



MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Middle East and North Africa Regional Economic Outlook

APRIL 27, 2020

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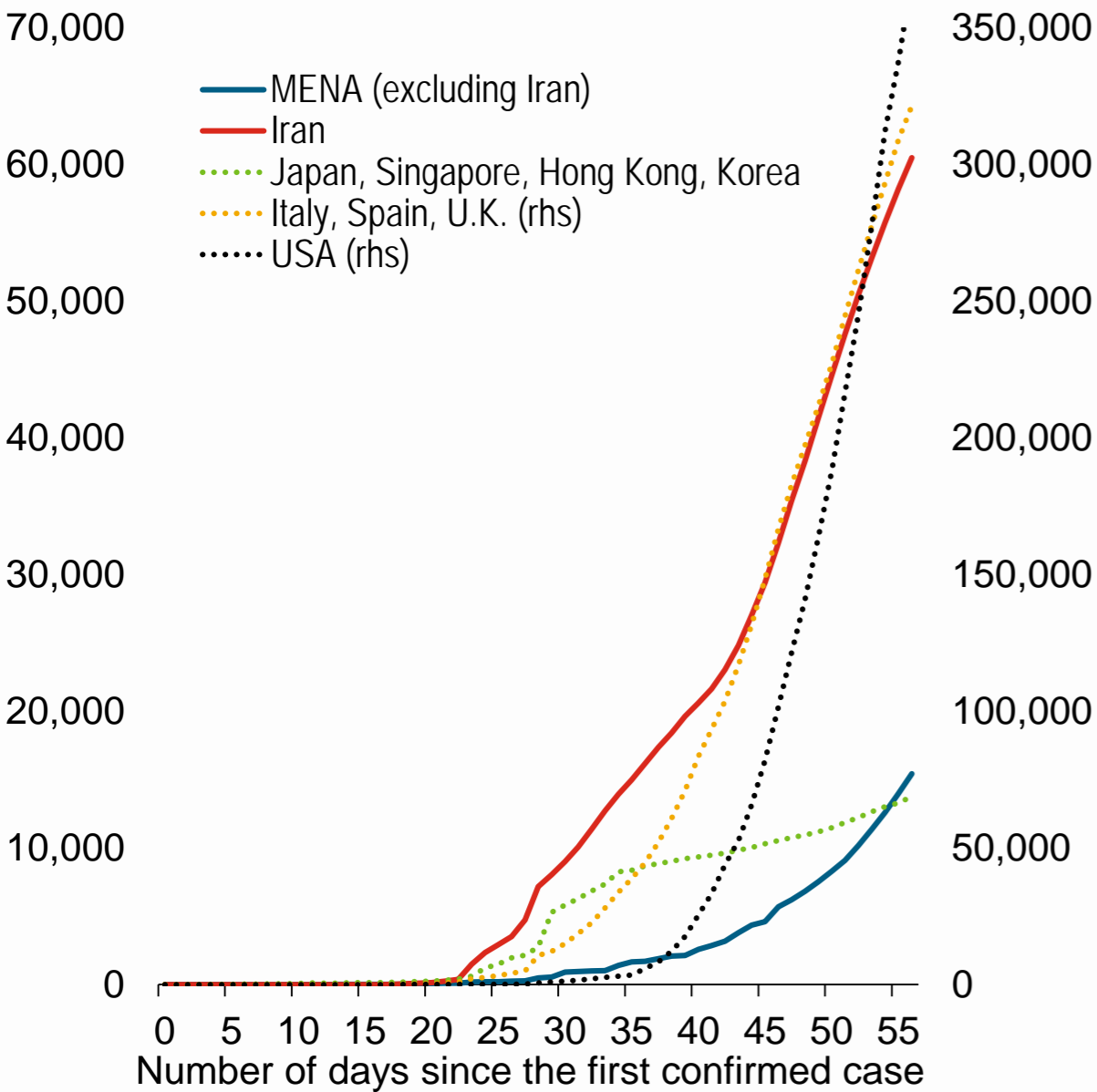
The Shock

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 ...

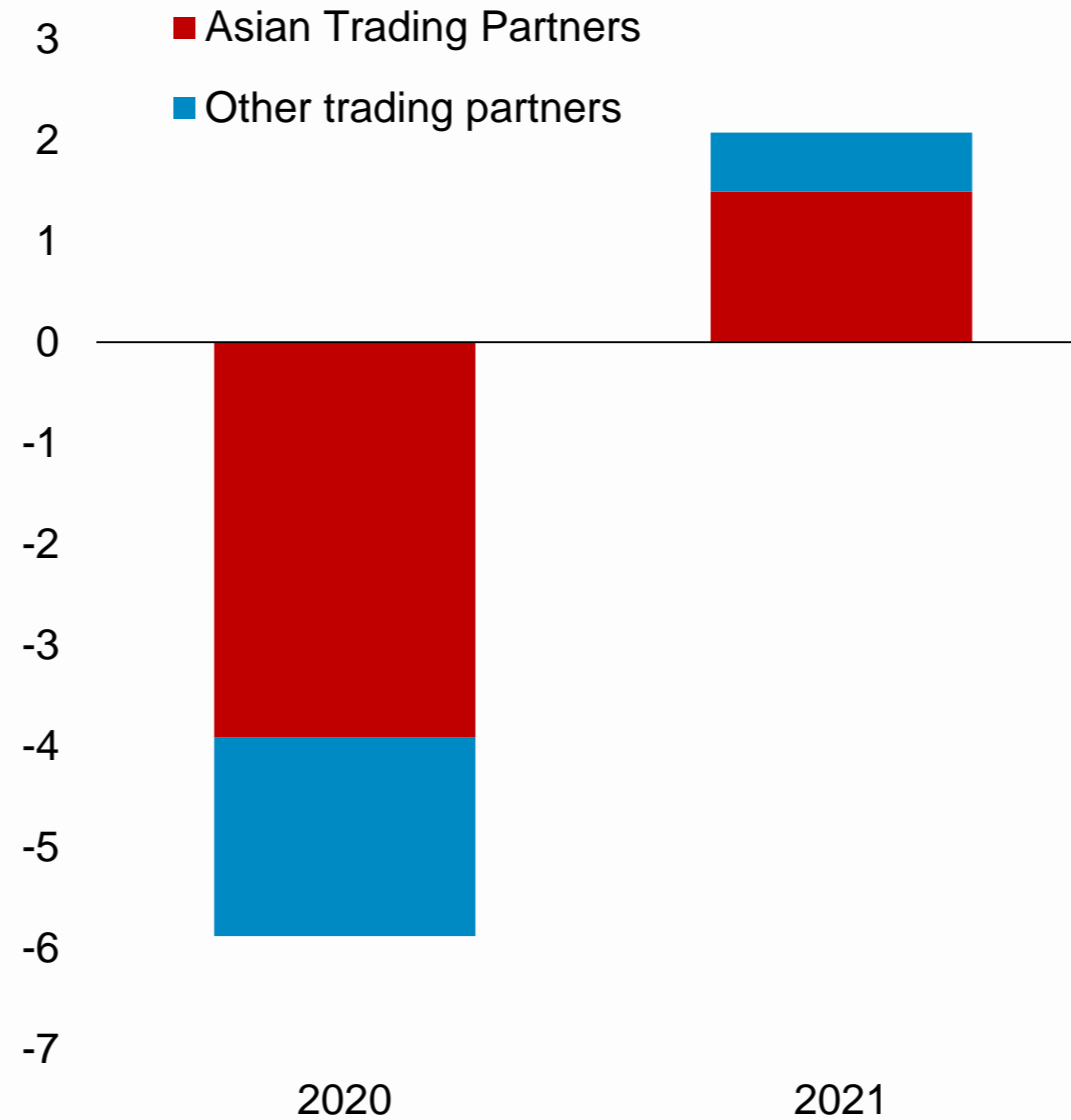
Confirmed COVID-19 Cases in MENA Region

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



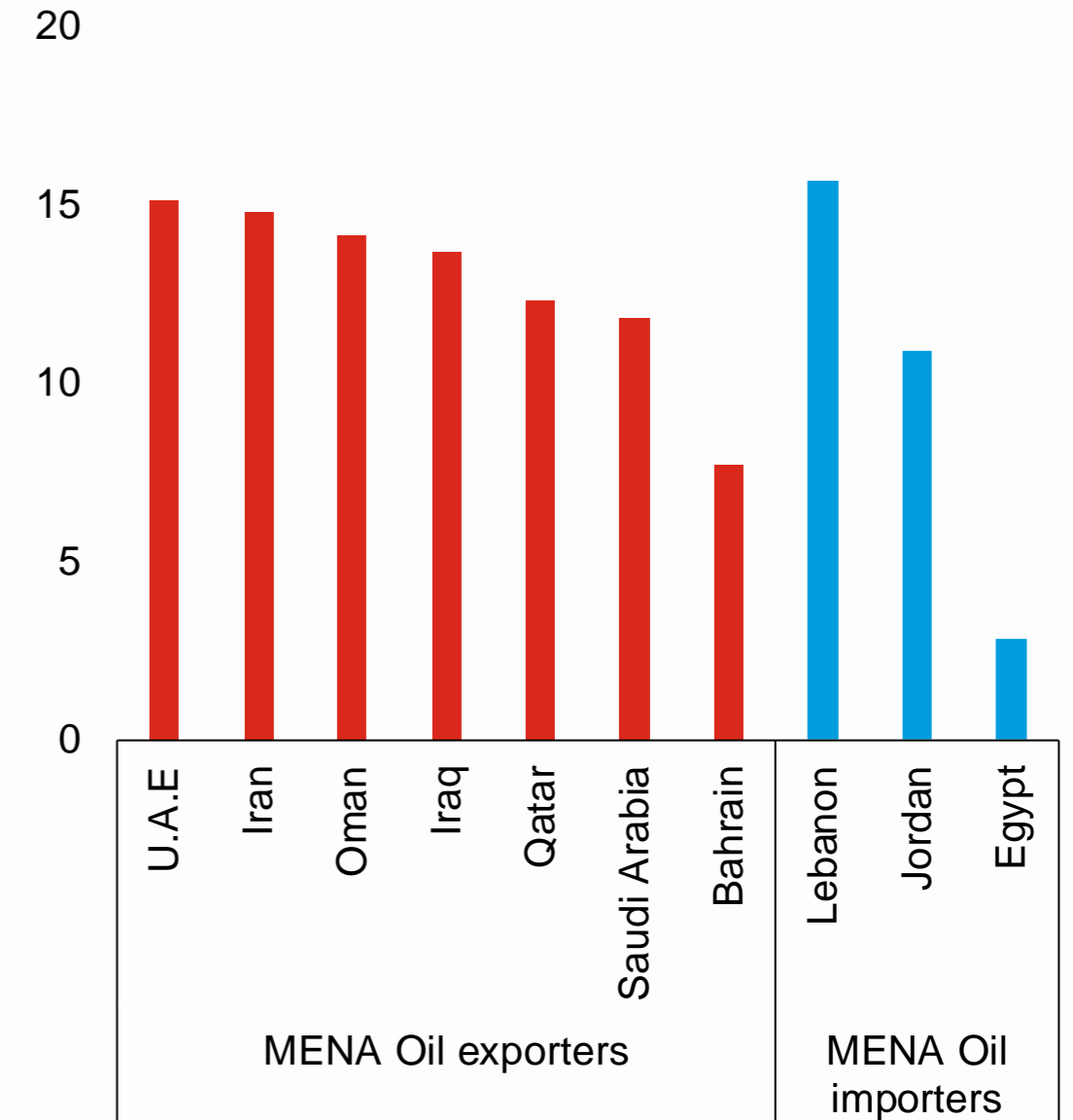
Major Trade Disruptions in 2020: Growth Revisions in MENA Top Trading Partners

(Percent of GDP, weighted by export share)



Share of Retail and Hospitality Sectors

(Percent of GDP, 2019)



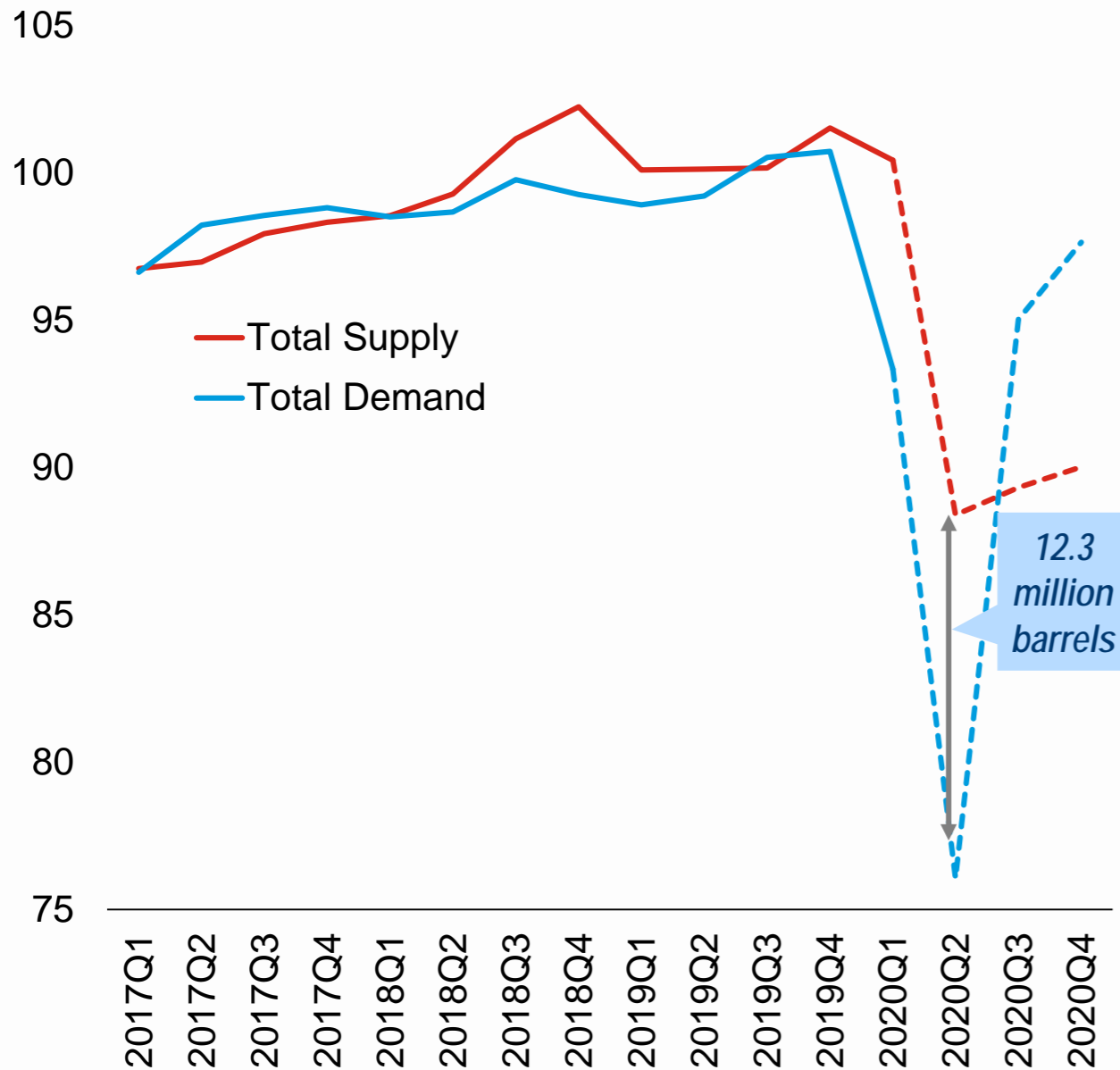
Note: For oil exporting countries, share is measured as a

Sources: Bloomberg L.P.

