



# Quarterly MENA Economic Outlook

## Assessing Impacts Of Covid-19 & The Oil Price War

April 7 2020

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The background of the slide features a silhouette of an oil pumpjack against a sunset sky with orange and yellow hues. A large, translucent virus particle with multiple protruding spikes is superimposed over the pumpjack, symbolizing the impact of the COVID-19 pandemic on the oil industry.

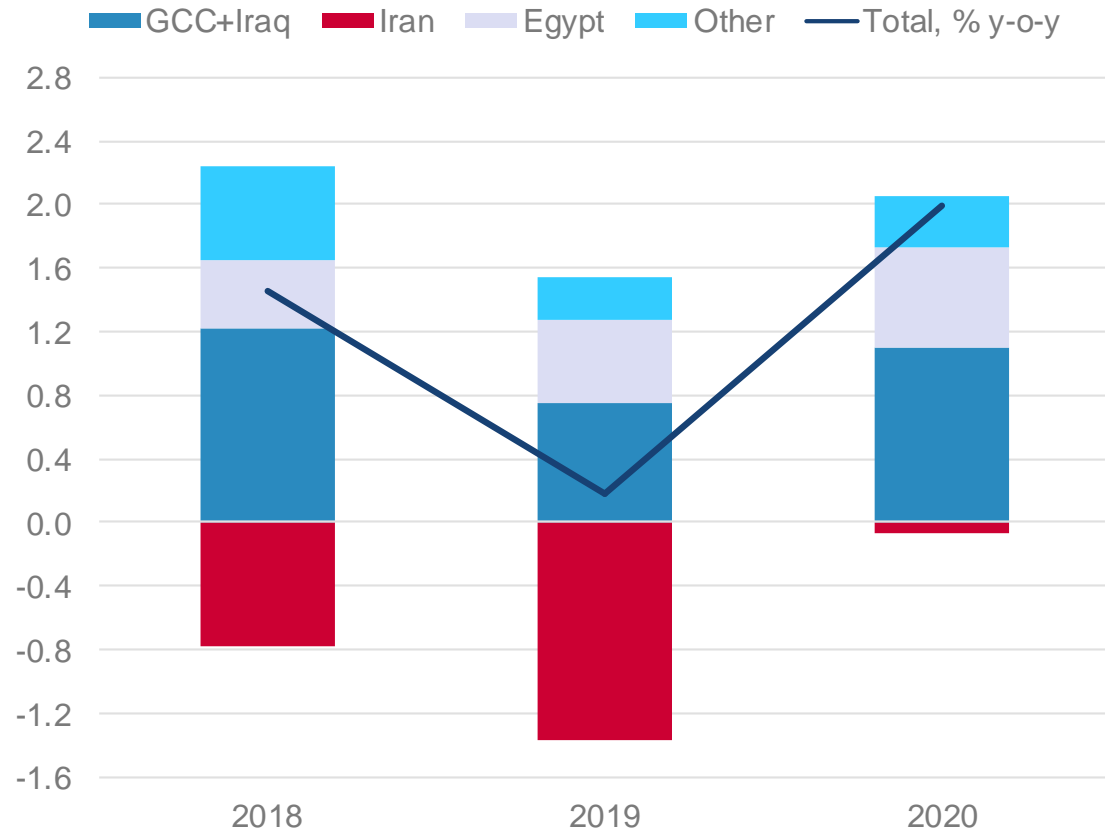
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## MENA Growth Outlook Deteriorating

# MENA: Regional Growth Outlook Deteriorating

## Initial Expectation For Gradual Pick-Up In Activity...

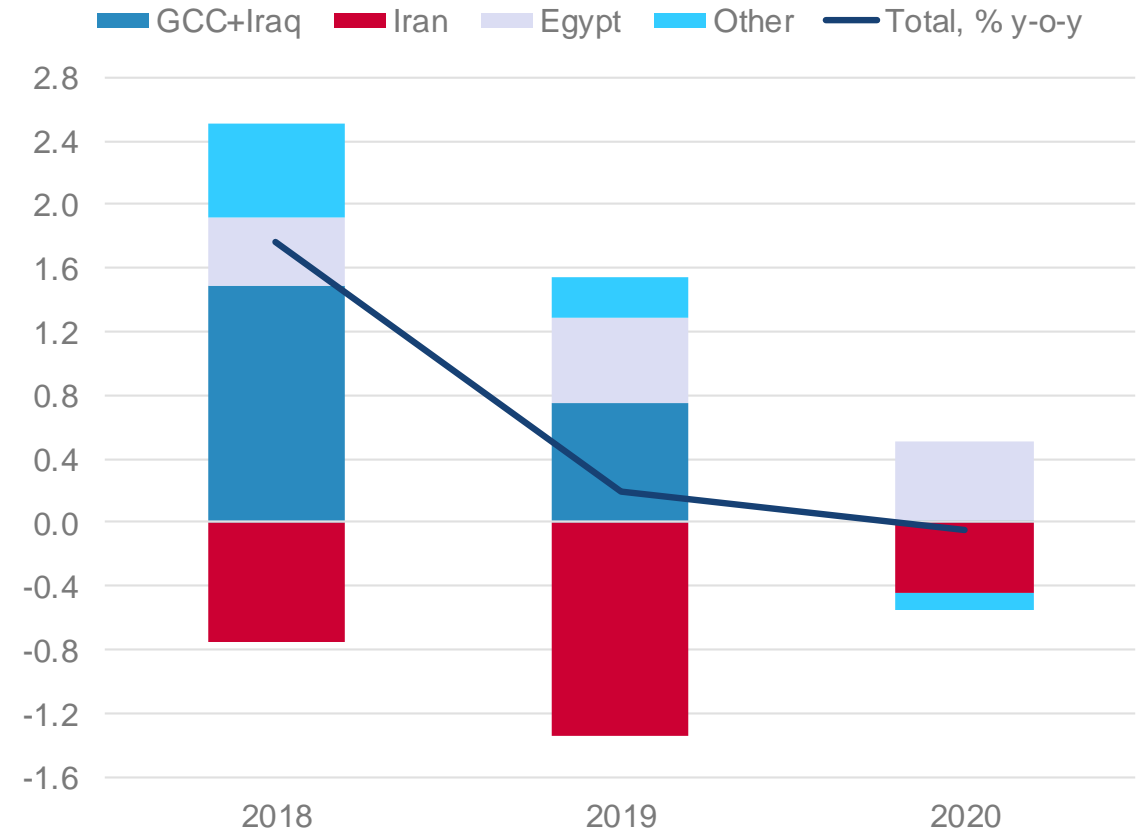
MENA – PP Contr. To Real GDP Growth (January 2020 Forecasts)



Note: 2019 = FS estimate; 2020 = FS forecast. Source: UN, national sources, Fitch Solutions

## ...Shattered By Covid-19 Outbreak, Oil Price Collapse

MENA – PP Contr. To Real GDP Growth (April 2020 Forecasts)



Note: 2019 = FS estimate; 2020 = FS forecast. Source: UN, national sources, Fitch Solutions

# MENA: Downward Revisions Across The Board

|                    | 2019       | 2020f (Previous) | 2020f (Current) | PP change   |
|--------------------|------------|------------------|-----------------|-------------|
| <b>MENA Region</b> | <b>0.2</b> | <b>2.0</b>       | <b>0.0</b>      | <b>-2.0</b> |
| Algeria            | 1.2        | 1.0              | -0.4            | -1.4        |
| Bahrain            | 1.5        | 2.3              | 0.2             | -2.2        |
| Egypt              | 5.6        | 5.6              | 4.1             | -1.5        |
| Iran               | -8.3       | -0.4             | -2.2            | -1.8        |
| Iraq               | 2.8        | 1.8              | -1.2            | -2.9        |
| Jordan             | 2.0        | 2.8              | 0.4             | -2.4        |
| Kuwait             | 0.6        | 2.9              | 0.1             | -2.8        |
| Lebanon            | -3.4       | 1.2              | -3.9            | -5.1        |
| Libya              | 3.8        | 2.7              | -8.1            | -10.8       |
| Morocco            | 2.6        | 3.1              | -0.8            | -3.9        |
| Oman               | 1.8        | 1.1              | 0.3             | -0.8        |
| Qatar              | 0.2        | 2.7              | -0.1            | -2.7        |
| Saudi Arabia       | 0.3        | 1.7              | 0.8             | -0.9        |
| Syria              | 5.2        | 6.5              | 1.9             | -4.6        |
| Tunisia            | 1.5        | 1.9              | 0.9             | -1.0        |
| UAE                | 2.9        | 2.4              | -0.9            | -3.3        |
| Yemen              | 4.0        | 4.3              | 1.8             | -2.5        |

Note: f = Fitch Solutions forecast. Source: UN, national sources, Fitch Solutions

- All Fitch Solutions growth forecasts for MENA have been revised down at country-level for 2020...
- ...bringing our weighted average real GDP growth forecast for the region to 0.0% this year (from 2.0% previously).
- The Covid-19 outbreak will severely disrupt economic activity and trade across MENA, at least through H120.
- Regional oil producers will also face fiscal pressures from lower oil prices, restricting their governments' ability to spend and thus dragging on non-oil activity.
- We caution that our forecasts remain fluid, and are subject to further downside (and in some cases, upside) risks.

