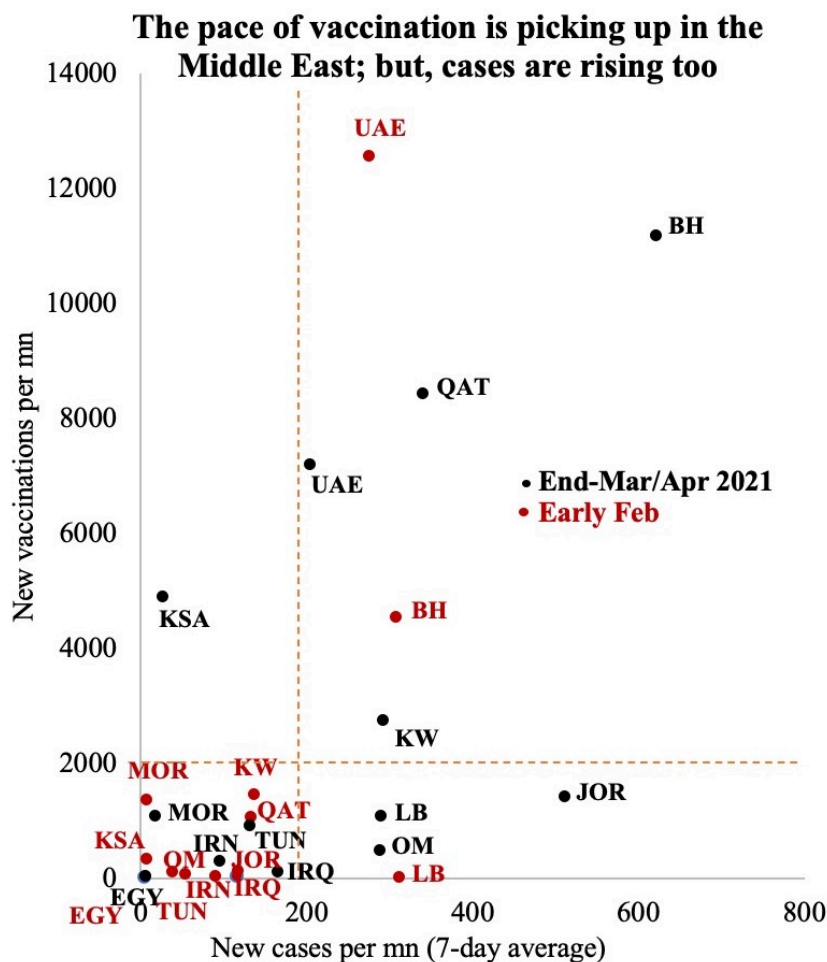


Weekly Insights 15 Apr 2021: Will Middle East's growth prospects be vulnerable to external debt levels & limited fiscal room?

Download a PDF copy of this week's insight piece [here](#).

The IMF issued its latest Regional Economic Outlook for the Middle East region this week. **Real GDP for the Middle East and North Africa (MENA) region is forecast to grow by 4% this year** (up 0.9 percentage points from the projection in Oct 2020) after having slumped by 3.4% in 2020 (vs an estimate of a 5% drop in the Oct 2020 edition). **Growth outcomes and prospects will still be centred on how the pandemic progresses in the**



