

High stakes across MENA

Florence Eid-Oakden, Ph.D, Chief Economist
Robin Mills, Maryam Salman, Energy Analysts
Charlene Rahall, Mingqiao Zhao, Leila Lajevardi, Analysts

- While Iraqi Prime Minister-designate Mohammad Allawi could get parliamentary approval on his proposed Cabinet, it is unlikely that it will be accepted by protesters, who have been calling for an overhaul of the current political structure since October 2019.
- As Lebanon meets with the IMF, the economy got a double downgrade from S&P Global and Moody's as a potential bond default looms.
- A political stalemate has been averted in Tunisia with the approval of Prime Minister Elyses Fakhfakh's Cabinet. The country can now turn to urgent reforms.
- Egypt's strategy of localising electric-vehicle production has coincided with the business expansion efforts of various Chinese automobile producers, which have long viewed Egypt as a key overseas market.

Iran: The predicted conservative take-over

We expect Iran's foreign and domestic policy to become far more hard-line now that parliamentary elections on 21 February -- the 11th since the Islamic Revolution of 1979 - have given an overwhelming victory to conservatives. Most reformist candidates were eliminated by the Guardian Council, setting the stage for the takeover.

- Conservatives are set to have 221 seats in the 290-seat Islamic Consultative Assembly (parliament).
- The new parliament is expected to undo many policies instituted during the past four years, when there has been a reformist majority, and in the eight years of reformist President Hassan Rouhani's tenure.
- Conservative candidates blamed Iran's economic hardship on international sanctions and other outside pressures, but they mostly campaigned on what they said was internal mismanagement by the reformist government.
- Under Rouhani, Iranians, signed and "lost" the JCPOA, have endured sanctions, the US assassination of locally popular public figure General Qassim Soleimani, COVID-19, and, most recently, have been re-listed by the international Financial Action Taskforce (FATF) as a state sponsor of terrorism.
 - FATF's decision will create new trade hurdles for Iran, including making the delivery of humanitarian aid from abroad more difficult.
 - COVID-19 has overshadowed election results and the conservatives are expected to use the government response as propaganda of further evidence of mismanagement by the reformist government.
- While there are calls by reformists and Iran's activist urban youth to have the election ruled illegitimate because of the Guardian Council's actions, we would note that conservatives do have a level of legitimate support -- especially amongst the country's religiously devout population and in rural enclaves.

MENA Oil Exporters				
	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2019	2020f	2019	2020f
Algeria	2.6	2.4	-13.2	-9.9
Bahrain	2.0	2.1	-8.4	-7.7
Iran	-9.5	0.0	-4.5	-5.1
Iraq	3.4	4.7	-4.1	-3.5
KSA	0.2	1.9	-6.1	-6.6
Kuwait	0.6	3.1	-10.4	-11.6
Libya	4.3	1.4*	-10.9	-14.9
Oman	0.0	3.7	-6.7	-8.4
Qatar	2.0	2.8	7.0	6.9
UAE	1.6	3.0	-0.8	-1.7
Yemen	2.1	2.0	-6.9	-7.2
Average Ex-Libya & Yemen	0.3	2.6	-5.9	-6.3

MENA Oil Importers				
	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2019	2020f	2019	2020f
Djibouti	6.0	6.0	-1.5	-1.7
Egypt	5.5	5.9	-8.3	-6.7
Jordan	2.2	2.4	-3.4	-3.2
Lebanon	0.2	0.9*	-9.8	-11.5
Mauritania	6.9	6.3	2.1	0.3
Morocco	2.7	3.7	-3.7	-3.3
Palestine	-1.6	0.5
Somalia	2.9	3.2	0.1	0.2
Sudan	-2.6	-1.5	-5.4	-11.1
Syria
Tunisia	1.5	2.4	-3.7	-2.8
Average Ex-Syria	2.4	3.2	-3.7	-4.4

Country	Scheduled For	Event	Comment
Libya	H1 2019 Postponed	Referendum	No new date has been set yet.
		Presidential & Parliamentary (after referendum)	
Syria	Apr-20	Parliamentary elections	Date tbc
Jordan	Sep-20	Parliamentary elections	On track
Kuwait	Oct-20	Parliamentary elections	Date tbc
Egypt	Nov-20	Parliamentary elections	On track

- Reformists tend to be attacked politically when they engage with the US, the driving force behind most sanctions and known in Iran as "The Great Satan".
- Foreign Minister Javad Zarif was criticised by the Iranian media for speaking to US Senator Chris Murphy last week.
- At the end of January, protesters rallied in front of the foreign ministry after Zarif made remarks about the possibility of talks with the US.

