Pandemic wounds healing, but scars?

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- **The pandemic continues to test economic resilience and with many countries in the region struggling to create enough fiscal space, we expect the focus will shift toward rebuilding buffers, and lowering public debt.**
- **With Saudi Aramco grappling to meet its year-end commitments, Saudi Arabia may be forced to expand its sources for finance next year. We expect to see the acceleration in privatisation and economic diversification to remain a priority.**
- **With Oman yet again receiving a downbeat credit rating, we expect further debt issuance to become increasingly costly. To protect against currency devaluation contagion across the GCC, we expect some sort of bailout, but with strings attached.**
- **The UN brokered ceasefire between rival governments in Libya has accelerated the return of Libyan production to the global oil market, rattling prices. With the second wave of COVID-19 well underway, anticipating another drop in demand, the expected 1 Mb/d addition on the market will increase downward pressure on oil prices.**

Table 1 - MENA Dashboard[1]

MENA Oil Exporters				
	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2020	2021	2020	2021
Algeria	-5.5	3.2	-16.4	-16.4
Bahrain	-4.9	2.3	-13.1	-9.2
Iran	-5.0	3.2	-9.6	-6.8
Iraq	-12.1	2.5	-17.5	-13.1
KSA	-5.4	3.1	-10.6	-6
Kuwait	-8.1	2.5	-8.5	-10.7
Libya	-66.7	76.0	-102.9	-43.2
Oman	-10.0	-0.5	-18.3	-16.9
Qatar	-4.5	2.5	3.0	3.3
UAE	-6.6	1.3	-9.9	-5.1
Yemen	-5.0	0.5	-9.2	-6.0
Average	-12.2	8.1	-19.4	-11.8
Average Ex-Yemen	-12.9	9.6	-20.4	-12.4
MENA Oil Importers				
	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2020	2021	2020	2021
Djibouti	-1.0	7.0	-1.5	-3.0
Egypt	3.5	2.8	-7.5	-8.2
Jordan	-5.0	3.4	-9.1	-7.4
Lebanon	-25.0	…	-16.5	…
Mauritania	- 3.2	2.0	-3.8	-0.8
Morocco	-7.0	4.9	-7.8	-6.0
Palestine	-12.0	8.2	-15.4	-12.7
Somalia	-1.5	2.9	…	…
Sudan	-8.4	0.8	-6.9	-4.3
Syria	…	…	…	…
Tunisia	-7.0	4.0	-8.1	-5.1
Average Ex-Syria	-6.7	4.0	-9.4	-6.4

Saudi Arabia: Despite dismal oil

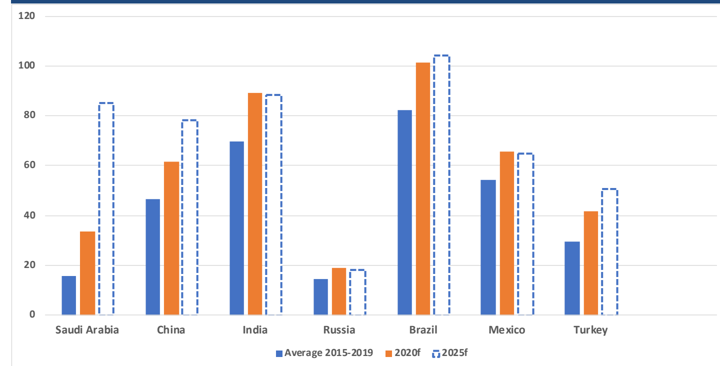
The IMF revised up its forecast for Saudi Arabia's 2020 GDP contraction in October and now expects the economy to shrink by 5.4% rather than the 6.8% decline estimated in April. Downside risks continue to prevail as anaemic oil demand puts pressure on the state's budget.

