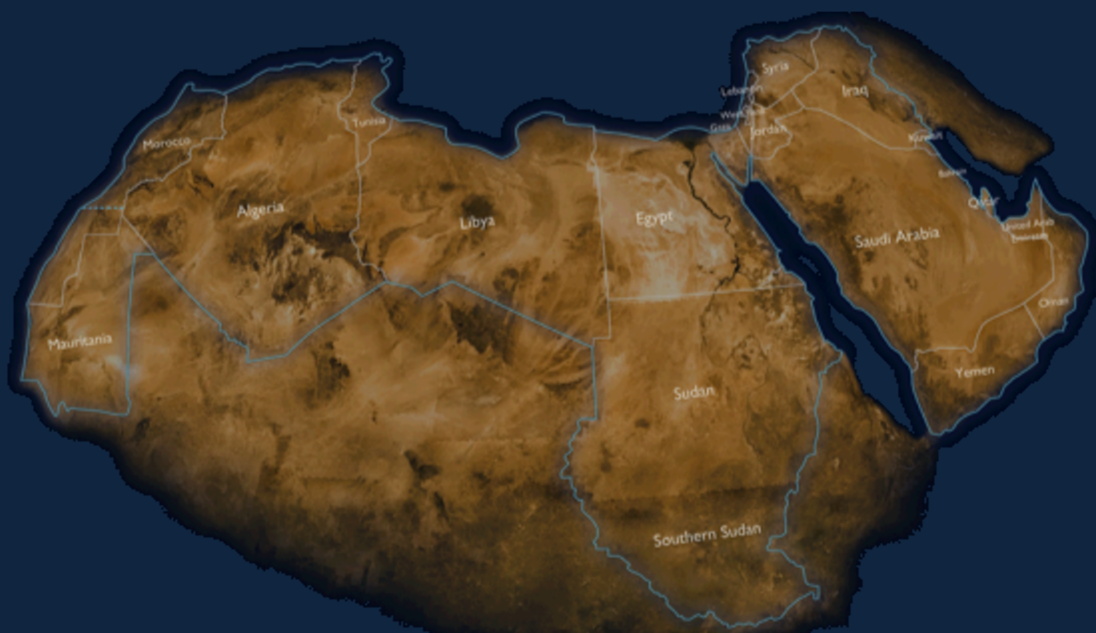
ARABIA MONITOR
ECONOMIC RESEARCH & STRATEGY

Energy transition: Opportunities & challenges

Middle East & North Africa Outlook
Q1 2022



Florence Eid-Oakden, Ph.D
info@arabiamonitor.com
Tel: +44 203 239 4518

With Leila Lajevardi, Mingqiao Zhao, Abdelgadir Shukri, and Olivia Phillipon.

Outline

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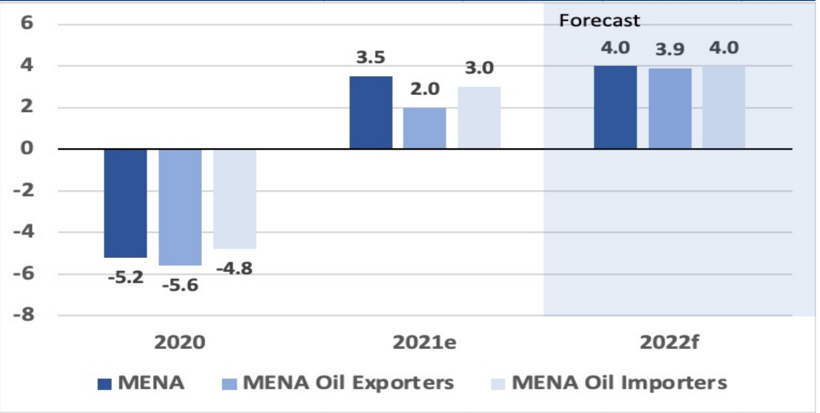
Our View: MENA region has energy to transition

- **This quarter, we examine how the MENA region is adapting to global calls for an energy transition in the face of climate change. Any such shift will have economic and security implications throughout the region, especially as key actors seek to retain influence within energy markets. We analyse the challenges, opportunities and underlying motives pertaining to various MENA players in the context. We also examine how several MENA countries have progressed with projects related to green financing and regulation initiatives, among others.**
  - ➢ Hydrocarbon producers throughout the MENA region have signed up to global efforts to combat climate change. These countries, economically dependent on oil and gas, are consequently under increasing pressure because of decarbonisation ambitions.
  - ➢ Given the uncertainty regarding the pace of the energy transition, a growing number of MENA oil companies are revising their long-term forecasts downwards, namely those related to fossil fuel consumption and pricing.
    - MENA countries are making clean sources of energy pivotal to their long-term strategies. In H1 2021, there were no contract awards for oil-powered or gas-fuelled power stations in the region, whereas in the same period, there were about USD 2.8B of renewable energy project contract awards in the region.
  - ➢ Despite the perceived threat to regional economies, governments are working hard to ensure that a transition creates opportunities from cleaner and more reliable energy.
    - Endowed with enormous renewable energy potential and steady growth in terms of internal energy demand, those MENA economies with the means, are forging ahead aggressively while less affluent ones are also seeking their share of this new pie.
  - ➢ The MENA region's contribution to the energy transition is currently only 1% of global supply, but this is set to grow steadily given the advantage that the region has globally.
  - ➢ As a whole, the region is expected to add an estimated 3 GW of solar power this year – doubling its total from 2020. Looking ahead to 2025, this figure is forecast to grow to almost 20 GW via the many government renewable project pipelines in the region.

Figure 1 – MENA real GDP growth (%)[1]



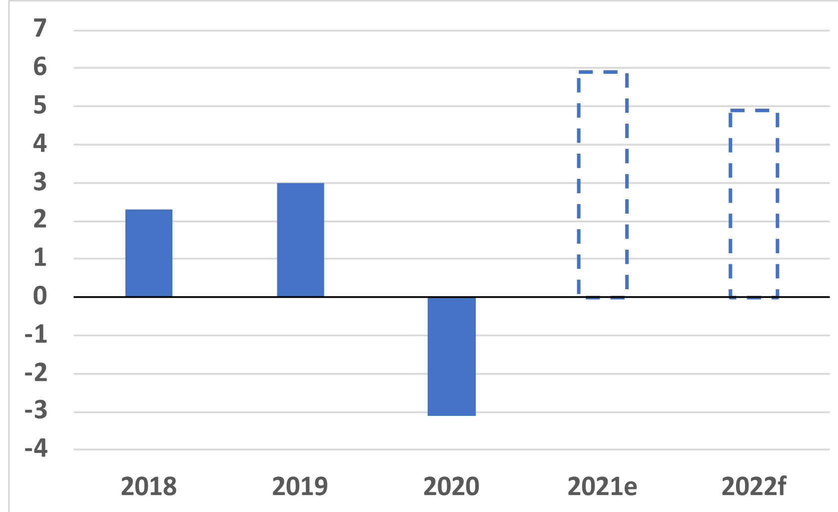
- **On the diplomatic front, the MENA region has seen a fairly active 2021 and this trend is set to continue well into 2022.**
  - ➢ The new (conservative) Iranian government wants to deepen ties with its neighbours, a trend which is set to continue next year.
    - These ambitions follow lagging JCPOA negotiations that only seem to be yielding greater polarisation between Iran and the West while Iran races to break-out capability. We are not JCPOA optimists going into 2022.
  - ➢ In a seemingly more cohesive summit this month in Riyadh, the GCC looks like it is coming of age, recognising the need for a new regional order, a central feature of which involves counterbalancing narrow local interests with regional and international ones.
    - A case in point is the UAE's position on its F-35 US fighter jet deal. This is not the first, nor the last tough navigation of a new international order where China is a more present player in this area.

[1] Arabia Monitor; IMF.

Global outlook: Emergent growth divergence

- **Global economic recovery has weakened and is becoming increasingly uneven. Various countries across the world are finding it difficult to implement rapid and effective vaccination programmes. This is proving costly, with the emergence of the Omicron variant causing much uncertainty.**
  - Our outlook estimates 5.9% economic growth for 2021 followed by 4.9% in 2022. Growth levels should then settle to around the 3% mark in 2023, reflecting the rate seen prior to the onset of the COVID-19 pandemic.
  - Economic output from the world's most developed countries has now surpassed pre-pandemic levels; it is gradually returning to the growth trajectory of late 2019.
    - Less wealthy countries are at risk of being left behind due to poor vaccination rates.
  - A rise in consumer demand has compounded lingering supply-chain issues and labour shortages to create a considerable rise in prices felt around the world.
    - The warning signs are present as Inflation is set to rise to 4.7% on average across developed markets by the end of the year, undermining the argument that inflation is transitory.
    - On a brighter note, higher prices are partly underscored by robust economic growth.
  - As a countermeasure in the face of high inflation, central banks, starting with the Bank of England last week, have begun enacting and signalling interest rate hikes that have surprised markets in their speed. The US Federal Reserve is set to follow in Q1.
    - On the other hand, the European Central Bank is yet to adjust its monetary policy stance but we expect it to follow the global hawkish trend in 2022. But failing to do so in a timely manner risks leaving it too far behind the curve in confronting soaring prices.
    - But while some major economies are tightening monetary policy, China is dovish. The People's Bank of China is intervening to buttress a slowing economy under pressure from a sluggish property market. Earlier this week, Chinese banks lowered borrowing costs for the first time in 20 months.

Figure 1 - Global GDP growth (%)[1]



- **Real GDP growth for emerging markets is forecast at 3.5% on average for 2022. The modest outlook is underpinned by a growth slowdown drag from heavyweight economies such as China and India.**
  - China's growth deceleration is expected to pull down average emerging markets GDP growth.
  - This potential of depressed growth as a result of China's real estate market woes could have negative spill over effects with key emerging market trade partners.

[1] Arabia Monitor; IMF, World Bank.

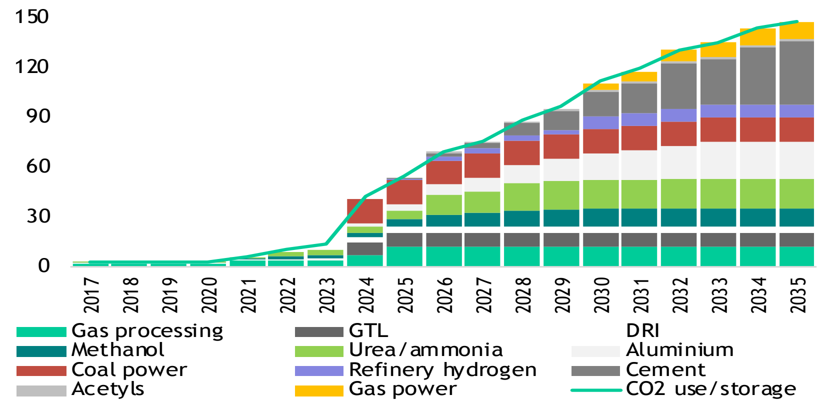
Energy transition: MENA's drive to decarbonise

- **Climate change policies and the need to save natural gas for domestic use and export has prompted Middle East producers to embark on a decarbonisation drive.**
  - With several energy agencies around the world already forecasting peak oil demand to have passed in 2019, Middle East oil and gas producers are under increasing pressure to maintain market shares as their own economies undergo an energy transformation.
  - However, even as they create a "carbon space" for natural gas exports, MENA producers are now increasingly turning to renewables, and new, cleaner energy systems to diversify their energy mixes, including hydrogen, batteries/EVs, and advanced CCUS.

- **Natural gas can replace crude and other polluting petroleum products used as feedstock in the world energy systems in the interim to a net-zero future.**
  - Within MENA alone, it can replace petroleum-based products in power generation, desalination, and an expanding petrochemical industry. As exports to Asia, Europe, and other locations, it can contribute to energy supply security for these regions. However, its role in the energy transition does require ultimate decarbonisation and the mitigating of methane emissions.
  - Carbon border taxes, proposed by the EU for implementation in 2023, will further increase pressure on MENA producers to diversify, or face higher costs for their natural gas exports to the EU.

- **In the medium to long-term, renewables will replace gas in an increasingly decarbonised economy.**
  - Higher gas prices in recent years and shortages have encouraged Middle East producers to explore alternative forms of generation, and solar has proven to be particularly viable. Solar power has set a series of world record low costs in bids in Dubai, Abu Dhabi, Saudi Arabia, and Qatar. Saudi Arabia has also achieved record low onshore wind bids.
  - Early adopters of renewables can become exporters and can also become early movers in the green hydrogen space. Solar PV is relatively technically straightforward and will achieve a significant share in the region's lowest-cost generation mix. Falls in Li-ion battery costs can help batteries meet the limitations of timing and demand in power, and at industrial sites that need continuous operations.

Figure 1 - Middle East technical potential for captured CO_2 (Mtpa)[1]



  - A combination of optimised solar, battery and demand management systems can displace significant amounts of gas consumption in the MENA region. Strong wind resources in areas such as Morocco, Egypt's Gulf of Suez, Jordan, north-western Saudi Arabia and south-eastern Oman can also contribute.

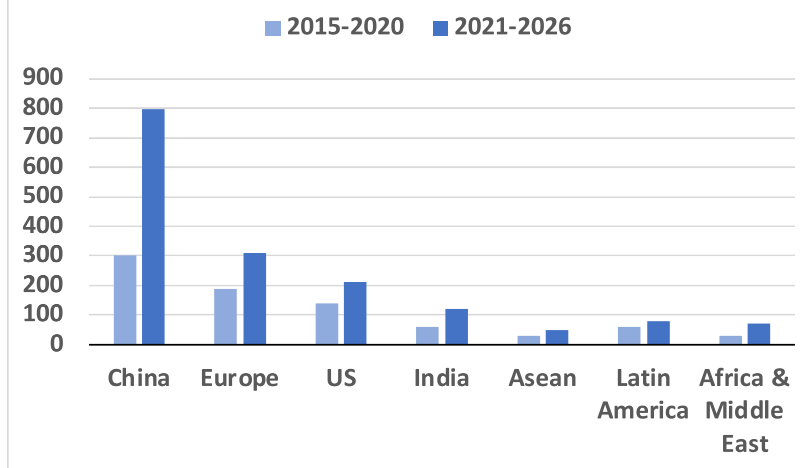
- **However, a renewables-led carbon-neutral future cannot materialise without aggressive movement on capturing carbon dioxide (CO_2)**
  - Capturing and utilising/storing existing and near-term CO_2 emissions is a must for a carbon-neutral future, as most of the global energy system is still fossil fuel-based and cannot be retrofitted to function on low-carbon technologies overnight.
  - The Middle East enjoys significant technical potential for capturing CO2 (see Figure 1), thanks to its agreeable geology and terrain for storage, high public acceptance, relevant petroleum-related skills, and a limited number of large point emitters, that are in proximity to end-use sectors and offtakers.

[1] Qamar Energy Research.

Energy transition: A green world order

- **The global climate change movement initially began as grassroots-level activism. Unprecedented political support for a zero-carbon future has since shifted governmental policies worldwide. Regulatory changes have touched multiple economies and sectors across the globe, including the MENA region.**
  - In all, more than 130 countries have pledged to meet a net-zero carbon emissions target by mid-century. This covers over half of global domestic greenhouse gas emissions, over half of global GDP and around a third of the global population.
  - The global ambition to shift from fossil fuels is now a reality; the MENA region has followed suit with recent net-zero pledges by Bahrain, Saudi Arabia and the UAE.
  - GCC countries certainly want to reduce carbon emissions as part of the energy transition and wider global decarbonisation efforts.
    - Lurking beneath the surface of this promise are wary undertones. Some key players are worried that they may lose their influence within future decarbonised energy markets.
  - Indeed, the impact of the green movement will challenge the Gulf's oil-exporting countries. However, there are opportunities for economic diversification.
    - This has led many MENA players to prepare for the extraction of clean energy through various renewable energy projects.
    - In doing so, and in response to the global demand for clean energy, regional players look set to continue in their roles as major influencers within global energy markets.
  - One way of transforming local MENA energy markets is through regulatory momentum with regard to the region's Environmental, Social and Governance (ESG) agenda.
    - We are witnessing increasing disclosure requirements in terms of sustainable activities and reporting.
    - In alignment with global sustainability trends, companies in the MENA region are ramping up efforts to implement ESG frameworks and policies; stakeholders (be they investors or consumers) are becoming increasingly concerned that businesses should respect their ESG responsibilities.
  - Although the MENA region trails its global counterparts in terms of ESG progress (partly due to its historical dependence on oil and gas), countries like Saudi Arabia and the UAE are now striving to establish themselves as sustainability leaders.

