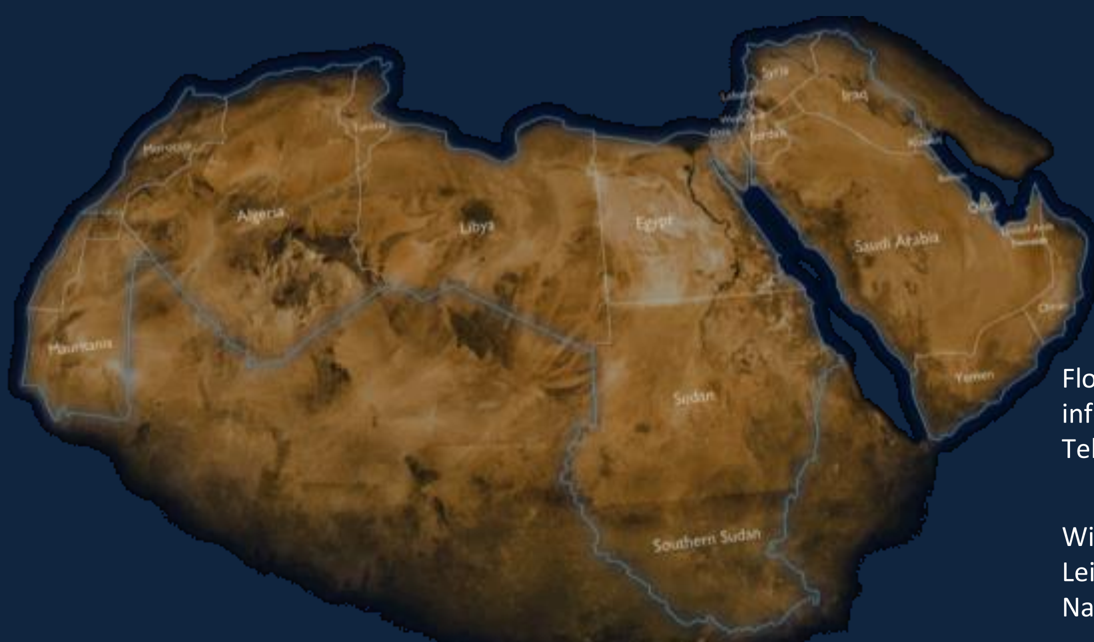
Iran:
"Resistance Economy" Redefined

Middle East & North Africa Outlook
Q2 2020



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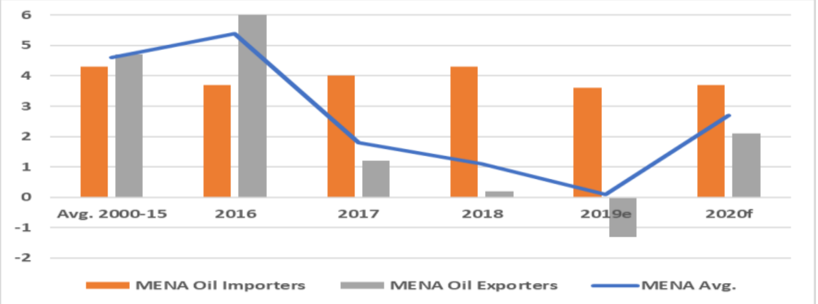
Our View: The great double whammy - lower oil prices & COVID-19

- **Our regional theme this quarter analyses how Iran has been impacted by the re-imposition of sanctions, lower oil prices and coronavirus (COVID-19). We look at how the country's relationships will change in the region and internationally, and highlight what we see as we look at beyond COVID-19 to determine risks and potential opportunities.**
  - There is little doubt that new US-led sanctions are taking a toll on Iran: the IMF forecasts growth to be flat this year, but we expect this to be revised downwards given the added impact of COVID-19, which has hit Iran quite hard, slower growth in China and the new oil price environment.
    - The economy contracted by 9.5% last year, surpassing what was already a dire projection of a 6% fall in GDP.
    - Under the previous sanctions on Iran in 2012, the economy contracted by 6.8% and 1.9% in 2012 and 2013, respectively.
  - Domestic risks include delayed structural reforms, which could impact bank and corporate balance sheets, and continued social unrest.
  - Iran will continue to attempt to expand its influence as it tries to become a regional hegemon. Its interventions could continue to fuel conflict via proxies, especially with adversary Saudi Arabia and its allies, but we believe it is unlikely to escalate into direct confrontation.
  - Despite decreased economic activity due to pressure from US sanctions and damage wrought by COVID-19, relations between China and Iran will remain friendly, albeit cautious. With low oil prices, China is likely to remain the financier of last resort for Iran.
  - Iran's tensions with the US are expected to escalate further as the new conservative parliament convenes in Iran in June, along with a potential conservative presidential victory next year. This will combine with Washington's "maximum pressure" strategy to deepen hostilities between the two countries.
  - While the EU has not re-imposed sanctions on Iran, it is likely it could do so after triggering the dispute mechanism of the JCPOA nuclear deal earlier this year. Before the new US sanctions, Iran-EU bilateral trade was expected to exceed pre-2011 levels over the next few years. This potential has gone; once accounting for as much as a third of Iran's bilateral trade, the EU-Iran share fell to just 6% in 2019.

Figure 1 – Regional Growth (%)[1]



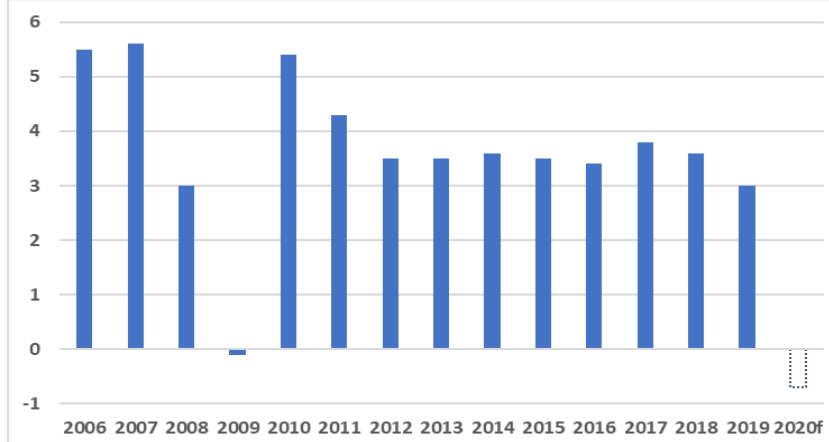
- **In our MENA update, we note that the region's economies are vulnerable to the current global slowdown, but some more than others. We especially outline risks to the major economies -- Saudi Arabia, Iran, Egypt, the UAE, and Morocco.**
  - The MENA region has to adjust to the ongoing oil price war in addition to providing adequate stimulus to support domestic economies taking a hit from COVID-19 while also rolling out measures to curb its spread.
  - We expect radical downward revisions to IMF MENA region forecasts imminently, and note this in our analysis.
  - In addition to varying domestic impact, COVID-19 could initially weigh on the MENA region through lower average Chinese energy demand in 2020, as well as interrupted Chinese tourism abroad and disruptions to Chinese supply chains impacting trade flows.
  - The oil price crash, a sharp fall in global growth, and the impact of COVID-19 will put severe strains on both oil and non-oil revenue sources in MENA (including VAT, real estate fees, tourism and trade).
  - The region should brace for this double whammy, which could well leave it in negative growth territory for the year. We are looking at silver linings to share with our members.

[1] Arabia Monitor; IMF.

Global Outlook: The party is over for global growth

- **As COVID-19 spreads, we expect growth rates to be slashed by at least 50% for most emerging markets, and for global growth to land in negative territory, not dissimilar to the last global financial crisis. The full impact will depend on how quickly the virus and its fallout are contained.**
  - ➢ Regional MENA economies will be dealt a double whammy, with exporters suffering from collapsed oil prices and importers suffering from lower remittances and/or the collapse in tourism and/or trade.
  - ➢ The IMF, which had already lowered its global economic growth forecast in January by 0.1 percentage points to 3.3%, now says it expects negative global growth in 2020 with a potentially rapid rebound in 2021 depending on how the virus is dealt with.
    - A baseline scenario was presented by the IMF in February where the Chinese economy recovers in Q2 with 2020 growth for China forecast at 5.6%, 0.4 percentage points lower than the January update. This figure could help raise the global average, but only if Chinese exports do not collapse.[1]
  - ➢ The virus is proving to be a defining moment for markets with a significant hit to global oil demand
    - In January, OPEC production declined by 509 Kb/d, mainly due to outages in Libya. This improved the grouping's compliance to the now-defunct OPEC+ targets, to the tightest since drone attacks on Saudi Arabia's oil infrastructure in September 2019.
    - OPEC has revised its global demand forecast to 100.7 Mb/d for 2020, which is 230 Kb/d lower than the previous month's estimate. India is considered to be the leading contributor to demand.
    - Chinese demand is expected to remain muted through H1 2020 due to the pandemic. Expectations of a robust turn in H2 are also now considered increasingly unlikely.
    - A decline in Chinese oil demand would impact oil trade with the Arab countries, given that over 50% of Beijing's oil comes from MENA. Sino-Arab trade is estimated to have been worth USD 249B in 2019, with the oil component making up about 40% of the value.

Figure 1 – Global Real GDP Growth (%)[2]



  - ➢ As a result, GCC economies, especially the UAE, are very vulnerable to the fallout from COVID-19 and a slowdown in world commerce.
    - These economies will be impacted by a hit on trade and retail spending, energy prices, and hospitality, which could all see declines. China is a major component of all of them.
- **Additional downside risks to the global outlook include trade-related uncertainty.**
  - ➢ Although the US and China signed a trade deal in January that eased some tensions, the uncertainty surrounding the impact of COVID-19 and border closures will probably overwhelm the otherwise positive note.
  - ➢ Global trade was already weak in 2019 as a whole, with a continued drag from trade tensions

[1] The IMF has made available USD 50B to help address the pandemic.
[2] Arabia Monitor; IMF.

Global Energy Outlook:
COVID-19 could cause global CO2 emissions to peak earlier*

- **The COVID-19 pandemic will accelerate ongoing energy transformation in MENA.**
  - Even before the outbreak of COVID-19, the global economy was bracing for a further slowdown in oil demand, led mostly by OECD countries.
  - Now with the OPEC+ alliance failing to reach an agreement over additional cuts, revival of the global and regional economy is likely to be slow and extended.
  - Slow economic revival might make 2019 the peak of global CO2 emissions. The expected peak in world oil demand in the 2030s will be brought forward.
  - MENA's energy system relies 97% on oil and gas, and GCC energy intensity of the economy is amongst the highest in the world.
    - The region faces a double challenge from climate change: climate damage (droughts, high temperatures, sea-level rise) that could exacerbate political conflict; and reduce demand and prices for hydrocarbons, its main export.
- **The downward pressure on oil prices will prompt oil majors to pursue low-carbon technologies, while defending existing markets.**
  - Large MENA producers like Saudi Aramco will remain the lowest-cost suppliers of oil in the medium-term.
    - But rising efficiency and the growing scale of low-carbon technologies in geographies where they have anchored downstream ambitions mean they will be pressured to pursue low-carbon fuels and climate-compatible technologies once economic growth returns post COVID-19.
  - Super-major oil firms and national oil companies (NOCs) have increasingly been turning to gas as a cleaner fuel with brighter demand prospects.
  - For gas, lower prices will help gain markets, but it still has to compete against renewables (particularly in Europe) and coal in Asia.
    - Also, gas is under environmentalist attack because of its methane and CO2 emissions.
  - Heavy investments in international refining and petrochemicals by Gulf NOCs is intended to secure demand but faces risk of stranding large capital assets.

Figure 1 – 2019 will be the Peak for Global CO_2 Emissions due to the Economic Impact of COVID-19 (Million Tonnes)[1]

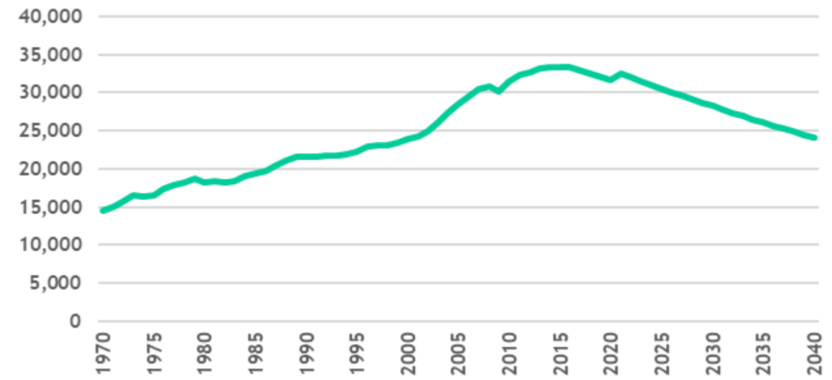
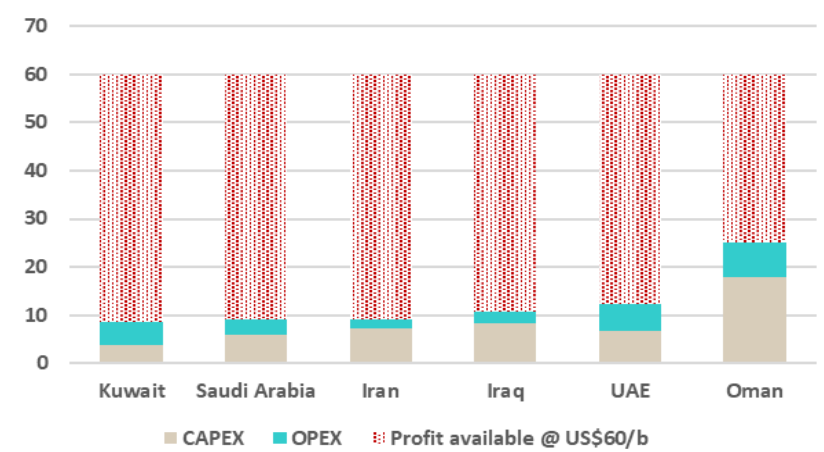


Figure 2 – Average Cost of Production of 1 Barrel of Oil (USD)[2]

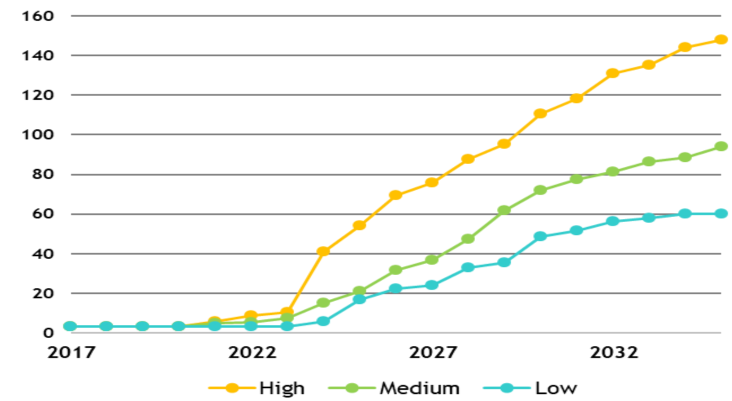


* This page is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts.
[1] Qamar Energy Research; BP.
[2] Qamar Energy Research.

Global Energy Outlook: Carbon Capture, Utilisation & Storage potential*

- **Keeping pace with the energy transformation requires investing in CCUS. Not surprisingly, GCC countries are taking a keen interest in these frontier markets.**
  - Carbon capture, utilization and storage (CCUS) offers large-scale, reliable, dispatchable power, and is compatible with the existing fossil-fueled infrastructure. Yet it has made slow progress worldwide.
  - The GCC's large point emissions and suitable geology make it ideal for CCUS; Qatar, Saudi Arabia and Abu Dhabi have already advanced major projects.
  - The main challenges in the region have been from lack of carbon pricing or other environmental incentives, NOC technical conservatism, limited technical skills in enhanced oil recovery (EOR) and few truly depleted fields requiring EOR or to be used as CO_2 storage sites.
  - Converting natural gas to hydrogen and capturing the CO2 released would also produce a valuable fuel that could be used in home heating, industry and eventually ships and planes.
- **Renewable power has picked up, but efforts remain well behind most of the world.**
  - Progress before the COVID-19 pandemic has been patchy and insufficient. Ambitious economic diversification plans have been unveiled by the MENA states, but tangible progress is limited outside the UAE.
  - Non-oil exporters like Egypt and Lebanon are still reliant on their oil-rich neighbours for remittances and aid to drive their economies and domestic industry.
  - Solar photovoltaic power, in particular, and also wind, are picking up in the region, led by the UAE, Egypt, Jordan and Morocco. We believe that 2035 PV capacity could reach 200 GW, from about 8 GW today. Renewables would contribute 23% of the region's electricity generation by 2035.
  - Large-scale solar harnessing in the region requires the development of requisite support systems -- battery storage, reverse osmosis desalination, and exports of solar electricity or synthetic fuels, but requires new market designs and commercial models.

Figure 1 – Forecast of CO2 Captured in the GCC (Mtpa)[1]



- **The UAE is the most advanced in CCUS, to be followed by Saudi Arabia and Qatar.**
  - GCC oil-fields are not highly mature, so EOR requirements are confined to Abu Dhabi (replacing hydrocarbon gas), Bahrain, Qatar, and possibly Oman, but limited in Kuwait and Saudi Arabia.
  - In Saudi Arabia, strong usage of CO_2 recycling for urea by SABIC and SAFCO is predicted.
  - Qatar's main demand for CO_2 is for acid gas (CO2/H2S) reinjection treatment facilities in Qatargas LNG terminals.
- **Incumbents can integrate renewable generation and low-carbon technologies as part of a planned transformation strategy.**
  - Integrating disruptive technologies like renewables, synthetic fuels, and direct CO2 capture into their core business could help MENA producers meet the challenge of an accelerated energy transformation.

* This page is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts.
[1] Qamar Energy Research; The Global Syngas Technologies Council (GSTC).

COVID-19 Situation Report: GCC (1)

Country	Economic & Fiscal	Health & Travel Related
Bahrain	• BHD 4.3B (USD 11.4B) stimulus package • Doubling the Liquidity Fund to BHD 200M • Waiver on utilities bills for three months • Delay in loans instalments for six months • Banned lenders from freezing customers' accounts in case of lost jobs or retirement • Cut overnight lending rate to 2.45% from 4% • Reduction of commercial registration fees as well as labour & utility charges for six months • Cabinet authorised the finance minister to directly withdraw funds with a 5% ceiling from the public account	• *Estimated # of Infections to Date: 419* • *Estimated # of Deaths to Date: 4* • Ban on travel to some countries; cancellation of flights to infected areas • Testing all incoming passengers with a mandatory 14-day self-isolation • Closure of schools and movie theatres • Limits on social gathering of more than 150 people
Kuwait	• Reduced the discount rate to 1.5% (from 2.5%) a record-low • Set up a USD 33M fund, to be financed by Kuwaiti banks • Suspended fees on point of sales devices and ATM withdrawals + increased the limit for contactless payments to KWD 25 (USD 79) from KWD 10	• *Estimated # of Infections to Date: 208* • *Estimated # of Deaths to Date: 0* • Kuwait declared a public holiday from 12-26 March • Ban on all commercial passenger flights • Mandatory COVID-19 testing for all expats who have returned to Kuwait since 27 February • Closure of schools, shopping centres, cinemas, wedding halls & children's entertainment
Oman	• A USD 20B incentive package • Repo rate cut by 75bps to 0.5% • Reduced Capital Conservation Buffers for banks to 1.25% from 2.5% • Lending ratio increased to 92.5% from 87.5% • Deferment of loan instalments / interest / profit for affected borrowers, particularly SMEs, for six months • Reduced banking services fees • Slashed approved budgets of civil, military and security agencies by 5% • Tourism and municipality tax breaks, free government storage facilities and postponement of credit instalment payments	• *Estimated # of Infections to Date: 109* • *Estimated # of Deaths to Date: 0* • Travel ban on all travellers except Omani nationals • Mandatory 14-day quarantine for those entering Oman • Closure of schools, public parks, and public gatherings • Suspension of issuance of tourist visas from 15 March for 30 days • Will not allow cruise ships to dock at its ports during this period • Friday prayers at mosques suspended

[1] Arabia Monitor; IMF.

