No summer break for MENA markets

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- **Saudi Arabia and the UAE are registering some of the highest levels of economic activity since the onset of the pandemic, presaging robust growth ahead.**
- **Iran's currency is undergoing heightened volatility on the back of the political transitions and uncertainty surrounding the JCPOA.**
- **North Africa continues to exhibit political fragility, with Libya's interim government unable to enact reforms and Algeria's wildfires further exacerbating the socioeconomic crisis.**
- **The development of two major gas fields in Iraqi Kurdistan have been stalled by the new oil minister. The move is the latest in a series of shakeups to cement his position.**

UAE: Waiting for Expo

Despite the UAE registering a 6.1% contraction throughout 2020 and slow growth at the beginning of 2021, it is expected to enjoy an economic rebound during the second half of this year.

- In July, business confidence rose to the highest levels since 2019 thanks to the easing of COVID-19-related restrictions.
  - According to IHS Markit, the Purchasing Managers' Index rose to 54 in July compared with 52.2 in June and 52.3 May of this year, respectively.
- In Abu Dhabi growth will be driven by oil and gas. In Dubai, growth will be driven by strong international links in trade, finance, and travel, with the main boost coming from the Expo.
  - Oil prices this year are expected to average around USD 63 pb, and USD 61 pb in 2022. This year's average represents a 61% YoY increase.
  - The UAE is expected to register the fastest growth rate in oil GDP throughout the GCC region. However, overall oil GDP is forecast to remain flat at 2.8% both for this year and 2022.
    - With the easing of travel restrictions, Dubai International Airport (DXB) is targeting 8% growth in passenger traffic this year. Current ambitions involve processing 28M travellers throughout 2021 and 56M in 2022. but this is still far below pre-pandemic levels of over more than 86M passengers annually.
- Thanks to its diversified export basket, the UAE is forecast to post a trade surplus in excess of 13% of GDP throughout 2021-23.
  - Non-oil goods are expected to recover from a 37% contraction to a 24% expansion in 2021. Exports of minerals, electronics, metals, chemicals, vehicles, and machinery are also expected to post good growth with the gradual recovery of global trade.

Table 1 – MENA Dashboard[1]

MENA Oil Exporters	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2020	2021	2020	2021
Algeria	-6.0	2.9	-12.7	-18.4
Bahrain	-5.4	3.3	-18.3	-9.1
Iran	1.5	2.5	-8.4	-6.8
Iraq	-10.9	1.1	-18.3	-9.2
KSA	-4.1	2.4	-11.1	-3.8
Kuwait	-8.1	0.7	-9.4	-6.9
Libya	-59.7	131.0	-103.0	0.3
Oman	-6.4	2.5	-17.3	-4.4
Qatar	-2.6	2.4	1.3	1.1
UAE	-5.9	3.1	-7.4	-1.3
Yemen	-5.0	1.2	-9.6	-6.1
Average	-12.2	8.1	-19.4	-11.8
Average Ex-Libya	-5.3	2.2	-11.1	-2.8

MENA Oil Importers	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2020	2021	2020	2021
Djibouti	-1.0	5.0	-1.3	-2.0
Egypt	3.6	2.5	-7.0	-7.5
Jordan	-2.0	2.0	-8.9	-7.7
Lebanon	-25.0	...	-9.9	...
Mauritania	- 2.2	3.1	2.1	-2.5
Morocco	-7.0	4.5	-7.6	-6.4
Palestine	-11.0	5.7	-10.7	-10.5
Somalia	-1.5	2.9	...	...
Sudan	-3.6	0.4	-5.9	-4.5
Syria	...	...	...	...
Tunisia	-8.8	3.8	-10.6	-9.3
Average Ex-Syria & Lebanon	-3.5	3.3	-6.2	-6.3

  - However, long term growth continues to hinge on the UAE's capacity to continue to innovate, including in creating a constantly evolving business environment.
  - The new Commercial Companies Law, which came into effect in June of this year, allows foreign investors and entrepreneurs from most industries to enjoy full ownership of onshore companies. This therefore nullifies the requirement for having a majority Emirati shareholder in onshore commercial enterprises.
  - The Central Bank of the UAE has also called on banks to implement measures to counteract the impact of the pandemic. These measures include loan rescheduling, fees and commission reduction, among others.

