



MENA CHART BOOK

Fresh dip in oil prices dampens outlook for the Gulf

- Oil prices suffered a fresh bout of weakness this month amid growing concerns over rising global coronavirus cases, which reinforces our view that economic recoveries in the Gulf will be slow. At the recent OPEC ministerial meeting, the cartel emphasised that it stands ready to act if the outlook for oil demand continues to worsen, suggesting that it is increasingly worried. Continued low oil prices are unlikely to result in dollar pegs being abandoned, but governments will need to address large budget deficits. While several have turned to dollar bond markets, the big picture is that austerity will remain the order of the day, holding back the rebound in activity.
- The **coronavirus** outbreaks in North Africa, Lebanon, and Jordan have worsened over the past month and measures to control the virus are being strongly considered, including the potential reintroduction of nationwide lockdowns. In the Gulf, outbreaks appears to be under control and this has allowed the authorities to gradually relax measures.
- **Saudi Arabia's** economic recovery has plateaued in recent months as the boost from pent-up demand and a rush to make purchases before July's VAT hike has faded. But the worst seems to be over for oil sector and the resumption of Umrah pilgrimages will boost the economic recovery.
- The **UAE** signed several agreements this month with Israel in a move to normalise relations, but the experience from elsewhere is that this is unlikely to provide any meaningful boost to the economy. Elsewhere, **Qatar** has entered the final stage of its relaxing of containment measures and the latest evidence suggests that it has experienced among the strongest economic recoveries in the region.
- Across the **rest of the Gulf**, the latest inflation data showed that the pace of deflation has eased in Oman and Bahrain. Meanwhile, Kuwait has raised oil production as OPEC+ quotas have begun to ease.
- Headline inflation slowed even further in **Egypt** in August, but weak price pressures alone are unlikely to prompt policymakers at the Central Bank of Egypt to resume the loosening cycle this month.
- In the **rest of North Africa**, virus outbreaks have worsened in Morocco and Tunisia. While Morocco is edging towards a full lockdown, Tunisia has distanced itself from imposing such draconian measures again. The Algerian authorities have continued to draw down their FX reserves as pressure on the dinar builds.
- **Lebanon's** political crisis has dragged on with no progress being made in forming a government, despite the backdrop of surging inflation and a deep economic contraction. Meanwhile, **Jordan's** coronavirus case numbers have crept up and containment measures are being tightened.
- **Financial markets** have had a mixed month. Currencies fared relatively well and the rally in the Egyptian pound continued. Equities recovered more of their lost ground from earlier in the year, led by Kuwait. Sovereign dollar bond spreads have widened across the board.

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Coronavirus

- The region as a whole passed the 1 million case mark in the past month, but much of the recent surge has continued to be driven by countries in North Africa, Jordan, and Lebanon (1). Morocco, Tunisia, Lebanon and Jordan are failing to control outbreaks with record daily case numbers being recorded (2). Restrictions have generally been tightened in recent weeks but, with outbreaks continuing to worsen, there is a growing risk that stricter measures are imposed (3).
- The likes of the UAE, Bahrain, and Oman have also seen a sharp rise in cases recently. But the number of tests carried out per confirmed case has risen across the Gulf suggesting that outbreaks are not getting any worse (4). Aggressive testing (5) and tracing undertaken by authorities in the Gulf has helped to contain the spread of the virus.
- The recent rise in cases across parts of the region has made the authorities reluctant to ease containment measures and, on average, policy remains fairly strict (6). The risk for the Middle East and North Africa is that if outbreaks get worse that tougher measures are imposed to slow the spread. This would weigh on economic recoveries in North Africa, Dubai, Jordan, and Lebanon the most.

Chart 1: Confirmed Coronavirus Cases (Log-Scale)

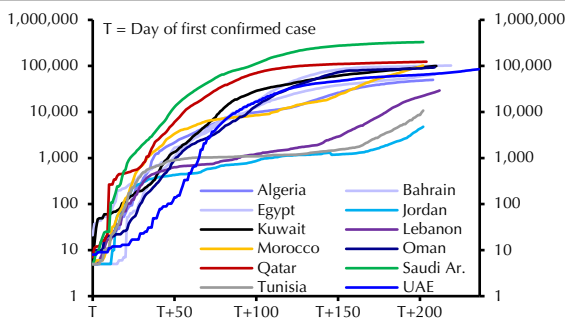


Chart 2: New Coronavirus Cases (7D Rolling Avg.)

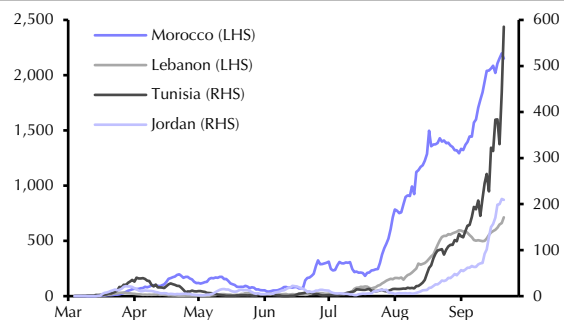


Chart 3: Tests per Confirmed Coronavirus Case

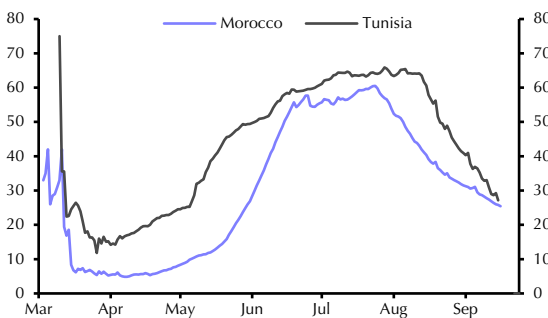


Chart 4: Tests per Confirmed Coronavirus Case

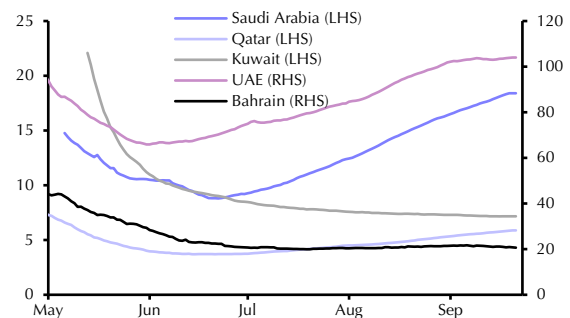


Chart 5: Coronavirus Tests (Per 100 Population)