Source: Our World in Data, Nasser Saidi & Associates

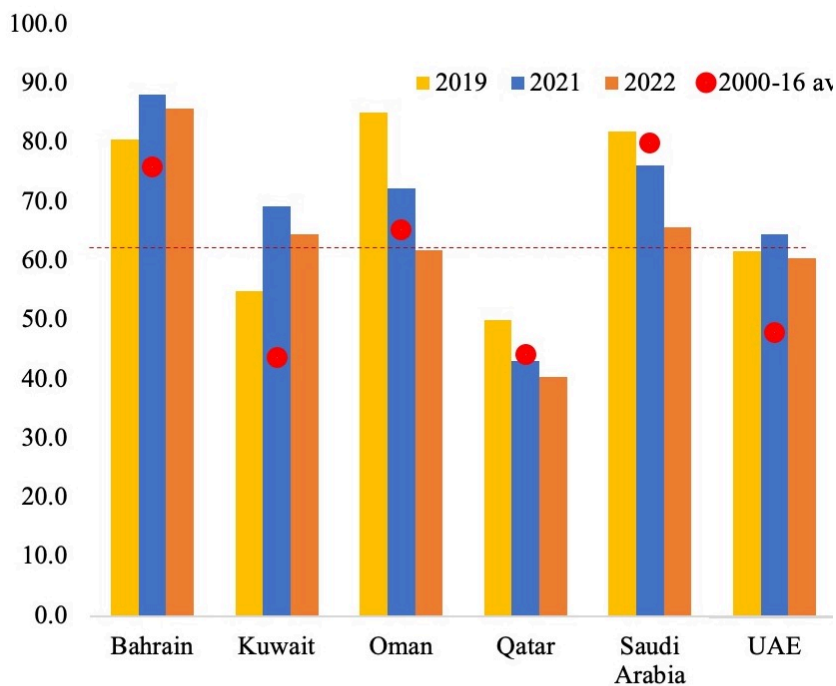
region amid the pace of vaccination. The MENA region is now home to more than 7mn confirmed cases, with Iran the single largest contributor (share of close to 30%) and the GCC accounting for nearly 25%. Infections have been ticking up in the region since the start of this year. This has resulted in increased targeted restrictions and lockdowns in many a nation.

The chart compares the pace of vaccination and new cases. Vaccination pace is picking up in the region: the UAE leads the pack, having disbursed a total of 9.16mn doses as of Apr 13th. With the supply of vaccines increasing (thanks to COVAX facility and donations from the UAE, Russia, China etc.), new vaccinations (black dots in the chart) have improved in most nations (compared to early Feb, marked in red). The production of vaccines domestically in the region will also boost supply later this year: UAE plans to manufacture Hayat-Vax, Egypt has an agreement with Sinovac Biotech, and Algeria will produce Sputnik-V from Sep onwards).

Meanwhile, reported cases are also higher compared to early Feb – many countries are now outside the small quadrant on the bottom-left of the chart. Depending on how fast vaccinations can lead to herd immunity will determine recovery paths – especially so in the more tourism-dependent nations (e.g.

Egypt, Jordan, Lebanon).

Fiscal breakeven prices (USD) expected to decline in 2022, but is currently higher vs current oil price



Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates

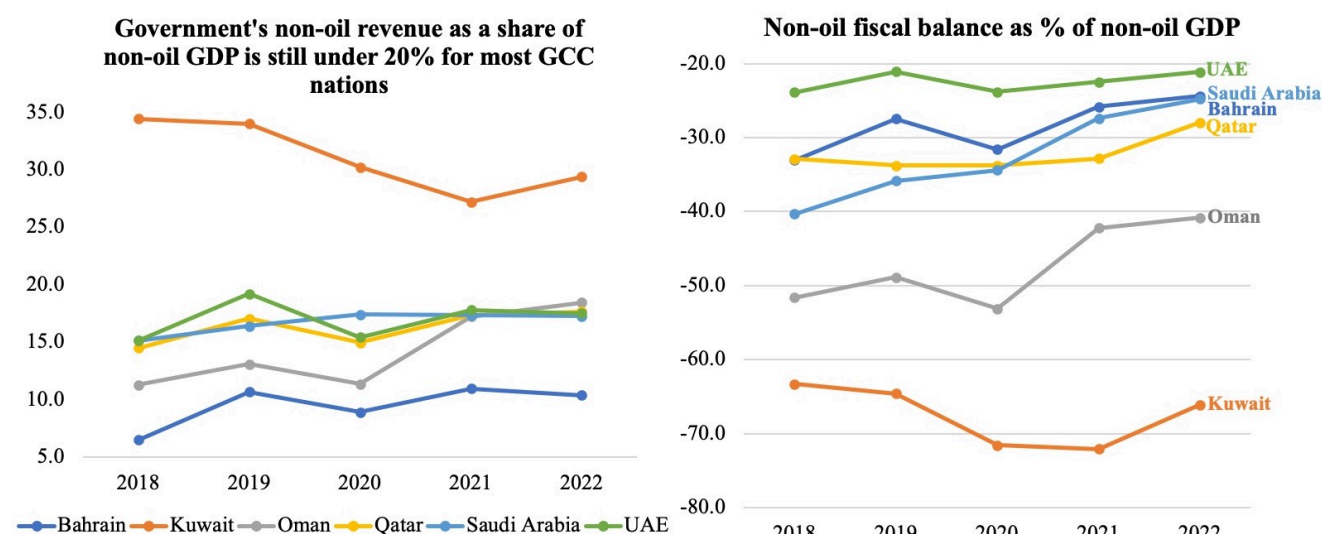
Note: Kuwait's fiscal breakeven oil price is before the compulsory 10% revenue transfer to the Future Generations Fund including investment income.

