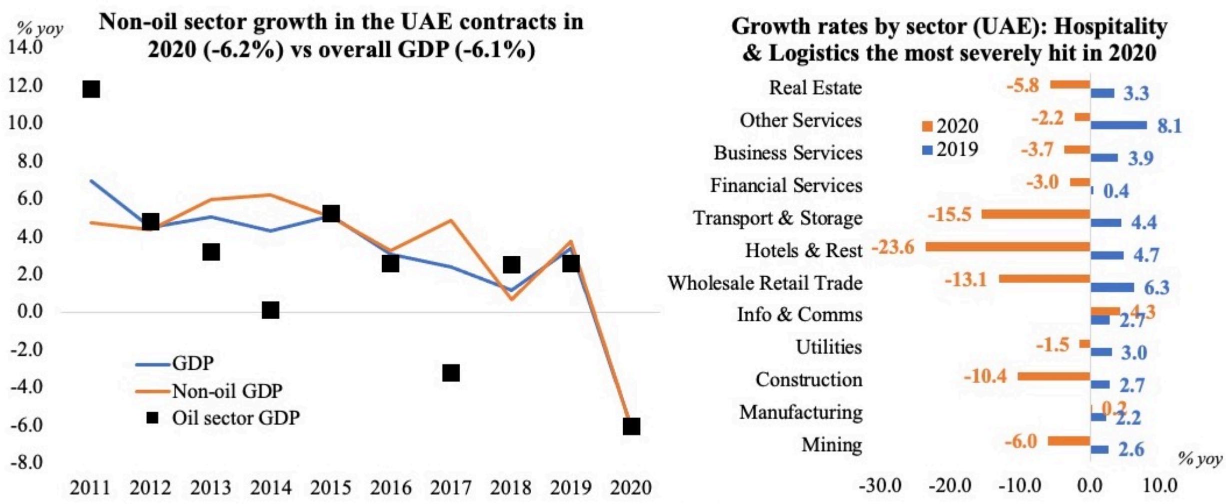
Weekly Insights 1 Jul 2021: State of the UAE & Saudi Arabia economies

State of the UAE & Saudi Arabia economies: a peek into the latest macroeconomic data

(GDP, Fiscal, Money & Credit, Labour Market, Trade, Inflation)

1. UAE's GDP declined by 6.1% in 2020; hospitality and logistics were the worst affected sectors



Source: UAE Federal Competitiveness & Statistics Authority. Charts by Nasser Saidi & Associates

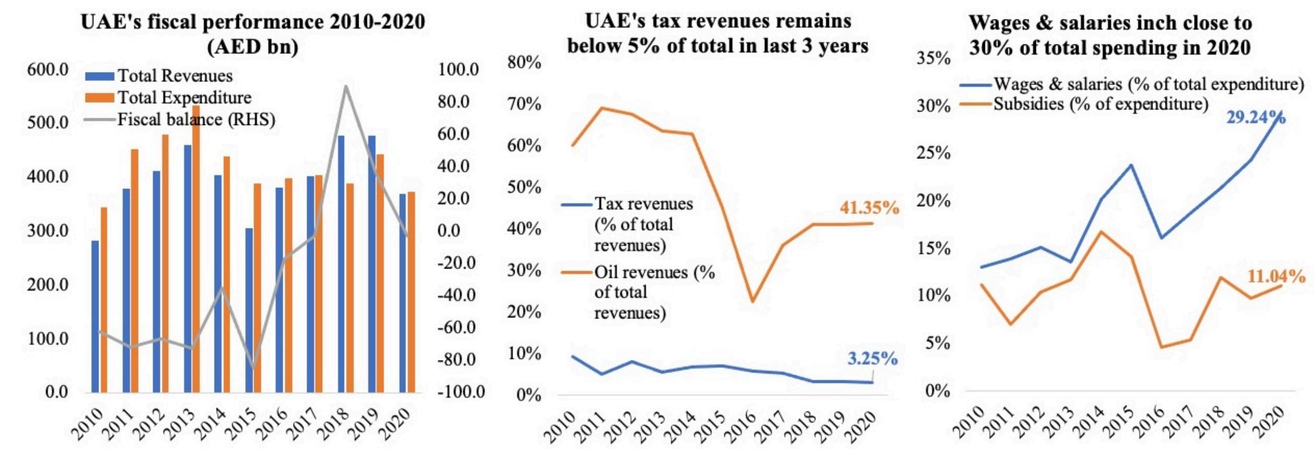
- The **UAE's GDP declined by 6.1% in 2020**, according to the FCSA, down from an upwardly revised 3.4% growth in 2019. The **slump was driven by both oil and non-oil sector**, which fell by 6% & 6.2% respectively.
- While the **share of oil sector to overall GDP remained unchanged at 29.1%**, the sectors that posted a slight increase in overall contribution to GDP include manufacturing (8.8% in 2020 from 2019's 8.3%), communication (3.3% vs 2.9%), finance and insurance

(8.2% from 7.9%) and public sector (5.6% from 5.2%).