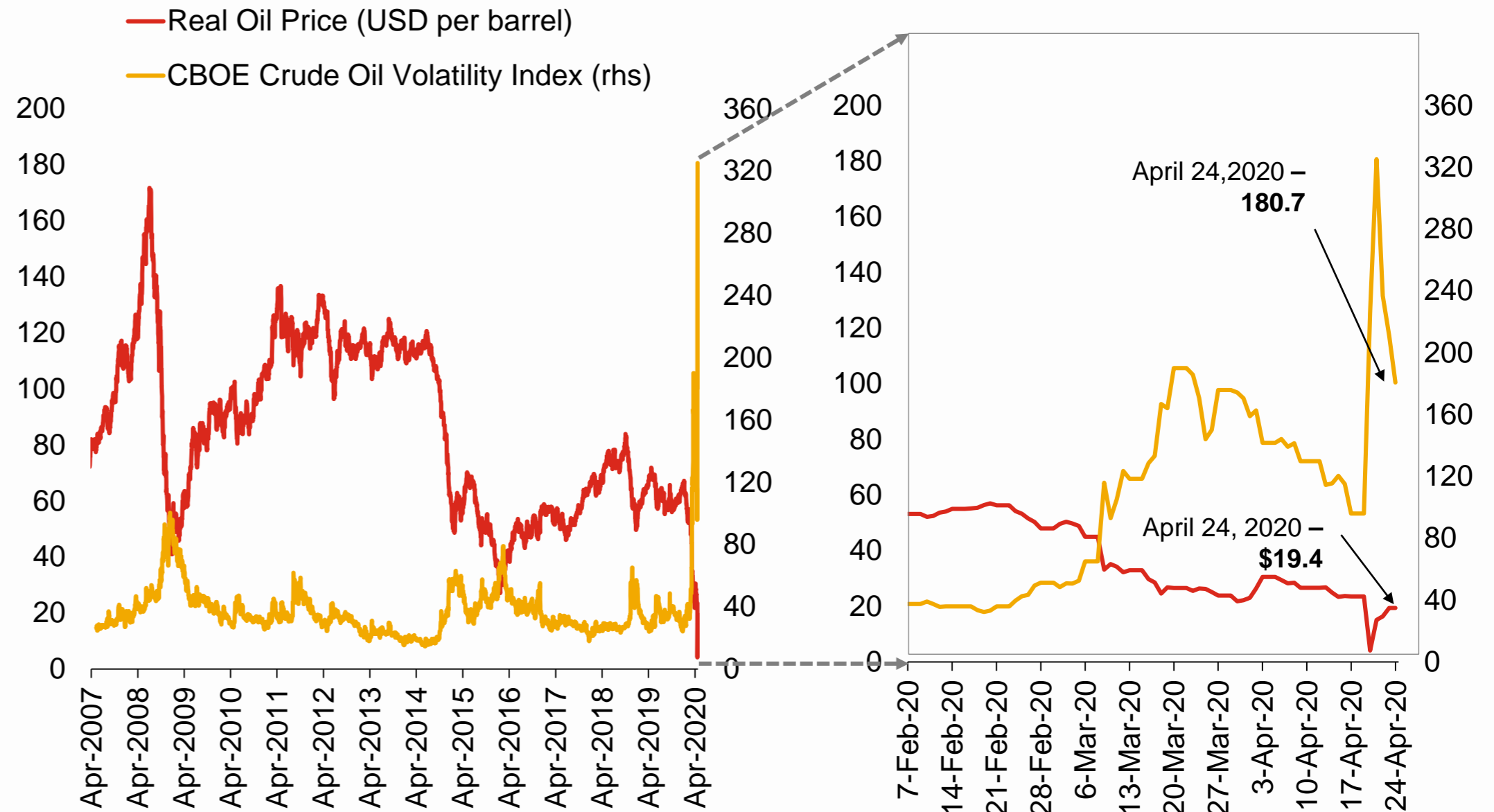
Note: COVID-19 = Coronavirus disease. COVID-19 is an infectious disease caused by a novel coronavirus. On March 11 2020, WHO declared COVID-19 a global pandemic, with over 100,000 confirmed cases in over 100 countries across the world. The first confirmed cases in the Middle East were identified in the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

... the oil shock has compounded economic challenges facing the region

Global Oil Supply & Demand
(Million barrels per day)



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



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

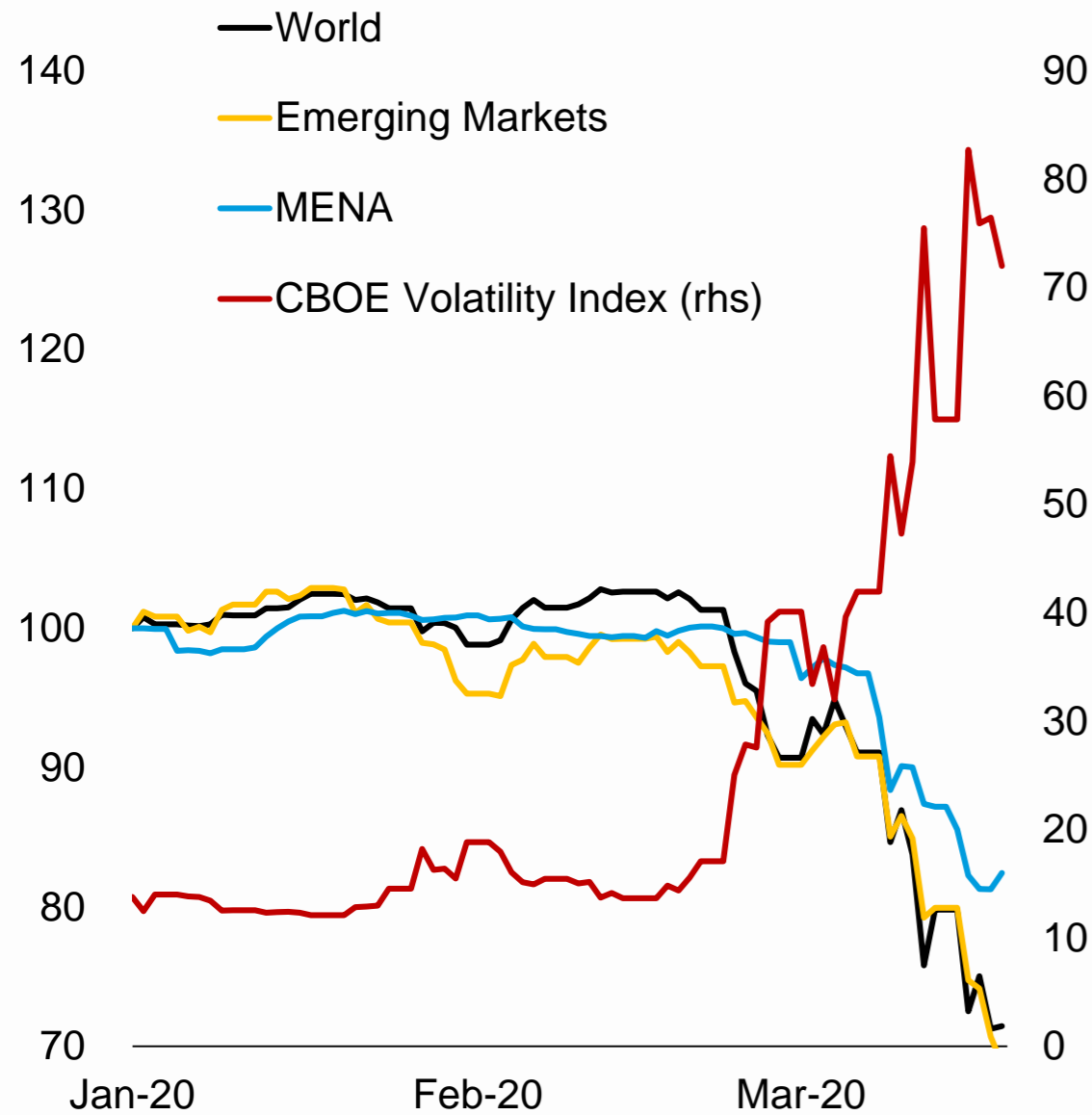
Sharp decline in demand with glut in oil supply

Lowest oil price in two decades

The crisis has also compelled MENA countries to deal with larger and more complex financial challenges

Stock Markets Collapsed

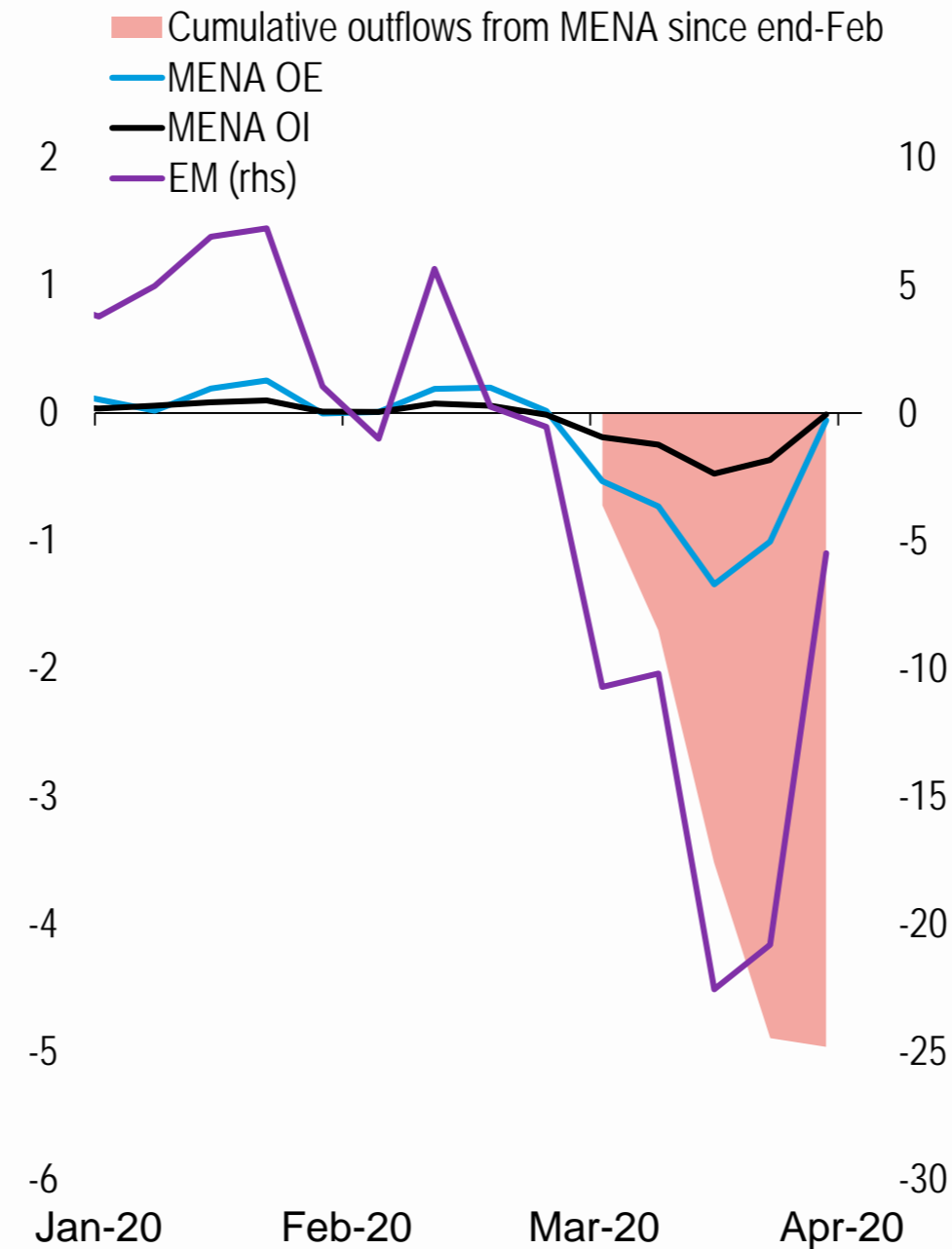
(Equity Index, January 1, 2020 = 100)



Source: Bloomberg Finance LP.

Capital Flows Reversed

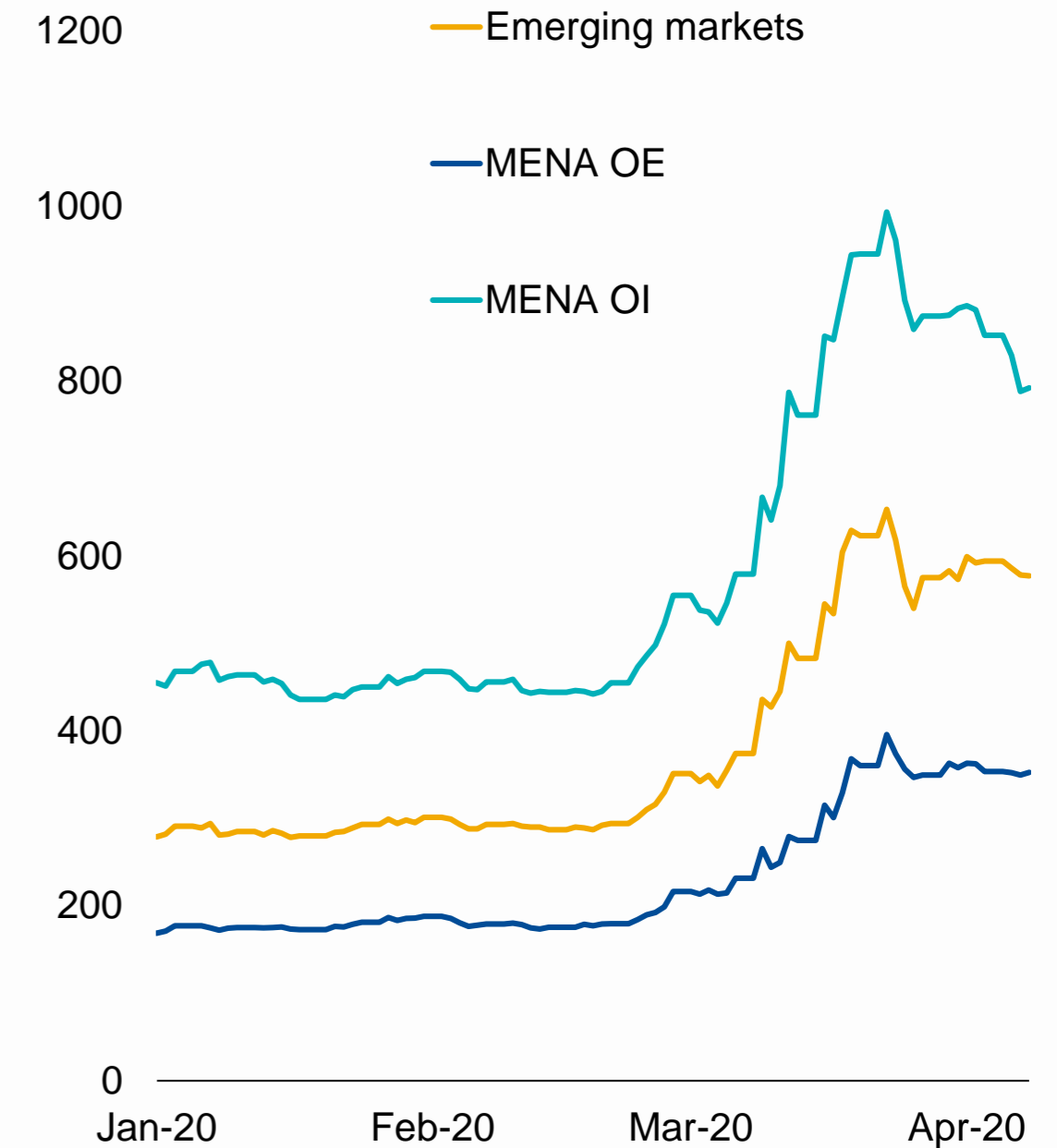
(EPFR flows, Billion USD)



Source: Haver Analytics, and IMF staff calculations.

