# Weekly Insights 7 Jan 2021: UAE’s silver linings – has the country turned a corner?

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### 1. Heatmap of Manufacturing/ non-oil private sector PMIs

| | US | Germany | EU | UK | Japan | China | India | UAE | Saudi Arabia | Egypt | Lebanon |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan-19 | 54.9 | 49.7 | 50.6 | 52.8 | 50.3 | 48.3 | 53.9 | 56.3 | 56.2 | 48.5 | 46.5 |
| Feb-19 | 53.0 | 47.6 | 49.5 | 52.1 | 48.9 | 49.9 | 54.3 | 53.4 | 56.6 | 48.2 | 46.9 |
| Mar-19 | 52.4 | 44.1 | 48.3 | 55.1 | 49.2 | 50.8 | 52.6 | 55.7 | 56.8 | 49.9 | 46.3 |
| Apr-19 | 52.6 | 44.4 | 48.4 | 53.1 | 50.2 | 50.2 | 51.8 | 57.6 | 56.8 | 50.8 | 46.7 |
| May-19 | 50.5 | 44.3 | 47.9 | 49.4 | 49.8 | 50.2 | 52.7 | 59.4 | 57.3 | 48.2 | 46.3 |
| Jun-19 | 50.6 | 45.0 | 47.6 | 48.0 | 49.3 | 49.4 | 52.1 | 57.7 | 57.4 | 49.2 | 46.3 |
| Jul-19 | 50.4 | 43.2 | 46.6 | 48.0 | 49.4 | 49.9 | 52.5 | 55.1 | 56.6 | 50.3 | 47.7 |
| Aug-19 | 50.3 | 43.5 | 47.1 | 47.4 | 49.3 | 50.4 | 51.4 | 51.6 | 57.0 | 49.4 | 47.8 |
| Sep-19 | 51.1 | 41.7 | 46.0 | 48.3 | 48.9 | 51.4 | 51.4 | 51.1 | 57.3 | 49.5 | 46.4 |
| Oct-19 | 51.3 | 42.1 | 46.2 | 49.6 | 48.4 | 51.7 | 50.6 | 51.1 | 57.8 | 49.2 | 48.3 |
| Nov-19 | 52.6 | 44.1 | 47.0 | 48.9 | 48.9 | 51.8 | 51.2 | 50.3 | 58.3 | 47.9 | 37.0 |
| Dec-19 | 52.4 | 43.7 | 46.4 | 47.5 | 48.4 | 51.5 | 52.7 | 50.2 | 56.9 | 48.2 | 45.1 |
| Jan-20 | 51.9 | 45.3 | 48.1 | 50.0 | 48.8 | 51.1 | 55.3 | 49.3 | 54.9 | 46.0 | 44.9 |
| Feb-20 | 50.7 | 48.0 | 49.1 | 51.7 | 47.8 | 40.3 | 54.5 | 49.1 | 52.5 | 47.1 | 45.4 |
| Mar-20 | 48.5 | 45.4 | 44.3 | 47.8 | 44.8 | 50.1 | 51.8 | 45.2 | 42.4 | 44.2 | 35.0 |
| Apr-20 | 36.1 | 34.5 | 33.4 | 32.6 | 41.9 | 49.4 | 27.4 | 44.1 | 44.4 | 29.7 | 30.9 |
| May-20 | 39.8 | 36.6 | 39.5 | 40.7 | 38.4 | 50.7 | 30.8 | 46.7 | 48.1 | 40.0 | 37.2 |
| Jun-20 | 49.8 | 45.2 | 47.4 | 50.1 | 40.1 | 51.2 | 47.2 | 50.4 | 47.7 | 44.6 | 43.2 |
| Jul-20 | 50.9 | 51.0 | 51.7 | 53.3 | 45.2 | 52.8 | 46.0 | 50.8 | 50.0 | 49.6 | 44.9 |
| Aug-20 | 53.1 | 52.2 | 51.6 | 55.2 | 47.2 | 53.1 | 52.0 | 49.4 | 48.8 | 49.4 | 40.1 |
| Sep-20 | 53.2 | 56.4 | 53.5 | 54.1 | 47.7 | 53.0 | 56.8 | 51.0 | 50.7 | 50.4 | 42.1 |
| Oct-20 | 53.4 | 58.2 | 54.8 | 53.7 | 48.7 | 53.6 | 58.9 | 49.5 | 51.0 | 51.4 | 43.3 |
| Nov-20 | 56.7 | 57.8 | 53.8 | 55.6 | 49.0 | 54.9 | 56.3 | 49.5 | 54.7 | 50.9 | 42.4 |
| Dec-20 | 57.1 | 58.3 | 55.2 | 57.5 | 50.0 | 53.0 | 56.4 | 51.2 | 57.0 | 48.2 | n.a |