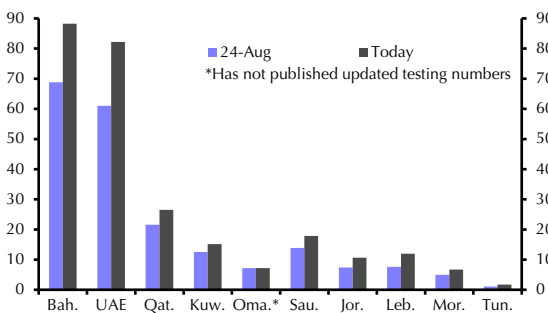
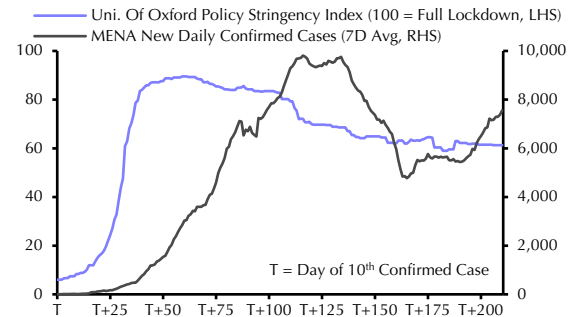


Chart 6: Total Confirmed Coronavirus Cases in MENA & Oxford University Policy Stringency Index



Sources: CEIC, World in Data, Refinitiv, Markit, Capital Economics



Saudi Arabia

- The latest signs are that [the recovery in Saudi Arabia’s non-oil economy from the sharp downturn between March and May has stuttered](#). After jumping by 15% y/y in June, point of sale transactions and ATM withdrawals – proxies for consumer spending – rose by a more modest 2.9% y/y in July (7). The boost from pent-up demand as virus containment measures were relaxed, as well as a possible rush to make purchases before the VAT hike came into effect at the start of July, appears to have faded.
- Other indicators tell a similar story. Growth in local deliveries of cement and clinker eased from 90.9% y/y in June to 23.7% y/y in July (8). The [whole economy PMI](#), which covers the entire non-oil private sector, dipped in August (9). That said, high frequency indicators suggest that activity has picked up more recently (10). The resumption of Umrah pilgrimages from 4th October will provide a boost to the recovery.
- Oil production has been increased in recent months and, in year-on-year terms, the slump in output has eased from more than 20% in June to 13% in August (11). OPEC+ left its output quotas unchanged at this month’s ministerial meeting but said that it is ready to respond if oil demand weakens. Finally, [inflation rose from 6.1% y/y in July to 6.2% y/y in August](#) as the effects of the VAT hike continued to dominate (12).

Chart 7: Sum of ATM Cash Withdrawals and Point of Sale Transactions

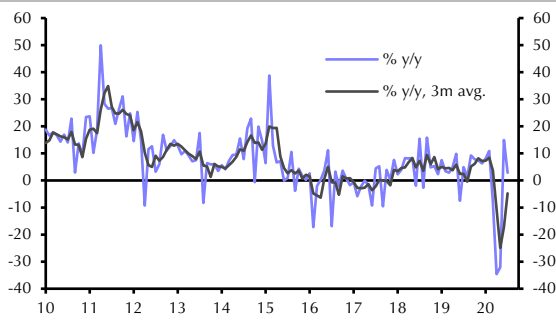


Chart 8: Local Deliveries of Cement and Clinker

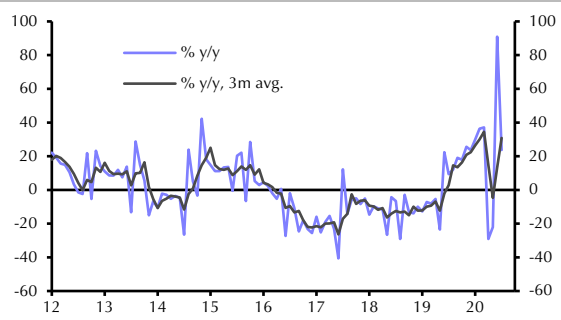


Chart 9: Whole Economy PMI

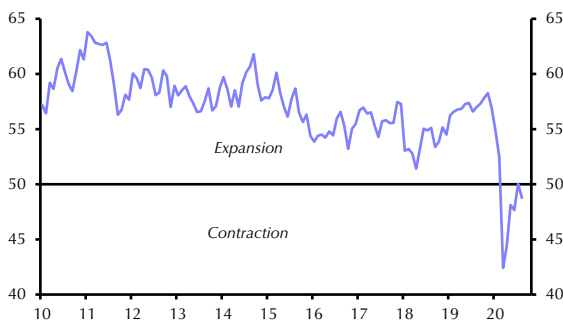


Chart 10: Google Mobility Tracker All Sectors* (%-pts Dev. from Jan.-Feb.)

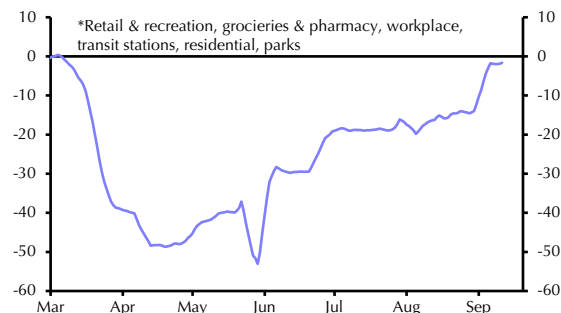


Chart 11: Oil Production

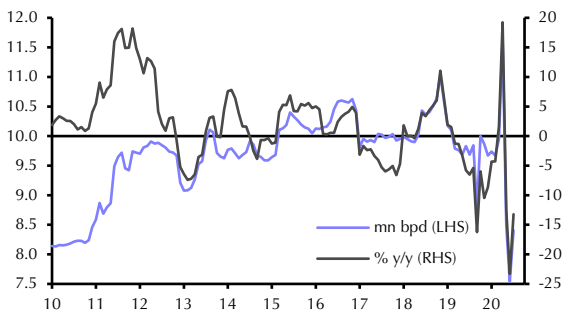
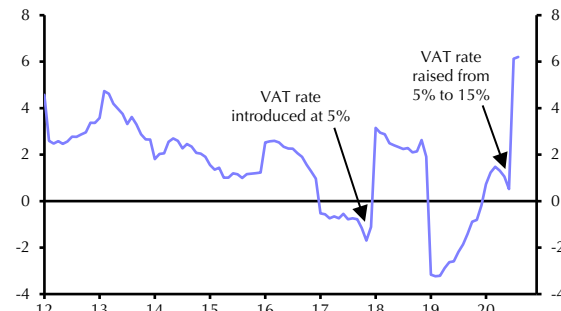


