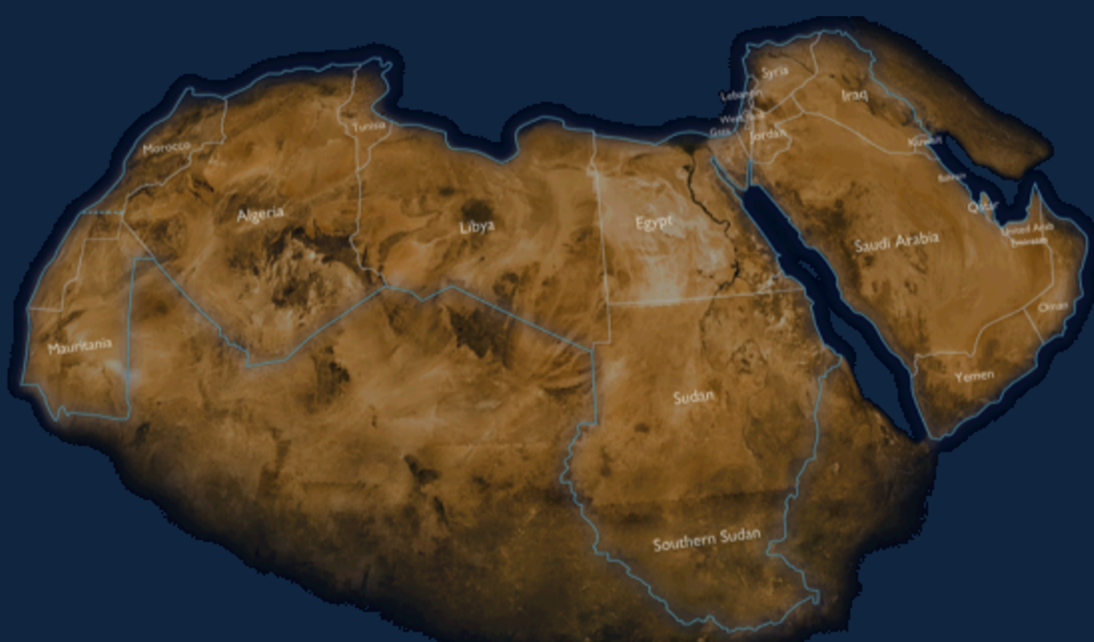
MENA Energy:
Cloudy winter gives way to a green spring

Middle East & North Africa Outlook
Q2 2021



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Outline

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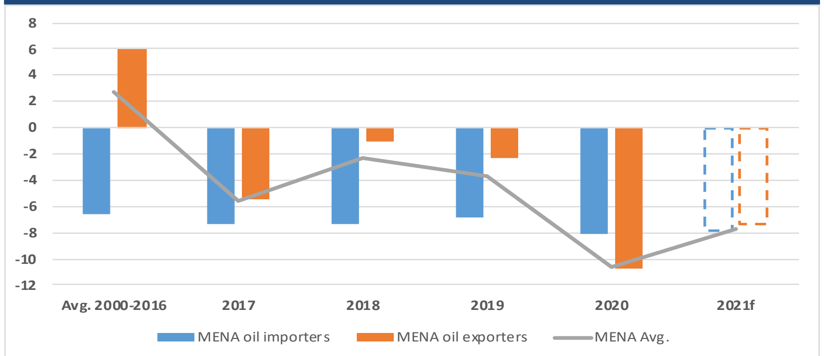
Our View: MENA's energy transition continues apace

- **Our regional theme this quarter on the MENA region's energy transition, focuses on the growth of renewables over recent years, their potential benefits and challenges. We highlight planned investments in emerging green sectors and the appetite for green bonds, as oil-exporting countries in the region seek to deepen their capital markets, while expanding their diversification efforts.**
  - ➢ The deployment of renewable energy in the MENA region is not new but it is rapidly expanding. Investment in renewables has seen a nine-fold increase over the past eight years and is expected to reach over USD 182B and add up to 57 GW of capacity by 2025.
    - Renewables are being spurred on by the rapid growth in domestic energy demand, the ensuing need for economic diversification, the importance of pursuing fiscal consolidation, as well as tightening constraints from international environmental policies. Whether the level of investments will meet expectations will be determined, at least in part, by oil prices, policy commitment, and geopolitical stability.
  - ➢ Solar energy continues to lead renewable energy generation in the region, followed by wind energy. This is due to high levels of solar irradiation and wind potential across the region.
    - Government-driven auctions and net-metering schemes are gaining traction and are driving down cost and attracting overseas investments. This is key for solar photovoltaic (PV) technology in particular, as it becomes the most competitive form of clean power generation.
  - ➢ Advances in technology are driving the emergence of a new shade of hydrogen. Going forward, we expect to see green hydrogen dominating the alternative energy market and playing a key role in the success of the region's energy transition.
    - The GCC countries are presented with an untapped opportunity to lead the global market and become the largest green hydrogen exporters due to their abundant and low-cost solar energy.
    - Short-term barriers to entry include high costs, as well as production and transportation complexities. But the rapid pace of technological improvements means that green hydrogen production costs are expected to fall sharply in the long term.
  - ➢ The surge in demand for clean energy and the growing number of investments in the pipeline are propelling governments to push for green financing regulatory frameworks. This is designed to position the region at the forefront of the green market.

Figure 1 – Fiscal Balances (% of GDP)[1]



  - ➢ While MENA's green bond market remains in its infancy, we expect that issuance and project deals will continue to grow, virtually exponentially, over the next decade. With green sukuk on a high, this could create attractive opportunities for private investor participation.

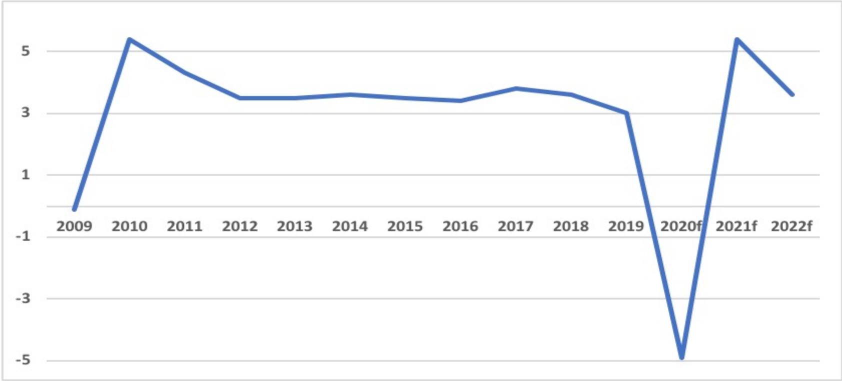
- **In our MENA update, we discuss how the region faces mixed prospects for recovery as, overall, it remains vulnerable to the global slowdown. The uneven progress in vaccine rollouts across different countries supports our view that pockets of opportunity will emerge earlier for some than for others.**
  - ➢ Despite the recent rally in oil prices, budget deficits for oil-exporting countries in the region are likely to remain substantial. This underscores the limited scope for additional fiscal stimulus to support recovery and, combined with the interest rate outlook, is set to encourage further debt issuance this year.
  - ➢ While a return to some form of Iranian nuclear deal is on the agenda, diplomacy between the US and Iran is in a slow tango. The key question is whether a new deal would be the same, better or worse than the previous one, which was by no means applauded by a series of countries, including regional heavyweights like Saudi Arabia and the UAE.

[1] Arabia Monitor; IMF.

Global Outlook: No V curves in sight

- **Going into Q2 2021, the recovery picture varies across the world. With the global economy still struggling with the pandemic, some countries are further ahead in the recovery process than others. The fast-paced launch of vaccines, however, has made us sanguine about prospects for a strong turnaround in the second half of the year.**
  - ➢ Reflecting a vaccine-powered upturn, the IMF forecasts global GDP for 2021 to grow by 5.5%, and by 4.2% in 2022, from the sharp 4.4% contraction in 2020.
  - ➢ The path back to normality, nonetheless, will remain long, uneven and uncertain. We expect that most economies will return to their pre-pandemic levels of output by 2022, and to their pre-pandemic trends by 2024.
    - EMs, along with tourism-dependent and commodities-based economies, are in a weaker position. The difference between the US economy, which is rebounding, and the EU economy, which is drifting, also suggests that the divergence in performance could widen over the coming quarters.
    - The US could well surpass its pre-crisis GDP growth rate in Q2 of 2021, while the eurozone will take longer, not returning to pre-crisis levels until H2 of 2022.
  - ➢ The sizable fiscal support announced in some countries, including most recently in the US and Japan, combined with the unlocking of Next Generation EU funds, will help lift activity in advanced economies and support this year's growth outlook. This could also provide positive spillovers to global trading partners.
  - ➢ While some EM central banks are laying the groundwork for tightening conditions, we believe that accommodative monetary policy support, globally and across large parts of EMs, will be kept in place for a while longer to allow for effective fiscal and structural policy.
    - This has prompted questions about long-term ramifications, most notably about runaway inflation. Consistent with negative output gaps and uneven recovery, inflation is expected to remain subdued this year.
  - ➢ For the MENA region, the outlook remains uneven and will depend partly on governments vaccine plans. We see most MENA economies undergoing a U-shaped recovery, some wider-bottomed than others.

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



    - The IMF estimates MENA real GDP will rebound by 3.2% in 2021, compared with the 3.8% contraction in 2020.
    - Fiscal consolidation, new tax measures, and the anaemic recovery in tourism and contact-intensive service sectors will continue to hold back business sentiment in the region at least until H2 of this year.

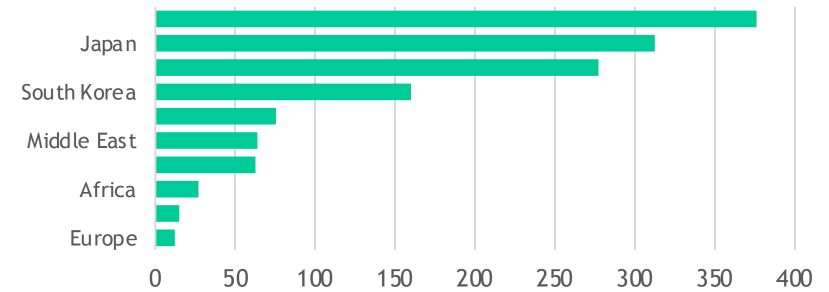
- **Additional downside risks to the outlook include oil price volatility and trade-related uncertainty.**
  - ➢ While oil prices managed to break out of their tight trading ranges during Q1 2021, Brent prices are not likely to rise over the USD 65-75 pb range this year according to the IEA. Oil demand, however, is forecast to increase by around 5.4M bpd in 2021.
  - ➢ Downside risks to demand remain, including delays in global vaccine penetration and supply side factors such as OPEC+ spare capacity, and the potential return of Iranian production.
  - ➢ Given the current state of undersupply and Saudi Arabia's one-million-barrel joker card, we see the balance of oil price risks for this year tilting to the upside, despite Libyan production.

[1] Arabia Monitor; IMF.

Energy Outlook: ICE Murban Futures Launch Marks New History in Oil Pricing

- **ADNOC has launched the ICE Murban Futures as a brand-new oil pricing benchmark.**
  - The company has made the critical decision to end destination restrictions on its Murban crude grade as well as its other crude export grades marked against it in a bid to make the new contract a success.
    - The contract will be traded on ICE Futures Abu Dhabi (IFAD) on a physically settled basis and is forward-priced by two months instead of the old retroactive system where buyers come to know of the final price after a cargo has been loaded.
  - The launch is a landmark event for ADNOC and makes the UAE the first country to base all its OSPs on an exchange.
    - Middle East national oil companies (NOCs) typically determine official selling prices (OSPs) of their crude grades, based on their reading of the market and set premia or discounts to traded benchmarks, usually Brent, Dubai Oman and West Texas Intermediate (WTI).
    - DME Oman, traded on the Dubai Mercantile Exchange, has proved to be an excellent mechanism for buyers to obtain physical oil, and in 2018, Saudi Aramco began using it to price some of its exports.
    - However, trading levels on the DME are significantly lower than on other international benchmarks like Brent and WTI. Saudi Arabia leads Gulf OSPs and the other NOCs follow.
  - Murban addresses many of the issues with older international benchmarks.
    - WTI is a landlocked crude priced in Oklahoma and is often more representative of US factors than international ones. It also went negative in 2020 amid a fall in crude demand during the pandemic, as paper traders got stuck with crude they could not take or sell.
    - Brent is characterised by declining production of the British and Norwegian crudes that underpin it and has run into repeated issues that have had to be resolved.
    - Murban, meanwhile, is a light, sweetish crude (with slightly higher sulphur levels) that loads from Fujairah, outside the potentially risky Strait of Hormuz with consistent production quality (earmarked for expansion from the current 1.8M bpd) and steady volumes.
    - ADNOC now provides a 12-month forecast of Murban crude availability which, out to next March, indicates more than 1M bpd, compared to Brent's depleting stream of <0.8 M bpd.
- **The success of the contract is based on future global oil flows heading to Asia. This is also reflected in ADNOC's statements of wanting to establish Murban as the key global benchmark for pricing all crude exports into Asia.**

Figure 1 – Murban Crude Offtake by Region (Volumes in Mbbl, indicate Asia to be the largest market), 2016-2019



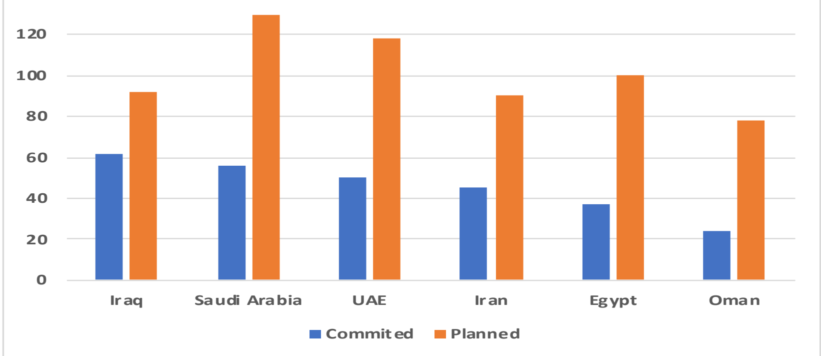
- The rise of exports of US shale to Asia has also created a new trade flow, requiring new benchmarks to improve transparency. Occidental, Chevron, and Trafigura have already signed MoUs in recent months to price US crude exports to Asia off the ICE Murban Futures contract, and more could be on the way.
  - Regional producers might be some of the last to price their crude against Murban due to intra-regional politics, and because Murban's physical characteristics differ from other regional, which might limit its viability. The key to success will be attracting and building liquidity.
- Delivery of Murban at Fujairah may boost the terminal as a major trading hub.
  - Fujairah is one of the world's top three ports for bunkering (third to Singapore and Rotterdam) and ADNOC is in the process of adding a 42M bbl underground storage facility in addition to its existing 8M bbl storage facilities.
  - Other expansion plans are in the works by Emirati firm Brooge Energy, and Ecomar, which will also support Fujairah becoming the hub of a financial settling mechanism.
  - Longer-term, it will lend more sophistication to ADNOC and the UAE oil economy, helping it move beyond reliance on crude exports.

[1] Qamar Energy Research; OIES

MENA Energy: Investments power through

- **The disruption in global oil and gas activity in 2020 has had dramatic effects on energy investments and supply chains, presenting an opportunity to steer the energy sector onto a more resilient and sustainable path.**
  - Global energy sector investments plunged by nearly USD 400B last year, a 20% YoY contraction. Prior to the pandemic, investment in the energy sector was on track for 2% growth – this would have been the largest annual rise in spending in six years.
    - Investments in oil and coal have been the most affected, followed by gas, with renewables the least impacted.
    - The weakening in the competitive position of gas versus renewables, along with the increasing adoption of environmental policies on the back of significantly lower carbon dioxide emissions in 2020, will continue to reduce MENA's coal-fired electricity generation in 2021.
  - According to APICORP's updated five-year outlook, total energy sector investments in MENA are expected to exceed USD 790B, a 17% drop compared with their previous outlook.
    - Saudi Arabia, Iran, Iraq, and the UAE are expected to lead this trend, while Egypt and Oman are expected to be contributing their shares.
  - Of the USD 466B in planned investment in the energy sector for the next five years, the gas and power sectors are expected to lead and receive 59% of the total, followed by the oil sector (22%), with petrochemicals receiving the rest.
  - Despite a year of project delays and cancellations, and with oil-exporting countries focusing on recreating fiscal space, renewables-based power sectors are expected to rebound with investments continuing on an upward trend.
    - The IEA expects the region will add 4.12 GW of renewables capacity in 2021, after a low of 1.86 GW in 2020.
    - This is because renewables have minimal variable costs and typically have priority grid access, which means fluctuations in demand tend not to affect output as much.