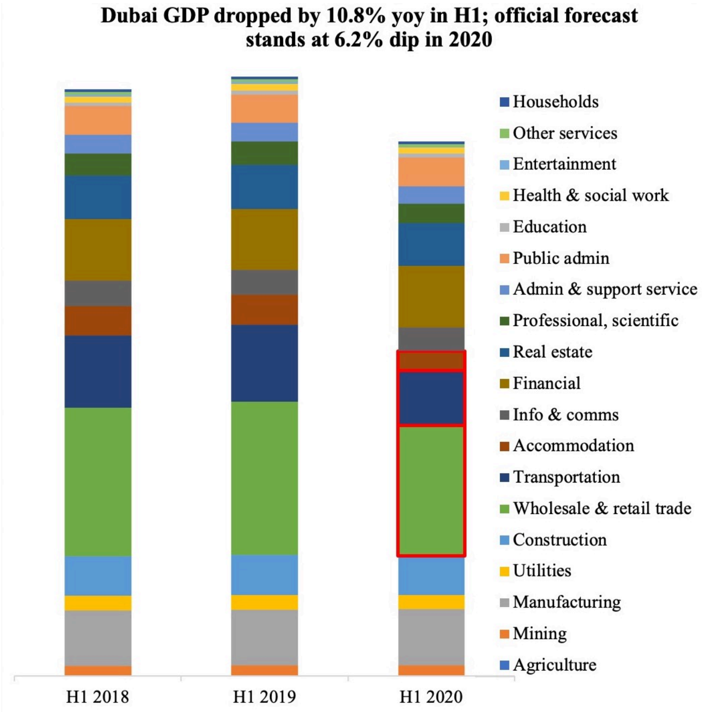
*Source: Refinitiv Datastream, Nasser Saidi & Associates*

PMIs across the globe were released this week. **Overall, recovery seems to be the keyword with improvements in Dec** – in spite of the recent Covid19 surge, the Covid variant and ongoing lockdowns/ restrictions – with new orders and export orders supporting sentiment, with some stability in job creation. However, supply chain issues continue to be a sticking point: the JP Morgan global manufacturing PMI – which remains at a 33-month high of 53.8 in Dec – identifies “marked delays and disruption to raw material deliveries, production schedules and distribution timetables”.

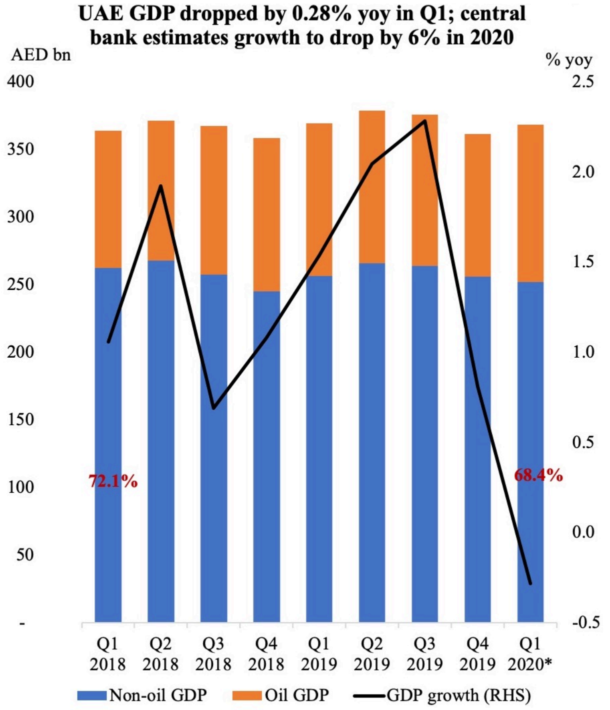
In the Middle East, while **UAE and Saudi Arabia PMIs improved** (the former recovering from 2 straight months of sub-50 readings), **Egypt slipped to below-50** after 3 months in expansionary territory. While Egypt's sentiment dipped on the recent surge in Covid19 cases, the 12-month outlook improved on optimism around the vaccine rollout. However, the UAE's announcement of the rollout of Sinopharm vaccine in early-Dec seems to have had little impact on the year-ahead outlook, with business activity expected to remain flat over 2021 (survey responses were collected Dec 4-17) and job losses continuing to fall at an accelerated rate.

