# Weekly Insights 20 Oct 2020: Expect a Protracted Economic Recovery in Middle East/ GCC

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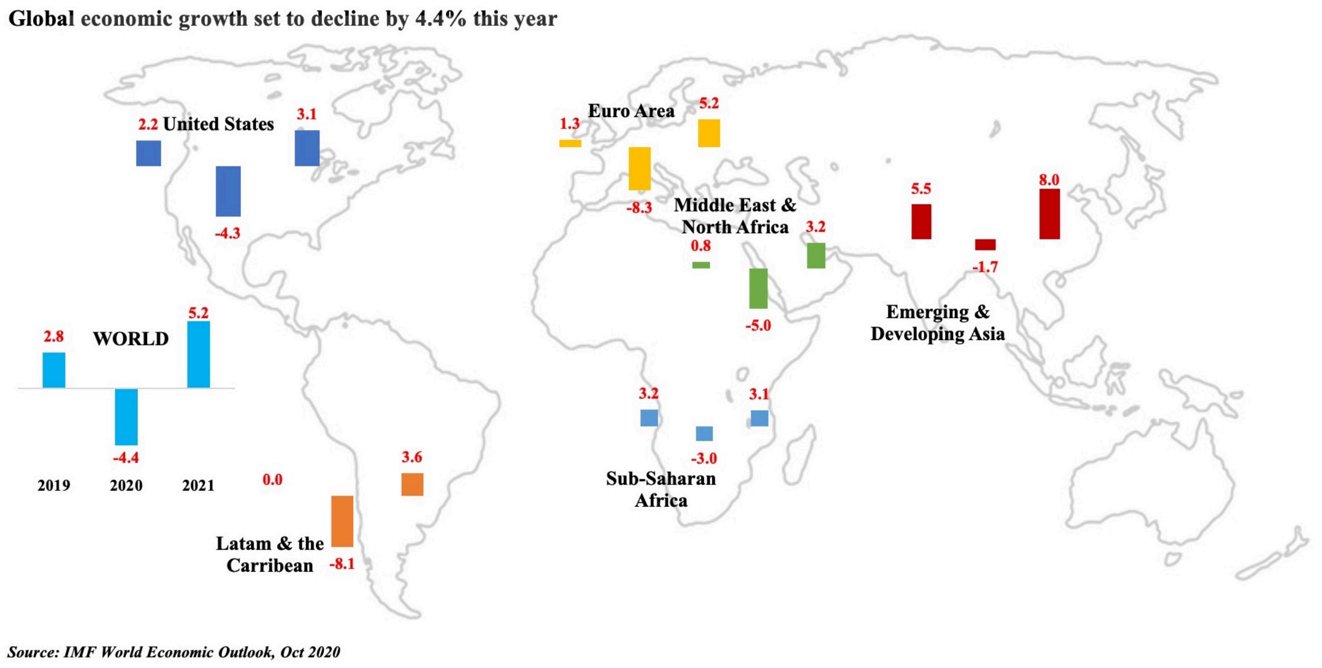
**Fig 1. Global Economic Growth to decline by 4.4% this year, before rebounding to 5.2% in 2021**

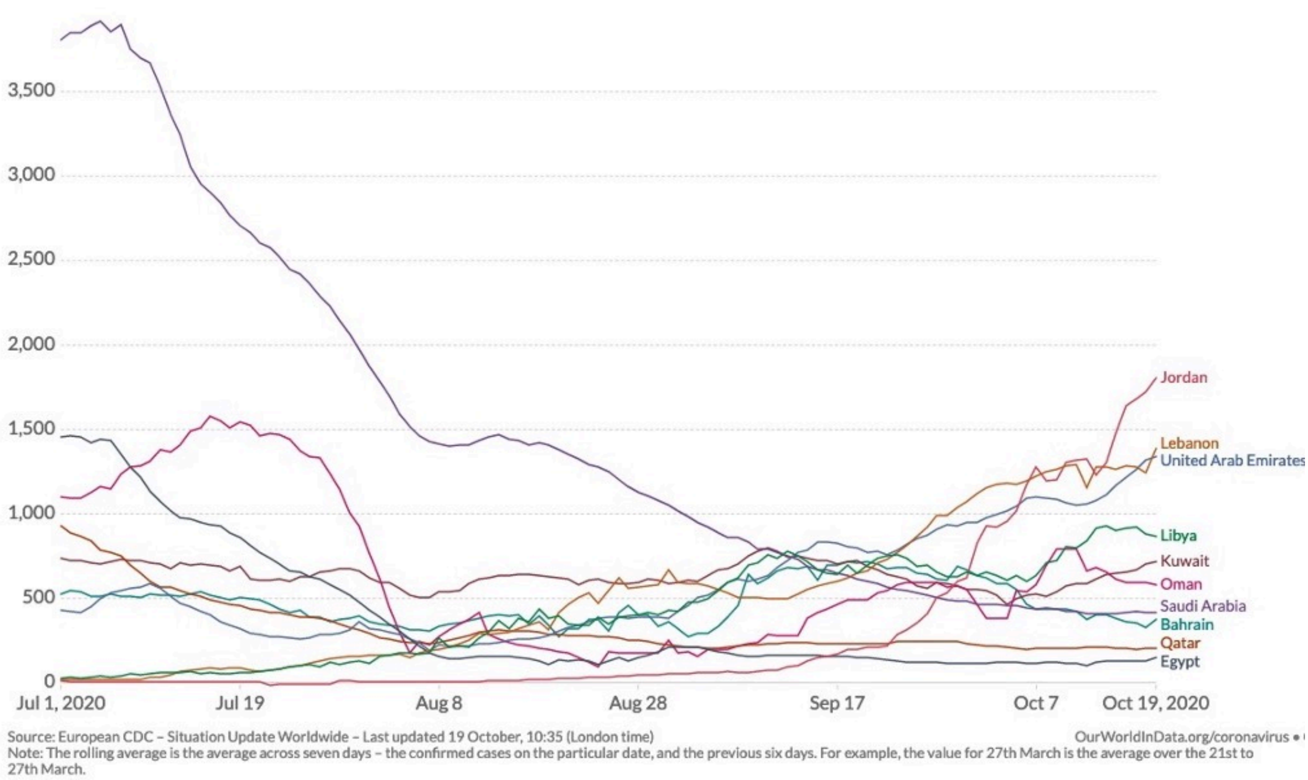



The IMF's **World Economic Outlook**, released in October, forecast upwardly revised growth estimates for most country groups this year though stating that the recovery is "long, uneven and uncertain". The IMF forecasts still seem relatively optimistic with all regional aggregates indicating a wobbly V-shaped recovery. Emerging markets and China are expected to recover much faster than their advanced counterparts while also noting that the plunge in growth was more severe for the advanced nations. A recovery in trade, PMI numbers and consumer spending are cited as supporting global recovery, though the sudden surge in Covid19 confirmed cases across Europe is likely to dampen the rebound, presaging a second wave and extended recovery.

Germany, Italy, Portugal and UK recently reported their highest number of infections since the start of the pandemic and many nations are reimposing restrictions – Belgium's nationwide curfew, Switzerland making masks compulsory in indoor public areas, a 9pm curfew at many major cities in France – though a full-fledged lockdown is likely to be avoided. While Q3 may show an uptick in growth, Q4 is likely to slide back into negative territory (though not as sharp as Q2's plunge). Mobility indicators how a decline in footfall across many European cities *(https://on.ft.com/2TmvOkZ)*; PMI data reveals a divergence between manufacturing and services, with the latter reporting a drop in Sep. As we enter the cold winter months, the partial recovery seen in Q3 may be just temporary.

