

Weekly Insights 9 Aug 2024: Strong credit growth & domestic liquidity to support non-oil sector performance in the GCC

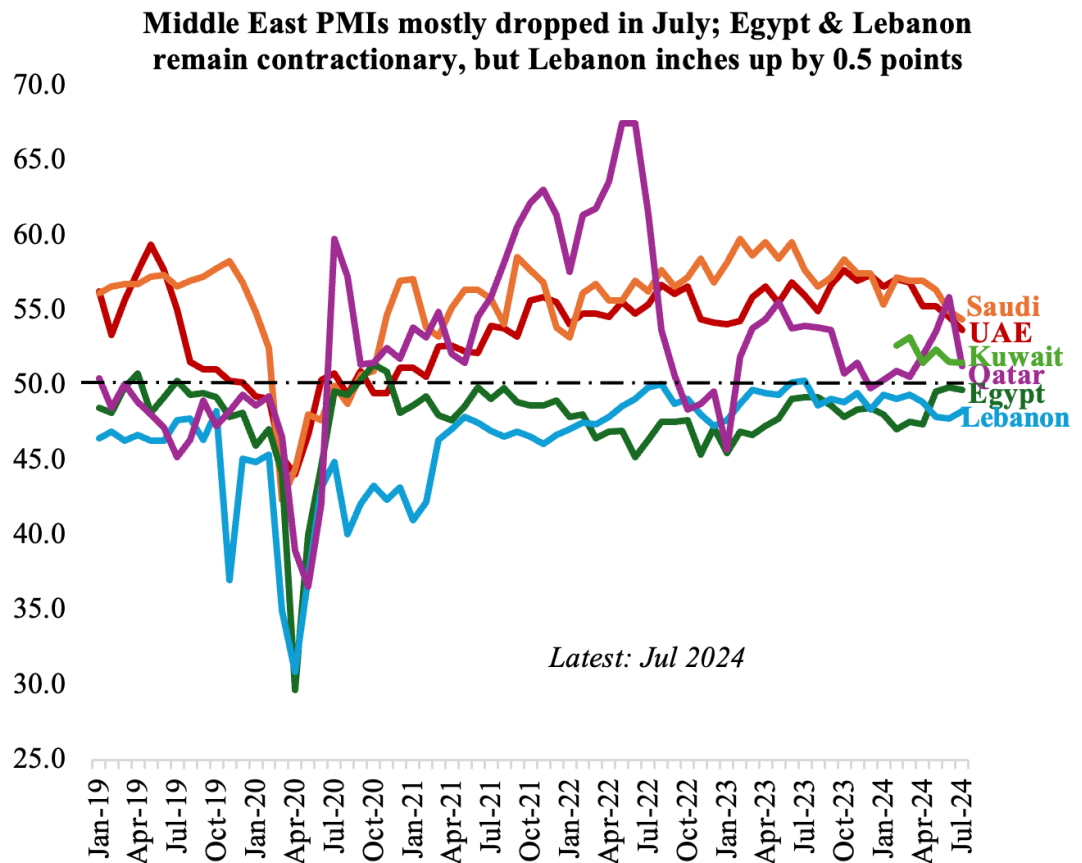
Middle East PMIs. GDP growth in Bahrain & Saudi Arabia. Strong credit growth in UAE & Saudi Arabia.

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1. Middle East PMIs ease further in July; Lebanon posts the

