

Comments on Saudi Arabia's economic diversification in Al Arabiya News, 8 Apr 2024

Dr. Nasser Saidi's comments appeared in an Al Arabiya News article titled "[Saudi Arabia's economic diversification: Driving growth beyond oil](#)" published on 8th April 2024.

The comments are posted below.

Amidst the dynamic economic shifts within Saudi Arabia, experts underscore the essential contribution of the non-oil private sector to driving sustainable job creation and enhancing total factor productivity growth, contrasting it with the capital-intensive oil and gas sector's limitations in meeting the demands of the burgeoning young and educated population.

"With approximately 60 percent of the population under the age of 30, there is a pressing need to pivot toward the non-oil private enterprises, rather than relying solely on the public sector, as the primary driver of sustainable job creation and heightened total factor productivity growth," founder, president and chief economist at Nasser Saidi & Associates, Nasser Saidi, emphasized.

"Expansionary readings of the Saudi PMI for March 2024 echo the resilience and resurgence of the private sector following the challenges posed by the COVID-19 pandemic," he told Al Arabiya English. "The spike in demand has spurred a flurry of new orders and clientele, with export orders rebounding notably after a period of subdued activity. Noteworthy is the observed rise in employment alongside mild wage pressures, positioned to bolster the financial standing of firms and

listed companies, thereby fortifying the overall health of the financial markets.”

“Saudi Arabia is progressing steadily toward achieving the ambitious objectives outlined in Vision 2030, buoyed by supportive public investments and comprehensive policy and legal reforms,” Saidi explained. “The Kingdom has pursued rapid diversification across three pivotal fronts: enhancing trade diversity to elevate non-oil trade share, boosting export value-added and expanding trade partnerships; pursuing government revenue diversification through VAT and other broad-based tax measures; and broadening production horizons to lessen reliance on oil-centric industries.”

“A significant driver of this [GDP] growth, constituting 40 percent, is private consumption, fueled by the emergence of new sectors such as entertainment, hospitality and tourism,” Saidi mentioned. “Notably, social reforms have propelled a rise in female labor force participation rate, concurrently reducing the female unemployment rate to a historic low of 13.7 percent in Q4 2023. This shift towards dual-income households has not only elevated household income but has also facilitated increased consumption rates and wealth accumulation.”

He added: “These developments have been instrumental in bolstering the services sector, including retail, and catalyzing the digital economy, with women playing important roles in both arenas.”

Among the various non-oil sectors experiencing growth in Saudi Arabia, Saidi believes that tourism has strong potential, given the country’s capacity to attract cultural, historical, and religious tourists.

He noted that “Saudi Arabia made an exceptional achievement of hosting 27 million foreign tourists and 77 million domestic visitors in 2023, meeting previous targets set for 2030.”

“Strategic initiatives such as the development of resorts along the Red Sea and hosting major events like gaming conferences and concerts, coupled with facilitative measures like the unified GCC tourist visa and the upcoming Expo 2030, are projected to fortify tourism prospects,” Saidi stressed.

“Services-related industries such as financial services, wholesale and retail trade, restaurants, hotels, as well as transport and logistics, are expected to lead the upswing,” Saidi emphasized. “These sectors are anticipated to experience rapid development, reflecting a buoyant economic landscape. However, challenges may arise in the construction sector due to disruptions in Red Sea shipping, leading to increased costs of construction inputs and potential cost overruns.”

Saidi suggested a positive near-term outlook driven by several key factors. Those include the pipeline of Mega and Giga projects, preparations for Expo 2030 and the World Cup 2034, and the ongoing regional headquarters project, where licenses are being issued at a remarkable rate of ten per week.

“The Public Investment Fund’s domestic investments in new and emerging sectors are also expected to provide crucial support to non-oil activity, further fueling economic growth.”

Bloomberg Daybreak Middle East Interview, 7 Oct 2021

Aathira Prasad joined Yousef Gamal El-Din on 7th of Oct, 2021 as part of the Bloomberg Daybreak: Middle East edition, discussing the UAE’s debut federal bond issuance and potential to create a local currency debt market for stable access to capital, volatility in the oil market, UAE’s non-oil sector

outlook & an overview on MENA's growth prospects.

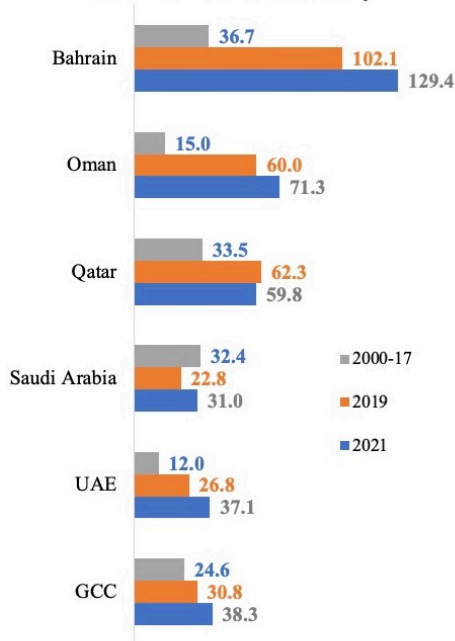
Watch the interview below from 31:08 to 39:42; this can also be accessed at:
<https://www.bloomberg.com/news/videos/2021-10-07/-bloomberg-daybreak-middle-east-full-show-10-07-2021>

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

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

Govt Gross Debt as % of GDP in GCC has risen substantially

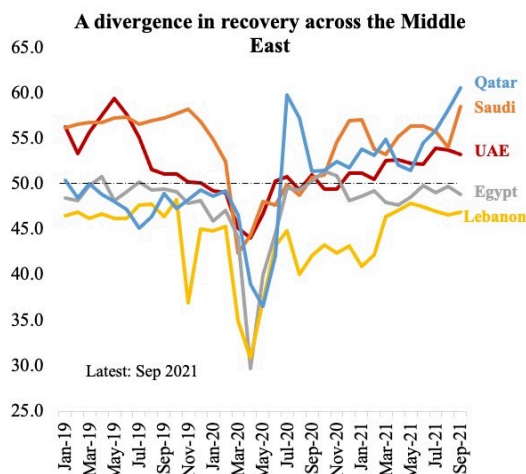


Source: IMF Regional Economic Outlook, Nasser Saidi & Associates

- **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

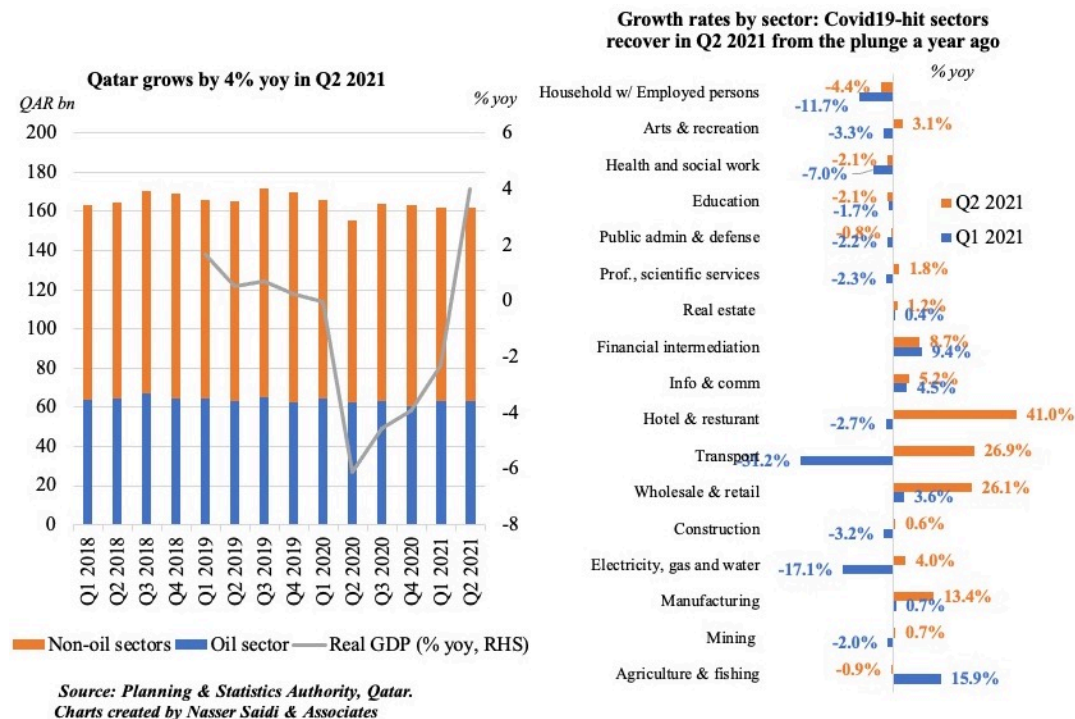


Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- **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

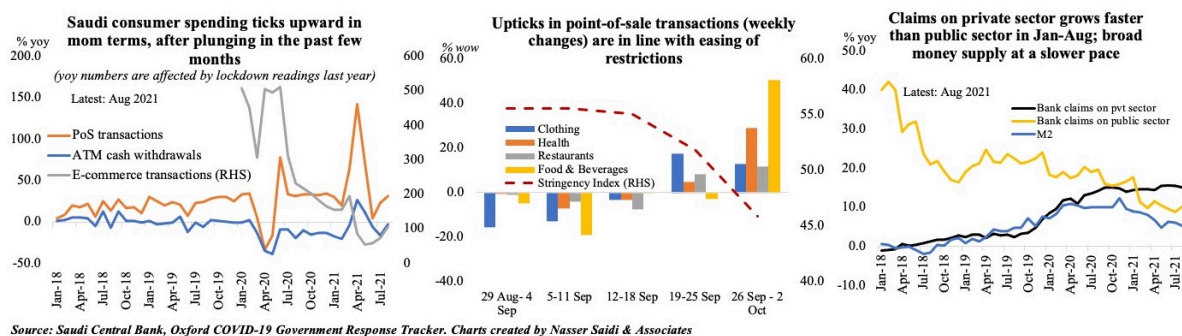
3. Qatar's GDP grows by 4% in Q2 2021, thanks to a 6% surge in non-oil sector activity



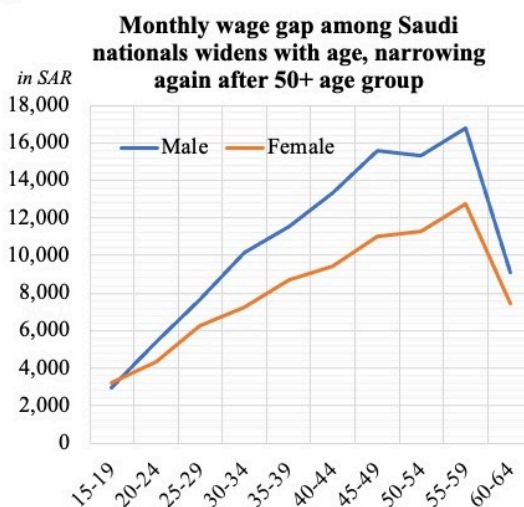
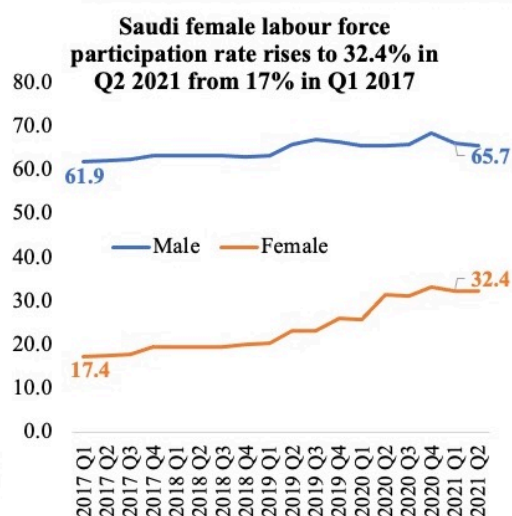
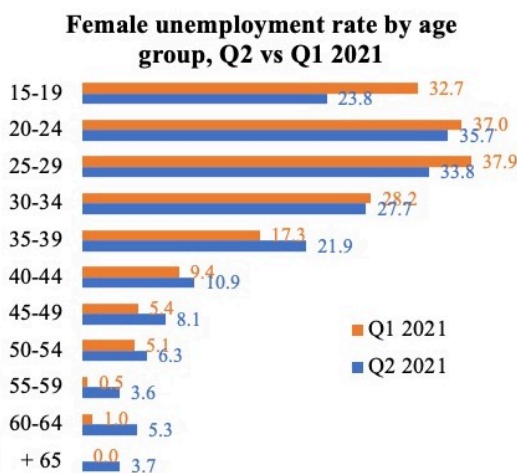
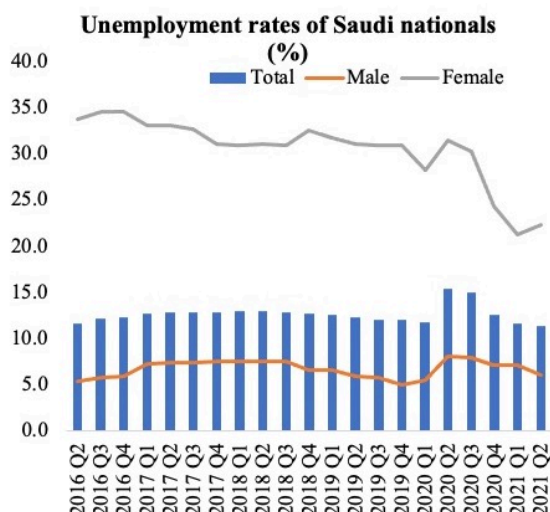
- **GDP in Qatar grew by 4% yoy in Q2 2021**, supported by a 6% surge in non-oil sector growth alongside a 0.7% increase in mining & quarrying
- **Restoring trade and travel links with Saudi, UAE, Bahrain and Egypt** after the embargo was lifted in early 2021 has also benefitted the economy
- Compared 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



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

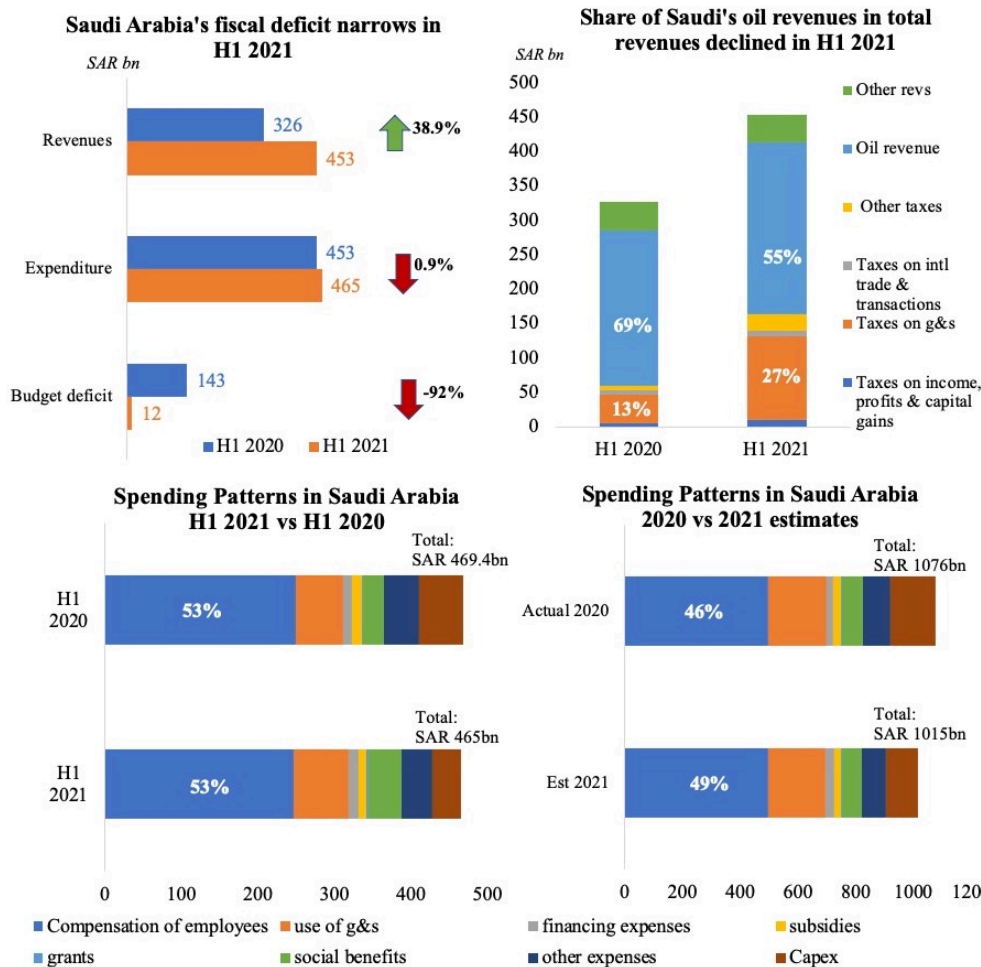


Source: Labour market survey Q2 2021, GaStat. Charts created by Nasser Saidi & Associates

- **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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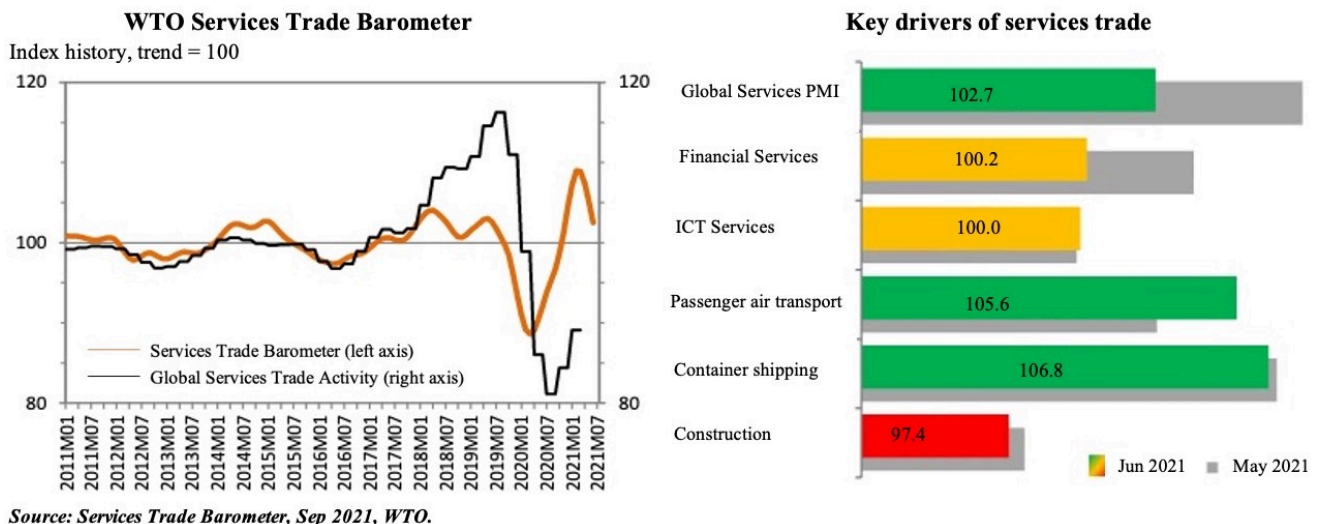


Weekly Insights 30 Sep 2021: Headwinds to Recovery in

Global Trade

Weekly Insights 30 Sep 2021: Headwinds to Recovery in Global Trade

1. Global services trade has been lagging goods trade, still below pre-pandemic levels | Evidence from Services PMIs

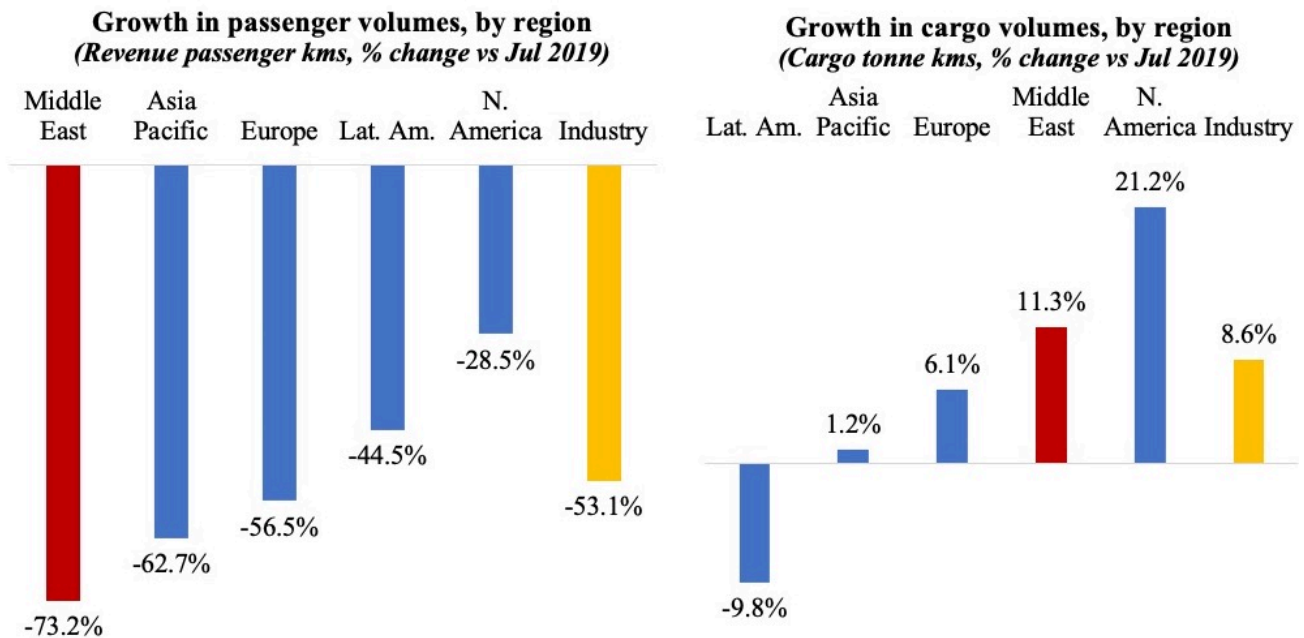


Source: Services Trade Barometer, Sep 2021, WTO.

- **Trade in goods seem to be on a strong recovery path, but services trade has not been keeping pace.** The WTO's Global Services Trade Activity index showed that the volume of services trade was down by 13.9% in Q1 2021 (but coming off higher declines of 26.3%, 25.5% and 20.5% in Q2, Q3 and Q4 2020 respectively).
- **Services PMI readings (from Markit) seem to suggest that though recovery was underway in Q2, growth has eased sharply since.** Flash PMIs for Sep showed that: (a) growth eased sharply to the lowest since May in the eurozone; (b) US expansion slide to a 14-month low; (c) UK posted the worst performance since Jan's lockdown; and (d) Japan reported lower service sector output for the 20th consecutive month.
- **Many factors were attributed to the slowdown in the services sector:** weaker demand (given Delta variant's spread and related restrictions) + supply shortages +

labour supply issues (esp. in the US and the UK). This has also resulted in driving up input costs & overall prices

2. Global services trade | Evidence from Passenger & Cargo volumes



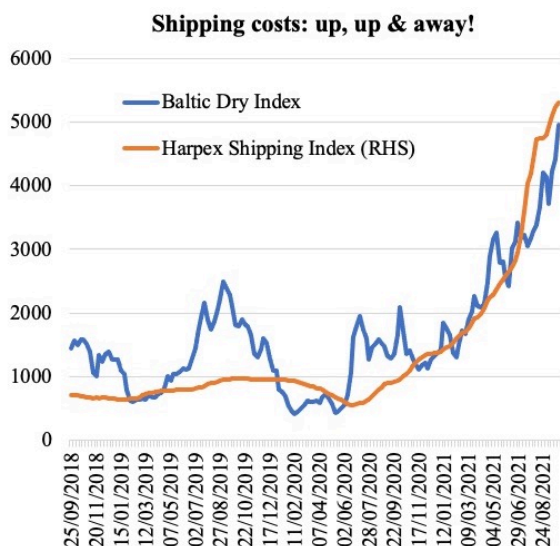
Source: Air Freight & Air Passenger Monthly Analysis, IATA Economics

- **Passenger traffic has been recovering globally**, as the rollout of vaccines led to reopening of international travel while also aided by domestic passenger growth (especially in the US & China).
- The surge in Delta-variant cases in China since end-Jun has impacted domestic travel significantly; but, **improving intra-European traffic** has benefitted European airlines, and **India has seen a resurgence in domestic traffic**.
- IATA, using the DDS ticketing database, find that **though travel demand for Q4 is looking stronger than last year, bookings are still only at 42% of 2019 levels**.
- **Revenue Passenger Kilometers (RPKs) of Middle Eastern airlines fell by 73.2% in Jul 2021 vs. Jul 2019**: this was the weakest outcome amongst all regions (a result of the slow recovery of international flights) versus an industry reading of -53.1%. **Passenger capacity** of the

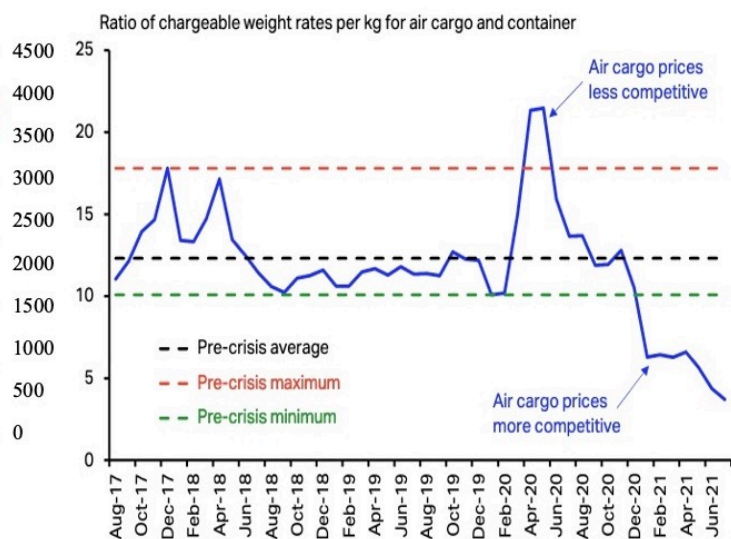
region's airlines **fell by 57.5% (vs Jul 2019)**, also the **weakest across regions**.

- **Air cargo** recovery has been underway since May: while **global supply chain issues have been a key challenge**, expansions in new export orders and manufacturing production will support growth.
- **Middle Eastern airlines reported the biggest improvement in Aug** amongst all regions: 15.4% vs Aug 2019 & 2.4 pts up from Jul's expansion (ME-Asia segment gained the most)

3. Costs are on the rise: global shipping vs air cargo



Source: Reuters Eikon. Chart by Nasser Saidi & Associates



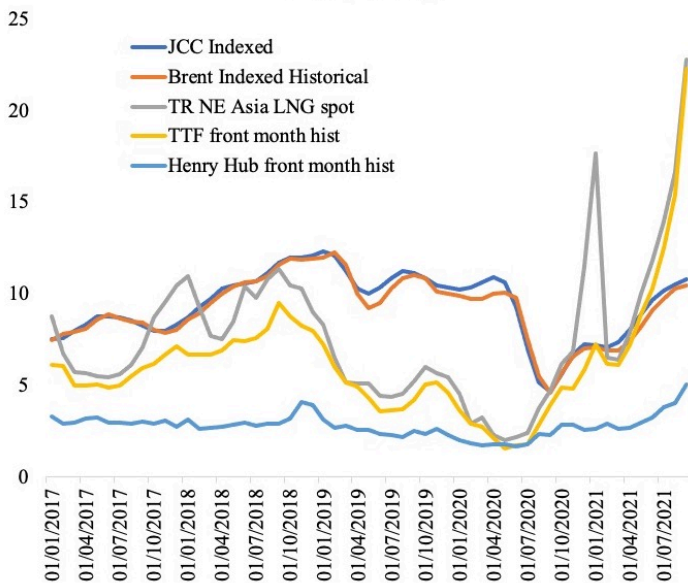
Source: Cargo Chartbook Q3 2021, IATA Economics

- **Supply chain congestion has been pushing up prices amid an increase in demand for goods. These constraints are likely to persist for the rest of the year**
- **Shipping costs have been increasing** – given extended idling times, container shortages, shortage of workers at ports and congested seaports. **Spillover effects** to the supply chain are also visible with **truck and rail transport hit by further delays**.
- However, **air cargo has been less impacted than container shipping**, thereby leading to a comparatively favourable relative price for chargeable weight.

