Atradius Country Reports

Middle East and North Africa – July 2018

Contents

Atradius
Managing risk, enabling trade

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

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

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

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

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

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

Algeria

Main import sources (2017, % of total)	
China:	18.0 %
France:	9.3 %
Italy:	8.2 %
Germany:	7.0 %
Spain :	6.8 %

Main export markets (2017, % of total)	
Italy:	16.0 %
France:	12.6 %
Spain:	11.7 %
USA:	9.9 %
Brazil:	6.0 %

Key indicators	2015	2016	2017	2018*	2019*
Real GDP growth (y-on-y, % change)	3.8	3.3	1.6	2.4	2.7
Inflation (y-on-y, % change)	4.4	5.8	5.9	3.6	6.4
Real private consumption (y-on-y, % change)	3.9	3.3	1.7	3.1	2.6
Real exports of goods & non-factor services (y-on-y, % change)	0.6	7.9	-2.5	1.2	2.9
Fiscal balance (% of GDP)	-15.3	-13.5	-9.8	-8.0	-8.3
Current account/GDP (%)	-16.7	-16.5	-12.9	-10.1	-9.2
Foreign debt/GDP (%)	2.9	3.4	3.7	4.6	5.0
Foreign debt/export of goods and services (%)	11.5	14.7	15.4	17.7	20.2
Short-term debt/international reserves (%)	1.3	1.7	2.7	4.3	6.5
International reserves (in months of merchandise imports)	27.3	22.9	19.7	17.9	13.3

* forecast Source: Macrobond

Algeria industries performance outlook

July 2018

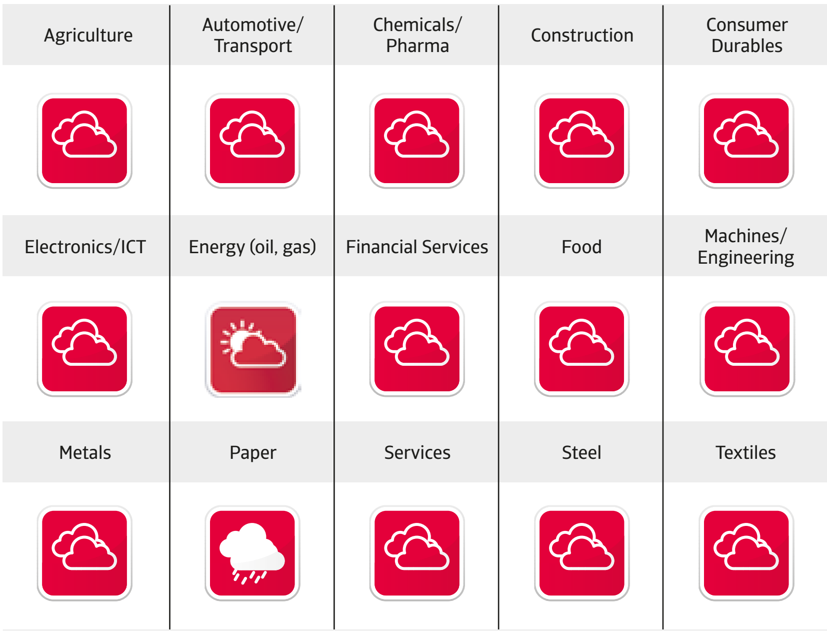
Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

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

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

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

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



Atradius
Managing risk, enabling trade

Political situation

Head of state:
President Abdelaziz Bouteflika (since April 1999)

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

Population:
42.4 million (est.)

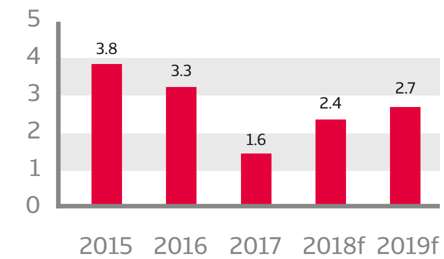
Currently stable situation, but risks remain

In Algeria, political power rests mainly with President Bouteflika, who is now 81 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 before his term ends in 2019. The National Assembly still has limited powers, despite some constitutional amendments to improve transparency and to strengthen democratic elements.

The internal security situation remains stable for the time being, but major shortcomings (endemic cronyism, high unemployment, lack of affordable housing and rising living costs) 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 remains elevated due to on-going political turmoil in neighbouring Libya and Mali.

