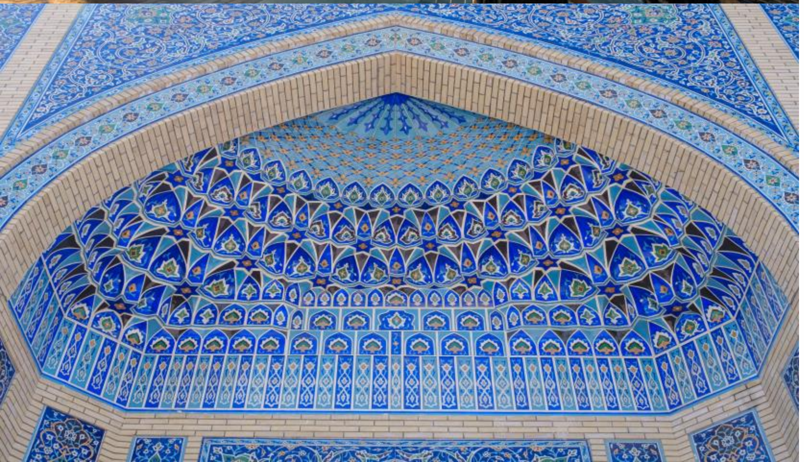

MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT

Regional Economic Outlook

Chapter 3: COVID-19 and the Corporate Outlook

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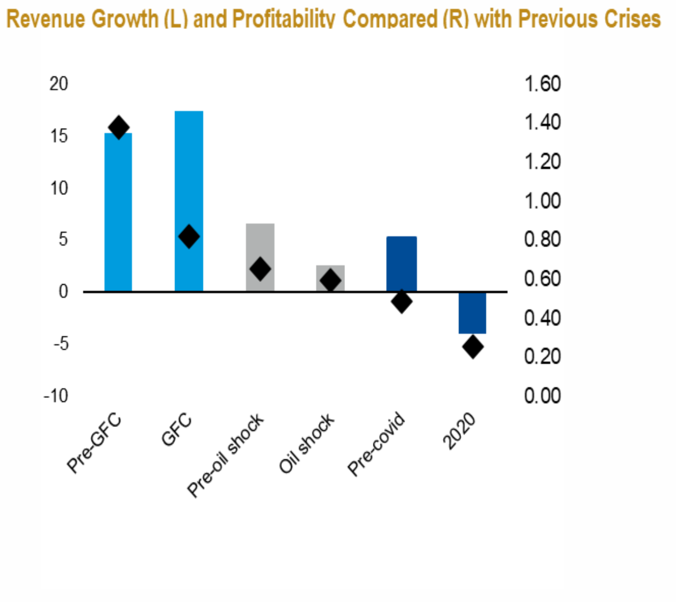
After a Sharp Hit, a Steady but Uneven Recovery is Emerging

An unprecedented crisis, with SMEs and high contact-intensity sectors bearing the brunt of the shock

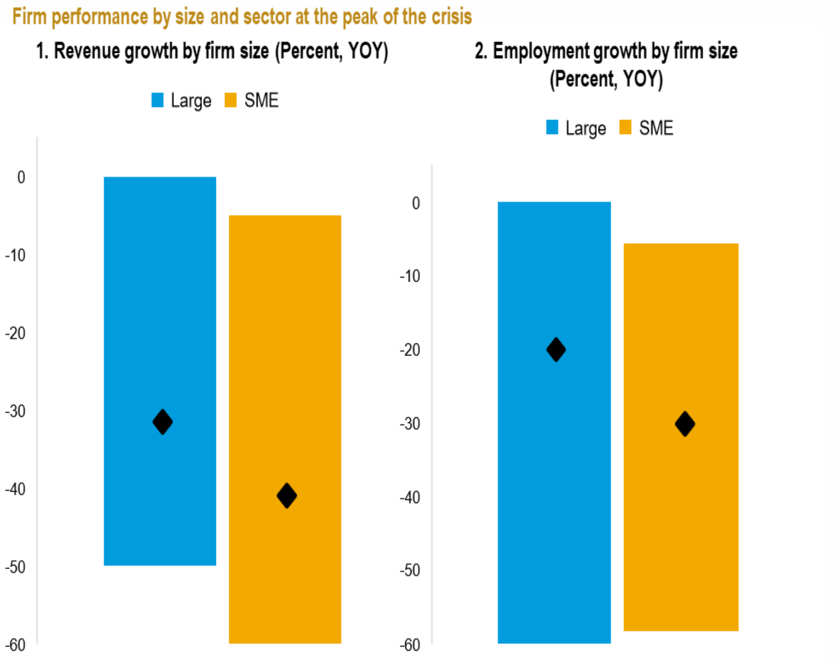
A sharp decline in revenues and profitability due to the pandemic shock

