Weekly Insights 14 Oct 2022: IMF downgrades global growth forecast; MENA to grow at a strong 5% pace in 2022

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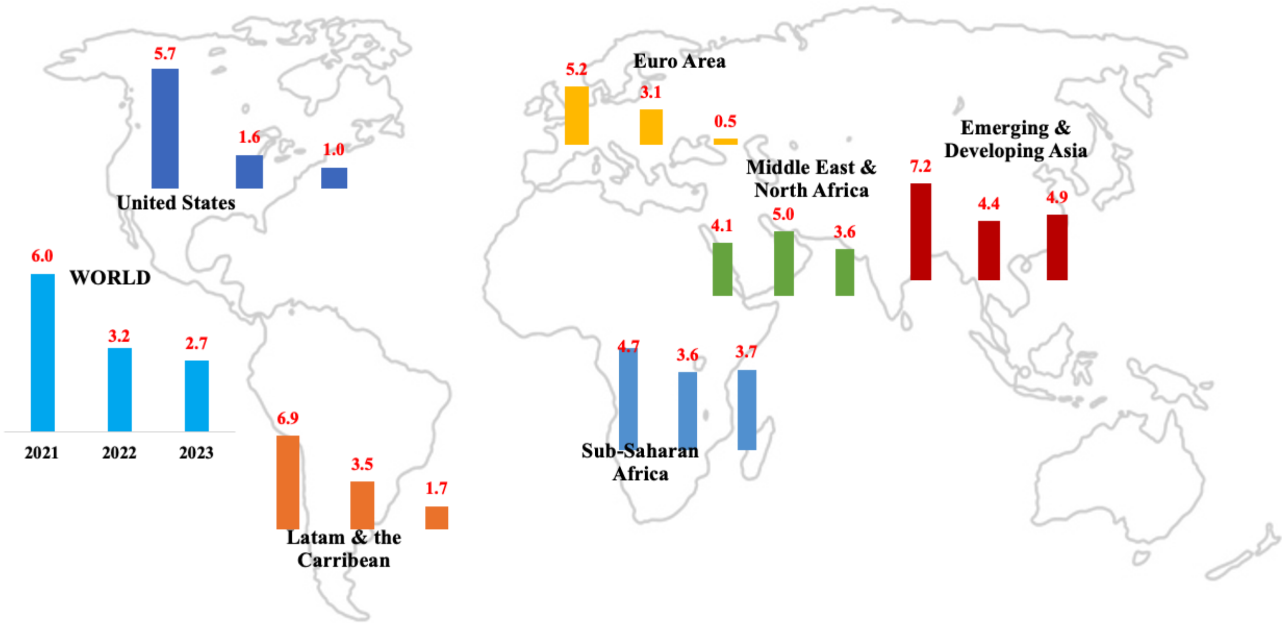
1. IMF revises down global economic growth forecast to 3.2% in 2022 & lower to 2.7% in 2023 (2021: 6.0%)

The year 2022 has been primarily about **rising inflation** (driven by higher food and energy prices) and subsequent **monetary policy tightening across most nations** amid the ongoing Russia-Ukraine crisis

An ensuing cost-of-living “crisis” and the ever-present threat of another Covid19 outbreak has the world sitting on the cusp of an economic recession. The **IMF expects more than 1/3-rd of the nations to experience a recession** while the US, EU & China continue to slow: given how interlinked nations are, we can anticipate a relatively gloomy 2023

Added risks to this scenario are debt distress/ crisis owing to a rapidly tightening financial conditions (and as Covid-stimulus measures are fully withdrawn), food insecurity and social unrest as well as the brewing trade and tech war with China among others

Global economic growth dampened by war & inflation, IMF forecasts moderation in growth to 3.2% in 2022