4. Adding to price pressures: multi-year highs in oil, gas &

LNG (spot & JCC indexed), TTF and HH prices, per mmBtu (monthly)

coal prices

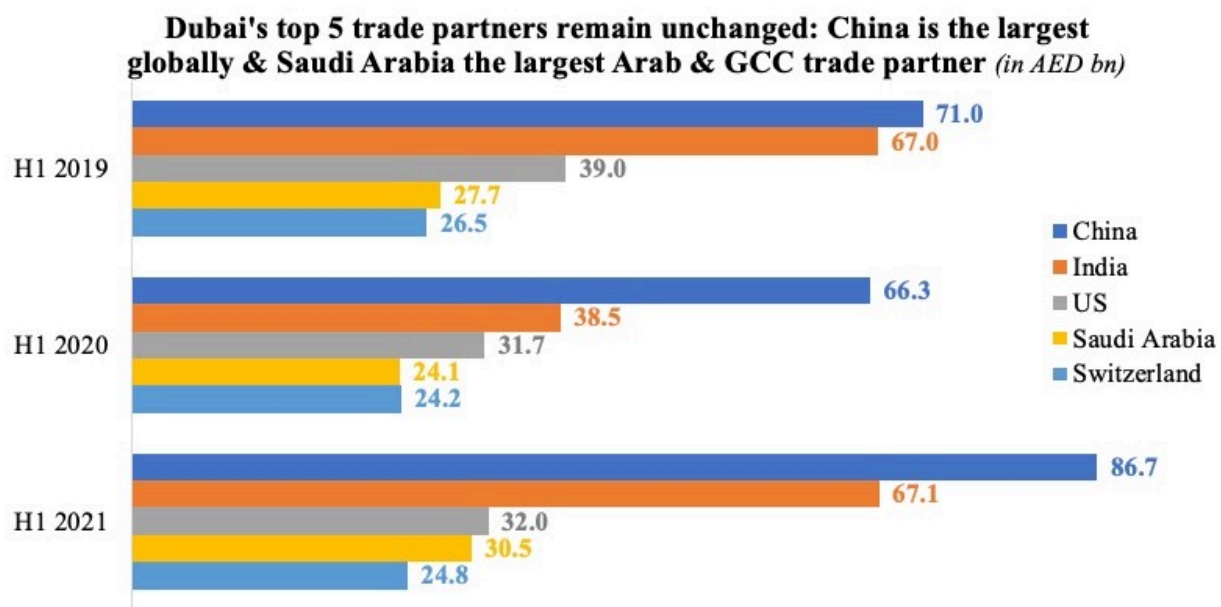
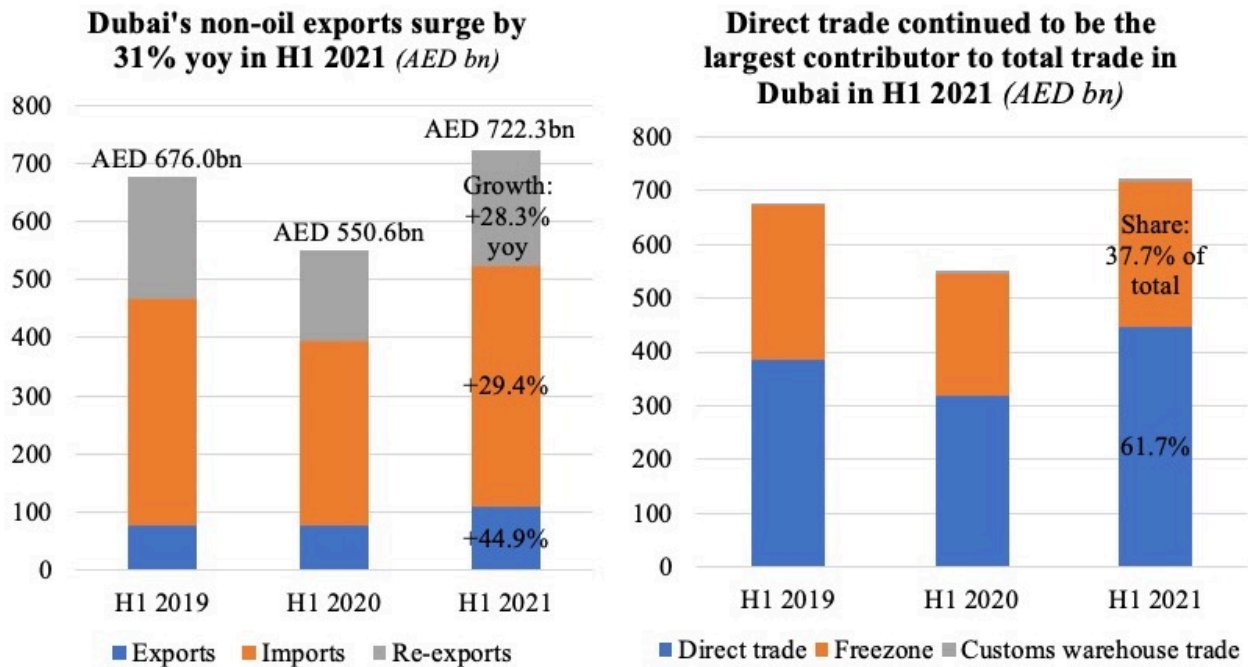


Source: Refinitiv Eikon; retrieved 30 Sep 2021

- **US natural gas prices rose to a 7-year high earlier this week; gas prices in Europe and Asia traded about four times over US gas** (close to USD 29 per mmBtu vs USD 6)
- **Brent oil price crossed USD 80** – a 3 year high – before falling lower + **coal prices have been rising** (thermal coal prices are 96% higher in China this year)
- **Why the surge? More than just a supply shortage amid fast-rising demand:**
 - **US:** less drilling by shale producers + recent supply disruptions from hurricanes
 - **Europe:** low natural gas stockpiles + delayed shipments from abroad + shutdowns for maintenance works
 - **UK:** labour shortage esp truckers to distribute fuel from refinery to retailers
 - **China:** shutting down coal plants & power outages => rising demand for LNG as an alternative option to coal
 - **OPEC's** supply restrictions notwithstanding (*next week, it is likely to add 400k bpd to output for Nov, as previously agreed*), rise in gas prices & limited supply could see a switch towards using oil => higher oil prices

- **Outlook: rising input costs + higher gas prices + weaker growth**

5. Dubai's non-oil exports surge, as it accelerates to meet the 10 X 10 goal



Source: Dubai Customs. Charts by Nasser Saidi & Associates

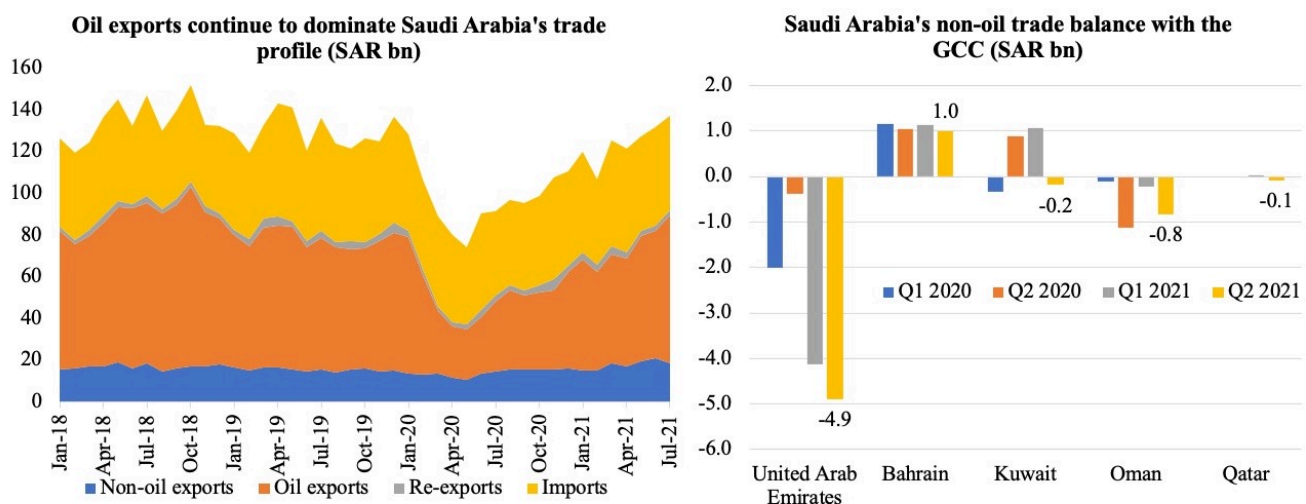
- **Dubai disclosed a 31% yoy surge in non-oil exports in H1 2021.** This follows the pandemic-hit drop in H1 2020, but when compared to H1 2019, trade is up by a significant 6.8%.
- **This is in line with the ambition of UAE's 10X10**

program, announced as part of the “Project of the 50”. This involves an annual increase in the country’s exports by 10% in 10 key markets: China, the UK, the Netherlands, Italy, Russia, Poland, Luxembourg, Australia, New Zealand and Indonesia.

- **Top trade partners for Dubai remained the same** over the last 3 years: **China, India and US the top 3** followed by Saudi Arabia (which is the largest partner in the Arab region) and Switzerland.

6. Saudi Arabia’s trade diversification efforts need a significant push

Oil accounted for an average ~3/4th of total exports this year



Source: GaStat. Charts by Nasser Saidi & Associates

- **Saudi crude oil exports rose to 6.327mn barrels per day in Jul**, according to data from JODI – this was the highest reported level since Jan.
- Not surprising then that **oil exports grew by 112.1% yoy in Jul**, thereby supporting overall export growth (+79.6% yoy in Jul & 40.5% ytd).
- **Non-oil trade deficit with the UAE widened in Jul**, after new amendments were introduced from Jul related to imports. **Value of imports from the UAE fell** by 32.8% mom and 6.2% yoy to SAR 3.1bn in Jul: **the monthly drop was the sharpest this year**. As a result, UAE slipped to the

3rd largest import partner (after China and the US) from 2nd in June.

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Weekly Insights 15 Jul 2021: Covid19 cases, vaccination & beyond (MENA & UAE) + Saudi-Omani cooperation

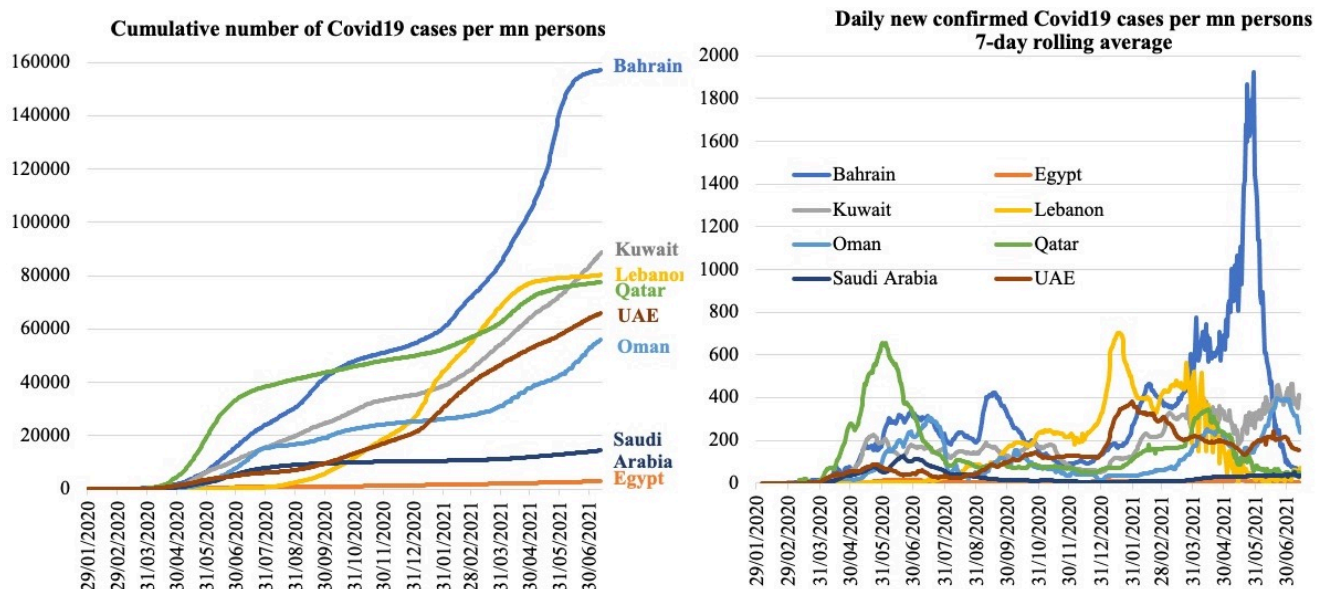
Weekly Insights 15 Jul 2021: Covid19 cases, vaccination & beyond (MENA & UAE) + Saudi-Omani cooperation

1. Covid19 outbreak continues to rise in parts of the Middle East and North Africa (MENA)

- **Cumulative Covid19 cases in the MENA region have surpassed 10mn.**
- The GCC, which accounts for 14% of the population accounts for just over 1/5th of the cases; Iran, home to 21% of the region's population, accounts for just over 1/3-rd of cases.
- **Bahrain, which had seen a massive spike in cases** (reaching close to 2k daily cases per mn persons)

towards end-May, has come down significantly. Kuwait, Oman and UAE have the highest readings as of this week.

- **At least 14 out of the 22 countries in the region have now logged the new, more infectious variant** (WHO) & surges are visible in many nations including the UAE, Libya, Iraq, Morocco and Tunisia among others.

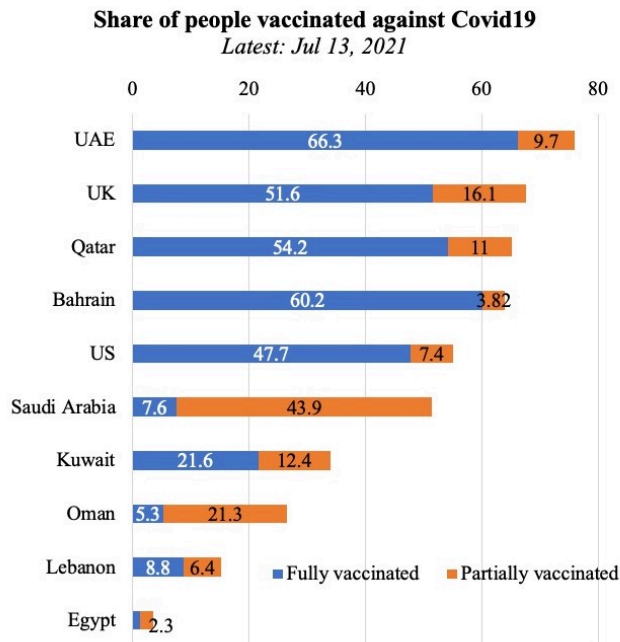


Source: Our World in Data. Charts created by Nasser Saidi & Associates. Data is as of July 13th, 2021.

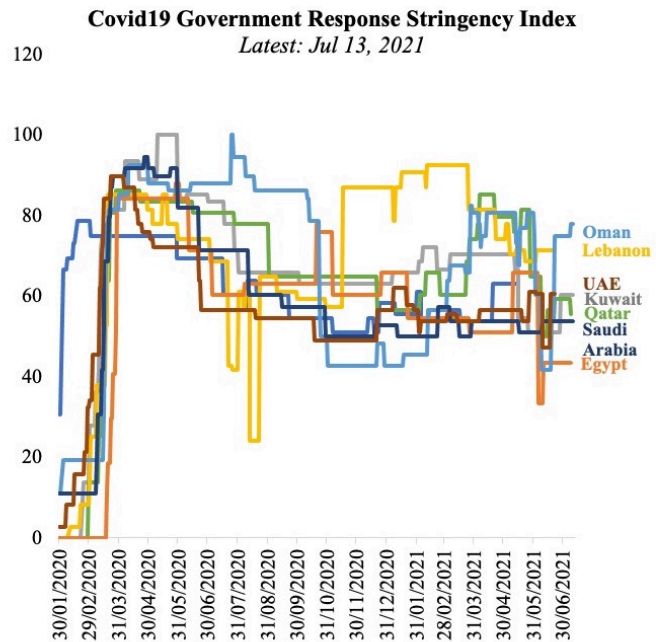
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on is the best way out of the pandemic amid adoption of Stringent Policy Measures

- As the Delta variant spreads, empirical evidence shows that vaccine are key in preventing hospitalizations – hence the **urgency to increase vaccination pace across the MENA region**.
- **Egypt and Saudi Arabia are the least stringent in the MENA region**; Lebanon, after weeks of high stringency levels, seemed to have its cases under control (from near 3,500 daily cases in mid-Mar to just 150 end-Jun).
- **Oman**, where cases are currently 44% down from the peak in Jun, continues to remain cautious: it has announced lockdowns during the Eid holidays next week & remains the most stringent. Its **vaccination pace is the slowest among the GCC nations**, with only 5.3% of the population fully vaccinated.



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

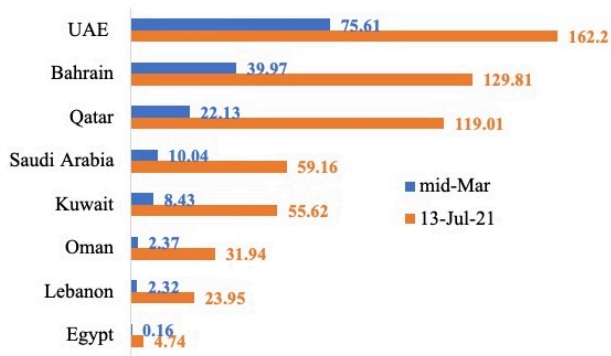


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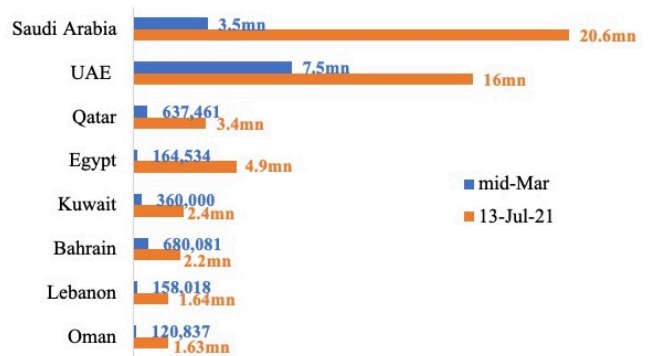
on pace in the Middle East has quickened, but with wide disparities

- **There has been a significant vaccine divide across the Arab world**, with the richer oil producing/ exporting GCC nations running successful campaigns versus the relatively poorer parts of Yemen.
- **UAE and Bahrain are top ranked at the global level**, having successfully administered 162.2 and 129.8 doses per 100 persons respectively; these nations have also started providing a booster shot to those that have been vaccinated for more than 6 months. However, the region is also home to **Yemen where only 1 dose has been administered per 100 persons** (vs 0.06 in mid-May) and **2.7 doses in Iraq** (vs 0.07 in end-Mar).
- **Vaccination pace has substantially quickened compared to mid-Mar** and is likely to continue as more production comes online, including from the region's economies: UAE's Hayat-Vax and Egypt's Sinovac.
- **Faster the vaccination pace, shorter the path to herd immunity and return to near-normalcy** in terms of economic activity – albeit with social distancing and masks.

Vaccine doses administered per 100 persons

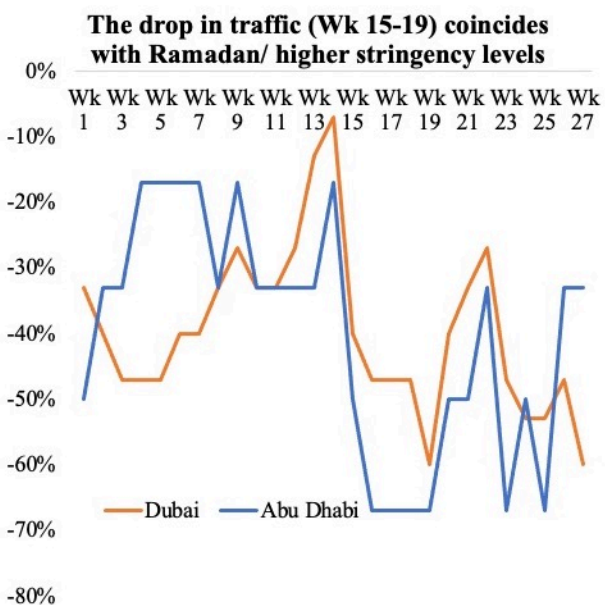
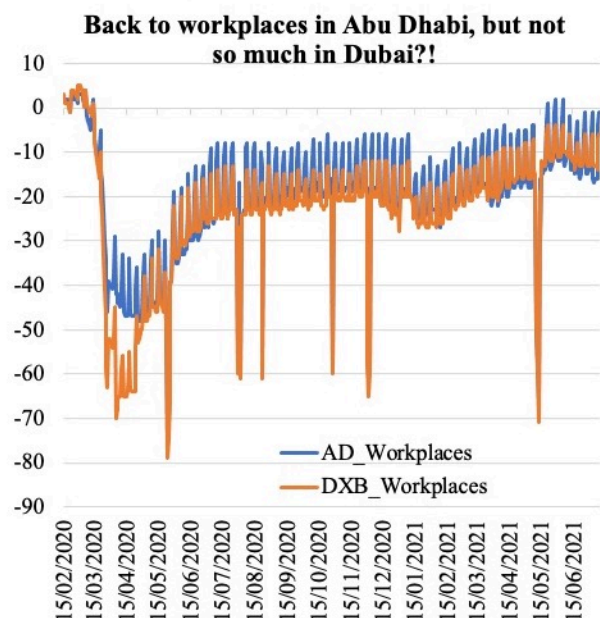
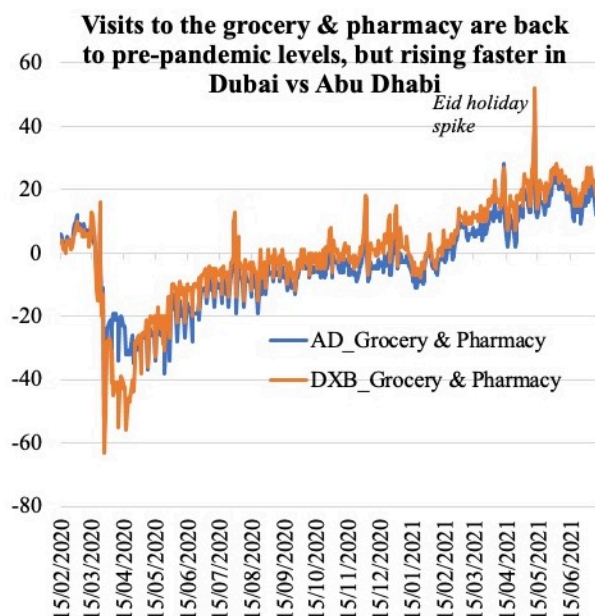
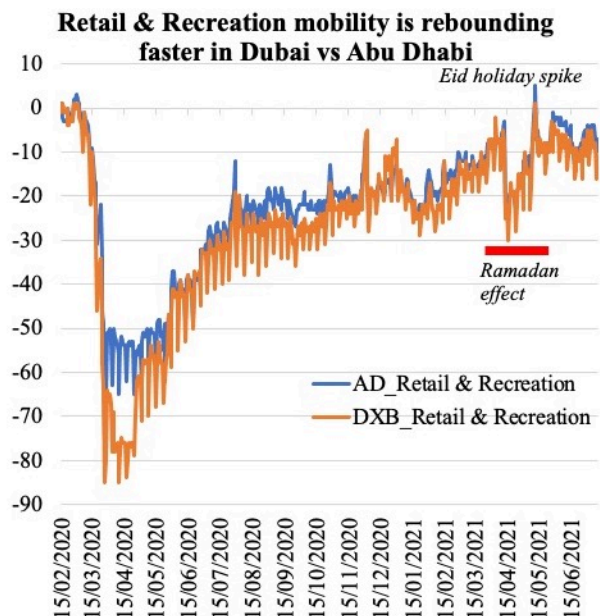


Total number of vaccination doses administered



Source: Our World in Data. Charts created by Nasser Saidi & Associates. Latest data is as of Jul 13, 2021.

4. Mobility improves in the UAE



Source: Google Mobility Report, TomTom traffic congestion data. Charts by Nasser Saidi & Associates

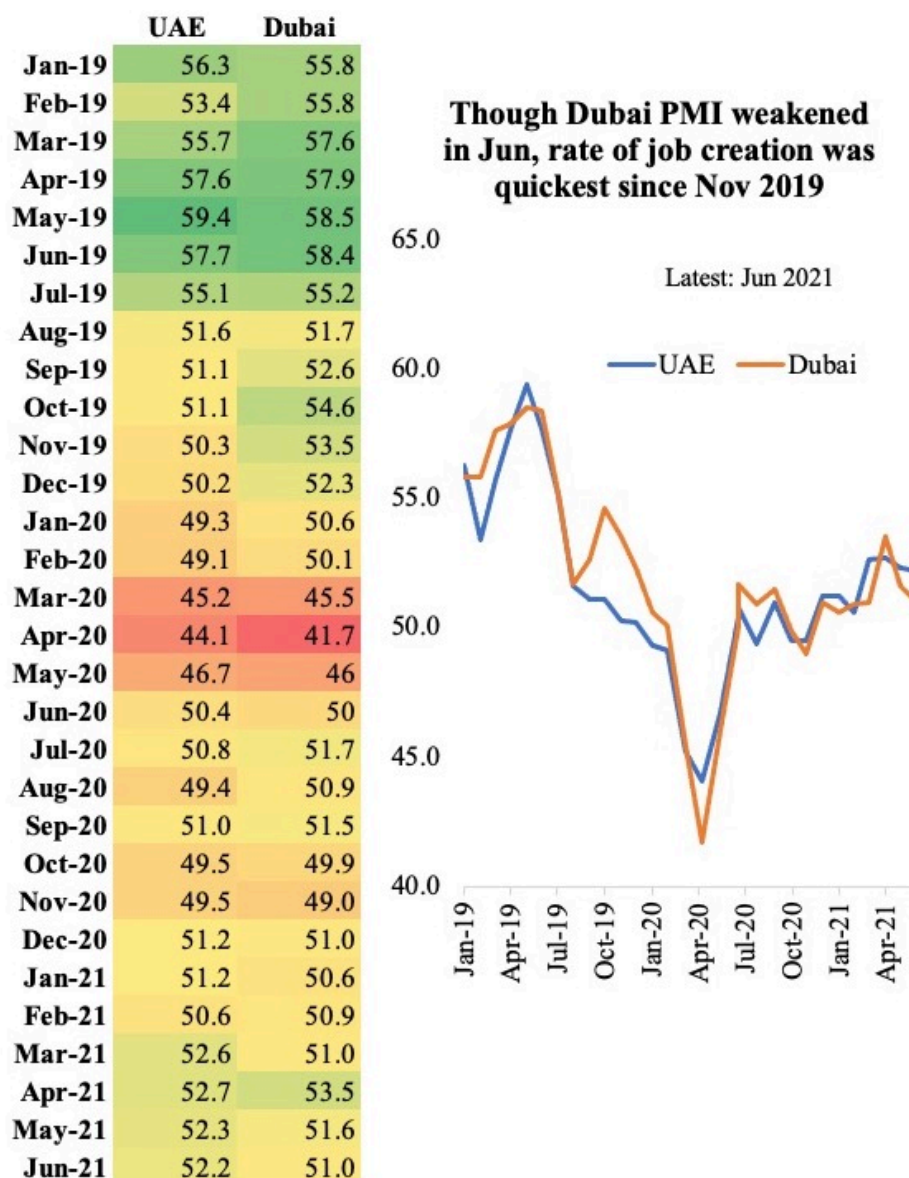
Notes: Google Mobility baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020
TomTom data shows the relative difference of average congestion levels in 2021 from standard congestion levels in 2019.

- Given its **relatively lower stringent levels**, it is no surprise that both Dubai and Abu Dhabi (within the UAE) report a rise in mobility across different categories
- **Retail & recreation remains below pre-pandemic levels:** with a significant drop during Ramadan and a spike for Eid
- Interestingly, **grocery and pharmacy visits have crossed to pre-pandemic readings**, though Dubai has higher footfall than Abu Dhabi
- **Weekly traffic congestion** moves in line with stringency,

though Abu Dhabi is picking up faster vis-à-vis Dubai – also reflected in workplace mobility

- With Eid holidays next week, **anecdotal evidence suggests high levels of domestic & international tourism** –latter limited to neighbouring nations (flights to India are still suspended; UAE stays on the UK's red list)

5. Both UAE & Dubai PMIs show expansion, though pace has slowed



Source: Refinitiv Datastream. Table & chart by Nasser Saidi & Associates

- UAE PMI edged down by 0.1 points to 52.2 in Jun; Dubai PMI eased by 0.6 to 51.6
- The **silver lining was employment in both**: increased at the fastest pace since 2019; but it is slower than the

long-run series average. **Expo** starting in Oct will also add create **new employment opportunities**

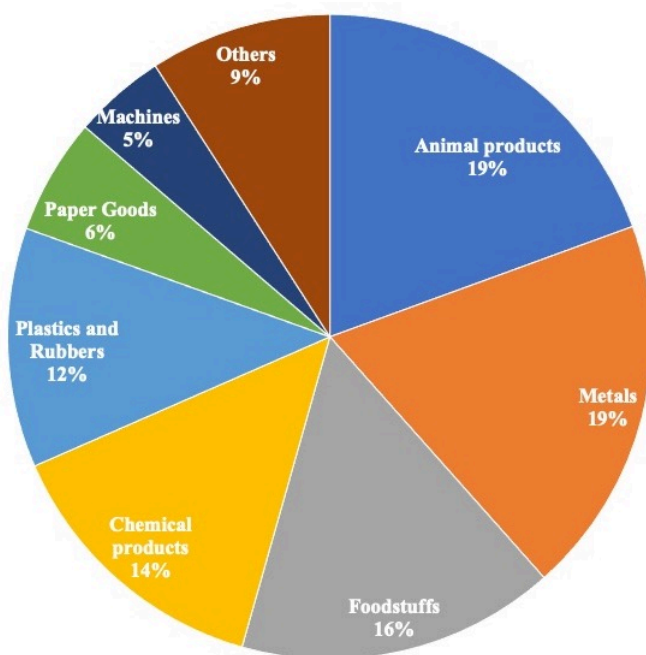
- **Raw material shortages were widely reported**, affecting output growth
- Supply chain problems + rising freight costs + lengthened delivery times meant **rise in purchasing costs => input cost inflation**
- Survey respondents highlighted **low sales**; export sales fell in UAE given flight cancellations
- Vaccination pace + less stringent measures + “open for tourism” + reforms (100% foreign ownership, long-term visas) implies that a **recovery is underway, but high number of daily cases (~1500) & new variants are cause for concern**

6. Saudi Arabia & Oman: long-term cooperation

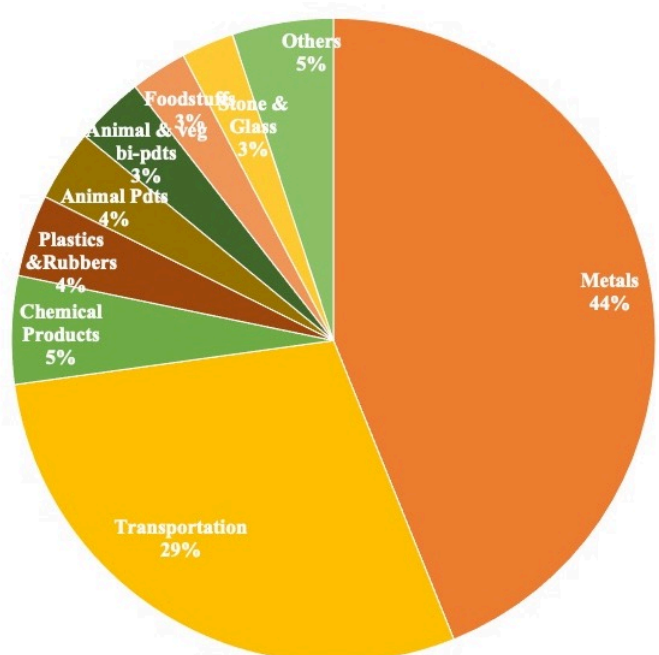
- **Oman's Sultan visited Saudi Arabia this week**: his first foreign trip since his ascension.
- **Economic cooperation on many fronts** likely to benefit from the discussions: trade, investment and infrastructure among others (in addition to security, cultural & other diplomatic discussions)
 - **Trade**: Oman's exports to Saudi Arabia stands at roughly 5% of total exports, but in the recent years, transportation materials have accounted for a substantial part of its exports to Saudi (chart)
 - **Investment**: Saudi Arabia is considering developing an industrial zone in Oman; last month, an Omani delegation presented around 150 investment opportunities worth an estimated OMR 1.5bn across multiple sectors including real estate, tourism, food security as well as renewable energy among others
 - **Infrastructure**: the Omani-Saudi road connection will reduce cost of transport, travel time & facilitate movement of goods.