Saudi Arabia: Gearing up for growth

Newly released data from Saudi Arabia's General Authority for Statistics registered the kingdom's GDP growth in Q2 at 1.5%

[1] Arabia Monitor; IMF.

YoY. This marks the first positive growth rate since the start of the pandemic and could signify what is to come amid the expansionary numbers promised for H2 2021.

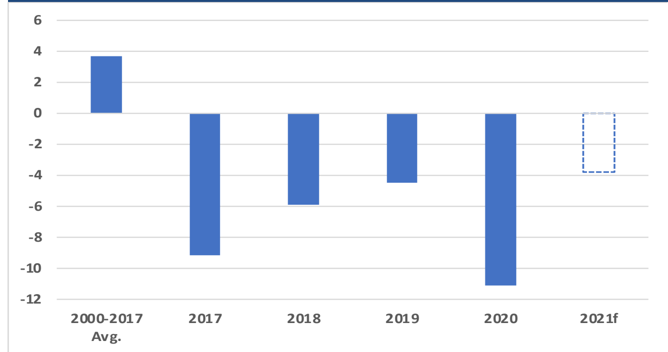
- The latest figures put the kingdom's growth trajectory in line with IMF estimates for this year; 2.4% growth in 2021 after a 4.1% contraction in 2020.[2]
  - Growth was bolstered by a 10.1% expansion in the non-oil sector with revenue reaching nearly USD 31B during this period.
- This will help to support spending in the kingdom; the Public Investment Fund (PIF) will proceed to inject nearly USD 40B into the domestic economy through 2025.
- Growth will also help shrink the state's budget deficit, which has narrowed to around USD 1.2B in Q2, on global oil demand and higher tax revenues.
  - Oil revenue rose 38% from April to June compared with the same period in 2020, according to the Ministry of Finance.
  - The budget deficit hit almost USD 80B last year (6.4% of GDP), and is estimated at 4.2% of GDP for 2021 thanks to continued fiscal consolidation.
  - This year the kingdom borrowed beyond its spending needs for H1 2021. As such, the finance ministry has stated that excess loans will be spent in H2, giving it substantial leeway.
  - We expect inflation to remain low and well-behaved going into 2022, not surpassing the 4% annualised mark.
- The kingdom's growth will also be strengthened by its latest move to reopen the tourism sector (albeit gradually), which includes welcoming back Umrah pilgrims.
  - Saudi Arabia closed its popular pilgrimage sites 18 months ago at the onset of the pandemic.
  - The kingdom will now allow 60K visitors to perform the Umrah monthly, gradually increasing the permitted intake to 2M pilgrims.
  - Together, the Umrah and the Hajj account for roughly USD 12B of the kingdom's annual revenues.
  - Prior to the announcement, only vaccinated residents were able to apply for Umrah permits.
  - Outside the realm of pilgrimages, the kingdom will welcome vaccinated foreigners as of this month, albeit only those who have received a Saudi-recognised vaccine.

Algeria: Breaking point

Algeria looks nowhere close to realising progressive aims established after the 2019 uprising. Persistent economic issues have been exacerbated by the pandemic and recent devastating wildfires, fuelling popular unrest.

- Over the past two weeks, the Kabylie region was ravaged by over 100 wildfires.

