THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS COUNTRY RISK & INDUSTRY RESEARCH and is NOT a comment on Fitch Ratings' Credit Ratings. Any comments or data are solely derived from Fitch Solutions Country Risk & Industry Research and independent sources. Fitch Ratings analysts do not share data or information with Fitch Solutions Country Risk & Industry Research.

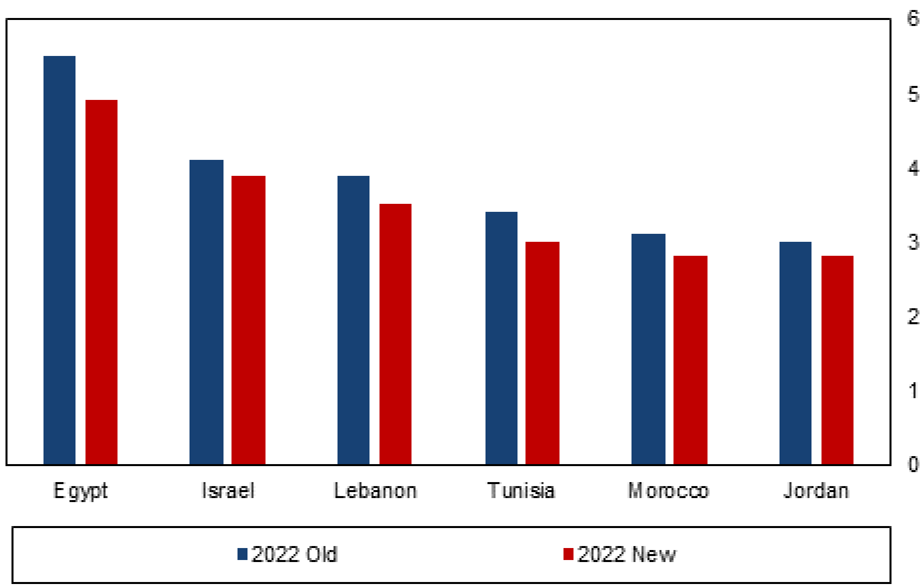
Russia-Ukraine War Will Have Mixed Impact On Economic Growth In MENA Countries

23 Mar 2022 | MENA (Region) | Economic Activity

At Fitch Solutions we believe that the Russia-Ukraine war will have mixed impact on the Middle East and North Africa's growth outlook in 2022. While we revised up our real GDP growth forecasts for some net hydrocarbon exporters due to the positive knock-on effect of higher oil prices on their economies, we cut down economic growth for most net hydrocarbon importers. These economies will suffer particularly as a result of the negative effect that higher inflation will have on domestic purchasing power, remittances, growth in trading partners, and tourism.

Oil Importers To Suffer The Most From Russia's Invasion Of Ukraine

Selected MENA Markets - Real GDP Growth, %



Source: Fitch Solutions

Oil importers in North Africa and Levant will suffer the most from the Russian invasion of Ukraine. The surge in commodity prices will fuel elevated inflationary pressures domestically and internationally, with negative repercussions on private consumption and net exports. Higher inflation, tighter monetary policy and limited fiscal room to ease the impact of higher prices on the population will dampen household spending. Sticky global inflation and lingering supply chain bottlenecks will also weigh on growth abroad, leading to lower remittance inflows, weaker demand for exports and slower recovery in tourism.

Tunisia: We have revised down our 2022 growth forecast for Tunisia from 3.4% to 3.0% to account for the repercussions of the Russia-Ukraine war on the country's post-pandemic recovery. Private consumption will be particularly hit, as higher inflation, fuelled by the surge in commodity prices, and lower remittance inflows from Europe will cap spending. Net exports will also be negatively affected, as lower arrivals from Russia will hold back the recovery in the tourism sector, as Russians account for more than 15.0% of total foreign visitors to the country.

Morocco: We have revised our 2022 real GDP forecast for Morocco from 3.1% to 2.8%, putting the country's growth below historical averages. The Russia-Ukraine conflict will place significant downward pressure on the Moroccan economy, as higher inflation will weigh on domestic consumption and growth in Europe, slowing remittance inflows. We thus anticipate a relatively subdued contribution of household spending, which will also suffer as a result of a weak harvest season (one third of Morocco's population is employed in the agriculture sector). Weaker growth in Europe will also lead to a slower rebound in tourism, which accounts for 15.0% of GDP, reducing net exports' contribution to headline growth.