Sovereign Spreads Widened

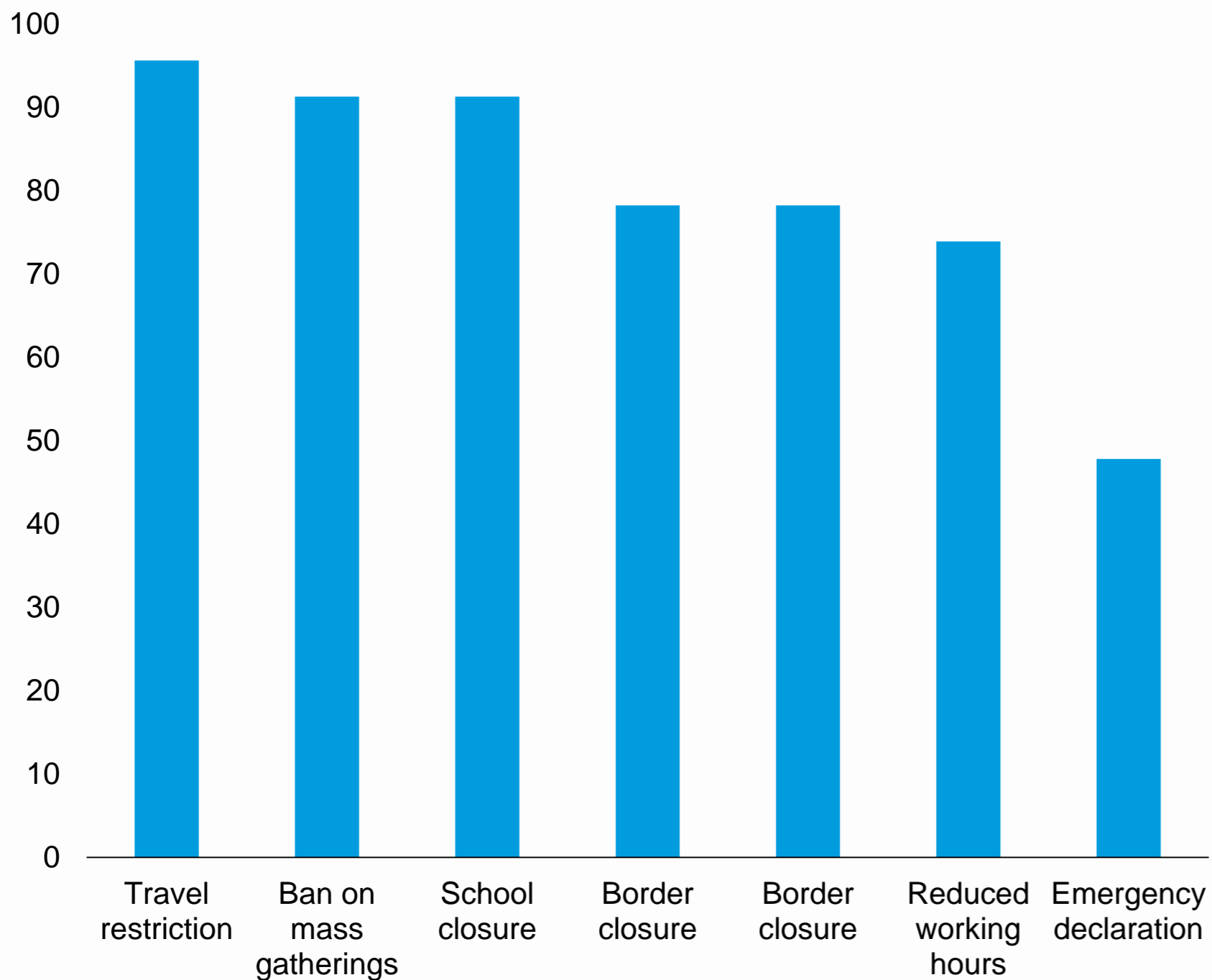
(10-year Gov Spreads, Median, basis points)



Source: Bloomberg Finance LP.

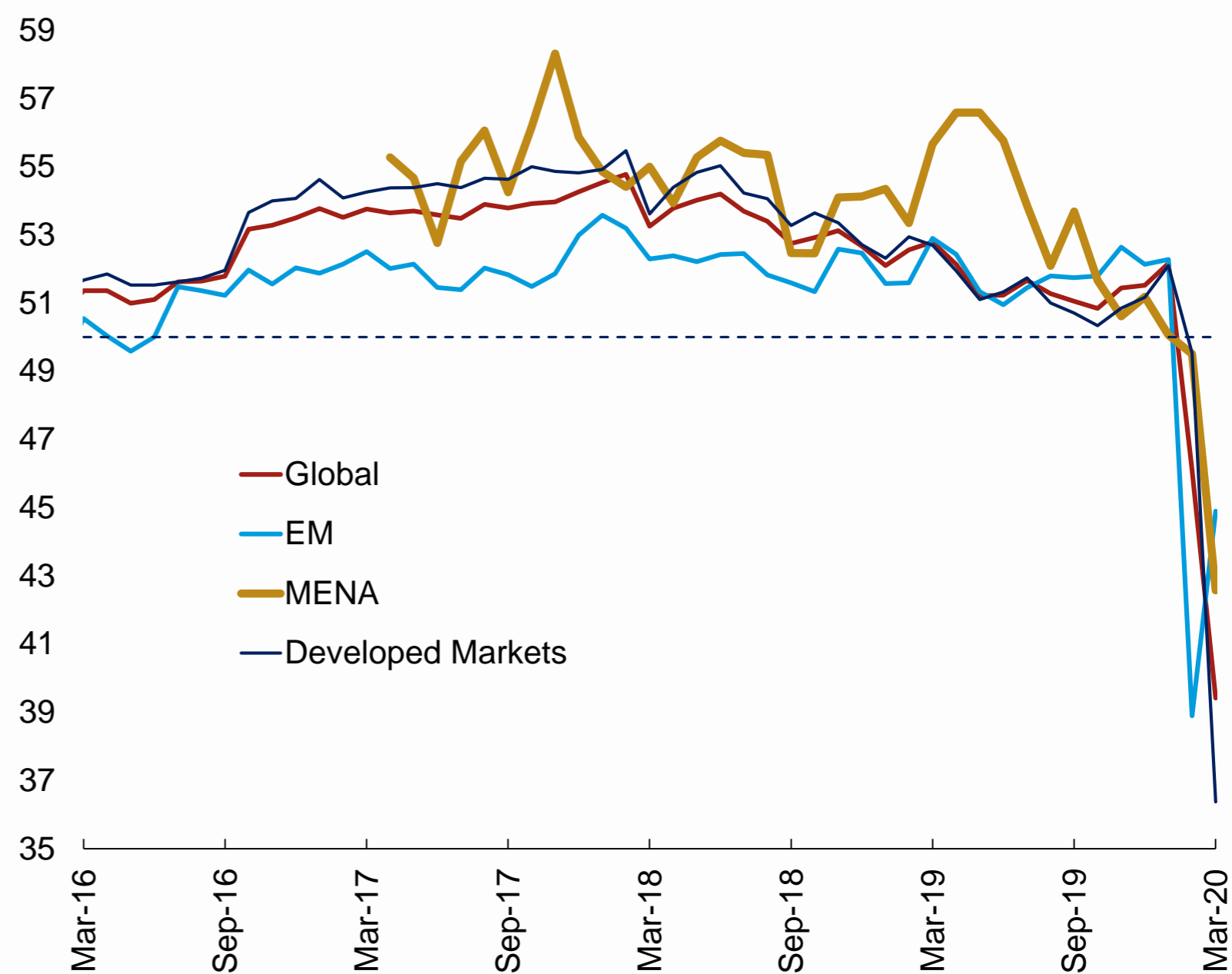
Necessary containment measures are sharply slowing economic activities

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

I Containment Measures

- Travel restrictions
- Border closure
- Prohibition of mass gathering
- School closures

II Support Sanitary System

- Ensure that medical and sanitary systems have sufficient resources to play their role in overcoming the crisis

III Support the Economy

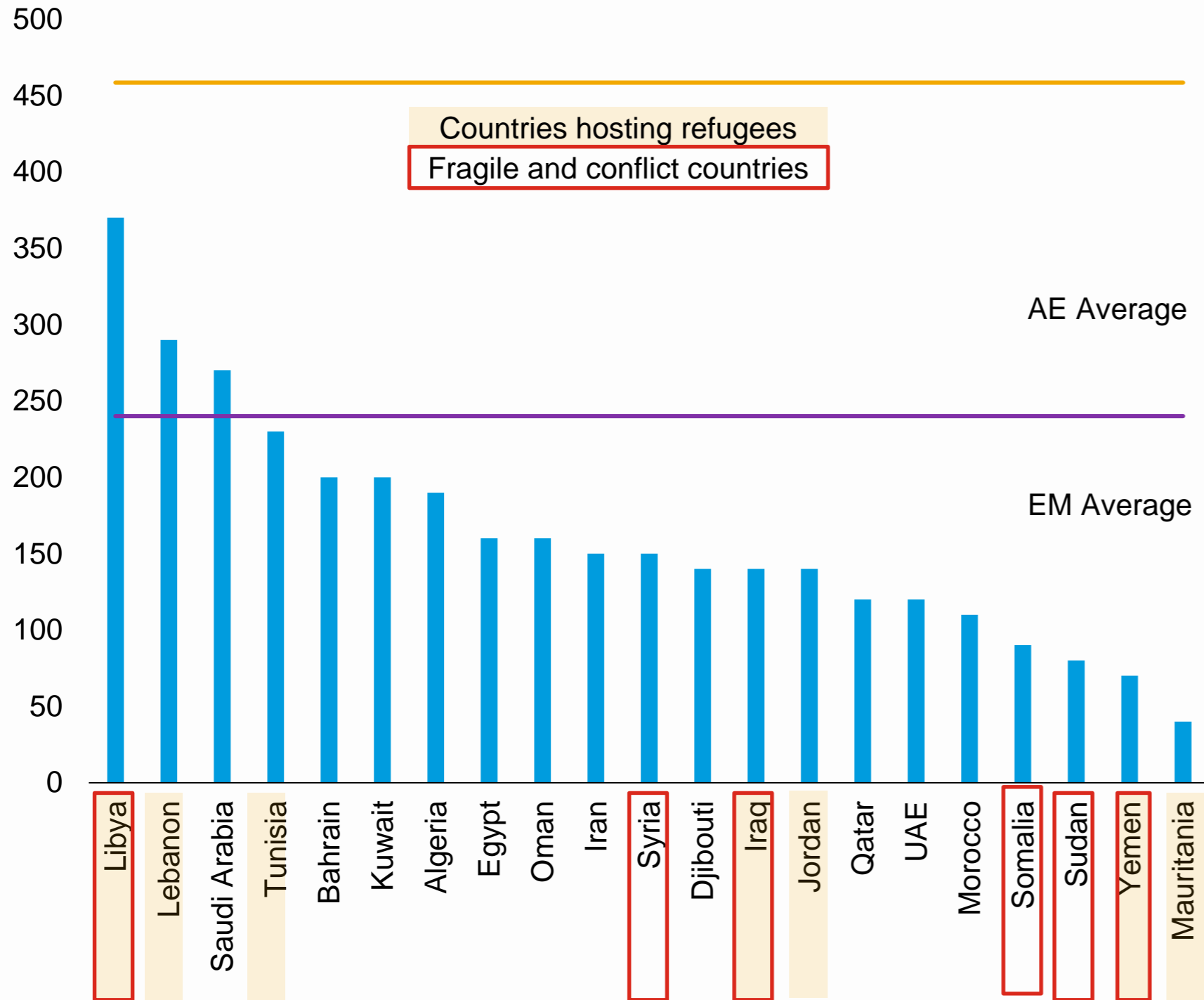
- Use of fiscal and monetary policy measures to protect citizens and preserve domestic demand, while maintaining fiscal sustainability

IV Maintain Access to Finance

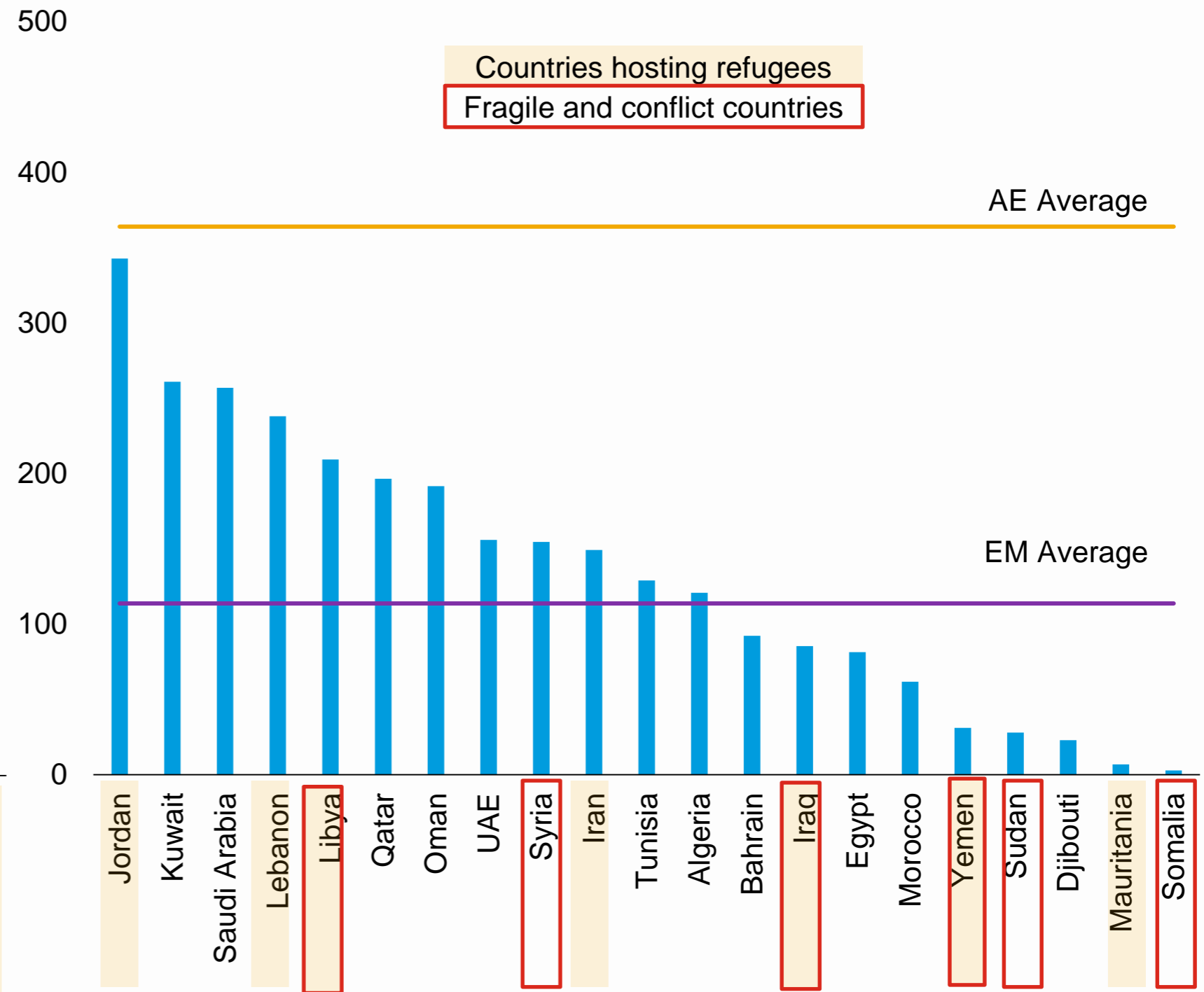
- Support financial systems to use their full capacity to help SMEs preserve access to finance, including through liquidity facilities

