بنك الإمارات دبي الوطني
Emirates NBD

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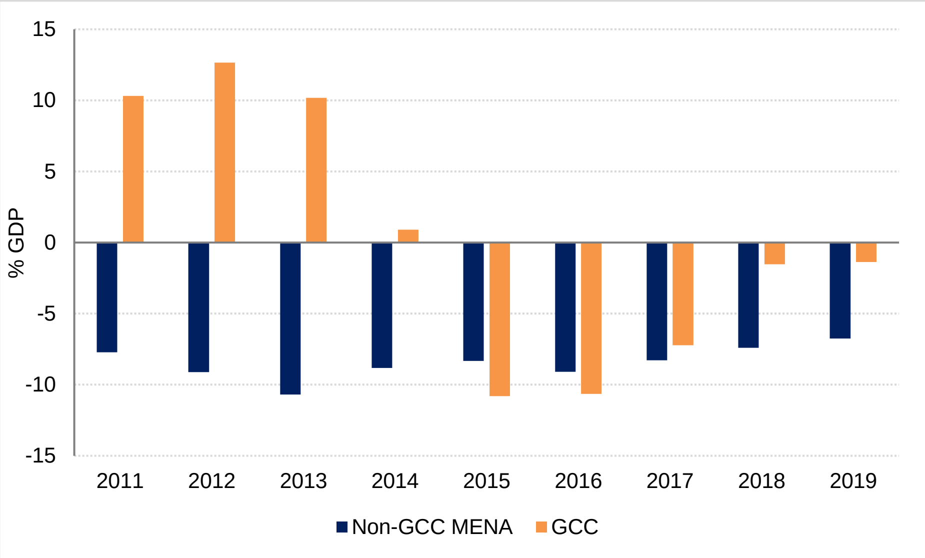
- OPEC production is increasing but not significantly enough to prevent prices from spiking up to over USD 85/b. Despite growing international pressure to increase output to dampen down prices, OPEC has so far held back from dramatically increasing production.
- Oil production in GCC countries has increased significantly in recent months while higher oil prices have dramatically improved the outlook for GCC budgets and provide room for increased government spending in 2019.
- While increased government spending is supportive of GDP growth in 2019, it remains vulnerable to future oil price shocks. Moreover, higher interest rates will continue to weigh on non-oil sector activity across the region. Reforms to boost private sector investment and activity will thus remain key to sustain growth over the medium term.
- Global conditions are exerting pressure on MENA oil importers. High debt levels for countries such as Lebanon and Egypt will translate into even higher debt servicing costs as global monetary tightening continues. This will weigh on their ability to continue on their fiscal consolidation plans.
- Higher oil prices will also exert pressure on current account deficits and CPI inflation as most countries have cut the extent of their fuel subsidies in recent years. In light of this, we no longer project a further interest rate cut in Egypt in 2018, as inflation has picked back up to 16.0% in September.

GCC budget deficits set to narrow sharply while non-GCC MENA deficits remain substantial



Source: Haver Analytics, Emirates NBD Research

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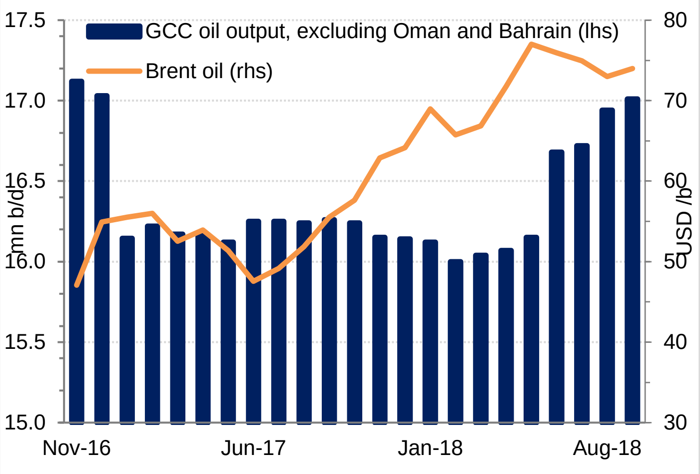
Overview

GCC outlook improves on higher oil prices…

The macroeconomic outlook has changed significantly since our last MENA Quarterly publication. Oil production in GCC countries has increased significantly while higher oil prices have dramatically improved the outlook for GCC budgets and provide room for increased government spending in 2019.

GCC oil production and price



Source: Bloomberg, Emirates NBD Research.

As a result, we have revised our forecasts for GCC budgets and external balances in 2018 and 2019, and raised our forecast for GDP growth in Saudi Arabia and Kuwait. However, the improvement in key macroeconomic indicators in the GCC is driven almost entirely by oil and is thus vulnerable to a sharp downward adjustment in oil prices and/or production.

…but uncertainty remains high

The broader global economic outlook for 2019 remains highly uncertain. The US business cycle is growing very long in the tooth even as labour market conditions still appear robust. The recent bout of volatility in financial markets reflects concern over the impact of the US-China trade war on global growth and corporate profitability, as well as further tightening of monetary policy around the world.

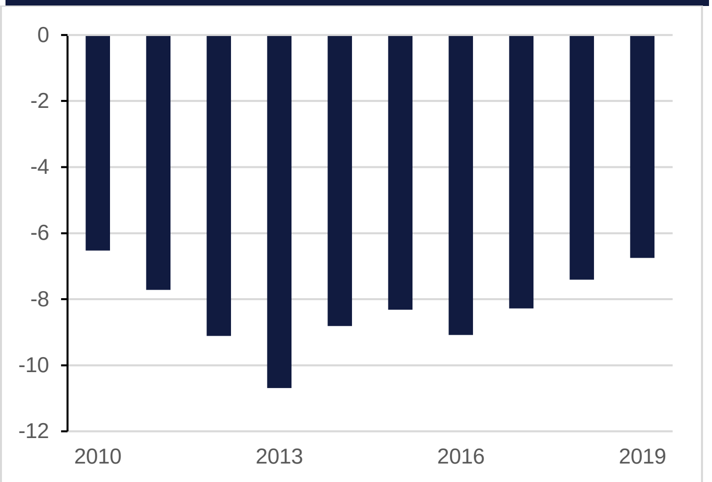
For the GCC, higher interest rates will weigh on already sluggish private sector activity, and prove a further headwind to growth next year. Increased government spending should help, but IMF research indicates that government spending has become less effective in driving GDP growth in the post-financial crisis world, and that the multiplier effect is weaker.

Further progress on implementing structural reforms in the GCC is crucial over the coming year. In Bahrain, this will centre on fiscal reforms to reduce the budget deficit, with financial support provided by Saudi Arabia, the UAE and Kuwait. In Saudi Arabia and the UAE, reforms should focus on facilitating investment and private sector growth through privatisation, public-private partnerships, opening up non-oil industries and sectors to foreign ownership, and regulatory reform to reduce barriers and costs to entry.

Non-GCC MENA budgets under pressure

For non-GCC MENA economies, the increased cost of external debt servicing is likely to weigh on budget deficits and this will be compounded by higher oil prices as many countries still have some form of subsidy in place for energy prices. Maintaining interest rate differentials and containing oil-driven inflation has already led Tunisia and Jordan to begin hiking their benchmark interest rates in the past 18 months. Given the increasing aversion to EM in recent months, we no longer anticipate a third interest rate cut in Egypt this year. Already in Egypt we have seen a failure to resolve the disparity between at what yields investors are prepared to buy Egyptian debt and what the government is prepared to pay, with the authorities having cancelled a series of weekly auctions for three- and five-year debt.

MENA oil importers fiscal deficit, % GDP



Source: Haver Analytics, Emirates NBD Research. Weighted regional average

In light of the above and upward pressures on inflation from higher oil prices as subsidy reforms have been gradually implemented, we expect that real GDP growth for MENA oil importers will remain at similar, fairly lacklustre, levels in 2019 to those seen in 2018. Private sector activity will be constrained by elevated borrowing costs, as will government spending as concerns over debt levels come to the fore. The outlier is Iran, where the re-imposition of robust sanctions by the US will see the economy contract in 2018 and 2019.

Khatija Haque, Head of MENA Research
Daniel Richards, MENA Economist

Oil market outlook

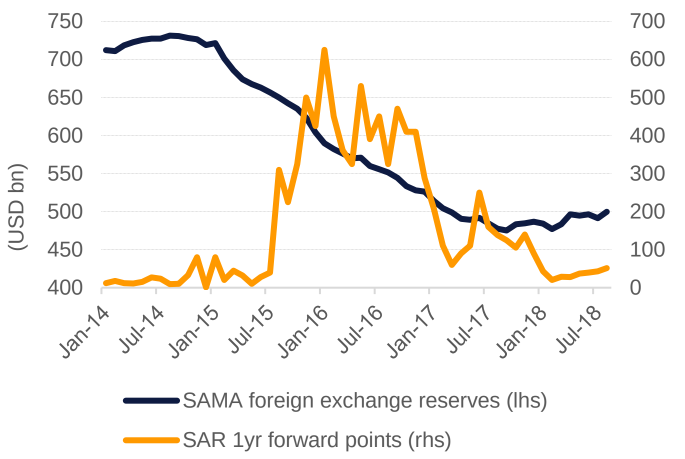
OPEC has been steadily increasing production since its June meeting in order to offset the decline in output from Venezuela and, unofficially, from Iran. However, oil prices have soared to their highest levels in years in anticipation of tight few months ahead. OPEC has so far been reticent to raise output significantly to dampen down prices despite rising international pressure to do so. We outline below why we think OPEC has been hesitant to raise output more significantly.

OPEC has repeatedly come under pressure from US president Donald Trump to raise production to dampen down oil prices that have now hit their highest level since 2014. President Trump has directly appealed to King Salman of Saudi Arabia to address the current move in prices after lambasting OPEC at the UN General Assembly in September, saying the bloc was “ripping the world off”. Pressure from Trump on oil prices will stay high in the weeks leading up to US mid-term elections in November as any surge in domestic gasoline prices will be laid at the feet of an incumbent administration. Anxiety over rising oil prices is high enough that the US Congress is currently debating a bill that would allow the government to sue OPEC for collusion on oil prices.

Economic priorities

Higher oil prices are a welcome boost to OPEC economies, particularly those in the Middle East, that have endured several years of wide fiscal deficits and weak growth. An increase in oil production from the levels set by the 2017 production cut agreement will broadly underpin growth in most of the GCC and higher oil prices will help governments accelerate growth further though more fiscal spending. We expect that the UAE’s fiscal balance will move back into surplus in 2019 on the back of higher oil prices even as the government increases spending.

Saudi forex reserves face a long climb



Source: EIKON, Emirates NBD Research.

The improvement in oil prices will also help to shore up regional foreign exchange reserves. As oil prices fell regional governments and corporates turned to international bond markets to replace lost oil income. Improvements in foreign exchange holdings will help to accommodate some of the region’s growing external liabilities and ease pressure on governments’ ability to maintain currencies pegged to the USD.

OPEC diplomacy has stayed positive

OPEC has managed several years of successful oil market diplomacy. At its June meeting the producers’ bloc agreed to raise production to offset declines from Venezuela where output is suffering from a lack of investment and a widespread deterioration in economic conditions. However, OPEC and their partners to the 2017 production cut did not set specific country quotas and instead agreed to a ‘collective’ target. This fudge allows producers that can raise output room to do so while not having OPEC officially endorse a transfer of market share between members, particularly away from Iran.

Production in Iran has already begun to decline as importers move away from taking Iranian barrels ahead of US sanctions coming into effect next month. We expect this vocal deference to ‘collective’ OPEC targets will continue until Iran’s production hits bottom and then producers with limited spare capacity will raise production to compensate for the lost barrels.

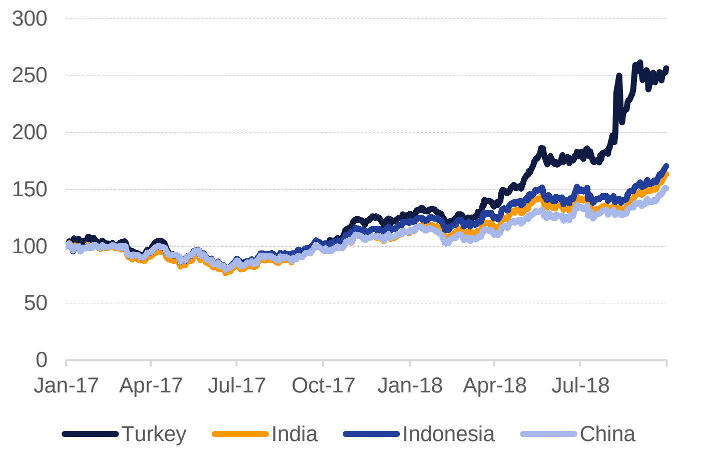
Cooperation with Russia has also increased to the point where the country is effectively an additional member of OPEC. Saudi Arabia and Russia between them produce more than a fifth of the world’s total oil supply and policy alignment between these two producers will exert considerable influence on the trajectory for prices in the short-term. The dynamics of this Saudi-Russia oil alignment will be particularly critical for European and Asian oil consumers, the main consumers of these producers’ crude.

Fear or a market surplus returning

The production cut agreement that OPEC and its partners held in place for 2017 and for the first six months of this year achieved its primary goal of cutting down the excess crude inventories that had accumulated between 2014-16. Ensuring the market remains as close to balance as possible or in a deficit position will now be OPEC’s primary objective to avoid another period of sustained stockbuilds and prices crashes. As a result production levels from Saudi Arabia, Russia and others are likely to be much more responsive to medium-term market signals rather than seeking a fixed share of global markets and keeping production steady at levels that could contribute to a global surplus.

The broader global economic outlook for 2019 remains highly uncertain. The US business cycle is growing very long in the tooth even as labour and financial market conditions still appear robust. Meanwhile the economic, and oil demand, implications of the US-China trade war have yet to filter recognizably into a sustained slowdown. Nevertheless the risk of weaker global growth appears high and OPEC may end up flooding markets with unnecessary oil if they raised output now. The scars of the 1997-98 Asia financial crisis still linger on many OPEC policymakers. OPEC raised output during that downturn and prices fell 60% from peak to trough, bottoming out at less than USD 10/b. That oil prices are rising to elevated levels at the same time as emerging market currencies hit record lows will be a flashing signal to OPEC members that demand may be at risk of a sharp correction.

Venezuela's rig count continues to fall

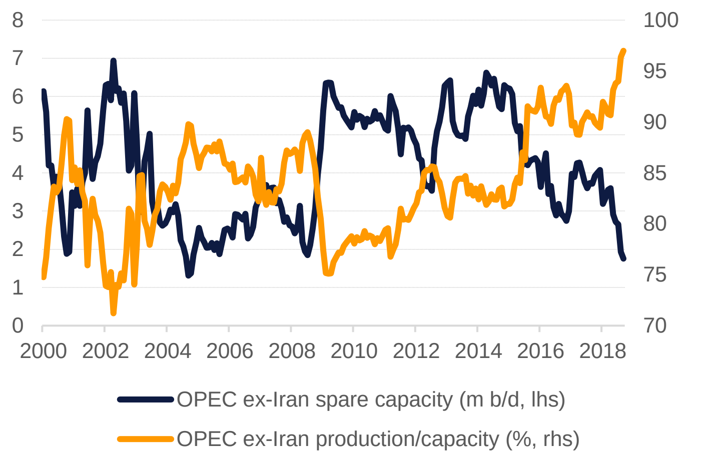


Source: EIKON, Emirates NBD Research. Note: front month Brent futures denominated in local currency. Jan 2017=100

Who wants to own an oil price spike?