Figure 1 - Committed & Planned Energy Investments (USD, B)[1]



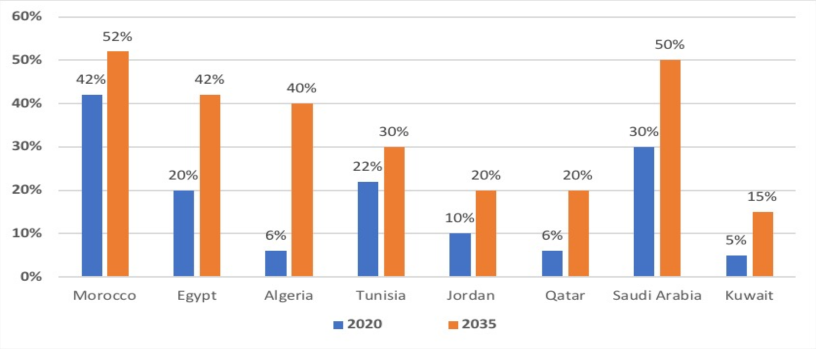
    - In 2020, renewables-based energy generation increased mainly due to the growth of wind power and an increase in solar PV output from new projects, and higher residential power demand (driven by the work-from-home policies) with the share of electricity supply nearing 28%. This is a 26% increase from 2019 levels.
  - While plans forge ahead, the region will continue to face several important challenges in the short-to-medium term. The bright spot is that the growth of renewable energy in the MENA region has not been delayed by low oil prices in previous years.
  - Barriers to entry, however, continue to hold the region back from unleashing its full green potential. Such issues mainly stem from the the lack of cost-reflective tariffs, long timeframes for implementation of procedures and delayed requests for bids.
  - These are key downside risks to attracting a steady flow of private investments and accelerating the region's energy transition.

[1] Arabia Monitor; APICORP.

Renewable Energy: Where are we now?

- **In 2015, at the 21st Conference of Parties (COP21) on climate change in Paris, 16 MENA countries agreed to limit greenhouse gas emissions. Initially, this decision was met with scepticism, as fossil fuels are the backbone of the economies in the region, particularly in the GCC. Six years on, that attitude has changed as the region has made significant strides in introducing environmental, social and corporate governance (ESG) standards.**
  - The deployment of renewables is growing rapidly in the MENA region, and investment in renewable energies has seen a nine-fold increase during the past eight years. By 2025, investment in renewable energy is expected to reach USD 183B.
  - Across the region, around USD 150B is being invested in solar power, and USD 28B in wind energy, waste-to-energy, hydro and geothermal power plants.
  - By 2025, the region is expected to see its renewable energy capacity from solar and wind increase by a factor of 18, amounting to 57 GW of capacity.
    - Most countries in the region have set ambitious targets, with Morocco leading the way, as the kingdom aims for 52% of its electricity to be produced from renewables by 2030, up from 42% in 2020. Egypt is another regional leader, with a 42% renewables target in 2030 from 20% in 2020.
  - With the vulnerability of international energy markets, as emphasised by the events of 2020, economies which have traditionally relied on oil are accelerating their transition to renewables and reinforcing their commitment to the green transition.
    - In the GCC alone, renewable energy capacity grew by an annual rate of nearly 180% between 2018 and 2020 to 7GW. To continue on this ambitious path, significant investments in renewables will be needed.
    - For instance, Saudi Arabia's Vision 2030 aims to increase the share of clean energy to 50% of its total energy mix. In order to meet this target, the kingdom is hoping to attract USD 20B in investments over the next decade.
    - Similarly, the UAE is planning to make 50% of its energy consumption clean by 2050, from 25% currently, which will entail an annual investment of USD 4.6B for the next 29 years.

Figure 1 - Renewable Targets (% Energy Mix)[1]



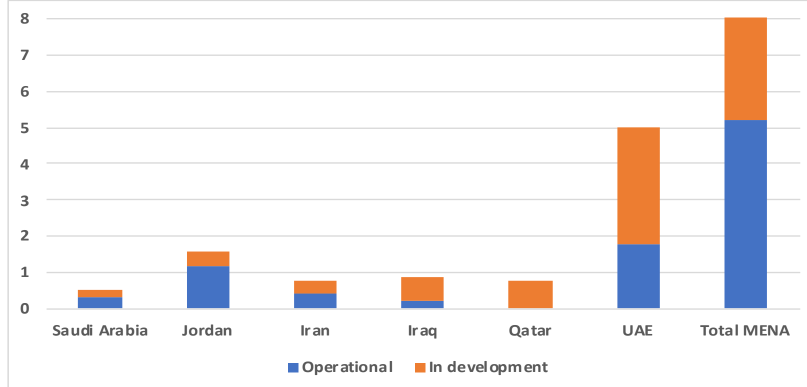
  - The establishment of these standards has been followed by the implementation of ambitious projects across the GCC, particularly in the UAE, which has notably surpassed global averages in the development of solar power.
    - The UAE launched its 2050 energy strategy in 2017, aiming to reduce the carbon footprint of power generation by 70%.
  - Several projects have been launched in order to reach this target.
    - For instance, the region's first solar-driven hydrogen electrolysis pilot plant was inaugurated in October 2020, at the Mohammed bin Rashid Al Maktoum Solar Park.
    - The park, which is expected to be fully operational in 2022, is set to be the world's largest generator of solar energy from a single location, with a capacity of 5GW by 2030, at a cost of USD 13.6B.
  - The UAE is also leading the region in nuclear energy, becoming the first GCC country to generate power from a nuclear reactor in 2020. Once all the country's nuclear plants are operational, they are expected to produce 5.6GW of energy, enough to meet 25% of the UAE's needs.

[1] *Arabia Monitor; Ministries of Energy of respective countries.*

Solar Energy: From mirage to reality

- **The MENA region has been offering some of the world's lowest costs for developing solar energy, as a result of lower module prices and increased competition. The price decline in solar energy, however, does not mean a slowdown in the sector. Beyond the current crisis, the future for solar energy in many ways looks brighter.**
  - ➢ The global solar industry has proven to be particularly resilient and adaptable as solar power capacity grew by 25 times, from 23 GW in 2010 to 618 GW in 2020. It is expected to more than double to reach 1300 GW in the next three years. In MENA, the growth of installed solar capacity has also been significant, reaching 4.3 GW in 2020 from 2015's 3 GW.
    - Given the region's more pronounced capacity in solar compared with wind energy, we expect to see a further 1.8 GW in solar capacity added this year, with a target of 8.3 GW by the end of 2022.
    - Whether the 2022 target will be met remains to be seen, but the growth trend in recent years means the outlook is promising. The planned investment of USD 182B in solar energy over the coming four years is expected to support this.
  - ➢ The solar energy market is expanding significantly as government-driven auctioning and net-metering schemes are driving down costs and attracting investments. Financing costs have also decreased as investors recognise the low risk associated with solar assets.
    - Solar power is now cheaper than most alternative power sources. Within a decade, solar could be decidedly less expensive than coal in MENA. In 2019, the UAE's Al Dhafra Solar project hit the world's lowest solar price at below 1.35 US cents/kWh.
  - ➢ Solar photovoltaic (PV) is expected to account for most of the new capacity in the region, and the market for PV is expected to be much more diversified than concentrated solar power (CSP) and wind.
    - The region's current operational PV capacity is estimated between USD 5B and USD 7.5B, with an additional USD 15B worth of projects set to be completed by 2024.
  - ➢ The largest PV markets in the region will be Jordan and Egypt - which comprise independent power producer (IPP) tenders, EPC projects and commercial and industrial projects - and the UAE, mainly due to Mohammad bin Rashid Al Maktoum Solar Park, DEWA's Shams rooftop programs and the Al Dhafra solar plant.
  - ➢ Secondary markets are projected to be Saudi Arabia, Morocco, Iraq, and Qatar, where new tenders are being launched and large utility-scale projects are being realized.

Figure 1 - Solar PV Capacity (GW) as of 2020[1]



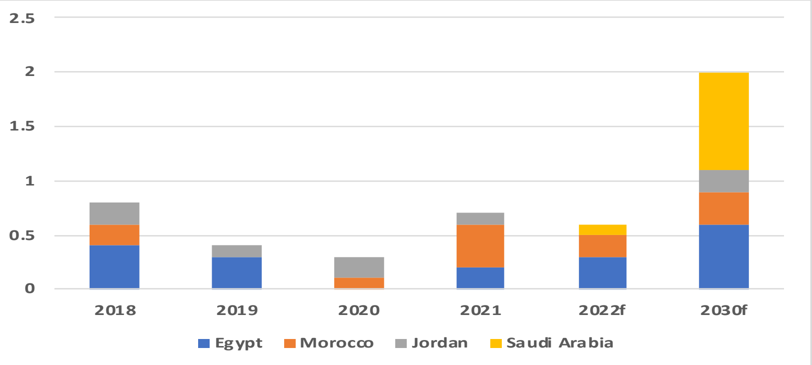
  - One of the upcoming projects in Saudi Arabia is round three of the National Renewable Energy Programme (NREP)'s four 1.2 GW solar projects by the Renewable Energy Project Development Office.
- ➢ The lack of clear regulatory frameworks, standardised tariffs and offtake mechanisms that support investment for reaching target renewable capacities are key issues that the region continues to face. While each country has taken some of the steps needed to encourage investment in renewables, more will be needed to pave the way for further progress.
  - Grid infrastructure and management abilities are a challenge because they are not ready to support large-scale power supply from renewable sources. This restricts the scope of developments but, as a late entrant to the market, the MENA region can benefit from the experience of European forerunners.
- ➢ Smart grid infrastructure developments are finding their way onto governments' renewable energy investment agendas, which will be key to enabling higher levels of renewables in electricity systems.
- ➢ Grid modernisation in MENA countries still lags behind other regions, but this is rapidly changing as the energy transition trend gains momentum. Investment in smart grids is forecast to reach USD 17.6B by 2027.

[1] Arabia Monitor; IRENA.

Wind Power: Cruising forward

- **Wind power has been an essential part of MENA's energy transition. In recent years, wind energy production has been growing at a steady pace, with the region increasing its production capacity by around 800 MW annually since 2018. The production of wind power is forecast to increase by 167% to reach 10.7 GW of capacity by 2024.**
  - Despite COVID-19 affecting supply chains and project deadlines globally, wind capacity expansion has not slowed down in the MENA region.
    - In 2020, an estimated 821 MW of new wind power capacity was installed across the region, from 894 MW in 2019.
    - Morocco led the region, installing 92 MW during the year, trailed by Jordan (52 MW), Iran (45 MW), and Egypt (13 MW).
    - This brings the total wind capacity to 7 GW, with accelerated growth on the horizon as countries ramp up wind projects.
    - Overall, Egypt ranked first in wind energy capacity at 262 MW, followed by Morocco at 216 MW and Jordan at 190 MW.
  - Egypt is set to cement its status as the regional leader in wind power production, with several megaprojects in the pipeline. The country is aiming for 14% of its energy mix to come from wind energy by 2035, as part of the state's National Renewable Energy Strategy.
    - In October 2020, the government announced plans to build a 2 GW wind power mega complex in the Gulf of Suez.
    - Upon completion, the wind farm is expected to supply 500,000 Egyptian homes with power and increase Egypt's renewable power capacity production to 10 GW.
  - Jordan is also making important strides in wind energy provision, as the country aims to transition towards energy self-sufficiency.
    - With the country's annual energy demand growing at 3%, and energy imports constituting 10% of its GDP, it is imperative that Jordan increase its domestic energy production.
    - Jordan currently has five operational wind power plants, in Tafilah, Ibrahimiyah, Hofa, and Maan, which generate 80 MW, 320 kW, 117 MW and 1,125 MW respectively.

Figure 1 - Annual Wind Additions (GW)[1]



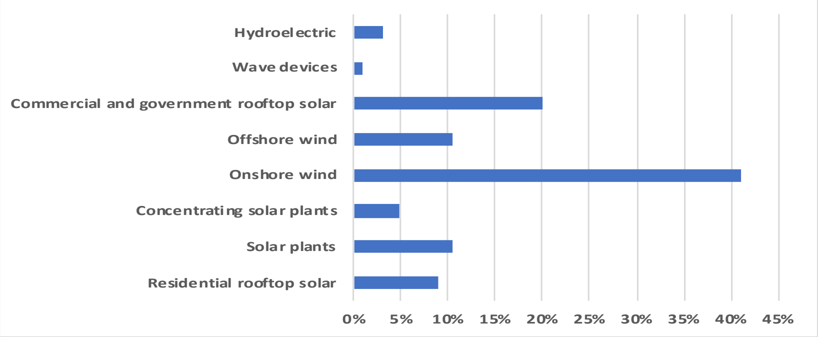
    - Investments from GCC countries have been key to Jordan's wind transition, as the Tafilah project was a co-development partnership between UAE's Masdar and the Saudi Al Blagha Group, costing a total of USD 287M.
  - In the coming years, Saudi Arabia is expected to inch close to Egypt, or even surpass it, in terms of wind energy production. The kingdom is ambitiously planning to have 27.3 GW of renewable energy in its energy mix by 2024.
    - As things stand, Saudi Arabia is planning to install 13.5 GW of wind energy by 2028, which would account for 46% of new additions in the region.
    - The kingdom is set to be home to the region's largest wind farm, the Dumat Al Jandal project, which would have a capacity of 400 MW and cost USD 500M.
    - Additionally, Saudi Arabia is set to build 30 solar and wind energy projects with investments surpassing USD 50B, in an effort to reduce its oil dependence.

[1] Arabia Monitor; IRENA.

Morocco: MENA's renewables superpower

- **Morocco has positioned itself as the leading player in the region in terms of renewables. Since 2009, the kingdom has developed an ambitious renewable energy programme aimed at increasing the share of renewables to 42% of power capacity in 2020, and 52% by 2030, from a mere 10% in 2014.**
  - Morocco's long-term aim is to reach 100% renewables by 2050, an impressive but achievable target, with ambitious projects and investments in the pipeline for the kingdom.
  - So far, the kingdom has implemented 47 renewable energy projects, with an additional 100 programs under development.
    - Under the National Climate Plan for 2030, the country will seek investments of USD 50B in green energy over the next 10 years, a significant portion of which is expected to come through green financing.
  - Morocco has invested an estimated USD 5.8B in renewables since the beginning of its climate change policy and has installed nearly 4,000 MW of renewable energy sources.
    - Of the total, 750 MW allocated to solar energy, 1,430 MW to wind and the remaining 1,770 MW to hydroelectric power.
    - The kingdom has pushed ahead with large-scale developments, such as the Noor Power Station in Ouarzazate, the world's largest concentrated solar power plant project, which supplies the nation with 580 MW of solar power.
  - In addition to this, Morocco has several solar energy projects in the pipeline, which are set to produce 2,000 MW when fully operational.
    - The country has also launched the Green Generation 2020-2030 plan, which aims at developing the agricultural sector through the promotion of irrigation instead of rain-fed farming.
    - Through this program, the country plans to invest an estimated USD 35B in vulnerable industries, notably water, agriculture and forestry, over the next decade.
  - Morocco is also in the process of drafting an environmental code, which is expected to include more concrete, targeted engagements to reduce greenhouse gas emissions and meet the country's environmental targets. The government has specifically appointed a Special Commission on the Development Model to this end.

Figure 1 - Morocco's Planned 2030 Energy Mix[1]



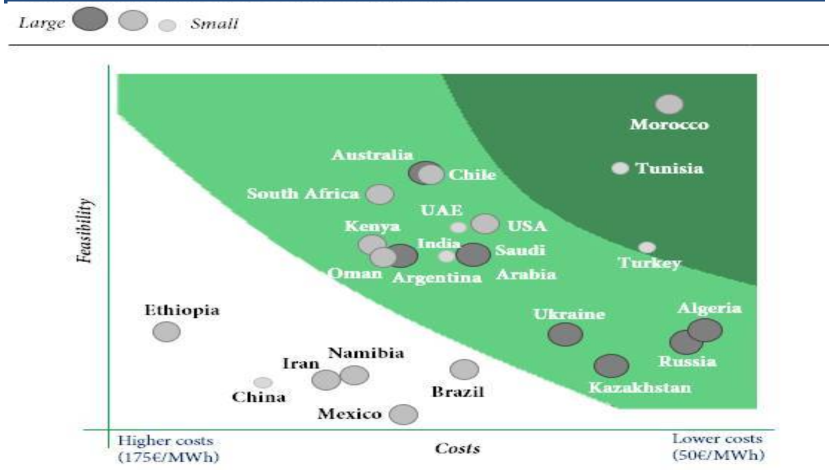
  - Morocco's impressive efforts in the sector have earned an endorsement from the European Green Deal, which has identified the kingdom as a strategic partner.
    - The EBRD stepped up its green financing to the kingdom in June 2020, offering a USD 24.7M grant, in addition to USD 23.5M earlier in February 2020. Both donations were aimed at helping Moroccan businesses invest in green technology.
  - Additionally, Morocco is stepping up its contribution to green hydrogen development, as the Minister of Energy, Mines and Sustainable Development, Aziz Rabbah, has announced that the kingdom is on track to produce enough green hydrogen to meet between 2% to 4% of the global demand by 2030.
    - This target is expected to be achieved through cooperation with EU countries, notably Portugal and Germany, which Morocco has signed green hydrogen agreements with.
    - It is therefore not a surprise that the country has been recently ranked the top in MENA in the 2021 Green Future Index by MIT[2], which measures the degree to which countries are investing in renewables and green finance.

[1] *Arabia Monitor*; The Ministry of Energy, Mines and Environment.
[2] The Green Future Index by MIT Technology Review is a ranking of 76 countries and territories on their progress and commitment toward building a low carbon future.

