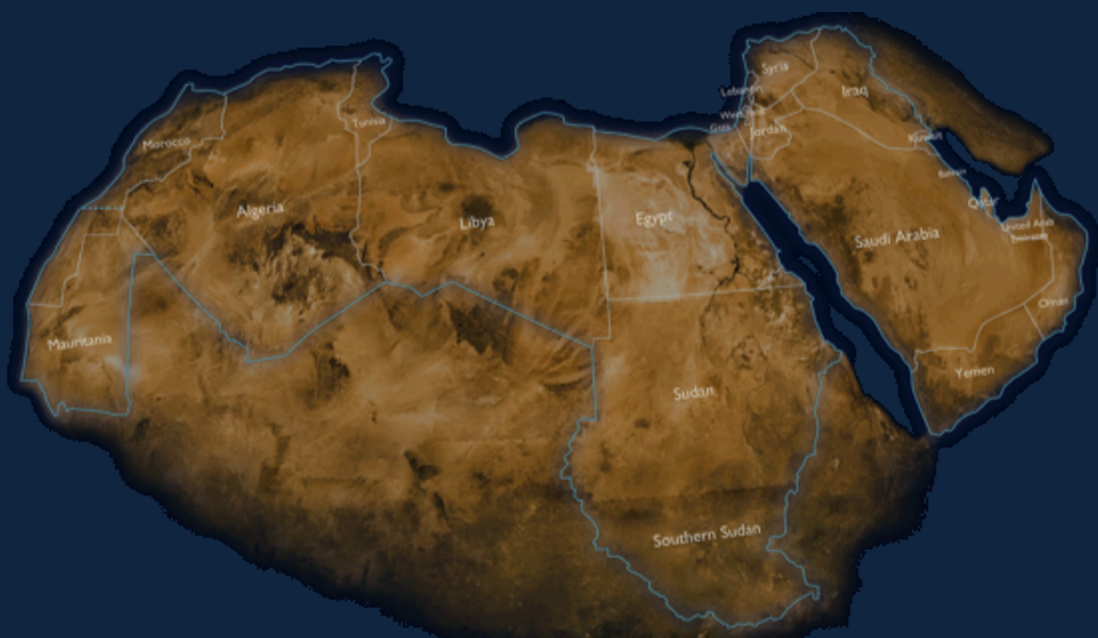
ARABIA MONITOR
ECONOMIC RESEARCH & STRATEGY

MENA-LATAM: Bridging strategic ties

Middle East & North Africa Outlook
Q1 2021



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Outline

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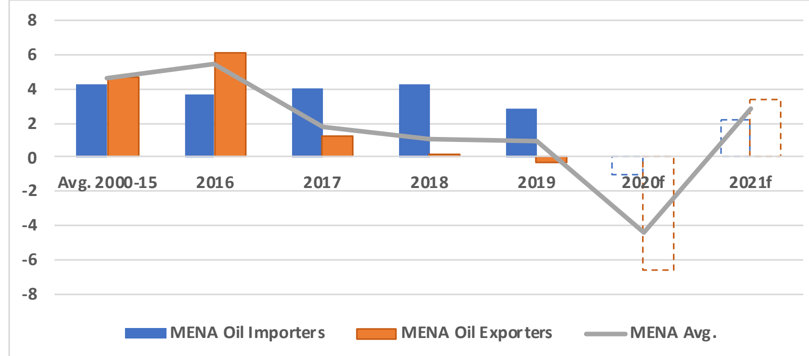
Our View: New horizons for MENA-LatAm trade and investments

- **Our regional theme this quarter analyses MENA-Latin America (LatAm) growing relations. We look at how interregional links have developed over the years, focusing on merchandise trade, renewable energy and investments. Looking beyond COVID-19, we highlight potential opportunities for scaling up.**
  - Overall bilateral trade between MENA and LatAm remains low. The MENA region accounted for 1.7% (USD 39.5B) of the LatAm USD 2.3T global trade volume in 2018, a slight 0.5% YoY increase from the year before.
    - Trade figures show that the relationship is heavily reliant on LatAm exports to MENA. Since 2010, LatAm exports made up on average 44.7% of total MENA exports. This is compared with the average low base of 3.4% MENA imports to LatAm of total LatAm imports during the same period.
  - Agricultural trade is one of the main pillars of the relationship between the two regions. Brazil, in particular, is a key player in agribusiness across MENA.
    - MENA countries are currently investing heavily to improve their domestic agriculture resources and provide much-needed food security given the region's large food import bill. But we expect food trade, particularly with the GCC, to remain high as the recent standardisation in Brazil's halal meat practice has allowed it to increase market share in the GCC.
  - The changing dynamics in the relationship in recent years have gone beyond traditional merchandise trade and commerce, to incorporate growing strategic investments from GCC's sovereign wealth funds (SWFs).
    - LatAm in recent years has become a common investment destination across the Gulf. As the GCC starts to recover from the pandemic downturn, we expect sovereign investments to accelerate as economic diversification becomes a key priority. Investments are likely to be mainly focused in Brazil, Mexico and Argentina.
  - There is also room for growth in bilateral e-commerce transactions, especially as demand for e-commerce platforms in MENA was already growing before the pandemic. Before the outbreak, revenue of USD 49B was forecast for 2021. This is may now be higher.
  - Going forward, we expect to see LatAm investors becoming increasingly attracted to the sector in MENA, and expanding on their e-commerce investments from the current low base.

Figure 1 – Regional Growth (% of GDP)[1]



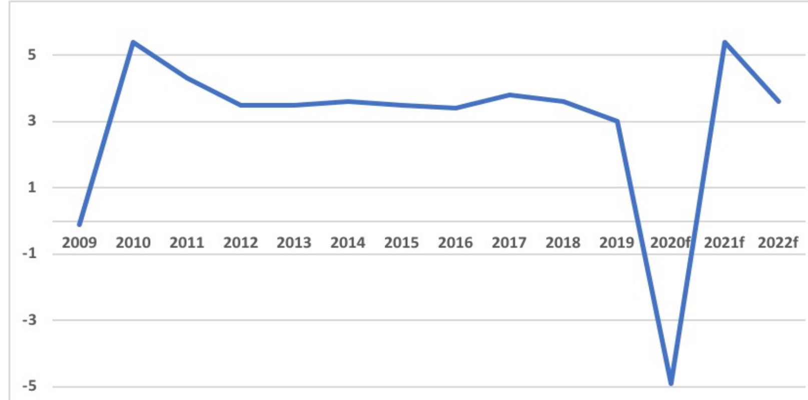
- **In our MENA update, we note that the region's economies remain vulnerable to the current global slowdown, for some more than others. Despite the optimism around the vaccine news, we outline risks to recovery to the major economies - Saudi Arabia, Iran, Egypt, the UAE and Morocco.**
  - As we enter 2021, we are cautiously optimistic. The new virus mutation underscores the precarious nature of the crisis, but promising news on the development and deployment of vaccines is expected to accelerate the timeline for containment. The MENA region will start to show its green shoots in 2021, but this will not be across the board. Gulf country's recovery is supported by their greater budgets for vaccines and a potential rebound in oil markets.
  - In our Country Pages, we highlight a mixed story of resilience in some countries, such as Egypt, and pockets of opportunity in the non-oil sector in the GCC.
  - Under Biden, the potential rapprochement with Iran could see US foreign policy move away from the overt Israel-centric goals of the Trump administration. This could result in a slow-down in Israel-MENA normalisation accords.

[1] Arabia Monitor; IMF.

Global Outlook: Uneven recovery in 2021

- **While vaccines are being rolled out much earlier than anticipated, they will not be a panacea for the economy. The uncertainty regarding the length of the pandemic, new variants and new surges of COVID-19, and renewed restrictions are weighing on the pace of recovery.**
  - ➢ The IMF forecasts global GDP for 2020 to register a 4.4% contraction, mildly less severe than the 4.9% forecast issued in June of 2020. In 2021, global growth is projected to register at 5.2%. Recovery will be long, uneven, and uncertain. EMs as well as tourism-dependent and commodities-based economies are in a particularly difficult position.
  - ➢ The subdued outlook for medium-term growth comes with a projected increase in the stock of sovereign debt. We are also already witnessing a new wave of downgrades, surpassing peaks during prior crises.
  - ➢ While the global economy will be undergoing post-pandemic reparation, monetary policy support will need to be kept in place to allow for effective fiscal and structural policy. Minimising crowding-out effects and preserving market confidence will require lower interest rates for longer.
  - ➢ In the US, the Fed's decision to maintain its monetary policy stance was likely motivated by a combination of vaccine rollout, a growth upgrade for next year and progress on the new fiscal stimulus package. The recent USD 900B fiscal package passed by the Congress and the USD 1.4T spending bill are expected to keep the government funded until late 2021.
    - Damage to the US job market places a drag on recovery, which now looks like a wide-bottomed U curve.
    - We expect the Biden administration to reduce trade tensions and pursue improved relations with Canada and Mexico. Meanwhile, US tariffs on China and sanctions on Iran will not suddenly reverse, but rhetoric is expected to be less heated.
  - ➢ The IMF estimates MENA real GDP to have declined by 5% in 2020 – compared with growth of 0.3% in 2019 – and forecasts a rebound of 3.2% for 2021.
    - We see most MENA economies undergoing a U-shaped, some wider-bottomed than others. The larger/more diversified economies of the region such as Egypt and parts of the GCC are set to recover more rapidly.
    - The various new tax measures, declining expatriate population and anaemic recovery in the tourism sector will hold back business sentiment.

Figure 1 – Global Real GDP Growth (%)[1]



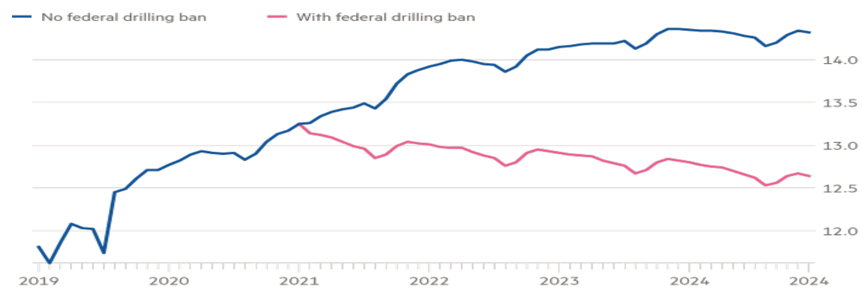
- **Adding to downside risk is the volatility in the oil markets. Until a reliable vaccine is distributed on a wide scale, oil demand will remain muted, at least through H1 of 2021.**
  - ➢ Partly because of the OPEC+ decision to increase crude oil production by 500k bpd each month starting in January, oil prices are expected to remain rangebound within USD 45pb-50pb during H1 of 2021. The gradual easing of production cuts was a difficult decision for the OPEC+ grouping, whose longevity is increasingly in question.
    - China is likely the only major country expected to see an increase in oil demand in 2021, with imports forecast to reach 12M.
  - ➢ While oil demand remains weak, oil-exporting countries are expected to benefit from slightly higher prices. This will help rein in the GCC's growing budget and current account deficits and, in turn, ease any strains on their dollar pegs for 2021.
    - Fiscal policy will likely remain tight across much of the region, but further aggressive austerity measures are unlikely.

[1] Arabia Monitor; IMF.

Biden and the Impact on Middle East Energy

- **The incoming US administration of President Joe Biden promises major changes for Middle East energy. Economic and post-pandemic recovery, though with the risk of Congressional gridlock. Negotiations with Iran, possibly leading to a relaxation of sanctions on its oil exports.**
  - ➢ Tougher regulation of domestic American production, hence higher oil and gas prices.
    - A greatly intensified environmental policy, pressuring fossil fuel demand and boosting renewables and other non-oil technologies.
    - A more measured approach to containing China and pushing back on perceived "unfair" trade policies in cooperation with European and Asian partners.
  - ➢ These impacts work on different timelines and often in opposing directions. Economic recovery and Iran negotiations will come first, boosting energy demand and world oil supply.
    - The extreme case of a federal drilling ban would lower US output by >1.5 Mb/d by 2025 (Figure 1).
    - Environmental policy, oil regulation and China trade are longer-term aims, which will constrain both US domestic fossil fuel output and demand and boost the global use of low-carbon energy.
    - Much of President elect Joe Biden's ability to set the long-term direction of energy and environmental policy depends on Democratic control of the Senate, to be decided in the two run-off elections in Georgia on 5th January 2021.
    - Conservative Democrat Joe Manchin, from the coal-mining state of West Virginia, would still hold the balance of power.
      - Biden has substantial room for impact using executive orders and regulatory action.
    - But the conservative-dominated Supreme Court could be a serious barrier to ambitious climate policies.
- **Iran negotiations are crucial for Middle East and oil market stability. Biden's options are between immediately rejoining the JCPOA before the Iranian presidential elections, with the likelihood of a hardliner or conservative; trying to use the leverage of Trump-era sanctions to extract concessions; or pursuing a "more-for-more" deal including talks on Iran's missiles and regional activities, in return for economic engagement.**
  - ➢ We expect a degree of relaxation of sanctions enforcement, allowing some Iranian oil exports to return to the market in the short-term. This will put pressure on OPEC+'s planned phased ramp-up of production in 2021.
    - However, talks will be lengthy and challenging, so a full return of Iranian exports is not likely until late 2021 at the earliest.
  - ➢ Key issues to watch out for: a possible dialling-down of regional tensions, but US partners will be wary of their interests being ignored in a deal with Iran.
    - Tensions within OPEC+ as Iranian exports return, partly offset by lower US output.
    - Threats to energy-intensive exports from carbon border tariffs in the EU and US.
    - Growing competitive challenges to gas in power generation from renewables; and to oil in light road vehicles, from EVs.
    - Possible new US-MENA opportunities and partnerships in solar power, advanced batteries and hydrogen.

Figure 1 – Impact of a US federal drilling ban[1]

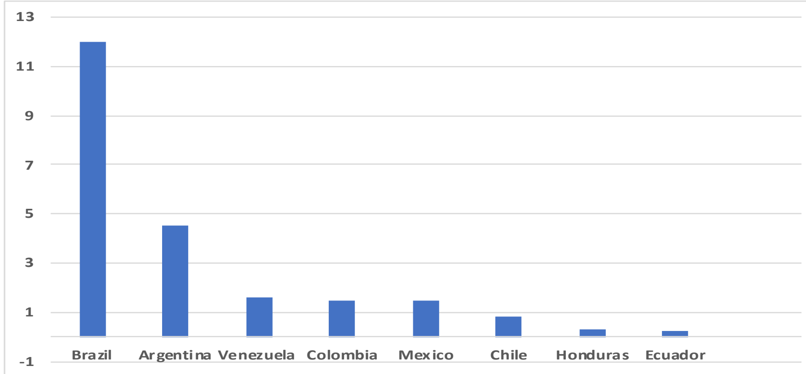


[1] S&P Global Platts; Financial Times

MENA-LatAm: Rooted in history

- **Historical and demographic precedents are strong foundations for the relationship between MENA and Latin American (LatAm) countries. Today, LatAm is home to the largest number of Arabs outside of the Middle East, estimated to be between 17 and 30 million people.**
  - Historically, LatAm countries have been vocal in their support of Palestine. To this day, 17 of the 19 countries in the region recognise Palestinian statehood, with the exceptions being Panama and Mexico.
    - For instance, in 1980, when Israel adopted a law proclaiming Jerusalem its indivisible capital, 11 Latin American states swiftly moved their embassies from Jerusalem to Tel Aviv.
    - More recently, when Israel's 2014 offensive in Gaza escalated, Brazil, Argentina, Peru, Ecuador and Chile recalled their ambassadors and heavily condemned the Israeli state's actions.
  - One state that has emerged as a particularly strong ally of Palestine is Chile, which is home to the largest Palestinian diaspora population outside of the Middle East, with an estimated 500,000 inhabitants of Palestinian descent.
    - In 2018, Chile became only the second country in the world to approve legislation calling for a boycott of Israeli settlements, to re-examine past agreements with Israel, and to provide guidelines to Chileans doing business in Israel to understand the country's historical context.
  - The deep ties between LatAm and the MENA region can also be attributed to the well-integrated Arab diaspora, who migrated to the continent from the late 19th century as a result of economic crises hitting the waning Ottoman empire.
    - Most settled in the continent as merchants, and some went on to build a lasting legacy. For instance, Carlos Slim, a Mexican billionaire of Lebanese origin, was the richest man in the world from 2010 to 2013.
    - In the political field Arab immigrants have also fared well, rising to positions of national leadership, notably in Argentina, Ecuador, Brazil and Colombia.
  - Despite the significant Arab diaspora in the region, remittances from LatAm to the MENA region have been on the decline in recent years, as most are second or third generation migrants. We expect further regression on the back of the pandemic.
    - An estimated 14 million people of Lebanese origins are settled in LatAm, most notably Brazil. This though is not reflected in remittances flows. Brazil is only the eleventh largest provider of remittances to Lebanon, with an estimated USD 106M yearly.
    - Figures are even lower in the case of Argentina and Mexico, which are also home to over 1 million citizens of Lebanese origin, with remittance outflows averaging USD 8.2M and USD 9.7M per annum, respectively.
    - With total remittances to MENA expected to fall by at least 20% on the back of the pandemic, we expect the downtrend in outflow from LatAm to cement, at least for the next two years.

Figure 1 - Number of Arab Immigrants (in millions)[1]



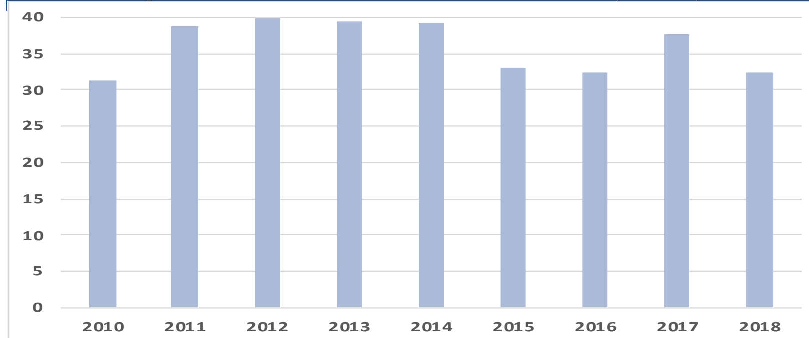
- **The ties between the two regions are closely linked to Latin support of the Palestinian cause, but the relationship is going through a period of redefinition with the recent rightward shift in LatAm governments.**
  - LatAm, like many regions in the world, is experiencing a shift to the right, which has stifled its support for Palestine and caused the tide to turn in favour of Israel.
    - For instance, Guatemala was the second country in the world to move its embassy to Jerusalem.
    - Additionally, Honduras is heavily dependent on Israel. Notably due to the signing of a 10-year USD 300M security cooperation agreement between the two nations covering cyber security, naval and air power.
  - Perhaps the strongest new ally of Israel in the region is Brazil. Since President Bolsonaro took office, he has played up his pro-Israel stance in an attempt to satisfy his base of evangelical Christian supporters, doing away with Brazil's support of Palestine and Iran.
    - We believe the shift in rhetoric can largely be explained by the influence the US exerts in the region, as countries in LatAm attempted to mirror President Donald Trump's overt Israeli-centric foreign policy.

