Coronavirus + Collapsed Oil

Florence Eid-Oakden, Ph.D, Chief Economist
Charlene Rahall, Nancy Bou Dakka, Leila Lajevardi, Analysts

- **In addition to varying domestic impacts, COVID-19 could initially weigh on the MENA region through lower average Chinese energy demand, as well as interrupted Chinese tourism, and disruptions to Chinese supply chains impacting trade flows.**
- **The oil price crash, a sharp fall in global growth, and COVID-19 will put severe strains on both oil and non-oil revenue sources in MENA (including VAT, real estate fees, tourism and trade).**
- **The region should brace for these blows, which could well lead to its economy contracting this year.**

Sharp downward revisions to region imminent

The overall infection rates in MENA are (so far) minimal compared with other countries, but the long-term effects of COVID-19 will have a serious impact on the region's economic growth. As well as domestic shocks, COVID-19 could initially weigh on MENA by lower average global energy demand (particularly from China and India), as well as interrupted tourism from abroad and disruptions to supply chains (again, mainly from China) blocking trade flows.

- Economic projections for MENA will soon be revised downwards across the board (with some also suffering from lower oil prices). The full impact will depend on how quickly the virus and its fallout are contained.
- Wealthy GCC countries are in a better position than most to weather the crisis, but we are on the lookout for heavy blows to economic stability in the Levant and North Africa, where some economies are struggling to stay afloat, and in Iran. COVID-19 could also prompt social instability in some places.
- While we expect the spread of coronavirus to have different short- and long-term effects on different Arab countries, we also see a regional danger. With the oil price crash, pre-existing economic and social issues as well as a Chinese and global economic slowdown, the region is likely to suffer.

Non-oil GDP & fiscal momentum to be derailed in the GCC

We expect an overall decline in growth and larger-than-budgeted fiscal deficits in the GCC. Religious and cultural tourism, many non-oil sources of growth and revenue will be hit, and major events altered or cancelled.

- In Bahrain, the Formula 1 Grand Prix was virtually streamed, costing millions in hosting fees, hospitality tickets and sponsorship.
  - This event is ordinarily a net contributor to Bahrain's economy as it generates steady revenues and puts Bahrain among the 20 host cities of one of the world's most popular sporting spectacles.

Figure 1 - MENA Regional Growth (%)[1]

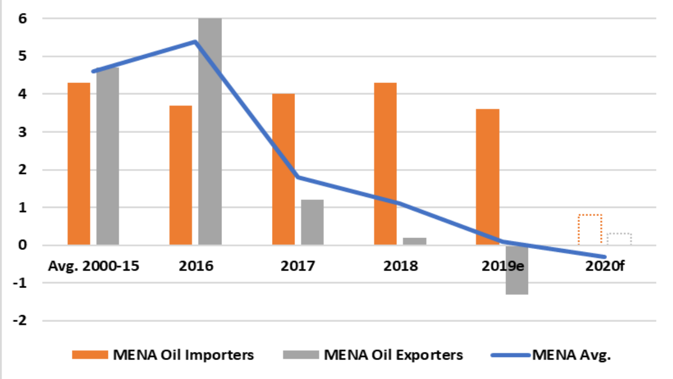
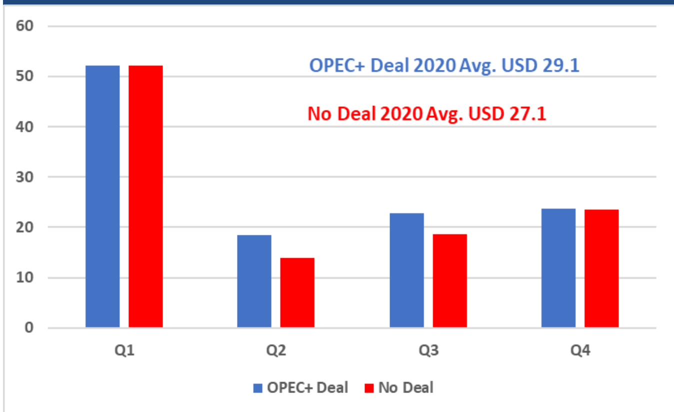


