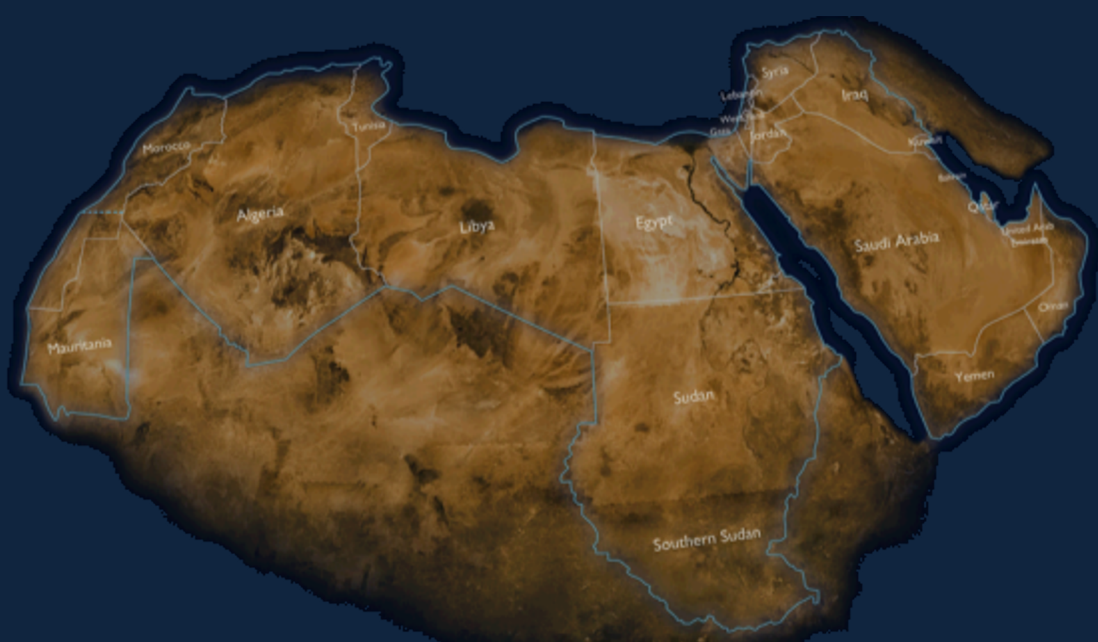
ARABIA MONITOR
ECONOMIC RESEARCH & STRATEGY

Iran: Hangs in a delicate balance

Middle East & North Africa Outlook
Q4 2021



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Outline

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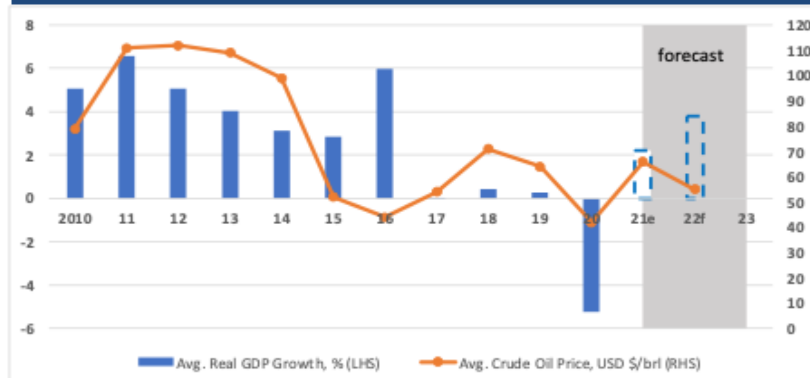
Our View: Iran game on; triple economic boost

- **The much-anticipated return of an Iranian nuclear deal has been neither quick nor easy. While sanctions relief would almost certainly pave the way towards a brighter economic future for Iran, uncertainty continues to obscure the way forward. This ambiguity includes the possibility of a no-deal outcome. This quarter, we take a deep dive into the Islamic Republic.**
  - With hardliners in Tehran now calling the shots, some were concerned that the prospects of a deal might have been derailed. While this is certainly not the case, a resolution will not be reached overnight.
    - The presidential transition has hampered progress, especially as fresh personalities have been handed the reins by the administration of former president, Hassan Rouhani (in office 2013-21).
    - These include a new chief negotiator, Ali Bagheri, a hardliner who will reflect the overall tone of the new administration.
    - With no date set for negotiations to restart, a new deal is unlikely to be reached for at least several months.
  - Despite sanctions and the COVID-19 pandemic, Iran is one of the few countries in the MENA region to post positive growth in 2020 (1.5%). The IMF forecasts growth to be sustained until 2022, albeit in low single-digits.
  - This has brought into question Iran's 'resistance economy' and whether or not the regime has been successful apropos Supreme Leader Ali Khamenei's ambitions to 'neutralise sanctions'.
    - A steadily weakening rial has gradually boosted non-oil export industries, including petrochemicals, metals and engineering services. We highlight some of Iran's key sectors which have managed grow despite the challenging operating environment.
  - While businesses in Iran have great potential, capital and infrastructure are weak; underinvestment is a headwind.
    - An inflow of FDI will almost certainly benefit Iran, but one must consider the factors that mitigate growth prospects. The Islamic Revolutionary Guard Corps (IRGC), for example, has become a regular fixture in Iran's military, security, political and business realms.
  - Despite evident room for growth, investment will be slim until sanctions are lifted and Iran creates a more business friendly environment.

Figure 1 – MENA oil exporters growth vs crude oil price[1]



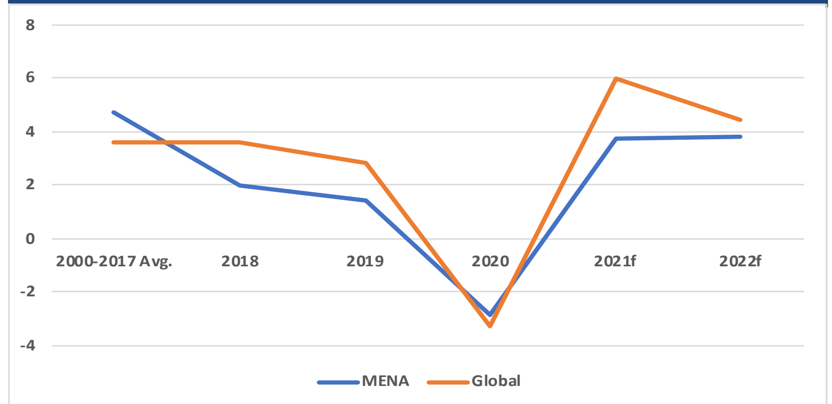
- **In our MENA update, we discuss how the region is modestly recovering as economic activity restrictions are loosening and consumer demand is making a comeback. We are optimistic about the pace of recovery in H2 and beyond.**
  - Oil-exporting countries are enjoying a triple delight; a continuation of the vaccine rollout, bullish oil prices that are expected to rise by 60% YoY in 2021, and the easing of OPEC+ production cuts.
  - Higher energy demands signal the cautious and continued re-opening of the global economy. We expect an increase in business sentiment.
  - An extended period of savings from households in stronger economies (due to COVID) may spur an external demand boom. MENA goods may profit from this situation in the representation of higher exports from the region to countries abroad.
  - However, uncertainty remains across the region in the form of geopolitical tensions, COVID-variants and bruised fiscal positions from the pandemic aftermath.

[1] Arabia Monitor; Fitch Ratings; IMF.

Global Outlook: Recovery in sight but uneven

- **One headline stands out in this quarter's global outlook: the gulf in terms of international post-pandemic recovery has widened even further.**
  - ➢ The IMF has not changed the 2021 global growth forecast (6%) which it put forward in July; the reason is offsetting dynamics.
    - Although advanced economies' growth forecasts are higher than those put forward in April, the global picture has been offset by diminished forecasts in other economies.
  - ➢ As expected, disparity stems from advanced economies gaining growth momentum while emerging markets trail behind.
    - Access to vaccines and fiscal support are the clear differentiators.
  - ➢ For 2022, global growth in economic output is expected to reach 4.9%, a 0.5 percentage point mark-up from April's forecast.
  - ➢ We believe it is still too early for international monetary tightening. Nonetheless, it is critical to watch price pressures closely; effective rhetoric is also needed from central banks in order to keep inflation expectations firmly anchored.
    - In the absence of such measures, central banks could resort to hawkish actions, such as raising interest rates.
    - We are starting to see the central bank narratives shift.
  - ➢ A pandemic-induced supply-demand imbalance underscores the argument that inflation is transient; supply is predicted to catch up with demand in 2022.
    - Supply chain pressures are not expected to linger until then.
  - ➢ US inflation has started to subside in recent months, due to the COVID-19 Delta variant dampening consumer mobility (and by extension spending) and the abating of supply chain disruption.
    - The numbers speak for themselves. Consumer price index (CPI) inflation increased by 0.3% from July to August 2021, the smallest MoM increase since January of this year.
    - To galvanise this argument, core inflation (excluding volatile food and energy prices) rose by only 0.1% during the same period, the smallest monthly increase since February 2021.

Figure 1 - Real GDP growth (%)[1]



  - ➢ Downside risks to the IMF's outlook include the possibility of potential new COVID-19 variants, slower vaccine rollouts and fiscal tightening.

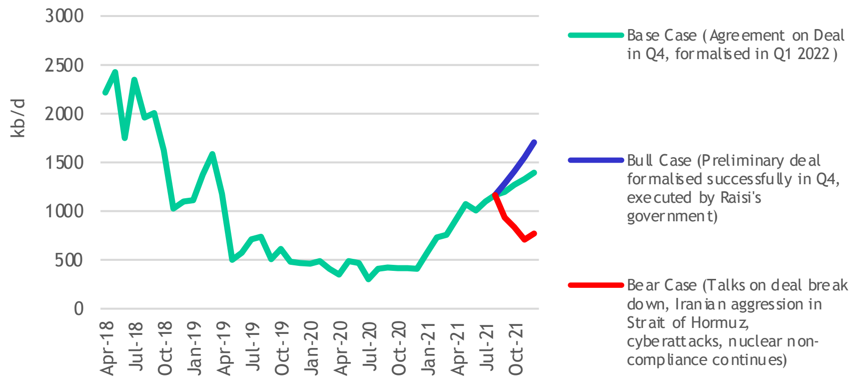
- **A bullish oil market recently witnessed the price of the barrel reach its highest level in three years at USD 80. However, rebounding oil demand is likely to be complemented by the OPEC+ group gradually increasing its supply.**
  - ➢ 2020 gave rise to the biggest ever annual decline in oil demand, in terms both absolute and proportionate. A drop of 8.5 M barrels per day (bpd) represented a fall of roughly 8.8% compared to 2019.
    - China is the only major economy which saw its 2020 annual oil demand grow above 2019 levels. Further growth (roughly 9%) is expected this year.
  - ➢ Amid ramped-up vaccination campaigns and the gradual lifting of travel restrictions, we expect this year's global oil demand to increase by an extra 5.4 M bpd compared to last year. Nonetheless, this figure still doesn't make up for the 8.5 MB/D drop.

[1] Arabia Monitor; IMF.

Will Iran and the US return to talks on the nuclear deal soon?

- **The Biden Administration is pressing Iran to return to talks on its nuclear programme after a 3-month hiatus**
  - The 3-month hiatus in talks was due to Iran's government transition, with hardliner Raisi taking over from moderate former president Rouhani in June.
  - The election has somewhat deflated international optimism for a constructive government, which could have dictated collective action (with other partners to the JCPOA) on meaningful resumption of trade with Iran.
- ➢ However, the Biden Administration remains intent on resolving the "Iran issue" quickly.
- ➢ Iran's recent membership to the Shanghai Cooperation Organisation (SCO) is being touted by its government as being sufficient to "nullify US sanctions"
  - The SCO is a Eurasian political and security alliance led by China and Russia. After the US withdrew from Afghanistan, Iran's application for "full membership" has been welcomed by Xi Jinping, with procedures to admit the Islamic Republic in to be launched soon.
  - However, even though the alliance is led by China and Russia, their support for Iran has been inconsistent, and previous mechanisms to continue trade with the sanctioned Islamic Republic amounted to nothing apart from a few MoUs for barter schemes.
- ➢ For any meaningful return to the international oil market, Iran will still require the full withdrawal of nuclear-related US sanctions and comfort on banking compliance
  - This is for a number of reasons. One, most of Iran's prime customers have established businesses with the US, including China. China has bypassed US sanctions on Iran by importing higher volumes since Biden's instatement, but exports from Iran remain well below their pre-sanctions average of >700 kb/d. This is because Chinese state-owned giants like Sinopec and CNPC have stopped taking in Iranian crude to protect businesses overseas. The bulk of China's Iran imports are by smaller refineries and independent teapots.
  - India meanwhile has not lifted a barrel of Iranian oil since November 2019, when its waiver for 180 kb/d expired. The pro-US incumbent government will be hesitant to return to signing term deals with Iran without formal US endorsement that the Islamic Republic is open for trade.
  - Turkey, another Iranian crude importer, will also prefer full withdrawal of US sanctions before deciding to snap up Iranian crude, due to continued tensions with Washington on other foreign policy matters.

Figure 1 – Iran Crude Export Scenarios based on Nuclear Deal[1]



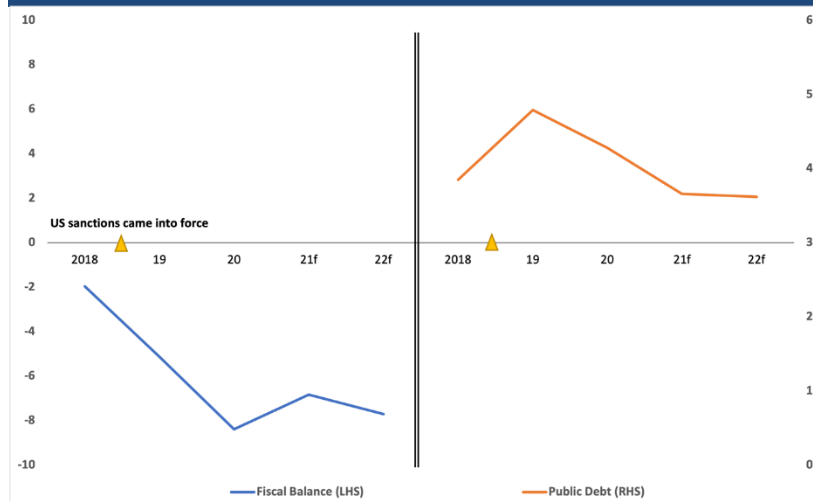
- ➢ If Iran agrees to resume talks within the month, a base case scenario would see some immediate, albeit limited sanctions relief
  - It is extremely unlikely that the US would agree to full sanctions removal to have Iran return to its nuclear commitments. A midpoint would be limited relief by reallowing some crude oil trade in exchange for Iran to freeze its uranium enrichment and related activities and agree on steps towards a deal.
  - If Iran refuses to resume talks with the US, or Biden is unable to sell a deal to the Congress, Iran's exports would suffer a short-term jolt, dropping to 600 kb/d, before increasing slightly to 750 kb/d by early next year.
  - A bull case would require the full formalisation of a preliminary deal within Q4 2021. This is quite unlikely, if not impossible, due to no agreement on a deal being reached yet, and Iran's uncompromising attitude. Regardless, if this were to pass, Iran's exports would reach 1.9 M bpd by year-end.

[1]Qamar Energy. This section is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts

Iran: Realities of ‘resistance economics’

- **Although Supreme Leader Ali Khamenei would like Iran to return to a nuclear deal, he would prefer not to have to rely on sanctions being lifted. Indeed, he would rather that sanctions were ‘neutralised’, which has been successful to some degree. After all, Iran is one of the few countries in the MENA region to have posted positive growth in 2020.**
  - ➢ Iran posted 1.5% GDP growth in 2020 despite the effects of the COVID-19 pandemic. The IMF forecasts single-digit growth will continue until 2022.
  - ➢ Iran will likely continue with its ‘look east policy’, a go-to strategy in the arsenal of Iranian policymakers.
    - China has offered a shoulder for Iran to lean on amid US-imposed sanctions, with Chinese oil imports allowing the Islamic Republic to bring in revenue.
    - The US has turned a blind eye to this sanctions breach, claiming there is no need to punish China; the nuclear deal dossier has been revisited and negotiations are ongoing.
  - ➢ Just how long this ‘resistance economy’ can endure is another matter; oil is a major economic lifeline for Iran.
    - Low oil exports since the collapse of the nuclear deal in 2018 have resulted in dwindling inflows of hard currency.
  - ➢ Throughout Iran’s recent past, the price of the USD has risen, with most Iranians feeling the impact. Domestic industries which rely on imports of raw materials have been left with low purchasing power and are thus finding it hard to do business.
    - With rising production costs, business owners are forced to lay off workers, which simply exacerbates Iran’s unemployment woes.
    - Many small businesses have had to close shop and exit the market completely.
  - ➢ A staple of the resistance economy is the ‘bonyad’, a state-controlled investment fund based on charitable donations from Iranian companies. Although the initiative makes up around 20% of Iran’s GDP, the bonyad appears to be a double-edged sword.

