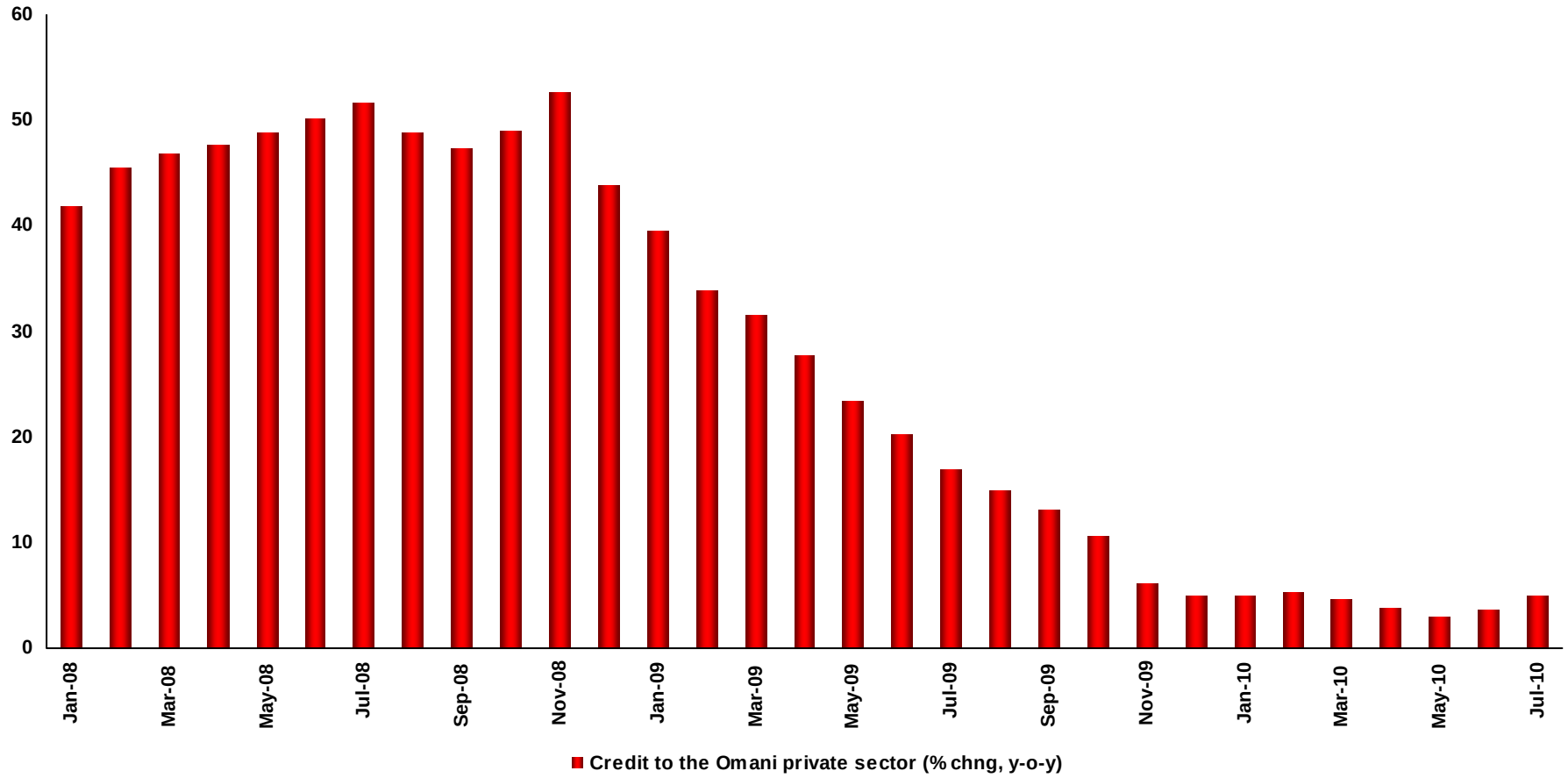
Source: Bahrain Central Bank, SAMA

Commercial bank funding growth halted in late 2008…



