Comments on “The ebb and flow of Saudi Arabia’s US Treasury strategy” in Arab News, 25 Oct 2025

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “[The ebb and flow of Saudi Arabia’s US Treasury strategy]” published on 25th October 2025.

The comments are posted below.

Nasser Saidi, founder and president of Nasser Saidi & Associates, a specialized economic and financial advisory services company, echoed this perspective, emphasizing that the decision is “primarily taken by the Saudi Central Bank, keeping in mind its strategic goals of currency stability, directed partly by the need to hold US dollar as part of international reserves to maintain the dollar peg and liquidity and safety.” For Saidi, who served as Lebanon’s minister of economy and trade and minister of industry from 1998 to 2000, US Treasuries are a critical pillar of stability, as “holding treasuries allows Saudi Arabia to meet its international payment obligations – finance imports, service external debt, portfolio, and capital flows – provide a buffer against oil revenue shocks, while also generating a steady, low-risk stream of income.”

Saidi pointed to multiple drivers behind these shifts, noting that the rise until September 2024 reflected the Saudi Central Bank, known as SAMA, capitalizing on higher US interest rates, supported by strong oil revenues from the preceding period.

He added that the drop to a six-year low of $108 billion in

June 2023 followed a significant transfer of funds to the Public Investment Fund, and the subsequent rise reflected Aramco dividend transfers, which "would have some impact on inflows of US dollar into the central bank in 2024."

Speaking to Arab News, Saidi explained that the decline to $126.4 billion by February "is likely a combination of factors – expectations that interest rates would stay higher for longer plus a soft landing in the US, portfolio rebalancing away toward higher-yield investments in the backdrop of lower oil production and prices, SAMA withdrawing to meet domestic spending needs / managing liquidity in the banking system," adding that after a return to stabilization was seen.

For Saidi, the pattern underscores that "SAMA acts as both the traditional central bank, and also actively manages its reserve holdings to accommodate funding needs as per Vision 2030, mainly via the PIF."

The interplay between SAMA and the PIF is central to understanding the bigger picture. Saidi explained that their mandates are different as SAMA's role is to provide currency, banking, and financial market stability, dictating conservative policies.

Saidi emphasized that US Treasuries will likely remain the anchor of SAMA's portfolio due to the dollar peg, but the PIF's strategy points to greater diversification in the non-reserve segment, with more aggressive investments in private equity, infrastructure, and renewables, as well as artificial intelligence, data centers, technology, and other asset classes.

"Saudi [Arabia] is unlikely to fully abandon the US dollar, despite de-dollarization talks, but expect more diversification and the prospect of a greater role for the Petro-Yuan, given the growing trade and investment links with China, increased holdings in other currencies for trade

purposes, and increased holding of gold as a hedge," Saidi, who has also served as vice governor of the Central Bank of Lebanon for two successive mandates, said.

He added that people should be prepared for the rollout and increased use of a central bank digital currency, a digital riyal, for cross-border transactions as well in the near future.

Comments on Saudi Arabia's new pitch to Wall Street in Bloomberg, 23 Oct 2025

Aathira Prasad's comments on Saudi Arabia's pullback at Neom and what it means ahead of the Future Investment Initiative (FII) in the Bloomberg article titled "Saudi Arabia's New Pitch to Wall Street: Less Neom, More AI", published on 23 Oct 2025.

Comments are posted below.

Added investments in areas like AI offer further opportunities for partnerships and deals particularly as recent messaging from the top echelons of government indicates a willingness to change course.

The changes are likely to be view positively by investors "because it says a lot when a government takes a step back and says hey we aren't going to stop all investments but we are moving money to places with immediate needs and quicker returns," said Aathira Prasad, director of macroeconomics at economic and business advisor Nasser Saidi & Associates.

Bloomberg’s Horizons Middle East & Africa Interview, 28 Aug 2025

Aathira Prasad joined Joumanna Bercetche on 28th August, 2025 as part of the Horizons Middle East & Africa show to discuss the Egypt central bank’s monetary easing cycle & outlook for the GCC economies in the global macroeconomic backdrop.

Main discussion points included the below:

Given that inflation has been easing (13.9% in Jul 2025. vs a peak of 38% in Sep 2023) and real interest rates remaining high, the CBE appears to have the leeway to go ahead with a gradual easing strategy.

The rates could go lower than 20% by end of the year, if the international financial environment becomes less volatile as a result of a reduction in the US Fed rate and the ECB maintains or reduces rates and geopolitical regional risks diminish resulting in a restoration of Suez Canal traffic and revenues.

A potential rate cut from the Fed could lower pressure on Egypt’s external financing costs, reduce debt servicing costs, and support investor confidence, particularly among holders of Egyptian debt.

Egypt has been in a relatively strong position so far this year (despite lower Red Sea traffic, regional conflicts and the Gaza war): the IMF-backed reform agenda (it passed its fourth IMF review) is slowly being rolled out (including tax and subsidy reforms), supported by financing from IFIs (WB, EIB, EBRD and Chinese investment funds) and net FDI has picked up. Egypt’s current account deficit has improved sharply – surging remittances (record USD 36.5bn in 2024-25), higher tourism revenues, and a jump in non-oil exports.

Watch the interview below or via the direct link

Dr. Nasser Saidi’s interview “Can Beirut’s New Reform Agenda Save the Pound?” on “You’re In Business” with Yousef Gamal El-Din, 13 May 2025

Dr. Nasser Saidi’s interview with Yousef Gamal El-Din titled “Can Beirut’s New Reform Agenda Save the Pound?” was aired on the “You’re In Business” show. The episode is published on YouTube, Spotify and Apple Podcasts

The video is available below:

Interview with Al Arabiya (Arabic) on the Global Economic Diversification Index, 17 Feb 2025

In this TV interview with Al Arabiya aired on 17th February 2025, Dr. Nasser Saidi highlighted the findings from the Global Economic Diversification Index that was released at the World Governments Summit 2025.

Watch the TV interview via this [link]()

ناصر السعيدي للعربية: السعودية والإمارات تحققان تقدما كبيراً في التنويع الاقتصادي

أميركا والصين وألمانيا تحافظ على الصدارة في مؤشر التنويع الاقتصادي

قال ناصر السعيدي رئيس شركة ناصر السعيدي وشركاه، إن التنويع الاقتصادي يعد من أهم العوامل التي تؤثر في استقرار الاقتصادات الخليجية على المدى الطويل.

وأضاف السعيدي في مقابلة مع "العربية Business"، أن مؤشر التنويع الاقتصادي الذي يشمل 115 دولة على مدار ربع قرن من عام 2000 إلى 2023 يعتمد على ثلاثة مكونات رئيسية: تنويع النشاط الاقتصادي، وتنويع التجارة الخارجية، وتنويع واردات الدولة.

وأوضح السعيدي أن تنويع النشاط الاقتصادي لا يعني فقط تقليل الاعتماد على النفط والغاز، بل يشمل تعزيز القطاعات الأخرى مثل السياحة والخدمات. أما تنويع التجارة الخارجية فيتعلق بتقليل الاعتماد على النفط والغاز كمصدر رئيسي للتجارة، حيث يمكن للتقلبات في أسعار النفط أن تؤثر بشكل كبير على الميزان التجاري وميزان المدفوعات.

وذكر أن تنويع واردات الدولة عبر تطبيق الضرائب على الشركات والخدمات أداة مهمة لتقليل المخاطر الاقتصادية.

وأشار السعيدي إلى أن الفترة بين 2020 و2024 شهدت تحسنًا ملحوظًا في بعض دول الخليج في مجال التنويع الاقتصادي، حيث أظهرت الإمارات والسعودية تحسنًا كبيرًا في هذا المجال.

وأوضح أن السعودية حققت زيادة قدرها 30 نقطة في هذا المؤشر من عام 2000 إلى 2023، بينما ارتفعت الإمارات 24 نقطة.

واعتبر السعيدي أن هذه التحسينات تؤثر بشكل إيجابي على استقرار الاقتصادين في البلدين وعلى المنطقة بشكل عام.

وأضاف أن جائحة كورونا أثرت بشكل كبير على القطاعات التي كانت تعتمد عليها دول الخليج مثل السياحة والتجارة، مما دفع الدول إلى تبني سياسات جديدة لتحفيز التنويع الاقتصادي.

وأفاد السعيد بأن التجارة الرقمية أصبحت جزءًا لا يتجزأ من مستقبل الاقتصاد الخليجي، وأن الاستمرار في تعزيز هذه المجالات سيسهم بشكل كبير في تحقيق التنويع الاقتصادي المطلوب.

ويراقب مؤشر التنويع الاقتصادي العالمي "EDI" أداء 115 دولة، بما في ذلك كبار مصدّري السلع الأساسية، خلال الفترة 2000-2023.

ويستند EDI إلى 25 مؤشراً لقياس التنويع الاقتصادي، من بينها ثلاثة مؤشرات رقمية تعكس التطورات في الاقتصاد الرقمي.

وحافظت الولايات المتحدة والصين وألمانيا على المراكز الثلاثة الأولى في مؤشر التنويع الاقتصادي العالمي لعام 2023.

وعند تحليل الدول التي تحتل المراتب بين 48 و67 في المؤشر، برزت مولدوفا، الإمارات وفيتنام كأمثلة بارزة على تحسن التصنيف، حيث تقدمت هذه الدول بعد أن كانت ضمن أقل 30 دولة تصنيفاً سابقاً.

Bloomberg’s Horizons Middle East & Africa Interview, 17 Jul 2024

Aathira Prasad joined Joumanna Bercetche on 22nd July, 2024 as part of the Horizons Middle East & Africa show. The discussion focused on the IMF’s lower Saudi growth forecast for 2024.

The IMF revised downward Saudi growth to 1.7% this year (down by 0.9 percentage point) in its latest WEO update. Key messages from the interview:
– IMF’s cut to Saudi growth forecast this year was expected, stemming from lower oil production
– But, remember that non-oil sector activity has been robust so far and will be a driving force as the many mega and giga projects are under development. Saudi PMI underscores the non-oil sector’s strong performance.
– There have been government spending cuts. But these need to be viewed as a positive: expenditure rationalisation &

prioritising more strategic projects in the backdrop of lower oil revenues. Underlying strategies are job creation, increase private sector participation & eventually greater economic diversification.
– True that funding needs are high, but the Kingdom has been tapping alternative funding sources including the debt markets. Not just the government, but also state-owned entities.

Watch the interview (from 15:00 to 20:00): https://www.bloomberg.com/news/videos/2024-07-17/horizons-middle-east-africa-07-17-2024

Interview with Al Arabiya (Arabic) on economic diversification, 17 Apr 2024

In this interview with Al Arabiya aired on 17th April 2024, Dr. Nasser Saidi discusses the Global Economic Diversification Index and Saudi's rankings in the backdrop of recent economic and structural reforms aimed at increasing non-oil economic activity.

Watch the TV interview below:

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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 & Africa Interview, 28 Feb 2024

Aathira Prasad joined Vonnie Quinn on 28th of February, 2024 as part of the Bloomberg Daybreak: Middle East & Africa edition. The discussion focused on macroeconomic outlook in the UAE & Saudi Africa, in addition to our views on Egypt.

Watch the interview (from 27:19 to 33.40): https://www.bloomberg.com/news/videos/2024-02-28/daybreak-middle-east-africa-02-28-2024-video

Bloomberg Daybreak: Middle East & Africa Interview, 6 Nov 2023

Aathira Prasad joined Yousef Gamal El-Din on 6th of November, 2023 as part of the Bloomberg Daybreak: Middle East & Africa edition. The discussion focused on Saudi Arabia's PMI release, Egypt's inflation and the regional implications of the Israel-Hamas conflict on markets, especially oil.

– Saudi PMI jumped in Oct: employment increased the most since October 2014 => demand for labour => demand for housing will rise while supply has remained relatively stable. Will continue driving up prices of housing & in turn have an impact on inflation.

– The underlying situation in Egypt has still not changed: curbing of imports has led to supply shortages & dollar shortages have led to a rise in dollar rate in the parallel market. Accumulation of govt debt is a worry and the geopolitical situation adds another layer of uncertainty. There are some +ives: attractiveness to foreign investors (oil. & gas, renewable projects, start ups / e-commerce), tourism. But, this could be affected if the current turmoil in the region spills over and/or continues for longer.

– Re markets: focused on what seems to a halt in the rate-hiking cycle; for now, geopolitical risk premiums have eased & there seems to be no significant impact on demand for oil or a supply disruption.

Watch the interview below: https://www.bloomberg.com/news/videos/2023-11-13/prasad-saudi-oil-cuts-to-remain-until-year-end-video

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"State and Future of the GCC Economies: A Story of Transformation", Presentation to the International Jurists, 20 Oct 2023

Dr. Nasser Saidi was invited as a keynote speaker at a meeting of the International Jurists held in Dubai on 20th October 2023.

Dr. Saidi's presentation, titled "State and Future of the GCC Economies: A Story of Transformation", focused on regional macroeconomic and geo-political developments, with a special focus on the Gulf Falcons. The talk also highlighted the GCC's economic transformation and concluded with how the Gulf Falcons would drive regional structural transformation.

Bloomberg Daybreak Middle East Interview, 18 Oct 2023

Aathira Prasad joined Yousef Gamal El-Din on 18th of October, 2023 as part of the Bloomberg Daybreak: Middle East edition. The initial discussion focused on the Israel-Gaza conflict and its regional impact, followed by if that could lead to any impact on growth in GCC nations like the UAE. The interview also touched upon Egypt's inflation levels and rumours of a state asset sale soon before ending with the outlook for oil prices (& OPEC+ decisions).

– The impact of the conflict will depend on how long-drawn-out the conflict is likely to be, whether there are spillovers & if other parties are drawn into the conflict. Growth will slow down.
– Negative impacts likely on tourism & hospitality, FDI flows, and commodity prices (especially if the conflict continues & there are disruptions to transport and logistics).
– Investor confidence will be affected.
– Middle East accounts for more than 1/3-rd of the world's

seaborne oil trade; IF conflict leads to disruption at any of the major oil transit chokepoints, it could impact supplies in an already tight market.
– As of end-2022, MENA was hosting about 2.4mn refugees + about 12.6mn internally displaced persons (Source: UNHCR). Any further addition to this would put severe strain on the hosting nations' budget & finances.

Watch the interview below (from 29:40 onwards): https://www.bloomberg.com/news/videos/2023-10-18/bloomberg-daybreak-middle-east-africa-10-18-2023-video

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Bloomberg Daybreak Middle East Interview, 14 Sep 2023

Aathira Prasad joined Yousef Gamal El-Din on 14th of September, 2023 as part of the Bloomberg Daybreak: Middle East edition. Discussion ranged from the impact of the extension of oil production cuts by Saudi & Russia to growth outlook for Saudi Arabia; also discussed were the US-Bahrain security agreement and thoughts about inflation in Egypt.

Watch the interview below: https://www.bloomberg.com/news/videos/2023-09-14/nasser-saidi-assoc-s-prasad-on-oil-egypt-inflation-video

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Comments on Saudi Arabia's economic diversification in Arab News, Aug 26 2023

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Saudi Arabia's economic diversification thrives amid global uncertainty" published on 26th August 2023.

The comments are posted below.

Despite market volatility, Nasser Saidi & Associates — an economic and business advisory consultancy led by a Lebanese politician and economist who held roles as minister of economy and industry and vice governor for the Lebanese central bank— reveals that from 2000 to 2019, notable improvements in Economic Diversification Index scores are seen in countries such as China, the US, Saudi Arabia, Germany, and Oman.

Additionally, GCC nations, excluding Bahrain, rank among the top 20 countries that have advanced their EDI scores during this timeframe.

While Saudi Arabia ranks among the nations experiencing rapid EDI growth, it's important to note that its journey started from a relatively modest base, notes Saidi.

The Kingdom's earlier limited level of diversification implies that its pace would outstrip that of already highly diversified economies, he explains.

"There is a process of convergence toward highly diversified economies. We can expect this trend to continue."

Saidi emphasizes that the improvement of Saudi's EDI score is not surprising, given the conscious effort to expand the non-

oil private sector's contribution to the GDP – a pivotal component of the diversification strategy supported by economic policies.

"On the output side, diversification away from oil has benefitted from the size of the country as well as having relatively closed sectors although with relatively low levels of tariffs," he says.

While Saudi Arabia's economic diversification model is reaping notable benefits and success, oil still remains a dominant source of Saudi export and fiscal revenue, directly accounting for over 40 percent of its GDP, according to a report by the IMF in 2022.

"With respect to trade, oil is still the prominent commodity the Kingdom trades, however, being an international commodity, it is traded with a large, diversified set of nations (offering some buffer in case a few of the major trade partners' growth/ demand weakens)," explains Saidi.

However, as we look forward, the question arises: how can Saudi Arabia's economic diversification model sustain its fruitful trajectory?

According to Saidi, Saudi investments in sectors like mining and metals, along with hospitality and tourism, including religious, cultural, and historical, "seem most likely to reap benefits."

Additionally, there has also been the introduction of revenue-enhancing measures. These include measures such as value added tax at a comparatively higher rate of 15 percent compared to other GCC nations, along with excise and legislated taxes on specific goods and services at purchase.

These additions, explains Saidi, "have enabled the country to move away from the procyclical nature of government revenue that was evident in the past, tracking oil's boom-bust cycles *and leading to pro-cyclical fiscal policies."*

Saidi emphasizes that for Saudi Arabia, the continuation of fiscal consolidation efforts is vital, which includes implementing revenue-enhancing measures. As the country strives to attract regional headquarters to relocate to Riyadh, he says it would be interesting to see how the corporate taxation efforts are molded.

Further expansion of economic diversification opportunities can stem from the clean energy sector, particularly as the Kingdom advances its initiatives toward achieving net-zero emissions by 2060.

"The clean energy sector has much potential for growth – the nation could even export electricity generated from solar power via an interconnected grid all the way to Europe and/ or South Asia," he states.

"In my view Saudi will emerge as a new energy powerhouse during this decade, building on its comparative advantage in solar power and exporting 'green electricity' and hydrogen," Saidi concludes.

Comments on Saudi Arabia's & UAE's invitation to join the BRICS in AGBI & The National, Aug 24 2023

Dr. Nasser Saidi's comments appeared in an article in AGBI titled "[New Middle East members expand Brics reach]" published on 24th August 2023.

The comments are posted below.

"It is an important geo-strategic move, the bloc can focus on issues and objectives relevant to them as opposed to a Bretton Woods agenda set by the West," said Nasser Saidi, a prominent Lebanese economist and former government minister.

Dr Saidi said that the current and future Brics members are not holding common currency discussions. But the potential for using local currencies for trade financing and settlement is critical if the announcement is to have lasting significance.

"This is extremely important for the emerging market nations which are currently dependent on dollar fluctuations and the Fed's rate decisions," he said, referring to the US Federal Reserve.

Comments from Dr. Nasser Saidi and Aathira Prasad appeared in an article in The National titled "Expansion of the Brics group could lead to 'different world order', analysts say" published on 24th August 2023.

The comments are posted below.

"Expanding the Brics to include six new members, including the UAE and Saudi Arabia from the GCC, underscores the potential for the expanded bloc to become the architect of a different world order – one that reflects the shift in global economic and financial geography towards the East," president of Nasser Saidi and Associates, Nasser Saidi, and its director of macroeconomics, Aathira Prasad, said.

"Joining the group will allow these GCC nations to diversify strategic alliances and also help set a global policy agenda.

"There are many economic challenges that are common to this

set of nations including impact from climate change, energy transition, infrastructure for development, poverty as well as growing inequality across and within nations – being part of the bloc will enable these nations to tailor solutions according to their needs and interests."

Saudi Arabia and the UAE are already among the largest trading partners of the Brics in the Middle East and joining the group facilitates further expansion in trade and supports their economic diversification strategies, added Mr Saidi and Ms Prasad.

"The newly expanded bloc can follow the precedent set by the UAE and India and use local currencies for trade financing and settlement," they said.

"With Saudi on side, the Brics can change the world", Op-ed in Arabian Gulf Business Insight (AGBI), 22 Aug 2023

The opinion piece titled "With Saudi on side, the Brics can change the world" appeared in theArabian Gulf Business Insight (AGBI) on 22nd August 2023.

With Saudi on side, the Brics can change

the world

The 15th annual summit of the Brics economies begins today in South Africa.

The gathering reflects the massive shifts in economic geography since the term was coined more than two decades ago.

The Brics – Brazil, Russia, India, China and South Africa – represent about 26 percent of the world's geographic area and about 42 percent of its population.

Their share of world GDP mushroomed from 18.2 percent in 2000 to 31.6 percent in 2022, surpassing the long-established G7.

A multipolar world has emerged. The fragmentation is being accelerated by the efforts of the US and its allies to resist this new reality by decoupling from China – which they term "de-risking".

But the shift in economic power has not been reflected by a comparable shift in economic governance. The so-called Bretton Woods institutions – the International Monetary Fund, World Bank and World Trade Organisation, among others – are still dominated by the G7, which was born in the 1970s.

New institutions were needed. The Brics grouping was formed to give voice to major emerging economies on global developmental issues and enable multilateral co-operation outside the prevailing order.

The Brics group has the potential to be the architect and engineer of a different world order, if it can develop a shared vision.

Why should Saudi Arabia join the Brics?

There is a strong strategic case for Saudi Arabia to join the Brics group at this year's summit – the first to be held in person since the pandemic – consistent with the kingdom's

Vision 2030 of modernisation, transformation and increased openness.

Saudi Arabia is already the largest trading partner of the Brics in the Middle East.

By joining the group, Riyadh can expand its trade with other emerging markets, support its diversification ambitions and deepen trade with the oil importers among its members. Greater economic integration will also attract foreign direct investment into Saudi Arabia.

Joining the Brics would give Riyadh a larger international presence and a louder voice in geo-economics and geopolitics, in addition to its G20 role.

A Brics+s would include two of the biggest energy producers in the world and the number one economy (China, when ranked by purchasing power parity). By 2050, if not by 2030, the Brics+s countries will dominate global economic activity.

What could an enlarged Brics group do?

To deepen its economic footprint, a Brics+s group should actively engage to develop intra-bloc trade, direct investment and financial flows. The establishment of the New Development Bank (NDB) in 2015 was a watershed.

Bangladesh, the UAE and Egypt are now NDB members, while Saudi Arabia is in talks to join.

As of July 2023, the "Brics bank" has only lent $33 billion to some 96 projects located in the five founder nations. Saudi membership would substantially strengthen the NDB's financial footing.

Given the disproportionately greater impact of climate change on emerging nations, the NDB can aim to become a leader in sustainable finance – along with the Asian Infrastructure Investment Bank and the Islamic Development Bank.

To exercise their power, the Brics+s countries need a reformed international financial architecture and organisations (including the NDB), along with an efficient multi-currency payment system to facilitate trade and financial flows.

This multi-year effort will require broad, deep, liquid and linked financial markets, based on China – and eventually India – opening financial markets to international investors and removing exchange controls so the yuan can become a viable alternative to the US dollar.

In the meantime, bilateral trade finance can use national currencies. The petro-yuan can be used to finance trade between China and Saudi Arabia and other GCC countries.

Similarly, the Brics Pay system – for decentralised multi-currency digital international payments – will need to expand to include Saudi Arabia and other GCC countries. The Brics interbank cooperation mechanism will also have to link Saudi Arabia and GCC banks.

The Brics+s architecture will require a "Global Monetary Fund", based in Beijing, which will be more representative of the new landscape.

Saudi Arabia joining Brics can transform the global economic and financial order.

Bloomberg Daybreak Middle East Interview, 10 Aug 2023

Aathira Prasad joined Yousef Gamal El-Din on the Bloomberg Daybreak: Middle East show on the 10th of August 2023. Covered during the interview were the topics of Saudi-Israel normalisation efforts, its potential impact as well as oil price movements in the Saudi fiscal backdrop.

Watch the interview below from 33:30 to 38:40 and also via the original link: https://www.bloomberg.com/news/videos/2023-08-10/bloomberg-daybreak-middle-east-africa-08-10-2023

"GCC can take centre stage in global energy transition", Op-ed in Arabian Gulf Business Insight (AGBI), 26 Jul 2023

The opinion piece titled "GCC can take centre stage in global energy transition" appeared in theArabian Gulf Business Insight (AGBI) on 26th July 2023.

An extended version of the article is posted below.

GCC will be at the Centre of a Transformed Global Energy Map

Nasser Saidi and Aathira Prasad

As nations navigate a post-Covid recovery path amid Russia-Ukraine war disruptions and sanctions, a New Global Energy map is emerging.

On the demand side, climate change and global warming -witness extreme temperatures- is forcing nations to accelerate their low-carbon energy transition plans, resulting in policy and consumer behavioural shifts away from fossil fuels. Global investment in low-carbon energy transition topped USD 1trn for the first time in 2022, up 31% year-on-year, and on par with fossil fuels investments[1]. The investments also spanned a vast spectrum: from renewable energy, the largest sector by investment (+17% yoy to USD 495bn) to hydrogen which received the least investment but was the fastest growing (USD 1.1bn, more than triple vs 2021). On the supply side, rapid technical change and innovation has resulted in a massive decline in the costs and thereby increasing the competitiveness of Renewable Energy, with the costs of solar, wind and battery declining by 90% over the past decade. Already, solar power is the cheapest form of electricity production.

Geopolitics is also driving a transformation of the global energy map. The Russia-Ukraine war along with US and the EU policies to decouple or “de-risk” from China are leading to energy supply chain disruptions and market fragmentation. Sanctions on Russia have heightened national energy security concerns, resulting in a restructuring of energy trade patterns: India and China accounted for almost 80% of Russian crude oil exports in May 2023, while nations shifting away from Russian Oil & Gas were looking towards alternative sources, including from the GCC.

Global energy consumption remains skewed towards fossil fuels, but with a rapidly rising share of renewables. The new economic and geopolitical energy market realities are accelerating the quest for long-term competitive, sustainable, clean, and secure energy. While dependence on oil and gas will persist into 2050, the GCC has a comparative advantage to reap the benefits of the paradigm shift to renewable energy.

Faced with the challenges of the global energy transition, the GCC are committing to massively increase the share of renewables in their energy supplies, the KSA to 50% by 2030 and Net Zero by 2060, the UAE to 30% by 2031 and Net Zero by 2050. The GCC is leading the Middle East's massive investments in renewable energy which recorded its largest-ever increase in renewable energy capacity in 2022, commissioning 3.2 gigawatts of new capacity (+12.8% yoy)[2]. The UAE's planned investments to the tune of US$165bn in clean and renewable energy initiatives over the next 30 years as part of its NZE goal underscores its commitment to furthering its clean energy agenda.

With these renewable energy investments and use of modern technologies, the GCC are achieving the lowest global cost of solar power. Masdar submitted (June 2023) the lowest bid for the 1,800MW Phase 6 of the Mohammed bin Rashid Al Maktoum Solar Park in Dubai: USD1.62154 cents per kilowatt hour (kWh) for the solar PV power project. Similarly, Hydrogen which could potentially reduce global emissions by 20% by 2050, at a price between $0.70 – $1.60 per kg- a price competitive with natural gas, has led to new alliances forming to develop megawatt projects, with some 31 projects in the region, including the world's largest in NEOM Green Hydrogen Project and the DEWA & Siemens' Green Hydrogen project using solar power.

The GCC, given its location at the heart of the global sunbelt, will become the lowest cost producer of solar power. Solar based, Green electric power can be exported from the GCC and North Africa to the rest of the Middle East, into Europe, East Africa, India, and Pakistan, through integrated power grids. This requires the development of an integrated electricity market allowing trading in energy.

The GCC's experience with developing and using climate tech - including desalination, district cooling and desert agriculture- can result in these being export technologies. Take the example of desalination, where the GCC has 45% of global desalination capacity, with Saudi Arabia's Saline Water Conversion Corp being the world's largest producer of desalinated water. Renewable energy powered desalination plants can be used as a solution to global water supply problems, where the UN estimates that about 1 in 10 persons lack access to clean water and 1 in 4 do not have access to safe drinking water. Similarly, district cooling is 5-10 times more energy efficient than conventional cooling, with the GCC being a pioneer in the development and deployment of district cooling, addressing the fastest growing source of demand for power from accelerating global urbanisation.

Being at the centre of the global energy map, with 30.5% of global oil reserves and 29.5% of exports (20.7% and 25.2% respectively for gas), the GCC have a long experience with energy finance. The GCC can become hubs for climate and renewable energy finance. The region's financial centres -DIFC, ADGM, KAFD, QFC- have the resources and expertise to become the regional/ global centres for climate, green & blue finance, accelerate issuance of green & blue bonds and Sukuk, attract VC investment into climate tech in the region and support listings of clean energy firms. Already, the GCC are using their massive financial firepower to serve their climate agendas. GCC sovereign wealth funds are among the largest investors in renewable energy – Mubadala last year invested USD 20.2bn (about 27% of total investment globally) via its subsidiary Masdar (which has a mandate to double renewable capacity in 2-3 years) while ADIA and QIA invested USD 2.2bn and USD 1bn respectively. Clean energy finance is not only integral to fuel climate change policies, but also has the added advantage of generating jobs and attracting FDI into the renewable energy and climate tech sectors, thereby accelerating the region's energy transition and economic diversification plans.

The four building blocks of massive investment in renewable energy, comparative advantage in producing and exporting hydrogen and solar power through integrated grids, experience in using climate tech, supported by vast financial resources being used for climate & renewable energy finance, result in the GCC being able to provide highly diversified energy supply ranging from solar power to hydrogen complementing its oil and gas to climate tech. The GCC will be at the centre of the emerging New Global Energy Map.

[1] https://about.bnef.com/energy-transition-investment/

[2] IRENA.

Bloomberg Daybreak Middle East Interview, 12 Jul 2023

Aathira Prasad joined Yousef Gamal El-Din and Manus Cranny on 12th of July, 2023 as part of the Bloomberg Daybreak: Middle East edition, speaking about Egypt's asset sales (USD 1.9bn worth, of which USD 1.65bn was in foreign currency) and prospects for the nation in the backdrop of record-high inflation. Also discussed were Turkey's inflation & growth prospects while also touching upon whether the Saudi cuts are going to affect the oil markets & also the country's growth prospects.

Watch the interview below, which can also be accessed from the original link:

https://www.bloomberg.com/news/videos/2023-07-12/nasser-saidi-egypt-nabs-1-9b-state-asset-sales-video

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"The GCC should leverage its power to trade as a bloc", Op-ed in Arabian Gulf Business Insight (AGBI), 28 Jun 2023

The opinion piece titled "The GCC should leverage its power to trade as a bloc" appeared in theArabian Gulf Business Insight (AGBI) on 28th Jun 2023 and is posted below.

The GCC should leverage its power to trade as a bloc

Nasser Saidi

The GCC faces multiple headwinds as it seeks to achieve growth at a time of increasing global fragmentation, the West's decoupling from China, climate change risks and the ongoing energy transition away from fossil fuels.

New policy tools are required to address these challenges and generate economic diversification. In particular, dynamic trade strategies will play a central role in realising regional success.

Total trade in goods as a percentage of GDP in the wider Mena region was 65.5 percent in 2021 (compared with 92.8 percent for the EU), indicating a relatively open regional economy.

Nonetheless, that number, ostensibly for the entire Mena area, is largely made up of the trade openness of the GCC bloc, high dependence on the trade of fossil fuels, and very low intra-regional commerce.

To date, the GCC and wider Middle East have missed a trick by failing to leverage the full potential of free trade agreements (FTAs) – international economic policy instruments that facilitate lowering tariffs, remove non-tariff barriers, liberalise access to markets and ease investment flows.

The Middle East and the GCC respectively have 38 and five regional trade agreements in force. This compares with 161 for Europe and 102 for East Asia.

More promisingly, earlier in June the UAE signed a bilateral comprehensive economic partnership agreement (Cepa) with Cambodia. This is its fifth Cepa, following those with India, Indonesia, Israel and Turkey. Another 10 or more are reportedly in the pipeline.

Focus on FTAs

The GCC needs FTAs to promote economic liberalisation, diversify output and lower its high dependence on fossil fuel exports, as well as to attract foreign direct investment and new technologies.

The capital-exporting GCC can use FTAs to protect its foreign investments and help forge new banking and financial links, notably with Asian markets.

In today’s turbulent geopolitical climate, diversifying investments and markets have become a strategic priority for the GCC, which holds more than $4 trillion in financial assets.

FTAs can provide a legal and regulatory framework as the GCC seeks to develop its international capital markets linkages, notably by facilitating the listing of foreign securities.

Against the backdrop of the global energy transition, the UAE and Saudi Arabia can carve a path towards becoming a global hub for renewable and climate financing, complementing their traditional role in oil and gas trade and investment.

To do this, the GCC needs to move towards reducing the existing hurdles for services. This means lowering barriers to entry and easing restrictions on operations.

Services are a strong driver of economic diversification and an accelerated strategy will increase domestic firms' ability to participate in global value chain-based production.

In this regard, logistics are an important factor. The Mena region ranks just behind North America, Europe and Central Asia in the latest World Bank Logistics Performance Index, largely due to the high scores of the GCC region – the UAE is ranked 7th globally while Libya is 139th out of a total 150 nations.

A breakdown by country and sub-indices, however, shows that nine out of the 16 Mena nations achieve low scores in the timeliness sub-index.

To compete internationally, Mena countries must invest in facilitating trade, move towards digital trade facilitation – think e-commerce – and implement a cross-border paperless trading system.

This will result in more efficient supply chains, support regional trade integration, and increase participation in global value chains.

It will also require the dissemination of regular, timely, comparable and high-quality trade statistics to support evidence-based trade policy making.

Bloc power

The GCC should negotiate as a bloc to maximise its potential. As a first step, the customs union should be revived, leading to the re-development of the GCC Common Market.

Also, the bloc ought to move beyond goods trade agreements to negotiate comprehensive, wide-ranging, deep FTAs. It should modernise the old generation of double taxation agreements to take account of the importance of special economic zones and free zones.

Given the shift of the global economy towards Asia, the GCC should pivot away from historical trade patterns based mainly on energy, to deepen trade and investment relations with major new trade and investment partners, such as India, China, Japan and South Korea. It would also do well to explore links with emerging markets in Africa.

It is high time for the Gulf to negotiate FTAs with China, the African Continental Free Trade Area and the Association of Southeast Asian Nations.

Politically and strategically, a new generation of FTAs could signal a decision to engage on a wider diplomatic front, solidifying the region's international standing and reputation.

The GCC countries are looking to seal international trade and investment deals with a view to "regionalised globalisation", at a time when the rest of the global economy is fragmenting and much of the West is decoupling from China.

Such a strategy on the part of the GCC represents a building block to achieving greater geopolitical stability.

Dr Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist and head of *external relations at the DIFC Authority, Lebanon's economy minister and a vice governor of the Central Bank of Lebanon*

"China-GCC FTA will be a game changer", Op-ed in Arabian Gulf Business Insight (AGBI), 25 May 2023

The article titled "China-GCC FTA will be a game changer" appeared in theArabian Gulf Business Insight (AGBI) on 25th May 2023 and is posted below.

China-GCC FTA will be a game changer

Nasser Saidi & Aathira Prasad

Chinese President Xi Jinping's historic visit to Saudi Arabia in December 2022 marked a transformation of the thus-far transactional relationship between the regions – leading to the long-awaited revival of negotiations of the China-GCC free trade agreement.

The meeting also spurred the signing of a comprehensive strategic partnership agreement and 34 investment agreements.

The visit birthed an active diplomatic role for China in the region, resulting in the reopening of relations between Saudi and Iran, while Saudi and the UAE assume observer status in the Shanghai Cooperation Organisation.

These developments herald détente and stabilisation in the Middle East, thereby favouring trade, investment and growth, and facilitating the potential reconstruction of countries destroyed by war and violence – starting with Yemen.

Economic diversification

China already accounts for one-fifth of the GCC's total trade, a larger share than trade with the EU or US. China is the largest export market for the GCC – with energy at its core – as well as a major source of investment.

In 2022 the GCC accounted for around 8 percent of China's total imports, according to the PRC General Administration of Customs. Oil accounted for 90 percent of the GCC's exports to China last year. China is also the largest non-oil trading partner and second-largest trading partner of the Mena region.

A China-GCC FTA, potentially by 2024, is a game changer that would galvanise Middle Eastern economic transformation. An FTA that removes trade barriers – with tariffs expected to decline by 90 percent – would boost trade and investment linkages.

A China-GCC FTA is likely to be a deep trade agreement, going beyond international trade to encompass agreement on non-tariff barriers, direct investment, tech, e-commerce and services, labour standards, taxation, competition, intellectual property rights, climate, the environment, and public procurement (including mega-projects).

Laws and regulations would be modernised to accommodate the provisions of the FTA, thereby accelerating domestic economic reforms in the GCC.

These gains from trade, investment and technology transfer would generate higher incomes and growth rates for the GCC and, through spillover effects, raise growth rates in the wider Mena region.

Energy is essential

What are the main building blocks of an FTA? Energy will remain at the centre of a China-GCC FTA. However, the energy sector itself is transforming, driven by the global energy transition, with decarbonisation policies and net-zero targets leading to an acceleration of renewable energy investments, including by the GCC.

The Russia-Ukraine war created an energy crisis and put security at the forefront of energy policies. This, along with sanctions on Russian oil and gas, has increased dependence on Middle East resources.

China, as a world leader in renewable energy tech, will become the strategic partner for the GCC as it diversifies its energy mix through investment in renewables and climate tech.

A China-GCC FTA would also be a major building block for the economic diversification 2.0 strategies of the GCC and expansion of the non-oil sector.

Given the size and diversification of China’s economy, an FTA would lead to a rapid expansion of trade and investment in digital trade and financial services, hi-tech, renewable energies and climate tech, AI, automation and robotics.

Tourism growth

Tourism would boom as Chinese outbound travelling recovers post-Covid, as other GCC countries join the UAE on China’s “approved list”.

The FTA would strengthen linkages and integration in infrastructure, transport, logistics and even space travel.

What’s more, the GCC, as major capital exporters, would benefit from linking financial markets to Shanghai and Hong Kong, greatly facilitating financial flows, thereby multiplying and diversifying investment opportunities.

These could include expansion of China’s Belt & Road construction projects in the GCC, participation in the financing of GCC privatisations, mega-projects, public-private partnerships, and the transfer of technology.

GCC investors would have privileged access to Chinese opportunities, free of exchange and capital controls. A natural outcome of the FTA and financial market linkages would be the linking of payment systems, including the development and use of the Petro-Yuan to finance China-GCC trade and eventually for financial transactions and investments.

A China-GCC FTA would also deepen the symbiotic relationship between Chinese and GCC sovereign wealth funds, the largest in the world, controlling assets worth more than $6 trillion, enhancing their global financial market power.

And finally, the China-GCC FTA would result in positive spillover effects through increased trade and investment for the Mena trade partners of the GCC, with trade creation effects outweighing any potential diversion.

The GCC would negotiate as a bloc and start exercising its considerable economic power in signing other FTAs, potentially with Asean, the EU and the United States-Mexico-Canada Agreement.

The China-GCC FTA deal is expected to potentially lead to a more than doubling of non-oil trade in three to five years from implementation, with greater global and regional integration of the GCC and the Mena region.

Dr Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist and head of external relations at the DIFC Authority, Lebanon’s economy minister and a vice governor of the Central Bank of Lebanon. This article was co-authored by Aathira Prasad, *director of macroeconomics at Nasser Saidi and Associates*

"Why nations must diversify their economies to avoid stagnation", Op-ed in The National, 22 Feb 2023

The article titled "Why nations must diversify their economies to avoid stagnation" appeared in the print edition of The National on 22nd February 2023 and is posted below.

Why nations must diversify their economies to avoid stagnation

Nasser Saidi & Aathira Prasad

The Global Economic Diversification Index tracks, measures and compares progress in diversification based on 25 indicators

Economic growth in nations with an abundance of natural resources tends to be lower and more volatile.

