



MENA ECONOMICS WEEKLY

Coronavirus policy response, Lebanon's debt decision

Governments up policy support as virus spreads

The coronavirus outbreak in the region has intensified and governments are stepping up policy support in order to deal with the economic fallout, particularly in the UAE. And OPEC+ looks set to deepen oil production cuts at this week's meeting.

The number of coronavirus cases across the region has risen sharply since late February. Most of the responses have focussed on containment. A number of flights in and out of the region have been cancelled, Saudi Arabia has extended its suspension of visitors for Umrah (an Islamic pilgrimage) from foreign visitors (see [here](#)) to Saudi citizens, and the UAE has postponed several large-scale events and suspended school and universities for two weeks.

These measures [will weigh on activity across the region](#). In a bid to mitigate the fallout, governments have stepped up policy support. Interest rates have been lowered, an automatic response to the US Fed's cut. Bahrain's central bank has urged banks to grant deferrals on credit instalments. Authorities in the UAE appear most concerned about the potential fallout, which is not a surprise given that the economy is the most vulnerable in the region and was already struggling before the outbreak. Emirates NBD lowered transaction charges and the authorities have encouraged discounts on consumer goods.

That said, the main channel through which the region is likely to suffer is via lower oil prices. Oil prices had slipped to just \$50pb in late-February. The growing concerns about global oil demand are likely to prompt OPEC+ to deepen its oil output cuts at its meeting, which concludes tomorrow. The latest reports suggest the cartel has agreed to reduce output by 1.5mn bpd for three months, which would be a larger reduction than we had anticipated and poses a downside risk our GDP growth forecasts. But this is still dependent on getting Russia on board. We will revisit our forecasts once a decision is finalised.

Lebanese government's debt decision looms

Monday will provide the first true indication of whether Lebanon will make good on a \$1.2bn Eurobond repayment and the latest signals are that politicians are leaning towards default.

The Lebanese cabinet is due to hold a meeting on Saturday to decide on whether to repay the \$1.2bn Eurobond due on 9th March. That said, a seven-day grace period built into the bond contract may still be utilised to delay the decision further.

Comments attributed to parliament speaker, Nabih Berri, suggest that even if a decision is delayed again, the political classes are coalescing around the idea of defaulting. We've warned before that default might end up proving to be politically palatable as it would free up resources that could be used to alleviate shortages of essential imported goods.

In a bid to force local banks to cooperate with the government's plans to avert default, the public prosecutor today froze the assets of the country's largest banks. The authorities seem to be trying to pressure banks to do one of two things. One is for banks to swap their Eurobond holdings for new, longer-dated, lower-coupon debt. A similar proposal in January unravelled (see [here](#)), although there are suggestions that banks have now warmed to the idea. But we know that foreign investors own at least 38% of the Eurobonds maturing this year, so this still might not be enough to avert default.

This explains the alternative plan that has been proposed, which is for banks to buy Eurobonds held by foreign investors in the hope that this will make it easier for the authorities to enact a debt restructuring. We will look in more detail at how a restructuring might play out in a forthcoming [Update](#).

The week ahead

Egypt's February inflation data are likely to show that the headline rate dropped back. (See [Data Preview](#).)



Data Previews

Egypt Consumer Prices (Feb.)

Tue. 10th Mar.

Forecasts	Time (GMT)	Previous	Consensus	Capital Economics
Consumer Prices (% y/y)	-	(+7.2)	-	(+6.2)

Inflation to ease, coronavirus fears may bring rate cuts forward

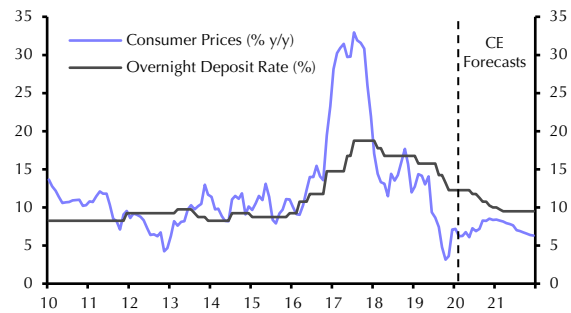
We think that Egypt’s headline inflation rate fell back in February, to 6.2% y/y which, combined with mounting fears over the coronavirus outbreak, may prompt the central bank to resume its easing cycle earlier than we had anticipated.

