The Impact of Low Oil Prices on Persian Gulf Producers

Prepared for

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Agenda

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Brief Review of Historical Data;

General Comments about the Impact of Low Oil Prices on the Persian Gulf Region;

Focus on three Key Players:

- Saudi Arabia;

Historical Perspective

Nature of Impacts

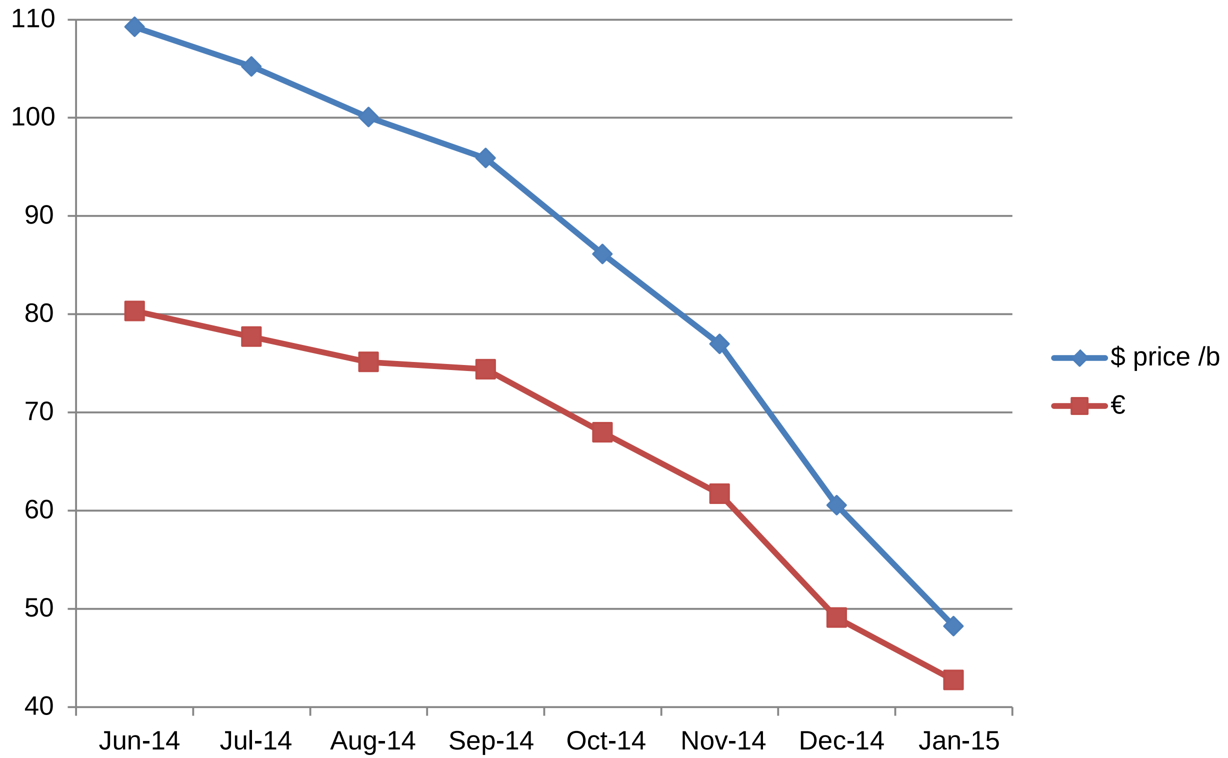
- Economic growth in the MENA region in 2015 will be lower than anticipated (downward correction from 3.9% to 3.3%);
- Combined with regional, political and security uncertainties, the current situation is undermining the business climate and also the outlook for public and private investments;
- We need to look at the impacts of low oil price on three different levels, i.e.:
  - Oil company budgets and investments;
  - Consequences for government budgets and its repercussions;
  - Impact on the economy as a whole
- Due to time constraints, in this presentation we will only look at the impact on government budgets and consequent government policies.

Impact on the Region’s Treasuries

- All key economies in the Persian Gulf region will be hit by the lower oil price;
- At the same time, all of the region’s governments have significant hard currency reserves to compensate for the shortfalls;

Country	Budget Deficit 2015 (in billion $)	Hard currency reserves (in billion $)	How many budget deficits (201 can this reserve cover?
Saudi Arabia	39	734	About 19 years
Iran	10	127	About 12 years
Iraq	18	69	About 3.5 years
UAE	0	70	NA
Qatar	0	46	NA

$-based versus €-based Drop



Focus on Saudi Arabia - 1

- Despite many conspiracy theories, Riyadh's strategy is more likely based on the desire to increase its global market share;
- Two consequences could be foreseen: More expensive production of oil would be pushed out of the global market. At the same time, cheap fuel prices could increase consumption and make renewable energy and nuclear power, less cost-competitive. All of these factors could pave the way for renewed price increases in the future;
- Although Saudi Arabia has a huge foreign exchange reserve, there will be negative dynamics in many internal financial transactions in the Kingdom;
- The new Saudi King has announced continuity in policies, but it remains to be seen how long the oil price strategy will continue - analysts believe that it would have to continue until 2020 to achieve the above goals;
- It is difficult to assume that the Saudi policies are based on a confident and calculated strategy. It seems to be related to all the current regional, domestic and geostrategic uncertainties;

- One risk of the Saudi strategy is that both Moscow and Tehran would be compelled to counter the Saudi initiative in the region’s complex geostrategic competition;
- There are also domestic risks associated with Ri s .'-1-39s acdr0.5()e t'trateg...

