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ECONOMIC RESEARCH & STRATEGY

MENA-India: Strategically driven, historically bound

Middle East & North Africa Outlook

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Outline

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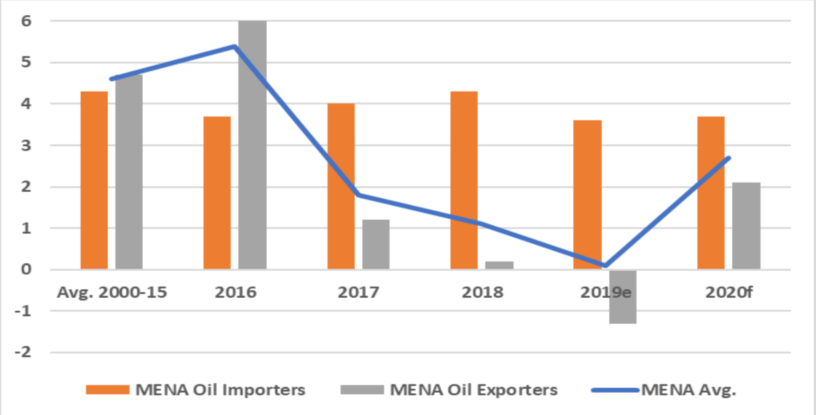
Our View: MENA-India ties expand beyond diaspora & energy

- **Our regional theme this quarter analyses growing relations between the GCC and India with a focus on energy and merchandise trade, FDI and remittances. We also highlight opportunities for scaling up.**
  - ➢ India's dependency on energy imports is expected to rise to ~92% by 2030, with the GCC countries likely to be the major beneficiaries.
    - India's oil imports from the GCC countries as a proportion of its total hydrocarbon imports (about 50%) represent the second highest among all oil importers from the GCC countries after China. This share is expected to rise.
  - ➢ Overall bilateral trade between the GCC and India has grown at an annual average of 5% in the last decade to USD 118B. It is expected to reach USD 130B by 2020 and to exceed USD 190B by 2030.
    - The changing dynamics in the relationship have gone beyond energy security and traditional trade and commerce, to incorporate a rich diaspora factor. Remittances from its citizens in the GCC are an important contribution towards India's substantial foreign exchange reserves.
    - The Free Trade Agreement being discussed with the GCC would be a step towards achieving more synergies. In short, both the GCC and India offer tremendous potential for cooperation in trade, investment, energy and workers.
  - ➢ Ties between Iran and India have been restrained since US President Donald Trump's administration decided in April not to renew the waivers India had to import oil from Iran. India could seek to negotiate with Washington to get its waivers back, but the likelihood of the US administration granting this is distant given that it aims to exert "maximum pressure" on Iran.
    - While India is likely to continue to preserve its close partnership with the US, we do not expect its relationship with Iran to be derailed, either.
    - There is room for growth in non-oil trade, especially through Iran's southern Chahbahar port (on the Gulf of Oman) which has been exempted from US sanctions.

Figure 1 – Regional Growth (%)[1]



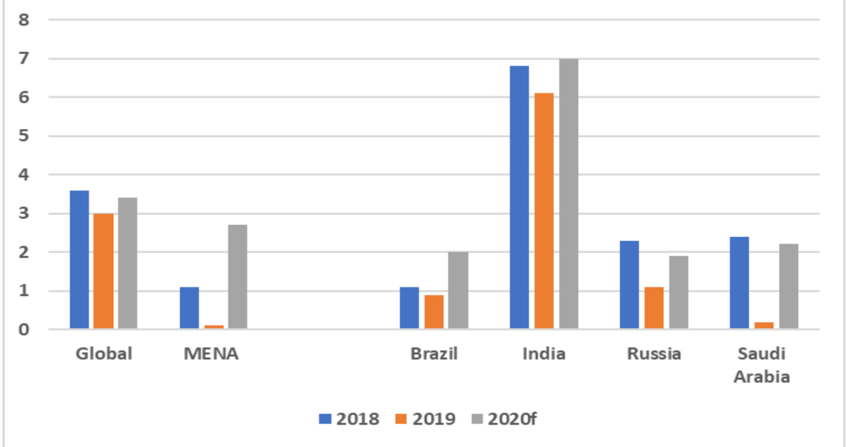
- **In our MENA update, we note that political uncertainties continue to impact the regional economic outlook, but we analyse how individual countries are showing varying degrees of resilience.**
  - ➢ Volatile oil prices, conflict and continued uncertainty combined with precarious global growth have led the IMF to revise its average MENA growth projections for 2019 down to 0.1% from the 1.3% it forecast in April.
    - Growth in the region in 2020 has also been revised down to 2.7% from 3.2% in the April forecast.
  - ➢ 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 Saudi Arabia, the UAE and Qatar which will benefit from projects related to Vision 2030, Expo 2020 and the 2022 World Cup.
    - But there is also prolonged economic hardship and stalemate in Iraq, Lebanon, Libya, Syria and Yemen.

[1] Arabia Monitor; IMF.

Global Outlook: 2020 could be better than we expect

- **Global growth is expected to rise only modestly in 2020. We expect a downward revision of some country forecasts, but there will also be some bright spots of growth recovery in 2019, supported by several factors including monetary policy easing.**
  - The IMF expects global GDP growth to rise to 3.4% in 2020 from 3% in 2019 as emerging market economies such as Brazil, India, Russia and Saudi Arabia recover from slowdowns in 2019 relative to 2018.
  - Growth in Brazil is expected to recover to 2% in 2020 from 0.9% in 2019 and 1.1% in 2018, driven by supportive monetary policy. Inflation is expected to remain contained, at 3.5% in 2020 from 3.8% in 2019, well below the average forecast for South America (8.6%)
  - India's economy is set to pick up to 7% in 2020 from 6.1% in 2019 and 6.8% in 2019, supported by monetary policy easing, lower corporate tax, recent regulatory measures aimed at improving the business environment, and government initiatives to boost rural consumption.
  - In 2020, growth in Russia is expected to rebound to 1.9% from 1.1% in 2019 supported by monetary policy easing and higher government spending. But it should remain slower than the 2.3% posted in 2018. A lower oil price in 2020 could negatively impact economic recovery.
  - Economic activity is expected to pick up in Saudi Arabia in 2020 to 2.2% from almost flat growth in 2019, driven by continued momentum in the non-oil sector and more stable oil-sector growth.
    - Recovery in Saudi Arabia, along with strong growth in Egypt and other MENA oil importers will drive overall MENA growth to 2.7% in 2020 from 0.1% in 2019.
    - Risk appetite could be supported by monetary policy easing, but heightened geopolitical tensions in MENA could weigh on investor confidence.
- **Downside risks to the outlook include trade-related uncertainty that would create major volatility for the US and China, which have been at loggerheads, and euro area, which must deal with Brexit. There may be domino effects on global output, and geopolitical tensions could further hamper confidence and investment.**

Figure 1 – Real GDP Growth (%)[1]



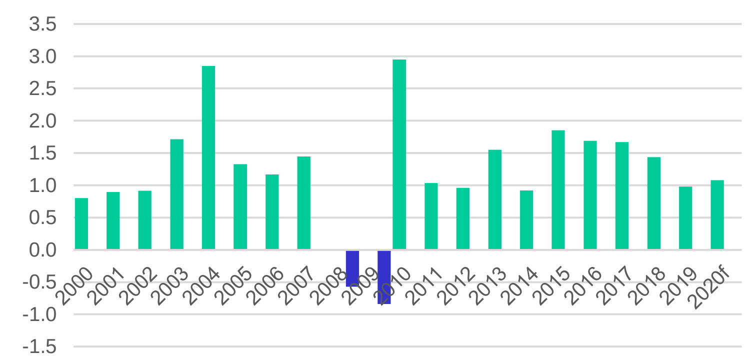
- We expect to see a downward revision of real GDP growth for some of these countries in the next IMF World Economic Update in January 2020.
- Disruptions to global trade will depend on how the US-China relationship progresses in 2020. Although the US and China have signalled some sort of trade deal, the uncertainty surrounding it will continue to pressure global growth.
- With the US in a presidential election year, there will also be a level of uncertainty and potential volatility.
- Britain now looks set to leave the EU by the end of January. But next year's trade negotiations could still culminate in no deal, a threat to growth in both Britain and the European economies.
- From Chile to Lebanon, geopolitical tensions continue as protests demand more equality, political freedom, no corruption and better efforts by governments to combat climate change.

[1] Arabia Monitor; Central banks of respective countries.

Global Energy Outlook 2020: Hydrocarbons struggle with demand, new energy

- **Geopolitics in 2020 will influence energy on large and local scales. The three major ongoing confrontations are between the US and China on trade; between the US and its Middle Eastern partners versus Iran and its non-state allies; and between Russia and the West on energy and economic influence and the invasion of Ukraine. Widespread socio-economic and political protests in Iraq, Lebanon, Iran, Algeria, Sudan and elsewhere could widen in 2020.**
  - ➢ The world economy and oil demand growth suffered in 2019 from the US-China trade war, but prospects in 2020 look somewhat brighter (Figure 1).
  - ➢ Large technological advances in 2020 are mostly in renewable energy. New solar photovoltaic (PV), concentrated solar power (CSP) and wind auction prices are expected to fall further in 2020, improving competitiveness with cheap coal. Energy storage (battery) prices should also decline further, with deployment growing mainly in non-residential and utility solar.
  - ➢ Multilateral financial institutions, banks, funds and insurers are stepping away from coal investments and even all fossil fuels (including gas). The European Investment Bank has decided it will not lend to any unabated fossil fuel projects after 2021.
  - ➢ Large corporations are committing to renewable energy goals and eliminating single-use plastics.
- **Oil markets are forecast to remain relatively well-supplied throughout the year. Ongoing projects in the Americas (US, Canada, Brazil and Guyana) and the Middle East will contribute the bulk of growth.**
  - ➢ US shale will grow at a diminished rate, but crude production will continue to reach record rates in 2020 with estimates as high as 13.3 Mb/d for the year.
  - ➢ This resilient shale oil growth from the US has prompted OPEC+ producers to deepen their cuts, and reassess in March 2020.
  - ➢ Refining activity will ramp up in 2020 with the introduction of the MARPOL IMO 2020 sulphur regulations. This will boost demand for sweet crudes and middle distillates (diesel and jet). Strong growth in refining capacity in 2019 and 2020, due to projects in the Middle East, Russia, Nigeria and China, will put margins and run rates under pressure later in 2020.

Figure 1 – 2020 Oil Demand in Context (Mb/d)[1]



- **Massive LNG new capacity will increase competition and depress short-term prices. QP will choose partner(s) for its massive North Field Expansion.**
  - ➢ LNG markets are expected to remain oversupplied until 2022, after which markets will begin to tighten as demand for gas continues to grow at a fast rate, mainly from Asia and new emerging importers. In MENA, Bahrain will start LNG imports, Kuwait will expand its facility, and Sharjah will possibly move ahead on a new terminal.
  - ➢ New gas pipelines will also pressure gas prices. In 2020, these include Israel-Egypt, Israel-Jordan, Power of Siberia (Russia to China), Gazprom's Nord Stream II gas pipeline to Germany; and Turkish Stream.
- **Overall, the energy scene for 2020 will be tough for hydrocarbon producers.**
  - ➢ Oil and gas prices will remain relatively depressed, renewables will become more attractive, electric vehicle sales will grow, and government policies will focus on climate.

* This page is a guest author contribution courtesy of Robin Mills, Energy Analyst.

[1] BP Statistical Review of World Energy 2019; OPEC, October Oil Report

MENA-India: Far from realising full commercial potential

- **India's economic rise over the past two decades has accelerated trade with the Middle East and North Africa (MENA), with India's increasing demand for oil, gas and other natural resources driving the relationship.**
  - MENA countries, particularly the GCC economies, have been major trading partners for India since the 2000s.
    - The GCC region's substantial oil and gas reserves are of vital importance in meeting India's energy needs.
  - Strategic factors shaping India's connections with MENA (particularly under the pro-development government of Prime Minister Narendra Modi) include:
    - Safeguarding its energy sources from the region;
    - Maintaining remittances from Indians working in Arab countries and ensuring the safety of its diaspora in such countries;
    - Ensuring continued technology and arms imports (mostly from Israel which is one of India's largest arms trade partners);
    - Expanding anti-terrorism intelligence sharing/cooperation (for instance with Oman, Saudi Arabia and Bahrain);
    - Deepening the penetration of India's products into MENA markets under Modi's "Make in India" campaign.
  - In this report, we investigate:
    - How trade between MENA and India has evolved over the years and what countries dominate the trade ties.
    - Whether trade relations can move substantially beyond the dominant energy sector.
    - Prospect for investment and further remittance flows between the two regions.
- **Given the huge investment opportunities that exist in both India and the GCC, GCC-India relations are far from realising their full potential. Spurs to growth are as follows:**
  - The Free Trade Agreement (FTA) slowly being negotiated between the two region is a step towards achieving more synergies.
    - The agreement to seek an FTA came as far back as 2004 and has been delayed. But bilateral talks continue.
  - India is set to remain a top five trading partner for the UAE and Saudi Arabia.
    - By 2030, HSBC forecasts that the country will be the UAE's top goods export destination, and Saudi Arabia's largest export destination, followed by China.
    - Import-wise, India is forecast to become the UAE's largest goods import source by 2030, while Saudi Arabia will get the bulk of its imports from China.
  - Exports of GCC chemicals and aluminium accounted for 22% of total 2018 India imports of these goods. But as a proportion of the GCC's global exports, the percentage is much lower, underscoring ample room for scaling up.
  - With natural gas consumption growing at an annual rate of 8% over the last decade, India will continue to increase its LNG imports from Qatar.

Table 1 – Brief Summary of Ties & Interests[1]

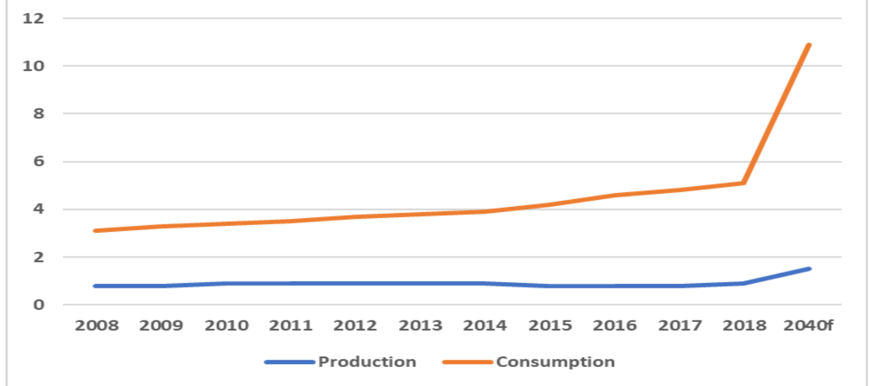
Country	Relevance to India
GCC	Power brokers, oil and gas, NRI population, defense and counter-terrorism cooperation, remittances
Egypt	North Africa connection & Africa access
Palestine	Ideological support
Iran	Oil and gas, Afghanistan, Central Asia
Turkey	Power broker
Israel	Defense cooperation, U.S. ties

[1] Arabia Monitor.

MENA-India: Strong historic ties

- **Prime Minister Narendra Modi's emphasis on economic reform and attracting FDI for India's infrastructure projects (estimated at USD 1T in 2018) will accelerate the positive trends in India-MENA relations, especially with the GCC.**
  - ➢ India has enjoyed close cultural, religious, and economic links with MENA for many centuries.
    - This was reinforced under the British Raj during the course of the 19th and early 20th centuries when considerable numbers of Indians were brought in to Arab countries to fill bureaucratic and military positions, and to provide labour.[1]
  - ➢ Following Indian independence in 1947, the country's foreign policy was mostly shaped by the principles of non-alignment and solidarity with former colonies (outlined at the 1955 Bandung Conference).
    - This policy fostered some close ties with the Middle East. But the scope was limited during the 1950s and 1960s by the pro-Soviet foreign policy of Egypt and India (under Gamal Abdul Nasser and Jawaharlal Nehru, respectively) and by India's autarkic economic policies.
    - The early 1990s, however, ushered in a new chapter in India-Gulf relations, propelled mainly by India's economic reforms (1991-1992) as well as new diplomatic openings following the end of the 1990-91 Gulf War and the initiation of the Oslo Peace Process.
- **In the following years, India strived to maintain diplomatic and economic balance in the region.**
  - ➢ It began developing closer energy and strategic ties with Iran, while at the same time strengthening its multilateral and economic relations with GCC countries.

Figure 1 – India's Growing Energy Demand (K, Bpd)[2]



- ➢ The GCC-India relationship has especially blossomed over the past two decades, driven by renewed interest in closer ties, the fast-growing Indian demand for energy, expanding Indian labour in the GCC (currently more than 12 million or about 22% of the GCC population) and Indian efforts to attract FDI and tourism.
  - As New Delhi and the GCC countries reassess their foreign policy options in a world that is rapidly evolving, Modi's deliberate engagement with Middle Eastern states will enhance India's footprint in a region critical to the country's vital interests.
- ➢ India also capitalises on its religious/cultural links with the Arabian Peninsula.
  - It boasts the world's third-largest Muslim population (14% of its total population) and sends roughly 130-150 thousand pilgrims to Mecca every year.[3]

[1] The Indian rupee was circulated in the region until the Government of India replaced it in the mid-20th century with the Gulf rupee. The Gulf rupee remained in circulation in Kuwait until 1961, in Bahrain until 1965, in Qatar and the UAE (as The Trucial States) until 1966, and in Oman until 1970.
[2] Arabia Monitor; EIA.
[3] The largest is in Indonesia (229 million), then Pakistan (200 million). The Asia-Pacific region contains the highest number of Muslims in the world (around 1 billion), followed by MENA (370 million).

