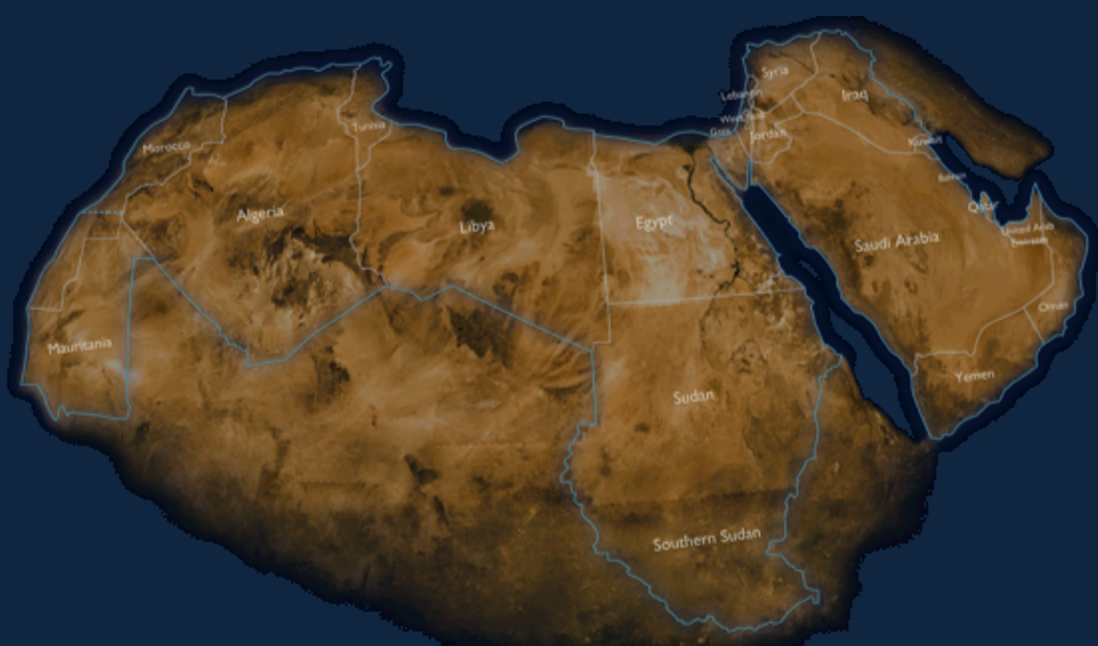
MENA Post-COVID:
Next Generation Digitisation

Middle East & North Africa Outlook
Q3 2020



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Outline

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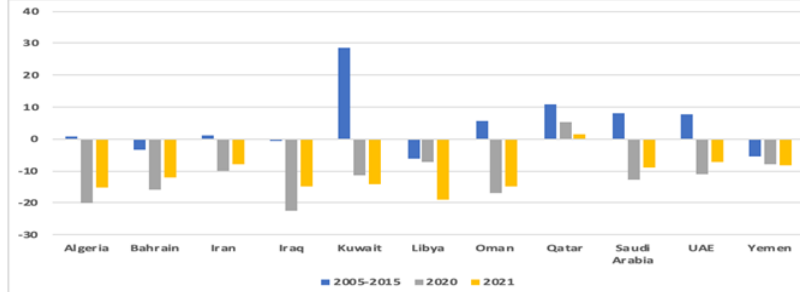
Our View: Pandemic drives digitisation in MENA

- **Our regional theme this quarter looks at innovation and digitisation in MENA. The region has had to endure the double whammy of low oil prices and the impact of COVID-19, but some sectors have managed to thrive in the downturn; the pandemic has irreversibly amplified the role of disruptive technologies and digitisation. Telecommunications technology is expanding and will continue to do so along with new edtech, healthtech and fintech digital platforms.**
  - ➢ With the lockdowns, demand for telecommunication services has increased alongside higher mobile penetration and greater internet accessibility.
    - Mobile data consumption will continue to grow rapidly: 5G services are already a reality in MENA with the GCC leading the way.
  - ➢ Entertainment platforms such as on-demand streaming platforms have gained popularity, opening doors to new investment opportunities.
    - MENA revenues from streaming and entertainment services are expected to reach USD 2.1B in 2024 from USD 1.5B in 2018.
  - ➢ Prior to the coronavirus crisis, we already saw an acceleration in healthcare and education delivery in the region. MENA's healthtech and edtech sectors are now growing rapidly, with local startups attracting higher investment and initiating public-private partnerships.
  - ➢ We expect demand for e-commerce and fintech in MENA to remain above pre-pandemic levels -- both sectors grew throughout the region, accelerated by home isolation.
    - The two sectors move in concert: with a stronger presence, new fintech will also revolutionise MENA's e-commerce.
  - ➢ Barriers to growth in some sectors -- such as government restrictions based on protectionism and in some cases, social control -- are unlikely to return after the pandemic, especially as pressure for further liberalisation persist.
    - However, we expect governments to maintain some limits to protect their operators -- many of which are owned by the state or majority-controlled by it -- as well as to maintain a certain level of internet censorship.

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



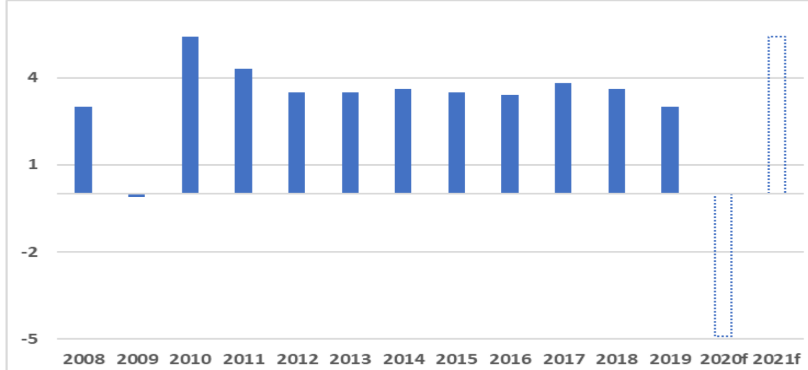
- **For our regional outlook, we examine how MENA is having to adjust to lower oil prices, this time lower for longer than in the recent past, while providing adequate stimulus to support domestic economies taking a hit. This means slower growth and steeper fiscal deficits.**
  - ➢ Most countries have started to ease their COVID-19-related restrictions to allow their economies to start recovering, but we will not see the impact of any stimulus packages aimed at supporting domestic growth until H2, by which time many of the measures will have been phased out.
  - ➢ The pandemic has made a serious dent in global oil demand; the EIA now sees demand at 92.5 Mb/d for all of 2020, down from more than 100 Mb/d last year in 2019. A full rebound is not expected in 2021.
  - ➢ We are braced for an uptick in street protests in some countries as the full impact of the economic slowdown registers in people's pockets. Many of the challenges now exacerbated by the pandemic were there before, and had been slow to resolve. That is the problem.
  - ➢ Political unrest is already defying lockdowns in various spots and could regain momentum once they are fully lifted, as economies register the impact.

[1] Arabia Monitor; IMF.

Global Outlook: Pandemic waves douse global growth

- **Debt is rising across countries as national governments try to spend their way through the COVID-19 pandemic, with many leaning towards heavy borrowing from organisations such as the IMF to financially support public protective measures.[1]**
  - ➢ The IMF has revised the global forecast for 2020 to a 4.9% contraction from a 3% decline seen in its April outlook. In 2021, it sees global growth at 5.4%.
    - IMF forecasts are now in line with those of the World Bank and OECD who project a contraction of 5.2% and 6%, respectively, this year, followed by a slow recovery rather than a sharp bounce back.
    - Meanwhile, UNCTAD estimates that global FDI flows will plunge by 40% this year to below USD 1T for the first time since 2005.
  - ➢ Labour market shocks in the US and elsewhere (plus ongoing social distancing) will weigh heavily on post-crisis recoveries.
    - Early re-openings in Europe and North America are vulnerable to an even stronger second wave of COVID-19 cases.
      - A second wave in China has already begun, while in the US, Iran, Egypt and Saudi Arabia, numbers are still ticking up as restrictions are gradually eased.
    - Another worry is the humanitarian and economic toll that the global recession will take on economies that rely extensively on informal sectors.
      - These make up to one-third of GDP and over 70% of total employment in emerging market and developing economies.
  - ➢ The IMF expects MENA real GDP to decline in 2020 by 3.3% compared with growth of 0.3% in 2019, as trade is hindered and public funds are directed towards supporting economies in dealing with COVID-19 shocks.
    - We see GCC countries undergoing a U-shaped, wide-bottomed recovery. Some economies may literally need to reinvent themselves.
    - The forecast for Saudi Arabia was revised by the IMF to a 6.8% contraction from a 4.5% decline estimated in April, and compared with 0.3% growth in 2019. The IMF expects Saudi growth to recover to just 0.2% in 2021.

Figure 1 – Global Real GDP Growth (%)[2]



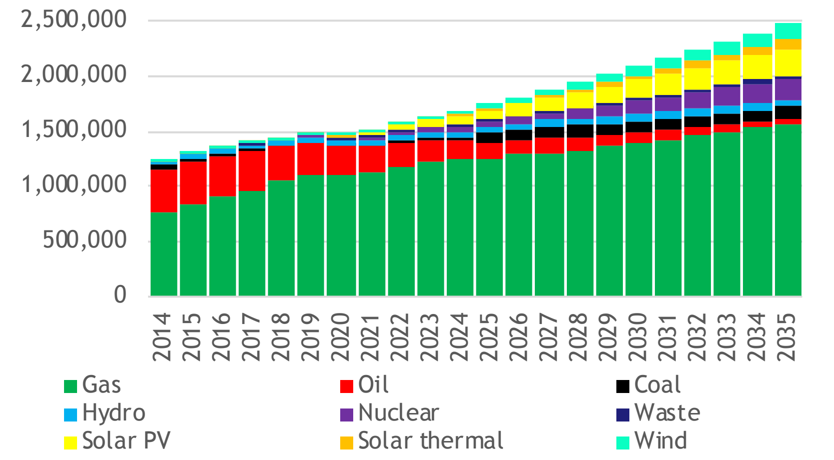
- **Additional downside risks to the global outlook include oil price volatility and trade-related uncertainty.**
  - ➢ In May, OPEC production declined by 8.28 Mb/d. This improved the grouping's compliance to updated targets, and it was accepted that sizeable cuts will continue into July.
    - OPEC has revised its global demand forecast to 61.5 Mb/d for 2020, which is 1.3 Mb/d lower than the previous estimate. India is the leading contributor to demand revisions.
    - Chinese demand rose to 10.42 Mb/d in April from 9.68 Mb/d in March. The IEA expects a strong recovery for the oil market -- but in 2021.
  - ➢ While US-China tensions are enflamed, both countries will turn to other trade partners once the global economy rebounds steadily.
  - ➢ Global trade was already weak in 2019 as a whole, with a continued drag from trade tensions.

[1] The IMF has made available USD 1T to member nations to help address the pandemic.
[2] Arabia Monitor; IMF.

Renewables and New Energy on Sharp Rise

- **Renewable and other new energy in MENA is set for a sharp rise. The sector has been growing rapidly from a small base.**
  - Installed capacity in 2019 in the Middle East including Egypt reached 21.5 GW of hydro (mostly in Iran), 7.6 GW of solar photovoltaic (PV), 0.56 GW of solar thermal, 2.2 GW of wind, 0.6 GW of energy from waste, and 1 GW of nuclear.
  - The region has continued to set records for the world's cheapest solar power, with Al Dhafra (Abu Dhabi) at 1.35 USc/kWh, Al Kharsaah (Qatar) at 1.567 USc/kWh, Jeddah (Saudi Arabia) 1.62 USc/kWh, and MBR Phase 5 (Dubai) at 1.6952 USc/kWh.
  - This high level of economic competitiveness keeps solar PV as the cheapest source of new electricity, despite the fall in oil and gas prices.
- **Lower oil prices and COVID-19 will slow but not stop progress. Practical issues of travel and project management will delay some projects.**
  - Dubai has cut back on regulations promoting the uptake of rooftop solar, to protect utility firm DEWA's position.
  - However, important schemes have been completed or will reach completion soon, such as Oman's first large solar plant (Amin, 0.125 GW), Abu Dhabi's Al Dhafra (2 GW), the UAE's Baraka nuclear plant (first 1.4 GW reactor to start imminently), Qatar's first large solar plant (Al Kharsaah, 0.8 GW).
  - Electricity demand is likely to be significantly, though temporarily, reduced, which will reduce the urgency to tender new projects. However slower demand growth will at least increase the effective share of renewables.
  - Saudi Arabia's second round of bids went ahead in April, with highly competitive bids for 1.47 GW of capacity between 6 projects. Tunisia awarded 70 MW of PV projects in June, though the completion of the previous round of projects has been held up. Algeria has announced plans for 4 GW of solar tenders, though these are likely to be delayed.
  - New solar projects will increasingly feature batteries, which smooth output and can carry output into the peak early-evening period.
- **Regionally, countries can be divided into three groups based on their renewables progress.**
  - The pioneers: Jordan, UAE, Morocco, Egypt, Israel.
  - The gainers: Saudi Arabia, Oman, Qatar, Tunisia, Algeria, Sudan, Mauritania, Yemen.
  - The laggards: Lebanon, Iraq, Iran, Kuwait, Bahrain, Libya, Syria.

Figure 1 – Share of Renewables & Other Non-oil/gas Generation in MENA (GWh)[1]



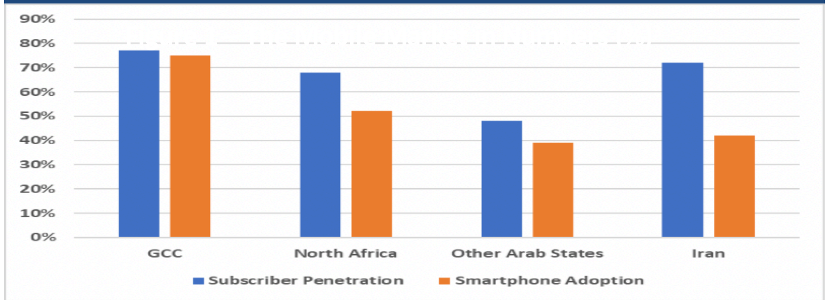
- **Large regional renewable champions are emerging and investing in other regions.**
  - Among the most notable leaders of regional renewables are Masdar (Abu Dhabi, state-owned), Acwa Power (Saudi Arabia, private with a 25% Public Investment Fund stake) and Amea Power (Abu Dhabi, private).
  - Other smaller rooftop solar firms, often UAE-based, include Yellow Door Energy, Enerwhere, Environmena and Kawar Energy.
  - Africa is a particular target for these companies, but Masdar has also invested in renewables in the UK, Uzbekistan and elsewhere.
  - Renewables champions will continue to grow in importance as a key means of economic diversification in the region and compliance with emerging global climate-change policies.

[1] Qamar Energy Research.

Telecom demand to remain above pre-COVID levels

- **Lockdowns appear to have jolted laggards amongst MENA firms to accelerate the pace of new technology adoption and rapidly adopt digital approaches to their products and services. It is simply a game of survival. We look at how telecommunications and online platforms are growing, and at both the potential and limitations embedded in the region's economic, governmental and investment climates.**
  - ➢ Demand for telecommunication services has been increasing accompanied by high mobile penetration and greater internet accessibility. It has been pushed even further by pandemic lockdowns. This is unlikely to change when the pandemic crisis passes.
    - Nearly half of MENA has a mobile penetration rate of 70% or more versus 66% globally. The GCC leads the region in terms of subscriber penetration.
    - The percentage of the MENA population connected by mobile to the internet grew from 29% in 2014 to 40% in 2019. Growth potential can be seen in the 49% of the region's population that lives within the footprint of mobile broadband but is not yet using it.
    - There are also significant growth opportunities in frontier markets, where subscriber penetration rates remain below 50%. These countries include Syria, Iraq, Sudan, Palestine, Yemen, Sudan and Djibouti.
  - ➢ The millions now working from home across MENA to prevent the spread of COVID-19 have prompted a sharp rise in demand for telecommunication services.
    - The UAE reported a 40% increase in fixed traffic during the first few days of the outbreak.[1]
    - In Saudi Arabia there has been a 33% rise in data traffic over fixed and mobile networks.[2]
    - In Morocco, an increase of at least 50% in data traffic in H1 2020 is expected in comparison with an already high 37% rise in H1 2019.
  - ➢ The big question is what will happen to this demand when the lockdowns end. We believe that though it could initially fall back, it will remain above pre-COVID levels.[3]
- **Mobile data consumption in MENA will also grow rapidly, underpinned by increased smartphone adoption and availability of high-speed networks.**

Figure 1 – The Mobile Market in Numbers[3]



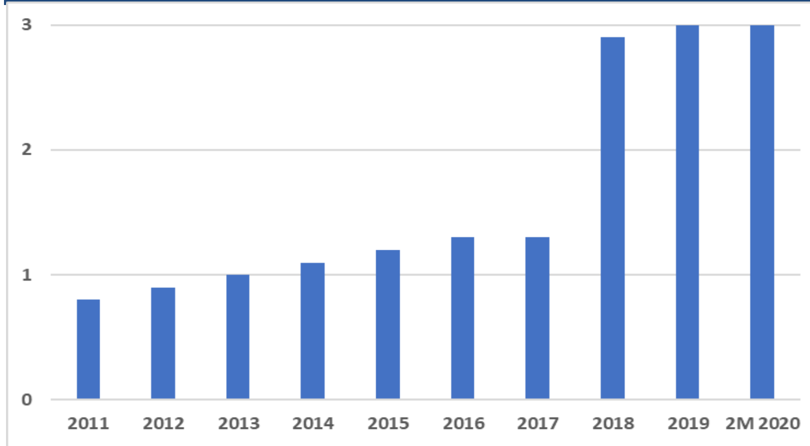
- ➢ Significant investments by operators have accelerated 4G coverage in recent years and will remain the main driver of operator capex in the near term, opening the door for new operators as well as existing players.
- ➢ 5G will play a pivotal role in the development of smart cities. From Neom in Saudi Arabia to Egypt's yet-to-be-named new capital city, 5G is expected to enable artificial intelligence and other transformative technologies.
  - In the UAE, Etisalat, the Emirates telecoms group, is constructing more than 1,000 towers to transmit 5G signals, and rival Du is building 800. Similarly in Saudi Arabia, Zain has deployed 2,600 5G towers.
  - Even in Iraq and Lebanon, where 4G coverage still remains low for millions, 5G projects are underway.
- ➢ We expect to see a number of local firms take advantage of this growth area in the coming few years, possibly alone and/or in conjunction with US, Chinese and European companies.
- ➢ Foreign companies are bound to take interest. Sweden's Ericsson is working with Dubai's Etisalat, Saudi Arabia's STC and Qatar's Ooredoo. Such opportunities are FDI and co-investment drivers.

[1] Fixed traffic refers to traffic from residential and commercial subscribers to ISPs, cable companies, and other service providers.
[2] Mobile network traffic refers to traffic from cell phone towers and providers.
[3] *Arabia Monitor; Global System for Mobile Communications (GSMA).*

Pressure on to drive telecoms growth

- **Full development will now push the envelope of government constraints and antiquated rules in the telecom sector, despite some relaxing of restrictions, thereby presenting a new challenge to regional policy makers to actually "walk the talk" of their various Visions.**
  - There are barriers to growth, mainly from government restrictions based on protectionism and, in some cases, social control. The pandemic has eased this somewhat, with a loosening of rules.
  - Public telecommunication service operations in the UAE are restricted to two national operators -- Du and Etisalat. Bahrain, Iran, Saudi Arabia, Qatar and many others also limit foreign equity shares in mobile companies -- ranging as high as 70%.
  - But the needs of people under pandemic lockdown mean that a number of restrictions are being eased, such as bans on specific voice applications/tools. Some households are also receiving free mobile data allowances.
    - On 20 March, Dubai's Etisalat lifted the ban on video meeting services Zoom, Microsoft Teams, Blackboard and CloudTalk for everyone.
      - Zoom has opened an office in the UAE as part of its investment strategy in the GCC region.
      - On 16 June, the Managing Director for Zoom in MENA stated their intention to open another office in Saudi Arabia, as well as a data centre in the MENA region. This shows the commitment to extend their presence in the region to the post-COVID world.
    - Residents both within the UAE and other GCC states have also started calling for further easing of restrictions on free internet calls. This has resulted in the lifting of restrictions on other voice (and video) over internet protocol (VoIP) apps, albeit with some limitations.
      - WhatsApp calling has always been blocked in the UAE. Now, however, calling from the app works on phones connected to the same wifi service.
      - Skype for Business is now allowed, although personal accounts remain banned in the UAE.