COVID-19 Situation Report: GCC (2)

Country	Economic & Fiscal	Health & Travel Related
Qatar	• USD 23.3B stimulus package • Postponed loan instalments with a grace period of six months • Directing government funds worth USD 2.7B injected into the stock market • Exempting food and medical goods from customs duties for six months • Utilities bill exemption for SMEs, rent exemption for 6 months	• *Estimated # of Infections to Date: 537* • *Estimated # of Deaths to Date: 0* • Travel ban on all except Qatari nationals • Suspension of all international flights for two weeks from 18 March; cargo aircraft, transit flights exempt • School closure • Public transport stopped for 14 days • Six tonnes of aid sent to Iran (medical equipment and supplies)
Saudi Arabia	• SAR 120B (USD 32B) to support the private sector including postponement of VAT/ excise and income tax/ Zakat payments, • Central bank finances SAR 50B for SMEs (including deferred loan payments, concessional loans) • Saudi Arabia will cut USD 13.3B from 2020 budget (less than 5%) • Land borders with the UAE, Kuwait and Bahrain closed except for commercial trucks • Shipping services suspended from 50 countries; cargo traffic not affected	• *Estimated # of Infections to Date: 900* • *Estimated # of Deaths to Date: 2* • All international flights suspended for two weeks • Temporarily suspended private-sector work and government work for15 days; most banks also closed • Closed eateries, malls • Temporary ban on Umrah pilgrimages to Mecca and Medina • Capital Markets Authority urged shareholders in listed companies to vote electronically in upcoming meetings
UAE	• AED 100B (USD 27B) stimulus to facilitate temporary relief on private sector loans and to promote SME lending; support also for real estate sector • Banks expected to reschedule loans contracts, grant deferrals on monthly loan payments and reduce fees and commissions • Dubai: AED 1.5B stimulus package to support businesses affected by COVID-19 including 10% reduction in utilities bills • Abu Dhabi: AED 5B in utilities subsidies; free road tolls till end-2020, 20% rebate on rental values for restaurant, tourism and entertainment sectors (plus faster implementation of Ghadan-21 initiatives)	• *Estimated # of Infections to Date: 333* • *Estimated # of Deaths to Date: 2* • Suspended entry for residents overseas for two weeks • From 17 March, Emirates suspended flights to 35 global destinations • 'Remote work' system for UAE public sector employees for 2 weeks • Cancelled public prayers at mosques, churches for four weeks • Closed: public parks, theme parks, cinemas, gyms

[1] Arabia Monitor; IMF.

COVID-19 Situation Report: North Africa

Country	Economic & Fiscal	Health & Travel Related
Algeria	• Cut public spending by 30% and delayed state projects • Paid leave for half of state employees • Allocation of USD 100M to import pharmaceutical products and equipment	• *Estimated # of Infections to Date: 302* • *Estimated # of Deaths to Date: 21* • Suspended domestic flights and international travel • Suspended public transport • Curfew imposed from 7pm to 7am • Full lockdown in Blida, south of Algiers (most affected region)
Egypt	• Slashed its main interest rate by 300 basis points • Reduced the number of workers in the public sector • EGP 100B (USD 6.4B) stimulus package • Three month grace period for real estate tax payment for factories and tourism facilities • Reduced the price of natural gas and electricity for the industrial sector • Reduced taxes on dividends from listed companies	• *Estimated # of Infections to Date: 456* • *Estimated # of Deaths to Date: 21* • Suspended parliament until 12 April • Closed schools and universities
Morocco	• MAD 2K (USD 203) monthly stipend to assist all workers who find themselves out of work due to the lockdown • Eligible Moroccan workers get four-month extension of the deadline for loan payments • SMEs and liberal professions get moratorium on social security payments, mortgages and rents	• *Estimated # of Infections to Date: 225* • *Estimated # of Deaths to Date: 6* • Closure of all mosques, cafes and eating places, sports activities and leisure centres • Private and public transport between cities banned • Suspended flights from 29 countries, including most EU countries
Tunisia	• TND 800M (USD 275M) stimulus package • Allocation of TND 450M (USD 156M) in financial aid to poor families and Tunisians who have lost their jobs due to the crisis • Postponed taxes on SMEs, delayed repayment of low-income employee loans • Interest rate cut by 100 basis points	• *Estimated # of Infections to Date: 173* • *Estimated # of Deaths to Date: 6* • General lockdown ordered

[1] Arabia Monitor; IMF.

COVID-19 Situation Report: Levant + Iran

Country	Economic & Fiscal	Health & Travel Related
Iraq	• None taken so far	• *Estimated # of Infections to Date: 346* • *Estimated # of Deaths to Date: 29* • Nationwide curfew issued
Syria	• None taken so far	• *Estimated # of Infections to Date: 5* • *Estimated # of Deaths to Date: 0* • Schools, mosques, parks and restaurants closed • Transport suspended • Bakeries to do home deliveries
Lebanon	• Exempted banks from closing restrictions • Zero interest loans to companies unable to pay salaries and debts • Banks to donate USD 6M to government hospitals to fight COVID-19	• *Estimated # of Infections to Date: 333* • *Estimated # of Deaths to Date: 6* • Closed schools, parks, museums & sports sessions • Army deployed on streets & closed borders • Halted all flights to and from its airports and banned domestic travel
Jordan	• Cash reserve requirement that banks must maintain lowered to 5% of monthly average of daily customer deposit balances from 7% • Cut interest rate to 3.5% on 4 March and to 2.5% on 16 March from 4% • Additional liquidity of around JOD 550M (USD 775M) • Rescheduled loans and offered grace periods with no additional fees	• *Estimated # of Infections to Date: 172* • *Estimated # of Deaths to Date: 0* • Nationwide curfew & country-wide lockdown • Closed its borders, halted all flights and banned domestic travel
Palestine	• The PA asked Israel to transfer its withheld clearance funds • The Israeli government will release USD 33.5M from tax revenues collected on the PA's behalf	• *Estimated # of Infections to Date: 84* • *Estimated # of Deaths to Date: 1* • Closed restaurants and cafes • Suspended Friday prayers • Ban on movement from West Bank and Israel & between governorates
Iran	• Commercial banks to extend low interest loans to restaurants, confectionary, travel and hospitality, textile, sports & entertainment • One-time cash handout to low income families within next 4 months • Retail sector workers and street vendors will receive an interest-free loan of USD 474 to be repaid over 30 months	• *Estimated # of Infections to Date: 29,406* • *Estimated # of Deaths to Date: 2,234* • Closed schools • Suspended parliament

[1] Arabia Monitor; IMF.

COVID-19 Situation Report: Rest of MENA

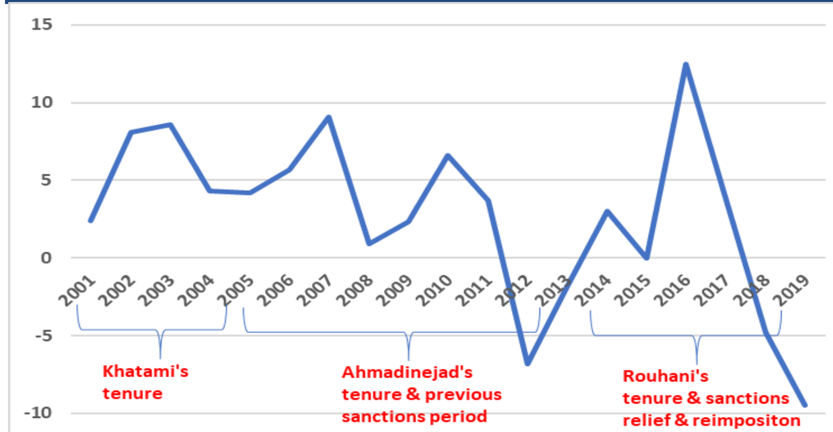
Country	Economic & Fiscal	Health & Travel Related
Djibouti	• None taken so far	• *Estimated # of Infections to Date: 11* • *Estimated # of Deaths to Date: 0* • Suspension of all commercial passenger flights indefinitely
Libya	• The GNA has created a national plan but funding has not yet been allocated for implementation	• *Estimated # of Infections to Date: 1* • *Estimated # of Deaths to Date: 0* • Both governments have imposed lockdowns, curfew & halted travel
Mauritania	• None taken so far	• *Estimated # of Infections to Date: 3* • *Estimated # of Deaths to Date: 0* • Nationwide curfew issued • Halted all international flights & tightened land border crossings • School closure
Somalia	• Allocation of a USD 5M to tackle virus • Seeking support from international financial organisations	• *Estimated # of Infections to Date: 2* • *Estimated # of Deaths to Date: 0* • Suspension of all flights other than humanitarian ones • Schools closed for a period of 15 days • Large public gatherings have been banned
Sudan	• Ministry of Health in Sudan set up a USD 44M country-wide preparedness response plan	• *Estimated # of Infections to Date: 3* • *Estimated # of Deaths to Date: 1* • Nationwide curfew issued • Closure of all airports, ports and land crossings • School closure
Yemen	• The Health Ministry has designated USD 4M to combat the virus	• *Estimated # of Infections to Date: 0* • *Estimated # of Deaths to Date: 0* • Schools in GNA and Houthi-held areas have closed • Closure of all land crossings between GNA-controlled provinces and Houthi-held provinces in the north for two weeks • Closure of Sanaa airport

[1] Arabia Monitor; IMF.

Iran: New sanctions are a further economic blow

- **There is little doubt that new US-led sanctions are taking a toll on Iran: the IMF forecasts growth to be flat this year, but we expect this to be revised downwards given the added impact of COVID-19, slower growth in China and the new low oil price. The economy contracted by 9.5% last year, surpassing what was already a dire projection of a 6% fall in GDP.**
  - ➢ Lower oil revenues from oil exports have dealt a blow to the rial currency, driving inflation to record highs and leading to some import shortages. We see Iran trying to focus exports on non-oil products such as raw materials, but this will not make up all the lost oil revenue.
  - ➢ The chance of Iran meeting its budget goals also remains unlikely: the IMF says that oil prices need to be three-times current levels for that to happen.
    - Iran would need oil priced at USD 195 pb to balance its budget in 2020; after Saudi Arabia's 12 March move to flood the market, the global price is in the USD 30 range.
    - The IMF also says oil exports would also need to be higher than 500 Kb/d. They are currently an estimated 300 Kb/d (vs a peak of 2.8 Mb/d in 2018).
  - ➢ Under President Hassan Rouhani, the rial remained stable for almost four years. But it has lost 50% of its value against the USD on the unofficial market since the US abandoned the JCPOA nuclear deal. It is currently trading on that market at around 150,000-153,000 rial per USD.
  - ➢ The weakening of the currency has disrupted Iran's foreign trade and boosted annual inflation, which the IMF forecasts at 34.1% for this year. Following sanctions relief in January 2016, inflation dropped to single digits in 2017 for the first time since 1989. It was at a high of 34.7% in 2013.
  - ➢ The unemployment rate, officially 17%, is potentially underestimated due to poor statistical reporting. Youth (26.3%) and female unemployment (42%) are particularly worrisome.
  - ➢ With COVID-19 poised to at least slow global trade, we cannot see any of this improving near-term.
- **The previous sanctions on Iran in 2012 caused significant harm to the economy. It contracted by 6.8% and 1.9% in 2012 and 2013, respectively. Under the Rouhani administration, growth picked up and inflation dropped rapidly, reflecting tighter credit and monetary policies.**

Figure 1 – Iran GDP Growth[1]



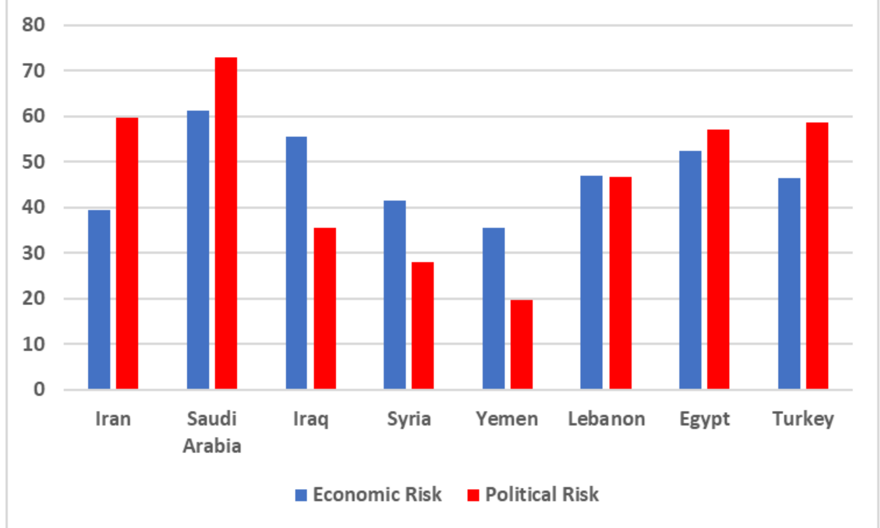
- ➢ The economy expanded by 3% in 2014, due in large part to renewed optimism and the corrective policies of the Rouhani government.
- ➢ Economic growth in 2015 was flat due to lower oil prices, tight corporate and bank balance sheets, and postponed consumption and investment decisions ahead of the expected lifting of sanctions.
- ➢ With Iran delivering on its commitments under the JCPOA resulted in the lifting of certain sanctions, growth was boosted to 12.5% in 2016 as oil production and exports ramped up.[2]
- ➢ But recovery in other sectors was not as significant as many Iranians had hoped.
  - Growth fell back to 3.7% in 2017, helping to fuel the economic discontent that led to the largest anti-government protests in Iran for almost a decade that December.

[1] Arabia Monitor; IMF.
[2] Joint Comprehensive Plan of Action.

Iran: Risks a-plenty

- **Major uncertainties hover over Iran's future, including spill-over risks from the region, and domestic ones as well.**
  - ➢ The risk of regional conflict remains high because of Iran's poor relations with the US and its rivalries with Israel and Saudi Arabia.
    - Last year saw attacks on oil tankers in the Strait of Hormuz in May-June, drone strikes in September on the Abqaiq facility and Khuraisinn oil field in Saudi Arabia, and an assault on the US Embassy in Baghdad in December by Shi'a militias supported by Iran.
    - This was followed by the US killing of Qasem Soleimani, commander-in-chief of the Revolutionary Guards' Quds Force, in January this year. All have increased tensions between the US, its allies and Iran.
  - ➢ Businesses also face danger from non-state actors such as Sunni insurgent groups in the border region with Pakistan (Jundallah militants).
    - In addition, opposition groups in Syria will continue to pose a regional threat to Iran, affecting not only border security, but also its support for Hezbollah in Lebanon (which requires transit through Syria).
- **Domestic risks include delayed structural reforms, which could impact bank and corporate balance sheets, and continued social unrest.**
  - ➢ Delays in implementing reforms to tackle structural problems including inflation, unemployment, weak company balance sheets and government arrears, could reduce growth prospects.
    - A credit crunch in the banking sector has led to an interbank liquidity crisis raising the costs of project financing and borrowing. As a result, banks and corporates have poor balance sheets, affecting equity prices and their financial leverage positions.
    - Arrears are linked to suppliers and government guarantees on projects (such as infrastructure).
      - This affects bank balance sheets and crowds out credit from the private sector.
      - The government has finalised an inventory of all arrears in order to plan for their clearance via marketable securities.

Table 1 – Economic & Political Risk Indices[1]



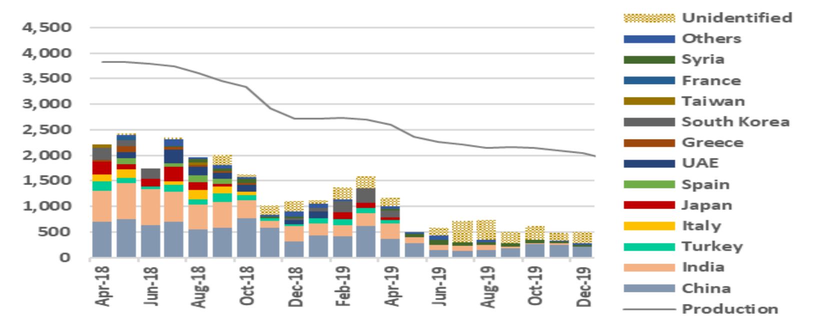
- ➢ In addition to rial devaluation, inflation and unemployment, the extensive presence of the state in the economy, caps on foreign ownership in key sectors, a high tax burden, bureaucracy and rampant corruption, are likely to remain unresolved over the medium term.
  - The military retains a large presence in the economy, making it difficult for private actors to compete.
- ➢ Difficult economic conditions will provoke further popular discontent which is likely to reignite protests.
  - But we do not expect these to have any considerable probability to threaten the regime materially or lead to a leadership break during the next year or two.

[1] Arabia Monitor; Fitch Solutions, Political Risk Map 2020 provides country risk scores for more than 200 countries and territories. The higher the index, the less the risk. This index takes into account geopolitical developments up until March 2020 as well as the outbreak of COVID-19.

Iran Oil Sector: Battered on all fronts*

- **Since the onset of US sanctions, Iran's oil sector has taken a huge hit. Saudi Arabia's recent decision to increase production to 12.3 Mb/d (and overall maximum sustainable capacity to 13 Mb/d) after the failure of the OPEC+ deal in Vienna on March 06, and the deteriorating global economic outlook due to COVID-19 could effectively bring down Iran's oil exports to under 100 Kb/d.**
  - ➢ Buyers are rushing to stockpile on cheap supplies of higher quality non-sanctioned supply (including higher volumes from the UAE, who will release 4 Mb/d in April, and from Kuwait, which has begun offering Khafji crude, from the Saudi Arabia-Kuwait Neutral Zone, for export in April). Iranian exports fell from a 2018-high of ~2.5 Mb/d to fewer than 300 Kb/d by end-2019. Recent exports have been lower still, with estimates pegging these at just 100-150 Kb/d.
  - ➢ Before the COVID-19 outbreak, China was the largest purchaser of Iranian crude, even though other customers who have traditionally defied US unilateralism -- including India and Turkey -- reduced their purchases to zero. Until May 2018, when US sanctions were imposed, India was the second-largest purchaser of Iranian crude. Indian refineries have typically preferred Iran's medium-heavy crude grades.
    - Turkey last purchased Iranian crude in April 2019, and has since reduced imports to zero. Russia has stepped in as the crude supplier of choice for Turkey, providing 7.3 Mbbl of Urals crude, with potential for growth.
      - Before sanctions, Turkey was taking in up to eight cargoes per month of Iranian crude, but raised spot purchases from Iraq and Russia, probably to support its partial waiver from the US administration. The waiver granted in November 2018 allowed Turkey to continue taking in up to two cargoes of Iranian crude (~60 Kb/d), even though Turkey had wanted four.
      - However, the availability of ample, non-sanctioned supply, in many cases of better quality than Iranian grades, has effectively put off chances for a return to Iranian imports by Turkey in the near-term.
- **The loss of Chinese imports has had the most impact on Iran's oil revenue. In February, China officially took in ~11.5 Kb/d of Iranian crude, probably offloaded from Iranian tankers idling off the coast of Dalian.**
  - ➢ These tankers have been stationed at remote north-east Chinese ports since September 2019, holding 20 Mbbl of Iranian crude, but have not yet returned to Iran. Their limbo indicates the sparse demand for Iran's crude in Asia-Pacific.[2]

Figure 1 – Iran Oil Exports, by Country (Kb/d)[1]



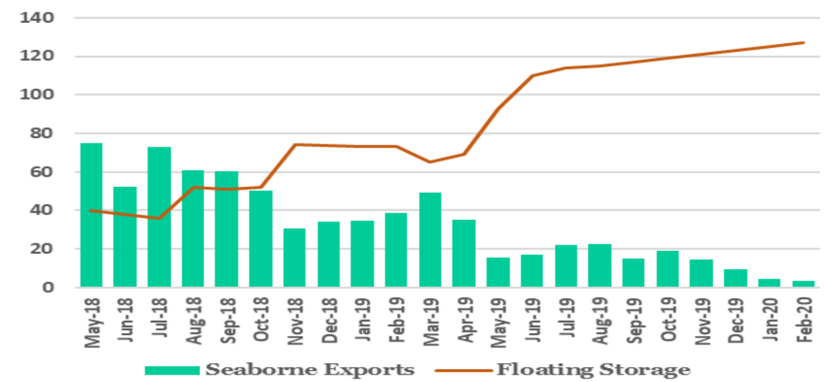
- ➢ Actual tanker deliveries to China began dwindling from April 2019 as the US administration made it clear that it would not be extending sanctions' waivers to Iranian crude importers.
- ➢ Trade tensions between the two economic powerhouses meant that China was unwilling to engage anymore with the "high risk" Islamic Republic, in order to have the US agree to more lenient terms on a potential trade deal.
- ➢ This may have partly paid off for the Chinese, as did exiting the South Pars Phase-11 project. For instance, the US has promised no additional tariffs on China as part of the Phase-1 agreement of a new trade deal between the two.
- ➢ Iran sold its crude at an average USD 55 pb in February, which means that it would have earned a mere USD 19.2M from Chinese imports, compared with USD 1.15B it earned at the same price from May 2018 Chinese exports (>750 Kb/d) alone.
- ➢ Japan and South Korea -- importing ~500 Kb/d combined prior to May 2018 -- have not lifted a barrel since April 2019, preferring grades from the UAE, Kazakhstan, Qatar, the US, and Ecuador.
- ➢ The UAE's flagship Murban crude grade has outpaced other popular crude grades (such as Arab Light and Arab Extra Light) and is being used to produce IMO-compliant fuels.

* This page is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts.
[1] Qamar Energy Research.
[2] Before the COVID-19 outbreak hit China, it had engaged in ship-to-ship transfers of Iranian crude to smaller Asian customers such as Vietnam and Thailand, as had Malaysia from the Strait of Malacca.

