Steady reform, heady politics

Florence Eid-Oakden, PhD, Chief Economist
Leila Lajevardi, Abdelgadir Shukri, Olivia Philipon & Mingqiao Zhao, Analysts

- **It has been a vibrant summer for the private sector in Saudi Arabia, with the kingdom enjoying record performance indicators. To keep this momentum going, Crown Prince Mohammed Bin Salman (MBS) has launched a new strategy.**
- **With the recent Iraqi elections having empowered cleric Moqtada Sadr, the country's politics are set to remain consistent with previous administrations.**
- **Politics have repeated themselves in Sudan, with hopes of a democratic transition having been devastated by the latest military coup.**

Saudi Arabia: Staycation leads to acceleration

In its latest revision, the IMF forecast 2.8% GDP growth for Saudi Arabia in 2021 and 4.8% growth in 2022. This is a positive amendment from previous forecasts of 2.4% and 4%, respectively. This positive outlook is reinforced by higher oil prices, a continued monthly relaxation of OPEC+ cuts and the rollout of COVID-19 vaccinations. Elsewhere, optimism can also be traced to reforms in the private sector.

- The latest figure for the Saudi Purchasing Managers' Index (PMI) surged by four and a half points from 54.1 in August to 58.6 in September. This increase resulted in the highest reading since August 2015.
  - The kingdom's private sector has enjoyed being in (50+) growth territory since Q4 2020.
  - Growth has accelerated, resulting in a six-year high following a four-month period of deceleration after May.
- Due to travel restrictions imposed by the Saudi government throughout the summer, citizens who would have normally embarked on overseas holidays instead turned to local tourism options.
  - Increased demand for domestic travel and concomitant consumption has ultimately gone a long way to support local businesses.
  - A further high which had not been witnessed since September 2014 is the ten-point jump in the new order sub-index, which reached 67.5.
    - The expansion of output in the private sector was the steepest MoM increase since May 2021.
- Naturally, a sharp uptick in demand has increased input cost inflation. However, this has not resulted in higher prices for the end consumer; producers have instead opted to absorb the costs.
  - This stance can be interpreted as an effort to balance the trade-off between maintaining price tags and keeping sales up after a period of low consumer demand during the COVID-19 pandemic.

Table 1: MENA Dashboard[1]

MENA Oil Exporters	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2020	2021	2020	2021
Algeria	-4.9	3.4	-11.7	-13.4
Bahrain	-5.1	2.4	-17.9	-8.0
Iran	3.4	2.5	-5.7	-6.5
Iraq	-15.7	3.6	-12.8	-1.5
KSA	-4.1	2.8	-11.13	-3.1
Kuwait	-8.9	0.9	-8.3	-1.5
Libya	-59.7	123.2	-54.5	6.8
Oman	-2.8	2.5	-18.7	-2.6
Qatar	-3.6	1.9	1.3	2.8
UAE	-6.1	2.2	-5.6	-0.5
Yemen	-8.5	-2.0	-5.2	-5.2
Average	-10.5	12.0	-13.7	-3.0
Average Ex-Yemen	-10.8	14.5	-14.5	-2.8

MENA Oil Importers	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2020	2021	2020	2021
Djibouti	1.0	5.0	-1.3	-1.7
Egypt	3.6	3.3	-7.0	-7.4
Jordan	-1.6	2.0	-8.9	-7.7
Lebanon	-25.0	...	-4.1	...
Mauritania	- 1.8	2.7	2.3	-0.7
Morocco	-6.3	5.7	-7.6	-6.5
Palestine	-11.5	4.4	-10.7	-10.5
Somalia	-0.7	1.6	0.5	-1.7
Sudan	-3.6	0.9	-5.9	-2.9
Syria	...	...	...	...
Tunisia	-8.6	3.0	-9.8	-8.3
Average Ex-Syria & Lebanon	-3.3	3.2	-5.4	-5.3