Figure 1 – Broadband Subscriptions in the UAE (Million)[1]



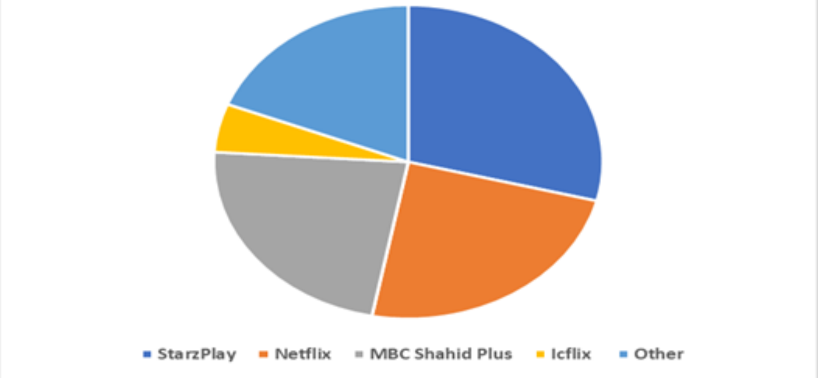
      - Facetime also remains blocked, meaning residents typically have to use fee-based services from one of the country's state telecoms providers.
    - On 18 March, both Etisalat and Du started providing free mobile data allowances to households that do not have fixed internet connectivity.
    - Oman's TRA has also allowed the use of certain VoIP apps such as Skype for Business, Google Meet, WebEX and Zoom.
  - Such restrictions are unlikely to return after the pandemic, especially as pressures for further liberalisation persist.
    - But we expect governments to keep some limitations to protect their majority owned operators as well as to maintain a certain level of internet censorship.
    - As such, we could see more business-orientated VoIP programmes accessible in the UAE via fixed-line internet networks.

[1] *Arabia Monitor*; Telecommunications Regulatory Authority, UAE.

SVOD: On-demand is in demand

- **With the lockdown, numerous local platforms for entertainment (film streaming), have gained popularity, opening doors to new investment opportunities.**
  - ➢ Movie streaming apps are becoming more popular and show great potential.
    - UAE-based E-vision announced a strategic partnership with Etisalat Misr to launch Etisalat TV, an app housing English and Arabic movies, series and Ramadan productions across smart devices.
    - StarzPlay -- a UAE-owned subscription video-on-demand service (SVOD) and Netflix rival in the region -- now has one million subscribers in MENA. It secured the first sports streaming event in MENA -- with a market share of 29%. When launched out of Dubai in 2014, it raised USD 125M in funding.
  - ➢ As Netflix and other SVOD platforms increase their investment in the fast-growing MENA markets, regional revenues are expected to reach USD 2.1B in 2024 from USD 1.5B in 2018.
- **We believe this demand for online streaming subscriptions will continue, with major opportunities for investors and new players.**
  - ➢ Regardless of the pandemic, people in parts of the MENA region were known for their high daily count of hours watching TV. They have increasingly been shifting towards subscription video-on-demand.
    - Between 2013 and 2019, the number of people watching mainstream television dropped from 98% to 86% in MENA. By 2025, it is expected that demand for online streaming subscriptions will overtake satellite-based pay TV such as Egypt's Nilesat.
  - ➢ A growth area is for online platforms to offer original content for Arab audiences, as well as providing local currency payment options and establishing distribution deals with regional pay-TV.
  - ➢ From outside the region, Netflix is already doing so with series such as the Jordanian supernatural drama "Jinn" and Lebanon's money-hunting "Dollar". This has contributed to placing Netflix second in MENA with market share of 24%, just below StarzPlay which also offers Arabic shows.

Figure 1 – SVOD Share of Market (%)[1]



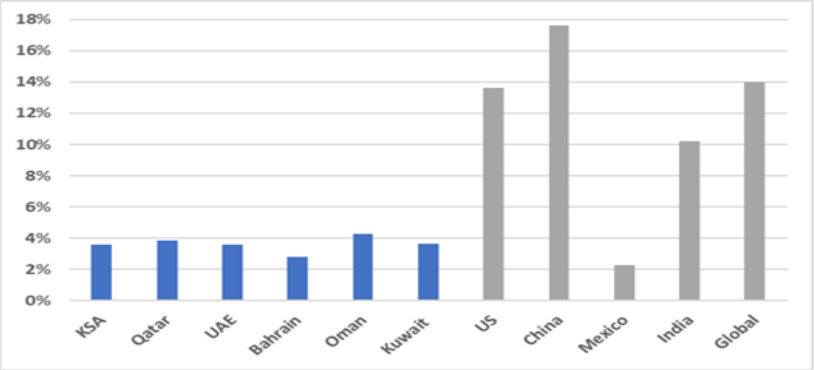
- ➢ We expect to see new entrants into the market via partnerships with established on-demand platforms and pay-TV operators as platforms finds new ways to deliver content. StarzPlay and OSN have already taken a lead during the pandemic.
  - Dplay, a streaming video service operated by Discovery, will now be available across the MENA region thanks to a partnership between Discovery MEA and StarzPlay.
  - Disney+ which was initially unavailable in MENA due to geoblocking is now been screened in the region via telecommunication and pay-TV operators such as OSN to grab market share.
- ➢ Much of the demand for streaming services is coming from the UAE and Saudi Arabia which together account for 49% of total subscriptions in MENA.
  - This may prompt firms and investors to start from these countries and then deliver their products in other parts of the region.

[1] Arabia Monitor.

Pandemic puts spotlight on healthtech start-ups

- **The COVID-19 pandemic is ushering in a new era for health and medical technology. MENA healthtech start-ups have taken on an important role in the front-line defence against COVID-19.**
  - Increasing spending and demand in healthcare have been driven by population growth and rapid urbanisation, the adoption of mandatory health insurance and a changing focus from curative care to preventive care.
  - To match the demand, the private sector is already investing more, with an accompanying increase in its share of the market.
    - MENA's healthcare market is projected to grow from USD 185B in 2019 to USD 243B in 2023, at an 11.7% compounded annual growth rate. The private sector should account for a third of the market at the end of that period, compared with about 19% currently.
    - Investments in healthcare figure prominently in many government plans, especially in the GCC where overall economic diversification is major policy. Governments still tend to dominate the sector, however.
      - The public sector share in healthcare spending in GCC is on average 73%. Healthcare expenditure per capita also remains lower than in developed countries, constrained by less-developed infrastructure.
      - We expect all this to prompt increased growth especially with governments and regulators encouraging long-term investment.
      - Initiatives such as soft loans and land grants to increase private sector participation and kick-start investment plans, have been launched.
      - The healthcare sector has already seen a move towards public-private partnerships (PPP), and this trend is likely to be enhanced by the shortage of hospital beds and skilled workforce.
- **MENA's healthtech sector and its medical technology sub-sector, medtech, are growing with local start-ups attracting higher investments.**
  - The annual value of the medtech market in MENA is set to grow to USD 11B in 2021 from USD 8.1B in 2019.
  - Underlying some of this growth are an increasing elderly population and rising incidences of conventional diseases such as diabetes and obesity.

Figure 1 – Healthcare Market Value (% of GDP)[1]



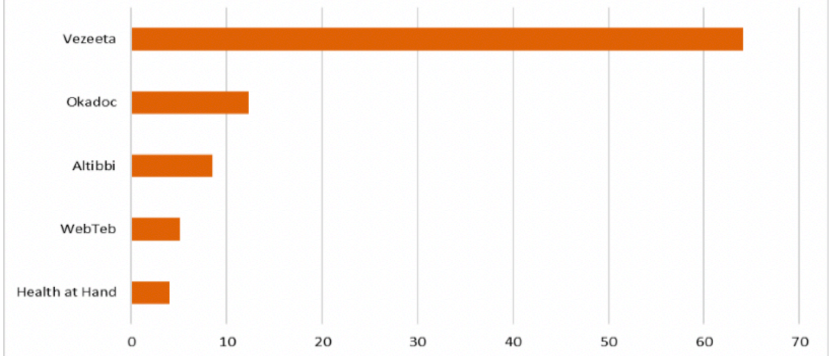
  - Other major drivers include technological innovations and increasing demand and acceptance of such technologies -- particularly in the GCC.
- **The UAE leads the region in terms of the number of healthtech startups and will be the beneficiary of the most recent healthcare fund created in June -- jointly managed by Hong Kong's New Frontier Capital Management and Abu Dhabi's Blue Apple Partners.**
  - There are currently more than 60 healthtech startups located in Dubai, making the UAE a MENA leader, along with Egypt.
    - Some leading examples include AlemHealth (a diagnostic telemedicine-services provider), Altibbi (a digital health platform with medical content and 24/7 telehealth service), and Dhoner Healthcare (which uses blockchain technology to match organs with patients).
  - The fund will invest in the medical and healthcare sector in the UAE (with plans to expand into Saudi Arabia) with a focus on hospitals, medical infrastructure, medical systems, healthtech and health promotion.

[1] Arabia Monitor; World Bank.

Healthtech soldiers on

- **The COVID-19 lockdown has spotlit the need for new types of healthtech. MENA's health start-up ecosystem is in its early stages, but themes are forming.**
  - So far, there are two main types of healthtech companies: telemedicine and doctor-booking companies.
  - UAE-based Okadoc (USD 10M in series A funding) and Egypt-based Vezeeta (with USD 40M in series D) were among the top healthtech start-ups attracting investments in Q1.
    - Okadoc has plans to expand on a regional scale, rolling out its platform in Saudi Arabia later this year.
    - Vezeeta, which currently operates in 50 cities across Egypt, Saudi Arabia, Jordan and Lebanon, is expanding beyond MENA. In April, it launched its first platform in Kenya, with Nigeria its next target market.
  - Mental health awareness has risen in MENA. We hence expect a jump in the use of digital therapeutics and mental health platforms.
    - Between February and March 2020, Egypt-based mental health platform Shezlong registered a 31% rise in the number of therapy sessions booked. Founded in 2014, the startup has raised USD 666K in funding over 5 rounds. Their latest funding was raised in October 2019 from a seed round.
  - Platforms for women's health have also started to gain popularity in the region. There is a significant need in this market segment. For instance, the prevalence of depression as a share of the population in females is at 4.7% in MENA, only lower than Western Europe (4.9%) and North America (5.9%).[1]
  - Advanced robotics also presents increasing investment opportunities. These technologies can be used in hospitals for medical care and patient assistance. SASHA, the first robot in the region invented by Lebanon's Revotonix, could play a major role in the fight against COVID-19 by distributing food in hospitals.
- **Start-ups in Abu Dhabi's Hub71 are supporting regional and global businesses as well as individuals in the pandemic.**
  - ProvenMed International is a Tunisian medical device company specialising in urinary incontinence solutions with its flagship product ActivGoTM already in several markets.
  - US-based Aumet connects 50,000 medical manufacturers from across the globe to distributors for essential items such as personal protective equipment.

Figure 1 – Healthcare Startups by Funding Amount (USD, M)[2]



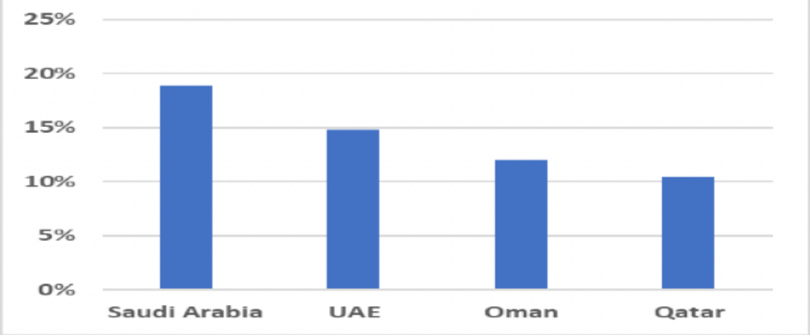
  - Two healthtech startups, Basma and Tawazon, were part of the five winners in the Hub71 Incentive Program.
- **There are barriers to private entry and growth in the sector from regulations and from lack of financing. The barriers, however, are likely to ease as private sector opportunities increase, and as healthtech becomes an absolute necessity, in addition to being a compelling business model.**
  - Non-hospital private healthcare institutions in Saudi Arabia are reserved for 100% Saudi ownership.
  - There is no regulatory framework for telehealth in the region outside of Abu Dhabi.
  - For most entrepreneurs trying to solve problems in their own local communities, capital injections have mostly been from the founder's family and friends.
  - MENA healthcare funding is overly reliant on seed investments under USD 50K and grants. More diverse types of funding such as venture capital are required to accelerate the start-up ecosystem in many places.

[1] The Institute for Health Metrics and Evaluation
[2] Arabia Monitor, MAGNiTT

EdTech weaves into traditional MENA teaching & learning

- **The lockdown has been driving an increasing focus on educational technology, or EdTech, creating new opportunities. The rapid change will not end when the pandemic is over. We will see growing partnerships between governments, traditional education and EdTech companies.**
  - Many MENA governments have taken great strides in the past few years towards better education systems, increasing spending in the sector and opening it to more private investment. We expect further stakes in the region from foreign universities and international schools, notably in GCC countries.
  - The education sector has been expanding over the past decades at primary, secondary and tertiary levels.
    - As one indication of the change, the average level of schooling reached by MENA citizens has quadrupled since 1960 and literacy levels have doubled since 1980.
  - The largest education deals (private equity, venture capital and corporate acquisitions) in MENA are concentrated in K-12 education and higher education, followed by EdTech.
    - The UAE is the largest player in this field, taking part in five out of the 10 of the largest disclosed education deals in MENA by size, totalling USD 435M.
      - Dubai-based GEMS Education, a schooling management and advisory company, is by far the largest provider and operator of schools in the UAE.
      - It boasts 48 schools in the UAE, four in Egypt and two in Qatar (as well as a number in France and Britain).
      - The main growth areas, including for investment, would appear to be in the UAE, Saudi Arabia and Egypt.
- **GCC countries especially have been allocating sizeable budgetary resources and undertaking reforms to spur investment in education.**
  - Like much of the region, GCC governments face a number of social challenges, high unemployment (especially Saudi Arabia and Oman) and a workforce heavily weighted with young people.
    - These challenges have shaped GCC governments' development strategies based on high spending in education, healthcare, and infrastructure.

Figure 1 – Government Spending on Education (% of Budget)[1]



    - With a growing youth population (almost 50% of the GCC population is under 30), and high youth unemployment (18%), education is a priority.
    - This has been reflected in each country's efforts to move from a rentier economy benefitting a few, towards a more socially encompassing economy based on knowledge and skills. This is a necessary step to avert social tensions that could fuel popular discontent.
  - Privatisation of higher education has led to an increase in international branch campuses (IBCs) in the GCC.[2]
    - GCC countries (other than Saudi Arabia) are today the largest hosts of IBCs. The UAE has more than 40 IBCs (up to a quarter of all IBCs worldwide). Kuwait and Qatar also boast substantial numbers.
    - While there have been some shortcomings and major challenges for IBCs opening up in the region, we expect local governments to push for more private colleges and international partnerships, facilitating a global presence in the labour force.

[1] Arabia Monitor; Ministry of Finance of respective countries.
[2] These are either owned solely by a foreign university or jointly between a foreign university and a local partner.

Building solutions with edtech

- **As part of the expansion of education, there has been a shift towards educational technology, or edtech, and a rising number of specialised startups. However, the MENA EdTech sector is still in its infancy and start-ups require support.**
  - The global edtech market is expected to be worth USD 40B by 2022 with MENA being one of its growth areas. Increasing smartphone penetration and favourable government initiatives will be two major growth drivers.
    - The MENA online education and e-learning market is expected to grow at a compound annual growth rate of 9.8% over 2017-2023 to USD 940M from USD 558M in 2016. This compares with a growth rate of 8.8% globally, 7.1% in the US and 11.8% in China.
  - Significant investments in edtech start-ups in the region are boosting the market. We believe that online learning services will see a further increase in the coming years as e-learning is becoming more of a necessity rather than a simple option.
    - More start-ups could secure further investments and collaboration with governments amid the current COVID-19 crisis.
    - The level of investment in edtech start-ups in the region rose to USD 21M by the end of 2019 (from only USD 2M in 2017) as schools upgraded their systems and incorporated more technology.
    - The number of EdTech start-ups has also increased. There has been a rise from 270 EdTech start-ups in 2017 to 800 by end-2019.
    - This type of technology has been given a boost by the pandemic, and more start-ups could now be better positioned to secure further investments and collaboration with governments.
      - Abwaab, a Jordanian EdTech start-up, has recently secured USD 2.4M in MENA's largest pre-seed funding round.
  - To mitigate the impact of school closures, learning in MENA has gone virtual, moving online where connectivity can be established, and using television, radio, and paper-based approaches where internet access is limited.
    - Abwaab and e-publisher Mawdoo3 recently helped the government set up Darsak, an online platform to teach over 1 million school-going students across Jordan during the COVID-19 crisis.

Figure 1 – Government Spending on Education (% of Budget)[1]

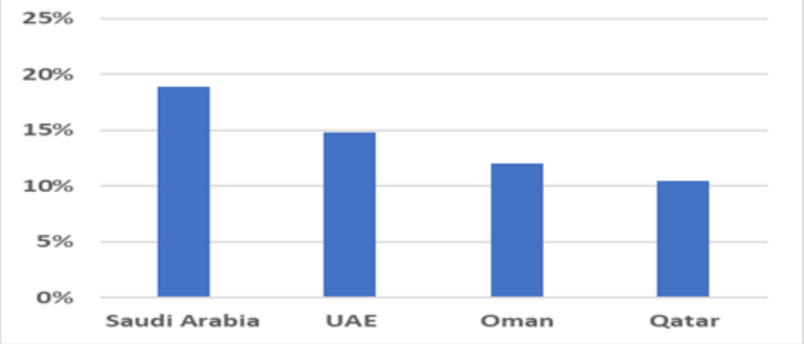


Table 1 – MENA EdTech Startups Funding[1]

Date	Country	Startup	Funding Amount	Funding Type
Apr-20	Kuwait	Baims	Undisclosed	Seed
Mar-20	Jordan	Abwaab	USD 2.4M	Pre-Seed
Feb-20	Saudi Arabia	Aanaab	USD 1.5M	Seed
Oct-19	UAE	Almentor	USD 4.5M	Series A
Jul-19	Egypt	COLNN	USD 100K	Seed
Jun-19	Saudi Arabia	Noon Academy	USD 8.6M	Series A
May-19	Jordan	Little Thinking Minds	USD 500K	Series A

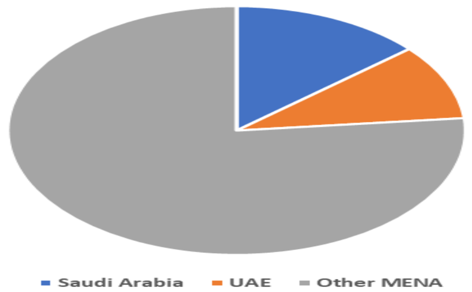
- In the near future, with universities and schools remaining shuttered, there are strong prospects for online-course provision. As students have more free time, they tend to learn more about topics outside their curricula, such as programming and languages.

[1] Arabia Monitor; Ministry of Finance of respective countries.

Edtech: Online training, women & special needs to drive growth

- **Traditional learning will continue post-pandemic, but we believe that the amount of education content that will be consumed using edtech will eventually exceed that of learning on campus. Edtech companies will also play a larger role in partnering with traditional education to enhance learning delivery.**
  - Investing in online training and lifelong learning will be driven by the rise of life expectancy and the need to adapt to the changing requirements of the job market. Foreign players are bound to jump in.
    - As the job market changes and requires more technical skills, we expect many international online learning platforms to expand in the region.
    - California-based online learning platform Coursera wants to expand its MENA business by more than 30% this year, focused mainly on the UAE and Saudi Arabia. It is planning to translate more of its courses into Arabic and provide courses to local universities.
      - Last year, the company formed a partnership with the Abu Dhabi School of Government and has since delivered more than 200,000 learning hours to over 40,000 government employees.
        - Other organisations in the UAE that Coursera partnered with include DEWA, Etihad Airways, TECOM Group, and Dubai Asset Management.
    - This may be a template for new investors in MENA. Platforms that offer content in Arabic and French (mainly for North Africa), as well as English, will have higher chances to boost their presence.
  - Women may be one source of edtech growth in MENA, where they have the third-lowest literacy rates after South Asia and Sub Saharan Africa.
    - It may be challenging to set up direct investments, however, as most women needing e-learning are in rural areas with poor infrastructure. However, collaboration with local governments, could help.
    - Many households still do not have laptops, tablets, or smartphones accessible for regular learning. In Algerian schools, for instance, there is a ratio of 10 students/computer, much higher than OECD average of 2.

