

Middle East Economic Outlook: Impact of the Pandemic

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Presenters



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Gega Todua is an Economist in the Prague office. He contributes to projects focused on IFRS 9 and stress testing. He is also responsible for macroeconomic baseline and scenario forecasting for the United Arab Emirates and Nigeria. Prior to joining Moody's, Gega was a junior researcher at the Center for Economic Research and Graduate Education (CERGE-EI) in Prague and a lecturer at the Institute of Economic Studies, Prague.



Suren Vardanyan

Suren is responsible for macroeconomic and market risk forecasting. He provides commentary and research on economies in the Middle East. As the key analyst for Saudi Arabia and Bahrain, Suren is responsible for macroeconomic baseline and scenario forecasts and narrative development. He also contributes to euro zone financial forecasting.

Agenda

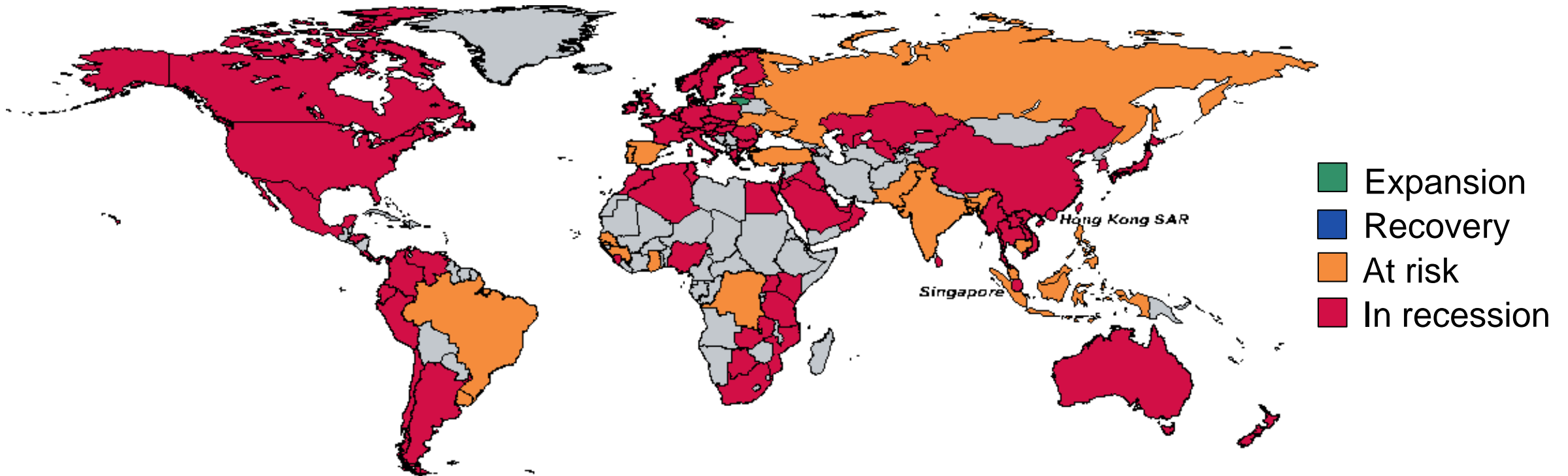
1. Global & Middle East Outlook
2. Saudi Arabia Outlook

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Global & Middle East Outlook