Source: IMF World Economic Outlook, Oct 2022. Chart by Nasser Saidi & Associates

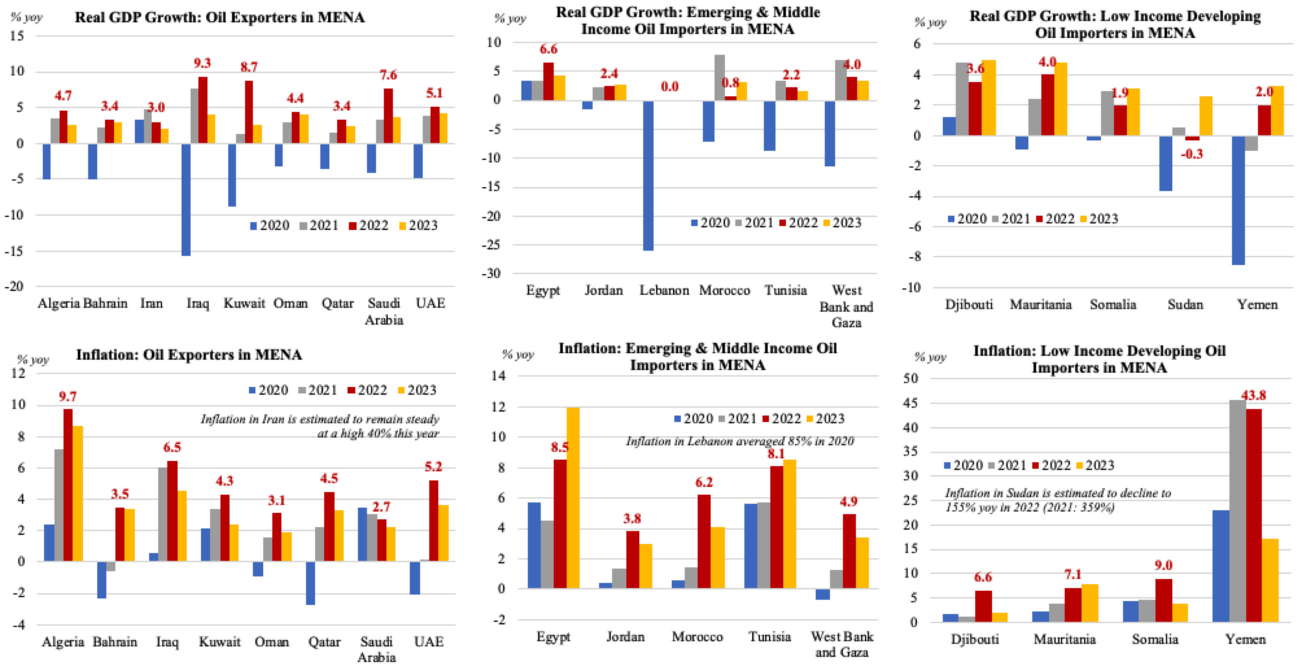
2. Middle East continues to display divergent growth prospects, with oil importers' growth downgraded

The IMF estimates MENA region to grow by 5% in 2022 and 3.6% in 2023; breakdown shows divergence, with oil exporters benefitting (including non-oil activity) but importers lagging & facing headwinds

The **pandemic has led to a significant acceleration in the pace of reforms in the GCC:** from shift in focus to new economic sectors (manufacturing, SMEs, digital assets), new FTAs, long-term residency & visas for skilled workforce etc

Inflation is relatively subdued in GCC alongside **surging rates across rest of MENA**; food prices are rising faster, leading to concerns of poverty / inequality, food security and potential social unrest

Headwinds from potential global recession, tighter financial conditions amid persistent inflation and risks to oil and gas demand growth



Source: IMF World Economic Outlook database, Oct 2022. Charts by Nasser Saidi & Associates

3. Risks to Growth Outlook in the MENA region

Near-term risks

- Energy market; oil and gas prices
- For oil exporters: risks to oil and gas demand growth
- Persistent inflation
- Fiscal risks: Higher energy & food subsidies, revenue losses, procyclical policies by oil exporters
- Global recession & tighter financial conditions

Spillovers from monetary policy tightening

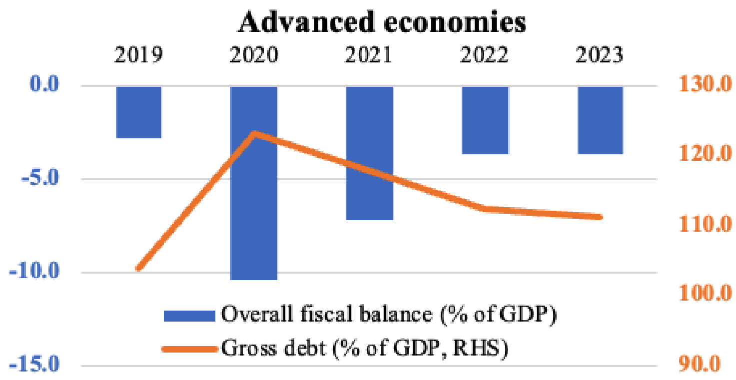
- Global market volatility
- Portfolio outflows; lower FDI
- Higher borrowing costs, weighing on recovery & real estate market
- Elevated debt burdens (Bahrain, Egypt, Jordan, Oman…)

Medium to Long-term Risks

- Covid19 surge (domestic or abroad)
- China growth slowdown
- Climate change risks
- Economic non-diversification / over-dependence on oil
- Poverty, Inequality, Unemployment
- Geopolitical tensions + Regional conflicts