- The IMF's slight improvement in Saudi Arabia's GDP forecast for this year, while still the kingdom's worst performance since the 1980s oil glut, is due to the government's sizeable fiscal response to fight the pandemic shock.
- In its October economic outlook, the IMF was relatively upbeat about next year; it sees Saudi Arabia leading the GCC with 3.1% growth. This is in line with the Saudi Ministry of Finance's 3.2% forecast in the latest annual pre-budget statement, published on 30 September.
  - The assumption is that economic activity and the trade balance will improve as the kingdom eases lockdown measures, which is in line with fiscal stability measures and efforts to implement structural reform aimed at achieving economic diversification.
  - We see this happening, particularly as the government has been pushing ahead with its Vision 2030 reforms. However, much will depend on how deep the hit from COVID19 will be, and in particular, when oil prices will recover to at least USD 60 p/b for the economic wheels to turn again.
    - Oil prices are not expected to rise much next year, remaining range-bound between USD 40 p/b and USD 50 p/b. This is far short of the USD 76 p/b the Fund estimates is needed to balance the Saudi state budget.
  - For now, fiscal austerity is here to stay -- forming a strong headwind against the kingdom's recovery. Subdued oil prices will continue to put pressure on the fiscal and current account deficits, the latter of which is forecast to reach 3.3% of the contracting GDP this year from 2.9% of the expanding GDP in 2019.
- The pre-budget statement estimates the deficit will soar to 12% of GDP this year, from 4.5% of GDP last year, before declining back to 5% of GDP in 2021. This higher deficit implies higher financing needs and debt issuance.
- While the easing of the debt ceiling to 50% of GDP from 30% of GDP allows further issuance, we do not expect debt to reach this new level, at least not in the short term.
  - The debt to GDP ratio this year is expected to reach 34.4%, or USD 228B – a 34% YoY increase from 2019.

[1] Arabia Monitor; IMF.

- In March, Saudi Aramco, pledged it will pay its annual USD 75B dividend this year, which in H1 came to around USD 32B. The large pay-out will nearly all go to the government (given its 98.3% ownership) -- regardless of recent claims that Aramco may cut the government's dividend payment.
  - This is expected to ease budget pressure and partly offset 2020's high spending. But, with oil prices lower and current output cuts, Saudi Arabia may not be able to turn to its national oil company for support again next year.
  - The government's heavy reliance on Aramco, together with the uncertainty that dominates the oil market, is eroding the company's cash buffers, which in 2019 stood at USD 60B. In Q2 of this year alone, profits fell by 73%.
  - In turn, this may even threaten the company's ability to cover its own expenditure needs and instalment payments to the Public Investment Fund, the kingdom's sovereign wealth fund, stemming from the USD 69B 70% acquisition of SABIC.
    - Payments are scheduled until 2028, with USD 7B to be paid this year and USD 5B in 2021.
  - The erosion is mirrored in the recent decision by Aramco and its new subsidiary SABIC to reassess a USD 20B planned chemical plant -- the Yanbu project -- on the Red Sea coast. It is an attempt to scale back spending and preserve the dividend pay-out commitment this year.
- We remain optimistic that the deficit will narrow in the coming years as oil prices will gradually recover and as the government pushes ahead with more measures to curb spending.
  - Saudi Arabia plans to cut spending by 3.9% in 2021, to around USD 274B from this year's USD 285B.
- While deep spending cuts will be challenging, particularly given the country's commitment to its plans set out in Vision 2030, we expect the kingdom will continue its economic stimulus policies by moving forward with several mega-projects and by accelerating construction contracts.
  - If efforts to boost the private sector and diversification plans do not outweigh its oil-dependency, we expect increased pressure on the currency as the government continues to draw down reserves.

Figure 1 - Emerging Markets Debt (% of GDP)[2]



UAE: Seeking a rapid return to growth

From the already downbeat projection of a 3.5% contraction, the IMF has nearly doubled that with a revised forecast for a GDP contraction of 6.6% for this year. We expect the wide fiscal gap and high debt burden to remain, particularly for Dubai. Recent foreign investor interest in the UAE's bond market and new regional deals suggest recovery could accelerate.

- Despite the early success in containing the first wave of the virus, and opening up in H2, economic activity will take a heavy hit this year overall, before it rebounds into low positive territory next year.
  - Fiscal and monetary stimulus packages, which stand at 17.5% of GDP to date, have provided a buffer, but more will be needed.
  - The fiscal position is expected to worsen on the back of expansionary federal and local government budgets. With the loss of over 35% of total revenue this year, the deficit is expected to reach 9.9% of GDP, from 0.8% of GDP last year.
    - The current account will similarly weaken, registering a deficit of 4.2% of GDP, despite lower imports and worker remittances. It should post an average surplus of 2.3% of GDP between 2021 and 2023, however.
- The extent of economic recovery will largely depend on the ability of the hospitality industry to rebound, as all seven emirates have reopened for international tourists.
  - We do not expect the return of tourists to fill the vacuum immediately. Dubai's economy, where tourism comprises around 12% of GDP, is forecast to contract sharply by around 11% this year.
  - The depth of this contraction, along with Dubai facing a menacing maturation of government debt, means we do not expect a significant upturn until at least mid-to-late 2021. But the postponement of Dubai Expo

[2] Arabia Monitor; IMF.

2020 to 2021 could support the recovery next year.