Egypt: Egypt will strongly feel the impact of the Russia-War Ukraine on its economy in 2022 through a surge in inflation and a slower rebound in tourism. However, the reporting of growth on a fiscal year basis running from July 2021 to June 2022 means that the full repercussion of the Ukrainian conflict will be captured by national account data for FY2022/23. As a result, we now expect Egypt's real GDP growth will slow down from an estimated 5.6% in FY2021/22 to 4.9% in FY2022/23 (revised down from 5.5%).

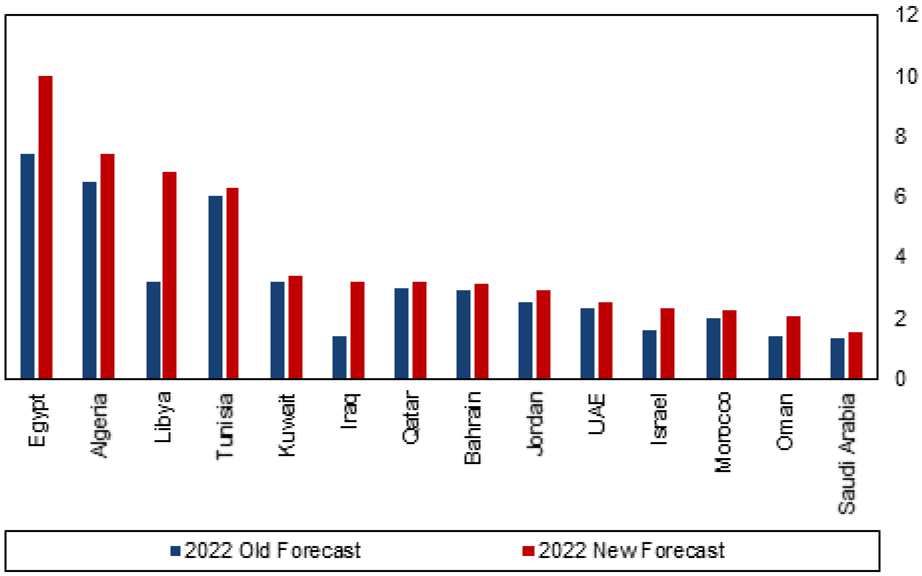
Jordan: We forecast that Jordan's economy will grow by 2.7% in 2022, down from 3.0% previously, against the backdrop of Russia's invasion of Ukraine. The conflict will mostly affect the country through higher inflation on the back of elevated commodity prices, which will dent the contribution of private consumption and net exports. Domestically, rising energy prices will feed through higher cost of utilities and transportation, dampening household spending. At the same time, higher inflation around the world will weigh on growth in Eurozone and the US, key source of tourist arrivals, slowing the recovery in Jordan's tourist sector, which accounts for around 20.0% of GDP.

Israel: The surge in inflation following Russia's invasion of Ukraine conflict prompted us to revise down our 2022 real GDP growth forecast for Israel from 4.1% to 3.9%. Higher prices will mostly weigh on domestic consumption and growth in Israel's key trading partners, slowing demand for Israeli goods. Soaring energy and wheat prices will drive up Israeli inflation to average 2.3%, against our previous forecast of 1.8%, eroding households' purchasing power. The Eurozone and the US, destination of around half of Israeli exports, will also be negatively impacted by higher-than-anticipated inflation, which will reduce net exports' contribution to growth.