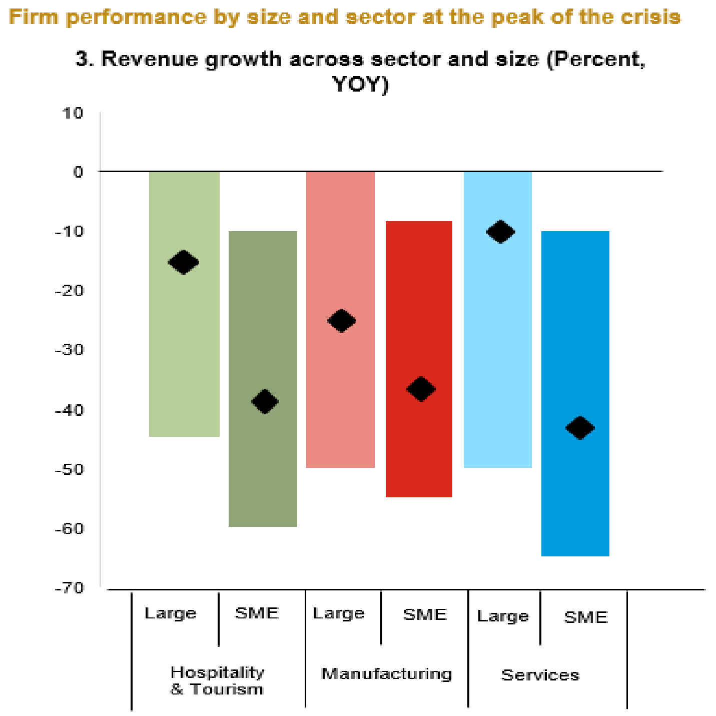
SMEs' revenues and jobs were hit harder …

… and particularly so in high contact-intensity sectors



Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculation.
Notes: Results are based on non-financial firms that released annual reports in 2020. Pre-crisis is defined as two years before each crisis episode and pre-COVID presents medians of 2018-19. Revenue growth is the y/y growth rate of quarterly sales. Return on assets is a hundred times the ratio of net income before extraordinary items over assets. Sample includes firms from Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tunisia, and United Arab Emirates.

