



MENA CHART BOOK

End of lockdowns unlikely to lead to rapid recovery

- Governments across MENA have taken steps to re-open economies over the past month and, after a sharp downturn in April and May, daily indicators suggest that economic activity has started to recover. That said, activity remains well below pre-virus levels. Recoveries in those economies with large tourism sectors, such as Dubai, Egypt, and the rest of North Africa are likely to lag behind. And austerity will act as a major headwind to the Gulf economies. Balance of payments strains in the likes of Egypt, Tunisia, and Morocco have receded thanks to financial assistance from the IMF. Lebanon's problems, however, appear to be deepening and there's a growing likelihood that the sovereign debt and currency crises already underway will ultimately lead to series of bank failures.
- The spread of the **coronavirus** outbreak has accelerated across the region over the past month. Case numbers have risen the most in Saudi Arabia and Egypt, but this has not prevented authorities from pressing on with plans to ease lockdowns and resume international travel.
- **Saudi Arabia's** economy has been hit hard by the coronavirus crisis as both the oil and non-oil sectors contracted since March. And while a recovery will get underway as the economy opens, the tripling of VAT from the start of next month will act as a headwind to activity.
- The **UAE** has begun to reopen its economy, which will provide welcome relief to Dubai in particular. In **Qatar**, despite the easing of lockdown measures, activity has remained depressed. The whole economy PMI fell to a fresh record low in May and indicators of household spending have slumped.
- Across the **rest of the Gulf**, low oil prices have prompted Kuwait's government to consider suspending the automatic transfer of a tenth of its revenues to the Future Generation's Fund in order to shore up public finances. Elsewhere, the ongoing deterioration in Oman's public finances prompted Moody's to downgrade the country's sovereign credit rating this month.
- **Egypt's** authorities secured a new Stand-By Arrangement with the IMF this month and the Fund is likely to keep up the pressure on the central bank to loosen its grip on the pound. Low inflation and the shift in focus away from propping up the currency means that the backdrop is becoming more conducive for policymakers to cut interest rates to support the economy.
- In the **rest of North Africa**, the slump in external demand has taken a heavy toll on balance of payments positions in Morocco and Tunisia but IMF support should help them to muddle through. Meanwhile, low oil prices have forced the Algerian authorities to let the dinar weaken further against its euro-dollar basket.
- **Lebanon's** authorities seem to be growing disillusioned with IMF talks and the worst-case scenario for the economy appears to be playing out. Meanwhile, **Jordan** has got on top of the virus but the slump in tourism will remain a key drag on the economy.
- **Financial markets** have fared well over the past month as equity markets rose across the board and sovereign dollar bond spreads narrowed. Pressure has eased on dollar pegs in the Gulf, while some currencies in North Africa have weakened.

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Coronavirus

- The coronavirus has continued to spread across the Middle East and North Africa **(1)** with the number of new daily cases in the region rising further over the past month **(2)**. Much of this recent upsurge has been driven by Saudi Arabia **(3)** where only in the past few days have daily new cases begun to slow.
- In response to the ongoing spread of the virus, governments across the region – particularly in the Gulf – have ramped up testing capacity. In Bahrain and the UAE, around a quarter of their entire populations have been tested so far **(4)**. Case numbers per capita are highest in Qatar **(5)**.
- Despite the high level of daily new virus cases, particularly in Saudi Arabia, governments have shown little sign of delaying plans to re-open economies. Over the past month, lockdown measures and travel restrictions have already been gradually relaxed **(6)**. While this will help to kickstart economic recoveries, there is a major risk of fresh outbreaks that force governments to reimpose lockdowns. This would make any economic recovery bumpier and more sluggish.

Chart 1: Confirmed Coronavirus Cases (Log-Scale)

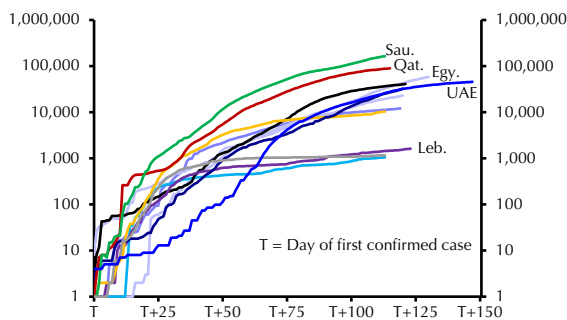


Chart 2: Daily New Coronavirus Cases in MENA

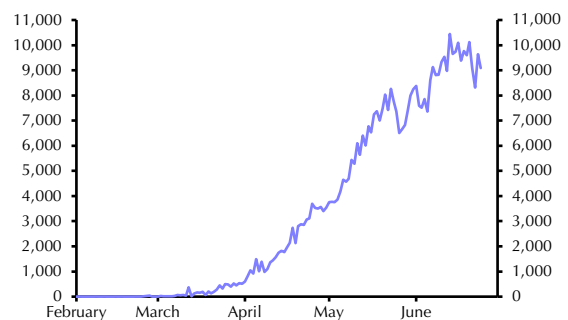


Chart 3: Share of Daily New Coronavirus Cases (% of MENA Total)

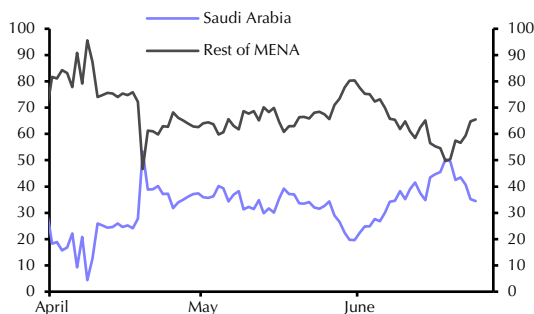


Chart 4: COVID-19 Tests (Per 000 Population)

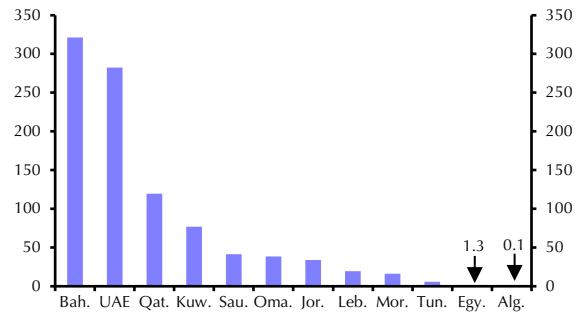


Chart 5: Confirmed Coronavirus Cases (Per mn Population)

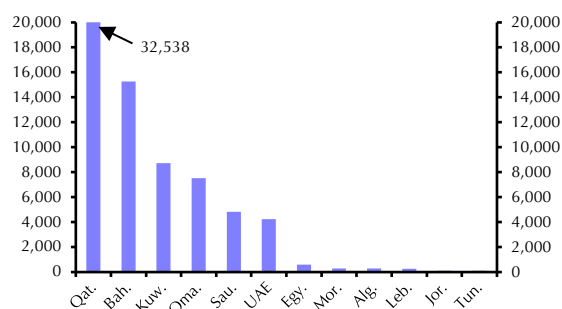
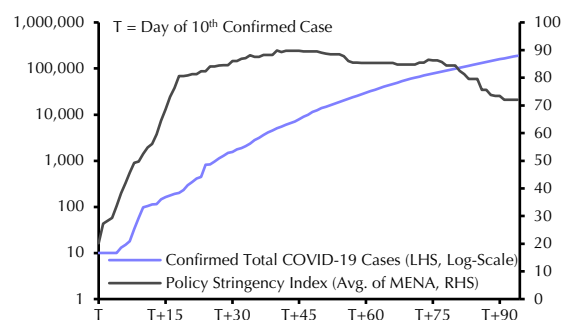