MENA-India: Energy is a centrepiece

- **India's energy dependency is expected to rise to almost 92% by 2030 and MENA countries are likely to be the major beneficiaries. India ranks as the third-largest oil importer in the world after the US and China.**
  - Energy is at the heart of MENA-India relations. In 2018, India imported an average 5.1Mb/d of crude oil, with Iraq as the leading single supplier (22.4% of the total), closely followed by Saudi Arabia (19.5%) (Figure 1).
  - Saudi Arabia has traditionally been India's top oil source, but it lost this position to Iraq in 2017, as the latter's overall production roughly doubled over the preceding 10 years.
  - Although Indian imports from Iran halted in May 2019 due to the re-imposition of US sanctions, Tehran was the third-largest supplier to India in 2018 (11% of India's total oil imports). This compared with 6% of India's total imports in 2015 when the international Joint Comprehensive Plan of Action (nuclear deal) was reached.
  - India's oil imports from the GCC as a proportion of its total hydrocarbon imports (42%) represents the second highest (after China) among all oil importers from the GCC. This share is expected to rise.
- **India is also a major importer of LNG from Qatar (48% of total Indian LNG exports). Until 2004, India was self-sufficient in natural gas, but growing demand and weak infrastructure have forced it to turn to imports.**
  - In 2018, India was the fourth largest LNG importer globally after Japan, China and South Korea, and consumed 7.1% of the global share.
  - With natural gas consumption growing at an annual rate of 8% over the last decade, India will continue to increase its LNG imports from Qatar.
  - LNG imports from Qatar make up 14% of total Qatari LNG exports. India is also Qatar's fourth largest overall export trade partner making up 7.8% of total Qatari exports. This ranking was the same before the Saudi-led boycott of Doha.

Figure 1 – India Oil Imports, by Source (% of Total)[1]

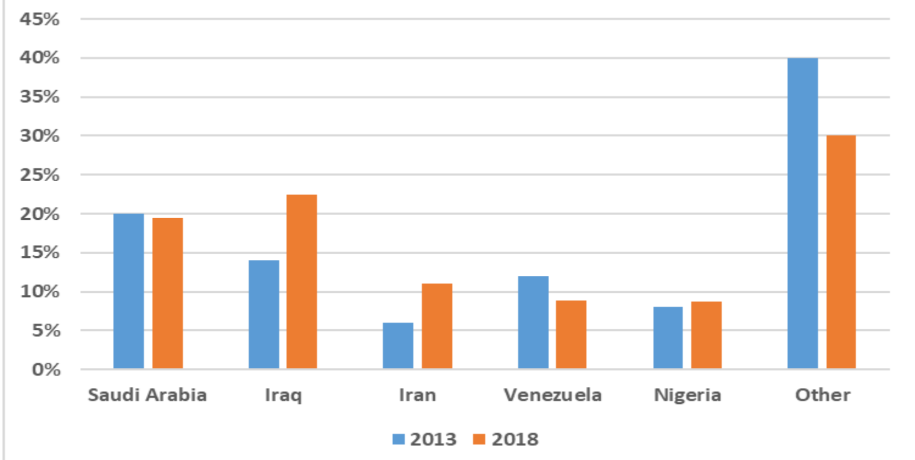
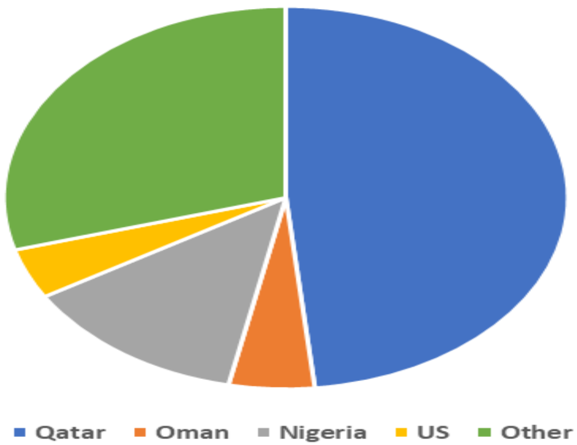


Figure 2 – India Oil Imports of LNG, by Source (% of Total)[2]

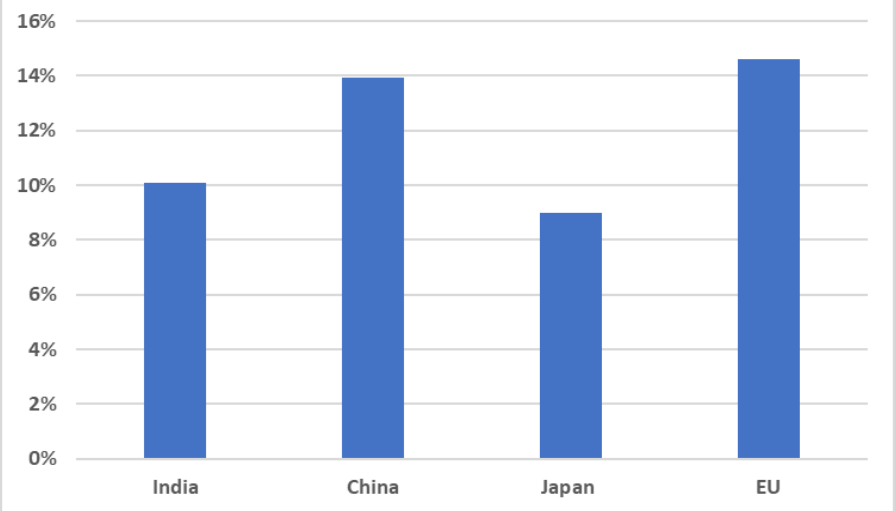


[1] Arabia Monitor; EIA.
[2] Arabia Monitor; BP Statistical Review of World Energy, 2019.

GCC-India: Bilateral trade grew 800% in a decade

- **India's trade with the GCC has increased in various consumer products and minerals and remains crucial to both sides. Including energy, GCC countries account for 15% of India's total imports and 12% of the country's total exports.**
  - ➢ Total bilateral trade stood at USD 118B in 2018, growing more than eight-fold in the last 10 years (Figure 1).
    - As a bloc, the GCC is India's largest trading partner, higher than both India-ASEAN trade (USD 81B) and India-EU trade (USD 102B).
    - For the GCC, India was the third largest trade partner in 2018 (10.1% of the GCC's total trade), preceded by the EU (15%), China (14%) and Japan (9%).
  - ➢ The growth in two-way trade is largely buoyed by youth bulges in both populations, the emergence of new middle classes (in India alone estimated at 280 million people), and accelerating industrialisation.
    - These factors, in addition to geographic proximity and pre-existing cultural-religious connections, are the main drivers behind the growing economic engagement.
- **The GCC has emerged as a preferred destination for India's manufacturing and as a re-export hub. This is reflected in the rapid increase in capacity in energy-intensive sectors in the region over the past decade, which significantly exceeds its emerging market rivals.**
  - ➢ Indian corporations consider the GCC region to be an ideal re-export hub for their refined products, due to its modern infrastructure and its proximity to markets in Africa, Iraq and Iran, among others.
    - A substantial portion of India's exports are trans-shipped from Dubai to other countries such as Saudi Arabia, Yemen, Iran and Iraq.

Figure 1 – GCC Trade, by Partner (% of Total GCC Trade)[1]



- ➢ Although there is still no India-GCC Free Trade Agreement, for which a framework agreement was signed in 2004, the two sides have recently embarked on an ambitious drive to upgrade bilateral relations with the aim of increasing trade by 60% over the next five years.
- ➢ Notwithstanding the substantial growth in economic links in recent years, there are also considerable untapped opportunities.
  - According to HSBC, it is estimated that by 2030 India will remain the UAE's top export destination accounting for almost 15% of exports and Saudi Arabia's second largest export destination accounting for almost 20% of total exports.

[1] Arabia Monitor; UNCTAD; Ministry of Commerce India.

GCC-India: Untapped opportunities in chemicals & aluminium

- **The average merchandise correlation index between India and the GCC remains (healthily) negative, indicating that areas where the traded goods of each side compete is low (Figure 1).**
  - ➢ The synergy is clear: India is seeking energy security, while GCC states prioritise food security and raw materials for manufaturing.
  - ➢ India's major export items to the GCC are precious metals, stones, gems & jewellery, minerals, food items (cereals, sugar, fruits, vegetables, tea, meat and seafood), textiles (garments, apparel, synthetic fibre, cotton and yarn), engineering, machinery products and chemicals.
  - ➢ India's major import items from the GCC are petroleum & petroleum products, precious metals, stones, gems & jewellery, minerals, chemicals and wood.
- **Chemicals and aluminium from the GCC accounted for 22% of total 2018 Indian imports of such products. But as a proportion of the GCC's global exports, the percentage going to India was much lower, underscoring ample room for growth (Figure 2).**
  - ➢ The volume of aluminium production in the GCC region is expected to increase to 6 million tonnes by 2020, accounting for over 17% of total global output.
    - This compares with 3.7 million tonnes in 2012 or 11% of total world production.
  - ➢ Chemical exports to India could drive further growth in the GCC, particularly in Qatar's chemical sector.
    - Qatar's chemical industry expansion plans are based on the assumption that demand will continue to increase from India.
    - The government has announced plans to scale up production from 10 million tonnes per year to 23 million.

Figure 1 – India Merchandise Correlation Index (USD,B)[1]

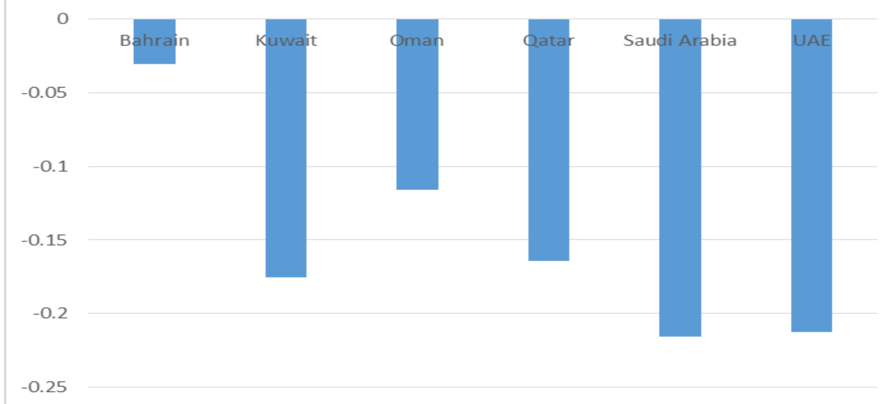
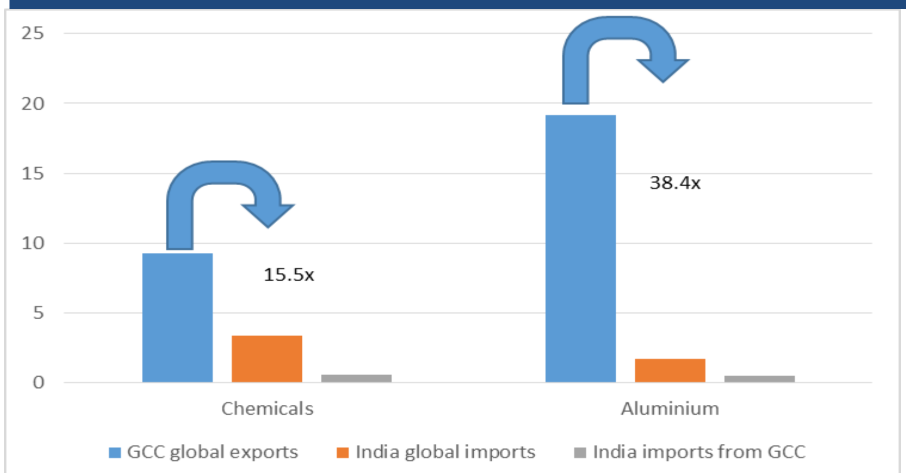


Figure 2 – Non-hydrocarbon Opportunities (USD,B)[2]

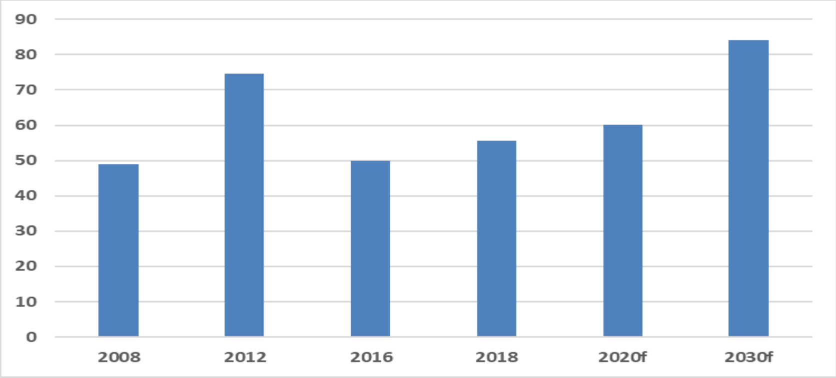


[1] Arabia Monitor; UNCTAD. The merchandise trade correlation index is used to measure similarity of trade specialization index between economies. High similarity implies that economies compete with each other in both exports and imports. The coefficient can take a value from -1 to 1. A high positive value indicates that the economies are competitors in the global market since both countries are net exporters of the same set of products.
[2] Arabia Monitor; UNCTAD. Arrows indicate the ratio of global GCC exports compared to GCC exports to India, highlighting potential opportunities for scaling up.

UAE-India: Trade to reach new peak by 2030

- **With the UAE investing heavily in infrastructure, growth in imports of manufacturing and building equipment from India is expected to significantly outstrip that of other imports in the coming decade. Bilateral trade is expected to exceed USD 80B, at an annual average growth rate of 4%.**
  - ➢ The UAE is India's largest export market in the GCC, accounting for just over 10% of India's total merchandise exports. It is expected to maintain this preeminent position until at least 2030 due to robust demand growth.
  - ➢ India-UAE trade was valued at USD 180M per annum in the 1970s but is today around USD 60B -- of which over 60% is not oil-related -- making the UAE India's third largest trading partner after China and the US (Figure 1).
    - India's major export items to the UAE include gems & jewellery, vegetables, fruit, spices, engineering goods, tea, rice, textiles and apparel and chemicals.
    - India's major import items from the UAE include crude oil & petroleum products, gold & silver, pearls, precious & semiprecious stones, metal ores & scraps, electronic goods and transport equipment.
  - ➢ Dubai has become India's gateway to MENA and many non-UAE companies do business in India from bases there, facilitated by the presence of a 1.2 million-strong Indian diaspora in the city (53% of Dubai's population). Tourism is also on the rise.
    - A substantial portion of India's exports are trans-shipped from Dubai to other countries such as Saudi Arabia, Yemen, Iran, and Iraq.
    - Indian tourists visiting Dubai remain the largest single country group, comprising about 10% of total tourist arrivals in the emirate. In the first nine months of 2019, arrivals from India were up 7.3% YoY to 1.4 million tourists, followed by tourists from Saudi Arabia (1.2 million), the UK (851,000), Oman (778,000) and China (729,000).

Figure 1 – UAE-India Bilateral Trade (USD, B)[1]



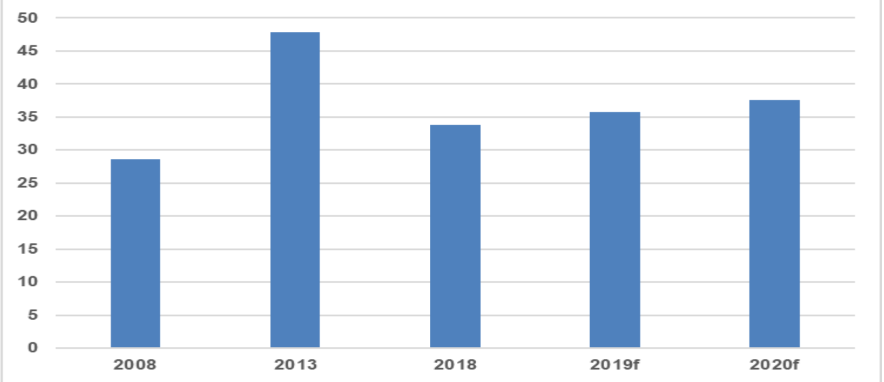
  - ➢ Expo 2020 in Dubai and other infrastructure projects in the region are offering opportunities for businesses to bring Indian technology and know-how into the region through partnerships.
  - ➢ India's strength in industrial and information technology can also help GCC businesses support the region's economic diversification.
- **UAE-India relations also have a strategic dimension. India's economic interests in the UAE (and in the GCC more generally) are connected to the security of the Strait of Hormuz.**
  - ➢ The Indian Navy regularly visits GCC ports, particularly the UAE's, where it undertakes joint naval exercises with the UAE Navy.
  - ➢ With rising regional and international security concerns, India is expected to focus on further boosting security cooperation with the UAE and the GCC more generally.

[1] Arabia Monitor; Directorate General of Commercial Intelligence and Statistics India.

Saudi Arabia-India: Heading as far as space

- **Saudi Arabia is India's second-largest GCC trade partner. We expect bilateral trade to reach USD 37B by 2020 given the past decade's average annual growth of 5.5%.**
  - ➢ Two-way trade between the two countries was USD 33.8B in 2018, compared with USD 28.6B in 2008 (Figure 1). It is, however, still lower than the USD 47.8B peak in 2013 before the oil price drop.
    - Imports of crude oil by India form a major component of the bilateral trade. Saudi Arabia is India's largest supplier of crude, accounting for almost one-fifth of its needs.
      - This makes Saudi Arabia the source of 6.7% of India's global imports.
    - In terms of imports by Saudi Arabia, India ranks seventh providing around 3.5% of the kingdom's total imports.
  - ➢ Both countries are important to each other. Saudi Arabia takes more than 4% of India's global exports; India accounts for 9.3% of Saudi Arabia's global exports.
    - The main Indian exports into Saudi Arabia are cereals, electrical machinery & equipment, organic chemicals, and clothing accessories.
    - India's major imports from Saudi Arabia are mineral fuels, mineral oils & products, fertilizers, aluminium and leather.
    - Both countries are expected to expand bilateral trade in commodities particularly in pharmaceuticals and automobiles.
- **In February 2019, Saudi Arabia's Crown Prince Mohammed bin Salman visited India as part of an Asian trip that included Pakistan and China, signing multiple agreements. The visit had both geostrategic and socioeconomic aspects, both of which are very important for the success of Saudi Arabia's Vision 2030 project.**
  - ➢ During the visit, New Delhi announced e-visa facilities for Saudi citizens to promote trade and tourism.