Figure 1 - Iran’s fiscal balance and public debt[1]



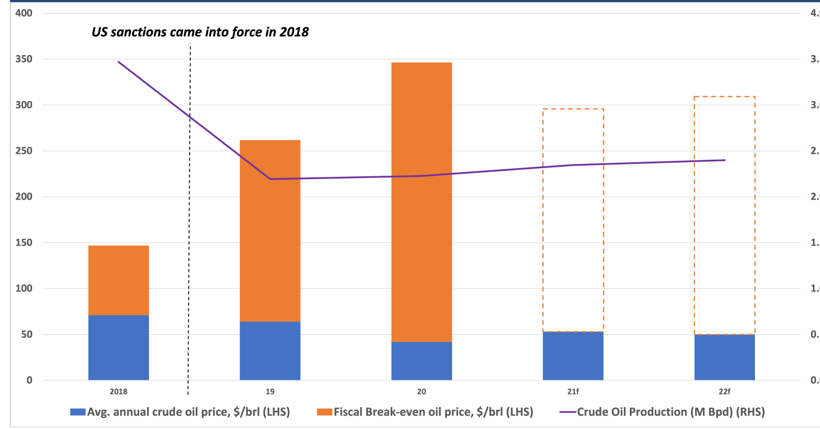
    - Companies donating to the bonyad enjoy privileges such as tax exemptions, gifting them an upper hand over rival firms.
    - This leaves little room for healthy and competitive domestic market activity.
  - ➢ Bonyad-related inefficiencies have been veiled by the fact that they employ tens of thousands of people and donate charitably to low-income Iranian citizens. They are generally popular.
  - ➢ If the Islamic Republic is to boost its non-oil sector, it must foster equitable competition and entertain a level playing field by diluting the presence of bonyad-backed firms.
    - To create jobs, Iran must allow more breathing space for other businesses to enter its services economy.

[1] Arabia Monitor; IMF.

Iran: Diversification leaving a sweet taste

- **A steadily weakening Iranian rial has gradually boosted non-oil exports, including petrochemicals, metals, engineering services and even confectionery.**
  - ➢ The non-oil sector rebound has been driven by manufacturing, with Iran's exchange rate depreciation having made domestic produce more price-competitive in the global markets.
    - Foreign buyers have benefitted from the weaker rial; they can now make larger orders due to the appreciation of their own currencies.
  - ➢ Iran is a relatively diversified economy compared to its oil-rich gulf neighbours. The services sector is the largest contributor to its GDP at 45%, compared to oil (18%) and industry and mining (20%).
    - The inevitable slash in Iranian oil exports following the US abandonment of the nuclear deal in 2018 (and reimposition of sanctions) has understandably led to a decrease in exports YoY.
    - However, exports have increased since 2019, albeit modestly. More than anything, this resilience underscores the performance of non-oil sectors. The IMF forecasts a 5.3% rise in exports in 2022.
  - ➢ Unlike crude oil, petrochemicals are not sanctioned. They have therefore been a reliable lifeline for Iran's weak economy and have helped to bring in hard currency from the global market.
    - The sector has provided employment at manufacturing plants across the country; its export revenues in 2020 amounted to around USD 15B (28% of GDP).
  - ➢ Elsewhere, 40% of Iranian food exports comprise of chocolates and pastries.
    - Iran's confectionery association reported that the COVID-19 pandemic slashed export revenues by half.
    - Soaring costs of raw materials and a weak rial have forced confectionery manufacturers to cut down on machinery imports and to produce the goods using local tools instead.
    - The main buyers of confectionery are neighbouring countries like Afghanistan, Iraq and, to a lesser extent, China and Russia.

Figure 1 - Iran: Large fiscal break-even gaps post-sanctions[1]



    - While the potential export revenue capacity is around USD 1.5B, current figures stand at about USD 475M (roughly 30%). Both the lifting of sanctions and an effective vaccine rollout could spark the confectionery industry into operating at full capacity once again.
  - ➢ Domestically, consumer demand for sweets and chocolate has fallen in tandem with low purchasing power. The industry is considered to manufacture non-essential luxury products; many Iranians need to prioritise purchasing basic commodities like bread and fuel.
    - Confectionery therefore has a high income elasticity of demand; as soon as consumers' pockets shrink due to inflation, they simply turn away from luxury goods.
  - ➢ Factory owners also bear much of the burden.
    - Despite rising input costs with regard to the production process, confectionery prices have not risen to the same degree. This trend reflects manufacturers' efforts not to alienate the market.
    - The result is that business owners' profits are now meagre, simply because they wish to keep their businesses alive.

[1] Arabia Monitor; IMF.

Iran: Raisi's reforms

- **Things may now look different for the Joint Comprehensive Plan of Action (JCPOA) amid the arrival of a new hardline government. Yet while President Ebrahim Raisi plays tough, he may do well to adopt a toned-down rhetoric if he is to deliver on the promises he made during his campaign. Indeed, the lifting of sanctions might just allow him to finance his proposed economic policies.**
  - ➢ The new government has inherited a faltering economy, COVID-19-related issues and crippling sanctions.
  - ➢ Iranian living standards have fallen since the reimposition of sanctions.
    - However, average annual income is expected to rise in the event that sanctions are lifted. It is important to note that average income rose by 12% after sanctions were lifted in 2015.
  - ➢ Iran has a lot of untapped potential.
    - A return to global markets would mean the country could enjoy an increased share of the market's natural gas supply. Its current share stands at a mere 1%. Despite such a meagre slice, it is important to remember that Iran possesses the world's second largest natural gas reserves.
  - ➢ Annual oil export revenues have amounted to around USD 40B in previous years.
    - If Iran were to make an economic transition, gas and mineral resource revenues could exceed USD 250B in the coming few years, a whopping 500% hike from the current oil export revenues.
  - ➢ Raisi's new economic policies are considered expansionary. They seek to boost consumer demand and reallocate resources where they are needed the most. The strategy requires a delicate balancing act, and risks increasing inflation.
    - Monetarily, Raisi plans to provide low-interest rate loans to low-income households in order to boost consumer demand.
    - However, while Raisi plans to shuffle fiscal policy by increasing government spending via healthcare subsidies, his proposal is aimed at a smaller portion of the population.
    - Previously, 43% of households were in receipt of such benefits. Raisi's reforms will see that figure drop to around 20%.

Iran Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.8	4.5	-10.9	1.1	4.4
Crude Oil Production (M Bpd)	3.5	2.2	2.2	2.3	2.4
CPI Inflation (%)	30.2	34.6	36.5	39.0	27.5
Fiscal Balance (% of GDP)	-2.0	-5.1	-8.4	-6.8	-7.7
C/A Balance (% of GDP)	5.9	0.6	-0.7	1.2	1.2
Total Gov't. Gross Debt (% of GDP)	38.5	47.9	42.8	36.6	36.2
Total Gross Extrn'l Debt (% of GDP)	2.3	1.6	1.8	1.6	1.6
Gross Official Reserves (Mos. of Imports)	21.9	2.0	0.6	1.9	3.1
Nominal GDP (USD B)	456.6	581.3	635.7	682.9	714.7
Population (Millions)	82.4	83.3	84.1	85.0	85.8

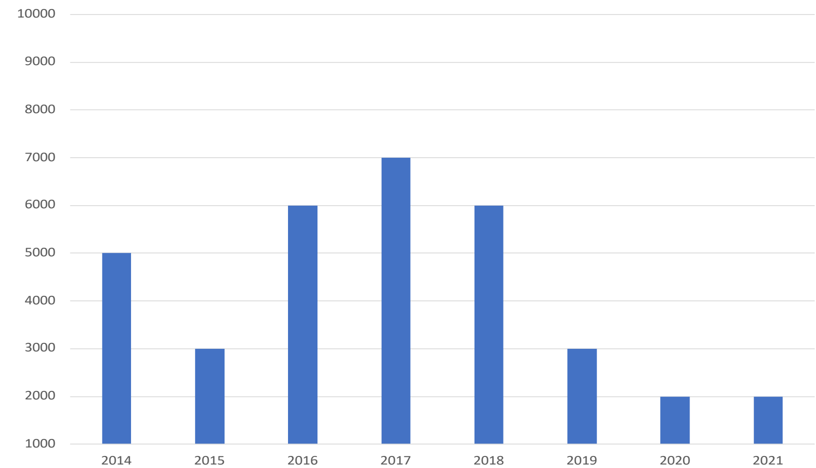
    - One questionable policy is Raisi's plan to construct around 4M homes, a project which needs considerable financing. As part of a similar housing project, the previous government had to resort to printing money, a move which resulted in inflation. Raisi's policy is reminiscent of the ideologically-aligned former president Ahmadinejad (in office 2005-13), the housing project's creator.
  - ➢ Raisi looks set to exploit all the fiscal policy tools at his disposal. To do this, he plans to issue debt and raise taxes. However, he still needs oil revenues to fund his ambitious projects. Otherwise, Iran's deficit is here to stay.
  - ➢ The recent crash of the speculative stock market bubble has prompted the government to consider increasing revenue by raising taxes on risky stock exchange activity. It intends to curb both excessive optimism and herd behaviour in the stock market, and to influence investors and stockbrokers to make transactions with minimal speculation.

[1] Arabia Monitor; IMF.

Iran: Energy exports still essential

- **Iran holds 10% and 15.8% of the world's crude oil and gas reserves, respectively. Quantities notwithstanding, the Islamic Republic's ability to raise output significantly requires investment levels which in recent years have fallen short due to sanctions. Although Iran has nevertheless managed to conduct some trade, several recent transactions have been less conventional than others.**
  - Iran's crude oil production dipped to a 30-year low in 2020 as a result of sanctions and the impact of the COVID-19 pandemic.
    - After sanctions waivers expired in May 2019, output fell to around 2.1M bpd. Furthermore, the pandemic-related economic fallout was deep and resulted in Iran's crude oil production dipping below 2M bpd in 2020.
  - Critically, production levels could return to full capacity (around 3.8M bpd) if the US lifts its oil sector sanctions.
    - That is not to say Iran has not been productive; indeed, a recent OPEC+ report posted Iranian crude output for August 2021 at just under 2.5M bpd. This highlights that Iran is continually trying to meet production targets, albeit with an 8K bpd decline compared to July's figures. The country is simply not exporting to the same extent as before.
    - While the Iranian authorities will not disclose the country's crude export data, assessments based on shipping and other sources suggest a fall from around 2.8M bpd in 2018 to as little as 200K bpd.
    - Despite US sanctions, Iranian oil enjoys one key buyer: China. Throughout 2019, China imported just over USD 7B worth of crude oil from Iran, accounting for about 6.3% of China's crude oil imports.
    - This year, Chinese imports of Iranian oil have averaged between 400K and 650K bpd. Volumes in May spiked at nearly 1M bpd.
    - This partnership is not going to stop any time soon. China currently receives Iranian oil at a slashed price due to the terms of a 25-year agreement. China will almost certainly remain the top importer of Iranian oil for the foreseeable future.
  - Although an increase in supply would have implications for global markets, OPEC+ has accounted for Iran's return, meaning any such rise would not offer too much of a shock.

Figure 1 - Oil exports from Iran (USD, M)[1]



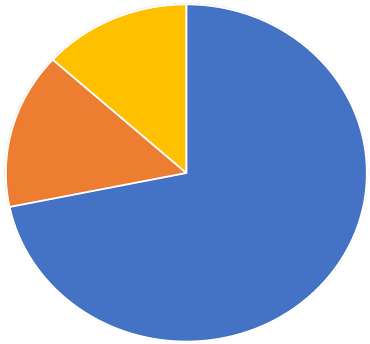
    - Additionally, if Iranian oil does make its way back to global markets, any return to full production capacity is going to be gradual. Simply put, 4M barrels are not going to flood the market overnight.
  - Aside from exports, Iran has also been engaging in energy diplomacy as a way to wield soft power across the region.
    - Iranian gas and electricity powers more than a third of neighbouring Iraq's energy needs. What's more, if Iraq fails to make its repayments, Iran can simply cut off this supply, and subsequently spark instability across its border.
    - Iran has also been sending unmarked energy supplies to Lebanon and Syria.
    - Beyond the region, the Islamic Republic is peering in the direction of southern international partners. In particular, Iran is keen to exert its influence and presence throughout Latin America despite US sanctions and cries of condemnation from the West.

[1] Arabia Monitor; IMF.

Iran: Hard lines in the sand

- **As we predicted in our Country Views, the end of a moderate political period in Iran is nigh. The recent election of Ebrahim Raisi, the protégé of Supreme Leader Ali Khamenei, has ushered in a hardline era.**
  - Raisi's cabinet picks have officially taken their seats. They comprise clerical elites and those affiliated with the Islamic Revolutionary Guard Corps (IRGC).
    - Raisi was tasked by Supreme Leader Ali Khamenei and the Iranian media to form a younger cabinet. The average age of his all-male nominees is 52.
    - Khamenei has recently urged the inclusion of younger officials due to first-generation revolutionaries either aging or having died. It is now time to ensure that older officials' ideologies diffuse into the next generation.
    - The new cabinet includes 16 officials with doctorates, mostly from Iranian universities, a huge contrast to Rouhani's cabinet. The previous administration included ministers who had lived in or been educated in the West.
    - Additionally, the current administration is officially the most sanctioned in the history of the Islamic Republic.
    - Some famous faces include Mohammad Mokhber (the first vice president) and Mohsen Rezaee (the economic affairs minister).
    - Before taking his post, Mokhber was the head of the Execution of Imam Khomeini's Order, the regime's property management company. Rezaee was the IRGC's longest serving commander-in-chief.
    - Rezaee's predecessor staffed his economic team with several experienced technocrats who are largely apolitical. His oil minister, Bijan Zangeneh, and central bank governor, Abdolnaser Hemmati, played a pivotal role in mitigating some of the economic damage inflicted by US sanctions.
    - Raisi's new cabinet largely consists of men he considers to be 'expert, efficient and revolutionary', and who are also strongly affiliated with the conservative party.
    - The spotlight is on Iran's new foreign minister, Hossein Amir-Abdollahian, successor to Mohammad Javad Zarif.

Figure 1 - Political parties in the Majlis in 2021[1]



  - Abdollahian is a familiar face within the diplomatic community. He served as head of the foreign ministry's special department for Iraq before taking his post as the Iranian ambassador to Bahrain from 2007 to 2010. He then took his seat as deputy foreign minister for Arab and African affairs before finally serving as a senior advisor to the Majlis (the Iranian parliament).
  - However, regardless of the ideological shifts, the new administration is set to forge ahead with negotiations regarding the Joint Comprehensive Plan of Action (JCPOA). It is now simply a matter of when they will return to the negotiating table.
  - The new foreign minister intends to first pursue policies and relationships that prioritise Iran's best interests. He will focus on strengthening Tehran's relationship with regional players, as well as its eastern partners.
  - However, even if negotiations are successful and a deal brings Iran back in from the cold, the new administration is not going to follow Rouhani's methods when engaging with the West.

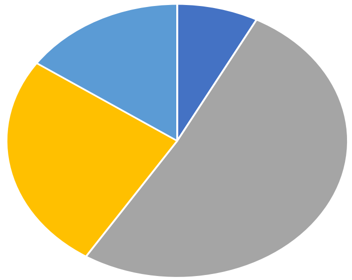
[1] Arabia Monitor; IMF.