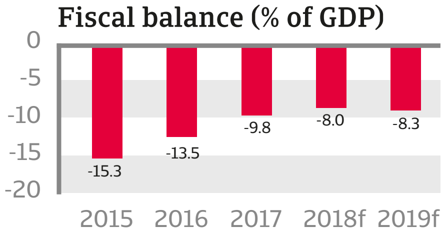
Economic situation

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



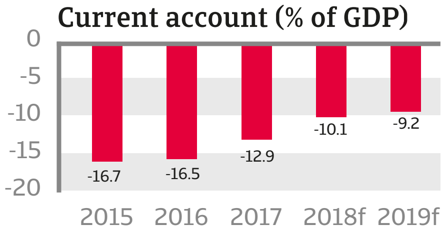
Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

Current account (% of GDP)



Source: Macrobond

Only a modest economic rebound in 2018

Algeria's economy is underpinned by the oil and gas sector, which accounts for more than 95% of export revenues, and 60% of government budget. The government has tried to limit the economic impact of the 2015/2016 deterioration in oil prices by using fiscal savings accumulated in the country's oil stabilisation fund during the oil price boom to prop-up public spending. Despite the rebound in oil prices GDP growth is expected to recover only modestly in 2018 as the oil fund is nearly depleted and the effects of fiscal consolidation still hamper higher private consumption growth.

Algeria's budget deficit will remain high in 2018 and 2019 due to higher capital and social spending, while subsidy cuts will be more limited than previously expected. Tackling the vast welfare system remains sensitive, given the potential for social unrest. Moreover, it is possible to finance the deficit by central bank borrowing the incentive for fiscal reform remains relatively low.

The Algerian dinar has been under renewed pressure. The current account deficit is expected to remain high in 2018 and 2019 (at about 10% of GDP) despite a decreasing trend since 2017. 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 (20% of GDP and 4% of GDP respectively). While foreign reserves remain at a comfortable level they continue to rapidly decrease, from 30 months of import cover in 2014 to 18 months in 2018 and 13 months in 2019. The government has further tightened import restrictions in order to protect reserves.

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

Print this article

Egypt

Main import sources (2017, % of total)	
China:	12.4 %
Germany:	6.9 %
Italy:	6.4 %
Saudi-Arabia:	6.3 %
USA:	5.5 %

Main export markets (2017, % of total)	
UAE:	10.6 %
Italy:	8.4 %
Turkey:	7.2 %
Saudi-Arabia:	6.0 %
USA:	5.1 %

Key indicators	2015	2016	2017	2018*	2019*
Real GDP growth (y-on-y, % change)	4.4	4.3	4.2	5.4	5.6
Inflation (y-on-y, % change)	10.4	13.8	29.5	16.9	15.5
Real private consumption (y-on-y, % change)	3.1	4.7	4.2	5.1	4.7
Real exports of goods & non-factor services (y-on-y, % change)	0.0	-15.0	86.0	10.3	5.2
Fiscal balance (% of GDP)	-10.9	-12.0	-11.2	-9.3	-8.6
Current account/GDP (%)	-5.9	-8.6	-4.3	-2.6	-1.9
Foreign debt/GDP (%)	17	29	36	34	30
Foreign debt/export of goods and services (%)	86	133	120	121	121
Short-term debt/international reserves (%)	29	52	23	16	11
International reserves (in months of merchandise imports)	2.7	4.1	6.2	7.8	8.1

* 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.


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


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


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


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

July 2018

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

Political situation

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

Form of government:
De facto military government

Population:
97.3 million (est.)

The internal security situation remains tense

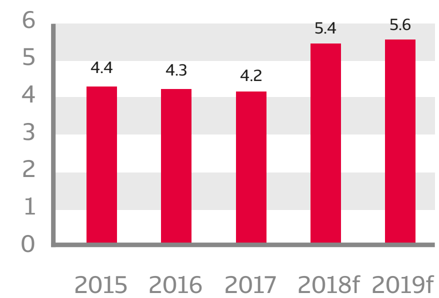
Currently President Sisi is firmly in control of political power, while the military government has further tightened its grip on the country. Although there is dissatisfaction among the population with his authoritarian rule and painful economic reforms, large-scale public uprisings are likely to be contained.

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

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

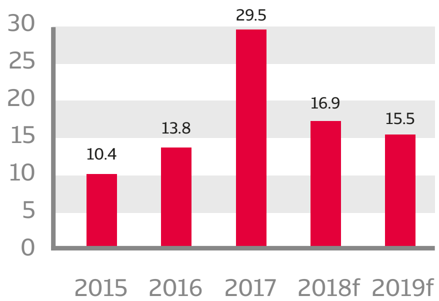
Economic situation

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



Source: Macrobond

Inflation (y-on-y, % change)



Source: Macrobond

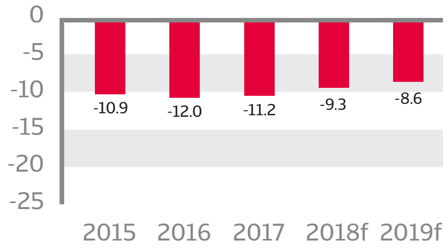
In-depth reforms expected to benefit the economy in the medium-term

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

As a precondition to obtain IMF support Egypt had to float the fixed exchange rate, raise taxes and reduce subsidies on electricity, fuel and food. The Egyptian pound depreciated sharply (about 50%) after the float in November 2016. In order to support the currency and to curb inflation, the central bank sharply increased the benchmark interest rate (currently at 16.75%). A progress review in May 2018 was positive and allowed the disbursement of a third tranche of USD 2 billion from the loan, bringing the total amount released so far to USD 6 billion.