- Dubai's maturing debt is estimated at more than USD 21B over the next three years (around 125% of GDP) with an additional USD 30B due in 2023.
- According to S&P estimates, Dubai's government debt will reach USD 80B, or 77% of GDP, this year, compared with 61% last year. But with debt from government-related entities (GRE) mounting, we would not be surprised to see the debt burden reach around 148% of GDP.
  - The Investment Corporation of Dubai (ICD), Dubai Holding and Dubai World are said to account for the majority of total GRE debt.

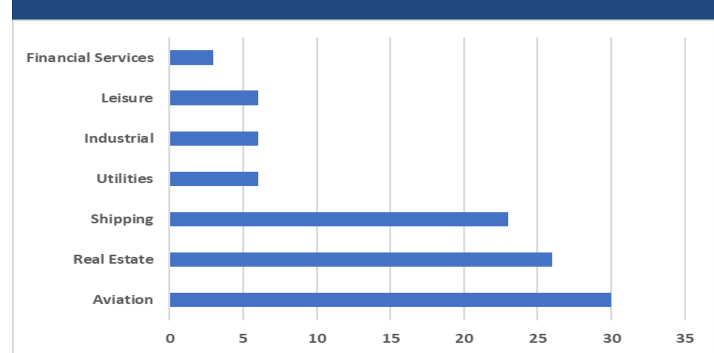
➢ To boost their coffers, Dubai and Abu Dhabi returned to the bond market for the first time in years.

- Abu Dhabi completed a USD 5B multi-tranche bond, priced with historically low coupons. It includes a USD 2B three-year tranche, a USD 1.5B 10-year tranche and a USD 1.5B 50-year tranche -- the longest ever issued by a GCC country.
  - The 50-year bond, in particular, attracted strong global demand with international investors accounting for 95% of the geographical allocation.
- In Dubai, the government tapped the public debt market for the first time in six years early in September, selling USD 2B in dual-tranche bonds. They consisted of a 10-year Islamic Sukuk (2.7%) and a 30-year bond (3.9%) -- both at the lowest interest rates in Dubai's issuance history.
  - More recently, ICD announced the sale of a USD 600M five-year bond, with a yield of 3.2%. We expect more GRE debt issuance to be announced in the remainder of the year.
- Dubai's government bond issuance and loans are expected to total around 7% of GDP in 2020. So far, the government has issued the equivalent of 2.2% of GDP in public debt - marking the emirate's largest annual debt issuance since 2009. We expect debt accumulation will exceed its deficit for the next two years.
  - The government could once again resort to its state-owned banks to provide any additional financing support.

➢ We expect the UAE's fiscal deficits to moderate over the next few years as pandemic effects subside and oil prices recover. The government's debt-to-GDP ratio will remain elevated, probably reaching 38.2% of GDP by the end of 2021, from 27% of GDP in 2019.

➢ Meanwhile, following the UAE-Israel normalisation deal, we are witnessing the signing of several bilateral business deals. This could accelerate recovery and pave the way for untapped opportunities for growth.[3]

Figure 2 - Dubai GRE Debt, by Sector (%)[4]



- Abu Dhabi-based Med Red Land Bridge recently signed a binding MOU with Israeli state-owned company Europe Asia Pipeline to collaborate in storing and transferring oil and related products from the UAE to Western markets through Israel's pipeline networks, which cross Eliat on the Red Sea and Ashkelon on the Mediterranean.
- While details of the financing, volumes and origin of oil transported are not yet disclosed, we expect this deal will provide both strategic and economic benefits and long-term joint investments for both nations.
- If finalised, the deal is expected to generate up to USD 800M over the next several years, with plans to start crude supply early next year.

Oman: Cash-strapped and borrowing

The IMF's forecast Omani GDP to contract by 10% this year - more than triple the 2.7% fall projected in April. To meet its financing gap, Oman tapped the debt market for the first time this year in the midst of deteriorating credit ratings We expect a new support package from Oman's GCC neighbours.

➢ Oil prices need to reach USD 104.5 p/b for the sultanate's budget to break-even this year. But with actual prices around USD 42 p/b today, fiscal sustainability and diversification have become key challenges. According to the IMF, Oman's GDP contraction should narrow next year to 0.5%. However, persistent budget deficits, soaring debt levels and a weaker external position will need to be managed.

- The budget deficit is forecast at nearly 17% of GDP this year, compared with 7.6% in 2019. This is expected to accelerate the deterioration of the already debilitated sovereign and external balance sheets.
- We see downside risks persisting until fiscal reforms take effect and oil prices improve.
  - As part of its plan to offset fiscal pressures, Oman is set to introduce a 5% VAT in April 2021, making it the fourth GCC country to introduce the tax. It is expected to generate around USD 780M, around 1% of GDP.