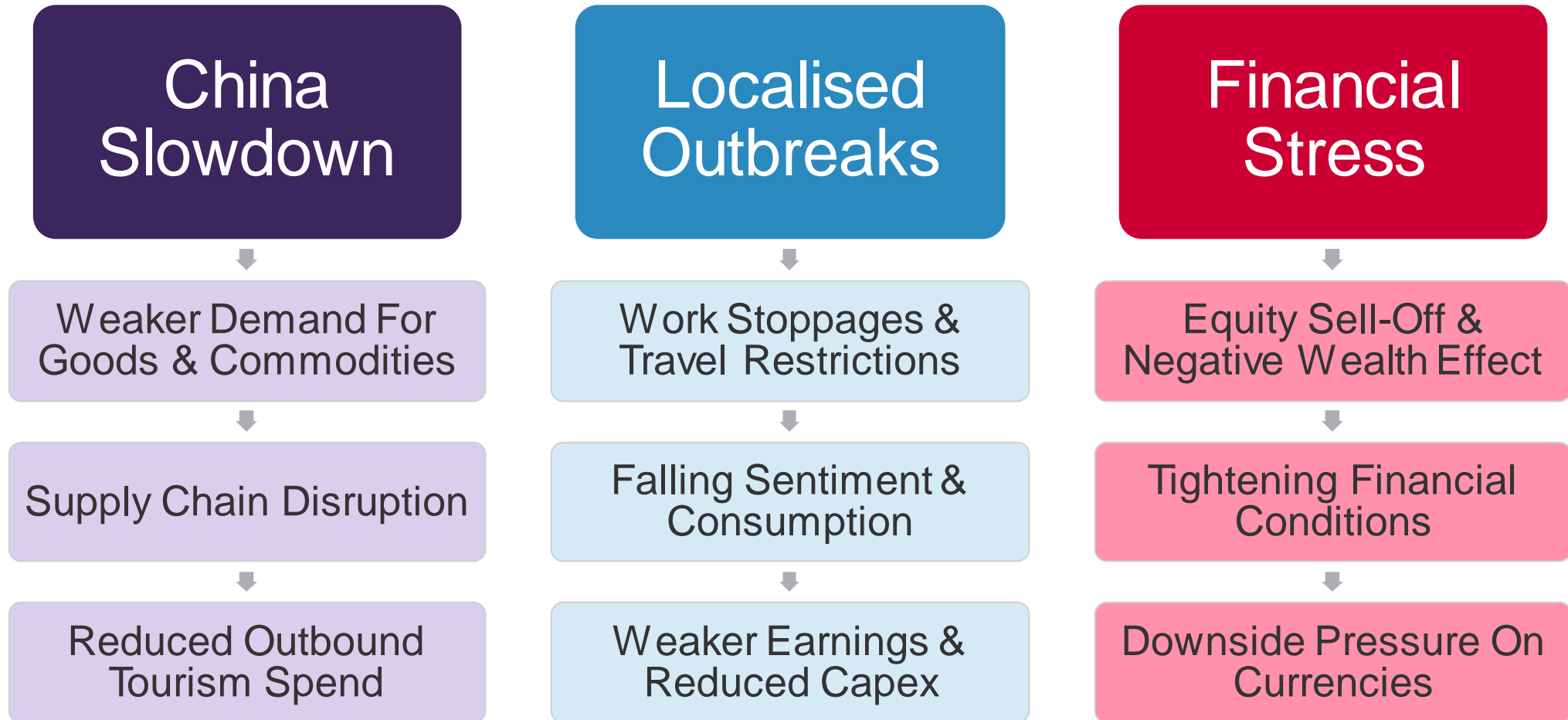


A large, stylized virus particle, resembling a coronavirus, is superimposed over a sunset sky. In the foreground, the silhouette of an oil pumpjack is visible, symbolizing the impact of the pandemic on the oil industry.

# 2

## Covid-19 Hitting Global Economy Hard

# Global: Covid-19 Hitting Growth Via Three Main Channels



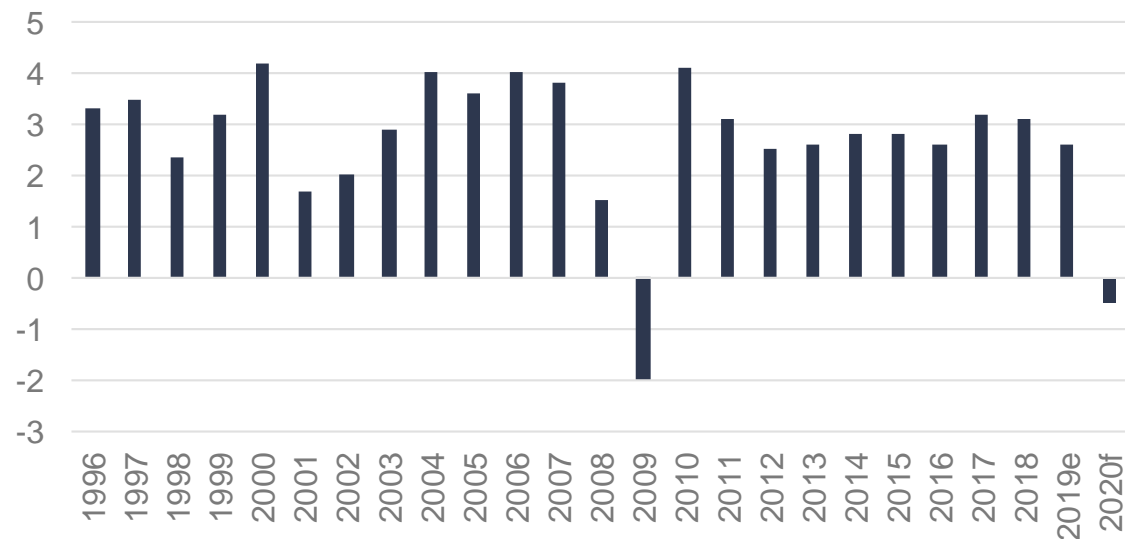
Source: Fitch Solutions



# Global: World Economy Falling Into Recession

## Global Growth Likely To Head Below Zero In 2020

Global – Real GDP, % chg y-o-y



- Our Global team now expects global growth will fall to between 0.0% and -0.5% in 2020.
- Multiple Covid-19 outbreaks and resultant lockdowns will cause both supply and demand shocks to the world economy.

e/f = Fitch Solutions estimate/forecast. Source: IMF, Fitch Solutions

## Most Major Economies To See Marked Contraction

| Country | Previous Forecast | Current Forecast | Country  | Previous Forecast | Current Forecast |
|---------|-------------------|------------------|----------|-------------------|------------------|
| US      | 0.9               | -2.8             | India    | 5.4               | 4.6              |
| China   | 4.2               | 2.6              | Italy    | -2.1              | -6.8             |
| Japan   | -0.2              | -3.5             | Brazil   | 1.6               | -1.9             |
| Germany | 0.2               | -3.8             | S. Korea | 1.7               | -0.3             |
| UK      | 1.2               | -2.5             | Russia   | 1.4               | -1.3             |
| France  | -1.0              | -4.5             | Spain    | 1.0               | -5.8             |

- Moreover, tightening financial conditions will cause substantial funding pressures and liquidity constraints for businesses.
- Our baseline forecast envisions activity recovering from Q420 - but this hinges on containment of the virus in the next 2 months.

Note: all forecasts are Fitch Solutions. Source: Fitch Solutions

# Global: Recovery Depends On Virus Containment

## Scenarios For Global Growth (Depending On Success Of Authorities' Covid-19 Containment Efforts)

|                            | Global Growth Rate | Containment Efforts   | Lockdowns  | Unemployment   | Financial Stress   |
|----------------------------|--------------------|---|--|--|--|
| <b>Baseline Scenario</b>   | 0.0% to -0.5%      | New cases peak in April/early May, steady reduction in the number of new cases. | Lockdowns and restrictions start to be lifted by April/May.                  | Sharp rise but quick decline as businesses re-open.                            | Bottom in equity and credit seen in the next month or so, if not already.                          |
| <b>Downside Scenario 1</b> | -0.5% to -1.5%     | New cases only start to peak in late May or June.                               | Lockdowns remain in place until May/June, slow lifting of lockdowns.         | Sharper rise and a slow decline as businesses take a while to re-open.         | Bottom in equity and credit seen in early H220.  |
| <b>Downside Scenario 2</b> | -1.5% to -2.5%     | New cases only start to peak in late June or July.                              | Lockdowns remain in place until July-August, slow lifting of lockdowns.      | Sharper rise and an even slower decline as businesses take a while to re-open. | Bottom in equity and credit seen in late H220. Potential for banks to start feeling more pressure. |
| <b>Downside Scenario 3</b> | -2.5% and below    | Blunted by a second wave of new cases.  | Doubling down on existing lockdowns while other countries re-implement them. | Even sharper rise and little recovery over the short term.                     | Bottom in equity and credit seen in late H220. Potential for banks to start feeling more pressure. |

Source: Fitch Solutions

A large, stylized virus particle with multiple protruding spikes is superimposed over a background of a sunset sky. In the foreground, the silhouette of an oil pumpjack is visible, with its long arm and counterweight. The overall scene suggests a connection between the oil industry and the COVID-19 pandemic.