- By contrast, the employment sub-index remained steady as business executives reported sufficient labour levels.
  - Looking to 2022, we expect rising business optimism and demand pressures to result in new jobs.
- This success in the private sector comes as good news for Saudi Vision 2030. The initiative is spearheaded by Crown Prince Mohammed Bin Salman (MBS), who is determined to make the Saudi economy less reliant on oil.
- In a recent show of commitment to this vision, MBS launched the National Investment Strategy (NIS) earlier this month.
  - The NIS should catalyse the delivery of Vision 2030 by offering investment opportunities to the international private sector, providing financing solutions and enhancing competitiveness.
    - We anticipate further regulatory reform to facilitate entry to Saudi markets and to turn the kingdom into a destination for global investors.

[1] Arabia Monitor; IMF.

- In doing so, the NIS seeks to attract around USD 103B in annual Foreign Direct Investment (FDI) inflows by 2030 (a far cry from the kingdom's record of USD 39.5B in 2008 when the price of oil reached its peak).
  - Despite the commendable reforms and strategies employed by the Saudi government in recent years; this target could be ambitious.
  - However, Saudi Arabia reported its highest rate of inward investment during the second quarter of 2021, with figures reaching a robust USD 13.8B.
    - This is the kingdom's highest quarterly FDI inflow since the start of 2006.
    - It is worth noting that this statistic was mainly driven by the sale of a 49% stake in Aramco Oil Pipelines Company (a newly-formed Saudi Aramco subsidiary) to a consortium of international investors, but FDI has no colour.
  - The recently launched strategy targets sectors such as equipment and machinery, renewable energy supplies, pharmaceuticals, and automotives, among others.

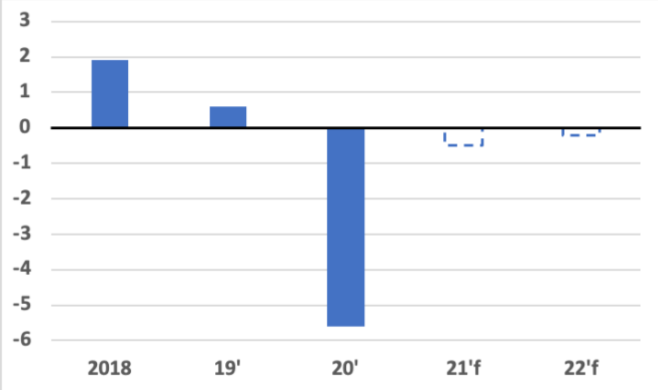
UAE: Celebrating its golden jubilee in style

The UAE's economic recovery has picked up speed. This momentum can be attributed to the country's swift and strong response to the COVID-19 pandemic, a successful vaccination rollout and an increase in tourism due to Expo 2020 Dubai. Reflecting this performance is the recent upward revision of the IMF's 2022 growth forecast from 2.6% of GDP to 3%.

➢ Fiscal balance woes for the UAE are lessening due to the boost the country now enjoys from high oil prices and the gradual increase in oil production as per the OPEC+ agreement.
- Increased production coupled with an expected 60% YoY hike (to USD 70 pb) for the average price of brent crude oil are expected to prop up oil revenues by around 30% YoY.
- After a budget deficit of 5.6% of GDP last year, the deficit is expected to narrow to 0.5% and 0.2% in 2021 and 2022, respectively.
  - These figures are healthier compared to previous forecasts made in April.
- Looking ahead, we expect the UAE to return to familiar pre-pandemic budget surpluses after 2022.
  - This optimism notwithstanding, the outlook remains somewhat blurred due to the possible resurgence of COVID-19 variants.

➢ Coinciding with its 50th anniversary, the UAE issued its first ever bond sale as a holistic seven-emirate entity.
- The resultant USD 4B in proceeds will help finance infrastructure projects and investments made by the country's sovereign wealth fund.
- Subscriptions for the bond reached SD 22B, signalling far higher demand for the UAE's offering than was initially expected.

