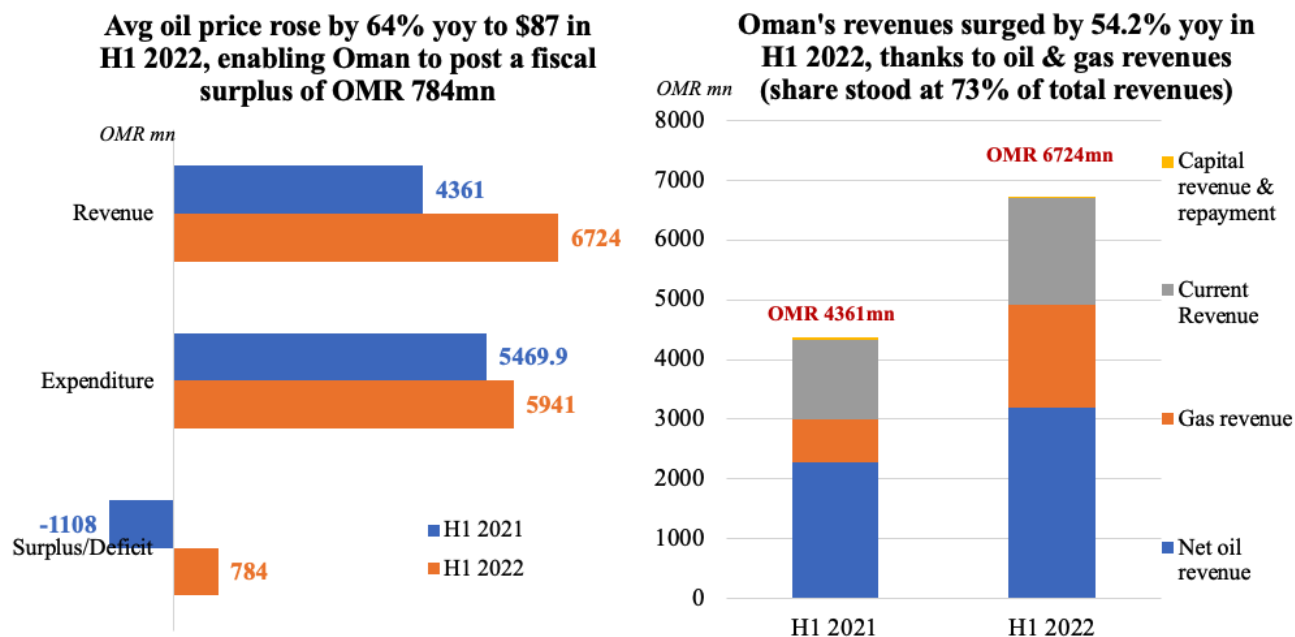


# Weekly Insights 12 Aug 2022: Big Shift – Oil exporters are shying away from procyclical fiscal policy

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## 1. Building credibility: despite uptick in oil revenues, Oman stays on track with fiscal consolidation

