"Will the UAE's accelerated vaccine campaign help fuel economic growth?", Oped in The National, 16 Feb 2021

The article titled "Will the UAE's accelerated vaccine campaign help fuel economic growth?" appeared in the print edition of The National on 16th February 2021 and is posted below.

Will the UAE's accelerated vaccine campaign help fuel economic growth?

Nasser Saidi & Aathira Prasad

The drive could help improve herd immunity and gradually return business activity to pre-pandemic levels

Countries around the world, including in the Gulf region, have registered a sharp increase in Covid-19 cases amid a rise in new virus strains.

As the number cases grows, the UAE has reintroduced more stringent restrictions and penalties for non-compliance to ensure the safety of residents and stem the pandemic's spread.

In tandem with safety measures, the country has also hastened its vaccination drive since December and is currently a global leader, having administered 51.11 vaccine doses for every 100 people as of Sunday, making it second only to Israel.

With four vaccines being expended currently – Sinopharm, Pfizer-BioNTech, AstraZeneca and Sputnik V – the government is on track to vaccinate more than half the population by the end of the first quarter of this year.

Is this sufficient to support economic recovery?

Given the paucity of monthly indicators or data from official sources, we use purchasing managers' index numbers released by IHS Markit to gauge the level of business activity in the UAE and Dubai.

Both PMIs have stayed quite close to the neutral 50-mark from December to January after having spent two consecutive months in contractionary territory. Job prospects seem to be improving in Dubai and across the country.

However, Dubai's tourism sector, which recorded a sharp increase in activity in December, returned to sub-50 levels as tourists returned after the New Year holidays and travel restrictions were tightened.

With the vaccination drive, it is evident that as the nation inches closer to achieving herd immunity, domestic activity and business and consumer levels will gradually build up to pre-pandemic levels.

Investor and business-friendly reforms to convince skilled professionals to take up residence in the country will help spur economic activity. While the success of these structural reforms will not be immediate, their steady and effective application is expected to support economic growth in the medium and long term.

How can the UAE step up its recovery?

It is in the best interests of the UAE and Dubai, which is hosting the Expo later this year, for the wider region and the rest of the world to achieve high vaccination levels.

The longer countries remain unvaccinated, the greater the risk of newer strains emerging that could potentially result in another cycle of infections and subsequent movement restrictions.

There are two potential ways to support this.

First, it is crucial to increase the production of vaccines. A recent paper by the University of Chicago said "increasing the total supply of vaccine capacity available in January 2021 from two to three billion courses per year generated $1.75 trillion in social value, while additional firm revenue was closer to $30bn", far outweighing the investment required to do so.

Vaccination is a public social good that has several private benefits while the coronavirus remains a global threat. So, the UAE's plans to manufacture the Sinopharm Covid-19 vaccine later this year would be a win-win situation that would cater to both domestic and global demand – especially if the vaccine is to be administered on an annual basis – and boost growth.

Secondly, the manufactured vaccines need to be distributed faster to reach those in need. To this end, the UAE is well-positioned as a global logistics and transport hub – both for delivering vaccines to smaller nations in the region and using its vast cargo network to transport Covid-19 shots around the world.

Abu Dhabi's Hope Consortium was set up for vaccine storage and distribution while Dubai's Vaccine Logistics Alliance will support the World Health Organisation's effort to deliver two billion doses of vaccines this year.

This could be supported by vaccine aid – either in its contribution to global alliances such as Covax, which plans to deliver 2.3 billion doses this year, or through the free delivery of vaccines to smaller and poor nations, for example, India's campaign to distribute free vaccines in Nepal, Bhutan and Bangladesh.

A global recovery is essential to the UAE's overall growth prospects. As a country that relies on trade and tourism, which accounted for about 15 per cent of national gross domestic product and about 30 per cent of Dubai's GDP in 2019, the impact of Covid-19 has been significant.

Despite Opec+ production cuts and a subdued demand for crude, signs of a recovery in oil demand (declining oil inventories in China and India) and higher oil prices (about $60 now) will be beneficial to trade and growth.

The UAE's oil and related product exports are about 40 per cent of total exports and the main export destinations include

India, China and Japan, which together account for more than 25 per cent of overall exports and are recovering faster than European markets and the US – to the UAE’s benefit.

Lastly, no outlook is complete without risks. Long-term diversification away from oil is an overarching imperative, as is decarbonisation and debt sustainability, especially in the context of another potential taper tantrum or a faster-than-expected increase in interest rates that leads to tighter financing conditions.

The UAE should continue to press forward with its clean energy initiatives and energy efficiency policies. As the success of the Mars Hope probe has demonstrated, the country has the will, leadership and access to technology and resources to turn the challenge posed by the pandemic into a lever that can help its economy and activities become green, clean, innovative and resilient to climate change.