Chart 12: Consumer Prices (% y/y)



Sources: CEIC, Refinitiv, Capital Economics



United Arab Emirates

- The UAE formally signed a deal with Israel to normalise relations this month, but the experience from previous countries to do so is that this is unlikely to result in a significant economic boost. At the same time, the surge in coronavirus cases (13) has caused some concern that containment measures may be reintroduced which would put a dent in the economic recovery.
- The previous easing of lockdown measures has not resulted in a sharp economic recovery. Private sector credit growth slowed from 0.1% y/y in May to -0.7% y/y in June, which is the first time lending has contracted since 2012 (14). August's whole economy PMI fell back below the 50-mark, which, in theory, separates expansion from contraction (15) and the breakdown also showed the employment index slumped to a record-low. Both road and air traffic remain well below normal levels (16 & 17).
- Oil production rose by 0.2mn bpd in August to 2.7mn bpd, pushing it above their 2.59mn bpd OPEC+ quota – output is still down 12.1% y/y which will weigh on GDP. The downturn in Dubai's real estate sector deepened in August, residential prices declined by 8.6% y/y and rents by 12.3% y/y (18). Finally, the pace of deflation in the UAE eased from 2.4% y/y in June to 2.1% y/y in July

Chart 13: New Daily Coronavirus Cases (7D Avg.)

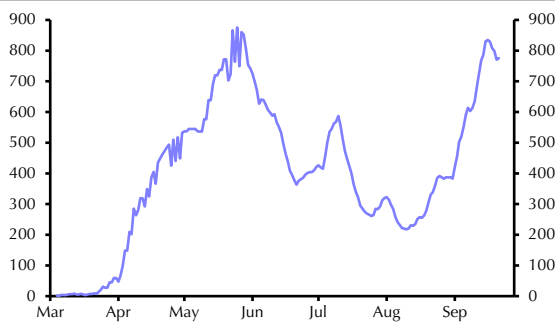


Chart 14: Private Sector Credit (% y/y)



Chart 15: Whole Economy PMI

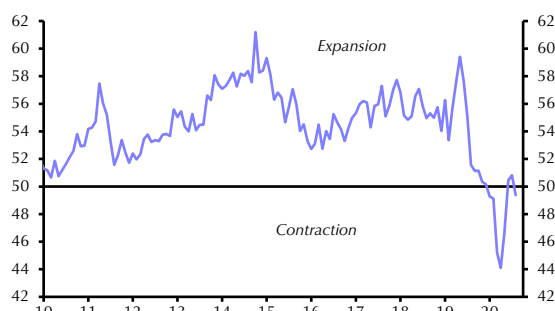


Chart 16: Traffic Congestion (%-pts Dev. from 2019)

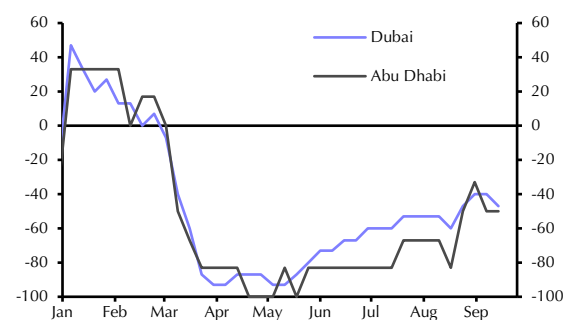


Chart 17: Cancelled Departure Flights (% of Total Scheduled Flights, All Airports)

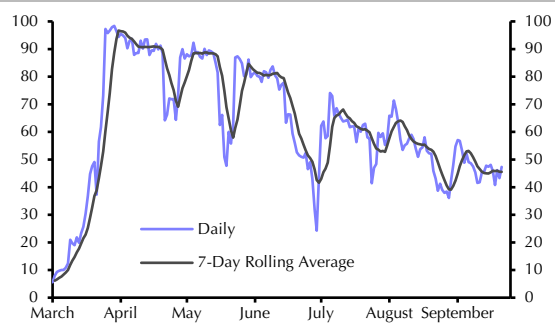
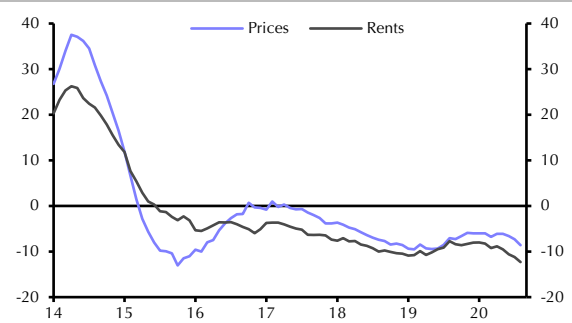


Chart 18: REIDIN Dubai Property Indices (% y/y)



Sources: CEIC, Google, REIDIN, Refinitiv, Markit, CE



Qatar

- Qatar entered the final phase of it’s easing of lockdown measures at the start of September, which allowed mosques to re-open to full capacity, more flights to be scheduled and greater attendance at weddings, businesses, and exhibitions. This has only been possible as the authorities got on top of the virus. New daily cases have fallen sharply since the peak in June and have stabilised at a low level (19).
- As measures have been lifted, the economic recovery appears to have been relatively strong. More ships have continued to dock at ports and the volume of goods has almost returned to pre-virus levels (20). Households are becoming more active with motor vehicle registrations picking up in July (21) and the decline in real estate prices has eased (22). August’s **whole economy PMI edged down** from a record high of 59.8 in July to 57.3 but, on past form, is consistent with non-oil GDP growth of 8% y/y in Q3 (23).
- Finally, consumer price figures for August showed that the pace of deflation picked up from 3.4% y/y in July to 4.1% y/y last month. This is the weakest pace of inflation recorded in more than a decade and was driven by further weakness in housing inflation (24).

