Investment Outlook 2018

Transaction and deal trends in the GCC

Summary

Gulf economies and markets have transformed in many ways in response to three years of low oil prices, new regional leadership and a global world order in flux. The tougher fiscal environment and renewed drive to implement diversification are reshaping the region's investment landscape – and acting as a catalyst for a more active M&A market, led by privatisation in Saudi Arabia, banking consolidation and the emergence of a dynamic technology sector in Dubai.

Gulf sovereigns continued to set fresh records in the debt markets in 2017, although lower deficits and higher interest rates will dampen the pace. Sovereign wealth funds, forced to focus on returns and play a more active role in kick-starting local economies, are rethinking their approach across the region, with Saudi Arabia's Public Investment Fund (PIF) shaking up both domestic and international investors.

Important groundwork was laid during the year which will generate fruits in 2018 and beyond, particularly in Saudi Arabia, which is now driving the pace of reform. This included opening up the Tadawul exchange to qualified foreign investors, improving the business environment and advancing the privatisation process. Although little came to market in 2017, the motivation for privatisation remains strong, significant restructuring progress was made and the pipeline looks strong for the next few years.

A key issue that will continue to impact regional markets in 2018 is the embargo of Qatar, imposed by Saudi Arabia, the UAE, Bahrain and Egypt in June 2017, which is showing no signs of resolution. The move fitted a global geopolitical trend towards a renewed focus on national strategic interests and bilateral transactions over multilateral cooperation. The isolation of Qatar has had a visible impact on capital markets and worried foreign investors. But it could have a silver lining as Gulf states compete with each other to implement investor-friendly reforms.

In 2018, positive macroeconomic drivers are adding a boost to Gulf markets. Oil prices briefly moved back above US$70/barrel in January for the first time since 2014 – something which seemed barely conceivable a year ago. While the price was not sustainable at that level, forecasters still expect it to average at least 10% higher than last year. Global growth is also supportive and despite concerns about rising interest rates that have pulled global equity indices back from recent highs, there is plenty of cash on the table to do corporate deals.

Key developments which we expect to see in 2018 include:

- more clarity around the listing of a small share in Saudi Aramco scheduled for the second half of 2018, plus a couple of other larger Saudi privatisations, perhaps Saudi Electricity or the Tadawul itself
- a decision to incorporate Saudi Arabia into the MSCI Emerging Market index, signalling the maturing of the Tadawul ahead of a wave of Initial Public Offerings (IPOs)
- sizable private IPOs, such as UAE headquartered GEMS Education proposed London listing and ACWA Power in Saudi, with the total value of new listings potentially setting a record even without Aramco
- a pick up in M&A activity due to continued consolidation in the banking sector and a vibrant tech sector
- more activity from sovereign wealth funds as they restructure their portfolios and invest inflows from privatisation
- progress in extending the public private partnership (PPP) model, after numerous false starts.

This report explores the market dynamics that will shape the outlook for GCC transactions in 2018 and provides new insights into the longer-term shifts emerging as the world changes.

Priming the pump – higher oil prices improve the macro environment

Oil prices recovered in 2017, with the benchmark Brent blend averaging US$54/barrel. This was clearly an improvement on 2016, when it averaged just US$44, the weakest since 2004. But it still left all the Gulf countries in the red fiscally, with Bahrain and Oman stuck in double-digit deficits.

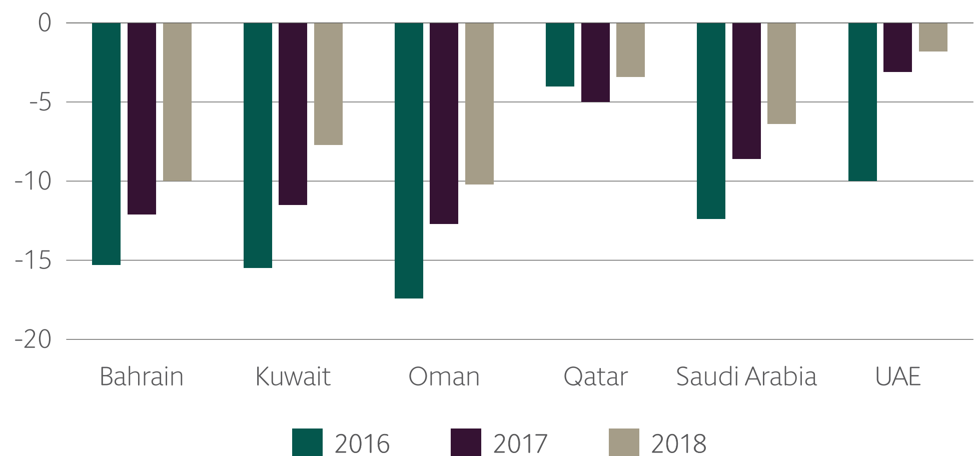
The oil market appears to have turned a corner after OPEC and Russia improved compliance with their agreed upon production cuts. The decision to extend their timeframe to the end of 2018 drove a rally that pushed oil prices above US$70 in January 2018, for the first time since 2014, blowing beyond even the most optimistic forecasts. While prices have eased back, most forecasters expect them to average at least 10% more than in 2017 over the year as a whole.

