Atradius Country Report

Middle East and North Africa – October 2019

Contents

Middle East and Northern African economies: Atradius STAR Political Risk Rating*:

Algeria:	6 (Moderate-High Risk) - Positive
Egypt:	6 (Moderate-High Risk) - Negative
Morocco:	4 (Moderate-Low Risk) - Negative
Saudi Arabia:	3 (Moderate-Low Risk) - Negative
Tunisia:	6 (Moderate-High Risk) - Stable
United Arab Emirates:	2 (Low Risk) - Negative

* The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk.

The 10 rating steps are aggregated into five broad categories to facilitate their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'Low Risk', 'Moderate-Low Risk', 'Moderate Risk', 'Moderate-High Risk' to 'High Risk', with a separate grade reserved for 'Very High Risk.'

In addition to the 10-point scale, rating modifiers are associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

For further information about the Atradius STAR rating, please click here.

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Algeria

Main import sources (2018, % of total)	
China:	18.1 %
France:	9.3 %
Italy:	8.2 %
Germany:	7.0 %
Spain :	6.8 %

Main export markets (2018, % of total)	
Italy:	16.0 %
France:	12.6 %
Spain:	11.7 %
USA:	9.9 %
Brazil:	6.0 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	3.2	1.4	1.5	1.7	1.9
Inflation (y-on-y, % change)	5.8	5.9	3.5	3.1	4.9
Real private consumption (y-on-y, % change)	3.3	1.9	3.5	2.8	2.5
Real government consumption (y-on-y, % change)	1.3	1.3	3.5	2.8	2.5
Industrial production (y-on-y, % change)	5.3	0.6	-4.7	-0.1	0.3
Real fixed investments (y-on-y, % change)	3.5	3.3	-0.4	0.8	1.2
Real export of goods and services (y-on-y, % change)	8.7	-5.3	-4.2	0.2	1.3
Fiscal balance (% of GDP)	-13.0	-6.6	-5.7	-8.7	-7.5
Public debt (% of GDP)	20.4	27.5	38.1	50.4	58.2
Current Account (% of GDP)	-16.4	-13.2	-9.0	-11.9	-10.9
Foreign debt (% of GDP)	3.4	3.4	3.3	3.4	3.9

* forecast Source: Oxford Economics

Algeria industries performance forcast

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

Bleak:
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Energy (oil, gas)**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
Interim President Abdelkader Bensalah (since April 2019)

Form of government:
Democratically elected government, but military has strong political influence.

Population:
42.6 million (est.)

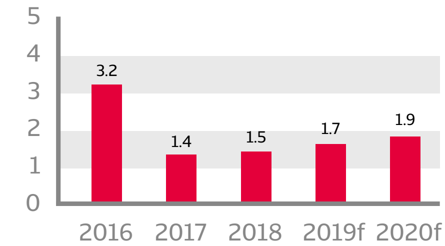
Political uncertainty lingers

Early April 2019 President Bouteflika resigned after weeks of countrywide mass protests against his candidacy for re-election (Bouteflika was the incumbent since 1999 and is in poor health). Presidential elections originally planned for July 2019 were postponed due to a lack of candidates, and finally scheduled for December 2019. However, street protests have continued, demanding an overhaul of political institutions before any polls and the resignation of several members of the government. The risk of further mass protests ahead of the elections against the government and the military remains high.

The risk of further social unrest is fuelled by major shortcomings (endemic cronyism, high unemployment, lack of affordable housing and high living costs). While the official unemployment rate is at 12%, unemployment of people under 30 (this age group accounts for two-thirds of the population), amounts to more than 25%.

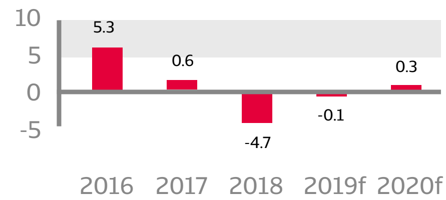
Economic situation

Real GDP growth (y-on-y, % change)



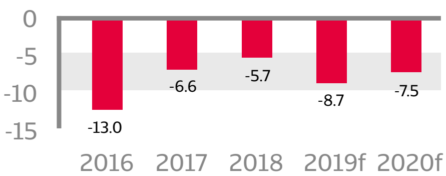
Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

A subdued economic performance

Algeria's economy is underpinned by the oil and gas sector, which accounts for more than 95% of export revenues, and 60% of the government budget. The government has tried to limit the economic impact of the 2015/2016 deterioration in oil prices by using fiscal savings accumulated in the country's oil stabilisation fund during the oil price boom to prop-up public spending. Despite the rebound in oil prices GDP growth is expected to recover only modestly in 2019 and 2020, as the oil fund is nearly depleted, and the ongoing political uncertainty weighs on the economic performance.

Algeria's budget deficit will increase again in 2019 due to higher capital and social spending. While more than a fifth of the budget is used for subsidies, tackling the vast welfare system remains sensitive given the potential for more social unrest. As it is possible to finance the deficit by central bank borrowing for the time being, the incentive for fiscal reform remains relatively low.

The current account deficit is expected to remain high in 2019 and 2020, at about 10% of GDP. Since Algeria remains reluctant to borrow externally and FDI inflows are limited, the deficit is mainly financed by international reserves. While foreign debt is still low (at about 3.5% of GDP), government debt is sharply increasing, from 9% of GDP in 2015 to a forecast 58% in 2020. Foreign reserves remain at a comfortable level, however, they continue to rapidly decrease, from 30 months of import cover in 2014 to 16 months in 2019 and 12 months in 2020. To protect the reserves the government tightened import restrictions in 2018.