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



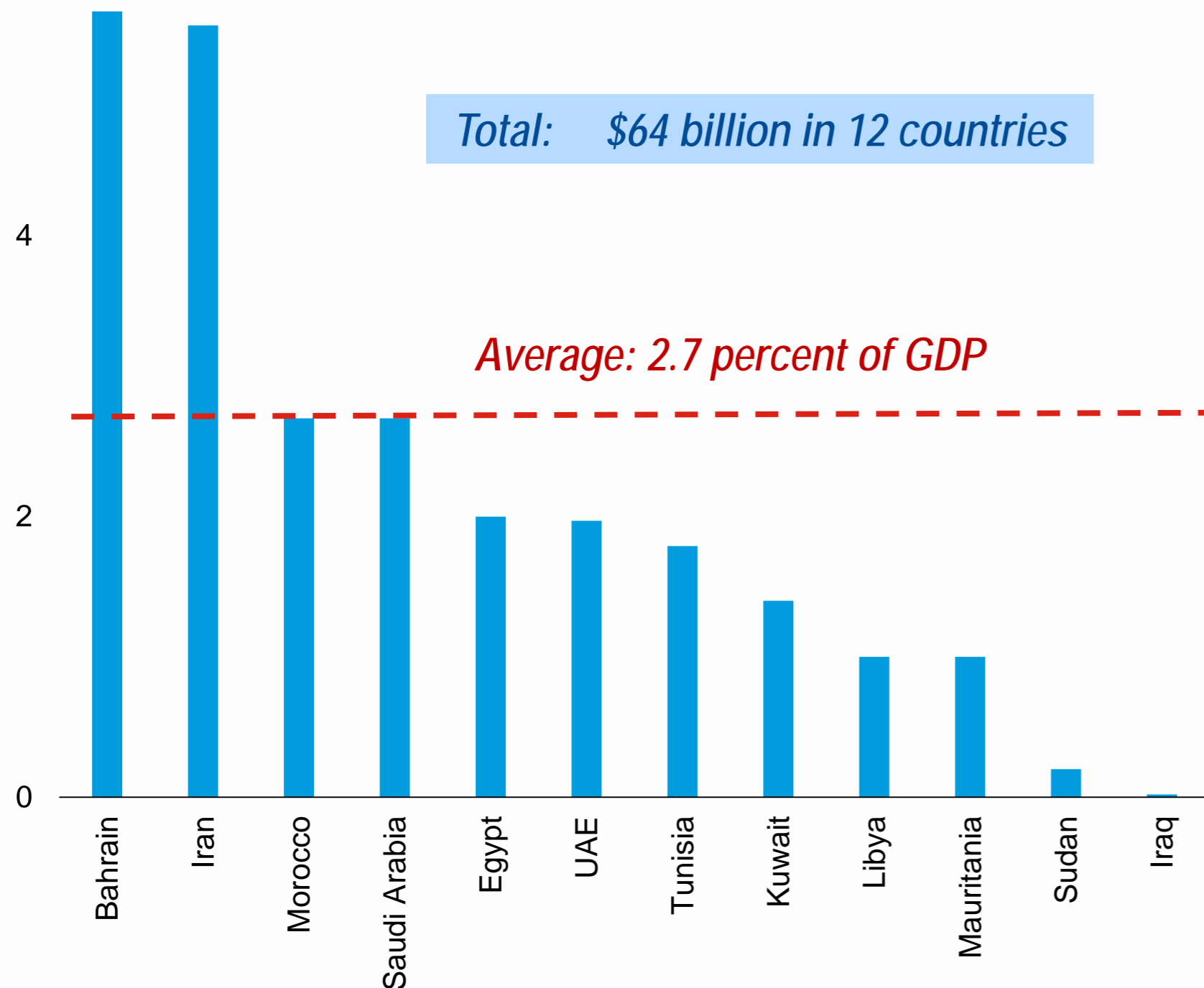
Sources: World Bank; World Development Indicators; Johns Hopkins Center for Health Security, EIU, Nuclear Threat Initiative, and IMF staff calculations.

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)

6



Sources: National authorities; and IMF staff calculations.

Fiscal Measures in Response to COVID-19

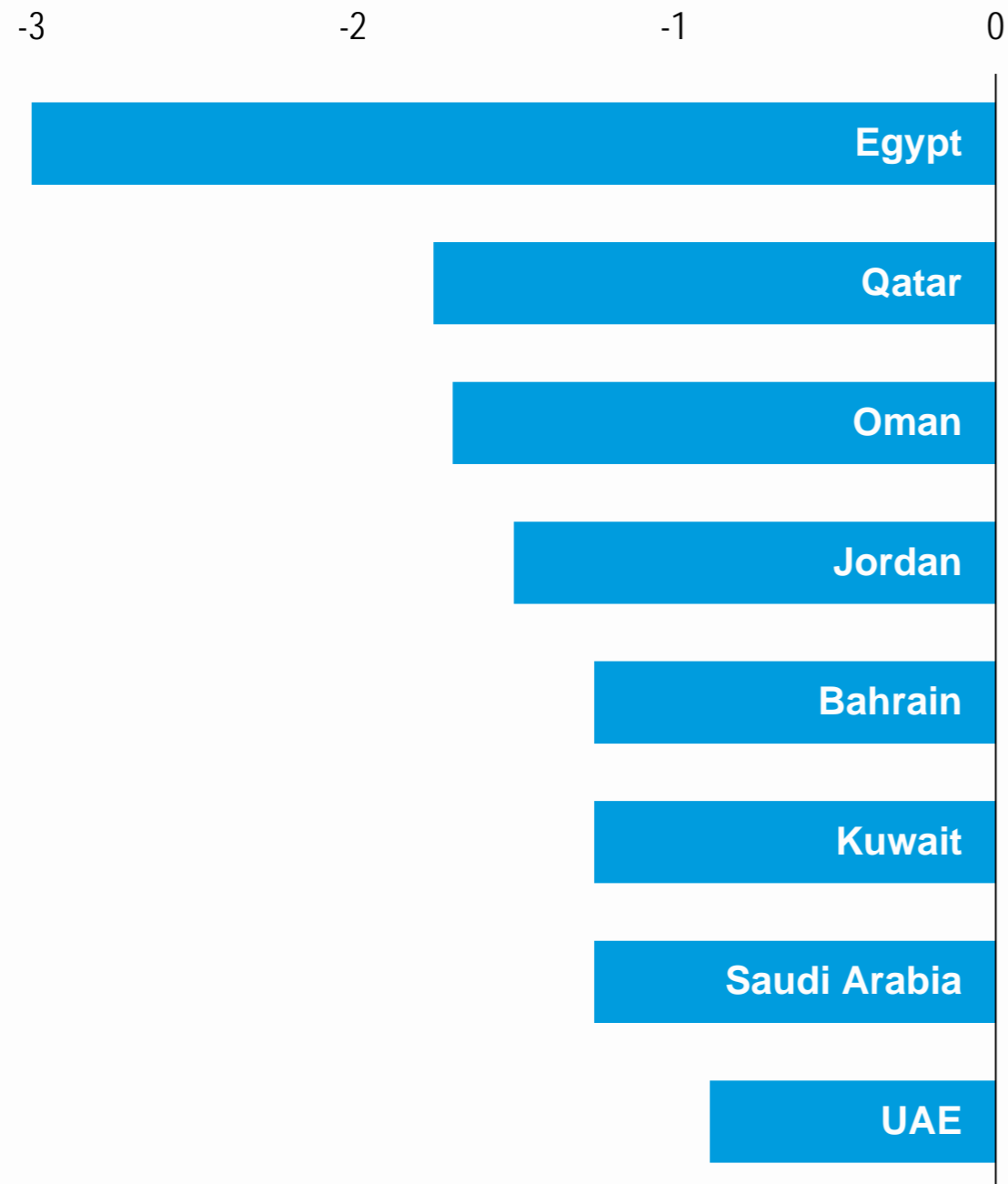
	Additional Revenue Measures	Additional Expenditure Measures
Bahrain	✓	✓
Egypt	✓	✓
Iran	✓	✓
Iraq		✓
Kuwait	✓	✓
Libya		✓
Mauritania	✓	✓
Morocco	✓	✓
Saudi Arabia	✓	✓
Sudan		✓
Tunisia	✓	✓
U.A.E	✓	✓

Source: National authorities.

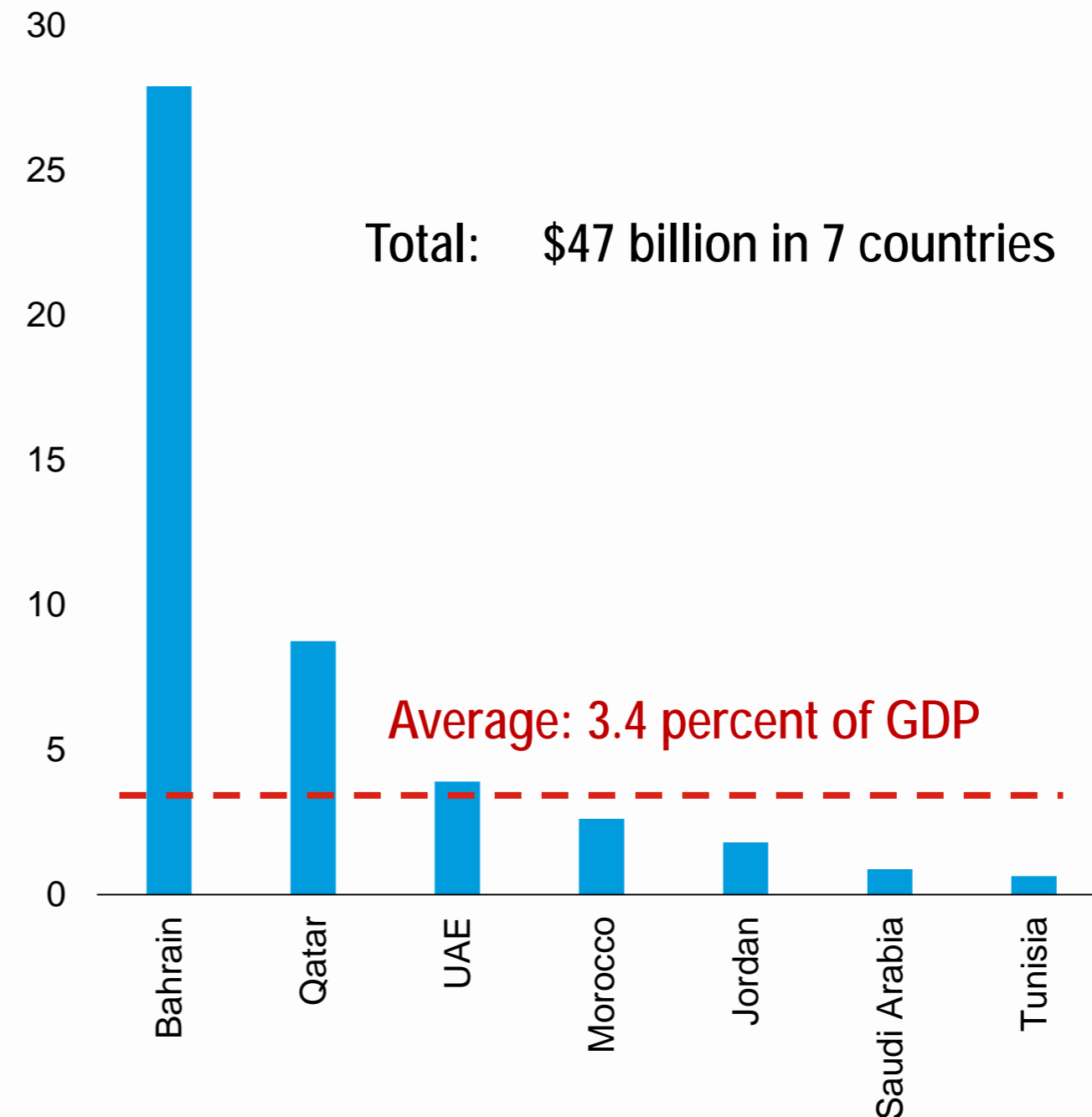
Note: Information presented above is as of April 6, 2020.

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)

