“Lebanon’s Meltdown: Failed State or Reforms & Transformation?”, Presentation to the American University of Beirut OSB, 18 Nov 2021

On 18th Nov 2021, Dr. Nasser Saidi gave a presentation titled “Lebanon’s Meltdown: Failed State or Reforms & Transformation?” during a webinar organised by the American University of Beirut’s Suliman S. Olayan School of Business.

A quick summary of the talk: Lebanon is experiencing historically unprecedented multiple crises: political, economic, banking & financial, debt, currency, environmental and health crises. The talk will discuss the underlying drivers of the crises; a multi-faceted failure of governance; economic, monetary, fiscal and financial mismanagement, and corruption. Lebanon has become a failed state. Will it be possible to rescue Lebanon, undertake the necessary deep reforms and transformation?

Watch the presentation below:

"Lebanon Must Enact Drastic

Reforms to Survive", Comments in VOANews, 25 Jan 2021

Dr. Nasser Saidi's comments from a Malcolm H. Kerr Carnegie Middle East Center event appeared in VOA News in an article titled "Lebanon Must Enact Drastic Reforms to Survive, Economists Say" published on 25th Jan 2021.

Dr. Saidi's quotes are posted below.

Lebanon has the third-highest debt-to-gross-domestic-product ratio in the world and is in need of extensive economic restructuring, Nasser Saidi, former minister of economy and trade in Lebanon, recently told the Malcolm H. Kerr Carnegie Middle East Center.

"If you look at other countries that have been in crisis – Greece, Argentina, Iceland – this goes well beyond that," he said. "We are seeing real GDP declining in 2020 by about 20 percent. It had already declined by 7 percent in 2019. So, this is a massive depression, even greater than that in the 1930s, in the Great Depression."

Saidi says billions of dollars of Lebanon's stolen assets need to be recovered. Sanctions, such as those under the Magnitsky Act, can help, particularly if the U.S. and European Union coordinate their efforts to get Lebanon back on track. Saidi says Lebanon's corrupt politicians and business elite "need to be held accountable for what they've done" to bring the country into such a dire situation.

"They've effectively destroyed Lebanon," he said. "They're now holding Lebanon hostage. The politicians in Lebanon will feel the bite, and particularly as you start getting perhaps the beginning of a dialogue with Iran and telling Iran: 'You've got to hold Hezbollah back and let's get the reform agenda moving in Lebanon.'"

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

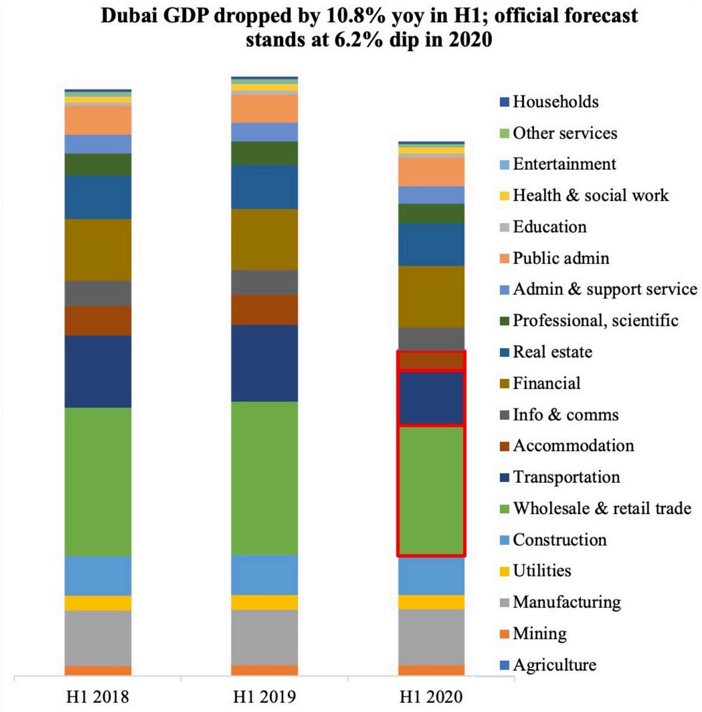
Source: Refinitiv Datastream, Nasser Saidi & Associates

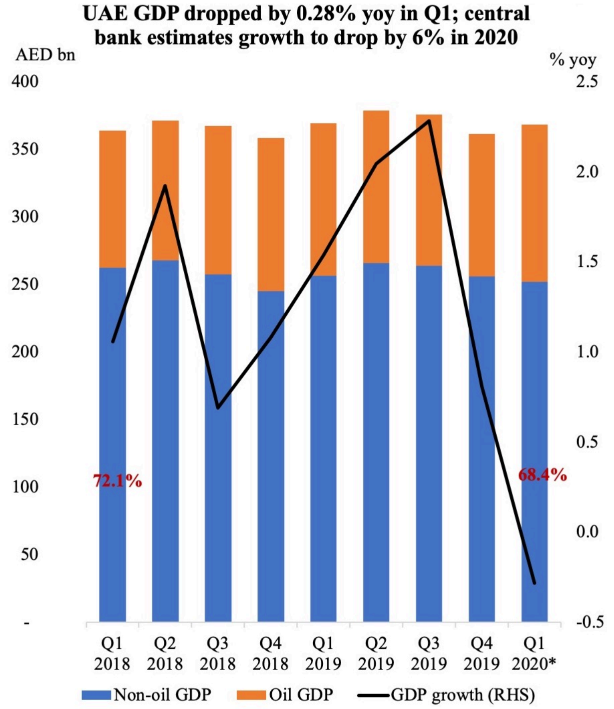
PMIs across the globe were released this week. **Overall, recovery seems to be the keyword with improvements in Dec** – in spite of the recent Covid19 surge, the Covid variant and ongoing lockdowns/ restrictions – with new orders and export orders supporting sentiment, with some stability in job creation.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

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

2. Covid19 & impact on Dubai & UAE GDP

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





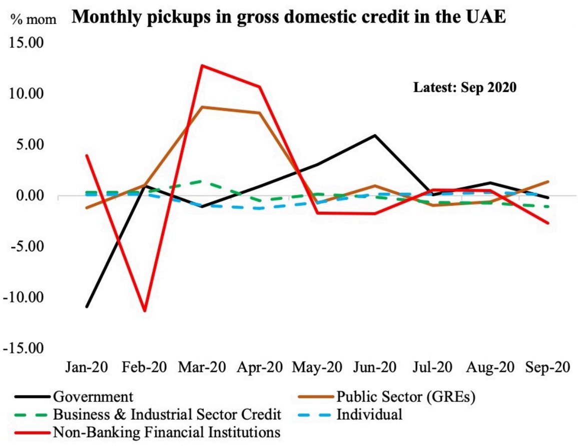
Source: Dubai Statistics Centre, FCSA, Nasser Saidi & Associates

News of a 5th stimulus package worth AED 315mn (announced on 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%).