# 3

MENA Region  
Affected By  
Local Outbreaks

# MENA: Localised Outbreaks, Lockdowns Will Hurt Domestic Demand

## Much Of MENA Is Now On Lockdown

MENA – Confirmed Covid-19 Cases (As Of April 6), Lockdown Status & Share of Regional GDP

| Country      | Confirmed Cases* | Lockdown Status                             | Share Of MENA GDP, % |
|--------------|------------------|---|----------------------|
| Iran         | 58,226           | No official lockdown; inter-city travel ban | 16.1                 |
| Saudi Arabia | 2,463            | Near-full lockdown                          | 24.5                 |
| UAE          | 1,799            | Partial lockdown (mainly Dubai)             | 12.9                 |
| Qatar        | 1,604            | Partial lockdown (industrial area only)     | 5.7                  |
| Algeria      | 1,320            | Partial lockdown                            | 5.3                  |
| Egypt        | 1,173            | Near-full lockdown                          | 9.8                  |
| Morocco      | 1,113            | No official lockdown                        | 3.6                  |
| Iraq         | 961              | Near-full lockdown                          | 6.9                  |
| Bahrain      | 700              | Partial lockdown                            | 1.2                  |
| Kuwait       | 665              | Near-full lockdown                          | 4.4                  |
| Tunisia      | 574              | Full/near-full lockdown                     | 1.2                  |
| Lebanon      | 541              | Near-full lockdown                          | 1.7                  |
| Jordan       | 345              | Full/near-full lockdown                     | 1.4                  |
| Oman         | 331              | Partial lockdown (mainly Muttrah province)  | 2.4                  |
| WBG          | 252              | Partial lockdown                            | 0.5                  |

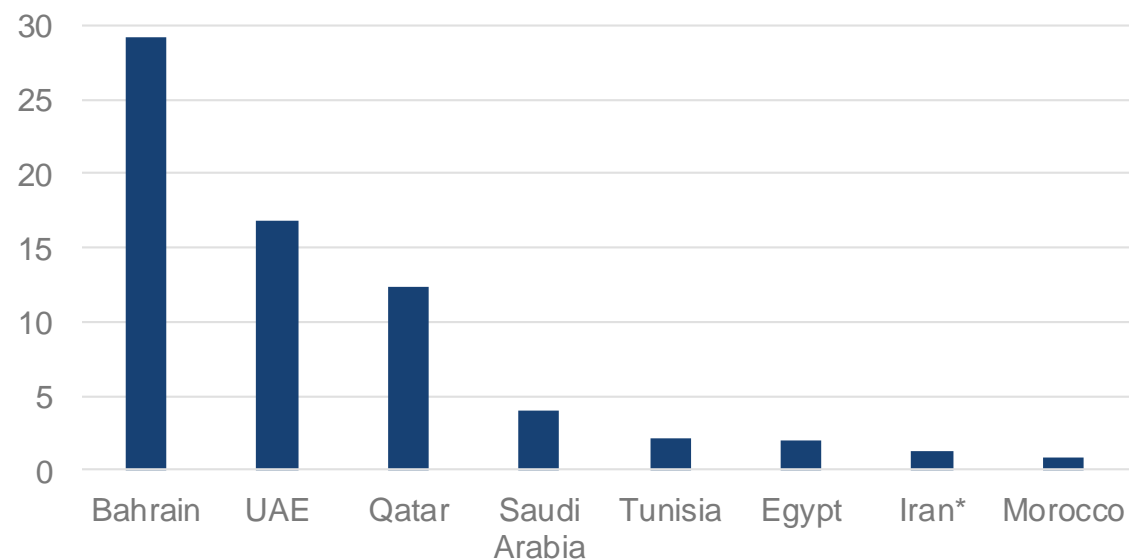
\* Excludes territories where number of reported cases = less than 100. Source: WHO, FitchSolutions

- The MENA region has experienced sizeable localised Covid-19 outbreaks since February 2020.
- Iran in particular is badly affected, accounting for over 80% of confirmed MENA cases.
- Most of the region's governments have responded with restrictions on travel, events and business activity – though to a varying degree of severity and enforcement.
- While we do not have much data to go on thus yet, we believe these restrictions will severely dent domestic consumption, business activity and investment, at least over Q1-Q3.

# MENA: Region's Economic Policy Responses Taking Shape

## GCC Leading The Way On Stimulus Announcements

MENA (Selected) – Estimated Size Of Economic Stimulus Packages, % GDP

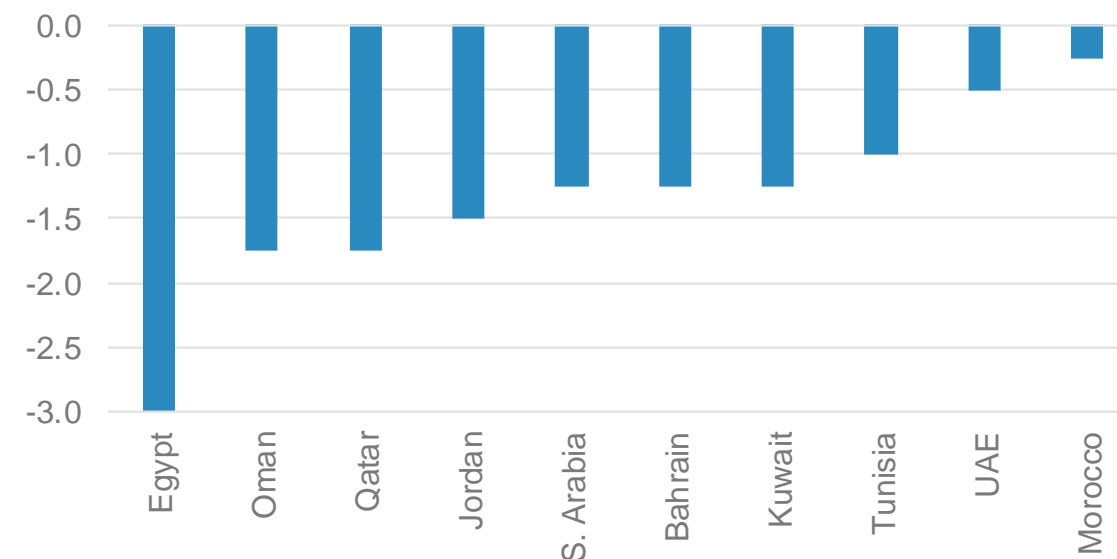


- Most governments in MENA have now launched some form of stimulus to support their economy, with the GCC leading the way.
- That said, the size and, perhaps more importantly, the composition of such stimulus differ across the region, reflecting the governments' varying degrees of policy flexibility.

Note: \*Figure for Iran refers to parallel FX market rate. Source: Local news, Fitch Solutions

## Interest Rates Coming Down Across Much Of MENA

MENA (Selected) – Central Bank Policy Rate Changes, January Vs April 2020



- Interest rates are coming down as well - most notably in Egypt, where the central bank cut by a record 300bps in March.
- MENA authorities with little to no fiscal or monetary firepower left have also approached the IMF for near-term emergency financing.