Diversifying activity from an over-dependence on natural resources – such as oil, minerals or commodities – allows countries to harness resource rents as an engine of growth, rather than a barrier to economic development, avoiding the "resource curse".

For fossil fuel-dependent countries, ambitious global decarbonisation commitments (UN Cop climate summits, net zero emissions) and energy transition plans to address climate change have added to the urgency of economic diversification, given that oil and gas accounted for 31.89 per cent and 21.34 per cent of global greenhouse gas emissions in 2021.

With economic diversification a policy imperative in the Middle East, nations can turn to [the Global Economic Diversification Index (EDI)] to track their performance over time, undertake peer comparisons and measure the gap with higher-ranked nations.

The EDI identifies and examines 25 economic indicators, analysing and combining three main dimensions of diversification – output, trade and government revenue – across 105 nations for the period 2000-2021.

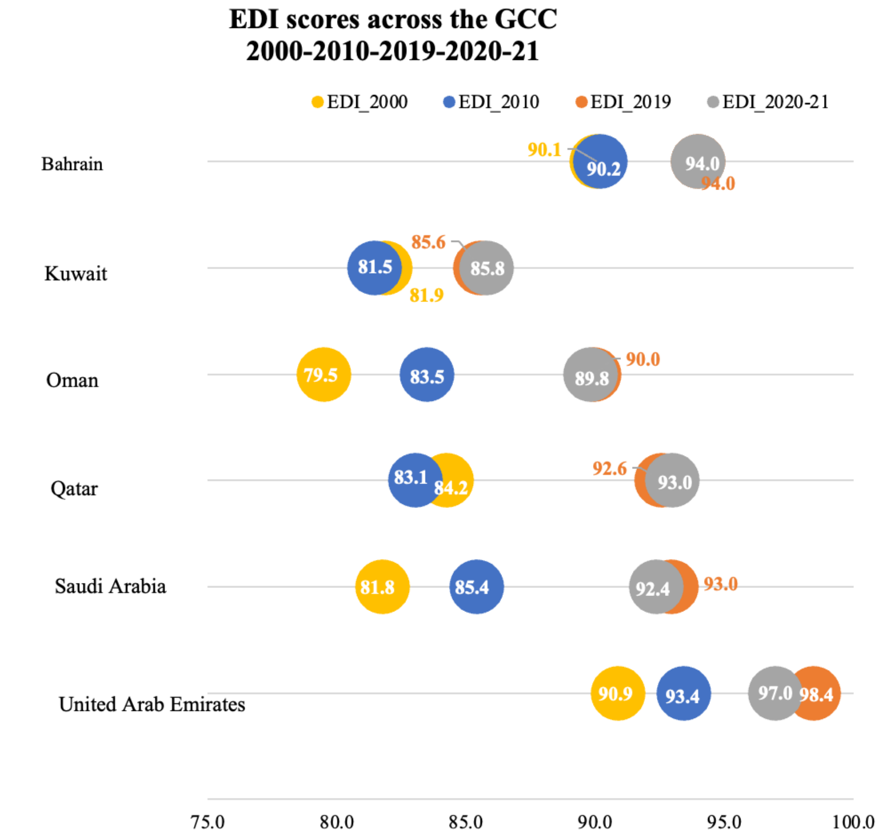
The top-ranked nations have maintained their standing over time, with the US, China and Germany ranking highest in 2021.

What are the major lessons and outcomes? First, there is a positive correlation between EDI and gross domestic product per capita (but being a high-income country does not imply a high economic diversification score) and, secondly, the higher the share of resource rents in GDP, the lower the EDI score.

Third, countries do not need to take a traditional industrialisation route: services and financial services led Singapore and Switzerland to rank highly alongside industrialised nations such as Germany and the UK.

Fourth, innovation and adoption of new technology is an essential ingredient for greater diversification, with many top performers also in World Intellectual Property Organisation's [WIPO's] Global Innovation Index, and, finally, size need not be an impediment to economic diversification ("small" Ireland, the Netherlands and Singapore rank high).

GCC economic diversification



Source: Global Economic Diversification Index 2023

While the non-oil sector has grown in the GCC, the oil sector continues to dominate, accounting for more than 40 per cent of GDP in most countries.

In the past decade, there has been a concerted effort to diversify revenue and support fiscal sustainability, with the introduction of VAT and excises taxes (with the UAE introducing corporate tax this year and Oman studying a proposal for income tax).

However, consumption taxes remain a small share of total revenue in comparison to oil and gas in the nations that have introduced VAT, while Qatar and Kuwait have yet to introduce consumption tax.

At present, trade is also heavily reliant on exports of oil and gas and their derivatives such as petrochemicals.

The coronavirus was a game-changer. To shift from over-dependence on commodities, the GCC (and others) have diversified into services-based sectors such as tourism, trade, logistics and transport. But these were affected in the initial Covid-19 year, leading to a reassessment of diversification strategies.

The pandemic has galvanised policymakers into action to support FDI flows, labour mobility liberalisation, privatisation and structural reforms.

Economic diversification 2.0

On the output side, there is greater opportunity in moving towards knowledge-based and innovation-led activities, creating space for private sector activity (especially in the tradables sector), and developing industrial policies and clusters, with local procurement strategies fostering job-creation at small and medium enterprises.

Incentivising policies supporting the diffusion of new technology (such as electric transport systems or robotics), alongside a push for investment into new sectors, including digital economy, clean energy and climate technology, and increasingly general purpose tech such as artificial intelligence, will also support diversification.

The continuing privatisation of state-owned assets and enterprises allows for the opportunity to “de-risk” fossil fuel assets, with the added advantage of raising revenue, developing and diversifying financial markets, and attracting both domestic and foreign investment and technology.

The pandemic underscored the need for trade diversification – both in terms of products and trade partners – and of supply chains.

The GCC will also benefit from the enactment of new “deep trade agreements”, including the broad category of services, such as digital services (e-services, e-commerce and digital finance), beyond the limited scope of trade in goods.

With the shift in global economic geography towards Asia, a China-GCC free-trade agreement (under negotiation since 2004) is a strategic priority, given that China is the main trade and economic partner of the region and would integrate the GCC into Asian supply chains.

Trade reforms, when complemented by structural reform, including in the labour market, will lead to greater skill diversity in the workforce, enabling mobility and lower transition costs, job creation and raising productivity growth.

The pandemic has galvanised policymakers into action to support FDI flows, labour mobility liberalisation, privatisation and structural reforms

Additionally, policy reforms will encourage private sector activity by lowering the costs of conducting business, thereby encouraging private and foreign investment, and promoting competitiveness and capital market development (including the development of a yield curve, a domestic corporate bond market), with a focus on climate finance and funding the green economy as part of energy transition policies.

Economic diversification leads to more balanced and stable economies, and is key to inclusive economic development and sustainable job creation.

The EDI is a tool that enables evidence-based policymaking and informs the design of strategy and policy measures, allows for the evaluation of policies' impact and effectiveness, and enables monitoring of policy outcomes, as well as helps to identify problem areas. It enables policy research aimed at identifying strategies and policies that foster and those that hinder diversification.

Resting on current diversification achievements is insufficient. Commodity dependent nations need to sustain economic/structural reforms and innovate to catch-up faster with the frontrunners.

The Global Economic Diversification Index 2023 was released last week by the Mohammed Bin Rashid School of Government (MBRSG) at the World Government Summit. The report was developed in cooperation with Salma Refass and Fadi Salem (MBRSG) and Ben Shepherd (Developing Trade Consultants).

Bloomberg Daybreak Middle East Interview, 28 Nov 2022

Aathira Prasad joined Yousef Gamal El-Din on 28th of November, 2022 as part of the Bloomberg Daybreak: Middle East edition, touching upon oil prices and views in the backdrop of China’s Covid policy and the price cap on Russian oil. On the economic outlook for the GCC, we remain optimistic, especially given that recovery is being boosted by both oil and non-oil sectors and that the relatively better fiscal stance of the GCC (with more savings and monies set aside for domestic and regional investments).

Watch the interview below, which can also be accessed from the original link: https://www.bloomberg.com/news/videos/2022-11-28/-bloomberg-daybreak-middle-east-full-show-11-28-2022 *(listen from 28:33 to 37:00)*

Bloomberg Daybreak Middle East Interview, 14 Oct 2022

Aathira Prasad joined Manus Cranny on 14th of October, 2022 as part of the Bloomberg Daybreak: Middle East edition, speaking about the latest red-hot US inflation readings and what it means for the MENA region. Also discussed in detail are Dubai inflation (especially housing), the 15-month high Saudi inflation and also oil prices in the backdrop of the US-Saudi comments.

Watch the interview below, which can also be accessed from the original link: https://www.bloomberg.com/news/videos/2022-10-14/prasad-inflation-relatively-muted-in-gcc-economies

Radio interview with Dubai Eye's Business Breakfast on Biden's visit to the Middle East, 13 July 2022

Dr. Nasser Saidi spoke with Dubai Eye's Business Breakfast team on 13th July 2022 regarding US President Biden’s visit to the Middle East, with a focus on meeting with the Saudi Crown Price

Listen to the full radio interview at the link below (from 10:21 to 17:10):

https://omny.fm/shows/thebusinessbreakfastpodcast/less-passengers-will-be-able-to-fly-out-of-heathro

https://nassersaidi.com/wp-content/uploads/2022/07/Less-passengers-will-be-able-to-fly-out-of-Heathrow-this-summer..mp3

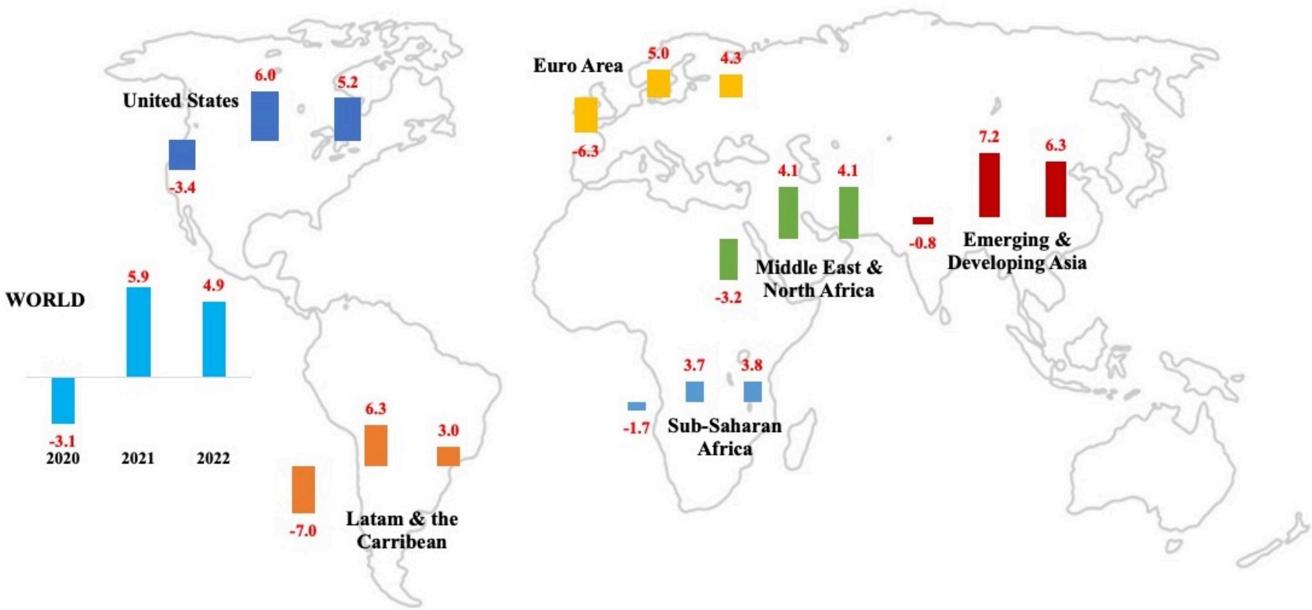
Weekly Insights 14 Oct 2021: Global divergence in growth predicted – can MENA cope?

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

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

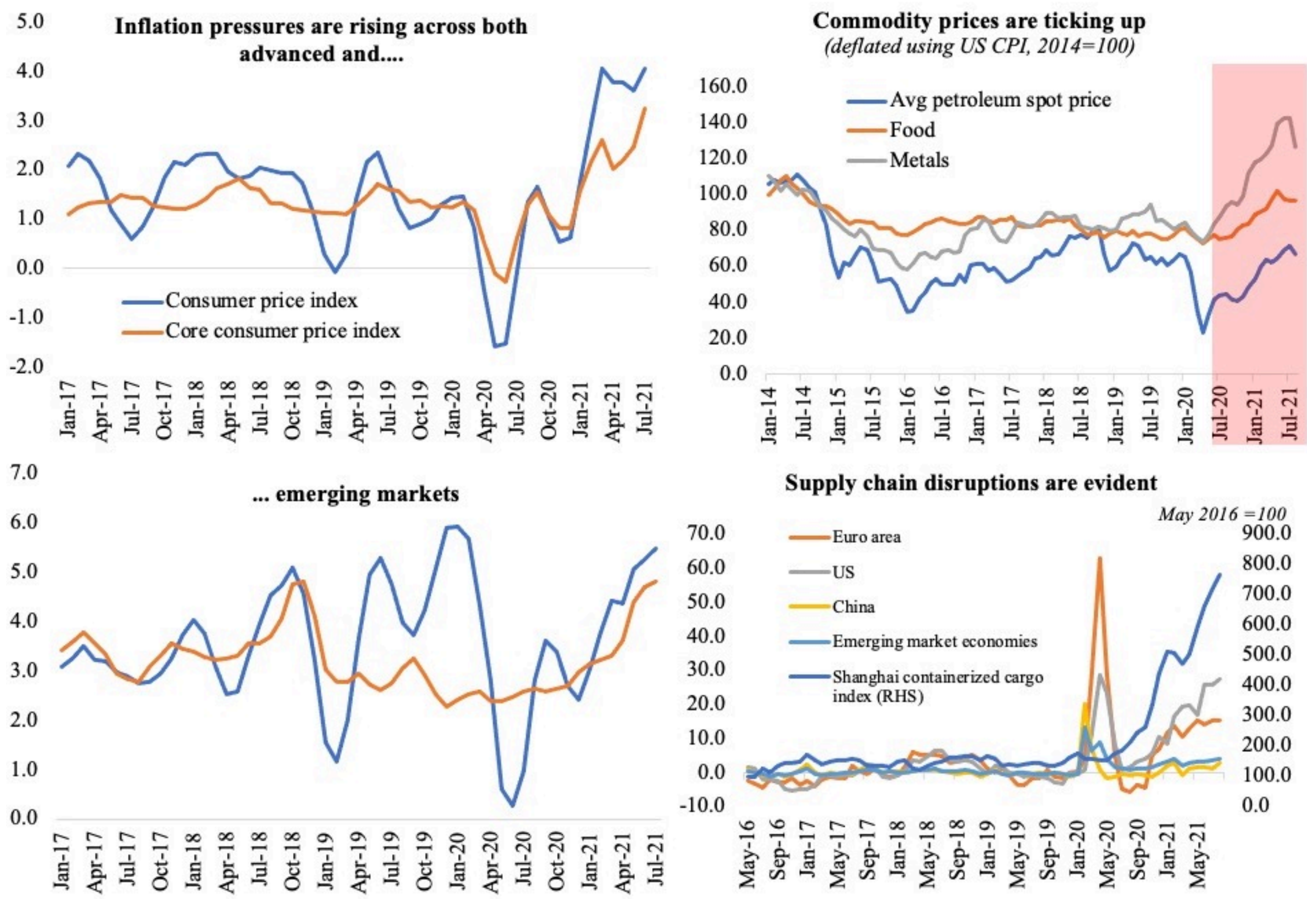
The main message from the IMF remains a sombre one: for full global recovery, vaccine deployment has to be increased; as supply chain constraints continue amid high demand, and even as employment is below pre-pandemic levels inflation is a worry (expected to decline in 2022, but highly uncertain); as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

Global economic growth set to recover by 5.9% this year: IMF



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

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



Source: IMF World Economic Outlook, Oct 2021

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

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

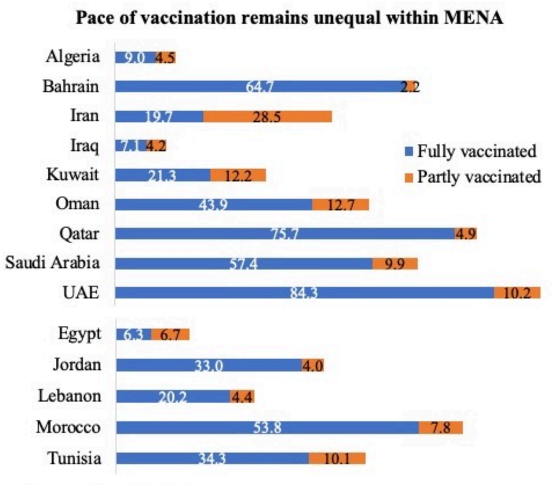
3. The Middle East & North Africa region is estimated to grow by 4.1% this year and next

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

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

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

Source: IMF World Economic Outlook database, Oct 2021



Source: Our World in Data.

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

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

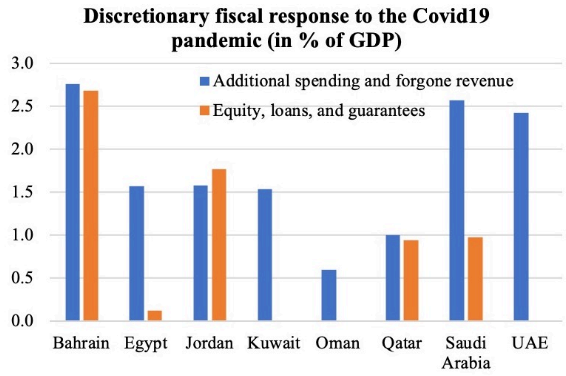
5. A Bird's Eye View of the Fiscal Outlook: Global govt debt at just below 100% of GDP; higher vs. pre-pandemic

- **Fiscal balance remains in deficit in 2021 across all regional groupings**, with the global reading at 7.9% vs MENA's 4.3% and Saudi's 3.1%. *A summary of fiscal measures since Jan 2020 are charted for select MENA countries (below)*
- **Governments have scaled back spending** in 2021, but **government revenues are still low** compared to pre-pandemic levels. Furthermore, when **stimulus measures** (~ $16.9trn in pandemic-related fiscal measures) **are rolled back**, businesses could be struggle to meet financing requirements, resulting in lower revenues/ insolvencies/ bankruptcies
- **Government debts have increased in 2020 & 2021**, and is unlikely to fall back to pre-pandemic levels soon => **greater risk to global interest rate hikes & refinancing risks** (esp those nations with limited fiscal space)
- **What can be done to ease MENA's fiscal pain?** 1. Reduce spending on subsidies, wages; 2. Improve mobilization of revenues + introduction of new taxes (e.g. carbon tax) and/or increase in existing taxes (VAT, excise) to be supported by cash transfers to the poor (where needed); 3. introduction of fiscal rules (only 1/3-rd have such rules in place currently); 4. support businesses (after stimulus measures are removed) by providing deferred tax payment options

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

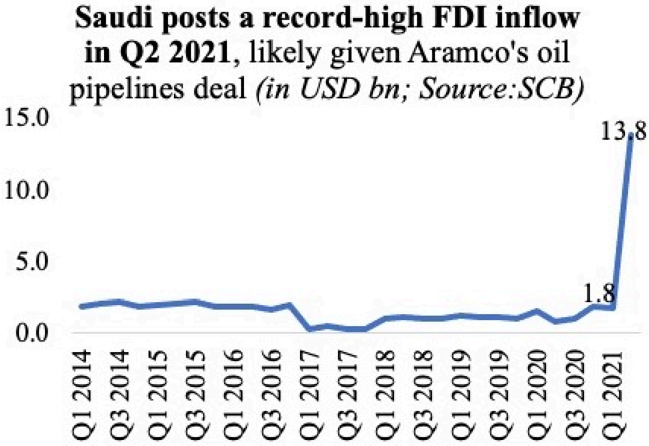
Advanced Economies	2019	2020	2021	2022
Overall fiscal balance (% of GDP)	-3.0	-10.8	-8.8	-4.8
Gross debt (% of GDP, RHS)	103.8	122.7	121.6	119.3
Emerging Market Economies				
Overall fiscal balance (% of GDP)	-4.6	-9.3	-6.6	-5.7
Gross debt (% of GDP, RHS)	54.0	63.1	63.4	64.8
Oil producers				
Overall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

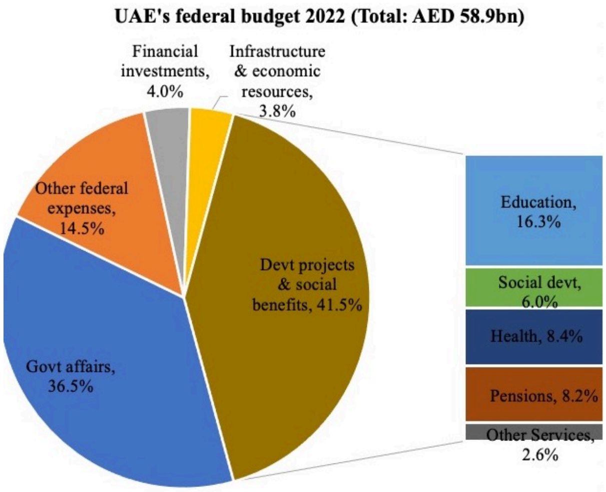
Source: IMF Fsical Monitor, Oct 2021



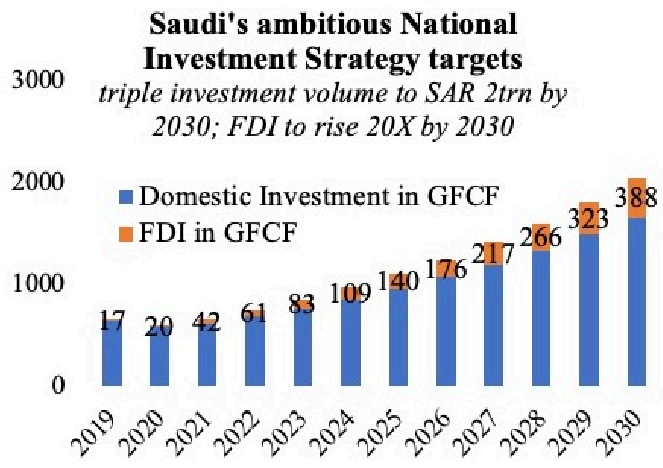
Source: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF

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





Source: UAE Ministry of Finance; Chart by Nasser Saidi & Associates



Source: National Investment Strategy document

- **UAE’s federal budget** for the 5 years 2022-26 stands at a record high total of AED 290bn
- **Budget expenditure for 2022 is set at AED 58.931bn,** with bulk of it allocated to development projects & social benefits
- Given the oversubscribed orders for UAE’s debut federal bonds, **more federal issuances can be expected in the**

future (eventually in local currency) & used towards infrastructure spending
- **Saudi Arabia's highly ambitious National Investment Strategy** expects to raise net FDI to SAR 388bn annually & raise local investments to SAR 1.7trn by 2030
- **FDI inflows have been low in recent quarters** compared to historical averages of between USD 8-10bn a quarter during 2008-10. Net FDI touched USD 5.5bn last year.

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Comments on Saudi mega projects in Arab News, Oct 13 2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "[Six giga-projects that epitomize Saudi Arabia's $7 trillion development plan]" published on 13th October 2021.

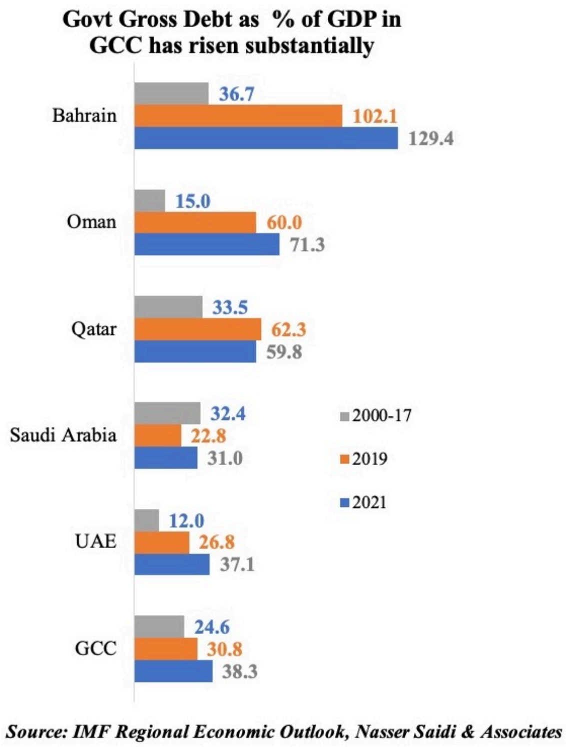
The comments are posted below.
Nasser Saidi, former economics minister of Lebanon, now Dubai-based economics consultant, said: "These projects need to be seen in the context of the broader objective of undertaking a structural transformation of the Saudi economy.
"Faster and deeper economic diversification is imperative for sustainable job creation for its youthful population, and to address the challenge of the global energy transition away

from fossil fuels, Saudi's main source of income and exports.
"By investing in new sectors (be it tourism, the digital economy or renewables) and in regional economic development on its western seaboard, Saudi Arabia is moving away from over-reliance on oil and redefining the image of the country.
"This is why gigaprojects continued (and related contracts were signed), even during the pandemic, while fiscal tightening was underway.
"Foreign investors can take some comfort from Saudi's promising high-growth potential (for example in the previously untapped tourism, media and leisure sectors) and associated returns on investment.
"But these are all long-term, long-gestation projects. That is why liberalization measures (full foreign ownership, facilitating long-term residence, reforming labor markets, allowing competition, protecting property rights, insolvency and bankruptcy laws) are important to attract FDI.
"Foreign investors can also take comfort from the fact that the gigaprojects are political standard bearers; they must be seen to be successful and they will continue to be funded from PIF, SCB reserves, tapping debt markets, etc. Notably, they will be much easier to do currently when oil prices are high at $80-plus."

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

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

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

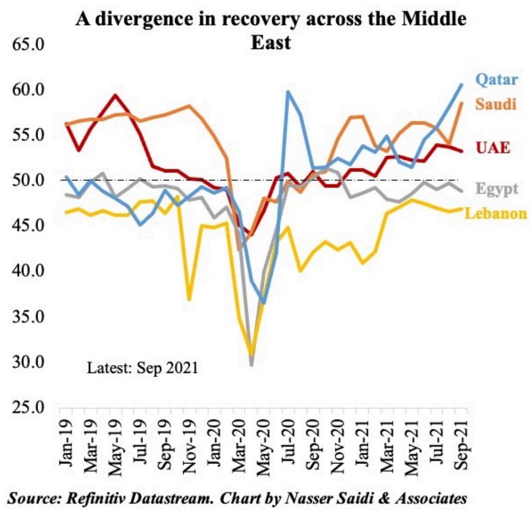


- **UAE's Federal government raised USD 4bn in its debut bond sale,** after having received orders upwards of USD 22.5bn. This **underscores investors confidence in the country's fundamentals and its recovery story**
- The individual emirates have tapped markets multiple times, but this is the **first Federal issuance**
- With USD 2bn raised in 40-year notes, the UAE has successfully secured **cheap and long-term funding** for the government. The **funds are to be used for** financing of long-term projects like infrastructure and to also support investments by the Emirates Investment Authority (UAE's SWF)
- This will **support and accelerate the development of a government debt market**, which can be used to finance

budget deficits (will not be necessary to maintain a balanced budget, but it would be prudent to introduce fiscal rules)

- **Government gross debt for UAE stands at an estimated 38% of GDP in 2020 –** slightly lower than the 40% average for the GCC and much lower than Bahrain's 130%+ and Oman's 80%+
- The **next step is to create a local currency bond market**: a steady pipeline of issuances would result in stable access to capital that can be tapped when needed; furthermore, given UAE's peg to the dollar, the central bank can also use this to conduct open market operations (support liquidity)

2. PMIs indicate a divergent recovery in the Middle East

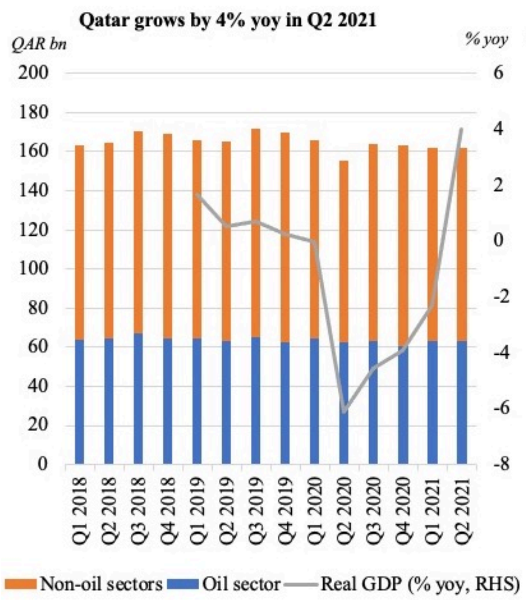


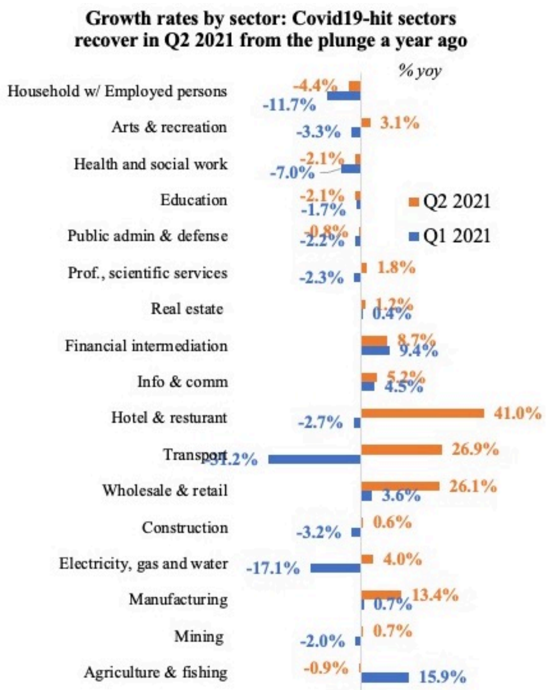
- **PMIs of fuel exporters Saudi Arabia, UAE and Qatar continue to expand in 2021**, supported by strong domestic demand thanks to high vaccination rates and ease of restrictions
- **Higher raw material prices & rising fuel costs are hurting businesses bottomline**; however, full costs are not being passed on to consumers (yet!) amid concerns of strong competition
- Meanwhile among oil importers, both **Egypt and Lebanon**

remain in contractionary territory**

- The political deadlock had been a major factor in Lebanon's plunge in addition to the growth freefall; the formation of the government has not changed businesses sceptical viewpoint
- **Optimism of a recovery in the next 12-months reached an all-time high in Egypt in Sep**, on indications of rising pace of vaccination and slow easing of travel/ tourism restrictions

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





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

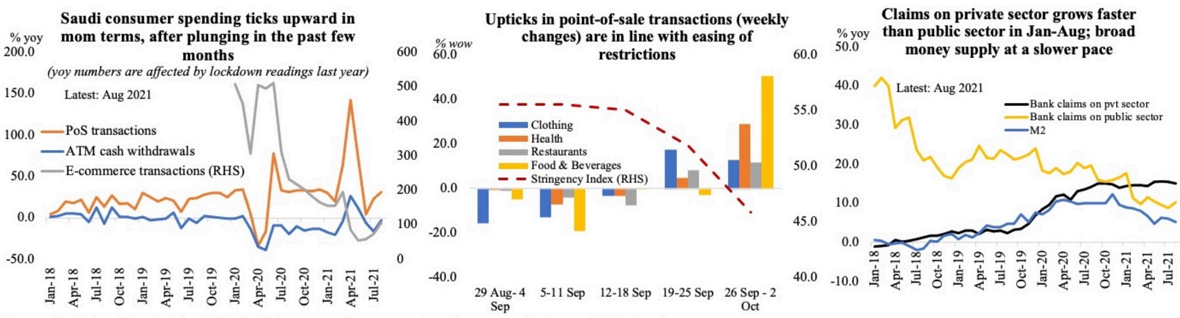
- **GDP in Qatar grew by 4% yoy in Q2 2021**, supported by a 6% surge in non-oil sector growth alongside a 0.7% increase in mining & quarrying
- **Restoring trade and travel links with Saudi, UAE, Bahrain and Egypt** after the embargo was lifted in early 2021 has also benefitted the economy
- Compared to a year ago, **hospitality sector posted the largest increase (41%) in Q2** as did transport (26.9%)

and trade (26.1%) – not surprising, since these sectors were most affected by the Covid19 outbreak.

- **Manufacturing picked up by 13.4% yoy in Q2**, after a slight 0.7% gain in Q1
- Another interesting point is the **growth in activity in agriculture & fishing** – possibly a result of policies introduced to support local agricultural products & improve food security

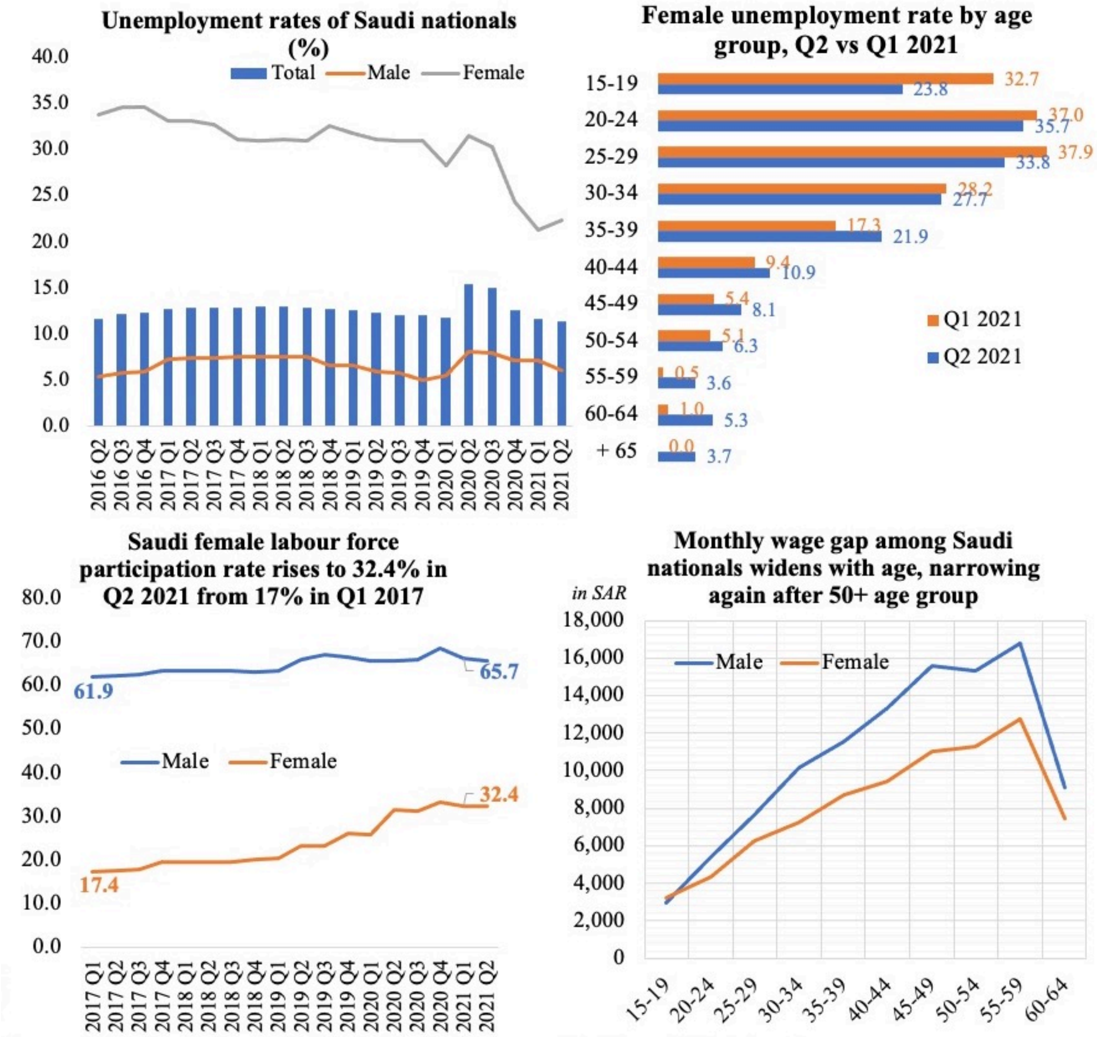
4. Broad money in Saudi Arabia grows at a slower pace than credit growth; e-commerce transaction gains continue

- **Consumer spending in Saudi Arabia has been rising gradually** in month-on-month terms, with **e-commerce transactions** doubling in Aug (SAR 6.9bn from SAR 3.3bn in Aug 2020)
- **Weekly PoS transactions** in clothing, health, restaurants & food **are rising with the easing of restrictions (**tracked by the Oxford COVID-19 Government Response Tracker/ stringency index)
- **Credit growth has been rising at a faster pace than broad money supply** (M2)
- **Claims on the private sector continues to outpace public sector loans** in Aug 2021 – as seen in most months this year. Separately, residential new mortgages increased in Aug, after two consecutive months of declines in Jun & Jul



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

5. Unemployment rate among Saudi females ticks up to 22.3% in Q2 2021



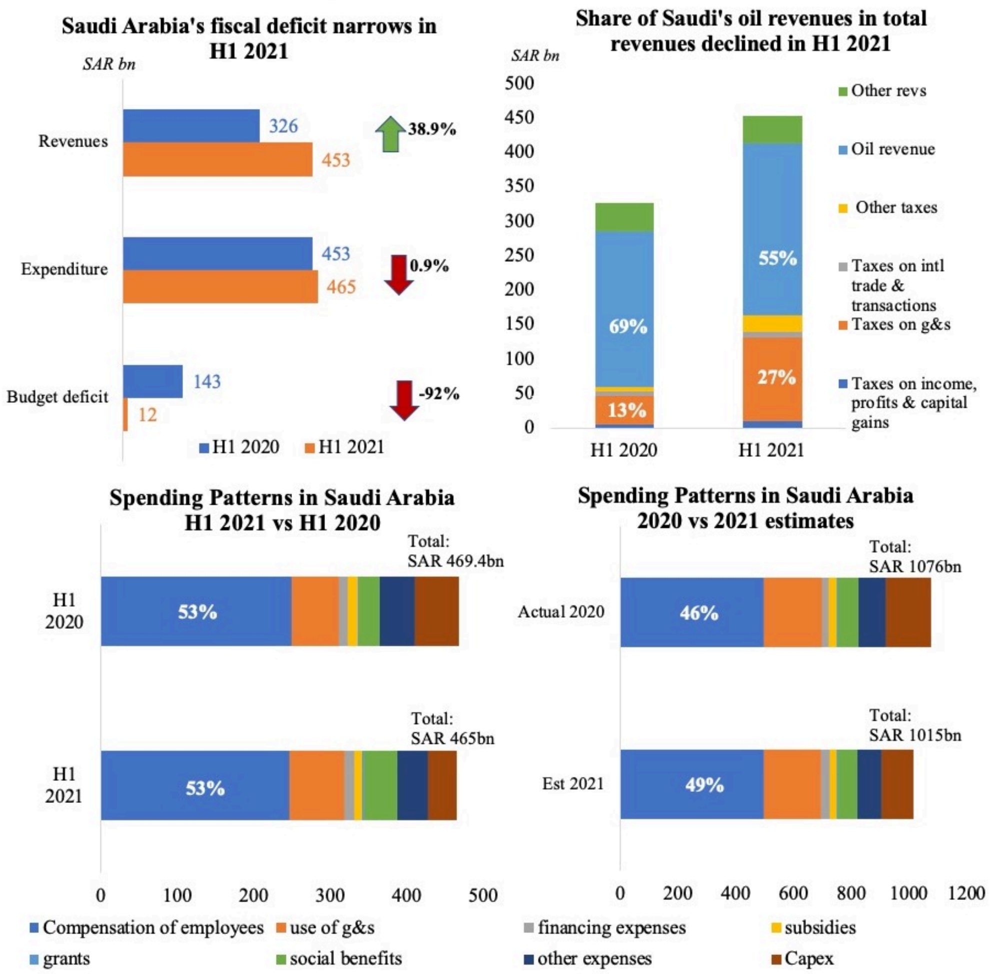
Source: Labour market survey Q2 2021, GaStat. Charts created by Nasser Saidi & Associates

