Weekly Insights 10 Dec 2020: Vaccine Exuberance, PMIs and Indicators of Economic Activity

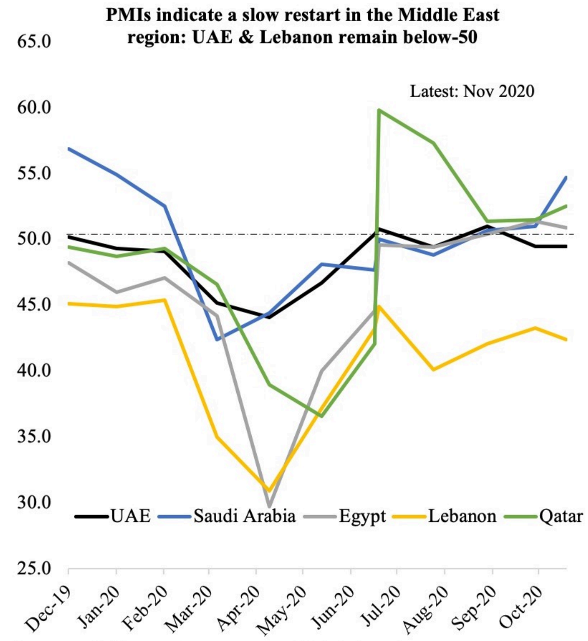
Download a PDF copy of this week's insight piece [here](#).

Chart 1: PMIs in the Middle East/ GCC have had a slow restart compared to US/ Europe/ Asia post-lockdown, even during the latest wave

Manufacturing PMI readings have picked up in Nov across the globe, thanks to increases in export orders; global manufacturing PMI also showed employment rising for the first time in 12 months & business confidence at a 69-month high. **Vaccine announcements in early-Nov probably added to the mostly positive outlook.**

There is a distinct divergence in the Middle East, with **UAE and Lebanon still below the 50-mark in Nov**. Lebanon's reading is a clear reflection of its domestic economic meltdown while UAE's is pegged to subdued demand in spite of the nation being the least stringent (i.e. more "open", including for tourists) in the region.

The announcement of **the efficacy of the Sinopharm vaccine in UAE and planned deployment, in addition to the recent spate of announced reforms** – rights of establishment, long-term residency, remote working & retirement visas – **should support business and consumer confidence in the months ahead.**



Source: Refinitiv Datastream, Nasser Saidi & Associates

Heatmap of manufacturing PMIs

	US	Germany	EU	UK	Japan	China	India
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8
Oct-20	53.4	58.2	54.8	53.7	48.7	53.6	58.9
Nov-20	56.7	57.8	53.8	55.6	49.0	54.9	56.3

Source: Refinitiv Datastream, Nasser Saidi & Associates

Chart 2: Will vaccines signal a recovery and rescue the airline industry?

Vaccines have been in the news since early-Nov, with the latest announcement from the UAE on the Sinopharm vaccine. As the vaccines are rolled out next year, the hope is that nations recover to the pre-Covid19 phase.

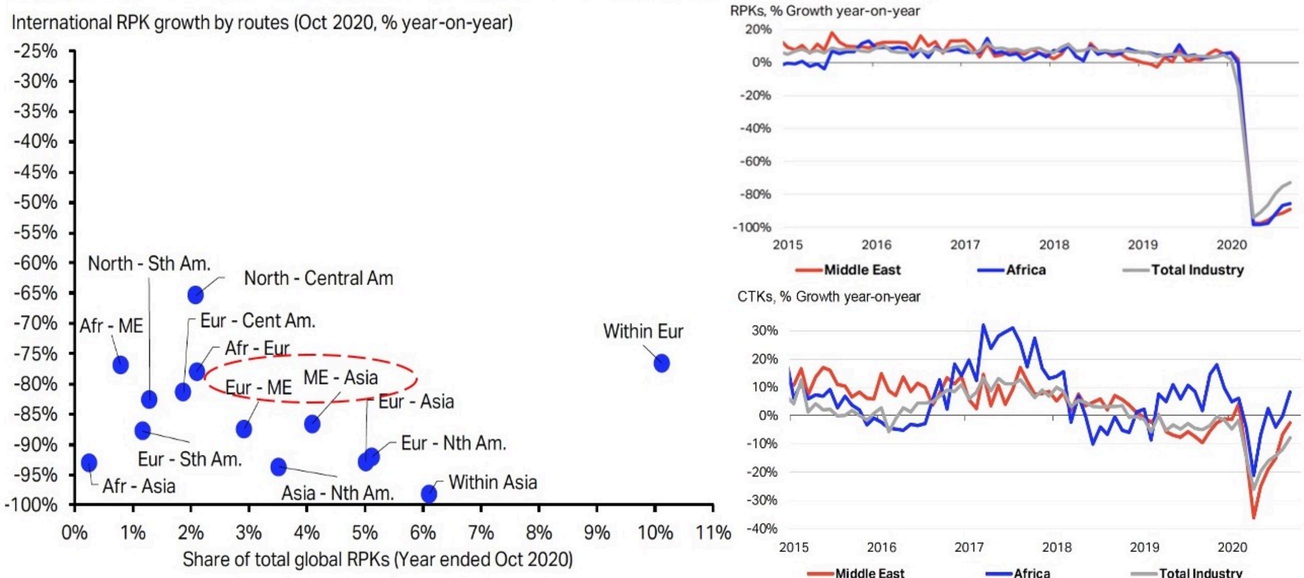
International travel markets remain weak: **Middle East airlines revenue passenger-kilometres (RPKs) were down by 86.7% and 88.2%** for international connectivity and long-haul traffic in Oct. This should benefit the airline industry in 2 ways: (a) in the near-term, the industry will **support distribution of vaccines** across the globe: being well-connected to global hubs and given its fleet size, UAE's Emirates and Etihad are well-placed to gain. Emirates SkyCargo transported more than 75mn kilograms of pharmaceuticals on its aircraft last year; (b) as more people get vaccinated, **demand for and willingness to travel will increase** probably by H2 next year along with 'travel bubbles'.