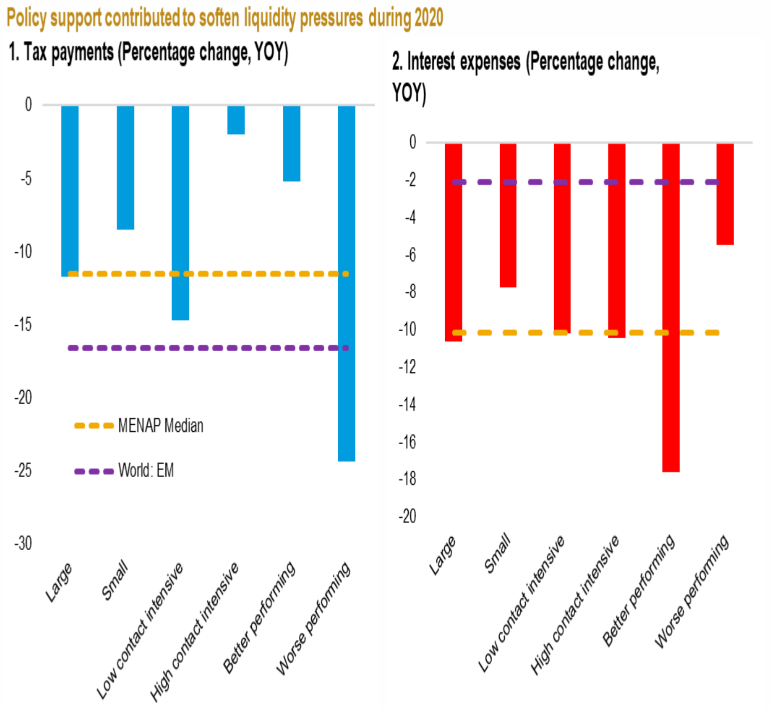




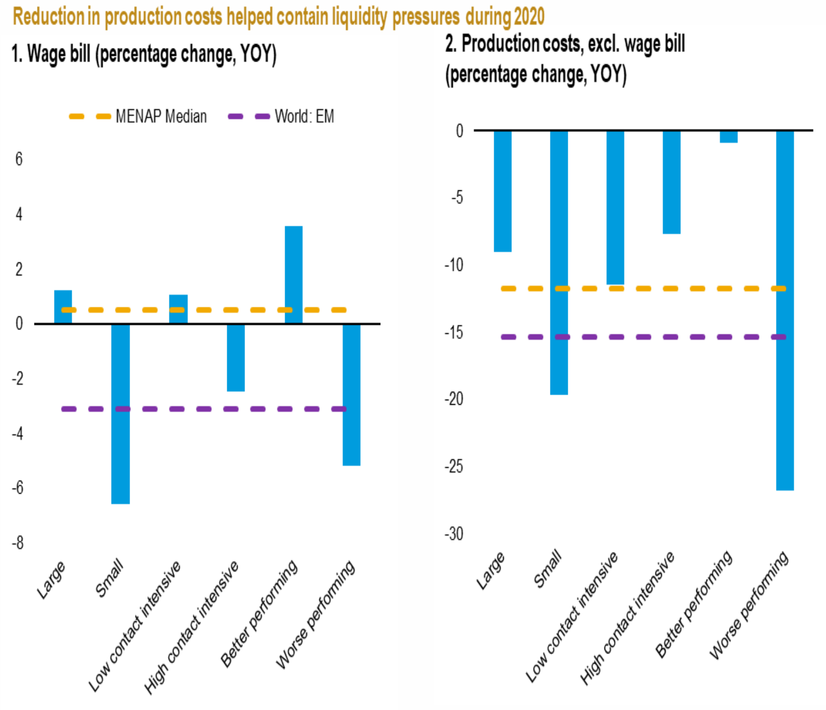
Sources: BEEPS ES COVID-19 Survey; and IMF staff calculations.
Note: Boxes represent interquartile ranges, and markers represent the median. Small and medium-sized enterprises (SMEs) employ fewer than 250 people while large enterprises employ 250 or more people. Employment growth is computed using the percentage difference between the number of full-time employees in 2019 and 2020. Revenue growth is estimated by the reported percentage drop in sales in 2020 compared to 2019. 2020 estimates were based on prevailing conditions at the peak of the pandemic, when most surveys were conducted.

Policy support, cost adjustments, and digitalization helped firms weather the shock

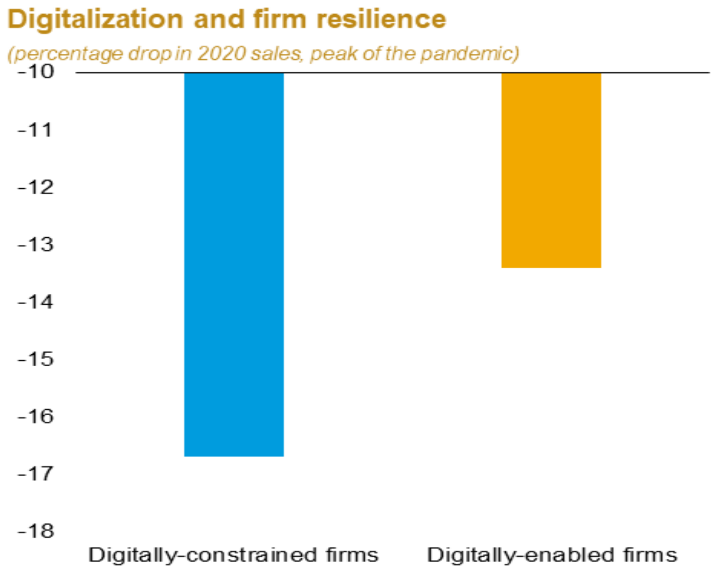
Macroeconomic policies alleviated some of the firms' liquidity pressures during 2020