High oil prices certainly help the fiscal and external positions of OPEC producers but we have long argued that stable oil prices would be a much better target for OPEC economies. Oil prices in a narrow range would allow for clearer budgeting and force the development of non-oil revenue sources, such as the introduction of VAT in the UAE and Saudi Arabia this year, and also insulate the economies from an inherently volatile income stream. An upward spike to USD 100/b would be notionally positive for GCC economies but could also prompt just as sharp an adjustment downward.

OPEC's spare capacity is tight



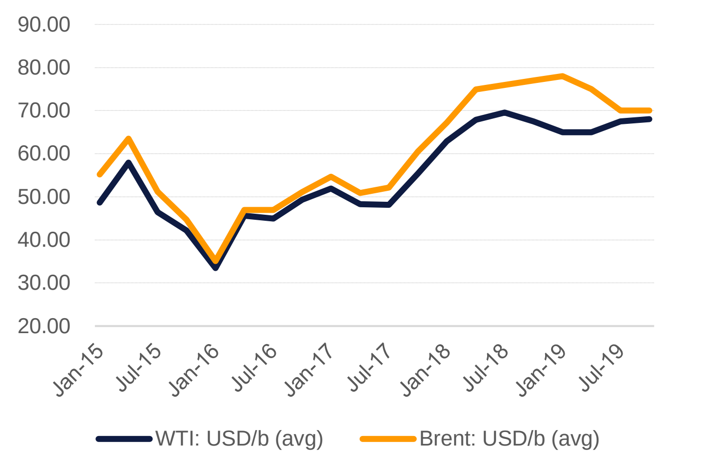
Source: Bloomberg, Emirates NBD Research.

An increase in OPEC production now could help to limit the gains in prices but would end up exposing the oil market to much higher volatility in the coming months. OPEC's ability to respond to market spikes is effectively measured by the spare capacity some of its producers hold off markets, most of which is held in Saudi Arabia.

Collective spare capacity fell to just 2.25m b/d in September, according to market estimates, but excluding Iran whose barrels will be under US sanctions in November, spare capacity is a much tighter 1.76m b/d. OPEC ex-Iran is currently producing at 97% of its total capacity meaning it already has very limited headroom to accommodate an upward jump in prices. Thus while an increase in production now may help to prevent oil from spiking, OPEC would have no ability to respond if prices kept rallying in H1 2019.

Our projections are for a modest increase in production from key OPEC members—mostly from Saudi Arabia, the UAE, Kuwait and Iraq—but not one that completely offsets the decline in production from Iran and Venezuela. Trying to perfectly balance markets is near impossible and the oil market routinely swings from feast to famine over the long run. We see next year as no exception and OPEC appears prepared to let markets run tighter for longer. However, once markets manage to recalibrate away from the drop in Iranian production and demand sees some marginal erosion from trade wars and EM wobbles, prices should compress back to a lower range. We expect Brent prices will average USD 73/b in 2019, moving from a Q1 average of USD 78/b to USD 70/b in the final months of the year.

Emirates NBD Research oil price forecasts



Source: EIKON, Emirates NBD Research.

Edward Bell, Commodities Analyst

Algeria

Algeria posted anaemic real GDP growth of just 1.3% in Q1 2018. While stronger than the 1.0% averaged over the preceding three quarters, it is nevertheless disappointing given the pressing need to get the economy back on track following several years of macroeconomic challenges. That said, we maintain that the economy will strengthen over the remainder of the year, and hold to our forecast of 2.4% growth in 2018.

The hydrocarbons sector, which still accounts for around 20% of the Algerian economy, declined -2.0% y/y in Q1, the fourth consecutive quarter of contraction, as oil production fell -1.9% y/y. While Q2 GDP results are not yet out, a further -2.5% contraction in oil production suggests that headline GDP growth will once again have been weak. However, there was a modest recovery in production in Q3, with volumes averaging 1.1mn b/d over the quarter, representing y/y growth of 0.6%. The June agreement by OPEC to cease over compliance with their production curbs has allowed members of the bloc to boost their production. As such, we expect positive production growth in Q4 also, which will contribute to a stronger GDP print.

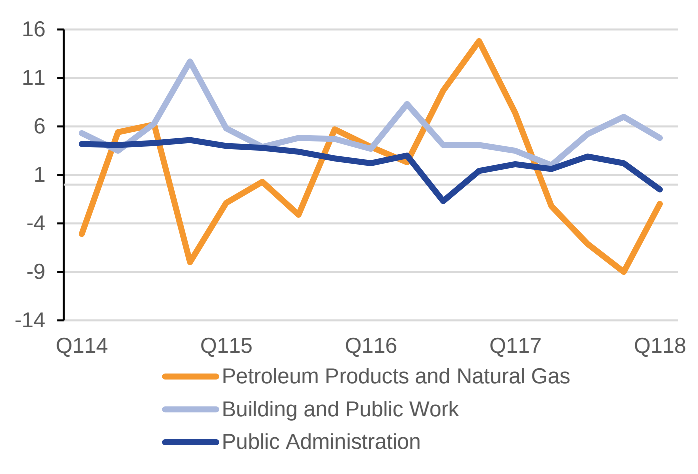
Investment will bolster growth

Another factor which will support stronger H2 growth is the government's ambitious spending programme, which aims to channel a 25% budget increase into capital spending while continuing to curb recurrent spending; the ongoing austerity in other, non-productive segments is evidenced by a -0.5% contraction in the public administration component of GDP in Q1. By contrast, building and public work expanded by 4.8%. Increased government investment will be met by greater private investment also, and it was announced in October that state-owned oil & gas firm Sonatech had signed new agreements with energy majors French Total and Italian Eni for the development of offshore gas fields and petrochemicals plants. We forecast that growth will strengthen to 2.9% in 2019.

Inflationary spike avoided so far

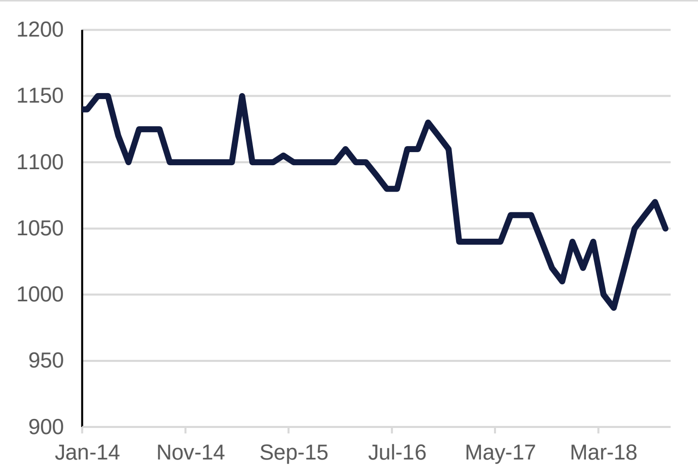
Given the expansionary budget, we forecast that Algeria's budget deficit will widen to -7.0% of GDP in 2018, before falling again thereafter, to -6.1% in 2019. The higher oil price, combined with increased production, will help mitigate the effects of this, but a balanced budget remains a distant prospect. Reluctant to turn to outside lenders, the government's plan is to fund much of this through monetary financing, and the Banque d'Algérie has been buying long-dated government debt in order to fund the budget. The IMF has been critical of this plan, given the inflationary risk this presents, but in the short-term at least, this has been averted so far. Inflation has in fact averaged just 3.6% y/y over January to August, compared to a 2017 average of 6.0%, and in another positive, unemployment fell from 11.7% at end-2017 to 11.1% in Q1.

Real GDP Growth, % y/y



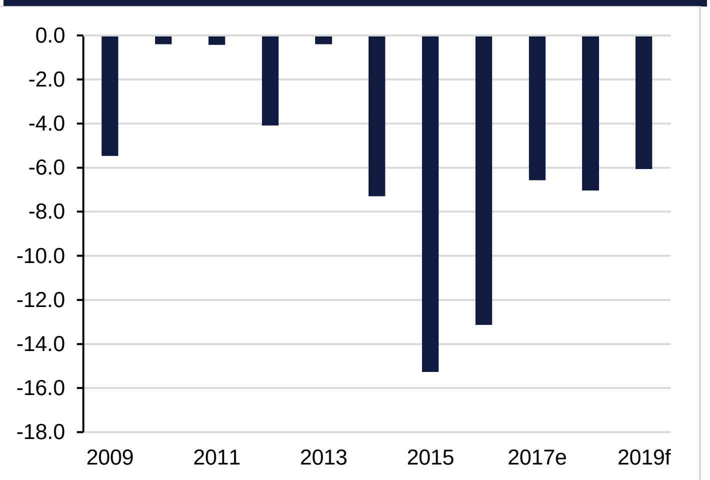
Source: Havers Analytics, Emirates NBD Research

Oil production, b/d '000



Source: Bloomberg, Emirates NBD Research

Fiscal balance, % GDP



Source: Haver Analytics, Emirates NBD Research

Bahrain

Financial aid package announced

Bahrain has signed a deal with Saudi Arabia, the UAE and Kuwait for USD 10bn in financial aid to help bring Bahrain's budget into balance by 2022. The "Fiscal Balance Programme" aims to achieve BHD 800mn in savings per year over the next five years through a number of reforms including a voluntary retirement scheme for government employees, boosting non-oil revenues, balancing the budget of the electricity & water authority and improving the efficiency of public spending. Steps will also be taken to streamline processes and strengthen accountability within government departments. New procurement and debt management units will be set up within the Finance Ministry as part of the plan.

The announcement has significantly reduced the near-term risk for Bahrain's creditors, but as always, it remains to be seen how effectively the reform programme is executed. It is unclear how the payments from the GCC will be made or whether each tranche will require some prior actions by Bahrain in order to be released, in the style of an IMF programme. Bahrain's parliament has already approved the VAT bill and press reports indicated pension reform legislation could be passed before the 24 November parliamentary elections as well.

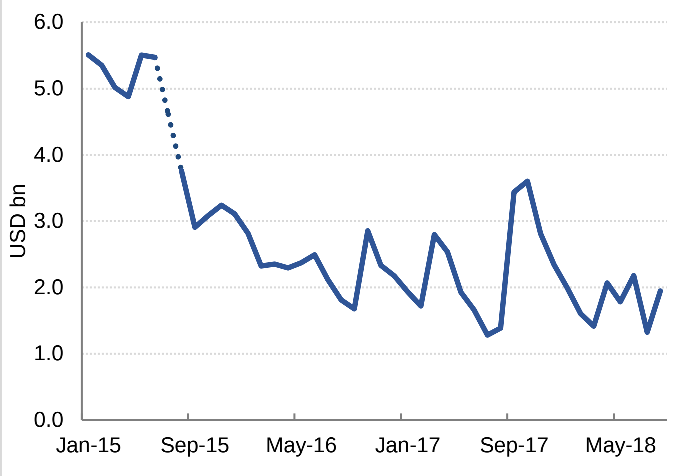
In the meantime, the resolution of near term uncertainty as well as the rise in FX reserves at the central bank in August have seen Bahrain's CDS spread narrow sharply and its bonds rally. The latter was also likely driven by the decision to include Bahrain's sovereign bonds, along with Saudi Arabia, UAE, Kuwait and Qatar, to the JP Morgan EM bond index effective 31 January 2019.

GDP rebounds in Q2 2018

The latest official GDP data shows Bahrain's economy grew 2.4% y/y in Q2 2018 after contracting -1.2% in Q1. Oil production recovered 0.7% y/y after declining nearly -14% in Q1, while government services and construction also contributed positively to second quarter expansion. However, hotels & restaurants contracted -9.7% in Q2, and wholesale & retail trade declined -0.8% y/y.

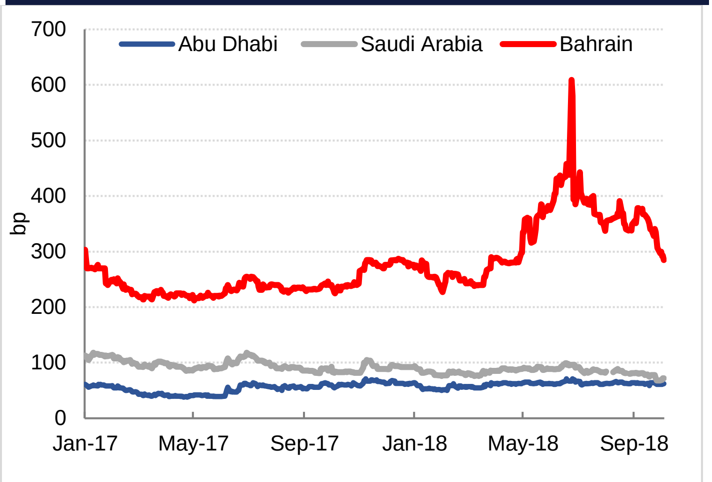
Average growth in H1 2018 was just 0.6% y/y, much slower than the 4.8% growth recorded in H1 2017. With oil production likely to rise further in H2 2018, and as there is a low base effect from H2 2017 (the economy contracted q/q in both Q3 and Q4 2017), we retain our 2.9% GDP growth forecast for Bahrain this year.

Central Bank of Bahrain Net Foreign Assets



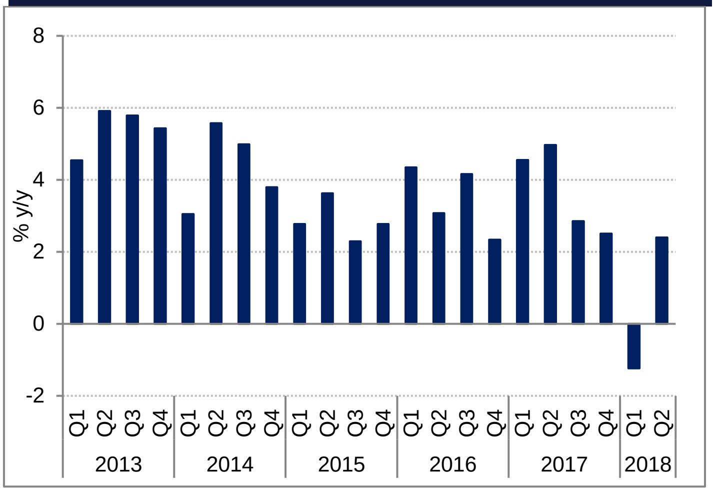
Source: Haver Analytics, Emirates NBD Research

5Y CDS spreads



Source: Bloomberg, Emirates NBD Research

Quarterly GDP growth



Source: Haver Analytics, Emirates NBD Research

Egypt

The Emirates NBD Purchasing Managers' Index (PMI) for Egypt fell to 48.7 in September, compared to 50.5 in August. This represents a return to contractionary territory for the non-oil private sector, indicating that despite the two months of consecutive 50-plus readings in July and August, there remains some weakness in the recovery. That being said, it remains higher than the average reading since the IMF reform programme began in November 2016 (47.9), and the outlook remains positive. Output registered just 47.8 – the lowest level in 2018 – as respondents identified unfavourable market conditions and 18% of firms saw a decline compared to the previous month. New orders also fell to a 2018 low, at 47.7 compared to 50.8 in August, with new export orders only moderately less weak at 48.1. 17.3% of firms saw orders fall, though this was mitigated somewhat by 12.7% of respondents enjoying stronger demand. The contraction in new orders will weigh on future output, indicating that the headline PMI figure will remain under pressure.