only uptick



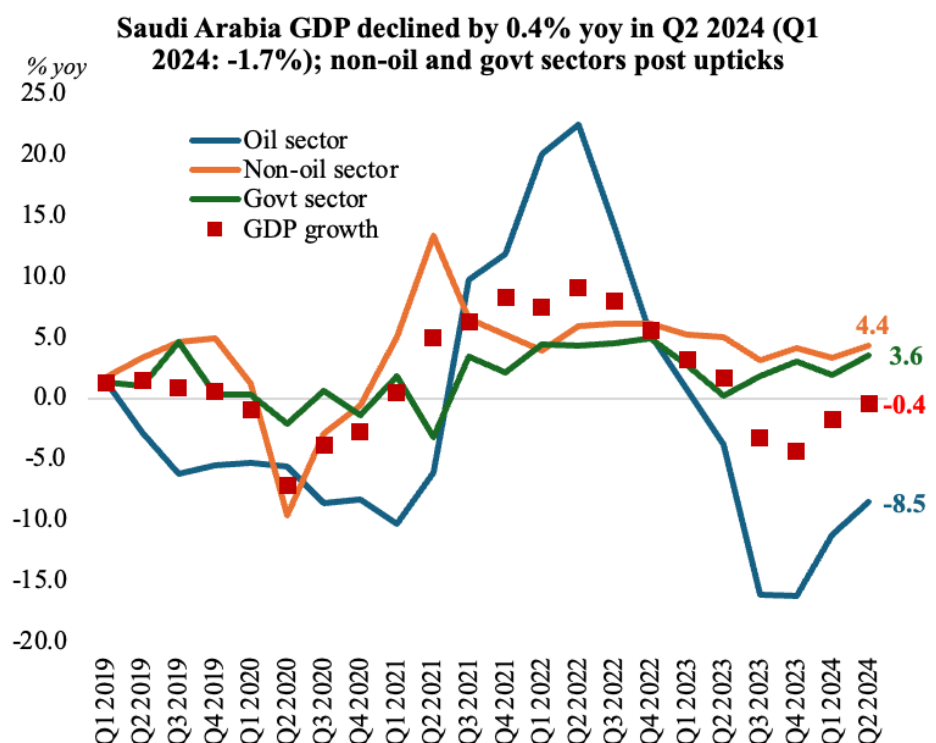
Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- **GCC's PMIs were expansionary in July**, but all were lower compared to June's readings.
- **PMI readings for Egypt and Lebanon stayed below-50**: Egypt's inched lower again while Lebanon posted the only monthly uptick.
- **UAE and Saudi Arabia's PMI readings were the lowest since Sep 2021 and Jan 2022 respectively**. UAE's Jul reading even fell below its long-run trend (54.4) and job creation slipped to a 6-month low. In Saudi Arabia, output eased to a six-month low amid new orders growing the least since Jan 2022.
- Qatar's PMI fell from Jun's 23 month high but growth in output and new orders remained strong. Kuwait's reading fell by 0.1 points to 51.5 in Jul, but new orders and output were robust.
- **Competitive pricing has been driving demand** across many GCC nations – for example, selling prices in Saudi fell

at the fastest pace since the survey began in 2009. Meanwhile, **input cost pressures varied across the GCC**: cost inflation in the UAE accelerated to a two-year high in Jul (thanks to higher material prices) while in Qatar it was subdued due to lower staff costs.

- **Egypt stayed in contractionary territory for the 44th consecutive month**, despite improving domestic demand and uptick in new export orders. **Lebanon's PMI**, despite its economic, political and potential security challenges, **posted the highest reading since Apr** – gaining on summer recovery (tourist and expat arrivals, resulting in a surge in demand). Businesses expect further contraction over the next 12 months.
- **Employment/ job creation** slowed in Qatar (dip, mainly in construction), UAE (6-month low) and Lebanon (largest drop in 18 months) while it rebounded in Egypt.

2. Non-oil sector supported GDP growth in both Saudi Arabia & Bahrain



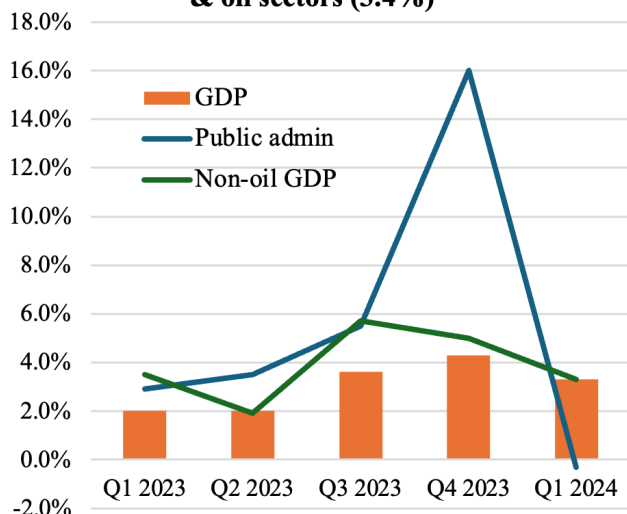
Source: General Authority for Statistics. Chart by Nasser Saidi & Associates.