Chart 6: Total Confirmed Coronavirus Cases in MENA & Oxford University Policy Stringency Index



Sources: CEIC, Refinitiv, Markit, Capital Economics



Saudi Arabia

- The latest data confirm that the coronavirus crisis has led to a collapse in activity in recent months. Admittedly, our GDP Tracker suggests that growth in the first three quarters of the year was broadly in line with the outturn of 0.4% y/y recorded in Q4 2019, although the Tracker may once again be understating the pace of economic activity (7). But the figures from Q2 are ominous.
- ATM withdrawals and point of sales transactions dropped by close to 35% y/y in April. Spending on jewellery and education fell furthest, whereas food spending jumped (8). Meanwhile, cement and clinker deliveries continued to decline sharply (9). And, at 48.1, the whole economy PMI remained weak in May. After providing some offsetting support to the economy in March and April, a fresh round of oil production means that the oil sector will act as a major drag on the economy over the remainder of the year (10).
- The lifting of lockdown measures this month will lead to a recovery in activity but this will be held back by the imposition of austerity, including a VAT hike which will cause inflation to jump from 1.1% y/y in May to 5.5-6.0% y/y in July (11). The announcement of renewed austerity, a recovery in oil prices and an improvement in global risk appetite have eased pressure on the dollar peg. FX reserves fell sharply in March and April but, in part, this can be explained by investments by the sovereign wealth fund (12).

Chart 7: GDP & CE GDP Tracker (% y/y)

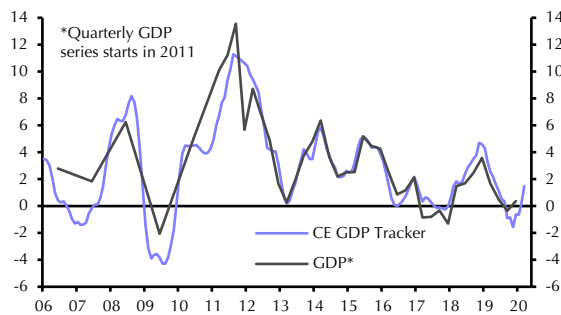


Chart 8: Point of Sale Transactions by Sector (April, % y/y)

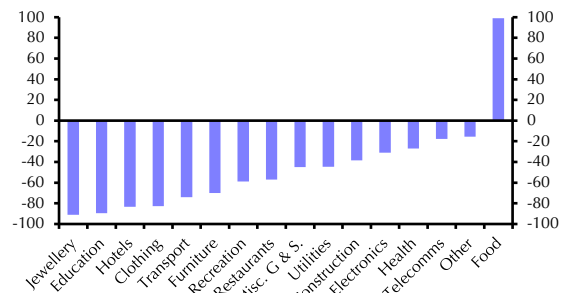


Chart 9: Local Deliveries of Cement and Clinker

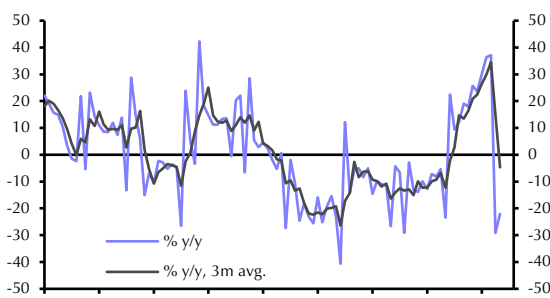


Chart 10: Oil Production

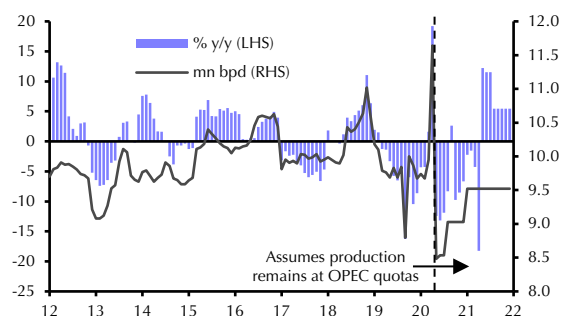


Chart 11: Consumer Prices (% y/y)

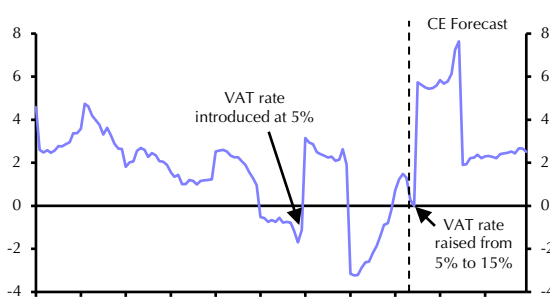
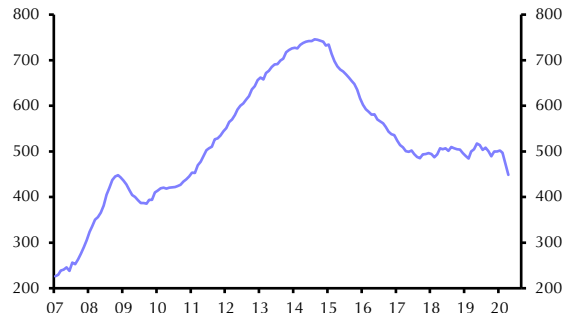


Chart 12: Foreign Exchange Reserves (\$bn)



Sources: CEIC, Refinitiv, Capital Economics



United Arab Emirates

- The UAE is starting to reopen its economy having brought the coronavirus outbreak mostly under control (13). This will come as a welcome relief to Dubai, which has a relatively large share of its economy that was vulnerable to lockdown measures and travel restrictions (14). The easing of virus-related restrictions has allowed some economic activity to resume, which was reflected in a rise in the whole economy PMI from its all-time low of 44.1 in April to 46.7 in May (15).
- Meanwhile, private sector growth slowed from 0.7% y/y in March to 0.0% y/y in April, its weakest pace since 2012. A growing concern is the build-up of non-performing loans on banks' balance sheets, which are now close to their peak following the 2009 global financial crisis (16). The oil sector has fared badly too as oil production cuts agreed with other major oil producers are set to act as a major drag on GDP growth over the rest of this year (17).
- Finally, consumer price figures for April showed that the pace of deflation accelerated from 1.6% y/y in March to 1.9% y/y. A drop in non-food inflation, most probably a reflection of subdued domestic demand, more than offset a jump in food inflation (18).