Lebanon: We have lowered our 2022 real GDP forecast from 3.9% to 3.5% in 2022, as Russia's invasion of Ukraine will exacerbate inflationary pressures in Lebanon. Higher inflation will weigh on domestic purchasing power, as we now expect inflationary pressures will subside more slowly

Elevated Inflation Will Hit MENA Countries Across The Board

Selected MENA Markets - Average Inflation

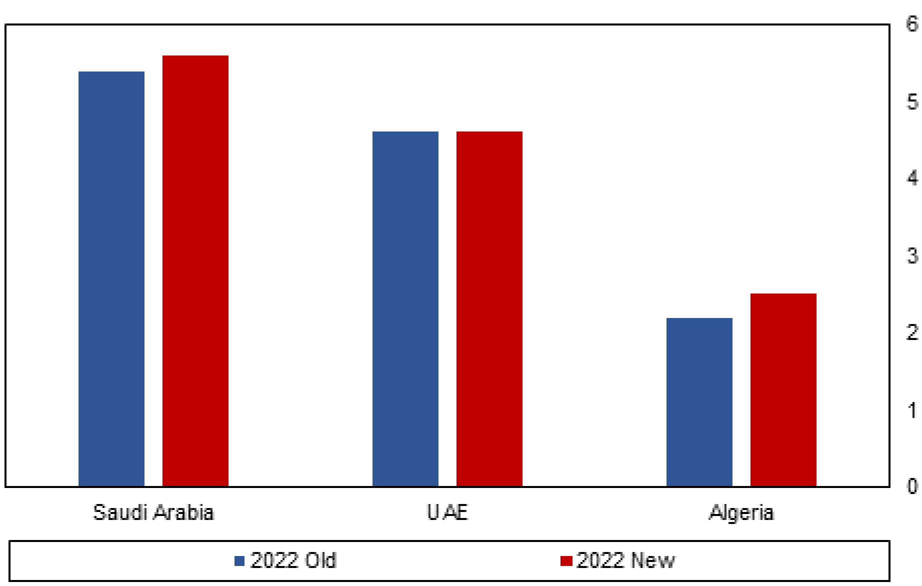


Source: Fitch Solutions

Meanwhile, MENA oil exporters are broadly set to benefit from the Russia-Ukraine war, as the spike in energy prices will lead to higher investment. We believe that higher government revenue will feed through higher public capital spending in some case and improved business sentiment in the private sector across all countries, which will engage in longer-term expansion plans. Strong investment momentum will thus more than offset the negative impact of higher inflation on domestic consumption.

Growth Outlook Mostly Positive For Oil Exporters

Selected MENA Markets - Real GDP Growth, %



Source: Fitch Solutions

Saudi Arabia: We forecast Saudi Arabia's real GDP will grow by 5.6% in 2022, having previously projected growth of 5.4%. Our more upbeat outlook comes on the back of the surge in oil prices following Russia's invasion of Ukraine, which we believe will have positive spillovers on the economy. Indeed, we anticipate that higher oil-related revenues will allow for greater investment spending by various actors under the National Investment Strategy. Specifically, improving liquidity of the Public Investment Fund (the kingdom's sovereign wealth fund) will accelerate progress in planned ambitious projects. At the same time, elevated oil prices will boost sentiment across the private sector, which we believe will translate into higher volume of M&As and expansion-related investment.

Algeria: We have revised our 2022 forecast for Algeria's economic growth up from 2.2% to 2.5%. Higher oil prices, due to Russia's invasion of Ukraine, will boost government revenues, offering Algerian authorities more leeway to increase capital spending, which will stimulate investment growth. Moreover, we think the current government will also use hydrocarbon gains to expand its subsidy bill in an attempt to absorb the negative inflationary pressures on the population.

United Arab Emirates: We maintained our growth forecast for the UAE at 4.6% in 2022. We anticipate that rising hydrocarbon output due to the easing of OPEC+ supply restrictions, along with the ongoing recovery in private consumption, will support robust economic activity. At the moment, we consider that Russia's invasion of Ukraine presents both upside and downside risks to the UAE economy. On the upside, the UAE's favourable business environment, along with political stability and neutral position in the ongoing conflict, could attract Russian investors looking for new locations to invest. This would increase investment and support economic growth. In contrast, higher-than-expected domestic inflation may depress consumer income, while rising global prices may discourage potential visitors from travelling.

This report from Fitch Solutions Country Risk & Industry Research is a product of Fitch Solutions Group Ltd, UK Company registration number 08789939 ('FSG'). FSG is an affiliate of Fitch Ratings Inc. ('Fitch Ratings'). FSG is solely responsible for the content of this report, without any input from Fitch Ratings. Copyright © 2022 Fitch Solutions Group Limited. © Fitch Solutions Group Limited All rights reserved.