To ensure prosperity and stability in the long-term, the authorities would have to accelerate their current rate of economic diversification. However, government intervention (it is estimated that 90% of Algeria's GDP is still controlled by the state), red tape, corruption, limited access to finance and a rigid labour market still hamper private enterprise initiatives and foreign investment, slowing down the necessary economic transition. The burden on fiscal policy and domestic financing pressures could be alleviated if the government chooses to start borrowing on the international market and open up the economy to more foreign investment.

Print this article

Egypt

Main import sources (2018, % of total)	
China:	14.2 %
Saudi-Arabia:	7.0 %
USA:	6.7 %
Russia:	6.0 %
Germany:	5.1 %

Main export markets (2018, % of total)	
Italy:	7.0 %
Turkey:	6.9 %
UAE:	6.8 %
USA:	5.9 %
Saudi Arabia:	4.9 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	4.3	4.1	5.3	5.6	5.7
Inflation (y-on-y, % change)	13.8	29.5	14.4	11.0	10.2
Real private consumption (y-on-y, % change)	4.5	5.0	1.1	0.8	3.6
Real government consumption (y-on-y, % change)	3.9	2.5	1.7	5.8	5.3
Industrial production (y-on-y, % change)	-1.0	7.1	2.9	1.9	5.7
Real fixed investments (y-on-y, % change)	10.5	11.8	16.2	11.1	11.3
Real export of goods and services (y-on-y, % change)	-15.2	80.2	33.5	3.6	9.0
Fiscal balance (% of GDP)	-12.0	-10.7	-9.5	-8.2	-7.3
Public debt (% of GDP)	103.0	108.2	97.3	90.2	86.8
Current Account (% of GDP)	-6.9	-3.5	-2.3	-2.5	-2.3
Foreign debt (% of GDP)	22.7	36.1	34.9	32.9	32.6

* forecast   Source: Oxford Economics

Egypt industries performance forecast

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Energy (oil, gas)**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
Abdel Fattah Saeed Hussein Khalil El Sisi (since 8 June 2014)

Form of government:
De facto military government

Population:
99.3 million (est.)

The internal security situation remains tense

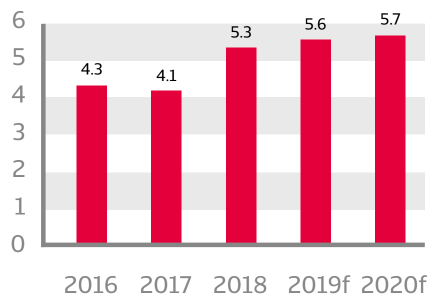
Currently President Sisi is firmly in control of political power, as the military government has a tight grip on the country. Although people are dissatisfied with his authoritarian rule and painful economic reforms, large-scale public uprisings are likely to be contained.

The internal security situation remains tense with an elevated risk of terrorist attacks. In the Sinai Peninsula and the border region to Libya, Jihadist forces are stirring unrest. The largest of those groups is the so-called "Sinai Province", an affiliate of the Islamic State. There have been several attacks targeted at the Christian minority.

Egypt is heavily relying on financial support from Gulf-states, especially Saudi Arabia. Egypt has joined Saudi Arabia, the UAE and Bahrain in the economic and diplomatic boycott of Qatar and the alliance against Iran, which could create further goodwill, but also risks dragging Egypt into a long-lasting regional conflict.

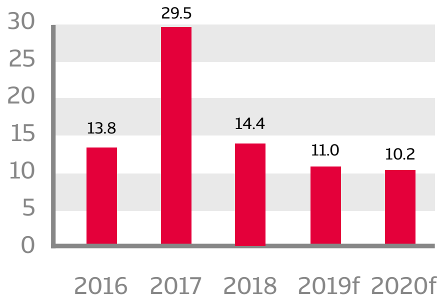
Economic situation

Real GDP growth (y-on-y, % change)



Source: Oxford Economics

Inflation (y-on-y, % change)



Source: Oxford Economics

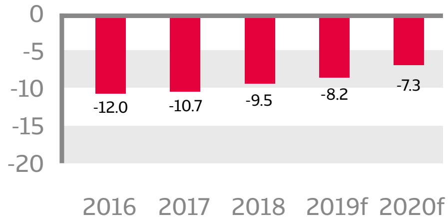
In-depth reforms expected to benefit the economy in the medium-term

Egypt´s economic problems mounted in 2016, with a very high budget deficit of about 12%, low levels of foreign exchange, shortages of USD and a large financing requirement. In November 2016 the government finally accepted an IMF programme with a three-year facility of USD 12 billion in providing much-needed external financial support. The main objectives of the programme are a flexible exchange rate, fiscal consolidation and introduction of structural reforms. In addition to the IMF, other multilateral institutions (e.g. the World Bank) and countries (e.g. Saudi Arabia and the United Arab Emirates) provide additional financial support.

As a precondition to obtain IMF support Egypt had to float the fixed exchange rate, raise taxes and reduce subsidies on electricity, fuel and food. The Egyptian pound depreciated sharply (about 50%) after the float in November 2016. In order to support the currency and to curb inflation, the central bank sharply increased the benchmark interest rate. A progress review in May 2019 was again positive and allows the disbursement of the final tranche of USD 2 billion from the USD 12 billion loan.

