

MENA Economic Outlook

Higher Oil Prices May Raise Complacency

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EXECUTIVE SUMMARY

- This report presents our analysis and projections of 14 economies in the Middle East and North Africa (MENA) region (Saudi Arabia, UAE, Qatar, Kuwait, Oman, Bahrain, Algeria, Iran, Iraq, Egypt, Jordan, Lebanon, Morocco, and Tunisia).
- MENA oil exporters, except Iran, are experiencing modest economic recovery, supported by higher oil prices and production levels, and fiscal stimulus. We expect overall real GDP growth to accelerate from 0.7% in 2017 to 1.7% in 2018 and 2% in 2019.
- In the six GCC countries, we expect real GDP to shift from a small contraction in 2017 to a growth of 2.4% in 2018 driven by higher oil production and fiscal stimulus in Saudi Arabia. However, lackluster credit growth indicates sluggish recovery of the private sector.
- A tighter monetary policy, in the context of the pegged exchange rates in the GCC, will offset some of the gains from an expansionary fiscal stance. Monetary tightening and the rise of borrowing costs come at a time when credit growth remains subdued and private sector economic activity is weak, particularly in Saudi Arabia.
- The banking systems in the GCC remain sound, with strong capitalization and adequate liquidity, and the pick-up in growth will improve private sector credit demand beyond the near term.
- The 37% rise in average oil prices in 2018 is also leading to a market turnaround in external balances. The combined current account surplus of the 10 MENA oil exporters is projected to rise by about \$150 billion to \$197 billion in 2018; of this, \$169 billion is accounted for by the GCC countries.
- The fiscal deficits will narrow as oil earnings climb, which will more than offset the substantial increase in public spending (an average increase of 15% in 2018). The fiscal situations in Saudi Arabia, the UAE, and Qatar are now on firmer footing. External pressures on Algeria and Bahrain will persist as both fiscal and current accounts remain in sizeable deficits while official reserves are declining rapidly
- The gradual recovery in the region's oil importers will continue, driven by Egypt. MENA oil importers are projected to grow 3.8% in 2018 and 4.3% in 2019, up from

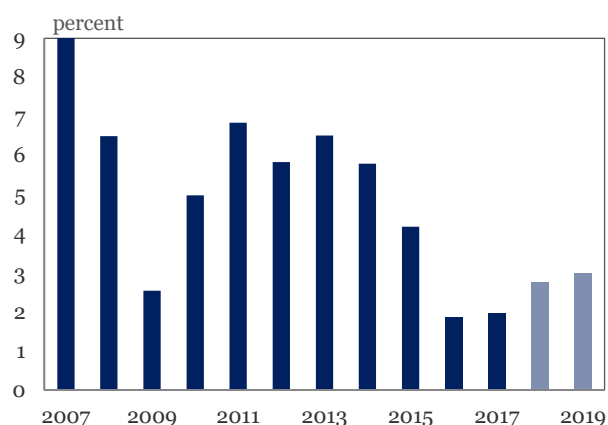
3.5% in 2017. Progress from recent reforms and de-escalation of conflicts in the region will support the recovery. However, this pace of growth will still be insufficient to significantly reduce high unemployment rates. While the fiscal deficits will narrow through tax measures, the public debt-to-GDP ratios will remain very high, particularly in Lebanon, Egypt, and Jordan.

- With higher oil prices and narrowing fiscal deficits, the urgency for reforms has diminished, particularly in Algeria, Iraq, Kuwait, and Saudi Arabia. Oil exporters in the region should pursue deeper structural reforms to strengthen the business climate and competitiveness to support private sector growth, diversification, and job creation.
- Risks are broadly balanced. On the upside, a larger drop in Iran's oil exports, due to re-imposition of U.S. sanctions, would require significantly higher oil output from Saudi Arabia to keep oil prices below \$80/bbl. As a result, overall growth could be higher and external positions stronger in the GCC.
- Downside risks to the outlook include: (1) lower oil prices than our projection; (2) faster-than-expected US monetary tightening; and (3) slower implementation of reforms, which would undermine private investment, and macroeconomic stability.

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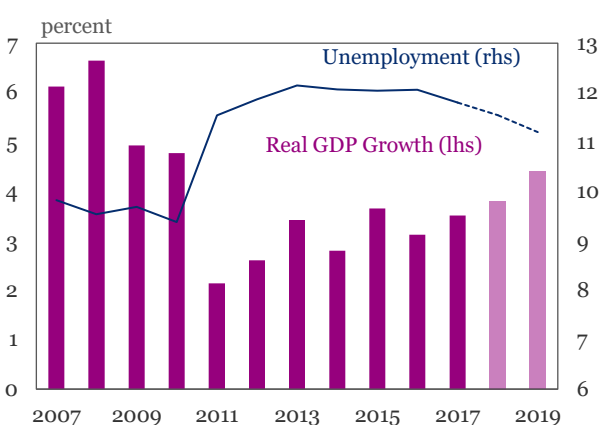
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Exhibit 1: Gradual recovery in non-oil growth in the GCC



Source: National Sources through 2017, IIF for 2018-2019.

Exhibit 2: Oil Importers: Growth and Unemployment



Source: National Sources through 2017, IIF for 2018-2019.

Exhibit 3: MENA Countries Key Indicators

	GDP (\$ bn)	Public Debt (% GDP) ¹	Public Foreign Assets, % GDP ²		Real GDP Growth (% Change)			Fiscal Balance (% GDP)			Current Account Bal. (% GDP)		
	2018	2018	2014	2018	2017	2018	2019	2017	2018	2019	2017	2018	2019
Bahrain	38	92	17	7	3.8	3.0	2.9	-13.7	-9.1	-8.1	-4.5	-1.6	-1.4
Kuwait ³	147	18	343	410	-3.5	2.9	4.8	4.3	9.8	10.1	5.9	15.4	15.9
Oman	85	45	59	50	0.3	3.4	3.2	-13.8	-5.6	-4.9	-14.8	-4.2	-4.4
Qatar ³	192	72	161	191	1.6	2.3	4.3	-2.2	3.5	3.7	3.8	11.8	11.3
Saudi Arabia	787	20	129	105	-0.9	2.2	2.6	-9.2	-4.8	-3.5	2.2	9.0	8.2
UAE ³	435	52	173	203	0.8	2.3	2.6	-1.8	0.8	-0.3	6.9	13.3	13.0
Algeria	185	29	84	52	1.6	2.8	2.7	-6.4	-7.9	-4.9	-10.6	-4.0	-4.6
Iran	307	41	27	26	4.1	-2.8	-3.6	-1.9	-1.9	-3.1	3.9	2.3	-4.1
Iraq	222	50	25	38	-0.8	2.8	3.7	-2.3	1.3	-2.6	3.3	12.6	7.6
Egypt	247	102	4	16	4.2	5.2	5.6	-10.7	-9.6	-8.4	-6.4	-2.9	-2.7
Jordan	42	90	43	35	2.0	2.3	2.7	-2.6	-2.7	-2.4	-10.7	-10.0	-8.9
Lebanon	57	151	81	77	1.8	1.3	2.1	-7.0	-9.7	-9.1	-23.0	-21.5	-20.4
Morocco	118	63	18	21	4.1	3.1	3.2	-3.6	-2.9	-2.3	-3.5	-3.9	-3.5
Tunisia	42	69	16	14	2.0	2.5	3.0	-5.8	-5.2	-4.2	-10.3	-9.8	-8.0

Source: National Sources through 2017; IIF forecasts for 2018-2019.

¹ Public debt = Gross debt of general government, nonfinancial public enterprises, and government-related entities (GREs).

² Public foreign assets = Official reserves + foreign assets of autonomous government entities + sovereign wealth funds (SWFs).

³ The fiscal balance for Kuwait, Qatar, and the UAE, includes investment income from SWFs in nonhydrocarbon revenues.

HIGHER OIL PRICES OVER THE NEAR TERM

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Oil prices in the past few years have been driven mainly by supply-side factors, including the rapid increase in shale production versus concerns of supply disruptions in Iran and Venezuela. Iran's crude oil and condensates exports have fallen by about 0.7 million barrels per day (mbd) since April of this year as buyers from India, Japan, and South Korea have reduced their imports from Iran ahead of the U.S.'s new sanctions, which will become effective in early November (Exhibit 4). If the EU reduces its imports of crude oil and condensates by half from Iran, then the country's exports could drop by an additional 0.3 mbd by November, bringing down total exports from 2.6 mbd in 2017 to 1.6 mbd in 2019.

On September 23, major oil exporters, led by Saudi Arabia and Russia, met in Algiers and decided not to raise output beyond the levels agreed in June 2018. Such a decision reflects the preference by OPEC and Russia not to raise output quickly but rather adopt a "wait-and-see" attitude. If oil prices remain well above \$80/bbl for more than few months, then Saudi Arabia and Russia may agree to raise production.

The boost in oil production in the past three months by Saudi Arabia and Russia has only partly offset the continued losses by Venezuela and Iran. However, the rapid oil production growth in the U.S. and Canada may be enough to offset the remaining supply shortfalls and the 1.4 mbd growth in global demand for oil. Our baseline assumptions for Brent oil prices, suggest average annual prices of \$74/bbl in 2018 and \$72/bbl in 2019. Upside risks include the following: (i) larger-than-assumed cuts in Iranian crude oil exports in the context of re-imposition of sanctions; and (ii) emerging infrastructure constraints, including pipeline limitations and other logistical challenges that could slow the projected growth in U.S. oil production in 2019.

We expect total global oil inventories to decrease by 0.3 mbd in 2018 compared with 2017, and to increase by 0.2 mbd in 2019. Oil futures contracts point to a gradual decline in Brent oil prices to \$74/bbl by December 2019 (Exhibit 5). The continuing decline in production costs in the most efficient shale fields in the United States and tar sands in Canada, the two swing producers in the global oil market, will limit the risk of a more pronounced upward shift in prices. The IEA projects U.S. production of oil and condensates at 16.23 mbd in 2019, 8.5% higher than the projection of 14.96 mbd in 2018.

U.S. shale production is likely to continue increasing, which would provide a cap on a significant increase in oil prices beyond 2018. Canada, Brazil, and other non-OPEC producers could also continue to play important roles in keeping the market well supplied, leaving OPEC production in the range of 33-34 million barrels per day (mbd), and prices gradually declining to \$60/bbl by 2020.

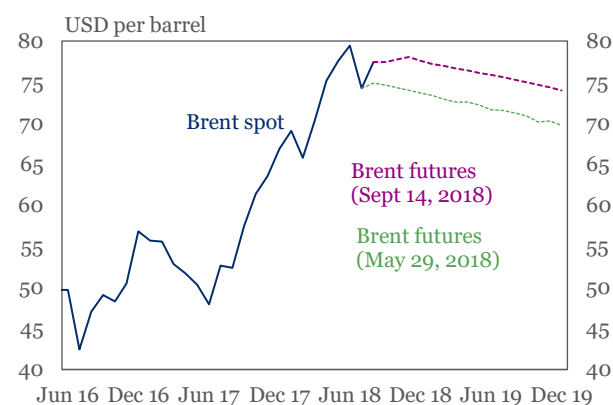
Exhibit 4: Global Oil Supply, Demand, and stock change

(in million barrels per day, mbd)

	2015	2016	2017	2018	2019
OPEC (incl. NGLs)	38.4	39.6	39.2	38.9	39.1
Ow: Saudi Arabia	10.2	10.4	10	10.3	10.5
Venezuela	2.5	2.2	2.0	1.3	1.2
Iran	2.9	3.6	3.8	3.6	2.7
Non-OPEC	58.1	57.4	58.3	60.0	61.8
Ow: USA, Canada, & Brazil	26.6	26.5	27.4	29.3	30.8
Russia	11.1	11.3	11.4	11.6	11.8
World supply	96.5	97	97.5	98.9	100.9
World demand	95	96.1	97.8	99.2	100.6
Stock change	1.5	0.9	-0.3	-0.3	0.3
Brent oil prices, \$/bbl	52.4	44.0	54.4	74.0	72.0

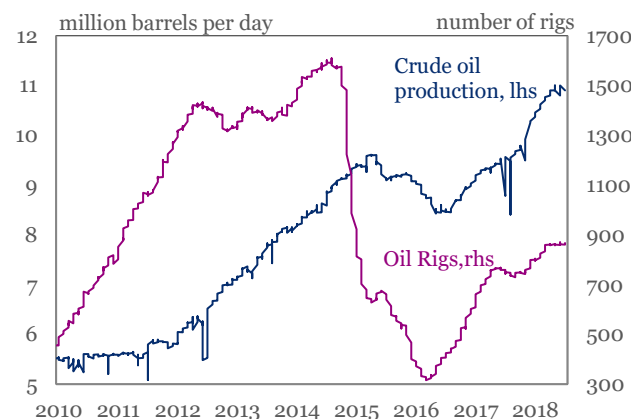
Source: IEA through 2017; IIF forecast for 2018 -2019

Exhibit 5: Brent spot and future prices



Source: Bloomberg and IIF.

Exhibit 6: U.S. oil production will continue to increase at a rapid rate



Source: EIA and IIF.

OIL EXPORTERS: TEMPORARY UPSWING

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Except Iran, the near-term outlook for the MENA oil-exporting countries has improved underpinned by higher oil prices, increase in oil production, and easing of fiscal consolidation. We expect economic conditions to strengthen in the GCC with overall growth of 2.3% in 2018 and 2.7% in 2019 after stagnating in 2017. Domestic demand should strengthen with easing of fiscal consolidation. While nonhydrocarbon growth could gradually accelerate to 3.2% by 2020, it will remain well below the average of 7.5% for 2003-2014. Qatar's economy has weathered the blockade by other GCC states with the help of new trade routes.

Broad-based, high, and sustained growth is needed to reduce unemployment, which remain very high in Algeria, Iran, and Saudi Arabia. To achieve this goal, deeper structural reforms are necessary in the following areas: (i) reforming labor market regulation to reduce disincentives for hiring and firing; (ii) overhauling the educational system to ensure adequate skill-building that meets the needs of private employers; (iii) improving the business climate and governance; and (iv) enhancing access to finance for SMEs to help catalyze entrepreneurship and private investment.

The consolidated fiscal deficit of the GCC will narrow significantly. Higher oil revenues and the further improvement in nonhydrocarbon revenues will more than offset the 15% increase in public spending in 2018. The current account surplus will widen from \$49 billion in 2017 to \$188 billion in 2018, equivalent to 10% of GDP.

Financial soundness indicators suggest that the banking systems remain sound. Capital adequacy ratios exceed 16% in the six GCC countries. NPLs to total loans are less than 2% in Saudi Arabia, Qatar, Kuwait, and Oman, and between 4 and 7% in Bahrain and the UAE. Private credit growth remains subdued due to weak domestic demand.

Despite growing emerging markets concerns, appetite for GCC debt remains high. Saudi Arabia issued large tranches of sovereign debt in the first half of this year in anticipation of higher global interest rates. Qatar has also returned to international debt markets with a sizeable issuance of bonds. In general, regional equity indexes moves broadly with oil prices. The recent turmoil in emerging economies (particularly in Turkey and Argentina), had a limited impact on investor's appetite for GCC securities.

Growth is likely to rebound in Algeria driven by the substantial increase in public spending, and in Iraq as a new reconstruction phase begins following the defeat of ISIS. We expect the Iranian economy to contract in 2018 and 2019 due to the re-imposition of U.S. sanctions, which is leading to a sharp decline in oil exports and depreciation of the rial.

