Recovery hangs in balance

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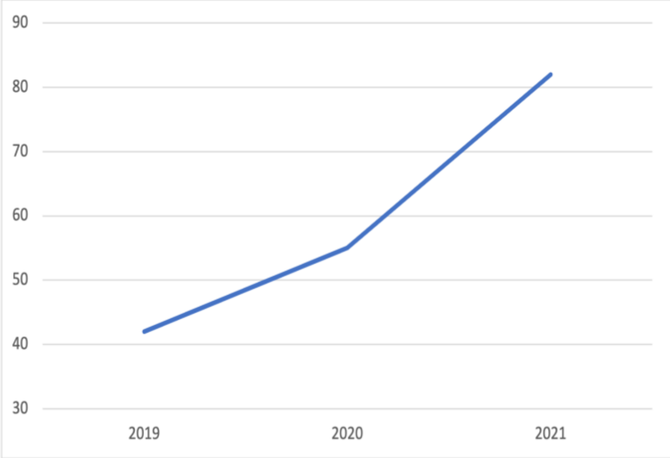
- **Despite parliamentary efforts to ease the financial crisis, Lebanon continues to struggle under the weight of inflation, corruption and persistent security threats.**
- **Saudi Arabia continues to lead the region as it prepares to deliver its 2030 vision; nonetheless the timely delivery of its plans and projects is pivotal for their success.**
- **As Libya struggles with a smooth electoral handover, deepening political fissures will trigger unrest on the ground.**
- **The UAE and India have signed a comprehensive bilateral trade agreement set to provide significant benefits to both countries.**

Figure 1 - Poverty rate in Lebanon (%)[1]



Lebanon: Central bank at centre

As the humanitarian crisis deepens in Lebanon, futile attempts to address the country's divisions continue. The latest central bank probes will exacerbate the country's financial vulnerability.

- Recent investigations by the central bank have unveiled corruption on the part of the bank's governor, Riad Salameh, and his brother.
- The Swiss authorities suspect that nearly USD 300M was illegally taken from BDL (Banque du Liban) by the Salameh brothers in the form of commissions through the purchase of government securities by commercial banks.
  - Instead of using the commission fee for operational funding, BDL funnelled millions of dollars to Forry Associates, a firm managed by Riad Salameh's brother. Unfortunately, further investigation into bank accounts and contracts has encountered significant resistance from various parties.
- With banks acting as the prime lenders for BDL for decades, they have been burdened as well with the extensive losses incurred, particularly a loss of confidence from most stakeholders.
- Therefore, with a 15-year time frame set to pay back all depositors not to mention the 75% loss in the value of some deposits, many banks continue to restructure and downsize.
- So far, more than 160 bank branches have closed since 2018 with a 5,900 drop in employee numbers.
- Based on these conditions the banking and financial sector will require at least five years to recover and regain trust from investors among other stakeholders.
- There is cause for optimism. The Lebanese parliament has extended lifting banking secrecy laws to facilitate the audit of BDL by the group Alvarez and Marsal (A&M).
  - Having passed a law in December 2020 that removes the secrecy laws, the Lebanese parliament extended the law for another year in a bid to adhere to international demands for reformation and transparency.
  - While A&M have not commenced auditing again after their withdrawal in 2020, sources from the BDL have confirmed that they supplied all the information necessary to facilitate the auditing process. This signifies a promising outlook for the future of the IMF deal for Lebanon.
- BDL has also released a circular extending the possibility for money transfer providers to complete foreign exchange operations at the request of customers even if funds are from abroad.
- With the conditions set for eligibility, BDL aims to limit the influence of the black market on the domestic currency by purchasing the foreign currencies acquired by the eligible money transfer providers over the prior year.
- Nonetheless, out of the 13 registered transfer providers, only two meet the criteria to apply for foreign exchange operations.
- With poverty rates rapidly doubling from 42% in 2019 to 82% in 2021 (every four people out of five in Lebanon lives under the poverty line), all efforts are needed to secure a deal with the IMF to undertake a swift recovery which is estimated to take at least five years.