Figure 1 – Saudi Arabia fiscal balance (% of GDP)[2]



  - Forest fires are a regular occurrence in Algeria, but this year's fires were particularly devastating. Early estimates show they have inflicted more damage to the country's forests than all the fires from the previous 12 years combined.
  - At least 90 people have died as a result, including 33 military personnel who were fighting the flames. An estimated 600 families have been left homeless.
  - A lack of firefighting infrastructure has further angered Algerian citizens, who had already returned to the streets to protest against a perceived lack of change in the government's ways.
  - Instead of accepting the blame for mishandling the issue, President Tebboune has attempted to divert public attention by spouting hostile rhetoric against Morocco and the Movement for the Autonomy of Kabylie (MAK) autonomist group, accusing them of starting the fires (despite lack of evidence).
  - Algerians are all too familiar with this type of blame shifting and will not lend them broad-based credence. Rather, they will continue to demand change.
- Although the government's commitment to structural reform still largely rings hollow, some tangible progress is being made.
  - The finance ministry now expects the economy to grow by 4.2% in 2021, a small revision from an earlier forecast of 4%.
    - This is higher than the 2.9% GDP growth that was forecast in April by the International Monetary Fund (IMF) and reflects the government's optimism on higher energy prices.
    - GDP has already grown by 2.3% in Q1 this year, up from a 3.9% contraction last year. This is thanks to 7.5% growth in the oil and gas sector, following a 13.3% contraction in 2020.
  - Privatisation efforts are now also slowly underway. They represent ambitions to diversify an economy still overly reliant on oil and gas, which account for around 60% of the state budget and 94% of export revenues.
  - Tebboune recently announced a plan to sell stakes in state-owned companies and banks which have been stagnating for decades.

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[2] IMF.
[3] Arabia Monitor; IMF.

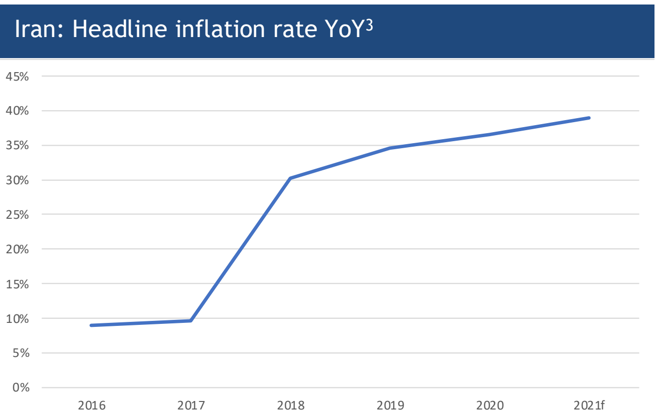
    - Algeria has six state banks, which account for almost 95% of the country's banking assets. The sale will undoubtedly bring new life to the sector.
- Algeria is also finally edging closer to obtaining key foreign funding; the president has authorised the government to become a member of the European Bank for Reconstruction and Development, signalling a shift in the country's long-running aversion to foreign funding, particularly borrowing.
- Yet in the eyes of many Algerians, these efforts may have come too late. Indeed, they are unlikely to bring an end to growing public misery unless concrete results materialise soon.

Iran: Capricious currency, volatility in value

With Joint Comprehensive Plan of Action (JCPOA) talks having yet to yield an agreement, and Iran's presidential transition well under way, markets in Tehran are predictably exhibiting volatility.

- The Iranian rial (IRR) has plunged 11.7% in value against the US dollar (USD) since Ali Larijani was disqualified as a presidential candidate and Ebrahim Raisi's victory was confirmed. The IRR lost a further 3% in the week following Raisi's inauguration.
    - These developments come amid both another wave of COVID-19 in Iran and the political crisis in neighbouring Afghanistan.
- The value of the IRR has fluctuated tremendously in recent years; the currency plummeted under former US president Donald Trump's "maximum pressure" campaign which made essential goods inaccessible to most Iranians.
    - The cost of goods has increased 44% over the past FY, resulting in serious public grievances which may lead to protests if Raisi does not address the sanctions situation rapidly.
- Yet, despite the instability, sanctions and the pandemic, the International Monetary Fund (IMF) forecasts that the economy will grow by 2.5% in FY 2021-22, up from a 1.5% expansion last year.
    - The impact of the "maximum pressure" campaign was felt most acutely in 2019 when Iran's economy contracted by 6.8%.
- The IMF likely factored in Iran's return to the nuclear deal as part of its forecast. Indeed, Tehran would almost certainly benefit from such a return, as some much-needed sanctions relief would then be on the table.
    - For context, when the initial JCPOA was signed in 2015 and sanctions were lifted, the Iranian economy grew by 13.4% YoY. Today, similar growth would be a realistic possibility were Iranian oil to return to the market.