FDI disappoints

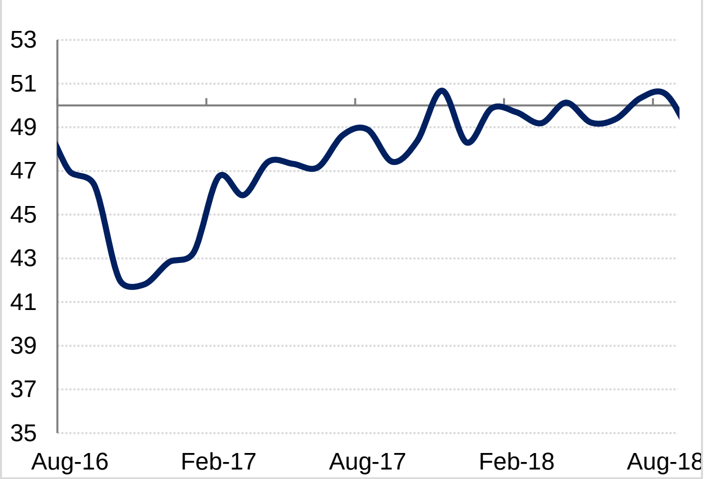
The Central Bank of Egypt (CBE) has released full-year balance of payments data for 2017/18 (July-June). The data shows an ongoing improvement in Egypt's external position as a surplus of USD 12.8bn over the year led foreign reserves to rise to record levels of USD 44.26bn in June. Notably, the current account deficit declined by 58.6% y/y, and stood at 2.5% of GDP according to our estimates, compared to 6.5% the previous year. In 2018/19 we project that the deficit will narrow further, to 2.0%, aided by declining energy imports and ongoing growth in visitor numbers.

The narrowing current account deficit has been a positive for Egypt's macroeconomic stability, contributing to the EGP's resilience through recent EM turmoil, as compared to other emerging markets where the trajectory has been in the opposite direction. That being said, the CBE data shows that foreign direct investment has continued to lag, and with portfolio investment likely to decline over the year, a failure to boost other streams of dollar inflows will weigh on consolidation efforts. The pace of reserves accumulation has already slowed considerably since April, suggesting that the balance of payments surplus has been negligible in recent months.

Rate-cutting cycle on hold

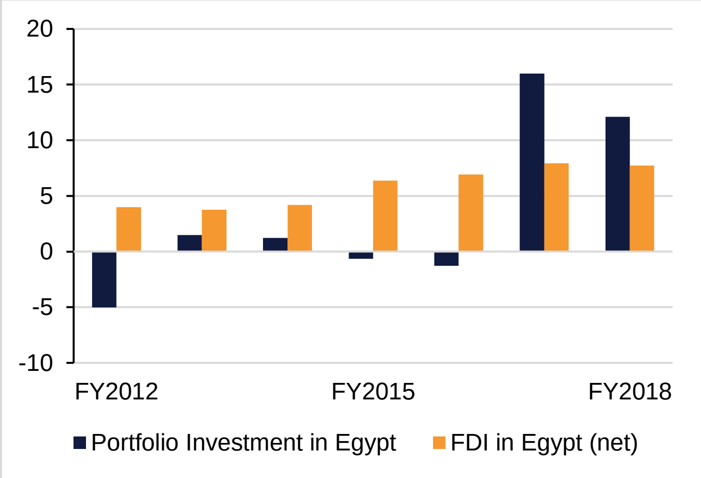
As was widely expected, the Central Bank of Egypt (CBE) kept its benchmark interest rates on hold on September 27, marking the fourth consecutive meeting at which the MPC has taken no action. This keeps the overnight deposit and the overnight lending at 16.75% and 17.75% respectively. The monetary easing with which the year began (two cuts of 100bps each in February and March) has been put on hold as reform-related price pressures and wider concerns over emerging market volatility have outweighed the need to boost domestic private sector activity and curtail escalating government debt servicing costs. While we had earlier expected at least one more cut in 2018, changing global dynamics have made this unlikely, and we now anticipate that the CBE will hold rates through the end of the year. In 2019 we expect 200bps of cuts.

Headline PMI back below 50



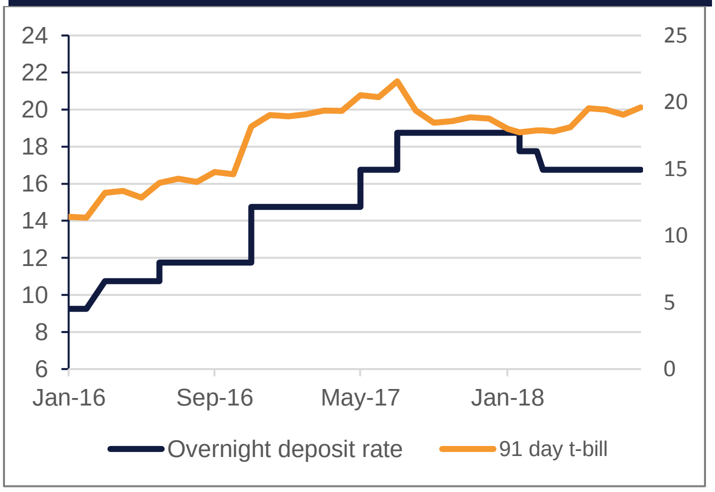
Source: Haver Analytics, Emirates NBD Research

Declines in FDI & portfolio inflows



Source: Haver Analytics, Emirates NBD Research

Egypt interest rates



Source: Haver Analytics, Emirates NBD Research

Iran

Iranian oil production fell by 140,000 b/d in September, to 3.36mn b/d compared to 3.50mn b/d in August. This is even before the full reinstatement of sanctions by the US, due to kick in in November, and we see scope for a dramatic fall in output thereafter. US President Donald Trump announced in May that he would be withdrawing from the JCPOA nuclear agreement, and despite efforts by European countries, China and Russia, US pressure on importers of Iranian oil has succeeded in securing assurances that most of them will look to source their fuel elsewhere. While India has indicated that it will continue to import Iranian crude, major buyers Japan and South Korea have already halted their purchases, and the poor outlook for the oil sector will exert a significant drag on growth. According to central bank data, oil GDP expanded 5.2% y/y in Q2, following a -4.2% contraction in the first quarter. With production already down significantly in Q3, and likely to fall further still in Q4, this will contribute to what we project will be a decline in headline real GDP in 2018 and 2019, forecasting contractions of -1.9% and -4.0% respectively.

Inflation ticking up

The oil sector accounts for less of total GDP than it did when comprehensive sanctions were last imposed on Iran, and so we expect that the depth of the economic contraction will be less pronounced than it was in 2012 when real GDP declined by -7.8%. However, Iran is facing a myriad of challenges related to the re-imposition of sanctions, and these will also feed through to the rest of the economy. Private consumption will take much of the brunt of the economic fallout of renewed sanctions, as inflation has already surged to 31.4% y/y in September. The rial has been in freefall, and government efforts to keep the official exchange rate at IRR42,000/USD by cracking down on parallel market operators have failed to stem the currency's rout. According to FX website Bonbast.com, the rial dropped to lows of IRR 190,000/USD in September, though it has successfully recouped some of these losses in the intervening weeks. In addition, major shipping lines have stopped serving Iran, meaning that the cost of importing goods will have risen in real terms also. As such, we expect that inflation will head higher still, constraining households' spending power, especially as wage growth will be impeded by the generally negative macroeconomic outlook

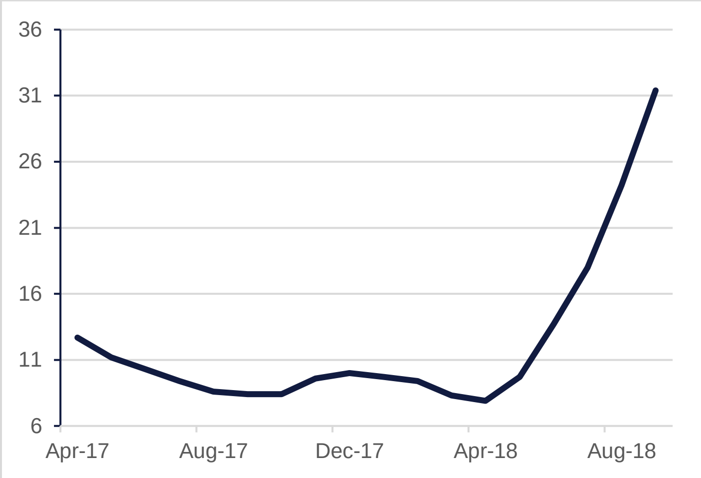
Oil sector remains crucial

The potential Iran promised to international investors has waned dramatically with the hardline stance the Trump administration has adopted, and while European powers have remained publicly committed to facilitating investment in the country, firms with global operations are unlikely to risk drawing the US' ire. French car manufacturer PSA Group announced its withdrawal in June, and European investment into the oil sector is unlikely to materialise. Real growth in gross fixed capital formation contracted 0.8% in Q2, following weak growth of 1.2% the previous quarter, and we expect that it will remain in negative territory through the remainder of 2018 and into 2019.

Oil production, b/d, '000

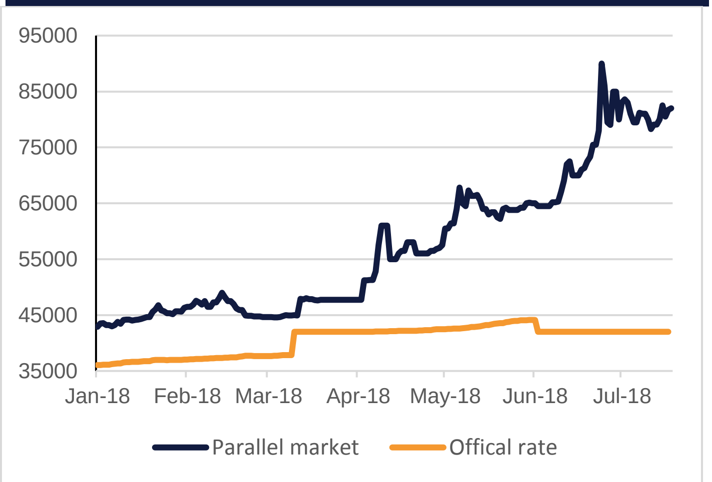
Source: Bloomberg, Emirates NBD Research

CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

IRR/USD



Source: Bloomberg, Emirates NBD Research

Iraq

Government formation in sight

Iraq is close to having a new government following a protracted period of horse trading in the wake of inconclusive general elections in May. On October 2, Barham Salih was elected president by parliament, who immediately nominated Adel Abul Mahdi as his prime minister. Mahdi has the backing of both of the major coalitions, and has 30 days to form a cabinet. The Shiite politician, a former oil minister, will likely oversee a more expansionary fiscal plan given the electoral successes of populist groups in May, namely Moqtada al-Sadr's Sa'irun alliance. This is particularly the case given the wave of protests seen in the country over recent months as Iraqis lost patience with defective public services such as water and electricity supply. These have been particularly acute in Basra, and a USD 3bn emergency aid package was already promised to the city in July. The government also has substantial reconstruction investment obligations in those cities in the north which were devastated by the ISIS takeover and subsequent civil war – in June, a USD 19mn reconstruction plan for Mosul was approved.

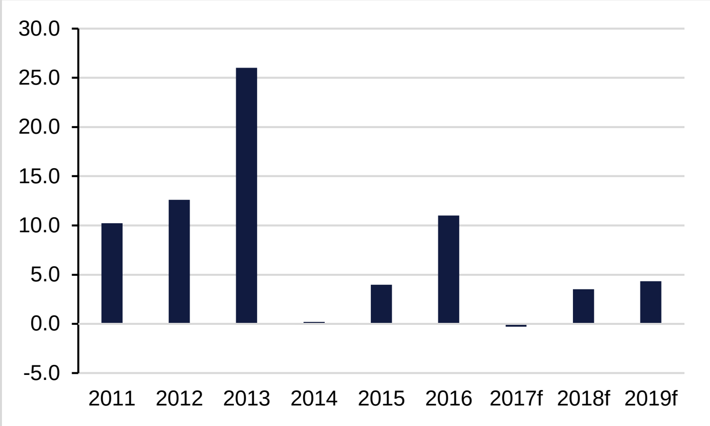
Higher oil prices will support greater spending

In light of these expenditure pressures, we maintain our forecast that Iraq's fiscal deficit will be equivalent to -4.4% of GDP in 2018, falling modestly to -4.0% in 2019. This is significantly lower than the -9.4% deficit averaged over the previous five years, however, as the country benefits from improved security following ISIS's defeat, and from higher oil prices. Brent futures have been closing above USD 80/b for the first time since 2014 in September, and we forecast an average of USD 73/b this year and next – significantly higher than prices seen over the past several years. In addition, Iraq's oil production has picked up modestly in recent months following the OPEC agreement in June to meet, rather than exceed, production curbs. Having set the 2018 budget on projected production of 3.8mn b/d and an oil price of USD 46/b, the average over the year to date of 4.5mn b/d and USD 72.9/b, means the government should have considerable slack.

Accelerating growth

With oil production up (albeit marginally), fewer impediments to trade and investment owing to improved security, greater investment spending, and scope for improved policy formation, we anticipate a pick-up in Iraq's real GDP growth following the -0.3% contraction seen in 2017 (largely owing to oil production curbs). We forecast a 3.5% expansion in 2018, rising to 4.3% in 2019.

Real GDP growth, % y/y



Source: UN, Emirates NBD Research

Oil production, b/d '000

Source: Bloomberg, Emirates NBD Research

Eurobond 2028 % yield

Source: Bloomberg, Emirates NBD Research

Jordan

Jordan's controversial IMF-supported income tax reform programme has yet to come into fruition, with the latest draft sent to parliament on September 24, having been taken on a national roadshow in the preceding weeks. Tax reform was the downfall of the previous government under Hani Mulki, after escalating protests forced his resignation and led to the appointment of Omar al-Razzaz as prime minister in May. The latest tax reform bill looks set to cause trouble for the new administration also as it has been met with continued public opposition, despite having been reconfigured into a more progressive package; the government has stated that the new legislation targets higher earners, taking some of the burden off those less well-off. With income tax accounting for less than 3.0% of total domestic revenues currently (taxes on goods and services provides the bulk of government income), there is likely room to bolster this. However, with unemployment at 18.7%, inflation at levels not seen since 2013, and tax hikes and subsidy cuts already implemented earlier in the year, any further rise in taxes will likely be a tough sell.

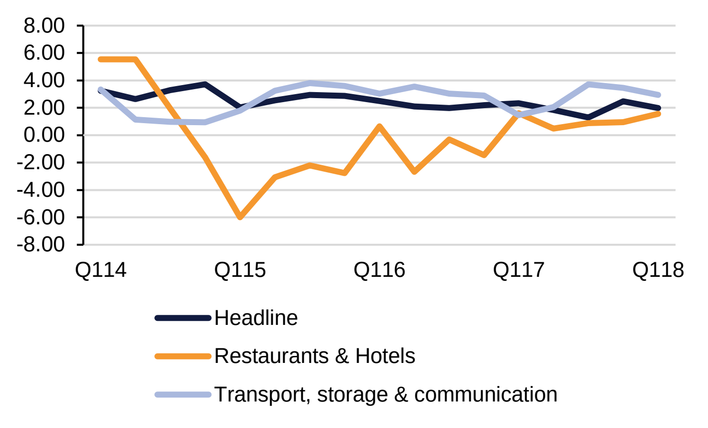
Reforms essential for continued backing

PM Razzaz is promoting the reforms as essential for Jordan's macroeconomic stability, given the significant challenges it faces from regional and global circumstances. Conflicts in neighbouring Iraq and Syria have weighed on economic output through impacting tourism and transit activities, and led to a massive influx of refugees into the country. A persistent fiscal deficit has pushed up debt levels to 96.4% of GDP at the end of August, and with global tightening well underway, a failure to reduce this debt load will weigh on Jordan's government accounts for years to come through raising debt servicing costs. The central bank has already implemented two hikes of 25bps each to its benchmark interest rates this year, and given high inflation and the dinar's peg to the dollar, we expect that it will continue to move in line with the US Fed over the next 12 months. Further impetus to pushing through the bill stems from the need to avoid a ratings downgrade – especially given the pending rollover of over USD 1.4bn of external debt in 2019 – and to maintain the support of the IMF.