Figure 1 – Coursera MENA Users (% of Total)[1]



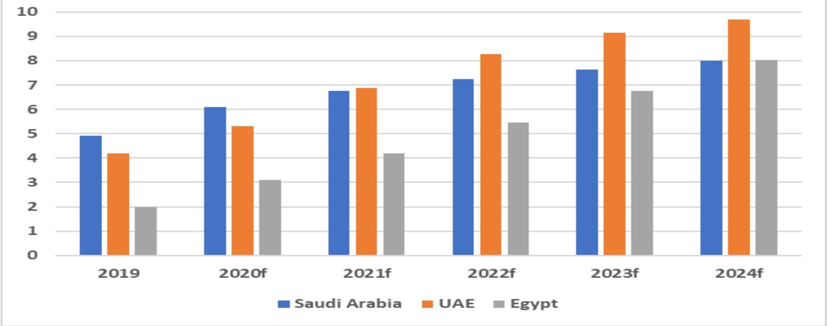
  - Special needs education presents another untapped opportunity for edtech. GCC governments started to embrace a broader policy view of inclusive education to provide opportunities for all learners since 2011.
    - Some, but not all, private schools offer learning support for dyslexia, dyspraxia, ADHD and other learning difficulties. Places may be limited; EdTech could fill the gap.
    - Qatar leads its GCC peers, as more than 50% of schools are equipped to teach students with learning disabilities.
- **The US is the global leader in edtech and could serve as a model for MENA countries. However, there are some edtech unicorns elsewhere that should be studied.**
  - About 43% of the world's edtech enterprises having their headquarters located in the United States. India has the second-highest number of edtech startups, with 10% being located in the country. Brazil (9%), the UK (8%), and China (3%) all make it into the top five countries leading the way.
  - The top 10 edtech unicorns globally are VIPKid (China), Udemy (US), 17zuoye (China), Coursera (US), Kramer's Classroom Collaboration (Israel), ExecOnline (US), Voxy (US), Blinklearning (Spain), Age of Learning (US) and Udacity (US).

[1] Arabia Monitor; Coursera.

E-commerce rules during COVID-19

- **Governments have been preparing for the shift in buying behaviour from physical to online shopping for years. We expect demand for e-commerce and fintech in MENA to remain above pre-pandemic levels once the emergency strictures are lifted, building on the boost they have received from the lockdown.**
  - Before the pandemic, the e-commerce sector was already expanding. Revenue of USD 49B was forecast for 2021 before the outbreak. It may now be higher.
  - Demand for e-commerce platforms has been increasing in lockstep with high mobile penetration and greater internet accessibility. This growth has been facilitated by access to secure payment gateways. This is unlikely to change when the pandemic ends.
    - Nearly half of MENA has a mobile penetration rate of 70% or more, versus 66% globally. The GCC leads the region in terms of subscriber penetration.
    - Saudi Arabia, the UAE and Egypt lead other MENA countries in terms of e-commerce revenue. However, these figures are still only a fraction of e-commerce revenue in places such as China, the UK, India and Russia.[1]
  - During the pandemic, millions of people have resorted to online platforms for safety reasons. The average basket size of purchased goods grew between 20% and 80% across all e-retailers.
    - Emirates Delivers, a UAE e-commerce delivery service, had a 20% month-on-month increase in delivered shipments between March and April.
    - BinDawood, a Saudi Arabian retailer, has had a 200% increase in its 10-day basis average sales, a 50% rise in order value, and a 400% increase in app installations since the COVID-19 outbreak.
    - Nana, a Saudi Arabian grocery app, raised USD 18M from Water Partners, Middle East Venture Partners, Saudi Venture Capital Company, Wamda, and angel investors in March to expand services across the Middle East.
  - What will happen to this demand when the lockdowns end? We believe that although it may initially fall back, it will remain above pre-COVID levels.
    - E-commerce businesses that can survive the economic slowdown caused by COVID-19 will benefit from a long-term boost in their market.

Figure 1 – E-commerce Revenue (USD, B)[1]



    - The effect of layoffs and reduced purchasing power on the back of lower oil price liquidity are likely initially to minimise e-commerce growth by decreasing overall sales. However, growth will still be maintained at levels above pre-COVID levels.
    - We also expect e-commerce business innovation to bolster online shopping and tap into consumers' new preferences.

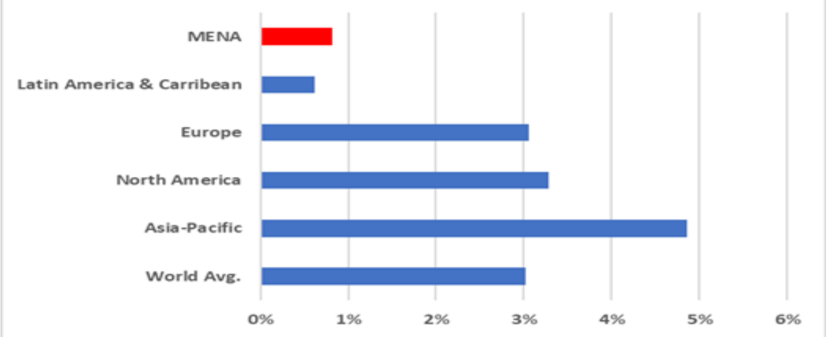
- **Before the lockdown, Saudi Arabia and the UAE had launched initiatives to shift consumer behaviour towards online purchasing.**
  - Saudi Arabia's Vision 2030 aims at increasing the proportion of online payments to 70% by 2030, up from the 2020 target of 28%. A law to control and improve digital payments was applied for the first time in October 2019.
    - Another law to add security to personal data protection was applied for the first time in January 2020.
  - In September 2019, Dubai's e-commerce strategy was approved by the Executive Council of Dubai, aimed at positioning the emirate as the global hub through several initiatives.

[1] E-commerce Revenue in 2019: China (USD 860B), the UK (USD 84B), India (USD 33B) & Russia (USD 19B).
[2] Arabia Monitor; Ecommerce Foundation.

E-commerce: Last-mile & app companies to benefit

- **E-commerce investment opportunities are growing in the region, underpinned by strong growth in demand. As this increases, the region is likely to see new e-commerce companies formed and greater competition from the online portals of traditional retailers.**
  - E-commerce in MENA accounts for only around 0.8% of total GDP at present, compared with 3.3% in North America and 3% for the rest of the world (Figure 1).
    - Still, the MENA figure shows significant progress compared with 2014 (0.51%). B2C is set to grow.
    - Amendments to free zone import and export tariffs and measures to strengthen e-payment gateways are regulatory changes that will help e-commerce replace traditional practices.
  - The rise in demand and investments will also mean strong investment opportunities in warehouse real estate.
  - We also see potential in advertising, logistics and payment sectors related to online businesses.
  - On the funding side, while there has been an increase in the availability of capital at the Seed and Series A stages, there is room for more. The number of funding institutions investing in e-commerce rose from 37 in 2018 to 61 in 2019.[1]
    - Also, we see a significant gap in Series B (USD 5M – USD 20M) and Series C (USD 20M+) capital.
  - The number of platforms that provide e-services has been rising both in terms of newcomers and traditional firms repositioning.
    - Grocery stores in Saudi Arabia now offer electronic payment methods to customers because of the spread of COVID-19 from cash circulation.
  - New services are expected to be launched amid a surge in online shopping.
    - In June, grocery chain operator Spinneys entered the e-commerce space by launching its online delivery service in Dubai.
    - These new services will create additional demand for technology companies to develop applications for download.

Figure 1 – E-commerce Turnover (% of GDP)[2]



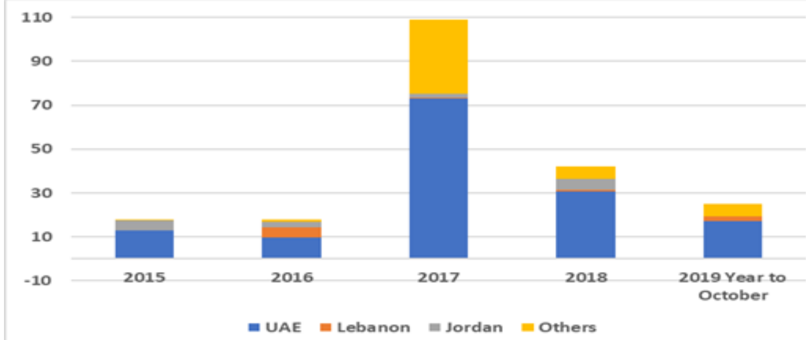
- **Growth in demand means more opportunities for last-mile delivery companies and further innovation.**
  - iMile, a Chinese-owned logistics technology firm, plans expansion to Egypt, Kuwait & Morocco.
    - In January, iMile raised USD 10M in a Pre-Series A round. The startup did not disclose the name of the investor but said it was a leading Chinese venture capital firm that is active in the country's logistics ecosystem.
    - iMile is currently operational in the UAE and Saudi Arabia and operates two research & development centres in Shenzhen and Hangzhou, China.
  - Driven by the pandemic, Aramex launched a new system for bringing online shopping and delivery closer. "Aramex SMART" offers an all-in-one stack delivery, payment and returns solution.
    - In November 2019, the company launched "Aramex Spot", a partnership with retail outlets to support last mile delivery access across Saudi Arabia and the UAE.

[1] Series A is an investment in a startup that demonstrates a potential to grow. The Series A funding round follows a startup company's seed round and precedes the Series B Funding round, which is about development. Series C is raised when startups become successful and look for additional funding for expansion.
[2] Arabia Monitor; Ecommerce Foundation.

Pandemic increases fintech growth

- **COVID-19 has forced people to rely more on financial technology, or fintech, including the use of mobile payment apps. This will have boosted trust in the sector, increasing both future usage and development.**
  - Of 12 MENA countries active in fintech, these four are the ecosystem for 73% of startups between them.
    - The UAE is first, hosting 30% of startups, followed by Egypt (17%), Jordan (15%) and Lebanon (15%).
  - Even before the pandemic, the fintech sector was growing at a 30% compounded annual growth in the MENA region.
    - Pre-COVID-19, fintech investments in the Middle East region were projected to increase to USD 2B by 2022 funding around 465 startups.
  - After COVID-19, industry experts forecast the fintech market in the MENA region to reach a record high of USD 2.5B by 2022, with GCC countries leading this growth.
- **Fintech investment opportunities are on the rise as a result of the significant growth in demand. They will be dependent on both regulatory stimulation and funding.**
  - Insurance companies are starting to facilitate the purchase of policies online.
    - Bayzat, an online health insurance provider, is the top-funded insurance tech startup in MENA. In 2019, it announced it had raised USD 16M in Series B funding. Bayzat helps customers to compare, buy, and use their health insurance online.
  - Peer-to-peer (P2P) lending activity is being encouraged.
    - Beehive, MENA's first P2P SME lending platform, connects businesses in need of financing to investors. It motivates SMEs to expand and innovate by providing access to lower-cost loans and giving investors safe returns on their money.
  - Access to finance is a major concern, however. The number of MENA deals is skewed heavily in favour of Series A and Seed level -- 75% of all regional deals have taken place before Series B.

Figure 1 – MENA Fintech Funding by Country (USD, M)[1]



  - Most of the current investment in startups is below USD 3M per funding round. This implies that they have no chance of receiving a banking license to operate independently. A licence ranges in cost between USD 1M – USD 3M in MENA.
    - International venture capital firms and corporations continue to dominate the funding. And they are continuing to add MENA to their radar screens as they scout for deals.
- **The UK and US fintech markets are models that MENA countries can learn from.**
  - The UK stands ahead of most of the rest of the world in its understanding of blockchain technology. Activity in the UK fintech sector is skewed towards banking and payments. According the EY FinTech database, more than half of UK fintechs are banking- and payments-focused.
  - The US currently attracts the most fintech investment and is home to many early success stories. The countries with the highest number of fintech startups are the US (4.7 million), followed by India (1.9 million) and the UK (820 thousand).

[1] Arabia Monitor; Magnitt.

Foodtech: Cloud kitchens, the new frontier

- **The pandemic is driving the development of cloud kitchens -- a world of shared cooking spaces for virtual restaurants, menus and brands. With technology and the lockdown, eating has evolved from traditional industrial and commercial kitchens to online and delivery-only restaurants.**
  - Physical, commercial kitchens will still exist, of course, but in many cases the tables, chairs, waiters and on-site cooks have turned into tech-driven operations.
  - The global cloud kitchen market was valued at just USD 650M in 2018 but is expected to reach USD 2.6B by 2026, a compounded annual growth rate of 17.2%.
  - Food delivery, satellite kitchens, virtual restaurants and virtual brands have arrived in MENA and offer much growth potential.
    - According to data from RedSeer Consulting, cloud kitchen revenues in the UAE and Saudi Arabia jumped 160% from 2018 to 2019 and are currently worth more than USD 65M.
- **The UAE is emerging as a global hotspot for startups in the foodtech sector. Outside the GCC, Egypt had also jumped on the bandwagon.**
  - Sweetheart Kitchen, a startup virtual kitchen, is operating three units in the UAE and two in Kuwait and is planning on opening 22-27 new units.
    - Sweetheart Kitchen's business model differs from other virtual kitchen models as it builds everything from scratch and does not rely on other existing brands or technology to drive its platform.
    - The firm says its kitchens use advanced cooking techniques, technology-backed manufacturing processes, and "six sigma data" that allows them to do away with defects and variations.
  - Food to Go, a Dubai-based cloud kitchen established in 2019, plans to launch a new location in Dubai.
    - Food to Go secured funds in Q4 2019 and aims to raise USD 3.2M to expand its operations in the UAE.
    - The enterprise is experiencing rapid growth based on technology allowing for monitoring, reporting, and reviewing customer interactions constantly.

Table 1 – Foodtech Startup Funding[1]

Date	Country	Startup	Funding Amount	Funding Type
Apr-20	Egypt	Mumm	USD 200K	Pre-Series A
Feb-20	Saudi Arabia	Eat App	USD 5M	Series B
Feb-20	Egypt	Elmenus	USD 8M	Series B
May-19	Egypt	Yumamia	USD 1.5M	Pre-Series A

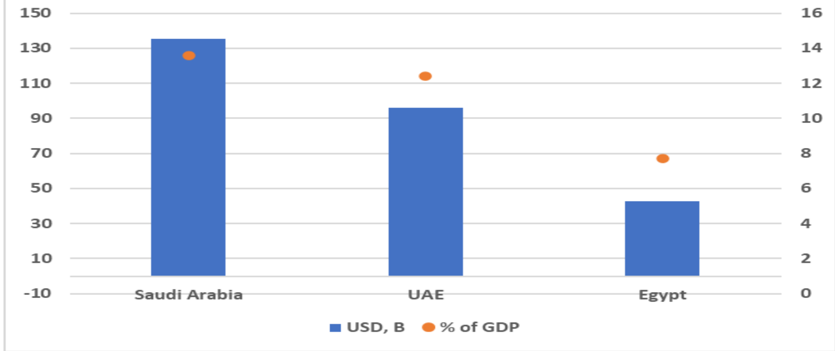
  - Kitopi, founded in Dubai in 2018, provides staff and technology for cloud kitchens that are used by food delivery companies. After COVID-19 hit, Kitopi started using artificial intelligence to track staff compliance with safety measures.
    - It has raised USD 60M in new funding from investors looking for an innovative way to tap into the rapidly growing and capital-intensive market of online food delivery.
    - Kitopi now operates 30 cloud kitchens across the US, UK and Middle East. Its sites prepare meals for customers using delivery apps such as DoorDash, Uber Eats and Deliveroo.
  - Elmenus, an Egyptian foodtech startup serves more than 1 million users across Cairo through its websites and mobile apps.
    - Elmenus raised USD 8M in Series B funding in February this year from Algebra Ventures and UAE-based venture capital fund Global Ventures. In 2017, it raised USD 1.5M in Series A funding from Algebra Ventures.
      - After raising the Series A funding, Elmenus started its own delivery fleet service, and has expanded its team from 20 to 200 employees.
      - Elmenus' main competition is from phone-order companies; 4% of food delivery is done online in Egypt.

[1] Arabia Monitor.

COVID-19 drives AI innovation in MENA

- **Countries across MENA are using artificial intelligence (AI) in their fight against COVID-19. Most AI technologies are still imported, but the outbreak is driving local production and innovation, which we believe will now speed up AI development and adoption in the region. Privacy issues aside, this is a useful growth accelerator.**
  - AI is being used by governments across the region to collect information, sanitise public spaces, monitor cases, and generally raise health awareness.
    - Bahrain launched BeAware, an app that allows residents to track and avoid proximity to someone with COVID-19. The app uses location data to alert individuals in the event of approaching an active case.
    - Qatar's Ministry of Health and Computing Research Institute are working on a diagnostic monitoring app that compiles and geolocates COVID-19 cases.
    - Oyoon -- using facial, voice, and license-plate recognition -- is helping Dubai police to limit the movement of its residents and monitor permits required by those leaving their homes.
  - Drones and robots have also emerged as a vital technology for public safety agencies. They are being used by governmental entities for aerial surveillance, public announcements, and even sanitisation.
    - In Tunisia, the Ministry of Health is using drones equipped with temperature sensors to collect data and raise awareness through loudspeakers. The drones were donated by engineering and tech firm Telnet and by DJI, a leading Chinese drone company.
    - Saudi Arabia's Ministry of Health has introduced robots that connect doctors to patients. Through 4G technology, the robots allow movements within hospitals avoiding human-to-human contact.
  - Increased demand and the disruption of supply have encouraged local production and innovation which we see lasting through the pandemic.
    - In Morocco, startup company STM Loop and researchers in Tangier invented a new automatic ventilator model to help doctors treat COVID-19 patients.
    - In the UAE, 3Dinova -- the first online 3D design and printing platform in MENA -- is using its technology to 3D print facemasks for health workers.
    - QuantLase Imaging Lab in Abu Dhabi developed equipment for faster mass screening of the coronavirus -- potentially getting results within seconds.

Figure 1 – AI Contribution by 2030, by Country[1]



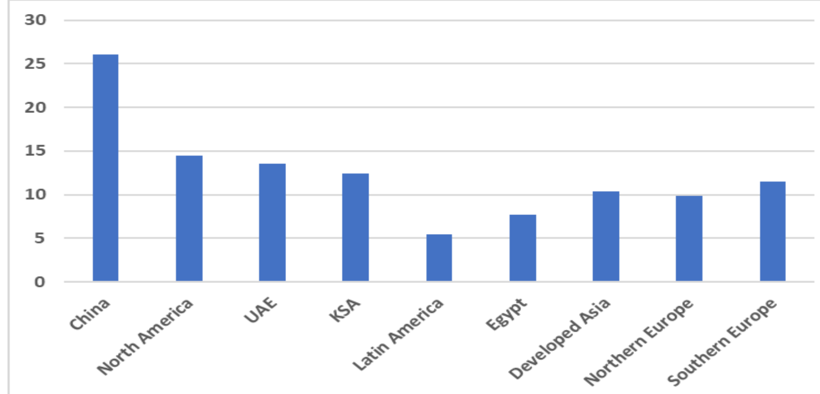
- **Governments are supporting the development of AI in the region through research, investment, and general support. They have also encouraged the private sector to join in the effort.**
  - Jordan, leads in general AI sector employment and development, contributing 70% of the Arabic content on the web.
  - Other countries, such as Qatar, have undertaken significant initiatives to develop more sites with Arabic content.
  - But the UAE, which built Dubai Internet City in 1999 as a regional hub for IT in the region, is leading the way. The UAE has been the most active in the development and implementation of AI technologies.
    - It was the first country in the world to appoint a Minister of State for AI in charge of a full ministerial portfolio.
    - Last year, Abu Dhabi also opened the Mohammed bin Zayed University of Artificial Intelligence. The aim is to incorporate AI into every facet of life from the economy to government, making businesses more productive and the public service more efficient.