Figure 1 – Saudi Arabia Trade with India[1]



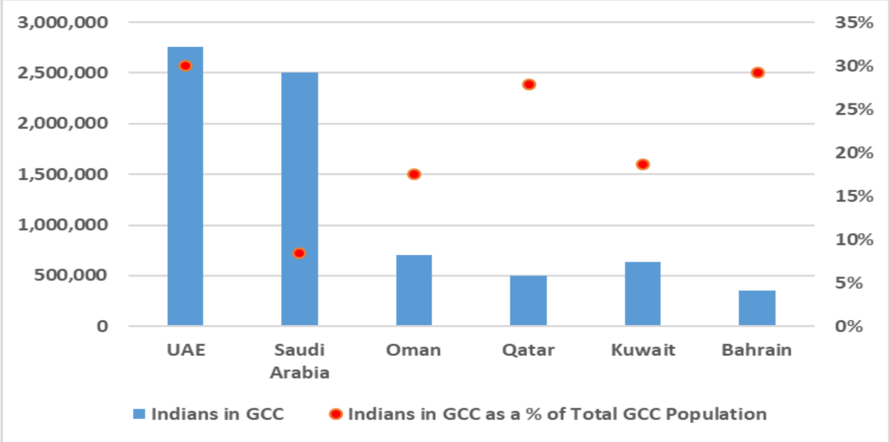
    - The e-visa allows Saudi travellers to get permits online, without intermediaries or agents.
    - India has granted the e-visa facility for more than 150 countries and territories, and the latest addition was Saudi Arabia.
  - ➢ Saudi Arabia also agreed to become part of the International Solar Alliance, a group of "solar resource-rich countries" initiated by India to promote solar energy.
- **As Saudi Arabia redoubles efforts in the field of space technology, it could turn to India for assistance given the country's advanced experience in space science.**
  - ➢ Saudi-India space cooperation has been minimal so far despite the signing of an MoU between the Indian Space Research Organisation and the Riyadh-based King Abdulaziz City for Science and Technology in 2010.
  - ➢ Some of the areas where Saudi Arabia can benefit from India's expertise include remote sensing, satellite communication, and satellite-based navigation.

[1] Arabia Monitor; Department of Commerce and Industry, Government of India.

GCC-India: 50% of India's massive global remittances

- **The GCC region provides the largest source of remittances to India from abroad, accounting for nearly 50% of the USD 79B total received by India globally in 2018. Representing close to 1.4% of India's GDP, this is a key component driving Indian policy towards MENA countries.**
  - Of India's total remittances in 2018, 27% came from the UAE, followed by the US at 23% and Saudi Arabia at 11.6%. Kuwait, Qatar and Oman contribute about 3% each.
    - Remittances to India also make up about 32% of total outward GCC remittances to the world.
    - This volume of remittance is a major boost in the GCC for the various financial institutions involved in the transfers.
    - According to the World Bank, the average cost of sending USD 200 from the UAE is about 3.9% versus the global average of about 7%. This puts it almost in line with the 3% global target contained in the UN's Sustainable Development Goal to ensure fair and safe movement of people.
  - The rapid pace of economic activity and infrastructure development that followed the increases in oil prices since 1973-74 attracted a large number of foreign labour to the GCC. India was one of the main beneficiaries, but the GCC's Indian diaspora faces serious challenges to its labour rights.
    - There have been signs of change in recent years as international criticism has risen and GCC countries have increased the pace of labour reform. New incentives have emerged encouraging India to do more to protect migrant workers. Yet efforts remain limited and the pace sluggish.
  - The number of Indians in the GCC has increased steadily since the early 1970s and today constitutes about 38% of the total expatriate population in the GCC, making them the largest community in each country.

Figure 1 – Proportion of Indian Expatriates in GCC Countries[1]



    - As a percentage of the total population, the largest Indian diaspora is based in the UAE.

- **Remittances sent home by the Indian community have been vital to the livelihood of millions of families back in India and an important source of external current receipts in India's balance of payments.**
  - Indian workers in the GCC countries come mainly from the four states of Kerala, Tamil Nadu, Karnataka and Andhra Pradesh.
  - In Kerala, 2.2 million Indians (out of a population of 34 million) are working in the GCC countries and their remittances play a crucial role in the state's economy.
  - Air links between India and GCC countries continues to expand as Indian carriers such as GoAir and Vistara launched flights to the region starting this year.

[1] Arabia Monitor; Indian Embassies in respective countries.

Iran-India: In the shadow of US sanctions

- **Ties between Iran and India have been restrained since US President Donald Trump's administration decided in April not to renew the waivers India had to import oil from Iran. India could seek to negotiate with Washington to get its waivers back, but the likelihood of the Trump administration granting this is slim given that it aims to exert maximum pressure on Iran.**
  - In 2009, before US sanctions, Iran was India's second largest oil supplier after Saudi Arabia. Indian companies paid 45% of their dues for crude in rupees through a designated Indian branch, with the rest paid in euros through a Turkish bank. This process has now been closed down by sanctions and imports from Iran halted in May 2019.
  - For Iran, India was crucial. It was its second-largest oil customer, importing 457 Kb/d of oil a day. At its height, in March 2016, India imported an estimated 506.1 Kb/d.
    - During intensified sanctions between 2012 and 2016, prior to the JCPOA nuclear deal, Iran exported an average of 200 Kb/d to India.
    - In November 2018, India was one of eight countries to receive a six-month waiver from the US to continue to import Iranian oil; it bought 300 Kb/d during this period.
    - With the waiver removed, most of this will dry up, causing problems for both countries.
- **Sanctions are also expected to impact the development of the Farzad B gas field under Iranian jurisdiction in the Gulf.**
  - Farzad-B, with estimated reserves of 18.75 trillion cubic feet, was opened in 2008 by a consortium of three Indian companies: ONGC Videsh Ltd (OVL), Oil India Limited and Indian Oil Corporation.
  - India had planned to develop the field after its exploration, but stopped after the West intensified sanctions on Iran in 2012. With the lifting of the sanctions, India once again called for the development of Farzad-B by OVL.
  - In February 2019, Iranian Oil Minister Bijan Zanganeh said Iran and India were still discussing the development of the gas field; with India as the top option for partner.
  - But in June, with sanctions being re-imposed by Washington, it was announced that India would not pursue the oil and gas field development project.

Figure 1 – Chahbahar Port Location[1]

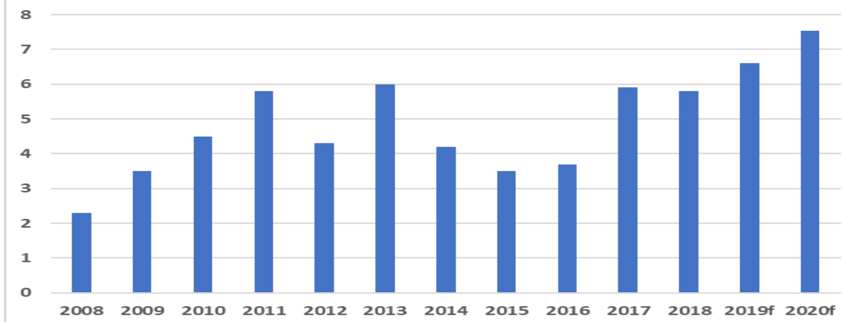
- **While India is likely to continue to preserve its close partnership with the US, we do not expect its relationship with Iran to be derailed. There is room for growth in non-oil trade, especially through Iran's Chahbahar port which has been exempted from US sanctions.**
  - Iran's non-oil exports to India accounted for 2.6% of India's total imports in 2018, while India's exports to Iran accounted for 1% of India's total exports.
  - Bilateral trade between India and Iran stood at USD 18B in 2018, 28% higher than in 2015 when the JCPOA was reached, with the balance of trade heavily in Tehran's favour.
  - The Chahbahar deal includes a USD 500M investment by India to develop the strategically important port, which is close to Iran's border with Pakistan. The port gives India access to Afghanistan and Europe, bypassing rival Pakistan.
  - The distance between Kandla (in the western Indian state of Gujarat) and Chahbahar is less than that between Delhi and Mumbai, enabling quick movement of goods first to Iran and then onwards to Afghanistan and Russia.
  - Chahbahar would also serve as the point of origin for the Iran-Oman-India pipeline, carrying Iranian natural gas to India.

[1] Arabia Monitor; Google Maps.

Oman-India: Links across the Arabian Sea

- **Omani-Indian relations continue to be strong through trade and joint investment as well as through diplomatic and defence cooperation. Omanisation -- which attempts to limit Oman's dependence on its expatriate labour force -- has affected the inflow of Indian migrants, but not the overall bilateral relationship. We expect that this bond will remain resilient.**
  - Omanisation laws encouraging firms to employ Omani nationals have reduced the number of Indian migrants to Oman. Similar programmes have also been instituted in the other GCC countries.
  - According to the Indian Ministry of External Affairs, the number of Indians coming to Oman for work using the e-migrate portal dropped by 65% to just 36,037 last year from 2010.
  - Oman's National Centre for Statistics and Information says there are still close to 700,000 Indians in the sultanate, making it the largest expat community at about 17.5% of the total 4.6 million population.
    - The largest number of expat workers are in construction, followed by the wholesale and retail, manufacturing, food and hospitality sectors.
- **Energy is a major driver of Indian-Omani relations with India the second-largest importer of oil from Oman. Overall trade is expected to reach USD 7.5B by 2020, growing at an average annual rate of 14% since 2008.**
  - In 2018, India imported 21.9 million barrels of oil from Oman but there is evidence it will be lower this year. From January through September of 2019, it imported 13.7 million barrels of oil.
  - The Indian Oil Corporation has acquired a 17% stake of Royal Dutch Shell's Mukhaizna oil field in Oman for USD 329M.
  - India has also invited Oman to contribute in growing India's Strategic Oil Reserves.
- **Indian firms have emerged as key investors in Oman, particularly in the Special Economic Free Trade Zone (SEZ) in Duqm, a port that faces Mumbai, only about 910 nautical miles across the Arabian Sea. There are over 2,900 Omani-Indian joint ventures in Oman.**
  - Some of the benefits that Duqm offers include 30 years corporate tax exemption, 0% customs duty, 100% foreign ownership, no restrictions on repatriation of profits and no income tax.

Figure 1 – Oman-India Trade (USD, B)[1]



- The most recent deal has been the "Little India" integrated tourism complex project worth USD 378M.
  - Slated to finish by 2035, the complex will include beach front villas, apartments, a five-star hotel, restaurants and shops, a theatre and a marina. Buyers will receive Oman residence visas.
- Sebacic Oman is undertaking a USD 1.2B project in the Duqm SEZ to set up the Sebacic Oman Refinery, a joint venture between investors from the sultanate and India to produce Sebacic acid, the first in the Middle East
  - It reflects an attempt for Oman to diversify its economy away from oil and to attract foreign investment.
- The India-Oman Joint Investment Fund, a joint venture between the State Bank of India and Oman's sovereign wealth fund, the State General Reserve Fund, a special purpose vehicle to invest in India continues to expand its portfolio.
  - It has targeted a diverse array of Indian companies including Solar (mining), ING Vysya (banking), Indus Teqsite (electronics), GSP Crop Science (agrochemicals), NCDEX (electronic commodities), HBL power systems (manufacturing) and SSIPL (footwear).

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

Egypt-India: Increasing trade, investment & tourism prospects

- **Egyptian bilateral trade with India has begun recovering after a slump, bringing the average 10-year growth rate to 8.2%. With Egypt's recent macroeconomic stability, economic reforms and improved business environment, we expect this to rise further.**
  - In Q1 2019, Egyptian exports to India stood at USD 360M, 22% higher than the same period of 2018. This followed a 1.5% YoY increase for the whole of 2018, driven by growth in both the oil and non-oil sectors. The latter is mainly petroleum and hydrocarbon gases, raw cotton, natural calcium phosphates and carbonated drinks.
  - Simultaneously, Egypt's imports from India rose to USD 1.6B in 2018, from 1.3B in 2017. This was far lower than 2014's peak of USD 2.2B, but clearly a sign of recovery. And as a percentage of total Egyptian imports, India's share has not declined much. The main products included meat, cotton yarn, motor cars and oil petroleum.
  - Before this, trade volume was declining in the face of Egypt's economic slowdown and the decline in oil prices.
    - For example, exports to India reached only USD 863M in 2015, compared with a 2013 peak of USD 2B.
    - India's share of total Egyptian exports is still much smaller than the peak year. Egypt's exports to India made up 4.5% of total Egyptian exports globally in 2018 compared with 4.1% in 2015, but far short of the 7.4% in peak year 2013.
- **India has been increasing bilateral cooperation with Egypt with an eye to investment. In March, India outlined a plan to increase investments from the current USD 3B to USD 5B in the next few years.**
  - The plan involves around 50 projects in manufacturing, construction, agriculture, textile, pharmaceuticals and renewable energy, among others.
  - Currently, India's commercial presence is strong in Egypt, with more than 450 companies in the country. There are around 25 joint ventures valued at more than USD 3B across several sectors. Egypt's energy and manufacturing sectors are particularly attractive.
  - India's TCI Sanmar chemicals group invested around USD 1.5B in a chemical manufacturing facility in Port Said and has pioneered a first of its kind zero-liquid discharge plant.

Figure 1 – Egypt Exports to & Imports from India[1]

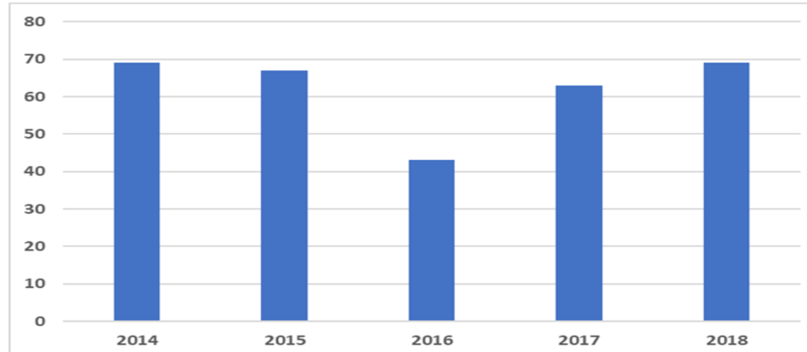
- **While Indian tourism in Egypt lags other major destinations such as Dubai, there are signs it is increasing.**
  - In 2018, Egypt received around 126,000 tourists from India, a jump from 2016's 80,000 and just 60,000 in 2014. This, however, represents only 1.3% of the total 9.7 million tourists attracted to Egypt in 2018 by sites such as the Pyramids of Giza, the temples of Luxor and the beaches of Sharm el-Sheikh.
  - A comparison with popular destinations in the Middle East shows that the number of Indian tourists to Egypt is a fraction of what Dubai receives (over 2 million in 2018, 12.5% of its total inflow).
  - The Egyptian Tourism Authority's 2020 strategy is expected to boost these numbers from next year driven by the launch of a promotional campaign targeting India, China and Latin American countries.

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

MENA-India: Phosphate demand to lift Jordan, Morocco

- **India's demand for phosphates is expected to rise, providing a boost for MENA's exporters, notably Jordan and Morocco.**
  - In a bid to boost Jordanian-Indian partnerships, Arab Potash Company and Jordan Phosphate Mines Co. (JMPC) signed several MOUs with Indian companies in late 2018 to increase exports, with quantities expected to rise to over 10 million metric tonnes (MMT) in the next three years.
  - India is already Jordan's main export destination for phosphate rock, taking a 66.8% share. (Other major destinations are Indonesia (15.5%), Serbia (4.2%), Bangladesh (3.1%), and Australia (1.7%)). India, with a 38% share, is also among the top destinations for Jordan's phosphate fertiliser exports.
    - India consumes about 55 MMT of fertilisers annually, of which about 70% is domestically produced while the rest is imported. The highest rate of growth in fertiliser demand up to 2022 is anticipated in Africa, India, and South America, partly driven by the growth of their agricultural potential.
  - In May last year, Brunei, former stakeholder in JPMC sold its 37% for USD 137M to India's two largest importers and producers of fertilisers, Indian Potash Limited and Kisan International Trading FZE.
  - Jordan has the fifth-largest reserves of phosphate in the world, equalling 1 billion metric tonnes. JPMC, which has a monopoly on mine production, is the second-largest exporter nationally and sixth-largest producer of phosphate globally.
    - Modernising measures undertaken by JPMC increased Jordan's phosphate production to 8.8 MMT in 2018 from 6 MMT in 2000.
    - JPMC's measures included cutting costs, increasing production capacity and diversifying exports.
    - With a new phosphate-exporting port in the industrial zone south of Aqaba, which handles around 6 MMT of phosphate yearly, exports are expected to grow by 57% in 2019.
- **India also imports phosphates from Morocco with the product making up about 70% of the kingdom's total exports to India.**

Figure 1 - JPMC Sales to India (%of Total Exports)[1]



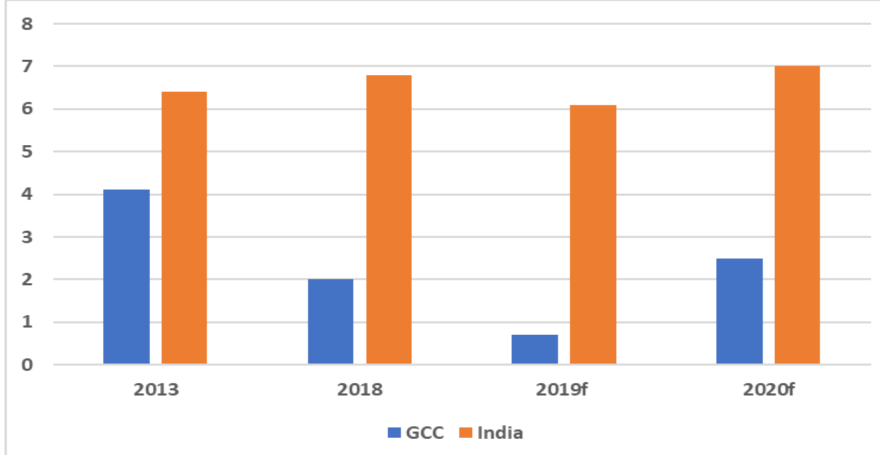
  - Rock phosphates from Morocco are imported into India mainly by Paradeep Phosphate Ltd (PPL) which is controlled by ZuariMaroc Phosphate Ltd. The latter, in turn, is a joint venture between Chambal Fertilisers, ZuariFertilisers and Morocco's 95% state-owned Office Chérifien des Phosphates (OCP), the world's largest exporter of phosphates. The government of India holds 20% of shares in PPL.
    - PPL has a long-term contract with OCP for supply of nearly 1 MMT of rock phosphate a year.
  - Although several of Morocco's international clients have abstained from importing phosphates from disputed Western Sahara over the last two years, India has remained a customer.
    - According to the Western Sahara Resource Watch, PPL received shipments of phosphate rock from Western Sahara throughout 2018, totalling 469,000 MT worth USD 40M. This was 42% higher than in 2017.