[1] Arabia Monitor; United Nations.

Saudi Arabia: Leveraging the digital age

With real GDP expected to record 4.8% growth in 2022, Saudi Arabia's economic policy has honed in on digitalisation, decarbonisation and construction. Central to decarbonisation is the kingdom's green vision to transform itself into a leader in the renewable energy sector.

Figure 2 - Public internet usage (%)[2]

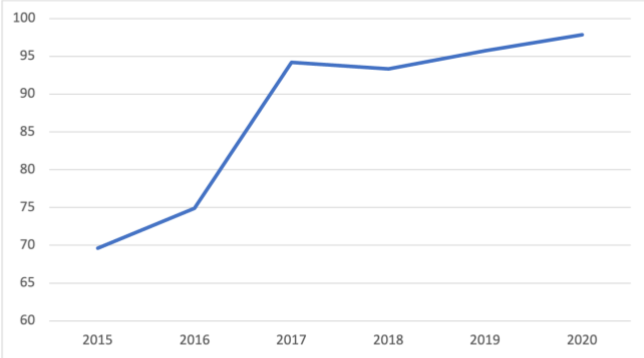
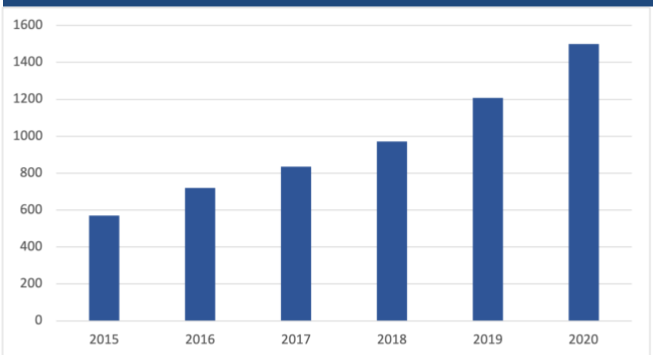


Figure 3- Growth in PIF assets (%)[3]



- Saudi officials have pledged to cut down on methane emissions by 30% by 2030 and to reach net-zero emissions by 2060. To augment this, the kingdom's Public Investment Fund (PIF) is set to debut its first green bond in the coming weeks.
  - That is not to say that Saudi Arabia is funnelling all of its efforts into renewables. The PIF holds a mixture of stakes in various companies and projects, some of which are based on renewable energy sources, while others are focused on fuel and oil expansion.
  - Furthermore, Saudi Arabia has committed to endorse a greener economy as exemplified by the green pledges made at the 2021 Glasgow Climate Summit. Meanwhile, there have also been promises by Saudi officials to crank up the production and distribution of oil to other countries.
- More successfully, the kingdom has been ranked sixth among G20 nations in the Global Cybersecurity Index as it mobilises efforts to achieve robust digitalisation in line with its 2030 vision.
  - Having expanded connectivity from 1.2M homes in 2017 to 3.5M in 2020, Saudi Arabia is on track to increase the contribution of the digital economy to overall GDP; the kingdom looks set to be on par with developed countries around the world.
    - In addition, the kingdom successfully increased its internet speed from 9Mbps in 2017 to 109Mbps in 2020 and supplied internal coverage at the Holy Mosque in Makkah. Furthermore, 100% of households are supplied with basic telecommunications services including 576K houses in remote areas.
- These achievements have come within five-year strategy action plans devised and implemented from 2006 to 2024.
- Unlike many countries in the region, the public sector in the kingdom has been subject to digitalisation, as a Unified National Platform has been launched to allow greater reach for government services by all beneficiaries and to facilitate the handling of citizen information.
  - Furthermore, there have been numerous initiatives in which digital technology has been utilised to induce a favourable environment for investment.
  - These include, but are not limited to, a regulatory sandbox by the Saudi Central Bank devised to understand the effects of new technologies on the digitalisation of the financial sector. Another example is the regulatory sandbox from the Communications and Information Technology Commission (CITC) which will support the growth of the kingdom's delivery app ecosystem.
  - Saudi Arabia is leading the region in terms of block chain, artificial intelligence, Internet of Things, Big data and 5G technologies.
- With Saudi Arabia accounting for 54% of construction and urban development projects in the region, the kingdom is planning to deliver billions of dollars' worth of projects encompassing smarter and greener technologies, tourist attractions and even cities.
- In addition to these efforts, there have been government policies which ensure the diversification of the economy including a government decision to refuse contracts from foreign companies whose headquarters remain in other countries in the region as of 2024.
  - In turn, such moves are set to attract investors and consultants to relocate permanently to the country instead of flying in and out.
  - Thus far, as many as 44 multinational companies have agreed to relocate their headquarters to Saudi Arabia as they will receive exemptions for work visa limits and enjoy eased regulations with regard to relocating their employees.
  - Therefore, with commercial activities encompassing entertainment (like Riyadh