The revenue boost from oil, combined with subsidy reform—notably Saudi Arabia finally ending fuel subsidies at the start of 2018—should put the Gulf sovereigns in a much better fiscal position. Deficits will continue, however, and will require financing. In part that is due to stimulus measures intended to support and diversify non-oil economies. Saudi Arabia pushed back its goal of a balanced budget from 2020 to 2023, on the IMF's advice. Qatar responded to the Saudi-UAE boycott, imposed in June 2017, by investing to boost its self-reliance in food and construction materials production. Higher oil prices and government expenditure have always been the primary pumps for Gulf economies, both directly and through their impact on confidence, and are expected to be strongly supportive of corporate transactions in 2018.

Despite the latest improvements in fiscal conditions, the downswing in the commodities super-cycle has led most Gulf states to look more seriously into economic diversification and the reforms that are required to improve their business environments and encourage investment.

While it is still early days in this process, some groundwork has been laid in the past few years and more reforms are expected in 2018. "We are starting to see greater regulatory competition within the Gulf to attract foreign investment for diversification," says Sorana Parvulescu, a Partner with Control Risks in Dubai. "In the short term, this could create some regulatory unpredictability, but in the longer term it will have a positive impact on the business environment".

GCC fiscal balance (% GDP)



Source: National data and Bloomberg consensus forecasts (Dec 17 survey); N.B. Kuwait's deficit is exaggerated as it includes mandatory allocations to its Future Generations Fund; excluding this it could nearly balance in 2018.

The reform boost

Imtiaz Shah
Partner, Dubai

The pressing need to diversify economies away from the hydrocarbon sector is likely to act as a catalyst for a more active M&A market in 2018. This will be largely driven by the privatisation led reforms in Saudi Arabia and, to a lesser extent, in other Gulf countries. Further relaxation of foreign ownership restrictions, mooted in both Qatar and the UAE should further act to boost M&A activity. Average deal values should also rise as sovereign funds in the region regain their appetite for big ticket deals.

M&A activity picking up

M&A activity remained sluggish in 2017, but there were some important deals during the year, driven by continuing trends. One driver was consolidation as companies across multiple sectors cut costs.

The banking sector in Abu Dhabi saw the merger of NBAD and First Gulf Bank. DP World bought Dry Docks & Maritime World, and oilfield services saw the complex merger of National Petroleum Services (Dubai) and Gulf Energy (Oman). There was also some streamlining of public firms, including the merger of Rasgas with Qatargas.

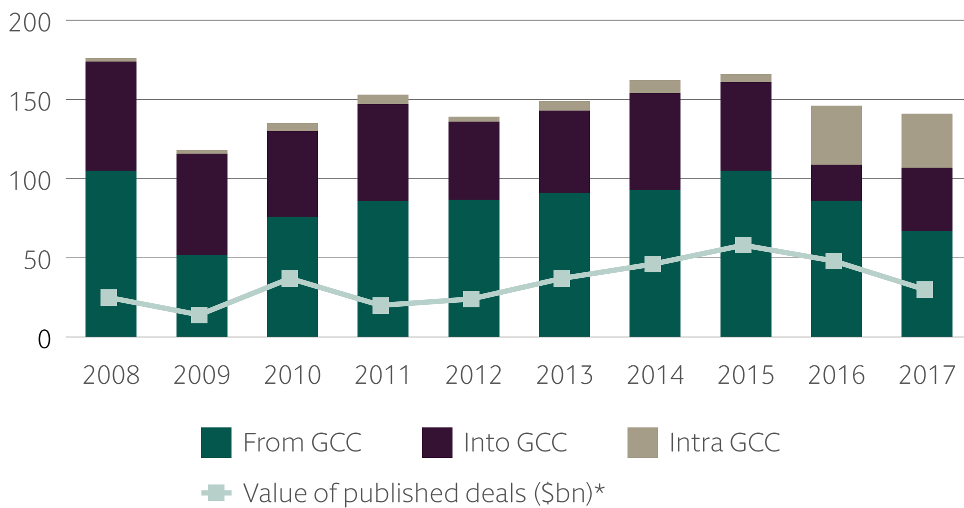
Another driver was foreign companies entering the market by buying established entities in areas with huge untapped potential, such as e-commerce. Amazon's US$580m purchase of Souq.com (despite a late counterbid from Emaar Malls) electrified the emerging tech sector. But the biggest investment was in chemicals with U.S. firm Tronox acquiring Saudi firm Cristal for US$2.2bn, creating the world's largest titanium dioxide producer. There was outward investment too with Dubai Aerospace Enterprise's US$2.3bn acquisition of Ireland's Awas, tripling the size of its fleet of leased aircraft.