Source: Local central banks, Fitch Solutions





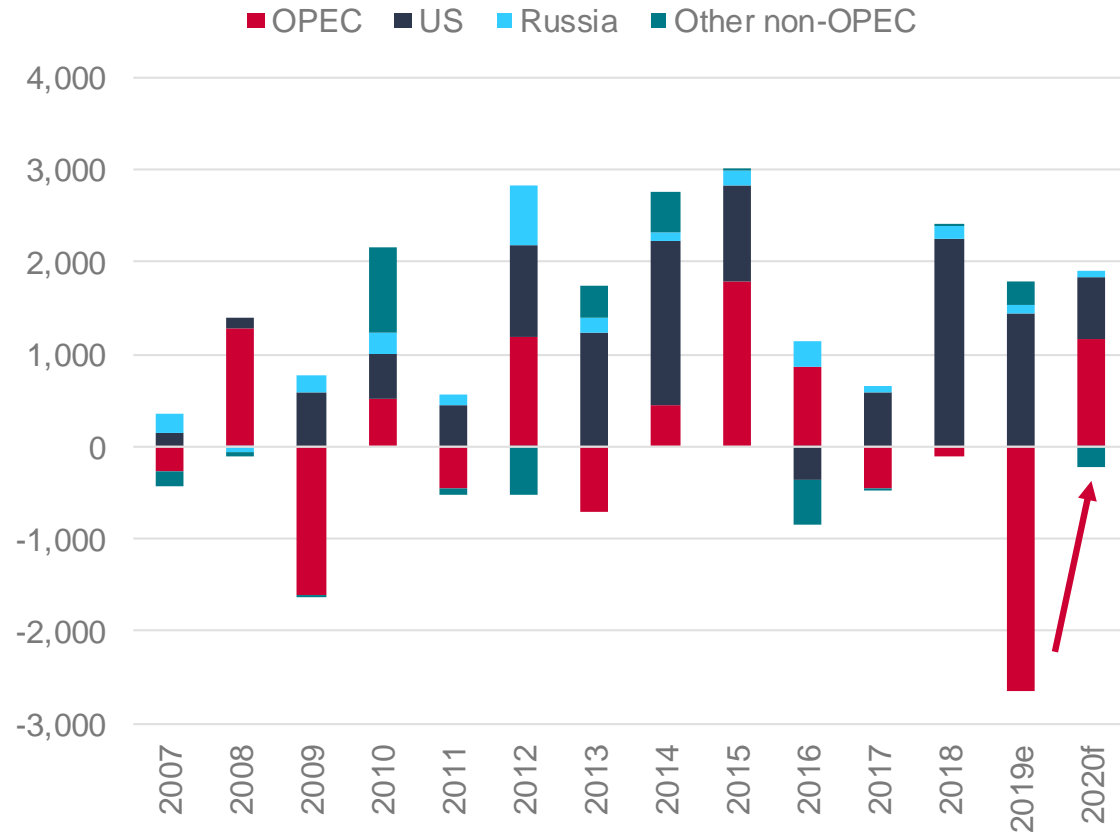
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Low Oil Price To  
Drag On Gulf  
Non-Oil Activity

# OPEC+ Collapse Spurring Dramatic Oil Price Drop...

## Supply-Side In For Big Adjustment As OPEC+ Unravels

Annual Average Change In Crude, Condensate & NGL Production, '000b/d



e/f = Fitch Solutions estimate/forecast. Source: EIA, JODI, OPEC, national sources, Fitch Solutions

## Brent Crude Prices Touching Multi-Decade Lows

Price Of Brent Crude, USD/bbl

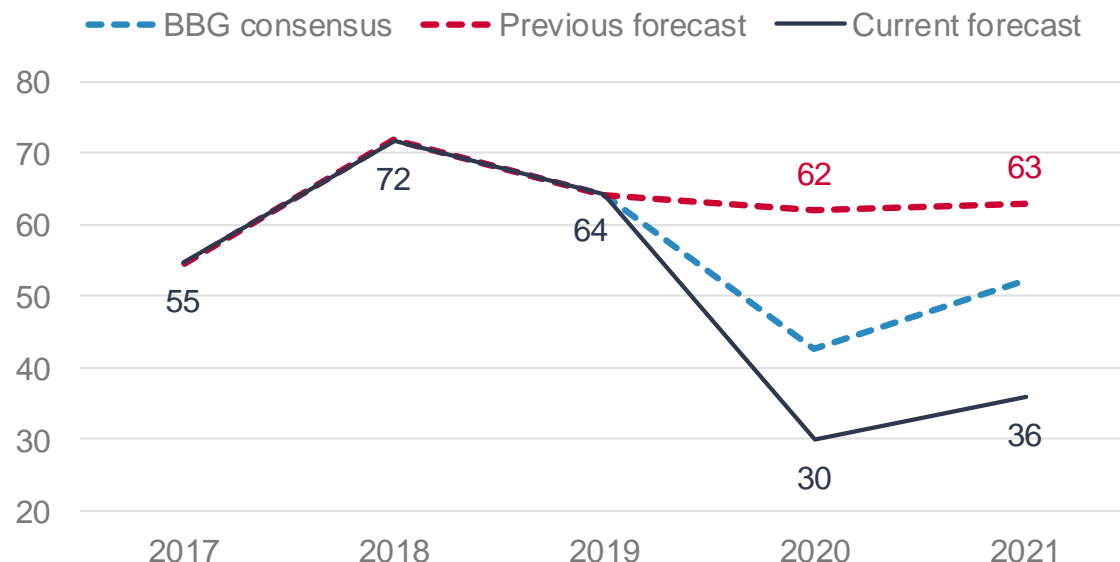


Source: Bloomberg, Fitch Solutions

# ...Pointing To Fiscal Pressures, Spending Cuts Across The Gulf

## Oil Price (And GCC Revenue) Outlook Weakening

Price Of Brent Crude, USD/bbl – Previous Vs Current Forecasts & Consensus

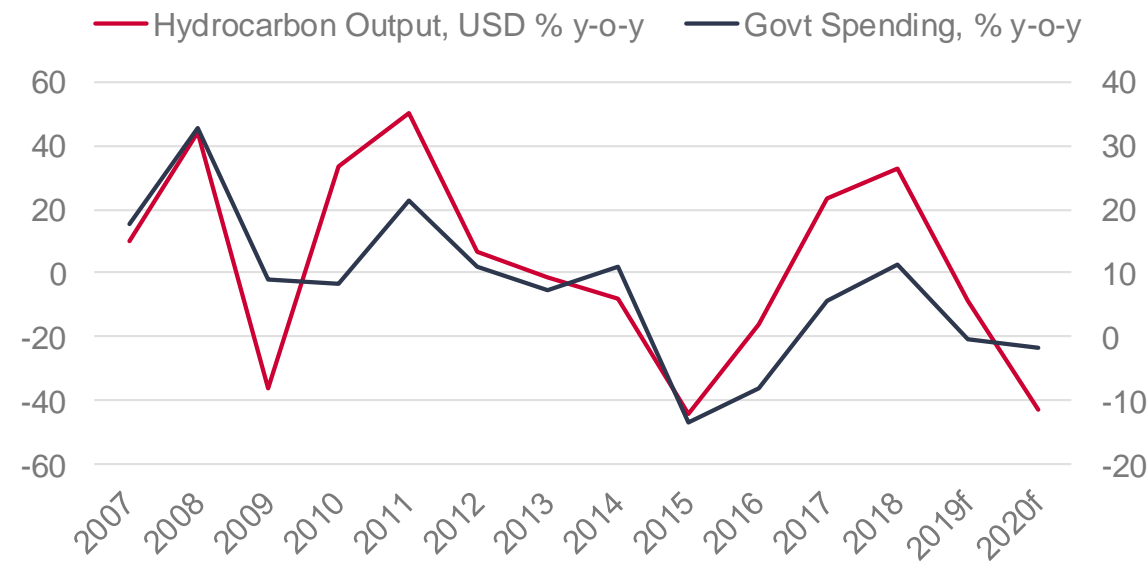


- Our baseline oil price forecasts have seen major downward revisions on the back of Covid-19-related demand destruction and the collapse of OPEC+.
- A new supply restriction arrangement between Saudi Arabia and Russia (potentially involving US shale) cannot be ruled out...

Note: Forecasts = Fitch Solutions forecasts. Source: EIA, Bloomberg, Fitch Solutions

## GCC Governments Thus Likely To Lower Spending

GCC – Hydrocarbon Output Growth (RHS) & Fiscal Spending Growth (LHS)



- ... but the gap between Riyadh and Moscow's positions is still wide, and the US faces domestic opposition to coordinated cuts.
- Lower oil prices will sharply reduce Gulf states' fiscal revenues, likely prompting a return to austerity measures that more than offset the positive impact of near-term stimulus on non-oil growth.

e/f = Fitch Solutions estimate/forecast. Source: UN, national sources, Fitch Solutions



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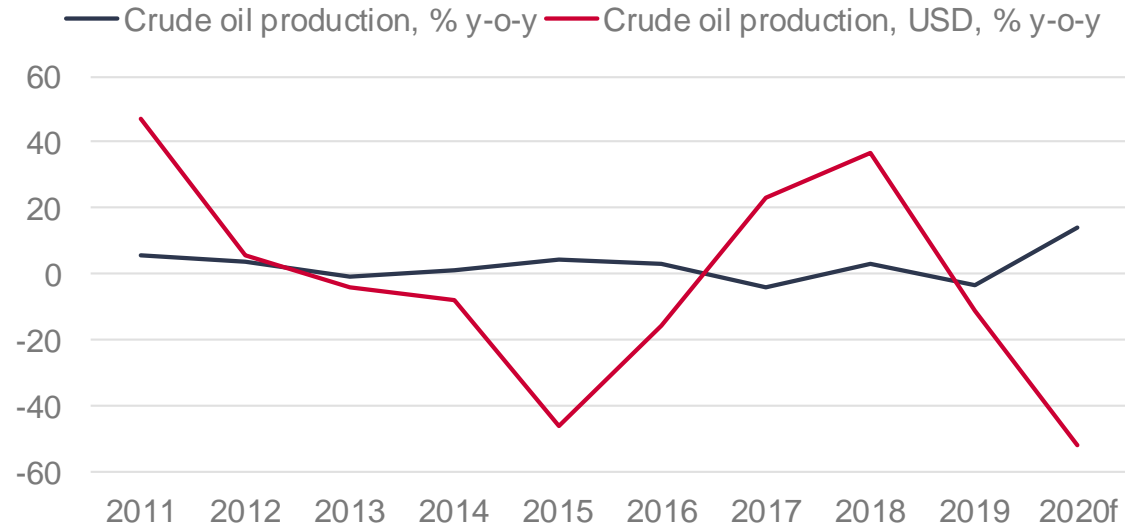
Major Market  
Deep-Dives:  
GCC, Egypt,  
Iran