4. Public Debt Estimated To Edge Down After Pandemic-Surge,

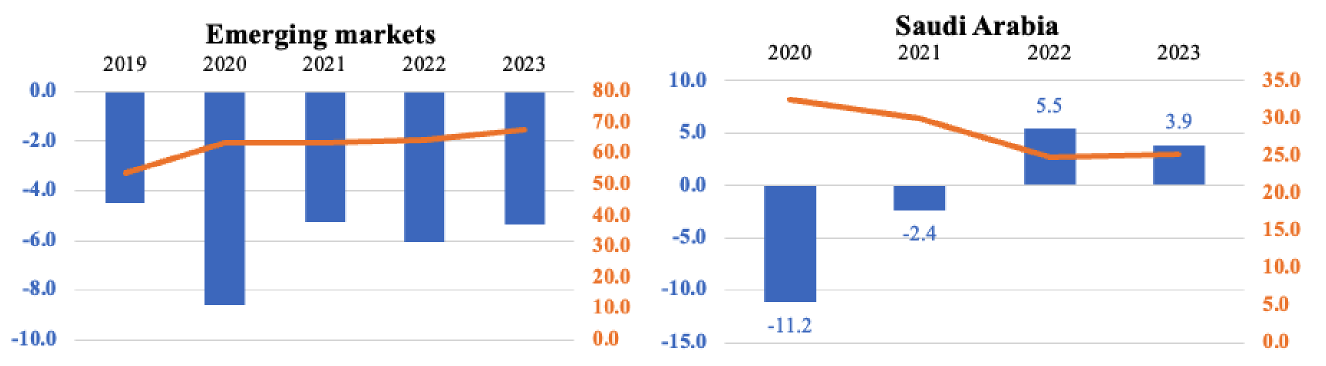
But Still Higher Than Pre-Pa



According to the IMF, **global government debt** will be equivalent to 91% of the world's GDP in 2022 (2020: 256%) and **government deficits fell** from 9.7% of GDP in 2020 to 4.7% in 2022. However, both **debt and deficits are expected to remain above pre-pandemic levels**

Governments in **emerging market economies** are facing high inflation, weaker currencies & rising interest rates; **borrowing costs will rise significantly** given tightening financial conditions; **debt vulnerabilities to rise** as advanced nations raise interest rates at a faster pace to tackle inflation

Public debt estimated to decline faster among oil exporters, thanks to jump in exports: as can be seen in the case of Saudi Arabia



Source: IMF World Economic Outlook, Oct 2022. Charts by Nasser Saidi & Associates

5. Inflation ticks up in both Saudi Arabia & Egypt, but at different paces

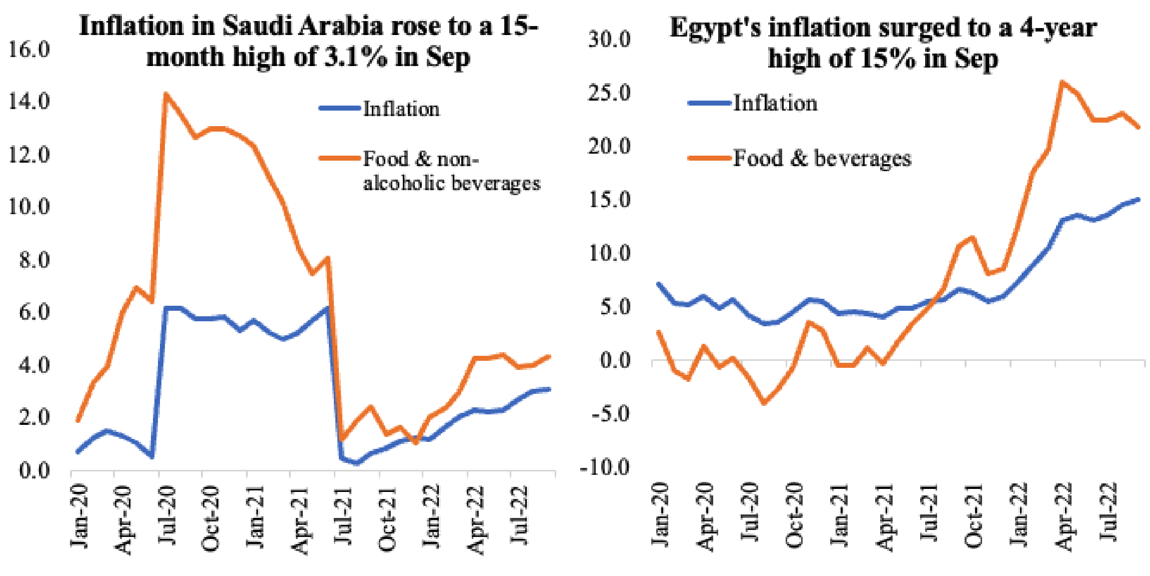
Inflation in Saudi Arabia increased to a 15-month high of 3.1%

yoy in Sep while **in Egypt it surged to a 4-year high** of 15% – in both cases, **driven by higher food and beverage costs** (4.3% & 21.7% respectively)