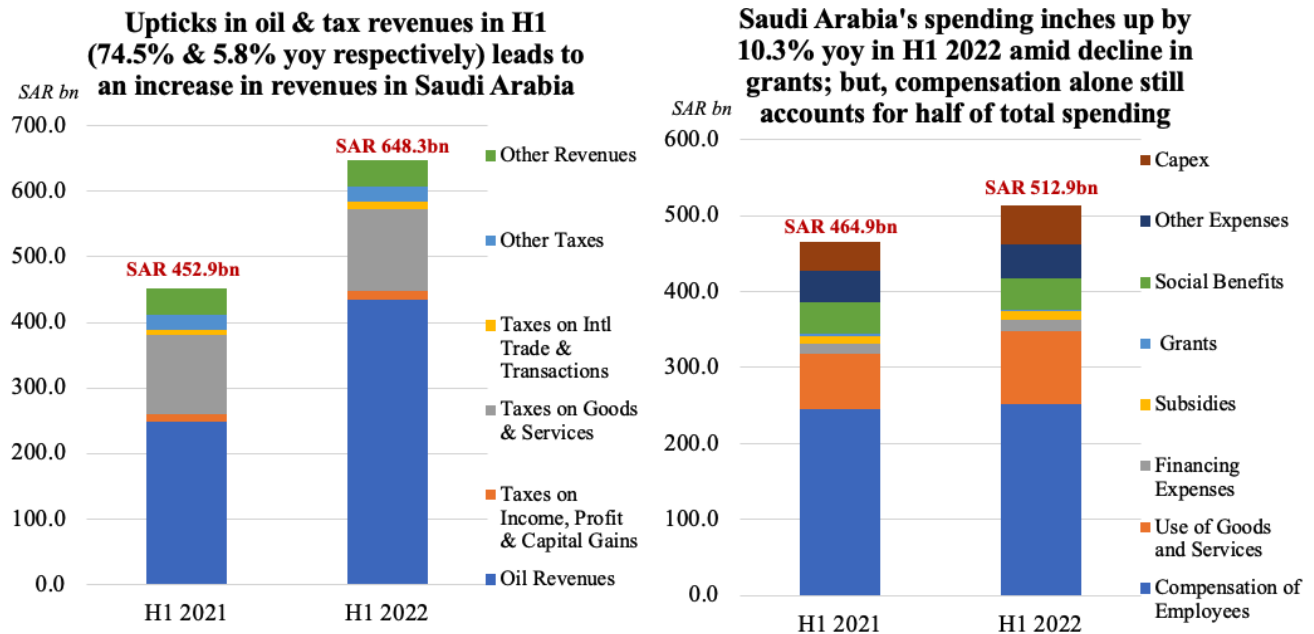
- **Despite rising oil prices, Oman has been avoiding procyclical fiscal policy;** consolidation measures continue to be implemented. In H1 2022, average oil price stood at USD 87 (way higher than the budget estimate of USD 50), enabling revenues to reach 64% of estimates for the full year
- **Dependence on oil & gas for overall revenues continues to be quite high,** with its share at 73% in H1. Net oil revenues grew by 40% yoy while gas revenues more than doubled to OMR 1.7bn in Q1
- **Spending increased by 8.6% in H1** (49% of estimates for full year); given inflationary pressures, **government subsidy** amounted to OMR 314mn (for oil products) and OMR 11mn (for basic food subsidy) as of end- H1
- **Public debt amounted to OMR 18.6bn at end-Jul, down from OMR 19.7bn at end-Apr, and OMR 20.8bn at end-2021**



Source: Oman's Ministry of Finance. Charts by Nasser Saidi & Associates

## 2. Saudi Arabia sticks to fiscal consolidation plans; oil windfall to support ambitious megaprojects

- **Saudi Arabia posted a budget surplus of SAR 77.9bn in Q2 2022**, aided by the acceleration in oil revenues. **Surplus stood at SAR 135.4bn in H1 2022 versus a deficit of SAR 12.1bn in H1 2021**
- **Oil revenues surged by 74.5% yoy to SAR 434.1bn in H1 2022**; this windfall is being **partially used to fund PIF & its megaprojects**
- **Taxes** accounted for 80% and 26% of non-oil & overall revenues in H1 2022. **Non-oil revenues have doubled to 12.8% of GDP over the past 4 years**
- Compensation of employees, which accounted for ~50% of overall spending in H1, inched up by just 2.2% yoy; **capex and subsidies ticked up by 38.0% and 19.9% respectively while grants almost halved to SAR 1.7bn**
- Despite the recently announced food subsidies and targeted social safety nets, **Saudi is expected to post a surplus of 5.6% of GDP in 2022 after 8 years of running deficits** (IMF, Jun 2022)