¹ Arabia Monitor; IMF.

* Subject to downward revision.

- We expect an anti-US policy stance for years to come, as the uncontested norm under the new conservative parliament. This will become even more entrenched as policy if a conservative wins the presidency in 2021.

Syria: Turkey & Russia tensions continue

No agreement was reached between Turkey and Russia over Idlib when the two sides met in Moscow on 18 February. We expect another deal between the countries to be brokered soon, but it could collapse quicker than it is agreed.

- In recent weeks, a Syrian Arab Army (SAA) offensive in Idlib, backed by Russia, has made sizeable gains against opposition forces backed by Turkey.
- Following the Moscow talks, the Turkish delegation warned that the Turkish Armed Forces had completed their preparations to force the SAA from the areas it has gained so far.
- This sentiment was echoed by Turkish President Recep Tayyip Erdoğan on 19 February when he said Ankara's goals to turn Idlib into a safe zone would be achieved "no matter the cost".
- Were Syrian President Bashar al-Assad's forces to take control of Idlib, it would be a significant milestone in the civil war, underscoring evidence of his victory.
 - Regaining control of the last rebel stronghold and controlling the critical highways that surround it would bring significant advantages for Assad.
- Russia is the primary reason behind the Assad regime's endurance, supporting it in the war (along with Iran). Turkey has backed rebels looking to oust Assad.
- We expect Turkish-Russian relations to thaw after a deal is brokered, but the relationship and agreement would both remain fragile.
 - The last pact that was reached between the two countries at the end of 2018 to turn Idlib into a de-escalation zone has been rife with violations, leading to the current impasse.

In addition to Russia's tensions with Turkey, there are also widening fractures between Russia and the US over Syria.

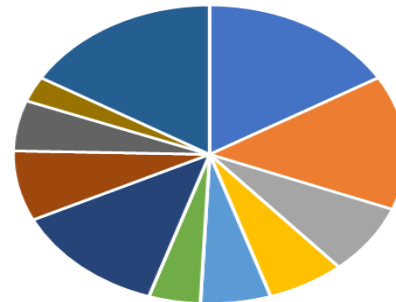
- Tensions picked up when Russian Minister of Defence Sergei Shoigu accused US forces in Syria of controlling the oil wells in the region.
- Such statements are most likely aimed at raising Turkish suspicion towards the US at a time when relations could otherwise be warming.

Iraq: Appeased party blocs, unhappy protesters

We expect that Iraq's new government under Prime Minister-designate Mohammad Allawi will be temporary at best. While we foresee Allawi's nominees getting the parliamentary approval to take office after a delayed vote which was to take place on 26 February, it is unlikely that they will be accepted by protesters, who have been in the streets calling for an overhaul of the existing political structure since October.

² Arabia Monitor; Iraqi Parliament Council.

Figure 1 – Iraq Council of Representatives Members²



- Although Allawi has delayed proposing his Cabinet, we expect it to be a mix of independent and technocratic ministers with Iraq's political blocs getting the key sovereign posts.
- If Allawi's Cabinet is approved, he must embark on the task of seeking protester approval of the new government to prevent further pushback.
 - While Sairoon and Fatah -- parliament's leading blocs -- have agreed to support Allawi's government, he continues to face pushback within parliament which has delayed the 26 February vote on the grounds of a lack of quorum.
 - Kurdish and Sunni blocs have not supported Allawi as they have largely been excluded from negotiations and discussions.
- Under the Constitution, Allawi is required within 30 days to form a government and go to Parliament to obtain a vote of confidence with an absolute majority of at least 165 out of 329 members.
 - The Fatah and Sairoon Shi'a blocs have 48 and 54 parliamentary seats, respectively. Based on that, the new government needs a minimum of 63 additional votes to win a vote of confidence. Such a number can only be secured with the participation of the Kurdish and Sunni blocs.
- The protesters have and will continue to reject Allawi's picks as they continue to call for snap elections -- an unlikely event even if the prime minister's Cabinet is not approved.
 - The as-yet unratified new electoral law makes it very unlikely that Allawi can hold early elections; the last elections were held in 2018 and the next ones are scheduled for 2022.
- All this could mean that Allawi may not be able to effect reforms. If he fails to form a government, Adel Abdul Mahdi would continue as prime minister.