[1] Arabia Monitor; World Bank.

MENA-LatAm Trade: Far from realising full potential

- **Trade with MENA continues to account for only a small share of total LatAm trade. In 2018, LatAm exports to MENA represented 2.7% (US 25.6B) of total LatAm exports, while imports from MENA made up 1.2% (USD 14.2B) of all LatAm imports. GCC countries accounted for over 40% of total LatAm bilateral trade with MENA, totalling nearly USD 16.3B in 2019.**
  - The MENA-LatAm trade reached USD 32.4B in 2018, a 14% YoY decrease from the year before. MENA trade accounted to just 1.7% of LatAm's USD 2.3T global trade volume in 2018. This is a slight increase of 0.5% YoY from 2017.
  - Trade figures show that LatAm exports to MENA have been slightly more stable than its imports from the region.
    - Since 2010, LatAm exports to MENA made up between 2.7% and 2.8% of total LatAm exports. But after peaking in 2017 at USD 27B, the total value of LatAm exports decreased to USD 25.6B in 2018.
    - LatAm imports from MENA dropped significantly following the 2013 peak (USD 18B) to USD 14B in 2018 – around 1.45% of LatAm imports
    - Key MENA trade partners are Saudi Arabia (USD 6.5B), the UAE (USD 5.8B) and Egypt (USD 3.7B), accounting for 16.3%, 14.5% and 9.5% of total LatAm bilateral trade with MENA in 2018, respectively.
  - Given that the GCC has become increasingly reliant on imports and is expanding its foreign policy, we expect LatAm exports to the GCC to grow at a faster pace than to other countries in MENA in the coming years.
    - Trade figures indicate that between 2006 and 2015, there was a 90% rise, with bilateral trade between the GCC and LatAm amounting to USD 15.7B in 2018, a 28% YoY increase from 2010.
    - Brazil (USD 6.5B), Argentina (USD 2B) and Mexico (USD 1.3B) are the top trading partners in the region for GCC markets, acquiring 76% of the total interregional trade.
      - Of the total trade with the GCC, the UAE accounted for 46% of LatAm exports and 26% of total MENA exports to LatAm in 2018.
  - Across LatAm, the UAE's largest trading partner is Brazil, followed by Mexico. The UAE's trade with Brazil increased by a factor of 10 between 2000 and 2015 to reach USD 2.5B. While trade with Mexico posted a 473% increase in bilateral flows over the last 10 years. Latest data shows bilateral trade with Mexico reached USD 1.4B in 2019.
  - Following Brazil's recovery from its recession in 2016, ties with the UAE – particularly Dubai – increased rapidly. In 2019, bilateral trade reached USD 2.8B, a 33.7% YoY growth from the year before. For Dubai, trade with Brazil stood at USD 1.6B and is forecast to grow further by 20% in the next few years.

Figure 1 - MENA-LatAm Bilateral Trade (USD,B)[1]



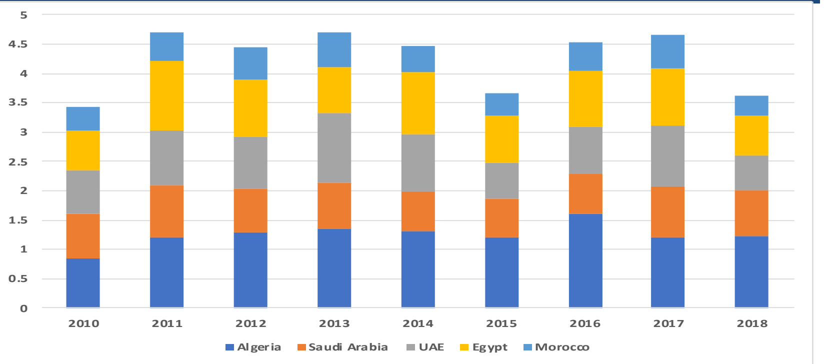
- **Low trade levels indicate that there are sustainable, tangible and untapped trade opportunities between the regions, particularly with the GCC.**
  - Since the launch of the Dubai Chamber of Commerce and Industry (DCCI) in Brazil in 2017, its first representative office in LatAm, trade and investment opportunities have been bolstered significantly.
    - As part of its USD 27M campaign to promote investments in LatAm, DCCI expanded its presence and has set up offices in Argentina and Panama.
  - While beef and poultry continue to make up the largest share of exports from Brazil, accounting for 45% of total imports, the basket has been diversifying recently to include coffee, footwear, aircraft spare parts, vehicles, machinery and medical goods.
    - In 2019, coffee imports to the UAE reached USD 26.2M, representing 6% of the UAE's total imports from Brazil. This is a 20% YoY increase on average over the past five years.
  - LatAm trade remains highly concentrated to a few countries across MENA, and the relationship is heavily one-sided. But growing diplomatic relations are expected to accelerate investment and expand the trade flows between the regions.
  - The Gulf is expected to remain the frontier of transregional ties as it expands its diversification plans with global alliances.

[1] Arabia Monitor; WITS Database.

MENA-LatAm: Agriculture is a centrepiece

- **Food trade is one of the key pillars of the relationship between LatAm and MENA. Brazil in particular is a central player in agribusiness, as the world's largest exporter of halal meat, with Saudi Arabia and the UAE the third and fourth largest buyers, respectively.**
  - ➢ The primary importers in the region are Saudi Arabia, the UAE and Egypt, with sugar making up 20% of sales, followed by poultry at 18%, beef at 16%, maize at 15%, soy at 10% and livestock at 6%.
  - ➢ With expanding collaboration between the two regions, we expect an acceleration in agriculture trade in the next quarters.
    - In 2019, agriculture exports from LatAm to the GCC accounted over 61% of USD 30B total exports to the region. This illustrates the sheer scale of the market.
  - ➢ In particular, the halal meat trade with Brazil is of significant importance to the region, as Arab countries are set to overtake the European Union (EU) as the top destination for Brazilian agribusiness products.
    - The EU currently imports USD 16B in agribusiness goods from Brazil, second only to China.
    - Currently, the MENA region imports beef valued at USD 13B annually from Brazil. The primary importers of Brazilian halal beef are Egypt, the UAE and Saudi Arabia.
    - Imports from MENA are not as strong, given MENA's food insecurity and high import bill. But, Moroccan exports are crucial to Brazilian agribusiness.
      - Last year, Brazil imported USD 650M of fertilizer from the kingdom, which boasts the highest phosphate reserves in the world.
- **There are challenges related to the absence of a standardised halal certification among Islamic economies and a lack of information about Brazil's halal producers, which have led to a decline in the last few years.**
  - ➢ For instance, Saudi Arabia imported USD 931.3M worth of halal poultry from Brazil in 2019, down from USD 1.1B in 2018.
    - This followed a bribery scandal in 2017 which saw Saudi Arabia and the UAE temporarily suspend beef and poultry exports from Brazil.
    - Both sides are taking several steps to enhance traceability and increase trust in the supply chain.
  - ➢ The Arab-Brazilian Chamber of Commerce, in collaboration with the Brazilian Minister of Agriculture, is currently working on a blockchain project which will provide a reference platform for Brazil's halal producers.

Figure 1 - LatAm Food Exports (USD,B)[1]



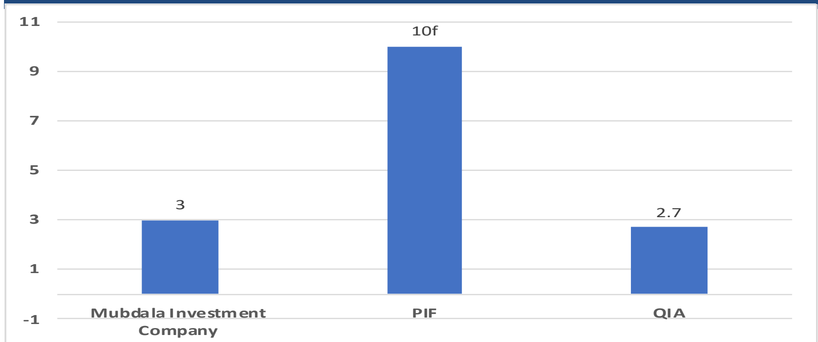
    - In addition, on 10 June, the Dubai Airport Free Zone Authority Halal Trade and Marketing Centre signed a MoU with the Arab-Brazilian Chamber of Commerce in order to increase trade and investment flows between the emirate and Brazil.
  - ➢ Another way Brazilian companies are increasing their legitimacy in the Arab world is by opening plants in the region, a practice which has been increasing in the last few years.
    - In 2019, Brazil's major food processing company BRF announced a USD 120M deal to build and operate a chicken processing plant in Saudi Arabia, adding to its existing plants in Abu Dhabi and Turkey.
  - ➢ These measures have not only helped to dispel distrust but have also led to continued growth in agriculture exports despite the challenging business environment.
    - In Brazil, agribusiness is the only sector to have posted continuous growth during the pandemic.
    - In April, agribusiness foreign sales had increased by 5.9% YoY to USD 31.4B, an all-time high. Looking at poultry exports alone, these increased by 5.1% YoY in May.
  - ➢ With MENA's limited agricultural infrastructure and increasing agricultural demand mainly due to its fast-growing population, we expect the upright trend to continue.

[1] Arabia Monitor; WITS Database.

MENA-LatAm: Accelerating GCC diversification

- **Seen as a lucrative emerging market, LatAm continues to attract strategic investments from GCC sovereign wealth funds (SWFs). Now, more than ever, to mitigate the risks of uncertainty, we expect to see an acceleration in sovereign investments to meet their 2030 Visions and expand on their international investment portfolios.**
  - Of the USD 5.5T assets held by global SWFs today, around 40%, or USD 2.2B, is estimated to come from the Gulf countries. This signals how GCC SWFs are becoming key players among investors globally.
    - Around 68% of the GCC SWFs' direct investments are in developed economies and are mostly invested in US and European securities. But in recent years, GCC SWFs have started increasing their focus on emerging markets, in line with other global funds, to capture higher yields. LatAm is growing as a common long-term investment destination across the GCC, with sovereign investments mostly focused in Brazil, Mexico and Argentina.
  - The UAE's Abu Dhabi Investment Authority (ADIA) – the largest SWF in the region, valued at USD 820B – invests between 15% and 25% of its assets in EMs. ADIA has been active in LatAm for several years, yielding returns from a portfolio that mainly targets real estate and infrastructure projects. Around 5% of ADIA's real estate investments in the region are allocated to Chile and Brazil.
    - Direct investments in LatAm made by ADIA comprised about 40% of its overall new private equity commitments last year, a 33% YoY increase from 2017.
    - Among ADIA's larger investments is a Chilean-based 75,000 sqm real estate project led by Territoria Apoquindo, in which the Authority owns 80% equity today since it first invested in 2016.
  - Mubadala Capital, the investment arm of Mubadala Investment Company, has been active in Brazil since 2011 and has built a diversified portfolio of private and public assets. Total investments to date have reached USD 3B. We expect this to continue to rise.
  - Similarly, Qatar Investment Authority (QIA), Doha's SWF, has had a solid presence in LatAm for over a decade. It first invested around USD 2.7B (5% stake) in the Brazilian arm of Santander bank in 2010 and then sold 2.5% of its 5% stake in 2017 for USD 737M.
    - While QIA's investment approach has been mostly focused on US and European markets in recent years, we expect to see its portfolio expanding further in LatAm in the coming years. This follows the Authority's announcement last year that it plans to ramp up opportunistic investments with higher returns in LatAm.

Figure 1 – GCC SWF's YTD Investments in Brazil (USD, B)[1]



- Investments by Saudi Arabia's SWF, the Public Investment Fund (PIF) in LatAm remain nuanced compared to its regional counterparts, but the composition of the fund has been recently changed, as its new portfolio strategy is focused on expanding its international presence.
  - In October 2019, the PIF announced USD 10B investment plan in Brazil. Following a meeting held between Crown Prince Mohammed bin Salman and President Jair Bolsonaro in Riyadh, the kingdom is set to be targeting Brazilian sanitation assets, infrastructure and the agricultural sector in the coming year.
  - This was among the first and largest investments by the Fund in LatAm as the kingdom sees increasing the geographical diversity of its investments as crucial and a gateway into rest of the region.[2]
  - As Brazil pushes to expand its railway network, the Fund is set to invest USD 3B in Brazil's Ferrogrão 600-mile railway in the north, one of the country's largest infrastructure projects.
  - Given Brazil is among the top providers of halal produce to Saudi Arabia, this will be strategic for the kingdom to also create a new corridor of agriculture exports.
- As the GCC countries start to recover from the pandemic downturn and with a lower-for-longer oil price environment, we expect to see an acceleration in their economic diversification policies.

[1] Arabia Monitor; SWF of respective country.
[2] Brazil is the sixth country to receive funds from the Fund, with an investment level on par with Russia and twice that of France.

MENA-LatAm: Renewables on the rise

- **LatAm is home to one of the most dynamic renewable energy markets globally, with more than 13% of its primary energy fuelled from renewables, twice the global average. The growing investments from the GCC in LatAm's clean energy markets is a key factor in the rise of its renewable energy sources.**
  - As renewables have become a compelling investment proposition, global investment into new renewable power has grown from less than USD 50B in 2004 to over USD 300B per year in recent years. In 2019, investments exceeded that of new fossil fuel power by a factor of three.
    - Global renewable investments remain below their potential, but in LatAm the demand is rapidly increasing relative to other regions. The value of investments in renewable energy in LatAm has surged over 65% to reach USD 17.2B in 2019 – exceeding the international average by 3%. It is a promising sector compared to USD 55.5B and USD 16.5B in the US and Japan, respectively.
    - In terms of investments, Brazil, Chile and Mexico are among the top global renewable energy markets in LatAm.
  - Meanwhile in MENA, given that renewable energy is key to the region's sustainable energy transition, it plans to expand its regional capacity in solar and wind by a factor of 18 by 2025. In recent years, it has been allocating sizable investments globally,with LatAm's green market among the most attractive.
    - The region is set to invest around USD 182B over the next five years to add 57 GW of renewable energy capacity before reaching the target of 80 GW by 2030.
    - Among the most notable leaders of regional renewables are Masdar (Abu Dhabi, state-owned), Acwa Power (Saudi Arabia, private with a 25% Public Investment Fund stake) and Amea Power (Abu Dhabi, private).
      - Other, smaller, rooftop solar firms, often UAE-based, include Yellow Door Energy, Enerwhere, Environmena and Kawar Energy.
  - In 2018, Abu Dhabi-based Mubadala Investment Company acquired the renewable energy division of Brazilian oil and natural gas company Queiroz Galvão for a value of USD 1.2B.

Figure 1 - 2020 Renewable Energy Capacity, by region[1]

	LatAm	MENA	Africa
Capacity (GW)	16	23	48
Global share (%)	1	1	2
Cbange (GW)	0.6	2.5	2
Growth (%)	4.1	12.6	4.3

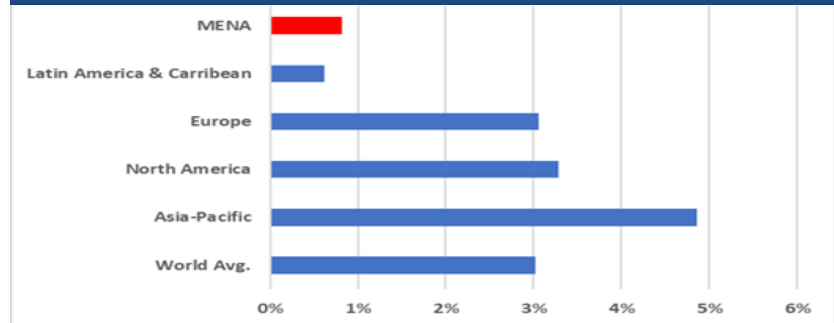
  - Abdul Latif Jameel Energy, a Saudi Arabia-based conglomerate – through its Fotowatio Renewable Ventures – is currently developing around 5 GW of renewable energy projects globally, with 30% focused on LatAm.
    - Projects include an operating 65 MW solar farm in Uruguay, a 198 MW wind farm and 80 MW solar farm in Chile. Both are currently under development.
  - Lower oil prices and COVID-19 will slow but not stop progress. As countries begin their economic recovery cycle, we expect to see a number of renewable firms from other countries in the Gulf take advantage of the growth potential in LatAm, possibly alone and/or in conjunction with US, Chinese and European companies.
  - The lower cost of renewables in LatAm and the government-led support, which are driving market growth, are also expected to encourage additional financing.

[1] *Arabia Monitor* ;IRENA.

MENA-LatAm: Untapped opportunities in digitisation

- **LatAm, like the rest of the world, has seen its nascent digital economic activity skyrocket on the back of the pandemic. Before COVID-19, LatAm was already tied with MENA, second only to China, as the world's fastest-growing online retail markets. We believe e-commerce transactions will increase between the two regions, given the unprecedented opportunities online retail offers in reaching a larger audience.**
  - ➢ In LatAm, the digital economy has been growing impressively in the last few years, but there is still room for progress.
    - For instance, as of September 2020, the B2C e-commerce penetration rate was a mere 5.5% in Mexico, and 4.5% in Brazil.
    - As technology penetration has been growing 65% YoY in the region, we expect e-commerce to gain stronger ground in the coming quarters.
    - Already, the most valuable company in LatAm, is not a state-owned mining or oil behemoth, but instead the Argentinian e-commerce platform MercadoLibre, a first in the region.
  - ➢ The pandemic accelerated the growing trend for digitalisation. For instance, Rappi, one of LatAm's leading players in the food delivery sector, had its sales grow by 113% during H1 of 2020.
    - By 2023, e-commerce sales in LatAm are expected to reach USD 116B, up 65% from 2019 levels.
    - Brazil leads LatAm in e-commerce, taking around 33% of the market, followed by Mexico at 29%.
    - Given that both countries are major trade partners with MENA countries, we believe the rapid e-commerce growth offers new opportunities for cooperation between the two regions.
- **LatAm companies are building on existing trade relations with Arab economies in order to expand their e-commerce reach in the MENA region.**
  - ➢ MENA countries, particularly those in the GCC, are an important target for LatAm countries seeking to sell goods and services online. This is because the MENA region too has seen e-commerce penetration grow exponentially.
    - The e-commerce market in the MENA region is forecast to grow at an annual rate of 20% over the next five years, outpacing global growth of 13%.