## 2. Covid19 & impact on Dubai & UAE GDP

The UAE has seen a negative impact from Covid19: the central bank estimates growth this year to contract by 6% yoy, with both oil and non-oil sector expected to contribute to the dip (this is less than the IMF's estimate of a 6.6% drop in 2020). Oil production fell in Q2 and Q3 by 4.1% and 17.7% yoy respectively, in line with the OPEC+ agreement, and spillover effects on the non-oil economy saw the latter's growth contract by 1.9% yoy in Q1 (vs oil sector's growth of 3.3%). The latest GDP numbers from Dubai underscore the emirate's dependence on trade and tourism to support the non-oil economy: overall GDP dropped by 10.8% yoy in H1 2020; the three sectors (highlighted in red border below) trade, transportation and accommodation (tourism-related) which together accounted for nearly 40% of GDP declined by 15%, 28% and 35% respectively. Dubai forecasts growth to decline by 6.2% this year, before rising to 4% in 2021.




*Source: Dubai Statistics Centre, FCSA, Nasser Saidi & Associates*

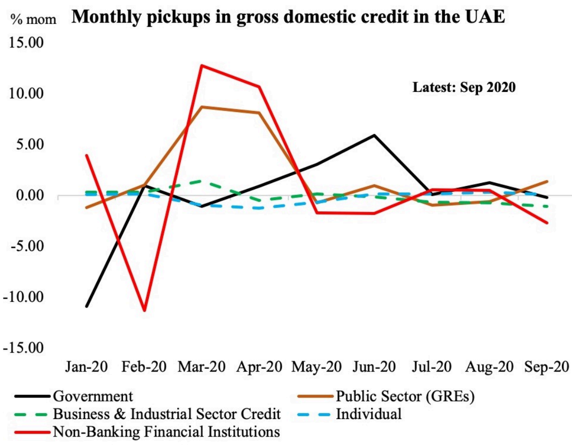



**News of a 5th stimulus package worth AED 315mn** (announced on $6^{th}$ Jan) for Dubai – an extension of some incentives till Jun 202, refunds on hotel sales and tourism dirham fees, one-time market fees exemption for establishments that did not benefit from reductions in previous packages and decision to renew licenses without mandatory lease renewal among others – **will support growth this year, as well as the uptick from Expo 2021** (based on widespread vaccinations across the globe and potential resumption of air travel by H2 this year). With plans to inoculate 70% of the UAE population by 2021, we remain optimistic about UAE/ Dubai prospects subject to the effective implementation of the recent spate of reforms (including the 100% foreign ownership of businesses, retirement & remote working visas etc.) as well as embracing new and old synergies – Israel and Qatar respectively. Medium-term prospects can be further enhanced by accelerating decarbonization and digitisation – read a related op-ed published in Dec.

### 3. UAE credit and SMEs

The UAE central bank has extended support to those persons and businesses affected by Covid19 by launching the **Targeted Economic Support Scheme**, which is now extended till Jun 2021.

Overall credit disbursed till Sep 2020 was up 2.9% yoy and up 1.2% ytd: but during the Apr-Sep 2020, the pace of lending to GREs (+22.7% yoy) and government (+19.6%) have outpaced that to the private sector (-1.0%).



