

# DECEMBER 2018

IMF forecasts stronger economic growth for the GCC; Slowdown in GCC funding requirements expected; Aramco IPO to be revisited in 2021; Oman's general government budgetary deficit narrows



*On the eve of renewed sanctions by Washington, Iranian protesters demonstrate outside the former US embassy in Tehran*



## ECONOMY

### IMF forecasts stronger economic growth for the GCC

Economic growth in the GCC is expected to recover to 2.4 per cent in 2018 and 3 per cent in 2019, following a 0.4 per cent contraction in 2017, according to the IMF's latest Regional Economic Outlook, released on 6 November.

The quickened pace of growth forecast for the near term is mainly due to the implementation of public investment projects.

Longer term, growth for the region's oil exporters is projected to decelerate to an average of 2.3 per cent in 2020-23 as oil prices are expected to decline gradually to reach approximately \$60 a barrel by 2023.

## OIL PRICES

### Brent crude prices fall from a four-year high

Oil prices entered a bear market losing about a quarter of their value since early October. The price of Brent crude fell to below \$65.47 a barrel on 13 November from a four-year high of \$86.29 on 3 October. As prices soften, Saudi Arabia has called for production cuts, drawing the ire of US President Donald Trump.

"Hopefully, Saudi Arabia and Opec will not be cutting oil production. Oil prices should be much lower based on supply," said Trump on Twitter on 12 November.

Breaking from recent trends, Russia is reportedly not interested in fresh oil production cuts.

## 2.4%

Expected rate of economic growth in the GCC this year

## 2.3%

Rate of growth projected for the region's oil exporters in 2020-23

## FINANCE

### Funding needs of Gulf states are forecast to slow

The GCC states' cumulative funding requirements are accumulating at a slower rate than expected and are estimated to reach \$300bn between 2018 and 2021, from \$450bn between 2015 and 2017, according to international ratings agency S&P Global.

In its latest forecast, S&P attributed the lower funding

requirements to higher oil prices and government policy response to previous years' fiscal deficit.

The firm said the GCC sovereigns' combined central government deficit has improved, estimating a combined deficit of \$75bn in 2019, or roughly 5.5 per cent of combined GDP. This is significantly below the levels seen in 2016, when the total deficit reached \$190bn.

# \$300bn

GCC states' estimated cumulative funding requirement in 2018-21

# 70:30

Expected financing split between debt and assets in 2018-21

## SAUDI ARABIA

### Riyadh to revisit long-awaited Aramco IPO in 2021

Saudi Arabia will reconsider part-privatising Saudi Aramco after the state energy giant has completed its acquisition of a majority stake in petrochemicals and metals producer Sabic, according to Aramco CEO, Amin Nasser.

"The government is suggesting 2021 for IPO [initial public offering] listing, depending on the market conditions of the time. The Sabic

deal needs to be completed first, before you can list Saudi Aramco," Nasser said at the Abu Dhabi International Petroleum Exhibition & Conference on 12 November.

The Aramco IPO of 5 per cent is the centrepiece of Saudi Arabia's economic reforms under the Vision 2030 development plan. The plan involves using the IPO proceeds to fund economic diversification programmes to reduce the kingdom's reliance on oil revenues.

## OMAN

### Ratings agency affirms stable economic outlook for Oman

US-based S&P Global Ratings has confirmed its stable BB/B long- and short-term foreign and local currency sovereign credit ratings outlook for Oman.

In its latest analysis, S&P highlighted both the positive uptick in economic growth amid rising oil production, and the threat of Oman's narrowing – yet still elevated – fiscal and external deficits.

"Since widening to more than 18 per cent of GDP in 2016, Oman's general government budg-

etary deficit is narrowing, and set to reach an estimated 7.4 per cent of GDP this year," the report says.

"The stable outlook incorporates our expectation that Oman will manage to finance its fiscal and external deficits over our base case, while economic growth steadies at around 3 per cent per year."