[3] For more on unfolding bilateral deals, see our Q4 2020 MENA Outlook, "GCC Banking & Finance", published on 30th October 2020.

[4] Arabia Monitor; Bloomberg.

- With its 2020-2024 fiscal plan, the sultanate plans to hasten economic reform and increase the government's income from non-oil sectors.
  - Among the key plans are accelerating the establishment of a social security system to remedy the impact on lower-income citizens who are bearing the brunt of government expenditure cuts, as well as pushing ahead with development projects worth up to USD 964M across the sultanate.
- In the meantime, there is pressure on Oman's reserves that threatens its ability to defend its dollar peg. In line with our previous analysis, the sultanate tapped the international debt market with a USD 2B two-tranche bond, for the first time since July 2019.
  - It priced a USD 1.2B seven-year bond at 6.75%, and a USD 750B 12-year bond at around 7.4% – costly, as expected, given its junk rating by all three major credit agencies. The sultanate halted earlier plans to raise a three-year bond.
- We expect Oman's funding requirement will remain high and more bond issuance will be needed. Access to the international debt market will be crucial.

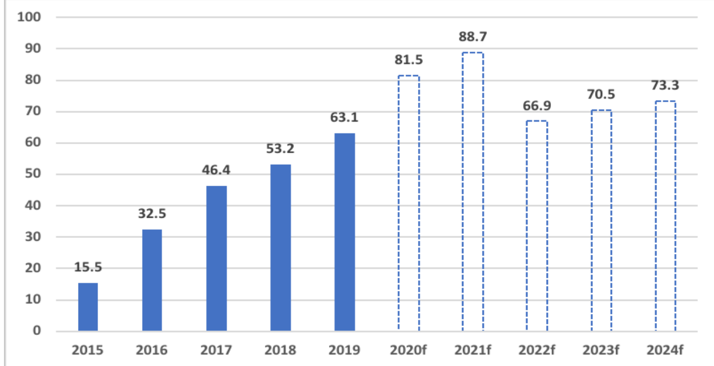
➢ While the sultanate is still in preliminary and unofficial talks with some of its neighbouring countries, we do expect some sort of GCC bailout, partly to avoid currency devaluation contagion across the Gulf.
- Strings may be attached, which could affect Oman's traditional political role as a neutral mediator in the region, principally with Iran.
- Aid from Kuwait would be less of a political risk than from other GCC countries because it is also relatively neutral in its approach to Gulf affairs. Qatari aid could also become easier given the warmer ties since the neighbouring blockade.
- A GCC regional package remains the most likely outcome, as was the case post-Arab Spring.

➢ In terms of the normalisation accords with Israel, Oman is likely next up. This should also help shore up financial support for the sultanate.
- Ties with Iran could start to ebb, but they are unlikely to be severed. This is because Oman serves as a convenient communication line to Iran for the region, including for Israel.

Iraq: Al-Kadhimi's tightrope

As Prime Minister Mustafa al-Kadhimi forges ahead with reform measures to cut costs in the country's bloated public sector, the long-awaited white paper outlining the government's plans for economic reform was approved by the cabinet. However, the deal has been and is likely to continue to be met with opposition from political parties and the Iraqi people, both delaying and compromising potential reforms.

Figure 3 – Oman Gross Government Debt[5]



➢ Reforms spearheaded by Minister of Finance Ali Allawi include overhauling public spending, stimulating the private sector and weaning the economy off of its oil dependency. All are to be implemented over three years.
- The government is seeking to borrow USD 35B as well as devaluing the currency for the first time in 20 years.
- Other unpopular reforms include halving the public sector's contribution to Iraq's GDP from 25% to 12.5%.
- Public sector jobs have long been used to ensure public support. With reserves drying up and oil revenue slumping, austerity could, as a result, spur a backlash.
- Oil exports subsidise 90% of public sector revenues. But they currently stand at USD 3.5B a month, not nearly enough to cover the USD 5B paid in monthly wages.
  - Public sector salaries have been delayed in both September and October as a result. There could be another delay in November.
- The government has had to turn to domestic borrowing to meet operating expenditures – another strike against al-Kadhimi's popularity.

➢ Al-Kadhimi and Allawi are seeking external support, including from the IMF, which may be hard to come by if reforms are not met with follow-through. It is something of a Catch-22 -- money needed for reforms; reforms needed before money.