Figure 1 - Renewable electricity capacity growth (GW)[1]



    - As a result of the push for UAE-based companies to disclose their ESG performance, corporate sustainability reporting among the top 100 UAE companies increased from 44% in 2017 to 51% in 2020, with multiple industries experiencing an uptick in reporting rates; this includes construction and materials, financial services and oil and gas.
  - The Saudi Stock Exchange (Tadawul) also recently launched an ESG index which includes over 70 Saudi-listed companies and which will be based on international ESG standards.
    - In a similar development, the UAE's Abu Dhabi Securities Exchange (ADX) did in fact launch new ESG guidelines last year for all ADX listed companies.

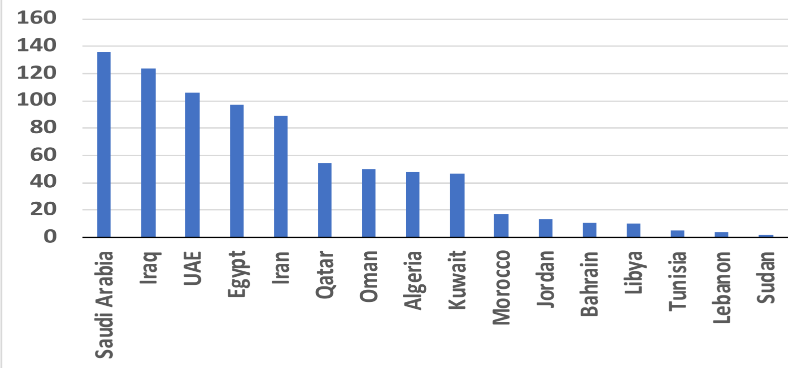
[1] Arabia Monitor; IEA.

Energy transition: Time to embrace winds of change

- **The MENA region enjoys multiple advantages that may facilitate the realisation of its ambitions to become a clean energy market leader. Among these perks are geography and logistics. However, further policy intervention is needed to harness this favourable situation fully.**
  - An abundance of high-level solar and wind power throughout the year provides a streamlined supply of low-cost renewable electricity in the MENA region.
    - From a technical perspective, the region has the potential to produce enough solar power to account for 50-60% of total global electricity demand.
    - Across more than 75% of the MENA region, wind speeds are greater than 5 metres per second; this is the minimum speed required for the development of utility-scale wind farms.
    - Furthermore, the region's ample land space also enables large-scale production capacity which is ideal for creating economies of scale.
  - Despite this potential, MENA economies have lagged substantially, even though the rest of the world has been pushing ahead with renewable energies.
    - Globally, the MENA region has the lowest share of renewable energy as a portion of total energy consumption. Renewable energy has been responsible for less than 1.5% of all electricity generation in the region, significantly below the world average of more than 10%.
  - Even within the region, growth is imbalanced; nearly 80% of renewable energy growth was concentrated within only four of the 22 MENA countries (Saudi Arabia, UAE, Egypt, and Morocco)
    - Current trends reflect that the renewable energy landscape is rapidly evolving; significant developments have taken place.
    - In 2016, around USD 11B was invested in renewables across the region compared to around USD 1.2B in 2008.

- **For the MENA region to take advantage of its position, it is imperative to reroute fossil fuel subsidies to cleaner energies.**

Figure 1 - MENA planned energy investments 2021-2025 (USD, B)[1]



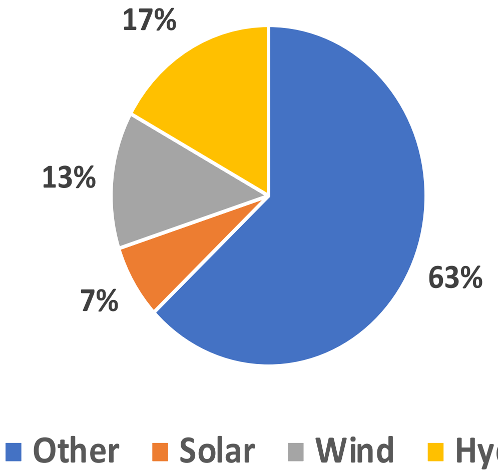
  - Renewable energies require substantial financial resources to incentivise the development of wind and solar power. However, reducing annual fossil fuel subsidies by only 5% will free adequate financial resources for MENA governments to subsidise the development of wind farms that could meet 10% of all electricity demand in the region.
  - In the long term, we believe that MENA governments will critically reconsider their policies around fossil fuel subsidies which have hindered the development of renewable energies.
    - We believe that the reduction of fossil fuel subsidies will lead to the development of an alternative energy economy in the region.
  - While the environmental benefits of reducing fossil fuel subsidies are evident, political considerations have prevented regional policymakers from taking this important step.
    - With the green movement gaining traction, MENA policymakers realise that substantial reforms to fossil fuel subsidies are critical to the energy transition.

[1] Arabia Monitor; APICORP.

Energy transition: A Gulf in the MENA energy race

- **Due to significant wealth disparity, it is unsurprising that GCC countries are ahead of their non-Gulf MENA neighbours in terms of clean energy production. Despite this gap, countries such as Egypt, Morocco, and Jordan have made steady progress over the past decade.**
  - While the MENA region lags behind China, Europe and the US with regard to investments in renewable energy sources, the world's largest and cheapest solar projects are found in Saudi Arabia and the UAE.
  - The North Africa region has managed to increase its renewable energy production by 40% over the past decade by adding 4.5GW of wind, solar PV and solar thermal power capacity to its collection of renewable energies.
  - As technologies have developed and costs have dropped, several countries in the region have designed increasingly robust policies to catalyse the energy transition.
  - Egypt once experienced consistent power shortages, but now boasts a 25% electricity surplus due to a 25.5GW generating capacity developed between 2015 and 2019.
    - This capacity includes 1GW of solar PV and nearly 840MW of wind power.
  - Egypt's success is characterised by its ability to identify regulations that enable private investment in the sector.
    - The government introduced feed-in tariffs (FITs) in 2014 and followed up in 2017 by signing long-term power purchasing agreements, thereby incentivising independent power producers to invest.
  - Egypt also encouraged bidding for projects through auction-like mechanisms. This has already proved successful for solar and wind power projects, including the development of the 200MW Kom Ombo solar plant (part of the 600MW of solar power capacity tendered in auctions throughout 2018).
  - Morocco accounts for nearly 75% of the MENA region's growth in renewable electricity production over the past decade, with progress largely underpinned by sound and consistent government policy.

Figure 1 - Morocco electricity generation sources (%)[1]



    - The kingdom announced in 2019 that it intends to supply 42% of its electricity through renewable means by 2030.
    - This figure is expected to increase to 52% and 65% by 2025 and 2030, respectively.
  - Morocco has the correct legal and regulatory framework to roll out its broader energy transition strategy; indeed, the right to sustainable development is included in its constitution.
    - This creates a market for the energy transition which will inevitably have positive spill-over effects across its economy and wider sub-continental region.

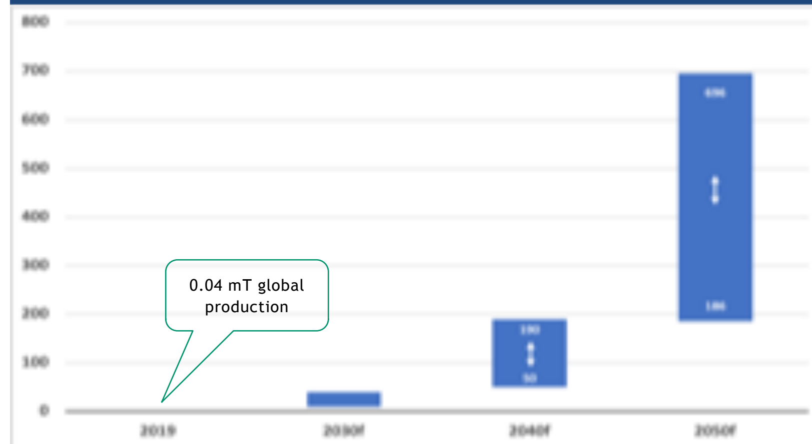
[1] Arabia Monitor; CESE.

Energy transition: High time for hydrogen

- **Although the global hydrogen energy market is at an embryonic stage, unprecedented political support for a zero-carbon future has brought this topic to the forefront. The drive towards harnessing hydrogen is now starting to gather pace.**
  - ➢ The recent hype surrounding hydrogen is underscored by the urgency of climate change and the prioritisation of decarbonisation on the global political agenda.
  - ➢ Although ambitions are high, green hydrogen accounts for a paltry 0.1% of the total hydrogen currently produced globally.
    - Hydrogen is an energy source which is only just starting to be considered from a mainstream perspective.
    - The fuel currently only captures 4% of the global energy mix, but this figure is expected to jump six-fold globally, reaching 24% by 2050.
  - ➢ The MENA region has a number of competitive advantages that make it well placed to capitalise on the global shift towards clean hydrogen; these advantages may enable the region to meet both domestic and global future energy demands.
    - Advantages include the availability of existing oil and gas infrastructure and cheap renewable generation; these are critical manufacturing inputs for hydrogen extraction.

- **While the UAE is viewed as the MENA region's hydrogen heavyweight, Saudi Arabia is close behind.**
  - ➢ Long known as a regional trendsetter, the UAE became the first green hydrogen producer in the region in May 2021 with the launch of its industrial-scale, zero-carbon hydrogen facility. The Khalifa Industrial Zone Abu Dhabi (KIZAD) plans to develop a green hydrogen and ammonia production facility which will have the capacity to produce around 40K tonnes of green hydrogen annually by 2026.
    - We regard this as a logical move by the UAE given its sizeable shipping industry. Ammonia (which can be made from hydrogen) is a clean fuel that is used in freight shipping and can help to decarbonise the sector.
  - ➢ Furthermore, the Mubadala Investment Company and the Abu Dhabi National Oil Company (ADNOC) have signed an agreement to establish the Abu Dhabi Hydrogen Alliance.

Figure 1 - Global green hydrogen demand projections (mT/annum)[1]



    - The alliance partners will collaborate to establish Abu Dhabi as a leader in emerging international markets when it comes to low-carbon green and blue hydrogen. They will also work together to build a substantial green hydrogen economy in the UAE.
  - ➢ Elsewhere, Saudi Arabia has established itself as the other key MENA player in the growing hydrogen market.
    - As part of its Red Sea NEOM smart city project, the kingdom looks set to build the world's largest green hydrogen-based ammonia facility.
    - The project will cost around USD 5B and should be able to produce about 650 tonnes of green hydrogen per day (237K tonnes annually) by 2025, all the while saving an estimated 3M tonnes of $CO2$ annually.

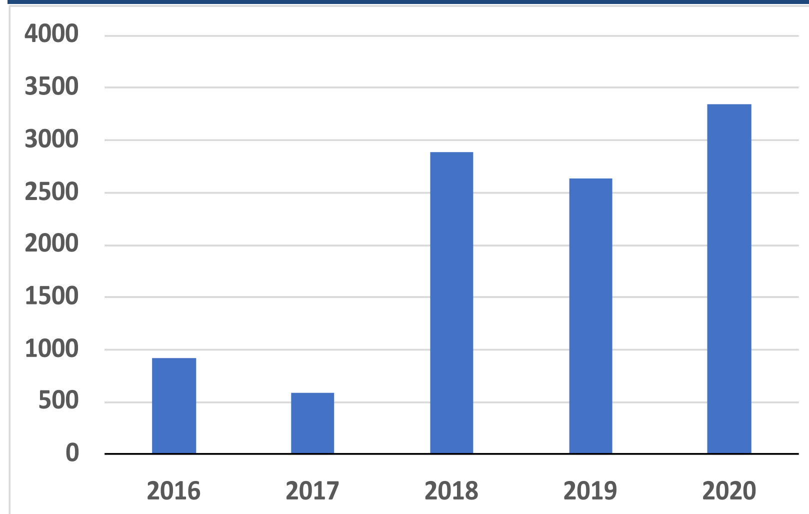
[1] Arabia Monitor; IEA.

Energy transition: Bonds going green

- **The global sustainable bond market has grown rapidly in recent years, driven by the appetites of 'green' investors. Although this market still represents a tiny portion of the wider debt market, investors appetite is now expanding into the MENA region.**
    - Globally, the green bond market is set to break records this year. For the first time in a single year, transactions are forecast to exceed the USD 500B mark.
        - This figure includes green, social and sustainability (GSS) bonds from nation states and businesses across the world.
    - This follows a strong H1 2021, wherein issuances exceeded USD 227.8B, representing a 59% increase YoY.
        - In contrast, green debt sales during the whole of 2020 amounted to around USD 297B.
    - Global green bond investment is likely to double, reaching USD 1T for the first time in a single year by the end of 2022/23.
    - For context, during the first six months of 2021, the MENA region's green debt issuance of USD 6.4B accounted for only a fraction of the global total. However, this figure is still greater than the MENA total for the whole of last year (USD 4.7B).
        - MENA green funding in H1 2021 represents a 38% YoY rise.

- **There has been a steady rise in green financing throughout the MENA region in light of the immense financial buttress needed to bring about its energy transition.**
    - In September 2020, Egypt was the first MENA country to issue sovereign green bonds. They amounted to around USD 750M, a considerable sum given the relatively small size of the green bond market compared to the standard market.
        - Green bonds will be used to fund green projects listed under the Ministry of Finance's Green Financing Framework, which was also launched in September 2020.
        - The issuance was well-received by the market as it lured about USD 3.7B worth of orders. A second issuance (the offering size of which has not yet been settled) is in the pipeline; it began in July 2021 and will end next June.
        - This is a timely development; Egypt is the host nation for next year's COP 27. The last MENA country to host the climate change event was Morocco in 2016.
    - Saudi Arabia hired advisors in October 2021 to structure its novel green bond issuance under Environmental, Social, and Governance (ESG) standards. The transaction is likely to go ahead in H1 2022.
    - Qatar has also made bold statements. QatarEnergy announced plans to raise more than USD 7B through the issuance of its first green bonds in 2022.
        - Once approved, the transaction will become the first green bond sale made by a national oil company in the MENA region.

Figure 1 - Value of green bonds in MENA (USD, M)[1]



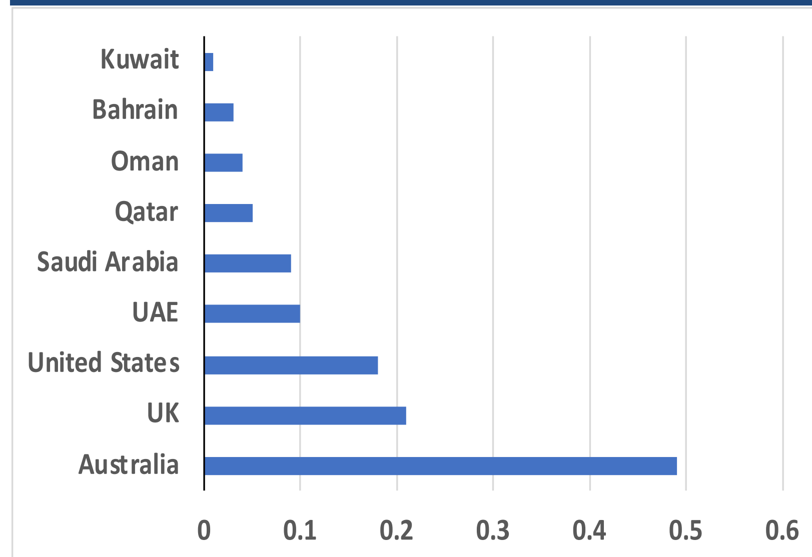
[1] Arabia Monitor; Statista.