In the **Middle East and North Africa** (reeling from the effects of the global recession, Covid19 impact and oil exporters facing lower oil prices and demand), growth is expected to recover a tad later and slower compared to the rest, rising to only 3.2% from a 5.0% dip this year *(Source: IMF Regional Economic Outlook: Middle East & Central Asia, Oct 2020)*. Egypt is the only country in the region forecast to grow this year (+3.5% yoy in spite of the massive decline in tourism). **GCC growth is forecast to shrink by 6.0% this year** – with oil and non-oil GDP contracting by 6.2% and 5.7% respectively.

**Fig 2. Daily confirmed COVID-19 cases in select MENA nations, rolling 7-day average**




***Source: Our World in Data, accessed 20th Oct 2020.***

A recent uptick in Covid19 cases might add to economic uncertainty in the region – Jordan has reimposed some restrictions since the beginning of the month, but none of the nations have gone back to the stringency levels seen during Mar-Apr 2020. The **immediate concerns remain on the fiscal side**, with most nations rolling out stimulus packages to ease the impact from Covid19. For the **GCC, fiscal deficits are projected at 9.2% of GDP this year** (2019: -2%) while the fiscal breakeven oil price ranges from USD 42 for Qatar to USD 75.9 for the UAE and as high as USD 104.5 for Oman. Dependence on oil is still pronounced in spite of diversification efforts and the rising fiscal deficits are being met with a combination of debt issuances, tapping domestic markets, reduction of reserves and via sovereign wealth funds.

Though countries in the Middle East emerged from Covid-19 containment in Q2, the economic costs/ impact are likely to be protracted through the year and next given the many spillover risks: debt obligations and financing needs, job losses/ unemployment, potential NPLs affecting banking sectors, business closures leading to insolvency/ bankruptcy, and for the oil importers decline in remittances as well as rising poverty and inequality. [IMF estimates] foresee that five years from now countries could be 12% below GDP level expected by pre-crisis trends.

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# Weekly Insights 13 Oct 2020: PMIs, Mobility & Economic Recovery

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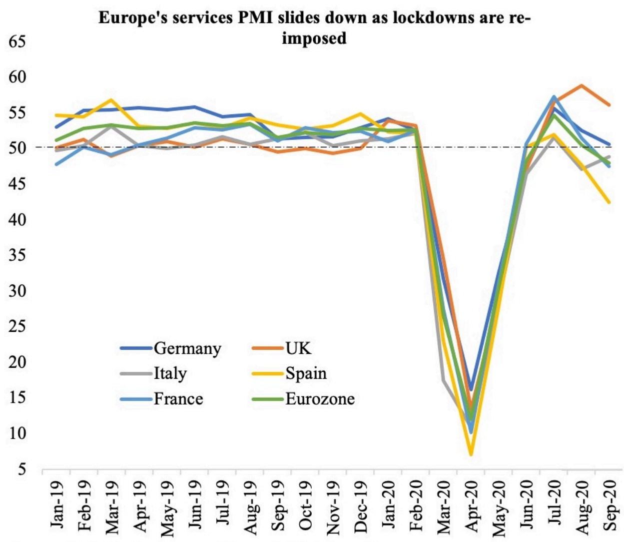
**1.Global PMIs, shipping & trade**

PMIs across the globe were released last week. The headline JPMorgan global composite PMI fell for the first time in five months, dipping to 52.1 in Sep (Aug: 52.4). Most manufacturing surveys still indicated an expansion (a reading above 50) though the pace of recovery has slowed as a result of capacity constraints and supply chain delays. Sector-wise, the most significant beneficiary has been the automotive sector, where production capacity increased and new orders posted the most gain since Dec 2019. On the other extreme, tourism and recreation sector continues to be the worst hit – reflecting the glaring divergence between the manufacturing and services sector PMIs (Figure below). September's PMI readings in the services sector have declined from Aug's 7-month highs, as many countries witnessed a resurgence in Covid19 cases (and in some, new record daily cases!), leading to restricted lockdowns which added on to the restrictions due to social distancing policies. Employment posted a net increase for the first time since Jan: though jobs growth was faster in the services sector in Aug-Sep, remember that the sector had also seen the steepest job cuts earlier this year.

**Heatmap of Manufacturing PMIs**

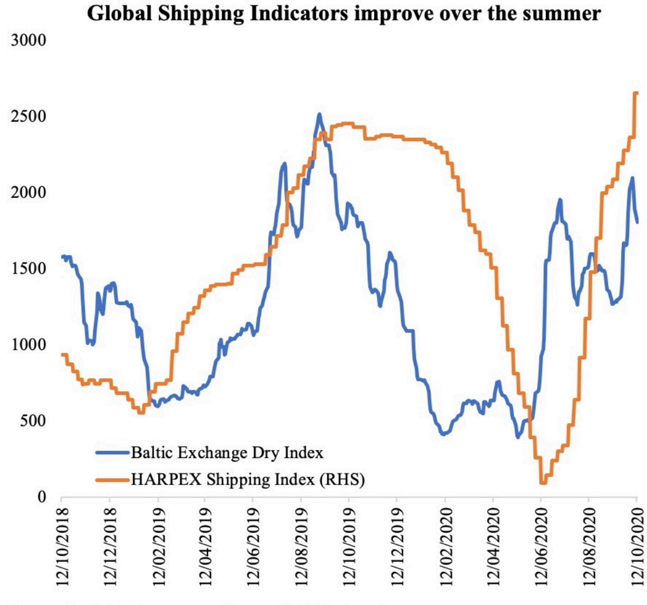
| | US | Germany | EU | UK | Japan | China | India |
|---|---|---|---|---|---|---|---|
| Jan-19 | 54.9 | 49.7 | 50.6 | 52.8 | 50.3 | 48.3 | 53.9 |
| Feb-19 | 53.0 | 47.6 | 49.5 | 52.1 | 48.9 | 49.9 | 54.3 |
| Mar-19 | 52.4 | 44.1 | 48.3 | 55.1 | 49.2 | 50.8 | 52.6 |
| Apr-19 | 52.6 | 44.4 | 48.4 | 53.1 | 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 |

*Source: Refinitiv Datastream, Nasser Saidi & Associates*

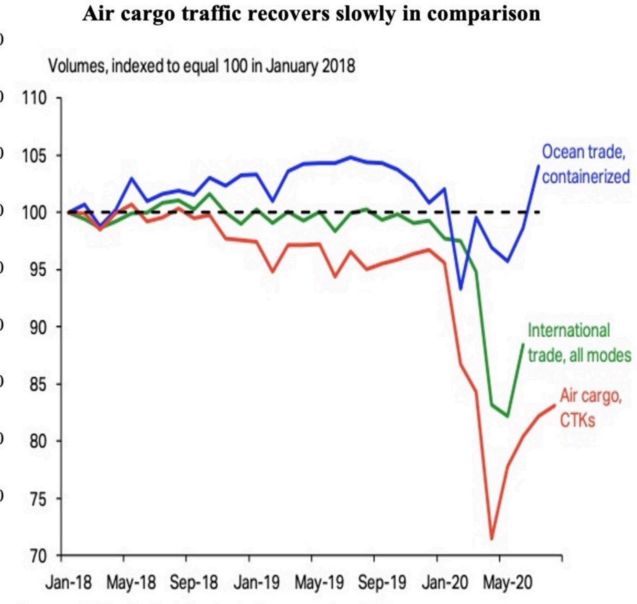



*Source: Refinitiv Datastream, Nasser Saidi & Associates*

Recent manufacturing PMI readings have shown an increase in new export orders, supported by a pickup in demand. Global shipping indicators have improved during the summer, with both the Baltic Exchange Dry Index (tracks rates for ships carrying dry bulk commodities) and the Harpex shipping index (index created using container shipping rates across different classes of ship) picking up pace. Both indices rose to its highest in more than a year last week, after having touched 3-year highs in mid-2019 and declining sharply during the Feb-Jun period. However, the air freight sector has not recovered in tandem with shipping (Figure below), a result of cheaper ocean trade – a pattern visible during downturns – as well as insufficient air cargo capacity (according to IATA).