Figure 2 - Oil Price Assumptions 2020 (USD per Barrel)[2]



  - Entering the year, Bahraini growth was forecast at 2.1%, barely up from 2% in 2019 and 1.8% in 2018. It should still be supported by infrastructure projects, notably the Bapco (Bahrain Petroleum Company) Modernization Program, which plans to expand one of the oldest oil refineries in the GCC, but growth will soften further.
  - The kingdom's fiscal situation still presents risks. This year's budget and those of the past five years have been based on an estimated oil price assumption averaging USD 104.7 pb.
- Oman will be hit hard twice: 1) if Chinese demand for its oil slows, and; 2) as its tourism sector is seriously curtailed by virus-related cancellations.
  - The IMF had forecast economic growth at 3.7% in 2020, a major jump from around zero in 2019 thanks to government plans to increase investment significantly in the Khazzan gas field, southwest of Muscat. But COVID-19 will take a toll on the sultanate's oil sales and its tourism sector leading to subdued growth in 2020. These two sectors combined contribute about 50% to GDP.
  - Oman is the most exposed GCC country to China, which accounts for an average of about 80% of Oman's oil exports. This compares with the UAE, the least exposed, with less than 7% of its total oil exports to China.

[1] Arabia Monitor; IMF.

[2] Arabia Monitor; Qamar Energy.

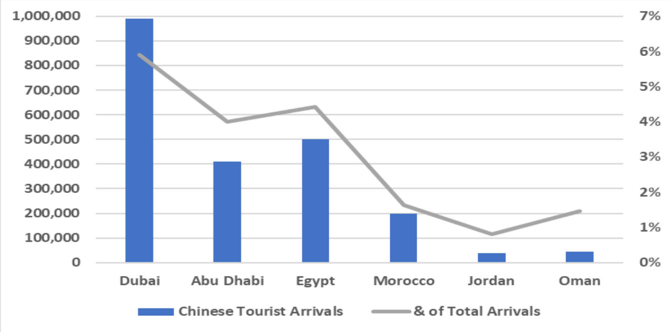
- A 20% decline in demand from China would lead to an estimated monthly loss of about USD 7M in oil export revenue.
- The sultanate's budget and those of the past five years have been based on an estimated oil price assumption averaging USD 94.6 pb.

- Tourism accounts for 9% of Oman's GDP and contributes about 7.2% to total employment. Cruise ships are a top contributor to international arrivals and were expected to attract 300,000 visitors this year.
  - As of 15 March, Oman has barred cruise ships from entering its ports and stopped issuing tourist visas.
  - Visitors from China, Italy and Iran -- countries that have all been hit badly by COVID-19 -- were a growth sector for Oman.
  - Their numbers quadrupled between 2011 and 2018 to reach 125,000 (4.1% of total arrivals). Even if travel restrictions are lifted in H2, the growth rate will be significantly lower than the YoY average.

➢ In Saudi Arabia, if oil prices do not recover rapidly, we could well see growth in negative territory for 2020. This year's budget and those of the past five years have been based on an estimated oil price assumption ranging from USD 60 to USD 80 pb.
- Global developments related to COVID-19 also present downside risks to non-oil growth.
- We expect growth to be revised downwards for this year from the 1.9% forecast by the IMF and the 2.3% estimated by the Ministry of Finance, following a mere 0.3% growth in 2019.
- Umrah pilgrimages (those that can be taken at any time) have already been banned and mosques closed. The Haj, in late July, is still on but the kingdom has not ruled out cancelling it.
  - Religious tourism is a main source of non-oil revenues.
  - The Hajj and Umrah generate USD 12B each year, which was 1.5% of GDP in 2019

➢ The UAE's expected economic fillip from Dubai Expo 2020 as well as from growth-friendly reforms and government acceleration programmes is now under threat. The pandemic is prompting the consideration of a postponement of the Expo 2020.
- Expo 2020 Dubai is exploring the possibility of postponing the event by one year. A final decision on postponement can only be made by the Bureau International des Expositions' (BIE) executive committee, with a two-thirds majority vote from member states of the organisation required.
  - Expo 2020 spending this year was estimated at USD 18.1B, 17% higher than the previous year. A postponement or cancellation would be a major hit to GDP, although the infrastructure stimulus would remain.
  - The UAE would not be the first host to delay an expo by a year; the St. Louis World's Fair was delayed from 1903 to 1904.

