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MENA Macroeconomic Update

Economic & Political Outlook In The Wake Of
The Israel-Hamas War

Wednesday, 25th October 2023

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Possible Outcomes Of The War

Why The Delays In Ground Military Operation?

High Population Density Makes Gaza Hard To Control

Gaza Strip – Map of Population Centres



Source: UN, BMI

Militant Groups Could Support Hamas If Conflict Broadens Out

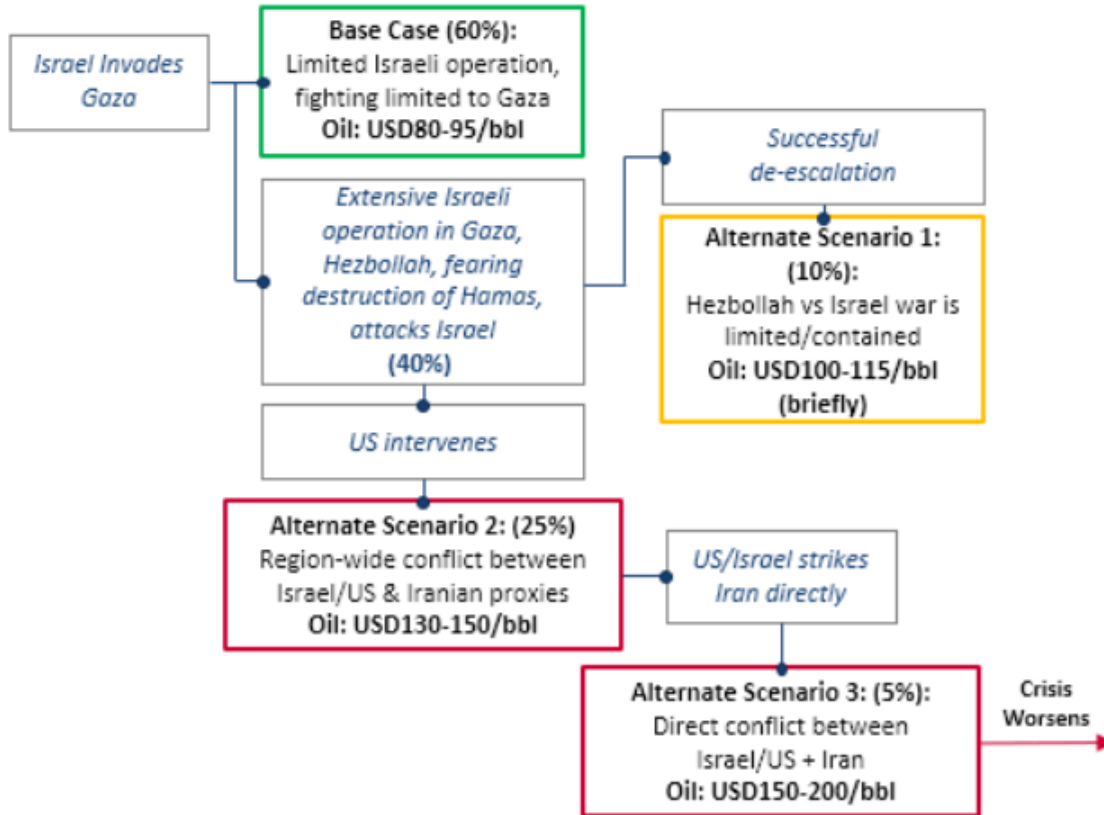
Middle East - Map of Regional Actors



Source: BMI

Risks Of Conflict Broadening Are High

60% Chance That The Conflict Will Remain Contained MENA - Scenarios For Escalation



Source: BMI

Baseline Scenario: Conflict Is Contained

Market Impacts	View	Description
Oil Prices	USD80-95/bbl	Oil prices will trade within a range, but ultimately high levels of excess capacity will limit a surge in prices.
US Bond Yields	Little change	Bond yields will continue to be driven by US macro and inflation dynamics, with little spillover from conflict.
Monetary Policy	Hold at 5.50%	The Fed is done with its hiking cycle, and will keep rates will unchanged until mid-2024 in the absence of an oil shock
US Dollar Index	Wide range	Broad trading between 100 and 108 given significant cross currents.
Equities	Choppy, sideways to higher	S&P 500 will remain in a choppy, but gentle uptrend, with support around 4,200.
Gold Price	USD1,950 - 2,050/oz	Gold is likely to trade close to its all time historic highs of USD2,075/oz as its safe haven characteristic increases holdings.
Global Growth	2.2% in 2024	Limited spillover effects, forecasting 2.5% this year and 2.2% in 2024, with downside risks.

Source: BMI

What If We Are Wrong?

Market Impacts	Baseline Line (60%)	Brief Escalation (10%)	Regional Escalation (25%)	Large-Scale War (5%)
Oil Prices	USD80-95/bbl	USD100-105/bbl	USD130-150/bbl	USD150-200/bbl
US Bond Yields	Little change	Little change	Shift in long-end of curve	Shift in long-end of curve
Monetary Policy	Hold at 5.50%	Hold at 5.50%	Potential Hikes	Rate Hikes
US Dollar Index	Wide range	108-112	4%-6% Rally	10-15% Rally
Equities	Choppy, sideways to higher	Sell-off (5% -10% drop in S&P 500)	Decline (10% -20% drop in S&P 500)	Sharp fall (30% -50% drop in S&P 500)
Gold Price	USD1,950 - 2,050/oz	USD2,050-2,100/oz	USD2,100-USD2,150/oz	USD2,150-2,300/oz
Global Growth	2.2% in 2024	1.0-2.1% in 2024	1.0-1.4% in 2024	0.0% to -0.5% in 2024

Source: BMI

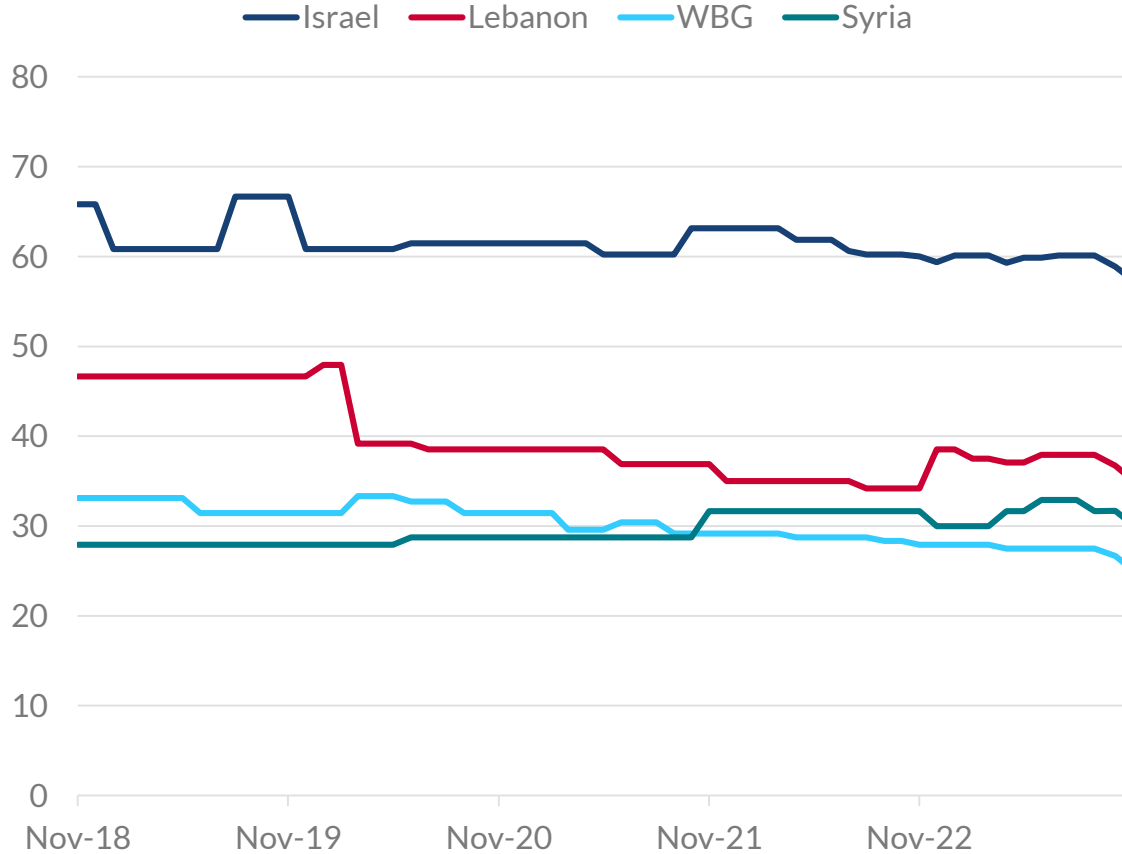
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Levant In The Eye Of The Storm

War Increased Political Risk, Reduced Growth Prospects

Higher Security Risk

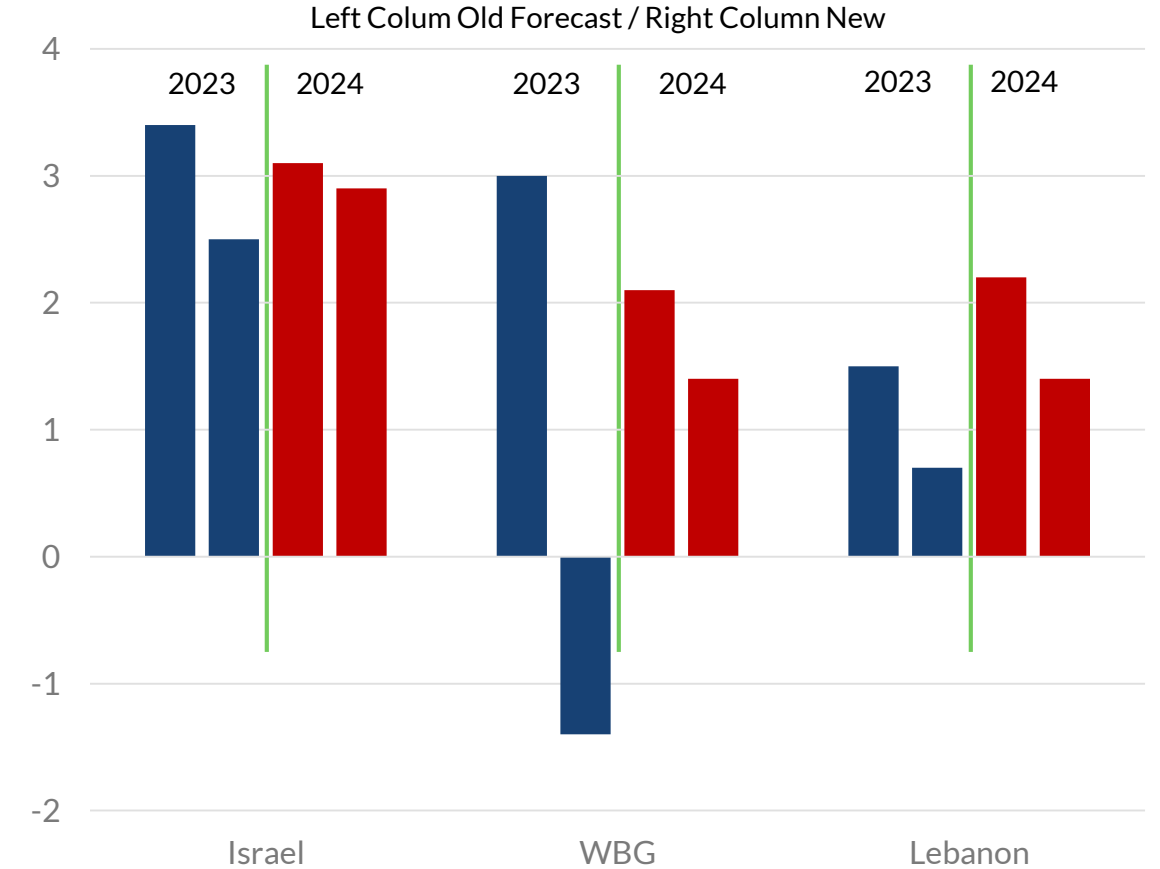
Levant - Short-Term Political Risk Index