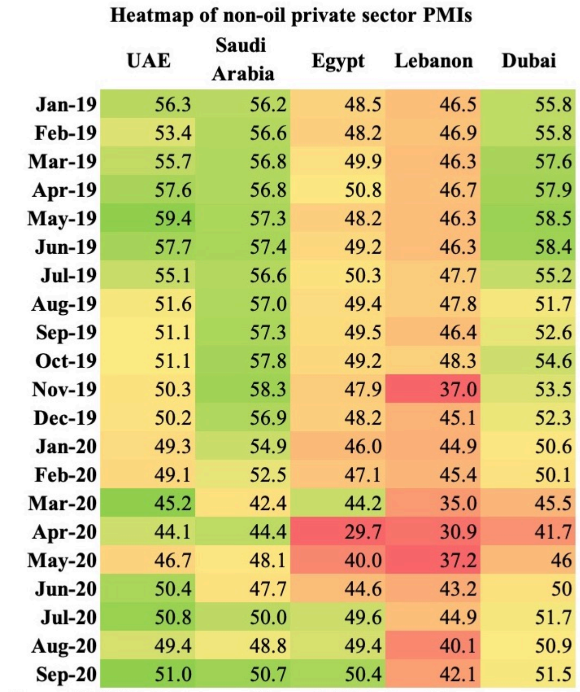


*Source: Refinitiv Datastream, Nasser Saidi & Associates*



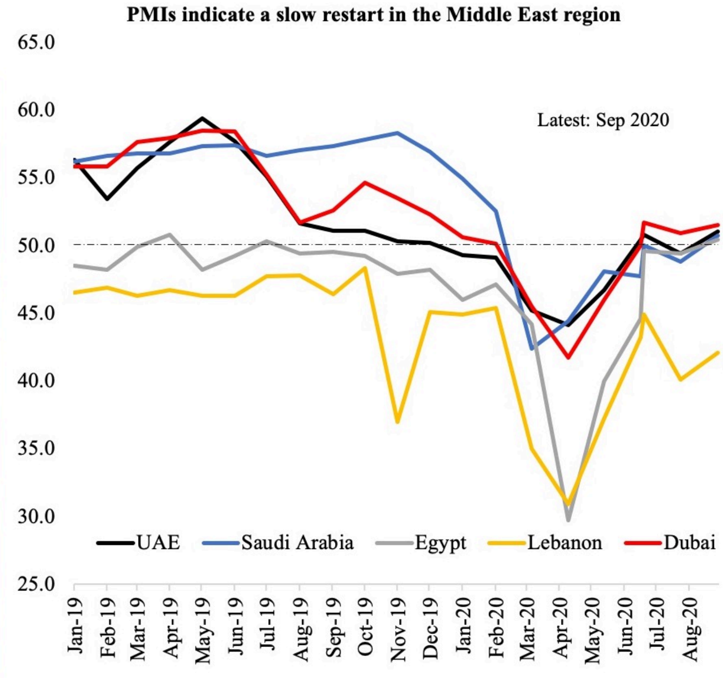
*Source: IATA Air Freight Analysis report, Aug 2020*

## 2. Regional PMIs


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 |

*Source: Refinitiv Datastream, Nasser Saidi & Associates*



*Source: Refinitiv Datastream, Nasser Saidi & Associates*

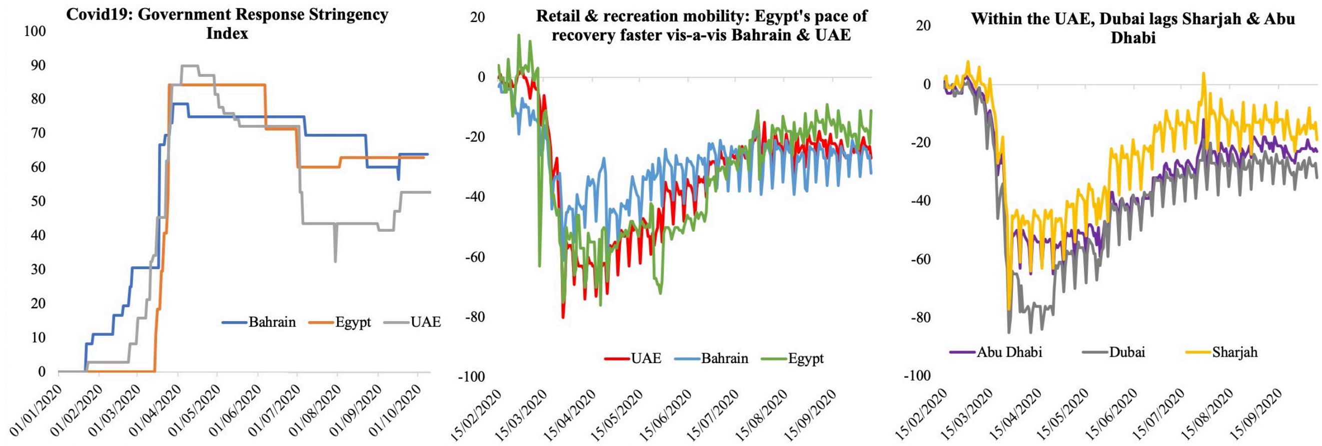
Regional non-oil private sector PMI's indicate a slow restart: Sep's modest improvement followed Aug when four of the countries moved into the contractionary territory (i.e. below the 50-mark). Significantly, demand growth has been picking up and the significant price discounting on offer has led to an increase in sales.

Job cuts are still occurring, as businesses adjust to reduce operating costs. The ILO estimates that Arab states witnessed a 2.3% drop in working hour losses in Q1 this year, followed by 16.9% and 12.4% respectively in Q2 and Q3. Job postings are slowly ticking up, though anecdotal evidence suggests that potential employees are willing to accept a significant pay cut to undertake similar work. This will lead to a wider disparity in public-private sector wages, not to mention the impact it would have on wider gender disparities (during Covid19, women are already more likely than men to witness a larger drop in mobility to lose jobs in the informal economy or see a reduction in working time).

Furthermore, with lack of access to finance/ liquidity, not all businesses will recover or survive in the next few months, should uncertainty remain. This could result in a structural change bought about due to Covid19 (e.g. the increase in number of online shopping platforms which are relatively less labour-intensive versus actual physical stores). Being faced with limited financial capabilities (due to job losses or salary cuts and depletion of savings), expatriates could also decide to return to their home countries (negatively affecting consumer spending in the region).