Energy transition: Current costs

- **Although renewable energies have made great strides in recent years, hurdles remain with regard to expensive extraction procedures.**
    - ➢ The current cost of generating electricity with fossil fuels is around USD 0.05/kWh (this excludes social and environmental costs). When onshore wind or solar power is used, the cost is around USD 0.10/kWh, and USD 0.13/kWh when offshore wind power is used.
        - Renewable energies have a long way to go if they are to become cost-competitive.
    - ➢ The cost of clean energy sources is falling every year and will continue to do so as infrastructure develops. Solar power costs are falling at an annual rate of 13% on average, with wind power falling by 9%.
    - ➢ At the start of 2021, around 98GW of renewable energy generation capacity was planned across the MENA region, with 39GW of additional capacity expected by 2025.
    - ➢ These planned projects are spread unevenly across the region. Almost USD 2T worth of clean energy projects will be required for a fully renewable, MENA-wide electricity system. A region-wide system of electricity generation based on solar and wind power could help cut costs by between 55% and 69% compared to the current setup.
        - The levelised cost of energy [2] (LCOE) arising from fully renewable electricity systems is forecast to vary between USD 43.53 and USD 57.04/MWh. The current LCOE is estimated at USD 134.45/MWh.

- **Although much excitement surrounds clean energy, the MENA region faces a conundrum in terms of its ambitions to realise a hydrogen-fuelled future.**
    - ➢ While the cost of hydrogen extraction has fallen due to technological breakthroughs, the cost of the renewable energy input required to extract green hydrogen is relatively high compared to the use of hydrocarbons.
        - The cost of renewables has dropped by about 50% in the past six years due to technological advances. This figure is expected to fall even further as research and development continues.
        - The cost of green hydrogen is expected to drop from around USD 5 per kg to USD 0.7 per kg by 2050.
        - We believe that significant policy shifts and investments from MENA countries in renewables could aid price competitiveness with regard to clean hydrogen energy.
    - ➢ For regional governments to impact the expansion of the hydrogen market in a positive manner, market intervention is being considered in order to provide incentives through regulatory frameworks and public-private partnerships.

Figure 1 - Average electricity price (USD/KWh)[1]

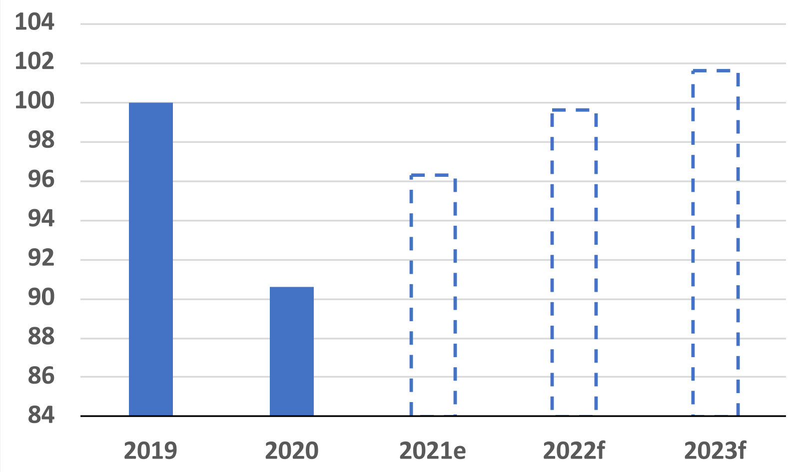


[1] Arabia Monitor; IMF, Statista.
[1] Without government subsidies.
[2] A measure of the average net present cost of electricity generation for a generating plant over its lifetime.

Energy transition: Oil demand, no signs of abating

- **Global activists have been trying to combat carbon emissions for many years. The departure from fossil fuels will not be quick, regardless of ambitions to embrace the energy transition. The transition will take decades, not years.**
  - ➢ The oil industry is at a critical juncture. The lack of spending on fossil fuel projects amid the fight against climate change will result in frequent supply shocks which will potentially drive oil prices higher. Despite this, governments, societies and investors are pushing companies to produce cleaner fuels.
    - There will be wariness surrounding the energy transition. Regardless of the push to expand alternative energy projects, investments are still needed in oil and gas.
  - ➢ Global oil demand is forecast to exceed pre-pandemic levels in 2023 and to continue growing sharply before plateauing in 2035. Investment in oil production to avert future supply crunches is therefore needed, despite the energy transition.
    - Global oil demand suffered an unprecedented slump last year as travel and economic activity were curbed in the fight against the COVID-19 pandemic.
    - Oil demand is estimated to have risen by 5.5M bpd to 96.3M bpd in 2021, and by 3.3M bpd to 99.6M bpd in 2022, slightly above pre-pandemic levels.
    - Forecasts indicate that oil consumption will rebound to exceed 100M bpd in 2023 and continue to reach 107.9M bpd in 2035.
    - Demand for OPEC countries' combined crude oil will climb from last year's 30.7M bpd to 42.7M bpd by 2045. Its share of world oil markets will expand from 33% (today's figure) to 39% by 2045.
  - ➢ Although efforts to combat climate change are admirable and necessary, the transition must not be accelerated at the expense of the long-term stability of energy markets.
  - ➢ Investment must increase in oil and natural gas production to around USD 500B a year by the end of this decade, up by roughly 70% from 2020 levels. This is needed to prevent a surge in energy prices and global economic unrest.

Figure 1 - World oil demand (bpd, M)[1]



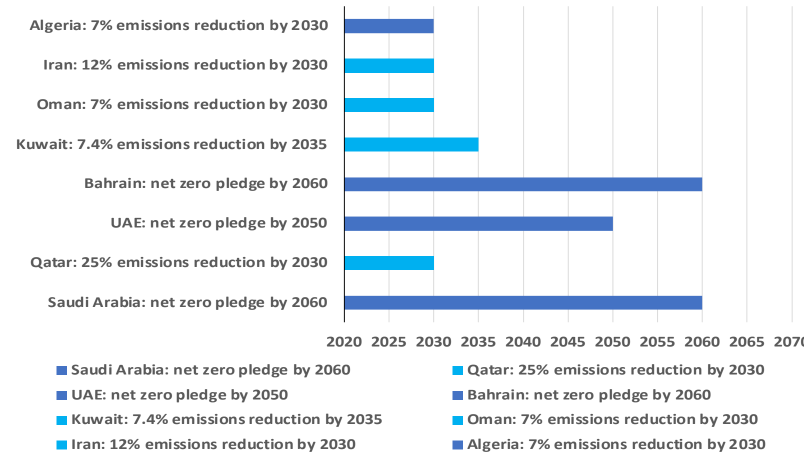
    - Expenditure on oil and gas projects slumped by 30% to USD 309B in 2020 and recovered only slightly this year. Forecasts suggest that expenditure needs to reach around USD 4.7T in the coming decade to match demand.
  - ➢ Capital needs to be allocated towards new projects to ensure adequate oil and gas supply comes online within the next five to six years. Insufficient investment will result in further price volatility.
    - A rapid transition to cleaner fuels may have unintended consequences. The green push to limit fossil fuels currently risks neglecting the adequate supply of low-carbon alternatives.
    - Reasonable investments in oil and gas are absolutely essential for an orderly energy transition.

[1] Arabia Monitor; OPEC.

Energy transition: Geopolitics of the transition

- **Regional conflict, climate change and geopolitical competition between China and the US are exacerbating diplomatic and security challenges facing the MENA region's energy transition.**
  - ➢ Key international players are becoming increasingly assertive with regard to the energy transition.
    - US leadership in the context of climate change is a relatively recent phenomenon. The issue gained traction during the tenure of President Barack Obama (in office 2009-17), but then crept away from the spotlight under President Donald Trump (in office 2017-21). For President Joe Biden, climate change is most certainly a primary concern.
    - Biden believes that climate change is the greatest threat to the world. Following this logic, he launched his Green New Deal, aiming for net-zero emissions by 2050. He wants to rally the international community to follow suit.
    - In a seemingly contradictory move, Biden has called on MENA oil producers to boost their oil output, as energy prices are rising in the US.
    - While China has agreed to boost co-operation with the US, both countries are competing to assume leadership when it comes to combating climate change.
  - ➢ Amid the push for an energy transition, oil-producing MENA states are under particular pressure to join diplomatic efforts with regard to climate change.
    - In December 2021, the 42nd GCC summit took place in Riyadh. Member states discussed new agreements to enhance co-operation regarding climate change policies and the implementation of the circular carbon economy (CCE), an integrated approach to adopting climate-friendly energy systems that support sustainable development.
    - The initiative includes the plantation of around 50B trees across the MENA region and the reduction of carbon emissions by more than 60%, as well as the construction of around 6,150 miles (9,900km) of railway lines in Saudi Arabia, which will reduce traffic and cut vehicle-related carbon emissions.
    - Overall, Gulf states seem willing to adopt a more proactive role in a 'post-oil' future. However, their economic survival also depends on their capacity to meet the global oil demand.

Figure 1 - Net zero carbon emissions race between oil exporting countries[1]



- ➢ Saudi Arabia has no intention of reducing its oil production. Saudi Aramco aims to increase its output to 13M bpd by 2027, from peak levels of around 10M bpd before the pandemic. However, the kingdom wants to generate 50% of its electricity from renewables by 2030. Moreover, there are profitable ways for Saudi Arabia to join environmental efforts, including the green bonds market.
  - Similarly, the Abu Dhabi National Oil Company (ADNOC) intends to raise oil production to 5M bpd by 2030, from pre-pandemic levels of 3.1M bpd. Regardless of this ambition, the UAE won the contract to host COP 28 in 2023.
  - As green energies become more attractive, significant competition will increase between MENA countries. Indeed, the energy transition could have some bearing on the balance of geopolitical power in the region.

[1] Arabia Monitor; IEA.

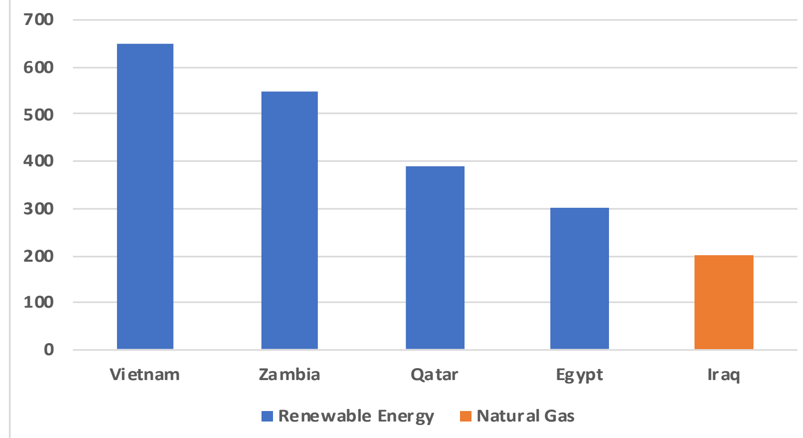
Sino-MENA Energy: Fossil relations fuel renewable transition

- **China's energy relationship with MENA has long been focused on fossil fuels, but this is set to evolve, as for the first time ever, most of China's overseas energy investments were channelled towards solar, wind and hydroelectric power.**
  - Shares in these areas rose from 38% in 2019 to 56% in 2020, reaching an investment total of about USD 11B.
  - Among China's 2020 overseas energy investments, hydroelectric power accounted for 35% of the total, followed by coal (27%) and solar energy (23%).
    - Renewables shares in overseas investment are projected to rise further, as China bans new coal investments in 2021, a market worth USD 50B.

- **China's growing interest in renewable energy is expected to increase due to MENA governments' rapid deployment and investment within the sector. An additional factor is China's pledge to reach net-zero carbon emissions by 2060 and a peak before 2030.**
  - China's large domestic market has allowed companies to grow as global leaders in their respective industries. This includes Hanergy in solar panel production and TBEA in energy storage, and more recently, solar-plus-storage.
    - Sungrow Power Supply will deliver by mid-2022 equipment for a 36-MW off-grid solar project at a gold mine in Egypt coupled with a 7.5-MW battery, the largest solar-plus-storage plant at a mine.
  - This in turn creates huge investment appetite for financing institutions looking towards the MENA region. Examples include the Silk Road Fund, which has invested in Dubai's Mohammed bin Rashid Al Maktoum Solar Park.
    - In 2021, Silk Road Fund has also acquired a 49% shareof Saudi Arabia-based ACWA Power's renewable energy arm.
    - This is followed by a consortium of companies led by China Three Gorges South Asia Investment, which has bought Alcazar Energy's portfolio of seven wind and solar projects across Jordan and Egypt with a total generation capacity of 411 megawatts.

- **Chinese companies are increasingly leveraging their renewable energy offering to further industrial partnerships.**
  - China's State Grid International Development Company is going to provide solar-powered equipment and devices for seawater desalination for areas surrounding the Special Economic Zone at Duqm, a key industrial interest for China in Oman.
  - Iraq's USD 1.8B oil-for-projects agreement with China in 2019, has been inked in mid-Dec 2021.

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



  - This includes financing the construction of 1000 schools and infrastructure and renewable power projects by PowerChina and SinoTech.
    - PowerChina will also build Iraq's first solar power plants with a capacity of 2,000 MW.

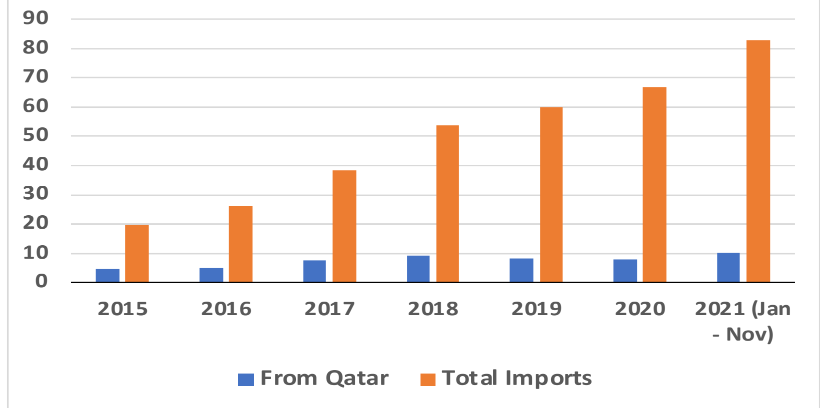
- **MENA companies alike, are tapping into the diversifying energy relations for investments and contracts.**
  - Ajlan & Bros Holding Group, a private conglomerate from Saudi Arabia, has announced plans to further its investments in China, including in the field of renewable energy.
    - The Saudi company is a veteran investor in the garment and textile industry with its first factory in China's Jiangsu province in 2002.
    - As part of the new strategy, the company has set up 3 investment offices in Shanghai, Beijing and Shenzhen, and they plan to bid for renewable energy projects in partnership with Chinese companies, in Saudi Arabia and in other countries.

[1] Arabia Monitor.

Sino-MENA: China to continue moving into MENA markets

- **China is set to continue moving into MENA's LNG and tourism market. Now the world's largest gas importer, both pipeline and LNG, China is on course to retain the title in 2021 and beyond, with far reaching implications.**
  - Despite the pandemic, China's LNG demand is forecast to grow by 12% per annum from 2020 levels, up from 8% in 2019.
  - The continued growing demand is being met with a dozen of long-term contracts this year with overseas suppliers by companies of which ownership ranges from state, provincial government to private.
    - Most recently, S&T International Natural Gas Trading (owned by China Suntien Green Energy) announced that it will purchase from Qatargas.
    - This comes after Qatar Energy's deal with China's Guangdong Energy Group Natural Gas to supply 1 million mt/year LNG for 10 years.
    - Earlier in the year, similar deals were inked between state-owned China National Offshore Oil Corporation (CNOOC) and China Petroleum Chemical Corporation (Sinopec) with Qatar Petroleum (QP), to supply 3.5M mt/year for 15 years and 2M mt/year for 10 years, respectively.
  - Since the first LNG delivery in September 2009 to date, Qatar has supplied China with more than 62M mt/year of LNG. The new contracts from 2021 alone will ensure 97.5M mt/year of LNG to flow to China in the next 10-15 years.
  - This trajectory has led to business opportunities in shipbuilding, including QP's order of four LNG carriers from Hudong-Zhonghua Shipbuilding Group Co., a unit of China State Shipbuilding Corp., at USD 770 M.
    - Additionally, QP also signed an agreement with Hudong to reserve much of the company's LNG ship construction capacity through 2027, a deal worth USD 3B.
  - China's growing LNG imports also mean that smaller Chinese gas companies are importing more. A group of 16 of them are now expected to operate a total of 60M mt/year by 2030, up from 16M mt/year currently, presenting new sales and revenue opportunities to Qatar.
- **While the pandemic has halted almost all outbound Chinese tourists for nearly two years, gulf countries are building up their marketing strategies to attract high spending tourists (USD 225B spent overseas in 2019), which is set to jump by more than 25% this year from the rock bottom of 2020.**

Table 1 - Chinese LNG imports, from Qatar vs total (mt, M)[1]



- Saudi Tourism Authority (STA) recently opened 3 offices in China, to promote the kingdom as a tourist destination. It is working with a number of platforms to increase its visibility, including with ITB China which made the kingdom its "Official Culture Travel Partner" of ITB China Virtual 2021.
  - Earlier in the year, STA signed an MoU with Alibaba Cloud, which will provide technical support to STA and help with promotional activities.
- Bahrain Tourism and Exhibitions Authority (BTEA) has also announced that it is working on roadshows, exhibitions and special tours, to attract Chinese tourists.
- This came after Oman's Ministry of Heritage and Tourism opened a tourism representation office for the Sultanate in China via a local agent in August 2021.
- Iran likewise is looking to improve domestic tourist infrastructure, under the 2025 Tourism Vision Plan, with facilities catered for the Chinese market.