However, **the success of the vaccine distribution is also dependent on the last mile delivery hurdles and vaccine storage facilities.**

Middle Eastern carriers' improvements in international travel since the crisis have been slow (LHS)

Middle East passenger traffic still under pressure (RHS, top panel)

Cargo's sharper V-shaped recovery (bottom panel), but ME's recovery is slower vs. total industry



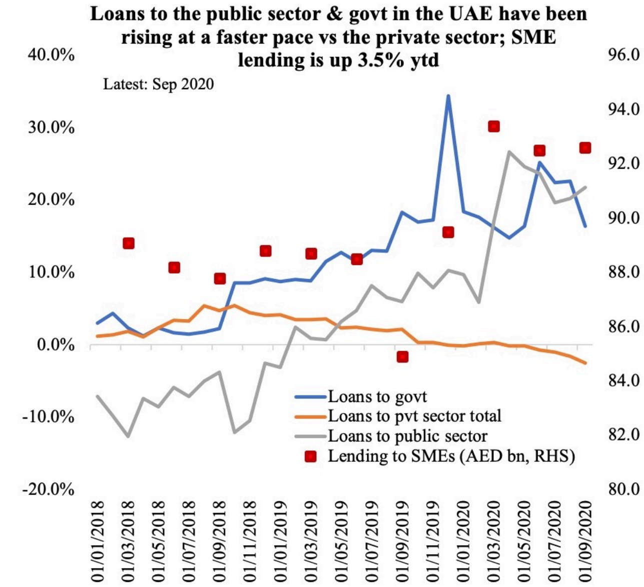
Source: IATA Air Passenger Market Analysis, Oct 2020; IATA Economics

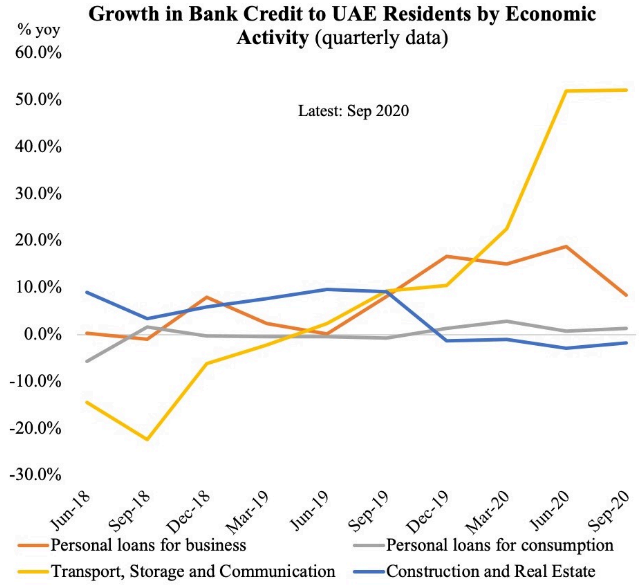
Chart 3: Bankcredit in the UAE

The UAE central bank extended its **Targeted Economic Support Scheme** (Tess) for another six months until June 30, 2021

During Apr-Sep 2020, the overall pace of lending to GREs (+22.7% yoy) and government (+19.6%) have outpaced lending to the private sector (-1.0%). The pace of SME lending has been slow as well, but up 3.5% year-to-date.

Breaking down lending by sector, there has been upticks in credit to both transport, storage and communication (+52.1% yoy as of end-Sep) as well as government (13.6% yoy); mining & quarrying and construction sectors saw declines of -14.4% and -1.9% respectively.





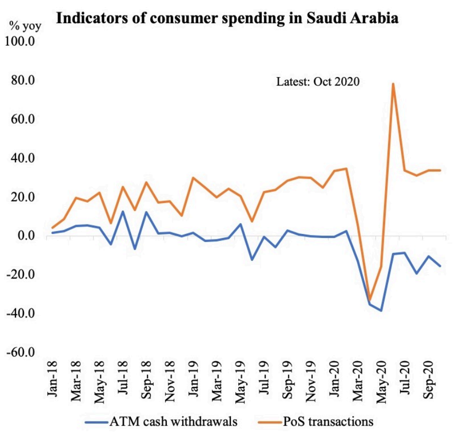
Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.

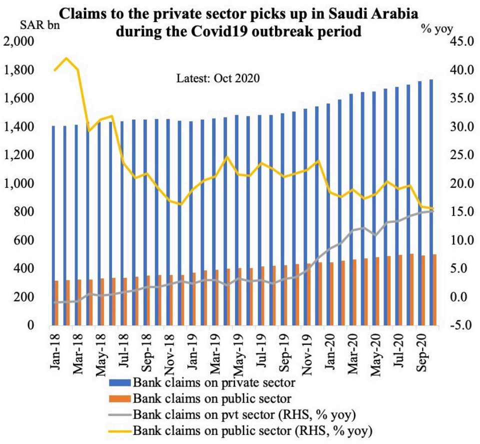
Chart 4: Indicators of economic activity in Saudi Arabia

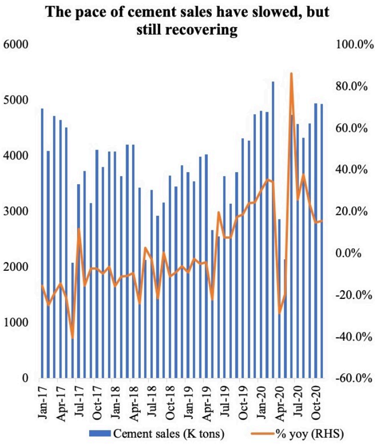
Among the proxy indicators for **consumer spending** – ATM withdrawals and PoS transactions – the latter is picking up faster, supported by transactions in food and beverage (+28.9% during Jan-Oct 2020) and restaurants and cafes (+68.9%); in comparison, transactions at hotels are down by 33%. ATM transactions dropped by one-fourth to SAR 499.87bn in Jan-Oct.