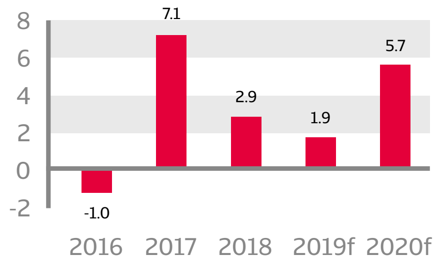
In 2019 and 2020, annual GDP growth is expected to exceed 5%, supported by the exchange rate liberalisation (which has improved external competitiveness), interest rate normalisation, increasing tourist arrivals and growing gas production. Despite decreasing since 2017, inflation is expected to remain above 10% in 2019, as another round of fuel subsidy cuts in July 2019 has added additional pressure on consumer prices.

Fiscal balance (% of GDP)



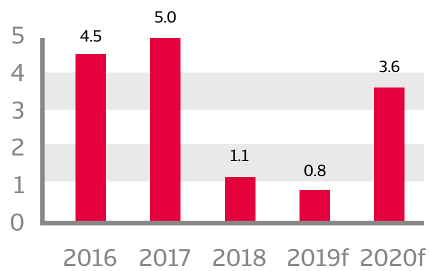
Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Although the budget deficit is still high, guided by the IMF programme it is gradually decreasing. The government has introduced a VAT and cut subsidies to reduce the deficit, but some subsidies (e.g. on food) have been increased again to alleviate the impact of high inflation on household purchasing power (a large part of public spending is still geared towards maintaining social stability). Public debt peaked at 108% of GDP in 2017, but is expected to decrease to 90% of GDP in 2019 and 87% of GDP in 2020.

With a floating currency, Egypt is able to absorb external shocks better. Due to rising yields private capital inflows have increased, with Egyptian Treasury Bills being particularly popular with foreign investors. Improved USD liquidity has paved the way for the easing of capital restrictions.

In the banking sector USD liquidity and the capital adequacy ratio have improved while non-performing loan ratios have decreased. However, various downside risks remain. In the past, local commercial banks were the main financiers of the budget deficit and the sovereign exposure is still high, amounting to about two thirds of total credit.

Egypt´s external position has improved, as the large external financial assistance has increased international reserves. The import cover of eight months in 2019 is more than sufficient to cover external financing requirements. The current account deficit remains above 2% of GDP in 2019 and 2020. Foreign debt remains at acceptable levels (33% of GDP in 2019).

In the medium-term the economy should benefit from the IMF-programme related measures. Most important has been the easing of the chronic USD currency reserves shortage. Additionally, both exports and the tourism sector are benefitting from currency depreciation and the related improvement in cost competitiveness. That said, tourism remains vulnerable to terrorist attacks, while manufacturers depending on imports of goods are facing higher production costs (raw and intermediate goods account for about 40% of Egypt´s imports).

Investor sentiment has improved and private capital inflows have increased after the relaxation of capital controls. The more benign economic outlook is also bolstered by the discovery of large offshore gas fields. Increasing domestic gas production should improve electricity supply and support economic activity in coming years.

Print this article

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Morocco

Main import sources (2017, % of total)	
Spain:	16.9 %
France:	11.9 %
China:	9.0 %
USA:	6.9 %
Germany:	6.0 %

Main export markets (2017, % of total)	
Spain	23.7 %
France:	22.9 %
Italy:	4.6 %
USA:	3.9 %
Germany:	3.0 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	1.1	4.1	3.0	2.4	3.5
Inflation (y-on-y, % change)	1.6	0.8	1.9	1.1	1.6
Real private consumption (y-on-y, % change)	3.7	3.4	3.5	2.8	3.5
Real government consumption (y-on-y, % change)	1.5	1.5	3.3	3.3	3.3
Industrial production (y-on-y, % change)	2.0	2.1	3.2	4.2	4.9
Real fixed investments (y-on-y, % change)	9.8	4.0	3.2	2.1	2.8
Real export of goods and services (y-on-y, % change)	5.5	10.9	9.9	6.0	6.0
Fiscal balance (% of GDP)	-4.5	-3.5	-3.7	-3.9	-3.6
Public debt (% of GDP)	81.6	82.0	81.4	82.3	82.1
Current Account (% of GDP)	-4.4	-3.4	-5.5	-5.5	-4.8
Foreign debt (% of GDP)	45.9	47.7	43.7	45.3	46.1

* forecast Source: Oxford Economics

Morocco industries performance forecast

October 2019


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.


Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.


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Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	Energy (oil, gas)	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Political situation

Head of state:
King Mohammed VI
(since 30 July 1999)

Form of government:
Constitutional monarchy.
The King has far-reaching executive and legislative powers in Morocco.

Population:
35.2 million (est.)

A stable monarchy, but risks persist

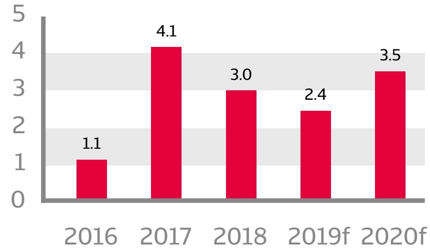
The political situation is rather stable. King Mohammed VI holds most political power in his hands. There is no immediate threat to the monarchy and establishment as the King is popular with the people.

However, social tensions have increased since 2017 due to lingering problems (high youth unemployment, income inequality, limited access to health service and corruption) periodically sparking protests in less developed parts of the country. The government has responded by accelerating social programmes and investment projects, but reforms that are more fundamental are not on the horizon. Nevertheless, widespread unrest is not expected in the short-term.