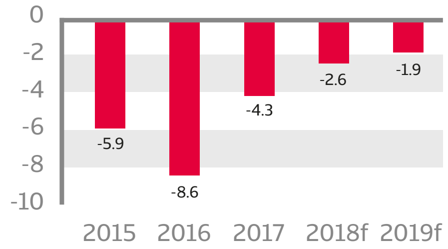
In 2018 and 2019, annual GDP growth is expected to exceed 5%. While the currency depreciation has improved external competitiveness, it has also triggered high inflation as prices for imports have increased sharply. Subsidy cuts have added additional pressure on consumer prices. Despite decreasing since 2017, inflation is expected to remain above 15% in 2018 and 2019, impeding stronger consumer demand.

Fiscal balance (% of GDP)



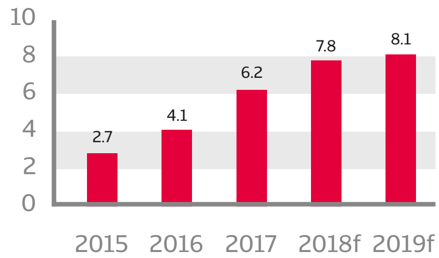
Source: Macrobond

Current account (% of GDP)



Source: Macrobond

International reserves
(in months of merchandise imports)



Source: Macrobond

Although the budget deficit is still high, guided by the IMF programme, it is gradually decreasing. The government has introduced a VAT and cut subsidies to reduce the deficit, but some subsidies (e.g. on food) have been increased again to alleviate the impact of high inflation on household purchasing power (a large part of public spending is still geared towards maintaining social stability). Public debt peaked at 111% of GDP in 2016, but is expected to decrease to 94% of GDP in 2018 and 89% of GDP in 2019.

With a floating currency, Egypt is able to absorb external shocks better. Due to rising yields private capital inflows have increased, with Egyptian Treasury Bills being particularly popular with foreign investors. Improved USD liquidity has paved the way for the easing of capital restrictions since June 2017.

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

Egypt´s external position has improved, as due to the large external financial assistance international reserves have increased. The import cover of almost eight months in 2018 is more than sufficient to cover external financing requirements. The current account deficits should further decrease in 2018 and 2019. Foreign debt increased in 2017, but remains at acceptable levels (34% of GDP in 2018).

Despite the painful short-term effect of rising prices for consumers, in the medium-term the economy should benefit from the IMF-programme related measures. Most important has been the easing of the chronic USD currency reserves shortage. Additionally, both exports and the tourism sector are benefitting from currency depreciation and the related improvement in cost competitiveness (although tourism remains vulnerable to terrorist attacks). Investor sentiment has improved and private capital inflows have increased after the relaxation of capital controls. The more benign economic outlook is also sustained by 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 (2016, % of total)	
Spain:	15.7 %
France:	13.2 %
China:	9.1 %
USA:	6.4 %
Germany:	5.9 %

Main export markets (2016, % of total)	
Spain	23.3 %
France:	21.1 %
Italy:	4.6 %
USA:	3.5 %
India:	3.3 %

Key indicators	2015	2016	2017	2018*	2019*
Real GDP growth (y-on-y, % change)	4.5	1.2	4.0	3.2	3.9
Inflation (y-on-y, % change)	1.6	1.6	0.8	1.9	1.5
Real private consumption (y-on-y, % change)	2.5	1.9	4.3	3.0	4.2
Real exports of goods & non-factor services (y-on-y, % change)	5.5	5.1	8.8	2.5	4.0
Real fixed investment (y-on-y, % change)	0.2	9.3	3.4	5.0	3.0
Fiscal balance (% of GDP)	-4.9	-4.8	-4.0	-3.7	-3.4
Current account/GDP (%)	-2.1	-4.4	-3.8	-4.6	-3.8
Foreign debt/GDP (%)	42	45	47	47	46
Foreign debt/export of goods and services (%)	106	110	116	119	113
Short-term debt/international reserves (%)	30	36	28	30	29
International reserves (in months of merchandise imports)	6.7	6.7	6.8	6.5	6.5

* forecast   Source: Macrobond

Morocco 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.

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

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

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

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

July 2018

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

Political situation

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

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

Population:
35.2 million (est.)