GCC: The Green Hydrogen Rush

- **Clean hydrogen is becoming the poster child for decarbonisation, with the MENA region rapidly increasing investments in the sector. Given the quality of local solar and wind resources, the GCC is well placed to lead the green hydrogen market.**
  - Hydrogen is widely used as a feedstock in various industrial settings, ranging from oil refineries to ammonia, methanol and steel production. Pure hydrogen is mostly produced using fossil fuels, including natural gas, oil and coal, meaning it is associated with CO_2 emissions.
  - But as the world looks towards a low-carbon future, the production of green hydrogen, which is supplied from renewable energy and electrolysis has grown rapidly, with France (26%), Germany (24%), and Japan (23%) leading the sector globally.
    - Global green hydrogen demand is forecast to reach about 530 Mt by 2050, from 40 Kt in 2019. By 2025, hydrogen production could replace around 10.4B barrels of oil, which is equivalent to 37% of pre-pandemic global oil production, and it is expected to meet 25% of the world's energy needs by 2050. This underscores the crucial role of green hydrogen in the global energy transition.
  - In the MENA region, the green hydrogen sector remains small, in that it both lags and has untapped potential. With the region's reputation for embracing green technologies, however, we believe the market will expand rapidly.
  - The GCC, in particular, holds significant advantages in the production of green hydrogen, and could potentially be more cost-competitive relative to other regions due to its abundant, low-cost solar energy. Saudi Arabia is already leading the sector regionally and is competing to become the global powerhouse for green hydrogen.
    - Saudi Arabia's ACWA Power, in a joint-venture with US chemical company Air Products & Chemicals, is building a USD 5B green hydrogen plant in the new mega-city Neom, which is set to open in 2025.
    - The completed facility will use 4 GW of solar and wind power to produce 650 tons of green hydrogen per day. This would be enough to run 20,000 hydrogen-fuelled buses.
    - Production will not only be used at home. Saudi Arabia plans to export hydrogen overseas as ammonia at an annual capacity of 1.2 Mt. In producing at such levels, the kingdom has the potential to lead the green hydrogen export market, which is estimated to be worth USD 300B yearly by 2050.

Figure 1 - Green Hydrogen Export Potential By 2050[1]



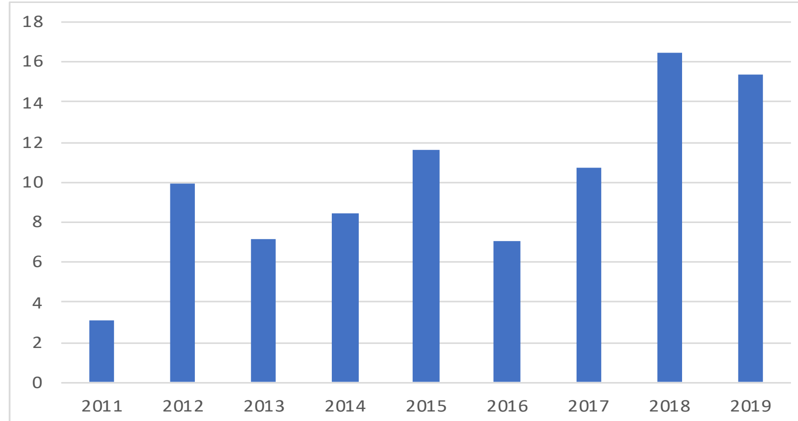
- Meanwhile, in the UAE, the Abu Dhabi Hydrogen Alliance was formed in January 2021 to accelerate the emirate's adoption and use of green hydrogen in sectors such as utilities, mobility and industry.
- Oman is also showing interest in green hydrogen after announcing its HyPort green hydrogen project. In March 2020, the Belgian firm DEME Concessions announced the development of a 500 MW green hydrogen plant in the port of Duqm with the intention to export to international markets.
- Going forward, as the region develops a green hydrogen national strategy and launches projects in the pipeline, MENA countries are presented with the challenge of scaling their green energy capacity and become global hydrogen suppliers.
- We expect the GCC governments to create a supportive regulatory and investment framework to deepen activity in the sector and encourage investments, while in parallel, accelerate their diversification plans.

[1] Qamar Energy.

Green Finance: Seeking a sustainable recovery

- **The urgent need to address climate change has driven investors across the globe to prioritise green finance. To date, there is at least USD 31T held in sustainable or green investments globally, up 34% from 2016. In the MENA region, the market is still meagre, as green financing commitments account for only 1% of the global share (around USD 2B). But this is changing as countries in the region seek to embrace ESG investments.**
  - With energy markets ever vulnerable to technological disruption, geopolitical risk and, more recently, pandemic-induced economic shock, countries in the MENA region are rapidly seeking sustainable forms of development. This has encouraged governments to expedite private capital into projects that alleviate climate change.
    - To meet the 2030 UN Sustainable Development Goals, it is estimated that emerging markets require an investment of USD 2.5T annually – with a large proportion of this needed in the MENA area.
    - Green investments globally are expected to grow 18-fold from current levels, to reach USD 180B in the next five years.
  - Green finance in the MENA region is still at an early stage, but with government participation growing, it is expected to develop rapidly. Particularly as regional sovereign wealth funds start to integrate ESG policies and ramp up investments in the green sector.
  - Currently, the GCC countries are leading the charge as several governments have prepared the necessary regulatory groundwork to build a green finance sector that would help reach the various energy targets.
  - The UAE in particular is emerging as a leader in this field. In January 2020, the first guiding principles on sustainable finance in the country were agreed upon by the Dubai Financial Services Authority.
    - These are expected to facilitate the transition of the UAE into a regional green hub, as the principles create a standard framework for financial firms that seek to incorporate ESG considerations.
    - The Dubai Electricity and Water Authority established the Dubai Green Fund, which aims to raise USD 27.2B in green-tagged assets to finance green projects.

Figure 1 – MENA's Clean Energy Investments (USD,B)[1]



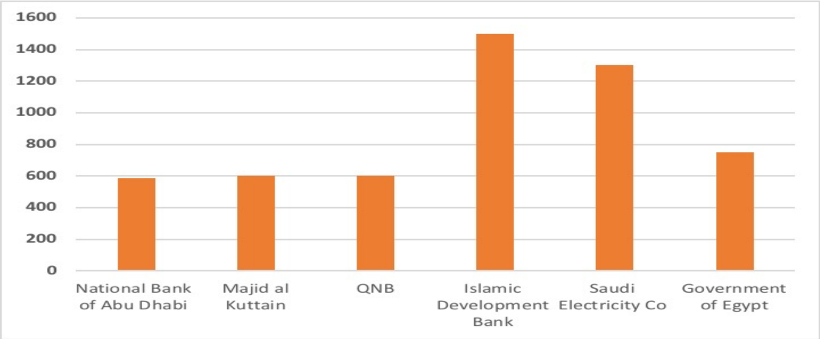
  - Abu Dhabi is also replicating these steps. In 2018, Masdar City, a planned sustainable urban development project, signed the first green revolving credit facility in the MENA region to fund the emirate's sustainability projects, totalling USD 75M.
  - We expect these measures to be mirrored by others in the GCC, as a lack of standardised regulations could obstruct the transparency and growth of green finance going forward.
  - In Jordan, sustainable financing has also been fast-growing in recent years. Due to the increasing demand for energy, and the requirement to meet its renewable energy target, we expect investments to continue on an upward trend, driven by both domestic and international investors.
    - In 2019, the EBRD financed a loan of USD 15M along with two local banks – Jordan Kuwait Bank (USD 9M) and the Arab Jordan Investment Bank (USD 6M) – to finance 70 GW projects and reduce carbon emissions by 41,500 tonnes annually.

[1] *Arabia Monitor*; Statista.

MENA Green Bonds: Sukuk add a new shade

- **Traditionally, green financing lenders in the region have been local and international banks, but recently, capital markets are playing a more important role. While the green bond market remains small in the MENA region, it has shown impressive growth over the past three years and is set to continue on an upward trend, especially with the emergence of green sukuks.**
  - ➢ The MENA green bond market has been limited so far, as the region's share makes up USD 2B out of the USD 230B global green bond market.
  - ➢ Green sukuks similarly account for less than 3% of global sukuk issuance – there are currently 15 active green sukuks in the region. With the demand for sustainable finance rising in the region, prospects for further growth are promising.
    - GCC states are among the 14 highest per capita carbon dioxide emitters globally, so they have a strong incentive to push forward with this new green identity.
  - ➢ We are already seeing this happening in several countries across the region. The first green bond in the region was issued by the National Bank of Abu Dhabi for USD 587M in 2017.
    - In 2020, Qatar National Bank issued Qatar's first green bond, worth USD 600M, for which it received over USD 1.8B in total subscriptions.
  - ➢ The green bond market is expanding beyond the GCC.
    - In September 2020, Egypt issued the MENA region's first-ever sovereign five-year green bond, worth USD 750M at a yield rate of 5.25%.
    - The issuance was oversubscribed by more than five times, and attracted over USD 3.7B in bids, with 89% of the demand coming from foreign investors.
    - We expect Egypt's green bond market to grow in competitiveness in the coming years as it begins to lock in a higher investor base from abroad.
  - ➢ Sukuks are taking on a new shade of green across MENA. Given the demand for Shari'a-compliant vehicles, this suggests there is large potential for growth, particularly this year as governments seek to diversify their financing sources and take advantage of the low interest-rate environment.

Figure 1 - MENA Green Bond Market[1]



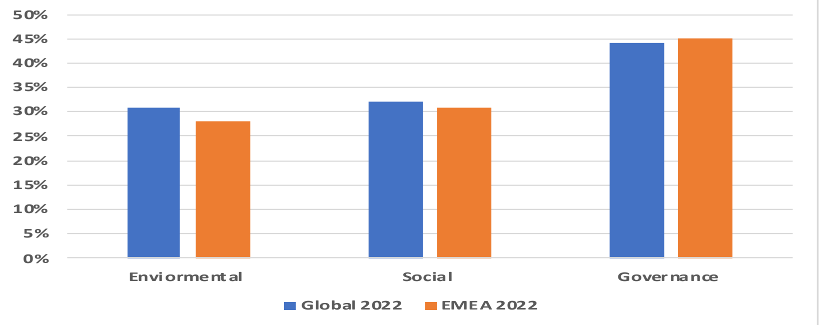
  - ➢ Global sukuk issuance is forecast to increase by 11% YoY to about USD 155B in 2021. This compares with the 16% YoY decline witnessed last year from USD 167B issued in 2019.
    - Investor appetite for the region's green sukuk debt is already strong. In September 2020, the state-owned Saudi Electricity Company (SEC) issued the kingdom's first green sukuk, a multi-tranche at USD 1.3B, which was four times oversubscribed.
    - Proceeds are used to finance the kingdom's 'Smart Meter' rollout scheme, a national programme which forms part of SEC's digital transformation plans.
    - The GCC's first green sukuk was issued in May 2019 by Dubai real estate firm Majid Al Futtaim, for USD 600M.
    - This was followed by the Islamic Development Bank issuing a USD 1.5B debut green sukuk in 2019, the first to be AAA-rated in global capital markets.
  - ➢ The need for a new energy paradigm in the region is clear, and with oil-exporting countries compelled to diversify, including via clean energy, we expect the sector to grow exponentially over the next few years, with the demand for green issuance continuing on an upward trend.

[1] Arabia Monitor; S&P Capital IQ, GCC Stock Exchanges.

ESG: Nascent yet gathering pace

- **Internationally, the emergence of Environmental, Social, and Corporate Governance (ESG) practices has accelerated considerably in the past few years. Investments in sustainable assets exceeded USD 30T in 2019, up by 30% from 2016. This considerable growth reflects a change in investor preferences, as the demand for impact-driven investments is reallocating capital towards ESG-themed solutions. ESG growth in MENA, which is only just beginning to adopt the concept, should follow suit as regulatory frameworks are introduced.**
  - In MENA, the pandemic has shed light on the importance of overall social welfare and increased awareness of environmental and governance issues. This, in turn, has reinforced the importance of ESG investing.
    - According to HSBC's Sustainable Financing Survey, currently around 93% of capital market issuers and 65% of investors in the MENA region realise the importance of incorporating ESG practices. While the investor figure is low relative to other regions, this is set to grow given government efforts towards ESG standardization.
  - Recently, sovereign wealth funds (SWFs) in the region have been playing a key role in driving the introduction of ESG practices. This is expected to speed up the adoption rate.
  - In 2019, around 60% of SWFs deployed a top-down ESG policy approach, up by 13% from 2017.
    - 65% of SWFs are now implementing ESG into their fixed income portfolios. This demonstrates optimistic prospects for further integration of ESG practices as investors are gaining knowledge on how these practices drive value and sustainable growth.
    - Green bonds are at the forefront of satisfying growing demands for ESG considerations, nearly 50% of SWFs and 30% of central banks have invested in green bonds.
  - The acceleration in efforts by market regulators is mainly seen in the launch of sustainability disclosure reports and indices by the regions' capital markets.
    - Abu Dhabi Securities Exchange (ADX) issued a set of ESG guidelines to encourage the private sector and listed securities to adhere to ESG principles in reporting, business activity, and decision making.

Figure 1 - Projected ESG Impact Globally vs. EMEA[1]



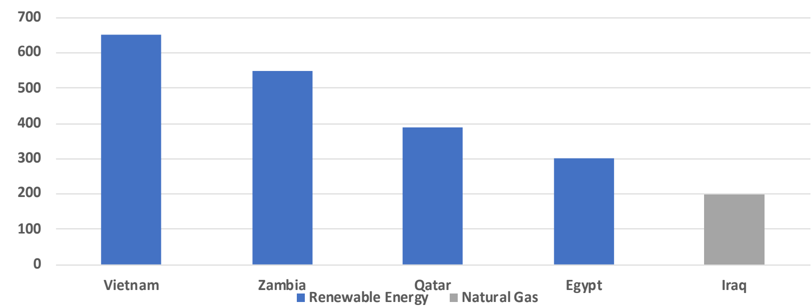
  - Additionally, Saudi Arabia's Tadawul is set to launch an ESG Index with MSCI this year to encourage businesses to embrace ESG practices.
    - The index will include over 70 Saudi-listed companies and will be based on MSCI standards. A set of ESG guidelines will be released for all listed Saudi securities. Issuing the ESG index is expected to further deepen Tadawul's capital market and increase its attractiveness.
  - Egypt is also committed to the UN's SDGs. Recently, the Ministry of International Cooperation partnered with the UNDP to implement global principles of impact measurement and introduce practical tools to local SMEs to support their ESG impact management.
  - While the UAE is currently leading the region's ESG adoption, the unfolding paradigm shift in sustainable finance and ESG practices are expected to encourage others to join, particularly given the growing willingness of governments to promote their sustainability agendas.
  - However, more will be needed to unlock the full potential of sustainable finance and overcome the lack of demand for ESG among private investors.

[1] Arabia Monitor; CFA Institute. EMEA stands for Europe, the Middle East and Africa.

Sino-MENA: Going green

- **China's increase in renewable energy investments as a part of the BRI, as well as its carbon neutrality pledge, overlaps with the green transition efforts of many MENA countries. As China turns its attention towards renewable energy, and the MENA countries progress with their energy transitions, collaboration is expected to rise.**
  - Investments in solar, wind, and hydro, for the first time, accounted for most of the Chinese overseas energy investments in 2020, increasing their share from 38% in 2019 to 56% in 2020 (about USD 11B), amidst an overall decrease in BRI investments of 54%.
    - Amongst the overseas renewable energy investments, hydropower made up 35% of the total, followed by 27% in coal and 23% in solar energy.
  - Following the launch of the BRI International Green Development Coalition (BRIGC) in 2019, China has been shifting its investment strategy in the MENA region from traditional sectors, such as oil and gas, to renewable energy.
    - In the UAE, Chinese investors have been exploring the country's renewables sector, particularly for projects involving production of solar panels, hybrid power plants, and green technology.
    - In April 2020, Emirates Water and Electricity Company (EWEC) awarded the 2 GW Al Dhafra Solar PV IPP project in Abu Dhabi, the world's largest solar plant, to a consortium led by France's EDF and China's Jinko Power with an evaluated weighted levelized electricity cost tariff of USD 0.7934/kWh.
    - The project is under a public-private partnership scheme, with EDF Renewables and Jinko Power each holding 20% stake, and TAQA and Masdar owning the remaining 60%.
  - In Saudi Arabia, China is partnering up with ACWA Power for projects in the renewables sector.
    - In July 2020, ACWA Power appointed Shanghai Electric as the EPC contractor for the 900 MW fifth phase of the Mohammed bin Rashid Al Maktoum solar park in Dubai. The solar park aims to produce 5 GW and attract around USD 13.6B in investments by 2030.
    - Previously, ACWA Power and Shanghai Electric had partnered to lead the Dubai 950 MW Concentrated Solar Power-PV Noor Energy 1 Project.

Figure 1 - Chinese BRI Energy Investments in 2020 (USD, M)[1]



  - Perhaps counter-intuitively, countries including Qatar, Oman, and Egypt received 100% green investments in the energy sector from China in 2020.
  - The disproportionate growth of Chinese overseas renewable energy investments last year signals that more Chinese investment in the renewables sector is expected going forward.
    - The greater level of market openings in the renewables sector between China and the MENA region will benefit Chinese investors looking for new overseas renewables projects.
  - While the current focus of Chinese investments in the GCC is green energy production, there are plenty of markets in the renewable sector, such as waste management, that are yet to be explored.
    - Increasing recycling rates in the GCC to an achievable target of 40% from 10% currently provides investors commercial opportunities in the untapped recycling market. The total market size is expected to grow around USD 6B per year.
    - China has already started to invest in waste management in BRI countries. Deals similar to the £3.2B China Road and Bridge Corporation contract with Serbia's Ministry of Construction to improve waste utilities will likely emerge in the MENA region.

[1] Arabia Monitor; China Economic Net.