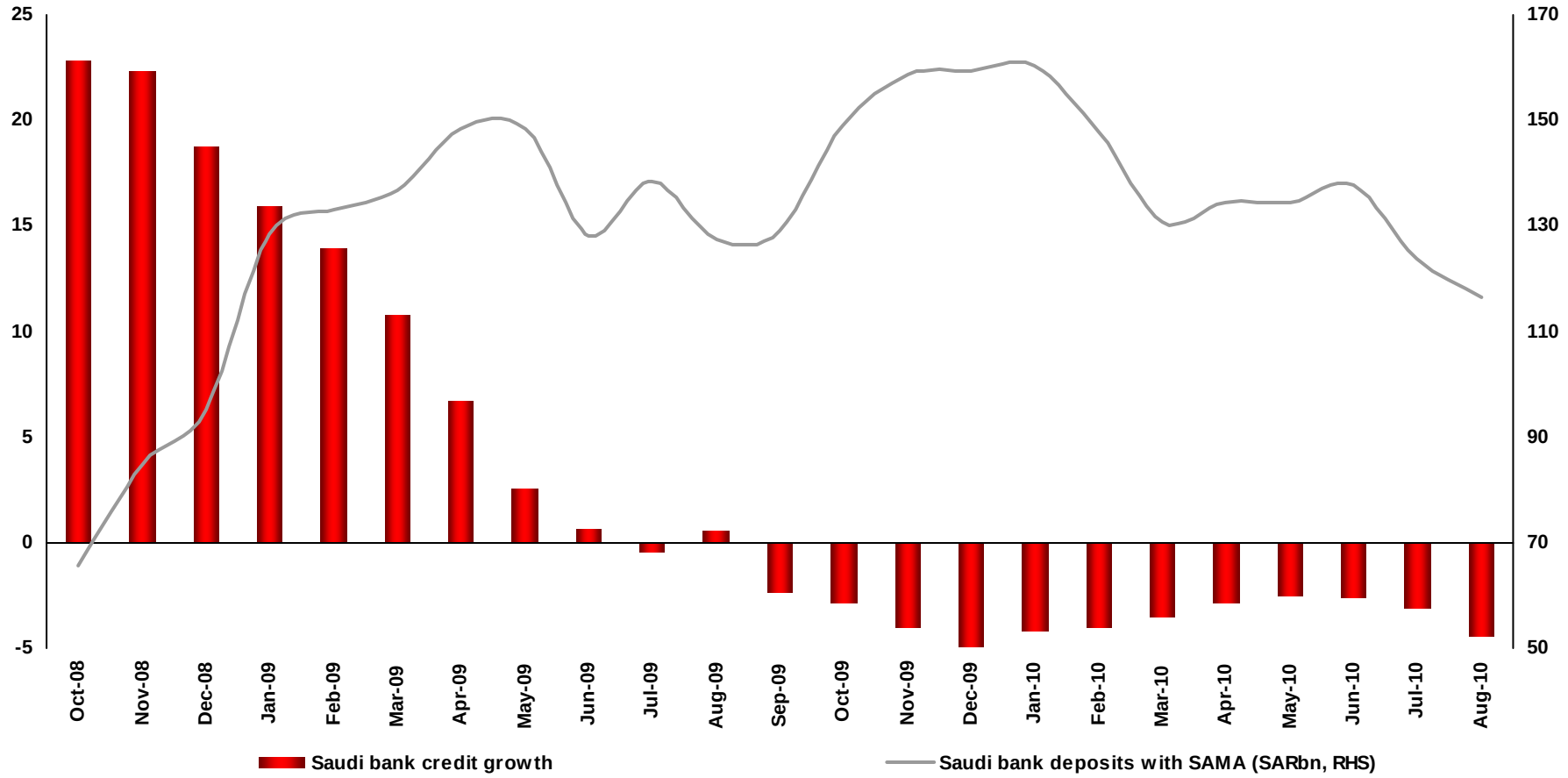
Source: GCC central banks

…and has remained tight through 2010



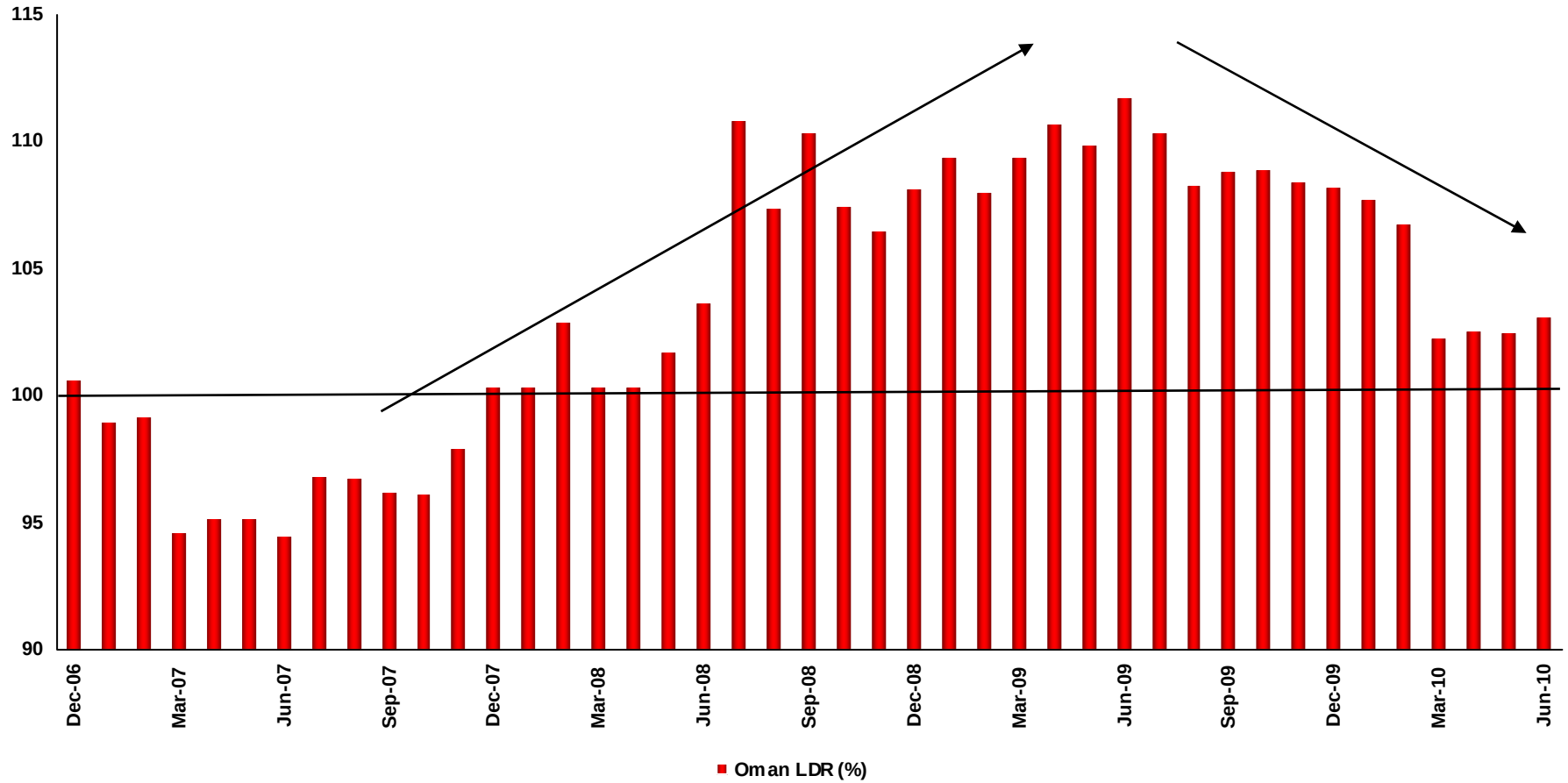