Morocco remains vulnerable to the threat from Islamic extremism. In particular, Moroccan fighters returning from Libya and Syria are a concern for the authorities. However, the country has not been hit by major terrorist attacks over the past few years. Preserving security to avoid a negative impact on tourism is very high on the government´s agenda, given the importance of tourism revenues for the economy.

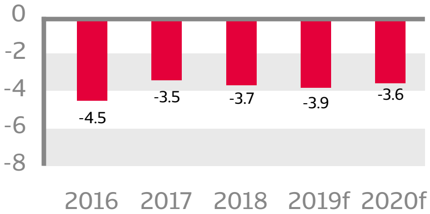
Economic situation

Real GDP growth (y-on-y, % change)



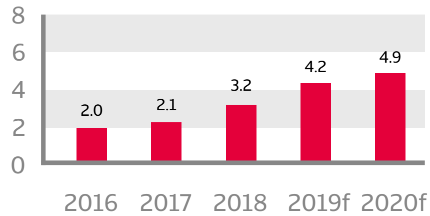
Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

Higher growth potential in the medium-term

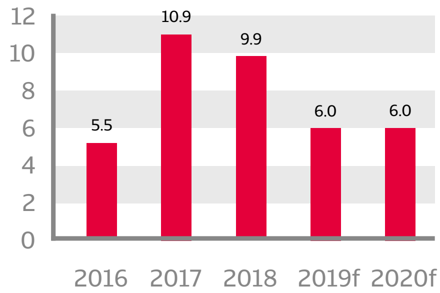
Traditionally a leading producer of agricultural products and phosphates, Morocco has made structural reforms to diversify its economy by developing industrial manufacturing, especially export-driven sectors (cars, aeronautics and electronics), and to provide a favourable investment environment (tax breaks have attracted many investors). Low unit labour costs and a slightly undervalued currency enhance Morocco's competitiveness. Since 2000, GDP per person has increased by 70% in real terms.

However, despite those major progresses some weaknesses remain. The country remains highly dependent on agriculture, which employs about 40% of the workforce, and volatility in agricultural output (e.g. due to adverse weather conditions) has a major impact on private consumption and the economy.

Tourism, automotive exports and remittances generate most foreign exchange income, but are highly dependent on the economic situation in Europe. Morocco is also vulnerable to rising oil prices, being a net oil importer. Finally, low levels of education, infrastructure shortcomings, labour market inefficiency, market entry barriers and limited access to finance remain obstacles, while competition from Asia limits future earnings capacity in the manufacturing sector.

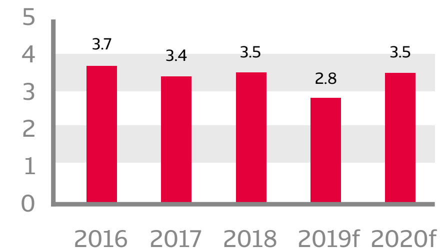
Economic growth is expected to decrease somewhat in 2019, mainly due to weaker demand from Europe. The economy is currently forecast to expand by about 3.5% in 2020, however, this depends on decent performance in agriculture, tourism, and exports. Inflation will remain below the 2% target of the Central Bank. This, together with an accommodative monetary policy and higher public spending should support private consumption growth.

Real exports of goods & services (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

The banking sector benefits from a strong regulation, with sufficient capital-adequacy ratios and liquidity levels. Although non-performing loan levels remain elevated (due to the exposure of banks to markets in Africa and declining asset quality in domestic sectors like construction) they are closely monitored, and provisions are made for 70% of the bad loans.

Ongoing subsidies and infrastructure investment keep public expenditures high, and the fiscal deficit is expected to increase in 2019, due to higher social spending in order to contain social protests. Public debt amounts to more than 80% of GDP, which is high compared to other emerging markets.

However, the profile of debt mitigates refinancing risks, as a large share of it (about 80%) is domestically financed, and average maturity has been extended to more than seven years. At the same time Morocco has successfully completed three consecutive precautionary & liquidity line (PLL) programmes with the IMF (on which it has not drawn), and a follow-up programme has been secured for the coming two years. This should reassure foreign investors and help to overcome the temporary lull in fiscal consolidation. The programme aims to reduce the fiscal deficit in 2020 and 2021, mainly with revenue raising measures including tax reforms. The receipts of a privatisation programme, which will also help to streamline heavily indebted state-owned enterprises, will further lower government financing needs.

Morocco´s external position is acceptable with a reasonable external debt level of around 45% of GDP. Revenues from tourism and remittances compensate a large part of the trade deficit while FDI inflows remain robust. The external financing need is more than covered by foreign reserves and can be easily met by strong support from official creditors (including IMF's precautionary programme) and good access to the international capital market.

The Moroccan dirham is pegged to a currency basket of EUR (60%) and USD (40%). Recommended by the IMF, the plan is to move to a more flexible exchange rate in the medium-term - in order to protect the Moroccan economy better against external shocks and to improve its international competitiveness. However, this process will proceed very slowly in order to limit the risk of any short-term currency volatility. Meanwhile the risk of capital outflows has decreased due to the end of US monetary tightening.