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

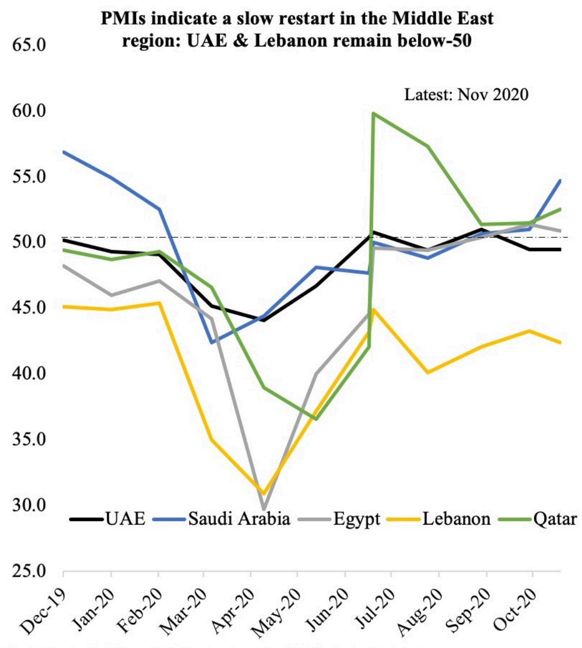
Download a PDF copy of this week’s insight piece [here](#).

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

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

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

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



Source: Refinitiv Datastream, Nasser Saidi & Associates

Heatmap of manufacturing PMIs

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

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

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

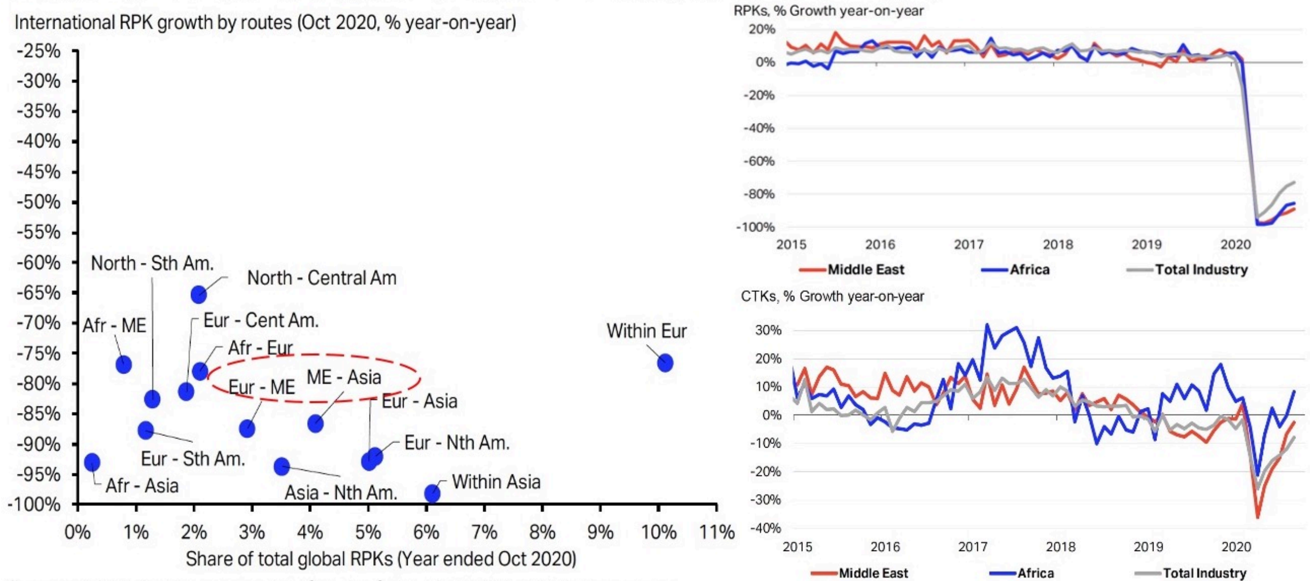
International travel markets remain weak: **Middle East airlines revenue passenger-kilometres (RPKs) were down by 86.7% and 88.2%** for international connectivity and long-haul traffic in Oct. This should benefit the airline industry in 2 ways: (a) in the near-term, the industry will **support distribution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