A stable monarchy, but risks persist

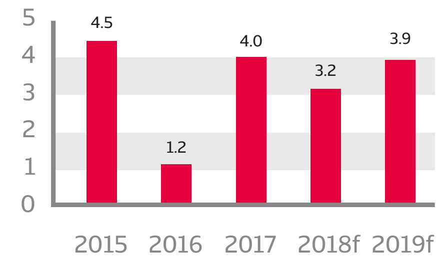
The political situation is rather stable. King Mohammed VI holds most political power in his hands. There is no immediate threat to the monarchy and establishment as the King is popular with the people.

However, social tensions have increased since 2017 due to lingering problems (high youth unemployment, income inequality and corruption) and have led to protests in the Northern part of the country. Nevertheless, widespread unrest is not expected in the short-term.

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

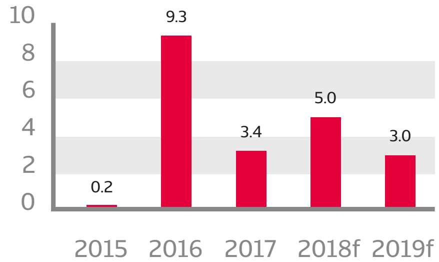
Economic situation

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



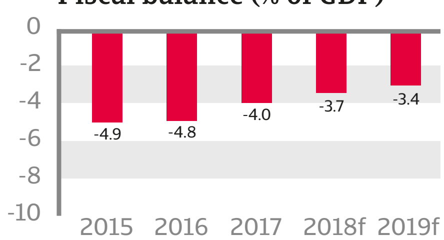
Source: Macrobond

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



Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

Higher growth potential in the medium-term

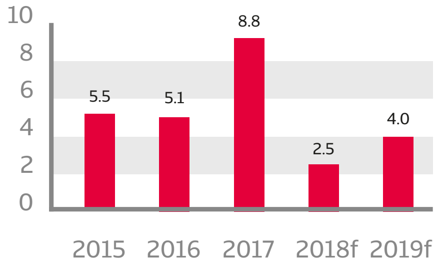
Morocco has made structural reforms to diversify its economy by developing industrial manufacturing, especially export-driven sectors (cars, aeronautics and electronics), and to provide a favourable investment environment (tax breaks have attracted many investors). Low unit labour costs and a slightly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

However, despite those major progresses some weaknesses remain. The country remains highly dependent on agriculture, which employs about 40% of the workforce, and volatility in agricultural output has a major impact on private consumption and the economy. Tourism, automotive exports and remittances generate most foreign exchange income, but are highly dependent on the economic situation in Europe. Morocco is also vulnerable to rising oil prices, being a net oil importer. Finally, low levels of education, infrastructure shortcomings, corruption and labour market inefficiency remain obstacles, while competition from Asia limits future earnings capacity in the manufacturing sector.

Economic growth is expected to decrease somewhat in 2018 as less favourable weather conditions affect agricultural output. However, economic expansion has been maintained through robust performance of the automotive, aeronautics, chemicals and electronics industries and the tourism sector. Inflation remains below 2%. The banking sector benefits from a strong regulation, with sufficient capital-adequacy ratios and liquidity levels.

The fiscal deficit is expected to decrease to below 4% of GDP in 2018 and to decline further in the medium-term. That said, ongoing subsidies and infrastructure investment keep public expenditures high. Public debt is expected to stabilise at about 75% of GDP in the coming years, which is high compared to other emerging markets. However, the benign debt profile mitigates refinancing risks, as a large share of debt is domestically financed and average maturity has been extended to more than seven years. Morocco also retains good access to international capital markets.

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



Source: Macrobond

Morocco´s external position is acceptable with a current account deficit of about 4.5% of GDP and a reasonable external debt level (around 45% of GDP), while external financing needs are sufficiently covered by international reserves (more than six months of import cover in 2018). Although Morocco is moving to a more flexible exchange rate (the dinar is currently pegged to a basket of 60% EUR and 40% USD), this process is very gradual, which should imply limited currency risk. Morocco's precautionary liquidity line with the IMF (on which it has not drawn) has expired, and a follow-up programme is still in discussion, as this would reassure investors.

Saudi Arabia

Main import sources (2017, % of total)	
China:	21.0 %
USA:	18.6 %
UAE:	8.9 %
Germany:	8.0 %
India:	5.6 %

Main export markets (2017, % of total)	
Japan:	15.4 %
China:	15.0 %
South Korea:	11.4 %
India:	11.3 %
USA:	10.5 %

Key indicators	2015	2016	2017	2018*	2019*
Real GDP growth (y-on-y, % change)	4.1	1.7	-0.7	1.0	2.0
Inflation (y-on-y, % change)	1.2	2.1	-0.8	4.4	2.7
Real private consumption (y-on-y, % change)	6.8	2.2	2.0	2.0	3.0
Real exports of goods & non-factor services (y-on-y, % change)	0.7	8.0	-3.2	0.2	0.5
Fiscal balance (% of GDP)	-14.8	-12.9	-8.9	-4.4	-3.5
Real fixed investment (y-on-y, % change)	3.7	-14.4	-7.0	-0.5	4.6
Current account (% of GDP)	-8.7	-3.7	2.2	7.0	5.8
Foreign debt/GDP (%)	26	29	30	29	28
Foreign debt/export of goods and services (%)	70	84	80	71	72
International reserves (in months of merchandise imports)	29.9	32.5	30.4	29.0	29.3

* forecast Source: Macrobond

Saudi Arabia 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.


