Middle East Economic Outlook: Impact of the Pandemic

Gega Todua, Economist
Suren Vardanyan, Economist

May 2020
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Gega Todua
Gega Todua is an Economist in the Prague office. He contributes to projects focused on IFRS 9 and stress testing. He is also responsible for macroeconomic baseline and scenario forecasting for the United Arab Emirates and Nigeria. Prior to joining Moody’s, Gega was a junior researcher at the Center for Economic Research and Graduate Education (CERGE-EI) in Prague and a lecturer at the Institute of Economic Studies, Prague.

Suren Vardanyan
Suren is responsible for macroeconomic and market risk forecasting. He provides commentary and research on economies in the Middle East. As the key analyst for Saudi Arabia and Bahrain, Suren is responsible for macroeconomic baseline and scenario forecasts and narrative development. He also contributes to euro zone financial forecasting.
Agenda

1. Global & Middle East Outlook
2. Saudi Arabia Outlook
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Global & Middle East Outlook
Global Business Cycle Status

April 2020

Source: Moody’s Analytics
### Recession Deepens

Real GDP growth, % change

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<th>February</th>
<th>2020Q1</th>
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## Policymakers Respond

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<th>Country</th>
<th>Fiscal policy</th>
<th>Monetary policy</th>
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| Saudi Arabia     | SAR 70 bil (2.8% of GDP) support package for private sector  
Spending cuts in non-priority areas, delay in capital spending and removing accommodation allowance to public sector employees  
Tripling the VAT from 5 to 15 ppt | Rate cut twice in March – 125 basis points  
SAR 50 bil (2% of GDP) aid package to private sector, particularly SMEs |
| United Arab Emirates | Tax payment deferrals, reduced or suspended various government fees and penalties  
Ramped up execution of infrastructure projects  
AED 26.5 bil (2% of GDP) for fiscal measures | Rate cut twice – combined 50 basis points  
AED 256 bil (20% of GDP) measures to support liquidity in the financial sector |
| Qatar            | QAR 75 billion (13% of GDP) package to support the most-hit sectors  
Six-month exemptions on utilities and rent payments | Rate cut twice in March – combined 175 basis points  
Additional liquidity provided to banks through a special repo window at zero interest rate |
| Jordan           | Tax payment deferrals by the end of the year  
Price ceilings on essential products  
Postponement of 70% of the value of customs duties | Rate cut twice in March – combined 150 basis points  
No exchange rate measures |
| Lebanon          | Extended all deadlines related to payment of taxes and fees  
Cash assistance to families hit economically and financially as a result of COVID-19 | Mandated small depositors to exchange dollars at a market rate set weekly  
No exchange rate measures |
| Egypt            | EGP 100 bil stimulus policies (1.8% of GDP)  
Support to the healthcare and the tourism sectors | Rate cut in March – by 300 basis points  
Utilization of reserves to avoid excessive exchange rate volatility and EGP 20 bil stock-purchase program |
Global Oil Glut

Mil barrels per day

Global balance (L)
Global demand (R)
Global supply (R)

Sources: International Energy Agency, Moody’s Analytics
Grim 2020 But Brighter 2021
Real GDP growth, % change year ago

Source: Moody's Analytics
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Saudi Arabia Outlook
COVID-19: Double-Edged Sword

» Curfew
   – Supply shock
   – Demand shock

» Oil market meltdown
Saudi GDP Plunges in Q2
Deviation from normal level of activity, ppt, by industry

Source: Moody’s Analytics
The First Contraction of Non-oil GDP in Decades

Real GDP growth by sector, % change yr ago

Sources: Economena Analytics SARL, Moody's Analytics
Oil Prices Below Saudi Fiscal Breakeven

Brent prices, $ per bbl

Sources: IMF, SIX Financial Information, Moody’s Analytics
Saudi Fiscal Balance Tracks Oil Prices

Sources: SIX Financial Information, SAMA, Saudi statistical office, IMF, Moody’s Analytics
Saudi Debt Soars Amid Weak Oil Prices

Sources: SIX Financial Information, SAMA, Saudi statistical office, IMF, Moody’s Analytics
VAT Tripled: Strong Negative Signal

» Positives
  – Ease fiscal pressure in short to medium term
  – Diversify revenue source from oil

» Negatives
  – Vision 2030
    › Slow private sector development
    › Lose competitiveness for FDI vs other GCC countries
  – Hit consumption and retail sector
The economic effects of COVID-19 are severe, despite government actions.

Oil market meltdown and OPEC+ production cuts weigh on the region.

Weak oil prices and tripling of VAT will hinder diversification of Saudi economy.
Questions?

» Please email help@economy.com