Firms also adjusted their production costs…



…and those with better digital infrastructure fared better



Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculations.
Note: High contact-intensive sectors include services, retail, health, and transportation, while low contact-intensive ones comprise consumer durables and non-durables, manufacturing, chemicals, business equipment, telecommunication, and utilities. Firms are ranked by their pre-pandemic performance on the basis of their average profitability in 2018-19 (bottom and top quartile of the 2018-19 profitability distribution). Small (large) firms are defined as those with total assets below (above) the median country total assets in 2019. Tax payment data comes from the cash-flow statement, and thus reflects tax payment in 2020 from liabilities accrued based on 2019 operations.

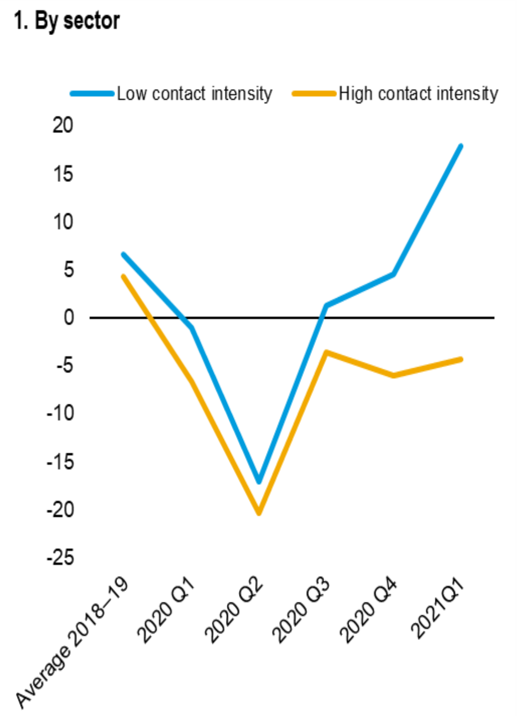
Source: Abidi, El-Herradi, and Sakha (2021), IMF Working Paper, forthcoming.
Note: The sample includes Armenia, Azerbaijan, Egypt, Georgia, Jordan, Kazakhstan, Kyrgyz Republic, Lebanon, Morocco, Tajikistan, Tunisia, Uzbekistan and West Bank and Gaza. The empirical analysis is based on 2019-20 data. A firm is classified as digitally-enabled if it had a website and adopted a foreign technology before the pandemic. A foreign technology is included as a proxy of the quality of digitalization (for example, the existence of payments system) and firms' commitment to technology adoption (digital diffusion). The digital index used in the regression analysis is built based on Principal Component Analysis. The regression analysis controls for firm-specific variables, including firm age and size.

An uneven recovery is emerging, but pockets of vulnerabilities remain...