Chart 19: New Daily Confirmed Coronavirus Cases & Tests per Confirmed Positive Case

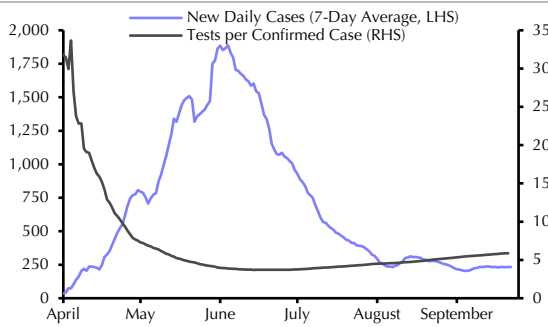


Chart 20: Number of Vessels at Ports & Net Tonnage of Goods Handled

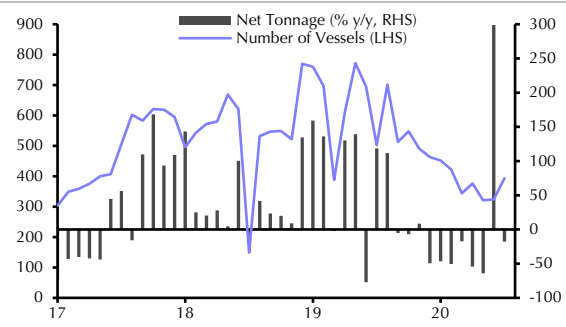


Chart 21: Motor Vehicle Registrations

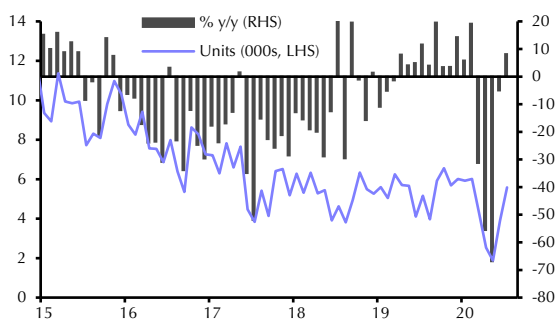


Chart 22: Real Estate Prices



Chart 23: Whole Economy PMI & Non-Hydrocarbon GDP

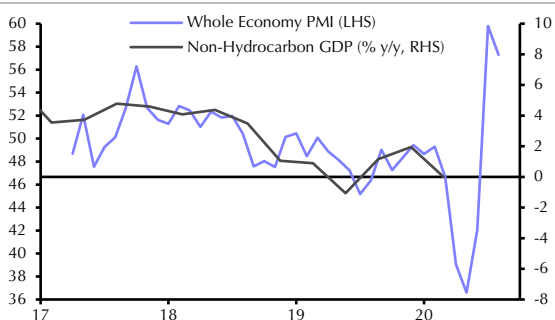
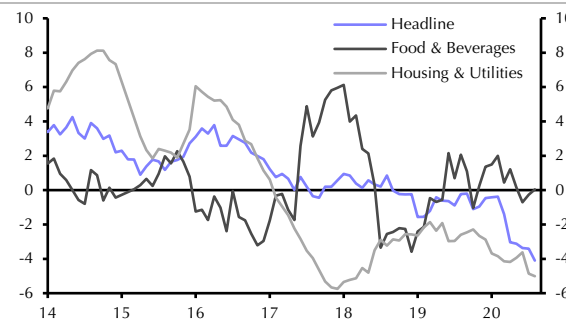


Chart 24: Consumer Prices (% y/y)



Sources: CEIC, Refinitiv, Capital Economics



Rest of the Gulf

- Following **Bahrain's** successful \$1.0bn dollar bond issuance this month, **Oman** is now reportedly set to follow suit with a \$3-4bn issuance. Elsewhere, **Kuwait's** government is rumoured to be considering passing a long-awaited debt law, which would allow them to issue debt locally and internationally, in an emergency decree if parliament continues to reject it. All three countries face the prospect of running large budget deficits this year (25) as the price of oil remains below fiscal breakeven prices (26).
- Figures from Kuwait showed that they raised oil production by 0.2mn bpd in August, to 2.3mn bpd, but it was still down by 13.7% y/y (27). Meanwhile, private sector credit growth has slowed across all three countries (28). High frequency mobility data have also shown that while activity in retail sectors has picked up in the past month, it still remains above pre-virus levels (29).
- Finally, the latest consumer price figures showed that Kuwait remained one of the few countries in the Gulf not experiencing deflation. In Bahrain and Oman, the pace of deflation has eased but inflation is likely to stay negative over the rest of this year (30).

Chart 25: Budget Balance (% of GDP)

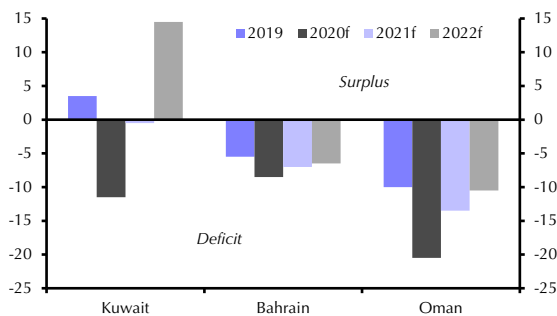


Chart 26: Fiscal Breakeven Oil Price (\$pb)

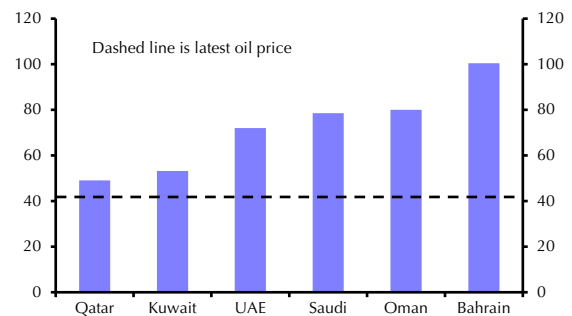


Chart 27: Kuwait Oil Production

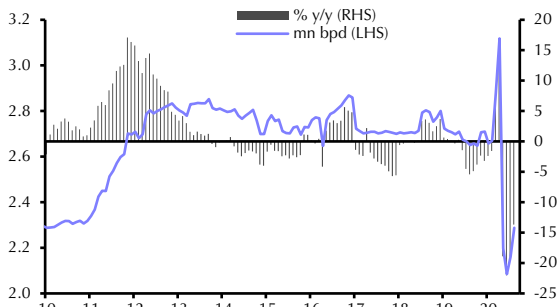


Chart 28: Private Sector Credit (% y/y)

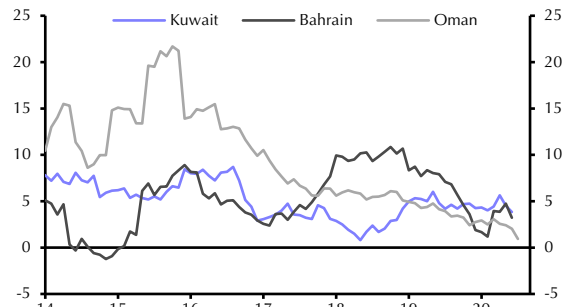


Chart 29: Google Mobility Tracker Retail & Recreation (%-pts Dev. from Jan.-Feb.)

