



MIDDLE EAST/AFRICA: GOOD TIDINGS ON POLITICAL AND ECONOMIC FRONTS

KEY TAKEAWAY

The region witnessed some encouraging political and economic developments during the review period. South Africa, the largest economy under our purview in the region, appeared set for an economic rebound, amply supported the election of a new head of state in February 2018.

South Africa: Africa's most industrialized economy expanded a better-than-expected 3.1% in the last quarter of 2017, driven by the recovery in trade and agriculture. Taking note, the World Bank raised its 2018 growth projection for the country.

The Middle East and Africa region witnessed some encouraging political and economic developments during the review period. South Africa, the largest economy under our purview in the region, appeared set for an economic rebound, amply supported by the election of a new head of state in February 2018. Israel's economy received a boost from its crucial exports sector in the first quarter, while the beleaguered Egyptian economy made steady recovery under the IMF-mandated financial assistance program. The State of Qatar, which has been reeling under the weight of the economic sanctions imposed by some Middle-Eastern countries, announced long-term plans to reduce its dependence on imports. The UAE, a federation of seven emirates, made amendments to its foreign investment norms to attract inflows and diversify its economy away from oil exports.

SOUTH AFRICA: GDP DATA COULD HERALD ECONOMIC RECOVERY

The fourth-quarter GDP data released in March could not have come at a more opportune time for South Africa's troubled economy. Africa's most industrialized economy expanded a better-than-expected 3.1% in the last quarter of 2017, driven by the recovery in trade and agriculture. Trade rebounded in the quarter to expand 4.8%, while the farm sector clocked a 37.5% quarter-on-quarter growth, thanks to the improvement in the drought situation. Above all, the election of Cyril Ramaphosa as the leader of the nation's ruling party late last year, replacing the corruption-tainted Jacob Zuma, also weighed positively on economic growth.

Citing signs of improvement in political climate with the change of guard and the uptick in consumer and business sentiment, the World Bank raised its 2018 growth projection for the country from 1.1% to 1.4%. Nonetheless, the Washington-headquartered organization sounded a note of caution that inequality and unemployment may undermine South Africa's growth potential.

In another shot in the arm for the South African economy, credit rating agency Moody's affirmed its "investment-grade" rating and upgraded its credit outlook to "stable" hoping that the gradual strengthening of the country's institutions would be sustained to support the economic recovery. On the other hand, S&P left its "junk" rating on the economy untouched, taking the view that stronger per capita growth and debt stabilization would be the key to any rating upgrade, according to a *Reuters* news report. However, the agency raised its growth estimates for the economy from 1% to 2% in 2018 and from 1.7% to 2.1% in 2019.

ISRAEL: GROWTH MOMENTUM INTACT IN THE FIRST QUARTER

Following upon its strong performance in the fourth quarter of 2017, the Israeli economy expanded an annual 4.2% in the first quarter of 2018, according to a preliminary estimate from the Central Bureau of Statistics. The GDP figure, which came in above analyst estimates, was driven by increased exports, investments and consumer spending. Exports, which make up 30% of economic activity, rose 7.2%, private consumption rose 10.0%, and business investment zoomed 20.3%, *Nasdaq.com* reported.

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Egypt: Egypt's GDP expanded at an annualized rate of 5.4% in the third quarter of the current financial year (July 2017 to June 2018) which compares with 4.3% recorded in the same period a year ago.

The issue of interest rate increases was in focus with the Organization for Economic Cooperation and Development (OECD) urging the Bank of Israel to raise interest rates to prevent overheating in the economy, *Reuters* reported. Though Israel's annual inflation rate stood at 0.1% in January, the central bank estimates that inflation will increase to the range of 1-3% by the end of 2018 due to the pressure from rising wages. The OECD has projected 3.5% GDP growth in 2018 and 3.4% in 2019.

EGYPT: ECONOMY ON THE RIGHT TRACK; INFLATION A CONCERN

Egypt's GDP expanded at an annualized rate of 5.4% in the third quarter of the current financial year (July 2017 to June 2018), which compares with 4.3% recorded in the same period a year ago. Cairo has undertaken some painstaking reforms as part of its \$12-billion loan agreement with the International Monetary Fund (IMF) to kick-start its economy that has been ailing since a 2011 upheaval.

In its mid-term assessment of the economy, the IMF acknowledged the steady progress Egypt has made in implementing reforms. However, it also urged the Sisi administration to focus on the private sector to generate more employment opportunities for the country's growing number of unemployed youth. The IMF expects the economy to expand 5.2% this fiscal year, compared to 4.1% a year ago.

Egypt's President Sisi is widely credited with steering the economy in the right direction since he took charge in 2014. While Mr. Sisi could succeed in tackling the fuel shortage in the country, currency reform that devalued the Egyptian Pound has not been well received, according to a *Reuters* news report. This is not surprising considering rising inflation remains an issue that requires the government's urgent attention. Though headline inflation came down to 13.3% in March, it still erodes the purchasing power of middle class Egyptians considerably.

QATAR: MOVING BEYOND SANCTIONS

Faced with a boycott and economic sanctions imposed by some Middle Eastern countries, including Saudi Arabia, Qatar launched a five-year development plan in March to reduce its dependence on imports. The scheme primarily aims to rationalize energy consumption and encourage development of renewable energy, a *Reuters* news report said. The plan also aims to equip Qatar to meet 30% of its demand for farm animals and 65% of its demand for fish domestically by 2022. The government also plans to curb spending and cut down on money transfers to its sovereign wealth fund, though there will be no pause in infrastructure spending in the run-up to the FIFA World Cup to be hosted by Qatar in 2022.

Notwithstanding the boycott, Qatar's economy appears to be coping well with the economic impact. Despite a drop in hydrocarbon production in the fourth quarter of 2017, the economy posted real GDP growth of 1.6% for the year 2017 as the non-hydrocarbon sector expanded 4.2%. Encouraged by the resilience of the economy in the face of sanctions and expectations of increased hydrocarbon output and higher crude oil prices, Qatar National Bank raised its 2018 GDP growth projection for the emirate from 2.5% to above 2.8%, a report in *Gulf Times* said.

THE U.A.E.: REDUCING ITS DEPENDENCE ON OIL

The steady rise in oil prices was a morale booster for the United Arab Emirates, a federation of seven emirates, during the review period. Still, the UAE is trying hard to diversify its economy to reduce its dependence on oil. In line with this strategy, the UAE cabinet recently allowed foreign investors to own 100% of UAE-based businesses by the end of 2018. Currently, foreigners are forbidden from owning more than 49% of firms operating out of the UAE. Moreover, investors would also be granted residency visas for up to 10 years to facilitate investments in various industry segments and research areas, *Reuters* reported. In a related development, the UAE and Japan signed an investment protection treaty to extend the bilateral trade ties beyond the energy sector.

Non-oil trade between the two nations came in at \$15 billion in 2017, an 8.4% increase over the year before.

Meanwhile, the UAE urged the United States to exempt it from the recently imposed tariffs on aluminum and steel. The UAE, the third-largest exporter of aluminum to the U.S., also ships steel to the world's largest economy. Likewise, UAE-based airlines are big purchasers of Boeing aircraft, while the UAE government procures defense equipment in bulk from U.S.-based manufacturers.

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