Note: Score out of 100; lower score implies higher risk. Source: BMI

Lower Growth Outlook

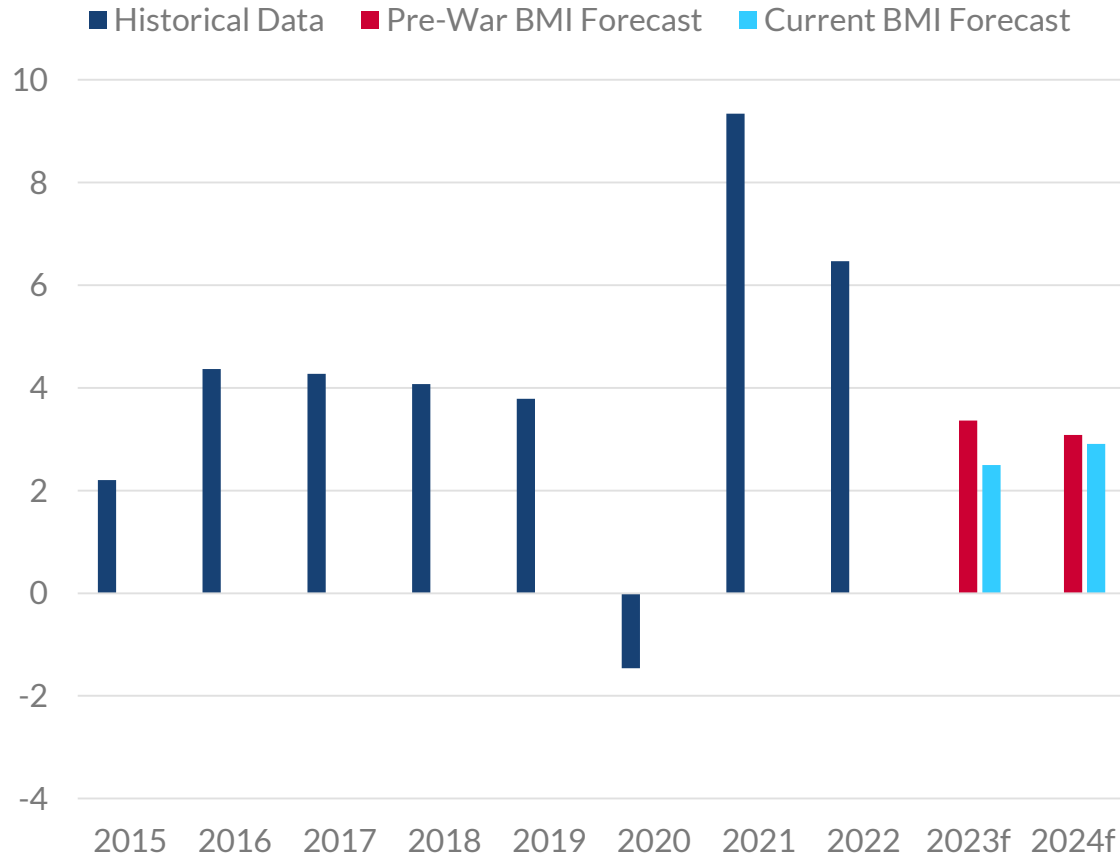
Levant - Real GDP Growth, %



Source: BMI Forecasts

Israel: Growth Will Weather The War, But Shekel Yet To Bottom Out

Israel-Hamas War Will Weigh On Growth In Q4'23, 2024
Israel – Real GDP Growth, %



f = BMI Forecast. Source: National sources, BMI

Shekel Under Pressure
Israel – ILS per USD, Daily

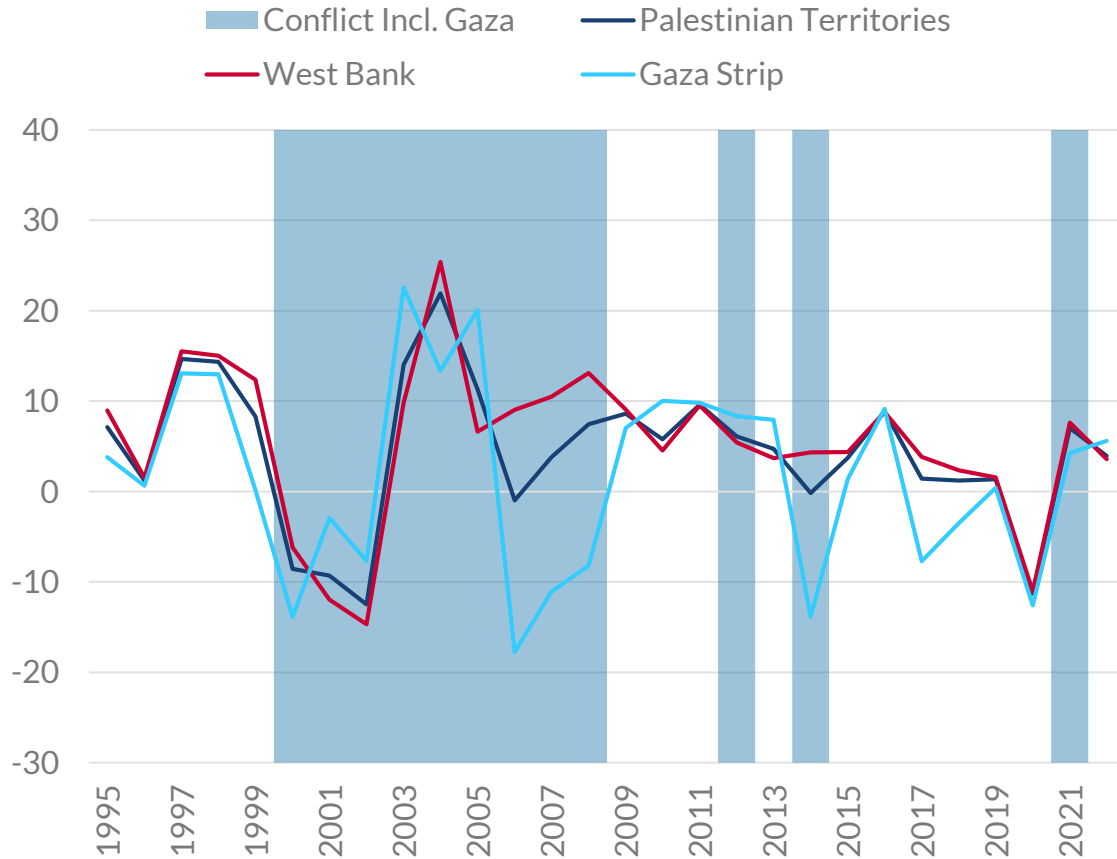


f = BMI Forecast. Source: National sources, BMI

West Bank & Gaza: Economy Will Bear The Brunt Of The War

Gaza Will Weigh On Headline Growth

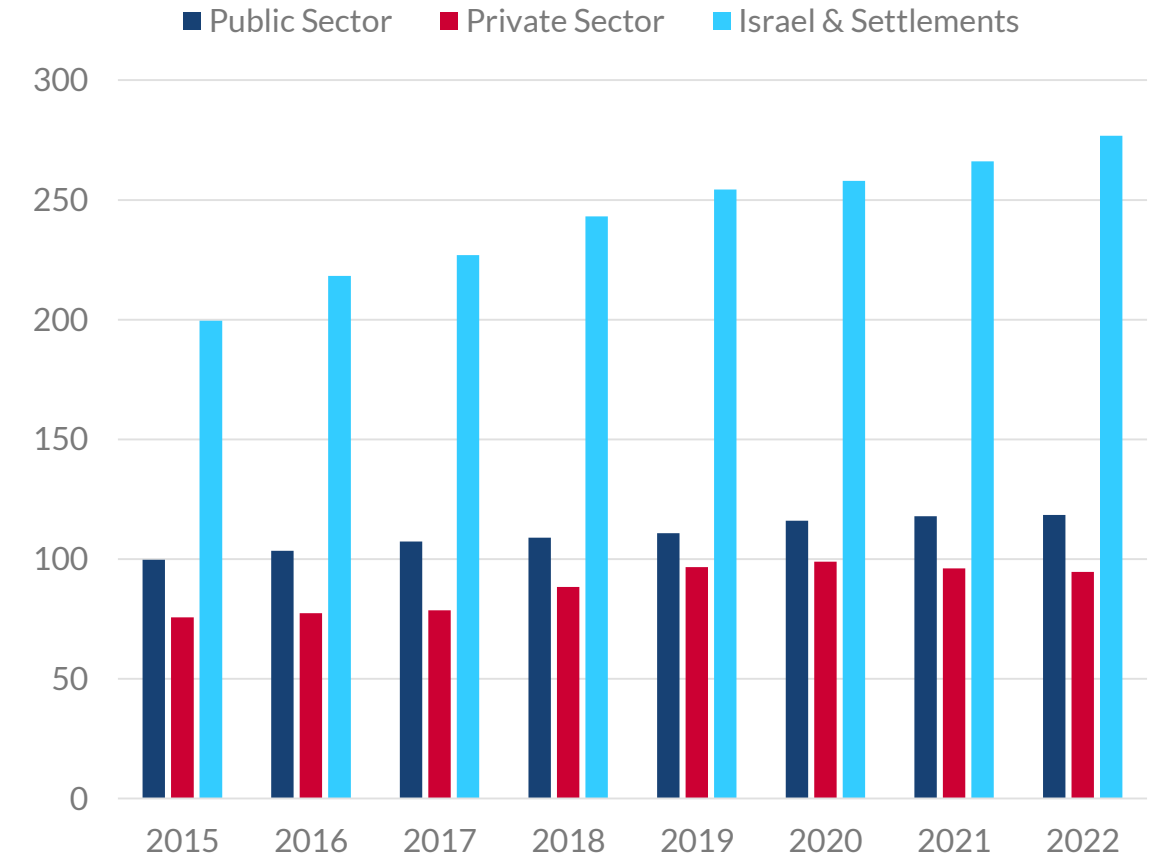
WBG - Real GDP Growth, %



f = BMI Forecast. Source: National sources, BMI

