

Event Update - IMF Releases Regional Economic Outlook

January-2024

GCC growth lowered for 2023 and 2024 due to fresh geopolitical challenges...

In its latest regional economic outlook for the MENA region, the IMF underlined the highly uncertain nature of economic growth outlook for the region led by reviving downside risks compounded by conflicts and natural disasters in some countries. The agency underscored three major factors that are currently weighing down on the MENA region's economic growth; namely the war on Gaza, cuts in oil production and the benchmark rate hikes that were designed to rein the steep inflation growth over the past two years. **Citing the aforementioned reasons, the IMF downgraded MENA region's 2024 forecast from its October 2023 REO by 0.5% to 2.9%. Furthermore, the IMF noted that outlook for the MENA region's economic growth to be similarly highly uncertain due to a combination of existing downside risks and pressing probable risks. One of the main uncertainties that are facing the MENA region's economic outlook and stability is the risk of an escalation of the war on Gaza as well as the worsening of the Red Sea disruptions. These pressing risks could have severe impact on the region's trade, tourism, and general economic output.**

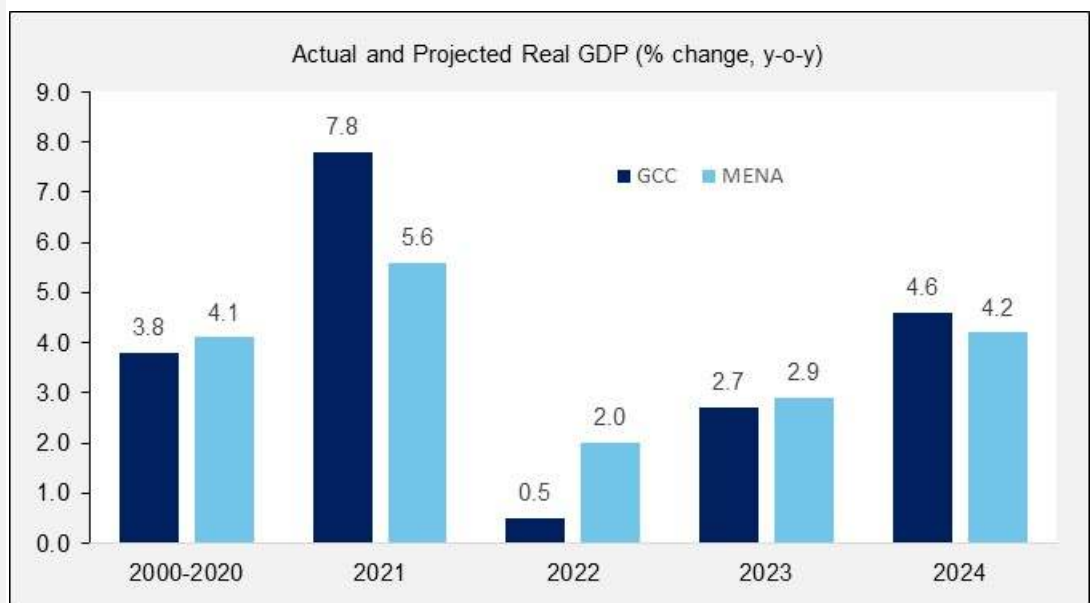
Putting it in a bigger context, the IMF reiterated that before the outbreak of the current conflict in the MENA region (the war on Gaza), the region as well as the global economy recovery was going moderately well. The global economy has turned a corner from multilayer challenges including the repercussion of the Covid-19 economic measures, the Russia-Ukraine conflict, and the cost-of-living crisis. Inflation fell from its 2022 peak while global economic recovery proved to be stronger than expected during the second half of 2023 for leading economies including the USA and China. **Therefore, despite the current persisting risks, the IMF indicated that it is moderately optimistic about the global economy in 2024 as it projects it to remain unchanged from its previous forecast of 3.1% and expects to witness a moderate growth of 3.2% in 2025. It is noteworthy that the IMF's 2025 global economic forecast projection is lower than the historical average of 3.8% during 2000-2009.**

For the GCC, the IMF downgraded the region's 2023 economic growth estimate to 0.5% as compared to its October-2023 forecast of 1.5%. The agency attributed the cut in the GCC's economic growth forecast to the effect of oil production cuts on the economy despite the region witnessing strong non-oil economic growth during the period. On the other hand, the IMF penciled the GCC economy to grow at 2.7% in 2024 reflecting an end to oil production cuts. In terms of specific economies of the GCC, the IMF revised Saudi Arabia's economic growth in 2023 and 2024 to -1.1% and 2.7%, respectively.

Furthermore, inflation in the GCC region is projected to fall from 2.5% growth in 2023 to 2.3% and 2.0% in 2024 and 2025, respectively. Comparatively, the IMF expects inflation in the overall MENA region to remain in high double-digits penciling it a slight decline from 16.5% in 2023 to 14.4% and 11.6% in 2024 and 2025, respectively.

