Interview with Al Arabiya (Arabic) on Fed interest rates, 20 Mar 2024

In this interview with Al Arabiya aired on 20th March 2024, Dr. Nasser Saidi discusses Fed dot plots, inflation, labour market growth and growing fiscal deficits in the US.

Watch the TV interview at this link as part of the related news article:

"السعيدي" للعربية: لا تغيير متوقعا من "الفيدرالي" لسعر الفائدة اليوم

قال: الاحتياطي يترقب بيانات سوق العمل

قال رئيس شركة ناصر السعيدي وشركاه، الدكتور ناصر السعيدي، إنه لا تغيير متوقعا لسعر الفائدة في اجتماع مجلس إدارة بنك الاحتياطي الفيدرالي اليوم الأربعاء، لأنه في موقع ترقب للسوق وأهم شيء ترقب لبيانات سوق العمل.

وأضاف السعيدي، في مقابلة مع "العربية Business"، أن "الفيدرالي" سينظر لتوقعات التضخم وأسعار الاستهلاك الشخصي.

وأشار إلى إجماع توقعات "الدوت بلوت" بأنه لا بد من حدوث تخفيض للفوائد مرتين أو ثلاث خلال 2024، وتتوقع السوق بدء التخفيض في يونيو والأفضل الانتظار لشهر سبتمبر لتجنب الخطأ الماضي من "الفيدرالي" بعدم رفع الفوائد مع زيادة التضخم.

Interview with Al Arabiya (Arabic) on the US Fed, fiscal deficits & debt, 2 Nov 2023

In this interview with Al Arabiya aired on 2nd November 2023, Dr. Nasser Saidi discusses the topic of growing fiscal deficit financing and debt build up in the US, risks and reasons underlying holding steady on rates & continuing to shrink its outsize balance sheet.

Watch the TV interview at this link as part of the related news article:

السعيدي: لا أتوقع خفض "الفيدرالي" الفائدة بالنصف الأول من 2024

قال رئيس شركة ناصر السعيدي وشركاه، ناصر السعيدي، في مقابلة مع "العربية Business"، إن "الفيدرالي" الأميركي، بموقف صعب مع ارتفاع النمو وعدم الوصول لمستهدف التضخم عند 2%.

وأضاف أن عدم تراجع نسب التضخم بوتيرة سريعة وقوة سوق العمل يعقدان مشكلة مستقبل أسعار الفائدة.

ولا يتوقع السعيدي، خفض "الفيدرالي" للفائدة في النصف الأول من 2024.

Comments on Lebanon's sharply falling tax revenues in L'Orient Today, 5 Jan 2023

Dr. Nasser Saidi's comments on Lebanon's sharply falling tax revenues were published in L'Orient Today, as part of an article titled "Rate of Lebanon's state revenues among lowest globally", published on 5th January 2023.

Comments are highlighted below:

The state's tax base is the country's shrinking economy. There is less income and profit available for taxation than previously in an economy that is less than half its pre-crisis GDP. The state is highly reliant on a VAT that brings in less money as consumption falls dramatically.

"A major reason for the decline in government revenue is that Lebanon's tax system does not adjust to inflation," former economy minister and central bank vice governor Nasser Saidi told L'Orient Today. By way of example, he cited customs.

Prior to Dec. 2022, customs duties – a major component of state revenue – were fixed at the LL1507.5 exchange rate, *leading to a more than 95 percent reduction in the real value of state revenues since Oct. 2019 as the lira depreciated. In December, customs were converted to LL15,000 per dollar; roughly a third of the real lira value of the import at the current parallel market rate.*

Saidi said that, as part of overall reforms, Lebanon needs to adjust its tax system to protect revenues from inflation. "For example, the so-called 'customs dollar' should be abolished and tariff rates should apply to the foreign currency value of the goods and [be] paid in foreign currency," he said.

"All taxes will have to be adjusted for inflation so that [the] government has revenue to cover core spending," Saidi added.

The 2022 budget, published on Nov. 15, 10 and a half months into the year, converted a number of taxes and fees to foreign currencies, such as consular fees, port fees and airport fees, as well as some capital gains and interest income taxes.

Other factors that have driven the sharp decrease in revenue include increased tax evasion amid a growing cash economy and less effective tax administration, as well as less revenue from taxes on bank interest as deposits decline.

Saidi called the state's ability to collect taxes "sharply impaired" and said anecdotal evidence suggests tax evasion has "substantially increased."

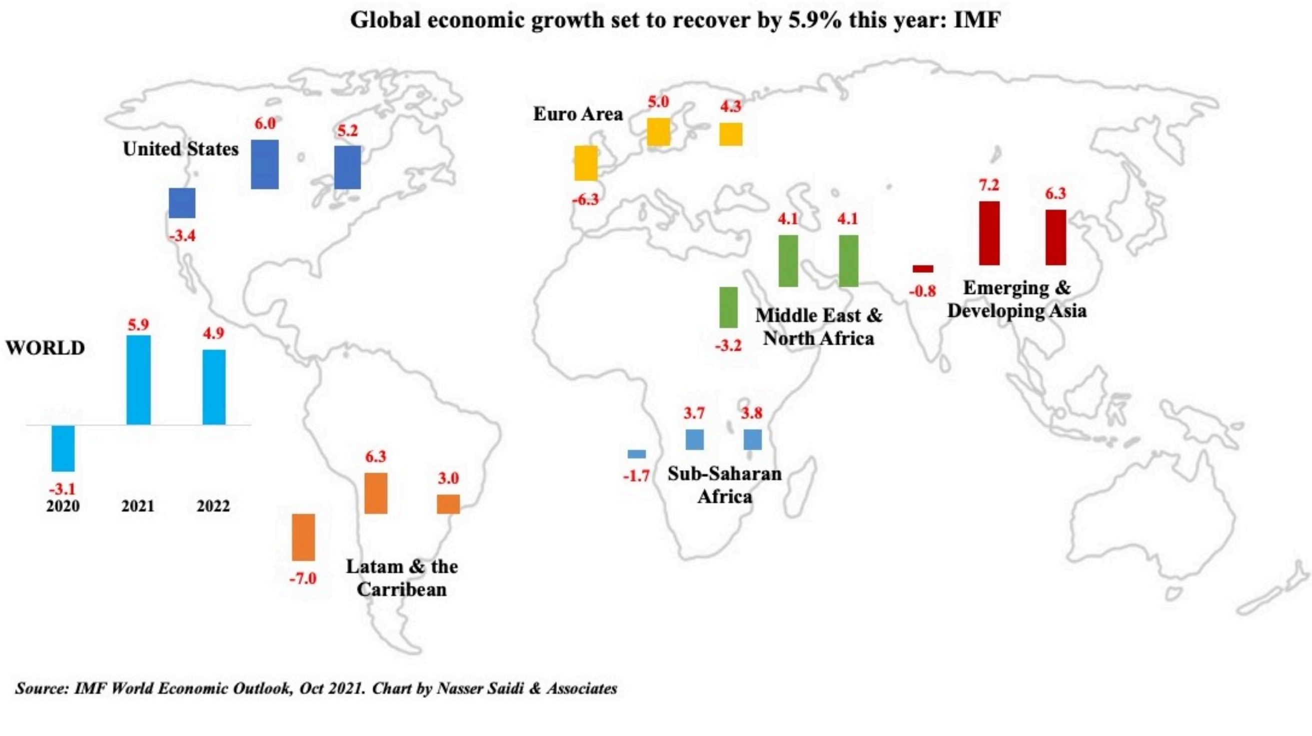
Weekly Insights 14 Oct 2021:

Global divergence in growth predicted – can MENA cope?

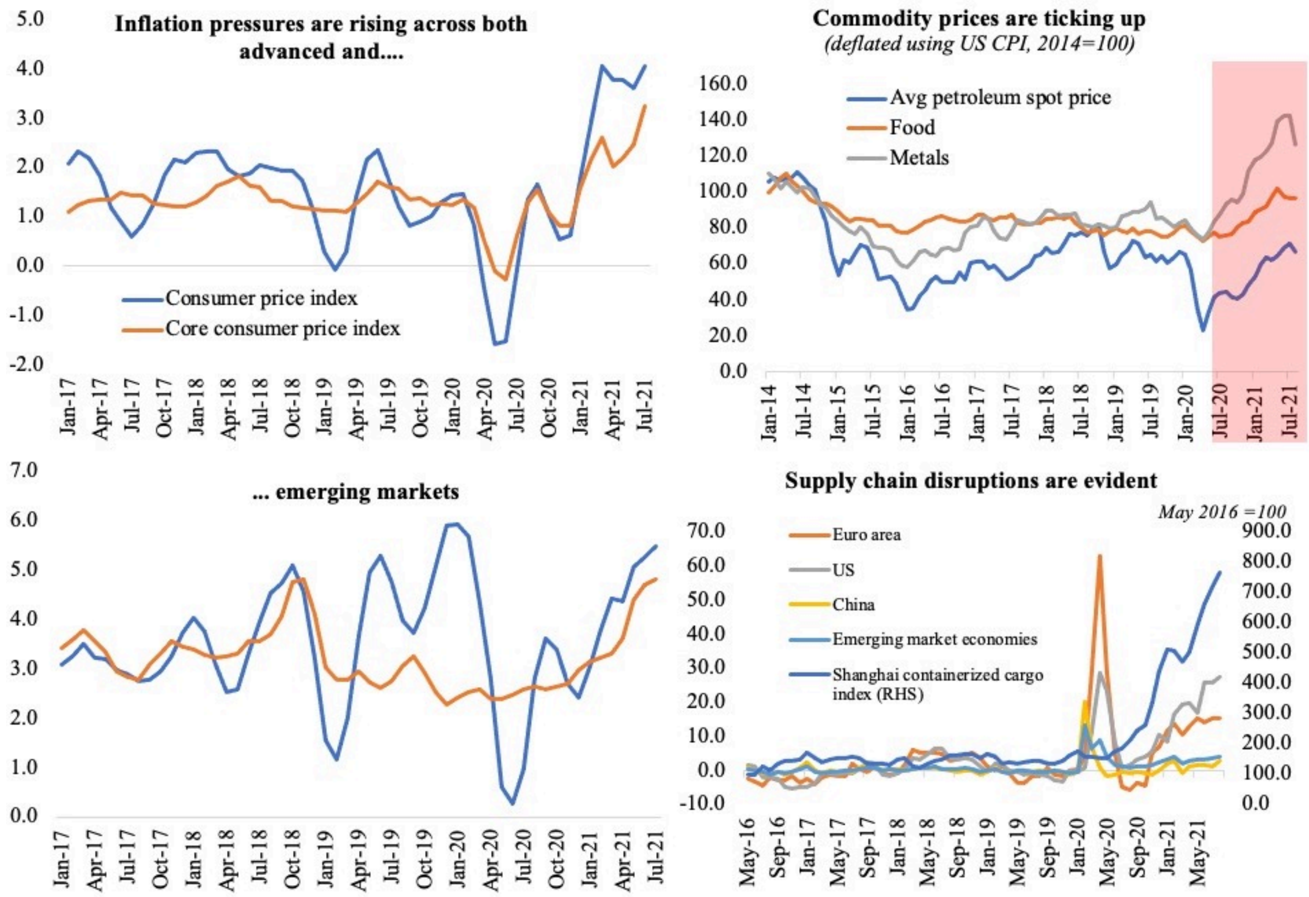
Weekly Insights 14 Oct 2021: Global divergence in growth predicted – can MENA cope?

1. The IMF expects global growth to recover by 6% in 2021, but at divergent paces

The main message from the IMF remains a sombre one: for full global recovery, vaccine deployment has to be increased; as supply chain constraints continue amid high demand, and even as employment is below pre-pandemic levels inflation is a worry (expected to decline in 2022, but highly uncertain); as economies rollback stimulus measures, economies need to be prepared for liquidity challenges as well as capital outflows.



2. Inflation is a major risk factor: more so, if pandemic-induced supply-demand mismatches persist for longer



Source: IMF World Economic Outlook, Oct 2021
Supply chain disruptions are calculated as the difference between the supply delivery times subindex in purchasing managers' index (PMI) and a counterfactual, cyclical measure of supply delivery times based on the manufacturing output subindex in the PMI.

- A confluence of (a) supply chain disruptions; (b) cyclical recovery of demand post-Covid (fueled by fiscal & monetary stimulus); and (c) weather shocks is leading to the current uptick in prices
- Disruptions are likely to continue into early next year but any prolonged supply shortages will lead to more uncertainty; wages are another question mark (depending on demand vs supply)

3. The Middle East & North Africa region is estimated to grow by 4.1% this year and next

- **The oil exporters will benefit from the recent uptick in prices**, and along with a relatively higher pace of vaccination, witness a return to pre-pandemic growth levels by next year

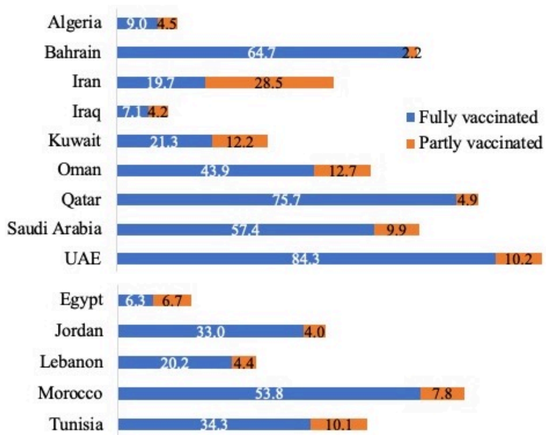
- **Oil importers** will be hit by the rising oil prices and food prices (exerting greater pressure on poorer families), but a faster vaccination pace could support a return to "normal" sooner in tourism dependent nations (like Egypt & Jordan)
- **Covid19 and its aftermath will likely result in a further widening of inequality:** be it health (pace of vaccination), jobs (nearly one third of the employed population in the region is facing high risks of layoff or reduction of wages and/or hours of work: ILO/ESCWA), poverty (18mn people have been pushed into poverty in MENA: World Bank)
- **What needs to be done?** Highlights the need for social safety nets / cash transfers; support for women and youth to return to the labour force; ensure that children return to school & resume studies after the pandemic-gap. In the absence of support, the region might be looking at a phase of greater social unrest

GDP growth in the Middle East & North Africa region *(% yoy)*

	2000-18	2019	2020	2021	2022
Oil Exporters					
Algeria	3.4	0.8	-4.9	3.4	1.9
Bahrain	4.6	2.6	-5.1	2.4	3.1
Iran	3.4	-6.8	3.4	2.5	2.0
Iraq	10.1	5.8	-15.7	3.6	10.5
Kuwait	3.8	-0.6	-8.9	0.9	4.3
Oman	3.5	-0.8	-2.8	2.5	2.9
Qatar	9.4	0.8	-3.6	1.9	4.0
Saudi Arabia	3.7	0.3	-4.1	2.8	4.8
UAE	4.4	3.4	-6.1	2.2	3.0
Oil importers					
Egypt	4.4	5.6	3.6	3.3	5.2
Jordan	4.6	2.0	-1.6	2.0	2.7
Lebanon	3.6	-7.3	-25.0	*n/a*	*n/a*
Morocco	4.2	2.6	-6.3	5.7	3.1
Tunisia	3.2	1.0	-8.6	3.0	3.3
West Bank & Gaza	4.0	1.4	-11.5	4.4	6.0

Source: IMF World Economic Outlook database, Oct 2021

Pace of vaccination remains unequal within MENA



Source: Our World in Data.

