

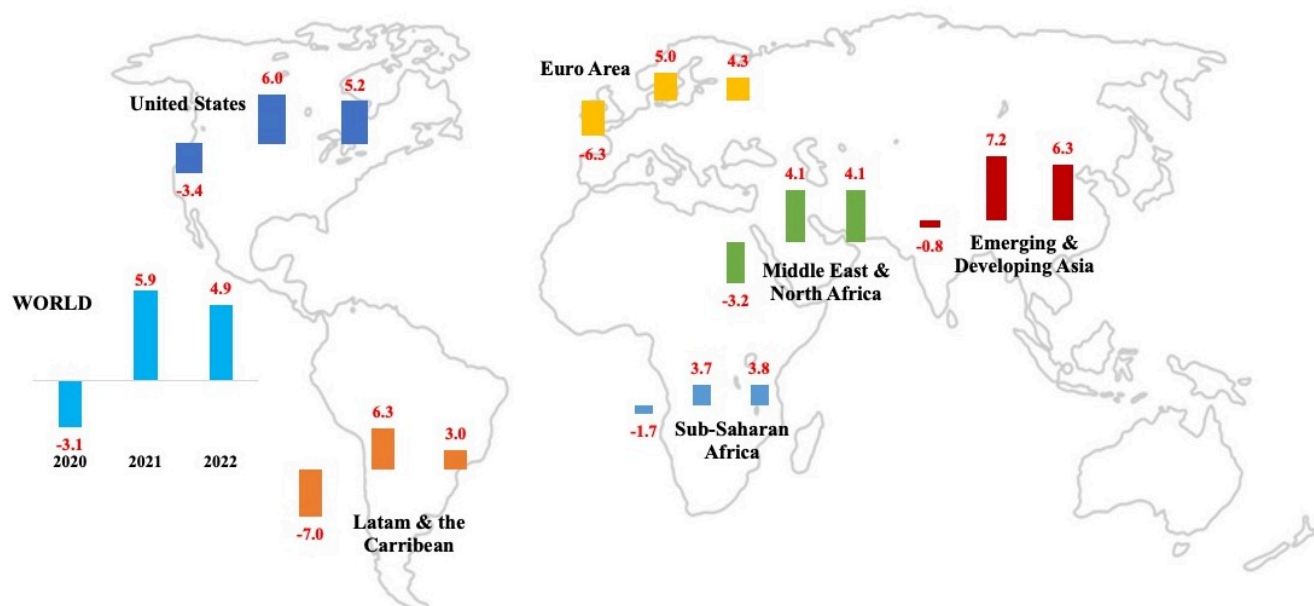
Weekly Insights 14 Oct 2021: Global divergence in growth predicted – can MENA cope?

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1. The IMF expects global growth to recover by 6% in 2021, but at divergent paces

The main message from the IMF remains a sombre one: for full global recovery, vaccine deployment has to be increased; as supply chain constraints continue amid high demand, and even as employment is below pre-pandemic levels inflation is a worry (expected to decline in 2022, but highly uncertain); as economies rollback stimulus measures, economies need to be prepared for liquidity challenges as well as capital outflows.