- **Other opportunities abound** (*non-exhaustive list*):
 - Though oil remains a major export item for both nations, there is a **conscious effort to move to cleaner energy** including solar, wind & now green hydrogen.
 - **Privatisation programs**/ stakes in state-owned entities (including monetization of energy assets)
 - Saudi Tadawul/ Nomu could offer attractive **listing / cross-listing opportunities**

SAUDI ARABIA'S EXPORTS TO OMAN (2019)



SAUDI ARABIA'S IMPORTS FROM OMAN (2019)



Source: The Observatory of Economic Complexity. Charts created by Nasser Saidi & Associates

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Weekly Insights 8 Jul 2021: Diverging PMI readings, Saudi's new import rules & Oman's IMF TA request

Weekly Insights 8 Jul 2021: Diverging PMI readings, Saudi's new import rules & Oman's IMF TA request

- 1. Global Manufacturing PMI near multi-year highs; PMIs slow in Asia as a more severe wave of the pandemic hits**

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
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4
Apr-21	60.5	66.2	62.9	60.9	53.6	51.9	55.5
May-21	62.1	64.4	63.1	65.6	53.0	52.0	50.8
Jun-21	62.1	65.1	63.4	63.9	52.4	51.3	48.1

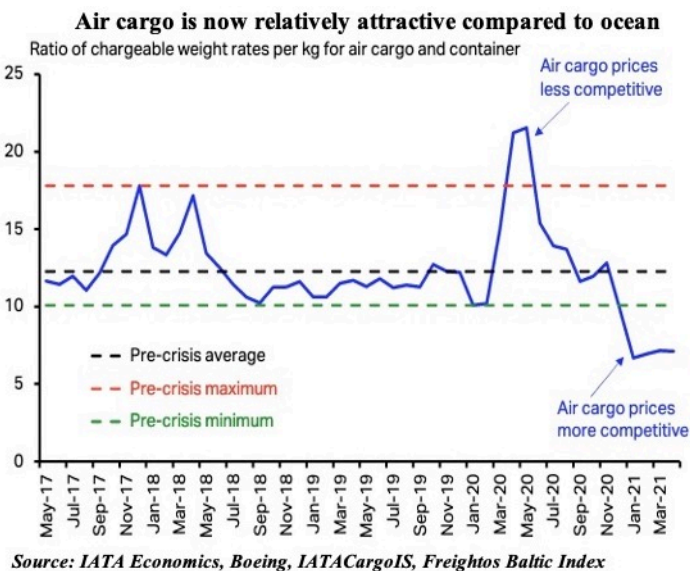
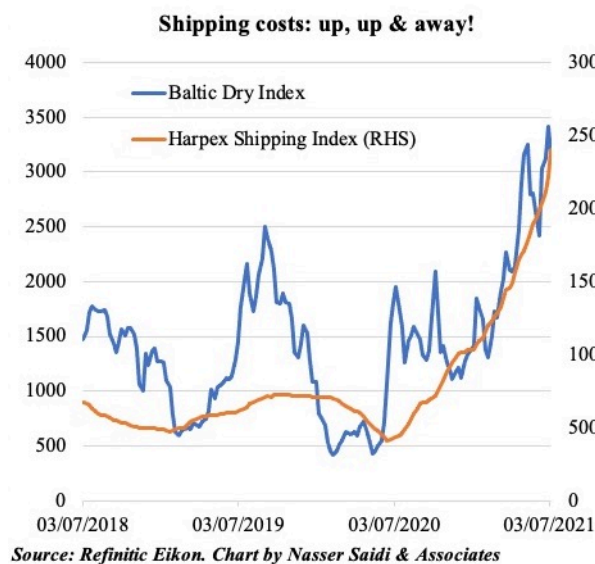
Source: Refinitiv Datastream, Nasser Saidi & Associates

- **Global manufacturing PMI** slipped to 55.5 in Jun, easing from the 11-year high of 56 in May, with **Europe the “bright spark” while Asia paled in comparison** (India fell into contractionary territory after 10 months; PMIs in Vietnam and Malaysia plunged to 44.1 and 39.9 respectively).
- **Supply disruptions continued**, and **average vendor lead times “lengthened** to the greatest extent in the near 24-year survey history”; **average input prices “rose** to one of the greatest extents in the survey history”.

- **Asia** is witnessing a more severe wave of Covid19 cases in the past weeks: **of every 100 infections last reported around the world, about 35 were reported from countries in Asia and the Middle East.** The region is currently reporting a million new infections about every 7 days.
- **While new orders are rising, lockdowns/ restrictions are causing delays and disrupting shipping,** with some estimating that the impact could affect shipments as far out as Christmas this year.

2. Shipping costs are still on the rise => air cargo relatively attractive

- **Global shipping costs (especially on long-distance routes) continue to rise,** as demand recovers amid shortage of containers. According to Sea-Intelligence, **Feb 2021 marked the height of container congestion,** with almost 12% of global container capacity (around 2.8m TEU) absorbed in vessel delays. In Apr 2021, the congestion figure was at 8.6% or 2.1mn TEU. **Increase waiting times at the Yantian port in Jun imply more congestion.**
- So, **air cargo is now relatively attractive compared to containers** price-wise (vs. Q2 2020 when aircrafts were grounded & hence air cargo fares spiked): IATA. Furthermore, the **speed of air cargo provides another competitive edge.** Cargo tonne km (CTKs) flown in May 2021 were 9.4% above pre-crisis level (May19), though slowing from Apr's 11.3% reading.

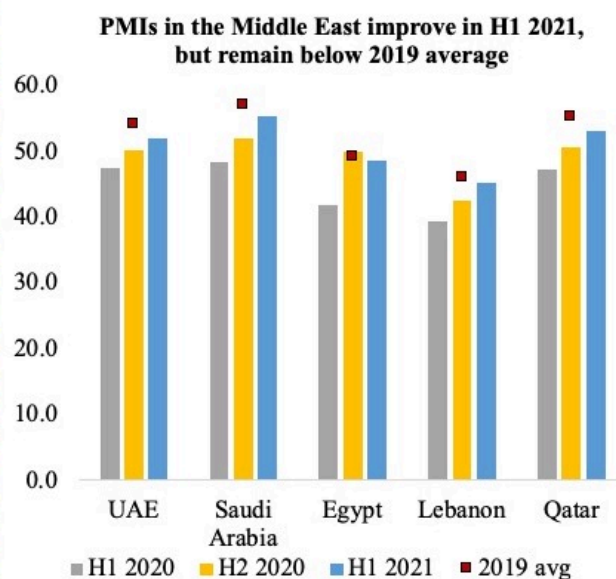


3. Mixed PMI readings in the Middle East: Lebanon and Egypt stay below-50

Heatmap of non-oil private sector PMIs in Middle East

	UAE	Saudi Arabia	Egypt	Lebanon	Qatar
Jan-19	56.3	56.2	48.5	46.5	50.5
Feb-19	53.4	56.6	48.2	46.9	48.5
Mar-19	55.7	56.8	49.9	46.3	50.1
Apr-19	57.6	56.8	50.8	46.7	48.9
May-19	59.4	57.3	48.2	46.3	48.1
Jun-19	57.7	57.4	49.2	46.3	47.2
Jul-19	55.1	56.6	50.3	47.7	45.2
Aug-19	51.6	57.0	49.4	47.8	46.4
Sep-19	51.1	57.3	49.5	46.4	49.0
Oct-19	51.1	57.8	49.2	48.3	47.3
Nov-19	50.3	58.3	47.9	37.0	48.3
Dec-19	50.2	56.9	48.2	45.1	49.4
Jan-20	49.3	54.9	46.0	44.9	48.7
Feb-20	49.1	52.5	47.1	45.4	49.3
Mar-20	45.2	42.4	44.2	35.0	46.6
Apr-20	44.1	44.4	29.7	30.9	39.0
May-20	46.7	48.1	40.0	37.2	36.6
Jun-20	50.4	47.7	44.6	43.2	42.1
Jul-20	50.8	50.0	49.6	44.9	59.8
Aug-20	49.4	48.8	49.4	40.1	57.3
Sep-20	51.0	50.7	50.4	42.1	51.4
Oct-20	49.5	51.0	51.4	43.3	51.5
Nov-20	49.5	54.7	50.9	42.4	52.5
Dec-20	51.2	57.0	48.2	43.2	51.8
Jan-21	51.2	57.1	48.7	41.0	53.9
Feb-21	50.6	53.9	49.3	42.2	53.2
Mar-21	52.6	53.3	48.0	46.4	54.9
Apr-21	52.7	55.2	47.7	47.1	52.1
May-21	52.3	56.4	48.6	47.9	51.5
Jun-21	52.2	56.4	49.9	47.5	54.6

Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

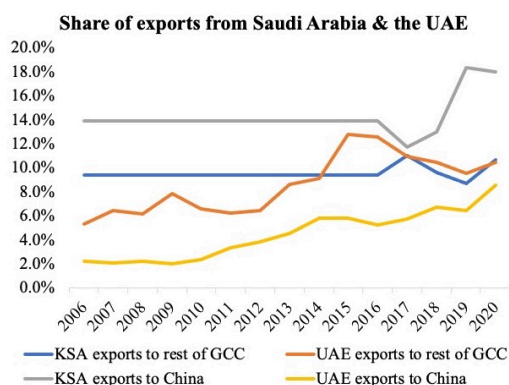


- While **PMIs** improved in H1 2021 vis-à-vis last year, it **still remained well below the 2019 average**
- Though **UAE PMI** edged down slightly in Jun, as foreign sales dropped amid supply delays, **employment** rose for the first time since Jan and at the quickest pace in more than two years. In **Saudi Arabia** as well, job creation rose at the fastest pace since late 2019

4. **Saudi Arabia's rules on local content, labour & value-added: impact on GCC trade?**

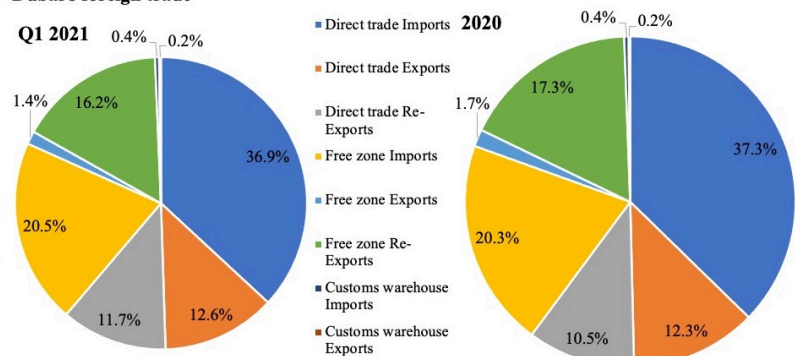
- **The GCC customs union agreement** (Jan 2003) was designed for highly oil-dependent economies and importing goods

- and services from the EU, US & Japan to a lesser extent.
- Since 1973 there has been a **tectonic shift in global economic geography towards Asia** with China the main trade partners for most GCC nations. At end-2020, China accounts for around 1/5th of Saudi's total exports; for the UAE, it stands at around 10% of total exports. In contrast, **intra-GCC trade stood at just above USD 90bn as of end-2019** (GCC Secretariat), a **trivial 5.5% of GDP**.
 - The GCC agreement & subsequent amendments also **did not account for the rapid growth of production and exports from the free zones and/ or special economic zones** leading to the current dispute concerning the domestic content of trade.
 - **Free zone trade is significant for UAE/ Dubai**, given the operations of Jafza: in 2019, **Jafza generated trade worth USD 99.5bn (roughly about the value of intra-GCC trade!)**



Source: IMF DoTS, Refinitiv Eikon. Chart by Nasser Saidi & Associates

Dubai's foreign trade



Source: Dubai Customs. Charts by Nasser Saidi & Associates

- The GCC agreement and subsequent limited amendments also **did not account for the rapid growth of production and exports from the free zones and/ or special economic zones** leading to heightened competition between Saudi products & UAE FZ/SEZ exports.
- The **GCC nations have not adapted to these changed domestic and external structural changes**, hence the pressure on the customs union and on trading rules (such as domestic content).

- The **GCC needs to move to a new trade and investment agreement** (replacing the customs union) and moving to a true **common market** that allows for **deep integration** (including for trade in services and labour mobility), allowing the GCC to benefit from economies of scale resulting from more open and greater market size, which would be a magnet for FDI.
- **A new GCC-wide deep trade & investment agreement would also allow the GCC to negotiate as a bloc** with the EU, China, ASEAN, USMCA and emerging African trading blocs, a must for participation in global value chains.
- **Short-term impact:** certain goods will be excluded from preferential tariffs implying an increase in customs duties and consequently the cost of doing business. UAE, a major re-exporting hub, is Saudi Arabia's second largest trade partner after China (w.r.t import value).
- **The current dispute, while disruptive in the short-term, can open the door to a more efficient, modern, trade & investment framework and agreement** that would boost growth prospects and allow for greater diversification, higher value-added regional trade (rather than re-exports from the rest of the world) and integration into evolving global value chains.

5. Is Oman's technical assistance (TA) request timely?

- Oman has requested for **Technical Assistance from the IMF to help it develop a medium-term debt strategy and strengthen its fiscal structure, given high budget deficits & jump in debt to GDP in 2020.**
- **Oman's non-oil economy grew by 5.7% to USD 14.8bn in Q1 2021:** NCSI. However, with a 20.6% plunge in oil sector activity, **overall GDP contracted by 2.5%.** The IMF forecasts 2.5% growth this year, given a recovery in aggregate demand post-vaccine rollout (21.5% of population has received at least one dose).
- There have been several **recent positive policy**

developments

A. **On the fiscal side:** (a) 5% VAT introduced; (b) expected to phase out water and electricity subsidies by 2025; (c) ongoing discussions re the introduction of income taxes for high-income earners

B. **Institutional reforms:** two new agencies were established: (a) the Oman Investment Authority to improve management of public assets and maintain oversight of State-owned Enterprises; and (b) Energy Development of Oman to manage and finance investments in energy

- However, **Oman's debt-to-GDP ratio surged** to 80% in 2020, from about 15% in 2015 & given fiscal/ financial support during Covid19, **budget deficit widened to 19.3% of GDP**. The latter is estimated to ease this year, to 2.4% of GDP. Fiscal reform is required to ensure fiscal & debt sustainability.
- **Oman has been tapping the international debt markets in 2021:** raised USD 1.75bn in nine-year sukuk in Jun (2nd transaction in international debt markets, following USD 3.25bn in 3-part bonds in Jan).
- Other than fiscal, another major issue is that of unemployment: **unemployment in Oman was estimated at 4.97% by ILO in 2020** (2019: 1.8%). More importantly, in 2019, youth unemployment was at 11.6% & female youth unemployment at a massive 36.3%. Covid19 last year would only have further exacerbated this.
- **Oman's request for TA could be the precursor for an IMF-sanctioned reform programme.** Egypt has seen the benefits of reform measures, being the only MENA nation to post a positive growth in 2020

Weekly Insights 6 May 2021: What do PMIs, Consumer Spending & Domestic Credit Tell us about Economic Activity?

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

1. Manufacturing PMI rises globally; but, widespread

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
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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
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4
Apr-21	60.5	66.2	62.9	60.9	53.6	51.9	55.5

Source: Refinitiv Datastream, Nasser Saidi & Associates

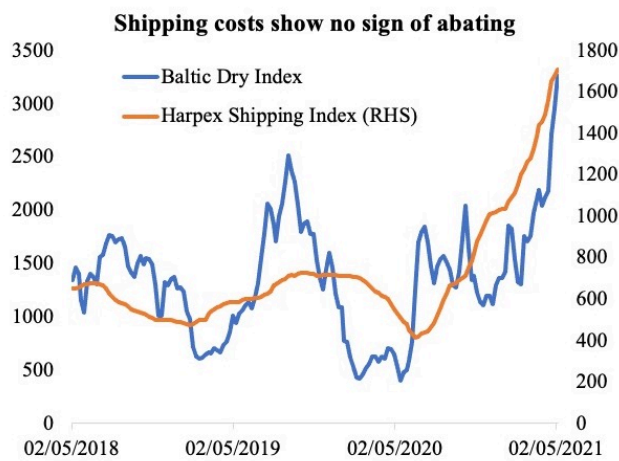
- The **vaccination pace has been steadily increasing in many advanced nations** including the US and UK – allowing the nations to reduce and/or remove severe restrictions. This has resulted in a **return in confidence, evident in recent PMI data.**
- However, the **recent surge in Covid cases in India and Brazil could result in spillovers** (Singapore reverted to Phase 2 restrictions); the only way out seems to be to vaccinating a vast majority of the global population.
- Unfortunately, **poor countries are severely lagging behind in vaccination:** in Africa, just 1% of the population has received at least one jab and 4.4% in

Asia. This compares to 22% and 44% in Europe and America respectively. Vaccine shortages are still a problem (India's Serum Institute is said to be severely behind on production)

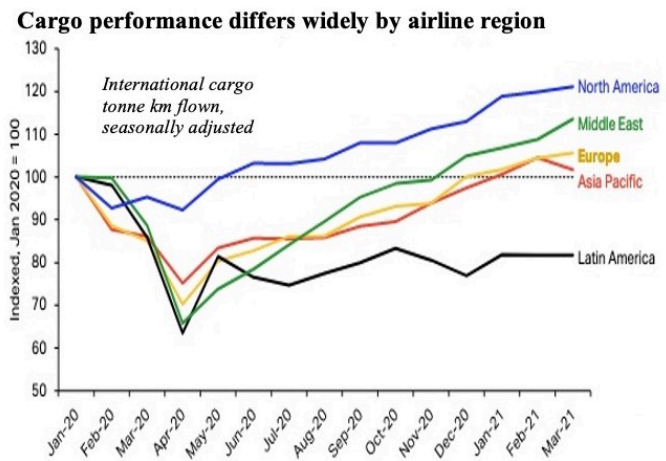
- Another word of caution : while **global manufacturing PMI hit a 11-year high**, record supply chain delays are leading to production constraints; **input costs rose at the fastest rate in a decade**

2. Shipping costs climb as demand increases, while air cargo struggles to keep up

- **Container ship port calls are in many regions back to pre-pandemic numbers or higher** (UNCTAD). But, high demand alongside shortage of containers has led to a surge in shipping costs (especially on long-distance routes). The recent Suez Canal blockage calls into question the **vulnerability of trade chokepoints**.
- **Demand for commercial air traffic remains depressed**: long-haul flights are still bearing most of the brunt as domestic travel is slowly picking up (as seen in China and the US). Travel bookings indicate strong domestic travel intentions and Europe could also witness a boost when it opens in summer for vaccinated tourists.
- **Closure of long-haul routes continue to affect Middle Eastern airlines** (revenue passenger kilometers were down by 81.7% yoy in Feb vs 74.7% globally); but, **strong cargo growth was recorded** (growing by 8.7% yoy in Feb 2021 vs the 9.5% drop in 2020; Middle East-Asia route grew the most – by 26.7% in Feb vs -7% in 2020)



Source: Refinitiv Datastream, LATA Economics

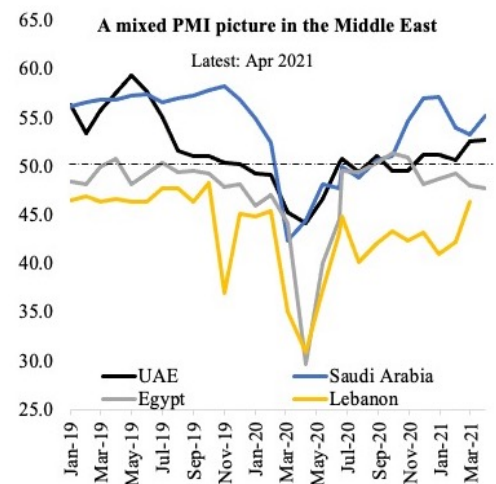


PMIs edged up in UAE & Saudi Arabia: but employment sub-index diverges (as UAE stays below 50)

Heatmap of non-oil private sector PMIs in Middle East

	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	56.3	56.2	48.5	46.5
Feb-19	53.4	56.6	48.2	46.9
Mar-19	55.7	56.8	49.9	46.3
Apr-19	57.6	56.8	50.8	46.7
May-19	59.4	57.3	48.2	46.3
Jun-19	57.7	57.4	49.2	46.3
Jul-19	55.1	56.6	50.3	47.7
Aug-19	51.6	57.0	49.4	47.8
Sep-19	51.1	57.3	49.5	46.4
Oct-19	51.1	57.8	49.2	48.3
Nov-19	50.3	58.3	47.9	37.0
Dec-19	50.2	56.9	48.2	45.1
Jan-20	49.3	54.9	46.0	44.9
Feb-20	49.1	52.5	47.1	45.4
Mar-20	45.2	42.4	44.2	35.0
Apr-20	44.1	44.4	29.7	30.9
May-20	46.7	48.1	40.0	37.2
Jun-20	50.4	47.7	44.6	43.2
Jul-20	50.8	50.0	49.6	44.9
Aug-20	49.4	48.8	49.4	40.1
Sep-20	51.0	50.7	50.4	42.1
Oct-20	49.5	51.0	51.4	43.3
Nov-20	49.5	54.7	50.9	42.4
Dec-20	51.2	57.0	48.2	43.2
Jan-21	51.2	57.1	48.7	41.0
Feb-21	50.6	53.9	49.3	42.2
Mar-21	52.6	53.3	48.0	46.4
Apr-21	52.7	55.2	47.7	n.a.

Source: Refinitiv Datastream. Table by Nasser Saidi & Associates



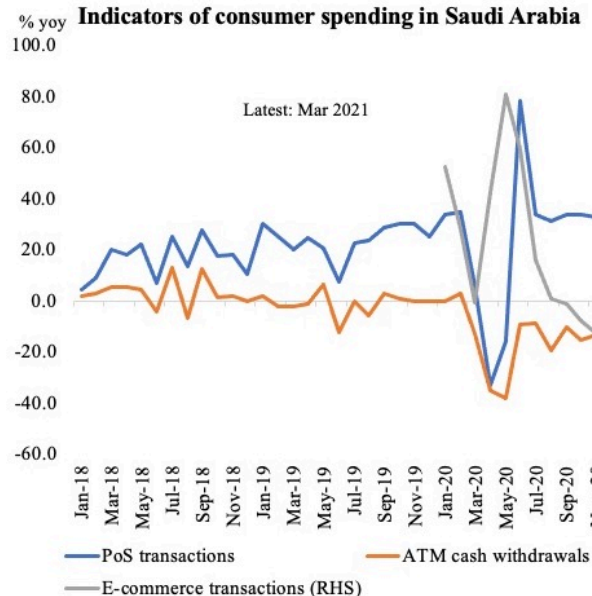
Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- In MENA, **both Saudi Arabia and UAE posted higher PMI readings in Apr; Egypt declined further**, falling below-50 for the 5th consecutive month.
- While vaccination pace is quite varied in the region, it seems to have a significant impact on business confidence and the expectations of continued economic recovery. **UAE has been the leader in vaccinating its residents**, administering 108.99 doses per 100 persons, versus Saudi Arabia's 28.2 and Egypt's 0.64. This confidence has translated into the PMI readings.
- **With UAE's major export markets still rattled by Covid19, near-term outlook has risks**; employment sub-index also fell for the 3rd month in a row. Though export orders rose, demand was largely domestic based.

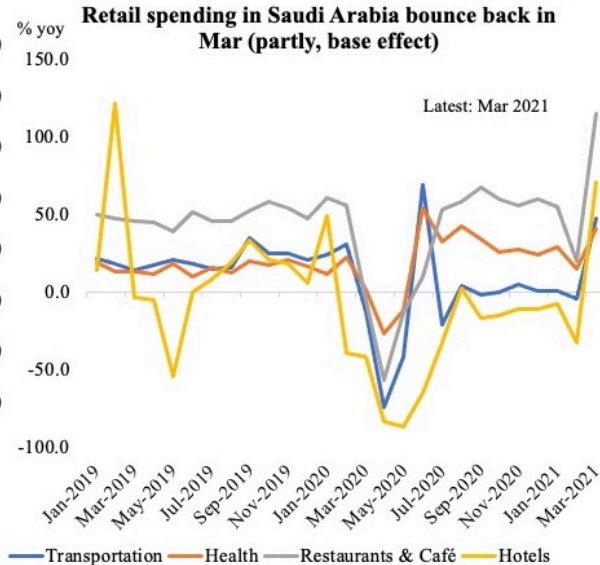
4. Consumer Spending Rebounds in Saudi Arabia

- The **Saudi Central Bank's** monthly data on **consumer spending showed a rebound in Mar**, partly due to the low base in Mar 2020. **PoS transactions continue to rise**, accelerating by 64.7% yoy and 31.5% mom in Mar. **ATM cash withdrawals fell by just 4% yoy, following 7 months of double-digit declines**, and by 21% mom.

Indicators of consumer spending in Saudi Arabia



Retail spending in Saudi Arabia bounce back in Mar (partly, base effect)

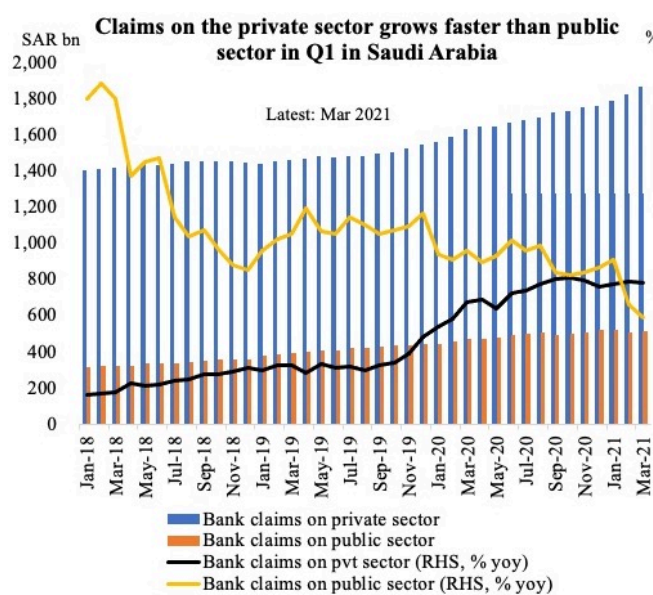


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

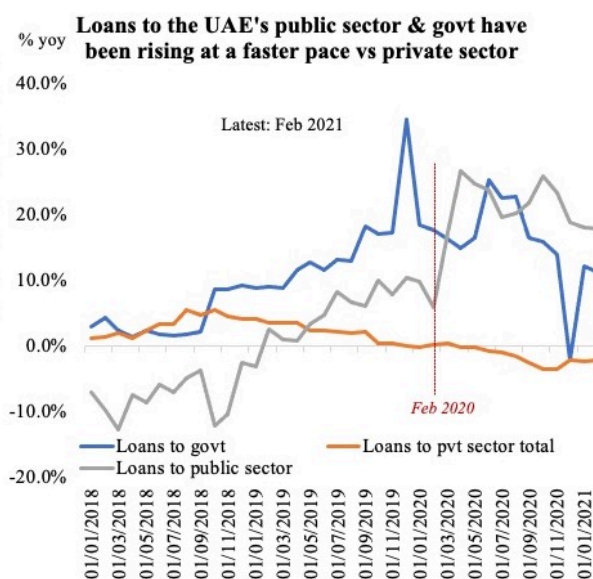
- **Retail spending by sector** showed a decline only in **education** (-2% mom and -18.3% yoy); **clothing** and footwear posted the highest pickup in mom terms (+68.2%). **Spending has been slower in** a few sectors ahead of the month of Ramadan (when many discount offers are available) like **food and beverages, and electronics**.