[1] Arabia Monitor.

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2021e	2022f	2021e	2022f	2021e	2022f	2021e	2022f	2021e	2022f	2021e	2022f
Algeria	3.4	1.9	6.5	7.6	-13.4	-10.4	-7.6	-5.5	3.5	4.7	10.0	8.6
Bahrain	2.4	3.1	1.0	2.7	-8.0	-8.0	-2.9	-2.9	235.1	233.2	2.2	2.1
Iran	2.5	2.0	39.3	27.5	-6.5	-7.3	1.3	1.0	1.0	1.0	5.4	7.4
Iraq	3.6	10.5	6.4	4.5	-1.5	-2.5	6.2	4.0	34.0	27.7	9.8	9.5
KSA	2.8	4.8	3.2	2.2	-3.1	-1.8	3.9	3.8	30.8	30.7	25.1	25.1
Kuwait	0.9	4.3	3.2	3.0	-1.5	1.0	15.5	13.3	43.2	45.2	11.0	10.9
Libya	123.2	5.3	21.1	8.0	6.8	12.5	19.2	15.4	…	…	…	…
Oman	2.5	2.9	3.0	2.7	-2.6	1.1	-5.8	-0.9	97.5	91.2	5.9	5.7
Qatar	1.9	4.0	2.5	3.2	2.8	5.7	8.2	11.6	159.2	149.2	10.0	11.4
UAE	2.2	3.0	2.0	2.2	-0.5	-0.2	9.7	9.4	97.4	97.3	4.7	4.9
Yemen	-2.0	1.0	40.7	31.5	-5.2	-5.2	-8.8	-9.7	39.2	36.1	1.6	0.9
Average	13.0	3.9	11.7	8.6	-3.0	-1.4	3.5	3.6	74.1	71.6	8.6	8.7
Average Ex-Libya	**2.0**	**3.8**	**10.8**	**8.7**	**-4.0**	**-2.8**	**2.0**	**2.4**	**74.1**	**71.6**	**8.6**	**8.7**

Table 2 – MENA Oil Importers[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2021e	2022f	2021e	2022f	2021e	2022f	2021e	2022f	2021e	2022f	2021e	2022f
Djibouti	5.0	5.5	1.2	2.0	-1.7	-1.6	-4.7	-3.0	74.4	76.0	1.6	1.6
Egypt	3.3	5.2	7.0	8.0	-7.5	-6.0	-4.0	-4.0	38.1	33.4	6.3	6.0
Jordan	2.0	2.7	1.6	2.0	-7.7	-5.9	-8.9	-4.4	83.0	82.7	9.0	9.1
Lebanon	…	…	…	…	…	…	…	…	…	…	…	…
Mauritania	2.7	5.0	2.7	3.8	-0.7	-1.1	-7.1	-8.9	54.9	55.3	5.2	5.3
Morocco	5.7	3.1	1.4	1.2	-6.5	-5.9	-3.1	-3.3	41.9	41.8	7.2	7.2
Palestine	4.4	6.0	1.3	1.7	-10.5	-9.4	-9.5	-10.1	…	…	…	…
Somalia	1.6	3.9	4.3	4.0	-1.7	-0.2	-17.2	-15.6	59.5	55.4	…	…
Sudan	0.9	3.5	194.6	41.8	-2.9	-1.5	-10.1	-9.4	202.3	171.1	1.9	2.2
Syria	…	…	…	…	…	…	…	…	…	…	…	…
Tunisia	3.0	3.3	5.7	6.5	-8.3	-7.6	-7.3	-8.4	102.8	100.7	3.4	3.1
Average Ex-Syria & Lebanon	**3.2**	**4.2**	**24.4**	**7.9**	**-5.3**	**-4.4**	**-8.0**	**-7.5**	**82.1**	**77.1**	**4.9**	**4.9**

[1] Arabia Monitor; IMF.

Algeria: Elections enforce ruling party's power

NR/NR

- **Algeria's economy is set to achieve a degree of recovery this year; growth is forecast to reach 3.4% following last year's 4.9% contraction.**
  - Hydrocarbon production and exports rebounded this year after the pandemic-induced slump.
    - Oil exports averaged 627,000 bpd in 2021 compared to 537,00 bpd in 2020.
  - Production is set to increase in the coming years. Sonatrach is moving forward with its plan to invest USD 40 b from 2021 to 2026 in the oil and gas sector.
    - Sonatrach controls 80% of hydrocarbon production in the country with IOCs accounting for the remainder.
    - Maximising production is the priority of Sonatrach's investment plan.
  - Outside of energy, the government's economic action plan is also set to support growth.
    - The action plan includes reforms to improve the investment climate to attract FDI to non-oil sectors. Additionally it outlines how the government will continue to subsidise basic goods to avoid social unrest .
- **President Abdelmadjid Tebboune took his seat in April 2019 following the breakout of the Hirak movement which prevented President Abdelaziz Bouteflika from running for a sixth term. The Hirak movement continued for years but has since lost its momentum. Nonetheless, Algeria's politics is still severely fragile.**
  - The top political parties in Algeria dominated November's municipal elections with the FLN party (National Liberation Front) winning the most seats in local assemblies, followed by the RND (Democratic National Rally). Meanwhile, support for Islamist parties, such as El Bina and the MSP, decreased.
    - The elections have huge sway in the country's politics as Algeria's local assemblies elect two-thirds of members of the national parliament's upper house, with the president appointing the remainder.
    - The reception was unsurprising, the governing parties retained their power. With the nominated set to retain their seats for the next five years, political reforms could be limited for the medium-term.
- **Algeria is entangled in a major diplomatic crisis with neighbouring Morocco over the Western Sahara territories.**
  - The relationship with Morocco has never been smooth. However, animosity levels are spiking – particularly on the Algerian side.

Algeria macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	1.2	0.8	-4.9	3.4	1.9
Crude Oil Production (M bpd)	1.0	1.0	0.9	0.9	1.0
Oil GDP Growth (%)	-6.4	-4.9	-10.2	9.4	2.1
Non-oil GDP Growth (%)	2.9	2.0	-3.9	2.3	1.9
CPI Inflation (%)	4.3	2.0	2.4	6.5	7.6
Fiscal Balance (% of GDP)	-6.8	-9.6	-11.7	-13.4	-10.4
C/A Balance (% of GDP)	-9.6	-9.9	-12.7	-7.6	-5.5
Total Gov't. Gross Debt (% of GDP)	37.8	45.8	55.6	58.5	63.2
Total Gross External Debt (% of GDP)	2.3	2.2	2.4	3.5	4.7
Gross Official Reserves (Mos. of Imports)	17.4	17.2	11.5	10.0	8.6
Nominal GDP (USD B)	175.4	171.1	147.6	163.8	168.2
Population (Millions)	41.3	42.2	43.1	44.2	45.0

    - Morocco cut diplomatic ties in August 2021 following the long-standing dispute over the Western Sahara.
    - The bickering has escalated after Algeria accused Morocco of murdering 3 Algerian citizens in the desert this month.
    - Even if the evidence does not confirm that Morocco is to blame for this event, President Tebboune still declared that this attack would not go 'unpunished'.
    - This is largely tough talk, but tensions have and will continue to escalate in the coming days.
  - Additionally, the Algeria-Morocco joint pipeline, which supplies Spain and Morocco with gas, was shut down by Algeria.
    - There is no sufficient reason to believe that the conflict will escalate to military means soon.
    - It is likely that the relationship will continue to stagnate and that both countries will take measures to weaken each other's economies.

[1] Arabia Monitor; IMF.

Bahrain: Fixing its fiscal fabric

B2/B+

- **Bahrain is expected to undergo an 8% contraction this year, as well as in 2022. Although new budget plans appear to be a little ambitious, they are certainly required if the kingdom is to improve its public finances.**
  - Bahrain has decided to push back its Fiscal Balance Program (FBP) target year from 2022 to 2024, by which point the government hopes to have balanced its budget.
    - For years, Bahrain's budget has been under pressure; the last surplus was in 2008, the peak year for oil prices, just before the global financial crisis impacted oil and regional markets.
  - Bahrain recently announced a new 'multi-year economic reform programme,' with the goal of boosting growth and fixing the country's budgetary structure by the year 2024.
    - By 2023, the plan aims to bring in roughly USD 2.5B in annual FDI, a measure that could help enhance job creation.
    - The kingdom will establish and promote an online site presenting investment opportunities as part of this strategy. In order to attract talent and investors, it will also launch a new resident visa scheme.
  - In terms of fiscal policy, Bahrain will reduce its spending while increasing revenue through higher contributions from government-run entities and services.
    - The budget deficit is projected to remain at 8% of GDP in 2021 and 2022, the highest in the GCC.
    - Bahrain is the only GCC country to sit above a 100% public debt-to-GDP ratio (129.7% of GDP in 2020), a position into which it first slipped in 2019.
  - One of the plan's main drivers is a tourism sub-strategy [2], which seeks to attract around 14 million people annually by 2026, raising tourism's contribution to GDP to 11.4%, compared to 7% in 2019.
    - To achieve the initiative, the government seeks to implement deregulation measures such as lowering entry barriers to the Kingdom and diversifying tourism attractions.
    - This project aims to promote Bahrain as a tourist destination, ultimately contributing to economic growth and providing opportunities for locals.
  - Despite the plan's ambitious nature, we believe Bahrain will be able to fulfil its tourism objectives as it is an extension of the successful 2016-2019 strategy.

Bahrain macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	1.7	2.6	-5.1	2.4	3.1
Crude Oil Production (M bpd)	0.2	0.2	0.2	0.2	0.2
Oil GDP Growth (%)	-1.3	2.2	-0.1	0.0	0.4
Non-oil GDP Growth (%)	2.4	2.0	-5.5	3.0	3.7
CPI Inflation (%)	2.1	1.0	-2.3	1.0	2.7
Fiscal Balance (% of GDP)	-11.8	-9.0	-17.9	-8.0	-8.0
C/A Balance (% of GDP)	-6.5	-2.1	-9.3	-2.9	-2.9
Total Gov't. Gross Debt (% of GDP)	95.0	102.1	129.7	123.3	125.6
Total Gross Extrn'l Debt (% of GDP)	204.6	225.8	251.6	235.1	233.2
Gross Official Reserves (Mos. of Imports)	1.0	2.0	1.0	2.2	2.1
Nominal GDP (USD B)	37.7	38.5	34.7	39.1	41.1
Population (Millions)	1.5	1.5	1.5	1.5	1.6

    - Indeed, the 2016 tourism strategy met the majority of its objectives, increasing tourism's contribution to GDP from 4% in 2015 to 7% in 2019.
  - Bahrain's Economic Vision 2030 also aligns with its recent pledge to achieve net zero carbon emissions in 2060.
    - During COP26, Bahrain has pledged to cut its emissions by 30% by 2035 and intends to achieve net zero emissions by 2060.
    - The strategy around new sectors aims to support non-oil industry growth to reach 5% annually by 2022.
    - Additionally, Crown Prince Salman bin Hamad al Khalifa stated his ambitions to invest in new carbon capture technologies and to double tree plantation in the country.

[1] Arabia Monitor; IMF.
[2] Bahrain has allocated around USD 10B to this strategy.

Djibouti: Neighbouring conflict hinders growth

NR/NR

- **Djibouti's GDP is forecast to reach 5.6% and 6.3% in 2022 and 2023, respectively. The major drivers of economic growth are exports and the shipping and logistics industries. However, these sectors have suffered due to the conflict in neighbouring Ethiopia. The fighting shows no sign of abating.**
  - ➢ Ethiopia's civil conflict, known as the Tigray War, began in November 2020 and has impacted Djibouti both politically and economically.
    - Fighters from the Tigray People's Liberation Front (TPLF) are pushing eastwards through Ethiopia; they hope to capture a key trade route which connects Ethiopia with Djibouti's port.
    - Over 90% of Ethiopia's exports pass through Djibouti's port; the two countries have invested billions of dollars in a 'commerce corridor' which includes a rail link.
    - According to Djibouti's finance minister, Ilyas Moussa Dawaleh, trade has decreased by roughly 20% as a result of the conflict. Losses have amounted to around USD 1.7B.
  - ➢ The fighting in Ethiopia is becoming increasingly worrisome. Efforts to resolve the situation by the African Union (AU) are proving fruitless, jeopardising the stability of the wider Horn of Africa region.
  - ➢ Due to the nearby insecurity, several communities have already started to depart Djibouti. An exodus of the country's technocrats and workforce could create a labour shortage, a scenario which does not bode well for Djibouti's stability and economy. The effects of this 'brain drain' will be especially stark amid the pickup of Djibouti's domestic economic activity.
  - ➢ Activity in the construction sector is picking up speed in the wake of the COVID-19-induced downturn. Construction sites are re-opening and development plans are proceeding.
    - For instance, construction work has recommenced at one of Djibouti's biggest projects, the Damerjog Industrial Park (DDIP).
    - The industrial park will be a free trade zone that includes a power plant, a water plant and a refinery.
  - ➢ Djibouti has also made significant efforts to join the transition towards the digital age.
    - In May of this year, the government launched the Digital Foundations Project which aims to equip the private sector with quality internet access and digital services.
    - This framework is a part of 'Djibouti Vision 2035', which intends to boost economic growth and to facilitate job creation through technology.
    - The programme will help to integrate courses focusing on digital technology within secondary school and university curriculums.
  - ➢ Djibouti could soon also benefit from regional assistance. President Ismiel Omar Guelleh recently met with Qatar's emir, Sheikh Tamim bin Hamad Al Thani, to discuss bilateral relations and the prospect of Qatari investments to help boost Djibouti's development.
  - ➢ Saudi Arabia's assistance to the country could also increase after concluding a voluntary medical campaign this month.

Djibouti macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	8.5	7.5	1.0	5.0	5.5
CPI Inflation (%)	0.1	3.3	1.8	1.2	2.0
Fiscal Balance (% of GDP)	-2.8	-0.8	-1.3	-1.7	-1.6
C/A Balance (% of GDP)	14.2	16.9	10.7	-4.7	-3.0
Total Gov't. Gross Debt (% of GDP)	46.5	39.0	40.9	42.3	40.3
Total Gross Extrn'l Debt (% of GDP)	69.2	66.6	70.1	74.4	76.0
Gross Official Reserves (Mos. of Imports)	1.1	1.7	1.9	1.6	1.6
Nominal GDP (USD B)	3.0	3.3	3.4	3.7	3.9
Population (Millions)	0.9	0.9	0.9	0.9	0.9

[1] Arabia Monitor; IMF.