Reduced Access To Higher Salaries In Israel

WBG - Average Daily Wage By Sector, ILS

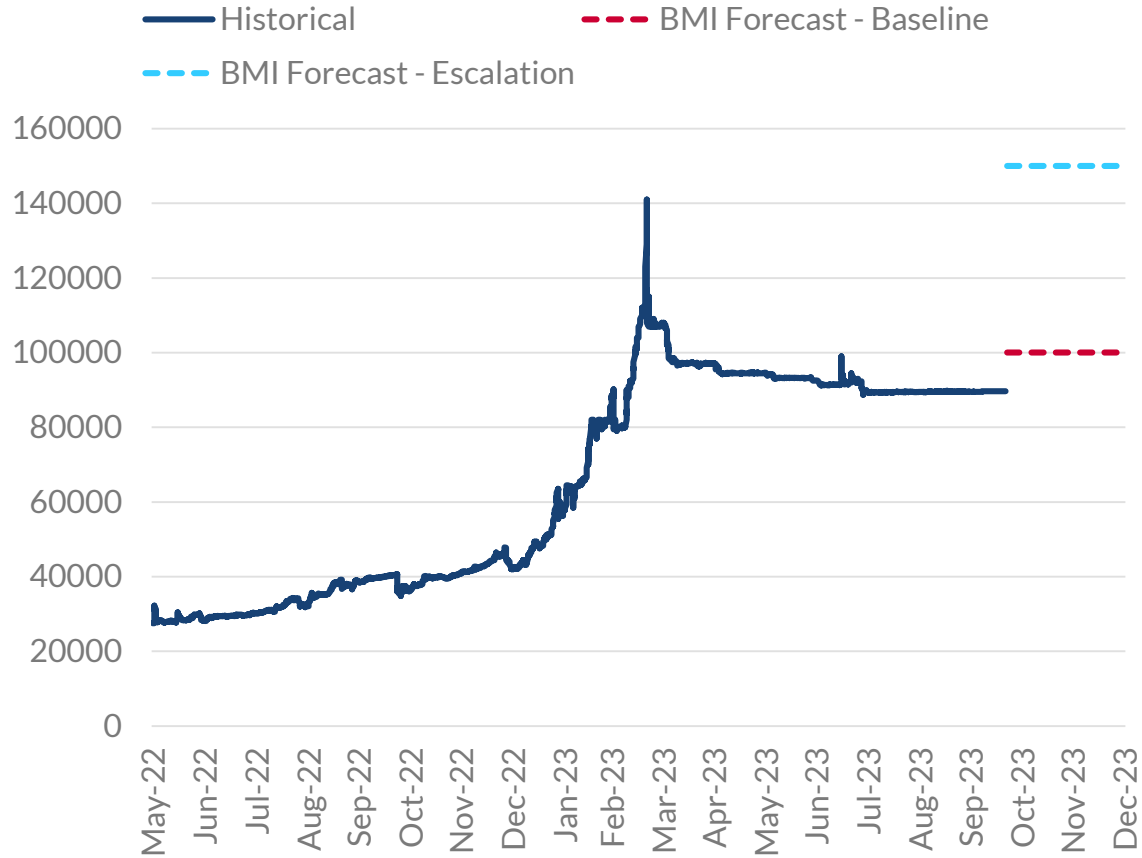


f = BMI Forecast. Source: National sources, BMI

Lebanon: Impact Of War To Be Proportional To The Level Of Escalation

Lower FX Inflows Will Increase Depreciatory Pressures

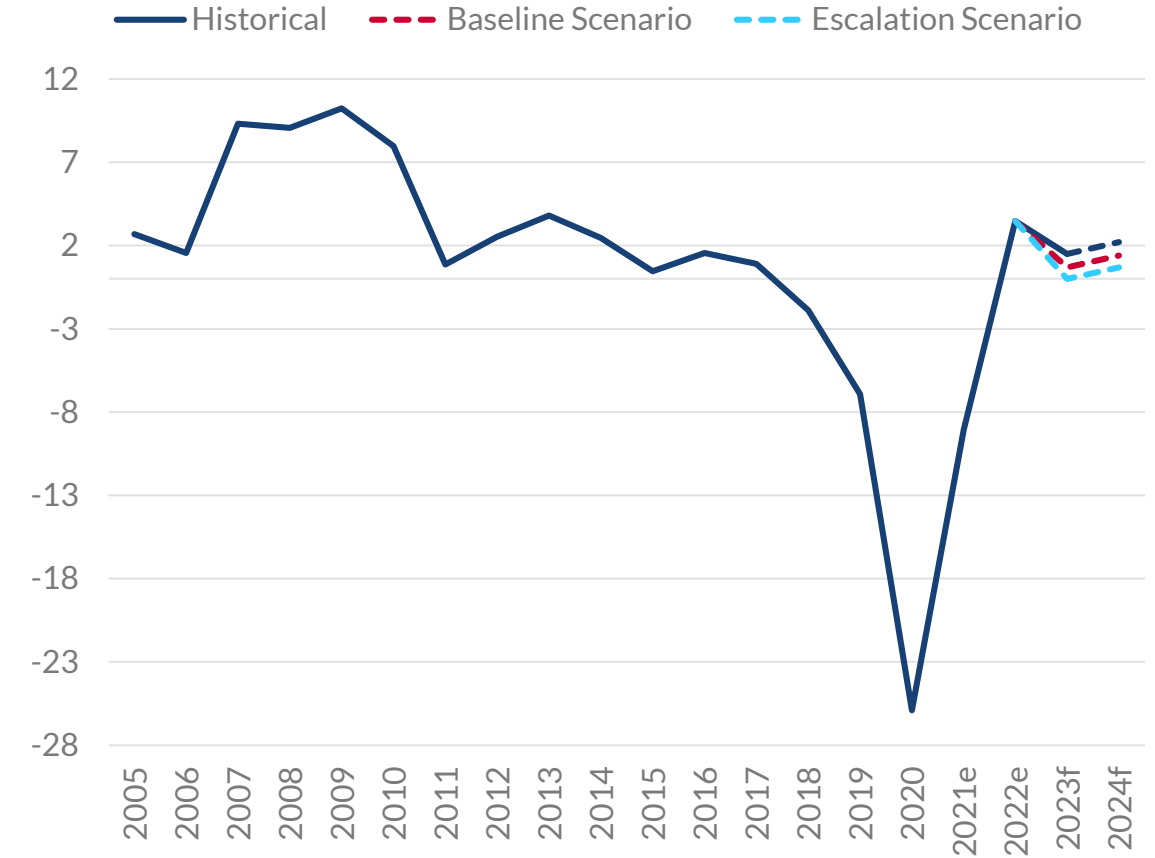
Lebanon – Parallel Market Exchange Rate, LBP/USD



f = BMI Forecast. Source: National sources, BMI

Repercussions Will Depend On The Degree Of Damage

Lebanon – Real GDP Growth, %



e/f = BMI estimate/forecast. Source: National sources, BMI



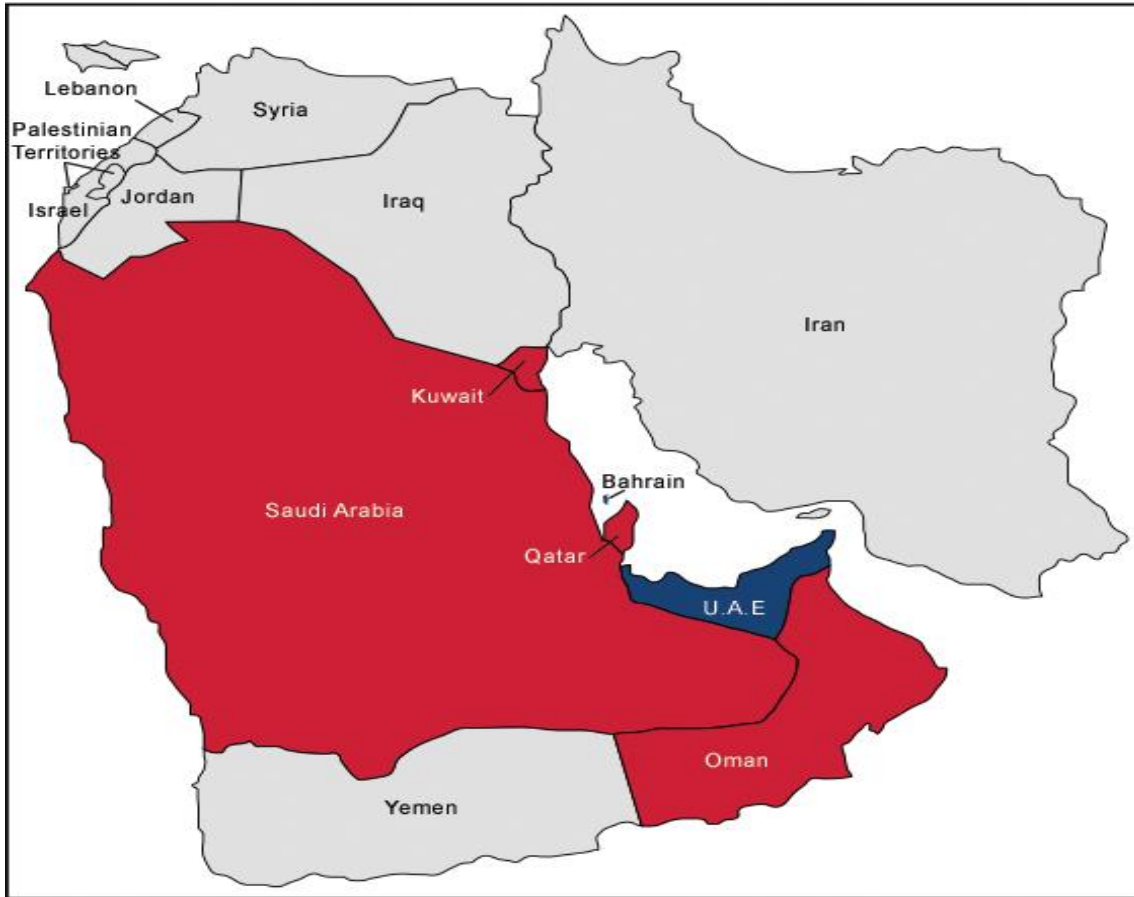
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GCC Geopolitical Risks Back To The Front