➢ Al-Kadhimi has been on a European tour eyeing foreign investment to support reform measures.
- Both the UK and Germany promised to support Iraq's reforms via investment projects. However, agreements are still very much in early stages and have years-long timelines, delaying impact in the medium to long term.

➢ Al-Kadhimi's measures have compromised his popularity ahead of early elections next year.

[5] Arabia Monitor; IMF.

- Discontent is likely to stir volatility on the ground, possibly paving the way for a spike in militia activity.
- Even though a ceasefire was promised contingent on US troop withdrawal, attacks from rogue groups are continuing.

➢ To add more trouble for al-Kadhimi, protests took place across the country in commemoration of the one-year anniversary of last year's protests which resulted in the resignation of the government of then-PM Adil Abdul-Mahdi.
- The smaller turnout of protesters amidst a spike in COVID outbreaks is still testament to the dissatisfaction with the new government's lack of reform measures.
- However, protests should die out in the coming days; compared with a year ago, momentum is weak.

Libya: Oil flows again

A UN ceasefire agreement was signed between the rival Libyan sides this month, outlining a plan to work together both politically, militarily and economically. It is a tall order that will require concessions from all international players involved. Turkey, in particular, may find this difficult.

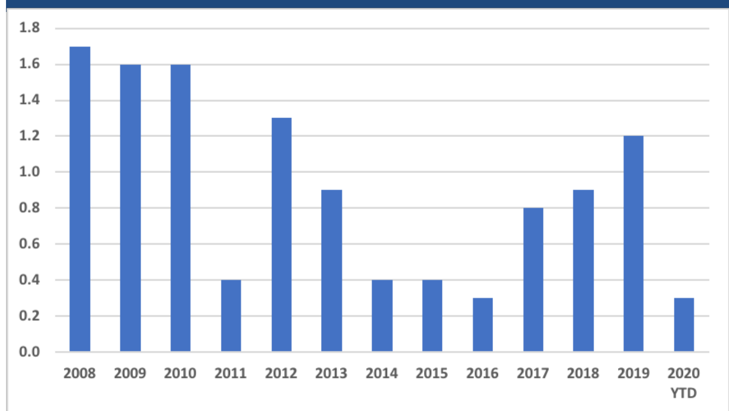
➢ Although the deal is seen as a major breakthrough -- bringing with it the first ceasefire in 18 months signed by both sides -- there are still tough political talks ahead.
- Libyan National Army General Khalifa Haftar and Government of National Accord leader Fayez al-Sarraj had met in January in Moscow for ceasefire talks facilitated by Russia, but Haftar left before signing a deal.

➢ It is yet to be seen if Libya can form a government of national unity as hoped for by the UN, especially given both sides' erratic behaviour in the past and with al-Sarraj's pending departure as prime minister.
- The deal calls for the formation of a combined regular force of military personal that reports to a joint commission.
  - The two sides are expected to work together with the UN to identify armed groups.
- Military and armed groups must leave the frontlines and foreign fighters and mercenaries must leave the country within three months
  - The agreement fails, however, to mention the presence of foreign fighters and mercenaries in demilitarised zones.

➢ Preservation of the ceasefire is largely dependent on Russia and Turkey, and the deal is unlikely to put an end to foreign interference in Libya.
- Russia and Turkey have both invested too much time and military and political capital to just give up as stakeholders in Libya.
- Turkey's President Recep Tayyip Erdogan has already expressed scepticism about the agreement.

[6] Arabia Monitor; National Oil Cooperation.

Figure 4 - Libyan Oil Production (Mb/d)[6]



➢ Energy terms of the deal are already being implemented with *force majeure* lifted across the country, ramping up production output.
- The months-long oil blockade has been lifted (for a month) following a deal in Turkey between former Libyan Prime Minister Ahmed Maiteeq and Haftar, which informally outlined the ceasefire and restarted production.
- Libya's daily output has risen to 560,000 bpd from fewer than 100,000 in September with Sharara, Ras Lanuf and Es Sider restarting production last week. All Libyan ports are now online.
- The National Oil Corporation has said that crude production will reach 1 Mb/d within the next month, just surpassing OPEC+'s target, but will be unable to reach last year's 1.2 Mb/d because of infrastructure damage.

➢ Libyan oil back on the market presents a challenge for OPEC+ as global demand slumps under a second wave of COVID-19.

Tunisia: Technocrats face a bumpy road

More than a decade since the Tunisian revolution ousted the old regime, the new leadership is still struggling to meet public expectations. The IMF recently revised GDP downwards to a 7% contraction, from the April forecast of a 4.3% decline -- this would be the largest contraction in recent memory. The newly formed technocratic government, however, may provide some needed stability -- but only if it can last.