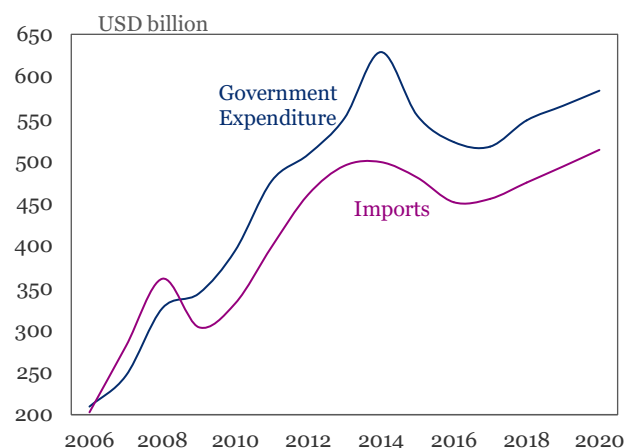
Exhibit 7: GCC: Main Economic Indicators

	2017	2018	2019	2017	2018	2019
	Overall Growth, %			CPI Inflation, %		
Bahrain	3.8	3.0	2.9	1.4	2.8	3.1
Kuwait	-3.5	2.9	4.8	1.6	1.3	2.0
Oman	0.3	3.4	3.2	1.6	1.1	2.9
Qatar	1.6	2.3	4.3	0.4	0.7	2.8
Saudi A.	-0.9	2.2	2.6	-0.8	3.7	3.0
UAE	0.8	2.3	2.6	2.0	3.0	2.1
	Fiscal Balance % GDP			Public Debt, % of GDP		
Bahrain	-13.7	-9.1	-8.1	90	92	96
Kuwait*	-13.3	-6.0	-5.4	19	18	19
Oman	-13.8	-5.6	-4.9	41	45	47
Qatar*	-9.3	-2.0	-1.8	44	36	32
Saudi A.	-9.2	-4.8	-3.5	17	20	23
UAE*	-6.8	-3.7	-4.7	20	19	18

Source: IIF estimates for 2017 and forecasts for 2018 and 2019.

*The fiscal balance for Kuwait, Qatar and the UAE exclude investment income from SWFs.

Exhibit 8: GCC: Consolidated Government Spending and Total Imports



Source: GCC authorities and IIF forecasts.

Exhibit 9: Non-GCC Exporters: Main Economic Indicators

	2017	2018	2019	2017	2018	2019
	Overall Growth, %			CPI Inflation, %		
Algeria	1.6	2.8	2.7	5.6	4.9	3.8
Iran	4.1	-2.8	-3.6	10.0	30.0	25.0
Iraq	-0.8	2.8	3.7	0.2	1.3	2.4
	Fiscal Balance % GDP			Current Account % GDP		
Algeria	-6.4	-7.9	-4.9	-10.6	-4.0	-4.6
Iran	-1.9	-1.9	-3.1	3.9	2.3	-4.1
Iraq	-2.3	1.3	-2.6	3.3	12.6	7.6

Source: IIF estimates for 2017 and forecasts for 2018 and 2019.

OIL IMPORTERS: MAJOR CHALLENGES REMAIN

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For the region's five oil importers (Exhibit 10), spillovers from the conflicts in the region as well as deep-rooted domestic structural impediments have weighed on growth in the past five years. Accommodating more than 2 million Syrian refugees in Lebanon and Jordan has added to pressure on infrastructure, health, and education services.

Confidence is gradually improving in Egypt, Morocco and Tunisia. We expect growth in these countries to be driven by investment and exports in the coming years helped by improvement in security and the political environment as well as reforms. The modest pickup in growth will still be below the growth rates necessary to significantly reduce persistent high unemployment rates of about 12% on average (with youth unemployment the highest in the world—averaging 26%). Deeper structural reforms, including in the business environment, will be needed to improve competitiveness and employment. Such reforms would raise potential growth, which declined in recent years.

Egypt's macroeconomic stabilization efforts and ongoing structural reforms are expected to raise growth to 5.6% in fiscal year 2018/2019. However, Egypt's economy remains shackled by a public sector that is bloated, inefficient and unresponsive to market signals. To achieve higher and sustainable growth, the country needs to redefine the role of the state and create more freedom and space for private-sector initiative. Political uncertainty in the region and delays in structural reforms in Lebanon and Jordan will continue to weigh on confidence, preventing a stronger recovery in investment and economic activity. Weak productivity growth and slow capital accumulation will keep potential growth weak, and the region remains further behind its global peers in terms of medium-term economic prospects.

Fiscal positions are likely to improve in 2018 and 2019 (except Lebanon) thanks in large part to restrained public wages, reduced fuel subsidies, and efforts to increase tax revenues, which are still very low in Egypt, Lebanon, and Jordan. These are the countries with high public debt-to-GDP ratios (Exhibit 12) with Lebanon's public debt the highest at 150% of GDP. Debt servicing is likely to increase in line with the anticipated higher global interest rates.

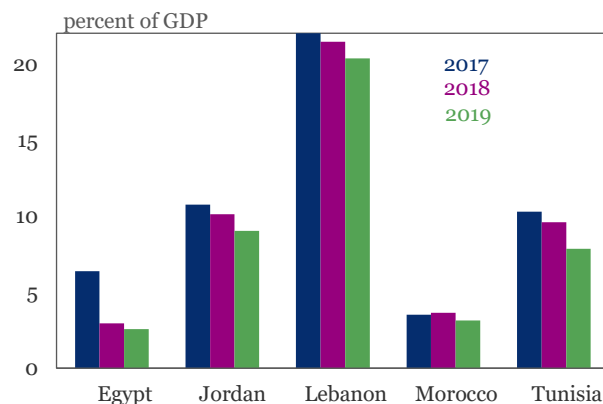
There are downside and upside risks to the outlook. On the downside, slower reform implementation would undermine private investment and macro stability; and faster-than-expected US monetary tightening would raise borrowing costs in Lebanon and Jordan, which could slow economic activity. The upside risks include a faster-than-expected rise in exports of goods and service (particularly a rebound in tourism), and foreign direct investment.

Exhibit 10: Oil importers

	2014	2015	2016	2017	2018	2019
Real GDP growth, %						
Egypt	2.9	4.4	4.3	4.2	5.2	5.6
Jordan	3.1	2.4	2.0	2.0	2.3	2.7
Lebanon	2.0	0.2	1.7	1.8	1.3	2.1
Morocco	2.7	4.5	1.1	4.1	3.1	3.2
Tunisia	3.0	1.2	1.1	2.0	2.5	3.0
Fiscal balance, % GDP						
Egypt	-11.5	-11.0	-12.0	-10.7	-9.6	-8.4
Jordan	-9.4	-4.5	-3.2	-2.6	-2.7	-2.4
Lebanon	-6.3	-7.9	-9.6	-7.0	-9.7	-9.1
Morocco	-4.9	-4.2	-4.1	-3.6	-2.9	-2.3
Tunisia	-4.5	-4.4	-5.4	-5.8	-5.2	-4.2

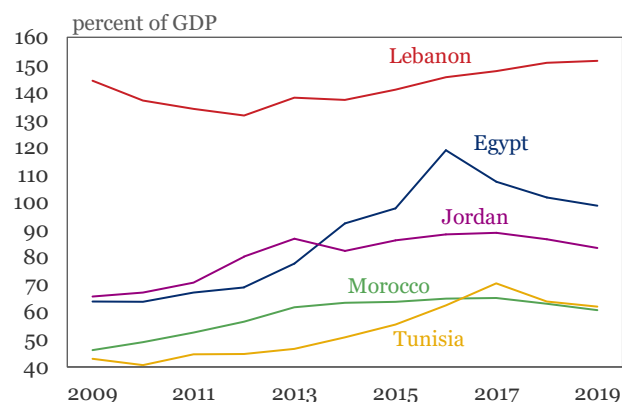
Source: National sources and IIF forecast for 2017 and 2018.

Exhibit 11: Current Account Deficits



Source: IIF estimate and forecasts.

Exhibit 12: Public Debt



Source: Authorities through 2017; IIF for 2018-2019.

CAPITAL FLOWS TO MENA REGION

Non-resident capital inflows to MENA should rise to \$182 billion in 2018, equivalent to 6% of the region's GDP (Exhibit 13). Downward revision from our March report comes mainly as the Saudi Aramco IPO has stalled. Notwithstanding the revision, the MENA region – particularly oil exporters – is still seeing an increase in foreign inflows this year, unlike other emerging markets (EMs) hampered by global monetary tightening and investors' risk aversion. Resident capital outflows are increasing as well, as the current account surpluses of the GCC countries are improving on the back of higher oil prices. Both portfolio and other investment outflows are on the rise, mainly driven by the SWFs of UAE, Saudi Arabia, and Qatar (Exhibit 14).

Meanwhile, resident capital outflows are expected to reach \$260 billion this year, driven by the substantial increase in current account surpluses. As in the past, proceeds from higher inflows of petrodollars and affordable international borrowing are being transferred into sovereign wealth funds and invested abroad.

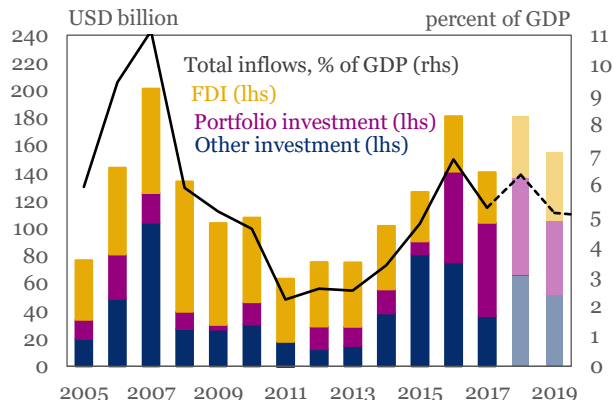
Oil Exporters: Brighter Prospects

MENA oil exporters are showing more resilience to emerging markets turmoil this year than other EM subgroups around the world. Higher oil prices, durable U.S. dollar pegs, relatively low debt levels, and ample foreign reserves make oil exporters less risky and less prone to EM contagion. After a dip in 2017 caused by the rift with Qatar, non-resident capital inflows are expected to rebound across the board and reach \$128 billion this year (Exhibit 15).

The main source of inflows in 2018 remains sovereign bond issuance, as GCC countries raised \$30.5 billion in Eurobonds in the first half of the year. Moving forward, the overall sovereign bond issuance is expected to decrease due to lower financing needs. Nonetheless, the robust performance of GCC primary markets stands out against the broader emerging markets trend, which is lagging behind 2017 levels. This comes as no surprise, as oil exporters present lower risk than other EMs due to their strong fundamentals, while presenting opportunities for regional diversification to bondholders. Expected moderation in portfolio debt inflow will be offset by increased equity inflows on the back of MSCI's scheduled upgrade of Saudi Arabia.

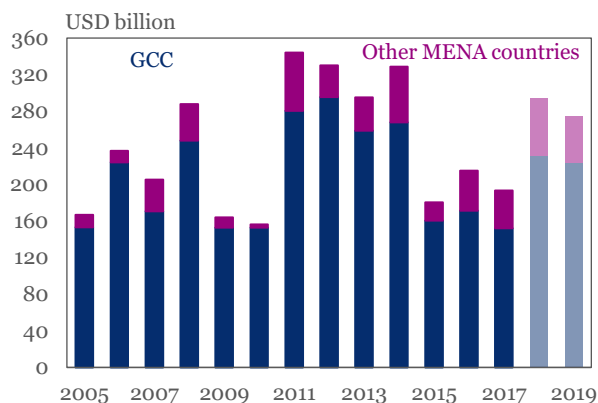
Despite growing EM concerns, appetite for GCC debt was high. [Oman](#) and Saudi Arabia issued large tranches of sovereign debt earlier this year in anticipation of higher interest rates (Exhibit 16). After two years, Qatar also returned to international debt markets with a sizable issuance of \$12 billion. [Bahrain](#), however, faced challenges raising capital, as investors called into question the kingdom's ability to meet its growing financing needs.

Exhibit 13: MENA Non-resident capital inflows



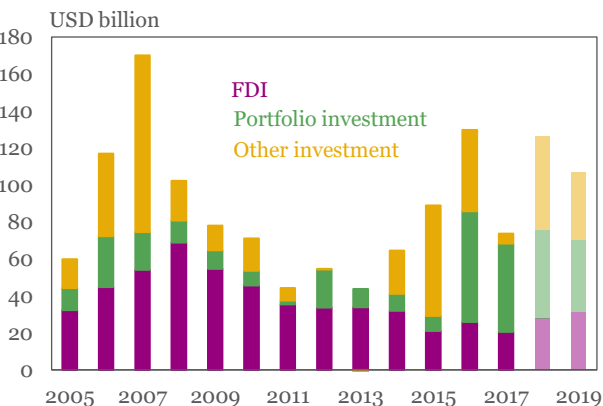
Source: IIF.

Exhibit 14: MENA Resident capital outflows



Source: IIF.

Exhibit 15: Oil Exporters – Non-resident capital inflows



Source: IIF.

A credible reform package and financial aid from Saudi Arabia, Kuwait, and UAE are preconditions for Bahrain to return to capital markets next year. We expect Eurobond issuance across the region to decline in 2019 as high oil prices reduce financing needs.

MENA oil exporters have witnessed a moderate increase in bond yields this year, but less than other EMs. After one year of moving in unison, yields on GCC dollar denominated bonds diverged to a lower trajectory compared to EMs, indicating lower perceived risk (Exhibit 16). Bahrain has been the only oil exporter with a significant increase in yields on 10y dollar-denominated bonds, rising above 9% before retreating to around 7% on the back of announced support from its neighbors. Notwithstanding high debt issuance, the maturity profile of outstanding international bonds for oil exporters peaks around 2022 and 2027, so significant redemption risk still looks some way off.

Following a decade of decline, we expect a modest pickup in FDI inflows. Economic reforms and opening to investors will likely keep the positive trend in years to come. Nevertheless, FDI inflows to MENA oil exporters remain small, projected at 1.2% of GDP in 2018. Political stability and structural reforms to improve governance and the business climate remain preconditions for higher FDI inflows.

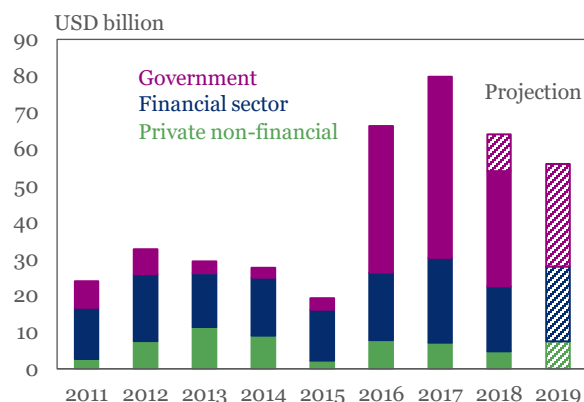
Oil Importers: Bumpy Road Ahead

MENA oil importing countries are showing signs of sensitivity to developments across EMs (Exhibit 17). Non-resident capital inflows to MENA oil importers are expected to decline to \$54 billion this year, from \$67 billion in 2017, as global monetary tightening, higher oil prices and external imbalances put MENA oil importers at risk (Exhibit 18).

Non-resident inflows to Egypt have started to slow. Following the move to a free float in November 2016, capital inflows in [Egypt](#) has more than doubled to \$44 billion in August 2018 on the back of higher FDI, disbursement of loans from multilateral organizations, a sharp increase in non-resident purchases of Egyptian securities to take advantage of high domestic interest rates, and issuance of Eurobonds.