Global Business Cycle Status

April 2020



Source: Moody's Analytics

Recession Deepens

Real GDP growth, % change

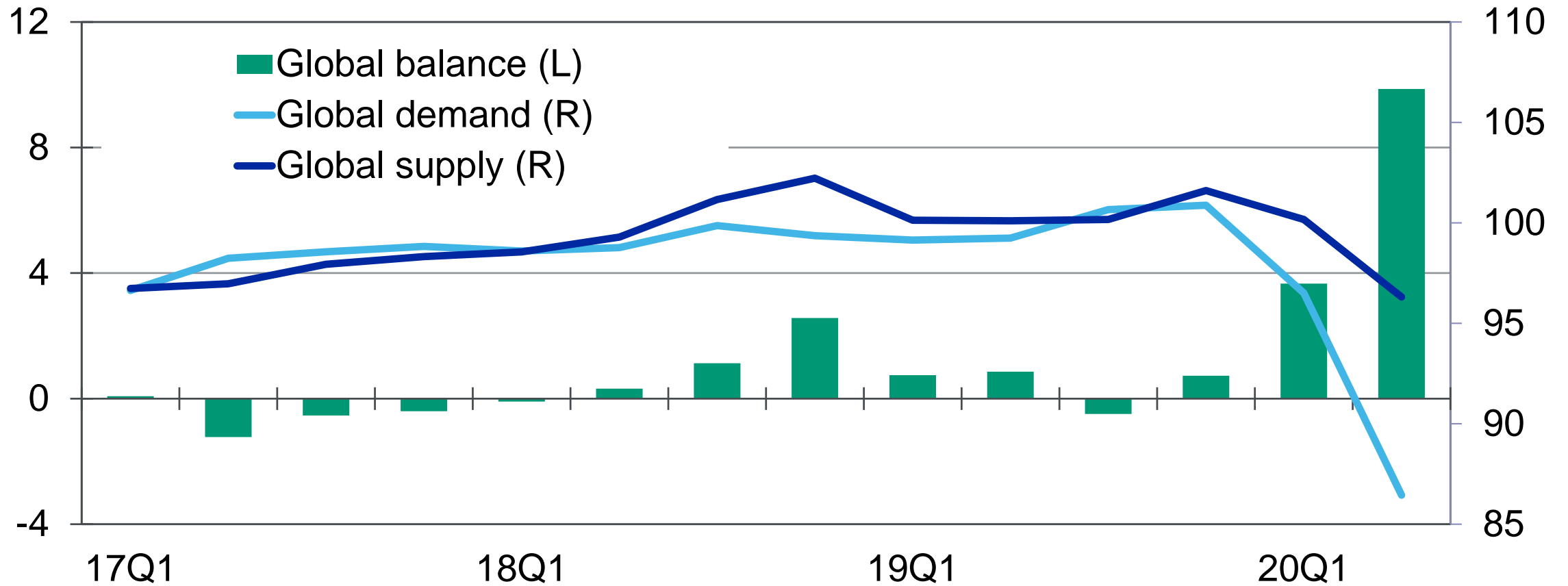
		2020Q1	2020Q2	2020Q3	2020Q4	2019	2020
Euro zone	February	0,4	0,4	0,4	0,4	1,2	1,3
	May	-3.8	-12.4	12.7	0.5	1,2	-7,0
U.S.	February	0.3	0.5	0.5	0.4	2.3	1.7
	May	-1.2	-9.4	3.8	0.2	2.3	-5.7
China	February	0,0	2,8	2,0	1,4	6,1	5,4
	May	-10.2	2.6	6.7	4.9	6.1	-2.3
India	February	1,7	1,6	1,5	1,7	5,1	6,3
	May	0.2	-2.6	0.1	2.4	5.3	0.5
GCC	February	0.6	0.7	0.7	0.7	0.6	2.1
	May	-1.1	-7.2	4.2	1.5	0.6	-3.8
Jordan	February	0.6	0.5	0.6	0.7	1.8	2.2
	May	-0.9	-7.7	2.4	1.6	1.8	-4.5
Lebanon	February	0.2	0.2	0.3	0.3	0.2	0.7
	May	0.0	-11.3	-3.4	0.0	0.2	-10.0
Egypt	February	1.4	1.4	1.4	1.4	5.6	5.6
	May	0.1	-6.5	3.2	1.2	5.7	-1.0