Iran: Headline inflation rate YoY[3]



Libya: Political potholes test interim government

Although the UN-backed government of Prime Minister Abdul Hamid Dbeibeh initially charged headfirst into pushing reform plans, progress has come to an impasse. The latest roadblock involves the 2021 budget and a divided parliament, a scenario which endangers Libya's oil sector.

- According to the energy minister Mohamed Oun, Libya will struggle to sustain its current levels of oil production unless the government ends what is now a four-month-old dispute regarding the budget.
    - Libya currently produces 1.3M bpd yet seeks to increase that figure to 1.5M by the end of 2021, according to Oun. However, further delays in adopting the budget risk capsizing the energy minister's ambitions.
    - Oun requested LYD 7B (USD 1.5B) to develop the oil sector; so far, a figure of only LYD 3B (USD 661.5M) has been approved as part of the draft budget.
        - Furthermore, although this figure represents less than half of what was initially requested, the desperately needed money has yet to be disbursed.
    - According to the National Oil Corporation (NOC), the current allocation of funds will hamper the NOC's ability to meet oil targets and to fix aging infrastructure severely damaged by a decade of conflict.
    - The energy ministry is looking to attract foreign investors. Despite the drying up of FDI following the revolution, the promise of sustained stability after the establishment of the Government of National Unity (GNU) could change the situation.
        - Foreign companies already present in the country include TotalEnergies SE (France), Eni SpA (Italy) and Repsol SA (Spain).

Failure to reach a consensus on the constitutional basis of the upcoming elections casts a shadow over the future of Libya's stability, as does the continued presence of foreign forces.

- The Libya Political Dialogue Forum (LPDF) failed to reach an agreement at UN-facilitated talks held in Geneva in June regarding the constitutional basis and a new law for elections in December 2021. All subsequent talks also failed.
    - Disagreements also remain over the scope of the elections. Some LPDF members want parliamentary

[4] Arabia Monitor; IMF.

    polls, while others demand both presidential and legislative elections.
  - Such divergences risk invalidating the GNU and endangering Libya's democratic political transition.
- The success of the elections in December will also be hugely impacted by the ongoing presence of foreign fighters on Libyan soil.
  - As per the LPDF rules, the departure of all foreign forces from Libya is a precondition for the upcoming elections to go ahead.
    - According to UN estimates, some 20,000 foreign fighters were still stationed in Libya as of December 2020. The majority come from Chad, Russia, Syria and Turkey.
    - Despite efforts by the GNU's foreign ministry, there are few encouraging signs that Russian and Turkish forces will leave the country any time soon.
- It is critical for the stability of a future Libya that the upcoming elections run smoothly, but they will most likely be delayed beyond this December.
  - Field Marshal Khalifa Haftar, leader of the eastern-based Libyan National Army (LNA), has already stated that his forces will not operate under any authority that emerges from GNU-brokered elections.
    - Haftar could well benefit from further post-election instability.