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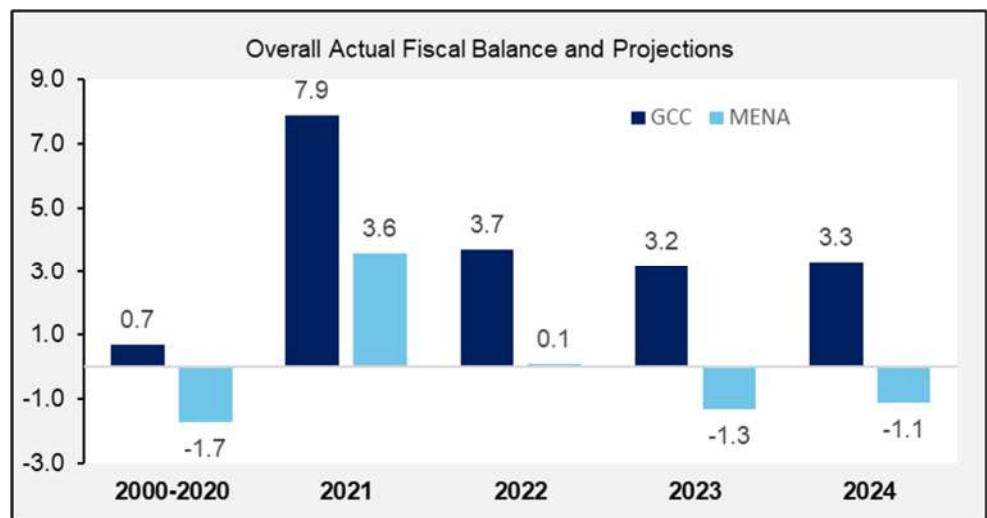
Sources : IMF REO Jan-2024

New challenges affecting the pace of recovery

One of the main headwinds that are slowing down the MENA region's economy is the possibility of the expansion of current war on Gaza conflict to neighboring countries. The IMF's main assumption in the preparation of the regions economic projections is the high expectation that the conflict would ease during the first quarter of 2024. However, the war on Gaza has already had an adverse impact on tourism in Gaza's neighboring countries such as Egypt, Jordan and Lebanon. The IMF estimates that the contribution of the Tourism sector to MENA economies ranges between 2% to 20% of GDP and between 5% and 50% of goods and services exports before the pandemic. Tourism is an important part of many of MENA countries' economies such as Egypt, Lebanon, and Jordan and the insecurity in the region is expected to keep a significant number of tourists away from these destinations this year if things do not improve soon. Moreover, there might be a possibility of volatility increase in the MENA regions financial markets if the possibility of wider conflict persists. So far, there has only been an initial pickup of volatility amid the onset of the conflict and energy and financial markets have remained broadly stable in the region.

Another major headwind for economic growth in the MENA region is the additional voluntary oil production cuts from the oil exporting countries in the region. Currently voluntary oil production cuts have already impacted economic growth in the region especially in the oil exporting countries and it is one of the main reasons why the GCC region's real GDP growth has been downgraded to 0.5% in 2023. However, there is a risk that additional voluntary oil production cuts might be needed to keep oil prices elevated which can result in further slowdown of economic growth in the region. On the other

hand, if inflation persists globally, there is the possibility that financial markets could tighten leading to growth in borrowing costs which would in turn intensify risk premiums and external funding conditions of the region. This can lead to lower foreign direct investment as higher uncertainty lowers the appetite for medium-term investment opportunities in the region .

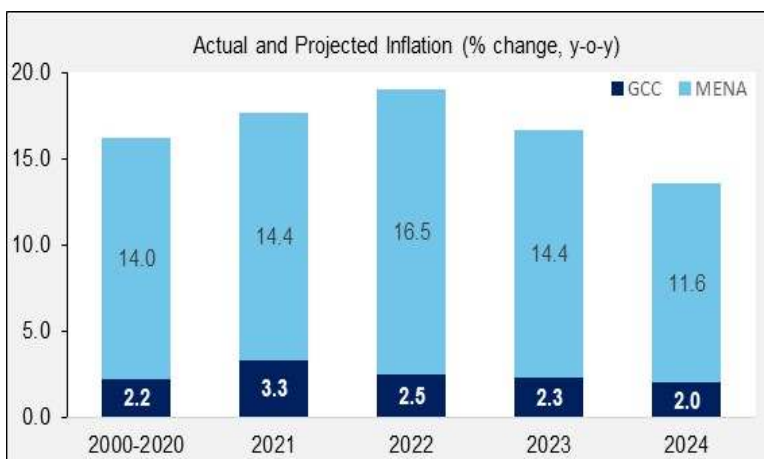


Sources : IMF REO Jan-2024

Policy response for the MENA region

The IMF advocated the MENA region countries to have monetary policy which is focused on ensuring price stability, emphasizing tight monetary policy or keeping up the higher borrowing rates for countries where inflation persists. On the other hand, in MENA counties where inflation is under control, the IMF indicated that cautiously lowering borrowing rates may be undertaken if the need arises.

In terms of fiscal policy reforms in the MENA region, the IMF called for the regional countries to try to bringdown public-sector debt and contain current spending while simultaneously ringfencing spending on social protection systems. The IMF called for the MENA commodity exporters to steer clear from procyclical spending and aim for fiscal policies that are in line with equity and sustainability goals.



Sources : IMF REO Jan-2024

MENA countries are expected to undertake the necessary structural reforms that are fundamental to raise longer term economic growth prospects as well as increasing shorter-term economic activity. The Fund outlined the importance that strengthening governance in the regional financial sectors could also help the economies in the region. In its latest REO, the IMF has lowered Saudi Arabia's GDP growth reflecting the voluntary oil output cuts. Saudi Arabia's oil GDP contracted 9.2% during 2023 as compared to 15.1% growth in 2022 pushing the real GDP growth for the Kingdom into negative territory during 2023. The IMF also downgraded the Kingdom's 2024 economic growth by 130 bps to 2.7% but upgraded real GDP growth for 2025 by +130 bps to 5.5%.

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