Source: Oman Central Bank

Banks are still cautious…



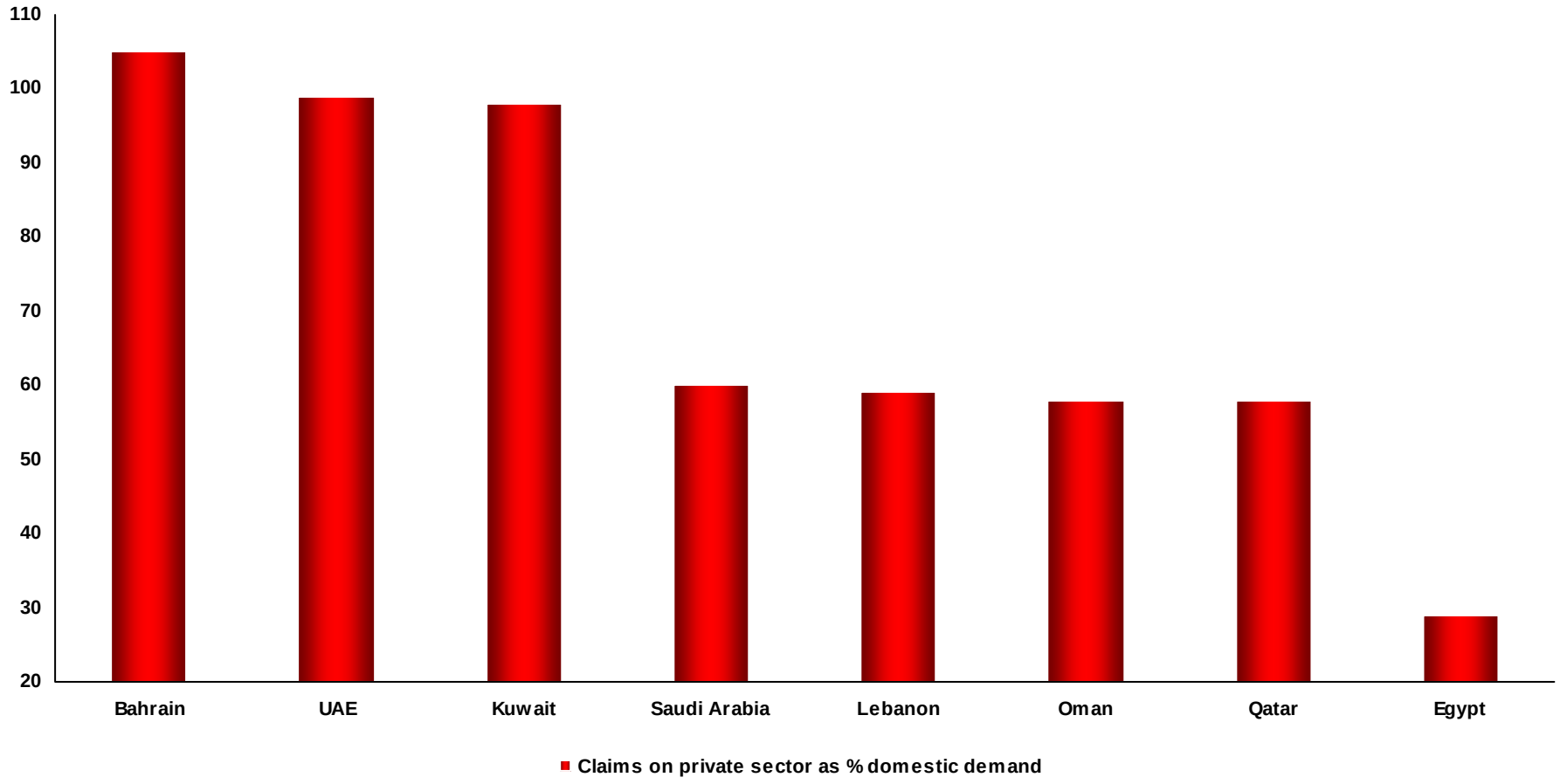
Source: SAMA

…but balance sheets have adjusted…