Iran IRGC back in business

- **The role of the Islamic Revolutionary Guard Corps (IRGC) has expanded significantly. Despite the advent of a new administration, the IRGC has established a powerful network which permeates the executive branch; its meddling is here to stay.**
  - ➢ Several individuals in Ebrahim Raisi's administration are members of the IRGC, a trend consistent with the ostensible militarisation within Iran's mainstream politics.
    - The IRGC 'protects' the Islamic Republic with its elite Quds Force, which manages Iran's operations abroad, including the activities of various proxy militias.
    - The Quds Force took centre stage in January 2019 following the assassination of its powerful general, Qasem Soleimani. Despite initial concerns that the Quds Force might lose its influence due to the absence of its late master, its influence shows no sign of abating.
    - For the past two fiscal years, the Quds Force was allocated a larger budget than the Artesh (Iran's conventional military).
    - The administration of the outgoing president Hassan Rouhani tried in vain to dilute the role of the IRGC. The former foreign minister, Javad Zarif, is also a critic of the guards, having often derided frequent infighting which took place between the executive and the IRGC.
  - ➢ Raisi's engagement with the IRGC is set to mirror the Ahmadinejad years (2005-13); this relationship is already taking shape, a development underscored by the new president's cabinet picks.
    - Four out of Raisi's nineteen cabinet members are ranking IRGC officials, including the roads and urban development minister, Rostam Qassemi, who is currently sanctioned by the US.

- **Outside the realm of diplomacy, the IRGC's influence will spill into the business environment. The guards already have a footprint in nearly every sector, a position they will only consolidate.**
  - ➢ The IRGC and its affiliated companies stand to benefit as a result of new contracts from Raisi's government.

Figure 1 – IRGC's estimated budget spending[1]



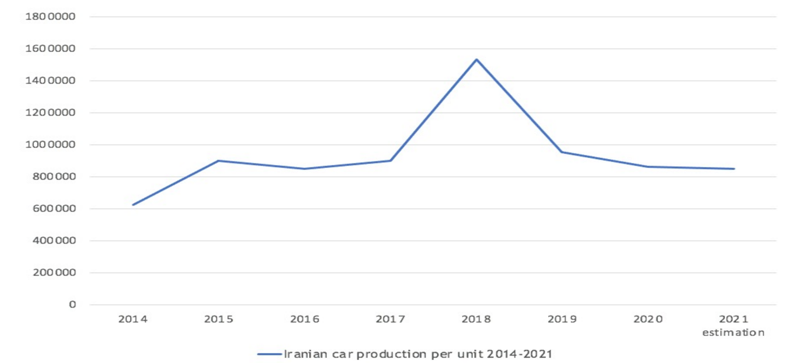
    - After the 1980-1988 war with Iraq, the IRGC became involved with reconstruction efforts and lucrative government contracts, often encountering no competition. Its expansion into new economic sectors accelerated under the former president Mahmoud Ahmadinejad, a former member of the IRGC.
  - ➢ Although the IRGC once predominantly operated on the black market, its business credentials are now largely formalised.
  - ➢ This IRGC success story will only continue; the group will co-opt existing financial institutions into its web of subsidiary companies and subcontractors.
    - The IRGC engineering arm, Khatam al-Anbiya, will constitute the group's dominant business presence. Khatam al-Anbiya has become one of the largest contractors in industrial and development projects in Iran.
  - ➢ It is almost impossible to engage in any construction projects in Iran without working with Khatam al-Anbiya. They have essentially monopolised the sector.
  - ➢ Ultimately, any business looking to set up shop in Iran is likely to come across the guards, and will have to play to their tune.

[1] Arabia Monitor; IMF.

Iran: Revving to go

- **For the past year, companies linked to Iran's defence ministry have stepped in to support automobile manufacturers. Their aim is to localise the production of parts and to shield manufacturers from rising import costs. The domestic market is now thriving.**
  - By providing such assistance, Iran's defence ministry hopes to help carmakers maintain productivity levels in the face of US sanctions.
  - International sanctions initially crippled Iran's automobile industry. Western car manufacturers quickly left the country and foreign-made parts quickly became difficult to source due to a dearth of imports.
  - Despite the value of the Iranian currency subsequently dropping, car prices continued to increase largely thanks to a persistent high level of demand.
  - The resultant co-operation between automakers and defence contractors is best understood as a stop-gap solution. The agreement aims to utilise military technologies in order to bridge the gaps in the automotive industry.
  - In the medium-term, the automotive sector will still require the transformative investment that only foreign companies can provide. Sanctions relief would almost certainly help in this regard, as would further investment from China.
  - The defence ministry's initiative has been rather successful. Data from July 2021 revealed that car manufacturing has risen 11% over the last four months compared to the same period last year.
  - In June 2021, the Iranian automotive market had already surpassed pre-pandemic levels by 28.4%. According to data from the industry ministry, Iran's overall car output will increase by at least 21% this year.
  - While manufacturing has weathered domestic levels of demand, exports are also rising; indeed, there is significant protentional for production co-operation with other countries and the return of foreign investment.

Figure 1- Annual Iranian car production rates[1]



- **Iran Khodro (IKCO) and SAIPA represent 90% of the Iranian automobile market. Khodro assembles Peugeot units whereas SAIPA produces Citroens and Kias.**
  - Due to the pandemic, Iran's automotive output declined by 15% compared with 2019. As a result, the National Development Fund of Iran (NDFI) decided to allocate around USD 1B to support national carmakers in 2020.
  - Thanks to the government's incentives, SAIPA announced in August 2021 its ambitions to introduce new models and to increase production by 12% come March 2022.
  - While this news is promising, Iran's domestic market can only fill the void to a certain extent. If activity levels are to be maintained, sanctions need to be lifted in order to boost exports. Otherwise, a dip in the industry at some point in the near term is inevitable.

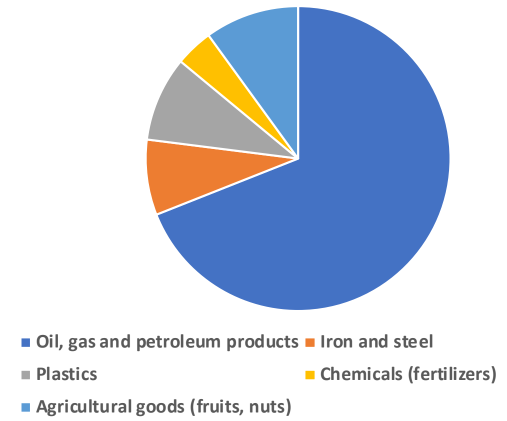
[1] Arabia Monitor; World Bank.

Iran: Raw materials remain untapped

- **Iran holds 7% of the world's mineral reserves, giving it the potential to become one of the largest producers and exporters thereof. Although the country is home to 68 minerals and more than 37B tonnes of proven reserves (plus an estimated 57B tonnes of potential reserves), domestic obstacles remain.**
  - Iran's main natural resources include coal, chromium, copper, iron ore, lead, manganese, zinc and sulphur.
  - In July 2020, Iran's industry, mining and trade ministry announced that 85% of Iranian imports are raw materials brought in to supply industrial sectors, despite the country being rich in minerals.
  - Iran has since changed its tune. Indeed, the government was urged by Supreme Leader Ali Khamenei to avoid exporting raw materials, and to direct their use towards domestic production to help bolster the country's 'resistance economy'.
  - In response, the government went as far as implementing disincentives such as a 25% export tax. Needless to say, exports have since declined.

- **The resource extraction industry attracted many foreign investors in the early 2000s, including Rio Tinto, Persian Gold, CITIC Group and China Aluminium International Engineering. However, foreign investment came to an abrupt halt following sanctions, and the industry has remained heavily underfunded ever since.**
  - Foreign investment has now largely drifted, causing the industry to suffer in terms of infrastructure and development.
  - While mining has continued, investors have still generally steered clear, mainly due to sanctions.
  - Apart from energy production, the raw materials industry appears to be the best option for Iran to diversify its economy. Other sectors that could aid the diversification plan (for example agriculture) risk suffering from climatic conditions and water shortages.

Figure 1 - Iranian exports by category of goods[1]



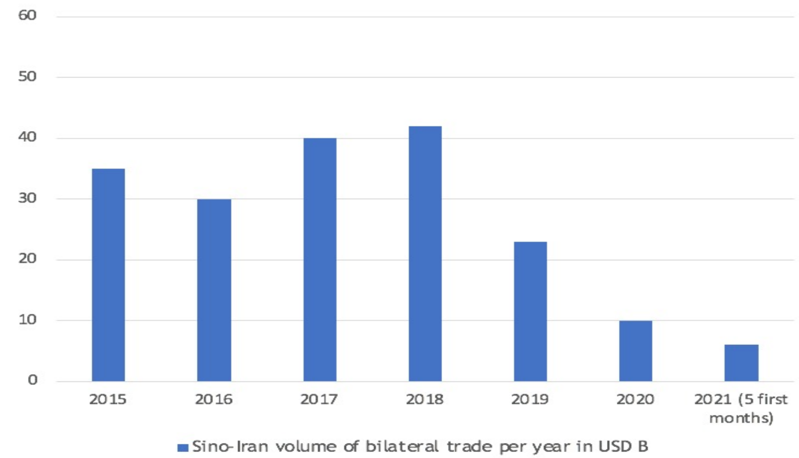
- **Despite external threats, new industry opportunities have arisen thanks to the government's injection of capital.**
  - In September 2021, the industry ministry plans to launch a revival plan involving 1,600 industrial units and 400 industrial parks in order to improve the country's infrastructure and raw materials production. The move could well help Iran's raw materials seem attractive to foreign investors once again.
  - In fact, the mining and industry sectors have accounted for around 80% of Iran's FDI during the past five months.
  - Afghanistan, Hong Kong (China SAR), Germany, Turkey and the UAE are the five countries with the highest volume of investment in Iran. Investment opportunities are likely to pique the interest of traditional eastern partners before western investors make similar forays.

[1] Arabia Monitor; Iranian Ministry of Industry.

Sino-Iran: Default pals

- **In March 2021, China's foreign minister Wang Yi and his then Iranian counterpart Mohammad Javad Zarif concluded a 25-year co-operation agreement, following the first deal established in 2016. The pact ultimately galvanises an already long-standing relationship.**
  - ➢ The deal between both countries came as no surprise; however, it was unclear whether or not the agreement was only speculative.
    - This was largely due to the level of publicity it received on the Iranian side and the lack thereof in China.
    - The deal was met with a degree of scepticism in Iran. Even though some saw it as a lifeline to their ailing economy, others saw it as a potential debt trap.
  - ➢ Nonetheless, the deal forged ahead, and relations are set to be maintained regardless of the latest political handover. Yet it is the extent to which the deal will pan out as planned which remains intriguing.
  - ➢ According to the agreement, China will invest around USD 400B in Iran over the next 25 years, covering an array of sectors including banking, telecommunications, medical care, infrastructure and information technology.
    - It is unlikely that China will deliver on this figure. Some remain reluctant to accept that Iran will be able to absorb such high levels of investment.
  - ➢ In return, Iran will supply China with oil at a reduced rate. The discount could reach as low as USD 4-6 pb. The final costs have not been disclosed by Iran, suggesting the rate is so low as to risk causing public outcry.
  - ➢ All payments and trade between China and Iran will be settled in Chinese currency, allowing China to challenge the global financial dominance of the USD.
  - ➢ The agreement shows the determination of the two countries to continue bilateral trade despite the reimposition of US sanctions in 2018.
  - ➢ In 2019, China transferred USD 3.41B in direct investments to Iran.

Figure - Sino-Iran bilateral trade volume (2015-21)[1]



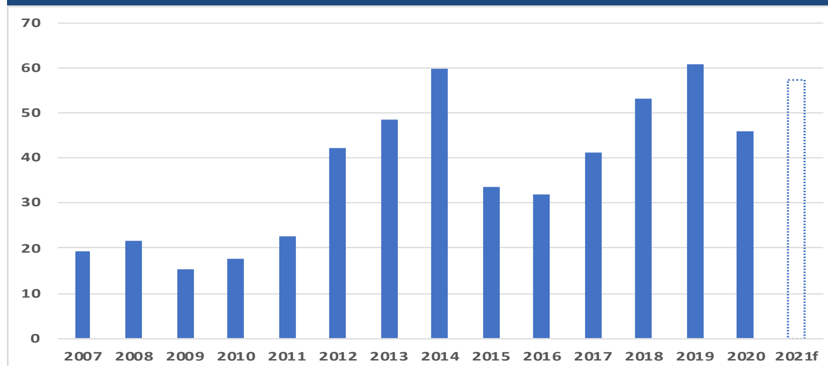
- ➢ China's exports of industrial goods (machinery, vehicle parts and chemicals) to Iran totalled around USD 23B in 2019. In turn, Iran's share of Chinese imports is less significant at around 0.5%; Iranian exports amounted to USD 8.9B in 2020.
- ➢ This deal holds a security element as well, with the intent to increase military co-operation between the two countries; indeed, China and Iran already held joint drills this summer.
- ➢ It is likely that Iran hopes to pursue military diplomacy with China to purchase arms and acquire new technology. In addition, joining China's diplomatic bloc (the Shanghai Cooperation Organisation, SCO) will help Iran to counterbalance US power and presence in the MENA region.

[1] Arabia Monitor; World Bank, Trade Ministries of respective countries.

Sino-MENA: New ventures paying off, BRIC by BRIC

- **Mashreq Bank has opened its first representative office in China and is working with Tencent to make WeChat Pay services available across the UAE.**
  - Other MENA banks with branches or representative offices in China include the Arab Bank, the National Bank of Egypt, the Bank of Africa (formerly BMCE) and the National Bank of Kuwait.
    - Previously, international banks often chose to operate out of Singapore or Hong Kong (China SAR) in order to access the Chinese market. but with a direct presence in the country, banks can better tap into trade and investment opportunities.
  - WeChat Pay has been rolling out in the UAE since 2018, when the Mall of the Emirates began using the software to accept payments from Chinese tourists.
    - Currently payments are made via providers such as Network International and Royal Cloud Pay.
    - With Mashreq's uptake, WeChat Pay has expanded into its merchant network, offering a strong payment alternative to over 250K Chinese residents and tourists in the UAE.
    - The move will also help to enrich Mashreq's collaboration with Chinese entities that wish to tap into its established network through the new China office.
- **At country level, the UAE has been admitted into the New Development Bank (NDB) set up by the BRICS group (Brazil, Russia, India, China and South Africa) as part of the bloc's membership expansion.**
  - The bank has invested in some 80 projects (worth around USD 30B) throughout its member states, including within sectors such as sustainable and urban development infrastructure, clean energy and transport.
    - Emirati companies have previously worked in joint ventures with Chinese entities including the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB). Such groups are set to benefit from this new financing vehicle.
  - This is the UAE's latest multilateral membership, having also recently joined the European Bank for Reconstruction and Development (EBRD).
- **The jewel in the crown in Saudi Arabia's USD 1.2B partnership with global tech giants is probably the establishment of the Saudi-Chinese electronic World Trade Platform (eWTP) Arabia Capital Fund.**
  - The fund will support Saudi Arabia's emerging technology companies, with around USD 400M invested by China's Alibaba and the kingdom's Public Investment Fund (PIF).

Table 1 - China-UAE bilateral trade (USD,B)[1]



  - The venture forms part of a plan announced by Alibaba in December 2020 to invest around USD 750M in Saudi Arabia's cloud technology sector over the next five years.
  - The eWTP initiative was proposed in 2016 by Jack Ma, Alibaba's founder, to enable small and medium-sized enterprises (SMEs) to participate in cross-border electronic trade by benefiting from a series of preferential policies including customs clearance, settlement exchanges and tax refunds.
- **In the consumer goods market, fresh financing options are emerging for Chinese cars.**
  - Saudi Arabia's Sanabel Modern Motors launched its first interest-free finance offer for the Chinese state-owned automobile manufacturer Chery. This follows Sanabel's partnership with Chery in 2020.
  - Various Chinese carmakers have entered the Saudi market, including First Automobile Works and Changan Automobile. Such developments will prompt fresh financing opportunities for both business-to-business and business-to-consumer sales.

[1] Arabia Monitor; IMF Direction of Trade Statistics.