Loans to the private sector in KSA has been growing at a double-digit pace since Mar this year, with the year-to-date growth at 12.4% yoy.

Cement sales have been on the uptick, supported by the number of **ongoing mega-projects** (like the Red Sea development) as well as residential demand: real estate loans by banks are up 38% till Q3 this year, outpacing growth in both 2018 & 2019 while PoS transactions in the construction and building materials is up 44.2% this year (a large 247.4% uptick in Jun, ahead of the VAT hike).







Source: SAMA, Refinitiv Eikon, Nasser Saidi & Associates.

Powered by:

REFINITIV™

Weekly Insights 11 Nov 2020: PMIs & Recovery (?) Indicators in the Middle East/ GCC

Download a PDF copy of this week's insight piece [here](#).

PMIs & Recovery (?) Indicators in the Middle East/ GCC: A pictorial representation

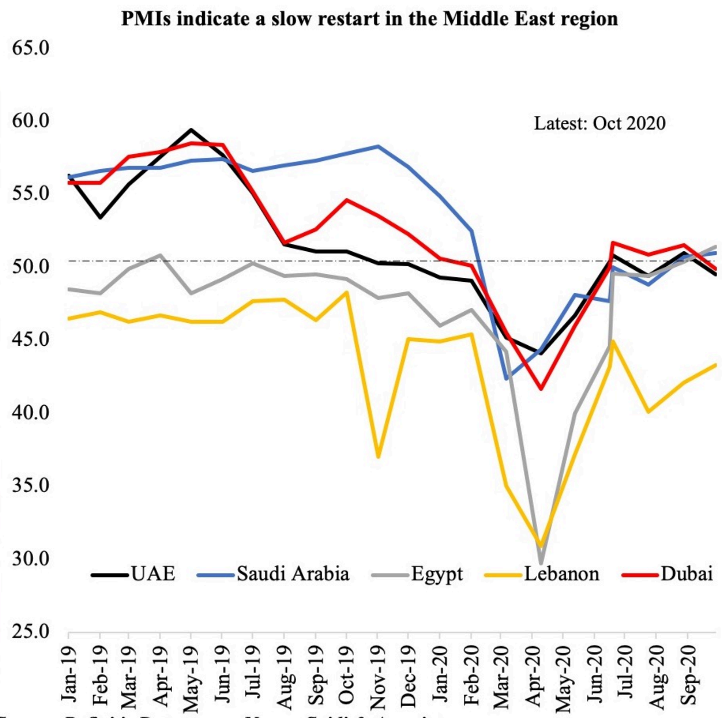
Chart 1: PMIs in the Middle East/ GCC

PMIs in the Middle East/ GCC have not kept pace with the increases seen across the US/ Europe/ Asia post-lockdown. Non-oil sector activity has been subdued given sector composition, a majority of which are still negatively impacted by the outbreak: tourism, wholesale/ retail & construction. Job cuts continue as part of overall cost-cutting measures & business confidence remains weak.

Heatmap of non-oil private sector PMIs

	UAE	Saudi Arabia	Egypt	Lebanon	Dubai
Jan-19	56.3	56.2	48.5	46.5	55.8
Feb-19	53.4	56.6	48.2	46.9	55.8
Mar-19	55.7	56.8	49.9	46.3	57.6
Apr-19	57.6	56.8	50.8	46.7	57.9
May-19	59.4	57.3	48.2	46.3	58.5
Jun-19	57.7	57.4	49.2	46.3	58.4
Jul-19	55.1	56.6	50.3	47.7	55.2
Aug-19	51.6	57.0	49.4	47.8	51.7
Sep-19	51.1	57.3	49.5	46.4	52.6
Oct-19	51.1	57.8	49.2	48.3	54.6
Nov-19	50.3	58.3	47.9	37.0	53.5
Dec-19	50.2	56.9	48.2	45.1	52.3
Jan-20	49.3	54.9	46.0	44.9	50.6
Feb-20	49.1	52.5	47.1	45.4	50.1
Mar-20	45.2	42.4	44.2	35.0	45.5
Apr-20	44.1	44.4	29.7	30.9	41.7
May-20	46.7	48.1	40.0	37.2	46
Jun-20	50.4	47.7	44.6	43.2	50
Jul-20	50.8	50.0	49.6	44.9	51.7
Aug-20	49.4	48.8	49.4	40.1	50.9
Sep-20	51.0	50.7	50.4	42.1	51.5
Oct-20	49.5	51.0	51.4	43.3	49.9