Iran Market Monitor: Thaw prospects before summer wear thin

- **Tehran will continue to position itself as the strongman in the US-Iran axis, nudging the US to make the first move towards JCPOA compliance — the precedent for negotiations. However, this is a false position that draws out the length of the stand-off, as we are likely to see a simultaneous return.**
  - During his first speech of the Iranian new year, Ayatollah Khamenei doubled down on the idea that the US should make the first move. Regarding the nuclear deal, he committed to the Islamic Republic's stance that the US must lift all sanctions first, and only then will Tehran return to its commitments.
  - This is the Ayatollah's first explicit mention of an Iranian return to negotiating table, albeit contingent on US concessions, since Biden took office.
    - The Supreme Leader's first speech is significant as it sets the tone for Iran's foreign policy for the new year.
  - However, with a new hardline administration expected to take office in Tehran after elections in June, the duration of negotiations will be drawn out by the need to introduce new Iranian faces to their US counterparts.
  - Foreign Minister Javad Zarif has been on a media tour reiterating how a new Iranian government would delay talks by at least six months.
    - In 2013, the beginning of JCPOA negotiations began soon after President Hassan Rouhani took office. While it is true that Rouhani's administration would have been friendlier to the West, administrations fundamentally do not matter as the Supreme Leader has the final sign off.
  - A return to some form of Iranian nuclear deal is on the agenda, but diplomacy between the US and Iran is in a slow tango. The key question is whether a new deal would be the same, better or worse than the previous one, which was by no means applauded by a series of countries, including regional heavyweights like Saudi Arabia and the UAE.
- **Despite former President Trump's sanctions on Iran, which intended to make the country a global pariah, some of Iran's partnerships have proven resilient, most notably the Iran-China axis.**
  - Chinese imports of Iranian oil have peaked at their highest level since April 2019. January imports stood at 627k bpd with February's at 478k bpd. This month's imports however are expected to reach a whopping 900k bpd.
    - The highest level reached previously was in 2014 when Chinese imports stood at 798k bpd.

Table 1 - Iran Macroeconomic Indicators[1]

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

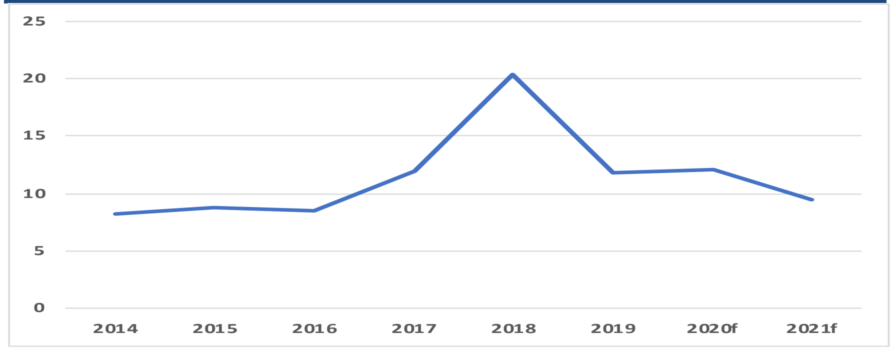
    - The bulk of oil imports are "indirect" oil from Oman, the UAE or Malaysia.
    - The jump in Iran's exports to China can be largely credited to the US presidential transition, as both countries test the Biden administration to see if it will enforce Trump-era sanctions.
    - While there have been threats from Washington, no action has been taken thus far.
  - Beyond oil, Tehran and Beijing have signed a 25-year strategic partnership which promises USD 400B of Chinese investment in exchange for a steady, discounted supply of oil.
    - The contours of the oil agreement have not yet emerged, but it has been received within Iran with criticism from the government and the street.
  - Although China has provided some reprieve to the badly battered economy, sanctions relief is what would accelerate the country's economic rebound with Iran's return to the oil market.
    - Real GDP is expected to pick up at 3.2% this year from a 5% contraction in 2020. However, this could be revised downwards if sanctions are not lifted.

[1] Arabia Monitor; IMF.

Turkey Market Monitor: Expanding power, shrinking popularity

- **President Recep Tayyip Erdoğan's popularity continues to decline amidst the country's economic downturn and the government's crackdown on any opposition. Nevertheless, even with his support waning, Erdoğan is set to tighten his grip on power both domestically and regionally.**
  - ➢ Since the 2016 coup, Erdoğan has consolidated his rule in Turkey, changing the country's political system from a parliamentary to a presidential one, granting himself sweeping authority.
    - Along with the transition, Erdoğan purged the government – including civil servants and the military – of any potential dissidents and those who were members of the oppositionist Gülenist party to ensure that his legacy would live on if he were to leave office.
  - ➢ In the MENA region, Turkey has solidified its formal presence in Libya as well as maintaining its claim to the Eastern Mediterranean pipeline. The end to an old stalemate now looms with a potential Egypt-Turkey rapprochement imminent after a ten-year standstill.
    - Diplomatic contact has been re-established between the two countries' foreign ministries, the first such exchange since 2013.
    - Turkey has ordered that Istanbul-based Muslim Brotherhood channels stop airing anti-Egyptian rhetoric.
    - Egypt's information minister hailed Ankara's decision, saying that the step was "a good sign to create a suitable atmosphere to discuss disputed cases between the two countries".[1]
    - While this is only the beginning of re-establishing ties, it looks like real change is possible.
- **The decision by Erdogan to oust the central bank governor Naci Ağbal and replace him with Şahap Kavcıoğlu, indicates that the Central Bank of the Republic of Turkey (CBRT) will once again move away from orthodox policymaking and reverse the recent interest rate hikes.**
  - ➢ The ongoing politicisation of economic policymaking, coupled with the country's depleting FX reserves and mounting inflation, signals that a sustainable Turkish economic model may be even further from reach.
  - ➢ The change at the helm of the CBRT, the third in just two years, has resulted in investor flight, which drove the Turkish Lira to lose over 14% of its value.

Turkey's Inflation Rate (%)[2]



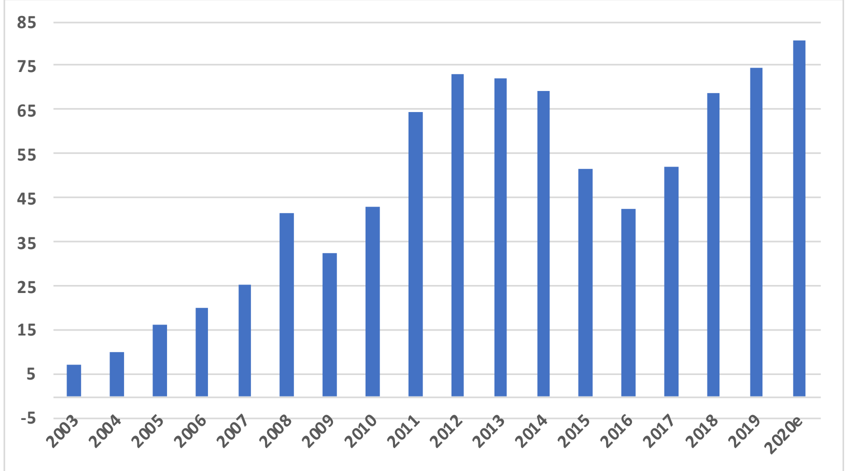
    - This is worrying given Turkey's dependence on foreign capital inflows, and risks worsening its already dire external position. The current account deficit is estimated at USD 36B.
    - Gross foreign exchange reserves amount to around USD 92B, but usable liquid reserves are estimated to amount to USD 30B. Net foreign exchange reserves stand at negative USD 46B.
  - ➢ The banking sector is a major cause for concern as domestic banks have a large burden of maturing external debt.
    - Debt maturing within the next year is estimated at nearly 13% of GDP (USD 89B), with over USD 7B due in debt servicing in the coming months.
    - With borrowing costs expected to rise, it is unlikely that domestic banks will be able to repay all their debt. The additional drawdown of gross reserves and forcing net reserves further into negative territory, risks a fundamental loss of confidence in the banking sector.
    - If capital flight persists over the coming weeks, Turkish officials could be forced to resort to import restrictions or capital controls. We, however, do not think this will be an option in the short-term.
  - ➢ The situation is expected to be even more grim than during the 2018 currency crisis.

[1] Al-Arabiya.
[2] Arabia Monitor; IMF.

Sino-MENA: Diplomatic grand tour cements China's unique MENA role

- **China's unique role in MENA is exemplified by its friendly relations with regional rivals, such as Iran, Israel and Saudi Arabia. Chinese Foreign Minister Wang Yi visited six MENA countries in late March 2021, as a further step in cementing China's role in the region.**
  - China and Iran signed a 25-year cooperation agreement during Wang's visit. Details of the agreement have not been disclosed.
  - When news of the agreement first emerged a year ago, it caused a public stir in Iran, due to the secrecy around it and various leaks of the details of the agreement. While we do not know if the final agreement is the same as the draft, it is expected to include cooperation in energy, petrochemicals, technology, military and maritime sectors.
    - Key elements leaked from the draft included plans for China to invest USD 280B in Iran's energy sector, and USD 120B in transport and manufacturing infrastructure. In return, Chinese companies would gain preferential status for contracts and discounted oil prices.
  - It is not surprising that the two sides aimed to consolidate bilateral relations, particularly given the current geopolitics with the USA. The Biden administration has yet to make a move towards lifting sanctions on Iran, while its tone on China remains negative, if not as confrontational as in the Trump era.
    - While official customs show only 3% of Chinese oil imports came from Iran in 2019, and averaged below 150k bpd in 2020, it is reported that indirect imports, marked as supplies from Oman, the UAE and Malaysia, have been on the rise in recent months, taking the total to over 800k bpd this month.
- **In the UAE, Mr Wang joined his Emirati counterpart to launch a vaccine liquid bottling production line.**
  - Sinopharm vaccines, which have been trialled and rolled out in the Emirates for the past few months, have also been given by the UAE to countries such as Serbia.
    - The UAE has been planning to manufacture 'affordable' doses and export to other parts of the world.
    - The two sides will work together to promote international recognition of health QR codes, which are expected to facilitate the return to international business travel and tourism. This is of particular interest to Dubai, hosting Expo 2020, and to Beijing, ready to stage the Winter Olympics.

Table 1 – China-Saudi Arabia Bilateral Trade (USD, B) [1]



  - Mr Wang also met with Saudi Arabia's Crown Prince Mohammed bin Salman in Neom.
    - On the sidelines of the meeting, Mr Wang spoke on China's wishes to resume free trade talks with the GCC, which accounts for 35% of Chinese oil imports. The agreement could further Chinese companies' preferential status, especially in the diversified sectors.
    - Around the same time, Aramco's CEO Amin Nasser pledged a 50-year partnership with China to supply oil and work on energy transition. Saudi Arabia was the top supplier to China in both 2019 and 2020.
- **Prior to his tour, Mr Wang announced a 5-point initiative to achieve security in the MENA region.**
  - As part of this, China will encourage the UN Security Council to fully deliberate on the question of Palestine once China assumes presidency in May 2021, and continue to invite representatives from Palestine and Israel to China for three-way dialogue or for direct negotiations.

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

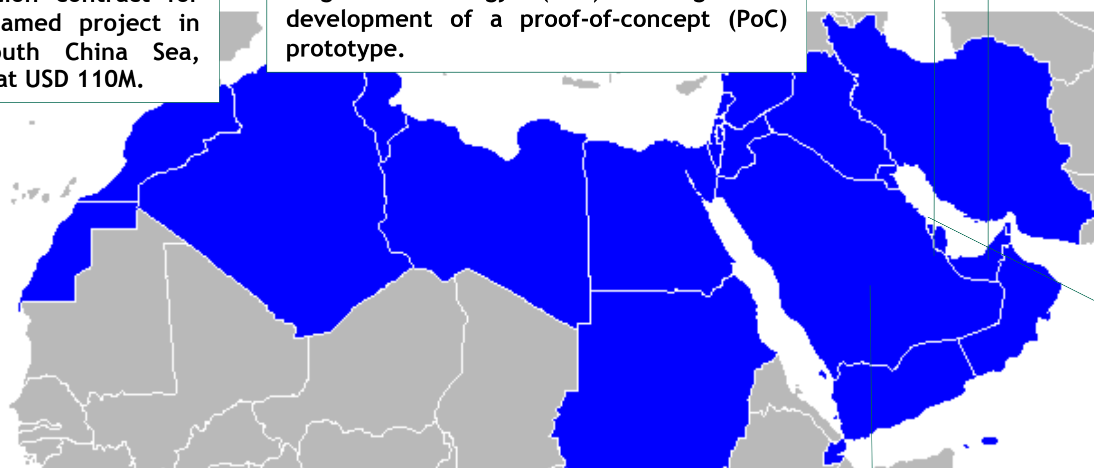
Sino-MENA Deal Tracker: Major deals & projects January-March 2021

Qatar Petroleum entered into a 10-year LNG Sale and Purchase Agreement (SPA) with China Petroleum & Chemical Corporation (Sinopec) for the supply of 2 million tons per annum (MTPA) of LNG.

UAE offshore services provide Zakher Marine International has signed its first offshore wind installation contract for an unnamed project in the South China Sea, valued at USD 110M.

Central banks of China and the UAE joined Hong Kong and Thailand in the "Multiple Central Bank Digital Currency Bridge" to explore the capabilities of distributed ledger technology (DLT) through the development of a proof-of-concept (PoC) prototype.

UAE-based RS Global signs copper supply deal with Chinese firm, with transaction expected to generate annual revenues in excess of USD 1.5B.



Tencent Cloud, the cloud computing arm of Chinese technology giant Tencent Holdings, will launch an internet data centre in Bahrain by the end of 2021.

Saudi Arabian air freight flag carrier Saudia Cargo is to operate five weekly flights from Hong Kong to Liege in Belgium, with Riyadh as a connection point, in a bid to help boost e-commerce links between Europe and China.

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]												
	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of		Reserves (Mos. of	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Algeria	-5.5	3.2	3.5	3.8	-16.4	-16.4	-10.8	-16.6	1.9	3.5	10.1	5.2
Bahrain	-4.9	2.3	0.0	2.8	-13.1	-9.2	-8.0	-5.7	254.6	252.3	1.1	1.1
Iran	-5.0	3.2	30.5	30.0	-9.6	-6.8	-0.5	0.3	1.9	1.8	2.0	2.3
Iraq	-12.1	2.5	0.8	1.0	-17.5	-13.1	-12.6	-12.1	40.5	36.1	8.6	5.3
KSA	-5.4	2.6	3.6	3.7	-10.6	-6	-2.5	-1.6	29.9	95.9	26.2	23.1
Kuwait	-8.1	2.5	1.0	2.3	-8.5	-10.7	-6.8	-2.8	64.5	78.2	7.0	7.0
Libya	-66.7	76.0	22.3	15.1	-102.9	-43.2	-59.8	-22.4	...	...	...	...
Oman	-10.0	-0.5	1.0	2.4	-18.3	-16.9	14.6	-12.9	121.5	129.5	6.1	5.8
Qatar	-4.5	2.5	-2.2	1.8	3.0	3.3	-0.6	2.6	161.3	152.4	9.5	9.0
UAE	-6.6	1.3	-1.5	1.5	-9.9	-5.1	3.6	7.5	97.5	29.1	4.1	4.2
Yemen	-5.0	0.5	26.4	31.0	-9.2	-6.0	-6.5	-8.3	30.4	30.1	2.0	2.4
Average	-12.2	8.0	7.8	8.7	-19.4	-11.8	-8.2	-6.5	80.4	80.9	7.7	6.5
Average Ex-Yemen	-12.9	9.6	5.9	6.4	-20.4	-12.4	-8.3	-6.4	86.0	86.5	8.3	7.0

Table 2 – MENA Oil Importers[1]												
	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of		Reserves (Mos. of	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Djibouti	-1.0	7.0	2.9	2.4	-1.5	-3.0	-3.2	-2.5	70.2	68.3	1.1	1.1
Egypt	3.5	2.8	5.5	7.5	-7.5	-8.2	-3.2	-4.2	34.5	37.2	7.8	7.3
Jordan	-5.0	3.4	-0.3	1.4	-9.1	-7.4	-6.8	-5.7	77.6	79.9	9.0	9.1
Lebanon	-25.0	...	85.5	...	-16.5	...	-16.3	...	482.8	...	11.3	...
Mauritania	- 3.2	2.0	3.9	4.5	-3.8	-0.8	-15.3	-17.3	64.2	63.4	3.3	3.4
Morocco	-7.0	4.9	0.2	0.8	-7.8	-6.0	-7.3	-5.2	37.7	38.5	5.3	5.1
Palestine	-12.0	8.2	-1.2	0.3	-15.4	-12.7	-11.1	-13.7	98.3	104.1	...	...
Somalia	-1.5	2.9	...	...	...	...	-12.8	-12.9	77.8	71.9	...	...
Sudan	-8.4	0.8	141.6	129.7	-6.9	-4.3	-12.7	-10.7	255.6	247.7	0.4	0.6
Syria	...	...	...	...	...	...	...	...	...	...	...	...
Tunisia	-7.0	4.0	5.8	5.3	-8.1	-5.1	-8.3	-8.7	98.3	104.1	4.1	3.6
Average Ex-Syria	-6.7	4.0	30.1	21.4	-9.4	-6.4	-10.4	-9.8	136.3	93.4	5.9	4.9

[1] Arabia Monitor; IMF.