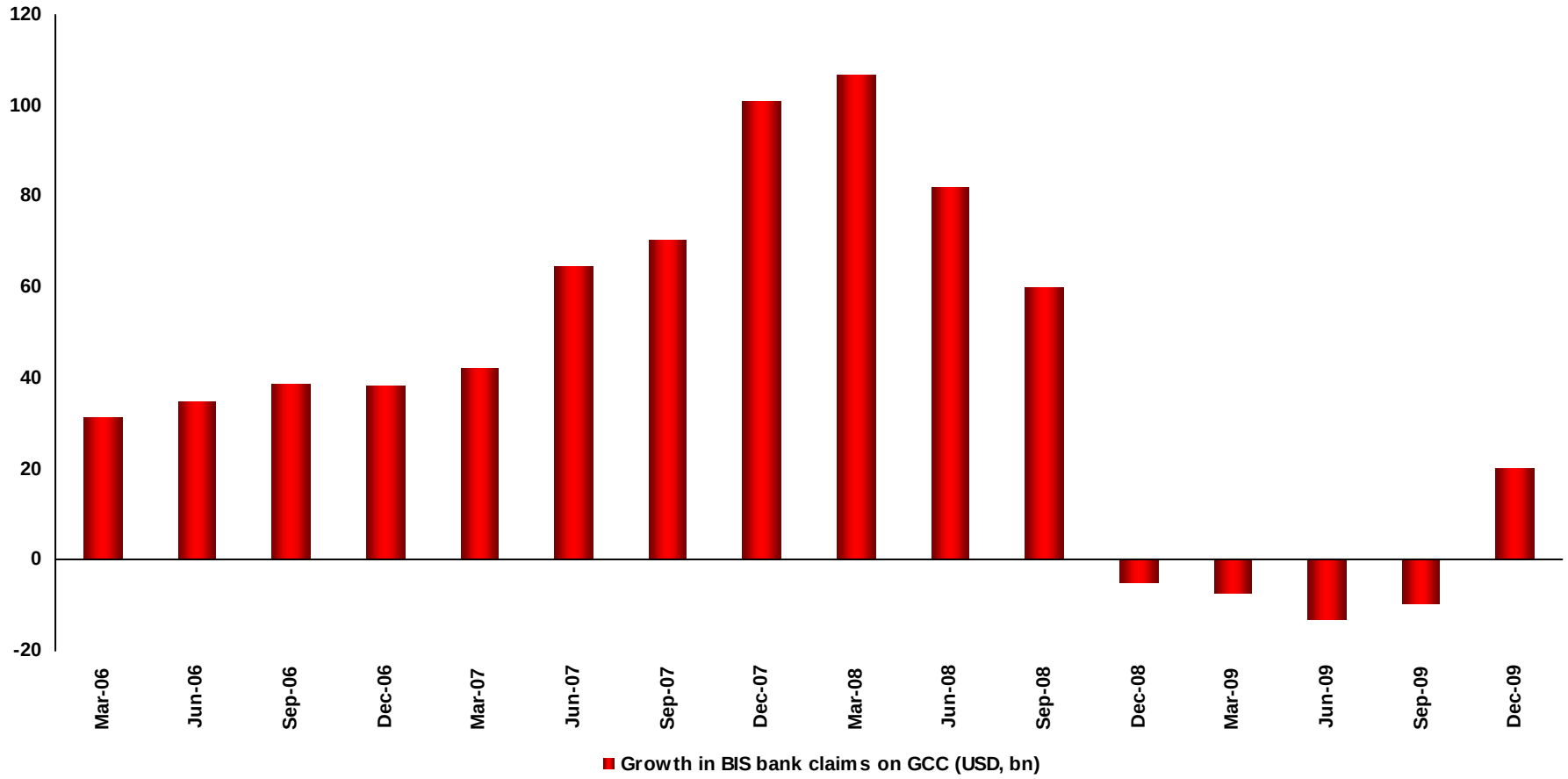
Source: Oman Central Bank

…and much of MENA does not look heavily leveraged