- Only a few sectors posted positive growth in 2020; unsurprisingly, the **most negatively affected were hospitality** (-23.6%), **transportation** (-15.5%) **and trade** (-13.1%).

2. UAE fiscal balance moves into deficit in 2020, following two years of surplus

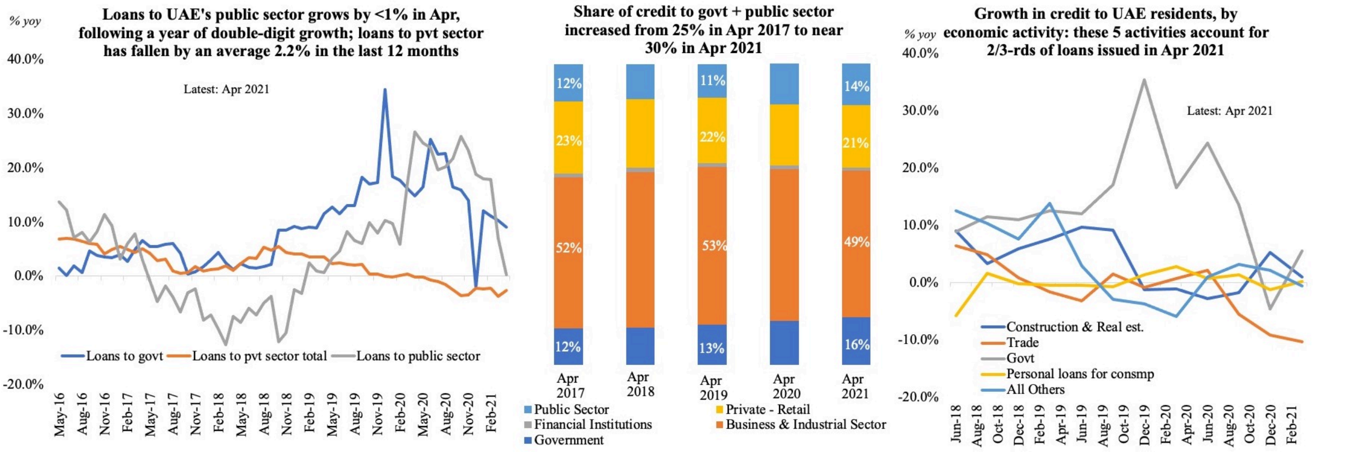
- **Both public revenues and expenditures in the UAE declined in 2020**, by 22.7% yoy and 15.8% respectively, thereby moving the balance into a deficit of AED 3.04bn. Oil revenues fell by 22.4% yoy
- **Oil revenues accounted for 41.35% of overall revenues and 42.7% of non-tax revenues in 2020**. Though total tax revenues fell by 22.4% yoy in 2020, its share in total revenues continued to be ~3.25% (similar to 2018 & 2019)
- **Wages and salaries continue to represent about 30% of total spending in 2020** but in yoy terms, it declined by 16.7%. Subsidies also fell by 5% yoy, but account for 11% of overall spending
- **Fiscal consolidation should be major policy reform for the UAE in the medium- to long-term to reduce dependence on oil & gas revenue**. Subsidy reform and reducing public sector wage bills could be reforms on the spending side while new/ higher taxes can support revenues (e.g. carbon tax, property tax)



Source: UAE Federal Competitiveness & Statistics Authority. Charts by Nasser Saidi & Associates

3. Credit to UAE's private sector continues to decline in 2021; activity-wise differences exist

- **Overall domestic credit disbursed in UAE fell by 0.6% yoy in Apr 2021** though rebounding by a marginal 0.52% mom (Mar: -0.9% mom)
- **April marks the 13th consecutive month of yoy decline in credit to the private sector and 10th consecutive month of yoy decline in lending to the business sector.** Loans to the public sector (which includes government-related enterprises) broke the pattern by ticking up just 0.2% in Apr (Mar: 7.0% and following 12 months of double-digit growth)
- A breakdown of lending by economic activity shows that the **major shares with respect to credit by economic activity remain largely unchanged**: construction (20.5%), personal loans for consumption (20.4%), government (15%), others (9%) and trade (8.7%) together accounted for 65% of total loans. Sectors with **continuous growth** for 4 quarters (from Jun 2020) include transport (average 46.7% yoy growth), agriculture (44%) and utilities (29%).