Regional support

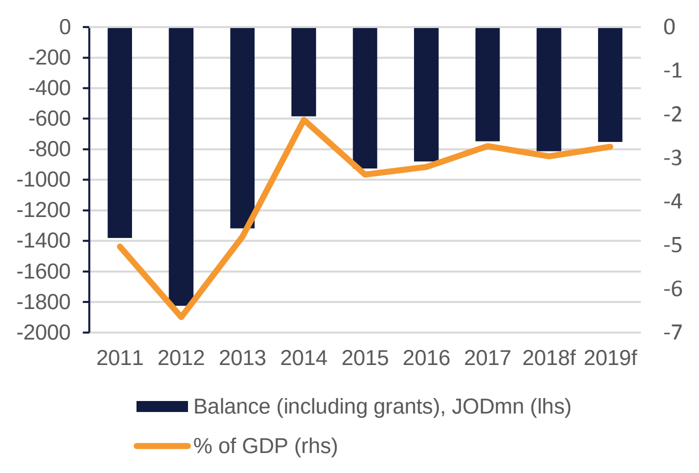
Jordan's economy received a shot in the arm in October, as the UAE, Saudi Arabia and Kuwait announced a USD2.5bn assistance package to the country, following up on pledges made in June. USD 1.2bn was deposited at the central bank in the first instance, with the UAE promising to provide a further USD 250mn grant to the government over five years and a USD 50mn loan for infrastructure projects, Saudi Arabia agreeing to provide USD 250mn over five years, and Kuwait providing USD 500mn and a loan of USD 300mn. This funding should alleviate some of the pressure on Jordan's reserves position, while also allowing the government some slack in terms of spending, especially on essential capital investment.

Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

Budget balance



Source: Haver Analytics, Emirates NBD Research

CPI inflation, % y/y

Source: Haver Analytics, UNHCR, Emirates NBD Research

Kuwait

Economy grew 0.7% in H1 2018

Real GDP growth accelerated to 2.0% y/y in Q2 from a revised -0.5% y/y in Q1 2018. Growth in H1 2018 was up 0.7% y/y as oil production stabilised. The fastest growing non-oil sector in H1 2018 was communications, followed by utilities, education, public administration & defence, and wholesale & retail trade.

Oil production data compiled by Bloomberg show that crude output has increased 1.2% in the year to September, relative to last year's average. Production has increased since June, when OPEC agreed to target 100% compliance (effectively sanctioning an increase in production). This is likely to be sustained in Q4 and overall, and we now expect Kuwait's oil sector to grow around 1% this year (compared with no change previously). As a result, we have upgraded our GDP growth forecast to 2.4% in 2018 from 1.8% previously.

Money supply growth accelerates in Q3

M2 growth continued to accelerate reaching 5.7% y/y in July, up from a 2018-low of 1.1% in March. The main driver was higher cash in circulation and demand deposits, although quasi money increased in April as well.

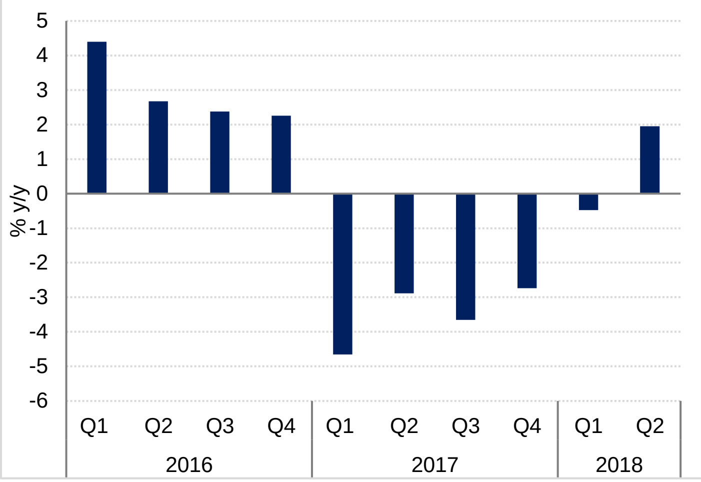
Private sector credit growth remains relatively soft at 2.4% y/y in July, although this was the fastest growth since January 2018. Government borrowing from commercial banks contracted further over the past few months, and was down -7.3% y/y in July.

Budget to record small surplus this fiscal year

With both higher oil production and an upward revision to average oil prices in 2018 and 2019, we now expect Kuwait to record a small budget surplus of 0.4% of GDP for the fiscal year ending 31 March 2019. We expect this to widen to 2.8% of GDP in FY2020, even as total expenditure is forecast to rise.

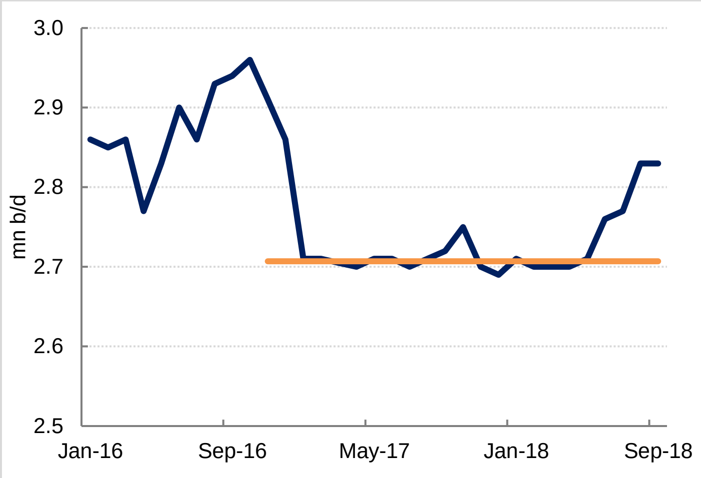
Inflation has accelerated slightly to 0.9% y/y in August from 0.4% in May, but remains low despite the introduction of excise taxes in April. The introduction of VAT has been delayed to 2021.

GDP growth



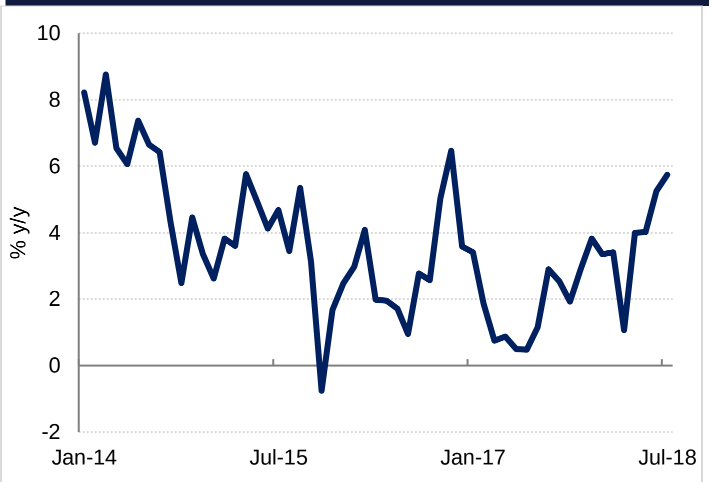
Source: Haver Analytics, Emirates NBD Research

Kuwait oil production & OPEC target



Source: Bloomberg, IMF, Emirates NBD Research

Money supply growth accelerates



Source: Haver Analytics, Emirates NBD Research

Lebanon

The recent spike in Lebanese CDS spreads and yields on sovereign Eurobonds has highlighted the still-precarious position of the Lebanese economy, where ongoing political deadlock is holding back essential reform. The five-year CDS rose to 723 in June, and remained high at 704 at the time of writing in October. These are the highest levels seen since the global financial crisis in 2008, and while some of this is down to the general EM fallout seen since May, Lebanon is particularly vulnerable on a host of factors. The fiscal deficit is equivalent to near 10.0% of GDP, the current account deficit remains closer to 20.0%, and we forecast that government debt will stand at 164.4% of GDP this year, making Lebanon the third most-heavily indebted country in the world.

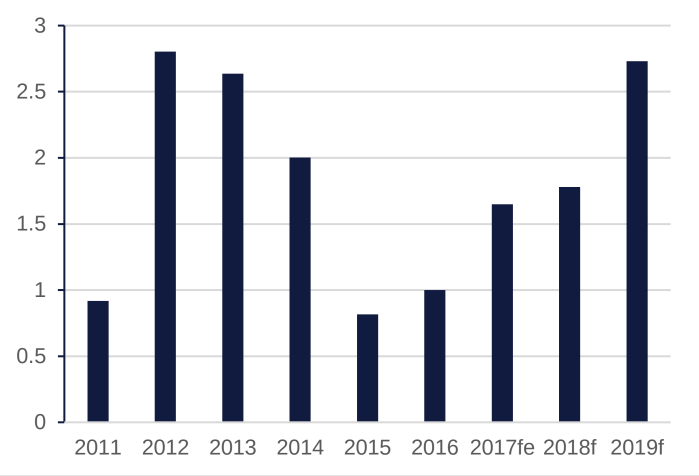
Debt becoming more expensive

Yields on Lebanon's 2028 Eurobond have climbed rapidly since May, rising from 8.3% to a peak of 11.4% on September 17 – falling moderately to 10.5% at the time of writing. This compares to an average of 7.0% on the security previously. Lebanese Eurobonds have traditionally been fairly resilient to EM aversion, as local banks have been active in the market, but local ownership as a proportion of dollar debt has fallen sharply since 2016, as the central bank has enticed them into depositing dollars with it through the offer of high-interest generating swaps and debt exchanges. This has successfully shored up Lebanese reserves, helping to dispel fears of a currency devaluation even through the political crisis related to Saad Hariri's resignation in H2 2017. However, the diminished presence of local banks in foreign-denominated debt could serve to push up government borrowing costs. Given the already high debt loads, which are unlikely to fall given ongoing fiscal pressure, this will keep debt servicing costs (currently a third of expenditure) high, impeding investment into other, more productive, avenues.

Still rudderless

Nearly six months since May elections, Lebanon remains without a government, impeding policy formation and the distribution of essential investment funds. The first budgets since 2005 were passed in 2017 and March 2018, but the failure to form a government has since delayed the implementation of reforms which are essential to unlocking the USD 11bn in loans and grants promised by international lenders in Paris in April. The 2019 budget has been drafted, but needs cabinet approval to implement. Nevertheless, the Finance and Budget Committee has been taking an active stance, calling to account those ministries that have not abided by previous reform measures including a freeze on new hiring and greater transparency in contracts.

Real GDP growth, % y/y

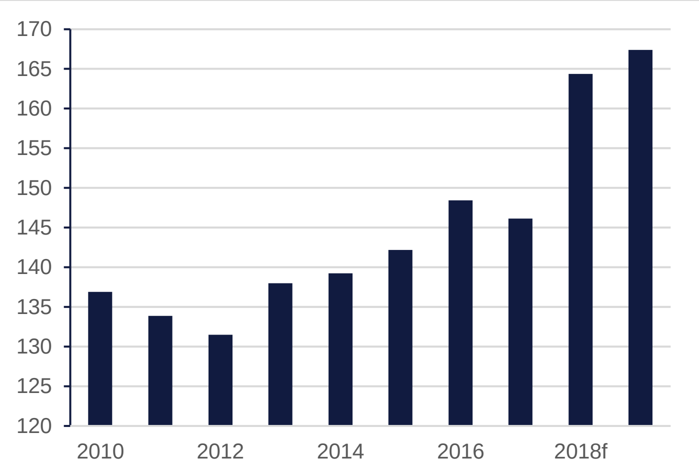


Source: Haver Analytics, Emirates NBD Research

Lebanon 2028 eurobond % yield

Source: Bloomberg, Emirates NBD Research

Debt, % GDP



Source: Haver Analytics, Emirates NBD Research

Libya

The fractious political landscape in Libya continues to weigh on the country's economic performance, and with a meaningful resolution remaining distant, the prospects for a recovery are slim. This is exemplified by the oil sector, where the promise of the first five months, when oil production was up 50.6% y/y, has been thrown off course since June as violent escalations put two of the country's two largest oil terminals offline and force majeure declared. This saw oil production fall by 300,000 b/d to 690,000 b/d. Production has recovered since, averaging 1.0mn b/d over August and September, but Libya's ability to boost production and recover previous lost volumes is limited, despite the country producing far less than the 1.6mn b/d seen prior to the overthrow of long-serving President Muammar Qadhafi in 2011. We project average production of 875,000 b/d over 2018, which would represent y/y growth of 5.7%. However, this will remain highly susceptible to downside risks in the form of further fighting.

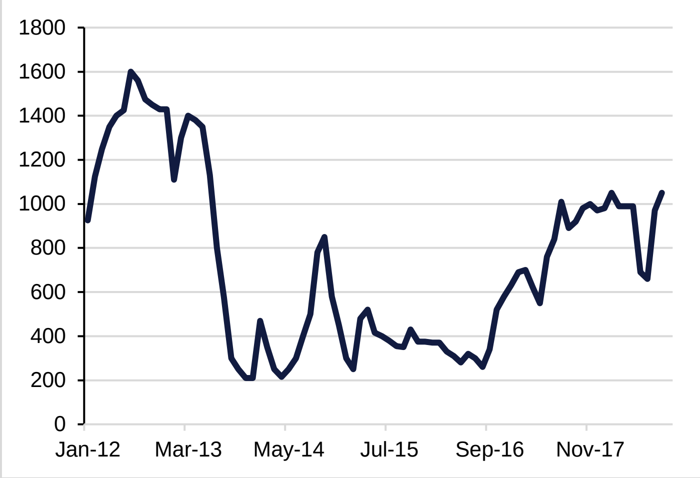
Lower oil output will hit GDP

The changed outlook for oil production owing to the June/July outage has led us to significantly alter our real GDP growth forecast for Libya. Where we previously projected a 27.3% expansion, we have downgraded this to 8.1%. Libya's economic growth has oscillated wildly over the past decade as oil has ebbed and flowed, and with the security situation in such a parlous state, the hydrocarbons sector will continue to account for the bulk of economic output. The various disputing factions have for the most part managed to cooperate in maintaining the NOC's output and in sharing revenues, and with these expanding on the back of higher global prices, there might follow greater spending.