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

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

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

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



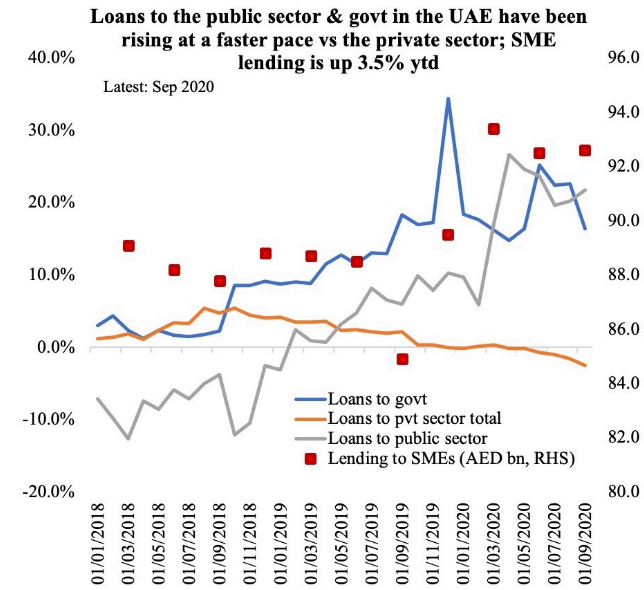
Source: IATA Air Passenger Market Analysis, Oct 2020; IATA Economics

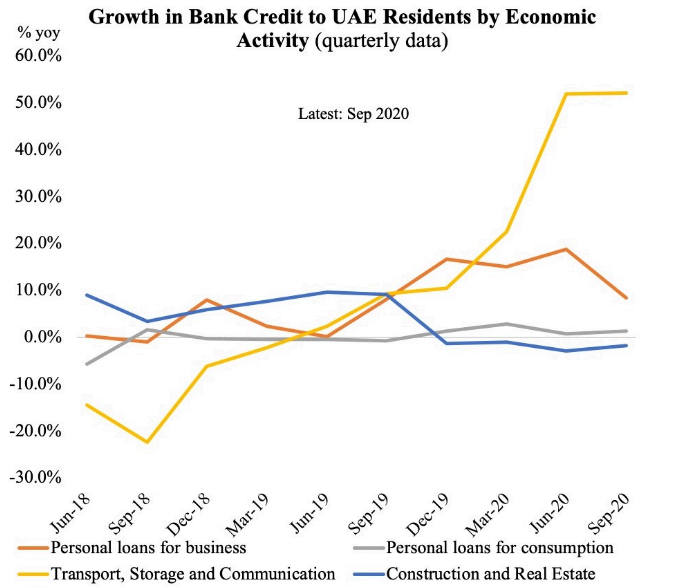
Chart 3: Bankcredit in the UAE

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

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

slow as well, but up 3.5% year-to-date.
Breaking down lending by sector, there has been upticks in credit to both transport, storage and communication (+52.1% yoy as of end-Sep) as well as government (13.6% yoy); mining & quarrying and construction sectors saw declines of -14.4% and -1.9% respectively.

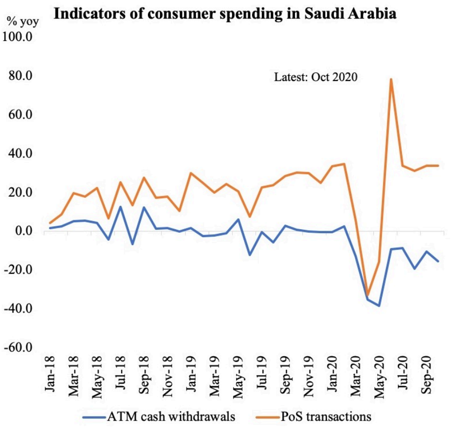


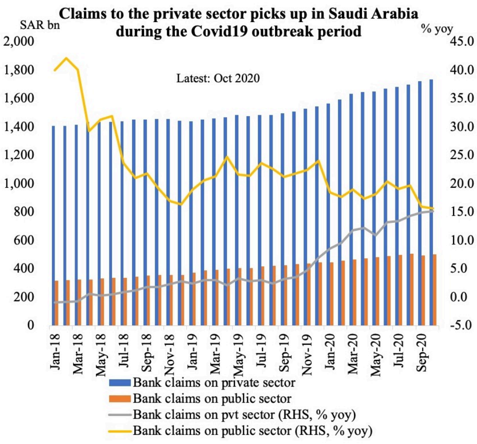


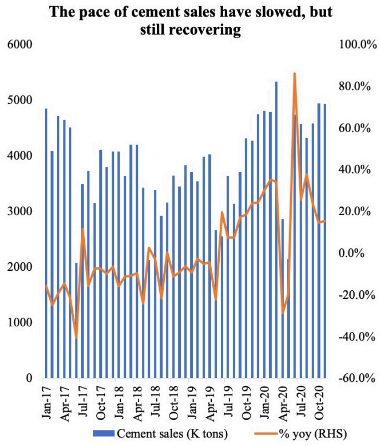
Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.