Figure 1 - UAE fiscal balance (% of GDP)[2]



  - Notes ranged from conventional 10-, 20- and 40-year maturities, with the first type raising around USD 1B at 70 basis points over US Treasuries.
- With the recent rise in oil prices, bond issuance is not vital for the UAE at this time. However, favourable debt market conditions make it hard to resist securing a bargain.
- International debt markets have been busier than usual recently. This comes as emerging market governments rush to sell bonds before an anticipated hike in borrowing costs.

  Indeed, inflation is starting to look less transitory. It is therefore anticipated that the US Federal Reserve will start tapering back on the asset purchase programme, which was initiated to stimulate the economy amid the COVID-19-induced downturn.
  - The start of October saw short-term treasury yields reach their highest levels since the onset of the pandemic.
- Back in October 2018, the UAE passed a law allowing for the issuance of federal sovereign debt for the first time in the country's history.
  - This makes the recent issuance seem long overdue, especially as the country benefits from having the third-highest investment credit rating by Moody's Investors Service, a bond credit rating business.
  - The rating is good news for the individual emirates, each of which boasts a weaker credit rating than the federal government. Collectively, they can now take advantage of the higher credit assessment and enjoy lower borrowing costs.

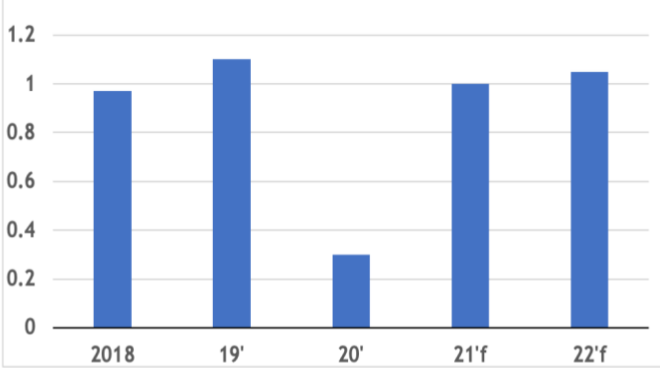
[2] Arabia Monitor; IMF.

Libya: New year, new president?

As expected, Libya's highly anticipated legislative elections have been postponed from 24 December 2021 to January 2022. Although the presidential election is still set to go ahead in December, the delay underscores our assessment that the prospect of instability is by no means off the cards.

- Various familiar faces have hinted at throwing their names in the election ring. Although political campaigning has not officially commenced, jockeying for the presidency is nigh.
  - Field Marshal Khalifa Haftar is expected to run for the presidency after stepping down from his military role, a move he likely made to become a viable contender.
    - Candidates are required by law to cease employment three months before competing in elections.
    - Although Haftar commands a stronghold in the country's east, his support base may not be large enough and his international backers are limited. Indeed, the prospect of a Haftar victory seems unlikely.
  - Fathi Bashagha, Libya's former interior minister, is in a comfortable position. He enjoys strong popularity in Western circles and has also maintained good relations with Russia and Turkey, whose forces remain in Libya.
  - Saif al-Islam Gaddafi, the son of Libya's overthrown former president Muammar Gaddafi (in office 1969-2011), suggested he may run in the upcoming election. Even if his chances of winning are slim, many Libyans harbour nostalgia for the Gaddafi years in light of the chaos that has consumed the country since 2011.
    - The Warfalla tribe, the Gaddafis' largest support base and the sole residents of Tripolitania's Bani Walid (Misrata district), continues to call for the return of the former ruling family.
    - We may therefore witness the emergence of a political divide along old and new lines.
  - As the electoral race approaches, more candidates will put themselves forward. Whoever attracts the most support from both the international community and the Libya Political Dialogue Forum (LPDF) will be the candidate to watch.
    - The involvement of the UN's LPDF following the civil war has been extensive; this involvement will only increase before and during the upcoming election.
- Given this will be Libya's first democratic election since 2011, we expect voter turnout to be high. However, several concerns remain.
  - The outcome of the election could prompt unrest at the street level.