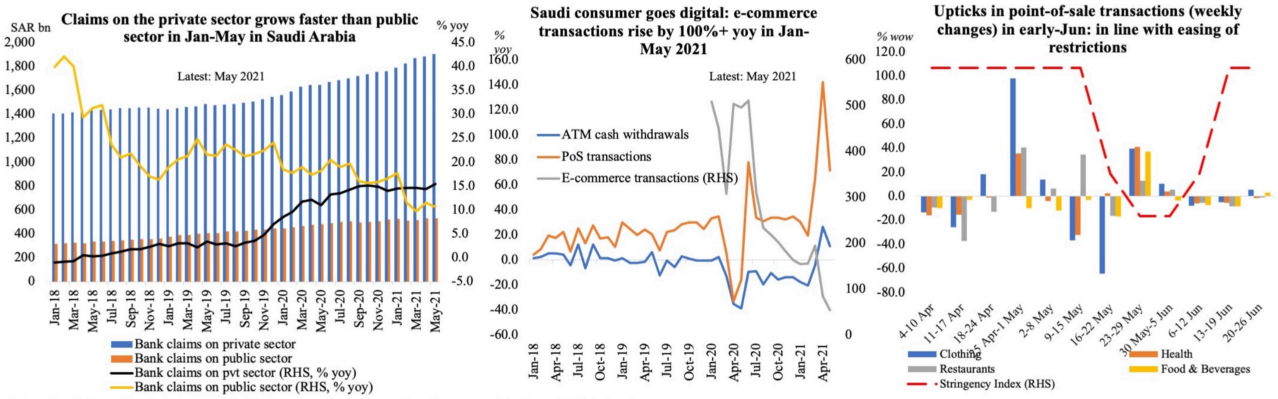
Source: UAE Central Bank. Charts by Nasser Saidi & Associates.

4. Rising credit & changing consumer preference (away from cash) is the story in Saudi Arabia

- Data from the Saudi Central Bank shows **claims from the private sector outpacing public sector loans** in May 2021

– as seen in most months this year

- A **continued preference for PoS/ e-commerce transactions from a previously preferred "cash is king" position.** ATM transactions have dropped by 0.7% in the Jan-May period vs a 65.8% and 125.9% hike in PoS & e-commerce transactions
- **Weekly PoS transactions show an uptick in early Jun**: the distinct **rise in PoS transactions** in clothing, health, restaurants **coincides with when restrictions were eased** (tracked by the Oxford COVID-19 Government Response Tracker)