Algeria: Bracing for parliamentary elections

NR/NR

- **Following years of lacklustre growth, Algeria's economy took a nosedive in 2020, as GDP contracted by 5.5% . The economy is only expected to partially recover this year, with 3.2% growth as forecast by the IMF.**
  - ➢ Algeria's finances have been hit hard over the last year, with lower export revenues straining the pandemic-hit economy.
  - ➢ A balance of payments crisis is looking increasingly likely, as foreign exchange reserves plunged from USD 200B in 2014 to USD 42B currently and are expected to fall further to USD 22B by the end of the year.
  - ➢ As energy revenues decreased significantly in 2020, Algeria is turning to domestic food output to reduce its import bill and avoid a crisis.
    - In 2020, overall imports declined by 18% to USD 34.4B as global trade was disrupted on the back of the pandemic, but the deficit still widened due to export earnings falling. The deficit in the current account widened by 31% YoY to 12.6% of GDP in 2020.
    - As a result, the Minister of Agriculture and Rural Development, Abdelhamid Hamdani, announced plans to cut the country's annual import bill by at least USD 2.5B by boosting domestic output, notably through low-interest-rate loans to local farmers, as well as rationing spending on purchases from abroad.
- **At the same time, mass protests have resumed, and President Abdelmajid Tebboune is now under increasing pressure to deliver rapid change.**
  - ➢ Algeria faces an uphill battle on the political front, as protesters have returned to the streets after the lifting of the country's lockdown, prompting conciliatory efforts by President Abdelmajid Tebboune, in an attempt to win over Hirak activists.
  - ➢ Earlier this month, Tebboune dissolved the People's National Assembly, the country's lower house of parliament, triggering new legislative elections, set for 12 June.
    - The current assembly's term was due to end next year, but the president rushed an earlier vote to accelerate his reforms and bolster his legitimacy, which has been questioned since the failed November referendum.
    - The government has promised corruption-free voting, after 2017 legislative elections were marred by allegations of fraud and illegal donations by wealthy individuals, some of whom were prosecuted after the revolution in 2019.
    - A new election law was passed earlier this month to ensure transparency, banning foreign donations to political campaigns and setting up an independent election authority to oversee the voting process.
  - ➢ The president also reshuffled his cabinet, doing away with five ministers he deemed inefficient.[2]
  - ➢ Additionally, Tebboune ordered the immediate release of 60 Hirak activists, jailed over the course of protests which started two years ago.
  - ➢ Despite Tebboune's various efforts to appease protesters, we believe it is unlikely that they will be satisfied, as most are demanding a complete overhaul of the political system, and consider Tebboune himself a member of "Le Pouvoir", or the old establishment, as the current president was once the prime minister under Bouteflika's long reign.

Algeria Macroeconomic Indicators[1]

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

[1] Arabia Monitor; IMF.
[2] The cabinet reshuffle: Mohamed Arkab, a former mining minister, replaced Abdelmadjid Attar as the Minister of Energy. Mohamed Ali Boughazi replaced Abdelkader Benmessaoud as the Minister of Tourism. Dalila Boujemaa replaced Fatma Zerouati as the Minister of Environment. Mohamed Bacha replaced Ferhat Aït Ali as the Minister of Industry

Bahrain: Fuelling Fintech

B2/B+

- **Bahrain's economy is expected to partially recover in 2021, with the IMF projecting 2.3% growth - not enough to offset the deep contraction of 4.9% in 2020. High public debt, which has been a challenge for the country for seven years, has been exacerbated by the double whammy of lower oil prices and the pandemic.**
  - The government's fiscal position remains under increasing pressure, with the IMF forecasting a 9.2% of GDP deficit in 2021.
    - Public debt rose significantly as a result of the pandemic, from 103.3% in 2019 to 128.3% in 2020. The IMF expects it to rise further to 130.6% this year.
  - Bahrain's large accumulation of public debt can be traced back to the 2014 oil price shock, which worsened over the years until a USD 10B fiscal aid package from neighbouring Gulf states assisted in preventing a tight credit squeeze in 2018.
    - This resulted in public debt spiking from a 33.6% average from 2010-2016 to 95% in 2018, and it has been difficult to keep down since.
    - Following the current trend, the country's public debt is expected to increase to 155% of GDP by 2026.
  - The non-oil sector is expected to drive recovery this year.
    - Although the latest IMF projection is for a modest 2.5% non-oil recovery in 2021, following a 6% contraction in 2020, we expect the Fund could revise its forecast upward in view of the country's vaccine successes.
    - Bahrain has vaccinated 44.8% of its population, and its inoculation campaign continues to run smoothly. Bahrain was the first country in the world to implement vaccine appointments via a mobile app.
- **Bahrain has made strides in its financial sector digitalisation efforts, which are set to play an important role in the country's recovery, notably through the provision of digital banking solutions and financial inclusion.**

Bahrain Macroeconomic Indicators[1]

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

- Government-led initiatives, such as the Bahrain Fintech Bay (BFB), a joint venture between Bahrain's Economic Development Board and the Fintech Consortium, aim to cement the country's position as a regional leader in digital finance.
- To date, the initiative has involved over 42 early-stage fintech establishments.
- Moreover, following the Abraham Accords, which saw Bahrain normalise relations with Israel, BFB has announced a partnership with Fintech Aviv to further develop the fintech ecosystem in the region.
- The Israeli fintech landscape is booming, with more than 6000 start-ups and 300 research centres, so we can expect Bahrain to benefit from that country's expertise.

[1] Arabia Monitor; IMF.

Djibouti: International stakeholders will not rock the boat

NR/NR

- **Djibouti's presidential elections next month on 9 April are unlikely to see a change in government, with Ismaïl Omar Guelleh set to win the presidency and begin his fifth term in office.**
  - President Guelleh has been in office since 1999 and is expected to keep his seat after extending term limits in 2010.
    - Although he did say that he would not serve more than two terms, as specified in the country's constitution, he backtracked on that statement this year.
  - Protests in Djibouti pushing back against the legitimacy of the presidency, have been frequent but sporadic, with the latest taking place in the last year. These protests always die out as quickly as they emerge.
  - Additionally, questions over the legitimacy of Guelleh's presidency lack international support, leaving it up to domestic forces to push back.
    - In September 2020, opposition parties came together to oppose another term of Guelleh's presidency, calling for an interim government to take the reins after his fourth term ended, however this has yet to lead to any reforms.
    - The political stability in the country, however, has led to some positives for Djibouti. Stability is a contributing factor to foreign investment in the country, including from China, with Djibouti becoming a top Belt and Road Initiative (BRI) investment recipient.
- **Djibouti has been centre stage in the US-China race to assert global dominance, but the US and China are not the only countries fighting for a piece of the pie.**
  - Djibouti hosts both the US's only military base on the African continent, and China's only military base outside of the country.
    - Its strategic location on the Bab-el-Mandeb Strait, vital for exports and shipping, has garnered interest from foreign players who have recently been looking to expand their footprint in the east African country.
    - Djibouti, a former French colony, is now renegotiating a 1977 defence accord with Paris, which seeks to provide Djibouti with USD 40M and air support in exchange for the rights to the country's biggest foreign military base.
    - The French military is also training and working alongside local troops.

Djibouti Macroeconomic Indicators[1]

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

  - Turkey has also turned its attention to Djibouti. An MoU between the Participation Banks Association of Turkey (TKBB) and Djibouti's Economy and Finance Ministry was signed this month at the Bosphorus Summit in Istanbul, promising Turkish support in fostering the development of the Islamic finance sector in the country.
    - The TKBB has opened branches in Germany, Bahrain and Sudan but has recently held meetings with delegations from Djibouti, signalling the potential for a new branch opening in the coastal African country.
  - China, however, continues to maintain the biggest presence. Earlier this year China Merchants Bank signed a deal for USD 3B expansion of Djibouti City port. The bank already owns a 23.5% stake in the port.
    - Royalties from the port are a major source of government revenue. However, Djibouti has taken on external debt of 103% of GDP in development project funding, with more than half of this debt owed to Chinese creditors.
  - Even with GDP set to rebound at 7% this year after a 1% contraction in 2020, Djibouti is left with a high risk of debt distress, leaving the country vulnerable for the time being.

[1] Arabia Monitor; IMF.

Egypt: Reform pays off

B2/B

- **While the pandemic has not passed Egypt by, as has it disrupted reforms, hurt tourism, and slowed private investment, but the country has managed to stabilise its economy relatively well. Egypt is on track to achieve the 2.8% GDP growth forecast by the IMF for FY 2020/21.[1]**
  - The country fared better than other MENA countries amidst the pandemic as it is one of the only countries in the region (the other being Djibouti) which posted positive GDP growth of 3.5% in FY 2019/20. Growth traction is expected to continue mainly due to the successful execution of the Central Bank of Egypt's (CBE) monetary policy and IMF aid.
    - The Ministry of Finance (MoF) is targeting slightly higher growth at 3.3% for this fiscal year and 5.4% in FY 2021/22, which begins in July.
  - Our view for the current fiscal year is in line with the IMF as growth in the coming quarters remains clouded, mainly due to the weak outlook for tourism, which makes up 12% of GDP.
    - The tourism sector is forecast to decline by 17.3% in FY 2020/21, following growth of 20% in the previous FY. International arrivals plummeted by nearly 70% to 4.1M, down from a peak of 13.6M in 2019.
    - Recently, the CBE issued USD 128M in tranches to support the tourism sector. The first tranche will start with an amount of USD 64M for the Credit Risk Guarantee Company to cover the balances of the guarantees issued by the company for banks and to partly finance tourism companies.
  - On the fiscal front, the MOF is budgeting for a 6.3% deficit in FY 2020/21, down from 7.2% in FY 2019/20, with a primary surplus of 2% of GDP. Despite the government's target, we expect Egypt's fiscal position to remain under pressure. Unless H2 2021 starts to deliver a serious rebound in global tourism, which we do expect for 2022.
  - Total expenditure is expected to increase by 8.9% YoY to reach USD 110B, as per the FY 2020/21 budget. This will be the largest budget in the country's history.
    - The spending increase is mainly to continue implementing structural reforms, which focus on increasing allocations for investments, infrastructure and expanding the export base.
  - The increase in total revenues could provide some fiscal space and alleviate some spending pressure. Revenue is expected to grow by 13% YoY to reach USD 82B, with the bulk stemming from the 12% YoY increase (USD 61B) in tax revenue.
- **Egypt's ability to stabilise the EGP against the USD has restored investor confidence and helped reverse the two-year-long inverted yield curve.**

Egypt Macroeconomic Indicators[2]	2016/17	2017/18	2018/19	2019/20	2020/21f
Real GDP Growth (%)	4.1	5.3	5.6	3.5	2.8
CPI Inflation (%)	29.5	14.4	9.2	5.5	7.6
Fiscal Balance (% of GDP)	-10.6	-9.5	-7.4	-7.5	-8.2
C/A Balance (% of GDP)	-6.1	-2.4	-3.6	-3.2	-4.2
Total Gov't. Gross Debt (% of GDP)	103.2	92.7	83.8	86.6	90.6
Total Gross Extrn'l Debt (% of GDP)	41.3	37.4	34.1	34.5	37.2
Gross Official Reserves (Mos. of Imports)	5.0	6.7	7.5	7.8	7.3
Nominal GDP (USD B)	236.5	250.3	302.3	361.9	374.9
Population (Millions)	94.8	97.0	99.2	101.5	102.0

  - Pressure on Egypt's foreign reserves has been easing, mainly due to the country's efforts to press ahead reforms and secure further financial buffers. The USD 2.8B IMF loan that came in May 2020 has also obviously helped.
    - Reserves by the end of February 2021 reached over USD 40.2B, a 1% increase MoM. This was the eleventh consecutive rise, after a USD 10B decline in 2020.[3]
  - Following an active 2020 in international debt markets, Egypt issued a USD 3.8B triple-tranche bond for the first time this year in February.[4]
  - Given sustained market appetite for high-yielding EM issuers, demand from investors resulted in yields on each note declining by 37.5 basis points on average according to the MoF.
  - Meanwhile, Egypt's annual inflation accelerated to 4.5% in February from 4.3% in January after two consecutive months of deceleration. The slight pick-up in inflation still leaves the rate below the CBE target range of 7% (±2%).
    - On March 18, the CBE held interest rates steady for a third consecutive time.[5]
    - Our baseline scenario is that if inflation does not accelerate in the coming months, the CBE will keep hold interest rates on hold until later in the year.

[1] Fiscal year beginning 1 July.
[2] Arabia Monitor; IMF.
[3] Reserves now represent 8 months of import cover from 2.2 months after the revolution in the year 2013. It is higher than the global average of 3 months of imports.
[4] Egypt issued a five-year USD 750M note with a yield of 3.9%, a 10-year USD 1.5B bond at 5.9%, and a 40-year USD 1.5B at 7.5%.
[5] The overnight lending rate is currently 9.25% and the overnight deposit rate is at 8.25%.

Iraq: Inching out of decline

Caa1/B-

- **Real GDP is set to grow at 2.5% this year, up from a 12.1% contraction in 2020. While recovery from the pandemic could fuel Iraq's economic growth as global demand for energy returns, it remains contingent on the country's political stability and governance.**
  - ➢ Fitch Ratings has revised its outlook on Iraq's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable from Negative, upgrading it to a "B-".
    - The revision is largely due to Fitch's former outlook in April 2020, which overestimated the decline in foreign reserves and expected a more drawn-out oil price recovery.
    - Oil accounts for 90% of the country's budget, and exports have slowly picked up in recent months, registering at 2.92M bpd in February from 2.87M bpd in January.
    - Reserves stand at USD 54B, 9 months of import cover, despite a USD 14B decline in 2020.
    - The ratings agency estimates the budget deficit will be 5% of GDP in 2021, down from an estimated 16.5% of GDP in 2020.
    - It is also supported by the government's move to devalue the country's currency in December from IQD 1,182 to IQD 1,450 against the US dollar.
  - ➢ Economic reforms are now facing government backlash, and this could delay recovery as the infighting threatens to create an impasse.
    - The biggest hurdle the country now faces is passing the 2021 budget, which has yet to be finalised because of parliamentary disputes.
    - Opposition to the budget comes from Iran-aligned political groups, Fateh and The State of Law Coalition (SoL).
- **The presence of Iran-aligned militia groups remains an obstacle for the government as these groups continue to splinter off and go underground. Attacks have been on the rise but could pick up more as the general election approaches.**
  - ➢ Last month, an attack by suspected Iranian-backed forces killed a civilian contractor and wounded an American soldier.
  - ➢ The attack sparked President Joe Biden's first military strike since taking office, on Syria.

Iraq Macroeconomic Indicators[1]

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

  - ➢ The groups have become increasingly decentralised from the Popular Mobilisation Unit (PMU) adding a new layer of militancy that creates a more unpredictable environment.
    - This has made it increasingly difficult for the government to crack down on these groups and poses a risk that attacks against US personnel could continue.
  - ➢ Prime Minister Mustafa al Kadhimi campaigned on a platform of clamping down on these groups, but he has been largely unsuccessful in doing so.
  - ➢ Prospects for his reelection wear thin as Iraqis have regularly taken to the streets in protest throughout his term.
    - Unless rapid reform is seen, and felt on the street, we are likely looking at his final term in office.
    - With early elections promised for June now delayed until October, this sparked an uproar among protestors.

[1] Arabia Monitor; IMF.

Jordan: Fiscal prudence, come what may

B1/B+

- **Jordan's economy is forecast to rebound by 3.4% this year but earlier success in containing the pandemic is now being challenged by a new surge in infections. This will weigh heavily on recovery, at least until H2 of 2021. Fiscal consolidation, however, is expected to help rebuild the country's buffers and arrest the rise in debt.**
  - ➢ Economic growth under any scenario will remain below the 6.5% average annual performance experienced in the ten years prior to the global financial crisis.
    - Accelerating growth will mean balancing requirements for economic stimulus against the need for fiscal consolidation.
    - This year's growth forecast is 3.4%, compared with the 5% contraction in 2020. If realised, it will be Jordan's highest annual expansion rate since 2010, but the low base will remain negative two consecutive years.
  - ➢ The 2021 draft budget set government expenditure at USD 13.2B, a 6% YoY increase from 2020, with 65% budgeted to public payrolls and 15% for public debt servicing costs.
    - Public finances are expected to remain under pressure. Based on revenues of USD 11B, the government forecasts a deficit of USD 3.6B, equivalent to 6.5% of GDP. This excludes foreign grants and constitutes an increase from the USD 3B deficit in 2020.
    - The IMF is less optimistic, forecasting the deficit to only narrow to 7.4% of GDP, from 9.1% in 2020. Our view is in line with the IMF's, mainly due to the tax relief measures introduced in 2020, which are expected to continue to put pressure on revenue this year.
  - ➢ Debt sustainability risks have increased as debt is forecast to reach nearly 90% of GDP in 2021, a 1% YoY increase. This is much higher than the current median of 60% of GDP for similar BB-rated sovereigns.
    - The Central Bank of Jordan's gross foreign reserves remain adequate, standing at USD 12.9M, 8.9 months of import cover, despite reduced tourism, remittances and exports.
    - Still, the government is expected to borrow USD 6.6B locally this year. But with debt interest payments estimated to reach USD 2.1B, around one-fifth of public revenue, the authorities are under pressure to implement further austerity measures.