Looking into 2018, the tech, banking and real estate sectors are likely to be among the most active areas for M&A within the GCC. On the tech front, established companies are on the lookout for high-growth companies that can help them provide digital solutions. Banks are still responding to tighter margins and competition. The merger of Saudi British Bank and Alawwal Bank, in which Britain's HSBC and RBS have respective 40% stakes, has been under discussion since April 2017 and could create the Kingdom's third largest bank. The cross-border merger of Kuwait Finance House and Bahrain's Ahli United could create the GCC's second largest Islamic bank and is rumoured to be nearing completion.

Qatar's banking sector is particularly ripe for consolidation. An ambitious three-way merger between Masraf al-Rayan, Barwa Bank and International Bank of Qatar, further complicated by the latter being conventional and the other two Islamic, has been under discussion since late 2016. It had been expected to close by the end of 2017, although there has been no official update since then. If successful, it could pave the way for further consolidation, perhaps the acquisition of one of the other small banks, such as al-Khaleej or al-Ahli.

Real estate mergers are also being driven by market pressures. Talks are continuing between Reem International and Eshraq Properties in Abu Dhabi, looking to combine their landbanks in response to oversupply and falling prices.

M&A deals (number)



Note: substantial gaps in data make it difficult to accurately survey M&A activity in the Gulf. It seems that although the total number of deals in 2017 was similar to 2016, their aggregate value dropped.

Sources: Bloomberg, Elite Economics

Technology take-off

Charles Fuller
Partner, Dubai

The tech sector is getting bigger in the Gulf. Governments like Dubai are developing remarkably ambitious strategies. The CEOs of firms such as Facebook and Google are meeting with GCC leaders, aware that emerging markets are particularly receptive to disruptive technology.

There is a lot of room for M&A in the tech sector, especially in Dubai which is the hub for technology. A big shift is happening. The dominant players, in retail and other sectors, are panicking that they do not have digital solutions. Many are looking to buy high growth companies and get in on the act.