Source: UAE Central Bank, Nasser Saidi & Associates

Table: Bank lending to MSMEs in the UAE

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

Source: UAE Central Bank, Nasser Saidi & Associates

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

Source: UAE Central Bank, Nasser Saidi & Associates

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

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

4. Back to "business as usual" for the GCC

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

Source: UN Comtrade, Nasser Saidi & Associates

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

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

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

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

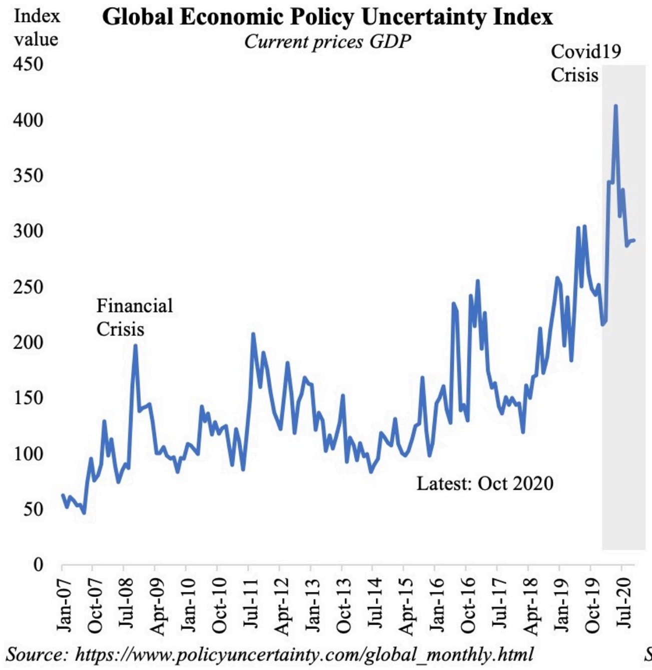
Download a PDF copy of this week's insight piece here.

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.**



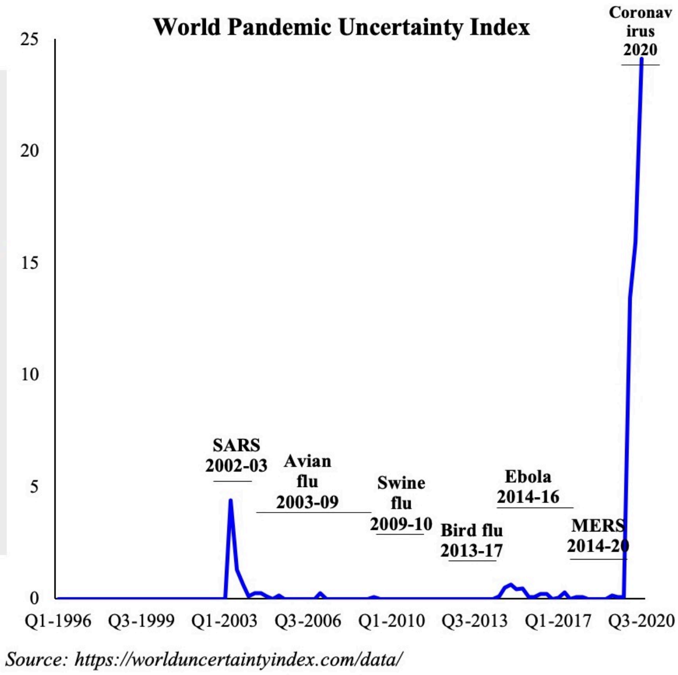


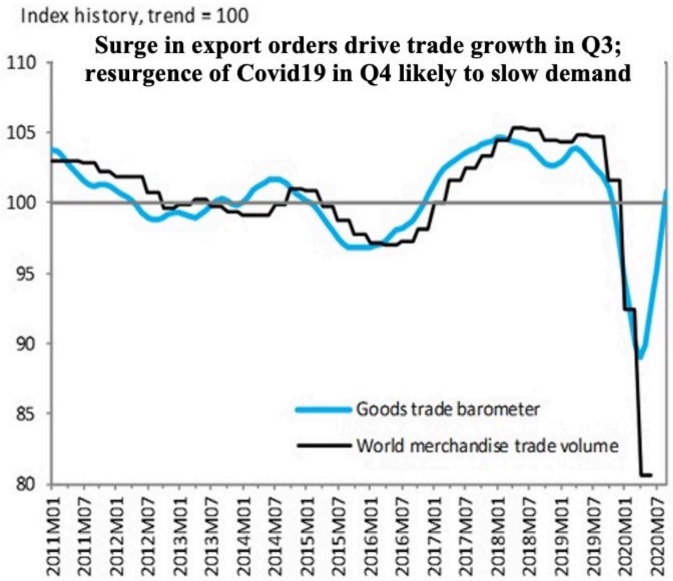
Chart 2: Trade bounced back in Q3, but will the current surge lead to another drop? Tourist Arrivals remain dismal

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.

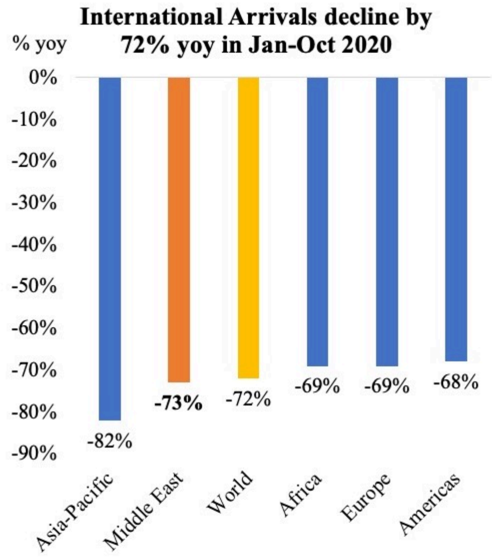
Meanwhile, **thanks to the recovery in new export orders**, both shipping & cargo indicators are turning positive.

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.**

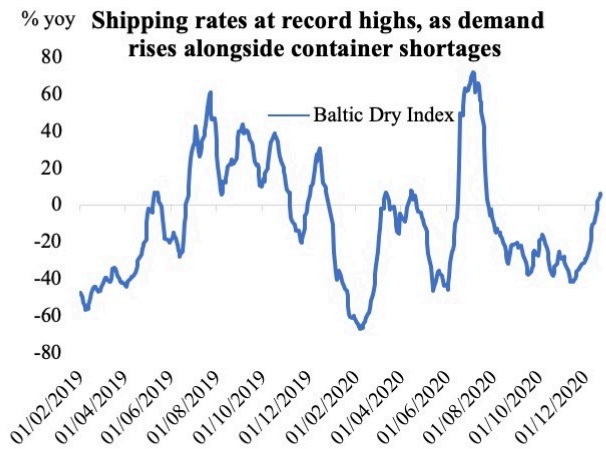
Tourism remains unlikely to recover to near pre-pandemic levels till vaccines reach a substantial proportion of global population. Prior to the recent surge in cases, **domestic tourism (& therefore air travel) had picked up in Europe and Americas.**



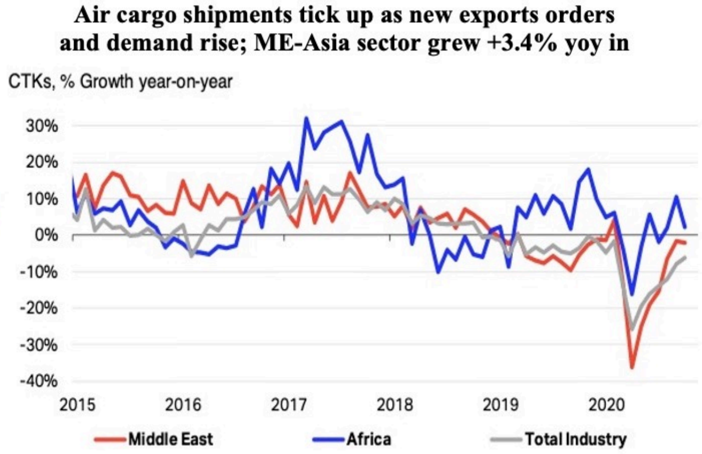
Source: WTO Trade Barometer, Nov 2020



Source: World Tourism Organisation (UNWTO)