*Source: UAE Central Bank, Nasser Saidi & Associates*

**Table: Bank lending to MSMEs in the UAE**

| *in AED bn, unless specified* | **Dec-19** | **Mar-20** | **Jun-20** | **Sep-20** | **% qoq (latest)** | **% ytd** |
|---|---|---|---|---|---|---|
| Microenterprises | 11.4 | 10.9 | 10.5 | 10.6 | 1.0% | -7.0% |
| Small enterprises | 28.2 | 29.4 | 29.6 | 28.9 | -2.4% | 2.5% |
| Medium enterprises | 49.9 | 53.1 | 52.3 | 52.9 | 1.1% | 6.0% |
| Total lending to MSMEs | 89.5 | 93.4 | 92.4 | 92.4 | 0.0% | 3.2% |
| Total lending to private sector | 1150.0 | 1164.9 | 1156.3 | 1138.4 | -1.5% | -1.0% |
| Total domestic lending | 1592.6 | 1595.0 | 1626.9 | 1611.7 | -0.9% | 1.2% |
| Share of MSMEs as % of private sector lending | 7.8% | 8.0% | 8.0% | 8.1% | | |
| Share of MSMEs as % of domestic lending | 5.6% | 5.9% | 5.7% | 5.7% | | |

*Source: UAE Central Bank, Nasser Saidi & Associates*

| | **Mar-20** | **Jun-20** | **Sep-20** | **Jun 2020 (% qoq)** | **Sep 2020 (% qoq)** |
|---|---|---|---|---|---|
| **Microenterprises** | 30,625 | 32,021 | 30,843 | 4.6 | -3.7 |
| **Small enterprises** | 60,150 | 63,147 | 54,514 | 5.0 | -13.7 |
| **Medium enterprises** | 29,137 | 29,767 | 29,004 | 2.2 | -2.6 |
| **Total MSMEs** | 120,272 | 124,935 | 114,361 | 3.9 | -8.5 |

*Source: UAE Central Bank, Nasser Saidi & Associates*

It has been **a difficult period for MSMEs** (Micro, Small and Medium Enterprises): the number of MSMEs declined by 8.5% qoq in Sep 2020, following an uptick of 3.9% qoq in Jun 2020, signaling deteriorating business conditions that may have forced such firms to close. This also suggests a potential increase in NPLs once the current banks’ support (e.g. deferring loan periods) come to a close. Overall domestic lending also fell by 0.9% qoq as of Sep 2020. The largest share of loans within the MSME sector continues to be to the medium-sized firms (57.3%) and about 1/3-rd to the small enterprises. Considering the amount disbursed per firm, medium enterprises pocketed AED 1.8mn in Q3: this is 3.4 times the amount disbursed per small firm and 5.3 times the amount disbursed to microenterprises.

**SMEs also need to think beyond the financial pain point to survive in the post-pandemic era.** In addition to reducing/ streamlining operational costs[1], learning digital skills, boosting online profiles and hosting a robust payments and collections platform will also support SMEs to be more bankable in the future.

## 4. Back to “business as usual” for the GCC

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Share of Qatar's exports to** | | | | | |
| Oman | 0.2% | 0.3% | 0.8% | 1.0% | 0.8% |
| Saudi Arabia | 1.1% | 0.9% | 0.4% | 0.0% | 0.0% |
| United Arab Emirates | 6.1% | 6.6% | 3.8% | 1.7% | 1.5% |
| **Share of Qatar's imports from** | | | | | |
| Oman | 1.1% | 1.2% | 2.5% | 3.1% | 3.4% |
| Saudi Arabia | 4.3% | 4.3% | 2.1% | 0.0% | 0.0% |
| United Arab Emirates | 8.8% | 9.1% | 5.5% | 0.2% | 0.1% |

***Source: UN Comtrade, Nasser Saidi & Associates***

The recent GCC Summit saw Qatar's blockade (imposed in 2017) being lifted: this improves and will support political stability (a "united GCC" front) and is likely to restore UAE and Saudi businesses direct trade and investment links. **Allowing bilateral tourist movements will support upcoming mega-events in the region like the Dubai Expo this year and Qatar's 2022 World Cup**. Trade will be restored among the nations: imports from the UAE had dropped to a negligible 0.1% last year, from close to 10% in the year before the blockade. Oman, meanwhile, had gained – with businesses opting to re-route trade with Qatar through Oman's ports.

