Atradius
Managing risk, enabling trade

Atradius Country Reports

Middle East and North Africa – July 2017

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) - Positive
United Arab Emirates:	3 (Moderate-Low Risk) - Positive

* 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.

Algeria

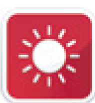
Main import sources (2015, % of total)	
China:	15.6 %
France:	14.4 %
Italy:	9.4 %
Spain:	7.4 %
Germany :	5.6 %

Main export markets (2015, % of total)	
Spain:	18.8 %
France:	11.2 %
USA:	8.8 %
Italy:	8.7 %
United Kingdom:	7.1 %

Key indicators	2014	2015	2016	2017*	2018*
Real GDP growth (y-on-y, % change)	3.8	3.9	3.2	1.5	1.7
Inflation (y-on-y, % change)	2.9	4.8	6.4	8.5	7.5
Real private consumption (y-on-y, % change)	4.4	4.2	2.3	1.5	1.4
Real exports of goods & non-factor services (y-on-y, % change)	0.2	-0.9	0.1	0.9	3.8
Fiscal balance (% of GDP)	-7.3	-16.4	-15.6	-10.6	-9.5
Current account/GDP (%)	-4.3	-16.6	-17.1	-13.4	-10.6
Foreign debt/GDP (%)	2.6	2.8	3.3	4.8	6.6
Foreign debt/export of goods and services (%)	8.2	11.6	14.7	20.1	26.1
Short-term debt/international reserves (%)	1.1	1.3	1.7	2.1	2.6
International reserves (in months of merchandise imports)	30.2	27.3	22.9	19.3	16.5

* forecast Source: Macrobond

Algeria industries performance outlook



Excellent:
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July 2017

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 Abdelaziz Bouteflika
(since April 1999)

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

Population:
41.1 million (est.)

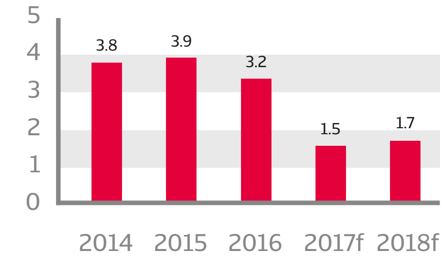
Currently stable situation, but risks remain

In Algeria, political power rests mainly with President Bouteflika, who is widely credited with restoring peace to the country after a year-long civil war between the government and militant Islamists in the 1990s. However, President Bouteflika is now 80 years old and not in particularly good health. There is no obvious successor at hand and it cannot be ruled out that tensions within the political elite could increase if Bouteflika unexpectedly steps down.

The National Assembly still has limited powers despite recent constitutional amendments to improve transparency and to strengthen democratic elements. In the general elections held in May 2017, the ruling coalition retained its majority, but turnout was just over 38%, reflecting widespread disinterest and even disillusion among voters due to endemic cronyism, high unemployment, lack of affordable housing and rising living costs. The internal security situation remains stable for the time being, but the shortcomings and limited success of the government to diversify the economy have increased the risk of social unrest, especially among younger people. At the same time, the risk of terrorist attacks has increased due to on-going political turmoil in neighbouring Libya and Mali.

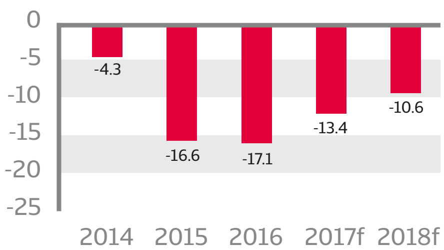
Economic situation

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



Source: Macrobond

Current account (% of GDP)



Source: Macrobond

Public and external finances continue to deteriorate

Algeria's economy is underpinned by the oil and gas sector, which accounts for more than 95% of export revenues. GDP growth is expected to slow down to 1.5% in 2017 and 1.7% in 2018, as revenues from oil and gas exports have fallen by nearly 50% since 2014, negatively impacting government investments (revenues from energy exports account for 60% of government budget), private consumption, foreign direct investment and external finances.

Algeria's annual budget deficits have increased sharply, from 0.4% of GDP in 2013 to 15.6% of GDP in 2016. In order to trim the high deficits the government has suspended some infrastructure projects, started to cut subsidies on fuel and electricity and increased taxes. This, together with import restrictions, has led to rising consumer prices and decreasing household purchasing power.