Lebanon: To default, or not to default

S&P Global and Moody's downgraded Lebanon deeper into junk territory just as an IMF team was visiting to provide "technical assistance" on economic and financial policies, and as the government started examining proposals from financial advisory companies on ways to handle maturing bonds

³ There have been 500 Iraqis dead since street protests began, and an estimate of 25,000 injured. This is the main differentiation between these protests and the ones in Lebanon, which are otherwise similarly tectonic.

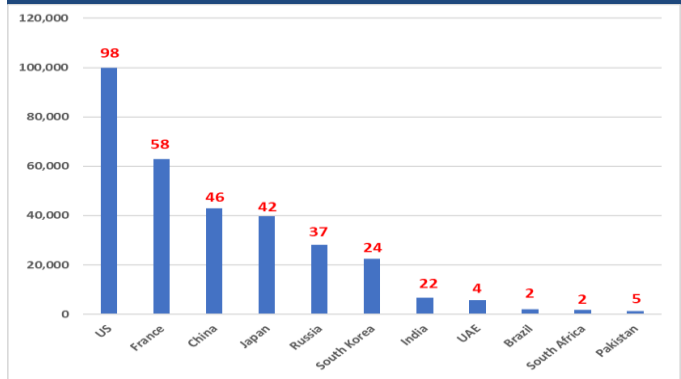
- S&P lowered Lebanon's ratings to CC/C from CCC/C with a negative outlook, while Moody's cut Lebanon's rating to Ca from Caa2. Both ratings are 10 steps below investment grade.
 - The negative outlook reflects the risk to near-term debt repayment in the context of ongoing political, financial, and monetary pressures.
 - A further cut is possible should the government miss a payment to creditors.
 - Ratings could however be affirmed or even raised if, for example, the country receives significant donor funding that would allow the government to implement immediate reforms.
- An IMF deal would almost certainly require some debt restructuring of government debt which is over 60% denominated in Lebanese pounds.
 - Such restructuring could take various forms such as an exchange offer of swapping 2020 bonds for longer-dated securities as proposed by Banque du Liban (BDL), but negotiations with bondholders could prove complicated.
- As the crisis deepens, there is no sign of foreign aid. GCC and Western states, especially Saudi Arabia, France and the US, have most recently emphasised that any support hinges on Beirut implementing long-delayed reforms to address root causes such as state corruption and bad governance.

UAE: Arab world's first nuclear reactor

The UAE has issued an operating license for the first reactor in the Arab world's first nuclear power plant -- Abu Dhabi's Barakah 1 -- paving the way for it to start production later this year. Getting the watchdog's license means the operator of Barakah 1, Nawah Energy Company, can begin loading fuel when it is ready.

- Located 53km from the city of Ruwais, the plant, which is being built by Korea Electric Power Corporation, was originally due to open in 2017, but the start-up of its first reactor has been delayed several times.
- The project is being financed through a USD 16.2B loan from the Abu Dhabi government and a USD 2.5B loan facility from the Export-Import Bank of Korea.
- The license granted to Nawah will be for 60 years, and the operator can now launch commercial operations after having undergone several months of trials.
- When completed, Barakah will have four reactors with a total capacity of 5,600 MW, which are expected to cover 25% of the country's electricity needs for its population of 10 million.
 - For comparison, the US which has the world's largest nuclear electricity generation capacity (100,000 MW from 98 reactors), supplies 20% of its total annual electricity.
 - The second-largest nuclear electricity generator by capacity is France (63,000 MW from 58 reactors), where the nuclear share of country's total electricity generation is about 73%.