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]												
	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f
Algeria	-4.2	4.6	2.4	4.9	-12.7	-18.4	-10.5	-7.7	2.3	3.6	13.3	10.5
Bahrain	-5.4	3.3	-2.3	1.5	-18.3	-9.1	-9.6	-4.0	257.7	245.5	1.1	1.2
Iran	1.5	2.5	36.5	39.0	-8.6	-6.8	-0.7	1.2	1.8	1.6	0.6	1.9
Iraq	-10.9	1.1	0.6	9.4	-19.8	-9.2	-14.8	0.0	47.9	34.0	8.9	8.4
KSA	-4.1	2.1	3.4	2.7	-11.1	3.8	-2.1	2.8	27.6	22.4	26.3	25.7
Kuwait	-8.1	0.7	2.1	2.3	-9.4	-6.8	0.8	8.6	66.7	60.6	11.2	8.3
Libya	-59.7	131.0	22.3	18.2	-103.0	0.3	-11.4	3.9	…	…	…	…
Oman	-6.4	1.8	-0.9	3.8	-17.3	-4.4	-10.0	-6.4	126.9	111.7	6.7	5.8
Qatar	-2.6	2.4	-2.7	2.4	1.3	1.4	-3.4	7.1	184.9	163.7	8.6	9.3
UAE	-5.9	3.1	-2.1	2.9	-7.4	-1.3	3.1	7.1	99.5	92.2	4.3	4.5
Yemen	-5.0	0.5	26.2	30.6	-9.6	-6.1	-2.4	-8.5	29.9	30.3	1.1	1.1
Average	-10.1	12.8	7.8	10.7	-19.6	-5.1	-5.5	0.4	84.5	76.6	8.2	7.7
Average Ex-Yemen	-10.6	15.3	5.9	8.7	-20.6	-5.1	-5.9	1.3	90.6	81.7	9.0	8.4

Table 2 – MENA Oil Importers[1]												
	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f
Djibouti	-1.0	5.0	2.9	2.4	-1.3	-2.0	2.9	-2.0	72.2	71.7	1.3	1.1
Egypt	3.6	2.5	5.4	7.0	-6.9	-5.4	-3.1	-4.0	34.5	38.1	6.4	6.3
Jordan	-2.0	2.0	0.4	2.3	-8.9	-7.7	-8.1	-8.3	105.5	110.6	10.2	9.1
Lebanon	-25.0	…	88.2	…	-9.9	…	-14.3	…	…	…	11.2	…
Mauritania	- 2.2	3.1	2.3	2.4	2.1	-2.5	-11.6	-11.1	58.3	54.6	4.2	4.7
Morocco	-7.0	4.5	0.6	0.8	-7.6	-6.4	-2.2	-3.8	39.3	39.9	7.5	7.0
Palestine	-11.0	5.7	-7.0	0.3	-10.7	-10.5	-9.0	-10.5	10.1	10.4	1.0	…
Somalia	-1.5	2.9	…	…	…	…	-13.3	-12.2	39.3	36.7	…	…
Sudan	-3.6	0.4	163.3	197.1	-5.9	-3.1	-17.5	-11.2	246.8	207.5	1.8	1.1
Syria	…	…	…	…	…	…	…	…	…	…	…	…
Tunisia	-8.8	3.8	5.7	5.8	-10.7	-10.5	-6.8	-9.5	94.7	99.2	4.1	3.7
Average Ex-Syria	-5.9	3.3	32.4	30.8	-7.3	-6.6	-9.5	-8.8	78.6	74.6	5.8	5.3

[1] Arabia Monitor; IMF.

Algeria: Not bearing fruit

NR/NR

- **When Algeria's former president Abdelaziz Bouteflika (in office 1999-2019) was overthrown after months of anti-regime protests, many hoped for a new dawn. Two years later, and Algeria looks more fragile than ever. It appears set to endure seemingly perennial political and economic crises.**
  - ➢ Algeria's economic trends leave much to be desired, with the IMF predicting a 2.9 % growth this year.
  - ➢ The economy is extremely undiversified, relying solely on oil and gas exports (85% of exports). After oil, the biggest sector is construction which has been suffering from a high number of bankruptcies and business closures due to the pandemic.
  - ➢ Due to high rates of inflation, certain goods (like fruit) have become too expensive for low- and middle-income families. These rising prices have subsequently sparked a wave of protests in the country.
  - ➢ It is unclear how the government intends to avoid a potential economic disaster. Politicians have said they wish to diversify the economy but their strategy is mostly unknown. President Abdelmadjid Tebboune has stated he intends to reduce imports by around USD 10M.
  - ➢ Although the government's commitment to structural reform largely rings hollow, some tangible progress has been observed.
    - The finance ministry now expects the economy to grow by 4.2% in 2021, a small revision from the earlier forecast of 4%.
    - This is clearly higher than the 2.9% GDP growth that was forecast in April 2021 by the IMF and reflects the government's optimism with regard to higher energy prices.
  - ➢ Privatisation efforts are also slowly underway. They represent ambitions to diversify an economy still overly reliant on oil and gas (which account for around 60% of the state budget and 94% of export revenues).
    - Tebboune recently announced a plan to sell stakes in state-owned companies and banks which have been stagnating for decades.
    - Algeria has six state banks; they account for almost 95% of the country's banking assets. The sale is looking to inject new life into the sector.
- **Tensions between Algeria and Morocco have spiked in recent weeks over the dispute concerning the Western Sahara territories (Southern Provinces).**

Algeria Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.8	-6.0	2.9	2.7
Crude Oil Production (M bpd)	0.9	0.9	0.8	0.9	0.8
Oil GDP Growth (%)	-2.4	-7.6	-5.6	5.4	4.1
Non-oil GDP Growth (%)	2.9	2.0	-5.0	3.4	1.8
CPI Inflation (%)	4.3	2.0	2.4	4.9	6.0
Fiscal Balance (% of GDP)	-6.8	-9.6	-12.7	-18.4	-16.0
C/A Balance (% of GDP)	-9.5	-10.0	-10.5	-7.7	-8.7
Total Gov't. Gross Debt (% of GDP)	37.8	45.8	53.1	63.3	73.9
Total Gross External Debt (% of GDP)	2.5	2.5	2.3	3.6	5.2
Gross Official Reserves (Mos. of Imports)	17.4	18.7	13.3	10.5	8.6
Nominal GDP (USD B)	175.4	171.1	144.3	151.5	150.1
Population (Millions)	42.2	43.1	44.1	45.0	45.5

- ➢ In September 2021, the Algerian government announced the closure of the country's airspace to all Moroccan planes (civilian and military) in response to alleged 'provocations and hostilities'.
  - Algeria had already severed all diplomatic ties with Morocco.
- ➢ The Organisation of Islamic Cooperation (OIC), the Arab League and Saudi Arabia have all called for dialogue.
- ➢ Algeria also accuses Morocco of supporting the Movement for the Autonomy of Kabylie (MAK), an autonomist group which the Algerian government recognises as a terrorist entity.
  - MAK was blamed for wildfires which scorched Kabylie in August 2021. At least 90 people were reportedly killed.
  - Instead of accepting the blame for mishandling the issue, President Tebboune has attempted to divert public attention by spouting hostile rhetoric against Morocco and MAK, accusing them of starting the fires.
  - Algerians are all too familiar with this type of blame-shifting. They will continue to demand change.

[1] Arabia Monitor; IMF.

Bahrain: Wishing itself well

B2/B+

- **Bahrain's GDP is forecast to grow by 3.3% this year. A figure likely to be highlighted in the next IMF revision given the rebounding price of oil. Bahrain needs crude oil prices to exceed USD 88 pb to balance its budget this year, the highest break-even price throughout the GCC.**
  - ➢ The story remains unchanged; the Bahraini government is in a weak fiscal position.
    - In 2020, Bahrain's budget deficit doubled to 18% of GDP due to a 40% plunge in oil revenues and COVID-19-related emergency spending.
    - For context, Bahrain's situation looks inauspicious even when compared with Oman, the GCC's other 'weak' link. At 2.4% of its economic output, Bahrain's current budget deficit is more than triple that of Oman's.
  - ➢ Amid the re-opening of its economy and rising oil prices, Bahrain's deficit has returned to pre-pandemic levels (9%). Although this return comes as no surprise, rising public debt and the strain involved with loan servicing will jeopardise the government's access to international debt markets.
    - Several top credit rating agencies recently published negative outlook ratings for Bahrain due to weakening fiscal metrics and increased doubt regarding the government's ability to service its external debt. This debt is taking up a considerable amount of stock from the government's revenue.
    - Nonetheless, investors believe that Bahrain's neighbours will never allow the tiny nation to default, as this would potentially expose them to higher borrowing costs in the market.
    - In the end, GCC countries are likely to come to the rescue.
  - ➢ After the introduction of the Fiscal Balance Program (FBP) in 2018, the fiscal break-even oil price fell by 17% to USD 81 pb. Unfortunately, COVID-19 spoiled the party.
    - Despite Bahrain needing oil to sell for USD 100 pb to break even in 2020, the market price of the barrel lingered at USD 40 pb due to the global decline in demand.
    - Fortunately, this year's break-even price is slightly lower at USD 88 pb. Better still, oil prices have risen.

Bahrain Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.7	2.0	-5.4	3.3	3.1
Crude Oil Production (M bpd)	0.2	0.2	0.2	0.2	0.2
Oil GDP Growth (%)	-1.3	2.2	2.0	0.7	0.7
Non-oil GDP Growth (%)	2.4	2.0	-7.0	3.9	3.7
CPI Inflation (%)	2.1	1.0	-2.3	1.5	2.1
Fiscal Balance (% of GDP)	-11.8	-9.0	-18.3	-9.1	-9.4
C/A Balance (% of GDP)	-6.5	-2.1	-9.6	-4.0	-4.2
Total Gov't. Gross Debt (% of GDP)	95.0	102.1	132.9	129.4	134.2
Total Gross Extrn'l Debt (% of GDP)	204.6	225.7	257.7	245.6	246.4
Gross Official Reserves (Mos. of Imports)	1.0	2.0	1.1	1.2	1.2
Nominal GDP (USD B)	37.7	38.5	33.9	37.5	38.9
Population (Millions)	1.5	1.5	1.5	1.5	1.6

- **Since 2018, Bahrain has demonstrated its commitment to crack on with some much-needed fiscal spring cleaning. Given last year's shock to the global economy, Bahrain's intended budget surpluses will have to wait beyond 2022.**
  - ➢ For the past decade, Bahrain has had strong financial backing from its GCC neighbours. However, they now also face fiscal challenges of their own, exacerbated by the aftermath of the COVID-19-pandemic.
    - Acknowledging this reality, Bahrain looks set to fast-track its FBP.
  - ➢ Implementing these measures under the government's medium-term FBP will narrow the deficit and allow the budget to establish some buoyancy.
    - We expect the government will soon achieve its FBP non-oil revenue targets by increasing gas tariffs, reducing electricity and water subsidies, cutting expenses (such as administration and procurement costs) and raising more revenue from government services used by the population.

[1] Arabia Monitor; IMF.

Djibouti: Small in size, but not importance

NR/NR

- **Djibouti's economy is set to grow by 5% this year, following a 1% contraction in 2020.**
  - ➢ Djibouti's strategic location makes it an attractive destination for investors. After all, 30% of the world's shipping passes through its port.
    - In the last decade, the country has attracted around USD 4B in investments from different players, notably China, the US and the GCC.
  - ➢ Djibouti is on track to become a major trading hub. This year, both the global container port performance index (compiled by IHS Markit) and the World Bank ranked Djibouti's port as the most efficient on the African continent in terms of 'minutes per container move'.
    - The last 15 years have seen the country capitalise on its strategic advantage. Today, more than 1M containers pass through the six terminals of Djibouti's port every year.
    - Djibouti's success in developing its port sector is of great importance to its economy; an estimated 85% of the country's GDP relies on ports and logistics.
  - ➢ This has certainly attracted attention, mostly from China, which maintains the biggest overseas presence within the tiny country. Notably, Chinese debt has reached 70% of Djibouti's GDP.
  - ➢ The country is looking to cement its important standing on the Horn of Africa even further, and has recently set up a sovereign wealth fund for investment. Djibouti aims to finance over USD 1.5B of business activity over the next decade.
    - Djibouti's positive economic outlook has led to several recent bilateral agreements, most notably with Egypt and Russia.
  - ➢ In May, President Abdel Fattah el-Sisi of Egypt met his Djiboutian counterpart to discuss several regional issues, the most important being the Grand Ethiopian Renaissance Dam (GERD). Sisi's visit was the first by any Egyptian president since Djibouti gained independence in 1977. We expect ties between the two countries to deepen in the coming months.
  - ➢ Similarly, Russia's foreign minister, Sergey Lavrov, has reaffirmed Moscow's willingness to deepen bilateral relations with Djibouti.

Djibouti Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	8.5	7.5	-1.0	5.0	5.5
CPI Inflation (%)	0.1	3.3	2.9	2.4	2.1
Fiscal Balance (% of GDP)	-3.7	-4.1	-7.6	-6.4	-5.9
C/A Balance (% of GDP)	14.2	13.0	2.9	-2.0	-0.7
Total Gov't. Gross Debt (% of GDP)	46.5	38.7	42.2	40.2	38.2
Total Gross External Debt (% of GDP)	69.2	66.2	72.2	71.7	73.5
Gross Official Reserves (Mos. of Imports)	0.4	0.5	0.7	0.6	0.7
Nominal GDP (USD B)	3.0	3.3	3.4	3.7	3.9
Population (Millions)	36.0	36.4	36.9	36.9	37.0

- **Following this year's presidential election, President Ismail Omar Guelleh was elected for a fifth consecutive term. Guelleh reportedly won 98.5% of the vote. His only challenger received just under 5K votes (compared to Guelleh's 177K).**
  - ➢ The result was a 'fait accompli' from the start, with the country's political opposition criticising the electoral process for a lack of transparency.
  - ➢ Since winning the 2021 election, Guelleh has faced various challenges, including the socio-economic consequences of the COVID-19 pandemic. Even if these issues do not appear to threaten Guelleh's hold on power, they are exacerbating instability.
  - ➢ The election did not put a stop to growing violence in Djibouti. In August 2021, several people were killed as a result of intercommunal ethnic violence in Djibouti City. The clash occurred between members of the Afar and Somali ethnic communities. This peak of violence appears to have stemmed from a diffusion of tensions from Ethiopia, where the same communities are currently engaged in civil violence.
  - ➢ Moreover, with rumours circulating that Guelleh's health and age may prevent him from running in a sixth election, the president is expected to groom and appoint a successor in the coming months and years.

[1] Arabia Monitor; IMF.

Egypt: Effective use of economic tools

- **Egypt was among the few MENA countries that registered economic growth (2.8%) during FY 20/21. The country is an example of a transition economy; projections anticipate Egypt returning to pre-pandemic growth levels of 5% annually.**
  - ➢ According to data from the Ministry of Finance (MoF), the FY 20/21 budget deficit narrowed from the initially accounted 8% to 7.4%. The MoF also reported a primary budget surplus (excluding interest payments on government debt) of 1.4%.
    - However, the IMF Egypt office reported a more conservative estimate, anticipating the imbalance to remain unchanged YoY.
    - The deficit is expected to narrow to around 6% in the years leading to FY 22/23; revenues and grants are forecast to increase, with expenditures set to decrease.
  - ➢ COVID-19-induced fiscal interruptions have led to Egypt's public debt having to revisit the 90% mark. The target for the coming years is to reduce public debt to 70%.
  - ➢ Investor confidence in Egypt's economy looks set to stay. International credit rating agencies have affirmed a stable outlook for the country, underscoring its resilience throughout the pandemic.
  - ➢ The MoF has stated that Egypt will diversify its funding sources by entering new markets. These include the Islamic 'sukuk' bond and green bond markets.
- **On the monetary policy front, all eyes are on global inflationary pressures stemming from rising commodity prices. Despite the potential for global monetary tightening, the Central Bank of Egypt (CBE) is likely to hold interest rates for now.**
  - ➢ The CBE's Monetary Policy Committee (MPC) has established an inflation target of 7% (±2%) until the end of Q4 2022.
    - Egypt's inflation in August 2021 rose 5.7% YoY, the highest rate since November 2020.
    - An uptick in inflation is expected in the coming months.