Saudi Arabia

Main import sources (2018, % of total)	
China:	15.4 %
USA:	13.6 %
UAE:	6.5 %
Germany:	5.8 %
India:	4.1 %

Main export markets (2018, % of total)	
Japan:	12.2 %
China:	11.7 %
South Korea:	9.0 %
India:	8.9 %
USA:	8.3 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	1.7	-0.7	2.2	0.5	2.0
Inflation (y-on-y, % change)	2.0	-0.9	2.5	-0.8	1.7
Real private consumption (y-on-y, % change)	0.9	3.2	1.9	2.2	2.0
Real government consumption (y-on-y, % change)	-17.5	3.3	6.0	1.9	2.5
Industrial production (y-on-y, % change)	1.5	0.2	1.0	2.1	2.2
Real fixed investments (y-on-y, % change)	-14.0	0.7	-3.0	1.5	1.3
Real export of goods and services (y-on-y, % change)	8.0	-3.1	6.8	1.1	3.6
Fiscal balance (% of GDP)	-12.9	-9.2	-5.9	-6.7	-6.1
Public debt (% of GDP)	13.1	17.2	19.0	26.1	30.9
Current Account (% of GDP)	-3.7	1.5	9.2	4.3	3.2
Foreign debt (% of GDP)	19.3	21.8	18.9	22.7	24.6

* forecast Source: Oxford Economics

Saudi Arabia industries performance forecast


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.


Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Energy (oil, gas)**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state/government:
King and Prime Minister
Salman bin Abdulaziz Al Saud
(since January 2015)

Form of government:
Monarchy

Population:
33.7 million (est.) - immigrants make up more than 30% of the total population

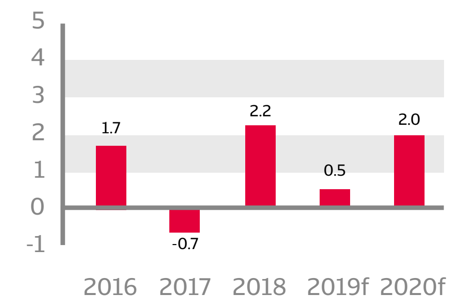
Economic reforms and a more assertive foreign policy

Crown Prince Mohammed bin Salman remains the main driver of an ambitious reform program ("Saudi Vision 2030") to diversify the economy away from oil and to boost the private sector. This step is important, as the oil sector is not generating enough jobs to absorb population and workforce growth, which could lead to rising dissatisfaction and social tensions. The Crown Prince´s grip on power remains firm, with the risk of opposition from senior members of the royal family being rather low. In contrast to economic reform efforts, reforms towards more political rights and participation remain largely off the agenda.

Saudi Arabia feels challenged by grown regional influence of Iran, its traditional rival for hegemony in the Gulf region. Therefore, Saudi foreign policy has turned to become more assertive, mainly in order to counter Iranian influence, e.g. by supporting opposition (Sunni) forces in Syria and, since March 2015, by a direct military intervention in Yemen against the Houthi rebels, who as a Shia tribe are allegedly backed by Iran. In September 2019, a drone/missile attack on Saudi Arabian oil facilities led to a serious short-term disruption of oil production. While the Houthis claimed responsibility, both Saudia Arabia and the US accuse Iran to be responsible for the strikes, which has considerably raised tensions in the region.

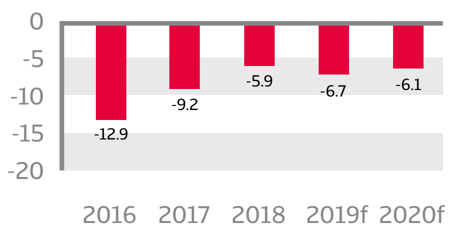
Economic situation

Real GDP growth (y-on-y, % change)



Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

No real rebound expected in 2019 and 2020

After a recession in 2017, the Saudi economy has rebounded modestly. However, the annual growth rates forecast for 2019 and 2020 are much lower than the 4% average expansion in the period 2006-2016. An extension of OPEC production cuts restrains the short-term growth prospects of Saudi Arabia's still oil reliant economy.

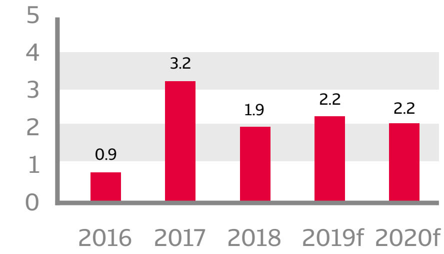
Large investments in infrastructure as part of the "Saudi Vision 2030" economic diversification program should support economic activity in the coming years. Higher public spending aims at supporting non-oil related activity in services and manufacturing. The second phase of a four-year private sector stimulus plan was launched in November 2018, with large investments pledged to housing, tourism, transportation, power and education projects.

Still a high number of payment delays

However, private businesses are still feeling the pinch from the recent oil price slump and subsequent austerity measures (new taxes, subsidy cuts, rising utility costs and levies on expatriates), that negatively impacted domestic demand. Another issue affecting domestic consumption is the ongoing expatriate departure (more than 1.3 million expatriates, 10% of the total foreign workforce, have left the country since Q4 of 2016).

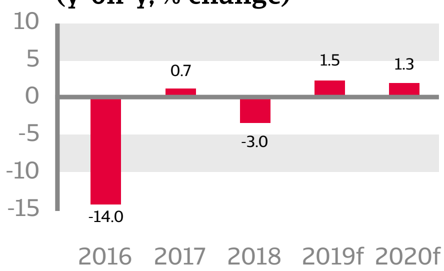
For Saudi businesses, the weaker purchasing power and demand situation have impacted turnover growth across many sectors, while rising costs and taxes have weighed on corporate profitability and squeezed margins. The volatility of oil prices and strained government finances also put pressure on liquidity.

