2022 Economic and political outlook: Continuity on the cards

Florence Eid-Oakden, Ph.D, Chief Economist
Leila Lajevardi, Analyst

- **Amid skyrocketing cases, the COVID-19 Omicron variant threatens to dampen regional recovery prospects, but its impact is unlikely to rattle markets to the same extent as previous waves.**
- **Although oil price volatility remains a downside risk, global demand is still on track to surpass pre-pandemic levels in 2022.**
- **Elsewhere, the region is likely to be gripped by familiar political woes. Expect the start of 2022 to be marked by turgid negotiations, electoral delays, fragile government handovers and popular protests.**

COVID hangover hampers new year

MENA oil exporters' GDP growth is forecast to reach 3.8% in 2022, up from around 2% in 2021. Similarly, regional oil importers' GDP growth is set to reach 4.2%, up from 3.2% in 2021. Factors likely to affect growth include the dissemination of vaccines and the performance of the oil market.

- Bahrain, Saudi Arabia and the UAE are at the forefront of the region's vaccination drive, while Iran and Kuwait are picking up the pace.
  - The swift response to Omicron through vaccination boosting programmes will reduce the risk of disruption to economic and business activity.
  - Algeria, Egypt, Iraq, Lebanon, Syria and Yemen lag behind; they are therefore more susceptible to COVID-19-related shocks.
- Travel restrictions are back, and they have impacted the recovery of the hospitality industry. Yet there is cause for optimism; it is unlikely that the same restrictive measures imposed as part of the initial response to the pandemic will be rolled out.
  - Although some countries have closed their borders due to the spread of Omicron, including Morocco and Saudi Arabia, lockdowns and curfews are now less likely to be enforced.
  - Nonetheless, the return of the hospitality industry is likely to experience an uneven recovery. Regional tourism targets, including Bahrain's and the UAE's tourism sub-strategies, are unlikely to meet their goals this year.
    - While travel may once again pick up after the threat posed by Omicron subsides, tourism in H2 may not compensate for losses in H1. The emergence of an additional variant will exacerbate this bumpy recovery.
- Government spending is expected to be generous in 2022, though it is not likely to reach the levels witnessed during the pandemic's peak in 2020 and 2021.
  - Amid decreasing expenditure and increasing oil revenues, several oil exporters are anticipating a surplus in FY 2022; among them is Saudi Arabia.

Table 1: MENA Dashboard[1]

MENA Oil Exporters	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2021e	2022f	2021e	2022f
Algeria	3.4	1.9	-13.4	-10.1
Bahrain	2.4	3.1	-8	-8
Iran	2.5	2	-6.5	-7.3
Iraq	3.6	10.5	-1.5	-2.5
KSA	2.8	4.8	-3.1	-1.8
Kuwait	0.9	4.3	-1.5	1
Libya	123.2	5.3	6.8	12.5
Oman	2.5	2.9	-2.6	1.1
Qatar	1.9	4	2.8	5.7
UAE	2.2	3	-0.5	-0.2
Yemen	-2	1	-5.2	-5.2
Average Ex-Libya	**2**	**3.8**	**-4**	**-2.8**

MENA Oil Importers	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2021e	2022f	2021e	2022f
Djibouti	5	5.5	-1.7	-1.6
Egypt	3.3	5.2	-7.5	-6
Jordan	2	2.7	-7.7	-5.9
Lebanon	...	...	...	...
Mauritania	2.7	5	-0.7	-1.1
Morocco	5.7	3.1	-6.5	-5.9
Palestine	4.4	6	-10.5	-9.4
Somalia	1.6	3.9	-1.7	-0.2
Sudan	0.9	3.5	-2.9	-1.5
Syria	...	...	...	...
Tunisia	3	3.3	-8.3	-7.6
Average Ex-Syria & Lebanon	**3.2**	**4.2**	**-5.3**	**-4.4**

    - The kingdom is expected to achieve its first budget surplus since 2013.
    - Budgeted and actual expenditure is down 3.5% and 6%, respectively, from FY 2021.
  - This week, the UAE's prime minister, Mohammed bin Rashid Al Maktoum, approved Dubai's expansionary budget for FY 2022-24, with spending for 2022 set at USD 16.3B.
  - Both budgets underscore policy continuity, with priority given to social and infrastructure spending.
- Central banks throughout the MENA region are also closely monitoring the US Federal Reserve, especially with regard to interest rates; most regional currencies are pegged to the dollar.
  - Although the reserve is likely to hold off hiking interest rates for now, this may change in the coming months.
- Inflation is not proving to be transitory. A rise in consumer demand has compounded lingering supply chain issues and labour shortages, with consequent price increases felt sharply around the world.
  - Inflation is expected to rise to an average of 4.7% across developed markets by the end of the year.
- While oil markets may be impacted by political vulnerabilities, they are continuing to perform well.

[1] Arabia Monitor; IMF.