Source: Refinitiv Datastream, Nasser Saidi & Associates



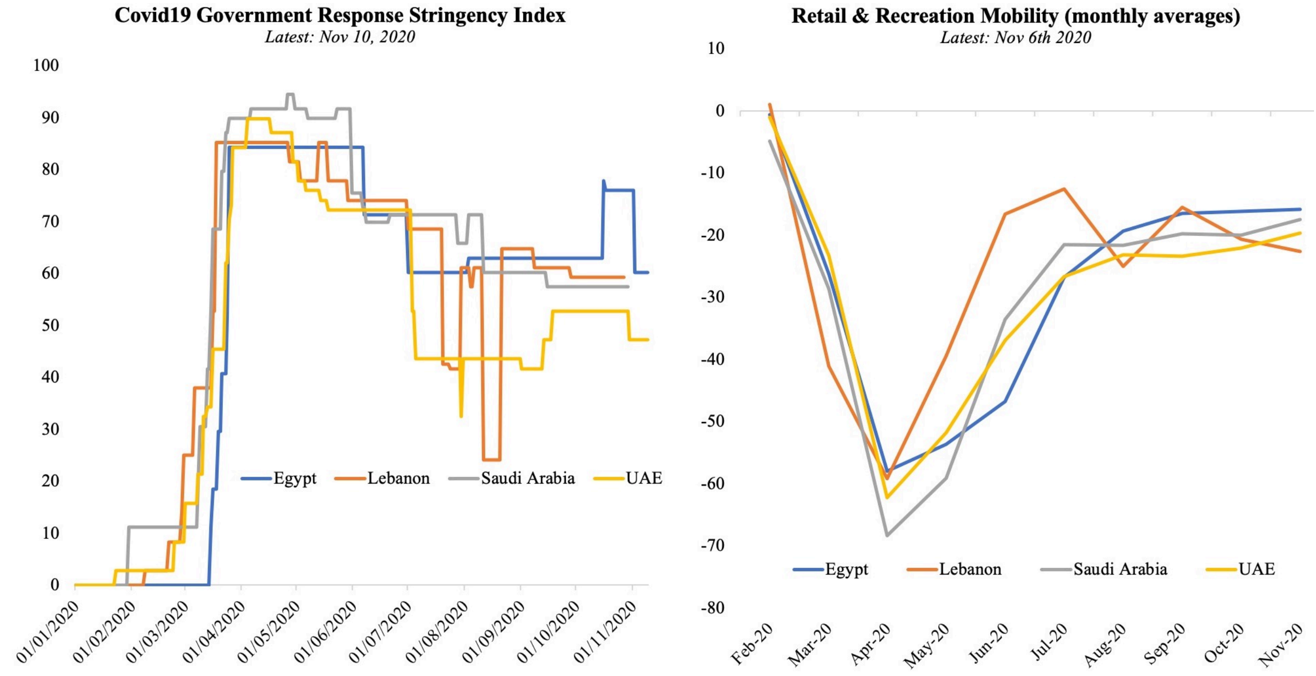
Source: Refinitiv Datastream, Nasser Saidi & Associates

Chart 2: String

ency Index & Mobility

Most economies in the Middle East are re-opening in phases, with restricted lockdowns where cases are surging. The UAE remains one of the most open (least stringent) nations in the region.

However, when it comes to mobility, the UAE seems to be a few steps behind its regional peers. This seems to be in line with a recent McKinsey finding that countries focused on keeping virus spread near zero witnessed their economies moving faster. So, ending lockdowns and reopening the country is not sufficient for resumption of economic activity. Another potential reason could be that increased use of e-commerce is leading to less footfall in retail and recreational facilities.

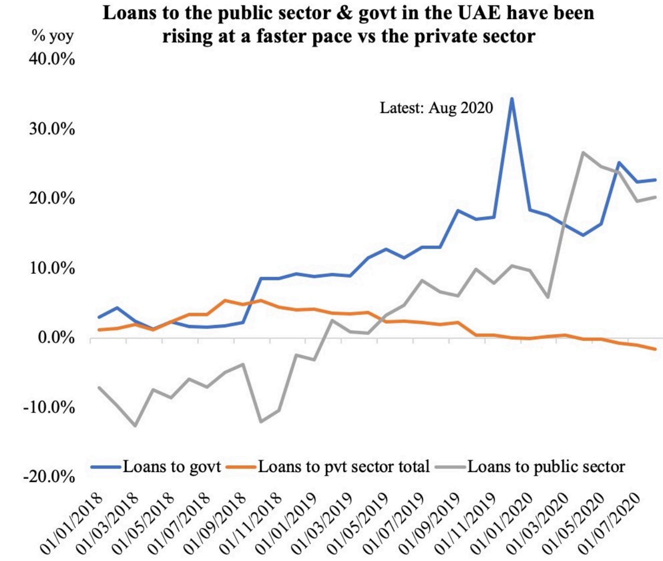


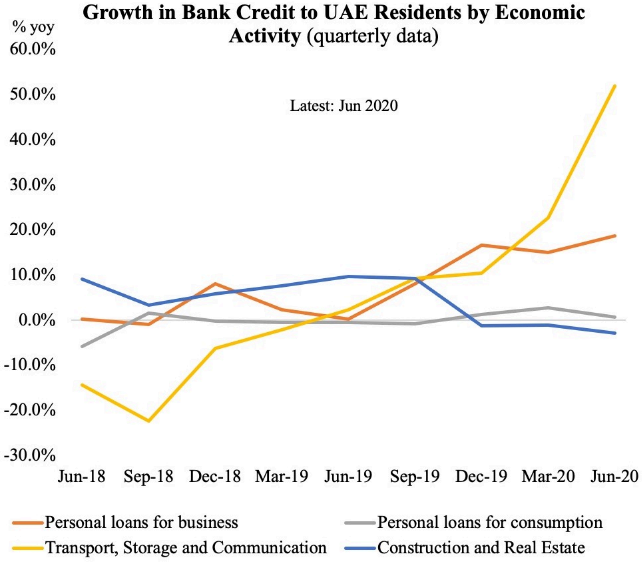
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, Google Mobility Indicators, Nasser Saidi & Associates
Note: The Government Response Stringency Index simply records the number and strictness of government policies, not effectiveness of the response
Mobility trends for places like restaurants,cafes, shopping centers, theme parks,museums, libraries, and movie theaters. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

Chart 3: Indicators of economic activity in the UAE

Last week, the UAE central bank disclosed that its Targeted Economic Support Scheme directly impacted more than 321k beneficiaries including 310k distressed residents, 1,500 companies and 10k SMEs. The overall pace of lending to GREs (+23% yoy during Apr-Aug 2020) and the government (+20.3%) have outpaced lending to the private sector (-0.7%).

UAE banks still lent most to the private sector (70.1% of total as of Aug 2020 vs. 76% in end-2018 and 72% in end-2019), while the public sector & government together account for close to 30% of all loans in Aug 2020 (vs. 25% a year ago). Breaking it down by sector, there has been upticks in credit to both transport, storage and communication (+51.9% yoy as of end-Jun) as well as personal loans for business (+18.7% yoy) while construction sector has seen a dip (-2.9%).