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


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


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


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

July 2018

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

Political situation

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

Form of government:
Monarchy

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

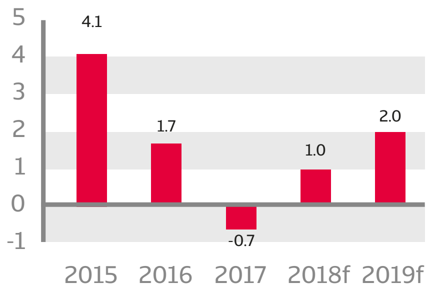
Economic reforms and a more assertive foreign policy

In June 2017 King Salman appointed his son, Prince Mohammed bin Salman, as heir to the throne, replacing Crown Prince Mohammed bin Nayef. Mohamed bin Salman is the main driver of an ambitious reform program (Saudi Vision 2030) to diversify the economy away from oil and to boost the private sector. This step is important, as the oil sector is not generating enough jobs to absorb population and workforce growth, which could lead to rising dissatisfaction and social tensions. A large anti-corruption purge end of 2017 resulted in the (temporary) arrest of public officials, businesspersons and even some princes, freezing their accounts. However, reforms towards more political rights and participation remain largely off the agenda.

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. Together with the UAE Saudi Arabia is the driving force of the regional boycott of Qatar, including diplomatic and economic sanctions. This has been a reaction to the country's close ties with Iran and the Muslim Brotherhood and its suspicions that Qatar is supporting terrorism.

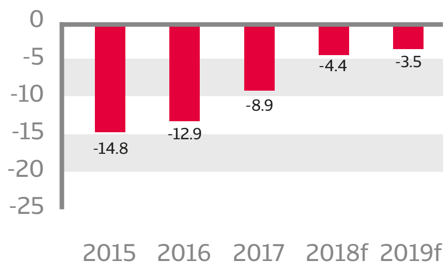
Economic situation

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



Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

A modest rebound expected in 2018 and 2019

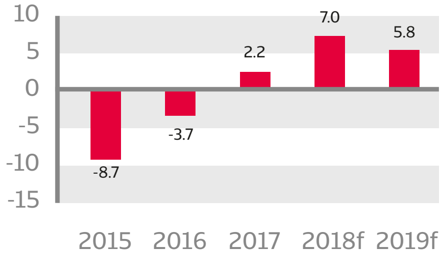
Real GDP contracted by 0.7% in 2017, mainly due to oil production cuts agreed within OPEC, but a rebound in oil prices and the easing of fiscal consolidation will lift economic growth to 1.0% in 2018 and 2.0% in 2019. Ongoing large investments in infrastructure projects such as the Riyadh metro and the USD 500 billion NEOM project (a new city and economic zone) will additionally support economic activity.

The Saudi Arabian central bank continues to closely track the monetary tightening steps of the US Federal Reserve in order to support the peg of the riyal to the USD, which keeps liquidity conditions in the banking sector rather tight. As a result, private sector credit growth was slightly negative at the end of 2017. However, the liquidity situation has improved since then due to higher oil revenues, and the banking sector remains sound and well capitalised, with a low level of non-performing loans.

Austerity measures (including petrol price increases and comprehensive subsidy cuts) helped to reduce the budget deficit from 12.9% of GDP in 2016 to 8.9% of GDP in 2017. Going forward fiscal adjustment will be more gradual, as the focus has shifted to support short-term growth. Previously cut allowances for civil servants have been restored, capital spending for projects will be resumed and social transfers to compensate poor households will increase again (in order to avoid any public discontent).

Therefore, the target to achieve a balanced budget has been pushed back, from 2020 to 2023, which is no issue due to ample financial buffers. Moreover, government finances are now on firmer footing, as new non-oil revenue sources have been tapped, including higher fuel prices, increased expat levies and the introduction of a 5% VAT tax since January 1st 2018. Public debt continues to increase, albeit from a low base, to around 35% of GDP in 2018, as the government continues to issue bonds to finance the deficit and to protect its reserves.