Source: Refinitiv Datastream, Nasser Saidi & Assoicates



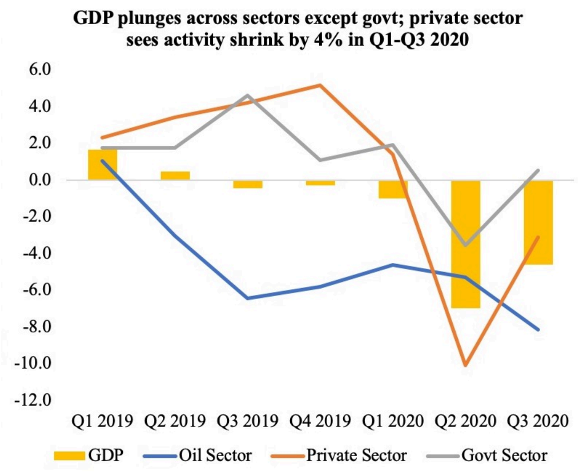
Source: IATA Economics

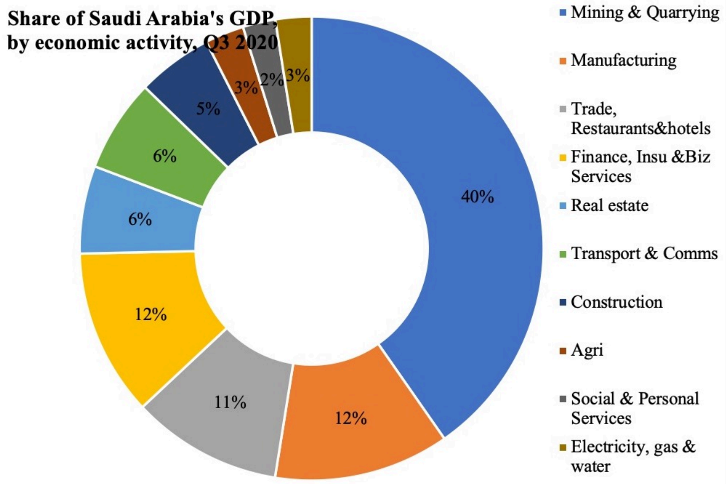
Chart 3: Saudi Arabia's GDP shows recovery in Q3; private sector growth declines by 4% ytd

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.





Source: Saudi Arabia's GaStat, Nasser Saidi & Associates

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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](#).

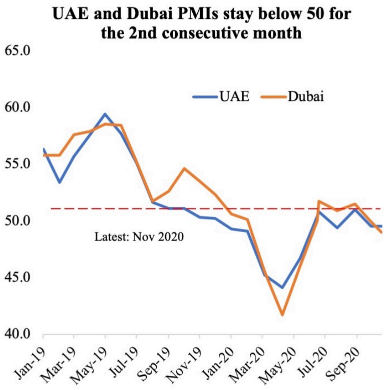
Chart 1: PMIs in UAE/ Dubai remain below-50 for the 2nd consecutive month; mobility & traffic pick up though demand remains weak

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 overshowed by the decline in business, as business expectations turn negative for first time ever in Dubai.

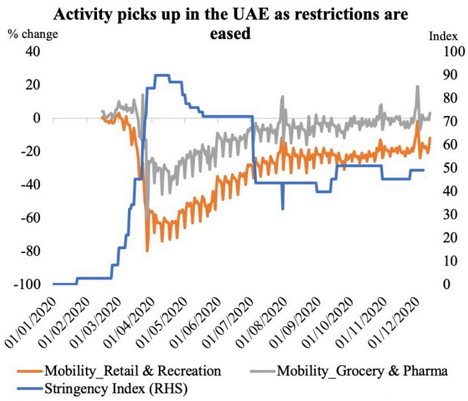
Demand weakness remains the main reason for the dip following an uptick after the initial lockdowns were lifted; with the recent surge in Covid19 cases in Europe & Asia, recovery has been slow in tourism and travel sector. **There is some signs of optimism**: flight bookings in the London-Dubai sector 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.**

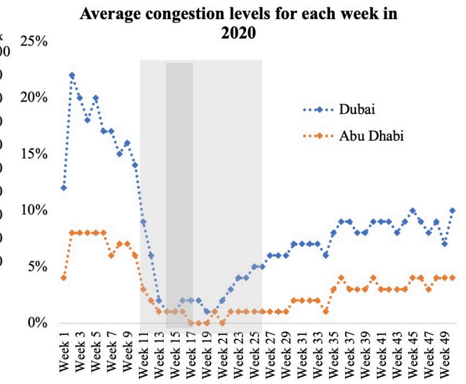
Mobility data from Google shows the **pace of recovery at grocery and pharmacy stores was much faster than that for the retail and recreation outlets** (restaurants, cafes, malls, theme parks etc); **congestion levels are still about 33% below 2019 levels**, though certain days in Nov-Dec showed positive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



Source: Refinitiv Datastream, Nasser Saidi & Associates



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

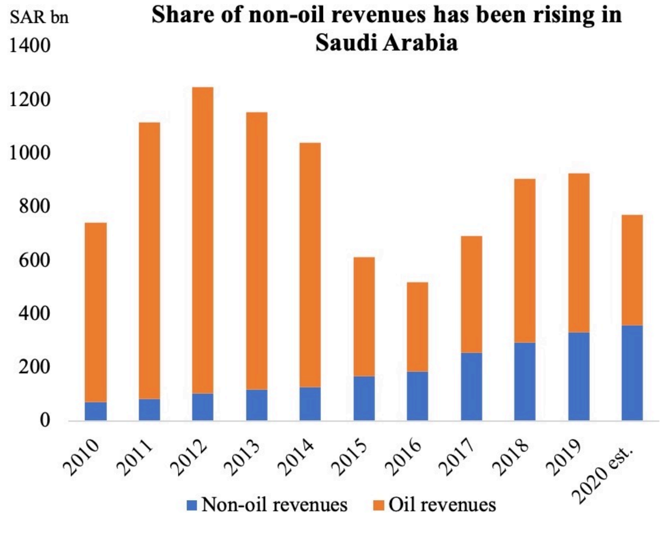


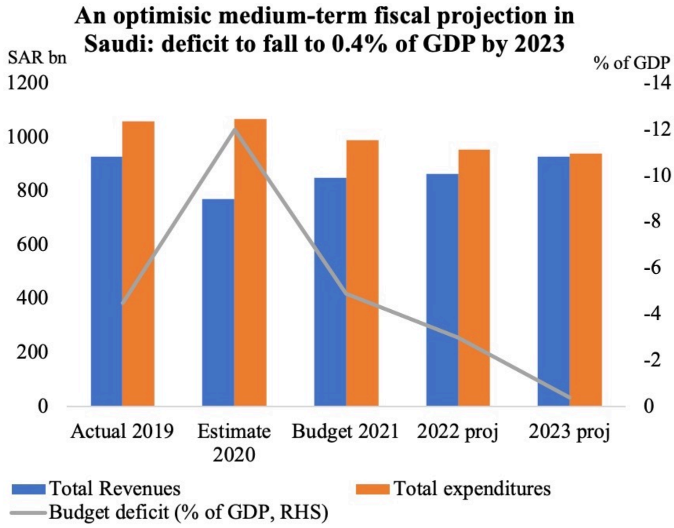
Source: TomTom Traffic Congestion Index, Nasser Saidi & Associates. Grey areas indicate Covid19 restrictions & darker grey the more severe weeks.

Chart 2: 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.