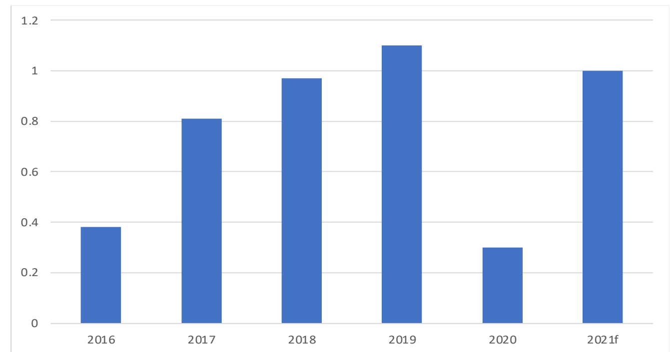
Sino-MENA: Chinese investments get green light

A consortium of companies led by China Three Gorges Corporation (CTG) has acquired the UAE's Alcazar Energy's portfolio of seven wind and solar projects across Egypt and Jordan.

- The deal reportedly amounts to around USD 1B, which makes it one of the largest acquisitions in the MENA region by a Chinese consortium in the renewable energy field.
- CTG is one of China's most active acquirers, with an overseas portfolio of approximately USD 150B in power, renewables and hydrogen.
- Green energy is a key area of interest for China. During the recent China-Arab States Expo in Yinchuan (Ningxia autonomous region), Saudi Arabia's ACWA Power engaged China's State Power Investment Corporation (SPIC) in discussions focused on developing and building renewable energy supply and storage capabilities on Saudi Arabia's Red Sea coast.

In addition to their appetite for renewable energy merger and acquisition opportunities, Chinese bidders' appetite for oil and gas remains high.

Figure 3 - Libya crude oil production (mb/ d)[4]



- Silk Road Fund and China Investment Corporation (CIC) are allegedly eyeing the sale of a significant minority stake in Saudi Aramco's gas pipelines, valued at over USD 17B.
  - Silk Road Fund is already part of the consortium that acquired 49% of Aramco's oil pipeline for around USD 12.4B earlier this year.
  - Should it go ahead, the gas pipeline stake will add to the fund's MENA portfolio of renewable energy, which includes the Dubai Electricity and Water Authority's (DEWA) concentrated solar power (CSP) project and ACWA Power's renewables arm.

In addition to energy, manufacturing is another key magnet for Chinese overseas investment.

- China's Midea Group, an electrical appliance manufacturer, has laid the foundation for a USD 25M project to produce dishwashers in Egypt's Suez Canal Economic Zone (SCZone).
- The venture is expected to create 1.5K local jobs, resulting in an annual production capacity of 1.5M dishwashers. The units will be exported to Africa, Europe, and the Middle East.
- Midea Group began manufacturing dishwashers in Egypt in late 2020.

Energy Outlook: KRG pauses pipeline[6]

A unilateral decision in May by the Kurdistan Regional Government (KRG) to change payment terms to IOCs has been followed by another major shakeup.

- On August 20, UK-based, Kurdistan-focussed upstream oil and gas firm Genel Energy announced receipt of a notice from KRG's new Minister of Natural Resources, stating "intention to terminate" the company's planned

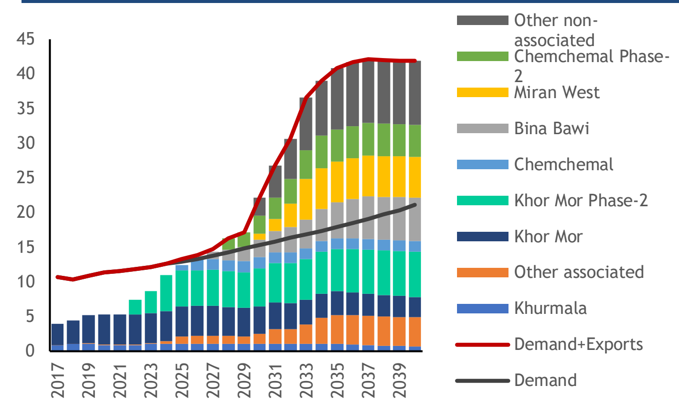
[4] Arabia Monitor, IMF.

[5] This section is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts.

development of the supergiant Bina Bawi and Miran gas fields in the south of Kurdistan.