- **Overall unemployment rate among Saudi nationals fell to 11.3% in Q2 2021**, down from Q1's 11.7%. Youth unemployment (20-24) dropped to 22.2% in Q2 (Q1: 23.6%)
- Unemployment rates among Saudi males dipped to 6.1% in Q2 from 7.2% in Q1
- **Unemployment rate among female Saudi citizens inched up to 22.3% from 21.2% in Q1** – a result of a jump in unemployment rates in all age brackets above 35+
- **Female participation in the workforce inched up** to 32.4% in Q2 2021 (Q1: 32.3%; 2016: 19%)
- Women earn slightly more than men in the 15-19 age

group, but the **pay gap widens** after that. On average, in Q2 2021, **a Saudi male employee is paid 1.3 times compared to a female national** though the gap has narrowed significantly over time

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

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



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

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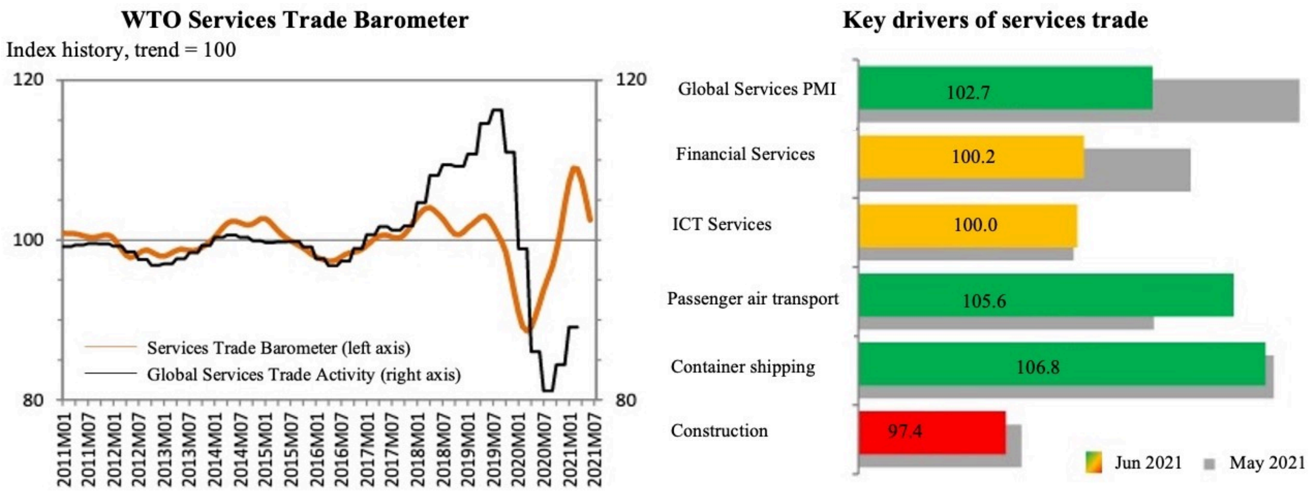
Weekly Insights 30 Sep 2021: Headwinds to Recovery in

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

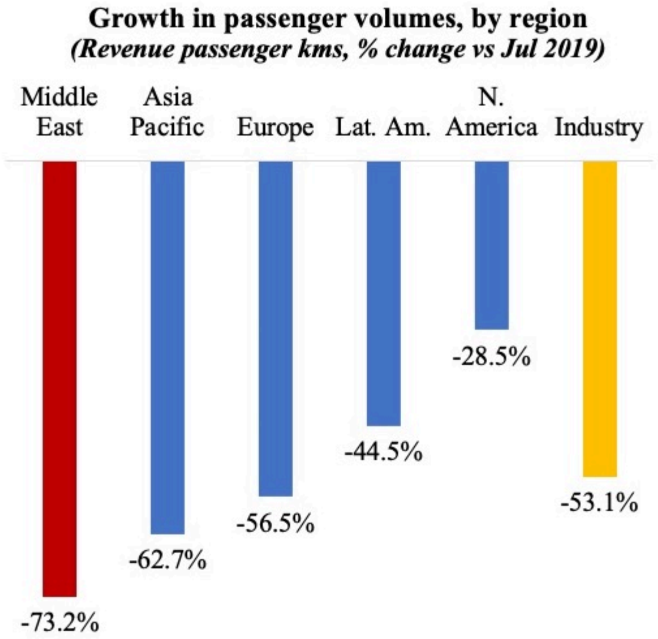


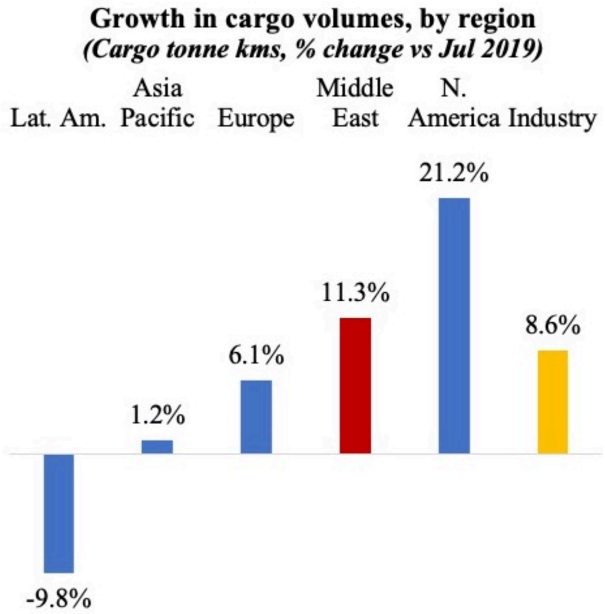
Source: Services Trade Barometer, Sep 2021, WTO.

- **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





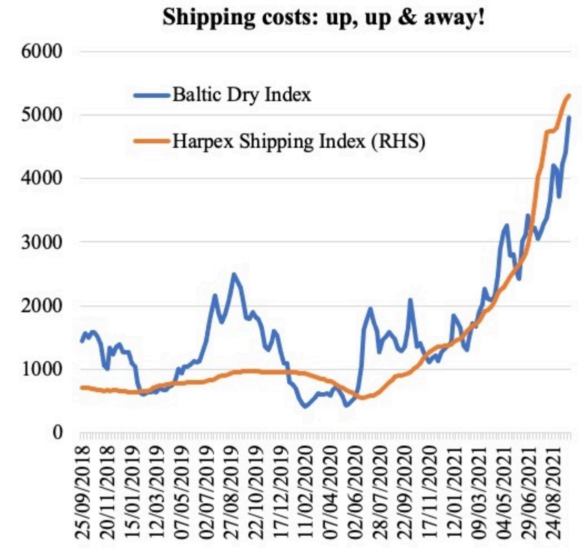
Source: Air Freight & Air Passenger Monthly Analysis, IATA Economics

- **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

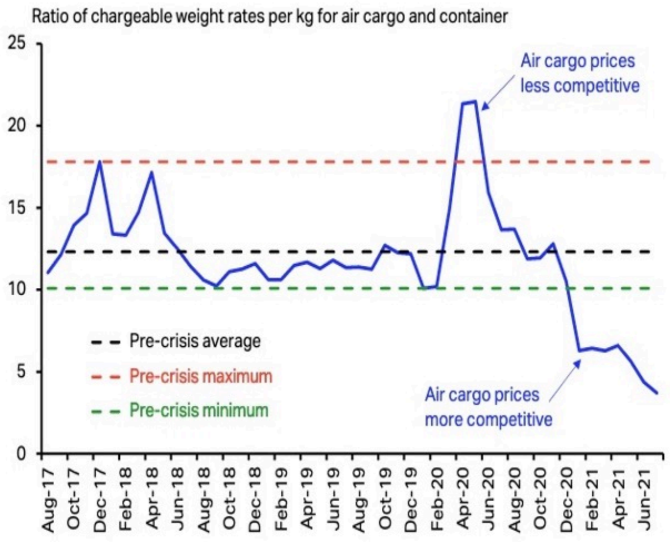
region's airlines **fell by 57.5% (vs Jul 2019), also the weakest across regions.**

- **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 ppts up from Jul's expansion (ME-Asia segment gained the most)

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



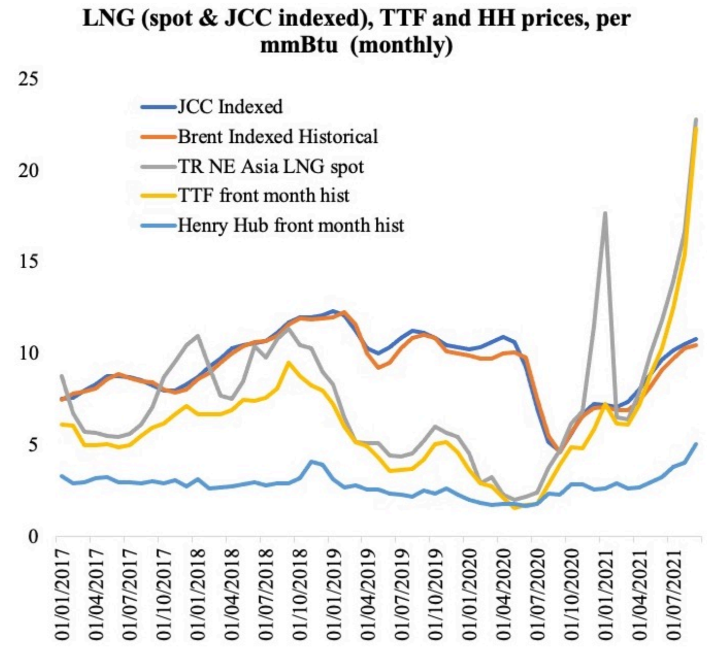
Source: Reuters Eikon. Chart by Nasser Saidi & Associates



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 &



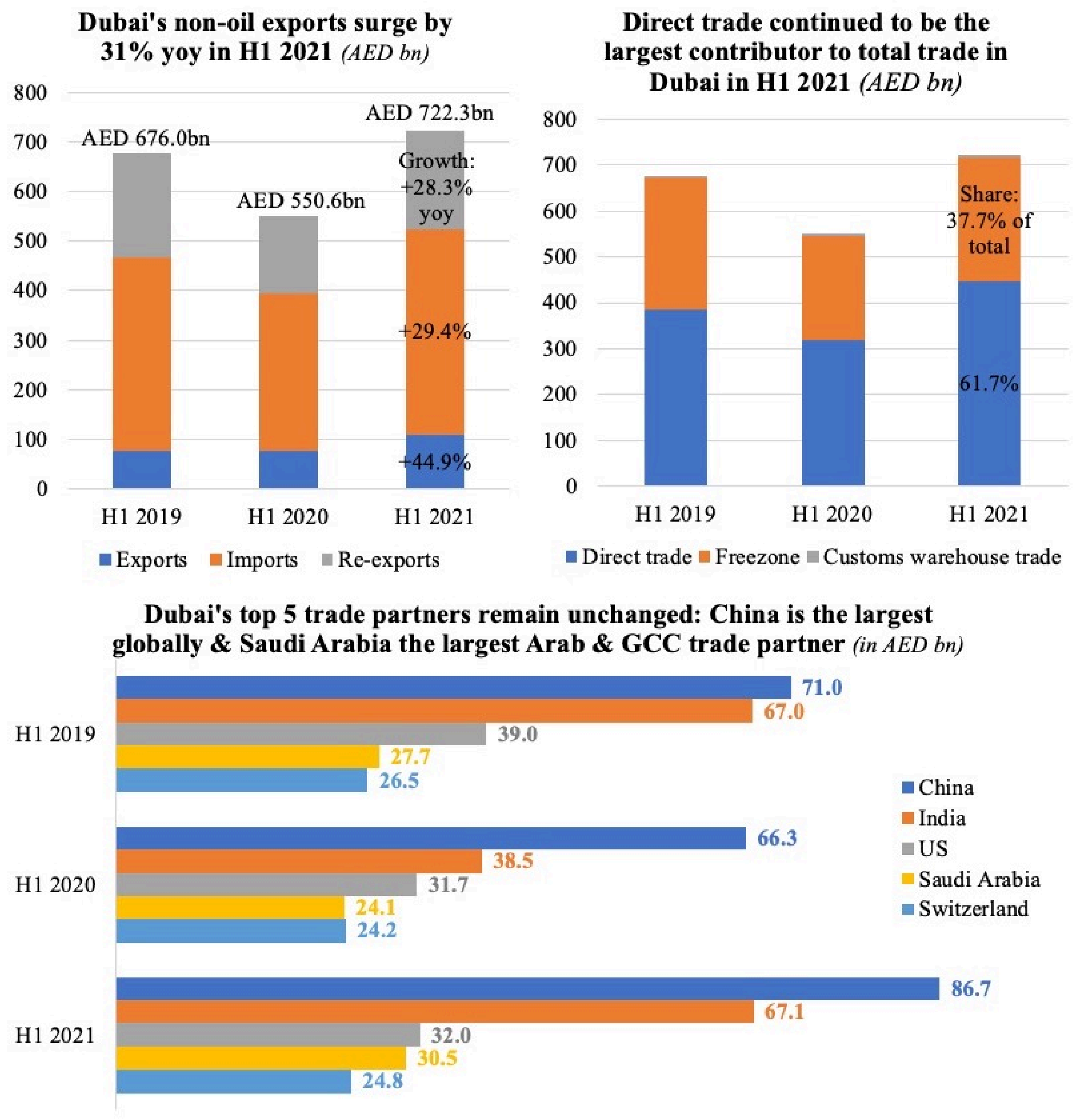
Source: Refinitiv Eikon; retrieved 30 Sep 2021

coal prices

- **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

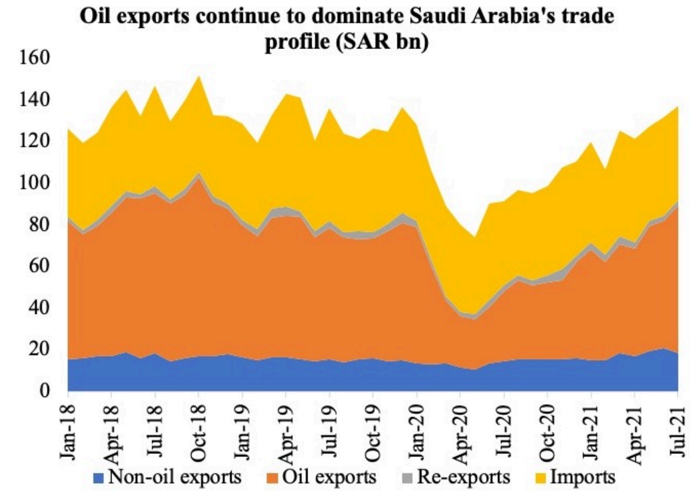
- **Dubai disclosed a 31% yoy surge in non-oil exports in H1 2021**. This follows the pandemic-hit drop in H1 2020, but **when compared to H1 2019, trade is up by a significant 6.8%.**
- This is **in line with the ambition of UAE’s 10X10**

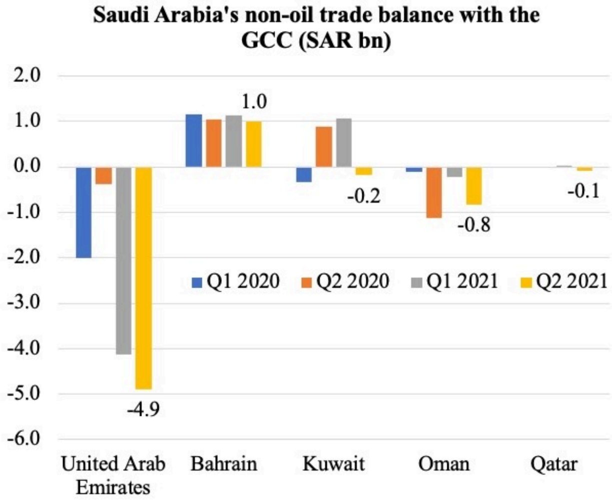
program, announced as part of the “Project of the 50”. This involves an annual increase in the country’s exports by 10% in 10 key markets: China, the UK, the Netherlands, Italy, Russia, Poland, Luxembourg, Australia, New Zealand and Indonesia.

- **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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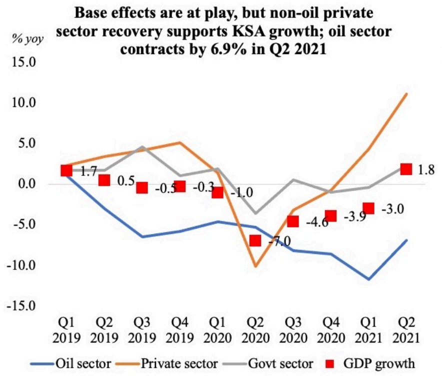
Weekly Insights 16 Sep 2021: Saudi Arabia's economic activity picks up pace

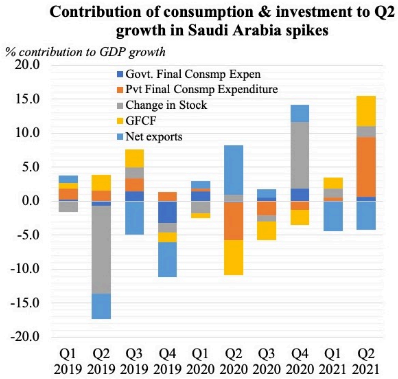
Weekly Insights 16 Sep 2021: Saudi Arabia's economic activity picks up pace

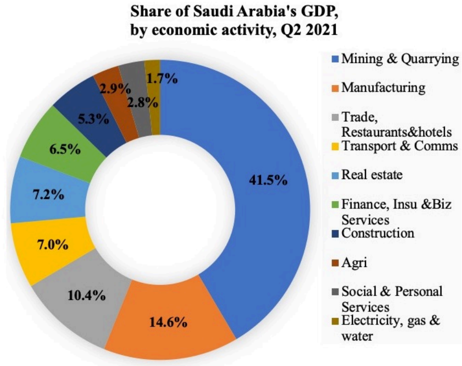
1. Saudi Arabia grows at 1.8% yoy in Q2, with the non-oil sector growing at 8.4%

- **Saudi Arabia's GDP grew by 1.8% yoy in Q2** 2021 (Q1: -3.0%), with the **non-oil private sector reporting a 11.1% uptick**, after rising by 4.4% in Q1.
- The **major share of activity lies with mining and quarrying** (~42%); together with manufacturing and trade, restaurants and hotels, these 3 sectors account for just over two-thirds of the share of GDP in Q2 2021.
- **Investment (GFCF) and private consumption expenditure were key drivers** contributing to GDP growth in Q2. Given the base effects, both surged in Q2, private consumption by 22.1% and investment by 18.3%.

- **With easing of Covid19 restrictions, Saudi is likely to see an increase in recovery pace**, supported by both domestic demand and investment as well as its implementation of major projects (in non-oil manufacturing, tourism as well as long-term projects in NEOM among others)

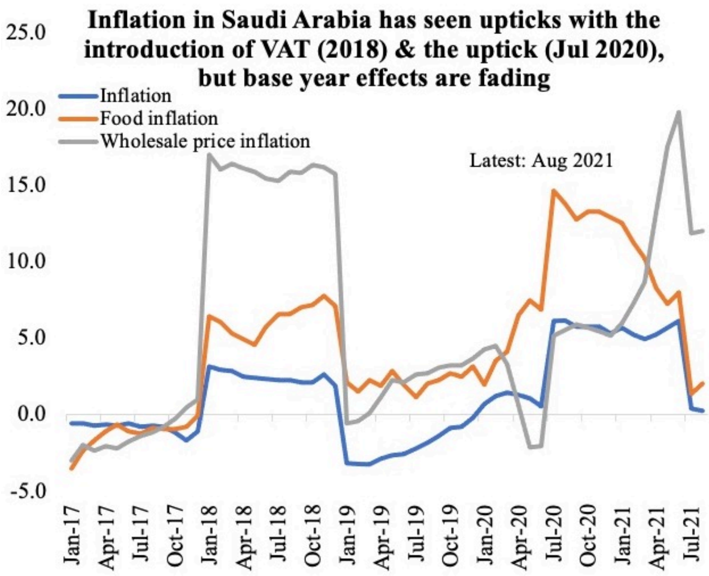


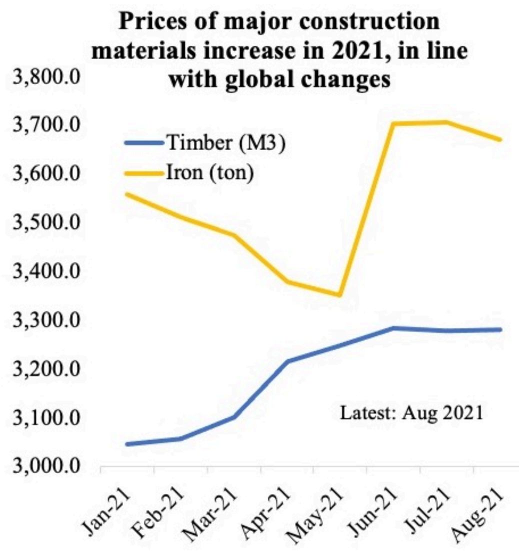




Source: General Authority for Statistics Saudi Arabia. Charts prepared by Nasser Saidi & Associates

2. Inflation in Saudi Arabia eased for the 2nd month in the row, given base effects; food costs spike





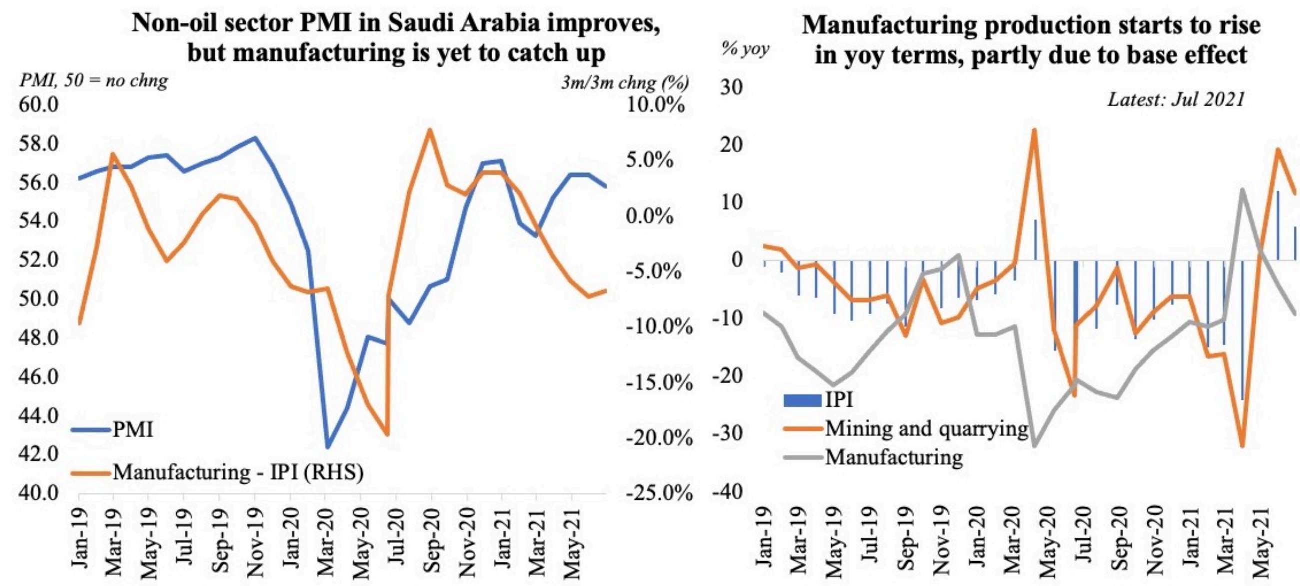
Source: Saudi GaStat. Charts by Nasser Saidi & Associates

- **Inflation in Saudi Arabia eased to 0.3% yoy in Aug** (Jul: 0.4%); however, this compares to last year's surge in the months of Jul-Aug, immediately after the increase in VAT to 15% from 5% before.
- **Food inflation however continues to rise**, up by 2% yoy

and 0.8% mom in Aug (Jul: 1.4% yoy) while sectors like transport and clothing showed weaker inflation.

- **Wholesale price index surged by 12% yoy and 0.7% mom in Aug** (Jul: 11.9% yoy), with increase in prices of metal products (given the surge in basic metal prices & electrical machinery) and other transportable goods (given hike in refined petroleum products and basic chemicals prices). Prices of major construction materials have also been on the rise, in line with global trends.

3. Saudi Arabia's PMI stood at an average 55.3 in Jan-Aug 2021; industrial production is playing catch up



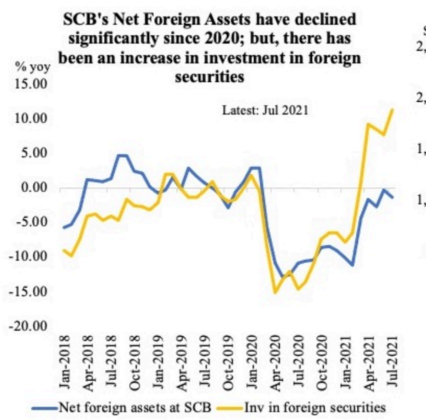
Source: IHS Markit, GaStat. Charts by Nasser Saidi & Associates

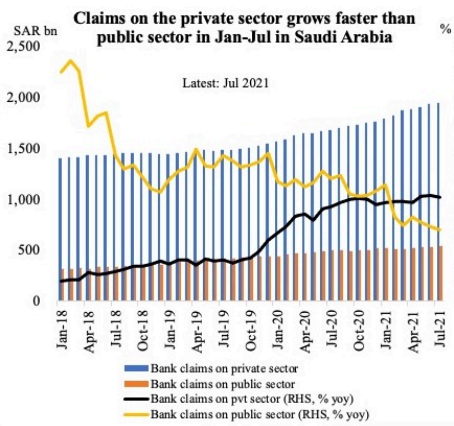
- Saudi **non-oil sector PMI declined to 54.1 in Aug, a tad lower than the average so far this year**. The month saw new orders growth slowing alonside a softer recovery in export orders as output expanded at the slowest pace in 10 months.
- Official data show that **overall industrial production (IP) inched up by 5.9% in Jul** while manufacturing dropped by 9.3% as mining/ quarrying sector production improves. The chart tracks three-month-on-three-month

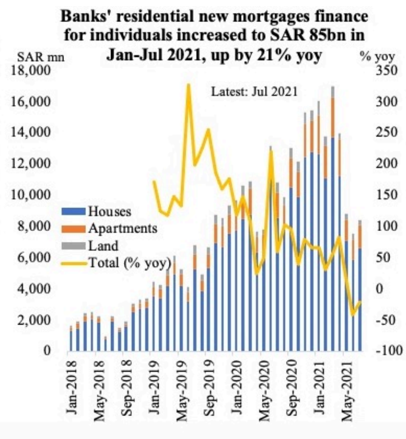
changes in the official IP data to remove some volatility. It shows that improvement in non-oil sector is happening faster than in official manufacturing – pointing to the **strength in recovery of the non-oil, non-manufacturing sectors.**

4. Saudi net foreign assets decline in Jul amid upticks in credit disbursed & mortgages

- **Saudi net foreign assets posted a 1% mom decline** to SAR 1.64trn in Jul. However, the amount of money invested in foreign securities rose by SAR5bn to SAR 1.13trn in Jul, the highest monthly figure since Apr.
- **Credit to the private sector has accelerated** by an average of 15% yoy in Jan-Jul 2021 while lending to the public sector was growing at a slightly lower pace of 11.4%. Meanwhile the number of branches have been on the decline considering many consumers' move online and prominence of digital banking.
- **Residential mortgage finance has been one of the fastest growing segments**, surging on the back of plans to increase home ownership. The **banks have lent SAR 85.4bn for new residential mortgages for individuals** during Jan-Jul 2021, up from USD 70bn in the same period a year ago. From the chart a significant decline can be seen in the last few months.

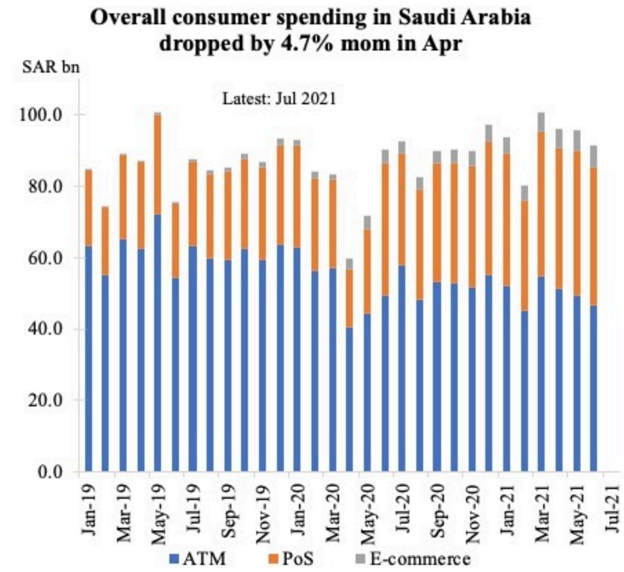


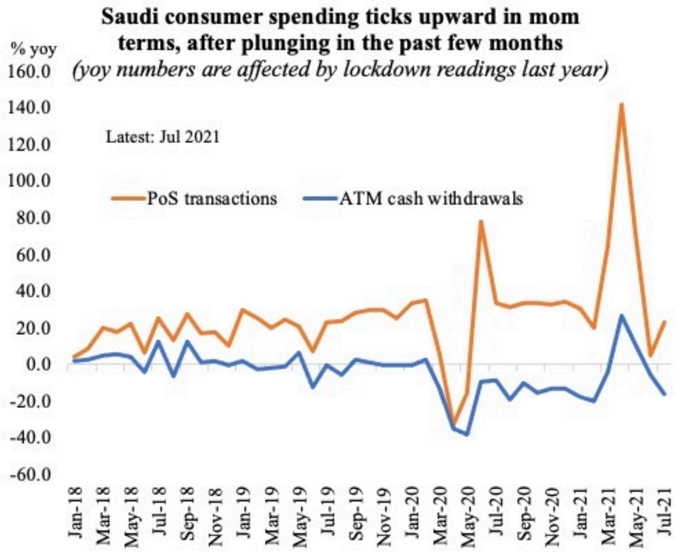




Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

5. Consumer spending in Saudi Arabia is picking up as digital adoption surges



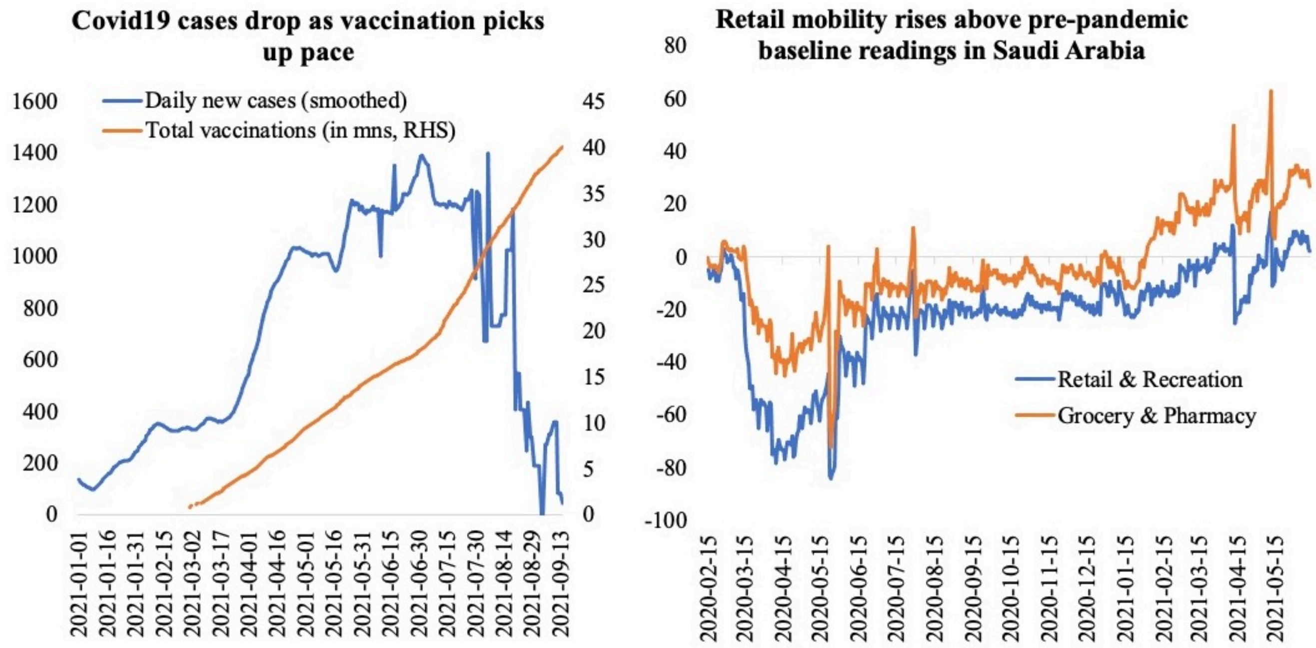


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

- **Overall consumer spending has been rising through 2021, while digital adoption is surging.**
- ATM transactions have declined by 6% yoy in Jan-Jul 2021; PoS transactions are up by 42% yoy during the period compared to a year ago while **e-commerce transactions** have almost doubled!
- Such a pattern is **underscored by the results of a recent McKinsey survey about consumer preferences**: about **58% of Middle East consumers expressed a strong preference for digital payments**, while only 10% strongly preferred cash.

6. Daily cases in Saudi fall & as restrictions are eased; with higher vaccination doses as well, retail mobility returns to

pre-pa



Source: Our World in Data(latest: 14th Aug), Google Mobility reports (latest: 10th Aug). Charts created by Nasser Saidi & Associates
Note: Baseline for Google Mobility report is the median value, for the corresponding day of the week, during 5-week period Jan 3-Feb 6, 2020.

- **Daily new cases in Saudi Arabia have fallen to less than 500 in the past few weeks or so as vaccination pace increased significantly.** Just under 50% of the population is fully vaccinated and another 16% are partly vaccinated. Stringency levels, as tracked by the Oxford COVID-19 Government Response Tracker, has come also down: at an average 51.3 in Aug (Jul: 53.1).
- **In addition to easing restrictions, high levels of vaccination are leading to greater mobility**: retail/ recreation/ shopping mobility has risen above pre-pandemic baseline levels in Saudi Arabia as vaccination doses per 100 people touched 113.82 (UAE: 191.8; Bahrain: 144.7).

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Comments on Afghanistan's uphill economic battle in Arab News, Aug 23 2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Deprived of foreign aid, Afghanistan's new Taliban rulers face an uphill economic battle" on 23rd August 2021.

The comments are posted below.

"Macro-economic stability cannot be maintained in the short term. But in the medium to long term, if there is a political settlement and relations are re-established with the US, Europe and the Gulf states, they can begin to stabilize it," Nasser Saidi, the Middle East economic expert, told Arab News.

Saidi, who has served as economics minister of Lebanon and vice governor of the Lebanese central bank for several terms, highlighted the likelihood that China and other non-Western countries would see economic and strategic advantages in Afghanistan under Taliban rule – if stability can be achieved.

On economic administration experience:

"They have controlled the trade routes to other countries for some time, which allowed them to finance the Taliban movement. But that will not be enough on its own to finance the entire government," Saidi said.

"I anticipate agreements with China to exploit Afghanistan's natural resources. In that case, China will benefit from the debacle of the US withdrawal," Saidi said.

"It will not come in the form of aid, but in investment in

infrastructure and exploitation of natural resources. If Afghanistan is linked to the Belt and Road Initiative, the economic situation could improve dramatically," he added.

Arabian Gulf countries might also be persuaded to take part in the rebuilding of the country. "The Gulf countries don't want to see a destabilized Afghanistan, and might be interested in the natural resources, too," said Saidi, pointing to the prominent role already being played by Qatar in Afghanistan's affairs.

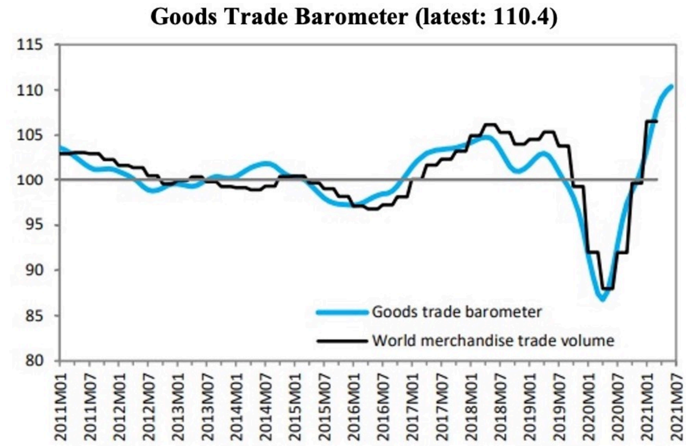
Weekly Insights 19 Aug 2021: Charts on Global Trade Recovery + Tourism in the Middle East + Fiscal deficits in Bahrain & Kuwait + Consumer & Producer Prices in Saudi Arabia

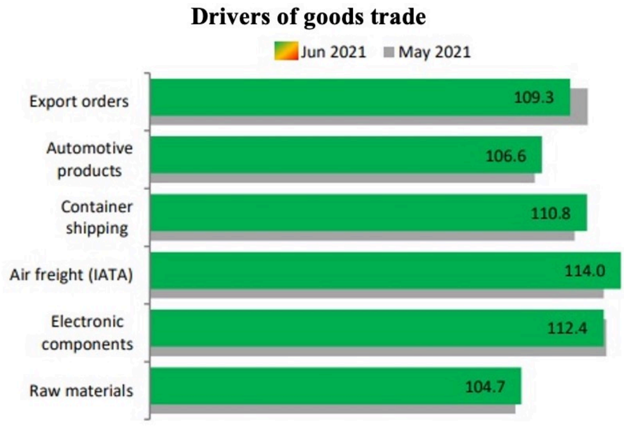
Weekly Insights 19 Aug 2021: Charts of the Week (Global Trade Recovery + Middle East's Tourism Indicators + Fiscal

deficits in Bahrain & Kuwait + Consumer & Producer Prices + Industrial Production in Saudi Arabia)

1. Recovery in trade in 2021, though the pace is slowing; port closures to lead to delays & higher costs

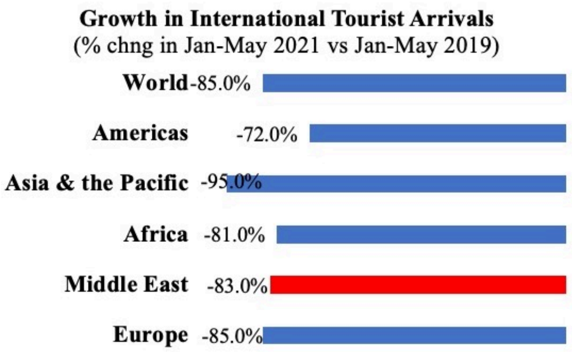
- The WTO's latest **Goods Trade Barometer, with a record high reading of 110.4, underscores the strength of recovery:** it is up more than 20 points in year-on-year terms. However, data suggest that the index is rising at a slower pace. Overall, **the WTO expects world merchandise volume to grow by 8% this year** (vs 2020's 5.3% drop).
- All components identified as **drivers of trade were above trend** (100): but the **easing of the forward-looking export orders in Jun** (vs May) suggests that the uptick seen in the earlier months might be slowing. This is also evident from recent PMIs: rate of expansion in JP Morgan's global manufacturing PMI had slowed further from May's 15-year high.
- Furthermore, **supply chain disruptions will continue to have a negative impact**: the recent closure of the Ningbo Zhoushan port in China (following a Covid19 case) is leading to congestion at several other Chinese ports & likely lead to delays as well as uptick in freight charges. Case in point: **Freightos Baltic Global Container Index**, a weighted average of 12 major global container routes, **hit a record high of USD 9,770** per forty-foot equivalent (FEU) container this week.