Chart 4: Indicators of economic activity in Saudi Arabia

Among the proxy indicators for **consumer spending** – ATM withdrawals and PoS transactions – the latter is picking up faster, supported by transactions in food and beverage (+28.9% during Jan-Oct 2020) and restaurants and cafes (+68.9%); in comparison, transactions at hotels are down by 33%. ATM transactions dropped by one-fourth to SAR 499.87bn in Jan-Oct.
Loans to the private sector in KSA has been growing at a double-digit pace since Mar this year, with the year-to-date growth at 12.4% yoy.
Cement sales have been on the uptick, supported by the number of **ongoing mega-projects** (like the Red Sea development) as well as residential demand: real estate loans by banks are up 38% till Q3 this year, outpacing growth in both 2018 & 2019 while PoS transactions in the construction and building materials is up 44.2% this year (a large 247.4% uptick in Jun, ahead of the VAT hike).







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

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

Download a PDF copy of this week's economic commentary here.

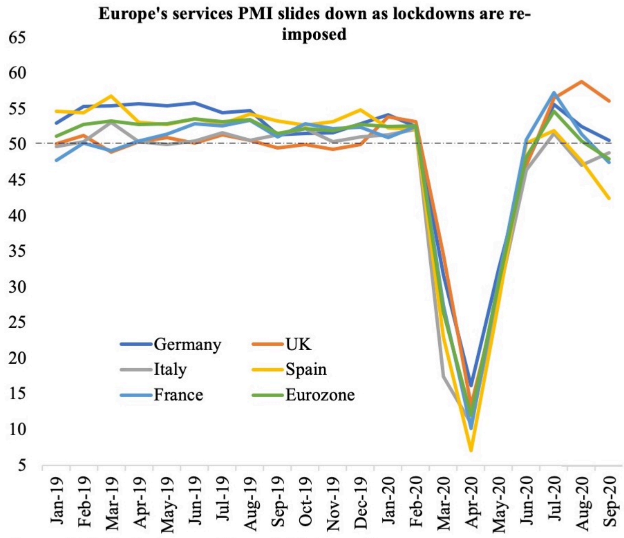
1.Global PMIs, shipping & trade

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

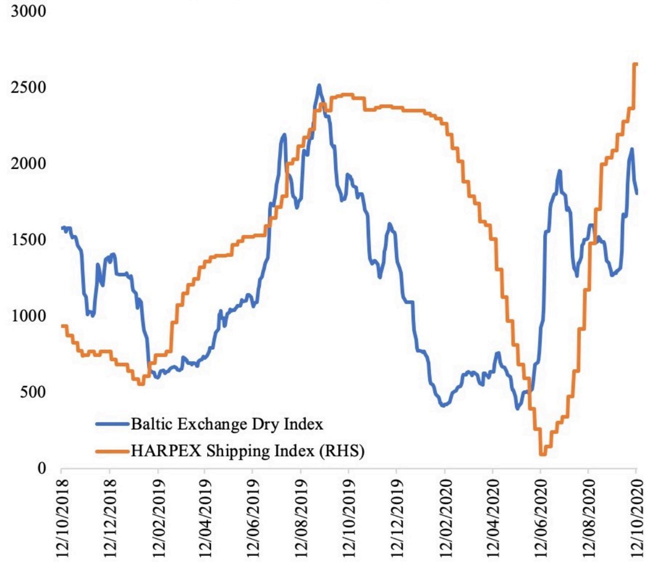
Source: Refinitiv Datastream, Nasser Saidi & Associates



Source: Refinitiv Datastream, Nasser Saidi & Associates

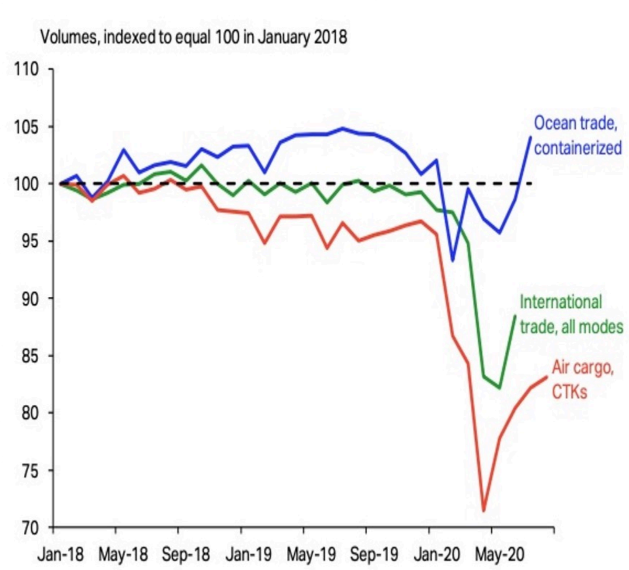
Recent manufacturing PMI readings have shown an increase in new export orders, supported by a pickup in demand. Global shipping indicators have improved during the summer, with both the Baltic Exchange Dry Index (tracks rates for ships carrying dry bulk commodities) and the Harpex shipping index (index 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).