Israel-Hamas Will Test Israel-GCC Relations, Little Effect On US Ties

Bahrain And The UAE Will Tread Carefully

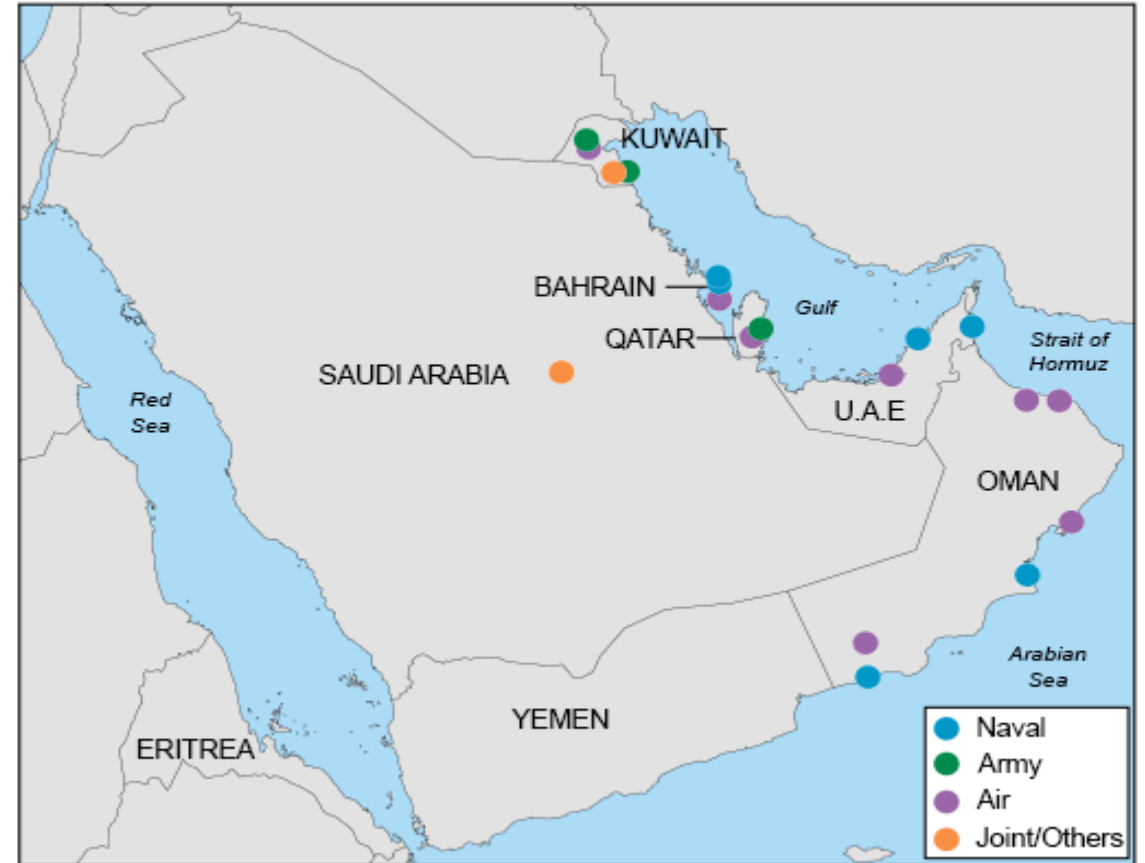
GCC – Map Of Countries With Diplomatic Relations With Israel



Note: Blue/Red: Countries that hold/do not hold diplomatic relations with Israel. Source: BMI

US Ties Unlikely To Be Affected Despite Diverging Stances

GCC – Map Of US Military Bases

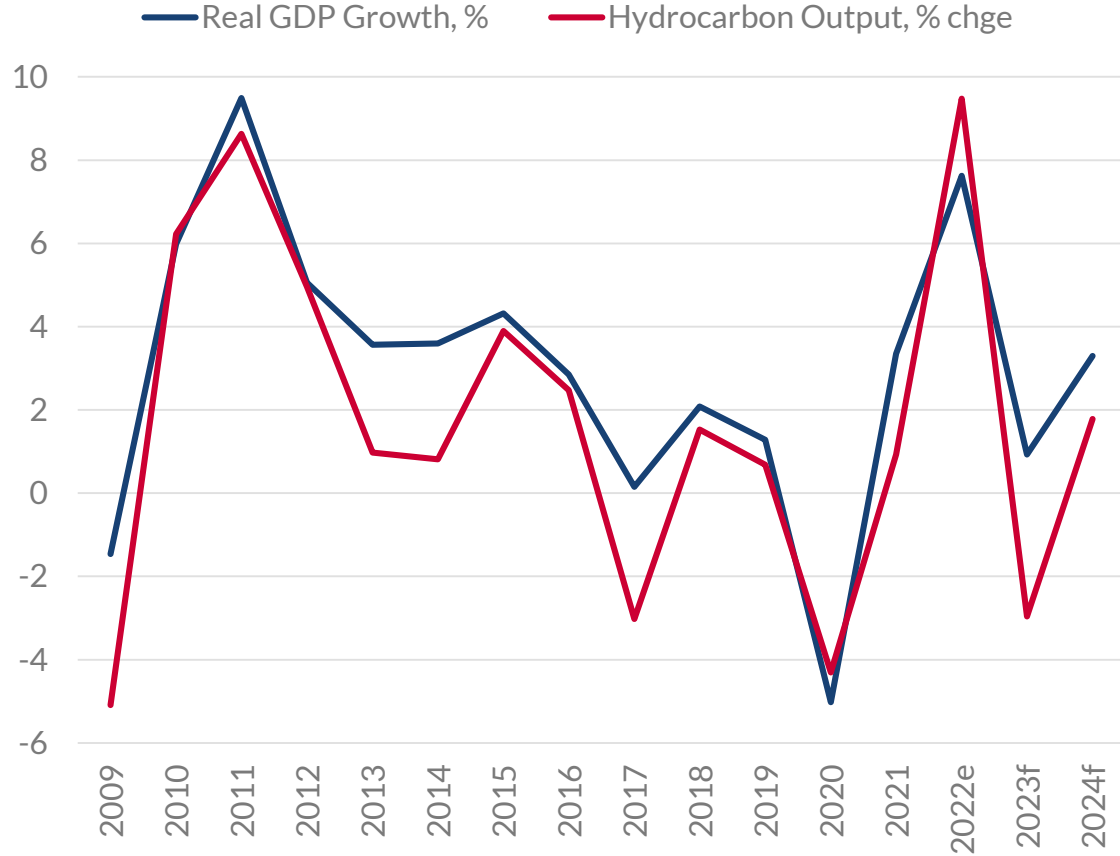


Source: AFP, BMI

GCC Once Again The Bright Spot Of MENA

The Oil Economy Will Drive GCC Growth

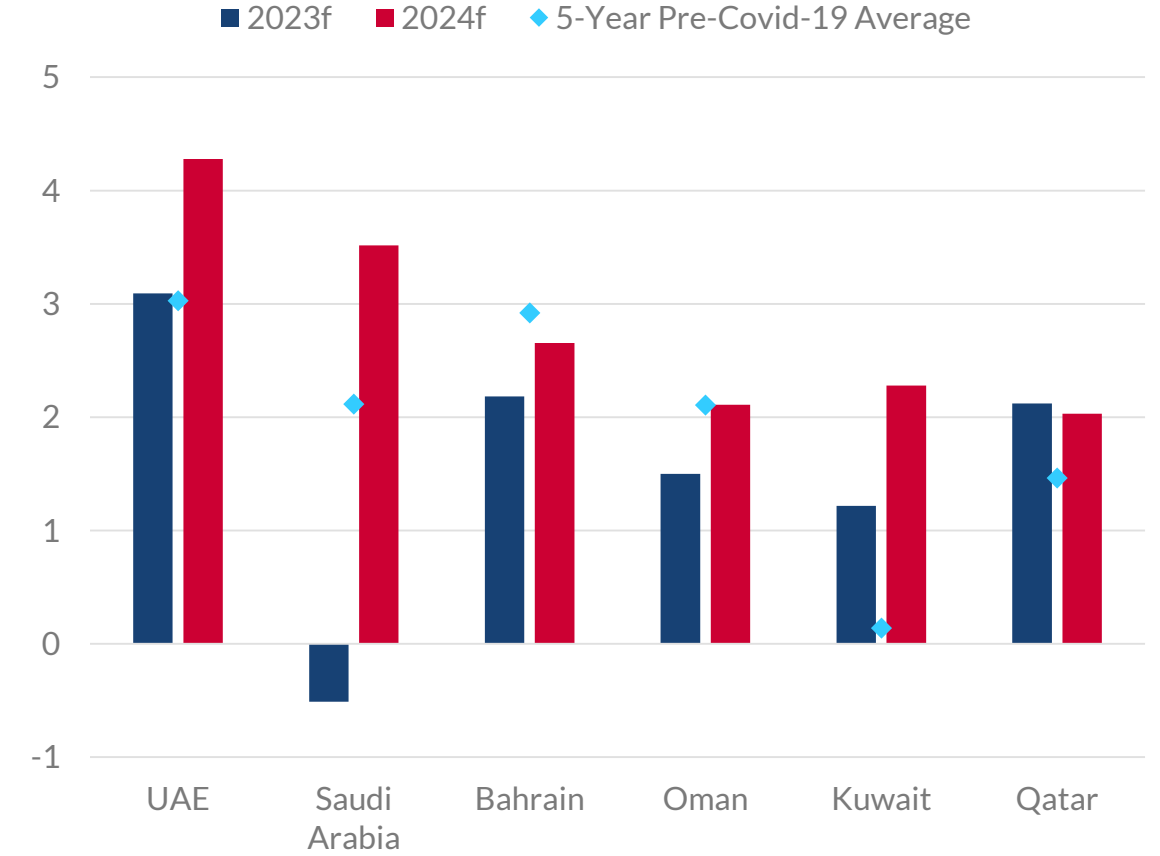
GCC – Real GDP Growth, % & Hydrocarbon Production, % chge



