



Quarterly MENA Economic Outlook

Assessing Impacts Of Covid-19 & The Oil Price War

April 7 2020

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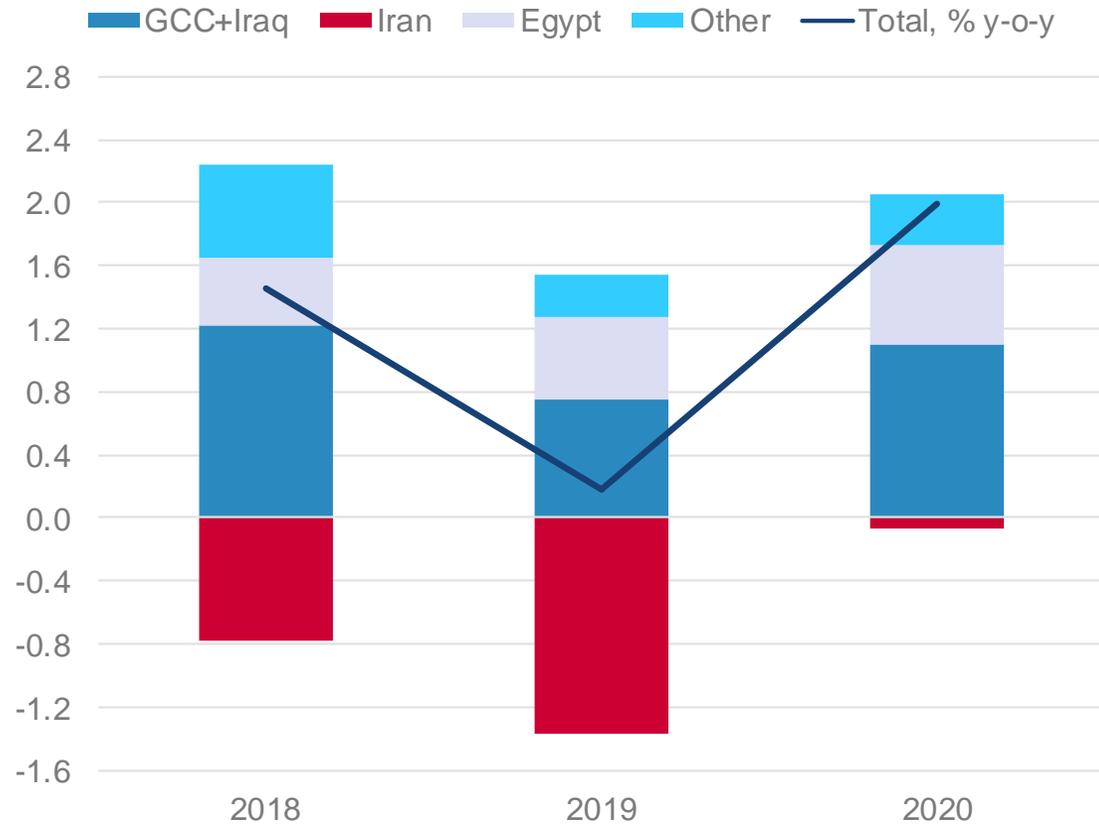
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MENA Growth Outlook Deteriorating

MENA: Regional Growth Outlook Deteriorating

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

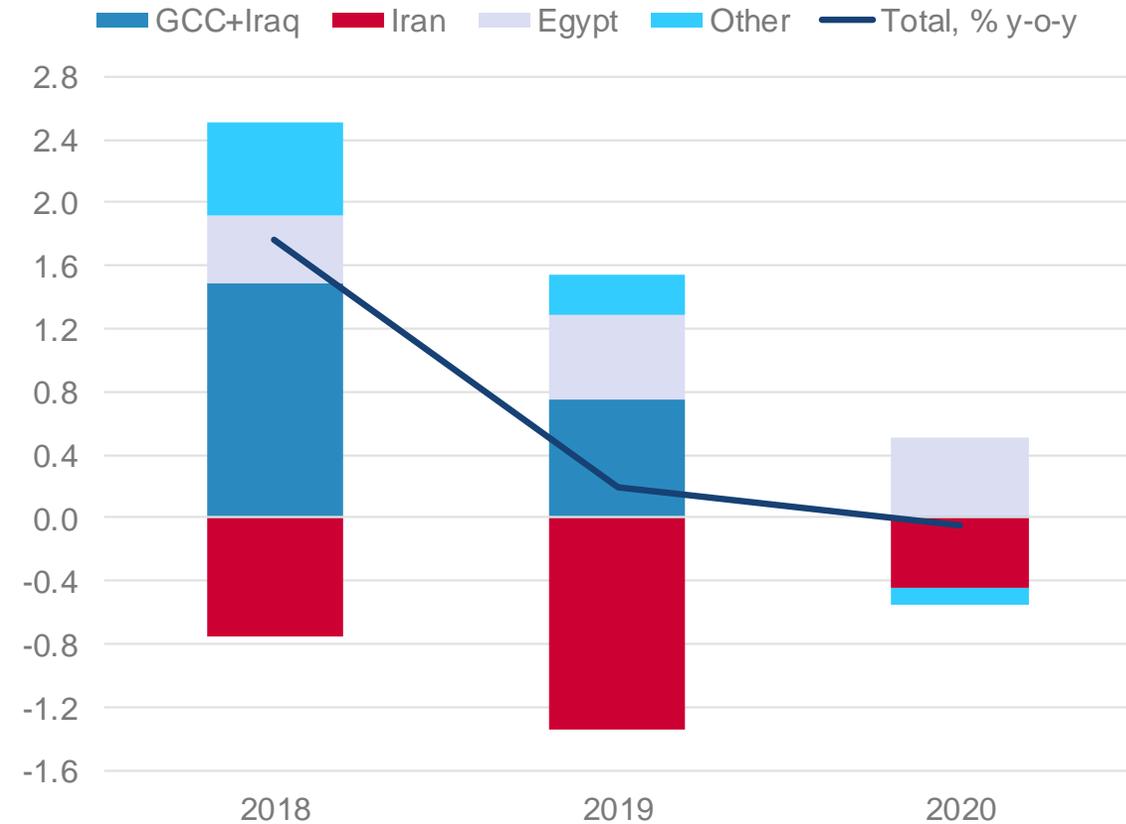
MENA – PP Contr. To Real GDP Growth (January 2020 Forecasts)



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
MENA Region	0.2	2.0	0.0	-2.0
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