The current account deficit increased to 17% of GDP in 2016, and is expected to remain high in 2017 and 2018 (about 10% of GDP). So far, the annual deficits have been financed by drawing from foreign reserves, but also by a modest increase in borrowing. Running a deficit seems to be manageable in the short-term as both government debt and foreign debt are still low. While foreign reserves remain at a comfortable level, they have rapidly decreased from USD 196 billion in 2014 to USD 114 billion in 2016. If the oil price remains subdued for a longer time, the Algerian government would be forced to reduce its spending much more. However, further tackling the vast welfare system remains sensitive, given the potential for social unrest.

In order to ensure prosperity and stability in the long-term, the authorities would have to accelerate their current rate of economic diversification. But government intervention (it is estimated that 90% of Algeria's GDP is still controlled by the state), red tape and corruption still hamper private enterprise initiatives and foreign investment.

Egypt

Main import sources (2015, % of total)	
China:	13.0 %
Germany:	7.7 %
USA:	5.9 %
Turkey:	4.5 %
Italy:	4.4 %

Main export markets (2015, % of total)	
Saudi-Arabia:	9.1 %
Italy:	7.5 %
Turkey:	5.8 %
UAE:	5.1 %
USA:	5.1 %

Key indicators	2014	2015	2016	2017*	2018*
Real GDP growth (y-on-y, % change)	2.9	4.4	4.3	3.5	4.2
Inflation (y-on-y, % change)	10.1	10.4	13.8	22.5	17.2
Real private consumption (y-on-y, % change)	4.4	3.1	4.6	1.3	1.8
Real exports of goods & non-factor services (y-on-y, % change)	-10.9	-0.6	-14.5	8.9	8.5
Fiscal balance (% of GDP)	-11.3	-10.9	-11.0	-9.3	-8.5
Current account/GDP (%)	-1.9	-5.9	-8.9	-5.8	-2.4
Foreign debt/GDP (%)	13	16	28	35	33
Foreign debt/export of goods and services (%)	62	83	125	135	142
Short-term debt/international reserves (%)	23	29	26	19	15
International reserves (in months of merchandise imports)	2.3	2.7	4.2	6.0	7.2

* forecast Source: Macrobond

Egypt industries performance outlook

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

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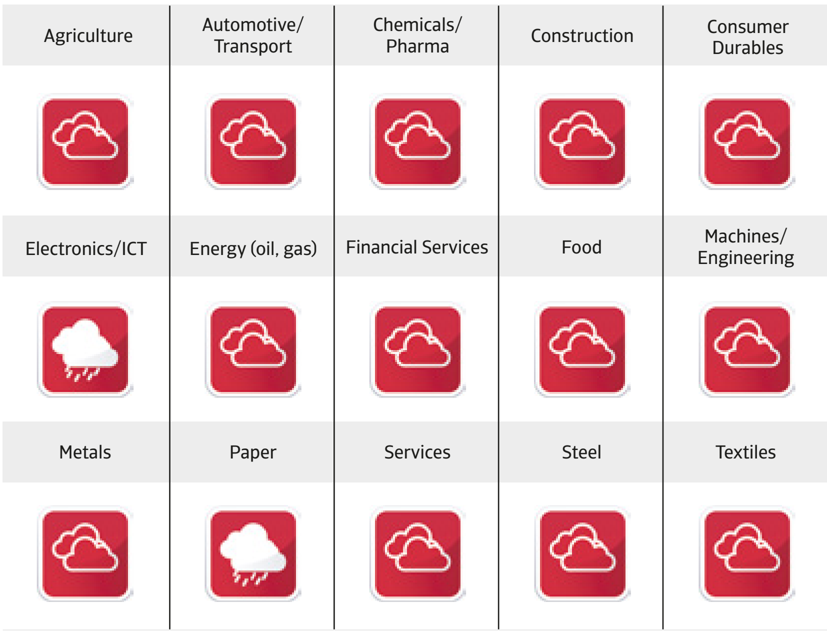
July 2017



Political situation

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

Form of government:
De facto military government

Population:
94.7 million (est.)

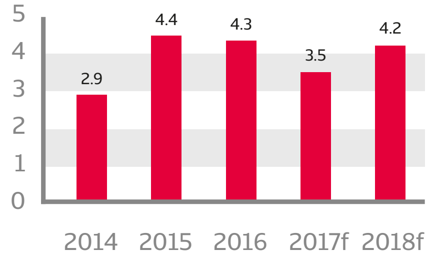
The internal security situation remains tense

Currently President Sisi is firmly in control of political power, while the military government is further tightening its grip on the country. That said, Sisi's popularity has declined due to recent economic reforms, which resulted in a sharp increase in inflation (see below).

The internal security situation remains tense, as the military crackdown in July 2013 has pushed the Muslim Brotherhood underground, risking further radicalisation of some elements. 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. In April 2017 there were large-scale attacks on Coptic Churches (for which IS claimed responsibility), leading to the declaration of a state of emergency.