Policymakers Respond

Country	Fiscal policy	Monetary policy
Saudi Arabia	SAR 70 bil (2.8% of GDP) support package for private sector Spending cuts in non-priority areas, delay in capital spending and removing accommodation allowance to public sector employees Tripling the VAT from 5 to 15 ppt	Rate cut twice in March – 125 basis points SAR 50 bil (2% of GDP) aid package to private sector, particularly SMEs
United Arab Emirates	Tax payment deferrals, reduced or suspended various government fees and penalties Ramped up execution of infrastructure projects AED 26.5 bil (2% of GDP) for fiscal measures	Rate cut twice – combined 50 basis points AED 256 bil (20% of GDP) measures to support liquidity in the financial sector
Qatar	QAR 75 billion (13% of GDP) package to support the most-hit sectors Six-month exemptions on utilities and rent payments	Rate cut twice in March – combined 175 basis points Additional liquidity provided to banks through a special repo window at zero interest rate
Jordan	Tax payment deferrals by the end of the year Price ceilings on essential products Postponement of 70% of the value of customs duties	Rate cut twice in March – combined 150 basis points No exchange rate measures
Lebanon	Extended all deadlines related to payment of taxes and fees Cash assistance to families hit economically and financially as a result of COVID-19	Mandated small depositors to exchange dollars at a market rate set weekly No exchange rate measures
Egypt	EGP 100 bil stimulus policies (1.8% of GDP) Support to the healthcare and the tourism sectors	Rate cut in March – by 300 basis points Utilization of reserves to avoid excessive exchange rate volatility and EGP 20 bil stock-purchase program

