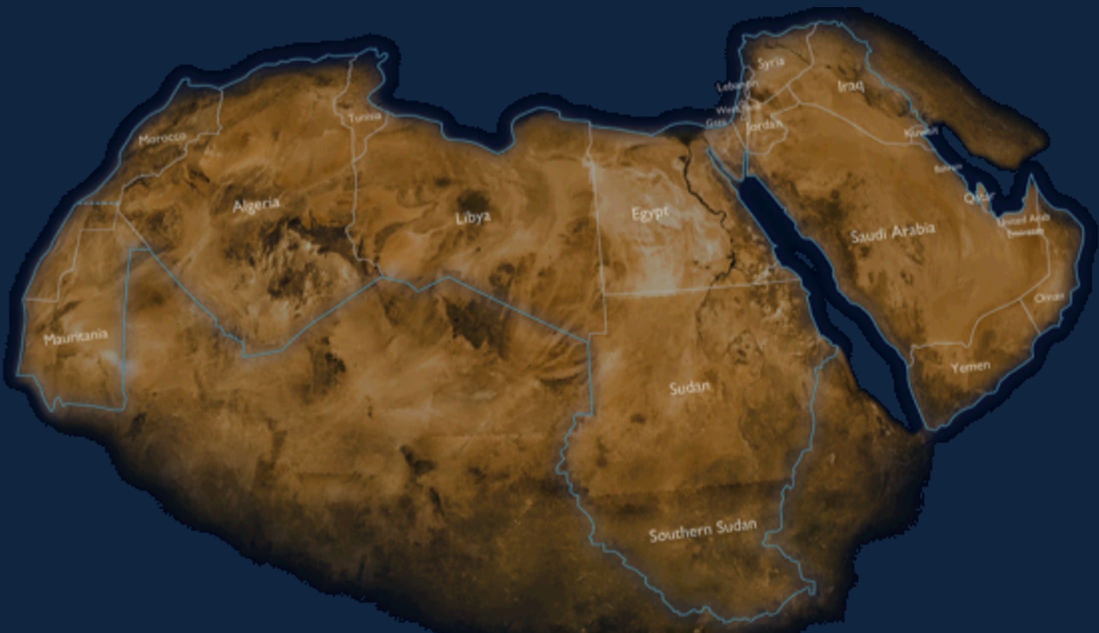
ARABIA MONITOR
ECONOMIC RESEARCH & STRATEGY

MENA - India:
Diversifying the economic corridor

Middle East & North Africa Outlook
Q3 2021



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Outline

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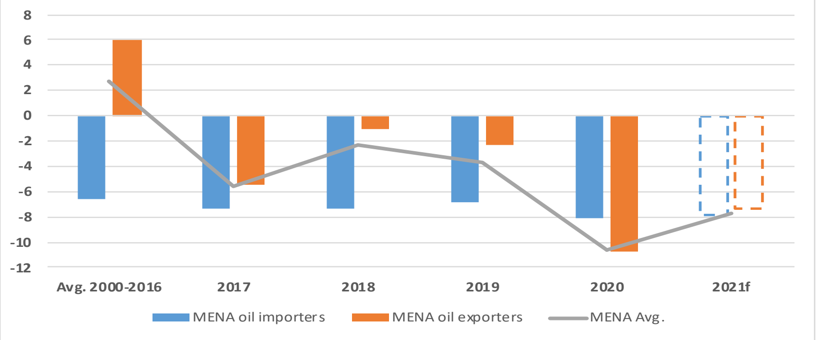
Our View: MENA-India ties evolving strategically

- **This quarter we discuss the growing relations between the MENA region and India. We examine how interregional links have developed over the years, extending well beyond energy security and the Indian diaspora. We focus on merchandise trade, renewable energy and strategic bilateral investments including food security. We look beyond COVID-19, focusing on new opportunities for growth.**
  - ➢ Overall bilateral trade between the MENA region and India remained steady even through the COVID-19 pandemic. Over the last decade, trade grew at an average annual rate of 5%, reaching USD 125B in 2020.
    - The GCC dominates this trade relationship. Talks regarding a free trade agreement are being revived, an initiative which would offer huge potential for deeper cooperation in trade, investment and labour market synergies.
  - ➢ Agricultural trade is one of the fundamental pillars of the MENA-India relationship, with demand for Indian food products from MENA countries set to lead the rapport.
  - ➢ India's oil imports are expected to surpass those of China, with energy demand forecast to rise to around 92% by 2030. This will make India an attractive market for refinery investments, with GCC countries expected to emerge as the key beneficiaries.
    - With a US-Iran nuclear deal potentially on the horizon, the return of Iranian crude oil to the global market is a real possibility. India will benefit, as Tehran's return to the market will serve to expand its supply of sources. Bilateral ties between Iran and India could reach unprecedented levels.
  - ➢ As India works to improve its energy security by diversifying its sources of supply, GCC countries are presented with an untapped opportunity to invest in India's growing renewable energy market. GCC countries have the potential to claim pole position among the world's largest green hydrogen exporters. India could gain tremendously from this, particularly as its demand for clean energy surges.
  - ➢ There is room for growth in strategic joint venture transactions, especially as the presence of Indian start-ups in the MENA region is on the rise.

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



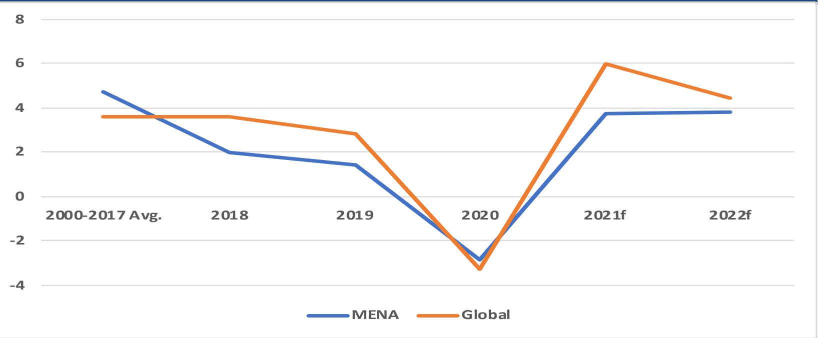
- **In our MENA economic update, we discuss how the region continues to face a mixed recovery. While oil importers are expected to bear the brunt, the overall outlook for the region is in line with wider global trends.**
  - ➢ The upbeat outlook with regard to improving oil prices and the easing of COVID-19-related restrictions signal the existence of opportunities for a strong economic rebound. Nonetheless, growth for regional oil-exporting countries has further to go as deficits are likely to remain substantial.
  - ➢ We expect larger economies to regain momentum in subsequent quarters, especially given the low base levels of 2020. This will be anchored by a pick-up in government spending, private investment and the gradual recovery in the private sector amid a concerted vaccine rollout.
  - ➢ Political uncertainty continues to impact the economic outlook as regional dynamics continue to shift. Libya has come in from the cold to form new (and rekindle old) partnerships, while Iran's pending return to the international community is making some headway, but proceeding less rapidly than initially expected.

[1] Arabia Monitor; IMF.

Global Outlook: Positioning for a growth rebound in H2 2021

- **As the launch of vaccines gathers momentum, prospects for the global economy have brightened, but it remains an uneven recovery with some countries further ahead in the recovery cycle than others.**
  - ➢ The IMF has revised its global GDP forecast for 2021, projecting a strong recovery of 6%, 0.8 percentage points higher than its previous forecast in October 2020. In 2022, the rebound is projected to give way to synchronised global growth.
    - The uplift in the economic outlook comes on the back of the much-anticipated vaccine-powered upturn in H2 of 2021, as well as the effects of considerable fiscal support from several developed economies.
  - ➢ The recent USD 1.8T US fiscal firepower is leading the charge in terms of monetary support and is likely to allow the US to register the fastest growth in 2021. This is expected to provide positive spillover effects, boosting global GDP by 1% with Japan, Europe and China being among the key beneficiaries.
    - Nonetheless, it will likely take the US at least until mid-2022 to recover the lost output from the lockdowns. This in turn suggests that that broad-based inflation pressures in the US are unlikely to emerge until 2023. Consistent with negative output gaps and the slack in labour markets, global inflation expectations will likely be subdued this year.
  - ➢ While some central banks have started to shift their monetary policy stance by gradually tapering asset purchases, we expect they will stay the course and not hike policy rates in the coming quarters. Accommodative monetary policy remains necessary for a while longer to allow for effective fiscal and structural policy.
  - ➢ For the MENA region, our view remains unchanged; we see most MENA economies undergoing a U-shaped recovery, some wider-bottomed than others. This is partly due to the uneven vaccine programmes across the region.
    - Countries, such as Iran, Saudi Arabia and the UAE (where fiscal support was strong during the pandemic) are expected to recover faster than others and could surpass pre-pandemic GDP levels in 2022. Countries with below-average support may not see a return to 2019 levels until 2023.

Figure 1 - Real GDP Growth (%)[1]



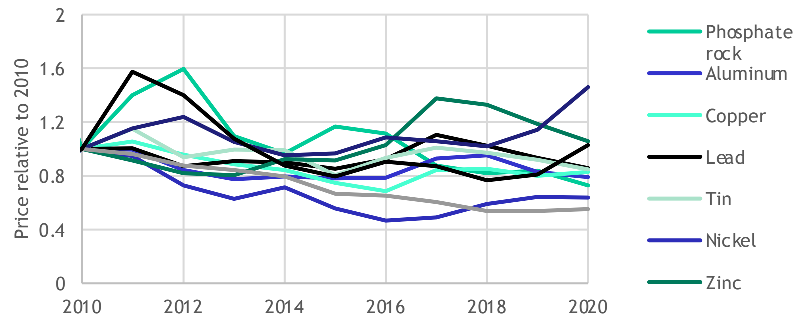
- **While the overall picture is becoming rosier for the MENA region, oil price volatility remains a key downside risk.**
  - ➢ Despite concerns about Iranian production potentially returning to the market alongside an OPEC+ output increase, oil prices continue to climb, reaching the highest level since October 2018. This will help rein in the GCC's current account and fiscal deficits, while allowing higher CAPEX to get economic wheels turning.
  - ➢ If oil prices average at USD 75 pb this year, GCC economies (with the exceptions of Bahrain and Oman) are likely to run surpluses. This could provide leeway for a looser fiscal policy cycle for some of these countries.
  - ➢ The IEA forecasts that global oil demand could surpass pre-pandemic levels by the end of 2022 with growth of 5.4M bpd in 2021 and 3.1M bpd in 2022. This follows the historic decline of 8.6M bpd in 2020.
    - OPEC+ will most likely continue to release supply gradually in the coming quarters, allaying concerns that the oil market could be at risk of overheating. Higher demand will likely meet this added supply.

[1] Arabia Monitor; IMF.

Energy Outlook: Critical minerals; new commodity ‘super-cycle’?

- **Critical minerals[1] are the new crucial commodities driving the transition to new energy systems. For instance, copper, an excellent conductor, is essential in electrical wiring for an “energy transition” from combusting fuels to relying on electricity for travel, heating, and industrial processes.**
  - ➢ The energy transition has led to rising mineral demand, mainly from electric vehicles, battery storage and electricity networks. Grids will be greatly expanded to meet the electrification of the global economy, as transport, heating and many industrial processes are converted to run on electricity.
    - According to the IEA’s Sustainable Development Scenario, by 2040, the use of lithium can rise by 42 times, graphite 25 times, cobalt 21 times, nickel 19 times, and rare earths 7 times. Assuming today’s technologies, shortages of lithium and cobalt can be expected with the ramp-up in electrification of transport. Rising demand and a lack of supply point to a fundamental conundrum for minerals: a new commodity ‘super-cycle’.
  - ➢ Prices have accelerated for various minerals in 2021 because of demand recovery from the pandemic, and massive economic stimulus plans in the US, EU, and China, most of which are centered on a green revolution.
    - This has led to predictions of a new commodity ‘super-cycle’, driven by economic expansion along with heavy investment in new energy technologies and infrastructure.
  - ➢ To drive the energy transition, critical minerals also need to address the challenges of new energy requirements. The greenhouse gas (GHG) emissions of mining and smelting are substantial, particularly for iron, copper, and aluminium, which rely on large quantities of diesel, coal and/or gas.
  - ➢ Carbon pricing could result in raised mining costs, translating to costlier minerals. This poses an additional problem for lower quality ores, which can result in higher GHG emissions.
  - ➢ Current world superpowers and large minerals reserves holders could exert significant market power, pushing mineral prices higher. Since October 2020, China has been coordinating the efforts of its manganese processing companies, leading to price increases.

Figure 1 - Price development of critical minerals[2]



    - Higher prices will lead to mining of lower-grade or more remote or difficult deposits (e.g. ocean floor), which could be ecologically damaging.
  - ➢ A key question is emerging regarding options to obtain new energy minerals without entering a ‘super-cycle’ and damaging the ecosystem. Higher prices and shortages can encourage attempts to reduce and substitute rare mineral use, albeit often with lower performance.
    - Already, cobalt has gradually been replaced by higher levels of nickel in lithium-ion batteries. New battery designs, such as lithium-iron-phosphate and lithium-aluminium could replace cobalt and nickel.
    - These substitute materials often have poorer performance, so they may be limited to less critical or demanding applications.
    - Environmentalists should recognise new mines are essential and not only in remote developing countries, while miners need to engage better with society. Squaring this circle needs R&D into new, more sustainable materials, technology, and resource extraction.

[1]Critical minerals include, most prominently, copper, lithium, cobalt, nickel, and rare earth elements (REEs), and a variety of other substances.
[2]Qamar Energy. This section is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts

MENA-India: Age-old ties blooming despite expat exodus

- **Relations between India and the MENA region trace back several millennia. These historical ties have been reinforced by a significant Indian expatriate presence throughout the region, and increasingly strong bilateral ties and geopolitical relations over the last decade.**
  - Modern relations between both have developed since the time of the British Raj, when Indian bureaucrats and military leaders were brought to Arab countries to provide technical knowledge and labour.
    - These relations were given a boost in the 1990s when both regions experienced economic reforms and diplomatic openings following a period of non-alignment in Indian foreign policy after it gained independence.
    - The huge presence of Indian communities throughout the region (particularly in the GCC) grew thereafter, with Indian expatriates playing an increasingly important role.
  - Another major shift took place in the 21st century, when the GCC became India's principal trade and investment partner.
  - This was crystalised when Saudi Arabia's late King Abdullah (1924-2015) was honoured as the chief guest as part of India's Republic Day in 2006, the first visit to India by a Saudi monarch since 1955.
    - India's former Prime Minister Manmohan and King Abdullah marked this new step in relations by signing the Delhi Declaration in 2006, which committed the two nations to a strategic energy partnership.
    - Since then, India has relied on the Gulf for its oil and gas needs and will continue to do so for the foreseeable future, consolidating its importance as a trade partner for the region.
  - In addition, the considerable presence of Indian expatriates throughout the MENA region is a key indicator of strong bilateral relations; an estimated 22% of the GCC population hails from India.
    - This aspect of India-MENA ties is anticipated to shift further in the coming years, with an expat exodus already in place due to nationalisation policies throughout the Gulf, exacerbated by COVID-19.

Table 1 - Brief Summary of Ties & Interests[1]

Country	Relevance to India
GCC	Power brokers, oil and gas, NRI population, defense and counter-terrorism cooperation, remittances
Egypt	North Africa connection & Africa access
Palestine	Ideological support
Iran	Oil and gas, Afghanistan, Central Asia
Turkey	Power broker
Israel	Defense cooperation, U.S. ties

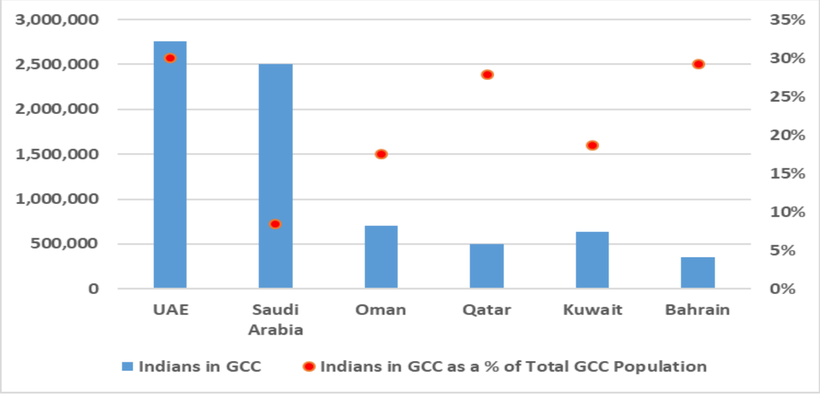
- Since Prime Minister Narendra Modi took office, diplomatic strides have increased to ensure ties remain strong between the MENA region and India.
  - One of Modi's first actions was to conduct a series of visits to major GCC capitals in the 2015-16 period. Diplomatic efforts increased during COVID-19, with the use of medical diplomacy employed by both sides to ensure ties remain strong.
- India also once boasted strong relations with Iran, which we expect to be revived following a potential nuclear agreement between Iran and the US.
  - India used to be Iran's second largest oil customer after China; it bought nearly 500k bpd in 2018.
- With a return to the nuclear deal, Indian refiners are making space for Iranian oil by reducing spot crude oil purchases in H2 2021.

[1] Arabia Monitor.