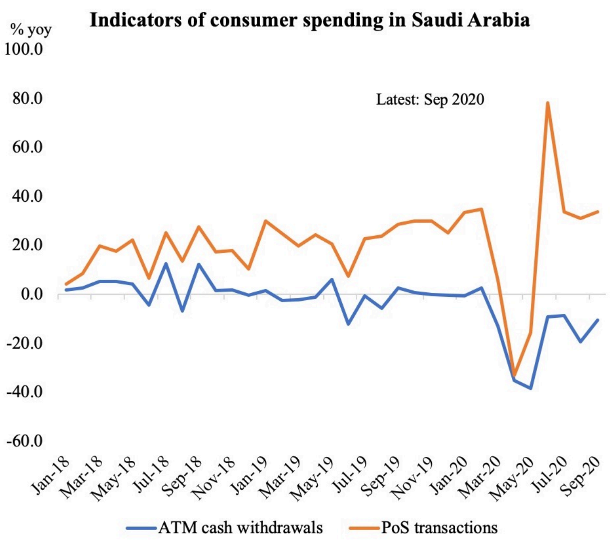


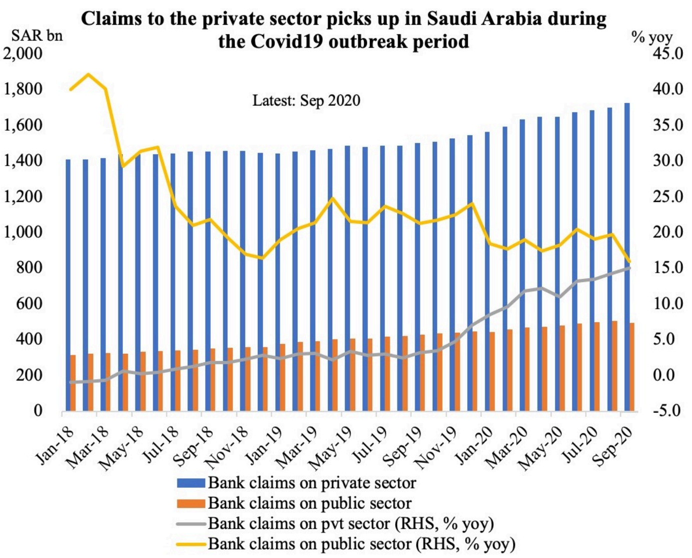
Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.

Chart 4: Indicators of economic activity in Saudi Arabia

In contrast to the UAE, loans to the private sector has been edging up in Saudi Arabia, growing by an average 13.2% yoy during the Apr-Sep period. Proxy indicators for consumer spending – ATM withdrawals and PoS transactions – are on the rise post-lockdown. Ahead of the VAT hike to 15% in Jul, there was a surge in PoS transactions in Jun, which has since then stabilized. By category, food and beverage and restaurants and cafes, continue to post increases.

Saudi Arabia published its first-ever flash estimates for GDP this week: showing a 1.2% qoq increase in Q3, though in yoy terms, growth was still down by 4.2%.





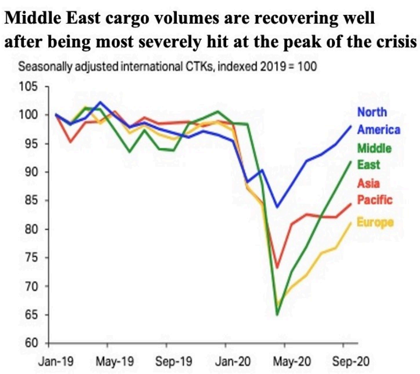
Source: SAMA, Refinitiv Eikon, Nasser Saidi & Associates.

Chart 5: Linkages with the global economy

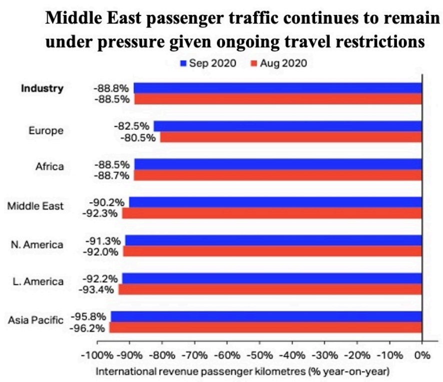
In linkages with the global economy, we consider

1. **Trade**: for the GCC region, there was a significant drop in overall trade with the world during the lockdown period. While exports have started to pick up again, the pace of exports to China are relatively faster.
2. **Passenger traffic**: though international revenue passenger kilometers in the Middle East improved slightly in Sep, it continues to be the worst affected globally in terms of year-to-date data (-68.7% till Sep), as travel restrictions remain. Resumption of domestic travel (e.g. Russia, China) has supported rebounds in some regions.
3. **Cargo volumes** (cargo tonne-kilometers or CTKs) show a clear V-shaped recovery for the Middle East, due to "added capacity" following the peak of the crisis, according to IATA.

Source: IMF DoTS, Refinitiv Eikon, Nasser Saidi & Associates



Source: IATA Air Freight monthly analysis, Sep 2020



Source: IATA Air Passenger Market Analysis, Sep 2020

Powered by:

REFINITIV

Are mergers the way ahead for the GCC's airline industry post pandemic? Opinion Piece in Gulf Business, Aug 2020

This article appeared in the print edition of Gulf Business, August 2020, which can be accessed online.

Flying together: Are mergers the way ahead for the GCC's airline industry post pandemic?
Cost cutting measures by airlines will not suffice to stem the hemorrhage
Covid-19 has devastated the global aviation industry along with the tourism and hospitality industry. Even though domestic travel resumed in many nations (in Saudi Arabia, US and China among others) and flying restrictions eased (e.g. intra-Europe flights, UAE's Etihad and Emirates are each flying to over 50 destinations), 42 per cent of all global commercial airlines fleet are still grounded, according to research by Cirium *[at the time of going to press]*. It is little wonder that the International Air Transport Association (IATA) forecast a 55 per cent decline in traffic levels this year. According to IATA, airline passenger revenues are expected to drop to $241bn in 2020, a 50 per cent decline compared to 2019. This is likely to be an underestimate. Covid-19 has generated the deepest recession in advanced economies since the great depression. Its deadly waves are still unfolding in Africa and Latin America, destroying demand for travel, with a second wave likely, according to epidemiologists.