Global Shipping Indicators improve over the summer



Source: Refinitiv Datastream, Nasser Saidi & Associates

Air cargo traffic recovers slowly in comparison



Source: IATA Air Freight Analysis report, Aug 2020

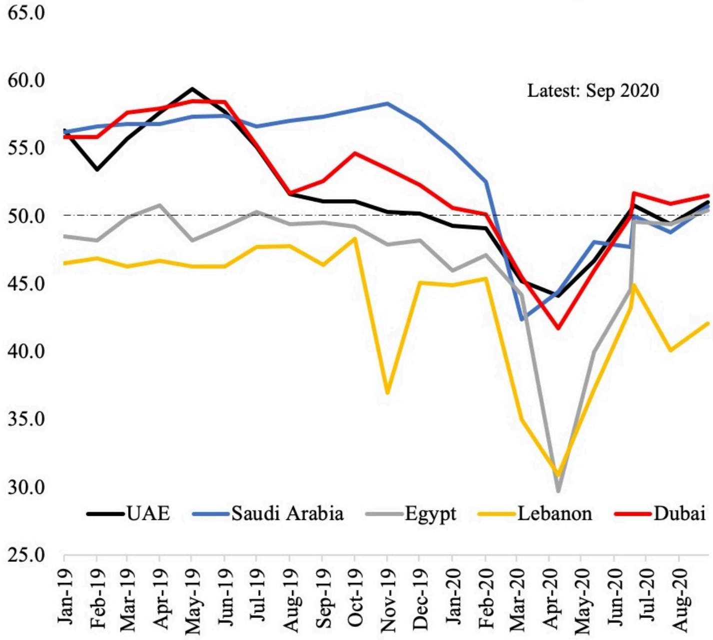
2. Regional PMIs

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

PMIs indicate a slow restart in the Middle East region



Source: Refinitiv Datastream, Nasser Saidi & Associates

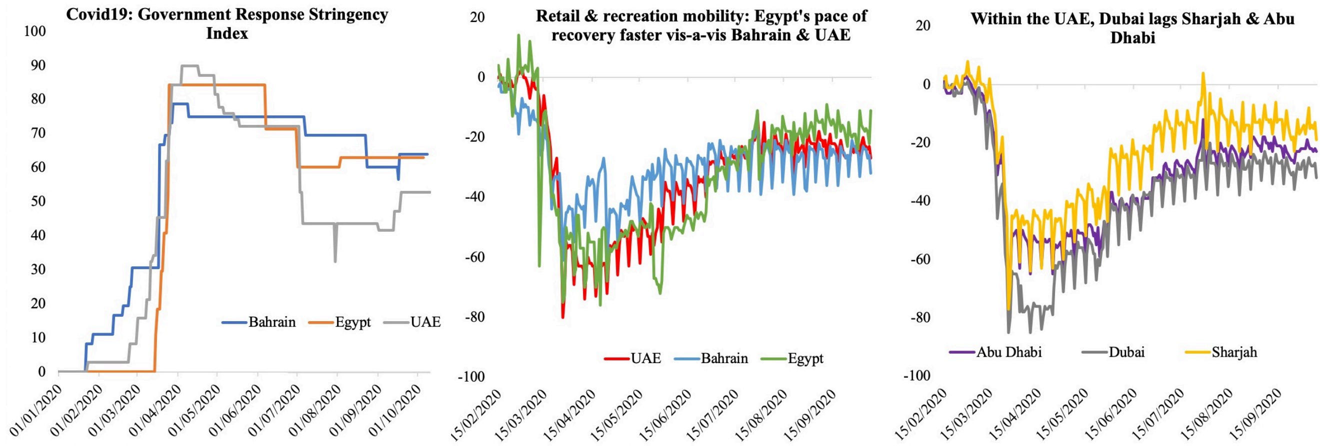
Regional non-oil private sector PMI's indicate a slow restart: Sep's modest improvement followed Aug when four of the countries moved into the contractionary territory (i.e. below the 50-mark). Significantly, demand growth has been picking up and the significant price discounting on offer has led to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

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Weekly Insights 7 Sep 2020: Businesses, Credit & Economic Activity in UAE & KSA

Charts of the Week: As manufacturing PMIs touch new highs in Aug, services PMI stalls. Regional activity is at odds with global peers. Are consumers/ businesses feeling the pinch of Saudi Arabia's VAT hike? Why is the credit disbursement pattern different in the UAE?