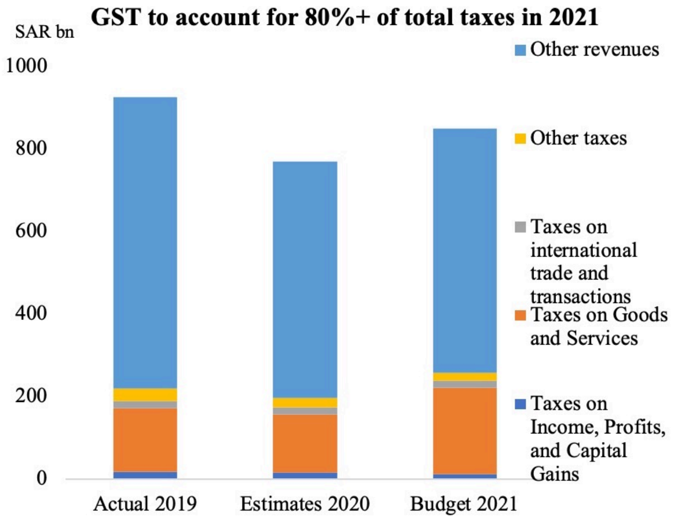


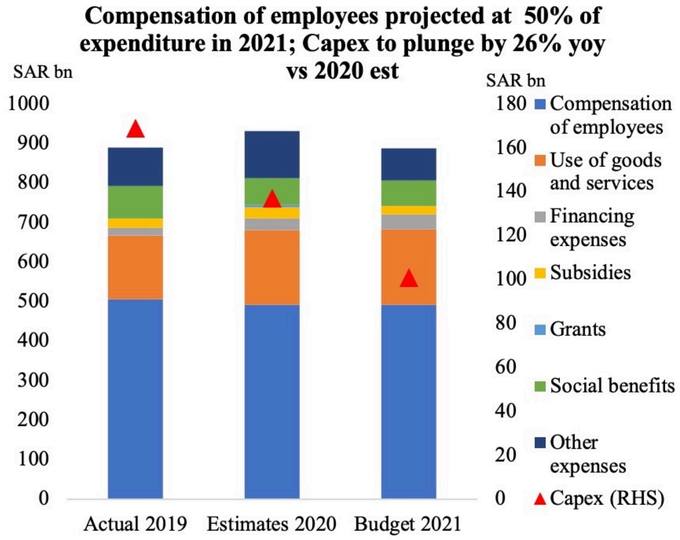
Source: Ministry of Finance, Saudi Arabia, Nasser Saidi & Associates

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).





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

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

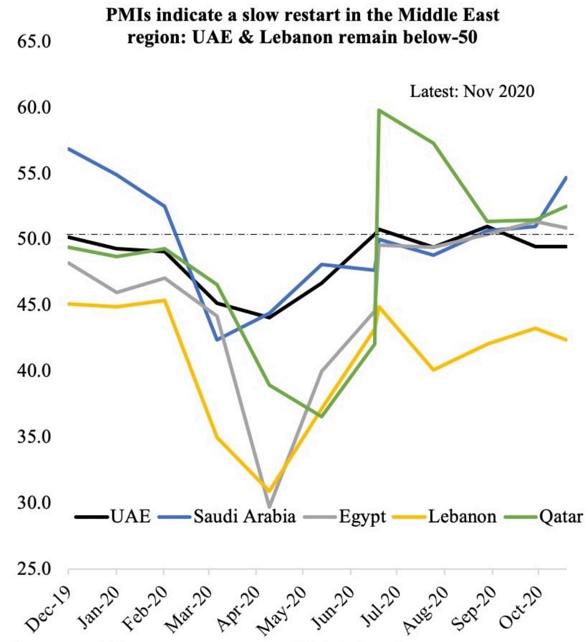
Download a PDF copy of this week's insight piece here.

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

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

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

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



Source: Refinitiv Datastream, Nasser Saidi & Associates

Heatmap of manufacturing PMIs

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

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

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

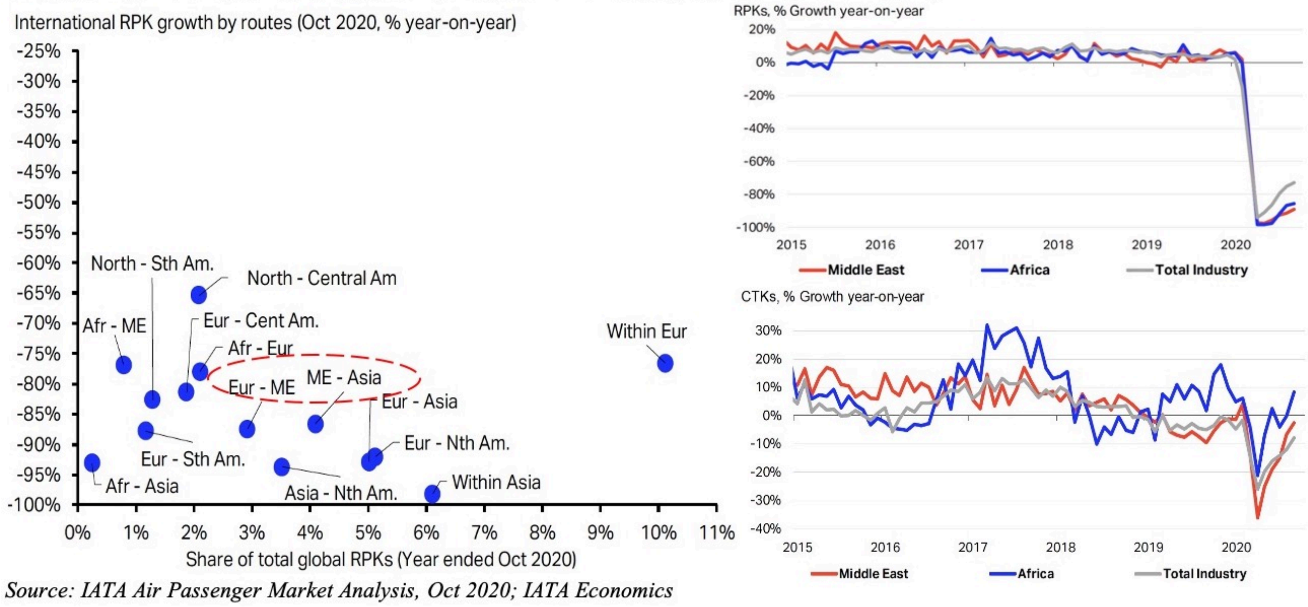
International travel markets remain weak: **Middle East airlines revenue passenger-kilometres (RPKs) were down by 86.7% and 88.2%** for international connectivity and long-haul traffic in Oct. This should benefit the airline industry in 2 ways: (a) in the near-term, the industry will **support distribution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

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

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

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

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



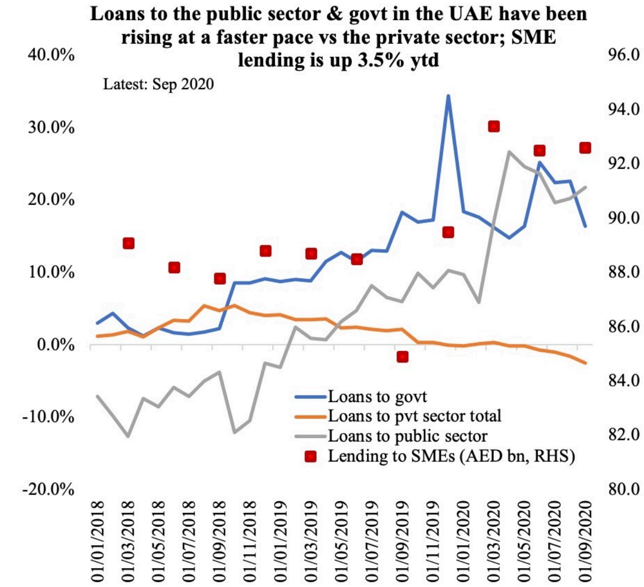
Source: IATA Air Passenger Market Analysis, Oct 2020; IATA Economics

Chart3:Bankcredit in the UAE

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

During Apr-Sep 2020, the overall pace of lending to GREs (+22.7% yoy) and government (+19.6%) have outpaced lending to the private sector (-1.0%). The pace of SME lending has been slow as well, but up 3.5% year-to-date.