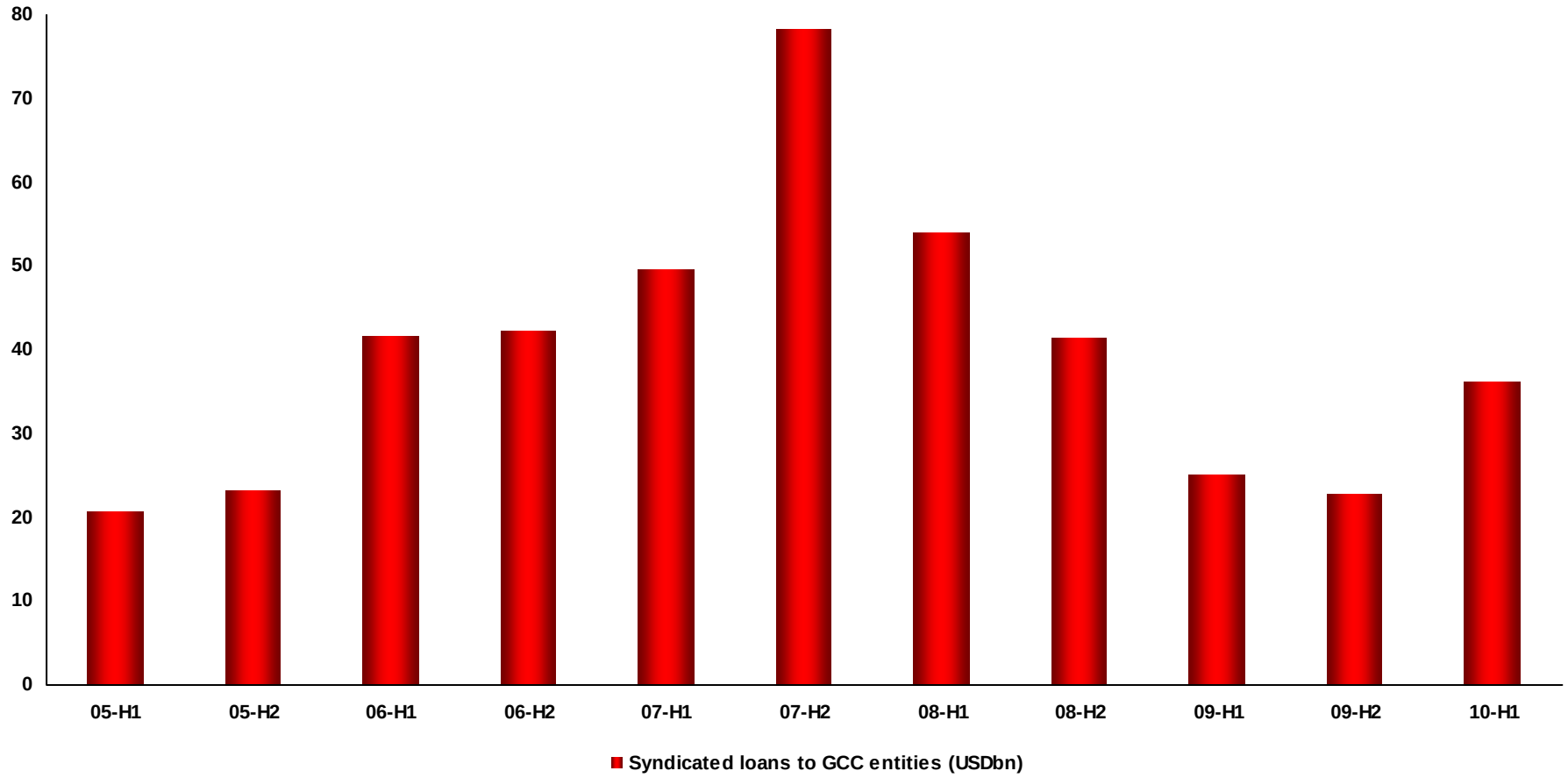
Source: MENA central banks

Foreign capital inflows hit an all-time low from an all-time high...