- **Saudi Arabia's real GDP declined by 0.4% yoy in Q2 2024**, as per the chain-linked methodology, using 2018 as base year. This is the 4th consecutive quarter of yoy

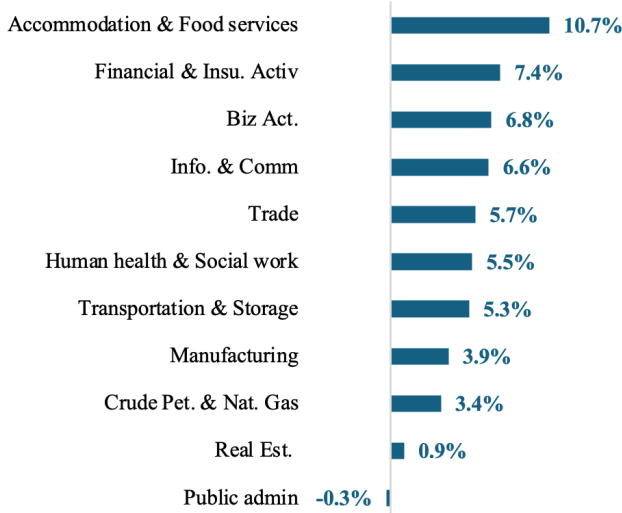
decline, largely driven by the shrinking oil sector activity (as per the OPEC+ agreement). In qoq terms, seasonally adjusted real GDP grew by 1.4%.

- **Non-oil sector grew by 4.4% yoy in Q2**, faster than Q1's 3.4% pace; while oil sector activity fell in Q2 (-8.5%), the drop was slower than in Q1 (-11.2%). **Government sector activity rose by 3.6% in Q2** following Q1's 2.0% gain.
- The **contraction in oil sector** (which began in Q2 2023) **will ease further in the coming quarters**, and along with strong non-oil sector readings, one can expect strengthening in overall GDP growth. **Continued government spending/ investment** will also benefit overall growth in coming quarters.
- This is in line with **IMF's projection for Saudi growth (1.7% in 2024** in July's World Economic Outlook, down by 0.9 percentage points from its Apr estimate).
- **Bahrain's real GDP grew by 3.3% yoy in Q1 2024** (Q4: 4.3%), supported by strong growth paces in both oil (3.4%) and non-oil (3.3%) sectors; public administration slipped by 0.3%.
- **Non-oil GDP contributed almost 85.9% to overall GDP. Non-oil sector grew by 3.3% in Q1** (Q4: 4.3%), with accommodation & food services recording the highest gains during the quarter (10.7%), followed by financial & insurance activities (7.4%) and business activities (6.8%).
- **Financial & insurance activities was the largest contributor to GDP in Q1** (16.7%), followed by manufacturing (14.8%); oil sector was the third largest contributor (14.1%).

Bahrain's GDP grew by 3.3% yoy in Q1 2024, supported by both non-oil (3.3%) & oil sectors (3.4%)



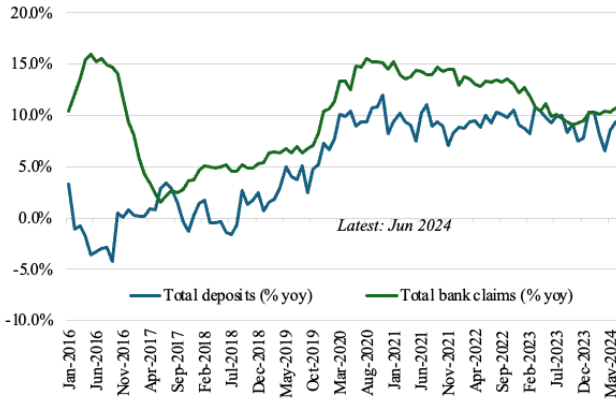
Bahrain's GDP growth, by sector, Q1 2024 (% yoy)