5. Varied patterns of domestic credit growth in Saudi Arabia & the UAE

- **Loans disbursed in both Saudi Arabia and the UAE has been ticking up in 2021.**
- Total domestic credit disbursed in **UAE** grew by 2.1% yoy in Jan-Feb 2021; the uptick has been in claims to the public sector (+17.9%), government (+11.6%) and private financial institutions (+8.8%) vs loans to the private sector (-2.3%). Together, **loans to the government & public sector accounted for 30% of total in Feb 2021.**
- In **Saudi Arabia** meanwhile, **claims on the private sector grew** by 14.6% yoy in Q1 2021 – **faster than claims on the public sector** (+13% yoy).



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



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Weekly Insights 8 Apr 2021: Risks to the Rosy Outlook as World Recovery Seemingly Accelerates

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

Heatmap of Manufacturing/ non-oil private sector PMIs

	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8	50.8	46.7
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7	59.4	57.3	48.2	46.3
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1	57.7	57.4	49.2	46.3
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5	55.1	56.6	50.3	47.7
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4	51.6	57.0	49.4	47.8
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4	51.1	57.3	49.5	46.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6	51.1	57.8	49.2	48.3
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2	50.3	58.3	47.9	37.0
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7	50.2	56.9	48.2	45.1
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3	49.3	54.9	46.0	44.9
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5	49.1	52.5	47.1	45.4
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8	45.2	42.4	44.2	35.0
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4	44.1	44.4	29.7	30.9
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8	46.7	48.1	40.0	37.2
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2	50.4	47.7	44.6	43.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0	50.8	50.0	49.6	44.9
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0	49.4	48.8	49.4	40.1
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8	51.0	50.7	50.4	42.1
Oct-20	53.4	58.2	54.8	53.7	48.7	53.6	58.9	49.5	51.0	51.4	43.3
Nov-20	56.7	57.8	53.8	55.6	49.0	54.9	56.3	49.5	54.7	50.9	42.4
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4	51.2	57.0	48.2	43.2
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7	51.2	57.1	48.7	41.0
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5	50.6	53.9	49.3	42.2
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4	52.6	53.3	48.0	46.4

Source: Refinitiv Datastream, Nasser Saidi & Associates

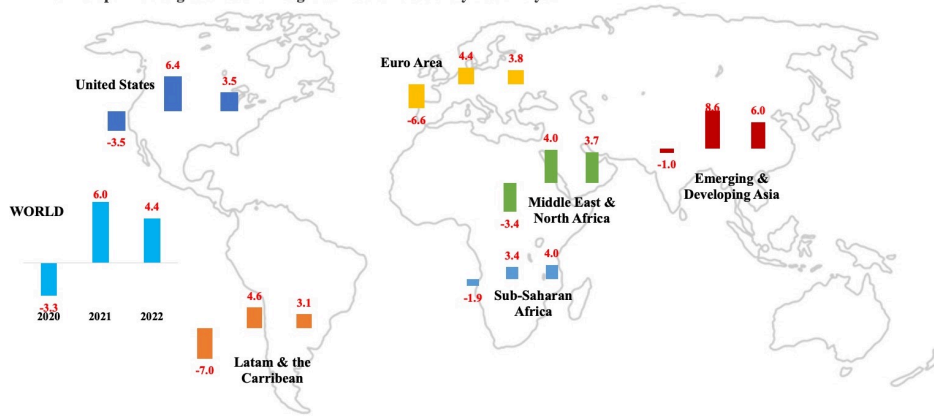
Following new Covid19 restrictions, PMIs run high

- **Global manufacturing PMI touched a 10-year high in Mar:** the uptick happened inspite of increased restrictions in late-2020/ early 2021, suggesting **less severe impact of the recent lockdowns** vs. the one in Apr-May.
- **Preparedness** for disruptions to production & supply chains as well as online demand & delivery likely **improved**.
- However, overall conditions are still affected by supply chain disruptions and **inflationary pressures**.
- **Global Services PMI grew to a 33-month high** of 54.7 in Mar, supported by inflows of new work.

Chart 2. Optimism spills over into IMF's growth forecasts amid uneven recovery caution

- **The IMF projects 6% yoy growth in 2021, up from the 3.3% contraction last year.** If the forecast is realized, it would mark the fastest rate of global growth since 1976. While China returned to pre-pandemic GDP levels in 2020 itself (+2.3%), many are unlikely to recover till 2023 – depending on new virus variants, pace of vaccination rollout and extent of fiscal/ monetary stimulus.
- The **average medium term output loss over 2020-24**, relative to pre-pandemic forecasts, is projected to be 6.1% in low-income countries versus 4.1% and a smaller 0.9% in emerging and advanced nations respectively. This is much lower than the losses seen during the 2008-09 financial crisis (when advanced nations suffered the most).
- The **Middle East's growth forecasts have remained broadly unchanged** though recovery prospects of the GCC (where vaccination pace is quite high) are miles apart from many of the war-torn nations.

IMF turns optimistic: global economic growth set to recover by 6% this year



Source: IMF World Economic Outlook, Apr 2021. Chart by Nasser Saidi & Associates

Medium term output losses less compared to 2008-09 crisis, but EMEs hit more severely vs. advanced nations

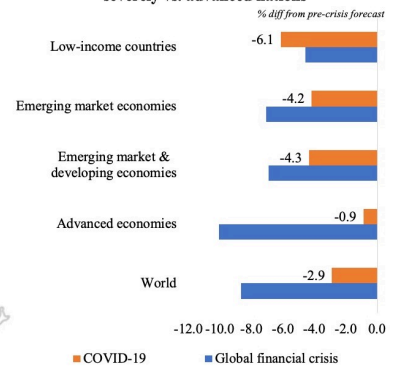
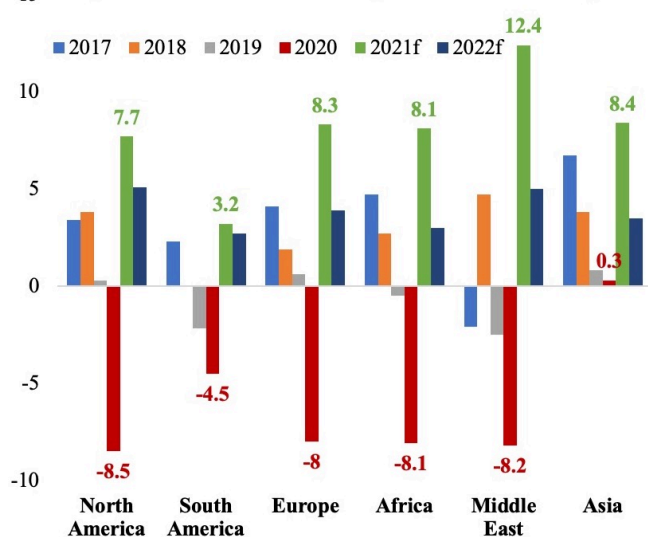


Chart 3 - M e

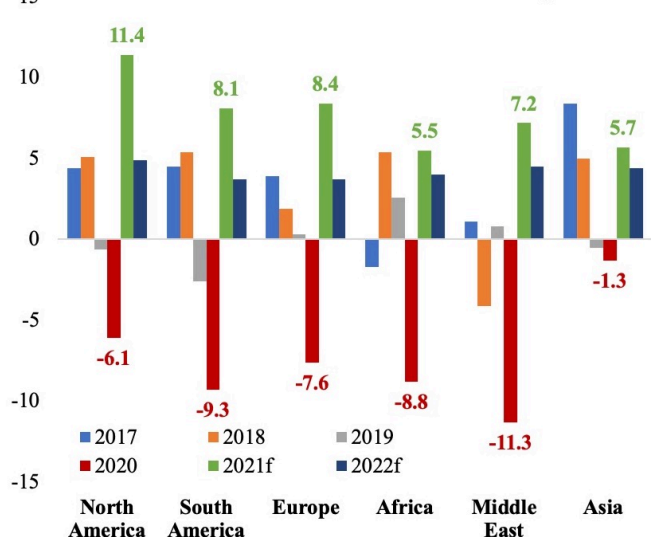
Merchandise trade poised for recovery in 2021, before slowing in 2022: WTO

Middle East exports forecast to surge in 2021 post the lower-oil-consumption-led 2020 slump



Source: World Trade Organisation. Charts by Nasser Saidi & Associates

On the import side, Africa, South America & Middle East will continue to see trade stagnate



- **Strong, but uneven recovery is the story in merchandise trade volumes as well.** Trade volume is projected to increase by 8% this year and then slow to 4% in 2022. Cross-border trade in services remains subdued and new waves of infection could easily reverse course of trade.
- **Falling oil prices led to a 35% contraction in trade in fuels in 2020:** it had a significant impact on Middle East exports (-8.2% slump in 2020), also resulting in a massive 11.3% plunge in imports. As travel picks up post-vaccine drives, demand for oil will likely strengthen, causing a 12.4% rise in exports in the Middle East this year.

- **Asia, the export hub:** the region's limited impact and faster recovery from the virus + supply of medical supplies & consumer goods supported their export growth last year. This will enable the 8.4% rise in exports this year.

Chart 4. Risks to the Rosy Outlook

- **Pandemic-related risks:**
 - New strains of vaccine-resistant Covid19 => prolonged pandemic
 - Highly unequal global roll out of vaccines could reverberate on advanced nations, when lockdowns are relaxed
 - Supply chain disruptions: one leading COVID-19 vaccine includes 280 components sourced from 19 different countries. Any constraint would impact production and distribution
 - Insufficient production of vaccines + vaccine nationalism affecting global rollout of vaccines
- **Financial risks:**
 - Avoid a repeat of 2013 "taper tantrum". Rise in US rates => repricing of risk + tighter financial conditions => negative impact on highly leveraged nations/ businesses (heavy borrowings in 2020, supported by low interest rates: EMEs borrowed 9.8% of GDP & low-income nations 5.5%)
 - Impact of corporate sector when stimulus measures are rolled back: potential bankruptcies/ insolvencies (& job losses), profitability => financial risks & effect on banks' bottom line
- **Long-lasting effects from the pandemic:**
 - Poverty: an additional 95mn people likely entered the category of "extreme poor" in 2020 versus pre-pandemic projections => rising food prices & social unrest (Lebanon as an example)
 - Labour markets: youth, women & low-skilled workers

- more affected + impact on productivity
- Inequality within nations & across economies: not limited to income. Think education, technology
- **Climate change risks:** methane & CO2 levels surged to record amounts in 2020 + stranded assets + preparedness for a low-carbon transition
- **Geo-political risks:** US-China tensions led suppliers to shift away from China (one of the reasons behind the current shortage of computer chips), reshoring and “Made at home” policies

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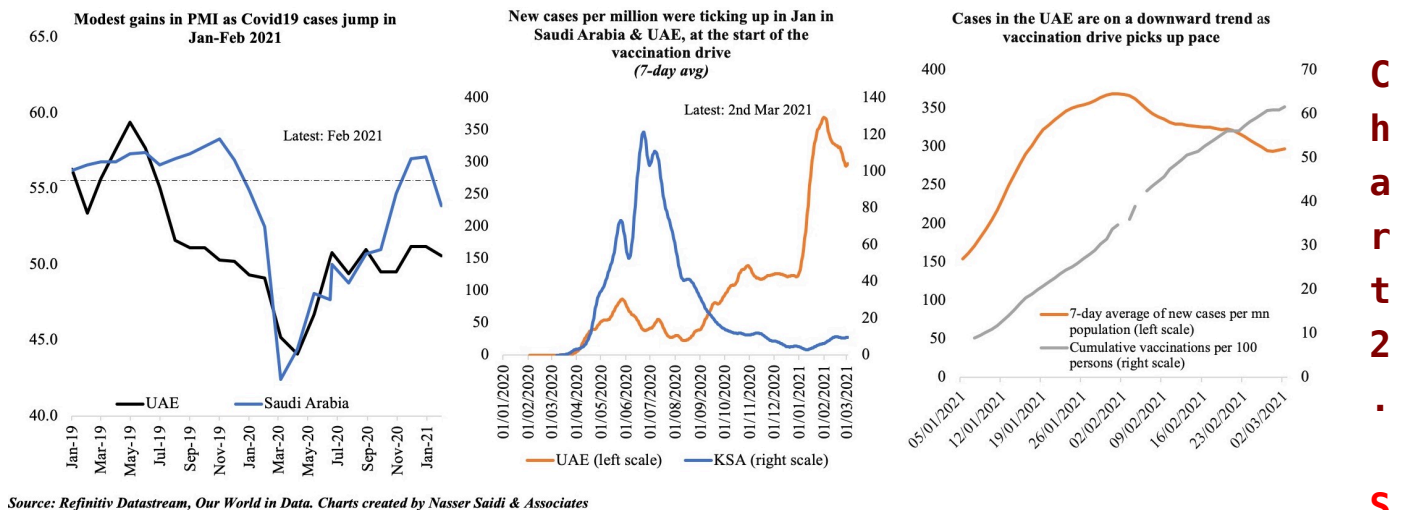
Weekly Insights 4 Mar 2021: Are economic activity indicators in UAE & Saudi Arabia moderating, à la PMI?

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

Chart 1. Will vaccines give a jab to growth?

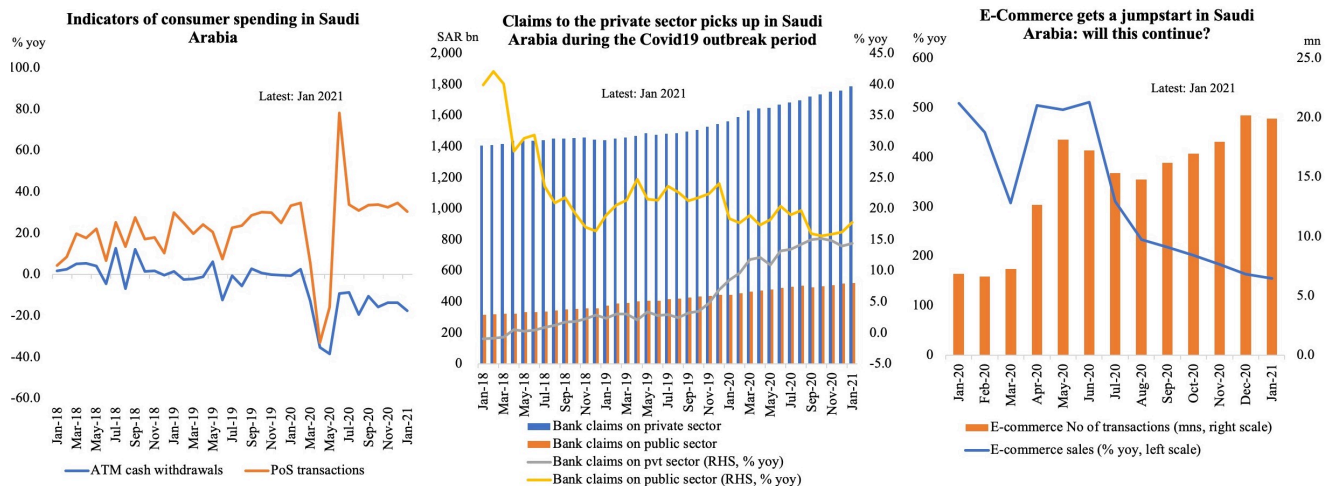
- **PMI readings for both Saudi Arabia and the UAE eased moderately in Feb 2021.**
- An **uptick in Covid19 cases since beginning of this year**, in both **UAE and Saudi Arabia** – at vastly different levels – led to **more restrictive measures** (likely to remain till Ramadan in mid-Apr)

- **UAE's stringency index increased to 56.3 in Feb vs Jan's 50** & seems to have spilled over in weaker demand, thereby hampering sales and new orders growth. Though near-term outlook is uncertain, **businesses optimism was decidedly higher for the 12-months ahead period, potentially due to the fast pace of vaccination rollout and the upcoming Expo event**



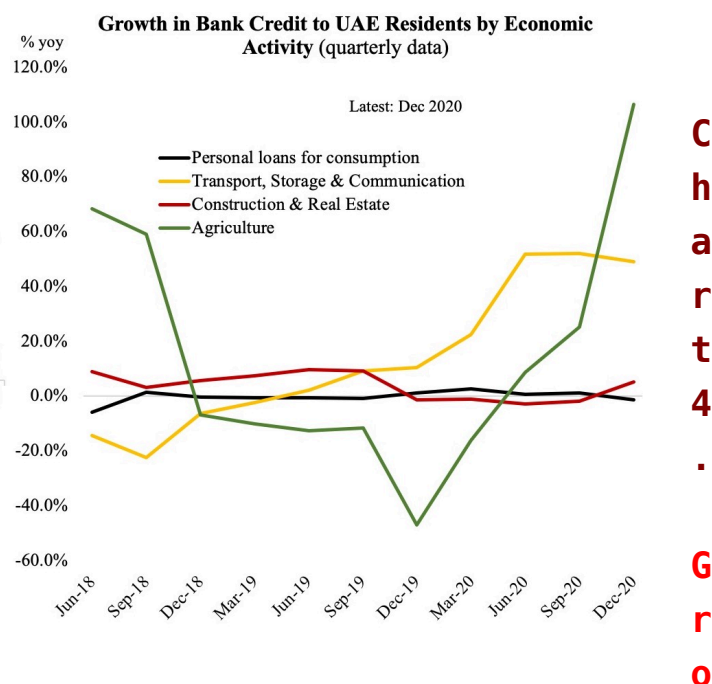
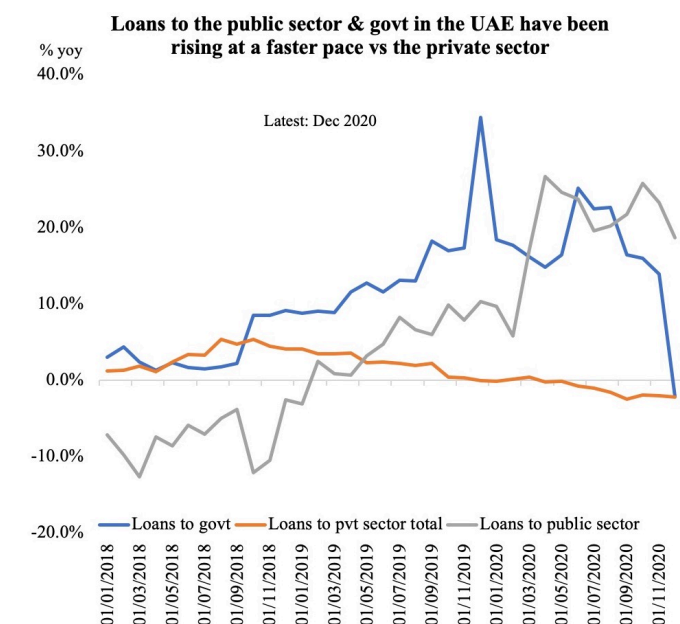
Saudi Arabia: Riding the digital wave

- **Proxy indicators for consumer spending** (ATM withdrawals & PoS transactions) continue diverging; recent restrictions on gatherings / entertainment will likely affect overall spending for Feb
- **E-commerce received a jumpstart during the pandemic period:** number of transactions picked up by 400% yoy in 2020 & sales value up by 341.2%. This **compares to year 2017**, when only 38.5% (of those aged 15+) had used the internet to pay bills or buy something online and just 25.7% had used mobile phone or internet to access an account (Source: Global Findex database)
- **Overall loans picked up in the country**, with loans to both the private and public sector rising around 15% and 18% respectively in Jan, after posting increases of 13% and 18% in 2020



AE bank loans: where's the appetite?

- **About 70% of UAE banks' loans went to the private sector as of end-2020**, with the public sector & government together accounting for ~30% of all loans
- Overall, the **surge in lending to GREs and the government** – at 16.1% yoy and 19.8% respectively – in 2020 contrasted the **drop in lending to the private sector** (-1.0%)
- **The uptick in loans towards agriculture** surged by 106.6% yoy at end-Dec 2020, following increases of 8.7% and 25.5% respectively in Jun and Sep 2020, underscoring the focus on food security and evidence of investments into vertical farming and agritech companies (its share of total loans is just 0.13%).
- Loans to construction sector (accounting for ~20.5% of total loans) ticked up by 5.2% yoy as of end-Dec (vs 0.2% drop in 2020); **personal loans for consumption** (~20.4% of total loans) dipped by 1.3% as of end-Dec



wing Pains: UAE's SMEs amid Covid19

- The **share of SME lending in total domestic lending remained unchanged at 5.7% in Q3** (Q2 2020: 5.7%), though lower than 5.9% share as of end-Q1
- Within the MSME segment, as of end-Q3, the largest share of loans was disbursed to medium-sized firms (57.3%) and close to 1/3-rd to the small enterprises
- The **number of MSMEs in the UAE declined by 8.5% qoq to 114,361 as of end-Sep**. This **drop was visible across all 3 segments**, with small enterprises plunging by 13.7% qoq as of end-Sep (Jun: +5%) and micro and medium enterprises down by 3.7% and 2.6% respectively
- With total lending remaining almost stable alongside a sharp drop in number of MSMEs, the **amount disbursed per firm increased across the board** at end-Sep: overall by 9.2% qoq while amounts to micro, small and medium firms grew by 4.8%, 13% and 3.8% respectively
- **Banks' provisions for bad and doubtful debts amounted to USD 42.5bn as of Dec 2020**, up from USD 36.1bn at end-2019. With a large number of MSMEs dropping out of business, **expect non-performing loans to tick up & eat into banks' profitability**

Table: Bank lending to MSMEs in the UAE

Number of MSMEs accounts at banks operating in UAE

<i>in AED bn, unless specified</i>	Dec-19	Mar-20	Jun-20	Sep-20	% qoq (latest)	% ytd		Mar-20	Jun-20	Sep-20
Microenterprises	11.4	10.9	10.5	10.6	1.0%	-7.0%	Microenterprises	30625	32021	30843
Small enterprises	28.2	29.4	29.6	28.9	-2.4%	2.5%	Small enterprises	60150	63147	54514
Medium enterprises	49.9	53.1	52.3	52.9	1.1%	6.0%	Medium enterprises	29137	29767	29004
Total lending to MSMEs	89.5	93.4	92.4	92.4	0.0%	3.2%	Total MSMEs	120272	124935	114361
Total lending to private sector	1134.6	1148.9	1139.4	1138.4	-0.1%	0.3%	Amount disbursed per firm in '000 AED			
Total domestic lending	1592.6	1595	1626.9	1611.7	-0.9%	1.2%	Microenterprises	355.9	327.9	343.7
Share of MSMEs as % of private sector lending	7.9%	8.1%	8.1%	8.1%			Small enterprises	488.8	468.7	530.1
Share of MSMEs as % of domestic lending	5.6%	5.9%	5.7%	5.7%			Medium enterprises	1822.4	1757.0	1823.9

Source: UAE Central Bank, Nasser Saidi & Associates

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Weekly Insights 25 Feb 2021: Rising global food prices amid supply chain disruptions & impact on import-dependent dollar-pegged GCC nations

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

Chart 1. PMIs indicate rising manufacturing activity vs restrictions-hit services weakness

- Forward looking **manufacturing PMIs are recovering**, thanks to new orders
- But **pain points include** supply chain disruption, delivery delays & rising input prices
- **Weakness in services PMI continues**
- **UK & Germany** (among the most stringent nations currently, with scores at 86.11 & 83.33 respectively)

show the **divergence**, though the former is starting to stabilise

- **Declines during the current lockdown period is not as severe as in Apr 2020**
- Vaccine roll-out will lead to greater confidence in the months ahead

	US	Germany	EU	UK	Japan
Jan-19	54.9	49.7	50.6	52.8	50.3
Feb-19	53.0	47.6	49.5	52.1	48.9
Mar-19	52.4	44.1	48.3	55.1	49.2
Apr-19	52.6	44.4	48.4	53.1	50.2
May-19	50.5	44.3	47.9	49.4	49.8
Jun-19	50.6	45.0	47.6	48.0	49.3
Jul-19	50.4	43.2	46.6	48.0	49.4
Aug-19	50.3	43.5	47.1	47.4	49.3
Sep-19	51.1	41.7	46.0	48.3	48.9
Oct-19	51.3	42.1	46.2	49.6	48.4
Nov-19	52.6	44.1	47.0	48.9	48.9
Dec-19	52.4	43.7	46.4	47.5	48.4
Jan-20	51.9	45.3	48.1	50.0	48.8
Feb-20	50.7	48.0	49.1	51.7	47.8
Mar-20	48.5	45.4	44.3	47.8	44.8
Apr-20	36.1	34.5	33.4	32.6	41.9
May-20	39.8	36.6	39.5	40.7	38.4
Jun-20	49.8	45.2	47.4	50.1	40.1
Jul-20	50.9	51.0	51.7	53.3	45.2
Aug-20	53.1	52.2	51.6	55.2	47.2
Sep-20	53.2	56.4	53.5	54.1	47.7
Oct-20	53.4	58.2	54.8	53.7	48.7
Nov-20	56.7	57.8	53.8	55.6	49.0
Dec-20	57.1	58.3	55.2	57.5	50.0
Jan-21	59.2	57.1	54.8	54.1	49.8
Feb-21	58.5	60.6	57.7	54.9	50.6

Source: IHS Markit, Refinitiv Datastream. Table and charts created by Nasser Saidi & Associates

Divergence between manufacturing & services PMI

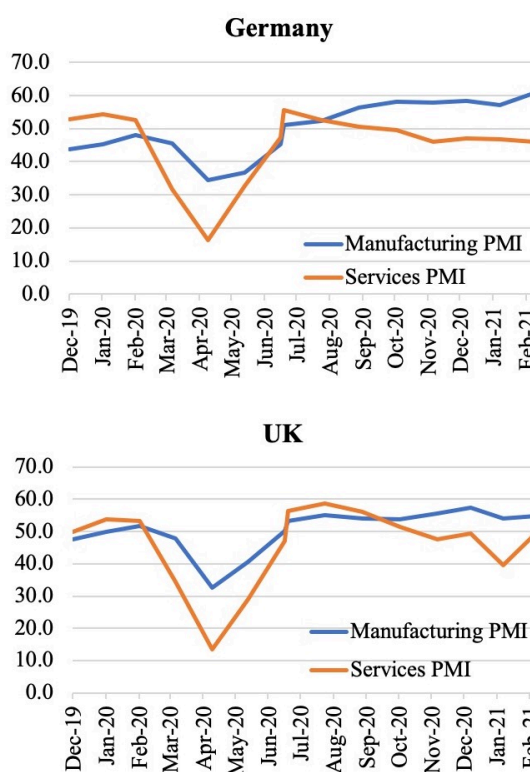
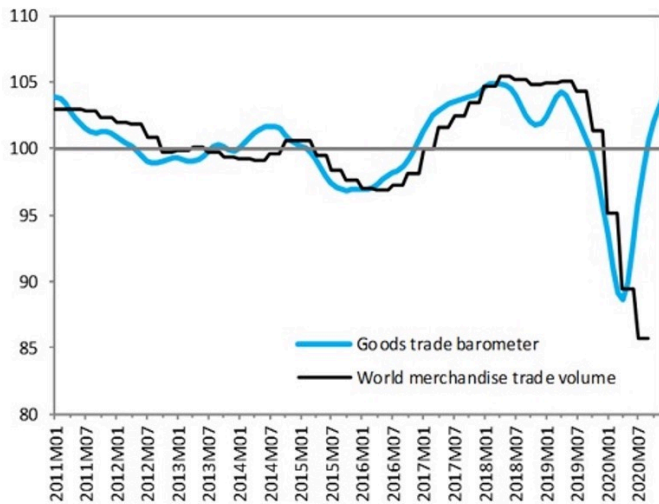


Chart 2 - Global

ade recovers in Q4 2020; Q1 2021's restrictions in likely to cause deceleration

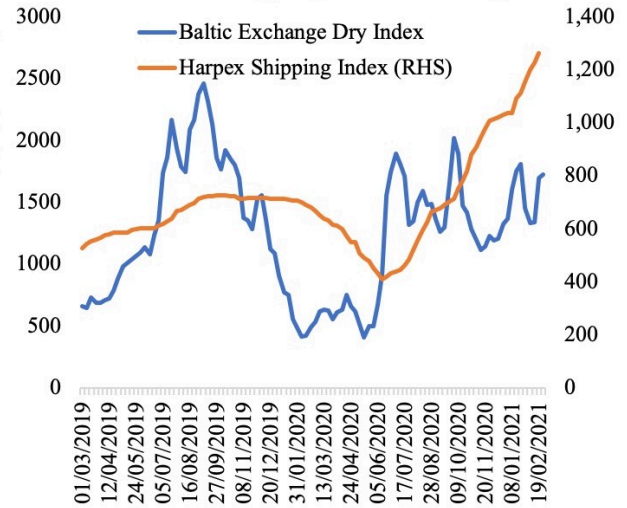
- WTO estimates show a **strong Q4 (index reading of 103.9)**. New Covid variants & lockdown restrictions is likely to have a negative impact on goods trade in Q1
- **Container shipping costs have been surging**, given the increase in demand alongside delays at ports and lack of ships/ containers
- The **reduction in air freight capacity adds to the capacity conundrum**. In 2020 overall, industry-wide cargo tonne-kilometres fell by 10.6% yoy – the largest decline on record (IATA)

Index history, trend = 100 **A strong trade rebound in Q4, but will it hold?**



Source: World Trade Organisation

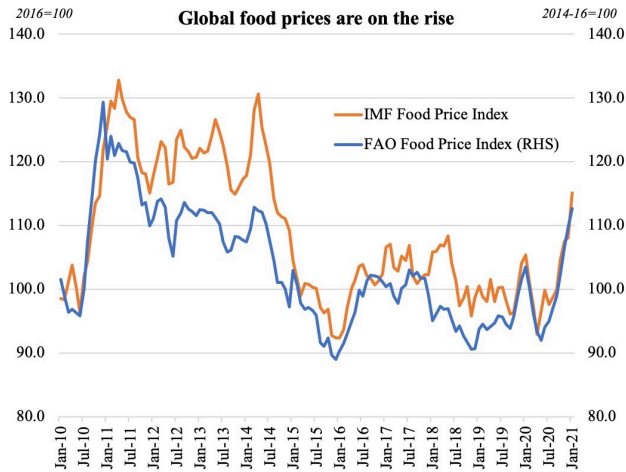
Container shipping costs have surged



Source: Refinitiv Datastream. Chart created by Nasser Saidi & Associates

Global food prices are rising: will MENA's food importers be severely hit?