Egypt: Bring it on, 2022

B2/B+

- **Egypt is one of the few MENA countries to have posted GDP growth (2.8%) in FY 20/21. The IMF forecasts 5.2% growth for the whole of the 2022 calendar year. This compares with 3.3% growth forecast for the 2021 calendar year, a sign that pre-pandemic momentum is returning. Concerns over inflation and the Omicron variant are unlikely to impact this optimism.**
  - Private sector economic activity shrank for the 12th consecutive month in November 2021 amid expectations of rising inflation. This has caused new business orders to fall at their fastest rate in a year, according to the latest private sector survey.
    - November's PMI was 48.7, indicating there was no change from October.
  - Increases in business input costs amid the global supply chain crunch continue to drive prices upwards. This resulted in lower customer spending and weaker demand across Egypt's non-oil economy throughout November.
    - November's PMI 'input cost' inflation sub-index score of 63.7 was the second-highest in three years; only October's score was higher (64.5).
  - The Central Bank of Egypt (CBE) has kept up its firm policy of maintaining interest rates amid rising inflation in order to boost economic growth.
    - While several major global economies are beginning to tighten their monetary policies amid concerns over the Omicron variant, the CBE's Monetary Policy Committee (MPC) met on 6 December and kept rates on hold at a deposit and lending rate of 8.25% and 9.25% respectively.
    - This firm stance has been unchanged for 8 meetings by the MPC so far this year.
  - Concerns over Omicron and inflation have understandably dampened expectations going into 2022.
    - The PMI 'future output' sub-index dropped to 60.6 in November, down from 65.0 in October, the lowest in 2021.
    - The same sub-index scored 85.7 in September, the most optimistic level recorded since the PMI survey was introduced in Egypt in 2012.
  - Despite these concerns, the PMI survey's 'future output' sub-index being well over the neutral 50 mark underscores that business executives have an upbeat outlook for 2022.

Egypt macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	5.3	5.6	3.6	3.3	5.2
CPI Inflation (%)	14.4	9.2	5.4	7.0	8.0
Fiscal Balance (% of GDP)	-9.6	-7.9	-7.0	-7.5	-6.0
C/A Balance (% of GDP)	-2.4	-3.6	-3.1	-4.0	-4.0
Total Gov't. Gross Debt (% of GDP)	92.5	84.2	90.2	92.9	88.9
Total Gross Extrn'l Debt (% of GDP)	37.4	34.1	34.3	38.1	33.4
Gross Official Reserves (Mos. of Imports)	6.7	7.0	6.4	6.3	6.0
Nominal GDP (USD B)	250.3	302.3	361.8	394.3	429.6
Population (Millions)	97.1	98.9	100.9	102.9	105.0

    - This follows global developments related to the earlier abating of the COVID-19 pandemic, a fast-developing vaccination programme and the easing of international travel restrictions.
  - The gradual return of air travel is integral for the Arab country as tourism is an integral part of Egypt's private sector, constituting 12% of GDP.
    - Tourism revenues in 2020 fell by 70% to around USD 4B, down from almost USD 13B in 2019.
    - Nevertheless, 2022 is looking rosier for this sector as Egypt's Ministry of Planning and Economic Development expects investments in the tourism sector to rise by 64% this fiscal year (July 2021-June 2022).

[1] Arabia Monitor; IMF.

Iran: Negotiations in drift

B2/BB-

- **When JCPOA negotiators returned to Vienna last month, there was hope that a resolution to the Iran nuclear deal might be reached sometime soon. The current reality resembles something far less optimistic.**
  - Iran does not appear to be demonstrating any flexibility. Although it is possible that the Islamic Republic seeks a resolution, there are several sticking points which will make reaching a compromise difficult.
    - Conditions which Iran deems to be non-negotiable include the removal of Trump- and Obama-era sanctions, as well as a guarantee by the US that any new deal will be irreversible.
  - As the negotiations crawl on, Iran continues to make moves which its fellow negotiators may regard as unacceptable
    - Iran has started the process of enriching uranium to up to 20% purity using IR-6 centrifuges at Fordow (Qom province).
    - However, Iran has granted the IAEA access to Iran's sites via camera monitoring at the country's nuclear facilities.
  - So while the outlook is not promising, hope that a deal may be reached has not disappeared entirely. China, which has supported Iran throughout the negotiations, may yet persuade the Iranians to co-operate without demonstrating total compliance.
    - Although China is willing to defy US sanctions and to give Iran diplomatic cover, the People's Republic is likely to lose patience with Iran's hawkish tenacity.
  - We are not optimistic that a nuclear deal will be reached in early 2022.

- **Although Iran's newly unveiled energy plans and latest economic agenda are ambitious, they seem not to consider sanctions relief.**
  - The ten-year upstream investment plan released by the managing director of the National Iranian Oil Company (NIOC), Mohsen Khojastehmehr, calls on foreign firms to ignore ongoing sanctions and to return to Iran.
    - The recently-appointed NIOC chief wants to invest around USD 160B over the next decade in a bid to increase crude oil production capacity to 5M bpd while almost doubling Iran's gas capacity.
  - Elements of President Ebrahim Raisi's economic planning reflect Khojastehmehr's ambitions, such as the doubling of the country's non-oil exports within four years. In reality, this will only be realised if sanctions are lifted.
    - Other ambitions include the creation of 1.85M jobs by March 2023; this will require USD 10B in investment that the government is unable to afford.
    - The construction of four million housing units within four years is reminiscent of the Mehr housing project envisioned during the tenure of the former president, Mahmoud Ahmadinejad (in office 2005-13). That particular project failed, and there is now no funding for a repeat effort.
  - Meanwhile, the Iranian rial has depreciated 15% since President Raisi took office. The currency experienced a shock during the latest round of negotiations but has since stabilised from the fall, to 42,176.67 IRR to 1 USD.

Iran macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	-6.0	-6.8	3.4	2.5	2.0
Crude Oil Production (M Bpd)	3.5	2.2	2.2	2.3	2.4
CPI Inflation (%)	30.2	34.6	36.4	39.3	27.5
Fiscal Balance (% of GDP)	-2.0	-5.1	-5.7	-6.5	-7.3
C/A Balance (% of GDP)	5.9	0.6	-0.1	1.3	1.0
Total Gov't. Gross Debt (% of GDP)	38.5	47.9	39.5	33.6	33.3
Total Gross Extrn'l Debt (% of GDP)	2.3	1.6	1.1	1.0	1.0
Gross Official Reserves (Mos. of Imports)	21.9	3.3	2.4	5.4	7.4
Nominal GDP (USD B)	456.6	581.3	835.4	1081.4	1136.7
Population (Millions)	82.4	83.3	84.1	85.0	85.8

[1] Arabia Monitor; IMF.

Iraq: Al-Sadr in spotlight, again

Caa1/B-

- **Following October's parliamentary elections, the winner, Shia cleric Muqtada al-Sadr, is now vying to form a majority in parliament. Drawn out negotiations among the various factions are almost inevitable.**
  - The results from October's elections triggered consternation among the losing parties, namely Fatah.
  - Protests intensified last month around the Green Zone in the capital Baghdad.
    - The participants largely comprised supporters of the Iranian-backed Fatah alliance. Despite previously being Iraq's largest parliamentary faction, Fatah lost the most seats in October's elections.
    - Fatah only won 17 of 329 seats, a significant drop from its previous count of 48 seats.
  - Fatah's next moves may upend the security situation in Iraq. The party could either form a coalition with another faction to secure more authority or call on Iranian backed militias to catalyse instability.
    - Iranian-backed Popular Mobilisation Forces (PMF) splintered into rogue groups following the death of Abu Mahdi al-Muhandis, their former leader who was killed during a US drone strike in January 2020.
    - This trend has prompted an uptick in the number of attacks conducted by underground PMF affiliates throughout Iraq.
    - Violent activity by various Iranian-aligned militias may therefore increase, even if Fatah does not formally endorse such actions.
  - Although al-Sadr secured the most seats, which may herald a huge amount of sway in the next parliament, a coalition bloc could yet be formed in an effort to dilute his influence.
  - Lengthy negotiations between the various Iraqi political factions will ensue; the formation of a government and the selection of a new prime minister could be several months off.
    - The parliament determines the country's new prime minister.

- **Despite Iraq's insecurity and political uncertainty, economic growth is still forecast to reach 3.6% and 10.5% in 2021 and 2022, respectively, despite last year's steep 15.7% contraction. The country's increasing oil output is set to support these projected growth levels.**

Iraq macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	4.7	5.8	-15.7	3.6	10.5
Crude Oil Production (M bpd)	4.4	4.6	4.0	4.0	4.5
Oil GDP Growth (%)	-1.3	3.8	-12.6	-0.1	12.5
Non-oil GDP Growth (%)	15.6	9.0	-20.2	9.6	7.6
CPI Inflation (%)	0.4	-0.2	0.6	6.4	4.5
Fiscal Balance (% of GDP)	7.8	0.8	-12.8	-1.5	-2.5
C/A Balance (% of GDP)	4.3	0.5	-10.8	6.2	4.0
Total Gov't. Gross Debt (% of GDP)	47.8	45.1	84.2	59.4	55.3
Total Gross Extrn'l Debt (% of GDP)	29.4	29.1	48.5	34.0	27.7
Gross Official Reserves (Mos. of Imports)	8.4	11.8	9.2	9.8	9.5
Nominal GDP (USD B)	226.9	234.0	169.5	201.5	226.6
Population (Millions)	38.4	39.3	40.2	41.2	42.0

- Iraq's nationwide oil exports rose to 3.27M barrels per day (bpd) in November 2021, compared with 3.1M bpd in October 2021.
- Iraq's exports are set to increase further next month on the back of December's OPEC+ meeting, at which it was agreed that output levels should reflect the group's monthly supply increments of 400,000 bpd.
- This comes despite uncertainty surrounding the new Omicron variant.
  - Iraq's exports generated USD 7.59B in November due to oil being sold at an average of USD 77.3 pb; this compares with the USD 7.67B generated in October, when oil was sold at an average of USD 79.27 pb.
  - While an exports increase is promising for Iraq, its economic dependence on oil means the country will remain subject to market shocks such as price dips.

[1] Arabia Monitor; IMF.

Jordan: The friendly neighbour on the block

B1/BB-

- **In the October economic outlook for 2021, the IMF revised its growth forecast for Jordan to 2%, down from 3.2% in last year's forecast. Even before the pandemic, economic activity in Jordan was lacklustre due to falling investment levels and eroding fiscal buffers. Such structural weaknesses reflect critical downside risks to Jordan's medium-term outlook. However, gradual fiscal consolidation should provide support and halt rising debt.**
  - Despite recovering from a 2% contraction in 2020, any growth will almost certainly remain lower than the 6.5% annual average experienced in the ten years prior to the 2008 global financial crisis.
  - The fiscal deficit, despite narrowing by 18% YoY, is expected to remain elevated this year at around USD 5.8B. This is equivalent to 7.7% of GDP, a consolidation which hinges on the revival of around USD 11B in revenue.
    - Jordan prevented the deficit from widening even further by imposing a hiring freeze, as well as suspending civil servant bonuses.
    - Amid the pandemic, the Jordanian authorities sustained reform efforts to strengthen tax administration, including tax compliance. By uncovering under-reported income tax liabilities, the government registered a 6% increase in tax revenue.
    - Continued tax efficiency will be key for recovery. Tax revenue is expected to reach USD 8.3B in FY 2021, an increase of around 60% compared with FY 2020 estimates.
    - Rising public sector debt is among the challenges facing Jordan, with debt sustainability risks growing rapidly. Debt is forecast to reach over 91% of GDP in 2021, a 3% YoY increase.
    - The increase will also be driven by fresh debt set to be issued by the National Electric Power Company (NEPCO), which is due to borrow around 1% of GDP both this year and in 2022 to cover a renewed widening of its operating deficit.
  - The Central Bank of Jordan's gross foreign reserves remain adequate, standing at USD 15.8M (representing just under nine months of import cover) despite reduced tourism receipts and remittances.
    - However, with debt interest payments estimated to reach over USD 2B (around 20% of public revenue), the authorities are under pressure to adhere to planned austerity measures.

Jordan macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	1.9	2.0	-1.6	2.0	2.7
CPI Inflation (%)	4.5	0.7	0.4	1.6	2.0
Fiscal Balance (% of GDP)	-4.4	-6.0	-8.9	-7.7	-5.9
C/A Balance (% of GDP)	-6.9	-2.1	-8.0	-8.9	-4.4
Total Gov't. Gross Debt (% of GDP)	75.1	78.0	88.0	90.9	90.6
Total Gross Extrn'l Debt (% of GDP)	67.9	68.0	78.3	83.0	82.7
Gross Official Reserves (Mos. of Imports)	8.0	10.1	9.9	9.0	9.1
Nominal GDP (USD B)	43.0	44.6	43.8	45.3	47.5
Population (Millions)	9.4	9.7	10.1	10.2	10.3

- **In the political realm, Jordan has been deepening its neighbourly ties, exploring fresh trade opportunities, and thawing strained relations.**
  - Jordan's King Abdullah had the first phone call with Syrian Leader Bashar al Assad since the conflict began over a decade ago.
    - This came after the opening of a key border crossing between the two countries, opening fresh trade and investment opportunities.
  - Building bridges with its neighbours, Jordan, Israel and the UAE in November agreed to build renewable electricity and water desalination plants, which seek to boost energy and water security across the Jordan River.
    - The plan includes solar plants generating 600 megawatts in Jordan for export to Israel, with Israel building water desalination plants to export 200m cubic meters of water to Jordan.
  - The warming of ties between Jordan and its neighbours is set to open new opportunities for the kingdom, which will reap its economic benefits.

[1] Arabia Monitor; IMF.

Kuwait: Political standoff suspended

A1/AA

- **Kuwait's political impasse has put a strain on the country's finances and exposed its macroeconomic vulnerabilities. Innovative approaches to overcome the deadlock could pave the way for long-awaited economic reforms. The IMF estimates real GDP growth of 0.9% in 2021 and 4.3% in 2022, respectively.**
  - In past quarterly outlooks, we discussed the Kuwaiti parliament's inability to enact resolutions that would prevent the General Reserve Fund (GRF) from being depleted.
    - The government requires the parliament to pass a debt bill that would allow the government to strengthen state finances and address long-term budget imbalances.
    - Kuwait's deficit in the pandemic-ridden FY20/21 was USD 35.5B (15.4% of GDP), the largest in the country's history.
    - The FY21/22 report released in June by the Kuwaiti Ministry of Finance forecasted a smaller deficit of around USD 12B.
    - In recent years, budget shortfalls have been financed by the GRF in order to relieve unsustainable fiscal strains.
    - By recognising the gravity of a diminishing GRF and taking austerity measures, government entities have thus far saved 25% of cost-cutting objectives (around USD 7.6B) in the FY21/22 budget.

- **The conflict between the cabinet and the parliament has been blocking desperately needed fiscal reforms, but things are now back on track.**
  - The Kuwaiti government of PM Sheikh Sabah al Khalid al-Sabah resigned in early November, for the second time in 2021, due to a conflict with the elected parliament.
    - The first government had resigned in January and the next one had been in place since March.
  - However, there has been a breakthrough in the political stalemate. Emir Sheikh Nawaf al Ahmad al Jaber al Sabah pardoned and declared amnesty for exiled politicians who stormed the parliament during the 2011 Arab Spring and called for the resignation of the prime minister.
    - This could be a turning point for Kuwait's political stability, as opposition demands have now been satisfied.

Kuwait macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	2.4	-0.6	-8.9	0.9	4.3
Crude Oil production (M Bpd)	2.74	2.70	2.43	2.42	2.5
Oil GDP Growth (%)	2.1	-0.1	-9.8	-0.6	5.0
Non-oil GDP Growth (%)	2.9	-1.1	-7.5	3.0	3.5
CPI Inflation (%)	0.6	1.1	2.1	3.2	3.0
Fiscal Balance (% of GDP; After FGF Transfer)	9.2	5.0	-8.3	-1.5	1.0
C/A Balance (% of GDP)	14.4	16.3	16.7	15.5	13.3
Total Gov't. Gross Debt (% of GDP)	15.1	11.6	11.7	7.9	10.8
Total Gross Extrn'l Debt (% of GDP)	45.3	50.4	49.7	43.2	45.2
Gross Official Reserves (Mos. of Imports)	8.2	11.0	11.7	11.0	10.9
Nominal GDP (USD B)	138.2	136.2	105.9	132.3	138.8
Population (Millions)	4.6	4.8	4.9	5.0	5.2

- The Emir's decision to pardon dissidents was part of his efforts to ease tensions with the opposition.
  - The exiled (and Islamist-leaning) politicians are perceived as a direct threat to both national stability and the ruling family.
  - Indeed, most dissidents fled Kuwait and prosecution in 2011 after protesting government corruption and the ruling system.
- As we believe that the recent pardoning is a considerable compromise, we are optimistic that reforms are on the horizon. Past efforts to break the gridlock were simply not enough.
  - It is difficult to envision alternative gestures of rapprochement, should this one not lead to progress in the parliament.