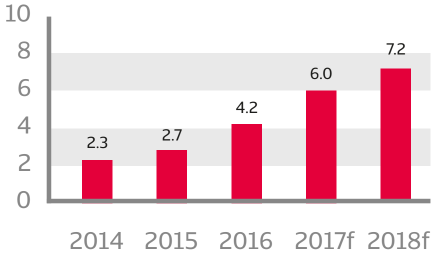
Economic situation

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



Source: Macrobond

International reserves
(in months of merchandise imports)



Source: Macrobond

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

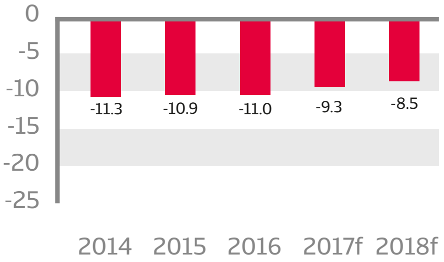
Egypt´s economic problems mounted in 2015 and 2016, with a very high budget deficit of about 11%, low levels of foreign exchange, shortages of USD and a large financing requirement. In November 2016 the government finally accepted an IMF programme with a three-year facility of USD 12 billion in order to obtain 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. G7) and countries (e.g. Saudi Arabia and the United Arab Emirates) provide additional financial support.

As a precondition to obtaining IMF support Egypt had to float the fixed exchange rate, raise taxes and reduce subsidies on electricity and fuel. The Egyptian pound depreciated sharply (about 50%) in the first days after the float in November 2016. In order to support the currency and to curb inflation, the central bank raised the benchmark interest rate by 300 basis points to 14.75%. While the currency depreciation has improved external competitiveness, it has also triggered higher inflation, forecast to reach 22.5% in 2017, as prices for imports have increased sharply. Subsidy cuts have added additional pressure on consumer prices.

Economic growth is expected to decrease in 2017 as the sharp inflation increase will restrain consumer demand. However, despite the painful effect of rising prices for consumers, in the medium-term the economy should benefit from the IMF-programme related measures. Most important is the easing of the chronic USD currency reserves shortage. Additionally, exports should benefit from the currency depreciation while tourism is expected to recover further (although still remaining vulnerable to terrorist attacks). Investor sentiment has already improved and private capital inflows have increased.

With a floating currency Egypt is able to absorb external shocks better. The external financing requirement is still high (2016: 91% of reserves) but declining. Foreign debt has increased, but remains at acceptable levels (35% of GDP in 2017). Due to the large external financial assistance international reserves are increasing, resulting in a higher import cover of 6 months in 2017.

Fiscal balance (% of GDP)



Source: Macrobond

Government finances remain the main soft point. Although the budget deficit is decreasing, it remains high at 9.3% of GDP in 2017. Fiscal consolidation is an important target in the IMF programme, necessary to keep the high public debt of about 95% of GDP sustainable. At least this debt is mainly domestically financed, limiting the exchange rate risk. While further tax increases and subsidy cuts are necessary to improve public finances, implementing them could prove politically difficult, as a large part of public spending is still geared towards maintaining social stability.

In the medium-term, Egypt´s economic outlook seems to be more positive due to the discovery of large offshore gas fields. Increasing domestic gas production should improve electricity supply and support economic activity in coming years.

Morocco

Main import sources (2015, % of total)	
Spain:	13.9 %
France:	12.4 %
China:	8.5 %
USA:	6.5 %
Germany:	5.8 %

Main export markets (2015, % of total)	
Spain	22.1 %
France:	19.7 %
India:	4.9 %
USA:	4.3 %
Italy:	4.3 %

Key indicators	2014	2015	2016	2017*	2018*
Real GDP growth (y-on-y, % change)	2.6	4.5	1.4	4.0	3.4
Inflation (y-on-y, % change)	0.4	1.6	1.6	1.4	1.8
Real private consumption (y-on-y, % change)	4.1	4.6	2.2	4.4	4.1
Real exports of goods & non-factor services (y-on-y, % change)	8.4	6.6	2.4	3.7	3.2
Fiscal balance (% of GDP)	-5.5	-4.9	-4.5	-3.7	-3.6
Real fixed investment (y-on-y, % change)	-2.1	1.5	1.6	2.5	2.5
Current account/GDP (%)	-5.7	-2.1	-4.4	-5.4	-5.7
Foreign debt/GDP (%)	39	43	43	43	41
Foreign debt/export of goods and services (%)	96	106	106	105	103
Short-term debt/international reserves (%)	37	30	29	30	31
International reserves (in months of merchandise imports)	5.0	6.7	6.7	6.2	5.8