Global Oil Glut

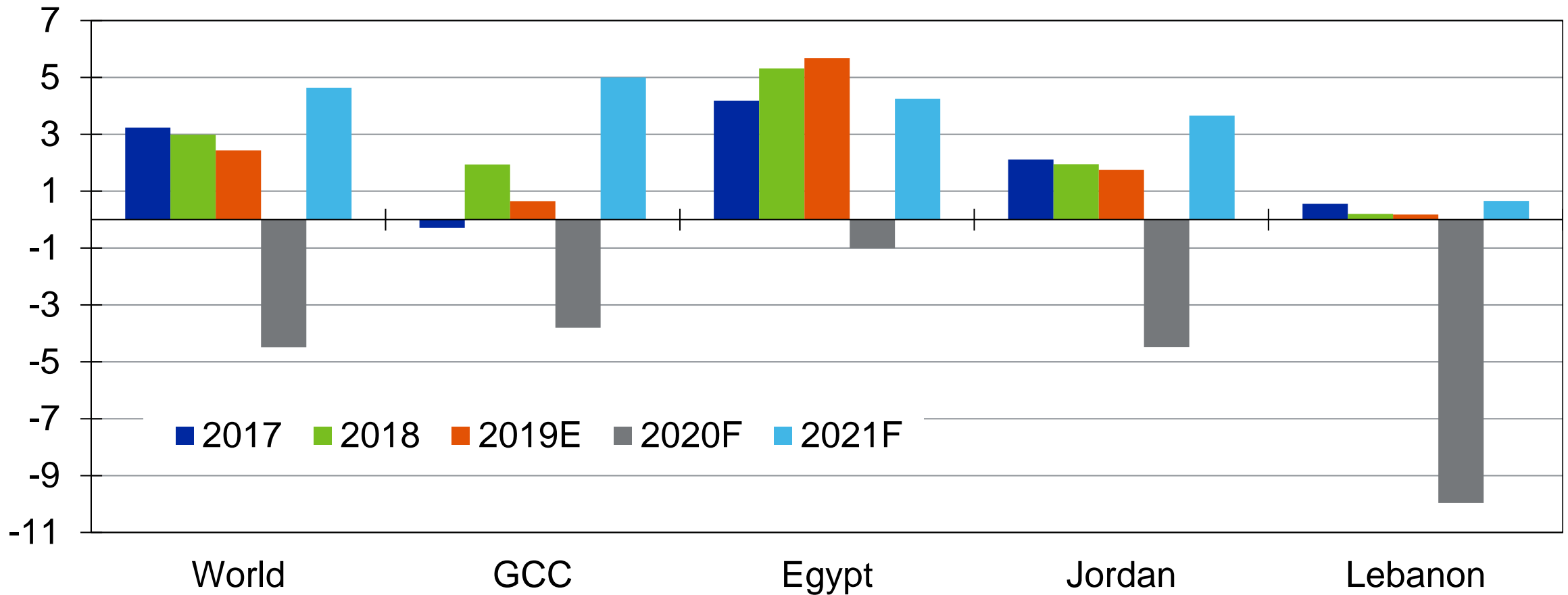
Mil barrels per day



Sources: International Energy Agency, Moody's Analytics

Grim 2020 But Brighter 2021

Real GDP growth, % change year ago



Source: Moody's Analytics