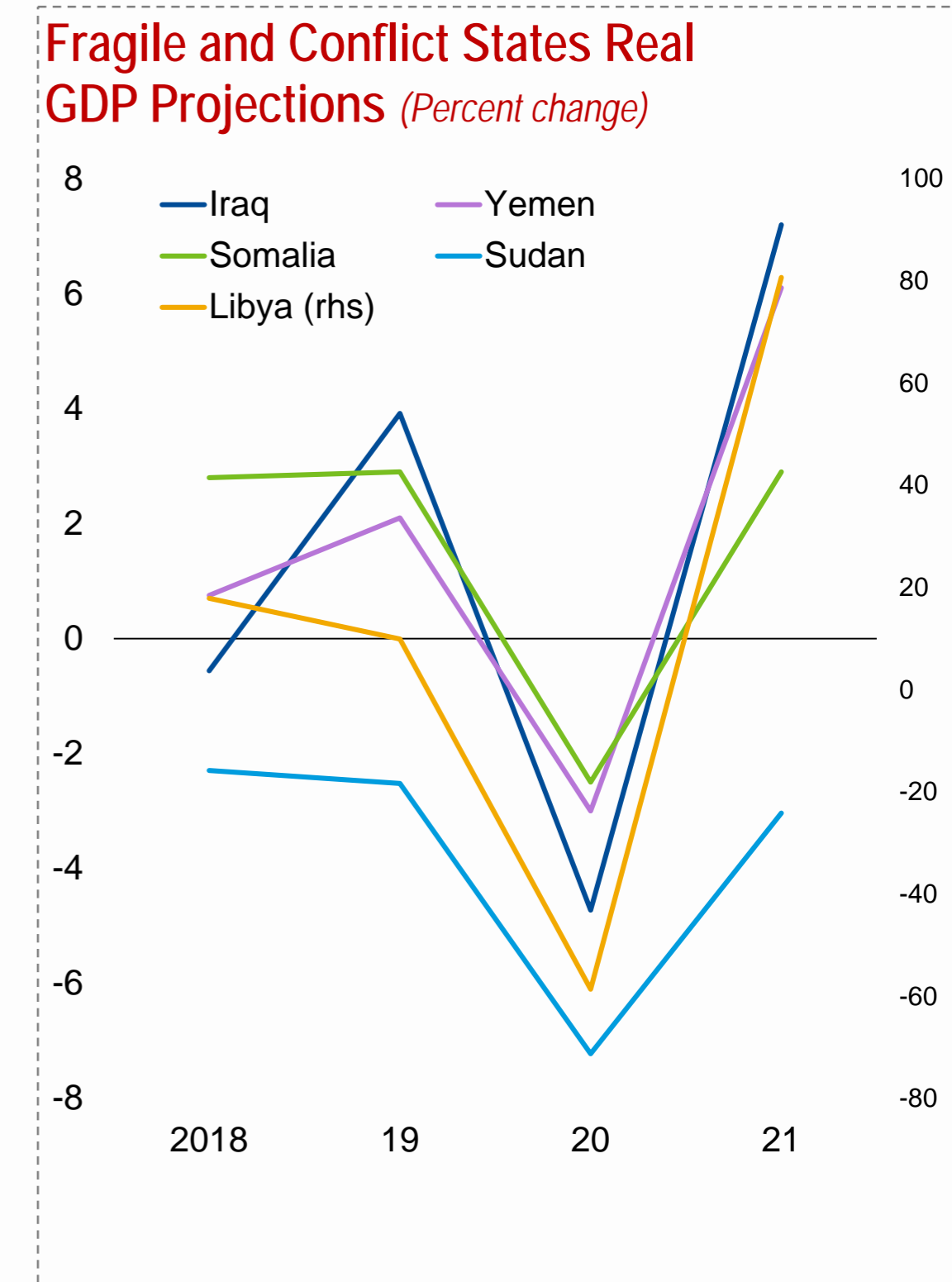
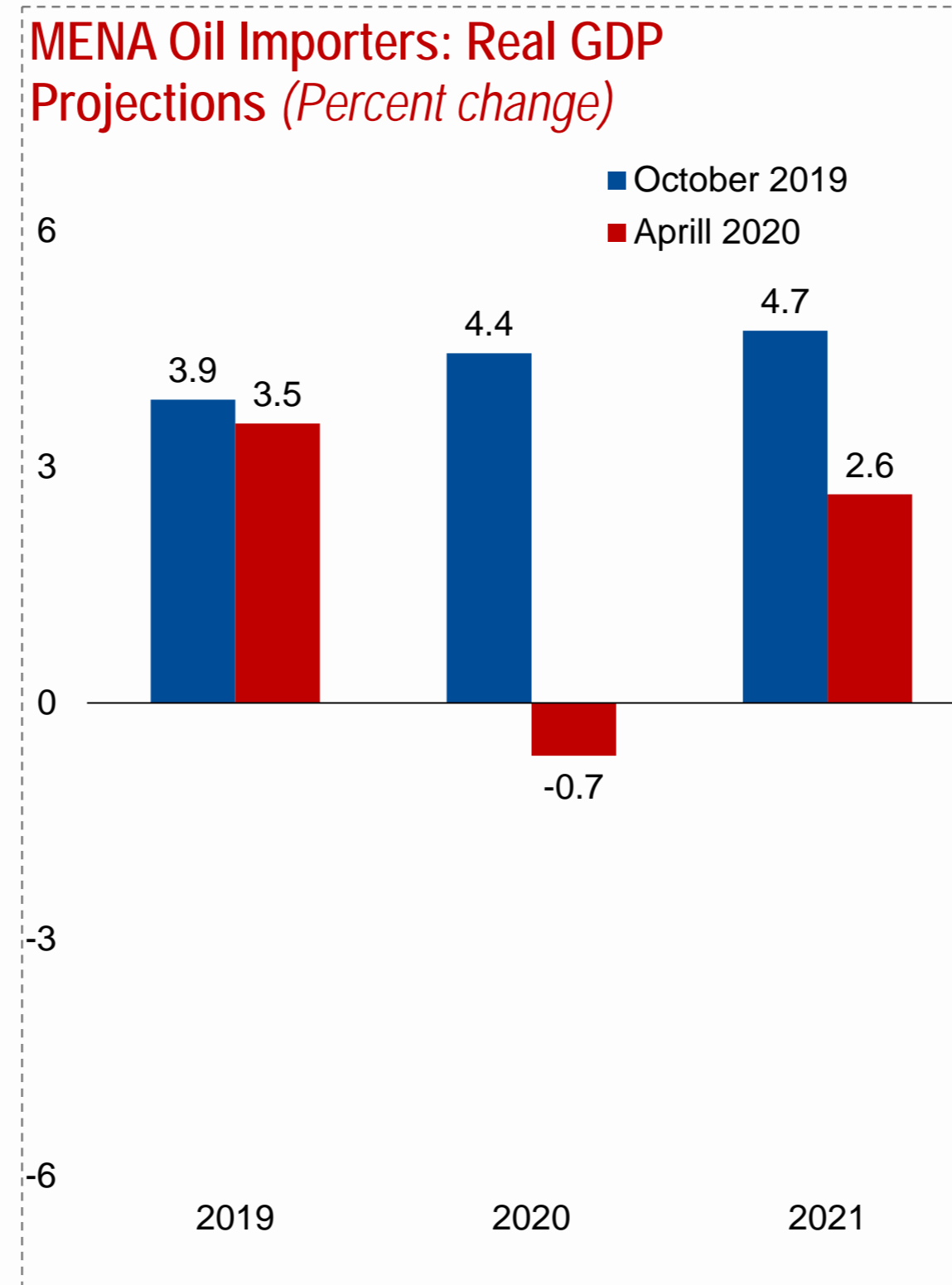
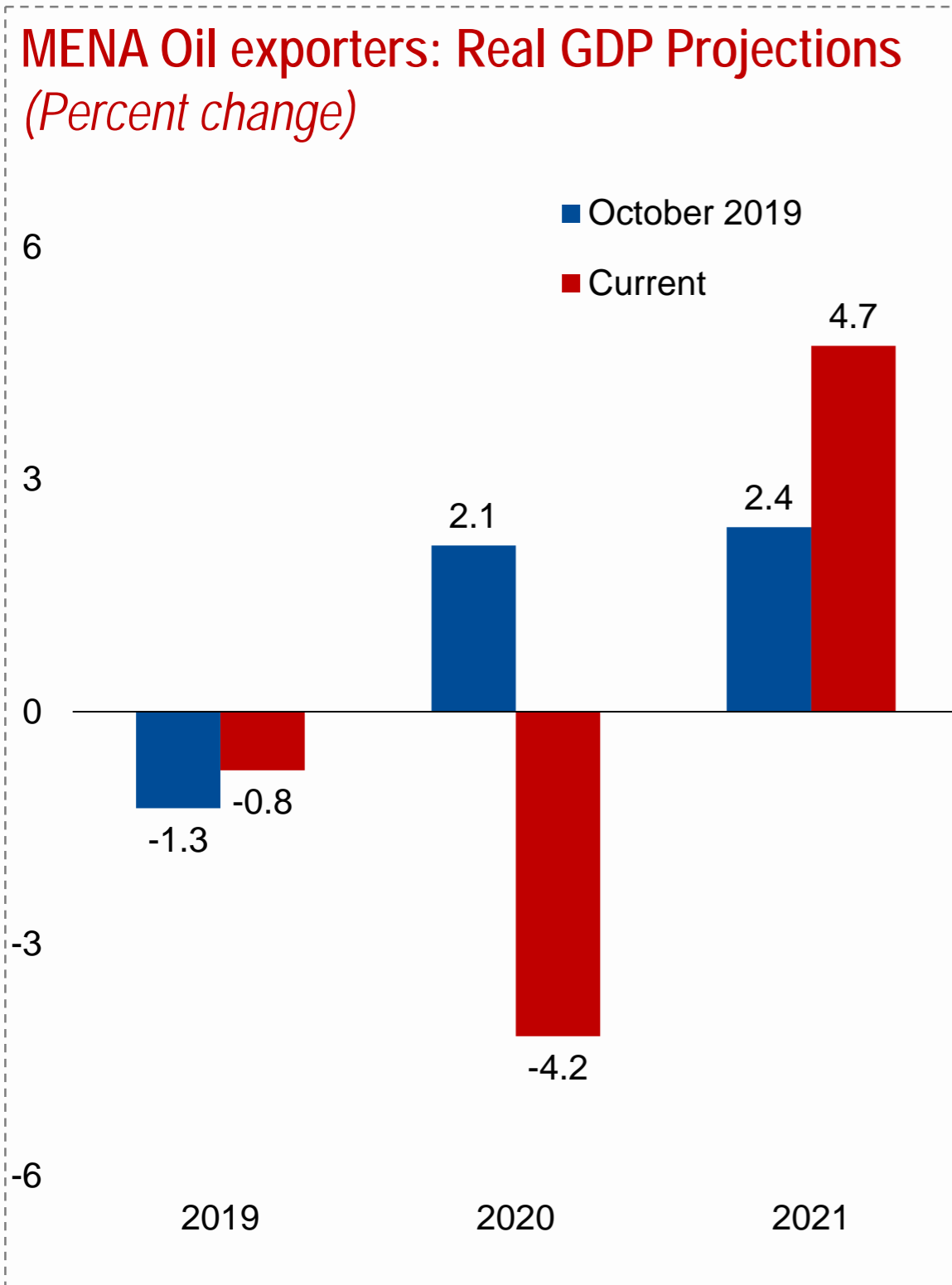


Sources: National authorities; Bloomberg; and IMF staff calculations.

Economic outlook in 2020

Economic performance in MENA countries will be severely impacted by this dual shock

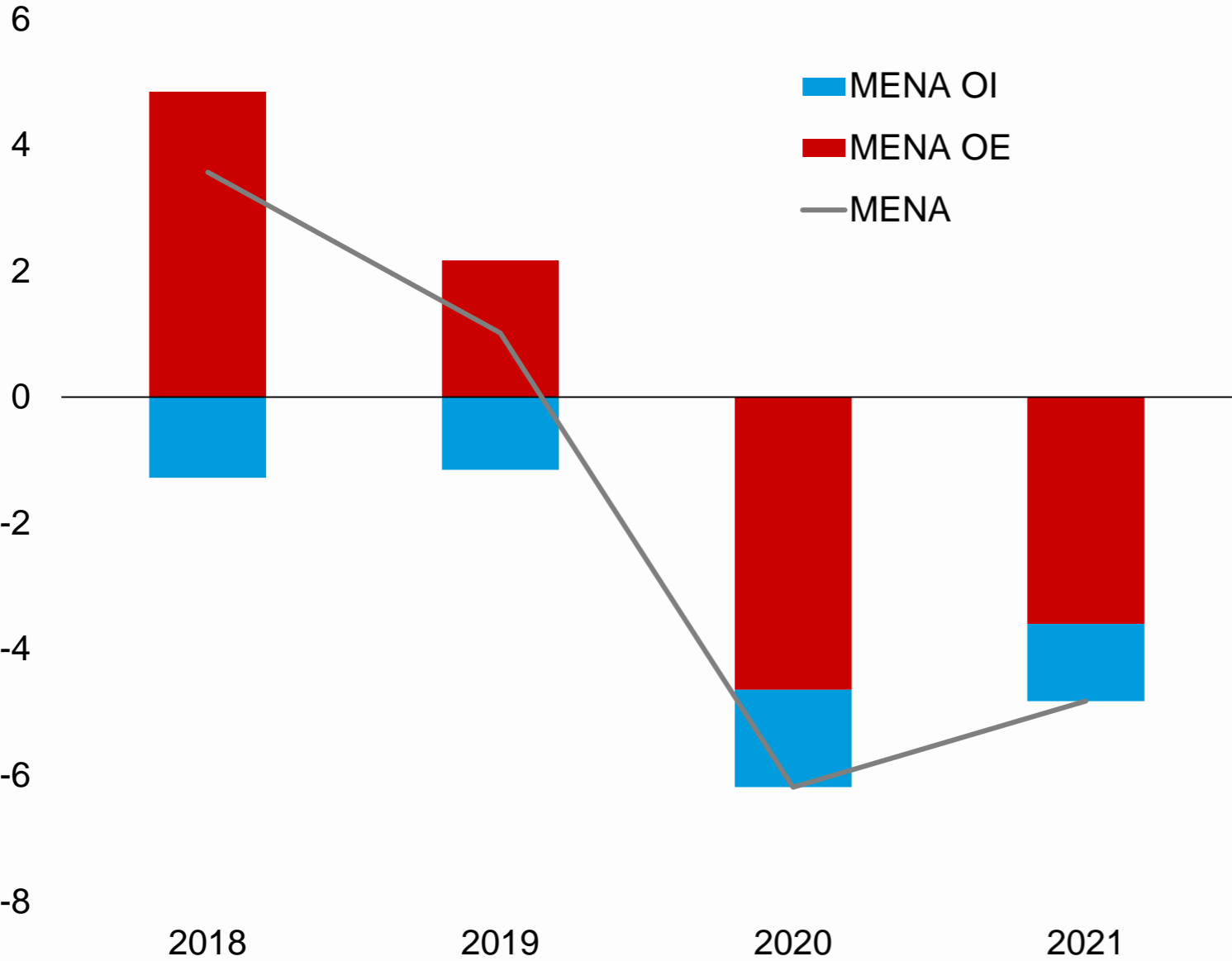
Growth is expected to falter in 2020, with a majority of countries revising down by more than 4 percent in one year, specially fragile and conflict states



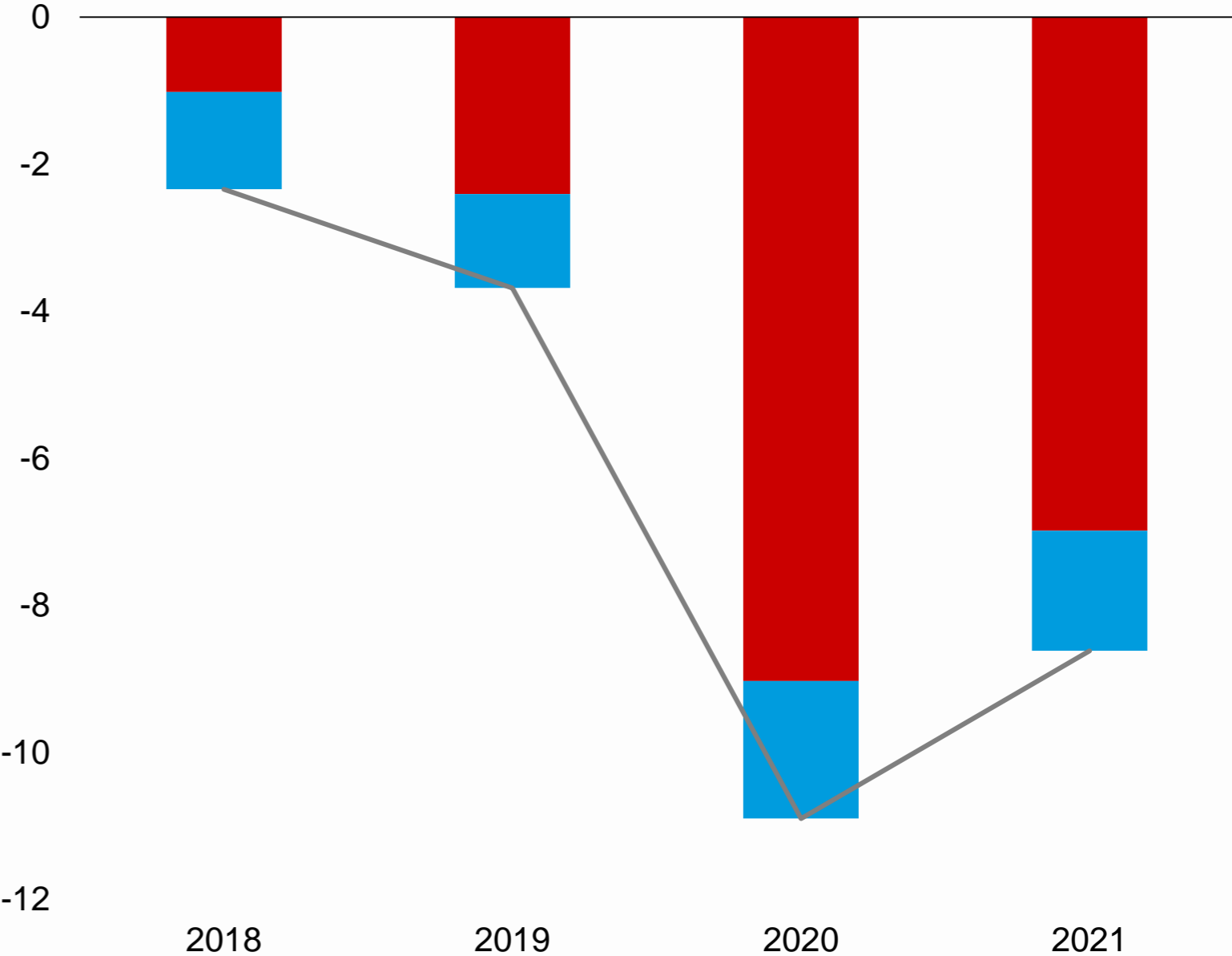
Sources: National authorities; and IMF staff calculations.