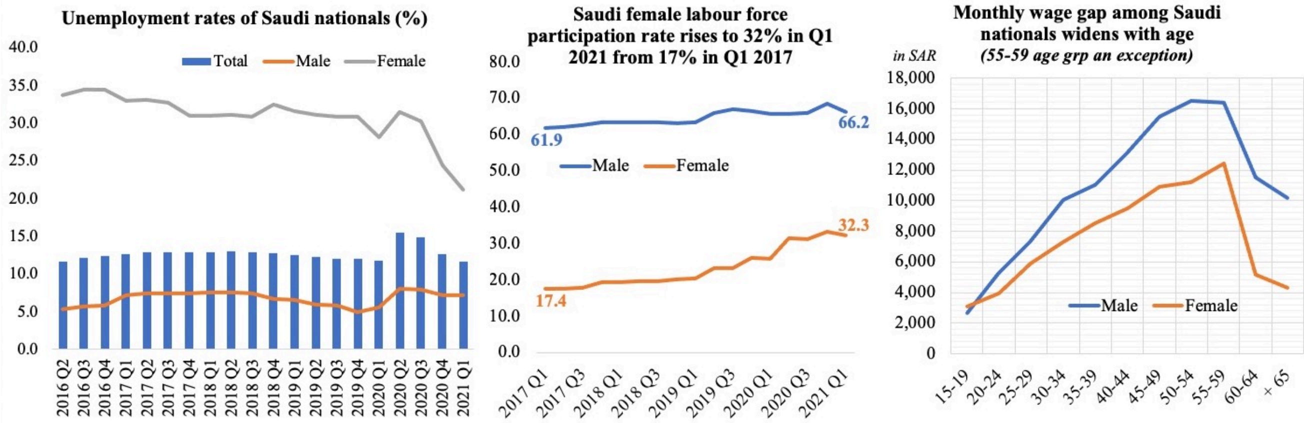


Source: Saudi Central Bank, Oxford COVID-19 Government Response Tracker. Charts created by Nasser Saidi & Associates

5. Unemployment rate among Saudi nationals (apecially females) dip to a 5 year-low in Q1 2021

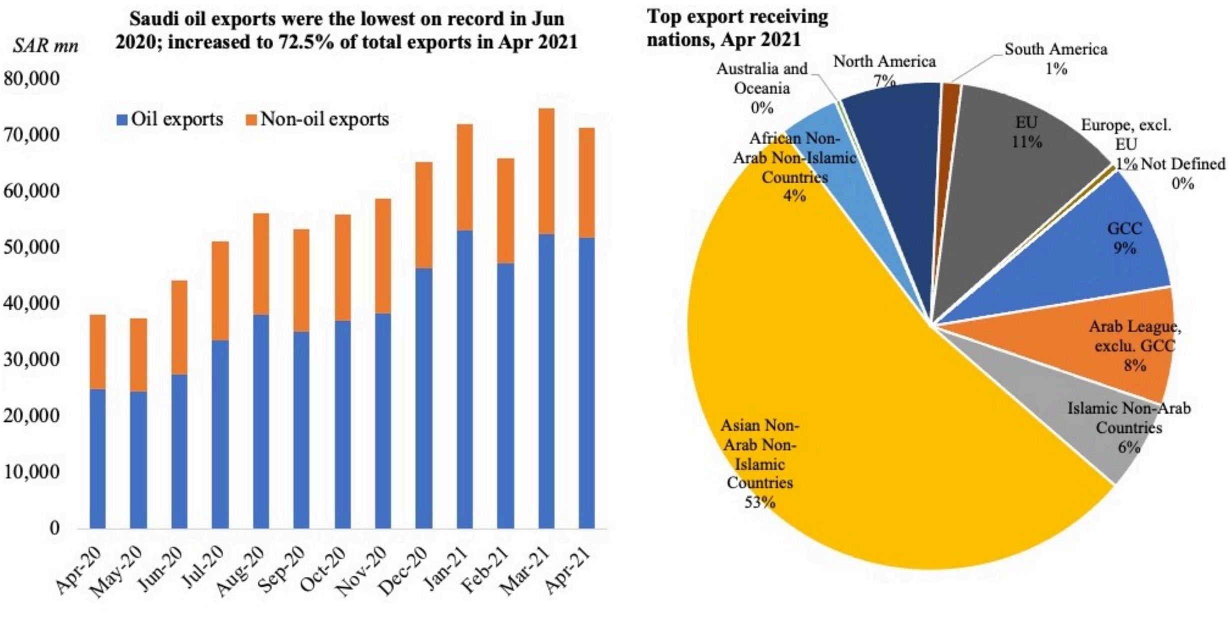
- **Overall unemployment rate among Saudi nationals fell to 11.7% in Q1 2021 – a 5-year low**; more dramatic was the **plunge in unemployment rate for Saudi females** – 21% in Q1 2021 vs a high 34% at end-2016. By age group, the rate remained highest among females within 25-29 & 20-24 age group (37.9% and 37% respectively).
- Meanwhile, **female participation in the workforce increased** from 19% in 2016 to 32.3% in Q1 2021. However, both male & female labour force participation rates declined slightly compared to Q4 2020. Though women are joining the workforce in large numbers, many of the job opportunities fall in the lower-paid sectors.
- Women earn slightly more than men in the 15-19 age group, but the **pay gap widens** after that. On average, in

Q1 2021, **a Saudi male employee is paid 1.3 times compared to a female national and at the oldest age bracket (65+) it stands at around 2.4 times!** The gap has narrowed however compared to previous years.