* forecast Source: Macrobond

Morocco industries performance outlook

July 2017

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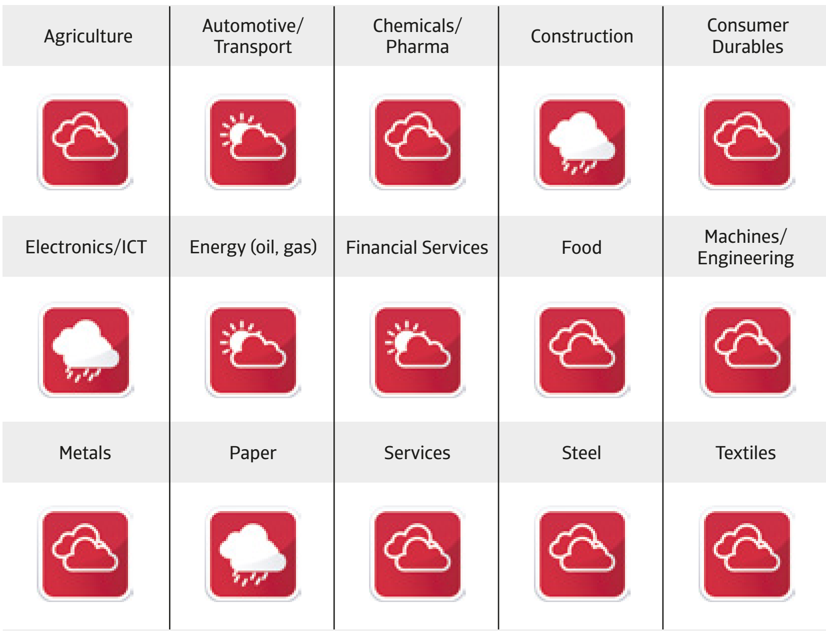


Political situation

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:
33.7 million (est.)

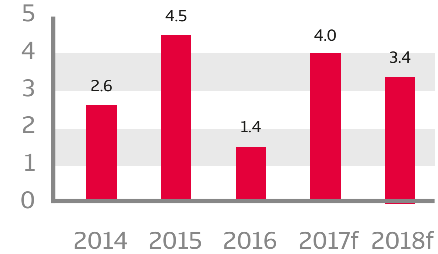
A stable monarchy, but risks persist

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. He continues to cautiously liberalise the political system and reform the economy. Maintaining political stability is highly dependent on reducing the high levels of poverty and youth unemployment in Morocco, otherwise an increase in social tensions cannot be ruled out. Dissatisfaction with corruption and economic inequality recently led to protests in the Northern Rif region.

Morocco remains vulnerable to the threat from Islamic extremism. Especially Moroccan fighters returning from Libya and Syria are a concern for the authorities. Preserving security to avoid a negative impact on tourism is very high on the government´s agenda.

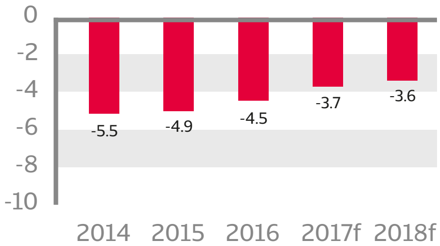
Economic situation

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



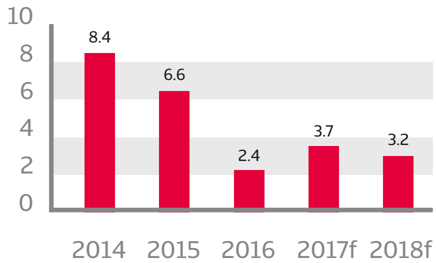
Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

Exports of goods & non-factor services (y-on-y, % change)



Source: Macrobond

Higher growth potential in the medium-term

In 2017 economic growth is expected to accelerate to 4% after a modest 1.4% increase in 2016, which was mainly due to a drought affecting the agriculture sector. The country is still highly dependent on agriculture, which employs some 40% of the workforce, and swings in agricultural output have a major impact on private consumption and the economy. Other major areas of employment are tourism and commerce, while automotive exports generate the bulk of foreign exchange income, followed by remittances from Moroccans working in Europe.

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. Low labour unit costs and a slightly undervalued currency enhance Morocco's competitiveness. However, low levels of education, infrastructure shortcomings, nepotism, corruption and labour market inefficiency remain stumbling blocks, while competition from Asia limits future earnings capacity in the manufacturing sector.

That said, in the medium-term electricity production will pick up due to large investments in renewable energy resources, while around 2020 Morocco will most likely start with large-scale gas production - both enhancing Morocco's growth potential.