[1] Arabia Monitor; JPMC.

MENA-India: Looking ahead, gains & challenges

- **The surge in Indian trade with GCC countries is, in itself, an encouraging sign of progress towards a multidimensional strategic partnership. Projections for India's future economic and energy needs suggest solid prospects for greater gains on both sides.**
  - Currently, investments are flowing into the power, metal and construction sectors in both directions, especially from the UAE to India. This aligns closely with India's needs and priorities.
    - Although India's investments in the GCC are largely driven by GCC-resident Indians who have been traditionally active in the region, Indian businesses are increasingly establishing a footprint in the region.
    - From the GCC side, there is growing overseas interest in India's plans to emerge as a green economy.
      - In November, UAE Clean Energy Developer Masdar -- a subsidiary of Mubadala Investment Company -- acquired a 20% stake in Hero Future Energies, a clean-tech company.
  - The challenge ahead is twofold: (1) how to boost overall GCC investment in India and (2) how to attract FDI into India more broadly from the GCC countries.
  - Given the investment opportunities that exist in both India and the GCC, GCC-India commercial relations are far from reaching full potential.
  - While energy interests still largely define the relationship, GCC-India ties have developed rapidly, coupled with frequent high-level exchanges and growing mutual political trust.
    - For now, the relationship is an energy-economic partnership and not a strategic-political alliance.
    - In the long term, however, a shift in oil and gas geopolitics could bring with it a shift in political relations.

Figure 1 – GCC & India Growth Rates[1]



- **If economic reforms over the next decade under Prime Minister Narendra Modi are effectively implemented, and economic diversification forges ahead in MENA, we expect MENA-India trade to exceed USD 250B by 2030 (at the 10-year average annual bilateral growth rate of 5%). Overall:**
  - Economic growth in India offers new market opportunities for MENA countries outside of the GCC.
  - Besides energy, unexploited opportunities exist where MENA has strong comparative advantage, such as fertilisers, petrochemicals, crude materials, agricultural products and a number of manufactured goods.
  - Opportunities are being hampered by trade policy and logistical constraints between MENA countries, and by substantial trade barriers facing non-oil exports in India.

[1] Arabia Monitor; IMF.

Iran Market Monitor: The Budget of Resistance

NR/NR

- **Iran's President Hassan Rouhani has unveiled a draft of the state annual budget for 2020-2021. Dubbed the "Budget of Resistance" and set at USD 39B, it has been presented in the face of damaging US sanctions. However, the chances Iran can meet its budget goals remain unlikely: the IMF says that oil prices need to be triple current levels for that to happen.[1]**
  - In October, the IMF forecast that Iran would need oil priced at USD 195 per barrel to balance the budget. Benchmark crude now stands at around USD 64 pb.
  - Tehran projects that its crude exports will generate about IR 482T next year (around USD 11B at the official rate or USD 33B at the free market rate) - almost 70% less than this year. This projection equates to a sale of about 500 Kb/d, down from the average 2.8 Mb/d before the reintroduction of sanctions.
  - The budget includes a tax increase of 13% which has received criticism from Iranians and private businesses who are already struggling under the burden of inflation and sanctions.
    - The government will continue to subsidise basic goods such as food and medicine into the new year.
    - This follows the government's decision to reduce its energy subsidy and raise fuel prices by 50%.
    - The basic-goods subsidy will be based on an exchange rate of IR 42,000 to the USD whereas the free market rate is IR 125,000 to USD.
  - The subsidy provides a level of aid to Iranians who have had difficulty purchasing basic goods hit by high inflation. The IMF's October World Economic Outlook projects Iran's inflation will decrease slightly in 2020, to a still unmanageable 31% from this year's 35.7%.
- **Anti-government protests erupted in Iran at the end of November, initially over the removal of energy subsidies. They quickly mushroomed into unrest over opaque spending, corruption and Iranian intervention in Iraq, Syria and Lebanon. The protests further reduce the odds of negotiations with the US over the next year because the Iranian leadership does not want to take any steps that validate the US pressure campaign.**

Iran Macroeconomic Indicators[2]

	2016/17	2017/18	2018/19	2019/20f	2020/21f
Real GDP Growth (%)	12.5	3.7	-4.8	-9.5	0.0
Crude Oil Production (M Bpd)	3.6	3.8	3.4	2.2	2.1
CPI Inflation (%)	9.1	9.6	30.5	35.7	31.0
Fiscal Balance (% of GDP)	-2.3	-1.4	-2.7	-4.5	-5.1
C/A Balance (% of GDP)	4.0	3.8	4.1	-2.7	-3.4
Total Gov't. Gross Debt (% of GDP)	47.5	39.5	32.7	30.7	28.8
Total Gross Extrn'l Debt (% of GDP)	2.2	2.2	2.0	2.4	2.5
Gross Official Reserves (Mos. of Imports)	13.4	14.7	16.6	14.3	11.8
Nominal GDP (USD B)	404.4	430.7	446.1	458.5	463.1
Population (Millions)	80.2	81.1	82.0	83.2	83.9

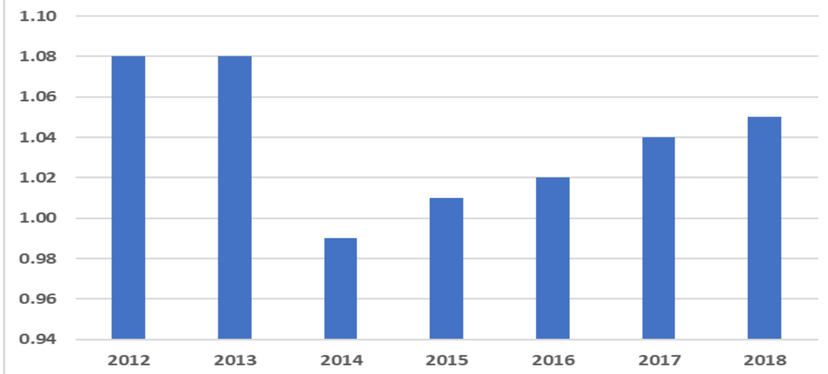
  - US President Donald Trump tweeted in support of the protestors and condemned the response from the Iranian government. Trump's response is in line with the continued US offensive against the regime, which intends to showcase the regime's vulnerability.
  - Amnesty International has said at least 208 people were killed by government forces, but others have put the death toll higher at close to 400.
  - The Iranian government sees concessions as a weakness. Iran is likely to continue to lash out in response to the US campaign by expanding its nuclear programme in violation of the JCPOA nuclear deal. Iran has, for example, resumed its enrichment at Fordow nuclear plant.
  - The government continues to blame foreign powers -- namely the US -- for the riots.
  - Some efforts have been made in terms of bilateral relations between the two countries but they are unlikely to materialise into substantial change. In early December, Iran and the US exchanged prisoners in Zurich -- a rare act of cooperation between the two countries.

[1] The Iranian fiscal and calendar year starts on 21 March.
[2] Arabia Monitor; IMF.

Sino-MENA: Pipeline merger should open downstream market for GCC

- **A mega-merger of domestic pipelines operated by China's three major state-owned energy companies into a single network is set to open the Chinese downstream market to others, including the Gulf countries.**
  - China's new National Oil and Gas Pipeline Network Group was formally established on 9 December, bringing together pipelines previously operated by China National Petroleum Corporation, Sinopec Group and China National Offshore Oil Corporation.
  - The new group now owns over USD 70B in assets and is set to grow significantly as the country plans to double its pipelines to reach 240,000 km by 2025.
  - Merger discussions began in 2013. Operations will begin next year.
  - The new group is part of a Chinese government strategy to diversify its sources of oil and gas, streamline the transportation process and, significantly for the GCC, to encourage competition in the downstream markets.
- **This is positive news for MENA oil exporters, particularly the GCC, allowing for the greater expansion into China's downstream market they have been seeking.**
  - First, it highlights China's increasing demand for oil and gas as it reduces its reliance on coal and seeks renewable energy growth.
  - Second, the merger shows the country's willingness to open up the market, particularly significant for Saudi Arabia and the UAE, which have downstream business expansion plans in China.
  - Previously, the three state-owned energy groups were largely responsible for refining, transporting and retailing, leaving limited room for external players to enter the market, except for joint ventures (JV).
  - Saudi Aramco has been pushing to increase its downstream businesses in China, via acquisitions and JVs, particularly in Zhejiang province, including:
    - Acquisition of a 9% stake in Zhejiang Petrochemical;
    - Agreement to jointly develop a fuels retail market with Zhejiang Energy, and;
    - Agreement on various crude supply deals.
  - These expansion activities were followed by an agreement with the Zhejiang Free Trade Zone to facilitate the 9% Zhejiang Petrochemical acquisition and further expand its downstream presence in this eastern province of China.

Figure 1 – Saudi Crude Exports to China (M/bd)[1]



  - Potential opportunities were identified, including investing in other parts of the value chain, such as refining and petrochemical production, storage and trade of crude oil and natural gas, retail, and oil products distribution within the Zhejiang Free Trade Zone.
    - These developments underscore Aramco's strategy of securing its long-term crude supply business in the region by partnering with local entities, as well as its diversification efforts.
    - Aramco will benefit from the opening up of the downstream market as it has taken a pole position in one of the most prosperous regions in China. Zhejiang has a strong economy, a number of ports and borders Shanghai.
  - Abu Dhabi National Oil Company (ADNOC) is also looking to expand its downstream business in China, similar to Aramco's moves, and is well positioned to gain from the market opening thanks to its stable and growing energy relations with China.
    - It is in talks with several parties about downstream projects, including Wanhua Chemical Group.
    - ADNOC may be planning an investment pipeline of USD 45B in its downstream sector across China, India and Indonesia.

[1] Arabia Monitor; China Bureau of Statistics.

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f
Algeria	2.6	2.4	2.0	4.1	-13.2	-9.9	-12.6	-11.9	2.2	3.0	11.6	7.9
Bahrain	2.0	2.1	3.3	3.2	-8.4	-7.7	-3.6	-3.4	189.9	188.5	0.9	0.8
Iran	-9.5	0.0	35.7	31.0	-4.5	-5.1	-2.7	-3.4	2.4	2.5	14.3	11.8
Iraq	3.4	4.7	2.0	2.0	-4.1	-3.5	-5.2	-4.2	32.1	30.9	6.8	6.2
KSA	0.2	2.2	-1.1	2.2	-6.1	-6.6	4.4	1.5	30.4	32.3	26.4	24.1
Kuwait	0.6	3.1	1.5	2.2	-10.4	-11.6	7.4	8.0	45.8	48.7	6.8	6.8
Libya	4.3	1.4	15.0	15.0	-10.9	-14.9	-0.2	-7.8	...	...	...	...
Oman	0.0	3.7	0.8	1.8	-6.7	-8.4	-7.2	-8.0	105.6	112.4	5.3	5.0
Qatar	2.0	2.8	0.1	2.2	7.0	6.9	4.6	4.1	106.7	98.3	7.8	7.0
UAE	1.6	3.0	2.1	2.1	-0.8	-1.7	5.9	5.1	68.7	66.4	4.3	4.6
Yemen	2.1	2.0	14.7	35.5	-6.9	-7.2	-4.0	1.3	18.9	24.9	1.4	2.0
Average	0.8	2.5	6.9	9.2	-5.9	-6.3	-1.2	-1.7	60.3	60.8	8.6	7.6
Average Ex-Yemen	0.7	2.5	6.1	6.6	-5.8	-6.3	-0.9	-2.0	64.9	64.8	9.4	8.2

Table 2 – MENA Oil Importers[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f
Djibouti	6.0	6.0	2.2	2.0	-1.5	-1.7	-0.3	0.6	70.5	68.4	1.0	0.9
Egypt	5.5	5.9	14.5	10.7	-8.3	-6.7	-2.5	-1.8	34.4	31.3	6.6	6.3
Jordan	2.2	2.4	2.0	2.5	-3.4	-3.2	-7.0	-6.2	72.1	75.3	8.0	8.3
Lebanon	0.2	0.9	3.1	2.6	-9.8	-11.5	-26.4	-26.3	195.7	207.0	10.9	10.1
Mauritania	6.9	6.3	3.0	3.4	2.1	0.3	-17.1	-17.8	60.6	62.6	3.8	4.3
Morocco	2.7	3.7	0.6	1.1	-3.7	-3.3	-4.4	-3.5	32.7	34.1	5.2	5.3
Palestine	-1.6	0.5	0.5	0.9	...	...	-10.8	-12.4	...	...	...	...
Somalia	2.9	3.2	4.0	3.0	0.1	0.2	-8.0	-7.7	...	...	...	...
Sudan	-2.6	-1.5	50.4	62.1	-5.4	-11.1	-7.4	-12.5	203.7	211.9	0.9	0.8
Syria	...	...	...	...	...	...	...	...	...	...	...	...
Tunisia	1.5	2.4	6.6	5.4	-3.7	-2.8	-10.1	-9.1	98.4	107.8	3.0	3.3
Average Ex-Syria	2.0	2.6	9.4	10.2	-4.0	-4.8	-10.4	-10.8	99.7	104.3	5.5	5.5

[1] Arabia Monitor; IMF.

Algeria: New guard, old regime

NR/NR

- **We were relieved that the Algerian elections took place peacefully even as the old regime was able to elect its candidate, Abdelmadjid Tebboune, as president. However, we have our doubts whether his five-year term will be served fully if the establishment does not provide a rapid and credible roadmap for transition to full democracy.**
  - ➢ Tebboune, 74, a former prime minister, won with 58% of the votes. According to the government's electoral commission, voter turnout was 40%, so the risk of increased civil unrest is not to be discounted.
    - Tebboune is seen as a regime insider who served in various ministerial positions under Bouteflika. He was sacked in 2017 after only three months as prime minister after a dispute with Ali Haddad, a powerful business tycoon who was close to the former president.
  - ➢ In a move to show that the authorities are following through on promises to crack down on corruption, Ahmed Ouyahia and Abdelmalek Sellal, two former prime ministers, were sentenced to 15 and 12 years in jail, respectively.
  - ➢ Tebboune also faces the contradictory task of satisfying the demonstrators' wishes and those of the military, which has entrenched political interests in keeping the government the same.
  - ➢ All of this, combined with a large segment of the population rejecting the electoral outcome, means that Algeria's toughest times are not yet over by far. Meanwhile, protesters are determined to hold the line until their demands are met.
- **The opposition Hirak movement is likely to remain active, which poses a risk to the country's oil and gas sector and to Algeria's ambitions to attract new foreign investment. We are doubtful that either the revamped hydrocarbons law or other changes designed to improve the economy will bear fruit anytime soon.**
  - ➢ The IMF forecast growth at 2.4% for 2020 from 2.6% in 2019. We expect this to be revised downwards, and be closer to the government forecast of 1.8% for 2020, especially if oil production does not recover rapidly.

Algeria Macroeconomic Indicators[1]					
	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.2	1.3	1.4	2.6	2.4
Crude Oil Production (M bpd)	1.0	0.9	0.9	0.9	0.9
Oil GDP Growth (%)	7.7	-2.4	-6.4	1.6	1.9
Non-oil GDP Growth (%)	2.2	2.1	3.3	2.8	2.5
CPI Inflation (%)	6.4	5.6	4.3	2.0	4.1
Fiscal Balance (% of GDP)	-13.4	-8.6	-7.5	-13.2	-9.9
C/A Balance (% of GDP)	-16.5	-13.2	-9.6	-12.6	-11.9
Total Gov't. Gross Debt (% of GDP)	20.5	27.3	38.3	46.1	49.2
Total Gross External Debt (% of GDP)	2.4	2.6	2.3	2.2	3.0
Gross Official Reserves (Mos. of Imports)	22.5	19.2	15.7	11.6	7.9
Nominal GDP (USD B)	160.0	167.4	173.8	172.8	178.6
Population (Millions)	40.5	41.3	42.2	43.1	43.8

  - Oil production averaged 1.03 Mb/d from January to November this year, its lowest average since 2002.
- ➢ The IMF expects inflation to rise to 4.1% in 2020 from 2% in 2019, on par with the government forecast, driven by higher taxes on cars and tobacco. Further reform will be difficult under the current political climate.
- ➢ Slowing growth alongside rising inflation poses a "double-whammy" of downside risks, exacerbated by high youth unemployment (over 30%). The country has lost more than half a million jobs since unrest began.[2]
- ➢ Although the country took recent steps to bolster investment, such as the adoption of the much-awaited hydrocarbon law in November -- reducing taxes and allowing contractual flexibility with the state-owned firm, Sonatrach -- it does not resolve the main impediment to foreign investment.
  - Foreign companies are still required to partner with Sonatrach under the 49%-51% rule, with the latter owned by Sonatrach.

[1] Arabia Monitor; IMF.
[2] Forum des Chefs d'Entreprises.

Bahrain: Stability achieved, but modest growth

B2/B+

- **Economic activity in 2020 is expected to remain on par with 2019 driven by a steady non-oil economy, but the kingdom's fiscal situation still presents risks.**
  - ➢ Growth in 2020 is forecast at 2.1%, barely up from 2% in 2019 and 1.8% in 2018. It will be supported by infrastructure projects, notably the Bapco (Bahrain Petroleum Company) Modernization Program, which plans to expand one of the oldest oil refineries in the GCC.
    - Other major projects include the recently inaugurated Line 6 expansion of the Alba project; resulting in the world's largest aluminium smelter and boosting current per-annum production by 54,000 metric tonnes, bringing total production over 1.5 million metric tonnes per year and creating around 3,200 jobs.
    - The pipeline also includes 15 hospitality projects, due to start construction next year and worth up to USD 10B in investment.
  - ➢ Bahrain's Ministry of Finance is trumpeting what it sees as encouraging progress on the fiscal front, saying it remains on track to eliminate deficits by 2022.
    - But while regional financial support has greatly reduced near-term pressures and there are improvements, we still find risks to the outlook to be on the downside.
    - The 2019-2020 national budget forecasts deficits for the two years at 4.6% and 4% of GDP, respectively.
    - We estimate, however, that deficits this year and next will be closer to the IMF forecasts of 8.4% and 7.7% of GDP, respectively, given that the kingdom's Fiscal Balance Program (FBP) is expected to weigh on the non-oil economy, which comprises over 80% of total economic activity.
    - Introduced in October 2018, the FBP aims to balance state finances by 2022, while reducing existing public debt. Key to this is lowering government spending, largely through a voluntary retirement scheme for public sector employees.
    - The authorities have halted, perhaps temporarily, subsidy reform plans amid concerns over their social impact. Subsidies continue to represent 20% of the budget.