Chart 13: Daily Coronavirus Cases

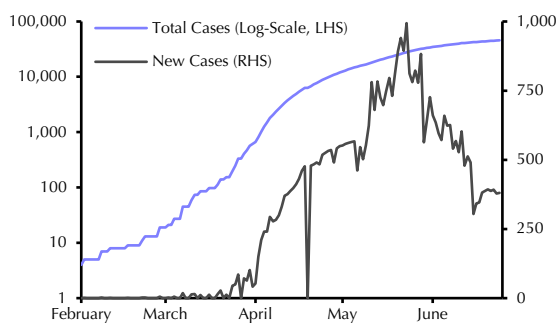


Chart 14: Share of Economy Vulnerable to Measures of Social Distancing (%)



Chart 15: Whole Economy PMI

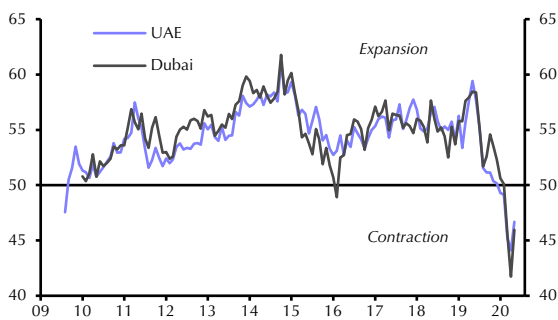


Chart 16: Non-Performing Loans (% of Total Loans)

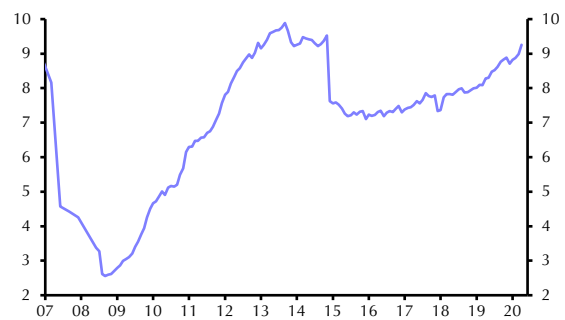


Chart 17: Oil Production

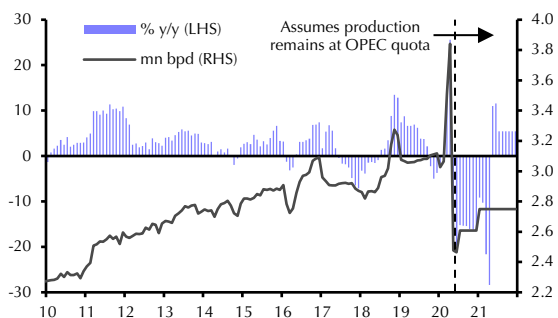
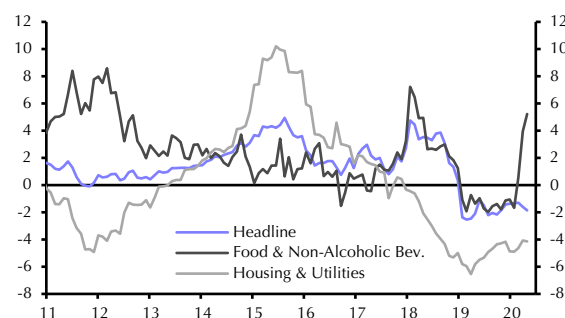


Chart 18: UAE Consumer Prices %(y/y)



Sources: CEIC, Refinitiv, Markit, Capital Economics



Qatar

- Qatar's economy has continued to struggle. The whole economy PMI fell from 39.0 in April to a fresh record-low of 36.6 last month **(19)** and figures from Google on residents' movement show that activity in retail and recreation sectors remains below 2019 levels **(20)**. Meanwhile, data on vehicle registrations show a 55.6% y/y decline in the number of new vehicles registered in April, the lowest on record **(21)**.
- At the same time, real estate prices have continued to fall, contracting by over 12% y/y in March. And the boom in private sector credit has lost steam **(22)**. Travel restrictions have led to high rates of flight cancellations **(23)** and (as would be expected) visitor arrivals have plunged – in April, only 566 entered Qatar via air travel, which is only just enough to fill one of Qatar Airways' Airbus A380s!
- Finally, consumer price figures for May showed the headline rate remained unchanged at -3.1% y/y, its lowest in a decade **(24)**. Weak demand coupled with the unwinding of stockpiling suppressed prices.

Chart 19: Whole Economy PMI

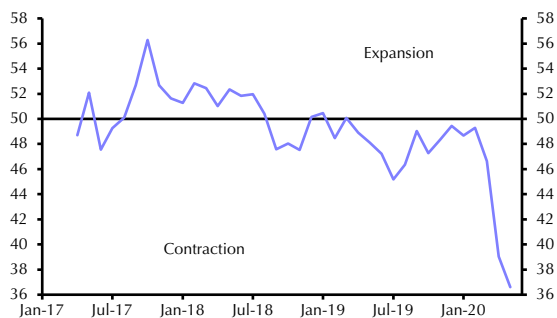


Chart 20: Google Mobility Data on Retail & Recreation Sectors (%-pts Deviation from 2019)

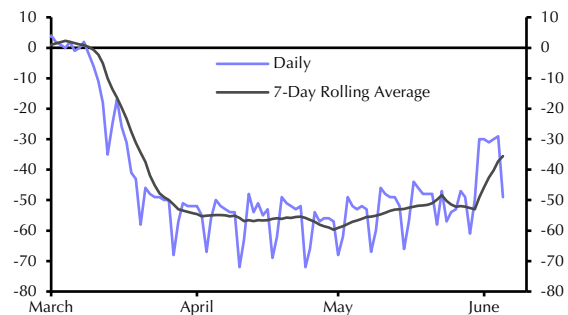


Chart 21: New Motor Vehicle Registrations

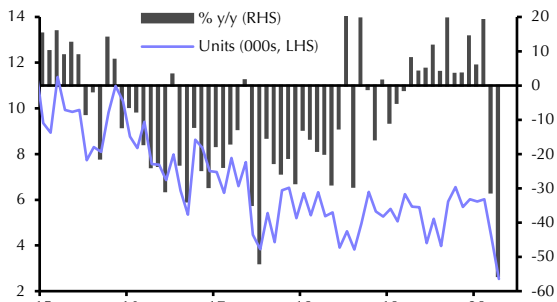


Chart 22: Private Sector Credit

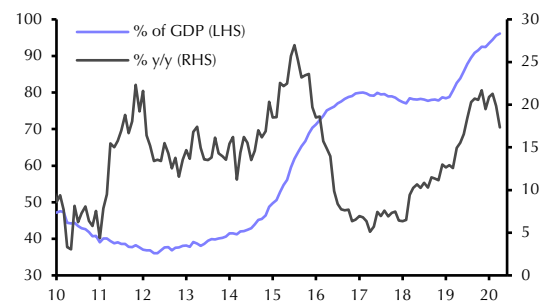


Chart 23: Cancelled Departure Flights (% of Total Scheduled Flights)

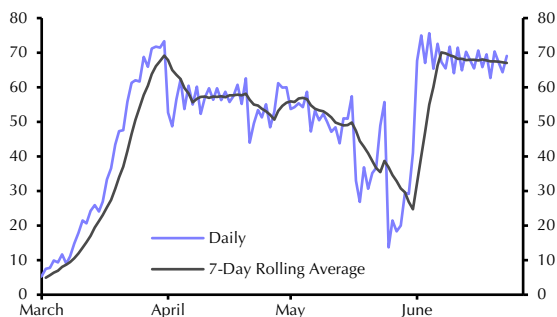
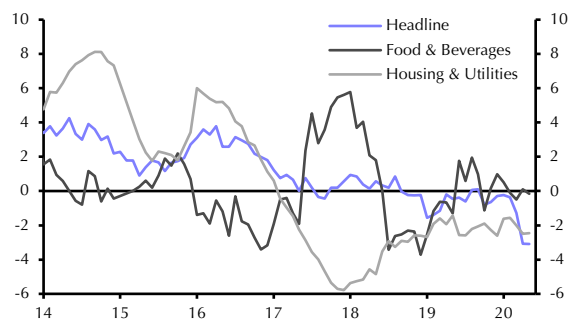