e/f = BMI estimate/forecast. Source: National sources, BMI

UAE And Saudi Arabia Will Lead In 2024

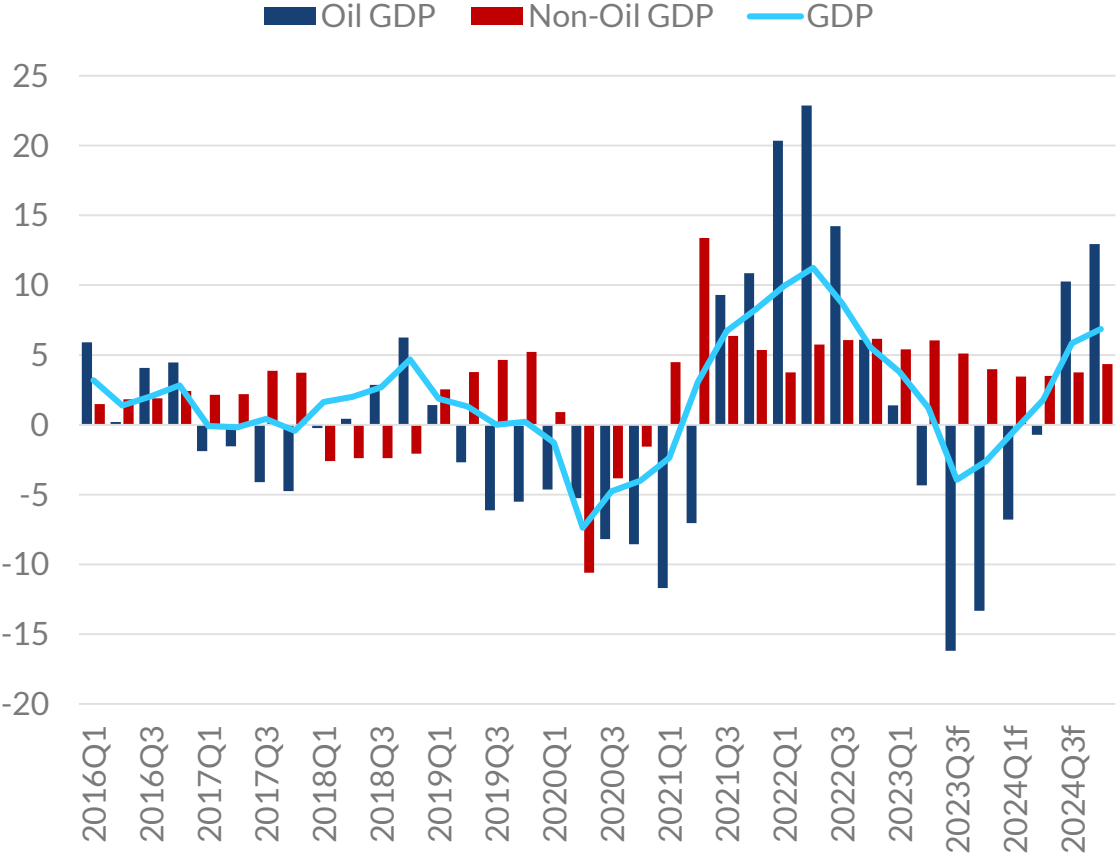
GCC – Real GDP Growth, %



f = BMI forecast. Source: National sources, BMI

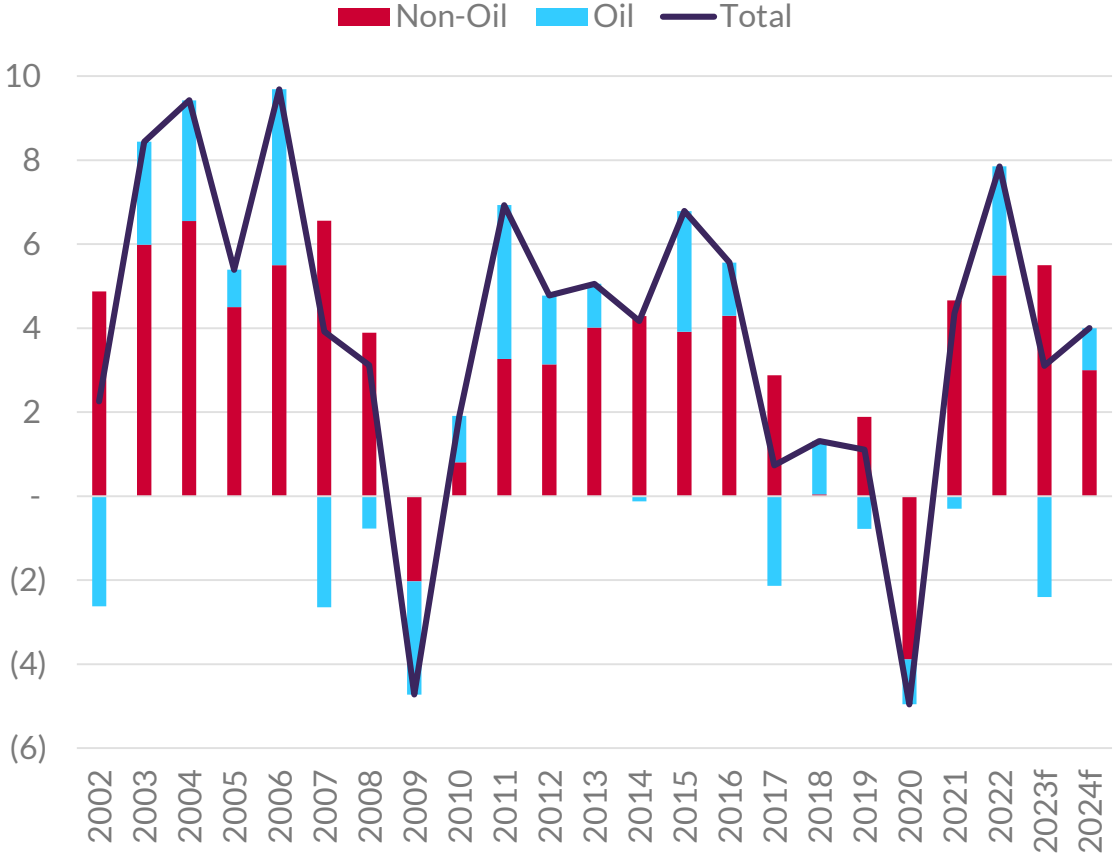
Saudi Arabia & UAE: Economic Rebound In 2024

Positive Growth In 2024 As Oil Production Recovers
Saudi Arabia - Quarterly Real GDP, % y-o-y



f = BMI forecast. Source: Gastat, BMI

Non-Oil Activity Will Continue To Do The Heavy Lifting
UAE- Real GDP Growth, %



Note: Score above 50 marks expansion. Source: S&P Global, BMI



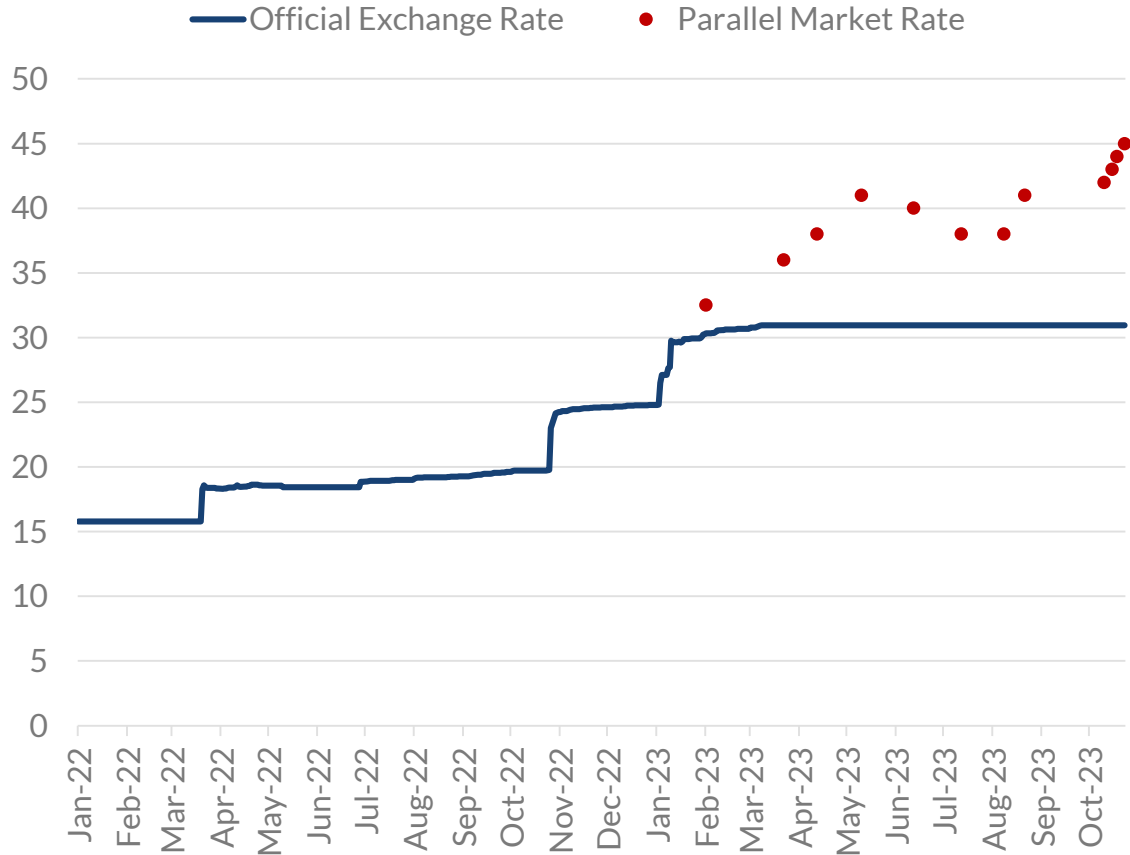
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North Africa: Array Of Challenges