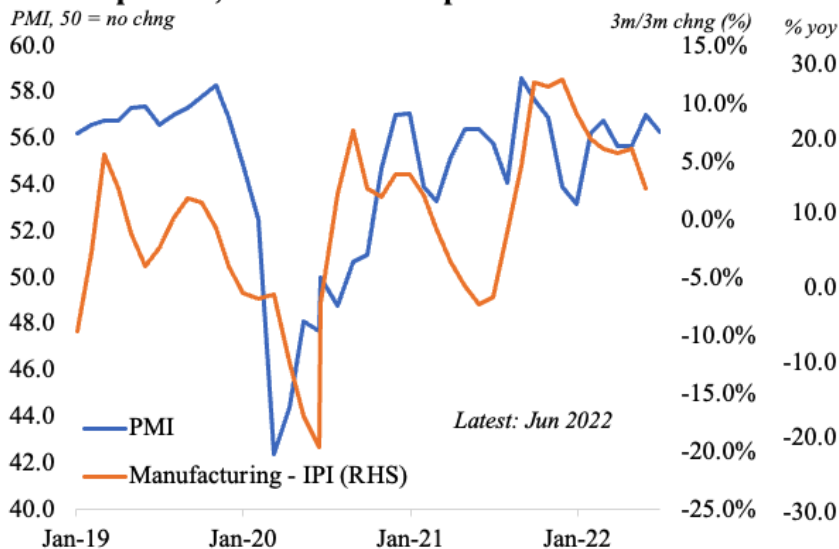


Source: Saudi Arabia's Ministry of Finance. Charts by Nasser Saidi & Associates

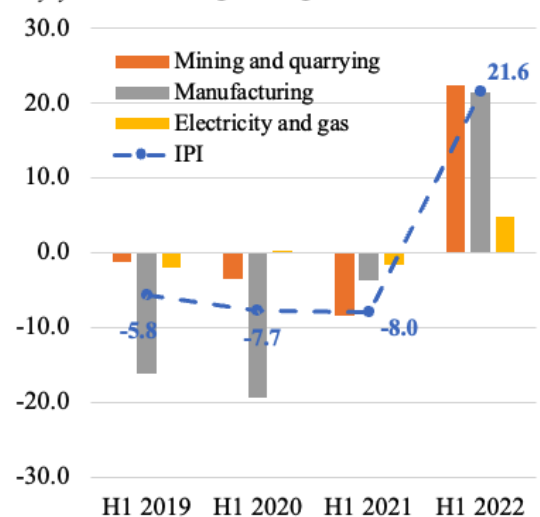
### 3. Saudi industrial production recovery supported by both manufacturing & mining

- **Industrial production in Saudi Arabia** recovered in H1 2022, after years of posting negative growth rates; in H1, mining & quarrying grew by an average 22.4% while manufacturing was close behind (21.5%)
- In Jun, when oil production rose to its highest level of 10mn+ barrels per day, the mining and quarrying component grew by 19.2% yoy;
- **As in the past few months, manufacturing grew at a faster pace in Jun (29.3% yoy) compared to mining and quarrying (19.2%).** Caveat: recent PMI data suggest some volatility in the period ahead.

### Manufacturing growth in Saudi Arabia turns positive, in line with the uptick in PMI



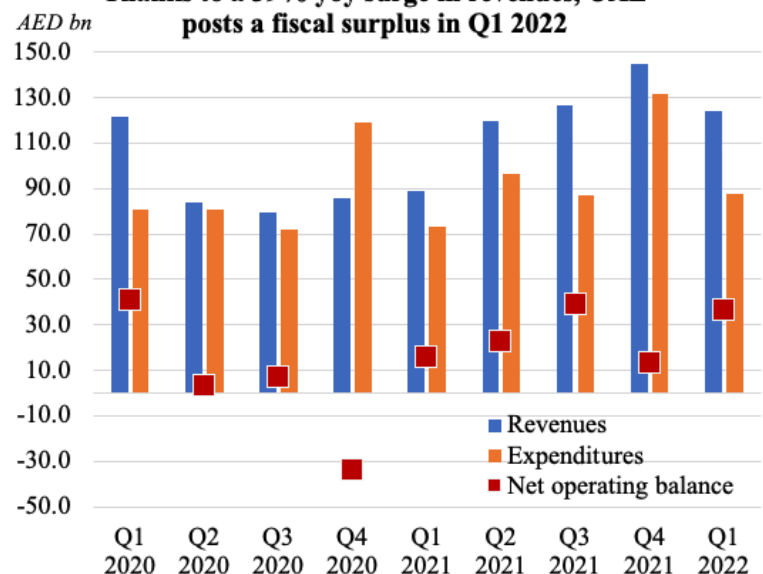
### Industrial production in Saudi Arabia recovers in H1 after years of negative growth rates