2018 elections unlikely

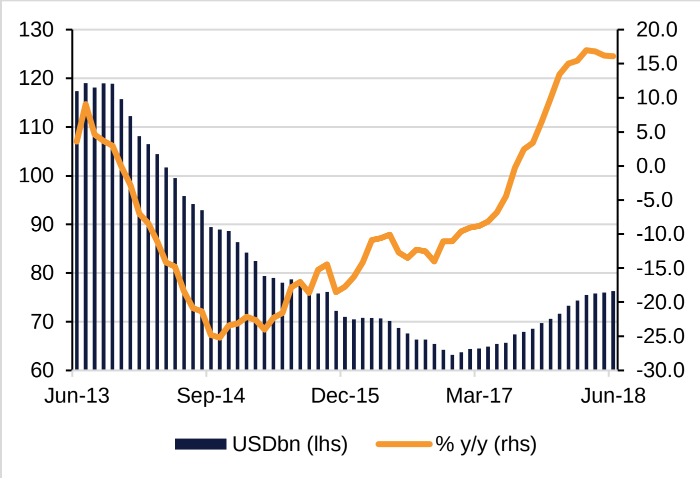
Despite a continued push from France for elections to be held in Libya before 2018 ends, this eventuality is looking increasingly unlikely and there has been a growing sense among other countries including the US and Italy that this is too ambitious. In a statement in September, the UN urged elections to be held soon, but with the caveat 'provided the necessary security, technical, legislative and political conditions are in place'. The statement failed to mention the target date of December 10 previously cited.

Oil production, b/d '000



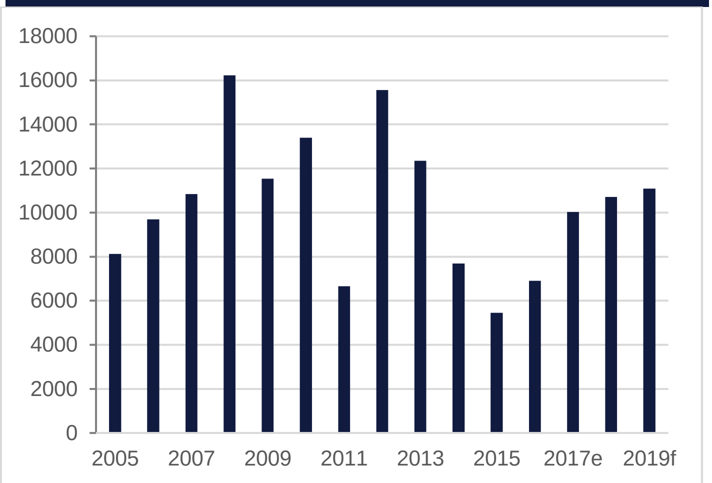
Source: Bloomberg, Emirates NBD Research

FX reserves



Source: Haver Analytics, Emirates NBD Research

GDP per capita, USD



Source: Haver Analytics, Emirates NBD Research

Morocco

Real GDP growth in Morocco has slowed in 2018, averaging just 2.8% y/y over the first three quarters, compared to 3.9% over Q1-Q3 2017. This has informed our full-year forecast of 3.0%, and we anticipate a further slowdown to 2.7% in 2019. Growth in Q2 was just 2.4%, the slowest pace since Q4 2016, as activity was impacted by protests and boycotts related to rising prices. However, the biggest determinant of Morocco's economic growth performance remains the agricultural sector, which accounts for 14.5% of total output. Although a record cereals harvest has been achieved this year, this followed an exceptional performance in 2017 also. This means that growth in the sector slowed to an average 2.9% over Q1-Q3 2018, compared to 15.0% over the corresponding period last year, and this has weighed on the headline growth figure. With such exceptional harvests unlikely to be the norm, the sector will exert a further drag on growth in 2019, leading us to forecast headline real GDP growth of 2.7% next year.

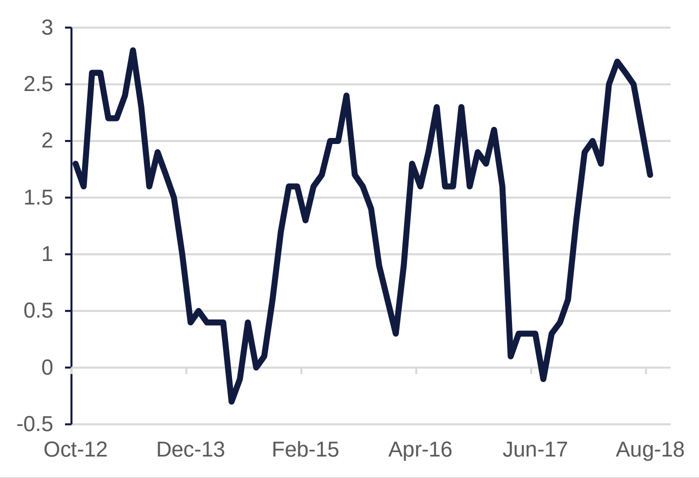
Rates on hold

Bank al-Maghrib kept its benchmark interest rate on hold at 2.25% at its September 25 meeting, the third of the year. Rates have been kept static since March 2016, when a 25bps cut was implemented, and we do not expect any action to be taken by the bank over the course of 2019 as the risks are likely to remain fairly evenly balanced. In its September communiqué the bank stated that it expected inflation to fall over 2019, averaging 1.2% from its projection of an average 2.1% in 2018. We expect that price pressures will be a little stronger, projecting averages of 2.2% and 1.9% respectively, in part owing to our expectation that Brent will average USD 73/b next year, compared to the central bank's projection of USD 63.8/b. Nevertheless, fuel prices should remain manageable given the plan to control fuel prices announced in July, which would see the government implement a price cap to be adjusted every 15 days. According to General Affairs Minister Lahcen Daoudi, the plan would run for six to 12 months. As such, we expect the fairly loose monetary policy to be maintained.

Tourism performing well

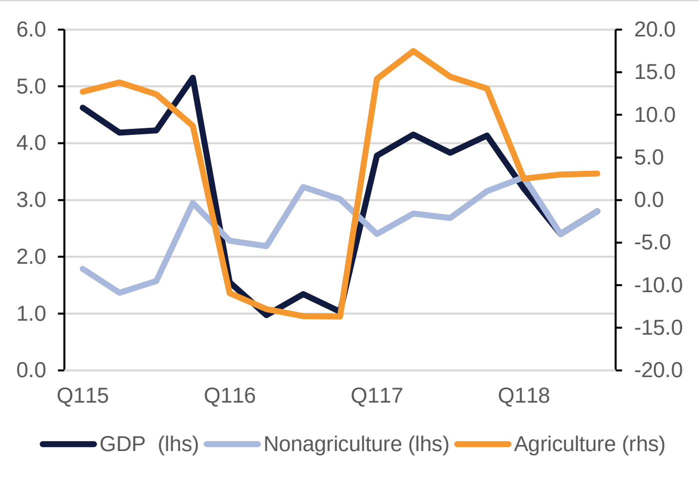
Tourism inflows have supported Morocco's balance of payments in 2018, climbing 20.1% y/y over the first three quarters. Visitor arrivals over January to July hit a total of 7.0mn, y/y growth of 6.9%, and putting the industry on course to exceed even the record 11.4mn visitors received in 2017. Given that tourism is the second-largest employer after agriculture, a strongly performing sector is positive for the economy at large. According to the World Travel & Tourism Council, the sector (directly and indirectly) accounts for 16.6% of total employment and 18.5% of GDP.

CPI inflation, % y/y



Source: Bloomberg, Emirates NBD Research

Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

Exchange rate, MAD/USD

Source: Bloomberg, Emirates NBD Research

Oman

Oil production set to rise

Oman's oil production has increased in Q3, averaging 979k b/d in the year to August. As with other GCC oil producers, we expect Oman to continue increasing oil production through the rest of this year, and we retain our forecast of 1.0% growth in the oil sector in 2018.

While there is no new data on non-oil sector activity – Oman has yet to publish official real GDP for 2017 – anecdotal evidence suggests that non-oil sector growth has also likely accelerated this year, particularly in the transport & logistics sector which has seen an increase in investment. We forecast 3.5% growth in the non-oil economy in 2018, bringing headline GDP growth to 2.6% this year.

Higher oil prices help reduce budget deficit

Budget data for H1 2018 show oil and gas revenue up 35% y/y and 26% y/y respectively in the first half of this year. This has more than offset the 11.5% rise in current spending and nearly 18% increase in subsidies and grants, with the budget deficit around 40% lower than it was in H1 2017.

For the full year 2018 we now expect the deficit to narrow to -5.5% of GDP from -12.5% in 2017. We expect a further reduction in the deficit to -3.8% of GDP in 2019.

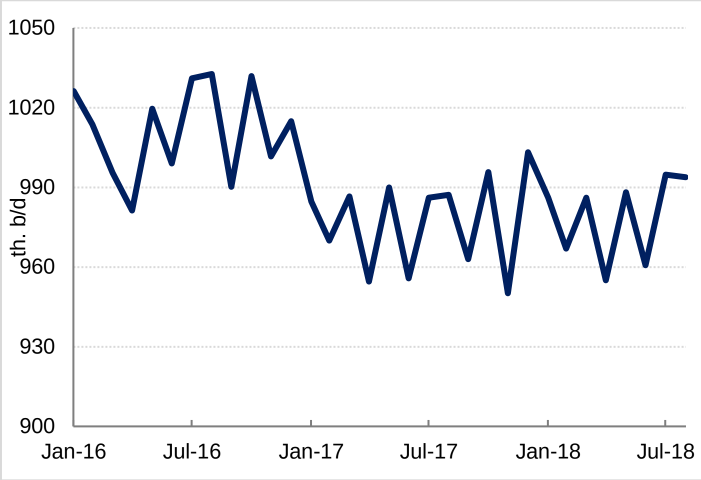
Despite the lower financing requirement this year, and the USD 6.5bn external debt issue in January, press reports suggest Oman may still come to the market in Q4 with a sukuk issue in order to take advantage of current market conditions for GCC sovereign debt.

Current account deficit larger than forecast in 2017

Preliminary data for the balance of payments show Oman recorded a current account deficit of –USD 10.8bn (-14.9% of GDP) in 2017, which is more than we had forecast. Although the trade surplus grew, outflows on the income account were more than 50% higher than in 2016.

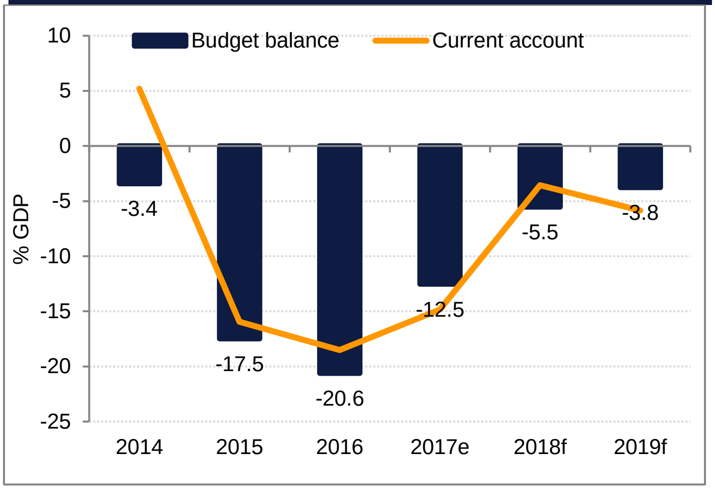
We expect the current account deficit to narrow significantly in 2018 to -3.6% of GDP on higher oil export revenues.

Oil production



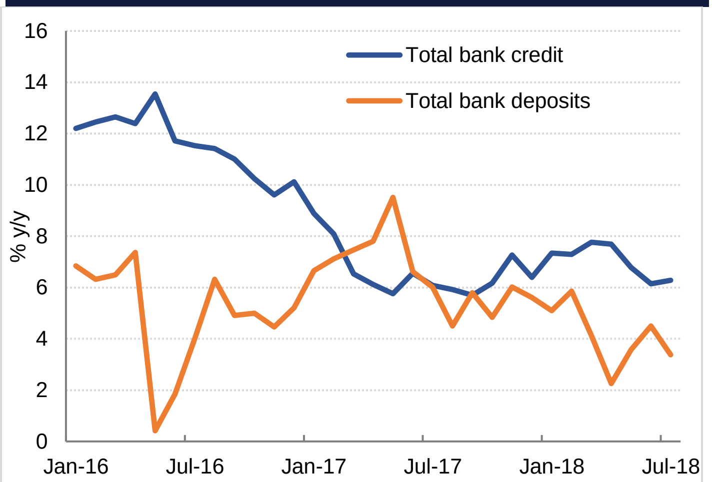
Source: Bloomberg, Emirates NBD Research

GDP growth



Source: Haver Analytics, Emirates NBD Research

Bank loan and deposit growth



Source: Haver Analytics, Emirates NBD Research

Qatar

GDP growth accelerated in Q2 to 2.5%

Official data show the economy expanded 2.5% y/y in Q2 2018, with Q1 growth revised higher to 2.0% from 0.8% previously. The hydrocarbons sector contracted -1.1% y/y but this was offset by strong non-oil sector growth.

Building & construction expanded 15.3% y/y in Q2, marking the 23rd consecutive quarter of double-digit growth in this sector. While the rate of construction growth has slowed since 2016, it continues to reflect government spending on infrastructure in preparation for hosting the FIFA World Cup in 2022. Manufacturing growth accelerated to 14.1% y/y in Q2 2018, the fastest rate of growth in this sector since Q4 2012.

We expect Qatar's GDP growth to accelerate to 3.1% this year from 1.1% in 2017 as the hydrocarbons sector returns to growth and non-oil sector growth accelerates.

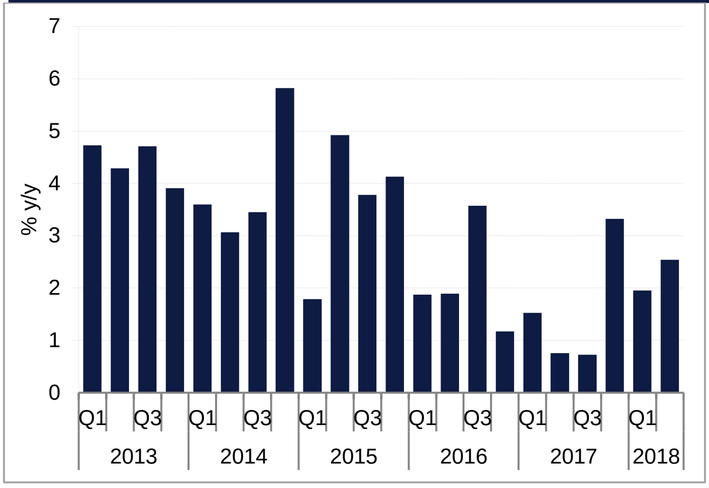
M2 growth slows off a high annual base

M2 growth slowed to 4.0% y/y in August from 10.3% y/y in July and 21.3% y/y in December 2017. This is partly due to base effects: there was a jump in FX deposits in the banking system in August as the authorities took steps to boost liquidity after sanctions were imposed by neighbouring GCC states.

However, public sector deposits at commercial banks declined m/m in July and August, and annual growth in public sector deposits also turned negative (-2.7% y/y) in August. In contrast, foreign liabilities in the banking system have increased: non-resident deposits at commercial banks have increased 16.7% since December 2017, while commercial bank liabilities to banks abroad, debt securities and other foreign liabilities have also risen sharply since the end of last year. As a result, the net foreign asset position of commercial banks has returned to where it was prior to the sanctions being imposed in early June last year.

