

MENA: Markets, Economics, Numbers And Analysis

8 Dec 2023

This commentary is published by BMI – A Fitch Solutions Company, and is not a comment on Fitch Ratings' Credit Ratings. Any comments or data included in the report are solely derived from BMI and independent sources. Fitch Ratings analysts do not share data or information with BMI.

In this article we cover macroeconomic, financial and political events that shaped the MENA region in the last four weeks, and their implications for our views and forecasts.

Fighting Between Israel and Hamas Resumes, War Will Linger Into 2024

Two months into the Israel-Hamas war, our views are holding, especially that the war will remain localised with skirmishes on the Lebanese front with Hezbollah, increasing tensions in the West Bank and attacks on US assets in region. On December 1, [the truce brokered by Egypt and Qatar](#), which came into effect on November 24, expired. [Fighting resumed](#), with Israel and Hamas trading blame over the failure to extend it. Nonetheless, both sides benefited from the brief truce. For Hamas, the pause in hostilities allowed its forces to strengthen their defences and boost its standing among Palestinians, particularly in the West Bank after the liberation of Palestinian prisoners. For Israel, the truce eased international scrutiny over its military operations in Gaza and the consequent Palestinian civilian casualties (which have now surpassed 17,000). It also assuaged some domestic demands for the release of hostages in Hamas's possession.

Israel Expands Ground Operation South Of The Gaza Strip

Gaza Strip - Map Of IDF's Areas Of Operations



Note: IDF's areas of operations as of December 8 2023. Source: Israel Palestine Live Map, BMI

On December 3, Israel expanded its ground operations into southern Gaza Strip and northern Khan Younis (*see map above*). While this was preceded by Israel releasing a map sectioning the strip in a bid to limit civilian casualties in response to US and international pressures, the civilian death toll continues to mount. We believe that the escalating Israeli ground invasion is a response to the mounting demands from far-right factions in the Israeli government for a more aggressive military response. However, this increases the likelihood of civilian casualties, which could result in renewed international pressure on Israel to cease hostilities. Indeed, US officials reportedly expect the ground invasion to turn into more targeted raids after the beginning of 2024 as international pressure takes its toll, [which falls in line with our view that the intensity of the conflict will recede in Q124](#).

Maritime Security Risks Higher Following Houthi Attacks

Middle East - Map Of Key Waterways



Source: BMI

The collapse of the truce also saw the resurgence of skirmishes on the Lebanese front with Hezbollah and assaults on US bases in the both Iraq and Syria. In addition, [Yemen's Houthis have repeatedly tried to disrupt Israel's international commerce](#) by attacking and seizing Israeli vessels near the Bab Al Mandab strait (see *map above*). [These assaults by Iran-backed factions, collectively referred to as the "Axis of Resistance"](#), on Israeli and US interests will continue to heighten geopolitical risks in the future. A disparity in views between the US and Israel over Gaza's future, coupled with Israel's need for a victory narrative to conclude the war, raises the chances of a protracted conflict beyond Q124. Reportedly, Israel has communicated to Arab states its intention to create a buffer zone within the Gaza Strip, a plan