[1] Arabia Monitor; IMF.

Lebanon: IMF bailout hanging fire

C/RD

- **As the economic and political crisis in Lebanon continues to prompt unrest on the street, there is a bright spot - the potential of an IMF bailout. While consultations have begun, they have been slow moving; the impact of any such deal will also take some time.**
  - Discussions have picked up pace but there is no economic recovery plan even though discussions began in October.
  - The situation is critical. Real GDP contracted 25% in 2020. While the World Bank estimates a 37.1% contraction for 2021.
    - Inflation continues to climb causing the price of basic commodities to skyrocket. The latest reading was the highest on record, reaching 173% YoY as of October.
    - The inflation rate averaged 18.45% from 2008 until 2021.
  - Lebanon's national currency (LBP) has also depreciated. Since 2019, the Lebanese pound has lost up to 90% of its value meaning salaries and savings have lost value.
    - The UN estimates that 82% of Lebanese live below the poverty line, with 36% in extreme poverty.
  - The currency crisis has had a rippling effect.
    - Because the country does not have sufficient means to import fuel, it means that generators do not have fuel for electricity. In turn, power shortages have become a fixture in day-to-day life.
    - The failure to deliver basic services has triggered unrest on the street as well as political tensions.
    - Violent protests broke out in Beirut in October, pitting the country's various political factions against each other, but have since become sporadic.
  - The crisis has generated severe brain drain in the country as the country's educated professionals seek opportunities elsewhere.
    - There has been a recent flow of Lebanese citizens fleeing to neighbouring Cypress.
    - The United Nations Refugee Agency, UNHCR, reports a 160 per cent rise in irregular migration attempts on the Lebanon-Cyprus route since 2019.

- **Prime Minister Najib Mikati's new government is counting on foreign funding to help Lebanon resolve its crisis.**

Lebanon macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	-1.7	-7.3	-25.0	...	...
CPI Inflation (%)	4.6	2.9	84.9	...	...
Fiscal Balance (% of GDP)	-10.9	-10.5	-4.1	...	...
C/A Balance (% of GDP)	-28.4	-27.6	-17.8	...	...
Total Gov't. Gross Debt (% of GDP)	154.0	171.1	150.4	...	...
Total Gross Extrn'l Debt (% of GDP)	191.7	236.0	...	...	...
Gross Official Reserves Ex. Gold (Mos. of Imports)	12.6	19.2	12.9	...	...
Nominal GDP (USD B)	55.3	52.4	19.0	...	...
Population (Millions)	6.8	6.8	6.8	6.8	6.8

  - All foreign parties seem to agree that additional international aid is urgently needed in Lebanon.
    - Following this logic, on his recent tour of Middle Eastern countries, French President Macron discussed the Lebanese crisis in depth with Saudi Crown Prince Mohammed Bin Salman.
    - During Macron's visit to Riyadh, PM Mikati joined a call with the Saudi Crown Prince to restore ties. MBS has agreed to re-engage financially in Lebanon.
    - The relationship had been on pause, after a Lebanese minister criticized the Saudi-led war in Yemen.
  - In early December, Mikati visited Egypt, a step that brings Lebanon closer to normalising relations with Arab countries after the diplomatic rupture that saw Gulf countries blacklist Lebanon.
  - While some foreign aid from neighbours will certainly benefit Beirut, it will not be sufficient. The country needs an IMF bailout to find its footing and begin the recovery process - coming to an agreement will be no small feat.

[1] Arabia Monitor; IMF.

Libya: Elections delays deemed inescapable

NR/NR

- **GDP is forecast to recover this year, hitting 123.2% following last year's 59% contraction thanks to the triple whammy of civil war, the pandemic and closure of the country's oil facilities.**
  - Growth is expected to taper off to 5% in 2022 settling in this range in the coming years.
  - Of course, the economic situation in the country is largely contingent on political stability.
  - Reforms have been slow-moving and are continuing to stall. The reunification of the central banks (a measure promised by the unity government in March 2021) remains in its nascent stages.
    - Following the fall of Libya's former leader Colonel Muammar al-Gadhafi (in office 1969-2011), the country splintered politically and militarily within three years along an east-west divide. The eastern bloc established its own state institutions in opp
- **While presidential elections are slotted for this month in Libya, the country's political transition appears to be headed for a bumpy ride. Delays are guaranteed as electoral laws are still pending, generating more electoral uncertainty and potential violence.**
  - The three men monopolising the race are all controversial candidates, receiving support either from domestic or external actors.
    - Khalifa Haftar, the rogue general who dominates Eastern Libya, launched a military offensive on Tripoli in 2019 that sparked renewed civil war.
    - Saif al-Islam Gaddafi, an alleged war criminal has re-emerged as a potential heir to his father, dictator Muammar Gaddafi.
    - Interim Prime Minister Abdelhamid Dbeibeh has broken a vow not to run. Critics say that he is effectively bankrolling his campaign using state resources.
  - All three have faced legal challenges against their candidacies, some of which have yet to be resolved. The pending charges have meant that the electoral commission was unable to publish the candidate list on time to hold the requisite two weeks of campaigning before the election date.

Libya macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	17.9	13.2	-59.7	123.2	5.3
Crude Oil Production (M Bpd)	1.0	1.1	0.3	1.0	1.1
Oil GDP Growth (%)	19.4	13.7	-72.7	233.3	5.0
Non-oil GDP Growth (%)	4.0	-5.0	-9.0	5.0	2.0
CPI Inflation (%)	-1.2	0.2	2.8	21.1	8.0
Fiscal Balance (% of GDP)	17.1	21.1	-54.5	6.8	12.5
C/A Balance (% of GDP)	1.8	1.1	-12.2	19.2	15.4
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (Months of Imports)	...	...	...	...	...
Nominal GDP (USD B)	41.4	39.5	19.2	27.3	29.2
Population (Millions)	6.5	6.6	6.7	6.8	6.8

    - It remains to be seen whether the now-inevitable postponement will be days-long, indefinite, or somewhere in between.
  - Political factions are attempting to take advantage of the precarious situation.
    - Some want a delay of at least a year. Others contend Dbeibeh's mandate ends on 24 December, and he must be replaced. While others are still pushing to vote as soon as possible.
  - A delay of a few months is the most feasible option, in order to sort out the list of candidates and adjust the election law.
  - With a disputed legal basis, no provisions for power-sharing and foreign actors backing specific players, elections could manufacture a crisis more than be the answer to the country's problems.
    - Russia has thrown their support behind Gaddafi while the western community stands behind Dbeibeh, despite the legal friction.
  - We are bound to have some type of conflict, whether in the lead-up to elections being delayed or after the elections are delayed.

[1] Arabia Monitor; IMF.

Mauritania: Leveraging competitive advantage

NR/NR

- **Mauritania's economy looks set to be revived in 2022. Real GDP is expected to grow by 5% next year, compared with a previous forecast of 2.7% for 2021.**
    - Economic activity should resume with the return of iron exports, the backbone of Mauritania's economy.
        - Mauritania is a leading producer of iron; the mining sector accounts for 59% of the country's exports. In the first half of 2021, production increased by 2.2%.
    - Mauritania is reopening its tourism sector after a COVID-19-related hiatus.
        - Before 2020, the government wanted to attract around 10,000 tourists per year. In 2019/20, Mauritania attracted around 2,500 visitors compared with almost 3,900 tourists in 2018/19.
    - The trade and tourism minister, Naha Bint Mouknass, is confident that tourism will increase as long as another COVID-19 wave does not hit the country or the global hospitality industry. Such a rise would offer a vital boost to the economy.
        - Indeed, Mauritania represents one of the only countries in the region that is comparatively safe to visit; it does not suffer from the same levels of insecurity as its Sahelian neighbours.
- **Domestically, Mauritania faces a number of hurdles such as turgid economic growth, challenges related to climate change and inadequate infrastructure.**
    - The country also suffers from severe droughts. These isolate a significant part of the population from development projects.
    - Although several programmes are already underway, more structural reforms are needed to support growth and diversification.
        - President Mohamed Ould Ghazouani wishes to increase the industrial sector's contribution to GDP by developing primary processing industries. He intends to support the competitive capacities of each sector, thereby creating an appropriate environment for domestic and foreign investment.
- **In terms of foreign policy, Mauritania has become increasingly dedicated to the region's security and development.**
    - Ghazouani met with Sheikh Mohamed bin Zayed al Nahyan, the crown prince of Abu Dhabi (UAE), at Al Shati palace in Abu Dhabi.

Mauritania macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	4.5	5.8	-1.8	2.7	5.0
CPI Inflation (%)	3.1	2.3	2.3	2.7	3.8
Fiscal Balance (% of GDP)	2.4	2.0	2.3	-0.7	-1.1
C/A Balance (% of GDP)	-13.3	-10.5	-7.6	-7.1	-8.9
Total Gov't. Gross Debt (% of GDP)	58.9	56.8	59.2	55.4	57.6
Total Gross Extrn'l Debt (% of GDP)	58.9	56.4	58.4	54.9	55.3
Gross Official Reserves (Mos. of Imports)	3.0	3.7	4.1	5.2	5.3
Nominal GDP (USD B)	7.4	7.9	8.1	9.2	9.3
Population (Millions)	4.0	4.1	4.1	4.2	4.3

        - The pair addressed ways to diversify co-operation such as broadening Emirati investments in Mauritania, especially the country's security.
        - Mauritania and the UAE have built stronger ties since the beginning of the pandemic. The UAE has delivered around 100,000 vaccines to Mauritania.
    - In other thorny regional security issues, Mauritania is focusing on the Algeria-Morocco feud.
        - New surveillance systems were installed in November 2021 as part of the country's commitment to monitor the movements of Polisario Front militias along the border with Morocco.
        - Doubling-down on his ambition to improve the regional security situation, Ghazouani met with other Sahelian leaders at a summit earlier this month in Mauritania.
        - The president is set to continue this proactive diplomatic role in the region.

[1] Arabia Monitor; IMF.

Morocco: Fraught diplomacy, steady recovery

Ba1/BB+

- **Morocco is set for economic recovery this year. Positive agricultural output, a sustained increase in remittances and a diversified economy will all cushion the revenue losses caused by the COVID-19 pandemic.**
  - Following a 6.3% contraction in 2020, Morocco's real GDP is set to grow by 5.7% according to IMF forecasts. However, recovery hinges on a number of factors.
    - The country's growth will continue to rely on a successful and prompt vaccine rollout on par with many developed economies racing to beat the Omicron variant.
    - Any hope for the hospitality industry is contingent on the easing of international travel restrictions. While these were relaxed in the summer and autumn of this year, restrictions are back in place; Morocco is in a state of emergency as a result of the latest wave.
    - If tourism and hospitality are stifled, agricultural output will become even more critical for Morocco's growth.
  - Agricultural output reached record levels this autumn following an abundance of rain in September and October.
    - The United States Department of Agriculture (USDA) reported that Morocco produced 7.54M tonnes of wheat this year, up from 2.56M last year.
  - Reliance on agricultural output means its recovery will be hugely impacted by climate change. The country therefore needs to develop stronger growth through services and manufacturing exports.
  - The proximity to European supply chains and the growing importance of the Tanger-Med Port facility for international maritime freight routes will increase FDI inflow to Moroccan automotive and aeronautic industries, further cementing diversification and helping the country stand out regionally.
  - Remittances could also help support the country's recovery.
    - As of October 2021, transfers and investments by Moroccans living abroad during the past year reached around USD 8.6B up from USD 7.54B in the 2020 FY.
    - Additionally, Morocco's central bank, Bank Al-Maghrib, announced that the country's official reserve assets increased 10% in the past month, reaching USD 34.8B in December; a 13.3% increase from the same period in 2020.

Morocco macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	3.1	2.6	-6.3	5.7	3.1
CPI Inflation (%)	1.6	0.2	0.6	1.4	1.2
Fiscal Balance (% of GDP)	-3.7	-3.8	-7.6	-6.5	-5.9
C/A Balance (% of GDP)	-5.3	-3.7	-1.5	-3.1	-3.3
Total Gov't. Gross Debt (% of GDP)	65.2	65.1	75.4	75.8	76.6
Total Gross Extrn'l Debt (% of GDP)	32.4	33.0	41.7	41.9	41.8
Gross Official Reserves (Mos. of Imports)	5.4	6.9	7.5	7.2	7.2
Nominal GDP (USD B)	118.1	119.9	114.6	126.0	132.6
Population (Millions)	35.7	36.0	36.4	36.9	36.9

- **As far as diplomacy, while Morocco's ties with Israel are deepening at an accelerating rate, its relationship with neighbouring Algeria continues to become more hostile.**
  - Israel's defence minister, Benny Gantz, signed a defence co-operation agreement with Morocco in November 2021 during the first ever public visit to the kingdom by an Israeli defence minister.
  - King Mohamed VI also announced that all Jewish heritage sites would be restored this month, marking the one-year anniversary of the normalisation of bilateral ties.
  - Morocco was keen to give Gantz's visit a great deal of public exposure to send a signal to both the US and Algeria.
  - Warmer relations could generate trade opportunities between the two countries.
  - Meanwhile, tensions between Algeria and Morocco over the issue of Western Sahara continue be fraught. A diplomatic rapprochement is unlikely for the foreseeable future.

[1] Arabia Monitor; IMF.

Oman: Fiscally in focus

Ba3/BB-

- **The GDP of Oman, the second-smallest country in the GCC, contracted by 2.8% in 2020. This compares with an average contraction of 5.1% across the six-member Gulf bloc. Oman is forecast to post 2.5% and 2.9% growth in 2021 and 2022, respectively. This is due to favourable oil market conditions and the sultanate's Medium-Term Fiscal Plan (MTFP).**
  - Oman's economic recovery in 2021 partly stems from the revival of domestic activity following a successful vaccination rollout.
    - Non-oil GDP is expected to post 1.5% growth for 2021 following last year's 3.9% contraction.
  - The government expects the budget deficit to reach 5% of GDP in 2022. Well within the limits of the MTFP, the plan launched last year to fix the sultanate's heavily indebted public finances.
    - Through the MTFP, the government intends to reduce the budget deficit from 11.5% of GDP forecast for 2021 to 8.8% of GDP in 2022.
  - The GCC as a bloc is expected to fall just short of balancing its budget in 2022 (-0.4% of GDP), with Qatar forecast to have the highest surplus (5.7% of GDP).
    - Oman is more sensitive than its hydrocarbon-rich Gulf neighbours to oil price swings as the second smallest GCC country after Bahrain. It was particularly impacted by the 2020 oil price crash amid the COVID-19 pandemic and subsequent worldwide economic lockdowns.
    - According to the IMF, central government debt increased to 81.2% of GDP in 2020, up from 60.5% in 2019. The fund believes this figure will drop sharply to 47% by 2026.
    - The government expects that the public debt-to-GDP ratio will reach 75% in 2022, a lower figure than their previous estimate of 86%. This should be achieved on the back of fiscal reforms and the introduction of a value-added tax.
  - As part of the MTFP, the government plans to reduce subsidy spending on utilities such as electricity and water.
    - A gradual rise in related tariffs is likely in the coming years.
  - Another policy in the pipeline is a progressive income tax on high earners. This initiative was originally planned for 2022, but has been pushed back to 2023.
    - These reforms, along with higher oil prices, are forecast to narrow the current account deficit to 5.8% of GDP, down from 13.7% last year.
    - A positive figure is anticipated beyond 2026 but this will depend on continued fiscal consolidation.

Oman macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	0.9	-0.8	-2.8	2.5	2.9
Crude Oil Production (M Bpd)	1.0	1.0	1.0	1.0	1.0
Oil GDP Growth (%)	-1.6	-2.8	-3.9	1.5	2.3
Non-Oil GDP Growth (%)	4.0	1.4	-1.7	3.5	3.6
CPI Inflation (%)	0.9	0.1	-0.9	3.0	2.7
Fiscal Balance (% of GDP)	-7.7	-5.6	-18.7	-2.6	1.1
C/A Balance (% of GDP)	-5.4	-5.5	-13.7	-5.8	-0.9
Total Gov't. Gross Debt (% of GDP)	51.3	60.5	81.2	68.2	61.7
Total Gross Extrn'l Debt (% of GDP)	83.6	94.3	114.7	97.5	91.2
Gross Official Reserves (Mos. of Imports)	6.4	7.3	6.2	5.9	5.7
Nominal GDP (USD B)	79.8	76.3	63.4	80.6	85.7
Population (Millions)	4.6	4.6	4.4	4.6	4.7

[1] Arabia Monitor; IMF.