### 3. Stringency Index vs. Retail and Recreation sector activity

The Middle East has seen a resurgence in Covid19 cases in the recent weeks, and many nations are in the process of reimposing partial lockdowns or shorter nationwide lockdowns: the first panel in the figure below shows that the Government Response Stringency Index[1] has increased for the UAE in the past month (in line with the increase in cases). This is the best way forward, if we are to take into consideration the IMF's recent World Economic Outlook analysis which found that early adoption of stringent and short-lived lockdowns curbed infections and could be preferable to mild and prolonged measures. The enforcement of lockdowns and social distancing policies was an important factor contributing to a recession: however, such short-term costs of lockdowns may lead to medium-term gains if the virus is contained.




*Source: COVID-19 Government Response Stringency Index (Stringency Index), Our Wolrd In Data, Google COVID-19 Community Mobility Reports, Nasser Saidi & Associates*

Google Mobility indicator for retail and recreation show that none of the three nations – Bahrain, Egypt, or UAE – have yet returned fully to the pre-Covid19 baseline. Among the three, Egypt, which had declined the most initially, recovered faster in comparison. More interestingly, within the UAE, recovery in retail sector mobility in Sharjah (-14% from baseline in Oct) and Abu Dhabi (-21% from baseline) has outpaced Dubai (-23%). This could potentially be due to higher confidence in these emirates – given mass testing in Sharjah, border controls in Abu Dhabi and a relatively longer lockdown period – compared to Dubai.

What next? Note that a second (or even third) wave of Covid19 is unfolding, as we enter the cold winter months: given the likelihood of resurgence of Covid19, partial recovery – as indicated by PMIs – may be temporary. If further virus containment measures are introduced, though it will dampen economic activity in the short-term, medium-term gains might be achieved. Initial restrictions will likely affect the customer-facing service sectors more than others, but risks to other sectors will increase if further restrictions are imposed. Overall, an air of uncertainty is unlikely to boost confidence among firms, negatively affecting investment decisions and economic activity. Governments need to signal willingness to continue stimulus measures if required and take decisions to introduce "circuit-breakers" if necessary.

[1] The Stringency Index is a composite measure based on nine

response indicators that include school closures, workplace closures, and travel bans; the index ranges from 0 to 100 with 100 being the strictest. This index does not track the effectiveness of the response. More: [https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker](https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker)

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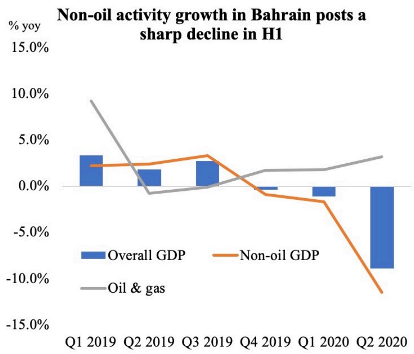
# Weekly Insights 6 Oct 2020: Economic activity in Bahrain & Saudi Arabia

*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.*

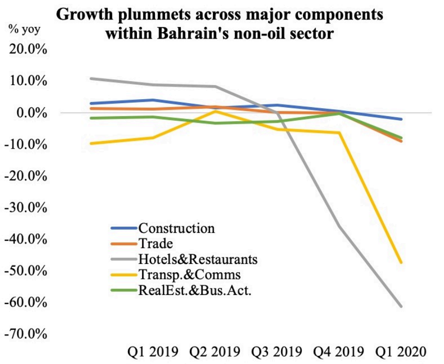
1. **Bahrain GDP & economic activity**

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.

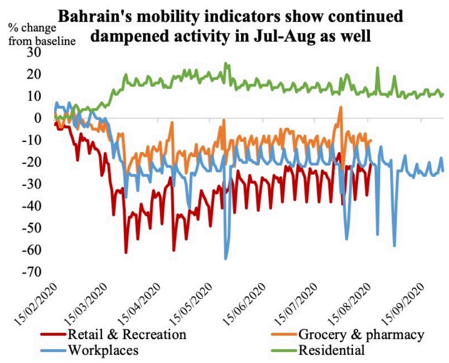
With Covid19-related restrictions slowly being phased out in Bahrain, can we expect a resumption of economic activity? The data for Jul-Aug show the pace of recovery has been slow, with readings for retail and recreation still at an average 26% below the baseline data (pre-Covid19). Recent announcements 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*



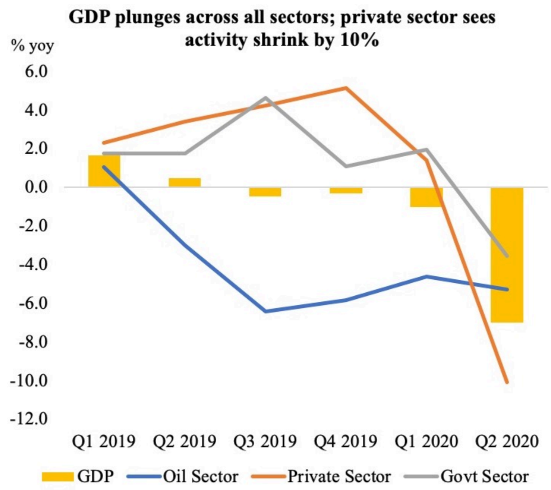

*Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates*

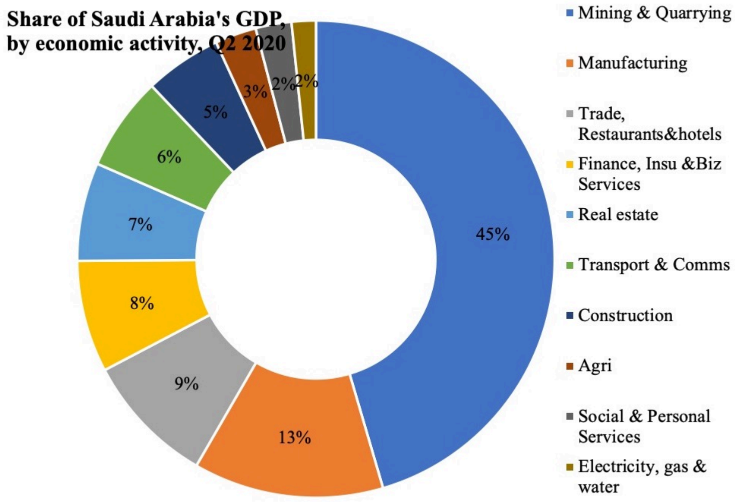



*Source: Google Covid19 Community Mobility Report, Nasser Saidi & Associates. Note: Google have temporarily suspended updates in some categories to improve how they are calculated.*