Markets have reacted accordingly, with the Refinitiv global airlines price return index down by almost half (as of July 13). By end-June, Zoom's market capitalisation of $72.44bn was worth more than the combined $62bn value of AA, Southwest, Delta, United, IAG (BA), Air France-KLM and Lufthansa. In May, Singapore Airlines reported its first loss in its 48-year history, while many airlines are under severe financial stress or have filed for bankruptcy (Latam, Avianca, South African and others), Chapter 11 protection, or are being restructured (Thai). The US provided a massive $58bn to rescue its airline industry.

To survive the post-Covid-19 world, the aviation sector – including airlines, airports and aircraft manufacturers – will have to be restructured. Despite chatter about “travel bubbles” and “immunity passports”, experts question whether recovered patients are fully immune. About 33 per cent of respondents to an IATA survey (conducted in the first week of June 2020) suggested that they would avoid travel in future as a continued measure to reduce the risk of catching the virus. For now, one of the major deterrents to travel is the quarantine period: only 17 per cent of the survey respondents were willing to stay in quarantine. If no vaccine is discovered, people will refrain from travelling abroad, with local destinations and road trips preferred. Social distancing will become the norm on flights, reducing available seat capacity by 33-50 per cent, reducing passenger load factors and raising questions about economic efficiency and financial viability.

The triple whammy of lockdowns, low oil prices and financial market turbulence has dealt a severe blow to the Middle East. The lockdown has directly impacted the UAE’s trade, tourism, transport and logistics sectors, which lie at the core of its diversification strategy and its role as a global business hub. Similarly, Saudi Arabia may need to review its development plans that include tourism as a key diversification option. The travel and tourism sectors have been critical to the GCC with the sector contributing $245bn to GDP (roughly 8.6 per cent) in 2019, while supporting nearly seven million jobs, according to the World Travel and Tourism Council. With more than half of the total GCC population consisting of internationally networked and mobile expatriates, the spillover and multiplier effects to the overall economy from the post-Covid-19 world requires structural adjustment and revision of diversification policies.

The GCC countries – with five airlines each in Saudi Arabia and the UAE, alongside Oman and Kuwait with two airlines each – have rapidly expanded their international networks in recent years. With small domestic markets and populations, the strategy has ended up subsidising foreign travellers. As international and regional travel remains highly restricted, the airlines' revenue streams have all but evaporated. According to the latest estimates from IATA, wider Middle East and North Africa (MENA) traffic is estimated to fall by 56.1 per cent year-on-year in 2020, resulting in a $37bn loss in net post-tax profit. This will risk over 1.2 million jobs (half of the region's 2.4 million aviation-related employment) and cause a $66bn shortfall in contribution to the region's GDP. Saudi Arabia, Qatar and the UAE are the most exposed.

How should GCC airlines adjust to the massive loss of revenue? Like other airlines globally, Emirates, which expects at least 18-months for a recovery of travel, has grounded much of its fleet, placed employees on unpaid leave, cut the salaries of its workforce by up to a half, and initiated job cuts to reduce its operating costs of some $23bn. The CEO of Qatar Airways disclosed an estimated 55 per cent drop in revenues from last year, and stated that about 20 per cent of its workforce would be cut. Job losses in Saudia are also estimated to be very steep, with the Saudi government providing support by suspending airport slot use rules for the summer season and extending licences and certifications for crew, trainers and examiners. However, the cost cutting measures by the airlines will not be sufficient to stem the hemorrhage.

The majority of GCC airlines are fully government owned. How can they support their airlines? Should the governments consider a bailout? Already, in a bid to tackle the crisis, large stimulus packages amounting to some 18 per cent of GDP are being rolled out across the GCC, including a combination of fiscal measures along with central banks' monetary and credit packages. But with oil revenues accounting for more than 55 per cent of total government revenues in the UAE and over 70 per cent in Saudi Arabia and Bahrain – according to the IMF – the drop in crude prices is being felt strongly. And with the decline in other revenues (including VAT, taxes and fees), a bailout for the airlines – while supportive of the sector – would imply a massive increase in budget deficits. The GCC cannot afford a bailout of their airlines, given the impact of Covid-19 and oil prices on budgets, with the IMF forecasting 2020 average deficits of 10.5 per cent for the region.