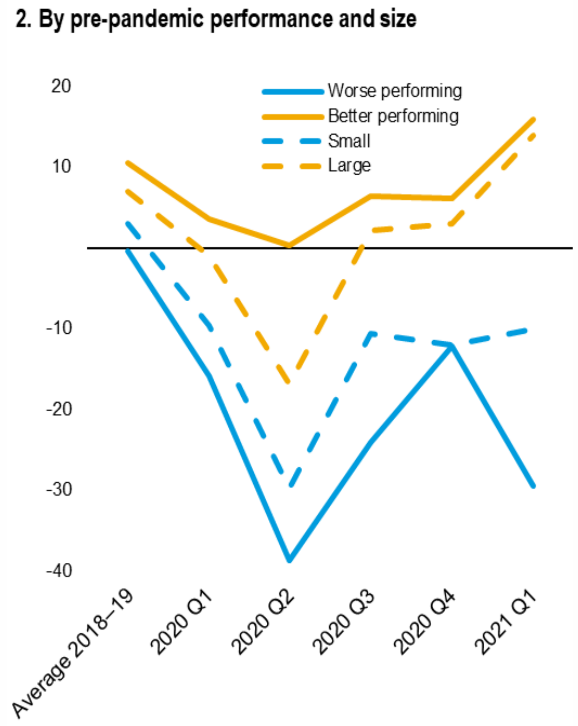
While revenue growth has recovered in LCI sectors, it is still below pre-pandemic levels in HCI sectors

Small firms and those with poor pre-pandemic performance are still lagging behind

Revenue growth performance across groups of firms (Percent, YOY)



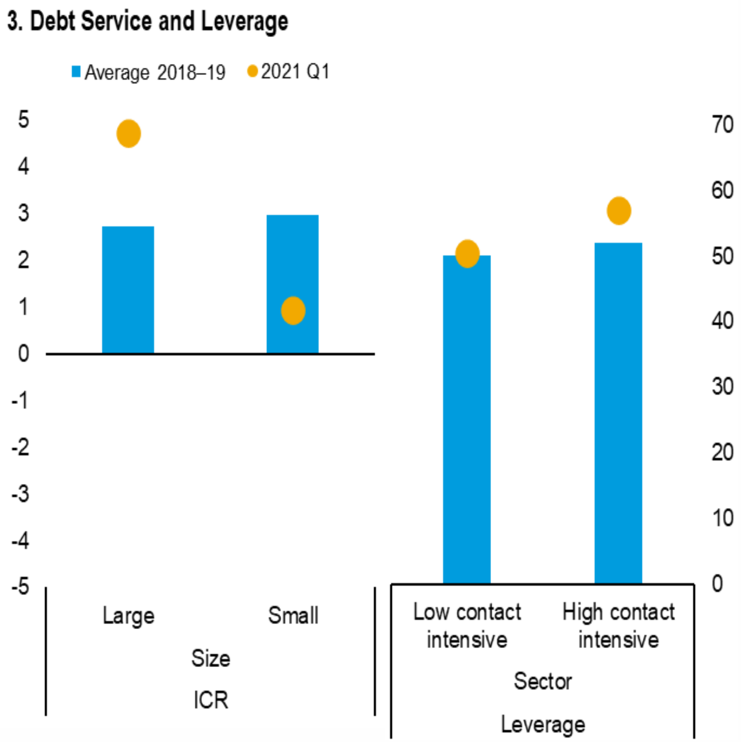
Revenue growth performance across groups of firms (Percent, YOY)



Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculations.
Note: EMs = emerging market economies. High contact-intensive sectors include services, retail, health, and transportation, while low contact-intensive ones comprise consumer durables and non-durables, manufacturing, chemicals, business equipment, telecommunication, and utilities. Firms are ranked by their pre-pandemic performance on the basis of their average profitability in 2018-19 (bottom and top quartile of the 2018-19 profitability distribution).

Vulnerabilities have built up in small firms and HCI sectors

Pockets of vulnerabilities across group of firms (percent)



Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculations.
Note: ICR = interest coverage ratio, earnings before interest and tax over interest expense; Leverage = Total Debt as a share of Assets. Pre-pandemic performance (worst/best performing firms) are computed based on the bottom and top quartile of the 2018-19 profitability distribution. High contact-intensive sectors include services, retail, health, and transportation, while low contact-intensive ones comprise consumer durables and non-durables, manufacturing, chemicals, business equipment, telecommunication, and utilities. Small (large) firms are defined as those with total assets below (above) the median country total assets in 2019.