Iran Oil Sector: Upstream & downstream progress to remain weak*

- **Low domestic demand, limited storage capacity and lack of exports contribute to a dampened production outlook.**
  - According to Qamar Energy calculations, Iran's refining runs in Q4 2019 averaged ~71%, significantly lower than the close to 80% recorded during the same period last year. Domestic demand has declined due to the removal of fuel subsidies in November 2019 and is likely to get worse under the current economic climate. For instance, Iranian media claimed that gasoline demand would diminish by a further 9% in Q1 2020.
  - Iran could try to push its refineries to 90% utilisation rates in order to produce valuable products like high-octane gasoline (in which it reached self-sufficiency, and began exporting in 2019), engine oil, and Euro-5 standard diesel. But the recession and lack of commitment by foreign buyers will continue to keep utilisation rates below capacity, impacting demand.
  - Floating storage is essentially full as of February 2020, which not only impacts crude production, but also condensates. Lack of storage has caused Iran to begin cutting back on natural gas production. In February, it cut back ~2.5 BCM of gas due to lack of viable outlets. This also impacted its exports to Iraq.
  - We see overall Iranian crude production with little to no change in Q2 2020, from Q1 2020 levels. Paid-for exports are close to zero (with poor demand likely to continue till end-Q2 2020, as COVID-19 continues), and refining runs are at levels necessary to meet (low) domestic demand. Production should therefore remain in the range of 2-2.1 Mb/d.
  - Natural gas production however shall be significantly impacted, unless Iran resorts to building new refineries and/or condensate splitters, or floating storage. A cash-strapped government and lack of hard currency reserves make this unlikely to transpire in the near-term. We assess sales gas production for 2020 to reach 203 BCM, down from 225 BCM in 2019, because of inability to refine, store or sell the condensate.
- **Progress on recently announced upstream and downstream projects shall remain weak, despite the National Iranian Oil Company's announcement of progress in frontier exploration to revive interest in its upstream sector.**
  - Local firm Petropars has been entrusted with the development of South Pars Phase-11 project, the first of the only two IPCs signed post-JCPOA (the third was signed in May 2018), with a consortium of CNPC, Total, Shell, and Inpex.

Figure 1 – Iran's Floating Storage vs. Exports (MMbbl)[1]



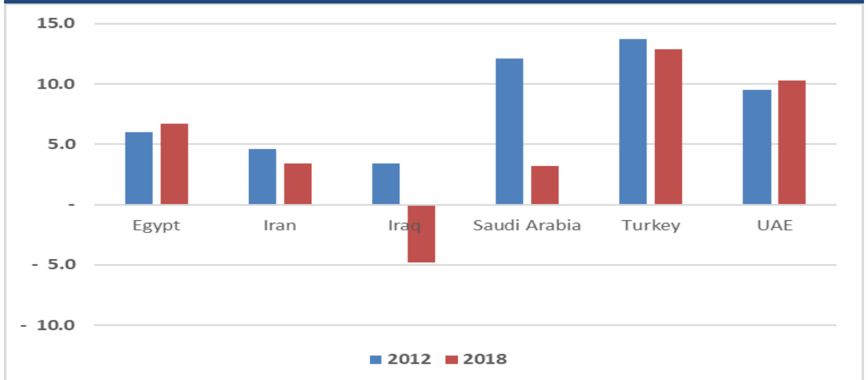
    - Now that the foreign firms have left, Petropars could develop the field for domestic use, but will likely struggle to implement the 14.7 BCM LNG phase planned for later, as most modern liquefaction technology is of US origin.
  - Progress in the downstream sector is unlikely to pick up pace as well. Bold, one-off proclamations of "major advancements", have become routine, however.
    - For instance, Iran's petrochemicals firm PGPIC says it will launch seven new petrochemical plants by 2021, which would help boost propylene output more than four times (from 0.9 Mtpa now), and has also laid out plans for the development of a new 1.3 Mtpa methanol and ammonia plant at Chabahar.
    - These projects are owned by the Sepehr Energy Corporation, a subsidiary of Bank Saderat, established to finance downstream projects. However internal financing is extremely limited.
    - Other planned large-scale petrochemical complexes, such as Phase-2 of the Kangan Petro Refinery at South Pars Phase-12, and the NGL-3200 Refinery at West Karoun, are also in limbo.

* This page is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts.
[1] Qamar Energy Research; Kpler.

Iran: FDI - low and ephemeral

- **Foreign direct investment, which peaked at USD 5B in 2017 (1.1% of GDP), dropped to USD 3.4B in 2018 (0.7% of GDP). It is expected to drop further as numerous foreign investments are withdrawn under the new round of US sanctions on all major sources of income for Iran.**
  - ➢ After earlier sanctions were lifted in 2016, the World Bank estimated that any FDI inflows could range between USD 3B and 3.5B. In fact, FDI inflows reached 3.3B in 2016 before the 2017 spike.
  - ➢ The pickups came after Iran signed the JCPOA multilateral nuclear accord and as President Hassan Rouhani's administration sought changes in the business environment to attract FDI.
    - The corporate tax rate in Iran is 25%, the same as China's and lower than in the US (35%), Brazil (34%) and South Africa (28%). It is higher than in Saudi Arabia, Turkey and Russia (20% each).
    - After corporate profits are taxed at 25%, there is no further tax on net profits, whether distributed as dividends or retained in the business.
    - Industrial and mining projects enjoy 80% tax exemption for four years and 100% for 10 years in deprived areas.
  - ➢ Traditionally, Iran has attracted Chinese and Russian investments, especially in the gas sector. But notable Western names also took the opportunity of investing in the newly opened Iranian market.
    - Some have now backed away, including French energy giant Total, automakers Renault and PSA, Germany's Daimler and Volkswagen, Siemens, pharmaceutical giant Sanofi and aircraft makers Boeing and Airbus.
- **The 2018 sanctions imposed by Washington target Iran's economy and sources of investment more severely than previous ones, including the metals and mining industry (iron, steel, aluminium, etc.) and textiles. They also target sectors that grew during the previous sanctions period (pharmaceuticals, construction and manufacturing).**
  - ➢ FDI financing has been an impediment due to remaining sanctions on international financial transactions that are connected with US banks. Even after the JCPOA, FDI remained below the all-time peak of USD 8B in 2003 (6% of GDP), and Iran is well behind Turkey (similar population size) but on par with Saudi Arabia (comparable energy reserves).

Figure 1 – Foreign Investment Benchmarks (USD, B)[1]



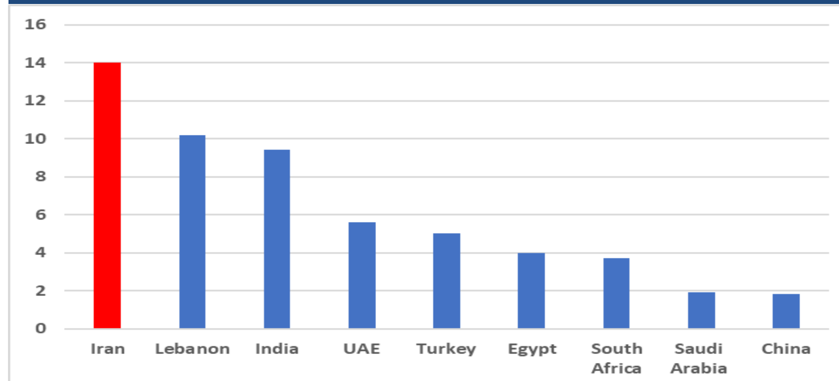
    - By comparison, Singapore, with its smaller 6 million population, attracted USD 77.6B in FDI in 2018, 23 times that of Iran.
    - Total Iranian FDI stock was estimated at USD 57B in 2018, according to data from UNCTAD. It was USD 231B in Saudi Arabia, USD 134B in Turkey and USD 1.4T in Singapore.
  - ➢ The new sanctions mean Iran will lose necessary investments in some of its key industries that have performed well before and in which it holds significant comparative advantage.
    - For instance, the Islamic Republic holds 7% of world's mineral reserves and has the potential to become one of the largest mineral producers and exporters worldwide. It ranks highly in deposits of chromium (5th), iron ore (9th), arsenic (11th), copper (12th), zinc (14th), lead (16th), coal (29th) and uranium (47th).
    - Iran has a 90-year history in the industrial production of pharmaceuticals. The market was worth around USD 5B, close to 0.3% of the global pharma industry in value in 2016. The rise of neighbour Turkey's pharmaceutical industry since 2000 is indicative of the potential Iran holds in attracting large foreign entrants to the market.

[1] Arabia Monitor; UNCTAD.

Iran: Banking sector in slow motion

- **Iran is facing long-term financial isolation under the new sanctions levied by the US and more recently by its reinstatement on the international Financial Action Task Force's (FATF) blacklist of countries for money laundering and/or financing terrorism. Sanctions will directly impact the short- and long-term growth trajectory of Iran's banking and financial services sectors.**
  - ➢ In June 2016, FATF gave Iran the chance to meet certain international compliance standards, or risk being subjected to countermeasures.
    - By February this year, Iran had only implemented some changes, including the establishment of a cash declaration regime, amendments to its counter-terrorist financing and anti-money laundering law, plus some regulatory tweaks.
  - ➢ Significant liquidity and solvency problems will continue to pose growing risk to Iran's financial stability, prompting more capital injections from the Central Bank of Iran (CBI).
    - Iran is already cut off from most of the international banking system, and increasingly unable to conduct trade transactions in dollars and euros.
    - The IMF has already warned the Iranian government that bank soundness indicators have deteriorated. The Fund recommends making financial sector reform a priority, in particular recapitalisation and restructuring of viable banks, and resolution of non-viable ones.
- **US efforts to isolate Iran from the rest of the world have aggravated problems in the banking system, where a crisis has been brewing for several decades. Banks are undercapitalised and suffer from high non-performing loan ratios.**
  - ➢ Capital and solvency requirements are considerably low; even standards as old as Basel I have not been adopted throughout the sector.
    - Reporting standards are also poor, with few banks publishing annual reports, let alone audited statements.
  - ➢ In particular, former President Mahmoud Ahmadinejad's policies of supporting small businesses and the more needy segments of society through the banking system significantly harmed the sector.

Figure 1 – NPL Ratio, by Country (%)[1]



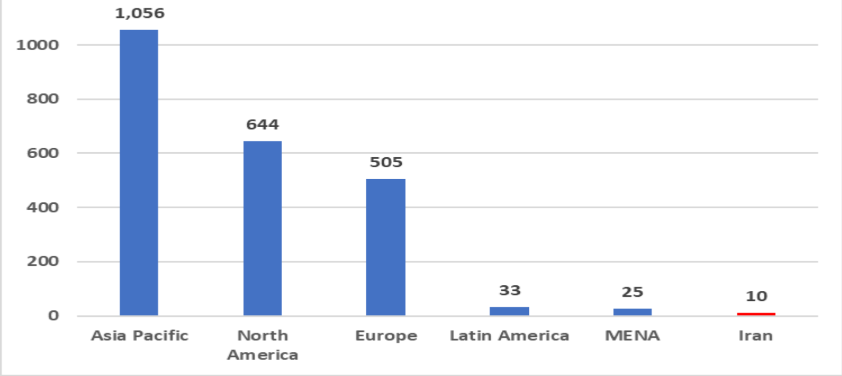
    - Bank portfolios have at least 14% non-performing loans on record; the true ratio is likely to be higher. For comparison, in 2019, Egypt's rate was around 4% and Turkey's 5%.
  - ➢ Banking sector stress has contributed to a credit crunch that has limited business financing and growth.
- **A worsening of the banking crisis would make the economy even more vulnerable to an external shock, especially if Iran's oil exports are completely halted (or undermined by Saudi Arabia's decision to flood the market), which could lead to much higher inflation and further financial difficulties.**
  - ➢ Under such a scenario, the CBI will need to continue injecting liquidity into banks, which will drive inflation higher.
  - ➢ A decline in Iran's oil exports will raise pressure on the government budget and lead to monetary financing by the CBI in the future.

[1] Arabia Monitor; World Bank.

E-Iran: Developing, but draining electricity

- **Iran's e-commerce sector is no longer in its infancy, accounting for 10% of GDP in FY 2019, a leap from the low base of 0.4% in 2016. Significant growth and higher demand reflect the sector's potential to emerge as a key market.**
  - In the face of sanctions, Iran has built resilience by focusing on progress in digital technology and e-commerce.
  - With internet (62%) and mobile penetration (126%) rates in Iran being among the highest in the Middle East, the e-commerce market reached over USD 18B in 2019, a 30.5% YoY growth.[1]
    - About 25% of Iranians are shopping online at least once a month, 16% at least once a week, and over 5% are doing so on a daily basis.
    - The government's decision to grant further 3G/4G mobile broadband licenses has marked efforts in reducing the digital gap between urban and rural areas, indicating a potential increase in internet usage and positive spillovers to e-commerce.
    - Data compiled by Economist Intelligence Unit ranks Iran just below mid-way among 100 countries in terms of internet accessibility, but relatively low (78th) in terms of affordability.
  - With plans to nurture the digital tech ecosystem, the Central Bank of Iran (CBI), in March 2019 offered around USD 500M in loans to support tech start-ups and knowledge-based companies.
    - Currently there are over 6,500 startups active in Iran; a leading tech hub in southwestern Asia.
    - We note though, that the latest statistics from the CBI find non-performing loans to tech are high -- reaching USD 500.7M in 2018 and constituting around 18% of Iran's bad debt.
- **While in the past years Iran has been left out among MENA counterparts in adopting a modern financial infrastructure, it has recently ramped up and issued 1,000 licenses for crypto-mining.**
  - The cryptocurrency mining industry, regulated in 2019, reflects efforts to facilitate trade by using cryptocurrencies to import goods and as a route for bypassing banking sanctions.[2]

Figure 1 – E-commerce % of GDP[3]



  - The industry is estimated to add around USD 8.5B to the economy, although with high electricity tariffs (crypto-mining is a major energy drain) and rigid regulations, small investors are being pushed away.
  - Following the 2017 crypto-boom, Iran was experiencing high electricity shortages due to crypto-mines leveraging the country's electricity subsidies.
    - A new law proposed in April of 2019 raises electricity tariffs by 7% on the rate sold at 0.7 cents per Kwh.
    - While this is unwelcome to crypto-miners, it is an effort by the government to regulate electricity usage. To put this in context, the authorities report that matching one Bitcoin to a trade uses around USD 1.4K of government subsidies, consuming the electricity of 24 buildings in a year.
  - President Hassan Rouhani has proposed creating a unified Islamic Finance cryptocurrency with a few Muslim countries -- including Malaysia, Turkey, Qatar and Indonesia -- as an alternative to the US dollar.

[1] The penetration rate does not account for users having multiple mobile phones and hence can exceed 100% due to double counting.
[2] The Ministry of Industry, Mines and Trade is responsible for regulating all crypto operations in Iran.
[3] Arabia Monitor; UNCTAD.

Iran-US: A perilous pas de deux

- **Iran's tensions with the US are expected to escalate further as the new conservative parliament convenes in Iran along with a potential conservative victory next year in the Islamic Republic's presidential election. This will combine with Washington's "maximum pressure" strategy to make diplomatic hostilities between the two countries increase.**
  - ➢ The results of both countries' electoral cycles dictate how the US posture towards Iran will look in the coming years, and vice versa. Conservatives in both countries take a hawkish stance towards one another.
  - ➢ The US stance could change if President Donald Trump is defeated later this year, but the conservative government in Iran makes the potential for negotiations unlikely. The worst-case scenario would be direct confrontation, although we continue to see this as improbable.
- **The adversaries will continue the quid pro quo of proxy attacks on one another. Such attacks have become the norm, even after tensions peaked in January following the US assassination of Iran's popular General Qassem Soleimani, leader of Iran's Quds Force.**
  - ➢ Clashes have been renewed after three coalition soldiers were killed by Iranian-backed militias in Iraq on 11 March. In retaliation, Trump has authorised the Pentagon to respond, most likely by targeting Iranian militia. Responses from the US habitually fuel future insurgency.
  - ➢ Iran does not have the military capacity to take on the US directly and the Iranian regime will seek to preserve itself. We expect future responses will follow suit -- targeting a US presence or ally in the region through proxy fighting. It is likely that these future attacks will continue in Iraq, adding to that country's instability.
  - ➢ Trump's actions have prompted attempts in Congress to pass a new war powers resolution to limit his military response. It is unlikely to pass in the Republican-controlled Senate. However, even if it did, there are not enough votes there to override a Trump veto.
  - ➢ Sanctions continue to fuel anti-US sentiment throughout Iran as they have stopped Iran from receiving economic relief and humanitarian aid just as COVID-19 has swept across the country. Iran has requested a loan of USD 5B from the IMF under its Rapid Financing Instrument to address the pandemic. This highlights the desperate financial situation in Iran, which largely views the IMF as an instrument of the antagonistic West.

Table 1 – Recent Iran-US Relations Timeline[1]

[1] Arabia Monitor.

Iran-EU: What could have been, if not for sanctions

- **Before the new US sanctions, Iran-EU bilateral trade was expected to exceed pre-2011 levels over the next few years. This potential has gone. Once accounting for as much as a third of Iran's bilateral trade, the EU-Iran share fell to just 6% in 2019 as new sanctions arose. This was less than the average of 10% over 2012-2015 when earlier sanctions were imposed, and in sharp contrast to 19% over 2016-2018 following the JCPOA nuclear deal.**
  - Iran's exports to the EU decreased significantly in 2012-14 due to sanctions, and Iran's imports from the EU declined by more than 50% during the same period.
  - As Figure 1 clearly shows, when sanctions looked to be easing in 2015 Europeans started picking up where they had left off, seeking to secure a first-mover advantage in Iran's USD 400B economy.
  - EU figures accounted for around 20% of Iran's bilateral trade in 2017.
- **While the EU has not re-imposed sanctions on Iran, it is likely it could do so after triggering the dispute mechanism of the JCPOA earlier this year.**
  - Although the EU shares Washington's concerns about Iran, the two diverge on the appropriate instruments for effective progress. Europe has refrained from re-imposing sanctions on Iran and has sought to safeguard the nuclear deal.
  - On 14 January, France, the UK and Germany activated the deal's dispute resolution mechanism, the process through which a complaint about a potential violation of the deal would be resolved.
    - Initially, the European signatories sought 30 days to come to a resolution but have since extended it to two months. It is likely this this time period could be extended once again.
  - If it not solved, the matter could be brought before the UN Security Council and could then result in the snapback of EU sanctions.
  - EU sanctions would have greater political implications on the country's relations with the bloc than domestically within Iran.
    - Since the US re-imposed sanctions, the EU has refrained from engaging in commercial activity with Iran for fear of putting European commercial and financial relations with the US at risk.
    - The decision could jeopardise what fragile diplomatic relations Iran has with the EU as well as fuel Iranian conservatives' anti-West agenda.

Figure 1 – Iran-EU Trade (% of Total Iran Trade)[1]

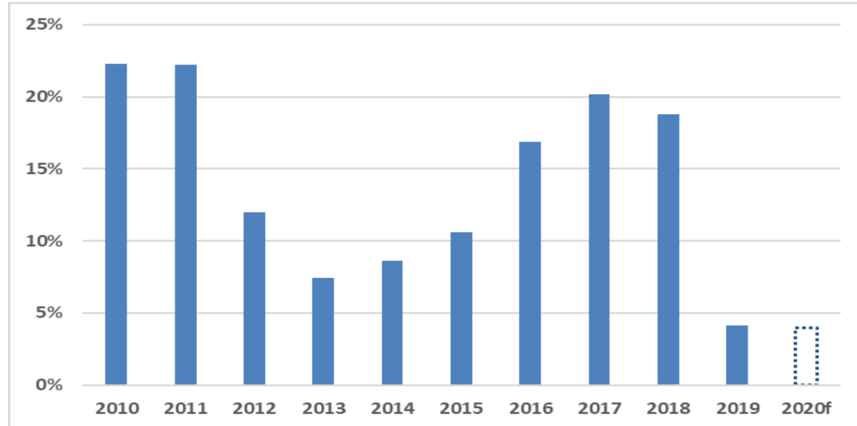
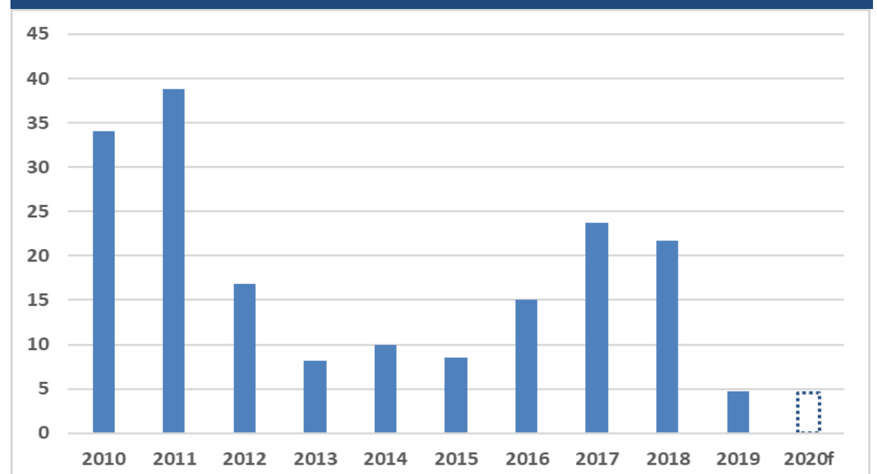


Figure 2 – Iran-EU Trade (USD, B)[1]

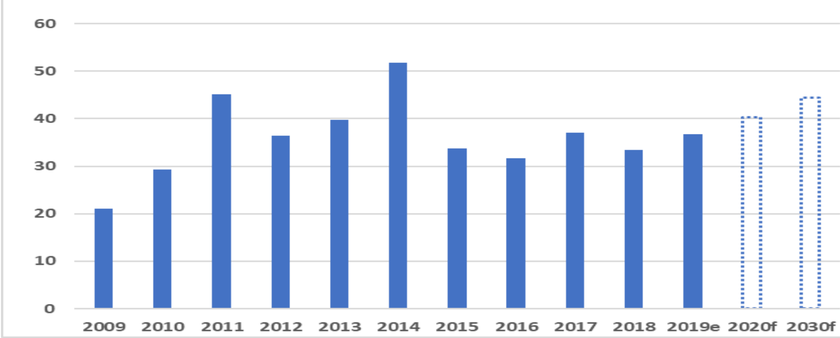


[1] Arabia Monitor; IMF Direction of Trade Statistics.