Jordan Macroeconomic Indicators[1]

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

  - ➢ The gradual fiscal consolidation of 4% of GDP planned over the coming three years is expected to help.
    - This will be anchored by the IMF-recommended programme, which focuses on improving tax administration, reducing tax evasion and enforcing public sector investment reform, with key areas such as revisiting business costs, government transparency and reducing electricity prices to improve private sector competitiveness.
- **Prime Minister Bisher al-Khasawneh in March carried out two cabinet reshuffles in less than a month after taking office in October 2020, in order to accelerate IMF reforms and restore public trust over the handling of the pandemic.**
  - ➢ The 28-member cabinet has 10 new ministers, including new ministers of interior and justice, after both incumbents were forced to resign for violating COVID-19 restrictions.
  - ➢ Cabinet reshuffles are not new in Jordan. But the recent change comes at a critical time as further delays to implementing economic reform pose a risk to fiscal sustainability.

[1] Arabia Monitor; IMF.

Kuwait: When a rich state feels poor

Aa2/AA

- **Kuwait's economy is forecast to post weak growth of 0.6% this year from a deep contraction of 8.1% in 2020. Combined with a deficit of USD 19.5B in the first eleven months of FY 2020/21, this will leave parliament with no choice but to resolve the ongoing standoff with the government to secure bridge financing.**
  - ➢ The fiscal deficit so far has come in lower than government expectations amid weak CAPEX and a 7.4% YoY spending decrease. But with the anticipated pick-up in spending by year-end, we expect the deficit to reach USD 46B, a 155% YoY increase.
    - Overall expenditure in 2021 is budgeted at USD 706B – a USD 3B cut from FY 2019/20's budget.
    - This year's deficit could turn out to be narrower, in line with the Kuwaiti government forecast of USD 33B if the uptick in oil prices continues, and if pandemic effects start to subside as the vaccine programme continues.
  - ➢ Based on revenues of USD 36B (45% YoY increase) the USD 76B FY 2021/22 budget, which starts on April 1, but is still pending parliamentary approval, forecasts a deficit of USD 39.7B, 14% YoY lower than in the current budget.
    - Assuming an average oil price of USD 45 pb, oil revenue is expected to remain the primary source of government financing at 83% (USD 30B) of total revenue, reflecting a 62% YoY increase.
  - ➢ Even if oil prices edge higher, there is a clear need for a fiscal reform programme to put Kuwait's finances on a more sustainable long-term path.
    - We remain sceptical as to whether the FY 2021/22 deficit will be met as the outcome is heavily contingent on the government and parliament reaching agreement over financing arrangements.
    - The passing of the 18/2020 Law in August 2020, which halted the mandatory annual transfer of 10% of state revenue to the Future Generations Fund (FGF), unless the state registers a surplus, is expected to ease some budgetary pressures.
- **The need to pass the long-awaited debt law remains key. Particularly as the General Reserve Fund (GRF) is being rapidly depleted.**

Kuwait Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	-3.5	1.7	0.7	1.5
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	-13.9	-14.5
C/A Balance (% of GDP)	-4.6	5.9	12.7	8.5	8.1
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

- ➢ Unlike other GCC countries, which have been actively raising capital from international debt markets, Kuwait has not tapped the market since 2017 when it issued USD 8B in bonds.
  - Passing the debt law has become a priority, especially since public debt was 19.3% of GDP for 2020, the lowest among the region's oil exporters.
  - The cabinet has recently proposed new amendments to the public debt law, including capping the debt ceiling at 60% of GDP and removing the 30-year repayment period specification.
- ➢ With the lack of progress on the law and dwindling reserves, the GRF resorted to short-term measures, such as raising USD 23B through asset swaps with the FGF.
  - Swapped assets included stakes in the Kuwait Finance House and telecoms company Zain.
- ➢ The GRF is also said to be negotiating with the state-owned Kuwait Petroleum Corporation on a new payment schedule of USD 20B in accrued dividends. But this is unlikely to ease the liquidity crunch as transfers will occur over a long timeframe.

[1] Arabia Monitor; IMF.

Lebanon: Paralysis persists

C/SD

- **Lebanon's political turmoil shows no signs of abating, with the government deadlocked and protests increasing. The solution to its political paralysis is now in the hands of the country's regional and international partners.**
  - Government formation is, by Lebanese standards, happening at the expected speed – slowly. Although, admittedly, one would have liked to see a more rapid pace given the gravity of the situation on the ground.
    - The political gridlock hindering a new cabinet from taking its seat is largely because of contention between the prime minister designate, Saad Hariri, and the President, Michel Aoun.
    - One of the biggest outstanding issues is that Hariri wants to form a government that does not give the Free Patriotic Movement (FPM, i.e. Mr Aoun's party) veto power.
    - The various functional leaders have been staunch in their positions and are likely to remain so. Domestic mediation is unlikely to bear fruit without the help of the international community.
  - While the French initiative, which accelerated momentum in the autumn of 2020, has drifted, there is potential for the initiative and for other countries to revive their efforts in 2021.
    - Before, foreign players remained preoccupied with the pandemic, the change in US administrations, and the desire to resume talks on Iran's nuclear dossier.
    - Now that the contours of these issues are becoming clearer and the international community has found its footing with the Biden administration, Lebanon could benefit from renewed diplomatic bandwidth regionally and internationally to help shepherd government formation along and buttress the French initiative.
- **Lebanon's economy continues to slow down, and with the formation of a new government nowhere in sight, conditions are unlikely to improve anytime soon. This is weakening the country's capacity to convince international and regional donor communities to unlock aid commitments.**
  - Following a 25% GDP contraction in 2020, the two-year crisis shows no signs of ending this year. Deteriorating conditions and subdued productivity have exacerbated the currency crisis as the Lebanese pound plunged to a new low.

Lebanon Macroeconomic Indicators[1]

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

- The pound has dropped 20% since the end of 2020, trading on the parallel market at LBP 10,000 to the USD, nearly 90% below the country's official exchange rate.
  - Compounded by the Lebanese lira depreciation, imports have become more expensive, and the fixed exchange rate is now under pressure.
- With 80% of food coming from abroad, around half of the population has been driven into poverty as people struggle to meet their basic needs, with 22% in extreme poverty.
- Over 33% of the population were living below the poverty line in late 2019. If virus cases continue to surge, and no financial plan is implemented, these figures are bound to deteriorate further.
- Inflation is also surging and is expected to remain high. In 2020, annual inflation reached 85.5% – the highest level since the aftermath of the Lebanese civil war – up from 2.9% in 2019.
  - With foreign currency reserve levels half of the USD 30B held a year ago, we expect an end to the dollar peg is on the horizon. External funding is urgent but without serious and comprehensive efforts for economic and fiscal reform, it is unlikely to come.

[1] Arabia Monitor; IMF.

Libya: Fragile but forging ahead

NR/NR

- **The Government of National Unity took its seat this month after a successful transfer of power from former Prime Minister Fayez al Sarraj to the new interim Prime Minister Abdulhamid Dbeibeh - although we may see some teething problems in the coming weeks, the country is moving in a promising direction.**
  - ➢ While the interim government remains fragile and still very much in its early days, support from the international community has poured in, buttressing government reform efforts.
    - In just the first few weeks, Tripoli has received government officials from Europe and the wider MENA region, welcoming the new government into office. Additionally, France and Spain are set to reopen their embassies in the capital.
  - ➢ However, the continued presence of competing international players – mainly Turkey on one side and Russia on the other – and the inability to clamp down on militias, remain the biggest risks to peace.
    - Rumours that Turkey could withdraw its mercenaries are gaining traction, but Russia is unlikely to follow suit rapidly.
    - Ankara has largely formalised its partnership with Tripoli so there is no longer a need for troops to be present in the same numbers as before.
- **On the economic front, the agreement on a unified state budget, along with the Central Bank of Libya's (CBL) reforms, indicates that Libya is on the way to reducing its liquidity crisis and rebuilding its battered economy. But all this remains contingent on the willingness of the various factions to maintain political stability in the country.**
  - ➢ A new unified two-month budget was established for the first time since 2014.
    - While this is a massive breakthrough, the interim government must now ratify a budget to see the country through until next year, when the new president is set to take over.
    - The budget, which is set to be voted on this week, is a crucial determinant of the country's economic success and getting the country's recovery back off the ground.
  - ➢ Reforms are crucial after the Libyan economy saw its worst performance in recent history in 2020 on the back of the nine-month oil blockade beginning in January 2020, which cut oil output to about 228k bpd, compared with 1.2M bpd in 2019.

Libya Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	64.0	17.9	9.9	-66.7	76.0
Crude Oil Production (M Bpd)	0.8	1.0	1.1	0.3	0.6
Oil GDP Growth (%)*	107.6	19.4	13.7	-72.7	100.0
Non-oil GDP Growth (%)*	-21.5	9.9	-11.7	-22.6	14.7
CPI Inflation (%)	28.0	-1.2	4.6	22.3	15.1
Fiscal Balance (% of GDP)	-43.5	-0.2	2.2	-102.9	-43.2
C/A Balance (% of GDP)	8.0	1.8	-0.1	-12.0	-7.1
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (Months of Imports)	...	...	...	...	...
Nominal GDP (USD B)	30.2	41.4	39.8	21.8	31.8
Population (Millions)	6.5	6.6	6.7	6.8	6.8

- ➢ The plunge in oil revenue, combined with the pandemic, took a heavy toll on government spending in 2020, and has strained the monetary authorities' ability to support the Libyan dinar.
  - The bright spot is Libya's return to international oil markets following the October ceasefire. With oil revenue gradually flowing in when oil prices are on the rise, this could create fiscal space that surprises on the upside, in the yet-to-be passed 2021 state budget.
- ➢ Since the ceasefire agreement, Libya has managed to reach its 1.3M bpd target. The National Oil Corporation (NOC) aims to increase production by another 150k bpd to reach 1.45M bpd by the end of 2021.
- ➢ Additionally, Mustafa Sanallah, the NOC chairman, announced that production is set to rise to 1.6M bpd in the next two years and reach 2.1M bpd by 2025 – a level not seen since 2008. If the security situation in the country remains stable, this could change the country's economic trajectory, presenting new opportunities that have been not seen for over a decade.

[1] Arabia Monitor; IMF.

Mauritania: Fiscal rebalancing on the horizon

NR/NR

- **The IMF revised Mauritania's 2021 GDP growth up from 2% to 3.1%, as the fund hailed government efforts to support recovery, despite being faced with the pandemic and delays in essential mining projects.**
  - ➢ After a 3.2% contraction in 2020, Mauritania is expected to nearly fully recover over the course of 2021, due to the expansionary 2021 budget, as well as the external financing obtained over the course of last year, which will boost recovery as well as long-term growth.
    - Expenditure and net lending are expected to increase to 28.2% of GDP, from 24.4% in 2020.
  - ➢ Following years of fiscal surpluses, the pandemic pushed the country into its first deficit since 2016, as it declined from 2.1% in 2019 to –3.8% in 2020. The fiscal balance is expected to improve in 2021 - and could well land in the positive territory in 2021.
    - The government has prioritised health and education spending, as well as targeted support to the country's most vulnerable households, which have seen their livelihoods deteriorate due to the pandemic.
    - The worsening standard of living has led to strikes in recent weeks, the latest of which was on 22 March when the country's teachers began a three-day general strike to demand pay rises.
    - A similar strike occurred earlier this year, organised by the country's healthcare workers.
- **The government has vowed to step up infrastructure spending in 2021, a move that was welcomed by the IMF.**
  - ➢ In addition to the government's swift and appropriate actions aiming to mitigate the impact of the pandemic, international institutions have provided sizable grants which have further strengthened Mauritania's position.
    - In March 2021, the IMF completed the final review of the Credit Facility extended to Mauritania since 2017 and unlocked an additional USD 23.8M in funding for the North African country.

Mauritania Macroeconomic Indicators[1]	2017	2018	2019	2020	2021f
Real GDP Growth (%)	3.5	2.1	5.9	-3.2	3.1
CPI Inflation (%)	2.3	3.1	2.3	3.9	4.5
Fiscal Balance (% of GDP)	0.0	2.5	2.1	-3.8	-0.8
C/A Balance (% of GDP)	-10.0	-13.8	-10.6	-15.3	-17.3
Total Gov't. Gross Debt (% of GDP)	55.1	61.4	58.5	67.8	67.8
Total Gross Extrn'l Debt (% of GDP)	63.0	61.5	58.1	64.2	63.4
Gross Official Reserves (Mos. of Imports)	3.1	3.0	3.7	3.4	3.4
Nominal GDP (USD B)	6.8	7.0	7.6	7.4	7.6
Population (Millions)	4.3	4.4	4.5	4.6	4.6

    - The arrangement, which was initially set at USD 167M, was aimed at helping Mauritanian authorities implement infrastructure programs and achieve macroeconomic stability, as well as increasing the mining-dependent country's resilience to external shocks.
  - ➢ As the pandemic increased the country's financing needs, the IMF augmented the credit facility by an additional USD 28.77M in September.
    - Mauritania has obtained an additional USD 5.9M from the French Development Agency on 16 March, following a similar grant obtained in January. This financial aid was aimed specifically at the 210,000 households deemed vulnerable.
  - ➢ Continued volatility in the fossil fuel sector adversely affected Mauritania's pandemic response, but the government's sound policymaking and the aid obtained from international partners have helped the country weather the storm.

[1] Arabia Monitor; IMF.

Morocco: Breaking the cannabis taboo

Ba1/BBB-

- **Following a sharp 7% GDP contraction in 2020, caused by the double whammy of the pandemic and a lengthy drought, Morocco's outlook for 2021 is more optimistic. As the kingdom rolled out the most effective vaccination campaign on the African continent, the pressure is beginning to ease on the economy, with the IMF forecasting partial GDP recovery of 4.9% in 2021.**
  - In its latest meeting, Morocco's central bank, Bank Al Maghrib, has highlighted the resurgence of optimism in recent weeks, notably caused by the country's inoculation program as well as the improvement in agricultural conditions.
    - Morocco's national vaccination campaign, which started in the last week of January, accounts for 95% of all COVID-19 vaccinations in Africa. So far, 7.6M Moroccans, 21% of the population, have received at least their first dose.
    - The success of the vaccination programme in the kingdom has exceeded expectations and bodes well for the recovery of the tourism industry, which accounts for 11% of GDP.
    - Morocco is expected to begin receiving international tourists in H1 this year, particularly from countries which have made similar strides in their vaccination efforts, such as Israel and the UAE.
  - In addition, Morocco is emerging from two years of drought, with the country's national dams reaching a fill rate of 50% after weeks of good rainfall.
    - Bank Al Maghrib forecasts the agricultural sector to rebound by 17.6% in 2021 as a result, bringing GDP growth to 5.3%.
    - This is a slightly more optimistic outlook than the IMF projection of a 4.9% recovery, made in October 2020. We expect the IMF forecast to also be improved in their next regional economic outlook in April, in view of recent positive developments in the kingdom.
- **To further prompt economic recovery, the government has taken the bold decision of legalising the farming, export and therapeutic use of cannabis, which is set to bring significant export revenue to the country.**

Morocco Macroeconomic Indicators[1]

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

- This decision was made despite the fact that the PJD, Morocco's governing party, has taken a traditionally conservative stance on the substance for years, but the incentive to help the economy recover was stronger.
- Bringing the cannabis industry out of the shadows represents a number of opportunities for Morocco.
  - Current forecasts estimate that cannabis exports could contribute an additional USD 8B per annum to Morocco's export revenues.
  - Foreign direct investment is also likely to increase as a result, with Bank Al Maghrib expecting FDI to rebound to 3.2% of GDP in 2021, from 2.4% last year.
  - The legalisation will also have redistributive benefits, as cannabis farmers are mostly located in the Rif region, the birthplace of Morocco's Hirak movement, which launched a wave of rallies in 2019 to protest social disparity.
- An estimated 30k farmers could now experience better living conditions and earn legitimate and stable incomes, which will undoubtedly alleviate at least some of their worries and reduce tensions with the government.

[1] Arabia Monitor; IMF.

Oman: Entrenched double-digit deficit

Ba2/BB

- **The IMF forecasts Oman's GDP to remain in the negative growth territory with a 0.5% contraction this year, following the deep 10% contraction in 2020. Given Oman's weak finances and lacklustre growth even before the pandemic - with a three-year growth average of 1.8% - the speed of recovery is uncertain.**
  - While Oman continues to increase austerity measures and restructure its public administration, the fiscal balance – which is already under a lot of pressure – will need urgent attention to alleviate the economic drag brought on by the pandemic and the oil crisis.
    - The IMF forecasts Oman's deficit will reach 16.8% of GDP – the sultanate's eighth consecutive budget deficit. This is a slight improvement from the 18.3% of GDP deficit estimated for 2020.
    - The Omani government is much more bullish. The 2021 budget, which marks the start of Oman's tenth five-year plan, adopts a prudent tone in both its revenue and expenditure projections, with a deficit of USD 5.7B, which is equivalent to 8% of GDP.
  - The government-projected narrowing in the deficit is mainly due to the transfer of the oil and gas sector expenditure burden of Petroleum Development Oman (PDO), which estimated at around USD 6B, to the newly formed state-owned Energy Development Oman (EDO).
    - Based on revenue of USD 22.3B (a 19% YoY decrease) this is considered the lowest deficit since 2015, although with a low estimated average oil price of USD 45 pb.
    - The key change is that this spending will be removed from the state budget and the EDO will now be required to finance its share of PDO's expenditure alone.
  - The 2021 budget focuses on fiscal sustainability through increases in non-oil revenue and rationalisation of public spending by paring down water and electricity subsidies.
    - While oil and gas are expected to account for the majority of revenue, at 63%, non-oil revenue is budgeted at USD 8.3B, a 34% increase from 2020's actual revenues.