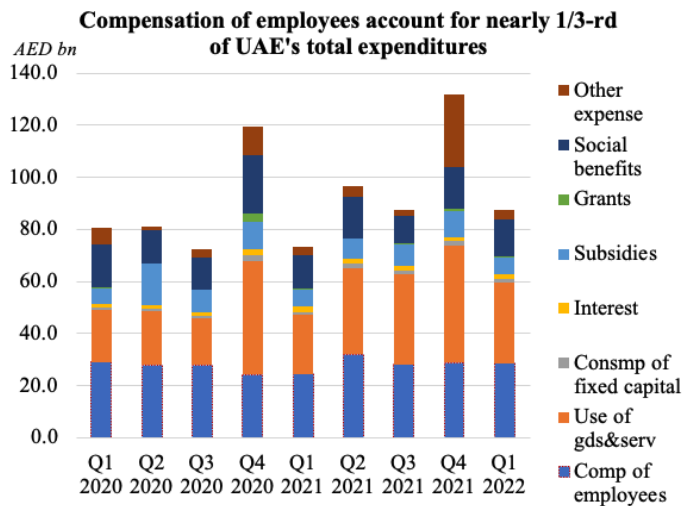
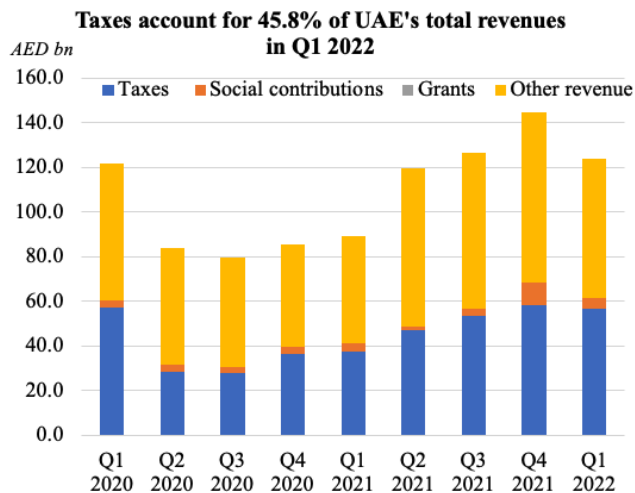
Source: IHS Markit, GaStat. Charts by Nasser Saidi & Associates

## 4. UAE posts Q1 Federal fiscal surplus

### Thanks to a 39% yoy surge in revenues, UAE posts a fiscal surplus in Q1 2022



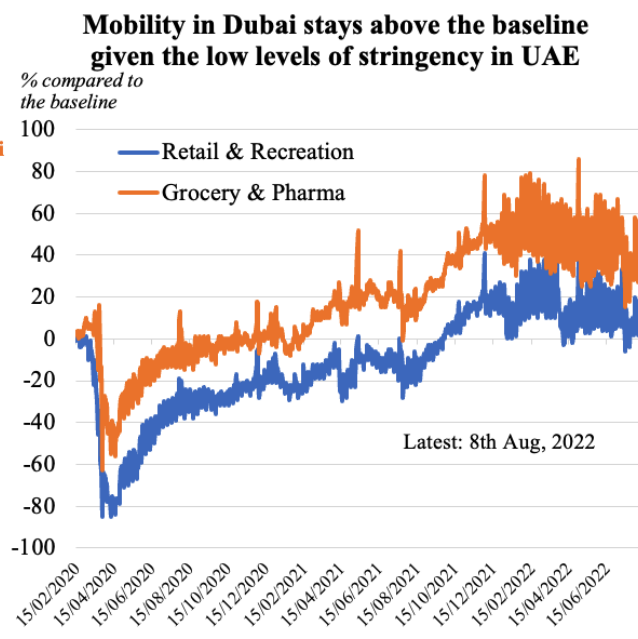
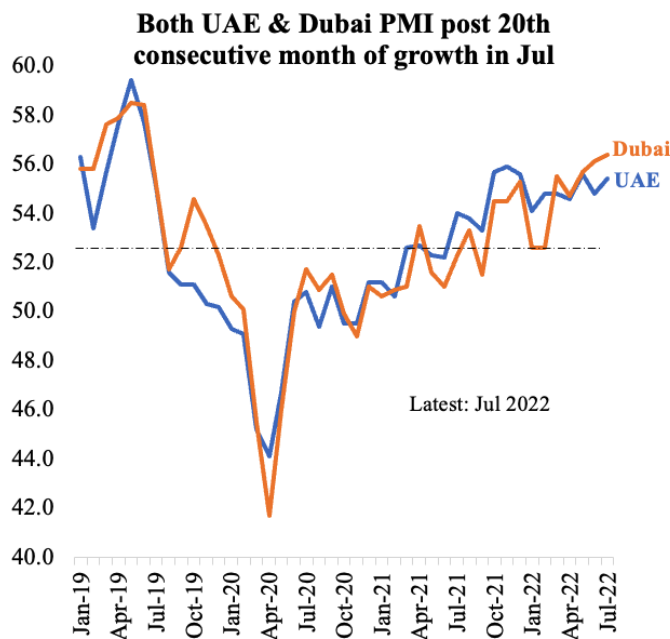
- **Federal revenues** grew by 39% yoy to AED 123.8bn and **spending** rose by 20% to AED 87.4bn => **net operating balance** surged by 129% to AED 36.4bn in Q1 2022
- **Tax revenues** grew by 51% to AED 56.7bn in Q1, but **accounted for only 45.8% of total revenues**. This is likely to tick up, once **corporate tax** is rolled out next year
- **Compensation of employees** (33% of overall expenditure) expanded by 17% while subsidies declined slightly by 5% to AED 6.4bn