4. Inflation in the MENA region is ticking up, as food prices increase sharply

Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates
Data updated as of Sep for Qatar, Saudi Arabia, Egypt; as of Aug for Lebanon; till July for the rest

5. A Bird's Eye View of the Fiscal Outlook: Global govt debt at just below 100% of GDP; higher vs. pre-pandemic

- **Fiscal balance remains in deficit in 2021 across all regional groupings**, with the global reading at 7.9% vs MENA's 4.3% and Saudi's 3.1%. *A summary of fiscal measures since Jan 2020 are charted for select MENA countries (below)*
- **Governments have scaled back spending** in 2021, but **government revenues are still low** compared to pre-pandemic levels. Furthermore, when **stimulus measures** (~ $16.9trn in pandemic-related fiscal measures) **are rolled**

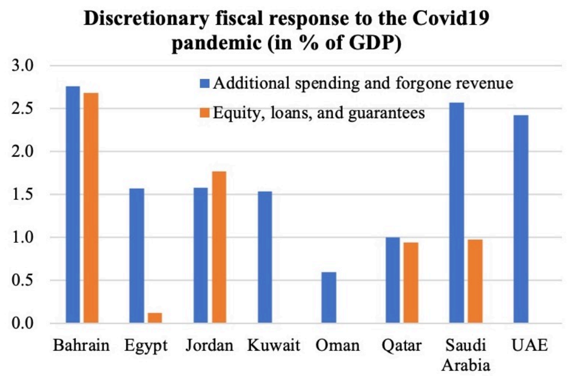
back, businesses could be struggle to meet financing requirements, resulting in lower revenues/ insolvencies/ bankruptcies

- **Government debts have increased in 2020 & 2021**, and is unlikely to fall back to pre-pandemic levels soon => **greater risk to global interest rate hikes & refinancing risks** (esp those nations with limited fiscal space)
- **What can be done to ease MENA's fiscal pain?** 1. Reduce spending on subsidies, wages; 2. Improve mobilization of revenues + introduction of new taxes (e.g. carbon tax) and/or increase in existing taxes (VAT, excise) to be supported by cash transfers to the poor (where needed); 3. introduction of fiscal rules (only 1/3-rd have such rules in place currently); 4. support businesses (after stimulus measures are removed) by providing deferred tax payment options

Fiscal balance & debt (% of GDP) in select regions

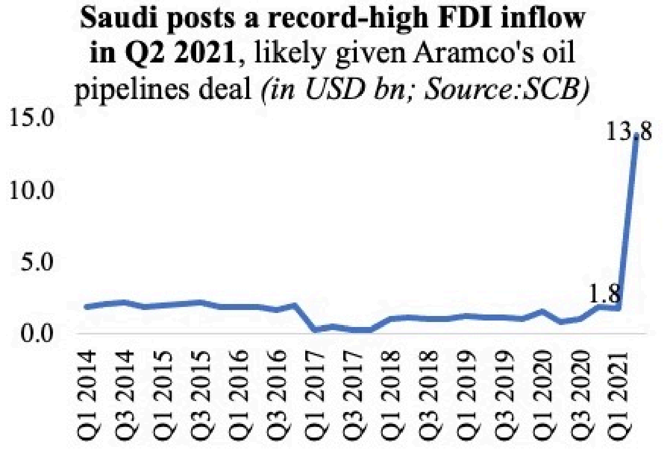
Advanced Economies	2019	2020	2021	2022
Overall fiscal balance (% of GDP)	-3.0	-10.8	-8.8	-4.8
Gross debt (% of GDP, RHS)	103.8	122.7	121.6	119.3
Emerging Market Economies				
Overall fiscal balance (% of GDP)	-4.6	-9.3	-6.6	-5.7
Gross debt (% of GDP, RHS)	54.0	63.1	63.4	64.8
Oil producers				
Overall fiscal balance (% of GDP)	-0.2	-7.5	-4.2	-2.2
Gross debt (% of GDP, RHS)	45.5	58.0	54.1	52.9
Saudi Arabia				
Overall fiscal balance (% of GDP)	-4.5	-11.3	-3.1	-1.8
Gross debt (% of GDP, RHS)	22.8	32.5	29.7	30.8

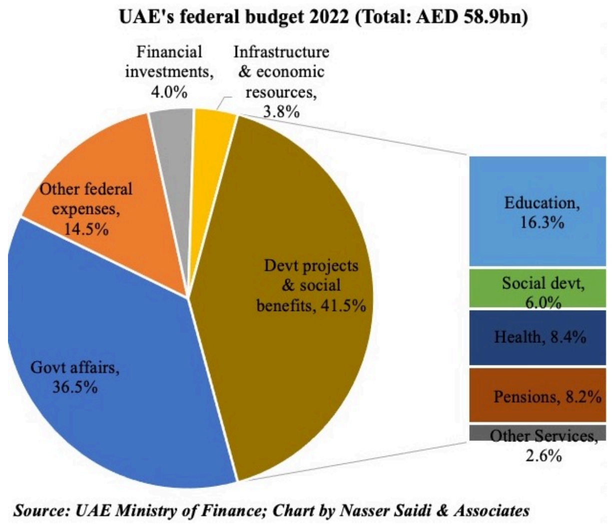
Source: IMF Fsical Monitor, Oct 2021

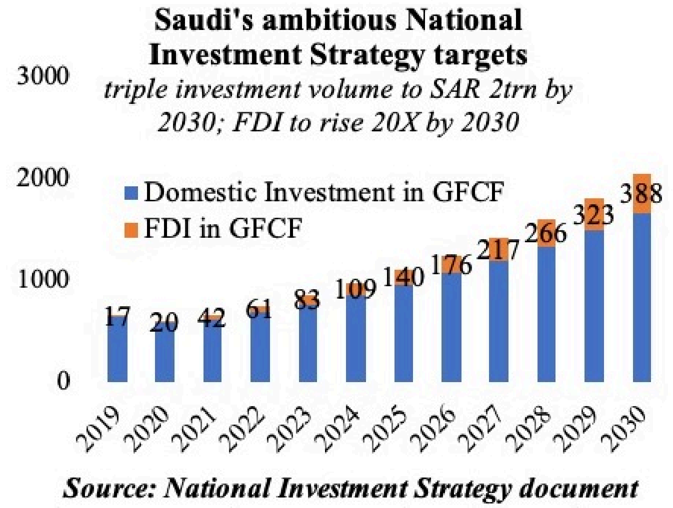


Source: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF

6. UAE's record-high federal budget for 2022 & Saudi Arabia's ambitious FDI targets hogged headlines this week







- **UAE's federal budget** for the 5 years 2022-26 stands at a record high total of AED 290bn
- **Budget expenditure for 2022 is set at AED 58.931bn,** with bulk of it allocated to development projects & social benefits
- Given the oversubscribed orders for UAE's debut federal bonds, **more federal issuances can be expected in the future** (eventually in local currency) & used towards infrastructure spending
- **Saudi Arabia's highly ambitious National Investment Strategy** expects to raise net FDI to SAR 388bn annually & raise local investments to SAR 1.7trn by 2030
- **FDI inflows have been low in recent quarters** compared to historical averages of between USD 8-10bn a quarter during 2008-10. Net FDI touched USD 5.5bn last year.

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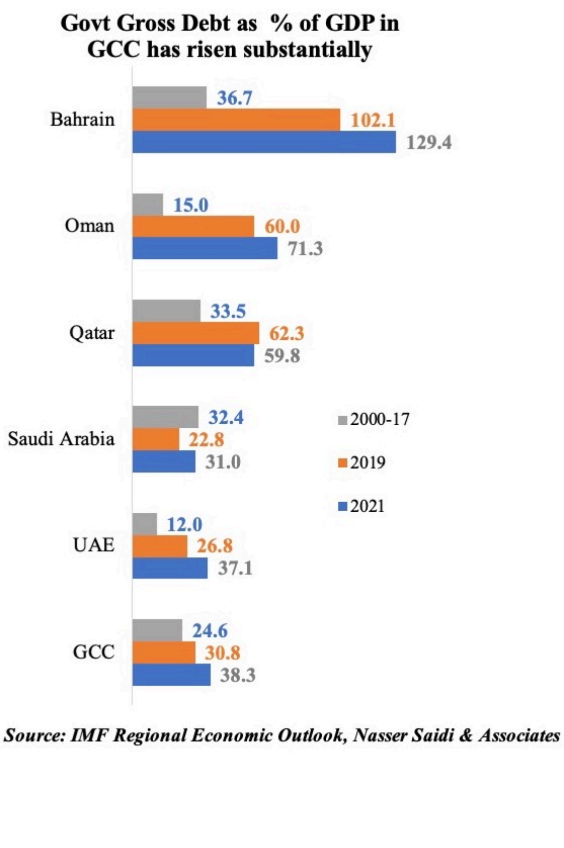
Weekly Insights 7 Oct 2021: Moving Towards Gradual Economic Recovery in the GCC

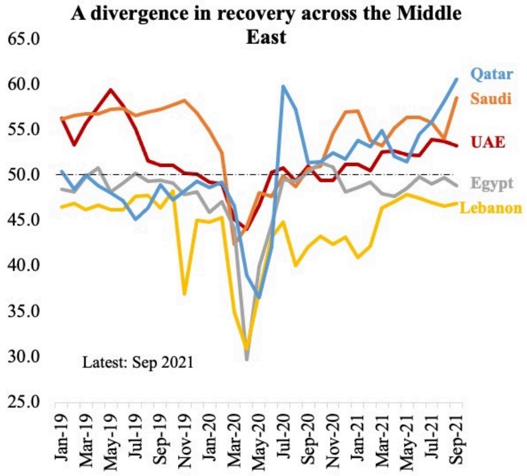
Weekly Insights 7 Oct 2021: Moving Towards Gradual Economic Recovery in the GCC

1. UAE's debut federal debt to support and accelerate the development of a government debt market



- **UAE's Federal government raised USD 4bn in its debut bond sale,** after having received orders upwards of USD 22.5bn. This **underscores investors confidence in the country's fundamentals and its recovery story**
- The individual emirates have tapped markets multiple times, but this is the **first Federal issuance**
- With USD 2bn raised in 40-year notes, the UAE has successfully secured **cheap and long-term funding** for the government. The **funds are to be used for** financing of long-term projects like infrastructure and to also support investments by the Emirates Investment Authority (UAE's SWF)
- This will **support and accelerate the development of a government debt market**, which can be used to finance budget deficits (will not be necessary to maintain a balanced budget, but it would be prudent to introduce fiscal rules)
- **Government gross debt for UAE stands at an estimated 38% of GDP in 2020 –** slightly lower than the 40% average for the GCC and much lower than Bahrain's 130%+ and Oman's 80%+
- The **next step is to create a local currency bond market**: a steady pipeline of issuances would result in stable access to capital that can be tapped when needed; furthermore, given UAE's peg to the dollar, the central bank can also use this to conduct open market operations (support liquidity)

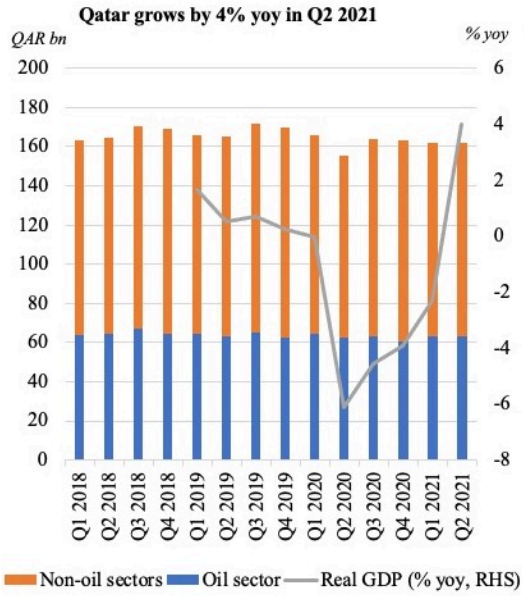
2. PMIs indicate a divergent recovery in the Middle East