Current account (% of GDP)

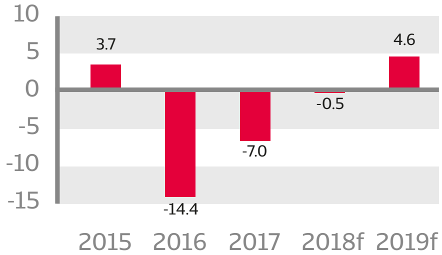


Source: Macrobond

After two years of high deficits the current account has returned to a surplus in 2017 on the back of higher oil prices, expected to remain in surplus in the coming years. With about 30 months of import cover, international reserves are more than sufficient to defend the currency peg to the USD. Access to international capital markets remains easy, and there is still the plan to transform the Public Investment Fund into a USD 2 trillion Sovereign Wealth Fund (SWF) in order to increase investments abroad. The SWF will be partly financed by the sale of a 5% stake in the state oil company Aramco.

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

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



Source: Macrobond

However, it remains to be seen if the political willingness to implement those far-reaching economic reforms will persist. In any case it is expected that diversification will proceed only slowly, leaving the economy largely dependent on oil revenues and state support for the time being. Although the gradual implementation of “Saudi Vision 2030” should be the driving force of medium-term growth of the non-oil economy, many obstacles remain. For instance, plans to increase the consumption share of locally produced goods to 50% by 2020 could prove difficult due to an overvalued currency pegged to the USD and without appropriate economic policies to foster external competitiveness. The Saudization scheme to replace cheaper foreign workers with Saudi nationals is hampered by rigid labour laws and skill mismatches. Currently Saudi nationals occupy 90% of jobs in the public sector, but only 19% in the private sector.

Tunisia

Main import sources (2016, % of total)	
France:	15.4 %
Italy:	14.5 %
China:	9.3 %
Germany:	7.7 %
Turkey:	4.4 %

Main export markets (2016, % of total)	
France:	32.0 %
Italy:	17.4 %
Germany:	10.5 %
Algeria:	4.9 %
Spain:	3.5 %

Key indicators	2015	2016	2017	2018*	2019*
Real GDP growth (y-on-y, % change)	1.0	1.2	1.9	2.5	1.8
Inflation (y-on-y, % change)	4.9	3.7	5.3	6.5	4.8
Real private consumption (y-on-y, % change)	4.3	1.4	2.8	2.1	2.6
Real exports of goods & non-factor services (y-on-y, % change)	-10.0	-0.2	2.6	4.1	2.6
Fiscal balance (% of GDP)	-4.4	-5.4	-5.9	-5.5	-5.6
Current account/GDP (%)	-8.9	-8.8	-10.7	-9.3	-10.1
Foreign debt/GDP (%)	63	67	76	82	89
Foreign debt/export of goods and services (%)	139	150	157	159	165
Short-term debt/international reserves (%)	89	113	120	121	120
International reserves (in months of merchandise imports)	4.0	3.3	3.0	3.0	3.0

* forecast Source: Macrobond

Tunisia 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.

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

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

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

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

July 2018

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:
11.7 million (est.)

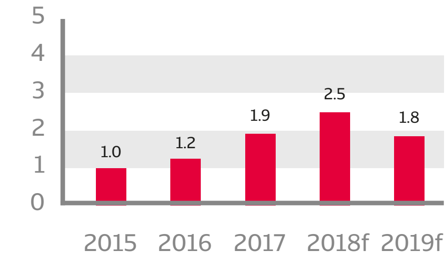
Fragile security situation persists

The current government coalition of national unity still remains shaky and prone to tensions. Consisting of both secular and (moderate) Islamist parties it lacks ideological cohesion, which hinders effective decision making and reform progress. The main secular alliance in parliament, Nidaa Tounes, is affected by continuing tensions about leadership and policy direction. The May 2018 municipal elections saw a low turnout below 40%, reflecting widespread disillusion among voters due to the tense economic situation and the lack of political and economic reform progress.

The internal security situation is still tense and the risk of terrorist attacks remains elevated. Countering this threat while maintaining democratic freedoms is a major challenge. Social dissent remains high, reflected in frequent protests and strikes that disrupt business operations and negatively influence the investment climate. However, it is not expected that protests will easily lead to widespread unrest and a threat to democracy in the short-term.

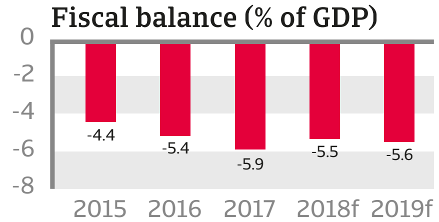
Economic situation

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



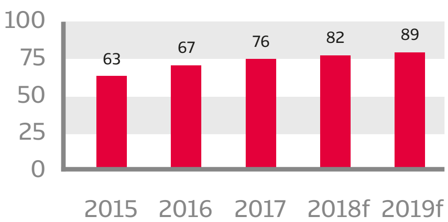
Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

Foreign debt (% of GDP)



Source: Macrobond

Major challenges remain

In 2018 and 2019 GDP growth is expected to remain moderate (2.5% and 1.8% respectively) and insufficient to substantially reduce the high unemployment rate of over 15%. Slow reform progress and social tensions continue to weigh on the medium-term outlook, while economic expansion remains heavily dependent on the security situation. Inflation is increasing in 2018, driven by higher food prices and a weakening of the currency, negatively affecting households' disposable income. Further interest rate increases by the central bank to combat inflation could adversely affect growth. The financial sector remains weak and the level of non-performing loans high.