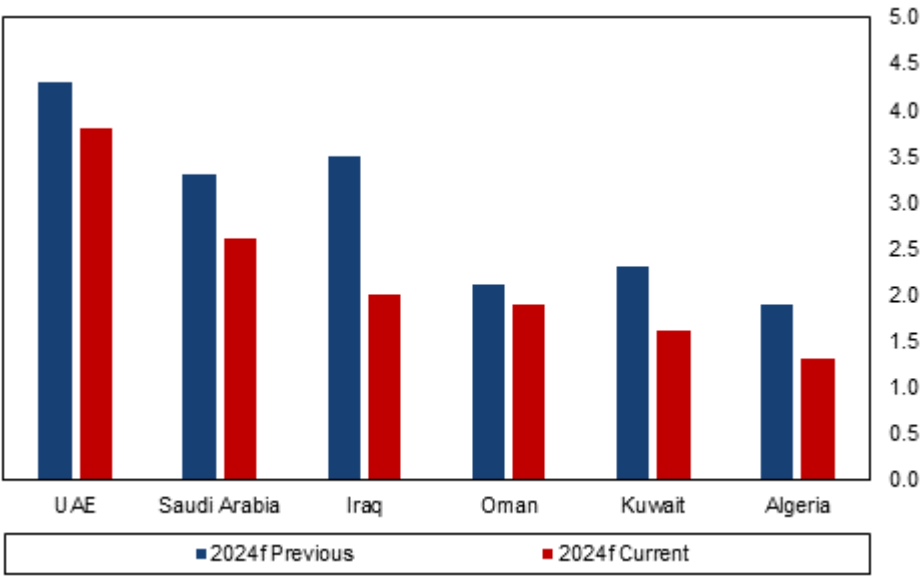
publicly opposed by the US, which disapproves any alteration in Gaza's territory. This scenario raises the possibility of errors and misjudgements that could widen the scope of the conflicts.

Extension Of OPEC+ Production Cuts Prompted Us To Revise Down Growth In Key MENA Markets For 2024

On November 30, OPEC+ agreed to extend current production cuts into the new year and pledged additional cuts. This includes the unilateral 1.0mn b/d curb on crude oil production by Saudi Arabia, along with other production cuts to be delivered by key MENA markets like Iraq (223,000b/d), the UAE (163,000b/d), Kuwait (135,000b/d), Algeria (51,000b/d) and Oman (42,000b/d). Our Oil & Gas team expects these cuts to remain in place through much of H124, which prompted us to revise down our forecasts for key MENA markets.

Growth Forecasts Cut Following OPEC+ Meeting

Select MENA Markets - Real GDP Growth, %



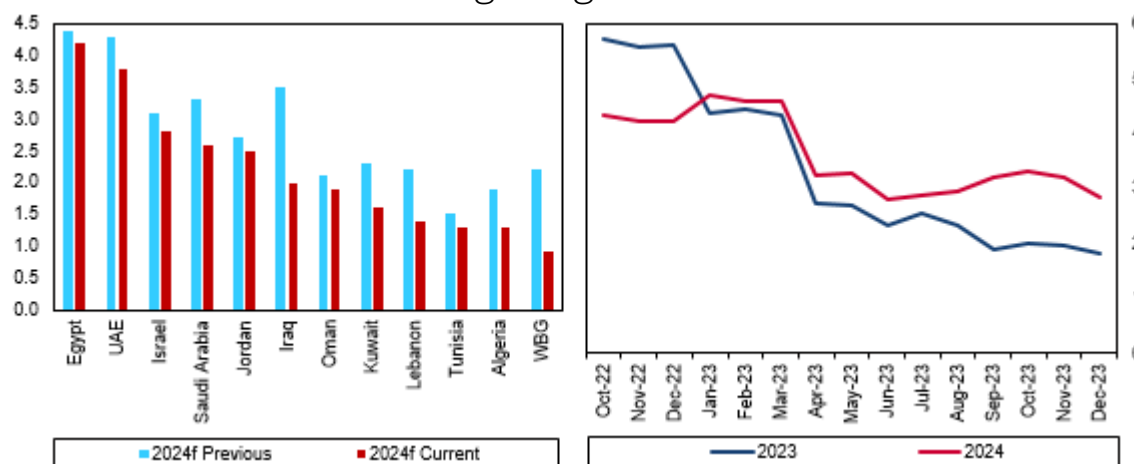
Source: National sources, BMI

Our downward revisions because of the OPEC+ cuts and the implications of the Israel-Hamas war saw our average MENA growth forecast for 2024 drop from 3.2% in September to 2.9% currently. However, we remain relatively bullish on the non-oil economies of MENA hydrocarbon exporters, particularly in the GCC. Indeed, we expect the non-oil economies of the two biggest economies in the bloc, Saudi Arabia and the UAE, will grow by 3.7% and 5.2% respectively. Both countries are set

to benefit from investment in line with economic diversification plans, notably Saudi Arabia's Vision 2030 and the UAE's plan 'We UAE 2031', which will drive strong growth momentum in their respective non-oil economies in 2024.