Real private consumption (y-on-y, % change)



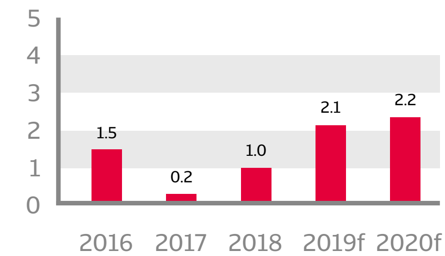
Source: Oxford Economics

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

All this has led to a notable increase in non-payment notifications in 2018, which has continued in 2019. Beside deterioration of payment behaviour in the private sector, the number of payment delays in larger projects that are directly or indirectly dependent on government funding is still high. Mainly construction (contractors and subcontractors) and pharmaceutical distributors are affected by public payment delays.

Austerity measures helped to reduce the budget deficit from 13% of GDP in 2016 to 6% of GDP in 2018. Going forward fiscal adjustment will be more gradual, as the focus has shifted to support short-term growth. Previously cut allowances for civil servants have been restored, capital spending for projects has been resumed and social transfers to compensate poor households will increase again (in order to avoid public discontent). Therefore, the target to achieve a balanced budget has been pushed back, from 2020 to 2023, which is no issue due to ample financial buffers.

Strong external position remains

The financial buffers of Saudi-Arabia are still large enough to easily cover the external financing requirements and defend the exchange rate peg with the US dollar. The recent interest rate cut by the US Federal Reserve that ended the US monetary tightening cycle has mitigated the risk of capital outflows and contains borrowing costs for Saudi Arabia, as no further interest rate hikes are required to maintain the interest rate differential. Moreover, the current account deficit is back in surplus since 2017, limiting the drain on reserves, and external debt is low.

Access to international capital markets remains easy, and there is still a plan to transform the Public Investment Fund into a USD 2 trillion Sovereign Wealth Fund (SWF) in order to increase investments abroad. The SWF will be partly financed by the sale of a 5% stake in the state oil company Aramco.

Economic diversification: stumbling blocks ahead

In 2016 the government announced far-reaching reform goals in its “Saudi Vision 2030” plan. The aim is to transform the economy over the next 15 years by diversifying growth, reducing the dependence on oil, assuring the long-term sustainability of public finances, increasing the role of the private sector and creating more jobs.

However, it remains to be seen if the political willingness to implement those far-reaching economic reforms will persist. In any case it is expected that diversification will proceed only slowly, leaving the economy largely dependent on oil revenues and state support for the time being.

Many obstacles remain. For instance, plans to increase the consumption share of locally produced goods to 50% by 2020 could prove difficult without appropriate economic policies to foster external competitiveness. The Saudization scheme to replace cheaper foreign workers with Saudi nationals is hampered by rigid labour laws and skill mismatches. Currently Saudi nationals occupy 90% of jobs in the public sector, but only 19% in the private sector. The latter is struggling with the mass departure of expats since end of 2016, as Saudi nationals have so far proven unwilling to pick up the slack.

Tunisia

Main import sources (2017, % of total)	
Italy:	15.6 %
France:	15.1 %
China:	9.0 %
Germany:	8.0 %
Turkey:	4.5 %

Main export markets (2017, % of total)	
France:	30.6 %
Italy:	16.5 %
Germany:	11.6 %
Spain:	3.8 %
Algeria:	3.3 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	1.1	2.0	2.6	1.2	2.2
Inflation (y-on-y, % change)	3.7	5.3	7.3	6.7	7.1
Real private consumption (y-on-y, % change)	0.5	1.1	1.5	1.5	1.7
Real government consumption (y-on-y, % change)	3.2	2.0	0.6	3.6	1.0
Industrial production (y-on-y, % change)	-1.3	-1.2	-0.4	-1.3	1.0
Real fixed investments (y-on-y, % change)	0.8	-2.5	2.9	1.9	2.3
Real export of goods and services (y-on-y, % change)	0.8	3.2	4.7	2.2	3.8
Fiscal balance (% of GDP)	-5.4	-5.8	-4.6	-5.2	-4.8
Public debt (% of GDP)	62.3	70.4	75.7	79.0	80.4
Current Account (% of GDP)	-8.8	-10.2	-10.0	-10.1	-9.7
Foreign debt (% of GDP)	66.8	80.5	84.7	97.9	103.0

* forecast   Source: Oxford Economics

Tunisia industries performance forecast

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

Bleak:
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	Energy (oil, gas)	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Political situation

Head of state:
President Mohamed Ennaceur
(interim, since July 2019)

Head of government:
Prime Minister Youssef Chahed
(since August 2016)

Form of government:
Coalition government of secular and Islamic parties.

Population:
11.7 million (est.)

High discontent ahead of the general elections

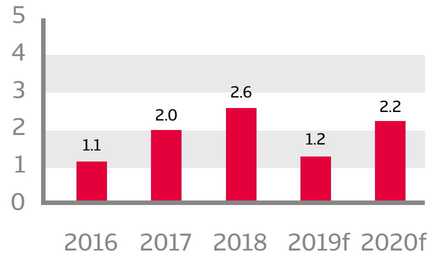
The first round of the presidential elections in September 2019 reflected widespread disillusion and distrust of the political elite, with a low turnout of 45%, and the two contenders that advanced to the second round being anti-establishment candidates.

The lack of economic progress has led to general discontent with the political system. The current government coalition of national unity remains shaky and prone to tensions. Consisting of both secular and (moderate) Islamist parties it lacks ideological cohesion, which hinders effective decision making and reform progress. Parliamentary elections are due October 6th, 2019.