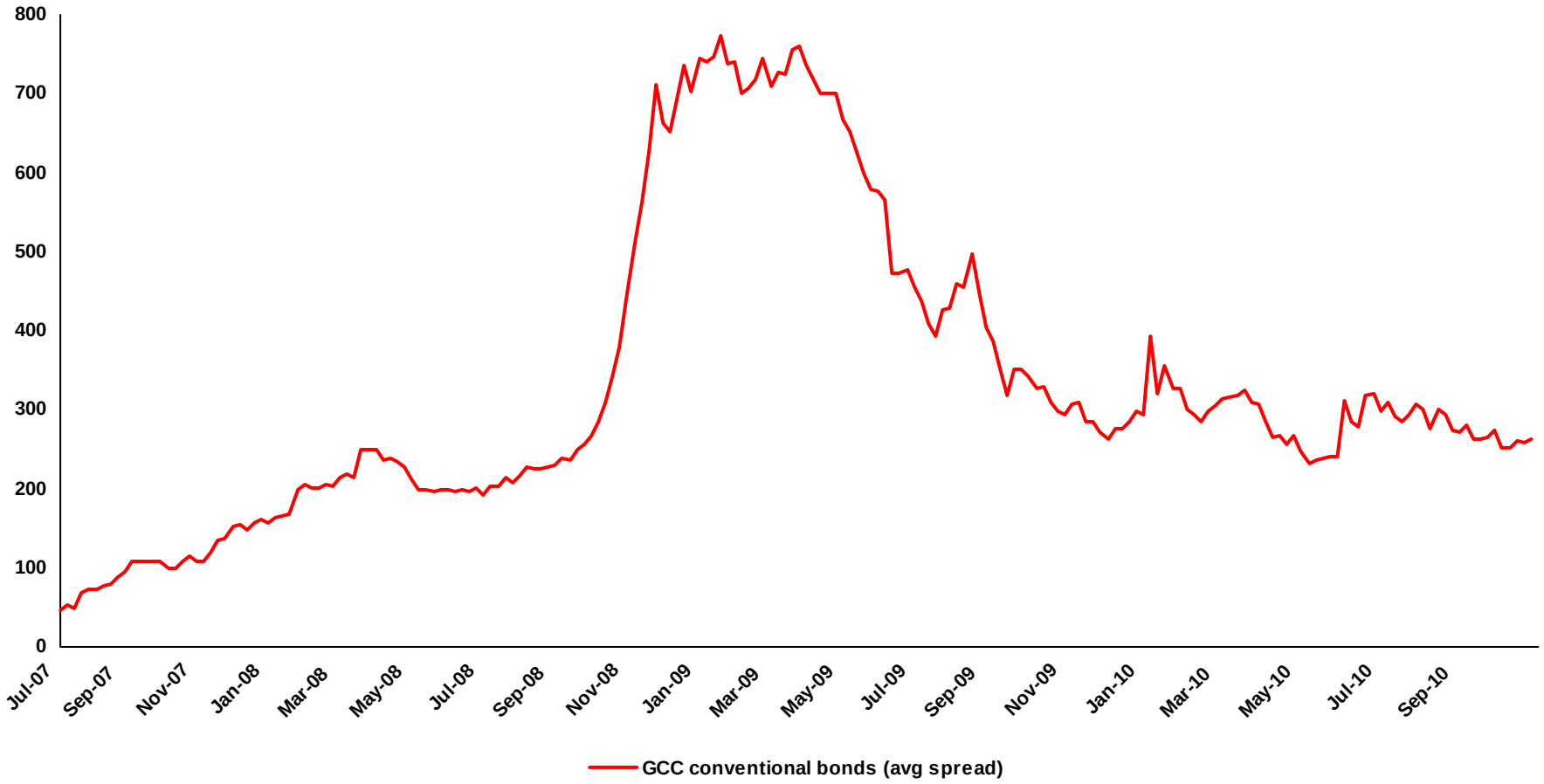
Source: BIS

…and look to be offering renewed support for growth…



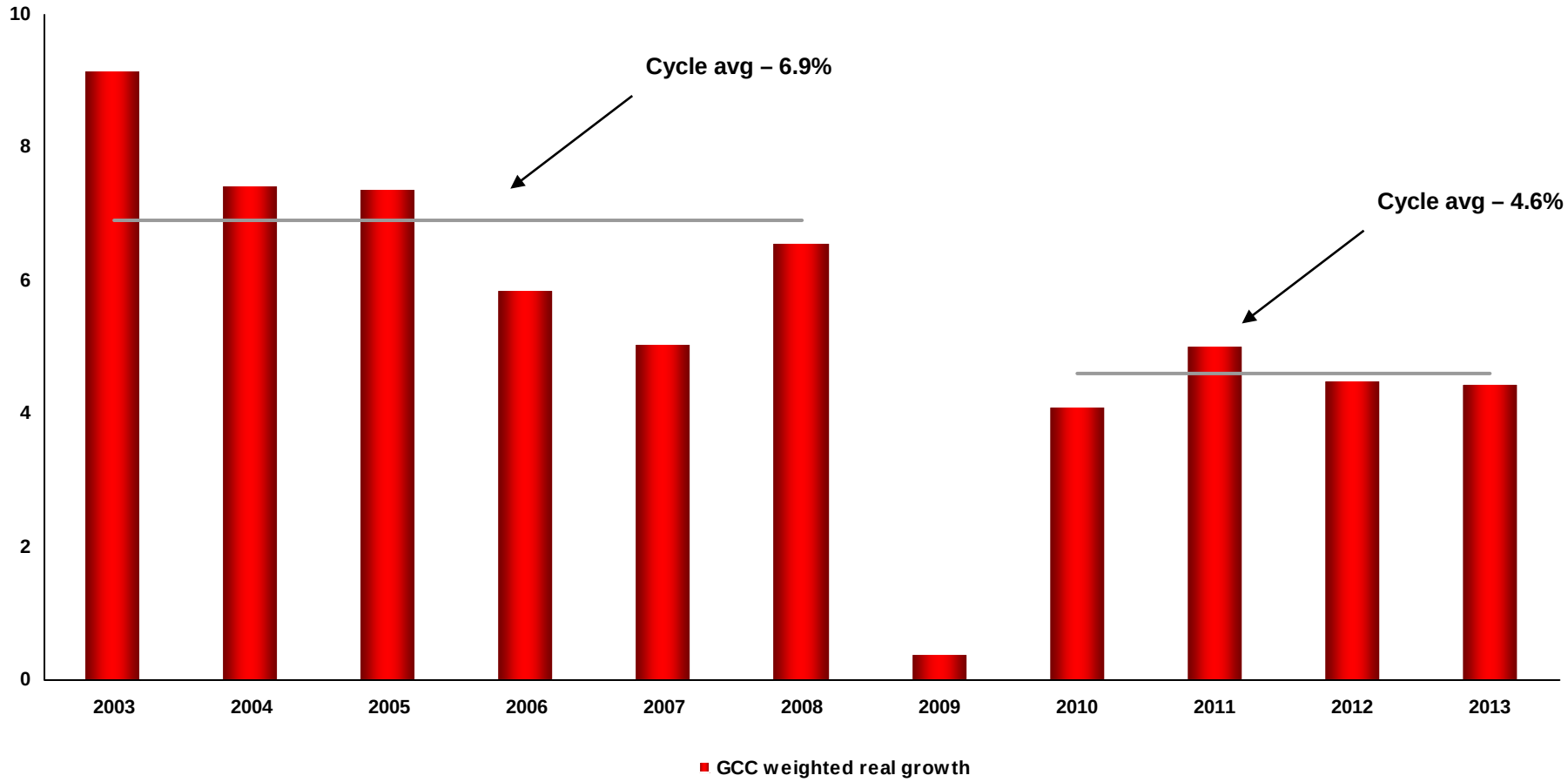
Source: GCC central banks

…as costs continue to normalise



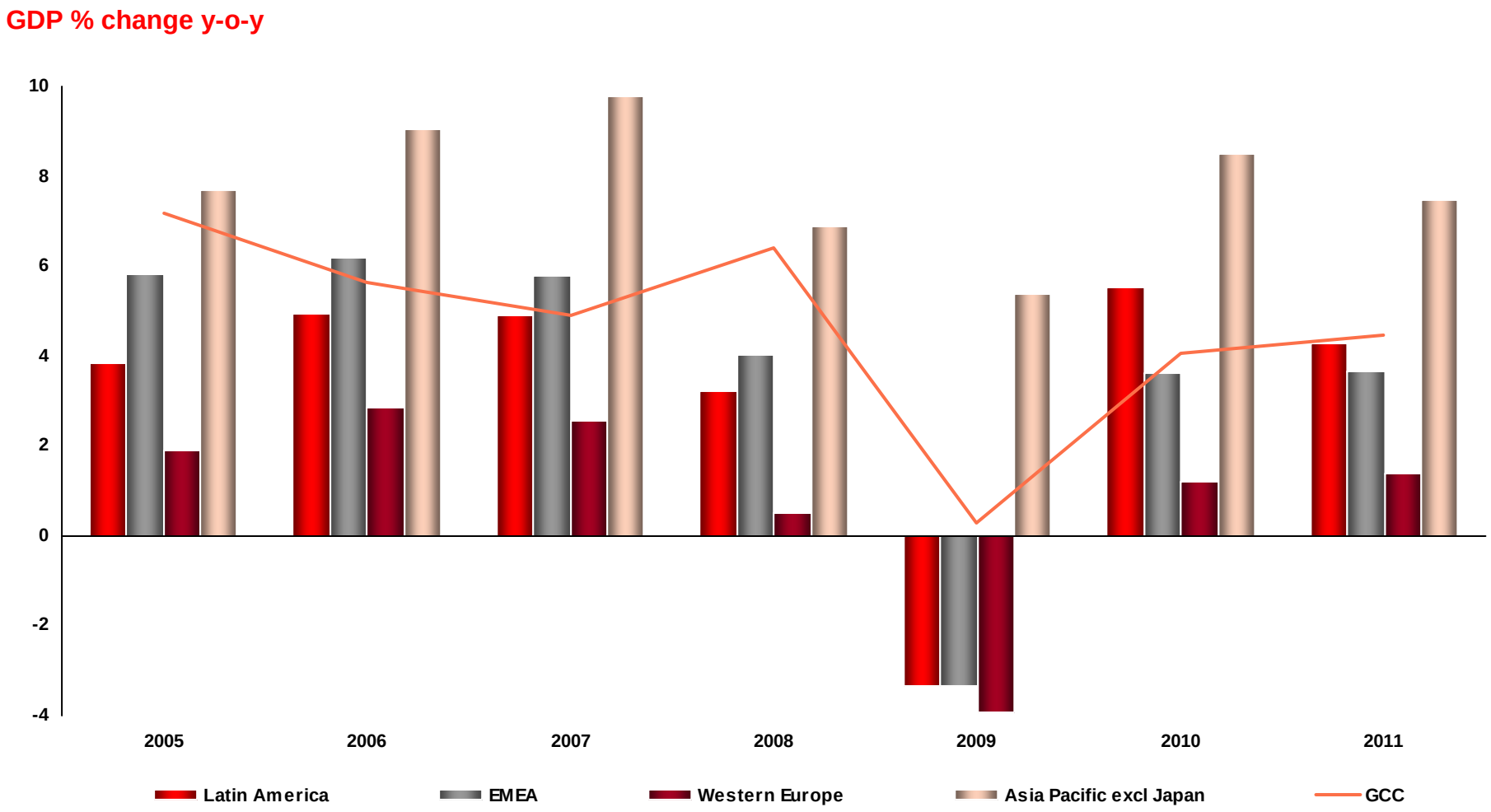
Source: GCC central banks

In the GCC, the next cycle may not match the pace of the last one…



Source: GCC Ministries of Finance and central banks, HSBC estimates and forecasts

…but the region will stand comparison with other EMs…



Source: HSBC Global research

…and some states will outperform

Likely to lead	
Saudi Arabia	Clear agenda, strong public finances, supportive demographics, accelerating industry and infrastructure build out
Qatar	Vast hydrocarbon wealth, ongoing industrialisation programme, service sector upgrade, growing capital exports
Egypt	Strong demographics, stable banking sector, resilient export-orientated service sector, pro-reform government
Likely to perform well	