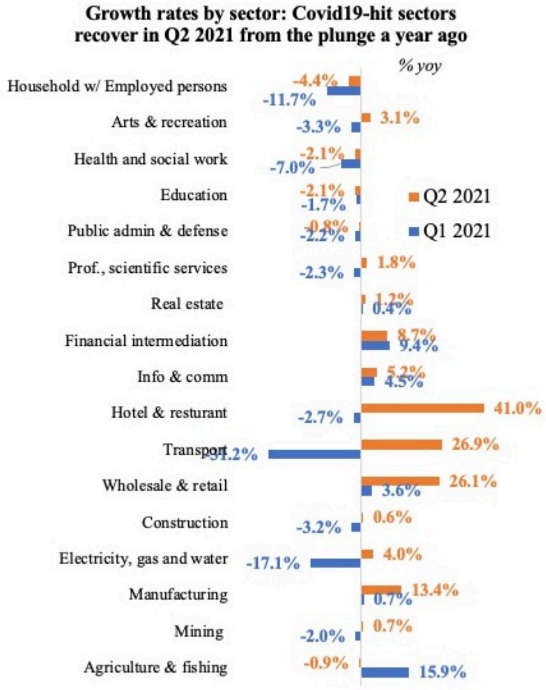
Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- **PMIs of fuel exporters Saudi Arabia, UAE and Qatar continue to expand in 2021**, supported by strong domestic demand thanks to high vaccination rates and ease of restrictions
- **Higher raw material prices & rising fuel costs are hurting businesses bottomline**; however, full costs are not being passed on to consumers (yet!) amid concerns of strong competition
- Meanwhile among oil importers, both **Egypt and Lebanon remain in contractionary territory**
- The political deadlock had been a major factor in Lebanon's plunge in addition to the growth freefall; the formation of the government has not changed businesses sceptical viewpoint
- **Optimism of a recovery in the next 12-months reached an all-time high in Egypt in Sep**, on indications of rising pace of vaccination and slow easing of travel/ tourism restrictions

3. Qatar's GDP grows by 4% in Q2 2021, thanks to a 6% surge in non-oil sector activity



Source: Planning & Statistics Authority, Qatar.
Charts created by Nasser Saidi & Associates

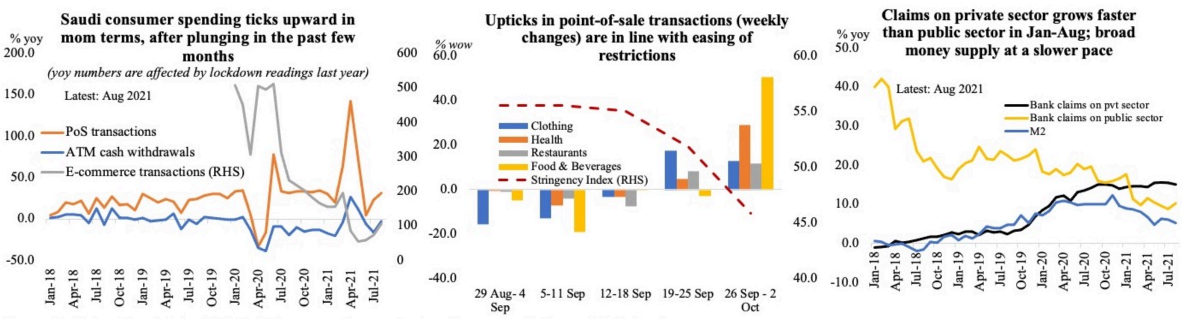


- **GDP in Qatar grew by 4% yoy in Q2 2021**, supported by a 6% surge in non-oil sector growth alongside a 0.7% increase in mining & quarrying
- **Restoring trade and travel links with Saudi, UAE, Bahrain and Egypt** after the embargo was lifted in early 2021 has also benefitted the economy
- Compared to a year ago, **hospitality sector posted the largest increase (41%) in Q2** as did transport (26.9%) and trade (26.1%) – not surprising, since these sectors were most affected by the Covid19 outbreak.
- **Manufacturing picked up by 13.4% yoy in Q2**, after a slight 0.7% gain in Q1
- Another interesting point is the **growth in activity in agriculture & fishing** – possibly a result of policies introduced to support local agricultural products & improve food security

4. Broad money in Saudi Arabia grows at a slower pace than credit growth; e-commerce transaction gains continue

- **Consumer spending in Saudi Arabia has been rising** gradually in month-on-month terms, with **e-commerce transactions** doubling in Aug (SAR 6.9bn from SAR 3.3bn in Aug 2020)

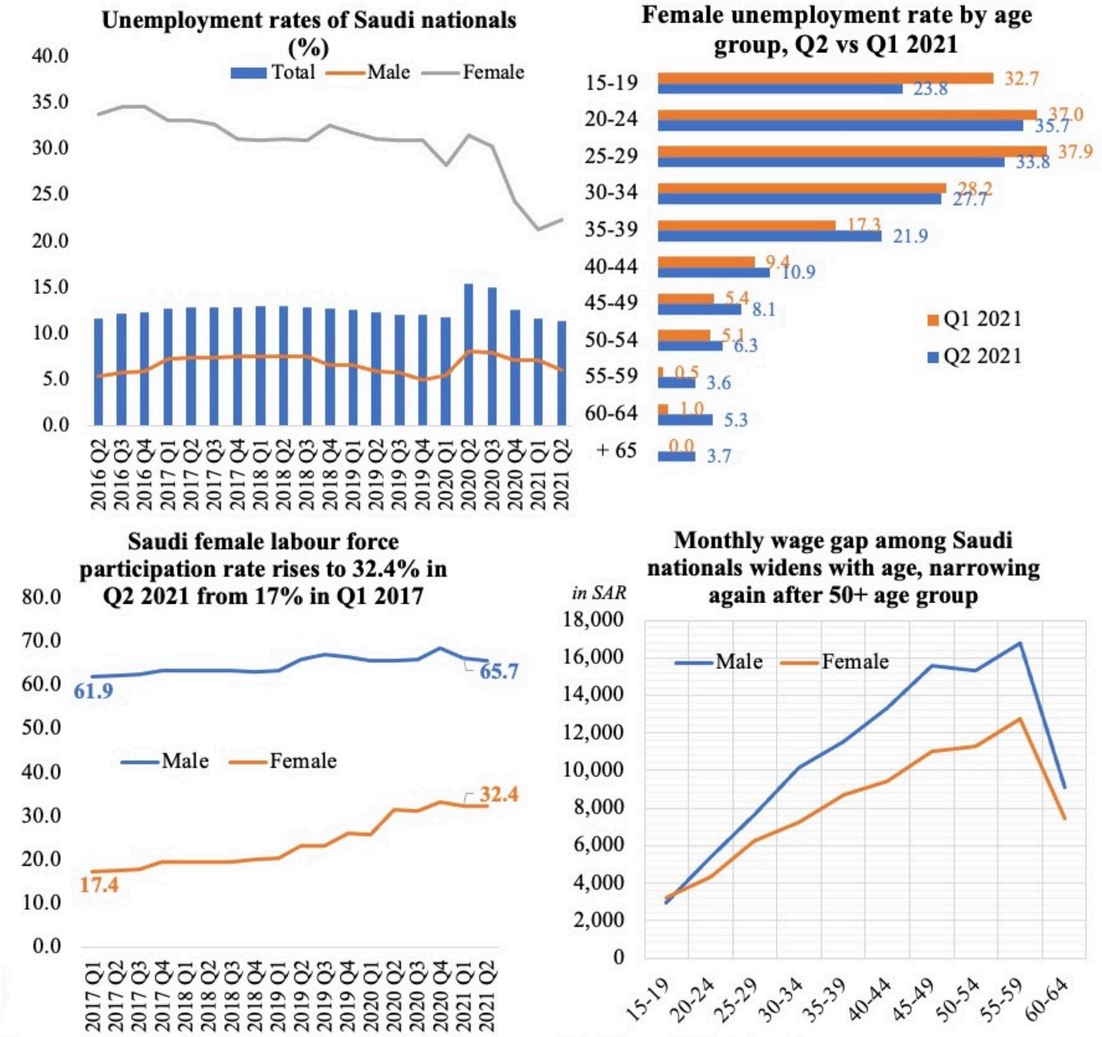
- **Weekly PoS transactions** in clothing, health, restaurants & food **are rising with the easing of restrictions (**tracked by the Oxford COVID-19 Government Response Tracker/ stringency index)
- **Credit growth has been rising at a faster pace than broad money supply** (M2)
- **Claims on the private sector continues to outpace public sector loans** in Aug 2021 – as seen in most months this year. Separately, residential new mortgages increased in Aug, after two consecutive months of declines in Jun & Jul



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

5. Unemployment rate among Saudi females ticks up to 22.3% in

Q2 2021

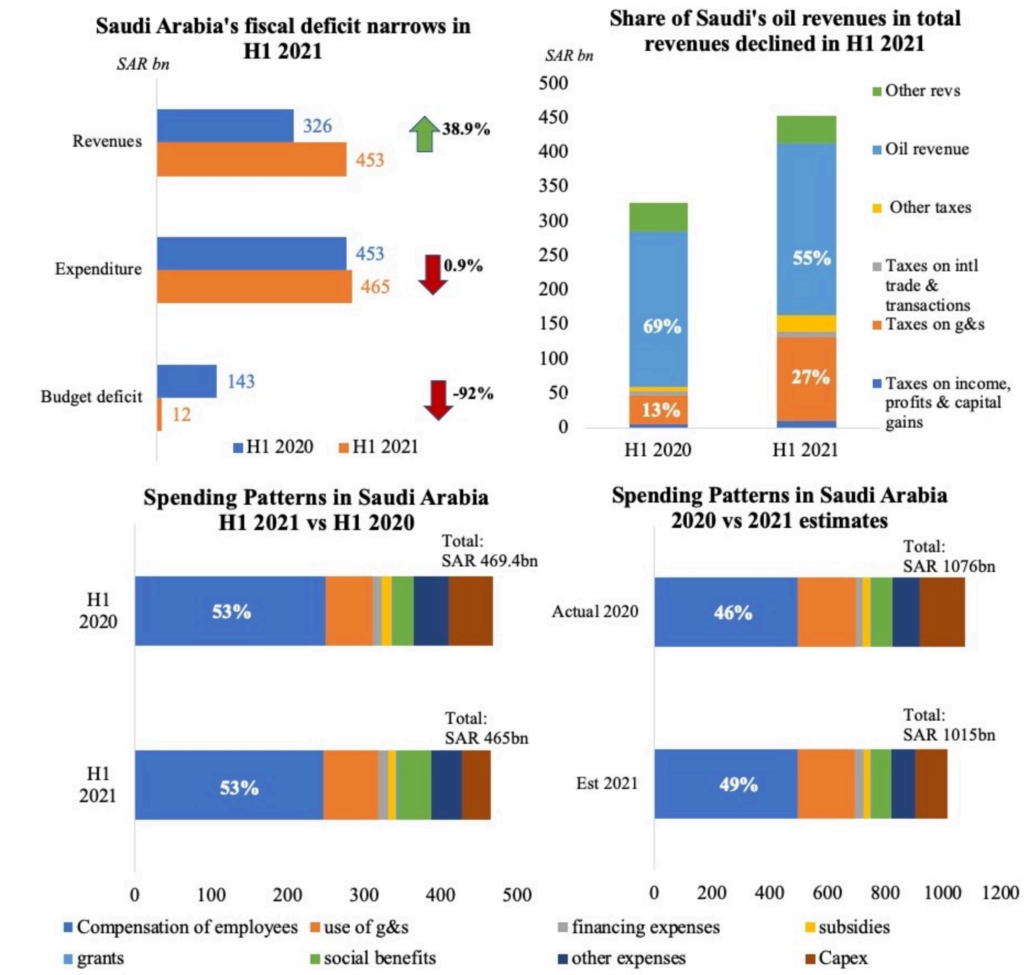


Source: Labour market survey Q2 2021, GaStat. Charts created by Nasser Saidi & Associates

- **Overall unemployment rate among Saudi nationals fell to 11.3% in Q2 2021**, down from Q1's 11.7%. Youth unemployment (20-24) dropped to 22.2% in Q2 (Q1: 23.6%)
- Unemployment rates among Saudi males dipped to 6.1% in Q2 from 7.2% in Q1
- **Unemployment rate among female Saudi citizens inched up to 22.3% from 21.2% in Q1** – a result of a jump in unemployment rates in all age brackets above 35+
- **Female participation in the workforce inched up** to 32.4% in Q2 2021 (Q1: 32.3%; 2016: 19%)
- Women earn slightly more than men in the 15-19 age group, but the **pay gap widens** after that. On average, in Q2 2021, **a Saudi male employee is paid 1.3 times compared to a female national** though the gap has narrowed significantly over time

6. Saudi fiscal deficit has been revised down to an estimated 2.7% of GDP in 2021

- **Fiscal deficit in Saudi Arabia narrowed to SAR 12bn in H1 2021** compared to SAR 143bn in H1 2020
- **Revenues increased by close to 40% yoy in H1 2021** – a result of a surge in tax revenue (+171.7% yoy) and 11% rise in oil revenues. Share of oil revenue declined to 55% (H1 2020: 69%) while taxes on goods & services rose to 27% (given the VAT hike)
- **Total expenditure declined by 0.9% yoy** to SAR 465bn in H1 2021; private investment indicators improved by 12.3%: finance ministry.
- **Saudi Arabia revised down its 2021 budget deficit to SAR 85bn** (equivalent to 2.7% of GDP) from the previous SAR 141bn (or 4.9%) estimate
- **Deficit is estimated to narrow to 1.6% of GDP next year, and surpluses are forecast from 2023 onwards.**



Source: Ministry of Finance, Saudi Arabia. Charts created by Nasser Saidi & Associates

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Interview with Al Arabiya (Arabic) on Oman's economy, 8

Jul 2021

In this interview with Al Arabiya, Dr. Nasser Saidi discusses the macroeconomic outlook for Oman, in the backdrop of the latest IMF Article IV consultation and news that Oman had requested for technical assistance from the IMF .

[Watch the interview] and read the article (in Arabic) that was published on 8th July 2021, and is posted below.