Iran-China: A friendship of convenience?

- **Despite decreased economic activity due to pressure from US sanctions and damage wrought by COVID-19, China and Iran's relationship will remain friendly, albeit cautious.**
  - ➢ After the approval of the JCPOA nuclear deal in 2015, China and Iran signed a comprehensive strategic partnership, the highest level of linkage in Beijing's diplomatic toolbox.
    - The partnership emphasised both countries' commitment to political, diplomatic and security cooperation.
  - ➢ Iran and China have continued to keep close -- especially as Iran's relationship with Western powers, notably Washington, has deteriorated.
    - While continuing to condemn any deviation from Iran's JCPOA commitments, China has been consistent in support of the pact and has urged other signatories to continue their commitment to the agreement (on which, of course, the US has reneged).
  - ➢ Certainly with at least one eye on Washington, the two countries, along with Russia, launched their first joint naval exercises in the Gulf of Oman at the end of last year, demonstrating their military cooperation in addition to diplomatic relations.
  - ➢ Iran has looked to expand its relationship with China by seeking to attract Chinese tourists, unilaterally scrapping visa requirements for Chinese citizens and allowed them to stay in Iran visa-free for 21 days after each entry.
    - The initiative was aimed at bringing in two million Chinese tourists this year, up from just over 50,000 in 2018.
    - This is now unlikely to succeed given the COVID-19 outbreak in both countries and the global decline in travel. Assuming the virus will eventually play out, however, we see travel between the countries increasing.
- **We expect FDI inflows from China to Iran to be impacted by US sanctions, which can penalise Chinese firms who have carried out transactions with Iran. Moreover, China is embroiled in trade disputes with the US and will refrain from jeopardising any progress in solving commercial strains.**

Figure 1 – Iran-China Trade (USD, B)[1]



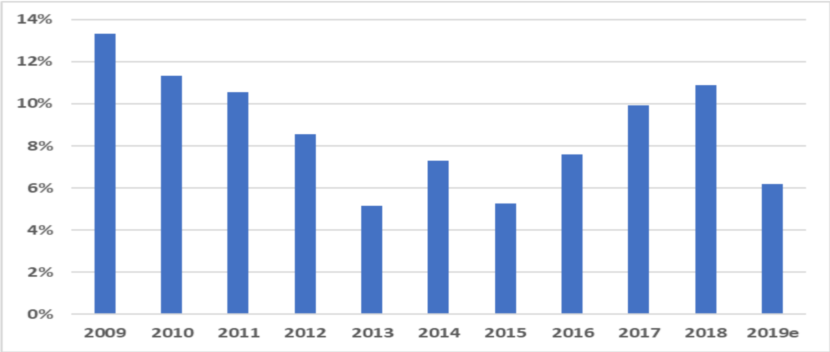
- ➢ Iran has been a key recipient of Belt & Road Initiative investment from China, and we expect this to continue, albeit perhaps at a slower pace, for now.
  - As one example, China committed USD 600M for Iran's energy and manufacturing sectors after sanctions on Iran were initially lifted following the JCPOA pact.
  - It is possible that the full amount of these investments will be reduced because of stresses in Sino-US relations.
  - However, over the long term, China's interest in Iran is multifaceted, and inexorable.
- ➢ Washington's "maximum pressure" strategy against Iran has already led to sanctions on Chinese firms and is having a chilling effect.
  - Sanctions have been imposed on Beijing's Pamchel Trading (for importing Iranian steel slabs) and Hong Kong-based Trilliance Petrochemical (for dealings with state-owned National Iranian Oil Company).
  - Worryingly for Iran's economy, renewed sanctions had prompted Chinese oil company CNPC to withdraw from a USD 5B deal to develop a portion of the South Pars field.

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

Iran-India: A non-oil trade opportunity (post-COVID-19)

- **Ties between Iran and India have been restrained since US President Donald Trump's administration decided in April 2019 not to renew the waivers India had, to import oil from Iran. India could seek to negotiate with Washington to get its waivers back, but the likelihood of the US administration granting this is distant given that it aims to exert “maximum pressure” on Iran.**
  - In 2009 before US sanctions, Iran was India’s second largest oil supplier after Saudi Arabia. Indian companies paid 45% of their dues for crude in rupees through a designated Indian branch, with the rest paid in euros through a Turkish bank. This process has now been closed down by sanctions and imports from Iran halted in May 2019
  - For Iran, India was crucial. It was its second largest oil customer, importing 457 Kb/d of oil a day. At its peak in March 2016, India imported an estimated 506 Kb/d.
  - During intensified sanctions between 2012 and 2016 prior to the JCPOA nuclear deal, Iran exported an average of 200 Kb/d to India. In November 2018 India was one of eight countries to receive a six-month waiver from the US to continue to import Iranian oil. It bought 300 Kb/d during this period.
  - With the waiver removed, oil flows from Iran to India have halted, causing problems for both countries.
- **With Washington unlikely to grant a new waiver, as well as the new lower global oil prices and a halt in oil exports to India, the value of bilateral trade is expected to decline in the short-to-medium term. Yet there is room for growth in non-oil trade (at least once the COVID-19 pandemic has run its course, especially through Iran’s Chahbahar port which has been exempted from US sanctions).**
  - The strategically located Chahbahar Port, giving India close sea-land access to Afghanistan and Europe without involving rival Pakistan, is an important investment.
    - It is being developed in part to serve as the point of origin for the Iran-Oman-India pipeline, carrying Iranian natural gas to India.

Table 1 – India Oil Imports from Iran (% of Total India Oil Imports)[1]



  - The distance between Chahbahar and Kandla (in the western Indian state of Gujarat) is shorter than that between Delhi and Mumbai; enabling quick movement of goods first to Iran and then onwards to Afghanistan and Russia.
  - In 2019, Indian exports to Iran reached USD 3.5B while imports from Iran stood at USD 12.5B; this trade imbalance was mainly driven by India’s large imports of oil.
  - Iran’s non-oil exports to India accounted for 2.6% of India's total imports in 2018, while India's exports to Iran accounted for 1% of India's total exports.
  - Non-oil exports to India are mostly chemicals, raw material and fertilisers, while Iran imports cereals, tea, rice and organic chemicals.
  - Iran surpassed Russia as the largest buyer of Indian tea. Iranian imports of tea rose by 74% YoY in 2019 (around 53.5M Kg).

[1] Arabia Monitor; OPEC Statistical Bulletin.

Iran-MENA: Fragile Arab governments present opportunity

- **Iran will continue to attempt to expand its influence as it tries to become the regional hegemon. Its interventions could trigger conflict via proxies, especially with adversary Saudi Arabia and its allies, but we believe it is unlikely to escalate into direct confrontation.**
  - ➢ Decades of competition between Riyadh and Tehran have fed regional conflicts in Bahrain, Lebanon, Iraq, Syria and Yemen, without direct clashes.
    - How these conflicts proceed -- whether they are effectively managed and resolved, or whether they escalate -- will largely determine the security dynamics of the region for years to come. We see two likely scenarios:
      - Increased cooperation between Iran and its rivals so that the Iranian regime can preserve itself, or;
      - Increased Iranian influence across the region and an escalation of conflict.
  - ➢ Even so, while tensions between Saudi Arabia and Iran have a history of escalating, they often diffuse as rapidly as they peak. Any future conflict is unlikely to result in direct confrontation but instead resort to proxy militia groups engaging in sporadic attacks.
    - We saw this play out after the attack on Saudi Arabia's ARAMCO facility in September 2019 which was claimed by Yemen's Iran-aligned Houthi rebels.
    - More tit-for-tat attacks are to be expected when tensions are high and as the US continues its political and military disengagement from the Middle East.
- **The gradual disengagement of the US from the Middle East, domestic instability in several Arab countries and the resulting power vacuums -- will encourage competition between regional powers.**
  - ➢ Fragile governments in Iraq, Syria and Lebanon provide an opportunity for Iran to assert more influence.
    - Iran has been heavily involved in Iraqi and Lebanese government formation and we expect that this will be the case in Syria if and when the political system starts to shift.

Table 1 – Geopolitical Alignments in the Arab World[1]

Pro-Iranian	This first group is comprised of Iran and its allies, particularly Iraq and Syria. Within this pro-Iranian bloc are important political factions such as Hezbollah in Lebanon and the Houthis in Yemen. The most recent addition is Qatar, which has received support from Iran, albeit as part of its policy of being "open" to all countries.
Pro-Saudi	The second group, also known as the "sceptics", are represented by Saudi Arabia and their monarchical allies. Within this bloc, Kuwait and Oman straddle a middle line.
Third-Way	The "third-way" group is made up primarily of North African states, plus Jordan. Despite their close ties with Saudi Arabia, Egypt, Morocco, Jordan and Sudan have diverging geostrategic priorities.

- ➢ In addition to regional support, Saudi Arabia and its allies have turned to the US for backing to prevent Iran from becoming dominant regionally.
  - This is something which the US has willingly provided via troops and defence equipment.
- ➢ The Arab world can be organised into three broad, groupings, based on different political visions and geostrategic interests (Table 1).

[1] Arabia Monitor.

Domestic Iran: A new hard-line era

- **Iran's conservatives will monopolise the political arena for the foreseeable future after a conservative majority captured the parliament in elections. The focus now will be on next year's presidential race**
  - Conservatives won 221 out of 290 seats in the Islamic Consultative Assembly, including all 30 seats in generally liberal Tehran where 75% of voters chose to stay home. This is a stark difference to 2016, where moderate and reformist candidates won every seat in the capital.
  - The conservative majority came after most of the moderate and reformist candidates were eliminated by the election-vetting Guardian Council from standing for their seats.
  - The Council only approved 35.7% of prospective candidates (5,000 out of 14,000). This compares with 51.4% approval rate in 2016 (6,229 out of 12,123).
  - Mohammed Bagher Qalibaf, a conservative, received over a million votes in Tehran -- more than any other candidate in the election. We expect him to become the next Speaker, replacing veteran Ali Larijani.[1]
- **The conservative victory, compounded with political disengagement from reformist supporters, paves the way for a conservative candidate to win the presidential election in 2021.**
  - The low voter turn-out reflected Iranians' ambivalence about current politicians and the electoral process.
  - It foreshadows low voter turnout in next year's presidential election -- giving conservatives an advantage as their supporters are those more likely to turn up to the polls.
  - Potential candidates who have been touted for next year's election include:
    - Mohammad Javad Azari, Iran's information, communications and technology minister under reformist President Hassan Rouhani;
    - Merdad Bazrpash, an aide in former hard-line President Mahmoud Ahmadinejad's administration and a former member of parliament;
    - Ali Motahari, a prominent conservative MP who has been disqualified from sitting for his parliamentary seat for speaking out against Supreme Leader Ali Khomeini and questioning the current government. He has, however, expressed continued interest in running for president.

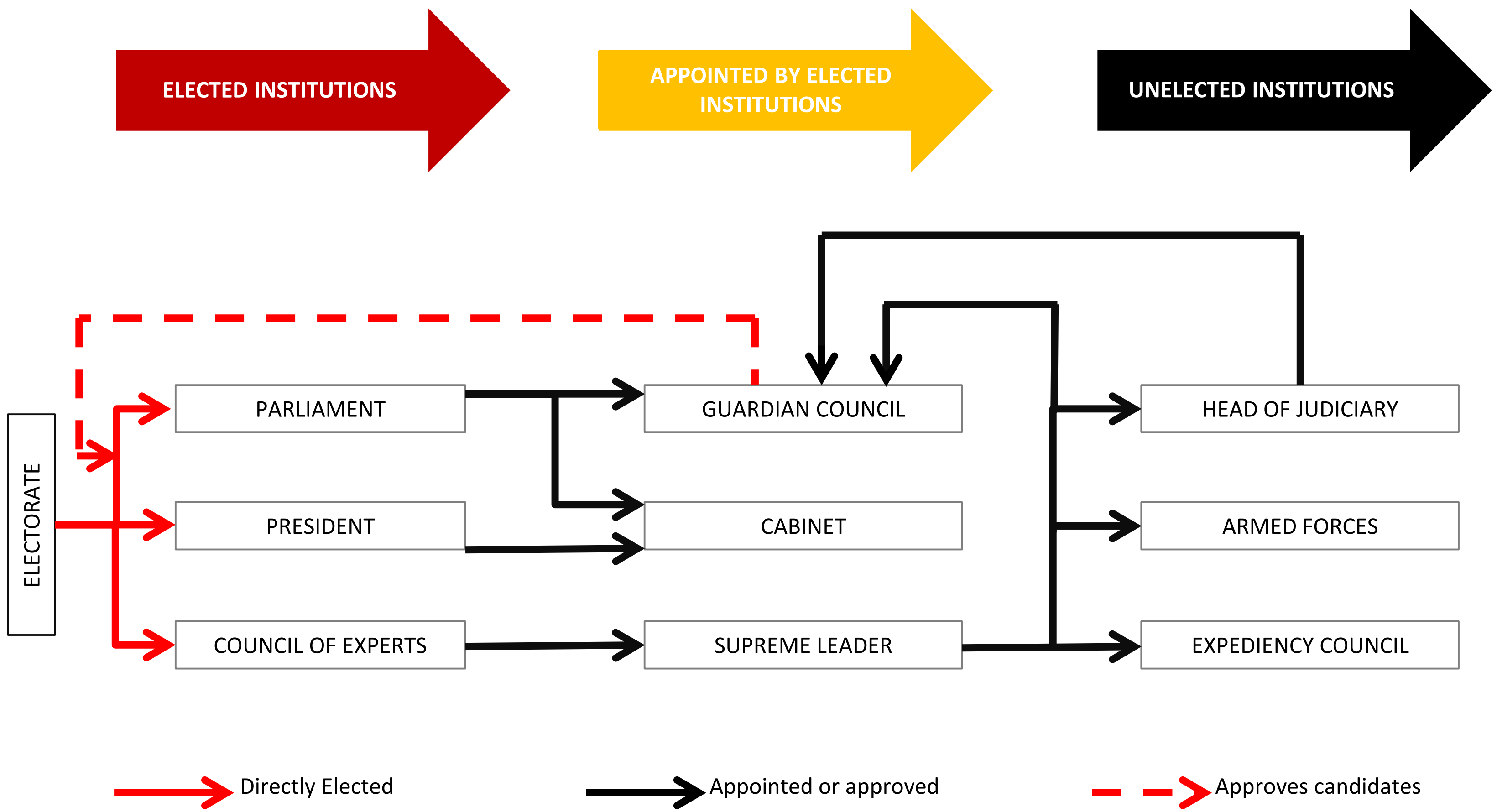
Table 1 – Political Views, Key Groupings[2]

Conservatives	Against all interaction with the West
	Maintain that other factions are anti-revolutionary
	Against the nuclear deal & the actions of the current government
Moderates	Seek cordial relations and further outreach with the West
	Hold a softer approach on social issues
	Maintain loyalty to the revolution
Reformists	Supported normalised relations with the West
	Loyal to the revolution, but critical of current political landscape
	Worked to preserve the nuclear deal

- Conservatives have gained increasing support in recent years following the re-imposition of sanctions.
  - There have been frustrations with Rouhani from both the right and the left as Iranians continue to face economic woes under sanctions. He has more recently been criticised for the downing of Ukrainian Airlines flight 752 and for the mismanagement of the COVID-19 outbreak in Iran.
  - Additionally, under Rouhani, Iranians signed and "lost" the JCPOA nuclear treaty, endured the US assassination of locally popular public figure General Qassim Soleimani, and have been re-listed by the international Financial Action Taskforce (FATF) as a state sponsor of terrorism.
- Rouhani's parliamentary faction which once had 102 MPs now only has seven seats in the new parliament.

[1] Qalibaf, 58, was mayor of Tehran from 2005 to 2017, national chief of police from 2000 to 2005, and head of the Islamic Revolutionary Guard Corps' air force wing from 1997 to 2000.
[2] Arabia Monitor.

Iran: A complex political system



[1] Arabia Monitor.

Iran: Contentious politics

Table 1 – Breakdown of Iran's Political Institutions[1]		
Elected Bodies	***All screened by the unelected Guardian Council***	
Parliament	290 members elected every four years.	Influence in setting domestic policies, not foreign policy.
Cabinet	22 ministers chosen by the President.	Approved by parliament.
President	Elected for four-year terms (limit of two consecutive terms).	Real influence, but the Supreme Leader can overturn decisions.
Assembly of Experts	88 members elected to serve 8 year terms.	Keeps the Supreme Leader's power in check.
Unelected Bodies	***Dominated by hardliners, also influenced by the increasingly powerful Revolutionary Guards.***	
Supreme Leader	Appointed by the Assembly of Experts and in theory, checked.	The Supreme Leader is the highest religious and political leader as head of military, intelligence, media and Friday prayers.
Guardian Council	Six theologians appointed by the Supreme Leader and six jurists appointed by the Head of the Judiciary.	Comprised of hardliners and screens candidates to run for elected offices.
Military & Intelligence	Directly controlled by the Supreme Leader.	Supreme Leader appoints Commander of the Revolutionary Guard.
Judiciary	Independent of President, currently dominated by hardliners.	Regulates the judicial system.
Expediency Council	39-seat body, resolves disputes between parliament and Guardian Council.	Also an advisory board to the Supreme Leader.

[1] Arabia Monitor.

Sino-MENA: E-commerce, streaming & gaming chug along unperturbed

- **Businesses worldwide are taking a hit from the COVID-19 pandemic, but there are some sectors in China-MENA trade and investment that could resist the full negative impact.**
  - Online services, such as e-commerce, streaming and gaming are seeing a major boost as both demand and supply increase in populations being put under lockdown or self-isolating.
  - While there were fears over supply chain disruptions when the virus outbreak first occurred in China, retail businesses in MENA (especially in the GCC) were confident that their existing stock would last and remain undisrupted until Q2 2020.
    - Having at least initially contained the virus domestically, Chinese factories are stepping up production to supply the world, where the public health and economic crises have since landed.
    - But while the Chinese supply chain will be back on track, global demand from many sectors is declining.
- **E-commerce is one of the few sectors that can tap into increased production capacity and has become a major enabler for retailers when shops and malls are closed.**
  - We expect the UAE e-commerce market to exceed its projected USD 69B valuation for 2020. It has already been growing at double-digit rates for the past few years.
    - In addition to giants such as Alibaba, Chinese companies with eyes on MENA as specific target markets for online shoppers include Club Factory, Banggood, JollyChic and Fordeal.
    - Some of them have been localising their operations, including setting up native workforces and increasing warehousing capacity with the UAE as a regional hub for re-exporting to wider MENA.
- **The pandemic is bringing two major changes to the retail sector in MENA -- increased live-stream shopping and non-cash transactions.**
  - We are seeing retailers pivoting towards becoming active live streamers, to offset losses caused by decreased offline activity.
  - Live streaming is expected to become a USD 20B global business by 2021, up from just over USD 1B in 2017.
    - The GCC stands out as a high spender. There are over 40 streaming platforms in MENA alone, of which over 80% are operated by Chinese companies such as Yalla, Mico, and BIGO Live.

Table 1 – Notable GCC E-commerce Acquisitions[1]

Year	Transaction Name	Price
2019	Sivvi acquired by Noon	Undisclosed
2019	Guiltless acquired by the Luxury Closet	Undisclosed
2017	Souq acquired by Amazon	USD 580M
2015	Talabat acquired by Rocket Internet	USD 170M

- In November 2019, JollyChic launched the region's first live-streaming shopping event, attracting over 170k participants.
- Given the growing popularity of streaming and the decreased footfall in shops, we believe retailers and e-commerce marketeers will increasingly incorporate live streaming into their sales strategy, hence boosting the market further.
- Meanwhile, online platforms will rely on their own or third-party delivery companies to complete transactions offline (similar to teleshopping).
- Cash on-delivery has always been the preferred payment method in MENA.
  - Approximately half of all payments are completed on delivery by cash, prepaid card or credit cards.
  - But we now expect that due to hygiene concerns, many payments will take place online, to minimise human-to-human contact and cash contamination risks.
  - However, low credit card and bank account ownership will continue to present a challenge to reducing cash payments.