# Saudi Arabia: Oil Output Up, Revenues Down

## Oil Output Volume To Rise, But Revenues Will Plummet

Saudi Arabia – Crude Oil Production Growth In Volume & Value Terms

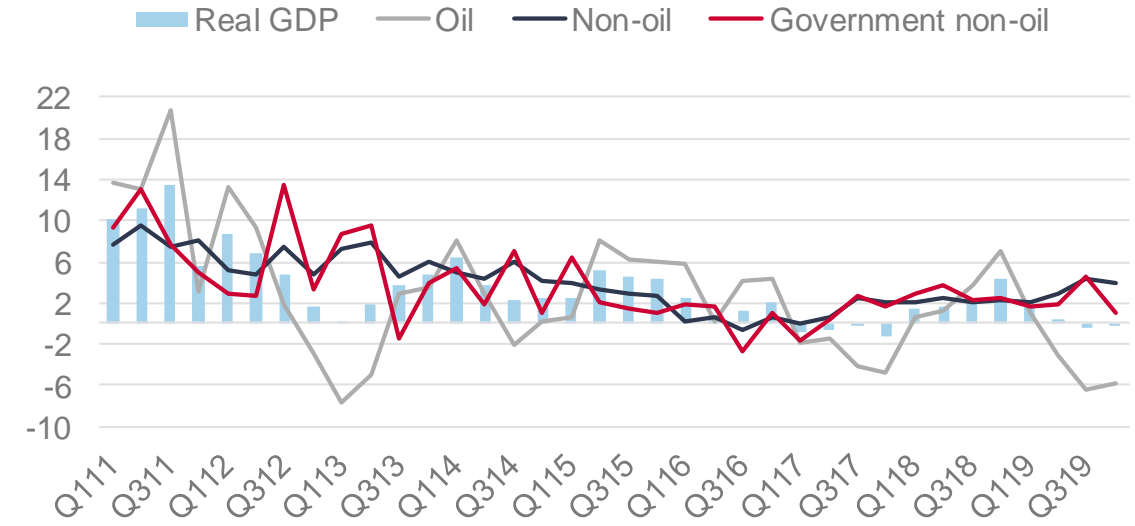


- Saudi Arabia looks set to drastically raise oil production and exports, boosting headline activity.
- That said, the resultant drop in oil prices will weigh heavily on the kingdom's fiscal revenues, suggesting significant spending cuts ahead.

f = Fitch Solutions forecast. Source: EIA, Aramco, Fitch Solutions

## Lower Gov't Spending Implies Weaker Non-Oil Growth

Saudi Arabia – Real GDP Growth By Sector, % chg y-o-y



- The government still plays an outsize role in driving Saudi Arabia's non-oil development and projects...
- ... which, coupled with severe Covid-19-related disruptions to activity, suggests overall non-oil growth will head back into negative territory this year.

Source: GaStat, Fitch Solutions



# Saudi Arabia: Stimulus Positive, But Non-Oil Activity Still To Struggle

## Stimulus Measures To Protect SMEs, Limit Job Losses...

Saudi Arabia – Details Of Recently Announced Stimulus Measures

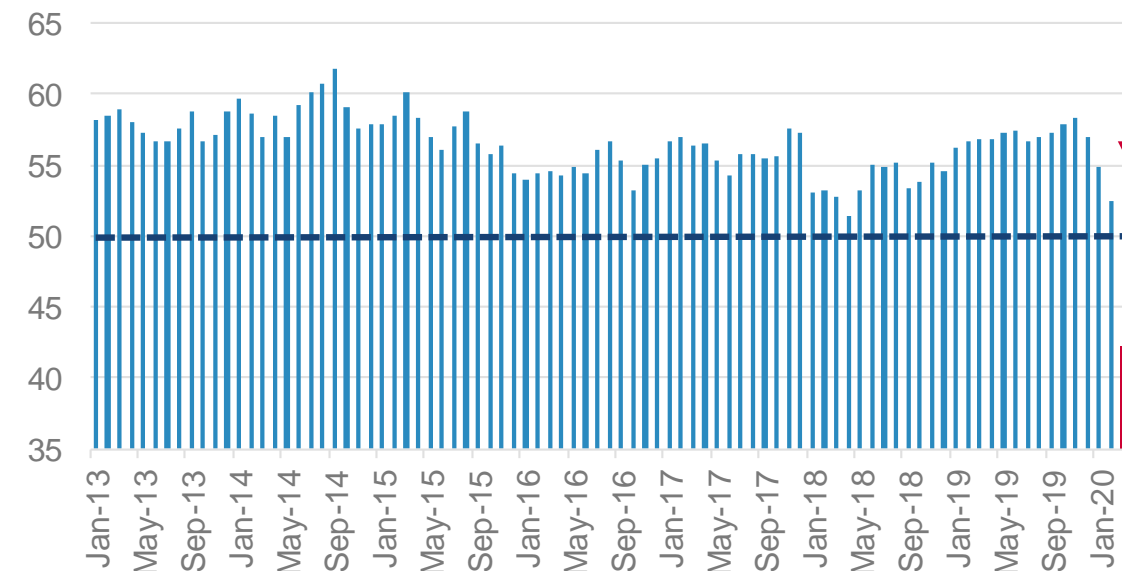
| Date     | Unit         | Details Of Announced Measure  |
|----------|--------------|---|
| March 20 | SAMA         | SAR50bn (USD13.3bn) package to prop up local banks, financial institutions and SMEs (who will receive support for obtaining near-term financing and delaying loan repayment).     |
| March 20 | MoF          | SAR70bn (USD18.7bn) worth of near-term exemptions from, or postponed payment of, selected expat/visa/government service fees and taxes (including VAT, excise, income and zakat). |
| April 6  | MoF/<br>GOSI | Support for private sector salary payments: private companies affected by Covid-19 can receive 60% of Saudi workers' salaries for 3 months (up to a limit of SAR9,000 per).       |

- Recently announced stimulus measures can, if effectively implemented, protect SMEs and limit private sector job losses.
- At the same time, the government is likely to pare back funding for non-essential projects, causing a marked uptick in project delays and cancellations.

Source: SAMA, Saudi MoF, Fitch Solutions

## ...But Non-Oil Sector Will Still Suffer From Demand Drop

Saudi Arabia – Purchasing Managers' Index (PMI)



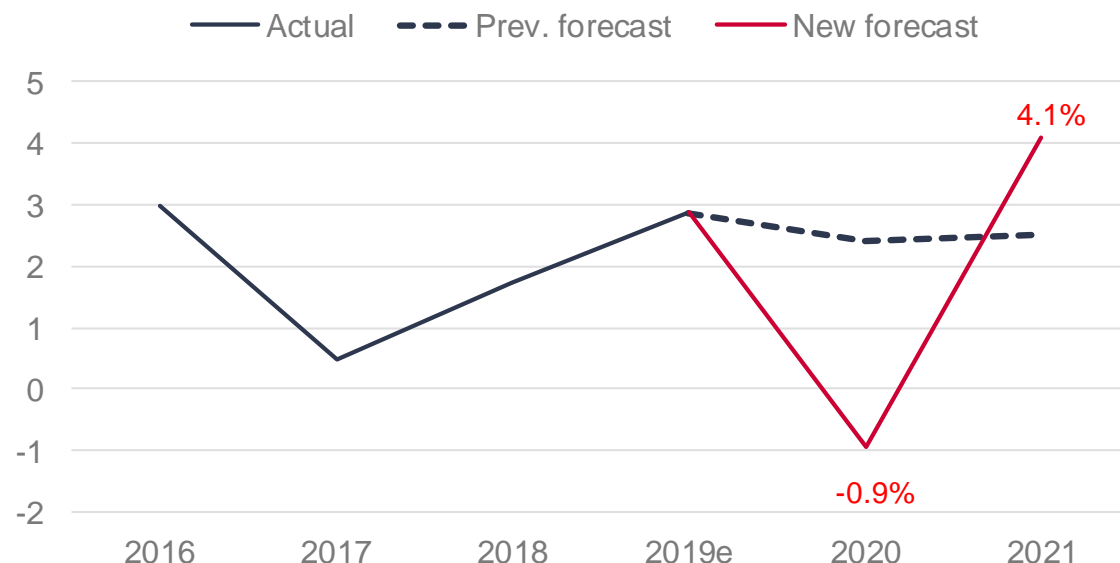
- This, coupled with drastically weakened external demand, will weigh on the non-oil private sector as a whole.
- Overall, we now forecast Saudi real GDP growth to come in at 0.8% this year, compared to 1.7% previously.