هل يتطور اتفاق الدعم الفني من صندوق النقد لعمان إلى برنامج تمويلي؟

قال رئيس شركة ناصر السعيدي وشركاه، ناصر السعيدي، إن سلطنة عُمان تسير على طريق إصلاحي جيد وطلب المساعدة الفنية من صندوق النقد الدولي سيساعد في وضع برنامج متوسط الأجل لمالية الدولة وإدارة الديون.

وأضاف السعيدي في مقابلة مع "العربية" أن نسب الديون مرتفعة وتصل لنحو 85% من الناتج المحلي الإجمالي وهذا عبء على المالية العامة.

وذكر أن الخطوات الإصلاحية الأخيرة شملت إقرار ضريبة القيمة المضافة بنسبة 5%، إضافة لإدخال بعض التعديلات والإصلاحات الهيكلية على الشركات الحكومية.

وأشار إلى أن جهاز الاستثمار العماني الآن يراقب كل الشركات التابعة للدولة، وتوجد شركة مسؤولة عن تطوير الطاقة في عمان.

وحول إذا كان من الممكن أن يؤدي الاتفاق الفني إلى تقدم السلطنة للحصول على تمويل من الصندوق، قال السعيدي: "هذا ممكن ولكن المهم أن يتم تنفيذ عدة خطوات إصلاحية".

ولفت إلى أن السوق المالي في عمان رحب بالاتفاق مع صندوق النقد

الدولي، وشهدنا ارتفاع قيمة السندات العمانية.

توقع السعيدي، ألا يحدث تغيير في ربط العملة بالدولار الأميركي، ولكن يمكن أن يكون هناك اقترح بربط العملة بسلة عملات مثل الكويت خاصة أن الاقتصادي الأهم لعمان هو اليابان وليس الولايات المتحدة الأميركية.

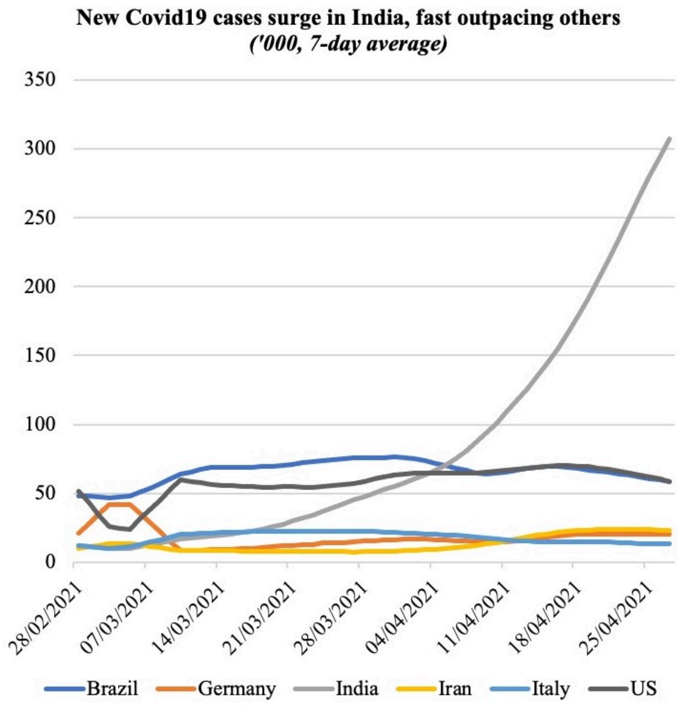
وتابع: "أي برنامج لصندوق النقد الدولي قد يشهد مساعدات مالية خلال فترة وضع التوازن المالي الذي سيستغرق من 4 إلى 5 سنوات وهذا سيكون محدوداً بالوقت وليست بالضرورة أن تكون مبالغ ضخمة".

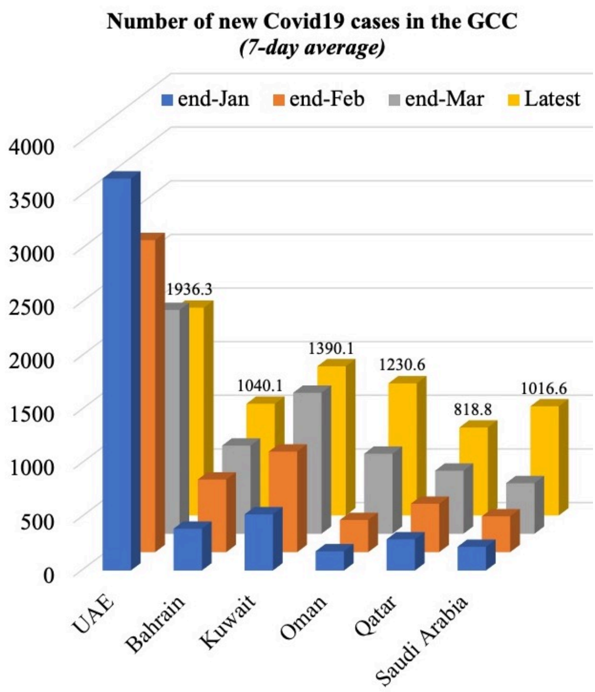
وتحدث السعيدي، أن عجز الميزانية خلال العام الماضي سجل 19% كنسبة للناتج المحلي الإجمالي بسبب كوفيد-19، إلا أن التوقعات تشير إلى تحسن أداء المالية العامة للسلطنة خلال عامي 2021 و2022 بفضل ارتفاع الإيرادات النفطية وغير النفطية مع عودة تدريجية للسياحة وانتعاش أسعار النفط.

Weekly Insights 29 Apr 2021: India’s exponential rise in Covid19 cases – spillovers into the UAE?

Download a PDF copy of this week’s insight piece here.

1. As cases continue to surge in India, pace of global recovery comes into question



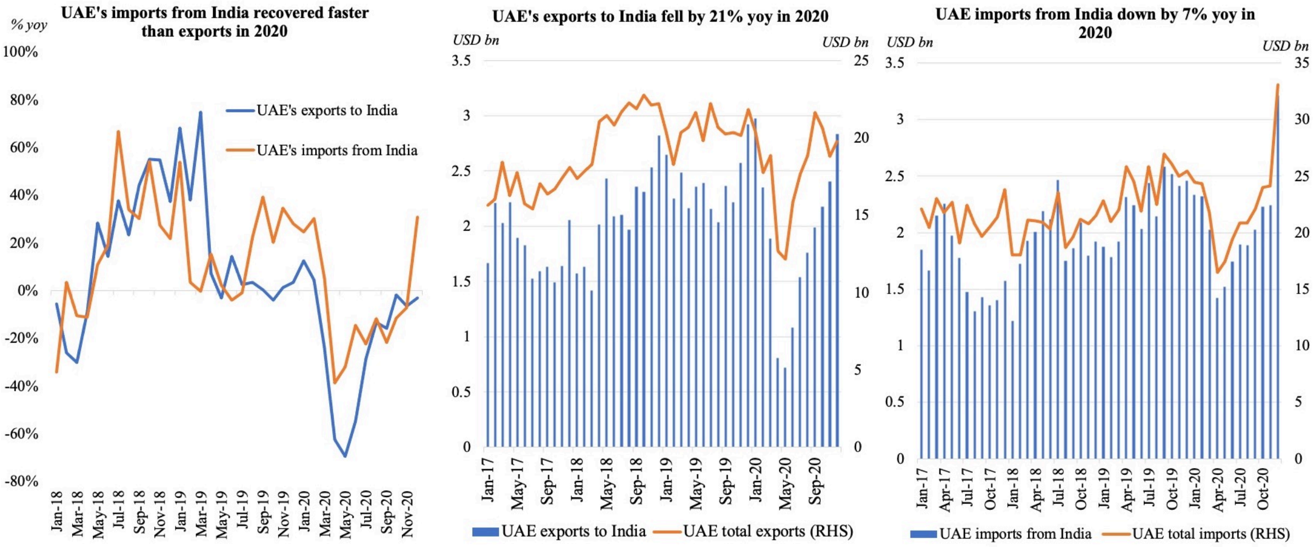


Source: Our World in Data. Chart created by Nasser Saidi & Associates

- **India reported the highest-ever single day cases on Wednesday, at 379,257 & continues to account for almost half the rise in global Covid19 cases.** Concerns about the accuracy of these statistics notwithstanding, it is worrisome that more than 20% of tests are coming positive and that the crumbling healthcare infrastructure (in many states) is leading to around 3k deaths per day!
- **Given India's linkages with the global economy** (trade, labour & investment flows), **it is not surprising that emergency supplies are coming in from across the globe to contain the spread**; US relaxed its previous ban on exports of raw materials for vaccines.
- Meanwhile, **GCC nations (except the UAE) have seen a steady uptick in cases from the beginning of this year**; UAE's numbers though are still the highest among the lot. In terms of **new cases per million, Bahrain stands the highest (611) and Saudi Arabia the least (29**), with Kuwait (326), Qatar (284), Oman (241) and the UAE (196) in between.

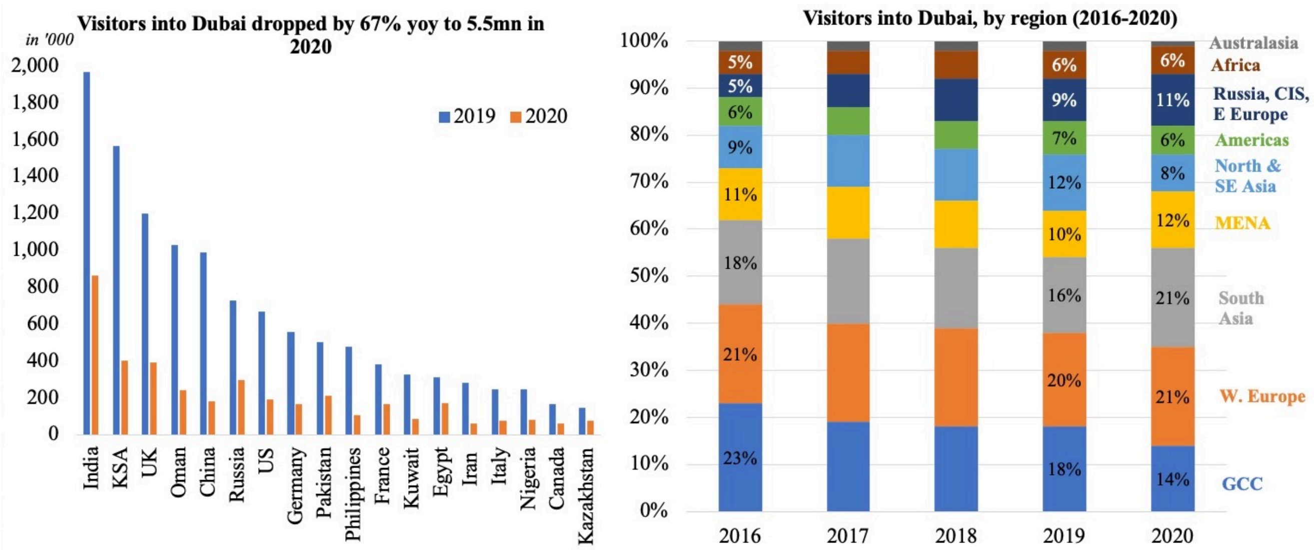
2. **India-UAE links: Trade & Investment**

- **UAE has developed strong links with Asia, and especially India**, over time. A prolonged slowdown in the Indian economy is likely to spillover into UAE's growth.
- First off, trade links: **bilateral trade was around USD 60bn in 2019**, though the Covid19 pandemic saw a decline in trade to USD 41.9bn (-30% yoy). Imports from India recovered much faster than exports into the country after the slump during lockdowns last year. India was the UAE's second-largest trading partner (after China) during pre-Covid times.
- While **oil is a key traded commodity** – about 8% of India's oil imports are from the UAE – exports of precious metals, stones and jewelry remain significant. Indian food imports also have a significant part to play in UAE's food consumption.
- **A slowdown in India would hence affect trade significantly**: **oil demand** will decline with lower mobility; **higher cases would lead to lower economic activity** – i.e. negative impact on industrial production lowers exports of textiles, machinery products, lower levels of agricultural production implies less food imports from the country.
- Official figures for **Indian investment in UAE** are not available: the Indian Embassy estimates it at around USD 85bn.



Source: IMF Direction of Trade Statistics. Charts created by Nasser Saidi & Associates

3. India-UAE links: Tourism

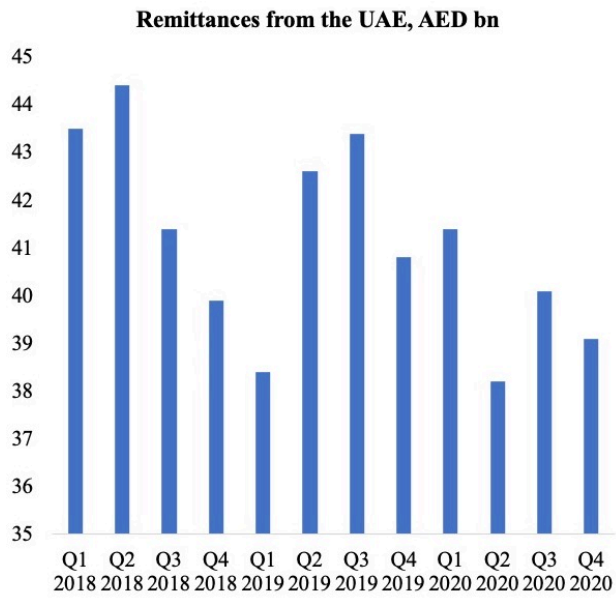


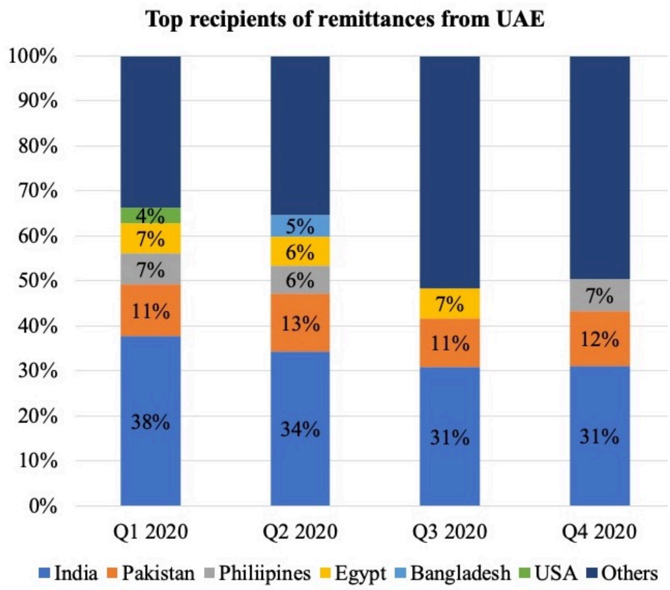
Source: Department of Tourism & Commerce Marketing. Charts by Nasser Saidi & Associates

- Prior to the Covid19 epidemic, **India was the largest source market for visitors into Dubai, attracting 1.97mn visitors out of a total 16.73mn.**
- Covid19 cut short most tourist travel for a significantly large part of the year, resulting in a 67% decline in tourists into Dubai. **India was still the largest source market for Dubai in 2020** – attracting 865k persons (-56% yoy) and South Asia retained its top spot as the largest source of visitors (21% of total).
- **Flights to the Indian sub-continent have been suspended since Apr 25 for 10 days**, and given the exponential rise in cases in India, an extension seems likely – about **300**

commercial flights operated weekly in what is one of the busiest international travel corridors. Newspaper reports suggest an uptick in enquiries for private jets to ferry stranded residents (similar to the lockdowns last year). Cargo operations are carrying on uninterrupted.