[1] Arabia Monitor; Crunchbase.

MENA Macro Dashboard

Table 1 – MENA Oil Exporters[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f
Algeria	2.6	2.4	2.0	4.1	-13.2	-9.9	-12.6	-11.9	2.2	3.0	11.6	7.9
Bahrain	2.0	2.1	3.3	3.2	-8.4	-7.7	-3.6	-3.4	189.9	188.5	0.9	0.8
Iran	-9.5	0.0	35.7	31.0	-4.5	-5.1	-2.7	-3.4	2.4	2.5	14.3	11.8
Iraq	3.4	4.7*	2.0	2.0	-4.1	-3.5	-5.2	-4.2	32.1	30.9	6.8	6.2
KSA	0.3	1.9*	-1.1	2.2	-6.1	-6.4	4.4	1.5	30.4	32.3	26.4	24.1
Kuwait	0.7	1.5	1.5	2.2	-13.9	-14.5	8.5	8.1	45.8	48.7	6.8	6.8
Libya	4.3	1.4*	15.0	15.0	-10.9	-14.9	-0.2	-7.8	...	...	...	...
Oman	0.0	3.7*	0.8	1.8	-6.7	-8.4	-7.2	-8.0	105.6	112.4	5.3	5.0
Qatar	2.0	2.8	0.1	2.2	7.0	6.9	4.6	4.1	106.7	98.3	7.8	7.0
UAE	1.6	3.0*	2.1	2.1	-0.8	-1.7	5.9	5.1	68.7	66.4	4.3	4.6
Yemen	2.1	2.0	14.7	35.5	-6.9	-7.2	-4.0	1.3	18.9	24.9	1.4	2.0
Average	0.9	1.8*	6.9	9.2	-6.2	-6.6	-1.1	-1.7	60.3	60.8	8.6	7.6
Average Ex-Yemen	0.7	1.8*	6.1	6.6	-6.2	-6.5	-0.8	-2.0	64.9	64.8	9.4	8.2

Table 2 – MENA Oil Importers[1]

	Real GDP Growth (%)		CPI Inflation		Fiscal Balance (% of GDP)		C/A Balance (% of GDP)		External Debt (% of GDP)		Reserves (Mos. of Imports)	
	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f	2019	2020f
Djibouti	6.0	6.0	2.2	2.0	-1.5	-1.7	-0.3	0.6	70.5	68.4	1.0	0.9
Egypt	5.5	5.9*	14.5	10.7*	-8.3	-6.7	-2.5	-1.8	34.4	31.3	6.6	6.3
Jordan	2.2	2.4*	2.0	2.5	-3.4	-3.2	-7.0	-6.2	72.1	75.3	8.0	8.3
Lebanon	0.2	0.9*	3.1	2.6	-9.8	-11.5	-26.4	-26.3	195.7	207.0	10.9	10.1
Mauritania	6.9	6.3	3.0	3.4	2.1	0.3	-17.1	-17.8	60.6	62.6	3.8	4.3
Morocco	2.7	2.0	0.6	1.1	-3.7	-3.3	-4.4	-3.5	32.7	34.1	5.2	5.3
Palestine	-1.6	0.5*	0.5	0.9	...	...	-10.8	-12.4	...	...	...	...
Somalia	2.9	3.2*	4.0	3.0	0.1	0.2	-8.0	-7.7	...	...	...	...
Sudan	-2.6	-1.5	60.2	70.2	-10.8	-15.0	-7.8	-9.2	196.2	204.3	0.9	0.8
Syria	...	3.0*	...	...	...	...	...	...	...	...	...	...
Tunisia	1.5	2.4*	6.6	5.4	-3.7	-2.8	-10.1	-9.1	98.4	107.8	3.0	3.3
Average Ex-Syria	2.0	2.0*	10.5	11.1	-4.7	-5.3	-10.5	-10.4	98.6	103.2	5.5	5.5

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.
* Subject to downward revision.

Algeria: Between Hirak and a hard place

NR/NR

- **The stalemate between the military-backed government of President Abdelmadjid Tebboune and the civilian-led Hirak opposition movement is likely to continue for the foreseeable future.**
  - ➢ The largely peaceful protest movement has continued for over a year as protesters continue to demonstrate in the streets. Hundreds even turned up in March despite calls on them by the authorities to stay home in the face of the COVID-19 pandemic.
  - ➢ Although the virus is a threat to Hirak, the movement's continued presence suggests it might even pick up if the government issues a lockdown.
  - ➢ Our baseline for the Hirak is that the movement will continue for the foreseeable future.
    - The army could make some concessions -- which could even go as far as removing Tebboune from office prematurely.
    - However, they are unlikely to meet the demands of protesters, who want democratic civilian rule and an end to the dominance of the old guard (known as Le Pouvoir).
  - ➢ The best-case scenario is that the regime allows and honours Hirak demands and establishes channels for negotiations and civilian-led rule. But it is unlikely that the army would concede this power.
  - ➢ The worst-case scenario is that the generals declare a state of emergency and martial law as they did in the 1990s.
    - This is unlikely too, however, as they would probably have already done so if they felt it necessary and it would generate significant resistance from Algerians and the international community.
  - ➢ It is for these reasons that we see the current stalemate continuing, accompanied by small concessions as time goes on.
- **The continuing unrest poses a risk to the country's economy and to Algeria's ambitions to attract new foreign investment.**
  - ➢ The IMF forecasts growth at 2.4% for 2020, down from 2.6% in 2019. We expect this to be revised even further downwards and to be lower than the government forecast of 1.8% for 2020, especially if oil production does not recover rapidly.

Algeria Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.2	1.3	1.4	2.6	2.4
Crude Oil Production (M bpd)	1.0	0.9	0.9	0.9	0.9
Oil GDP Growth (%)	7.7	-2.4	-6.4	1.6	1.9
Non-oil GDP Growth (%)	2.2	2.1	3.3	2.8	2.5
CPI Inflation (%)	6.4	5.6	4.3	2.0	4.1
Fiscal Balance (% of GDP)	-13.4	-8.6	-7.5	-13.2	-9.9
C/A Balance (% of GDP)	-16.5	-13.2	-9.6	-12.6	-11.9
Total Gov't. Gross Debt (% of GDP)	20.5	27.3	38.3	46.1	49.2
Total Gross External Debt (% of GDP)	2.4	2.6	2.3	2.2	3.0
Gross Official Reserves (Mos. of Imports)	22.5	19.2	15.7	11.6	7.9
Nominal GDP (USD B)	160.0	167.4	173.8	172.8	178.6
Population (Millions)	40.5	41.3	42.2	43.1	43.8

- ➢ The IMF expects inflation to rise to 4.1% in 2020 from 2% in 2019, on par with the government forecast, driven by higher taxes on cars and tobacco. Further reform will be difficult under the current political climate, so inflation could turn out to be lower.
- ➢ The 2020 government budget forecasts a deficit of about USD 12.5B (7% of GDP versus 8% targeted last year), driven by a 9% spending cut and higher taxes.
  - Sensitive subsidies for products including basic foodstuffs, fuel and medicine were kept unchanged to avoid social unrest.
  - The 2020 budget provides for external borrowing for the first time in 15 years. The country's level of external debt, however, is quite low at 2.2% of GDP. Borrowing will likely be shelved, this year.
  - Public debt has sharply increased from low levels: the IMF expects it to reach 49% of GDP in 2020, from 8.8% in 2015.
  - Cash in the oil stabilisation fund, Fonds de Regulation des Recettes, has been insufficient to cover the fiscal deficit since 2016, prompting the government, reluctant to borrow externally, to change the banking law and borrow directly from Banque d'Algérie (the central bank).

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

Bahrain: Risk from low oil price, but banking & fintech move forward

B2/B+

- **Economic activity in 2020 is expected to remain on par with 2019 driven by a steady non-oil economy, but the kingdom's fiscal situation still presents risks.**
  - Growth in 2020 is forecast at 2.1%, barely up from 2% in 2019 and 1.8% in 2018. It will be supported by infrastructure projects, notably the Bapco (Bahrain Petroleum Company) Modernization Program, which plans to expand one of the oldest oil refineries in the GCC.
  - Bahrain's response to the COVID-19 outbreak has included measures to protect the economy, including:
    - Cutting its overnight lending rate to 2.45% from 4% to ensure "smooth functioning of the money markets", while also promising "further necessary actions" if required.
    - Reducing commercial registration fees as well as labour and utility charges for six months (a proposal forwarded to the Cabinet for approval).
    - Asking banks to not freeze customers' accounts in case of job loss or retirement.
  - The 2019-2020 national budget forecasts deficits for the two years at 4.6% and 4% of GDP, respectively.
    - We estimate, however, that deficits this year and next will be closer to the IMF forecasts of 8.4% and 7.7% of GDP, respectively, given that the kingdom's Fiscal Balance Program (FBP) is expected to weigh on the non-oil economy, which comprises over 80% of total economic activity.
    - Despite the flexibility provided by an aid package from GCC partners, we expect the FBP to face implementation constraints. A key constraint is the delicate socio-political situation that limits options for a more structural fiscal adjustment as observed in other GCC countries.
- **While banks in Bahrain are still operating in a challenging environment (with oil prices unlikely to get close to the heights of a few years ago), there are plenty of positives for the banking sector.**
  - It continues to play a prominent role in Bahrain, with financial services contributing about 17% to GDP and functioning as a key driver of growth.

Bahrain Macroeconomic Indicators[1]					
	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.5	3.8	1.8	2.0	2.1
Crude Oil Production (M bpd)	0.20	0.20	0.19	0.19	0.19
Oil GDP Growth (%)	-0.1	-0.7	-1.2	0.2	0.2
Non-oil GDP Growth (%)	4.3	4.9	2.5	2.2	2.5
CPI Inflation (%)	2.8	1.4	2.1	3.3	3.2
Fiscal Balance (% of GDP)	-17.6	-14.2	-11.7	-8.4	-7.7
C/A Balance (% of GDP)	-4.6	-4.5	-5.8	-3.6	-3.4
Total Gov't. Gross Debt (% of GDP)	81.3	88.2	93.4	100.2	103.6
Total Gross Extrn'l Debt (% of GDP)	183.6	181.2	184.7	189.9	188.5
Gross Official Reserves (Mos. of Imports)	1.2	1.2	0.9	0.9	0.8
Nominal GDP (USD B)	32.3	35.4	38.3	39.0	40.7
Population (Millions)	1.4	1.4	1.5	1.6	1.7

  - Bahrain's banking sector had total assets of USD 206B as of end-2019, up from USD 192B a year earlier.
  - Overall lending grew by 3.6% over that period, while the average loans-to-deposit ratio was 4.8% as of December 2019, down from 5.2% in September 2019.
  - The average capital adequacy ratio of the banking sector hit 19.4% in December 2019, significantly higher than the regulatory requirement of 12.5%, with a loan-to-deposit ratio of 71.4%.
- **Bahrain also continues to push to establish itself as a leading player in the region in digital financial services.**
  - In December 2019, Sprinkle Holding -- a global capital markets-focused fintech firm -- became the first company to list on the Bahrain Investment Market at the Bourse.
  - Since its establishment in February 2018, Bahrain Fintech Bay has expanded to cover 42 early-stage fintech companies.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

Djibouti: Build it and they will come

NR/NR

- **GDP growth is currently expected to remain strong in 2020 (on par with 2019), driven by large-scale private investments in transport and infrastructure and by improvements in the business climate.**
  - Djibouti's infrastructure and transportation have been improving, in part thanks to investments from China and Saudi Arabia. There has also been regional cooperation.
    - In February last year, Ethiopia and Djibouti signed the most expensive project ever built in the Horn of Africa, a USD 4B natural gas pipeline financed by China's POLY-GCL. Natural gas coming from Ethiopia will be exported to the world market through the port of Djibouti. A submarine cable now connects Kenya, Djibouti and Somalia.
    - The Africa Finance Corporation is investing USD 63M in a renewable energy project. While the country's aim to meet all its electricity needs from renewables by 2030 is unlikely, this is a significant step.
      - Demand for electricity is partially dependent on imports from Ethiopia and is expected to considerably increase due to infrastructure projects.
      - But the country's increasing number of renewable energy prospects domestically, including geothermal, present an opportunity to become more self-sufficient.
    - In December 2019, a new airport south of the capital was completed by China Civil Engineering Construction Corporation, under a Chinese development loan agreement.
    - In May 2019, the Islamic Development Bank signed a USD 65M agreement for financing the Djibouti Express-1 submarine cable project, and for health system strengthening.
  - The fiscal deficit, which averaged 4.3% in the last four years, is expected to decrease to 1.7% in 2020 driven by lower government spending.
  - External debt is expected to decrease slightly to 68.4% of GDP in 2020 from last year's 70.5%, helped by China's decision to extend the timeframe of repayments. The loan from Beijing to finance the Djibouti-Addis Ababa railway was meant to be paid over 10 years but has now been extended to 30 years.

Djibouti Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	6.5	5.1	5.5	6.0	6.0
CPI Inflation (%)	2.7	0.6	0.1	2.2	2.0
Fiscal Balance (% of GDP)	-8.3	-4.5	-2.9	-1.5	-1.7
C/A Balance (% of GDP)	-1.0	-3.6	15.1	-0.3	0.6
Total Gov't. Gross Debt (% of GDP)	45.7	47.9	48.0	47.4	45.8
Total Gross Extrn'l Debt (% of GDP)	62.9	70.5	71.1	70.5	68.4
Gross Official Reserves (Mos. of Imports)	1.1	1.6	1.1	1.0	0.9
Nominal GDP (USD B)	2.6	2.8	2.9	3.2	3.4
Population (Millions)	0.9	0.9	0.9	0.9	0.9

- **President Ismaël Omar Guelleh will not face any serious threats to his power, albeit that small protests have occurred against his and his party's dominance. The Rassemblement Populaire pour le Progress (People's Rally for Progress) will continue to dominate the political scene, but ahead of the presidential election in 2021 leadership could be transferred to a member of Guelleh's Cabinet.[2]**
  - Naguib Abdallah Kamil, Guelleh's adviser, has been floated as the potential successor to consolidate support from Djibouti's majority ethnic-Afar voters.
  - While we saw some anti-government protests in February this year and November last year, the opposition is not capable of effective demonstrations in large numbers.
  - The Union for a Democratic Change and the Republican Alliance for Development have been vocal in their support of protests and have called upon members to take to the streets.
  - While sporadic protests could continue, especially as the presidential election draws closer, we do not expect that they will result in substantial political change.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.
[2] Assuming power in 1999, Guelleh's continual presidential victory has been disputed by protesters throughout his four terms -- calling his presidency illegitimate and undemocratic.

Egypt: Threat of economic double whammy after years of recovery

- **GDP growth in Egypt was expected to reach 5.9% in 2020 from 5.5% in 2019, its highest level in 11 years. This growth has been supported by the tourism sector and increased exports, however, all is now at risk in the face of a global slowdown as sector activities decline, private investment slows and remittances potentially drop. Tourism will certainly take a major hit.[1]**
  - ➢ The government has taken some pre-emptive measures to protect the private sector and employees from the impact of COVID-19.
    - On 14 March, it approved an economic package worth EGP 100B (USD 6.4B) to fight the outbreak, and adopted several measures to improve payrolls for state employees, including raising the tax-exemption ceiling.
    - On 16 March, to support domestic activity, the Monetary Policy Committee at the Central Bank of Egypt (CBE) cut key interest rates by a dramatic 300 bps, bringing the overnight deposit rate, overnight lending rate, and the rate of the main operation to 9.25%, 10.25%, and 9.75% respectively. The discount rate was also cut to 9.75%.
  - ➢ The inflation outlook will help achieve an inflation target of 9% (±3 percentage points) by Q4 2020. The IMF's pre-COVID-19 forecast was for inflation to drop to 10% in 2020 from 14.3% in 2019, driven by the CBE's cautious monetary measures and currency appreciation.
  - ➢ The fiscal deficit narrowed to 8.2% of GDP in 2019 from 9.7% the year prior as a result of lower subsidies and interest payments.
  - ➢ With tourism expected to take a hit, the current account deficit is expected to remain negative at 1.3% in 2020 from 1.5% in 2019, and perhaps steeper.
  - ➢ The impact of low oil prices could hit Egypt's inward remittances, which are estimated by the World Bank to have been worth USD 26.4B last year (roughly 10% of Egypt's GDP).
    - This vital source of hard currency comes mostly from Egyptians working in GCC countries, and low oil prices could lead to layoffs, placing downward pressure on remittances reaching Egypt.
- **With travel plans cancelled for fear of contagion, the tourism sector is bracing itself for a major blow. According to Egypt's Chamber of Tourist Establishments, new bookings are already down 70%-80% YTD compared with the same period last year.**

Egypt Macroeconomic Indicators[2]

	2015/16	2016/17	2017/18	2018/19	2019/20f
Real GDP Growth (%)	4.3	4.2	5.2	5.5	5.9*
CPI Inflation (%)	14.0	29.8	14.4	14.5	10.7*
Fiscal Balance (% of GDP)	-12.5	-10.9	-9.8	-8.3	-6.7**
C/A Balance (% of GDP)	-6.0	-5.6	-2.4	-2.5	-1.8**
Total Gov't. Gross Debt (% of GDP)	96.9	103.2	92.6	86.0	83.3
Total Gross Extrn'l Debt (% of GDP)	18.3	41.3	37.4	34.4	31.3
Gross Official Reserves (Mos. of Imports)	3.0	5.0	6.6	6.6	6.3
Nominal GDP (USD B)	332.0	256.0	250.0	303.0	336*
Population (Millions)	902.0	94.8	97.0	99.2	101.5

- ➢ Tourists from Arab countries, especially from Saudi Arabia and Kuwait, have cancelled plans to visit Egypt as their countries have suspended their flights. Italians and Chinese visitors have followed suit.
- ➢ Tourism accounts for 12% of Egypt's GDP when all direct, indirect and induced effects are taken into consideration
  - There are up to 70 feeder industries catering to tourism, the country's most important employment-generating sector (comprising 12.6% of Egypt's total labour force).
  - Overall, 1 in 5 new jobs in Egypt was created by the tourism sector over the last five years.
- ➢ Tourist numbers in Egypt hit 13 million in 2019, a large improvement on 2018's 11.3 million. While still shy of the 14.7 million peak in 2010, the sector exceeded revenue figures for 2010.
  - The sector brought in over USD 12.5B last year, compared with USD 10B the previous year and USD 11.6B in 2010.
  - We note that historically the Egyptian tourist industry tends to bounce back after security shocks, though it currently remains below pre-2010 levels.

[1] Fiscal year beginning 1 July.
[2] Arabia Monitor; IMF.
* Subject to downward revision.
** Subject to upward revision.

Iraq: A perfect storm – politics, prices and pandemic

Caa1/B-

- **Finding a government for Iraq is in its fourth month of stalemate. President Barham Salih has named Adnan Al-Zurfi as the latest prime minister-designate, but it is unlikely that a government will be approved by the parliamentary Council of Representatives.**
  - Al-Zurfi is a choice that is likely to appeal to some protesters as he is known for his secular positions and his opposition to Iranian influence. But he is far from the fresh face the demonstrators have been seeking.
    - Previously, he held a high position at the Iraqi Ministry of Interior and has most recently been governor in Najaf province for two terms (a position to which he was previously appointed by the then-US administration in Iraq). In 2015, he was impeached by the Najaf Provincial Council over corruption allegations.
  - Despite his position, Al-Zurfi did get enough popular support to secure a seat in parliament as a representative for Najaf in 2018.
  - His appointment has provoked a mixed reaction. It has already been opposed by Fatah -- the largest Shi'a faction in the Council and Iran's main political proxy. Without Fatah's support (and Iranian approval) Al-Zurfi would probably fail to win a parliamentary confidence vote.
  - Under the Iraqi Constitution, Al-Zurfi has 30 days to form a Cabinet and submit it for confirmation by the Council.
  - Former Prime Minister-designate Adil Abdul-Mahdi remains as formal caretaker although he has delegated all executive duties to his deputies.
- **The COVID-19 outbreak has not kept Iraqi protesters off the streets. But the virus is a major threat to the Iraqi economy, particularly via its impact on the dominant, China-focussed oil trade. Saudi Arabia's sudden move to flood oil markets -- sinking the price of oil -- could also deal a serious blow to economic growth.**
  - Iraq is China's third-leading source of oil (after Saudi Arabia and Russia). With oil revenues making up about 90% of the Iraqi budget, any severe drop in crude exports would be devastating to GDP.
    - The country has limited fiscal margin to cope with the impact of lower oil revenue from either the lower price or a virus-related drop in demand.