Egypt Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	5.3	5.6	3.6	2.5	5.7
CPI Inflation (%)	14.4	9.2	5.4	7.0	8.0
Fiscal Balance (% of GDP)	-9.6	-7.9	-7.0	-7.5	-6.0
C/A Balance (% of GDP)	-2.4	-3.6	-3.1	-4.0	-4.0
Total Gov't. Gross Debt (% of GDP)	92.5	84.2	90.2	92.9	88.9
Total Gross Extrn'l Debt (% of GDP)	37.4	34.1	34.3	38.1	33.4
Gross Official Reserves (Mos. of Imports)	6.7	7.0	6.4	6.3	6.0
Nominal GDP (USD B)	250.3	302.3	361.8	394.3	429.6
Population (Millions)	97.1	98.9	100.9	102.9	105.0

- ➢ Throughout H2 2021, the local market should gradually reflect the rise in global commodity prices.
- ➢ As such, inflation is anticipated to rise moderately within the targets set by the MPC.
  - A tightening of interest rates at the present time may therefore be unnecessary.
- ➢ Lending and deposit rates have stayed at 9.25% and 8.25%, respectively, since November 2020, accounting for the lowest rates since July 2014.
  - The CBE has loosened its monetary policies since the onset of the pandemic in order to cushion the downturn in economic activity.
  - In both September and November last year, the CBE cut its rates by 50 basis points (0.5%) after having slashed them by 300 bp (3%) in March 2020.
  - Essentially, Egypt's effective use of its economic policy tools has enabled the country to navigate the impact of the COVID-19 pandemic.

[1] Arabia Monitor; IMF.

Iraq: Alienating foreigners, despite new energy deal

Caa1/B-

- **Although Iraq's economy contracted by 10.9% in 2020, things are now looking brighter for the OPEC group's second largest producer. Indeed, growth is set to register at 1.1% and 4.4% in 2021 and 2022, respectively.**
  - ➢ The administration of Prime Minister Mustafa al-Kadhimi wants to attract fresh FDI.
  - ➢ His efforts are coming to fruition. The latest chartbusting energy deal constitutes a new milestone for Iraq.
    - Iraq has signed a deal with Total, a French energy company, valued at around USD 27B. The venture rivals the previous deal involving US energy giant ExxonMobil before it left the country.
  - ➢ Total's investments will fund the construction of a solar power plant, and also inject seawater into oil fields to boost production and secure natural gas which is currently flared (burned in a controlled manner). This will then be sold to local power stations.
    - Kadhimi is confident that investments will increase crude production at one of the fields from 85K bpd to 210K bpd.
    - The French president, Emmanuel Macron, was in Iraq when the deal was signed.
  - ➢ Baker Hughes, an oil fields services company, also finalised an agreement with Iraq's state-owned South Gas Company (SGC) to develop a 200 million cubic feet per day (MMcf/d) gas recovery project. Many hope the deal will help to end flaring in Iraq and reduce the country's reliance on exports from neighbouring Iran.
    - While the deal was signed in 2018, it is only just starting to move ahead.
  - ➢ However, any injection of foreign investment may be temporary. Iraq's parliament has placed new restrictions on foreign-owned Iraqi companies.
    - Although parliament originally passed the law in 2019, it was supposed to be amended to make room for exemptions. This has not materialised.
    - The legislation states that foreigners cannot own more than 49% of any company.
    - The Iraq Stock Exchange (ISX) has applied the law to all non-banking companies listed on the exchange. This reflects a step back in terms of attracting fresh investment prospects later down the line.
- **Diplomatic success is unlikely to be enough to win over the Iraqi people ahead of parliamentary elections which are due to go ahead next month. Demonstrations are likely ahead of any potential polls.**
  - ➢ Iraq has garnered international favour by hosting the 'Baghdad Summit', largely seen as an effort to encourage rapprochement between Iran and Saudi Arabia.
    - The summit does not represent the first such event hosted by Kadhimi. Although the outcome is unclear, it has definitely generated international respect for the prime minister.
  - ➢ Domestically, the story is not quite so rosy. Iraqis remain cautious of the political class and have limited faith in the electoral process. This has sparked concern among the political elite regarding voter turnout during this election cycle.
    - A low voter turnout undermines the legitimacy of state institutions, especially as the current administration attempts to gain a standing within the international community.
    - Elections were postponed to June 2021 before being pushed back yet again to October by Kadhimi.
    - Iraqis will vote for 329 lawmakers, choosing from 3,200 candidates in 83 constituencies.
    - Candidates can run as individuals or on behalf of a party. Even though the electoral process underwent a measure of reform, patronage networks are here to stay.

Iraq Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.8	4.5	-10.9	1.1	4.4
Crude Oil Production (M bpd)	4.4	4.6	4.0	3.9	4.2
Oil GDP Growth (%)	-1.3	3.8	-12.6	-1.3	5.9
Non-oil GDP Growth (%)	4.7	5.7	-8.0	5.0	2.1
CPI Inflation (%)	0.4	-0.2	0.6	9.4	7.5
Fiscal Balance (% of GDP)	8.2	0.9	-19.8	-9.2	-7.7
C/A Balance (% of GDP)	4.5	0.5	-14.8	0.0	-0.6
Total Gov't. Gross Debt (% of GDP)	50.0	47.7	81.2	69.7	73.3
Total Gross Extrn'l Debt (% of GDP)	30.8	30.6	47.9	34.0	29.8
Gross Official Reserves (Mos. of Imports)	8.4	10.8	8.9	8.4	7.5
Nominal GDP (USD B)	216.9	222.4	172.1	190.7	203.3
Population (Millions)	38.4	39.3	39.5	41.2	42.2

[1] Arabia Monitor; IMF.

Jordan: Taxing times ahead

B1/B+

- **In its latest economic outlook for 2021, the IMF revised its growth forecast for Jordan to 2%, down from 3.2% in last year's forecast. Even before the pandemic, economic activity in Jordan was lacklustre due to falling investment levels and eroding fiscal buffers. Such structural weaknesses reflect critical downside risks to Jordan's medium-term outlook. However, gradual fiscal consolidation should provide support and halt rising debt.**
  - ➢ Despite recovering from a 2% contraction in 2020, any growth will almost certainly remain lower than the 6.5% annual average experienced in the ten years prior to the 2008 global financial crisis.
    - The fiscal deficit, despite narrowing by 18% YoY, is expected to remain elevated this year at around USD 5.8B. This is equivalent to 7.7% of GDP, a modest consolidation which hinges on the revival of around USD 11B in revenue.
    - Jordan prevented the deficit from widening even further by imposing a hiring freeze, as well as suspending civil servant bonuses.
  - ➢ Amid the pandemic, the Jordanian authorities sustained reform efforts to strengthen tax administration, including tax compliance. By uncovering under-reported income tax liabilities, the government registered a 6% increase in tax revenue.
    - Continued tax efficiency will be key for recovery. Tax revenue is expected to reach USD 8.3B in FY 2021, an increase of around 60% compared with FY 2020 estimates.
  - ➢ Rising public sector debt features chiefly among the challenges facing Jordan, with debt sustainability risks growing rapidly. Debt is forecast to reach over 91% of GDP in 2021, a 3% YoY increase.
  - ➢ The increase will also be driven by fresh debt set to be issued by the National Electric Power Company (NEPCO), which is due to borrow the equivalent of around 1% of GDP both this year and in 2022 to cover a renewed widening of its operating deficit.
    - The Central Bank of Jordan's gross foreign reserves remain adequate, standing at USD 15.8M (representing just under nine months of import cover) despite reduced tourism receipts and remittances.

Jordan Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.9	2.0	-5.0	2.0	2.7
CPI Inflation (%)	4.5	0.7	-0.3	2.3	2.0
Fiscal Balance (% of GDP)	-4.4	-6.1	-9.1	-7.7	-6.0
C/A Balance (% of GDP)	-7.0	-2.3	-6.8	-8.3	-4.0
Total Gov't. Gross Debt (% of GDP)	76.3	79.3	88.4	91.2	91.0
Total Gross Extrn'l Debt (% of GDP)	69.0	68.5	77.6	84.5	84.1
Gross Official Reserves (Mos. of Imports)	7.9	8.9	9.0	9.1	9.3
Nominal GDP (USD B)	42.3	43.8	42.7	45.0	47.1
Population (Millions)	9.7	10.1	10.2	10.3	10.5

    - However, with debt interest payments estimated to reach over USD 2B (around 20% of public revenue), the authorities are under pressure to adhere to planned austerity measures.

- **In the political realm, Jordan has been deepening its neighbourly ties, exploring fresh trade opportunities and thawing strained relations.**
  - ➢ Israel's President Isaac Herzog met Jordan's King Abdullah II in Amman at the request of the latter.
    - Both countries are looking to rebuild their relationship after it drifted under the premiership of the former Israeli prime minister Benjamin Netanyahu (in office 1996-99 and 2009-21).
    - They signed a trade and water agreement soon after Israel's new prime minister, Naftali Bennet, took office.
    - It was agreed that Israel would sell 50M cubic metres of water a year to Jordan in addition to the 55M cubic metres it already provides free of charge.

[1] Arabia Monitor; IMF.

Kuwait: Radical recourses

A1/AA-

- **Although Kuwait's economy shrank by 8% last year, modest growth is expected in both 2021 and 2022. Nevertheless, political jostling in recent years has been to the detriment of Kuwait's General Reserve Fund (GRF).**
  - ➢ Kuwait is yet to pass a much-anticipated debt law through parliament. Such a move would allow the country to borrow money by issuing bonds. The last time the government did something similar was in 2017, when Kuwait raised around USD 8B.
    - Deficits have previously been funded by the GRF, a move which raises concerns about a liquidity crisis in the event that GRF coffers dry up.
    - Major credit rating agencies are worried about the handling of fiscal imbalances and political deadlocks. Such concerns have led these agencies to downgrade ratings and provide a negative outlook.
    - Still, accessing the bond market should not be an issue. Kuwait has the lowest debt-to-GDP ratio among MENA oil exporters (12%).
  - ➢ Instead of servicing its fiscal deficit through the ongoing liquidation of the GRF, Kuwait could enter international debt markets. Debt markets are the favoured option; it is probably less costly to borrow, while more funds can be raised given higher demand and prices.
    - Amid any kind of global economic downturn, investors usually turn to safer assets. This explains the high demand for bonds, which in turn raises their market price and lowers yields to be paid out to investors in coupons.
  - ➢ With the price of the oil barrel currently on the up, Kuwait's fiscal break-even price for this year is USD 64.5 pb. This is cause for optimism given Kuwait's recent fiscal woes. However, it is by no means the solution.
    - Indeed, the deficit ballooned by 175% during FY 2020-21 to reach around USD 35B (9.4% of GDP), the highest deficit in Kuwait's budgetary history.
    - The situation this year is slightly better. The deficit registers at around USD 12B (6.8% of GDP) as part of the 2021-22 budget, an unsurprising result given the tight fiscal measures undertaken by Kuwait's cabinet.

Kuwait Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.4	-8.1	0.7	3.2
Crude Oil production (M Bpd)	2.74	2.70	2.43	2.40	2.5
Oil GDP Growth (%)	0.2	-1.4	-9.8	-1.3	3.0
Non-oil GDP Growth (%)	2.7	2.8	-6.0	3.0	3.5
CPI Inflation (%)	0.6	1.1	2.1	2.3	2.5
Fiscal Balance (% of GDP; After FGF Transfer)	9.0	4.4	-9.4	-6.8	-4.5
C/A Balance (% of GDP)	14.1	16.4	0.8	8.6	8.2
Total Gov't. Gross Debt (% of GDP)	14.8	11.8	11.5	13.7	27.3
Total Gross Extrn'l Debt (% of GDP)	44.5	50.7	66.7	60.6	70.3
Gross Official Reserves (Mos. of Imports)	8.2	10.5	11.2	8.3	8.5
Nominal GDP (USD B)	140.7	134.6	107.9	126.9	129.7
Population (Millions)	4.6	4.8	4.9	5.0	5.2

- **While it waits for the long-awaited debt law, the cabinet has resorted to radical solutions. These will enable Kuwait to confront structural imbalances in its state budget and to source sustainable methods to meet its financing needs.**
  - ➢ The cabinet circulated an order to all government departments midway through FY 2021-22, instructing them to cut expenditures further than initially prescribed (and by no less than 10%). This strategy should help narrow the deficit.
    - The move comes after recommendations by the Financial and Economic Affairs Committee which underscored the severe impact of the financial crunch on the GRF.
  - ➢ Among the overhaul of contractionary fiscal policy decisions, the cabinet will ask Kuwait's Public Authority for Manpower to assess the possibility of stopping national labour support payments to workers in the private sector with total salaries reaching USD 9,993 or more.

[1] Arabia Monitor; IMF.

Lebanon: New cabinet, new hope

- **Following a year of political vacuum and economic duress, Lebanon finally has a new government led by the former prime minister Najib Mikati. Getting the country to find its feet will be no small achievement.**
  - ➢ The last government resigned in August 2020 following a devastating blast at the Port of Beirut on 4 August 2020.
  - ➢ As is the norm, the government's composition respects a sectarian power-sharing agreement between Lebanon's Shia, Sunni, Druze and Christian groups.
  - ➢ The new prime minister is a familiar face, though he hails from the business elite. Indeed, he is one of two billionaires in Lebanon, the other being his brother Taha. Both men made their fortunes from M1 group, their telecommunications conglomerate.
  - ➢ Mikati's government comprises of technocrats, though many of them may be new to the political scene.
    - Key figures include Youssef Khalil (the finance minister) and Firass Abiad (the health minister).
  - ➢ The formation of a new government will almost certainly come as a relief to foreign allies engaged with Lebanon (such as France), as well as international organisations like the IMF. Indeed, Mikati's new administration could help to expedite desperately-needed financial relief.
  - ➢ Straight after the new government's formation was announced, Lebanon's outgoing finance minister Ghazi Wazni revealed the reception of USD 1.1B from the IMF's special drawing rights programme.
  - ➢ Lebanon will be able to access USD 860M allocated in August from a general fund launched to help member states during the COVID-19-induced downturn. An additional USD 275M comes from an earlier 2009 allocation.
    - Mikati and Khalil will be tasked with allocating the funds, with Khalil leading negotiations for an additional bailout.
- **The economy has been in an especially dire state this year, with the World Bank ranking the crisis among the worst in 150 years.**
  - Real GDP contracted 25% in 2020, on top of a 6.7% contraction in 2019.
  - After the peg between the Lebanese pound (LBP) and the USD dissolved on the informal market, the pound lost 90% of its value. This led to hyperinflation.

Lebanon Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	-1.9	-6.7	-25.0	...	...
CPI Inflation (%)	4.6	2.9	88.2	...	...
Fiscal Balance (% of GDP)	-11.0	-10.7	-9.9	...	...
C/A Balance (% of GDP)	-28.2	-26.5	-14.3	...	...
Total Gov't. Gross Debt (% of GDP)	154.9	174.3	154.4	...	...
Total Gross External Debt (% of GDP)	192.8	197.6	...	...	...
Gross Official Reserves Ex. Gold (Mos. of Imports)	36.5	24.0	17.4	...	...
Nominal GDP (USD B)	55.0	52.6	19.1	...	...
Population (Millions)	6.8	6.8	6.8	6.9	7.0

  - However, following the announcement of the new government, the pound gained LBP 15K on the USD, the highest rate in nearly four months.
- ➢ Lebanon has experienced capital flight, as well as severe 'brain drain', leading to the dilution of its short-term economic prospects. If the new government is unable to ensure the exodus stops, the situation will only deteriorate.
  - The World Bank estimates that around 50% of the country's 7M residents live below the poverty line.
- ➢ The new administration certainly has its work cut out. Although promising, the short-term outlook is also fragile. There are sure to be bumps along the road, and the impact of Mikati's reforms may not be felt for some time.
- ➢ Nonetheless, people may finally allow themselves to believe the country is back on track; the mere presence of a new government will give them reason to do so.

[1] Arabia Monitor; IMF.