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



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

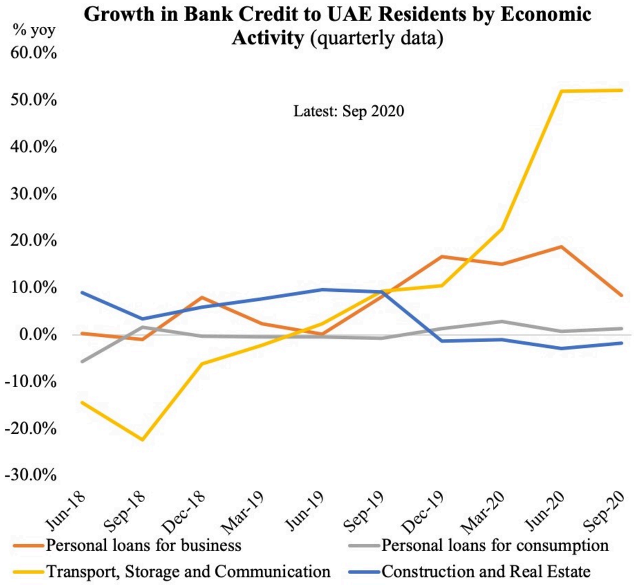
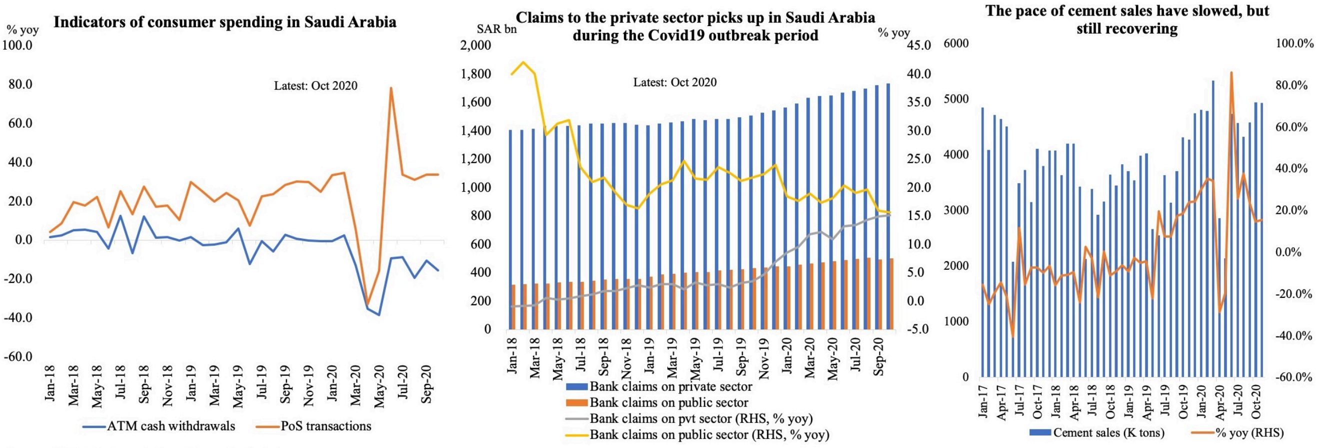


Chart 4: Indicators of economic activity in Saudi Arabia

Among the proxy indicators for **consumer spending** – ATM withdrawals and PoS transactions – the latter is picking up faster, supported by transactions in food and beverage (+28.9% during Jan-Oct 2020) and restaurants and cafes (+68.9%); in comparison, transactions at hotels are down by 33%. ATM transactions dropped by one-fourth to SAR 499.87bn in Jan-Oct.

Loans to the private sector in KSA has been growing at a double-digit pace since Mar this year, with the year-to-date growth at 12.4% yoy.

Cement sales have been on the uptick, supported by the number of **ongoing mega-projects** (like the Red Sea development) as well as residential demand: real estate loans by banks are up 38% till Q3 this year, outpacing growth in both 2018 & 2019 while PoS transactions in the construction and building materials is up 44.2% this year (a large 247.4% uptick in Jun, ahead of the VAT hike).



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

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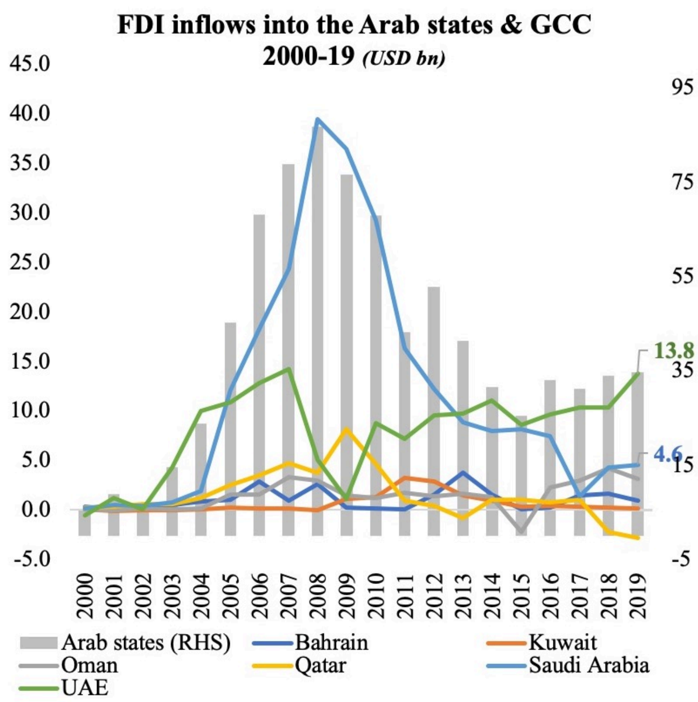
Weekly Insights 26 Nov 2020: UAE needs to attract FDI into viable, sustainable economic diversification sectors & projects

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

UAE needs to attract FDI into viable, sustainable economic diversification sectors & projects
The liberalization of foreign ownership laws in the UAE (announced this week) breaks down major barriers to the rights of establishment and will be a game-changer for the country. This reform will help to reduce costs of doing business, lead to a recapitalization of existing jointly owned companies and

encourage entrepreneurs to invest in new businesses and new ventures, supporting innovation and the introduction of new technologies while also promoting inflows of foreign direct investment. Foreign companies within UAE's free zones would also be allowed to link up with the domestic economy, supporting local businesses and thereby boosting overall growth. The barriers between free zones and the domestic economy would become blurred, if not absent leading to greater competition and improved competitiveness.

The latest announcement follows a spate of reforms undertaken this year – including labour (long-term residency via a 10-year visa, Dubai's virtual/remote working visa and retirement visa, Abu Dhabi's freelancer permit/ license) and social (removing laws which criminalized alcohol consumption, cohabitation) – aimed to revive the economy attempts from the negative impact of low oil prices, Covid19 and the Global Lockdown. Importantly, these reforms will encourage the retention of savings in the UAE, reduce remittances and capital outflows, thereby structurally improving the balance of payments. Overall, the result will be an improvement in the Doing Business ranking of the UAE.