GCC-India: Labour, the qualitative shift

- **An exodus of expatriates from the GCC in 2020 has resulted in an accelerating shift in the GCC labour market and rising labour shortages. This trend is likely to put significant pressure on the GCC's Indian diaspora, impacting the remittance outflows to India going forward.**
  - The GCC region provides the largest source of foreign remittances to India. In 2020, the region accounted for over 50% of the USD 83B remittances India received globally. Yet, despite a tepid 0.2% YoY decline in 2020, India was still the largest recipient of worldwide remittances, with inflows making up around 3% of India's total GDP.
    - Besides COVID-19, reasons for the decline include a generally weaker economic environment and an acceleration of labour nationalisation policies, particularly in Kuwait and Oman.
  - Remittances from the GCC account for one-third of India's total foreign currency inflows. Over the last three years, the country has registered a significant flow of remittances, which grew from USD 62.7B in 2016 to USD 79B in 2018.
    - Of India's total remittances in 2020, 26% came from the UAE, followed by the US at 23% and Saudi Arabia at 9%.
  - Despite the GCC having been a major host for Indian workers since the 1970s, the pattern of migratory flows between both regions has experienced significant change in recent years, a trend compounded considerably by COVID-19.
    - In 2015, over 780K Indians went to work in the Gulf. By 2019, this figure dropped to 334K. In 2020, an estimated 1.2 million migrant workers out of 4M from India's Kerala state (which accounts for 19% of GCC remittance flow into India) returned from the Gulf.
  - As a result of the changes in Kuwait's residency law (which aims to reduce the number of expatriates to 30% of the population), the fall in Indian workers is expected to continue in the coming years.
    - Indian workers make up the largest expatriate community in the country. According to the bill, they should not exceed 15% of the population. This could result in 800,000 Indians departing.

Figure 1 - Indian Expatriates in the Gulf[1]



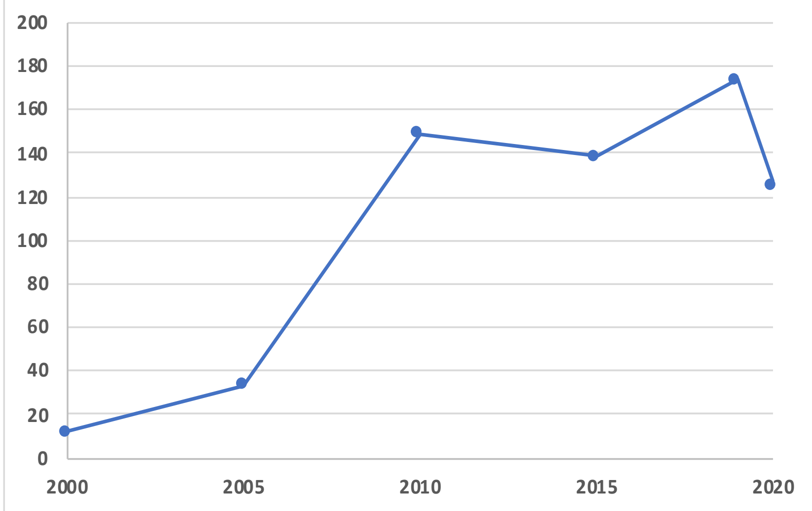
  - These trends could shift further as Gulf countries' economic wheels start to turn to pre-COVID levels. The proportion of Indian workers, however, is unlikely to reach pre-pandemic levels.
  - Nonetheless, while some GCC countries are tightening their rules, others are opening their doors wider. For instance, the UAE announced it will expand its ten-year golden visa policy.
  - Such structural changes will likely result in a shift towards attracting higher-skilled Indian labour, which should in turn create a new avenue for the India-GCC migratory structure.
  - We are already witnessing efforts to improve the skills of Indian blue-collar workers. In June, the Indian consulate in the UAE initiated a project which aims to boost Indian workers' skills.
    - The venture by the Indian consulate aims to encourage collaboration with educational establishments and Indian associations in the UAE to provide skills-based education for workers.

[1] Arabia Monitor; Indian Embassies in respective countries.

GCC-India: Trade, the big picture

- **With its large population, rapidly growing middle class and expertise in industrial and information service sectors, India is increasingly growing as a market with considerable potential for the GCC region to expand bilateral relations beyond the traditional oil and gas sectors.**
  - ➢ Trade with MENA over the last decade counted for 23.3% of India's total trade.
    - However, in line with the global downward trend last year, which was driven by the pandemic and lower oil prices, total bilateral trade declined by 27% YoY to reach USD 125B.
    - Before the pandemic, bilateral trade was growing; in 2019, it stood at USD 174B, representing a growth of more than 16% in the last ten years.
  - ➢ Trade figures show that MENA exports to India have enjoyed slightly more stability than India's exports to the region.
    - In 2020, Indian exports to the MENA region represented 15.3% (around US 42.2B) of India's total exports.
    - Imports from the MENA region, which tend to dominate the relationship due to energy exports, made up around 23% (USD 83.3) of India's total imports.
    - Between 2010 and 2014, MENA imports to India peaked, making up between 28% and 30% of total Indian imports. Yet since the oil crash in 2015, the total value of MENA imports decreased to an average of USD 95B, around 22% of India's total imports.
  - ➢ During the same period, Indian exports to the MENA region were relatively steady; they ranged between 22% and 23% of total exports.
    - Following the 2014 peak (of around USD 70B), exports to the MENA region dropped to almost USD 42B in 2020, around 15% of Indian exports.
  - ➢ Key MENA trade partners for India include the UAE, Saudi Arabia and Iraq; they accounted for 34% (USD 42B), 19% (USD 24B) and 14% (USD 17.6B) of total Indian bilateral trade with the region in 2020, respectively.

Figure 1 - India-MENA Bilateral Trade (USD, B)[1]



- GCC countries already account for the lion's share of the trade relationship. Even during the pandemic, the bloc accounted for over 70% of total Indian bilateral trade within the MENA region, reaching around USD 88B.
- Trade with the GCC (USD 87B) accounts for more than both India-ASEAN trade (USD 81B) and India-EU trade (USD 77B).

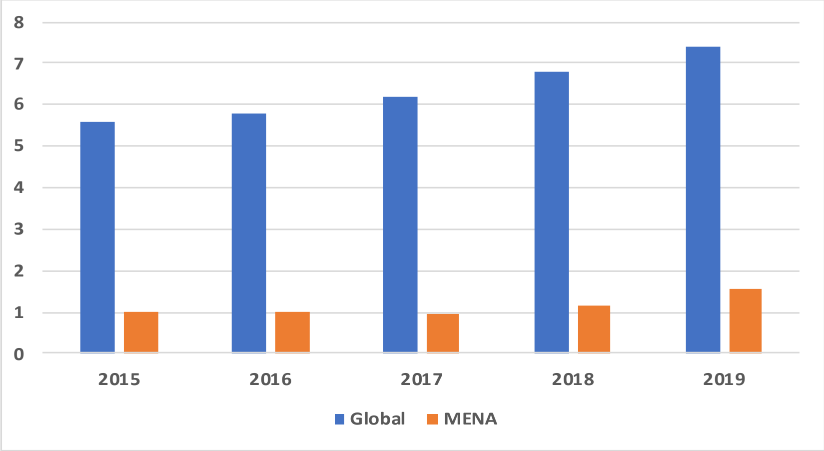
➢ The growth in two-way trade is largely buoyed by youth bulges in both populations, the emergence of new middle classes (in India alone estimated at 280 million people), and accelerating industrialisation.
- These factors, in addition to geographic proximity and pre-existing cultural-religious connections, are set to deepen economic engagement going forward.

[1] Arabia Monitor; IMF.

MENA-India: Cultivating the food corridor

- **Food security is a growing issue throughout the MENA region. This comes on the back of both a rising population and water scarcity. Regional states are therefore seeking to expand agricultural trade in order to meet local demand; India has always been an attractive import partner for the region.**
  - The agriculture sector accounts for a relatively small share of the MENA region's total GDP at roughly 13.5%.
    - The market is forecast to grow by an annual rate of 5.7% in the next five years, driven by a rising population and a change in eating habits.
    - To adapt to this growing demand, countries in the region are working on innovative solutions such as new irrigation resources and technologies, but challenges remain.
    - At 14% the MENA region's food import bill is higher than the global average of 12%.
    - The GCC is particularly vulnerable, importing around USD 50B of food annually. This accounts for approximately 85% of its total food consumption.
  - Conversely, India has cemented its place as an agriculture export hub; export reached around USD 29B in 2020 and are forecast to reach nearly USD 60B by 2022.
    - MENA countries are among the main contributors to the Indian agricultural trade market. Demand from Egypt, Iran, Iraq, Saudi Arabia and the UAE contributed to roughly 20% of Indian agricultural exports from April to December 2020.
    - The UAE leads the region in this field. Abu Dhabi imported around USD 1.3B of Indian agricultural goods last year. The Emirates were followed by Saudi Arabia (USD 1B) and Iran (USD 940M).
  - Notably, India dominates the rice export market, 70% of the MENA region's total rice imports come from India.
    - In particular, we expect a rise in rice exports to Iran following Tehran's lifting of a previous ban on Basmati rice imports from India.

Figure 1 - Food Imports from India (USD,B)[1]



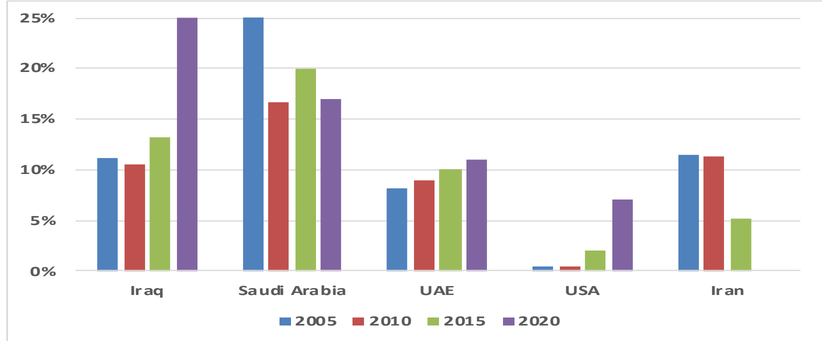
  - The flourishing relations between India and the MENA region are set to transcend the traditional food trade.
    - Agricultural research, specifically in food technology, is an emerging trend, and India has one of the largest agricultural research systems in the world.
  - The UAE is planning to become a regional hub for food knowledge and to grow its food production by 30% this year. There is no reason why India could not play a major role in aiding Abu Dhabi to achieve this goal.
    - The UAE launched an online platform named 'Agriota' to bridge the gap between Indian farmers and the UAE's food sector.
    - The platform, launched by the Dubai Multi Commodities Centre, is set to enable Indian rural farmers to connect directly with the UAE's food industry, which would almost certainly facilitate bilateral trade.

[1] Arabia Monitor; World Bank.

MENA-India: Vendor diversification; a crude awakening

- **India's energy consumption has more than doubled in the last two decades on the back of both a growing population and rapid economic expansion. India's continued industrialisation and urbanisation are set to increase its dependence on energy imports to 90% by 2040. The MENA region is among the major beneficiaries of this trend, especially Iraq, the UAE and Saudi Arabia.**
  - ➢ India's energy import dependence currently sits at 77%, with around 60% of its total crude oil imports coming from the MENA region.
  - ➢ Despite bilateral trade between India and Gulf countries having diversified, the hydrocarbon sector is still the partnership's most important.
    - India's oil imports from the GCC as a proportion of its total hydrocarbon imports represent the world's second highest after China. This share is only expected to rise.
  - ➢ During the COVID-19 pandemic, India's hydrocarbon trade with the GCC reached around USD 62B, constituting 36% of total hydrocarbon trade globally.
  - ➢ Across the GCC, Saudi Arabia and the UAE were India's top suppliers. In 2020, they accounted for 17% (the second largest) and 11% (the third largest) of India's oil import market share, respectively.
    - Notwithstanding Riyadh's leading position across the Gulf, Saudi volumes to India declined nearly 11% YoY to 36M Mt last year. We expect volumes from Saudi Arabia to remain tight this year, particularly as the kingdom gradually eases its oil production cuts.
  - ➢ Iraq once again took the lead as the top supplier of oil to India, a position it has held since 2017. Going forward, Baghdad could struggle to retain this position if Iranian crude oil returns to the market.
  - ➢ Iran was the third-largest supplier to India in 2018, accounting for 11% of its total oil imports. Before the nuclear deal was signed in 2015, Iranian oil accounted for 6% of India's total imports.
    - Last year, Iranian crude imports into India dropped to zero for the first time. This gave Iraq the opportunity to snatch the lead, accounting for up 25% of India's total oil imports. Imports reached 50M Mt last year. This 9% YoY increase was in part driven by last year's competitive pricing.

Figure 1 - India's Crude Oil Imports (% of total)[1]



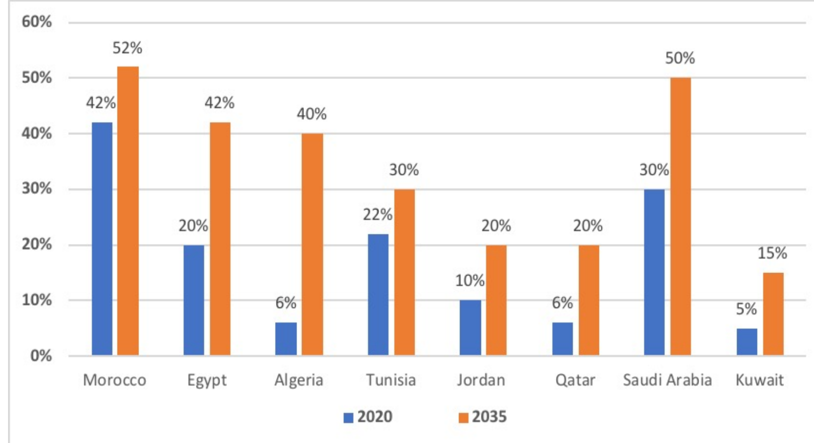
- ➢ More recently, non-OPEC oil suppliers, such as the US, have become more attractive to India. This comes as India begins to diversify its oil dependence away from the GCC. If sustained, this trend could put downward pressure on the energy trade between India and the MENA region.
  - By the end of March 2021, OPEC's share of India's oil imports fell to its lowest level in at least two decades to 72% (down from 80%). India dropped its purchases to 2.8M bpd from the OPEC+ and instead bought more US and Canadian oil, which accounted for about 7% and 1.3% respectively of India's imports compared to 4.5% and 0.60% in 2019.
- ➢ Although Iraq remained India's top oil supplier in February, the US came second, accounting for 14% of oil imports. Whilst oil imports from Saudi Arabia declined sharply by 42%.
  - This drop may yet continue. Indian refiners are planning to cut imports from Saudi Arabia by about a quarter to reach 10.8M bpd from a monthly average of 14.8M bpd.
- ➢ It remains to be seen whether India's decision to speed up the diversification of its oil vendors will be short-lived and is a response to the production cuts put forward by the OPEC+.

[1] Arabia Monitor; EIA.

GCC-India: Renewables rising

- **Disruption to global oil and gas activity throughout 2020 has had a dramatic effect on energy investments and supply chains. This has presented the MENA region with an opportunity to steer the energy sector onto a more resilient and sustainable path. Such an approach matches India's energy needs.**
  - ➢ Investment in renewable energies throughout the MENA region has seen a nine-fold increase during the past eight years. By 2025, investment in renewable energies is expected to reach around USD 183B.
    - Across the region, almost USD 150B is being invested in solar power, with USD 28B directed towards wind energy, waste-to-energy, hydro and geothermal power plants. By 2025, the region is expected to see its solar and wind energy capacity increase by a factor of 18, amounting to 57 GW.
  - ➢ In the GCC alone, renewable energy capacity grew by an annual rate of nearly 180% to 7GW between 2018 and 2020.
    - To continue along this ambitious path, significant investment will be needed. As such, a large number of jobs are expected to be created; the Indian labour market is likely to be among the key beneficiaries.
  - ➢ We expect the contours of energy trade relations between India and the GCC to see investments in green energy at the forefront.
    - In October 2020, the Indian conglomerate Larsen & Toubro announced that it is growing its portfolio of power and water projects in the GCC, which includes its first large-scale renewable energy project.
    - The company's Power Transmission & Distribution business is set to implement 73 substation projects across the GCC, with the Dubai Electricity and Water Authority, the Abu Dhabi Transmission and Despatch Company among those established as clients in the UAE.
  - ➢ Additionally, developments in the region's renewables sector are in line with India's clean energy targets. This is expected to encourage a large outflow of investments from the MENA region into India.
    - According to the Draft National Energy Policy, India aims to increase its share of renewables in the energy sector from 3.7% in 2012 to 6.6% in 2022. This is forecast to peak at 13.7% in the next ten years.

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



    - As it gains momentum, the Indian solar energy sector is estimated to have a potential investment worth about USD 223B over the next five years. This provides investors from the MENA region with a new market opportunity that promises potential high returns.
  - ➢ Interest from the GCC is rapidly emerging. The Mubadala Investment Company and the Abu Dhabi Investment Authority along with other international investors, are exploring investing up to USD 600M in the Indian power company Tata Power.
    - In 2019, Mubadala-owned Masdar acquired a 20% stake in the Indian renewable firm Hero Future Energies for USD 150M.
  - ➢ More deals are expected particularly as the GCC countries have the potential to be in pole position as serious players in renewable energy sectors.