Libya: East not quite meeting west

NR/NR

- **Libya's UN-backed interim government finds itself on unsteady ground. The eastern-based parliament passed a vote of no confidence in the unity government, while strongman Field Marshal Khalifa Haftar has thrown his hat in the ring ahead of elections in December. With polling delays looking likely, instability is certainly on the cards.**
  - Overall, 89 out of 113 MPs in the eastern-based parliament withdrew their support for Prime Minister Abdul Hamid Dbeibeh and his cabinet.
    - However, the Tripoli-based High Council of State (HCS) rejected parliament's vote.
    - The vote is an indication of the rifts in the political caste, rifts which are only widening. This signals an unwelcome return to instability ahead of elections due to go ahead in December.
  - Although the election roadmap has been approved by the country's unity government, delays are almost certain. Electoral laws have already been contested by the country's eastern and western factions.
    - The foreign minister, Najla al-Mangoush, stated at the end of August that she did not rule out postponing the elections.
    - The HCS also proposed delaying elections by a year.
  - The infrastructure surrounding Libya's banking system continues to weaken, leaving Libyans frustrated. Indeed, carrying out transactions is close to impossible.
    - Such inefficiencies are inevitably going to impact the economy negatively.
  - Reforms have been slow-moving and are continuing to stall. The reunification of the central banks (a measure promised by the unity government in March 2021) remains in its nascent stages.
    - Following the fall of Libya's former leader Colonel Muammar al-Gadhafi (in office 1969-2011), the country splintered politically and militarily within three years along an east-west divide. The eastern bloc established its own state institutions in opposition to the internationally-recognised west.
    - The awkward situation exposed contention with regard to spending, as well as confusion as to whether debts would be nationalised.
  - The international community continues to weigh in, doubling down on the unity government's efforts to keep Libya's transition on track. France's President Emmanuel Macron announced that his country will host a Libya-focused conference on 12 November this year.
    - The French foreign minister Jean-Yves Le Drian and his German and Italian counterparts, Heiko Maas and Luigi Di Maio, will also co-host a session devoted to Libya later this month in New York City.

Libya Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	64,0	17,9	9,9	-66,7	131,0	5,4
Crude Oil Production (M Bpd)	0,8	1,0	1,1	0,3	1,0	10,5
Oil GDP Growth (%)*	107,6	19,4	13,7	-72,7	233,0	5,0
Non-oil GDP Growth (%)*	-21,5	9,9	-11,7	-22,6	5,0	2,0
CPI Inflation (%)	28,0	-1,2	4,6	22,3	18,2	14,2
Fiscal Balance (% of GDP)	-43,5	-0,2	2,2	-102,9	0,3	-0,1
C/A Balance (% of GDP)	8,0	1,8	-0,1	-12,0	3,9	0,2
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...	...
Gross Official Reserves (Months of Imports)	...	...	...	...	...	...
Nominal GDP (USD B)	30,2	41,4	39,8	21,8	24,3	25,9
Population (Millions)	6,5	6,6	6,7	6,8	6,8	6,9

  - Egypt is also looking to deepen ties with its neighbour to the west, having signed a plethora of deals.
    - Egypt's President Abdel Fattah Al-Sisi has called on the election process to go ahead as scheduled; he certainly intends for Egypt to act as a key player in Libya's reconstruction.
  - The usual 'red lines' for the interim government, such as the presence of foreign mercenaries, have not featured in recent discussions concerning Libya. This may be because the presence of such groups has been largely formalised for the short to medium term.
    - The UN estimates there are around 20K foreign fighters in Libya, and has called on them to leave.
    - Ultimately, it is in the interest of these groups to maintain the peace if they want to benefit from the reconstruction process.
  - Although it is unlikely that the peace process will unravel any time soon, the situation is definitely fragile. The risk of instability will almost certainly persist until a new administration takes its seat.

[1] Arabia Monitor; IMF.

Mauritania: Buried treasure in the backyard

NR/NR

- **Following a 3.2% contraction in 2020, Mauritania is expected to recover its COVID-19-related losses throughout 2021, with the IMF projecting a 3.1% GDP growth rate.**
  - GDP is set to be augmented by the country's expansionary 2021 budget and the resumption of essential mining projects. Mining was halted in 2020, as was external IMF financing as a result of the pandemic.
  - Mauritania is expected to record a 2.1% fiscal deficit in 2021 following the government's ambitious spending plans to offset the 2020 contraction.
  - This year, the health and education sectors were identified as the priority spending targets for the 2021 budget.
  - President Mohamed Ould Ghazouani's government has also expressed its intent to support the country's most vulnerable households.
    - This is unusual for a country like Mauritania; disparity follows divisions between former slaves and former slave owners. In fact, slavery was only abolished in 1981, before being criminalised in 2007. Inequality is therefore ensconced throughout Mauritanian society.
  - The effects of the health and education reforms have not yet been felt; civil grievances are rising, especially among students.
    - Students of Mauritania's only medical school have been boycotting classes and protesting since April 2021 due to a lack of professors, textbooks and teaching hospitals in the country.
    - As a result, 'brain drain' is playing out.
    - Students are increasingly moving abroad to pursue their studies in Tunisia or Europe. Meanwhile, Mauritania faces concerning rates of illnesses like malaria and tuberculosis (TB) while suffering from a scarcity of doctors.
- **Apart from being rich in mineral resources, Mauritania has several renewable energy projects in its pipeline. In May 2021, the government signed a memorandum of understanding with CWP Global (a renewable energy development company) on a green hydrogen plan worth an estimated USD 40B.**

Mauritania Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.1	5.6	-2.2	3.1	5.6
CPI Inflation (%)	3.1	2.3	2.3	2.4	3.5
Fiscal Balance (% of GDP)	2.5	2.0	2.1	-2.5	-0.5
C/A Balance (% of GDP)	-13.8	-10.5	-11.6	-11.3	-11.6
Total Gov't. Gross Debt (% of GDP)	61.4	56.5	59.5	56.3	61.6
Total Gross Extrn'l Debt (% of GDP)	61.5	56.2	58.3	54.6	58.3
Gross Official Reserves (Mos. of Imports)	3.0	3.6	4.2	4.7	5.2
Nominal GDP (USD B)	7.0	7.9	8.2	9.2	8.7
Population (Millions)	4.0	4.1	4.1	4.2	4.3

  - The plant, named AMAN, will comprise 30GW of solar- and wind-powered electrolysers. AMAN is set to become one of the world's largest renewable energy projects. With the help of foreign investors, Mauritania could realise its goal of decarbonising the energy sector, and may even become a global leader in this domain.
  - The roadmap will also include a fresh framework to facilitate foreign investment in renewable energy.
- **Mauritania is focusing on resources at home. It possesses the world's second largest reserves of natural gas relative to population (after Equatorial Guinea). Another exciting prospect is the Greater Tortue Ahmeyim bilateral project with Senegal, which is set to boost government revenue by roughly USD 14B over the next three decades.**
  - The project overlaps offshore fields belonging to both Mauritania and Senegal and will boost natural gas exports while also providing Mauritania with energy domestically.
  - Production is expected to begin in 2023, with the government projecting revenue growth of around USD 60M in the first year, and almost USD 100M the year after.

[1] Arabia Monitor; IMF.

Morocco: Ready for recovery

Ba1/BBB-

- **Morocco is set for economic recovery this year. Positive agricultural output, the easing of travel restrictions, a sustained increase in remittances and a diversified economy will all cushion the revenue loss caused by the COVID-19 pandemic.**
  - ➢ Following a 7% contraction in 2020, Morocco's real GDP is set to grow by 4.5% according to IMF forecasts. However, recovery hinges on a number of factors.
  - ➢ These include a successful and prompt vaccine rollout on par with many developed economies, as well as the easing of international travel restrictions as part of 'Operation Marhaba 2021' (a humanitarian initiative for Moroccans living abroad). Agricultural output is also a key factor.
  - ➢ Morocco's reliance on agricultural output means its recovery will be hugely impacted by climate change. The country therefore needs to develop stronger growth through services and manufacturing exports.
    - Morocco's agricultural output reached record levels this season.
    - Grain production reached a peak of around 9B kg, a 55% YoY increase.
  - ➢ In 2013, Morocco launched IAP 2014-201 to increase its manufacturing output as a share of GDP. Rabat was aiming for an increase of 14-23% of GDP.
    - The plan has succeeded in increasing FDI inflow in the automotive sector, creating more jobs than predicted and diversifying the Moroccan export portfolio.
  - ➢ As of 2021, Morocco has achieved an annual production capacity of around 700K cars. This has generated roughly 160K jobs, largely surpassing IAP objectives.
    - The majority of jobs were created in the automobile industry (28.8%), followed by textiles (19.6%), offshoring (17%), agriculture (15.6%), metals and mechanics (5%) and, to a lesser extent, the construction and aeronautic sectors.
  - ➢ Morocco's proximity to European supply chains and the growing importance of the Tangier-Med Port facility for international maritime freight routes will increase FDI inflow to Moroccan automotive and aeronautic industries, further cementing diversification and helping the country to stand out regionally.

Morocco Macroeconomic Indicators[2]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	3.1	2.5	-7.0	4.5	3.9
CPI Inflation (%)	1.6	0.2	0.6	0.8	1.2
Fiscal Balance (% of GDP)	-3.7	-4.1	-7.6	-6.4	-5.9
C/A Balance (% of GDP)	-5.3	-4.1	-2.2	-3.8	-4.0
Total Gov't. Gross Debt (% of GDP)	65.2	65.2	76.1	77.1	77.4
Total Gross External Debt (% of GDP)	32.6	32.7	39.3	39.9	39.4
Gross Official Reserves (Mos. of Imports)	5.3	6.9	7.5	7.0	6.9
Nominal GDP (USD B)	118.1	119.7	113.5	124.0	131.3
Population (Millions)	36.0	36.4	36.9	36.9	37.0

- **Morocco held local parliamentary polls on 8 September, which resulted in the election of new members of parliament and fresh local officials. Despite these results, the elections suffered the lowest turnout in recent history; around only 50% of the population actually voted.**
  - ➢ This comes at a time when trust in political institutions is at a historical low (around only 5% of Moroccans trust political parties).
  - ➢ The interior ministry instituted changes that were hotly debated in parliament and criticised for allegedly skewing the election in favour of smaller political entities.
  - ➢ The move was seen as a political tactic to weaken the governing moderate Justice and Development Party's (PJD) hold on parliament by enabling smaller parties to gain seats. This ostensibly fragmented the political status quo, and prevented the emergence of any substantial majority.
  - ➢ Although the PJD has gripped the country's politics since the 2011 Arab Spring, its total number of seats shrunk from 125 to a mere 12 following the recent elections.
  - ➢ Instead, the Liberal National Rally of Independents secured the most seats with the party's Aziz Akhannouch serving as the new prime ministers. Limited policy change is expected nonetheless.

[1] The plan was launched by the Minister of Industry with the intention to develop industrial sectors such as aeronautics, car industry and offshoring.
[2] Arabia Monitor; IMF.

Oman: Sustainability emerging

Ba3/B+

- **In its most recent revision, the IMF forecast 2.5% growth in Oman's economic output, building on its initial estimate in April 2021 of 1.8%. This improved outlook stems from the non-hydrocarbon sector, which registered its first growth figure since 2018, at 1.5%.**
  - ➢ As part of its Medium-Term Fiscal Plan (MTFP) 2020-24, Oman aims to achieve financial stability in line with its broader Vision 2040.
    - The current priority for Oman's macroeconomic agenda is the maintenance of both its deficit and public debt.
    - The sultanate looks to follow the lead of regional influencers Saudi Arabia and the UAE by developing the non-oil sectors in its economy.
  - ➢ The double impact of the COVID-19 pandemic and low oil prices created a perfect storm in 2020. These conditions handed Oman a significant fiscal deficit (19.3% of GDP) and a 35% increase in its public debt (which reached 81% of GDP).
    - In a remarkable turn of events, a thinner deficit (2.4% of GDP) is anticipated this year. Going further, this is expected to become a surplus in 2022.
    - On the back of both a slimming deficit and sustained economic growth, public debt levels are set to fall to 70% by December 2021 and to 46% by 2026. However, we cannot rule out the possibility of new COVID-19 variants extinguishing this optimism.
  - ➢ Fiscal support for the sultanate's economic stimulus plan has helped to weather the pandemic. This has been facilitated through interest-free emergency loans, exemptions from some taxes and fees, repayments of taxes through instalments, the establishment of a job security fund and the implementation of Value Added Tax (VAT).
    - More policies are in the pipeline. As part of its ambitions to consolidate the budget, Oman intends to impose an income tax on high earners in 2022.
      - ➢ Calculating new electricity and water tariffs will be achieved gradually in the coming years.

Oman Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.9	-0.8	-6.4	1.8	7.4
Crude Oil Production (M Bpd)	1.0	1.0	0.9	1.0	1.1
Oil GDP Growth (%)	4.0	1.4	-2.4	2.0	12.6
Non-Oil GDP Growth (%)	-1.6	-2.8	-10.0	1.5	2.3
CPI Inflation (%)	0.9	0.1	-0.9	3.8	2.4
Fiscal Balance (% of GDP)	-8.3	-6.7	-17.3	-4.4	-1.5
C/A Balance (% of GDP)	-5.4	-5.4	-10.0	-6.4	-2.7
Total Gov't. Gross Debt (% of GDP)	51.4	60.0	81.1	71.3	66.8
Total Gross Extrn'l Debt (% of GDP)	85.6	97.7	126.9	111.7	104.6
Gross Official Reserves (Mos. of Imports)	6.4	8.4	6.7	5.8	5.5
Nominal GDP (USD B)	79.8	76.3	63.2	74.1	79.3
Population (Millions)	4.6	4.6	4.4	4.6	4.7

- **The recent rebound in global oil prices and the recovery of hydrocarbon revenues have also played in Oman's favour.**
  - ➢ From January to August 2021, Omani oil sold at an average price of USD 68 pb, 48% higher than the average price during the same period in 2020 (USD 46 pb).
    - Recently, the price has been upward of USD 70 pb.
    - Predictions of a budget surplus in 2022 come as no surprise; the fiscal break-even oil price is around USD 69 pb for 2021.
  - ➢ The sultanate's 2021 budget has assumed an average crude oil price of just USD 45 pb.
    - As a result, the budget deficit Is expected to drop sharply by the end of the year.
    - Ultimately, Oman's determination to create a sustainable economy is starting to pay off.

[1] Arabia Monitor; IMF.

Palestine: Status quo sustained

NR/NR

- **Since the swearing in of Israel's new coalition earlier this year, there has been political rapprochement between its composite sides. However, the new 'government of change' is unlikely to have a huge impact on the situation on ground level for Palestinians.**
  - ➢ The coalition has brought together parties across a wide-ranging political and ideological spectrum. It includes the conservative United Arab List party (Ra'am), the first independent Arab party to join an Israeli governing coalition.
    - The leader of Ra'am, Mansour Abbas, stated that the coalition agreement would generate more than USD 16B to improve infrastructure, combat violent crime in Arab towns and bring about fairer housing policies for Palestinians.
  - ➢ The coalition had a breakthrough moment last month, facilitating talks between the Israeli defence minister, Benny Gantz, and the Palestinian Authority (PA) leader, Mahmoud Abbas.
    - This was the first time in years the two sides have engaged with one another.
  - ➢ Gantz has promised to loan USD 150M to the cash-strapped economy. The money is to be repaid through taxes, which Israel normally collects from Palestinians.
  - ➢ As for the Palestinian 'issue', opinions in the new government are divided; most favour a two-state solution, but the prime minister, Naftali Bennett, stands opposed.
  - ➢ Regardless of this split, the new administration is likely to maintain the status-quo. The coalition government is fragile and unlikely to do anything that would jeopardise their grip on power.
  - ➢ Bennet has been vocal about his support for Israeli settlements throughout his political career. Indeed, we may even witness settlement expansion during his tenure, a move which could provoke further conflict in the years ahead.
    - In Palestine, the new government has been met with a tepid reception since it took office in June. Palestinians are attuned to Bennet's settlement policies and understand that there will be no ideological shift from the previous administration.