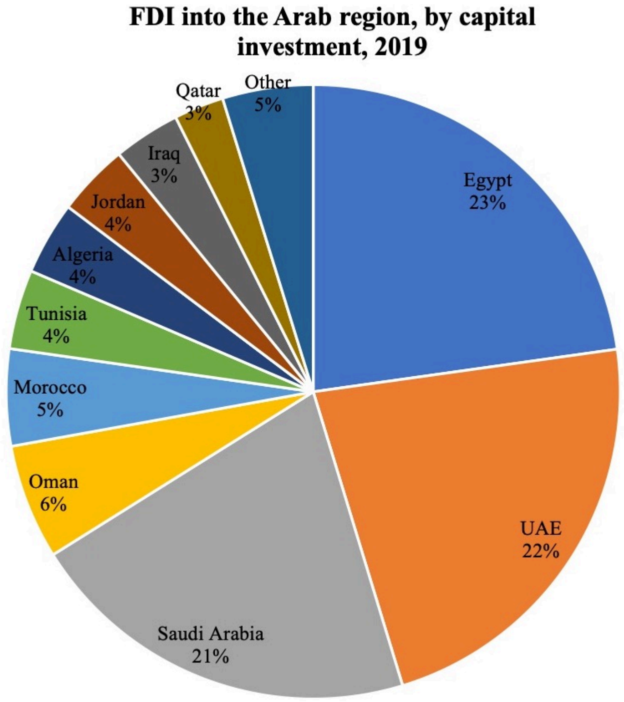


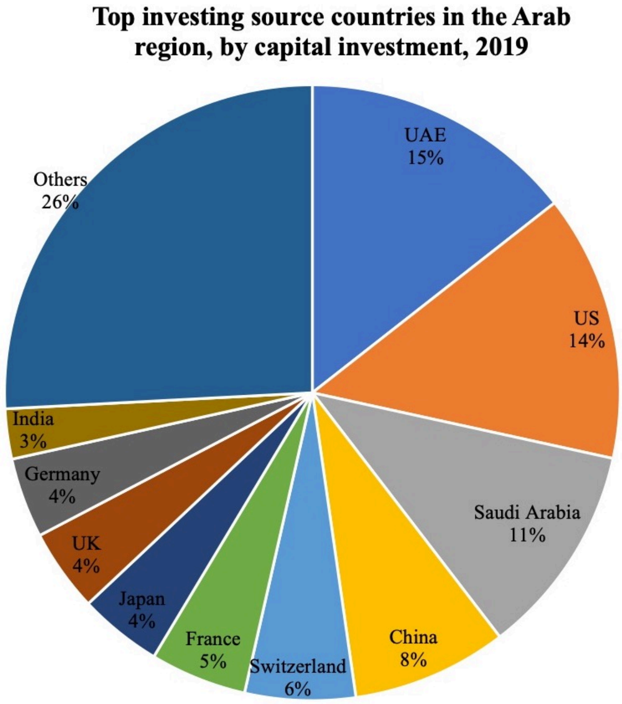
Source: UNCTAD, Nasser Saidi & Associates.

We focus on FDI in this Weekly Insight piece. FDI inflows are essential to the UAE's diversification efforts, as it would not only create jobs, raise productivity and growth, but could also lead to transfer of technology/ technical know-how and promote competition in the market. According to the IMF, closing FDI gaps in the GCC could raise real non-oil GDP per capita growth by as much as 1 percentage point.

While FDI inflows into the Arab region have been slowing in the past decade, the UAE still remains one of the top FDI destinations in the region. Inflows dipped during the time of the financial crisis (to USD 1.1bn un 2009 from an all-time peak of USD 14.2bn in 2007), but rebounded to USD 13.8bn last year, before the Covid crisis. Reforms to improve the investment climate (including allowing 100% ownership at free zones and protecting minority investors), its ease in doing business, good infrastructure as well as macroeconomic and political stability are factors that have aided the increase in FDI.

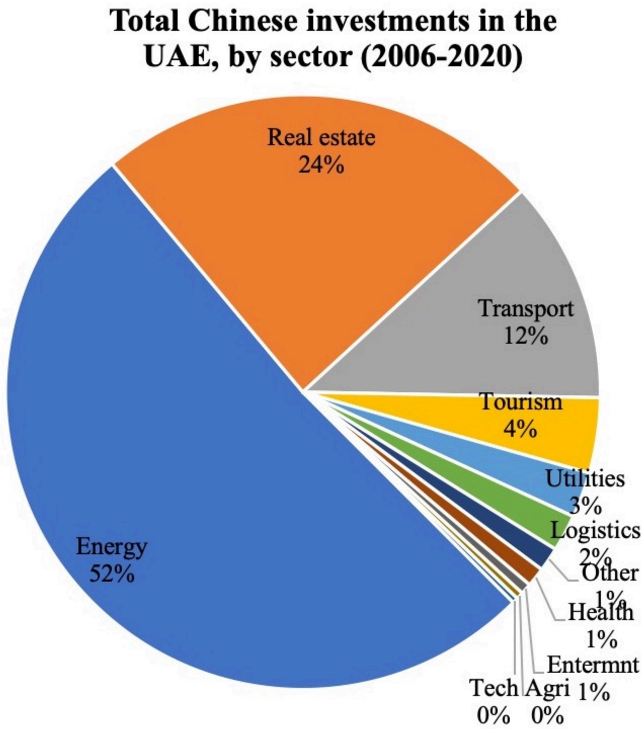
In 2019, UAE was the second largest destination for FDI inflow into the Arab region (USD 13.6bn or 3.4% of GDP, accounting for 21% of total), behind Egypt (USD 13.7bn or 2.8% of GDP, 23% of total) while it dominated FDI by number of projects (445). Interestingly, UAE is also a major capital exporter, having invested a total USD 8.7bn into the Arab nations last year (topping the list and accounting for 14.4% of total FDI inflows into the region). In part, this reflects the UAE’s hosting of multi-national enterprises investing across the region.





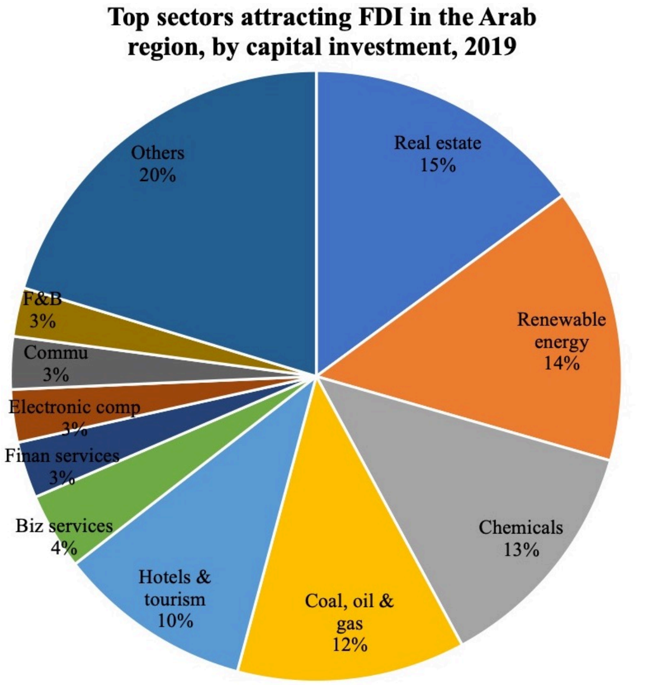
Source: fDI Markets, Arab Investment & Export Credit Guarantee Corporation, Nasser Saidi & Associates.