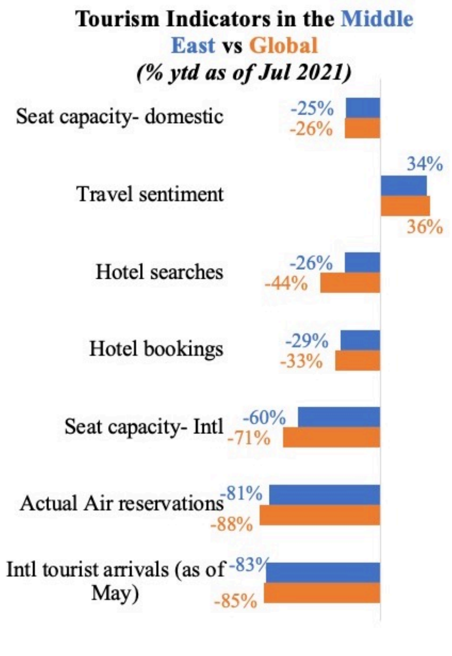
Source: Goods Trade Barometer, WTO (issued 18th Aug, 2021)

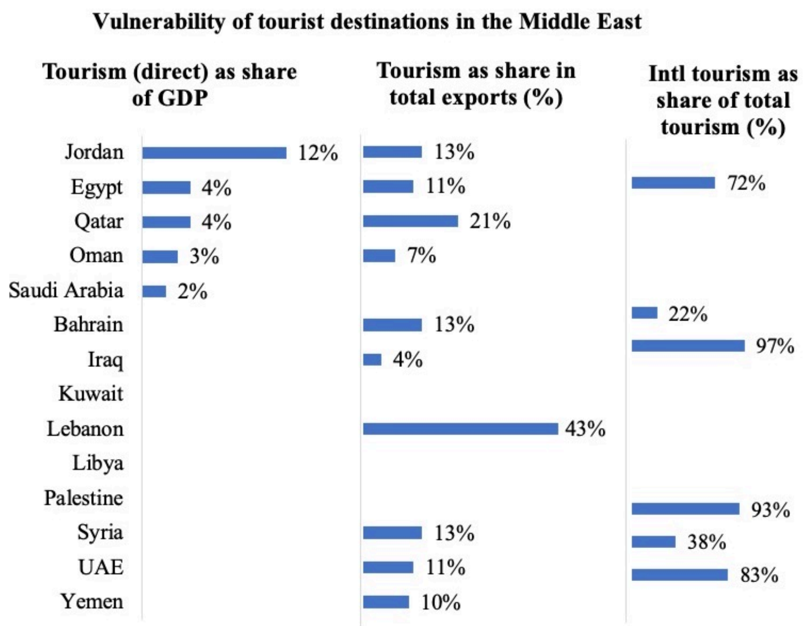
2. Tourism: As regions with large domestic markets recover faster, no surprise that the Middle East lags



International Tourist Arrivals in the Middle East, by country

	2020	Jan-21	Feb-21	Mar-21	Apr-21	May-21
Middle East	**-75%**	**-84%**	**-84%**	**-82%**	**-84%**	**-82%**
Bahrain	-83%	-92%	-92%	-99%	-93%	-90%
Egypt (as of Aug)	-69%					
Lebanon (as of May)	-71%					
Oman	-75%	-87%	-92%	-90%	-95%	-97%
Qatar	-73%	-93%	-92%	-92%	-93%	-87%
Saudi Arabia	-76%	-88%	-90%	-92%		
UAE	-67%	-70%	-70%	-64%	-68%	-62%



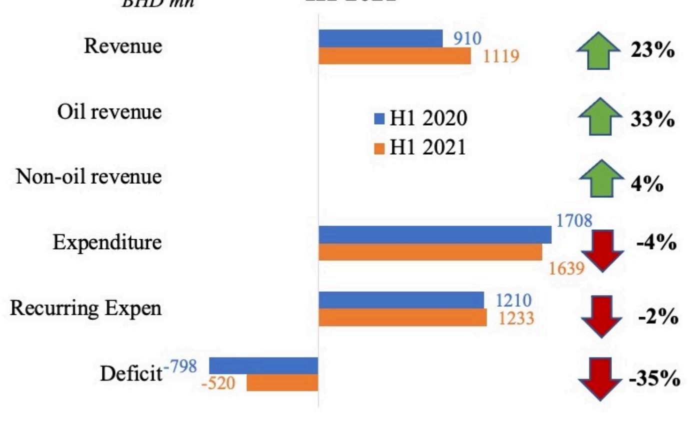


Source: UNWTO. Charts created by Nasser Saidi & Associates

3. Bahrain's deficit narrows in H1 2021, thanks to a rise in oil revenues; debt needs taming

- **Budget deficit in Bahrain narrowed to BHD 520mn in H1 2021** (-35% yoy), supported by a 23% pick up in revenues (largely due to the **33% rise in oil revenues**).
- Overall, **revenues (& expenditures) in H1 account for 46.5% (& 45.4%) of the total budgeted for the full year** 2021. The budget, based on oil price at USD 50 per barrel, is estimated to post a deficit of BHD 1.2bn in 2021. According to the IMF, the **fiscal breakeven price for Bahrain is USD 88.2 this year & USD 85.8 in 2022.**
- **Bahrain needs to reduce debt once economic recovery is back on track**: its **gross public debt** rose to 133% in 2020 and is forecast to increase to 155% by 2026. Its **gross external debt is meanwhile projected to ease slightly to 245.6% of GDP this year** (2019: 225.7% & 2020: 257.7%).

Bahrain's fiscal deficit narrows by 35% yoy in H1 2021



Source: Bahrain's Biannual Financial Report 2021, Nasser Saidi & Associates

Key macroeconomic indicators, Bahrain

	2019	2020	2021	2022
Real GDP	2.0	-5.4	3.3	3.1
Oil	*2.2*	*2.0*	*0.7*	*0.7*
Non-oil	*2.0*	*-7.0*	*3.9*	*3.7*
CPI	1.0	-2.3	1.5	2.1
Oil revenues (% of GDP)	14.6	9.8	13.1	11.9
Fiscal deficit (% of GDP)	-9.0	-18.3	-9.1	-9.4
Govt gross debt (% GDP)	102.0	133.0	129.0	134.0
Oil exports (share of total exports)	0.5	0.4	0.5	0.5
Current account balance (% of GDP)	-2.1	-9.6	-4.0	-4.2
International Reserves ($)	3.7	2.2	2.5	2.7
in months of non-oil imports	*2.3*	*1.3*	*1.4*	*1.4*

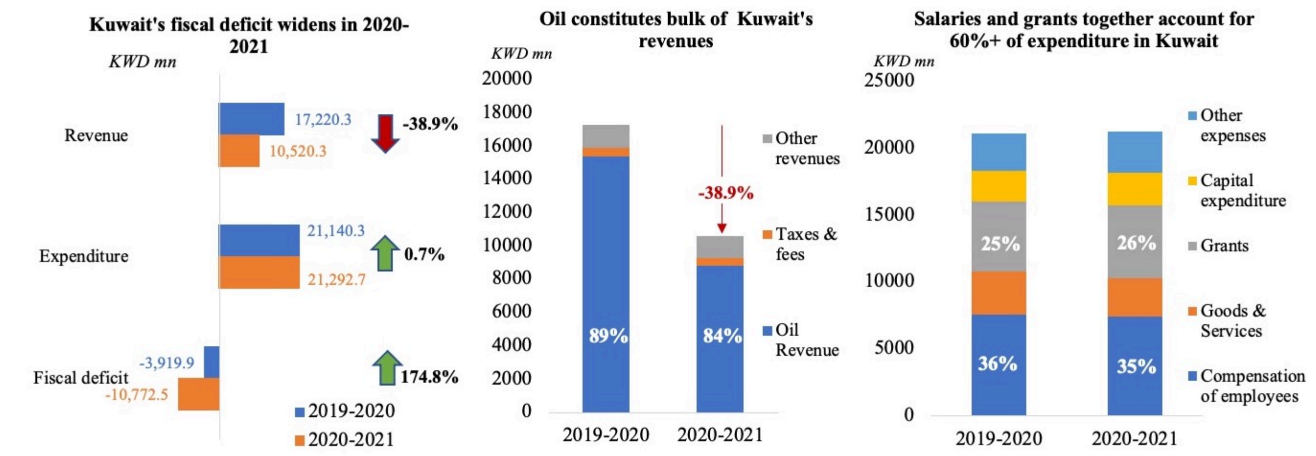
Source: IMF REO (Apr 2021) & Article IV (Mar 2021)

4. Kuwait's fiscal deficit almost triples in 2020-21 vs a year ago; salaries & subsidies continue to account for a substantial portion of overall expenditure

- **Kuwait posted a fiscal deficit of KWD 10.8bn in 2020-21, compared to USD 3.9bn a year ago**.
- Revenues plunged by 39% yoy in 2020-21, largely due to a **42.8% drop in oil revenues**; taxes and fees fell by 10.6%. Oil revenues accounted for 84% of overall revenues last year and close to 90% the year before
- **Overall expenditures** was little changed (+0.7% yoy) and

its **composition remained more or less steady**: salaries and grants together accounted for 60% of overall expenses; a 10% drop in goods & services was offset by a 12% uptick in other expenses

- It is hence little wonder that the Cabinet announced this week that **all government departments are to reduce spending by no less than 10% in the current fiscal year** (2021-22). Furthermore, the government is considering a maximum threshold (of KWD 3000) for the disbursement of national labour support to private sector employees
- **Kuwait's debt levels are substantially lower (vs Bahrain), but it urgently needs to**: (a) boost its non-oil revenues with the introduction of VAT; (b) reduce subsidies and introduce other expenditure-reducing measures; and (c) push Parliament to pass the debt law which has limited its ability to issue international debt to finance spending (among others)

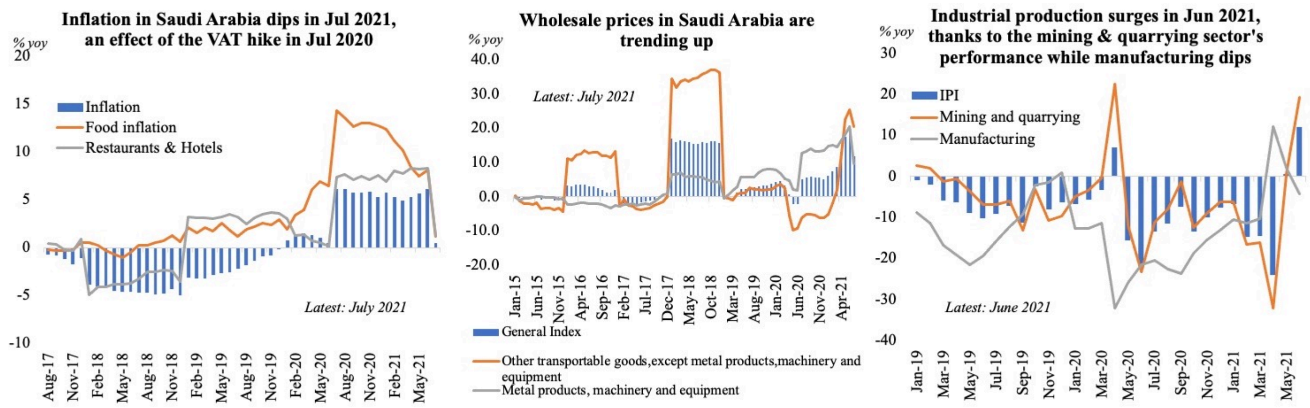


Source: Ministry of Finance, Kuwait. Charts created by Nasser Saidi & Associates

5. Prices are on the rise in Saudi Arabia *(taking into consideration effect of a higher base last year)* while industrial production gains *(due to oil)*

- **Consumer price inflation slowed to 0.4% yoy in Jul**, largely due to the uptick in Jul 2020 when VAT was hiked to 15% (on a monthly basis, prices were up by 0.2%). However, **food costs are now up 8.4% on avg this year (till Jul) vs overall inflation at 4.8%**

- **Wholesale prices increased to 11.9% yoy in Jul** (Jun: 19.76%), as the effect from the Jul 2020 VAT hike dissipates. **Other transportable goods**, with a weightage of 33.72% and which includes refined petroleum products prices, **reported the largest rise during the month** (+20.49%). Rising global prices of metals and electrical machinery are also reflected in the country.
- Lastly, **industrial production in Saudi Arabia increased by almost 12% in Jun 2021, attributed mostly to the increase in oil production** as non-oil manufacturing sector activity dropped by 4.2% yoy and 0.4% mom.



Source: General Authority for Statistics, Saudi Arabia. Charts created by Nasser Saidi & Associates

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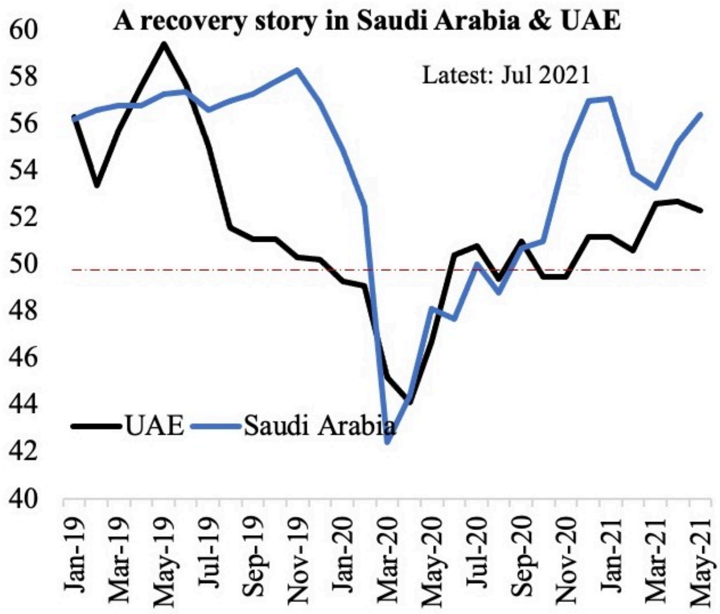
Weekly Insights 5 Aug 2021: Domestic Demand Drives

Economic Recovery in Saudi Arabia & UAE +“Tanker Tensions”

Weekly Insights 5 Aug 2021: Domestic Demand Drives Economic Recovery in Saudi Arabia & UAE +“Tanker Tensions”

1. UAE and Saudi Arabia’s PMI supported by domestic demand

- Latest **non-oil sector PMI for July remained in expansionary territory** in both UAE & Saudi Arabia



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

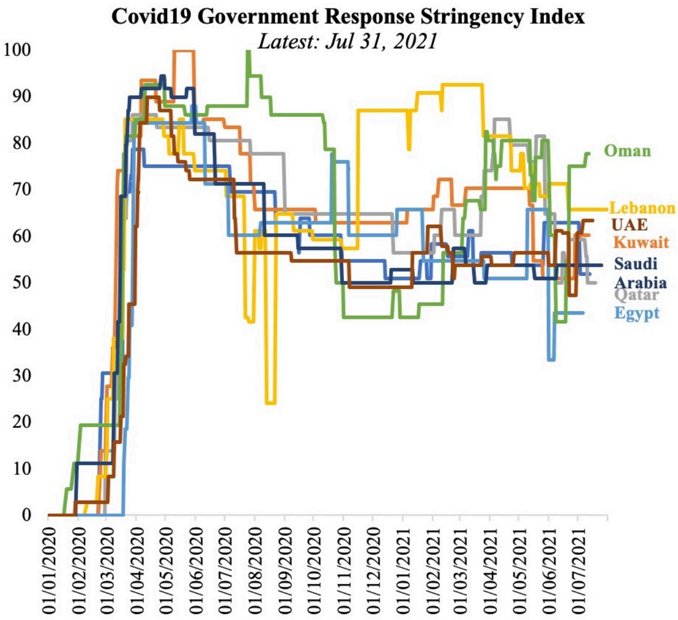
- **UAE’s PMI jumped to a 2-year high** of 54 (Jun: 52.2), on strong output and new orders readings (highest since Jul 2019) while employment rose at the fastest pace since Jan 2019. **Domestic demand played a significant role in the recovery.**
- **In Saudi Arabia, PMI eased to 55.8** (Jun: 56.4), on weaker growth in output, new orders and employment. The PMI readings have stayed above 50 for the 11th straight

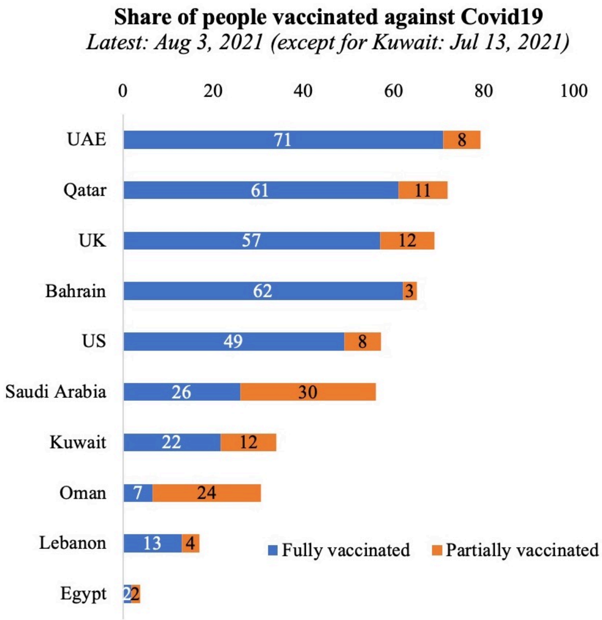
month. Respondents mention **improvements in demand** given competitive pricing.

- **Both UAE and Saudi firms cited increase in input prices** (given delays in shipments) and lengthened delivery times; **these costs, however, were not passed on fully to consumers** as the main objective still remains to stimulate demand/spending
- **Looking forward**:
  - For UAE, Expo (starting from Oct) and easing of restrictions will offer further respite (flights for residence visa holders from India, Pakistan & 4 other nations have resumed)
  - Higher oil output amid an OPEC+ agreement to support growth; services sector (especially tourism) to benefit from the recent opening up for vaccinated persons/ tourists

2. High vaccination rates & stringency levels will support a return to "normal"

- Both **Saudi Arabia and the UAE have benefitted from a string of reform measures** (100% foreign ownership, privatisations, visas, capital market reforms etc) **in addition to the timely rollout of Covid19 stimulus packages**.
- In addition, **high immunization rates have also supported the recovery phase**: UAE is home to one of the highest vaccination rates globally (71% fully vaccinated) while in Saudi Arabia, 56% have received one dose or more. UAE recently announced vaccination for 3 to 17 year olds to further curb the spread of the pandemic.
- The **stringency index for the UAE has ticked up a notch** (up 16 points since end-Jun till mid-Jul, during Eid holidays) and stands now as the second-most stringent among the GCC (Oman tops the list & Qatar the least)

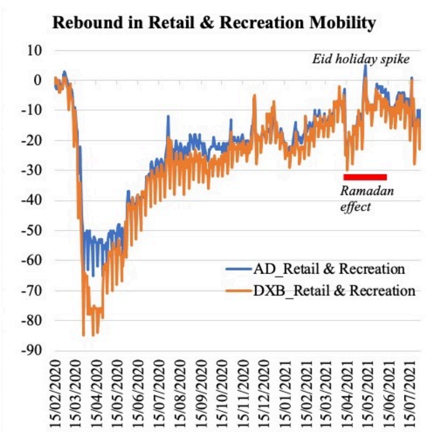


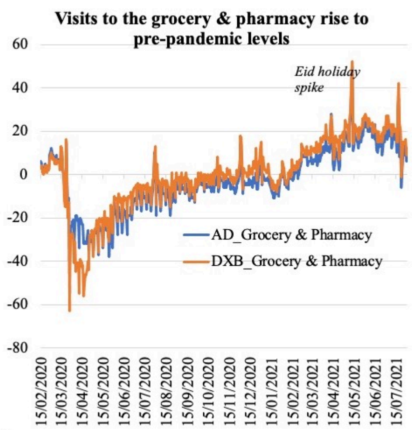


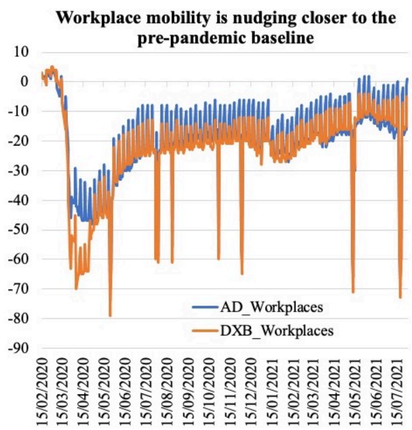
Source: Our World in Data. Charts created by Nasser Saidi & Associates.

3. UAE mobility edged down slightly in Jul vs Jun 2021

- **The increase in stringency is reflected in the latest UAE mobility data till end-Jul**
- **Both retail and recreation mobility as well as grocery and pharmacy visits have slipped during last month.** Though the almost-week break for Eid saw an increase in mobility (except for workplace), it remained relatively subdued for the rest of the month, causing the overall Jul figure to be lower vs Jun. Grocery and pharmacy visits are in pre-pandemic territory.



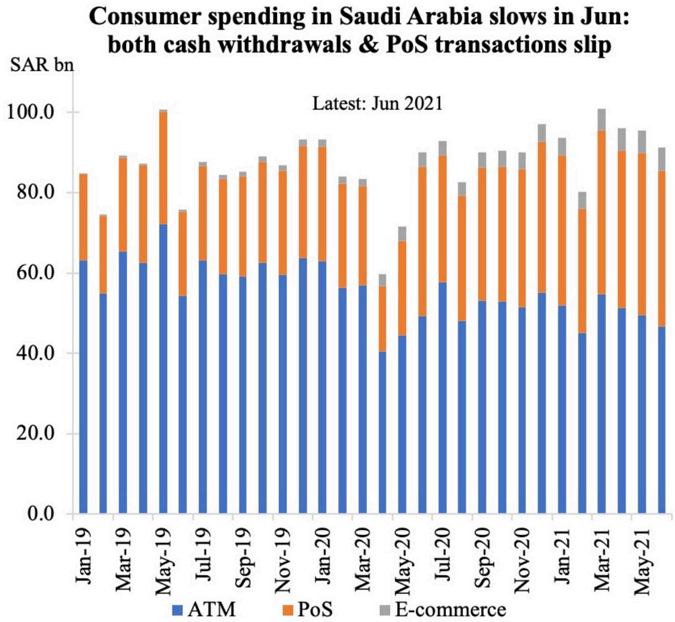


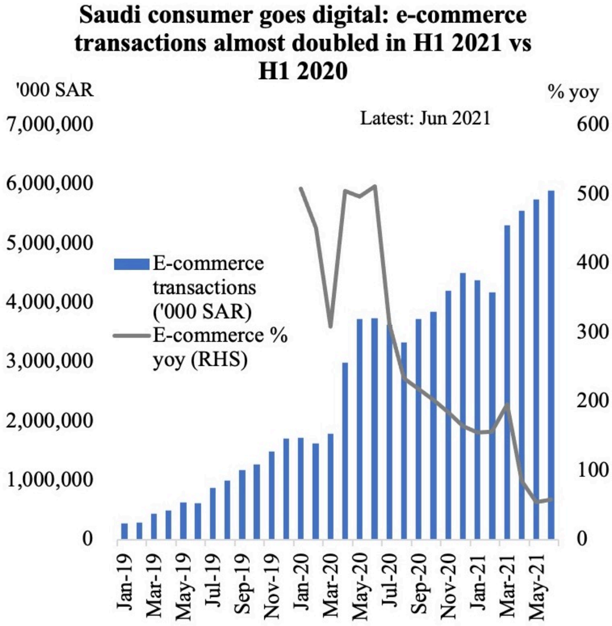


Source: Google Mobility Report. Charts by Nasser Saidi & Associates
Notes: Google Mobility baseline is the median value, for thecorresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020

4. Consumer spending in Saudi Arabia slowed in Jun, but recovery from the initial Covid dip continues

- **Overall consumer spending has been rising through 2021, with an increase in cashless transactions.**
- While ATM transactions have declined by 4% yoy in H1, **e-commerce transactions** are still rising, having **almost doubled in H1 2021** vs. the same period a year ago.
- **Cash is no longer king**: a report by Fintech Saudi found that only 18% of Saudis aged between 16 and 22 years use cash, while almost half of people who are 60 and above use cash till date
- **Point-of-sale transactions** in Jun increased the most (in yoy terms) within the “hotels” and “restaurants and cafes” categories. **Big-ticket items like electronics and jewelry declined in yoy terms**, given the impact of big purchases in Jun 2020 (ahead of the tripling of VAT)



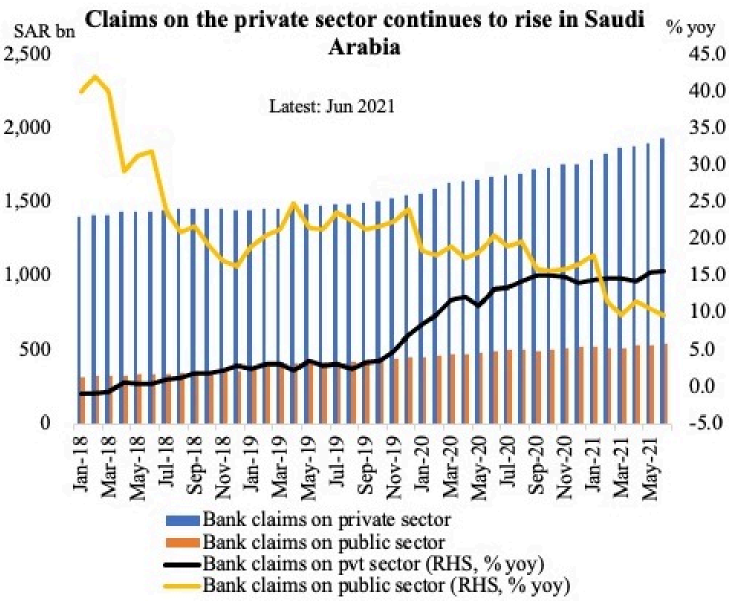


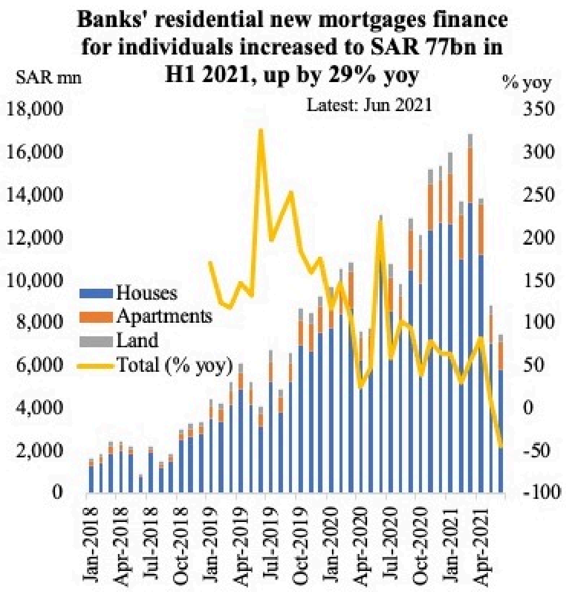
Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

5. Bank claims to the private sector rise, with a healthy dose of mortgage loans

- **Credit to the private sector has accelerated** by an average of near 15% yoy in H1 2021, rising in line with the pre-pandemic pace. (This is in contrast to the UAE where private sector lending has been on the decline vs. an expansion in credit to both government and public sector entities. [Read last week's Insights](#))

- **Residential mortgage finance has been one of the fastest growing segments**, surging on the back of plans to increase home ownership. The banks have in H1 2021 lent SAR 77bn for new residential mortgages for individuals, up from USD 60bn in the same period a year ago.





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

6. Volatile oil prices amid tanker tensions in the Middle East

- Multiple **tanker incidents in the Gulf of Oman** in the span of a week is causing tensions in the Middle East region. Multiple countries have pointed the finger at Iran for these attacks.
- **This is near the Strait of Hormuz chokepoint** – famous for oil transit. Bloomberg estimates that 12mn barrels per day of crude and condensate passed through the Strait last year (from oil producers in the Middle East) in addition to a quarter of global LNG supplies.
- Two aspects to consider in this regard: 1. **rise in geopolitical risk and more specifically, maritime risk.**

At a time when shipment delays are rampant given recent lockdown measures in Asia, the supply chain does not need further interruptions from attacks (increasing travel time and costs); 2. These tensions complicate the efforts to revive the nuclear deal (signed in 2015): while no future date has been set for the next meeting yet, the 6 rounds of informal negotiations have not been very successful. Iran's political transition, with its new President, adds another layer of uncertainty to the picture.

- Whichever manner this plays out, **oil prices are likely to remain volatile**: prices remain an interplay between tight supply concerns amid a potential decline in demand. With cases rising in the US and China, two of the largest oil consumers globally, concerns are rife about **lower global demand** (weak PMI data in both nations support this notion). With the recent Reuters survey finding that **OPEC July oil output hit a 15-month high**, lower oil prices could be on the horizon sooner than later.
- Lastly, **the commitment to fight climate change** is also leading countries to greener paths of economic development. According to the World Bank, oil intensity of global output had already declined by about one-third in the two decades to 2019! The current commitments (including from the Middle East region) will further accelerate the move away from oil.

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Comments on Saudi equity market performance in Arab News, Jul 26 2021

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “Saudi Arabia tops emerging markets league table” on 26th July 2021.

The comments are posted below.

“Saudi Arabia’s market outperformance and strong corporate valuations reflect its sustained course of economic transformation, along with liquidity boosting by the central bank,” financial expert Nasser Saidi told Arab News.

“Economic and structural reforms, along with social liberalization policies, including opening up foreign markets to foreign investors, allowing for 100 percent foreign ownership in certain sectors, resulted in massive investment inflows.”

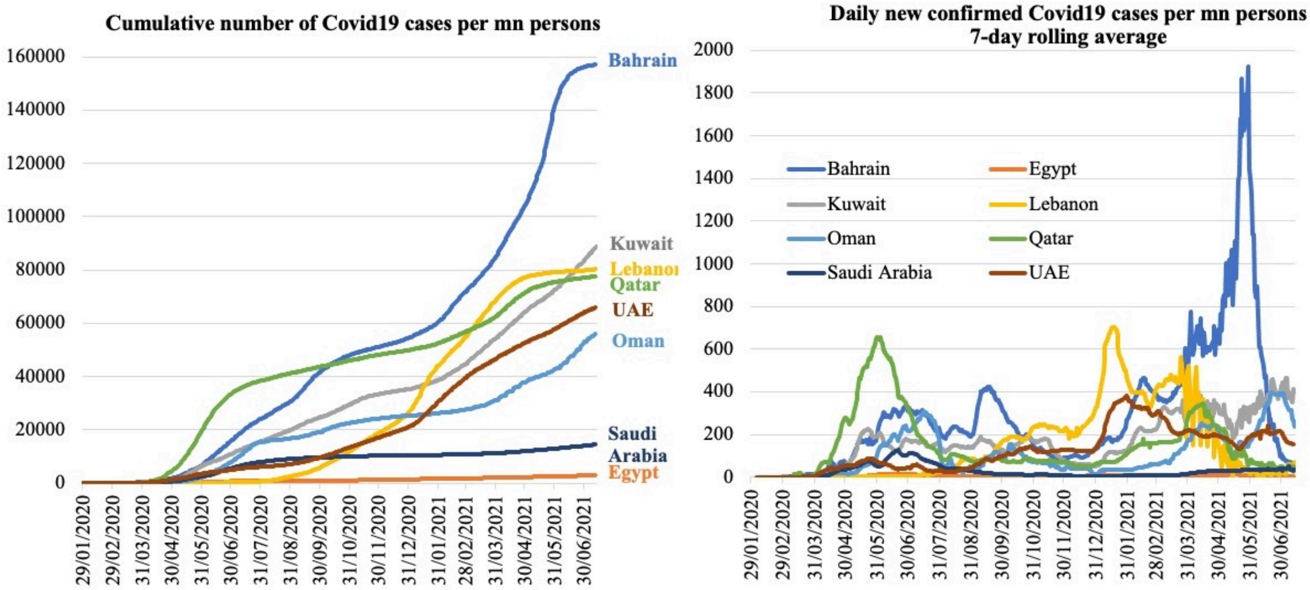
He highlighted the effect of the “policy-shattering” initial public offering of Saudi Aramco, and the steady stream of market flotations continuing this year, as a key feature of the Kingdom’s progress since the pandemic began.

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)

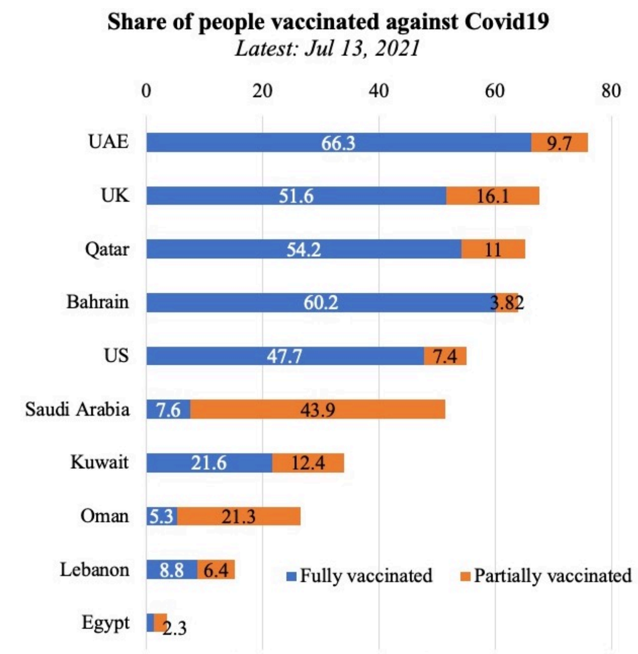
- **Cumulative Covid19 cases in the MENA region have surpassed 10mn**.
- The GCC, which accounts for 14% of the population accounts for just over 1/5th of the cases; Iran, home to 21% of the region's population, accounts for just over 1/3-rd of cases.
- **Bahrain, which had seen a massive spike in cases**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

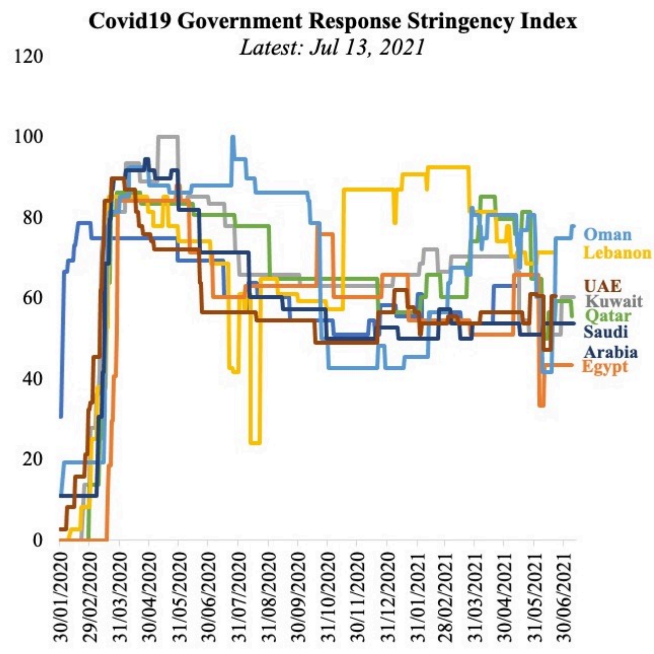


Source: Our World in Data. Charts created by Nasser Saidi & Associates. Data is as of July 13th, 2021.

2. Vaccination 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.

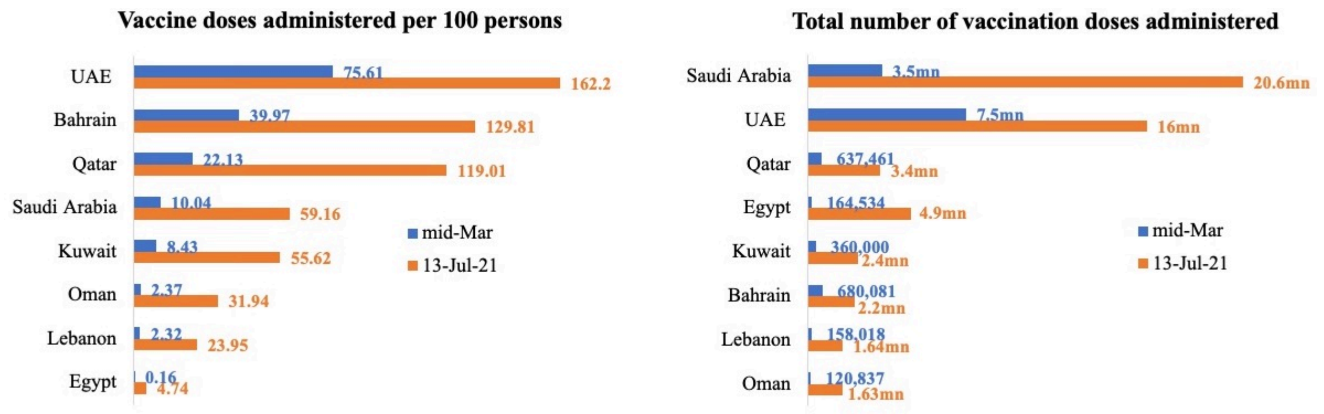




Source: Our World in Data. Charts created by Nasser Saidi & Associates.