**Greater GCC regional stability, implies lower perceived sovereign risk, including credit risk which –other things equal- will lead to an improvement in sovereign credit ratings, lower spreads and CDS rates and encourage foreign portfolio inflows as well as FDI.**

*[1] Even Mashreq Bank, Dubai's 3rd largest lender, is planning to reduce operational costs by moving nearly half its jobs to cheaper locations in the emerging markets (to be completed by Oct 2021), according to a Bloomberg report.*

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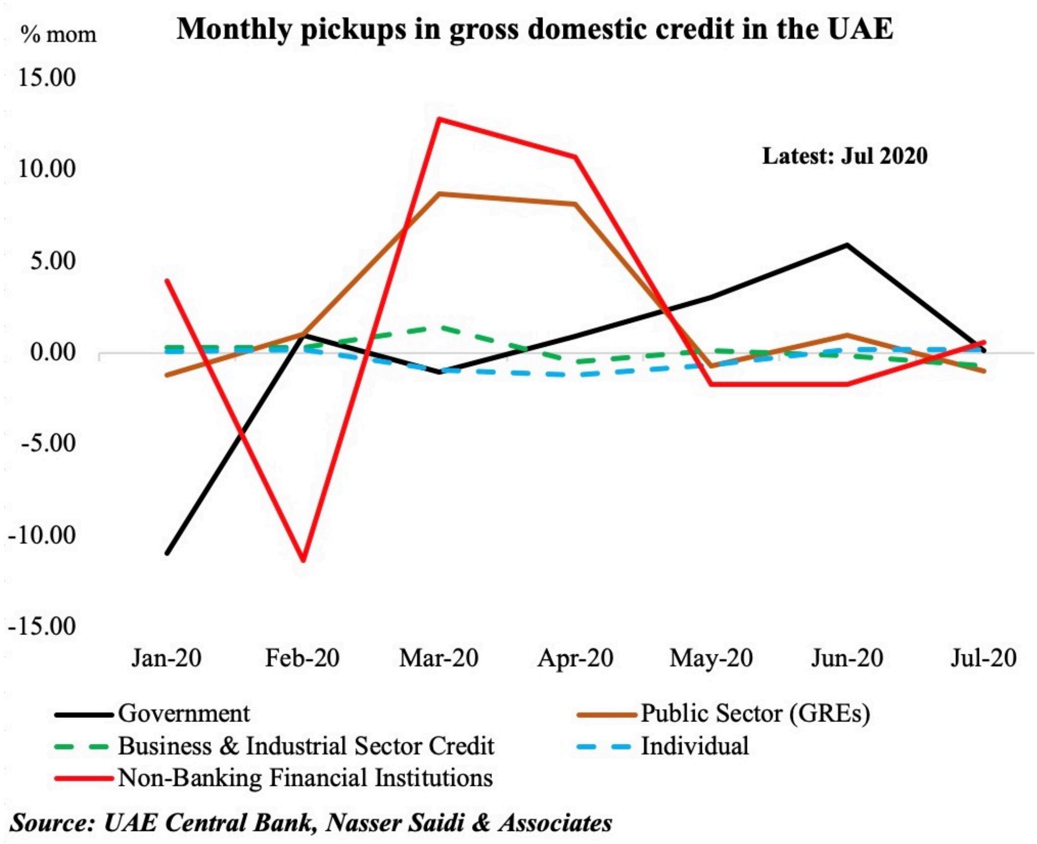
# Weekly Insights 29 Sep 2020: Supporting the recovery of UAE’s private sector (focus on SME finance)

*[This is an edited version of the post issued originally on 29th Sep; Table 1 & related text have been updated]*

**Supporting the recovery of UAE’s private sector: focus on SME finance**

To support the UAE economy in the backdrop of Covid19, the central bank (since Mar 2020) has rolled out a number of measures including liquidity injection via loosening of banks’ capital requirements, loan repayment deferrals and the Targeted Economic Support Scheme (TESS) among others. According to the UAE central bank, as of end-Jul, banks and financial institutions had availed AED 44.72bn worth of interest-free loans (89.44% of total) as part of the TESS facility. It needs to be highlighted that banks used close to 95% of these funds towards postponing loan payments for the affected sectors. It was also disclosed separately that 300k individuals, 10k SMEs and more than 1500 private sector firms had used the economic stimulus.