Figure 2 – Nuclear Power Plants No. & Capacity (MWe)⁴



- After the UAE, Saudi Arabia is likely to be the second country in the GCC to tap nuclear. In June 2017, the kingdom announced plans to build 16 nuclear reactors by 2030; it aims to have the first two reactors in 10 years and to establish two nuclear reactors in each following year.
- The focus on nuclear power as an alternative source of energy became more prevalent in the late 2000s, fuelled by rising energy demand and depleting oil and gas resources.
 - Acquiring strategically sensitive nuclear technology can potentially become deeply entangled in the region's existing geopolitical context.
 - Although the GCC states have emphasized their full civilian interest in nuclear power, the option to develop a weapons programme is of course a risk that can never be fully excluded.
 - Our view is that the development of civil nuclear capacity across the Arabian/Persian Gulf could be a stabilising factor in the region's geopolitics.

Oman: SMEs exempt under new investment law

As anticipated, Sultan Haitham bin Tariq's former role as chairman of the Oman Vision 2040 committee is already proving useful to the sultanate. In his first speech after the mourning period for Sultan Qaboos, Haitham prioritised the tackling of economic challenges, especially to reduce debt and review the sultanate's state companies. Further fiscal reforms and diversification efforts are needed, especially given current global risks and increasing debt.

- Although narrowing, the persistently high fiscal deficit is expected to raise the public debt-to-GDP ratio to 63.9% in 2020 from 59.9% in 2019. It is not out of control, but rising debt levels since 2016 remain a concern for ratings agencies.
- According to the government, Oman's fiscal deficit will remain almost unchanged from actual 2019 levels at 8% of GDP in 2020 and on par with IMF estimates. Total spending is budgeted at USD 34.3B, an increase of 2% in 2019.
 - The 2020 budget deficit is expected to be covered by external and domestic borrowing (80%), while the balance will be covered by drawing on the government's general reserve account.

⁴ Arabia Monitor; World Nuclear Association.

- To ease fiscal pressure over the short term, Oman could sell off some state-owned assets, but the government will have to come up with other strategies if it is to put its economy on more stable footing over a longer period.
 - In October 2018, state-owned Oman Oil Company sold a 10% stake in the Khazzan-Makarem gas field venture to Malaysia’s Petronas for USD 1.3B. Most proceeds went to finance the budget.

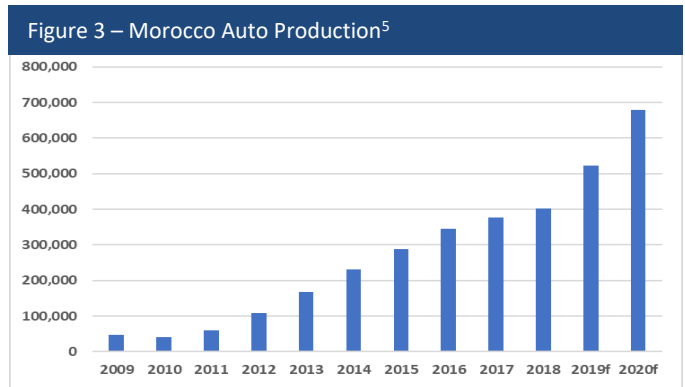
Further clarifications to the Foreign Capital Investment Law, which became effective in January, have been made. The law allows 100% foreign ownership in all sectors barring those in 37 types of commercial activity that are mostly Omani-operated small businesses.

- This list does not include sectors which were previously strict in their Omani ownership requirements such as defence, oil and gas and restaurants.
- The types of businesses that would still be owned solely by Omanis include translation, photocopying services, tailoring, laundry, vehicle automotive repairs, manpower and recruitment services, hairdressing and salon services, and taxi services among others.

Tunisia: Crisis averted

Tunisia has avoided parliamentary elections that would have delayed urgently needed economic reforms. Prime Minister Elyses Fakhfakh succeeded in having his proposed coalition government approved by the Assembly of Representatives.