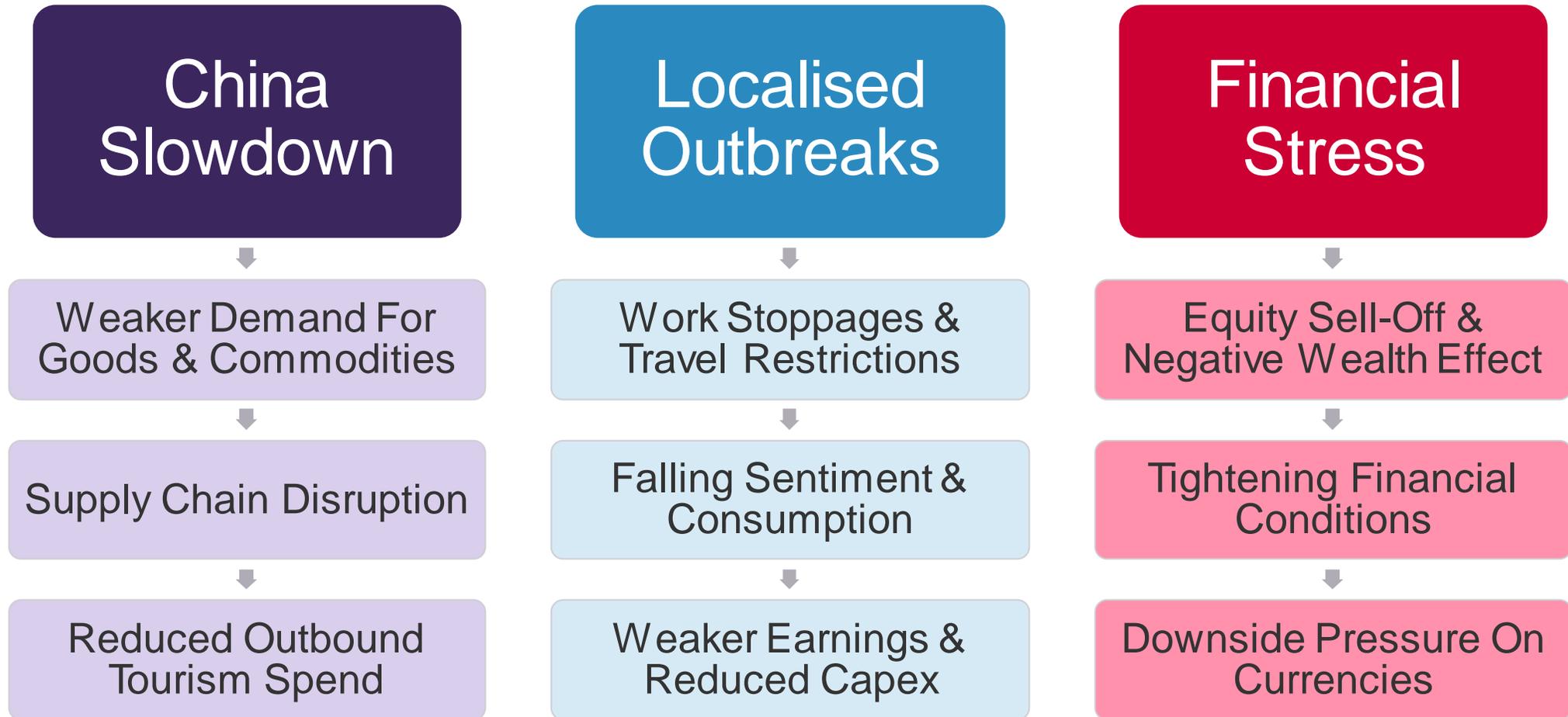
- All Fitch Solutions growth forecasts for MENA have been revised down at country-level for 2020...
- ...bringing our weighted average real GDP growth forecast for the region to 0.0% this year (from 2.0% previously).
- The Covid-19 outbreak will severely disrupt economic activity and trade across MENA, 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.



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Covid-19 Hitting Global Economy Hard

Global: Covid-19 Hitting Growth Via Three Main Channels

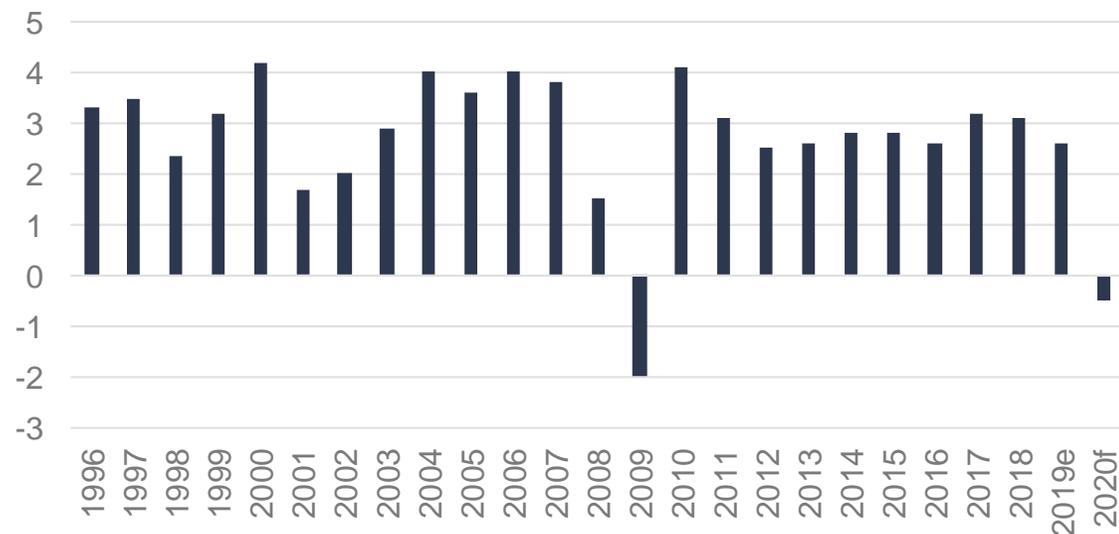


Source: Fitch Solutions

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
Baseline Scenario	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.
Downside Scenario 1	-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.
Downside Scenario 2	-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.
Downside Scenario 3	-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



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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

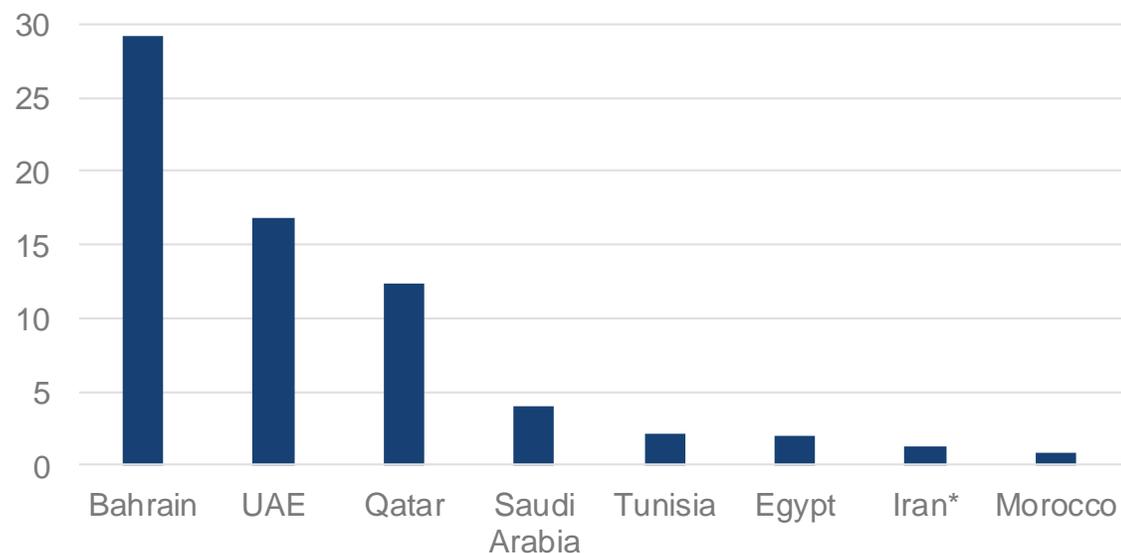
* Excludes territories where number of reported cases = less than 100. Source: WHO, FitchSolutions