Due to the on-going consolidation the fiscal deficit is expected to decrease to 3.7% of GDP in 2017, and to continue declining further in the medium-term. That said, on-going subsidies and infrastructure investment keep expenditures high. Public debt is expected to stabilise at about 77% of GDP, which is high compared to other emerging markets.

In 2017 and 2018 Morocco´s external financing requirement is expected to rise in line with its current account deficit, which is expected to increase due to higher costs for imports (commodities and capital goods). The deficit will be financed by domestic and external borrowing, with a steady inflow of foreign direct investment, remittances and tourist receipts ensuring liquidity. Morocco's solvency position is acceptable (foreign debt amounting to 43% of GDP) while the liquidity position is good (more than six months of import cover in 2017). Additionally, Morocco has access to a precautionary liquidity line (PLL) with the IMF, which underlines creditworthiness.

Atradius
Managing risk, enabling trade

Saudi Arabia

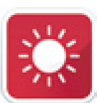
Main import sources (2015, % of total)	
China:	13.9 %
USA:	12.7 %
Germany:	7.1 %
South Korea:	6.1 %
India:	4.5 %

Main export markets (2015, % of total)	
China:	13.2 %
Japan:	10.9 %
USA:	9.6 %
India:	9.6 %
South Korea:	8.5 %

Key indicators	2014	2015	2016	2017*	2018*
Real GDP growth (y-on-y, % change)	3.7	4.1	1.7	-0.5	2.3
Inflation (y-on-y, % change)	2.7	2.2	3.5	2.2	4.4
Real private consumption (y-on-y, % change)	6.1	6.8	2.2	1.9	2.4
Real exports of goods & non-factor services (y-on-y, % change)	-1.9	0.7	1.4	-2.1	1.7
Fiscal balance (% of GDP)	-2.3	-14.8	-12.8	-7.3	-6.3
Real fixed investment (y-on-y, % change)	7.5	3.6	-10.8	-3.0	3.5
Foreign debt/GDP (%)	22	26	29	30	30
Foreign debt/export of goods and services (%)	43	70	85	77	78
Short-term debt/international reserves (%)	10	11	10	14	15
International reserves (in months of merchandise imports)	33.9	29.9	25.9	24.8	23.5

* forecast   Source: Macrobond

Saudi Arabia industries performance outlook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July 2017

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

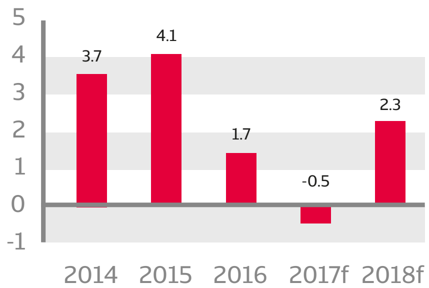
A more assertive foreign policy

In June 2017 King Salman appointed his son, Prince Mohammed bin Salman, as heir of the throne, replacing Crown Prince Mohammed bin Nayef. Prince Mohammed bin Salman is known as a supporter of comprehensive economic reforms.

The on-going political turmoil in the Middle East is a challenge for the Saudi rulers, with major security problems due to the current situation in neighbouring Iraq and Yemen. Saudi Arabia feels increasingly challenged by growing Iranian influence, 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. Saudi Arabia most recently orchestrated a regional boycott of Qatar, including diplomatic and economic sanctions. This was a reaction to the country's close ties with Iran and the Muslim Brotherhood and its suspicions of Qatar supporting terrorism.

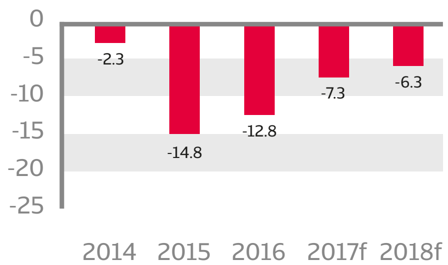
Economic situation

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



Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

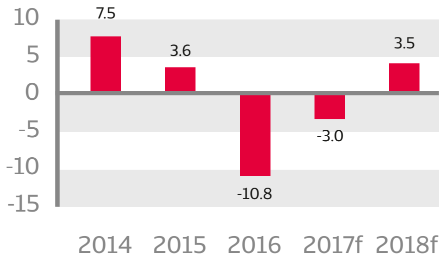
Diversification away from oil-dependency on the agenda

Saudi Arabia has an oil-dependent economy with strong government controls over all major economic activities. The sharp oil price decrease since 2014 had an especially negative impact on exports and state revenues. The share of oil in exports and in state revenue declined from about 85% in 2014 to 60% in 2016. Economic growth is expected to contract 0.5% in 2017, on the back of fiscal austerity, declining investment and a bigger than expected cut in oil production, following the agreement made at an OPEC meeting in November 2016, before recovering to a range of about 2% in the medium-term.