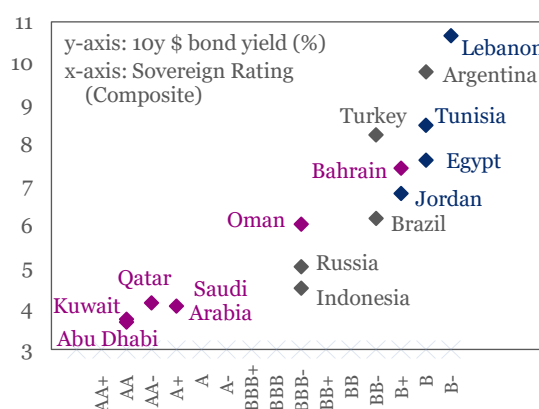
Elsewhere in the region, capital flows to [Lebanon](#) are expected to remain nearly flat this year. Non-resident deposit inflows have slowed somewhat in the first half of this year due to the political uncertainty and lack of reforms. However, we expect a sizeable increase in other investments beyond 2018 as the international community pledged more than \$10 billion in concessional loans in April 2018 to help repair the country's ailing infrastructure.

Exhibit 16: Oil Exporters - Eurobond issuance is still high



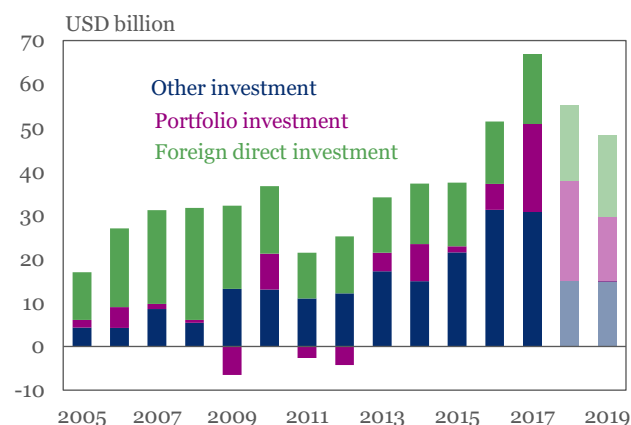
Source: Bloomberg

Exhibit 17: MENA oil importers are more vulnerable



Source: Bloomberg and IIF.

Exhibit 18: Oil Importers – Non-resident capital inflows



Source: IIF.

ALGERIA: LOOKING FOR MOMENTUM

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Higher commodity prices have led to nominal improvement, but real growth remains elusive. We project growth in the range of 2.8% for 2018 as fiscal policy remains expansionary (Exhibit 19), but signs are mounting that the government is banking on high oil prices, postponing tough decisions, and downplaying the urgency of undertaking investments and reforms crucial for sustained prosperity.

The current account deficit has fallen substantially. Export revenue has risen due to higher oil prices, and the government imposed a sweeping import ban in January on a wide range of products. Yet gas production is still weak: output in existing fields stood at 47.7 bcm in 2018H1, down 1.3% year-over-year. The large Touat project was expected to become operational this year but has now been delayed until the first half of 2019 (Exhibit 20). The lag in bringing new capacity on board, lack of clarity to foreign investors about reform of the hydrocarbon law, and the reliance of natural gas contracts on fixed prices decoupled from the petroleum spot price combine to limit the boost from the rise in oil prices to Algeria's growth rate. Meanwhile, after an initial dip, imports actually continued to rise, and official reserves have continued to dwindle. Diversification remains elusive, as crude oil and gas still account for over 90% of export revenue, with derivatives such as fertilizers making up much of the remainder.

With high oil prices, the government continues to spend aggressively, with a clear tilt toward current spending to quell ever-present social unrest. Estimates suggest that expenditure has risen by over 20% in 2018; early statements and draft budget documents suggest a slight drop in 2019, which still represents a significant increase from recent years. The government affirmed that the new budget would not include new taxes or fees, nor changes to the subsidized fuel prices. The deficit is likely to be funded domestically, since the government passed amendments to its Money and Credit law enabling it to borrow directly from the central bank. With inflation rising since the start of the year (reaching 5.9% at the end of the second quarter), the sustainability and prudence of this policy comes into question—all the more given Algeria's low external debt compared to peers (Exhibit 21).

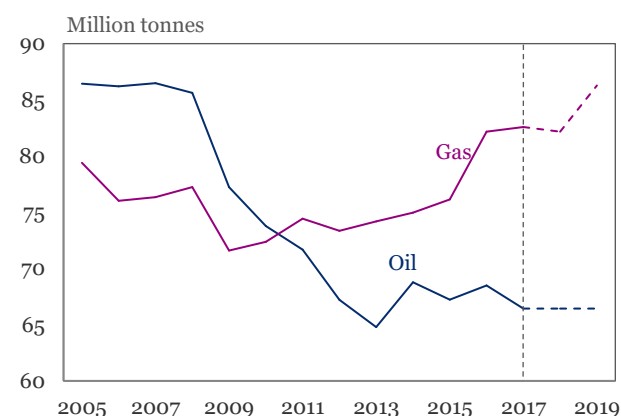
Over the medium term, implementing structural reforms remains a crucial step to harnessing the country's potential and paving the way for more inclusive and more sustainable growth. Areas particularly ripe for attention include creating a more efficient and transparent environment for foreign investors based on a uniform rule of law, containing corruption, improving security, as well as addressing perennially high youth unemployment by improving the responsiveness of education and implementing more job training.

Exhibit 19: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	165.9	159.0	171.1	185.2	189.0
Real GDP, % change	3.7	3.3	1.6	2.8	2.7
Hydrocarbon GDP	0.2	7.7	-2.8	-0.3	2.8
Non-hydrocarbon GDP	4.6	2.3	2.6	3.5	2.7
CPI Inflation Avg., %	4.8	6.4	5.6	4.9	3.8
Fiscal Balance, % GDP	-15.3	-13.1	-6.4	-7.9	-4.9
Current Account, % GDP	-16.4	-16.4	-10.6	-4.0	-4.6
Official Reserves, \$bn	144.7	114.4	98.6	91.8	84.4
Public Debt, % GDP	8.8	20.6	24.6	28.7	31.8
Oil Production, mbd	1.56	1.58	1.53	1.53	1.53
Gas production, mbdoe	1.53	1.65	1.66	1.65	1.73

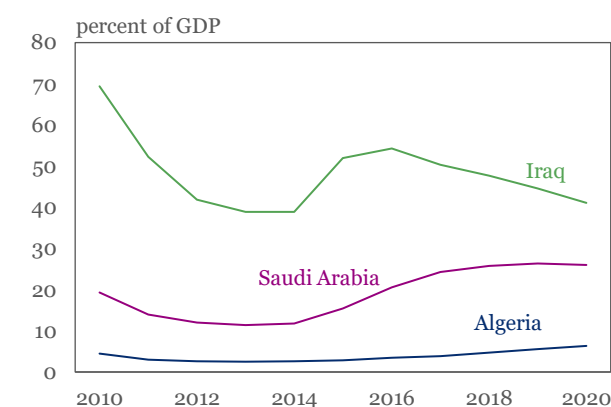
Source: National authorities; IIF forecast for 2018-2019.

Exhibit 20: the envisioned expansion of gas production has been postponed to 2019



Source: Authorities through 2017, IIF forecast 2018-2019.

Exhibit 21: External Debt in Algeria and Comparators



Source: Authorities and IIF.

BAHRAIN: TOO SMALL TO FAIL

by Boban Markovic, bmarkovic@iif.com, +1-202-857-3632

Growth in the most diversified economy in the GCC is expected to slow to 3% this year. Headline real growth dropped to -1.2% in 2018Q1 due to a maintenance-related contraction in the oil sector. Acceleration in construction activity will partially offset contraction in trade and hospitality industry, but the non-oil growth will drop to around 4% for the year (Exhibit 22). Recent data on business perceptions tallies with the impression of a growth slowdown in the non-oil sector. A growing number of infrastructure projects, supported by the GCC Development Fund, and the launch of ALBA Line 6 will be the main impetus to growth next year. However, an increasing cost of capital and the base effect of this year's rapid infrastructure buildup will keep overall growth around 3%.

By conventional metrics, Bahrain is the most vulnerable country in the GCC. Foreign reserves have been at critically low levels since the collapse of oil prices in 2014, hovering around 1 month of import coverage (Exhibit 23). Bahrain's dinar fell to a 17-year low against the dollar in the spot market in June, as investors sold the currency in the forward market citing concerns over the country's ability to repay its rising public debt, which we expect at 92% of GDP in 2018 (Exhibit 24). The kingdom faced difficulties raising capital in international markets, but the authorities managed to issue dollar-denominated sukuk and privately placed bonds.

Abandoning the peg or devaluing the currency are unlikely, as Saudi Arabia, Kuwait and the UAE continue working on a program to support Bahrain's economic reforms and financial stability. The announced financial support will likely include significant deposits in the Central Bank of Bahrain to boost official reserves, continued funding for public spending on infrastructure, and concessional loans to support financing needs for fiscal year 2018. GCC countries see support to Bahrain as an investment in the region's economic and political stability. In the context of rising US interest rates and growing EM risk aversion, any perceived sign of depegging in one GCC country could take a toll on investor confidence across the region and spur capital flight.

The authorities will have to present a credible set of reforms and pathway to achieve them in order to win back investors. Pushing the reform agenda forward will prove challenging, but support from neighbors might provide the cabinet with wind in the sails to negotiate concessions in the parliament. Bahrain is expected to introduce a VAT of 5% in 2019, streamline allowances to citizens, and further cut subsidies for gasoline and utilities. This will help lower the fiscal deficit from around 14% of GDP in 2017 to below 9% next year, excluding anticipated budgetary support. The announced financial aid calmed the markets, but downside risks to Bahrain's outlook remain abundant.

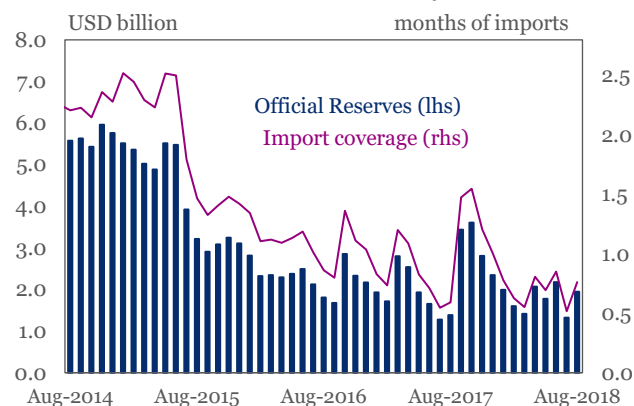
Exhibit 22: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	31.1	32.2	35.3	38.4	40.5
Real GDP, % change	2.9	3.5	3.8	3.0	2.9
Hydrocarbon	-0.1	-0.1	-0.7	-0.5	0.2
Non-hydrocarbon	3.6	4.3	4.8	3.8	3.5
CPI Inflation, Avg., %	1.8	2.8	1.4	2.8	3.1
Fiscal Balance, % GDP	-13.0	-13.5	-10.1	-6.3	-5.5
*Overall Balance % GDP	-18.4	-17.5	-13.7	-9.1	-8.1
Current Acc., % GDP	-2.4	-4.6	-4.5	-1.6	-1.4
Official Reserves, \$bn	3.1	2.2	2.3	2.7	3.2
In months of imports	1.4	1.0	1.0	1.1	1.2
Public Debt, % GDP	67.1	82.4	89.9	91.8	95.9
Oil Production, mbd	0.202	0.202	0.197	0.196	0.197

Source: National sources and IIF forecast for 2017 and 2018.

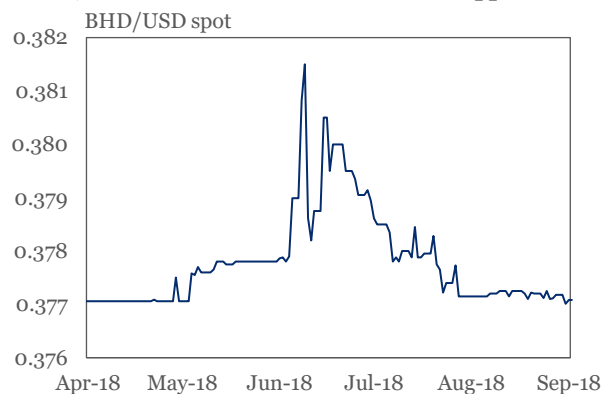
*Including extrabudgetary spending.

Exhibit 23: Official reserves are critically low



Source: Central Bank of Bahrain and IIF.

Exhibit 24: Pressure on BHD dissipated after S. Arabia, the UAE, and Kuwait announced financial support



Source: Bloomberg.

EGYPT: NEED TO EMPOWER PRIVATE SECTOR

by Garbis Iradian, giradian@iif.com, +1-202-857-3304

We expect the growth momentum to continue in 2018 and 2019, as external and domestic imbalances narrow. We expect growth to accelerate from an estimate of 5.2% in FY 2018 to 5.6% in FY 2019, supported by a strong recovery in tourism and rising natural gas production (Exhibits 25 and 26). We expect Egypt to resume exports of gas in early 2019. Unemployment has declined to 9.9%, the lowest since 2011.

The 12-month core inflation has declined from a peak of 32% in September 2017 to 8.8% in August 2018, supported by relatively tight monetary policy and as the impact of the exchange rate pass-through faded. The June cuts in fuel and electricity subsidies pushed the headline inflation rate temporarily to 14.2% in August. The central bank has kept its overnight lending rate at 17.75% since March 2018 to anchor inflation expectations. Growth in private credit has been decelerating, and real credit growth has been negative.

Despite the stabilization of the exchange rate around EGP18/\$ and the relatively high inflation rate of the past two years, we believe that the real effective exchange rate is still undervalued (Exhibit 27). Improved competitiveness from the sharp depreciation in November 2016 and structural reforms continues to boost exports of goods and services, particularly tourism, and restrain imports, leading to narrower current account deficits, which we expect to narrow further to 2.6% of GDP in 2019.

We expect the fiscal position and debt dynamics to improve. The gradual fiscal consolidation underway combined with further pickup in real GDP growth underlie our projected steady decline in the public debt-to-GDP ratio. Interest payments have increased in recent years, reflecting both the rise in outstanding public debt as well as higher funding costs. Nonetheless, we expect the fiscal deficit to narrow to 8.4% of GDP and the primary surplus to increase to 2.1% in FY 2019, supported by higher tax revenues and lower fuel subsidies.

Contagion from Turkey and other EMs has been limited. Nonresident holdings of Egyptian treasuries stood at \$17.1 billion in July, down from \$23.1 billion in March 2018, and the Egyptian stock market has declined significantly in the past few months. The overall performance of the banking sector in Egypt has been quite good this year compared to most emerging economies.

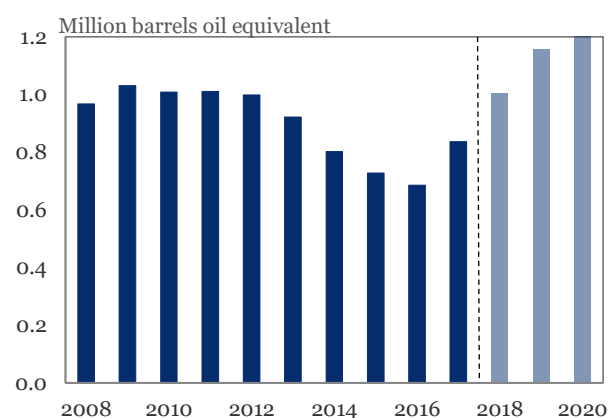
Risks to the outlook are broadly balanced in the short term. However, risks are tilted to the downside over the medium term. To achieve higher and sustainable growth, Egypt needs to make the economy more responsive to market forces and empower the private sector. Laws and regulations governing business and investment need to be overhauled and brought in line with best practices in successful emerging economies.