[2] Arabia Monitor; World Bank
[3] Arabia Monitor, Public Investment Fund Programme

Season), sporting events (such as Formula 1) urban development projects, hospitality and tourism, among others, many will be incentivised to remain in the country permanently. An increase in population size will in turn favour higher demand for goods and services produced and developed locally.

Egypt: Construction helps country climb the curve

It is projected that Egypt will sustain impressive growth in the coming years, surpassing even Saudi Arabia and the UAE with real GDP in 2022 reaching as much as 5% and growing to nearly 6% by 2025. This growth comes at a time when Egypt is undertaking a plethora of urban development projects amid significant international investment.

- Estimated to cost USD 40B, the New Administrative Capital is set to resolve the old capital's dysfunctionality, inefficiency and congestion.
- With the capital's population estimated to double from 22M by 2050, the development of a new urban area is a necessity to ease the population burden, encourage construction and stimulate employment.
    - Supported by private businesses/investors and able to benefit from an estimated USD 7B worth of tax revenues. Private businesses will cultivate lucrative sums from endeavouring into the megaproject and partnering with the public sector. Hence, PPPs are prime instruments for both sectors to maximise cost efficiency, manage risks, ensure value for money and innovate. With such agreements, projects are guaranteed more timely deliveries that are within budget and make more use of government resources.
    - Moreover, the projects endorse a greener environment; 15 square meters of green space is allocated per inhabitant with about 6M residents expected to relocate to the new capital.
    - This comes with government incentives of USD 96M for civil servants to move to the new city.
        - USD 3B has been spent on the government district with a generous USD 3B loan from China to fund the business district. [3]
- Most of the benefits accrued from such a megaproject will benefit the military, which owns 51% of the company overseeing the project, known as the Administrative Capital for Urban Development (ACUD).
- Besides managing the New Cairo project, the military is also responsible for selling the housing units in the new capital as well as selling the old, yet highly valuable, administrative buildings around Tahrir Square.
    - Ultimately, the project may be only accessible to a few and not to the portion of citizens who desperately need it. With two-bedroom apartments listed for USD 50K in the new capital, it far exceeds the living standards of many Egyptians living within the overcrowded streets of Cairo.
    - In addition, the project consolidates President Al Fatah al Sisi's and the military's legitimacy and economic power in the country. Therefore,

Figure 4 - Egypt's budget deficit (% of GDP)[4]