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Saudi Arabia Outlook

COVID-19: Double-Edged Sword

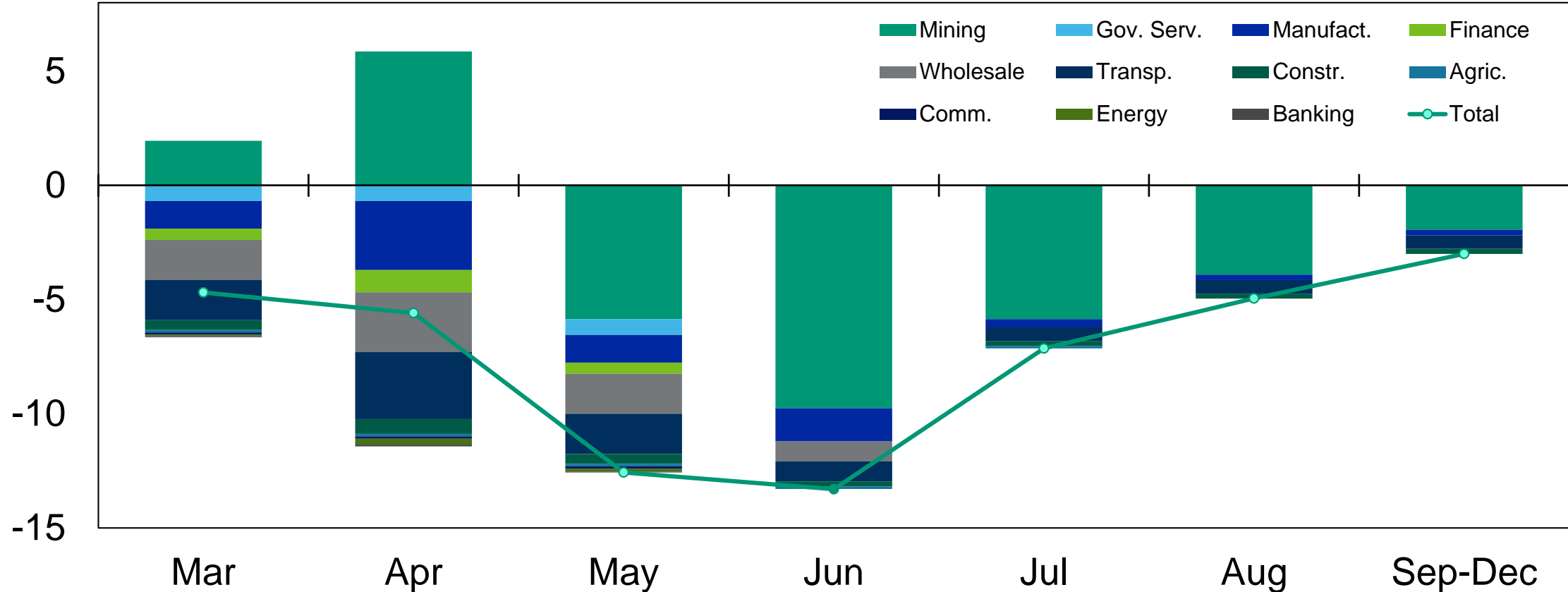
- » Curfew

- Supply shock
- Demand shock

- » Oil market meltdown

Saudi GDP Plunges in Q2