Figure 1 – E-commerce Turnover (% of GDP)[1]



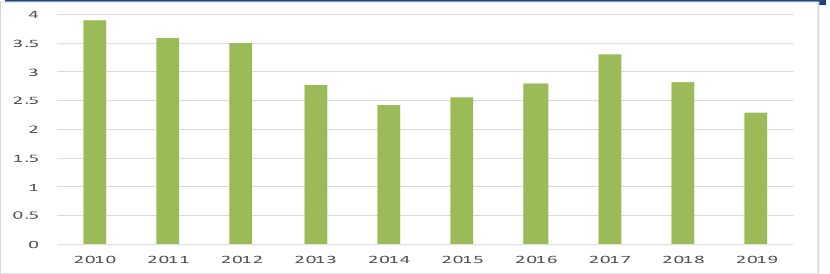
    - Before the pandemic, the e-commerce sector in MENA was already expanding. Revenue of USD 49B was forecast for 2021 before the outbreak. We believe this is now higher.
    - Saudi Arabia and the UAE are particularly important players in MENA. The value of e-commerce YTD reached USD 17B, USD 5.5B of which was in Saudi Arabia, and USD 4.5B in the UAE.
  - ➢ Given opportunities are increasing in the digital field in both LatAm and the MENA region, we expect the upward trend to continue, and to encourage knowledge exchange.
    - Brazilian digital bank, BS2, is closely focused on Brazilian-Middle Eastern trade. In 2019, its revenue reached USD 300M from export currency exchange -- 70% of which were between Brazil and MENA.
    - Since launching international accounts in January 2019, BS2 has gained 100K clients in MENA, from an initial target of 20K.
  - ➢ Metro Brazil, the country's first international e-commerce platform, is also leading the way in the LatAm expansion in MENA markets. Since 2017, the company has expanded its reach to Arab customers across the GCC, Jordan and Lebanon.

[1] Arabia Monitor; E-commerce Foundation.

Iran-LatAm: Old friends forge stronger bonds

- **While Iran's presence in LatAm has been established across the decades, the relationship crystalised in the 2000s, particularly with member countries of ALBA (the Bolivarian Alliance for the Peoples of Our America). This movement for diplomacy is set to continue; as the US disengages from LatAm, Iran will continue to build its networks in the region.**
  - After the formation of ALBA in 2004, Iran signed on as one of three observer members, deepening its ties with members of the bloc. While the bloc has not met since 2019, Iran continues to forge ahead with diplomacy with its member countries.
    - Iran's Foreign Minister, Mohammad Javad Zarif, recently concluded his LatAm tour visiting ALBA members Venezuela, Cuba and Bolivia.
    - A number of MoUs were signed, but the tour was largely a move to show solidarity in countering US influence in the region.
  - Iran has also looked to widen its sphere of influence beyond ALBA countries through its HispanTV network, the Islamic Republic's state-run broadcasting network televised across LatAm.
    - The channel provides global news coverage by both LatAm journalists and Spanish-speaking Iranian journalists.
    - The network is particularly popular in Venezuela, where Iran has concentrated investment.
  - Venezuela's recent election, which saw President Nicholas Maduro consolidate his power, showed the expected resilience of Iran-Venezuela ties.
    - The beginnings of bilateral relations date back to the 1960s when the two states were founding members of OPEC. Diplomatic ties have grown significantly since, notably following the US withdrawal from the JCPOA and the imposition of sanctions on both states.
    - This year alone, Iran has sent a number of tankers of fuel to Caracas, reportedly sending ten tankers of fuel this month alone.
    - Iran also launched the first supermarket chain, Megasis, in Venezuela over the summer. Although it is reportedly a private company, the sole spokesperson for the chain is Iranian embassy first secretary, Ahmad Farajpour, unequivocally linking the business to the Iranian state.
  - Even though rapprochement between the US and Iran is in the cards, this would unlikely hamper Iran's diplomacy with Venezuela, as Tehran's network in the country grows.

Figure 1 - Iran-LatAm Bilateral Trade (USD, B)[1]



- **After US sanctions were imposed on Iran in 2018, Iran-LatAm bilateral trade lost its momentum. However, with the potential for President-elect Joe Biden to reengage with Iran, transactions could increase again next year.**
  - Iran's top export markets are Brazil and Argentina, followed by Uruguay and Chile.
    - Brazilian-Iranian relations date back to the 2004 G-15 Summit when a MoU was signed to formalise their commercial ties – state-owned, Petrobras agreed to establish a partnership with the National Iranian Oil Company (NIOC) to investigate the Tousan area in Southern Iran.
    - By 2019, Brazilian exports to Iran were valued at USD 2.2B, a 10% YoY increase from the year before. Whereas exports from Iran to Brazil in 2019 decreased 29% YoY to reach USD 116M.
  - Uruguay and Chile forge ahead as the secondary economic partners of Iran in the region, with around USD 15M worth of bilateral trade jointly recorded in 2019.
    - In 2018, the NIOC reached an agreement with Chile regarding an amount of debt estimated to almost USD 28M. This led to a reconstitution of the trade volume between the two countries in 2019.
  - With LatAm increasingly becoming a strategic market for Iran, we expect that Iran will expand on its trade and commercial partners in the region. Trade volumes could potentially bolster further if US sanctions ease under the Biden administration.

[1] Arabia Monitor; WITS Database.

China-LatAm: Looking ahead, gains and connectivity

- **China continues to invest in various projects across LatAm as a part of its Belt and Road Initiative (BRI). Bilateral trade between China and LatAm grew 19% YoY to 307.4B USD in 2019, with China's FDI accounting for 7.5% of LatAm's total FDI in 2019. With new infrastructure and energy projects in the pipeline under the BRI, we expect bilateral relations to expand further.**
  - ➢ Bilateral trade between China and LatAm has increased more than twentyfold since the BRI was introduced to the region. Chinese imports from LatAm reached USD 165B in 2019, making up nearly 8% of China's total imports. China's exports to the region in 2019 amounted to USD 151B, or 6% of China's total exports.
    - China has become the top trading partner of Brazil, Chile, Peru, and Uruguay, and the second-largest trading partner for many other countries in the region.
      - In 2019, Chinese imports were primarily natural resources, including ores (32%), mineral fuels (19%), soybeans (17%), and copper (6%).
      - While Chinese exports in 2019 to LatAm mainly comprised electrical machinery (21%) and mechanical appliances (15%).
  - ➢ Bilateral trade in the region is expected to continue to grow as Chile's exports to China in July this year alone reached USD 2.2B, a 25% YoY increase compared with the same period last year.
    - While trade with Chile's other main trading partners, such as the US and Japan, fell by 15% and 14% respectively, YTD Chilean exports to China reached USD 14B, a 10% increase over the same period in 2019.
    - In particular, peaches and nectarines made up 75% of Chinese imports from Chile last year. This amounts to 21% of all Chilean peach and nectarine exports.
- **Despite the supply chain disruption on the back of the pandemic, COVID-19 has provided new pockets of opportunity for China and its BRI projects across LatAm, particularly in the health sector. The global network that the BRI is set to offer is expected to also deepen MENA-LatAm economic ties.**
  - ➢ With many LatAm countries receiving donations and purchasing medical supplies from China, the so-called "Health Silk Road" has gained momentum this year. In Argentina, it is estimated that the government has spent over USD 12.5M this year on medical sales from China.
    - During H1 of 2020, over 30 LatAm countries have received Chinese medical-related donations worth over USD 128M.

Figure 1 - LAtAm Exports to & Imports from China (USD, B)[1]

- ➢ In August, Venezuela was a granted a grace period by China until the end of 2020 to settle its USD 19B loans, in exchange to oil shipments.
  - Since the first oil-for-loan agreement with China in 2007, Venezuela has borrowed USD 50B in financial loans provided by the China Development Bank and the Bank of China.
- ➢ The pandemic has inevitability delayed some BRI projects globally, but it did not halt progress. The rapidly increasing infrastructure projects and new investment cooperation in LatAm under the BRI are expected, going forward, to strengthen MENA and LatAm ties further.
  - With businesses and political leaders in LatAm seeking to expand their economic partnerships, the rapidly increasing BRI-related infrastructure developments in MENA are expected to become attractive for LatAm investors.
  - This will also serve as a gateway to boost economic trade flows from current levels and pave new investments between MENA-LatAm.
- ➢ While there remain questions about whether the BRI can succeed at a large-scale, we believe it will serve as an anchor for the growing MENA-LatAm relations.

[1] Arabia Monitor; WITS Database.

Arabia Monitor spoke to Mr. Tamer Mansour, CEO and Secretary General of the Arab-Brazilian Chamber of Commerce

Since 1952, the Arab-Brazilian Chamber of Commerce has been connecting Brazilian and Arab companies to promote economic and cultural ties, as well as playing a pivotal role in developing the diplomatic relationship between the two regions. As a member of the General Union of Arab Chambers of Commerce, Industry and Agriculture, the Chamber has been the sole representative or Brazilian business interests in the region, and has offices in Dubai, Cairo and Riyadh.

Q: Brazil is already the top trading partner for GCC countries, with an estimated USD 9.1B in bilateral trade figures. Do you see this number growing in the future, particularly following President Bolsonaro's visit to Saudi Arabia, the UAE and Qatar in 2019 and his promise of greater ties with the region?

A: The trade relations between Brazil and the GCC countries has room to grow and strengthen. Regarding trade, I see great opportunities for transactions in products with higher added value such as agricultural machinery, cosmetics, footwear, and processed foodstuff. For Brazil, the GCC was the 5th main destination for exports and the 12th main supplier for imports in 2019. Brazilian exports to GCC reached an amount of USD 6.5B in 2019, which presented a 3.2% growth over the past decade. Although the growth is not that significant, the yearly amount that Brazil exported to these countries was always above USD 6B, which shows the stability among Brazil and these countries regarding trade relations. On the other hand, Brazilian imports from these countries were USD 3.%B in that same year, amount was 26.4% higher over the last 10 years – the yearly Brazilian imports from these countries were always above USD 2B, also showing the reliability that Brazil has with GCC partners. Main Brazilian imports from GCC are mainly petroleum and fertilizers, which together accounts for almost 90% share among all the products imported by Brazil from the GCC.

In 2020, from January to November, Brazilian exports to the GCC were of USD 5.2B, 13% lower than the same period of 2019, and imports were of USD 2.3B, 25% lower also when compared with the same period of 2019. The effects of the COVID-19 pandemic over the industry production, the container crisis, are some of the reasons for these number.

Brazilian partnership with these countries may also expand to exchange technology in agribusiness and renewable energy, as well as the joint development of products that meet the needs of both consumer markets. Relationships can be even more profound and lasting when we think about the possibilities that Brazil present to those countries as an investment destination, whether in the productive sector or in logistics infrastructure projects.

Q: The MENA region is increasingly looking toward diversifying its energy mix and expanding its renewable energy, following the footsteps of Latin America, which is one of the world's most dynamic energy markets globally. Have there been significant investments in the renewable energy field from the MENA region, specifically the GCC, towards Brazil?

A: Even though most of Brazil's electricity is from clean sources (with the large use of hydroelectric plants), there is still a lot of room for investments, given its geographic extension, population and expected growth in demand for productive uses. Arab investments are very small today. Until 2019, only Algeria invested in this segment in Brazil and, even so, only indirectly, as these are resources for the processing and flow of grains in the states of Pará and Mato Grosso, which also include a plant to produce ethanol.

Continued: Special Feature with the Arab-Brazilian Chamber of Commerce

Q: What has been the impact of COVID-19 on trade between Brazil and the MENA region? Have there been any opportunities/silver linings on the back of the pandemic?

A: Brazilian exports and imports were negatively affected. Both exports and imports fell in accumulated terms until November 2020, last period of available data. The former suffered negative impacts from the fall in its price and the decrease in its demand. The second, on the other hand, was even more acquired by Brazil, given the good performance that agricultural production has shown throughout 2020. Also, very concentrated in food and other commodities, exports from Brazil were negatively affected. Despite the drop, Brazilian food and beverage sales to that region still show a sustainable performance and we can expect their growth to return over the next few years with the control of the pandemic and the reduction of social distance measures. Even with the fall in the values exported and imported between Brazil and the Arabs, broader trends that permeate these countries bring great opportunities over the next few years. Whether in guaranteeing food security, supplying inputs for the chemical industry, exchanging technologies, as a destination of resources for productive or logistical investment, among many others, the potential is wide. Efforts needs to be done on both sides to facilitate and clear the paths of this commercial exchange, such as the formalization of trade and investment agreements.

Q: The double-whammy of the pandemic and lower oil prices has hit both Latin America and MENA but has also increased the fast digital transition in both regions. What common opportunities can you identify in this field and have you started noticing a shift in business relations?

A: The Arab countries and Brazil are among the nations most adept on the use of the internet and mobile communication devices. The income and population growth expected for the coming years, as well as the investments being made in both regions create conditions not only for the expansion of trade, but also for the celebration of partnerships for development set of products, academic and technological exchange.

With the full functioning of 5G technology, not only do trade and work performed by digital means tend to expand, but countries can use this technology to overcome structural problems that harm the economy and pose serious problems to people's lives, such as telemedicine, which may meet the needs of people living in remote regions or who have been affected by climatic or social events.

Q: As the world's biggest halal meat exporter, Brazil is crucial to food security in the Arab world. However, recent concerns over halal certifications have led to disruptions in halal meat and poultry trade in recent years. The Arab-Brazilian Chamber of Commerce is working on a blockchain project to provide a reference platform for MENA clients, can you tell us more about that?

A: In order to provide more security, accessibility, speed and ease for the trade chain, from production to consumption, the Arab-Brazilian Chamber of Commerce started the "Ellos" project, which is a platform for conducting structured business on blockchain technology. This platform will unite both Companies and Government Agencies on both ends: Brazilian and Arabs, expanding trade between these nations providing a secure place to conduct business with certification, business meetings, market information, among others. We position ourselves at the forefront of technology that facilitates and provides security in international trade, by promoting a more direct and secure contact between all the parties involved in these transactions, including the agents that act and regulate Halal trade.

Iran Market Monitor: Deal likely to be delayed

- **Democrat Joe Biden's presidential victory has brought with it the promise of an eventual return to the JCPOA deal, with both the US transition team and Iran seeing this as a priority. But a quick and easy return to the old deal is not on the table.**
  - The region is experiencing increased volatility from both President Donald Trump's "maximum pressure" strategy and the Mohsen Fakhrizadeh assassination.
  - Iran is eager to reenter the nuclear deal, at least while President Hassan Rouhani is still in office. But the 18 June presidential election is likely to see a hardliner take the reins.
  - With this as a backdrop, hardliners in the Iranian parliament are likely to try and block potential successes by the Rouhani administration, delaying the country's return to the negotiating table.
    - Much to the chagrin of Rouhani, hardliners passed legislation this month to maximise nuclear activity, going against the conditions agreed to by the Islamic Republic in the JCPOA.
    - Under the new bill, while the country will continue to adhere to the Comprehensive Safeguards Agreement, it would stop the implementation of the additional protocols granting international inspectors full access to nuclear sites.
  - The bill includes Khamenei's red lines, which, while they have largely guided the JCPOA negotiations, notably were not followed entirely. Additionally, while the bill potentially goes into effect in two months, the supreme leader also has the ability to reverse the bill.
  - Ultimately, Iran would continue to build leverage with such measures to try and get its adversaries to take a knee, but they are just as keen as ever to take a seat at the negotiating table.
    - Foreign Minister Mohammad Javad Zarif also announced that Iran would reverse course and adhere to full compliance.
  - The execution of Ruhollah Zam has added an additional obstacle for the west to overcome and stoked civil unrest in the country. Reformists are calling this a move by hardliners to make engagement with the west close to impossible – a charge which they deny.
    - While this certainly makes rapprochement with Iran more difficult and has largely been condemned by their European counterparts, negotiations are still on the cards as no country has abandoned the possibility of diplomacy just yet.

Table 1 - Iran Macroeconomic Indicators[1]

	2016/17	2017/18	2018/19	2019/20f	2020/21f
Real GDP Growth (%)	12.5	3.7	-5.4	-7.6	-6.0
Crude Oil Production (M Bpd)	3.6	3.8	3.5	2.1	1.9
CPI Inflation (%)	9.1	9.6	31.2	41.1	34.2
Fiscal Balance (% of GDP)	-2.3	-1.4	-2.1	-5.7	-9.9
C/A Balance (% of GDP)	4.0	3.8	2.1	-0.1	-4.1
Total Gov't. Gross Debt (% of GDP)	47.5	39.5	31.8	29.7	34.4
Total Gross Extrn'l Debt (% of GDP)	2.2	2.2	2.1	2.2	2.7
Gross Official Reserves (Mos. of Imports)	13.4	14.3	22.4	19.4	16.2
Nominal GDP (USD B)	404.4	430.7	443.9	491.0	439.2
Population (Millions)	80.2	81.1	82.0	83.2	83.9

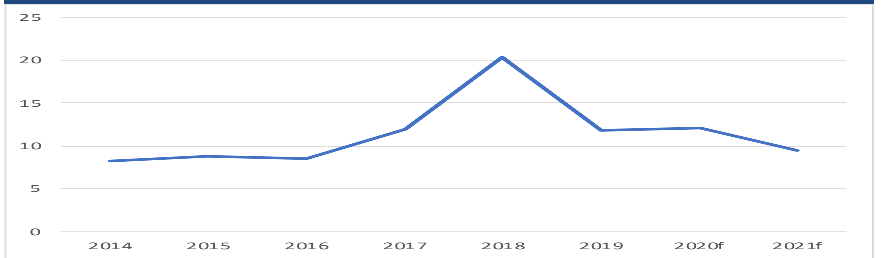
- **The economy, which continues to suffer because of sanctions and the pandemic, is expected to undergo a GDP contraction of 5% this year, with the IMF forecasting 3.2% growth in 2021. Much of this is dependent on how rapidly a new deal can be agreed so Iran can reintegrate into the global market.**
  - Crucially, a new deal would reintroduce Iranian oil, the country's primary export, to market.
    - Current production falls at close to 600k bpd with exports ranging from 100k to 600k bpd, primarily sold to China.
  - Iran is expected to ramp up production once a new deal is agreed but is not expected to reach maximum production output of 3.2M bpd overnight.
    - Iran can quickly inject approximately 2M bpd into the market.
    - OPEC would convene to ensure that the country does not flood the market.
  - Oil aside, a deal could be delayed until well into 2021, meaning that any impact could delayed until H2.