Social dissent has led to frequent protests and strikes that disrupt business operations and negatively influence the investment climate. The internal security situation is still tense and the risk of terrorist attacks remains elevated. Countering this threat while maintaining democratic freedoms is a major challenge.

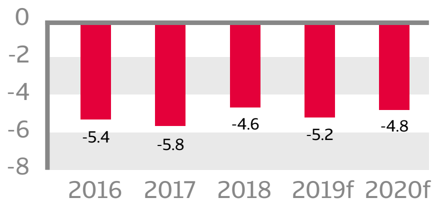
Economic situation

Real GDP growth (y-on-y, % change)



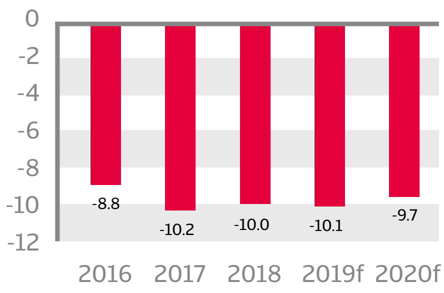
Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

Current account (% of GDP)



Source: Oxford Economics

Major challenges remain

In 2019 and 2020, GDP growth is expected to remain moderate and insufficient to substantially reduce the high unemployment rate of over 15%. Despite an increased inflow in tourism, subdued industrial expansion and investments, higher oil prices and less demand from Tunisia's main trading partners in Europe are weighing on the economic expansion. Since early 2018 the Central Bank has increased the interest rate to combat inflation several times, but high consumer prices still negatively affect households' disposable income.

Slow reform progress and social tensions continue to weigh on the medium-term outlook, while economic expansion remains heavily dependent on the security situation. The financial sector remains weak and the level of non-performing loans high.

The budget deficit is expected to decrease only gradually in the mid-term, guided by an IMF programme. Public debt will increase to about 80% of GDP in 2019 and remains vulnerable to exchange rate fluctuations, due to the high foreign currency denominated share of about 65%. Reforming inefficient public institutions and containing the enormous public wage bill (which amounts to 70% of primary current spending) are key fiscal reform priorities, and some austerity measures have been implemented to do so. However, austerity measures have led to public protests and met the strong resistance of the powerful labour unions. Therefore, IMF program implementation has been weak so far. Any missed IMF disbursement could have a large impact, as Tunisia is heavily reliant on international assistance to finance its deficits.

Tunisia´s external position also remains vulnerable, with high annual current account deficits of about 10% of GDP. Foreign exchange reserves decreased to a minimum import cover of three months (insufficient to cover the large gross external financing requirement), and the country will remain dependent on multilateral support for the time being. In order to improve external competitiveness and reduce pressure on reserves the central bank agreed with the IMF to intervene less and to let the managed exchange rate (basket of mainly euro and USD) depreciate further.

More structural reforms are needed to accelerate economic growth and to reduce the high unemployment rate. Tackling bureaucracy, reducing corruption, and reforming the tax and subsidy systems are necessary to improve the economic conditions.

Print this article

United Arab Emirates

Main import sources (2018, % of total)	
China:	8.5 %
USA:	6.8 %
India:	6.6 %
Germany	4.5 %
Japan:	3.5 %

Main export markets (2018, % of total)	
India:	10.1 %
Iran:	9.9 %
Japan:	9.3 %
China:	5.4 %
Oman:	5.0 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	3.1	0.5	1.7	2.2	2.2
Inflation (y-on-y, % change)	1.6	2.0	3.1	-1.4	1.9
Real private consumption (y-on-y, % change)	1.6	0.9	-0.5	1.1	2.0
Real government consumption (y-on-y, % change)	-1.1	21.2	-1.6	1.9	2.0
Industrial production (y-on-y, % change)	3.2	-1.3	2.3	1.8	2.2
Real fixed investments (y-on-y, % change)	8.8	-8.2	-0.4	1.4	1.5
Real export of goods and services (y-on-y, % change)	3.4	2.9	0.8	3.6	3.6
Fiscal balance (% of GDP)	-1.3	-0.2	2.2	0.8	0.0
Public debt (% of GDP)	20.2	20.0	19.1	19.4	19.7
Current Account (% of GDP)	3.7	7.3	9.1	10.8	10.2
Foreign debt (% of GDP)	76.2	84.7	76.4	67.3	63.9

* forecast Source: Oxford Economics

United Arab Emirates industries performance forecast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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Energy (oil, gas)**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
President Sheikh Khalifa bin Zayed Al Nahyan (since November 2004), Emir of Abu Dhabi

Head of government:
Vice President and Prime Minister Mohammed bin Rashid Al Maktoum (since December 2006), Emir of Dubai

Government type:
Federation of seven Emirates: Abu Dhabi, Ajman, Al Fujayrah, Dubai, Ra's al-Khaymah, Umm al-Qaywayn and Sharjah

Population:
10.4 million (est.) - immigrants make up more than 80% of the total population

The internal political situation remains stable

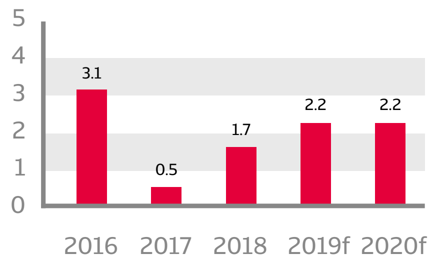
The ruling families and traditional tribal structures influence domestic politics considerably. Political parties or trade unions are not permitted and opposition is virtually non-existent. The Federal National Council (FNC) as a legislative body has only an advisory role. Political and social tensions are low, and the UAE is one of the most stable countries in an unstable region.