Global economic growth set to recover by 5.9% this year: IMF

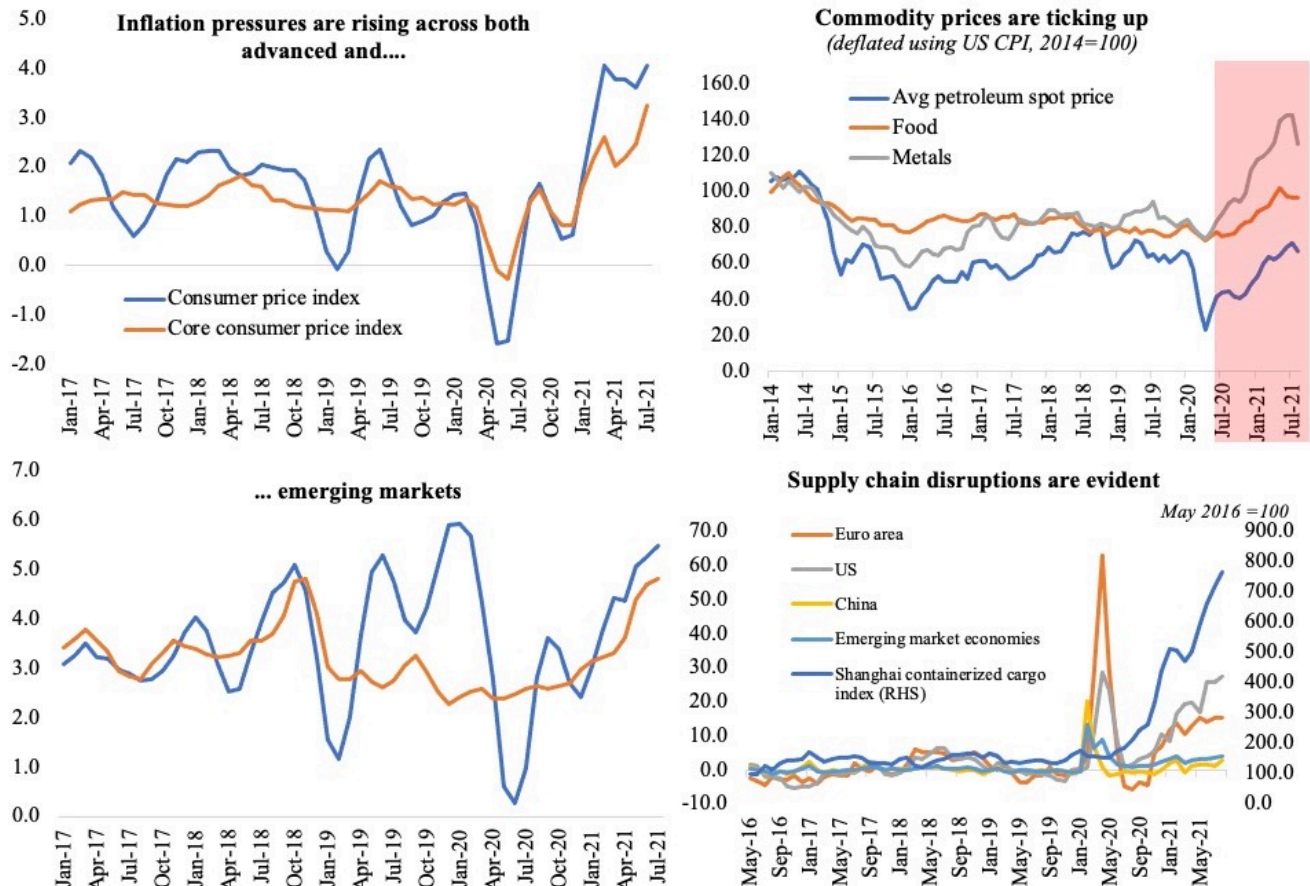


Source: IMF World Economic Outlook, Oct 2021. Chart by Nasser Saidi & Associates

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is a major risk factor: more so, if pandemic-induced supply-

demand mismatches persist for longer



Source: IMF World Economic Outlook, Oct 2021

Supply chain disruptions are calculated as the difference between the supply delivery times subindex in purchasing managers' index (PMI) and a counterfactual, cyclical measure of supply delivery times based on the manufacturing output subindex in the PMI.

- A confluence of (a) supply chain disruptions; (b) cyclical recovery of demand post-Covid (fueled by fiscal & monetary stimulus); and (c) weather shocks is leading to the current uptick in prices
- Disruptions are likely to continue into early next year but any prolonged supply shortages will lead to more uncertainty; wages are another question mark (depending on demand vs supply)

3. The Middle East & North Africa region is estimated to grow by 4.1% this year and next

- **The oil exporters will benefit from the recent uptick in prices**, and along with a relatively higher pace of vaccination, witness a return to pre-pandemic growth

levels by next year

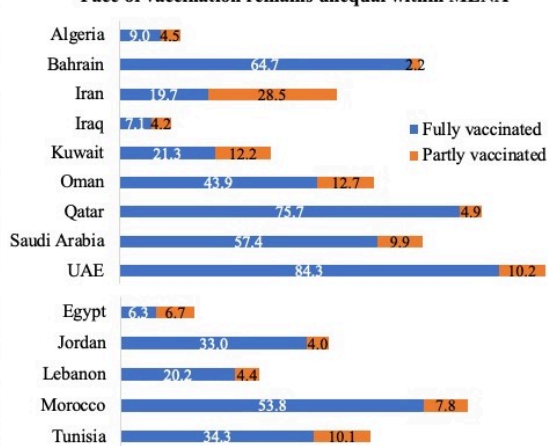
- **Oil importers** will be hit by the rising oil prices and food prices (exerting greater pressure on poorer families), but a faster vaccination pace could support a return to “normal” sooner in tourism dependent nations (like Egypt & Jordan)
- **Covid19 and its aftermath will likely result in a further widening of inequality:** be it health (pace of vaccination), jobs (nearly one third of the employed population in the region is facing high risks of layoff or reduction of wages and/or hours of work: ILO/ESCWA), poverty (18mn people have been pushed into poverty in MENA: World Bank)
- **What needs to be done?** Highlights the need for social safety nets / cash transfers; support for women and youth to return to the labour force; ensure that children return to school & resume studies after the pandemic-gap. In the absence of support, the region might be looking at a phase of greater social unrest