[1] Arabia Monitor; PwC.

AI in MENA: The game changer

- **The impact of AI on the MENA region could be larger still if governments continue to push the boundaries of innovation and implementation of AI across businesses and sectors. Governmental entities are partnering with leading technology players, a trend we see continuing and leading to further relaxation of state policies.**
  - In the UAE, AI is at the forefront of the government's strategic plans. In October 2017, the government launched its strategy for AI, demonstrating its commitment towards the technological enhancement of the nation. The Emirate's strategies include:
    - A Smart Dubai strategy which aims to transform the city through innovation and digital transformation. An AI smart lab was launched in 2017 focused on training public and private sector employees in implementing AI in their fields.
    - A Dubai 3D Printing Strategy, targeted at the construction, medical products and consumer products sectors with a goal of having 25% of buildings in Dubai constructed using 3D printing technology by 2030.
    - A Dubai Autonomous Transportation Strategy, which aims to cut transportation costs by 44%, carbon emissions by 12% and accidents by 12% by transforming 25% of all transportation in the city to autonomous modes by 2030.
  - On 26 May, the Dubai Electricity and Water Authority partnered with Chinese multinational technology company Huawei to focus on projects including big data management, ICT infrastructure security, and cybersecurity.
  - Government-owned Dubai Future Foundation is working with Teacherly, a UK-based startup to put its AI-powered digital platform in practice for selected schools under the UAE's Taaleem education group.
  - On 3 June, Microsoft opened an artificial intelligence centre in Dubai -- its first in the world -- to develop AI technologies that could be used in the energy sector globally.
- **AI revenues from the region are so far minimal in global terms. But the scope for AI to add to regional economies is large. Even in this nascent stage of development, AI has the potential to create numerous jobs and investment opportunities.**

Figure 1 – AI Contribution to GDP by 2030, by Region[1]



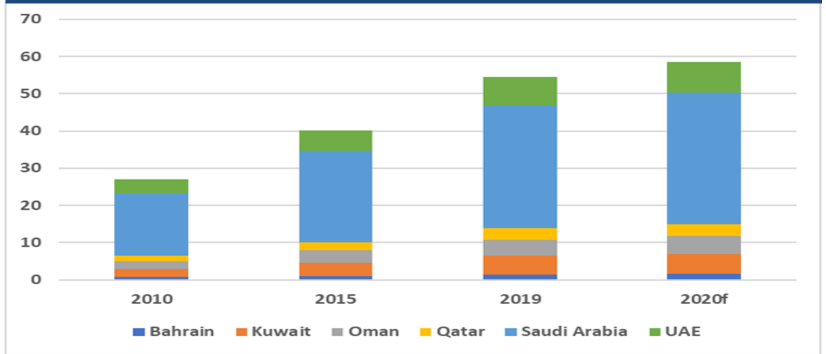
- By 2030, the Middle East contribution to total revenues from AI is expected to remain relatively low at USD 320B, 2% of the global total, but it would be equivalent to about 11% of GDP by then, according to a PwC estimate.
  - By country, the UAE and Saudi Arabia are expected to see the largest impact by 2030 -- where AI is expected to account for 13.6% and 12.5% of GDP respectively. This would be just shy of the global average of 14%.
  - Saudi Arabia and UAE both ranked among the top 50 countries in the world on global innovation index in terms of research and development -- 29th and 28th, respectively.
- Retail and the public sector -- including healthcare and education -- are expected to account for most gains.
  - E-commerce and online services, edtech and healthtech have already been driving increased focus -- creating jobs and investments opportunities.
  - Both sectors are driven by local and international businesses and investors.

[1] Arabia Monitor; PwC.

Agritech: New technologies creating big opportunities

- **Decades of conflict, isolation and negligence mean that much agriculture in the MENA region remains un-modernised. It is under-developed in most countries with inefficient irrigation methods and bad land and crop choices limiting output and wasting labour. Given the development of new technologies (and if governments respond right), we see opportunities for agritech in MENA abounding. But first, a look at the problem:**
  - ➢ The lack of irrigation techniques suitable to the region's environment makes agriculture a major contributor to water scarcity.
    - Agriculture in MENA consumes more water (87%) than the global average (70%).
    - Of all water used to irrigate crops, less than 1% finds its way into the final edible product.
  - ➢ Agriculture in MENA is easily affected by external factors -- drought, locusts or floods.
    - In 2019, a 25% decline in rainfall in Morocco led to a 42% decrease in the production of the country's main cereals -- wheat and barley.
    - This year, Somalia is suffering from floods, landslides and locusts, threatening livelihoods and overall food security.
  - ➢ One result is that many countries rely on food imports. This makes countries vulnerable, risking food shortages when there are supply shocks -- either politically driven or, as at the moment, due to a pandemic.
    - Although the UAE ranked 31st in the Global Food Security Index, 85% of all its food is imported.
    - In Iraq, in 2019, 60-70% of vegetable consumption was supplied by imports from neighbouring countries.
    - Saudi Arabia depends on imports to meet about 75% of its food needs.
- **Agriculture production is wide open for expansion through technology. It offers large development opportunities for new entrants as well as agritech developers.**

Figure 1 – GCC Food Imports (USD, B)[1]



- **A first gain would be increased local production to lower the need for imports. Longer term, it could build export markets regionally and integrate MENA into global agribusiness value chains.**
  - ➢ Agritech has the potential to provide affordable, abundant and quality food by improving productivity and quality, and reducing waste.
    - There are numerous global success stories, for example, China, India, and Vietnam.
  - ➢ Hydroponics and vertical farming in high-tech greenhouses -- which minimise heat and humidity -- offer solutions for water-intensive and transport-sensitive crops
  - ➢ Local desalination plants could help countries such as Iran purify groundwater.
  - ➢ New methods -- such as drip irrigation -- have the potential to greatly increase yields while minimising water consumption.

[1] Arabia Monitor; Alpen Capital.

Agritech: Startups & accelerators plough fertile ground

- **Agritech start-ups are already rapidly transitioning into established companies attracting large investments.**
  - In September 2019, Pure Harvest Smart farms, an agritech startup based in Abu Dhabi, secured a USD 1.75M investment from Shorooq Partners and the Mohammed bin Rashid Innovation Fund. The now-established company plans to expand further into the UAE and Saudi Arabia. By April 2020, it announced that it secured a multi-stage investment commitment valued at over USD 100M from Wafra International Investment Company (Wafra), a wholly-owned subsidiary of the Public Institution for Social Security.
    - The first stage of the investment will see Wafra lead a USD 20.6M Series A for Pure Harvest, with a commitment of USD 10M to the round.
  - In May 2019, an agritech accelerator was launched by ITG Solutions, dubbed HASSAD agritech, a first for Jordan. There is a large untapped export potential in Jordan's agricultural sector. For instance, the World Bank estimates that only 50% of fruit and 60% of vegetable export potential has been exploited.
  - The accelerator in Jordan is emulating the success of that in neighbouring Lebanon, championed in Beirut by Berytech and the Dutch Embassy in Lebanon starting 2017.
    - Last year, it launched Lebanon's first agri-food innovation cluster called Qoot (meaning food and sustenance in Arabic). It was implemented with the support of Food Valley NL, one of the leading food innovation clusters in the world. Qoot currently brings together 26 Lebanese and international companies to work on innovation and speeded-up delivery. Sectors include wine, beer, flour, olive oil, spices, chocolate and packaging.
  - Agritech can also help contribute to UN-endorsed Sustainable Development Goals agreed by many in the region. In the more active countries, we expect greater collaboration between governments, private corporations, SMEs, startups, non-governmental organisations, research and development agencies, and agricultural communities.
- **Governments across the region have recognised the importance of agritech and are implementing it to support their food security plans. They have adopted more relaxed measures allowing foreign companies to engage through ownerships and investments. They are also financing agritech projects.**

Table 1 – Global Food Security Index[1]

	Regional Ranking	Global Ranking
Qatar	1st	13th
UAE	3rd	21st
Kuwait	4th	27th
Saudi Arabia	5th	30th
Oman	7th	46th
Bahrain	8th	50th

  - In Qatar, the Ministry of Municipality and Environment is supporting local farms to set up greenhouse farms which will protect the crops from adverse weather conditions. The number of greenhouse farms increased from 471 in 2016 to 919 today.
  - The UAE aims to be among the world's top 10 countries in food security. In 2018, it launched Food Security Strategy 2051, to ensure sustainable food production using modern technologies.
    - In March 2019, Abu Dhabi announced a USD 272M incentive package to support agricultural technology projects.
    - In April 2020, the UAE allowed 100% foreign ownership in the mainland under the FDI law in the agricultural sector.[2]
    - Abu Dhabi Investment Office (ADIO) is investing USD 100M in four companies to build facilities throughout the UAE, including US-based AeroFarms.
    - UAE-based Madar Farms has partnered with ADIO to support the operation of the world's first commercial-scale indoor tomato farm using only LED lights and a new research facility to accelerate agritech in the UAE and MENA.
  - To meet Saudi Arabia's Vision 2030 goals, agritech could play a major role through scaling up food production. The kingdom has already invested USD 200M to increase organic food production. It is also investing USD 400M in developing its seafood sector.

[1] Arabia Monitor; EIU.
[2] The UAE has three jurisdictions: free-zone, mainland, and offshore.

Agritech: Cash cows & seawater rice in the desert

- **The blockade on Qatar pushed it towards self-sustaining agricultural. Although it still has a long way to go, Doha managed to improve its agricultural production and reduce its reliance on food imports. It is an example of what can be done using advanced technologies.**
  - Qatar is one of the most water-stressed countries in the world. Pre-blockade, the country was viewed as poorly suited to grow its own food. As one of the hottest, most arid countries, it relied on imports to feed the nation (90% of its supply).
  - After the introduction of the blockade by its neighbours in June 2017, one of its key responses was the domestic food industry.
    - It has become self-sufficient in dairy and poultry, having previously relied on imports for 72% of its supply.
    - Baladna -- the country's principal dairy producer -- imported around 18,000 Holstein dairy cows from the EU and US. Given that the desert is not a natural environment for cows, they are kept indoors at temperatures around 15° C cooler than the outside air and misted with water to prevent overheating.
      - Each dairy cow requires an average of 185 gallons of water a day, almost twice the volume used by the average Qatari household.
      - Most of this water comes from oil- or gas-powered desalination plants; the cooling systems themselves run on gas-fired electricity.
  - Qatar used cutting-edge technology that met the environmental challenges -- all-inclusive greenhouses designed to operate with minimal resources.
    - Qatar now hopes to produce 60% of its vegetables within the next two years -- a 300% increase since the blockade was implemented.
    - The country has a target to produce 50% of its fresh food supply domestically within a few years.
    - Currently, there are 1,300 active and productive farms in Qatar. Overall production and output is expected to increase as new greenhouses are being built to increase yields and to decrease water consumption.
- **Other countries that have managed to successfully use advanced technologies to improve their agricultural output are investing their knowledge in the region.**

Table 1 – Qatar Food Consumption vis-à-vis Population & GDP[1]

	Unit	2018	2019	2023f
Food Consumption	Million Metric Tonnes	2.2	1.9	1.9
GDP per Capita	USD	115,979	117,575	130,295
Population	Million	2.7	2.8	2.8

  - After experimenting with a dozen of varieties of rice in the sand using diluted seawater, Chinese scientists successfully grew and harvested 500kg of rice in the deserts of Dubai.
  - China and Dubai also signed an agreement to promote seawater rice across MENA to reduce the risk of food shortages in the future.
    - They will establish the Yuan Longping Middle East and North Africa Saltwater Hybrid Rice Research and Promotion Centre, which will promote rice-growing technology in the MENA region.
    - Their goal is to cover around 10% of the UAE's desert land.
  - China-based New Hope invested USD 11M in Egypt's aquatic feed industry. It built a factory using new technologies that yield 100,000 tones of fish fodder per year.
  - In July 2019, South Korean's agritech startup n.Thing started exporting its autonomous modular indoor farming solution Planty Cube to the UAE -- which allows farmers to grow greens in fully insulated indoor operations in areas with high aridity.

[1] Arabia Monitor; IMF; Alpen Capital.

Iran Market Monitor: COVID-19 does what sanctions could not

- **COVID-19 has made Iran's already shrinking economy worse. While the country has been able to stay afloat under US sanctions, the domestic markets that were propping the economy up will not reach the same level of activity until the virus is eliminated from what is the worst hit country in the region.**
  - Sanctions have driven domestic investment, which has been good for local businesses, but the pandemic has meant a loss in revenues.
    - This has forced Iran to funnel funds into state-owned entities at a discounted rate through the stock exchange.
    - The government launched its largest ever initial public offering (IPO) with a 10% sale of the Social Security Investment Company, the investment arm of Iran's largest pension fund. The IPO raised USD 437M.
    - Iranian stock exchange data shows share prices of state-controlled companies such as the Telecommunications Company of Iran and the Iranian Aluminium Company have risen by 100% since early March, presumably in anticipation of some sell-offs.
    - While the privatisation of state-owned assets may be good in the long term, the hyperactivity of the stock market has created a stock bubble that could burst at any moment.
      - The value of shares in the Tehran Stock Exchange (TSE), which is the main stock exchange of Iran, has posted 578% growth in two years.
  - Iran's reliance on the domestic market has largely been forced by international trade partners being reluctant to trade in fear of US retaliation. This is likely to continue, prompting Iran to turn to atypical trade partners for support.
    - As one example, Iran defied US sanctions to conduct a barter transaction with petrol-starved Venezuela trading crude for gold. Iranian authorities indicated that future transactions could follow suit.
- **The new Parliament has convened, ushering in the conservative era we had anticipated in Iranian politics. This conservative era will mean an even more hostile policy towards the West and an increased military presence in government.**
  - We are seeing the militarisation of Iranian politics taking shape. The Islamic Revolutionary Guard Corps (IRGC) received a 62% increase in funding in this year's budget compared with last year.

Table 1 – Iran Macroeconomic Indicators[1]

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

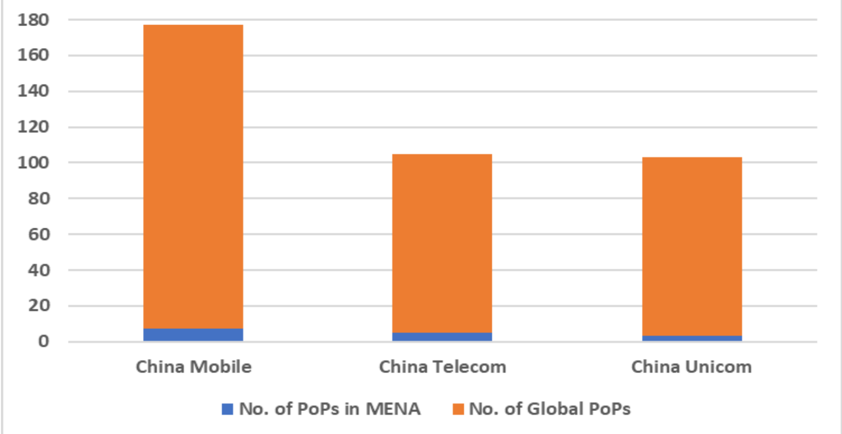
    - Iran is likely to continue to project its strength by spotlighting military projects.
    - The IRGC launched its first military satellite into orbit on 22 April.
    - At the end of May, the IRGC televised the unveiling of new and upgraded defensive speedboats.
  - This came after President Donald Trump authorised the destruction of Iranian vessels harassing US ships.
  - It is now only a matter of time until a conservative president takes over and the Guards expand their grip on power. The election is due next year.
  - While Trump has called for Iran to return to the negotiating table before Americans take to the polls in November, Iran has made it clear that they are practicing strategic patience, refraining from dialogue until the outcome of the US election is determined.
  - Democratic presidential candidate Joe Biden has criticised the Trump administration for abandoning the JCPOA nuclear deal and suggested he might ease sanctions. But the two countries are unlikely to become close whatever the result of the election.

[1] Arabia Monitor; IMF.

Sino-MENA: Belt and Road ventures connect telecoms

- **China Mobile International (CMI) is working with Omantel to establish its third point of presence (PoP) in the Middle East to add to its UAE and Qatar moves. The latest venture will leverage Oman's strategic location and vast subsea network.**[1]
  - Omantel has invested in 20 subsea cable systems covering 120 locations around the world. It is also the first and only GCC carrier to land a submarine cable in Europe.
    - The Muscat PoP connects directly to the Dubai, Djibouti, and Singapore PoPs, as well as to other cable systems in CMI's network of over 170 PoPs around the world.
    - Other MENA countries with CMI PoPs are Djibouti and Morocco, underlying huge potential for further connectivity.
    - CMI is one of the three largest telecoms operators in China, along with China Telecom and China Unicom.
  - In a similar move, China Telecom Global signed a partnership with STC Bahrain to enable their customers in the region to access more convenient and reliable connections.
- **Chinese telecoms providers are relatively new to the region, with China Mobile setting up its first office in Dubai in late 2018, with its first PoP in the region three years prior to that.**
  - This is partly due to regulatory barriers, including GCC government protectionist restrictions. Chinese providers are familiar with such restrictions, however.
    - Telecommunication service operations are either restricted to two national operators or with limits on foreign equity shares in mobile companies -- ranging as high as 70%.
  - New entrants need to leverage local partnerships in order to enhance connectivity -- both in range and reliability -- and to expand into new markets.
    - This is driven by increased business and leisure activities between China and MENA, hence demand for more connectivity in telecoms by both corporate and individual customers on both sides.
  - Previously, partnerships in the telecoms sector have largely focused on mobile devices and apps.
    - These include telecoms giant Huawei's major market traction in the region and popular mobile apps developed specifically for the Arabic-speaking market by private Chinese companies.

Table 1 – PoPs in MENA by China[2]



- **The deepening partnerships in telecoms infrastructure are significant.**
  - 5G rollout: The GCC is expected to reach 16% of 5G penetration by 2025, slightly exceeding the global average.
    - China has been a global leader in rolling out 5G, presenting partnership opportunities in both technology and commercialisation with local providers.
    - However, this is not without challenges, particularly given US objections, on security grounds.
  - Post-pandemic environment: We have noted that some regulatory restrictions will be permanently removed, especially as pressures for further liberalisation persist. But we expect governments to keep some limitations to protect their majority-owned operators.
    - Deepening partnerships with these operators will present opportunities for Chinese telecom players to gradually gain more market share in the region.

[1] A point of presence in telecoms is where two or more networks share a connection.
[2] Arabia Monitor; China Mobile; China Telecoms.

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f
Algeria	2.6	-5.2	2.0	3.5	-9.3	-20.0	-9.6	-18.3	1.7	3.0	16.1	8.2
Bahrain	1.8	-3.6	1.0	2.6	-10.6	-15.7	-2.9	-9.6	205.5	230.0	2.5	1.1
Iran	-7.6	-6.0	41.1	34.2	-5.7	-9.9	-0.1	-4.1	2.2	2.7	19.4	16.2
Iraq	3.9	-4.7	-0.2	0.8	-0.8	-22.3	-1.2	-21.7	31.8	43.8	9.8	4.8
KSA	0.3	-6.8	-1.2	0.9	-4.5	-12.6	6.3	-3.1	23.2	28.9	33.2	28.0
Kuwait	0.7	-1.1	1.1	0.5	-18.3	-19.8	8.9	-10.2	48.2	63.7	8.1	7.0
Libya	9.9	-58.7	4.6	22.3	8.8	-7.2	-0.3	-6.6	…	…	…	…
Oman	0.5	-2.8	0.1	1.0	-7.0	-16.9	-5.2	-14.2	91.7	116.7	7.1	6.0
Qatar	0.1	-4.3	-0.6	-1.2	4.1	5.2	2.4	-1.9	122.3	145.9	9.6	7.9
UAE	1.3	-3.5	-1.9	-1.0	-0.8	-11.1	7.4	1.5	77.7	94.0	4.7	3.1
Yemen	2.1	-3.0	10.0	26.7	-3.8	-8.0	-7.4	-2.8	18.9	24.4	1.4	2.1
Average	0.9	1.8*	5.1	8.2	-4.4	-12.6	-0.2	-8.3	62.3	75.3	11.2	8.4
Average Ex-Yemen	1.4	1.8*	4.6	6.4	-4.4	-13.0	0.6	-8.8	67.1	81.0	12.3	9.1

Table 2 – MENA Oil Importers[1]	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f
Djibouti	7.5	1.0	3.3	2.9	-0.8	-2.7	24.7	-0.8	66.0	71.7	1.1	0.8
Egypt	5.6	2.0	9.2	4.8	-7.4	-7.7	-3.6	-4.3	34.1	31.9	7.4	7.0
Jordan	2.0	-3.7	0.3	0.2	-6.1	-6.7	-2.8	-5.8	68.5	76.2	9.2	9.0
Lebanon	-6.5	-12.0	2.9	17.0	-10.7	-15.3	-20.6	-12.6	196.3	186.6	20.5	16.0
Mauritania	5.9	-2.0	2.3	3.9	2.1	-3.3	-10.6	-17.3	58.1	66.5	3.7	3.4
Morocco	2.2	-3.7	0.0	0.3	-4.1	-7.1	-4.1	-7.8	33.0	35.1	6.4	4.1
Palestine	0.9	-5.0	1.6	0.1	…	…	-10.7	-11.7	…	…	…	…
Somalia	2.9	-2.5	3.0	2.7	0.1	0.2	-13.7	-11.4	…	…	…	…
Sudan	-2.5	-7.2	51.0	81.3	-10.8	-16.9	-14.9	-15.2	198.9	299.2	4.9	2.0
Syria	…	3.0*	…	…	…	…	…	…	…	…	…	…
Tunisia	1.0	-4.3	6.7	6.2	-3.9	-4.3	-8.8	-7.5	90.3	109.9	5.2	3.6
Average Ex-Syria	2.0	2.0*	8.6	12.9	-5.1	-7.6	-10.0	-10.4	97.0	115.1	8.2	6.4

[1] Arabia Monitor; IMF.
* Subject to downward revision.