[1] Arabia Monitor; IMF.

Turkey Market Monitor: Erdoğan stays par for course

- **As tensions flare between Turkey and its traditional western allies, Ankara looks eastward to Russia and China. As long as President Recep Tayyip Erdoğan remains in power, Turkey's alliances with its eastern partners will only grow stronger.**
  - Since the 2016 coup, Erdoğan has consolidated his rule in the country by changing the country's political system from a parliamentary system to a presidential one, granting himself a sweeping authority.
    - Erdoğan purged the government, including civil servants and the military, of any potential dissidents and those who were members of the oppositionist Gulanist party, ensuring that his legacy would live on if he were to leave the office.
    - Traditionally, President Erdoğan would be serving his last term in office, however, given the constitutional changes made just after his first term, and the parliamentary loopholes, it is likely that his name will be on the ballot again in 2022.
  - Under Erdoğan's tenure, Turkish foreign policy has become unilateralist and militaristic as it attempts to exert a larger regional influence.
    - In the past few years, Turkey has advanced into Syria and Libya as well as asserting a claim to the Eastern Mediterranean pipeline via the navy.
    - With Greece and Turkey's overlapping claims to the Eastern Mediterranean waters, Ankara backed the government of Fayez al-Seraj with military support in exchange for al-Seraj's support in redrawing maritime borders.
  - Erdoğan is likely to continue this proactive offensive in the region, especially as the West retreats from MENA. Erdoğan's policy has long been known for being anti-western as well as anti-imperialist.
  - While planning to remain in NATO, Turkey would continue to look to partnerships with the east including with Russia and China.
- **The recent imposition of US and EU sanctions on Turkey are expected to undermine the gains from the Central Bank of the Republic of Turkey's (CBRT) recent shift to more orthodox economic policymaking, which is intended to boost the economy and restore investor confidence. Coupled with the depleting FX reserves and mounting inflation, the outlook will likely remain clouded for a while.**
  - To defend the Turkish lira, which has YTD depreciated over 25% per USD, CBRT has exhausted its foreign currency reserves at a faster pace than other EMs – selling over USD 44B in hard currency in 2020.

Turkey's Inflation Rate (%)[1]



  - With the pandemic-induced contraction, the economy is now in even worse shape. Net foreign currency reserves currently stand around USD 16B after declining by USD 5B earlier in December.
    - Following the recent adjustments to regulations, which require banks to deposit more hard currency, we expect FX buffers to rebound further. It will take time, however.
    - The recent appointment of CBRT's governor Naci Ağbal, who replaced Berat Al Bayrak, Erdoğan's son-in-law, is also expected to help. Ağbal vowed to rebuild the country's FX reserves and follow a tight monetary policy.
  - With the large currency intervention weakening the CBRT's policy credibility, we expect investor sentiment to remain low, at least until the country's inflation and the balance-of-payments crisis eases.
    - Annual inflation surged to 14% YoY in November from 11.8% the month before – Turkey's highest rate since August 2019, and well above the 10.5%. target for this year. We expect inflation will rise over 12% before it starts to ease next year as it follows a more strict inflation targeting policy.
    - To combat inflation and rebuild its credibility, the CBRT raised interest rates for a second consecutive month by 200 bps to 17%
  - The deficit is forecast to widen to 6.5% of GDP this year, from 3.8% in 2019, before narrowing to 4.5% in 2021. Given the lack of clarity over the unwinding of fiscal measures, we expect next year's deficit could be even higher.

[1] Arabia Monitor; CBRT.

Sino-MENA: 2020 Highlights in energy, vaccine and acquisitions

- **In summary of Sino-MENA relations in 2020, while we see delays and cancellations of projects and deals, there are 3 major highlights: energy, COVID vaccination collaboration and acquisitions in new frontier sectors. All of these highlights stem, directly or indirectly, from responses to COVID 19 pandemic.**
  - China's oil and gas buying spree continues as its economy recovers and suppliers cut prices.
    - Saudi Arabia was China's top supplier last year and has exported between 1.6M and 1.7M bpd from January to November 2020, in a tight race with Russia to retain its top supplier spot this year.
  - Iraq is currently in third place with about 1.2M bpd but is deepening relations with China, which could see exports grow further in the coming years.
    - China ZhenHua Oil, is poised to buy 130k bpd from Iraq over the next 5 years, with an upfront payment of 1-year, amounting to USD 2B. This will be the first time the cash-strapped Iraqi government takes pre-payment.
    - CNPC and CNOOC are reportedly considering acquiring Exxon Mobil's remaining 32.7% stake in Iraq's West Qurna 1 field at USD 500M. Chinese oil and service companies have been active in this field for years, and the acquisition would open up doors to further contracting opportunities. This underlines China's appetite in Iraq's oil sector amid political uncertainties and the pandemic, hence its more relaxed risk profile, in contrast to its Western counterparts.
    - Meanwhile, Chinese companies have also stepped in to provide services to the Al-Faw Grand Port project Basra, as the Iraqi Ministry of Transport is renegotiating with the original contractor (South Korea's Daewoo) which stopped operations due to disagreements.
- **Having conducted various joint vaccine trials with MENA countries, including the UAE, Bahrain, Saudi Arabia and Morocco and obtained emergency use locally, China is expanding its vaccine offering with its partners.**
  - Egypt has received the first batch of Chinese vaccine, containing 50k doses, from the UAE. Egypt has been preparing its production lines to start manufacturing Chinese vaccine and export to other MENA and African nations. This is highly feasible due to limited production capacity in China and Egypt's strategic geographic location and increased manufacturing capacity.
  - Morocco has also scheduled multiple deals throughout December to bring 10M doses of the vaccine from China.

Table 1 – Other notable highlights in 2020[1]

Sector	Details
Aquaculture	Saudi and Iranian direct shrimp exports to China; Potential investment from China's Evergreen Corp in Saudi shrimp farming
Financial	Nasdaq Dubai listings by China Construction Bank (2 bonds totalling USD 1.2B)
Telecoms	China Mobile in partnership with Omantel established its third point of presence (PoP) in the Middle East to add to its UAE and Qatar PoPs
Tech	Neolix is building autonomous vehicles; Terminus is building robots for Dubai Expo

- Since the start of the pandemic, Investcorp has actively added to its portfolio directly or through a joint fund it had set up companies in the 'winning sectors' including food and healthcare.
  - Through Asia Food Growth Fund 1 (jointly with China Resources and Fung Strategic Holdings Limited), Investcorp bought the majority stake in Singapore food manufactuerer Viz Branz which focuses on the Chinese and Southeast Asia's food markets.
  - It has invested in Kindstar Globalgene ("Kindstar"), the Chinese independent medical testing services group, Lu Daopei Medical Group (LDP) and WeDoctor, and has launched a new platform dedicated to investing in Chinese healthcare companies.
  - Since launching its Asia expansion strategy in 2017, Investcorp has committed more than USD 1B of capital toward investments in China and Southeast Asia alongside its clients and partners.

[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		Reserves (Mos. of	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Algeria	-5.5	3.2	3.5	3.8	-16.4	-16.4	-10.8	-16.6	1.9	3.5	10.1	5.2
Bahrain	-4.9	2.3	0.0	2.8	-13.1	-9.2	-8.0	-5.7	254.6	252.3	1.1	1.1
Iran	-5.0	3.2	30.5	30.0	-9.6	-6.8	-0.5	0.3	1.9	1.8	2.0	2.3
Iraq	-12.1	2.5	0.8	1.0	-17.5	-13.1	-12.6	-12.1	40.5	36.1	8.6	5.3
KSA	-5.4	3.1	3.6	3.7	-10.6	-6	-2.5	-1.6	29.9	95.9	26.2	23.1
Kuwait	-8.1	2.5	1.0	2.3	-8.5	-10.7	-6.8	-2.8	64.5	78.2	7.0	7.0
Libya	-66.7	76.0	22.3	15.1	-102.9	-43.2	-59.8	-22.4	...	...	...	...
Oman	-10.0	-0.5	1.0	2.4	-18.3	-16.9	14.6	-12.9	121.5	129.5	6.1	5.8
Qatar	-4.5	2.5	-2.2	1.8	3.0	3.3	-0.6	2.6	161.3	152.4	9.5	9.0
UAE	-6.6	1.3	-1.5	1.5	-9.9	-5.1	3.6	7.5	97.5	29.1	4.1	4.2
Yemen	-5.0	0.5	26.4	31.0	-9.2	-6.0	-6.5	-8.3	30.4	30.1	2.0	2.4
Average	-12.2	8.1	7.8	8.7	-19.4	-11.8	-8.2	-6.5	80.4	80.9	7.7	6.5
Average Ex-Yemen	-12.9	9.6	5.9	6.4	-20.4	-12.4	-8.3	-6.4	86.0	86.5	8.3	7.0

Table 2 – MENA Oil Importers[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of		Reserves (Mos. of	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Djibouti	-1.0	7.0	2.9	2.4	-1.5	-3.0	-3.2	-2.5	70.2	68.3	1.1	1.1
Egypt	3.5	2.8	5.5	7.5	-7.5	-8.2	-3.2	-4.2	34.5	37.2	7.8	7.3
Jordan	-5.0	3.4	-0.3	1.4	-9.1	-7.4	-6.8	-5.7	77.6	79.9	9.0	9.1
Lebanon	-25.0	...	85.5	...	-16.5	...	-16.3	...	482.8	...	11.3	...
Mauritania	- 3.2	2.0	3.9	4.5	-3.8	-0.8	-15.3	-17.3	64.2	63.4	3.3	3.4
Morocco	-7.0	4.9	0.2	0.8	-7.8	-6.0	-7.3	-5.2	37.7	38.5	5.3	5.1
Palestine	-12.0	8.2	-1.2	0.3	-15.4	-12.7	-11.1	-13.7	98.3	104.1	...	...
Somalia	-1.5	2.9	...	...	...	...	-12.8	-12.9	77.8	71.9	...	...
Sudan	-8.4	0.8	141.6	129.7	-6.9	-4.3	-12.7	-10.7	255.6	247.7	0.4	0.6
Syria	...	...	...	...	...	...	...	...	...	...	...	...
Tunisia	-7.0	4.0	5.8	5.3	-8.1	-5.1	-8.3	-8.7	98.3	104.1	4.1	3.6
Average Ex-Syria	-6.7	4.0	30.1	21.4	-9.4	-6.4	-10.4	-9.8	136.3	93.4	5.9	4.9

[1] Arabia Monitor; IMF.
* Subject to downward revision.

Algeria: The false image of a referendum

NR/NR

- **Following a bleak 0.8% GDP growth rate in 2019, the IMF projects the economy to contract by 5.5% this year before it recovers by 3.2% in 2021. The economic outlook, coupled with the ongoing political crisis, is likely to further fuel distrust towards the government, after much of the Algerian electorate chose to boycott the much-anticipated constitutional referendum.**
  - ➢ Algeria's economy was hit hard by the pandemic and the oil crisis, and the country's limited fiscal space is making it complicated to resolve its pre-pandemic issues.
    - With only 2% of non-hydrocarbon exports, Algeria is one of the most energy dependent countries in the world.
    - As a result of lower export revenues with fluctuating energy markets, Algeria's fiscal deficit is forecast to climb to 16.4% of GDP in 2020 and 2021, from 9.7% deficit in 2019.
  - ➢ The likelihood of a balance of payments crisis is increasing, as foreign exchange reserves are projected to reach around USD 44B this year and USD 22B in 2021, down by 27% from 2019 and significant drop from USD 200B in 2014.
  - ➢ To improve economic prospects, the government had little choice but to increase spending in its 2021 budget, following this year's cut.
    - Government spending has been reduced by 50% in 2020 and the import bill by 25%.
    - The state is planning a 10.4% increase in public spending compared with last year.
  - ➢ To follow up on promises to diversify the economy away from hydrocarbons and improve the business climate, the new budget allows foreign investors to have full ownership in projects involving non-strategic industries.
    - The administration of President Abdelmajid Tebboune has launched an initiative to support the private sector and diversify the economy – the aim is to reduce hydrocarbon dependency from 98% of export revenues to 80% by 2022.

Algeria Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	1.3	1.4	0.8	-5.5	3.2
Crude Oil Production (M bpd)	0.9	0.9	0.9	0.8	0.8
Oil GDP Growth (%)	-2.4	-6.4	-4.9	-9.6	1.7
Non-oil GDP Growth (%)	2.1	3.3	2.4	-4.5	3.4
CPI Inflation (%)	5.6	4.4	3.4	3.5	3.8
Fiscal Balance (% of GDP)	-8.6	-6.9	-9.7	-16.4	-16.4
C/A Balance (% of GDP)	-13.2	-9.6	-9.6	-10.8	-16.6
Total Gov't. Gross Debt (% of GDP)	27.1	38.1	46.3	57.2	66.6
Total Gross External Debt (% of GDP)	2.4	1.8	2.3	1.9	3.5
Gross Official Reserves (Mos. of Imports)	19.2	17.8	17.7	10.1	5.2
Nominal GDP (USD B)	167.4	173.8	169.0	147.3	155.3
Population (Millions)	41.3	42.2	43.1	44.2	45.0

    - There is still a long road ahead for Algeria to become an attractive investment destination, and we believe further steps must be taken in this direction for the country's business environment to improve.
    - Currently, Algeria ranks poorly in the Doing Business Index, at 157th out of 190 countries listed.

- **On the political front, matters do not look better. The referendum on the new constitution in November, which was set to prop up President Tebboune's legitimacy, was instead a resounding failure for his government.**
  - ➢ Despite the government claiming victory, as 67% of voters approved the constitutional amendments, voter turnout was a record low at 24%, the lowest ever seen since independence in 1962.
  - ➢ Hirak sympathisers were not convinced by the proposed amendments and opted to boycott the process instead.
  - ➢ The movement is aiming for a reshuffling of the political class as a whole and an end to the military's presence in Algerian politics, which we believe is unlikely to happen in the current political climate.

[1] Arabia Monitor; IMF.

Bahrain: Risks to recovery, but banking moves forward

B2/B+

- **After 2020 saw the first and deepest GDP contraction since 1994 – 4.9%, the economy is set to rebound by 3.2% in 2021. With the highest debt burden in the GCC, the kingdom's fiscal situation presents risks to a rapid recovery.**
  - ➢ The decline in oil revenue and subdued spending are expected to nearly double the budget deficit. This suggests that the fiscal consolidation target set in Bahrain's 2018 Fiscal Balance Programme (FBP) for a balanced budget by 2022 will unlikely be achieved.
    - The FY 2020/21 draft national budget forecasts deficits for the two years to reach 13% and 9.3% of GDP, respectively.
    - We estimate, however that the deficits this year and next will be closer to the IMF forecasts of 15.7% of GDP, an increase of 48% YoY. This would set the country on course to reach its highest deficit in modern history.
      - For context, fiscal consolidation under the FBP has helped the kingdom reduce its deficit from 6.3% of GDP in 2018 to 4.7% in 2019.
  - ➢ With its oil and gas reserves limited compared with its GCC counterparts, we expect Bahrain's government to intervene further next year and extend its stimulus packages. This implies a longer time horizon to the balance the budget.
    - This year, the government announced a USD 11.3B stimulus, equivalent to 35% of GDP, as well as slashing expenditures by 30%.
    - International debt issuance, together with the USD 10B in funds from the GCC package agreed in 2018 and the USD 450M drawn from the Future Generations Fund, are expected to be sufficient to cover this year's financing requirements.
  - ➢ Government debt to GDP is expected to reach over 130% next year. We believe public debt will remain high, staying above 100% at least until 2022.
    - The kingdom increased its debt ceiling this year by 15% to nearly USD 40B to help finance public spending.
    - External debt will also increase from 205.5% of GDP in 2019 to 230% this year, with interest payments on debt accounting for 20% of government revenue.
  - ➢ Despite the recent downgrades to credit ratings, Bahrain retained market access with a total of USD 5.5B from its 12-year bonds and 7-year sukuk issued this year, with yields ranging from 3.9% to 5.6%.

Bahrain Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	3.8	2.0	1.8	-3.6	3.2
Crude Oil Production (M bpd)	0.20	0.19	0.20	0.2	0.2
Oil GDP Growth (%)	-0.7	-1.3	2.2	0.0	1.2
Non-oil GDP Growth (%)	4.9	2.7	1.7	-6.0	2.5
CPI Inflation (%)	1.4	2.1	1.0	0.0	2.8
Fiscal Balance (% of GDP)	-14.2	-11.9	-10.6	-13.1	-9.2
C/A Balance (% of GDP)	-4.5	-6.5	-2.1	-8.0	-5.7
Total Gov't. Gross Debt (% of GDP)	88.2	95.0	103.3	128.3	130.6
Total Gross Extrn'l Debt (% of GDP)	181.2	187.8	226.4	254.6	252.3
Gross Official Reserves (Mos. of Imports)	1.2	1.0	2..0	1.1	1.1
Nominal GDP (USD B)	35.4	37.7	38.6	34.6	36.6
Population (Millions)	1.4	1.5	1.6	1.7	1.8

  - ➢ In August, Bahrain received its first downgrade in two years from Fitch Ratings to B+ (with a stable outlook).
- **While banks in Bahrain are operating in a challenging environment, with oil prices unlikely to get close to the pre-pandemic heights for some time, there remain positives in the non-oil sector.**
  - ➢ The banking sector continues to play a prominent role in Bahrain, with financial services contributing about 17% to GDP.
    - During Q3, the banking sector had total assets of USD 138B, with 34% attributed to Islamic banking. This is up from USD 130B in the same period a year earlier.
  - ➢ While banks reported the lowest net interest margin in Q3 at 2.53%, compared with the GCC average of 2.98%, overall lending grew by 3.9% YoY to reach USD 71.1B during the same period.
    - According to the Islamic Finance Development Indicator,[3] the kingdom is ranked the first in the GCC for its Islamic finance knowledge, and fifth globally. It is among only six countries in the world to have a complete set of Islamic finance regulations, with the highest Islamic finance assets to GDP globally, at USD 96B (125% of GDP).