Iraq Macroeconomic Indicators[1]	2016	2017	2018	2019	2020f
Real GDP Growth (%)	15.2	-2.5	-0.6	3.4	4.7*
Crude Oil Production (M bpd)	4.6	4.5	4.4	4.6	4.8
Oil GDP Growth (%)	24.6	-3.5	-1.3	1.3	10.0
Non-oil GDP Growth (%)	1.3	-0.6	0.8	5.4	5.0
CPI Inflation (%)	-1.5	0.2	-0.1	2.0	2.0
Fiscal Balance (% of GDP)	-13.9	-1.6	7.9	-4.1	-3.5
C/A Balance (% of GDP)	-8.3	1.8	6.9	-5.2	-4.2
Total Gov't. Gross Debt (% of GDP)	64.2	58.9	49.3	51.4	50.5
Total Gross Extrn'l Debt (% of GDP)	38.1	36.0	30.4	32.1	30.9
Gross Official Reserves (Mos. of Imports)	7.8	7.3	8.0	6.8	6.2
Nominal GDP (USD B)	175.2	195.5	224.2	224.1	241.5
Population (Millions)	37.2	38.2	38.4	39.3	39.5

  - Iraq's break-even oil price is around USD 60 pb; after Saudi Arabia's move, the global price is currently running below USD 30 pb. However, Iraq can take advantage of the current situation by releasing excess supply into the market.
    - It had about 9 million barrels of crude oil in stock as of December 2019 (less than three days' exports).
    - We estimate that Iraq could ramp up production from state-operated fields by about 350 Kb/d. Nominal export capacity is about 4.7 Mb/d, but it never operates at these levels. Federal exports were 3.4 Mb/d in February and the peak has been 3.7 Mb/d.
  - The IMF currently expects growth to pick up to 4.7% in 2020 from 3.4% in 2019 and a 0.6% contraction in 2018. We believe these figures will now be revised downwards significantly given the political impasse, the impact of COVID-19 on trade, and the lower oil price.
  - The longer the government formation process continues, the more damage this will cause to overall economic activity, eventually delaying progress on major projects.

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

Jordan: Underlying sluggish growth

BB-/B+

- **The IMF had forecast GDP growth at 2.4% this year and 2.6% in 2021, both up from 2019's estimated 2.2%, driven by tourism, higher exports and trade investment opportunities opening up in neighbouring countries. With the outbreak of COVID-19, however, we expect a downward revision of the growth figures: tourism will be muted and trade will take a hit from the global downturn.**
  - ➢ Economic growth under any scenario remains below the 6.5% annual performance experienced in the 10 years prior to the global financial crisis.
    - Turning it around will mean balancing what is needed for economic enhancement against fiscal consolidation needs.
  - ➢ The IMF had forecast that inflation will pick up in 2020, but we expect it to remain subdued after the Central Bank of Jordan reduced interest rates twice this year and three times over 2019 by a cumulative 225 bps to reach 2.5%.
  - ➢ The fiscal deficit is expected to drop to 3.2% of GDP in 2020 from 3.4% last year and 4.8% in 2018.
    - However, fiscal performance remains under pressure as the government continues to rely on capital spending cuts, despite the relative improvement in income tax collection.
    - Public debt currently stands at 97% of GDP from 94.8% in 2018.
  - ➢ At the end of March, Jordan will receive its first of nine instalments of USD 140M from the agreed USD 1.3B IMF four-year programme in January.
    - This new programme aims to bolster growth, strengthen fiscal stability and stimulate job creation as unemployment reached 19.1% in 2019.
    - The IMF deal follows a pro-growth agenda, focusing on improving tax administration, reducing tax evasion and enforcing public sector investment reform, with key areas such as revisiting business costs, government transparency and reducing electricity prices to improve private sector competitiveness.
- **While Jordan was expecting to improve its current account balance as trade picks up with neighbouring countries and tourism continuing to boom, the outlook now looks cloudy. COVID-19 is already taking a toll on travel and trade.**
  - ➢ Jordan's current account deficit was expected to decline to 6.2% this year from 7% of GDP in 2019, however this is now subject to revision, depending on how the country weathers the crisis.

Jordan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.0	2.1	2.0	2.2	2.4*
CPI Inflation (%)	-0.8	3.3	4.5	2.0	2.5
Fiscal Balance (% of GDP)	-3.6	-3.3	-4.8	-3.4	-3.2
C/A Balance (% of GDP)	-9.4	-10.6	-7.0	-7.0	-6.2
Total Gov't. Gross Debt (% of GDP)	93.8	94.3	94.2	94.8	97.0
Total Gross Extrn'l Debt (% of GDP)	66.3	69.6	67.6	72.1	75.3
Gross Official Reserves (Mos. of Imports)	8.1	8.1	7.4	8.0	8.3
Nominal GDP (USD B)	39.3	40.8	42.4	44.3	46.5
Population (Millions)	9.1	9.4	9.7	10.1	10.2

- ➢ With borders with Iraq and Syria opening up, Jordan had started to regain lost market share (both traditionally large markets for the kingdom). But not all sectors are recoverable.
  - While trade volumes remain below levels experienced prior to the closure of borders, Jordan's total overall exports rose by 8.6% YoY in 2019.
  - Main exports in 2019 were manufactured goods (29.8%), chemicals (25.1%), crude materials, excluding fuels (15%) and live animals (14%).
- ➢ The tourism sector -- which contributes up to 20% to GDP -- posted a rebound in 2018 and 2019. But this is likely to be hit severely as travel wanes during the global pandemic.
  - Total tourists excluding Jordanians reached 5.2 million at the end of 2019 from the 4.5 million in 2018, which also increased compared with the low-base of 2 million tourists visiting in the first six months of 2017 (a time of high political instability regionally).
  - According to EY, hotel occupancy increased significantly in 2019, with capital generation rising to 61.9% from the 59.3% in 2018.
  - The collapse of tourism is expected to hit hard.

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

Kuwait: Subdued oil prices weighing on near-term prospects Aa2/AA

- **GDP growth in Kuwait is forecast to reach 1.5% in 2020 from 0.7% in 2019 on the back of an expansion in oil output. Lower oil prices and the impact of COVID-19 cloud the outlook, however. Political in-fighting is always a downside risk.**
  - ➢ On 16 March, the Central Bank of Kuwait took several precautionary measures to combat the potential consequences of the outbreak, including:
    - Cutting its discount rate by 100 basis points to 1.5%, its lowest level in history, from 2.5%;
    - Setting up a USD 33M fund to be financed by Kuwaiti banks for disbursement by the Cabinet for urgent and necessary needs, and;
    - Suspending fees on point-of-sales devices and ATM withdrawals. It also increased the limit for contactless payments to KWD 25 (USD 81.4) from KWD 10.
  - ➢ Excise taxes on sugary drinks and tobacco are expected to be introduced in 2020. This will raise inflation to an estimated 1.8% in 2020 from 1.1% in 2019. VAT introduction is planned for 2021.
  - ➢ According to the IMF, the fiscal deficit is increasing in 2020 to 14.5% from 13.1% in 2019.
    - The 2020/21 budget approved by the Kuwaiti government forecasts a budget deficit of USD 30.4B (21% of GDP) after transfers to the Future Generations Fund, the country's sovereign wealth fund. This compares with a USD 25.3B deficit in 2019 (18.4% of GDP).
    - Funding the deficit will come from the state's ample reserves. Unlike other GCC countries that have been actively raising capital from international debt markets, Kuwait has not tapped the market since 2017, when it issued USD 8B in bonds.
      - o The Kuwaiti Parliament is yet to pass a law raising the debt ceiling and allowing the country to issue debt with longer maturities.
      - o Government external debt is expected to increase to 18.2% of GDP in 2020 from 15.3% in 2019.
  - ➢ The IMF expects the current account surplus to decline to 8.1% of GDP in 2020 from 8.5% in 2019. A sustained lower oil price would lower this further.

Kuwait Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	-3.5	1.7	0.7	1.5
Crude Oil production (M Bpd)	2.95	2.70	2.74	2.79	2.86
Oil GDP Growth (%)	3.9	-7.2	1.2	-0.8	3.1
Non-oil GDP Growth (%)	1.4	2.1	2.5	2.5	3.0
CPI Inflation (%)	3.5	1.5	0.7	1.5	2.2
Fiscal Balance (% of GDP; After FGF Transfer)	-17.9	-12.6	-5.2	-13.9	-14.5
C/A Balance (% of GDP)	-4.6	5.9	12.7	8.5	8.1
Total Gov't. Gross Debt (% of GDP)	10.0	20.7	14.8	17.8	21.0
Total Gross Extrn'l Debt (% of GDP)	38.4	45.2	41.4	45.8	48.7
Gross Official Reserves (Mos. of Imports)	6.5	6.6	7.0	6.8	6.8
Nominal GDP (USD B)	109.4	119.5	141.1	136.9	143.0
Population (Millions)	3.9	4.1	4.1	4.2	4.3

- **Kuwait announced plans to have 100% of executive, technical and supervisory jobs in its oil sector held by Kuwaiti nationals by early next year.**
  - ➢ The government plans to gradually carry out the plan in H2 2020, aiming to reach its goal before the start of the country's next financial year in April 2021.
  - ➢ This is part of the government's broader plan to phase out all foreigners working in the public sector by 2028.
    - The country wants to achieve 30%-to-60% Kuwaitisation in the private sector by the same date.
    - Currently, expats in the banking sector account for 66% of the workforce and only 3% in other industries such as manufacturing and agriculture.
  - ➢ The government also plans to increase the number of domestic firms operating in contracts with state-held firm Kuwait Petroleum Corporation.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

Lebanon: COVID-19 adds to the heap of crises

Ca/SD

- **After months of unrest, protests have cooled down with the spread of COVID-19. If the virus is not contained, however, we expect an even worse economic crisis and demonstrations to come back stronger.**
  - ➢ With an increasing number of COVID-19 cases, the government declared a state of emergency, closing entry points and demanding that people stay home.
    - Lebanon's infection rate is higher than the global average for the pandemic.
    - Hospitals lack basic medical supplies due to both corruption and the inability to import critical goods because of a lack of USD.
  - ➢ Businesses and the jobs market (both already suffering from the economic crisis) now have to deal with the government's order to close all private commercial businesses except banks and food suppliers. Since mid-October, 220,000 jobs in the private sector have been lost.
    - More jobs will be lost due to the lockdown, although the government will subsidise food costs for those affected.
- **On 9 March, Lebanon announced that it will default on its USD 1.2B Eurobond debt. No obvious source of foreign currency, including in the form of international support, is in sight, particularly with the lack of an economic recovery plan.**
  - ➢ Foreign aid is becoming increasingly unlikely as traditional donor countries are unwilling to provide aid without a credible economic plan.
    - Lebanon has not implemented any structural reforms and the likelihood in the near future is decreasing as efforts are focussed on stopping COVID-19 from spreading.
    - A pending source of aid -- CEDRE funds -- is becoming less probable. The USD 11B in worldwide help promised by 51 nations at the CEDRE donor meeting in April 2018 relies on policy changes.[2]
  - ➢ Negotiations with bondholders to restructure payment -- a process that usually takes months -- is likely to be delayed.
    - The total debt and interest Lebanon is due to pay back this year is USD 4.6B. Around 50% is held by local banks, 11% by the central bank and the remainder owned by foreign investors.

Lebanon Macroeconomic Indicators[2]	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.6	0.6	0.2	0.2	0.9*
CPI Inflation (%)	-0.8	4.5	6.1	3.1	2.6
Fiscal Balance (% of GDP)	-8.9	-8.6	-11.0	-9.8	-11.5
C/A Balance (% of GDP)	-23.1	-25.9	-25.6	-26.4	-26.3
Total Gov't. Gross Debt (% of GDP)	146.1	149.0	151.0	155.1	161.8
Total Gross Extrn'l Debt (% of GDP)	182.0	189.4	191.1	195.7	207.0
Gross Official Reserves Ex. Gold (Mos. of Imports)	14.9	14.6	12.9	10.9	10.1
Nominal GDP (USD B)	51.2	53.4	56.4	58.6	60.5
Population (Millions)	6.7	6.8	6.8	6.8	6.8

    - Restructuring scenarios include a nominal haircut, coupon omissions and maturity extensions, but under any scenario, Lebanon will have a massive funding gap.
  - ➢ The Lebanese government is working on developing an economic plan with the help of the IMF, although, the authorities have not formally requested financial assistance from the Fund.
    - The IMF recommended the government design and implement a comprehensive package of reforms.
    - One plus is that Hezbollah, the Shi'a Islamic party which has been cautious of supporting the IMF in the past, announced that it does not object to the IMF's help as long as it does not "diminish Lebanon's sovereignty".
  - ➢ Pressure on credit ratings will continue after a downgrade by S&P of the country's sovereign debt to selective default.
    - The agency added that it would cancel this classification if Lebanon exchanges debt or activates restructuring agreements with creditors.
  - ➢ The government announced that its USD currency peg will be maintained for now to prevent a spiral in inflation.

[1] Arabia Monitor; IMF.
[2] Conférence économique pour le développement, par les réformes et avec les entreprises.
* Subject to downward revision.

Libya: Oil output and peace process near collapse

NR/NR

- **The resignation of UN Envoy to Libya Ghassan Salame makes the prospect of a diplomatic solution for the ongoing Libyan conflict more remote than ever. We expect the conflict to keep intensifying, but probably without conclusion.**
  - ➢ Salame resigned a week after the latest round of peace talks ended in Geneva in February with no resolution.
    - Rebel General Khalifa Haftar has refused to sign a ceasefire agreement three times since the beginning of the year, following talks in Berlin and Moscow as well as most recently in Geneva.
    - We still do not expect either side to participate in talks in the near future, and especially not until a new UN envoy takes over
  - ➢ In the meantime, fighting between Haftar's forces and the internationally recognised Government of National Accord (GNA) is expected to continue with shipments of suspected military equipment continuing to pour in from rival international powers.
    - Turkey has sent heavy trucks by sea to the GNA.
    - It has been speculated that the UAE, which has been seen as an ally of Haftar, continues to support Haftar through military equipment. Tracking data suggest the UAE flew in 89 shipments to Libya totalling 4,680 metric tons in January and February.
- **Given the near collapse of Libyan oil production and the absence of an agreement that reduces oil supply disruptions, we expect growth to be significantly downgraded for the year into negative territory.**
  - ➢ Production has shrunk by almost 80% since Haftar's Libyan National Army launched a blockade of major ports and fields in mid-January.
  - ➢ Haftar has targeted the National Oil Company's (NOC) oil assets on several occasions.
    - Among the affected fields are Sharara -- Libya's largest -- and neighbouring El Feel, both contributing almost a third of the country's total output.
  - ➢ According to the NOC, production stood at just 95 Kb/d as of 24 March, down from around 1.3 Mb/d before the blockade.
    - The NOC has raised the prospect of a fuel shortage in the near future after the forced reduction of local production, the shut down of the Zawiya refinery and the lack of government funding to import sufficient fuel to serve the basic needs of Libyans.
  - ➢ The ongoing blockade is having a serious financial impact for a country almost completely dependent on oil revenues, and which is already suffering an economic downturn.
    - Lower prices this year will translate into even lower revenue for the cash-strapped NOC.
    - According to NOC figures, Haftar's political oil blockade has already resulted in a revenue loss of USD 3.5B since 17 January, with daily losses at more than USD 1.1M.
  - ➢ Libya is also struggling to bring on new supply. BP and Eni postponed oil exploration ventures following the deteriorating security situation.
    - Progress on similar projects will also be slow due to highly subsidised energy prices.

Libya Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-7.4	64.0	17.9	4.3	1.4*
Crude Oil Production (M Bpd)	0.3	0.8	0.9	1.0	1.0
Oil GDP Growth (%)*	-5.4	116.8	10.5	12.4	…
Non-oil GDP Growth (%)*	-2.0	0.0	5.0	3.0	…
CPI Inflation (%)	25.9	28.5	23.1	15.0	15.0
Fiscal Balance (% of GDP)	-113.3	-43.0	-7.4	-10.9	-14.9
C/A Balance (% of GDP)	-24.7	7.9	2.0	-0.2	-7.8
Total Gov't. Gross Debt (% of GDP)	189.7	140.8	102.5	104.8	111.6
Total Gross Extrn'l Debt (% of GDP)	20.6	…	…	…	…
Gross Official Reserves (Months of Imports)	19.8	…	…	…	…
Nominal GDP (USD B)	18.5	30.6	43.6	45.0	50.4
Population (Millions)	6.4	6.5	6.6	6.7	6.8

[1] Arabia Monitor; IMF.
* To be revised down, to negative territory.

Mauritania: Making new friends

NR/NR

- **Economic growth is expected to remain strong in 2020 at 6.3% following a peak of 6.9% last year. It will be driven by both the dominant extractive industries, especially mining, and the non-extractive sector, particularly fishing.**
  - ➢ The fiscal balance is expected to remain in a surplus of 0.3% in 2020 due to solid non-extractive tax revenue performance.
  - ➢ Official reserves are expected to rise by 6.9% to reach USD 1.2B. This is mainly due strong revenue performance, extractive proceeds and progress in implementing structural reforms including in the monetary and exchange rate policy framework, bank supervision, tax administration and central bank accounting.
  - ➢ External debt should stay steady at 78.9% due the continuity in debt relief (cancellation of debt from Kuwait negotiations are still under way). Moreover, the concessional quality of loans to Mauritania mitigates some of the risks of exogenous shocks.
  - ➢ Growth is highly export-linked, so it remains subject to global demand. Projections are based on this staying steady, which it will not do.
- **Following reforms initiated by the government since 2016 and part of the programme supported by the IMF, Mauritania improved its business climate. With continued interest from France and new attention from countries such as China and the UAE, we expect public and private investments to grow in both the extractive and non-extractive sectors.**
  - ➢ The government has increased fast-track dispute resolution and spread credit bureaus and agencies across the country. This helped lift Mauritania's World Bank Doing Business rank to 148 in 2019 from 176 in 2018. This is still very low, but at least on an upward trajectory.
  - ➢ FDI inflows to Mauritania were valued at USD 71M in 2018, making up 12.2% of the country’s GDP.
    - There is no law prohibiting or limiting foreign investment, which can target any sector of the economy.
    - Most of the investments target the sectors of oil exploration and exploitation, mineral mining of iron ore and gold, telecommunications with the acquisition of mobile phone licenses, and the construction sector.

Mauritania Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.8	3.0	3.4	6.9	6.3
CPI Inflation (%)	1.5	2.3	3.1	3.0	3.4
Fiscal Balance (% of GDP)	-0.5	0.0	3.3	2.1	0.3
C/A Balance (% of GDP)	-15.1	-14.4	-18.0	-17.1	-17.8
Total Gov’t. Gross Debt (% of GDP)	78.5	76.8	82.8	77.4	78.9
Total Gross Extrn'l Debt (% of GDP)	87.8	87.7	81.7	60.6	62.6
Gross Official Reserves (Mos. of Imports)	3.5	3.3	3.2	3.8	4.3
Nominal GDP (USD B)	4.7	4.9	5.2	5.6	5.7
Population (Millions)	4.2	4.3	4.4	4.5	4.6

- ➢ France remains the main partner in FDI in Mauritania outside the extractive industries, with a stock of about USD 100M.
  - From June 2019, the French Development Agency initiated 18 projects in Mauritania worth USD 104M in the mining sector, energy, water and sanitation.
- ➢ China has been showing a steadily increasing interest in Mauritania.
  - In addition to investments in the metal industry, China has shown interest in the fishing industry.
  - In 2019, it extended a USD 87M loan to Mauritania for the construction of a fishing harbour.
- ➢ Other countries have also been showing increased interest in Mauritania.
  - In February 2020, the UAE allocated USD2B for investment and development, one-third of the country’s GDP.
  - This is part of the UAE’s efforts to support water-related projects in drought-affected areas. They also cover other sectors including education, military and security.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

Morocco: Drought adds to COVID-19 tourism hit

Ba1/BBB-

- **Economic growth has been revised down to around 2% from an initial 3.7% forecast for 2020 due to shocks to the agricultural and tourism sectors and because of fewer remittances from Moroccans living abroad.**
  - ➢ Drought is expected to cut the country's agricultural value by 4.3%. The sector accounts for 13% of GDP and employs 33% of the workforce.
    - The 2020 cereal output was initially forecast at 7 million tonnes but, due to the lack of rainfall, could plummet to between 3 and 4 million tonnes.
    - Morocco's international Agriculture Exhibition -- where a large number of farmers and cooperatives habitually generate most of their turnover -- was cancelled due to the COVID-19 pandemic.
  - ➢ By 26 March, Morocco had 225 confirmed cases of COVID-19 and six deaths. Although the numbers are relatively low, tourism -- which contributes 10% to GDP -- is already being hit as visitors from around the world stay home or are shut out.
    - Last year, the kingdom attracted 13 million visitors, and the government expects March 2020 alone to see a 100,000 decline in tourists to Morocco. This figures will most certainly be revised upwards significantly.
    - In March, Morocco closed its border and suspended flights from 29 countries including most European countries. The Ministry of Interior closed restaurants, theatres, mosques, public hammams, and other public facilities.
    - Flights from France and the US -- the homes of Morocco's biggest tourist spenders in 2019 -- have been suspended.
  - ➢ The COVID-19 outbreak is also expected to decrease remittances from Moroccan expatriates.
    - In 2019, remittances to Morocco reached a five-year high of USD 7B (6% of GDP), among the highest in the MENA region.
- **In a planned move that could now help absorb these external shocks, Morocco widened the band in which its currency trades from 2.5% to 5% on either side of a reference price. But full transition to a more flexible exchange rate will take several years.**

Morocco Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.1	4.1	3.0	2.7	2.0
CPI Inflation (%)	1.8	1.9	0.1	0.6	1.1
Fiscal Balance (% of GDP)	-4.5	-3.5	-3.7	-3.7	-3.3
C/A Balance (% of GDP)	-5.0	-4.5	-5.8	-4.4	-3.5
Total Gov't. Gross Debt (% of GDP)	64.9	65.1	64.9	65.3	64.5
Total Gross Extrn'l Debt (% of GDP)	33.7	34.5	31.1	32.7	34.1
Gross Official Reserves (Mos. of Imports)	6.1	5.7	5.2	5.2	5.3
Nominal GDP (USD B)	103.3	109.7	118.6	120.7	129.1
Population (Millions)	35.2	35.7	36.0	36.4	36.9

- ➢ The IMF has been urging Morocco to expand its exchange rate flexibility by again increasing the float of the MAD.
- ➢ Bank Al-Maghrib (the central bank) launched the process to liberalise the dirham's exchange rate in January 2018.
  - Before the reforms, Morocco's currency operated on a fixed exchange rate.
  - The MAD could only be traded within a range of 0.03% above and below the established exchange rate.
  - Morocco then introduced a floating exchange rate in January of 2018, increasing the rate from 0.03% to 2.5%.
- ➢ The new 5% reforms peg the dirham to a currency basket of EUR and USD, weighted 60% to the former and 40% to the latter.
- ➢ This is just the second step in a phased process of achieving greater exchange rate flexibility.
  - For now we rule out any possibility of a sudden move to a full dirham float.
- ➢ The Moroccan economy would benefit from greater exchange rate flexibility, which would help preserve foreign exchange reserve buffers and improve competitiveness.