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

GCC-India: Investment cruising forward

- **India continues to attract strategic investments from the GCC. Going forward, we expect to see an acceleration of investments as the GCC expands on their international investment portfolios.**
  - Notwithstanding considerable growth in economic links in recent years between the GCC and India, further opportunities lie ahead.
    - After signing a framework agreement in 2004 (which was later stalled in 2008) India is reviving talks focused on a Free Trade Agreement (FTA) with the GCC. The talks are still in a preliminary stage, but an FTA would boost Indian exports to the GCC, deepening cooperation by way of higher flows of bilateral FDI.
    - It is estimated that by 2030, India will remain the UAE's top export destination accounting for almost 15% of exports globally. Saudi Arabia is forecast to be the second largest export destination accounting for 20% of total exports.
  - In its FY 2020/21, India posted its highest total FDI inflow of USD 82B, a 10% YoY increase from FY 2019/20. A catalyst for this increase was Saudi Arabia.
    - The kingdom invested around USD 2.8B in FY 2020/21 compared to USD 90M during the previous FY. This underscores that a USD 100B in investments pledged made in 2019 by Crown Prince Mohammed bin Salman appears to be unfolding
  - We expect more to come. Key projects currently underway include the USD 44B deal between India, Saudi Aramco and the Abu Dhabi National Oil Company (ADNOC) to build a refinery in Ratnagiri (Maharashtra State, India), as well as Saudi Aramco's planned purchase of a 20% stake in India's Reliance Industries Limited.
    - The impact of these projects is expected to be felt beyond the Gulf, encouraging other countries in the region to tap into India through collaboration with private firms for long-term gains.
  - As countries begin their economic recovery cycle, we expect to see several Indian firms take advantage of growing investment returns, particularly as the GCC continue to loosen their foreign investment laws.

Figure 1 - UAE FDI Outflows to India (USD, M)[1]

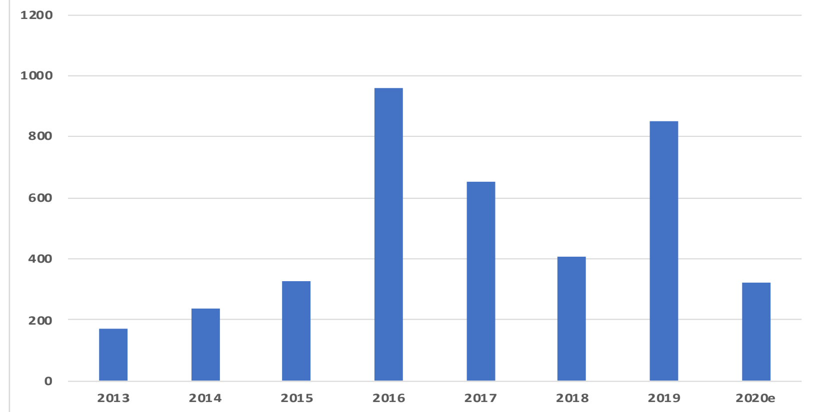
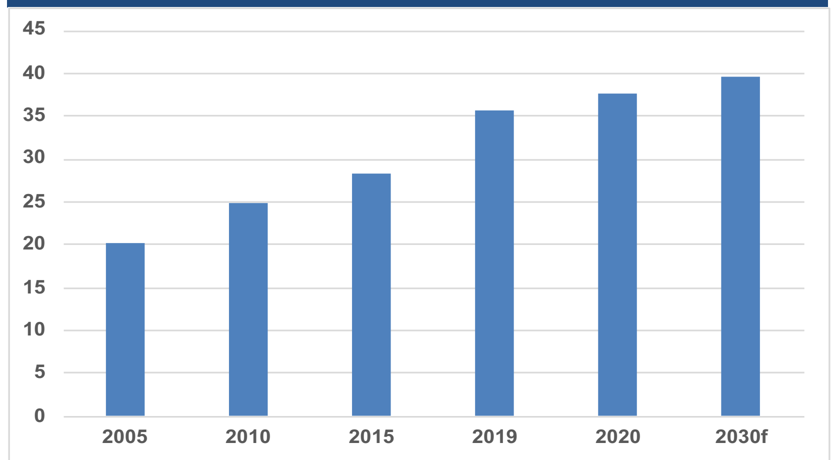


Figure 2 - Saudi-India Trade (USD,B)[2]

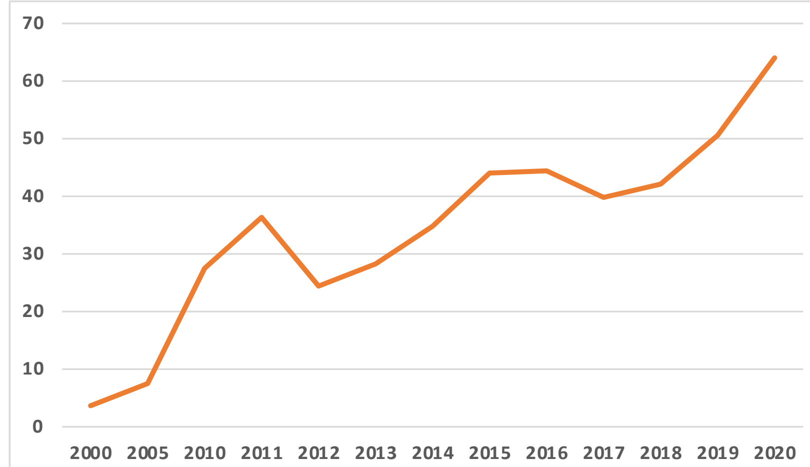


[1] Arabia Monitor; UNCTAD.
[2] Arabia Monitor; IMF.

MENA-India: Start-ups driving new economic ties

- **India is emerging as an attractive investment partner due to its large market size, low overhead costs and reputation as a technology hub. As a result, bilateral agreements between New Delhi and the MENA region have become a regular feature in recent years.**
  - ➢ There is an increasing interest in Indian start-ups from MENA investors, with GCC countries in particular capitalising on India's regional potential.
    - Such investments can be traced back to 2014, when the Bahrain Economic Development Board opened offices in both New Delhi and Mumbai to attract Indian fintech firms to Bahrain Fintech Bay.
    - Similarly, India's National Association of Software and Service Companies signed a partnership agreement in 2018 with the innovation and technology hub Dubai Internet City to encourage Indian start-ups in the Emirate.
    - The following year, Saudi Arabia's Ministry of Investment signed 11 MoUs to attract Indian start-ups to the kingdom.
  - ➢ To date, seven Indian unicorns valued at more than USD 14B have entered the GCC market.
    - For example, Oyo Rooms, an Indian hospitality chain, entered the UAE in 2019, with the aim of offering 12K rooms in 150 hotels across the Emirates. Additionally, Oyo has signed an MoU with the Saudi Arabian General Investment Authority to invest USD 1B in the kingdom's growing hospitality industry.
    - In 2019, the Qatar Investment Authority invested USD 150M in BYJU, an Indian educational technology start-up, to encourage its expansion into international markets.
    - Last year, the Mubadala Investment Company, the Abu Dhabi Investment Authority and Saudi Arabia's Public Investment Fund invested USD 3.4B in Reliance Jio, an Indian telecommunications company and a key player in the country's digital economy.
  - ➢ Additionally, the Indo-MENA corridor was launched in February 2021 by LAFFAZ, an Indian entrepreneurship platform, with the purpose of linking tech start-ups with possible financiers and advisors through an application process and virtual events.

Figure 1 - India: FDI Inflows (USD, B)[1]



- The results are already visible; several Indian start-ups including BigBasket, Ola and Zomato gained investments from the MENA-based VC firms, including Investcorp, the Mubadala Investment Company and Vy.

➢ A further encouraging initiative includes last year's partnership between Dubai Startup Hub, Startup India and Mumbai Fintech Hub, which launched the Dubai Tech Tour.
- The Dubai Tech Tour will see 15 Indian fintech and healthtech start-ups join a virtual trade mission with potential UAE investors to explore and enhance the UAE-India investment partnership, particularly in new and innovative sectors.

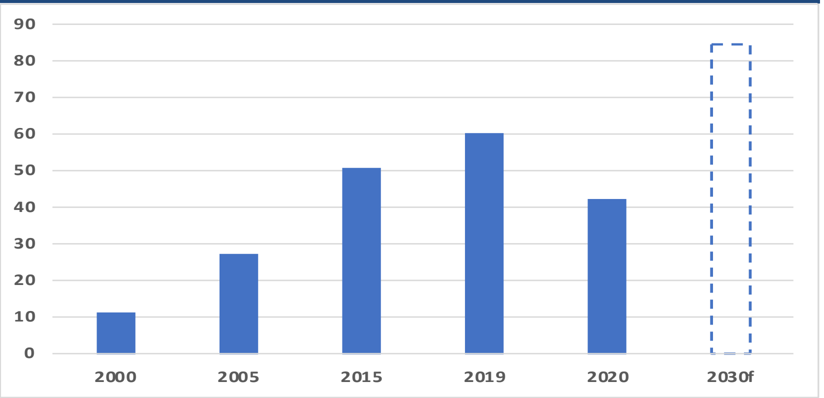
➢ We expect that the investment relationship between both regions will extend, particularly with the Expo 2020 Dubai set to open doors for more innovative investments.

[1] Arabia Monitor; UNCTAD.

UAE-India: Old friends, new visions

- **Since the UAE and India established formal diplomatic relations in 1972, bilateral ties have broadened significantly, especially in the last few years. This flourishing relationship can be attributed to an Indian diaspora, which has been present in the UAE for over half a century. Prime Minister Narendra Modi has made it a priority to build on the considerable Indian presence in order to increase engagement with Abu Dhabi.**
  - Modi's visit to the UAE in 2015 helped boost bilateral ties.
    - The visit led to a series of agreements which greatly strengthened economic and security co-operation between the two countries. These initiatives were in line with the Modi government's 'extended neighbourhood' policy, which considers relations with the UAE as hugely important for India's regional interests.
    - The Comprehensive Strategic Partnership signed in 2017 cemented the role of the UAE-India High Level Joint Task Force on Investments as a tool to promote economic ties.
    - Additionally, the UAE-India Business Council (UIBC) built on these foundations in 2019 to create a single window and fast-track process for UAE companies seeking to invest in India.
  - These numerous agreements are bearing fruit; bilateral trade reached an estimated USD 60B in 2021.
    - Strong trade ties have created lucrative investment opportunities, particularly for the Emirates.
    - For instance, the UAE's Mubadala Investment Company invested USD 1.2B in the Indian telecommunications and digital services firm Jio Platforms in June 2020.
  - Similarly, the India-UAE 'food corridor' has already attracted USD 5B of proposed investments in India's mega food parks and extensive farming logistics.
    - To attract the funds, India has proposed a 100% tax exemption from interest, dividend and capital gains income in investments related to key sectors before 31 March 2024.

Figure 1 - UAE-India Bilateral Trade (USD,B)[1]



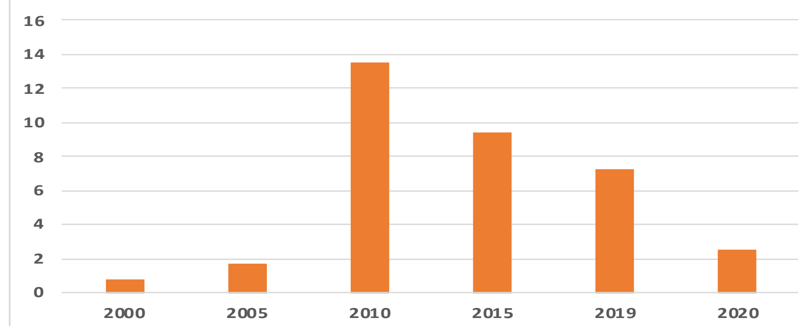
  - The UAE's investments in India have topped USD 9B, making the Gulf state the tenth largest source of FDI in India.
    - Both countries consider the technology sector a key pillar of future growth, which has led to the signing of an MoU to generate USD 20B in the sector by 2028.
    - Within this field, India's large pool of talent and human capital forms a perfect match with the UAE's cutting-edge technology sector aspirations.
  - Several new opportunities between India and the UAE are emerging; among these are the upcoming Expo 2020 Dubai.
    - India's USD 68M Pavilion was completed in March, and is set to showcase India's 5Ts: talent, trade, tradition, tourism and technology. It will also show off the crucial role of Indian expatriates in the UAE's growth.
  - Additionally, the International Federation of Indo-Israel Chambers of Commerce was launched in the UAE in December 2020. It will help to promote bilateral cooperation in IT, agriculture technology, healthcare and sustainability.

[1] Arabia Monitor; IMF; World Bank.

Iran-India: A balancing act

- **Iran and India were forced to apply the brakes to their historically strong relationship following sanctions imposed against Tehran by the former US administration. However, with a nuclear deal potentially around the corner, Iran's return to the global market may deepen these bilateral ties to previously unseen levels of co-operation.**
  - ➢ Even though a new nuclear deal has yet to be signed, India has already signalled that it has made room for the return of Iranian crude.
    - Imports from Iran halted in May 2019 after the former US administration refused to renew India's waivers to import oil from Iran.
    - In 2009, before US sanctions, Iran was India's second largest oil supplier after Saudi Arabia. Indian companies paid 45% of their dues for crude in rupees through a designated Indian branch, with the rest paid in euros through a Turkish bank.
    - For Iran, India was therefore crucial. New Delhi imported 457K bpd; at the peak in March 2016, it imported an estimated 506K bpd. As this time, India was the second largest importer of Iranian oil after China.
  - ➢ Now, with talks in Vienna showing gradual progress, Indian state refiners have disclosed that they are committed to buying Iranian oil once again.
    - Companies who have made official statements regarding their commitments to reinstating imports include Bharat Petroleum, Hindustan Petroleum Corporation and Mangalore Refinery and Petrochemicals. The Indian Oil Corporation has said that it has made room for 14M barrels of crude this FY.
- **Until US sanctions are lifted, India's engagement with Iran will remain limited. New Delhi has become increasingly dependent on the US for its security concerns and therefore needs to manage a balancing act between Washington DC and Tehran.**
  - ➢ India's Minister of External Affairs, Subrahmanyam Jaishankar, visited Washington last month to meet with Secretary of State Antony Blinken, Defense Secretary Lloyd Austin and National Security Advisor Jake Sullivan. Discussions focused on defense ties, multilateral co-operation and commitments to the Quadrilateral Security Dialogue.

Figure 1 - Iran-India Bilateral Trade (USD,B)[1]



  - Against this backdrop, Iran-India ties will depend on non-oil trade, especially through Iran's Chabahar Port which is exempt from US sanctions, unless a deal is reached soon.
- ➢ Compounding India's problems is its loss of a key contract. New Delhi had relied on securing the opportunity to develop the Farzad-B gas field; however, it lost the contract to Iran's Petropars, a setback in the countries' energy relations.
  - ONGC Videsh Limited discovered the gas field in 2000 and has since played a co-operative role in its development. An Indian consortium had been negotiating with the National Iranian Oil Company (NIOC) but talks broke down after the US introduced sanctions in 2018.
  - Instead, the USD 1.78B contract was granted to Petropars, a NIOC subsidiary. The gas field is set to produce 28M m3/d of gas over five years.
- ➢ Tehran has said that it may include India in future negotiations. This scenario is feasible, but only if ties are revived following the lifting of US sanctions.

[1] Arabia Monitor; IMF; World Bank.

Iran Market Monitor: Hard lines, hard times

- **As predicted in our Country Views, the end of a moderate period in Iranian politics is nigh. The recent election of Supreme Leader Ali Khamenei's protégé, Ebrahim Raisi, has ushered in a new hardline era.**
  - ➢ Raisi's cabinet picks will become clearer in the coming days. They will likely comprise clerical elites and those affiliated with the Islamic Revolutionary Guard Corps (IRGC).
    - The replacement of Foreign Minister Mohammad Javad Zarif will be a key appointment to monitor.
  - ➢ The transition comes amid a critical time in global diplomacy as the world looks to re-enter a nuclear agreement with Iran, bringing Tehran back in from the cold and reintegrating the Islamic Republic into global markets. However, with the presidential handover underway, it is unlikely a deal will be finalised until Raisi takes his seat in early August.
- **Iran's economic recovery, despite remaining in positive growth territory throughout 2020, is forecast to be gradual. This comes on the back of both a slow vaccination rollout and weak demand from regional trading partners. Sanctions relief from the US could support the rebound, but this will likely only be reflected in 2022.**
  - ➢ Despite the initial COVID-19-induced shock to GDP, the strong rebound in H2 2020 led to a modest expansion of 1.5%, making Iran, besides Egypt, the only country in the MENA region to post growth in FY 2020/21.
    - Last year's forecast was revised up from the estimated 5% contraction issued in October 2020. This softer impact on GDP was mainly due to Iran's pre-existing average growth contraction of 6.4% between 2018 and 2019. The economic rebound in H2 2020 was also stronger than expected, for both oil and non-oil sectors; these grew by 16% and 3% YoY, respectively.
  - ➢ Growth momentum is expected to be maintained in FY 2021/22. The IMF forecasts GDP growth at 2.5%. Iran's economy could expand by as much as 4.4% in 2021 and by 6.9% in 2022, if sanctions are removed. We expect the IMF growth forecast to be revised upwards even if a nuclear deal is not reached in 2021. The regional dimension of this new deal are challenging, and will delay it.