➢ There is an urgent need to finance the country's large fiscal gap and current account imbalance, estimated by the IMF at 8.1% and 8.3% of GDP, respectively.
- The latter is expected to continue to hover within the 8% range next year on the back of a decline in external receipts, subdued demand and weak domestic investments. We believe lower energy imports, however, will provide some offset to the deficit.
- The Tunisian government is less optimistic than the Fund, forecasting a 14% deficit this year in its yet-to-be-approved 2021 budget; it

is seeking to reduce it to 7.3% next year. The draft budget bill was submitted to parliament on October 16.

- The 2021 draft budget reflects the government's slowly moving along with proposed IMF reforms, highlighting plans to improve tax revenue. If passed, it indeed may generate an adequate budget buffer.
  - We expect the deficit to remain high, however, at least until the latter part of 2021, particularly following this year's temporary halt in fiscal consolidation.
  - The new bill proposes the unification of corporation tax at 18% -- it currently varies based on the nature of activity within the range of 13.5%-25%.
    - The cut for companies currently under the higher tax tier will serve to benefit them as they navigate through the pandemic, and should boost further investment next year.
  - Plans also include setting up a specific tax regime for profitable SMEs with an annual turnover not exceeding USD 36.5K. If approved, the current flat-rate regime will be eliminated.
- For now, we will see an increase in the already high debt ratio.
  - The wide, persistent deficit was previously financed mainly through borrowing, which pushed external debt to around 77% of GDP in 2019, one of the highest levels among emerging market sovereigns.
  - The debt ratio is expected to expand to 98.3% this year and exceed 104% by 2021.
- External liquidity risks may be mitigated by strong backing from multilateral creditors and the IMF. This, in turn, is expected to allow Tunisia to meet its financing needs over the next two years.
  - The recent decision of Prime Minister Hichem Mechichi to inject USD1.5B into state firms and proceed with paying a new instalment of public wages was a trade-off. It will garner him some popularity but may compromise chances of receiving further IMF assistance.
    - The government is said to be in talks with the IMF – possibly to request additional financing to the USD 743M received in April.
  - Tunisia has been under pressure from international lenders to reform public companies and freeze public sector wages to reduce the deficit pressure. The latter nearly doubled to USD 6B in 2020 from USD 2.7B in 2010.
    - Public sector wages accounted for 40% of this year's deficit, with around 22% for debt repayment, worth USD 5.8B – a record high.
  - Debt servicing this year is around USD 4B, compared with only USD 1B in 2010 before the Arab Spring revolt.

Figure 5 - Tunisia's Fiscal Balance (% of GDP)[7]

- Recovery is now partly dependent on the government and the Central Bank of Tunisia preventing further declines in creditability, given debt has been rated "highly speculative" by major agencies.
- With not many options to finance the budget gap, we expect the government will resort to the Central Bank for support, possibly by ISSUING treasury securities. More will be needed, but this will likely increase liquidity for the remainder of the year.

Iran: Eyeing new friends

Sino-Iranian relations have come into the spotlight again after Foreign Minister Javad Zarif's visit to Beijing this month to meet with his Chinese counterpart, Foreign Minister Wang Yi. Despite this, we maintain our view that the 25-year strategic partnership -- a deal between the two countries which was leaked in June -- is unlikely to materialise into anything substantial in the foreseeable future.

- While China will maintain its ties with Iran, its reluctance to pursue tangible progress on the deal between the two countries is testament to how Chinese investment in Iran has cooled since the US left the JCPOA nuclear deal.
  - Sino-Iranian trade stood at USD 19B in 2019 -- the lowest in a decade -- and is currently expected to decline even further.
  - As of June, Sino-Iranian trade stood at USD 8B for this year, a 40% YoY decline from the same time a year prior.
- Iran, however, is eager to get on with the agreement, which includes expanding bilateral trade and economic ties, and enhancing security and military cooperation.
  - Ali Larijani, former speaker of Iran's parliament, has now been assigned as the key negotiator on the deal on behalf of the office of Supreme Leader Ayatollah Ali Khamenei.
  - The involvement of the ayatollah on such foreign policy matters points to how keen Tehran is to expedite progress.
- Iran's enthusiasm can also be attributed to the depreciating rial -- which has recovered a bit after

[7] Arabia Monitor; IMF.

record weakness at 323,000 IRR to the USD early in the month. It has lost almost 50% of its USD value this year. This needs to be measured either in YoY terms, or since the beginning of the calendar year. But pls do the math to make sure the 50% is correct in either case. Do not rely on the press, if this is from the press.