- 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

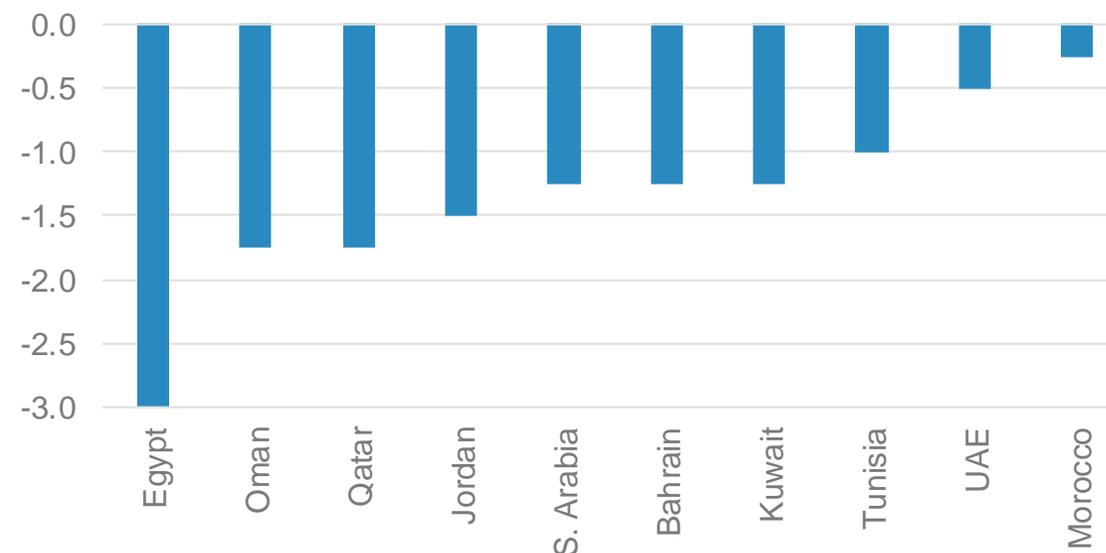


- Most governments in MENA have now launched some form of stimulus to support their economy, with the GCC leading the way.
- That said, the size and, perhaps more importantly, the composition of such stimulus differ across the region, reflecting the governments' varying degrees of policy flexibility.

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



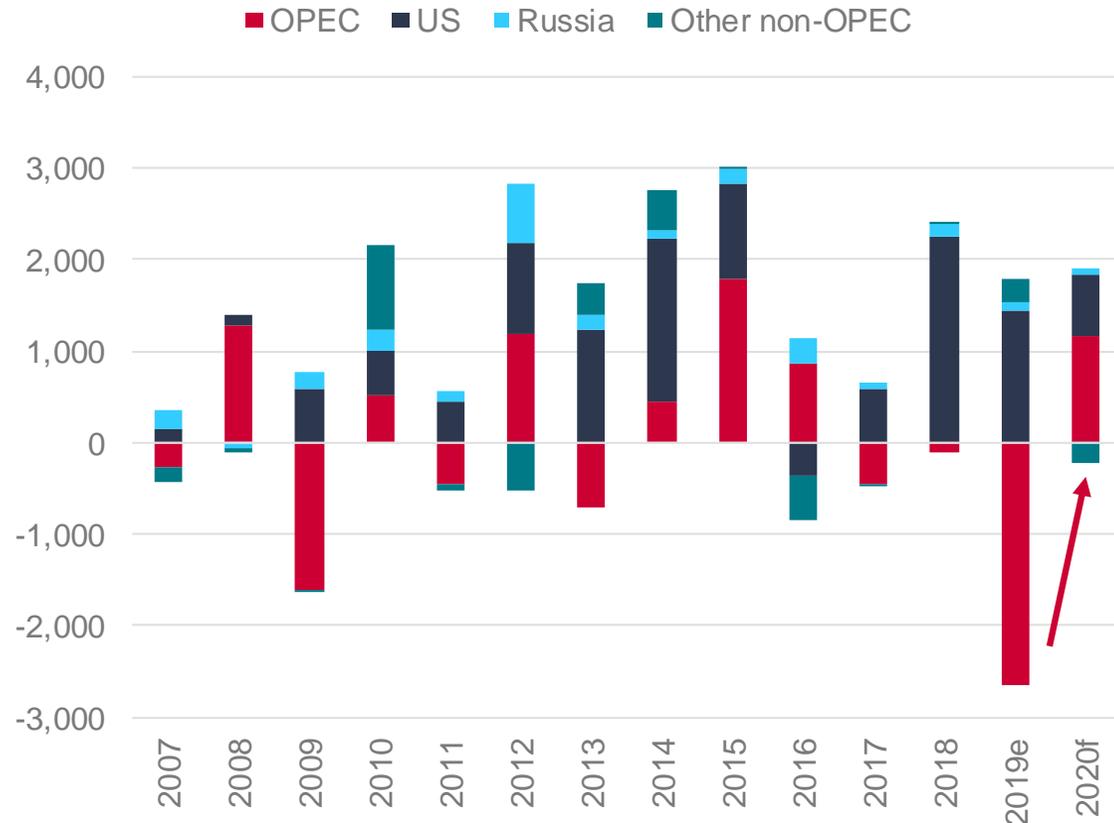
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Low Oil Price To
Drag On Gulf
Non-Oil Activity

