

Weekly Insights 3 Feb 2023: Economic Outlook & Risks for the MENA region

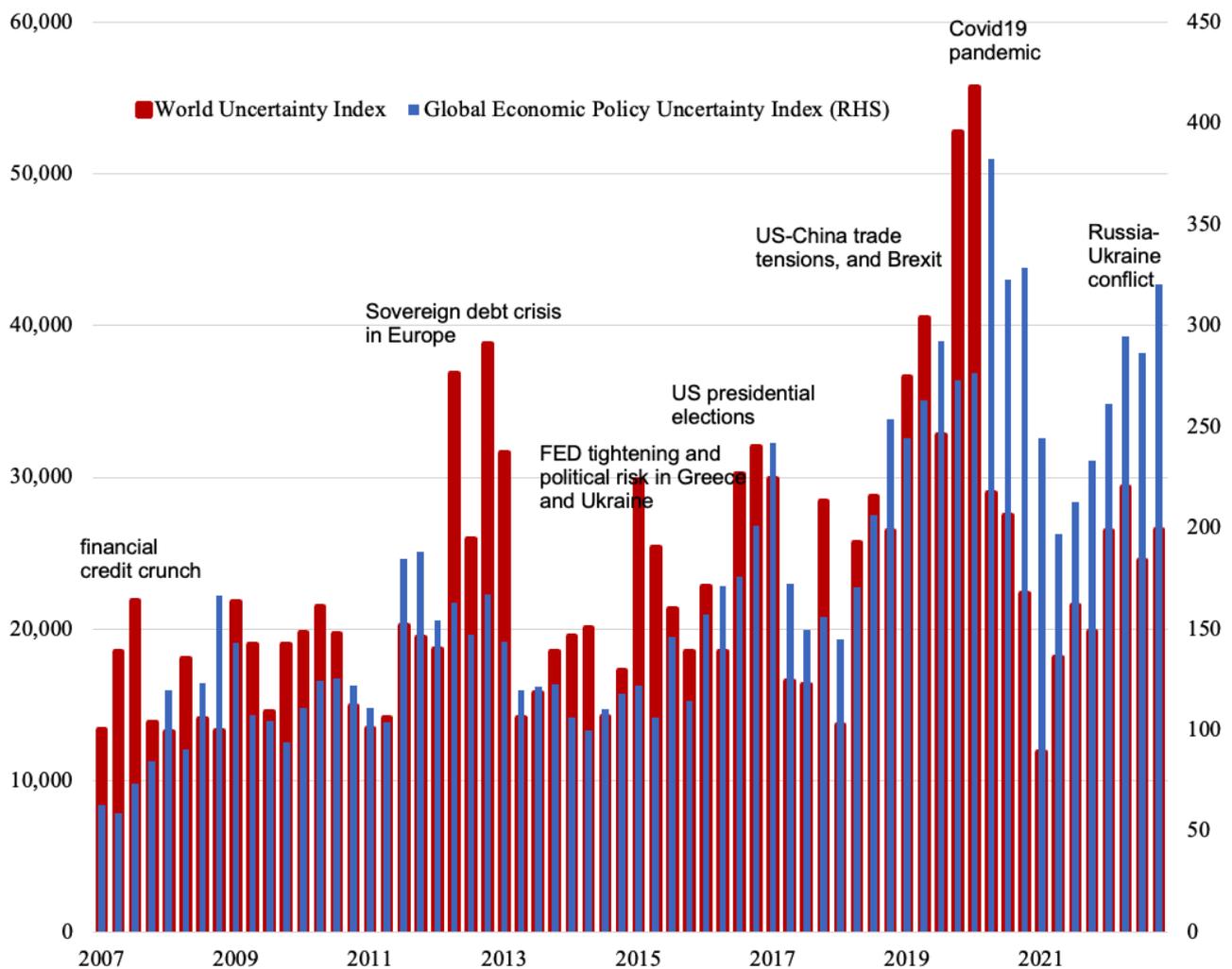
IMF Economic Forecasts update. Our outlook & risks for MENA region. Saudi GDP & monetary stats.

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1. Economic Policy Uncertainty Remains High, given ongoing Russia-Ukraine conflict & high inflation levels

- The **World Uncertainty Index** has declined considerably since the highs during the Covid19 pandemic months.
- In contrast, the **Economic Policy Uncertainty Index** stays high even in Q4 2022, given the economic spill overs from the ongoing Russia-Ukraine conflict.
- In addition to potentially persistent inflation (8.8% in 2022), there are **risks** from high debt distress in emerging markets (given rising interest rates, stronger dollar), higher food and gas prices (leading to social unrest) and geopolitics (e.g. Russia-Ukraine conflict worsens, US-China), among others.