[1] Arabia Monitor; IMF.
[2] Bahrain is now four levels below investment grade and on par with Egypt, Bolivia and Jamaica.
[3] The index provides an annual rank for each economy in the global Islamic finance industry, aggregating scores across five areas – quantitative development, knowledge, governance, corporate social responsibility, and awareness.

Djibouti: Betting on logistics to beat pandemic slump

NR/NR

- **Due to the impact of COVID-19, the IMF expects GDP in Djibouti to contract by 1% in 2020, following six years of 7% average growth. The economy is expected to register a strong recovery in 2021 by 7%. This will be mainly fuelled by the country's Vision 2035 diversification efforts.**
  - ➢ Djibouti has fared relatively better than other countries in the region during the pandemic, and its macroeconomic fundamentals remain sound.
    - Public debt remains broadly stable compared with the 91% average of oil importers in the region. Debt is forecast to reach 70% of GDP, a 6% YoY increase, with inflation kept low at 2.4%.
    - The IMF views Djibouti's debt as sustainable, but its weak healthcare infrastructure and high rates of poverty remain a threat. This will weigh heavily on recovery next year and will mean more demand for public finance.
      - Increased borrowing could add to the pressure to quickly return to pre-COVID levels of economic output.
  - ➢ The fiscal deficit, which averaged 4.3% over the last four years, is expected to reach 1.5% of GDP this year – a 87% YoY increase, followed by 3% of GDP in 2021.
  - ➢ The core objective of Djibouti's Vision 2035 is to triple the country's annual per capita income, which at the launch of the strategy was around USD 1,580. The goal is to raise it to nearly USD 4,740 by 2035.
    - To push forward his Vision, President Ismaïl Omar Guelleh (IOG) is preparing a visit to France in January, with the aim of increasing French investments in Djibouti.
    - China is the main investor in Djibouti, increasing the risk of a debt trap. Currently, Beijing holds more than 70% of Djibouti's GDP in debt. Moving forward, IOG is aiming to diversify investment sources to avoid over-relying on China.
- **To improve economic prospects, Djibouti is maximising its strategic position in maritime trade across the region.**

Djibouti Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021
Real GDP Growth (%)	5.4	8.4	7.5	-1.0	7.0
CPI Inflation (%)	0.6	0.1	3.3	2.9	2.4
Fiscal Balance (% of GDP)	-4.5	-2.8	-0.8	-1.5	-3.0
C/A Balance (% of GDP)	-4.8	14.2	13.0	-3.2	-2.5
Total Gov't. Gross Debt (% of GDP)	70.9	69.2	66.0	70.2	68.3
Total Gross Extrn'l Debt (% of GDP)	70.9	69.2	66.0	70.2	68.3
Gross Official Reserves (Mos. of Imports)	1.6	1.2	1.4	1.1	1.1
Nominal GDP (USD B)	2.8	3.0	3.3	3.4	3.7
Population (Millions)	0.9	0.9	0.9	0.9	0.9

- ➢ Located along the second busiest maritime shipping route globally, Djibouti has launched several projects to develop its ports, the latest of which was the regeneration project of the Historical Port of Djibouti into the East Africa International Special Business Zone.
  - The renovation, innovated by President Ismaïl Omar Guelleh, was launched on 8 October and will comprise six phases to turn the port, founded in 1888, into an international business district.
  - The first phase of the project, set to cost USD 513M, will be completed in five years and will include an exhibition centre and conference area, as well as a hotel.
- ➢ The maritime sector has been crucial to sustaining economic growth. This is expected to contribute to the recovery.
  - Around 25% of the government's revenues come from maritime shipping. Djibouti's service sector, which contributes 75% of GDP, depends almost entirely on ports.
  - In 2019, exports rose by 2.4%, and the country's fleet grew by 42%.

[1] Arabia Monitor; IMF.

Egypt: Economic pivot takes shape

B2/B

- **Egypt is on track to achieve the 2.8% GDP growth forecast by the IMF for FY 20/21, as it reaps the benefits of newly implemented reforms and continued IMF support.**
  - While the COVID-19 pandemic has not passed Egypt by, as it disrupted reforms, hurt tourism, and slowed private investment, the country has managed to stabilise its economy relatively well.
    - The Ministry of Finance (MoF) is targeting slightly higher growth at 3.3% for this fiscal year. Our view is in line with the IMF as growth in the coming quarters remains clouded, mainly due to the rising uncertainty around the pace of recovery of the tourism sector, which makes up 12% of GDP.
  - On the fiscal front, progress has been made in improving public finances and the budget deficit. The deficit narrowed to 7.8% of GDP in FY 19/20, down from 8.2% in FY 18/19.
    - The MoF's target is to reduce the deficit by 6.3% this fiscal year and achieve a primary surplus of 2% of GDP. We expect Egypt's fiscal position yet will remain under pressure.
    - In FY 20/21 preliminary budget, total spending is projected to reach USD 110B, nearly 9% YoY increase. This will be the largest budget in Egypt's history, as the country looks to continue to implement structural reforms and expand its export base.
  - Egypt's annual inflation accelerated to 5.7% in November from 4.5% in October following the Central Bank of Egypt's (CBE) interest rate cut in its November monthly meeting. It remains well below this year's official target of 9% (±3%).
    - The Central Bank of Egypt (CBE) held interest rates steady at their December meeting.[2]
    - As the CBE continues to support macroeconomic stability, the new inflation target has been set at 7% (±2%) up until 2022.
  - We still believe the CBE will continue its cautious monetary policy easing, but for now, it needs to allow the 400bps of cuts made this year to take full effect and to assess the impact on its financial portfolio flows.

Egypt Macroeconomic Indicators[3]

	2016/17	2017/18	2018/19	2019/20	2020/21f
Real GDP Growth (%)	4.1	5.3	5.6	3.5	2.8
CPI Inflation (%)	29.5	14.4	9.2	5.5	7.6
Fiscal Balance (% of GDP)	-10.6	-9.5	-7.4	-7.5	-8.2
C/A Balance (% of GDP)	-6.1	-2.4	-3.6	-3.2	-4.2
Total Gov't. Gross Debt (% of GDP)	103.2	92.7	83.8	86.6	90.6
Total Gross Extrn'l Debt (% of GDP)	41.3	37.4	34.1	34.5	37.2
Gross Official Reserves (Mos. of Imports)	5.0	6.7	7.5	7.8	7.3
Nominal GDP (USD B)	236.5	250.3	302.3	361.9	374.9
Population (Millions)	94.8	97.0	99.2	101.5	102.0

- **Egypt's privatisation announcement sees the country set to resume its reform, but there remain hurdles to achieving faster productivity growth in the private sector.**
  - Egypt is considering selling ownership in two of its army-held companies in Q1 of 2021, with three more in the pipeline. This is seen as a historic opening of the economy to much-sought-after private investments.
    - The two companies which are owned by the National Service Projects Organisation (NSPO), the economic arm of the military, are Wataniya Petroleum, a network of petrol stations across the country, and Safi, a national bottled-water producer.
    - The levels of stakes it intends to issue to the public has not been disclosed yet.
  - Following the return of foreign investor confidence in local market paper in H2 of 2020, demand continues for now, despite recent interest rate cuts, on the back of the stability of the reform program.
  - But for Egypt to start to solve at its yawning unemployment problem, GDP needs to grow at 8% per annum. This is mainly to create jobs for the 2.5 million people entering a workforce every year. The youth unemployment rate remains high at 24.7%, but this is an improvement from 32.6% in 2019. Youth joblessness is intertwined with security concerns, which have threatened political stability in recent years.

[1] Fiscal year beginning 1 July.
[2] The overnight lending rate was left steady at 9.25% from 9.75%, while the overnight deposit rate dropped to 8.25% from 8.75%.
[3] Arabia Monitor; IMF.

Iraq: China throws Baghdad a lifejacket

Caa1/B-

- **Real GDP this year is expected to contract by 11% compared with 4.4% growth in 2019 as the country continues to grapple with the pandemic and low oil prices. However, the economy should begin its recovery next year with the help of China and the IMF.**
  - The IMF reports that the lack of oil demand could widen the fiscal and external current account deficits by 20% and 16% of GDP, respectively.
    - In an effort to improve the widening deficit, the country has devalued its currency by a fifth with the hope that the country could stave off turning to its close-to-depleted reserves.
      - The Iraqi dinar (ID) which was valued at 1,182 ID per USD, is now valued at 1,450 ID per USD.
    - The steep devaluation could help Baghdad secure the long-awaited IMF aid indicating just how serious the country is about undergoing economic reforms.
    - If the IMF were to distribute aid to Iraq it would provide a desperately needed lifeline for the battered economy. However, reform would be difficult for the Iraqi public to stomach as many of the measures entail cuts to generous state programmes.
    - It is unclear whether the country would be able to implement the reforms to receive aid without jeopardizing government stability.
  - China has stepped in to provide a much-needed injection of capital, signalling the growing Sino-Iraq ties during the downturn.
    - A contract between China's ZhenHua Oil and Iraq's Ministry of Oil is set to receive parliamentary approval It includes China paying USD 2.5B upfront in exchange for 48M barrels of crude, providing a much-needed bailout to OPEC's second largest producer.
      - The contract, which includes 48M barrels of crude in the first year, also includes an additional 240M barrels over a five-year period.
      - This futures contract would mark the first deal of its kind for Iraq and is a testament to just how dire economic conditions are.
    - Chinese imports of Iraqi crude have grown in recent years hitting 1M bpd in 2019 and are set to exceed 1.2M bpd this year.
    - ZhenHua would be added to the list of Chinese companies with major stakes in Iraq's petroleum industry including China National Petroleum Corporation.

Iraq Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	-2.5	-0.6	3.3	-12.1	2.5
Crude Oil Production (M bpd)	4.5	4.4	4.6	4.0	4.0
Oil GDP Growth (%)	-3.5	-1.3	3.7	-13.0	0.9
Non-oil GDP Growth (%)	-0.6	0.8	5.7	-10.5	5.1
CPI Inflation (%)	0.1	0.4	-0.2	0.8	1.0
Fiscal Balance (% of GDP)	-1.6	7.9	0.9	-17.5	-13.1
C/A Balance (% of GDP)	1.8	6.9	1.1	-12.6	-12.0
Total Gov't. Gross Debt (% of GDP)	58.9	49.3	46.9	68.3	75.0
Total Gross Extrn'l Debt (% of GDP)	35.6	30.6	30.9	40.5	36.1
Gross Official Reserves (Mos. of Imports)	7.3	8.4	11.5	8.6	5.3
Nominal GDP (USD B)	195.4	224.1	227.2	178.1	196.3
Population (Millions)	38.2	38.4	39.3	39.5	41.2

- **In addition to trying to tackle economic reform, Iraq's Prime Minister Mustafa al-Kadhimi has had to wrestle with social discontent as well as violence from militias on the ground.**
  - Rogue groups continue to pose a security risk to the stability of the country as new groups continue to form – the latest of which, formed this month, being Rab'Allah.
  - The inability of the government to contain rogue groups fosters public distrust and could spell trouble for al-Kadhimi ahead of elections next year.
    - Failure to address these groups fuels instability in the country and encourages the formation of more extremist offshoots – and more attacks.
  - And while new groups are forming, the PMU is continuing to strike the Green Zoon this quarter as tensions between Iran, its adversaries in the region and in the west continue to grow.
    - The latest in the slew of attacks was in November when four rockets hit the fortified zone.
    - A deal with Iran, and US disengagement, could reduce attacks on the Green Zone – where American troops are based.
    - Iran's network including the PMU, will remain an ever-present force in the country.

[1] Arabia Monitor; IMF.

Jordan: Sluggish growth

B1/B+

- **Despite having implemented fairly rigorous lockdown measures compared with others in the region, Jordan is expected to see its GDP contract by 5% this year - the worst since 1993 - before it recovers by 3.4% in 2021. The lacklustre growth, together with weak fiscal performance, are expected to increase debt levels. The IMF programme, along with continued government reform efforts, will likely alleviate some pressure next year.**
  - ➢ The budget deficit, excluding foreign aid, is expected to reach USD 3.7B, or 5.7% of GDP, in 2020 – up from 1.3% of GDP the year before. The IMF is less optimistic, forecasting the deficit this year to reach 9.1% of GDP before it gradually declines to 7.4% of GDP in 2021.
    - Our view is in line with the IMF's, due to the tax relief measures since March this year, which are expected to drive a sharp decline in revenue.
    - This will be temporary as revenue will recover and will be underpinned by gradual fiscal consolidation as recovery takes hold and tax relief atrophies.
  - ➢ Awaiting parliamentary approval, the 2021 draft budget set government expenditure at USD 13.2B, a 6% increase from the current budget.
    - Current expenditure is expected to reach USD 12.3B, up by nearly 4% from 2019, with around USD 4.4B used to finance civil servant payrolls and public debt service.
      - The budget includes a provision with a maximum ceiling of USD 232M to finance COVID-19 support packages.
  - ➢ Public debt in 2020 will jump to nearly 88.4% of GDP, from 78% in 2019. This is higher than the credit median for 'BB' rated peers of 60% of GDP.
    - In July, the Ministry of Finance issued a 10-year USD 1.2B Eurobond and 5-year USD 500M Eurobond. Demand for the bonds was high -- 6.25 times oversubscribed -- and offered 5.85% and 4.95% coupon rates, respectively.
      - The high demand was mainly due to the relatively competitive rates when compared to Jordan's last Eurobond issuance in 2017, and recent issuances by peer countries of similar ratings.
  - ➢ The government is currently competing with the private sector as it relies heavily on domestic borrowing. It is expected to borrow USD 6.6B locally next year. With debt interest expected to reach USD 2.1B, around one-fifth of the public revenue, the government is under additional pressure to implement further austere measures
    - Around 60% of external debt is owed to multilateral and bilateral creditors.

Jordan Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	2.1	1.9	2.0	-5.0	3.4
CPI Inflation (%)	3.3	4.5	0.7	-0.3	1.4
Fiscal Balance (% of GDP)	-3.3	-4.4	-6.1	-9.1	-7.4
C/A Balance (% of GDP)	-10.8	-7.0	-2.3	-6.8	-5.7
Total Gov't. Gross Debt (% of GDP)	77.3	76.3	79.3	88l.4	88.8
Total Gross Extrn'l Debt (% of GDP)	69.6	69.0	68.5	77.6	79.9
Gross Official Reserves (Mos. of Imports)	8.1	7.9	8.9	9.0	9.1
Nominal GDP (USD B)	40.8	42.3	43.8	42.7	44.9
Population (Millions)	9.4	9.7	10.1	10.2	10.3

  - ➢ On 15 December, the IMF concluded its first review of the USD 1.3B four-year programme approved in March, affirming Jordan's efforts in addressing structural reforms and balance of payments needs. Additional effort is yet needed in strengthening tax administration and boosting private sector competitiveness.
    - The completion of the review will see a further USD 148M made available, bringing the total disbursements by the IMF in 2020 to USD 689B.
- **With a second lockdown brought in by the government in October, and with the tourism sector, which contributes to 15% of GDP, essentially shut, the pace of recovery will likely be slow.**
  - ➢ Jordan's current account deficit was expected to rise to 6.2% this year from 2.3% of GDP in 2019. The slump in tourism revenue, which accounts for 10% of GDP, will widen the deficit further to 6.8% of GDP.
  - ➢ Tourist arrivals will remain far off 2019 levels when visitors reached a six-year high of 5.4 million, an 8.9% YoY increase from the year before.
  - ➢ Tourism is a major employer, employing 55K people and a major source of FX. Damage to the sector presents a tail risk to growth, mainly through the rise in unemployment and balance of payments deficit.

[1] Arabia Monitor; IMF.