1. Manufacturing PMIs: Global vs. Regional

Manufacturing PMI numbers for August signal a tentative recovery compared to the massive dip in the Covid19 lockdown period. Global manufacturing PMI reached its highest in 21 months (51.8 from Jul's 50.6), as output and new orders rose at the fastest rates since Apr and Jun respectively, while export demand stabilised. The headline manufacturing indices in the US and Europe improved as restrictions were lifted and more production came online. However, a key point to note is that in many cases export demand has not recovered as much as domestic demand (post lockdown). Meanwhile, services sector activity has almost stalled: the initial rebound is tapering off given ongoing social restriction policies. The bottom line is that though PMIs have shown some improvement, the impact might be hampered by rising unemployment, subdued international demand alongside overall economic and public health uncertainty.

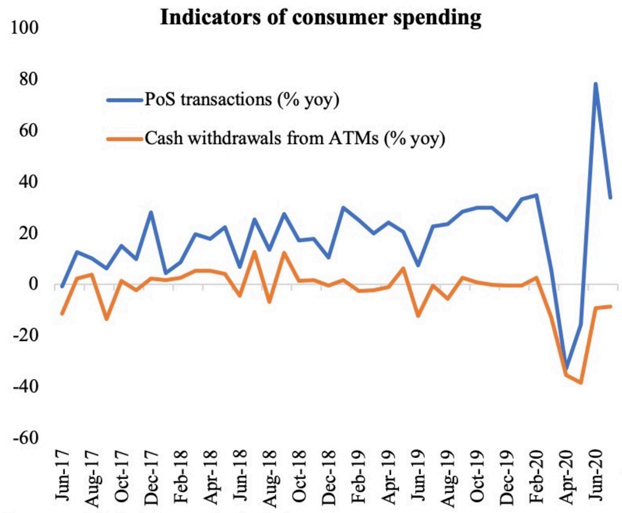
Heatmap of Manufacturing/ Non-oil sector PMIs

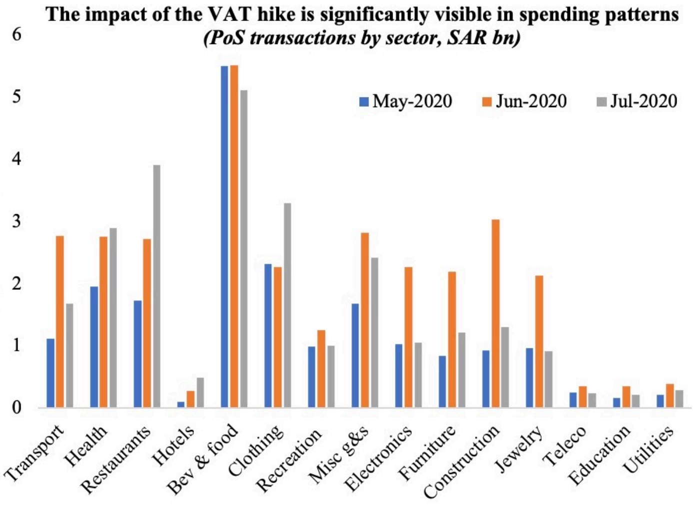
	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8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

Source: Refinitiv Datastream, Nasser Saidi & Associates

From the list above, only Japan and countries from the Middle East are sub-50 indicating a contraction. Egypt posted the 13th straight month of contraction in Aug, while both Saudi Arabia and UAE moved below 50. The relevant question for the region is why? A sharp decline in jobs is the main drag on headline indices, as firms try to lower operational costs amid a scenario of weak demand and subdued growth prospects. In the UAE, not only did the employment sub-index fall to its lowest in 11 years (with one in 5 panelists reducing number of employees) but firms also had to deal with price discounting to remain competitive. In Saudi Arabia, the hike in VAT (from Jul) drove up input costs, adding more pressure on firms. Overall, a prolonged weaker recovery could lead to firm closures, that would lead to job losses, bankruptcies as well as an impact on the banking sector via an increase in NPLs.