GDP growth in the Middle East & North Africa region (% yoy)

	2000-18	2019	2020	2021	2022
Oil Exporters					
Algeria	3.4	0.8	-4.9	3.4	1.9
Bahrain	4.6	2.6	-5.1	2.4	3.1
Iran	3.4	-6.8	3.4	2.5	2.0
Iraq	10.1	5.8	-15.7	3.6	10.5
Kuwait	3.8	-0.6	-8.9	0.9	4.3
Oman	3.5	-0.8	-2.8	2.5	2.9
Qatar	9.4	0.8	-3.6	1.9	4.0
Saudi Arabia	3.7	0.3	-4.1	2.8	4.8
UAE	4.4	3.4	-6.1	2.2	3.0
Oil importers					
Egypt	4.4	5.6	3.6	3.3	5.2
Jordan	4.6	2.0	-1.6	2.0	2.7
Lebanon	3.6	-7.3	-25.0	n/a	n/a
Morocco	4.2	2.6	-6.3	5.7	3.1
Tunisia	3.2	1.0	-8.6	3.0	3.3
West Bank & Gaza	4.0	1.4	-11.5	4.4	6.0

Source: IMF World Economic Outlook database, Oct 2021

Pace of vaccination remains unequal within MENA



Source: Our World in Data.

ion in the MENA region is ticking up, as food prices increase sharply



Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates

Data updated as of Sep for Qatar, Saudi Arabia, Egypt; as of Aug for Lebanon; till July for the rest

5. A Bird's Eye View of the Fiscal Outlook: Global govt debt at just below 100% of GDP; higher vs. pre-pandemic

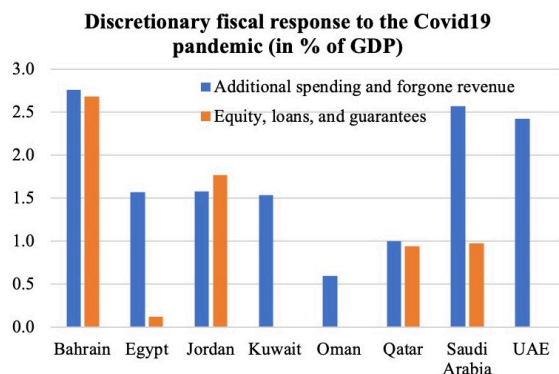
- **Fiscal balance remains in deficit in 2021 across all regional groupings**, with the global reading at 7.9% vs MENA's 4.3% and Saudi's 3.1%. A summary of fiscal measures since Jan 2020 are charted for select MENA countries (below)
- **Governments have scaled back spending** in 2021, but **government revenues are still low** compared to pre-pandemic levels. Furthermore, when **stimulus measures** (~\$16.9trn in pandemic-related fiscal measures) **are rolled**

back, businesses could be struggle to meet financing requirements, resulting in lower revenues/ insolvencies/ bankruptcies

- **Government debts have increased in 2020 & 2021**, and is unlikely to fall back to pre-pandemic levels soon => **greater risk to global interest rate hikes & refinancing risks** (esp those nations with limited fiscal space)
- **What can be done to ease MENA's fiscal pain?** 1. Reduce spending on subsidies, wages; 2. Improve mobilization of revenues + introduction of new taxes (e.g. carbon tax) and/or increase in existing taxes (VAT, excise) to be supported by cash transfers to the poor (where needed); 3. introduction of fiscal rules (only 1/3-rd have such rules in place currently); 4. support businesses (after stimulus measures are removed) by providing deferred tax payment options