Source: https://www.policyuncertainty.com/global_monthly.html; <https://worlduncertaintyindex.com/>

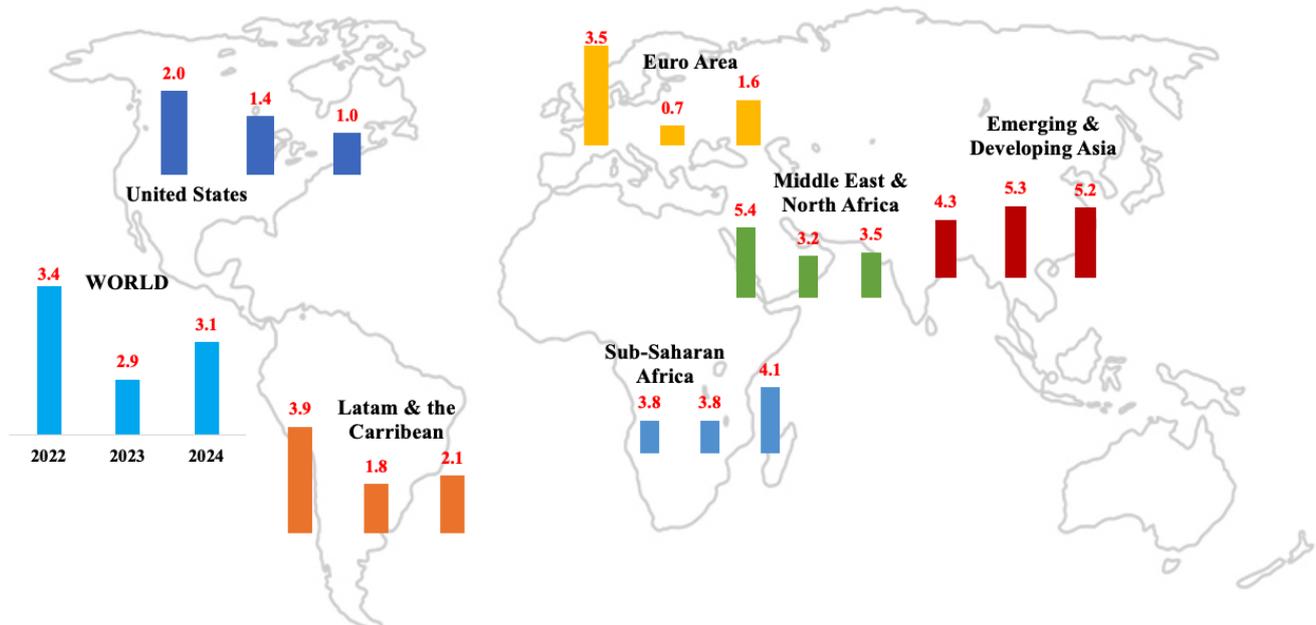
Note: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo

2. IMF projects global growth to ease to 2.9% this year

- **Economic growth is forecast to fall to 2.9% in 2023**, following 3.4% growth in 2022. A slowdown is expected this year (as seen from PMI data, business & consumer sentiment indicators) partly due to the rise in central banks' interest rates. Re-opening of China could lead to a faster recovery as mobility increases, factories re-open and pent-up demand leads to increased consumption spending.
- **Inflation is to remain high this year**, even though it is projected to ease to 6.6% in 2023 (2022: 8.8%). Both food and fuel prices have declined from last year's highs, reflecting weaker demand and effects of policy tightening. However, services inflation is high, as seen

from relatively stable core inflation readings & labour markets remain tight amid risks of further rise in food & energy prices.