- In response, the Central Bank of Iran injected USD 50B in foreign reserves into the market, and is said to be continuing to do so, to curb currency depreciation beyond the 42,000 IRR to the USD official rate.
- The rial will continue to fluctuate ahead of and around the US election in November and may sink further if President Donald Trump is re-elected.
- Support from China would provide a desperately needed lifeline.

➢ China will continue to invest in Iran -- it has been one of the few remaining countries doing business with Tehran under US sanctions. Investment in the country though is likely to be less rapid than with its more economically and politically-stable neighbours.

Sudan: Determined to get off the terrorism list

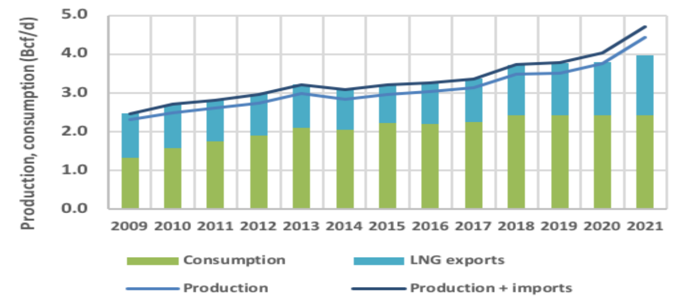
President Donald Trump's promise to remove Sudan from the State Sponsors of Terrorism list -- where it has been since 1993 -- provides a lifeline to the hammered economy. If it happens, it will relieve the country of sanctions, ease debt and pave the way for Khartoum's reintegration into the global market.

➢ The decision to de-list Sudan as a sponsor of terrorism could spur international investment and emergency financing from international lenders such as the World Bank and IMF.
- Sudanese inflation has reached record highs -- 212% YoY in October 2020 with the pound wallowing at 250 SDG against the USD. An increase of over 45% MoM.
- The deal would clear Sudan's IMF and World Bank debts and enable Sudan to receive a share of US debt relief amounting to USD 300M, including surplus wheat and medical supplies.
  - The lack of foreign investment has placed Sudan in dire need of foreign currency to continue purchasing strategic commodities, particularly wheat. The country has had to rely on shipments of around USD 3B of wheat and fuel as aid from the UAE and Saudi Arabia.

➢ Additionally, the US has now facilitated the gathering of a trade and investment conference for the country, with a high-level trade delegation from the Development Finance Corporation participating.

➢ We would expect the removal of sanctions on the economy to provide Sudanese firms with the chance to re-join international financial

Figure 6 – Oil prices in 2020[8]



networks, which are critical for remittances, trade, and investment flows.
- We also expect Sudan's economic decline to be cushioned, provided that the government remains committed to the reforms set out by the US.

➢ Sudan's removal from the list is conditional on the Sudanese government agreeing to pay USD 335M to US victims of terror – a request which is likely to be met.

➢ Additionally, in theory not conditional but in practice expected as part of the deal, was Sudan's normalisation of ties with Israel.
- Sudan has formally agreed to join the Abraham Accords but Sudan's political parties have rejected the move, which could spell trouble for Prime Minister Hamdok with protests in Khartoum over the past weekend.
- Ultimately, the protests and dissent will die down and are unlikely to jeopardise the deal.

Sino-MENA: Concerns about security

Yang Jiechi, director of the Chinese Communist Party's Central Foreign Affairs Commission, and a member of the Politburo, visited the UAE and Algeria on one of his first overseas trips since the COVID-19 outbreak.

➢ Part of a tour to four Belt & Road Initiative (BRI) countries, including Serbia and Sri Lanka the visit underscored how BRI countries remain a pillar of China's current foreign policy.

➢ Algeria has traditionally been a top market for engineering, procurement and construction contract, while China's relations with the UAE have deepened on all fronts in recent years.
- The most recent UAE collaboration is in joint COVID-19 vaccine clinical trials, which have led to the authorisation of a vaccine's emergency use on healthcare workers in the UAE. Prior to that, the two countries also worked on COVID tests.
- MENA countries poised to become Chinese vaccine customers, manufacturers or re-exporters are expected to face pressures from the US. These could include Egypt and the UAE.

[8] Arabia Monitor; OPEC.

China's Tik Tok, banned by Pakistan for 10 days in October, remains sensitive in Muslim countries.