Chart 24: Consumer Prices (% y/y)



Sources: CEIC, Refinitiv, Capital Economics



Rest of the Gulf

- In the rest of the Gulf, governments have been more cautious in removing lockdown measures (25). This is probably due to the fact that – after Qatar – Kuwait, Bahrain and Oman have the highest virus case numbers per capita. Despite the very gradual re-opening, economic activity has begun to resume. Data from Google show that retail and recreational sectors have seen a pick-up over the past month (26).
- Weak global demand prompted OPEC+ to cut production in May to support oil prices. Kuwait lowered output to 2.2mn bpd last month, down by 18.9% in year-on-year terms (27). While oil prices have risen to \$42pb, they remain below budget breakeven oil prices in the Gulf. Kuwait is reportedly considering halting the automatic 10% revenue transfer from the budget to the Future Generations Fund.
- Meanwhile, Moody's downgraded Oman's credit rating on the back of the country's deteriorating public finances. The debt ratio has jumped 55%-pts of GDP over the past five years (28) and dollar bond spreads are the highest in the Gulf (29). Finally, consumer price figures have shown an easing of price pressures across all three countries. Headline rates in Kuwait and Bahrain both fell in April, with the latter returning to deflation. Data for May showed that the pace of deflation in Oman accelerated. (30).

Chart 25: Oxford University Policy Restrictiveness Index (100 = Full Lockdown)

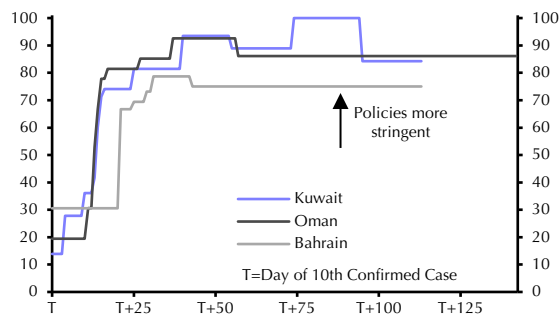


Chart 26: Google Mobility Data on Retail & Recreation Sectors (%-pts Deviation from 2019. 7-Day Rolling Avg.)

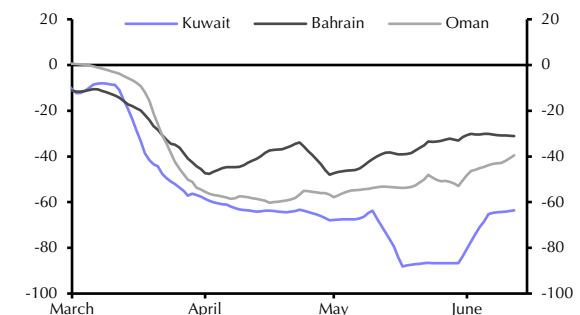


Chart 27: Kuwait Oil Production

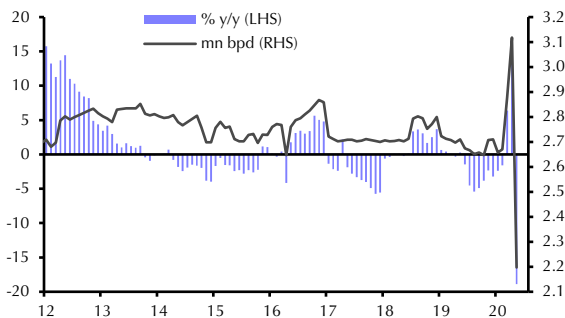


Chart 28: Oman General Govt. Debt (% of GDP)

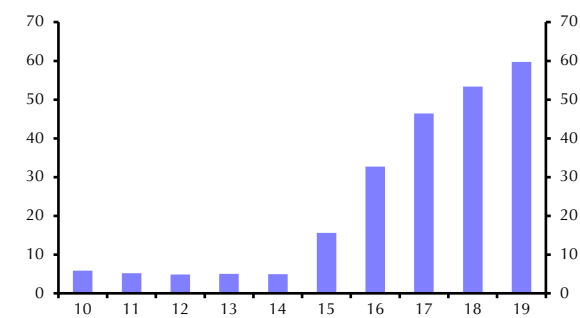


Chart 29: Gulf EMBI Dollar Bond Spread over US Treasuries (bp)

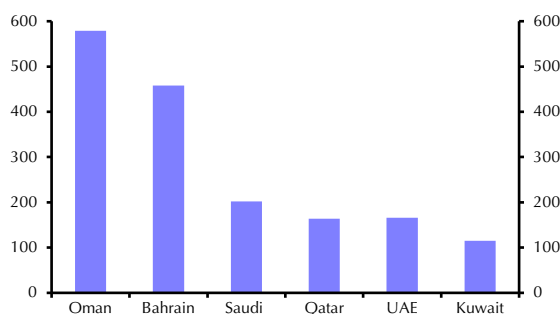
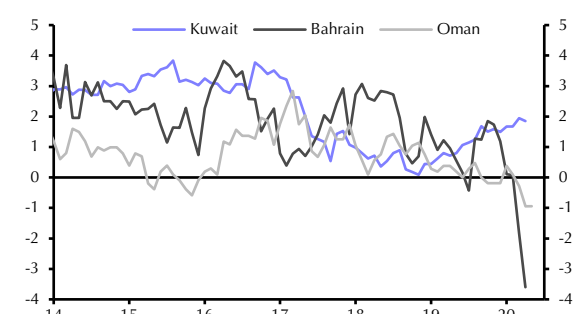


Chart 30: Consumer Prices (% y/y)



Sources: CEIC, Refinitiv, Capital Economics



Egypt

- The Egyptian authorities agreed a new one-year \$5.2bn Stand-by Arrangement (SBA) with the IMF this month, which follows \$2.8bn of emergency financing secured in May. While the conditions of the deal aren't yet known, it is likely the Fund will pressure the central bank (CBE) to maintain a looser grip on the pound, which has weakened by 2.7% since the end of April (31). The CBE slowed the pace of depletion of its FX reserves in May – they fell by \$1.0bn compared with a drop of \$8.5bn over March and April (32).
- Despite the fall in the currency, consumer price figures for May showed that the headline rate eased from 5.9% y/y in April to 4.7% y/y last month (33). This came on the back of slower food and non-food inflation, driven by weaker demand during the current crisis and the unwinding effects of food stockpiling by households. Against the backdrop of subdued price pressures and the security of IMF financing, we think the CBE will resume its easing cycle in the coming months (34).
- Monetary stimulus would help to support the struggling economy. While the whole economy PMI rose from a record low of 29.7 in April to 40.7 last month, it remained well below the 50-mark that, in theory, separates expansion from contraction (35). Trade figures for April showed that both imports and exports contracted sharply in value terms reflecting a slump in both domestic and external demand (36).