- Approval followed an agreement by Ennahda, Tunisia’s largest party in parliament, after a month-long impasse. Fakhfakh presented his Cabinet to President Kais Saïd ahead of the 20 February deadline.
- The new government is comprised of 32 Cabinet ministers including Nizar Yaich as Minister of Finance, Nourredine Erray as Minister of Foreign Affairs, Imed Hazgui as Minister of Defence, Mongi Marzouk as Minister of Energy, Mohamed Ali Toumi as Minister of Tourism, and Thouraya Jribi as Minister of Justice.
- The new Cabinet has the support of political parties across the spectrum with the exception of the Heart of Tunisia (Qalb Tounes) party.
 - Ennahda had initially rejected an earlier proposal on 15 February on the grounds that the Heart of Tunisia was not included in the Cabinet
 - Fakhfakh had rejected the Heart of Tunisia, believing its values do not align with the 2011 revolution.
 - In order to avert new elections, which would risk their parliamentary majority, Ennahda came to a consensus with Fakhfakh, although the relationship between the prime minister and the party remains in a delicate balance.
- The country can now turn to dealing with urgent economic challenges such as bond-repayment deadlines, loan maturities, and 2020 spending commitments.
 - The approval also avoids delays to the IMF’s sixth review of its loan programme.



Morocco: Carrots and cars

Protests in Casablanca on 23 February were small and contained, but should they expand, we expect the government to use the same carrot and stick approach that it did to defuse the mass protest movement that took place in the Berber-speaking Rif region between 2016 and 2017.

- The recent protest was against social inequalities and called for the release of political prisoners, including those detained during the Hirak Rif unrest. There were also calls for the establishment of “real democracy”.
- The demonstration was organised by the Moroccan Social Front, a recently created movement formed of four left-wing parties, unions, and civil organizations.
- Should the protests continue and morph into something larger, our baseline scenario sees the king and his aides formulating a new mix of promises such as new development projects in impoverished areas and repression measures to placate protesters.

Morocco’s auto industry has become the kingdom’s top exporter, and one of the largest job creating sectors. With the government taking steps to boost the industry, and foreign automakers increasingly interested in opening plants, we expect significant growth ahead.

- The auto industry has become one of the strongest job-creating sectors in Morocco. Between 2014 and 2019, it represented 28.8% of all new 405,496 jobs created.
- The Moroccan Ministry of Industry, Trade & New Technologies is targeting a turnover of USD 11.5B by 2020 (vs USD 7B in 2017).
 - With production capacity increasing from 345,000 units in 2016 to a target of 650,000 this year, we believe this is achievable.
- The country is attracting automobile-components producers such as Switzerland’s TE Connectivity and dealerships such as Britain’s Aston Martin. This in turn helps attract more car manufacturers.
 - TE Connectivity will install a fourth plant specialised in manufacturing sensor and communication systems in Tangier.
 - Aston Martin will open its first dealership in Morocco in Casablanca between April and June. Not only will the dealership be the first for the British carmaker’s in Morocco, it will be the first in North Africa.

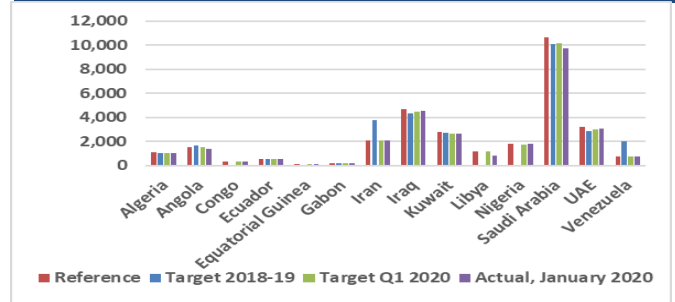
⁵ Arabia Monitor; Organization of Motor Vehicle Manufacturers (OICA).

MENA Energy Outlook: OPEC & COVID-19

The OPEC+ alliance has already faced a major challenge this year in managing the market.