Exhibit 25: Key Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	332.2	332.1	234.3	246.7	290.5
Real GDP % change	4.4	4.3	4.2	5.2	5.6
Private consumption	3.1	4.7	1.6	3.4	4.3
Public consumption	7.0	3.9	-6.1	-0.6	0.5
Total investment	8.6	11.2	11.3	1.4	11.0
Exports of goods & serv.	0.0	-15.0	13.3	11.4	10.4
Imports of goods & serv.	1.0	-2.2	-1.5	2.4	3.0
Headline inflation, ave, %	11.0	10.2	23.3	20.9	12.1
Headline inflation, eop, %	11.4	14.0	29.8	14.4	10.0
Current Account, % GDP	-3.7	-6.0	-6.4	-2.9	-2.6
Official reserves, \$ billion	16.7	13.9	27.6	40.4	42.2
Fiscal Balance, % GDP	-11.0	-12.0	-10.7	-9.6	-8.4
Public Debt, % of GDP	97.7	118.9	107.4	101.7	98.7

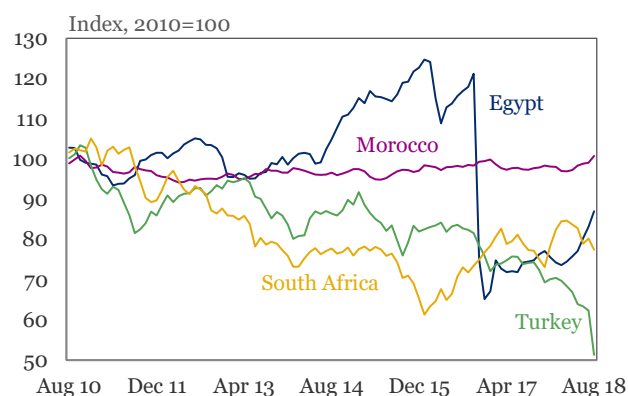
Source: National authorities; IIF forecast for 2018 -2019.

Exhibit 26: Natural gas production will rebound



Source: British Petroleum and IIF Forecast.

Exhibit 27: Real effective exchange rate remains undervalued



Source: Haver and IIF.

IRAN: THE ECONOMY IS CONTRACTING

by Garbis Iradian, giradian@iif.com, +1-202-857-3304

The Iranian economy has deteriorated since May 2018 when the Trump administration withdrew from the 2015 nuclear deal. The first wave of U.S. sanctions against Iran took effect on August 7 with focus on trading in cars, gold and other precious metals. The second wave of sanctions are scheduled to come into force on November 4 and will target the energy and the financial sectors. Iran's crude oil and condensates exports have already declined by 25% ahead of the second round of U.S. sanctions (Exhibit 28).

The pressure on the Iranian economy is rising due to the re-imposition of U.S. sanctions. The rial has lost about 80% of its value against the dollar in the free market since end 2017. On September 20, one dollar bought 144,300 rials in the free-market, compared with 43,000 rials in January. With the collapse of the rial, inflation in August may have increased to well above 40%, year-on-year.

We expect the economy to contract by around 3% in 2018 and 4% in 2019 due to the expected sharp decline in volume of exports of crude oil and condensates, and private consumption and investment (Exhibit 29). Nonhydrocarbon real GDP could shift from a growth of 3.6% in 2017 to contractions of 1.2% in 2018 and 3% in 2019, and unemployment could rise to above 14%. The sharp depreciation of the rial has made imports, particularly intermediate and capital goods, very expensive in local currency, leading to cancellation of contracts and a drop in industrial production. While non-oil exports will benefit from the weaker currency, some of Iran's non-oil exports are also subject to re-imposed U.S. sanctions (including carpets and other manufactured goods).

The EU, China, and Turkey may try to preserve economic ties with Iran, including continuing to import crude oil and condensates. Germany is considering setting up a rival international payments system to maintain the nuclear deal with Iran. Such a system is unlikely to persuade major European companies to do business with Iran, as they are heavily dependent on US exports and cannot afford to incur U.S. penalties for circumventing the sanctions. Several large European companies (including Daimler, Siemens, Peugeot, Scania, and Total) have already suspended their operations in Iran, and EU banks are cutting ties.

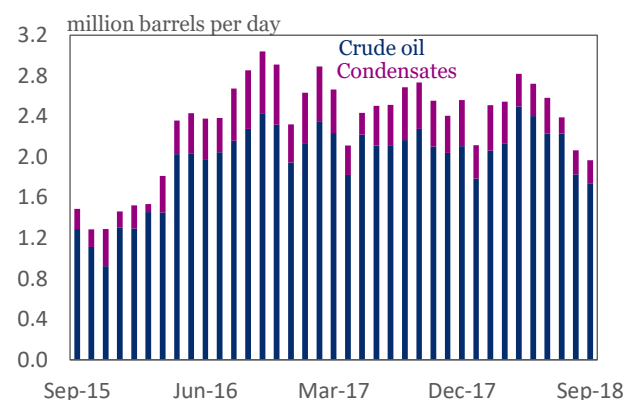
Iran has been reluctant to make any concessions on the nuclear issue and may continue its interventions in neighboring countries (including Syria, Iraq, Lebanon, and Yemen). Iran may continue to be committed to the 2015 nuclear deal providing the EU and others do the same. However, failure to renegotiate the deal with the U.S. would likely bring about even deeper damage to Iran's economy and perhaps lead to a regime change beyond the near term.

Exhibit 28: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	358	388	405	307	337
Real GDP Growth, %	-1.6	12.5	4.1	-2.8	-4.3
Hydrocarbon	7.2	61.6	2.5	-8.3	-9.3
Nonhydrocarbon	-3.1	3.3	3.6	-1.2	-3.0
CPI, average, % change	13.7	8.7	10.1	40.5	37.2
Current Account, % GDP	0.3	3.6	3.9	2.3	-4.1
Official Reserves, \$ bn	96.5	104.2	112.3	109.7	95.2
Budget Balance, % GDP	-1.7	-2.0	-1.9	-1.9	-2.8
Public debt, % GDP	33.3	38.8	40.1	37.8	38.4
Crude oil exports, mbd	1.8	2.7	2.7	2.3	1.7

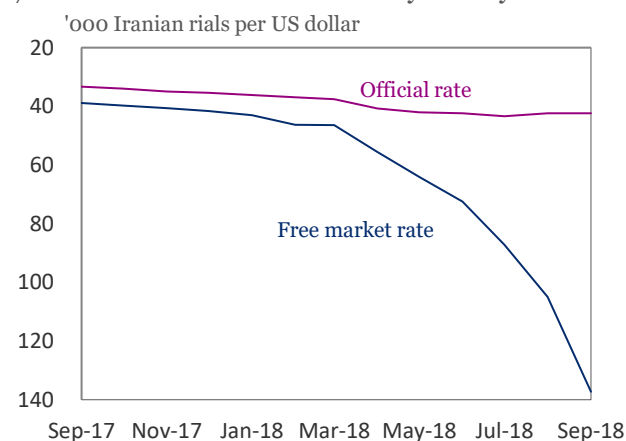
Source: National authorities; IIF forecast for 2018 and 2019.

Exhibit 29: Crude oil and condensate exports have dropped in the past five months



Source: Bloomberg tanker tracking data and IIF.

Exhibit 30: The currency has depreciated by more than 70% in the free market since January of this year



Source: Central Bank of Iran and www.bonbast.com

IRAQ: BENEFITING FROM A PEACE DIVIDEND

by Boban Markovic, bmarkovic@iif.com; +1-202-857-3632

After defeating ISIS, Iraq has begun to move into a post-war period. However, the country is mired in political gridlock as the new government still has not been formed following the elections earlier this year. The incumbent prime minister Haider al-Abadi's list came third, while the majority of votes went to Shia cleric Moqtada al-Sadr. Al-Abadi announced a coalition with Al-Sadr, but the rival, pro-Iranian parties claim that they have a parliamentary majority. Although Abadi seems to be closer to forming a new, pro-western, government, the ongoing public protests are increasing uncertainty about the outcome of political negotiations and speed of post-war recovery.

Economic conditions are improving with increasing oil production and recovery of areas previously held by ISIS (Exhibit 31). The hydrocarbon sector is expected to grow by 1.7% this year, after contraction in 2017 due to the renewal of the OPEC + agreement and a production decline in the Kirkuk oil fields. Consumption of petroleum products, which reached a historical high in July after three years of contraction, indicates that the economic activity is on the rise (Exhibit 32). Despite an increase in oil output, Iraq imports most of its petroleum products as the major refineries have been damaged during the conflict. The increase in output from the Baiji refinery will benefit the economy by boosting economic growth and lowering petrol import needs.

On February 14th, 2018, international donors pledged \$30 billion to rebuild Iraq. While the total amount fell short of the authorities' hopes, the boost in construction and infrastructure will push non-oil growth to 4.5% this year and keep it on an upward trend over the medium term. The government is facing growing pressure to provide clean water, electricity, and basic infrastructure for the areas retaken from ISIS. One of the largest cities, Mosul, is still in ruins. The parliament approved a \$19 million reconstruction plan this summer, but it will take years, if not decades to rebuild dilapidated infrastructure.

Iraq's fiscal situation is beginning to improve, largely due to the recovery of oil prices. We expect a balanced budget this year, after a deficit approaching 14% of GDP in 2016. Fiscal consolidation has largely come at the expense of capital spending, while public wages and pensions have become an increasingly large part of the budget, near 50% in 2017.

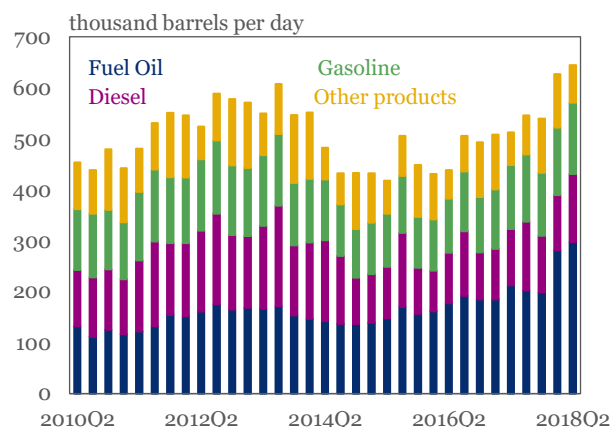
Iraq still has a long road to reform, as it remains an exceedingly difficult place to do business. Reducing corruption, reforming electricity, and ensuring water security are critical to the further development of the private sector. Although credit activity is picking up rapidly, the state-dominated domestic banking sector lacks the capacity to finance economic recovery (Exhibit 33). Going forward, the security situation and political stability remain the key preconditions for a brighter outlook.

Exhibit 31: Key Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	180	171	197	222	231
Real GDP, % change	4.8	11.0	-0.8	2.8	3.7
Hydrocarbon	12.2	25.0	-2.2	1.7	1.5
Non-hydrocarbon	-3.1	-6.2	1.5	4.5	7.0
CPI Inflation, Avg., %	1.4	1.4	0.2	1.3	2.4
Fiscal Balance, % GDP	-12.3	-13.9	-2.3	1.3	-2.6
Curr. Account, % GDP	-7.7	-2.5	3.3	12.6	7.6
Official Reserves, \$bn	50.4	41.6	45.1	57.1	67.1
In months of imports	8.2	7.6	7.9	8.5	9.2
Public Debt, % GDP	55.0	64.3	58.1	50.2	50.7
Oil Production, mbd	3.72	4.65	4.47	4.54	4.61

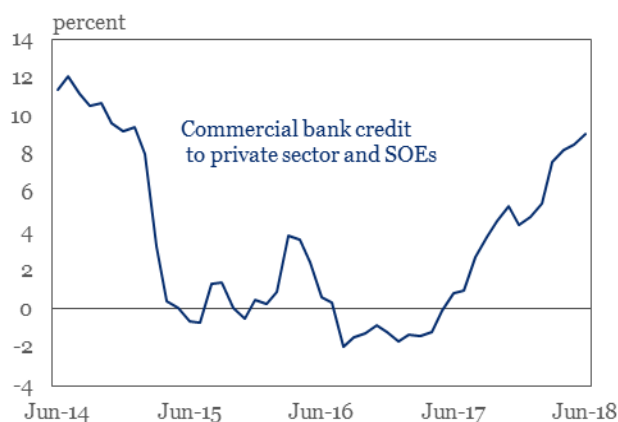
Source: National Authorities, IIF.

Exhibit 32: Higher consumption of petroleum products reflects economic recovery



Source: JODI and IIF.

Exhibit 33: Credit growth accelerating



Source: Central Bank of Iraq and IIF.

JORDAN: GROWTH REMAINS ANEMIC

by Jonah Rosenthal, jrosenthal@iif.com, +1-202-857-3311

Jordan has been facing persistent anemic economic activity and large deficits since the Arab Spring in 2011, which led to higher unemployment rate of 18.5% and public debt of 96% in June 2018. The continued low growth of around 2% is largely attributed to a wave of external shocks (including the conflicts in Syria and Iraq), macroeconomic imbalances, and structural impediments (Exhibit 34). The presence of over 750,000 registered refugees adds to fiscal and social strains. Inflation remains relatively contained.

Fiscal outturns, which are available through June, show significant slippages against the published targets. Expenditure is up markedly, leading to a wider deficit than initially expected. The lion's share is accounted for by the wage bill and defense, which are political third rails; capital expenditure is notably low. Revenue in the first half of the year underperformed. As a result, we expect a modest widening of the fiscal deficit (to 2.6% of GDP) and the government debt is likely to edge up to 96% of GDP in 2018. The government announced plans earlier this year to issue a \$1 billion Eurobond in November, but with the subsequent steep rise in EM yields, the outcome is uncertain. The central bank continues to tighten in line with the Federal Reserve (Exhibit 35).

Reasons for optimism do exist, as the current account deficit is narrowing. While exports of goods remain modest, with competitiveness hindered by the long-term real appreciation of the dinar (due to the peg to the U.S. dollar), tourist receipts have climbed in a sign that visitors' security concerns are waning (Exhibit 36). Travel receipts increased by 12% year-over-year from H1 2017 to H1 2018. We see the current account deficit declining slightly to 11% of GDP despite higher oil import bill. FDI inflows remain subdued as the continued social and economic turmoil in Syria and Iraq continues to create external headwinds.

The Jordanian authorities recognize the critical importance of raising Jordan's potential growth, given its rapid population growth and young average age. Yet they operate in a constrained policy environment. Given the high public debt stock, they cannot easily embark on fiscal stimulus. Given the peg of the dinar to the dollar, the Central Bank of Jordan cannot use monetary stimulus while the Fed is tightening. At the same time, Jordan cannot easily move away from the peg without incurring a massive hike to the cost of imported food staples and provoking a new round of social unrest.

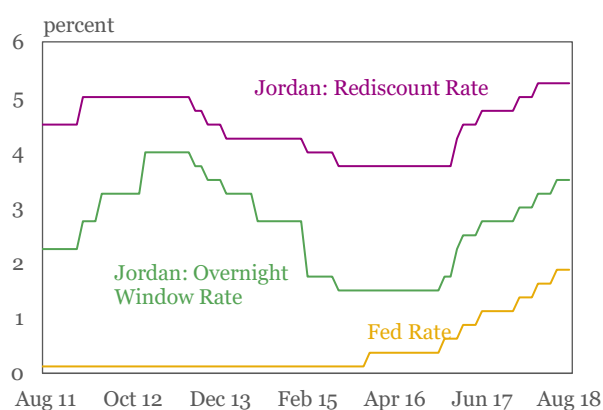
With policy options limited, implementation of structural reforms becomes even more important. Nevertheless, these reforms must be well conceived, well targeted, and effectively communicated, ensuring that the most vulnerable members of society do not ultimately bear the greatest burden of adjustment.