4. India-UAE links: Remittances

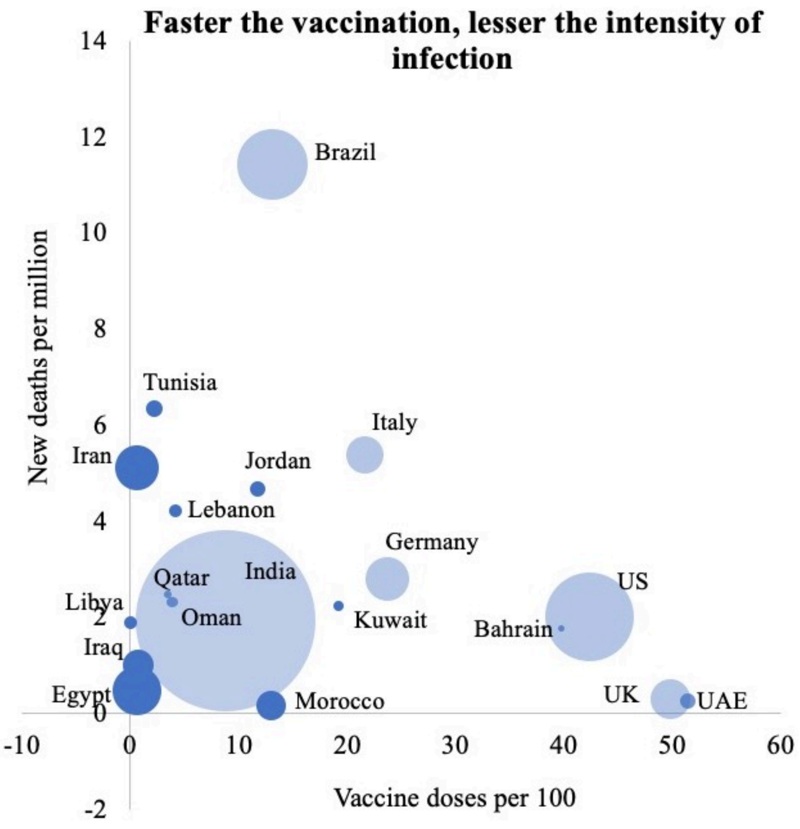




Source: UAE Central Bank. Charts by Nasser Saidi & Associates

- The **UAE-India migration corridor is one of the largest in Asia**: it stood at close to 3.5mn migrants in 2019. (Source: UN World Migration Report 2020). Indians account for around one-third of UAE's total population.
- **In 2020, total remittances from the UAE touched a total of USD 43.2bn** (-4% yoy). While Q1 saw a 7.8% uptick in remittances, Q2 saw the sharpest drop of 10.3%.
- **Remittances to India accounted for 33.5% of its total remittances last year** – maintaining its spot as the largest recipient of remittances from the UAE.
- As India goes into lockdown, it is possible that **UAE will see an increase in remittances to the country** as financial support for families in need. **A weaker Indian rupee would further suport this pattern.**

5. The economic case for vaccination



Source: Our World in Data. Chart created by Nasser Saidi & Associates
Bubble size denotes size of the population

- The discovery of vaccines for Covid19 had brought a sense of consumer and business optimism. However, **with vaccine distributions underway, its pace is less than heartening in many nations.**
- **Israel and UAE have topped the lists in terms of vaccination rates.** There is confirming evidence from Israel of reduced transmissions as a result of the inoculations.
- As the chart on the right (focusing on MENA nations) shows, there is a **negative correlation between vaccination and infection rates.** Anecdotal evidence also suggests that an infection after the first dose of vaccine is much less likely to require hospitalization.
- **Unfortunately for India, the pace of vaccination has been very slow.** Less than 10% of the nation's residents received the vaccine, in spite of it being home to the world's largest vaccine manufacturer (the Serum Institute).

- **The rapid pace of India's infections also calls into question its vaccine production and distribution channels**: the Serum Institute has not fulfilled its commitment to supply the AstraZeneca vaccine globally (to UK, EU and Covax), but is also planning to sell the vaccine to state governments and private hospitals in the country (at higher rates).
- In the MENA region, new deaths per million are low in the UAE (the leader in vaccine doses per 100 persons) while Iran has a long way to go. If Israel's results are to be emulated, **a coordinated effort should be underway to accelerate the pace of vaccination, resulting in faster return to higher economic activity**.

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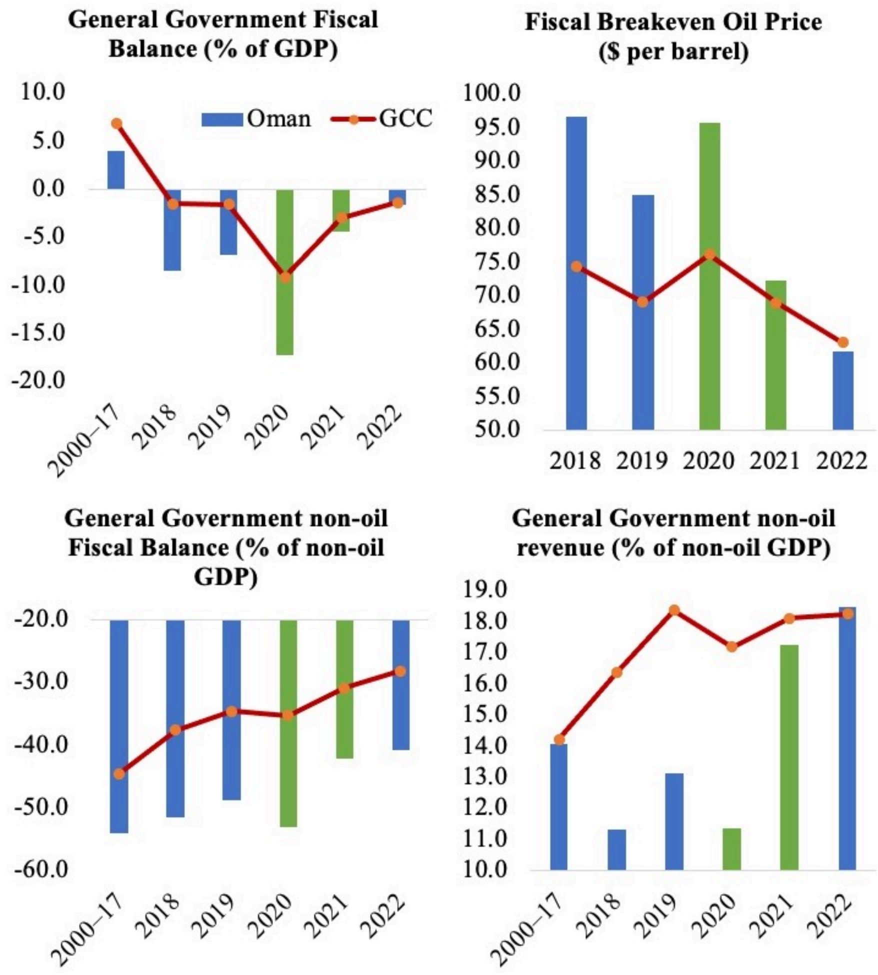
Weekly Insights 22 Apr 2021: GCC: Oil-dependence & Path to Climate Resilience

Download a PDF copy of this week's insight piece here.

1. Oman: 4th GCC nation to implement VAT



Source: IMF Regional Economic Outlook, Apr 2021

- **Oman introduced 5% VAT** on most goods and services, **starting Apr 16**
- UAE and Saudi Arabia rolled out 5% VAT in 2018 & Bahrain in 2019
- According to Ministry of Finance estimates, **Saudi increased non-oil tax revenues to 32% in 2018** (vs just 10% in 2010), 36% in 2019 and estimated to rise to 46% in 2020 (given tripling of VAT)
- **UAE** collected AED 27bn in VAT in 2018 (1st year) & AED 11.6bn in Jan-Aug 2020 (pandemic year); **VAT revenues in Bahrain** touched BHD 260mn in 2019 and BHD 220mn in 2020.
- Oman's VAT is estimated to **generate** ~OMR 400mn (**USD 1bn**) **in revenue** annually, roughly ~1.5% of GDP (if effectively and efficiently implemented)
- As a result, the IMF projects **fiscal deficit to decline** to 4.5% of GDP in 2021 (2020: 17.5%) & **non-oil revenue to rise** to 17.2% of non-oil GDP in 2021 (2020: 11.4%)

- **This move will lead to** an improvement of Oman's sovereign credit rating + lower the cost of credit + attract more FDI & portfolio investment as a result of the ensuing reduction in macroeconomic risks

2. GCC's Diversification Efforts & Renewable Energy policies => Transition to a lower-oil dependent region

- **Unsustainable path of dependence on oil**: current oil demand vs supply, pressure on oil prices + current fiscal & social spending policies => fiscal unsustainability: GCC's aggregate net financial wealth (est. at $2trn) could be depleted by 2034 (IMF)
- **Oil market structure & dynamics are changing**, given global energy transitions: pre-Covid19, shale & renewables were already displacing conventional oil
- Major **challenges** for the oil market *(non-exhaustive list)*:

–**Demand-side factors:**

- Gov't plans for sustainable recovery, ambitious **goals for net-zero emissions**
- **Covid19-led collapse in demand**: potential WFH policies & mobility, question marks over recovery of business/ leisure air travel
- Energy efficiency improvements, EV penetration

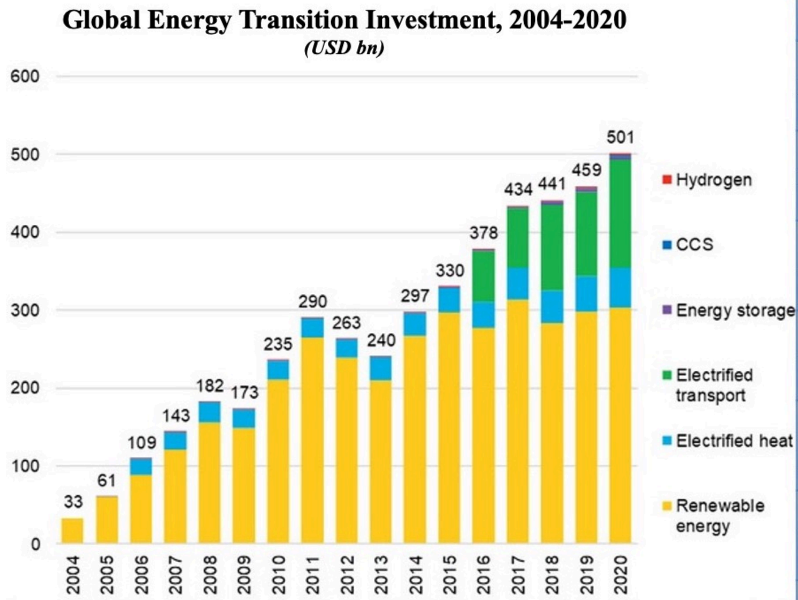
–**Supply-side factors**:

- Spending cuts and project delays could slow oil supply growth
- Large cost reductions in renewables + advances in digital technologies

- **Climate Change & Decarbonisation Risks are growing –** could lead to sharp fall in fossil fuel asset prices => stranded assets risk

3. Energy Transitions & GCC's ambitious targets

- The two-day virtual Leaders Summit on Climate (from today), hosted by the US President, brings the US back into play with respect to global action against climate change
- Latest news that banks & financial institutions with USD 70trn+ assets pledged to cut their greenhouse gas emissions & ensure their investment portfolios align with the science on the climate adds to the commitment