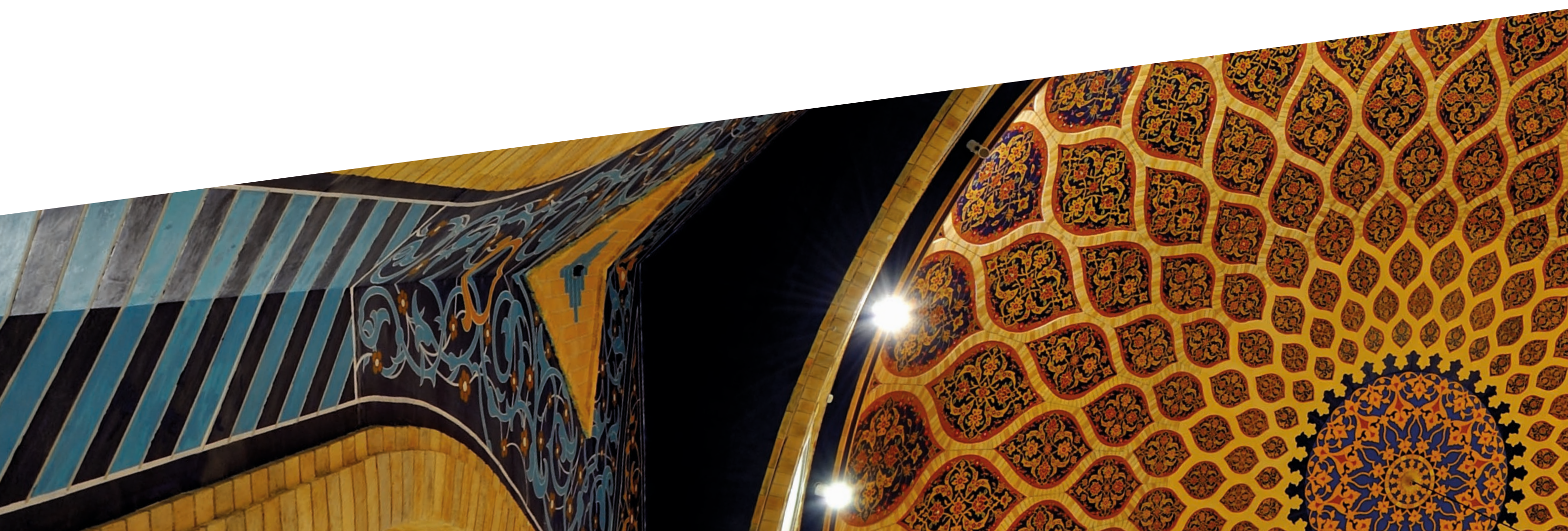
Privatisation – the Saudi effect

Over the next few years, privatisation will be a key driver of M&A activity.

Gulf states have been through several waves of privatisation—or at least flirtations with the concept over the past few decades – driven by a mix of reasons including fiscal pressures, sharing wealth with nationals and improving operational efficiency. A new rationale is the diversification of public investments, particularly in Saudi Arabia where privatisation is an integral part of the National Transformation Programme. The downturn in the oil price since 2014 has sparked considerable interest and although few deals have come to market, many firms made progress in 2017 in restructuring themselves in anticipation of privatisation. Many also tested the market, to determine whether a public listing or private sale is the best way forward. It has been a heady time for advisors and the banks' turn will come in due course.

We had expected to see at least one large Saudi privatisation transaction in 2017. In the end it was Adnoc Distribution in Abu Dhabi, whose preparations had been largely below the radar, which came to market in December. However, there were important signs of progress in the Kingdom, including tenders for advisors and restructurings, such as the formation of the Saudi Civil Aviation Holding Company, as a vehicle to sell off airports. The holding is under the umbrella of Saudi Arabia's PIF which has emerged as a frenetic actor on both domestic and international stages.

The PIF is expected to take over ownership of Saudi Aramco and invest the cash from the landmark sale of a 5% stake, a privatisation first mooted by Mohammad bin Salman al-Saud in an interview two years ago. Since then, there have been repeated affirmations that the sale is on schedule for the second half of 2018 and Aramco has been legally converted into a joint-stock company in preparation. No decision has yet been taken on a listing location—London, Hong Kong and New York are thought to be on the shortlist, with President Trump even lobbying for the latter—but advisors are being appointed. Equally, there have been periodic rumours that some or all of the 5% could be sold off-market to Chinese investors, perhaps in place of the IPO. Much will depend on the trajectory of oil prices, which will clearly underpin the valuation and the level of investor enthusiasm.



Some Saudi privatisations have been delayed as the extent of restructuring needed for sale has become clear. Saudi Post, for example, is likely to see a five-year corporatisation phase before it is brought to market. Other candidates for privatisation have emerged however, such as Saudi Professional League football clubs (owned by the General Sports Authority) and the weather forecasting services that fall under the Presidency of Meteorology and Environment. A major challenge, for all the Gulf states engaging in privatisation, is to manage the transition of national employees from the public to private sector, balancing their preferences with sufficient labour force flexibility to attract investors at reasonable valuations.

Other listings could be imminent in 2018, including the Tadawul stock exchange, as well as Saudi Grains Organisation and Saudi Electricity, both of which have been split into four holding companies. Mohammed al-Tuwaijri, the vice-minister for economy and planning, underlined the scale of Saudi privatisation ambitions, announcing that the goal is to raise US$200bn, excluding proceeds from Aramco.

Some deals may be delayed until there is sufficient clarity about the future tax and regulatory landscape. Broader legislative changes, such as the plan to rapidly increase the levy on employing expatriates in Saudi Arabia, are likely to raise concerns from investors about the commercial viability of a number of firms. Foreign ownership caps are always an issue and are thought to be one of the factors delaying the privatisation of Saudi Grains Organisation, which has attracted interest from major global players such as Archer Daniels Midland and Bunge. With multinational investors generally preferring majority ownership, countries that liberalise their caps could attract more interest. Qatar's cabinet has approved a law expanding 100% foreign ownership to many sectors and this is expected to be debated in its Advisor Council in early 2018.