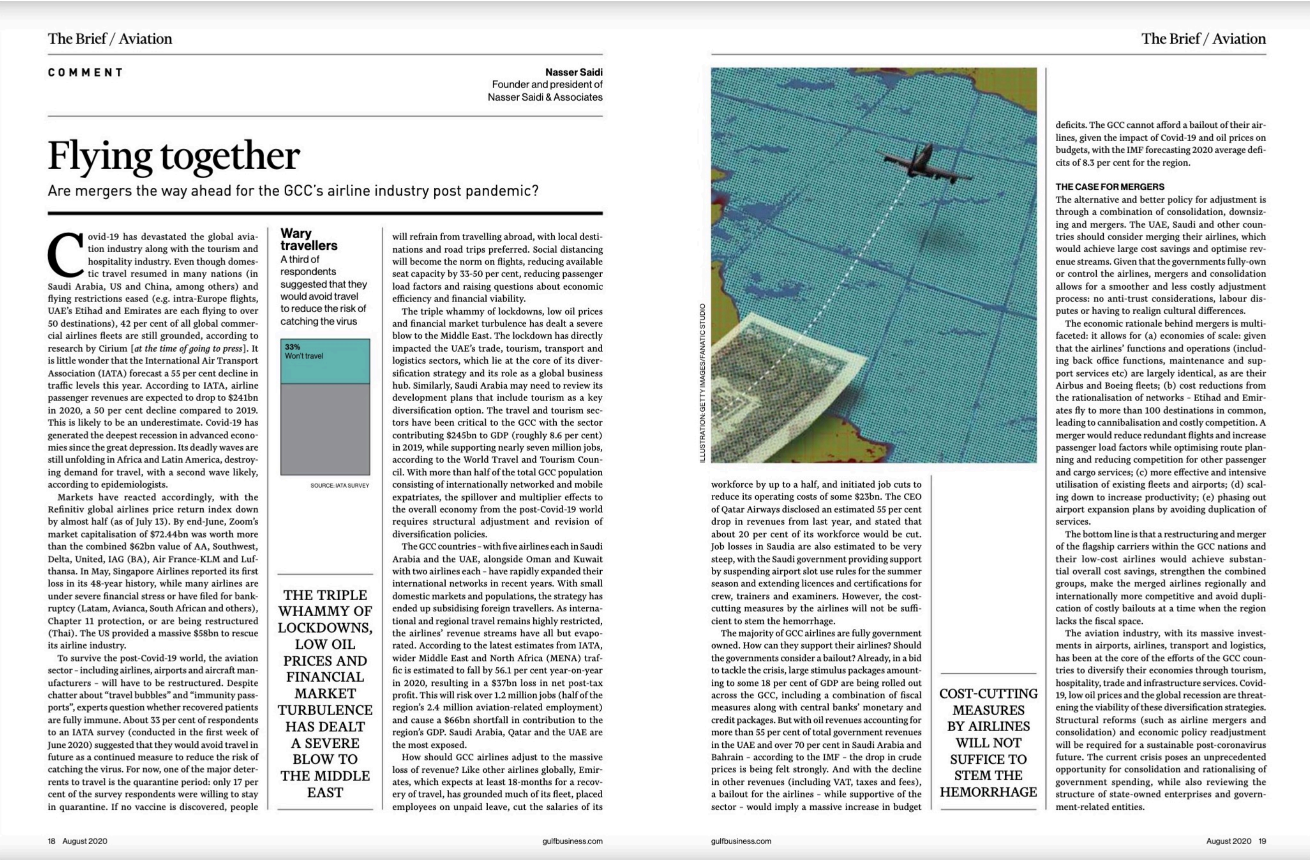
The case for mergers

The alternative and better policy for adjustment is through a combination of consolidation, downsizing and mergers. The UAE, Saudi and other countries should consider merging their airlines, which would achieve large cost savings and optimise revenue streams. Given that the governments fully-own or control the airlines, mergers and consolidation allows for a smoother and less costly adjustment process: no anti-trust considerations, labour disputes or having to realign cultural differences.

The economic rationale behind mergers is multi-faceted: it allows for (a) economies of scale: given that the airlines' functions and operations (including back office functions, maintenance and support services etc) are largely identical, as are their Airbus and Boeing fleets; (b) cost reductions from the rationalisation of networks – Etihad and Emirates fly to more than 100 destinations in common, leading to cannibalisation and costly competition. A merger would reduce redundant flights and increase passenger load factors while optimising route planning and reducing competition for other passenger and cargo services; (c) more effective and intensive utilisation of existing fleets and airports; (d) scaling down to increase productivity; (e) phasing out airport expansion plans by avoiding duplication of services.

The bottom line is that a restructuring and merger of the flagship carriers within the GCC nations and their low-cost airlines would achieve substantial overall cost savings, strengthen the combined groups, make the merged airlines regionally and internationally more competitive and avoid duplication of costly bailouts at a time when the region lacks the fiscal space.

The aviation industry, with its massive investments in airports, airlines, transport and logistics, has been at the core of the efforts of the GCC countries to diversify their economies through tourism, hospitality, trade and infrastructure services. Covid-19, low oil prices and the global recession are threatening the viability of these diversification strategies. Structural reforms (such as airline mergers and consolidation) and economic policy readjustment will be required for a sustainable post-coronavirus future. The current crisis poses an unprecedented opportunity for consolidation and rationalising of government spending, while also reviewing the structure of state-owned enterprises and government-related entities.



COMMENT

Nasser Saidi
Founder and president of
Nasser Saidi & Associates

Flying together

Are mergers the way ahead for the GCC's airline industry post pandemic?

Covid-19 has devastated the global aviation industry along with the tourism and hospitality industry. Even though domestic travel resumed in many nations (in Saudi Arabia, US and China, among others) and flying restrictions eased (e.g. intra-Europe flights, UAE's Etihad and Emirates are each flying to over 50 destinations), 42 per cent of all global commercial airlines fleets are still grounded, according to research by Cirium [*at the time of going to press*]. It is little wonder that the International Air Transport Association (IATA) forecast a 55 per cent decline in traffic levels this year. According to IATA, airline passenger revenues are expected to drop to $241bn in 2020, a 50 per cent decline compared to 2019. This is likely to be an underestimate. Covid-19 has generated the deepest recession in advanced economies since the great depression. Its deadly waves are still unfolding in Africa and Latin America, destroying demand for travel, with a second wave likely, according to epidemiologists.

Markets have reacted accordingly, with the Refinitiv global airlines price return index down by almost half (as of July 13). By end-June, Zoom's market capitalisation of $72.44bn was worth more than the combined $62bn value of AA, Southwest, Delta, United, IAG (BA), Air France-KLM and Lufthansa. In May, Singapore Airlines reported its first loss in its 48-year history, while many airlines are under severe financial stress or have filed for bankruptcy (Latam, Avianca, South African and others), Chapter 11 protection, or are being restructured (Thai). The US provided a massive $58bn to rescue its airline industry.

To survive the post-Covid-19 world, the aviation sector - including airlines, airports and aircraft manufacturers - will have to be restructured. Despite chatter about "travel bubbles" and "immunity passports", experts question whether recovered patients are fully immune. About 33 per cent of respondents to an IATA survey (conducted in the first week of June 2020) suggested that they would avoid travel in future as a continued measure to reduce the risk of catching the virus. For now, one of the major deterrents to travel is the quarantine period: only 17 per cent of the survey respondents were willing to stay in quarantine. If no vaccine is discovered, people will refrain from travelling abroad, with local destinations and road trips preferred. Social distancing will become the norm on flights, reducing available seat capacity by 33-50 per cent, reducing passenger load factors and raising questions about economic efficiency and financial viability.