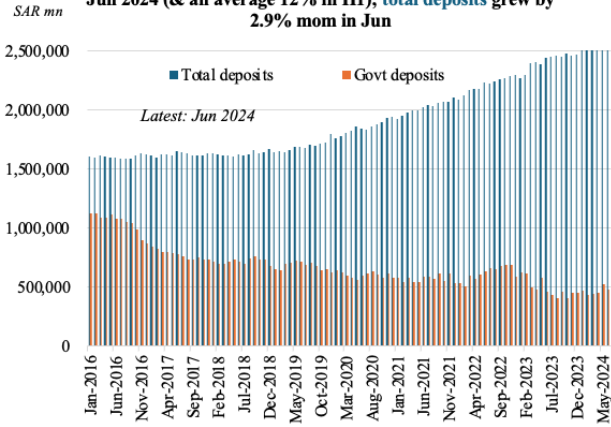
*Source: Ministry of Finance & National Economy, Information & eGovernment Authority, Bahrain.
Charts by Nasser Saidi & Associates.*

3. In H1 2024, bank deposits in Saudi Arabia grow at a slower pace than credit growth; government deposits fall by an average 12% in H1; SAMA's net foreign assets rise to highest since Nov 2022

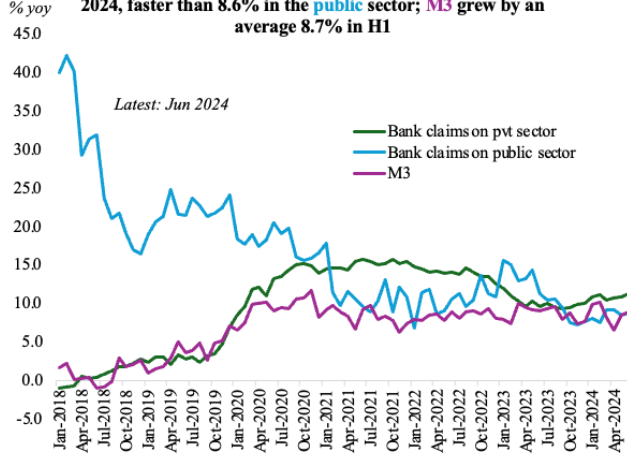
Saudi Arabia's total bank deposits grew by an average 8.9% yoy in H1 2024. Credit growth was up 10.4%, with loan-to-deposit ratio exceeding 100%



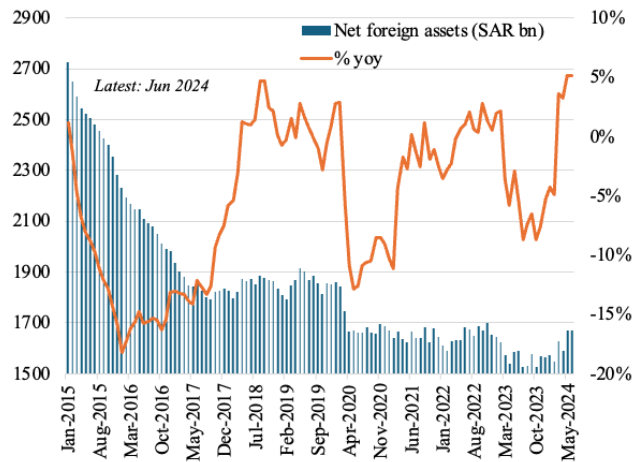
Government deposits in Saudi Arabia plunged by 9% mom in Jun 2024 (& an average 12% in H1); total deposits grew by 2.9% mom in Jun



Claims on private sector in Saudi grew by 10.9% yoy in H1 2024, faster than 8.6% in the public sector; M3 grew by an average 8.7% in H1