Chart 31: Egyptian Pound (vs. US\$, Inverted)

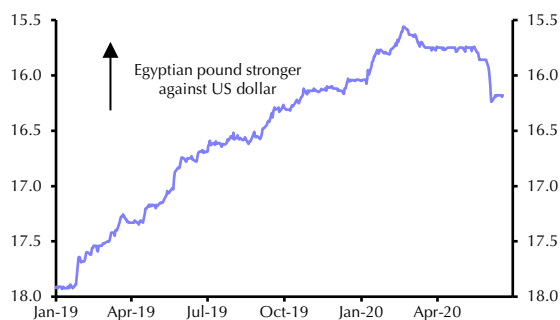


Chart 32: FX Reserves (\$bn)

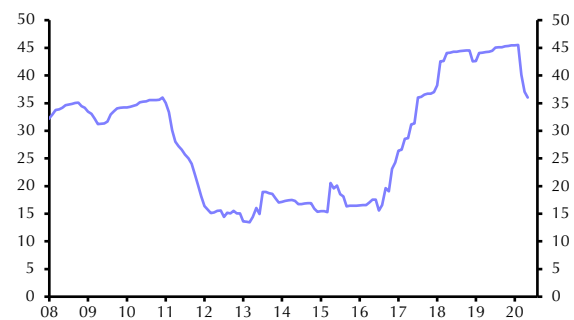


Chart 33: Consumer Prices (% y/y)

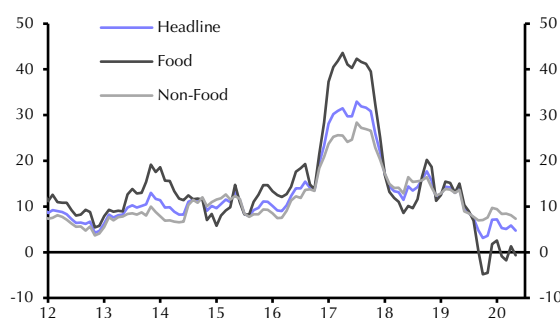


Chart 34: Overnight Deposit Rate

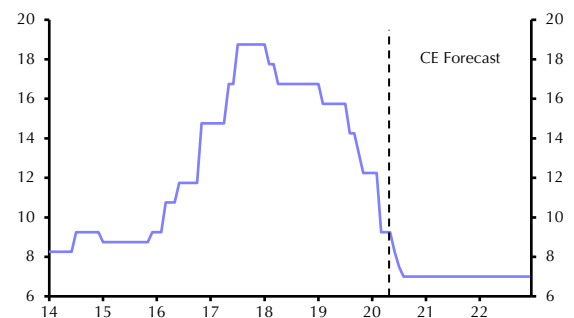


Chart 35: Whole Economy PMI

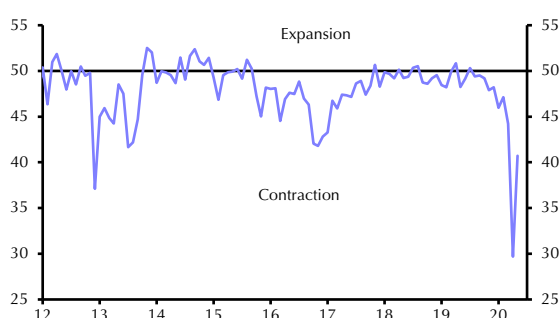
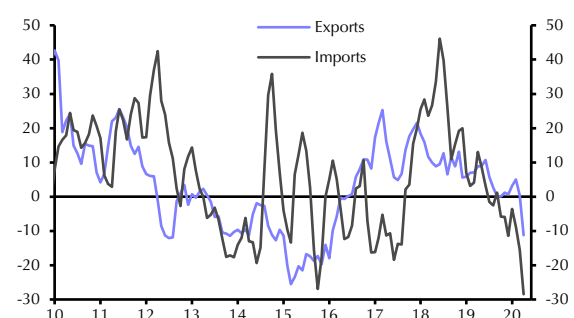


Chart 36: Exports & Imports (US\$ Terms, % y/y)



Sources: CAPMAS, CEIC, Refinitiv, Capital Economics



Rest of North Africa

- The coronavirus outbreak has been mostly brought under control across North Africa. But measures to contain the outbreak have resulted in sharp economic downturns. In Morocco, manufacturing output slowed from 2.4% y/y in 2019 to just 0.5% in Q1 and, in Tunisia, industrial production figures for March showed a 13.9% y/y decline in output **(37)**. The slump in the euro-zone economy has also taken a heavy toll on Moroccan and Tunisian exports which were down by 37-50% y/y in May **(38)**.
- Both countries have turned to the IMF for financial assistance to cope with the resulting balance of payments strains. Morocco's central bank cut rates by 50bp, to 1.50%, to support the economy. But policymakers in Tunisia are in a bind given much weaker external and public finance positions there **(39)**. With dollar bond spreads still elevated, the government has announced that it will not issue any further external debt **(40)** in order to plug the country's large twin deficits.
- As well as the coronavirus crisis, Algeria is also having to contend with the collapse in oil prices. Following the OPEC+ deal, oil production slumped by 20.4% y/y in May **(41)**. Meanwhile, amid strains in the balance of payments and rapidly depleting FX reserves, the authorities have loosened their grip on the dinar – the currency has weakened by 7.5% against its euro-dollar basket since the start of the year **(42)**.

Chart 37: Tunisia Industrial Production & Morocco Manufacturing Production (% y/y)

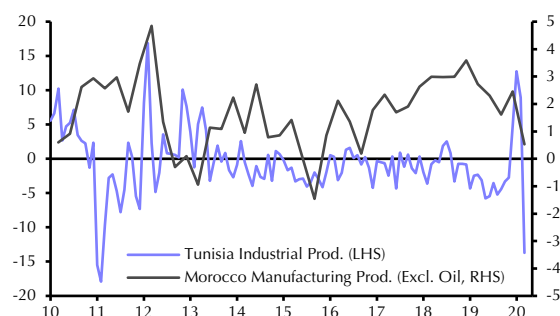


Chart 38: Morocco Policy Rate & Consumer Prices

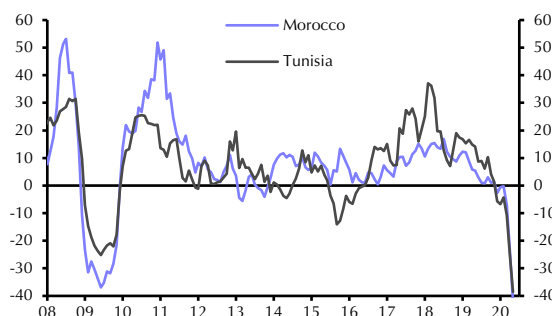


Chart 39: Tunisia Budget & Curr. Acct. Bal. (% GDP)

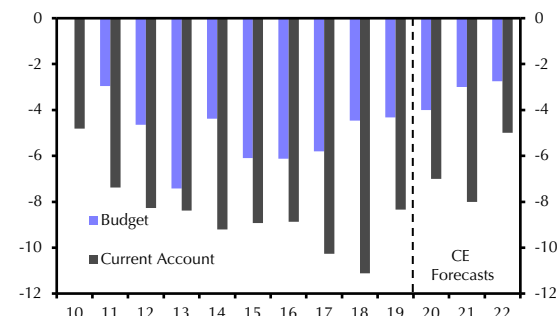


Chart 40: Tunisia External Debt by Sector (% of GDP)

