



MENA ECONOMICS UPDATE

Five key questions on developments in Saudi Arabia

- **Events in Saudi Arabia since the weekend have potentially significant, but also complex, implications both for domestic policymaking and the wider region. In this *Update*, we try to make sense of recent developments by answering five key questions.**
- **What has happened?** Over the weekend, Saudi Arabia's Crown Prince Mohammed bin Salman (next in line to the throne and known in diplomatic circles as MbS) launched an anti-corruption drive, which led to the arrest of a number of high-profile businessmen, ministers and princes. A minor government reshuffle also took place. The most notable casualty was Prince Miteb bin Abdullah, head of the National Guard.
- At the same time, MbS ratcheted up tensions with Iran. The Saudi authorities appear to be behind Lebanese Prime Minister Saad Hariri's decision to resign and Mr. Hariri's accusation that the rest of the Lebanese government is beholden to the Iran-backed group, Hizbollah. Meanwhile, a thwarted missile strike on Riyadh airport by Yemen's Houthi rebels (which are also supported by Iran) prompted MbS to state that Iran's actions in the region are a "declaration of war against the Kingdom".
- It's not entirely clear how these events are linked. Our sense is that MbS is trying to consolidate his power ahead of a possible abdication by his father, King Salman. His anti-corruption drive and increasingly aggressive tone towards Iran seem to be an attempt to boost his popularity among the Saudi population.
- **What will the impact be on the Saudi economy?** In principle, efforts to clamp down on corruption are welcome. (See "[What to make of the Saudi anti-corruption drive](#)", 6th Nov.) But the speed and breadth of the crackdown has stirred fear among investors. Firms may delay investment as they wait to see if they will be implicated. Foreign investment – which MbS is courting to support his Vision 2030 reforms – could also be deterred, especially as much of it relies on partnerships with firms owned by those being detained. To avoid rousing suspicion, wealthy individuals may defer purchases of luxury items, denting consumer spending. There was evidence of this in China following a recent anti-corruption campaign there.
- **What are the repercussions for Saudi Arabia's flagship policies, such as the Aramco IPO and the OPEC deal?** MbS is the key architect of both these policies and, in so far as he has strengthened his grip on power, there will be little change. Any delay to the IPO at this stage will reflect the complexity of the deal rather than recent political developments. OPEC policy has been immune from past political developments and MbS recently confirmed that he supports an extension to the oil output cuts to the end of 2018.
- **What does this mean for Saudi politics?** The removal of Prince Miteb is a major new offensive as he and the National Guard have been touted as a source of opposition towards MbS. It remains to be seen how the Guard will respond – it had been under the influence of Prince Miteb's branch of the family for more than fifty years. If the Guard falls into line, MbS will control all of the Kingdom's security services.
- Some have argued that a consolidation of power could make it easier for MbS to push ahead with the Vision 2030 reform plans. But as we've noted before, there's a risk of a further shift away from consensus-based policymaking. The big risk here is a backlash against MbS that undermines his authority and threatens Vision 2030. (See our *Focus*, "[Saudi Vision 2030 likely to fall short of lofty goals](#)", 27th Jun.)
- **What are the geopolitical implications?** The regional divide has hardened with a loose alliance between Saudi Arabia, the US and Israel intent on countering Iran's regional influence. This is evident in the Yemen conflict, the blockade on Qatar, President Trump's decision not to certify Iran's compliance with its nuclear accord, and now the deteriorating situation in Lebanon.
- There is clearly a real risk that tensions spillover into a military confrontation. The most likely scenario is that all of this is played out through another proxy war, most probably in Lebanon. This would clearly have a devastating social impact on Lebanon and hit the country's economy hard. (See, "[Lebanon's dollar peg under threat as tensions mount](#)", 7th Nov.) The risk of disruptions to economic activity in the rest of the region is fairly low, but at the very least investors may build an extra risk premium into financial assets. It's worth noting that dollar bond yields and CDS premia across the region have risen in recent days.
- Oil prices have jumped on the back of greater political uncertainty but, so long as the tensions between Saudi Arabia and Iran don't lead to a direct conflict, the fundamentals suggest that prices will fall back in the coming weeks. (See our *Energy Update*, "[Latest jump in oil prices looks unsustainable](#)", 7th Nov.)



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