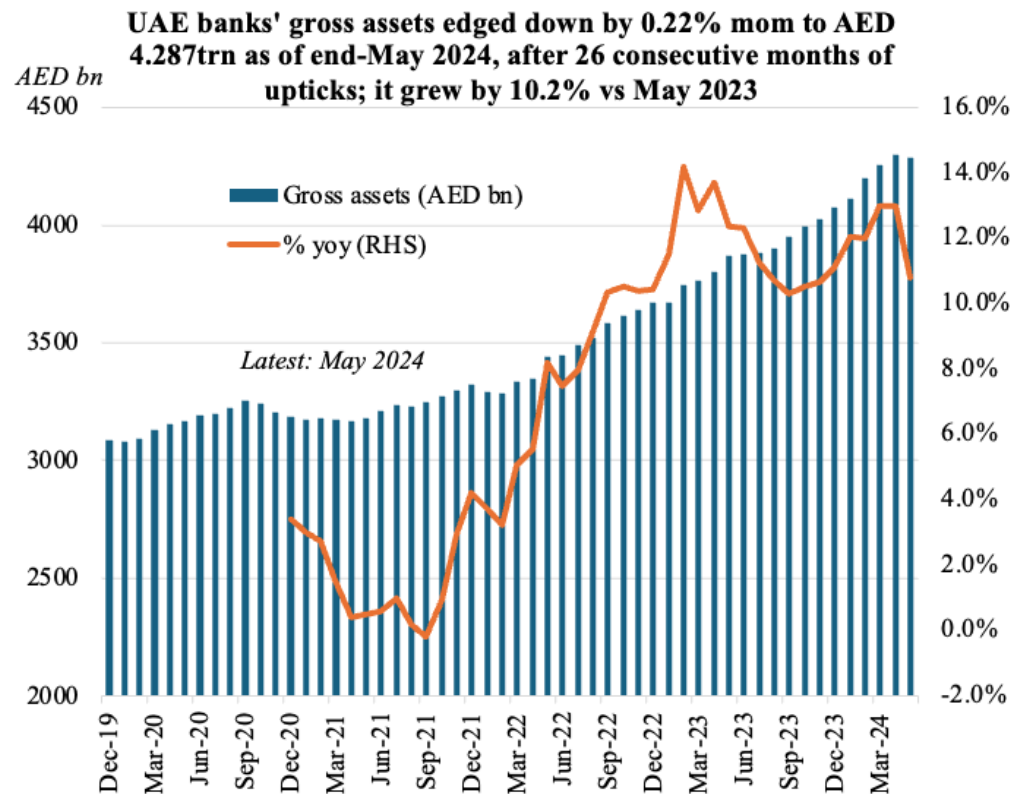


SAMA's net foreign assets increased by 0.1% mom and 5.0% yoy to SAR 1.674trn in Jun

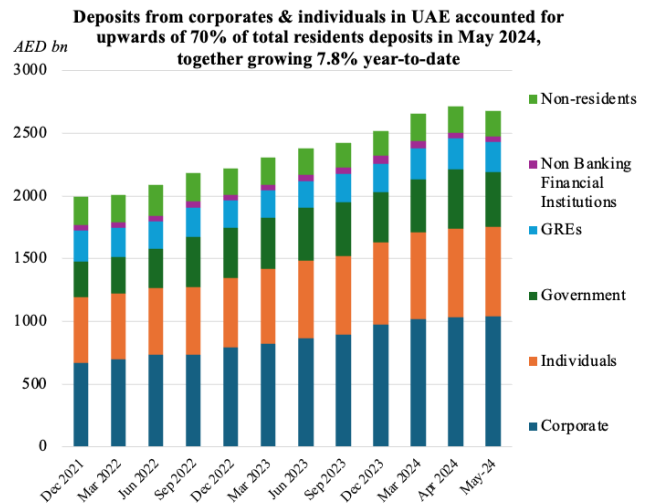
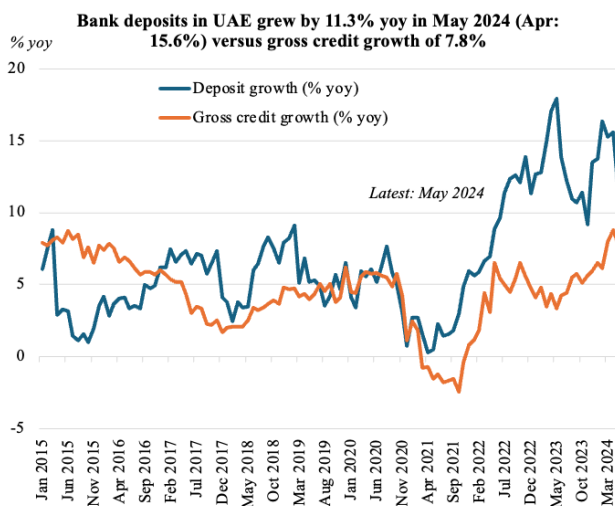