Kuwait: Fiscal squeeze looms

A1/AA-

- **The newly-formed National Assembly signals reform progress could be achieved as the majority of legislators in parliament have been replaced. But the new government will be up against immediate challenges as Kuwait faces a liquidity crisis.**
  - Tumultuous relations between the elected parliament and the government-appointed bloc have in the past led to several policy gridlocks. Given the opposition bloc made gains, winning over half of the 50 seats and up from 16 in the previous parliament, we can expect changes in policy.
    - The new parliament's opposition is diverse – including Islamists, nationalists, and leftists – but likely to unite around common economic frustrations.
    - The opposition groups are critical of government attempts to introduce fiscal reform, but we expect Emir Sheikh Nawaf Al-Ahmad Al Sabah, who succeeded his late half-brother Emir Sabah Al-Ahmad Al-Sabah in September, will seek to calm Kuwait's stormy politics and seek political detente.
      - The legislature has 31 new MPs, with 22 serving in parliament for the first time.
  - Returning Prime Minister Sheikh Sabah Al Khalid Al Sabah also appointed 15 new ministers in the latest cabinet reshuffle.
    - Among the key changes include: Khalifa Hamada, who was named Minister of Finance, replacing Barak Ali Barak Al-Sheetan. Before this, Hamada served as undersecretary of finance.
      - He is the fifth person to hold this post in under 7 years.
    - At the Ministry of Oil, Electricity and Water, Khaled al-Fadhel was replaced by Mohammed Al-Fares, a board member from the national oil company, Kuwait Petroleum Cooperation. He previously served as Minister of Education until December 2017.
    - Reshuffles at the top of the Ministry of Oil were expected, as in the past.
  - Given that passing economic reforms in an election year will be challenging, an urgent priority at the outset of 2021 will be for the government to work with parliament to agree a mechanism for securing bridge funding.
- **The economy is forecast to contract by 8.1% this year, followed by weak growth of 0.6% in 2021. Posting a deficit of USD 18B in FY 19/20 (17.5% of GDP), we believe that parliament will be left with no choice but to approve a much-delayed debt law early next year.**

Kuwait Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	-4.7	1.2	0.4	-8.1	0.6
Crude Oil production (M Bpd)	2.70	2.74	2.70	2.46	2.4
Oil GDP Growth (%)	-9.0	0.2	-1.4	-8.9	-1.3
Non-oil GDP Growth (%)	1.8	2.7	3.0	-2.5	2.4
CPI Inflation (%)	1.5	0.6	1.1	1.0	2.3
Fiscal Balance (% of GDP; After FGF Transfer)	6.3	9.0	5.4	-8.5	-10.7
C/A Balance (% of GDP)	8.0	14.5	9.4	-6.8	-2.8
Total Gov't. Gross Debt (% of GDP)	20.5	14.8	11.8	19.3	36.6
Total Gross Extrn'l Debt (% of GDP)	44.9	43.8	48.2	64.5	78.2
Gross Official Reserves (Mos. of Imports)	6.4	6.8	8.1	7.0	7.0
Nominal GDP (USD B)	120.7	140.7	135.4	108.7	116.1
Population (Millions)	4.1	4.1	4.2	4.3	5.0

- The FY 20/21 budget reveals a record budget deficit of USD 46B – a 155% YoY increase.[2] The deficit could turn out to be narrower if oil prices surprise on the upside, and if pandemic effects start to subside rapidly after the dissemination of vaccines.
- The deficit outcome also remains heavily contingent on whether the government and parliament reach an agreement over financing arrangements. The long-awaited debt law is an additional factor.
  - Passing the revised debt law has become a government priority and could provide extra flexibility, especially since public debt is estimated at 19.3% of GDP for 2020, the lowest among all MENA oil exporters.
- Expenditure in 2021 is set to reach USD 706B – a USD 3B cut compared with last year's budget. The cut in spending includes a reduction in capital spending of 29% to USD 6.5B – one of the largest cuts on record.
  - The government effort to curb spending is also reflected in the decline in employee compensation allocations by 2.5% at USD 24.5B.
- Contractionary fiscal policy will impact recovery in 2021. This will be felt as of H1 of 2021, while aggregate demand remains weak.
- Kuwait's policy making has always had its particularities, but the country has also adapted well to change in the past. This time the change in economic exigencies, combined with leadership change could well result in renewed impetus.

[1] Arabia Monitor; IMF.
[2] The Fiscal Year runs from April 1 to March 30.

Lebanon: Beyond resilience

C/SD

- **Lebanon's economy continues to go from bad to worse. It has been slowing down since 2011, battered by its complex politics. With limited progress on reforms and no government cabinet in sight, the outlook is dire.**
  - GDP is forecast to contract by at least 25% this year, following a 6.9% contraction in 2019. This marks the country's worst performance since the civil war ended 30 years ago.
    - Deteriorating economic conditions, subdued productivity, currency collapse and the port blast on August 4 have all left the economy in tatters.
    - Inflation surged to 85.5% from 2.9% last year. The latest increase is the highest rate seen since the aftermath of Lebanon's civil war.
      - Lebanon over the past 20 years has been able to maintain average annual inflation at around 3%.
  - Compounded by the Lebanese lira depreciation, losing over 80% of its value against the USD, imports have become more expensive and the fixed exchange rate is now under pressure. With 80% of food coming from abroad, around half of the population has been driven into poverty as people struggle to meet their basic needs.
    - Panic buying has come into full swing as the country's wheat subsidy is threatened, causing growing concerns for food shortages in the country.
  - While the government has been subsidising basic necessities, this will be halted in two months; Banque du Liban (BDL) has said foreign currency reserves are running too low to sustain the cost.
    - For now, the caretaker government has come to an agreement with the central bank to continue its support for bread and essential medicines while also supplying ration cards.
  - The end to the subsidies programme will likely push people back to the streets with ever greater momentum as the end date draws closer.
  - To pile on the pressure, Lebanon has failed to meet the requirements to receive desperately needed IMF aid. IMF Managing Director Kristalina Georgieva said limited reform efforts had been made in the past few months and that a "coherent fiscal framework" and "empowered government" are still necessary to disperse aid.
  - A forensic audit of BDL is also a precondition to receiving foreign support. However, auditor Alvarez & Marsal pulled out of the agreement after failing to receive the information needed to process the inspection.

Lebanon Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	0.9	-1.9	-6.5	-25.0	...
CPI Inflation (%)	4.5	4.6	2.9	18.7	...
Fiscal Balance (% of GDP)	-8.6	-11.3	-10.7	-16.5	...
C/A Balance (% of GDP)	-26.5	-26.7	-20.6	-12.6	...
Total Gov't. Gross Debt (% of GDP)	149.7	154.9	172.2	183.6	...
Total Gross Extrn'l Debt (% of GDP)	190.3	192.8	196.3	186.6	...
Gross Official Reserves Ex. Gold (Mos. of Imports)	14.6	14.4	20.5	16.0	...
Nominal GDP (USD B)	53.1	55.0	52.7	53.9	...
Population (Millions)	6.8	6.8	6.8	6.8	

  - The central bank is unlikely to disclose the information necessary to complete the audit, delaying the possibility of receiving assistance from international donors for the time being.
- **Forming a government and coming up with comprehensive reforms is likely to take longer than it has in the past as government infighting ramps up. With French President Emmanuel Macron's visit postponed indefinitely, government formation could be delayed well into Q1 of 2021.**
  - The returned Prime Minister-designate Saad al-Hariri and President Michel Aoun remain at an impasse on the makeup of the new cabinet.
    - Hariri has been tasked with the challenge of forming a government since October.
    - Aoun is insisting that his party, the Free Patriotic Movement, gets a third of the ministries – effectively granting his party veto-power – a call which Hariri rejects.
  - Government formation has lost momentum as the international community has largely stepped back since the creation of the Macron initiative in September, leaving the process to drift.
  - With an absence of pressure, reforms are likely to be delayed until Macron returns to Beirut. The wait could be weeks, perhaps longer.

[1] Arabia Monitor; IMF.

Libya: Permanent peace a prospect

NR/NR

- **The United Nations Support Mission for Libya's (UNSMIL) roadmap to elections continues to move ahead with the suggested reforms underway by the Central Bank of Libya (CBL), offering promise that the country could find its footing. The inability to clamp down on militias and foreign interference continues to threaten stability.**
  - An enduring ceasefire will require the rival parties – the UN-backed Government of National Accord (GNA) and the opposing Libyan National Army (LNA) – to arrive at a formal agreement on how to conduct an election and/or share power in the interim.
  - The informal ceasefire signed in October has managed to cool tensions and has provided a pathway for Libya to return to the international oil market. But it all remains volatile without a firmer pact.
    - Progress is underway but is slow moving. The Acting Special Envoy to the country, Stephanie Williams, recently announced the establishment of a legal committee who will be responsible for the arrangements necessary for the elections next year.
  - An additional promising and long-awaited decision has been made with the selection of a permanent UN special envoy to Libya focusing the attention of the international organisation on the conflict.
    - Nickolay Mladenov is set to fill the position in the new year – which has been without a permanent occupant since Ghassan Salame's resignation earlier in 2020.
  - The country still has many hurdles to overcome as oil revenues remain frozen and economic reforms are underway, adding volatility to the peace-making process.
    - The National Oil Corporation (NOC) is at a loggerheads with the CBL, piling on the pressure to call for decisive action to reach a clear agreement as to how oil revenues will be distributed across the country.
      - Oil output from the NOC has surpassed the OPEC+ target of just over 1M bpd following the resumption of production in October. However, renewed government instability could result in further decline or halts in production.
  - Nonetheless, the CBL has convened as a collective for the first time in five years to unify the country's exchange rate.
    - The new unified rate, which comes into effect in January 2021, is 4.48 LYD to the USD, although this rate is predicated on the ability to provide enough dollars to satisfy demand.

Libya Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	64.0	17.9	9.9	-66.7	76.0
Crude Oil Production (M Bpd)	0.8	1.0	1.1	0.3	0.6
Oil GDP Growth (%)*	107.6	19.4	13.7	-72.7	100.0
Non-oil GDP Growth (%)*	-21.5	9.9	-11.7	-22.6	14.7
CPI Inflation (%)	28.0	-1.2	4.6	22.3	15.1
Fiscal Balance (% of GDP)	-43.5	-0.2	2.2	-102.9	-43.2
C/A Balance (% of GDP)	8.0	1.8	-0.1	-12.0	-7.1
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	31.8
Population (Millions)	6.5	6.6	6.7	6.8	6.8

    - As it stands, the official rate is 1.3 LYD to 1 USD. The reform will do little if other economic reform measures are not met.
  - Internal reforms aside, foreign interests in Libya continue to stymie a resolution to the civil war; both the GNA and LNA receive foreign financial and military support.
    - Turkey continues to be the most visible foreign power involved in Libya, maintaining its role as the predominant supporter of the UN-backed GNA. Unlike Russia, which has used mercenaries to provide military support to the LNA, Turkish President Recep Tayyip Erdoğan has repeatedly sent Turkish troops to Libya to provide military assistance.
  - With the current UN-brokered ceasefire failing to address the role of foreign-funded mercenaries, little traction will be made in reducing foreign influence in Libya.
  - Next year's power-sharing government could very well look like a coalition government with the factions acting on behalf of their proxy powers.
  - A permanent end to volatility now relies more on Turkey and Russia than on Haftar and GNA Prime Minister Fayez al-Sarraj, as the proxy powers look to solidify any gains they have made and their influence in the country.

[1] Arabia Monitor; IMF.

Mauritania: Mining itself out of the pandemic slump

NR/NR

- **The IMF revised its forecast for GDP contraction in Mauritania down further from 2% to 3.2% as lockdown restrictions lasted longer than initially expected. Prior to the pandemic, the economy was projected to expand by 5.7%.**
  - ➢ Recovery is not expected to begin until H2 of 2021. The performance of the economy going forward will depend on how the country approaches its reforms in the sectors of agriculture, infrastructure and -- perhaps most importantly -- the extractive sector.
  - ➢ The pandemic-induced downturn led Mauritania to lose over 25% of its revenues, from USD 1.5B in 2019, notably with the suspension of fishing, which constitutes 40% of its exports.
    - In order to protect the most vulnerable, the government had to increase spending by 12% this year.
      - The budget deficit is set to reach 6% for 2020, from a 0.1% surplus last year.
    - President Ghazouani announced an ambitious USD 637M package to ensure an economic rebound, which amounts to 10% of GDP.
      - The program focuses on healthcare, infrastructure and independence in the agriculture sector.
      - More than 52K jobs are set to be created in thirty months through the reforms.
  - ➢ To avoid reversing the progress made pre-pandemic, the IMF has extended USD 52.2M to Mauritania to help the country weather the crisis.
    - Last year, IMF recommendations helped Mauritania's GDP improve by 5.9%.
    - The G20's 6-month debt moratorium, announced in mid-October, is expected to help the country save USD 90M in 2020.
  - ➢ The country is still in need of additional funding. The UN estimates a further USD 18M in aid is necessary to respond to the economic and humanitarian crisis. Only 9% of which has been obtained so far.

Mauritania Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	3.5	2.1	5.9	-3.2	2.0
CPI Inflation (%)	2.3	3.1	2.3	3.9	4.5
Fiscal Balance (% of GDP)	0.0	2.5	2.1	-3.8	-0.8
C/A Balance (% of GDP)	-10.0	-13.8	-10.6	-15.3	-17.3
Total Gov't. Gross Debt (% of GDP)	55.1	61.4	58.5	67.8	67.8
Total Gross Extrn'l Debt (% of GDP)	63.0	61.5	58.1	64.2	63.4
Gross Official Reserves (Mos. of Imports)	3.1	3.0	3.7	3.4	3.4
Nominal GDP (USD B)	6.8	7.0	7.6	7.4	7.6
Population (Millions)	4.3	4.4	4.5	4.6	4.6

- **Mining projects, which Mauritania was relying on for future growth, have been on hold. This is making prospects for recovery look uncertain despite the government's efforts.**
  - ➢ In 2019, Kosmos Energy made the largest offshore natural gas discovery of the year off the coast of Mauritania, with an estimated 50T c/f of gas.
    - Momentum has been lost on the back of the pandemic, which is set to affect overall recovery.
    - For instance, the commissioning of the first phase of the Grand Tortue Amheyim (GTA) gas field development project was initially planned for 2022, but this is now delayed delayed until 2023.
    - In addition, BP, which holds 62% stake in the development of the project, is aiming to sell USD 25B in assets over the next five years. This is raising questions over the future of its investments.
  - ➢ Mauritania was counting on its recent natural gas discoveries to improve its outlook, but the continued volatility in the fossil fuel sector is making this increasingly certain.

[1] Arabia Monitor; IMF.

Morocco: Embracing new ties

Ba1/BBB-

- **The IMF revised down its projection for GDP in Morocco, from -3.7% to -7% contraction. This would be the deepest downturn since 1995, when GDP declined by 5.4% contraction on the back of drought and fiscal belt-tightening. Despite the rollout of significant reforms, the Central Bank does not expect pre-pandemic levels of growth to return until 2023.**
  - ➢ The IMF projects the kingdom will begin recovery next year with 4.9% growth.
    - While this would be a notable improvement from 2020, we do not expect growth to offset the pandemic's devastating impact on the economy until at least 2023, in line with the Central Bank, Bank Al Maghrib's forecasts.
    - The downturn has been notably harsh on unemployment, which has climbed to its highest level since 2001; currently at 12.7%, up from 9.4% in 2019, with over 590K jobs lost.
    - Debt is set to increase to 76.9% of GDP, up 16% YoY from 2019. We expect this to even reach over 80% by 2022.
  - ➢ To improve the country's economic prospects, the Ministry of Finance is aiming to attract investments and avoid mistakes which led to COVID-19's ravaging of the economy.
    - The government has set spending next year at USD 53B, up nearly 4% from 2020. Spending on healthcare was boosted to 6.9%, an 18% YoY increase from the 2020 budget.
    - The 2021 budget also set USD 1.5B to extending basic healthcare coverage to every Moroccan citizen, as only 60% benefited from this in 2019.
  - ➢ The budget increases focus on investments, reflecting the highest investment envelope in the country's history, which is set at USD 25.6B, a 26% increase from 2020.
  - ➢ The government has also successfully issued a USD 3B bond on the debt market, which received an order book grossing USD 13B.

Morocco Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	4.2	3.0	2.2	-7.0	4.9
CPI Inflation (%)	0.8	1.9	1.2	0.7	0.8
Fiscal Balance (% of GDP)	-3.5	-3.7	-4.1	-7.8	-6.0
C/A Balance (% of GDP)	-3.4	-5.3	-4.1	-7.3	-5.2
Total Gov't. Gross Debt (% of GDP)	65.1	65.3	65.8	76.9	76.6
Total Gross Extrn'l Debt (% of GDP)	33.7	32.7	33.0	35.1	38.5
Gross Official Reserves (Mos. of Imports)	5.7	5.3	6.4	4.1	5.1
Nominal GDP (USD B)	109.7	117.9	118.6	112.2	123.8
Population (Millions)	35.7	36.0	36.4	36.9	36.9

- **The normalisation deal with Israel, which came as a surprise to many, could bring some of the economic gains the country needs, in addition to the political gains the government is already reaping.**
  - ➢ The main benefit of the deal was US recognition of Moroccan sovereignty over the Western Sahara, the kingdom's main foreign policy aim of the past three decades.
    - US support is even more crucial now, with renewed hostilities between Morocco and the Polisario Front for the first time since 1991 when the two sides agreed a ceasefire.
  - ➢ In addition to the political victory, the US is set to invest USD 3B in the area, a much-needed economic boost.
  - ➢ On the Israeli side, a delegation, including Jared Kushner, travelled to Morocco in order to explore investment opportunities.
    - We expect both countries to build on existing relations to boost trade.
  - ➢ Morocco has had warm relations with Israel under the surface for decades. An estimated 50,000 Israeli tourists visited Morocco in 2019, and trade between the two countries already amounts to USD 30M.

[1] Arabia Monitor; IMF.

Oman: Reforms to reap rewards

Ba3/BB-

- **Oman is the only country in the region that is forecast by the IMF to remain in negative GDP growth territory in 2021, at a 0.5% contraction. Albeit, the rollout of VAT and efforts by the sultanate to diversity its sources of finance are expected to improve its fiscal balance.**
  - ➢ The IMF has revised its forecast of 2.7% contraction this year to a 10% contraction, a sharp decline from 0.8% contraction in 2019. This would be the worst GDP hit since 2003. With Oman already in a weaker fiscal position than its neighbours, the speed of recovery will remain slow.
  - ➢ Despite some fiscal adjustments implemented this year, such as the 10% cut in government spending in April and the additional 5% cut in May, intended to offset some revenue loss, the fiscal deficit is projected to remain relatively high over the next three years.
    - The budget deficit this year is forecast at 18.3% of GDP, followed by a minor improvement to 16.8% in 2021. This compares with 7.6% in 2019.
    - The current account deficit is projected to elevate sharply for this year and next, by 14.6% and 12.9% of GDP, respectively.
    - Oil revenues, which account for 70% of government income, should improve as LNG export revenue and oil prices are expected to firm up gradually next year.
  - ➢ Prospects for substantial fiscal reform under Sultan Haitham Bin Tariq Al-Said are expected to help. Non-oil revenue should benefit from a boost in diversification efforts and the VAT in April 2021.
    - Oman is set to introduce a 5% VAT, making it the fourth GCC country to introduce the tax. It is expected to generate around USD 780M, around 1% of GDP. It also plans to tax wealthy individuals starting in 2022.
    - Revenue from income tax will be used to fund social programmes. It remains unclear whether both citizens and expatriates will be subject to the tax.
  - ➢ The security and social stability concerns that constrained fiscal consolidation in the past, remain, and these could continue to hinder accelerated reform in 2021.