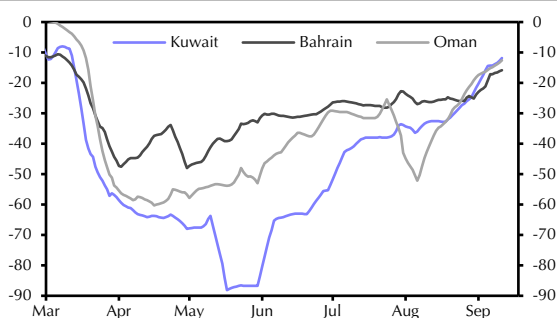
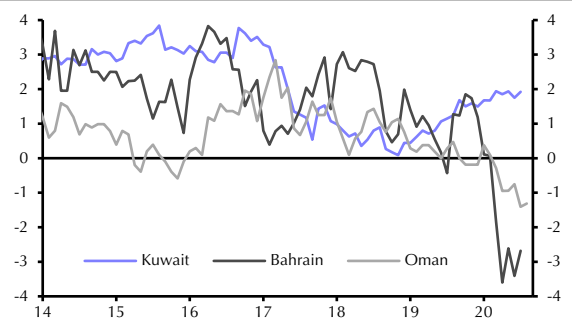


Chart 30: Consumer Prices (% y/y)



Sources: CEIC, Refinitiv, Capital Economics



Egypt

- The Egyptian authorities have continued to manage the coronavirus outbreak, with case numbers stabilising at a low level (31). Policymakers have taken a gradual approach to easing virus containment measures, possibly driven by concerns that a fresh outbreak would further delay the recovery in the key tourism sector (32) and dash any hopes of Egypt being included on the EU’s “safe travel” list.
- Even with measures still in place, the economic recovery has got underway. The pace of decline in industrial output eased from 16.9% y/y in June to 12.2% y/y in July (33). The whole economy PMI dipped from 49.9 in July to 49.4 in August, but stayed well above its lows earlier this year. And in the retail and recreation sector, high frequency mobility data suggest activity has strengthened further (34).
- Export growth has rebounded too, but import growth slowed sharply in July (35). The pound has continued to appreciate, rising by 1.6% against the dollar over the past month. This has helped to keep a lid on price pressures –headline inflation eased from 4.2% y/y in July to 3.4% y/y last month (36) and is likely to remain below the mid-point of the CBE’s target rate in the coming months. Despite weak inflation, policymakers at the central bank are likely to keep rates on hold this month.

Chart 31: New Daily Confirmed Coronavirus Cases & Oxford Policy Stringency Index

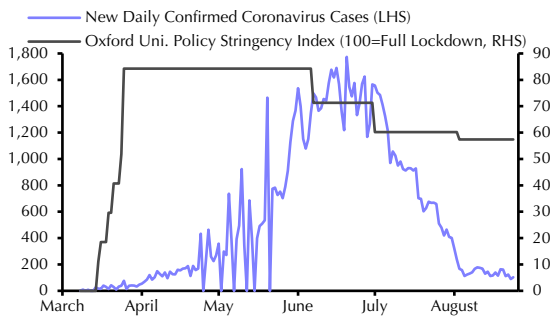


Chart 32: Tourism Contribution to GDP (%)

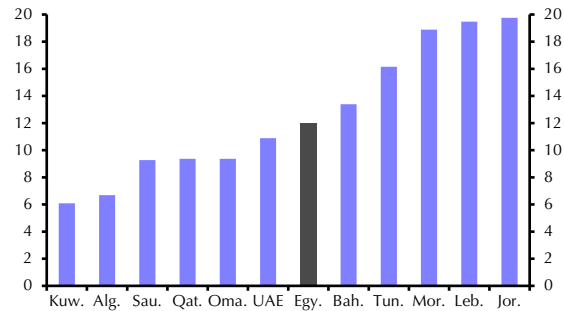


Chart 33: Industrial Production

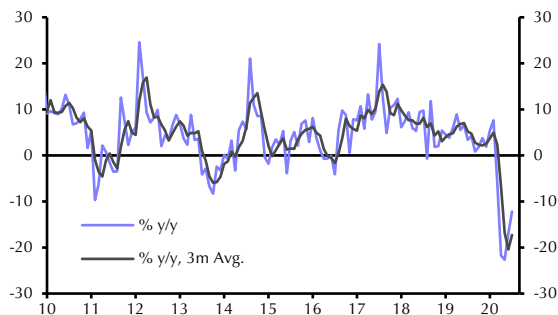


Chart 34: Google Mobility Tracker Retail & Recreation (%-pts Dev. from Jan.-Feb.)

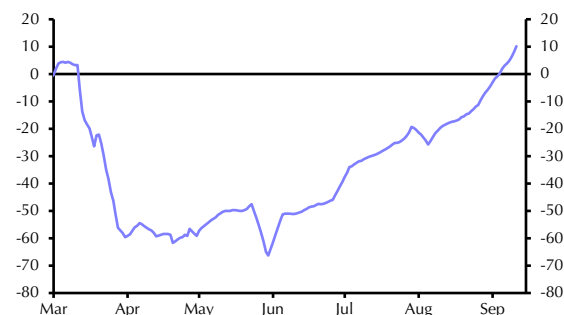
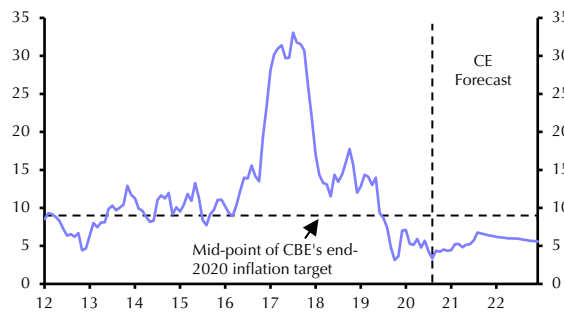


Chart 35: Exports & Imports (\$ Terms, % y/y)



Chart 36: Consumer Prices (% y/y)



Sources: CAPMAS, CEIC, Refinitiv, Capital Economics



Rest of North Africa

- **Algeria** is one of the few countries that has seen a fall in daily cases in North Africa, with an average of 230 cases recorded over the past seven days. But the continued rise in daily cases in **Tunisia** and **Morocco** shows that the country is yet to get COVID-19 under control (37). Against this backdrop, Morocco's tourism sector has continued to struggle - tourism receipts fell by more than 90% in July (38). Morocco manufacturing production growth continued to fall into negative territory to -21.4% y/y in June (39).
- The worsening virus outbreak in Tunisia has raised further questions of a second lockdown, but the prime minister has stated that this unlikely to occur as the economic impact would be too damaging. The latest national accounts data show that, following a 2.6% q/q fall in GDP in Q1, output contracted by 20.4% q/q in Q2 (40).
- In Algeria, oil production edged up to 0.87mn bpd, in line with its OPEC+ quota (41). In year-on-year terms, which is what matters for GDP growth, the decline in output eased from 21.3% y/y in July to 14.7% y/y. Meanwhile, FX reserves have continued to be depleted as the authorities prop up the dinar (42).