- In their December 2019 meeting, the organisation and its non-OPEC allies agreed to cut an additional 500 Kb/d from its existing level, with Saudi Arabia pledging an additional 400 Kb/d cut if other members complied with their limits, giving a total reduction of 2.1 Mb/d on 2017.
 - This was intended to deal with soft H1 demand and an expected surge in non-OPEC output from countries such as Brazil, Norway and Guyana.
- The COVID-19 virus is an additional problem. The International Energy Agency (IEA) estimates the shutdown in China will reduce world oil demand by 1.1 Mb/d in Q1, 345 Kb/d in Q2, and 480 Kb/d overall during 2020. This would be the first Q1 drop in oil demand since the financial crisis in 2009.
 - Russian reluctance caused OPEC to drop plans to advance its 6 March meeting, but the group is considering a further 500 Kb/d cut.
- The distribution of the cuts is tricky. In January, OPEC produced 28.86 Mb/d, its lowest level since 2009, because of a shutdown in Libya, and the implementation of December's cuts by Saudi Arabia and its GCC allies.
 - It made 166% of the planned December 2019 cuts (the non-OPEC group reached 77% of agreed cuts).
 - Yet the IEA sees the requirement for OPEC crude at only 27.2 Mb/d in Q1. Even the planned 500 Kb/d cut would be far from bridging the gap.
 - OPEC's own figures are more optimistic, cutting its estimate of annual demand by 230 Kb/d.
- The distribution of cuts is becoming increasingly tricky. Saudi Arabia, Kuwait and the UAE will not want to continue taking a disproportionate share. This is particularly so with the restart of the Saudi/Kuwaiti Neutral Zone, and Abu Dhabi's continuing expansions of production capacity.
 - If Libya returns to near-full output, that will further strain other members.
 - Iraq and Nigeria have improved compliance but are unlikely to deepen cuts much further.
 - Venezuelan production improved in January, though it is threatened by intensified US sanctions, while Iran's remaining very limited exports (about 300 kb/d on average) could further be hit if Chinese customers cease buying.
 - Non-OPEC Russia continues to comply less than fully, but enough to keep cooperation going.
- This points to a further cut in March but with increasing pressure on the deal after Q1. With a planned further 500 kb/d still not enough to rebalance the market, Saudi Arabia will seek (but not get) better compliance from Russia, Iraq and Nigeria.
 - A more positive outlook beyond Q1 depends on a speedy resumption of demand growth, but the additional cut may still be maintained through 2020 to bring stocks back to the opening position.

Figure 3 – OPEC Cuts & Production (Kb/d)⁶



Sino-MENA: Electric vehicles, new focus in China-Egypt partnership

China's Foton Motor -- a Beijing-based automobile company that designs and manufactures trucks and buses -- will begin manufacturing electric buses with Egypt's Military 200 Factory by November.

- Foton Motor has sold over 10,000 vehicles in Egypt since it entered the market over 10 years ago.
- Its local Egypt production will manufacture approximately 500 buses every year for four years before increasing capacity.
- The Public Transportation Authority says that, as part of the contract, Foton will produce affordable electric mini-cars (dubbed E-Motion cars), but these cars are allowed only in compounds, hotels and resorts for now.
- This development highlights Egypt's efforts to deploy electric vehicles in cities to reduce pollution and reliance on fossil fuels.
 - In December 2019, the Public Transportation Authority announced the route for a three-month trial for the first electric bus in Cairo.
 - In November 2019, the Ministry of Military Production exhibited the first two electric buses, supplied by Foton under a 50-bus contract.
 - Contracts have already been awarded to run electric buses inside the cities and to establish charging stations.

Egypt's strategy of localising electric-vehicle production has gelled with the business expansion efforts by various Chinese automobile producers, which have long viewed Egypt as a key overseas market.

- Geely, which owns Volvo, has been operating an assembly line in Egypt since 2012. In 2019, it signed a MoU with the National Organization for Military Production for manufacturing electric cars.
- Dongfeng Sokon has also expressed interest in producing electric vehicles in Egypt, in partnership with Nasr Company, Egypt's state-owned automobile company in need of revival.
- In 2019 bus maker Ankai had also held discussions with Minister of Military Production Mohamed el-Assar on joint production of electric buses in Egypt.

⁶ OPEC (secondary sources), Bloomberg, Qamar Energy analysis. Libya, Iran, Venezuela do not have an assigned target, so this has been taken as the reference level (October 2017 in most cases).

Disclaimer

© Arabia Monitor 2020

This is a publication of Arabia Monitor Limited (AM Ltd) and is protected by international copyright laws and is for the subscriber's use only. This publication may not be distributed or reproduced in any form without written permission.

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

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

Arabia Advisors specialises in portfolio strategy and private placements. It works with firms, family offices and government related organisations that are looking to streamline, re-balance or diversify their asset portfolios. Based in the UAE as an off-shore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

Arabia Monitor

Aston House | Cornwall Avenue | London L3 1LF

Tel +44 203 239 4518

info@arabiamonitor.com

www.arabiamonitor.com