Bahrain Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.5	3.8	1.8	2.0	2.1
Crude Oil Production (M bpd)	0.20	0.20	0.19	0.19	0.19
Oil GDP Growth (%)	-0.1	-0.7	-1.2	0.2	0.2
Non-oil GDP Growth (%)	4.3	4.9	2.5	2.2	2.5
CPI Inflation (%)	2.8	1.4	2.1	3.3	3.2
Fiscal Balance (% of GDP)	-17.6	-14.2	-11.7	-8.4	-7.7
C/A Balance (% of GDP)	-4.6	-4.5	-5.8	-3.6	-3.4
Total Gov't. Gross Debt (% of GDP)	81.3	88.2	93.4	100.2	103.6
Total Gross Extrn'l Debt (% of GDP)	183.6	181.2	184.7	189.9	188.5
Gross Official Reserves (Mos. of Imports)	1.2	1.2	0.9	0.9	0.8
Nominal GDP (USD B)	32.3	35.4	38.3	39.0	40.7
Population (Millions)	1.4	1.4	1.5	1.6	1.7

    - Despite the flexibility provided by an aid package from GCC partners, we expect the FBP to face implementation constraints. A key constraint is the delicate socio-political situation that limits options for a more structural fiscal adjustment as observed in other GCC countries.

- **In the private sector, a new USD 50M venture fund has launched in partnership with Bahrain Islamic Bank, Al Salam Bank and China-based MSA Capital.[2]**
  - ➢ The Al Salam-MSA Bahrain Fund I (MEC), aims to improve Chinese technologies and business models within the MENA region by enabling the flow of assets and capital through Bahrain.
  - ➢ The fund will focus on FinTech, big data, artificial intelligence, cloud computing, logistics and networking systems.
  - ➢ MEC Ventures will be the first limited partnership under the newly introduced Bahraini Investment Limited Partnership Law, looking to join up Chinese and Middle East technology and capital markets, while also hoping to attract investments into the wider region.

[1] Arabia Monitor; IMF.
[2] MSA, founded in 2014, is a global venture capital firm with USD 1.5B under management, investing from seed to growth in AI, genomics, mobility, and SaaS companies.

Djibouti: Growth, with debt to China

NR/NR

- **Djibouti's economic outlook remains relatively positive, coming in at 6% annually for 2019, 2020 and 2021. This comes after a relative slowdown to 5.1% in 2017.**
  - The government has positioned Djibouti as a regional trade and logistics hub. This has attracted foreign investment into the country and has been a large contributor to growth.
    - Additionally, neighbouring Ethiopia's trade activity has picked up speed, driving capital to Djibouti through the country's logistics facilities.
    - The development and production of a natural gas pipeline in Ethiopia, with an export terminal in Djibouti, will generate further economic activity.
      - The 765 km pipeline will include 65 km within Djibouti's territory.
  - Investment in infrastructure has facilitated growth but simultaneously has built a degree of economic vulnerability through reliance on others.
    - Djibouti's government debt-to-GDP ratio is projected to decrease slightly in 2020 to 45.8% from 47.4% in 2019.
    - But Djibouti owes over 60% of this debt to China as a major recipient of the Chinese Belt and Road Initiative.
    - Recently, the government has been working to restructure its loans, reaching an understanding with the Export-Import Bank of China on the loan it received for its natural gas pipeline.
    - The country is now also in talks to restructure the loan it received for the Djibouti-Addis Ababa railway.
- **Turkey and Egypt are the latest countries trying to get a foothold in the country.**
  - Turkey has demonstrated interest in Djibouti with the recent donation of the country's largest mosque as well as humanitarian support after Djibouti experienced flash flooding in November. The new Abdulhamid II mosque was built by Turkey. The donations are a gesture of goodwill and a move to forge a stronger relationship between the two countries.

Djibouti Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	6.5	5.1	5.5	6.0	6.0
CPI Inflation (%)	2.7	0.6	0.1	2.2	2.0
Fiscal Balance (% of GDP)	-8.3	-4.5	-2.9	-1.5	-1.7
C/A Balance (% of GDP)	-1.0	-3.6	15.1	-0.3	0.6
Total Gov't. Gross Debt (% of GDP)	45.7	47.9	48.0	47.4	45.8
Total Gross Extrn'l Debt (% of GDP)	62.9	70.5	71.1	70.5	68.4
Gross Official Reserves (Mos. of Imports)	1.1	1.6	1.1	1.0	0.9
Nominal GDP (USD B)	2.6	2.8	2.9	3.2	3.4
Population (Millions)	0.9	0.9	0.9	0.9	0.9

  - Egypt dispatched humanitarian relief in December to support Djibouti after the recent floods. The two sides have also been discussing the establishment of a logistic free zone in Djibouti.
- **Following the arrest of Kako Houmed Kako -- a supporter of the Republican Alliance for Development (ARD) opposition movement -- protests broke out in Djibouti City. Protests are rare in Djibouti and so are indicative of potential future unrest as the country approaches an election in 2020.**
  - During the November protests, youths blocked Djibouti's main cargo supply route which carries agricultural products, fuel and salt between the country and its landlocked neighbour Ethiopia.
  - The ARD is one of four parties in the opposition coalition, The Union for National Salvation. The parties are expected to coordinate protests ahead of the upcoming election.
  - Facing a fractured opposition, a fifth term for President Ismail Omar Guelleh who has been in power since 20011 should not be ruled out.

[1] Arabia Monitor; IMF.

Egypt: Seeking to turn around the struggling private sector

B2/B

- **We have no reason to believe that Egypt's 5.9% economic growth forecast for the fiscal year 2019/2020 is not achievable, which would make it the fastest in the MENA region.[1]**
  - In 2020/21, Egypt is targeting growth of 6.2%. However, it needs sustainable growth rates as high as 8% to create jobs for the 2.5 million people entering a workforce every year that already excludes one in three young people.
    - Strong growth in recent years has resulted in a steady decline in overall unemployment from the peak of 12.9% in 2014/15. It stood at 7.5% in Q4 of the fiscal year 2019/20.
    - However, the youth unemployment rate remains very high at 32.6%, according to the International Labour Organization. Such youth joblessness is intertwined with security concerns, which have weighed on political stability in recent years.
    - At the same time, the World Bank estimates that over 30% of Egypt's 99 million population lived below the national poverty line in 2018/19, with the highest poverty rates in rural Upper Egypt.
  - Egypt's annual core inflation was just 2.7% in October 2019, a 14-year low and well below its 10.5% target for the fiscal year 2019/2020.
    - In November, the Central Bank of Egypt (CBE) cut its key interest rates by 100bps: the overnight deposit and lending rates stand at 12.25% and 13.25%, respectively, after the cut.
      - This followed the October core inflation decline, which was driven by the statistical effect of a high base last year.
      - That effect is set to fade in the coming months but core inflation is still likely to remain within the CBE's target range of 9%, plus or minus 3 percentage points, by the fourth quarter of 2020.
    - We see the monetary policy easing and lower inflation supporting business confidence and local consumption, which will in turn boost private sector activity and encourage much-needed FDI.
    - On 25 November, Egypt's Parliament reappointed Governor of the Central Bank Tarek Amer to his post until 2023, a move that will be welcomed by investors as a sign that the government remains committed to orthodox policymaking.

Egypt Macroeconomic Indicators[2]

	2015/16	2016/17	2017/18	2018/19e	2019/20f
Real GDP Growth (%)	4.2	4.3	5.2	5.5	5.9
CPI Inflation (%)	14.0	29.8	13.1	14.5	10.7
Fiscal Balance (% of GDP)	-12.5	-10.9	-8.1	-8.3	-6.7
C/A Balance (% of GDP)	-6.0	-5.6	-2.6	-2.5	-1.8
Total Gov't. Gross Debt (% of GDP)	96.9	103.2	86.2	86.0	83.3
Total Gross Extrn'l Debt (% of GDP)	18.3	41.3	29.9	34.4	31.3
Gross Official Reserves (Mos. of Imports)	3.0	5.0	6.1	6.6	6.3
Nominal GDP (USD B)	332.0	256.0	306.0	303.0	336.0
Population (Millions)	93.7	95.6	97.5	99.3	101.4

- **The private sector still remains under pressure, but recent initiatives by the government should help boost sentiment, along with the monetary policy easing.**
  - Egypt's PMI slipped to 47.8 in November from 49.2 in October, the fourth consecutive month in contraction territory below 50, driven by lower sales and problems with liquidity.
  - This has in part been a result of the ongoing IMF reforms. But lower interest rates now should improve private sector cash flow through its impact on the lending rate.
  - In December, new government initiatives were launched to support industry, housing and boost investments. They include:
    - A 6.2B USD funding programme for businesses in the industrial sector at an interest rate of 10%;
    - Financing for 5,000 closed factories with an interest relief of USD 1.9B in order to re-open them;
    - A USD 6.2B loan programme for SMEs at a 10% interest rate;
    - About USD 3.1B in financing for housing for middle-income families.

[1] Fiscal year beginning 1 July.
[2] Arabia Monitor; IMF; Central Bank of Egypt.

Iraq: Political instability weighs on economic recovery

Caa1/B-

- **The constitution gave President Barham Salih 15 days from 30 November to name a new prime minister after Adel Abdul-Mahdi stepped down. This has now passed, with no consensus candidate in view. The search for a new successor will need to be accelerated because the current Iraqi constitution does not state how long Abdul-Mahdi's government can remain in office if the nomination of a new candidate is delayed. Meanwhile, the security situation remains fragile.**
  - Small reform packages are being discussed, but progress will be slow and will not necessarily calm the political scene. Even though elections were held in 2018, early elections could come soon if a new electoral reform is agreed.
  - The Iraqi Parliament accepted the resignation of Abdul-Mahdi on the last day of November, a day after security forces opened fire on a group of protesters in Nasriyah, killing and injuring a number of them.
    - Abdul-Mahdi's resignation, which was insisted on by top Iraqi Shiite cleric Grand Ayatollah Ali al-Sistani, was one of the demands of the protesters.
    - The prime minister was losing legitimacy in the eyes of the public after the violent attempts to mollify unarmed protesters.
  - While it is unclear what Iraqi political parties will agree upon, it appears as though the process will face significant pushback from disenchanted voters. This may result in the passing of the new electoral law in preparation for an early election that may take place in 2020.
  - Current protests, mostly around Baghdad but now expanding in the south, will slow progress on next year's budget as they show little sign of dying out. Regularly, annual budgets are delayed due to parliamentary disagreements and political paralysis, and now with the current situation, the new budget will undoubtfully be delayed again.
- **The Ministry of Oil has accepted bids for a long-delayed export pipeline to Jordan. The project will ultimately include a spur connecting Basra to Turkey.**
  - The route will be based on old plans -- from Rumaila to Haditha (carrying 2.25 Mb/d with part of the capacity to go north to Turkey) and then to Aqaba, Jordan (1 Mb/d).

Iraq Macroeconomic Indicators[1]					
	2016	2017	2018	2019	2020f
Real GDP Growth (%)	15.2	-2.5	-0.6	3.4	4.7
Crude Oil Production (M bpd)	4.6	4.5	4.4	4.6	4.8
Oil GDP Growth (%)	24.6	-3.5	-1.3	1.3	10.0
Non-oil GDP Growth (%)	1.3	-0.6	0.8	5.4	5.0
CPI Inflation (%)	-1.5	0.2	-0.1	2.0	2.0
Fiscal Balance (% of GDP)	-13.9	-1.6	7.9	-4.1	-3.5
C/A Balance (% of GDP)	-8.3	1.8	6.9	-5.2	-4.2
Total Gov't. Gross Debt (% of GDP)	64.2	58.9	49.3	51.4	50.5
Total Gross Extrn'l Debt (% of GDP)	38.1	36.0	30.4	32.1	30.9
Gross Official Reserves (Mos. of Imports)	7.8	7.3	8.0	6.8	6.2
Nominal GDP (USD B)	175.2	195.5	224.2	224.1	241.5
Population (Millions)	37.2	38.2	38.4	39.3	39.5

  - The pipeline should help Iraq promote oil exports via integrated infrastructure, which has not been the case to date.
  - The deal will also help meet Jordan's demand for crude oil. The kingdom currently imports oil from Saudi Arabia at international prices by ship and then transports it by land tankers from Aqaba to the oil refinery in Zarqa, east of Amman.
- **While the IMF expects Iraqi growth to pick up to 4.7% in 2020 from 3.4% in 2019 and a 0.6% contraction in 2018, we expect these figures to be revised downwards. The protests -- targeting key economic and oil infrastructure -- threaten overall economic activity, oil exports and food imports.**
  - Both Umm Qasr, Iraq's only deep-water port, and Khor Al Zubair, further north up the river that bears its name, were shut down by protests, but later reopened by Iraqi forces.
  - If such closures become regular occurrences, it will present a major problem, as oil exports, which are transported by trucks from Iraq's central and northern refineries, would have nowhere to go.
  - This would force refineries to shut down due to lack of storage space for the oil, potentially creating fuel shortage in the country.

[1] Arabia Monitor; IMF.

Jordan: Navigating anew with the IMF

B1/B+

- **GDP growth is expected to pick up to 2.4% in 2020 from an estimated 2.2% this year. This remains well below the 6.5% annual growth in the 10 years prior to the global financial crash. Jordan's new budget suggests fiscal consolidation is expected to be slow next year.**
  - ➢ The latest IMF update in November highlighted Jordan's progress in maintaining economic and financial stability, improving the balance of payments, fostering low inflation and rebounding international reserves.
  - ➢ However, the country is struggling to control public debt and meet the target of its three-year IMF programme, initiated in 2016. Public debt is currently equivalent to 97% of GDP (USD 42.4B).
    - The fiscal deficit is expected at 3.2% of GDP in 2020 from 3.4% in 2019 and 4.8% in 2018.
    - Discussions with the IMF are currently underway to succeed the 3-year extended fund facility that ends in March 2020 to support growth.
  - ➢ The government is hoping to increase government revenue in its 2020 budget, without triggering the angry demonstrations that accompanied its 2018 tax propositions.
    - Prime Minister Omar Razzaz says new tax evasion measures will not include imposing new taxes on citizens but will be dealt with through legal and administrative means.
      - This will be by restructuring tax collection, cutting production costs, and upgrading public sector performance framework to eliminate overstaffing.
    - Current expenditure is expected to reach USD 11B, an increase of USD 583M from 2019.
    - Capital expenditure is expected to increase by 28% YoY, with USD 200M allocated to infrastructure and health projects and around USD 166M to public-private partnership projects to revive relations between the two sectors and boost economic growth.
  - ➢ The bright spots are an increase in exports and good growth in tourism. These are expected to help reduce the current account deficit to 6.2% of GDP in 2020 from 7% in both 2019 and 2018.
- **Measures to prevent corruption and increase transparency are also on top of the government's 2020 agenda. The Central Bank of Jordan and the Ministry of Digital Economy and Entrepreneurship are set to launch a new digital payment system early next year.**

Jordan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.0	2.1	2.0	2.2	2.4
CPI Inflation (%)	-0.8	3.3	4.5	2.0	2.5
Fiscal Balance (% of GDP)	-3.6	-3.3	-4.8	-3.4	-3.2
C/A Balance (% of GDP)	-9.4	-10.6	-7.0	-7.0	-6.2
Total Gov't. Gross Debt (% of GDP)	93.8	94.3	94.2	94.8	97.0
Total Gross Extrn'l Debt (% of GDP)	66.3	69.6	67.6	72.1	75.3
Gross Official Reserves (Mos. of Imports)	8.1	8.1	7.4	8.0	8.3
Nominal GDP (USD B)	39.3	40.8	42.4	44.3	46.5
Population (Millions)	9.1	9.4	9.7	10.1	10.2

- ➢ Direct cash payments to government institutions and payments to citizens will no longer be possible. This, along with subsidies and the National Aid Fund to beneficiaries, will be processed through online bank accounts and digital payments.
- ➢ The government is also expected to roll out a new series of measures aimed at stimulating investments and quality of service, complementing its first series package.
  - The first package includes boosting the real estate industry and housing market, the launch of low-interest housing loans as well the activation of the insolvency law to allow investors opportunity to recover from defaults.
  - The second will include administrative changes to resolve shortfalls, red tape bureaucracy and easing the burden on the national budget, by merging eight independent institutions with other entities or cancelled altogether
  - The institutions include the Jordan Meteorological Department, which has been merged into the Ministry of Transport as one of its directorates, the Water Authority of Jordan into the Water Ministry, and the Securities Depository Centre has been suspended with its tasks relayed to the Jordan Securities Commission and the Amman Bourse.

[1] Arabia Monitor; IMF.