Chart 37: New Daily Coronavirus Cases (7-Day Rolling Average)

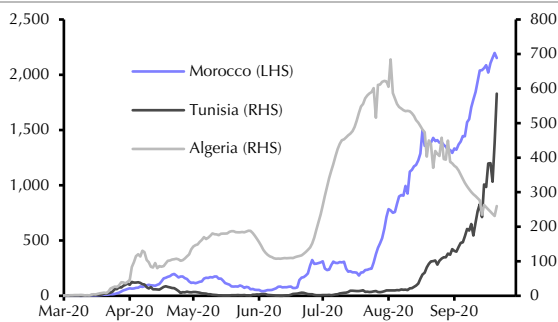


Chart 38: Morocco Tourism Receipts (MAD Terms, % y/y)

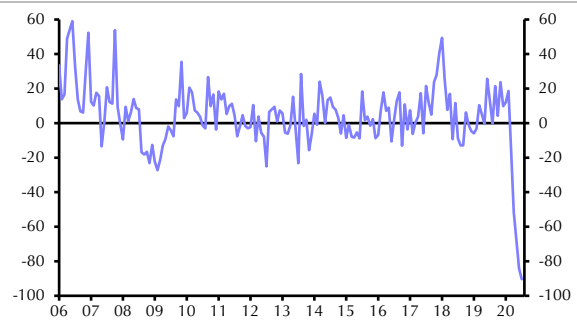


Chart 39: Industrial Production (% y/y)

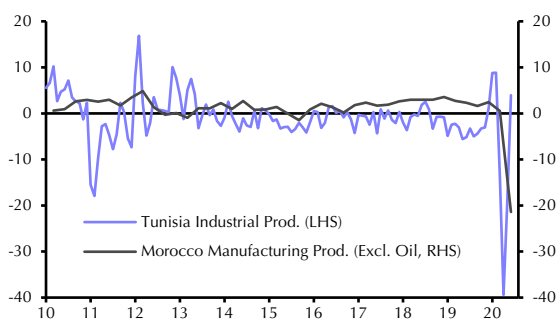


Chart 40: Tunisia GDP

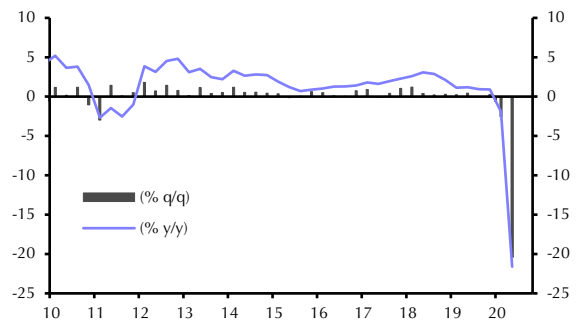


Chart 41: Algeria Oil Production

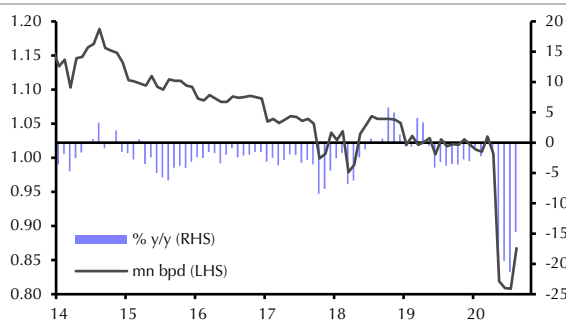
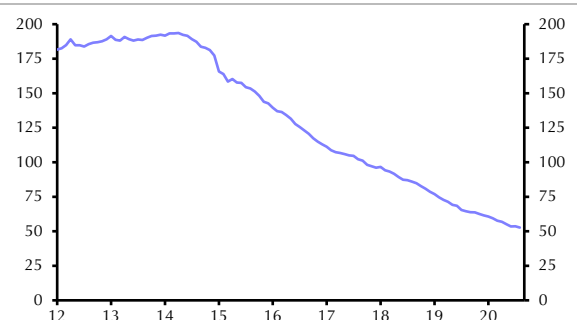


Chart 42: Algeria FX Reserves (\$bn)



Sources: CEIC, Refinitiv, Capital Economics



Lebanon & Jordan

- **Lebanon’s** political paralysis has dragged on as comments from President Aoun suggest there is still a long way to go before a new government is formed, which is necessary to unlock foreign financial assistance. The coronavirus crisis is worsening rapidly (43) and the health minister has pushed for a new two-week lockdown. With the latest Bdl coincident indicator pointing to a nearly 30% contraction in GDP in Q2 (44), a fresh lockdown would only hold back the recovery.
- The pound has continued to trade at an 80% discount against the official exchange rate to the dollar on the black market (45). With FX reserves being rapidly depleted, pressure on the currency is unlikely to ease. The drop in the currency has continued to push up inflation, with the headline rate rising from 112.4% y/y in July to 120.0% y/y last month. This was driven by a further jump in food inflation (46).
- The return to a country-wide partial lockdown in **Jordan** at the end of August should help to slow the coronavirus outbreak (47). But with cases still yet to show signs of slowing PM Razzaz has said the authorities will not resort to a full lockdown but “will resort to other scenarios”. Avoiding a second full lockdown is good news for the economic recovery. Industrial production rebounded sharply at the end of Q2 (48), but the continued lack of tourism will remain a drag.

Chart 43: Lebanon Daily Coronavirus Cases (7D Avg.)