Algeria: Doors finally open to FDI

NR/NR

- **Algeria's economy is set to contract 5.2% in 2020, following a pre-pandemic forecast of 2.4% growth. The country is facing a double hit from COVID-19 and lower energy earnings. Along with political uncertainty following last year's protest-driven resignation of President Abdelaziz Bouteflika, this is a perfect financial and social storm, especially as the country braces for further austerity.**
  - ➢ Lower oil prices will further worsen Algeria's state finances, complicating efforts to maintain stability in a society based on generous public subsidies.
    - Energy earnings fell by 26% in Q1 and the budget deficit is expected to reach 10.4% of GDP in 2020. Oil and gas exports account for 92.4% of total sales abroad and were valued at USD 7B in Q1, down from USD 9.4B in the same quarter last year.
    - Imports also fell by 19.5% YoY, to USD 9.1B in Q1.
  - ➢ To manage this, the government has announced a 50% reduction in the 2020 budget. But any further measures to raise revenue in the form of tax increases or reductions in subsidies would further fuel unrest threatening the fragile social peace.
    - On 13 June, the government announced the end of the paid leave that was given to 50% of state employees in March.
    - To provide some form of cushion in return, the government cancelled income taxes on salaries under USD 255 a month and increased the minimum wage for the first time in eight years to USD 170 per month.
    - The plan to increase fuel prices (awaiting approval) would test the waters.
  - ➢ Algeria further relaxed its lockdown on 14 June by easing curfews in 19 provinces. Those in 29 other provinces will continue.
- **After a decade of low FDI, the government repealed the 51/49 rule which capped overseas investment in Algerian companies at 49%. This is a significant development that signals an opening up of the economy.**
  - ➢ FDI inflows stood at just USD 1.3B in 2019 compared with an all-time peak of USD 2.7B in 2009. China and Turkey have been the major investors, displacing France's historical position as the largest source of FDI for Algeria.

Algeria Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.2	1.3	1.4	2.6	-5.2
Crude Oil Production (M bpd)	1.0	0.9	0.9	0.9	0.7
Oil GDP Growth (%)	7.7	-2.4	-6.4	-5.5	-17.7
Non-oil GDP Growth (%)	2.2	2.1	3.3	2.5	-2.3
CPI Inflation (%)	6.4	5.6	4.3	2.0	3.5
Fiscal Balance (% of GDP)	-13.4	-8.6	-6.9	-9.3	-20.0
C/A Balance (% of GDP)	-16.5	-13.2	-9.6	-9.6	-18.3
Total Gov't. Gross Debt (% of GDP)	20.5	27.1	38.1	46.3	61.0
Total Gross External Debt (% of GDP)	2.4	2.4	1.8	1.7	3.0
Gross Official Reserves (Mos. of Imports)	22.5	19.2	17.8	16.1	8.2
Nominal GDP (USD B)	160.0	167.4	173.8	169.0	146.3
Population (Millions)	40.5	41.3	42.2	43.1	43.8

- ➢ Foreign investors are now free to set up a 100% foreign-owned company.
  - Sectors excluded include mining, upstream energy, the military, pharmaceuticals, railways, ports, and airports.
  - To encourage FDI, however, the government is exempting tax for startup companies, as well as giving a year's exemption from VAT on local purchases of raw materials.
- ➢ One of the consequences was the announcement on 29 May of a plan for a 4 GW solar project which will be developed through annual tenders up to 2024.
  - The Taoufik1 solar field, at a cost of USD 3.6B, is expected to be tendered in five 800 MW procurement rounds.
  - The facility is projected to create 56,000 construction jobs and 2,000 other roles, sprawling over 10 administrative divisions.
  - The 2017 legal framework for renewable independent power production projects, coupled with the lifting of foreign financing restrictions, could attract many developers.

[1] Arabia Monitor; IMF.

Bahrain: Fintech helps tackle COVID

B2/B+

- **Bahraini growth was revised to a 3.6% contraction in 2020 from a positive growth forecast of 2.1% last October (vs a 1.8% pickup in 2019). Pandemic lockdowns have been accompanied by a slower recovery than expected in the non-oil sector.**
  - ➢ Figures provided by the government showed that exports had halved; passenger traffic at the Bahrain International Airport has declined by 98% and occupancy rates at hotels by 72% over the four-month period from January to April.
  - ➢ After a reduction in the public-sector workforce of about 18%, the government plans to decrease expenditure with a centralised procurement structure, by balancing the Electricity and Water Authority's budget, and by reforming subsidies. We do not believe Bahrain will make large cuts to expenditure, given its low, albeit increasing, flexibility.
    - The delicate socio-political situation limits options for more structural fiscal adjustments such as those taking place in other GCC countries.
  - ➢ External debt will increase from 205.5% of GDP in 2019 to 230% in 2020. The government secured a loan of about USD 1B from local and international banks to repay a USD 1.25B eurobond that matured at the end of March.
    - In May, Bahrain, which has a B+ rating from S&P Global Ratings, sold USD 2B in 10-year notes and in 4.5-year Islamic securities. The 10-year bonds yielded 7.37%; the Sukuk bonds 6.25%.
    - Most bond investors assume Saudi/UAE financial support for Bahrain would be forthcoming, even in a low oil price environment. Without it, the premium on new issues would be much higher.
- **The banking and fintech sectors have united to fight COVID-19. We expect these sectors to keep growing beyond the pandemic.**
  - ➢ The banking sector continues to play a prominent role in Bahrain, with financial services contributing about 17% of the country's GDP. Total assets in the banking sector stand at around USD 210B.
  - ➢ Online banking has surged due to the pandemic. Transactions within Bahrain using Fawri, Fawri + and Fawateer -- which offer online banking and fund transfer services -- have seen substantial growth in their services.

Bahrain Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.5	3.8	2.0	1.8	-3.6
Crude Oil Production (M bpd)	0.20	0.20	0.19	0.20	0.20
Oil GDP Growth (%)	-0.1	-0.7	-1.3	2.2	-1.0
Non-oil GDP Growth (%)	4.3	4.9	2.7	1.7	-4.1
CPI Inflation (%)	2.8	1.4	2.1	1.0	2.6
Fiscal Balance (% of GDP)	-17.6	-14.2	-11.9	-10.6	-15.7
C/A Balance (% of GDP)	-4.6	-4.5	-5.9	-2.9	-9.6
Total Gov't. Gross Debt (% of GDP)	81.3	88.2	95.0	103.3	128.8
Total Gross Extrn'l Debt (% of GDP)	183.6	181.2	187.8	205.5	230.0
Gross Official Reserves (Mos. of Imports)	1.2	1.2	1.0	2.5	1.1
Nominal GDP (USD B)	32.3	35.4	37.7	38.6	35.2
Population (Millions)	1.4	1.4	1.5	1.6	1.7

    - The number of Fawri+ transactions grew by almost 1,000% YoY from 328,688 in May 2019. This figure is still growing and is expected to keep doing so; usage was up 51% from April to May.
    - Similarly, Fawateer transactions were up 58.5% YoY to USD 90M in May.
  - ➢ In June, Bahrain began the implementation of electronic cheques and the tokenisation of debit cards.
  - ➢ Fintech is also making its way to the public sector. The Bahraini government is adopting fintech solutions to support digital transformation and ensure more efficient services.
  - ➢ Post-lockdown, the Information & E-government Authority, in cooperation with the National Bureau for Revenue (NBR), launched a new service allowing VAT payments to be made online via the National Portal Bahrain.bh.
    - The service is in line with NBR's national efforts to advance the public sector through online services and policies and could lead to further adoption of fintech technologies in their VAT collection process and services.

[1] Arabia Monitor; IMF.

Djibouti: The going gets tough

NR/NR

- **Real GDP is forecast at 1% in 2020 following 7.5% growth in 2019 as Djibouti battles the COVID-19 pandemic. Economic recovery is not expected to begin until 2021.**
  - Djibouti is highly dependent economically on transport and logistics, making it vulnerable to supply shocks and falling global demand. A lack of sufficient resources and finances will force it to turn to the outside world for help.
    - Government spending on COVID-19 recovery efforts is estimated at USD 82.6M, or 2.4% of GDP.
    - Most of the money will come from the IMF's Rapid Credit Facility and Catastrophe Containment and Relief Trust programmes, which will be managed by the Central Bank of Djibouti.
    - The government has already increased spending to strengthen surveillance, testing, quarantine and medical measures to combat COVID-19.
  - The IMF expects FDI into Djibouti to fall by 40% to USD 130M, or 3.8% of GDP. FDI stood at USD 187M, or 5.6% of GDP, in 2019. Declines in FDI and global trade could prove fatal for future development projects.
    - While we see diversification as necessary, Djibouti in the meantime depends increasingly on Chinese investment.
  - The fiscal deficit, which has averaged 4.3% over the last four years, is expected to increase to 4.5% in 2020 driven by the higher government spending.
  - There is a risk of high debt distress unless financing is provided for current expenses.
    - External debt is expected to increase to 72.9% of GDP in 2020 from last year's 66%, with Djibouti expected to seek to revise loan terms. Increased borrowing may add to the pressure for Djibouti to quickly return to pre-COVID levels of economic output.
    - The IMF currently views Djibouti's debt as sustainable, but the country's weak healthcare system and high rates of poverty pose a threat of a second COVID-19 wave that will mean more demand for public finance.

Djibouti Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	6.5	5.4	8.4	7.5	1.0
CPI Inflation (%)	2.7	0.6	0.1	3.3	2.9
Fiscal Balance (% of GDP)	-8.3	-4.5	-2.8	-0.8	-2.7
C/A Balance (% of GDP)	-1.0	-4.8	18.0	24.7	-0.8
Total Gov't. Gross Debt (% of GDP)	45.7	48.2	46.5	38.5	40.9
Total Gross Extrn'l Debt (% of GDP)	62.9	70.9	69.2	66.0	71.7
Gross Official Reserves (Mos. of Imports)	1.1	1.6	1.2	1.1	0.8
Nominal GDP (USD B)	2.6	2.8	3.0	3.3	3.5
Population (Millions)	0.9	0.9	0.9	0.9	0.9

- **President Ismaël Omar Guelleh is unlikely to face any serious threats to his power, albeit that small protests have occurred against his and his party's dominance.**
  - The Rassemblement Populaire pour le Progrès (People's Rally for Progress) will continue to dominate the political scene ahead of the presidential election next year, but leadership could be transferred to a member of Guelleh's Cabinet.
  - Assuming power in 1999, Guelleh's repeated presidential victories have been disputed by protesters throughout his four terms -- calling his presidency illegitimate and undemocratic.
  - Anti-government protests erupted in early June over the detainment and torture of an air force pilot, subsequently leading to the arrest of two independent journalists.
  - More protests may come from the poor, migrants and refugees who depend on the informal labour market for work, and are stymied by social distancing measures.
  - But while sporadic protests could erupt, especially as the presidential election draws closer, we do not expect that they will result in substantial political change.

[1] Arabia Monitor; IMF.

Egypt: Saving summer on the Nile

B2/B

- **The IMF continues to forecast growth at 2% this year versus its previous projection of 5.9%. But the new estimate would be Egypt's lowest growth since 2011, the year of revolution in which Hosni Mubarak was overthrown.[1]**
  - Although staying in the black would be an achievement in the current circumstance, the weakness in growth will take a toll on inflation and unemployment. The government is targeting 4.5% growth for next year, but that could be a stretch now that the pandemic and its accompanying hit on tourism are lasting through mid-year.
  - Egypt secured a USD 5.2B standby loan from the IMF to help the country alleviate the economic impact of COVID-19. The one-year stand-by arrangement, which is subject to approval by the IMF's board, follows the USD 2.8B in emergency financing from the IMF. Egypt is also seeking USD 4B from other sources.
    - The French Development Agency (AFD) has announced it will allocate USD 17M in aid to Egypt to help mitigate the impact of COVID-19.
    - In addition, AFD will provide financing totalling USD 170.3M for the energy sector.
  - Inflation should manage to stay within the target of 9% plus or minus 3 percentage points by Q4 2020; pre-COVID-19, the IMF saw inflation at 10% in 2020 down from 14.3% in 2019, driven by the Central Bank of Egypt's cautious monetary measures and currency appreciation.
    - Prices could increase further if the virus is not contained by the end of the year.
  - The government's fiscal deficit is expected to widen to 7.7% of GDP, due to lower tax revenues and scaled-up spending.
    - Lower oil prices will help improve the balance, but reduced capital and remittance flows from GCC countries, combined with reduced revenue from other major GDP components, such as tourism, will have a greater impact.
- **On 14 June, the Egyptian Ministry of Civil Aviation announced international flights will resume from 1 July.**
  - Seaside resorts are also set to reopen for foreigners on 1 July, after serving only domestic tourists since 1 June.

Egypt Macroeconomic Indicators[2]

	2015/16	2016/17	2017/18	2018/19	2019/20f
Real GDP Growth (%)	4.3	4.1	5.3	5.6	2.0
CPI Inflation (%)	14.0	29.5	14.4	9.2	4.8
Fiscal Balance (% of GDP)	-12.5	-10.6	-9.5	-7.4	-7.7
C/A Balance (% of GDP)	-6.0	-6.1	-2.4	-3.6	-4.3
Total Gov't. Gross Debt (% of GDP)	96.9	103.2	92.7	83.8	87.4
Total Gross Extrn'l Debt (% of GDP)	18.3	41.3	37.4	34.1	31.9
Gross Official Reserves (Mos. of Imports)	3.0	5.0	6.7	7.4	7.0
Nominal GDP (USD B)	332.0	236.5	250.3	302.3	349.9
Population (Millions)	92.0	94.8	97.0	99.2	101.5

- The government has taken several steps to give Egypt a competitive edge over other tourist destinations.
  - These include cancelling tourist-visa requirements for visitors to the Red Sea, South Sinai and Matrouh governorates.
  - The government has also given airlines a 50% discount on landing and boarding fees and a 20% discount to tourists on museum and monument tickets.
- COVID-19 nonetheless threatens to devastate Egypt's tourism industry, which accounts for 12% of GDP and 15% of foreign currency revenue. The sector employs 2.5 million people in Egypt, some 9.5% of the workforce.
  - Egypt's bid to revive tourism despite pandemic woes is understandable. However, as travel restrictions are still in place for most European, Middle Eastern, and African countries, the extent to which international tourism will help save Egypt's economy is still in doubt.
  - Moreover, the fear of a COVID-19 second wave is still very much alive, and might deter tourists from visiting Egypt, in particular as the country is still registering over 1,500 cases every day.

[1] Fiscal year beginning 1 July.
[2] Arabia Monitor; IMF.

Iraq: New guard, old problems

Caa1/B-

- **While protests have dwindled in Iraq, Prime Minister Mustafa al-Kadhimi's new government remains fragile, facing the same problems of prior governments -- a bloated public sector, foreign intervention, and balancing the demands of protesters and public officials.**
  - Al-Kadhimi continues to try to show he is the independent leader that protesters were asking for.
    - During a news conference, the PM displayed unprecedented transparency commenting: "Iraq doesn't have a real economy or a banking sector. Iraq has oil that is sold and then money it gives to ministries to pay employees."
  - This month, his government introduced a cut to public wages that targeted state pensions, causing both political and social tensions.
    - The pension cut was set to be at 10%, however, al-Kadhimi had to walk back the decision because Parliament ruled it unconstitutional.
    - He will continue to face such hurdles as he pushes forward with economic reforms.
  - Al-Kadhimi has also promised to try those responsible for the deaths of protesters through an independent inquiry.
    - Minister of Defence Najah al-Shammari announced that a suspect thought to be responsible for a protester's death has been arrested.
    - Hundreds of protesters were killed in anti-government protests which led to the resignation of then-Prime Minister Adil Abdul Mahdi at the end of last year.
  - Another issue of contention for protesters is the presence of US coalition forces. This was set to be addressed at the first of the strategic-dialogue talks of this year between the US and Iraq on 11 June.
    - While officials on both sides have agreed to reduce the number of coalition forces, the talks failed to indicate the size of the reduction as well as the time frame.
    - The US reiterated that it does not seek nor request permanent bases or a permanent military presence in Iraq, but we believe that some level of troop presence is inevitable for the foreseeable future.
  - Instability in the country creates a vacuum which provides the opportunity for a resurgence of ISIS.
    - We have seen an uptick in attacks in the past year with a 13% increase this year compared with the year prior.
    - ISIS is re-establishing itself in the largely Sunni provinces of Salahuddin, Anbar, Diyala, Kirkuk and Nineveh.
- **COVID-19 is hitting the country hard with the highest case count reached this month. This has forced Iraq to revert to lockdown measures while the rest of the region is lifting restrictions.**
  - While some shops have been allowed to reopen, the impact of the lockdown has already been felt on SMEs in the country.
  - A survey of 456 SMEs throughout Iraq by the Enterprise Development Fund showed 1% of sales disrupted by the coronavirus, along with a 40% reduction of employment and a 36% salary reduction.
  - Production in manufacturing and construction also shrunk -- these sectors will continue to bear the brunt of the impact until lockdown restrictions are lifted.
  - Once Iraqis begin to feel the economic impact of the virus, this could prompt protesters to take to the streets once again.

Iraq Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	15.2	-2.5	-0.6	3.9	-4.7
Crude Oil Production (M bpd)	4.6	4.5	4.4	4.6	4.5
Oil GDP Growth (%)	24.6	-3.5	-1.3	3.7	-2.3
Non-oil GDP Growth (%)	1.3	-0.6	0.8	4.3	-9.0
CPI Inflation (%)	-1.5	0.1	0.4	-0.2	0.8
Fiscal Balance (% of GDP)	-13.9	-1.6	7.9	-0.8	-22.3
C/A Balance (% of GDP)	-8.3	1.8	6.9	-1.2	-21.7
Total Gov't. Gross Debt (% of GDP)	64.2	58.9	49.3	44.3	82.2
Total Gross Extrn'l Debt (% of GDP)	38.1	35.6	30.6	31.8	43.8
Gross Official Reserves (Mos. of Imports)	7.8	7.3	8.4	9.8	4.8
Nominal GDP (USD B)	175.2	195.4	224.1	227.2	174.4
Population (Millions)	37.2	38.2	38.4	39.3	39.5

[1] Arabia Monitor; IMF.