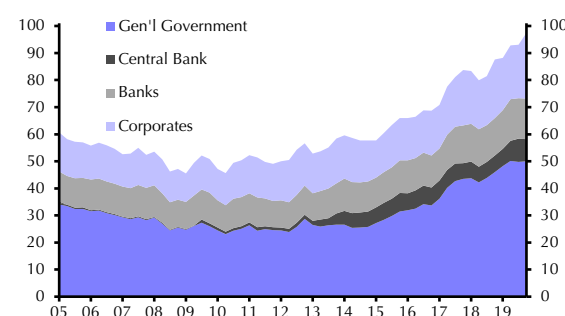


Chart 41: Algeria Oil Production

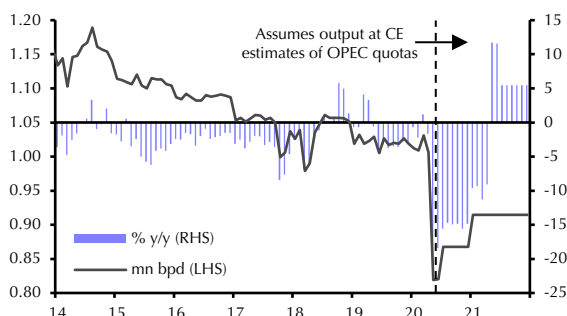
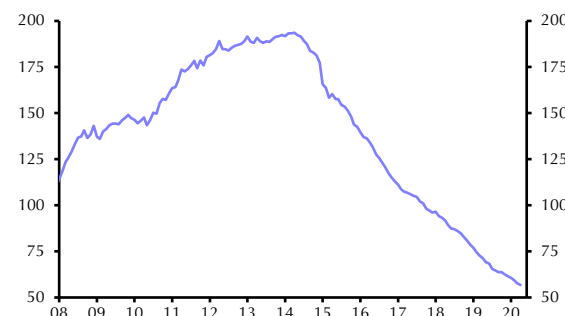


Chart 42: Algeria FX Reserves (US\$bn)



Sources: CEIC, Refinitiv, Capital Economics



Lebanon & Jordan

- **Lebanon's** crisis has **deepened**. The latest bout of unrest appears to have been triggered by a further sharp depreciation of the pound on the parallel market, where it has traded as low as 7,000/\$ -more than 80% below the official pegged exchange rate **(43)**. The weaker currency has caused inflation to soar from 10.0% y/y at the start of the year to 56.5% y/y in May. Food inflation rose to 189.9% y/y last month and this has been a big factor behind recent protests **(44)**.
- Despite the easing of lockdown measures as the number of new daily COVID-19 cases has slowed, economic output is still contracting sharply. The whole economy PMI rebounded from its all-time low of 30.9 in April to 37.2 in May, but that still left it well below the 50-mark that separates expansion from contraction **(45)**. Overall, **given that the authorities appear to be backing away from talks with the IMF**, there is a growing risk of an even more disorderly outcome including a wave of bank failures.
- Elsewhere, **Jordan** has successfully got on top of the coronavirus outbreak **(46)** and the government has removed most lockdown measures with a reported 90% of businesses back in operation. However, almost all international flights remain cancelled **(47)** which will heavily weigh on the key tourism sector just as it enters its peak summer months **(48)**. Tourism makes up around 20% of Jordan's economy.

Chart 43: Lebanese Pound (vs. US\$, Inverted)

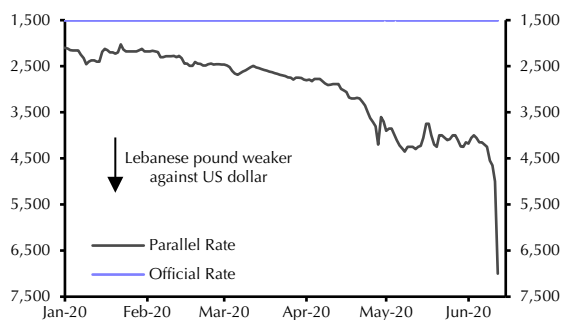


Chart 44: Lebanon Consumer Prices (% y/y)

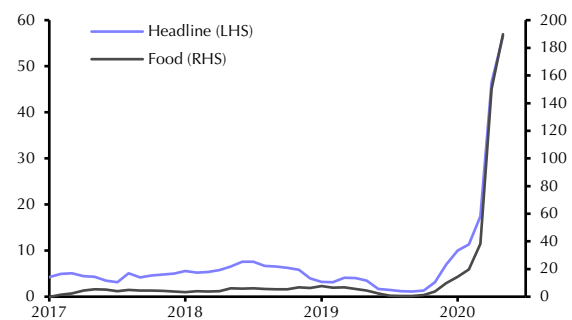


Chart 45: Lebanon Whole Economy PMI

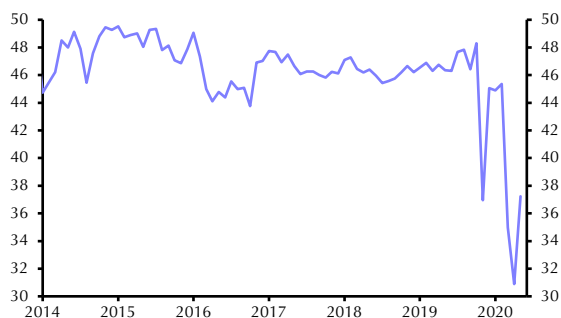


Chart 46: Jordan Coronavirus Cases (Daily)

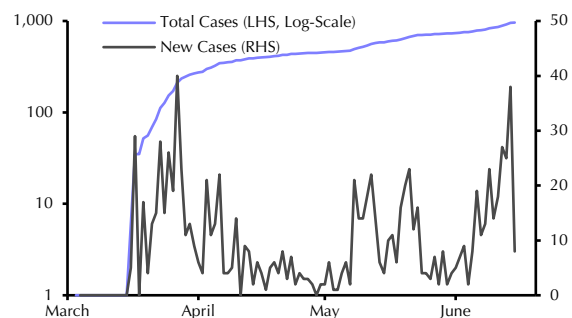


Chart 47: Jordan Flight Cancellations (% of Total Scheduled Flights)

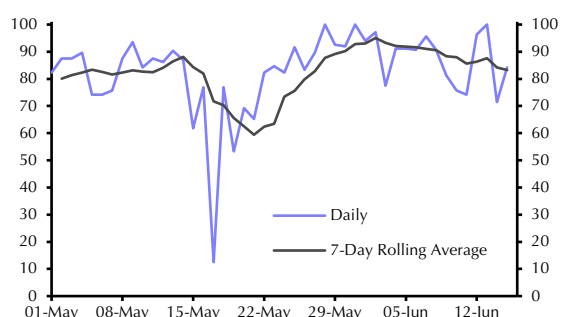
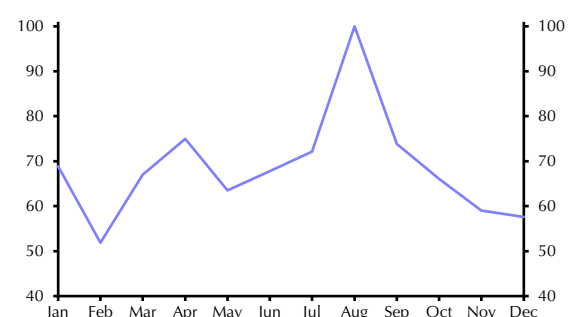


Chart 48: Tourist Arrivals (Avg., 2010-2019, Peak Month of Arrivals = 100)



Sources: CEIC, Refinitiv, Markit, Capital Economics



Financial Markets

- Equity indices have continued to strengthen over the past month. The MSCI Arabian Markets Index rose by 4.0% m/m, although this was still weaker than the performance of the wider MSCI Emerging Markets Index, which increased by 10.5% over the same period (49). Stock markets across the region made gains over the past month and were largest in Egypt (50).
- Sovereign dollar bond spreads have narrowed across almost all countries in the region (51). Having surged earlier in the year, Oman's dollar bond spreads have narrowed sharply over the past month (52). This came on the back of reports that the Sultanate is in discussions with its Gulf neighbours over possible financial assistance which would help it to avert a devaluation.
- Currencies in the region have fared worse. Admittedly, the recovery in oil prices and the announcement of austerity measures has eased pressure on dollar pegs in the Gulf. But currencies in North Africa have weakened (53). Notably, the Egyptian pound, which was held steady until the end of April has since fallen by 2.7% against the dollar. Elsewhere, the Lebanese pound has collapsed, dropping as low as 7,000/\$ on the parallel market earlier in the month (54).