Financing Saudi transformation

Imran Mufti
Partner, Dubai

2018 will be a transformative year for Saudi Arabia. Liberalisation in areas such as women's driving and entertainment will create new opportunities for local and foreign firms.

This will all need financing. Larger family firms may conclude that their relationship banks are no longer adequate to satisfy their expansion requirements and they will need a larger investor base to prepare for a more diverse economy.

The authorities are now much more serious about creating an enabling environment for attracting foreign investment and are moving away from limiting this to only the largest investment firms. I expect them to further relax investor qualification requirements going forward.

Global banks flock to the Saudi market

The flow of public and private deals in Saudi Arabia, and the opening up of its equity markets for foreign investment, has led to growing interest from international banks.

In January 2018, Citigroup was the latest firm to receive an investment banking licence, joining others such as JP Morgan Chase and HSBC. Credit Suisse and Standard Chartered are among those who are also seeking licences. Meanwhile, other banks, such as Goldman Sachs, are entering the equity dealing market, ahead of the expected flood of IPOs. Others are opening full branches, with Japan's Bank of Tokyo-Mitsubishi expected to become the latest of these in 2018, joining a handful of foreign banks such as BNP Paribas and ICBC.

A possible wildcard relates to assets relinquished to the state as part of the Saudi anti-corruption drive that saw a number of leading business figures arrested at the end of 2017. Around US$100bn in assets was secured in out-of-court settlements with those accused. These assets will include property and foreign securities, which could be easily disposed of, but might also include significant equity stakes in listed and unlisted domestic firms. Reports suggest an entity is being formed under the PIF to manage the surrendered assets and it is likely that many of these would then be sold back to the private sector.

The anti-corruption drive shook the corporate landscape, including the stock prices of some of the country's largest companies. This volatility and the arrests of people who had worked closely with foreign investors had some negative impact on investor enthusiasm. But the overall view remains broadly positive. "We see the role of the Crown Prince—a determined, centralising reformer—as a stabilising factor that supports the business environment, although the pace of change does carry some risks of blowback," says Control Risk's Parvulescu.

Elsewhere in the Gulf, Adnoc could list some of its other non-core divisions, while its counterpart in Dubai, Enoc, is also considering a listing of its distribution arm. Oman, Bahrain and Kuwait continue to mull over bringing in strategic partners or listing some of their crown jewel public companies, such as their airlines. At present it is not clear whether any of these will make it to market this year, although some should progress along the path. Oman's 2018 budget mentioned that six firms would be privatised during 2018, without specifying which ones. Qatar, which part-privatised some of its petrochemical facilities in 2014, had discussed other deals prior to the oil price decline, but is not yet showing any renewed interest in this area.

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PPP progress?

Progress in developing PPPs was slower than expected in 2017.

A long-awaited law covering these entities had been expected in Qatar around mid-year, but the boycott may explain why it did not appear. Oman's PPP law also remains a work in progress. There is a good chance both will finally be enacted during 2018, and there are suggestions that the UAE could pass a national law, based on Dubai's. Even Saudi Arabia, which has been relying on its existing public procurement regulations, may develop a dedicated PPP law.

Until now, PPP has mainly been used in the power sector. However, Rajit Nanda, the Chief Investment Officer at ACWA Power, which has developed numerous independent power plants in the Gulf, thinks that the model will translate successfully to other sectors: "The fiscal drivers to expand the use of PPP have only emerged since oil prices fell and it has taken some time to put the right regulatory structures in place. The new regulations are now coming along quickly, and we expect to see implementation this year and next."

Experience elsewhere indicates that more is required for a successful PPP programme than just suitable legislation. A forum on the topic in January 2018, organised by Dubai's Mohammed bin Rashid School of Government, called for a national strategy and dedicated PPP implementation units at the national and emirate levels.

Only a few PPP projects were awarded in 2017, including four airports in Saudi Arabia, although the tender process moved forward for others, such as Kuwait's South Jahra Labour City. There were also setbacks, most notably the cancellation of the tender for the second phase of Kuwait's Al-Zour North independent water and power project. Ed James at MEED declared this might be seen as the "date when the PPP model met its demise as a means of project procurement in the region", noting that only 5% of GCC projects in 2011-17 have used PPP.