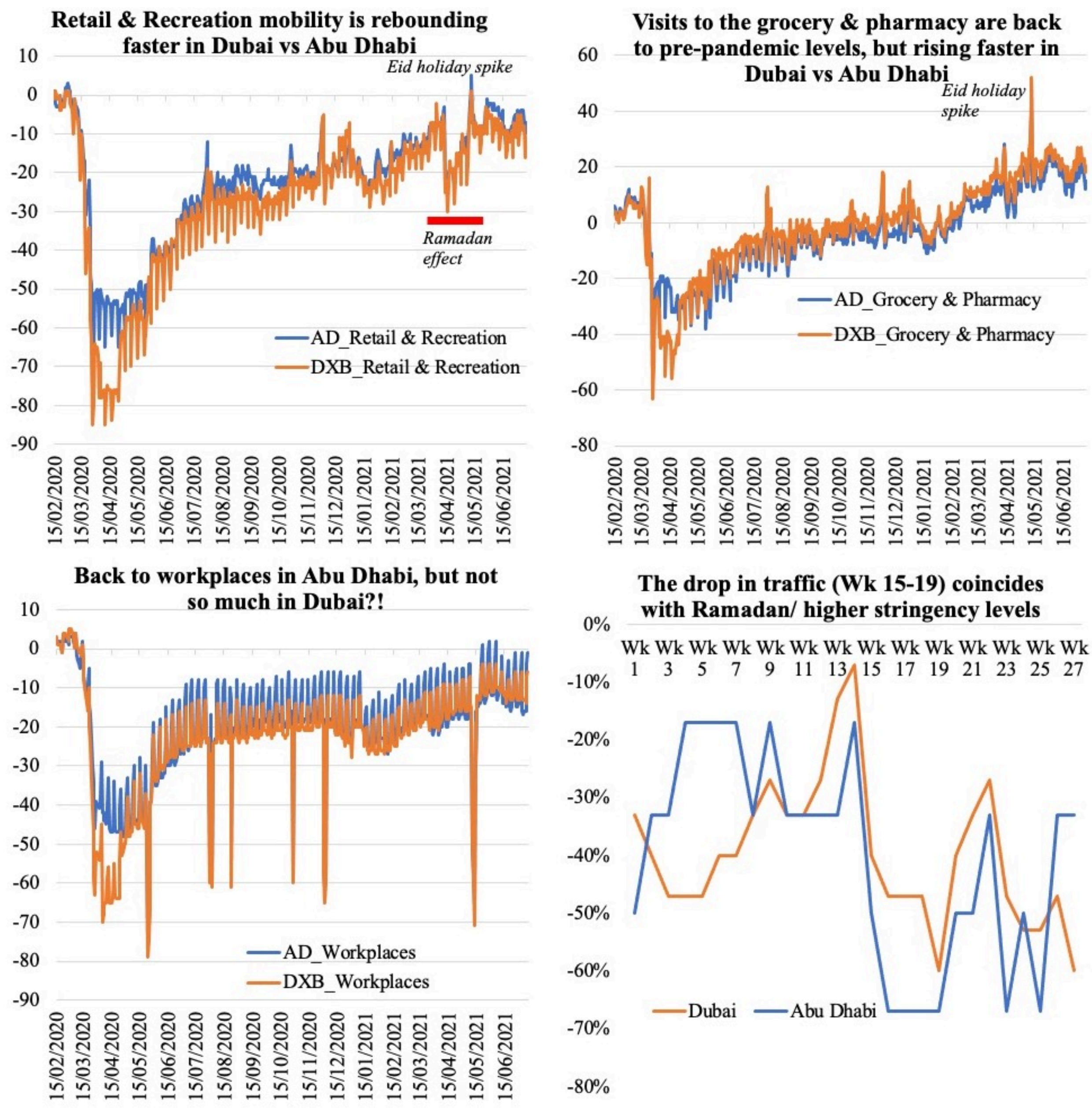
3. Vaccination pace in the Middle East has quickened, but with wide disparities

- **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.



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 thecorresponding 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.

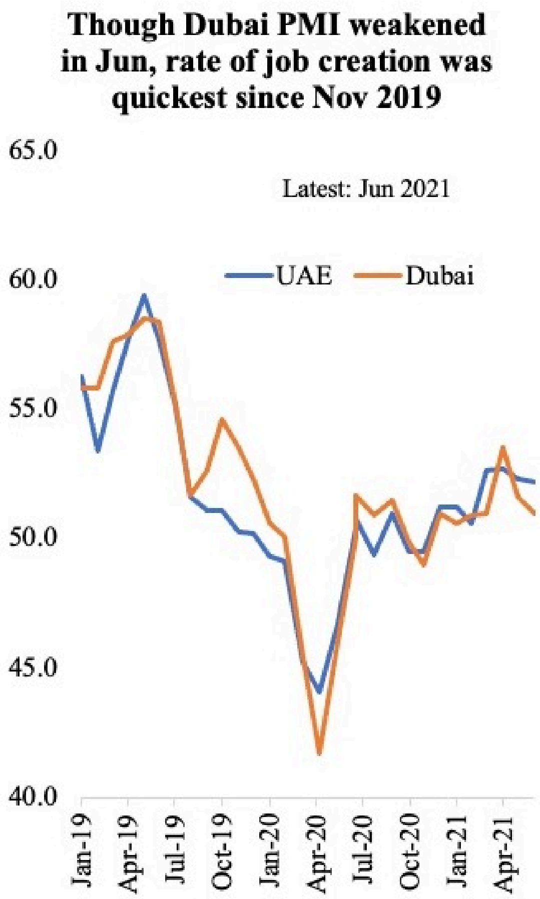
- Given its **relatively lower stringent levels**, it is no surprise that both Dubai and Abu Dhabi (within the UAE) report a rise in mobility across different categories
- **Retail & recreation remains below pre-pandemic levels:** with a significant drop during Ramadan and a spike for Eid
- Interestingly, **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

	UAE	Dubai
Jan-19	56.3	55.8
Feb-19	53.4	55.8
Mar-19	55.7	57.6
Apr-19	57.6	57.9
May-19	59.4	58.5
Jun-19	57.7	58.4
Jul-19	55.1	55.2
Aug-19	51.6	51.7
Sep-19	51.1	52.6
Oct-19	51.1	54.6
Nov-19	50.3	53.5
Dec-19	50.2	52.3
Jan-20	49.3	50.6
Feb-20	49.1	50.1
Mar-20	45.2	45.5
Apr-20	44.1	41.7
May-20	46.7	46
Jun-20	50.4	50
Jul-20	50.8	51.7
Aug-20	49.4	50.9
Sep-20	51.0	51.5
Oct-20	49.5	49.9
Nov-20	49.5	49.0
Dec-20	51.2	51.0
Jan-21	51.2	50.6
Feb-21	50.6	50.9
Mar-21	52.6	51.0
Apr-21	52.7	53.5
May-21	52.3	51.6
Jun-21	52.2	51.0



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**

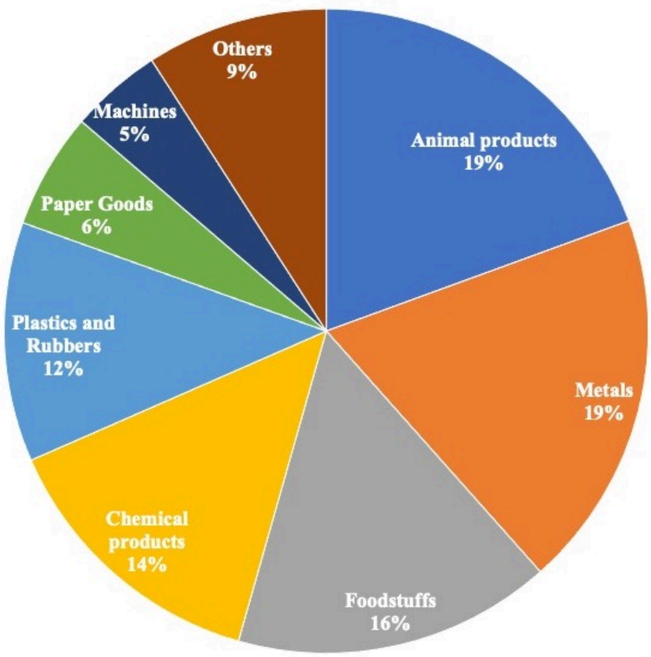
- **Raw material shortages were widely reported**, affecting output growth
- Supply chain problems + rising freight costs + lengthened delivery times meant **rise in purchasing costs => input cost inflation**
- Survey respondents highlighted **low sales;** export sales fell in UAE given flight cancellations
- 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

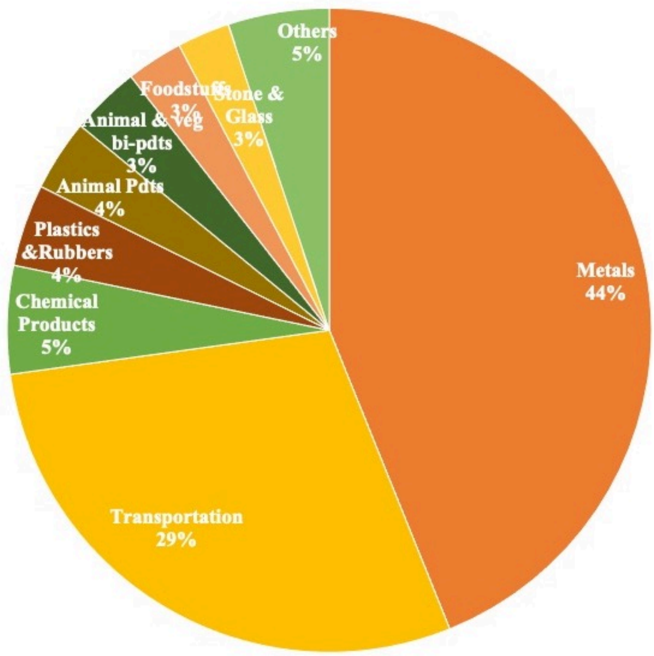
- **Oman's Sultan visited Saudi Arabia this week:** his first foreign trip since his ascension.
- **Economic cooperation on many fronts** likely to benefit from the discussions: trade, investment and infrastructure among others (in addition to security, cultural & other diplomatic discussions)
  - **Trade**: 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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Comments on Saudi tariffs & impact on the UAE, FT, 14 Jul 2021

Dr. Nasser Saidi commented on the latest move from Saudi Arabia – changes in import rules and preferential tariffs – in the FT article titled “Trade emerges as latest flashpoint in deepening Saudi-UAE rivalry” published on 14th Jul 2021.

The full article can be accessed at: https://www.ft.com/content/0cb64e0b-fcad-4992-beed-191261caa406

The comments are posted below:

Economists say co-operation under the auspices of the GCC, rather than competition between members, would be a better route to a prosperous and diverse regional economy. “This is a moment of opportunity to rewrite the rules and come up with a new customs union agreement and look forward to the future,” said Nasser Saidi, a Dubai-based economist.

Building a comprehensive agreement to include services as well as goods would turn the Gulf’s Arab states into a global bloc that could negotiate more effectively with other power centres, he said.

“It’s in the interest of everyone to move to a proper common market, leaving out the politics,” he said. “It took the EU years to get it right, and there were disputes along the way – so it could take some time.”

Bloomberg Daybreak Middle East Interview, 11 Jul 2021

Aathira Prasad joined Manus Cranny and Yousef Gamal El-Din on 11th of July, 2021 as part of the Bloomberg Daybreak: Middle East edition, discussing Saudi Arabia's cap on gasoline prices, the country's long-term plans of fiscal consolidation, GCC inflationary pressures and also the ongoing OPEC+ deadlock and impact on oil prices.

Watch the interview below; this can also be accessed at: https://www.bloomberg.com/news/videos/2021-07-11/imf-urges-ksa-to-boost-welfare-and-tackle-wage-bill-video

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

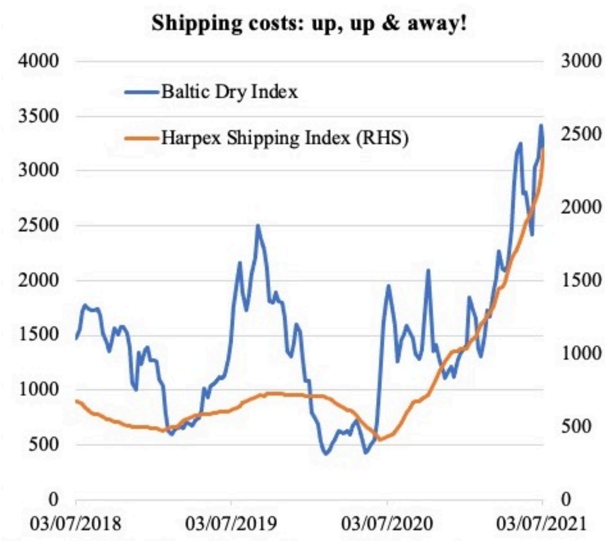
- **Global manufacturing PMI** slipped to 55.5 in Jun, easing from the 11-year high of 56 in May, with **Europe the "bright spark" while Asia paled in comparison** (India fell into contractionary territory after 10 months; PMIs in Vietnam and Malaysia plunged to 44.1 and 39.9 respectively).
- **Supply 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”.

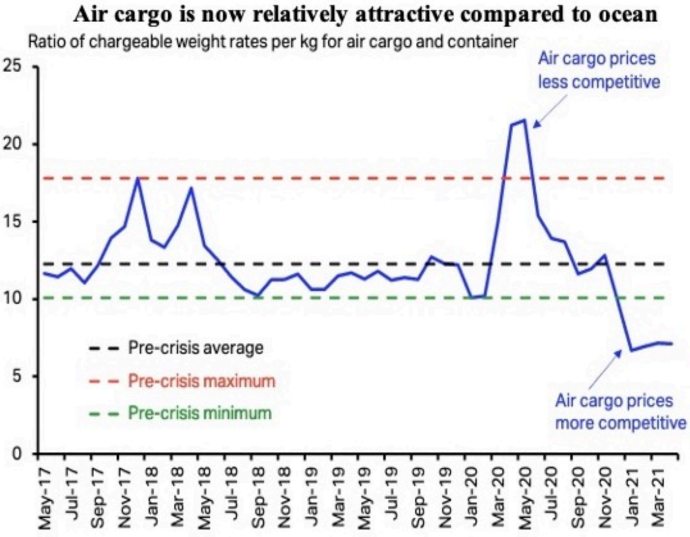
- **Asia** is witnessing a more severe wave of Covid19 cases in the past weeks: **of every 100 infections last reported around the world, about 35 were reported from countries in Asia and the Middle East.** The region is currently reporting a million new infections about every 7 days.
- **While new orders 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.



Source: Refinitic Eikon. Chart by Nasser Saidi & Associates



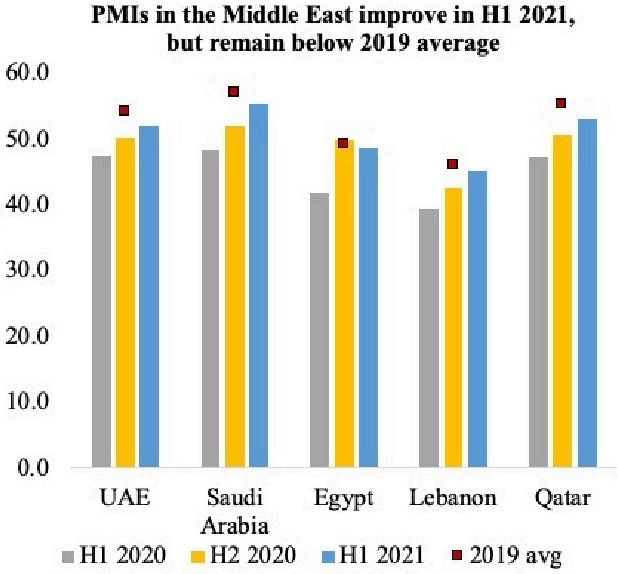
Source: IATA Economics, Boeing, IATACargoIS, Freightos Baltic Index

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

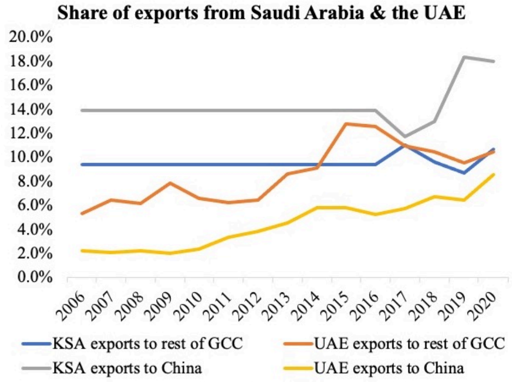


- While **PMIs** improved in H1 2021 vis-à-vis last year, it **still remained well below the 2019 average**
- Though **UAE PMI** edged down slightly in Jun, as foreign sales dropped amid supply delays, **employment** rose for the first time since Jan and at the quickest pace in more than two years. In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

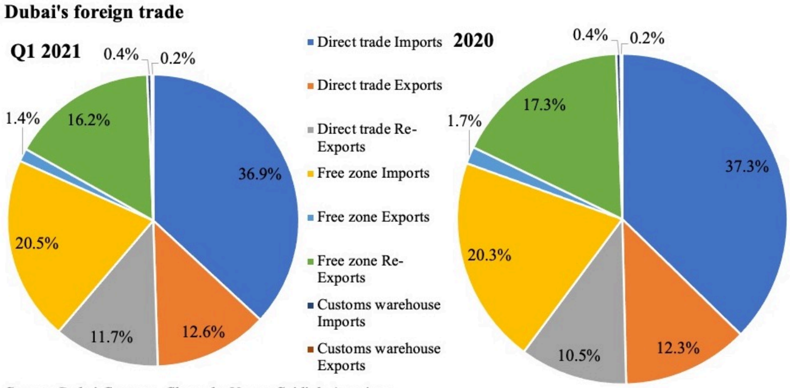
4. Saudi Arabia's rules on local content, labour & value-added: impact on GCC trade?

- **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



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 esitmated 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

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Comments on Saudi Arabia’s amended import rules in Reuters, 5 Jul 2021

Dr. Nasser Saidi’s comments appeared in the Reuters article titled “Saudi Arabia amends import rules from Gulf in challenge to UAE“, published 5th July 2021.

Comments are posted below:

“The original customs union agreement, established Jan 2003, no longer serves the needs of the GCC countries … including Saudi and the UAE and in light of the increased competition between the two countries pursuing similar non-oil diversification activities,” said Nasser Saidi, a Dubai-based economist.

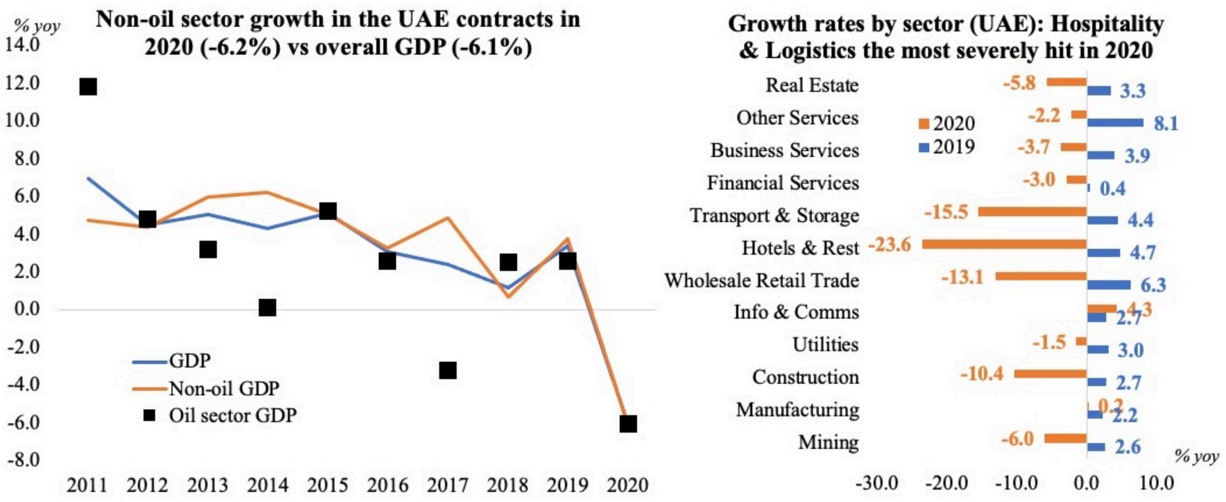
“The current dispute, while disruptive in the short-term, can open the door to a more efficient, modern, trade and investment framework and agreement that would boost growth prospects and allow for greater diversification, higher value-added regional trade,” he said.

Weekly Insights 1 Jul 2021: State of the UAE & Saudi Arabia economies

State of the UAE & Saudi Arabia economies: a peek into the latest macroeconomic data

(GDP, Fiscal, Money & Credit, Labour Market, Trade, Inflation)

1. UAE's GDP declined by 6.1% in 2020; hospitality and logistics were the worst affected sectors



Source: UAE Federal Competitiveness & Statistics Authority. Charts by Nasser Saidi & Associates

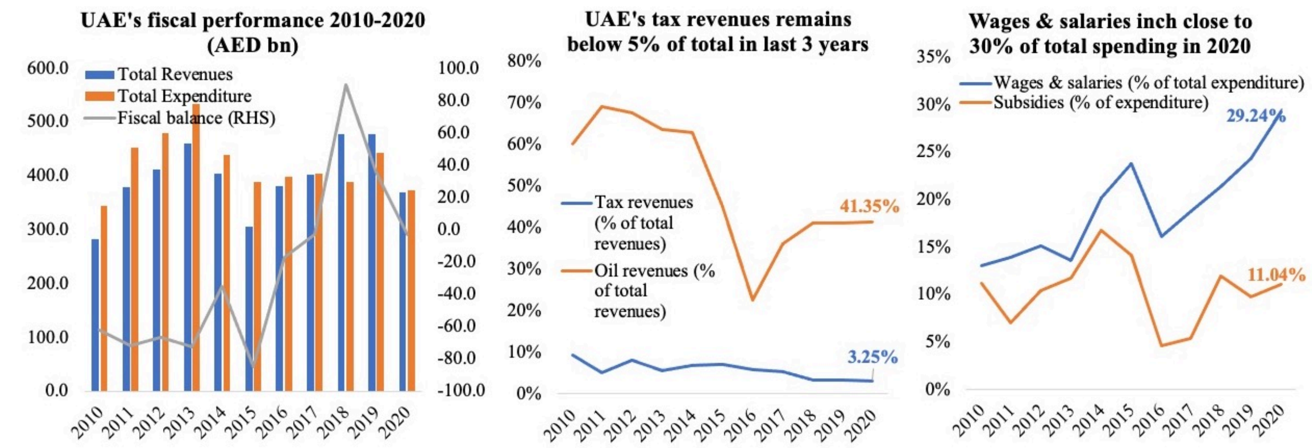
- The **UAE's GDP declined by 6.1% in 2020,** according to the FCSA, down from an upwardly revised 3.4% growth in 2019. The **slump was driven by both oil and non-oil sector**, which fell by 6% & 6.2% respectively.
- While the **share of oil sector to overall GDP remained unchanged at 29.1%**, the sectors that posted a slight increase in overall contribution to GDP include

manufacturing (8.8% in 2020 from 2019's 8.3%), communication (3.3% vs 2.9%), finance and insurance (8.2% from 7.9%) and public sector (5.6% from 5.2%).

- Only a few sectors posted positive growth in 2020; unsurprisingly, the **most negatively affected were hospitality** (-23.6%), **transportation** (-15.5%) **and trade** (-13.1%).

2. UAE fiscal balance moves into deficit in 2020, following two years of surplus

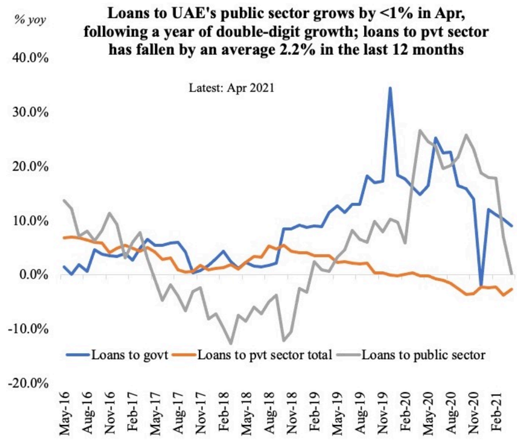
- **Both public revenues and expenditures in the UAE declined in 2020**, by 22.7% yoy and 15.8% respectively, thereby moving the balance into a deficit of AED 3.04bn. Oil revenues fell by 22.4% yoy
- **Oil revenues accounted for 41.35% of overall revenues and 42.7% of non-tax revenues in 2020**. Though total tax revenues fell by 22.4% yoy in 2020, its share in total revenues continued to be ~3.25% (similar to 2018 & 2019)
- **Wages and salaries continue to represent about 30% of total spending in 2020** but in yoy terms, it declined by 16.7%. Subsidies also fell by 5% yoy, but account for 11% of overall spending
- **Fiscal consolidation should be major policy reform for the UAE in the medium- to long-term to reduce dependence on oil & gas revenue**. Subsidy reform and reducing public sector wage bills could be reforms on the spending side while new/ higher taxes can support revenues (e.g. carbon tax, property tax)

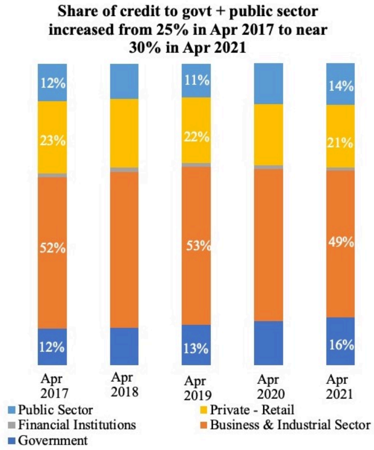


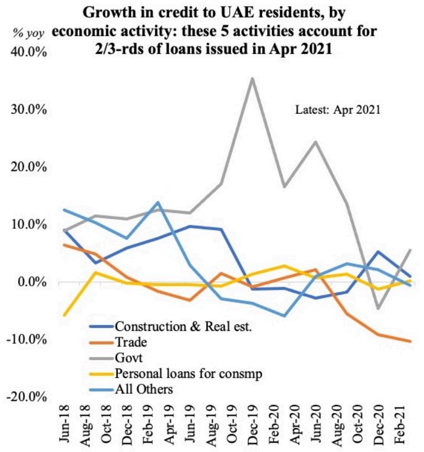
Source: UAE Federal Competitiveness & Statistics Authority. Charts by Nasser Saidi & Associates

3. Credit to UAE's private sector continues to decline in 2021; activity-wise differences exist

- **Overall domestic credit disbursed in UAE fell by 0.6% yoy in Apr 2021** though rebounding by a marginal 0.52% mom (Mar: -0.9% mom)
- **April marks the 13th consecutive month of yoy decline in credit to the private sector and 10th consecutive month of yoy decline in lending to the business sector.** Loans to the public sector (which includes government-related enterprises) broke the pattern by ticking up just 0.2% in Apr (Mar: 7.0% and following 12 months of double-digit growth)
- A breakdown of lending by economic activity shows that the **major shares with respect to credit by economic activity remain largely unchanged**: construction (20.5%), personal loans for consumption (20.4%), government (15%), others (9%) and trade (8.7%) together accounted for 65% of total loans. Sectors with **continuous growth** for 4 quarters (from Jun 2020) include transport (average 46.7% yoy growth), agriculture (44%) and utilities (29%).



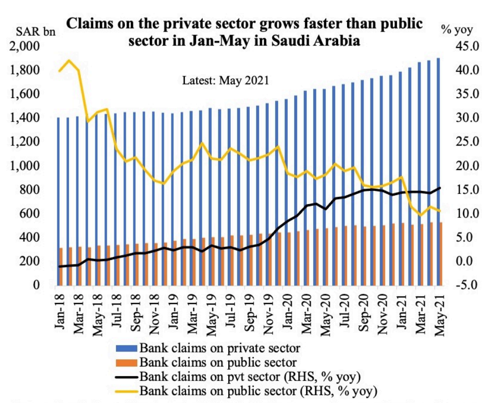


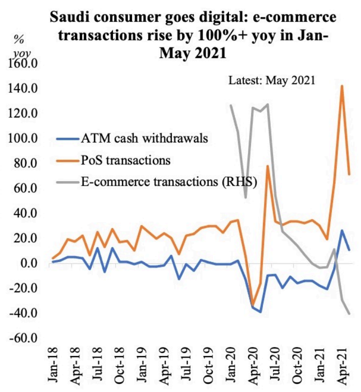


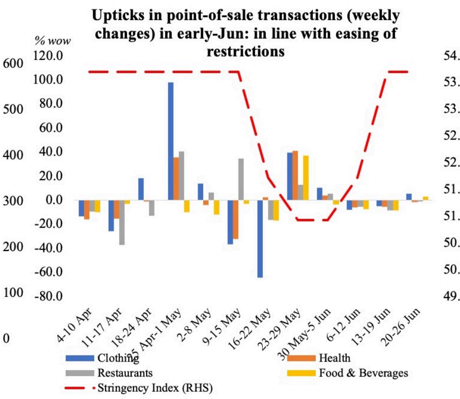
Source: UAE Central Bank. Charts by Nasser Saidi & Associates.

4. Rising credit & changing consumer preference (away from cash) is the story in Saudi Arabia

- Data from the Saudi Central Bank shows **claims from the private sector outpacing public sector loans** in May 2021 – as seen in most months this year
- A **continued preference for PoS/ e-commerce transactions from a previously preferred "cash is king" position.** ATM transactions have dropped by 0.7% in the Jan-May period vs a 65.8% and 125.9% hike in PoS & e-commerce transactions
- **Weekly PoS transactions show an uptick in early Jun**: the distinct **rise in PoS transactions** in clothing, health, restaurants **coincides with when restrictions were eased (**tracked by the Oxford COVID-19 Government Response Tracker)



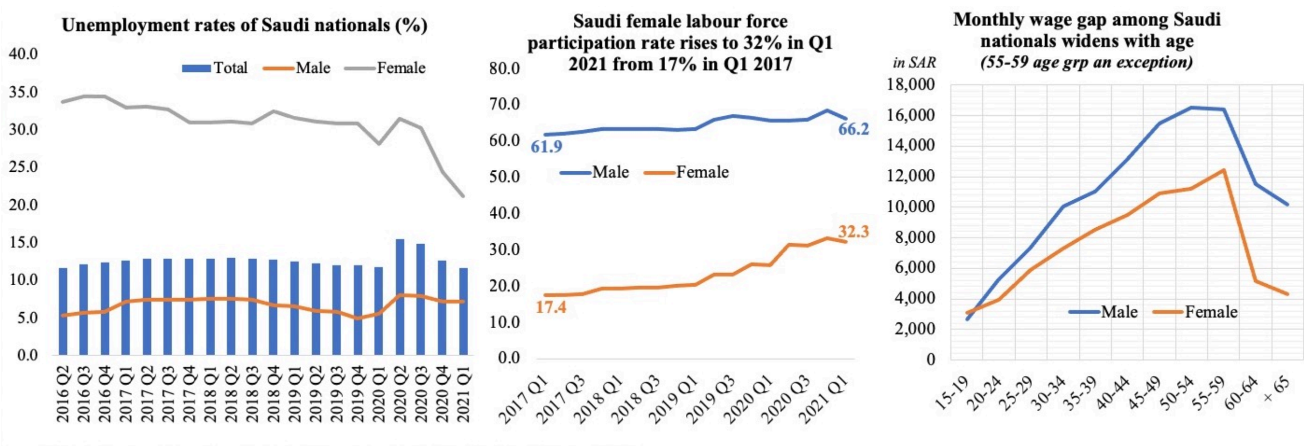




Source: Saudi Central Bank, Oxford COVID-19 Government Response Tracker. Charts created by Nasser Saidi & Associates

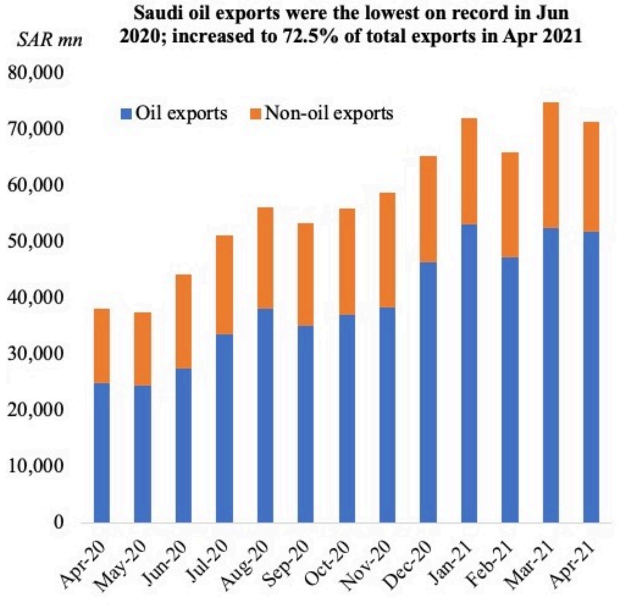
5. Unemployment rate among Saudi nationals (apecially females) dip to a 5 year-low in Q1 2021

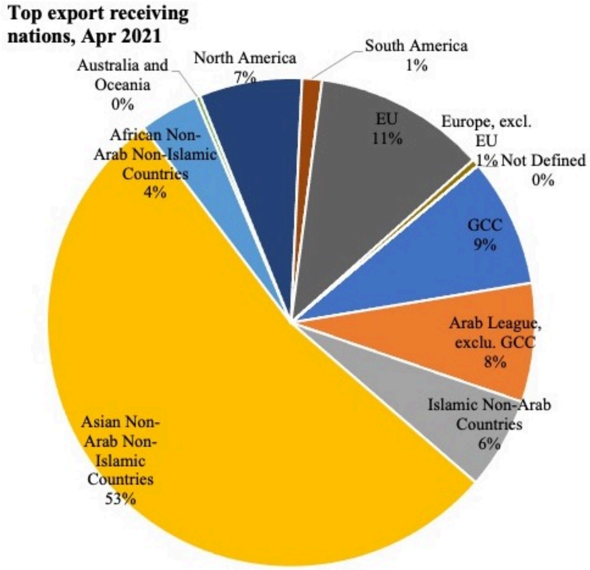
- **Overall unemployment rate among Saudi nationals fell to 11.7% in Q1 2021 – a 5-year low**; more dramatic was the **plunge in unemployment rate for Saudi females** – 21% in Q1 2021 vs a high 34% at end-2016. By age group, the rate remained highest among females within 25-29 & 20-24 age group (37.9% and 37% respectively).
- Meanwhile, **female participation in the workforce increased** from 19% in 2016 to 32.3% in Q1 2021. However, both male & female labour force participation rates declined slightly compared to Q4 2020. Though women are joining the workforce in large numbers, many of the job opportunities fall in the lower-paid sectors.
- Women earn slightly more than men in the 15-19 age group, but the **pay gap widens** after that. On average, in Q1 2021, **a Saudi male employee is paid 1.3 times compared to a female national and at the oldest age bracket (65+) it stands at around 2.4 times!** The gap has narrowed however compared to previous years.



Source: Labour market survey Q1 2021, GaStat. Charts created by Nasser Saidi & Associates

6. Oil exports from Saudi Arabia increase to 72.5% of total exports in Apr; Exports to Asia account for more than half of total exports

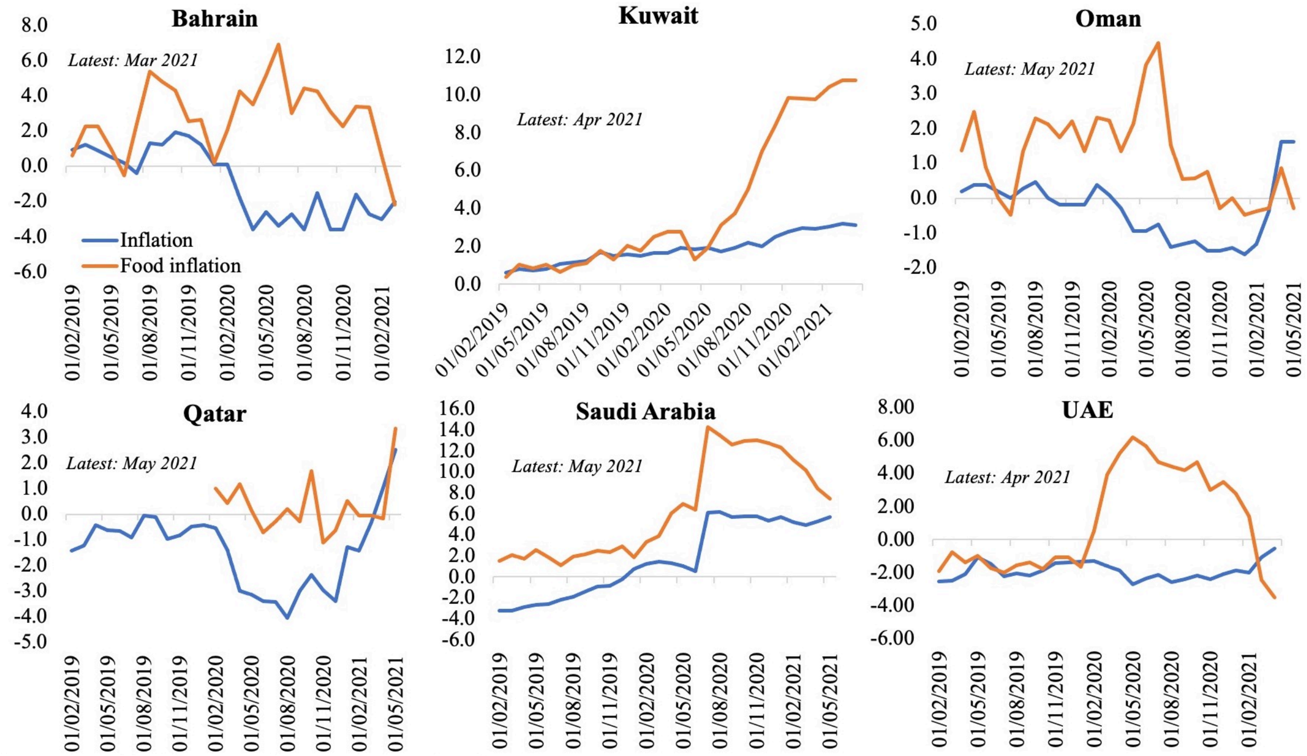




Source: GaStat, Nasser Saidi & Associates

- **Oil was trading at USD 75 a barrel yesterday (30 Jun)**, about 40% higher compared to the start of the year, after a report revealed lower US inventories for a 6th straight week. All eyes are on the **OPEC+ (set to meet today)**, who have already warned of "significant uncertainties" ahead: **a modest increase in production is likely** amid higher demand for oil (summer travel bookings, anecdotal evidence suggests, are picking up in US & Europe)
- **Oil exports are rising**, accounting for 72.5% of total exports in Apr 2021. The **top region for Saudi Arabia's exports is still Asian nations, and much of the exports is oil.** Though many nations – India, Japan and Malaysia – continue to struggle with the pandemic, many others have relatively low levels of cases; as restrictions ease, demand will increase and oil exports will pick up faster.

7. GCC inflation (% yoy): Kuwait's food inflation is running at 10%+; Saudi's inflation is influenced by the VAT hike last year; May's month-on-month readings have food inflation rising at a faster pace than headline



Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates

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REFINITIV

Comments on the IMF's concluding statement of Article IV Mission to Saudi Arabia in Arab News, May 9 2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "[Positive IMF assessment seen as vote of confidence in

Saudi reform strategy" on 9th May 2021.
The comments are posted below.

Independent economists were not surprised by the IMF's positivity. Nasser Saidi, former chief economist at the Dubai International Financial Centre (DIFC), told Arab News: "The country has been proactive in rolling out a spate of reforms despite the pandemic and lower oil prices. The public health system has proven to be resilient."

Saidi, the former DIFC chief economist, said: "Saudi Arabia's fiscal prudence has to be complimented, in addition to the efficient tapping of debt markets and structuring of key energy infra structuring to finance deficits."

According to Saidi, the pace of continued growth depends on global oil markets and the future pattern of the virus, but the signs are as good as the IMF's conclusions.

"Saudi Arabia's growth prospects with continued macroeconomic stability and prudent fiscal stance will encourage increased domestic and foreign investment in addition to housing investment and consumption by households," he said.