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

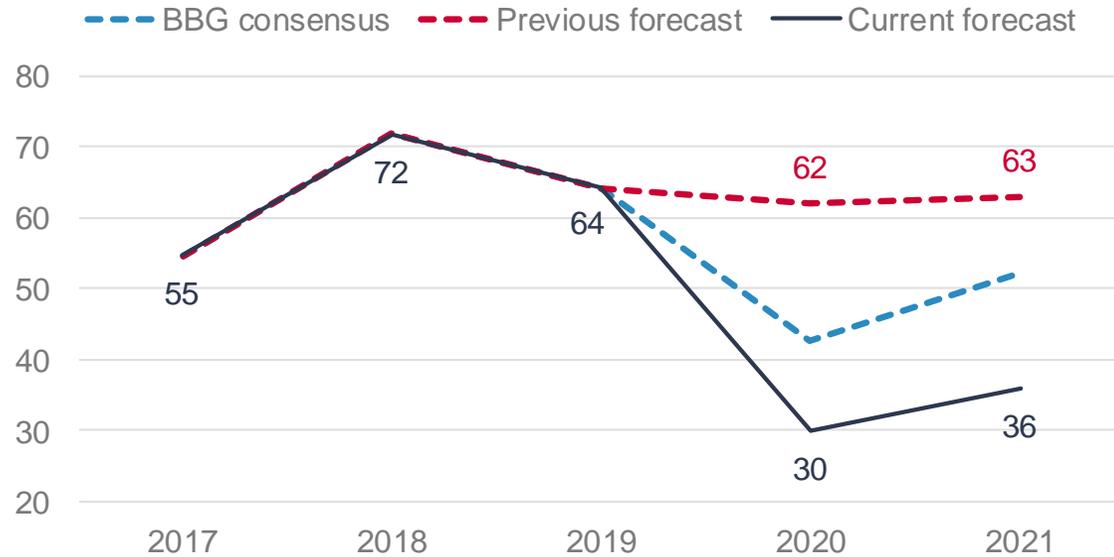


Source: Bloomberg, Fitch Solutions

...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

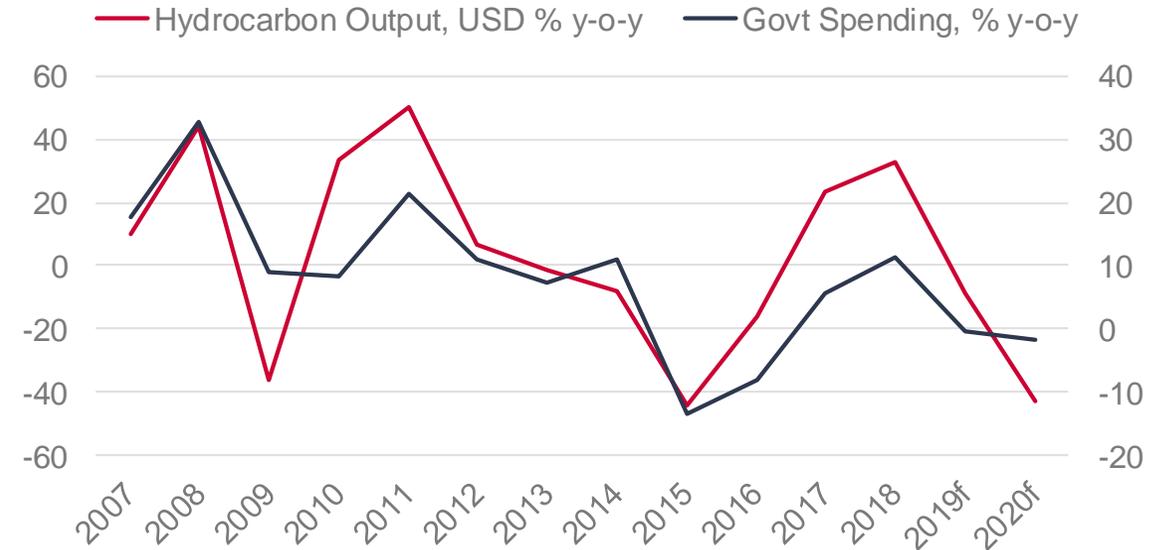


- Our baseline oil price forecasts have seen major downward revisions on the back of Covid-19-related demand destruction and the collapse of OPEC+.
- A new supply restriction arrangement between Saudi Arabia and Russia (potentially involving US shale) cannot be ruled out...

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



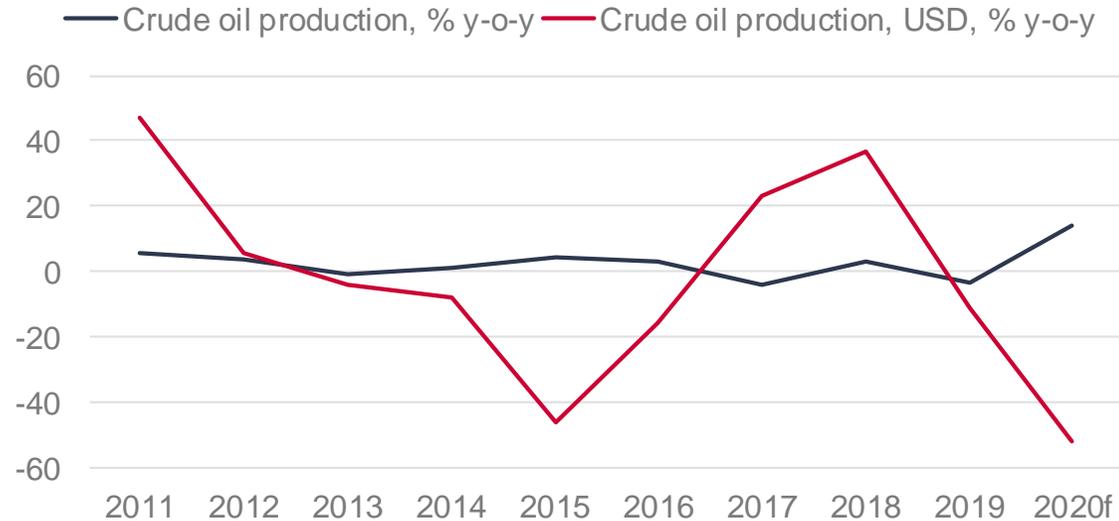
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Major Market Deep-Dives: GCC, Egypt, Iran

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

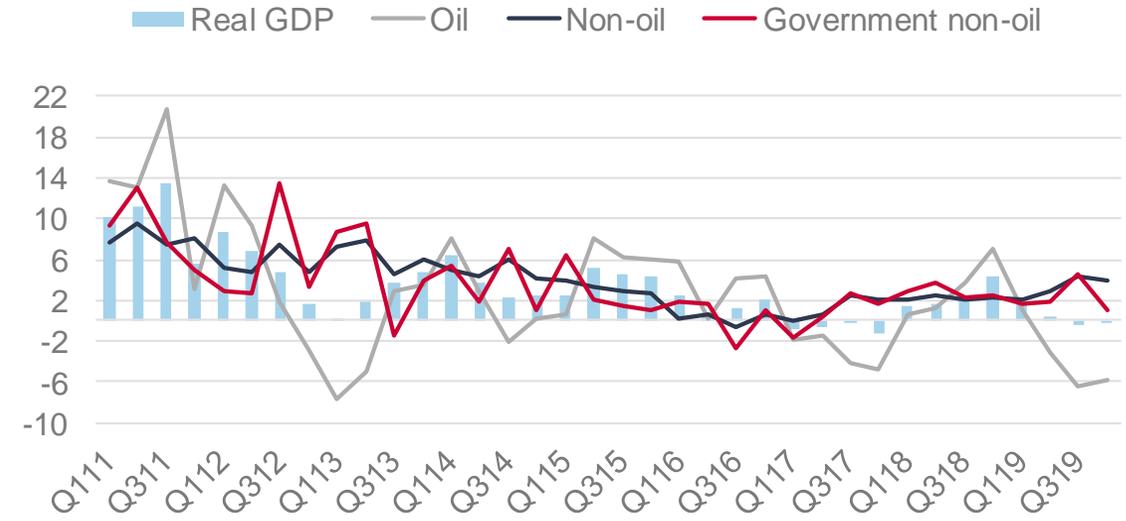


- Saudi Arabia looks set to drastically raise oil production and exports, boosting headline activity.
- That said, the resultant drop in oil prices will weigh heavily on the kingdom's fiscal revenues, suggesting significant spending cuts ahead.