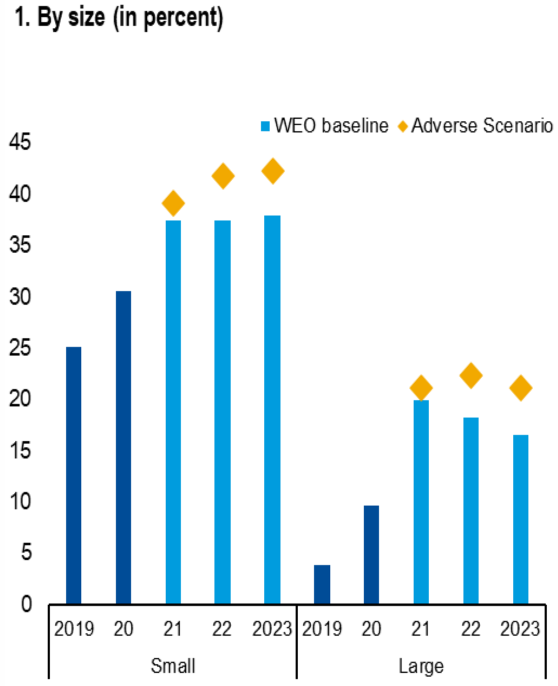
Assessing liquidity, solvency and viability risks over the medium term

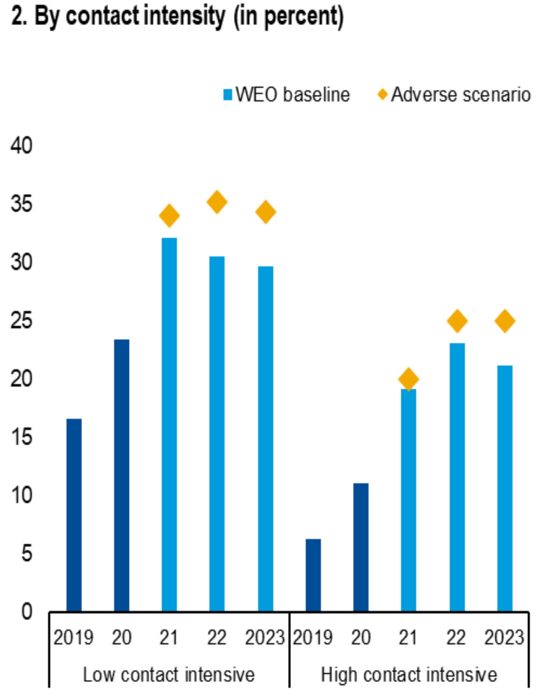
Liquidity stress is projected to remain elevated over the medium term, putting a significant amount of debt at risk of default

The share of small firms facing liquidity shortages would rise from 25% pre-pandemic to, respectively, 37% and 42% under the baseline and adverse scenarios in 2023.

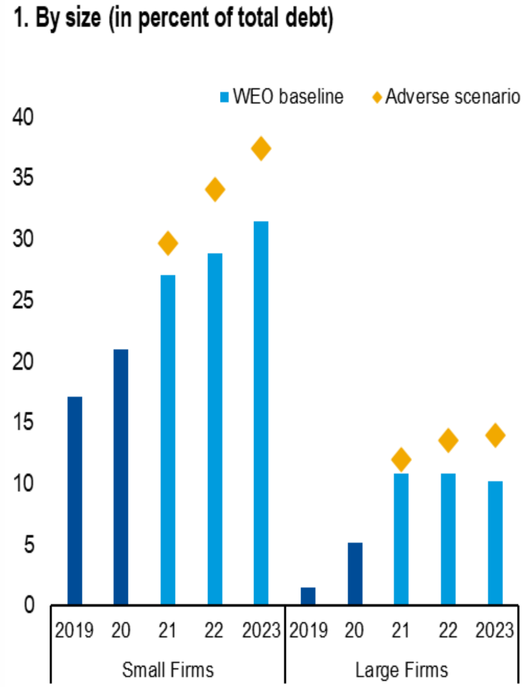
By 2023, 31% (baseline) and 37% (adverse scenario) of small firms' total debt would be at risk of default.