Note: 50-level separates expansion from contraction. Source: Emirates NBD, Fitch Solutions

# UAE: Hit Hard From Several Angles

## 2020 Looking Tough, But Sharp Rebound Thereafter

UAE – Real GDP Growth, %

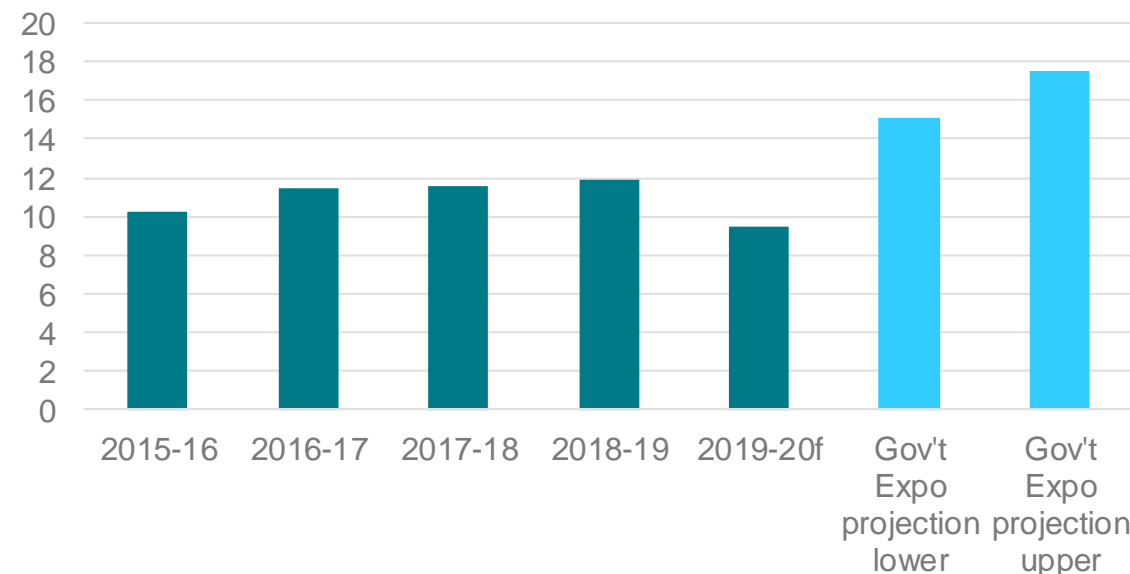


- The UAE will fall into recession: Local demand is shut in, global trade is slumping, and oil prices are plummeting.
- The UAE marks by far the deepest downward revision we have made for the GCC countries this quarter.

e = Central bank estimate. Source: FCSA, Fitch Solutions

## Expo Delay Hurts Especially

Dubai – Tourist Arrivals October-April



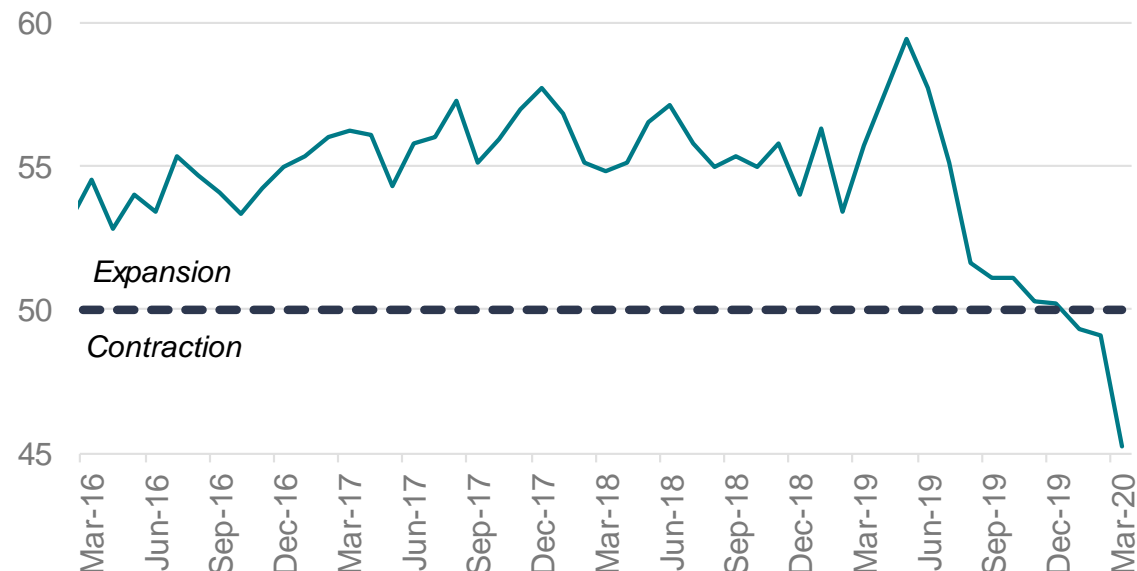
- A one-year delay to Expo 2020 has been requested by the authorities and is all but assured.
- This will hurt the economy – the event was strongly underpinning our 2020 forecast.

f = Fitch Solutions forecast. Source: Dubai Tourism, Fitch Solutions

# UAE: More Stimulus May Be Needed

## Non-Oil Activity Was Already Weak Before Crisis

UAE – Purchasing Managers' Index

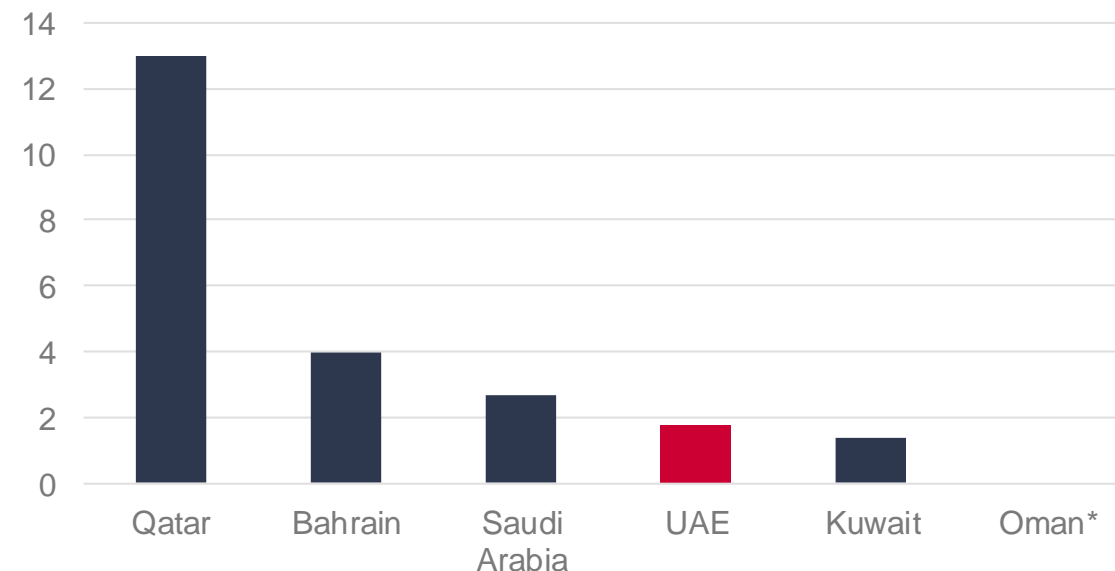


- The UAE also faces the Covid-19 crisis from a weak starting position: its non-oil sector was already struggling in months prior.
- The government has deployed fiscal stimulus since 2018 but it has not really boosted private sector activity thus far.

Source: Bloomberg, Fitch Solutions

## Fiscal Stimulus Looking Small Next To Rest Of GCC

GCC – Fiscal Stimulus Measures Announced In Response To Covid-19



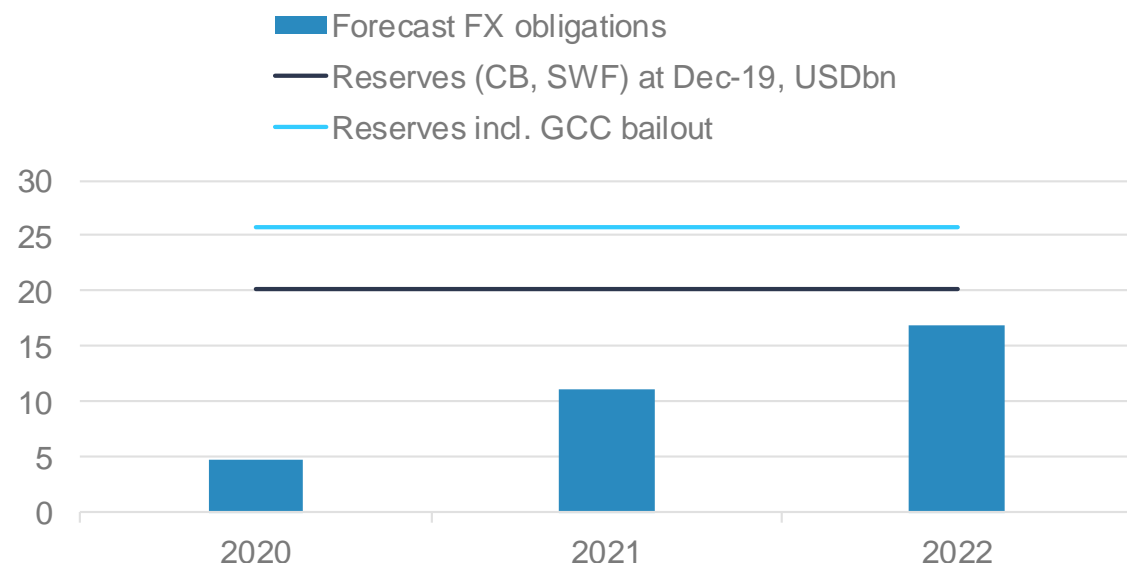
- Authorities are doing some fresh fiscal stimulus now, but this is relatively modest compared to other GCC countries (and DMs).
- The UAE has plenty of fiscal space, so more stimulus could well be in the offing later this year.