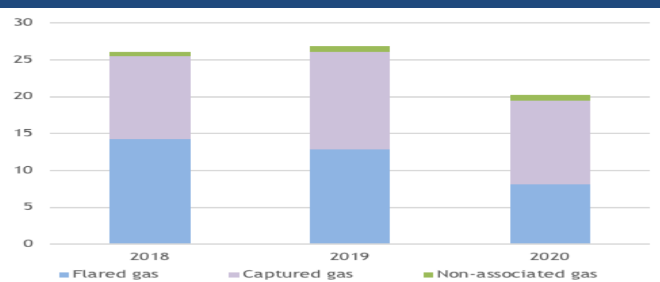
- Past incidents have occurred in Muslim-majority societies where Chinese-made mobile games have been deemed inappropriate, for example, in Jordan.
  - While many games and social media platforms have been developed specifically for MENA markets and the Muslim world, globally successful applications such as Tik Tok cannot easily avoid controversy and security backlashes.
- The difficulty of tailoring tech to local markets may open the door for home-grown start-ups to fill the void.
- But for China, incidents in MENA, such as bans on Tik Tok or certain mobile games, mean new emerging businesses will need to be more globally-aware with their products and services, potentially by launching different versions in different territories, based on a deeper understanding of the local cultures and customs. We expect Chinese firms to adapt in this way, quite rapidly.

MENA Energy Outlook: Iraqi electricity

Iraq's power sector challenges have returned in 2020, owing to the pandemic and protests. Challenges include a fixation on increasing generation capacity to meet demand of neglected fuel, maintenance and grid improvement, poor or non-existent demand side management measures, lack of tariff collection, and lack of interest in renewables and alternative energy. The list is long, while the potential is high.

- The coronavirus outbreak, along with power sector challenges, have strained Iraq's finances -- eliminating the 2020 budget. Protests that began in the summer against electricity shortfalls show no signs of abating.
- Iraq turned around its power generation impressively in 2019. Iraq's electricity struggles have a long history owing to corruption and mismanagement, while demand continued to grow rapidly due to population growth and the spread of consumer appliances.
  - Under the then-Minister of Electricity Luay al Khateeb's "fast-track programme" to revive halted power projects, generation witnessed a 20% jump in 2019 from 2018 levels.
    - This is because contractual requirements for power generation projects were streamlined and regional companies re-shifted their focus to summer maintenance schedules.
- The most immediate challenge for Iraq is to successfully distribute fuel supplies to power plants, and improve the power transmission system.
  - Renewed electricity shortfalls are compounded by the decline in crucial associated natural gas production from oilfields, as the Ministry of Oil curbs output in line with the OPEC+ agreement to shore up oil prices.
  - Electricity supply has fallen by 1 GW compared to 2019, as technical malfunctions in power plants remained unaddressed, leading to power cuts, only partly covered by distributed neighbourhood diesel generators, which receive fuel at subsidised prices.

Figure 7 – Flared gas production in Iraq (excluding Kurdistan region)[9]



- Natural gas development remains slow. There are only two producing non-associated gas fields in the country.
  - These are the 4.1 BCM/yr Khor Mor gas field in the Kurdistan region, and the 0.5 BCM/yr Siba gas field near Basrah.
  - Two other major non-associated fields, Akkas near the Syrian border in the Anbar province, and Mansuriyah in Diyala, remain undeveloped due to security concerns.
    - Current associated gas production is ~19 BCM/yr on an annualised basis, 7 BCM lower than 2019's level of 26 BCM due to oil output constraints under the OPEC+ agreement.
- Captured gas volumes have also suffered, even though flaring has seen a noticeable reduction. From 13 BCM flared in 2019, only 7.3 BCM was flared in June 2020.
  - Capture has been affected due to reduced associated gas as oil production is curtailed. However, captured volumes from international oil companies operated fields should not be as impacted, if carefully managed to ensure dry gas processing and extraction operations remain uninterrupted.
- Demand is effectively infinite, because current tariffs for electricity are near-zero for regular consumers.
  - The ongoing demand on power generation cannot be tamed through demand-side measures without restructuring tariffs.
  - Privatisation of distribution has regularly been cited as the first step of a potential reform policy. This yet, has been avoided as government pundits believe it might cause widespread opposition or put civil servants out of employment.
- Meanwhile, large-scale renewable energy remains a pipe dream. Iraq has a good variety of renewable resources, including remaining exploitable hydropower, abundant sunshine, and good wind speeds in certain areas.
  - It launched a 755 MW solar PV tender in May 2019 which was subsequently delayed to September 2020, but no progress has been reported.
  - Integrating renewable energy with the existing national grid would pose a significant challenge, even if significant power capacity is developed.
    - Remote areas such as Anbar, good sites for solar photovoltaic plants, will either require extended connections to the grid, or battery storage.

[9] Arabia Monitor; Qamar Energy.

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