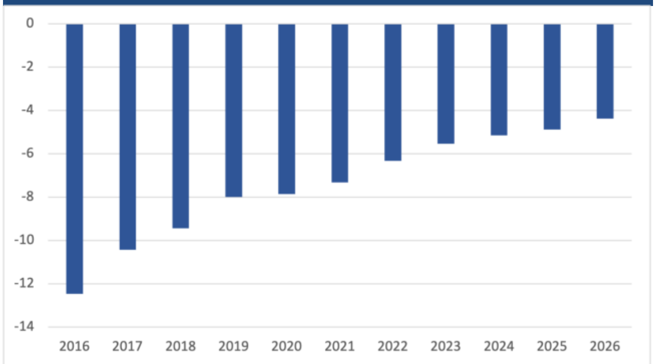
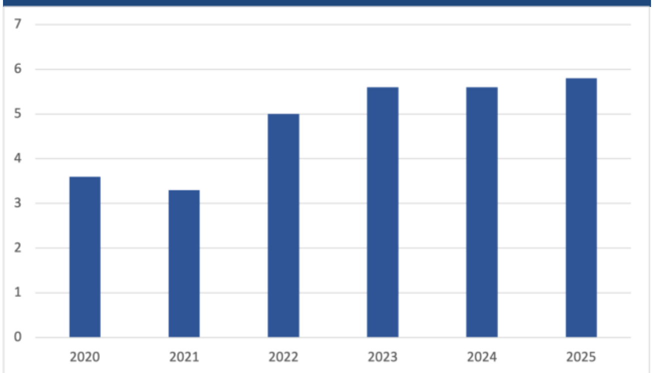


Figure 5 - Egypt's Real GDP growth (%)[5]



by moving the capital away from Tahrir Square and winning over private businesses, Al Sisi is attempting to avoid any future revolt which might potentially take place as it did for his predecessor Husni Mubarak. Not only that, but the military's operational power over the new capital project will further consolidate and legitimise their economic capabilities in the country.

- Nonetheless, Egypt has successfully attracted international funds and attention as a promising performer among emerging countries in the region. Most recently, it received US funding to assist its transition towards renewable energy sources, particularly solar energy. In line with this, a joint working group between the US and Egypt was launched late this month to begin organising for the climate summit, COP-27, chaired by Egypt in November.
- Countering these achievements, however, is the ongoing existential threat arising from the Grand Ethiopian Renaissance Dam. With Ethiopia initiating electricity production late this month, the decade-long dispute continues to threaten the livelihoods of millions in Egypt as there is no guarantee for a certain volume of water to continue reaching its lands and homes.
    - More than 90% of Egypt's needs are fulfilled by the Nile river. Its annual flooding is vital for agriculture and food production in the region. As all agreements and international interventions have so far been redundant, there is no telling what the future will hold.

Libya: Political process perpetuates divisions

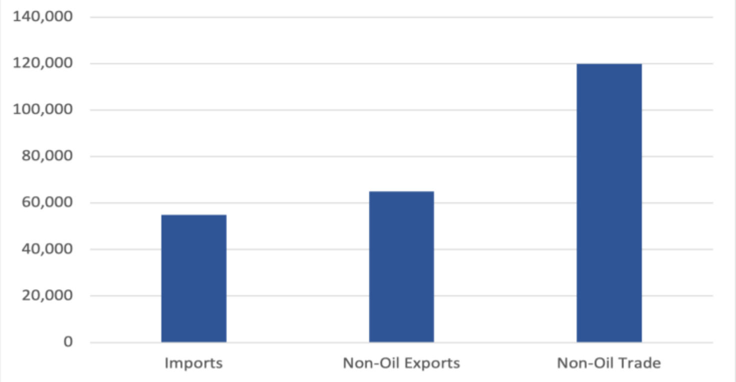
[4]Arabia Monitor; Statista

[5]Arabia Monitor; Middle East Business Intelligence

The indefinite elections delay has had a domino effect in Libya, spilling over onto the current administration. The delay has endured two parallel governments in the country, perpetuating divisions and potential violence.