Note: \*Doing some tax and rent relief, but IMF does not provide an estimated value. Source: IMF, Fitch Solutions

# Bahrain, Oman: Looking Shaky But Will Muddle Through

## Bahrain Can Lean On Its Neighbours

Oman – Total Reserves & Forecast FX Obligations

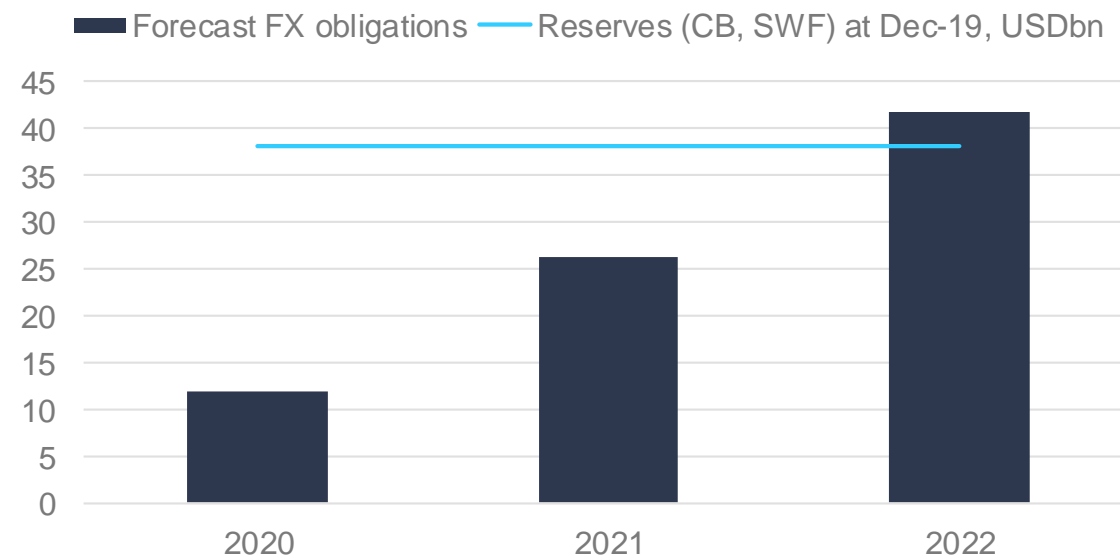


- Bahrain was a real risk case back in 2018 but GCC support now keeps it insulated.
- Serious fiscal reform also anchors investor confidence.
- Peg looks very secure for the next few years.

Source: Bloomberg, CBB, Fitch Solutions

## Oman Up Against The Wall

Oman – Total Reserves & Forecast FX Obligations



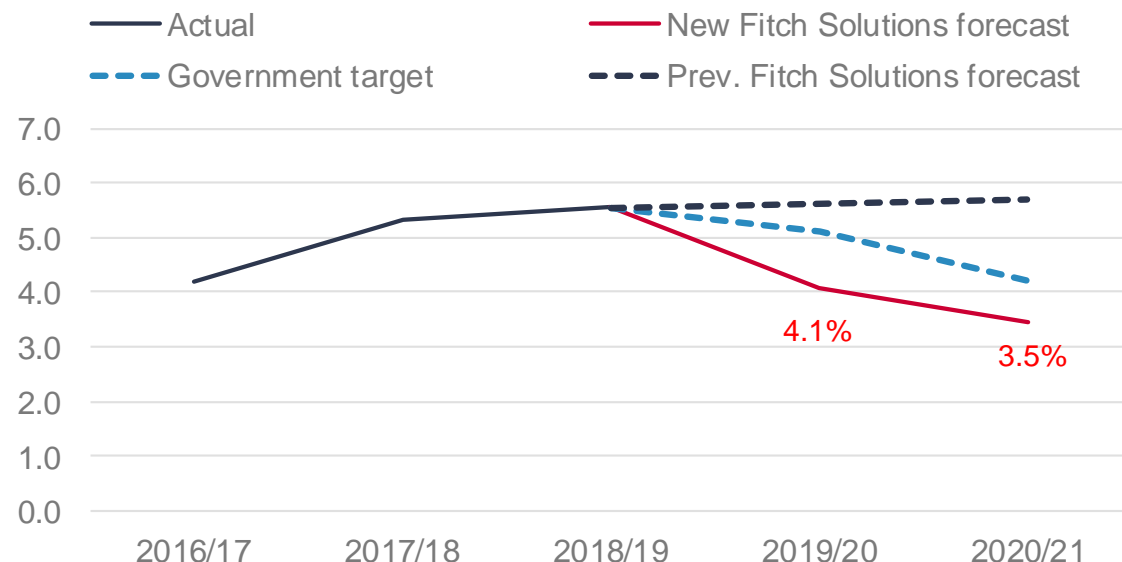
- Oman is the riskier case – more reserves relative to Bahrain, but greater FX obligations and no guaranteed bilateral/multilateral fall back.
- Our forecasts suggest reserves run out around 2022 without any eurobonds or privatisation – but both are very likely.

Source: Bloomberg, July 2019 eurobond prospectus, NCSI, CBO, Fitch Solutions

# Egypt: Growth Forecasts Slashed, Local Spread Still Uncertain

## Still Positive, If Lower, Growth

Egypt – Real GDP Growth, %

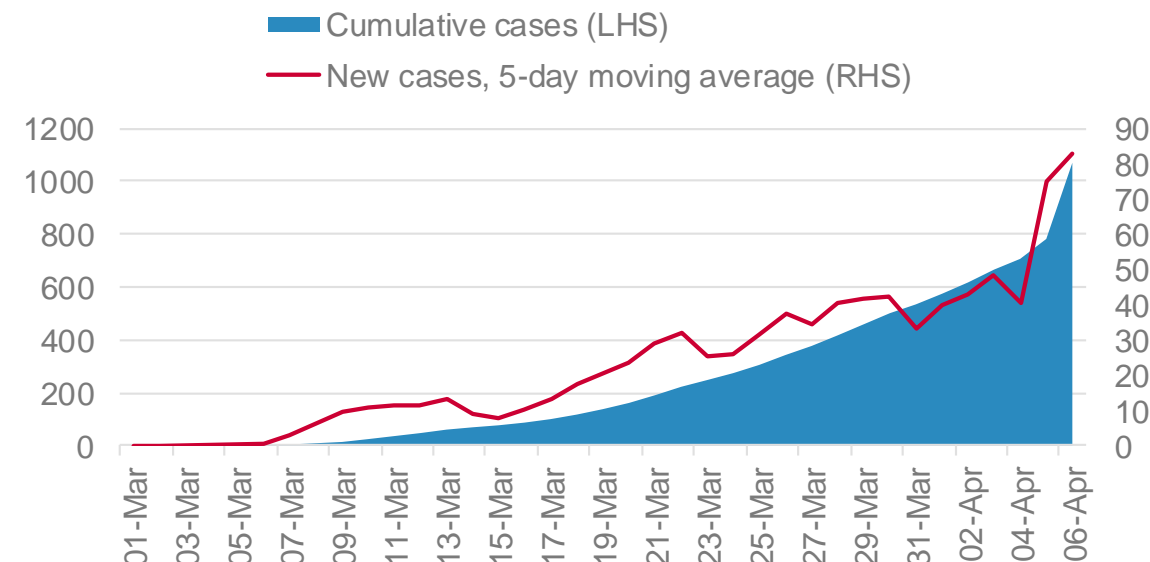


- Egypt has bigger 'growth buffer' than most MENA countries.
- No full lockdown yet – only night-time curfews.
- Impact also spread out over two fiscal years.

Government targets as of March 30. Source: CBE, Media reports (targets), Fitch Solutions

## Local Spread Showing No Signs Of Peaking

Egypt – Confirmed Covid-19 Cases



- The virus shows no sign of slowing down in Egypt, though, and the downside risk of a full lockdown is very real.
- Economy will still suffer from weaker tourism, remittances, Suez receipts and non-oil exports.