Figure 3 - Chinese Tourist Arrivals to MENA[3]



    - The cost and the scale of the St. Louis fair -- an ambitious project of a 1,200-acre fairground with 1,500 buildings -- delayed the opening date by a year.
    - Nonetheless, the delay did not compromise the economic impact or participation as close to 20 million people still attended in addition to 60 countries and 43 states partaking as participants.
    - It was the first fair to turn a profit and its attendance overshadowed the Olympics that took place that year in the same city.
- For now, forecasts for overall growth in the UAE will need to be revised, meaning three lacklustre years will be followed by a weak 2020.
  - The IMF had expected growth at 3% for 2020, up from the 2.5% previously forecast in October 2019 (and against a downward revision in global growth). That compares with 1.6% growth estimated last year. But 2020 GDP growth could well be negative.
  - The plunge in oil prices will also affect the UAE's fiscal situation. This year's budget and those of the past five years have been based on an estimated oil price assumption averaging USD 63.5 pb.
  - The impact of COVID-19 was already seen in the February PMI: it declined to a barely expansionary four-year low of 50.1 as a result of weaker sales, slowing demand and lower inventories. March's PMI will be released on 15 April (along with Egypt's and Saudi Arabia's).
- We expect more measures to be enacted on the economic front by the UAE leadership to add to the measures that have already been taken. It rolled out a USD 27B package last week.

COVID-19 to take a toll on tourism & trade in North Africa

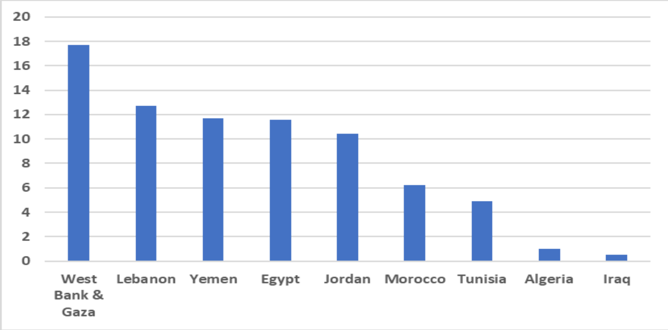
Morocco, Tunisia and Egypt, whose economies get a huge boost from tourism, will struggle as travel restrictions persist. Oil-exporters Algeria and Libya will be hit by oil price drops. Disruptions to trade with China and plunging European markets will negatively impact Morocco, Algeria and Tunisia.[4]

[3] Arabia Monitor; Ministry of Tourism of respective countries.

[4] It is worth recalling that the collapse of North African trade with Europe subsequent to the financial crisis is partly what ignited the Arab Spring.