The War Exacerbated Existing Challenges

The Curious Case Of The Egyptian Pound

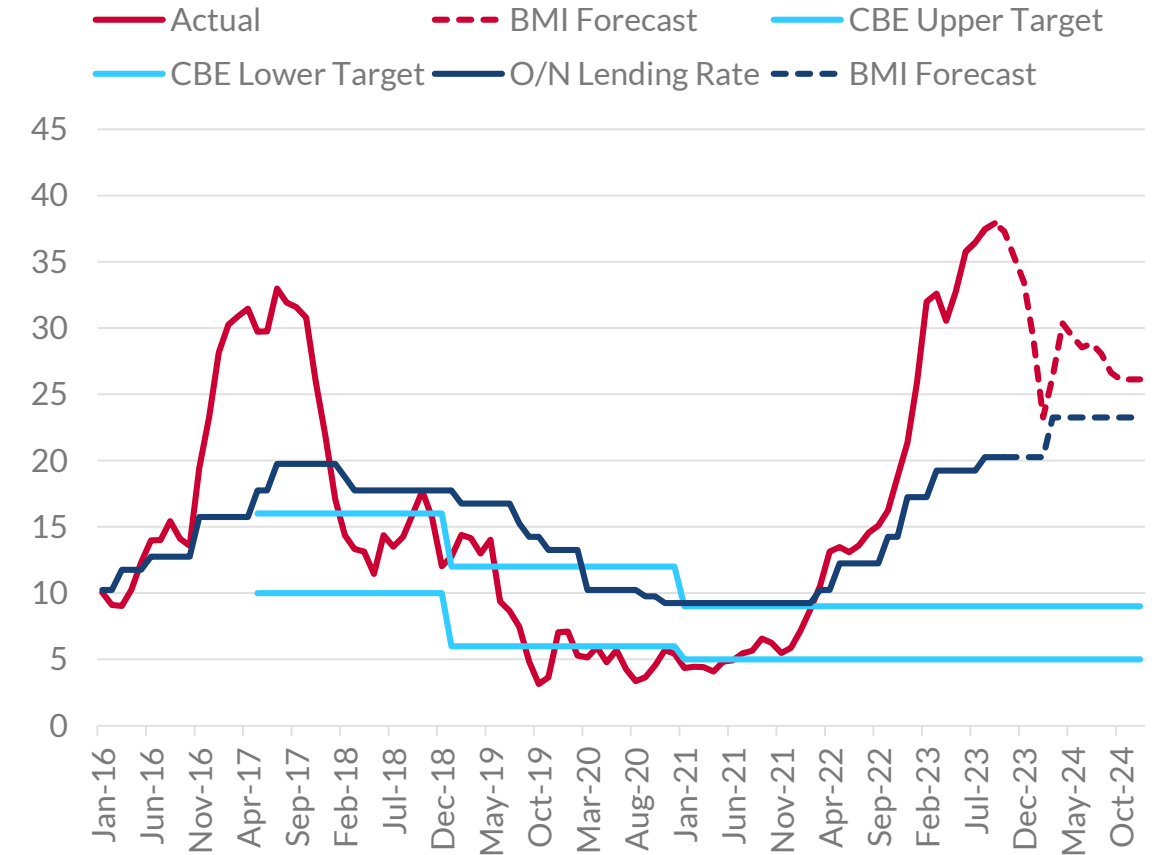
Egypt - Exchange Rate, USD per dollar



f = BMI forecast. Source: National sources, BMI

Elevated Inflation Will Require More Tightening

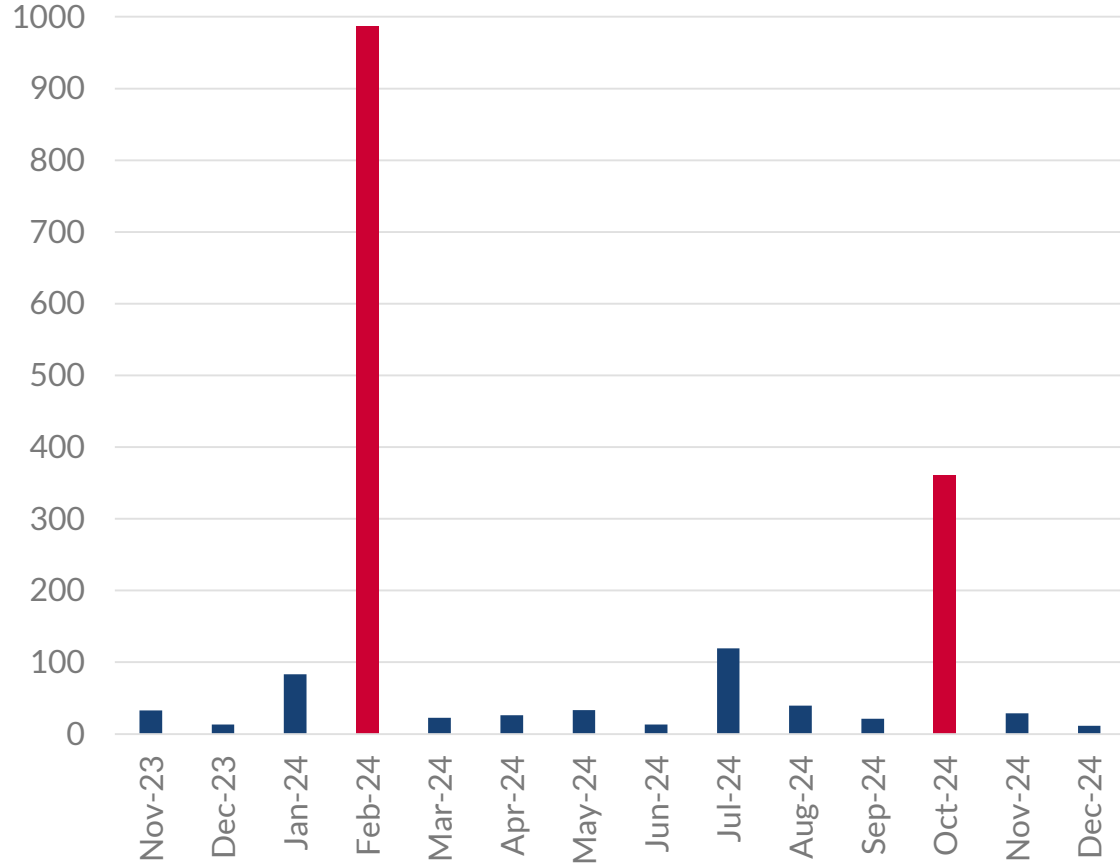
Egypt - Inflation & Policy Rates, %



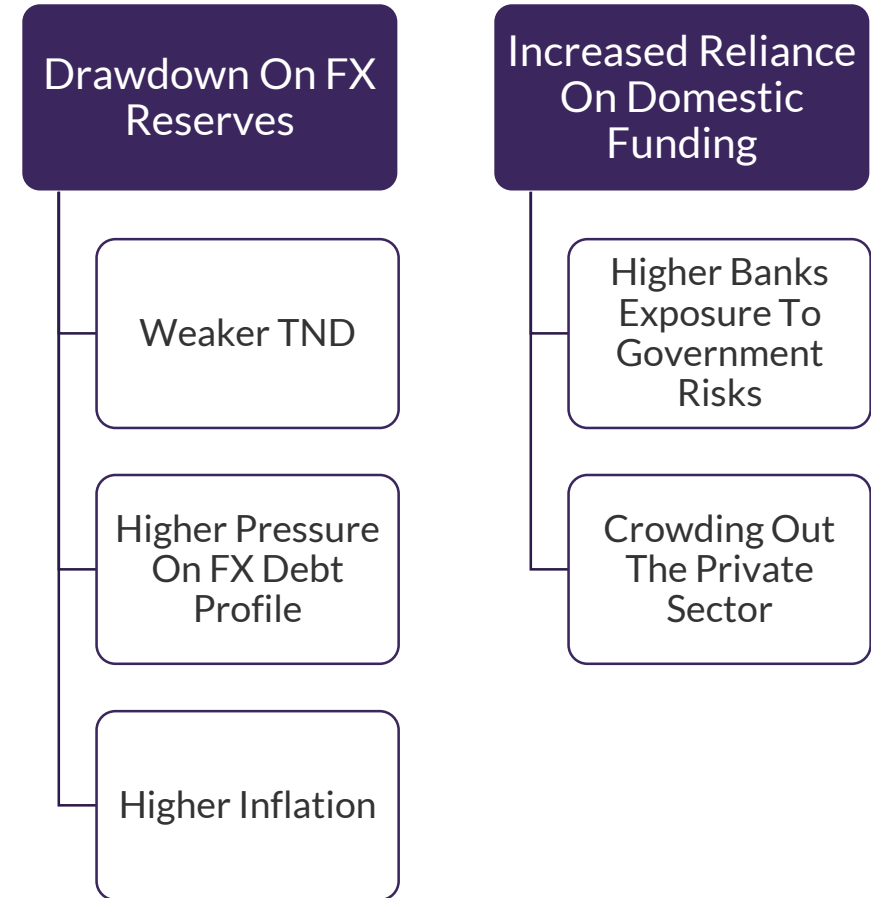
f = BMI forecast. Source: National sources, BMI

Tunisia: Weaker 2024 Outlook On Lower Chances Of IMF Deal

Heavy Payment Schedule And Constrained Access To Funding... ...Will Weigh On Macroeconomic Profile
 Tunisia – Upcoming FX Debt Payments, USDmn Tunisia – Economic Implications



Source: Bloomberg, BMI

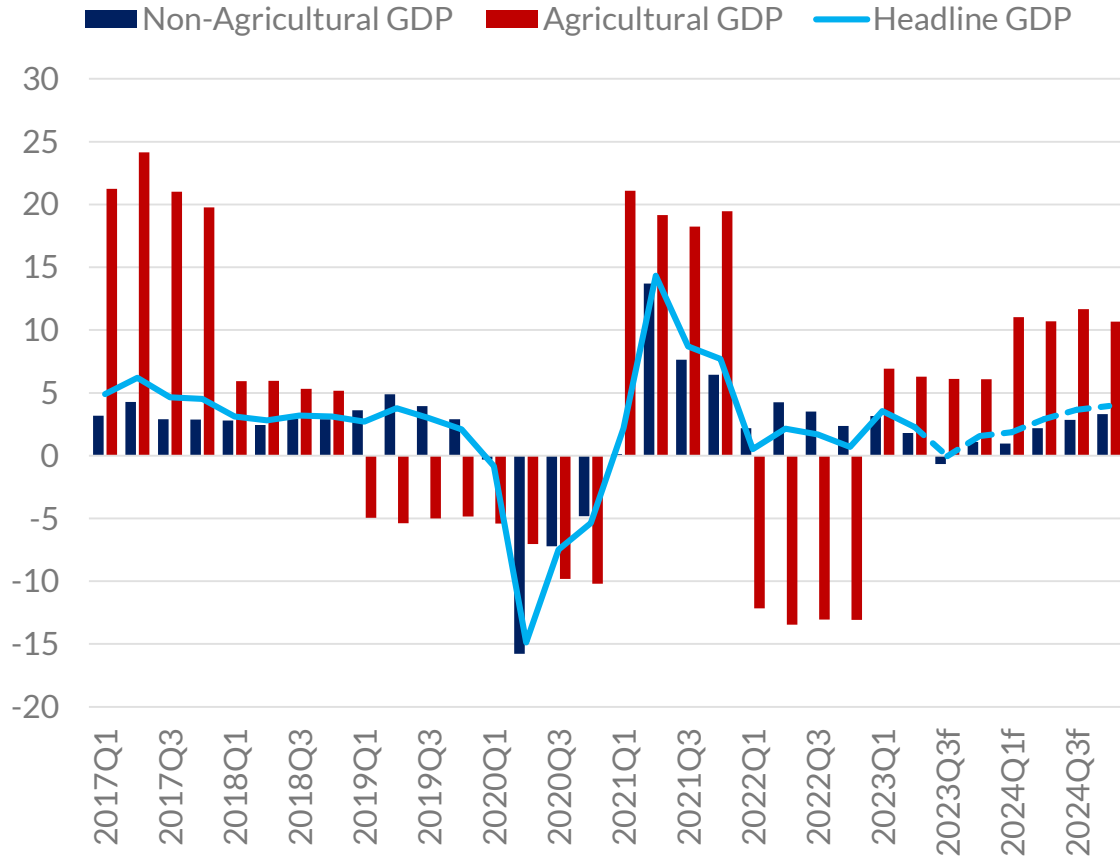


Source: BMI

Morocco: Post-Earthquake Reconstruction Will Support 2024 Growth

Morocco's Growth Will Accelerate In 2024...