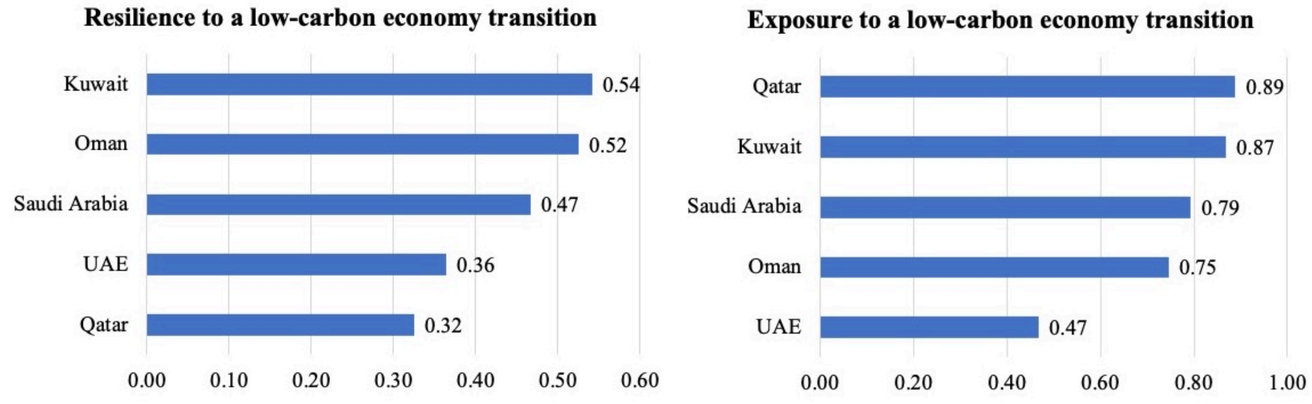
Source: Energy Transition Investment Trends, BNEF, Jan 2021
https://about.bnef.com/energy-transition-investment/

Renewable energy targets	
Bahrain	National renewable energy target of 5% by 2025 & 10% by 2035
Kuwait	Increase the share of renewable generation to 10% by 2030
Oman	Derive at least 30% of electricity from renewables by 2030
Qatar	Attain 20% of its energy from solar power by 2030
Saudi Arabia	Generate 50% of its energy from renewables by 2030
UAE	Reduce GHG emissions to 23.5% vs business-as-usual emissions for 2030
	Increase the share of clean power to 50% of the total energy mix by 2050

4. Are the GCC nations prepared for a low-carbon economy transition?

- The preparedness of countries for a low-carbon transition (LCT) is measured by **exposure and resilience indexes:** highlights turning the risks of an LCT into opportunities for robust growth.
- **GCC nations are signifcantly exposed,** especially given dependence on oil (resource rents, carbon intensity, GHG emissions): Qatar scores highest exposure & UAE the least
- **However, the GCC are relatively well prepared for an LCT** thanks to its resilience, particularly its relatively good macro stability and supportive business environment

alongside high quality of infrastructure, human capital and institutions

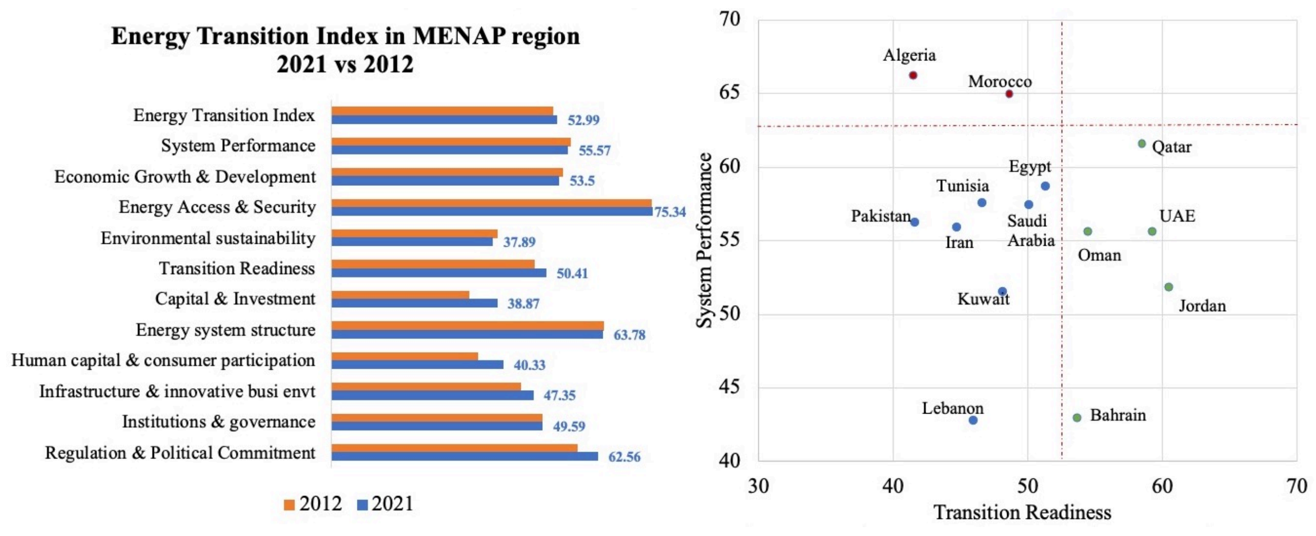


Source: Peszko, G. et. Al (2020) Chapter 5 in "Diversification & Cooperation in a Decarbonizing World", World Bank.

5. WEF's

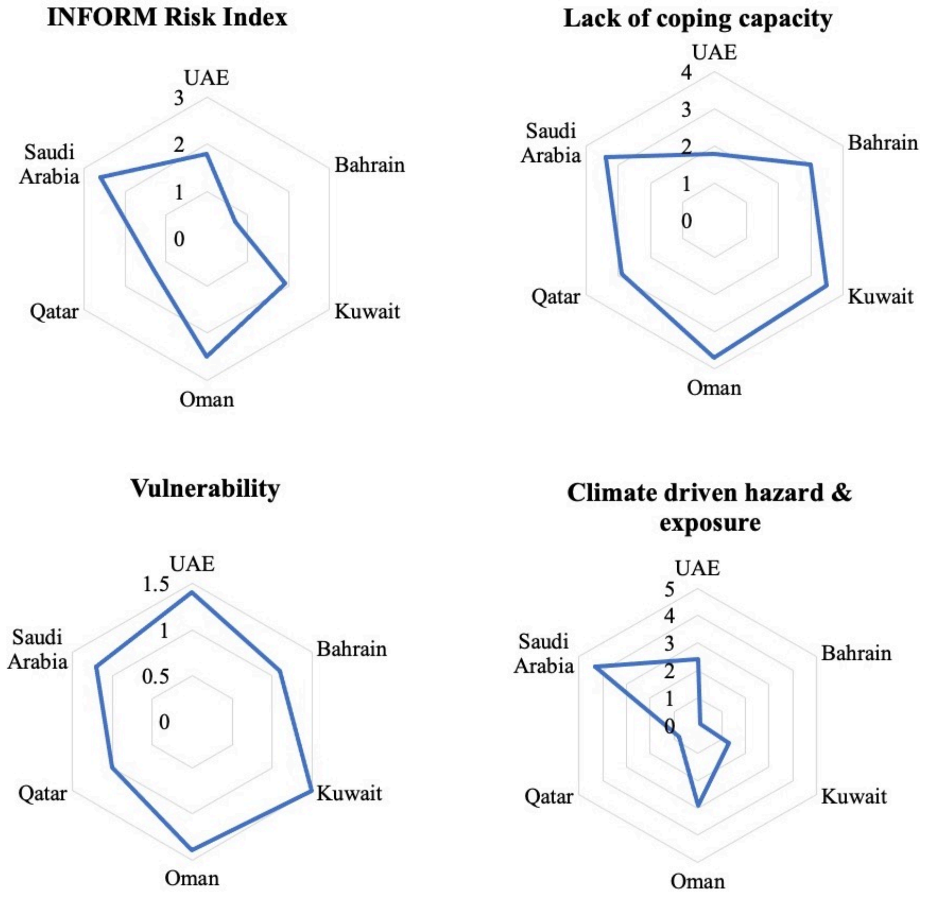
Energy Transition Index ranks UAE just behind Qatar wrt energy systems & pathways to clean energy

- **UAE ranked 64th globally on WEF's latest Energy Transition Index** (2021) out of a total 115 nations, just **behind Qatar at 53rd position**. Lebanon ranked lowest in the Middle East region at 112th.
- Among the various components of the Index, **MENAP's average falls farthest from the world average in two**: environmental sustainability (37.89 in MENAP vs 61.32 globally) and capital & investment (38.87 vs 55.17). Of the 11 categories, **region is worse-off compared to 2012 (initial year of results) in 4**: system performance, environmental sustainability, energy system structure and economic growth & development
- The **chart on the right** shows no MENAP countries in the top-right quadrant (high transition readiness & well-performing energy systems). **4 of 6 GCC nations are in the "leapfrog" quadrant** (**green dots**, high readiness but system performance below the mean); two countries Algeria and Morocco fall among those with potential challenges (**red dots**, above-average system performance but readiness below the mean).



Source: Energy Transition Index 2021, World Economic Forum. [*https://www.weforum.org/reports/fostering-effective-energy-transition-2021#report-nav*](https://www.weforum.org/reports/fostering-effective-energy-transition-2021#report-nav)

6. GCC risk for climate-driven hazards is much lower than regional counterparts



- The climate-driven **INFORM Risk 2021 Index** is derived from 3 dimensions: climate-driven hazard & exposure, vulnerability and lack of coping capacity.

- **GCC nations fare relatively better, scoring between 1.3 to 2.6 out of a total 10 (riskiest).** But, two scores are comparatively higher: Saudi Arabia's hazard & exposure score (largely due to conflict risk) and Oman's lack of coping capacity (institutional & governance indicators related to increasing the resilience of the society need improvement).

CountryName	HA	VU	CC	INFORM
Bahrain	0.6	1.1	3	1.3
Kuwait	1.2	1.4	3.6	1.8
Oman	2.9	1.4	3.7	2.5
Qatar	0.8	1	2.9	1.3
Saudi Arabia	4.3	1.2	3.4	2.6
United Arab Emirates	2.4	1.4	1.8	1.8

Source: INFORM Global Risk Index 2021. https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk

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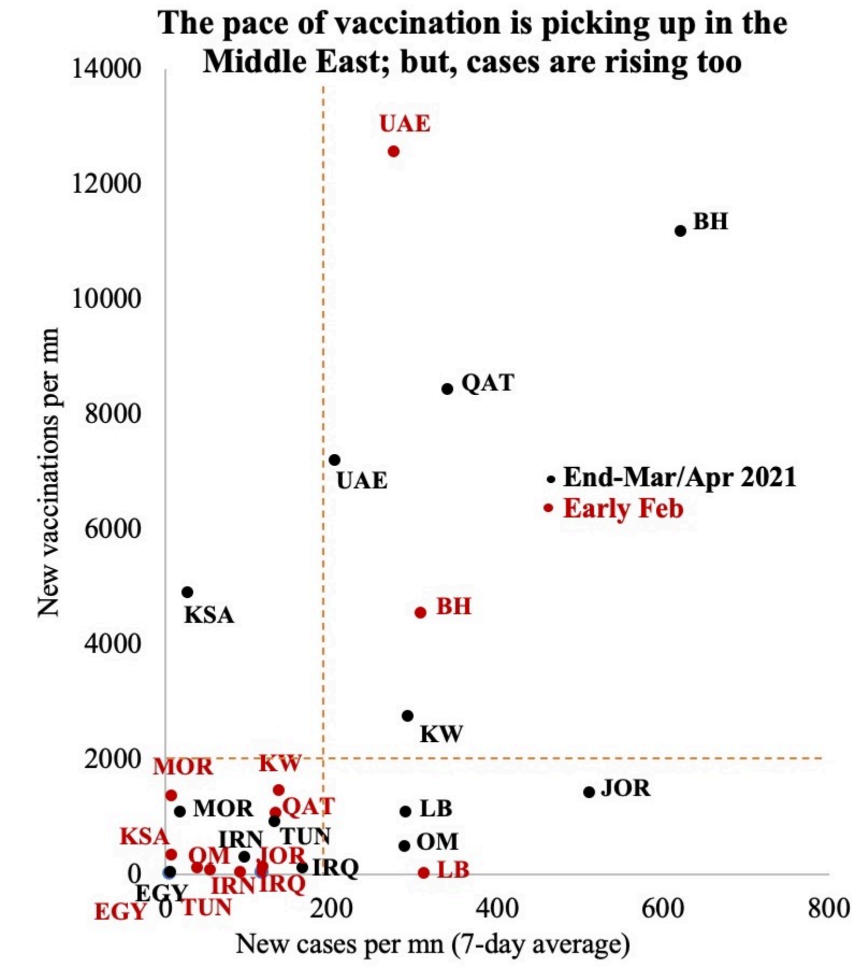
Weekly Insights 15 Apr 2021: Will Middle East's growth

prospects be vulnerable to external debt levels & limited fiscal room?

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

The IMF issued its latest Regional Economic Outlook for the Middle East region this week. **Real GDP for the** Middle East and North Africa (**MENA**) **region is forecast to grow by 4% this year** (up 0.9 percentage points from the projection in Oct 2020) after having slumped by 3.4% in 2020 (vs an estimate of a 5% drop in the Oct 2020 edition). **Growth outcomes and prospects will still be centred on how the pandemic progresses in the region amid the pace of vaccination rollouts.**

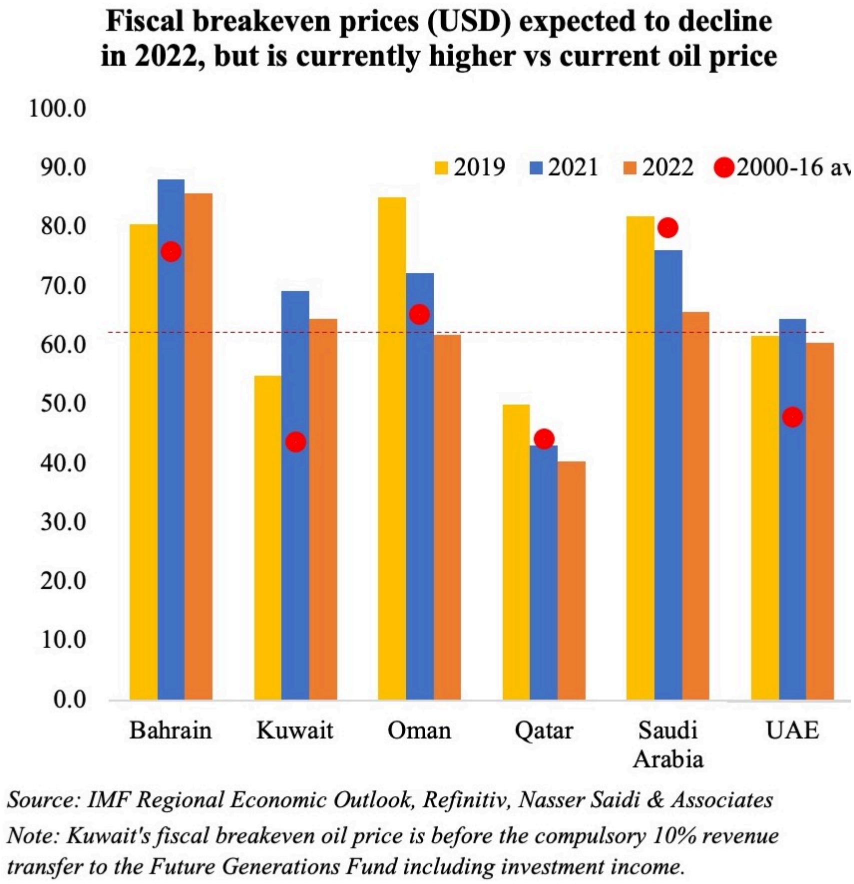


Source: Our World in Data, Nasser Saidi & Associates

The **MENA region is now home to more than 7mn confirmed cases**, with Iran the single largest contributor (share of close to 30%) and the GCC accounting for nearly 25%. Infections have been ticking up in the region since the start of this year. This has resulted in increased targeted restrictions and lockdowns in many a nation.