- The increase in freight prices have also **spilled over into global food prices**: pandemic-led supply chain issues aside, production shortfalls due to unfavourable weather conditions and high export tariffs have also contributed to the uptick.
- Over the past six months, the **IMF's food price index has seen a 6% spike, outpacing the all commodities price index which averaged a 1% increase!**
- **Food security is a major concern in the MENA region**, given water-constraints. 12 of the 17 most water-stressed nations are in the Middle East (World Resources Institute) => high dependence on food imports & hence **highly exposed to global food price volatility**
- High income but resource-constrained nations like UAE are **taking steps to counter this**, including support for domestic production via technological innovations (AgriTech, hydroponics, vertical farming)



Source: IMF, FAO; Chart created by Nasser Saidi & Associates

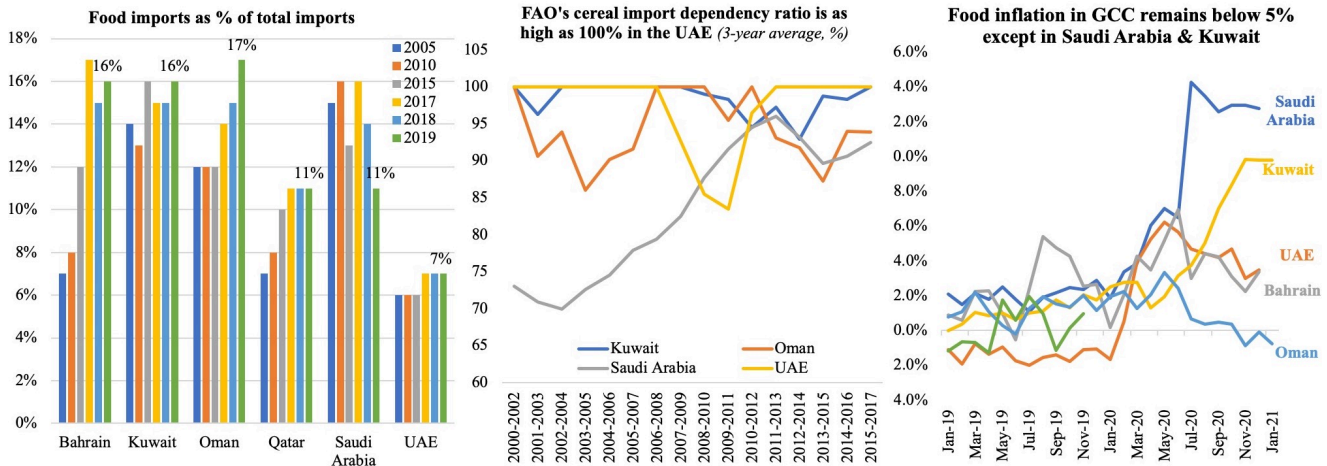
MENA nations' scores in EIU's Global Food Security Index

	Global rank	Overall score	Affordability	Availability	Quality & Safety	Natural resources & resilience
Kuwait	33rd	70.7	82.7	68.3	86.4	37.2
Oman	34th	70.2	88.5	59.1	83.7	43.8
Qatar	37th	69.6	80.3	70.7	84.3	33.6
Saudi Arabia	38th	69.5	79.6	73	79.8	34.1
UAE	42nd	68.3	73	66.5	88.8	42.4
Turkey	47th	65.3	66	67.2	78.3	47.4
Bahrain	49th	64.6	82.6	56.8	76.7	33.7
Morocco	57th	62	76.3	51.4	67.4	49.5
Algeria	58th	61.8	78.7	55.7	62	42
Tunisia	59th	61.4	69	56.7	70.8	46.7
Egypt	60th	61.1	51.8	75.2	64.3	49.4
Jordan	62nd	60.4	77.1	48.2	63.1	49.5
Syria	101st	40	29.3	41.3	55.6	41.5
Yemen	113th	35.7	40.3	27.5	36.9	41.2

Source: Global Food Security Index (Dec 2020), EIU.

Will this lead to rising food inflation in the GCC?

- **Food imports as a share of total imports** ranged from UAE's 7% to Oman's 17% in 2019 (WTO)
- Further breakdowns reveal the extent of dependence: the FAO's **cereal import dependency ratio** (3-year average) places **UAE at 100% & Saudi Arabia at 92.5%** (for the period 2015-2017); GCC imports almost 100% of its rice consumption and approximately 62% of meat and 56% of vegetables (PwC).
- **Food inflation is still less than 5% in most GCC nations** other than Saudi Arabia (affected by the VAT hike) and Kuwait (fruits, vegetables and meat/poultry have seen double-digit rises since last Jul).
- The **higher share of disposable income spent on food by poorer segments of the population** would imply that rising food prices would affect them more, thereby **widening the inequality gap further** (in addition to Covid19's impact)
- Imported inflation in the backdrop of being pegged to the dollar implies that **price controls might be needed to contain food inflation if it continues to surge further**. However, **overall inflation remains low**, with other major components like utilities & rent on a decline.



Source: World Trade Organisation, FAO, Refinitiv Datastream. Charts created by Nasser Saidi & Associates

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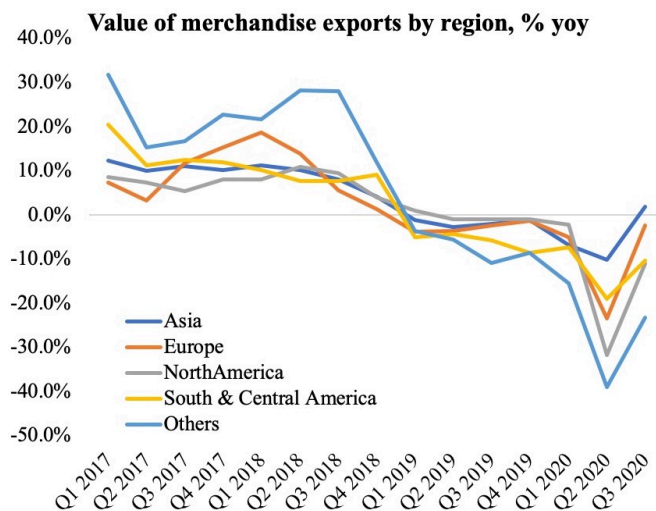


Weekly Insights 14 Jan 2021: Trade, Tourism & the Global Vaccination Drive

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

1. Trade recovers in Q3; services trade lags

WT0's latest Q3 data indicate a distinct rebound in trade: the volume of merchandise trade globally was up 11.6% qoq from an upwardly revised 12.7% drop in Q2. Exports dropped in yoy terms among all regional groups with the exception of Asia, where the value and volume inched up by 2% and 0.4% respectively. With Covid19 cases surging in Q4 across most regions, partial lockdowns and restrictions were re-imposed, which is likely to lead to a drop in overall trade in the final quarter.



Source: WTO database, Nasser Saidi & Associates



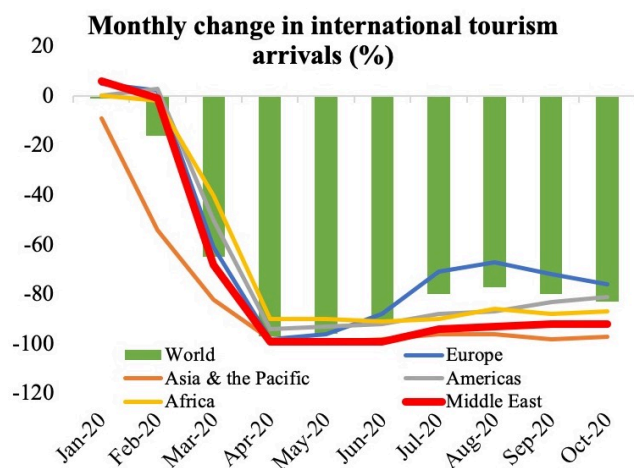
Source: IHS Markit, CPB World Trade Monitor

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export orders growth – a leading indicator for trade activity – slowed in December, according to the latest global manufacturing PMI, and was linked to intensifying supply chain delays. The most cited response for delays amid rising demand was the **lack of shipping capacity/shortage of containers**. The recent surge in freight prices underscores the dilemma: sea freight on the China-Brazil route reached an unprecedented USD 10k per TEU from USD 2k per TEU a year ago. Other routes from Asia have also posted above-average values: trip costs to Europe and the US reached more than USD 4k per TEU.

This week, the WTO launched a new dataset along with the OECD tracking **bilateral services trade of over 200 economies**. The chart shows that the share of intra-regional trade in services is low in Africa (7%), South & Central America (12%) and the Middle East (13%). Unfortunately, since no bilateral services transactions are reported by African or Middle Eastern economies, it is difficult to gauge the underlying factors leading to this situation. The **decline in services trade was significant in 2020** given restrictions on international travel and related drop in tourism revenues.

2. Tourism woes continue globally; Middle East significantly affected



Source: UNWTO, Nasser Saidi & Associates

The UNWTO reported a **72% drop in international tourist arrivals during the Jan-Oct period**, with the Middle East region continuing to lag its global counterparts in tourism arrivals (-73% year-to-date). International tourism as a share of total tourism is significantly high in Bahrain (97%) and UAE (83%), making

these nations more vulnerable than say, Saudi Arabia, with its share at 26%. With air travel restrictions still in place in many nations, and hotels either closed or open at lower capacity, the **road to recovery will be long**.

Monthly change in international tourism arrivals to the Middle East, by country

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	YTD
Middle East	6	-1	-68	-99	-99	-99	-94	-93	-92	-92	-73
Bahrain	-41	-41	-41	-98	-98	-98	-97	-97	-97		-78
Egypt	10	6	-64	-100	-100	-100	-93	-82			-69
Lebanon	-27	-30	-80	-100	-98						-71
Oman	17	17	-67	-100	-99	-99	-99	-99	-97		-68
Qatar	41	23	-77	-100	-100	-99	-98	-98	-97	-96	-66
Saudi Arabia	5	-1	-88	-98	-99	-96	-95	-98	-84	-87	-74
Syria	4	5	-62	-99	-99	-97	-97	-98			-74
UAE	11	-3	-60	-100	-100	-100	-89	-89	-89		-65

Source: UNWTO, Nasser Saidi & Associates

Tourism Recovery Indicators: Middle East

Indicator	YTD change (%)	Latest available
Seat capacity - domestic	-49%	Nov-20
Intl tourist arrivals	-73%	Oct-20
Hotel searches	-36%	Dec-20
Hotel bookings	-40%	Dec-20
Actual air reservations	-76%	Nov-20
Occupancy rates	-28%	Dec-20
Seat Capacity-intl	-62%	Jan-21

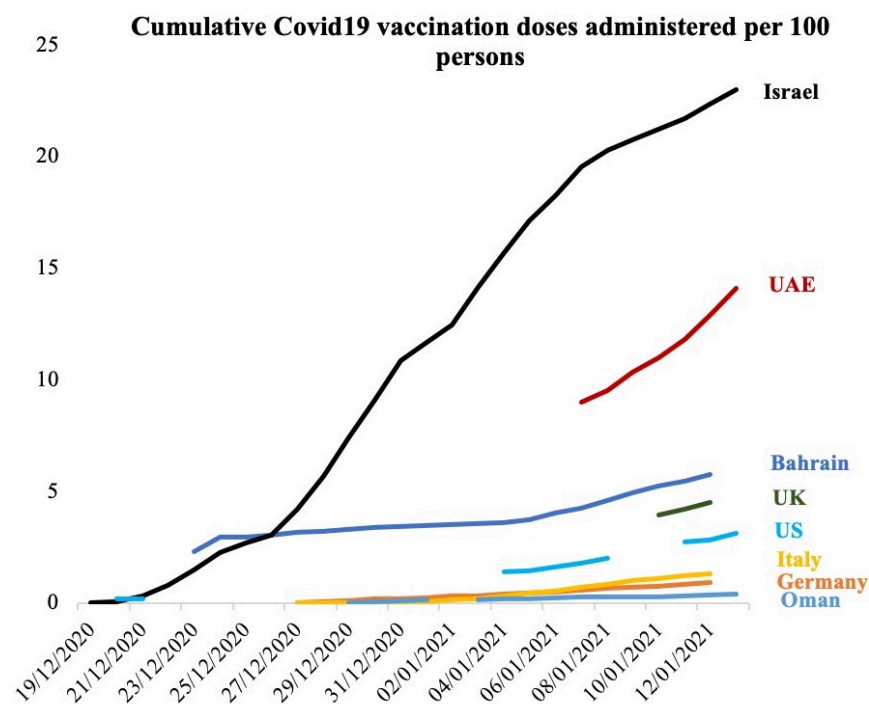
Source: UNWTO, Nasser Saidi & Associates

upancy rates in the region have improved towards the end of 2020, with residents opting for staycations than international travel given restrictions. Egypt reopened international tourist flights to three governorates (including Red Sea) last Jul: overall, the country welcomed 3.5mn tourists last year, resulting in overall revenues of USD 4bn, down from 11.6mn tourists and USD 13bn in revenues in 2019. In the UAE, Dubai opened for tourists in July: almost 17.88 million passengers passed through the Dubai Airports last year, while occupancy rates in the emirate's hotels touched 71% in Dec, the highest since Feb. The UAE-UK travel corridor (announced 12th of Nov) resulted in an acceleration in bookings, with the **Dubai-London Heathrow travel corridor revealed as the busiest international air route globally in the first week of January**. Interestingly, Cairo-Jeddah was the second most popular route.

With the rollout of vaccines, and nations heading towards achieving herd immunity, the latter half of this year might see a pickup in air travel and tourism: this should also support Dubai's Expo event scheduled to start in Oct 2021 and Qatar's 2022 FIFA World Cup.

3. The Global Vaccination Drive picks up

Israel, the UAE and Bahrain top the list of the share of total population that have received at least one dose of the Covid19 vaccine – at 22.4%, 11.57% and 5.96% respectively (*updated at 1:30pm UAE time on 14th Jan 2021*). In terms of the share of fully vaccinated population, UAE tops at 2.53% followed by Israel at 1.21% and the UK at 0.63%.



Source: Our World in Data, Nasser Saidi & Associates.

UAE's ability to vaccinate quickly its small and highly concentrated, urbanised populations – with 96 vaccination locations across Abu Dhabi alone and others in the rest of the emirates, more than 100k persons were vaccinated per day

in the last two days – is also a testament to its established and reliable healthcare systems.

Given the data, UAE's aim to vaccinate 50% of the population by end-Q1 does not seem far-fetched. The faster the vaccination drive, the greater relaxation of quarantine rules, higher the number of travel corridors ("immunity passports") and UAE could become one of the top tourist destinations globally. **One step further, and if the nation manages to achieve herd immunity, could the nation also aspire to become**

a “vaccine tourism” hub? (setting aside the ethical aspect). Furthermore, with UAE also planning to manufacture the Sinopharm vaccine, the potential for Abu Dhabi/ Dubai as vaccine manufacturing and distributing hubs is rising (with the international connectivity of its Etihad and Emirates airlines).

Bottomline: With the global vaccination drive, depending on how soon countries are able to achieve herd immunity, we can expect a resumption of activity in travel and tourism. Additionally, efficacy of the vaccines will not only raise consumer confidence (and demand), but also result in lowering business uncertainty, resume manufacturing and services sector activity and ease supply constraints, thereby boosting global trade.

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

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

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

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

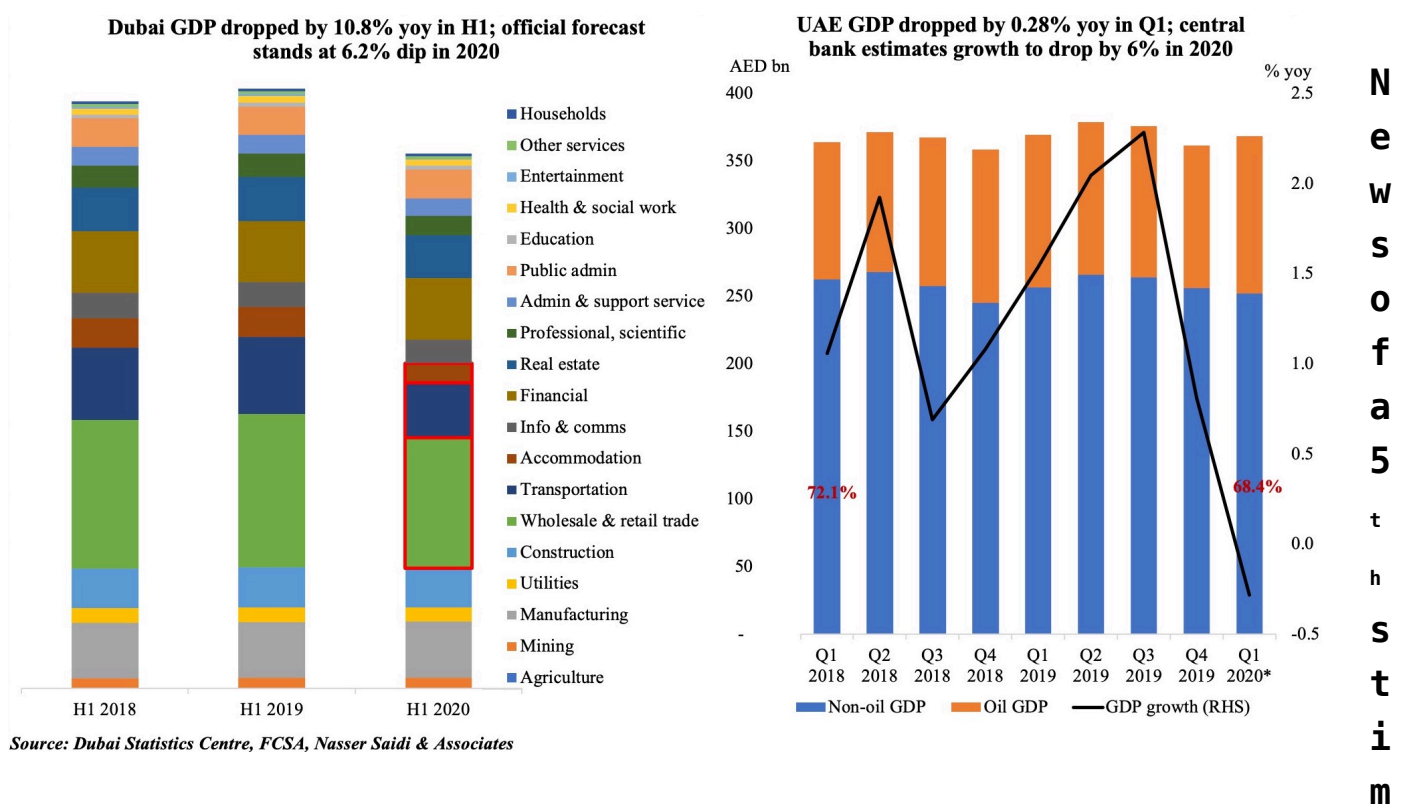
be were released this week. **Overall, recovery seems to be the keyword with improvements in Dec** – in spite of the recent Covid19 surge, the Covid variant and ongoing lockdowns/restrictions – with new orders and export orders supporting sentiment, with some stability in job creation. However, supply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

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

continuing to fall at an accelerated rate.

2. Covid19 & impact on Dubai & UAE GDP

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



ulus package worth AED 315mn (announced on 6th Jan) for Dubai – an extension of some incentives till Jun 202, refunds on hotel sales and tourism dirham fees, one-time market fees exemption

for establishments that did not benefit from reductions in previous packages and decision to renew licenses without mandatory lease renewal among others – **will support growth this year, as well as the uptick from Expo 2021** (based on widespread vaccinations across the globe and potential resumption of air travel by H2 this year). With plans to inoculate 70% of the UAE population by 2021, we remain optimistic about UAE/ Dubai prospects subject to the effective implementation of the recent spate of reforms (including the 100% foreign ownership of businesses, retirement & remote working visas etc.) as well as embracing new and old synergies – Israel and Qatar respectively. Medium-term prospects can be further enhanced by accelerating decarbonization and digitisation – [read a related op-ed published in Dec.](#)

3. UAE credit and SMEs

The UAE central bank has extended support to those persons and businesses affected by Covid19 by launching the **Targeted Economic Support Scheme**, which is now extended till Jun 2021. Overall credit disbursed till Sep 2020 was up 2.9% yoy and up 1.2% ytd: but during the Apr-Sep 2020, the pace of lending to GREs (+22.7% yoy) and government (+19.6%) have outpaced that to the private sector (-1.0%).

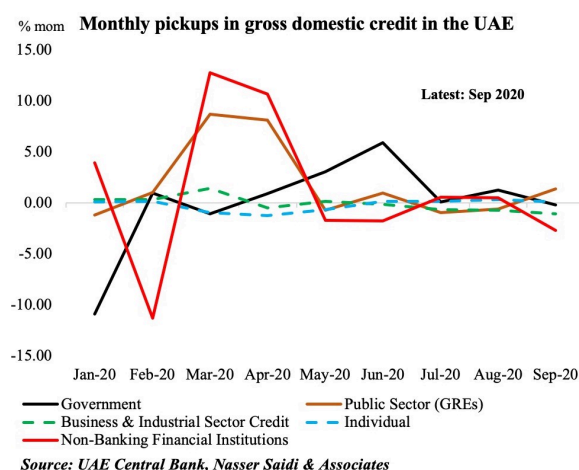


Table: Bank lending to MSMEs in the UAE

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

Source: UAE Central Bank, Nasser Saidi & Associates

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

Source: UAE Central Bank, Nasser Saidi & Associates

n a difficult period for MSMEs (Micro, Small and Medium Enterprises): the number of MSMEs declined by 8.5% qoq in Sep 2020, following an uptick of 3.9% qoq in Jun 2020, signaling deteriorating business conditions that may have forced such firms to close. This also suggests a potential increase in

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NPLs once the current banks' support (e.g. deferring loan periods) come to a close. Overall domestic lending also fell by 0.9% qoq as of Sep 2020. The largest share of loans within the MSME sector continues to be to the medium-sized firms (57.3%) and about 1/3-rd to the small enterprises. Considering the amount disbursed per firm, medium enterprises pocketed AED 1.8mn in Q3: this is 3.4 times the amount disbursed per small firm and 5.3 times the amount disbursed to microenterprises.

SMEs also need to think beyond the financial pain point to survive in the post-pandemic era. In addition to reducing/streamlining operational costs[\[11\]](#), learning digital skills, boosting online profiles and hosting a robust payments and collections platform will also support SMEs to be more bankable in the future.

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

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

Source: UN Comtrade, Nasser Saidi & Associates

The recent GCC Summit saw Qatar's blockade (imposed in 2017)

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

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

portfolio inflows as well as FDI.

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

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Weekly Insights 23 Dec 2020: V or W-shaped recovery? Surge in Covid19 cases & new strain to dampen growth in Q4

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

Chart 1: Uncertainty in the time of Covid19

Both **Economic Policy Uncertainty and Pandemic Uncertainty indices touched record-highs during the Covid19 crisis**. Even with vaccines being rolled out, a new strain of Covid19 in UK has led to stricter lockdown measures, border closures and travel bans.

Policy Uncertainty has been severely high this year, when compared to the global financial crisis or Brexit referendum or the US-China trade war phase. With fiscal and monetary

responses continuing to support economies, care should be taken to **ease the withdrawal of support in the future**. Countries need to **be prepared for a phase of unemployment and wave of business closures when exiting the crisis**.

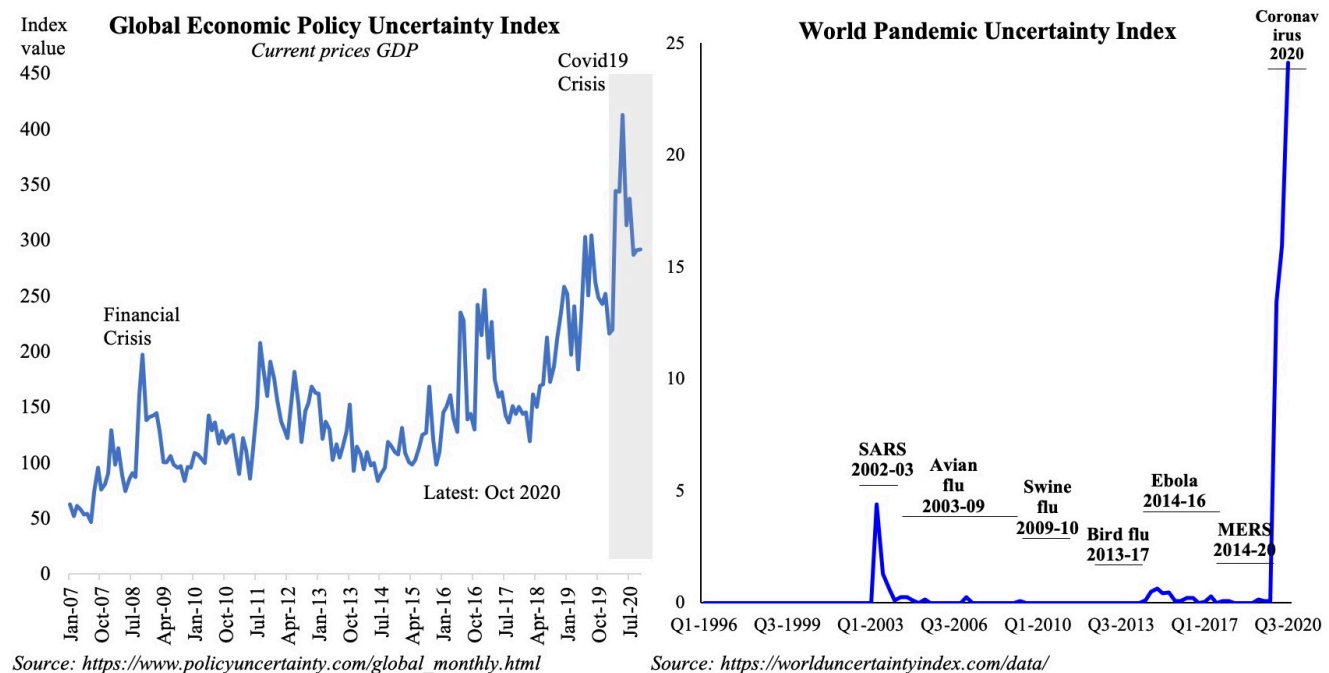


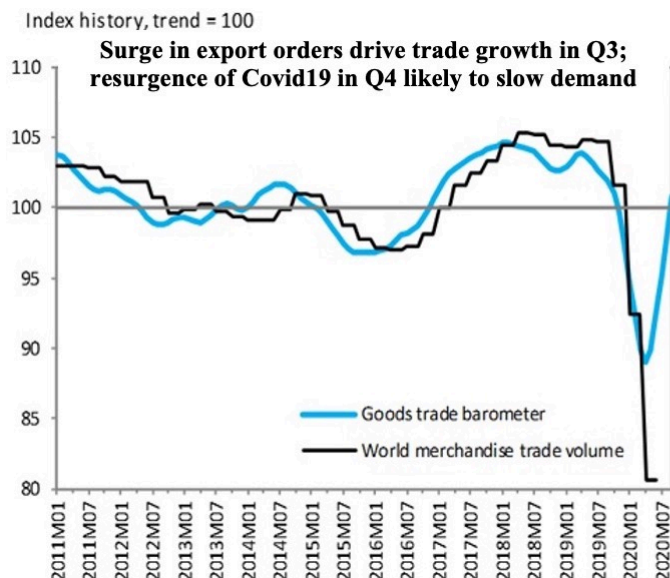
Chart 2: Trade bounced back in Q3, but will the current surge lead to another drop? Tourist Arrivals remain dismal

Trade growth recovered in Q3; but recent surge in cases, a new strain and related closures will likely result in lower demand & dip in trade in Q4.

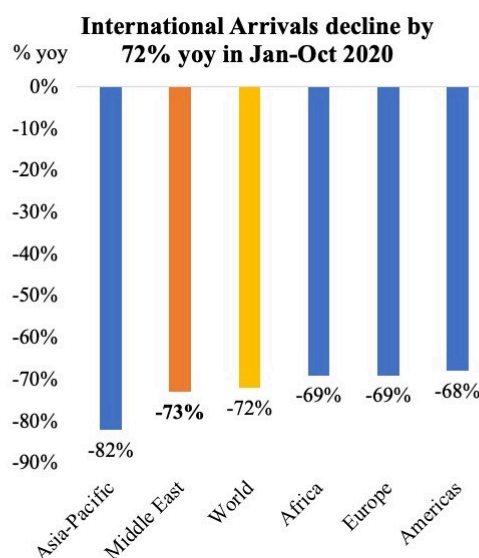
Meanwhile, **thanks to the recovery in new export orders**, both shipping & cargo indicators are turning positive.

As international air travel as not picked up, **air cargo has suffered**, thereby directing demand towards shipping. However, as the holiday season got underway towards end-2020, demand ticked up, but **container shortages are leading to higher shipping rates**.