Support for economic activity comes from on-going large investments in infrastructure (metro Riyadh) and new industrial projects (e.g. Sadara petrochemicals complex). The banking sector is still sound and well capitalised, but the lower oil price has affected the financial sector through tighter liquidity. Credit growth has decelerated and banks´ balance sheets have deteriorated somewhat, but the level of non-performing loans is still low.

In 2015 the budget deficit increased to about 15% of GDP and remained at a double-digit rate in 2016 despite the imposition of austerity measures (including petrol price increases and comprehensive subsidy cuts), but is expected to decrease to 7.3% in 2017. Public sector pay cuts imposed in September 2016 were reversed in April 2017, probably in order to avoid public discontent (two-thirds of the Saudi workforce are employed in the public sector). This turnaround will keep the deficit at an elevated level, given that salaries and allowances account for about 45% of government spending. With the oil price well below its fiscal break-even level of around USD 78 in 2017, the government still faces the challenge of keeping a tight grip on spending.

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



Source: Macrobond

The current account turned from high surpluses in previous years to a deficit of 8.7% in 2015 and 3.8% in 2016. That said, due to its very large international reserves, low public debt (22.3% of GDP in 2016) and easy access to international debt markets, Saudi Arabia is able to easily fund those deficits. Import cover has decreased (from 34 months in 2014 to 25 months in 2017), but is still high. The external financing requirement was only 19% of foreign reserves in 2016.

While Saudi Arabia is able to sustain high spending for some years, a structural shift to a long-term period of lower oil prices would at last pose a risk for the economy. Therefore, a comprehensive diversification of the economy away from oil dependency is high on the political agenda. In 2016 the government announced far-reaching reform goals in a "Saudi Vision 2030" plan, and has implemented a National Transformation Programme (NTP) accordingly. The aim is to transform the economy over the next 15 years to diversify growth, reduce the dependence on oil, assure the long-term sustainability of public finances, increase the role of the private sector and create more jobs. At the same time it is planned to privatise a 5%-stake in the state oil company Aramco in 2018 in order to fund a Sovereign Wealth Fund which will do part of its investments abroad. It remains to be seen if the political willingness to implement those far-reaching economic reforms will persist.

Tunisia

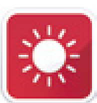
Main import sources (2015, % of total)	
France:	19.4 %
Italy:	16.4 %
Algeria:	8.2 %
Germany:	7.4 %
China:	6.0 %

Main export markets (2015, % of total)	
France:	28.5 %
Italy:	17.2 %
Germany:	10.9 %
Libya:	6.1 %
Spain:	4.2 %

Key indicators	2014	2015	2016	2017*	2018*
Real GDP growth (y-on-y, % change)	2.9	1.0	1.2	1.5	2.7
Inflation (y-on-y, % change)	4.9	4.9	3.7	5.2	4.8
Real private consumption (y-on-y, % change)	4.4	4.2	3.7	3.6	3.6
Real exports of goods & non-factor services (y-on-y, % change)	-1.5	-10.0	-2.3	2.6	1.2
Fiscal balance (% of GDP)	-4.5	-4.4	-5.4	-5.5	-4.3
Current account/GDP (%)	-9.1	-8.9	-9.1	-9.7	-8.9
Foreign debt/GDP (%)	55	63	69	79	84
Foreign debt/export of goods and services (%)	110	140	154	159	164
Short-term debt/international reserves (%)	93	89	109	108	115
International reserves (in months of merchandise imports)	3.3	4.0	3.3	3.3	3.1

* forecast Source: Macrobond

Tunisia industries performance outlook



Excellent:
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July 2017

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 Beji Caid Essebsi
(since December 2014)

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

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

Population:
11.2 million (est.)

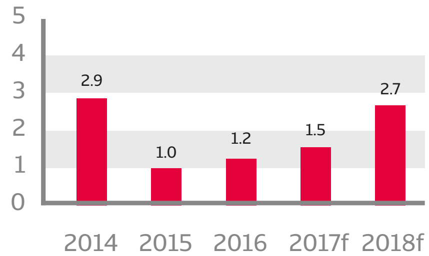
Fragile security situation persists

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. The main secular alliance in parliament, Nidaa Tounes, is affected by continuing tensions about leadership and policy direction. That said, efforts to reinstate democracy at the local level have made progress, as parliament has recently passed a law that paves the way for the first municipal elections since the revolution of 2010/2011.