Palestine: Dwindling donations dim recovery hopes

NR/NR

- **Although the IMF stated that Palestine's economy contracted by 12% in 2020, the country is expected to undergo a degree of recovery. The Palestinian Monetary Authority (PMA) has forecast a 4% recovery for 2021, this target may be difficult to reach.**
  - The president of the Palestinian Authority (PA), Mahmoud Abbas, has been on a diplomatic tour in recent weeks due to a dearth of foreign support since the onset of the COVID-19 pandemic.
  - Abbas visited Algeria, Italy, Qatar and Russia where he met with various heads of state.
    - Algeria's president, Abdelmadjid Tebboune, pledged USD 100M in aid to PA state coffers.
    - He also promised to make Palestine the focal point of discussions at next year's Arab League summit.
    - While more support from Arab neighbours would certainly benefit Palestine, many countries have now normalised relations with Israel.
    - The donor bandwidth from Palestine's neighbours is limited; as they deal with their own domestic priorities and challenges.
  - While aid from Algeria will provide a much-needed reprieve to cover some of the current expenditure, Palestine's public debt is mounting. It is set to reach around USD 1.69B by the end of this year.
    - Domestic debt amounted to around USD 2.5B as of August 2021. Domestic bank borrowing already exceeds the limit set by the PMA.
  - The Palestinian Authority is struggling to pay salaries to public sector employees; fiscal revenues have sunk to their lowest levels in twenty years.
  - Tax transfers from Israel were frozen last year, which hammered the Palestinian economy. These resumed for a short period but have since frozen yet again, battering an already suffering economy.
    - The Palestinian prime minister, Mohammad Shtayyeh, said that the PA has not received aid to pay salaries. These are estimated to amount to a cost of around USD 292M per month.
    - Tax revenues account for more than 60% of the PA's annual revenues.

Palestine macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	1.2	1.4	-11.5	4.4	6.0
CPI Inflation (%)	-0.2	1.6	-0.7	1.3	1.7
Fiscal Balance (Ex-support, % of GDP)	-6.6	-7.3	-10.7	-10.5	-9.4
Recurrent Budget Support (% of GDP)	11.7	9.7	9.2	11.1	11.0
C/A Balance (% of GDP)	-13.2	-10.4	-6.9	-9.5	-10.1
Nominal GDP (USD B)	16.3	17.1	15.6	17.3	18.8
Population (Millions)	4.7	4.9	5.0	5.1	5.2

  - Until around USD 600M of EU funding arrives next March, the economic situation is set to deteriorate further.
    - Aid has withered significantly since the former US president Donald Trump (in office 2017-21) turned off US funding taps.
    - While the current president, Joe Biden, has turned some back on, US law still prohibits direct aid to the PA.
    - Dependence on aid is neither a permanent solution nor a sustainable source of long-term growth.
    - Banks are unwilling to lend to the PA because it has no collateral insurance, leaving the country with limited options and diminished prospects for a fast recovery.
  - Palestine is still heavily reliant on Israel, as evidenced by both tax revenues and exports.
    - Last year Israel accounted for 80% of Palestinian exports and 58% of imports.
    - Palestine's economic prospects are impacted heavily by turbulent politics with its neighbour.

[1] Arabia Monitor; IMF.

Qatar: Ready to kick-off

Aa3/AA-

- **Qatar's economy is performing well. As the country prepares to host the FIFA 2022 World Cup, this success could not come at a better time. The emirate expects to post 4% growth next year, which represents an upward revision from the IMF's earlier estimate in April 2021 of 3.6%.**
  - In its recently released budget for the 2022 fiscal year, Qatar's Ministry of Finance (MoF) is set to run a small deficit of USD 2.3B, which represents 1.3% of its GDP.
    - This is well below the IMF forecast which expects the country to score a surplus of 5.7% of GDP next year.
    - For comparison, the GCC as a bloc is expected to just fall short of balancing its budget next year (-0.4% of GDP).
    - The MoF expects to spend USD 56.13B in its budget for 2022. This figure represents growth in expenditure by an annual rate of 4.9% compared to this year.
    - Revenues are expected to amount to USD 53.8 B, a 22.4% rise compared to last year's budget estimates.
  - We expect this deficit to be financed by current monetary balances and the issuance of local and foreign debt instruments.
  - Estimates for the gulf Arab country's budget were made while assuming Brent crude oil prices to be USD 55 pb on average next year, up from USD 40 pb in 2021. This comes on the back of supportive global energy prices.

- **Crown Prince Mohammad Bin Salman (MBS) of Saudi Arabia visited Qatar in December 2021 for the first time since the end of a blockade imposed against the emirate by several gulf states. The visit represents a bilateral thaw, heralding stronger economic and security relations.**
  - Since the resolution of the diplomatic dispute in January 2021, Qatar's Tamim bin Hamad al Thani has visited Saudi Arabia and met with MBS many times.
    - Bilateral trade and security in the MENA region have been focal points during their discussions.

Qatar macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	1.2	0.8	-3.6	1.9	4.0
Crude Oil Production (Mb/d)	0.6	0.6	0.5	0.6	0.6
Oil GDP Growth (%)	-0.3	-1.8	-2.1	1.9	2.8
Non-oil GDP Growth (%)	2.2	2.4	-4.5	2.0	4.7
CPI Inflation (%)	0.3	-0.7	-2.7	2.5	3.2
Fiscal Balance (% of GDP)	5.9	4.9	1.3	2.8	5.7
C/A Balance (% of GDP)	9.1	2.4	-2.4	8.2	11.6
Total Gov't. Gross Debt (% of GDP)	52.2	62.3	72.1	59.0	53.1
Total Gross Extrn'l Debt (% of GDP)	108.1	138.0	185.7	159.2	149.2
Gross Official Reserves (Mos. of Imports)	5.5	8.1	7.8	10.0	11.4
Nominal GDP (USD B)	183.3	175.8	145.5	169.2	180.9
Population (Millions)	2.8	2.8	2.9	2.9	2.9

  - Qatar is also pursuing a strategic relationship with Turkey, a long-time ally.
    - Both countries have grown closer economically and politically in recent years; Turkey supported Qatar during the Saudi-led blockade.
    - President Recep Tayyip Erdogan of Turkey visited Qatar earlier this month to enhance bilateral financial co-ordination. As a result, both premiers agreed to a currency swap between their central banks to help Turkey with its monetary crisis. Elsewhere, both nations are working together to achieve stability in Afghanistan.

[1] Arabia Monitor; IMF.

Saudi Arabia: Confidently entering 2022

A1/A

- **The IMF forecasts real GDP growth of 4.8% and a budget deficit of 1.8% of GDP for Saudi Arabia in 2022. The kingdom's Ministry of Finance (MoF) has a more upbeat outlook; of 7.4% GDP growth and a budget surplus of 2.5% of GDP after a record deficit of 11.3% of GDP in 2020.**
  - ➢ The budget surplus expected in 2022 will be the first since 2013.
    - State coffers were hammered by the pandemic in 2020 when the budget deficit was a record 11.3% of GDP.
  - ➢ The kingdom is now back in comfortable territory as this year's fiscal deficit is reasonable compared to past years. The IMF expects it to reach 3.1% while the MoF expects that it will fall to 2.7% of GDP.
    - Revenues increased by almost 10% YoY to USD 247.9B from the initially budgeted USD 226.3B, underpinned mainly by higher crude prices and oil production hikes as global oil demand recovered. For 2022, the MoF expects bulkier revenues of USD 278.6B.
  - ➢ This major budget development as we head into the new year, signals that the kingdom is slowly de-anchoring public expenditure away from fluctuating oil revenue. We expect more predictable expenditure looking forward, regardless of oil market volatility.
  - ➢ The market reacted well to the Saudi Arabia budget surplus causing investor confidence to rise. Sentiment also relaxed following commentary from OPEC stating that the Omicron variant is not as severe as initially feared.
    - The Kingdom's stock exchange (Tadawul) fell 4.5% on the first trading day after the Omicron variant was announced. Now, with the kingdom expecting a solid fiscal position moving forward, the Tadawul closed strongly last week by recouping 2.2% of its Omicron-related losses.

- **The future looks positive for Saudi Arabia's business environment. Of particular note is the rosy outlook for non-oil growth. This year, non-oil GDP growth is expected to reach 4.7% after a 2.3% contraction last year.**
  - ➢ Business activity in the non-oil private sector continued to improve in November.
    - The kingdom's seasonally adjusted purchasing managers' index (PMI) stood at 56.9 last month, in line with the country's average recorded over the 12-year series of the survey.
    - This figure represents a slight dip from October's reading of 57.7, but this is not surprising as figures were already peaking in the 50+ growth territory -- a clear sign that the non-oil sector is recovering at a rapid pace.
  - ➢ Ultimately, Saudi Arabia is ending the year strongly in the public and private spheres. We see no sign of this progress abating in H1 2022, as non-oil GDP is forecast to grow by 3.6%.

Saudi Arabia macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	2.4	0.3	-4.1	2.8	4.8
Crude Oil Production (M Bpd)	10.3	9.8	9.2	9.1	9.9
Oil GDP Growth (%)	3.1	-3.6	-6.7	0.1	6.8
Non-oil GDP Growth (%)	2.2	3.3	-2.3	4.7	3.6
CPI Inflation (%)	2.5	-2.1	3.4	3.2	2.2
Fiscal Balance (% of GDP)	-5.9	-4.5	-11.3	-3.1	-1.8
C/A Balance (% of GDP)	9.2	4.8	-2.8	3.9	3.8
Total Gov't. Gross Debt (% of GDP)	19.0	22.8	32.5	29.7	30.8
Total Gross Extrn'l Debt (% of GDP)	19.2	23.5	34.1	30.8	30.7
Gross Official Reserves (Mos. of Imports)	27.1	33.2	24.6	25.1	25.1
Nominal GDP (USD B)	786.5	793.0	700.1	842.6	876.1
Population (Millions)	33.4	34.1	34.8	35.5	36.2

[1] Arabia Monitor; IMF.

Somalia: Stuck in the crossfire

B2/NR

- **People in Somalia are suffering due to the expansion of the country's civil war. In order for the economic situation to improve in 2022, Somalia will need aid from the international community as well as the long-awaited return of diaspora funding.**
  - ➢ The crisis in Somalia has been exacerbated partly due to climate-related issues.
    - More than 300K people in Somalia's Galguduud region have been affected by floods and severe droughts.
    - Following the drought, food and water insecurities have prompted the government to declare a state of emergency.
    - Somalia's poor infrastructure will hinder the government's ability to handle the crises.
  - ➢ An ongoing civil conflict between the national army and Ahlu Sunna Waljama'a (ASWJ), a paramilitary group, is compounding Somalia's problems.
    - ASWJ mainly comprises Sufi Muslims who claim to be opposed to Islamic extremism.
    - Its leaders have stated that the group wishes to seize control of Somali towns in order to better defend them from violent militias that are thriving throughout the country.
    - Around 100K people have fled their villages and have moved to areas not yet affected by the fighting.
    - Dozens of people have been killed in the fighting, while one of the largest hospitals, the Kulmiye Community hospital, has been destroyed. Many injured people have been left without access to the intensive care they need.
  - ➢ In addition, violent groups are taking advantage of the fighting to make gains across Somalia.
    - In particular, the armed Somalia-based Islamist extremist movement al-Shabab remains an ever-present threat, and continues to employ suicide attacks to target journalists, officials and schools.
    - Although al-Shabab is a common enemy to both the Somalian security forces and ASWJ, neither side has moved to forces.
- **Despite the political and environmental turmoil in Somalia, growth is expected to reach 1.6% and 3.2% in 2021 and 2022, respectively.**

Somalia macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	2.8	2.9	-0.7	1.6	3.9
CPI Inflation (%)	4.3	4.5	4.3	4.3	4.0
Fiscal Balance (% of GDP)	0.1	0.5	0.5	-1.7	-0.2
C/A Balance (% of GDP)	-7.6	-13.1	-17.2	-17.2	-15.6
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	113.0	104.9	61.4	59.5	55.4
Gross Official Reserves (Mos. of Imports)	...	...	...	...	...
Nominal GDP (USD B)	4.7	5.1	5.0	5.4	5.9
Population (Millions)	14.2	14.6	15.0	15.5	15.9

- ➢ The potential recovery of the agriculture and livestock sectors offers hope of a reprieve to the country and may help the economy to recover to pre-pandemic levels; the revival of these industries will help to boost exports and revenues.
- ➢ Somalia's livestock exports to Saudi Arabia and other Gulf states are crucial; they have been hugely impacted by various COVID-19-related lockdowns. The demand for these exports from the Gulf constitutes an essential source of household income; livestock represents around 75% of Somalia's total exports.
- ➢ Remittance inflows from the Somali diaspora (amounting to over 1M people worldwide) represent another key driver of Somalia's economy.
  - Remittances are estimated to support more than 40% of households in Somalia and represent around USD 2B annually or 35.8% of GDP in 2020.
- ➢ Somalia's economy may find its footing soon; climatic and security risks remain the key threats to this recovery.

[1] Arabia Monitor; IMF.

Sudan: Standing back on its feet

B2/NR

- **There has been widespread condemnation following General Abdel Fattah al-Burhan's coup in October 2021, both locally and internationally. But after the attempted derailment of Sudan's transition to civilian rule, the political scene has started to stabilise.**
  - After three weeks of behind-the-scenes negotiations following the military coup on the 25th of October, Prime Minister Abdalla Hamdok has been released from house arrest and reinstated to his post.
    - The development comes after the military and prominent political parties reached a political agreement. The deal includes swathes of revisions to be implemented in the lead-up to elections in July 2023.
    - The PM is required to bring in a new cabinet composed of apolitical technocrats.
    - The Transitional Constitutional Charter, which was signed in July 2019, remains the basic legislative platform for the transitional period.
  - In the aftermath of the recent agreement, the Forces of Freedom and Change (FFC) have splintered into three groups. The FCC is a wide coalition of political parties who are leading the transition.
    - Despite nominating Hamdok as PM, some factions now accuse him of treason and do not recognise the new Army-Hamdok partnership.
    - The political agreement was officially welcomed by various players such as the US, Egypt and the UAE. The international community wants stability in Sudan, but specifically with PM Hamdok spearheading the executive agenda.
  - Social tensions are rising as protesters continue to march across the country. However, demonstrators do not all hold the same revendications.
    - Many people feel betrayed by Hamdok because he has agreed to work with the military; they view his move as an indirect recognition of al-Burhan's coup.
    - Others believe he took his course of action to stop the bloodshed.
    - In addition, activists are now calling on the international community to cut off aid to the military, to ensure that the assistance directly goes to the ones in need.

Sudan macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	-2.7	-2.2	-3.6	0.9	3.5
CPI Inflation (%)	63.3	51.0	163.3	194.6	41.8
Fiscal Balance (% of GDP)	-7.9	-10.8	-5.9	-2.9	-1.5
C/A Balance (% of GDP)	-14.0	-15.6	-17.5	-10.1	-9.4
Total Gov't. Gross Debt (% of GDP)	186.7	200.3	272.9	209.9	176.6
Total Gross Extrn'l Debt (% of GDP)	183.0	198.9	246.6	202.3	171.1
Gross Official Reserves (Mos. of Imports)	2.8	3.6	1.8	1.9	2.2
Nominal GDP (USD B)	33.4	33.6	34.4	35.9	37.8
Population (Millions)	40.8	41.8	42.8	43.8	44.9

    - The Sudanese Finance Minister, Jibril Ibrahim, has stated that the country is in urgent need of international assistance, after being unable to access a fund of USD 650M, suspended by the World Bank and the IMF after the coup. The US has also withdrawn its financial help, via an aid package worth USD 700M.
  - It is no surprise that Sudan's economy is projected to achieve minimal growth. Even if 2022 will be characterized by a small return to GDP growth of around 2-3%, compared to 0.9% in 2021. Regardless, economic recovery will be highly dependent on international assistance.
    - The inflation rate was unprecedented in 2021 as it reached 194.6% and became one of the highest in the world. A drop to 41.8% is expected for 2022.
    - Sudan's debt levels remain high. A bailout could help the country find its footing again but this is contingent on reforms and maintaining political stability, which is difficult to guarantee for the moment.