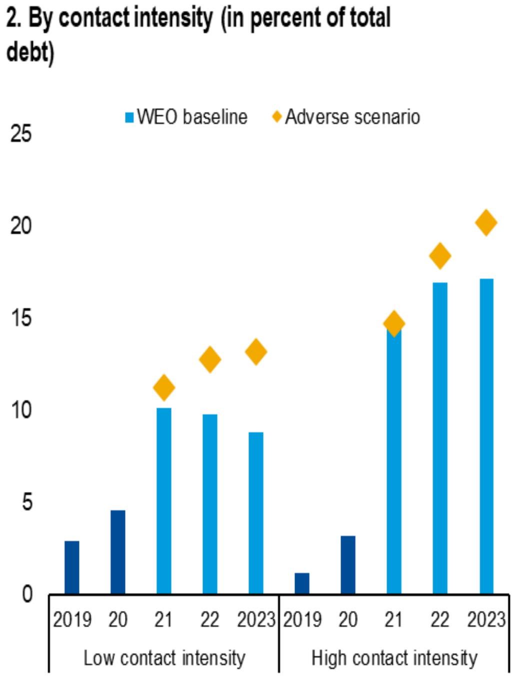
Firm at Risk: share of firms facing liquidity needs (with cash balances below zero)





Debt at Risk: share of debt held by firms facing liquidity problems



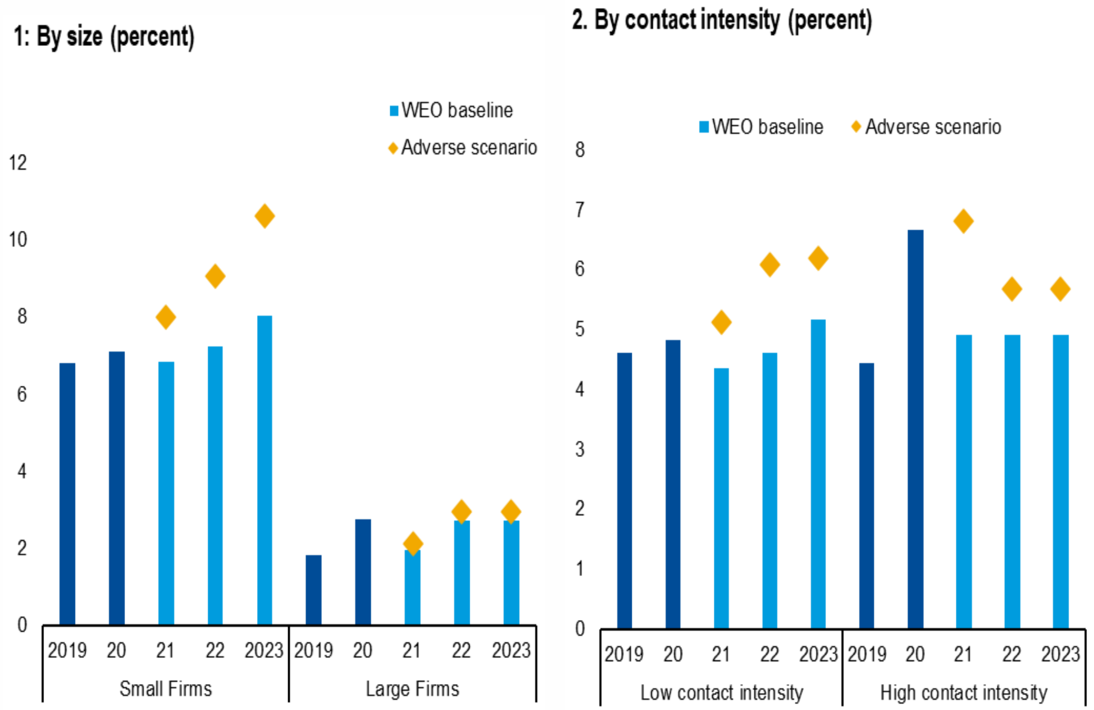


Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculations.
Note: Small (large) firms are defined as those with total assets below (above) the median country total assets in 2019. High contact-intensive sectors include services, retail, health, and transportation, while low contact-intensive ones comprise consumer durables and non-durables, manufacturing, chemicals, business equipment, telecommunication, and utilities.

