Middle East and North Africa Regional Economic Outlook

APRIL 27, 2020

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The COVID-19 pandemic and the plunge in oil prices are causing significant economic impacts in the region through simultaneous shocks.
The pandemic crisis has manifested itself in severe trade disruption and losses, hurting job-rich sectors and business confidence ...

Confirmed COVID-19 Cases in MENA Region
(Total confirmed cases of the COVID-19 Coronavirus since the first confirmed case in the region)

Major Trade Disruptions in 2020:
Growth Revisions in MENA Top Trading Partners
(Percent of GDP, weighted by export share)

Share of Retail and Hospitality Sectors
(Percent of GDP, 2019)

Note: COVID-19 = Coronavirus disease. COVID-19 is an infectious disease caused by a novel coronavirus. On March 11 2020, WHO declared COVID-19 a global pandemic, with over 100,000 confirmed cases in over 100 countries across the world. The first confirmed cases in the Middle East were identified in the United Arab Emirates on January 29th 2020.

Sources: Bloomberg L.P.

Note: For oil exporting countries, share is measured as a ...
... the oil shock has compounded economic challenges facing the region

**Global Oil Supply & Demand**
(Million barrels per day)

- Total Supply
- Total Demand

**CBOE Crude Oil Volatility and Real Oil Prices**
(Index and USD per barrel)

- Real Oil Price (USD per barrel)
- CBOE Crude Oil Volatility Index (rhs)

**Sharp decline in demand with glut in oil supply**

**Lowest oil price in two decades**

Note: CBOE = Chicago Board Options Exchange; and rhs = right-hand scale. The CBOE Crude Oil Volatility Index measures the market's expectation of 30-day volatility of crude oil.
The crisis has also compelled MENA countries to deal with larger and more complex financial challenges

**Stock Markets Collapsed**

*(Equity Index, January 1, 2020 = 100)*

**Capital Flows Reversed**

*(EPFR flows, Billion USD)*

**Sovereign Spreads Widened**

*(10-year Gov Spreads, Median, basis points)*

Source: Bloomberg Finance LP.

Source: Haver Analytics, and IMF staff calculations.

Source: Bloomberg Finance LP.
Necessary containment measures are sharply slowing economic activities

Containment Measures Announced in Many MENA Countries
(Percent of MENA countries with each policy)

Sources: National authorities; and IMF staff calculations.

PMI: Composite for Selected Economies
(Seasonally adjusted, 50+ = expansion)

Sources: IHS Markit; and Haver Analytics.
¹ MENA aggregate is the average of indices for Egypt, Qatar, Saudi Arabia, and UAE.
Country Responses

Uncertainty about the nature and duration of the shocks has complicated policy response
Authorities’ responses emerged rapidly to address the COVID-19 challenge, to protect people and preserve economic engines.

Framework for Response to the Crisis

MENA countries’ responses to tackle two main challenges …

Main objectives

- Support the healthcare system
- Support private sectors and citizens

… through four immediate steps

Key policy tools

1. Containment Measures
   - Travel restrictions
   - Border closure
   - Prohibition of mass gathering
   - School closures

2. Support Sanitary System
   - Ensure that medical and sanitary systems have sufficient resources to play their role in overcoming the crisis

3. Support the Economy
   - Use of fiscal and monetary policy measures to protect citizens and preserve domestic demand, while maintaining fiscal sustainability

4. Maintain Access to Finance
   - Support financial systems to use their full capacity to help SMEs preserve access to finance, including through liquidity facilities
Health response was differentiated among countries depending on health preparedness and current levels of spending.

Hospital beds per 100,000 people

Doctors per 100,000 people

Sources: World Bank; World Development Indicators; Johns Hopkins Center for Health Security, EIU, Nuclear Threat Initiative, and IMF staff calculations.
Size of fiscal packages varied significantly depending on available policy space, with an average of 2.7 percent of GDP.

Fiscal Support in Response to COVID-19
(Percent of GDP)

Total: $64 billion in 12 countries

Average: 2.7 percent of GDP

Fiscal Measures in Response to COVID-19

<table>
<thead>
<tr>
<th>Additional Revenue Measures</th>
<th>Additional Expenditure Measures</th>
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<tbody>
<tr>
<td>Bahrain</td>
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<td>Egypt</td>
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<td>U.A.E</td>
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Source: National authorities.

Note: Information presented above is as of April 6, 2020.

Sources: National authorities; and IMF staff calculations.
Central banks eased monetary policy stance, with some providing additional liquidity support.

Monetary policy rate adjustment (Percentage point change since beginning of 2020)

Liquidity support in response to COVID-19 (In percent of GDP)

Total: $47 billion in 7 countries
Average: 3.4 percent of GDP

Sources: National authorities; Bloomberg; and IMF staff calculations.
Economic outlook in 2020

Economic performance in MENA countries will be severely impacted by this dual shock
Growth is expected to falter in 2020, with a majority of countries revising down by more than 4 percent in one year, specially fragile and conflict states.

