Interview with the Economy Middle East magazine on diverging Middle East growth, 1 Jan 2022

Dr. Nasser Saidi was interviewed about his views on growth prospects in the Middle East and North Africa region. His comments were published in the article titled "At dawn of 2022, MENA pulled in diverging directions" in the Economy Middle East magazine, released on 1st January 2022.

The comments are posted below.

"Oil exporters in the region faced a double whammy with an initial period of falling oil prices and the direct negative impact from the pandemic," said Nasser Saidi, a leading economist and the founder and president of Nasser Saidi & Associates. "The pandemic resulted in fiscal, monetary and macro stimulus: As oil prices remained low, countries with sufficient fiscal buffers [mainly the GCC, and Egypt to a lesser extent] were able to extend funds to vulnerable segments of the population and affected sectors."

Saidi added that several countries had to tap into the international markets to get support. "The main challenges [in 2021] continued to be the pace of recovery and unemployment levels, poverty and inequality levels, while headline and food inflation are creeping up," he said.

Countries that rely on tourism are witnessing a slower recovery than others and unemployment is higher compared to pre-pandemic levels, with some groups, namely women and youth who have jobs in the informal sectors, having suffered a great deal more. In addition, as global food prices continue to rise, inflation has hit oil importing nations much harder.

On the other hand, although oil exporters have benefited from the uptick in oil prices and the OPEC+ stance on a gradual increase in production levels, Saidi said some states such as Kuwait and Oman need to carry out extensive fiscal reforms in the near term for fiscal sustainability.

He pointed out that even among oil-producing countries, those that were able to roll out vaccinations more rapidly were better able to manage recoveries.

“Non-oil sectors are now supporting economic recovery in the GCC: PMIs are on an expansionary path with high consumer and business sentiment. Given the increase in oil prices, both the fiscal and current account balances improved this year. However, for some GCC countries, government debt as a share of GDP has increased and will continue to remain higher compared to the pre-pandemic era,” Saidi added.

Furthermore, a steady stream of reforms geared to attract expats and foreign firms have been beneficial for Saudi Arabia and the UAE.

Despite the fact that some oil importing nations rely heavily on tourism, especially international tourists, some have seen better growth over in the recent period as compared to others. Egypt, for example, has been implementing reforms and the IMF program over the past few years, which have helped it mitigate the impact of the pandemic.

In addition, labor market reforms such as removing barriers to labor mobility, reducing and removing payroll taxation will also be pivotal for near-term recovery and inclusive growth.

“Remittances have been a boon for many labor-exporting nations – 2021 has seen a rise in remittance levels to countries in the MENA region [with Lebanon and Jordan benefiting],” Saidi said.

According to Saidi, the GCC economies, supported by the rise in oil production and hydrocarbon prices, will continue to see growth between 4% and 4.5% in 2022. Meanwhile, although growth in the non-oil sector will ease, it will still remain significant. Still, much depends on how they adjust to the new Omicron variant and its impact on international tourism.

“I expect that the liberalization and reform measures carried out by the UAE and Saudi Arabia [the two biggest economies of the Arab world], along with mega-projects in Saudi Arabia and Qatar will lead to higher non-oil growth rates with positive spillover effects on the labor-exporting, non-oil countries through higher trade, FDI and capital investment,” Saidi said.

As for the outlook for oil importing states, Saidi expects disparate recovery rates will continue into 2022, especially given large gaps in the pace of vaccinations and the impact of the new variant, with growth ranging between 3.5% and 4.5%.

“With higher inflation amid fiscal and current account balances still in the red, these states need to have in place supportive policies for poor and vulnerable segments of the population,” Saidi said, referring to strengthened social protection and cash transfers for the extremely poor. He added that the countries would also have to adopt policies supporting the sectors that were directly affected by pandemic restrictions such as tourism and hospitality.

“Large external financing needs will make these countries more vulnerable to tightened financial conditions resulting from monetary tightening in the US and Europe,” Saidi cautioned.

Saidi, meanwhile, gave important recommendations for Arab oil-exporting and oil-importing countries alike. “First and foremost, policy support initiated during the pandemic needs to be withdrawn gradually. Countries like Bahrain and Oman [with higher levels of government debt] are anticipating an increase in non-oil revenues from 2022 [given VAT],” he said.

Saidi emphasized that it was important to continue with labor market reforms, including granting long-term residency visas, attracting a skilled workforce, promoting gender equality measures as well as fiscal consolidation efforts, and reforming distorting and inefficient subsidies. Added to these are the introduction of structural reforms for increased regional and international economic integration, new trade and investment agreements with China and Asian trading blocs for greater economic diversification, attracting FDIs and participation in global value chains.