Table 1 - Iran Macroeconomic Indicators[1]

	2017/18	2018/19	2019/20	2020/21	2021/22f
Real GDP Growth (%)	3.9	-6.0	-6.8	1.5	2.5
Crude Oil Production (M Bpd)	3.6	3.5	2.1	2.2	2.4
CPI Inflation (%)	9.6	30.2	34.6	36.5	39.0
Fiscal Balance (% of GDP)	-1.4	-2.0	-5.1	-8.4	-6.8
C/A Balance (% of GDP)	3.8	0.6	0.6	-0.7	1.2
Total Gov't. Gross Debt (% of GDP)	39.5	38.5	47.9	42.8	36.6
Total Gross Extrn'l Debt (% of GDP)	2.2	2.3	1.6	1.8	1.6
Gross Official Reserves (Mos. of Imports)	14.3	122.5	12.4	4.0	12.2
Nominal GDP (USD B)	430.7	456.6	581.3	635..7	682.9
Population (Millions)	81.1	82.0	83.2	83.9	85.0

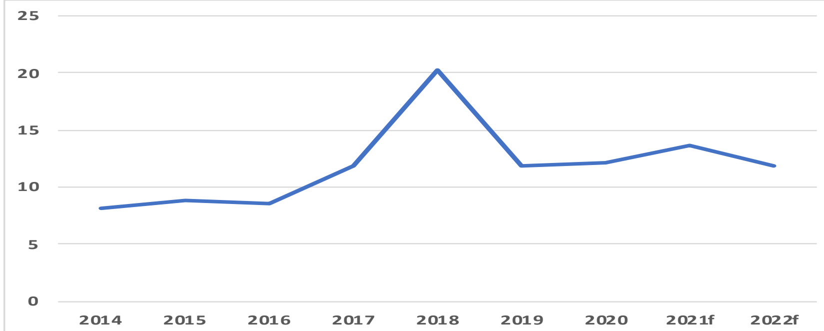
- ➢ Iranian officials had announced that crude production could rise from 600K bpd in May to 2.5M bpd by December if a framework deal outlines the terms for full sanctions relief.
  - For context, production levels immediately before the US reimposed sanctions in 2018 peaked at 3.9M bpd, with exports averaging a high of 2.9M bpd in May 2018.
- ➢ Exact figures concerning oil exports in 2020 are not clear, though Iranian officials claim they reached 700K bpd. The IMF estimates that production averaged at 2.23M bpd.
  - As long as Iran is exempt from OPEC+ cuts, the country should meet this year's production target.
  - Recovery is already underway. In April, oil production reached 2.43M bpd, a rise from 2M bpd at the end of 2020.
  - This comes despite the fact that after the nuclear deal was implemented in January 2016, it took five months for Iran to increase oil exports from 1.1M bpd to 2.1M bpd.

[1] Arabia Monitor; IMF.

Turkey Market Monitor: Against all odds

- **With the US president Joe Biden stepping up his condemnation of Erdogan, we expect the relationship between the once strategic NATO partners to sour.**
  - Under Erdoğan's tenure, Turkish foreign policy has become both unilateralist and militaristic as it attempts to wield a larger regional footprint.
    - In the past few years, Turkey has involved itself militarily in Libya and Syria. It has also made claims on the Eastern Mediterranean (EastMed) Pipeline.
    - Turkey's presence in Libya initially involved military support for the UN-backed Government of National Accord (GNA) against an offensive conducted by Field Marshal Khalifa Haftar's Libyan National Army (LNA). Ankara is now reaping the benefits of its intervention.
    - Reports in Libyan political circles suggest that Turkey is set to revive pre-2011 era contracts and to win new infrastructure projects throughout the country.
    - Libyan Foreign Minister Najla el-Mangoush came under harsh scrutiny for suggesting that Ankara should call for the removal of its troops from Libya.
  - While Turkey will hold onto its NATO membership (Erdogan met with Biden at the NATO summit earlier this month), its relationship with the west will remain stagnant as Ankara builds on its eastern partnerships.
    - The first meeting between the two leaders came after Biden labelled the execution of Armenians during the rule of the Ottoman Empire as a genocide.
    - The meeting, as expected, did not bear any substantial deliverables; rather it comprised much rhetoric from the Turkish president on its promising potential.
- **Turkey's economy is set to grow this year following a sharp rebound in H2 2020. Yet with inflation mounting and FX rapidly deteriorating, the economy is not immune to shocks.**
  - Turkey's GDP is forecast to expand by 6% in 2021 before reverting to a lower growth trend with an average of 3.5% in the coming two years. This compares with 1.6% growth in 2020.

Figure 1 - Turkey's Inflation (%)[1]



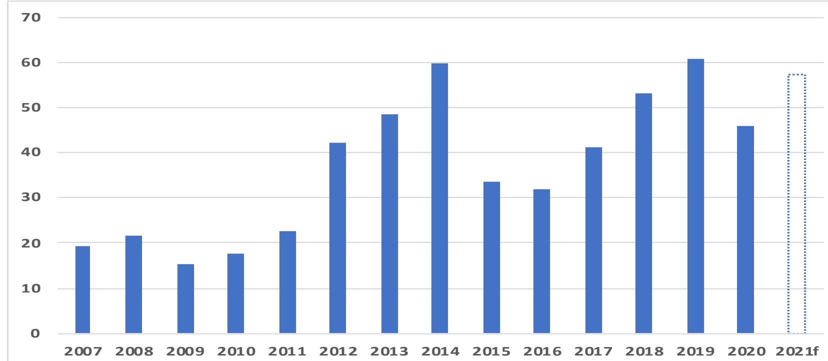
  - Despite the growth, the continued politicisation of economic policymaking, along with the country's depleting FX reserves, suggests that a sustainable Turkish economic model is far from reach.
  - The current account deficit, which stood at 5% of GDP in 2020, is forecast to narrow by 2.3% in 2021. Recovery is already underway; in April 2021, the deficit reached USD 32.7B from USD 36.3B in the previous month.
    - The improvement is attributed to a narrower gold trade deficit with an ongoing mean reversion trend, along with the gradual recovery in tourism.
    - However, with Russia, Germany and the UK -- the largest tourism markets for Turkey -- imposing onerous travel restrictions, recovery will be delayed.
  - On 17 June, the Central Bank of the Republic of Turkey kept interest rates steady at 19% for the third consecutive month after raising it by 200 basis points in March.
    - Policymakers are, at least for now, standing up to political pressure to lower interest rates. Yet with price pressures gradually starting to relax, we expect that the easing cycle in monetary policy will likely begin in the coming months.

[1] Arabia Monitor; IMF.

Sino-UAE: Not all roses are red

- **Amid long-standing energy, trade and investment ties, the UAE-China partnership in 2021 has entered a new arena, in which lie both opportunities and risks. Most notably, these include digital currency, culture, sports and potential US influence on Chinese telecoms and military tech in the UAE.**
  - With China fast-tracking the domestic rollout of its digital RMB, the 'Multiple Central Bank Digital Currency' (m-CBDC) bridge between China and the UAE is poised to restructure the current cross-border payment landscape, with potential to accelerate the internationalisation of the RMB and to eventually disrupt the dominance of the USD (and petrodollar).
    - Since first trialling in late 2019, Beijing has expanded the geographies and scope of its digital RMB domestically, with all major banks providing the currency, and e-commerce platforms accepting the new payment form.
    - The m-CBDC project will explore the capabilities of distributed ledger technology (DLT) and CBDCs in facilitating cross-border, multi-currency and real-time payments.
    - It was built on an earlier project between Hong Kong (China SAR) and Thailand, before expanding to China and the UAE with a goal to expand across Asia.
  - Deepening people-to-people relations have also made the UAE a second home to Chinese football, a hugely popular and highly commercial market, the value of which is projected to reach around USD 600B by 2025.
    - Due to current COVID-19-related restrictions, China chose to play its FIFA World Cup qualification games in Sharjah (UAE). This is primarily due to the UAE's openness and close ties with China, typified in part by its large Chinese communities. This is the second time China's football team has used Sharjah as its home base.
    - The implications are multi-fold, and underscores the UAE's unique position in China's overseas activities. The move could lead to huge opportunities in tourism, leisure and sports.
- **Yet the picture is not an entirely rosy one, even if the UAE could potentially receive investment for China's largest overseas acquisition this year.**
  - China Southern Power Grid is in talks to acquire about 10% of the Abu Dhabi National Energy company, valued at USD 4.2B.
  - The US has voiced its concerns over UAE-China relations with regard to implications for security.

Table 1 - China- UAE Bilateral Trade (USD,B)[1]



    - With a planned USD 23B US weapons sale to the UAE, the US is worried about China accessing its defence technology.
  - In addition, Washington DC would reportedly prefer for the UAE to remove China's Huawei from its telecommunications infrastructure in the next four years, ahead of the delivery of the arms.
  - Huawei is a key player in the installation of 5G networks throughout the UAE, and is working with various government entities to establish the emirates as a 'globally trusted digital oasis'.
    - Any scenario in which Huawei is removed from the UAE would involve Abu Dhabi having to secure a viable alternative provider, while also considering the impact of its future relations with China.
  - Canada, for example, has severed ties with China due to disagreements over Huawei, a move which has led to a significant drop in bilateral trade and investment.
  - With US President Joe Biden's administration taking a hard line against China amid growing Sino-Emirati tech ties, we expect Washington DC to place more pressure on Abu Dhabi to refrain from collaborating with Chinese tech providers.

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

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]												
	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f
Algeria	-4.2	4.6	2.4	4.9	-12.7	-18.4	-10.5	-7.7	2.3	3.6	13.3	10.5
Bahrain	-5.4	3.3	-2.3	1.5	-18.3	-9.1	-9.6	-4.0	257.7	245.5	1.1	1.2
Iran	1.5	2.5	36.5	39.0	-8.6	-6.8	-0.7	1.2	1.8	1.6	0.6	1.9
Iraq	-10.9	1.1	0.6	9.4	-19.8	-9.2	-14.8	0.0	47.9	34.0	8.9	8.4
KSA	-4.1	2.1	3.4	2.7	-11.1	3.8	-2.1	2.8	27.6	22.4	26.3	25.7
Kuwait	-8.1	0.7	2.1	2.3	-9.4	-6.8	0.8	8.6	66.7	60.6	11.2	8.3
Libya	-59.7	131.0	22.3	18.2	-103.0	0.3	-11.4	3.9	...	...	...	...
Oman	-6.4	1.8	-0.9	3.8	-17.3	-4.4	-10.0	-6.4	126.9	111.7	6.7	5.8
Qatar	-2.6	2.4	-2.7	2.4	1.3	1.4	-3.4	7.1	184.9	163.7	8.6	9.3
UAE	-5.9	3.1	-2.1	2.9	-7.4	-1.3	3.1	7.1	99.5	92.2	4.3	4.5
Yemen	-5.0	0.5	26.2	30.6	-9.6	-6.1	-2.4	-8.5	29.9	30.3	1.1	1.1
Average	-10.1	12.8	7.8	10.7	-19.6	-5.1	-5.5	0.4	84.5	76.6	8.2	7.7
Average Ex-Yemen	-10.6	15.3	5.9	8.7	-20.6	-5.1	-5.9	1.3	90.6	81.7	9.0	8.4

Table 2 – MENA Oil Importers[1]												
	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f	2020	2021f
Djibouti	-1.0	5.0	2.9	2.4	-1.3	-2.0	2.9	-2.0	72.2	71.7	1.3	1.1
Egypt	3.6	2.5	5.4	7.0	-6.9	-5.4	-3.1	-4.0	34.5	38.1	6.4	6.3
Jordan	-2.0	2.0	0.4	2.3	-8.9	-7.7	-8.1	-8.3	105.5	110.6	10.2	9.1
Lebanon	-25.0	...	88.2	...	-9.9	...	-14.3	...	...	...	11.2	...
Mauritania	- 2.2	3.1	2.3	2.4	2.1	-2.5	-11.6	-11.1	58.3	54.6	4.2	4.7
Morocco	-7.0	4.5	0.6	0.8	-7.6	-6.4	-2.2	-3.8	39.3	39.9	7.5	7.0
Palestine	-11.0	5.7	-7.0	0.3	-10.7	-10.5	-9.0	-10.5	10.1	10.4	1.0	...
Somalia	-1.5	2.9	...	...	...	...	-13.3	-12.2	39.3	36.7	...	...
Sudan	-3.6	0.4	163.3	197.1	-5.9	-3.1	-17.5	-11.2	246.8	207.5	1.8	1.1
Syria	...	...	...	...	...	...	...	...	...	...	...	...
Tunisia	-8.8	3.8	5.7	5.8	-10.7	-10.5	-6.8	-9.5	94.7	99.2	4.1	3.7
Average Ex-Syria	-5.9	3.3	32.4	30.8	-7.3	-6.6	-9.5	-8.8	78.6	74.6	5.8	5.3

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

Algeria: Independents, Hirak boycott, chip at established blocks

NR/NR

- **When Algeria's former president Abdelaziz Bouteflika was overthrown in 2019 after months of anti-regime protests, many had hoped for a new dawn. His successor, Abdelmadjid Tebboune, promised to finally bring democracy and transparency to the largest country on the African continent. Two years later, Algeria is looking more fragile than ever, with a seemingly perennial political and economic crisis exacerbated by another election drawing a record low turnout.**
  - Algeria's parliamentary election, held on 12 June, was supposed to open the way for a 'new Algeria'. Instead, the vote damaged the government's legitimacy even further.
    - With an estimated 23% turnout, the lowest in at least 20 years for legislative elections, it is now clear that the majority of the Algerian population has given up on the electoral process.
    - Only around 5.6M of nearly 24M eligible voters took to the polls.
  - In comparison, the last legislative vote, which took place in 2017, had a turnout of 35.7%. The even lower 2021 turnout came as a result of widespread calls for boycotting, mostly from the Hirak movement, as well as from traditional opposition parties such as the Socialist Forces Front and the Rally for Culture and Democracy.
    - Hirak doubled down on its calls for a boycott after seven of its leaders were arrested during the week before the election, including the leading opposition figure Karim Tabbou.
    - The authorities cracked down heavily on Hirak protestors in the run-up to the election, preventing pro-democracy marches and arresting dissidents. Currently, there are an estimated 200 people in prison in connection with the protest.
  - The National Liberation Front (FLN), the country's largest political party since independence, won the most seats in the election.
    - The result was met as a surprise to us, despite the party's decreased popularity under Tebboune. Pre-election polls were widely expecting the Islamist Movement of Society for Peace (MSP) to win.
    - This is something of a relief; the last time an Islamist party won the election in Algeria, in 1992, this sparked the Algerian Civil War.

Algeria Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.4	0.8	-5.5	2.9	2.7
Crude Oil Production (M bpd)	0.9	0.9	0.8	0.9	0.8
Oil GDP Growth (%)	-6.4	-4.9	-9.6	0.1	8.0
Non-oil GDP Growth (%)	3.3	2.4	-4.5	3.4	1.8
CPI Inflation (%)	4.4	3.4	3.5	4.9	6.0
Fiscal Balance (% of GDP)	-6.9	-9.7	-16.4	-18.4	-16.0
C/A Balance (% of GDP)	-9.6	-9.6	-10.8	-7.7	-8.7
Total Gov't. Gross Debt (% of GDP)	38.1	46.3	57.2	63.3	73.9
Total Gross External Debt (% of GDP)	1.8	2.3	1.9	3.6	5.2
Gross Official Reserves (Mos. of Imports)	17.8	17.7	10.1	10.5	8.6
Nominal GDP (USD B)	173.8	169.0	147.3	151.5	150.1
Population (Millions)	42.2	43.1	44.2	45.0	45.5

    - It is not an outright victory for the FLN, as the party's 105 seats were far short of the 204 needed to secure a majority in the parliament of 407 seats.
    - Significantly, independents came second with 78 seats, while the MSP (which claimed victory) was third with a measly 64 seats, the same share they held previously.
  - Despite the crackdown on Hirak, the leaderless and non-partisan movement has yet again emerged as the victor in this political battle; the majority of the Algerian electorate remained faithful to the movement instead of voting in an election widely seen as obsolete.
  - We expect the government to continue its crackdown against Hirak; yet so long as the systemic socio-economic problems that Algerians have faced for decades (and which Hirak capitalise on to generate anti-government sentiment) remain unsolved, the political situation in Algeria is unlikely to change any time soon.

[1] Arabia Monitor; IMF.

Bahrain: Balanced budget pushed beyond 2022

B2/B+

- **Bahrain's economy is expected to have started its recovery cycle in 2021, with a 3.3% growth forecast for this year, but the deep contraction of 5.4% in 2020 will likely push forward the 2022 balanced budget target.**
  - ➢ The non-oil sector is expected to drive recovery this year.
    - As we projected in our previous quarterly outlook, the IMF revised Bahrain's non-oil GDP forecast upward from 2.5% to 3.9% for this year, the fastest growth rate across the GCC after the UAE and on par with Saudi Arabia.
    - The improved outlook was underscored by the country's vaccine successes. So far, Bahrain has vaccinated nearly 50% of its population, and its inoculation campaign continues to run smoothly. It is set to reach over 65% of the population by August.
  - ➢ The government's fiscal position remains under increasing pressure.
    - This suggests that the fiscal consolidation target set in Bahrain's 2018 Fiscal Balance Programme (FBP) for a balanced budget by 2022 is unlikely to be achieved.
  - ➢ The approved FY 2021/22 USD 19B budget forecasts deficits of around USD 6.1B, around 9% of GDP. Narrowing margins will be driven by slightly lower recurrent spending, despite increased capital spending by 35% to around USD 700M.
    - We do not rule out the possibility of the deficit declining further to around 7.2% of GDP in 2021, and to an average of 4% of GDP in both 2022 and 2023 as oil revenues recover and private sector activity picks up.
  - ➢ Public debt in 2021 is estimated at 129% of GDP. As a result of the COVID-19 pandemic, debt rose significantly, from 103% in 2019 to 133% in 2020, and we expect it to remain above 100% throughout 2022 and 2023.
  - ➢ Additionally, Bahrain faces a significant external repayment schedule, with USD 6.6B of external debt set to mature from now until the end of 2024.
    - The remaining USD 5.3B from the GCC package is expected to fund this maturing debt. This will help Bahrain to retain its market access, as it did in 2020 despite its low level of FX reserves.