Abu Dhabi	Strong oil-driven public finances, clear infrastructure and industry-led development agenda
Oman	Rode 2009 slowdown well, clear policy agenda, positive demographics, stable banking sector
Likely to lag	
Kuwait	Clear growth potential; policy environment remains challenging
Bahrain	Service sector supported by close Saudi ties; public finances show strain, competition increasing
Dubai	Strong long term story showing signs of normaliastion; debt, public finances, real estate vulnerabilities not resolved

There are upside risks, as well as those on the downside

Downside risks are easy to identify…

- Vulnerability to oil price weakness
- Domestic political uncertainty
- Regional political disorder
- Low transparency and disclosure standards

…but the region also offers some reassuring strengths…

- Low levels of sovereign debt
- Strongly capitalised banking sector in which state plays prominent role
- Low levels of currency risk

…and could yet outperform

- Pace of growth will accelerate if oil prices exceed expectations
- Successful structural reform could readily boost trend growth rate

Summary and conclusions

The region has had a disappointing 18 months…

- A five-year boom came to an abrupt close
- Hopes for outperformance proved largely misplaced
- Leverage - not oil - was the key determinate of the depth of the downturn

…and there is unlikely to be a return to the headline grabbing boom of 2003-08

- Credit cycle likely to rise but more slowly
- Growth in international funding unlikely to match previous highs
- Oil prices unlikely to repeat upward trajectory of early period

But MENA is showing clear signs of life and momentum is likely to build

- Public sector spending supports growth in consumption and investment
- Industrialisation and infrastructure build out to sustain momentum
- Public and private sector confidence has recovered
- Demographics remains supportive
- Export demand strengthening
- Saudi Arabia, Egypt and Qatar will lead the way