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 outsized 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

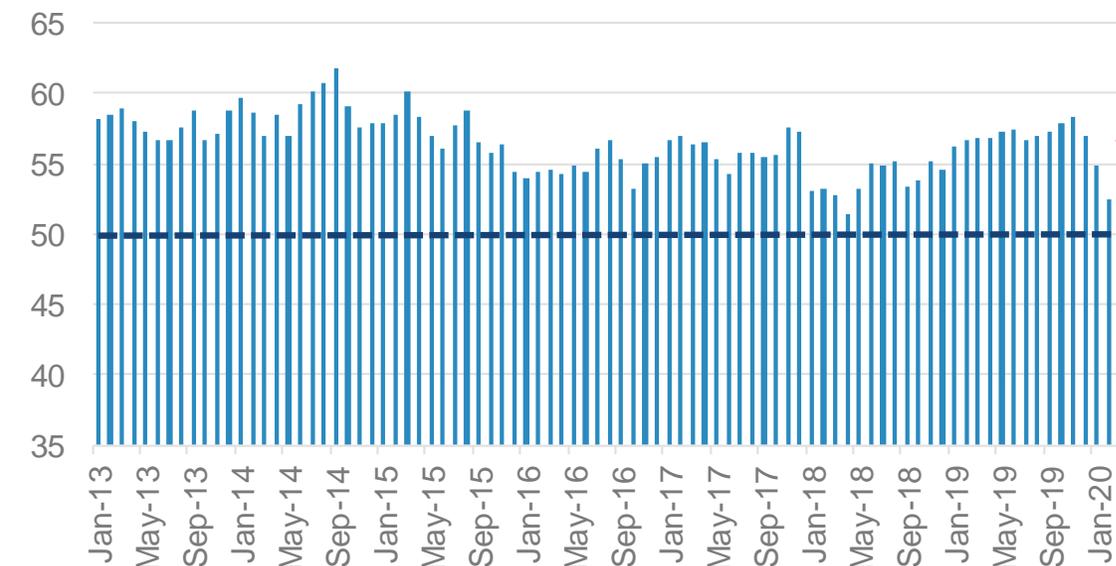
Date	Unit	Details Of Announced Measure
March 20	SAMA	SAR50bn (USD13.3bn) package to prop up local banks, financial institutions and SMEs (who will receive support for obtaining near-term financing and delaying loan repayment).
March 20	MoF	SAR70bn (USD18.7bn) worth of near-term exemptions from, or postponed payment of, selected expat/visa/government service fees and taxes (including VAT, excise, income and zakat).
April 6	MoF/ 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)



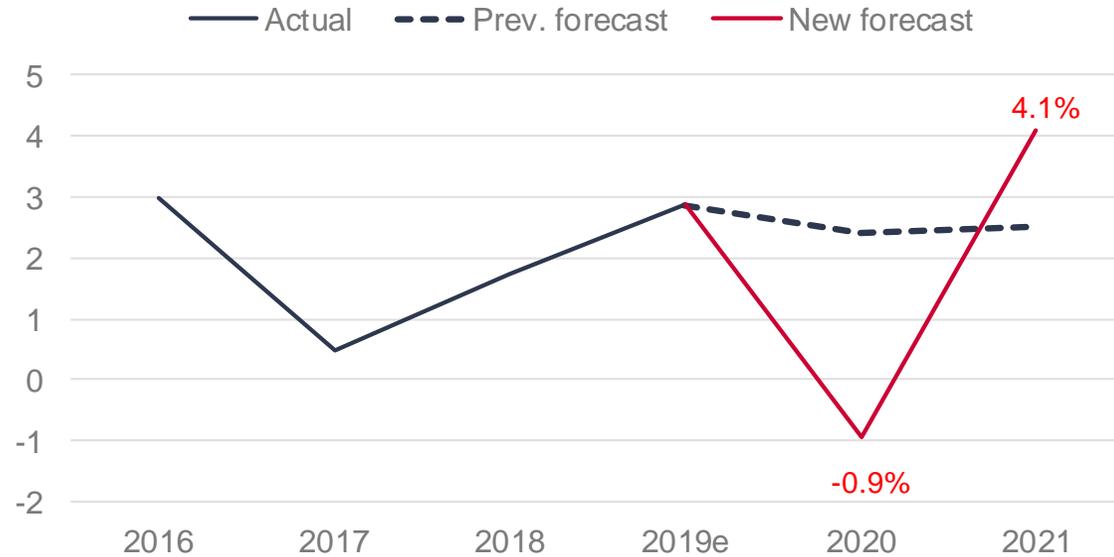
- This, coupled with drastically weakened external demand, will weigh on the non-oil private sector as a whole.
- Overall, we now forecast Saudi real GDP growth to come in at 0.8% this year, compared to 1.7% previously.