2. Saudi Arabia impacted by the VAT hike: how has consumer spending fared?

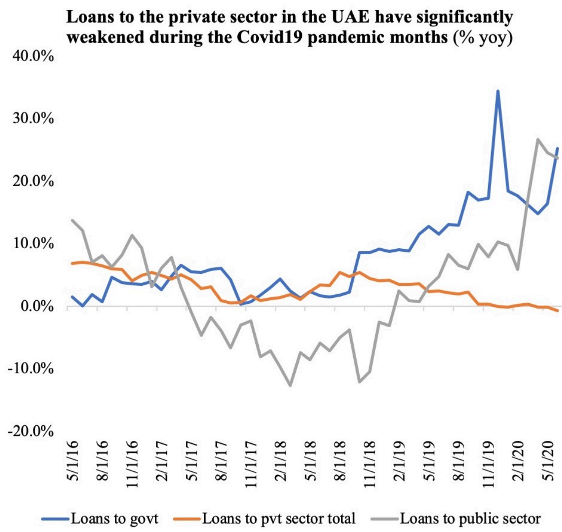


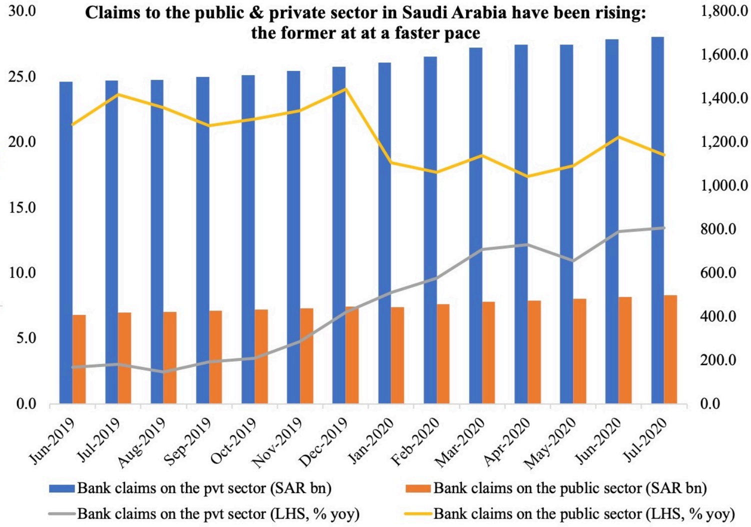


Source: SAMA, Nasser Saidi & Associates.

Saudi Arabia's VAT hike has negatively affected consumers as well as businesses. Consumers, who ratcheted up spending in June (similar to patterns in Dec 2017, prior to the introduction of VAT in Jan 2018), have reverted to "normal" spending habits come July. Comparing the patterns by sector, the difference in Jul is striking in purchases of big-ticket items – electronics, furniture, jewelry as well as construction and building materials. Interestingly, sectors like hotels, restaurants and clothing showed an uptick in spending in spite of the VAT hike – a probable explanation is end of lockdown and the Eid-al-Adha holidays which fell towards end of the month; new clothes are a must and restrictions on international travel resulted in people opting for more regional travel and staycations, thereby boosting payments at hotels and restaurants.