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

vaccination

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

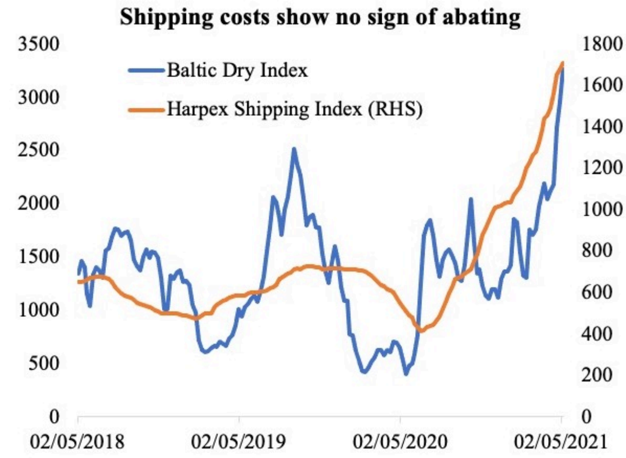
- The **vaccination pace has been steadily increasing in many advanced nations** including the US and UK – allowing the nations to reduce and/or remove severe restrictions. This has resulted in a **return in confidence, evident in recent PMI data.**
- However, the **recent surge in Covid cases in India 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

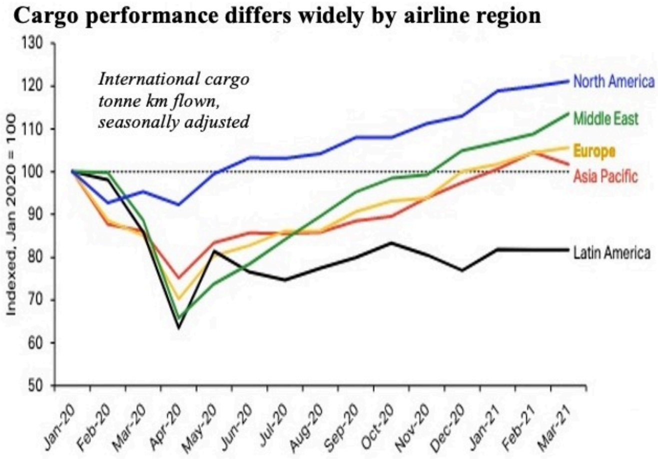
Asia. This compares to 22% and 44% in Europe and America respectively. Vaccine shortages are still a problem (India's Serum Institute is said to be severely behind on production)

- 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, IATA Economics

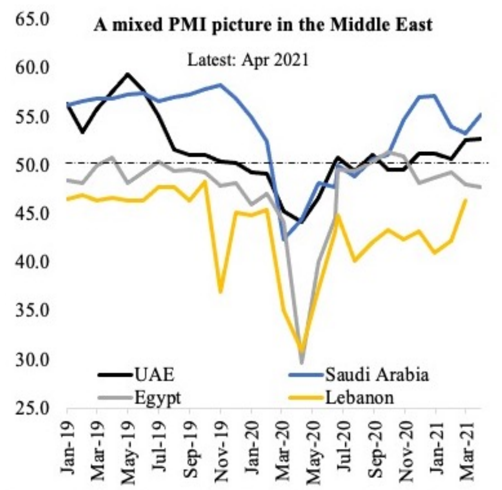
3. April

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

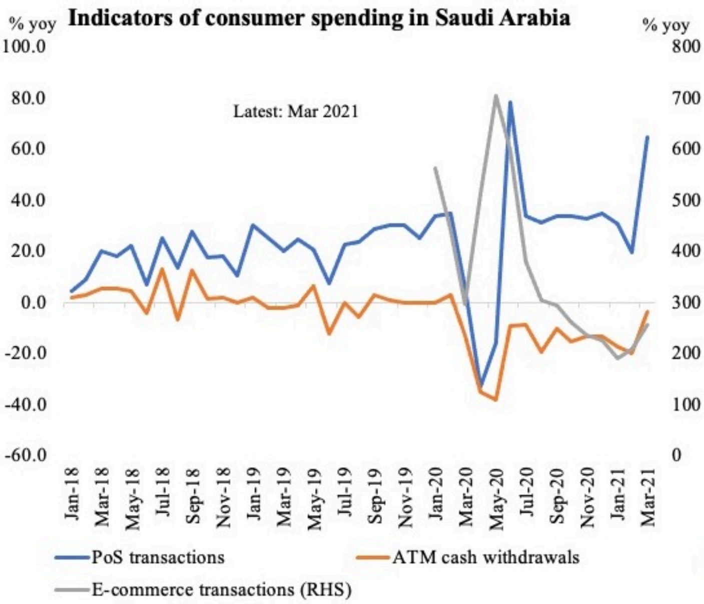


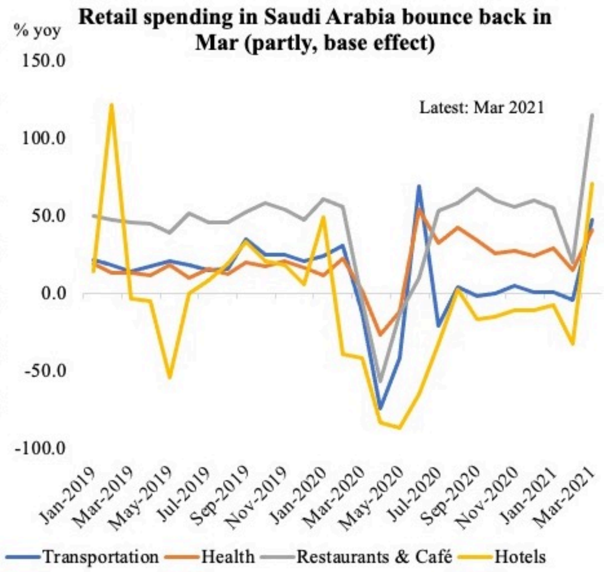
Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- 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 confidenc 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.



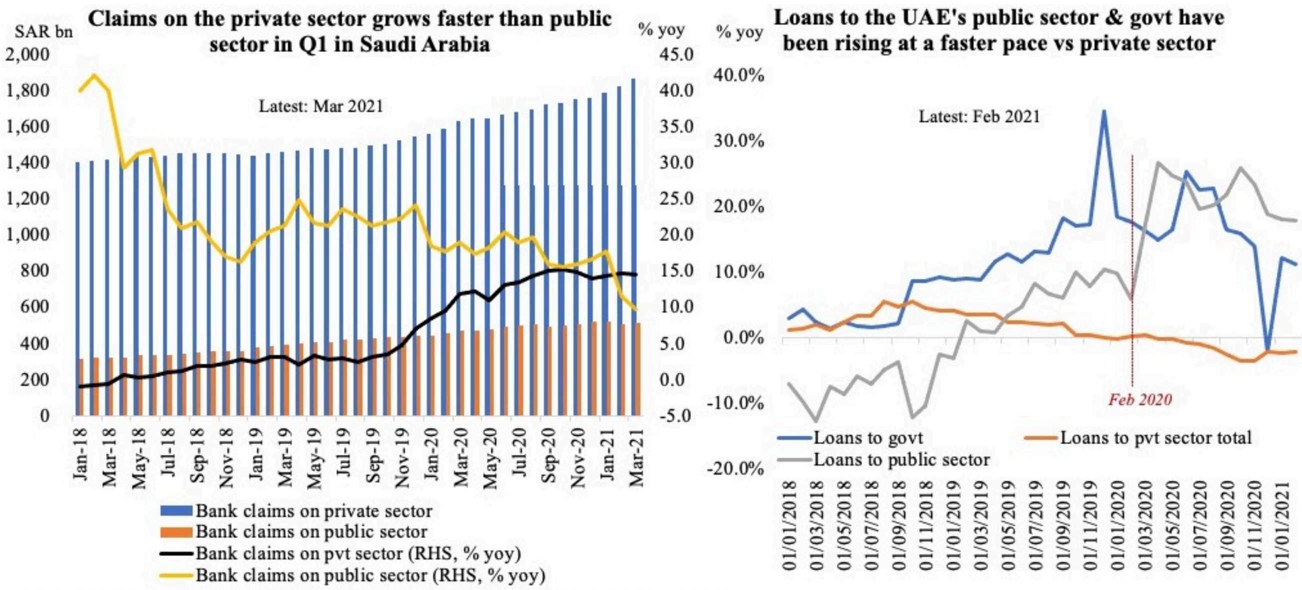


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

- **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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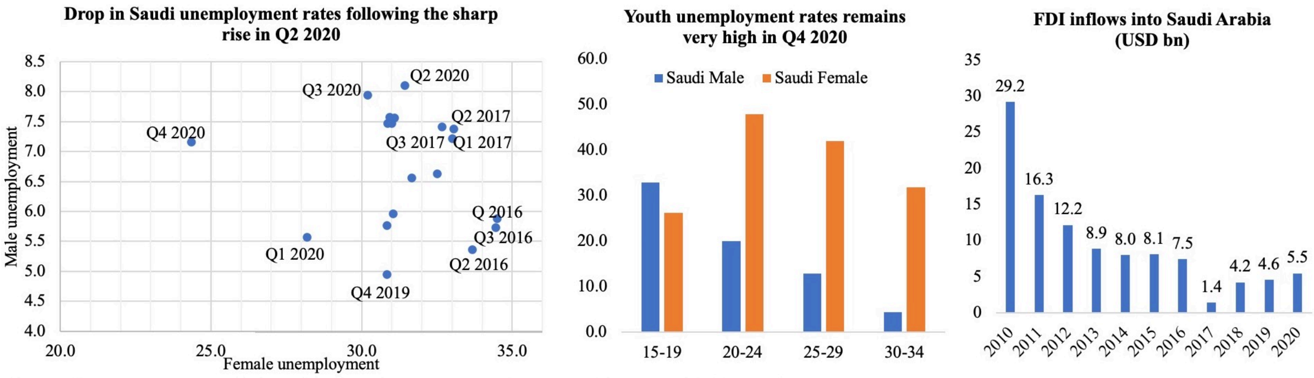
Weekly Insights 1 Apr 2021: Reforms ramping up as GCC nations plan recovery in a post-Covid world

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

Chart 1. Saudi Arabia's Shareek investment package to jumpstart the economy

- **The Shareek strategy (SAR 27trn stimulus over the coming decade) aims to** jumpstart and shift expenditure patterns post-Covid by emphasizing investment vs consumption spending (incl.govt current spending), while implementing diversification. As proposed, the plan should be **strongly supportive of non-oil growth**, **increase overall productivity growth and lead to job creation.**
- **Jobs are one of the biggest concerns for the country**: **female unemployment** was running close to 50% for the 20-24 age group in Q3 & close to 20% for males in the same age group. It has come off highs earlier in 2020, but remains one of the highest in the region
- **FDI** has improved massively from the fall to USD 1.4bn (0.2% of GDP) in 2017; **according to the Saudi Central Bank's estimates, overall FDI reached USD 5.49bn in 2020** (+20% yoy, still below 1% of GDP).

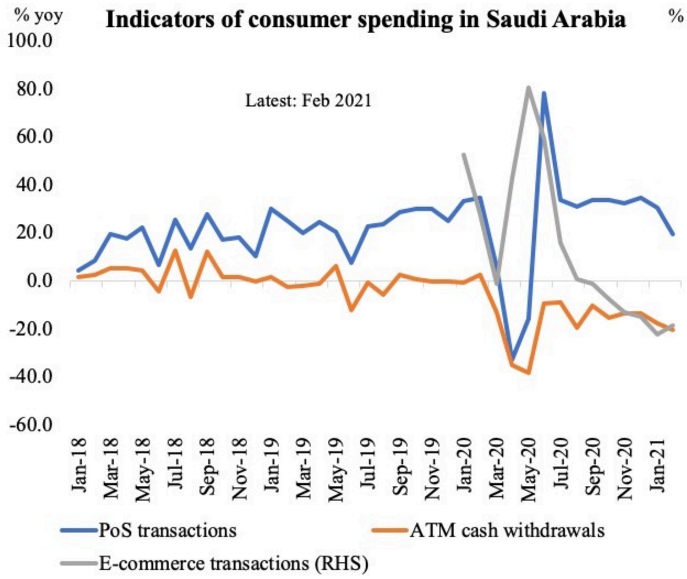
- **Saudi Arabia has been aggressively courting foreign investors**: revamped over half of the 400 FDI regulations, introduced new laws (e.g. bankruptcy, PPP) and recently stated that presence of firms' regional HQs in Saudi would become a necessary condition to bid for government contracts.
- **FDI inflows would be directed away from oil & gas into more job creating & higher value-added sectors** (e.g. renewable energy and clean tech, 'clean' petrochemicals, desert agriculture & AgriTech, digital economy). Potentially, this revival of investment and a successful program **could attract back a fraction of Saudi private wealth held offshore** (estimated at 56% of GDP).

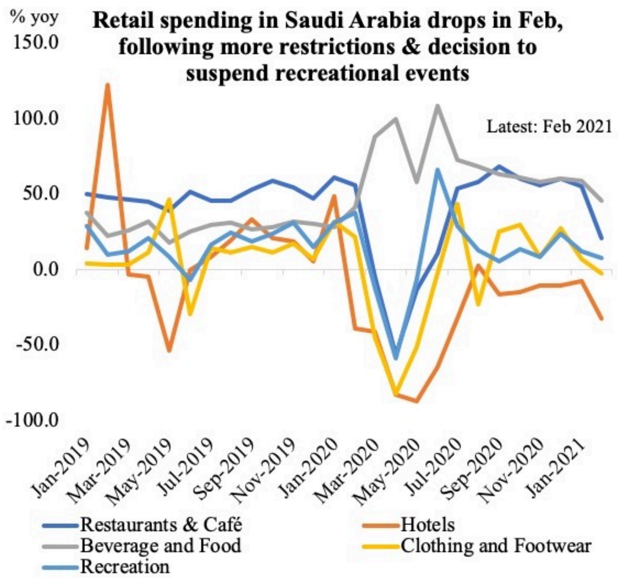


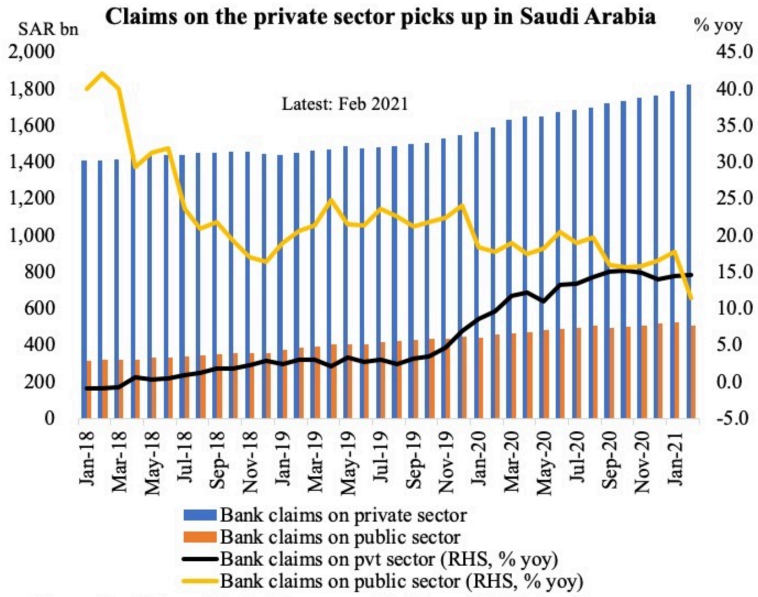
Source: GaStat, UNCTAD, Saudi Central Bank (2020 est for FDI). Charts created by Nasser Saidi & Associates

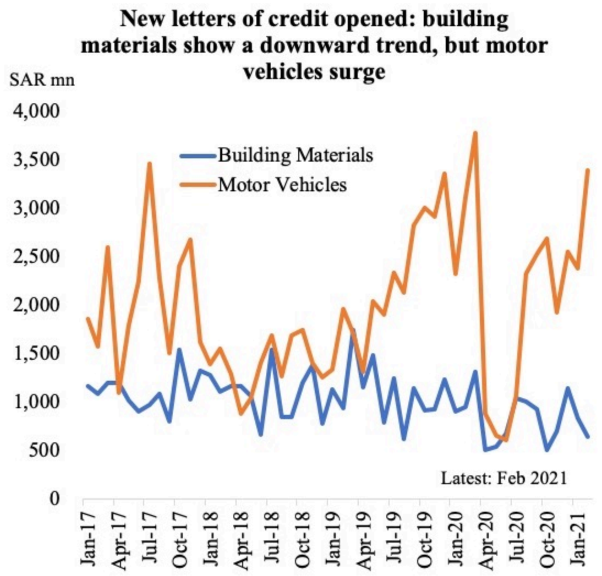
Chart 2

. Monetary indicators in Saudi Arabia: PoS & e-commerce transactions and claims on the private sector rise in Feb







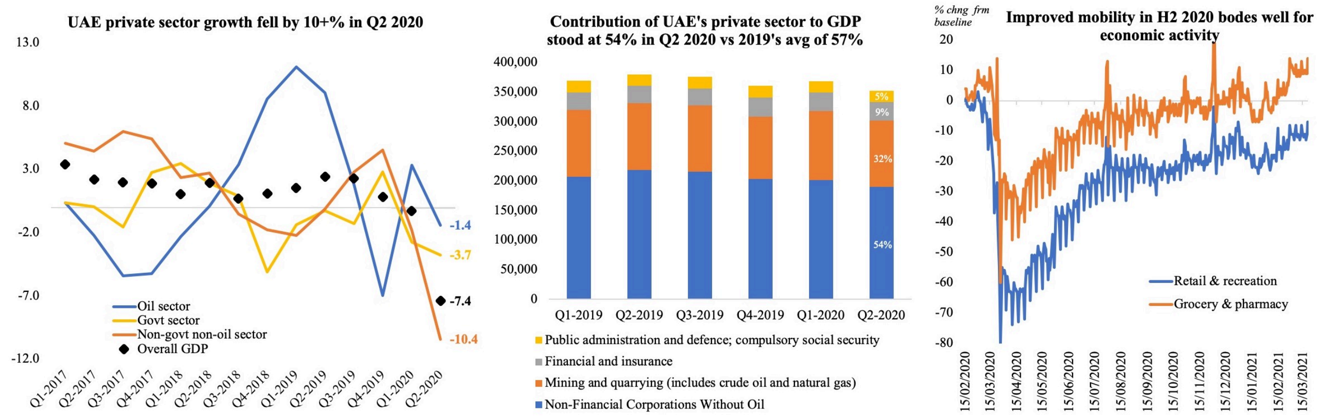


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

Chart 3. Overall GDP in UAE contracted by 7.4% yoy in Q2 2020; recovery expected in H2

- **New data: Non-oil GDP fell by 9.9% in Q2 2020**, following a 1.9% decline in the previous quarter. **Finance and insurance was the lone sub-sector to post growth in Q2.**
- Stringency was the highest and mobility lowest in Q2. **Mobility data** shows improved activity in H2 of 2020, which bodes well for GDP. **UAE's PMI**, which averaged 50.2 in H2 2020 (vs 47.1 in Q2 and 47.5 in H1), also **indicates a faster recovery in H2**. Faster vaccination rollout and the Expo later this year will result in increased consumer and business confidence.

- **With an aim to grow faster in the post-Covid world, the UAE has been proactively announcing reforms**: with the latest industrial strategy ("Operation 300bn"), Dubai's 5-year plan to increase trade to AED 2trn and its 2040 urban development plan alongside various incentives to attract high-skilled professionals (10-year visas, remote working visas, path to citizenship etc.)

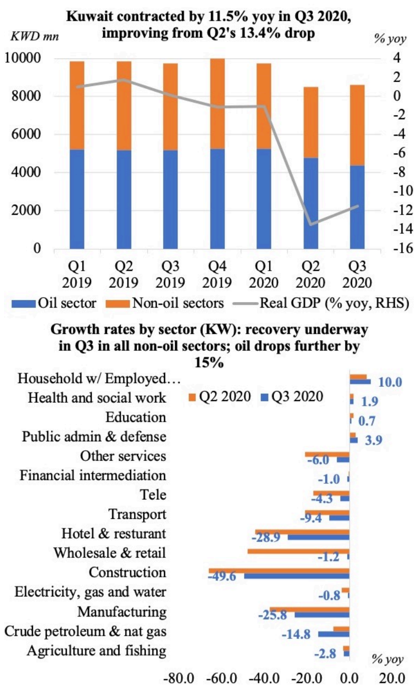


Source: UAE Federal Competitiveness & Statistics Authority, Google Mobility. Charts created by Nasser Saidi & Associates

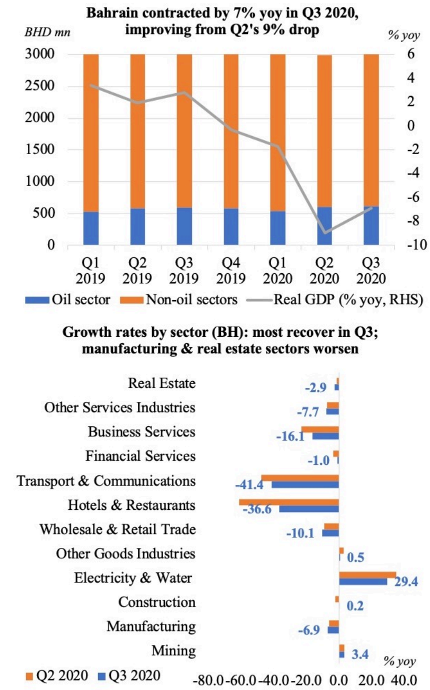
Chart 4.

Q3 GDP data from other GCC nations suggest better quarters ahead for the UAE – the least restrictive of all

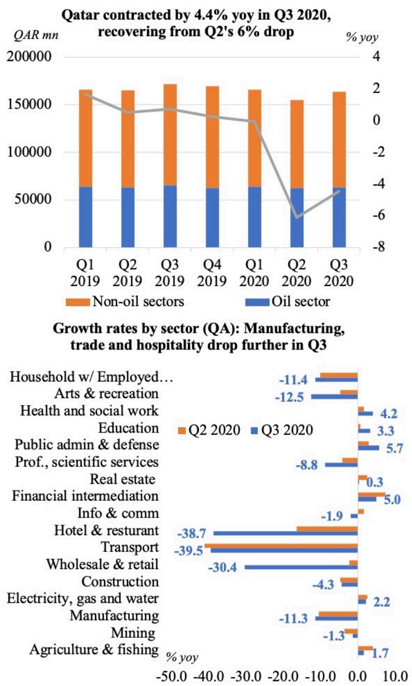
While overall % yoy GDP improved in Q3, some sectors (including oil, given OPEC+ cuts & others like trade, hospitality) contracted even more



Source: Central Statistical Bureau, Kuwait.
Charts created by Nasser Saidi & Associates



Source: Information & eGovernment Authority, Bahrain.
Charts created by Nasser Saidi & Associates



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

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Comments on Saudi Arabia's Shareek investment package in Arab News, Mar 31 2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Markets jump on Shareek investment package" on 31st March 2021.

The comments are posted below.

Nasser Saidi, a Middle East economics expert, said the intention was to "jump start" the Saudi economy in the wake of the recession caused by the COVID-19 pandemic.

"This would be a massive increase in investment that will likely modernize and upscale infrastructure, including digital. As proposed, it should be strongly supportive of non-oil growth, increase overall productivity and lead to job creation for Saudi's young population," he added.

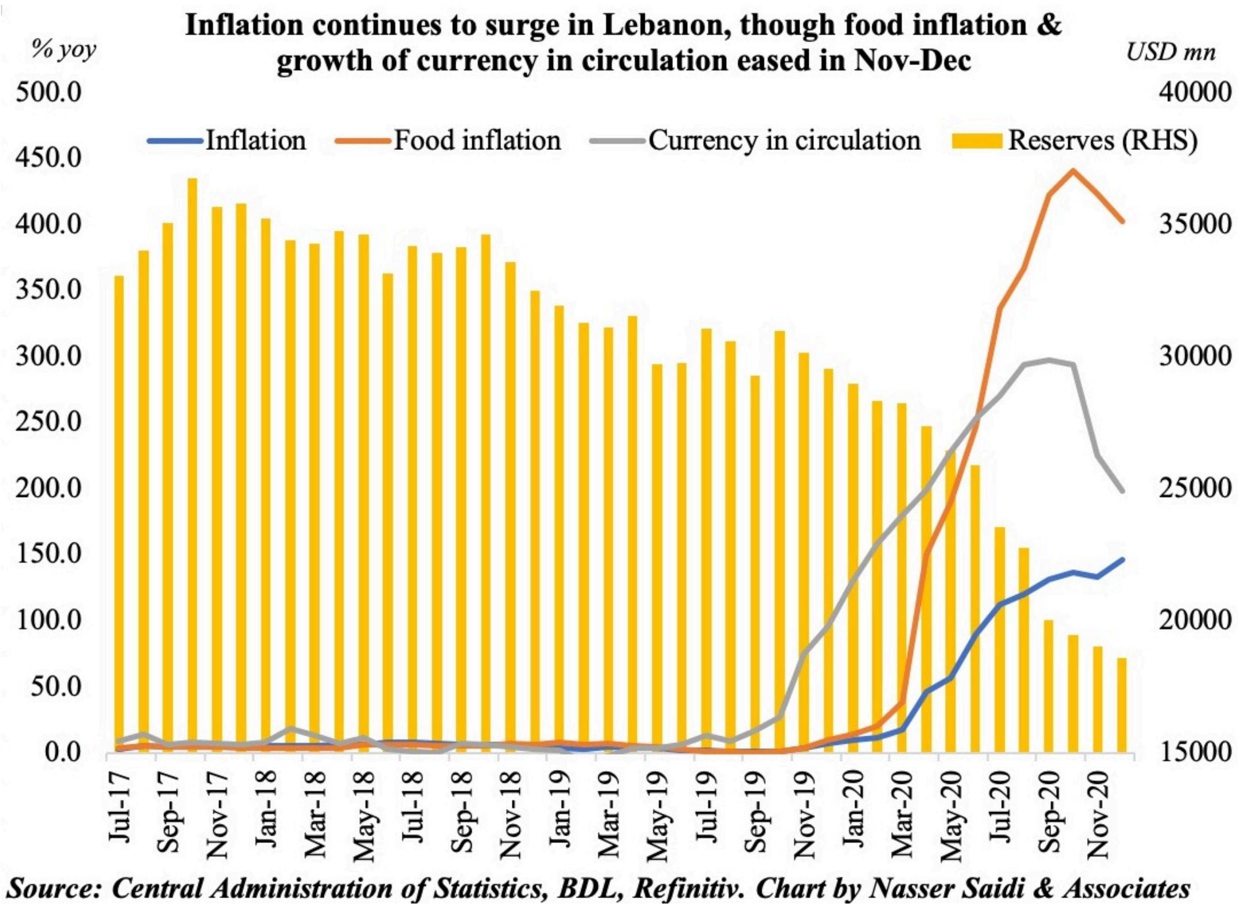
Saidi added that the move from dividends to investment could be a positive one: "This switch is likely to increase the efficiency of investment since SABIC, Aramco and other entities would aim to earn a market return on their investment. This would cut waste and inefficiencies, an overall gain to the economy."

He also highlighted the impact the Shakeel strategy could have on persuading Saudi citizens to invest directly at home. "This revival of investment and successful program would attract back a fraction of the Saudi private wealth held offshore."

Weekly Insights 18 Mar 2021: Macroeconomic Updates on Lebanon, Saudi Arabia & the UAE

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

Chart 1. Lebanon: Cascading Collapses



- According to the finance minister, the central bank has only USD 1-1.5bn to use to fund subsidies (i.e. just for 2-3 months more).
- The **Lebanese pound plummeted to record lows of 15000 per dollar on the black market on Tuesday** (from 10k on Mar 2nd)
- Overall **inflation was at 146% and food inflation at 402% in Dec 2020**. The pound's fall has further hiked food

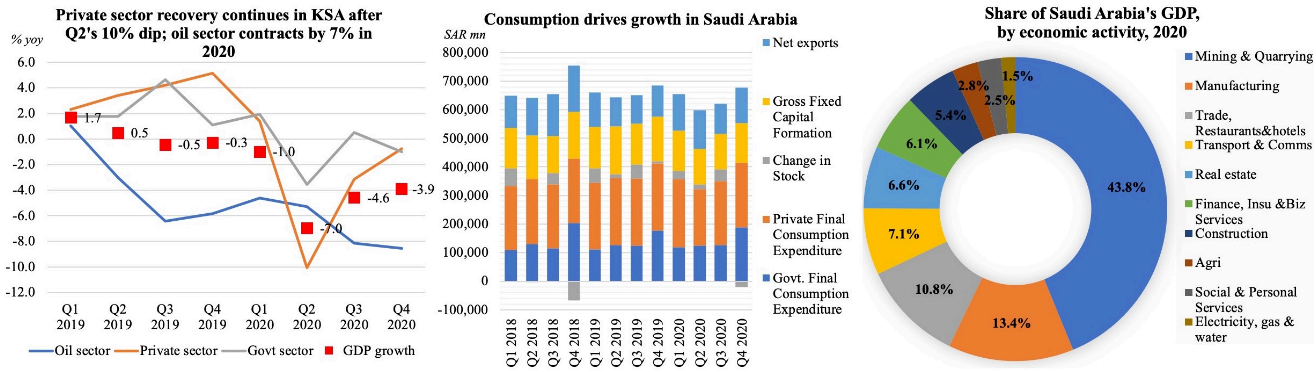
prices.

- This latest collapse, alongside statements of potential lifting of subsidies, has **triggered fears of shortages of food.**
- **Funding of (ill-designed) subsidies** can no longer be continued at the same pace.
- "Reserves", which are really "banks' dollar Legal Reserve Requirements at the Banque du Liban" *(this is a liability of the BDL – these are depositors' money deposited by the banks at the BDL)*, have halved from a year ago. News of **BDL's "revised" mandatory minimum reserves to USD 15bn** (down from USD 17bn) is only **a stopgap solution.**
- Given the ongoing political deadlock (the current caretaker government had resigned last Aug), it looks like a **very long and painful road to reforms and some semblance of "normalcy"**.

Chart 2. Saudi Arabia: Reforms to Boost Recovery?

- **Saudi Arabia's GDP declined by 4.1% in 2020**, driven by substantial drops in both oil and non-oil sector acivity (at -6.7% and -2.3% respectively). Private sector was recovering at a faster pace in Q4 vs other sectors.
- By economic activity, the **mining and quarrying sector accounted for 44% of overall GDP in 2020** (growing by 0.8% yoy) though the finance insurance and business services (share of 6.1%) grew the fastest, up by 1.3%.
- By expenditure compoeenents, consumption accounts for around 50% of overall GDP; last year, **government final consumption expenditure was the sole component showing positive growth** (+4.2%) while gross fixed capital formation plunged by 13.5%.
- PMI (which hit a 14-month high in Jan and eased in Feb) and rising credit growth alongside various announcements to increase private sector activity (regional HQs and

approval of the Private Sector Participation law, to name a few) and attract FDI will bode well for the economy in the medium to long run.

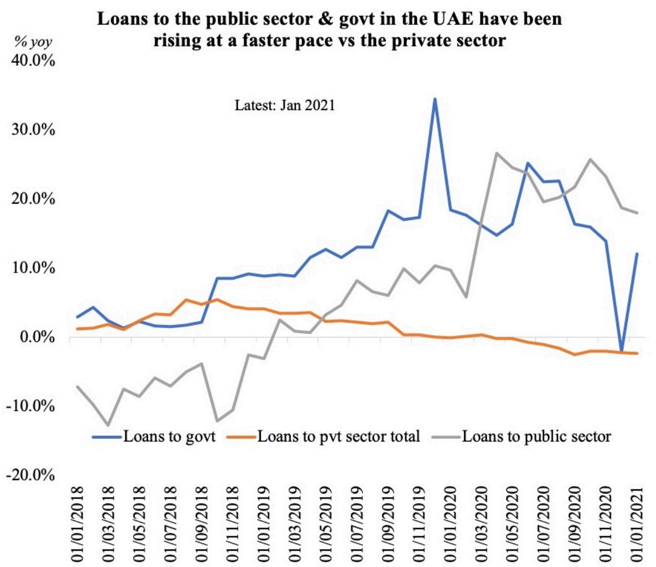


Source: General Authority for Statistics Saudi Arabia. Charts prepared by Nasser Saidi & Associates

Chart 3

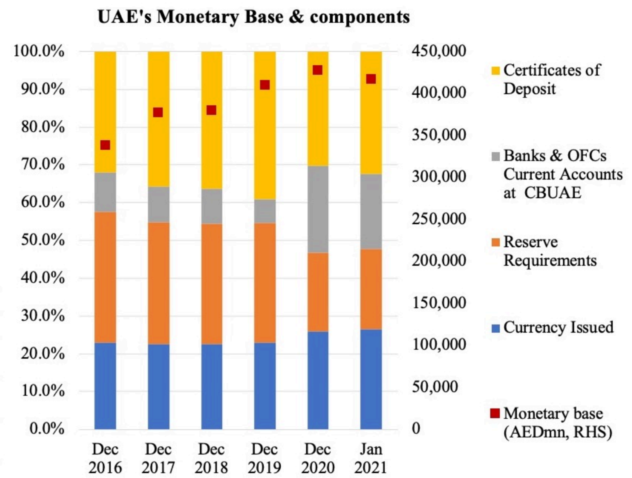
. UAE: Successfully (?) Mitigating Covid19's Impact

- UAE Central Bank governor: **banking system's overall liquidity has returned to pre-Covid level**; 320k+ cutomers benefitted from the Targeted Economic Support Scheme (TESS) & ~175k customers are under deferral arrangements
- **Loans to the private sector dropped by 1.5% during Apr 2020- Jan 2021** while credit to government and GREs surged by 16% and 22% respectively. **Financial soundness indicators have improved**: ELAR remained above the 10% reegulatory minimum requirement while CAR, Tiel 1 capital ratio and CET 1 indicate well-capitalised banks.
- **In Jan 2021, monetary base contracted by 2.47% mom**, due to a 15.6% drop in Banks & OFC's Excess Reserves (which accounts for 19.8% of monetary base) while Certificates of Deposits purchased by banks (32.5% of monetary base) rose by 4.6%
- The **increases in the multipliers of M1, M2 and M3** indicate faster rise in the monetary aggregates M1, M2 and M3 vs contraction of the monetary base.



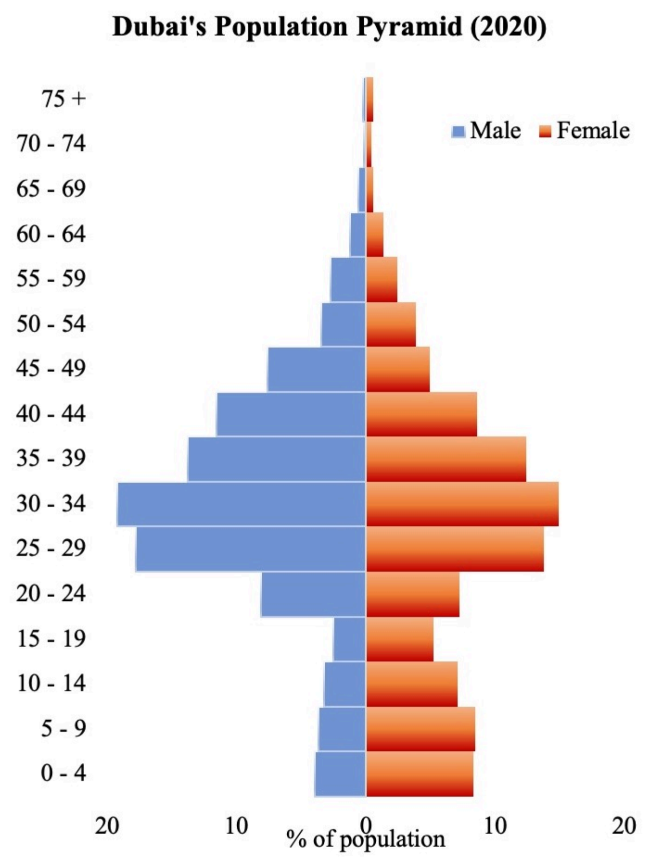
UAE Financial Soundness Indicators (in %)	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21
Advances to Stable Resources Ratio	82.3%	81.9%	78.6%	77.6%	78.3%
Eligible Liquid Assets Ratio (ELAR)	17.3%	16.6%	16.9%	18.4%	17.9%
Capital Adequacy Ratio (CAR)	16.9%	17.6%	18.0%	18.2%	
Tier 1 Capital Ratio	15.8%	16.4%	16.9%	17.1%	
Common Equity Tier 1 (CET 1) Ratio	13.9%	14.7%	15.1%	14.9%	

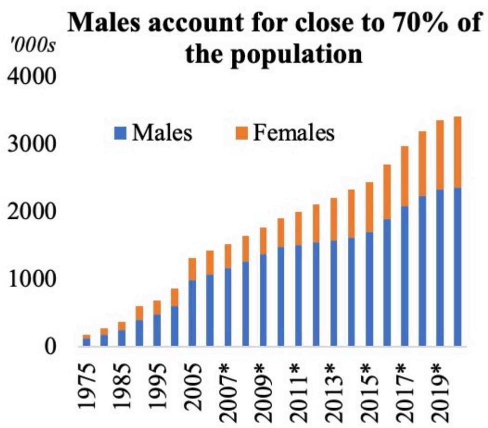
Money Multipliers in the UAE	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Jan 2021
Money Multiplier of M1	1.40	1.30	1.28	1.26	1.40	1.47
Money Multiplier of M2	3.62	3.38	3.45	3.45	3.46	3.57
Money Multiplier of M3	4.17	3.94	4.22	4.19	4.14	4.24

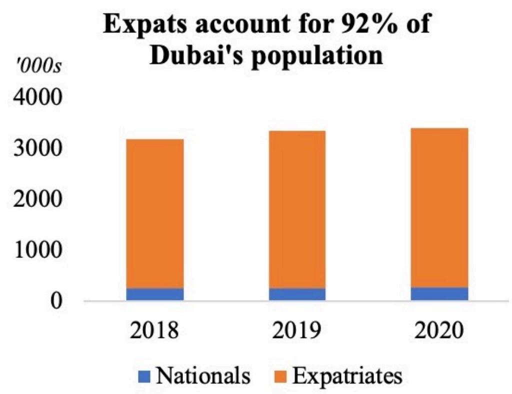


Source: UAE Central Bank, Refinitiv Eikon. Tables and charts by Nasser Saidi & Associates.

Chart 4. Up, Up & Away? Dubai's Population ticks up to 3.4mn in Covid19-struck 2020







Source: Dubai Statistics Centre. Charts by Nasser Saidi & Associates.

- In spite of anecdotal evidence of job losses and repatriation flights, official Dubai Statistics Centre estimates that **Dubai's population grew by 1.6% yoy to 3.41mn in 2020**.

- As expected, **expatriate population accounted for more than 90% of overall population**; males accounted for close to 70% of overall population – not surprising, with the construction sector accounting for almost 1/3-rd of employment in the UAE
- The population pyramid shows that about **70% of males and 55% of females are between the 25-49 years age group**. The gap between males and females are largest in the age groups of 30-34 and 25-29.
- The **Dubai Urban Masterplan 2040 projects population to surge by 76% to 5.8mn**. This follows recent reform measures including in visas (long term visas for professionals and investors, retirement and remote working visas), 100% foreign ownership and even a path towards citizenship – all of which are likely to boost population numbers.
- **Dubai's openness at a time when other regional nations are pursuing localisation policies will likely work in its benefit**, though competition might be rife should Saudi Arabia emerge successful in its current reform path.

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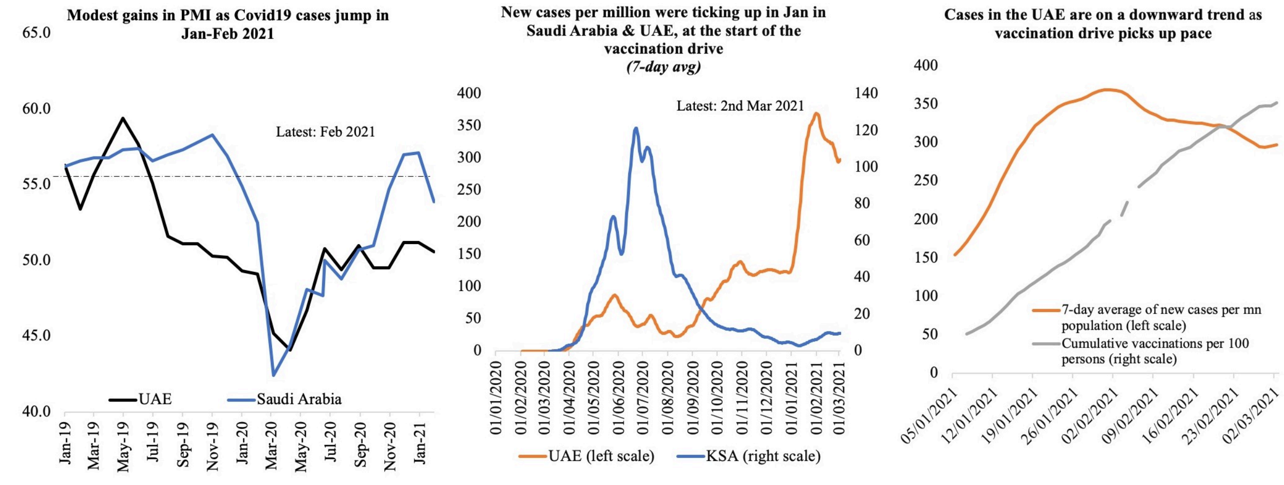
Weekly Insights 4 Mar 2021: Are economic activity indicators in UAE & Saudi Arabia moderating, à la PMI?