Oman Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	0.3	1.8	-0.8	-10.0	-0.5
Crude Oil Production (M Bpd)	1.0	1.0	1.0	0.8	0.8
Oil GDP Growth (%)	-2.1	4.7	1.0	-12.2	-3.5
Non-Oil GDP Growth (%)	2.4	-0.7	0.0	-8.0	2.0
CPI Inflation (%)	1.6	0.9	0.1	1.0	3.4
Fiscal Balance (% of GDP)	-14.0	-7.9	-7.0	-18.3	-16.8
C/A Balance (% of GDP)	-15.6	-5.5	-5.2	-14.6	-12.9
Total Gov't. Gross Debt (% of GDP)	46.4	53.5	62.6	81.5	88.7
Total Gross Extrn'l Debt (% of GDP)	78.6	80.6	91.7	121.5	129.5
Gross Official Reserves (Mos. of Imports)	5.5	6.3	7.1	6.1	5.8
Nominal GDP (USD B)	70.6	79.3	76.9	62.3	65.3
Population (Millions)	4.6	4.8	4.9	4.9	5.1

  - ➢ Nevertheless, we expect austerity measures to be rolled out gradually but steadily. Growth-enhancing capital expenditure projects will also be key to the rebound, especially in the tourism and manufacturing sectors, which have been identified as longer-term drivers of growth and revenue diversification.
- **To diversify its sources of finance while avoiding increasing its overall debt further, Oman's new energy company illustrates how the sultanate is thinking out of the box.**
  - ➢ Oman established Energy Development Oman, a new government-owned energy company, as it seeks to use its largest oil-producing area, Block 6, as collateral to tap international markets. It plans to issue USD 3B worth of bonds in H1 of 2020.
  - ➢ In November, Oman transferred 60% of its stake in Block 6 from Petroleum Development Oman to the new entity.
    - Block 6 is one of the largest crude deposits in the region, with a production capacity of 650k bpd and holds more than 75% of the sultanate's total oil reserves.
    - Royal Dutch Shell Plc holds 34% of the block, while Total SE owns 4% and Oman-Based Partex Oil & Gas 2%.

[1] Arabia Monitor; IMF.

Palestine: Potholes on the road to unity

NR/NR

- **After the Abraham Accords facilitated talks that set out the potential for reconciliation of the Palestinian territories, momentum slowed as political infighting resumed in Palestine. The likelihood of reconciliation progressing while Palestinian President Mahmoud Abbas is at the reins is slim.**
  - Hope for elections has been quashed for now, although both Hamas and Fatah have agreed to return to the negotiating table this month.
    - Elections – parliamentary or presidential – have not occurred in Palestine for over a decade, after Abbas, leader of Fatah, refused to concede to Hamas.
      - Abbas has been President since the 2006 elections and, since then, Palestine has been split between the Fatah-controlled West Bank and Hamas-controlled Gaza Strip.
  - Abbas, looking to maintain control, is likely to delay elections for as long as possible in an effort to avoid losing to Hamas.
    - In November, he began coordination with Israel again after limited exchanges since May.
    - This comes at a cost, throwing the party and the PLO – who have been largely absent from Abbas's decision-making, including the recent resumption of Israeli Palestinian cooperation – into jeopardy.
      - Hanan Ashrawi, a senior PLO official, resigned after she pointed to the necessity of reform in the organisation and government at-large.
      - It is becoming clear that Abbas is acting largely on his own.
  - Iran and Israel would also rather maintain the status quo. Iran could leverage their influence over a splintered Palestine via Hamas, and Israel prefers a fractured and divided Palestine to a unified one.

- **Even though Palestine remains divided, Abbas's re-engagement with Israel has bolstered the economy with a USD 1.1 b cash transfer from Israel, which had been halted when tensions escalated following settlement annexation and the normalisation accords.**
  - Prior to the pandemic, Palestine's economy was already projected to slip into recession in both 2020 and 2021. Due to pandemic-induced lockdowns, Palestine's GDP growth is forecast to contract between 7.6% to 11% in 2020.
    - The refusal to accept tax revenues for six months was an additional blow to the already slipping economy which relies on these revenues for over half of the state budget.

Palestine Macroeconomic Indicators[2]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	1.4	1.2	0.9	-12.0	8.2
CPI Inflation (%)	0.2	-0.2	1.6	-1.2	0.3
Fiscal Balance (Ex-support, % of GDP)	37.5	39.5	…	…	
Recurrent Budget Support (% of GDP)	-8.1	-7.3	-7.5	-7.9	
C/A Balance (% of GDP)	-13.2	-13.1	-10.8	-11.1	-13.7
Nominal GDP (USD B)	16.1	16.3	17.1	14.7	16.0
Population (Millions)	4.7	4.9	5.0	5.1	5.2

    - The transfers, which typically come to USD 190K per month, covered the salaries of 130K state employees, meaning that state employees have forgone wages or only received partial salaries this month.
  - Palestinian workers in Israel and Israeli settlements are a major source of income for the Palestinian economy and are among the worst hit by the pandemic.
    - In 2019, 133K Palestinians workers in Israel generated around 15% of the country's GDP, amounting to USD 2.6B.
      - Due to of the pandemic, only 25K Palestinians are still working in Israel.
    - This is set to decrease the gross national income of the country by around 25% for 2020.
  - Engagement with Israel, even though it is much to the chagrin of some Palestinian politicians, provides much-needed capital flows to the country. The economy can be boosted even further as Abbas signals the end of the US boycott.
    - Biden has said that he would restore funding to the West Bank and Gaza that has been cut during the Trump years.
    - While promising, aid from the US would not be felt on the ground until well into 2021 as the Biden administration addresses domestic issues and a multitude of foreign policy obstacles before turning to Palestine.

[1] Fiscal year beginning 1 July.
[2] Arabia Monitor; IMF.

Qatar: Mending a diplomatic spat

Aa3/AA-

- **GDP is set to decline by 4.3% this year, but it should pick up in 2021 with ~2.5% growth. The World Cup 2022 will be the focal point around which the economic recovery is expected to take place.**
  - Qatar's growth prospects have remained bright relative to its GCC counterparts. Despite the impact of various headwinds -- lower global energy demand, the pandemic, the boycott by neighbours -- Qatar is on track for another year of fiscal surplus, albeit with government projections less optimistic than IMF forecasts.
    - The Ministry of Finance expects a 6% (USD 9.5B) budget deficit next year, from a 0.5% surplus in 2020. this year. This will be the largest deficit in four years,, before it stabilises in 2022 with a 0.1% surplus. This is mainly due to expected in losses in oil (27.6%) and non-oil (10.5%) revenue.
    - We believe that the fiscal result in 2021 chiefly depends on liquefied natural gas production (LNG), of which the country is the world's largest exporter.
  - Expenditure cuts will also help. The 2021 budget has set spending at USD 54B, a 7.5% YoY cut.
    - Cuts will take place mainly in the allocation of public sector salaries and wages (USD 16B, 1.9% YoY decrease) and spending on development projects, particularly in education and transportation sectors (USD 19.8B, nearly 20% YoY decrease).
  - While debt is rising to reach over 68% of GDP this year, Qatar's foreign assets remain ample. We expect the government to continue to tap both local and international debt markets to help finance the deficit.
    - Qatar raised USD 10B in a heavily oversubscribed Eurobond sale in April. While we expect further debt issuance next year, the country's large foreign assets, USD 40B worth of official reserves at the central bank and around USD 300 billion in its sovereign wealth fund, will provide Doha with solid fiscal and external sector buffers next year.
  - Healthcare is a key sector in the country's 2021 budget, comprising nearly 9% of the total budget. Spending next year is set at USD 4.5B and is projected to grow by 2.2% a year until 2022.
    - Already, Qatar leads the region in health expenditure per capita, with around USD 1.7K per capita. This also is expected to rise further next year.

Qatar Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	-1.5	1.2	0.8	-4.5	2.5
Crude Oil Production (Mb/d)	0.6	0.6	0.6	0.6	0.6
Oil GDP Growth (%)	-2.3	-0.3	-1.8	-2.5	1.8
Non-oil GDP Growth (%)	-1.0	2.2	2.4	-5.7	3.0
CPI Inflation (%)	0.5	0.2	-0.6	-2.2	1.8
Fiscal Balance (% of GDP)	-2.5	5.9	4.9	3.0	3.3
C/A Balance (% of GDP)	4.0	9.1	2.4	-0.6	2.6
Total Gov't. Gross Debt (% of GDP)	51.6	46.5	56.2	68.1	60.6
Total Gross Extrn'l Debt (% of GDP)	103.2	106.1	131.4	161.3	152.4
Gross Official Reserves (Mos. of Imports)	2.7	5.5	8.9	9.5	9.0
Nominal GDP (USD B)	161.1	183.3	175.8	147.8	155.6
Population (Millions)	2.6	2.7	2.7	2.7	2.8

    - The 2021 budget allocated USD 4.5B to development projects in the healthcare sector, notably the expansion of the Hamad Medical Corporation facilities.
  - Qatar is also working on improving its labour market productivity. This is expected to accelerate recovery in the non-private sector.
    - The government increased the monthly minimum wage by 25% to reach USD 275, and is working on the eliminating the Kafala system, which gives sponsors control over their employees.
- While Qatar is moving closer to a resolution to the Quartet spat, there remain complications ahead.
  - While Saudi Arabia and Qatar have been receptive to rapprochement, the reluctance of Abu Dhabi to get on board as well as Doha's unwillingness to sever ties with Tehran continue to delay a resolution.
  - While the Trump administration has done a lot of the heavy lifting, it is possible that Biden will reap the fruit of its efforts.
  - However, while Biden would continue to encourage resolving the crisis, he is unlikely to exert the same time and energy that Trump has put into the dispute.
    - Biden is likely to focus on a nuclear deal with Iran before turning squarely to the spat.

[1] Arabia Monitor; IMF.

Saudi Arabia: The budget of resistance

A1/A-

- **Saudi Arabia's recently released 2021 budget reveals that the latest rally in oil markets has not altered plans to keep fiscal consolidation as its chosen policy for the coming quarters.**
  - ➢ The IMF revised up its forecast for Saudi Arabia to a 5.4% contraction in 2020, from a 6.8% contraction estimated in April, with 3% growth expected for 2021.
    - The slight improvement in Saudi Arabia's IMF outlook, which would still be the kingdom's worst performance since the 1980s oil glut, is due to the government's sizeable fiscal package this year.
  - ➢ Data from Saudi Arabia's General Authority for Statistics (GaStat) show that the economy during H1 2020 contracted by 4%, but GDP on a quarterly basis has edged up since then. In Q3, GDP expanded by 1.8% after a contraction of 5.2% in the previous quarter.
    - Q3 growth was mainly fuelled by expansion in the non-oil sector, which reached 5.7% compared to 0.5% the same period last year. This compares with the 3.6% contraction in the oil sector during the same period - nearly a 90% QoQ decline.
  - ➢ The 2021 budget shows that the government is targeting a lower YoY deficit of USD 38B, to reach 4.9% of GDP compared with the estimated 12% of GDP in 2020. This is likely to be achieved as the kingdom continues to cut spending.
    - We expect the kingdom to finance its deficit next year primarily through debt, with a focus on domestic debt. Debt issuance will also be complemented by drawdowns from the government reserve account.
    - Spending in 2021 is projected to reach USD 264B (34% of GDP), a 7.3% YoY cut, with revenue budgeted to increase by 1.7% YoY to reach USD 226B.
    - Tax revenue is estimated to reach USD 68.3B next year, around 21% YoY increase from 2020. This is mainly the result of the full impact of raising the VAT to 15%.
  - ➢ Recovery will remain slower than previous years. We also expect that it may take until H2 2022 for the lost private sector output of 2020 to be fully recovered.
- **The Public Investment Fund (PIF), the kingdom's sovereign wealth fund, will look to accelerate recovery in 2021 by offsetting some of the austerity effects.**

Saudi Arabia Macroeconomic Indicators[1]

	2017	2018	2019	2020f	2021f
Real GDP Growth (%)	-0.7	2.4	0.3	-5.4	3.1
Crude Oil Production (M Bpd)	9.9	10.3	9.8	9.3	9.5
Oil GDP Growth (%)	-3.1	3.1	-3.6	-5.0	3.0
Non-oil GDP Growth (%)	1.3	2.2	3.3	-6.1	3.3
CPI Inflation (%)	-0.9	2.5	-2.1	3.6	3.7
Fiscal Balance (% of GDP)	-9.2	-5.9	-4.5	-10.6	-6.0
C/A Balance (% of GDP)	1.5	9.2	5.9	-2.5	-1.6
Total Gov't. Gross Debt (% of GDP)	17.2	19.0	22.8	33.4	34.3
Total Gross Extrn'l Debt (% of GDP)	18.2	19.2	23.2	29.9	29.1
Gross Official Reserves (Mos. of Imports)	28.3	28.6	33.2	26.2	23.1
Nominal GDP (USD B)	688.6	786.5	793.0	680.9	735.5
Population (Millions)	33.1	33.7	34.2	34.2	34.8

- ➢ Following Crown Prince Mohammed bin Salman's speech before the Shura Council in November, the PIF over the coming two years plans to inject more than USD 40B into the economy and this is expected to rise each year until 2030.
  - Between 75% and 80% of the PIF's overall assets of around USD 390B are invested domestically.
- ➢ To build on the new investments and to provide flexibility in its financial strategy, the Fund is planning to obtain a loan worth up to USD 7B from international banks. The fundraising is set to be completed in early 2021.
  - Once completed, it would be the third time the Fund has tapped support from international banks for funding.
  - In 2018, the PIF raised its first USD 11B debut loan targeted to deliver Saudi Arabia's Vision 2030 reform plans.
- ➢ The kingdom is expected to receive up to USD 6.7B in dividends this year from the PIF. This is expected to be a one-off measure to help the kingdom close its financing gap.
  - Following the PIF's Q2 profit-taking strategy, where it sold the blue-chip stocks it bought in Q1, which were trading at relative lows, the Fund has made an estimated profit of more than 19% from its USD 8B worth of investments this year.[2]

[1] Arabia Monitor; IMF.
[2] The Public Investment Fund.

Somalia: Security in peril

B2/NR

- **The stability of Somalia is at risk as the Al Shabaab militant group could ramp up their offensive in the coming days as elections draw near. President Trump is also set to pull all US troops who have been stationed in the country to fight the militant group out by 15 January.**
  - ➢ Since 2014, US forces have played a crucial role in the country's fight against Al Shabaab through training and funding the elite Somali Danab brigade.
    - Somalians have appealed to President Donald Trump to reverse his decision, as well as calling on the incoming Biden administration to keep the 700 troops stationed in the country. However, President-elect Joe Biden could likely double down on some of Trump's decisions, and continue the disengagement from the region started under Obama.
      - o In 2011, Al Shabaab was pushed out of Mogadishu with the help of African Union soldiers, but the militants still control some rural areas and conduct frequent attacks in urban areas.
  - ➢ Troop withdrawal comes at a critical time in Somali politics ahead of parliamentary elections this month and presidential elections in February of next year.
    - Federal and regional authorities continue to be at a loggerheads over the electoral process leaving an open opportunity for Al-Shabaab to disrupt the process further, resulting in instability and violence.
    - Blame for the political impasse has largely been directed at President Mohamed Abdullahi Mohamed, who has been accused of trying to monopolise control and manipulate election results.
    - President Mohamed is standing again for re-election and is working with allies to regain his seat and boost their profiles, while clans have armed themselves ahead of taking to the polls to help swing the election results.
      - o The odds are slightly teetering in Mohamed's favour given the network he has built in the country and with the international community.
      - o Losers in both parliamentary and presidential elections could reject the results, bringing further volatility.
  - ➢ To add an additional layer of instability to the east African nation, Somalia cut off all diplomatic ties with Kenya after Mogadishu accused its neighbour of meddling in government affairs.

Somalia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	1.4	2.8	2.9	-2.5
CPI Inflation (%)*	1.2	6.1	3.2	3.0	2.7
Fiscal Balance (% of GDP)*	0.0	-0.6	0.0	0.1	0.2
C/A Balance (% of GDP)	-6.0	-9.7	-10.3	-13.7	-11.4
Total Gov't. Gross Debt (% of GDP)	…	…	…	…	…
Total Gross Extrn'l Debt (% of GDP)	105.3	115.1	111.3	106.4	76.9
Gross Official Reserves (Mos. of Imports)	…	…	…	…	…
Nominal GDP (USD B)	3.9	4.5	4.7	4.9	5.0
Population (Millions)	14.2	14.6	15.1	15.6	16.0

- **Somalia continues to reel from the impact of the pandemic as well as locust infestation, flooding, and terrorist attacks - attacks which are expected to ramp up again. While GDP is expected to contract by 1.5% this year, recovery in 2021 is estimated at 2.9% growth. This could be off the table if regional violence ensues and terror groups expand their economic networks.**
  - ➢ Tax revenues the militant group collects are expected to surpass tax revenues collected by the regional government.
    - The amount collected reportedly comes to at least USD 15M per month. In areas under government control, dues are paid to both Al Shabab and the federal government to avoid trouble.
  - ➢ With Al Shabab's network expected to expand, the revenues they collect could increase with it. Not only does this mean that Somali people's pockets will be squeezed but the federal budget's revenue would also shrink with consequences for infrastructure and social programmes.
  - ➢ As the group's power expands, it both consolidates and legitimises its control, solidifying its place out of the shadows.

[1] Arabia Monitor; IMF.

Sudan: Delisting throws economy a lifeline

B2/NR

- **Although Sudan's economy is set for its third year of recession, things are looking up as the country begins its integration into the global market after President Donald Trump lifted the country's status as a state sponsor of terrorism. This offers a glimmer of hope to an economy which has endured decades of conflict, inflation and poverty.**
  - ➢ GDP is set to undergo 8.4% contraction this year with the IMF expecting GDP to partially recover by 0.8% growth in 2021. This could be revised if Sudan's entry into the world market is accelerated.
    - Inflation has also soared this year – standing at 230% in October – but is expected to fall with the delisting.
  - ➢ Delisting was confirmed after Sudan recognised the state of Israel, however they stopped short of the total normalisation brokered by some of its MENA neighbours.
  - ➢ The move was enough for the US to delist Sudan which unlocks desperately needed aid.
    - The country is also expected to unlock IMF aid and seek forgiveness for its USD 64b worth of national debt.
  - ➢ Albaraka Bank Sudan completed Sudan's first dollar cash transfer from New York via the bank's Egypt arm.
    - The transfer was the first of its kind for a Sudanese trading company in over two decades.
  - ➢ The availability of such transfers would also give the economy a vital boost via remittances which currently bring in USD 3B annually. This number could climb as the brain drain to the west continues and the Sudanese diaspora can now send their dollars home directly.
    - The Ministry of Labour reports that 1,750 physicians leave the country each year, while 26K technicians left the country between 2008 and 2018.
  - ➢ Integration into the global banking system is not going to happen overnight. It will take time to re-establish ties with American and European banks, and many of these would be cautious of embarking on the compliance and legal protocols to engage with Sudan.
    - The US multinational General Electric (GE) has hit the ground running and has struck a deal with Sudan. The MoU with GE is an electric-power generating deal with Khartoum which would deliver power to over 600K homes.