Bahrain Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.0	1.8	-5.4	3.3	3.1
Crude Oil Production (M bpd)	0.19	0.20	0.2	0.2	0.2
Oil GDP Growth (%)	-1.3	2.2	0.0	0.7	0.7
Non-oil GDP Growth (%)	2.7	1.7	-6.0	3.9	3.7
CPI Inflation (%)	2.1	1.0	0.0	1.5	2.1
Fiscal Balance (% of GDP)	-11.9	-10.6	-13.1	-9.1	-9.4
C/A Balance (% of GDP)	-6.5	-2.1	-8.0	-4.0	-4.2
Total Gov't. Gross Debt (% of GDP)	95.0	103.3	128.3	129.4	134.2
Total Gross Extrn'l Debt (% of GDP)	187.8	226.4	254.6	245.6	246.4
Gross Official Reserves (Mos. of Imports)	1.0	2..0	1.1	1.2	1.2
Nominal GDP (USD B)	37.7	38.6	34.6	37.5	38.9
Population (Millions)	1.5	1.6	1.7	1.8	2.0

    - Going forward, debt issuance could range between USD 2B and USD 2.5B annually. This will increase debt sustainability risks in the medium-term and push forward the balanced budget target for 2022.

- **Of key importance to Bahrain's recovery is its banking sector which is being further deepened by developments in Islamic finance and fintech.**
  - ➢ The financial services sector continues to play a prominent role in Bahrain, being the only sector to exhibit growth in 2020.
    - Financial corporations constitute the largest non-oil sector, contributing about 19% to GDP in Q4 2020, up from 17% during the previous quarter, and averaging 16% over the past 10 years.
  - ➢ Growth was underscored by the significant ongoing developments in the country's digitisation of its banking activities. Even amid the pandemic, the Islamic finance sector took part in the tech drive.
    - Bahrain's Islamic Finance Initiation Network (IFIN) launched its first-ever digital Islamic finance platform. This is expected to serve the economy well.

[1] Arabia Monitor; IMF.

Djibouti: Small country, big strategic importance

NR/NR

- **Despite its small size and barren, mountainous terrain, Djibouti is an important player in the Horn of Africa. It perches on the strait of Bab-el-Mandeb, through which 30% of the world's shipping passes. Indeed, Djibouti's economy is set to grow by 5% this year, following a small 1% contraction in 2020.**
  - Djibouti has big ambitions; its strategic location makes it an attractive destination for investing. In the last decade, the country has attracted USD 4B in investments from different players, notably China, the US and the GCC. Following the recent re-election of President Ismail Guelleh, we expect Djibouti will continue to attract valuable investments.
  - Djibouti's presidential elections on 9 April ended with the unsurprising re-election of the incumbent President Guelleh for a fifth consecutive term, in what was ostensibly a landslide victory.
    - Guelleh reportedly won 98.5% of the vote. His only challenger received just under 5,000 votes (compared to the Guelleh's 177,391). The result was a 'fait accompli' from the start, with the country's political opposition criticising the electoral process for lack of transparency.
    - Despite the backlash, we do not expect Guelleh to face significant challenges internally, particularly with Djibouti's economy faring so well.
- **Djibouti is on track to become a major trading hub. This year, the global container port performance index compiled by IHS Markit, and the World Bank ranked Djibouti's port as the most efficient on the African continent in terms of minutes per container move.**
  - The last 15 years have seen the country capitalise on its strategic advantage. Today, more than 1M containers pass through the six port terminals of Djibouti every year.
  - Djibouti's success in developing its port sector is of great importance to its economy; an estimated 85% of the country's GDP relies on ports and logistics.
  - This has attracted attention, mostly from China which maintains the biggest presence in the country. Chinese debt reached 70% of Djibouti's GDP.

Djibouti Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	8.4	7.5	-1.0	5.0	5.5
CPI Inflation (%)	0.1	3.3	2.9	2.4	2.1
Fiscal Balance (% of GDP)	-2.8	-0.8	-1.5	-2.5	-1.5
C/A Balance (% of GDP)	14.2	13.0	-3.2	-2.0	-0.7
Total Gov't. Gross Debt (% of GDP)	69.2	66.0	70.2	40.2	38.2
Total Gross Extrn'l Debt (% of GDP)	69.2	66.0	70.2	71.7	73.5
Gross Official Reserves (Mos. of Imports)	1.2	1.4	1.1	1.1	1.1
Nominal GDP (USD B)	3.0	3.3	3.4	3.7	3.9
Population (Millions)	0.9	0.9	0.9	0.9	1.0

    - The country is looking to cement its important standing in the Horn of Africa even further, and has recently set up a sovereign wealth fund for investment. Djibouti aims to finance over USD 1.5B of business activity over the next decade.
  - Djibouti's positive outlook has led to several recent bilateral agreements, most notably with Egypt and Russia.
    - In May, Egypt's President Abdel Fattah el-Sisi met his Djiboutian counterpart to discuss regional issues, most importantly the Grand Ethiopian Renaissance Dam.
    - Sisi's visit was the first by any Egyptian president since Djibouti's independence in 1977. We expect Djibouti's geopolitical role to grow in the coming months.
    - Similarly, the Russian foreign minister, Sergey Lavrov, has reaffirmed Moscow's willingness to deepen bilateral ties with Djibouti.
  - Djibouti is clearly expanding its horizons beyond traditional ties with China; this will further benefit the country's already promising outlook.

[1] Arabia Monitor; IMF.

Egypt: Balanced approach supports investor appetite

B2/B

- **Egypt, besides Djibouti, was the only country in the MENA region that registered positive GDP growth of 3.6% in FY 2019/20 as the pandemic was In full swing.**
  - Following this fiscal year's growth, of 2.5%, which is admittedly slower than the 3.6% in FY 2019/20, the IMF forecasts growth of 5.7% in FY 2021/22[1].
    - The Ministry of Finance (MoF) forecasts slightly higher growth at 3.3% for this fiscal year and 5.4% in FY 2021/22.
    - If vaccines are better deployed by the end of this year, Egypt is likely to meet the MoF target. This, anchored by the successful execution of the Central Bank of Egypt's (CBE) monetary policy and IMF aid, will aid the country in gradually regaining its growth momentum thereafter.
  - Nonetheless, Egypt needs sustainable growth rates as high as 8% to create enough jobs for the 2.5M people every year who enter a workforce that already excludes one in three young people.
    - Growth over the past few years has led to a decline in overall unemployment from the peak of 13% in 2014/15. In Q2 of FY 2020/21, unemployment was at to 7.2%, after spiking to 9.6% during the six months prior. Youth unemployment remains very high at around 30%. Persistent youth joblessness could weigh heavily on security concerns, as it has done in the past.
  - On the fiscal front, the MoF is budgeting for a 6.3% deficit in FY 2020/21, down from 7.2% in FY 2019/20, with a primary surplus of 2% of GDP.
    - Despite narrowing, Egypt's fiscal position remains under pressure, unless H2 2021 starts to deliver a strong rebound in global tourism, which we do not expect until 2022.
  - With lower tourism receipts and expectations of weaker remittance inflows, the current account deficit is forecast to widen by 10% YoY to 3.4% of GDP in FY2020/21 before tapering gradually to around 2.7% of GDP in the medium term.
  - The re-opening of key LNG infrastructure in recent months and prospects for rising exports to Europe will help improve the current account position.

Egypt Macroeconomic Indicators[2]

	2017/18	2018/19	2019/20	2020/21f	2021/22f
Real GDP Growth (%)	5.3	5.6	3.6	2.5	5.7
CPI Inflation (%)	14.4	9.2	5.5	7.0	8.0
Fiscal Balance (% of GDP)	-9.5	-7.4	-7.5	-7.5	-6.0
C/A Balance (% of GDP)	-2.4	-3.6	-3.2	-4.0	-4.0
Total Gov't. Gross Debt (% of GDP)	92.7	83.8	86.6	92.9	88.9
Total Gross Extrn'l Debt (% of GDP)	37.4	34.1	34.5	38.1	33.4
Gross Official Reserves (Mos. of Imports)	6.7	7.5	7.8	6.3	6.0
Nominal GDP (USD B)	250.3	302.3	361.9	394.3	429.6
Population (Millions)	97.0	99.2	101.5	102.0	102.5

- **Egypt's heavy reliance on portfolio and other investment inflows to cover its current account deficit risks leaving the EGP vulnerable to a tightening of external financing conditions going forward over the next 12 months.**
  - For now, this is mitigated by the CBE's ability to stabilise the EGP against the USD, helping restore investor confidence and reversing the two-year-long inverted yield curve. Foreign investor holdings of government treasury bills and bonds recovered by USD 28B, around 10% of government debt from a trough of USD 10B in June 2020.
    - Egypt's relatively strong performance, market structure reforms and high carry trades will likely attract further inflows. But, if such flows reverse rapidly in response to a confidence shock, this would place renewed pressure on Egypt's foreign exchange and exchange rate.
  - Meanwhile, the CBE held interest rates constant for the fifth consecutive MPC meeting.[3] With inflationary pressure building, the CBE is likely to avoid easing rates in the short term. Annual inflation accelerated to 4.8% in May from 4.1% the month before.

[1] Fiscal year beginning 1 July.
[2] Arabia Monitor; IMF.
[3] The interest lending rate is at 9.25% and the deposit rate is at 8.25%, the lowest rates since early 2016.

Iraq: Reform requires increasingly scarce patience

Caa1/B-

- **Ahead of Iraq's elections this year, the country's prime minister, Mustafa al-Kadhimi, has enjoyed mixed popularity. His administration tackled thorny controversial issues, some of which have opened Iraq to new opportunities.**
  - ➢ Al-Kadhimi has attempted to reform the state's security apparatus, stepping up the government's surveillance over Iraq's multiple border crossings.
    - Militias previously controlled these crossings, as well as the goods which passed through them. Since al-Kadhimi took his seat, border crossings alone have generated an additional USD 60M in revenue for Iraq's coffers.
  - ➢ Al-Kadhimi has also attempted to bring in more revenue through the White Paper for Economic Reform which outlines key steps necessary for facilitating the country's growth.
    - These include achieving sustainable financial stability and creating new job opportunities, as well as improving basic infrastructure and governance. While he has been able to pass several necessary economic reforms, the impact will not be felt overnight; this has not made him popular with many Iraqis.
    - Iraqi citizens are bearing the brunt of the economic impact of the COVID-19 pandemic, which prompted al-Kadhimi to slim down the public sector and various allowances. Politically, these policies could spell trouble for al-Kadhimi, despite the long-term growth they will generate.
- **Baghdad is looking to its energy sector to provide a vital boost to the economy. New contracts will create a new set of opportunities for investors.**
  - ➢ Al-Kadhimi seeks to honour his promise to renegotiate energy contracts that favour Iraq in their terms and conditions in order to generate more revenue for the country.
    - This comes amid the departure of BP and ExxonMobil, ushering in interest from Saudi Arabia and China.
  - ➢ Energy exports have been on the rise with crude exports totalling around USD 5.88B in May, the highest figure since January 2020's USD 6.16B.

Iraq Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.8	4.5	-10.9	1.1	4.4
Crude Oil Production (M bpd)	4.4	4.6	4.0	3.9	4.2
Oil GDP Growth (%)	-1.3	3.8	-12.6	-1.3	5.9
Non-oil GDP Growth (%)	4.7	5.7	-8.0	5.0	2.1
CPI Inflation (%)	0.4	-0.2	0.6	9.4	7.5
Fiscal Balance (% of GDP)	8.2	0.9	-19.8	-9.2	-7.7
C/A Balance (% of GDP)	4.5	0.5	-14.8	0.0	-0.6
Total Gov't. Gross Debt (% of GDP)	50.0	47.7	81.2	69.7	73.3
Total Gross Extrn'l Debt (% of GDP)	30.8	30.6	47.9	34.0	29.8
Gross Official Reserves (Mos. of Imports)	8.4	10.8	8.9	8.4	7.5
Nominal GDP (USD B)	216.9	222.4	172.1	190.7	203.3
Population (Millions)	38.4	39.3	39.5	41.2	42.2

- ➢ Iraq is also looking to reform its gas sector and to reduce dependence on Iranian imports, but this will take time.
  - The country is targeting production of 400m cfd from the Akkas gas field by 2025 with the cost of development set to reach nearly USD 3B.
- ➢ Iraq already suffers from power shortages and insufficient investment in aging plants, despite needing to meet an expected 50% jump in demand by 2030.
  - Despite the focus on developing the sector, the Ministry of Electricity says the recent improvement in electricity supply is due to Iran increasing gas exports from 20M m^3 to 30M m^3 per day.
- ➢ The Iraqi parliament approved a record-setting 2021 budget of USD 89B amid a financial and economic crisis, with a deficit equal to approximately USD 19B, 9.2% of GDP.
  - Iraq relies on oil to fund 97% of its state budget, and its commitment to OPEC+'s deal on reducing oil output has squeezed the government's finances. However, as OPEC+ sticks to its plan to ease supply cuts, Iraq will soon resume its full production capacity.

[1] Arabia Monitor; IMF.

Jordan: Saving summer on the Red Sea

B1/B+

- **In its latest economic outlook, the IMF revised its growth forecast for Jordan to 2% for 2021, down from 3.2% in October. Even before the pandemic, economic activity in Jordan was lacklustre due to falling investment levels and eroding fiscal buffers. Such structural weaknesses are critical downside risks to Jordan's medium-term outlook. However, gradual fiscal consolidation should provide support and arrest the rise in debt.**
  - ➢ Despite recovering from a 2% contraction in 2020, growth under any scenario will remain lower than the 6.5% average annual performance experienced in the ten years prior to the global financial crisis.
    - The fiscal deficit, despite narrowing by 18% YoY, is expected to remain elevated this year. The deficit is forecast at around USD 5.8B, equivalent to 7.7% of GDP. This modest consolidation hinges on the revival of USD 11B in revenue.
  - ➢ Amid the pandemic, the Jordanian authorities maintained reform efforts to strengthen tax administration, including tax compliance. By uncovering under-reported income tax liabilities, the government registered a 6% increase in tax revenue.
    - Continued tax administration efficiency will be key for recovery. Tax revenue is expected to reach USD 8.3B in FY 2021, an increase of around 60% compared with FY 2020 estimates.
  - ➢ Rising public sector debt is among Jordan's principal challenges, with debt sustainability risks rapidly growing. Debt is forecast to reach over 91% of GDP in 2021, a 3% YoY increase.
  - ➢ The increase will also be driven by new debt set to be issued by the National Electric Power Company, which is due to borrow around 1% of GDP this year and next to cover a renewed widening of its operating deficit.
    - The Central Bank of Jordan's gross foreign reserves remain adequate, standing at USD 15.8M (representing 8.9 months of import cover) despite reduced tourism receipts and remittances.
    - Yet, with debt interest payments estimated to reach over USD 2B (around 20% of public revenue) the authorities are under pressure to adhere to planned austerity measures.

Jordan Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.9	2.0	-5.0	2.0	2.7
CPI Inflation (%)	4.5	0.7	-0.3	2.3	2.0
Fiscal Balance (% of GDP)	-4.4	-6.1	-9.1	-7.7	-6.0
C/A Balance (% of GDP)	-7.0	-2.3	-6.8	-8.3	-4.0
Total Gov't. Gross Debt (% of GDP)	76.3	79.3	88.4	91.2	91.0
Total Gross Extrn'l Debt (% of GDP)	69.0	68.5	77.6	84.5	84.1
Gross Official Reserves (Mos. of Imports)	7.9	8.9	9.0	9.1	9.3
Nominal GDP (USD B)	42.3	43.8	42.7	45.0	47.1
Population (Millions)	9.7	10.1	10.2	10.3	10.5

- **Jordan's plans to reopen will undoubtedly bring a sigh of relief to the tourism sector. Contributing to ~15% of GDP, tourism is key for accelerating the pace of overall economic growth. We are cautiously optimistic, as the return of tourists this year is likely to remain slow.**
  - ➢ Tourism employs 55K people and constitutes a major source of FX. Damage to the sector presents a tail risk to growth, mainly through a rise in unemployment and a balance of payments deficit.
  - ➢ While prospects of a quick recovery in tourism are slim, the Jordan Tourism Board has launched the 'Tanaffas' (or 'breathe') campaign to attract tourists from other GCC countries. This campaign will likely be supplemented by the upcoming one-month long Aqaba Carnival in August, an annual event that aims to encourage tourists to visit the city.
  - ➢ Nonetheless, the arrival of tourists will almost certainly not match 2019 levels, when visitors reached a six-year high of 5.4 million, an 8.9% YoY increase from the year before.

[1] Arabia Monitor; IMF.