## 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%).



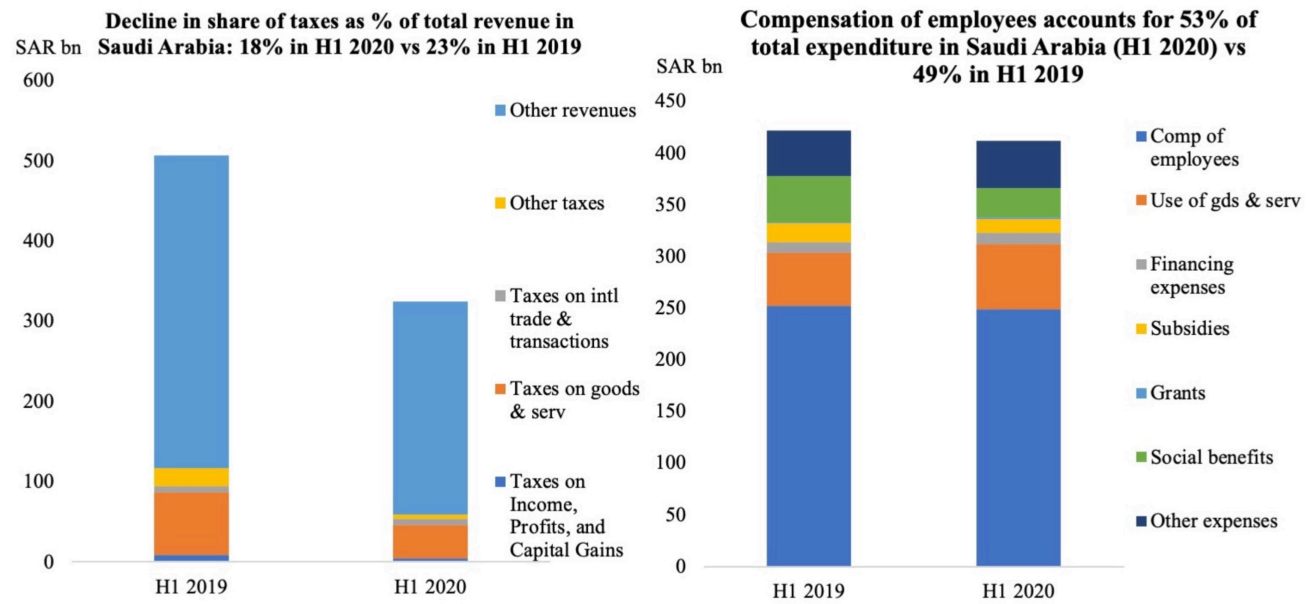




*Source: Saudi Arabia GaStat, Nasser Saidi & Associates*

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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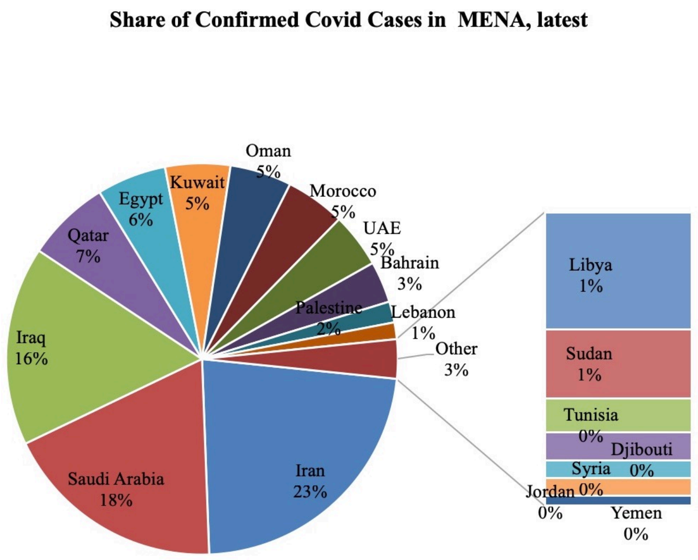
# Weekly Insights 14 Sep 2020: A Balance Act as UAE remains open amid Covid19 surge

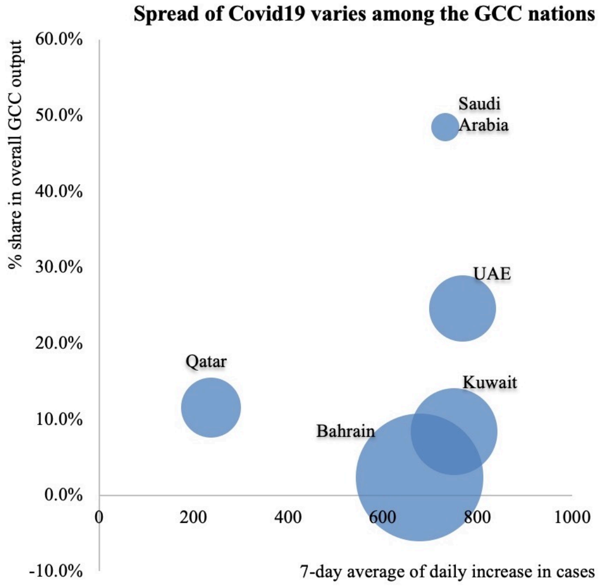
*Charts of the Week: This is a crucial period for GCC, including the UAE. How can one decide on the balance between reopening the economy, supporting economic activity, while also containing the spread of Covid19? What policy measures should top the list to support businesses and consumers?*

## 1.Spread of Covid19 in the GCC/ UAE

Confirmed Covid19 cases in the Middle East has crossed 1.75mn, with the GCC nations accounting for 43.7% of total cases. Many of these nations have seen a recent spike in cases, after stay-at-home orders and travel restrictions were lifted in addition to reopening previously constrained activities (e.g. mosques, gyms, salons). Among the GCC nations, the spread of the outbreak is still varied. The chart on the right maps the share in total daily increase in confirmed cases per million persons (x-axis) against the share of the country in overall output (y-axis), with the size of the bubble denoting the 7-day average of the daily increase in cases.

Among the GCC nations, Oman seems to be relatively better off – when it comes to both the 7-day average of daily increase in Covid19 cases as well as the daily confirmed cases per million people; not surprising considering that it is the most "stringent" among the group – the Oxford Covid-19 government response stringency index[1] places Oman at 86.11 vs the least stringent being UAE at 36.11 (Sep 2020). The UAE, which accounts for one-fourth of GCC's GDP, has the highest 7-day average of daily increase in Covid19 cases (size of bubble). While officials have stressed the need for greater adherence to social distancing measures, no lockdown has been imposed as yet. Within UAE, Dubai is already welcoming tourists subject to Covid19 negative tests.



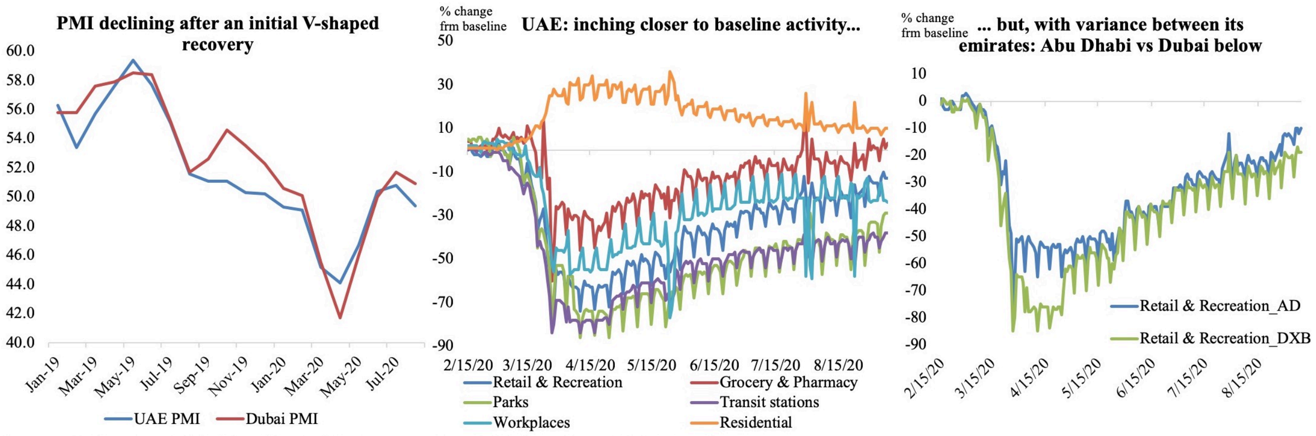




***Source: Worldometers, Our World in Data, Nasser Saidi & Associates. The size of the bubbles on the RHS chart denotes the 7-day average of daily increase in cases.***