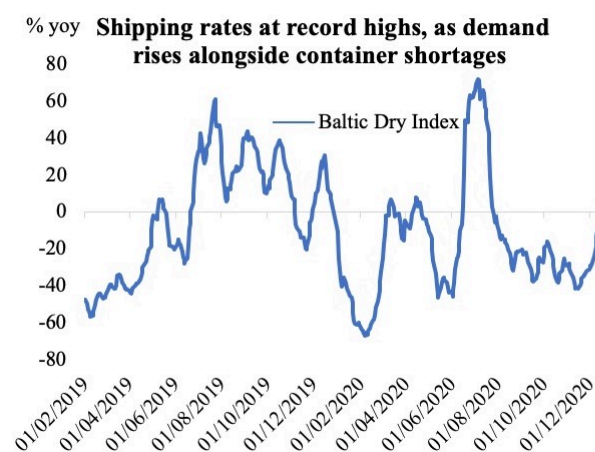
Tourism remains unlikely to recover to near pre-pandemic levels till vaccines reach a substantial proportion of global population. Prior to the recent surge in cases, **domestic tourism (& therefore air travel) had picked up in Europe and Americas**.



Source: WTO Trade Barometer, Nov 2020

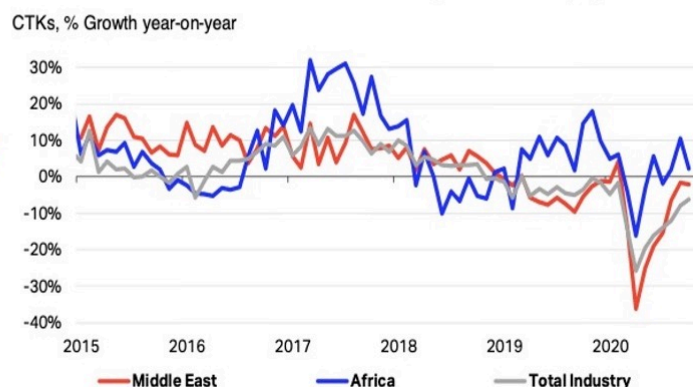


Source: World Tourism Organisation (UNWTO)



Source: Refinitiv Datastream, Nasser Saidi & Associates

Air cargo shipments tick up as new exports orders and demand rise; ME-Asia sector grew +3.4% yoy in



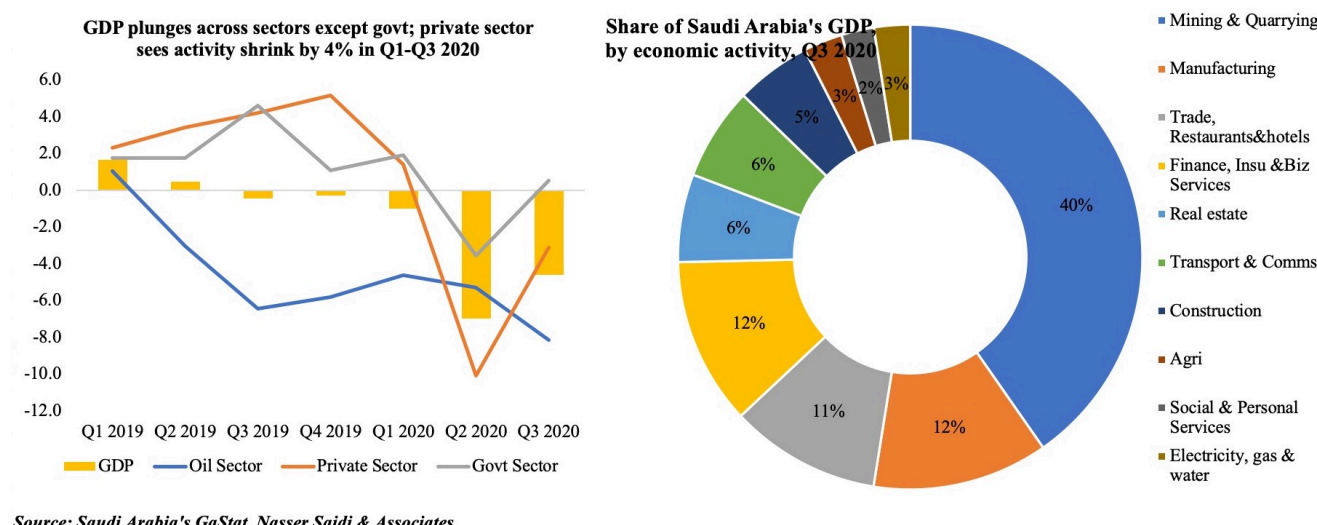
Source: IATA Economics

Chart 3: Saudi Arabia's GDP shows recovery in Q3; private sector growth declines by 4% ytd

Saudi Arabia's GDP declined by 4.3% in Q3, rebounding from Q2's 7% plunge, with declines across oil and non-oil sectors (-8.2% and -2.1% respectively). Within the non-oil sector, most sectors posted declines in Q3 ranging from manufacturing (-10.1%) to trade, restaurants & hotels (-5.2%) while finance, insurance & real estate edged up (+1.1%). Share of GDP by economic activity shows that oil sector continues to dominate (40% of overall GDP), followed by manufacturing (12%) and trade & hospitality (11%).

Signs of recovery are evident: PMI for KSA is the strongest in the region, with output and export orders all increasing. The latest reading for employment also increased for the first time since Jan. **Credit to the private sector, cement sales and**

PoS transactions have all been rising. Allocation of funds towards the public health system and social spending in the 2021 budget underscores the government's commitment to support the economy as vaccines are rolled out next year. The reduction in Covid19 health concerns and uncertainty will encourage increased consumption and investment by the private sector, helping to boost growth. Similarly, roll out of vaccines will help restore the flow of non-religious tourism and the Hajj which are important contributors to the economy.



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Weekly Insights 17 Dec 2020: Green shoots (of recovery) in the UAE & Takeaways from

Saudi 2021 Budget

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

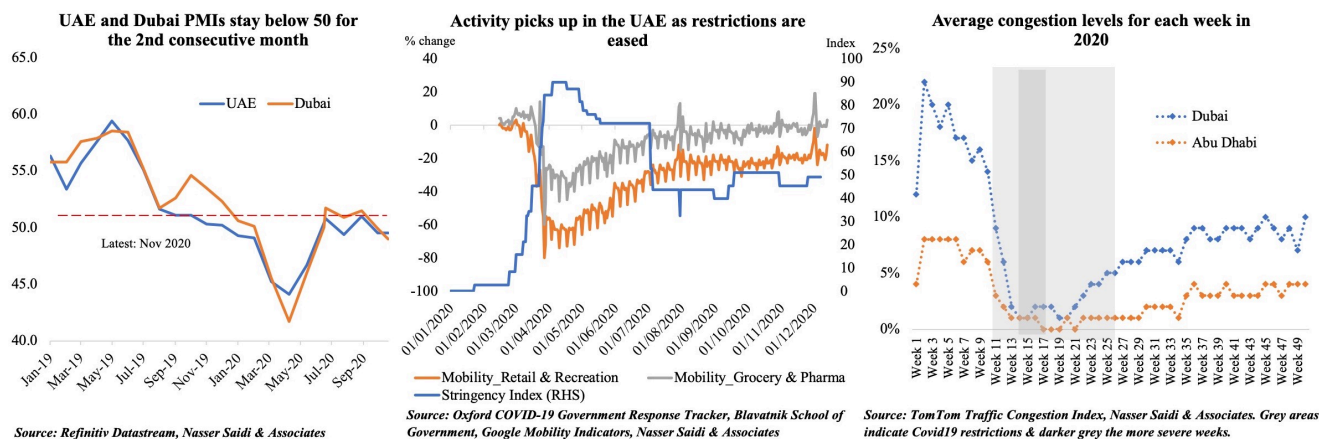
Chart 1: PMIs in UAE/ Dubai remain below-50 for the 2nd consecutive month; mobility & traffic pick up though demand remains weak

Though **UAE is one of the more “open” economies across the Arab world** (in the Covid19 era), the PMI readings in both UAE and Dubai stayed below the 50-mark for two consecutive months. Vaccine exuberance seems to have been overshadowed by the decline in business, as business expectations turn negative for first time ever in Dubai.

Demand weakness remains the main reason for the dip following an uptick after the initial lockdowns were lifted; with the recent surge in Covid19 cases in Europe & Asia, recovery has been slow in tourism and travel sector. **There is some signs of optimism**: flight bookings in the London-Dubai sector accelerated by 112% after the UAE-UK corridor was announced in early Nov; Israeli tourists are flocking to the city after the normalization of relations (& travel corridor) so much so that flydubai is now offering 4 Dubai-Tel Aviv flights daily.

UAE's recent liberalisation measures (rights of establishment, visas & immigration) add to the medium-term optimism and potential acceleration in the rollout of vaccines by next year offers hope for visitor arrivals in time for **Expo in Oct next year**. However, the **extent of business closures/ rising NPLs as an aftermath of the Covid19 crisis remains to be seen**.

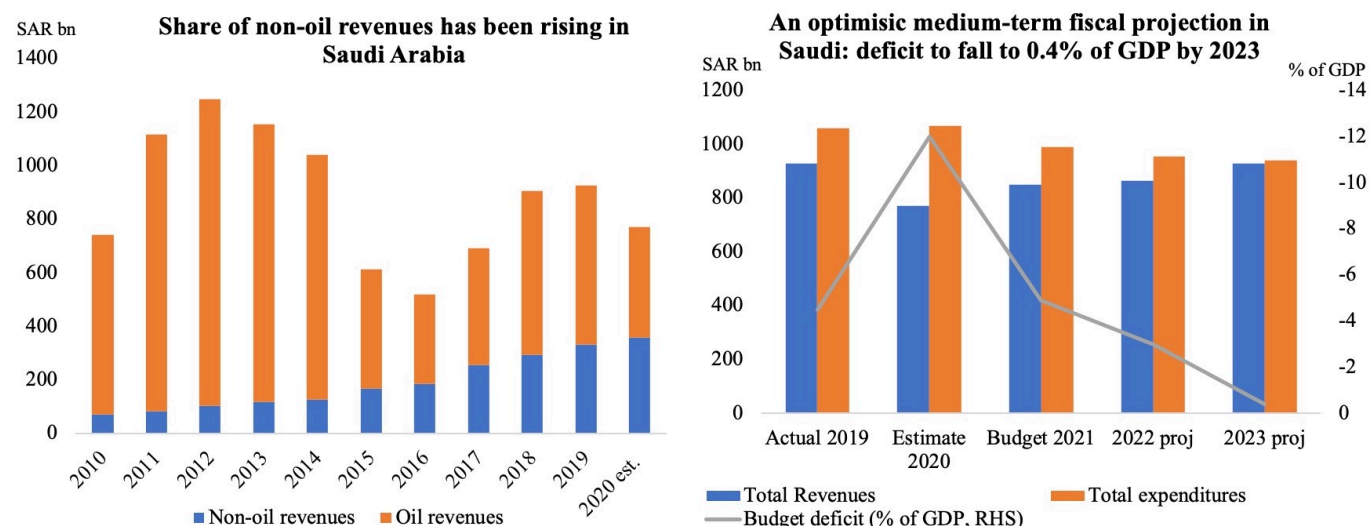
Mobility data from Google shows the **pace of recovery at grocery and pharmacy stores was much faster than that for the retail and recreation outlets** (restaurants, cafes, malls, theme parks etc); **congestion levels are still about 33% below 2019 levels**, though certain days in Nov-Dec showed positive readings (i.e. congestion this year at a higher rate than that day a year ago).



Saudi Arabia's plans to diversify away from oil needs to be accelerated

Global demand for oil is recovering but remains weak given the impact of Covid19 and ongoing lockdown restrictions, therefore, plans to diversify away from oil dependence will need to be accelerated. In this regard, **accelerated privatisation of state-owned assets is an essential structural reform**: it is promising that the government estimates the sale of government companies and assets to double to about SAR 30bn in 2021. This will also encourage private sector investment and attract capital inflows.

Is the Saudi target to achieve a balanced budget by 2023 realistic? It depends on how fast both the global economy, Asia/China (critical for the growth of oil and gas demand) and the Saudi economy can recover from the effects of Covid19, in addition to how the OPEC decision to raise production pans out. On the domestic front, rationalising spending by phasing out subsidies and lowering public sector employment/ wages will likely support the move towards a balanced budget.



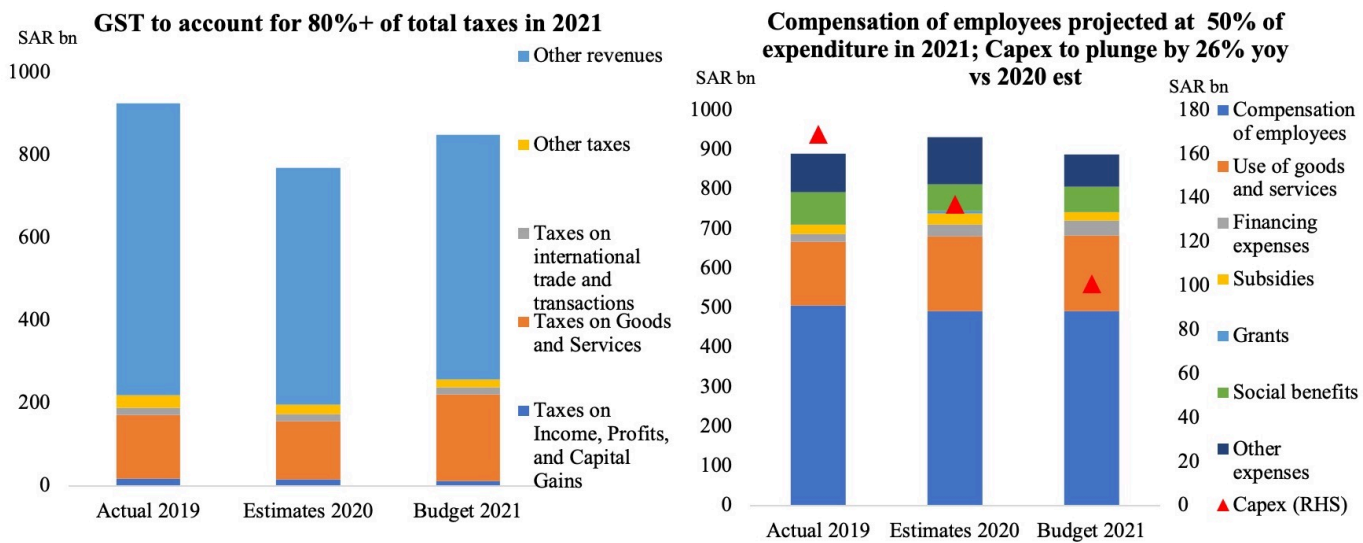
Source: Ministry of Finance, Saudi Arabia, Nasser Saidi & Associates

Chart 3: Saudi Arabia's tax revenue supported by VAT, while capex spending is scaled down

The estimated **rise in non-tax revenues** is likely due to a combination of the recent rise in oil prices (+33% since Nov) and OPEC's decision to resume oil production (plans to add 500k barrels a day to crude markets starting in Jan, with subsequent moves decided at monthly meetings). VAT hikes will contribute to the **uptick in tax revenues**, assuming there are no deferrals/ exemptions on taxes on goods & services next year. The **Aramco dividend** – of which 98% will accrue to the government – will also add to the government's coffers (though the allocation between PIF/ reserves at SAMA or MoF is not clear).

Though the government's capex spending has been significantly scaled down (-26.6%), it is a positive move, with the private sector being given more opportunities to execute

infrastructure and developments projects (the massive NEOM project and others) and PPP, thereby supporting private sector growth and job creation (outside of the public sector).



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

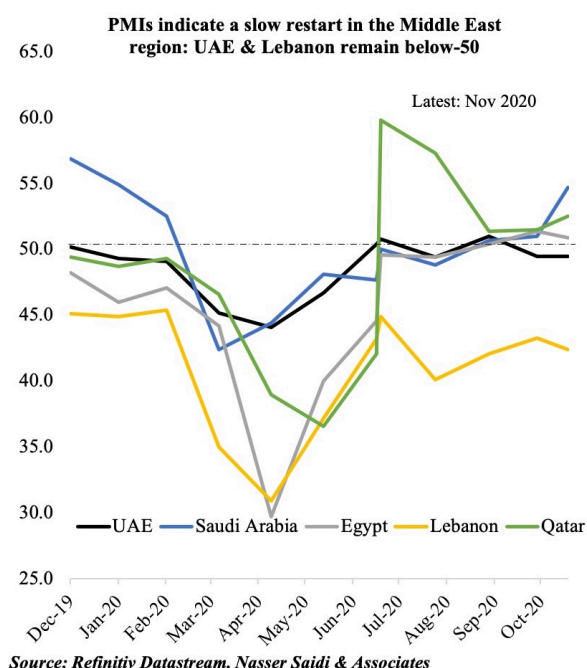
Download a PDF copy of this week's insight piece [here](#).

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.**



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 v

accines 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.

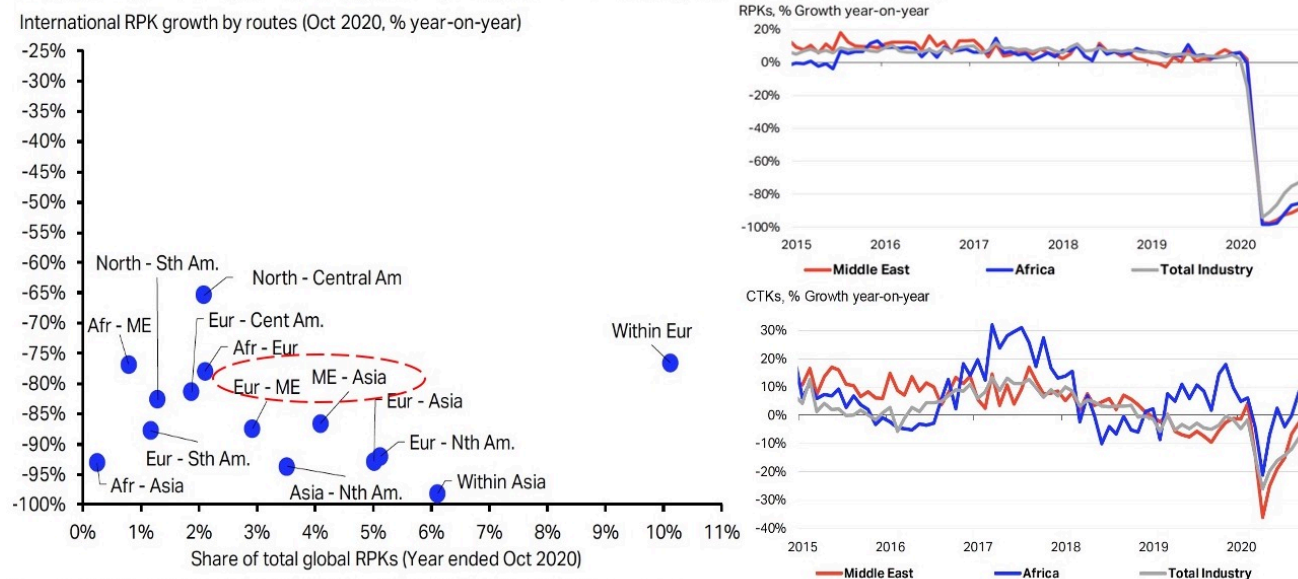
International travel markets remain weak: **Middle East airlines revenue passenger-kilometres (RPKs) were down by 86.7% and 88.2%** for international connectivity and long-haul traffic in Oct. This should benefit the airline industry in 2 ways: (a) in the near-term, the industry will **support distribution 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

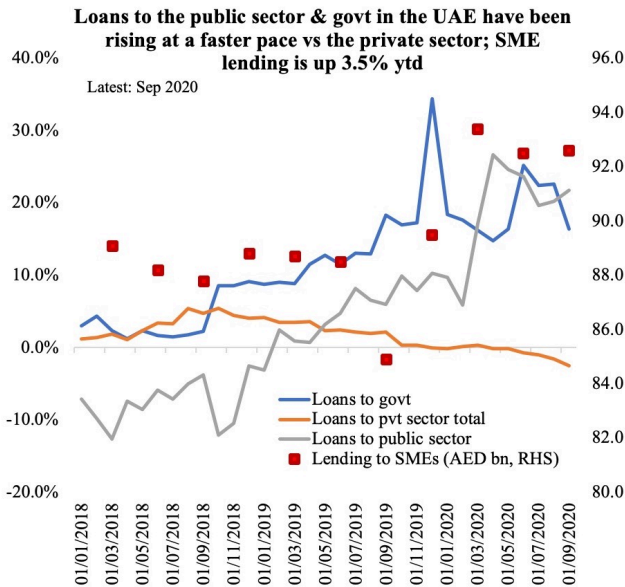


edit in the UAE

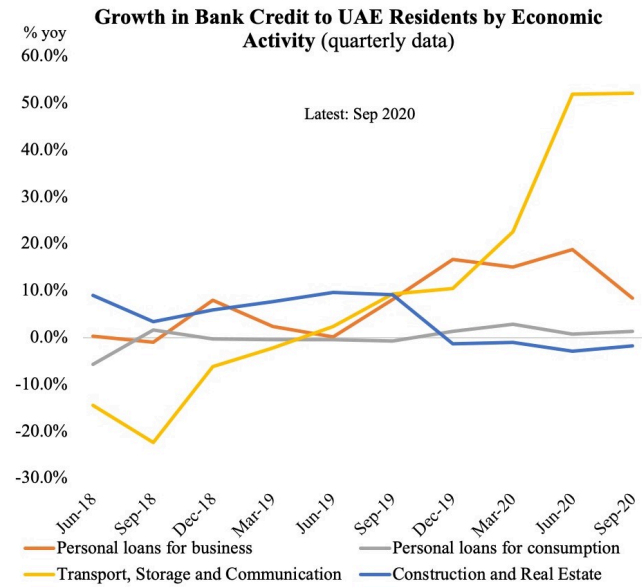
The UAE central bank extended its **Targeted Economic Support Scheme** (Tess) for another six months until June 30, 2021

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.

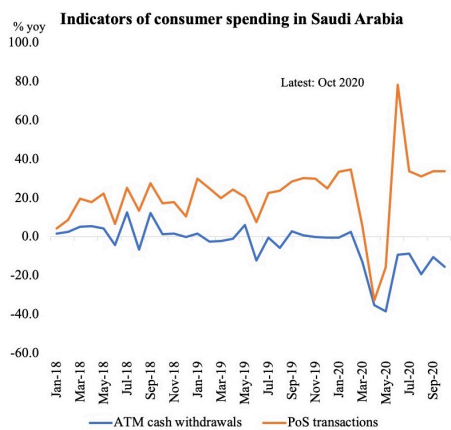


Indicators of economic activity in Saudi Arabia

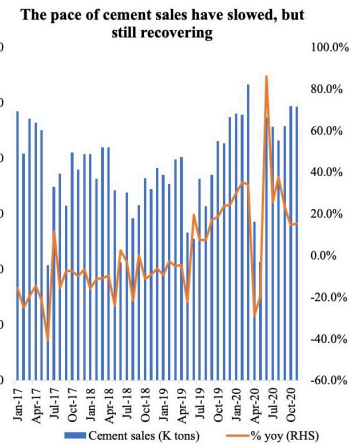
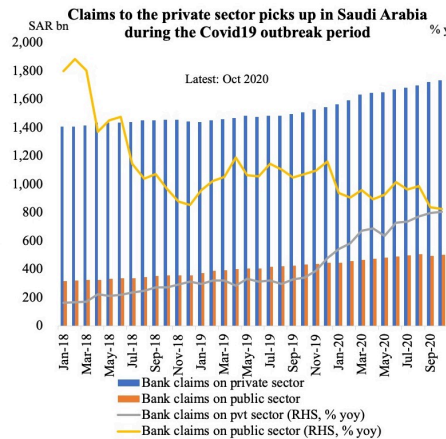
Among the proxy indicators for **consumer spending** – ATM withdrawals and PoS transactions – the latter is picking up faster, supported by transactions in food and beverage (+28.9% during Jan-Oct 2020) and restaurants and cafes (+68.9%); in comparison, transactions at hotels are down by 33%. ATM transactions 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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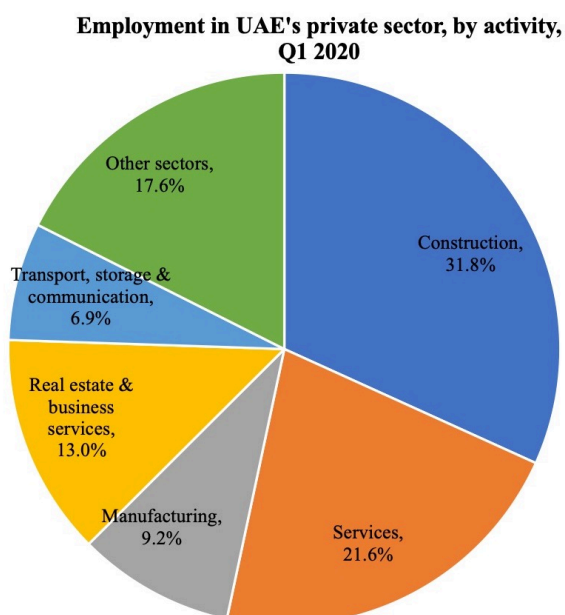
Weekly Insights 19 Nov 2020: Knowledge-based human capital to drive UAE's diversification efforts

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

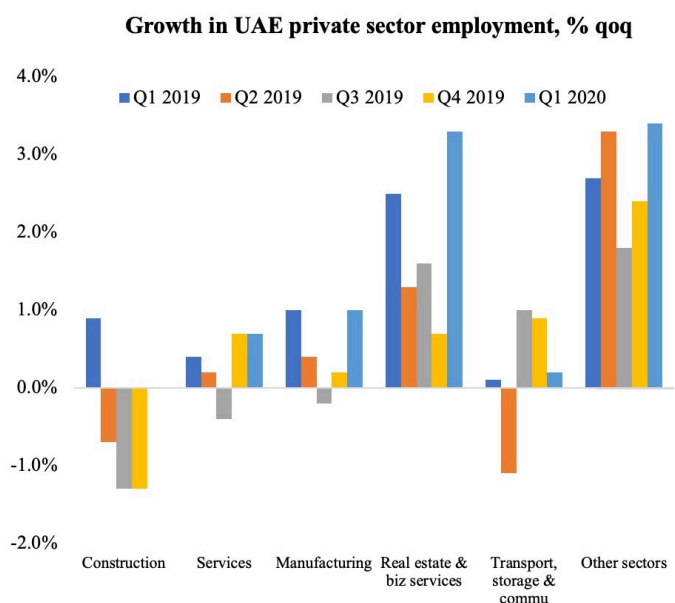
Knowledge-based human capital to drive the next phase of UAE's diversification efforts

The UAE this week announced an expansion of its current 10-year golden visa to include medical doctors, scientists and data experts as well as PhD holders, in a bid to attract professionals to the UAE. The liberalisation comes on the heels of visas for retirees and options for remote working in Dubai: these provide added incentives for expatriates to remain, invest and contribute further to the country's

development. Currently the UAE residential status for expatriates is linked to an employer, and in the event of job loss, the person has 30 days to either find a new job or secure a new visa. With the backdrop of Covid19 and related job losses – UAE's PMI Employment sub-index fell to its lowest in over 11 years and the latest November reading falling for the 10th consecutive month – many long-term residents were forced to return to their home countries, taking their savings back with them generating capital outflows from the economy. While UAE does not release monthly data on employment, the central bank's quarterly report offers a glimpse into the recent trend. Construction and services were the largest sectors offering employment within the UAE's private sector. This is an incomplete picture, as the database on private sector employment excludes the Free Zone activities. For example, the DIFC is home to 2584 firms and over 25k employees while the DMCC last reported 17.5k member companies in the free zone. In terms of pace of growth (in quarter-on-quarter terms), construction has been registering a decline since Q2 last year, though other sectors posted upticks in Q1 (prior to Covid19-related lockdowns). No data is yet available for that period, but Embassy estimates suggest 400k+ (net) and 60k persons having returned to India and Pakistan respectively during the past months.

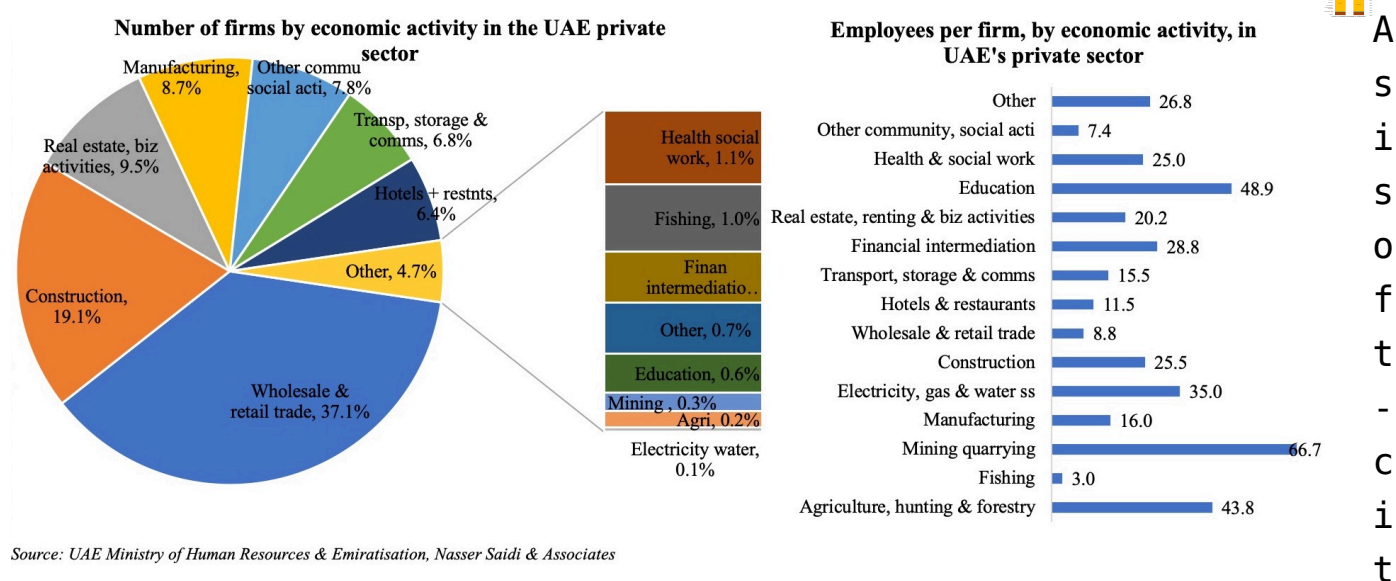


Source: UAE Central Bank Quarterly Report Q1 2020, Nasser Saidi & Associates



ange signals the UAE's greater economic diversification

The UAE Ministry of Human Resources and Emiratisation also offers additional details of number of establishments in the country (unfortunately, also excluding free zones). Close to 50% of the firms (as of Jan 2020) were operating in the sectors most affected by Covid19: an update of this data is likely to show a significant difference in the composition. Interestingly, if we consider the number of employees per firm, mining & quarrying (the oil sector) tops the list – in contrast to the capital-intensive nature of the sector.