Kuwait: Faces a reckoning

A1/AA-

- **Kuwait's economy is expected to post a tepid 0.7% growth this year, up from a 8.1% contraction in 2020. With no debt law in sight, and a wide deficit, the country's fiscal sustainability faces policy challenges, if not financial ones. A further increase in the price of oil could delay policy reform significantly further.**
  - ➢ Three months after FY 2021/22[1] began, Kuwait's parliament approved the much-awaited state budget, while political stalemate between the government and the elected parliament continues to halt progress on both reform and short-term solutions to covering the budget deficit.
    - This is expected to delay fiscal adjustment further and accelerate the depletion of the General Reserve Fund (GRF).
  - ➢ Based on revenues of around USD 36B (a 45% YoY increase), the USD 76B FY 2021/22 budget forecasts a deficit of USD 39.7B, 14% YoY lower than in the current budget.
    - Assuming an average oil price of USD 45 pb, oil revenue is expected to remain the primary source of government financing at 83% (around USD 30B) of total revenue, reflecting a 62% YoY increase.
    - Non-oil revenue is expected to decline by 3.8% to nearly USD 6B, with its share making up around 17% of the budget, compared to the 25% during the previous FY.
  - ➢ 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 without dipping into sovereign savings.
    - Despite the recent improvement in oil prices, there is a clear need for a fiscal reform programme to put Kuwait's finances on a more sustainable long-term path. The FY 2021/22 budget assumes no transfers to the Future Generation Fund (FGF) after a law was passed last year.
    - Nonetheless, passing a revised debt law has become a government priority and would provide for extra flexibility, especially since public debt stood at 11.5% of GDP in 2020, the lowest among all MENA countries.
    - But a relatively rapid recovery in the price of oil could push this project forward by a couple of years till the next serious dip.

Kuwait Macroeconomic Indicators[2]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.4	-8.1	0.7	3.2
Crude Oil production (M Bpd)	2.74	2.70	2.46	2.4	2.5
Oil GDP Growth (%)	0.2	-1.4	-8.9	-1.3	3.0
Non-oil GDP Growth (%)	2.7	3.0	-2.5	3.0	3.5
CPI Inflation (%)	0.6	1.1	1.0	2.3	2.5
Fiscal Balance (% of GDP; After FGF Transfer)	9.0	5.4	-8.5	-6.8	-4.5
C/A Balance (% of GDP)	14.5	9.4	-6.8	8.6	8.2
Total Gov't. Gross Debt (% of GDP)	14.8	11.8	19.3	13.7	27.3
Total Gross Extrn'l Debt (% of GDP)	43.8	48.2	64.5	60.6	70.3
Gross Official Reserves (Mos. of Imports)	6.8	8.1	7.0	8.3	8.5
Nominal GDP (USD B)	140.7	135.4	108.7	126.9	129.7
Population (Millions)	4.1	4.2	4.3	5.0	5.6

- **'Kuwaitisation' is well underway. Compounded by the COVID-19 pandemic, the reduction in expatriates last year, by 5%, was the largest decline in 30 years.**
  - ➢ Data reveals that over 160K private sector foreign workers left Kuwait by July 2020, with the number of expatriate dependents falling by 0.4% YoY in 2020 after a drop of 0.3% a year earlier.
  - ➢ The Public Authority for Manpower revealed that over 12K expatriates have left the country since January 2021. With new labour laws being passed, including proposed changes to the residency law, the fall in foreign workers is expected to accelerate this year.
    - Earlier last year, the National Assembly approved a quota that aims to reduce expatriates to 30% of the total population from the current 70%.
    - As of May 2021, Kuwaitis have made up 81% of public sector employment, up from 77% in 2020.
  - ➢ However, with a small local population, the government will need to innovate to maintain private sector productivity and output. We do not preclude the reversal of some measures.

[1] Fiscal Year runs from April 1 to March 31
[2] Arabia Monitor; IMF.

Lebanon: From bad to worse

- **The formation of a new Lebanese government is materialising at the expected rate: slowly. Given the gravity of the situation on the ground, more urgency is desperately needed.**
  - The political gridlock currently hindering a new cabinet from taking its seat can be attributed to contention between Prime Minister-designate Saad Hariri and President Michel Aoun.
    - Gebran Bassil, head of the Free Patriotic Movement (FPM) and the son-in-law of President Michel Aoun has called for assistance from Hezbollah leader, Hassan Nasrallah to help solve the dispute between the president and the prime minister.
    - Hezbollah has not been involved in government formation consultations, at least not openly. Any involvement from the designated terrorist group could block Beirut from receiving any foreign aid.
  - Additionally, the most pressing issue appears to concern the distribution of two ministerial seats, namely the justice and interior portfolios. The president and the prime minister-designate both argue that the positions should be filled based on their respective preferences.
  - Hariri is threatening to step down as prime minister-designate because of alleged obstructions put in place by President Aoun. Although his decision is not yet final, Hariri stepping down is a conceivable outcome.
- **Lebanon is experiencing shortages within its key sectors due to citizens fearing that state subsidies for essential imports will soon end. This comes on the back of the Banque Du Liban's (BDL) diminishing reserves.**
  - The BDL has continued to subsidise essential goods such as wheat, medicine and fuel a to 1,515 LBP per USD, while the official LBP is trading at around 15,000 per USD.
  - Lifting government subsidies would make the price of basic goods nine times more expensive; the cost of living would simply be unaffordable for Lebanese citizens (especially with unemployment sitting at more than 50%).
    - Within the next few months, the central bank is expected either to halt subsidies entirely, or to subsidise a smaller basket of goods.

Lebanon Macroeconomic Indicators[1]	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	-1.9	-6.5	-25.0	...	...
CPI Inflation (%)	4.6	2.9	18.7	...	...
Fiscal Balance (% of GDP)	-11.3	-10.7	-16.5	...	...
C/A Balance (% of GDP)	-26.7	-20.6	-12.6	...	...
Total Gov't. Gross Debt (% of GDP)	154.9	172.2	183.6	...	...
Total Gross Extrn'l Debt (% of GDP)	192.8	196.3	186.6	...	...
Gross Official Reserves Ex. Gold (Mos. of Imports)	14.4	20.5	16.0	...	...
Nominal GDP (USD B)	55.0	52.7	53.9	...	...
Population (Millions)	6.8	6.8	6.8	6.9	7.0

    - Year-to-date, subsidies have contributed to a 27% (USD 8B) decline in BDL reserves. The end to the subsidies programme is likely to push people back on the streets again.
  - Lebanon's economy has continued to slow throughout 2021.
    - Following a 25% contraction in 2020, real GDP is projected to contract by a further 9.5% in 2021.
    - Lebanon's inflation rose dramatically by 147% YoY in 2020 and it continues to do so. Food prices are over 400% YoY.
    - Over 50% of the population were living below the poverty line in late 2019. If virus cases continue to surge, and no financial plan is implemented, these figures are bound to deteriorate further.

[1] Arabia Monitor; IMF.

Libya: Certain uncertainty, par for the course

NR/NR

- **Although Libya's UN-backed Government of National Unity (GNU) has stayed on course for the December elections, hurdles remain. The latest challenge is a political tug-of-war concerning the 2021 budget. The country's political stability will continue to be put to the test as we approach the vote.**
  - ➢ Objections by Libya's parliament, the House of Representatives (HOR), to the amended 2021 budget have delayed its adoption by over three months.
    - This has stalled urgent funds, including infrastructure spending and oil targets.
  - ➢ If the budget is not passed, the capacity of the National Oil Corporation (NOC) to meet its oil targets will be hampered; it simply does not have the financial means to do so.
  - ➢ Libya's energy minister Mohamed Aoun said that the NOC plans to reach 1.5M bpd by the end of this year and a further 2.1M by 2025. Libya's oil production before the 2011 revolution reached an estimated 1.7M bpd; today's production rests at 1.3M. The further the budget is delayed, the less likely it is that the government will be able to meet its targets.
  - ➢ Besides budget delays, security challenges continue to present an obstacle, especially in the country's oil-rich east.
    - Extremist Islamic State (IS) militants claimed responsibility for a car bomb attack on 7 June in the southern city of Sebha, 201km west of Libya's largest oil field. The incident killed at least one senior police officer.
  - ➢ Worryingly, militias continue to operate independently of formal mercenary groups.
    - The large presence of Russian and Turkish-backed fighters remains in-country, even though the fighting has reduced.
    - As per the October 2020 ceasefire agreement, the deadline for the departure of foreign mercenaries was January. The interim government remains quiet on the matter.
  - ➢ It is likely these mercenaries will remain, even after the projected term of the current government. Elections are set for 24 December 2021, but are likely to be delayed. The leading candidate is Fathi Bashagha, the former interior minister from the east of the country.

Libya Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	17.9	9.9	-66.7	24.3	25.9
Crude Oil Production (M Bpd)	1.0	1.1	0.3	1.0	1.1
Oil GDP Growth (%)*	19.4	13.7	-72.7	233.0	5.0
Non-oil GDP Growth (%)*	9.9	-11.7	-22.6	5.0	2.0
CPI Inflation (%)	-1.2	4.6	22.3	18.2	14.2
Fiscal Balance (% of GDP)	-0.2	2.2	-102.9	0.3	-0.1
C/A Balance (% of GDP)	1.8	-0.1	-12.0	3.9	0.2
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (Months of Imports)	...	...	...	...	...
Nominal GDP (USD B)	41.4	39.8	21.8	24.3	25.9
Population (Millions)	6.6	6.7	6.8	6.8	6.9

  - ➢ With their presence largely formalised, militia sponsors will now be looking to leverage their presence in the country to generate economic returns for years to come.
- **Nonetheless, the international community and Tripoli's partners remain invested in the country's stability as well as in maintaining a permanent presence in Libya.**
  - ➢ The US administration is said to be looking to reopen is embassy in Libya, which has been closed ever since the former US ambassador, Chris Stevens, was killed during an attack in Benghazi in 2012.
  - ➢ The highest-ranking US officials to visit the country since 2014, Acting Assistant Secretary of State for Near Easter Affairs, Joey Hood, and Special Envoy for Libya, Richard Norland, arrived in Tripoli this month to work out the logistics of the potential reopening.
  - ➢ While the US is the last of Tripoli's partners to return to the country, its posturing arguably signals growing confidence in the security situation and in Libya's eventual stability.

[1] Arabia Monitor; IMF.

Mauritania: Removing shackles of the past

NR/NR

- **Following a 3.2% contraction in 2020, Mauritania is expected to recover its COVID-19 losses over the course of 2021, with the IMF projecting a 3.1% GDP growth rate. GDP is set to be boosted by the country's expansionary 2021 budget and the resumption of essential mining projects which were halted in 2020, as well as the external financing from the IMF during the pandemic.**
  - Mauritania is expected to register a 2.1% fiscal deficit in 2021; the government outlined ambitious spending plans to offset the contraction of 2020.
    - Health and education spending are the priority for this year's budget, as well as targeted support to the country's most vulnerable households. This is unusual for a country such as Mauritania, where disparity runs along divisions between former slave-owners and former slaves.
    - Slavery was only abolished in 1981 and criminalised in 2007, so inequality is deeply rooted in society.
  - The initiative, backed by foreign donors, is set to supply Mauritania's 100K poorest households with payments of USD 37 per quarter, with the amount set to be doubled soon.
    - Although Mauritania's GDP has doubled since 2000, the country has also seen its ranking in the UN Human Development Index (HDI) plummet from 135th to 157th, due to rife inequality and corruption.
    - Such governmental measures are new, and necessary for a country that is beginning to reckon with its past.
- **Mauritania has several renewable energy projects in the pipeline. Last month, the government signed a memorandum of understanding with CWP Global, a renewable energy development company, on a green hydrogen project worth an estimated USD 40B.**
  - The plant, named Aman, will consist of 30GW of solar and wind powering electrolysers and is set to become among the world's largest renewable energy project.

Mauritania Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.1	5.9	-3.2	3.1	5.6
CPI Inflation (%)	3.1	2.3	3.9	2.4	3.5
Fiscal Balance (% of GDP)	2.5	2.1	-3.8	-2.5	-0.5
C/A Balance (% of GDP)	-13.8	-10.6	-15.3	-11.3	-11.6
Total Gov't. Gross Debt (% of GDP)	61.4	58.5	67.8	56.3	61.6
Total Gross Extrn'l Debt (% of GDP)	61.5	58.1	64.2	54.6	58.3
Gross Official Reserves (Mos. of Imports)	3.0	3.7	3.4	4.7	5.2
Nominal GDP (USD B)	7.0	7.6	7.4	9.2	8.7
Population (Millions)	4.4	4.5	4.6	4.6	4.8

    - This is part of Mauritania's initiative for decarbonising the energy sector and prioritising green hydrogen production.
    - The roadmap will also include a new regulatory framework to facilitate foreign investment in renewable energies as well as the launch of a national skills development plan.
  - Another exciting prospect for Mauritania is the Greater Tortue Ahmeyim bilateral project with Senegal, set to boost government revenue by roughly USD 14B over the next three decades.
    - Production is expected to begin in 2023, with the government projecting a lift in revenue of around USD 60M in the first year, and almost USD 100M the year after.
    - Energy exports are set to soar in the coming years for Mauritania. This would be an important boost for the country; it possesses the second largest reserves of gas relative to population after Equatorial Guinea.

[1] Arabia Monitor; IMF.

Morocco: A new dawn for diplomacy

Ba1/BBB-

- **In December 2020, Morocco achieved its most significant foreign policy aim of the past three decades: the US officially recognised the kingdom's sovereignty over Western Sahara. In return for this massive geopolitical victory, Morocco normalised relations with Israel. These two diplomatic steps have allowed Rabat to adopt a more assertive foreign policy stance, particularly regarding Western Sahara. Last month, the new zero-tolerance approach towards the Polisario Front[1] became evident amid Morocco's biggest diplomatic spat with Spain in years.**
  - ➢ Relations between Morocco and Spain are becoming increasingly strained due to Madrid's decision to host Polisario Front leader Brahim Ghali for hospital treatment in April without informing Rabat.
    - Morocco's response on 17 May was heavy-handed and caught Spain and the EU by surprise; the kingdom appeared to loosen all border controls with Ceuta, one of two Spanish exclaves located on the African continent.
    - This caused an unprecedented influx of migrants, with more than 8,000 men, women and children pouring into Ceuta in under 24 hours. Over 20,000 security forces members had to be deployed from Spain to weather the crisis.
    - Although the border situation was quickly brought under control by both parties, the situation demonstrates that Morocco is ready to adopt a more forceful stance if it deems its interests are threatened. Indeed, Foreign Minister Nasser Bourita stated "today's Morocco is not that of the past, and Spain needs to understand this".
  - ➢ The crisis further deteriorated after Ghali was allowed to return safely to Algeria instead of being handed over to the Moroccan authorities as demanded by the foreign minister.
    - As a result, Morocco has excluded Spanish ports from Operation Marhaba 2021, which is an annual initiative by the government to facilitate the return of Moroccans residing abroad.
    - This will inflict a heavy cost on Spain's economy; last year, when the operation was cancelled due to the COVID-19 pandemic, the Spanish exclaves of Ceuta and Melilla had lost around USD 7.1M in revenues.

Morocco Macroeconomic Indicators[2]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	3.0	2.2	-7.0	4.5	3.9
CPI Inflation (%)	1.9	1.2	0.7	0.8	1.2
Fiscal Balance (% of GDP)	-3.7	-4.1	-7.8	-6.4	-5.9
C/A Balance (% of GDP)	-5.3	-4.1	-7.3	-3.8	-4.0
Total Gov't. Gross Debt (% of GDP)	65.3	65.8	76.9	77.1	77.4
Total Gross Extrn'l Debt (% of GDP)	32.7	33.0	35.1	39.9	39.4
Gross Official Reserves (Mos. of Imports)	5.3	6.4	4.1	7.0	6.9
Nominal GDP (USD B)	117.9	118.6	112.2	124.0	131.3
Population (Millions)	36.0	36.4	36.9	36.9	37.0

  - ➢ Additionally, Morocco halted the renewal of the Maghreb-Europe Gas pipeline, which will also hurt Spain's economy; 30% of the natural gas consumed in the country is transported through Morocco.
- **Morocco's mediating stance regarding the Israel-Palestine conflict is also beginning to take shape, following the historic deal in December 2020.**
  - ➢ In an unprecedented gesture, King Mohammed VI has sent a congratulatory letter to Israel's new prime minister, Naftali Bennett, offering his warm greetings.
  - ➢ Curiously, this comes as Ismail Haniyeh, Hamas' leader, was invited to Morocco by the Prime Minister Saad-Eddine El Othmani, who reiterated the kingdom's backing of the Palestinian cause.
    - This confirms our expectations that while Morocco seeks to expand diplomatic and economic ties with Israel, the kingdom does not want to abandon its stance apropos Palestine.

[1] The Polisario Front is a separatist group which seeks the independence of the Western Sahara from Morocco.
[2] Arabia Monitor; IMF.

Oman: Austerity drive benefits from renewed momentum

Ba3/B+

- **The IMF revised Oman's 2021 GDP growth forecast from a negative 0.5% contraction to positive 1.8% growth, following a deep 6.8% contraction in 2020. With recovery underway, Oman's fiscal balance is expected to improve, on the back of higher revenues and the resumption of fiscal consolidation.**
  - In its latest economic outlook, the IMF's forecast for Oman is much more optimistic. Following fiscal adjustments implemented in 2020, the fiscal deficit is now forecast at 4.4% of GDP.
    - This would be the sultanate's eighth consecutive budget deficit, but a significant improvement on the 16.8% GDP deficit forecast in October 2020 and the 18.3% deficit posted last year.
    - The IMF figures are more bullish than those of the Omani government. Its 2021 budget, which marks the start of Oman's tenth five-year plan, adopts a prudent tone in both its revenue and expenditure projections with a deficit of around USD 5.7B, 8% of GDP on the back of an oil price assumption of USD 45 for 2021.
  - The 2021 budget's top priority is to reduce the deficit; to that end, the implementation of Oman's 2020-24 medium-term fiscal plan has begun.
    - The sultanate initiated several fiscal consolidation measures, including reductions in military spending, an obligatory civil service retirement scheme and higher electricity and water tariffs.
    - More recent measures include the implementation of the 5% VAT rate in April, which will help the sultanate generate about USD 1B in revenue annually (around 1.5% of GDP). Additionally, the state-owned Energy Development Oman (EDO) formed in Q1 2021 will collect oil and gas revenue and pass it into the treasury, helping to bridge the financing gap.
  - Despite ongoing structural reforms, the government's revenue sources are not particularly diversified. This constitutes a risk to public finance forecasts.
  - There are lingering security concerns with regard to the impact of fiscal consolidation following protests that erupted a month ago in the wake of the VAT, and which could re-emerge with further belt-tightening.