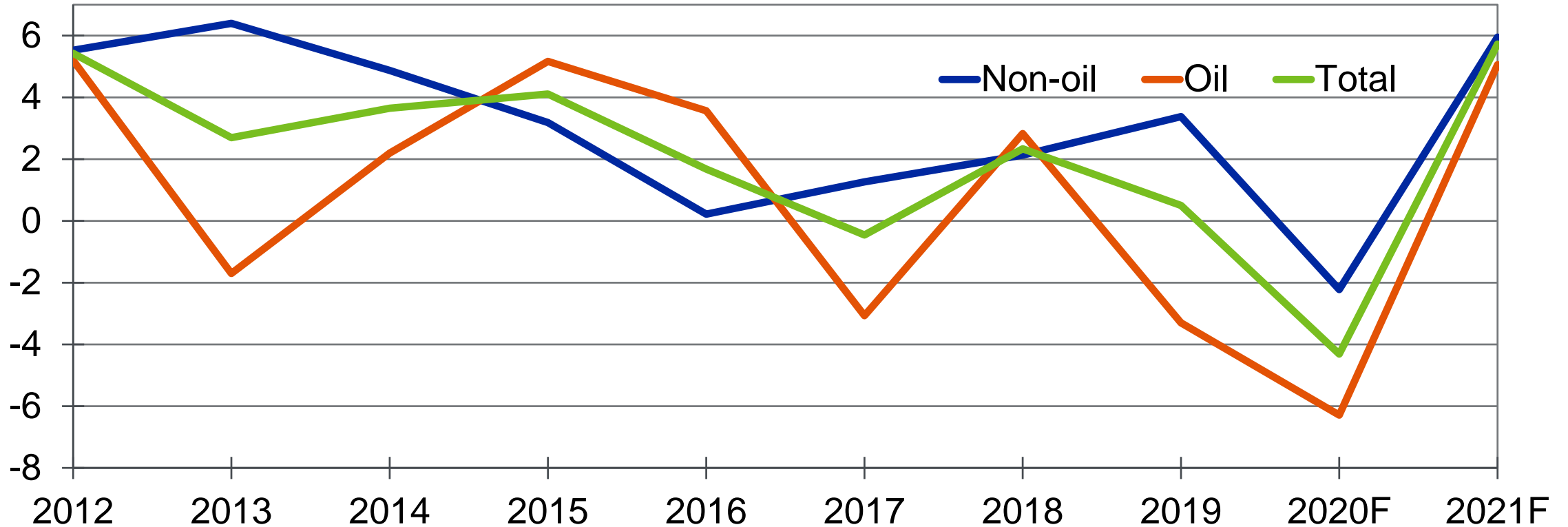
Deviation from normal level of activity, ppt, by industry



Source: Moody's Analytics

The First Contraction of Non-oil GDP in Decades

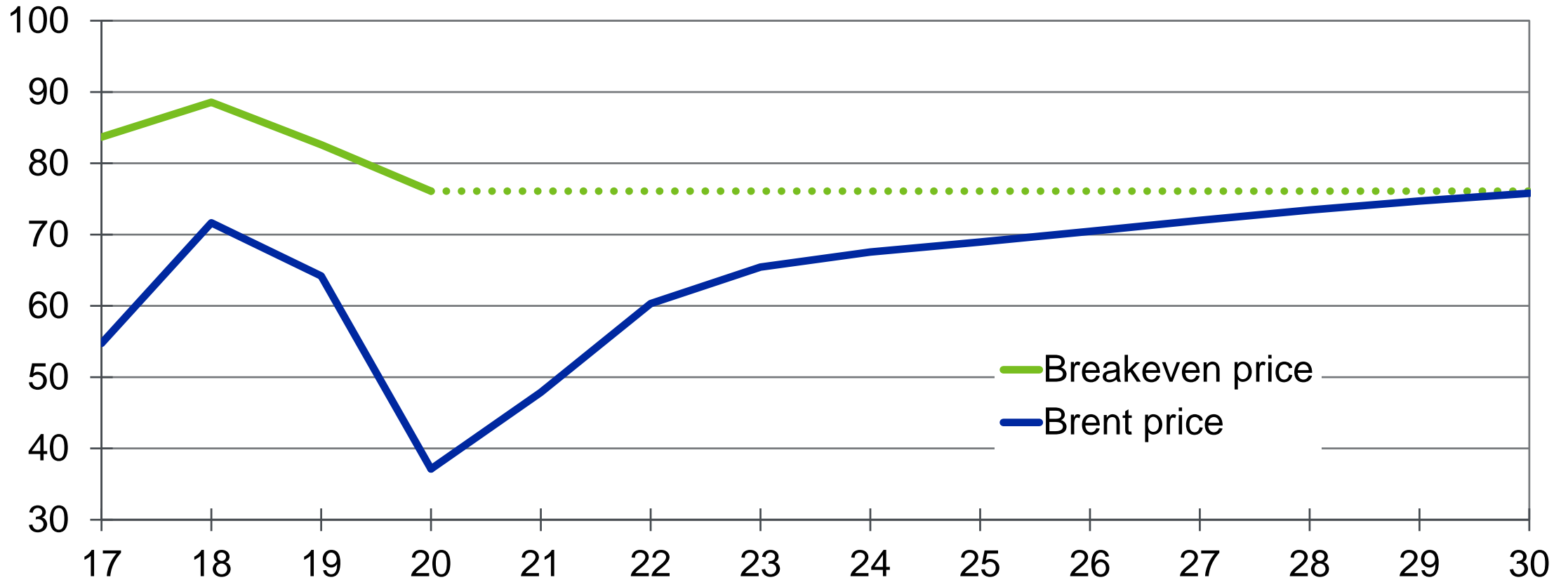
Real GDP growth by sector, % change yr ago