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, %

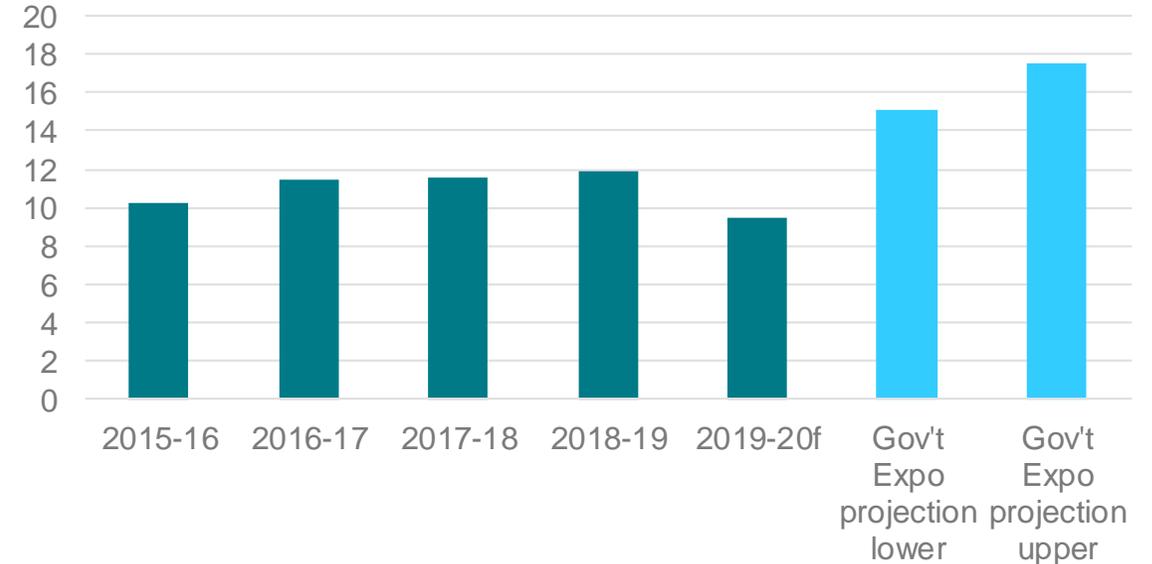


- The UAE will fall into recession: Local demand is shut in, global trade is slumping, and oil prices are plummeting.
- The UAE marks by far the deepest downward revision we have made for the GCC countries this quarter.

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

Expo Delay Hurts Especially

Dubai – Tourist Arrivals October-April



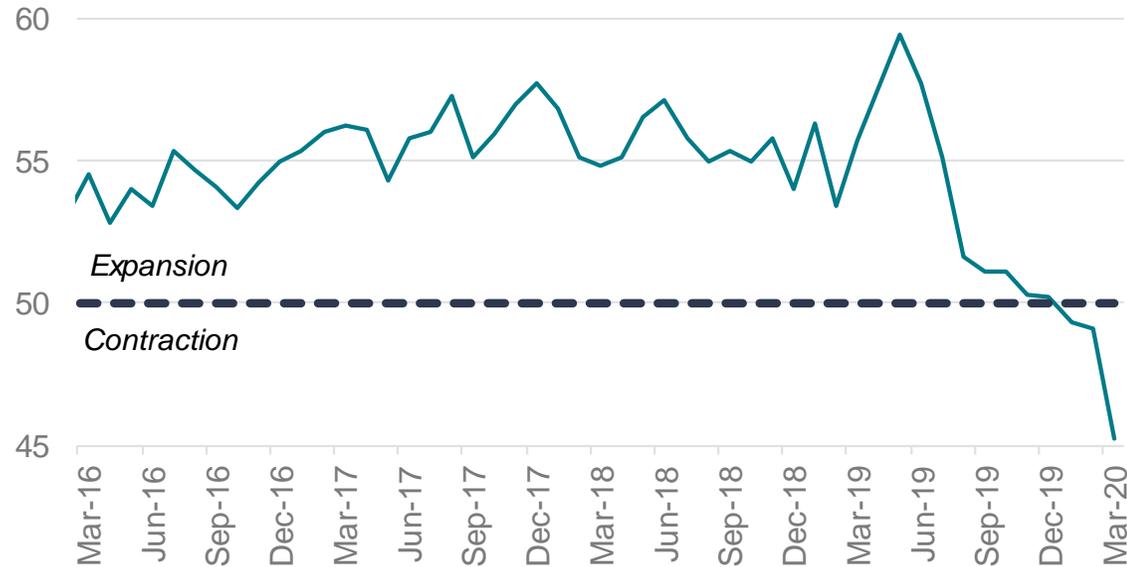
- A one-year delay to Expo 2020 has been requested by the authorities and is all but assured.
- This will hurt the economy – the event was strongly underpinning our 2020 forecast.

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

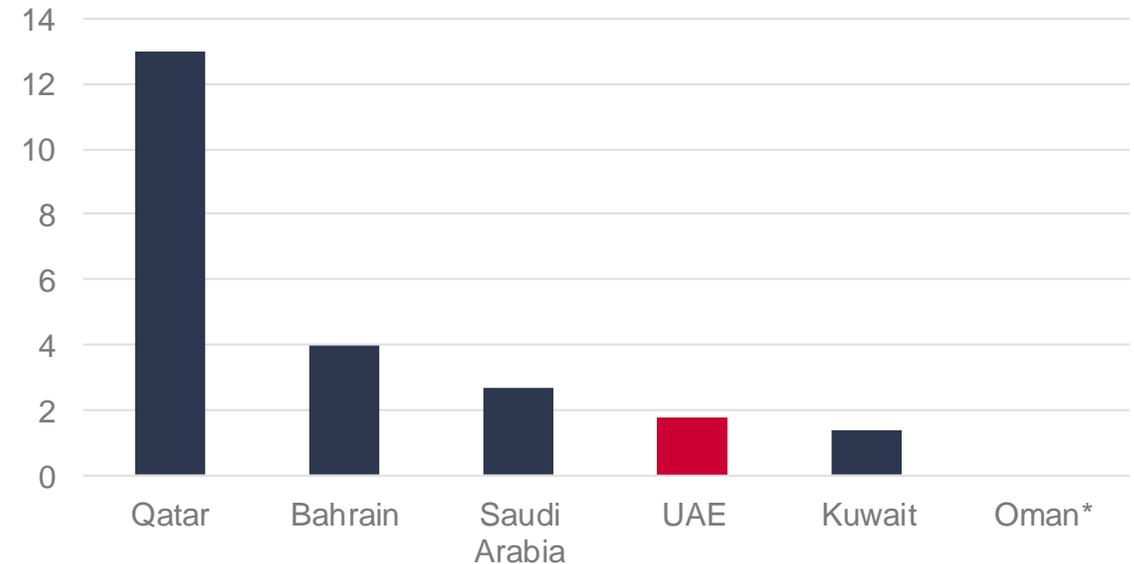


- The UAE also faces the Covid-19 crisis from a weak starting position: its non-oil sector was already struggling in months prior.
- The government has deployed fiscal stimulus since 2018 but it has not really boosted private sector activity thus far.