Figure 2 - Libya crude oil production (m bpd)[3]



  - The country's politics are greatly divided; new parties have continually emerged since 2011. The results are therefore inevitably going to be contested by various groups. The extent to which they will be refuted is unknown at this stage.
  - Additionally, tribal groups maintain their own stance regarding the vote. These groups could well make their voices heard if their endorsed candidate is not represented.
  - While elections are a crucial step in the country's democratic transition, fractures remain.
  - Militias are still present in Libya, though fighting has largely dissipated (for now). Nonetheless, there is always the potential for violence to reignite.
  - Reunification is also still underway, with vital infrastructure facilities split still between the country's east and west. Additionally, the prospect of a unified military remains a long way off.
- An election could exacerbate these internal divisions rather than alleviate them. More will be clear when all the contenders are announced.

Bahrain: Postponed promises

Bahrain is expected to post 2.4% and 3.1% growth in economic output for 2021 and 2022, respectively. This performance can be attributed to the country's effective pandemic management policies and vaccination rollout. Indeed, Bahrain came second globally in Nikkei's COVID-19 recovery index.

- As we stated in our last quarterly outlook, the government's intended budget surplus as part of the Fiscal Balance Program (FBP) will have to wait well beyond 2022 due to a pandemic-induced revenue plunge.
  - Bahrain is well known throughout the region for its consistently wide budget deficits.
    - Public debt saw a 30% YoY jump to 130% of GDP last year.
    - The fiscal deficit is forecast to be -8% of GDP for both this year and 2022.

[3] Arabia Monitor; IMF.

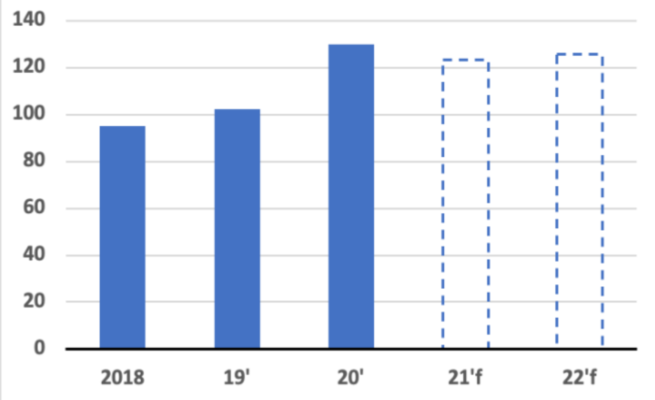
- Government officials recently stated that the country has now delayed its zero-deficit target until 2024, a two-year delay from the initial FBP target date.
    - Given that global forecasts regarding the recovery from COVID-19 are still foggy, risks are now generally unpopular; we cannot rule out that this target date will be pushed back even further.

➢ Nevertheless, we do not expect investors within international debt markets to forego the opportunity to buy Bahraini debt.
- Continued support from GCC allies will reinforce the benefits of the practical steps Bahrain has taken to alleviate its fiscal strain. This will likely keep its head above water in the medium-term.

➢ In a show of commitment to the FBP, Bahrain's parliament may double the value-added tax (VAT) introduced in 2019 from 5% to 10% in an effort to boost state coffers.
- Looking forward, we anticipate that generating non-oil revenues via raising taxes will pose several challenges for the kingdom.
    - Policymakers need to find ways to protect low-income citizens who will feel the burden of a tax hike more acutely given their disposable post-tax incomes are smaller than Bahrain's better-off citizens.
    - We also assess that a tax hike may spark instability concerns. Earlier this month, protests broke out when Israel opened its first ever embassy in the capital Manama. An increased tax rate would only serve to inflame existing social grievances.

➢ Nonetheless, the parliamentary approval of an increased VAT rate may cause the budget deficit for 2022 (currently forecast at -8% of GDP) to narrow by a considerable margin.