Oman Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	0.3	0.9	0.8	-10.0	-0.5
Crude Oil Production (M Bpd)	1.0	1.0	1.0	0.8	0.8
Oil GDP Growth (%)	-2.1	4.0	1.4	-12.2	-3.5
Non-Oil GDP Growth (%)	2.4	-1.6	-2.8	-8.0	2.0
CPI Inflation (%)	1.6	0.9	0.1	1.0	3.4
Fiscal Balance (% of GDP)	-14.0	-7.9	-7.1	-18.3	-16.8
C/A Balance (% of GDP)	-15.6	-5.4	-4.6	-14.6	-12.9
Total Gov't. Gross Debt (% of GDP)	46.4	53.2	63.1	81.5	88.7
Total Gross Extrn'l Debt (% of GDP)	78.6	80.1	92.4	121.5	129.5
Gross Official Reserves (Mos. of Imports)	5.5	6.4	7.3	6.1	5.8
Nominal GDP (USD B)	70.6	79.8	76.3	62.3	65.3
Population (Millions)	4.6	4.8	4.9	4.9	5.1

  - Drivers to the growth of non-oil revenue are expected to come from the USD 293M in excise tax and USD 1B from the 5% VAT which is set to come into effect mid-April.
- **In a bid to boost the private sector and attract investment as part of Vision 2040, Oman announced that it will lower corporate tax for SMEs this year, as well as for companies operating in sectors aimed at economic diversification.**
  - The tax exemption will be valid for five years from the date of the commercial registration with the Ministry of Commerce, Industry and Investment Promotion.
  - The new measures include a rental exemption for projects at the Duqm Special Economic Zone and industrial areas until 2022, after which rent will be cut by 50% for contracts for another two years. A long-term residency permit for foreign investors is set to be announced later this year.
  - Separately, the Public-Private Partnership (PPP) Law enacted in 2019 will be enforced this year by the Ministry of Finance. Sectors for PPP projects include seaports, education, environment, transport, health care and government services.

[1] Arabia Monitor; IMF.

Palestine: Israeli politics spill over

NR/NR

- **Israel's fourth election in two years has yielded no clear winner, risking a fifth election in the coming months. The potential of a Likud coalition government versus a Yesh Atid victory presents two very different outcomes for the future of Palestine.**
  - ➢ The sitting prime minister Benjamin Netanyahu's conservative Likud party won 24.2% of the vote, while opposition leader Yair Lapid's centrist Yesh Atid trailed behind with 13.9% of the vote.
    - Netanyahu was nine Knesset votes short of winning the election under Israel's proportional representation system.
  - ➢ The results are currently under review by the country's president, Reuven Rivlin, who is consulting political parties before turning to the candidates to ask them to form a coalition government.
  - ➢ If Yair Lapid is successful in forming a coalition government, we are likely to see a change in tack which could bring with it a renewal of the Palestinian peace talks, albeit as part of a realistically slow process.
    - Of course, it also depends on the political dynamics on the Palestinian side, as elections are set for this year, with the Palestinian Authority (PA) legislative elections on May 22, followed by PA presidential elections on July 31.
    - While this would be Palestinians' first time taking the polls in 15 years, it is likely to be delayed from the respective scheduled dates. PA leader Mahmoud Abbas has repeatedly promised elections since 2011.
  - ➢ If incumbent Prime Minister Netanyahu is able to form his government, however, we do not expect any significant developments in terms of the peace process.
    - However, strikingly, for the first time in history, Netanyahu's Likud party is considering a coalition with the Islamist Ra'am party.
    - Ra'am splintered from the Arab party, the "Joint List", after Joint List leader Mansour Abbas said he would be open to working with Netanyahu.
    - Even if Ra'am was to have its place in Netanyahu's government, in terms of Palestine, its likely to bring political impasses more than anything as the party will sit with conservative Likud, and Israel's orthodox parties.

Palestine Macroeconomic Indicators[1]

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

- **While Palestine's economy contracted by 12% in 2020 according to the IMF, the country should undergo a degree of recovery this year as Israel's rapid vaccine rollout spills over into the territories.**
  - ➢ Palestinian workers in Israel and Israeli settlements are a major source of income for the Palestinian economy and were among the worst hit by the pandemic. With these workers now vaccinated, it should provide a vital boost to the economy.
    - In 2019, 133K Palestinian workers in Israel generated around 15% of the country's GDP, amounting to USD 2.6B.
  - ➢ While aid funding has drifted from international organisations and Arab neighbours because of the pandemic, President Biden has said that he would restore funding to the West Bank and Gaza that had been cut during the Trump years, providing additional support.
    - The World Bank has also approved a grant of USD 20M to upgrade internet access in the territories, which will help to integrate Palestine into the digital economy. It is particularly helpful for its tech-savvy youth, in a country where the median age is 21.
  - ➢ The West Bank unveiled 3G in 2018, the last in the MENA region to do so, with Gaza trailing behind with 2G connectivity.

[1] Arabia Monitor; IMF.

Qatar: Regional outlier budget surplus?

Aa3/AA-

- **The IMF has revised Qatar's GDP forecast to 3% growth from 2.1% for 2021, from a 4.5% contraction in 2020. Prospects for a robust recovery are bright as the end of the Quartet spat is expected to lower the economic risk going forward.**
  - ➢ Qatar is a regional outlier, the only country in the GCC that the IMF expects to have a budget surplus this year. The Fund remains firm in its assessment that Qatar is on track for another year of fiscal surplus, which it projects will reach 3.3% of GDP, from 3% in 2020.
    - The Ministry of Finance expected a 6% (USD 9.5B) budget deficit this year - the largest deficit in four years - from a 0.5% surplus in 2020. But this is mainly due to the 2021 budget's conservative average oil price estimation of USD 40 pb. 2021 will likely yield a surplus.
  - ➢ Total expenditure cuts of 7.5% YoY (USD 54B) support our view on the 2021 fiscal position. Spending on development projects will bear the brunt of these cuts at around USD 20B, a 20% YoY decrease.
    - Current expenditure allocation is estimated at USD 16.6B, an increase of 4.7% compared with the 2020 budget. The increase is due to the cost of operating newly completed projects and the continuation of World Cup 2022 related expenditure - which we believe will be key to economic recovery.
    - Increased costs will be partially offset by a cut in the public sector wage bill, which is budgeted at USD 16B, a nearly 2% YoY decrease.
    - Public sector spending rationalisation, which we expect to be a multi-year project, is in line with the targets of Qatar's Second National Development Strategy, and broader ongoing fiscal consolidation.
  - ➢ Fiscal reform, such as the introduction of the 5% VAT set to be announced this year, will also provide a boost and are expected to help Doha improve its fiscal and external sector buffers moving forward.
  - ➢ As debt declines to 61% of GDP this year from 68% of GDP in 2020, Qatar will continue to issue.
- **Meanwhile, the North Field expansion project, the world's largest for LNG, is moving forward, despite the slump in global energy demand. This will help support recovery as Qatar positions itself to become the world's largest LNG producer in the world.**

Qatar Macroeconomic Indicators[1]

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

- ➢ Total hydrocarbon revenues are forecast to grow by 24% in 2021 from a 28% contraction in 2020, with gas production set to reach 5% from a tepid 1% last year. Renewed production from the Barzan field during Q1 of 2021 will also help.
  - Phase 1 of the North Field Expansion Project, which has an estimated cost of USD 29B and is the largest single LNG project ever approved, is expected to increase Qatar's production capacity by 40% from 77M tonnes of LNG per year to 110M by 2025.
- ➢ Qatar Petroleum (QP) will announce plans for Phase 2 of the project in the coming months. Two new LNG processing plants are set to be added by the end of the year and will potentially raise LNG capacity to 126M tonnes by 2027.
- ➢ More recently, QP signed a ten-year agreement with China Petroleum & Chemical Corp. where it will supply 2M tonnes of LNG a year. China is already a key strategic energy partner for Qatar, as Doha has supplied it with 62M tonnes of LNG since its first LNG delivery in 2009.

[1] Arabia Monitor; IMF.

Saudi Arabia: Steady she goes

A1/A-

- **The IMF revised its 2021 forecast for Saudi Arabia to 2.6% growth in its latest outlook, down from 3.1% growth, from a 5.4% contraction in 2020. The voluntary cuts to oil output and tight fiscal policy could delay sustained recovery until H2 of 2021. But, as the kingdom makes headway with its Vision 2030 diversification plans, the overall outlook is positive.**
  - ➢ With Saudi Arabia holding onto its million-barrel trump card for at least another month, this could weigh heavily on the country's oil market in Q2.
    - The opening and expansion of some gas facilities, particularly the Jazan refinery and the Hawiyah processing plant, could provide a boost going forward.
  - ➢ The latest flash data released from the General Authority for Statistics (GaStat) shows that GDP expanded by 2.5% QoQ in Q4 2020, while oil GDP entered positive growth territory for the first time in 2020.
    - On a YoY basis, the economy fell by 3.8% in Q4, with an overall GDP contraction of 4.1% in 2020 – after rising a modest 0.3% in 2019. This is a more upbeat estimate than the IMF's but still the kingdom's sharpest fall since the start of comparable records in 1991.
    - Oil GDP in Q4 reached 2.6% QoQ growth, compared with a 2.9% contraction in the previous quarter, which was the sharpest quarterly decline since Q1 2019.
    - Growth in Q4 was also fuelled by the 2.4% QoQ expansion in the non-oil sector, though at a lower rate than the 5.5% expansion in the previous quarter.
  - ➢ The 2021 budget forecasts a deficit of 4.9% of GDP (USD 38B), compared with 10.6% of GDP last year. This was designed with the aim of cutting total expenditures by 7.3% YoY from actual spending in 2020.
    - Current expenditures are budgeted at USD 238B, 4% lower than 2020 levels, with CAPEX set to decline by 26.6% YoY to USD 26.9B this year.
  - ➢ With the kingdom seeking to maintain fiscal consolidation, recovery will be slower than in previous years. The non-oil sector, anchored by off-budget domestic investments via the Public Investment Fund (PIF) and the Central Bank, could accelerate the recovery of last year's lost output.

Saudi Arabia Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	-0.7	2.4	0.3	-4.1	2.6
Crude Oil Production (M Bpd)	9.9	10.3	9.8	9.3	9.5
Oil GDP Growth (%)	-3.1	3.1	-3.6	-6.7	3.0
Non-oil GDP Growth (%)	1.3	2.2	3.3	-2.3	3.3
CPI Inflation (%)	-0.9	2.5	-2.1	3.6	3.7
Fiscal Balance (% of GDP)	-9.2	-5.9	-4.5	-10.6	-6.0
C/A Balance (% of GDP)	1.5	9.2	5.9	-2.5	-1.6
Total Gov't. Gross Debt (% of GDP)	17.2	19.0	22.8	33.4	34.3
Total Gross Extrn'l Debt (% of GDP)	18.2	19.2	23.2	29.9	29.1
Gross Official Reserves (Mos. of Imports)	28.3	28.6	33.2	26.2	23.1
Nominal GDP (USD B)	688.6	786.5	793.0	680.9	735.5
Population (Millions)	33.1	33.7	34.2	34.2	34.8

- **While Saudi Arabia's efforts to attract foreign investments and improve its business environment did not bring desired results in the past, the PIF, and a continued focus on privatisation will likely pick up the slack.**
  - ➢ As part of its ongoing plans to overhaul the economy, Saudi Arabia is widening the scope of its privatisation programme, extending it to sectors previously not targeted, including healthcare, education and technology.
    - The cabinet approved a privatisation law, part of the Private Sector Participation Program, as the kingdom aims to increase private sector participation to 65% of GDP, from the current 40%.
    - The scheme plans to privatise 100 initiatives in 16 different sectors. The increase in sectors targeted for privatisation is crucial for the future of government efficiency, particularly amidst expenditure cuts.
  - ➢ Meanwhile, the PIF secured a USD 15B multi-currency credit facility which will drive investment in the domestic economy and help make up for struggling foreign investment.

[1] Arabia Monitor; IMF. 2020 GDP Growth, Oil GDP Growth & Non-oil GDP Growth are based on GSTAT estimates.

Somalia: Footprints of democracy wearing

B2/NR

- **Weeks have now passed since Somalia's cancelled elections with no alternative plan in sight. This threatens to push the country into political turmoil with President Mohamed Abdullahi Mohamed Farmajo in a dispute with the regional governors, which could reverse the recent progress that Somalia had made, both politically and economically.**
  - Both parliamentary elections, which were set for December, and presidential elections set for February, have been delayed indefinitely.
    - Federal and regional authorities continue to be at loggerheads over the electoral process, leaving an open opportunity for militant group Al Shabaab to disrupt the democratic process.
    - Al-Shabaab, which controls two-thirds of the country, and most of the areas outside of Mogadishu, was pushed out of the capital in 2012 by African Union Forces and the Somali military.
    - The group set off a roadside bomb in the capital in February this year, killing 13, shortly after Farmajo announced the indefinite postponement of the election.
  - This political crisis is unusual as, in the past, there have been political agreements on how to get to and through elections when delays were necessary. What we are seeing now is a complete lack of political agreement on an extension and implementation of an election model.
    - Opposition candidates have now declared the government of Farmajo illegitimate for overstaying his term limit.
    - Farmajo has long been accused of trying to monopolise control – since he has taken power, there has been a pattern of trying to diminish federal member states.
    - Mogadishu intervened in elections in three federal member states to have its own loyalists appointed.
  - The splintered leadership between the federal government and its member states provides an opportunity for Al Shabaab to step into the power vacuum. We could see a return to armed conflict if the government does not act to stabilise the situation.
- **The political crisis threatens Somalia's economic support from international players. GDP is currently set to expand by 2.9%, from the 1.5% contraction undergone in 2020, however this is at risk.**

Somalia Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	1.4	2.8	2.9	-1.5	2.9
CPI Inflation (%)	...	...	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...
C/A Balance (% of GDP)	-9.7	-7.5	-10.5	-12.8	-12.9
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	115.1	111.3	106.4	76.9	76.6
Gross Official Reserves (Mos. of Imports)	...	...	...	...	...
Nominal GDP (USD B)	4.5	4.7	4.9	4.9	5.4
Population (Millions)	14.6	15.1	15.6	16.0	16.0

  - Formerly, Somalia would receive foreign assistance through NGOs. In 2018, the government began to receive aid directly from the EU.
    - The political gridlock has now caused payments from the EU to stall over election concerns.
    - Any further delay to a political agreement jeopardises the country's budget, which largely comes from EU funding.
    - If the budget shrinks, this comes with its own set of economic consequences for infrastructure and social programmes, fuelling unrest on the ground.
  - To make matters worse, the tax revenues Al Shabaab collect are expected to surpass tax revenues collected by the regional government.
  - With Al Shabaab's network expected to expand due to fractured government leadership, the revenues they collect could increase with it.
  - And as the group's economic power expands, it both consolidates and legitimises its control, solidifying its place out of the shadows.

[1] Arabia Monitor; IMF.

Sudan: Fighting to find its footing

B2/NR

- **Sudan's economy is set to register 0.8% growth this year - a slow climb after three years of recession. While its recovery has good potential as the country begins its integration into the global market after its delisting as a state sponsor of terrorism, the economy remains in an extremely fragile state.**
  - ➢ The most pressing obstacle is the skyrocketing inflation in the country, which continues to climb, increasing the prices of basic commodities such as bread and fuel.
    - The inflation rate in 2020 registered at 141.6% with this year's rate dropping slightly but still staggering at 129.7%. In January 2021, inflation topped 300%.
  - ➢ There is also a marked difference in the country's exchange rates between the parallel market rate and the official rate, which continues to climb steeply.
    - Last month, the dollar was exchanged for 375 Sudanese pounds on the black market as compared to the official rate of 55 Sudanese pounds.
  - ➢ The discrepancy in the exchange rates first prompted the country's central bank to devalue its currency before announcing that it would unify the official and black-market rates.
  - ➢ Unifying the different rates would stabilise the currency and also pave the way for international support, as well as offering a lifeline for debt relief.
    - Sudan owes USD 60B to the World Bank, which has made it difficult for Khartoum to secure foreign funding.
  - ➢ The dire economic conditions persist after 19 months of Prime Minister Abdalla Hamdok's term in office, prompting protesters to point the finger of blame at the PM. In February, seven regions in the country declared a state of emergency due to rising food costs.
- **The economic turmoil is exacerbated by a precarious political situation.**
  - ➢ A political transition has, in theory, been underway with the formation of Prime Minister Hamdok's new cabinet. This took months to form but includes members of different rebel groups, including the Sudan Revolutionary Front, in a bid to fulfil the peace agreement signed last October.
    - The peace agreement is a power-sharing agreement between civilians, the military and armed movements.