Sudan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	0.7	-2.3	-2.5	-7.2
CPI Inflation (%)	17.8	32.4	63.3	51.0	81.3
Fiscal Balance (% of GDP)	-4.4	-6.5	-7.9	-10.8	-16.9
C/A Balance (% of GDP)	-7.6	-10.1	-13.0	-14.9	-15.2
Total Gov't. Gross Debt (% of GDP)	128.4	159.6	185.6	200.3	295.2
Total Gross Extrn'l Debt (% of GDP)	123.3	155.9	181.9	198.9	299.2
Gross Official Reserves (Mos. of Imports)	0.9	1.1	2.8	4.9	2.0
Nominal GDP (USD B)	55.6	45.8	35.9	33.6	25.3
Population (Millions)	39.8	40.8	41.8	42.8	43.8

- **The expected gradual economic relief could be too slow-moving for the Sudanese and could spell trouble for Prime Minister Abdalla Hamdok, who is already at loggerheads with his military power-sharing partner.**
  - ➢ The civilian-military power-sharing agreement, known as the Constitutional Declaration, came about after months of negotiations.
    - The government's executive council is made up of six civilian and five military figures but tensions between the two groups have heightened over the last year since Hamdok took up the post from previous President Omar al Bashir.
  - ➢ The latest impasse is between Hamdok and Lt. Gen. Abdel Fattah al-Burhan – the de facto military leader. Hamdok is calling for the military to hand back "state resources".
    - The state owns 18% of the country's resources while the military claims ownership of most of the state's exports. This is cause for concern for the transition to a fully civilian-led government and threatens volatility before elections in 2022.
  - ➢ Instability could be exacerbated further by the flood of refugees from Ethiopia's Tigray region who have spilled over into Sudan. Thus far, approximately 50K Ethiopian refugees have fled to Sudan

[1] Arabia Monitor; IMF.

Syria: Change in power rhetoric

NR/NR

- **President Bashar al Assad has consolidated control over the country. With the US disengaged, no alternative in sight and pro-regime foreign powers filling the vacuum, Assad is here to stay.**
  - ➢ As President-elect Joe Biden's cabinet takes shape, the future of US foreign policy towards Damascus becomes clearer with the nomination of Antony Blinken as Secretary of State.
    - Blinken played a key role in US Syria policy under President Barack Obama as his deputy National Security Advisor.
    - It was under President Obama that US disengagement in Syria began. President Donald Trump followed on this path.
  - ➢ The Biden administration is expected to continue both Obama and Trump's legacies in Syria as Blinken has largely been non-interventionist.
    - Blinken would opt for diplomacy as he has been noted saying that "vital national interests" must be at stake if US forces were to be sent in.
  - ➢ Ultimately, Syria is no longer a priority to the US – during the campaign and thus far in the transition period, the Biden campaign has instead focused its efforts on policy toward Iran, China and Russia.
    - Some have been hopeful that a rapprochement with Iran would mean a rapprochement with Syria would soon follow. This is improbable given that Biden is very unlikely to normalise relations with President Assad, meaning that Caesar sanctions are here to stay.
  - ➢ Even with the Caesar sanctions still in place, the regime will not be brought to its knees as foreign lenders – namely Iran and Russia – continue to provide a credit line to the country.
- **The Syrian economy continues to be battered and is expected to contract further as the Caesar sanctions begin to take their toll.**
  - ➢ With revenue shrinking, the government is preparing for the worst. The 2021 budget, which is currently under parliamentary review, is the smallest budget since the conflict began in 2011.
    - State revenue for 2021 is an 83% contraction from revenues received in 2010.
    - The budget deficit currently sits at 2.5T LS (USD 902M), around 35% of GDP, however, it is expected to be much higher, taking into account the lending Syria receives from Russia and Iran.
    - In the formal budget document, the deficit is to be bridged by drawing down state reserves with no further detail provided.
    - Because the economy is in such a dire condition, the state has very few options beyond turning to foreign lenders and printing money, driving inflation higher and crystalising Syria's dependence on foreign powers.
  - ➢ With humanitarian aid groups stretched thin because of the pandemic, the state's shrinking budget will bear a greater burden in terms of social spending.
  - ➢ After all, since the breakout of fighting in 2011, most of the humanitarian crisis' in the country have been "managed".
    - With the threat of conflict erupting in fragile governates and the lack of government resources to address the pandemic, a further refugee crisis is looming.
    - It was only this past spring that the largest displacement of civilians occurred in Syria when 1 million people fled from Idlib, with a majority heading towards neighbouring MENA countries and Turkey.

Syria Macroeconomic Indicators[1]

	2012	2013	2014	2015	2016	2020f
Real GDP Growth (%)	-18.9	-18.7	1.8	-15.0	-4.0	3.0*
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	...

[1] Arabia Monitor; IMF.

Tunisia: The unfinished revolution

B2/NR

- **Tunisia's economy continues to be affected by the pandemic, with GDP now forecast to shrink by 7% this year, before it rebounds by ~4% in 2021. This follows lacklustre growth of 1.0% in 2019. We expect the government will continue to struggle to maintain political and social order, as many citizens are growing increasingly impatient with the lack of opportunities, ten years after the Arab Spring.**
  - ➢ The contraction this year has severely strained Tunisia's finances, prompting the government to halve the budget deficit after overstretching finances during the pandemic.
    - The 2021 budget expects a deficit of USD 2.9B, which would be 7.3% of GDP, from 14% in 2020.
    - To boost investment and improve the country's battered business environment, corporate taxes will be cut to 15% from 25%.
  - ➢ Despite these ambitious reforms, the economy is crippled by high debt and we are not expecting a sudden improvement in the situation, especially as the IMF's four-year financing plan for Tunisia ended in the spring without a defined future strategy.
    - An IMF delegation is expected to arrive in Tunis in the near future, but the extent of collaboration remains uncertain.
    - Public debt, over 70% of which is external, reached 95% in the last decade. This is placing Tunisia at risk of a liquidity crisis.
      - The country is expected to pay back over USD 1B a year from 2021 to 2025 in maturities and debt service.
  - ➢ The bleak outlook is set to further escalate social unrest, as Tunisians become disenchanted with their political leadership.
    - Unemployment is a significant concern for Tunisia, and has reached 16.1% this year, from 15.2% in 2016.
    - The figure is higher in the southern provinces of the country, where an estimated 60% are unemployed.
  - ➢ Despite the promise of the Arab Spring, the country continues to rank badly in corruption indexes -- ranked 74th out of 198 countries by Transparency International.

Tunisia Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	1.9	2.7	1.0	-7.0	4.0
CPI Inflation (%)	5.3	7.3	6.7	5.8	5.3
Fiscal Balance (% of GDP)	-5.9	-4.6	-3.9	-8.1	-5.1
C/A Balance (% of GDP)	-10.2	-11.2	-8.5	-8.3	-8.7
Total Gov't. Gross Debt (% of GDP)	70.6	78.2	72.3	84.8	86.2
Total Gross Extrn'l Debt (% of GDP)	84.2	97.4	94.8	98.3	104.1
Gross Official Reserves (Mos. of Imports)	2.6	2.5	5.3	4.1	3.6
Nominal GDP (USD B)	39.8	39.8	38.8	39.2	40.6
Population (Millions)	11.5	11.7	11.8	11.8	11.9

    - This is prompting increasing protests, as the Tunisian Forum for Economic and Social Rights recorded over 6,500 demonstrations since the beginning of the year, an even more significant number when considering the extent of lockdown restrictions.

- **We do not expect the situation to improve as Tunisia continues to be deeply politically fragmented. Since 2011, the country has seen eight governments - with an average duration of one year - and a lack of a substantive majority.**
  - ➢ Political infighting is already rife in the country's current government, as President Kais Saied and the new Prime Minister Hichem Mechichi compete on the political scene.
    - Prior to the Prime Minister's nomination, the President had asked party leaders to vote against Mechichi.
    - After only three months in office, the ruling coalition (Ennahdha and Qalb Tounes parties) are putting pressure on Mechichi for a cabinet reshuffle. This reflects the need for a more credible and coherent alternative for Tunisia.
  - ➢ Overall, the fragmentation of the Tunisian political scene, combined with lacklustre economic performance could make for a dangerous outcome if current conditions persist.

[1] Arabia Monitor; IMF.

UAE: Recovery requires reinvention

Aa2/NR

- **The UAE continues to reel from the dual impact of lower oil prices and the pandemic. It is forecast to resume to pre-pandemic growth levels in mid-to-late 2021, with full recovery in 2022 following muted activity in the non-oil private sector. We expect the recent rollout of growth-friendly modernisation measures to ease the dip next year.**
  - ➢ IMF has revised further down GDP growth for 2020 from -3.5% to -6.6%, with a tepid recovery of 1.3% for 2021.
    - The OPEC+ agreement will result in a fall in oil output from 3.1M bpd last year to 2.7M bpd this year, with a contraction of 6.3% in oil GDP, a -85% YoY decline.
    - As oil prices are not expected to rise much next year, remaining range-bound between USD 40 pb and USD 50 pb, this will weigh heavily on the recovery.
      - In the medium term, oil GDP is set to recover at a steady pace of 2.5% on average in 2021-23 as production cuts are further reversed.
  - ➢ The UAE has approved a federal budget of USD 15.8B for 2021, cutting spending by 5.3% YoY from 2019, which posted the emirates largest budget ever. The fiscal position is still expected to worsen on the back of expansionary federal and local government budgets.
    - This, along with the loss of over 35% of total revenue - around 26% of GDP, is set to widen the deficit this year to 9.9% of GDP before it narrows to 5.1% in 2021. We expect it will be a while until the UAE reaches a zero deficit again.
    - While the federal budget is separate from the expenditure budgets of each emirate across the UAE, we expect adjusting for major current spending cuts in 2021 will be a challenge.
  - ➢ Reflecting the worsening outlook, the UAE's Purchasing Managers' Index was unchanged in November from October's 49.5. The decline is driven by the deterioration in business conditions - the weakest level in the series' eight-year history.
    - Government modernisations efforts to expand its knowledge-based economy and boost investment, following the passing of the FDI ownership law in 2018, suggest that recovery could accelerate.[1]
    - In the coming quarters, broadening such efforts will prove crucial for a speedy recovery, particularly as the UAE gears up for the Dubai Expo in October 2021 and looks to attract international visitors once again.

UAE Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	2.4	1.2	1.7	-6.6	1.3
Crude Oil Production (M Bpd)	2.9	3.0	3.1	2.8	2.7
Oil GDP Growth (%)	-3.2	2.5	3.4	-6.3	-2.5
Non-oil GDP Growth (%)	4.8	0.7	1.0	-6.7	3.0
CPI Inflation (%)	2.0	3.1	-1.9	-1.5	1.5
Fiscal Balance (% of GDP)	-2.0	1.9	-0.8	-9.9	-5.1
C/A Balance (% of GDP)	7.1	9.6	8.4	3.6	7.5
Total Gov't. Gross Debt (% of GDP)	21.6	20.9	27.3	36.9	38.2
Total Gross Extrn'l Debt (% of GDP)	72.0	67.9	76.7	97.5	95.9
Gross Official Reserves (Mos. of Imports)	3.7	3.9	4.8	4.1	4.2
Nominal GDP (USD B)	385.6	422.2	421.1	353.9	373.1
Population (Millions)	9.4	9.5	9.7	9.8	9.8

- **Meanwhile, following the UAE-Israel normalisation deal, we are witnessing the signing of several bilateral business deals. Going forward, this could accelerate recovery and bring untapped growth opportunities.**
  - ➢ Some of the key developments between the two countries that are rapidly emerging are in the tourism sector. Since the signing of the accords in September, an estimated 500K Israeli tourists have flocked to the UAE.
    - This follows the signed agreement allowing 28 weekly commercial flights between Israel and UAE. The first flight carrying passengers from Israel was a flydubai aircraft that landed in Dubai International Airport in November.[3]
  - ➢ Given the centrality of tourism to the UAE economy (12% of federal GDP and 17% of Dubai GDP in 2019), we expect the growth of Israeli tourism to contribute to recovery.
  - ➢ With commercial excitement over the accords is strong and opportunities between the two countries, as indicated by the first UAE-Israel Business Summit, are expected to extend beyond tourism.

[1] For more on UAE's modernisation measures, see our Country Views Issue #140, "UAE: Recovery requires reinvention", published on 11th November 2020.
[2] Arabia Monitor; IMF.
[3] Israel's Israir and El Al airlines are also currently operating flights to the UAE, with Arkia set to begin operations in January 2021.

Yemen: Famine eclipses conflict

NR/NR

- **In Yemen, casualties have spiked in the past few months as fighting between Iran backed-Houthi fighters and Saudi-backed government forces continues to escalate. With no resolution in sight, and limited international intervention, conflict is in the cards for the time being.**
  - Civilian casualties increased across the country between September and November, with a total of 601 casualties (including 177 fatalities), a 25% increase compared with the period from June to August.
    - The uptick in fighting has largely been concentrated in and around the strategic Hodeida province, where 74 civilians were killed in October according to the United Nations.
    - Hodeida's port location makes the city a crucial entry point for imports including humanitarian aid.
      - A UN-brokered ceasefire in 2018 has managed to secure the flow of goods such as food and medicine into the country, however this is now at risk.
  - The deal between the Saudi-backed government in Aden and the STC (Southern Transitional Council) separatist group agreed a ceasefire and STC withdrawal from Aden in December.
    - Implementation has been delayed but, in December, both sides began the reciprocal withdrawal of forces as outlined in the agreement.
    - While promising, the agreement remains fragile, as the STC has reversed course and has compromised ceasefire agreements over the course of the civil war. This included the resumption of fighting from April to June of this year.
  - President-elect Joe Biden will enter office in January, and has said that he will cut off support for Saudi Arabia in Yemen. It is unclear exactly how this will take shape but is unlikely to make any difference to the violence on the ground.
  - US policy towards Yemen has largely been non-interventionist and has seen limited change under the Trump and Obama presidencies.
  - With the US and the international community at large absent from Yemen, the country continues to drift sideways.

Yemen Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	-5.1	0.8	2.1	-5.0	0.5
Crude Oil Production (M bpd)	0.0	0.0	0.0	0.0.4	0.0
CPI Inflation (%)	30.4	27.6	10.0	26.4	31.0
Fiscal Balance (% of GDP)	-4.9	-7.8	-5.3	-9.2	-6.0
C/A Balance (% of GDP)	-0.2	-2.0	-3.9	-6.5	-8.3
Total Gov't. Gross Debt (% of GDP)	77.4	74.5	76.5	81.7	79.3
Total Gross Extrn'l Debt (% of GDP)	25.9	25.2	25.7	30.4	30.1
Gross Official Reserves (Mos. of Imports)	0.9	0.5	1.4	2.0	2.4
Nominal GDP (USD B)	26.7	23.5	22.6	20.9	19.1
Population (Millions)	28.2	28.9	29.5	30.2	30.9

- **International aid organisations are left reeling from the worst humanitarian crisis the country has seen during the civil war. With an escalation in fighting and continued non-intervention, the humanitarian outlook looks dire.**
  - As funding for the country's aid programmes run dry and countries are preoccupied with their own post-pandemic crisis, the humanitarian crisis could become catastrophic. According to the United Nations, over 80% of Yemenis currently face malnutrition.
    - The massive funding gap in aid could worsen as countries grapple with their own economic downturns from the pandemic.
    - The UN received USD 1.5B in aid this year for its humanitarian operations in Yemen. Last year it received USD 3B.
      - The UN needs at least USD 3.4B per annum to maintain its programmes in Yemen.
    - Electricity cuts are rampant meaning that essential infrastructure -- such as hospitals and schools -- cannot function. Only 50% of hospitals are currently operating and their capacity is interrupted close to daily.
  - The extent of the toll of the pandemic on the country is unconfirmed because of the lack of adequate testing.

[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 Stable	17-Dec-18	B+		Affirmed O/L Stable	29-Nov-20	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	17-Jul-20	Ratings could be lowered further if a renewed fall in oil prices or slow growth were to undermine Kuwait's revenue and fiscal profile or if parliamentary resistance blocks or reverses planned reforms.
Oman	Ba3	(-)	Downgraded	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 country is on a sustainable new reform path.
Qatar	Aa3		Affirmed O/L Stable	24-Sep-20	AA-		Affirmed O/L Stable	07-Dec-18	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	01-May-20	Ratings could be lowered again if sizable and sustained reductions in the deficit are not achieved, or if liquid fiscal financial assets fell below 100% of GDP. Ratings could also come under pressure if domestic or regional events compromised political and economic stability.
UAE	Aa2		Affirmed O/L Stable	26-Mar-19					Reducing the debt of government-related enterprises of Abu Dhabi banks and of the government of Dubai could support upgrade considerations in the medium term.

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	A delay or reversal in implementing fiscal and economic reforms agreed upon under the IMF programme and renewed intensification of political turmoil and instability would be credit-negative.
Jordan	B1		Affirmed O/L Stable	26-Nov-20	B+		Affirmed O/L Stable	11-Sep-20	Successful implementation of key political and structural economic reforms, favouring more sustainable growth and further easing fiscal and external vulnerabilities would support an improvement in the ratings outlook.
Lebanon	C		Not on Watch	27-Jul-20	SD	(-)	Downgraded O/L SD	11-Mar-20	Ratings could be affirmed or raised, if the country receives significant donor funding that would allow the government to implement immediate reforms. Meanwhile, although we feel this can be rapidly unblocked if a restructuring program is put in place, it is conditional on policy reform.
Morocco	Ba1		Affirmed, O/L Stable	20-Nov-18	BBB-		O/L Negative	02-Oct-20	If higher economic growth were to exceed forecasts, and exchange rate flexibility were to increase markedly, this would be supportive of a ratings upgrade.
Tunisia	B2	(-)	O/L Negative	06-Oct-20	N/R				Implementing structural reforms agreed under the extended IMF programme, including public bank recapitalisation and governance reform would be credit positive. However, a downgrade is likely if there are delays in the availability of external funding, fiscal overruns or major contingent liabilities that would weaken Tunisia's fiscal strength and the adequacy of its foreign exchange 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.

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