Sources: Economena Analytics SARL, Moody's Analytics

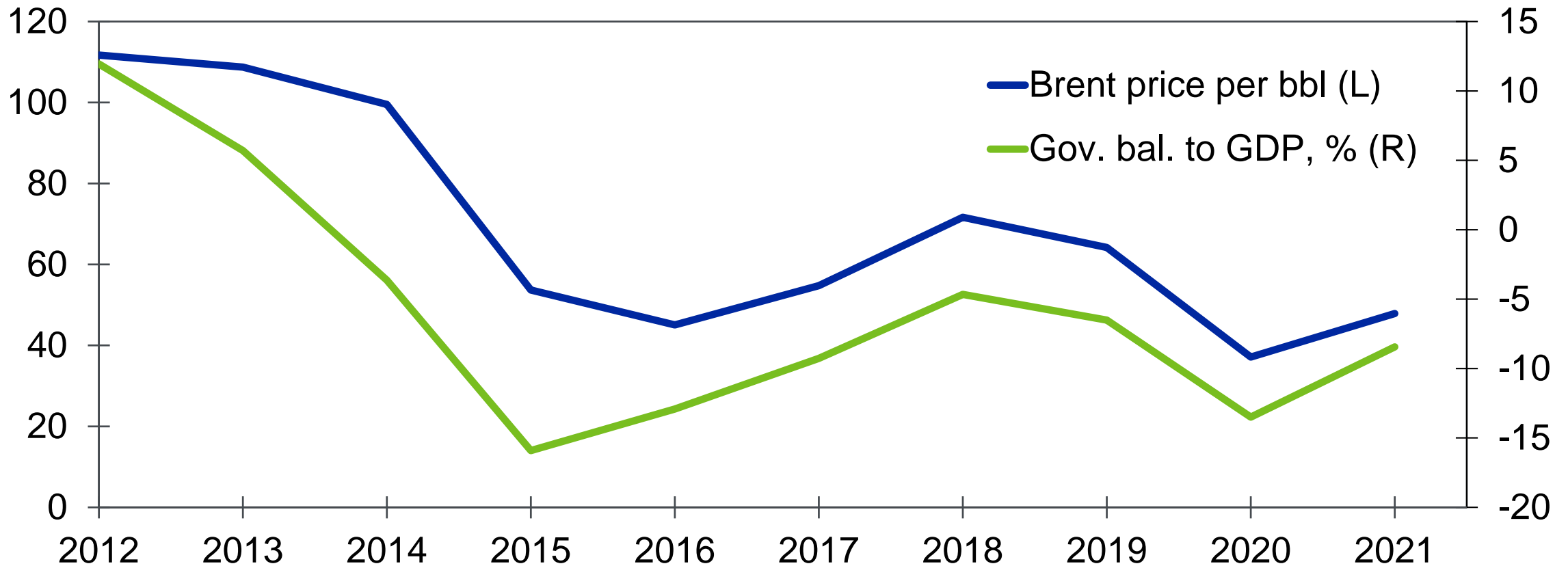
Oil Prices Below Saudi Fiscal Breakeven

Brent prices, \$ per bbl



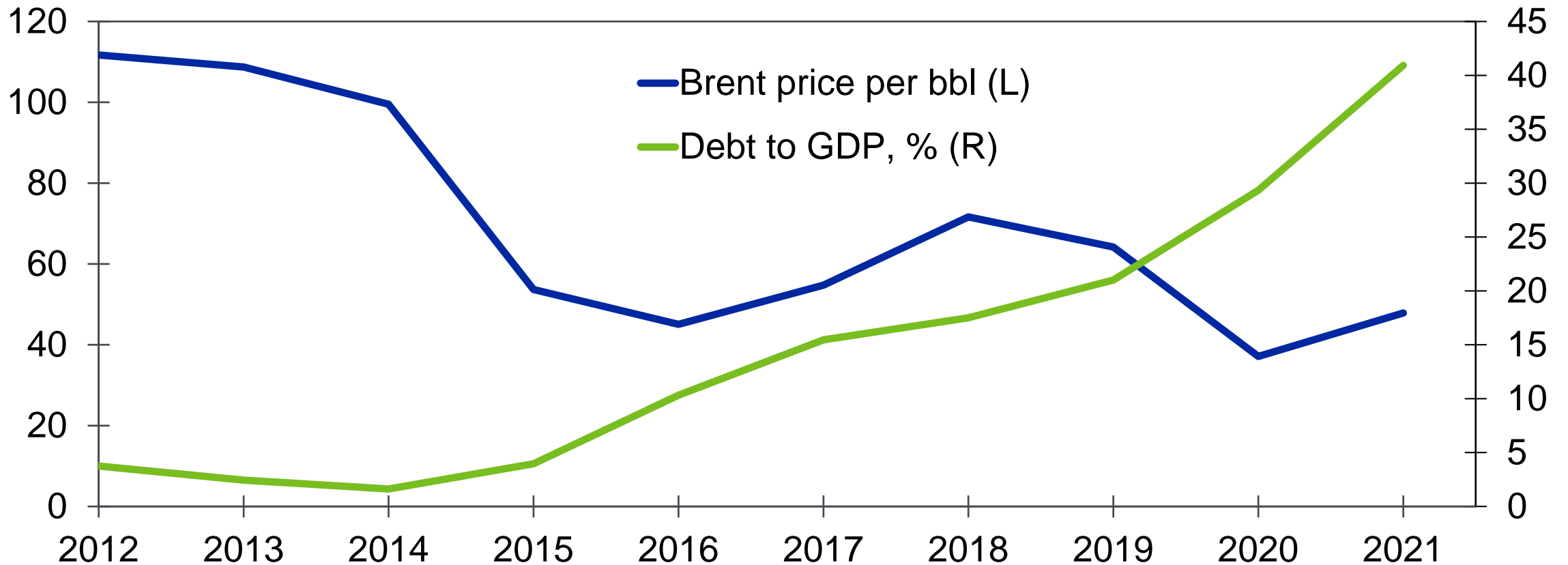
Sources: IMF, SIX Financial Information, Moody's Analytics

Saudi Fiscal Balance Tracks Oil Prices



Sources: SIX Financial Information, SAMA, Saudi statistical office, IMF, Moody's Analytics

Saudi Debt Soars Amid Weak Oil Prices



Sources: SIX Financial Information, SAMA, Saudi statistical office, IMF, Moody's Analytics

VAT Tripled: Strong Negative Signal

» Positives

- Ease fiscal pressure in short to medium term
- Diversify revenue source from oil

» Negatives

- Vision 2030
 - › Slow private sector development
 - › Lose competitiveness for FDI vs other GCC countries
- Hit consumption and retail sector

Summary

- » The economic effects of COVID-19 are severe, despite government actions.
- » Oil market meltdown and OPEC+ production cuts weigh on the region.
- » Weak oil prices and tripling of VAT will hinder diversification of Saudi economy.

Questions?

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