- Bina Bawi and Miran have combined gross raw gas reserves of 14.8 trillion cubic feet (TCF), making them strategically important to diversify the region's energy mix.
  - However, development of both fields has been achingly slow since Genel acquired working interest in 2009, and 100% ownership in 2015, in part due to their sour (hydrogen sulphide) content, making them technically complex.
  - With concerted effort, both fields could produce a combined 12.1 BCM (12 Bcf/d) of natural gas by 2040, enabling the KRG to pursue potential external sales markets after meeting domestic needs.
- Both fields are regarded as "anchor fields" for planned future natural gas exports to Turkey.
  - Under a 2013 agreement, the KRG was to export 4 BCM/y to Turkey starting 2017, rising to 10 BCM/y by 2020.
  - However, this has not come to pass as the fields are yet to be developed, no export infrastructure exists, and Turkey has developed alternatives.
- Genel has often cited difficulties in engaging with the KRG to obtain necessary approvals to foster development.
  - This is not least because of the absence of a natural gas regulatory unit at the Ministry of Natural Resources, and key decision-makers who can grant the required permits and approvals to kick-start development.
  - New Minister Kamal Atroshi is hoping to return momentum to the region's oil and gas scene, but this shakeup might prove too costly for already-operating IOCs and interested investors. Already, the May decision to change payment terms to IOCs has clouded plans for planned expansions this year.
- Genel intends to serve notice of dispute to resolve the matter swiftly.
  - The firm has said that it "wishes to continue operations under the PSCs" for both fields, and that it is prepared to take steps to protect its rights and seek compensation for its material investment if necessary, but would, as a first step, contest the right of the KRG to issue such a notice.
  - This would trigger an obligation to hold good faith negotiations to resolve the matter without need for international arbitration.
- The Ministry of Natural Resources (MNR) action has caught Genel off-guard since negotiations over the fields were continuing till last month.
  - Still, there could be a compromise. Genel has said that the KRG had confirmed to it that it would not serve notice of intention to terminate as long as negotiations continued, and if done, Genel would have a right of first refusal to participate in the development of the fields with a 49% working interest on the same terms offered to any third party.
  - Industry experts suggest that the MNR would have not taken such a decision without having a replacement lined up, meaning that Genel could have the option to take up the 49% stake as partner to another operator.
- However, this will further delay development of both fields and possibly damage Genel-MNR relations.

Figure 4- KRG's natural gas development potential to 2040 if the Bina Bawl and Miran PSCs are not terminated [6]



  - Both Bina Bawi and Miran are extremely sour and require state-of-the-art processing facilities to produce marketable sales gas and dispose of by-product sulphur.
  - A legal dispute could translate into hesitancy among other international players to pursue the technically challenging fields.
  - Moreover, Genel's other operations in the KRG could be impacted. Alongside partner Chevron, Genel has begun pilot production at the Sarta block, which could become the KRG's largest oilfield but is still ascertaining the field's optimal development plan, which requires MNR approval.
  - Genel is also partnered with Chevron at appraisal of Qara Dagh, the field development plan for which, will also require MNR approval.
- The intention to terminate notice might be the latest in a series of shakeups by Atroshi to cement his position as new Minister.
  - For example, within months of his appointment, Atroshi approved the field development plan for the long-delayed 1.8 TCF Kurdamir gas block that could have potential tie-in with plans for supplies of natural gas to the federal Iraq region.
  - The shakeup over Bina Bawi and Miran could be his latest attempt to spur action over the long-stalled fields, which are crucial for the KRG's plans to establish itself as a natural gas player.
  - There are no public guesses on who would replace Genel if the termination comes into effect (stated as 3 months after receipt of notice of intention to terminate). Distinct possibilities are a Chinese player, such as CNPC, or a Russian one, like Rosneft, who already has presence in Kurdistan as developer of the yet-to-be-constructed KRG-Turkey gas pipeline.

[6] Qamar Energy Research

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