This implies a sharper downturn in GDP this year due to the outbreak, while the effects of lower oil prices and the OPEC+ led cut in oil production will worsen the growth outlook. Given the large proportion of expat population in the country, a dip in growth will also spillover into the labour-importing nations: ranging from job losses (& the return of these residents to home countries), as well as lower remittances. In anticipation of lower growth this year, the government and central bank have rolled out private sector stimulus packages to support the economy, while reducing expenditures (UAE posted a record budget surplus of AED 9.75bn in Q2 this year). The Federal ministries have reduced spending (including compensation of employees), with overall cuts in capital and infrastructure spending will be detrimental to economic growth.

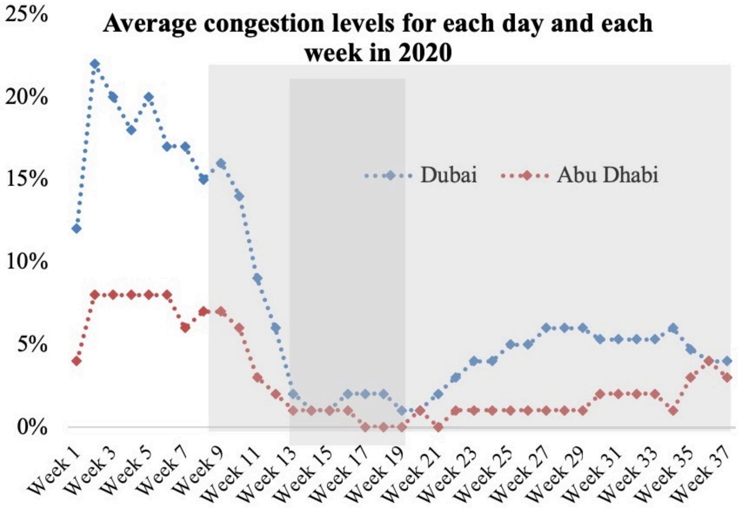
To compensate from lower oil prices and lower non-oil fiscal revenues, borrowing from international capital markets has gathered steam: so far this year, Abu Dhabi issued a USD 5bn multi-tranche bond (that included a 50-year tranche – the longest term for a bond issued by a GCC sovereign issuer) after having raised USD 10bn previously this year, while Dubai government sold a USD 2bn dual-tranche in early-Sep (the prospectus also disclosed that the emirate had raised over USD 3.6bn in debt this year through several instruments, used to support Emirates Airlines and expenses related to the Expo). An important point to highlight is that though Dubai government debt is placed at USD 34bn, the exposure of government-related enterprises (GREs) were not disclosed – an amount estimated at more than USD 120bn by the IMF. A related point was mentioned in the [previous weekly insights](): bank credit to the public sector and government are rising, threatening to crowd out lending to the private sector (which recorded a 0.1% yoy dip in Jun).

## 2. Economic Activity in the UAE: PMI, Mobility Indicators & Traffic Congestion



*Source: IHS Markit, Refinitiv Eikon, Google Mobility reports (data till 8th Sep), Nasser Saidi & Associates.*

PMI for both UAE and Dubai (most dependent on non-oil sectors) declined the most in Apr – to 44.1 and 41.7 respectively. Following that dip, the PMI readings have been rising in both UAE and Dubai, though it came to a halt in Aug. Employment continues to be the biggest drag on the index (the sub-index was at the lowest in 11 years in the UAE while in a 6$^{th}$ consecutive month of contraction in Dubai) while a rise in sales and related spending was attributed to steeper price discounting (respondent firms generally pointed towards subdued customer demand, not surprising given the wider economic uncertainties).




***Source: TomTom Traffic Congestion Index, Nasser Saidi & Associates. Grey areas indicate Covid19 restrictions, with the darket shaded area the severe restriction dates.***

Retail and recreation readings are just under 15% lower than the baseline case in the UAE. There is however a slight difference between Dubai and Abu Dhabi with the latter having recovered faster – probably more confidence as result of specific lockdown restrictions (i.e. need to provide a negative test result to enter the emirate). Workplace is still 25% lower compared to the baseline – possibly the result of working from home policies in many firms. Congestion statistics already show a slow pickup – but below pre-Covid19 levels – more so in Dubai than Abu Dhabi.

## 3. Policy recommendations for the UAE

As businesses adjust, governments can provide stimulus support to facilitate transition to the new normal. **The focus in this section is businesses and consumers.** The main immediate concern for firms is operating costs and cash flow: lowering rents/ license fees or offering installment plans for payment of license fees/ rents would help ease financial burdens. Additionally, the government could offer grants to support firms' digitalization/ roll out of innovative processes. Strains on businesses could have a spillover effect on the banking sector via non-performing loans or increased flight risk of business owners unable to meet repayments. Towards this end, an extension of loan repayments deferment should be considered by the central bank (this has already been done by other GCC nations). Banks should also be nudged to lend to the SMEs and not just already "established" firms with a better financial standing: this could take the form of working capital loans or trade loans, with a SME guarantee scheme (specifying criteria for eligible lenders and the assessment process).

As firms' lower headcount to adjust, it would be beneficial to remove barriers to labour mobility (e.g. allowing part-time work visas/ freelancing options versus being tied to a specific company): this would allow employees (and families) to remain in the country to search for alternative jobs (and continue school, visit malls and use hospitals among others thereby contributing to overall consumer spending). Ensuring that sudden job losses will not require a move back to their native country, will increase confidence to invest in the economy (be it real estate or starting new business ventures). A longer-term policy would be to establish social security nets and/or unemployment insurance to reduce financial burdens alongside jobs support schemes.

*[1] Check https://ourworldindata.org/grapher/covid-stringency-index?year=latest&time=2020-01-22..latest*

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# Weekly Insights 20 Jul 2020:

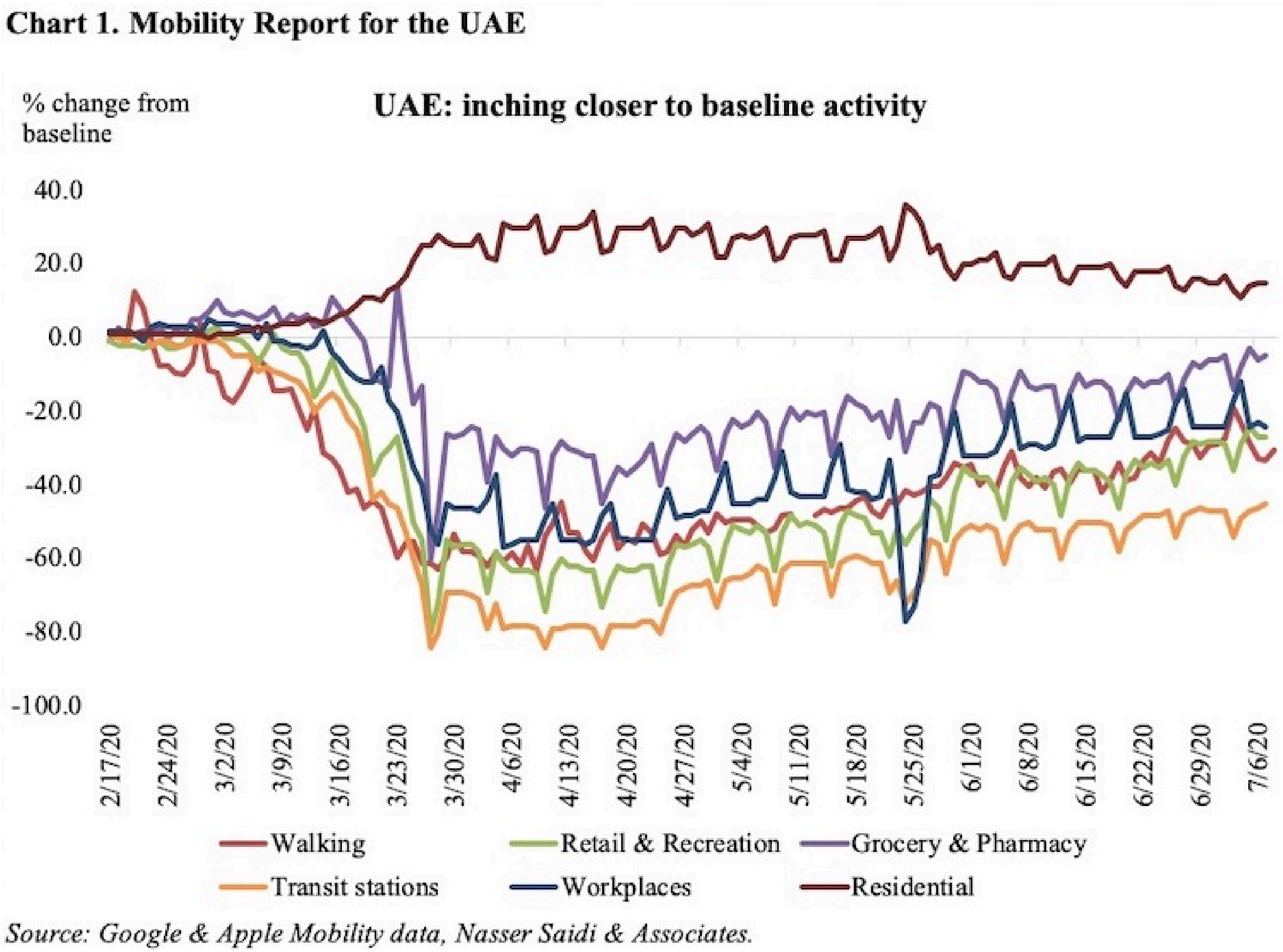
# UAE, Covid19 & economic activity after re-opening post-lockdown

**UAE, Covid19 & economic activity after re-opening post-lockdown**

With UAE easing restrictions imposed due to the Covid19 outbreak and opening the economy in phases, a pickup in economic activity is inevitable. The Oxford Government Stringency Index (which records the number and strictness of government policies) scores the UAE at 69.44 in the beginning of Jul, down from a high of 89.81 recorded during the first two weeks of Apr (a higher score indicates a stricter government response). The question however remains whether residents have embraced the "re-opening" and gone back to "business as usual".

Few economic indicators are released monthly in the UAE and hence the availability of Google and Apple Mobility numbers offer a good perspective of where the economy is headed to, reopening after the lockdown. Google Mobility indicators show trends over several weeks on how visits to various sectors – retail & recreation, grocery and pharmacy, parks, transit stations, workplaces – compare to a baseline value for that day of the week *[1]* while residential shows a change in duration of time spent at home. Apple Mobility indicators track resident activity – walking and driving – which can also be read into as "confidence" indicators i.e. you are more likely to be out exercising if you have accepted the new Covid19 realities (social distancing, wearing masks etc).

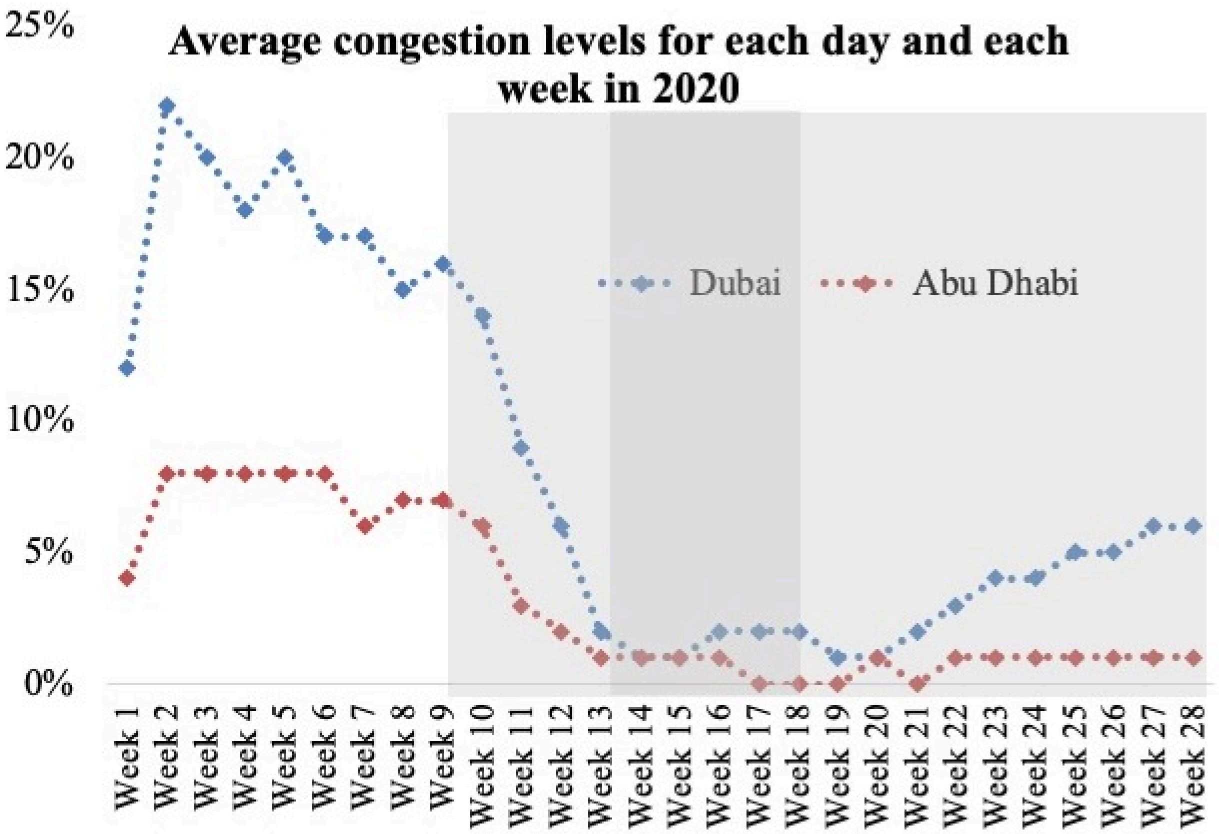
These high-frequency indicators offer an insight into retail behaviour (visit to recreation, retail outlets, groceries), as well as economic activity (transit stations, workplaces and residential) while parks and walking can be interpreted as "social well-being", an equally important measure.