[1] Arabia Monitor; IMF.

Syria: Securing a seat at the table

NR/NR

- **The fighting in Syria has drawn to a close after ten years of conflict. With the potential for increased business activity, neighbouring governments are now gradually re-establishing diplomatic ties with Assad and his war-ravaged state. The GCC see wisdom in having a seat at the table, as part of a more proactive regional stance.**
  - Jordan and the UAE are starting to engage diplomatically with Syria, suggesting that trade levels are likely to increase.
  - The UAE's foreign minister, Sheikh Abdallah bin Zayed, visited Syria's capital Damascus to meet with Assad last month. Zayed is the most senior Emirati official to have visited Syria since the beginning of the conflict.
    - The two men agreed to bolster trade ties, while Zayed also promised that the UAE will help Assad to overcome Syria's war-related challenges.
    - An agreement was signed between Syria's Ministry of Electricity and a consortium of Emirati companies to establish a photovoltaic power plant near Damascus with a 300 MW capacity. This deal is the first of its kind for Syria in over a decade.
  - In October, Assad and Jordan's King Abdullah II spoke on the phone after a key border crossing between the two countries was opened in September. This was the first phone call between the two leaders in over a decade and represents a significant diplomatic development.
    - Given the resultant logistical and road transport opportunities, the reopening of an important border crossing will improve trade, especially for Jordan.
  - Despite these developments, other countries are still refraining from engaging diplomatically with Syria.
    - Qatar's foreign minister, Sheikh Mohammed bin al Thani, said that his country has no plans to normalise bilateral relations with Syria.
    - Ever since the civil war began in 2011, Qatar and Saudi Arabia have both backed rebels fighting against Assad's government.
  - There has been a drive by Egypt in recent weeks to welcome Syria back to the regional fold. Elsewhere, discussions between Algeria and other Arab League members ahead of next year's Arab League summit have resulted in discussions to give Syria a seat at the table. Reintegration is set to continue.

Syria macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	...	...	...	...	...
CPI Inflation (%)	...	...	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...
C/A Balance (% of GDP)	...	...	...	...	...
Total Gov't. Net Debt (%of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (USD B)	...	...	...	...	...
Nominal GDP (USD B)	...	...	...	...	...
Population (Millions)	19.2	18.7	18.4	18.2	18.2

- **Regional initiatives to reintegrate Syria are promising for its economy, which has been indisputably battered by the civil war.**
  - Rebuilding the country is estimated to cost between USD 250 and 450b. While Russia has won a buik of these reconstruction contracts, the remainder could be granted to other MENA countries who are courting Assad.
    - Moscow signed an agreement to restore the country's oil fields and support the development of new deposits.
  - However, foreign investment may be reluctant due to the Caesar sanctions which the US imposed on the Syrian regime in 2020.
  - US officials claim the White House will not relax the enforcement of the sanctions, though their pace has slowed since Joe Biden took office.
  - Sanctions have caused inflation to skyrocket in Syria. It reached a historical high in August, hitting 139.46%.[2]

[1] Arabia Monitor; IMF.
[2] Trading Economics.

Tunisia: Internal turmoil to taper recovery

B3/B-

- **Political turmoil has been increasing in Tunisia ever since President Kais Saied froze parliament earlier this year. Despite rising tensions, the economy may post some growth in 2022 thanks to tourism and external aid.**
  - An electoral transition roadmap was put forward this month. It covers legislative elections next year which may finally unfreeze parliament.
    - This comes after President Said sacked the prime minister, suspended parliament and assumed total control over Tunisia's judiciary.
    - President Said has been allowed to rule by decree. Tunisia's governance model has shifted from a parliamentary system to a presidential system based on centralised power.
    - Consultations are set to take place between 1 January and 20 March regarding constitutional reforms. A commission will then be established to incorporate the amendments stemming from the consultations.
    - The deadline for this commission is 25 July 2022.
  - Initially, the decision to dissolve parliament was popular and supported by civilians. The government was regarded as highly inefficient, especially in terms of its mismanagement of the COVID-19 pandemic.
    - Since November, Tunisians have gathered regularly to protest against the power grab. President Said's failure to install a new government means every decision with regard to making policies falls under his remit.
    - The new system of government has started to resemble an authoritarian regime with one man at the top and no counterbalance positions.
    - Additionally, the president recently announced the dismissal of the country's consuls in Paris (France) and Milan (Italy).
    - Some of the president's critics accuse him of attempting to establish a new dictatorship a decade after Tunisia's 2011 uprising in which long-time ruler Zine El Abidine Ben Ali was removed.

- **The COVID-19 pandemic has severely impacted the Tunisian economy, battering a service industry (particularly tourism) which has traditionally been the country's growth engine. However, the most significant impact of the pandemic has been a substantial decline in investment and exports.**

Tunisia macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	2.7	1.0	-8.6	3.0	3.3
CPI Inflation (%)	7.3	6.7	5.6	5.7	6.5
Fiscal Balance (% of GDP)	-4.5	-3.9	-9.8	-8.3	-7.6
C/A Balance (% of GDP)	-11.1	-8.4	-6.8	-7.3	-8.4
Total Gov't. Gross Debt (% of GDP)	80.1	74.2	89.7	90.2	92.7
Total Gross Extrn'l Debt (% of GDP)	97.4	92.8	96.5	102.8	100.7
Gross Official Reserves (Mos. of Imports)	2.7	4.5	4.2	3.4	3.1
Nominal GDP (USD B)	40.1	39.2	39.2	42.7	45.4
Population (Millions)	11.5	11.7	11.8	11.8	11.9

- Tunisia's real GDP growth could reach 3% and 3.3% in 2021 and 2022, respectively. Inflation is expected to decline to 4.3% in 2022.
- To avert a sovereign default, Tunisia urgently requires foreign financing. Therefore, the Tunisian government is seeking an IMF agreement of around USD 4B for the first quarter of 2022.
  - The governor of the Central Bank of Tunisia, Marouane Abassi, stated that this would take the form of a 'rescue' programme, designed to help Tunisia launch reforms and boost growth.
- Moreover, the situation could improve for Tunisia if the tourism sector, a pillar of the economy, rebounds in 2022.
  - According to the Central Bank of Tunisia, November's tourism indicators improved slightly following generated revenue of around USD 678M. However, this is still far from 2019's figures (around USD 1.8B).
  - A severe outbreak of Omicron, or further political instability are downside risks.

[1] Arabia Monitor; IMF.

UAE: Growth firmly on course

Aa2/AA-

- **Expo 2020 Dubai has rejuvenated business activity in the UAE's non-oil private sector economy, bolstering the country's public finances on top of high oil prices and increased production levels. The IMF has forecast 3.2% growth in non-oil real GDP this year and 2.8% in 2022, up from the 6.2% contraction in 2020.**
  - Private sector activity in the UAE is growing. After being in the (50+) expansion territory for 12 consecutive months, the UAE's PMI hit 55.9 in November 2021.
    - This was slightly above October's reading of 55.7, which was the fastest expansion rate since June 2019.
    - The continued strong performance in business operating conditions is a considerable improvement from last year when the country's PMI recorded just four months of growth (50+ PMI) as the pandemic pummelled tourism, aviation, and other key sectors of the economy.
  - The strong numbers were buttressed by notable expansions in the "output" and "new orders" sub-index.
    - The output sub-index rose to 61.6 in November, up from 61.1 in October, the highest figure since July 2019.
  - The UAE's buoyant private sector performance and the considerable increase in demand momentum are partly underscored by the influx of tourists visiting Expo 2020.
    - The event is expected to draw more than 20M visitors during a six-month period.
    - We therefore believe that the private sector will remain steadfast, even if there is no further uptick in momentum.
  - Nevertheless, subdued employment rates in the UAE do not match this increased domestic demand.
    - In terms of new hiring, businesses remain cautious about adding to their costs via increased employment.
    - The stagnation of hiring activity suggests that businesses are delaying hiring decisions until they know the true economic recovery picture after Expo ends in March 2022.
    - Increased demand in November led to only a marginal increase in hiring by private sector companies. Furthermore, this growth represents a tepid rise from October's rates.

UAE macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	1.2	3.4	-6.1	2.2	3.0
Crude Oil Production (M Bpd)	3.0	3.1	2.8	2.7	2.9
Oil GDP Growth (%)	2.5	2.6	-6.0	0.0	3.6
Non-oil GDP Growth (%)	0.7	3.8	-6.2	3.2	2.8
CPI Inflation (%)	3.1	-1.9	-2.1	2.0	2.2
Fiscal Balance (% of GDP)	1.9	0.6	-5.6	-0.5	-0.2
C/A Balance (% of GDP)	9.6	8.5	3.1	9.7	9.4
Total Gov't. Gross Debt (% of GDP)	20.9	27.1	39.4	37.3	38.6
Total Gross Extrn'l Debt (% of GDP)	70.5	81.7	106.7	97.4	97.3
Gross Official Reserves (Mos. of Imports)	3.9	5.1	4.5	4.7	4.9
Nominal GDP (USD B)	422.2	417.2	358.9	410.2	427.9
Population (Millions)	10.4	10.7	11.1	11.4	11.8

    - It is common for employment rates to rise sluggishly following increased private sector activity. We expect to see a steady, albeit slow, rise in employment in the coming quarters.
  - Elsewhere in the private sector, Dubai has experienced a robust recovery in its real estate market.
    - During the first eight months of the 2021 FY, the overall number of property transactions increased by 23% compared to the entire of 2020.
  - The government has made commendable efforts to stimulate its property market by easing up on regulation.
    - Despite these efforts, we doubt that the property market will return to the same boisterous levels seen during the early years of the last decade.

[1] Arabia Monitor; IMF.

Yemen: Uphill battle for peace

NR/NR

- **As the civil war in Yemen rages on, growth prospects in the country continue to diminish. Unless international engagement ramps up dramatically, Yemen will continue to flounder.**
  - ➢ Six years of civil war have battered Yemen's economy. The situation has been made worse by the COVID-19 pandemic. International actors initially stepped up to offer humanitarian aid, which helped to offset some of the pressure that had been exacerbated by the country's already poor economic situation. Aid has since begun to dry up.
    - Airstrikes carried out by a Saudi-led coalition have continued in Marib governorate as well as in the capital Sanaa. Meanwhile, Houthi rebels continue to launch missiles against Saudi Arabia's capital Riyadh.
    - Strikes have targeted Sanaa as early as this month and have continued, while those targeting Marib have occurred on a daily basis for the last few months.
    - The military stalemate is set to continue as the implementation of the Riyadh Agreement drifts while Southern Transitional Council (STC) forces remain in Aden. Militias (including IS) are taking advantage of the instability and adding to the violence.
  - ➢ The conflict shows no sign of abating for now; rivalling sides will stick to their guns despite pleas from international organisations such as the UN to stop the fighting.

- **Yemen's poor economic state has exacerbated the humanitarian crisis, which has sunk to its worst levels since the conflict began in 2015. The situation could worsen if the country does not undergo drastic reforms to secure more international support.**
  - ➢ President Abdrabbuh Mansur Hadi replaced Central Bank of Yemen's governor and deputy governor this month, as per the 2019 Riyadh Agreement.
    - Ahmad Al Mabaki was selected as the new governor and chairman of the Central Bank board. Al Mabaki is a banking technocrat and an economist.
    - Professor Mohammed Banajah was appointed as deputy governor and vice chairman of the board.
    - Previous governors have failed to help the economy find its footing, but this technocrat's expertise could help to generate vital reforms.

Yemen macroeconomic indicators[1]

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	0.8	1.4	-8.5	-2.0	1.0
Crude Oil Production (M bpd)	...	...	...	...	...
CPI Inflation (%)	27.6	12.0	23.1	40.7	31.5
Fiscal Balance (% of GDP)	-7.8	-5.6	-5.2	-5.2	-5.2
C/A Balance (% of GDP)	-0.8	-3.9	-5.9	-8.8	-9.7
Total Gov't. Gross Debt (% of GDP)	74.5	76.5	84.2	73.5	63.1
Total Gross Extrn'l Debt (% of GDP)	31.3	32.6	31.9	39.2	36.1
Gross Official Reserves (Mos. of Imports)	2.6	2.0	1.1	1.6	0.9
Nominal GDP (USD B)	21.6	21.9	18.8	19.5	20.0
Population (Millions)	28.2	28.9	29.5	30.2	30.9

- ➢ The move comes amid an unprecedented collapse in the local currency.
  - The USD was trading at 1,650 Yemeni Rials (YER) this month according to exchange companies in Aden, compared with 215 YER prior to 2015.
  - This has diluted the purchasing power of civilians, who are consequently struggling to afford basic commodities.
  - External support is still required amid diminishing foreign currency reserves.
- ➢ The appointment of Mabaki offers a glimmer of hope for the country's economic landscape; needless to say, he has his work cut out for him.
  - Unless bold banking reforms are enacted and cash is injected by international donors, Yemen's economy will remain very weak.

[1] Arabia Monitor; IMF.

GCC Sovereign Ratings Update

	Moody's		Last Moody's action		Fitch		Last Fitch action		Rating Change Considerations
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	
Bahrain	B2	(-)	Affirmed O/L Negative	29-Apr-21	B+		Affirmed O/L Stable	12-Apr-21	Positive rating action if a sustained reduction of the budget deficit and a continued decrease in government debt/GDP. On the other hand, further worsening of public debt dynamics and the domestic security environment could see ratings falling further.
Kuwait	A1		Downgraded O/L Stable	22-Sep-20	AA	(-)	Affirmed O/L Negative	02-Feb-21	Further exhaustion of the General Reserve Fund (GRF) to finance fiscal debt could put downward pressure on ratings. Debt law reforms passed in parliament may stop this.
Oman	Ba3		Affirmed O/L Positive	14-Oct-21	BB-	(-)	Affirmed O/L Negative	18-May-21	We expect a positive rating action if greater confidence in moderation of government debt-to-GDP is observed, for example through further implementation of the government's fiscal balance programme.
Qatar	Aa3		Affirmed O/L Stable	24-Sep-20	AA-		Affirmed O/L Stable	18-Jun-21	Ratings could come under pressure if there is a sharp fall in investment returns on sovereign assets. A weak fiscal position where government debt-to-GDP fails to go down due to higher deficits than forecasted can also undermine ratings.
Saudi Arabia	A1		Affirmed O/L Stable	05-Nov-21	A		Affirmed O/L Stable	15-Jul-21	Ratings could be raised with fiscal consolidation that accelerates progress towards sustainable fiscal balance, including lower fiscal breakeven oil prices.
UAE	Aa2		Affirmed O/L Stable	04-May-21	AA-		Affirmed O/L Stable	07-Nov-21	Upgrade considerations are possible if Abu Dhabi show improvement in areas such as reduction in oil dependence, a strengthening in governance, and the business environment, while maintaining a strong fiscal balance sheet.

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		Fitch		Last Fitch 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	20-Oct-21	Signs of external vulnerability, for example a persistent downward pressure on international reserves and rapid outflow of non-resident portfolio investments from Egypt's financial system would reduce creditworthiness.
Jordan	B1		Affirmed O/L Stable	26-Nov-20	BB-		Affirmed O/L Stable	07-Dec-21	Ratings could be raised if there is a sustained decline in public debt-to-GDP, for example through a combination of reforms to boost revenue or GDP, limit spending and boost revenues.
Lebanon	C		Under review	27-Jul-20	RD		Affirmed O/L Evolving	18-Aug-21	Ratings could be affirmed if the government introduces comprehensive policy reforms and debt-restructuring programs.
Morocco	Ba1	(-)	Affirmed O/L Negative	Feb -21	BB+		Affirmed O/L Stable	05-May-21	Significant fiscal gaps could see a continued downgrade of ratings.
Tunisia	B3	(-)	Downgraded O/L Negative	23-Feb-21	B-	(-)	Downgraded O/L Negative	08-Jul-21	Ratings could be lowered if there are rising external liquidity pressures, for example if there is a significant cutting down on international 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.

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