The **chart compares the pace of**

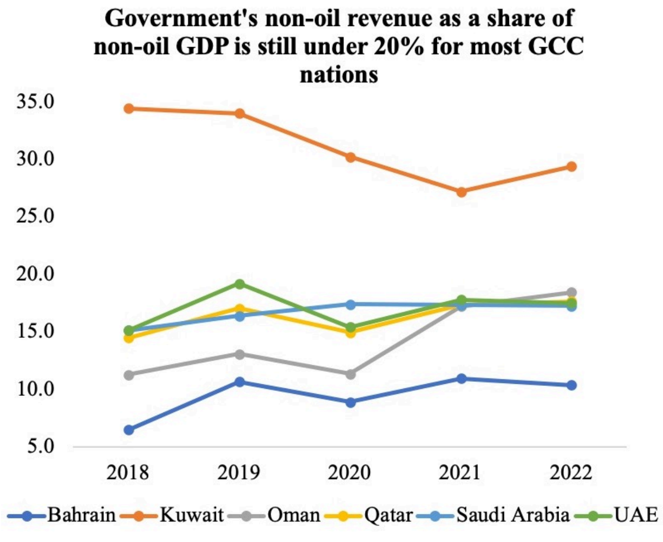
vaccination and new cases. Vaccination pace is picking up in the region: the UAE leads the pack, having disbursed a total of 9.16mn doses as of Apr 13th. With the supply of vaccines increasing (thanks to COVAX facility and donations from the UAE, Russia, China etc.), new vaccinations (black dots in the chart) have improved in most nations (compared to early Feb, marked in red). The **production of vaccines domestically in the region will also boost supply later this year**: UAE plans to manufacture Hayat-Vax, Egypt has an agreement with Sinovac Biotech, and Algeria will produce Sputnik-V from Sep onwards). Meanwhile, **reported cases are also higher compared to early Feb** – many countries are now outside the small quadrant on the bottom-left of the chart. Depending on how fast vaccinations can lead to herd immunity will determine recovery paths – especially so in the more tourism-dependent nations (e.g. Egypt, Jordan, Lebanon).

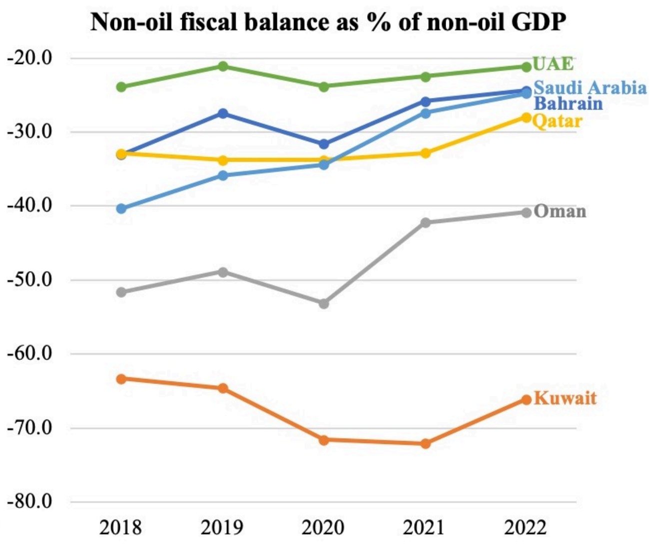


Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates
Note: Kuwait's fiscal breakeven oil price is before the compulsory 10% revenue transfer to the Future Generations Fund including investment income.

However, **policy measures introduced to support the economy during the pandemic is creating immense fiscal strain.** Fiscal deficits widened to 10.1% of GDP in 2020 in the MENA region from 3.8% in 2019. It was severe in the GCC as well: fiscal deficit widened to 7.6% of GDP last year (2019: -1.6%), as the impact was from both lower oil and non-oil revenues. The **fiscal breakeven price this year ranges from a high USD 88.2 in Bahrain to a low USD 43.1 in Qatar.** While, it is expected to decline across the board next year, it still remains higher than the current oil price levels for most nations. Given new rounds of restrictions and with oil demand not yet at pre-pandemic levels, the **OPEC+'s recent decision to roll back production cuts are likely to depress oil prices. As real oil prices trend downward, fiscal sustainability becomes increasingly vulnerable**.

With business operations and revenues affected due to the pandemic alongside weakened domestic demand, non-oil revenues as a share of non-oil GDP declined in 2020: Saudi was the sole exception, given its VAT hike to 15% from Jul 2020. Oman is expected to witness a significant boost in non-oil revenues this year, with the introduction of VAT from Apr 16th. **Oil exporters in the region are still highly dependent on oil revenues, as is evident from the large non-oil fiscal deficits in the GCC**. In 2021, it is forecast at a high 72% in Kuwait and an average 30.9% and 29.9% in the GCC and MENA oil exporters respectively.





Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates

Higher deficits and negative economic growth resulted in governments resorting to multiple financing options: borrowing from commercial banks, tapping international and regional markets (bond issuances, commercial loans) as well as drawing down from international reserves at the central banks/ sovereign wealth funds. **Government debt levels increased to 56.4% and 41% in the MENA and GCC regions last year.** Though it is forecast to fall slightly this year, it still remains higher than the 2000-17 average of 36.2% and 24.6% respectively. The IMF estimates financing needs in the MENA to touch USD 919bn for this year and next. Public-financing requirements were likely to stay above 15% of GDP in most parts of the region through end-2022.

This could pose a significant risk in the coming years: (a) sectors affected by the pandemic are being supported by government policy stimulus. When this support is rolled back eventually, this could result in bankruptcies, defaults and job losses, further causing an increase in banks' non-performing loans; (b) global financial conditions have been quite accommodative and so long as cost of capital remains low, there will be an appetite for borrowing and even refinancing maturing debt. However, a faster-than-expected global recovery could lead to interest rates hikes, push long-term rates and funding costs higher, increase sovereign spreads, thereby tightening financing conditions – affecting countries with large external financing needs (and their indebted corporates). Though GCC's sovereign debt levels are relatively low, over USD 100bn is expected to mature in 2021-25.

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Weekly Insights 6 Oct 2020:

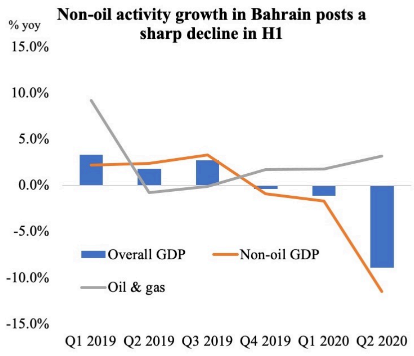
Economic activity in Bahrain & Saudi Arabia

Charts of the Week: Last week, both Bahrain and Saudi Arabia released Q2 GDP numbers: as expected, overall growth contracted, with private sector activity significantly affected. The initial sections offers a forward-looking perspective on the two nations based on more recent data and proxy indicators. Saudi Arabia also disclosed a medium-term fiscal strategy, which forms the last section of this Insights' edition.

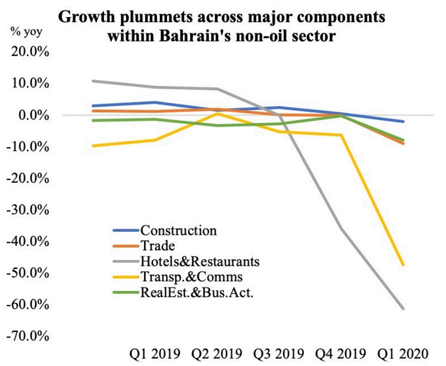
1. **Bahrain GDP & economic activity**

GDP in Bahrain declined by 8.9% yoy in Q2 2020, following a 1.1% drop the previous quarter. This was primarily due to the non-oil sector which plummeted by 11.5%. As expected, the largest dips in GDP came from the hotels and restaurants (-61.3%) and transport & communication (-47.4%) – both directly affected by the Covid19 outbreak. Spillover effects were also visible across the board: the financial sector, which accounts for the largest share of non-oil GDP (16.8% in Q2), posted a 5.8% drop while the sub-sectors real estate and business activities and construction slipped by 7.9% and 2.1% respectively.

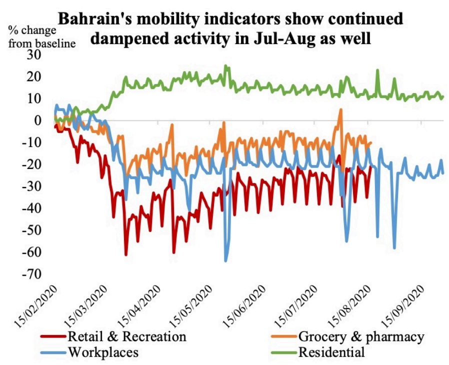
With Covid19-related restrictions slowly being phased out in Bahrain, can we expect a resumption of economic activity? The data for Jul-Aug show the pace of recovery has been slow, with readings for retail and recreation still at an average 26% below the baseline data (pre-Covid19). Recent announcements of extended government support – be it the exemption of tourism levies for 3 more months or extended support to KG & nursery teachers, taxi drivers or Bahraini citizens' payment of utility bills and about 50% of salaries in the private sector (only those affected) – will provide direct support and likely nudge recovery. hotel occupancy rates in four- and five-star hotels increased by 13.3% mom and 17.6% in Jul and Aug respectively. Opening borders with Saudi Arabia will not only increase the number of trucks crossing the King Fahd Causeway (improving transport/ trade) but will also attract visitors from Saudi Arabia (supporting hospitality and retail).



Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates



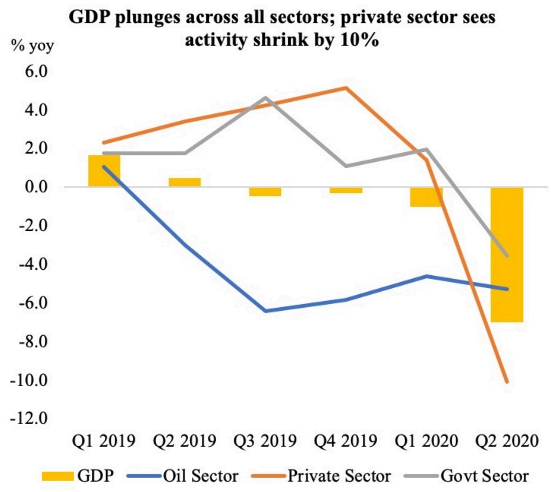
Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates

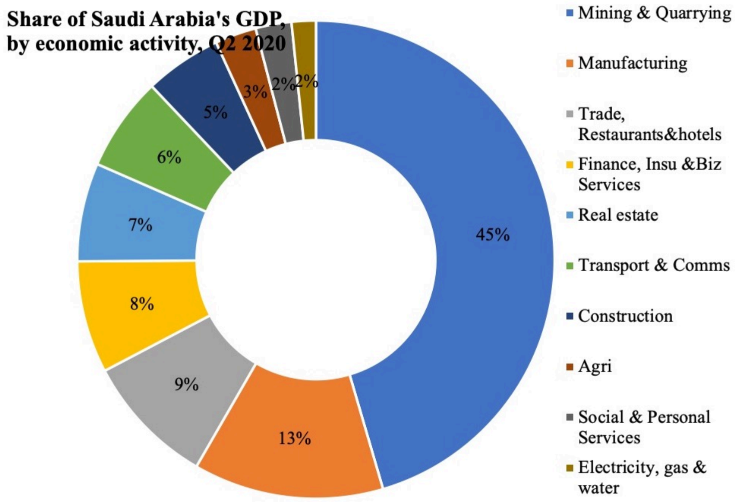


Source: Google Covid19 Community Mobility Report, Nasser Saidi & Associates. Note: Google have temporarily suspended updates in some categories to improve how they are calculated.

2. Saudi Arabia GDP & economic activity

Saudi Arabia's overall GDP plunged by 7% yoy in Q2 2020, with falls in both the oil and non-oil sectors. The oil sector's 4.9% drop in H1 is a result of the reduction in oil production in line with the OPEC+ agreement. Within the non-oil sector, all sub-sectors posted declines in Q2 ranging from trade and hospitality (-18.3%) to finance, insurance and real estate (-0.7%). The share of GDP by economic activity shows that the oil sector continues to dominate (45% of overall GDP), closely followed by manufacturing (13%) and trade and hospitality (9%).