Kuwait: Bourse sale succeeds, privatisation complete

Aa2/AA

- **The government's resignation in mid-November was brought on by the enduring standoff with the National Assembly over the use of state funds, distribution of contracts and overall reforms. The disputes could harm the encouraging pace of reform in Kuwait and lower investor confidence.**
  - Anti-corruption protests and disagreements between ministers over the issue resulted in Emir Sabah al-Sabah replacing Jaber Al-Mubarak as prime minister.
  - New Prime Minister Sheikh Sabah al-Khaled al-Sabah (previously foreign minister from October 2011 to November 2019) is a senior member of the ruling family. Other ministers have resigned over corruption rumours and allegations.
  - The unfolding developments are nothing new in Kuwait politics. Similar stories have played out over the last decade or more. It is easy for Parliament to destabilise the government and its reform plans, as only 25 MPs are needed to finalise a no-confidence motion and the decision has to be taken within a week of the motion's submission.
  - Reshuffles at the top of the Ministry of Oil are expected, as in the past.
    - Further pressure on the ministry could endanger current policies such as the resumption of oil production in the neutral zone with Saudi Arabia and the implementation of strategic development projects such as the Al Zour refinery south of Kuwait City.
  - There have been seven governments since November 2011. The next parliamentary elections are due in November 2020.
    - The current Assembly contains a large opposition bloc and is critical of government attempts to introduce fiscal reforms.
    - There is no legal provision regarding the period in which a new Cabinet must be formed.
- **The economy is expected to post strong 3.1% growth in 2020, up from 0.6% in 2019, after returning to positive territory on the back of an expansion in oil output in 2018. Political bickering is always a downside risk.**
  - The IMF expects this to boost oil GDP growth to 3.1% in 2020 from a 0.8% contraction in 2018, driven by higher oil output

Kuwait Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	-3.5	1.7	0.6	3.1
Crude Oil production (M Bpd)	2.95	2.70	2.74	2.79	2.86
Oil GDP Growth (%)	3.9	-7.2	1.2	-0.8	3.1
Non-oil GDP Growth (%)	1.4	2.1	2.5	2.5	3.0
CPI Inflation (%)	3.5	1.5	0.7	1.5	2.2
Fiscal Balance (% of GDP; After FGF Transfer)	-17.9	-12.6	-5.2	-10.4	-11.6
C/A Balance (% of GDP)	-4.6	5.9	12.7	7.4	8.0
Total Gov't. Gross Debt (% of GDP)	10.0	20.7	14.8	17.8	21.0
Total Gross Extrn'l Debt (% of GDP)	38.4	45.2	41.4	45.8	48.7
Gross Official Reserves (Mos. of Imports)	6.5	6.6	7.0	6.8	6.8
Nominal GDP (USD B)	109.4	119.5	141.1	136.9	143.0
Population (Millions)	3.9	4.1	4.1	4.2	4.3

  - Non-oil GDP growth is also expected to pick up slightly to 3% in 2020 from 2.5% in 2019, supported by the ongoing implementation of Kuwait's 2015-2020 development plan.
  - Excise taxes on sugary drinks and tobacco are expected to be introduced in 2020. This will raise inflation to an estimated 2.2% in 2020 from 1.5% in 2019. VAT introduction is planned for 2021.
- **Kuwait's Capital Markets Authority sold 50% of Boursa Kuwait in what was the last stage of the stock exchange's privatisation. The sale -- to Kuwaiti citizens -- was more than 8.5 times oversubscribed.**
  - The privatisation is part of Kuwait's Vision 2035 to strengthen its positioning in the regional financial sector, while also strengthening the contributing role of the private sector to the country's GDP and overall competitiveness and transparency.
  - With 44% of its shares sold in February 2019 to a consortium of investors including Kuwaiti Arzan Financial Group, National Investments Company, Athens Stock Markets and others, Boursa Kuwait is now 94% privately owned. Six percent is retained for government ownership, held by Kuwait's Public Institution for Social Security.

[1] Arabia Monitor; IMF.

Lebanon: Job losses from crisis making things even worse

Caa2/CCC

- **We are unlikely to see progress on forming a new government well into Q1 2020, but we expect the upheaval to be muted over the next few weeks by the returning diaspora for the Christmas holidays and the holiday effect. It cannot be ruled out, however, that heightened emotions during the period could have the opposite effect, leading to more violence.**
  - ➢ Politicians continue to jockey for seats in the next government.
    - Caretaker Prime Minister Saad Hariri announced on 18 December that he would not seek the top post again, on the eve of the twice-delayed talks to name a new PM that were expected to lead to his selection.
    - New names for PM include Hassan Diab (a Professor at the American University of Beirut and former Minister of Education), and Nawaf Salam (an International Court of Justice judge).
      - o Diab, has so far been named by Hezbollah's bloc, Marada Movement leader Suleiman Frangieh's bloc, the Syrian Socialist Nationalist Party's MPs and Deputy Parliament Speaker Elie Ferzli. The Amal Movement's and the Free Patriotic Movement are also set to nominate Diab.
      - o Nawaf is backed by the Progressive Socialist Party and the Kataeb.
  - ➢ In what was the first major international support for the country since the protests began, the UN-created International Support Group for Lebanon met in France and called for the "urgent formation of a competent and credible government".
    - It also called for the adoption of "a reliable budget for 2020" as a first step towards a multi-year fiscal programme.
    - But any concrete international support for Lebanon's economy hinges on reform.
  - ➢ The caretaker PM's office has discussed accepting technical assistance with the World Bank and the IMF. The question is, can this go ahead before a new government is formed?
- **Protests are being driven by the worsening financial crisis, the government's perceived double-dealing and mismanagement, and recent new tax reforms aimed at narrowing the budget deficit. New joblessness is now in the mix.**

Lebanon Macroeconomic Indicators[2]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.6	0.6	0.2	0.2	0.9
CPI Inflation (%)	-0.8	4.5	6.1	3.1	2.6
Fiscal Balance (% of GDP)	-8.9	-8.6	-11.0	-9.8	-11.5
C/A Balance (% of GDP)	-23.1	-25.9	-25.6	-26.4	-26.3
Total Gov't. Gross Debt (% of GDP)	146.1	149.0	151.0	155.1	161.8
Total Gross Extrn'l Debt (% of GDP)	182.0	189.4	191.1	195.7	207.0
Gross Official Reserves Ex. Gold (Mos. of Imports)	14.9	14.6	12.9	10.9	10.1
Nominal GDP (USD B)	51.2	53.4	56.4	58.6	60.5
Population (Millions)	6.7	6.8	6.8	6.8	6.8

- ➢ Since the protests began, it is estimated that more than 160,000 jobs have been temporarily or permanently lost and 10% of all companies have ceased or suspended their operations.
- ➢ The IMF in October revised growth to 0.2% for 2019, down from the 1.4% projected in July. Growth in 2020 is also forecast at a low 0.9%.
- ➢ Inflation could decline to well below 2.6% in 2020 from 3.1% in 2019 and 6.1% in 2018. But price pressures linger from the rise in the cost of oil imports and the weakening US dollar to which the Lebanese pound is pegged.
- ➢ Lebanon's credit rating will only start to recover if the new government starts to implement structural reforms to secure funds from CEDRE. [2]
- ➢ The government was able to settle its latest eurobond repayment in November (USD 1.5B) and we expect it to repay the next USD 1.2B maturing in March 2020. However, payments after March could be challenging.
- ➢ One issue is whether the Banque du Liban is able to inject enough liquidity into the system to prevent the economy from contracting sharply, in particular causing youth unemployment (currently estimated at 37%) to spike dangerously.

[1] Arabia Monitor; IMF.
[2] Conférence économique pour le développement, par les réformes et avec les entreprises«.

Libya: Inching towards a new roadmap for peace

NR/NR

- **Although Libya remains in the grip of its east-west civil war, diplomatic efforts to end the conflict have made some progress. Unravelling the self-destructive crisis remains some way off, however, and Russia is becoming more involved.**
  - ➢ Senior officials of the 5+5+3 countries met in Berlin in November to prepare for a larger peace conference, likely to be early next year. The 5+5+3 formula is designed to keep the numbers of countries involved to a smallish group.
    - They are the UN Security Council's permanent five (US, Russia, Britain, China, France), five key countries (Germany, Italy, Egypt, Turkey, UAE) and three regional organisations (African Union, EU, Arab League).
  - ➢ Some progress was made, although significant obstacles remain. There are six main issues, most of which were outlined in earlier agreements:
    - Imposing a permanent ceasefire;
    - Making sure all countries respect the arms embargo;
    - Reforming the security sector (i.e. Libya's divided military and para-military forces);
    - Getting Libya back to a position where it can run its own political process;
    - Reforming the battered economy;
    - Ensuring respect for human rights and humanitarian law.
  - ➢ One key problem is trust: if Egypt, the UAE and Turkey sign up, for example, will they genuinely adhere to commitments in areas such as the arms embargo?
  - ➢ The situation on the ground in Libya remains relatively unchanged with, as we had analysed, neither the internationally recognised Government of National Accord (GNA) in Tripoli nor the Benghazi-based Libyan National Army (LNA) of General Khalifa Haftar able to secure a victory alone.
- **The IMF expects real GDP growth to have reached 4.3% this year based on oil production at around 1 Mb/d. But such growth will be difficult to sustain in 2020 in the absence of an agreement that reduces oil supply disruptions. Militant factions will continue using oil infrastructure to gain leverage and power.**

Libya Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-7.4	64.0	17.9	4.3	1.4
Crude Oil Production (M Bpd)	0.3	0.8	0.9	1.0	1.0
Oil GDP Growth (%)*	-5.4	116.8	10.5	12.4	…
Non-oil GDP Growth (%)*	-2.0	0.0	5.0	3.0	…
CPI Inflation (%)	25.9	28.5	23.1	15.0	15.0
Fiscal Balance (% of GDP)	-113.3	-43.0	-7.4	-10.9	-14.9
C/A Balance (% of GDP)	-24.7	7.9	2.0	-0.2	-7.8
Total Gov't. Gross Debt (% of GDP)	189.7	140.8	102.5	104.8	111.6
Total Gross Extrn'l Debt (% of GDP)	20.6	…	…	…	…
Gross Official Reserves (Months of Imports)	19.8	…	…	…	…
Nominal GDP (USD B)	18.5	30.6	43.6	45.0	50.4
Population (Millions)	6.4	6.5	6.6	6.7	6.8

- ➢ Haftar has targeted the National Oil Company (NOC)'s oil assets on several occasions. Most recently there have been disruptions in southwest Libya at the El-Feel oilfield, halting 70 kb/d of supply. Oil output has also been hampered by technical breakdowns, protests and sabotage.
  - Though oil production has been sporadic, it has been surprisingly robust, with quick turnarounds.
  - Over the past eight months, since the start of Haftar's Tripoli offensive, production has remained over 1 Mb/d, and reached a seven-year high on April 2019 (1.172 Mb/d). Production averaged 952 Kb/d in 2018, up from 811 Kb/d in 2017.
  - However, lower prices seen this year will have translated into lower revenue for the cash-stripped NOC.
- ➢ Libya is struggling to bring on new supply. BP and Eni postponed oil exploration ventures following the deteriorating security situation. Progress on projects will also be slow due to highly subsidised energy prices and security considerations.

[1] Arabia Monitor; IMF.

Mauritania: Mining continues to drive growth

NR/NR

- **While growth in Mauritania is forecast to remain over 6% in 2020, commodity price volatility could weigh on the outlook.**
  - In December, the IMF revised growth up to 6.9% for 2019 from 6.6% in October, driven by both the extractive and non-extractive sectors.
    - Growth remains strong as a result of higher exports of iron ore, which make up 26% of GDP and of gold, which contribute 20%.
      - With increasing investments, and efforts being put in place by President Mohamed Ould Cheikh El Ghazouani to expand the mining sector, gold production at the Tasiast gold mine, which is located 300 kms north of the capital Nouakchott, is estimated to double to over 24,000 kg/yr by 2020.
    - There has also been a recovery in the agriculture sector, which brings in 25% of GDP.
  - Inflation averaged 3.1% in 2018 due to a rise of food prices, but started to trend downwards during Q1 of 2019 to 1.8% YoY.
    - The IMF projects inflation at the end of 2019 as the impact of lower interest rates wanes, and edges slightly up again in 2020 driven by higher food prices.
    - In mid-2018, the Central Bank of Mauritania eased monetary policy for the first time in 10 years to boost credit to enterprises and households.
    - The policy rate is now 6.5%, down from the 9% in place for most of former leader Mohamed Ould Abdel Aziz's decade in office. The easing is likely to have led to a rise in consumption as money became cheaper to borrow.
  - The relatively steady growth rate, and lower loan disbursements have allowed the country to sustain a steady public debt, declining to 77.4% for 2019 and estimated at 78.9% in 2020.
- **After six months at the helm, Ghazouani pledged to push for structural reform, and strengthen transparency in Mauritania's main extractive sectors to combat corruption.**
  - Despite the large deposits of gold, iron ore and copper, Mauritania has about 33% of its population living below the poverty line with a history of military coups and corrupt leaders.

Mauritania Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.8	3.0	3.4	6.9	6.3
CPI Inflation (%)	1.5	2.3	3.1	3.0	3.4
Fiscal Balance (% of GDP)	-0.5	0.0	3.3	2.1	0.3
C/A Balance (% of GDP)	-15.1	-14.4	-18.0	-17.1	-17.8
Total Gov't. Gross Debt (% of GDP)	78.5	76.8	82.8	77.4	78.9
Total Gross Extrn'l Debt (% of GDP)	87.8	87.7	81.7	60.6	62.6
Gross Official Reserves (Mos. of Imports)	3.5	3.3	3.2	3.8	4.3
Nominal GDP (USD B)	4.7	4.9	5.2	5.6	5.7
Population (Millions)	4.2	4.3	4.4	4.5	4.6

- Ghazouani announced in October the allocation of around USD 550M to establish an anti-poverty agency and provide free legal assistance to fight the poverty epidemic and improve anti-corruption measures.
- This move was most likely in response to protests that erupted in June after the announcement of Ghazouani's victory as president.
  - Ghazouani won with just 52% meaning he has strong opposition.
  - As we had anticipated, the change of guard is already testing the resilience and adaptability of the power structure over which then-incumbent President Abdelaziz had presided in a highly personalized manner for more than a decade.
  - While the protests have been contained, we do not rule out further occasional protests against Ghazouani's rule, but they would unlikely be large enough to destabilise the government or trigger a sharp deterioration of the security environment.
- Ghazouani is also expected to come under pressure to combat the practice of slavery, which continues to affect around 90,000 people in Mauritania, according to the Global Slavery Index.

[1] Arabia Monitor; IMF.

Morocco: Further currency flexibility on the horizon

Ba1/BBB-

- **Growth is expected to rebound in 2020 following a slowdown in 2019 as agriculture output normalises. Privatisations of debt-laden state assets are also expected to improve the fiscal balance and public debt.**
  - ➢ Real GDP is expected to rise to 3.7% in 2020 from 2.7% in 2019, driven by continued fiscal reforms and domestic demand.
  - ➢ As economic growth picks up, overall inflation is forecast at 1.1% in 2020 from 0.6% in 2019.
  - ➢ The government is considering reforms to make taxes more efficient with an eye to lowering the fiscal deficit and gross debt to 3.3% and 64.5% of GDP, respectively, in 2020 (from 3.7% and 65.3% in 2019).
  - ➢ A new privatisation drive will also contribute to improving the fiscal balance and lowering public debt, in turn contributing to economic growth.
    - According to the Ministry of Finance, about 400 state-owned companies and affiliates had debt of about USD 21B in 2018.
    - Some of the companies that will be part of this process include the flagship Royal Air Maroc state carrier, highways authority Société Nationale des Autoroutes du Maroc, and power and water utility Office National de l'Electricité et de l'Eau Potable.
    - The privatisation drive will be led by Chakib Benmoussa, a former interior minister and current ambassador to France, who was appointed by King Mohammed VI in November to lead a committee charged with developing a new growth model for Morocco.
  - ➢ On 10 December, Fitch ratings affirmed Morocco's rating at 'BBB-' with a stable outlook, based on the kingdom's macroeconomic stability.
- **We expect Morocco to move to the next phase of its flexible foreign exchange regime in 2020. Preparations for this reform have been completed and the macro environment in 2020 will be more supportive for the transition.**
  - ➢ In January 2018, Morocco widened the dirham's (MAD) fluctuation band from 0.3% to 2.5% either side.
    - The kingdom took a break from FX reform in 2019, given slower growth.
  - ➢ The IMF has been urging Morocco to expand its exchange rate flexibility by again increasing the float of the MAD.

Morocco Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.1	4.1	3.0	2.7	3.7
CPI Inflation (%)	1.8	1.9	0.1	0.6	1.1
Fiscal Balance (% of GDP)	-4.5	-3.5	-3.7	-3.7	-3.3
C/A Balance (% of GDP)	-5.0	-4.5	-5.8	-4.4	-3.5
Total Gov't. Gross Debt (% of GDP)	64.9	65.1	64.9	65.3	64.5
Total Gross Extrn'l Debt (% of GDP)	33.7	34.5	31.1	32.7	34.1
Gross Official Reserves (Mos. of Imports)	6.1	5.7	5.2	5.2	5.3
Nominal GDP (USD B)	103.3	109.7	118.6	120.7	129.1
Population (Millions)	35.2	35.7	36.0	36.4	36.9

  - ➢ The Moroccan economy would benefit from greater exchange rate flexibility, which would help preserve foreign exchange reserve buffers and improve competitiveness.
- **During the Cabinet reshuffle in October, a junior coalition member, the Progress and Socialism Party, left the governing alliance. However, the coalition -- led by Prime Minister Saadeddine Othmani's Islamist Justice and Development Party (PJD) -- still enjoys a comfortable majority in Parliament.**
  - ➢ The Cabinet reshuffle reduced the number of government ministers from 39 to 23.[2]
  - ➢ While King Mohammed VI said he wanted "new blood" in the Cabinet, some key portfolios -- economy and finance, energy, agriculture, and foreign affairs – remained unchanged.
  - ➢ There were only six new faces including technocratic ministers with no clear party affiliation for health, culture, tourism and higher education. The government remains mostly PJD-dominated.
  - ➢ This was the second government reshuffle under Othmani and comes less than two years before legislative elections, which gives the new ministers limited time to carry out reforms.

[1] Arabia Monitor; IMF.
[2] Minister of Foreign Affairs Nasser Bourita, Minister of Economy and Finance Mohammed Benchaaboun, Minister of Industry Moulay Hafid Ellalmi, Minister of Education Said Amzazi, Minister of Logistics Abdelkader Amara, Minister of Energy Aziz Rabbah and Minister of Agriculture and Fisheries Aziz Akhannouch all maintained their positions. Khalid Ait Taleb replaced Anas Doukkali as the Minister of Health, while Nadia Fettah replaced Mohamed Sajid as Minister of Tourism.