Focus on Iran

- Iran’s economy was already under pressure and the psychological impact of the oil price development has further aggravated the conditions;
- Some of the Iranian politicians have framed the current situation as an “oil war” and are pushing for an Iranian response;
- However, the government remains committed to détente;
- The oil price drop has compelled the government and law makers to reduce dependency on oil export revenues – however, adjustments will take effect in the medium term;
- The economy is diverse and resourceful enough to manage the low oil price;
- One of the positive consequences of low oil prices for Iran will be the need to reform the economy to pave the way for greater private sector activity;
- Tax reforms, privatization and a reform of cash handouts are already underway;
- Other reforms including a more investor-friendly approach to oil and gas investments will generate an economic momentum;
- One of the winning cards that Iran possesses is the growing gas productio which can compensate for some of the lost oil revenues;

Nuclear Deal and Oil Revenues

- Iran’s economic outlook will strongly depend on the outcome of the nuclear negotiations;
- Lower oil prices today could provide an opportunity for Iran to regain its lost market share in the medium to long term;
- If current prices persist in the medium term and unconventional oil production declines, and if there is a comprehensive nuclear agreement, Iran could restore its pre-sanctions market share by 2017;
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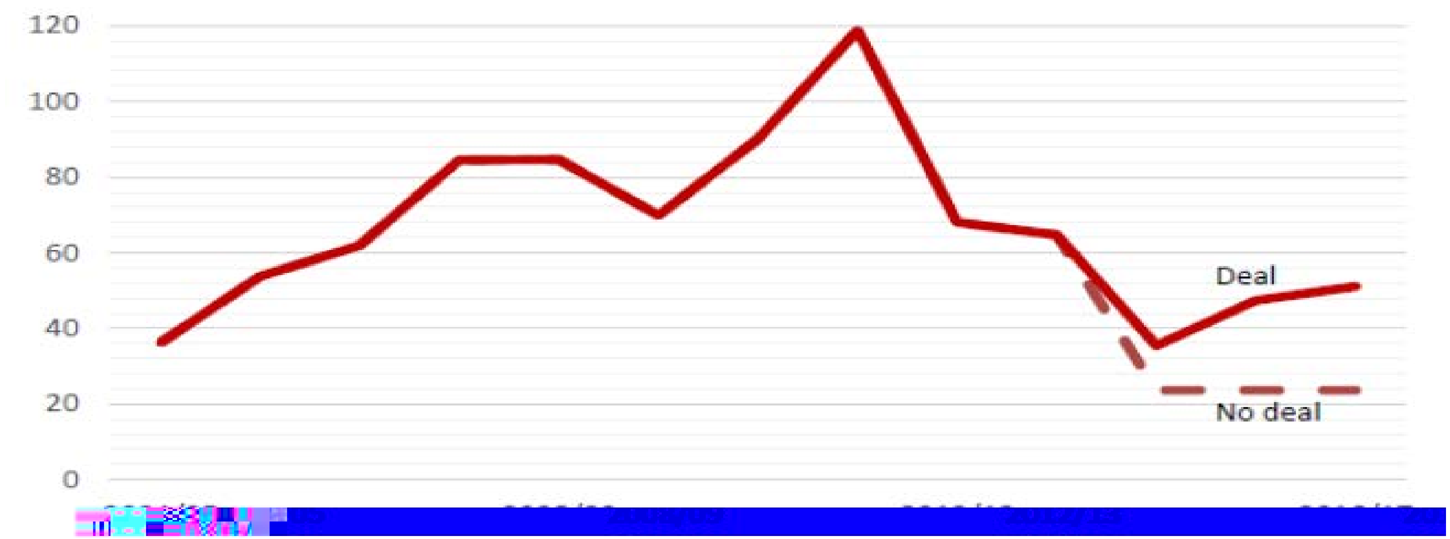

Source: World Bank Estimates

Iran’s Economic Outlook

- According to IMF estimations, Iran’s GDP grew about US$20 billion in 2014 and increased to US$406.3 billion.
- IMF predicts that if prices remain at $50 and there is no comprehensive nuclear deal, Iran’s economy will decline by about 1% in 2015;
- However, despite the decline of the monetary value of the oil sector, Iran’s economy will benefit from the growing gas production - Iran’s gas production is expected to increase to the equivalent of 2.78 mbpd in the course of 2015;
- The country’s inflation rate has dropped to 15.8% in 2014 and IMF expects the rate would rise to 17.3% in 2015;
- Based on IMF estimations, Iran’s overall exports totaled US$94.9 billion in 2014, and are expected to fall to US$80 billion in 2015;
- The country’s imports stood at US$82.6 billion in 2014 and are expected to fall to US$77.8 billion in 2015.
- Iran’s current account balance was reportedly US$2.2 billion in 2014, but it is expected to fall to zero in 2015.

Focus on Iraq

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Fact Sheet: Iraqi Exports

Iraq can undo some of the negative impact by increasing production and hence

Source: Ministry of Oil of Iraq