However, policy measures introduced to support the economy during the pandemic is creating immense fiscal strain. Fiscal deficits widened to 10.1% of GDP in 2020 in the MENA region from 3.8% in 2019. It was severe in the GCC as well: fiscal deficit widened to 7.6% of GDP last year (2019: -1.6%), as the impact was from both

lower oil and non-oil revenues. The **fiscal breakeven price this year ranges from a high USD 88.2 in Bahrain to a low USD 43.1 in Qatar**. While, it is expected to decline across the board next year, it still remains higher than the current oil price levels for most nations. Given new rounds of restrictions and with oil demand not yet at pre-pandemic levels, the **OPEC+'s recent decision to roll back production cuts are likely to depress oil prices**. As real oil prices trend downward, **fiscal sustainability becomes increasingly vulnerable**.

With business operations and revenues affected due to the pandemic alongside weakened domestic demand, non-oil revenues as a share of non-oil GDP declined in 2020: Saudi was the sole exception, given its VAT hike to 15% from Jul 2020. Oman is expected to witness a significant boost in non-oil revenues this year, with the introduction of VAT from Apr 16th. **Oil exporters in the region are still highly dependent on oil revenues, as is evident from the large non-oil fiscal deficits in the GCC**. In 2021, it is forecast at a high 72% in Kuwait

and an average 30.9% and 29.9% in the GCC and MENA oil exporters respectively.



Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates

its and negative economic growth resulted in governments resorting to multiple financing options: borrowing from commercial banks, tapping international and regional markets (bond issuances, commercial loans) as well as drawing down from international reserves at the central banks/ sovereign wealth funds. **Government debt levels increased to 56.4% and 41% in the MENA and GCC regions last year.** Though it is forecast to fall slightly this year, it still remains higher than the 2000-17 average of 36.2% and 24.6% respectively. The IMF estimates financing needs in the MENA to touch USD 919bn for this year and next. Public-financing requirements were likely to stay above 15% of GDP in most parts of the region through end-2022.

This could pose a significant risk in the coming years: (a) sectors affected by the pandemic are being supported by government policy stimulus. When this support is rolled back eventually, this could result in bankruptcies, defaults and job losses, further causing an increase in banks' non-performing loans; (b) global financial conditions have been quite accommodative and so long as cost of capital remains low, there will be an appetite for borrowing and even refinancing maturing debt. However, a faster-than-expected global recovery could lead to interest rates hikes, push long-

term rates and funding costs higher, increase sovereign spreads, thereby tightening financing conditions – affecting countries with large external financing needs (and their indebted corporates). Though GCC's sovereign debt levels are relatively low, over USD 100bn is expected to mature in 2021-25.

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Weekly Insights 8 Apr 2021: Risks to the Rosy Outlook as World Recovery Seemingly Accelerates

Download a PDF copy of this week's insight piece [here](#).

Heatmap of Manufacturing/ non-oil private sector PMIs

	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8	50.8	46.7
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7	59.4	57.3	48.2	46.3
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1	57.7	57.4	49.2	46.3
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5	55.1	56.6	50.3	47.7
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4	51.6	57.0	49.4	47.8
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4	51.1	57.3	49.5	46.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6	51.1	57.8	49.2	48.3
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2	50.3	58.3	47.9	37.0
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7	50.2	56.9	48.2	45.1
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3	49.3	54.9	46.0	44.9
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5	49.1	52.5	47.1	45.4
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8	45.2	42.4	44.2	35.0
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4	44.1	44.4	29.7	30.9
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8	46.7	48.1	40.0	37.2
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2	50.4	47.7	44.6	43.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0	50.8	50.0	49.6	44.9
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0	49.4	48.8	49.4	40.1
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8	51.0	50.7	50.4	42.1
Oct-20	53.4	58.2	54.8	53.7	48.7	53.6	58.9	49.5	51.0	51.4	43.3
Nov-20	56.7	57.8	53.8	55.6	49.0	54.9	56.3	49.5	54.7	50.9	42.4
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4	51.2	57.0	48.2	43.2
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7	51.2	57.1	48.7	41.0
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5	50.6	53.9	49.3	42.2
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4	52.6	53.3	48.0	46.4