The budget deficit is expected to decrease only gradually in 2018 and 2019, guided by an IMF programme (in May 2016 the IMF approved a four-year Extended Fund Facility arrangement worth USD 2.9 billion). Public debt increased to 70% of GDP in 2017 and remains vulnerable to exchange rate fluctuations due to the high foreign currency denominated share of about 65%. Reforming inefficient public institutions and containing the enormous public wage bill (which amounts to 70% of primary current spending) are key fiscal reform priorities, and some austerity measures have been implemented to do so. The Tunisian government has announced it will cut fuel subsidies and hold off public wage increases. However, austerity measures meet the strong resistance of the powerful labour unions, and so far the IMF programme implementation has been weak. Any missed IMF disbursement could have a large impact, as Tunisia is heavily reliant on international assistance to finance its deficits.

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

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

UAE

Main import sources (2016, % of total)	
China:	8.3 %
USA:	7.6 %
India:	6.9 %
Germany	4.6 %
Japan:	3.6 %

Main export markets (2016, % of total)	
India:	9.6 %
Iran:	9.3 %
Japan:	8.6 %
Oman:	5.6 %
China:	4.9 %

Key indicators	2015	2016	2017	2018*	2019*
Real GDP growth (y-on-y, % change)	3.8	3.0	1.5	3.0	3.8
Inflation (y-on-y, % change)	4.1	1.6	2.0	4.6	3.4
Real private consumption (y-on-y, % change)	-19.1	-10.3	3.7	3.6	3.5
Real exports of goods & non-factor services (y-on-y, % change)	5.2	6.5	1.5	2.3	4.5
Fiscal balance (% of GDP)	-6.4	-7.8	-6.1	-4.4	-5.1
Real fixed investment (y-on-y, % change)	4.3	2.3	4.0	5.0	4.5
Foreign debt/GDP (%)	56	62	63	62	63
Foreign debt/export of goods and services (%)	53	57	59	59	60
Current account (% of GDP)	4.9	3.8	7.3	6.5	4.9
International reserves (in months of merchandise imports)	5.0	4.5	4.9	5.0	5.0

* forecast Source: Macrobond

UAE industries performance outlook

July 2018

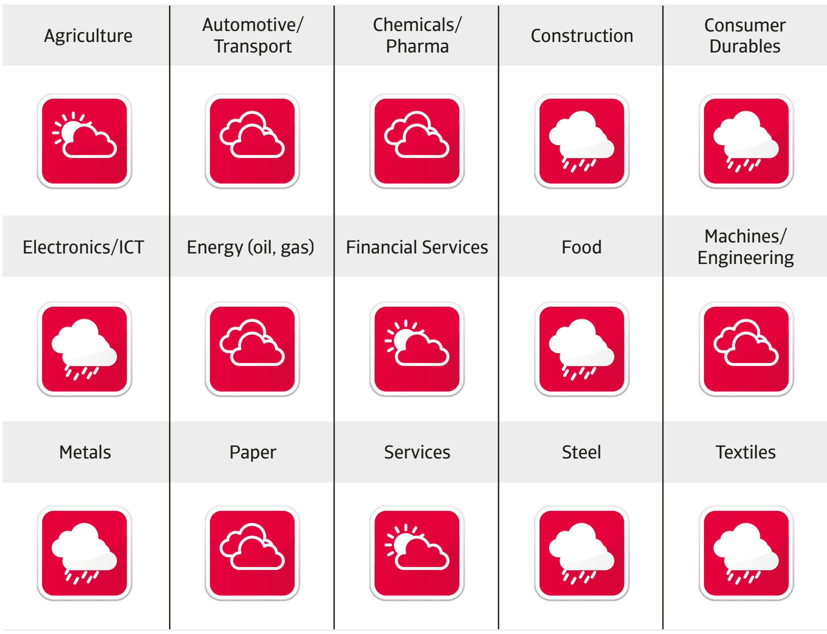
Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

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

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

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

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



Political situation

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

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

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

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

The internal political situation remains stable

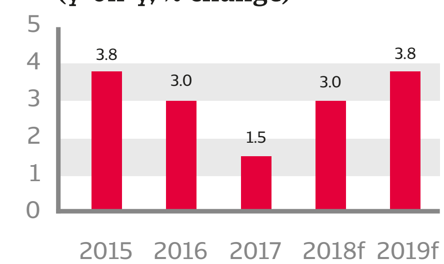
The ruling families and traditional tribal structures influence domestic politics considerably. Political parties or trade unions are not permitted and opposition is virtually non-existent. The Federal National Council (FNC) as a legislative body has only an advisory role.