In spite of the Covid19 outbreak negatively affecting FDI inflows[1], Saudi Arabia defied the trend by posting a 12% yoy increase in inflows to USD 2.6bn in H1 2020[2] – in part linked to its mega-projects related to achieving Vision 2030. In Q1 this year, the UAE, along with Saudi Arabia and Egypt accounted for a share of 65.4% of total investment cost of projects in the region, valued at USD 11.2bn. Outflows from the UAE still accounted for 38.2% of GCC's share of foreign investments in Q1 this year[3].



Source: China Global Investment Tracker, AEI, Nasser Saidi & Associates

China's investments in the UAE have been rising, with UAE the top destination country (among Arab nations) accounting for more than one-third of Chinese projects tracked during Jan 2003-Mar 2020 (with the number of projects in double-digits in 2018 and 2019). According to AEI's China Global Investment Tracker, the value of Chinese investments touched a high of USD 8bn in 2018, thanks to a handful of large projects (including with ACWA Power and Abu Dhabi Oil). Sector-wise, investments were concentrated in energy (both oil and gas as well as renewables), real estate and transport – together accounting for 87.8% of total investments during 2016-2020. This is largely in line with FDI inflows into the Arab region as well, with the top 5 sectors (real estate, renewables, chemicals, oil & gas and travel & tourism) accounting for close to two-thirds of total inflows in 2019.



Source: fDI Markets, Arab Investment & Export Credit Guarantee Corporation, Nasser Saidi & Associates.

For the oil producing & exporting countries of the GCC and the wider MENA, the broader trade and investment landscape was further disrupted (in addition to Covid19) as a result of the profound changes in the structure and dynamics of the energy sector and market. The deep recession and Covid19 lockdown and induced collapse in transport and travel led to a sharp fall in the demand for oil and cratering of oil prices. Fossil fuel prices are unlikely to recover even in the medium term due to the increasing competitiveness of renewable energy (solar, wind and geothermal), persisting competition from shale oil & gas and new fossil fuel discoveries, while climate change mitigation policies and greater energy efficiency are leading to a downward shift in the demand curve for fossil fuels.

Accordingly, returns on investment in oil and gas (O&G) will decline. The implication is that FDI into the traditional O&G in the UAE and the GCC will be on a downward trend. The challenge will be to attract FDI into viable, sustainable economic diversification sectors and projects.

The new post-Covid19 FDI landscape for the UAE will likely be boosted if the recently announced deep structural reforms are executed well, alongside a review of existing economic strategies. The next obvious step is greater regional integration – a GCC common market (to start with), allowing for free movement of both labour and capital – as well as formalizing trade and investment treaties with major partners including China.

[1] *UNCTAD expects global FDI flows are expected to contract between 30 to 40% during 2020-21.*

[2] *Source: UNCTAD*

[3] *Source: Arab Investment & Export Credit Guarantee Corporation*

Comments on Lebanon's economy in Arab News, 25 Aug 2020

Dr. Nasser Saidi's comments appeared in the Arab News article titled "Can Lebanon avoid the Venezuela meltdown scenario?", published 25th August 2020.

Comments are posted below:

A former economy minister of Lebanon has coined a word for it: "Libazeula." Nasser Saidi, who ran the economy at the turn of the century and was also No. 2 in the Banque du Liban, the country's central bank, says Lebanon faces a scenario that could see it reduced to the chaotic impoverishment of Venezuela, once the richest state in Latin America but now a byword for political, economic and humanitarian failure.

“Lebanon is on the brink of the abyss of depression, with gross domestic product (GDP) declining by 25 percent this year, growing unemployment, hyperinflation, humanitarian disaster with poverty exceeding half of the population,” Saidi told Arab News.
“Throw in food poverty that could grow to famine conditions, and a continuing meltdown in the banking and financial sectors, and the collapse of the currency, all leading to mass migration. This is the ‘Libazuela’ scenario.”“With Lebanon being the fulcrum of a geopolitical confrontation between the US and Iran, local actors will play strategic games at the expense of an expendable Lebanese population,” Saidi said.
Saidi is not optimistic this [genuine commitment by Lebanese leaders to reform] will come to pass. “The reform scenario requires concerted pressure by the international community, including the imposition of personal penalties and sanctions, on Lebanese bankers and politicians and policymakers for the implementation of reforms,” he said. “The entrenched kleptocracy, a corrupt political class, banking and financial sector cronies are unwilling to make reforms that would uncover the extent of their corruption, criminal negligence and incompetence. Currently, the Libazuela scenario is more likely.”

Comments on the Beirut blast & Lebanon’s crisis, Bloomberg, 13 Aug 2020

Dr. Nasser Saidi’s comments appeared in the Bloomberg article titled “Lebanon’s Deepening Economic Crisis Laid Bare by

Beirut Blast", published 13th August 2020.

Comments are posted below:

With talks at an impasse and the nation locked out of international debt markets, Lebanon's central bank began printing money with abandon, causing the value of the currency to plunge further and igniting inflation, which neared an annualized 90% in June. ***"We are heading the way of Venezuela,"*** *says Nasser Saidi, a former economy minister.*

Prices in the import-dependent nation—including those for food staples, which had soared 250% in the 12 months to June—are no doubt headed higher as a result of the blast, which damaged the country's main grain silo and other infrastructure vital to commerce. Saidi estimates the country's imports will drop by more than 70% this year.

The ruling class "has to be removed. They have to resign and go away. If they don't go, we will get increasing violence in the street," *says Saidi, the former economy minister. "To do this we need sustained international pressure, from Macron, from others, and if necessary sanctions—international sanctions at the personal level that hit these people where it hurts."*

Saidi's comparison to Venezuela is apt. There, the divided opposition has been unable to unseat a government that's driven the economy of the petroleum-rich nation into the ground. In Lebanon, opposition forces have yet to conceive a viable alternative to the sectarian quota system.

Comments on Lebanon's financial sector post-Beirut

blast, S&P Global Market Intelligence, 12 Aug 2020

Dr. Nasser Saidi's comments appeared in the article titled "After blast, Lebanon's 'uninvestable' banks face sector rebuild, depositor pain", published by S&P Global Market Intelligence on 12th August 2020.

Comments are posted below:

"Lebanon doesn't have the fiscal space to fund the reconstruction of the public sector infrastructure destroyed in the explosion, and has no ability to borrow either because no one will lend to the country," former vice-governor of the Lebanese central bank Nasser Saidi told S&P Global Market Intelligence. He said the ***banks will need to restructure, sell assets and consolidate.***

"The bankers and the central bank are trying to resist that and push the burden of adjustment on to the government and depositors," *said Saidi, who has also held the positions of Lebanon's minister of economy and trade, and of industry, and is president of consultancy Nasser Saidi & Associates.*

"The banking system will have to be restructured," *said Saidi. "Banks will have to downsize, sell the assets they hold abroad and repatriate the proceeds, sell their real estate holdings, and rebuild their balance sheets if they want to stay in business … there will be M&A."*

Saidi estimates that about 60% of Lebanon's debts are due to interest rate increases designed to protect the pound, and criticized the central bank for failing to officially devalue the currency.

Saidi said Lebanon could solve the crisis by enacting capital controls, unifying the pound-to-dollar exchange rate, restructuring state-related debts and removing general subsidies. *Up to $30 billion is needed to restructure the public sector, and a further $25 billion to restructure and recapitalize the banking sector, he said.*

Comments on the blast in Lebanon's Beirut in Arab News, 6 Aug 2020

Dr. Nasser Saidi's comments appeared in the Arab News article titled "[Doctors on emergency duty describe horror of Beirut explosions]", published 6th August 2020.