[1] Arabia Monitor; IMF.

Oman: Little room for manoeuvre after oil price decline

Ba2/BB

- **COVID-19 will take a toll on the sultanate's oil sales and its tourism sector, leading to subdued growth in 2020. The IMF will soon be revising its forecast of 3.7% expansion in 2020. The optimism had been driven by government plans to increase investment significantly in the Khazzan gas field, southwest of Muscat.**
  - ➢ Oman is the most exposed GCC country to China, which accounts for an average of about 80% of Oman's oil exports. This compares with the UAE, the least exposed, with less than 7% of its total oil exports to China. A 20% decline in demand from China will lead to an estimated monthly loss of about USD 7M in oil export revenue for Oman.
  - ➢ Inflation is forecast at 1.8% in 2020 from 0.8% in 2019, driven by higher prices from petrol (raised in December 2019) and food.
  - ➢ 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 was expected to 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.
    - But on 17 March, the Ministry of Finance cut the budget allocated to government agencies for 2020 by 5%, following the oil price collapse.
    - Oman is in talks with banks to raise around USD 2B in loans to manage the financing of its fiscal deficit. With all three credit rating agencies now sharing the same downbeat view, Oman is likely to find its borrowing costs will rise further. The latest downgrade was by Moody's on 5 March to Ba2 with a stable outlook.
- **While attention to the tourism industry has been paying off, the COVID-19 outbreak has already led to the suspension of tourist visas and a ban on cruise ships from docking at its ports.**
  - ➢ Tourism accounts for 9% of Oman's GDP and contributes about 7.2% to total employment. Regional tourism accounts for 51% of arrivals, while the rest is from further afield.

Oman Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	0.3	1.8	0.0	3.7*
Crude Oil Production (M Bpd)	1.0	0.9	0.9	0.9	1.0
Oil GDP Growth (%)	3.4	-2.1	4.7	-1.1	5.0
Non-Oil GDP Growth (%)	6.2	2.4	-0.7	1.0	2.5
CPI Inflation (%)	1.1	1.6	0.9	0.8	1.8
Fiscal Balance (% of GDP)	-21.3	-14.0	-7.9	-6.7	-8.4
C/A Balance (% of GDP)	-19.1	-15.6	-5.5	-7.2	-8.0
Total Gov't. Gross Debt (% of GDP)	32.7	46.4	53.4	59.9	63.9
Total Gross Extrn'l Debt (% of GDP)	67.8	91.0	94.0	105.6	112.4
Gross Official Reserves (Mos. of Imports)	7.0	5.5	5.8	5.3	5.0
Nominal GDP (USD B)	65.5	70.6	79.3	76.6	78.7
Population (Millions)	4.4	4.6	4.8	4.9	5.1

- ➢ Cruise tourism is a top contributor to international arrivals.
  - The sector grew by 43% in 2019, bringing in 283,000 passengers (about 10% of total tourist arrivals) and the number was expected to reach 300,000 this year.
- ➢ Visitors from China, Italy and Iran -- countries that have all been hit badly by COVID-19 -- were a growth sector for Oman. Their numbers quadrupled between 2011 and 2018 to reach 125,000 (4.1% of total arrivals).
- ➢ The increase in visitor numbers over the years has been attributed to long-term brand development by the Ministry of Tourism, Oman's regional reputation for safety, and global trends in luxury tourism.
  - To encourage a broader range of visitors, Oman recently expanded the list of nationalities eligible for tourist visas to 68.
  - The National Strategy for Tourism aims for a 6% rise by 2040 in the contribution of the tourism sector to GDP (with a target of 5 million visitors).
  - We see this goal as realistic given that Oman enjoys a strong 4.7% YoY growth in the number of inbound tourists. But 2020 growth will most certainly be slower.

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

Palestine: Deadlocked and divided

NR/NR

- **Newly elected MPs from Arab parties have stood behind Israeli opposition leader Benny Gantz, but if he is successful in creating a coalition government and becomes prime minister, it is unlikely that this will translate into more generous policies for Palestinians.**
  - ➢ While Gantz has Arab MP's support, which may make him look different in practice, his policies regarding Palestine are not much different than those of current Prime Minister Benjamin Netanyahu.
    - Gantz has pledged to annex the Jordan Valley, strengthen settlement blocs, and has stood behind Israeli sovereignty in both the Golan Heights and Jerusalem.
    - Netanyahu supports the same policies, but also plans to roll out US President Donald Trump's Middle East plan, which controversially includes the annexation of all Jewish settlements in the West Bank.
  - ➢ To agree a coalition, Gantz will have to hold onto a thin backing of diverse endorsers, including the Joint List (representatives of Israel's Arab minority), Yisrael Beitenu (secular nationalists) and several centre and centre-left parties.
    - Gantz has 28 days to form a coalition government, after which he may ask for a 14-day extension. If he is unsuccessful, Israel could face its fourth election since April last year.
- **Growth was expected to rebound in 2020, but could be revised downwards due to an ongoing standoff over the transfer of Palestinian taxes collected by Israel, low aid, the COVID-19 outbreak and long-standing constraints.**
  - ➢ Inflation rose by 1.25% YoY in January and will remain subdued hovering around 2% in 2019-2021, driven solely by higher prices in the West Bank.
  - ➢ The Palestinian authorities have been working towards less dependency on Israel, but without much success.
    - They rejected tax revenues collected by the Israeli authorities on their behalf for months last year, but in October had to start accepting the money again.
    - They also banned the import of calves from Israel to increase pressure on Israeli authorities to allow them to import beef directly from other countries. This fight kept escalating until Palestinian authorities removed the ban and trade returned to where it was.

Palestine Macroeconomic Indicators[1]					
	2016	2017	2018	2019	2020
Real GDP Growth (%)	4.1	3.1	0.4	-1.6	0.5*
CPI Inflation (%)	-0.2	0.2	-0.2	0.5	0.9
Fiscal Balance (Ex-support, % of GDP)	35.2	37.5	39.5	…	…
Recurrent Budget Support (% of GDP)	-8.0	-8.1	-7.3	-7.5	-7.9
C/A Balance (% of GDP)	-10.1	-10.8	-11.3	-10.8	-12.4
Nominal GDP (USD B)	13.4	14.5	14.6	14.4	14.6
Population (Millions)	4.7	4.9	5.0	5.1	5.1

  - ➢ If donor support levels remain similar to 2019, Palestine could be facing a financing gap after aid exceeding USD 2B.
    - In 2019, the EU contributed EUR 154M mainly in salaries and pensions aid, hospitals and Palestinian families.
    - In May 2019, Qatar allocated EUR 430M in aid to support education, health services and provide humanitarian relief.
- **On 12 March, the Palestinian government announced a 30-day state of emergency after detecting 35 cases of COVID-19.**
  - ➢ In Gaza, in particular, the spread of the virus could be devastating given the high population density, power outages, gaps in critical services and shortages of essential medicines and supplies.
    - Barely functioning hospitals are still dealing with thousands of injuries resulting from the "Great March of Return" border protests which took place every Friday since 30 March 2018 for a period of one year. By the end of 2019, Gaza had to perform limb amputations on 155 protesters.
  - ➢ Israeli settlers have begun limiting movement between them Israeli and Palestinian settlements as a result of the virus (which does not recognise borders). Some Arab states have sent financial help. Qatar and Kuwait donated USD 10M and USD 5.5M respectively.

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

Qatar: Blockade self-sufficiency comes in handy

Aa3/AA-

- **Qatar's economy is expected to post faster growth in 2020, driven by an expansion in the oil and gas sectors. Self-sufficiency could add further momentum and help the country weather the COVID-19 outbreak.**
  - ➢ Real GDP growth is forecast by the IMF at 2.8% in 2020, up from 2% this year and 1.5% in 2018.
    - Oil GDP is expected to grow by 1.8% in 2020 from 0.4% in 2019, driven by higher oil exports of 580 Kb/d from 550 Kb/d. But the oil price decline will mean lower revenues.
    - Additionally, the suspension of some natural gas imports by major customers such as PetroChina will impact demand and possibly production.
    - Lower oil and gas revenues will reduce the 2020 fiscal surplus from its 6.9% of GDP forecast.
  - ➢ On 15 March, Qatar announced a financial package that will provide incentives amounting to USD 23B to help support the private sector during the COVID-19 outbreak.
  - ➢ Qatar has become self-sufficient in dairy and poultry, maintaining its position as first in the region on the Economist's Food Security Index for 2019. It also jumped nine spots to 13th globally from in 2018.
  - ➢ If the planned introduction of VAT goes ahead, inflation is expected to rise to 2.2% in 2020, from 0.1% in 2019. The government introduced price controls after Qatar's rift with its neighbours began.
- **Despite slow progress, Qatar in January eliminated some of the most onerous aspects of the Kafala system that regulates migrant workers.**
  - ➢ The government eased restrictions on the exit of migrant workers in its latest move to liberalise the market and end discriminatory practices.
  - ➢ Under the new system, exit permit requirements will remain in place for members of the armed forces and for a limited number of workers in key company posts.
  - ➢ Despite this, we expect international pressure to continue building on Qatar to reform its labour laws, especially in light of its hosting of World Cup 2022. If this pressure is kept up, we expect it to have impact beyond Qatar, in other GCC countries.

Qatar Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.1	1.6	1.5	2.0	2.8
Crude Oil Production (Mb/d)	0.6	0.6	0.6	0.6	0.6
Oil GDP Growth (%)	-0.9	-0.7	-1.1	0.4	1.8
Non-oil GDP Growth (%)	5.3	3.8	5.3	4.6	4.3
CPI Inflation (%)	2.7	0.4	0.2	0.1	2.2
Fiscal Balance (% of GDP)	-5.4	-2.9	5.3	7.0	6.9
C/A Balance (% of GDP)	-5.5	3.8	9.3	4.6	4.1
Total Gov't. Gross Debt (% of GDP)	46.7	49.8	48.4	52.7	45.9
Total Gross Extrn'l Debt (% of GDP)	127.2	99.6	101.1	106.7	98.3
Gross Official Reserves (Mos. of Imports)	6.1	2.8	5.5	7.8	7.0
Nominal GDP (USD B)	151.7	166.9	192.4	193.5	204.0
Population (Millions)	2.5	2.6	2.7	2.8	2.8

  - ➢ Qatar is expected to continue working towards improving difficult blue-collar labour conditions. But developments will remain slow and not as far-reaching as some observers anticipate, in our view.
- **Progress on the diplomatic and economic blockade on Qatar by Saudi Arabia, Egypt, Bahrain and the UAE is likely to remain stalled for the foreseeable future.**
  - ➢ After a breakdown in January in talks aimed at resolving the crisis, minimal progress has been made and little effort at ending the rift expended. Qatar's Emir Tamim bin Hamad Al Thani said he received no clear explanation for the suspension of the talks.
  - ➢ Given that blockading countries are focussing on tackling the Covid-19 outbreak in addition to assessing chances for the G20 summit in Saudi Arabia and Expo 2020 in UAE, it is unlikely that anything new will happen in the near future.
  - ➢ As we have suggested, there will be small, unheralded moves to end the rift. The latest was the restoration of postal services in February, albeit that mail links between Qatar and Saudi Arabia, Bahrain and Egypt remain indirect through Oman.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

Saudi Arabia: Oil gambit prompts fiscal rethink

A1/A-

- **The economy will still grow in 2020 driven by the oil sector, but at a slower rate than anticipated. COVID-19 presents downside risks, especially to non-oil growth. We expect growth to be revised downwards for this year from the 1.9% forecast by the IMF and the 2.3% estimated by the Ministry of Finance (MoF), following mere 0.3% growth in 2019.**
  - ➢ Sizable rises in yearly crude oil production and the uplift from the start-up of the Fadhili gas complex and Jazan refinery will drive oil growth this year. Weakening demand for oil on a global level could counter some of this rise.
  - ➢ Developments around COVID-19 will temporarily derail the momentum in year-on-year non-oil growth. The non-oil economy grew by 3.3% last year, the fastest rate since 2014.
  - ➢ In light of developments in the oil market and the pandemic, this year's budget will be cut by USD 13.3B (5% of overall expenditure).
    - The 2020 budget, which foresees a deficit of 6.4% of GDP, was designed under the assumption that the global oil benchmark would average about USD 65 pb. This will now rise, despite expenditure cuts underway.
    - With Brent oil now expected to average around USD 44 pb in 2020, and Saudi crude oil production at around 11.3 Mb/d, oil revenue is expected to be around 8% lower at USD 125.6B than that anticipated by the MoF.
  - ➢ Over the past few weeks, the government unveiled stimulus measures worth USD 32B to support the economy. The sum includes USD 13.3B for small and medium-sized businesses and the rest to support businesses in the form of postponement of tax payments and exemptions of various levies and fees.
- **The Saudi monarchy is continuing to move towards hereditary succession within one line of the family; hence, Crown Prince and de facto ruler Mohammed Bin Salman's (MBS) crackdown on other royals. The move, setting the stage to transition to strict primogeniture, could be a stabilising mechanism for the Saudi monarchy in the long run.**
  - ➢ MBS is continuing his purge of potential rivals, detaining his cousins (former Crown Prince Mohammed bin Nayef and Prince Nawaf Bin Nayef and his uncle (Prince Ahmed Bin Abdelaziz), on charges they were planning to overthrow King Salman.
  - ➢ Detention of family members and some of the kingdom's elite highlight MBS' drive to cement his power and to demonstrate, including to royals, that no one is untouchable.

Saudi Arabia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.7	-0.7	2.4	0.3	1.9*
Crude Oil Production (M Bpd)	10.4	9.9	10.3	9.7	9.9
Oil GDP Growth (%)	3.6	-3.1	3.1	-3.1	1.7
Non-oil GDP Growth (%)	0.2	1.3	2.2	3.3	2.5*
CPI Inflation (%)	2.0	-0.9	2.5	-1.1	2.2
Fiscal Balance (% of GDP)	-17.2	-9.2	-5.9	-6.1	-6.4
C/A Balance (% of GDP)	-3.7	1.5	9.2	4.4	1.5
Total Gov't. Gross Debt (% of GDP)	13.1	17.2	19.0	23.2	28.4
Total Gross Extrn'l Debt (% of GDP)	24.6	27.7	28.1	30.4	32.3
Gross Official Reserves (Mos. of Imports)	31.7	28.2	27.2	26.4	24.1
Nominal GDP (USD B)	644.9	688.6	786.5	779.3	783.3*
Population (Millions)	32.4	33.1	33.7	34.2	34.8

  - ➢ This is not the first time he has done so -- months after he became crown prince, MBS launched an anti-corruption crackdown that led to more than 300 princes and businessmen being detained at the Ritz-Carlton hotel in Riyadh.
- **In addition to the royal crackdown, the kingdom has reshuffled its Cabinet again. The shakeup of key portfolio positions along with the creation of the new Ministry of Investment points to MBS' intent to heighten Saudi Arabia's credibility and seek foreign investors in line with Vision 2030.**
  - ➢ Minister of Finance Mohammad Al Jadaan has had the economy and planning ministry added to his portfolio, while that ministry's former head, Khalid Al-Tuwaijri, has been appointed as adviser at the royal court, still at the rank of minister.
  - ➢ The new Ministry of Investment will be led by Khalid Al-Falih. Having served as the CEO of Aramco, as a minister of health, an adviser to the crown prince and as a board member of the Public Investment Fund, Al-Falih has a network of contacts (both within the kingdom and globally) that should serve him well as investment chief.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.
* Subject to downward revision.

Somalia: Natural disasters & one-person, one-vote elections

NR/NR

- **Growth is forecast at 3.2% for 2020 from 2.9% in 2019. However, we expect this projection to be cut as the agriculture sector -- which makes up 75% of Somalia's GDP and 93% of its exports -- is being hit by natural disasters. Risks will be mitigated by strong international support along with government efforts.**
  - ➢ Floods and landslides in the centre and south of Somalia and devastating locust swarms in the north will have major effects on vegetation and livestock production.
    - In February, Somalia was the first country in its region to declare a national emergency over the locusts.
      - Fears over not being able to control their growth by the time of harvest season in April are growing.
    - As Somalia cannot guarantee the safety of exterminators, it cannot use planes to spray insecticides from above.
      - Moreover, Somalia does not have enough pesticides to exterminate all the currently laid eggs that will hatch in April.
    - If not contained, locusts could provoke a deep economic crisis, threatening livelihood and food security.
  - ➢ Inflation is also expected to keep increasing as shortages of food and livestock increase.
    - The locusts are already hitting Somalia's key producing areas. Pasture and croplands have suffered damage.
    - "Gu" cereal production is forecast at 40-50% below average.
- **In February this year, the IMF and World Bank announced that Somalia is eligible for the Enhanced Heavily Indebted Poor Countries Initiative Program and will announce their final decision on funding at the end of March. Other international financial institutions are also supporting Somalia.**
  - ➢ If funding is agreed, Somalia could clear all its arrears (28.9% of total debt) to the African Development Bank, and the IMF.
    - Debt relief could amount to USD 116.6M in 2020 net present value.

Somalia Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	4.9	2.3	2.8	2.9	3.2*
CPI Inflation (%)	1.3	5.2	3.2	4.0	3.0
Fiscal Balance (% of GDP)	0.0	-0.6	0.0	0.1	0.2
C/A Balance (% of GDP)	-6.0	-9.4	-8.3	-8.0	-7.7
Total Gov't. Gross Debt (% of GDP)	…	…	…	…	…
Total Gross Extrn'l Debt (% of GDP)	105.3	103.3	99.5	99.5	99.5
Gross Official Reserves (Mos. of Imports)	…	…	…	…	…
Nominal GDP (USD B)	4.1	4.5	4.7	4.9	5.2
Population (Millions)	14.3	14.7	15.1	15.6	16.0

  - ➢ In September 2019, the UK and Denmark signed an agreement worth GBP 31M with Somalia to support the Somaliland Development Fund, which aims to improve lives of local people through the delivery of essential public services.
- **Somalia's 2020 elections could be transformative following a "one person, one vote" change in the law. However, security and instability risks are still high.**
  - ➢ In 2019, the president signed a landmark federal law which would lead to democratic "one person, one vote" elections.
    - The law is expected to replace the existing clan-based, power-sharing model, which gives the country's main clans equal representation in government.
  - ➢ In theory, new elections will ensure more proportional representation, open up the political space and reduce corruption.
  - ➢ However, this law does not guarantee minorities and women's representation.
  - ➢ Moreover, the recent natural disasters could compromise conditions ahead of elections.