- Political divisions, along with the failure to reach a consensus on an electoral framework, delayed elections which were the lynchpin of the UN initiative, the Libya Political Dialogue Forum (LPDF) to move forward with the Government of National Unity (GNU).
  - The UN has backed the decision that the GNU interim prime minister, Abdelhamid Dbeibeh, should stay in the post until elections move ahead.
  - The delay, which was supported domestically by the anti-Dbeibeh camp, has resulted in the Eastern-based House of Representatives (HoR) in Tobruk extending its authority over the electoral process and nominating interior minister Fathi Bashagha as the leader of an interim government until elections take place.
- The HoR set an election timeline of 14 months, much earlier than Dbeibeh's June deadline.
  - As some electoral laws remain in question, along with a permanent constitution, the June timeline is likely to be unrealistic.
- Dbeibeh has denounced the move by the eastern government and has failed to recognize Bashagha's authority.
  - This, in turn, has created a parallel government in the east.
    - General Khalifa Haftar, an eastern-based leader in the civil war, supports Bashagha, as doing so offsets Dbeibeh's power.
- Fractures are rife in the county's politics including between Bashagha and Sadiq al-Kabir, the governor of the Central Bank of Libya, who recently announced steps towards unifying its branches in the east and west.
  - The divisions could spill onto the street; fighting is almost inevitable, with mercenaries from the civil war still stationed in the country.
- Fighting and the political vacuum is likely to impact the country's oil production.
  - As the only country exempt from OPEC quotas, Libya has the potential to maximise its output. This is only viable if a political solution is reached.
    - Libya is exempt because of years of interrupted oil production during the civil war.
  - Earlier this month, the National Oil Company (NOC) said port closures had reduced Libya's output by 100K bpd; the country's total production was 1.1M bpd.
    - Instability still persists and will continue until a political solution is reached.
- UN intervention is key to calming some of the instability, but even this may not but enough. UN special adviser on Libya, Stephanie Williams, is back in Tripoli to help facilitate an agreement on a path forward. However, the eastern government may continue to undermine the UN's authority, prolonging divisions and conflict.

Figure 6 – UAE-India trade volumes (m AED)[6]



UAE: Recovering with Indian support

The IMF has concluded its consultations with the UAE, finding that the country's successful vaccination programme, coupled with recent reforms to promote private sector growth and strengthen the non-oil sector, have placed the country on a path of economic recovery.

- The fund has projected a real GDP growth rate of 3.5% in 2022, purely driven by the non-oil sector, which will contribute to 3.4% of this growth.
  - In the long run, sustainable growth is feasible, in line with structural reforms, rising oil production and increased foreign investment.
- Fiscal measures in place have provided relief to small-and-medium-sized enterprises (SMEs) and hard-hit sectors over the past year and a half.
  - The federal government and central bank have both pumped billions of dirhams to offset the impact of the COVID-19 pandemic
  - This includes Dh388B worth of stimulus and Dh50B to boost liquidity in the banking sector.
  - IMF executive directors also noted that rising oil prices will benefit the UAE's current account balance, which is projected to increase and remain positive at around 8.5% of GDP.
- India and the UAE have signed a Comprehensive Economic Partnership Agreement (CEPA) that is set to benefit about 90% of trade between the two countries, making the UAE India's first bilateral trade partner in the MENA region.
- The agreement will provide significant benefits to Indian and UAE businesses, including enhanced market access and reduced tariffs. It is expected to increase bilateral trade from the current level of USD 60B to USD 100B within the next five years.
  - The agreement targets several areas; it aims to enhance bilateral food and agriculture trade, and also intends to increase collaboration in research, production and development of reliable supply chains for

[6] Arabia Monitor; UAE Ministry of Cabinet Affairs

vaccines. It will also enhance investments by UAE entities in India's health infrastructure.

- The UAE will get immediate market access at zero duty to nine broad sectors that account for 90% of India's exports.
  - These sectors include textiles, engineering products, gems and jewellery, pharmaceuticals and medical devices, among others.
  - India is the top trade partner for the UAE in terms of non-oil exports, accounting for 14% of the total of the UAE's global exports.
- In terms of diplomacy, the Turkish president, Recep Tayyip Erdogan, visited the UAE for the first time in nearly a decade, as tensions thaw and ties improve between the two countries.
  - This comes after the UAE signed a USD 4.9B currency swap with Turkey in January.
  - Plans were outlined for a USD 10B fund to support investments, in an effort to double bilateral trade.
  - The two countries signed 13 agreements in areas such as defence, trade, climate change, industry and the economy.

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