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MENA Economic Outlook 2021: Cautiously optimistic

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- **The MENA region will start to post robust recovery in 2021, but not across the board. Risks around the behaviour of the new variant(s) of COVID will dominate 2021 globally.**
- **Low interest rates are expected to remain a key policy for central banks across the region.**
- **Saudi Arabia's voluntary gesturing of an additional 1M bpd cut for the next two months, while OPEC+ production is increased by 75K bpd, signals that compliance will become increasingly fraught.**

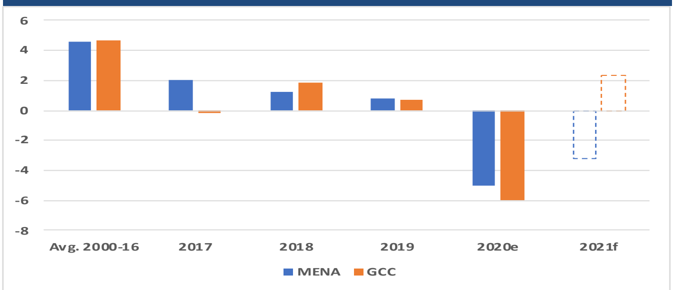
GCC: Back to positive growth territory

Promising progress and distribution of vaccines, along with the easing of stimulus measures, is expected to allow the MENA region to start registering improving fiscal balances in 2021. GCC countries are set to rebound more rapidly than the region as a whole.

- ➢ The IMF's Regional Economic Outlook for the MENA region forecasts GCC growth at 2.3% in 2021 from the deep contraction of a 6% in 2020. GCC growth will be supported by their larger budgets for vaccines and the potential rebound in oil markets.
  - The declining expatriate population, new tax measures, and lacklustre rebound in the tourism sector across the Gulf are set to hold back business sentiment, at least during H1 of 2021.
- ➢ In the UAE, GDP growth is projected to recover to 1.3% this year from the 6.6% contraction in 2020. This will mostly be driven by the federal and local governments' expansionary budgets and a gradual increase in oil production.
  - The UAE's overall fiscal position will remain weak for the coming years, but in terms of overall growth, we see Dubai outpacing neighbouring Abu Dhabi this year if Expo 2021 is successful.
- ➢ Saudi Arabia's economy is expected to register a rebound of 3.1% this year, up from a 5.4% contraction in 2020 -- making it the fastest growing economy in the GCC.
  - As reform and focus on Vision 2030 continue, the inflow of FDI will be a major indicator to watch in 2021.
- ➢ Oman is the only country in the region that is forecast to remain in negative territory for GDP growth in 2021, at a 0.5% contraction from 10% contraction in 2020.
  - The rollout of VAT and efforts by the sultanate to diversify its sources of finance are expected to support recovery and improve its fiscal balance.
- ➢ Suffering from the deepest contraction of all the Gulf countries apart from Oman, the Kuwaiti economy is forecast to post tepid 0.6% growth in 2021, after a 8.1% contraction last year.
- ➢ Growth in Qatar is forecast at 2.5% in 2021, up from a 4.3% decline in 2020 and 0.8% growth in 2019. Because Qatar underwent a less severe contraction in 2020 than its Gulf neighbours, we believe that continued preparation for the World Cup in 2022 will be a major contributor to growth over the next two years.
  - Normalisation of ties with its GCC neighbours and Egypt could also buttress Qatar's recovery, although the country has gone to great lengths to reduce reliance on trade with them over the past 3 years.

Growth in non-GCC oil exporters is projected to pick up to 4.9% in 2021 after it contracted to -7.5% in 2020[2]. While President-elect Joe Biden has brought the promise of a return to the nuclear deal, which would allow some Iranian oil exports back on the market, a quick and easy return to the old deal is off the table.

Figure 1 - GDP Growth (%)[1]



- ➢ Iran's oil-driven economy is expected to remain in negative territory, contracting further by 1.9% in 2021 from a 8.5% contraction in 2020.
  - The figures are a sharp contrast to the 3% growth in 2016/17 after the Iran nuclear deal provided sanctions relief.
  - While we do expect a degree of relaxation this year, possibly allowing the oil GDP forecast to be revised upwards in H2, talks are likely to be lengthy and challenging.
- ➢ For Iraq, the IMF expects real GDP to rebound by 2.5% in 2021 from a deep 12% contraction in 2020 as oil exports gradually recover and the IMF steps in with an expected relief package.
  - Reforms could be difficult for the Iraqi public to stomach as many of the measures entail cuts to generous state programmes.

Post-pandemic monetary policy: Lower-for-longer rates

In an environment of weaker demand, inflation is projected to remain relatively steady for most countries in the MENA region. Notable exceptions amongst the oil-exporting economies are Oman, Yemen and Iran.

- ➢ Overall, we expect inflation on the back of lower interest rates to remain low, given weak aggregate demand over H1.
- ➢ In Egypt, the decision of the Central Bank of Egypt (CBE) to keep interest rates unchanged was expected.
  - This was motivated by the desire to allow the 400bps of cuts made in 2020 to take full effect, given Egypt's slow transmission mechanism.
  - With inflation remaining steady at 5.7%, well below the CBE's new inflation target of 7% (±2%), we believe that the CBE will continue its cautious monetary policy easing.
- ➢ In Saudi Arabia, we expect that the effects of the 2020 VAT hike will keep the headline rate elevated until mid 2021, but weak domestic demand is likely to dampen inflation.
  - We see inflation reaching 3.7% this year, a slight increase from 3.6% in 2020.
- ➢ Meanwhile, Dubai's USD 15.5B 2021 expansionary budget signals inflationary risks for the short-to-medium term. For now, inflation remains low, having declined for the 24th successive month by 3.6% YoY in November.
- ➢ While we expect monetary policy loosening to be kept in place to revive the rebound, fiscal policy will likely remain tight across much of the region, and further aggressive austerity measures are unlikely.
- ➢ Despite the likelihood of weak oil demand this year, oil-exporting countries in the region are expected to benefit from slightly higher prices.
- ➢ This could also help rein in the GCC's growing budget and inflationary risks, and ease strains on their dollar pegs for 2021.
- ➢ But compliance to OPEC+ targets will become increasingly fraught, as indicated by Saudi Arabia's voluntary gesturing of an additional 1M bpd cut for the next two months, while OPEC+ production is increased over current levels by 75K bpd for the month of February.

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[1] Arabia Monitor; IMF.

[2] Non-GCC oil exporting countries: Algeria, Iran, Iraq, Libya and Yemen.

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