The headline rate – which covers urban consumer only – edged up from 7.1% y/y in December to 7.2% y/y in January, its third consecutive rise. Core price pressures have remained weak, and the rally in the pound – which rose by 1% against the dollar in February – will keep a lid on imported inflation. What’s more, food inflation is likely to have slowed last month due to favourable base effects. All told, we expect inflation eased to 6.2% y/y last month.

We had thought that the central bank would hold off from resuming its easing cycle until the middle of the year. But as the coronavirus has spread and concerns

about the economic hit have intensified, there is a growing chance that inflation concerns are pushed aside and interest rate cuts are brought forward. Overall, we expect 225bp of cuts this year, taking the overnight deposit rate to 10.00%. (See Chart 1.)

Chart 1: Egypt Consumer Prices & Overnight Deposit Rate



Sources: CEIC, Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Previous*	Median*	CE Forecasts*
6 th Mar		OPEC OPEC Meeting	-	-	-	-
		Tun CPI (Feb)	-	(+5.9%)	-	(+6.7%)
10 th Mar		Egy CPI (Feb)	-	(+7.2%)	-	(+6.2%)
		Egy Core CPI (Feb)	-	(+2.7%)	-	-
11 th Mar		Jor Industrial Production (Jan)	-	(-14.0%)	-	-
		Jor CPI (Feb)	-	-	-	-
		Kuw Private sector Credit (Jan)	-	(+4.3%)	-	-
		Oma Private Sector Credit (Jan)	-	(+2.7%)	-	-
		UAE CPI (Jan)	-	(-1.4%)	-	(-0.6%)
		OPEC OPEC Monthly Oil Market Report	-	-	-	-

Selected future data releases and events

17 th Mar		Oma CPI (Feb)	-	(+0.4%)	-	(+1.2%)
		Sau CPI (Feb)	-	(+0.4%)	-	(+0.4%)
		Mor Interest Rate Announcement	-	2.25%	-	2.00
18 th Mar		Qat CPI (Feb)	-	(-0.4%)	-	(+1.9%)
20 th Mar		Mor CPI (Feb)	-	(+1.3%)	-	(+1.2%)
23 rd Mar		UAE Private Sector Credit (Feb)	-	(+0.2%)	-	-
		Kuw CPI (Feb)	-	(+1.7%)	-	(+1.8%)
26 th Mar		Bah CPI (Feb)	-	(+0.1%)	-	(+2.4%)
		Tun Industrial Production (Jan)	-	(+1.2%)	-	-
27 th Mar		Bah GDP (Q4, q/q(y/y))	-	(+1.6%)	-	(+0.2%)
		Leb CPI (Feb)	-	(+10.0%)	-	(+10.0%)
		Jor GDP (Q4)	-	(+1.9%)	-	(+1.6%)
		Sau Private Sector Credit (Feb)	-	(+8.8%)	-	-
30 th Mar		Qat Private Sector Credit (Feb)	-	(+19.0%)	-	-
31 st Mar		Qat GDP (Q4, q/q(y/y))	-	-	-	-
		Bah Private Sector Credit (Jan)	-	-	-	-
		Sau GDP (Q4)	-	(-0.5%)	-	(-1.3%)
1 st Apr		Egy Foreign Exchange Reserves (Mar)	-	\$45.5	-	-
2 nd Apr		Mor GDP (Q4)	-	(+2.1%)	-	(+1.8%)
		Egy Interest Rate Announcement	-	12.25%	-	12.25%

*m/m(y/y) unless otherwise stated

Sources: Bloomberg, Refinitiv, Capital Economics



Main Economic & Market Forecasts

Table 1: GDP & Consumer Prices (% y/y)