Source: Bloomberg, Fitch Solutions

Fiscal Stimulus Looking Small Next To Rest Of GCC

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



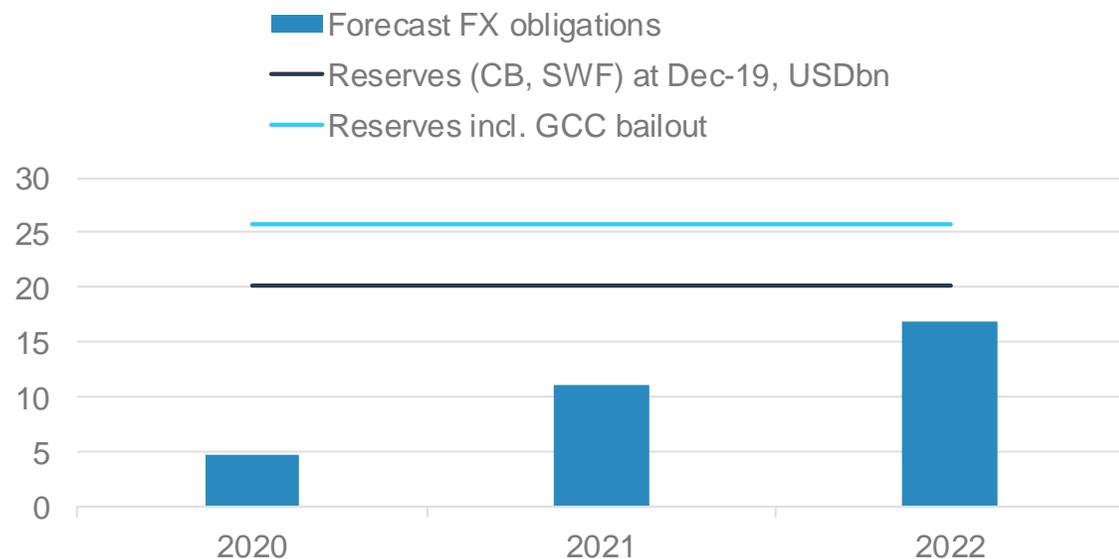
- Authorities are doing some fresh fiscal stimulus now, but this is relatively modest compared to other GCC countries (and DMs).
- The UAE has plenty of fiscal space, so more stimulus could well be in the offing later this year.

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



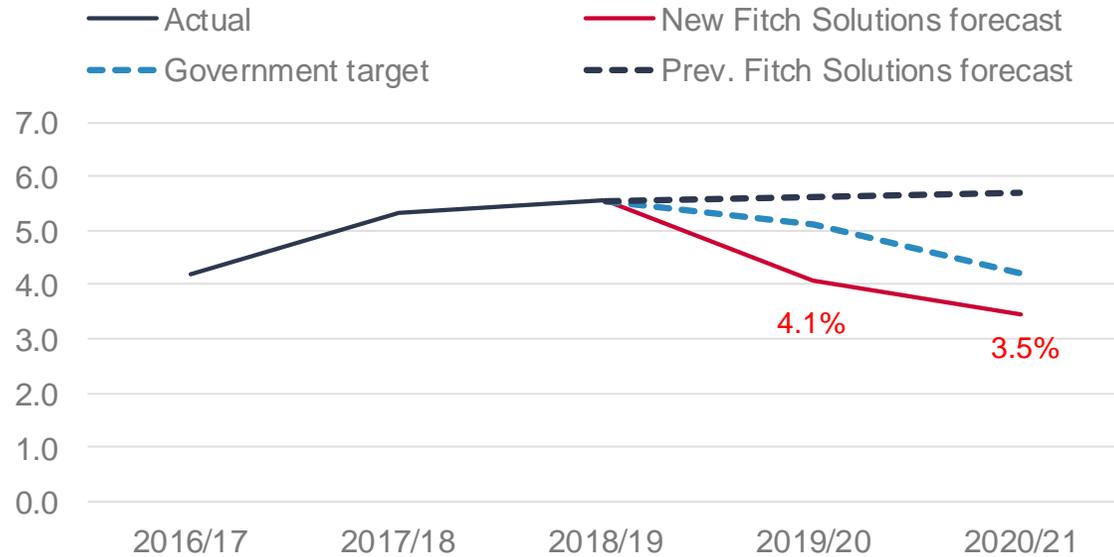
- Oman is the riskier case – more reserves relative to Bahrain, but greater FX obligations and no guaranteed bilateral/multilateral fall back.
- Our forecasts suggest reserves run out around 2022 without any eurobonds or privatisation – but both are very likely.

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, %

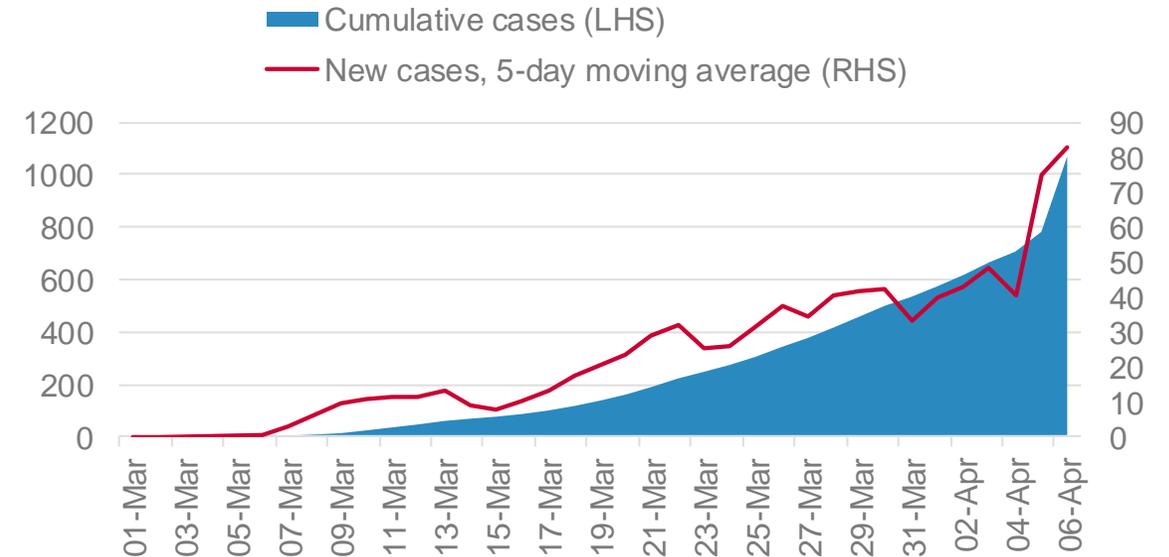


- Egypt has bigger 'growth buffer' than most MENA countries.
- No full lockdown yet – only night-time curfews.
- Impact also spread out over two fiscal years.