Jordan: Life after COVID-19

B1/B+

- **As a result of the pandemic's devastating impact on the Jordanian economy, the IMF has revised its GDP prediction to a 3.7% decline this year from an initial forecast of 2.4% growth in its October 2019 update.**
  - ➢ With 845 confirmed cases and nine deaths, the COVID-19 situation in Jordan is believed by Prime Minister al-Razzaz to be largely under control. However, the strict round-the-clock lockdown imposed between 17 March and 6 June damaged the near-term economic outlook of the country.
    - Small businesses, which are responsible for 75% of GDP, were forced to shut. They lost significant income, particularly over Ramadan which is usually one of the most profitable times of the year.
    - The government established an account at the Central Bank of Jordan worth USD 700M designed to help medium-sized companies, but many small business owners were deemed unqualified.
  - ➢ The public debt to GDP ratio is predicted to reach 87.2% in 2020 from 79.3% in 2019. The rise will cause greater difficulty in raising money.
    - Foreign aid and remittances constitute 10% of Jordan's national income.
      - o Data from the CBJ shows that expatriates' remittances declined by 5.4% YoY in Q1 2020 to USD 846M.
  - ➢ Since the IMF approved a USD 1.3B four-year programme in March, the country's economic position has worsened considerably, warranting further assistance.
    - The programme is targeted at addressing the county's balance-of-payments needs (a USD 1.5B funding gap is expected in 2020), as well as allowing higher healthcare spending, and assistance to those most affected by COVID-19.
    - The IMF approved Jordan's request for emergency financial assistance under the Rapid Financing Instrument on 20 May. It will get USD 396M.
  - ➢ The EU Regional Trust Fund in Response to the Syrian Crisis has offered USD 22.9M for refugees and the vulnerable in Jordan.
    - 54.6% will support the coronavirus national response plan;
    - 19.7% will provide sanitation services and hygiene kits in refugee camps;
    - 18.3% will deliver health and social protection to Palestinian refugees;
    - 7.4% will fund three emergency departments in hospitals to manage the pandemic.

Jordan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.0	2.1	1.9	2.0	-3.7
CPI Inflation (%)	-0.8	3.3	4.5	0.3	0.2
Fiscal Balance (% of GDP)	-3.6	-3.3	-4.4	-6.1	-6.7
C/A Balance (% of GDP)	-9.4	-10.8	-7.0	-2.8	-5.8
Total Gov't. Gross Debt (% of GDP)	93.8	77.3	76.3	79.3	87.2
Total Gross Extrn'l Debt (% of GDP)	66.3	69.6	69.0	68.5	76.2
Gross Official Reserves (Mos. of Imports)	8.1	8.1	7.9	9.2	9.0
Nominal GDP (USD B)	39.3	40.8	42.3	43.8	42.7
Population (Millions)	9.1	9.4	9.7	10.1	10.2

- **Jordan's Ministry of Tourism launched a programme to support the tourism sector, covering 60 destination in two phases.**
  - ➢ The "Our Jordan is Paradise, Our Jordan is Fine" programme has been designed to revive the tourism sector, which contributes 15% to the country's GDP and employs 55,000 people.
  - ➢ Tourism income declined by 10.7% YoY in Q1 2020. This was despite tourism revenues growing by 11.4% YoY in January.
    - In March alone, CBJ statistics reveal, tourism income decreased by 57% YoY.
    - Prospects of a quick recovery for tourism are very slim. The Ministry of Tourism, anticipating the sector will be the last to recover in the economy, has recommended making USD 211M available for measures such as unemployment allowances and deferring income tax to municipalities until 2021.
    - Moreover, tourists will need health certificates asserting they are COVID-19 free to be admitted, which means Europe and the US, on which Jordan relies heavily, are unlikely to resume visits in large numbers in the foreseeable future.

[1] Arabia Monitor; IMF.

Kuwait: Mounting fiscal challenges

Aa2/AA-

- **Kuwait's GDP is forecast to contract by 1.1% in 2020 from 0.7% growth in 2019, primarily due to lower oil prices. The impact of COVID-19 has also seriously hit the outlook.**
  - ➢ Because parliamentary elections are due at a yet-to-be announced date in 2020, the current government is unlikely to enact a significant fiscal response to the oil shock.
  - ➢ Kuwait faces a growing deficit problem. In its budget for fiscal year 2020/21, which began on 1 April, oil and gas revenues account for 87% of the total (USD 42.4B). But this calculation was based on a breakeven oil price of USD 55 pb, versus USD 41 pb currently.
    - It also assumed crude output of 2.7 Mb/d. However, under the OPEC+ agreement in April, Kuwait committed to capping its production at 2.1 Mb/d in May and June, and at 2.3 Mb/d in H2.
    - The budget forecasts a deficit of USD 30.4B (21% of GDP) after 10% transfers to the Future Generations Fund (FGF), part of the country's more than USD 500B sovereign wealth fund. This compares with a USD 25.3B deficit in 2019 (18.4% of GDP). We expect the actual deficit to be considerably wider this year given the changed circumstances.
    - Further fiscal consolidation measures have been announced, particularly after Kuwaiti Emir Sabah al-Ahmad al-Jaber al-Sabah's public statement regarding the impact of the oil price drop on state finances.
    - The Cabinet agreed to cut the government budget by at least 20% for FY 2020/21. Kuwait is even considering plans to make the annual transfer of 10% of revenues to the FGF conditional on achieving a budget surplus.
  - ➢ With Kuwait yet to pass a revised debt law authorising the government to borrow, there are questions about how future central government deficits will be financed.
    - Passing a revised debt law has become a government priority and would provide for extra flexibility, especially since public debt stood at just 12% of GDP at the end of 2019, the lowest among all MENA oil exporters.
- **Kuwaitisation is well underway, in the oil sector and beyond.**

Kuwait Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	-4.7	1.2	0.7	-1.1
Crude Oil production (M Bpd)	2.95	2.70	2.74	2.70	2.70
Oil GDP Growth (%)	3.9	-9.0	0.2	-1.0	0.0
Non-oil GDP Growth (%)	1.4	1.8	2.7	3.0	-2.5
CPI Inflation (%)	3.5	1.5	0.6	1.1	0.5
Fiscal Balance (% of GDP; After FGF Transfer)	-17.9	-12.9	-7.7	-18.3	-19.8
C/A Balance (% of GDP)	-4.6	8.0	14.5	8.9	-10.2
Total Gov't. Gross Debt (% of GDP)	10.0	20.5	14.8	11.6	21.0
Total Gross Extrn'l Debt (% of GDP)	38.4	44.9	43.8	48.2	63.7
Gross Official Reserves (Mos. of Imports)	6.5	6.4	6.8	8.1	7.0
Nominal GDP (USD B)	109.4	120.7	140.7	137.0	110.5
Population (Millions)	3.9	4.1	4.1	4.2	4.3

- ➢ Kuwaiti Minister of Oil Khaled al-Fadhel announced that the Kuwait Petroleum Corporation and its subsidiaries will not hire expatriate workers in 2020/21. In addition, special contracts given to foreigners will reduce in number.
- ➢ Kuwait's Ministry of Economic Affairs has proposed a measure entailing a 150% increase in expatriate service fees in an attempt to reduce the proportion of expatriates in Kuwait.
  - These fees would include residency permits, family visa restrictions, and public services such as health, education, electricity, and insurance.
  - If agreed, they would take effect in September 2020.
- ➢ Illegal expatriates (about 21,000 workers) have started the repatriation process under a pardon scheme which exempts them from any legal punishment and provides free flights home.
- ➢ The vast majority of the private sector depends on expatriates, who account for two-thirds of the population of 4.8 million. At the end of 2019, 19% of the Kuwaiti workforce was in the private sector, and the unemployment rate was 2.2%.

[1] Arabia Monitor; IMF.

Lebanon: COVID-19 adds to the crises heap

- **The Lebanese pound is in free fall, prices have skyrocketed, protests are back on the streets, and almost half of the population has been pushed below the poverty line -- all of which have been aggravated by the pandemic. Unfortunately, we expect the situation to keep deteriorating.**
  - ➢ The IMF projects a 12% contraction in GDP for 2020 following a 6.5% contraction in 2019. This would be the worst performance since the civil war ended 20 years ago.
  - ➢ The Lebanese pound has been deteriorating since the beginning of the anti-government protests in October 2019, losing more than 60% of its value and reaching 7,000 LBP per USD on 12 June. The central bank has not been able to control or improve its value. Instead, it has taken measures that have backfired and worsened the situation.
    - Following the decision to inject dollars into the market to increase the Lebanese pound's value to 3,200 LBP, the exchange rate on the black market skyrocketed, as citizens were buying dollars at the official rate and reselling them at 5,200 for profit.
    - Neither the government nor the central bank has presented a plan to resolve the situation.
  - ➢ Due to the collapse of the pound, prices have skyrocketed, reaching the most basic sectors -- medical and food. The USD shortage is also putting pressure on importers and restricting the flow of imports into the country, particularly food, 80% of which comes from abroad.
    - Although the government has agreed to subsidise certain basic necessities, the vast majority of food prices have increased -- bread, which used to cost 1,500 LBP for 1,000g, now costs that for 900g.
    - The currency deterioration is affecting medical suppliers' ability to import basic medication and supplies.
  - ➢ Protests have been escalating and de-escalating over time. They are being met with tear-gas and arrests. On the streets, people have been calling for the resignation of the recently appointed Prime Minister Hassan Diab and his government. They want an early parliamentary election and a new transitional government.
    - We do not expect increased violence or the imposition of legal sanctions to limit protests nor to tone down demands.

Lebanon Macroeconomic Indicators[2]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.6	0.9	-1.9	-6.5	-12.0
CPI Inflation (%)	-0.8	4.5	4.6	2.9	17.0
Fiscal Balance (% of GDP)	-8.9	-8.6	-11.3	-10.7	-15.3
C/A Balance (% of GDP)	-23.1	-26.5	-26.7	-20.6	-12.6
Total Gov't. Gross Debt (% of GDP)	146.1	149.7	154.9	172.2	183.6
Total Gross Extrn'l Debt (% of GDP)	182.0	190.3	192.8	196.3	186.6
Gross Official Reserves Ex. Gold (Mos. of Imports)	14.9	14.6	14.4	20.5	16.0
Nominal GDP (USD B)	51.2	53.1	55.0	52.7	53.9
Population (Millions)	6.7	6.8	6.8	6.8	6.8

    - Nor do we expect the government to truly respond -- most probably implying an escalation of the situation.
  - ➢ The economic deterioration will be exacerbated by the recent imposition of the US Caesar sanctions on Syria, which target dealings with Lebanon's neighbour. We expect this move to increase the illegal smuggling of fuel, wheat and other commodities from Lebanon.
- **The government does not have a rescue plan yet, stymied by rivalries between Diab, the political parties, the central bank, and the banking sector.**
  - ➢ The government held numerous discussions over the past two months, but the lack of consensus is stopping the approval of major laws -- such as the capital control law and the amnesty law.
  - ➢ This lack of a clear reform plan is, in turn, stalling IMF help and further decreasing Lebanon's chance of securing overseas funds.
  - ➢ One of the key interlocutors with the IMF resigned due to his belief that the government has no "genuine will" to undertake necessary procedures to secure aid.
  - ➢ We do not believe that the government will be able to rapidly secure IMF funds.

[1] Arabia Monitor; IMF.

Libya: Proxy war defined

NR/NR

- **Despite the internationally-recognised Government of National Accord's (GNA) recent victories, the road to a stable state is long and bumpy. Eastern commander Khalifa Haftar's recent setbacks may or may not be permanent.**
  - Although the country's capital is in GNA Prime Minister Fayez al-Saraj's hands, his militias are divided by tribe and by diverging ideologies. Splintered support on the ground could cause trouble in the future, with conflicting demands for the makeup of a future government.
  - GNA forces have now turned east to zones around Sirte. Haftar's Libyan National Army (LNA) is still holding onto much of oil-producing eastern and central Libya. He has been preparing a defensive around Sirte.
    - Haftar's main foreign backer, Russia, is thought to have had a part in revising his strategy to curtail his offensive and instead hold on to the territory he has left.
  - This means that both the GNA and LNA would have to take a seat at the negotiating table to agree to a ceasefire and beyond. It might also mean that Haftar keeps control of the oil crescent.
    - Such a resolution would be incredibly fragile and could be short-term.
  - Foreign stakeholders invested in the region are unlikely to back down. Both Russia (LNA) and Turkey (GNA) have increased their presence in recent months via military support.
    - Talks between Turkey and Russia regarding the conflict have been postponed. Instead, Turkish officials met with GNA officials to discuss future energy contracts and payment for Turkey's past energy work.
    - The involvement of international parties has complicated and drawn out the conflict -- both sides have deployed Syrian and other external mercenaries complicating efforts to establish lasting peace.
    - Russia and Turkey are at least publicly committed to dialogue and probably content with carving up spheres of influence in Libya, east and west, respectively.
- **Even should al-Saraj's militias be successful in their current offensive, a full or sustained return of Libyan oil to international markets is unlikely.**
  - Oil output fell to 82 Kb/d in April, primarily due to LNA blockades at export terminals and major producing fields, such as Sharara and El-Feel, which are otherwise secured by the GNA-paid Petroleum Facilities Guard.

Libya Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-7.4	64.0	17.9	9.9	-58.7
Crude Oil Production (M Bpd)	0.3	0.8	1.0	1.1	0.4
Oil GDP Growth (%)*	...	...	...	...	...
Non-oil GDP Growth (%)*	...	...	...	...	...
CPI Inflation (%)	25.9	28.0	-1.2	4.6	22.3
Fiscal Balance (% of GDP)	-113.3	-43.5	-0.2	8.8	-7.2
C/A Balance (% of GDP)	-24.7	8.0	1.8	-0.3	-6.6
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	20.6	...	...	...	...
Gross Official Reserves (Months of Imports)	19.8	...	...	...	...
Nominal GDP (USD B)	18.5	30.2	41.4	39.8	23.0
Population (Millions)	6.4	6.5	6.6	6.7	6.8

    - Production restarted at the country's largest oil field -- Sharara -- on 7 June , but it was shut down again just three days later after an attack by armed militias.
  - Oil proceeds go through the National Oil Corporation (NOC) then through the central bank -- both part of the GNA. This has prompted Haftar -- who wants more money allocated to territories under his control -- to attempt to export crude without NOC involvement. According to a UN Security Council resolutions, only the NOC is authorised to export crude so every time Hafter tries, the transaction is blocked.
  - In short, while Haftar may be on the back foot, the war continues to drain Libya of its main source of revenue. Losses from the supply stoppages and the global price war have hampered the government's ability to import medical supplies which could make it harder to battle COVID-19.
  - The government has no other sources of revenue, and reserves have become massively eroded since they peaked at USD 118B in 2012.

[1] Arabia Monitor; IMF.

Mauritania: COVID delays LNG dreams

NR/NR

- **Real GDP will contract by 2% this year, following a 5.9% growth spike in 2019. The decline will be driven by lower commodity export revenues, despite the resilience of global iron ore prices. The COVID-19 pandemic is hitting demand across the world.**
  - The backbone of Mauritania's economy is commodity exports, particularly iron ore, which makes up 26% of GDP, and gold, which contributes 20%.
    - Risks of a prolonged COVID-19 outbreak could keep global supply and demand low, depress commodity export prices and disrupt critical imports.
    - Growth is tightly export-linked, so it remains subject to global demand. Projections are based on this staying steady, which it probably will not.
  - The fiscal balance is expected to turn to a deficit of 3.3% in 2020 from a surplus of 0.3%. This is being driven by additional spending on health, medical supplies, social protection, and SME support, estimated at about USD 210M (3.7% of GDP) as part of the newly created National Solidarity Fund (NSF).
    - To adequately finance such initiatives, the IMF granted emergency financing (USD 130M) and Mauritania has appealed for additional help from other development partners.
  - The IMF expects external debt to increase to 66.5% of GDP in 2020 from 58.1% in 2019.
    - As part of a G20 deal, Mauritania is receiving Paris Club debt relief and suspending debt payments until the end of the year.
  - Politically, the creation of the NSF should help President Mohamed Ould Ghazouani's approval rating. He took office in 2019 in the first peaceful transition of power since independence from France in 1960.
    - In Mauritania, political power is concentrated in the Executive Branch, making the relatively new president's stances significant. Ghazouani has a five-year term with probable re-election ambitions in 2024.
    - The Senate was abolished in 2017, further granting the Executive Branch more influence.

Mauritania Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.8	3.5	2.1	5.9	-2.0
CPI Inflation (%)	1.5	2.3	3.1	2.3	3.9
Fiscal Balance (% of GDP)	-0.5	0.0	2.5	2.1	-3.3
C/A Balance (% of GDP)	-15.1	-10.0	-13.8	-10.6	-17.3
Total Gov't. Gross Debt (% of GDP)	78.5	55.1	61.4	58.5	67.8
Total Gross Extrn'l Debt (% of GDP)	87.8	63.0	61.5	58.1	66.5
Gross Official Reserves (Mos. of Imports)	3.5	3.1	3.0	3.7	3.4
Nominal GDP (USD B)	4.7	6.8	7.0	7.6	7.4
Population (Millions)	4.2	4.3	4.4	4.5	4.6

- **The Greater Tortue Ahmeyin project, a major offshore gas project off Mauritania and Senegal's coast, has been delayed due to the COVID-19 outbreak.**
  - The project is jointly operated by BP and Kosmos Energy to eventually produce up to 10M tonnes of liquefied natural gas (LNG) per year
  - Start-up of the project has been delayed by 12 months, to mid-2023, when the first gas is now expected.
    - The delay was the result of the impact of COVID-19 on border closures, travel bans, social distancing restrictions, and office closures.
  - Greater Tortue is to provide LNG for export, as well as for domestic use in Mauritania and Senegal. The delay, if prolonged, could slow Mauritania's efforts to capitalise on LNG as a potential new export.
    - The project was expected to increase natural gas exports from 0.14 billion cubic metres (Bcm) in 2022 to 3 Bcm in 2026, illustrating a major loss in opportunity.

[1] Arabia Monitor; IMF.

Morocco: Domestic tourism not enough to save the season

Ba1/BBB-

- **Real GDP has been revised sharply down to a 3.7% contraction from an initial 2% growth forecast for 2020. While Morocco has been praised for its proactive response to the COVID-19 crisis, the economy has been hit hard, especially in tourism and in the auto-industry.**
  - Morocco will suffer its first recession this year since 1993. Drought-stricken agricultural output is translating into sizeable declines in exports, while the pandemic is taking a toll on tourism, remittance revenues and auto exports.
    - Lower oil prices and efforts from international organisations will not be enough to offset negative impacts of the pandemic and drought.
    - While low oil prices will help as Morocco is a net importer, we expect financing the balance of payment deficit to deteriorate given an expected slowdown in FDI.
    - Morocco had a 19.7% drop in exports between January and April of this year, with an estimated loss of USD 2B.
  - The automotive industry is partially recovering. Work has resumed after a long break due to the global pandemic and lower global demand.
    - Morocco is an attractive market for car manufacturing and has been a production home for the French giants Renault and PSA.
    - The automotive industry is a key export sector (27% of total in 2019), but has recorded a 96% drop as of the end of April.
    - The resumption of work may help reduce the loss of exports, but Renault has suspended projects to increase production capacity in the country. This will delay a complete recovery of the sector.
- **Lockdown and travel restrictions have hammered tourism, a key economic building block. The National Tourism Confederation estimates a loss of USD 13.8B in revenue between 2020 and 2022.**
  - International flights are still suspended without a clear vision about the reopening of the country. This will hit the number of foreign tourists (the main source of spending at 78% of the total).
  - To save the season, Morocco is counting on domestic tourism and has already started massive promotional campaigns. However, this plan is unlikely to compensate fully.
    - Domestic tourists only contribute 22% of total tourism expenditure. This has only grown by 0.4% over the last 10 years.

Morocco Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.1	4.2	3.0	2.2	-3.7
CPI Inflation (%)	1.8	0.8	1.9	0.0	0.3
Fiscal Balance (% of GDP)	-4.5	-3.5	-3.7	-4.1	-7.1
C/A Balance (% of GDP)	-5.0	-3.4	-5.3	-4.1	-7.8
Total Gov't. Gross Debt (% of GDP)	64.9	65.1	65.3	65.8	73.7
Total Gross Extrn'l Debt (% of GDP)	33.7	33.7	32.7	33.0	35.1
Gross Official Reserves (Mos. of Imports)	6.1	5.7	5.3	6.4	4.1
Nominal GDP (USD B)	103.3	109.7	117.9	118.6	114.6
Population (Millions)	35.2	35.7	36.0	36.4	36.9

    - Morocco's situation is different from neighbouring competitors (Spain and Italy). Both also rely on foreign tourism; but domestic tourists represent over 50% of total expenditure in the sector.
  - In Morocco, of the total bed nights booked in a regular year, only 30% are in "classified" establishments and hotels. The most widely demanded accommodations are privately rented.
    - Domestic tourists on family trips prefer unregulated, privately-rented accommodations as they offer a cheaper cost per person in comparison with hotels.
    - With such a structure, the economy is less likely to benefit from domestic tourists unless private landlords are taxed, or hotels offer attractive discounts for families.
  - Domestic tourism is also only a two-month business (mainly July and August) in Morocco with a dominant preference for coastal areas. Achieving full returns from this summer season is highly unlikely.
  - We believe Morocco would benefit from year-round domestic tourism to diversify this sector's returns. Government intervention will be necessary to offer better facilities and promote investments in the "misrepresented" regions.[2]

[1] Arabia Monitor; IMF.
[2] According to a recent survey conducted by the La Confédération Nationale du Tourisme (CNT), Marrakech-Safi, Souss-Massa, Tangier-Tétouan-Al Hoceima and Dakhla-Oued Eddahab are Moroccans' favourite domestic destinations. The majority of tourism investments in the country are in these 4 regions whereas other regions have the potential to become touristic hubs but are partially neglected (lacking promotion and investments).