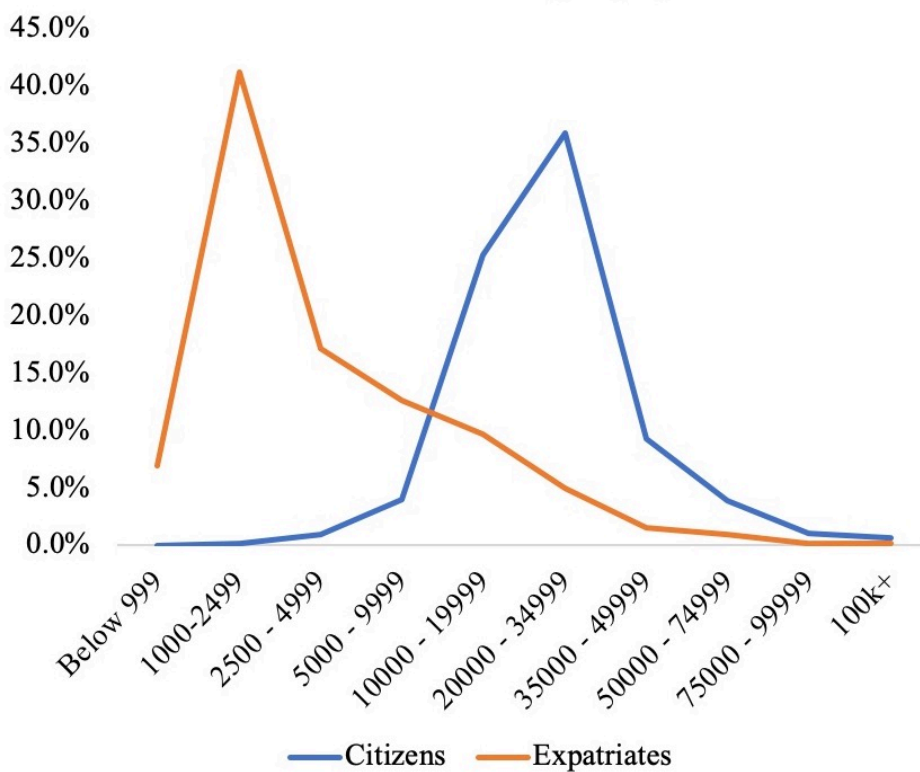


ed, there is a preference to work in the public sector: 78.2% of UAE citizens surveyed in the Labour Force Survey 2019[11] declared as working with either the federal or local government (versus just 12% in the private sector). However, comparing this data with the 2009 survey, the share of the private sector has increased from 58% to 70%- a positive move, and underscoring the UAE's diversification efforts. By economic activity, a few sectors have seen an increase in their share: manufacturing (9.2% in 2019 vs 7.7% in 2009), construction (17.5% vs 12.3%), hotels and restaurants (5.4% vs 4%). Real estate sector has seen a significant drop during the decade, not unsurprising given the boom prior to 2010; but a slight dip in financial and insurance activities is surprising (2.5% in 2019 vs 3.2% in 2009).

Women are transforming the labour force: more educated but facing a glass ceiling

Another interesting insight from the Labour Force Survey offers a morale booster for women – women are relatively more educated than their male counterparts (about 50% of employed local women have a bachelor's degree, and about 60% have a bachelor's and above; the comparable numbers for expat women are at 33% and 42.8% respectively); a high proportion of women work as professionals and managers (28.5% among female expats, 45% of female citizens). It is time that this translates into having more women on boards and at top management levels in the private sector [\[2\]](#).

Wage distribution in the UAE: a yawning gap between the local and expat population



Source: Labour Force Survey 2019, FCSA, Nasser Saidi & Associates

The Survey also confirms the disparity in wages between local and expat population: more than one-third of Emirati respondents disclosed receiving monthly wages between AED 20-35k (versus just 5% of expats in the same income bracket). This brings to the forefront two issues:

(a) Private-public sector wage gap that deters citizens from joining the private sector. Though wages by sector breakdown is not available (publicly), it is safe to assume relatively

higher salaries in the government sector where close to three-fourths of citizens work. Public sector remains oversaturated, and with higher wages and relatively better benefits, highly educated young people prefer to remain unemployed till they get a public sector job – doing little to help the private sector.

(b) The need to attract high-skilled professionals to support private sector activity. This needs to be carefully addressed: while attracting foreign talent to take up such jobs in the near- to medium-term is necessary, it is critical to reform the education sector and invest in building a knowledge economy. There is a persistent skill mismatch and low educational quality in the country compared to market requirements. Though spending per capita is high and student-teacher ratios are comparable to OECD levels, the outcomes are not strong: the PISA 2018 scores, for example, reveal that UAE students are placed 50th in math, 49th in science, and 46th in reading. Radical modernisation of education curricula is essential for creating a 21st century able workforce. It is also time to invest in curricula that support job-readiness, 'Digital Education-for-Digital Employment', early exposure to the workplace (e.g. summer internships and labour policies that facilitate such changes), vocational and on-the-job training. Increasingly the focus should be to invest in and promote STEM (Science, Technology, Engineering and Mathematics) – especially given the official policy focus on innovation and a shift to the digital e-economy and -services in the UAE and the region.

What next? The recent structural reform moves (related to labour) will help remove distortions in the labour market, attract high-skilled professionals and help UAE to diversify into higher value-added and more complex economic activities, while also supporting domestic investment (including in the real estate sector). This will happen alongside a reduction in outflow of remittances, which in turn will boost the balance of payments: last year, UAE expatriates sent \$44.9bn in outward remittances in 2019, comparable to the value of oil

exports at \$49.64bn[\[3\]](#). It is important in this regard to accelerate capital market development: long-term residents will be keen to invest in medium- and long-term financial instruments, participate in a mortgage market and given an opportunity, also invest in startups and growth companies.

[\[1\]](#) This is published by the UAE's Federal Competitiveness and Statistics Authority.

[\[2\]](#) A KPMG report on Female Leaders Outlook identified that 94% of CEOs that participated from the UAE were male. The 2019 UAE report includes input from 50 UAE-based women leaders, up from 29 in 2018.

[\[3\]](#) Data from OPEC's Annual Statistics Bulletin.

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

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

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

Chart 1: PMIs in the Middle East/ GCC

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

continue as part of overall cost-cutting measures & business confidence remains weak.

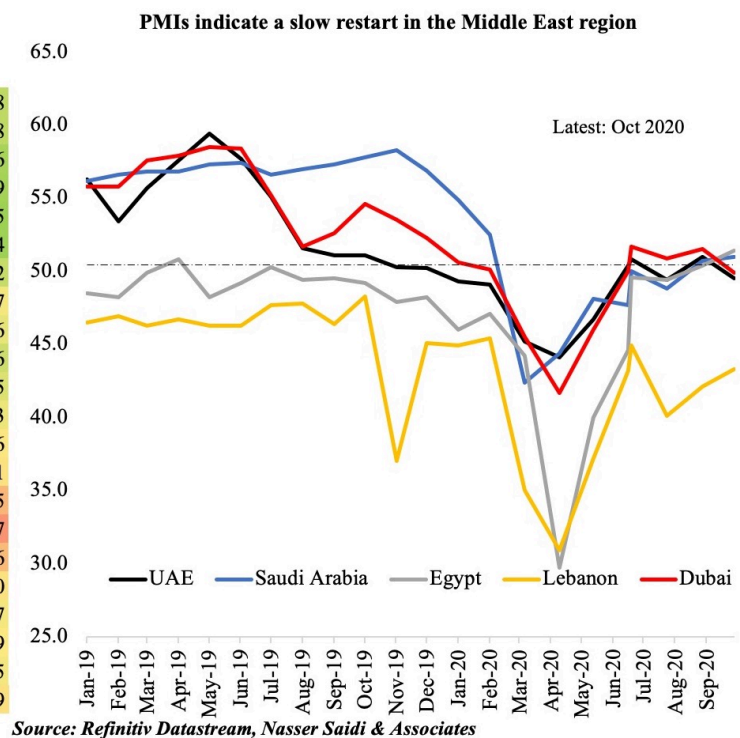
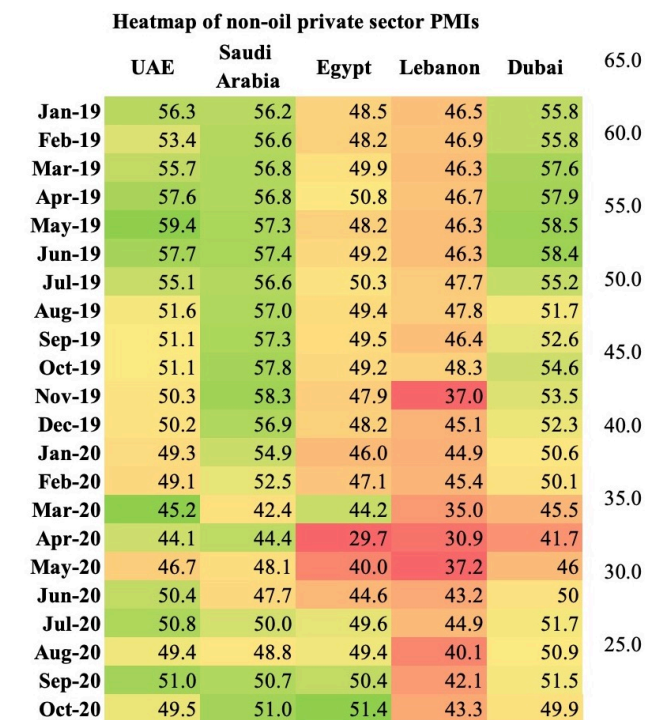


Chart 2: String

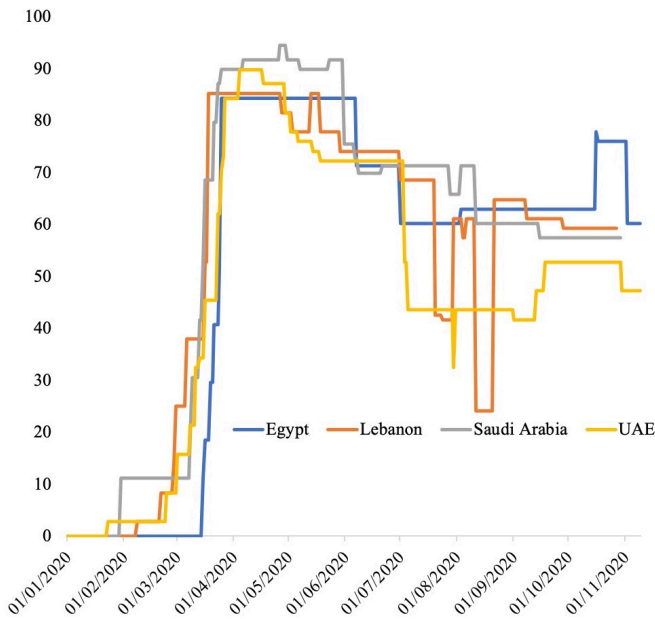
ency Index & Mobility

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

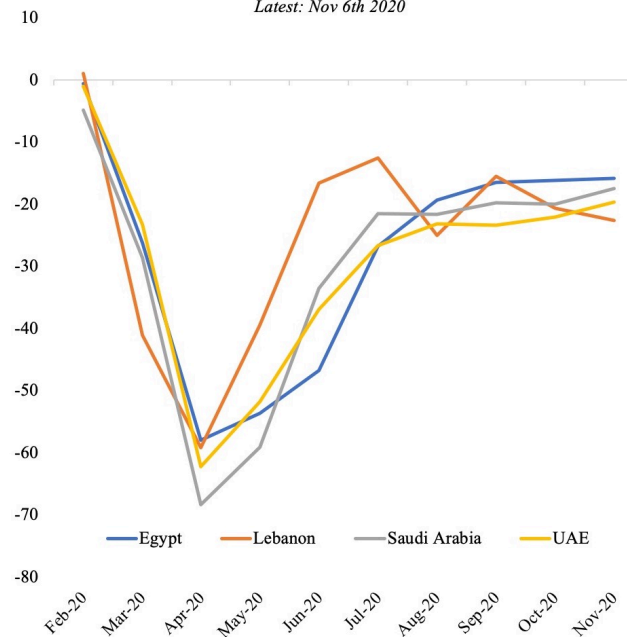
However, when it comes to mobility, the UAE seems to be a few steps behind its regional peers. This seems to be in line with a recent McKinsey finding that countries focused on keeping virus spread near zero witnessed their economies moving faster. So, ending lockdowns and reopening the country is not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

Covid19 Government Response Stringency Index

Latest: Nov 10, 2020

**Retail & Recreation Mobility (monthly averages)**

Latest: Nov 6th 2020



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, Google Mobility Indicators, Nasser Saidi & Associates

Note: The Government Response Stringency Index simply records the number and strictness of government policies, not effectiveness of the response

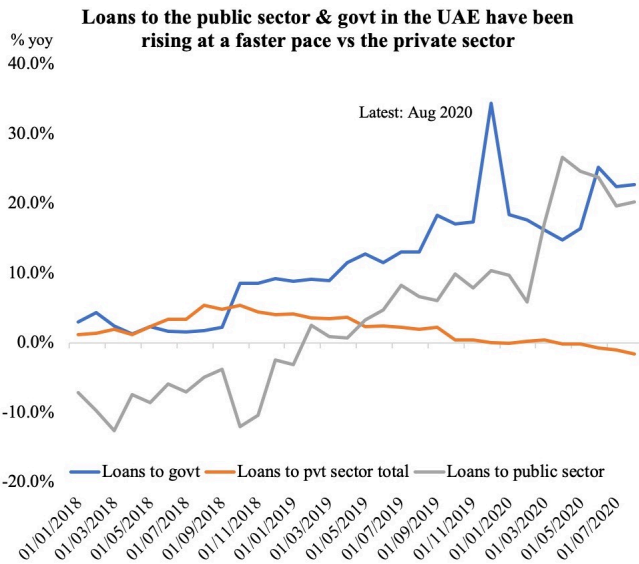
Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

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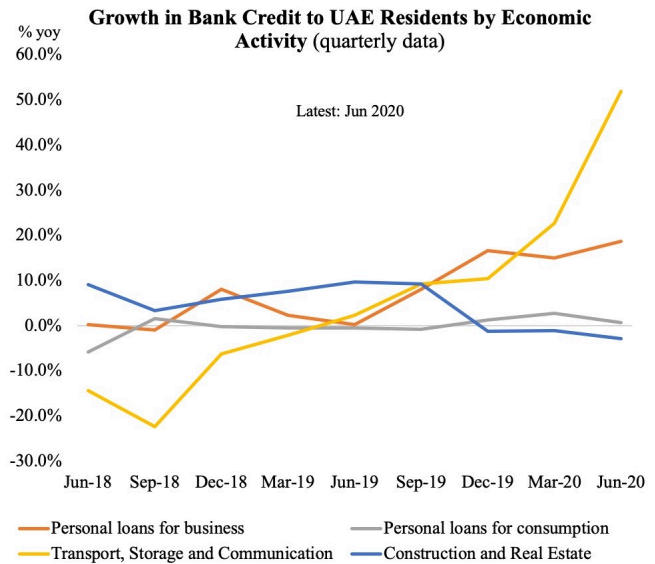
tors of economic activity in the UAE

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

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



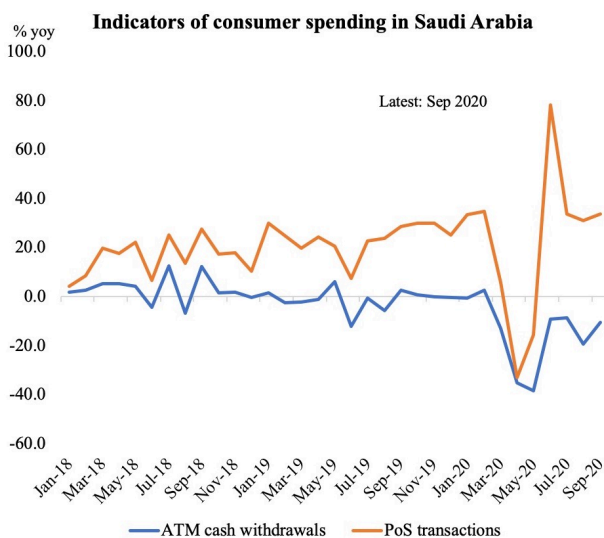
Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.



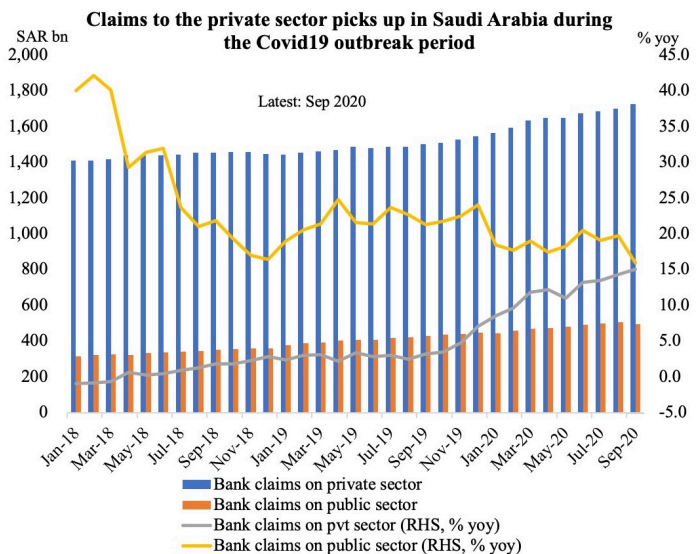
icators of economic activity in Saudi Arabia

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

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



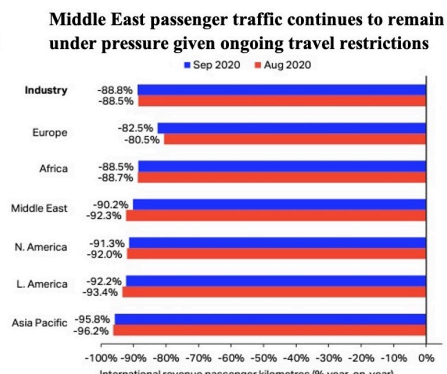
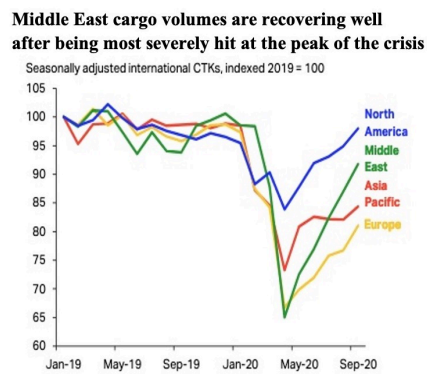
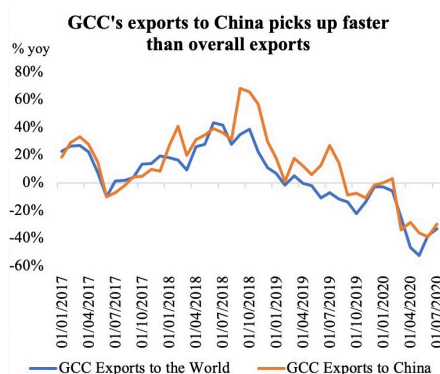
Source: SAMA, Refinitiv Eikon, Nasser Saidi & Associates.



kages with the global economy

In linkages with the global economy, we consider

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



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

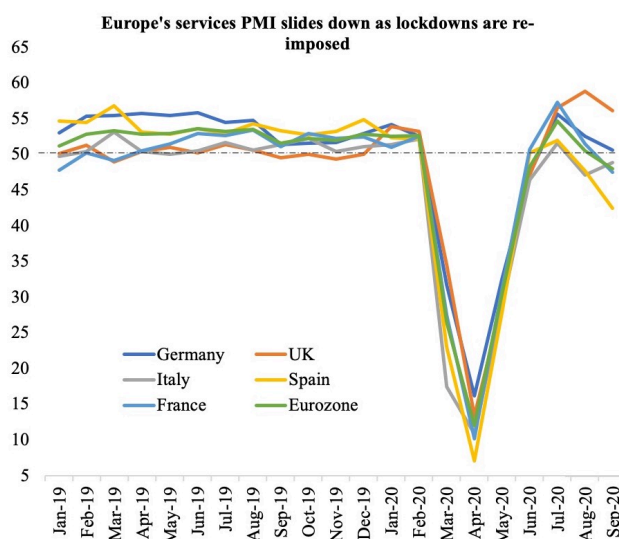
Download a PDF copy of this week's economic commentary [here](#).

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

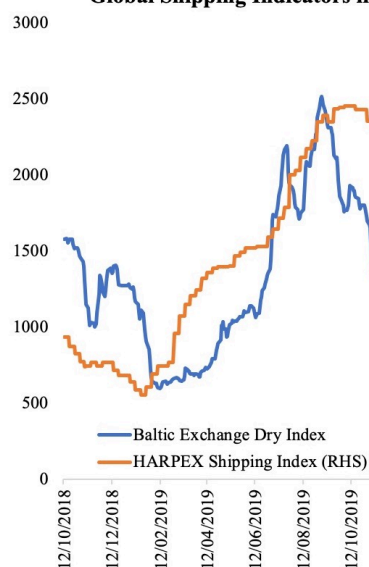


Source: Refinitiv Datastream, Nasser Saidi & Associates

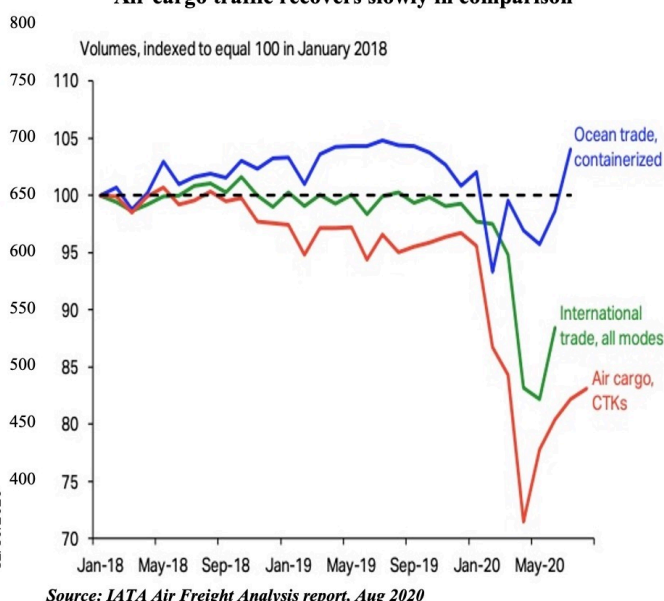
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facturing PMI readings have shown an increase in new export orders, supported by a pickup in demand. Global shipping indicators have improved during the summer, with both the Baltic Exchange Dry Index (tracks rates for ships carrying dry bulk commodities)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



Air cargo traffic recovers slowly in comparison



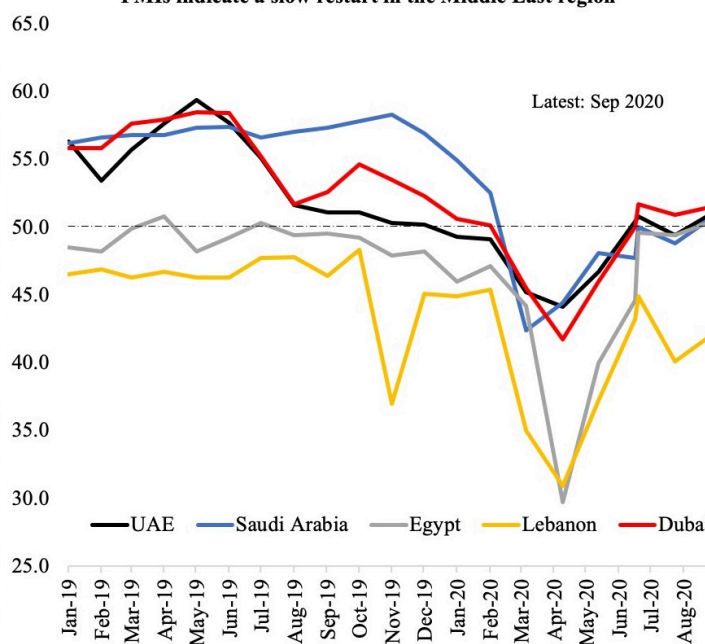
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Heatmap of non-oil private sector PMIs

	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



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.

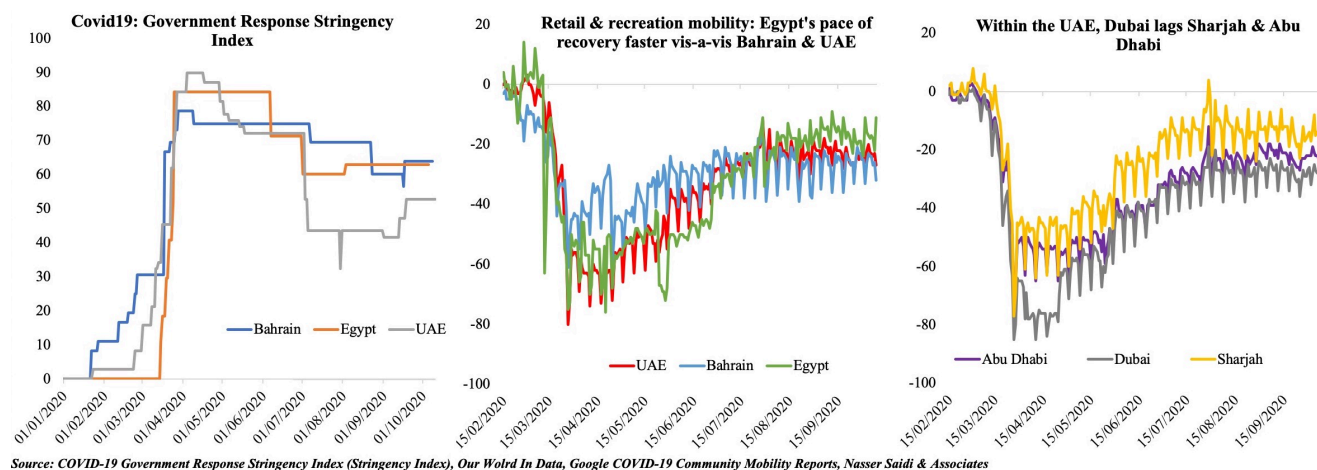
Job cuts are still occurring, as businesses adjust to reduce operating costs. The ILO estimates that Arab states witnessed a 2.3% drop in working hour losses in Q1 this year, followed

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 brought 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.



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ility 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 14 Sep 2020: A Balance Act as UAE remains open amid Covid19 surge

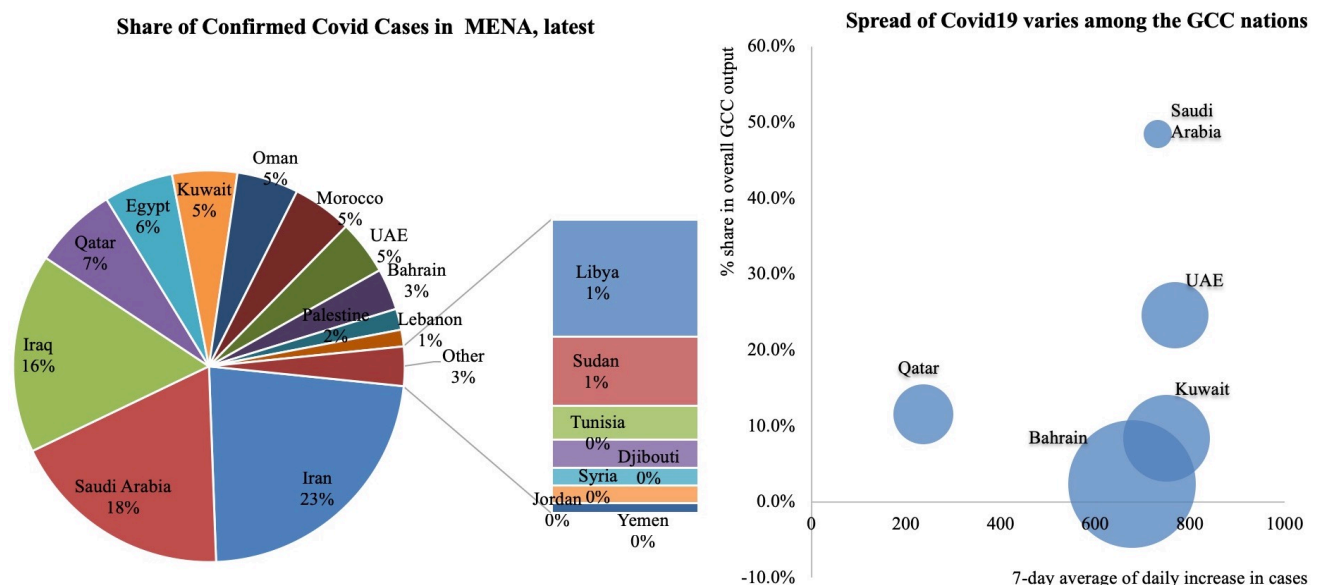
Charts of the Week: This is a crucial period for GCC, including the UAE. How can one decide on the balance between reopening the economy, supporting economic activity, while also containing the spread of Covid19? What policy measures should top the list to support businesses and consumers?