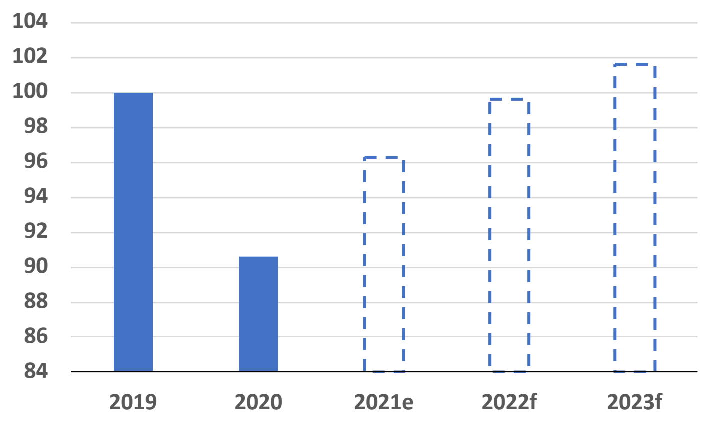
- Despite the fear of volatility amid the spread of Omicron, OPEC+ promised at a meeting this week to proceed with plans to unwind production cuts, a pledge which it is likely to continue to honour in coming months.
    - This reversal of cuts is expected to generate an additional 3.4M bpd by the end of September 2022, as per an OPEC+ agreement made in July 2021.
        - At the onset of the Omicron outbreak, the bloc anticipated an oversupply of 3M bpd for Q1, an estimation it has since lowered to 1.4M bpd.
    - At Monday's meeting, the bloc agreed to appoint Kuwait's Haitham al-Ghais as its new secretary general. He will succeed Nigeria's Mohammad Barkindo on 1 August 2022, according to an OPEC statement.
    - Prior to Barkindo's selection in 2016, the decision regarding the next secretary general had been stuck in a stalemate for years. The handover in August will help the bloc to maintain the united front which helped it to survive the 2020 downturn.

Transitions, negotiations at risk

As various MENA players continue to become entangled in their own domestic issues, political accountability is drifting. Risks to watch out for include a no-deal nuclear resolution between Iran and Western powers, as well as transition-related flare ups elsewhere in the region.

- As JCPOA negotiators return to Vienna, Iran is likely to pressure the US to make concessions in the coming weeks. It will use the advancements it has made in enriching uranium as considerable leverage.
- Although the US could apply more sanctions, there are few such measures which the previous US administration under Donald Trump (in office 2017-21) did not impose.
    - Further US pressure will have a limited domestic impact on Iran. Waning US leverage will compound its resolve not to concede, resulting in a crumbling foundation for negotiations.
    - While the imposition of sanctions may have a limited impact in Iran, it does spell trouble for banks operating in the country due to the potential for more compliance burdens.
- Israeli escalation is likely if Iran continues with its nuclear ambitions. Further Israeli airstrikes would prompt retaliatory action from Iran-backed militias, which may result in Iraq, Lebanon and Syria being caught in the crosshairs yet again.
- Elsewhere, regional tensions between GCC states and Iran have started to cool amid diplomatic reengagement between the bloc's members and the Islamic Republic.
    - Iran's president, Ebrahim Raisi, has made it a priority to foster warmer relations with his neighbours, a trend which seems to be on track.
- Across the Red Sea in Sudan, volatility is rife and shows no sign of abating.
- Abdalla Hamdok stepped down as Sudan's prime minister on 2 January 2022, citing his failure to form a government.
    - Fractures between the various factions in Sudan are widening. Hamdok's resignation could apply additional pressure on the security environment, jeopardising the country's transition to civilian rule.

Figure 2 -Global oil demand (bpd, M)[2]



        - Hamdok's resignation comes six weeks after he returned to the post of prime minister. He was initially removed from office following the military coup.
    - The country remains in the hands of the military, which is suspected to have played a role in Hamdok's resignation.
    - Not only is the country's transition to civilian rule at risk, but the delivery of international aid now also faces hurdles. The World Bank and the US suspended aid to Sudan following last year's coup. This suspension will continue unless a new leader is able to form a civilian government quickly.
        - Meanwhile, protests continue to grip urban centres. Two demonstrators have already been killed this month, a number that could grow in the coming days as the military attempts to consolidate its grip on power.
- As we expected, Libya's presidential election did not take place in December 2021 as planned. A new date has yet to be set.
- The UN-backed Libya Political Dialogue Forum's promise to facilitate democratic rule has continued to drift; there is no UN envoy to the country, nor has a conclusion been reached regarding electoral laws.
    - Elections could be delayed for months as divisions between Libya's east and west continue to threaten the oil market.
        - Libyan crude output is set to fall to a 14-month low this week due to a blockade at western oil fields which has compounded pipeline maintenance at the eastern Waha facility.
        - While Libya's crude production averaged around 1.11M bpd in 2021 (up from 360K bpd in 2020), output levels in December 2021 slumped to 700K bpd.
        - Armed groups continue to pose a risk to the industry, with four oil fields having closed this month due to attacks. These incidents often peak during periods of political volatility, which was common during the civil war.
    - With the Government of National Unity's (GNU) mandate having ended, the eastern-based House of Representatives (HoR) must now decide whether to extend the government's rule or to form an interim government instead.

[2] Arabia Monitor; OPEC.

- If the GNU's mandate is not extended, additional volatility will be injected into Libya's desperately needed transition.

Disclaimer

The information contained herein does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. Under no circumstances should the information provided on this publication be considered as investment advice, or as a sufficient basis on which to make investment decisions. The information contained herein has been gathered by AM Ltd from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. AM Ltd is not responsible for and provides no guarantee with respect to any of the information provided herein or through the use of any hypertext link.

Arabia Monitor is an independent research firm specialising in economic and market studies on the Middle East & North African region, which we view as the new emerging market. Our forward-looking perspective allows us to place recent developments in the region within a broader context and a long-term view. Our analysis is based on the macroeconomic and financial balance sheet of Arab countries to deliver unique strategy insights and forecasts to businesses across a wide range of sectors.

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 offshore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

Arabia Monitor
Aston House| Cornwall Avenue| London N3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.co