Saudi Arabia's weekly point-of-sale transactions data **is evidence of a change in spending patterns**: both value & volume of transactions declined in the week ending Oct 8th, with a sharp 13% weekly fall in clothes category

Core inflation in Egypt is also rising, at 18% in Sep. Ongoing restrictions on imports & foreign exchange scarcity adds to costs; recent increases in gas prices (some 109%) for cement factories could see spillover effects

While Saudi Arabia is also supporting low-income citizens with direct cash transfers, one significant difference between the 2 nations' inflation pace could be the **weight of tradeables in the consumption basket** – Saudi's 45% versus Egypt's close to 60% (Read our previous Weekly Insights piece for more)



Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates

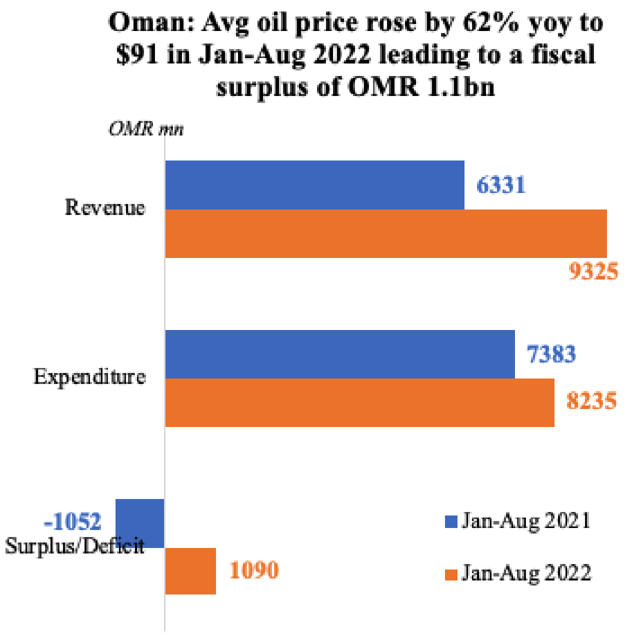
6. Oman continues its good fiscal run, posting a fiscal surplus of over OMR 1bn in Jan-Aug 2022

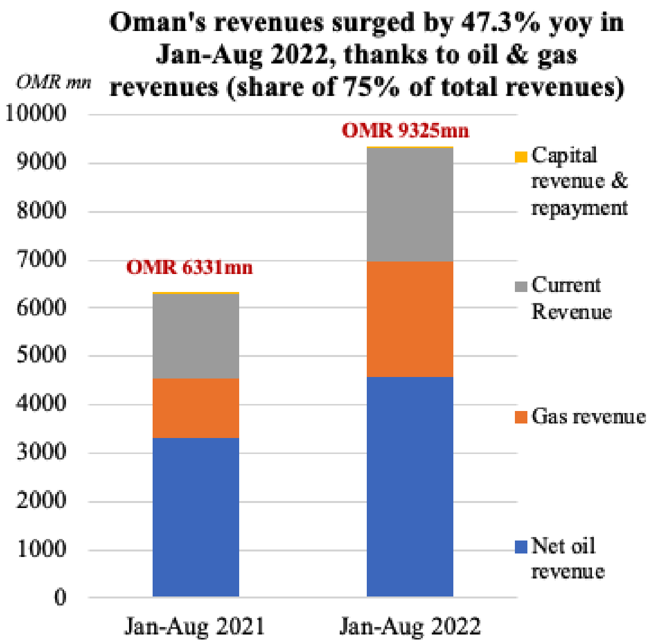
Ongoing implementation of the Medium-Term Fiscal Plan and higher oil prices have **moved Oman into posting a fiscal**

surplus of OMR 1.09bn in Jan-Aug 2022 vs a deficit of OMR 1.05bn the same period a year ago. Average oil price stood at USD 91 during this period, versus USD 56 a year ago, while average daily oil production grew by 9.6% yoy to 1047 thousand barrels during Jan-Aug 2022

Dependence on oil & gas for overall revenues stays high, with its share at 74.9% in Jan-Aug 2022. Net oil revenues grew by 38.8% yoy while gas revenues almost doubled to OMR 2.4bn. **Spending grew by 11.5% in H1** (68% of estimates for full year); **government subsidy has been rising slowly:** it touched OMR 498mn (for oil products) and OMR 11mn (for basic food subsidy) as of Aug 2022

The IMF expects Oman's central government debt to decline to about 44% of GDP from 62.9% recorded in 2021





Source: Oman's Ministry of Finance. Charts by Nasser Saidi & Associates

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