External and fiscal positions have come under stress in most MENA countries

Current Account Balance
(In percent of GDP)



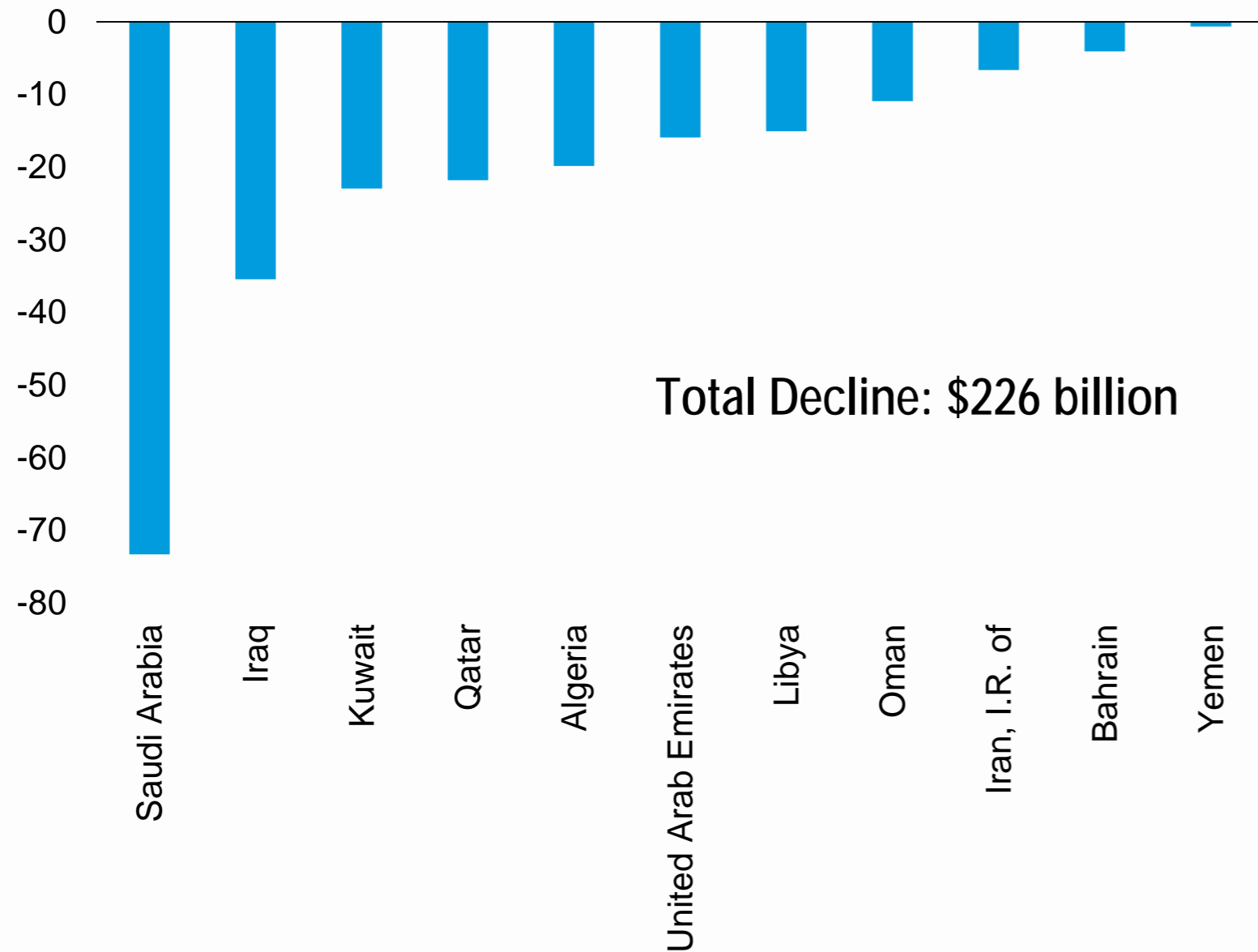
Fiscal Balance
(In percent of GDP)



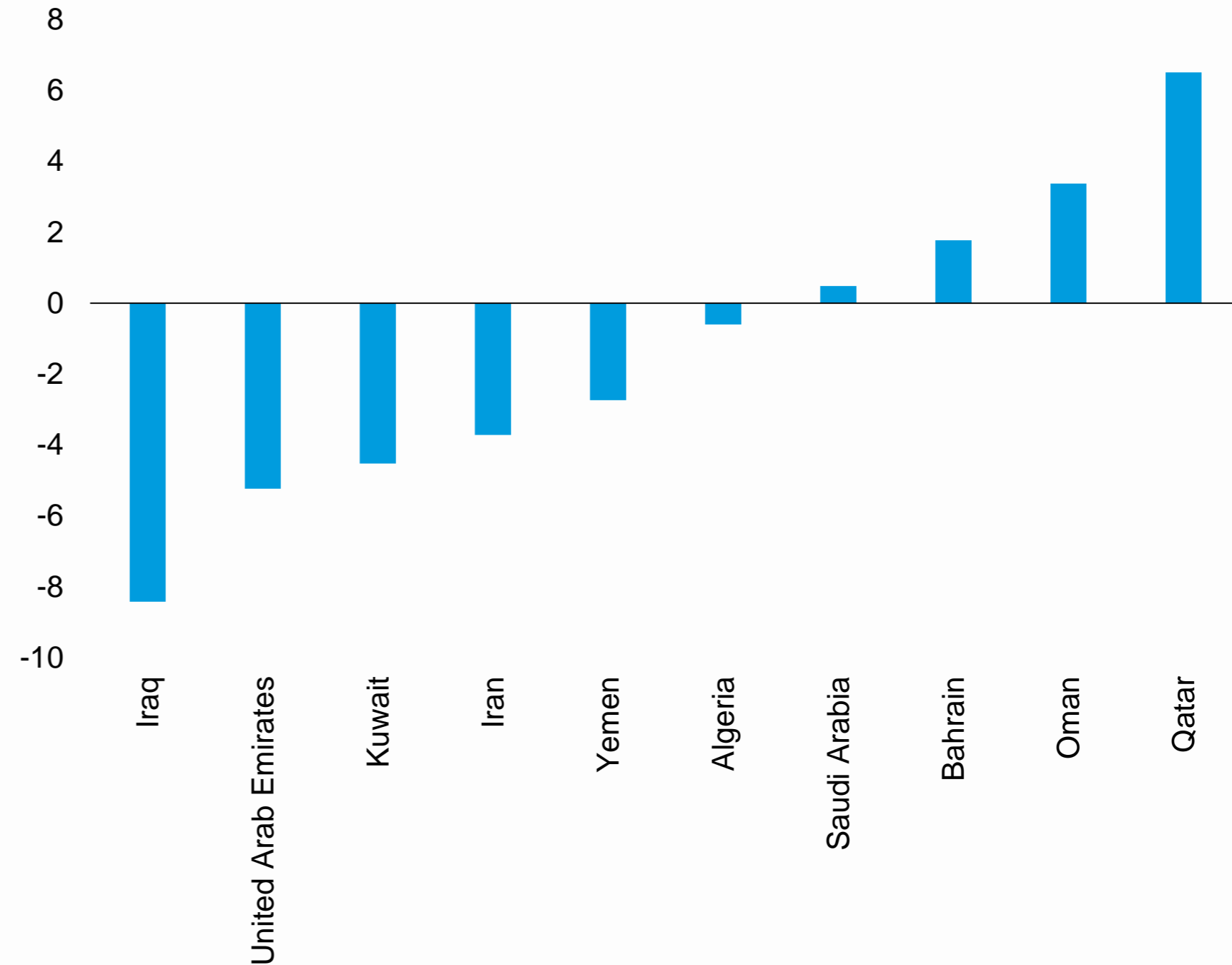
Sources: National authorities; and IMF staff calculations.

... with oil exporters particularly hit by a double whammy

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



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



Sources: National authorities; and IMF staff calculations.

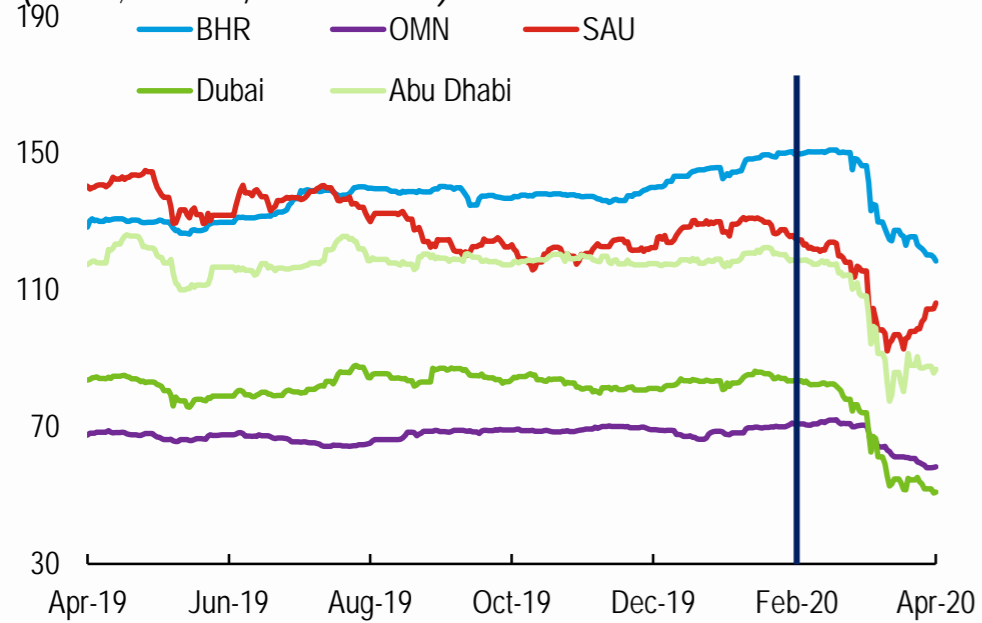
Note: Non-oil primary balance is used for Saudi Arabia .

Vulnerabilities are rising in MENA Emerging Economies, in line with global trends

Financial Markets Developments

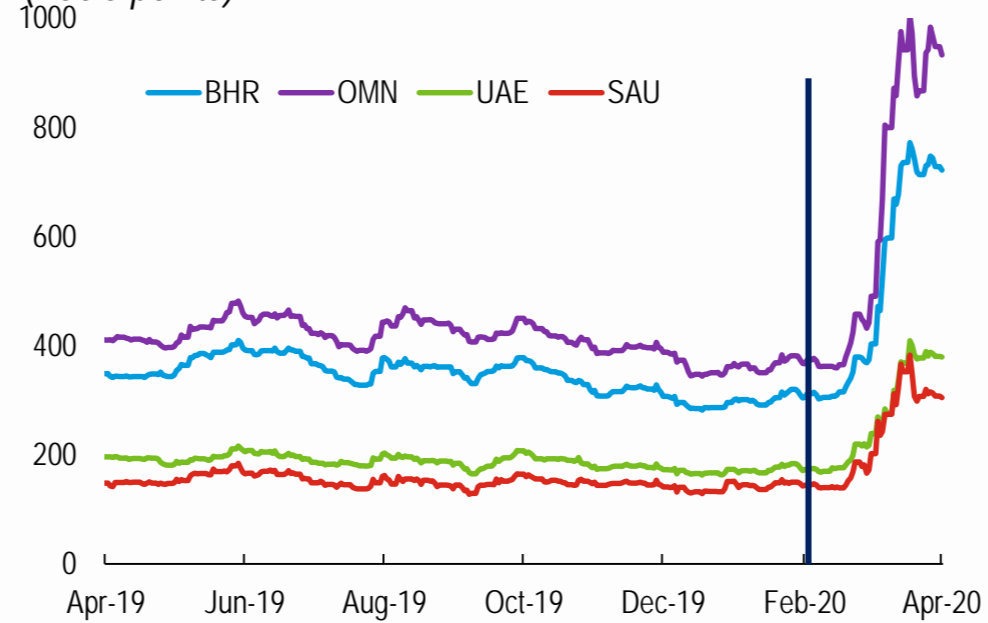
Equities - Oil Exporters

(Index; June 1, 2016 = 100)



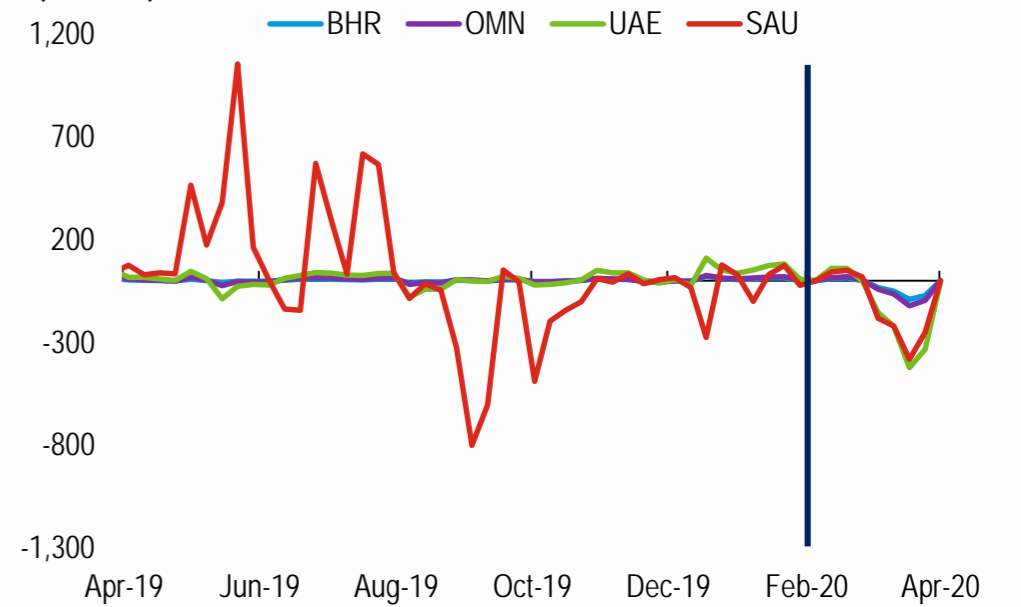
Spreads - Oil Exporters

(Basis points)



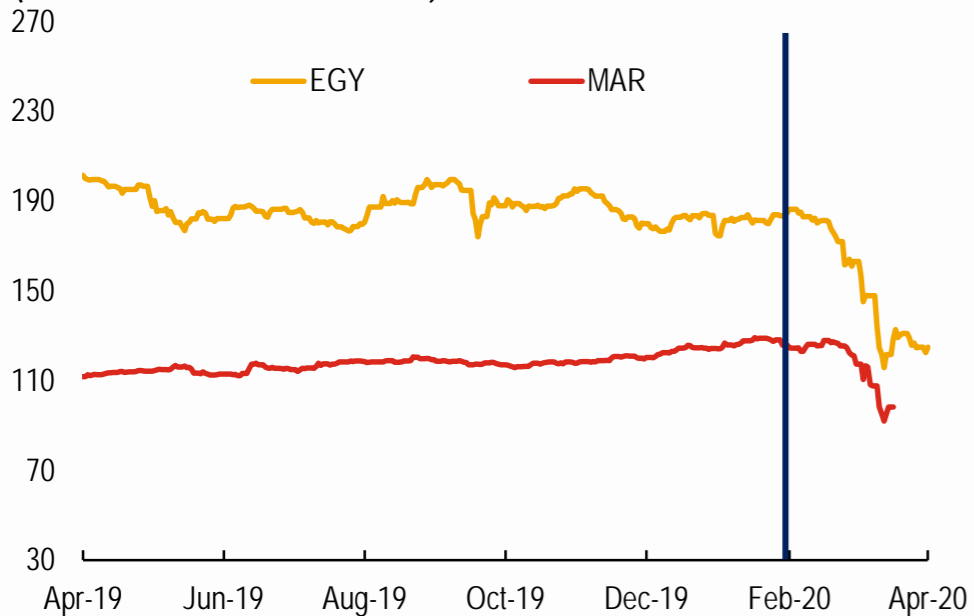
Capital Flows - Oil Exporters

(USDm)



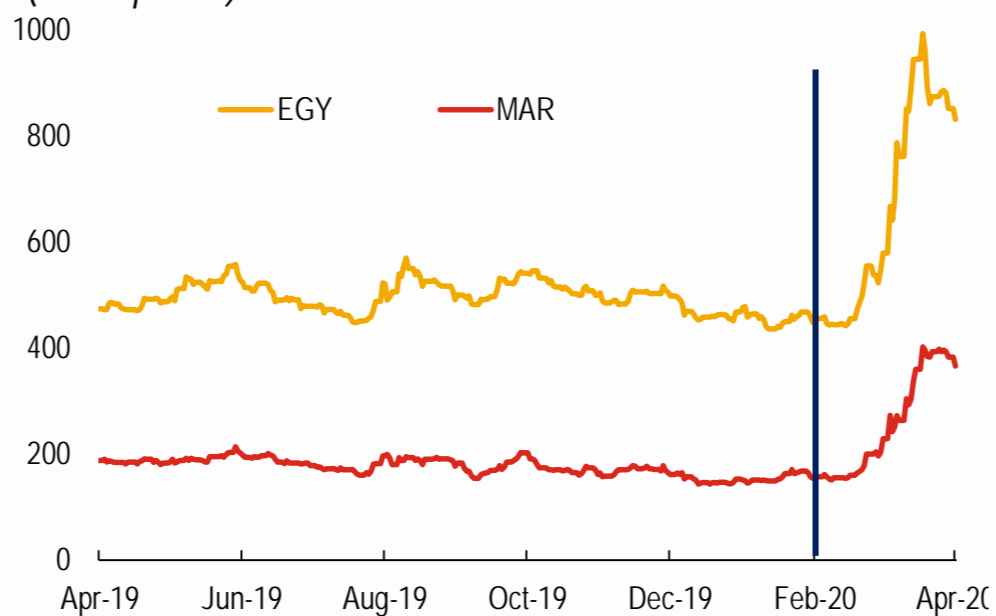
Equities - Oil Importers

(Index; June 1, 2016 = 100)