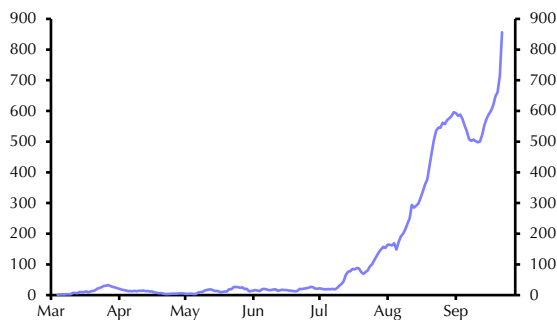


Chart 44: Bdl Coincident Indicator & GDP

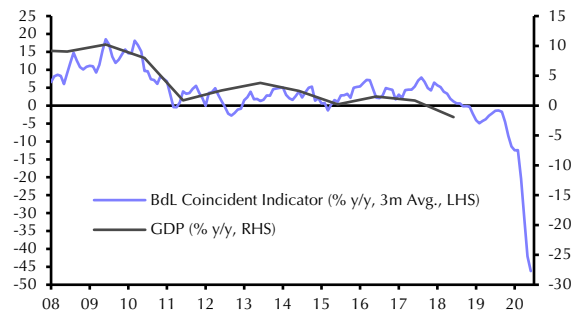


Chart 45: Lebanese Pound (vs. \$, Inverted)

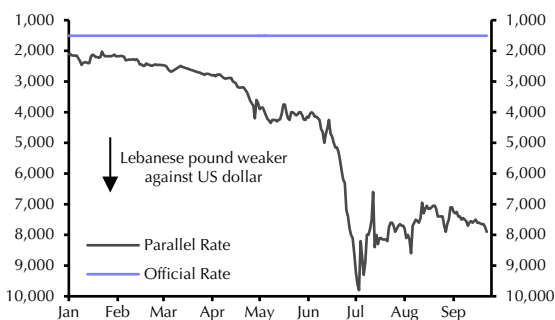


Chart 46: Lebanon Consumer Prices (% y/y)

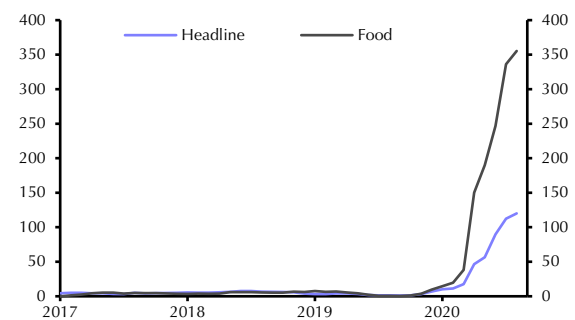


Chart 47: Jordan Daily Coronavirus Cases (7D Avg.)

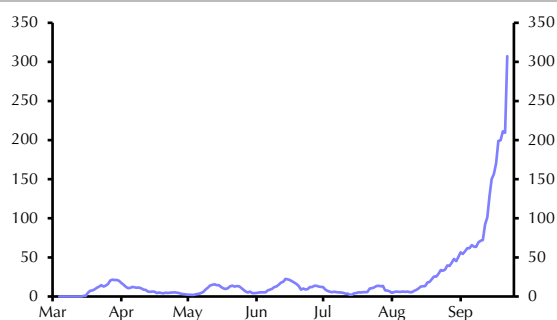
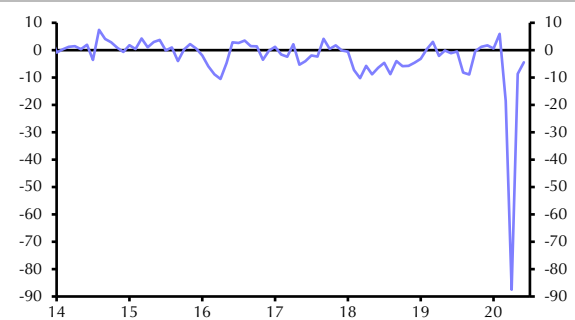


Chart 48: Jordan Industrial Production (% y/y)



Sources: CEIC, Refinitiv, Markit, Capital Economics



Financial Markets

- Equity markets have had a fairly strong month. The MSCI Arabian Markets Index strengthened by 3.1% m/m which was a much stronger performance than the 0.2% rise in the wider MSCI Emerging Markets Index over the same period (49). At a country level, Kuwait’s stock index was among the best performers over the month after it became the third publicly listed exchange in the region (50).
- Sovereign dollar bonds have widened in almost all countries. In the UAE and Tunisia, spreads widened the most – by around 25bp in both countries (51). Despite the political turmoil in Tunisia looking to have come to an end after PM Mechichi had his technocratic government approved at the start of the month it has not quelled investor concerns that swift action will be taken to address the country’s poor public finances (52).
- Currencies have had a mixed month. The Algerian dinar weakened by 0.3% m/m against its euro-dollar basket, but other currencies strengthened over the same period (53). The Egyptian pound appreciated by 1.6% m/m as its rally continued and, at the time of writing, stands at its strongest rate since March (54). But we are concerned that the currency is looking increasingly overvalued.

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



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

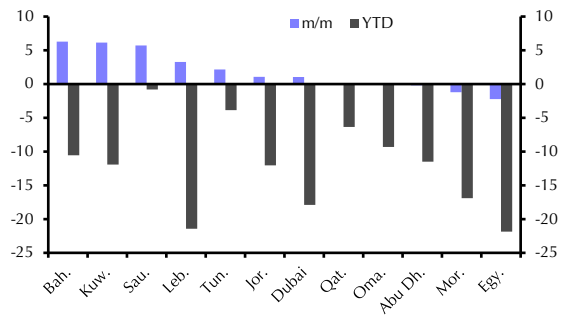


Chart 51: EMBI Sovereign Dollar Bonds

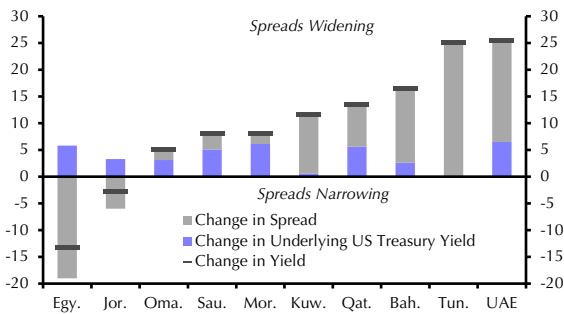


Chart 52: Tunisia EMBI Sovereign Dollar Bond (bp)

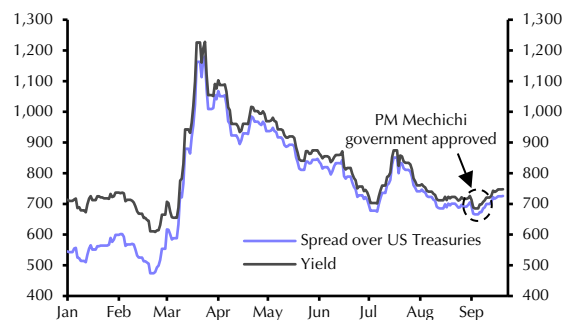


Chart 53: Change in Currency (vs. US Dollar, %)