Palestine Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.9	-12.0	5.7	7.0
CPI Inflation (%)	-0.2	1.6	-1.2	0.3	1.1
Fiscal Balance (Ex-support, % of GDP)	39.5	...	...	...	...
Recurrent Budget Support (% of GDP)	-7.3	-7.5	-7.9	...	...
C/A Balance (% of GDP)	-13.1	-10.8	-11.1	-10.5	-10.8
Nominal GDP (USD B)	16.3	17.1	14.7	16.5	17.9
Population (Millions)	4.9	5.0	5.1	5.2	5.2

- **Although Palestine's economy contracted by 12% in 2020, the country is expected to undergo a degree of recovery this year. Chances of any such comeback will be heightened significantly if inoculation campaigns continue and the political crisis remains calm.**
  - ➢ The Palestinian Monetary Authority (PMA) expects a 4% recovery this year.
    - Tax transfers from Israel were frozen last year, which hammered the Palestinian economy. These have since resumed and look set to continue, as long as the two governments steer clear of any political brawls that might risk the transfers stalling once again.
    - Israel collects tax revenues on behalf of the Palestinian Authority.
  - ➢ Palestinian workers in Israel and Israeli settlements are a major source of income for the Palestinian economy. They were among the worst hit by the COVID-19 pandemic. With these workers now vaccinated, the economy is set to receive a vital boost.
  - ➢ However, unemployment is still rampant, reaching up to 25.9%, with nearly 50% jobless in the Gaza Strip this year alone. With economic activity picking back up, prospects are more promising.

[1] Arabia Monitor; IMF.

Qatar: Pressing on the gas pedal

Aa3/AA-

- **In line with global trends, 2020 witnessed a contraction in Qatar's economic output. However, this squeeze was driven mainly by the non-oil sector; Qatar was actually the least affected among its GCC neighbours with regard to growth.**
  - Qatar's rebound in 2021 has been underpinned by favourable developments in global oil prices. Additional factors include an increase in natural gas production and the restoration of economic activity amid the global vaccination rollout.
  - Qatar has consistently posted annual budget surpluses in recent years and looks set to continue this trend for some time. Despite its fiscal balance dropping almost threefold as the COVID-19 pandemic raged on around the world, Qatar still delivered positive figures.
    - This comes as no surprise. At USD 43 pb, Qatar required the lowest crude oil price tag among all 13 of the MENA region oil exporters to balance its budget this year.
    - This explains Qatar's fiscal health during the pandemic; the average price languished at USD 46 pb during this period.
  - This year, the annual global price of crude oil is forecast to clock in at an average of USD 66 pb by December. Spending cuts on postponed CAPEX projects will enable Qatar to deliver a projected 1.4% fiscal surplus.
  - Qatar is expected to pay maturities this year on some of its external debt (nominally around USD 4B). As a share of economic output, a 17% fall in debt is expected. In real terms, a considerable part of this fall is due to growth in GDP.
    - We expect Qatar to revisit its public debt policy for the first time since 2014. Back then, debt levels were low, representing a healthy 30% of GDP. Today we are observing around double that figure.
    - This challenge is not insurmountable. Qatar looks set to usher in higher Liquified Natural Gas (LNG) revenues as it expands its presence further in the energy markets.
    - The state-owned Qatar Petroleum (QP) plans to boost LNG production capacity by 43% from 77 million tonnes per year (mtpa) to 110 mtpa by 2025 at a cost of around USD 11.3B.

Qatar Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.8	-2.6	2.4	3.6
Crude Oil Production (Mb/d)	0.6	0.6	0.6	0.6	0.6
Oil GDP Growth (%)	-0.3	-1.8	1.3	0.9	2.1
Non-oil GDP Growth (%)	2.2	2.4	-5.0	3.3	4.6
CPI Inflation (%)	0.3	-0.7	-2.7	2.4	2.9
Fiscal Balance (% of GDP)	5.9	4.9	1.3	1.4	7.3
C/A Balance (% of GDP)	9.1	2.4	-3.4	7.1	7.9
Total Gov't. Gross Debt (% of GDP)	52.2	62.3	71.8	59.8	53.9
Total Gross Extrn'l Debt (% of GDP)	108.1	138.0	184.9	163.7	157.4
Gross Official Reserves (Mos. of Imports)	5.5	7.7	8.6	9.3	10.5
Nominal GDP (USD B)	183.3	175.8	146.1	166.0	174.4
Population (Millions)	2.8	2.8	2.8	2.8	2.8

  - Throughout 2020, the peak year of the pandemic, Qatar's current account ran a deficit of 3.4% of GDP due to low oil demand and concomitant low prices. However, rising oil prices should enable its current account to move back into surplus figures at least in the short term as revenues build up.
    - The introduction of a new LNG export capacity should help to generate significant current account surpluses in the medium term.
  - Although Qatar's external debt stood at a high of 180% of GDP last year, it looks set to fall, albeit moderately. Furthermore, there is little risk of insolvency; the emirate has sovereign assets worth more than 200% of GDP.
- **Qataris took to the polls this month in the state's first legislative elections to cast their ballots for two-thirds of the advisory Shura Council.**
  - While the council does not have full parliamentary authority, it has legislative authority in addition to control over the country's budget.
  - It is a small step towards a power-sharing dynamic between the ruling Al-Thani family and different Qatari groups.

[1] Arabia Monitor; IMF.

Saudi Arabia: Slowly but surely

A1/A-

- **Saudi Arabia is forecast to increase its economic output by roughly 3% this year. It is then expected to register 4% growth in 2022. The kingdom is therefore currently on track to realise this component of its Vision 2030.**
  - ➢ Throughout the COVID-19 pandemic, Saudi Arabia has managed to prevent a repeat of 2015. Back then, the kingdom posted a record fiscal deficit of USD 98B (roughly 15% of GDP) due to the crude oil price plummet.
    - Last year's shortfall was a considerable yet contained 11.2% of GDP. This stability stems from a multitude of previous reforms and exceptional budget transfers from the Saudi Central Bank (SAMA) and the Public Investment Fund (PIF).
  - ➢ For FY 2021, the kingdom is operating with a budget deficit target of 4.9% of GDP. However, a narrower deficit of 3.8% is more likely due to favourable conditions in the energy market. As part of an ongoing bullish run, the price of Brent crude oil is expected to average around USD 66 per barrel (pb) this year, a 46% YoY jump.
    - Historically, the kingdom's fiscal policy tends to be consistent with concurrent oil prices.
    - With this year's forecast price hike, Saudi Arabia may be tempted to increase spending beyond the rubrics of the 2021 budget.
  - ➢ Looking forward to 2022-23, the Saudi government forecasts a reduction in its fiscal deficit to 3% of GDP, followed by a moderate surplus of 0.4% in 2023 with lower nominal spending YoY.
    - Although the ambition is commendable, the impact of possible COVID-19 variants and lower energy prices renders us more conservative in our expectations.
  - ➢ The government still has a relatively modest 2021 debt-to-GDP ratio at 31%. This comes despite a 40% rise in 2020 due to extraordinary spending measures taken to help contain the spread of COVID-19.
    - Come 2023, the ratio is forecast to reach 35%. This is still below the median of 62% in its category of A-rated sovereigns.

Saudi Arabia Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.4	0.3	-4.1	2.9	4.0
Crude Oil Production (M Bpd)	10.3	9.8	9.2	9.2	9.8
Oil GDP Growth (%)	3.1	-3.6	-7.2	1.6	4.8
Non-oil GDP Growth (%)	2.2	3.3	-2.0	3.9	3.6
CPI Inflation (%)	2.5	-2.1	3.4	2.7	2.0
Fiscal Balance (% of GDP)	-5.9	-4.5	-11.1	-3.8	-2.5
C/A Balance (% of GDP)	9.2	4.8	-2.1	2.8	1.9
Total Gov't. Gross Debt (% of GDP)	19.0	22.8	32.4	31.0	31.7
Total Gross Extrn'l Debt (% of GDP)	19.2	23.2	27.6	25.4	25.5
Gross Official Reserves (Mos. of Imports)	27.1	35.6	26.3	25.7	24.7
Nominal GDP (USD B)	786.5	793.0	701.5	804.9	827.1
Population (Millions)	33.4	34.1	34.8	35.5	36.2

    - The kingdom also has one of the highest coverage ratios according to various credit rating agencies, a factor which contributes to high ratings.

- **Strong reform momentum continues in Saudi Arabia. The rapidly increasing presence of women in the labour market and the investment drive central to Vision 2030 should boost non-oil economic activity and create jobs.**
  - ➢ Non-oil GDP is projected to reach 3.6% and beyond, surpassing even pre-pandemic levels. Mass investments by the PIF will play a huge role.
    - Although unemployment among Saudis has dropped since 2020, the figure currently remains high at 11.7%. A failure to create jobs would pile greater pressure on the government to spend more in order to support living standards. Any such move would undermine the strides made towards fiscal consolidation.

[1] Arabia Monitor; IMF.

Somalia: Spy scandal exacerbates leadership spat

B2/NR

- **Fissures between Somalia's president and prime minister have widened following the recent murder of an intelligence officer. Deteriorating relations have only fuelled political infighting, and risk stoking instability ahead of elections next month.**
  - Prime Minister Mohamed Hussein Roble sacked Fahad Yasin, the chief of the National Intelligence and Security Agency (NISA), for mishandling the investigation into the death of a NISA officer.
    - President Mohamed Abdullahi Mohamed, commonly known as 'Farmaajo', has since reinstated Yasin. This move sparked criticism from the international community regarding the legality of the investigation as well as its thoroughness.
    - This is the second public spat between the two men in just a matter of months; Roble and Mohamed clashed in April 2021 when the president unilaterally extended his four-year term by two years, prompting both loyal and opposing military factions to seize rival positions in the capital Mogadishu.
  - Political jostling threatens stability ahead of elections which are now scheduled for November 2021 after months of delays.
    - Parliamentary elections are set for 25 November.
    - While the elections may quell some of the discontent simmering among regional tribal leaders, they will not tackle the threat posed by the Somalia-based al-Shabab militant group; nor will they address the jockeying between the country's leadership figures.
    - In fact, it is likely the elections will stoke more bickering, ultimately handing victory to terrorist groups.
- **The political crisis threatens Somalia's economic support from international players. Although GDP is currently set to expand by 2.9%, up from the 1.5% contraction in 2020, this growth looks doubtful in light of the current situation.**
  - Previously, Somalia received foreign assistance through NGOs. In 2018, the government began to receive aid directly from the EU.

Somalia Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.8	2.9	-1.5	2.9	3.2
CPI Inflation (%)	...	...	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...
C/A Balance (% of GDP)	-7.5	-10.5	-13.3	-12.2	-11.9
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	111.3	107.4	39.3	36.7	35.5
Gross Official Reserves (Mos. of Imports)	...	...	...	...	...
Nominal GDP (USD B)	4.7	4.9	4.9	5.4	5.6
Population (Millions)	14.2	14.6	15.0	15.5	15.9

    - However, the UN stated in June 2021 that the country is now facing its worst funding shortage in six years.
    - To make matters worse, the country's economy is largely based on agriculture, making it susceptible to extreme weather such as droughts and flooding.
    - Locust swarms have also had a disproportionate impact on the country this year.
  - Additionally, the political gridlock has now caused EU payments to stall over election concerns. Further delays to a political agreement will jeopardise the country's budget, which largely stems from EU funding. A shrinking budget comes with its own set of economic consequences for infrastructure and social programmes, and may fuel unrest on the ground.
    - Notably, tax revenues collected by al-Shabab are expected to surpass those collected by the government.
  - Al-Shabab's network is set to expand due to Somalia's fractured leadership; so too are the revenues it collects. Opposing government factions would do well to find common ground soon, lest they are outshone by more egregious elements.

[1] Arabia Monitor; IMF.

Sudan: Downplaying a potential political crisis

B2/NR

- **Sudan's real GDP contracted by 3.6% in 2020 and is forecast to register tepid 0.4% growth in 2021. Eager to turn around its depressing FDI performance, the transitional government intends to revive the economy by fostering a welcoming investment environment.**
  - Despite indications of a brighter future, Sudan is still a far cry from branding itself as a business and investment hub.
    - Sudan was positioned 171st (out of 190) in the World Bank's 'Doing Business' 2020 rankings.
  - Last year, Sudan's rate of inward investment plummeted to USD 781M, 66% below the peak FDI level recorded in 2012.
    - After a humble FDI upturn between 2016 and 2018, the subsequent downward trend can be explained by both the political unrest following the 2019 revolution and the COVID-19 pandemic.
  - The transitional government will now look to deliver on its mandate to boost the economy by drawing in sustainable investments and facilitating long term growth.
    - Issued on 11 April 2021, the New Investment Act aims to allay the concerns of insecure investors. Indeed, the easing of regulations as part of the act will hopefully create a palatable business environment.
  - The New Investment Act replaced the previous act of 2013, introducing fresh provisions as well as establishing additional investment authorities.
  - It aims to create a more predictable, transparent and equitable system for investors by easing the barriers of entry which were imposed by the former regime.
  - Investment projects will enjoy benefits such as immunity from custom duties on capital imports and up to five years of business-profit tax exemption.
  - Although the market outlook holds promise, reports of infighting within the joint military-civilian government means volatility may come to define Sudan's road to democracy.

Sudan Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	-2.3	-2.5	-8.4	0.4	1.1
CPI Inflation (%)	63.3	51.0	141.6	197.1	44.5
Fiscal Balance (% of GDP)	-7.9	-10.9	-6.9	-3.1	-2.5
C/A Balance (% of GDP)	-13.1	-15.1	-12.7	-11.2	-13.5
Total Gov't. Gross Debt (% of GDP)	186.7	201.6	259.4	211.7	185.9
Total Gross Extrn'l Debt (% of GDP)	182.7	199.8	255.6	207.5	182.6
Gross Official Reserves (Mos. of Imports)	0.2	0.2	0.4	1.1	1.3
Nominal GDP (USD B)	35.7	33.4	32.6	35.8	35.9
Population (Millions)	41.8	42.8	43.8	44.9	45.0

- Since his inauguration two years ago, Prime Minister Abdalla Hamdok has made repairing Sudan's image on the global stage the focal point of his tenure.
- Hamdok has had to juggle a delicate balancing act in order to meet the demands of both his government and Sudan's military leaders.
- The public remains doubtful of the military's willingness to concede power. At the street level, a chasm between the military and civilian blocs is palpable. The military is undoubtedly more organised and unified than its civilian counterparts.
- All eyes are on the election in 2024. The elections may yet be delayed, and the military might also try to acquire more power. However, with international players buttressing Hamdok's efforts, it is unlikely that the civilian government will surrender control. Contentious politics and instability will continue to be a headline for the foreseeable future.

[1] Arabia Monitor; IMF.

Syria: The road to Damascus' reintigration

NR/NR

- **After an election in May 2021 which saw him secure a whopping 95.1% of the vote, President Bashar al-Assad continues to deepen ties with foreign partners. Indeed, an increasing number of countries, including EU members, are beginning to push for the normalisation of ties with the Syrian regime. It appears they have come to terms with the ostensible reality: Assad is here to stay.**
  - Several Arab countries which initially supported the Syrian opposition have also made moves to re-establish diplomatic relations with Assad. They include Algeria, Bahrain, Egypt, Kuwait and the UAE.
  - Signs of a Saudi-Syria rapprochement have been observed in recent months with Syria sending its first ministerial delegation in a decade to the kingdom in May 2021. Saudi Arabia's invitation could signal a resolve to ease tensions with Iran, a close ally of Assad, and also a move to curb Iranian influence in Syria. Either way, Crown prince Mohammad Bin Salman (MBS) seems keen to engage with Assad.
    - The normalisation of Saudi-Syrian relations would undoubtedly help Assad to reinsert himself in the international community. The regime has already focused its propaganda on the renewal of these ties.
  - Meanwhile, Russia's relationship with Syria continues to flourish. Assad and Russia's President Vladimir Putin met in Moscow last month to discuss co-operation between their militaries, as well as strategies to gain control of the last rebel areas in Syria. It was the first meeting between the two presidents since last January.
  - Several European states appear ready to rebuild diplomatic ties with Syria and are contemplating the possibility of re-opening embassies in Damascus.
    - Greece has now officially re-opened its embassy in the Syrian capital, while other countries including Austria, Bulgaria, Cyprus and Hungary maintain a diplomatic presence in Syria through various delegations. However, this trend does not signify the EU's recognition of Assad; EU sanctions against Syria's president have been in place since 2012.
    - In addition, none of the key EU member states have moved towards normalising diplomatic relations with Syria. The EU countries which have done so have very little leverage within the bloc. Therefore, certain EU countries may wish to re-gain access to Syria, mostly for commercial reasons. But the EU is nowhere near close to accepting the crimes committed by the Assad regime.