	Share of World ¹	2008-18 Ave.	GDP				Consumer Prices			
			2018	2019e	2020	2021	2018	2019	2020	2021
Saudi Arabia	1.3	3.5	2.2	0.3	0.8	1.3	2.5	-1.2	1.0	1.5
Egypt	1.0	3.9	5.4	5.8	5.5	5.0	14.4	9.4	7.5	7.3
UAE	0.5	2.8	1.7	1.5	0.0	1.5	3.1	-1.9	-0.3	1.0
Algeria	0.5	2.8	1.5	0.5	-0.5	1.0	4.3	2.0	5.3	7.5
Qatar	0.3	7.4	1.4	-0.8	0.8	1.5	0.3	-0.6	1.5	0.3
Morocco	0.2	3.8	3.0	2.3	2.0	4.0	1.8	0.3	2.0	2.3
Kuwait	0.2	1.1	1.2	-0.5	-0.3	1.3	0.6	1.0	2.3	3.5
Oman	0.1	4.1	2.0	0.5	0.0	0.8	0.9	0.3	1.5	3.0
Tunisia	0.1	2.3	2.5	1.0	0.0	1.3	7.3	6.7	7.0	6.8
Jordan	0.1	3.2	2.0	1.8	1.5	2.5	4.5	0.3	2.3	2.8
Lebanon	0.1	3.4	0.2	-3.0	-5.0	0.0	6.1	2.9	20.0	10.0
Bahrain	0.1	3.8	2.5	1.0	-0.5	1.3	2.1	1.1	2.3	1.8
Middle East & North Africa	4.5	3.7	2.6	1.6	1.5	2.3	5.1	1.9	3.4	3.8

Sources: Refintiv, Capital Economics. 1) % of GDP, 2019, PPP terms (IMF estimates).

Table 2: Central Bank Policy Rates

Country	Policy Rate	Latest (5 th Mar.)	Last Change	Next Change	Forecasts	
					End 2020	End 2021
Saudi Arabia	Reverse Repo Rate	1.25	Down 50bp (Mar. '20)	Down 25bp (Mar. '20)	1.00	1.00
Egypt	Overnight Deposit Rate	12.25	Down 100bp (Nov '19)	Down 50bp (Jun. '20)	10.00	9.50
UAE	Repo Rate	1.50	Down 50bp (Mar. '20)	Down 25bp (Mar. '20)	1.25	1.25
Algeria	Discount Rate	3.75	Up 25bp (Aug '18)	Up 25bp (Q2 2020)	4.50	4.50
Qatar	Deposit Rate	1.50	Down 50bp (Mar. '20)	Down 25bp (Mar. '20)	1.25	1.25
Kuwait	Discount Rate	2.50	Down 25bp (Mar. '20)	Down 25bp (Mar. '20)	2.25	2.25
Morocco	Key Rate	2.25	Down 25bp (Mar '16)	Down 25bp (Q2 2020)	2.00	2.00
Oman	Overnight Repo rate	1.52	Down 50bp (Mar. '20)	Down 25bp (Mar. '20)	1.27	1.27
Tunisia	BCT Key Rate	7.75	Up 100bp (Feb '19)	Up 50bp (Q1 2020)	9.25	9.25
Jordan	Overnight Deposit Rate	2.75	Down 50bp (Mar. '20)	Down 25bp (Mar. '20)	2.50	2.250
Lebanon	Repo Rate	10.00	Down 200bp (Dec '09)	None on horizon	10.00	10.00
Bahrain	1-week deposit facility	1.75	Down 50bp (Mar. '20)	Down 25bp (Mar. '20)	1.50	1.50

Sources: Bloomberg, Capital Economics

Table 3: Currencies and Stock Markets

Country	Currency	Latest (5 th Mar.)	Forecasts		Stock Market	Latest (5 th Mar.)	Forecasts	
			End 2020	End 2021			End 2020	End 2021
Saudi Arabia	SAR/USD	3.75	3.75	3.75	TASI	7,493	8,750	9,200
Egypt	EGP/USD	15.58	17.00	18.00	EGX30	12,325	14,100	14,800
UAE	AED/USD	3.67	3.67	3.67	DFMGI	2,460	2,925	3,075
Algeria	DZD/USD	119.1	145.0	160.0	-	-	-	-
Qatar	QAR/USD	3.64	3.64	3.64	QSE	9,309	10,900	11,450
Kuwait	KWD/USD	0.30	0.30	0.30	KWSE	5,788	7,600	8,300
Morocco	MAD/EUR	10.65	11.20	11.20	MADEX	9,661	10,800	11,750
Oman	OMR/USD	0.385	0.385	0.385	MSM30	4,108	4,350	4,450
Tunisia	TND/EUR	3.17	3.45	3.50	TUNINDEX	7,094	7,750	8,450
Jordan	JOD/USD	0.71	0.71	0.71	ASE	1,808	2,000	2,050
Lebanon	LBP/USD	1,505	3,000	3,000	BLOM	632	600	650
Bahrain	BHD/USD	0.377	0.377	0.377	BHSE	1,617	1,750	1,800

Sources: Bloomberg, Capital Economics



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