Source: Refinitiv Datastream, Nasser Saidi & Associates

titling new Covid19 restrictions, PMIs run high

- **Global manufacturing PMI touched a 10-year high in Mar:** the uptick happened inspite of increased restrictions in late-2020/ early 2021, suggesting **less severe impact of the recent lockdowns** vs. the one in Apr-May.
- **Preparedness** for disruptions to production & supply chains as well as online demand & delivery likely **improved**.
- However, overall conditions are still affected by supply chain disruptions and **inflationary pressures**.
- **Global Services PMI grew to a 33-month high** of 54.7 in Mar, supported by inflows of new work.

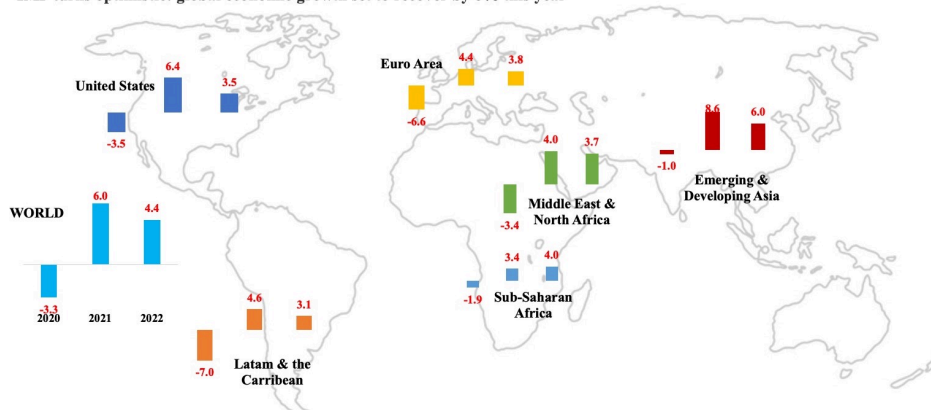
Chart 2. Optimism spills over into IMF's growth forecasts amid uneven recovery caution

- **The IMF projects 6% yoy growth in 2021, up from the 3.3% contraction last year.** If the forecast is realized, it

would mark the fastest rate of global growth since 1976. While China returned to pre-pandemic GDP levels in 2020 itself (+2.3%), many are unlikely to recover till 2023 – depending on new virus variants, pace of vaccination rollout and extent of fiscal/ monetary stimulus.

- The **average medium term output loss over 2020-24**, relative to pre-pandemic forecasts, is projected to be 6.1% in low-income countries versus 4.1% and a smaller 0.9% in emerging and advanced nations respectively. This is much lower than the losses seen during the 2008-09 financial crisis (when advanced nations suffered the most).
- The **Middle East's growth forecasts have remained broadly unchanged** though recovery prospects of the GCC (where vaccination pace is quite high) are miles apart from many of the war-torn nations.

IMF turns optimistic: global economic growth set to recover by 6% this year



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

Medium term output losses less compared to 2008-09 crisis, but EMEs hit more severely vs. advanced nations

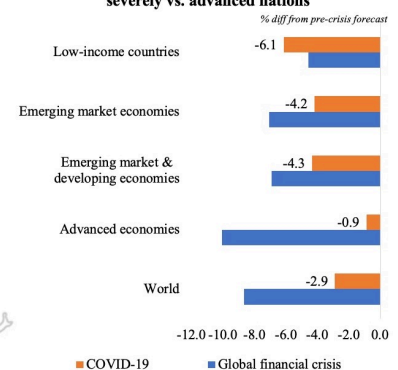
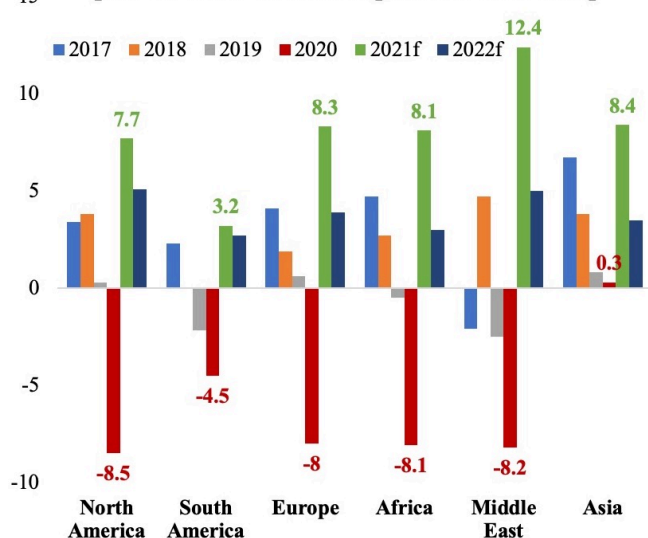