The lockdown phase in the UAE (towards the end of March) is evident from **Chart 1**, with the various indicators dipping to near -100%. Of the indicators, the two that are inching back to baseline are visits to groceries and pharmacies as well as workplaces. During the peak of the outbreak, when severe restrictions were in place, there was a surge e-commerce activity (especially online shopping platforms) which still continues, and could explain the current gap to baseline activity.

Workplaces are still 24% below the baseline, implying that working from home is still an option being provided by many offices. If companies continue to offer flexible work options, this would reduce office space and rents, while employees can stay at cheaper home locations, save on rents, and telecommute. Congestion statistics already show a return to normal, more so in Dubai than Abu Dhabi (**Chart 2**). However, to fully realise the benefits of telecommuting, it requires removing barriers by amending labour laws (e.g. part-time work/ freelancing options versus being tied to a specific company) and liberalising VoIP services (for businesses, especially for SMEs).

**Chart 2. Traffic Congestion in Dubai & Abu Dhabi, UAE**



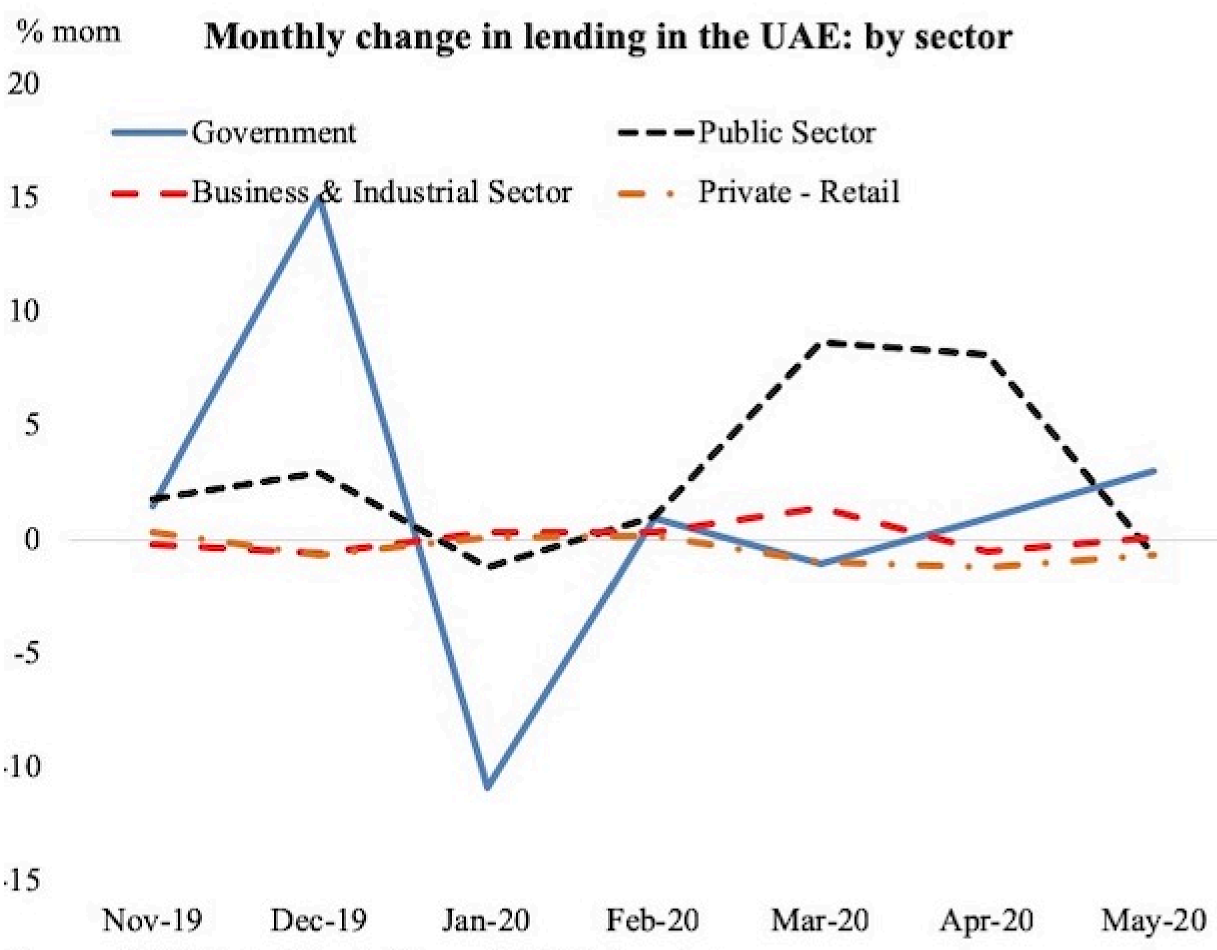

*Source: TomTom Traffic Congestion Index, Nasser Saidi & Associates. The grey areas indicate Covid19 restrictions, with the darker shaded area the severe restriction dates.*

The uptick in “workplaces” has not been mirrored in “transit stations”. This is likely the result of a combination of two factors: (a) prevalence of using cars to travel – a report in Dec 2018 disclosed that UAE had an average ratio of one car to every three residents; average congestion is picking up faster in Dubai than in Abu Dhabi; (b) public transport is more frequently used by those without the option of personal transport, and who are more likely working in the services sector (e.g. in retail, hospitality sector and the like). Working in the hardest hit sectors during the Covid19 outbreak, these persons could have witnessed job losses or reduced working hours resulting in a slower uptick in “transit stations” category.

In spite of retail and recreation outlets operating at full capacity now, the return to baseline hasn’t been as smooth.

One of the reasons could be the launch of online shopping by many retailers; another restriction is related to F&B operations: social distancing rules mean curtailed capacity, implying it will take longer for the sector to recover. Even during the Eid holidays in end-May, the uptick in this category was muted though lifting of restrictions mid-Jun on entry of kids and persons aged 60+ seems to have had a positive impact. With tourists back in Dubai starting Jul 7, the picture could change in the retailers' favour.

**Chart 3. Lending in the UAE**




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

Last, but not the least, the UAE central bank has released monthly statistics for May – the 2nd month after lockdown was initiated towards end-Mar. The Central Bank had launched a AED 256bn Targeted Economic Support Scheme for banks to provide temporary financial relief for individuals, SMEs and other private businesses affected by the pandemic, following which banks offered relief for customers' loans. Alongside, support was specifically initiated for SMEs – be it to open new bank accounts faster to providing credit guarantees. However, this does not seem to be reflected in the gross credit disbursed to UAE firms (**Chart 3**). Loans to the government rose by 3.06% mom in May while loans to the retail sector declined in month on month terms (-0.6%). Public sector entities (i.e. state-owned enterprises/ GREs) saw two consecutive 8%+ mom increase in loans before dropping by -0.7% mom in May.

So, what does all this mean from a policy perspective? The UAE's drive to greater digitalization will gain traction in the new Covid19 normal: from varied e-commerce offerings to creating innovative payment systems to neo-banking options (ADGM announced associated regulations last year). A future UAE where work from home is commonplace, delinking jobs and visas are norm, and online payments are king (vs cash currently) is not far-fetched any more. The role of the private sector (including investments) is critical in achieving this goal alongside government support, and to this extend might need specific support for the SME sector which is oft sidelined given relatively lower turnover, lack of security/ collateral as well as potential for non-performing loans (and "absconding" owners).

*[1] The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.*