Figure 3 - Bahrain public debt (% of GDP)[4]



- Ties between the two neighbours have been cut since 2016.

- Indeed, Iran's new foreign minister, Hossein Amir-Abdollahian, made it clear that the new administration will focus on its relationship with Iran's regional partners as well as its neighbours to the east.
    - The foreign ministry has also turned to South America. Iran has always had ties with the continent, but these have grown stronger amid the Islamic Republic's isolation due to Western sanctions.
    - Iran and Venezuela are now looking to sign a twenty-year agreement during the Venezuelan president Nicolas Maduro's upcoming visit to Iran.
    - Additionally, Amir-Abdollahian and Wang Yi, China's foreign minister, spoke this month about a return to the JCPOA dialogue. Amir-Abdollahian also focused on ensuring that the terms of the twenty five-year agreement between the two countries are met.

➢ Although dialogue between Iran and Saudi Arabia has been speculative for some time, it was first publicised by the Iranians. The Saudis are now matching this publicity through their own coverage.
- The Saudi foreign minister, Prince Faisal bin Farhan, confirmed that the kingdom held bilateral meetings last month.

➢ Meanwhile, the JCPOA continues to drift. Indeed, there is no sign of a start date for negotiations. Instead, a meeting in Brussels (Belgium) is set to take place this week, in which Iran will discuss a return to discussions with the international community.
- Needless to say, a short-term resolution is fanciful. We assess that an agreement, should one ever be reached, will come about no earlier than mid-2022.

Iran: My enemy's friend is my friend

It was assumed that a nuclear deal might be the priority for the incoming Iranian administration. However, it looks like a rapprochement between Iran and Saudi Arabia could come to fruition before any agreement regarding the Joint Comprehensive Plan of Action (JCPOA). Iran's foreign ministry is now also focusing on its relationships with other partners for support.

➢ The Saudi-Iran rapprochement has been a focal point for Iran's foreign ministry, a point its spokesman made sure to highlight in a recent address.
- Iran and Saudi Arabia have held four rounds of talks in the Iraqi capital Baghdad to discuss bilateral relations as well as thorny regional issues, such as the conflict in Yemen where they support opposing sides.

[4] Arabia Monitor; IMF.

Oman: Getting fiscally fitter

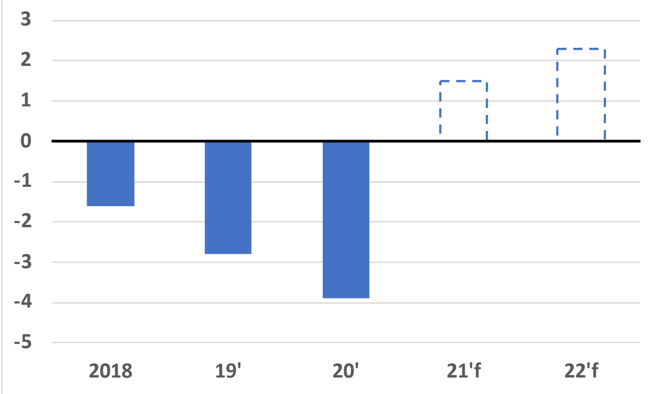
Out of all the GCC members, Oman was affected the least by the COVID-19 pandemic in terms of GDP contraction (-2.8%). In the latest IMF revision, Oman's growth in economic output has been revised up from 1.8% to 2.5%, a growth trajectory expected to be maintained, with 2.9% anticipated for 2022.