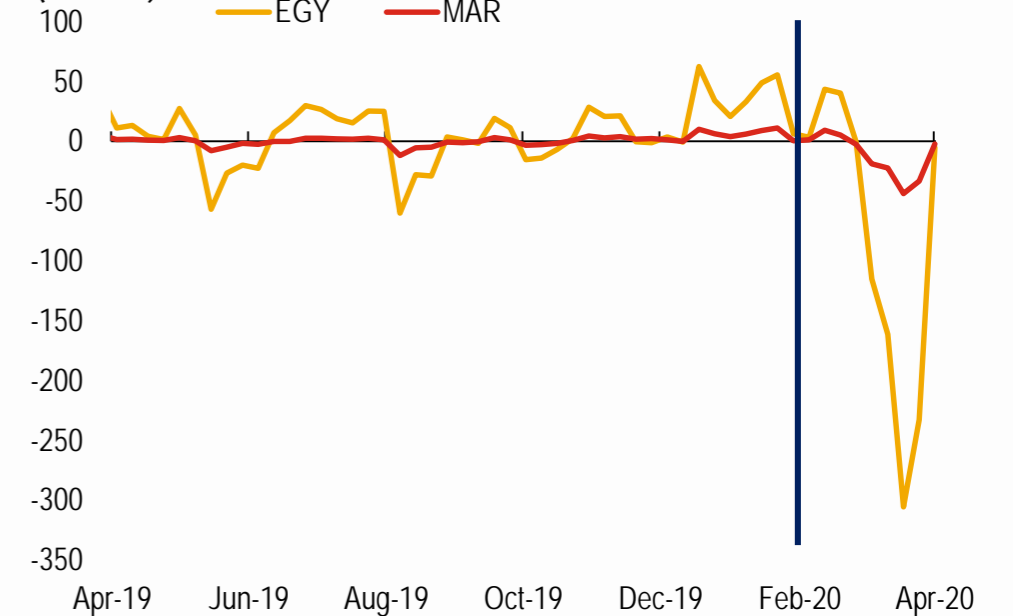
Spreads - Oil Importers

(Basis points)



Capital Flows - Oil Importers

(USDm)



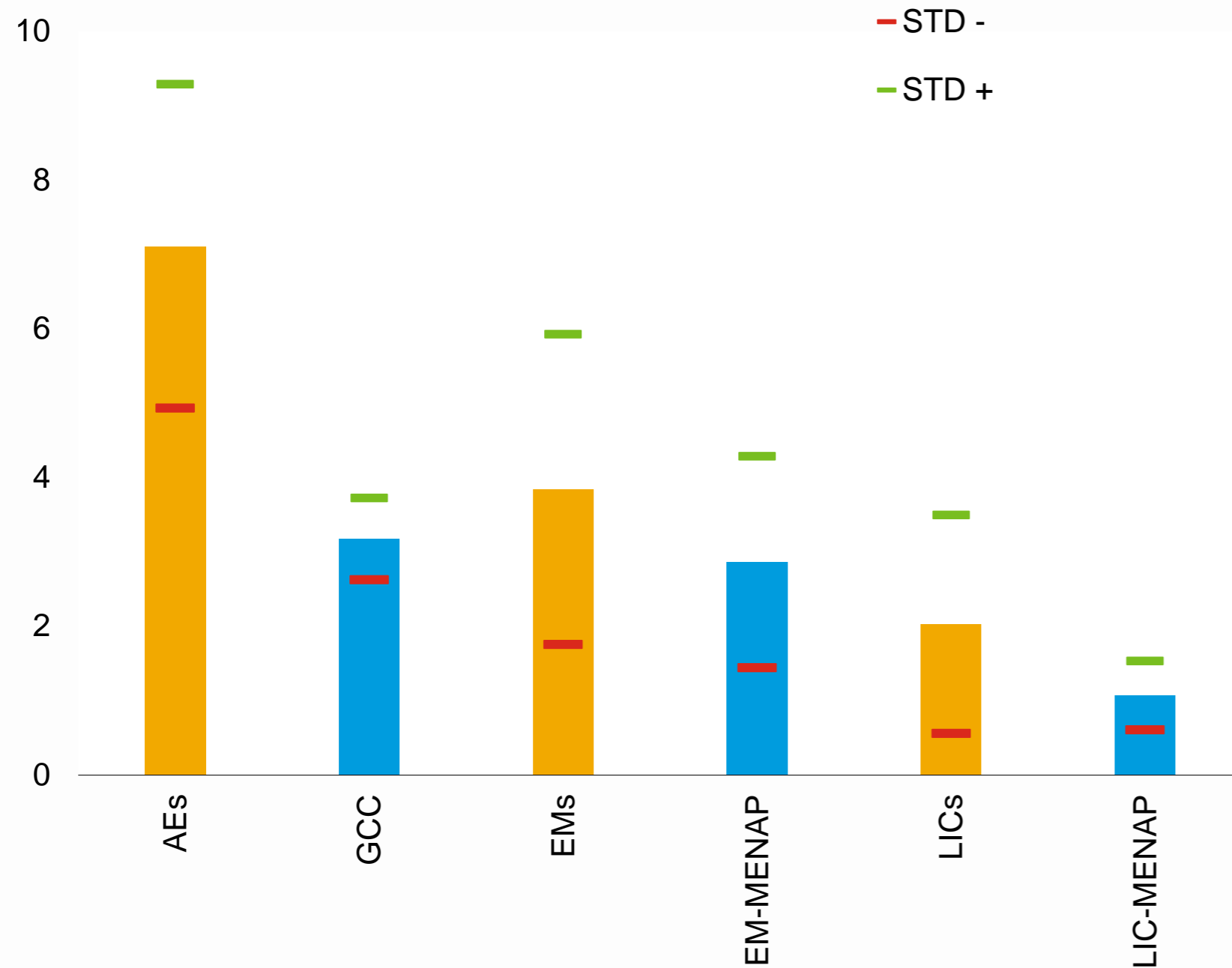
Sources: Bloomberg; Haver Analytics; and IMF staff calculations.

Vulnerabilities and Risks

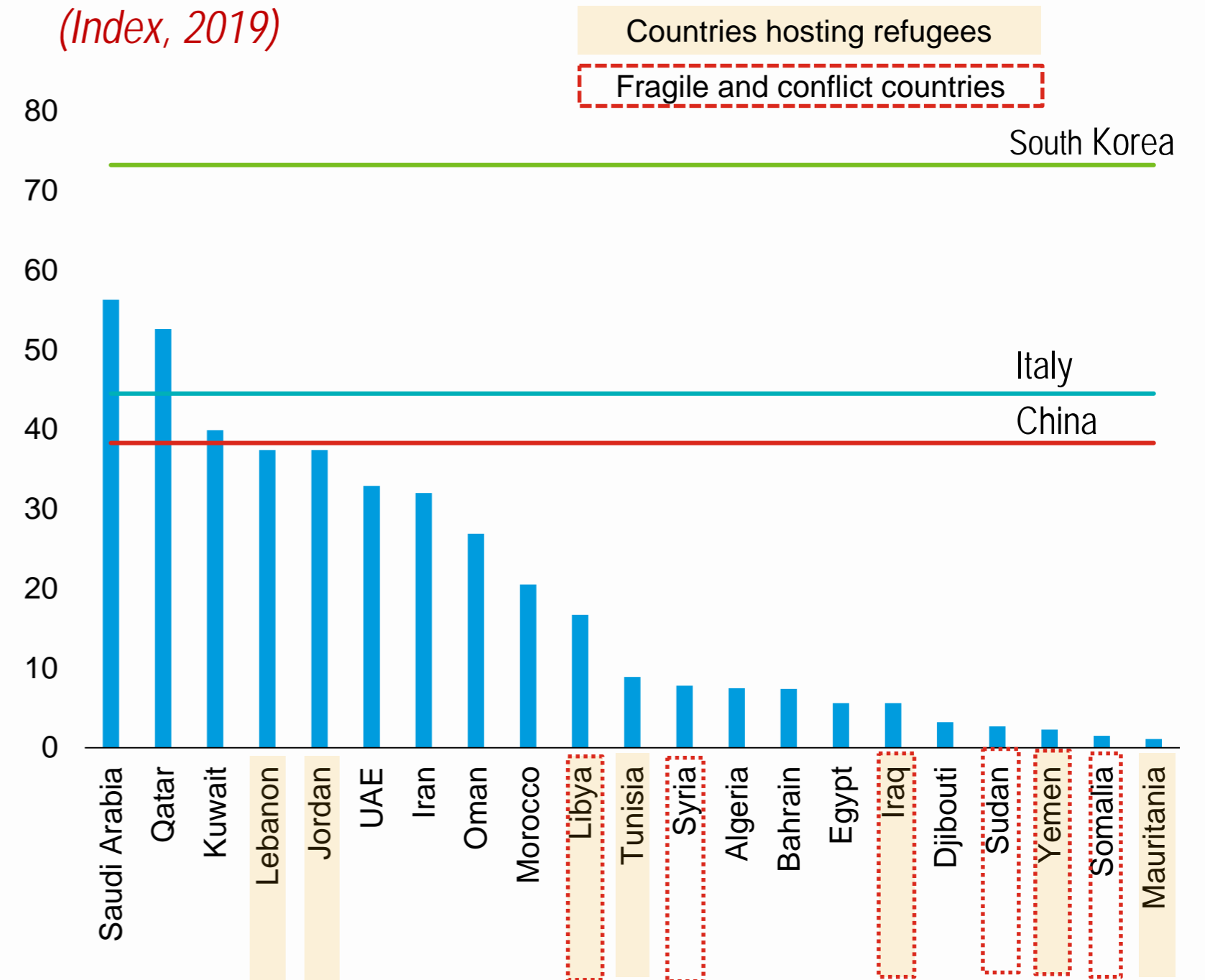
Multiple transmission channels from various shocks are eroding resilience

Public health spending is relatively low, with limited efficiency in several MENA countries especially fragile and conflict-affected states

Public Health Expenditure (% of GDP)



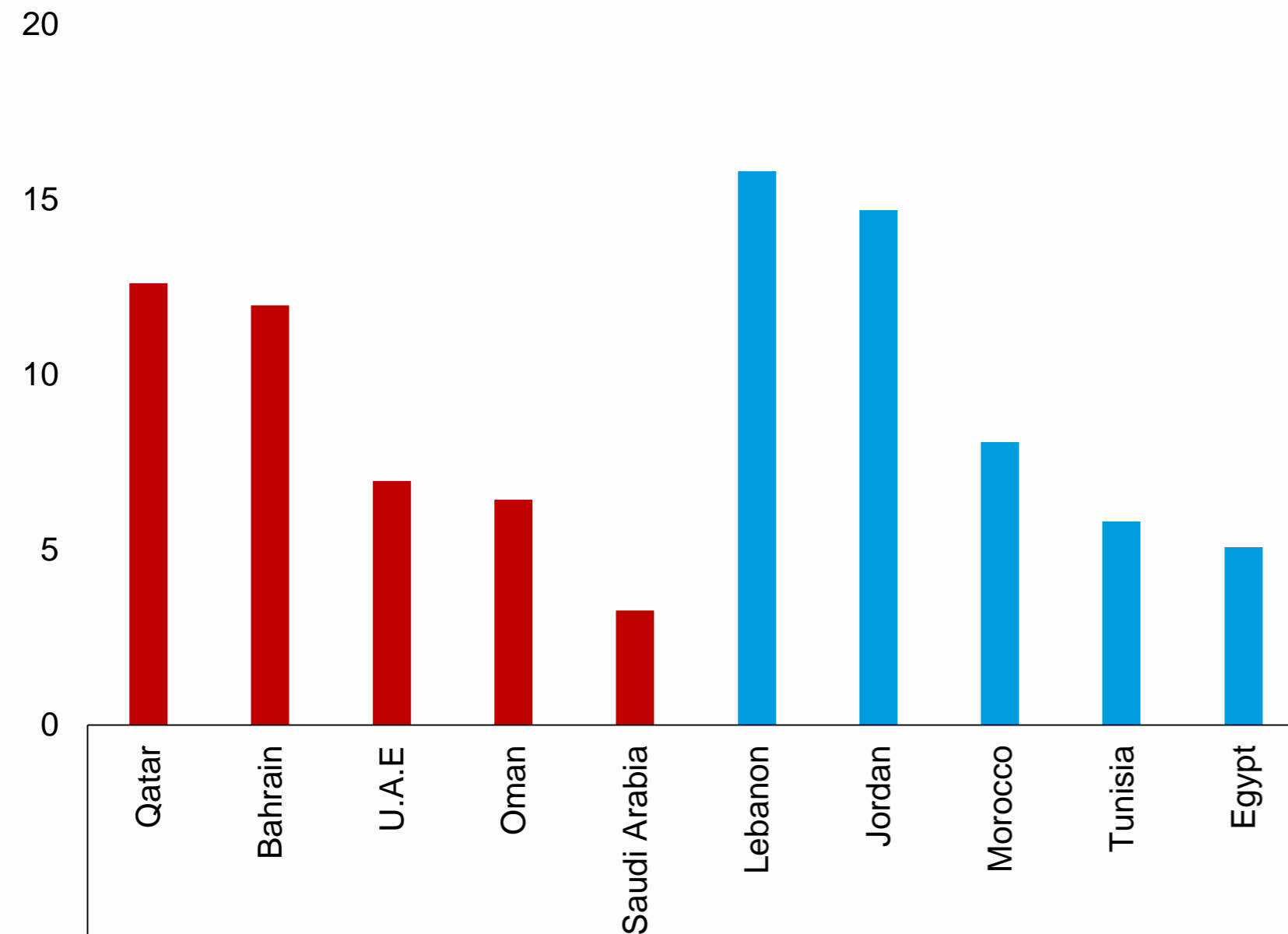
Composite Health Security Index (Index, 2019)



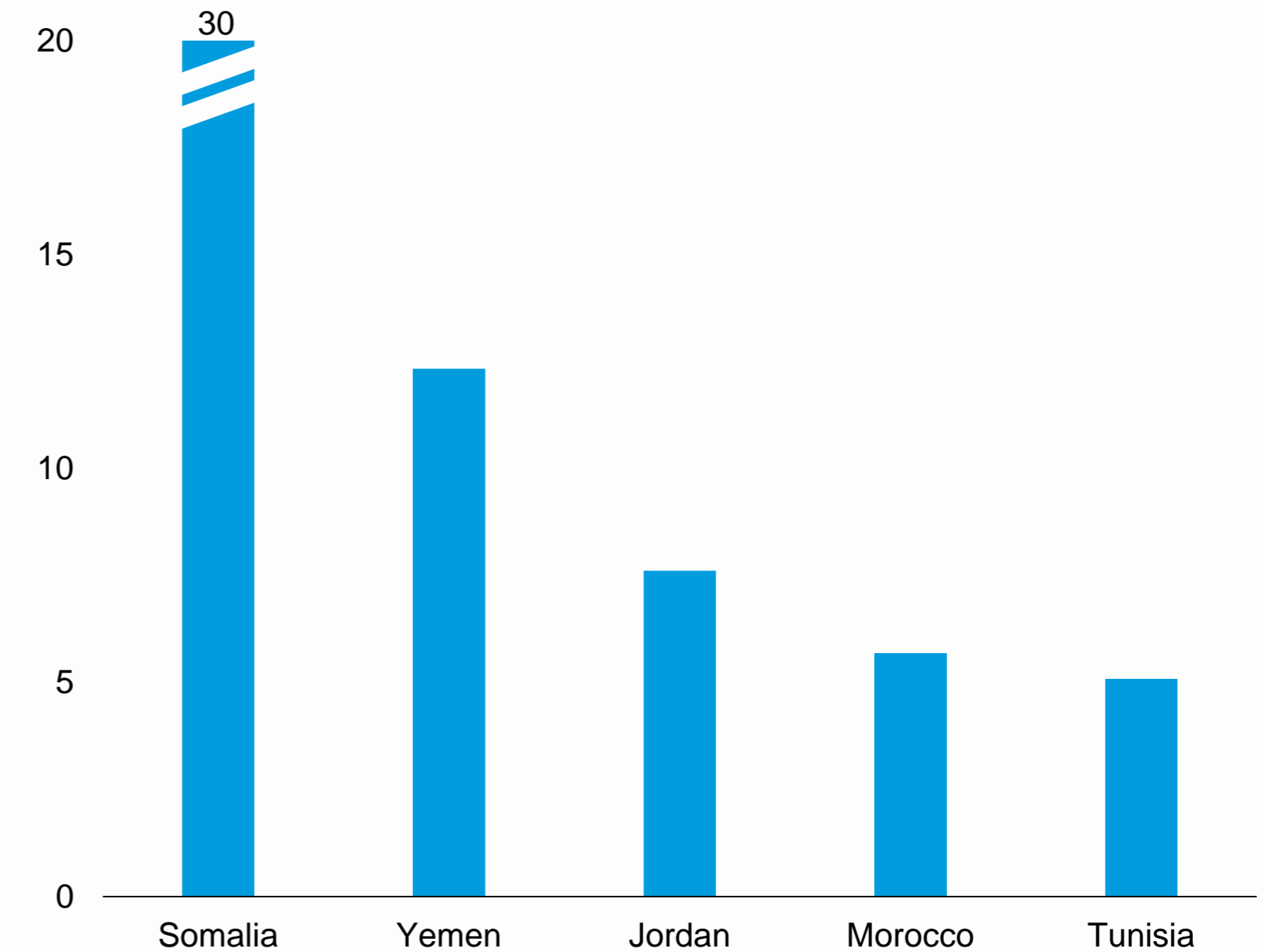
Sources: World Development Indicators and UNDP; Herrera and Ouedraogo (2018), and IMF staff calculations.