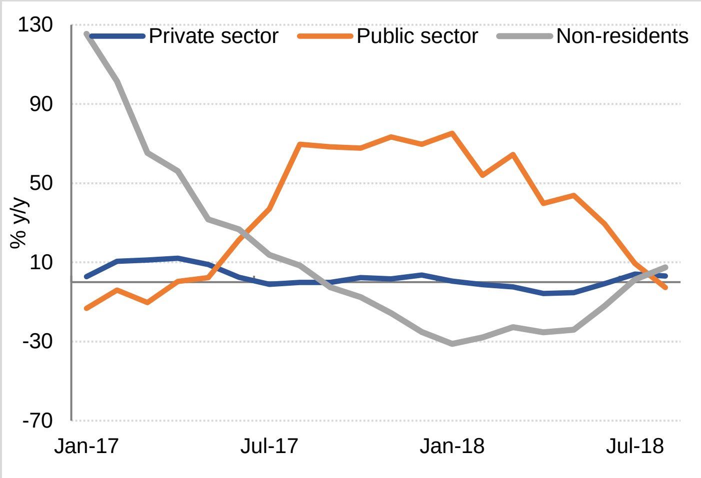
On the lending side, government and public sector borrowing has declined since April, reaching -3.3% y/y in August. However, private sector credit growth has remained stable at over 10% y/y over the same period.

Real quarterly GDP growth



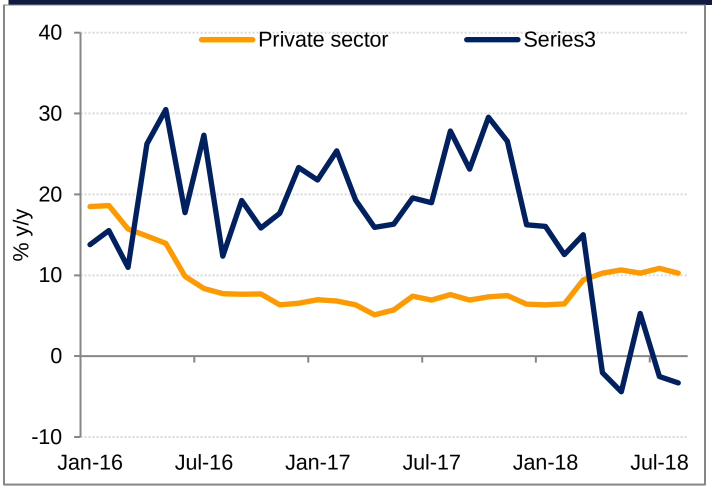
Source: Haver Analytics, IMF, Emirates NBD Research

Bank deposit growth



Source: Haver Analytics, Emirates NBD Research

Bank loan growth



Source: Haver Analytics, Emirates NBD Research

Saudi Arabia

Oil production continues to recover

Bloomberg estimates Saudi oil production at 10.53mn bpd in August, up sharply since the end of May, as Saudi Arabia and other GCC producers have stepped in to offset the decline in oil exports from Iran. Oil sector GDP increased 1.7% y/y in Q2, even though production only really started to ramp up towards the end of the quarter. This supports our view that GDP growth is likely to accelerate further in H2 2018.

Non-oil sector also expanded at a faster rate

Q2 GDP data showed non-oil sector growth accelerated to 2.1% y/y from 1.5% y/y in Q1. The PMI survey data suggest a further improvement in Q3, despite a slightly softer reading for September (53.4). The main drivers of non-oil growth in Q2 were government services, manufacturing and financial services, while construction and trade, hotels & restaurants contracted.

The PMI data also reflects margin pressures on firms, with rising input costs not being passed through in selling prices, and softer jobs growth. Staff costs (a proxy for wages) in the private sector declined marginally in September.

Overall, we retain our full year GDP growth forecast of 2.0% this year, rising to 2.4% in 2019 as oil production remains high and government spending increases.

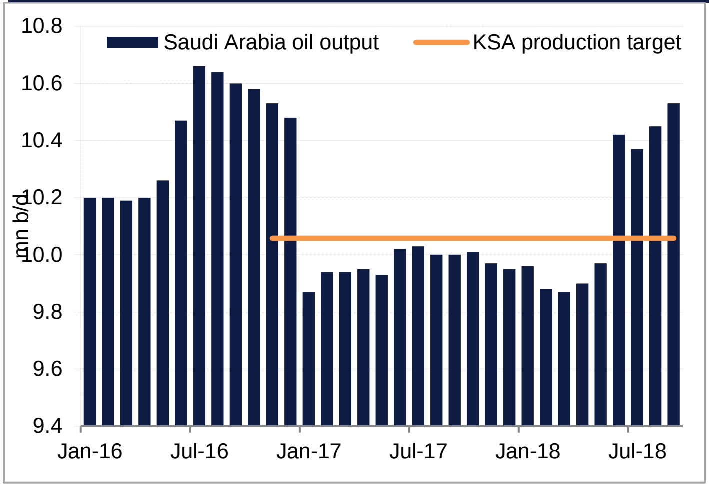
Pre-budget statement flags higher spending in 2019

The pre-2019 budget statement indicates a 7.5% growth in expenditure is likely next year, although with higher oil and non-oil revenues we estimate the overall budget deficit is likely to be contained at -3.6% of GDP. While this is slightly wider than our forecast for 2018 (-2.8% of GDP), it is much smaller than budget deficits recorded in 2015-2017.

Money supply and credit growth remain soft

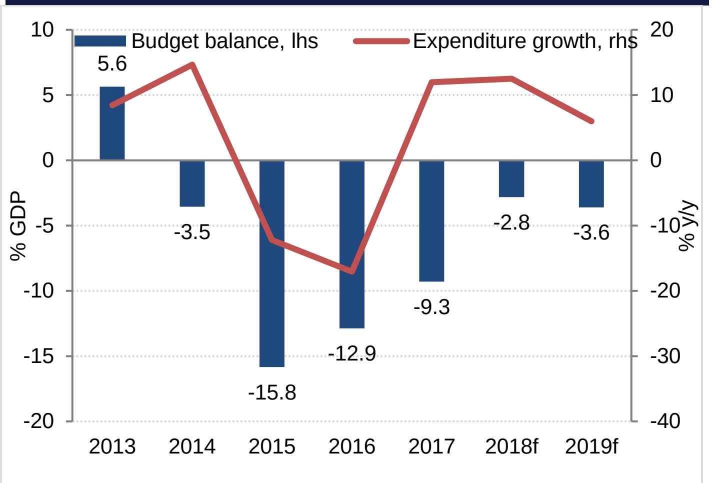
The rebound in oil prices this year has not translated to improved liquidity conditions in the domestic banking system. Broad money supply growth was flat y/y in August after contracting marginally in the prior two months. Longer-term deposits have contracted on an annual basis for the last year. Commercial bank deposit data show government entities' deposits declining on an annual basis since March 2018, although business & individuals' deposits have grown modestly. Private sector credit has grown modestly since April 2018, after contracting for the prior 13 months. Public sector borrowing (including government bond issuance) has slowed but remains high at 21.7% y/y in August.

Oil production and OPEC target



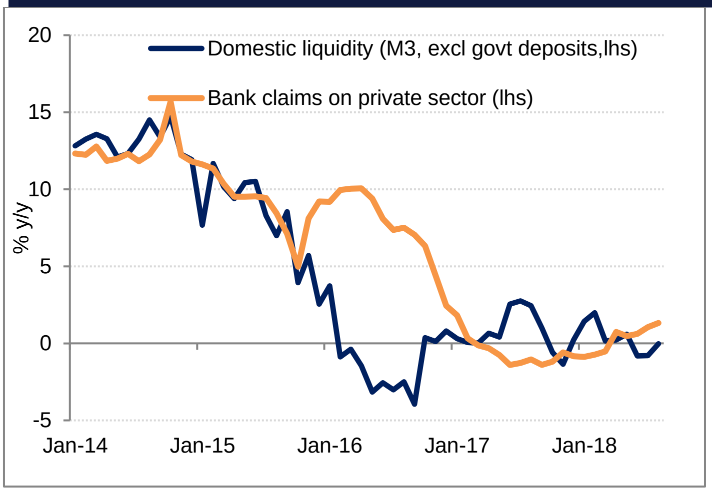
Source: Bloomberg, Emirates NBD Research

Budget deficit to remain contained in 2019



Source: IHS Markit, Emirates NBD Research

Money supply and credit growth



Source: Haver Analytics, Emirates NBD Research

Tunisia

Tunisia continues to grapple with pushing through the economic reforms mandated as part of its Extended Fund Facility programme with the IMF while maintaining political stability and dampening popular protests. The economy has struggled to make a meaningful recovery following the ouster of long-serving President Ben Ali in 2011 and terrorist attacks in 2015, and even while it has been more politically stable than other countries in the region which saw their leaders deposed at the time, a series of short-lived governments have struggled to implement essential reforms. There has been further strife in recent weeks, with President Beji Caid Essebi publicly criticising Prime Minister Youssef Chahed, and the resignation of four deputies from the ruling Nidaa Tounes bloc on October 3. Political turmoil will make policy formation more difficult as the government loses the necessary capital to push through unpalatable policies.

Fiscal consolidation will slow

The government has made some headway on fiscal consolidation over 2018, with an effective draw-down of the budget deficit over the first six months which has seen us adjust our year-end forecast from 5.4% of GDP to 4.6%. This exceeds the IMF's 2018 target of 4.9%. This is corroborated by national accounts data which shows that the public administration component of GDP saw average real growth of 0.0% over Q1 and Q2 2018. On the back of these efforts, the IMF in October approved the payment of Tunisia's latest tranche of funding, USD 247mn. However, while progress has been made, the country has not eliminated all fuel subsidies, and as a net oil importer Tunisia's budget balance will come under increasing pressure as a result of higher global prices. We expect that consolidation efforts will slow in 2019, forecasting a budget deficit equivalent to 4.4% of GDP.

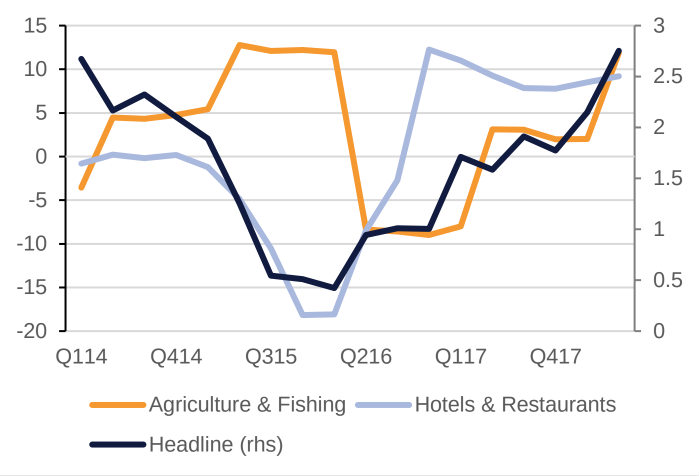
Higher oil prices will also have a bearing on the current account deficit, which we forecast will remain wide at 9.7% of GDP this year, compared to a previous projection of 9.4%. This will continue to exert pressure on reserves, which at USD 4.6bn in July are at lows not seen since 2006, covering less than three months of imports.

Stronger growth despite households pressure

Households in Tunisia remain under pressure as consumers are buffeted by high unemployment (15.4%), sluggish wage growth and elevated inflation – in part a byproduct of subsidy reform and higher oil prices. The IMF continues to urge tighter monetary policy, and with real interest rates currently in negative territory we still see scope for a further rate hike by year-end, especially given ongoing pressure on emerging markets. Inflation was at 7.5% y/y at the latest print in August, exceeding the benchmark interest rate of 6.75%.

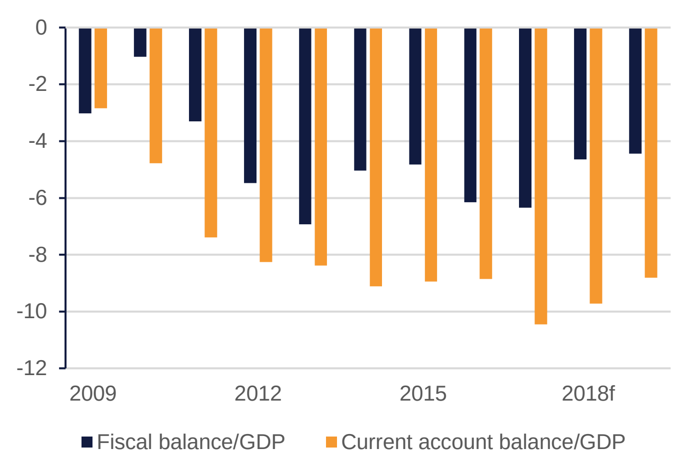
Despite these pressures, we forecast that real GDP growth will accelerate to 2.7% in 2018 and 2.9% in 2019, compared to an average of just 1.7% over the preceding five years. Agriculture & fishing is the driving force of this, having averaged 10.4% growth y/y in the first two quarters, while the tourism sector is also performing well, with hotels & restaurants averaging 10.3% growth.

Real GDP growth, % y/y



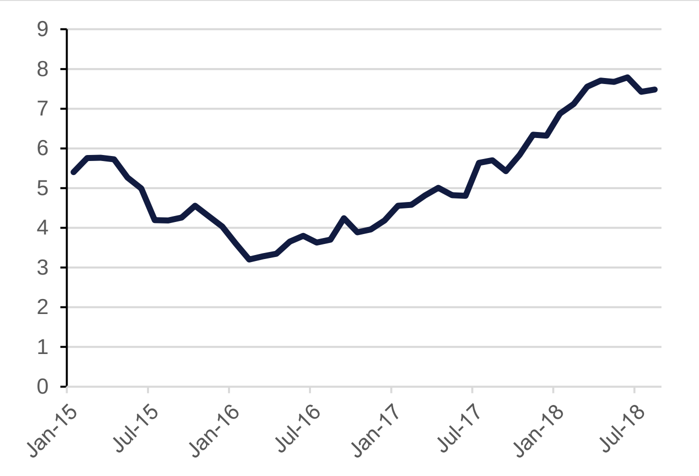
Source: Haver Analytics, Emirates NBD Research

Twin deficits, % GDP



Source: Haver Analytics, Emirates NBD Research

CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

UAE

Oil production rises sharply in Q3

UAE crude oil production rose to 2.87mn b/d in September according to Bloomberg estimates, with the average ytd now flat from last year. If oil production is maintained at this level through year-end, average oil output would be 1% higher than last year, boosting headline GDP growth. We expect the UAE to increase oil production in 2019, contributing to faster GDP growth next year.

PMI surveys indicate lower employment and stagnant wages

Although the headline PMI remains solidly in the mid-50s, indicating a similar rate non-oil sector growth to 2017 (2.5%), the survey shows further losses in private sector jobs. The employment component of the PMI fell below the neutral 50.0 level in August and September, as more firms surveyed reported job shedding than those reporting hiring. The staff costs index has averaged 50.1 in the last four months, indicating no wage growth over that period.

Private consumption contracted -1.3% in 2017, and we expect a further contraction this year, as households face rising fuel and living costs and little prospect of higher paying employment as firms focus on reducing costs. In a challenging economic environment, private sector investment is also likely to remain soft (private sector investment growth slowed to 0.6% in 2017 from 8.8% in 2016, according to official statistics).