The internal security situation is still tense and the risk of additional terrorist attacks after several assaults in 2015 and 2016 remains high. It is estimated that some 3,000 Tunisians have fought or are still fighting for IS in Syria and Libya, and many of them returned home, posing a high security risk. Countering this threat while maintaining the democratic freedoms secured after the revolution is a major challenge. Additionally, the government needs to address the major social and economic problems (high unemployment above 15%, poor living standards and low economic growth) in order to prevent social unrest.

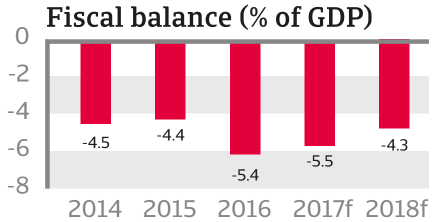
Economic situation

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



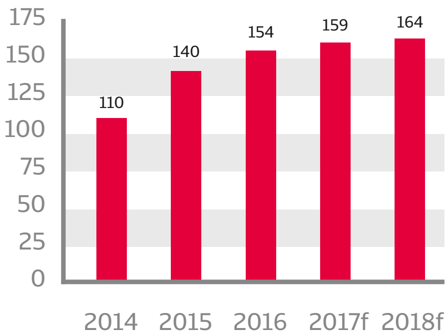
Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

Foreign debt (% of GDP)



Source: Macrobond

A moderate rebound in 2017, but major challenges remain

In 2017 a moderate 1.5% GDP increase is expected as manufacturing and the tourism sector return to growth, investor confidence has improved (following a successful international investor conference end of 2016) and crucial private-sector legislation in the areas of banking and investment has been adopted. However, this rebound remains heavily dependent on the security situation, as any further deterioration could again severely hurt domestic demand and tourism.

More structural reforms are needed to accelerate economic growth and to reduce the high unemployment rate. Tackling bureaucracy, reducing corruption, reforming the tax and subsidy systems are necessary to improve the economic conditions. Despite a new key banking law the financial sector remains weak and the level of non-performing loans high. In May 2016 the IMF approved a four-year Extended Fund Facility (EFF) arrangement worth USD 2.9 billion, of which the first review was finally completed in June 2017 after some delay due to the slow reform progress (in light of the tense social and security context).

The budget deficit was large in 2016 (5.4% of GDP) due to increased social and security spending, but is expected to decrease gradually in 2017 and 2018, guided by the IMF programme. Public debt increased to more than 62% of GDP in 2016, and the large foreign currency denominated share of about 65% makes it vulnerable to exchange rate fluctuations. Reforming inefficient public institutions and containing the enormous public wage bill (which amounts to 70% of primary current spending) are key fiscal reform priorities.

Tunisia´s external position remains vulnerable, with high annual current account deficits due to less exports, lower remittances (many Tunisians worked in Libya) and decreased tourism revenues. In order to finance the twin deficits, external borrowing has increased, resulting in high foreign debt (69% of GDP in 2016). Foreign reserves are not covering Tunisia´s high external financing requirement, and the country will remain dependent on multilateral and bilateral support.

Print this article

UAE

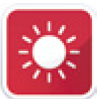
Main import sources (2015, % of total)	
China:	15.7 %
India:	12.8 %
USA:	9.7 %
Germany	6.8 %
United Kingdom:	4.4 %

Main export markets (2015, % of total)	
Iran:	14.5 %
Japan:	9.8 %
India:	9.2 %
China:	4.7 %
Oman:	4.3 %

Key indicators	2014	2015	2016	2017*	2018*
Real GDP growth (y-on-y, % change)	3.3	3.8	3.0	2.0	3.4
Inflation (y-on-y, % change)	2.3	4.1	1.8	3.7	4.8
Real private consumption (y-on-y, % change)	9.8	-13.1	11.7	3.2	4.2
Real exports of goods & non-factor services (y-on-y, % change)	1.8	5.2	6.5	1.4	4.7
Fiscal balance (% of GDP)	-2.4	-6.4	-7.8	-6.5	-5.5
Current account (% of GDP)	13.5	4.8	3.3	4.2	4.2
Real fixed investment (y-on-y, % change)	10.9	4.3	2.3	4.0	5.0
Foreign debt/GDP (%)	48	56	62	55	53
Foreign debt/export of goods and services (%)	46	53	56	58	56
International reserves (in months of merchandise imports)	4.0	5.0	4.5	4.5	4.6

* forecast Source: Macrobond

UAE industries performance outlook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July 2017

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

The internal political situation remains stable

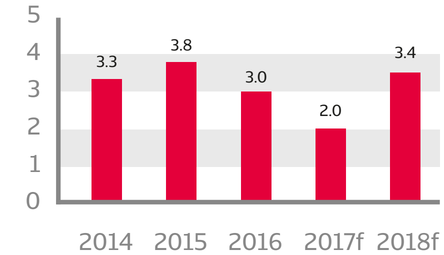
Domestic politics are influenced considerably by the ruling families and traditional tribal structures. Political parties or trade unions are not permitted and opposition is virtually non-existent. The Federal National Council (FNC) as a legislative body has only an advisory role.