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

4. UAE deposit



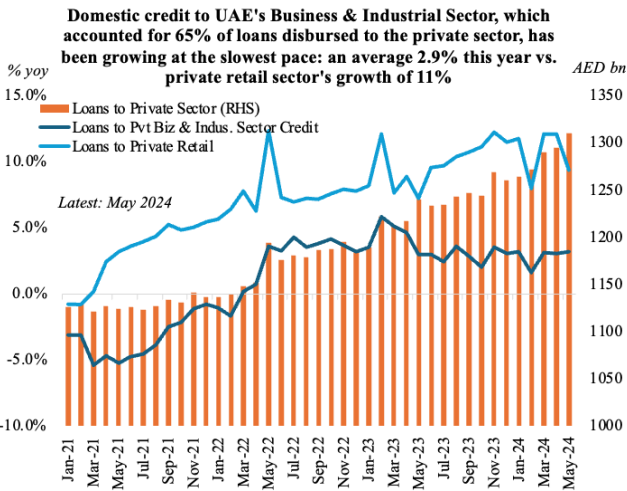
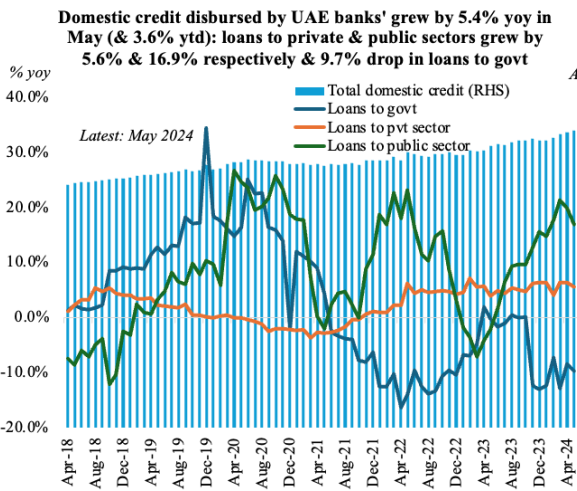
- **UAE's gross bank assets edged down by 0.2% mom in May 2024, posting a drop after 26 consecutive months of increases.** In yoy terms, it grew by 10.8% yoy to AED 4.287trn. The central bank's **total assets grew by 1.5% to a new record-high** AED 801.91bn in May.
- **Deposits in the UAE grew by 11.3% yoy in May**, thanks to a strong 14.2% rise in resident deposits; non-resident deposits fell by 14.5% yoy, but its share was just 7.6% of overall deposits.
- **Private sector deposits** account for 65.6% of total deposits and 71.1% of total resident deposits as of May 2024. This includes both corporates and individuals' deposits. **Government and GRE** together accounted for over one-fourth of total deposits in Apr; these grew by 7.8% and 6.0% ytd.
- Robust acceleration in deposit growth indicates **high levels of domestic liquidity**, supporting economic activity.



5. Strong domestic credit growth in the UAE: up 5.4% year-to-date as of May 2024

- **Gross credit in the UAE grew by 0.7% mom and 7.8% yoy to AED 2.07trn in May. This was driven by growth in domestic credit (7% mom and 5.4% yoy to AED 1.801trn in May) and foreign credit (0.9% mom and 26.6% yoy to AED 276.6bn). Foreign credit also includes loans and advances to non-residents, which grew by 11.1% year-to-date to AED 21.0bn.**
- **Within domestic credit, the share of loans to the private sector stood at 71.8% in May. Loans to the government and GREs increased by 4.6% and 1.9% year-to-date to AED 192.7bn and AED 298.1bn respectively.**
- **Loans disbursed to business and industrial sector (at AED 851.9bn) accounted for close to 2/3-rds of credit to the private sector. Credit disbursed to the private business and industrial sector grew by an average 2.9% yoy during Jan-May this year while in contrast, private sector retail credit grew at a much faster pace of 10.7%.**
- **The appetite for loans this year has been very strong, thanks to an increase in projects (MEED estimates UAE projects planned or underway at over USD 800bn as of Jul 2024, including in the non-oil sector), an uptick in**

home ownership (Dubai’s mortgage activity touched a 14-month high in May, with finance buyers outnumbering cash). **Fed rate cuts this year will support further loan growth.**



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

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