The latest data from the UAE central bank shed some light on the broader credit movements: the accompanying chart shows the monthly changes in gross domestic credit. The dotted lines are credit to businesses and individuals (the private sector) which show no substantial increases – in fact, it increased by an average 0.9% year-to-date (ytd) for businesses and dropped by 2.1% ytd for individuals. The uptick in lending to the public sector (government related entities) and government have been discussed previously here and here, but the non-bank financial institutions (which include private equity & venture capital firms, other investment firms, alternative asset managers, insurance firms and others) has also witnessed a 11.8% rise in credit ytd. There is not much visibility of the activities of NBFIs in the UAE (in terms of publicly available data), and it is not clear if the SME customer segment, important for recovery, was catered to (via consumer finance, SME financing & credit card products, to name a few).

However, at the risk of sounding like a broken record, the question is whether the package has achieved its goal of supporting the economy or whether it resulted in a crowding out of the private sector (businesses and individuals) in favour of the government, public sector & also the financial institutions? The UAE central bank's latest quarterly report does mention that MSMEs (Micro, Small and Medium Enterprises) benefitted from the economic package – highlighting the 10.4% yoy increase in lending in Q2 this year. But, at the end of the day, share of SME lending in total domestic lending was at 5.7% in Q2 (Q2 2019: 5.6%), lower than 5.9% share as of end-Q1.

**Table: Bank lending to MSMEs in the UAE**

| *in AED bn, unless specified* | Dec-19 | Mar-20 | Jun-20 | % qoq (latest) | % ytd |
|---|---|---|---|---|---|
| Microenterprises | 11.4 | 10.9 | 10.5 | -3.7% | -7.9% |
| Small enterprises | 28.2 | 29.4 | 29.6 | 0.7% | 5.0% |
| Medium enterprises | 49.9 | 53.1 | 52.3 | -1.5% | 4.8% |
| Total lending to MSMEs | 89.5 | 93.4 | 92.4 | -1.1% | 3.2% |
| Total lending to private sector | 1134.6 | 1148.9 | 1139.4 | -0.8% | 0.4% |
| Total domestic lending | 1592.6 | 1595 | 1626.9 | 2.0% | 2.2% |
| Share of MSMEs as % of private sector lending | 7.9% | 8.1% | 8.1% | | |
| Share of MSMEs as % of domestic lending | 5.6% | 5.9% | 5.7% | | |

***Source: UAE Central Bank, Nasser Saidi & Associates***

Additional data is beneficial: the tables below provide more details of bank lending to the MSMEs, segregated by micro, small and medium enterprises[1]. Within the MSME segment, as of end-Q2, the largest share of loans was disbursed to medium-sized firms (56.6%) and close to 1/3-rd to the small enterprises.

The number of MSMEs in the UAE have increased by 3.9% qoq to 124,935 as of end-Jun – not surprising given the central bank's mandate of reduced duration for opening new SME accounts (all banks need to open accounts for SME customers within a maximum timeframe of two days, provided documentation and AML/CTF obligations are met). The number of accounts in the micro- and small segments increased by 4.6% and 5% qoq in Q2. Nevertheless, if we consider the amount disbursed per firm, medium enterprises pocketed AED 1.76mn in Q2: this is 3.7 times the amount disbursed per small firm and more than 5.3 times the amount disbursed to microenterprises.