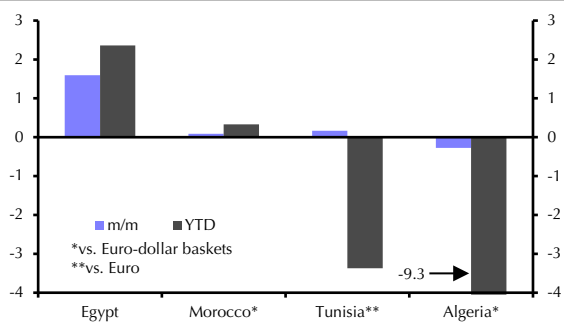
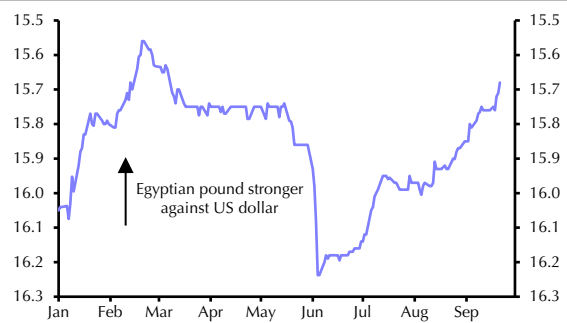


Chart 54: Egyptian Pound (vs. \$, Inverted)



Sources: CEIC, Refinitiv, Markit, Capital Economics



Background Data

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

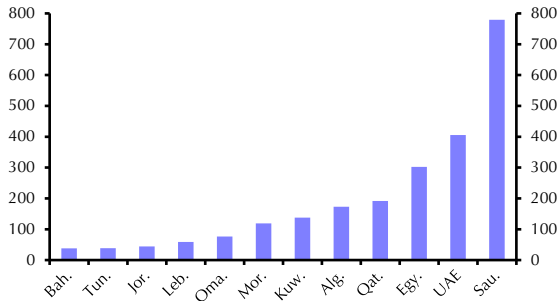


Chart 56: Population (Millions, 2019)

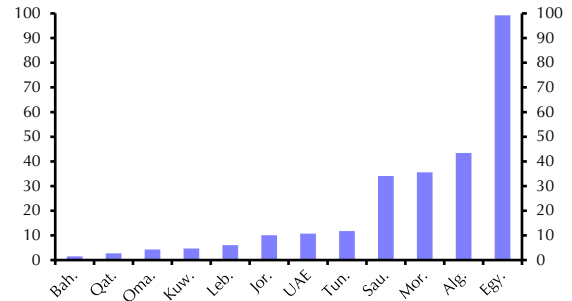


Chart 57: GDP Per Capita (\$000, 2019, Market Exchange Rates)

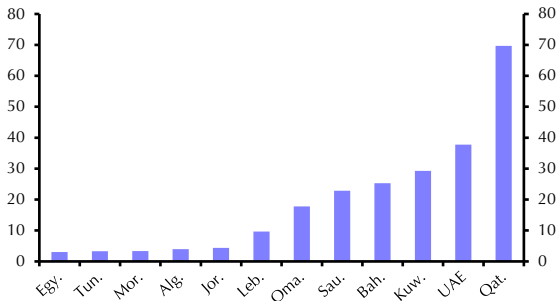


Chart 58: Share of World Output (% , 2019, PPP)

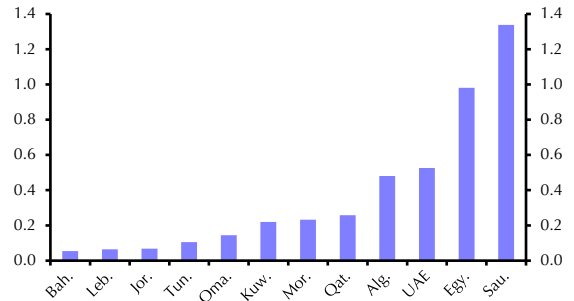


Chart 59: Real GDP (% y/y)

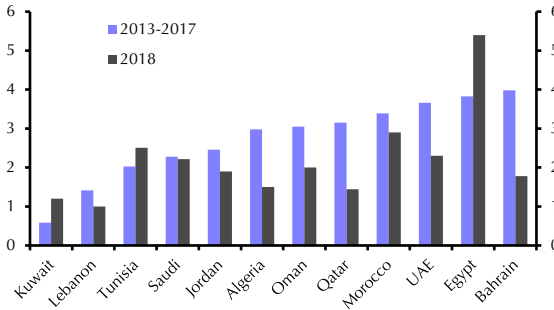


Chart 60: Consumer Prices (% y/y)

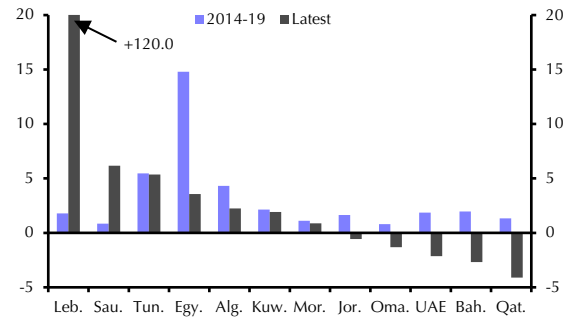


Chart 61: Budget Balance (% of GDP)

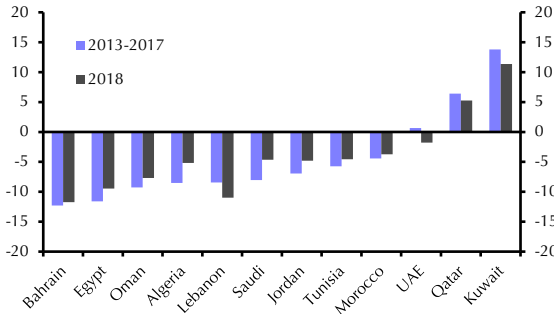
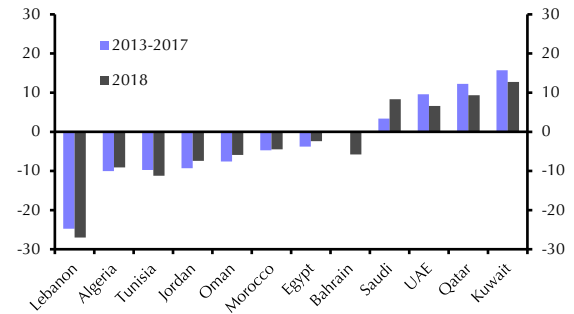


Chart 62: Current Account Balance (% of GDP)



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)% 2019 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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