Oman: Tourism strategy reaping rewards

Ba1/BB

- **Economic growth is expected to pick up in 2020 driven in part by a large increase in gas production from the new Khazzan gas project, and by infrastructure spending in both oil and non-oil sectors. However, Oman's general budget still faces challenges posed by fluctuations in the price of oil, on which it is too reliant.**
  - The IMF forecasts Oman's economic growth at 3.7% in 2020, from around zero in 2019, thanks to government plans to increase investment significantly in the Khazzan gas field, southwest of Muscat.
  - Inflation is forecast at 1.8% in 2020 from 0.8% in 2019, driven by higher prices of petrol (raised in December 2019) food, clothing and restaurants and hotels.
  - In the absence of further significant fiscal reform, increased spending in 2020 is expected to keep the fiscal deficit high at 8.4% of GDP compared with 6.7% in 2019 and 7.9% in 2018.
    - The improvement in 2019 was supported by a significant rise in oil and gas revenues and from corporate tax.
    - This led S&P to affirm its "BB/B" long- and short-term foreign and local currency sovereign credit ratings, but with a negative outlook.
  - Although narrowing, the persistently high fiscal deficit is expected to raise the public debt-to-GDP ratio to 63.9% in 2020 from 59.9% in 2019.
  - The current account deficit is also projected at 8% of GDP in 2020 from 7.2% in 2019 and 5.5% in 2018, mainly due to higher imports.
- **Attention to the tourism industry has been paying off. The government's goal is to turn Oman into a model of sustainable tourism for the entire GCC region.**
  - A total 1.2 million guests stayed at Oman's 3- to 5-star hotels in the first nine months of 2019 generating USD 402M, an 8% YoY rise and equivalent to 0.5% of GDP.
  - Regional tourism accounts for 51% of arrivals while the rest is from further afield.
  - Increasing arrivals from Asia and Europe have contributed to the sector's growth over the past decade, but other GCC countries still dominate.

Oman Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	0.3	1.8	0.0	3.7
Crude Oil Production (M Bpd)	1.0	0.9	0.9	0.9	1.0
Oil GDP Growth (%)	3.4	-2.1	4.7	-1.1	5.0
Non-Oil GDP Growth (%)	6.2	2.4	-0.7	1.0	2.5
CPI Inflation (%)	1.1	1.6	0.9	0.8	1.8
Fiscal Balance (% of GDP)	-21.3	-14.0	-7.9	-6.7	-8.4
C/A Balance (% of GDP)	-19.1	-15.6	-5.5	-7.2	-8.0
Total Gov't. Gross Debt (% of GDP)	32.7	46.4	53.4	59.9	63.9
Total Gross Extrn'l Debt (% of GDP)	67.8	91.0	94.0	105.6	112.4
Gross Official Reserves (Mos. of Imports)	7.0	5.5	5.8	5.3	5.0
Nominal GDP (USD B)	65.5	70.6	79.3	76.6	78.7
Population (Millions)	4.4	4.6	4.8	4.9	5.1

- The Oman Tourism Strategy 2016-2040 seeks to make tourism a pillar for diversification and sustainable growth in the economy.
  - To encourage a broader range of visitors, Oman recently revised its visa policies by expanding the list of eligible nationalities to include other regional countries besides the GCC such as Lebanon, and added a number of European and Asian countries to the list. An online portal has also been launched to save time at borders.
- Oman's tourism strategy is also aimed at supporting small- and medium-sized enterprises (SME) and Omanisation in tourism -- the development of the native Omani workforce. Vision 2040 seeks to create up to 12,000 SMEs by 2040 from 4,700 currently.
  - Omanisation of the travel and tourism sector already stands at 40% and is to be increased to 44.1% in 2020. This presents challenges to private tourism companies who want to hire skilled foreign workers.
  - But the local skills shortfall is expected to ease as training programmes, such as those offered at the National Hospitality Institute and Oman Tourism College, begin yielding results and nationals already working in the industry gain experience.

[1] Arabia Monitor; IMF.

Palestine: Calf imports underscore perils of economic dependence

NR/NR

- **Minimal growth of 0.5% is expected in 2020, albeit a large improvement on this year's expected 1.6% contraction. It will be driven by hoped-for expansion of trade with regional allies -- particularly Iraq, Egypt and Jordan -- and by attempts to strengthen domestic production.**
  - In October, the Palestinian National Authority said it was seeking to strengthen its economic relations with Iraq, notably in the energy sector.
    - It has since formally requested Israeli approval to import Iraqi oil through Jordan.
  - Palestinian Prime Minister Mohammad Shtayyeh visited Egypt to discuss bilateral cooperation on 7 October.
    - The two sides agreed to form a joint economic and trade committee to work on enhancing economic cooperation, trade and joint investments.
  - Shtayyeh also visited Jordan in October, and the two sides signed three MoUs on energy, health and transportation.
- **Further economic disengagement from Israel is being attempted by Palestine to achieve a degree of independence. However, the two economies are so entwined, total disengagement is unlikely to be successful.**
  - There is dispute, for example, over attempts by Palestinian farmers to import calves from outside Israel. As a result, Israel has threatened to halt the entry of Palestinian agricultural products (approximately 280-300 tonnes per day) into Israel if what it sees as a "boycott" of livestock continues.
    - The Israeli government has also rescinded Businessman Cards (BMCs) of Palestinian direct importers of calves.
      - The BMCs are permits that allow a limited number of Palestinian business executives to move between the Palestinian Territories and Israel. The permit is valid for a six-month period and allows for overnight stays in Israel.
    - Palestine gets 120,000 calves from Israel annually, 20,000 from Israeli farms, and the rest from Israeli traders importing from abroad.
  - Palestine is almost entirely dependent on oil and gas imports from Israel to meet local demand.

Palestine Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020
Real GDP Growth (%)	4.1	3.1	0.4	-1.6	0.5
CPI Inflation (%)	-0.2	0.2	-0.2	0.5	0.9
Fiscal Balance (Ex-support, % of GDP)	35.2	37.5	39.5	…	…
Recurrent Budget Support (% of GDP)	-8.0	-8.1	-7.3	-7.5	-7.9
C/A Balance (% of GDP)	-10.1	-10.8	-11.3	-10.8	-12.4
Nominal GDP (USD B)	13.4	14.5	14.6	14.4	14.6
Population (Millions)	4.7	4.9	5.0	5.1	5.1

    - It imports around 800 million litres annually. This is worth 700M USD, equivalent to around a fifth of total Palestinian imports.
- **"The Rise of FinTech and Blockchain", Palestine's 16th Expotech, took place in Ramallah in November where Governor of the Palestinian Monetary Authority (PMA) Azzam al-Shawa discussed integrating FinTech into the financial services sector.**
  - The event featured symposiums that demonstrated new technology available within the financial sector.
  - The PMA plans to provide appropriate incubation to support all emerging initiatives in this field and find technological solutions to issues in financial operations.
  - Legislation and regulation for organising electronic payment methods are currently underway.
  - The private sector has been allowed to invest in FinTech since the end of last year.
  - Palestine has a handful of FinTech companies, including PalPay, a mobile payments company that is a joint initiative of the Bank of Palestine PLC and Palestinian tech firm PCNC IT Solutions.

[1] Arabia Monitor; IMF.

Qatar: Slow progress, but labour reform is coming

Aa3/AA-

- **Qatar's economy is expected to post faster growth in 2020, driven by an expansion in the oil and gas sectors. Self-sufficiency would add further momentum.**
  - ➢ Real GDP growth is forecast by the IMF at 2.8% next year, up from 2% this year and 1.5% in 2018.
    - Oil GDP is expected to grow by 1.8% in 2020 from 0.4% in 2019, driven by higher oil exports of 580 Kb/d from 550 Kb/d.
    - The Barzan gas facility comes online in 2020 and investment into the expansion of the North Field gas project is expected to pick up.
  - ➢ If the planned introduction of VAT goes ahead, inflation is expected to rise to 2.2% in 2020, from 0.1% in 2019. The government introduced price controls after Qatar's rift with its neighbours began. They were designed to prevent extortionary profiting from the sale of goods in high demand, especially food items.
  - ➢ Fiscal consolidation is forecast to continue, albeit at a slower rate. In 2020, higher oil and gas revenues are expected to bring the fiscal surplus to 6.9% of GDP, unchanged from 2019. This should provide further room for spending on development projects.
- **Despite slow progress, Qatar is preparing to eliminate some of the most onerous aspects of the Kafala system that regulates migrant workers. Changes are scheduled to take effect in January.**
  - ➢ They include establishing a non-discriminatory minimum wage, removing the need for permits to exit the country and to change employers, which should in turn support wages and private consumption.
  - ➢ Despite this, we expect international pressure to continue building on Qatar to reform its labour laws, especially in light of its hosting of World Cup 2022. If this pressure is kept up, we expect it to have impact beyond Qatar, in other GCC countries.
  - ➢ Qatar is expected to continue working towards improving difficult blue-collar labour conditions, particularly in construction sites related to the World Cup, but developments will remain slow and not as far-reaching as some observers anticipate.

Qatar Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.1	1.6	1.5	2.0	2.8
Crude Oil Production (Mb/d)	0.6	0.6	0.6	0.6	0.6
Oil GDP Growth (%)	-0.9	-0.7	-1.1	0.4	1.8
Non-oil GDP Growth (%)	5.3	3.8	5.3	4.6	4.3
CPI Inflation (%)	2.7	0.4	0.2	0.1	2.2
Fiscal Balance (% of GDP)	-5.4	-2.9	5.3	7.0	6.9
C/A Balance (% of GDP)	-5.5	3.8	9.3	4.6	4.1
Total Gov't. Gross Debt (% of GDP)	46.7	49.8	48.4	52.7	45.9
Total Gross Extrn'l Debt (% of GDP)	127.2	99.6	101.1	106.7	98.3
Gross Official Reserves (Mos. of Imports)	6.1	2.8	5.5	7.8	7.0
Nominal GDP (USD B)	151.7	166.9	192.4	193.5	204.0
Population (Millions)	2.5	2.6	2.7	2.8	2.8

- **We see steps constituting normalisation between Qatar and its GCC neighbours coming over the next few quarters, culminating in resumption of relations without a big announcement.**
  - ➢ Qatari Prime Minister Sheikh Abdullah bin Nasser al-Thani's attendance at the GCC Summit on 10 December -- the most senior Qatari official to visit Saudi Arabia since the rift began -- was in itself an encouraging sign of a potential thaw in relations, despite the absence of the emir, Sheikh Tamim bin Hamad Al Thani.
  - ➢ Small steps by the two sides have demonstrated interest in resolving tensions.
    - In the weeks prior to the GCC summit, hostile social media campaigns on both sides were toned down to create a more favourable environment for the talks.
    - In November, Saudi Arabia, the UAE and Bahrain took part in the 2019 Gulf Cup in Doha, effectively breaking their travel blockade.

[1] Arabia Monitor; IMF.

Saudi Arabia: Gravity-defying Aramco

A1/A-

- **Aramco's record-breaking IPO, a cornerstone of Vision 2030 to diversify the Saudi Arabian economy, represents a major victory for Crown Prince Mohammad bin Salman (MBS) after previous foreign policy and public relations setbacks.**
  - Aramco's domestic stock market debut, which attracted more than USD 106B in bids from institutional investors, ended up raising USD 25.6B, largely from Saudi and Mideast investors rather than from foreign buyers in the US, Europe and Asia.
    - We expect Aramco to attract wider institutional interest going forward as it builds a track record as a listed company, and weathers the international investor doubt that led to the 11th-hour change of IPO strategy, pulling the international roadshow.
  - Non-Saudi institutional investors were allocated about 23% of the total 2 billion shares available, or roughly USD 3.9B, with most of this going to Saudi regional allies Abu Dhabi and Kuwait.
  - Shares in Saudi Aramco dropped for a second day in a row on 18 December, a week after its record initial public offering, pushing its market value just below USD 2T. However, investors are still sitting on a 15% gain from the IPO price.
    - The oil giant's shares, which were originally priced at 32 riyals, opened at 37.5 riyals on 18 December. After shedding some value during the day, they eventually closed 2.8% lower at 36.7 riyals.
- **The government's budget for the 2020 fiscal year was endorsed by the Council of Ministers on 9 December and was in line with the recently released preliminary budget. The government is budgeting for a higher YoY deficit in 2020 (6.4% of GDP), compared with 4.7% of GDP in 2019.**
  - Budgeted government expenditure will total USD 272B in 2020, 2.6% lower than actual 2019 spending.
    - Capital spending will amount to USD 46.1B in 2020, from 2019's USD 45.8B. While this is a nominal rise, the Public Investment Fund and the National Development Fund are expected to take a leading role in investments within the kingdom going forward, a subject of some controversy because of fears they will crowd out others.
  - Revenue is budgeted at USD 222.1B in 2020, split 63%-37% between oil revenue and non-oil revenue.
  - Looking at the budget by sector, education makes up the largest portion of budgeted expenditure, at 19% of the total.

Saudi Arabia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.7	-0.7	2.4	0.2	2.2
Crude Oil Production (M Bpd)	10.4	9.9	10.3	9.7	9.9
Oil GDP Growth (%)	3.6	-3.1	3.1	-3.1	1.7
Non-oil GDP Growth (%)	0.2	1.3	2.2	2.7	2.5
CPI Inflation (%)	2.0	-0.9	2.5	-1.1	2.2
Fiscal Balance (% of GDP)	-17.2	-9.2	-5.9	-6.1	-6.6
C/A Balance (% of GDP)	-3.7	1.5	9.2	4.4	1.5
Total Gov't. Gross Debt (% of GDP)	13.1	17.2	19.0	23.2	28.4
Total Gross Extrn'l Debt (% of GDP)	24.6	27.7	28.1	30.4	32.3
Gross Official Reserves (Mos. of Imports)	31.7	28.2	27.2	26.4	24.1
Nominal GDP (USD B)	644.9	688.6	786.5	779.3	783.3
Population (Millions)	32.4	33.1	33.7	34.2	34.8

    - Meanwhile, a sizeable reduction in military spending is budgeted for the second consecutive year, and is expected to decline by 8% YoY in 2020, to 6.2% of GDP. Globally, this still ranks 1st.
    - Overall only the "general items" category, which includes a number of different spending areas such as on government pensions, social insurance and financing costs, is expected to show yearly rises.
  - According to the fiscal budget statement, provisional 2019 real GDP growth was a weak 0.4% compared with 1.9% forecast by the IMF. The 2020 budget forecasts GDP at 2.3%, in line with IMF estimates.
    - We see the main drivers of growth as the construction sector assuming progress on mega-projects, finance (insurance, housing and mortgage), as well as wholesale & retail trade (driven by a rapid expansion in the tourism, sports and entertainment sectors).
    - Moreover, we expect additional uplift in the non-oil private sector as a result of Saudi Arabia hosting the G20 summit next year.

[1] Arabia Monitor; IMF.

Somalia: Harnessing the ocean's resources

NR/NR

- **Growth in Somalia in 2020 remains consistent with, if not slightly higher than, the last two years, driven by higher investments and a stronger agricultural sector. Downside risks include climate and security shocks.**
  - The IMF projects steady GDP growth of 3.2% in 2020 from 2.9% in 2019 and 2.8% in 2018. Growth is being supported by heightened activity in the construction, financial services and telecommunications sectors as investments are made from Qatar, Saudi Arabia and China, among others.
    - But the economy remains dangerously vulnerable to its over-reliance on agriculture, which comprises 75% of Somalia's GDP and 93% of its exports. There have been floods and landslides recently in the south, for example, and locust infestation in parts of the northwest.
  - Inflation is forecast to ease to 3% in 2020 following a 4% increase in 2019 as food prices were impacted by weather-related issues.
  - Fiscal progress is encouraging, driven by reforms to expand the tax base and strengthen tax policies.
    - However, the revenue is spent on salaries and other operating costs, especially on security-related expenditures, with little space for critical social and development programmes.
  - Without debt relief, Somalia's external debt -- equivalent to its nominal GDP -- is unsustainable, and the country's reserves are minimal (less than one month of import cover).
  - The IMF expects the current account deficit to shrink further to 7.7% of GDP in 2020 from 8% of GDP in 2019 and 8.3% in 2018 as imports and official grant inflows ease.
- **To reduce its dependence on agriculture, Somalia can benefit from its untapped fisheries resources, if the threat of piracy can be contained.**
  - Somalia boasts approximately 3,000 km of coastline (the longest in Africa after Madagascar) and an ocean territory stretching 120 km offshore. Tuna is among the fish that sell for high market prices.
  - The nascent fisheries sector contributes just 1-2% of Somali GDP, however, it employs only 70,000 people in a country of more than 16 million.

Somalia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	2.3	2.8	2.9	3.2
CPI Inflation (%)	1.3	5.2	3.2	4.0	3.0
Fiscal Balance (% of GDP)	0.0	-0.6	0.0	0.1	0.2
C/A Balance (% of GDP)	-6.0	-9.4	-8.3	-8.0	-7.7
Total Gov't. Gross Debt (% of GDP)	…	…	…	…	…
Total Gross Extrn'l Debt (% of GDP)	105.3	103.3	99.5	99.5	99.5
Gross Official Reserves (Mos. of Imports)	…	…	…	…	…
Nominal GDP (USD B)	4.1	4.5	4.7	4.9	5.2
Population (Millions)	14.3	14.7	15.1	15.6	16.0

  - Overall, data collection on the fisheries sector especially on catches has been very limited but this is expected to improve.
    - The UN Food and Agriculture Organization (FAO) calculates that the 2018 fish catch was 100,000 tonnes compared with 18,000 in 2003 and 30,000 in 1994.
    - In October, the Ministry of Fisheries and Marine Resources (MFMR) and the state ministries of fisheries in Galmudug, Jubaland, Puntland, Hirshabelle and Southwest started the implementation of a nationwide pilot fisheries catch data collection, in partnership with Secure Fisheries and the FAO.
  - The country, however, lacks the right infrastructure. This would create opportunities for those more experienced in deep sea fishing and have the right infrastructure.
    - The Chinese are already taking advantage of this opportunity. In December 2018, Somalia granted fishing licenses to 31 Chinese vessels to exploit tuna and other species off its coast.
    - To protect small-scale fishing operations, the MFMR has also ensured that foreign vessels have a limited area where they can operate.

[1] Arabia Monitor; IMF.