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)

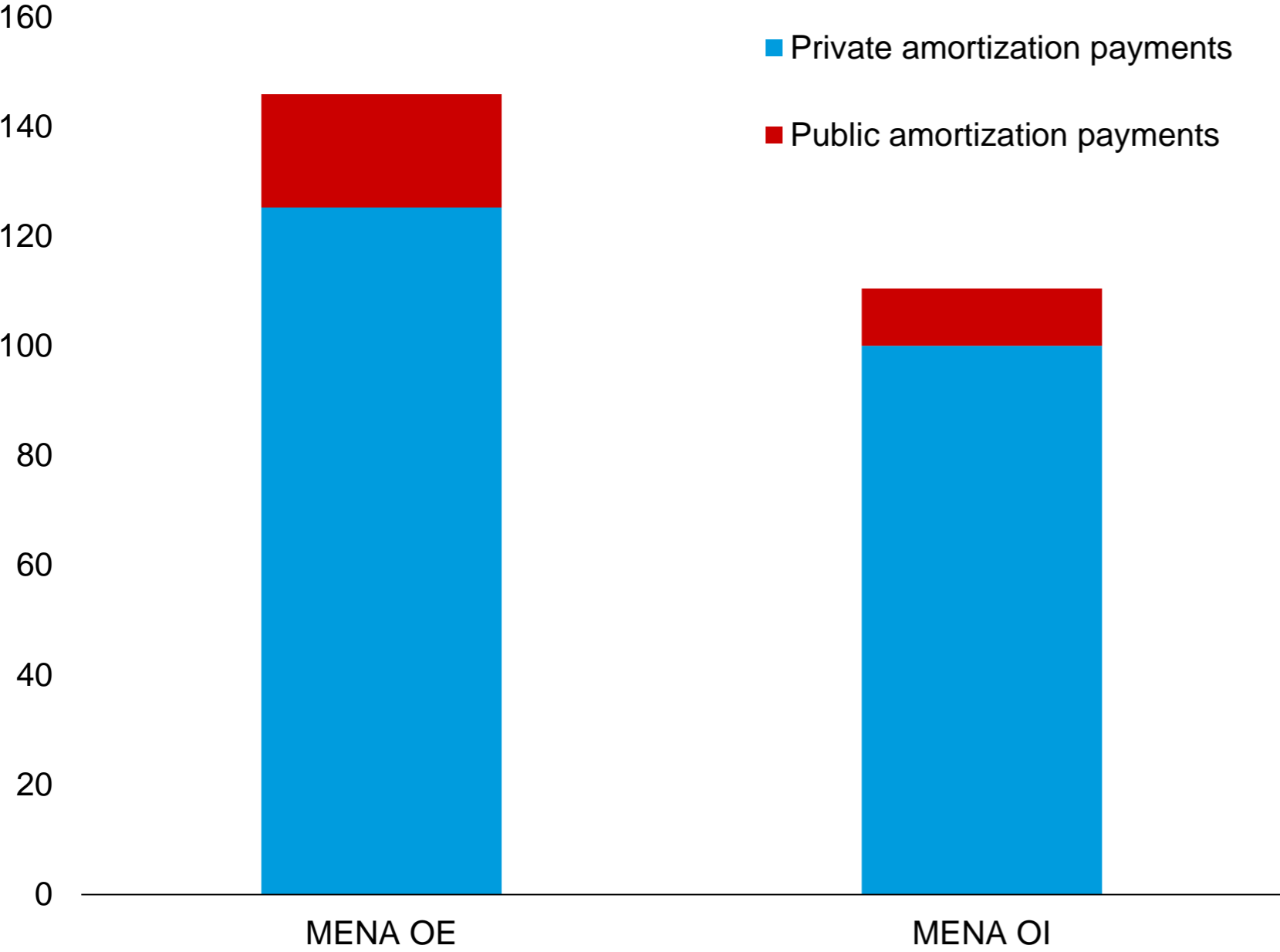


Note: For oil exporting countries, tourism expenditure is measured as a percent of non-oil GDP

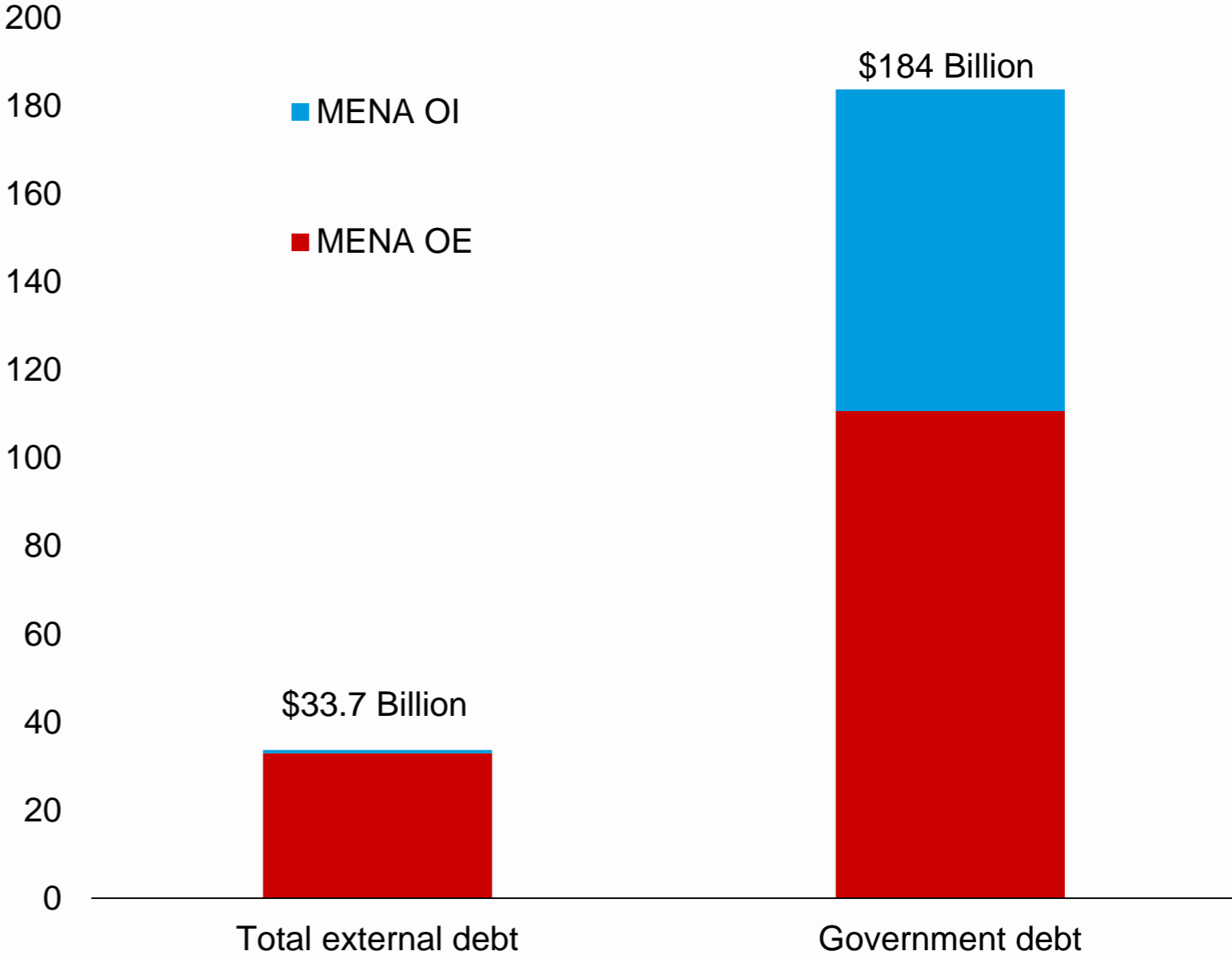
Source: National authorities; World Tourism Organization; Haver Analytic; and IMF staff calculations.

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)

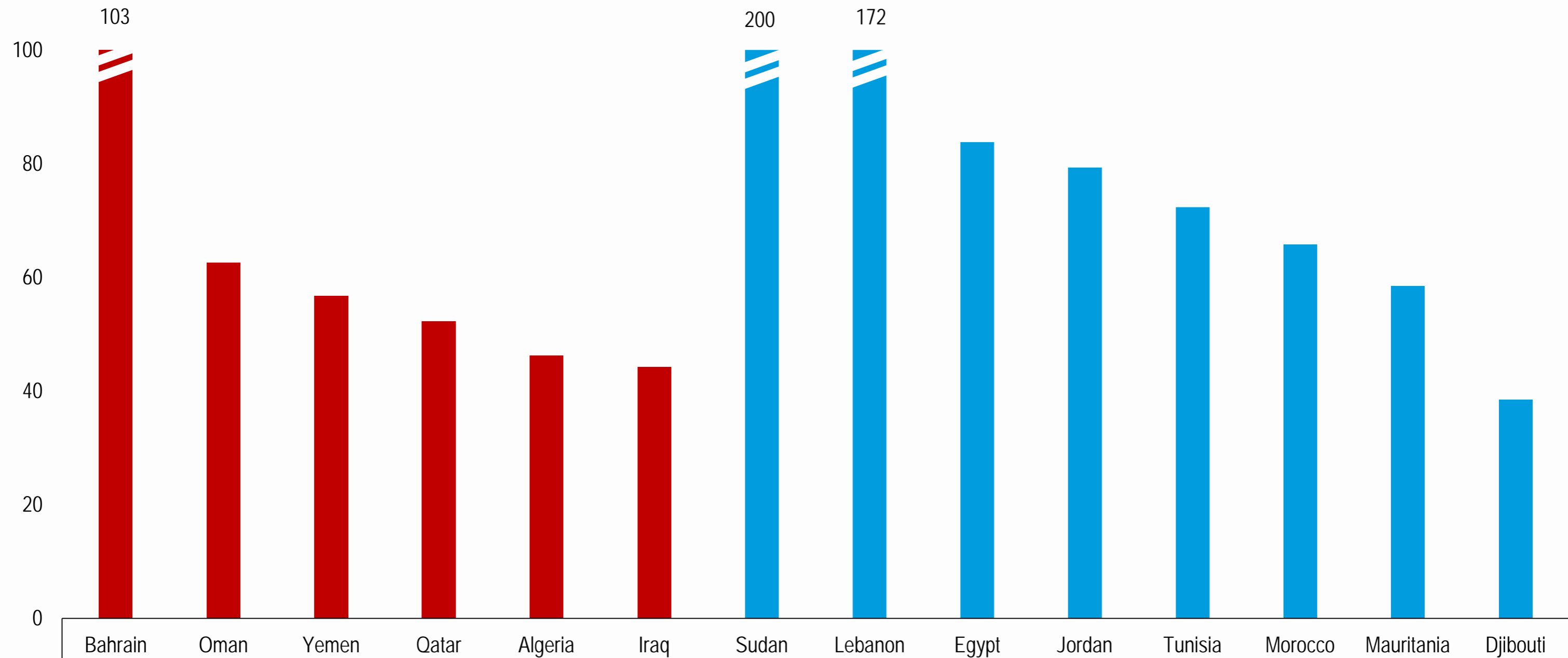


Sources: National authorities; and IMF staff calculations.

High public debt may limit fiscal space to undertake additional measures

Public Debt

(Percent of GDP, end-2019)



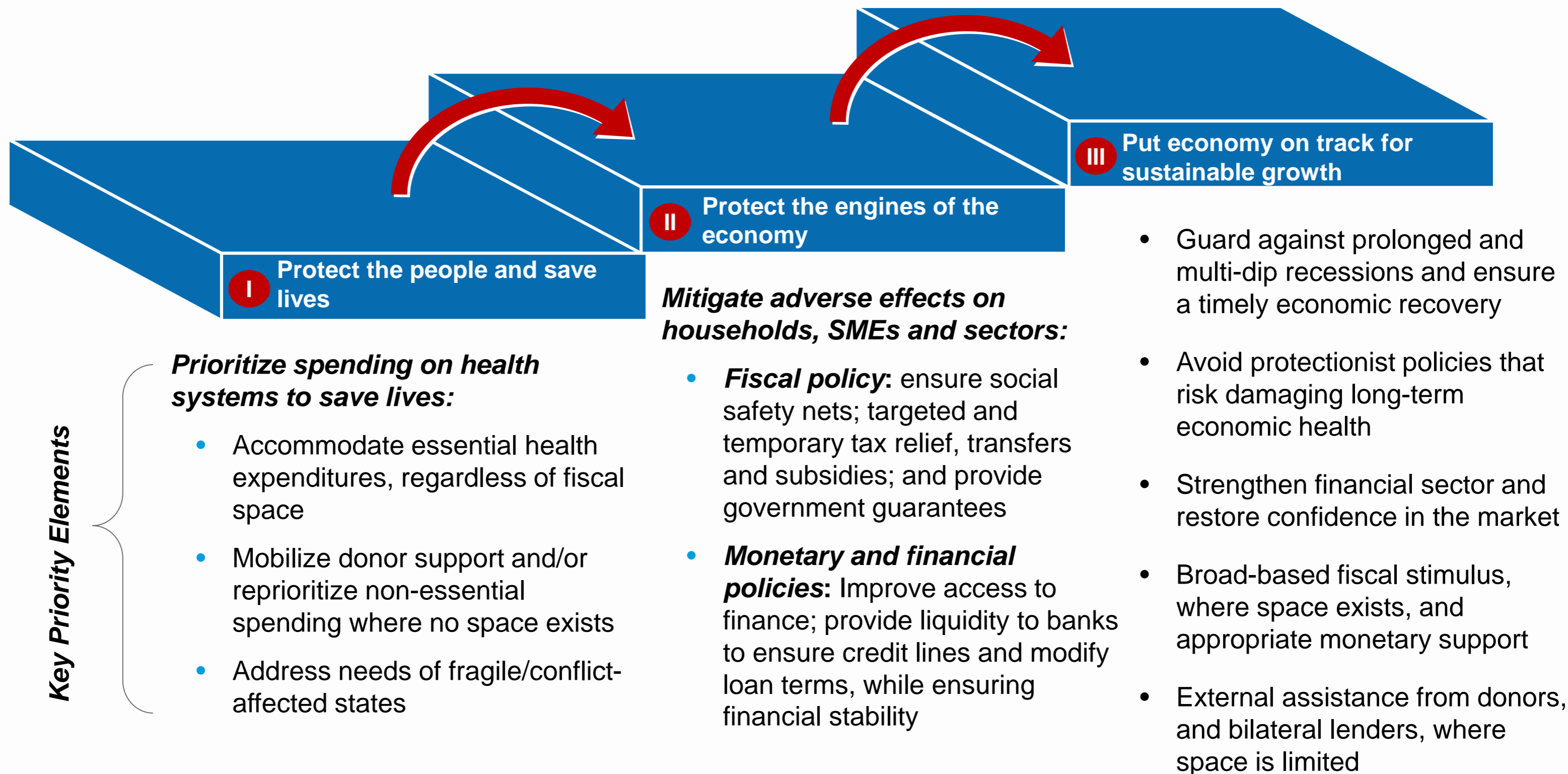
Sources: National authorities; and IMF staff calculations.

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



... 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



- 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)
-
- 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