However, with around US$75bn of PPP projects in the pipeline in the next few years and more being announced each month—such as a tender in January 2018 for 60 schools in Saudi Arabia—there is a reasonable chance that 2018 might be the year when the PPP market in the GCC finally finds its feet after falling short of expectations for several years.

PPP comes of age

Sohail Barkatali
Partner, Dubai

The concept of public private partnerships isn't new to the region. Typically, for example, power and water sector projects have utilised some features of a PPP model and structure. What's exciting now is the development of dedicated PPP laws providing a framework for PPPs and their application to other sectors.

As well as the power sector we are seeing PPPs in transport and more attention is now being given to deploying the PPP model in sectors including education and healthcare.

The fact that many governments now have published long-term development plans means that they are identifying infrastructure needs and are placing more of an emphasis in considering the procurement of public services through PPPs.

Equity markets and IPOs – groundwork for growth

The Gulf's equity markets continue to develop and open, as they look to meet growing demand for financing from public and private firms and seek to attract foreign investors (and foreign listings) to boost trading volumes.

The most substantive developments over the last year have been in Saudi Arabia, where there was a sharp rise in the number of Qualified Foreign Investors (QFIs). Following an easing in requirements in 2016 and a faster than expected approvals process, 118 institutions were registered by the end of 2017 (almost a third of these in the final quarter).

The other major development was the launch of the Nomu parallel market for small and medium-sized businesses (SMEs), which opened to foreign investors at the start of 2018. A similar Qatar Exchange Venture Market has not started operations yet, but around 10 firms are in the pipeline to list, with the first few expected during 2018.

Another wave of reforms for the Tadawul was announced in January 2018, including raising the foreign ownership cap to 49%. These reforms, together with a shift to T+2 settlement, the introduction of delivery versus payment and broader custodianship options, should position it well for MSCI's upcoming review, which is likely to see the Tadawul joining the benchmark Emerging Market Index in 2019.

The Gulf IPO market picked up sharply in 2017, following two years of declines, with 26 listings, the second highest number ever and the trend is set to continue. Only two were substantial—Adnoc Distribution was Abu Dhabi's first IPO in six years, raising US$851m, while Emaar Development raised US$1.3bn in Dubai. Most were small, including nine on the new Nomu exchange and a number of Real Estate Investment Trusts (REITs), which are growing in popularity. Nevertheless, the total value of all the IPOs was US$3.7bn, the second highest level since 2007.

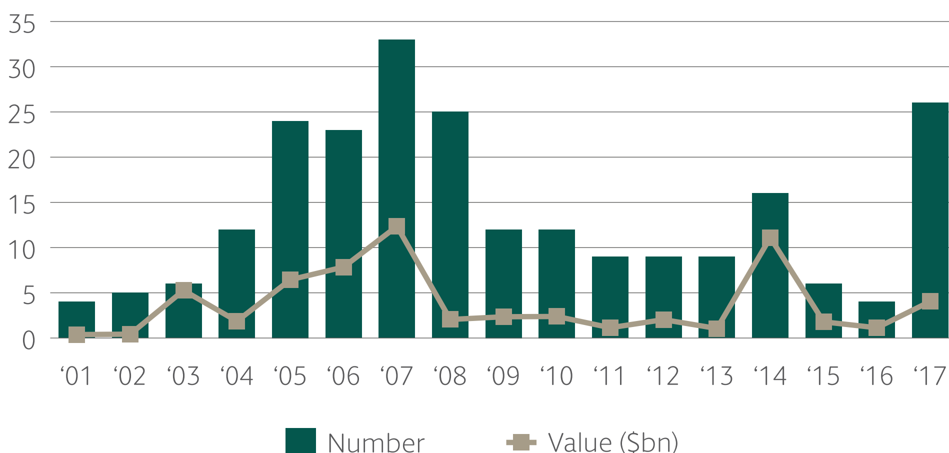
Notably absent from the market were family firms. Changes to the UAE Companies Law, which came into effect in 2016, reduced the minimum float level to 30% and was expected to encourage them to list. However, house banks were not actively encouraging them to IPO, as valuations were not yet in line with their expectations, and many family firms have issues to address ahead of listing, including on corporate governance, transparency and packaging conglomerates in a way that makes sense to investors.