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

Chart 1. Will vaccines give a jab to growth?

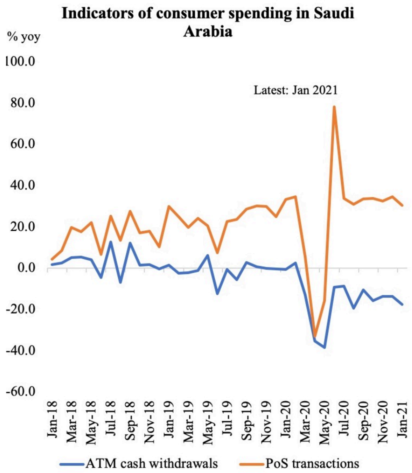
- **PMI readings for both Saudi Arabia and the UAE eased moderately in Feb 2021**.
- An **uptick in Covid19 cases since beginning of this year**, in both **UAE and Saudi Arabia** – at vastly different levels – led to **more restrictive measures** (likely to remain till Ramadan in mid-Apr)
- **UAE's stringency 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 decidely higher for the 12-months ahead period, potentially due to the fast pace of vaccination rollout and the upcoming Expo event**

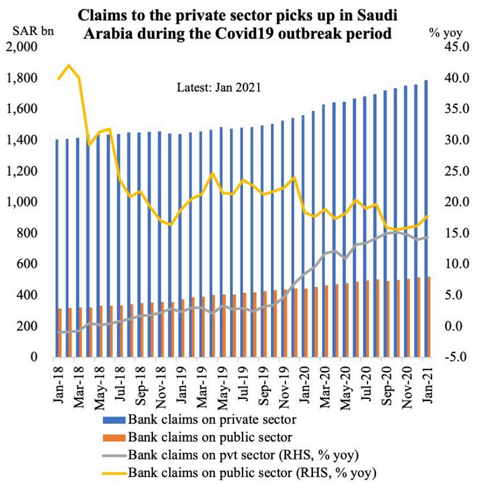


Source: Refinitiv Datastream, Our World in Data. Charts created by Nasser Saidi & Associates

Chart 2. 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





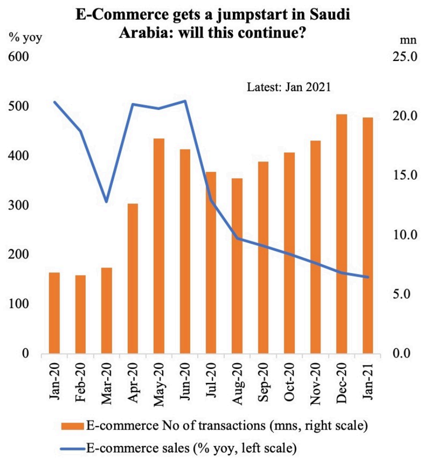


Chart 3.U

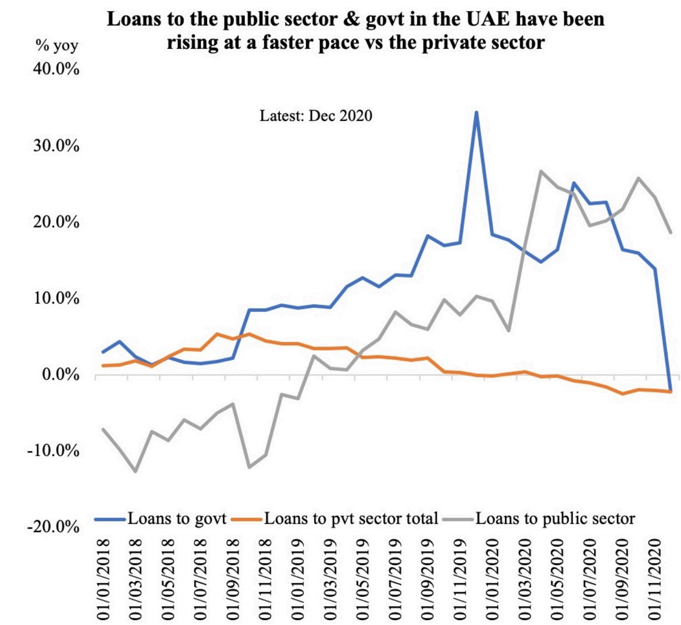
Source: Saudi Central Bank (SAMA), Refinitiv Eikon; Charts created by Nasser Saidi & Associates

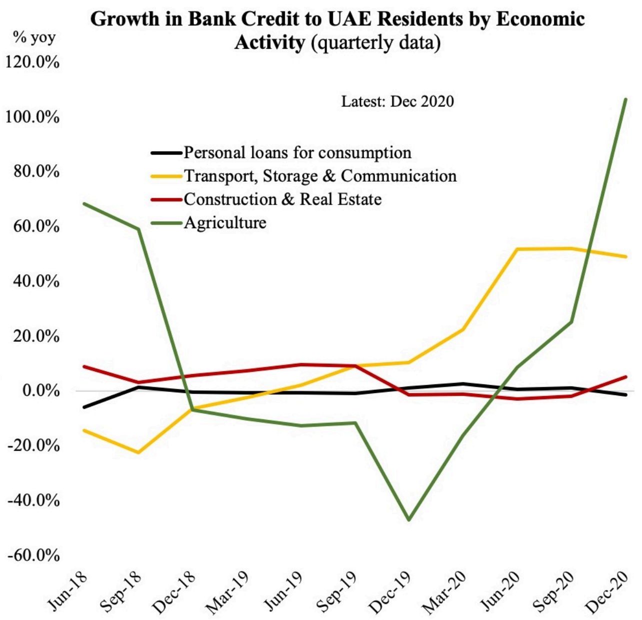
AE bank loans: where's the appetite?

- **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





Source: UAE Central Bank, Refinitiv Eikon; Charts created by Nasser Saidi & Associates

Chart 4. Growing 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

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	1134.6	1148.9	1139.4	1138.4	-0.1%	0.3%
Total domestic lending	1592.6	1595	1626.9	1611.7	-0.9%	1.2%
Share of MSMEs as % of private sector lending	7.9%	8.1%	8.1%	8.1%		
Share of MSMEs as % of domestic lending	5.6%	5.9%	5.7%	5.7%		

Number of MSMEs accounts at banks operating in UAE

	Mar-20	Jun-20	Sep-20
Microenterprises	30625	32021	30843
Small enterprises	60150	63147	54514
Medium enterprises	29137	29767	29004
Total MSMEs	120272	124935	114361
Amount disbursed per firm in '000 AED			
Microenterprises	355.9	327.9	343.7
Small enterprises	488.8	468.7	530.1
Medium enterprises	1822.4	1757.0	1823.9

Source: UAE Central Bank, Nasser Saidi & Associates

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Comments on GCC's citizenship reforms in Arab News, Feb 24 2021

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Could citizenship for talented foreigners and investors be the GCC's game changer?" on 24th Feb 2021.
The comments are posted below.
"The UAE is very much en route to becoming a multi-ethnic, multi-religious, multicultural country and it is certainly taking all the steps to make that happen," Nasser Saidi, a

Lebanese politician and economist who previously served as minister of economy and industry, told Arab News.

"The new citizenship law goes very much in this same direction. Previously, you were just a visitor here in one form or another. You were employed, you invested, but you didn't have a long-term stake in the country. UAE citizenship for foreigners means you now have a long-term stake in the country."

One particularly enticing aspect of the policy is that it allows new UAE passport applicants to also keep their existing citizenship.

"You can retain your own home country citizenship, which is very important for many people," said Saidi. "There's a big advantage from that point of view. Importantly, what this is really saying in terms of the economic aspect is that it allows you to be a leader in the country. It will attract and maintain human capital."

….

"The first advantage is that you are creating a much more diverse multi-skilled labor force by reaching new people from other nationalities," said Saidi, referring to the liberalized UAE residency rules.

"The second, the idea is to move away from the past economic model of the UAE, which is a 'build it and they will come' type of model to one based more on knowledge and tech-oriented development of industries. Fourth, you retain talent, and fifth, you increase foreign direct investment into the country."

Experts see many of the changes in the UAE's visa policies as a response to sluggish economic growth, low oil prices and financial blows delivered by the COVID-19 pandemic.

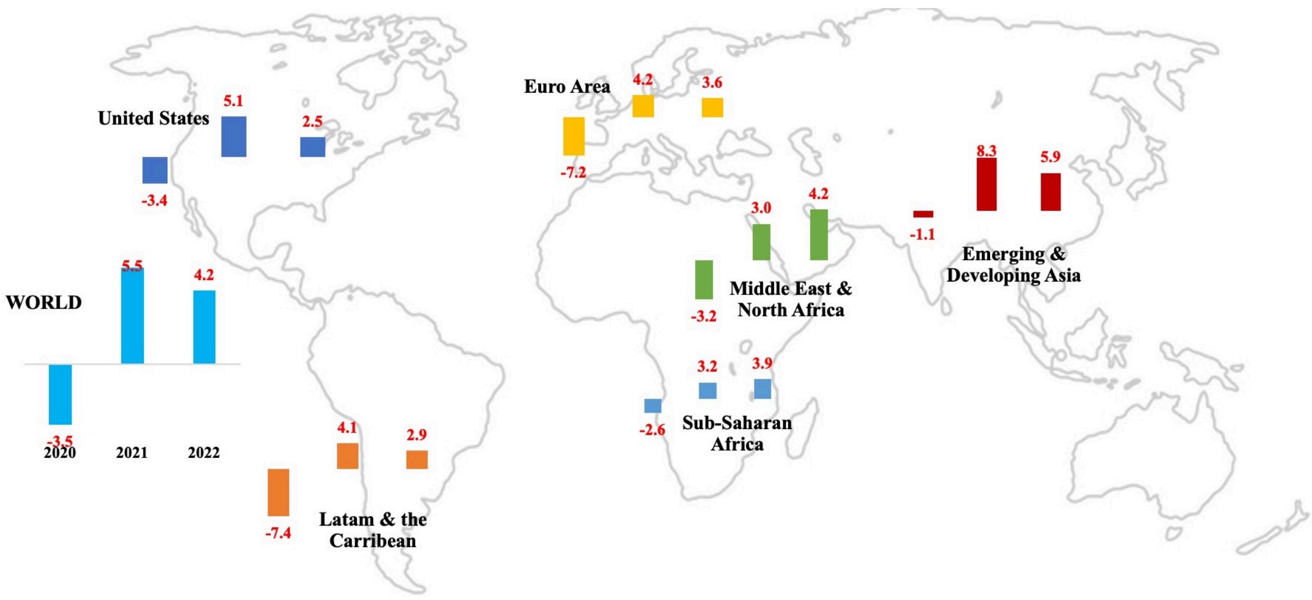
"Since 2015, you have had ups and downs in oil prices which has meant that continuing with the model where you are non-diversified becomes an increasingly risky proposition, particularly at a time of climate change when countries across the world are moving to reduce their carbon footprint," said Saidi.

“The market for oil over time has become smaller as countries shift towards greater energy efficiency and greater renewable energy. When you think of de-risking your fossil fuel assets, you do what Saudi Arabia did with Aramco. Everyone wants to de-risk now, which means greater diversification and moving away from high energy-intense activities. And this has been taking place over the last three to four years.”

Weekly Insights 28 Jan 2021

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

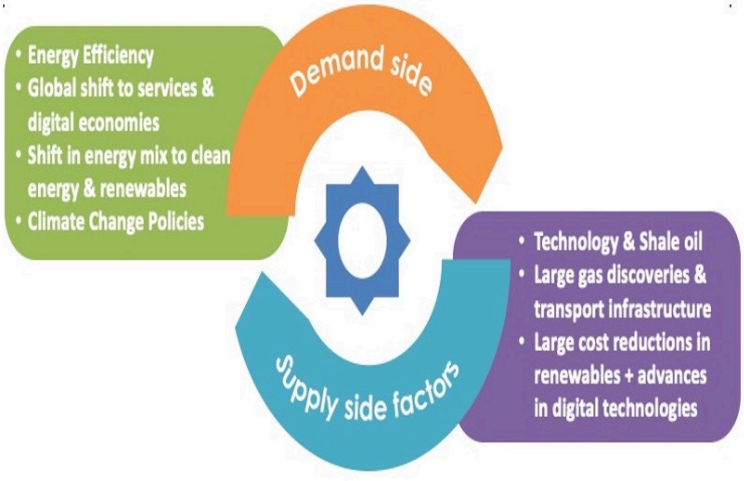
1. Global Recovery in 2021, albeit divergent & uncertain
The IMF, in its latest World Economic Outlook update, forecasts global recovery at 5.5% this year and 4.2% in 2022, from a contraction of 3.5% in 2020. There is a divergence in recovery: advanced nations, where growth plunged by 4.9% last year, will recover at a slower 4.3% while emerging markets recover at a faster 6.3% in 2021 (2020: -2.4%). Much of the emerging market recovery is thanks to the effective containment of Covid19 in China and many of the South-east Asian nations. The growth estimates are based on continuing policy support (and its effectiveness) and roll-out of vaccines (though its pace and logistics issues are identified as a concern) and “supportive financial conditions” (thanks to major central banks’ maintaining current policy rates through to 2022).
While over 150 economies are expected to have their per capita incomes below the 2019 levels in 2021, the projected cumulative output loss over 2020–2025 is forecast to be USD 22trn (relative to the pre-pandemic projections).
Fig 1. Global economic growth set to recover by 5.5% this year



Source: IMF World Economic Outlook, Jan 2021

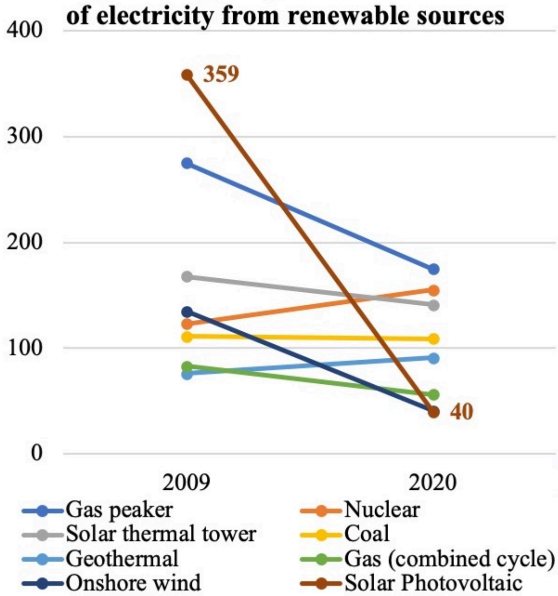
The **slowest pace of recovery among the regions is in the Middle East** (+3% growth this year), a result of the shocks from both Covid19 and lower oil prices. The average price of oil last year was USD 41.29 (simple average of Brent, Dubai Fateh and WTI) and this is estimated to rebound by 21.2% yoy to USD 50.03 this year. As Covid19 cases surge globally, leading to newer restrictions/ lockdowns, the demand for oil is likely to stay subdued: consequently, OPEC+ monthly meetings are unlikely to result in production increases anytime soon. Even if vaccines are distributed quicker-than-expected, resulting in an increase in economic activity earlier than anticipated, there are multiple other factors that are **likely to keep oil prices within the USD 50-55 mark** (Figure 2).

Fig 2. Demand and supply-side factors affecting oil prices



Source: Nasser Saidi & Associates

Fig 3. Plunge in global levelised cost of electricity from renewable sources

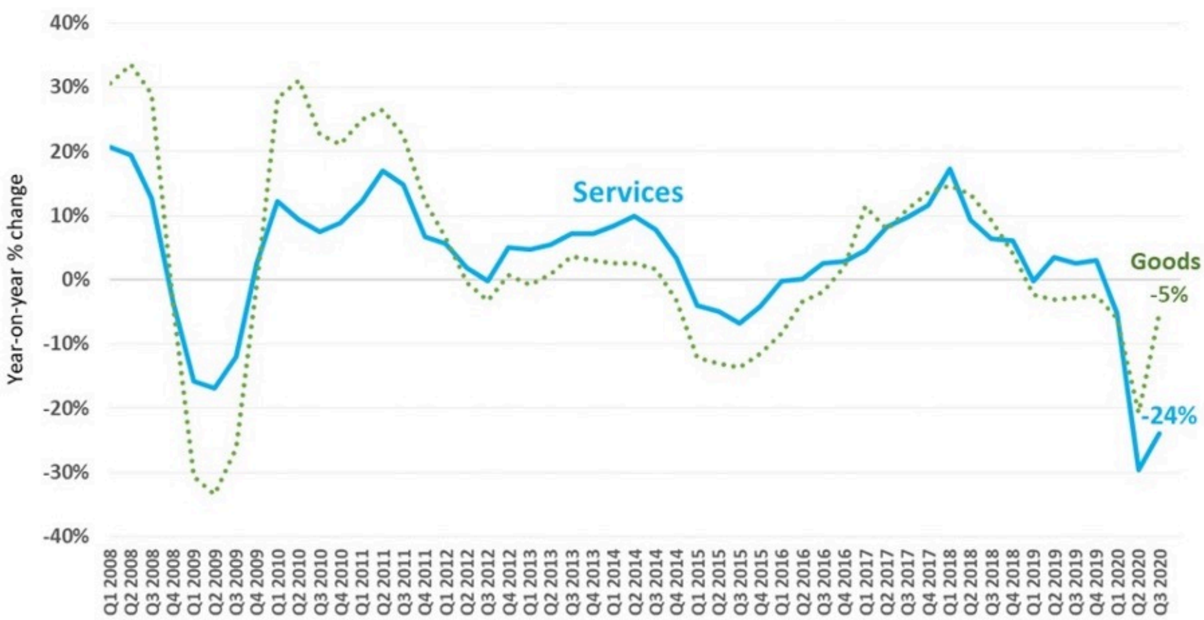


Source: Lazard Levelized Cost of Energy Analysis 2020; Chart created by Nasser Saidi & Associates

In addition to lower demand due to Covid19 restrictions, growing awareness of climate change risks (& related policy changes) and energy efficiency policies will also affect the **demand for oil**. **On the supply side**, technological innovation and rapidly falling costs for solar and wind power has made renewables more competitive. Figure 3 shows the plunge in price of electricity from renewable sources: onshore wind fell by 70% to USD 41 last year from USD 135 in 2009; the dive in solar PV was more eye-popping – it fell by a massive 89% to USD 40 last year from USD 359 in 2009.

2. Services trade continues to drag

Fig 4. Goods trade rebounds at a much faster pace than services trade



Source: WTO, Jan 2021

The WTO, in its latest report on **services trade**, highlights that the **recovery has been slow**: the decline in global services trade eased to a 24% yoy decline in Q3, from the 30% drop posted in Q2. This compares to the goods trade recovery which was down by just 5% yoy in Q3. **Sector-wise, unsurprisingly, travel is the most affected**, down by 68% yoy while among "other services", computer, insurance and financial services increased in Q3 (+9%, 3% and 2% respectively). Global PMI indicators also suggest that economic recovery is driven by manufacturing vis-à-vis services: in Dec, output across manufacturing sector outperformed the services sector for the 6th straight month. Within the services index, respondents expect growth in future activity though optimism levels waned towards the end of last year.

3. Labour market recovery in 2021?

A key sub-indicator within PMI is employment – one of the main components dragging down the headline index. According to the ILO, about **8.8% of global working hours were lost for the whole of last year** (relative to Q4 2019), roughly equivalent to 255mn full-time jobs. To put this in perspective, this was **four times more than what was lost in the 2009 financial**

crisis period. In turn, labour income witnessed a decline of 8.3% – equivalent to USD 3.7trn or 4.4% of GDP!

In the Arab states, total estimated decline in working hours was 9% versus the global loss of 8.8% (Figure 5 below). However, these are ILO's own estimates, as no labour force surveys were available for any country in the region during this time. According to these estimates, Iraq and Saudi Arabia registered losses of 8.3% and 10.8% respectively.

Fig 5. Quarterly & annual estimates of working hour losses, world vs. Arab states

	Percentage of working hours lost (%) vs pre-crisis quarter Q4 2019					**Equivalent number of full-time jobs (48 hrs/ week) lost (mns)**				
	Q1 2020	**Q2 2020**	**Q3 2020**	**Q4 2020**	**2020**	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**	**2020**
World	5.2	18.2	7.2	4.6	8.8	150	525	205	130	255
Arab states	3.3	18.8	9.4	4.7	9.0	2.0	10.0	5.0	2.0	5.0

Source: ILO Monitor: COVID-19 and the world of work, seventh edition, Jan 2021

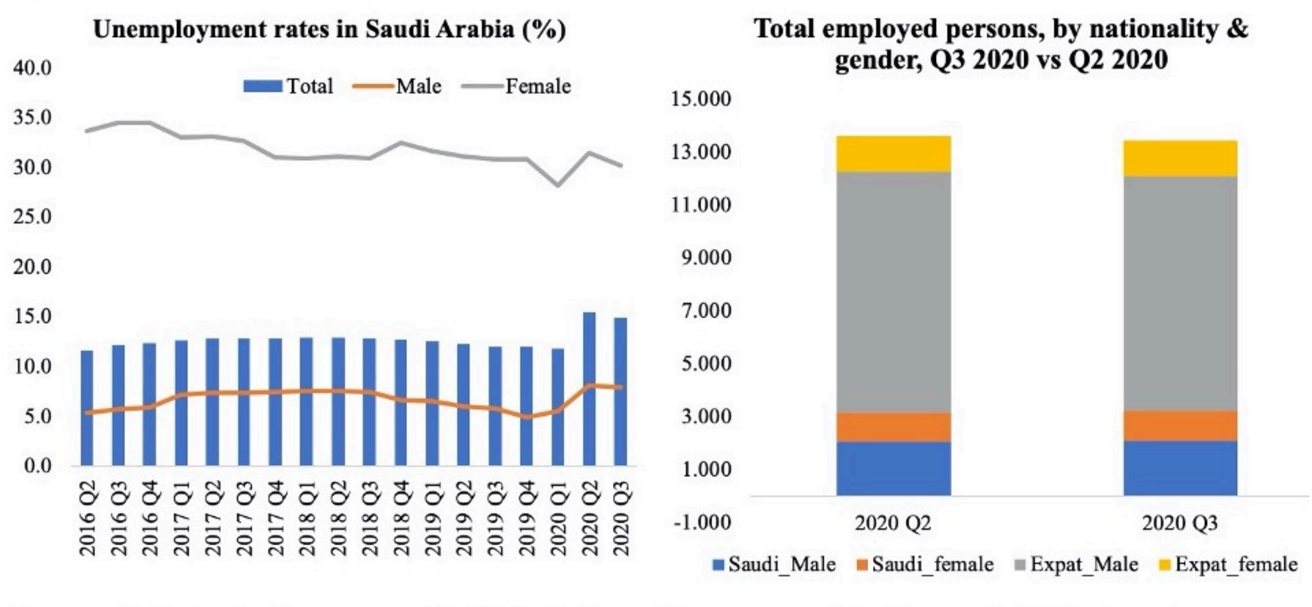
Recovery is expected in 2021 as mobility restrictions are lifted and vaccine roll-out leads to a slow return of business/economic activity. With young persons and women as well as the informal sector and low-skilled workers more affected than the rest during the Covid19 period, it is imperative to target the return of these groups into the labour market. Without this, the outlook will be more inequality and instability (remember that youth unemployment was one of the factors leading up to the Arab Spring 10 years ago) in the most affected nations. As it stands, the IMF estimates that close to 90mn persons are likely to fall below the extreme poverty threshold during 2020–21.

4. Employment in Saudi Arabia

Separate data releases from Saudi Arabia give us an insight into employment trends in the country, which can be explained by a combination of Covid19, travel restrictions and Saudization policies:

- **Unemployment in Saudi Arabia dropped** to 14.9% in Q3 from 15.4% the previous quarter, though higher than Q1's 11.8%. The **gap between male and female unemployment remained significant**, with the former at 7.9% and latter at 30.2%.
- The most recent labour force survey shows that the **number of expats working in the country fell by 257,170 (qoq) to 10.2mn in Q3** while citizens grew by 81.9k to 3.25mn. Expat males account for two-thirds of the workforce versus Saudi males and females at 15.6% and 8.6% respectively in Q3.
- There was a **58% yoy decline in work visas** issued to expats to 611,185 in Jan-Sep 2020.

Fig 6. Labour force indicators in Saudi Arabia



Source: Labour market survey Q3 2020, GaStat. Charts created by Nasser Saidi & Associates

While on the one hand, the country has an aim to support female employment (an objective within the Vision 2030 document is to raise women's participation to 30% by 2030), there seems to be a major disconnect: female employment in the private sector is less than 10% of total, and the additional hurdles – like costs of employing women (separate floors/ work areas from the male counterparts), social customs, technical skills (focus on degrees in education, humanities) – may be putting off prospective employers.

Independently, the **Public Investment Fund (PIF) disclosed that it had generated over 331k jobs in the past 4 years** either directly or indirectly through its investment policies. The PIF's recent commitment to not only invest USD 40bn every year for the next five years but also create close to 1.8mn jobs by end-2025 will support the economy going forward.

According to UNCTAD's latest "Investment trends Monitor", **FDI into Saudi Arabia increased by 4% yoy to an estimated USD 4.7bn last year** – this is in spite of the 42% drop in global FDI flows (with further weakness expected in 2021) and the 24% decline in flows to West Asia. With various ongoing projects related to Vision 2030 and megaprojects in NEOM, as well as the revamp of over 200 FDI regulations, the Kingdom's ability to woo investors is explicable: Egypt, India and the UK were the most active investors in the country. Care must be taken to **attract FDI into more job-creating sectors** than the oil & gas sector (which is more capital intensive). Given the country's commitment to support clean/renewable energy, it is pertinent to **focus on the creation of green jobs, thereby leading to sustainable economic recovery.**

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Comments on Saudi Arabia

PIF’s strategy in Arab News, Jan 27 2021

Dr. Nasser Saidi’s comments appeared in an Arab News article titled “Saudi Arabia puts foot on the gas with accelerated strategy for sovereign wealth fund PIF” on 27th Jan 2021.
The comments are posted below.
Regional economics expert Nasser Saidi says the announcement was a quantum leap in the Kingdom’s plans. “Saudi Arabia has put its foot on the gas of the Vision 2030 strategy with the announcement of the economic plan for the next five years, under the auspices of the PIF,” he told Arab News.
“There can now be no doubting the seriousness of its intentions to push through the plan to deeply transform and diversify the economy, and society, of the Kingdom, in super-fast time.”

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

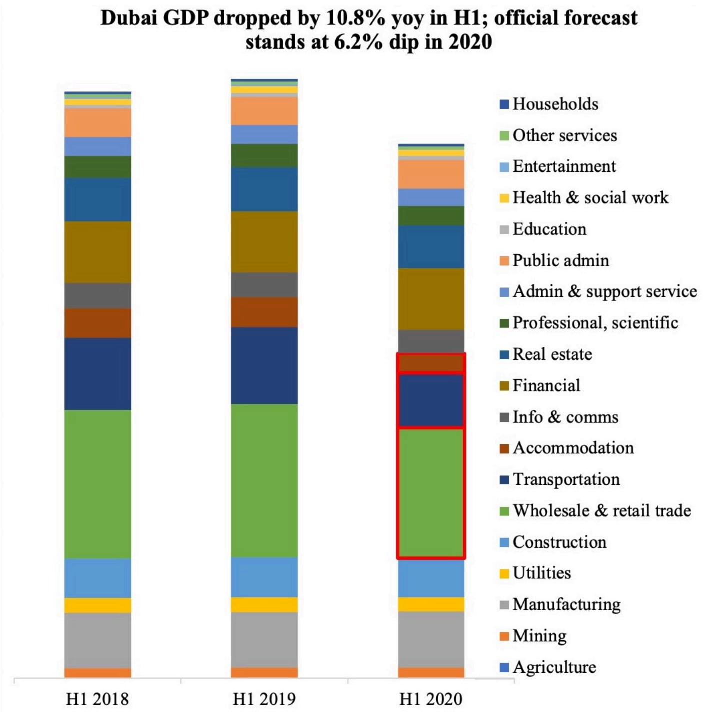
Source: Refinitiv Datastream, Nasser Saidi & Associates

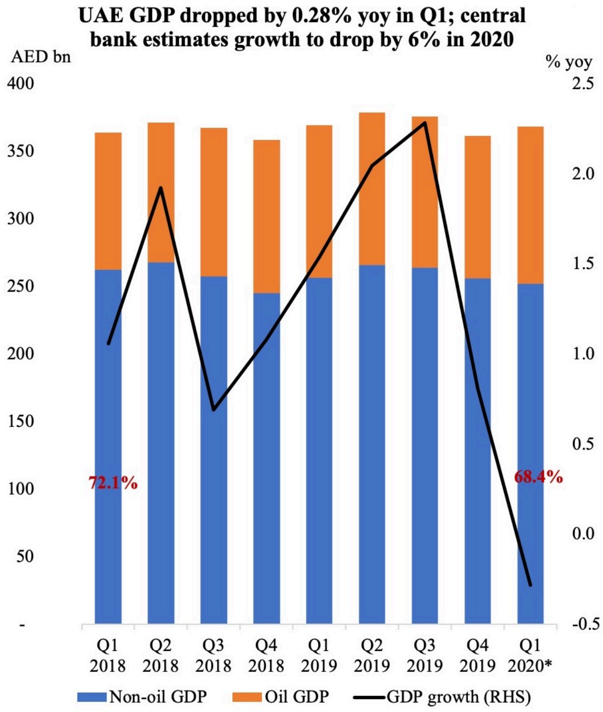
PMIs across the globe were released this week. **Overall, recovery seems to be the keyword with improvements in Dec** – in spite of the recent Covid19 surge, the Covid variant and ongoing lockdowns/ restrictions – with new orders and export orders supporting sentiment, with some stability in job creation. 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.



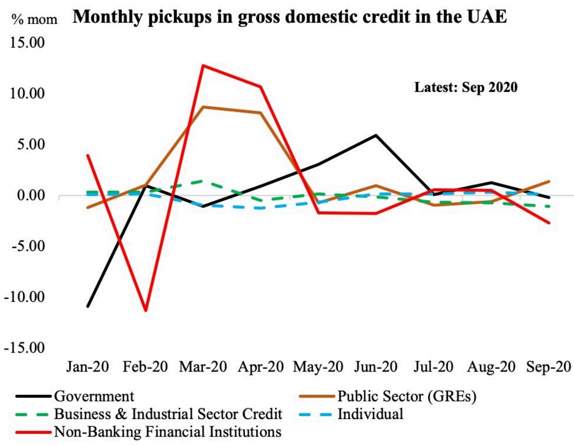


Source: Dubai Statistics Centre, FCSA, Nasser Saidi & Associates

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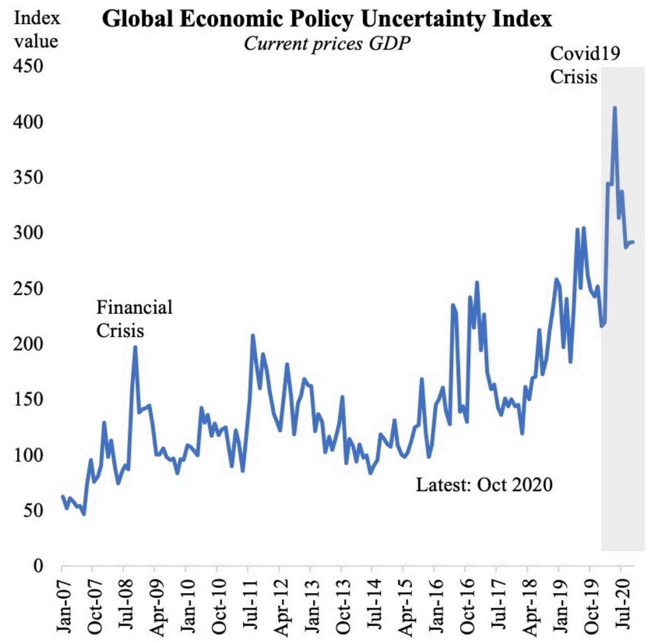
Weekly Insights 23 Dec 2020: V or W-shaped recovery? Surge in Covid19 cases & new strain to dampen growth in Q4

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

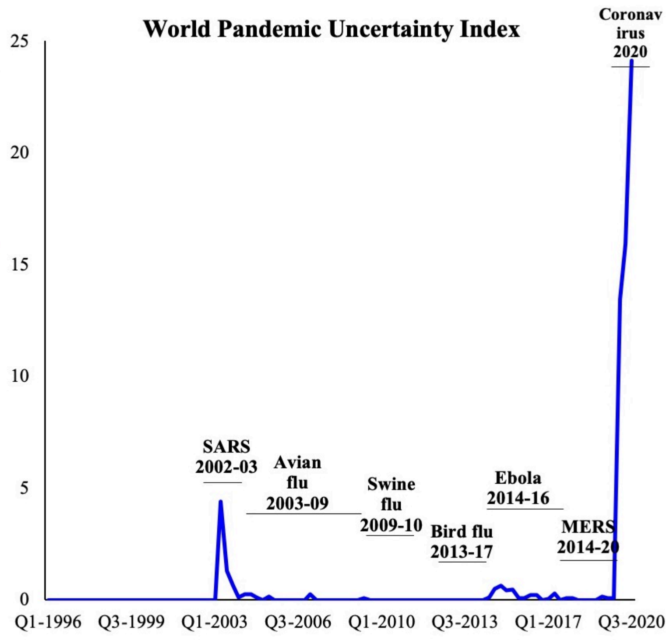
Chart 1: Uncertainty in the time of Covid19

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.**



Source: https://www.policyuncertainty.com/global_monthly.html



Source: https://worlduncertaintyindex.com/data/

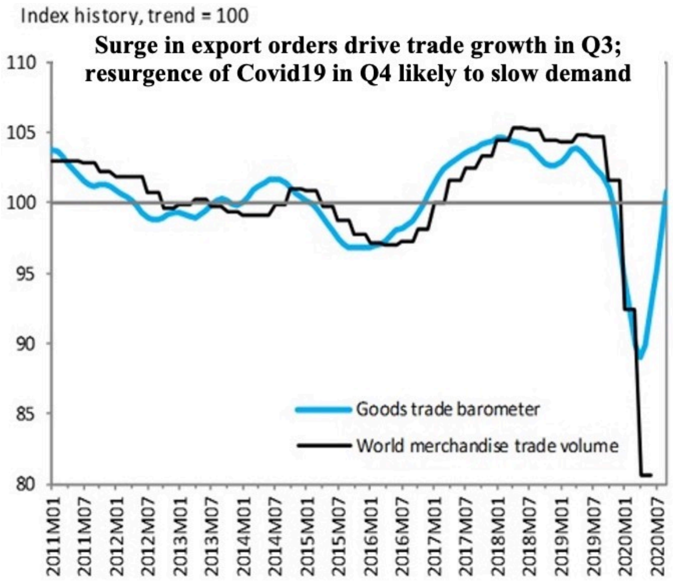
Chart 2: Trade bounced back in Q3, but will the current surge lead to another drop? Tourist Arrivals remain dismal

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.

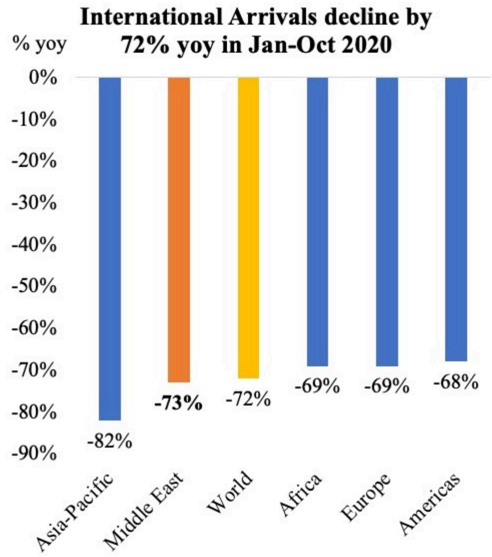
Meanwhile, **thanks to the recovery in new export orders**, both shipping & cargo indicators are turning positive.

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.**

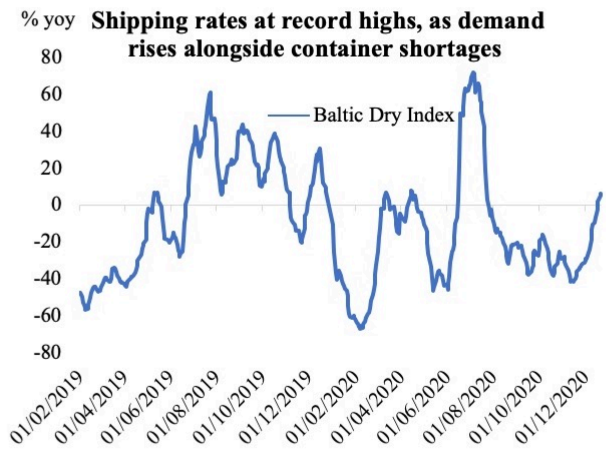
Tourism remains unlikely to recover to near pre-pandemic levels till vaccines reach a substantial proportion of global population. Prior to the recent surge in cases, **domestic tourism (& therefore air travel) had picked up in Europe and Americas.**



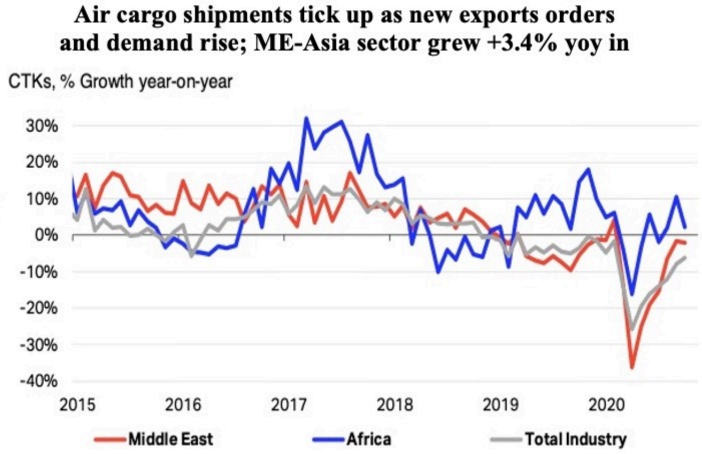
Source: WTO Trade Barometer, Nov 2020



Source: World Tourism Organisation (UNWTO)



Source: Refinitiv Datastream, Nasser Saidi & Assoicates



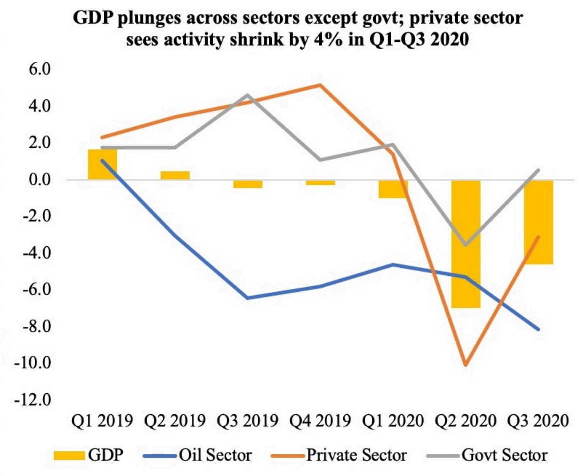
Source: IATA Economics

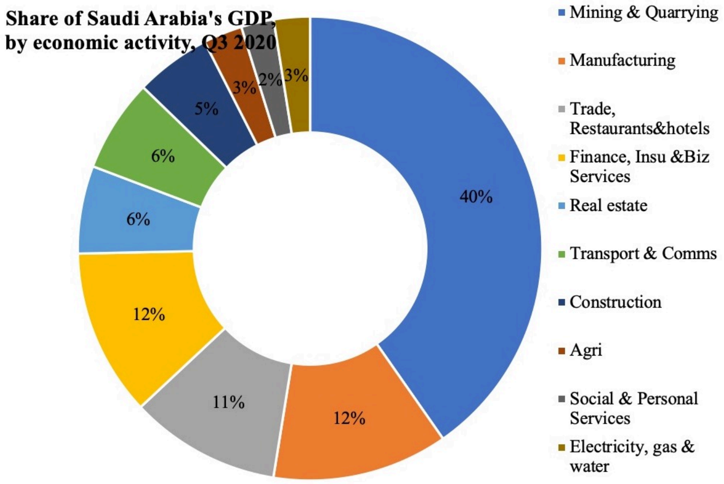
Chart 3: Saudi Arabia's GDP shows recovery in Q3; private sector growth declines by 4% ytd

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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Comments on Saudi Arabia's Aramco in Arab News, Dec 16 2020

Dr. Nasser Saidi's comments appeared in an Arab News article

titled "How Saudi Aramco IPO proved a game changer in a tumultuous year for oil" on 16th Dec 2020.
The comments are posted below.
"The first year was tumultuous for Aramco and oil producers," economics expert Nasser Saidi told Arab News.
"Aramco has opened the path for the privatization of GCC national oil companies and of the energy infrastructure across the region," Saidi said.
"The IPO was a game changer, part of a long-term strategy of reducing dependence on oil and gas wealth and using the proceeds to diversify the Saudi economy. Aramco is a global player, is resilient, with a clear strategy of diversifying its activities and sources of revenue, and with improved corporate governance as a result of its public listing."