Chart 3.1

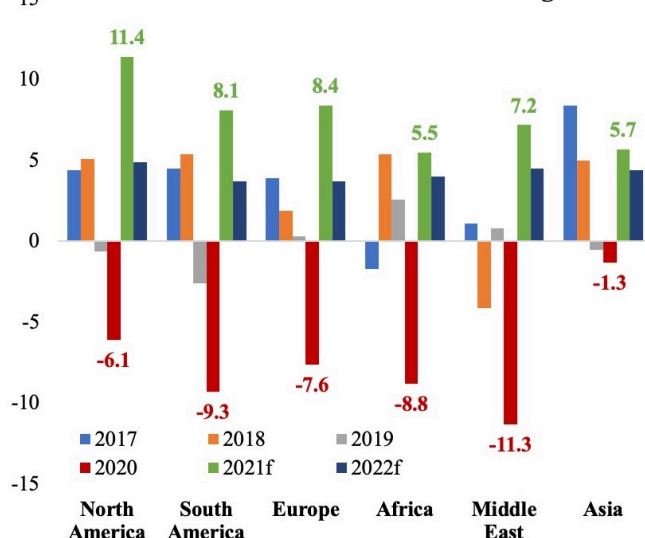
Merchandise trade poised for recovery in 2021, before slowing in 2022: WTO

Middle East exports forecast to surge in 2021 post the lower-oil-consumption-led 2020 slump



Source: World Trade Organisation. Charts by Nasser Saidi & Associates

On the import side, Africa, South America & Middle East will continue to see trade stagnate



- **Strong, but uneven recovery is the story in merchandise trade volumes as well.** Trade volume is projected to increase by 8% this year and then slow to 4% in 2022. Cross-border trade in services remains subdued and new waves of infection could easily reverse course of trade.
- **Falling oil prices led to a 35% contraction in trade in fuels in 2020:** it had a significant impact on Middle East exports (-8.2% slump in 2020), also resulting in a massive 11.3% plunge in imports. As travel picks up post-vaccine drives, demand for oil will likely strengthen, causing a 12.4% rise in exports in the Middle East this year.
- **Asia, the export hub:** the region's limited impact and faster recovery from the virus + supply of medical supplies & consumer goods supported their export growth last year. This will enable the 8.4% rise in exports this year.

Chart 4. Risks to the Rosy Outlook

- **Pandemic-related risks:**
 - New strains of vaccine-resistant Covid19 => prolonged pandemic
 - Highly unequal global roll out of vaccines could reverberate on advanced nations, when lockdowns

are relaxed

- Supply chain disruptions: one leading COVID-19 vaccine includes 280 components sourced from 19 different countries. Any constraint would impact production and distribution
- Insufficient production of vaccines + vaccine nationalism affecting global rollout of vaccines
- **Financial risks:**
 - Avoid a repeat of 2013 “taper tantrum”. Rise in US rates => repricing of risk + tighter financial conditions => negative impact on highly leveraged nations/ businesses (heavy borrowings in 2020, supported by low interest rates: EMEs borrowed 9.8% of GDP & low-income nations 5.5%)
 - Impact of corporate sector when stimulus measures are rolled back: potential bankruptcies/ insolvencies (& job losses), profitability => financial risks & effect on banks’ bottom line
- **Long-lasting effects from the pandemic:**
 - Poverty: an additional 95mn people likely entered the category of “extreme poor” in 2020 versus pre-pandemic projections => rising food prices & social unrest (Lebanon as an example)
 - Labour markets: youth, women & low-skilled workers more affected + impact on productivity
 - Inequality within nations & across economies: not limited to income. Think education, technology
- **Climate change risks:** methane & CO2 levels surged to record amounts in 2020 + stranded assets + preparedness for a low-carbon transition
- **Geo-political risks:** US-China tensions led suppliers to shift away from China (one of the reasons behind the current shortage of computer chips), reshoring and “Made at home” policies

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