It looks likely that 2018 will be an even better year for the IPO market, with several important listings already confirmed. One of the first will be Kuwait's Shamal Azzour Al Oula, the first project to IPO in line with the requirements of the new PPP law in Kuwait, leading the way for others in the future. Some of the most interesting listings could come in Dubai, where some rapidly expanding multinationals, such as Careem and GEMS Education, could be looking to raise over US$1bn each to fund new growth. ACWA Power in Saudi Arabia is in the same category.

Privatisations could be even larger, with possible IPOs from firms such as Enoc retail, Emirates Global Aluminium and some of UAE industrial holding company Senaat's subsidiaries, including Emirates Steel and National Petroleum Construction. If even a few of these make it to market, then 2018 could set a new record for IPO capital-raising, regardless of Aramco.

Aramco, of course, will blast through all the records and presents a complicated calculation for other firms. Should they list before Aramco drains a lot of liquidity, both local and international? Or should they list afterwards, since it will help to open up the GCC market to foreign investors. Given the uncertainties over timing, companies are likely to press ahead with their IPO plans on the basis of their internal timeframe. ACWA Power's Mr Nanda is optimistic: "A week after Aramco's IPO there will be weak liquidity, but market appetite for good issuers should be back to normal levels within 3-4 weeks."

GCC IPOs



Source: PwC

The impact of Qatar

Andrew Tarbuck
Partner, Dubai

The embargo of Qatar has had a tangible impact on regional markets. For instance, IPO bookbuilds for UAE issuers can no longer rely on significant Qatari investors to fill a material part of the book. Qatari banks have seen sizable capital outflows but it has also encouraged Qatar to diversify its trading partners and divert a proportion of its outbound investment, which would have found a home in the GCC region, to other jurisdictions, particularly the United States.

The dispute also fractures the idea of a unified, stable and co-operative six-country block in the Middle East which provided significant comfort for inbound investors from outside the region. We expect little change in 2018 unless key global players, particulary the U.S., decide to focus on mediating a resolution.

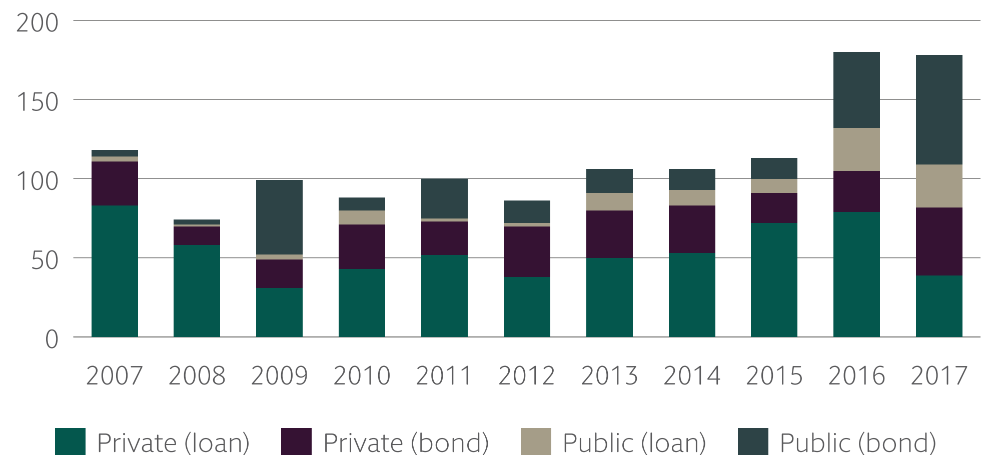
Debt capital markets – time for a breather?

The combination of low oil prices and low interest rates continued to drive frenetic debt capital markets in 2017.

Sovereign Eurobond issuance hit a new record of US$49.5bn, including Kuwait's debut. That came on top of sizable local issuance, including a series of Saudi sukuk. Private bonds also hit a new record, although syndicated loans slowed markedly compared with 2016.

Looking into 2018, the higher oil prices will somewhat ease sovereign demands, although Oman already issued US$6.5bn in January and Qatar is expected to do another US$9bn or so during the first quarter, which is really 2017 financing delayed until the boycott risk-premium eased off. However, benchmark rates are rising and liquidity is tightening globally. The Fed is expected to raise rates by at least 75bps, and possibly even more, and the European Central Bank and Bank of Japan are tapering their quantitative easing. Regionally, the flurry of privatisations and IPOs could also compete for capital with the debt markets. As a result, total issuance is likely to fall compared with 2017. Nevertheless, there will still be plenty of chunky deals out there, including Qatari banks looking to refinance their balance sheets. QNB has led the way in early 2018 with a US$3.5bn syndicated loan and various bonds.