Oman: Signs of change in economic strategy

Ba2/BB-

- **The IMF has revised its forecast of a 3.7% expansion in 2020 to a 2.8% contraction -- which would come after mere 0.5% growth in 2019 and would be the worst performance since the 1980s. The downturn is driven by the fallout from COVID-19 and lower oil prices.**
  - Financial support from its neighbours could help avert the need for Oman to abandon its dollar peg, a step no GCC country wants to see at this stage. Even so, the government is ramping up fiscal austerity more quickly than it did in 2014-16, expecting that once all restrictions related to the coronavirus are lifted, economic recovery will be weak.
  - The fiscal balance -- which is already under a lot of pressure -- will need more action to mitigate the economic blow of the pandemic.
    - The official 2020 budget forecasts a USD 6.5B deficit, equivalent to more than 8% of 2020 GDP. Given that the budget assumed an average oil price of USD 58 pb compared with the actual 2020 average of USD 42 pb, the eventual deficit will be substantially higher.
    - In its latest spending cut, Oman announced it will not renew contracts of most of its foreign consultants working in government.
  - We expect an acceleration in privatisation as the government tries to find alternative funding.
    - The privatisation of Oman's aviation sector is being considered; we expect more clarity on this before the end of this year.
    - In December 2019, the government sold a 49% stake in Oman Electricity Transmission Co. to a Chinese state-owned company, State Grid Corporation of China, raising around USD 1B.
- **Oman is taking crucial steps towards a new, much-needed economic strategy. It has revamped its sovereign wealth fund (SWF) by merging the sultanate's two key state assets. We expect the new SWF to contribute heavily to the government's attempts to reverse its weak fiscal position, while also drumming up inward investments.**
  - On 4 June, Sultan Haitham Bin Tariq Al-Said established the new Oman Investment Authority (OIA) -- which will take over almost all the assets of the country's two existing funds, the State General Reserve Fund (SGRF) and the Oman Investment Fund (OIF), as well as assets held by the Directorate General of Investments at the Ministry of Finance.

Oman Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	0.3	1.8	0.5	-2.8
Crude Oil Production (M Bpd)	1.0	1.0	1.0	1.0	1.0
Oil GDP Growth (%)	3.4	-2.1	4.7	1.0	-0.4
Non-Oil GDP Growth (%)	6.2	2.4	-0.7	0.0	-5.0
CPI Inflation (%)	1.1	1.6	0.9	0.1	1.0
Fiscal Balance (% of GDP)	-21.3	-14.0	-7.9	-7.0	-16.9
C/A Balance (% of GDP)	-19.1	-15.6	-5.5	-5.2	-14.2
Total Gov't. Gross Debt (% of GDP)	32.7	46.4	53.5	62.6	78.3
Total Gross Extrn'l Debt (% of GDP)	67.8	78.6	80.6	91.7	116.7
Gross Official Reserves (Mos. of Imports)	7.0	5.5	6.3	7.1	6.0
Nominal GDP (USD B)	65.5	70.6	79.3	76.9	64.9
Population (Millions)	4.4	4.6	4.8	4.9	5.1

- OIF and SGRF's combined assets are USD 17.7B, making the new OIA the 38th largest sovereign fund in the world -- just ahead of Bahrain's Mumtalakat Holding which manages USD 16.7B in assets.
- Notably, the country's main oil company, the 60% state-owned Petroleum Development Oman, will remain separate from the new fund. Some other assets will also be excluded, including the government's stakes in international institutions and other, as-yet-unnamed companies to be announced later.
- Politically, the consolidation of state assets is also something of a consolidation of power by the new sultan. A day before the OIA was announced, he ordered the setting up of a "special office" reporting to him directly to oversee government bodies. It will be headed by Hamad bin Saeed Al Awfi, the Minister of Agriculture and Fisheries and former chairman of the National Priorities and Alignment Strategies committee for Vision 2040.
- Haitham also ordered the formation of a committee to deal with the economic impact of the coronavirus pandemic, headed by the Minister of Interior. We expect some further measures to be announced.

[1] Arabia Monitor; IMF.

Palestine: Bracing for the inevitable

NR/NR

- **With preparation for President Donald Trump's "Deal of the Century" underway, Israel's plan to annex 30% of Palestinian territory in the West Bank -- arguably destroying the long-held international goal of a "two-state solution" -- will probably trigger a spike in street violence and do nothing for the deteriorating economic outlook.**
  - The annexation plan was a part of the coalition agreement between Prime Minister Benjamin Netanyahu and Benny Gantz.
  - Israeli Foreign Minister Gabi Ashkenazi says that annexation is unlikely to happen on 1 July; however, de facto annexation has already begun and the deal is likely to pass in the long run.
    - Gantz, who is now alternate prime minister and minister of defence, ordered the Israeli army to prepare for annexation, not only indicating Israel's resolve to move on with the plan but also the expected security unrest to come.
  - The Palestinian Authority has wholly rejected the plan. Leaders have threatened to declare statehood and nullify any previous agreements with the US and Israel.
    - President Mahmoud Abbas was given approval by the Palestinian Liberation Organization (PLO) to end cooperation with the US and Israel in 2018 but has yet to put it into effect.
    - Prime Minister Mohammad Shetiya announced there would be a declaration of Palestinian statehood if Israel were to follow through with annexation.
    - This could prove a diplomatic headache for some in the West. The annexation plan has been widely condemned, but recognising a state of Palestine could add to already strained relations with Washington.
    - Palestine was granted UN observer state status in 2012 and has been recognised by 138 countries, albeit none of the G7.
  - Our baseline is that the Palestinian Authority will talk tough but seek to remain in compliance with Israel. Palestinians are still waiting for the right moment to engage the two-state solution with international support.
  - A best case scenario is that authorities on both sides come to the negotiating table and make concessions to cooperate and curtail street action which could translate to violence on the ground.
  - The worst case scenario is violence echoing the demonstrations in Gaza from 2018 which lasted over a year.

Palestine Macroeconomic Indicators[1]					
	2016	2017	2018	2019	2020
Real GDP Growth (%)	4.1	1.4	1.2	0.9	-5.0
CPI Inflation (%)	-0.2	0.2	-0.2	1.6	0.1
Fiscal Balance (Ex-support, % of GDP)	35.2	37.5	39.5	...	...
Recurrent Budget Support (% of GDP)	-8.0	-7.3	-6.6	-7.4	-10.7
C/A Balance (% of GDP)	-10.1	-13.2	-13.1	-10.7	-11.7
Nominal GDP (USD B)	13.4	16.1	16.3	17.1	16.5
Population (Millions)	4.7	4.9	5.0	5.1	5.1

- **The COVID-19 virus has triggered an economic crisis that will only get worse if Palestine continues its stand of rejecting monthly cash transfers from Israel.**
  - COVID-19 has blocked the trade of non-essential items between Palestine and primary trade partner Israel. At the same time, the closure of factories and manufacturing facilities to curb the spread of the virus has impacted Palestine's trade with its foreign partners.
  - Additionally, SMEs have been badly hit as restaurants and local businesses have had to shut down because of lockdown measures.
  - To protest the annexation, however, the Palestinian Authority has rejected the monthly cash transfer from Israel.[2]
    - This accounts for USD 200M that is spent in the public sector. The Palestinian Authority has used the move before and is unlikely to keep it in effect for long.
    - The transfers account for 60% of the Palestinian Authority's budget.
    - If it were to continue, the Palestinian Authority risks collapsing, which would give Israel the opportunity to step in.

[1] Arabia Monitor; IMF.
[2] Israel collects import taxes for the PA for goods bound for Gaza and the West Bank.

Qatar: LNG remains resilient

Aa3/AA-

- **Qatar is forecast to be the only MENA country to post a fiscal budget surplus this year, although its economy will contract like everywhere else. A delayed global recovery and lower natural gas prices remain the main risks to growth.**
  - ➢ The IMF forecasts GDP to contract by 4.3% in 2020, compared with 0.1% growth in 2019, attributed primarily to lower hydrocarbon prices.
    - Oil GDP is expected to contract by 2.5% in 2020 on top of a 1.5% contraction in 2019. Oil exports will rise to 560 Kb/d versus last year's 550 Kb/d in 2019, but depressed prices mean less revenue.
  - ➢ The 2020 fiscal surplus is forecast at 5.2% of GDP, compared with 4.1% in 2019, mainly because of a tailing off of major expenditures such as preparing for World Cup 2022.
  - ➢ In April, Qatar sold USD 10B in bonds to raise cash in the debt markets. The deal was reported to have had approximately USD 44B in demand, meaning that it was more than four-times over-subscribed.
  - ➢ Adding another positive to Qatar's outlook, its Qatar Airways is currently the world's largest cargo and passenger airline as the pandemic has grounded others. It expects to fly to 80 locations by the end of June.
  - ➢ Three years into the rift with its neighbours, Qatar has built up local production, especially of food, and prepared itself well to deal with supply chain disruptions. This has allowed it to overcome the challenges of the blockade and will help the economy weather the pandemic and lower oil prices.
- **The North Field expansion project is moving forward, despite a major slump in global energy demand including for liquified natural gas (LNG).**
  - ➢ The project, the world's largest for LNG, has experienced some delays due to COVID-19 disruptions. Contracts are all still expected to be awarded by the end of the year, however, which should boost existing role as the world's largest exporter of LNG.
    - The project will not scale down and will increase production capacity from 77M tonnes of LNG per year to 110M by 2025. This is also potential to rise to 126M tonnes in 2027.
    - In the long-term, LNG demand is expected to remain more resilient than oil given its lower emissions and the move towards cleaner energy.

Qatar Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.1	1.6	1.5	0.1	-4.3
Crude Oil Production (Mb/d)	0.6	0.6	0.6	0.6	0.6
Oil GDP Growth (%)	-0.9	-0.7	-0.3	-1.5	-2.5
Non-oil GDP Growth (%)	5.3	3.8	3.2	1.5	-5.9
CPI Inflation (%)	2.7	0.5	0.2	-0.6	-1.2
Fiscal Balance (% of GDP)	-5.4	-2.9	5.2	4.1	5.2
C/A Balance (% of GDP)	-5.5	3.8	8.7	2.4	-1.9
Total Gov't. Gross Debt (% of GDP)	46.7	49.8	44.6	52.3	57.4
Total Gross Extrn'l Debt (% of GDP)	127.2	99.6	101.6	122.3	145.9
Gross Official Reserves (Mos. of Imports)	6.1	2.7	5.8	9.6	7.9
Nominal GDP (USD B)	151.7	166.9	191.4	188.9	156.6
Population (Millions)	2.5	2.6	2.7	2.8	2.8

  - ➢ Turmoil in global energy markets is opening investment opportunities for state-owned Qatar Petroleum.
    - The firm acquired a 45% participating interest in two offshore blocks in Côte d'Ivoire from France's Total in May.
    - It also reached agreements on three blocks located in Mexico, specifically the Campeche offshore basin.
- **Turkey and Qatar's relations remain strong, with a tripling of the 2018 swap agreement to USD 15B, allowing Turkey to exchange TRY for QAR.**
  - ➢ Qatar came to Turkey's rescue in September 2018 when the latter was on the brink of a financial crisis. It pledged USD 15B in direct investment into Turkey, an announcement that helped stem the rout of the Turkish lira. It was followed by a USD 5B currency swap agreement a month later to by-pass trade in US dollars.
  - ➢ The swap has further strengthened the already strong relations between the countries. Qatar stood behind President Recep Tayyip Erdogan after a coup attempt in 2016. Turkey, in turn, sent military support to Qatar serving as a regional ally after the country's alienation from its neighbours.

[1] Arabia Monitor; IMF.

Saudi Arabia: Fighting back for SMEs

A1/A1

- **The forecast for Saudi Arabia was revised by the IMF to a 6.8% contraction from a 4.5% decline estimated in April, and compared with 0.3% growth in 2019. The IMF expects Saudi growth to recover to just 0.2% in 2021.**
  - With 136,315 cases and 1,052 deaths, the kingdom is facing one of the worst COVID-19 outbreaks in the region
    - For the first time in the modern kingdom's history, it has limited the hajj pilgrimage. Only Saudis and people living in the kingdom will be allowed this year.
    - The pilgrimage usually draws 2 million people to Saudi Arabia and generates USD 6B revenue for the government every year.
  - Despite attempts to diversify the economy, Saudi Arabia still relies on oil in a major way.
    - From producing 12 Mb/d in April, the kingdom is now only producing 9.3 Mb/d following the OPEC+ agreement.
    - Oil revenue in 2020 are expected to decline by 34% YoY to USD 133B. Lower oil revenue led the kingdom to post a budget deficit of USD 9B (1.3% of GDP) in Q1 2020 versus a surplus of USD 7.4B (0.9% of GDP) in the same period last year.
  - Managing heightened public expectations for the future in the midst of fiscal consolidation will be crucial in maintaining public support for Crown Prince Mohammad Bin Salman when the pandemic subsides and austerity hits the kingdom's generous social welfare programmes.
    - Saudi Arabia has taken some bold moves recently, both in terms of a tripling of VAT and the drawdown of reserves for investment abroad. It is not the Saudi Arabia of old.
    - Despite the pandemic and fiscal pressure, the government remains committed to spending on defence. It has announced a USD 2.6B contract with Boeing to supply 1,000 surface-to-air and anti-ship missiles.
    - Saudi spending on defence and security is the largest in the region, valued at USD 78.4B for 2020 (10.8% of GDP) and ranks third globally following the US (USD 721B) and China (USD 181B).
- **SMEs are expected to be at the heart of the economic fallout from COVID-19 pandemic, and its containment measures.**
  - Lockdowns in many countries showed that SMEs are particularly vulnerable to supply and demand shocks imposed by the pandemic, due to both cashflow and supply chain disruptions.

Saudi Arabia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.7	-0.7	2.4	0.3	-6.8
Crude Oil Production (M Bpd)	10.4	9.9	10.3	9.8	9.8
Oil GDP Growth (%)	3.6	-3.1	3.1	-3.6	0.0
Non-oil GDP Growth (%)	0.2	1.3	2.2	3.3	-4.0
CPI Inflation (%)	2.0	-0.9	2.5	-1.2	0.9
Fiscal Balance (% of GDP)	-17.2	-9.2	-5.9	-4.5	-12.6
C/A Balance (% of GDP)	-3.7	1.5	9.0	6.3	-3.1
Total Gov't. Gross Debt (% of GDP)	13.1	17.2	19.0	22.8	34.0
Total Gross Extrn'l Debt (% of GDP)	24.6	18.2	19.2	23.2	28.9
Gross Official Reserves (Mos. of Imports)	31.7	28.3	28.6	33.2	28.0
Nominal GDP (USD B)	644.9	688.6	786.5	793.0	668.4
Population (Millions)	32.4	33.1	33.7	34.2	34.2

  - Data from GaStat shows that 41% of all Saudi workers in SMEs range between 26-35 years of age, accounting for the largest share amongst all age groups.
    - This makes the percentage of that group working in SMEs higher than in the overall labour market average.
    - A significant rise in the level of SME bankruptcies would, therefore, disproportionately create a larger pool of unemployed younger workers.
  - That said, some of the earliest measures to be rolled out by the authorities were directly aimed at SMEs; these should mitigate some of the impact. Key measures related to SMEs include:
    - The central bank's (SAMA) USD 13B stimulus package to support SMEs;
    - A new programme to guarantee 95% of total finance granted to SMEs, in collaboration with Kafalah, the SME loan guarantee program. SMEs will be exempted from fee payments and SAMA will pay the loan guarantees to Kafalah on behalf of the clients;
    - The Saudi Social Development Fund's provision of SAR 12B in direct finance to SMEs, especially to micro enterprises.

[1] Arabia Monitor; IMF.

Somalia: Navigating pandemic, locusts & flooding

B2/NR

- **The economy, initially forecast to grow 3.2% this year from 2.9% in 2019, is now seen contracting by at least 2.5%. The agriculture sector -- which makes up 75% of Somalia's GDP and 93% of its exports -- has been hit by a series of natural disasters: the pandemic, locusts and flooding. The decline will need to be mitigated by strong international support and government efforts.**
  - With an estimated 2,416 confirmed coronavirus cases, Somalia has been one of the worst-hit countries in the East African region.
    - According to the country's COVID-19 task force, there is under-reporting of the infection and mortality rates of the virus.
    - The country has found it difficult to formulate a coherent response to the pandemic in an already complex humanitarian setting that is characterised by poor governance, public distrust and political violence.
    - This has caused haphazard and fragmented policies. Contact tracing and quarantining became an impossible task in this environment. Furthermore, citizens are not complying with the government's stay-home instructions
      - Despite the curfew in Mogadishu, people were congregating for Ramadan night-prayers in mosques.
  - Another contributing factor has been dwindling diaspora remittances, which contribute about 23% to GDP. An estimated 40% of Somali families rely on remittances for their livelihood.
    - Remittances are expected to halve in 2020 from the USD 1.3B in 2019.
  - Funding for humanitarian operations has also declined in comparison with previous years with just over 30% of the revised requirement of USD 1B received to date.
- **With the country's existing security and food challenges, Somalia faces a looming humanitarian crisis that may threaten the country's fragile stability.**
  - Floods brought on by the current rainy season are estimated to have displaced half a million people.
    - The flooding has caused an increase in opportunistic diseases such as acute diarrhoea and cholera.

Somalia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	1.4	2.8	2.9	-2.5
CPI Inflation (%)*	1.2	6.1	3.2	3.0	2.7
Fiscal Balance (% of GDP)*	0.0	-0.6	0.0	0.1	0.2
C/A Balance (% of GDP)	-6.0	-9.7	-10.3	-13.7	-11.4
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	105.3	115.1	111.3	106.4	76.9
Gross Official Reserves (Mos. of Imports)	...	...	...	...	...
Nominal GDP (USD B)	3.9	4.5	4.7	4.9	5.0
Population (Millions)	14.2	14.6	15.1	15.6	16.0

    - The devastating humanitarian impact of the floods, locusts and COVID-19 threatens to reverse the political and security gains that Somalia has accomplished with the international community over the past decade.
  - Adding to the precarious situation are the continued terror attacks.
    - On 29 May, eight people including seven health workers were abducted and executed, with the government blaming al-Shabaab.
    - On 31 May, a roadside bomb killed 10 and wounded 12 on the outskirts of Mogadishu.
- **Elections are likely to complicate the situation, as the country prepares to hold a historic one-person, one-vote poll, the first since 1969.**
  - With the current challenges that Somalia is facing, opposition groups are calling for the clan-based power-sharing system to remain in place.

[1] Arabia Monitor; IMF.

Sudan: Pandemic threatens the transition to democracy

B2/NR

- **The Sudanese economy is set to contract by 7.2% in 2020, which is a significant decrease from the previously bleak prediction in October 2019 of a 1.5% decline. There is a risk that this, along with the pandemic, could disrupt Sudan's passage from dictatorship.**
  - ➢ The COVID-19 pandemic has hit Sudan at a critical time, just as the state was struggling to implement a political transition amid an already serious economic crisis.
    - With 6,582 cases and 401 deaths, the spread of the disease in Sudan is the highest in East Africa.
    - More than 80% of the diagnosed cases are in Khartoum, but there are concerns that the extent of the crisis is deeper than official accounts due to lack of testing.
    - The spread of the disease threatens a complete collapse of the healthcare system, which was already in bad shape as a result of the 30-year rule of former President Omar al-Bashir.
  - ➢ Inflation is predicted to reach a staggering 81.3% this year, indicating that the most dramatic ramifications of the pandemic might not come from the disease itself, but the social and economic impact it will have, most notably on prices and food-security.
    - Sudan already grapples with chronic shortages of fuel, cooking gas, and bread. With the pandemic-related restrictions on people and goods, Sudan could be headed for severe food insecurity.
    - The strain on the food supply chain will be most felt by the estimated 67% of the population living below the poverty line.
    - Additionally, due to the recent removal of subsidies on fuel and wheat, prices are likely to rise further in the short term.
    - The government has announced cash transfers to offset the negative impact of the removal of subsidies, but only 60% of the 500,000 designated families have received food baskets and money.
  - ➢ The UN High Commissioner for Human Rights warned that the building social discontent could threaten the transition process.