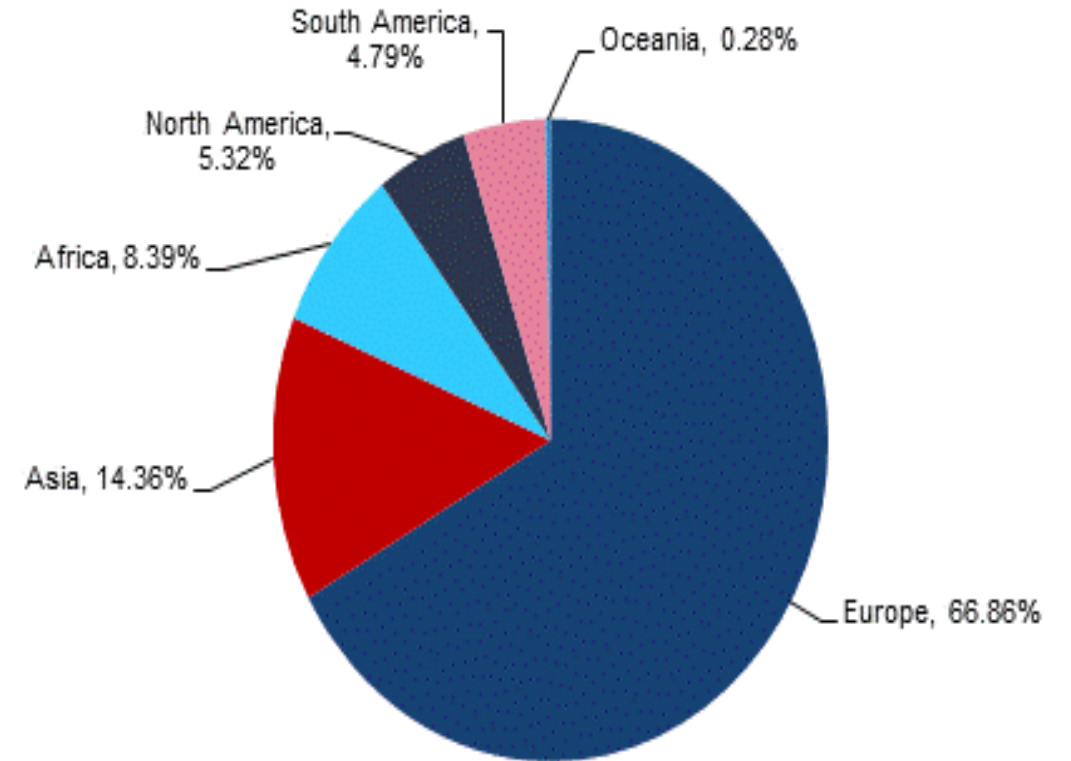
Morocco - Quarterly GDP Growth, % y-o-y



f = BMI forecast. Source: HCP, BMI

...But Slowing Growth In Europe Still A Major Headwind

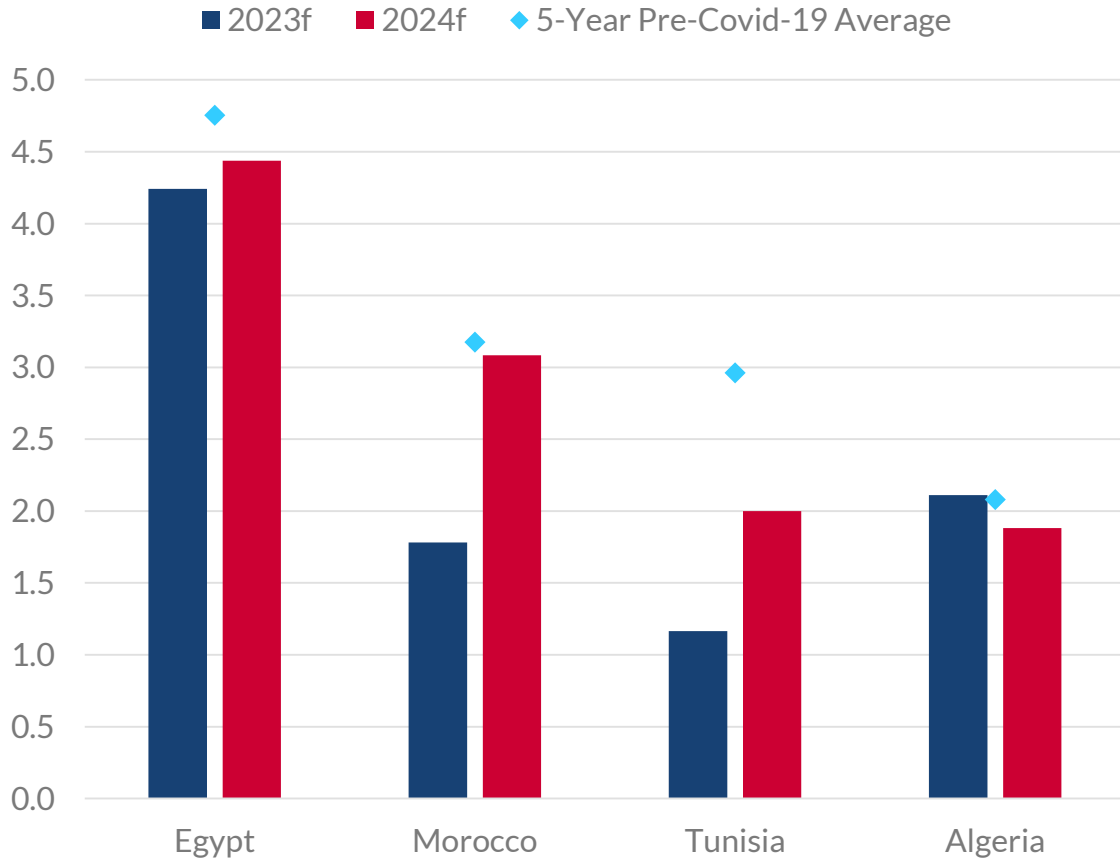
Morocco - Export Destinations, % (2020)



f = BMI forecast. Source: National sources, BMI

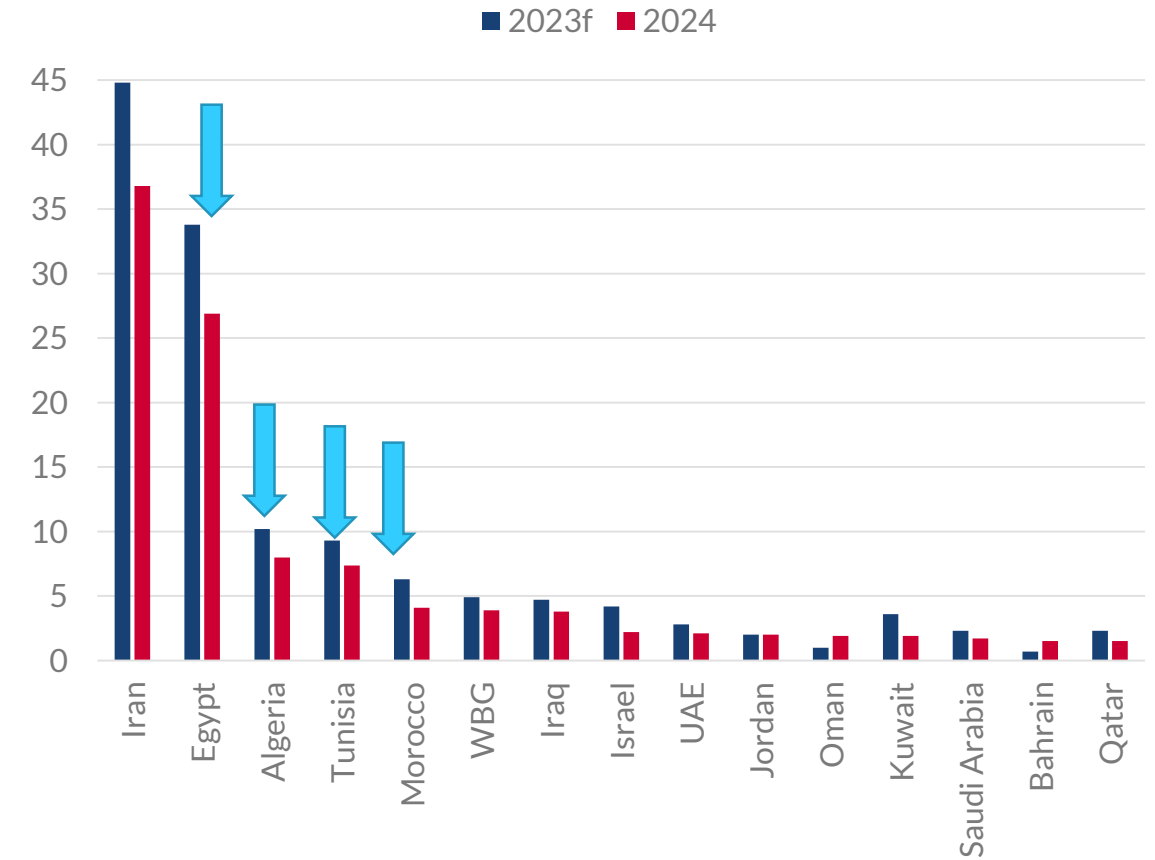
Below-Trend Growth In North Africa Despite Accelerating