Exhibit 34: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ bn	37.5	38.7	40.1	42.1	44.7
Unemployment rate, %	13.1	15.3	18.3	18.7	18.3
Real GDP, % change	2.4	2.0	2.0	2.3	2.9
Domestic demand	3.1	1.5	0.5	0.6	2.1
Exports of goods & serv.	-7.1	-1.3	2.5	3.9	3.2
Imports of goods & serv.	-3.1	-1.5	-1.3	-0.8	1.0
CPI Inflation, average, %	-0.9	-0.8	3.3	4.7	3.4
Current Account, % GDP	-9.1	-9.5	-10.7	-9.9	-8.5
Excluding grants, % GDP	-12.2	-12.8	-13.5	-13.6	-11.8
Official reserves, \$ bn	15.2	14.0	13.8	14.8	15.3
Fiscal Balance, % GDP	-4.5	-3.2	-2.6	-2.5	-2.4
Excluding grants, % GDP	-7.9	-6.2	-5.1	-6.2	-5.7
Gov't Debt, % of GDP	93.4	95.1	95.9	93.8	90.6

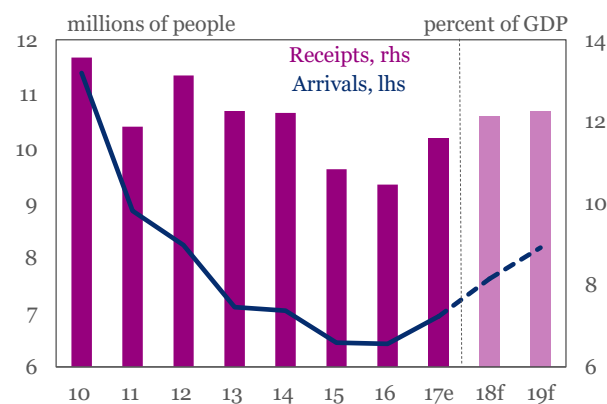
Source: National authorities; IIF forecast for 2018 -2019.

Exhibit 35: Policy interest rates will continue to rise



Source: Haver and IIF.

Exhibit 36: Tourism is recovering gradually



Source: Central Bank of Jordan and IIF forecast for 2018-19.

KUWAIT: POSITIVE OUTLOOK, NEEDS REFORMS

by Boban Markovic, bmarkovic@iif.com, +1-202-857-3632

We expect overall growth to rebound to 2.9% this year on the back of higher oil output and buoyant private consumption (Exhibit 37). The decline in overall real GDP last year was mainly due to the large cut in oil production in the context of the OPEC's agreement. Private consumption exhibited a long-awaited bounce in the past few quarters, supported by improved consumer confidence (Exhibits 38). With the healthy project pipeline and strong consumer confidence, we expect non-hydrocarbon growth of around 3.6% this year and between 3.5% and 4% over the medium term.

Low debt and large public foreign assets in the form of a sovereign wealth fund have provided the policy space for Kuwait to avoid significant government spending cuts. Despite the initial agreement among GCC countries to introduce a 5% VAT in 2018, Kuwait is unlikely to implement it anytime soon, due to parliamentary opposition and lack of administrative capacity. However, additional fees on sugary drinks and tobacco might be imposed by the end of this year. The overall fiscal balance is projected to remain in large surplus, including investment income and before the mandatory transfers to the Future Generations Fund (FGF). We expect the financing needs (overall balance excluding FGF transfers and investment income) to be covered primarily by domestic bank loans and drawdown of reserves, while Eurobond issuance will be a contingent measure. After issuing \$8 billion last year, Kuwait did not participate in international debt markets so far this year, as the bill sanctioning new debt issuance still hasn't been approved by the parliament.

The authorities' reform agenda focuses on rationalizing current spending and expanding public investment to stimulate private-sector growth. The revamping of the direct investment regime, plus regulatory improvements in capital markets and corporate governance practices, all point to the intention of the authorities to tackle shortcomings in the business environment. However, the government's inability to push unpopular measures has hindered the reform agenda. To diversify its oil dependent economy, Kuwait needs high-quality FDI. As the country is not desperate for capital, the emphasis is more on adding value to high-tech and knowledge-based sectors of the economy (Exhibit 39).

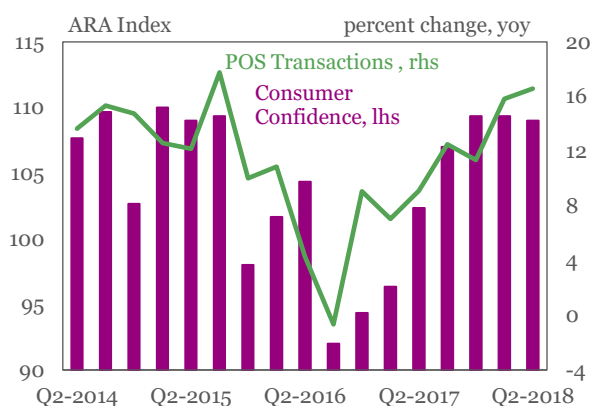
Although Kuwait's banking sector is well capitalized, certain banks' exposure to Turkey merits attention. Given the sharp depreciation of the lira and the prospects for a rise in non-performing loans, pressure on earnings seems inevitable, but the hedging strategies will determine the size of potential losses. The overall performance of Kuwait's banking sector has been quite good this year. Rising interest rates and higher oil prices pushed profits higher in 2018H1, creating a cushion against uncertainty in the second half of the year.

Exhibit 37: Key Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	115	111	120	147	153
Real GDP, % change	0.6	2.9	-3.5	2.9	4.8
Hydrocarbon GDP	-1.7	2.3	-8.0	2.3	6.0
Non-hydrocarbon GDP	0.1	2.0	3.5	3.6	3.5
CPI Inflation Rate, Avg., %	3.3	2.9	1.6	1.3	2.0
Fiscal Balance, % GDP	-0.3	1.1	4.3	9.8	10.1
Excl. Inv. Income % GDP	-17.3	-17.7	-13.3	-6.0	-5.4
Current Account, % GDP	3.5	-4.6	5.9	15.4	15.9
Official Reserves, \$ billion	28.3	31.0	33.6	37.9	41.0
Public foreign assets, %GDP	466	495	471	407	410
Public Debt, % GDP	4.6	9.5	18.7	17.8	18.7
Oil Production, mbd	2.86	2.95	2.70	2.77	2.95

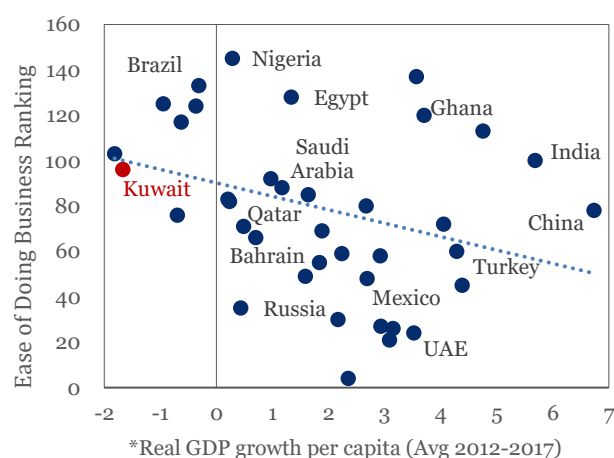
Source: National Sources and IIF forecast for 2017 and 2018.

Chart 38: Consumer confidence reached 2-year high



Source: CBK, ARA Research & Consultancy.

Chart 39: Poor business environment inhibits growth



Source: World Bank Doing Business Report 2017-2018; and WEF Competitiveness Report 2017-2018.

LEBANON: TRIBAL POLITICS PUTS ECONOMY ON A CLIFF'S EDGE

by Garbis Iradian, giradian@iif.com, +1-202-857-3304

The economy is suffering from a protracted economic stagnation, as the lack of reforms and delay in the formation of the new Cabinet have dampened private consumption and investment. The delay in forming a new Cabinet is also standing in the way of the country's access to \$11 billion of concessional loans pledged in April by the international community. Several leading indicators registered declines in the first seven months of this year as compared with the same period of last year (Exhibit 40). The slow pace of recovery in tourism is partly due to the continued decline in visitors from Saudi Arabi and the UAE, who accounted for the biggest share of tourist spending before 2011. We have revised our 2018 growth forecast down to 1.3%.

We expect the peg of the Lebanese pound to the US dollar to be maintained, supported by adequate foreign currency reserves of \$43.6 billion and gold reserves valued at \$11.1 billion in August. The peg provides a strong anchor and remains the basis of financial stability. While the sizeable real effective exchange rate appreciation in recent years has weakened Lebanon's competitiveness, productivity gains from structural reforms could help close the competitiveness gap. Monetary policy needs to remain tight to reduce inflationary pressures, support the peg to the dollar, and help attract adequate nonresident deposits.

Underlying large twin deficits pose a continuing threat to macroeconomic stability. We expect the fiscal deficit to widen to 9.7% of GDP in 2018, and the public debt-to-GDP ratio to increase from 148% in 2017 to 151% in 2018.

The banking sector, which is the backbone of the economy, has been relatively resilient to regional conflicts and political shocks. Liquidity buffers remain adequate, with Tier 1 capital ratio at 15.3% at end-2017. Funding risks remain low, on average, as banks have one of the highest deposit-to-loan ratios among emerging economies. Depositors' commitment to Lebanon will remain strong, motivated by a deep trust in the financial system and the stability of the peg regime.

International markets have become more volatile and the risk premia for a broad range of emerging markets, including Lebanon, have increased. However, Lebanon is different from Turkey. First, monetary policy has been and remains independent despite all the political bickering. Second, Lebanese corporates' exposure to the international market is negligible as they cover their financing needs from the highly liquid local banks. Third, more than 80% of the funding of Lebanese banking sector comes from deposits, including nonresident deposits of the loyal Lebanese diaspora.

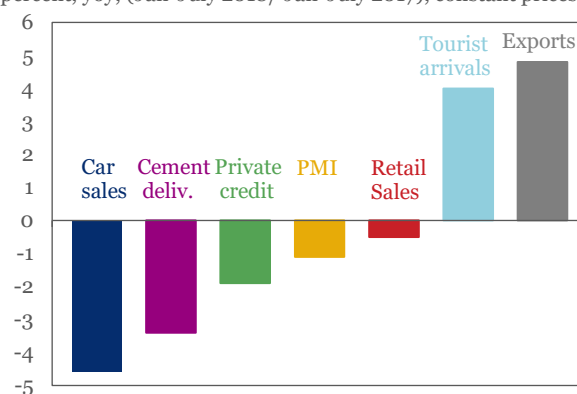
Exhibit 40: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	49.9	51.5	53.9	57.2	61.4
Real GDP % change	0.2	1.7	1.8	1.3	2.1
Private consumption	2.4	6.3	1.8	-1.3	1.5
Public consumption	5.8	1.3	0.1	7.5	2.9
Total investment	-4.3	6.9	-2.0	-4.3	4.1
Exports	6.7	-3.6	1.5	3.2	4.8
Imports	6.5	9.8	-3.2	-2.6	3.0
CPI inflation, average, %	-3.8	-0.8	4.5	5.7	3.8
Current Account, % GDP	-17.3	-20.5	-23.0	-21.5	-20.4
Official reserves, \$ billion	38.8	43.3	43.5	44.0	44.2
Fiscal balance, % GDP	-7.9	-9.6	-7.0	-9.7	-9.1
Gov't debt, % of GDP	140.9	145.5	147.7	150.7	151.4
Gov't debt, % of M3	56.9	56.4	57.4	59.8	61.1

Source: National authorities; IIF forecast for 2018 and 2019.

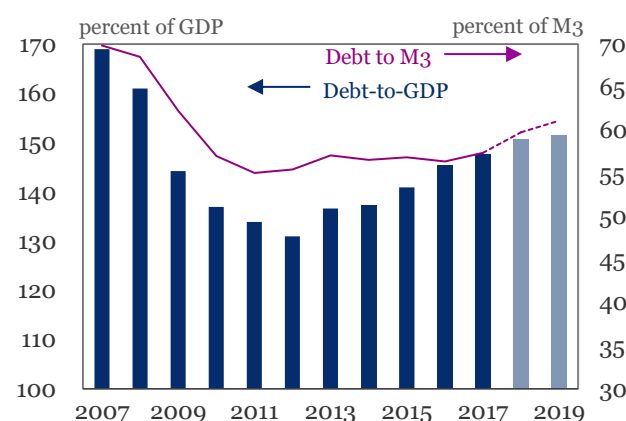
Exhibit 41: Leading economic indicators indicate continued weak economic activity

percent, yoy, (Jan-July 2018/ Jan-July 2017), constant prices



Source: BdL and IIF. *Calculated as the % change of average credit in January-July 2018 from the same period of the previous year. The indicators above are calculated from volume or at constant prices, using appropriate deflators.

Exhibit 42: Public debt is very high and rising in terms of GDP, but not alarming if measured in terms of broad money (M3).



Source: Authorities through 2017; IIF forecast for 2018-2019.

MOROCCO: STRONG FOUNDATION FOR GROWTH

By Jenny Lee, jlee@iif.com, +1-202-375-7503

Morocco has experienced stable but low growth since the Arab Spring. Real GDP growth accelerated in 2017 to 4.1% driven by the rebound in agricultural output. Given the actual rainfall, growth in agriculture is expected to be modest at around 3% this year. Based on the Moroccan planning agency's announcement of lower expected agricultural output next year, we reduced our agriculture sector forecast close to zero for 2019 (Exhibit 1). In the absence of adequate irrigation and dam infrastructure, the agricultural sector remains exposed to risk of droughts that are recurrent in North Africa. Meanwhile, non-agricultural growth is expected to remain in the 3-4% range, demonstrating that Morocco's economy is resilient but still faces challenges shifting into higher gear.

We expect the current account deficit to remain below 4% of GDP in 2018, as buoyant demand from major trading partners and strong performance in the tourism sector partially offsets headwinds from higher oil prices. While energy and equipment imports have grown by 18.8% and 12.5% respectively in nominal terms since the beginning of the year, and Morocco's automotive sector relies on imported capital goods to produce finished products for export, tourist receipts in the first half of the year reached a record. However, FDI and other nonresident inflows have declined, contributing to a modest erosion of Morocco's official reserves.

The central bank, Banque Al-Maghrib, continues to expand its supervisory capacity and effectively manage monetary policy. In January, the bank expanded the band of the exchange rate peg—held at 60% to the euro and 40% to the dollar—from +/- 0.3% to +/- 2.5%. This showcased the government's commitment to gradual liberalization as part of the country's hopes to become Africa's financial hub. Interest rates were held constant at 2.25%.

The government's ongoing commitment to fiscal discipline over the past several years has created fiscal space for greater development spending. While Morocco avoided major flareups during the height of the Arab Spring, the government has recently felt the heat from a protest movement known as Hirak Rif over social issues and lack of economic development. King Mohamed VI responded by acknowledging the need for social reform and investment in the region.

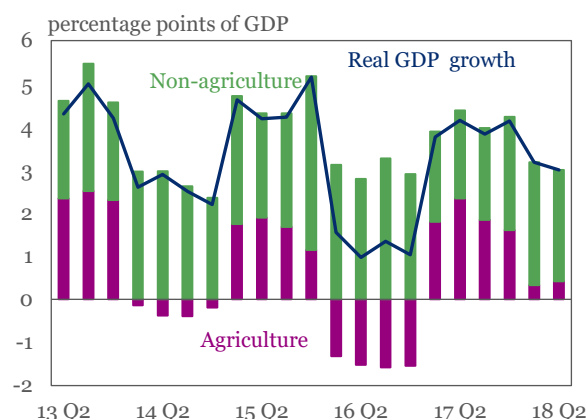
Morocco benefits from a stable macroeconomic foundation, but inequality and youth unemployment remain high. To increase non-agricultural growth, the government must implement its commitment to gradual liberalization with structural reforms to improve the business climate, investor confidence, infrastructure, education and labor markets.