Solvency concerns remain contained, but a notable share of firms may need either restructuring or liquidation

Small firms' insolvency risk would be only exacerbated under adverse conditions

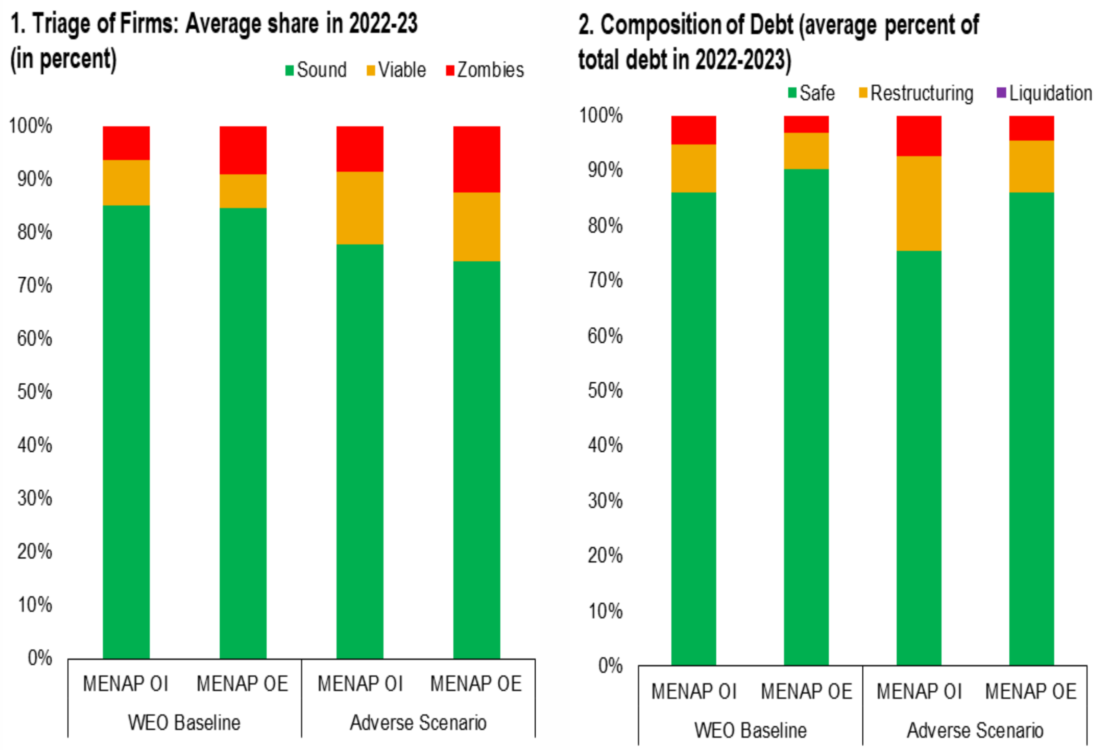
Firm at Risk: share of firms facing solvency problems (with equity below zero)



Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculations.
Note: Small (large) firms are defined as those with total assets below (above) the median country total assets in 2019. High contact-intensive sectors include services, retail, health, and transportation, while low contact-intensive ones comprise consumer durables and non-durables, manufacturing, chemicals, business equipment, telecommunication, and utilities.

15-25 percent of firms would potentially need to be restructured or liquidated

Assessing firm's viability



Sources: Compustat; S&P Global Market Intelligence; and IMF staff calculations.

Policymakers should remain nimble in dealing with immediate risks while laying the groundwork for a resource reallocation to viable firms and sectors

Targeted policy support to distressed but viable firms

Large firms with access to capital markets should be encouraged to raise equity

Insolvent but viable SMEs, as first resort, should rely on their owners for recapitalization

Equity injections by governments where fiscal space is available

Safeguards that ensure transparency, accountability, and good governance

Accelerate investments in digital Infrastructure

Reform insolvency regimes

Reform SOEs' governance and fiscal risk management

Thank you!