Fiscal balance & debt (% of GDP) in select regions				
Advanced Economies	2019	2020	2021	2022
Overall fiscal balance (% of GDP)	-3.0	-10.8	-8.8	-4.8
Gross debt (% of GDP, RHS)	103.8	122.7	121.6	119.3
Emerging Market Economies				
Overall fiscal balance (% of GDP)	-4.6	-9.3	-6.6	-5.7
Gross debt (% of GDP, RHS)	54.0	63.1	63.4	64.8
Oil producers				
Overall fiscal balance (% of GDP)	-0.2	-7.5	-4.2	-2.2
Gross debt (% of GDP, RHS)	45.5	58.0	54.1	52.9
Saudi Arabia				
Overall fiscal balance (% of GDP)	-4.5	-11.3	-3.1	-1.8
Gross debt (% of GDP, RHS)	22.8	32.5	29.7	30.8

Source: IMF Fiscal Monitor, Oct 2021

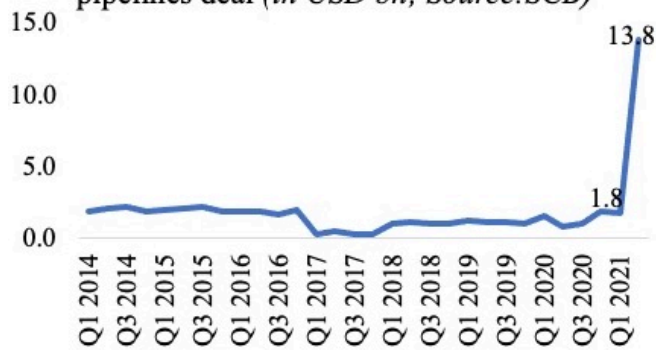


Source: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF

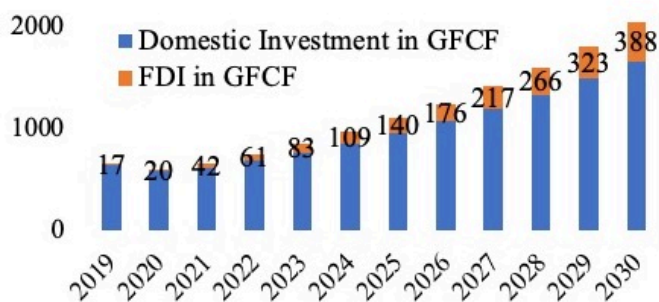
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s record-high federal budget for 2022 & Saudi Arabia's ambitious FDI targets hogged headlines this week

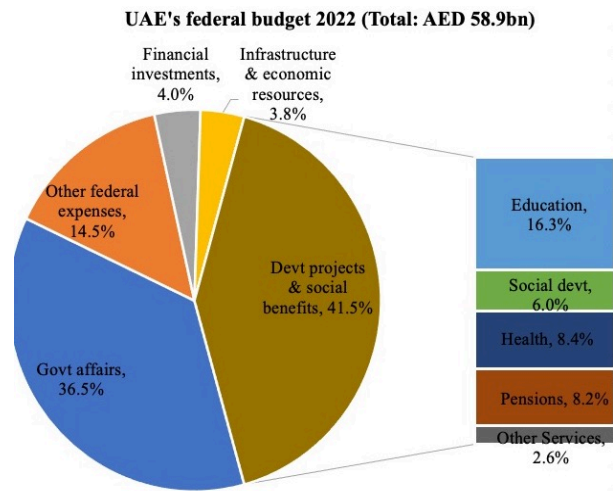
Saudi posts a record-high FDI inflow in Q2 2021, likely given Aramco's oil pipelines deal (in USD bn; Source:SCB)



Saudi's ambitious National Investment Strategy targets triple investment volume to SAR 2trn by 2030; FDI to rise 20X by 2030



Source: National Investment Strategy document



Source: UAE Ministry of Finance; Chart by Nasser Saidi & Associates

- **UAE's federal budget** for the 5 years 2022-26 stands at a record high total of AED 290bn
- **Budget expenditure for 2022 is set at AED 58.931bn**, with bulk of it allocated to development projects & social benefits
- Given the oversubscribed orders for UAE's debut federal bonds, **more federal issuances can be expected in the future** (eventually in local currency) & used towards infrastructure spending
- **Saudi Arabia's highly ambitious National Investment Strategy** expects to raise net FDI to SAR 388bn annually & raise local investments to SAR 1.7trn by 2030
- **FDI inflows have been low in recent quarters** compared to historical averages of between USD 8-10bn a quarter during 2008-10. Net FDI touched USD 5.5bn last year.

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