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



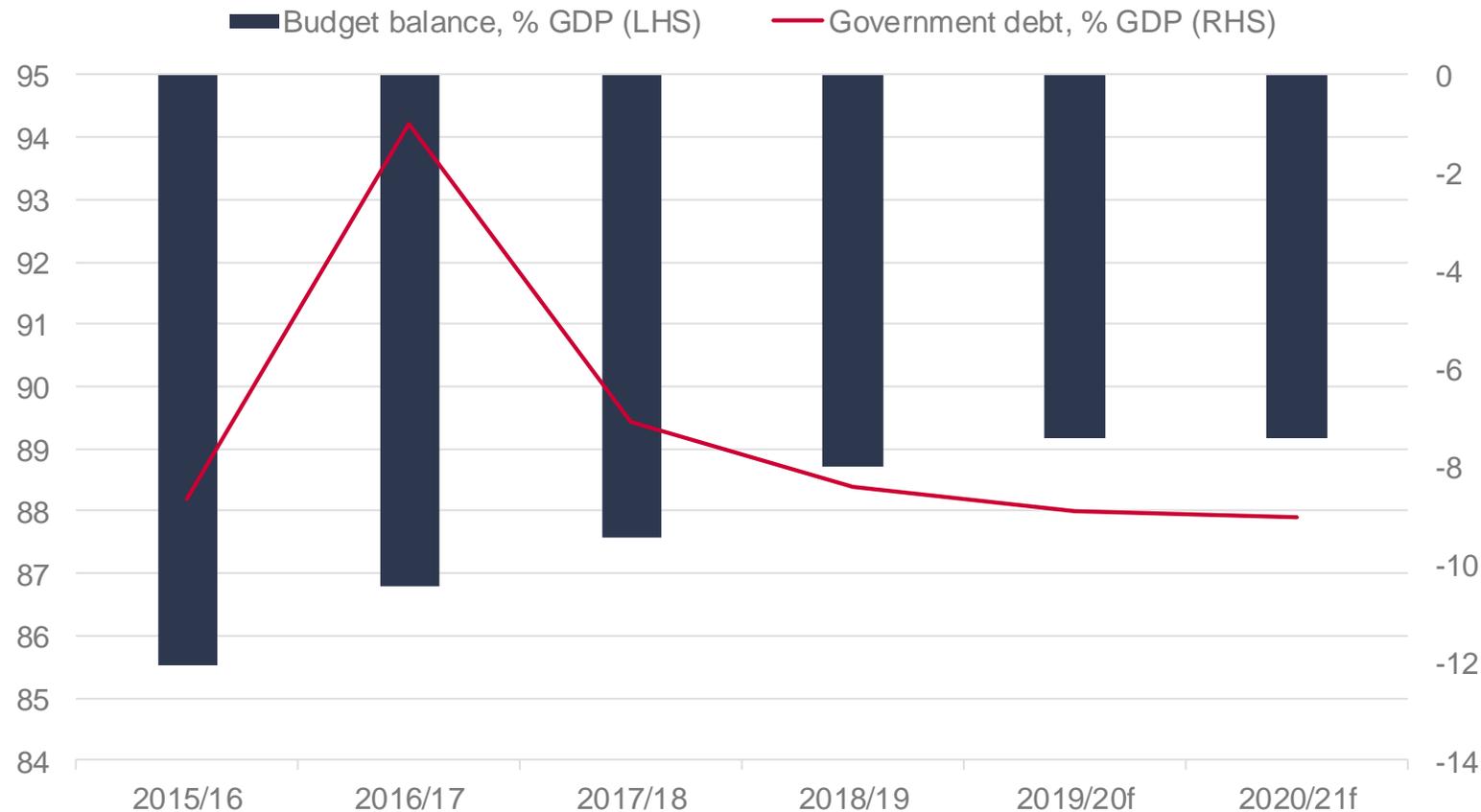
- The virus shows no sign of slowing down in Egypt, though, and the downside risk of a full lockdown is very real.
- Economy will still suffer from weaker tourism, remittances, Suez receipts and non-oil exports.

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



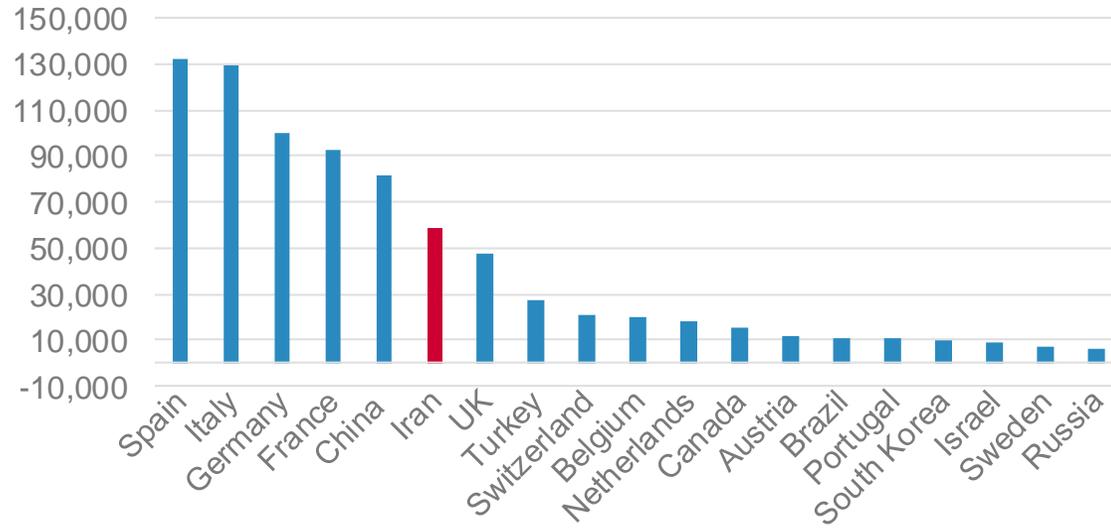
f = Fitch Solutions forecast. Source: CBE, Fitch Solutions

- 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

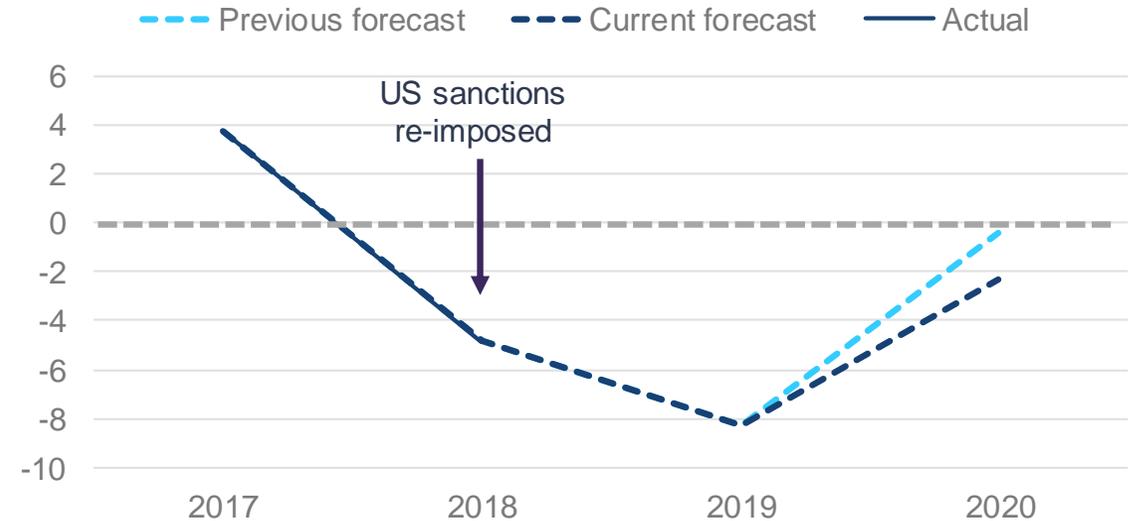


- Iran suffers from one of the worst localised outbreaks of Covid-19 globally.
- While no official lockdown is in place, we expect large-scale disruptions to activity from inter-city travel bans, event cancellations and border closures.

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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Q&A

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