- Algeria's trade will be impacted by China's lower demand for energy as well disruptions to trade flows.
  - In 2019, Algeria became China's fifth-largest trade partner in Africa (USD 9.1B in 2018). China remains the leading supplier of goods to Algeria (14% of Algerian imports) and the 10th-largest customer (3% of Algerian exports).
    - As China gears toward full production capacity, non-oil goods will continue to flow albeit with significant transportation delays.
  - With fuel exports accounting for the lion's share of total exports (93.1% in 2018), the lower oil price and lower Chinese demand for oil will take their toll on Algeria's budget deficit, initially forecast for 7% of GDP in 2020 as of December 2019.
    - This year's budget and those of the past five years have been based on an estimated oil price assumption averaging USD 107.3 pb.
  - Ambitions to attract new foreign investment have been muted. The growth rate forecast is expected to drop below the government's October 2019 forecast of 1.8%, potentially scraping negative growth for 2020.
- GDP growth in Egypt was expected to reach 5.9% in 2020 from 5.5% in 2019, its highest level in 11 years. This growth has been supported by the tourism sector and increased exports. But all is now at risk from both the pandemic and lower oil prices as sector activities decline, private investment halts and remittances soften. With travel plans cancelled for fear of contagion, the tourism sector is bracing itself for a major blow.
  - New bookings are already down 70%-80% compared with the same period last year. Tourists from Arab countries, especially from Saudi Arabia and Kuwait, have cancelled plans to visit Egypt as their countries have suspended their flights. Italians and Chinese visitors have followed suit.
    - Tourism accounts for 12% of Egypt's GDP when all direct, indirect and induced effects are taken into consideration. The sector also provides 19.3% of foreign exchange. When this sector collapsed in 2016 for example, USD 3.6B was held back from GDP growth.
    - Tourist arrivals in Egypt hit 13 million in 2019, with revenue estimated at over USD 12.5B last year (4.1% of GDP). Both these flows could now become a trickle.
  - The impact of low oil prices and COVID-19 will also hit Egypt's inward remittances, estimated by the World Bank to have been worth USD 26.4B last year (9% of Egypt's GDP). Much of this vital source of hard currency comes from Egyptians working in the GCC.
- Morocco's economy is facing low tourist revenues and reduced remittances.
  - Tourism -- which contributes 10% to GDP -- is already being hit as visitors from around the world stay home or are shut out. Last year, the kingdom attracted 13 million visitors, and the government reckons there were 100,000 fewer visitors in March this year alone.

Figure 4 - Remittances (% of GDP)[5]



    - Morocco closed its borders in March and suspended flights from 29 countries. The Ministry of Interior closed restaurants, theatres, mosques, hammams and other public facilities.
    - Flights from France and the US -- the homes of Morocco's biggest tourist spenders in 2019 -- are among those to be suspended.
  - The COVID-19 outbreak is expected to decrease remittances from Moroccan expatriates. In 2019, remittances to Morocco reached a five-year high of USD 7B (6% of GDP).
    - On the other hand, low oil prices are good for Morocco, a net importer.
    - The oil price drop in 2014 lowered Morocco's energy imports which fell by 25.5% to USD 3.5B (3.3% of GDP) from 4.3% of GDP in 2013.
- In Tunisia, the IMF's pre-COVID-19 forecast was for growth to recover to 2018's level of 2.4% in 2020 after a slower 1.5% in 2019. But tourism was supposed to help, and this will now be hit hard by the pandemic, especially by the loss of European travellers who make up the bulk of inbound arrivals to the country.
  - Tourism accounts for about 8% of its GDP and provides the second-largest percentage of employment. Some 400,000 people work in tourism.
  - In 2019, Tunisia hit a record level of 9.5M tourists. This year, it was seeking to attract 1 million French tourists, 640,000 Russians and 390,000 Germans -- figures now increasingly impossible.
  - The government has already revised down its own growth forecast for 2020 to 1% from the 2.7% envisaged in the 2020 budget, to reflect the recent developments. We would not be surprised to see growth below 1% in Tunisia.

COVID-19 adds to the heap of crises in the Levant

Already crippled by conflict, as well as political and economic crises, the countries of the Levant -- and, above all, the millions of people inhabiting overcrowded and unsanitary refugee camps -- are soon likely to face a brutal confrontation with coronavirus. The pandemic will take a major toll on trade and economic activity as well.

- In Iraq, the virus is a major threat particularly via its impact on the dominant, China-focused oil trade.

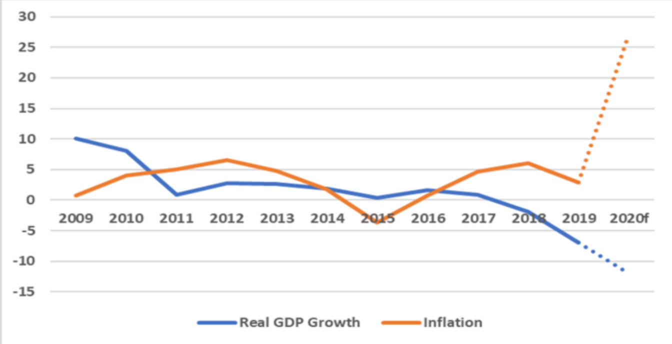
[5] Arabia Monitor; World Bank.