S&P cautions, however, that it could take negative rating action if Oman's external debtor position deteriorates beyond expectations or the central bank's reserve levels drop significantly.

## OIL

### US grants allies six-month waiver from Iran oil sanctions

Following the reimposition of oil sanctions on Iran on 5 November, the US government has produced a temporary waiver allowing eight countries to continue importing Iranian petroleum products for a six-month period. The list of countries includes US allies Turkey, Italy, India, Japan and South Korea.

Washington has issued a list of 12 demands that Iran must meet to get the sanctions lifted. These include an end to Iran's engagement in the Syria conflict and a halt to its missile development. More than 700 Iranian companies and people have been added to the sanctions.



Eight countries are temporarily exempt from the new oil sanctions

## IRAQ

### New prime minister Adel al-Mahdi forms government

Following his appointment as Iraq's new prime minister in late October, Adel al-Mahdi has appointed ministers for 14 of the 22 cabinet positions available.

Thamir Ghadban, a widely respected technocrat, has replaced Jabbar al-Luaibi as oil minister. Ghadban has held the post of oil minister before, from 2004-05. He then chaired the prime minister's advisory committee under Prime Minister Nouri al-Maliki and his successor Haider al-Abadi. He will also serve as deputy prime minister for energy.

The former oil minister Al-Luaibi had already been named as the president of the newly formed Iraq National Oil Company, a ministerial role.

## IRAN

### Work to begin on rail link between Iran and Iraq

Iranian President Hassan Rouhani is reported to have approved a plan to start constructing a 32-kilometre railway line linking the country to Iraq. According to local media, the railway will extend from the Iranian port of Shalamcheh to Basra in Iraq. The project budget is estimated at IR2,200bn (\$52m), according to the local Fars news agency, citing the Iran Railways Company's deputy head Mazyar Yazdani. The executive said Tehran will construct the railway line and "give it as a gift to Iraq, but the side has to cover the construction expenses later".

The project could link Iran, Iraq and Syria, extending to the port of Latakia on the Mediterranean Sea.

## LEBANON

### Hariri accuses Hezbollah of blocking government formation

Lebanon's Prime Minister-designate Saad Hariri has accused Shia group Hezbollah of obstructing the formation of a new government. Lebanon has not been able to form a government since parliamentary elections in May. Disagreements over the distribution of cabinet seats for each group and key ministerial posts continue to hamper progress.

Hezbollah's demand for representation for Sunni allies in government has further complicated the process. The prime minister-designate has rejected the Shia group's request.

"I have been very clear. I told Hezbollah early on that I categorically refuse to cede a seat to their Sunni allies," Hariri said at a press conference on 13 November.



 Iran's President Hassan Rouhani

# 32km

Reported length of the railway line that will link Iran to Iraq

# \$52m

Estimated project budget, according to Iran Railways Company

## FURTHER READING

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### **French energy major Total**

**has won** a 40 per cent stake in the Ruwais Diyah unconventional gas concession and will explore, appraise and develop the concession area's unconventional gas resources. Abu Dhabi National Oil Company awarded the stake on behalf of the Abu Dhabi government.

### **A consortium of France's EDF and the UAE's Masdar**

has been shortlisted as the preferred bidder for Saudi Arabia's Renewable Energy Project Development Office's planned 400MW Dumat al-Jandal wind project in the kingdom. According to sources close to the project, the local Acwa Power has been selected as reserve bidder.

### **Saudi's King Fahd Causeway**

**Authority has invited bids** from prequalified consultants by 21 February for the transaction advisory contract for King Hamad Causeway, the second crossing to link Saudi Arabia and Bahrain. The contract will be awarded to a consortium of financial, technical and legal consultants.

### **Saudi Aramco and Abu Dhabi National Oil Company**

have signed a framework agreement for potential collaboration across their gas value chain, the state energy giants said on 12 November. The agreement was announced at the Abu Dhabi International Petroleum Exhibition & Conference.