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 campaign against Houthi rebels in Yemen, co-led with Saudi Arabia.

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.

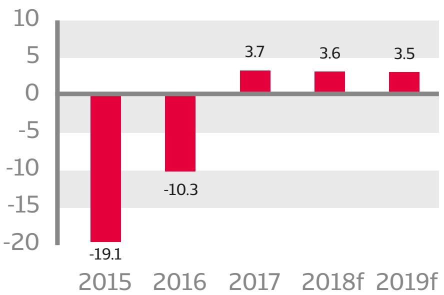
Economic situation

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



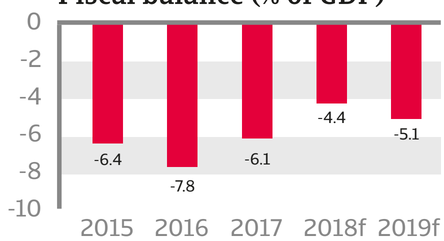
Source: Macrobond

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



Source: Macrobond

Fiscal balance (% of GDP)



Source: Macrobond

Higher growth in 2018 and 2019

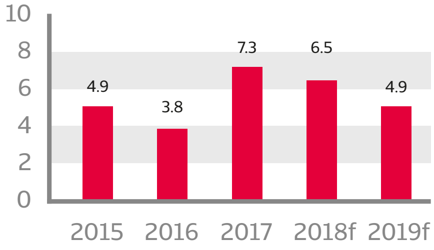
After a subdued performance in 2017 economic growth is expected to accelerate to 3.0% in 2018 and 3.8% in 2019, supported by higher oil prices, stronger external demand and the easing of fiscal consolidation. Increased infrastructure spending in the run-up to the World Expo 2020 event hosted in Dubai will also stimulate economic activity. Inflation is expected to temporarily increase to about 4.5% in 2018 as a result of the 5% VAT introduction in January 2018, while house prices continue to decrease due to strong supply growth and still modest domestic demand conditions.

Government revenues will increase amid higher oil prices and the implementation of several non-oil revenue raising measures (excise duties, VAT introduction). However, fiscal consolidation will be relaxed somewhat, with more attention given to welfare spending (in order to stem any discontent after previous subsidy cuts) and to accelerate economic diversification. At the same time heavy capital spending will continue, particularly by Dubai in the run-up to the 2020 World Expo. Therefore, the fiscal deficit will decrease only marginally in 2018 and 2019. The UAE can afford this more gradual fiscal adjustment as long as the actual oil price remains above its fiscal break even of about USD 62 per barrel.

In 2018 and 2019 the current account surpluses will be lower than before the oil slump (around 4-5% of GDP compared to 13.5% of GDP in 2014), despite the oil price rebound and stronger external demand. Maintaining the currency peg of the dirham to a stronger USD hampers competitiveness of non-oil sectors and diversification efforts. However, there is little risk of the dirham being de-pegged, as large foreign currency assets provide strong support.

The banking sector is well capitalized with a capital-adequacy ratio of 18.6% at the end of 2017, while the liquidity squeeze during the recent oil price slump has ended and government liquidity has rebounded beyond pre-crisis levels. However, private credit growth remains subdued at about 1% year-on-year due to several interest rate increases, as the Central Bank is tracking US Federal Reserve interest rate hikes.

Current account (% of GDP)



Source: Macrobond

Despite progress made in debt restructuring on some government related entities, a high gross external debt level of USD 240 billion (62% of GDP) remains from the property market crisis in 2008/2009. Additionally, the lower current account surpluses have increased financing requirements. That said, the UAE should be able to meet its repayment schemes that will peak in 2018 and 2019. A successful USD 10 billion bond issue of Abu Dhabi (that included a 30-year bond) end of last year underlines that capital market access is good, and a law that allows bond issuance on a federal level is in the pipeline (a right that is currently reserved for individual emirates only). In addition, the UAE can fall back on large Sovereign Wealth Funds that have an estimated total value of over USD 1.3 trillion (above 300% of GDP).

Currently non-oil sectors account for 70% of the UAE´s total GDP. 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. The aim is to increase the GDP share of non-oil sectors to 80% by 2021. There is still scope for further cementing the UAE's role as a commercial hub, for example by relaxing constraints on foreign direct investment and easing access to finance for small and medium-sized enterprises.

If you've found this country report useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including more country reports, industry analysis, advice on credit management and essays on current business issues.

On Twitter? Follow @Atradius or search #countryreports to stay up to date with the latest edition.

Connect with Atradius on Social Media

@atradius Atradius atradius

Disclaimer

This report is provided for information purposes only and is not intended as a recommendation as to particular transactions, investments or strategies in any way to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.

Atradius N.V.
David Ricardostraat 1– 1066 JS Amsterdam
Postbus 8982 – 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111
info@atradius.com
www.atradius.com