Exhibit 43: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	101.2	103.3	109.7	118.0	119.3
Unemployment rate, %	9.7	9.4	9.3	9.5	9.2
Real GDP % change	4.5	1.1	4.1	3.1	3.2
Agriculture	11.5	-12.6	13.4	3.2	0.2
Non-agriculture	3.4	3.5	2.7	3.1	3.6
Domestic demand	2.0	5.4	4.7	0.5	3.2
Exports of goods & services	5.5	5.5	10.9	6.4	4.5
Imports of goods & services	-1.1	14.7	7.4	3.2	3.0
CPI inflation, average, %	1.6	1.6	0.8	2.4	1.9
Current account, % GDP	-2.1	-4.4	-3.5	-3.9	-3.4
Official reserves, \$ billion	22.3	24.3	25.3	23.9	24.2
Fiscal balance, % GDP	-4.2	-4.1	-3.6	-2.9	-2.3
Gov't debt, % of GDP	63.7	64.9	65.1	63.0	60.6

Source: National authorities; IIF forecast for 2018 and 2019.

Exhibit 44: Quarterly real GDP growth



Source: Haut Commissariat Au Plan and IIF.

Exhibit 45: Banking soundness indicators

	Lebanon	Egypt	Morocco	UAE
	Dec 2017	Mar 2018	Dec 2017	Jun 2018
Tier 1 Capital to RWA	15.3	12.5	10.9	16.6
NPLs to total Loans	5.7	4.5	7.5	7.0
Return on Assets	1.3	1.5	0.9	1.7
Return on Equity	15.0	21.5	9.5	12.2
Liquid to Total Assets	15.9	40.3	13.7	14.2
Liquid Assets to ST Liab.	25.3	n.a.	17.3	36.9
Deposits to Loans	273.9	227.3	104.2	105.4

Source: Respective central banks and IIF.

OMAN: BRIGHTER PROSPECTS DESPITE RISKS

by Boban Markovic, bmaovic@iif.com, +1-202-857-3632

Oman's economy is gaining momentum this year on the back of higher gas output and buoyant activity in the nonhydrocarbon sector. Following a contraction in 2017 caused by reduction in oil output, the hydrocarbon sector is expected to grow by 3.2% this year, driven by increased gas production at the Khazzan field (Exhibit 48). The non-hydrocarbon sector outlook is also improving, as the Sultanate's *Tanfeedh* plan for economic diversification envisages the country as an important regional logistics and tourism hub. Opening of the new airport in Muscat and development of the Duqm Port and Special Economic Zone (SEZD) are steps in the right direction. Recent extension of the expatriate employment ban and a possible introduction of VAT in 2019 will have temporary negative effects on domestic demand next year. However, pickup in investment and government spending is expected to keep non-hydrocarbon growth between 3.5% and 4% in the near term (Exhibit 46).

We expect the fiscal deficit to narrow considerably this year to around 6% of GDP, helped by higher oil prices. The authorities maintained high spending in 2018, despite a series of downgrades last year. VAT introduction has been postponed to 2019, while announced privatization of public companies and the introduction of a new tax on sugary drinks and tobacco is still uncertain. However, the key provisions of the Income Tax Law started on January of this year. Increasing the income tax from 12% to 15%, reducing the tax-free threshold, and bringing all companies from the Ministry of Commerce and Industry under a single tax system are estimated to bring an additional 100 million rials (0.3% of GDP) to state coffers. With persistent high deficits, Oman's public debt is expected to reach 50% of GDP in 2018 as compared with 5% in 2014. Given the modest public foreign assets compared to GCC neighbors, the authorities continue to rely on external sources to finance the deficits. Oman successfully issued Eurobonds worth \$6.5bn in January of this year, enough to meet financing needs and avoid tapping into reserves (Exhibit 48).

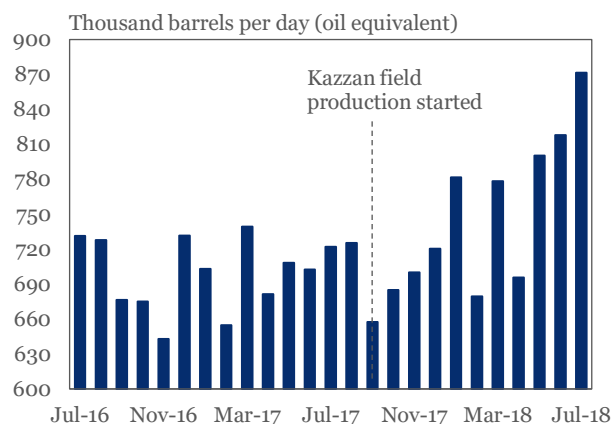
Higher oil prices will also narrow the current account deficit to 5% of GDP this year, still the highest in the GCC. To eliminate the current account deficit and ease external pressure, Oman needs oil prices to average \$85 per barrel. Notwithstanding the ongoing external pressures, foreign issuance will keep the official reserves close to 5 months of imports. Following two Fed rate hikes this year, Oman continued to link its policy rate to the one-month LIBOR rate by keeping the 50bps spread. Banking sector liquidity has improved compared to the same period last year, but the spread between credit and deposit growth disappeared in recent months.

Exhibit 46: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	69	67	73	85	88
Real GDP, % change	4.9	1.8	0.3	3.4	3.2
Hydrocarbon	4.4	2.3	-0.9	3.2	2.6
Non-hydrocarbon	5.3	1.4	1.2	3.5	3.5
CPI Inflation, Avg., %	0.1	1.1	1.6	1.1	2.9
Fiscal Balance, % GDP	-17.5	-20.6	-13.8	-5.6	-4.9
Current Account, % GDP	-15.9	-18.4	-14.8	-4.2	-4.4
Official Reserves, \$ bn	18	20	16	17	17
In months of imports	5.3	7.2	5.0	4.9	4.8
Public Debt, % GDP	14.9	31.5	43.1	46.4	48.7
Oil Production, mbd	0.89	0.91	0.88	0.89	0.90
Gas production, mbdoe	0.50	0.51	0.52	0.56	0.59

Source: National authorities and IIF.

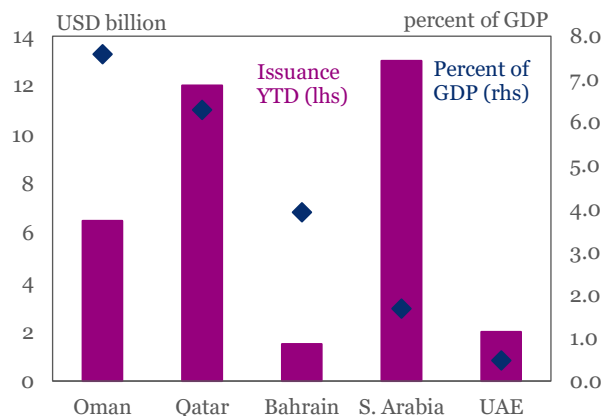
Exhibit 47: Gas production is increasing*



Source: NCSI and IIF.

*Includes imports, which have been constant over the years.

Exhibit 48: Oman remains the largest GCC Eurobond issuer relative to GDP



Source: Bloomberg and IIF.

*Includes conventional Eurobonds and sukuk, but not loans.

QATAR: CONTINUED FORWARD PROGRESS

by Jonah Rosenthal, jrosenthal@iif.com, +1-202-857-3311

Although Qatar's rift with the Saudi-led bloc is well into its second year and shows no signs of abating, economic activity has continued to pick up (Exhibit 49). With higher commodity prices and the resumption of non-resident capital inflows in multiple forms, Qatar's external and fiscal balances are expected to show marked improvement from 2017 even in the face of ongoing regional tension and growing emerging market stress. The rift underscores the importance of adhering to a long-term commitment to structural reform and diversification even as commodity prices rise.

Growth is likely to rise from 1.6% in 2017 to around 2.3% in 2018, primarily on the back of the non-hydrocarbon sector (driven by construction), but aided by stable hydrocarbon production after several years of contraction. Construction activity, funded through years of accumulated oil and gas proceeds, is likely to remain strong over the medium term. Meanwhile, hydrocarbon activity is set to rise substantially, with a commitment to increase the LNG processing and export capacity by 30% (from 77 million tons to 100 million tons) over the next five to seven years. The expansion is in its initial stages, but seems plausible. Even without a rise in export volumes, the rise in hydrocarbon prices in 2018 has caused the country's trade surplus to widen significantly. Qatar remains the world's largest exporter of LNG, with particularly strong demand from East Asian countries.

The fiscal balance is on track to return to a surplus for the first time since 2015 and remain in surplus next year. Higher hydrocarbon prices are the major driver for 2018, while non-hydrocarbon revenues are likely to increase in 2019 with the scheduled introduction of a comprehensive VAT. It remains to be seen, though, whether the political will to reform will overcome popular resistance to the VAT, particularly in the face of continued high oil prices.

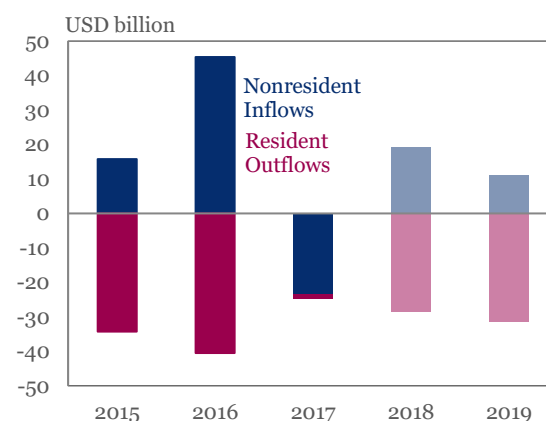
Capital inflows have been very strong, in stark contrast to other EMs and neighbors in the Gulf. Qatar issued a \$12 billion triple-tranche Eurobond in April at modest premiums over US Treasuries, attracting significant interest from foreign investors even in the face of an offering of similar size from Saudi Arabia. The local stock market index has been noted as the top performer worldwide in 2018, even while Gulf neighbors such as Dubai have shown weakness. Additionally, banks saw non-resident inflows of \$9 billion in the first quarter, with both non-resident deposits and bank loans picking up. More recently, Qatar's government pledged to inject \$15 billion into Turkey's beleaguered banking system, in a clear demonstration of its continued strength—not only can it withstand crisis domestically, but it can assert its influence on the broader region.

Exhibit 49: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	161.7	151.7	166.9	191.5	197.7
Real GDP, % change	3.7	2.1	1.6	2.3	4.3
Hydrocarbon GDP	-0.6	-0.9	-0.7	0.0	4.1
Non-hydrocarbon GDP	8.5	5.3	3.8	4.5	4.5
CPI Inflation, Avg., %	1.9	2.7	0.4	0.7	2.8
Fiscal Balance, % GDP	5.4	-4.7	-2.2	3.5	3.7
Current Account, % GDP	8.5	-5.5	3.8	11.8	11.3
Official Reserves, \$ billion	36.5	30.8	13.8	26.3	27.6
SWF, \$ billion	286.5	298.3	309.3	339.3	362.2
Public Debt, % GDP	77.5	93.0	86.3	72.4	67.2
Oil Production, mbd	0.6	0.7	0.6	0.6	0.6
Gas production, mbd	3.3	3.2	3.3	3.3	3.4

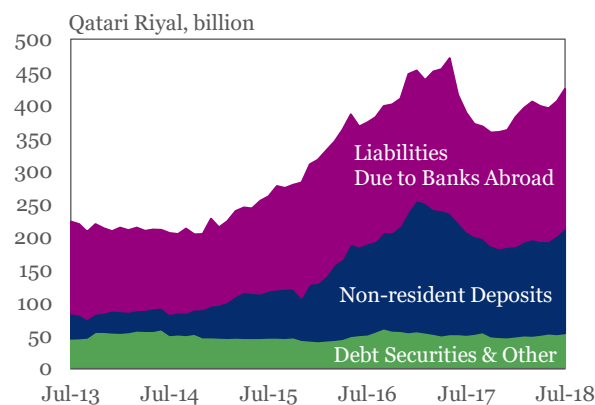
Source: National authorities; IIF forecast for 2018 -2019.

Exhibit 50: Resident and Non-Resident Capital Flows



Source: Central Bank of Qatar; IIF forecast for 2018 and 2019.

Exhibit 51: Capital flows to Qatar are recovering



Source: Qatar Central Bank and IIF.

S. ARABIA: BENEFITING FROM HIGH OIL PRICES, MOMENTUM FOR REFORMS HAS DIMINISHED

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The Saudi authorities are benefiting from additional oil revenue to loosen their fiscal stance following three years of fiscal consolidation. After a contraction of 0.9% in 2017, we see real GDP growth recovering to 2.2% in 2018, reflecting higher oil production and the effect of substantial fiscal stimulus spending (Exhibit 52). Oil production has increased in the past three months to partly offset the short-fall in Iran's and Venezuela's oil exports. On the expenditure side, growth will be driven by public consumption and investment. While the authorities have stepped up efforts to improve the business environment, private investment remains weak as the crackdown on corruption in late 2017 may have dampened domestic private confidence. Based on high-frequency indicators (PMI and credit growth), nonoil private sector growth in 2018H1 may have remained around 1% (Exhibit 53).

Higher oil prices, the peg to the dollar, large public foreign assets, and low public debt make Saudi Arabia less prone to EM contagion. The fiscal situation in Saudi Arabia is now on a firmer footing. The kingdom has implemented serious fiscal adjustment in recent years, which focused mostly on cuts in capital expenditure. Higher oil prices combined with mobilization of additional non-oil government revenue and cuts in fuel subsidies should more than offset the 20% increase in government spending, leading to narrowing of the fiscal deficit from 9.1% of GDP in 2017 to 5.2% of GDP in 2018.

We expect the current account surplus to widen from \$15 billion in 2017 to \$70 billion (9% of GDP) in 2018. However, official reserves are likely to increase by only \$24 billion (to \$520 billion by end 2018) as net capital outflows (nonresident inflows - resident outflows + errors and omissions) will remain large (Exhibit 54). The spread between 3-month SAI-BOR and 3-month LIBOR has tightened. Nonetheless, timely policy rate increases reduced the pressure on capital flows. An additional boost to capital inflows came from an \$11 billion loan raised recently by the Public Investment Fund (PIF). As prospects of an Aramco IPO remain uncertain, we can expect stronger participation of Saudi Arabia's sovereign entities (including the PIF) in international debt markets.

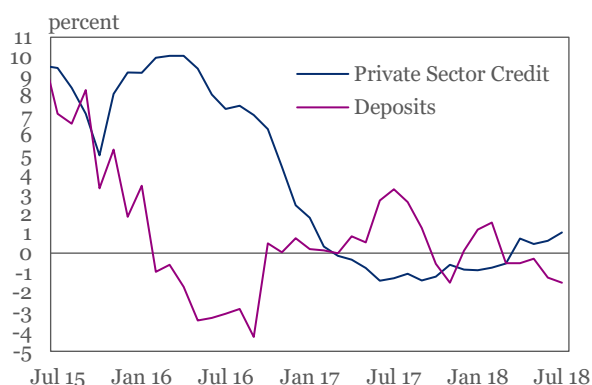
With higher oil prices and narrowing fiscal deficit, the urgency for reforms has diminished. Deeper structural reforms are needed to strengthen the business climate and improve competitiveness to support diversification and job creation. It is crucial to avoid complacency in the context of the recovery in oil prices. The case for widespread fundamental structural reforms remains as bureaucracy, lack of transparency, inefficiency, and unpredictability remain major impediments to achieving sustained, rapid, private sector-driven growth.