Comments are posted below:

"The scale of the destruction is unprecedented, even by Beirut's sad history of explosions," Nasser Saidi, a former economy and trade minister and founder of Nasser Saidi & Associates, told Arab News from Beirut.

"On a global scale, this was the most powerful explosion after Hiroshima and Nagasaki, and more devastating than Halifax (1917) and Texas City (1947) where 2,300 tons of ammonium nitrate exploded," he said. "The resulting loss of life and injuries to residents has generated deep anger. The ammonium nitrate had been in storage at Beirut port since 2014, posing a clear danger. It was a disaster waiting to happen."

"This is a case of criminal neglect by the authorities and management in charge of the port, customs, the security and judicial authorities and governments. Warnings were given, but they went unheeded. There must be justice and accountability."

Saidi warned the explosions will deepen the economic, banking and financial meltdown, currency depreciation and soaring inflation. The destruction of the port will hit Lebanon's imports of food, medicines and essential goods.

"International aid is required not only to address humanitarian needs but to push for political reform," he said. "The Diab government cannot continue blaming the accumulations of past bad governance."

Roundtable on Potential IMF Involvement in Lebanon, Lebanese Center for Policy Studies & Jadaliyya, 16 Apr 2020

Reflective of Lebanon's shortage of foreign capital, the Lebanese government recently announced it will stop payment on all future maturing eurobonds. In parallel, government and financial circles have increasingly discussed the potential need for a package by the International Monetary Fund (IMF) to supply the majority of the needed capital. In this roundtable, co-produced by the Lebanese Center for Policy Studies (LCPS) and *Jadaliyya*, Dr. Nasser Saidi & two other analysts share their views of the amount of capital needed, the potential implications of IMF involvement, and what might need to be different this time around vis-à-vis international borrowing. Dr. Nasser Saidi's comments are pasted below.

The complete article can be accessed here:

LCPS and *Jadaliyya* (LCPS&J): How much foreign capital does Lebanon need and for what purpose?

Nasser Saidi: The amount of foreign financing needs to be viewed within a comprehensive, multi-year adjustment and reform program that tackles macroeconomic, fiscal, banking, financial, monetary, and currency sectors of the economy. There are four components to such a program: Macroeconomic and structural reform; banking sector restructuring; public debt restructuring (including central bank debt); and social welfare.

According to government estimates (revealed at a recent presentation to investors) public debt was 178% of GDP at end-2019. The cost of servicing the debt would be just over $10 billion, which is equivalent to approximately 22% of GDP and more than 65% of government revenue. This was an unsustainable position even before the country fell prey to the COVID-19 outbreak. Separately, the central bank (BdL) owes $120 billion to the local banks. BdL foreign exchange holdings have come under high pressure, dropping to about $29 billion in January 2020, of which 22 billion are liquid (18 billion of which is BdL-held mandatory banking sector reserves). It is evident that the banking system needs a comprehensive restructuring.

Given public debt and fiscal unsustainability, the prices of sovereign debt have plummeted by an average of about 50% since the end of 2019. With about 70% of total bank assets invested in sovereign and BdL debt, the write down of debt means that banks’ equity has been wiped out. Bank recapitalization and restructuring will require some $25-$30 billion, of which I estimate some 10 billion would be foreign financing. In addition, a foreign aid package of $25-$30 billion will be needed for macroeconomic and fiscal reform, structural adjustment, central bank restructuring, and balance of payments support, along with the establishment of necessary social safety nets.

This will necessitate an IMF program and multilateral financing. For it, there should be a completely redesigned CEDRE II program. I call it a “Lebanon Stabilization and Liquidity” fund. It is important to note that the overall cost of adjustment and required financing is rising due to unwarranted delay in approaching the IMF for assistance and designing the financing.

Furthermore, the ongoing COVID-19 outbreak is adding more fuel to the fire: We can expect a GDP contraction of 20%, following a 7% dip last year. The government has promised financial aid of 400,000 Lebanese liras (approximately $140, at the parallel market rate of 2,900 liras/dollar) to the most vulnerable families (roughly estimated at 185,000 families combining those registered with the National Poverty Targeting Program, those drivers forced off the job by the lockdown, and frontline healthcare workers). But that will not be sufficient. The sharp drop in economic activity has led to growing layoffs and unemployment, business closures and bankruptcies, and overall falling incomes—all pushing more people into poverty. Social and economic conditions are rapidly deteriorating: Almost half of the population now lives below the poverty line; non-performing loans are likely to increase and many banks could become insolvent; the value of the Lebanese lira is now some 40-50% less on parallel markets fueling inflation; and Human Rights Watch finds evidence of discretionary measures against refugees. The recipe for political and social unrest is boiling.

LCPS&J: What are some of the political and economic implications of securing such capital from the IMF? Could you identify other possible streams of foreign capital that could substitute for an IMF bailout program?
Nasser Saidi: The political and economic implications of an IMF program are all positive, as this would include the development and implementation of a social safety net to shield the more vulnerable segments of the population. IMF program conditionality will force an irresponsible and corrupt political class and its subservient policymakers—who are responsible for Lebanon's catastrophic demise—to undertake needed reforms (e.g., electricity, fiscal, monetary, and exchange sectors) that should have been undertaken years ago. The policy conditionality would be based on the national program the government should prepare beforehand. An IMF program will add credibility to the reforms included in the proposed Lebanon Stabilization and Liquidity fund.
It is bitter medicine, but the alternative would be lost decades, growing misery and poverty, and the destruction of Lebanon's economic base. The IMF itself would only be providing part of the funding (some $4-$5 billion) with the

balance coming from other international financial institutions (IFIs), the European Bank for Reconstruction and Development, and the European Investment Bank, and CEDRE participants, including the EU, the Gulf Cooperation Council (GCC) countries, Japan, and China. It is important to note that non-IMF funding will only be available if there is an agreed IMF program. None of the countries and IFIs, including the GCC and EU will provide aid and funding without it. The same is true for private sector investment and finance (e.g., for public-private partnerships), restoration of Lebanon's access to capital market, or for a sustainable restructuring of Lebanon's debt. There are no substitutes to an IMF bail-out program and conditionality. Lebanon desperately needs external funding. It cannot rely on purely domestic funding for the restructuring of its public debt and its banking sector (including BdL), investing in infrastructure, reforming public finances and rekindling and supporting the private sector, as well as provide balance of payments support.

LCPS&J: Given the Lebanese government's poor track record in effectively managing foreign aid, what measures should it take to ensure that such funds are put to meaningful financial recovery?
Nasser Saidi: The government must introduce an anti-corruption and stolen asset recovery program. Transparency International ranks Lebanon 43rd-most corrupt out of total of 180 countries. Protestors have, justifiably, focused on rampant high-level corruption, bribery, and rife nepotism.
The current government must prioritize combating corruption at all levels. This should include: (1) Appointing and empowering a special anti-corruption prosecutor and unit; (2) implementing an anti-corruption program with respect to taxation and revenue collection; (3) reforming government procurement law and procedures; (d) establishing strong and independent regulators in sectors such as banking, financial, telecoms, oil and gas, electricity, among others. And the posts should be filled making sure that the process is

completely transparent and that appointees are shielded from political and sectarian influence.

Last, but not least, the state must recover assets that politicians, policymakers, and their associates illicitly and criminally appropriated. Recovering stolen assets can be a wealth-regenerating strategy if implemented properly with complete transparency. Lebanon should immediately participate in The Stolen Asset Recovery Initiative (StAR), a partnership between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC). StAR works with “developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.”