- Oman's economic recovery this year is underscored by the revival of domestic activity thanks to its vaccination rollout.
  - Non-oil GDP is expected to post 1.5% growth for 2021 following last year's 3.9% contraction.
- Compared to Bahrain, Oman has been faring much better on the fiscal front with its own Medium-Term Fiscal Plan (MTFP).
  - Both gulf countries have undergone fiscal reforms aimed at nursing their bruised budgets. However, Oman is expected to reach the finish line first.
    - Following this year's expected deficit (-2.6% of GDP), Oman finally looks set to record a budget surplus of 1.1% of GDP in 2022, a feat which it has not achieved in years.
  - For context, Oman's public debt is 68.2% of GDP, down 18% YoY from 81.2%. Bahrain is currently challenged by debt levels which amount to 123% of GDP.
- With the global demand for energy picking up sharply in H2 2021, the double impact of rising oil prices and increased production in line with the OPEC+ gradual easing policy was welcomed by Oman.
- Among policies to control expenditures and lower public debt under the MTFP, the government plans to reduce subsidy spending on utilities such as electricity and water.
  - We expect to witness a gradual rise in related tariffs in the coming years.
- Another policy in the pipeline is the introduction of a progressive income tax on high earners originally planned for 2022. The initiative has been pushed back to 2023.
  - Such reforms, along with higher oil prices, are forecast to narrow the current account deficit to -5.8% of GDP, down from -13.7% last year.
    - A positive figure is anticipated beyond 2026 but will depend on continued fiscal consolidation.
- Despite the optimism, downside risks dominate the outlook; the possibility of COVID-19 variants and potentially tighter global financial conditions could weaken fiscal positions.

Iraq: Sadrists secure seats, but business as usual

Iraqis took to the polls this month in record-low numbers to vote in the country's parliamentary elections. Although the results of the elections heralded the Sadrist Movement as the victorious party, Iraq's fractured politics are unlikely to enjoy momentous change as a result.

Figure 4 – Oman non-oil GDP growth (%)[5]



- The voter turnout dithered at a puny 41%, the lowest in the country's electoral history. Nevertheless, there was decisive support for the Sadrist Movement under the leadership of the Shia Muslim cleric Moqtada Sadr. The party took 73 of the parliament's 329 seats.
- Sadr is a familiar face in Iraqi politics.
  - He claims to stand against all types of foreign intervention in Iraq, despite having fluctuated on this issue.
    - For example, he claims to oppose intervention by Iran, yet regularly visits and meets with Iranian officials.
    - Sadr is expected to roll out policies and reforms that are to his benefit. In reality he is a pragmatist, and not entirely married to one specific ideology.
    - Even though pro-Iranian Popular Mobilisation Units (PMUs, represented by the Fatah Alliance) lost seats to Sadr, Iran has become a fixture in Iraqi politics in recent years. It will not be disappearing anytime soon.
- The election results have been contested, with protesters taking to the street. However, demonstrations are unlikely to bear fruit.
  - Protesters who demand a recount are pro-Iranian supporters of the Fatah Alliance.
  - The Fatah Alliance, which was previously the second-largest party in parliament with 48 seats, secured only 15 this time around.
  - The party will still maintain influence in parliament through alliances with other political entities.
- However, the result means that it will be a Sadrist vote which determines the country's leadership.
  - This represents another reason why parliamentary elections are so important. Under electoral revisions made in 2018, the new parliament will determine the country's next president and prime minister.
  - Due to the seemingly perennial discord which typifies Iraqi politics, a consensus will be very difficult to achieve when it comes to nominating the country's next leader, even if alliances emerge and put forward independent candidates.

[5] Arabia Monitor; IMF.

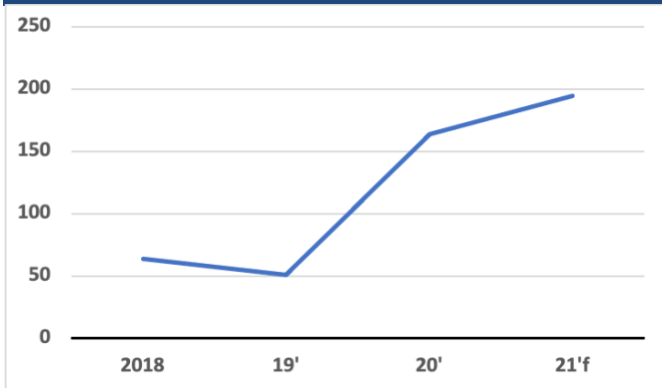
- With a divided and divisive political system, the political future of the country is likely to be 'more of the same'. As ever, splintered politics will always make reforms difficult to enact.