Exhibit 52: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	654	645	687	787	816
Real GDP, % change	4.1	1.7	-0.9	2.2	2.6
Hydrocarbon GDP	5.3	3.6	-3.1	2.4	2.8
Non-hydrocarbon GDP	3.2	0.2	0.9	2.1	2.4
CPI Inflation Rate, Avg., %	1.2	2.0	-0.8	3.7	3.0
Fiscal Balance, % GDP	-15.8	-17.2	-9.2	-4.8	-3.5
Current Account, % GDP	-8.7	-3.7	2.2	9.0	8.2
Official Reserves, \$ billion	616	535	496	519	536
PIF, \$ billion	183	210	230	274	334
Government Debt, % GDP	5.8	13.6	17.2	20.2	23.1
Oil Production, mbd	10.2	10.5	10.0	10.2	10.5
Gas production, mbd	1.9	2.0	2.0	2.0	2.0

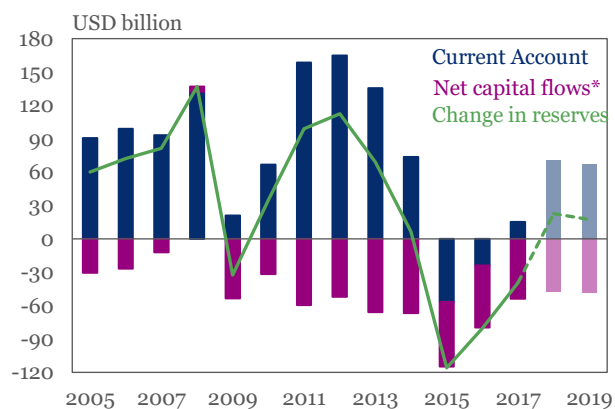
Source: National authorities; IIF forecast for 2018 -2019.

Exhibit 53: Growth in deposits and credit remains weak



Source: SAMA and IIF.

Exhibit 54: The substantial improvement in the current account will lead to accumulation of official reserves



Source: IIF calculations and forecast.

* Net cap. flows = non-resident inflows + resident outflows + errors and omissions.

TUNISIA: DASH TO THE FOURTH IMF REVIEW

By Jenny Lee, jlee@iif.com, +1-202-375-7503

Tunisia's economy has started to turn a corner following years of low growth since the 2011 Arab Spring. Growth climbed to 2.8% in 2018 Q2, a four-year high, driven mainly by significant improvements in agriculture and tourism, which continues to rebound since the 2015 terrorist attacks. The first half of 2018 witnessed a 40% increase in tourism revenues and 60% increase in European visitors compared to the same period of the previous year.

The current account deficit continues to widen. While a depreciating dinar is expected to boost exports, higher oil prices have increased the oil import bill. As a result, Tunisia's official reserves have fallen to \$4.2 billion in July, covering barely 2.2 months of imports of goods and services. The Central Bank of Tunisia has raised its policy rate by a total of 175 basis points since end-2017, seeking to restock reserves and curb inflation. However, annual inflation climbed to 7.7% in the Q2 2018 due partly to the depreciation of the currency.

Tunisia is currently at a crossroads with the IMF program, with the biggest hurdle being the requirement to contain the budget deficit by the time the IMF considers the Fourth Review at the end of this month. If all conditions are met, Tunisia stands to receive about \$250 million after the IMF Executive Board meets in the next few weeks. As the Tunisian government prepares to issue bonds to finance the budget deficit, which remains in line with recent years, greater clarity on the prospects for the next steps of the program will reassure prospective investors.

Fiscal consolidation is underway, but modest relative to what is needed. It has relied on hikes in fuel prices, and higher electricity and natural gas tariffs, rather than imposing new taxes. A comprehensive public wage restraint has been put in place and the government has promised to adopt pension reform, with the aim of reducing the fiscal deficit gradually to 2.3% of GDP by 2020, as compared to our projection of 5.2% in 2018. Nevertheless, higher oil prices will raise energy subsidies (which disproportionately benefit the better-off), and the adoption of the pension reform law does little to address the pension fund's immediate liquidity deficit.

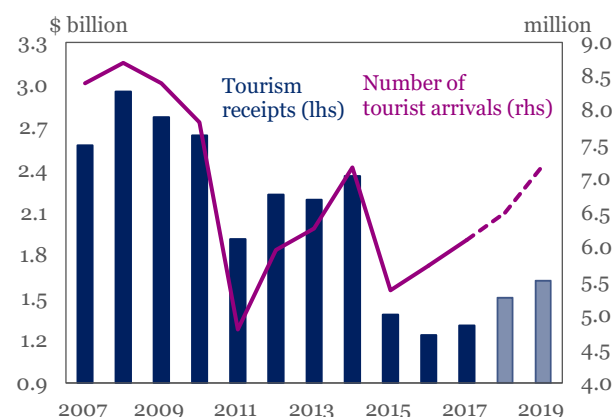
Tunisia continues to strive for sustainability and inclusive growth as it confronts a challenging environment. It is crucial for the authorities to take decisive action restructuring public banks, enhancing governance, and improving the business climate to enable the economy to grow at a higher and more sustainable rate. These deeper reforms are important to create jobs for an ever-growing labor force, bring down unemployment, and restore public sentiment in the government to preserve the nation's fragile democracy.

Exhibit 55: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	43.2	41.7	40.0	41.0	44.1
Unemployment rate, %	15.2	15.6	15.3	15.0	14.6
Real GDP % change	1.2	1.1	2.0	2.5	3.0
Domestic demand	-1.4	1.1	1.2	1.1	1.8
Exports	-5.5	2.4	2.4	4.5	4.5
Imports	-8.8	2.2	1.0	1.7	2.2
CPI inflation, average, %	4.9	3.7	5.3	7.3	6.2
Current account, % GDP	-9.1	-8.9	-10.3	-9.8	-8.0
External debt, % GDP	66.1	69.2	83.5	89.5	89.0
Official reserves, \$ billion	7.4	5.9	5.6	5.7	6.4
Fiscal balance, % GDP	-4.4	-5.4	-5.8	-5.2	-4.2
Gov't debt, % of GDP	55.4	62.4	70.4	70.6	70.8

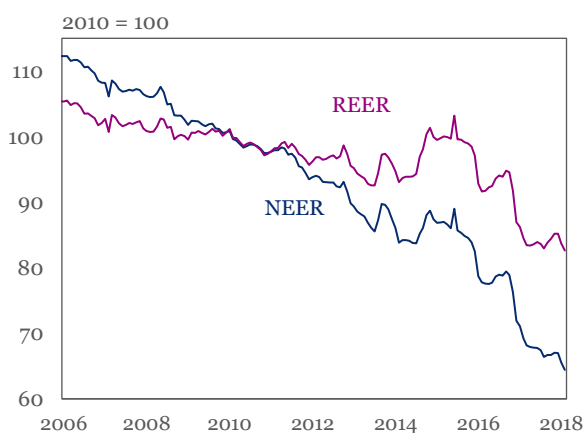
Source: National authorities; IIF forecast for 2018 -2019.

Exhibit 56: Tourism is recovering



Source: National Authorities and IIF forecast.

Exhibit 57: The real effective exchange rate has depreciated significantly in the past two years



Source: International Financial Statistics and IIF.

UAE: PICKING UP THE PACE

by Garbis Iradian, giradian@iif.com, +1-202-857-3304

Sentiment has improved with firmer oil prices. The PMI has increased in recent months to a four-month moving average of 62.8 in August 2018, and growth in deposits and credit is accelerating. We expect growth to pick up from 0.8% in 2017 to 2.3% in 2018, supported by the modest increase in oil production and fiscal stimulus (Exhibit 58). While growth in Abu Dhabi will recover this year, economic activity in Dubai continues to be dependent on regional prospects, particularly Saudi Arabia and Iran. Dubai will not escape unscathed from the expected contraction in the Iranian economy. We see inflation declining from 3.5% in 2018 to 2.5% in 2019.

The volume of property transactions has declined, and residential prices have continued to soften both in Dubai and Abu Dhabi. We expect residential rent declines to continue in 2019, albeit at a slower pace, as job growth remains low and new housing becomes available. While the UAE currency is overvalued, the flexibility of the labor market combined with implementation of structural reforms, would improve competitiveness without the need for currency adjustment.

The sizeable fiscal consolidation of the past three years should put the fiscal stance on a more sustainable footing over the medium term. We see the fiscal balance shifting from a deficit of 1.8% in 2017 to a surplus of 0.8% in 2018 as higher oil revenues will more than offset the significant increase in government spending. The external position remains in an enviable position. We expect the current account surplus to widen to \$58 billion, 13.3% of GDP, in 2018 backed by higher oil exports. We expect public foreign assets (official foreign assets plus SWFs) to continue increasing to about \$910 billion, more than 200% of GDP, by 2019. The UAE will remain the main regional destination of FDI inflows at about \$11 billion in 2018 (2.7% of GDP), and accounting for 23% of total FDI to the MENA region.

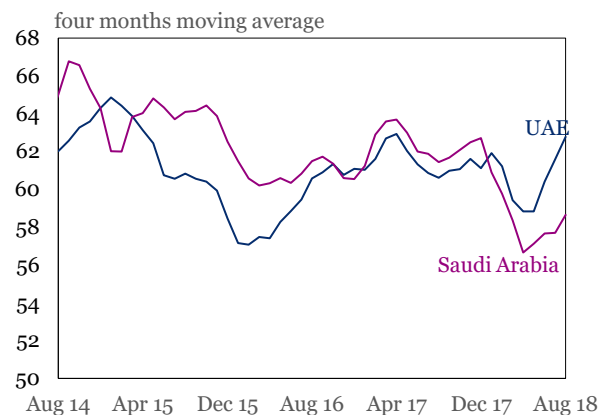
We see improvement in the outlook for the banking sector. Banks remain adequately capitalized with a 16.3% Tier 1 ratio in June 2018, the eligible liquid asset ratio for national banks has increased, and the loan-to-deposit ratio edged down to 96% in July 2018. However, NPLs as a share of total loans remain relatively high at 7%. The net interest margin has improved, as loans reset at higher rates and funding costs improved as liquidity conditions eased. We expect a rising interest rate environment to be eventually supportive of sector profitability. We expect a modest acceleration in growth in deposits and credit to around 6% and 4%, respectively, by end-2018. Further increases in the policy rate are expected this year, in step with future Fed moves. On top of the increase in March and June, we expect two more hikes by the Fed for the remainder of this year, 25 bps each, pushing up funding costs.

Exhibit 58: Main Macroeconomic & Financial Indicators

	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	358.1	357.0	383.6	434.6	450.9
Real GDP, % change	5.1	3.0	0.8	2.3	2.6
Hydrocarbon GDP	5.2	2.6	-3.0	1.5	1.7
Non-hydrocarbon GDP	5.0	3.2	2.5	2.7	3.0
CPI Inflation Rate, Avg., %	4.1	1.6	2.0	3.5	2.1
Fiscal Balance, % GDP	-3.4	-2.4	-1.8	0.8	-0.3
Excl. investment income	-9.6	-8.7	-7.7	-4.5	-5.4
Current Account, % GDP	4.9	3.7	6.9	13.3	13.0
Official Reserves, \$ billion	93.7	85.1	85.1	86.8	88.6
SWF, \$ billion	622.5	652.2	725.4	794.5	829.8
Public Debt, % GDP	58.6	62.2	59.6	51.9	50.3
Oil Production, mbd	3.00	3.07	2.94	2.99	3.04
Gas production, mbdoe	0.97	0.99	1.00	1.01	1.03

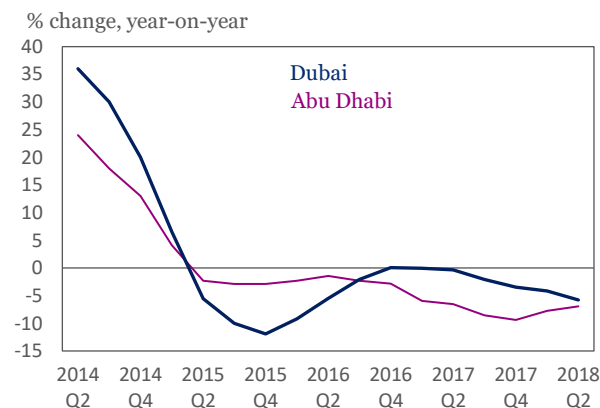
Source: National authorities; IIF forecast for 2018 -2019.

Exhibit 59: PMI has improved in the past few months and is now well above Saudi Arabia



Source: IHS Markit and IIF.

Exhibit 60: Residential prices have been declining in Abu Dhabi and Dubai since mid-2014



Source: REIDIN, Central Bank of the UAE, and IIF.

**The Institute of
International Finance**
Statistical Appendix
MENA Regional Report
September 2018



The statistical appendix provides consolidation of key economic and financial indicators for the GCC and MENA Region countries that Middle East Department covers (Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Tunisia, Saudi Arabia, the UAE). In conjunction with our latest MENA Regional Report, we release this dataset which presents historical data and IIF estimates for 2017 and forecasts for 2018 - 2020. Additional historical data are available on our website.

Several assumptions have been adopted for the projections in our MENA Regional Economic Outlook Update:

- Established economic policies of national authorities will be maintained.
- The price of Brent oil will average \$74 a barrel in 2018, \$72 a barrel in 2019, and then decline gradually to \$60 per barrel by 2023.
- The six-month London interbank offered rate (LIBOR) on US dollar deposits will average 2.5% in 2018; and 3.1% in 2019; and 3.5% in 2020.
- World nonfuel commodities will increase by 0.4% in 2018; decrease by 1.1% in 2019; and then increase by 1.5% a year beyond 2019.
- World price of manufacturing goods will increase 1.9% in 2018, 1.3% in 2019; and 1.5% a year beyond 2019.
- No war between Israel and Iran and its allies (Hezbollah in Lebanon and Syria).

All data refer to calendar years, except Egypt (July/June); Iran (March 21/20), and Qatar (April/March).