Sudan Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	0.7	-2.3	-2.5	-8.4	0.8
CPI Inflation (%)	32.4	63.3	51.0	141.6	129.7
Fiscal Balance (% of GDP)	-6.5	-7.9	-10.9	-6.9	-4.3
C/A Balance (% of GDP)	-10.1	-13.1	-15.1	-12.7	-10.7
Total Gov't. Gross Debt (% of GDP)	159.6	186.7	201.6	259.4	250.7
Total Gross Extrn'l Debt (% of GDP)	155.2	182.7	199.8	255.5	247.7
Gross Official Reserves (Mos. of Imports)	0.3	0.2	0.2	0.4	0.6
Nominal GDP (USD B)	45.8	35.7	33.4	32.6	32.5
Population (Millions)	40.8	41.8	42.8	43.8	44.5

- ➢ Prime Minister Hamdok was forced to reshuffle his cabinet as he struggled to push through much-needed reforms, as the situation was still strained between the different factions.
  - Only five members of the previous cabinet were retained by Hamdok, most importantly the minister of defence. Other positions were awarded to a variety of organisations - including the Umma Party, the National Ba'ath Party and the Beja Congress – to present a united front.
  - One of the most ambitious appointments was that of Darfur rebel leader Gibril Ibrahim as Minister of Finance, which shows that the once-warring groups are putting their differences aside.
- ➢ We believe the reshuffle will be crucial in easing the country's transition to democracy and putting an end to years of civil unrest. However, the formation of the country's legislative council remains outstanding.
- ➢ The government will need its reform efforts buttressed by the international community if it wants to ensure the political handover remains smooth and economic stability is achieved.

[1] Arabia Monitor; IMF.

Syria: A decade of destruction rages on

NR/NR

- **A decade has passed since civic protests broke out in Daraa - anti-government protests which paved the way for the uprisings that would become the country's civil war. With diplomatic bandwidth waning and no stability in sight, the country becomes an open door for Assad backers, Iran and Russia.**
  - ➢ Iran and Russia have long provided military support to Assad but with the frontlines relatively quiet, they have ramped up their efforts to expand their economic presence in the country.
    - An Iranian delegation was in Damascus this month with the purpose of bolstering economic ties, signing a technological agreement as well as a credit line. Tehran is also now offering scholarships to Syrian students.
    - Russia has been sending shipments of commodities to the country and is now accredited with supplying the country with its vaccines.
  - ➢ While condemning Iran and Russia's presence in the country, the West and international organisations are unlikely to take action to limit their influence.
  - ➢ This means that a diplomatic resolution is unlikely and Assad is here to stay.
    - Even though presidential elections are set for this spring - if they go ahead - the country's electoral process is to provide the appearance of democracy more than anything.
- **With disengagement forging ahead, and the country cut off from the global financial markets, the Syrian economy faces a bleak outlook.**
  - ➢ This month, the Syrian pound dropped as low as SYP 4,000 to the dollar compared with the pre-war 50 SYP to the dollar.
    - The official rate is fixed at SYP 1,256 to the dollar.
  - ➢ The currency crash has hit the cost of basic necessities, increasing the risk of food insecurity.
    - A recent UN report revealed that 60% of the population — more than 12 million people — do not have access to food.
  - ➢ The 2021 budget is the smallest state budget since the conflict broke out in 2011, risking further cuts to social subsidies to basic commodities.
    - State revenue for 2021 is an 83% contraction from revenues received in 2010.
    - The budget deficit currently sits at 2.5 trillion Syrian pounds (USD 902 M) however, it is expected to be much higher taking into account the lending it receives from Russia and Iran.

Syria Macroeconomic Indicators[1]

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

- ➢ To make matters worse, neighbouring Lebanon's economic crisis has spilled over into Syria.
  - Billions of dollars held by Syrians are stuck in Lebanon.
  - For years Lebanon was a refuge for Syrians as it was free from government controls, but now, strict capital controls in effect in Beirut.
  - Assad estimates USD 20B to USD 42B is locked in the Lebanese financial system.
- ➢ Despite being strapped for cash, Assad has issued a decree for a one-time "stimulus" pay-out of SYP 50,000 to public sector employees and SYP 40,000 to pensioners.
  - This roughly converts to USD 11 on the black market for public sector employees and USD 9 for pensioners.
- ➢ The stimulus, which already leaves out a majority of the population, is not going to have much of an impact on the badly battered economy. At best it may provide a very temporary reprieve.

[1] Arabia Monitor; IMF.

Tunisia: The unfinished revolution

B3/NR

- **Ten years after historic protests ignited the Arab Spring, Tunisia's economic and political outlooks remain bleak. Following lacklustre growth of 1% in 2019, GDP shrank by an alarming 7% in 2020. For 2021, the IMF forecasts a recovery of 4%, but this could be hampered by increasing social tensions, which have boiled over into a new protest movement.**
  - Although Tunisia has fared better since the Arab Spring than many of the failed democracies in the region, the economic situation in the country is less than ideal.
    - Since the revolution, economic growth has averaged a measly 1.8%, not nearly enough to solve the severe unemployment problem. This was compounded by the impact of the pandemic, as the 2020 GDP contraction was Tunisia's largest since independence in 1956.
    - Unemployment currently stands at 15% nationwide and at 36% in the 15-24 age bracket.
    - The tourism sector, which contributes 8% to GDP, and which many Tunisians depend on for their livelihood, saw its revenues plunge by 65% in 2020. The recovery in tourism this year will likely be partial, as the country trails behind in its inoculation campaign, which only began on 20 March, two months after its neighbours, Algeria and Morocco.
  - In addition, inflation has soared to 5.8% in 2020, and is expected to average 5.3% this year, according to UN estimates, leading to rising food prices.
  - The fiscal situation is equally concerning, as public debt is expected to reach 89% of GDP in 2021, up from 3.3% in 2019.
    - Tunisia's budget deficit rose to an estimated 10.5% of GDP in 2020. The government is expecting the deficit to improve to 6.6% of GDP this year, although this would still be double the 3.3% figure from 2019.
    - The critical fiscal situation has prompted the rating agency Moody's downgraded the country's ratings to B3 from B2, with negative outlooks, reflecting the country's weakening governance and inflexibility in executing fiscal adjustments.
    - Faced with mounting pressure, the government has hinted that they will seek an IMF loan, but we expect this will be difficult given frequent clashes between powerful unions and the government over public sector salaries. The public service wage bill is approximately 17.6% of GDP, among the highest in the world.

Tunisia Macroeconomic Indicators[1]

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

The myriad issues facing Tunisia have driven protesters to take to the streets, with demonstrations often descending into violence.

- Since January, thousands of arrests have been made as demonstrators protested against corruption and brutality.
- Additionally, the conservative Ennahdha party, the largest in Tunisia's parliament, called for a "march for the defence of democratic institutions" last month, which at least 10,000 Tunisians attended.
  - Ennahdha, which has dominated the political scene since the 2011 uprising, organised the protest after President Kais Saied criticised a Cabinet reshuffle carried out by Prime Minister Hichem Mechichi.
  - The President has threatened to block some of the government's ministerial appointments, which Ennahdha supporters have deemed an abuse of power.
- The political scene in Tunisia remains as fragmented as it was in the wake of the revolution, and we therefore do not expect urgent reforms to come easily.

[1] Arabia Monitor; IMF.

UAE: Structuring reforms to drive growth

Aa2/NR

- **The UAE's economic recovery is well on track and is set to register a 1.3% expansion this year, from a 5.8% contraction in 2020. While this is a somewhat tepid rebound, it comes on the back of weak average growth of 2.3% in the past five years.**
  - ➢ Growth will be buoyed by the Emirates' region-leading vaccine programme and the continued rollout of modernisation measures.
  - ➢ The Central Bank of the UAE expects the recovery to begin in H2 of this year, with overall growth of 2.5% in 2021, up from last year's 5.8% dip, with a full recovery forecast in 2022 at 3.5% growth.
    - The federal deficit is expected to narrow to 5.1% of GDP in 2021, from 9.9% last year. The fiscal position, however, will remain weak, mainly on the back of expansionary federal and local government budgets. We expect it will be a while before the UAE reaches a zero deficit again.
  - ➢ This year's expansion will be supported by 3.6% growth in non-oil GDP, following a 6.7% decline in 2020.
    - Oil GDP is expected to remain in negative territory at -2.5% of GDP this year. This could be revised as recovery remains contingent on OPEC+ production schedules.
    - Non-oil growth will be driven by the increase in fiscal spending and a pick-up in employment. Dubai Expo in October 2021, and the expected improvement in business sentiment, will further boost the economy.
  - ➢ The promising outlook is also underscored by the country's rapid vaccine programme. After Israel, the UAE is leading the vaccine rollout in the region and has inoculated over 70% of its elderly citizens, and 50% of its total population.
    - This will boost the service sector, particularly tourism, around H2 of 2021 as pent-up demand strengthens the market and travel corridors open.
  - ➢ The UAE's new and relatively less restrictive labour policies will help growth this year. While some GCC countries are tightening their rules on expats, the emirates are opening their doors wider.
    - Following the growth-friendly measures announced, such as expanding the 10-year golden visa and granting certain expatriates Emirati citizenship, the UAE has approved a new remote-working residency visa across the whole Emirate.

UAE Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	2.4	1.2	1.7	-5.8	1.3
Crude Oil Production (M Bpd)	2.9	3.0	3.1	2.8	2.7
Oil GDP Growth (%)	-3.2	2.5	3.4	-6.3	-2.5
Non-oil GDP Growth (%)	4.8	0.7	1.0	-6.7	3.0
CPI Inflation (%)	2.0	3.1	-1.9	-1.5	1.5
Fiscal Balance (% of GDP)	-2.0	1.9	-0.8	-9.9	-5.1
C/A Balance (% of GDP)	7.1	9.6	8.4	3.6	7.5
Total Gov't. Gross Debt (% of GDP)	21.6	20.9	27.3	36.9	38.2
Total Gross Extrn'l Debt (% of GDP)	72.0	67.9	76.7	97.5	95.9
Gross Official Reserves (Mos. of Imports)	3.7	3.9	4.8	4.1	4.2
Nominal GDP (USD B)	385.6	422.2	421.1	353.9	373.1
Population (Millions)	9.4	9.5	9.7	9.8	9.8

    - This one-year scheme, which was also launched in Dubai last October, will allow professionals working abroad to reside in the country and work remotely. A multi-entry five-year tourist visa was also approved for all nationalities.

- **The acceleration in government efforts to expand the knowledge-based economy and boost investment will also help recovery.**
  - ➢ Dubai recently launched 'Operation 300bn', an initiative aimed at more than doubling the domestic industrial sector's contribution to the economy, to around USD 82B over the next 10 years.
  - ➢ The strategy includes enhancing the attractiveness of the industrial sector for investors by updating legislation, including allowing 100% foreign ownership of projects and ensuring dedicated financing is available.
  - ➢ Priority will be given to R&D, which comprises 1.3% of the UAE's GDP. Spending is set to increase from USD 5.7B to USD 15.5B. The initiative also aims to support over 13,500 SMEs in the industry.

[1] Arabia Monitor; IMF. 2020 GDP Growth is based on the estimate of the Central Bank of the UAE.

Yemen: An end could be in sight

NR/NR

- **With the new Biden administration's stance on the conflict, hopes for an end to Yemen's devastating war are high. The kingdom has proposed a promising peace plan, but its implementation will be tricky as Houthi rebels continue their offensive.**
  - Facing mounting international criticism, particularly since President Joe Biden took office, Saudi Arabia has proposed a ceasefire deal to end the Yemen war, which has been raging for six years.
    - The Saudi initiative, supported by the US and the UN, would see a national ceasefire, as well as the reopening of the Sana'a airport and key rebel-controlled ports across the country, which would allow fuel and crucial commodities into Yemen, and a resumption of the political process.
    - This would notably include lifting the blockade on the Hodeida port, which the Saudi-led coalition has long been criticised for.
    - Riyadh has claimed the port is used by Houthi rebels to smuggle weapons from Iran and generate revenue through customs.
    - On the other hand, humanitarian agencies called for the blockade to be lifted nonetheless, as the port is a vital artery for the country, used to deliver crucial humanitarian aid, as well as 70% of the country's imports.
  - This would, in theory, put an end to the devastating war, which the UN has called the world's worst man-made humanitarian crisis.
    - Saudi Arabia's peace efforts come as a result of recent steps by the Biden administration. As Biden has delivered on his campaign promise to increase pressure on Saudi Arabia, notably through a freeze on sales of offensive arms to the kingdom, as well as lifting a terrorist designation on Houthi rebels.
    - Yemen's Prime Minister, Maeen Abdulmalik Saeed, has stressed Washington's role in the peace process and its importance to the country's stability.
  - Despite the optimism which followed the ceasefire, Houthis have continued their offensive. They have dismissed the Saudi initiative and launched fresh attacks on Saudi oil facilities and military sites.

Yemen Macroeconomic Indicators[1]	2017	2018	2019	2020	2021f
Real GDP Growth (%)	-5.1	0.8	2.1	-5.0	0.5
Crude Oil Production (M bpd)	0.0	0.0	0.0	0.0.4	0.0
CPI Inflation (%)	30.4	27.6	10.0	26.4	31.0
Fiscal Balance (% of GDP)	-4.9	-7.8	-5.3	-9.2	-6.0
C/A Balance (% of GDP)	-0.2	-2.0	-3.9	-6.5	-8.3
Total Gov't. Gross Debt (% of GDP)	77.4	74.5	76.5	81.7	79.3
Total Gross Extrn'l Debt (% of GDP)	25.9	25.2	25.7	30.4	30.1
Gross Official Reserves (Mos. of Imports)	0.9	0.5	1.4	2.0	2.4
Nominal GDP (USD B)	26.7	23.5	22.6	20.9	19.1
Population (Millions)	28.2	28.9	29.5	30.2	30.9

- **The humanitarian situation is dire in Yemen, as millions remain at risk of starvation, and two-thirds of the population of 28M are dependent on foreign aid support, which is difficult to obtain. The uncertainty of the peace deal does not reflect the urgency of ending the conflict, but governments are likely to escalate efforts in order to avoid a catastrophe.**
  - The UN Office for the Coordination of Humanitarian Affairs has estimated that a quarter of a million Yemenis have already lost their lives, either as a direct result of the conflict or through outbreaks of disease caused by it.
    - The UN agency has warned that 400K children under the age of five could die this year due to the war and severe malnutrition.
    - COVID-19 deaths are augmenting tragic conditions all around.
  - As humanitarian agencies struggle to deliver food supplies, the country's agricultural sector has dried up as a source of revenue. The Sana'a government's Agriculture and Irrigation Ministry has announced that the Riyadh-led military coalition has inflicted USD 111B in damage that Yemen's agricultural sector since the start of the conflict.

[1] Arabia Monitor; IMF.

GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		Rating Change Considerations
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	
Bahrain	B2		Affirmed O/L Stable	17-Dec-18	B+		Affirmed O/L Stable	29-Nov-20	If Bahrain materially outperforms fiscal and external forecasts, upward pressure on ratings would continue. Conversely, if these constraints intensify, downward pressure will re-emerge.
Kuwait	A1		Downgraded O/L Stable	22-Sep-20	AA-	(-)	Affirmed	17-Jul-20	Ratings could be lowered further if a renewed fall in oil prices or slow growth were to undermine Kuwait's revenue and fiscal profile or if parliamentary resistance blocks or reverses planned reforms.
Oman	Ba3	(-)	Affirmed O/L Negative	23-Jun-20	B+		Downgraded O/L Stable	16-Oct-20	Ratings could dip if debt as a share of GDP remains on an upward trend or if the net external asset position were to weaken at a faster pace. We expect pressure on Oman's credit ratings to continue until the agencies see dynamism from the new Sultan.
Qatar	Aa3		Affirmed O/L Stable	24-Sep-20	AA-		Affirmed O/L Stable	07-Dec-18	Ratings could come under pressure if developments in oil production and prices, or in the banking sector, were to significantly weaken the country's external or fiscal positions; for example, if the government's gross liquid assets fall significantly below 100% of GDP.
Saudi Arabia	A1	(-)	Affirmed Negative	01-May-20	A-		Affirmed O/L Stable	25-Nov-20	Ratings could be lowered again if sizable and sustained reductions in the deficit are not achieved, or if liquid fiscal financial assets fell below 100% of GDP. Ratings could also come under pressure if domestic or regional events compromised political and economic stability.
UAE	Aa2		Affirmed O/L Stable	26-Mar-19					Reducing the debt of government-related enterprises of Abu Dhabi banks and of the government of Dubai could support upgrade considerations in the medium term.

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

MENA exc. GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	Rating change considerations
Algeria	N/R				N/R				Sovereign rating on hold due to domestic and energy market conditions.
Egypt	B2		Affirmed O/L Stable	11-May-20	B		Affirmed O/L Stable	11-May-18	A delay or reversal in implementing fiscal and economic reforms agreed upon under the IMF programme and renewed intensification of political turmoil and instability would be credit-negative.
Jordan	B1		Affirmed O/L Stable	26-Nov-20	B+		Affirmed O/L Stable	12-Mar-21	Successful implementation of key political and structural economic reforms, favouring more sustainable growth and further easing fiscal and external vulnerabilities would support an improvement in the ratings outlook.
Lebanon	C		Not on Watch	27-Jul-20	SD	(-)	Downgraded O/L SD	11-Mar-20	Ratings could be affirmed or raised, if the country receives significant donor funding that would allow the government to implement immediate reforms. Meanwhile, although we feel this can be rapidly unblocked if a restructuring program is put in place, it is conditional on policy reform.
Morocco	Ba1		O/L Negative	04-Feb-21	BBB-		O/L Negative	02-Oct-20	If higher economic growth were to exceed forecasts, and exchange rate flexibility were to increase markedly, this would be supportive of a ratings upgrade.
Tunisia	B3	(-)	Downgraded O/L Negative	23-Feb-21	N/R				Implementing structural reforms agreed under the extended IMF programme, including public bank recapitalisation and governance reform would be credit positive. However, a downgrade is likely if there are delays in the availability of external funding, fiscal overruns or major contingent liabilities that would weaken Tunisia's fiscal strength and the adequacy of its foreign exchange reserves.

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

About Arabia Monitor

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

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

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