Sudan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	0.7	-2.3	-2.5	-7.2
CPI Inflation (%)	17.8	32.4	63.3	51.0	81.3
Fiscal Balance (% of GDP)	-4.4	-6.5	-7.9	-10.8	-16.9
C/A Balance (% of GDP)	-7.6	-10.1	-13.0	-14.9	-15.2
Total Gov't. Gross Debt (% of GDP)	128.4	159.6	185.6	200.3	295.2
Total Gross Extrn'l Debt (% of GDP)	123.3	155.9	181.9	198.9	299.2
Gross Official Reserves (Mos. of Imports)	0.9	1.1	2.8	4.9	2.0
Nominal GDP (USD B)	55.6	45.8	35.9	33.6	25.3
Population (Millions)	39.8	40.8	41.8	42.8	43.8

- **The bleak picture in Sudan is exacerbated by ongoing economic sanctions and international organisations' failure to provide debt-relief measures.**
  - ➢ Before the pandemic, Sudan was looking for a significant cash injection from abroad, with the bulk of the money coming from GCC countries.
    - But since these countries are now grappling with their own COVID-related crises, it is uncertain that they will aid Sudan as generously.
    - Compounding this problem is the 20% decline in remittances since the outbreak from Sudanese workers in GCC countries; they sent an estimated USD 425M in 2019 (1.3% of GDP), according to the World Bank.
  - ➢ Sudan is still subject to various sanctions from the West.
    - A positive move came in May, however, when Sudan appointed its first ambassador to the US in more than 20 years.

[1] Arabia Monitor; IMF.

Syria: Caesar Sanctions & Druze protests, new challenges for Assad

NR/NR

- **Syria is bracing for economic catastrophe after the US Caesar Syria Civilian Protection Act took effect in June sanctioning any individuals, companies, and states (e.g. Russia, Iran) doing business with the regime of President Bashar al-Assad. Meanwhile, the ceasefire agreed by Turkey and Russia was broken in early June with Russian air attacks in Idlib.**
  - ➢ More specifically, the sanctions apply to anyone financially supporting the pro-Assad bloc, Russian and/or Iranian military interventions, foreign business owners connected to Assad, and human rights abuses in Syria. The act has been condemned by Iran and Hezbollah.
  - ➢ The intent of the sanctions is to debilitate the regime and paralyse the economy; however, it is more probable that these sanctions will hurt Syrian civilians before affecting the regime itself.
    - Syria is at risk of famine, with the cost of living rapidly escalating. The sanctions will further exacerbate the crisis by speeding up the collapse of Syria's currency.
    - The sanctions do contain provisions exempting foreign aid in order to mitigate their effect on civilians, but the language on this is vague.
    - Currently, more than 80% of Syrians live in poverty.
    - The act promises that sanctions will be lifted if attacks against civilians cease, and the ultimate goal is to reach the UN Security Council's Resolution 2254. This entails a Syrian-led political transition.
- **There is limited updated economic data available from the IMF and World Bank on Syria. But the economic crisis is writ large by the free fall in Syria's currency, some of which is interlinked with economic crash in Lebanon, where many Syrian businesses circumvent international sanctions.**
  - ➢ In June, the Syrian lira continued to hit record lows, valued at 3,000 Syrian liras to one USD on the black market.
    - It was at around 47 in 2011. This is due to the impact of COVID-19, Lebanon's banking crisis, and sanctions.
  - ➢ Lebanon's current debt crisis has negatively impacted Syria's economy, as Syrian exports to Lebanon have severely dropped, remittances from Syrians in Lebanon have dried up, and Syrian capital is stuck in Lebanese bank

Syria Macroeconomic Indicators[1]	2012	2013	2014	2015	2016	2020f
Real GDP Growth (%)	-18.9	-18.7	1.8	-15.0	-4.0	3.0*
CPI Inflation (%)	36.7	91.7	36.4	15.2	40.0	...
Fiscal Balance (% of GDP)	-16.9	-12.3	-8.6	-7.3	...	...
C/A Balance (% of GDP)	-15.3	-12.2	-10.5	-10.8	...	...
Total Gov't. Net Debt (%of GDP)	54.1	52.5	53.2	58.7	...	...
Total Gross Extrn'l Debt (% of GDP)	19.2	23.1	26.9	31.1	...	...
Gross Official Reserves (USD B)	4.8	1.8	1.8	1.7	...	...
Nominal GDP (USD B)	44.0	42.8	43.4	20.0	15.0	...
Population (Millions)	19.2	18.7	18.4	18.2	18.2	...

  - ➢ Inflation is currently estimated to be over 300%, and prices will continue rising due to growing supply shortages and currency impacts.
  - ➢ China continues to provide humanitarian support to Syria as part of an attempt to get Syria in its sphere of influence.
    - The Chinese government delivered COVID-19 aid to Syria, including 2,000 testing kits. These gestures appear more symbolic, given the limited quantity of aid.
- **Although the civil war has wound down, instability persists: the latest unrest was an outbreak of anti-Assad protests in the Druze-majority city Sweida, a historically pro-Assad area.**
  - ➢ There have also been solidarity demonstrations from Druze in the Golan Heights, illustrating the growing unrest in the country over the worsening economic crisis. The protests are also focusing on official corruption.
  - ➢ In addition, there have been some counter-protests in support of Assad, blaming the economic crisis on US interference.
  - ➢ The new protests are not threatening to Assad's hold on power, but we believe the negative optics of losing support from his base could lead to some concessions made to the Druze community in the near future. The Druze are around 3% of the population.

[1] Arabia Monitor; EIU.
* Subject to downward revision.

Tunisia: Robots on the rise

B2/NR

- **The IMF's pre-COVID-19 forecast was for GDP to recover from last year's insipid 1% growth to 2.4% this year. But the impact of the pandemic on trade and tourism has turned this into expectations for a 4.3% contraction, by far the worst decline in at least 20 years. The crisis will severely strain fiscal resources and be a harsh test for the newly formed government of Prime Minister Elyes Fakhfakh.**
  - ➢ Tourism is being hit hard by the pandemic, especially by the loss of European travellers who make up the bulk of inbound arrivals to the country.
    - Tourism accounts for 13.7% of GDP and employs about 13% of the workforce.
    - Tourism revenues declined by 27% in May, and government representatives have estimated up to USD 2B has already been lost.
    - Now that Europe is opening up gradually, the Tunisian government could benefit from creating a special travel bubble deal -- essentially bilateral pacts -- with select European nations once pandemic recovery is steady.
  - ➢ IMF financing will help the authorities cover large fiscal and balance of payments needs, estimated at 2.6% and 4.7% of GDP, respectively.
    - A four-year USD 3B loan for Tunisia was approved by the Fund in 2016 in return for major reforms, but the country has so far only received USD 1.6B.
    - The government is looking for a successor deal to this IMF loan programme as the current one is unmanageable during COVID-19. The IMF has suggested this could be made available in the second half of 2020.
    - In the meantime, Tunisia will receive USD 753M under the IMF Rapid Financing Instrument to tackle COVID-19.
    - All this will further strain the debt load with which Tunisia is already struggling. It will require close monitoring by the Central Bank of Tunisia (CBT) and the government to prevent further declines in creditability. Tunisia's debt is rated "highly speculative" by the major agencies.
  - ➢ Inflation is projected at 6.2% for 2020, a decrease from 2019's estimated 6.6%, but an increase from the previous projection of 5.4% for 2020. The CBT is prepared to tighten monetary policy in the following months as needed, although that would hinder growth recovery.

Tunisia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.1	1.9	2.7	1.0	-4.3
CPI Inflation (%)	3.6	5.3	7.3	6.7	6.2
Fiscal Balance (% of GDP)	-6.2	-5.9	-4.6	-3.9	-4.3
C/A Balance (% of GDP)	-9.3	-10.2	-11.2	-8.8	-7.5
Total Gov't. Gross Debt (% of GDP)	62.3	70.6	78.2	72.3	88.5
Total Gross Extrn'l Debt (% of GDP)	66.9	84.3	97.3	90.3	109.9
Gross Official Reserves (Mos. of Imports)	3.1	2.6	2.5	5.2	3.6
Nominal GDP (USD B)	41.8	39.8	39.8	38.8	36.7
Population (Millions)	11.4	11.5	11.7	11.8	11.9

  - ➢ The government now projects the fiscal deficit to increase to 4.3% for 2020, a change from the originally estimated 2.8%.
    - Spending will be concentrated on COVID-19 recovery as well as on debt management.
- **Disruptive technologies have helped in battling COVID-19, providing a new frontier for Tunisia. But challenges abound.**
  - ➢ Police and hospitals have used artificial intelligence (AI) and robots to carry out their duties. The success of this technology during the pandemic can be replicated in other countries, as well as giving Tunisia an advantage in developing the technology for sale elsewhere.
  - ➢ Enova Robotics, in partnership with Orange Tunisie and Zouni, have provided the robots.
  - ➢ Last year, the Tunisian government launched a series of policies under The Start Up Act to develop local entrepreneurial and tech ecosystems.
    - Despite these efforts, Tunisian AI startups such as InstaDeep and Digital Mania have had to move their headquarters to Europe to expand and bypass red tape.

[1] Arabia Monitor; IMF.

UAE: Growth recovery unlikely until latter part of 2021

Aa2/NR

- **The UAE economy has had a weak five years of growth on the back of generally low oil prices. We expect this to continue for some time.**
  - ➢ The Central Bank of the UAE expects economic recovery to begin in H2 of this year, but they do not see a significant upturn until mid- to late-2021.
    - Continued government stimulus, a gradual easing of the lockdown, and the Expo in 2021 (assuming it will take place) will eventually help the economy revert to its pre-COVID-19 levels by the end of next year.
      - UAE industries poised to lead recovery first include technology, healthcare, pharmaceuticals, leisure, and energy, while sectors with more pain in store include aviation, tourism, and retail.
    - Economic indicators suggest that the COVID-19 impact will be much deeper and more severe than the collapse post-financial crisis in 2008, when the UAE economy contracted by 5.2% (with an average USD 61 pb oil price versus USD 42 so far this year).
      - GDP recovered to 1.6% in the following year and posted strong growth of 4.9% by 2011 when oil prices averaged USD 111 pb.
    - Growth in the past five years has averaged 2.3%, compared with a recent high of 6.9% in 2011.
  - ➢ Data from construction firms in the UAE suggest slow activity, but the pace is likely to pick up again as lockdowns lift. Price restructuring is already taking shape on some private projects as it did in the wake of the financial crisis.
    - The government in Dubai had decided to put future projects on hold. A helpful additional move, is the formation in Abu Dhabi of a committee to oversee the development of infrastructure projects in the emirate; this should rationalise project pipelines.
  - ➢ As on previous occasions, the slow-down in Dubai will require federal support. Government-owned or controlled entities that are unable to service their debt will once again become attractive assets for Abu Dhabi investment arms. We expect restructurings, downsizing, and mergers.
    - Many such government-related enterprises (GREs) in Dubai were banking on Expo 2020 for growth. With this now delayed by a year, we expect a series of restructurings of at least some debt.

UAE Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.0	0.5	1.7	1.3	-3.5
Crude Oil Production (M Bpd)	3.0	2.9	3.0	3.1	3.1
Oil GDP Growth (%)	2.6	-2.8	2.8	2.0	0.0
Non-oil GDP Growth (%)	3.2	1.9	1.3	1.0	-5.0
CPI Inflation (%)	1.6	2.0	3.1	-1.9	-1.0
Fiscal Balance (% of GDP)	-2.0	-2.0	2.0	-0.8	-11.1
C/A Balance (% of GDP)	3.7	7.3	10.0	7.4	1.5
Total Gov't. Gross Debt (% of GDP)	20.2	22.1	21.8	26.6	33.6
Total Gross Extrn'l Debt (% of GDP)	69.6	73.5	69.7	77.7	94.0
Gross Official Reserves (Mos. of Imports)	3.3	3.7	3.8	4.7	3.1
Nominal GDP (USD B)	357.0	377.7	414.2	402.5	343.0
Population (Millions)	9.2	9.4	9.5	9.7	9.8

- This means that the debt market is expected to be active, with both Emirati governments and GREs likely to issue.

- **Migrant job losses and an exodus of foreign workers due to the slowdown, will probably accelerate the UAE's efforts to allow some foreign residents to remain permanently.**
  - ➢ The IMF has warned of an expat and migrant worker exodus across the world impacting economies.
  - ➢ Countries in the GCC are particularly dependent on migrant labour. In the UAE alone, an estimated 88% of the population is made up of foreign workers.
  - ➢ About 60,000 Pakistanis have registered to leave the UAE. The Indian Embassy says around 200,000 Indian nationals in the UAE are seeking repatriation.
  - ➢ For now, the UAE is granting automatic extensions to people with expiring residence permits and has suspended work-permit fees and some fines.

[1] Arabia Monitor; IMF.

Yemen: Disproportionate devastation

NR/NR

- **After the UAE-backed Southern Transitional Council (STC) declared self-rule in Aden in April, the alliance between the southern separatists and the Saudi-backed government continues in name only. The old allies have splintered on the ground, strengthening the side of the Houthi-backed rebels who continue to forge ahead with the fighting.**
  - ➢ The government and the STC signed an agreement last year to end their power struggle in the south, but this failed to be implemented on the ground. The two nominal allies essentially split the south, with the government controlling eastern and southern parts and the STC the rest. The Houthis have the northwest. Peace between the two sides in the south is fragile.
  - ➢ This month, separatists seized a cash consignment of USD 255M intended for the Central Bank of Yemen (CBY) in Aden.
    - While the STC has command of Aden, the Saudi-backed government still controls government bodies, such as the CBY. President Abdrabbuh Mansur Hadi moved the CBY to Aden after the Houthis took control of Sana'a.
    - In a statement, the STC accused the Saudi-backed government of mismanagement.
  - ➢ The expiry of a six-week ceasefire between Houthi rebels in the northwest and the government forces has triggered an uptick in violence.
    - This month, a missile was launched by Houthi rebels towards the southern region of Najran.
    - This comes as Houthi rebels accuse coalition forces of orchestrating an airstrike that killed 13.
  - ➢ The fighting is likely to continue for the foreseeable future, with only hopes of temporary ceasefires. Peace talks in Saudi Arabia with the STC last month fell flat.
- **The COVID-19 pandemic, compounded by a cholera endemic, has piled on the suffering from the five-year long civil war, which has displaced hundreds and thousands of Yemenis to camps. Beyond the humanitarian concern, the crisis is of worry to Europe and the MENA region because of the potential flood of refugees.**

Yemen Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-13.6	-5.1	0.8	2.1	-3.0
Crude Oil Production (M bpd)	0.0	0.0	0.0	0.0	0.0.4
CPI Inflation (%)	21.3	30.4	27.6	10.0	26.7
Fiscal Balance (% of GDP)	-9.3	-5.3	-6.7	-3.8	-8.0
C/A Balance (% of GDP)	-3.2	-0.2	-1.4	-7.4	-2.8
Total Gov't. Gross Debt (% of GDP)	79.6	84.3	63.5	56.3	68.8
Total Gross Extrn'l Debt (% of GDP)	22.4	28.2	21.5	18.9	24.4
Gross Official Reserves (Mos. of Imports)	1.2	0.9	0.5	1.4	2.1
Nominal GDP (USD B)	28.1	24.6	27.6	29.9	24.2
Population (Millions)	27.5	28.2	28.9	29.5	29.8

- ➢ While the international community has rallied to provide emergency support to Yemen, the discrepancy in funding and support amidst the pandemic may be too late for the health crisis at hand.
  - This year alone, over 110,000 Yemenis have contracted cholera, overwhelming the country's already sparse healthcare system.
  - Yemen has had 885 reported coronavirus cases with 214 deaths which means that about 24% of confirmed cases have been fatal.
  - The case numbers are likely to be much higher, however; there is shortage of testing kits along with personal protective equipment.
- ➢ The UN's aid operations are facing a USD 1B shortfall in cuts. This jeopardises the subsidies of 10,000 frontline workers as well as 30 of the 41 UN-supported programmes.
  - In May, international donors -- hosted by the UN and Saudi Arabia -- pledged USD 1.3B, but fell below a USD 2.4B target. So far, only 47% of the aid has been received.
- ➢ Currently, half of the hospitals are functioning at a minimum capacity as a result of the prolonged civil war.

[1] Arabia Monitor; IMF.

GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		Rating Change Considerations
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	
Bahrain	B2		Affirmed O/L Stable	17-Dec-18	B+		Affirmed O/L (+)	26-Mar-20	If Bahrain materially outperforms fiscal and external forecasts, upward pressure on ratings would continue. Conversely, if these constraints intensify, downward pressure will re-emerge.
Kuwait	Aa2		On Watch	30-Mar-20	AA-		Downgraded O/L Stable	26-Mar-20	Ratings could be lowered if oil prices drop further or slow growth were to undermine Kuwait's revenue and fiscal profile or if parliamentary resistance blocks or reverses planned reforms.
Oman	Ba2		On Watch	30-Mar-20	BB-		Downgraded O/L (-)	26-Mar-20	Ratings could dip if debt as a share of GDP remains on an upward trend or if the net external asset position were to weaken at a faster pace. We expect pressure on Oman's credit ratings to continue until the agencies see dynamism from the new Sultan.
Qatar	Aa3		Affirmed O/L Stable	13-Jul-18	AA-		Affirmed O/L Stable	07-Dec-18	Ratings could come under pressure if developments in oil production and prices, or in the banking sector, were to significantly weaken the country's external or fiscal positions; for example, if the government's gross liquid assets fall significantly below 100% of GDP.
Saudi Arabia	A1	(-)	Affirmed O	01-May-20	A1		Affirmed O/L Negative	01-May-20	Ratings could be lowered again if sizable and sustained reductions in the deficit are not achieved, or if liquid fiscal financial assets fell below 100% of GDP. Ratings could also come under pressure if domestic or regional events compromised political and economic stability.
UAE	Aa2		Affirmed O/L Stable	26-Mar-19					Reducing the debt of government-related enterprises of Abu Dhabi banks and of the government of Dubai could support upgrade considerations in the medium term.

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

MENA exc. GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	Rating change considerations
Algeria	N/R				N/R				Sovereign rating on hold due to domestic and energy market conditions.
Egypt	B2		Affirmed O/L Stable	11-May-20	B		Affirmed, O/L Stable	11-May-18	A delay or reversal in implementing fiscal and economic reforms and renewed intensification of political turmoil and instability would be credit-negative.
Jordan	B1		Affirmed O/L Stable	08-Nov-18	B+		Affirmed O/L Stable	16-Mar-19	Successful implementation of key political and structural economic reforms, favouring more sustainable growth and further easing fiscal and external vulnerabilities would support an improvement in the ratings outlook.
Lebanon	Ca		Downgraded O/L Stable	21-Feb-20	SD	(-)	Downgraded O/L SD	11-Mar-20	Ratings could be affirmed or raised, if the country receives significant donor funding that would allow the government to implement immediate reforms. Meanwhile, although we feel this can be rapidly unblocked if a restructuring program is put in place, it is conditional on policy reform.
Morocco	Ba1		Affirmed, O/L Stable	20-Nov-18	BBB-		Affirmed O/L Stable	04-Oct-19	If higher economic growth were to exceed forecasts, and exchange rate flexibility were to increase markedly, this would be supportive of a ratings upgrade.
Tunisia	B2	(-)	On Watch	17-Apr-20	N/R				Implementing structural reforms agreed under the extended IMF programme, including public bank recapitalisation and governance reform would be credit positive. However, a downgrade is likely if there are delays in the availability of external funding, fiscal overruns or major contingent liabilities that would weaken Tunisia's fiscal strength and the adequacy of its foreign exchange reserves.

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

About Arabia Monitor

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

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