Wary travellers
A third of respondents suggested that they would avoid travel to reduce the risk of catching the virus

SOURCE: IATA SURVEY

THE TRIPLE WHAMMY OF LOCKDOWNS, LOW OIL PRICES AND FINANCIAL MARKET TURBULENCE HAS DEALT A SEVERE BLOW TO THE MIDDLE EAST

The triple whammy of lockdowns, low oil prices and financial market turbulence has dealt a severe blow to the Middle East. The lockdown has directly impacted the UAE's trade, tourism, transport and logistics sectors, which lie at the core of its diversification strategy and its role as a global business hub. Similarly, Saudi Arabia may need to review its development plans that include tourism as a key diversification option. The travel and tourism sectors have been critical to the GCC with the sector contributing $245bn to GDP (roughly 8.6 per cent) in 2019, while supporting nearly seven million jobs, according to the World Travel and Tourism Council. With more than half of the total GCC population consisting of internationally networked and mobile expatriates, the spillover and multiplier effects to the overall economy from the post-Covid-19 world requires structural adjustment and revision of diversification policies.

The GCC countries - with five airlines each in Saudi Arabia and the UAE, alongside Oman and Kuwait with two airlines each - have rapidly expanded their international networks in recent years. With small domestic markets and populations, the strategy has ended up subsidising foreign travellers. As international and regional travel remains highly restricted, the airlines' revenue streams have all but evaporated. According to the latest estimates from IATA, wider Middle East and North Africa (MENA) traffic is estimated to fall by 56.1 per cent year-on-year in 2020, resulting in a $37bn loss in net post-tax profit. This will risk over 1.2 million jobs (half of the region's 2.4 million aviation-related employment) and cause a $66bn shortfall in contribution to the region's GDP. Saudi Arabia, Qatar and the UAE are the most exposed.

How should GCC airlines adjust to the massive loss of revenue? Like other airlines globally, Emirates, which expects at least 18-months for a recovery of travel, has grounded much of its fleet, placed employees on unpaid leave, cut the salaries of its workforce by up to a half, and initiated job cuts to reduce its operating costs of some $23bn. The CEO of Qatar Airways disclosed an estimated 55 per cent drop in revenues from last year, and stated that about 20 per cent of its workforce would be cut. Job losses in Saudia are also estimated to be very steep, with the Saudi government providing support by suspending airport slot use rules for the summer season and extending licences and certifications for crew, trainers and examiners. However, the cost-cutting measures by the airlines will not be sufficient to stem the hemorrhage.

ILLUSTRATION: GETTY IMAGES/FANATIC STUDIO

The majority of GCC airlines are fully government owned. How can they support their airlines? Should the governments consider a bailout? Already, in a bid to tackle the crisis, large stimulus packages amounting to some 18 per cent of GDP are being rolled out across the GCC, including a combination of fiscal measures along with central banks' monetary and credit packages. But with oil revenues accounting for more than 55 per cent of total government revenues in the UAE and over 70 per cent in Saudi Arabia and Bahrain - according to the IMF - the drop in crude prices is being felt strongly. And with the decline in other revenues (including VAT, taxes and fees), a bailout for the airlines - while supportive of the sector - would imply a massive increase in budget deficits. The GCC cannot afford a bailout of their airlines, given the impact of Covid-19 and oil prices on budgets, with the IMF forecasting 2020 average deficits of 8.3 per cent for the region.

COST-CUTTING MEASURES BY AIRLINES WILL NOT SUFFICE TO STEM THE HEMORRHAGE

THE CASE FOR MERGERS

The alternative and better policy for adjustment is through a combination of consolidation, downsizing and mergers. The UAE, Saudi and other countries should consider merging their airlines, which would achieve large cost savings and optimise revenue streams. Given that the governments fully-own or control the airlines, mergers and consolidation allows for a smoother and less costly adjustment process: no anti-trust considerations, labour disputes or having to realign cultural differences.

The economic rationale behind mergers is multi-faceted: it allows for (a) economies of scale: given that the airlines' functions and operations (including back office functions, maintenance and support services etc) are largely identical, as are their Airbus and Boeing fleets; (b) cost reductions from the rationalisation of networks - Etihad and Emirates fly to more than 100 destinations in common, leading to cannibalisation and costly competition. A merger would reduce redundant flights and increase passenger load factors while optimising route planning and reducing competition for other passenger and cargo services; (c) more effective and intensive utilisation of existing fleets and airports; (d) scaling down to increase productivity; (e) phasing out airport expansion plans by avoiding duplication of services.

The bottom line is that a restructuring and merger of the flagship carriers within the GCC nations and their low-cost airlines would achieve substantial overall cost savings, strengthen the combined groups, make the merged airlines regionally and internationally more competitive and avoid duplication of costly bailouts at a time when the region lacks the fiscal space.

The aviation industry, with its massive investments in airports, airlines, transport and logistics, has been at the core of the efforts of the GCC countries to diversify their economies through tourism, hospitality, trade and infrastructure services. Covid-19, low oil prices and the global recession are threatening the viability of these diversification strategies. Structural reforms (such as airline mergers and consolidation) and economic policy readjustment will be required for a sustainable post-coronavirus future. The current crisis poses an unprecedented opportunity for consolidation and rationalising of government spending, while also reviewing the structure of state-owned enterprises and government-related entities.

Interview with Al Arabiya (Arabic) on GCC's response to Covid19, 17 Mar 2020

Dr. Nasser Saidi discusses the GCC's responses to the ongoing Covid19 outbreak, in an interview that aired on Al Arabiya on 17th March 2020. In the interview, he reiterates the need for fiscal policy stimulus (given its effectiveness) vs monetary policy action; also highlights the sectors and countries that would be most adversely affected.

The video can be viewed below; the write-up can be accessed at https://ara.tv/4rmup