Global economic growth expected to slow to 2.9% in 2023 (2022: 3.4%), with risks remaining tilted to the downside: IMF



Source: IMF World Economic Outlook, Jan 2023. Chart by Nasser Saidi & Associates

3. Growth in Middle East and North Africa is set to decline to 3.2% this year: IMF. What is our outlook for the region?

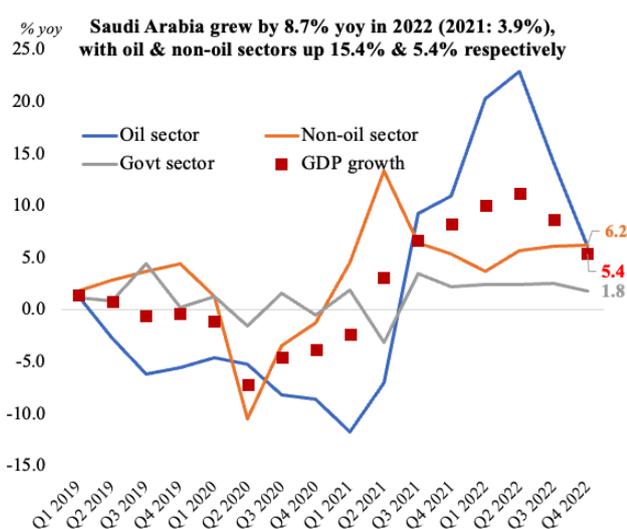
Outlook
<ul style="list-style-type: none"> • GDP growth: for GCC & other oil exporters, lower growth as a result of lower oil prices; GCC growth driven by both oil & non-oil sectors • PMI indicates divergence in the MENA region (with expansion in the GCC) • Inflation: eases from 2022, but remains quite high in non-GCC nations; in GCC, price is high for many non-tradeables; • Fiscal balance: surplus for many oil producers (given surge in oil revenues); but need to practice fiscal consolidation (& diversify source of revenue) • Monetary policy: GCC raises rates mostly in line with the Fed; others tighten policy to combat inflation; many nations witnessing sharp currency depreciation • Trade and tourism recovery: various paces, but inching closer to pre-pandemic levels

Source: Nasser Saidi & Associates

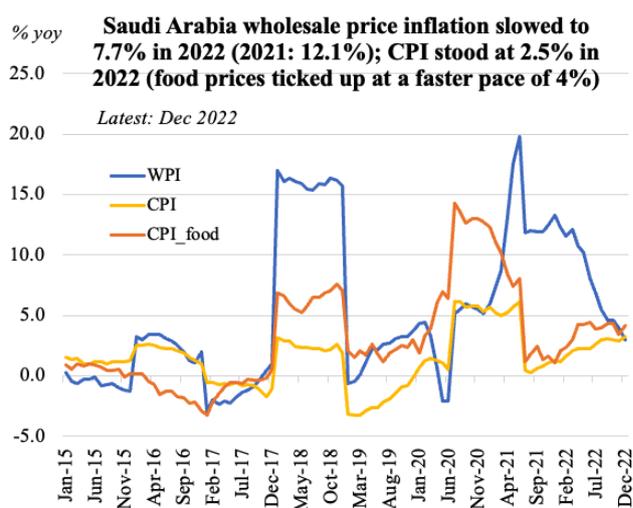
Near-term Risks
<ul style="list-style-type: none"> • Higher food / oil prices • Over-dependence on food imports/ question of food security • Geopolitical changes/ social unrest • Need for additional fiscal support (i.e. increase in subsidies, wages etc) • Higher borrowing costs (raises interest expense burden) • Tighter financial conditions (effect on debt repayments) • Further currency depreciation (especially in Egypt, Lebanon, Iraq...) • Extended slowdown in China • Impact from new Covid waves • Impact from climate change

4. Saudi Arabia's GDP grows by 5.4% in Q4 2022, taking full year growth to 8.7% (vs 3.9% in 2021)

- **Q4 GDP grew by 5.4% yoy in Saudi Arabia**, supported by a 6.2% increase in non-oil sector activity alongside a 6.1% uptick in oil sector growth. This brings the full year growth to 8.7%, largely due to boost from the oil sector (15.4% yoy) while non-oil sector activity increased by 5.4%. The **IMF**, in its Jan WEO update, **projects growth at 2.6% this year** (1.1 percentage points lower than Oct 2022 projection) **and 3.4% in 2024**.
- In addition to the boost from oil prices, **Saudi Arabia has witnessed a recovery in the non-oil private sector**, as seen from PMI readings as well as monetary indicators including consumer spending. Furthermore, work on its various megaprojects (driven by the PIF) will also support growth in the near-term.
- **Reform-supported growth**: a conscious shift away from following a procyclical fiscal policy, ongoing financial market reform, ambitious plans to attract regional HQs/MNCs and allocating funds from the SWF for domestic investments will further benefit Saudi Arabia's diversification efforts and macroeconomic stability.