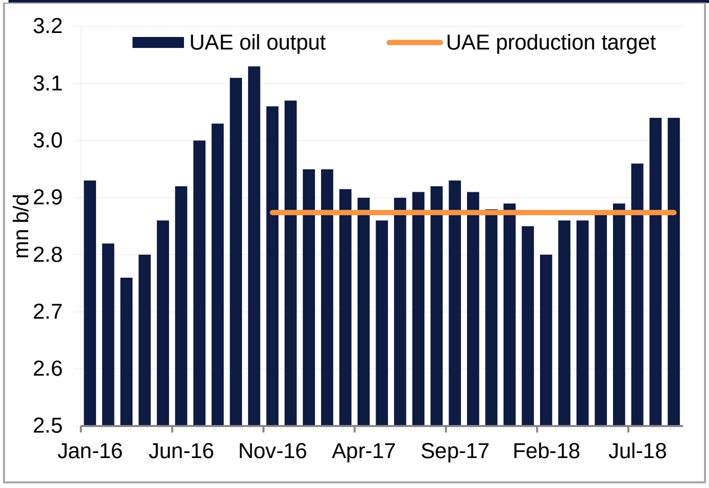
Growth in 2018 and 2019 to come from government spending and oil production

Government consumption did rise in 2017, helping to offset the impact of weaker private consumption. We expect this to be the case this year and into 2019 as well, with the recently approved federal government budget showing a 17% increase in spending from 2018. However, the federal budget accounts for only around 12% of total UAE government spending, with the largest share of the consolidated budget coming from Abu Dhabi. Abu Dhabi has also announced additional spending for 2019, which should trickle down to the rest of the economy and support overall economic activity next year.

However, recent studies from the IMF (December 2017) have shown that the multiplier effect of government spending in the GCC has declined in recent years (since 2008), meaning that government spending is likely to have less of an impact on overall GDP growth than previously. Moreover, government spending depends to a large extent on oil revenues, which are volatile.

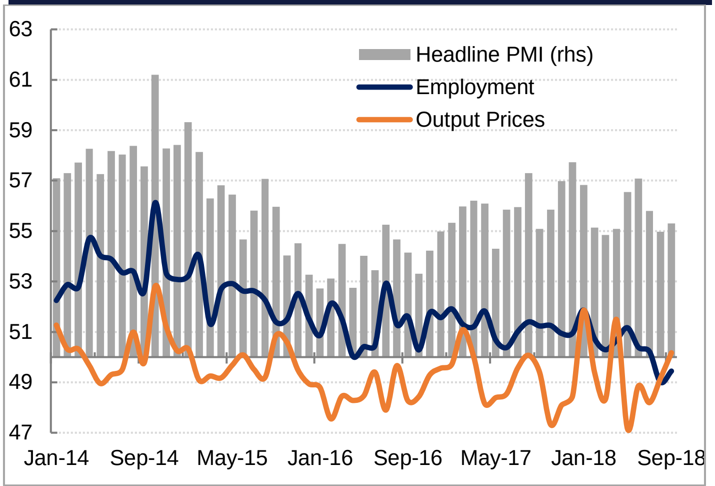
As a result, measures to boost activity in the private sector (including structural reforms to reduce the cost and improve the ease of doing business, incentives to attract investment etc) are increasingly important for sustainable economic growth over the medium term.

UAE Oil production and OPEC target



Source: Bloomberg, Emirates NBD Research

Emirates NBD UAE PMI



Source: IHS Markit, Emirates NBD

Expenditure GDP: Contribution to UAE GDP growth (percentage points)

	2013	2014	2015	2016	2017
Final consumption exp.	**5.0**	**4.7**	**-8.0**	**0.4**	**0.0**
Private consumption	1.9	4.6	-7.7	0.5	-0.4
Public consumption	3.0	0.1	-0.4	-0.1	0.4
GFCF	**-1.3**	**2.2**	**0.9**	**1.9**	**0.1**
Public sector	0.3	1.0	0.4	0.9	0.1
Private sector	-1.5	1.2	0.5	1.0	0.1
Change in inventories	**0.9**	**2.9**	**2.6**	**-0.8**	**-0.4**
Net exports	**0.4**	**-5.4**	**9.5**	**1.5**	**1.1**
Export	6.1	1.8	5.1	3.4	0.5
Imports	5.7	7.2	-4.4	1.8	-0.7
Real GDP growth	**5.1**	**4.4**	**5.1**	**3.0**	**0.8**

Source: Haver Analytics, Emirates NBD Research

UAE - Dubai

Economic activity slows in September

The headline Dubai Economy Tracker Index (DET) declined to 54.4 in September signalling the slowest rate of expansion since April. Both output and new work increased in September but at a slightly slower rate than in August.

However, employment declined on average (49.2) in September, particularly in the travel & tourism sector. Selling prices in Dubai's private sector declined for the fifth consecutive month, despite a modest rise in input costs. This suggests that firms increased promotional activity and discounts in order to boost demand (ie output and new work).

The Dubai Economy Tracker Index has averaged 55.5 in the year-to-September, slightly lower than the same period last year, which suggests that the risks to our 2018 GDP growth forecast of 3.3% are on the downside. The Dubai Statistics Centre has yet to release any quarterly GDP data for 2018.

Tourism sector activity slows in Q3

The travel & tourism sector index (part of the Dubai Economy Tracker) declined to a 2018-low of 51.3 in September as output and new work growth slowed and employment declined for the second month in a row. Average selling prices in the sector declined for the third consecutive month in September.

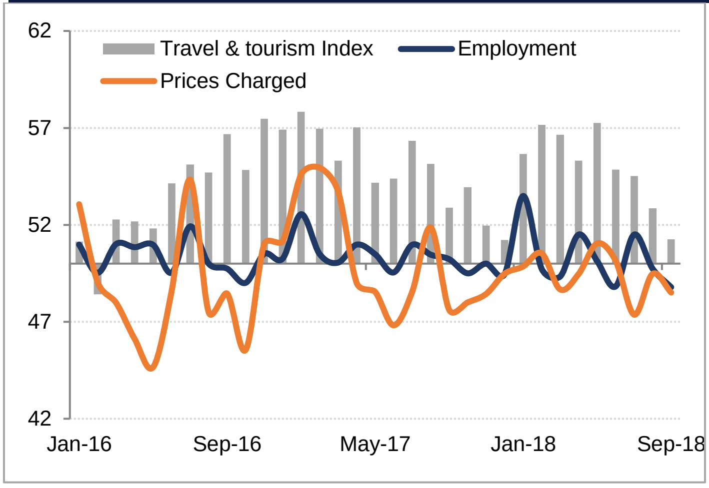
Growth in visitor numbers to Dubai has slowed this year, as the strong USD weighs on demand from key emerging markets such as India and China. The total number of international guests in Dubai grew less than half-a-percent in the year to August, compared with the same period in 2017. In comparison, growth in Jan-Aug 2017 was up 8.2% on the prior year.

Meanwhile, the supply of hotel rooms in Dubai has grown nearly 10% y/y in August (data from STR Global), which has weighed on pricing and is reflected in a -7.1% y/y decline in RevPAR in the year-to-August.

Headline inflation stable at 2.2%

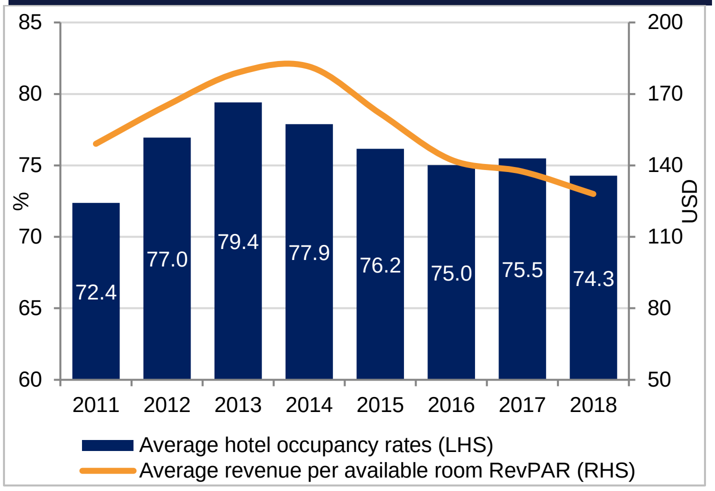
August inflation data show a further decline in housing costs (-0.3% m/m and -3.6% y/y), which has helped to offset rising costs in other components, including transport (+18.5% y/y) and restaurants & hotels (11.9% y/y). Annual inflation rates have been boosted by VAT but transport costs have also been driven by sharply higher oil prices which are feeding through to petrol prices. Food price inflation stood at 3.3% y/y in August and has averaged 4.4% in the year-to-August.

DET: Travel & Tourism Index



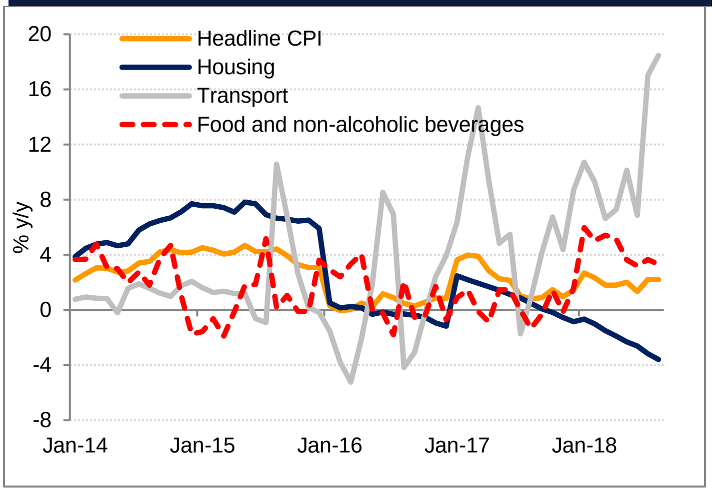
Source: IHS Markit, Emirates NBD Research

Hotel occupancy and RevPAR (Jan-Aug)



Source: IHS Markit, Emirates NBD Research

Dubai inflation



Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Algeria

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (DZD bn)	16713	17525	18363	19303	20480
Nominal GDP (USD bn)	166.5	160.2	165.6	165.1	170.0
GDP per capita (USD)	4177	3944	4007	3931	3982
Real GDP Growth (% y/y)	3.7	3.3	1.6	2.4	2.9
Monetary Indicators (% y/y)					
CPI (average)	4.4	5.8	6.0	4.0	5.3
External Accounts (USD bn)					
Exports	38.1	32.7	37.5	48.8	53.7
Imports	63.7	60.2	59.9	62.9	66.1
Trade balance	-25.6	-27.5	-22.4	-14.2	-12.4
% GDP	*-12.1*	*-12.8*	*-13.5*	*-8.8*	*-7.5*
Current account balance	-27.3	-26.2	-22.0	-13.6	-11.8
% GDP	-12.9	-12.3	-13.2	-8.5	-7.2
Fiscal Indicators (DZDbn)					
Revenue	5105	5012	6182	7656	8313
Expenditure	7656	7297	7389	9015	9555
Budget Balance	-2551	-2285	-1207	-1359	-1243
% GDP	-15.3	-13.1	-6.6	-7.0	-6.1

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Bahrain

National Income	2015	2016	2017e	2018f	2019f
Nominal GDP (BHD bn)	11.7	12.1	13.3	14.6	15.4
Nominal GDP (USD bn)	31.1	32.2	35.3	38.9	41.0
GDP per capita (USD)	22720	22579	24308	26278	27121
Real GDP Growth (% y/y)	2.9	3.2	3.9	2.9	3.4
Monetary Indicators (% y/y)					
M2	2.9	1.2	4.2	5.0	6.4
Private sector credit	7.6	1.5	2.5	3.5	4.0
CPI (average)	1.8	2.8	1.4	2.5	3.0
External Accounts (USD bn)					
Exports	16.5	12.8	15.4	18.3	18.6
Of which: hydrocarbons	7.7	6.1	8.4	11.1	11.1
Imports	15.7	13.6	16.1	17.5	17.7
Trade balance	0.8	-0.8	-0.7	0.8	0.8
% GDP	2.7	-2.5	-2.0	2.0	2.1
Current account balance	-0.8	-1.5	-1.4	-0.6	-0.2
% GDP	-2.4	-4.6	-3.9	-1.6	-0.4
Fiscal Indicators (% GDP)					
Budget balance	-13.0	-13.5	-11.4	-8.0	-5.9
Revenue	17.4	15.7	16.5	19.3	18.7
Expenditure	30.4	29.2	27.9	27.3	24.6

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Egypt

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (EGP bn)	2443.9	2709.4	3399.6	4227.6	5016.2
Nominal GDP (USD bn)	332.6	332.4	223.0	236.5	276.8
GDP per capita (USD)	3635	3554	2333	2421	2773
Real GDP Growth (% y/y)	4.4	4.3	4.2	5.3	5.5
Monetary Indicators (% y/y)					
M2	16.4	18.6	39.3	20.3	17.5
CPI (average)	10.4	13.7	29.6	15.0	12.0
External Accounts (USD bn)					
Exports	22.2	18.7	21.7	25.8	28.4
Imports	61.3	57.4	59.0	63.1	77.0
Trade Balance	-39.1	-38.7	-37.3	-37.3	-48.6
% of GDP	-11.7	-11.6	-16.7	-15.8	-17.5
Current Account Balance	-10.1	-6.4	-2.8	-6.0	-7.0
% of GDP	-3.7	-6.0	-6.5	-2.5	-2.4
Reserves	20.0	17.6	31.3	44.3	42.0
Public Finances					
Revenue (EGP bn)	465241	491488	659184	768940	849482
Expenditure (EGP bn)	733350	804704	1025109	1167135	1291747
Balance*	-279430	-326355	-372758	-398196	-442265
% of GDP	-11.43	-12.05	-10.96	-9.42	-8.82
Central Government Debt (EGP mn)	1871332	2285644	2685898	3500000	4000000
% of GDP	76.6	84.4	79.0	82.8	79.7

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Iran

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (IRR tn)	11128	12823	14408	15850	17518
Nominal GDP (USD bn)	419.6	441.8	433.9	391.0	385.0
GDP per capita (USD)	5266	5436	5276	4698	4571
Real GDP Growth (% y/y)	-1.4	12.4	3.3	-1.9	-4.0
Monetary Indicators (% y/y)					
CPI (average)	15.8	8.7	10.0	22.0	26.0
External Accounts (USD bn)					
Exports	62995	83978	98142	92577	87329
Imports	57641	63135	75546	84612	90534
Trade balance	5354	20843	22596	7965	-3205
% GDP	1.3	4.7	5.1	2.0	-0.8
Current account balance	1237	16388	15816	1073	-10210
% GDP	0.3	3.7	3.6	0.3	-2.5
Fiscal Indicators (IRRbn)					
Revenue	-1.6319	-1.9925	-1.839	-1.6166	-1.8871
Expenditure	1706900	2072300	2429400	2599458	2989377
Budget Balance	-583100	-611700	-753700	-923758	-1E+06
% GDP	-5.2	-4.8	-5.1	-5.6	-7.9

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Iraq

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (IQD tn)	195713	189145	215970	251239	284096
Nominal GDP (USD bn)	164.2	165.2	184.6	214.7	242.8
GDP per capita (USD)	4325	4214	4575	5174	5689
Real GDP Growth (% y/y)	4.0	11.0	-0.3	3.5	4.3
Monetary Indicators (% y/y)					
CPI (average)	1.2	1.3	0.7	0.5	2.4
External Accounts (USD bn)					
Exports	43441.5	28359.9	32897.5	42766.7	49181.7
Imports	33188.2	19574.6	23489.5	25838.5	28680.7
Trade balance	10253.3	8785.3	9408.0	16928.3	20501.0
% GDP	*6.2*	*5.3*	*5.1*	*8.0*	*8.5*
Current account balance	4121.3	2771.7	3116.7	9446.4	11551.5
% GDP	2.5	1.7	1.7	4.4	4.8
Fiscal Indicators (IQDbn)					
Revenue	63500	55500	76590	98035.2	107839
Expenditure	89000	82860	90924.8	109110	119335
Budget Balance	-25500	-27360	-14335	-11075	-11496
% GDP	-13.0	-14.5	-6.6	-4.4	-4.0