Sudan: Never in doubt

Sudan's real GDP growth was heavily impacted last year when it contracted by 3.6%. Disappointingly, this year's forecast suggests the country will post tepid 0.9% growth. To make matters worse, this week began with a military coup. Hopes of either economic stability or a transition to civilian rule in the near future have been well and truly quashed.

- General Abdel Fattah al-Burhan dissolved the Transitional Sovereign Council (TSC) and the ministerial cabinet on 25 October, before declaring a state of emergency.
  - Prime Minister Abdalla Hamdok was put under house-arrest while top figures from the civilian government were jailed.
  - Khartoum International Airport (KRT) is under military control and the internet has been disrupted nationwide.
  - Al-Burhan announced that he will soon form a technocratic government to steer the country into elections in July 2023.
    - The blatant power grab comes as no surprise and is arguably long overdue. In our latest MENA quarterly outlook, we touched upon the uneasy dynamics between the military and civilian blocs comprising the TSC. These tensions have clearly come to a head.
- The news is a major setback for Sudan's arduous road to democracy.
  - Sudan has experienced three short-lived democratic periods and three military coups since it gained independence in 1956.
- Our analysis points to two decisive factors which led to the latest power grab.
  - Firstly, protesters in the eastern city of Port Sudan (Red Sea state) have recently bemoaned their underrepresentation in the public sector, claiming they have been overlooked by the civilian government with regard to the allocation of development funds.
    - Protesters blocked wheat supplies coming through the port for about a month, creating a bread crisis throughout the country.
  - Secondly, the Forces of Freedom and Change (FFC), a wide political coalition of civilian groups, splintered into two factions. One of these factions called for the dissolution of the civilian government and encouraged vast crowds to gather at the Presidential Palace in the capital Khartoum to take part in protests which lasted for nine days.

Figure 5 - Sudan CPI inflation (%)[6]



- Developments in the coming weeks will offer a clearer picture of al-Burhan's political aspirations. One thing is for sure; Sudan's transition to civilian rule has just become a lot less transitory.

Sino-MENA: Belt tightening to take effect further down the road

China's growth decelerated to 4.9% this quarter, compared with its previous 7.9% QoQ growth. Factors which impact China's growth are likely have far reaching implications for the MENA region, as well as Sino-MENA trade and investment relations in the coming quarters.

- China has tightened regulations on borrowing. Evergrande, once one of China's largest real estate developers, is reportedly in debt by around USD 300B. It is likely that more developers will soon be exposed for possessing similarly high levels of debt.
  - Since 2017, several smaller Chinese developers who struggled to borrow domestically compared to larger competitors have turned their attention overseas. This recalibrated approach has focused on various MENA countries.
    - One recent example is Fortune Land Development, which planned for a USD 20B development project in Egypt's New Administrative Capital (NAC), a venture which ultimately came to nought .
  - The impact of financial tightening in the domestic market may prove to be twofold. Developers may find it hard to raise funds for overseas projects, while smaller developers may sense an opportunity in the form of an even playing field; they could therefore shift their focus away from overseas markets. In both scenarios, Chinese activity abroad is likely to be affected by increased regulation.
  - The vast majority of Chinese development projects in the MENA region are arranged and financed by state-owned enterprises. While we expect this trend to continue, we also expect to see fewer smaller players getting involved in such projects.

[6] Arabia Monitor; IMF.