Faster Growth Masks Underlying Challenges
North Africa – Real GDP Growth, %



f = BMI forecast. Source: National sources, BMI

North Africa Set For Highest Inflation Rates In MENA
MENA – Inflation, %



f = BMI forecast. Source: National sources, BMI

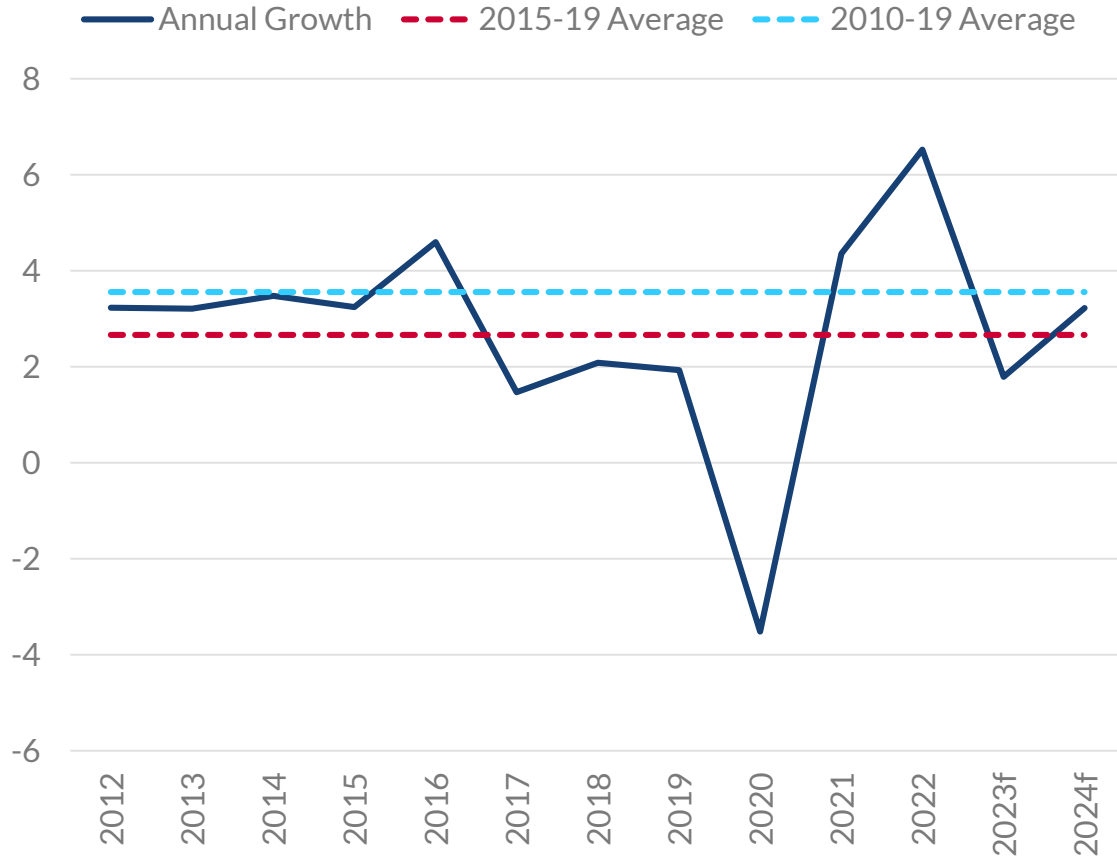


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MENA & Risks

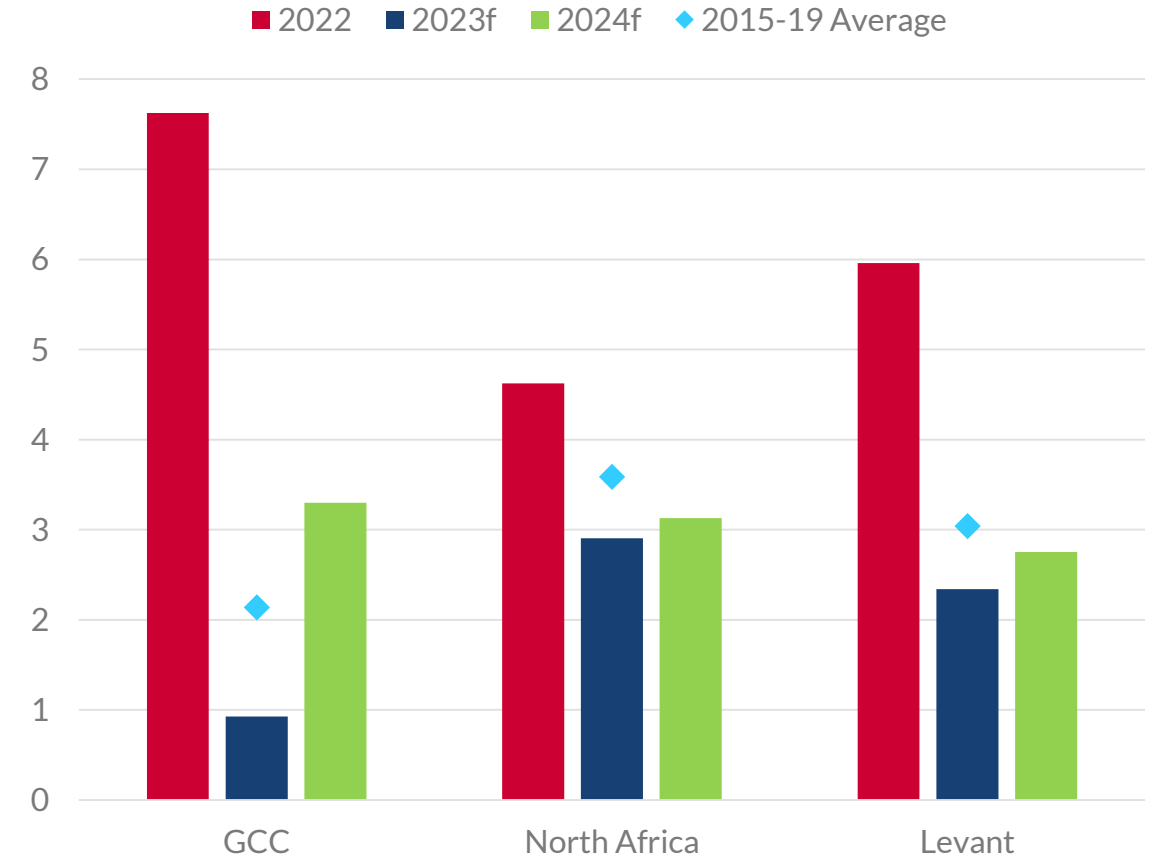
MENA Growth Will Rebound In 2024

Pick-Up In Growth In 2024
MENA - Real GDP Growth, %



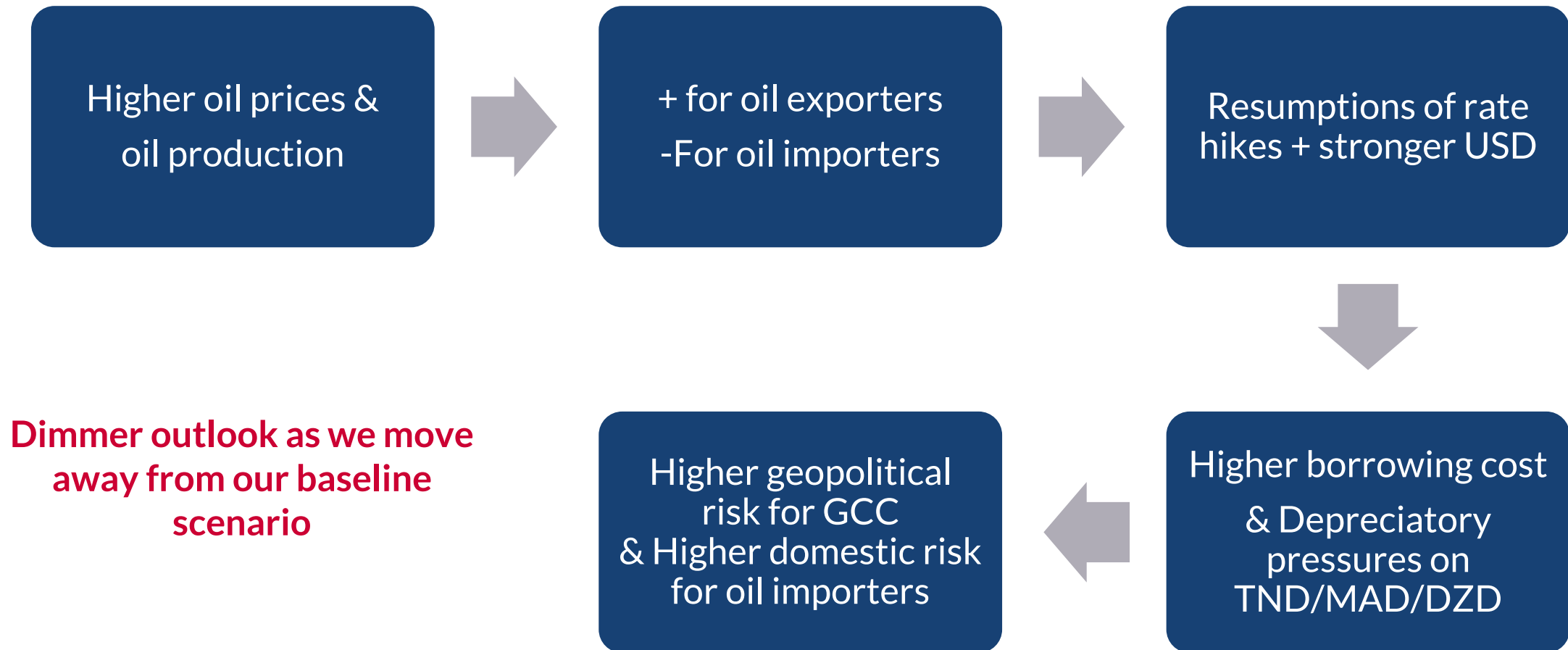
f = BMI Forecast. Source: National sources, BMI

GCC Regaining Its Lead In 2024
MENA - Real GDP Growth, %



f = BMI Forecast. Source: National sources, BMI

Web Of Risks Facing MENA





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Q&A



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New York

T +1 212 908 0800

usaclientservices@fitchsolutions.com

London

T +44 (0)20 3530 2400

emeaclientservices@fitchsolutions.com

Hong Kong

T +852 2263 9999

asiaclient.services@fitchsolutions.com

Tokyo

T +81 3 6897 8986

asiaclient.services@fitchsolutions.com

Singapore

T +65 6796 7231

asiaclient.services@fitchsolutions.com



[fitchsolutions.com / BMI](https://fitchsolutions.com/BMI)

New York
300 West 57th Street
38th floor
New York, NY
10019

London
30 North Colonnade
Canary Wharf
London, E14 5GN