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Jordan

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (JOD bn)	26.6	27.4	28.6	29.6	30.6
Nominal GDP (USD bn)	37.5	38.7	40.3	41.7	43.2
GDP per capita (USD)	5509	4949	4578	4633	4685
Real GDP Growth (% y/y)	2.4	2.0	2.0	2.2	2.6
Monetary Indicators (% y/y)					
M2	7.0	5.1	-2.4	-2.5	1.0
CPI (average)	-0.9	-0.8	3.3	5.2	3.8
External Accounts (USD bn)					
Exports	7.8	7.5	7.5	7.3	7.7
Imports	18.2	17.1	18.2	17.7	18.4
Trade Balance	-10.3	-9.6	-10.7	-10.4	-10.6
% of GDP	*-27.5*	*-24.8*	*-26.5*	*-24.9*	*-24.7*
Current Account Balance	-3.4	-3.7	-4.3	-3.4	-3.2
% of GDP	*-9.1*	*-9.5*	*-10.7*	*-8.1*	*-7.4*
Reserves	16.5	15.7	16.0	16.8	18.0
Public Finances					
Revenue (JOD mn)	6796.2	7069.5	7425.4	7630.5	8237.9
Expenditure (JOD mn)	7724.7	7948.2	8173.1	8443.9	8989.6
Balance	-926.7	-878.7	-747.7	-813.4	-751.7
% of GDP	*-3.4*	*-3.2*	*-2.7*	*-3.0*	*-2.7*
Central Government Debt (JOD mn)	23237.2	23238.2	23239.2	23240.2	23241.2
% of GDP	*89.8*	*93.5*	*84.4*	*85.0*	*82.0*

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Kuwait

National Income	2015	2016	2017e	2018f	2019f
Nominal GDP (KWD bn)	34.5	33.1	36.3	42.5	44.7
Nominal GDP (USD bn)	114.6	109.4	119.5	140.2	149.0
GDP per capita (USD)	28861	26747	28374	32319	33339
Real GDP Growth (% y/y)	28861	26747	28374	32319	33339
Hydrocarbon	28861	26747	28374	32319	33339
Non-hydrocarbon	28861	26747	28374	32319	33339
Monetary Indicators (% y/y)					
M3	1.7	3.6	3.8	5.0	5.5
Private sector credit	7.9	2.5	2.8	3.0	5.0
CPI (average)	3.3	3.2	1.6	1.0	2.0
External Accounts (USD bn)					
Exports	54.5	46.5	55.2	72.6	74.2
Of which: hydrocarbons	48.5	41.5	49.3	66.6	68.2
Imports	26.5	26.4	29.5	30.5	31.5
Trade balance	27.9	20.1	25.6	42.1	42.7
% GDP	24.4	18.4	21.5	30.0	28.7
Current account balance	4.0	-5.0	7.6	20.1	22.7
% GDP	3.5	-4.6	6.3	14.3	15.3
Fiscal Indicators (% GDP)					
Budget balance	-13.4	-13.9	-9.0	0.4	2.8
Revenue	39.5	39.6	44.1	47.4	47.5
Expenditure	52.9	53.6	53.1	47.0	44.7

Source: Haver Analytics, IMF, Emirates NBD Research

Key Economic Forecasts: Lebanon

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (LBP bn)	74560	76065	82119	88152	94469
Nominal GDP (USD bn)	50.1	51.1	57.6	63.0	67.5
GDP per capita (USD)	11424	11614	12977	14097	15022
Real GDP Growth (% y/y)	0.8	1.0	1.2	1.4	1.8
Monetary Indicators (% y/y)					
M2	7.3	5.3	5.0	10.0	10.0
CPI (average)	-3.8	-0.8	4.5	7.0	5.5
External Accounts (USD bn)					
Exports	4.0	3.9	4.0	4.2	4.9
Imports	17.6	17.9	18.4	18.8	20.3
Trade Balance	-13.6	-14.0	-14.4	-14.6	-15.4
% of GDP	*-27.1*	*-27.4*	*-25.0*	*-23.3*	*-22.9*
Current Account Balance	-8.5	-10.5	-12.4	-12.5	-13.2
% of GDP	*-17.0*	*-20.5*	*-21.5*	*-19.9*	*-19.6*
Reserves	35.9	39.6	42.0	44.1	44.5
Public Finances					
Revenue (LBP bn)	14435	14959	17524	13840	13916
Expenditure (LBP bn)	2127	22412	23186	20912	21192
Balance	12308	-7453	-5662	-7072	-7276
% of GDP	*-8.0*	*-9.8*	*-6.9*	*-9.4*	*-9.6*
Central Government Debt (LBP bn)	106015	112911	119998	144902	158142
% of GDP	*142.2*	*148.4*	*146.1*	*164.4*	*167.4*

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Libya

National Income	2015	2016	2017e	2018f	2019f
Nominal GDP (LYD tn)	52	60	88	105	126
Nominal GDP (USD bn)	34.4	43.6	63.3	78.4	92.3
GDP per capita (USD)	5446	6909	10025	10715	11092
Real GDP Growth (% y/y)	-0.1	-6.9	34.8	8.1	9.6
Monetary Indicators (% y/y)					
CPI (average)	9.5	9.5	25.0	11.5	10.0
External Accounts (USD bn)					
Exports	35.8	39.4	43.4	48.1	53.9
Imports	32.0	36.8	42.3	48.6	55.9
Trade balance	3.9	2.7	1.1	-0.5	-2.0
% GDP	*11.2*	*6.1*	*1.7*	*-0.6*	*-2.2*
Current account balance	-3.2	-4.4	-6.0	-7.6	-9.1
% GDP	-9.4	-10.2	-9.5	-8.6	-8.7
Fiscal Indicators (LYDmn)					
Revenue	45906.4	46333.4	53345.3	63941.9	76687.6
Expenditure	57137.2	57137.2	62727.2	68888.8	82425.7
Budget Balance	-11231	-10804	-9381.9	-4946.9	-5738.2
% GDP	-21.8	-18.1	-10.6	-4.2	-4.0

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Morocco

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (MAD bn)	988.0	1013.6	1063.3	1118.9	1170.6
Nominal GDP (USD bn)	101.3	103.3	109.6	118.7	122.6
GDP per capita (USD)	2948	2953	3087	3296	3358
Real GDP Growth (% y/y)	4.5	1.1	4.1	3.0	2.7
Monetary Indicators (% y/y)					
M2	7.0	7.0	6.0	6.0	7.0
CPI (average)	1.6	1.6	0.8	2.2	1.9
External Accounts (USD bn)					
Exports	18.9	21.5	25.7	27.8	0.0
Imports	36.6	39.6	46.3	50.0	0.0
Trade Balance	-17.7	-18.1	-20.6	-22.2	0.0
% of GDP	*-1.8*	*-1.8*	*-1.9*	*-2.0*	*0.0*
Current Account Balance	-4.4	-3.9	-4.1	-4.1	0.0
% of GDP	-4.2	-3.6	-3.5	-3.3	0.0
Reserves	22.9	25.4	25.8	27.0	28.0
Public Finances					
Revenue (MAD mn)	207446	214149	222724	266503	292654
Expenditure (MAD mn)	207320	203621	206898	220895	237749
Balance*	-44641	-42316	-37630	-36623	-32787
% of GDP	-4.5	-4.2	-3.5	-3.3	-2.8
Central Government Debt (MAD mn)	629	657	692	727	763
% of GDP	0.6	0.6	0.6	73.6	77.2

Source: Haver Analytics, Emirates NBD Research
*Note: * includes balance of treasury accounts and minus investments*

Emirates NBD

Key Economic Forecasts: Oman

National Income	2015	2016	2017e	2018f	2019f
Nominal GDP (OMR bn)	26.5	25.7	27.9	32.4	33.8
Nominal GDP (USD bn)	68.8	66.7	72.5	84.1	87.7
GDP per capita (USD)	16546	15120	16114	18319	18731
Real GDP Growth (% y/y)	4.7	5.4	1.0	2.6	3.6
Monetary Indicators (% y/y)					
M2	10.0	1.8	4.2	3.6	6.6
Private sector credit	13.9	9.9	6.4	5.0	6.0
CPI (average)	0.1	1.1	1.6	1.0	3.0
External Accounts (USD bn)					
Exports	35.7	27.6	32.9	42.1	41.0
Of which: hydrocarbons	21.2	16.0	19.2	26.6	25.5
Imports	26.6	21.3	24.2	24.9	25.6
Trade balance	9.1	6.3	8.8	17.2	15.4
% GDP	13.3	9.4	12.1	20.4	17.5
Current account balance	-11.0	-12.4	-10.8	-3.0	-5.1
% GDP	-15.9	-18.5	-14.9	-3.6	-5.9
Fiscal Indicators (% GDP)					
Budget balance	-17.5	-20.6	-12.5	-5.5	-3.8
Revenue	34.2	29.6	28.6	34.0	35.6
Expenditure	51.7	50.2	41.1	39.6	39.4

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Qatar

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (QAR bn)	588.7	552.3	607.6	695.1	734.7
Nominal GDP (USD bn)	161.7	151.7	166.9	191.0	201.8
GDP per capita (USD)	67006	59024	62139	70032	72930
Real GDP Growth (% y/y)	**3.4**	**1.8**	**1.1**	**3.1**	**3.6**
Hydrocarbon	-0.6	-0.9	-0.7	1.0	2.0
Non- hydrocarbon	8.5	5.3	3.8	4.3	5.0
Monetary Indicators (% y/y)					
M2	3.4	-4.6	21.3	7.0	7.0
Private sector credit	19.7	6.5	6.4	7.0	9.0
CPI (average)	1.9	2.7	0.4	1.0	2.0
External Accounts (USD bn)					
Exports	48.8	25.4	36.7	84.8	85.7
Of which: hydrocarbons	10.5	11.5	10.6	14.9	16.0
Imports	28.5	31.9	30.8	32.9	35.2
Trade balance	20.3	-6.6	6.0	51.8	50.5
% GDP	12.6	-4.3	3.6	27.1	25.0
Current account balance	13.8	-8.3	6.4	15.5	27.3
% GDP	8.5	-5.5	3.8	8.1	13.5
Fiscal Indicators (% GDP)					
Budget balance	-1.9	-9.0	-4.9	-0.7	
Revenue	36.6	29.0	27.9	28.6	
Expenditure	38.4	38.0	32.8	29.3	

Source: Haver Analytics, IMF, Emirates NBD Research

Key Economic Forecasts: Saudi Arabia

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (SAR bn)	2454	2419	2564	2884	3011
Nominal GDP (USD bn)	654	645	684	769	803
GDP per capita (USD)	20557	19693	20312	22224	22568
Real GDP Growth (% y/y)	4.1	1.7	-0.7	2.0	2.4
Hydrocarbon	5.3	3.6	-3.0	2.5	2.5
Non- hydrocarbon	3.2	0.2	1.0	1.6	2.3
Monetary Indicators (% y/y)					
M2	2.5	0.8	0.2	1.0	4.3
Private sector credit	9.2	2.4	-0.8	4.0	5.0
CPI (average)	1.2	2.1	-0.8	2.5	2.0
External Accounts (USD bn)					
Exports	203.5	183.6	221.1	283.2	289.9
Of which: hydrocarbons	153.0	136.2	159.5	228.2	233.9
Imports	159.3	127.8	119.3	122.3	125.4
Trade balance	44.3	55.8	101.7	160.9	164.6
% GDP	6.8	8.6	14.9	20.9	20.5
Current account balance	-56.7	-23.8	15.2	69.9	73.0
% GDP	-8.7	-3.7	2.2	9.1	9.1
SAMA's Net foreign Assets	608.9	528.6	488.9		
Fiscal Indicators (% GDP)					
Budget balance	-15.8	-12.9	-9.3	-2.8	-3.6
Revenue	25.0	21.5	27.0	33.5	33.2
Expenditure	40.8	34.3	36.3	36.3	36.8
Public debt	5.8	13.1	17.1	20.5	

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts: Tunisia

National Income	2015	2016	2017	2018f	2019f
Nominal GDP (TND bn)	84.4	89.6	94.4	102.0	110.0
Nominal GDP (USD bn)	43.0	41.7	39.0	40.3	41.5
GDP per capita (USD)	4249	3911	3791	3547	3663
Real GDP Growth (% y/y)	1.1	1.0	1.7	2.7	2.9
Monetary Indicators (% y/y)					
M2	5.2	8.2	10.6	10.0	8.0
CPI (average)	4.9	3.7	5.3	7.5	6.9
External Accounts (USD bn)					
Exports	14.1	13.6	14.2	16.3	17.5
Imports	19.1	18.4	19.5	22.0	23.2
Trade Balance	-5.0	-4.8	-5.3	-5.7	-5.7
% of GDP	-11.7	-11.5	-13.6	-14.2	-13.7
Current Account Balance	-3.9	-3.7	-4.1	-3.9	-3.7
% of GDP	-8.9	-8.9	-10.5	-9.7	-8.8
Reserves	7.4	6.0	5.6	5.0	5.0
Public Finances					
Revenue (TND mn)	20186	21245	23891	27475	30223
Expenditure (TND bn)	23893	26099	29546	32205	35104
Balance*	-3707	-4854	-5655	-4730	-4881
% of GDP	-4.8	-6.2	-6.3	-4.6	-4.4
Central Government Debt (TND mn)	46922	55919	68074	76243	80055
% of GDP	55.4	61.9	70.3	74.7	78.5

Source: Haver Analytics, Emirates NBD Research
*Note: * does not include privatizations fees and grants*

Key Economic Forecasts: UAE

National Income	2015	2016	2017e	2018f	2019f
Nominal GDP (AED bn)	1315.3	1311.2	1405.0	1566.3	1646.7
Nominal GDP (USD bn)	358.4	357.3	382.8	426.8	448.7
GDP per capita (USD)	39365	39172	41890	46607	48900
Real GDP Growth* (% y/y)	5.1	3.0	0.8	2.2	3.6
Hydrocarbon	5.2	2.6	-3.0	0.0	3.0
Non-hydrocarbon	5.0	3.2	2.5	3.1	3.8
Monetary Indicators (% y/y)					
M2	5.5	3.3	3.0	4.0	5.0
Private sector credit	9.0	3.7	0.3	5.0	5.0
CPI (average)	4.1	1.6	2.0	3.5	1.7
External Accounts (USD bn)					
Exports	300.5	291.6	315.3	347.3	356.3
Of which: hydrocarbons	61.5	50.9	61.2	79.7	81.2
Imports	223.9	226.6	241.0	253.8	259.7
Trade balance	76.6	65.0	74.3	93.5	96.6
% GDP	21.4	18.2	19.4	21.9	21.5
Current account balance	16.7	8.5	13.9	30.3	31.0
% GDP	4.7	2.4	3.6	7.1	6.9
Fiscal Indicators (% GDP)					
Consolidated budget balance	-3.4	-4.2	-2.6	1.3	2.0
Revenue	29.0	27.6	27.5	29.1	30.0
Expenditure	32.4	31.8	30.1	27.8	28.1

Source: Haver Analytics, IMF, National sources, Emirates NBD Research

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