Chart 49: MSCI Index (Local Ccy, 1st Jan. 2020= 100)

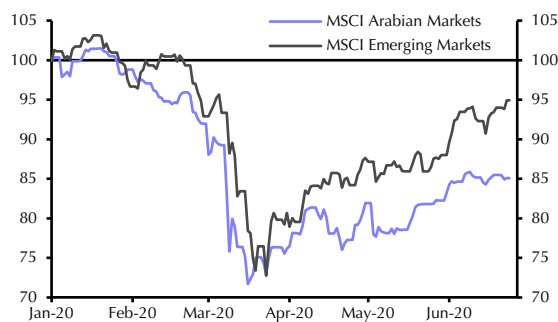


Chart 50: Equity Indices (Local Ccy., % Change)

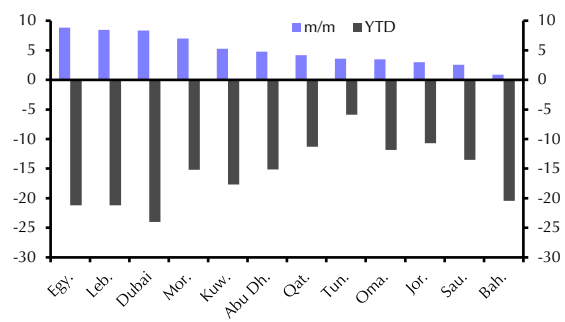


Chart 51: EMBI Sovereign Dollar Bonds

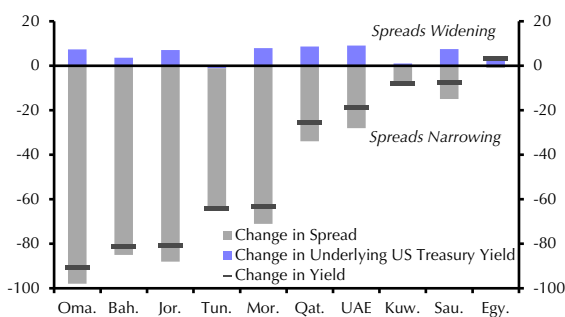


Chart 52: Oman EMBI Sovereign Dollar Bond (bp)

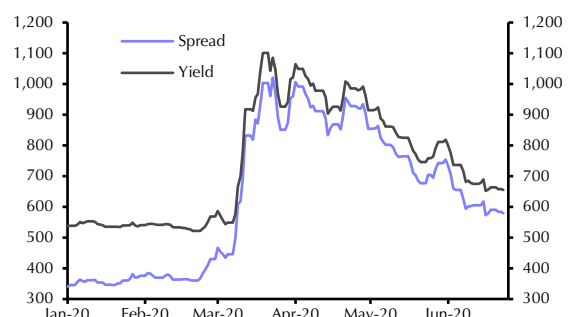


Chart 53: Change in Currency (vs. US Dollar, %)

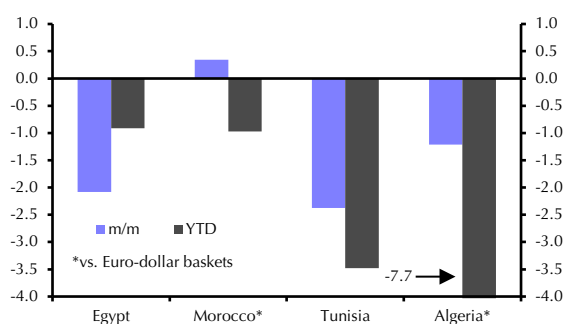
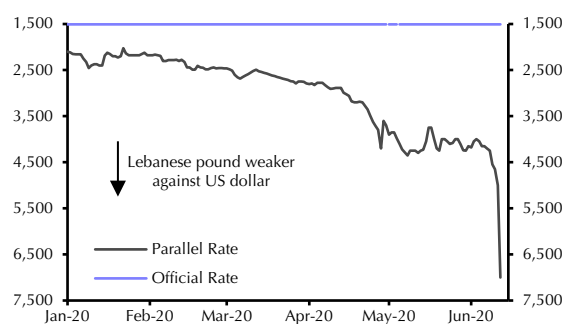


Chart 54: Lebanese Pound (vs. \$, Inverted)



Sources: CEIC, Refinitiv, Markit, Capital Economics



Background Data

Chart 55: GDP (\$bn, 2019, Market Exchange Rates)

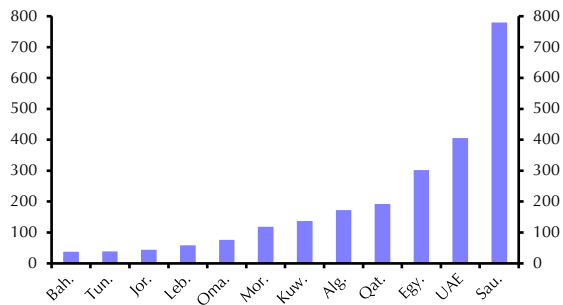


Chart 56: Population (Millions, 2019)

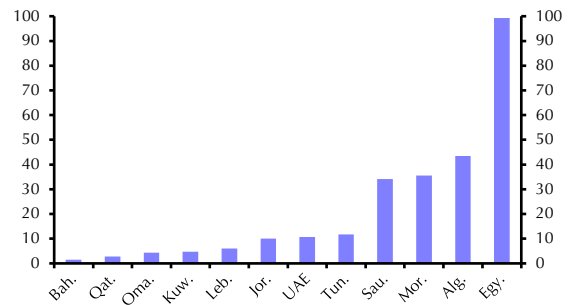


Chart 57: GDP Per Capita (\$000, 2019, Market Exchange Rates)

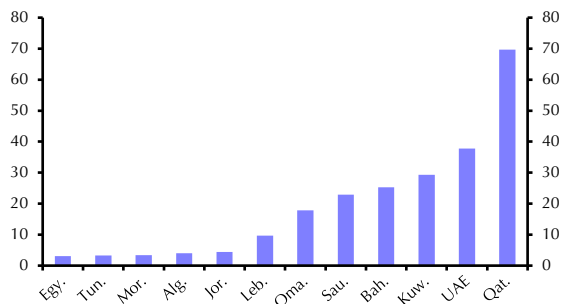


Chart 58: Share of World Output (% , 2019, PPP)