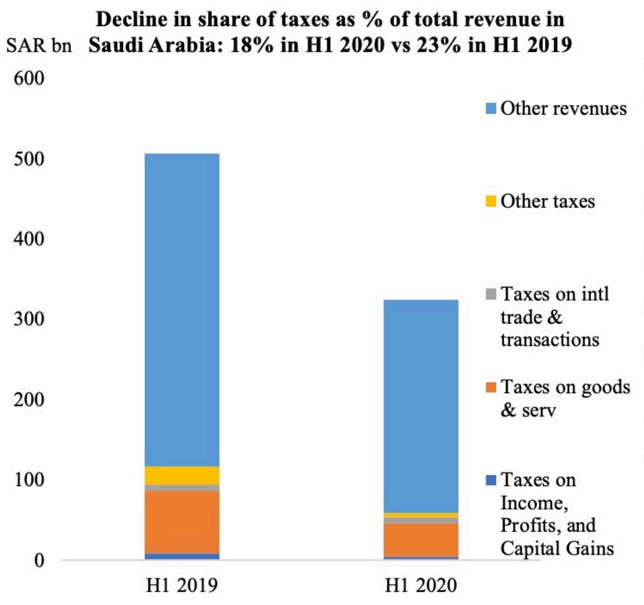


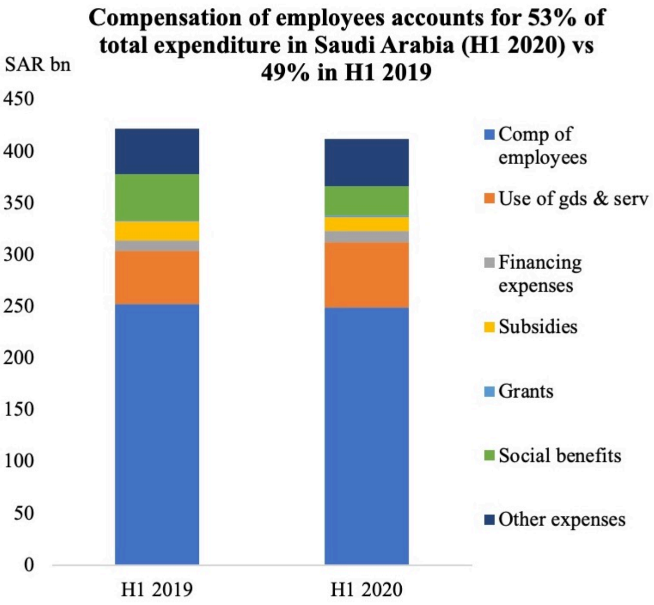
Source: Saudi Arabia GaStat, Nasser Saidi & Associates

To gauge any underlying change in activity during Q3, we refer to the central bank's data on consumer spending and point-of-sale (PoS) transactions by category. There is a spike before the VAT hike came into place in Jul, as expected, but the Aug data seems to indicate a slight recovery for hotels (+2.6% yoy, following 6 months of double-digit declines) while items like jewelry and clothing continue to register negative growth. The construction and real estate sector look well-placed to improve in H2 this year: not only has letters of credit opened for building materials imports increased by 64% yoy in Aug (following 5 months of double-digit declines), cement sales has also been picking up during Jun-Aug; a temporary boost for the sector will also come from the recent announcement that real estate would be exempt from the 15% VAT (to be replaced instead by a 5% tax on transactions, of which the government would bear the costs for up to SAR 1mn for the purchase of first homes).

3. **Saudi Arabia's fiscal space**

With oil prices around the USD 40-mark, extended government support in Saudi Arabia during the Covid19 outbreak will put a strain on finances. From the H1 2020 estimates disclosed by the Ministry of Finance, it is noticeable that the share of taxes as % of overall revenue has declined to 18% (H1 2019: 23%). Compensation of employees remain the biggest strain on the expenditure side, with the single component accounting for 53% share, though it is commendable that subsidies have declined by 27.8% yoy to SAR 13bn.





Source: Saudi Arabia Ministry of Finance, Nasser Saidi & Associates

Medium-term fiscal projections (in SAR bn)

	2019	2020e	2021f	2022f	2023f
Total revenues	927.0	770.0	846.0	864.0	928.0
Total expenditures	1059.0	1068.0	990.0	955.0	941.0
Budget deficit	-133.0	-298.0	-145.0	-91.0	-13.0
as % of GDP	*-4.5%*	*-12.0%*	*-5.1%*	*-3.0%*	*-0.4%*
Debt	678.0	854.0	941.0	1016.0	1029.0
as % of GDP	*22.8%*	*34.4%*	*32.9%*	*33.4%*	*31.8%*

Source: Saudi Arabia Ministry of Finance; Note: e refers to estimates & f to forecasts

If Saudi Arabia's fiscal consolidation plans are to be met, reforms are required on both revenue and expenditure side. The Kingdom has already increased VAT to 15% from Jul: however, with subdued demand and consumer spending, it seems unlikely that this move will add substantial revenue this year. We have highlighted in previous editions that Saudi Arabia can benefit from the introduction of other more revenue-generating taxes – e.g. carbon taxes, which will also contribute towards a cleaner environment. Additional measures could include energy price reforms (thereby reducing subsidies) as well as a consolidation or removal/ reduction of various small fees and taxes after undertaking an impact exercise (i.e. do these fees raise significant revenues or do they hinder development of the related sector?). The other major route to take is lowering “compensation of employees”: this can be done either by reducing the public sector workforce (and increasing productivity through increased digitalization) or by decreasing wages (and synchronizing public holidays) to be on-par with the private sector – these moves could also support creation of jobs in the private sector, lead to higher productivity levels and growth.

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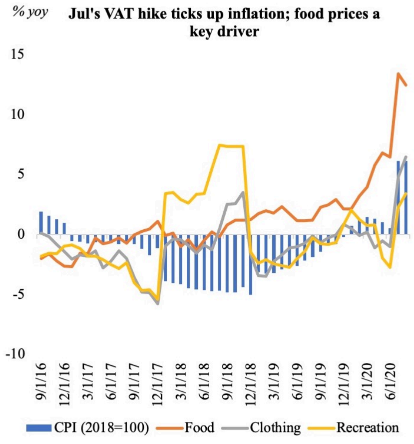
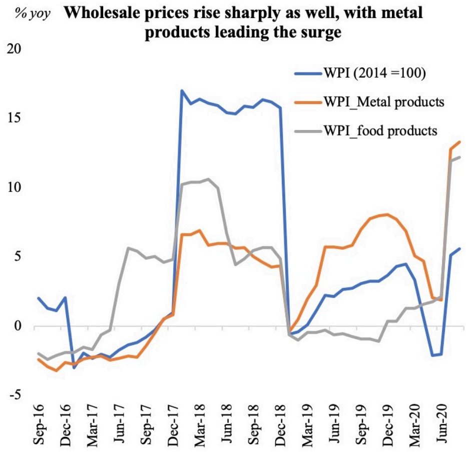
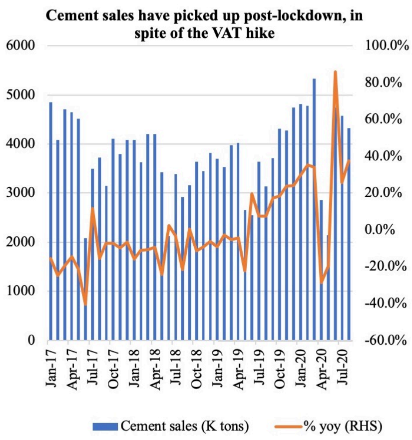
Weekly Insights 22 Sep 2020: Looking beyond Saudi inflation & oil exports

Charts of the Week: Saudi inflation numbers (consumer & wholesale prices) show the impact of the tripling of VAT. For now, a proxy indicator of cement sales is showing a pickup post-lockdown, in spite of the VAT hike. We also track the recent changes in Saudi exports, also to understand the impact on government revenues.

1. **Saudi inflation picks up post-Jul’s VAT hike**







Source: Refinitiv Eikon, GaStat, Argaam, Nasser Saidi & Associates

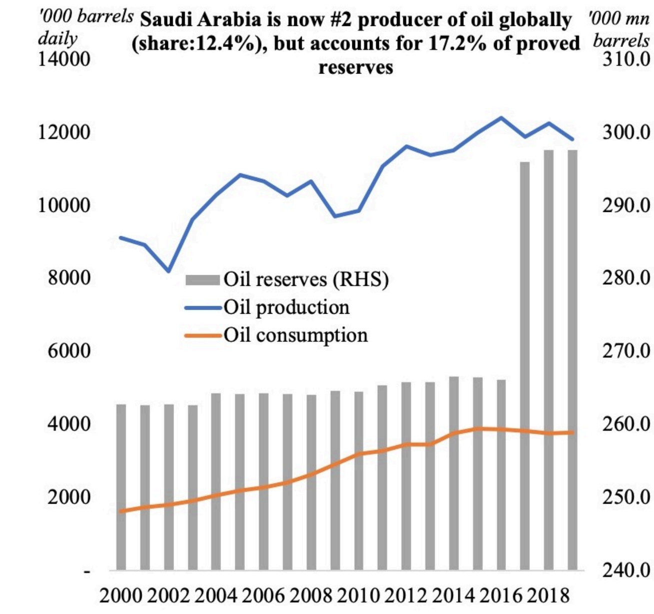
Headline inflation has been climbing in Saudi Arabia from Jul, not surprising given the VAT hike to 15% (from 5% before). The VAT effect is seen across multiple sub-categories, but note that food prices have been ticking up for many months now. Wholesale prices have also increased, similar to when VAT was initially rolled out in 2018, with metal product prices leading the way: these hikes will also filter down to the end-user.

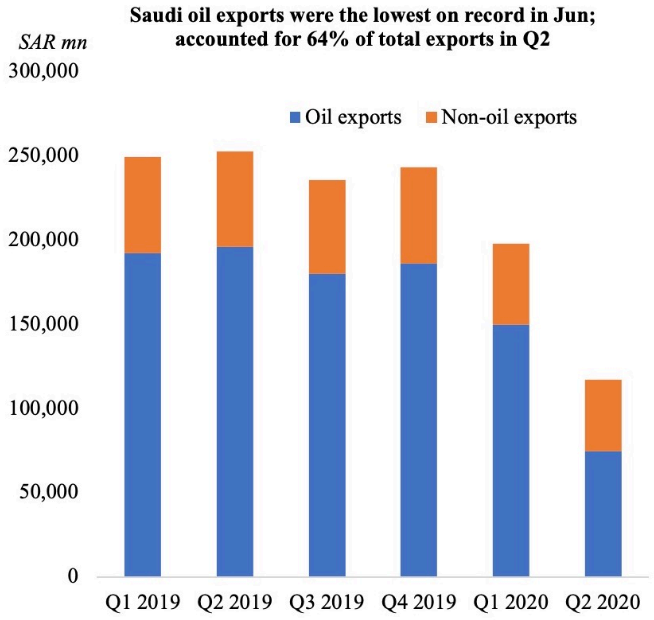
Household spending will be negatively impacted by the VAT hike (as seen from recent SAMA data), there seems to be an increase in cement sales – a proxy for the construction sector spending – after the expected dip during the lockdown period. This could be a result of work continuing on mega-projects like NEOM in addition to a boost from the housing market. The surge in mortgage loans this year (+94.4% year-to-date, with the value in Jun 2020 more than three-times compared to Jun 2019) and the announcement that homes priced at SAR 850k and below will not be subject to VAT will support the housing market. Risks of a severe slowdown in government spending and/or delayed payments could however affect near-term demand.

2. **Oil sector in Saudi Arabia**

The latest trade data from Saudi Arabia shows a drop in overall exports in Q2 this year (-53.6% yoy): oil exports were down by 61.8% yoy, and the share of oil exports fell to 64% in Q2 2020 vs 77.5% in Q2 2019. Partly attributable to the OPEC+

cuts and overall weak global demand for oil (given Covid19), this implies a substantial reduction in government revenues from oil (in 2019, an estimated 63% of total revenues was derived from oil). At the same time, non-oil revenue will also have declined: government's postponement of some taxes and fees will bite into revenues and lockdowns would have negatively affected private sector activity.





Q1 has already posted a budget deficit of SAR 34.1bn, and the IMF estimates (as of June 2020) overall fiscal deficit to widen to 11.4% of GDP this year from 4.5% a year ago. Fiscal consolidation efforts have been a cornerstone of every reform discussion and will likely continue to be – removal of subsidies, reducing public wage bills, raising non-oil revenues – at least in the near-term. This will likely be accompanied by more international debt issuances to finance the deficits, in addition to developing its fledgling local debt market.

The recently released data on world energy from BP shows that though Saudi Arabia is now the second-largest producer of oil globally (behind the US), its proven reserves still account for 17.2% of overall global reserves. But, with the rising rhetoric that oil demand may already have peaked, the pertinent question is whether oil could end up being a stranded asset sooner than later. In this backdrop, with the Covid19 pandemic and a resultant push for climate change policies (before it is too late), it is imperative that the recovery model for Saudi Arabia (and rest of the fuel-exporting nations) includes a strong clean energy policy component within overall reforms, alongside a recasting of its economic diversification model and social contracts.

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Comments on Lebanon's currency collapse and protests, FT, 12 Jun 2020

Dr. Nasser Saidi commented on the currency fluctuations and associated protests in Lebanon in the FT article titled "Currency collapse fuels mass protests in Lebanon" published on 12th June 2020.
The full article can be accessed at: https://www.ft.com/content/a1c5f2aa-79a6-48ec-aa8e-6b5d60bda1f7

The comment is posted below:
Nasser Saidi, a former central bank vice-governor, said there was little the government could do at this point to stop the slide. "This is a cash market, not your usual forex market. The central bank is no longer able to intervene."
Mr Saidi, the former central banker, said the volatile price

swings were driven by four main factors: uncertainty among currency traders about government policy; the printing of currency to cover a fiscal deficit left by falling tax receipts; the economic impact of coronavirus; and panic in the exchange market in neighbouring Syria, where business people are anticipating the impact of new US sanctions next week.