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

Sudan: Economy in crisis, one year after Bashir ouster

NR/NR

- **One year after the overthrow of former President Omar al-Bashir, Sudan's economy has sunk into a deep crisis that risks further social unrest in a country in transition.**
  - GDP is expected to contract again in 2020 as investment and consumption stay subdued.
    - While it remains on the US list of state sponsors of terrorism, Sudan will be unable to take many strides towards economic recovery as the burden of debt hinders significant growth and perpetuates high inflation.
  - High inflation, continued exchange-rate depreciation and pervasive shortages will continue to aggravate social tensions.
    - Inflation is expected at 70.2% in 2020 from 60.2% in 2019.
  - The fiscal deficit is increasing to 15% of GDP in 2020 from 10.8% in 2019 as a result of high spending on subsidies.
    - The government has mainly financed the deficit through monetisation which has fuelled inflation further.
  - The current account balance is expected to remain negative at 9.2% of GDP in 2020 from 7.8% in 2019, driven by higher imports (vulnerable to any COVID-19 driven downturn in global trade).
  - Government external debt is expected to increase to 204.3% of GDP in 2020 from 196.2% of GDP in 2019.
    - Because US opposition stops it from getting debt relief from international financial organisations, Sudan has turned to foreign governments, especially the GCC, for a lifeline.
    - Saudi Arabia and the UAE disbursed USD 1.5B earlier this year with an additional USD 1.5B expected to be received by the end of 2020.
    - The EU also agreed to give Sudan USD 516M in grants and humanitarian aid in October.
    - This is well short of what Sudan needs, however: Prime Minister Abdalla Hamdok has said Sudan requires USD 8B in foreign aid to cover its import bill and help rebuild its economy.

Sudan Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	2.9	1.7	-2.2	-2.6	-1.5
CPI Inflation (%)	17.8	32.4	63.3	60.2	70.2
Fiscal Balance (% of GDP)	-4.4	-6.5	-7.7	-10.8	-15.0
C/A Balance (% of GDP)	-7.6	-10.0	-13.6	-7.8	-9.2
Total Gov't. Gross Debt (% of GDP)	128.4	159.2	212.1	207.0	212.8
Total Gross Extrn'l Debt (% of GDP)	123.3	155.4	206.9	196.2	204.3
Gross Official Reserves (Mos. of Imports)	0.9	1.1	1.3	0.9	0.8
Nominal GDP (USD B)	55.6	45.9	34.3	30.9	33.7
Population (Millions)	39.8	40.8	41.8	42.8	43.8

- **Sudan's transition to civilian rule could come under threat again after a recent assassination attempt on Hamdok.**
  - The March attack highlighted the fragility of Sudan's transitional government.
  - Hamdok leads a government of technocrats under a power-sharing agreement between the military and civilian groups for a transitional period due to last until late 2022.
    - He is an economist and former senior United Nations official who is well connected with the international community and has received its support.
  - At the end of its transitional period, the joint military-civilian government has promised to hold democratic elections.
  - However, relations between civilians and the military have been tense and there has been resistance to the implementation of economic reforms.
    - It is likely that Sudan could experience further turbulence as it transitions.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

Syria: Turkish-Russian Idlib deal is very fragile

NR/NR

- **Although the ceasefire in Syria's Idlib, the last rebel-held territory, remains intact, it could collapse quickly and trigger fighting once again. It is likely that President Bashar al-Assad will re-capture Idlib, which would effectively cede the country's control back to him.**
  - The ceasefire was agreed upon by Ankara and Moscow earlier this month after three months of fighting.
    - Turkish President Recep Tayyip Erdogan has deployed close to 10,000 troops into Idlib to try to stall Syria's advance and avert an influx of refugees into Turkey.
    - The agreement outlines how the M4 highway, which runs across the lower part of Idlib Province connecting Syria's east and west, is to be a demilitarized zone, patrolled jointly by Russian and Turkish forces.
  - The deal's fragility is underscored by Erdogan's concessions, which also highlight an unequal power balance weighed in Russia and Syria's favour.
    - Erdogan was pushing for the withdrawal of Syrian regime forces as agreed upon with Moscow in 2018. Russia, however, would not agree. Turkish outposts in the region remain surrounded by Syrian forces.
    - Moscow's upper hand suggests Assad could recapture the province and then have virtual control of all of Syria again -- a far cry from his vulnerable position before Russia backed him militarily in 2015.
  - Given Syrian scepticism at the durability of the agreement, it is unlikely that residents will return to Idlib. They are instead likely to cross the border into Turkey, even though fighting has stopped for now.
    - Nearly one million people have been displaced since the Idlib fighting began with most of them crammed into a narrow stretch a few miles deep along the border.
    - Popular sentiment on the ground indicates that more would flee if Syrian forces remain in Idlib, setting off the possibility of an increase in refugees coming to the border and into Turkey.
- **Recent economic data for Syria is hard to come by, including from the IMF and World Bank. The EIU has forecast GDP growth at 3% for 2020. We note that this forecast is unlikely to materialise and that there is no chance of Syria returning to its pre-war state in the short- or medium-term.**
  - Inflation is expected to be 15% in 2020, mainly driven by food prices (26%) following commodity shortages.

Syria Macroeconomic Indicators[1]

	2012	2013	2014	2015	2016	2020f
Real GDP Growth (%)	-18.9	-18.7	1.8	-15.0	-4.0	3.0*
CPI Inflation (%)	36.7	91.7	36.4	15.2	40.0	...
Fiscal Balance (% of GDP)	-16.9	-12.3	-8.6	-7.3	...	...
C/A Balance (% of GDP)	-15.3	-12.2	-10.5	-10.8	...	...
Total Gov't. Net Debt (%of GDP)	54.1	52.5	53.2	58.7	...	...
Total Gross Extrn'l Debt (% of GDP)	19.2	23.1	26.9	31.1	...	...
Gross Official Reserves (USD B)	4.8	1.8	1.8	1.7	...	...
Nominal GDP (USD B)	44.0	42.8	43.4	20.0	15.0	...
Population (Millions)	19.2	18.7	18.4	18.2	18.2	...

  - Turmoil in neighbouring Lebanon and Iran is taking a toll on the Syrian economy through lower remittances and as the Syrian pound has fallen in value. The Syrian lira reached 1,000 per USD in February on the black market.
    - Many Syrians have kept their money in Lebanese banks since the Syrian conflict erupted. They are now unable to withdraw large sums because Lebanon, in its own crisis, has imposed controls to avoid capital flight.
    - A drop in remittances is also affecting the Syrian pound as many Syrians have opted to buy US dollars to preserve their savings.
    - Iran has also decreased its foreign exchange support to Syria due to its own rising domestic needs.
  - China continues to provide humanitarian support.
    - On 4 March, the Chinese ambassador in Damascus signed a USD 60M donation to the Planning and International Cooperation Commission that works under the supervision of the Syrian prime minister and China. This agreement aims at funding a series of humanitarian projects.

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

Tunisia: Seeking a new IMF tranche as growth suffers

B2/NR

- **Political stalemate has been averted in Tunisia with the approval of Prime Minister Elyses Fakhfakh's Cabinet. The country should now turn to urgent reforms, although it is already expecting lower growth than previously.**
  - ➢ The formation of a government will avoid further delays to the IMF's sixth review of its loan programme. A four-year USD 3B loan for Tunisia was approved by the Fund in 2016 in return for major reforms, but the country has so far only received USD 1.6B.
    - We expect Fakhfakh to follow IMF recommendations. He was finance minister when Tunisia signed an earlier loan agreement with the IMF in 2013.
    - Measures that have been implemented, that secured IMF support, include structural reforms such as cutting fuel subsidies and the privatisation of state-owned enterprises -- moves that have raised opposition in parliament.
    - This may pose problems with Fakhfakh's support in the future as Tunisians have blamed IMF reforms for failing to improve the standard of living since the 2010-2011 revolution.
  - ➢ The IMF's pre-COVID-19 forecast was for growth to recover to 2018's level of 2.4% in 2020 after a slower 1.5% in 2019. But tourism was supposed to help, and this will now be hit hard by the pandemic, especially the loss of European travellers who make up the bulk of inbound arrivals to the country. Tourism accounts for 13.7% of GDP and employs about 13% of the workforce.
    - After a major slump brought on by terrorist attacks in 2015 and 2016, tourist arrivals averaged 5.5 million over this period and GDP growth was 1.1%. At the peak of tourist arrivals in 2018 (8.3 million), real GDP was 2.4%.
    - The government has already revised down its growth forecast for 2020 to 1% from the 2.7% envisaged in the 2020 budget, to reflect recent developments. Tunisia could well finish the year with growth below 1% unless the global recovery from COVID-19 surprises on the upside.
  - ➢ Inflation is projected at 5.4% for 2020, a decrease from 2019's estimated 6.6% and 2018's 7.3% as the impact of higher food and transport prices wanes. It is also being squeezed by monetary tightening.

Tunisia Macroeconomic Indicators[1]	2016	2017	2018	2019	2020f
Real GDP Growth (%)	1.1	1.9	2.4	1.5	2.4*
CPI Inflation (%)	3.6	5.3	7.3	6.6	5.4
Fiscal Balance (% of GDP)	-6.2	-5.9	-4.6	-3.7	-2.8
C/A Balance (% of GDP)	-9.3	-10.2	-11.2	-10.1	-9.1
Total Gov't. Gross Debt (% of GDP)	62.3	70.3	77.0	81.5	82.2
Total Gross Extrn'l Debt (% of GDP)	66.9	81.7	83.1	98.4	107.8
Gross Official Reserves (Mos. of Imports)	3.1	2.7	2.6	3.0	3.3
Nominal GDP (USD B)	41.8	40.0	39.9	36.2	35.1
Population (Millions)	11.4	11.5	11.7	11.8	11.9

  - ➢ The government projects the fiscal deficit to decline to 2.8% of total GDP in 2020 from 3.7% in 2019 and 4.6% in 2018.
    - But a breakdown highlights that once wages (40% of the budget) and interest payments (22%) are made, little is left for development spending.
- **The longevity of Fakhfakh's premiership (and the Cabinet's) will remain fragile as he tries to regain public confidence at the same time as working to address economic and security grievances.**
  - ➢ Tunisians have been vocal in their discontent with the IMF's austerity measures. The IMF's mandated reforms have triggered multiple protests since the country was granted their latest loan package.
  - ➢ Militant attacks this month, which could pick up again, add additional pressure to Fakhfakh's administration.
    - Two attackers blew themselves up close to the US Embassy in Tunisia at the beginning of March killing a Tunisian.
    - It was the first militant attack in the city since the middle of last year when Tunisia saw a spate of fatal strikes targetting tourists.

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

UAE: Growth turnaround under threat -- but with a cushion

Aa2/NR

- **The UAE's expected economic fillip from Dubai Expo 2020 as well as from growth-friendly reforms and government acceleration programmes is now being threatened by COVID-19. The pandemic is deterring people from planning large gatherings like the Expo 2020 and has hit one of the UAE's leading trade partners, China.**
  - ➢ For now, forecasts for overall growth in the UAE will need to be revised, meaning three lacklustre years may be followed by a weak 2020.
    - The IMF had expected growth at 3% for 2020, up from the 2.5% previously forecast in October 2019 (and against a downward revision in global growth). That compares with 1.6% growth estimated last year. But 2020 GDP growth will now be revised downwards.
    - The impact has already been seen in the latest PMI data for February: it declined to a barely expansionary four-year low of 50.1 as a result of weaker sales, slowing demand and lower inventories.
  - ➢ Expo 2020 spending this year was estimated at USD 18.1B, 17% higher than the previous year. A postponement or cancellation would be a major hit on GDP, although the infrastructure stimulus could remain. The organisers say they are continually assessing the situation.
  - ➢ The UAE has now approved a federal budget of USD 16.7B for 2020, the largest ever. It is 1.8% larger than in 2019 and 18% higher than 2018. Assuming it meets its objectives, the UAE says this would be the third consecutive year in which the budget is balanced. It last had a deficit in 2017.
- **The Central Bank of the UAE and the emirate of Dubai have announced several measures and stimulus packages worth USD 27B to support the economy against COVID-19.**
  - ➢ This includes USD 13.6B through collateralised loans at zero cost to all banks in the UAE and a similar amount freed up from banks' capital buffers.
  - ➢ To support financing for SMEs, the amount of capital that banks must hold for loans to SMEs has been reduced by 15%-25%.
  - ➢ For the real estate sector, the loan-to-value ratio for first time home buyers has been increased by 5 percentage points.

UAE Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.0	0.8	1.7	1.6	3.0*
Crude Oil Production (M Bpd)	3.0	2.9	3.0	3.1	3.2
Oil GDP Growth (%)	2.6	-3.0	2.6	3.2	1.7
Non-oil GDP Growth (%)	3.2	2.5	1.3	2.7	4.0
CPI Inflation (%)	1.6	2.0	3.1	2.1	2.1
Fiscal Balance (% of GDP)	-2.0	-1.6	-1.8	-0.8	-1.7
C/A Balance (% of GDP)	3.7	6.9	6.6	5.9	5.1
Total Gov't. Gross Debt (% of GDP)	20.2	19.7	18.7	19.2	19.0
Total Gross Extrn'l Debt (% of GDP)	69.6	72.6	68.6	68.7	66.4
Gross Official Reserves (Mos. of Imports)	3.3	3.7	3.8	4.3	4.6
Nominal GDP (USD B)	357.0	382.6	424.6	427.9	449.1
Population (Millions)	9.2	9.4	9.5	9.7	9.8

    - In addition, the maximum exposure banks can have to the real estate sector will be allowed to rise to 30% from the current 20% (but banks will need to hold more capital).
  - ➢ Dubai announced a USD 400M stimulus package to support businesses including:
    - A freeze on the 2.5% market fees levied on all facilities operating in Dubai;
    - A refund of 20% on the custom fees imposed on imported products sold locally in Dubai markets;
    - Fees imposed on submitting customs documents of companies will be reduced by 90%;
    - Renewing commercial licenses without mandatory renewal of lease contracts, and;
    - A reduction in municipality fees imposed on sales at hotels to 3.5% (from 7%) as well as a 10% reduction in utility bills for a period of three months (among others).

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

Yemen: The fighting picks up

NR/NR

- **Heavy fighting between Iran-backed Houthi rebels and Saudi-backed pro-government forces is picking up after significant gains by the Houthis, including securing crucial areas of Yemen's oil-rich Marib province. We are watching to see how the COVID-19 lockdown could affect things.**
  - ➢ The recent spike in fighting came weeks after the Houthis dealt a major blow to the government when they took the strategic northern city of Hazm, the capital of Jawf province, which borders Marib.
  - ➢ The Houthis then turned their attention to Marib. Taking the province completely would cut the road to the southern provinces, strengthening the rebels' hand even further.
  - ➢ The rebels earlier this year seized the district of Nehm in addition to capturing a key supply line linking Marib and Jawf provinces, located along the border with Saudi Arabia.
  - ➢ Our baseline is that the fighting will continue, with the Houthis making more gains capturing key supply lines and cities from the Saudi-backed government of President Abdrabbuh Mansur Hadi.
  - ➢ The best-case scenario is a return to the political peace process and backdoor talks between Saudi-backed forces and Iran-backed rebels. This has already happened once this year, but progress collapsed quickly.
  - ➢ The worst-case scenario sees the conflict escalating into direct confrontation between the Houthis and the Saudi-led military coalition; The Houthis are likely to want to avoid this to prevent any threat to their recent territorial gains.
- **In spite of this, the economy shows some signs of stabilisation, albeit progress remains hostage to the fighting. The political and security situation needs to be settled before real recovery can occur.**
  - ➢ The IMF expects GDP growth for 2020 at 2% from 2019's estimate of 2.1%.
  - ➢ The fragmentation of state institutions, including the Central Bank of Yemen (CBY), has interrupted the supply of foreign exchange for essential imports and the payment of public sector salaries, fuelling inflation.
    - The projected inflation rate for 2020 is 35.5%, unsustainable in the long run.

Yemen Macroeconomic Indicators[1]	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-13.6	-5.1	0.8	2.1	2.0
Crude Oil Production (M bpd)	0.0	0.0	0.1	0.1	0.1
CPI Inflation (%)	21.3	30.4	27.6	14.7	35.5
Fiscal Balance (% of GDP)	-9.3	-5.3	-6.3	-6.9	-7.2
C/A Balance (% of GDP)	-3.2	-0.2	-1.8	-4.0	1.3
Total Gov't. Gross Debt (% of GDP)	79.6	84.3	64.8	56.3	568.0
Total Gross Extrn'l Debt (% of GDP)	22.4	28.2	21.5	18.9	24.9
Gross Official Reserves (Mos. of Imports)	1.2	0.8	0.5	1.4	2.0
Nominal GDP (USD B)	28.1	24.6	27.6	29.9	23.0
Population (Millions)	27.5	28.2	28.9	29.5	29.8

    - The Yemeni rial has gained some value against the USD. A dollar currently trades at YER 250.31 at the benchmark rate set by the CBY.
      - This moves it closer to the exchange rate of YER 215 to the USD before the start of the crisis four years ago.
- **The humanitarian crisis remains dire as disease and food shortages continue to ravage the country. The COVID-19 lockdown is expected to hamper relief efforts, but perhaps not the fighting.**
  - ➢ The International Committee of the Red Cross has reported a new outbreak of dengue fever in Yemen, with thousands of cases and several dozen deaths.
  - ➢ The World Bank has been working to address aspects of the crisis by expanding urban sanitation. But there is much more to do.
  - ➢ Yemen continues to rely on humanitarian assistance from NGOs and international organisations for basic goods and services.
    - But the banning of flights in and out of Yemen to reduce the spread of the virus could scale back international relief efforts.

[1] Arabia Monitor; IMF. Forecasts do not include potential impact from COVID-19.

GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		Rating Change Considerations
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	
Bahrain	B2		Affirmed O/L Stable	17-Dec-18	B+		Affirmed O/L (+)	29-Nov-19	If Bahrain materially outperforms fiscal and external forecasts, upward pressure on ratings would continue. Conversely, if these constraints intensify, downward pressure will re-emerge.
Kuwait	Aa2		Affirmed O/L Stable	02-May-19	AA		Affirmed O/L Stable	02-Jul-18	Ratings could be lowered if a renewed fall in oil prices or slow growth were to undermine Kuwait's revenue and fiscal profile or if parliamentary resistance blocks or reverses planned reforms.
Oman	Ba2	(-)	Downgraded O/L Stable	05-Mar-20	BB		Affirmed O/L (-)	19-Apr-19	Ratings could dip if debt as a share of GDP remains on an upward trend or if the net external asset position were to weaken at a faster pace. We expect pressure on Oman's credit ratings to continue until the agencies see dynamism from the new Sultan.
Qatar	Aa3		Affirmed O/L Stable	13-Jul-18	AA-		Affirmed O/L Stable	07-Dec-18	Ratings could come under pressure if developments in oil production and prices, or in the banking sector, were to significantly weaken the country's external or fiscal positions; for example, if the government's gross liquid assets fall significantly below 100% of GDP.
Saudi Arabia	A1		Affirmed O/L Stable	01-May-19	A-		Affirmed O/L Stable	30-Mar-19	Ratings could be lowered again if sizable and sustained reductions in the deficit are not achieved, or if liquid fiscal financial assets fell below 100% of GDP. Ratings could also come under pressure if domestic or regional events compromised political and economic stability.
UAE	Aa2		Affirmed O/L Stable	26-Mar-19					Reducing the debt of government-related enterprises of Abu Dhabi banks and of the government of Dubai could support upgrade considerations in the medium term.

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

MENA exc. GCC Sovereign Ratings Update

	Moody's		Last Moody's action		S&P		Last S&P action		
	Rating	O/L*	Action	Date	Rating	O/L	Action	Date	Rating change considerations
Algeria	N/R				N/R				Sovereign rating on hold due to domestic and energy market conditions.
Egypt	B2		Affirmed O/L Stable	29-Aug-19	B		Affirmed, O/L Stable	11-May-18	A delay or reversal in implementing fiscal and economic reforms agreed upon under the IMF programme and renewed intensification of political turmoil and instability would be credit-negative.
Jordan	BB-		Downgraded O/L Stable	13-Jun-19	B+		Affirmed O/L Stable	16-Mar-19	Successful implementation of key political and structural economic reforms, favouring more sustainable growth and further easing fiscal and external vulnerabilities would support an improvement in the ratings outlook.
Lebanon	Ca		Downgraded O/L Stable	21-Feb-20	SD	(-)	Downgraded O/L SD	15-Nov-19	Ratings could be affirmed or raised, if the country receives significant donor funding that would allow the government to implement immediate reforms. Meanwhile, although we feel this can be rapidly unblocked if a restructuring program is put in place, it is conditional on policy reform.
Morocco	Ba1		Affirmed, O/L Stable	20-Nov-18	BBB-		Affirmed O/L Stable	04-Oct-19	If higher economic growth were to exceed forecasts, and exchange rate flexibility were to increase markedly, this would be supportive of a ratings upgrade.
Tunisia	B2	(-)	Affirmed O/L Stable	14-Feb-20	N/R				Implementing structural reforms agreed under the extended IMF programme, including public bank recapitalisation and governance reform would be credit positive. However, a downgrade is likely if there are delays in the availability of external funding, fiscal overruns or major contingent liabilities that would weaken Tunisia's fiscal strength and the adequacy of its foreign exchange reserves.

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

About Arabia Monitor

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

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