Syria Macroeconomic Indicators[1]

	2012	2013	2014	2015	2016	2021f
Real GDP Growth (%)	-18.9	-18.7	1.8	-15.0	-4.0	...
CPI Inflation (%)	36.7	91.7	36.4	15.2	40.0	...
Fiscal Balance (% of GDP)	-16.9	-12.3	-8.6	-7.3	...	...
C/A Balance (% of GDP)	-15.3	-12.2	-10.5	-10.8	...	...
Total Gov't. Net Debt (%of GDP)	54.1	52.5	53.2	58.7	...	...
Total Gross Extrn'l Debt (% of GDP)	19.2	23.1	26.9	31.1	...	...
Gross Official Reserves (USD B)	4.8	1.8	1.8	1.7	...	...
Nominal GDP (USD B)	44.0	42.8	43.4	20.0	15.0	...
Population (Millions)	19.2	18.7	18.4	18.2	18.2	...

- **Regardless of his comfortable position, one thing is now certain: Assad must face the challenge of recovering a Syrian economy in free fall. Three main shocks have disrupted an already weak Syrian economy: economic sanctions, the Lebanese financial and economic crisis and the COVID-19 pandemic.**
  - Sanctions imposed by the US as part of the Caesar Act have been in force since December 2019, and have resulted in a substantial depreciation of the Syrian pound (SYP), which lost almost 70% of its value against the USD in the first months of 2020. Food prices increased by more than 200% throughout that year due to inflationary pressure. As of August 2021, the World Food Programme assesses there are around 12.4M Syrians currently suffering from food insecurity.
  - Syria's drought poses an additional challenge to Assad's economic plans, especially his 'Year of Wheat' campaign. Low rainfall is likely to leave an import gap for grain of at least 1.5M tonnes. Not only will the drought deprive people of drinkable water; electricity supplies will also be impacted as dams dry up.
  - Regarding the pandemic, the number of confirmed cases continues to rise. At the end of August 2021, 86.5K COVID-19 cases had been confirmed, with a 5% increase in the number of deaths compared to July 2021. Vaccination campaigns in Syria started in May-June 2021 but co-ordination challenges and insufficient funding persist.
  - However, positive signs of change augur well for the country's recovery. In April 2021, the Central Bank of Syria officially devalued the pound from 1256 to 2512 SYP per USD.

Tunisia: Fairy tale fading

B3/NR

- **After the barrage of backlash both domestically and from the international community, President Saied nominated the country's first female PM, Najla Romdhane to replace former PM, Hichem Mechichi.**
  - ➢ The new PM has less power than prior Prime Ministers thanks to Saied's "reforms".
    - Romdhane, a geology professor, previously implemented World Bank programmes with the Ministry of Higher Education.
    - While Said's move quieted international discontent, it remains to be seen whether or not it will appease the street as the new PM will now have to form a government.
    - Infighting is certainly on the cards for the short term, especially as Romdhane's cabinet picks are put forward to the divided parliament.
- **The Arab Spring's greatest success story seems to be facing political instability as President Kais Saied looks to consolidate control.**
  - ➢ Saied suspended parliament in July 2021 and dismissed the former prime minister Hichem Mechichi in a move his critics have labelled a coup.
    - Although he promised the resultant political situation would be temporary, Saied has yet to outline a roadmap towards a political transition.
    - The president claims that the fruits of the 2011 Arab Spring will be upheld. However, his actions and the pace of his reforms have prompted a backlash both domestically and within the diplomatic community.
    - Hundreds of protesters took to the street this month to demonstrate against the president.
    - Not everyone opposes Saied. In fact, he enjoys support from a camp of followers who have grown tired of the country's limited economic growth as well as its political caste.
    - The latest news concerns the president's ambition to amend the constitution. Saied insists that any such move will be undertaken within the framework of his presidential powers. The contours of his plans should become clearer in the coming weeks.

Tunisia Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.7	1.0	-7.0	3.8	2.4
CPI Inflation (%)	7.3	6.7	5.8	5.8	6.3
Fiscal Balance (% of GDP)	-4.6	-3.9	-8.1	-9.3	-6.8
C/A Balance (% of GDP)	-11.2	-8.5	-8.3	-9.5	-9.4
Total Gov't. Gross Debt (% of GDP)	78.2	72.3	84.8	91.2	93.9
Total Gross Extrn'l Debt (% of GDP)	97.4	94.8	98.3	99.2	101.2
Gross Official Reserves (Mos. of Imports)	2.5	5.3	4.1	3.7	3.2
Nominal GDP (USD B)	39.8	38.8	39.2	44.3	46.5
Population (Millions)	11.7	11.8	11.8	11.9	12.0

- **Political fragility could ripple through the economy, hindering Tunisia's potential to bounce back.**
  - ➢ Tunisia was set to register 3.8% growth this year after a contraction of 8.8% in 2020 but this could be revised downwards. The IMF forecasts that momentum will taper off in 2022, when Tunisia is anticipated to register 2.2% growth.
  - ➢ The country was due to receive aid from the IMF after requesting support in May 2021. Unsurprisingly, the aid has since been stalled due to festering political instability. The IMF (alongside other donors) may step in if Tunisia's political crisis persists.
    - They now should resume parliamentary life to form a cabinet; reforms and legislation simply cannot be pushed through in this ambiguous context.
    - As things stand, investor confidence will continue to drop.
  - ➢ However, if Romdhane forms a government (rapidly) and enters negotiations with international organisations, the economy would certainly benefit but we do not anticipate rapid progress.

[1] Arabia Monitor; IMF.

UAE: Not quite the Expo-nential boost

Aa2

- **On the 1st of October, all eyes turned towards the UAE as it hosts the first world fair to be held in the Middle East. Expo 2020 is situated in the Dubai emirate and will run until March 2022. The event has been delayed by a year due to the COVID-19 pandemic and there are conflicting opinions about its impact on the UAE's economic growth.**
  - ➢ The Central Bank of the UAE estimates a 2.1% GDP growth in 2021, ostensibly driven by successful mitigation measures imposed in response to the pandemic.
    - More than 80% of the population is now fully vaccinated, with around 91% having received their first dose.
  - ➢ The central bank is also optimistic regarding its 4.2% growth forecast for 2022.
    - This is possibly underscored by the anticipated effects of the Dubai Expo, which is expected to usher in tourism and rejuvenate the hospitality sector. Increased public spending has also given rise to optimism.
    - However, in its April 2021 report the IMF posted slightly toned-down projections for 2022, forecasting 2.6% real GDP growth for 2022. This possibly accounts for potential new COVID-19 variants and a lack of confidence in global travel.
  - ➢ That said, previous Expo events have positively impacted the GDP of their host countries; the UAE's hospitality and tourism sectors are likely to be revived, regardless of the pandemic.
    - The UAE expects around 25M visitors throughout the six-month event, a figure which accounts for more than double the population of the UAE.
    - However, actual figures will likely fall short of these projections given the general obstacles to overseas travel. Many events will be held virtually instead.
  - ➢ The projected expo-related 1.5% boost to the UAE's GDP is unlikely to be met.
    - The returns on the USD 6.8B bill to host the event will be less than anticipated.

UAE Macroeconomic Indicators[1]

	2018	2019	202	2021f	2022f
Real GDP Growth (%)	1.2	1.7	-5.9	3.1	2.6
Crude Oil Production (M Bpd)	3.0	3.1	2.8	2.9	3.0
Oil GDP Growth (%)	2.5	3.4	-6.2	2.8	2.8
Non-oil GDP Growth (%)	0.7	1.0	-5.8	3.2	2.5
CPI Inflation (%)	3.1	-1.9	-2.1	2.9	1.2
Fiscal Balance (% of GDP)	1.9	0.6	-7.4	-1.3	-1.1
C/A Balance (% of GDP)	9.6	8.4	3.1	7.1	6.3
Total Gov't. Gross Debt (% of GDP)	20.9	26.8	38.3	37.1	39.2
Total Gross Extrn'l Debt (% of GDP)	67.9	76.7	99.5	92.2	94.3
Gross Official Reserves (Mos. of Imports)	3.9	5.1	4.3	4.5	4.6
Nominal GDP (USD B)	422.2	421.1	354.3	401.5	409.8
Population (Millions)	10.4	10.7	11.1	11.4	11.8

- **In fiscal terms, the situation does not look rosy for the next couple of years. Frequent deficits and visits to credit markets are expected.**
  - ➢ During a COVID-19-plagued 2020, the country dipped into the market three times and borrowed USD 15B. These moves are justified given the large deficit (7.4% of GDP) which loomed large that year.
  - ➢ In order to finance its state budget deficit for 2021 (1.3% of GDP), the UAE reappeared in the international debt market earlier this year and sold seven-year bonds at around USD 2B.
    - This reduced borrowing requirement follows this year's increase in the average price of crude oil (USD 66 pb).
  - ➢ The initial debt offering was at a rate of 70 basis points above the US treasury bill rate.
    - With this came an oversubscription by USD 6.9B for the debt sale. However, the UAE lowered the rate to 45 bps over the US treasury rate.

[1] Arabia Monitor; IMF.

Yemen: Humanitarian hammering

NR/NR

- **As the civil war in Yemen continues to rage, short-term prospects for growth continue to diminish. Unless international engagement ramps up dramatically, Yemen will continue to flounder.**
  - The now six-year-long civil war has battered the country's economy, a situation which is made worse by the COVID-19 pandemic. Initially, international actors stepped up to offer humanitarian aid. This helped to offset some of the pain that was exacerbated by the country's poor economic conditions. Unfortunately, aid has since drifted.
    - The UN estimates that up to 80% of the population live below the poverty line and are in need of humanitarian assistance. This grim figure could climb if the country does not undergo drastic reforms to secure more international support.
  - There has been a decrease in remittances, while oil revenues have also declined. Oil output has so far dropped 2% in 2021, following an 8.5% fall in 2020. According to forecasts, Yemen's crude oil production could grow marginally in 2022, but only if violence ceases to escalate.
  - Humanitarian aid is often delayed or prevented by the ongoing fighting and seizure of territory by rebel groups. On 11 September, fighters from the Shia Houthi group launched a ballistic missile and five explosive drones against the al-Makha port on Yemen's Red Sea coast. Several warehouses containing humanitarian aid were destroyed in the attack.
  - With fresh UN talks beginning in September, the International Rescue Committee, a humanitarian aid organisation, is calling on world leaders to push for a new ceasefire and to increase aid. However, there is criticism brewing within the UN; some members argue that the organisation's special political missions are costing too much.
  - Developing member states argue that the financing of these missions should be the responsibility of UN Security Council members, since only these nations have the financial capacity to sustain such missions.
    - These kinds of disagreements negatively impact Yemen, preventing the UN from taking immediate and decisive action.

Yemen Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.8	2.1	-5.0	0.5	2.5
Crude Oil Production (M bpd)	0.0	0.0	0.0.4	0.0	…
CPI Inflation (%)	27.6	10.0	26.4	30.6	19.2
Fiscal Balance (% of GDP)	-7.8	-5.3	-9.2	-6.1	-6.2
C/A Balance (% of GDP)	-2.0	-3.9	-6.5	-8.5	-7.8
Total Gov't. Gross Debt (% of GDP)	74.5	76.5	81.7	73.0	67.9
Total Gross Extrn'l Debt (% of GDP)	25.2	25.7	30.4	30.3	26.2
Gross Official Reserves (Mos. of Imports)	0.5	1.4	2.0	1.1	1.0
Nominal GDP (USD B)	23.5	22.6	20.9	25.1	25.8
Population (Millions)	28.9	29.5	30.2	30.9	31.0

- **The Houthis launched a new offensive at the beggining of September 2021.**
  - The group managed to take over the key district of Rahabah (Marib governorate). This victory is particularly concerning for Yemen's security forces as it lays bare the group's organisational capacity, as well as the support it enjoys throughout the country.
  - The Houthis will continue to try to capture more territory in the resource-rich Marib. The governorate houses the country's largest power plant, as well as much of Yemen's oil, gas and water supplies.
  - Overall, the current situation underscores the incompetence and fallibilities within Yemen's military, as well as glaring internal divisions. Such fractures only exacerbate the challenges which Yemen must overcome to achieve some semblance of stability.

[1] Arabia Monitor; IMF.

GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		Rating Change Considerations
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	
Bahrain	B2	(-)	Affirmed O/L Negative	29-Apr-21	B+	(-)	Affirmed O/L Negative	28-May-21	If Bahrain materially outperforms fiscal and external forecasts, upward pressure on ratings would continue. Conversely, if these constraints intensify, downward pressure will re-emerge.
Kuwait	A1		Downgraded O/L Stable	22-Sep-20	AA-	(-)	Affirmed O/L Negative	17-Jul-20	Further exhaustion of the General Reserve Fund (GRF) to finance fiscal debt could put downward pressure on ratings. Debt law reforms passed in parliament may stop this. Sustained period of low oil prices could also weaken the fiscal position and rating.
Oman	Ba3	(-)	Affirmed O/L Negative	23-Jun-20	B+		Downgraded O/L Stable	16-Oct-20	Ratings could dip if debt as a share of GDP remains on an upward trend or if the net external asset position were to weaken at a faster pace. We expect pressure on Oman's credit ratings to continue until the agencies see dynamism from the new Sultan.
Qatar	Aa3		Affirmed O/L Stable	24-Sep-20	AA-		Affirmed O/L Stable	07-Dec-20	Ratings could come under pressure if developments in oil production and prices, or in the banking sector, were to significantly weaken the country's external or fiscal positions; for example, if the government's gross liquid assets fall significantly below 100% of GDP.
Saudi Arabia	A1	(-)	Affirmed Negative	01-May-20	A-		Affirmed O/L Stable	26-Mar-21	Ratings could be lowered if contingent liabilities increase, such as from government-related entities (GRE) debt. This weakens the public-sector balance sheet especially if the on-going debt does not translate into productive investments in the economy.
UAE	Aa2		Affirmed O/L Stable	04-May-21					Upgrade considerations are possible if Abu Dhabi shows a willingness to service the federal government's debt and reduction in oil dependence.

Bloomberg; Moody's; S&P; JPMorgan.
*O/L stands for outlook.
Note: Political & institutional factors, rather than just fiscal & economic performances, constrain GCC ratings starting from Moody's Aa & S&P's A categories.

MENA exc. GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	Rating change considerations
Algeria	N/R				N/R				Sovereign rating on hold due to domestic and energy market conditions.
Egypt	B2		Affirmed O/L Stable	11-May-20	B		Affirmed O/L Stable	11-May-18	Signs of external vulnerability, for example a persistent downward pressure on international reserves or slacking on the country's economic reform programme would reduce creditworthiness.
Jordan	B1		Affirmed O/L Stable	26-Nov-20	B+		Affirmed O/L Stable	12-Mar-21	Ratings could be affirmed or raised if there is a return to stable GDP growth and progress in fiscal consolidation consistent with a stabilisation and reduction of government debt/GDP.
Lebanon	C		Under Review	27-Jul-20	SD		Under Review	11-Mar-20	Ratings could be affirmed if the government introduces comprehensive policy reforms and debt-restructuring programs.
Morocco	Ba1	(-)	Affirmed O/L Negative	04-Feb-21	BB+		Downgraded O/L Stable	21-April-21	Significant fiscal gaps could see a continued downgrade of ratings.
Tunisia	B3	(-)	Downgraded O/L Negative	23-Feb-21	N/R				Ratings could be lowered if there are rising external liquidity pressures, for example if there is a significant cutting down on international reserves.

Bloomberg; Moody's; S&P.
*O/L stands for outlook.

About Arabia Monitor

Arabia Monitor is an independent research firm specialised in economic and market analysis, and strategy advisory on the Middle East and North African region, which it views as the new emerging market. Arabia Monitor's in-depth, locally informed analysis by Arab, Persian and Chinese speakers has placed it consistently ahead of the curve in identifying new trends within and around the region and understanding its geopolitics.

Arabia Advisors specialises in portfolio strategy and private placements. It works with firms, family offices and government related organisations that are looking to streamline, re-balance or diversify their asset portfolios. Based in the UAE as an off-shore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

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