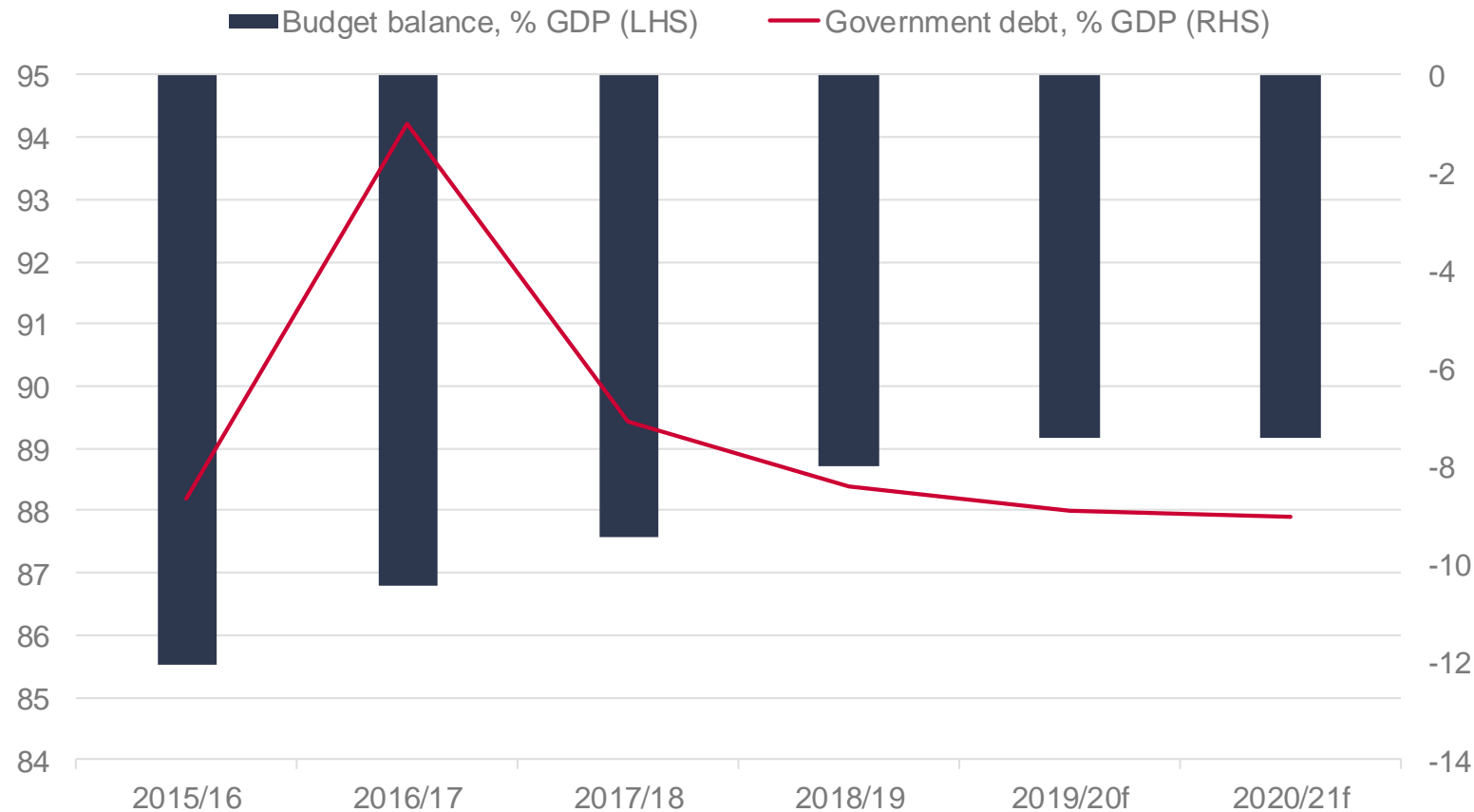
Source: European Centre for Disease Prevention and Control, Fitch Solutions



# Egypt: Fiscal Consolidation Or Fiscal Stimulus?

## Covid-19 To Slow Fiscal Reform Momentum

Egypt – Budget Balance & Government Debt, % GDP



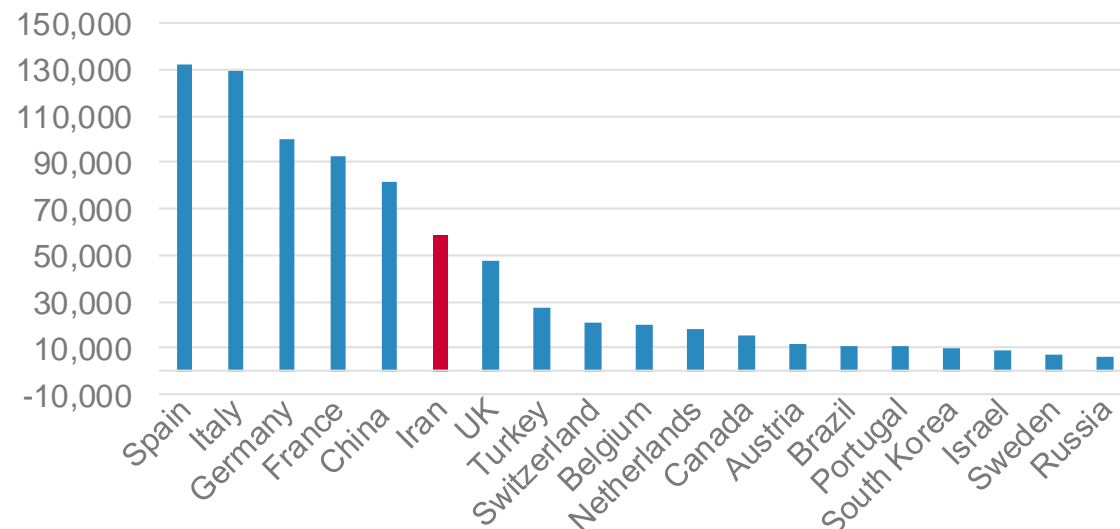
f = Fitch Solutions forecast. Source: CBE, Fitch Solutions

- The government is pushing out fiscal stimulus of ~2.0% of GDP in response to Covid-19.
- About half will go to the tourism industry; in addition - energy rate cuts, pension hikes, and more subsidies to exporters.
- The government cannot afford to subsidise workers on furlough at any serious scale, though.
- Egypt's fiscal consolidation track record is potentially under threat, and debt load will probably not fall by much in the short term.

# Iran: Covid-19 To Delay Economic Stabilisation

## Iran Among The Worst Hit By Virus Spread Globally

Global Ex US - Confirmed Covid-19 Cases By Country (Top 20), As Of April 6

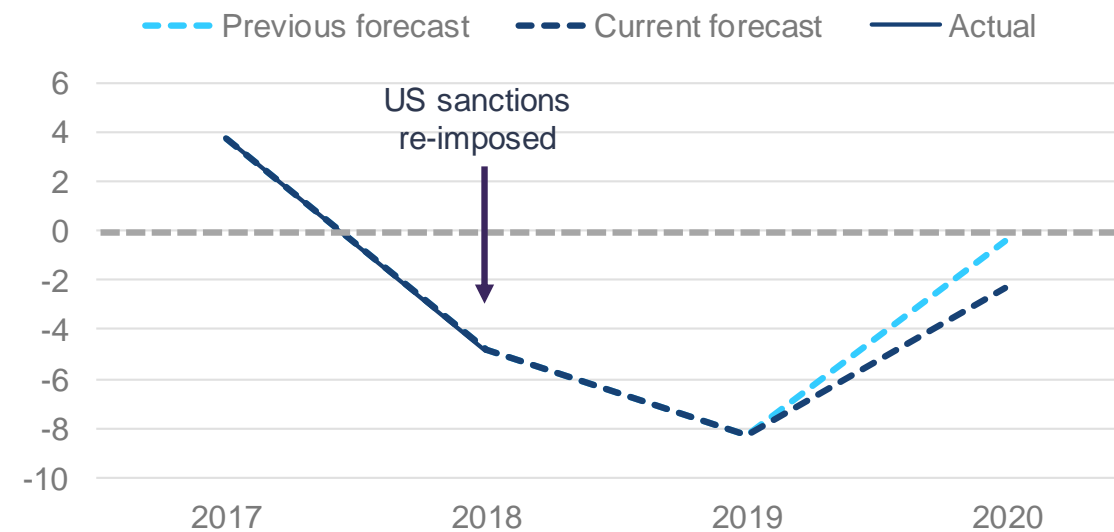


- Iran suffers from one of the worst localised outbreaks of Covid-19 globally.
- While no official lockdown is in place, we expect large-scale disruptions to activity from inter-city travel bans, event cancellations and border closures.

Source: WHO, Fitch Solutions

## Economy Now Set To Record Third Year Of Recession

Iran – Real GDP Growth, % y-o-y (Previous Vs Current Forecast)



- Authorities are not in a strong position to support the economy via fiscal or monetary stimulus, especially not with lower oil prices set to further reduce hard currency inflows.
- As such, we now expect a delay in the economy's post-US sanctions shock stabilisation, forecasting -2.2% growth this year.

Note: forecasts by Fitch Solutions. Source: UN, CBI, Fitch Solutions



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# Coronavirus Research

Access our latest insights into the  
macroeconomic impact of Covid-19

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6

Q&A

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