Oman Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.9	0.8	-6.8	1.8	7.4
Crude Oil Production (M Bpd)	1.0	1.0	0.8	1.0	1.1
Oil GDP Growth (%)	4.0	1.4	-12.2	2.0	12.6
Non-Oil GDP Growth (%)	-1.6	-2.8	-8.0	1.5	2.3
CPI Inflation (%)	0.9	0.1	1.0	3.8	2.4
Fiscal Balance (% of GDP)	-7.9	-7.1	-18.3	-4.4	-1.5
C/A Balance (% of GDP)	-5.4	-4.6	-14.6	-6.4	-2.7
Total Gov't. Gross Debt (% of GDP)	53.2	63.1	81.5	71.3	66.8
Total Gross Extrn'l Debt (% of GDP)	80.1	92.4	121.5	111.7	104.6
Gross Official Reserves (Mos. of Imports)	6.4	7.3	6.1	5.8	5.5
Nominal GDP (USD B)	79.8	76.3	62.3	74.1	79.3
Population (Millions)	4.8	4.9	4.9	5.1	5.2

- **The Ministry of Finance announced that Oman is more than halfway towards meeting its financing needs of USD 11B this year. However, we remain cautious, particularly as the country's external financing remains challenging.**
  - After borrowing USD 4.6B and withdrawing USD 1.5B from its sovereign wealth fund, the Oman Investment Authority (OIA), Oman has around USD 4.7B remaining to cover financing needs. The rest needs to be raised through the debt market.
    - Rated junk by all three major credit agencies, Oman is taking advantage of investor appetite for high-yield bonds as it plans to tap the debt market in the coming weeks for the second time this year.
  - The rising debt level is forecast to push debt servicing costs to 4.4% of GDP in 2021, up from 3.6% last year. This will likely be offset by additional non-oil revenue and apply downward pressure on Oman's fiscal position.
  - Furthermore, external debt maturities are estimated to average USD 5.5B annually for this year and next, and to increase by USD 3.6B until 2024. This excludes funding requirements of state-owned enterprises, which carried external debt of USD 17B by the end of 2020.

[1] Arabia Monitor; IMF.

Palestine: Change for Israel, same for Palestine

NR/NR

- **Israel's new coalition, the 'government of change', was sworn in earlier this month. Led by Naftali Bennet of the Yamina party, the new government's arrival marks an end to Benjamin Netanyahu's 12-year grip on Israeli politics. Yet while this is a pivotal moment for Israel, it is unlikely to change the situation in Palestine.**
  - ➢ The new coalition brings together parties across a wide-ranging political and ideological spectrum. It includes the conservative United Arab List (Ra'am) party, the first independent Arab party to join an Israeli governing coalition.
    - The leader of Ra'am, Mansour Abbas, stated that the coalition agreement would bring more than 53B shekels (USD 16B) to improve infrastructure, combat violent crime in Arab towns and bring about fairer housing policies for Palestinians.
    - However, Abbas does not enjoy huge support from either the West Bank or the Gaza Strip, where he is seen as siding with the 'enemy'.
  - ➢ As for the Palestinian issue, opinions in the new government are divided; most favour a two-state solution, but Bennet stands opposed.
    - Such division could give rise to cycles of paralysis and friction when it comes to addressing the ongoing conflict. Additionally, the government is unlikely to focus on the issue until tensions are inflamed to the extent that they were in May.
    - Even so, should tensions escalate to a significant degree, the new administration is likely to maintain the status-quo. It will almost certainly do so until then, as it is reluctant to be accused of generating controversy.
  - ➢ Bennet has been vocal about his support for Israeli settlements throughout his political career. Indeed, we may even witness settlement expansion during his tenure, a move which could provoke further conflict in the years ahead.
    - The reception in Palestine has been underwhelming towards the new government; Palestinians are attuned to Bennet's settlement policies and understand that there is no ideological shift from the previous administration.

Palestine Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.9	-12.0	5.7	7.0
CPI Inflation (%)	-0.2	1.6	-1.2	0.3	1.1
Fiscal Balance (Ex-support, % of GDP)	39.5	...	...	...	...
Recurrent Budget Support (% of GDP)	-7.3	-7.5	-7.9	...	...
C/A Balance (% of GDP)	-13.1	-10.8	-11.1	-10.5	-10.8
Nominal GDP (USD B)	16.3	17.1	14.7	16.5	17.9
Population (Millions)	4.9	5.0	5.1	5.2	5.2

- **Although the IMF stated that Palestine's economy contracted by 12% in 2020, the country is expected to undergo a degree of recovery this year, especially when Israel's rapid vaccine rollout spills into the Palestinian Territories (PT).**
  - ➢ Palestinian workers in Israel and Israeli settlements are a major source of income for the Palestinian economy. They were among the worst hit by the pandemic. With these workers now vaccinated, the economy is set to receive a vital boost.
  - ➢ Since taking office, Bennet's government has loaned 1M vaccines to Palestine. A ramped-up vaccine rollout will permit workers to return to Israel and bring more revenue home.
  - ➢ In addition, the World Bank approved a USD 30M grant to help support digital and health infrastructure in the PT.
    - This support supplements the World Bank's four-year strategy for Palestine which was approved just before the latest conflict erupted in May.

[1] Arabia Monitor; IMF.

Qatar: Bursting with energy

Aa3/AA-

- **The IMF has revised Qatar's projected GDP growth this year to 2.4%, up from the 2.1% forecast in October. Prospects for economic recovery are bright, mainly on the back of strengthening energy prices.**
  - Qatar's growth outlook bodes relatively well compared with its GCC counterparts. By 2022, growth is forecast to expand by 3.6%, which would constitute the fastest rate in the bloc besides Saudi Arabia. The country is also on track for another year of fiscal surplus (1.4% of GDP).
    - Doha's rapid growth is underscored by strengthening energy prices and the final preparations for the 2022 FIFA World Cup. The tournament is set to be a key driver of non-oil GDP. By 2022, non-oil GDP is forecast to grow by 3.3%, a 157% YoY increase, while oil GDP is expected to remain weak at 2.4%.
  - With higher energy revenue and a growing market share in Asia, Qatar's current account will likely reach 7.1% of GDP this year. This should be bolstered by the World Cup in 2022, when it is expected to reach 7.9%, a significant improvement compared with the -3.4% in 2020.
    - In Q1 2021, oil revenues amounted to around USD 11B, up from USD 9.2B in Q4 2020. Total oil and LNG revenues are forecast to grow by 24% this year following the sharp 28% contraction in 2020.
  - Additionally, while Qatar registered a tepid 1% YoY increase in gas production in 2020 (reaching 169.2B m3) output is set to increase by 5% this year. This will be anchored by the significant investment levels associated with LNG.
    - Qatar has initiated new investments totalling around USD 29B, which will expand its capacity at Qatar Petroleum's (QP) North Field, taking LNG production capacity to 126M tonnes per annum by 2026, up from the current production rate of 77M tonnes.
    - Once complete, the project could allow Qatar to become the top LNG exporter globally. This is already triggering interest from international investors. Major oil companies including Chevron, ConocoPhillips, Eni, ExxonMobil, Shell and TotalEnergies submitted their bids late last month for a 30% stake in the project.

Qatar Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	0.8	-4.5	2.4	3.6
Crude Oil Production (Mb/d)	0.6	0.6	0.6	1.0	1.1
Oil GDP Growth (%)	-0.3	-1.8	-2.5	0.9	2.1
Non-oil GDP Growth (%)	2.2	2.4	-5.7	3.3	4.6
CPI Inflation (%)	0.2	-0.6	-2.2	2.4	2.9
Fiscal Balance (% of GDP)	5.9	4.9	3.0	1.4	7.3
C/A Balance (% of GDP)	9.1	2.4	-0.6	7.1	7.9
Total Gov't. Gross Debt (% of GDP)	46.5	56.2	68.1	59.8	53.9
Total Gross Extrn'l Debt (% of GDP)	106.1	131.4	161.3	163.7	157.4
Gross Official Reserves (Mos. of Imports)	5.5	8.9	9.5	9.3	10.5
Nominal GDP (USD B)	183.3	175.8	147.8	166.0	174.4
Population (Millions)	2.7	2.7	2.7	2.8	2.9

- **Recovery has been reinforced by the reopening of trade routes following the reconciliation of the so-called 'Quartet spat' at the signing of the Al-Ula Declaration in January 2021. While it will take some time to re-establish normal economic links between the countries involved, services sectors such as tourism are expected to show the fastest signs of recovery**
  - The reopening of the Abu Samra border crossing between Qatar and Saudi Arabia in February (Qatar's only land border crossing) is expected to normalise trade flow structures.
    - Prior to the blockade in 2017, trade volume between Qatar and the rest of the GCC amounted to around USD 10.5B, 87% of which was driven by the UAE and Saudi Arabia.
  - While the lingering effects of COVID-19 and travel restrictions will continue to slow the rebound in tourism, we are seeing a rapid return of historic visitors from Saudi Arabia and the UAE.
    - The World Cup in 2022 represents a key landmark in Qatar's calendar around which the tourism sector is expected to undergo sizeable growth.

[1] Arabia Monitor; IMF.

Saudi Arabia: Austerity paying off

A1/A-

- **Saudi Arabia's economy underwent a slight downturn in Q1 2021, with recovery this quarter so far proving slow, but the increased pace of the vaccine rollout, the easing of restrictions and rising oil production all bode well. The rebound is likely to gather momentum and undergo a sharp V-shaped recovery in 2022.**
  - ➢ Earlier in May, the IMF once again revised down its 2021 growth forecast for Saudi Arabia to 2.1% from the 2.9% in April forecast. For 2022, growth was revised up to 4.8% from 4%. This compares with a 4.1% contraction in 2020.
    - The downward revision of 2021 GDP growth comes on the back of voluntary cuts to oil output earlier in the year and the ongoing tight fiscal policy.
    - Data released by the General Authority for Statistics (GaStat) shows that GDP contracted by 0.1% QoQ in Q1 2021. On a YoY basis, the economy slowed by 3.3%. This was, however, the softest contraction since Q2 2020.
    - The continued decline in GDP was a result of the sharp 12% YoY drop in oil GDP in Q1. With oil output cuts having eased and the domestic vaccination programme gathering pace, the economic drive in the oil sector should get back on track.
  - ➢ Nonetheless, the sustained growth in non-oil GDP for a third consecutive quarter indicates that the kingdom's overall economic rebound is well on track. This comes despite a slower rate than the 4.9% expansion in Q4 2020. For 2021, non-oil growth is expected to peak at 3.9%, before slowing to an average of 3.5% for 2022 and 2023.
    - Structural reforms and the Public Investment Fund's (PIF) commitment to invest in the local economy over the next five years underpin non-oil growth.
  - ➢ Additionally, Saudi Arabia's fiscal position, supported by a rebound in oil prices, is set to improve significantly this year. In Q1, the budget deficit narrowed by nearly USD 2B, around -1% of GDP vs -5% in the same quarter last year. This is broadly in line with 2021 budget expectations. The budget forecasts a deficit of 3.8% of GDP (around USD 38B), compared with 10.6% of GDP last year.

Saudi Arabia Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.4	0.3	-4.1	2.1	4.8
Crude Oil Production (M Bpd)	10.3	9.8	9.3	9.2	9.8
Oil GDP Growth (%)	3.1	-3.6	-6.7	1.6	4.8
Non-oil GDP Growth (%)	2.2	3.3	-2.3	3.9	3.6
CPI Inflation (%)	2.5	-2.1	3.6	2.7	2.0
Fiscal Balance (% of GDP)	-5.9	-4.5	-10.6	-3.8	-2.5
C/A Balance (% of GDP)	9.2	5.9	-2.5	2.8	1.9
Total Gov't. Gross Debt (% of GDP)	19.0	22.8	33.4	31.0	31.7
Total Gross Extrn'l Debt (% of GDP)	19.2	23.2	29.9	25.4	25.5
Gross Official Reserves (Mos. of Imports)	28.6	33.2	26.2	25.7	24.7
Nominal GDP (USD B)	786.5	793.0	680.9	804.9	827.1
Population (Millions)	33.7	34.2	34.2	34.8	35.0

  - ➢ The narrowing deficit indicates that the kingdom's consolidation drive is starting to reap rewards. Yet fiscal strings are likely to remain tight, at least until the end of 2021.
- **As part of its ongoing plans to overhaul the economy, Saudi Arabia is widening the scope of its diversification to target new sectors for restructuring and mergers.**
  - ➢ Earlier this month, the cabinet approved the merger of the Public Pension Agency and the General Organisation for Social Insurance for a combined asset holding worth almost USD 29B. This constitutes a bid to create one of the largest investment funds in the kingdom.
    - This move is illustrative of the drive towards improving government efficiency, particularly amid expenditure cuts.
  - ➢ Additionally, Saudi Arabia plans to auction two major mining licenses in 2022. The move aims to triple the mining sector's GDP contribution to around USD 64B (45%), and to double the number of jobs to 470k by 2030.

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

Somalia: Al-Shabab, an extreme grip

B2/NR

- **The Somalia-based extremist group al-Shabab has enjoyed a spike of activity in recent months. If international players do not step in soon, the security situation could deteriorate from bad to worse.**
  - Political instability has plagued the country for months. Despite his term officially passing in February, the acting Somali president, Mohamed Abdullahi Farmaajo, has neither departed from office nor established a clear path to fresh elections.
    - This prompted a harsh backlash which manifested as outrage on the streets. There was also condemnation from the international community, which has called for fresh elections.
    - Al-Shabab has capitalised on the volatile situation, stepping up their attacks on civilians and state forces. This month, over ten people were killed after an al-Shabab suicide bomber attacked an army training camp, a common target for such attacks.
  - Elections are now scheduled for next month, which could quell some of the discontent among regional tribal leaders; however, this does not tackle the threat posed by al-Shabab, a threat which Somalia cannot squash without the heavy support of international players.
    - Turkey has stepped up its involvement in Somalia by helping to train the Somali security forces. The US is now considering a return to Somalia after the former US president Donald Trump pulled military forces out of Somalia in January before he left office. It is unclear whether President Biden will approve any such mission.
    - Another policy being considered in Washington DC is 'direct action' strikes. Currently, any decision to conduct strikes in Somalia is routed through the White House. This precludes US Africa Command (AFRICOM) commanders from carrying out strikes in Somalia at their own discretion.
  - It is still unclear whether the US will step up its involvement in Somalia. However, the fact that Biden has withdrawn troops from Afghanistan suggests that he is not looking to pursue high levels of military engagement elsewhere. It is therefore possible that the US will not return to Somalia in the same capacity with which it once operated therein.

Somalia Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.8	2.9	-1.5	2.9	3.2
CPI Inflation (%)	...	...	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...
C/A Balance (% of GDP)	-7.5	-10.5	-12.8	-11.2	-13.5
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	111.3	106.3	77.8	36.7	35.5
Gross Official Reserves (Mos. of Imports)	...	...	...	...	...
Nominal GDP (USD B)	4.7	4.9	4.9	5.4	5.6
Population (Millions)	15.1	15.6	16.0	16.4	16.5

- **The political crisis threatens Somalia's economic support from international players. Although GDP is currently set to expand by 2.9% up from the 1.5% contraction in 2020, this growth looks doubtful in light of the current situation.**
  - Previously, Somalia received foreign assistance through NGOs. In 2018, the government began to receive aid directly from the EU.
  - But the political gridlock has now caused payments from the EU to stall over election concerns. Any further delay to a political agreement jeopardises the country's budget, which largely comes from EU funding. A shrinking budget comes with its own set of economic consequences for infrastructure and social programmes, which may fuel unrest on the ground.
    - Tax revenues collected by al-Shabab are expected to surpass tax revenues collected by the regional government, another anomaly.
  - With al-Shabab's network expanding due to fractured government leadership, the revenues it collects could well increase.

[1] Arabia Monitor; IMF.