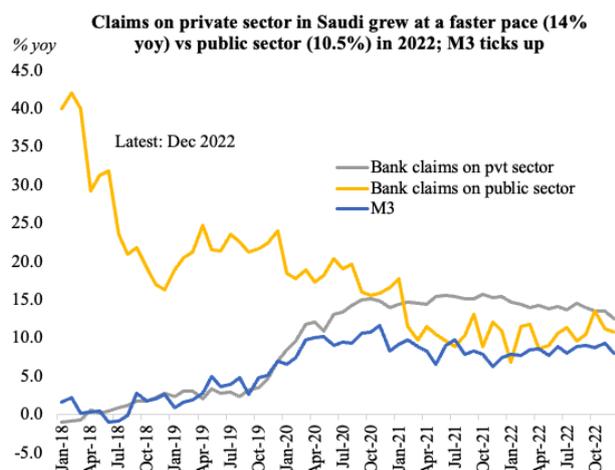
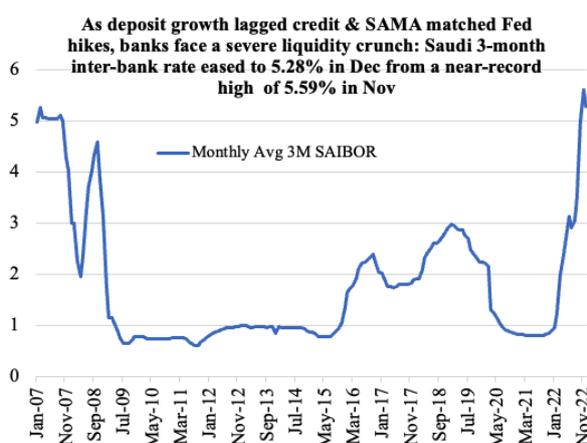
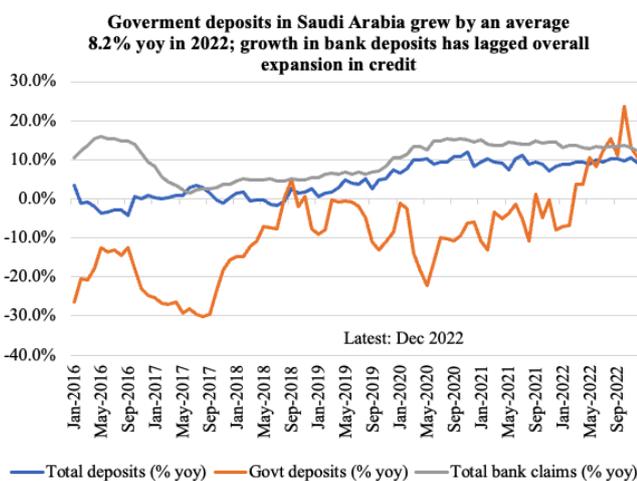
Source: GaStat. Charts by Nasser Saidi & Associates.



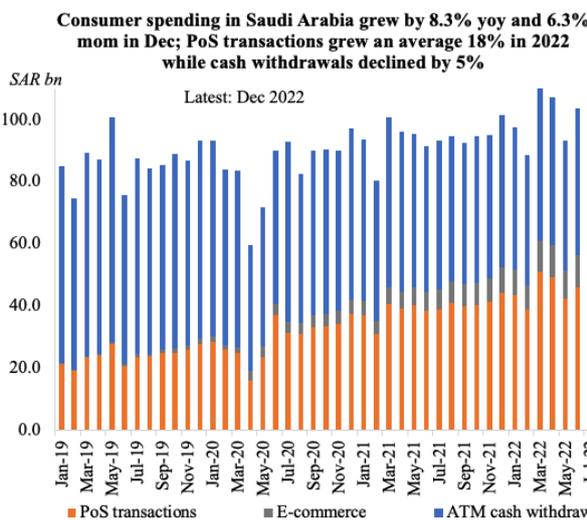
5. Saudi Central Bank data: rising consumer spending; deposits not growing in tandem with credit expansion; in addition,

interest rates being raised in line with the Fed is resulting in tighter liquidity (unusual for period of high oil prices, but points to fiscal discipline).

- Without support on liquidity, lending growth could decline further – this could affect both home ownership targets (via mortgages) and spending on infrastructure / mega projects. Makes a strong case for accessing capital markets for funding
- Higher inter-bank rates also mean higher cost of borrowing (for businesses and consumers)



Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates



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