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 as such it has launched air strikes against IS in Syria and Libya. At the same time, its armed forces are part of the Saudi-led campaign against Houthi rebels in Yemen.

The UAE was also one of the initiators (together with Saudi Arabia) to impose sanctions on Qatar, for suspecting the country of sponsoring terrorism. Diplomatic ties and transport links have been cut, and Qatari nationals have been asked to leave the UAE.

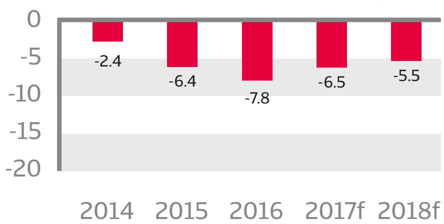
Economic situation

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



Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

A modest rebound is underway

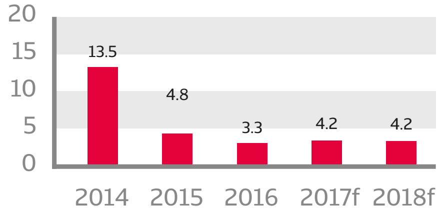
The UAE has weathered the global oil price slump relatively well, supported by its increasingly diversified economy, a stable political environment and ample foreign assets. However, in 2016 economic growth slowed down to 3.0%, amid declining liquidity in the banking sector and weaker business sentiment.

Since Q4 of 2015 many businesses in the IT, consumer durables, food, metals, steel and construction sectors have faced increasing troubles. Commodity price volatility (especially steel, metals, food commodities) in 2015 and 2016 has negatively impacted various traders and distributors, who had to face liquidity/cash flow issues and have either delayed payments to suppliers or, in some cases, just shut down their businesses.

With the gradual recovery of the oil price in the course of 2016 economic confidence and appetite for investment projects have gradually improved again, especially in the transport, tourism and construction sectors. Increased infrastructure spending in the run-up to the World Expo 2020 event hosted in Dubai should additionally stimulate economic activity. However, the situation will remain difficult in 2017 for the troubled sectors mentioned above, as domestic bank lending conditions remain tight, and 2017 GDP growth is likely to be affected by the UAE's commitment to cut oil production in line with an November 2016 OPEC agreement. At last, a 3.4% rebound in GDP growth is expected in 2018.

The budget deficit is expected to decrease to around 6.5% in 2017, due to cuts in public spending/subsidies and the modest oil price recovery. The focus remains on shifting towards raising non-oil revenues (e.g. the planned introduction of a value-added tax of 5% in January 2018). At the same time, some easing of austerity is on-going with increasing social support (in order to stem any discontent after previous subsidy cuts) and the stepping up of new development projects.

Current account (% of GDP)



Source: Macrobond

The current account surplus shrank from 13.5% of GDP in 2014 to less than 4% in 2016, and is expected to recover only gradually amid still low oil prices. Maintaining the currency peg of the dirham to the strong USD could hamper competitiveness of non-oil sectors and hinder diversification efforts (the real effective exchange rate has appreciated by about 20% since mid-2014). However, there is little risk of the dirham being de-pegged, as large foreign currency assets provide strong support.

Despite progress in debt restructuring on part of government related entities, a high gross external debt level of USD 235 billion (62% of GDP) remains (a legacy from the property market crisis in 2008/2009). Although weak domestic liquidity and higher US interest rates have increased short-term roll-over risks, the UAE has more than sufficient reserves to cover the substantial financing needs. In addition, it can fall back on large Sovereign Wealth Funds, which have an estimated total value of over USD 1.2 trillion. Moreover, the federal authorities are preparing legislation that will enable them to access international capital markets; a right that is currently reserved for individual emirates only.

Currently non-oil sectors account for 70% of the UAE´s total GDP, and the government´s strategy is to further diversify the economy away from oil in order to ultimately establish a knowledge-driven economy in the long-term. There is still scope for further cementing UAE's role as commercial hub, for example by relaxing constraints on foreign direct investment and easing access to finance for small and medium-sized enterprises. The introduction of a long-awaited bankruptcy law end of 2016, which facilitates the debt restructuring process, is considered to be a step in the right direction.

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