The UAE will maintain an assertive foreign policy in order to increase its regional influence in light of continued insecurity in the Middle East. The country is part of the alliance against the Islamic State (IS), and its armed forces are part of the campaign against Houthi rebels in Yemen, co-led with Saudi Arabia. However, the UAE has recently announced it will partly withdraw and redeploy its troops in Yemen.

To some extent, Dubai´s transhipment trade and financial services sector have been affected by the imposition of US sanctions on Iran. While a military confrontation between Iran and the US is still unlikely, the economic consequences of such a worst-case scenario could be severe for the UAE, being the region's trade, investment and tourism centre.

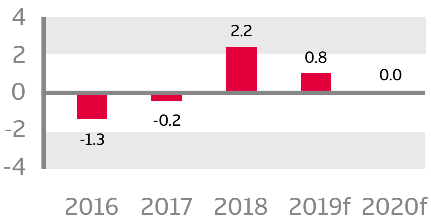
Economic situation

Real GDP growth (y-on-y, % change)



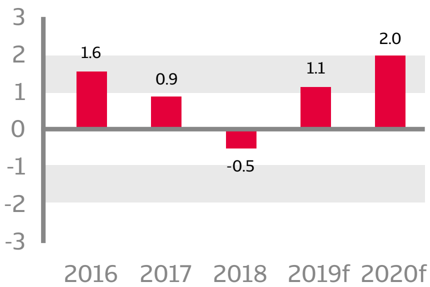
Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

A modest economic rebound, but many industries are still struggling

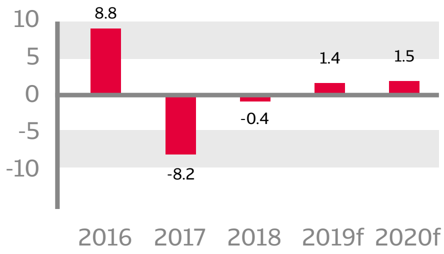
The modest economic rebound is expected to continue in 2019 and 2020 on the back of oil revenues. Additionally, increased infrastructure spending in the run-up to the World Expo 2020 event hosted in Dubai (increased construction spending and more tourism) should support growth.

That said, the business performance and credit risk situation of several industries remains strained, especially in Dubai. Construction, non-food and food retail, ICT, metals and steel have not yet recovered from the recent economic slump and limited access to external financing.

During the recession, lower government revenues from oil sales affected government deposits in the banking sector, leading to a curb in lending and credit growth. Due to increasing non-performing loans banks sustained their cautious lending approach in 2018, with a negative impact on various traders, stockists and distributors. Many businesses have faced liquidity/cash flow issues and either delayed payments to suppliers or even closed down their businesses. Construction, metals and steel still suffer from delays on some large value infrastructure projects. Some highly indebted construction companies remain vulnerable to tighter financial conditions and declining real estate prices.

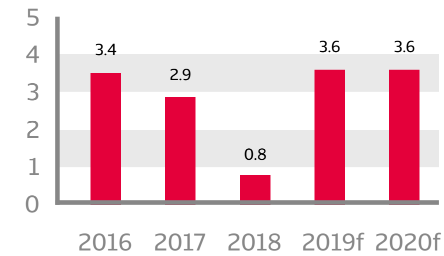
Despite the ongoing issue of higher non-performing loans as a legacy of the economic downturn, the banking sector is well regulated and capitalized, with a capital-adequacy ratio of more than 18% at the end of 2018. While still highly exposed to the property sector (about 20% of total credit), in general, banks maintain adequate loan loss provisions, and the risks from the outstanding liabilities of Dubai´s government related entities are mitigated by tacit state guarantees. Central bank stress tests have shown that UAE banks are resilient and able to withstand severe adverse macro-financial developments.

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Real exports of goods & services (y-on-y, % change)



Source: Oxford Economics

A major public investment plan and economic reforms

A public investment plan of USD 13.6 billion (amounting to 3.5% of GDP) should provide a fiscal impulse to non-oil sectors over the coming three years. Additionally, stepped-up structural reforms (relaxation of foreign ownership requirements and visa rules) should help to attract higher foreign direct investment (FDI) inflows.

Those measures are part of the government´s strategy to diversify the economy away from oil, boost private sector growth and to establish a knowledge-driven economy in the long-term. The aim is to increase the GDP share of non-oil sectors to 80% by 2021 (currently non-oil sectors account for 70% of the UAE´s total GDP). However, private sector diversification remains heavily reliant on expatriates (80% of the population). While the recent introduction of long-term visas will help to secure more commitment from highly qualified expatriates, the incentive for locals to choose private sector employment over the (highly paid) civil service remains low.

Government revenues will increase amid higher oil prices and after the implementation of several non-oil revenue raising measures (excise duties, VAT introduction since January 2018). While fiscal easing is underway to kick-start economic growth and accelerate economic diversification, the government is expected to resume fiscal consolidation once the recovery takes hold. The UAE can easily afford higher public spending, as long as the actual oil price is above its fiscal break-even oil price of around USD 62 per barrel. Public debt is below 20% of GDP, while the UAE can fall back on large Sovereign Wealth Funds that have an estimated total value of over USD 1.2 trillion (about 290% of GDP).

The current account will remain in surplus in 2019 and 2020, as exports continue to benefit from higher oil prices. As the dirham is pegged to the USD, the end of US monetary tightening contains domestic borrowing costs in 2019.

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