Less Bullish MENA Outlook Following OPEC+ Cuts And Israel-Hamas War

MENA - Evolution Of Average Regional Growth, %



Source: National sources, BMI

Despite the introduction of the new OPEC+ cuts, oil prices continued their decline with Brent losing more than 20% of its value since its October peak, and currently hovering slightly below USD75.0/bbl. With little leeway for further cuts, the market's attention shifted to slowing global demand, which could dampen prices in the near term. While downside pressure on global growth constitutes a key risk that could weigh on oil prices, our Oil & Gas team continues to expect that oil prices will average USD85.0/bbl in 2024, slightly higher than USD84.0/bbl in 2023, as rate cuts and a pickup in global growth in H24 will support prices.

MENA Key Themes: Wider Gap Between GCC And Rest Of MENA

We highlighted five key themes that we think will shape the MENA region in 2024 spanning across macroeconomic and geopolitical risks in the wake of the Israel-Hamas war. Below is a summary of our views and we will be holding a webinar with more in-depth analysis on January 24 2024 (click [here](#) to register).

MENA Key Themes For 2024

Theme	View
GCC And Post War Recovery Will Drive Faster Growth In MENA	Robust non-oil economy and stabilising oil production will drive the rebound in the GCC economies, while the easing or end of the Israel-Hamas war will support stronger growth in the Levant. Algeria's substantial economic slowdown in 2024 will offset above-trend growth in Morocco and a modest pick-up in Tunisia.
Decelerating Inflation, Yet Diverging Monetary Policy	Tight monetary policy and lower global commodity prices will lead to slower inflation in most MENA countries in 2024. Even so, price growth will remain in double digits in Egypt and Iran, and in triple digits in Lebanon. While GCC countries, Jordan and Israel will cut rates in H224, Egypt and Tunisia will resume hiking, and Morocco will hold.
Deteriorating External Positions, But Mixed Currency Outlook	While the external position of MENA countries will deteriorate in 2024, it will remain in surplus in most net hydrocarbon exporters. Net hydrocarbon importers will see wider deficits on weaker external demand and higher imports. Despite that, we will see stronger Moroccan dirham, Algerian dinar and Israeli shekel, while the Egyptian pound will be devalued in H124 and the Tunisian dinar will weaken on depleting FX reserves.
Weaker Fiscal Positions, Except For GCC	While MENA hydrocarbon exporters will see their average fiscal deficit narrow in 2024, this masks a widening surplus in the GCC. This will limit their need to issue debt. Bahrain will remain the GCC country with the weakest public finances. Among hydrocarbon importers, loose fiscal policy will see deficits widen. Weaker currencies in Egypt and Tunisia will increase pressure on their debt profiles.
Higher For Longer Geopolitical Risk	Despite our expectations that the Israel-Hamas war will not broaden into a regional conflict and will have ended or significantly eased by early 2024, high geopolitical risks will persist through the year. The war will affect Israel's integration in the region, souring relations with some Arab countries and delaying investment projects and trade relations. Furthermore, the war has amplified the posturing of Iranian-backed proxies, potentially requiring the US to maintain a heavy military presence in the region even after the war ends.

Source: BMI

This report from BMI Country Risk & Industry Research is a product of Fitch Solutions Group Ltd, UK Company registration number 08789939 ('FSG'). FSG is an affiliate of Fitch Ratings Inc. ('Fitch Ratings'). FSG is solely responsible for the content of this report, without any input from Fitch Ratings. Copyright © 2023 Fitch Solutions Group Limited. © Fitch Solutions Group Limited All rights reserved.