Source: Labour market survey Q1 2021, GaStat. Charts created by Nasser Saidi & Associates

6. Oil exports from Saudi Arabia increase to 72.5% of total exports in Apr; Exports to Asia account for more than half of total exports

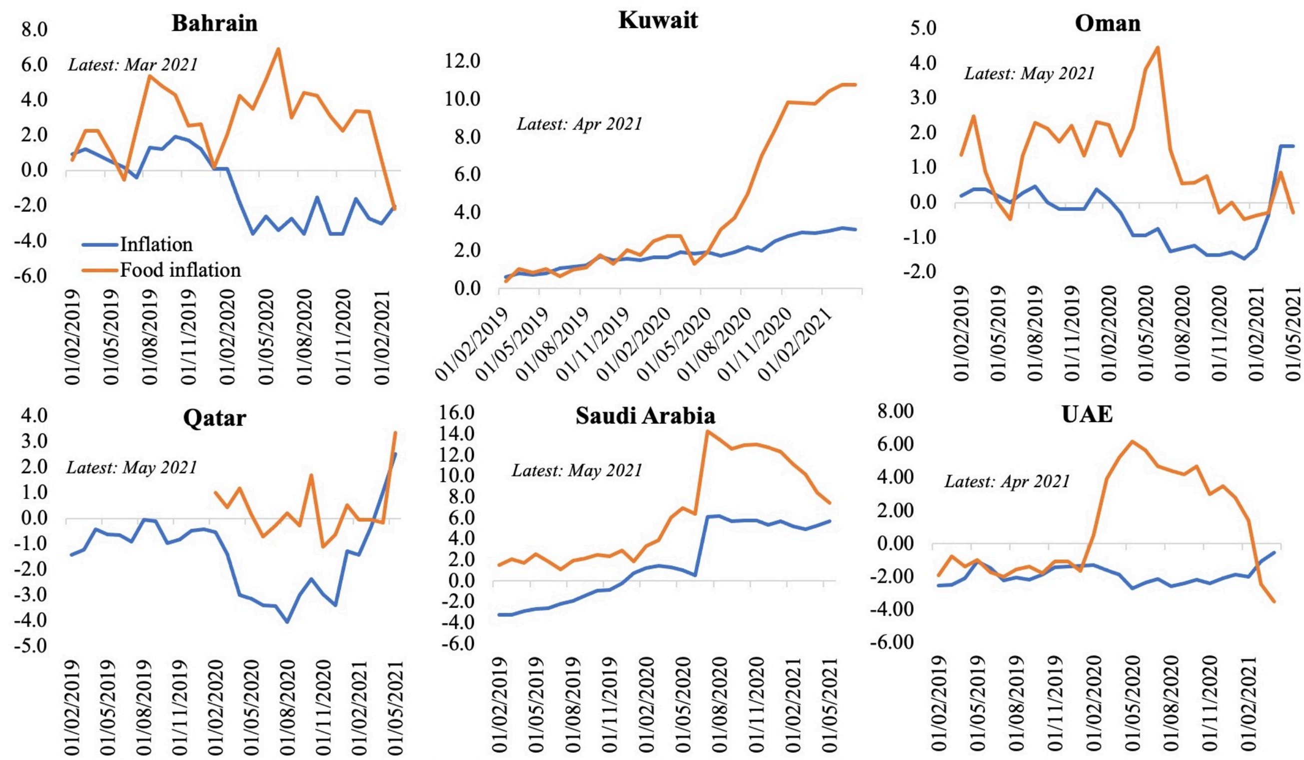


Source: GaStat, Nasser Saidi & Associates

- **Oil was trading at USD 75 a barrel yesterday (30 Jun)**, about 40% higher compared to the start of the year, after a report revealed lower US inventories for a 6th straight week. All eyes are on the **OPEC+ (set to meet today)**, who have already warned of “significant uncertainties” ahead: **a modest increase in production is likely** amid higher demand for oil (summer travel bookings, anecdotal evidence suggests, are picking up in US & Europe)

- **Oil exports are rising**, accounting for 72.5% of total exports in Apr 2021. The **top region for Saudi Arabia’s exports is still Asian nations, and much of the exports is oil.** Though many nations – India, Japan and Malaysia – continue to struggle with the pandemic, many others have relatively low levels of cases; as restrictions ease, demand will increase and oil exports will pick up faster.

7. GCC inflation (% yoy): Kuwait’s food inflation is running at 10%+; Saudi’s inflation is influenced by the VAT hike last year; May’s month-on-month readings have food inflation rising at a faster pace than headline



Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates

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