- Iraq is China's third-leading source of oil (after Saudi Arabia and Russia). With oil revenues making up about 90% of the Iraqi budget, any severe drop in crude exports would be devastating to GDP, particularly given that Iraq is near its export capacity and in any case the international market risks remaining flooded.
- The country has limited fiscal margin to cope with the impact of less oil revenue from either the lower price or a virus-related drop in demand.
- This year's budget and those of the past five years have been based on an estimated oil price assumption averaging USD 51.3 pb.

➢ In Jordan, the IMF had forecast GDP growth at 2.4% this year driven by tourism and higher exports with the opening up in neighbouring countries.
- However, muted tourism and trade (hit by the global turndown) will put the break on this.
- Tourism -- which contributes up to 20% to GDP -- posted a rebound in 2018 and 2019. But this is likely to be hit severely as global travel grinds to a halt.
  - o Total tourists excluding Jordanians reached 5.2 million at end-19 from the 4.5 million in 2018. If this sector collapses, the equivalent of 20% of GDP is wiped out.
- The virus is also likely to take its toll on trade. Jordan's current account deficit was expected to decline to 6.2% this year from 7% of GDP in 2019, however, this is now subject to revision, depending on how the country weathers the crisis.
  - o When borders with Iraq and Syria opened up, Jordan started to regain some lost market share and its overall exports rose by 8.6% last year. But trade never fully recovered as some sectors were permanently lost to lower cost competition, and this now is also grinding to a halt.

➢ In Lebanon, the pandemic is amplifying the economic crisis and postponing chances of recovery. The demand for USD is growing along with that for imports of medical supplies. This is leading to further deterioration of Lebanese pound's value.
- Businesses (already suffering from the economic crisis) now have to deal with the government's order to close all private commercial activity except banks and food suppliers.
- The virus is putting more pressure on the budget deficit and postponing any efforts toward an economic recovery plan.
- After months of unrest, protests have cooled down with the spread of COVID-19. If the virus is not contained, however, we expect an even worse economic crisis and demonstrations to come back stronger.
- Foreign aid is becoming increasingly unlikely as traditional donor countries are also struggling with the spread of COVID-19.

Figure 5 - Lebanon Growth & Inflation (%)[6]



➢ War-torn Syria now has to deal with a pandemic-related decline in remittances, especially from neighbouring Lebanon and Iran.
  - o Iran -- a major investor and donor to Syria -- has reportedly decreased its foreign exchange support to Syria due its own increased domestic needs.

➢ The Palestinian economy will suffer from escalating Israeli constraints and slower trade opportunities.
- Growth was expected to rebound in 2020 but could be revised downwards due to an ongoing standoff over the transfer of Palestinian taxes collected by Israel, low aid, the COVID 19 outbreak and long-standing constraints.
- The Palestinian authorities have been working towards less dependency on Israel, but without much success.
  - o They rejected tax revenues collected by the Israeli authorities on their behalf for months last year, but in October had to start accepting the money again.
- As Palestinian workers are no longer allowed to travel back and forth from the West Bank to work sites, only those in "essential sectors" have been allowed entry and are expected to remain in Israel.
- These measures, along with slower global trade, minimise trade opportunities, put at risk the jobs of numerous Palestinians and jeopardise their sources of income.
- If donor support levels remain similar to 2019, Palestine could be facing a financing gap of aid exceeding USD 2B.
  - o In 2019 the EU contributed EUR 154M mainly to salaries and pensions aid and hospitals.
  - o In May 2019 Qatar allocated EUR 430 M in aid to support education, health services and provide humanitarian relief.
  - o The UN Relief and Works Agency for Palestinian refugees has turned to home deliveries of aid parcels to help curb the spread of the virus. While this is an effective deterrent of contagion, it could prove inefficient as ultimately, Gazans could go to markets for food while awaiting delivery -- something the UN program seeks to avoid.

[6] Arabia Monitor; Ministry of Finance, Lebanon.

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Arabia Monitor
Aston House| Cornwall Avenue| London L3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com