3. Is private sector activity supported by credit disbursement? A tale of two nations

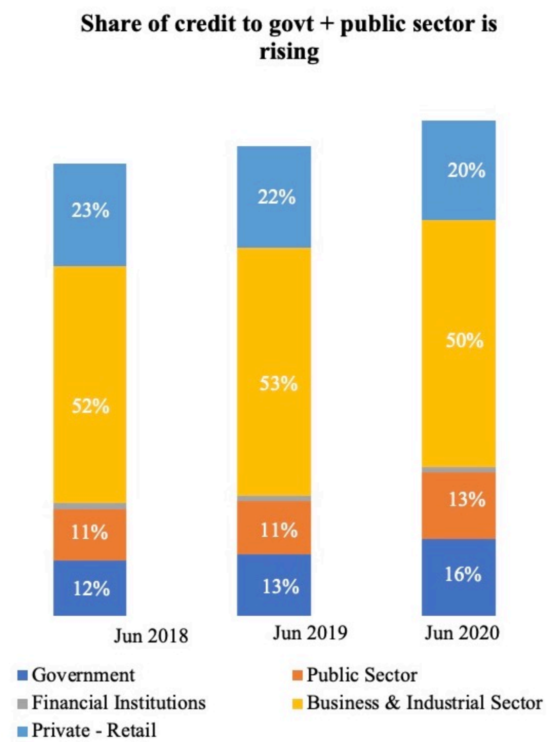


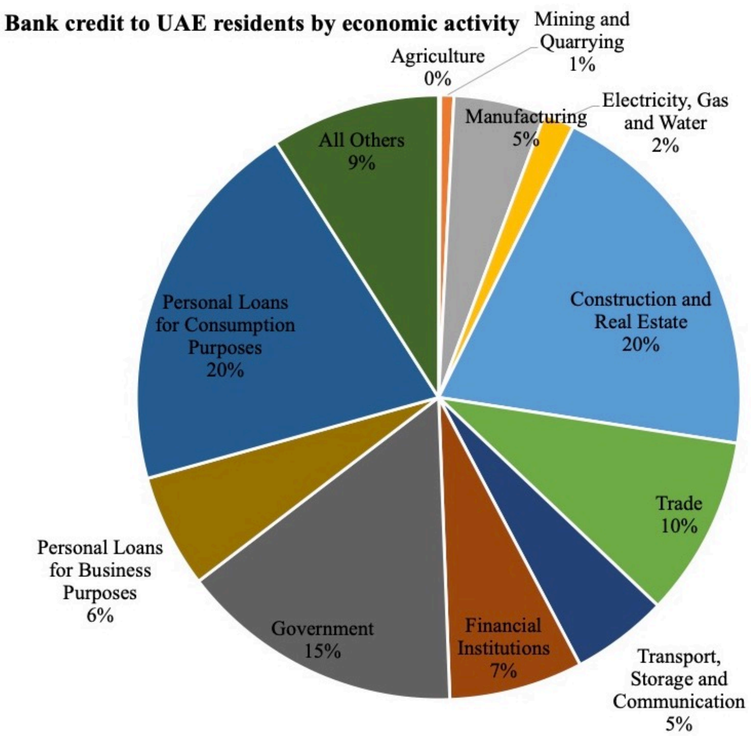


Source: UAE Central Bank, SAMA, Refinitiv Eikon, Nasser Saidi & Associates.

Both the Saudi and UAE central banks have undertaken multiple measures to support their economies through this Covid19 phase: this includes increased liquidity, deferral of loan payments (which was recently extended further till Dec 2020 by SAMA) as well as support for the private sector (specifically those businesses most affected by the pandemic, and SMEs) from banks. However, while credit to the private sector has picked up in Saudi Arabia, the opposite was the case in the UAE. Why?

4. The big picture of credit activity in the UAE





Source: UAE central bank (latest available data, Jun 2020), Nasser Saidi & Associates

On closer inspecti

on, lending to the private sector in the UAE has been on the decline since Aug 2018 and worsened during the pandemic phase (Fig 3). In both year-on-year and month-on-month terms, growth in credit to the public sector and government constantly outpaced the private sector, leading to a growing share of the public sector and government. UAE banks lent most to the business sector (50% of total, as of Jun 2020 vs. 53% in Jun 2019), while the public sector & government together account for close to 30% of all loans (vs. 24% a year ago). Lending remains quite high for construction/ real estate (20%), government (15%) and personal loans (20%); this compares to 21.8%, 12.9% and 21.2% respectively a year ago.

The UAE central bank has been proactive in releasing liquidity to the financial sector during Covid: in addition to the Targeted Economic Support Scheme (Tess) rolled out in Mar, in early-Aug it temporarily relaxed the net stable funding ratio (NSFR) and the advances-to-stable resources ratio (ASRR) by 10 percentage points to enhance banks' capacity to support customers. As of July 18, banks had withdrawn AED 43.6bn, equivalent to 87.2%, of the AED 50bn Tess programme made available to them. The central bank also disclosed that, as of Jul 2020, 260k individuals and 9527 SMEs had availed the interest-free loans under Tess; credit to SMEs accounted for 9.3% of total amount disbursed to the private sector and individuals had received support worth AED 3.2bn from banks. This is but a drop in the ocean compared to the overall amount made available to the banks (i.e. AED 50bn Tess, part of the wider AED 100bn stimulus unveiled in Mar, and a further easing of buffers raising stimulus size to AED 256bn).
In this context, the questions to be answered are two-fold: 1. Are customers not seeking loans during these troubled times? Or 2. Are banks unwilling to lend during these troubled times? The answer is not crystal-clear, but more likely a combination of both (as evidenced below).

According to the latest "Credit Sentiment Survey" by the UAE central bank, about 53% of respondents stated that the demand for both business and personal loans in Q2 had declined either substantially or moderately. In the backdrop of Covid19, and heightened economic uncertainty, it is likely that consumers do not want to take on loans they cannot service or repay in case of job loss or firm closures; the same applies for businesses in sectors that are tourism-specific or aviation/travel-related firms or others affected by the pandemic (insolvencies/ bankruptcies). On the other hand, for banks, knowingly lending to such firms/ customers could result in an increase in NPLs that would affect their profit margins and bottom line: going by the H1 earnings of the 4 largest listed banks in the UAE, combined net profits are down by 36% yoy while provisions have increased (ENBD by 243% yoy). So, banks have tightened credit standards instead, hence lowering pace of lending to the private sector. Both demand side and supply side of credit are impacting credit.