APPENDIX TABLE 1: MENA - MAIN ECONOMIC AND FINANCIAL INDICATORS

	2013	2014	2015	2016	2017	2018	2019	2020
OUTPUT, PRICES AND EXCHANGE RATE								
Memo: Arab World (MENA excl. Iran)	3.8	3.1	3.9	3.2	0.7	2.7	3.3	3.3
GCC Real GDP Growth	3.6	3.5	3.8	2.2	-0.3	2.4	3.0	2.9
Hydrocarbon	-0.1	0.6	3.4	2.5	-3.3	1.9	3.2	2.7
Nonhydrocarbon	6.4	5.8	4.1	1.9	2.0	2.7	3.0	3.1
Non-GCC Real GDP Growth*	2.6	2.7	1.3	10.1	2.3	0.4	0.3	2.7
Oil importers real GDP growth	3.4	2.8	3.7	3.1	3.5	3.8	4.3	4.5
MENA								
Nominal GDP (\$ billion)	2,992	3,038	2,656	2,649	2,716	2,902	3,035	3,269
MENA Real GDP % change	3.3	3.1	3.2	4.6	1.2	2.2	2.6	3.2
Domestic demand % change	2.8	6.1	1.6	1.2	1.7	2.7	2.3	2.9
Private consumption % change	1.8	3.9	1.9	1.3	1.5	1.4	3.3	3.8
Public consumption % change	8.0	6.4	0.3	-3.6	2.4	3.1	1.2	0.6
Gross fixed capital % change	2.1	7.1	2.4	0.8	-0.6	3.6	2.4	3.5
Exports of goods and services % change	0.1	1.1	0.6	6.8	1.0	2.0	2.9	3.2
Imports of goods and services % change	1.6	3.7	-2.7	-2.9	1.7	2.1	1.9	2.5
Gross investment, % of GDP	23.5	24.2	23.9	22.3	22.5	22.8	22.7	22.9
CPI % change average	8.1	5.1	4.8	4.2	4.3	8.6	7.0	6.3
EXTERNAL SECTOR, \$ bn, unless otherwise indicated								
Trade Balance	557	440	105	93	186	343	314	299
Merchandise exports	1,400	1,301	901	857	974	1,177	1,170	1,187
Merchandise imports	-842	-862	-796	-764	-788	-833	-856	-889
Balance of Services, Income & Transfers	-209	-230	-216	-185	-170	-179	-181	-182
Current Account Balance	344	220	-103	-97	7	165	131	116
% GDP	11.5	7.2	-3.9	-3.6	0.3	5.7	4.3	3.6
Nonresident capital flows	75.4	101.7	126.4	181.3	156.2	192.3	152.5	159.4
o/w Foreign direct investment	46.6	45.9	35.6	40.1	36.6	44.0	48.8	51.8
Portfolio investment	14.0	17.5	9.6	65.9	81.0	83.6	55.3	60.1
Other investment	14.8	38.4	81.2	75.3	38.6	64.8	48.4	47.5
Resident capital flows	-252.3	-262.0	-152.6	-115.9	-198.7	-288.5	-258.3	-246.7
o/w Foreign direct investment	-47.7	-21.3	-38.9	-36.6	-34.9	-36.4	-42.3	-42.5
Portfolio investment	-57.2	-124.8	-64.7	-37.1	-27.9	-44.5	-48.5	-49.5
Other investment	-147.5	-115.9	-48.9	-42.1	-135.9	-207.6	-167.5	-154.7
Official Reserves excluding gold	1,351	1,344	1,187	1,066	1,029	1,086	1,103	1,120
Total External Debt	763	810	893	997	1,093	1,192	1,262	1,321
% GDP	24.7	26.3	33.0	37.1	40.1	40.9	40.5	39.7
FISCAL SECTOR AND GOVERNMENT DEBT								
Total revenue % GDP	36.1	33.6	27.0	24.8	26.6	29.6	29.5	28.7
Total expenditure % GDP	32.3	35.0	35.4	34.2	31.8	32.2	31.9	30.7
Overall balance % GDP	3.8	-1.4	-8.5	-9.4	-5.2	-2.5	-2.3	-2.0
Government debt % GDP	24.0	25.7	36.0	45.1	42.6	40.5	42.1	42.7
BROAD MONEY, CREDIT, AND POLICY RATE								
M2 % change	16.9	11.9	7.8	7.2	10.6	10.1	10.8	10.1
Private sector credit, % change	13.4	12.3	11.4	10.6	10.2	8.0	8.5	9.3

Source: Authorities through 2017; IIF forecasts for 2018- 2020.

*Iran, Iraq, Algeria

APPENDIX TABLE 2.A: GCC – CONSOLIDATED NATIONAL ACCOUNTS, POPULATION, TOT, REER, AND ASSUMPTIONS

	2013	2014	2015	2016	2017	2018	2019	2020
NATIONAL ACCOUNTS								
Nominal GDP (\$ billion)	1,621	1,643	1,389	1,364	1,465	1,683	1,746	1,802
Real GDP % change	3.6	3.5	3.8	2.2	-0.3	2.4	3.0	2.9
Hydrocarbon, % change	-0.1	0.6	3.4	2.5	-3.3	1.9	3.2	2.7
Non-hydrocarbon, % change	6.4	5.8	4.1	1.9	2.0	2.7	3.0	3.1
Non-government % change	5.9	5.7	4.1	2.6	2.5	2.3	2.7	3.2
Government % change	7.1	5.0	3.5	0.7	0.3	3.7	3.2	2.5
Domestic demand % change	4.5	7.9	1.9	-2.2	0.8	3.3	2.5	3.0
Private consumption % change	1.8	4.6	1.5	0.3	0.9	1.4	4.1	4.5
Public consumption % change	13.4	8.0	-2.8	-10.3	3.0	3.7	1.3	0.2
Gross fixed capital % change	3.7	8.4	4.0	-0.1	-1.1	5.1	2.7	3.2
Exports of goods and services % change	3.2	0.0	1.2	3.6	-1.4	2.3	3.8	2.8
Imports of goods and services % change	6.2	6.4	0.1	-8.3	-0.7	4.1	3.4	2.6
Nominal GDP % change	2.7	1.4	-15.5	-1.8	7.5	14.9	3.7	3.2
GDP deflator % change	-0.9	-2.1	-18.6	-3.9	7.8	12.2	0.7	0.3
INVESTMENT AND SAVINGS (% GDP)								
Gross domestic investment	23.7	24.9	25.6	24.9	24.5	24.8	24.9	25.1
Gross national saving	45.0	39.4	23.2	22.2	27.4	35.8	35.4	34.3
Net foreign balance	21.3	14.5	-2.4	-2.8	2.9	10.1	9.6	8.3
HYDROCARBON SECTOR								
Crude oil production (b/d thousand)	17.2	17.2	17.8	18.3	17.3	17.7	18.2	18.6
% change	-0.4	0.2	3.4	2.8	-5.2	2.1	3.0	2.3
Domestic oil consumption (b/d thousand)	5.7	6.1	6.3	6.4	6.5	6.6	6.8	6.9
Gas production (b/d thousand; oil equivalent; average)	7.0	6.9	7.2	7.3	7.3	7.4	7.7	8.0
% change	7.0	-0.9	3.7	1.1	0.6	1.4	3.4	3.6
POPULATION AND PER CAPITA INCOME								
Population (million)	49.4	51.1	52.3	53.8	55.0	56.3	57.5	58.7
Population % change	3.4	3.3	2.4	2.8	2.3	2.2	2.2	2.2
Per capita real GDP % change	0.2	0.2	1.4	-0.6	-2.6	0.2	0.9	0.7
Per capita \$ GDP	32,798	32,165	26,540	25,351	26,622	29,922	30,377	30,669
TOT AND EFFECTIVE EXCHANGE RATES								
Goods exports: value % change	0.2	-7.8	-30.8	-9.5	12.5	23.8	2.0	0.3
Goods exports: volume % change	4.6	-2.0	4.0	4.6	-3.8	1.8	3.2	2.7
Goods exports: unit value % change	-4.2	-5.9	-33.4	-13.4	16.9	23.0	-1.2	-2.3
Goods imports: value % change	7.5	0.9	-3.7	-6.7	0.2	5.5	3.6	3.5
Goods imports: volume % change	11.8	2.6	2.6	-2.3	-2.5	4.1	2.9	1.9
Goods imports: unit value % change	-4.3	-1.7	-6.3	-4.4	2.7	1.4	0.6	1.7
Terms of trade (TOT) % change	-0.6	-3.4	-27.8	-8.2	14.1	21.4	-1.6	-3.2
Real effective exchange rate (2010 = 100)	100.8	103.1	111.5	113.7	113.3	115.2	115.2	115.2
WORLD ECONOMIC FRAMEWORK								
\$ LIBOR (six-month, average)	0.41	0.33	0.48	1.06	1.48	2.54	3.09	3.24
Brent spot oil price (\$/bbl, average)	108.9	98.9	52.4	44.0	54.4	74.0	72.0	70.0
World nonfuel commodity prices, % change	-7.3	-4.6	-15.8	-2.6	5.6	0.4	-1.1	2.6
World price manufactured goods % change	-3.0	-0.4	-2.3	-5.2	1.5	1.9	1.3	1.3
\$/€, end-period	1.38	1.21	1.09	1.05	1.20	1.15	1.10	1.29

Source: Authorities through 2017; IIF forecasts for 2018- 2020.

APPENDIX TABLE 2.B: GCC – CONSOLIDATED EXTERNAL ACCOUNTS

	2013	2014	2015	2016	2017	2018	2019	2020
CURRENT ACCOUNT								
Trade Balance	583.7	494.9	207.5	174.6	251.4	393.3	393.6	379.2
Merchandise exports	1078.2	993.7	687.9	622.7	700.4	867.0	884.2	887.2
Hydrocarbon	725.1	648.8	357.0	299.9	364.2	504.5	508.5	498.9
Nonhydrocarbon (largely petrochemicals)	353.0	345.0	330.9	322.8	336.3	362.5	375.7	388.3
Merchandise imports	-494.5	-498.8	-480.5	-448.2	-449.0	-473.7	-490.6	-507.9
Balance on Services, Income & Transfers	-238.8	-257.2	-240.6	-212.4	-208.6	-223.9	-225.7	-229.3
Services Balance	-142.2	-157.0	-134.8	-110.6	-113.0	-118.8	-122.5	-126.1
Income balance	14.3	17.6	24.2	25.8	28.3	22.0	23.7	25.2
Transfers, net	-110.9	-117.8	-130.0	-127.6	-123.8	-127.0	-126.9	-128.4
Current Account Balance	344.8	237.7	-33.1	-37.8	42.8	169.4	168.0	149.9
% GDP	21.3	14.5	-2.4	-2.8	2.9	10.1	9.6	8.3
EXTERNAL FINANCING (\$ bn)								
External Financing, net:	-344.8	-237.7	33.1	37.8	-42.8	-169.4	-168.0	-149.9
Nonresident capital flows	26.6	53.4	83.6	108.8	77.9	122.3	91.1	97.0
Foreign direct investment	25.3	23.6	16.2	20.8	16.5	21.3	23.2	25.0
Portfolio investment	8.9	9.0	8.2	60.0	60.8	60.7	42.9	47.6
Other investment	-7.6	20.7	59.2	28.1	0.6	40.3	25.1	24.4
Resident Capital Outflows	-246.9	-259.9	-150.6	-100.3	-164.5	-249.4	-232.6	-225.7
Foreign direct investment	-44.8	-19.3	-37.2	-34.6	-32.3	-33.5	-37.5	-37.6
Portfolio investment	-73.4	-129.9	-66.6	-37.2	-27.3	-43.6	-46.4	-47.5
Other investment	-128.8	-110.7	-46.8	-28.5	-104.9	-172.4	-148.7	-140.6
Errors and omissions	-12.0	-8.0	-9.8	-71.1	-2.5	0.0	0.0	0.0
Monetary gold (- = increase)	-0.4	-0.2	-0.5	-0.2	0.0	0.0	0.0	0.0
Reserves excluding gold (- = increase)	-112.3	-21.5	112.1	101.3	47.4	-41.3	-25.4	-20.1
EXTERNAL DEBT AND DEBT SERVICE (\$ bn)								
Total External Debt	505.3	539.5	600.3	694.2	833.2	923.3	977.9	1031.1
% GDP	31.2	32.8	43.2	50.9	56.9	54.8	56.0	57.2
% Exports goods, services & income	41.4	46.6	69.9	86.2	93.3	86.2	88.9	92.7
EXTERNAL ASSETS (\$ million)								
International reserves, excluding gold	885	907	795	705	657	698	724	744
Months imports goods, services & income	13.9	13.6	12.5	11.8	10.8	10.8	10.8	10.7
Deposit money banks' foreign assets	268	318	344	344	347	347	352	358
DIRECTION OF TRADE								
Export destination % total:								
EU	7.0	6.6	7.4	7.0	8.3			
China	11.1	11.9	11.7	11.2	11.6			
USA	5.7	5.6	5.1	5.2	4.7			
Import destination % total:								
EU	20.3	20.6	19.0	18.8	21.1			
China	11.6	13.6	10.4	10.3	16.4			
USA	9.6	9.3	9.2	10.0	10.4			
STRUCTURE OF TRADE								
Exports % GDP	66.5	60.5	49.5	45.7	47.8	51.5	50.6	49.2
Imports % GDP	30.5	30.4	34.6	32.9	30.6	28.1	28.1	28.2

Source: Authorities through 2017; IIF forecasts for 2018- 2020.

APPENDIX TABLE 2.C: GCC – CONSOLIDATED FISCAL AND MONETARY ACCOUNTS

	2013	2014	2015	2016	2017	2018	2019	2020
GOVERNMENT (\$ billion, otherwise indicated)								
Total revenue	734.4	667.7	433.6	381.0	428.7	554.4	577.4	588.3
Oil revenue	580.4	510.6	263.1	211.8	261.2	367.0	369.4	361.8
Non-oil	154.0	157.0	170.5	169.2	167.5	187.4	208.0	226.5
Investment income	60.9	68.1	58.2	51.8	50.3	49.3	50.6	52.0
Total expenditure	551.8	630.7	557.0	524.7	510.9	574.4	590.6	606.1
Current expenditure	422.8	483.3	441.7	410.8	416.9	460.8	472.2	482.6
ow: Wages and salaries	132.5	142.0	159.6	173.8	172.9	188.3	192.7	196.6
Capital expenditure	129.0	147.5	115.3	113.9	93.9	113.6	118.4	123.6
Overall balance	182.6	36.9	-123.4	-143.7	-82.1	-20.0	-13.2	-17.8
Overall balance, excl. investment income	121.7	-31.2	-181.6	-195.6	-132.5	-69.3	-63.8	-69.8
Total revenues % GDP	45.3	40.6	31.2	27.9	29.3	32.9	33.1	32.7
Oil revenues % GDP	35.8	31.1	18.9	15.5	17.8	21.8	21.2	20.1
Total expenditure % GDP	34.0	38.4	40.1	38.5	34.9	34.1	33.8	33.6
Overall balance % GDP	11.3	2.2	-8.9	-10.5	-5.6	-1.2	-0.8	-1.0
Overall balance (excl. investment income) % GDP	7.5	-1.9	-13.1	-14.3	-9.0	-4.1	-3.7	-3.9
Total revenue % change	0.7	-9.1	-35.1	-12.1	12.5	29.3	4.1	1.9
Oil revenues % change	-4.2	-12.0	-48.5	-19.5	23.3	40.5	0.6	-2.1
Total expenditure % change	5.4	14.3	-11.7	-5.8	-2.6	12.4	2.8	2.6
Current expenditure % change	1.3	14.3	-8.6	-7.0	1.5	10.5	2.5	2.2
Capital expenditure % change	21.5	14.3	-21.8	-1.2	-17.5	21.0	4.2	4.4
PUBLIC DEBT (\$ billion, otherwise indicated)								
Public debt	380.2	372.4	408.1	507.6	576.0	623.1	656.8	689.0
Public debt % GDP	23.5	22.7	29.4	37.2	39.3	37.0	37.6	38.2
MONETARY (\$ billion, otherwise indicated)								
Net foreign assets	925	958	816	690	663	701	721	737
Central Bank	876	895	784	690	645	687	712	731
Foreign assets	889	910	802	712	664	704	730	750
Foreign liabilities	13	15	18	22	19	18	18	18
Commercial banks	50	62	32	0	18	14	10	6
Foreign assets	289	342	368	369	371	387	387	386
Foreign liabilities	240	280	336	368	353	373	377	380
Domestic credit	479	591	818	983	1,071	1,108	1,172	1,253
Net claims on government	-421	-398	-251	-133	-58	-55	-47	-38
Claims on the private sector	788	876	958	999	1013	1056	1108	1178
Claims on the private sector % change	8.4	11.2	9.3	4.2	1.4	4.3	5.0	6.2
Claims on the private sector % of GDP	48.6	53.3	69.0	73.2	69.1	62.7	63.5	65.4
Other liabilities	406	457	509	536	547	565	585	610
Broad money (M3)	997	1,092	1,125	1,137	1,188	1,244	1,308	1,380
% change	14.7	9.5	3.0	1.1	4.5	4.7	5.2	5.5

Source: Authorities through 2017; IIF forecasts for 2018- 2020.