**Table: Number of MSMEs accounts at banks operating in the UAE**

| | Mar-20 | Jun-20 |
|---|---|---|
| Microenterprises | 30625 | 32021 |
| Small enterprises | 60150 | 63147 |
| Medium enterprises | 29137 | 29767 |
| Total MSMEs | 120272 | 124935 |

*Source: UAE Central Bank, Nasser Saidi & Associates*

The results are quite eye-opening, but not surprising (unfortunately): the GREs have benefitted in terms of the pace of overall domestic lending during the Covid19 period (remember that many of these firms are part of the sectors most affected by the pandemic!) and while lending to the SMEs has been dismal, within the SMEs, the medium-sized firms have benefitted the most. Considering how significant SMEs are to the UAE[2], it is imperative that financial institutions support them to bring the economy back on track. Some of the policies rolled out by the central bank had a 6-month deadline, and since no announcements have been made (yet) regarding extensions, anecdotal evidence points to banks winding down loan repayment deferrals and similar policies (for businesses/ individuals).

With the economy not yet back on the pre-Covid19 track, and the central bank’s own call of a 4.5% decline in non-oil GDP this year, targeted policy stimulus measures need to continue. With rising indebtedness of both individuals (due to job losses or pay cuts) and businesses (directly and indirectly affected by Covid19), there are likely to be spillovers into the financial sector via rising non-performing loans.

Furthermore, as companies wind down operations in the near- to medium-term, nascent insolvency and bankruptcy frameworks in the UAE are likely to be tested. According to the World Bank Doing Business 2020 report’s resolving insolvency sub-category, the UAE’s recovery rate was 27.7 cents on the dollar (vs OECD high income nation’s average of 70.2 and MENA average of 27.3), at a cost of 20% of the estate (vs 9.3 in OECD and

14% in MENA), taking 3.2 years to resolve (vs OECD’s 1.7 and MENA’s 2.7)[3]. However, the strength of the insolvency framework – given recent but untested legislation – stood at an impressive 11 (out of a total score of 16; compares to the OECD average of 11.9 and higher than MENA’s 6.3).

**Support of the private sector is critical for economic recovery**

To provide adequate ongoing backing to the private sector (including the SMEs) is essential. What policy measures need to be in place? (a non-exhaustive list)

- Banking sector continues to support the private sector via reduced bank charges and fees, reduction in minimum balance requirements, zero-interest instalment plans etc.; of course, banks’ compliance/regulatory departments need to ensure that firms they lend to follow practices of good financial reporting and governance.
- Limited funding to SMEs from the banking sector is likely to continue, given the current status of opaque information/ reporting/ data. Lack of collateral and issues of transparency are oft-cited constraints to SME lending in the region. The recently announced *credit guarantees* for loans to SMEs is likely to provide support and if successful, could be continued at a nominal rate. Open lines of communication with the credit bureaus can help manage credit risks and ease SME’s access to credit. Two ways to resolve the issue of collateral: 1. Expand the nature of acceptable collateral to both movables and immovables; 2. Establish transparent, blockchain-based collateral registries/ platforms. Furthermore, an SME rating agency (like in India) could provide additional information to lenders. Resolving this constraint alone could kickstart a new wave of entrepreneurship in the country.
- Backing from the government can come via a simple move

like reducing the cost of doing business (various free zones have reduced fees and related charges for a short period) or ensuring no payment delays or boosting specific sectors (Abu Dhabi’s recent announcement to develop AgriTech) or through a wider mandate by instructing the various sovereign wealth funds to invest in local companies, through a dedicated fund, based on best practices.

- Leapfrog on the massive changes Covid19 has brought about in the adoption of technology: varied e-commerce offerings, such as helping SMEs establish interactive websites, to creating innovative payment systems to neo-banking options. Alongside embracing the technology and greater digitalisation, it is necessary to also invest in and create the right ecosystem (bringing together the necessary skillset, retraining existing employees, reducing set-up and ongoing/ recurring business costs etc.).

*[1] The UAE central bank expanded the definition of SMEs so that a larger segment will be in a position to qualify for SME lending.*

*[2] According to Ministry of Economy, the SME sector represents more than 94% of total firms operating in the UAE, accounting for more than 86% of the private sector’s workforce. In Dubai alone, SMEs make up nearly 95% of all companies, employing 42% of the workforce and contributing ~40% to Dubai’s GDP.*

*[3] https://www.doingbusiness.org/content/dam/doingBusiness/country/u/united-arab-emirates/ARE.pdf*

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