Debt capital markets ($bn)



Source: PwC

Sovereign wealth funds – new approaches

The Gulf's sovereign wealth funds have been relatively quiet globally in recent years as inflows from oil surpluses dried up and some were tapped to finance deficits.

The pressure to rely largely on income and redemptions to finance new deals has brought new approaches. In Abu Dhabi, Mubadala merged with IPIC in 2017 to create a fund with US$125bn in assets and roughly triple the annual income, enabling it to finance new deals. However, the combined firm also has over US$40bn in debt, including US$1.5bn in bonds issued last year.

A similar merger between Oman's State General Reserve Fund and the Oman Investment Fund is a possibility in 2018. The latter raised a US$600m syndicated loan to buy 51% of Omantel from the Ministry of Finance, an indirect way of financing the country's sizable deficit. Qatar Investment Authority (QIA) also made use of leverage in its purchase of Rosneft at the end of 2016—subsequently unloading the debt-finance portion of the deal to CEFC China Energy, reportedly because the unanticipated strengthening of the euro undermined the economics of the financing arrangement.

Technology was a major focus for sovereign investors in 2017, in the Gulf and globally, and is likely to be again in 2018. The QIA opened an office in Silicon Valley and played a role in the US$1.6bn takeover of U.S. IT firm Gigamon, as well as investing in German online food retailer HelloFresh. Most of the action, however, was with the newly formed Softbank Vision Fund, in which Saudi Arabia's PIF pledged US$45n and Mubadala US$15bn, getting exposure to its initial deals, including a 25% stake in chipmaker ARM and a 15% stake in Uber.

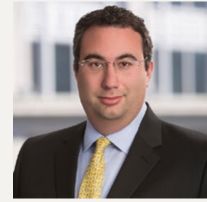
The partnership with Softbank also highlighted a growing theme in Gulf sovereign investment, implemented through a network of trusted partners. These include other sovereign entities, such as the Russia Direct Investment Fund, as well as private firms with expertise in particular sectors and regions. The QIA, for example, has done repeated real estate deals with Brookfield and Douglas Emmett, and commodity sector deals alongside Glencore (including the Rosneft deal).

Sovereign wealth funds are also playing an increasingly important role in their domestic economies. This has long been a core focus for Mubadala and Bahrain's Mumtalakat. However, the flurry of domestic initiatives from PIF was particularly evident in 2017, launching a domestic entertainment arm (the Qiddyah Project), managing a redevelopment of Jeddah's waterfront and a vast Red Sea tourism project, as well as seeding subsidiaries focused on areas such as recycling and energy efficiency.

PIF is also "looking at sectoral champions to support their growth ambitions", according to Mr Nanda, who confirms that PIF is in talks to increase its strategic stake in ACWA Power (which already stands at 11.5%) to help finance its expansion domestically and internationally.

Meanwhile, in Qatar, QIA demonstrated the role of sovereign wealth as a strategic reserve, playing a vital role in the early months of the boycott. It onshored about US$12bn of cash to stabilise the banking sector in response to rapid non-resident deposit outflows when the boycott was imposed. It also pledged to support state-owned firms such as Qatar Airways and Katara as required.

The Trump effect



Aaron Cutler
Partner, Washington, D.C.

There are significant changes underway in the U.S. that will shape the landscape for Gulf investors in 2018.

The wall of cash being repatriated by multinationals under the new tax law will fuel M&A and could push up valuations – making bargain deals scarce.

A bipartisan bill to regulate foreign investment is under discussion, motivated by security concerns about Chinese acquisitions. That could create obstacles for sovereign investors, although there are provisions to ease the impact on allied countries.

The infrastructure bill could create new opportunities for Gulf investors, including through the Saudi PIF's US$20bn investment in the Blackstone Infrastructure Fund.

The last few years have laid the foundations for some significant shifts in the landscape for Gulf capital markets – and the relationship between the public and private sectors – driven by fiscal pressures and a new openness to foreign investment. There is a good chance that 2018 will prove to be a landmark year as this groundwork translates into some significant developments, ranging from major privatisations in Saudi Arabia to a wave of consolidation among regional banks and a burst of M&A activity in the tech sector. The direction of public policy is likely to remain stable but geopolitical risks, most notably tensions with Iran, will continue to remain a concern that could cause delays in some areas.

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