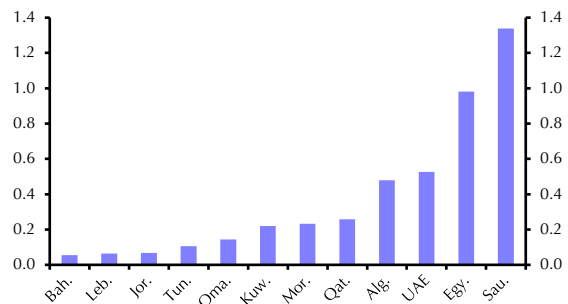


Chart 59: Real GDP (% y/y)

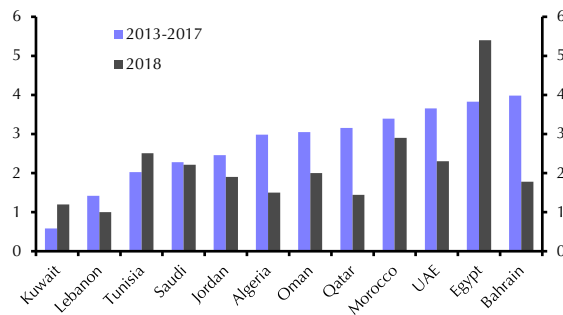


Chart 60: Consumer Prices (% y/y)

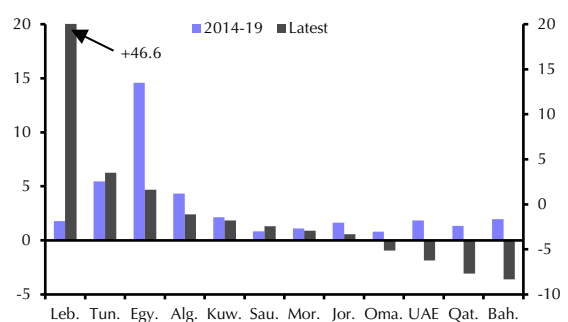


Chart 61: Budget Balance (% of GDP)

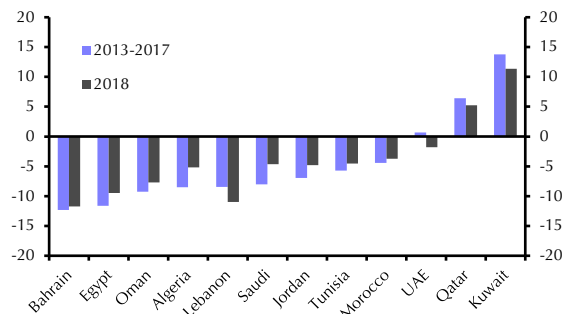
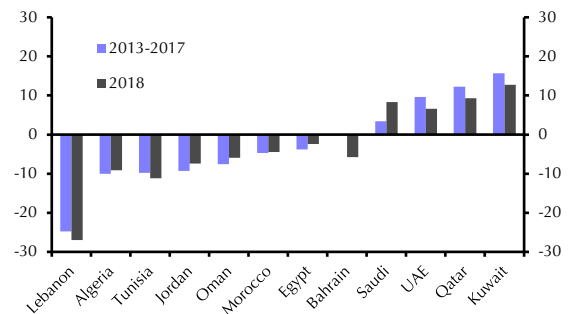


Chart 62: Current Account Balance (% of GDP)



Sources: CEIC, Refinitiv, Capital Economics



Key Historic Data

Table 1: Real GDP & Inflation

	Share of World ⁽¹⁾	GDP (% y/y)						Inflation (% y/y)					
		15-19	2015	2016	2017	2018	2019	15-19	2015	2016	2017	2018	2019
Saudi Arabia	1.3	1.6	4.1	1.7	-0.7	2.4	0.3	0.7	1.3	2.0	-0.9	2.5	-1.2
Egypt	1.0	4.7	3.9	3.9	5.0	5.4	5.5	15.7	10.6	14.4	30.6	14.0	8.6
United Arab Emirates	0.5	2.4	5.1	3.1	0.5	1.7	1.5	1.8	4.1	1.6	2.0	3.1	-1.9
Algeria	0.5	2.3	3.7	3.4	1.6	1.5	1.5	4.6	4.8	6.4	5.6	4.3	2.0
Qatar	0.3	1.6	3.6	2.2	1.7	1.4	-0.8	0.9	1.7	2.8	0.4	0.3	-0.6
Morocco	0.2	3.0	4.5	1.1	4.2	3.0	2.2	1.3	1.5	1.6	0.8	1.8	0.7
Kuwait	0.2	0.2	0.6	2.9	-3.5	1.2	-0.5	2.1	3.7	3.5	1.5	0.6	1.1
Oman	0.1	2.2	4.7	5.0	-0.9	2.0	0.5	0.8	0.3	1.0	1.4	0.9	0.1
Tunisia	0.1	1.6	1.2	1.3	1.8	2.5	1.0	5.6	4.7	3.7	5.3	7.3	6.7
Jordan	0.1	2.1	2.4	2.0	2.1	2.0	1.8	1.6	-0.9	-0.8	3.3	4.5	2.0
Lebanon	0.1	0.0	0.4	1.6	0.6	0.2	-3.0	1.8	-3.7	-0.8	4.5	6.1	2.9
Bahrain	0.1	2.8	2.9	3.5	3.8	2.5	1.5	1.8	1.9	2.7	1.4	2.1	1.0
Middle East & North Africa	4.5	2.4	3.8	2.6	1.3	2.7	1.7	4.6	3.9	4.9	7.1	5.1	1.8

(1)% 2018 in PPP terms

Table 2: Current Account & Budget Balance

	Current Account (% of GDP)						Budget Balance (% of GDP)					
	15-19	2015	2016	2017	2018	2019	15-19	2015	2016	2017	2018	2019
Saudi Arabia	0.9	-8.7	-3.7	1.5	9.0	6.3	-9.6	-15.8	-12.9	-9.0	-6.0	-4.5
Egypt	-4.2	-5.2	-6.2	-3.3	-3.1	-3.4	-10.5	-11.4	-12.5	-10.9	-9.7	-8.1
United Arab Emirates	6.8	4.9	3.7	7.3	9.1	9.0	-1.1	-3.4	-2.0	-1.7	0.6	1.2
Algeria	-12.3	-14.8	-15.8	-13.0	-7.0	-11.0	-10.4	-15.3	-13.0	-6.5	-5.0	-12.0
Qatar	4.2	8.4	-5.5	3.9	8.7	5.5	0.7	4.4	-5.4	-2.9	5.3	2.0
Morocco	-4.0	-2.1	-4.4	-3.6	-5.5	-4.4	-4.1	-4.2	-4.5	-3.5	-3.7	-4.5
Kuwait	6.0	3.5	-4.2	8.0	14.4	8.0	6.6	5.6	0.3	6.6	11.3	9.0
Oman	-12.8	-15.9	-18.7	-15.2	-5.5	-8.8	-13.7	-16.1	-21.3	-14.0	-7.9	-9.4
Tunisia	-10.2	-9.0	-9.0	-10.5	-11.0	-11.5	-5.5	-6.0	-5.8	-5.8	-5.0	-5.0
Jordan	-8.7	-9.0	-9.4	-10.6	-7.4	-7.0	-4.9	-8.5	-3.7	-3.7	-4.8	-4.0
Lebanon	-23.3	-19.3	-23.1	-25.7	-27.0	-21.5	-10.0	-9.1	-9.4	-8.5	-11.5	-11.5
Bahrain	-5.1	-2.4	-4.6	-4.5	-5.9	-8.0	-9.7	-13.5	-14.1	-9.7	-5.5	-5.5

Source: Refinitiv



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