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.



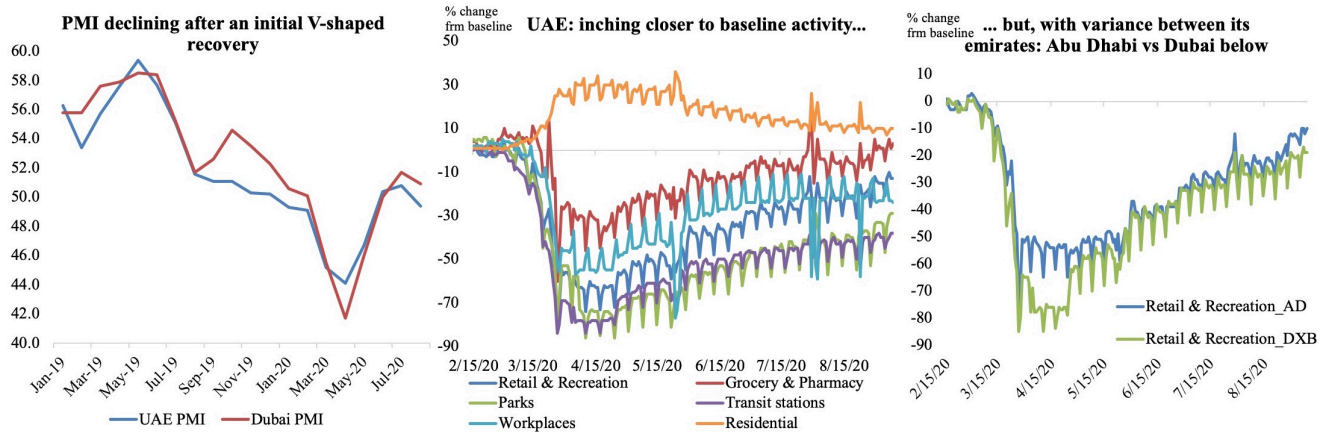
Source: Worldometers, Our World in Data, Nasser Saidi & Associates. The size of the bubbles on the RHS chart denotes the 7-day average of daily increase in cases.

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.

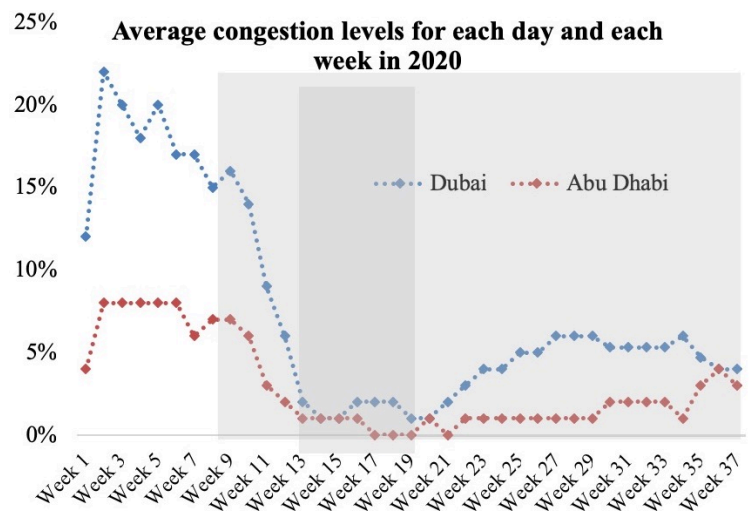
To compensate from lower oil prices and lower non-oil fiscal revenues, borrowing from international capital markets has gathered steam: so far this year, Abu Dhabi issued a USD 5bn multi-tranche bond (that included a 50-year tranche – the longest term for a bond issued by a GCC sovereign issuer) after 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.

th 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 6th 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 darkest 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 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

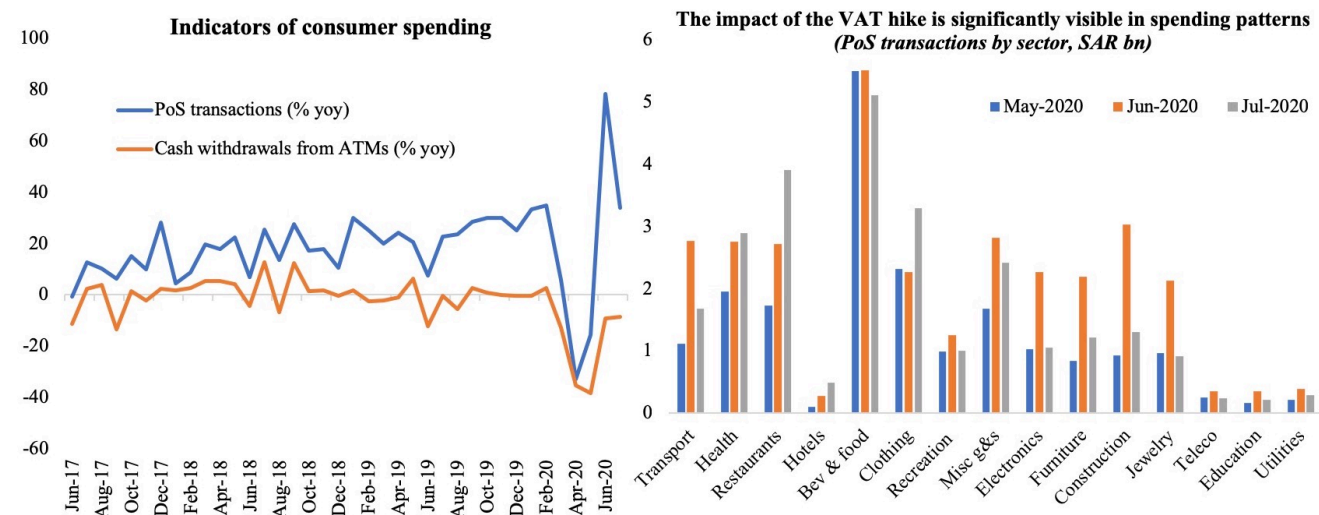
	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8	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.

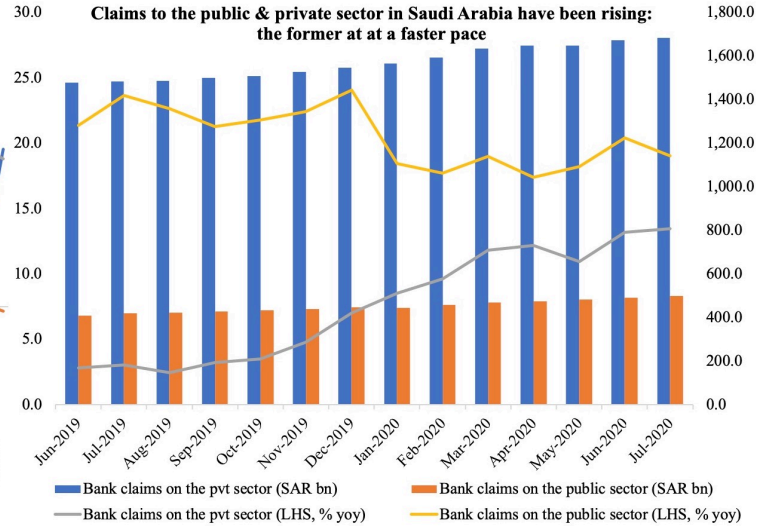
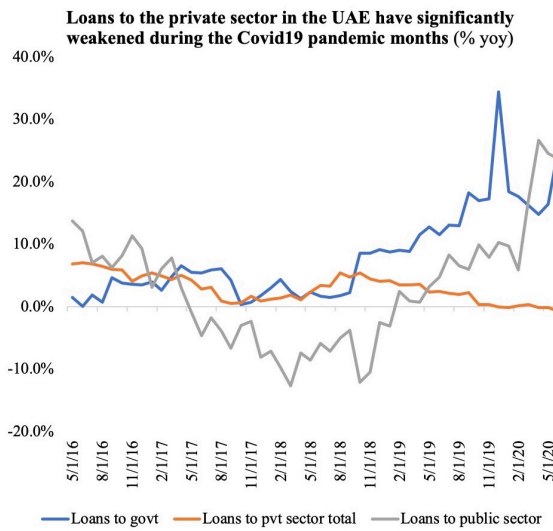
2. Saudi Arabia impacted by the VAT hike: how has consumer spending fared?



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.

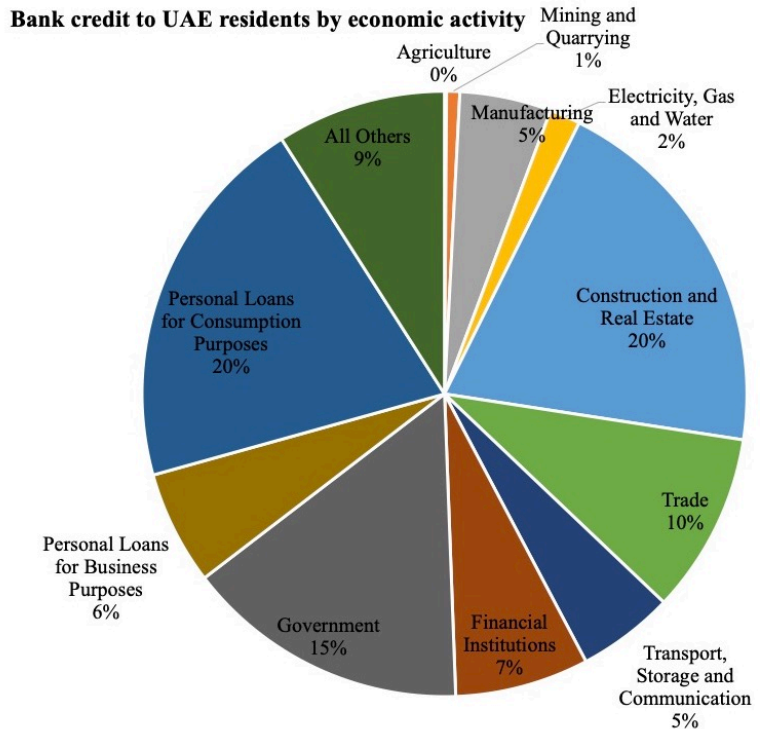
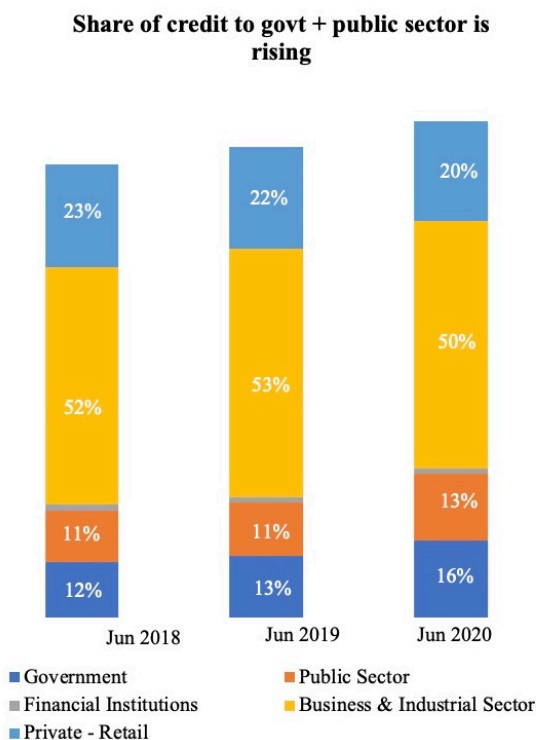
3. Is private sector activity supported by credit disbursement? A tale of two nations



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

di 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, 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.

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Weekly Insights 10 Aug 2020: Lebanon's way forward, PMIs & Mobility, Saudi monetary statistics, Arab FDI

The Beirut blast and its recovery/ reconstruction dominate news in the Middle East. Our take on the path for Lebanon's economic recovery is part of this Weekly Insight edition.

*Given the scheduled global PMI releases last week, we take a close look at the region's PMIs and Mobility indicators in parallel. Also covered are the latest **monetary indicators from Saudi Arabia and FDI flows in the Arab region (Q1 2020).***

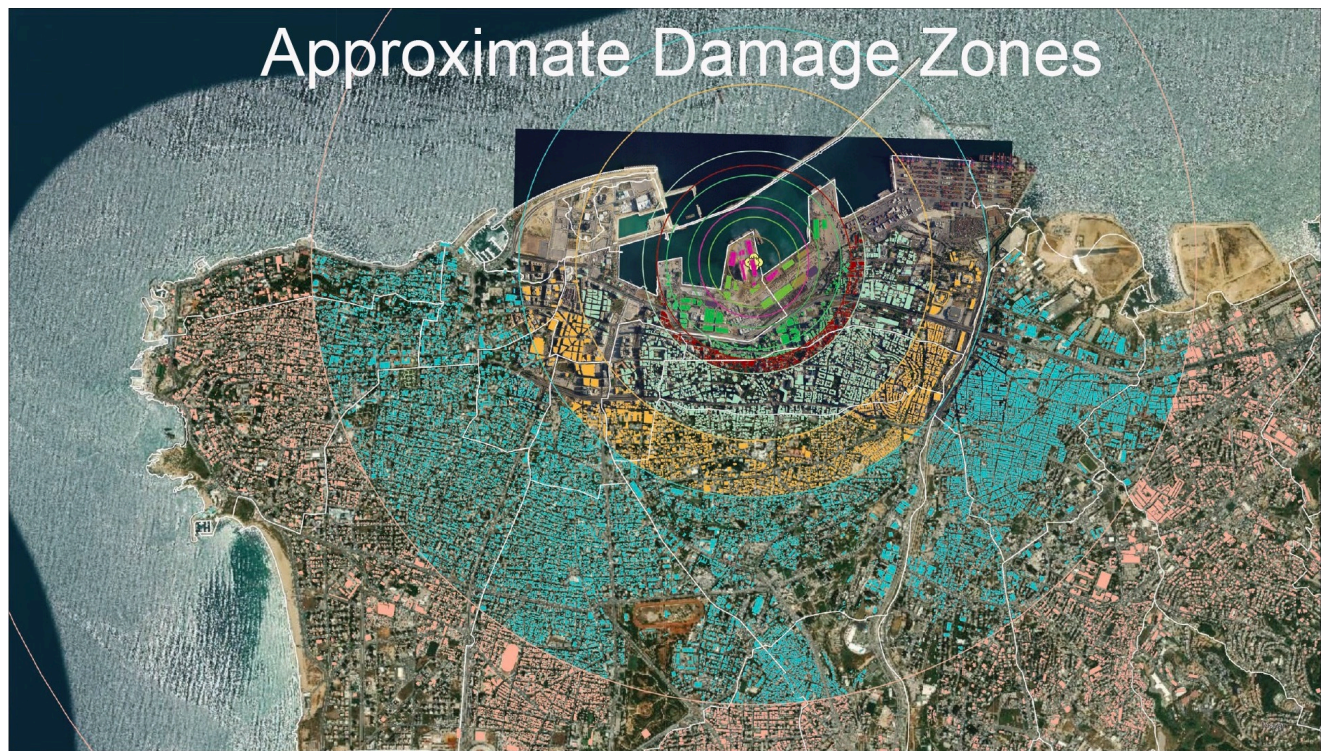
1. Beirut blasts and Lebanon's way forward

The Beirut port explosion on Aug 4th – which left at least 158 people dead, 6000 injured and 300k homeless – was possibly the last straw for the people already immiserated by an economic, banking & financial meltdown (since Oct 2019) alongside dealing with the Covid19 outbreak. The explosion led to calls for resignation of the government (three ministers have resigned, including after the blast, citing failure to reform), with demonstrations gaining traction over the weekend. In addition to the loss of human lives and destruction of buildings (homes and businesses), it is critical to understand the **importance of the ports**: 80% of the country's food imports come through the port, in addition to medical supplies as well as oil and gas. The silos have been demolished (which hold 2-3 months supplies of grain), leading to shortages of food (& higher prices – food inflation had surged by 108.9% in H1 2020 and by 250% in Jun 2020); expedited imports of food and fuel will also be constrained by damaged logistics (transport and warehouses). Additional cuts in electricity (given the impact on fuel supplies) will negatively affect hospitals (that are fighting the Covid19 outbreak in addition to normal operations) and businesses.

Damage to infrastructure (port, transport, logistics and related facilities), housing and businesses is extensive. A detailed survey will be required to assess the total costs of reconstruction but it is clear that Lebanon does not have the fiscal space and will require international support. The destruction will further depress economic activity through a negative impact on consumption, investment and export activity. We forecast an overall reduction in real GDP by some 30% (Great Depression levels) along with continuing and

potentially accelerating inflation. Beirut's governor stated (without presenting evidence or survey estimates) that the repair bill for the capital alone will cost up to USD 5bn while overall cost of damages is estimated at around USD 15bn. The Cabinet's approval of an exceptional allocation of LBP 100bn [*or USD 26.3mn at the central bank's set rate of LBP 3,800 to the USD at money transfer firms*] to deal with the crisis will fall way short of requirements. **International donors pledged EUR 252.7mn for humanitarian aid at the Paris conference yesterday** held to raise emergency relief for Lebanon. President Macron during his visit to the location stated that he would "propose a new political pact" to all political forces in Lebanon, also assuring that aid would "not go to corrupt hands".

The way forward is to undertake a comprehensive series of macroeconomic reforms, including at various sectoral levels – ranging from reforms of the power sector to the banking sector, to exchange rate reform alongside an active intent to increase transparency and stamp out corruption. So far, there has been a refusal by the authorities to bite the bullet and undertake reforms. The donor conference yesterday (as well the CEDRE pledges in 2018) are promising: but the aid should only be released within the umbrella of a broader IMF programme – with clear conditionalities of reform (and potentially bringing in independent 'technocrats' to form a new government). **The country is in urgent need of an equivalent of a Marshall Plan (size of USD 25-30bn and growing), given cumulative losses owing to lack of reforms so far.**



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2. PMI Activity recovers across the globe, including in the Middle East

	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	NA

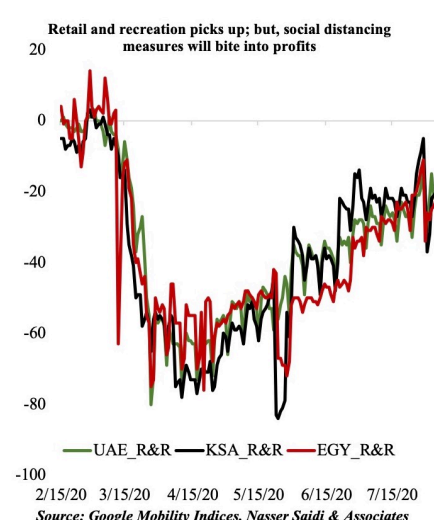
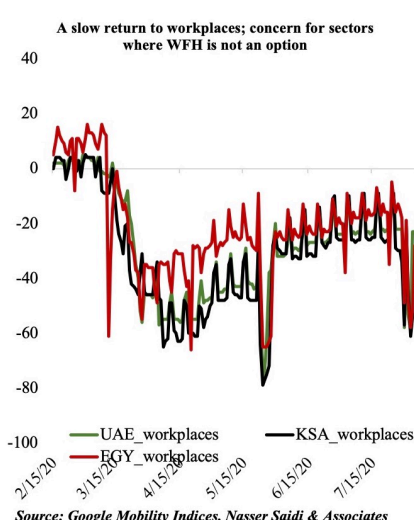
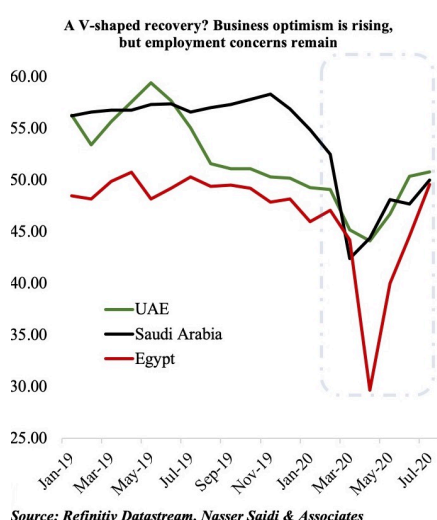
Source: Refinitiv Datastream, Nasser Saidi & Associates

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turing PMIs mostly ticked up, given rebounds in both output and new orders. India was one of the nations reporting a lower PMI in Jul: unsurprising given the fast pace of Covid19

confirmed cases – it took only 9 days for India to go from 1.5mn to 2mn – and restricted lockdowns in parts of the country. In spite of the V-shaped recovery in PMI, all is not smooth: restrictions have not been eased fully, demand is largely domestic-driven, and supply chains issues remain – average vendor delivery times lengthened for the 12th consecutive month for global manufacturing PMI. A resurgence in cases/ 2nd and 3rd waves will only add to the burden.

3. What can we learn from the latest PMI & Mobility indicators?



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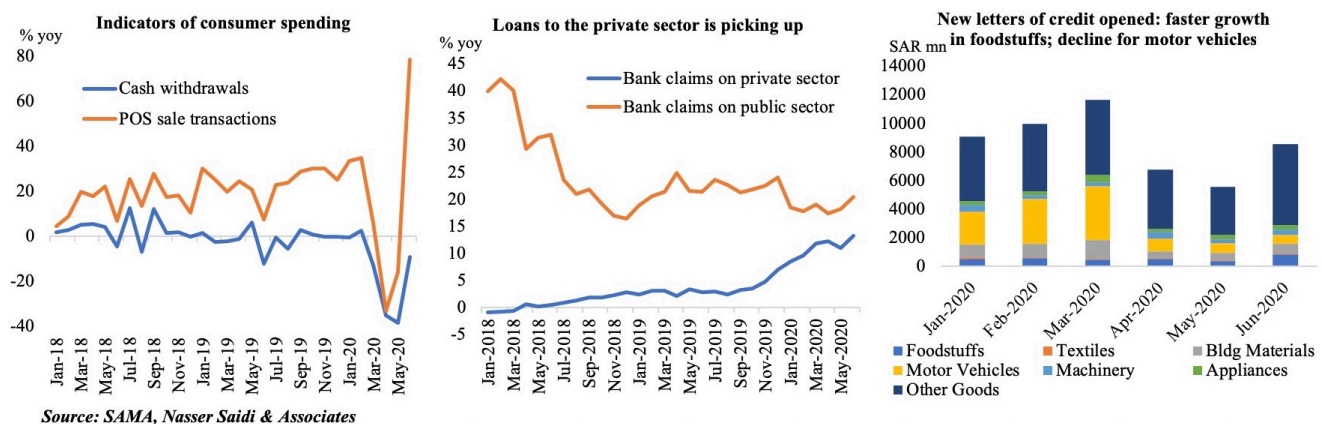
region indicate a sharp V-shaped recovery following the lockdown period, but is it too much optimism from those surveyed? Order books have improved, though export orders remain weak, indicating domestic demand driving the rise. This is reflected in the **retail and recreation segment** of the Google Mobility indicators: with less stringent restrictions in place, movements were higher in the days running up to the Eid Al Adha holidays (across the three nations) while in Saudi Arabia, a similar trend was also visible towards the last week of June, ahead of Jul's hike in VAT. For firms in the retail and recreation sector, social distancing measures are likely to eat into the firms' profits (if any) and the road to recovery is likely to be slow. In spite of marketing efforts, it will be affected by spending capacities, salary reductions/cuts in allowances/ job losses & return of expat labour to

their home countries (e.g. ~500k Indians have registered for repatriation flights from the UAE).

Workplace mobility is still around 20% below the baseline numbers (excluding Eid holidays): widespread availability of telework technology and the feasibility of performing work remotely has kept firms operational. However, those sectors where work from home is not the ideal option (think retail, tourism, hospitality), the learning curve has been steep – e.g. retail firms' rolling out previously unavailable online options.

Bloomberg reported that while working from home, workdays were longer by 48.5 minutes, with 1.4 more emails sent to colleagues per day and an 8% increase in emails sent after hours (questioning the work-life balance and happiness quotient) though offering more flexible work hours (and potentially higher productivity levels). The UAE government's announcement of **flexible working hours** for its staff is a good move to raise productivity, reduce peak hour traffic and can act as a precursor for the private sector to emulate. The obvious next step is providing **the option for employees to work from home**, when possible – think of either shorter work hours (in the office) daily or working from home a full workday during the week.

4. Saudi Arabia: monetary indicators



y statistics for Jun 2020 in Saudi Arabia reinforce the trends from the Mobility indicators in the previous panel. Both

indicators of consumer spending – cash withdrawals and point-of-sale (POS) transactions have ticked up in Jun, ahead of the hike in VAT from July 1st. **Loans to the private sector is picking up**, thanks to the various measures in place to support the economy as it tackles the Covid19 outbreak. Initiatives like the provision of concessional financing for SMEs and loan guarantee programme likely supported the faster pace of growth. The Corporate Sustainability Programme launched by the Ministry of Finance mid-Jul to support the private sector will also provide support going forward. The final chart tracks **new letters of credit opened**, by sector – an insight into trade finance. A letter of credit is a financial instrument, usually issued by a bank, which guarantees the seller will receive payment for goods sold to a foreign customer. The Covid19 outbreak put the brakes on activity from Apr-May. Recovery is visible in June's data, but the difference is stark: LoCs opened for foodstuffs has been rising faster than say motor vehicles (accounted for 25.6% of total in Jan 2020 vs 7.2% in Jun). It is time to **switch trade finance to blockchain technology** – which will make trade faster, safer, and simpler (elimination of paperwork and associated costs, increased transparency and prevention of fraud)!

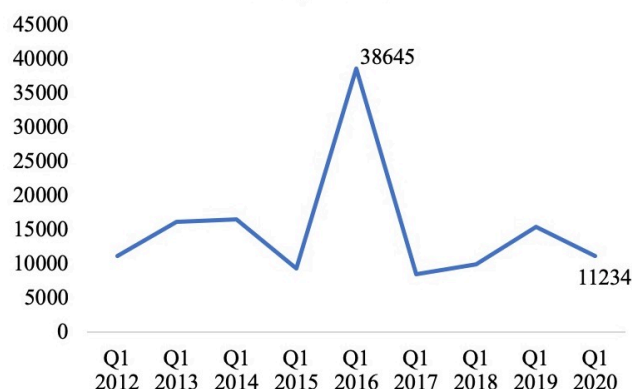
5. FDI flows in the Arab region

In Q1 2020, the number of new FDI projects in the Arab region contracted by 30% yoy to 185 projects in Q1 2020, with investments down by 27.3% to USD 11.2bn while job creation slipped by 23% to 21.3k, according to the Arab Investment & Export Credit Guarantee Corporation (Dhaman). GCC's share of investments in the Arab region show that Saudi Arabia and UAE together account for 86.6% of the total in Q1 this year. **FDI flows are likely to slow in the region this year**, mirroring global trends: UNCTAD estimates global FDI inflows to decline by USD 1.1trn this year. The slowdown of implementation of ongoing projects will hurt prospects in the region as well as potential shelving of projects in the near- to medium-term –

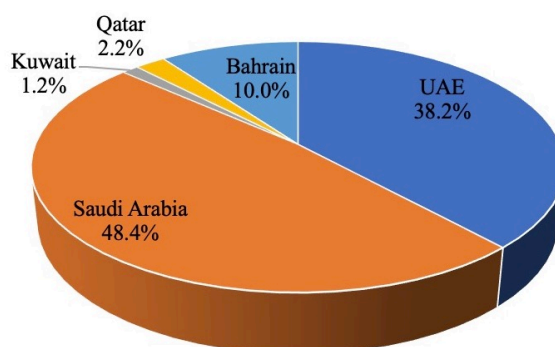
underscoring the **need to diversify sectors into which FDI flows** (oil and gas & real estate).

Egypt, UAE and Saudi Arabia together accounted for two-thirds of the FDI inflows into the Arab region during the period 2015-2019 though in terms of number of projects, UAE topped the list (41.4% of the total). The top two sectors attracting investments – coal, oil and gas and real estate – together account for almost half of the total investments (from just 7% of total number of projects). The largest number of FDI projects recorded during 2015-19 were in business services (13%) and financial services (11%) – but its share of investments was only 2% each.

Investments in FDI projects in Arab nations, Q1 2020, USD mn



GCC's share of FDI investments into Arab nations



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Top 5 recipients of FDI in the Arab region during 2015-2019, by number of projects & investment

	Investment (USD mn)	% of total	Number of projects	% of total
Egypt	124,478	35.2	476	10.9
UAE	53,619	15.2	1814	41.4
Saudi Arabia	53,079	15.0	513	11.7
Oman	32,575	9.2	235	5.4
Morocco	22,160	6.3	432	9.9

Top 5 sectors attracting FDI in the Arab region during 2015-2019, by number of projects & investment

	Investment (USD mn)	% of total	Number of projects	% of total
Coal, oil and gas	86,965	25.0	116	3.0
Real estate	83,102	24.0	180	4.0
Chemicals	28,816	8.0	107	2.0
Renewable energy	26,355	7.0	127	3.0
Transportation & st	18,477	5.0	235	5.0

Source: Arab Investment & Export Credit Guarantee Corporation (Dhahran), Nasser Saidi & Associates