**MENA Oil exporters: Real GDP Projections (Percent change)**

- October 2019
- Current

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Oil importers</td>
<td>-1.3</td>
<td>-0.8</td>
<td>4.7</td>
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**MENA Oil importers: Real GDP Projections (Percent change)**

- October 2019
- April 2020

<table>
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<th>Year</th>
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<th>2021</th>
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<tr>
<td></td>
<td>4.4</td>
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<td>2.6</td>
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**Fragile and Conflict States Real GDP Projections (Percent change)**

- Iraq
- Yemen
- Somalia
- Sudan
- Libya (rhs)

Sources: National authorities; and IMF staff calculations.
External and fiscal positions have come under stress in most MENA countries

Sources: National authorities; and IMF staff calculations.
... with oil exporters particularly hit by a double whammy

Expected Drop in Oil Export Receipts in 2020 from 2019
(USD Billion)

Total Decline: $226 billion

Sources: National authorities; and IMF staff calculations.

Projected Change in Non-oil Fiscal Balance in 2020 from 2019
(In percentage points of non-oil GDP)

Note: Non-oil primary balance is used for Saudi Arabia.
Vulnerabilities are rising in MENA Emerging Economies, in line with global trends

Financial Markets Developments

Equities - Oil Exporters
(Index: June 1, 2016 = 100)

Equities - Oil Importers
(Index: June 1, 2016 = 100)

Spreads - Oil Exporters
(Basis points)

Spreads - Oil Importers
(Basis points)

Capital Flows - Oil Exporters
(USDm)

Capital Flows - Oil Importers
(USDm)

Sources: Bloomberg; Haver Analytics; and IMF staff calculations.
Vulnerabilities and Risks

Multiple transmission channels from various shocks are eroding resilience
Public health spending is relatively low, with limited efficiency in several MENA countries especially fragile and conflict-affected states.

Public Health Expenditure (% of GDP)

Composite Health Security Index (Index, 2019)

Sources: World Development Indicators and UNDP; Herrera and Ouedraogo (2018), and IMF staff calculations.
Protracted economic recession with lasting welfare losses to the society and people should be prevent

Inbound Tourism Expenditure
(Percent of GDP)

Remittance Receipts
(Percent of GDP)

Note: For oil exporting countries, tourism expenditure is measured as a percent of non-oil GDP

Source: National authorities; World Tourism Organization; Haver Analytic; and IMF staff calculations.
Large forthcoming maturing debt presents financing risks in current market conditions

Amortization Needs in 2020
(Billions USD)

Debt Accumulation in 2020: Projection
(Billion USD, year on year change of debt level)

Sources: National authorities; and IMF staff calculations.
High public debt may limit fiscal space to undertake additional measures

Public Debt
(Percent of GDP, end-2019)

Sources: National authorities; and IMF staff calculations.
Policy Priorities and Fund Support

Scaling up policy advice and financial assistance to help surmount this crisis and limit its human and economic costs
Governments need to mobilize all efforts to stabilize economic and financial systems and reactivate the economy ...

Priorities in Response to the Unfolding Crisis

- Maximize public health interventions
- Mobilize all efforts to ensure economic recovery
- Prioritize spending on health systems to save lives:
  - Accommodate essential health expenditures, regardless of fiscal space
  - Mobilize donor support and/or reprioritize non-essential spending where no space exists
  - Address needs of fragile/conflict-affected states

Mitigate adverse effects on households, SMEs and sectors:

- Fiscal policy: ensure social safety nets; targeted and temporary tax relief, transfers and subsidies; and provide government guarantees
- Monetary and financial policies: Improve access to finance; provide liquidity to banks to ensure credit lines and modify loan terms, while ensuring financial stability
- Guard against prolonged and multi-dip recessions and ensure a timely economic recovery
- Avoid protectionist policies that risk damaging long-term economic health
- Strengthen financial sector and restore confidence in the market
- Broad-based fiscal stimulus, where space exists, and appropriate monetary support
- External assistance from donors, and bilateral lenders, where space is limited
... Governments should also address emerging policy challenges

- **Ratcheting up health spending** where infrastructure is weak
- **Reaching out to vulnerable** households and businesses where informality is high
- **Ensuring debt sustainability** following a sharp increase in deficits and debt
- **Steering monetary policy** in the face of large capital outflows
- **Strengthening regional and multilateral cooperation** as domestic responses have spillovers across borders, through:
  - Avoiding trade restrictions on food and medicine
  - Providing access to health services to migrant workers
  - Supporting fragile and conflict-affected countries, including through grants and, possibly, temporary suspension of debt payments by official bilateral creditors
IMF has adopted an integrated response to support Arab countries dealing with the COVID-19 pandemic shock

**IMF RESPONSE FRAMEWORK**

**IMF Financing support to contain the crisis**

- 100 billion USD for rapid financing facilities by the IMF
- Additional grant support for LIC (through the CCRT)
- More than 30 countries have already benefited from the RFI

- Act as lender of last resort
- Morocco drawing on PLL – $ 3.2 billion
- Tunisia got the 1st RFI in MENA - $ 750 million
- Introduce adjuster in Program for Jordan
- Use of grant for Yemen

**Policy Support**

- Bilateral assessments and policy advice to authorities
- Joint teleconferences with MENA authorities
- Dissemination of global policy initiatives and IMF staff COVID-related policy guidance (MCM/FAD notes)

**Other Financial Support**

- Close coordination with the World Bank, EBRD through teleconferences
- Coordination with Regional organizations: AMF, AFSED, IsDB, GCC
- Mobilization for financial resources, donor support, and debt relief

**Coordination and Outreach**