Source: UAE Ministry of Finance. Charts by Nasser Saidi & Associates

## 5. Dubai PMI supported by strong demand recovery; signs emerge of firms raising prices

- **A broad-based recovery** in wholesale & retail, travel & tourism and construction sectors **resulted in Dubai PMI rising to 56.4 in Jul – best since Jun 2019**. Input cost pressures eased in Jul, but remain high; travel & tourism reported the fastest rise in prices charged (since Mar 2017): cost push is being passed on to consumers
- Demand continues to rise: **mobility shows a consistent improvement**, staying higher than the baseline (in line with **low stringency levels: 29.63 for vaccinated persons**)

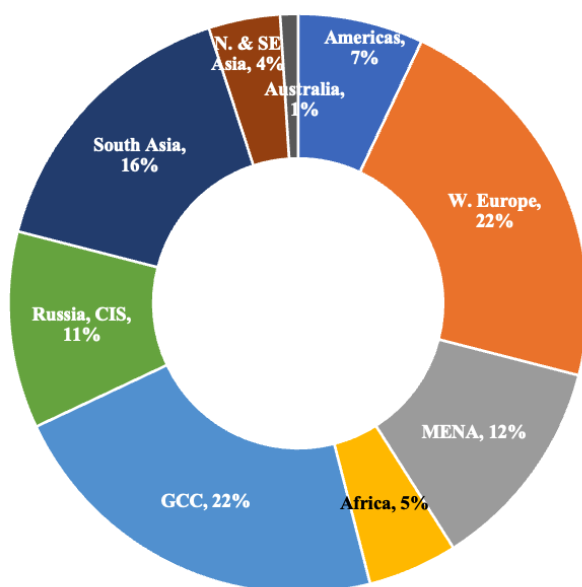


Source: Refinitiv Datastream, Google Mobility reports. Charts by Nasser Saidi & Associates

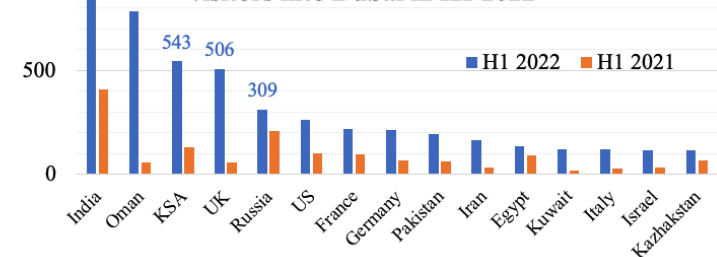
Note: The baseline is the median value, for the corresponding day of the week, during the 5- week period Jan 3–Feb 6, 2020.