- Another factor which slowed China's growth this quarter was the energy crisis. While China is the MENA region's largest consumer of oil and gas, coal remains the most important source of energy for powering the country.
  - A rigorous drive to reduce carbon emissions (especially those caused by burning coal) has resulted in severe power cuts. These cuts have impacted Chinese factories and have in turn affected global supply chains.
  - China's demand for MENA energy, especially gas, is set to increase as the country aims to cut the contribution of coal to its energy mix to 44% by 2030 and to 8% by 2060.
  - Throughout this decade, the contribution of gas to the total energy mix will increase to 12% up from 8.7% in 2020. By contrast, oil is expected to decrease to 6% by 2060 from 18% in 2030.
  - MENA oil exporters which are tapping into clean energy will continue to benefit from fuelling Chinese economic growth in the coming decades, while gas producers (for example Qatar) will continue to enjoy steady revenue streams.

Energy Outlook: Global supply crunch pressures

While OPEC+ is in the midst of an agreement to raise oil production by 400 kb/d every month, key consuming countries are raising complaints over a supply crunch.

- Saudi energy minister Prince Abdulaziz bin Salman dismissed calls to increase production to tame rising prices saying that OPEC and its members do not see any crude oil shortages in the market.
  - Meanwhile, supply-demand balances show that the market is in deficit, leading to deep inventory draws and driving prices upwards.
  - According to satellite-based advisory firm Kayrros, global oil stocks have now fallen below pre-pandemic levels and are only ~100 Mb above 4-year lows.
- Oil futures neared multi-year highs on October 19, with Brent crude rising 75 cents to settle at US$85.08/bbl. Brent has risen by 19%, while WTI has gained around 21% since September. With prices on the up, some countries are urging OPEC+ to increase output.
  - India has argued that the global economic recovery would be undermined if energy prices remain high, which would eventually affect oil demand.
  - Indian Oil Minister Hardeep Puri mentioned that the country's oil import bill nearly tripled to US$ 24 B in Q2 2021, compared to the same period last year. Prince Abdulaziz, however, said that crude prices are driven higher by other commodities, including natural gas and coal.
  - Yet, coal fell 11% in China on October 21, extending losses this week since Beijing signalled it might intervene to cool the market, putting pressure on oil.

Figure 6 – Global onshore crude oil stocks[7]

  - The chances of a sharp, material pullback in oil prices are rising but this would likely be short-lived.
  - Calls continue for oil to rise even more as OPEC+ is likely to stick to a gradual output increase.
- OPEC+ compliance fell slightly to 115% in September, though some members are still falling short as they face challenges in pumping more oil.
  - In Angola and Nigeria, underinvestment and maintenance problems have stymied efforts to raise production, which will continue to impact the West African countries.
  - Angola is likely to continue on its long-term decline path while Nigeria's recently-passed Petroleum Industry Act has improved investment conditions and could turn around its output over the next few years.
  - Kuwait Oil Company's sustainable capacity has dropped to 2.579 Mb/d (plus about 0.1 Mb/d from the Neutral Zone) while its baseline is 2.809 Mb/d and September quota 2.451 Mb/d, suggesting it will hit capacity around March 2022.
  - Algeria and nearly all the deal's non-OPEC adherents are also likely to face difficulties reaching their notional targets.
  - Therefore, each monthly 400 kb/d increment will likely be progressively less in reality, assuming that the UAE and Saudi Arabia do not go beyond their quotas.
- Market tightness is expected to last into most of 2022, with supply to only catch up with demand by Q4 2022.
  - The OPEC+ alliance is scheduled to meet November 4 to review production plans for December.
  - While some OPEC+ members have begun to consider increasing oil production at a faster pace than the monthly increments of 400 kb/d implemented since August, it remains unclear whether there is sufficient support for discussion of such an option in the next meeting.
  - OPEC+ remains cautious given a projected surplus next year based on its own figures. In any case, a notional increase of more than 400 kb/d would still not be fully delivered to market given the growing capacity constraints mentioned.

[7] Qamar Energy Research

Disclaimer

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 have 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 offshore company, Arabia Advisors services a regional and international client base with an interest in the Arab countries.

Arabia Monitor
Aston House| Cornwall Avenue| London N3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com