Sudan: Coming in from the cold (potentially)

B2/NR

- **Sudan's economy is set to register 0.4% growth this year, a slow climb after three years of recession. Yet while it is promising that Sudan is set to begin its integration into the global market, its economy remains in an extremely fragile state.**
  - The most pressing obstacle is Sudan's skyrocketing inflation, forcing the price of basic commodities such as bread and fuel upwards.
    - The inflation rate in 2020 registered at 142%, with this year's rate dropping slightly but still creaking at around 130%. In May 2021, inflation topped 300% MoM.
  - Another reform measure to have negatively impacted those at the ground level has been the devaluation of Sudan's currency.
    - In February, the Central Bank of Sudan devalued the official rate of SDG 55 against USD 1 to an indicative rate of SDG 375.
    - The central bank then established an indicative rate of up to 5% above or below daily rates.
    - Although these measures have been controversial, they have been necessary for reducing the country's debt burden.
  - Sudan has been absolved of some of its USD 60B in arrears, and has also secured hundreds of millions of dollars in aid from international agencies such as the World Bank.
    - The World Bank and the African Development Bank have already forgiven debts owed by Sudan, France, Germany, Italy and Norway have also made commitments to do so.
    - While the exact amount has not been disclosed, Khartoum is looking to be fully free of its debt by the end of this year.
    - Although the state of the country's economy is still teetering, these latest developments have laid the foundations to facilitate growth.
- **Sudan's economic turmoil has been exacerbated by a precarious political situation which has in turn jeopardised the government's stability.**

Sudan Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	-2.3	-2.5	-8.4	0.4	1.1
CPI Inflation (%)	63.3	51.0	141.6	197.1	44.5
Fiscal Balance (% of GDP)	-7.9	-10.9	-6.9	-3.1	-2.5
C/A Balance (% of GDP)	-13.1	-15.1	-12.7	-11.2	-13.5
Total Gov't. Gross Debt (% of GDP)	186.7	201.6	259.4	211.7	185.9
Total Gross Extrn'l Debt (% of GDP)	182.7	199.8	255.6	207.5	182.6
Gross Official Reserves (Mos. of Imports)	0.2	0.2	0.4	1.1	1.3
Nominal GDP (USD B)	35.7	33.4	32.6	35.8	35.9
Population (Millions)	41.8	42.8	43.8	44.9	45.0

- The peace agreement signed in October 2020 between civil servants, the military and armed movements is currently in jeopardy as the respective groups contest the amount of power allocated to them.
- This has resulted in the transitional government having to sit down with groups (again) in order to discuss the agreement and appease their demands.
  - Many of these talks were suspended soon after they begun, including discussions with the Sudan People's Liberation Movement-North (which were put on hold this month).
  - Such developments indicate that tensions between these groups are still a very real problem; indeed, they appear to be a perennial and defining feature of Sudan.
- Negotiations have been compounded by civilian unrest, including regular protests on the streets and an uptick in violence. Protests will likely continue at least until individual people are able to enjoy the benefit from economic reforms.

[1] Arabia Monitor; IMF.

Syria: Bashar back, here to stay

NR/NR

- **President Bashar Assad's election victory is set to change the tide in Syria's international relations, compounding his grip on roughly 70% of the country's territory. His advantageous position comes on the back of staunch foreign support from Russia and Iran. Interestingly, an increasing number of countries, including EU members, are starting to push for the normalisation of ties with the Syrian regime as they come to terms with what seems to be the new reality: al-Assad is here to stay.**
  - ➢ In May's elections, Assad ostensibly 'won' an overwhelming 95.1 percent of the vote. As expected, serious doubts exist as to whether the elections were free and fair. However, one thing is now certain: Assad must face the challenge of recovering a Syrian economy in free fall.
  - ➢ As a bloc, the EU has not changed its stance on normalisation with the Syrian regime; diplomatic relations can only resume after Assad makes substantial concessions.
    - However, a number of countries are contemplating re-opening embassies in Syria. Among various existing diplomatic personalities is Tasia Athanassiou, who was appointed Greece's Special Envoy for Syria in May 2020. Other countries include Hungary, Poland, Italy and Austria.
  - ➢ Additionally, several Arab countries which initially supported the Syrian opposition have also made moves to re-establish diplomatic relations with Assad. They include Algeria, Bahrain, Egypt, Kuwait and the UAE.
  - ➢ Signs of a Saudi-Syria rapprochement have been observed in recent months with Syria sending its first ministerial delegation in a decade to the kingdom in May. Riyadh's strategic move signals its resolve both to ease tensions with Tehran and to curb Iranian influence in Syria.
- **Three shocks have disrupted an already weak Syrian economy, namely economic sanctions, the Lebanese financial and economic crisis and the COVID-19 pandemic.**
  - ➢ The US Caesar Act sanctions, in force since December 2019, resulted in a substantial depreciation of the Syrian pound, which lost almost 70% of its value against the USD in the first months of 2020. Food prices increased by more than 200% in the last year as a result of the inflationary pressure.

Syria Macroeconomic Indicators[1]

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

  - Syrian deposits in Lebanese banks are estimated to be in the billions of dollars. Lebanon's deposit freeze and capital controls resulted in a liquidity shock in Syria and a further major depreciation in the exchange rate.
  - ➢ Syria's drought is providing an additional challenge to Assad's economic plans, especially his 'Year of Wheat' campaign. Low rainfall is likely to leave an import gap for grain of at least 1.5M tonnes.
    - Approximately 70% of wheat production lies in Kurdish-administrated territory, outside of government control. The Kurdish authority, in a bid to achieve self-sufficiency, have sell grain outside its territory.
  - ➢ However, positive signs of change augur well for the country's recovery. In April the Central Bank officially devalued the pound from 1256 to 2512 SYP per USD.
  - ➢ The informal exchange rate stabilised in April at 3000 SYP per USD after hitting record lows of 4,700 SYP per USD in March. As a consequence, food prices decreased for the first time since August 2019. However, approximately 12M Syrians still face food insecurity.

[1] Arabia Monitor; IMF.

Tunisia: Funding so close, yet so far

B3/NR

- **Tunisia's talks with the IMF over a USD 4B financing package have been bogged down since last month. With the risk (low) of debt default looming, political divisions and public discontent are making reforms difficult to execute. While Tunisia is hailed as the only democratic success story to emerge from the 2011 Arab Spring, it now finds itself teetering on a weak economic footing.**
  - ➢ In its latest economic update, the IMF revised down its forecast for Tunisia. It expects growth to rebound by 3.8% this year down from the forecast 4% made in October 2020. This compares with a contraction of 8.8% in 2020.
    - The uptick, while encouraging, is not strong enough to return output to pre-pandemic levels.
    - In 2022, GDP is forecast to return to a more muted trajectory, growing by around 2.4%. This reflects the pre-existing domestic structural weaknesses with which Tunisia was already grappling.
  - ➢ Going forward, the scale of the economic rebound will depend on the pace of the vaccine rollout and a boost in the recovery of investor confidence.
    - There is an urgent need to finance the country's fiscal and current account gaps, estimated to be at 9.3% and 9.5% of GDP, respectively.
    - Recovery in trade flows, manufactured exports and tourism (which is expected to pick up gradually) could further support a gradual deficit decline to 8.9% of GDP by 2023. The risks remain high. The absence of effective reform implementation amid depleting fiscal buffers compounds a sluggish exports recovery following the heavy toll of the pandemic on private sector capacity.
- **Tunisia is in need of financial support from the IMF, but a power struggle between the president, prime minister, and the all-powerful Tunisian General Labour Union (UGTT) is slowing down the pace of negotiations.**
  - ➢ The IMF has attached conditions to the loan, including a reduction in the number of people on the public payroll, as well as the reform or even abolition of the 'Caisse de Compensation', a body which places subsidies on basic products.

Tunisia Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.7	1.0	-7.0	3.8	2.4
CPI Inflation (%)	7.3	6.7	5.8	5.8	6.3
Fiscal Balance (% of GDP)	-4.6	-3.9	-8.1	-9.3	-6.8
C/A Balance (% of GDP)	-11.2	-8.5	-8.3	-9.5	-9.4
Total Gov't. Gross Debt (% of GDP)	78.2	72.3	84.8	91.2	93.9
Total Gross Extrn'l Debt (% of GDP)	97.4	94.8	98.3	99.2	101.2
Gross Official Reserves (Mos. of Imports)	2.5	5.3	4.1	3.7	3.2
Nominal GDP (USD B)	39.8	38.8	39.2	44.3	46.5
Population (Millions)	11.7	11.8	11.8	11.9	12.0

- ➢ Additionally, any agreement reached between Prime Minister Hichem Mechichi and Noureddine Taboubi, head of UGTT, must be approved by Tunisia's deeply fragmented parliament, as well as President Kais Saied.
  - The president is infamously at odds with Mechichi and has already blocked a proposed cabinet reshuffle as well as the assembly's efforts to appoint Constitutional Court judges.
  - The country's 2021 budget forecasts borrowing needs of USD 7.2B, which includes USD 5B in foreign loans, on top of debt repayments at USD 5.8B.
  - This includes USD 1B in debt repayments due in July and August.
- ➢ Tunisia must look beyond internal divisions to secure a desperately needed loan from the IMF.
  - Public discontent is already showing, with the latest wave of protests in January expected to pick up if further economic woes are not avoided.

[1] Arabia Monitor; IMF.

UAE: Back in growth mode

Aa2/NR

- **The UAE's swift vaccine rollout has allowed it to surpass Israel as the top inoculator in the MENA region. The pick-up in business activity, along with the forthcoming Expo 2020 Dubai, will inevitably facilitate economic growth this year, the momentum of which will be high in H2 2021.**
  - According to the IMF, the UAE is forecast to grow by 3.1% in 2021, up from a 5.9% contraction in 2020.
    - Meanwhile, the Central bank of the UAE estimates are less upbeat than those of the IMF, forecasting a GDP recovery of 2.4% in 2021 before expanding to 3.8% in 2022. This expansion will be supported by 4% growth in non-oil GDP this year. Non-oil growth in 2021 is driven by an increase in fiscal spending and a pick-up in employment.
  - Oil will be crucial for recovery; oil prices this year are expected to average USD 63 pb in 2021, and USD 61 pb in 2022. This represents a 61% YoY increase for 2021 from the average oil price in 2020.
    - These estimates remain only slightly short of the USD 64 pb the IMF estimates is needed to balance the UAE's federal budget in 2021.
    - Oil GDP is forecast to remain flat at 2.8% for this year and 2022. This is far below pre-pandemic levels of 3.4% in 2019, but still constitutes a significant pick-up from last year's sharp 6.2% contraction. Nonetheless, the UAE's oil GDP is forecast to register the fastest growth rate among its GCC counterparts this year.
    - A rebound in the UAE's oil sector would help ease the pressure on its fiscal position, with the deficit projected to shrink to 1.3% of GDP this year from 7.4% in 2020. Going forward, we expect favourable base effects will take hold as the authorities continue to ease lockdown-related restrictions.
  - While we expect it will take until H2 2022 for growth to get back to 2019 levels, the easing of restrictions will be key for the gradual return to normalcy of business activity. Expo 2020 Dubai, which is set to open in four months' time, will also be a critical growth factor.
- **Recent reforms issued by the UAE to improve the foreign investment climate are already reaping results. For this, we expect the UAE to continue to build on its regulatory environment.**

UAE Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	1.7	-5.9	3.1	2.6
Crude Oil Production (M Bpd)	3.0	3.1	2.8	2.9	3.0
Oil GDP Growth (%)	2.5	3.4	-6.2	2.8	2.8
Non-oil GDP Growth (%)	0.7	1.0	-5.8	3.2	2.5
CPI Inflation (%)	3.1	-1.9	-2.1	2.0	1.2
Fiscal Balance (% of GDP)	1.9	0.6	-7.4	-1.3	-1.1
C/A Balance (% of GDP)	9.6	8.4	3.1	7.1	6.3
Total Gov't. Gross Debt (% of GDP)	20.9	26.8	38.3	37.1	39.2
Total Gross Extrn'l Debt (% of GDP)	67.9	76.7	99.5	92.2	94.3
Gross Official Reserves (Mos. of Imports)	3.9	5.1	4.3	4.5	4.6
Nominal GDP (USD B)	422.2	421.1	354.3	401.5	409.8
Population (Millions)	9.5	9.7	9.8	10.1	10.4

  - According to UNCTAD, amid a decline in global FDI by 42% last year, the UAE recorded a net inflow of private sector FDI in 2020.
  - Inward FDI grew over 44% YoY to around USD 20B compared with 2019, while outward FDI declined by 10.8% YoY to around USD 9B. Of the total USD 20B, Dubai accounted for USD 6.7B of the UAE's inward FDI.
  - The lion's share of growth in inflows was driven by energy investment partnerships initiated by the Abu Dhabi National Oil Company (ADNOC) with several foreign companies last year.
    - In July 2020, a consortium of infrastructure companies and sovereign wealth funds signed a USD 20.7B agreement to invest in Abu Dhabi's natural gas pipeline infrastructure.
    - This transaction was the largest single global energy infrastructure deal ever last year and resulted in around USD 10B of FDI into the UAE.

[1] Arabia Monitor; IMF.

Yemen: Ceasefire Déjà vu

NR/NR

- **As the civil war in Yemen continues to rage, near-term economic prospects for the country continue to dim. Unless international engagement ramps up dramatically rapidly, Yemen will continue to flounder.**
  - The now six-year-long civil war has battered the country's economy, a situation made worse by the COVID-19 pandemic.
  - Initially, international actors stepped up humanitarian aid into Yemen, which helped to offset some of the pain that was exacerbated by the country's poor economic conditions. Now, aid agencies are preoccupied with the humanitarian by-product of the pandemic.
    - There has been a drop in remittances, while oil revenues have declined. Output is expected to contract a further 2 percent in 2021 after declining 8.5 percent in 2020.
  - The UN estimates that up to 80% of the population is now in need of humanitarian assistance, a figure which could climb if the country does not undergo drastic reforms to secure more international support.
  - The conflict will derail any chance of stability if violence continues, further conflict will destroy the country's infrastructure and depleting it of its resources.
- **Another ceasefire is in the midst of being brokered; however, even if the Houthi rebels do take a seat at the negotiating table, this may simply be another example of the many ceasefires that have failed to hold, especially as western actors continue to disengage from the region.**
  - Furthermore, Houthi rebels have been holding off from even engaging in dialogue as they work to capture the last government-held city, Marib, in the country's north. Their offensive this month killed 17 civilians.
    - Yemen has been mired in conflict since 2015 with Saudi Arabia supporting the country's internationally recognised government and Iran funding the Houthi rebels.
  - The US previously supported the Saudi military campaign, but President Joe Biden halted all support in February 2021. US and UK envoys made a diplomatic call for peace this month but did not proceed with any further action.

Yemen Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	0.8	2.1	-5.0	0.5	2.5
Crude Oil Production (M bpd)	0.0	0.0	0.0.4	0.0	…
CPI Inflation (%)	27.6	10.0	26.4	30.6	19.2
Fiscal Balance (% of GDP)	-7.8	-5.3	-9.2	-6.1	-6.2
C/A Balance (% of GDP)	-2.0	-3.9	-6.5	-8.5	-7.8
Total Gov't. Gross Debt (% of GDP)	74.5	76.5	81.7	73.0	67.9
Total Gross Extrn'l Debt (% of GDP)	25.2	25.7	30.4	30.3	26.2
Gross Official Reserves (Mos. of Imports)	0.5	1.4	2.0	1.1	1.0
Nominal GDP (USD B)	23.5	22.6	20.9	25.1	25.8
Population (Millions)	28.9	29.5	30.2	30.9	31.0

  - Airstrikes hit armoured vehicles in Houthi-held Sana'a shortly thereafter. Although it was speculated that Saudi Arabia conducted the strikes, no confirmation was received.
  - With the Houthis still vying to capture resource-rich Marib, even if a ceasefire is reached, it has the potential to collapse quickly.
    - Marib houses the largest power plant in the country, as well as much of the country's oil, gas and water resources.
  - A Saudi-Iran rapprochement which was leaked in April could help bring the conflict to a close once and for all.
    - These regional foes ended diplomatic ties in 2016, but may soon begin to repair relations. As negotiations for the revival of a form of the Joint Comprehensive Plan of Action (JCPOA) continue, it is likely that side-line talks are taking place involving both Riyadh and Tehran.
    - Although no further information regarding such talks has materialised since May, more will almost certainly come to light if a deal is reached in the coming months. A new deal with a regional component could take time to reach but would be longer lasting than the initial JCPOA.

[1] Arabia Monitor; IMF.

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
Bahrain	B2	(-)	Affirmed O/L Negative	29-Apr-21	B+	(-)	Affirmed O/L Negative	28-May-21	If Bahrain materially outperforms fiscal and external forecasts, pressure on ratings would continue. Conversely, if these constraints intensify, downward pressure will re-emerge.
Kuwait	A1		Downgraded O/L Stable	22-Sep-20	AA-	(-)	Affirmed O/L Negative	17-Jul-20	Ratings could be lowered further if a renewed fall in oil prices or slow growth were to undermine Kuwait's revenue and fiscal profile or if parliamentary resistance blocks or reverses planned reforms.
Oman	Ba3	(-)	Affirmed O/L Negative	23-Jun-20	B+		Downgraded O/L Stable	16-Oct-20	Ratings could dip if debt as a share of GDP remains on an upward trend or if the net external asset position were to weaken at a faster pace. We expect pressure on Oman's credit ratings to continue until the agencies see dynamism from the new Sultan.
Qatar	Aa3		Affirmed O/L Stable	24-Sep-20	AA-		Affirmed O/L Stable	07-Dec-20	Ratings could come under pressure if developments in oil production and prices, or in the banking sector, were to significantly weaken the country's external or fiscal positions; for example, if the government's gross liquid assets fall significantly below 100% of GDP.
Saudi Arabia	A1	(-)	Affirmed Negative	01-May-20	A-		Affirmed O/L Stable	26-Mar-21	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	04-May-21					Reducing the debt of government-related enterprises of Abu Dhabi banks and of the government of Dubai could support upgrade considerations in the medium term.

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

MENA exc. GCC Sovereign Ratings Update

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

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

About Arabia Monitor

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

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