Sudan: Sanctions remain, but US relations continue to thaw NR/NR

- **While bilateral relations between Sudan and the US have grown stronger since Abdallah Hamdok took up his post as prime minister in August, it is unlikely that Washington will remove Sudan from its State Sponsors of Terrorism list in the near future. That is desperately needed if the economy is to recover from recession and high inflation.**
  - ➢ Hamdok visited Washington in December, the first Sudanese head of government welcomed there since 1985, meeting officials including US Under Secretary of State for Political Affairs David Hale, who has had a long career in MENA affairs.
  - ➢ In a sign of the general thawing of relations, it was announced that the US would begin exchanging ambassadors with Sudan for the first time in 23 years.
  - ➢ However, Hamdok was unsuccessful in accomplishing his primary goal -- the removal of Sudan from the US terrorism blacklist. This requires approval in Congress.
    - US House Committee on Foreign Affairs Chairman Eliot Engel welcomed moves towards democracy in Sudan, but expressed concern about the continued need for financial transparency as well as about the remnants of the old regime who may still support international terrorism.
    - Sudan's status on the sponsor of terrorism list makes it ineligible to receive debt relief or restructuring assistance from the IMF and World Bank.
- **While it remains on the US list, Sudan will be unable to take many strides towards economic recovery as the burden of its debt hinders significant growth and perpetuates high inflation. Aid from GCC countries and the European Union should help, however.**
  - ➢ The IMF October Economic Outlook projects inflation at 62.1% in 2020 -- damagingly high, and an increase from the 2019 inflation rate of 50.4%.
    - It also projects Sudan to remain in recession, with a 1.5% GDP contraction in 2020 compared with a 2.6% decline in 2019.

Sudan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	1.7	-2.2	-2.6	-1.5
CPI Inflation (%)	17.8	32.4	63.3	50.4	62.1
Fiscal Balance (% of GDP)	-4.4	-6.5	-7.7	-5.4	-11.1
C/A Balance (% of GDP)	-7.6	-10.0	-13.6	-7.4	-12.5
Total Gov't. Gross Debt (% of GDP)	128.4	159.2	212.1	207.0	212.8
Total Gross Extrn'l Debt (% of GDP)	123.3	155.4	206.9	203.7	211.9
Gross Official Reserves (Mos. of Imports)	0.9	1.1	1.3	0.9	0.8
Nominal GDP (USD B)	55.6	45.9	34.3	30.9	33.7
Population (Millions)	39.8	40.8	41.8	42.8	43.8

- ➢ Sudan's debt continues to wreak havoc on its economy with debt-to-GDP projected to remain unsustainable at 212.8% in 2020 -- a slight increase from 207% in 2020. External debt also stands at similar levels.
- ➢ Because it cannot get debt relief from international financial organisations, Sudan has turned to foreign governments, especially the GCC, for a lifeline.
  - Saudi Arabia and the UAE disbursed USD 1.5B earlier this year with an additional USD 1.5B expected to be received by the end of 2020. Sudan's central bank received USD 500M while USD 1B went to support the petroleum, wheat, and agricultural sectors.
  - The EU also agreed to give Sudan USD 516M in grants and humanitarian aid in October.
  - This is well short of what Sudan needs, however: Hamdok has said Sudan requires USD 8B in foreign aid to cover its import bill and help rebuild its economy.

[1] Arabia Monitor; IMF.

Syria: Only three countries helping rebuild

NR/NR

- **Turmoil in neighbouring Lebanon is taking a toll on the Syrian economy through lower remittances and as the Syrian pound has fallen in value.**
  - Since international sanctions were tightened earlier this year, the Syrian pound has fallen in value while food and commodity costs have increased. The UN, meanwhile, estimates that 80% of Syrians now make less than 100 USD per month.
    - The Syrian pound went into free fall in November, dropping in value from about 700 to 820 SYP to the dollar on the black market.
    - The official rate has remained stable at 434 SYP to the USD, but still a sharp devaluation from before the onset of the conflict when it was trading at 47 SYP per USD.
  - Many Syrians have kept their money in Lebanese banks since the Syrian conflict erupted, however they are now unable to withdraw large sums as Lebanon has imposed capital controls to avoid capital flight.
  - A drop in remittances is also affecting the pound as many Syrians have opted to buy dollars to preserve their savings.
- **Syria is turning to Iran, Russia and China, the three countries still in support of the current political structure, to help rebuild the country's infrastructure.**
  - Iran has signed a deal to help rebuild Syria's electricity grid. An MoU was signed covering the construction of a power plant and transmission lines to cut losses in Syria's electricity network by connecting the two countries' grids through Iraq.
  - Earlier this year, Chinese Minister of Education Chen Baosheng said his country was ready to provide aid for artificial intelligence development and the rehabilitation of facilities damaged in Syria. The Chinese have already started investing in Syria's hospitality business.
    - Louvre Hotels Group, owned by China's Jinjiang International, is to open two hotels in Damascus.
  - In addition to Moscow's investments in the Syrian energy sector, Russian businesses have already established footholds in other sectors of the Syrian economy, and have secured advance deals such as power generation projects in Homs, a rail line linking Damascus International Airport to the city centre, and contracts in a number of industrial plants.

Syria Macroeconomic Indicators[1]

	2012	2013	2014	2015	2016
Real GDP Growth (%)	-18.9	-18.7	1.8	-15.0	-4.0
CPI Inflation (%)	36.7	91.7	36.4	15.2	40.0
Fiscal Balance (% of GDP)	-16.9	-12.3	-8.6	-7.3	…
C/A Balance (% of GDP)	-15.3	-12.2	-10.5	-10.8	…
Total Gov't. Net Debt (%of GDP)	54.1	52.5	53.2	58.7	…
Total Gross External 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

- **The 14th round of the Astana Syria peace talks started in the Kazakh capital NurSultan on 10 December. The talks are promising per se, although are a limited step forward. They offer little hope of real peace.**
  - There have been meetings between the Syrian government's delegation and that of Russia, as well meetings between the Russian delegation and the representatives of the Kurdish National Council, which is part of the wider Syrian opposition delegation.
  - Russian Presidential Envoy to Syria Alexander Lavrentiev said that Moscow and Ankara had agreed not to expand the Turkish safe-zone within Syria, noting it would do no good.
    - He acknowledged that there had been clashes (due to "provocations") but noted that the situation was stabilising.
    - There are nonetheless signs of confusion in the areas of Operation Peace Spring, the Turkish offensive into north-eastern Syria. Syria's army and the Turkish-backed Syrian National Army both took positions around Shakrak near Ain Issa (Raqqa) before withdrawing, leaving it unclear which faction is officially expected to control the area.

[1] Arabia Monitor; EIU. Figures subject to downward revision.

Tunisia: It would help to have a government

B2/NR

- **Newly appointed Ennahda Prime Minister Habib Jemli is struggling to find a ruling coalition with the minimum parliamentary majority of at least 109 seats. He has asked the president for another month to try. In the meantime, we do not expect any major moves towards fixing the struggling economy.**
  - ➢ The 109 seats means Jemli will require the backing of at least one other party as his own has only 52 seats, 17 fewer than before the 2019 election.
    - A number of major parties have rejected Ennahda's proposal to name a prime minister from their own ranks.
    - The Democratic Current, with 22 seats, has said it will only join a coalition if it can head the ministries of justice, interior, and administrative reform.
    - The Echaab (The People's) Movement, with 16 seats, proposes the formation of what it called the "government of the president". It wants President Kais Saied to appoint an independent figure that he trusts and that is supported by the parties in parliament as head of the government.
    - The secularist Tahya Tounes, with 14 seats and led by outgoing Prime Minister Youssef Chahed, has chosen to remain in opposition. It joins the Free Constitutional Party, which maintains loyalty to former leading party Nidaa Tounes.
  - ➢ If Ennahda fails to reach an agreement with other parties by the new January deadline, the president would have a month to consult other political parties about forming a government.
    - If this initiative were also to fail, the Tunisian Constitution allows for Saied to dissolve the Assembly and call for fresh legislative elections.
    - Given the fragility of Tunisia's democratic transition, this scenario would be the least favourable.
    - The current outlook also threatens formation of a weak ruling coalition, and the possibility of early elections.
  - ➢ We expect technocrats to head the important "sovereign" ministries -- defence, interior, foreign affairs and justice. But the establishment of the Constitutional Court is also urgent business for the new government.
- **Spending in 2020 remains focused on wages and debt payments, but tourism will drive economic activity.**

Tunisia Macroeconomic Indicators[1]					
	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.1	1.9	2.4	1.5	2.4
CPI Inflation (%)	3.6	5.3	7.3	6.6	5.4
Fiscal Balance (% of GDP)	-6.2	-5.9	-4.6	-3.7	-2.8
C/A Balance (% of GDP)	-9.3	-10.2	-11.2	-10.1	-9.1
Total Gov't. Gross Debt (% of GDP)	62.3	70.3	77.0	81.5	82.2
Total Gross Extrn'l Debt (% of GDP)	66.9	81.7	83.1	98.4	107.8
Gross Official Reserves (Mos. of Imports)	3.1	2.7	2.6	3.0	3.3
Nominal GDP (USD B)	41.8	40.0	39.9	36.2	35.1
Population (Millions)	11.4	11.5	11.7	11.8	11.9

- ➢ Growth is estimated to recover to 2018's level of 2.4% in 2020 after a slower 1.5% in 2019. Tourism will help, but slow economic reform will feed malaise.
  - British low-budget airline EasyJet will resume flights to Tunisia in May; it cancelled its services in 2015 following the Sousse terrorist attack.
- ➢ Inflation is projected at 5.4% for 2020, a decrease from 2019's estimated 6.6% and 2018's 7.3% as the impact of higher food and transport prices wanes. It is also being squeezed by monetary tightening.
- ➢ The government projects the fiscal deficit to decline to 2.8% of total GDP in 2020 from 3.7% in 2019 and 4.6% in 2018.
  - A budget of USD 16.6B was approved for 2020, the largest ever in the country's history.
  - But a breakdown highlights that once wages (40% of the budget) and interest payments (22%) are made, little is left for development spending.

[1] Arabia Monitor; IMF.

UAE: Space exploration, leading the Arab take-off

Aa2/NR

- **In November, the IMF revised its growth forecast for the UAE upwards to 3% for 2020 from 2.5% previously forecast in October. This compares with 1.6% growth expected this year versus 2.3% forecast by the Central Bank of the UAE.**
  - The improved outlook is due to expected rises in public and private spending at the federal and emirate levels, and to higher investment ahead of the highly anticipated Expo 2020. Continued easy monetary policy in the US is also expected to help.
    - Growth will partly be driven by the three-year USD 13.6B economic stimulus package that was announced by Abu Dhabi last year and brought together under the "Ghadan 21" plan launched in June this year.
    - There is significant progress in the initiative. The latest is the USD 250M unveiled by Mubadala in October, including a USD 150M "fund of funds" programme that will invest in 15 venture funds committed to supporting Abu Dhabi's Hub71 ecosystem, an initiative under the Ghadan 21.
  - The UAE has now approved a federal budget of USD 16.7B for 2020, the largest ever. It is 1.8% larger than in 2019 and 18% more than 2018. Assuming it meets its objectives, the UAE says this would be the third consecutive year in which the budget is balanced. It last had a deficit in 2017.
    - Although the federal budget represents only a fraction of overall UAE spending (because individual emirates have their own budgets), it is significant because it allows federal entities to provide for security, social programmes and some utilities.
    - For 2020, 33% (vs 34.8% in 2019) is allocated to social development programmes such as housing and healthcare.
- **The UAE Mars mission will launch in 2020. The Emirates Mars Mission orbiter is set to arrive to Mars in 2021 to coincide with the 50th anniversary of the founding of the UAE.**
  - The UAE aims to be among the top countries worldwide in the field of space technology by the time the orbiter reaches the Red Planet. A new space law expected in the coming months should help facilitate interest and investment in the sector.

UAE Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.0	0.8	1.7	1.6	3.0
Crude Oil Production (M Bpd)	3.0	2.9	3.0	3.1	3.2
Oil GDP Growth (%)	2.6	-3.0	2.6	3.2	1.7
Non-oil GDP Growth (%)	3.2	2.5	1.3	2.7	4.0
CPI Inflation (%)	1.6	2.0	3.1	2.1	2.1
Fiscal Balance (% of GDP)	-2.0	-1.6	-1.8	-0.8	-1.7
C/A Balance (% of GDP)	3.7	6.9	6.6	5.9	5.1
Total Gov't. Gross Debt (% of GDP)	20.2	19.7	18.7	19.2	19.0
Total Gross Extrn'l Debt (% of GDP)	69.6	72.6	68.6	68.7	66.4
Gross Official Reserves (Mos. of Imports)	3.3	3.7	3.8	4.3	4.6
Nominal GDP (USD B)	357.0	382.6	424.6	427.9	449.1
Population (Millions)	9.2	9.4	9.5	9.7	9.8

- 2014 was a turning point in developing the national space sector with the founding of the UAE Space Agency (UAESA) -- the region's first.
  - In the same year, the UAE leadership announced its intention to explore Mars and its atmosphere.
- In September 2019, two Emirati astronauts were sent to the International Space Station.
- The UAE is also planning to diversify into space tourism. In March, UAESA signed an MoU with Richard Branson's space tourism company Virgin Galactic for cooperation on potential tourist flights.
- The space law was approved by the government in October 2018 and now is in its final stages before coming into effect.
  - The new law will also have a key role in attracting more international companies to the UAE's space sector.

[1] Arabia Monitor; IMF.

Yemen: Peace on the horizon?

NR/NR

- **The conflict in Yemen has been winding down with the potential of peace talks on the horizon. The UAE has been drawing down its military presence for several months with a full withdrawal from Aden and Hodeidah. Saudi Arabia has also begun to seek peace with Iranian-backed Houthi rebels suggesting, the kingdom may want a truce.**
  - ➢ The Yemeni government in Aden, backed by Saudi Arabia, and the UAE-supported southern separatists signed a power-sharing deal last month to end their infighting that erupted over the summer.
    - The agreement will result in a government reshuffle to include the separatists with equal representation, and their armed forces will be placed under government control.
    - All military and security forces will be incorporated into the defence and interior ministries.
  - ➢ Saudi Arabian officials have separately been in informal talks with Houthi rebels since late September. The two groups have been communicating via video conference, a negotiator for the Houthis told the Associated Press. The negotiations are taking place with Oman as mediator.
    - The Houthi rebels offered to halt cross-border missile and drone attacks on Saudi cities if the Saudi-led coalition ended airstrikes.
    - United Nations envoy for Yemen Martin Griffiths has told the UN Security Council that the number of airstrikes by the Saudi-led coalition has dropped dramatically since September.
- **Yemen's economy began to show signs of stabilisation earlier this year but the situation remains fragile as potential violence continues to threaten growth.**
  - ➢ Economic prospects are uncertain and depend on the political and security situation. The IMF's latest estimate of GDP growth for 2019 of 2.1% remains consistent with its view earlier this year. Projected 2020 growth remains stable at 2%.
  - ➢ The fragmentation of state institutions, including the Central Bank of Yemen (CBY), has interrupted the supply of foreign exchange for essential imports and the payment of public sector salaries, fuelling inflation.

Yemen Macroeconomic Indicators[1]	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-13.6	-5.1	0.8	2.1	2.0
Crude Oil Production (M bpd)	0.0	0.0	0.1	0.1	0.1
CPI Inflation (%)	21.3	30.4	27.6	14.7	35.5
Fiscal Balance (% of GDP)	-9.3	-5.3	-6.3	-6.9	-7.2
C/A Balance (% of GDP)	-3.2	-0.2	-1.8	-4.0	1.3
Total Gov't. Gross Debt (% of GDP)	79.6	84.3	64.8	56.3	568.0
Total Gross Extrn'l Debt (% of GDP)	22.4	28.2	21.5	18.9	24.9
Gross Official Reserves (Mos. of Imports)	1.2	0.8	0.5	1.4	2.0
Nominal GDP (USD B)	28.1	24.6	27.6	29.9	23.0
Population (Millions)	27.5	28.2	28.9	29.5	29.8

    - The inflation rate for 2019 was revised by the IMF to 14.7% in October from 20% previously forecast in July. However, the projected inflation rate for 2020 is up at a dangerous 35.5%, indicating a cautious stance towards the security situation.
    - The Yemeni rial has gained some value against the USD. A dollar currently trades at YER 250.31 as the benchmark rate set by the CBY. This moves it closer to the exchange rate of YER 215 to the USD before the start of the crisis four years ago.
- **While geopolitically and economically things are stabilising, the humanitarian crisis remains dire as disease and food shortages continues to ravage the country. The fallout was predictable.**
  - ➢ The International Committee of the Red Cross has reported a new outbreak of dengue fever in Yemen, with thousands of cases and several dozen deaths.
  - ➢ The World Bank has been working to address aspects of the crisis by expanding urban sanitation. But there is much more to do.
  - ➢ Yemen continues to rely on humanitarian assistance from NGOs and international organisations for basic goods and services.

[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 (+)	29-Nov-19	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	Aa2		Affirmed O/L Stable	02-May-19	AA		Affirmed O/L Stable	02-Jul-18	Ratings could be lowered 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	Ba1	(-)	Downgraded O/L (-)	05-Mar-19	BB		Affirmed O/L (-)	19-Apr-19	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. Signs that succession risks have risen could be perceived as disrupting governance standards or institutional functioning.
Qatar	Aa3		Affirmed O/L Stable	13-Jul-18	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 O/L Stable	01-May-19	A-		Affirmed O/L Stable	30-Mar-19	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	29-Aug-19	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	08-Nov-18	B+		Affirmed O/L Stable	16-Mar-19	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	Caa2		Downgraded O/L RUR-	05-Nov-19	CCC	(-)	Downgraded O/L (-)	15-Nov-19	Ratings could be lowered further if over the next 12 months economic growth is slower than anticipated, or if the current political upheaval escalates, resulting in domestic conflict or acute risks to institutional stability.
Morocco	Ba1		Affirmed, O/L Stable	20-Nov-18	BBB-		Affirmed O/L Stable	04-Oct-19	If higher economic growth were to exceed forecasts, exchange rate flexibility to increase markedly, and Morocco's institutional and governance quality to rise above that of similarly rated peers, this would be supportive of a ratings upgrade.
Tunisia	B2	(-)	Affirmed O/L (-)	16-Oct-18	N/R				Implementing structural reforms agreed under the extended IMF programme, including public bank recapitalisation and governance reform would be credit positive. A sustained fiscal and external rebalancing would also create conditions favourable to a ratings upgrade.

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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