## 6. Dubai tourism rebound evident in H1 2022: visitors more than double (vs H1 2021), supported by regional tourism. Qatar World Cup visitors to lend support in Q4

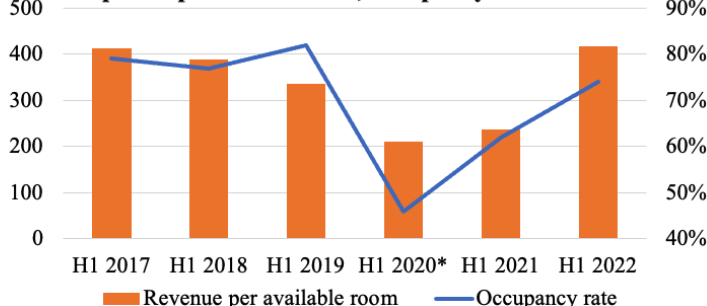
Dubai receives 7.12mn international visitors in H1 2022, up 183% yoy



Regional tourism ticks up, with Oman and Saudi Arabia accounting for close to 1/5th of visitors into Dubai in H1 2022



Dubai's revenue per available room in H1 2022 surpasses pre-Covid levels; occupancy inches close



Source: Dubai Department of Economy and Tourism. Charts by Nasser Saidi & Associates

\* Covid adjusted data for 2020

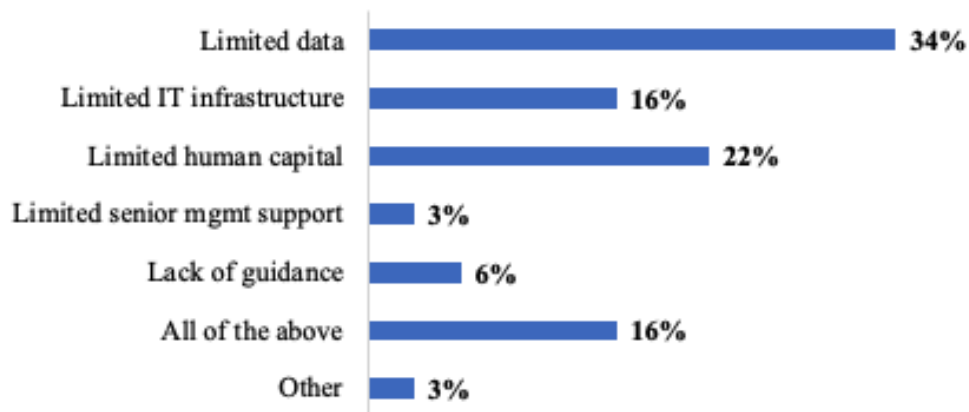
## 7. UAE Central Bank's climate risk survey

- As part of the Financial Stability report, the UAE

central bank revealed the banking sector's attitude to climate-related risk

- **Respondents identified lack of data and human capital as top 2 constraints** in implementing climate risk policies
- While it **heartening to know that at least 45% of banks' boards discuss climate change risks** either quarterly or annually, it is important to also note that this topic **needs widespread communication and clear guidelines**. For example, note that 6% of respondents considered this to be a non-financial risk!

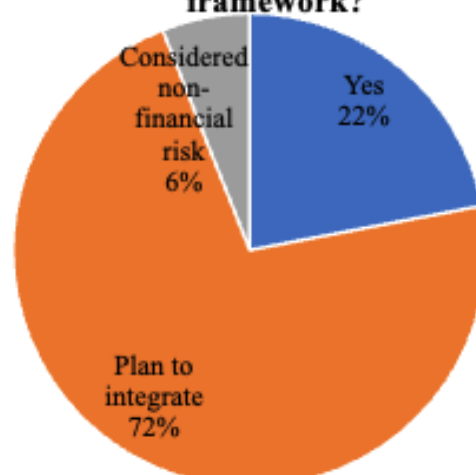
#### Main Challenges & Barriers to Implementing Climate Risk Policies



#### Level of Oversight of Climate-Related Risks by Board of Directors



#### Are climate-related risks integrated in the bank's risk management framework?



Source: Financial Stability Report 2021, UAE Central Bank.

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