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.

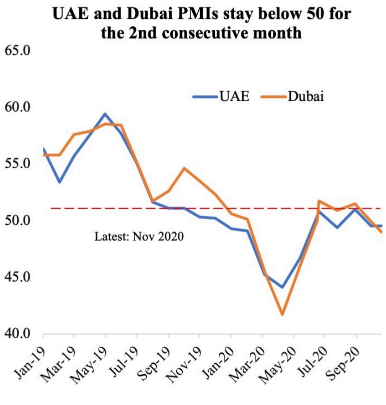
Chart 1: PMIs in UAE/ Dubai remain below-50 for the 2nd consecutive month; mobility & traffic pick up though demand remains weak

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.

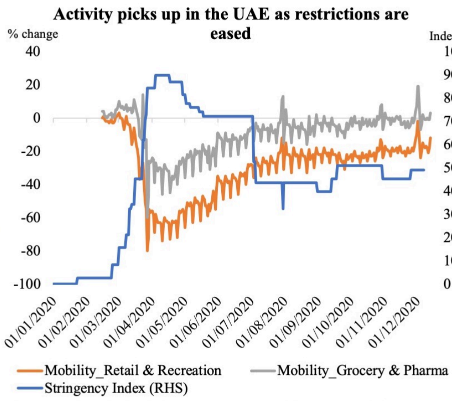
Demand weakness remains the main reason for the dip following an uptick after the initial lockdowns were lifted; with the recent surge in Covid19 cases in Europe & Asia, recovery has been slow in tourism and travel sector. **There is some signs of optimism**: flight bookings in the London-Dubai sector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

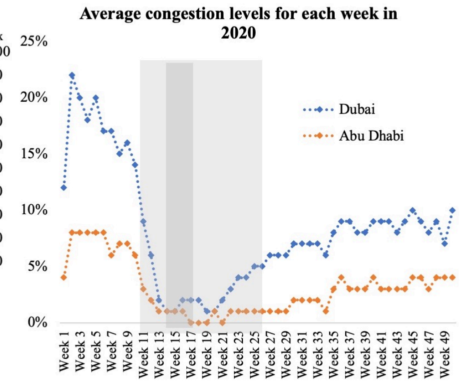
Mobility data from Google shows the **pace of recovery at grocery and pharmacy stores was much faster than that for the retail and recreation outlets** (restaurants, cafes, malls, theme parks etc); **congestion levels are still about 33% below 2019 levels**, though certain days in Nov-Dec showed positive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

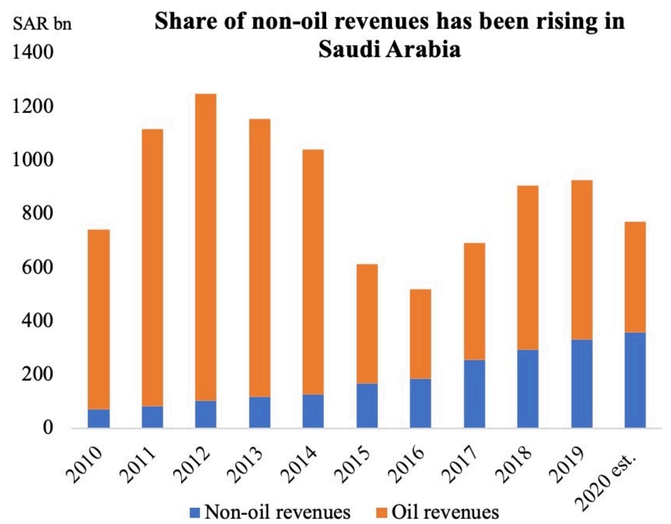


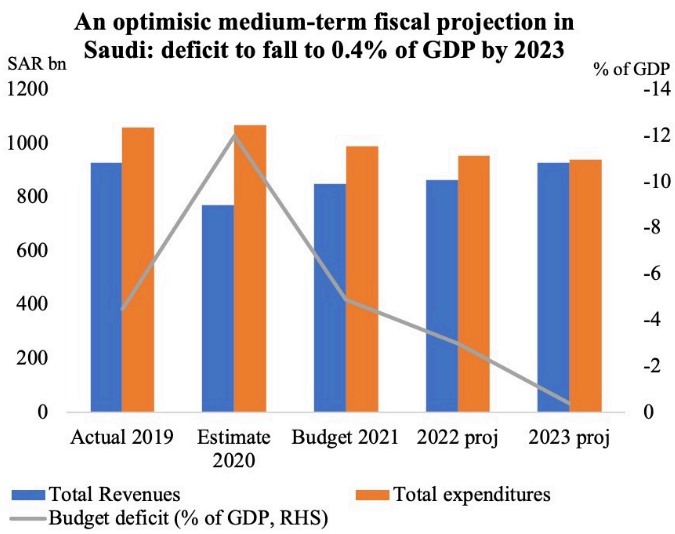
Source: TomTom Traffic Congestion Index, Nasser Saidi & Associates. Grey areas indicate Covid19 restrictions & darker grey the more severe weeks.

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.





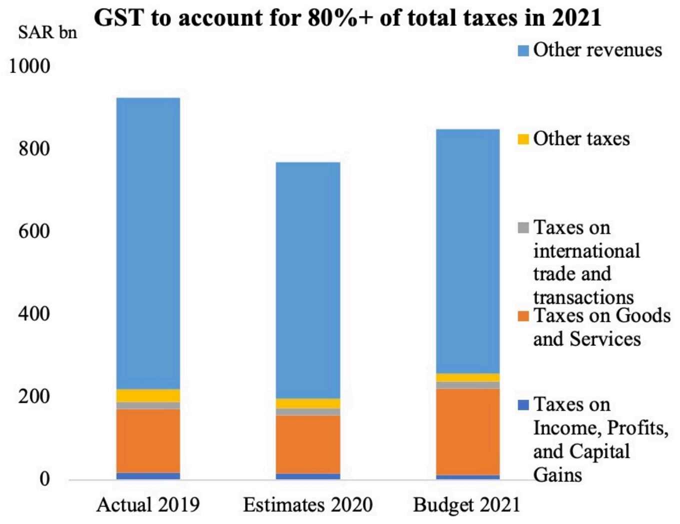
Source: Ministry of Finance, Saudi Arabia, Nasser Saidi & Associates

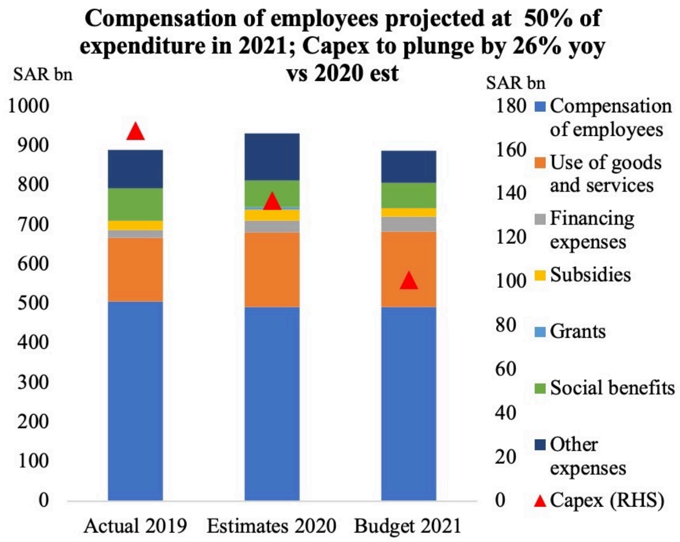
Chart 3: Saudi Arabia’s tax revenue supported by VAT, while

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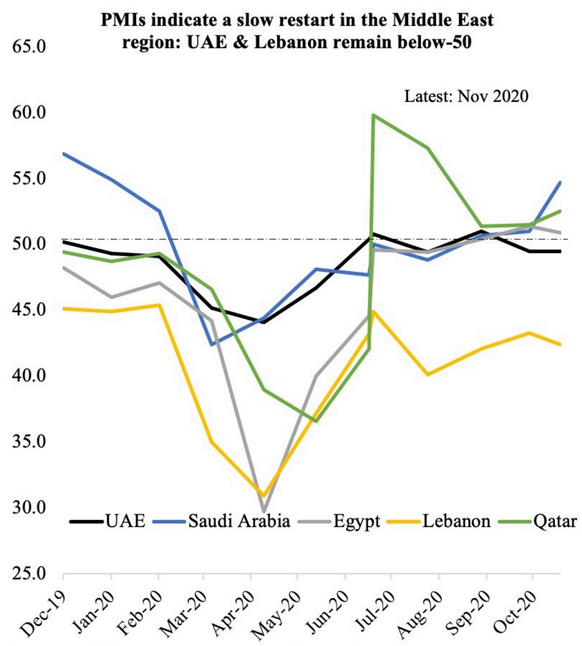
Weekly Insights 10 Dec 2020: Vaccine Exuberance, PMIs and Indicators of Economic Activity

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

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

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

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

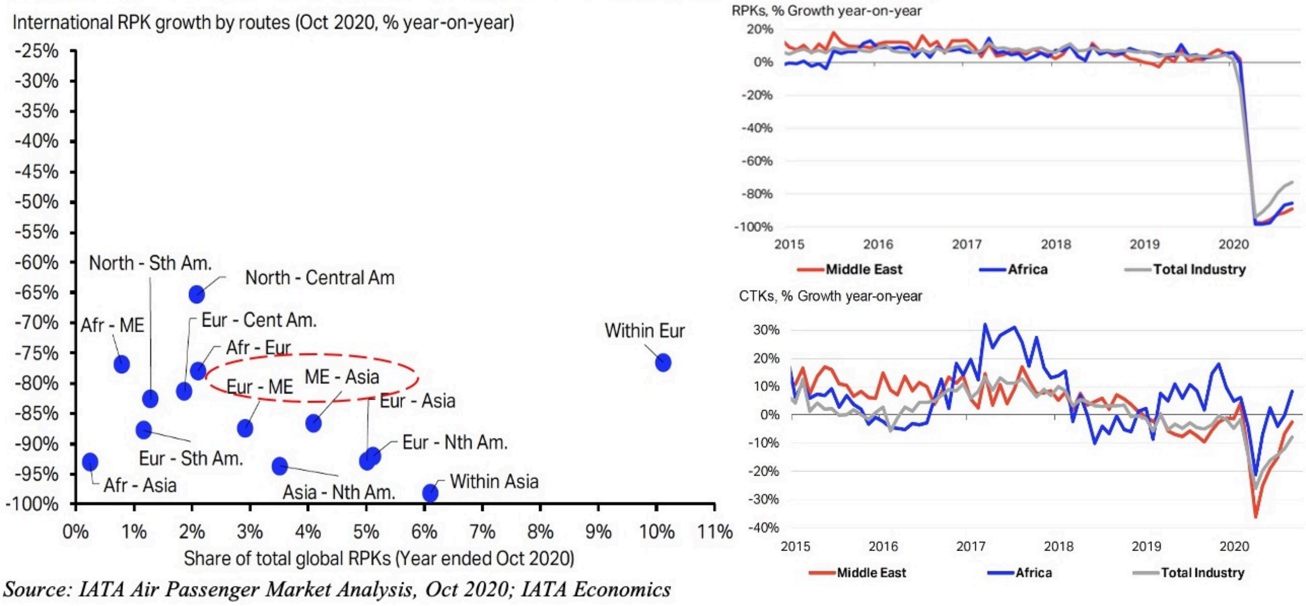
International travel markets remain weak: **Middle East airlines revenue passenger-kilometres (RPKs) were down by 86.7% and 88.2%** for international connectivity and long-haul traffic in Oct. This should benefit the airline industry in 2 ways: (a) in the near-term, the industry will **support distribution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

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

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

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

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



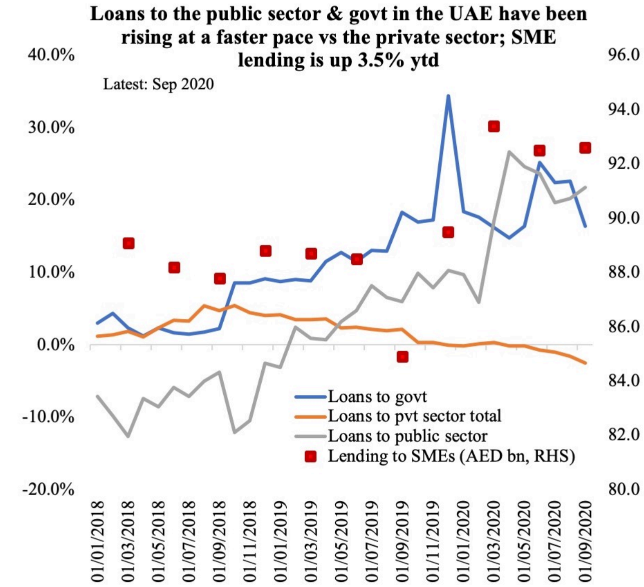
Source: IATA Air Passenger Market Analysis, Oct 2020; IATA Economics

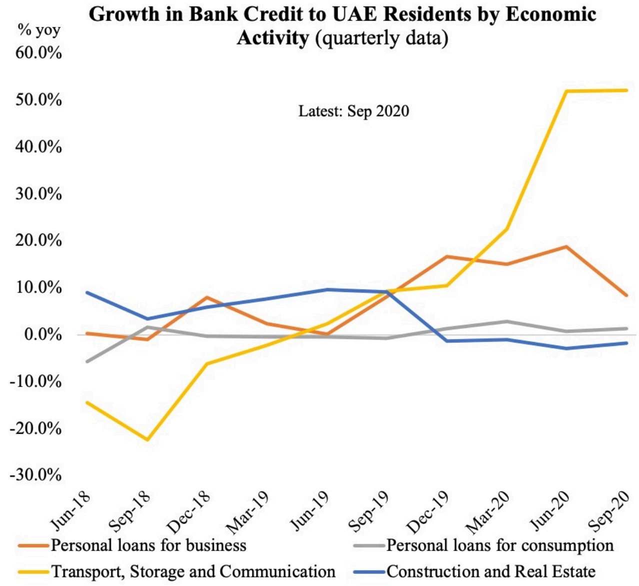
Chart 3: Bank credit in the UAE

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.





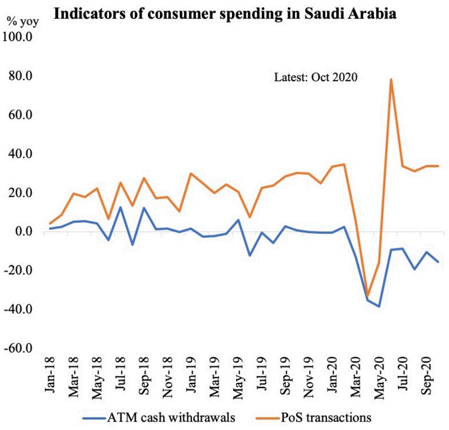
Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.

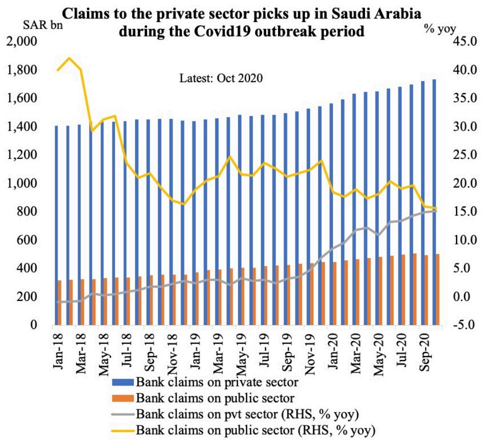
Chart 4: Indicators of economic activity in Saudi Arabia

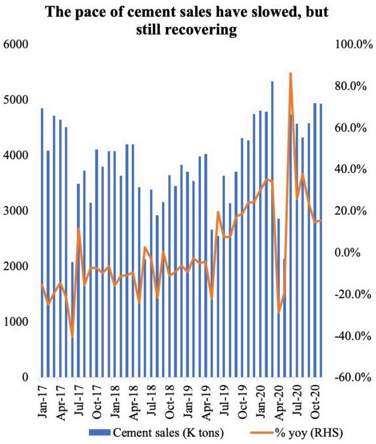
Among the proxy indicators for **consumer spending** – ATM withdrawals and PoS transactions – the latter is picking up faster, supported by transactions in food and beverage (+28.9% during Jan-Oct 2020) and restaurants and cafes (+68.9%); in comparison, transactions at hotels are down by 33%. ATM transactions 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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Saudi Arabia's Many Transformations, op-ed in Arab News French, Nov 2020

The article titled "Saudi Arabia's Many Transformations" appeared in a special G20 edition prepared by Arab News French. The oped piece (in French) can be accessed directly on AFN with the title *"Les nombreuses transformations de l'Arabie saoudite".*
The English version is posted below.

Saudi Arabia's Many Transformations

Saudi Arabia's membership, presiding and hosting the G20 is a first for any Arab country. This recognises and signals the global economic importance of Saudi Arabia, as well as its prominence as the biggest economy in the Arab world. Saudi is

systemically important for the world’s oil markets: not only is it home to 17.2% of the world’s proven petroleum reserves, it is also the largest exporter of oil and plays a leading role in OPEC. It is a major international investor through its sovereign wealth funds, as well as a sustained source of remittances. Accordingly, the economic developments and prospects of Saudi reverberate across the Arab region due to its size, trade, investment and remittances links to other GCC countries and to labour and/or non-oil exporters. Saudi is systemic for the region.
Saudi Arabia has embarked on a transformation path, following the sharp oil price shock in the summer of 2014, aimed at gradually diversifying away from its high level of dependence on oil. This resulted in the launch of the Vision 2030 and National Transformation Plans about 4 years ago. The country undertook major initiatives including fiscal and structural reforms (energy price reforms, spending rationalisation, introduction of VAT and excise taxes), capital market reforms (ranging from opening up of Tadawul, launch of Nomu parallel market for growth companies, deepening the domestic Sukuk market) as well as social reforms (greater opportunities for women), opening up new sectors – entertainment, hospitality, tourism beyond- and strategically, undergoing a transition to moderate Islam. Reforms are being gradually implemented, but the Covid19 pandemic, the Great Lockdown and fallouts from the decline in oil prices have underscored key new challenges.
A “New Oil Normal” has emerged. Even prior to Covid19, weakening global energy demand, an energy transition was underway. Technological innovation has increased the competitiveness of shale oil and renewable energy, increased supply and constrained OPEC+’s ability to control prices. On the demand side, growing energy efficiency, COP 21 commitments have brought about significant behavioural and policy changes, implying a downward trend in oil demand relative to activity. The prospect of plentiful fossil fuel (including shale), with increasingly ubiquitous, cheap renewable energy, along with energy transition policy and regulatory measures, portends

permanently lower real oil prices and threatens Saudi's medium and long-term growth prospects.

Decarbonisation policies aiming at mitigating the risks of climate change will reinforce the drivers of the New Oil Normal by systemically lowering demand for fossil fuels. In addition, climate change has deep implications for Saudi Arabia and the MENA region. Desertification and extreme heat conditions are increasing, along with growing water scarcity. According to the World Bank, climate-related water scarcity is estimated to cost the region 6 to 14% of its GDP by 2050, if not earlier, and widespread droughts could potentially lead to "water wars". Rising sea levels is expected to put about 24 port cities at risk in the MENA region.

Despite the growing evidence of climate change, financial markets have not fully priced in climate risk. This is likely to change. A shift in market sentiment will lead to a Minsky Moment resulting in a sharp drop in the price of fossil fuel assets. This poses an existential threat and risk for Saudi Arabia (though it is of the world's lowest cost producers), that its fossil fuel reserves, its prime source of wealth, become stranded assets, investments which are no longer able to earn an economic return due to low oil prices.

Two other deep forces are transforming the global economic landscape. New technologies (digital, 4th industrial revolution, AI, robotics) are leading to structural economic and social changes, transforming consumer and producer markets, agriculture, manufacturing and services. Digitalisation is becoming ubiquitous. By contrast, globalisation, the handmaiden of the growth of international trade, foreign investment, portfolio flows and the movement of people, arrested by the Global Financial Crisis, is being reversed by the forces of populism, nationalism and the Covid pandemic. How should Saudi react to these multiple challenges? A new growth lifting and diversification strategy is required.

Saudi's next growth phase: Digitalisation, Decarbonisation, Green Deal, Regionalisation

First, Saudi Arabia needs to accelerate its diversification path away from oil through decarbonisation and de-risking fossil fuel assets. Decarbonisation requires a ‘Green Deal’, a low-carbon energy transition plan, the phasing out of energy subsidies and the introduction of carbon taxes to reduce consumption, and including a major drive to accelerate investment in and adoption of renewable energy and Clean Tech policies by both government and private sectors. Already Saudi is planning to invest some US$ 20 billion to develop 30GW of renewable energy by 2025. Aramco’s part-privatisation and opening upstream and downstream fossil fuel assets to PPP should be accelerated. These investments & divestments can fuel the development of Saudi’s capital markets to become a regional, if not a global centre, for green bonds and Sukuk, for green and climate finance.

Saudi’s comparative advantage in solar energy can be the basis for a new energy infrastructure and new exports, enabling Saudi to shift to selling renewable-energy-based electricity to Europe (via an interconnected power grid), to East Africa, but also to Pakistan and India. Technology can also be used in climate risk mitigation, ranging from AgriTech (e.g. desert agriculture, vertical farming) to smart water management (in cities, households, industry and agriculture) to green/ sustainable construction and buildings. Through their linkages, building clean and smart cities will accelerate Saudi Arabia’s move to embrace innovation and technological progress. Importantly, these investments are job-creating: each million dollars invested in renewables or energy flexibility is estimated to create at least 25 jobs, while each million invested in efficiency creates about 10 jobs[1]. A green deal, investment in renewable energy, climate resilient infrastructure and cities and using instruments to transfer climate risks to markets (carbon taxes and carbon trading) can be transformative for the Saudi economy.

The other building block is digitalisation, the national deployment of broadband and 5G to support a digitalised economy & society with investments in smart grids, smart city technologies and the deployment of new digital technologies, low-cost cloud computing, the IoT, AI and big data analytics. Digitalisation would raise efficiency and galvanise growth in government, services and industry, augment the domestic and international connectivity of the Saudi economy, create new jobs and activities, raise overall productivity and economic growth. Digitalisation of the banking & financial sector would enable FinTech to widen access to finance within Saudi and Islamic finance to the global Islamic community.

To counter the forces of deglobalisation, Saudi needs to be the driving force for greater regional economic integration with a focus on removing the 'soft barriers' to trade & investment and integrating infrastructure and logistics: energy, water, transport & logistics, digital highways in the GCC, but also MENA countries with infrastructures gaps (Egypt, Iraq, Jordan, Lebanon) and East Africa. Saudi should formalise it's shifting trade and investment patterns towards Asia and China through new trade and investment agreements with China, Japan, Korea, and the newly formed RCEP area. Greater regional and international integration would enable Saudi Arabia achieve its Vision 2030 targets and propel the nation to new heights within a transforming global economic landscape. Saudi has many transformations ahead.

[1] IRENA, Global RE outlook, Apr 2020

Weekly Insights 11 Nov 2020: PMIs & Recovery (?)

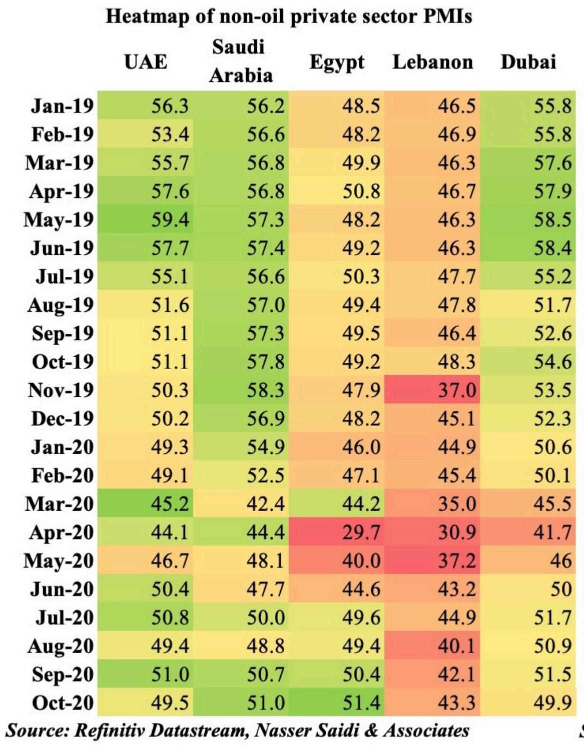
Indicators in the Middle East/ GCC

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

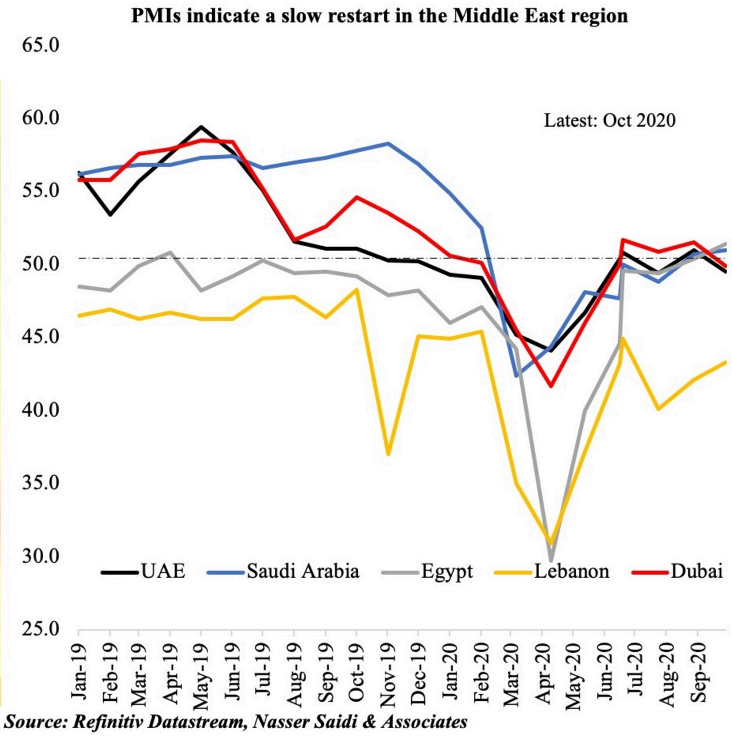
PMIs in the Middle East/ GCC have not kept pace with the increases seen across the US/ Europe/ Asia post-lockdown. Non-oil sector activity has been subdued given sector composition, a majority of which are still negatively impacted by the outbreak: tourism, wholesale/ retail & construction. Job cuts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



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
Oct-20	49.5	51.0	51.4	43.3	49.9

Source: Refinitiv Datastream, Nasser Saidi & Associates

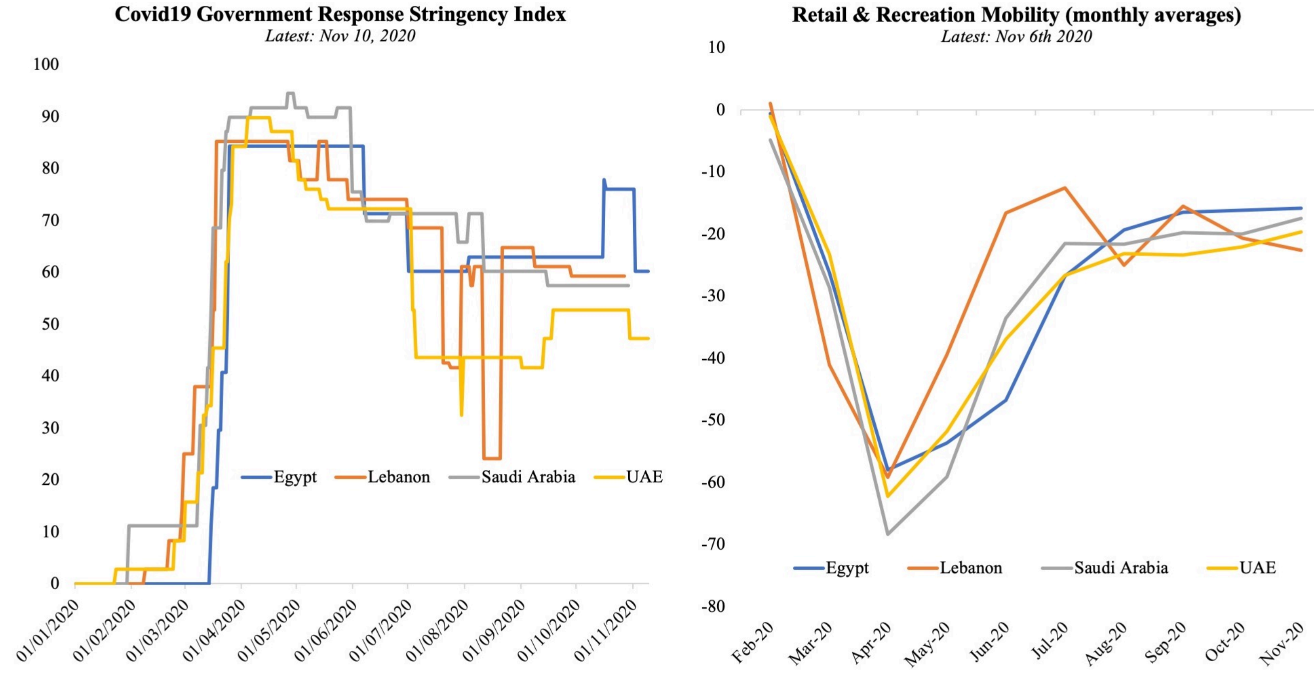


Source: Refinitiv Datastream, Nasser Saidi & Associates

Chart 2: Stringency 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.

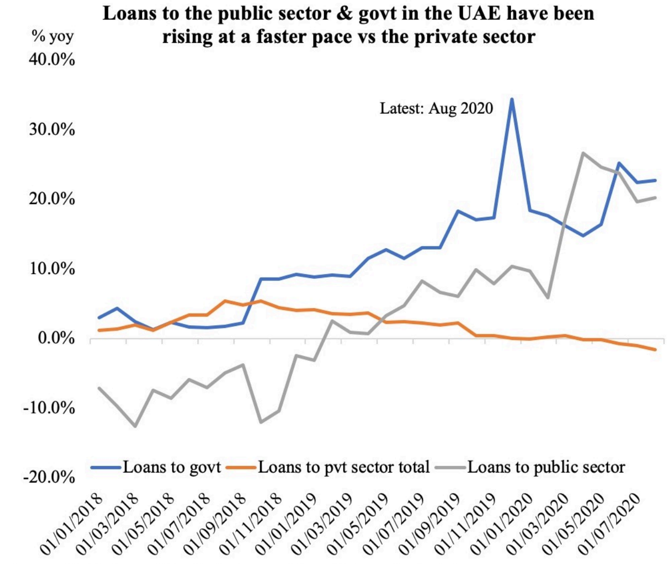


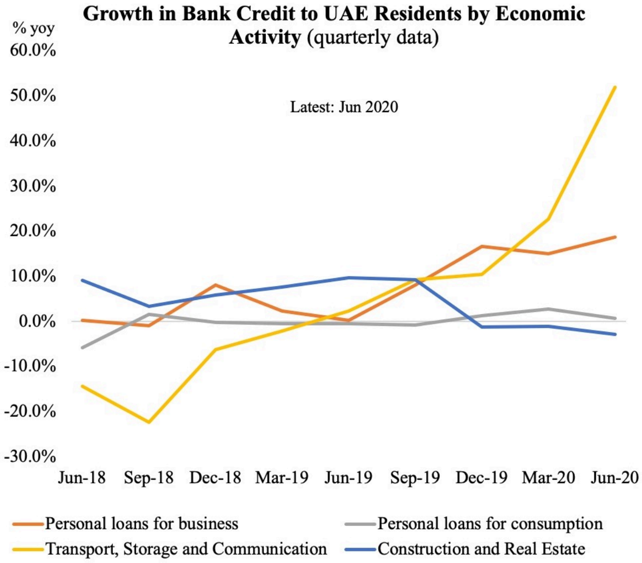
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, Google Mobility Indicators, Nasser Saidi & Associates
Note: The Government Response Stringency Index simply records the number and strictness of government policies, not effectiveness of the response
Mobility trends 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.

Chart 3: Indicators 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%).



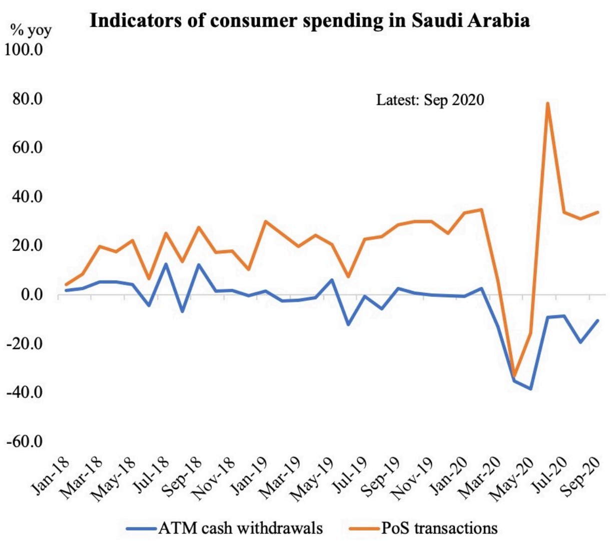


Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.

Chart 4: Indicators 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.

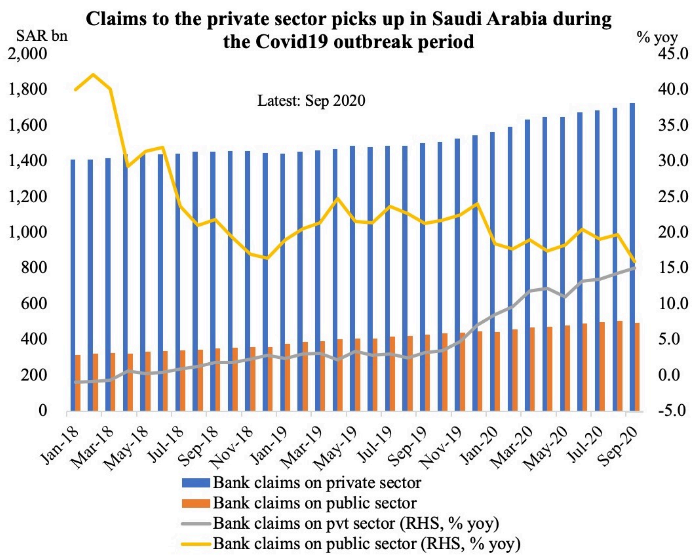
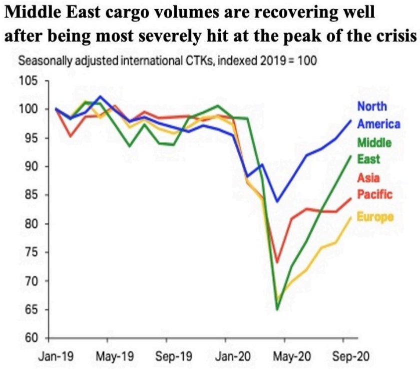


Chart 5: Linkages with the global economy

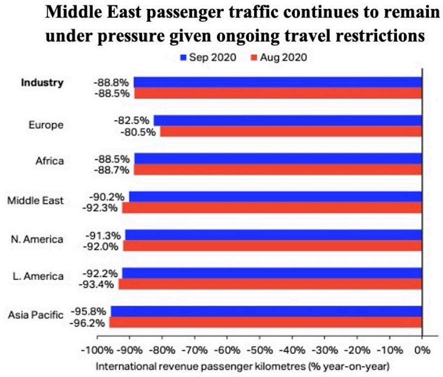
In linkages with the global economy, we consider

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.

Source: IMF DoTS, Refinitiv Eikon, Nasser Saidi & Associates



Source: IATA Air Freight monthly analysis, Sep 2020



Source: IATA Air Passenger Market Analysis, Sep 2020

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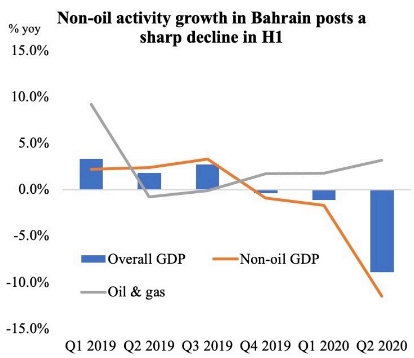
Weekly Insights 6 Oct 2020: Economic activity in Bahrain & Saudi Arabia

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

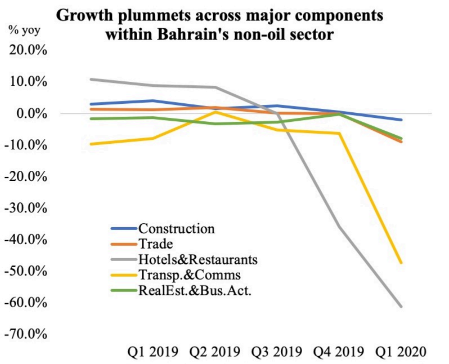
1. **Bahrain GDP & economic activity**

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

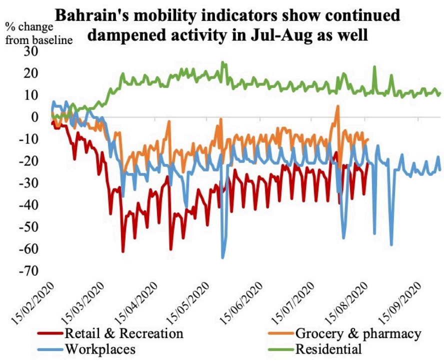
With Covid19-related restrictions slowly being phased out in Bahrain, can we expect a resumption of economic activity? The data for Jul-Aug show the pace of recovery has been slow, with readings for retail and recreation still at an average 26% below the baseline data (pre-Covid19). Recent announcements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



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



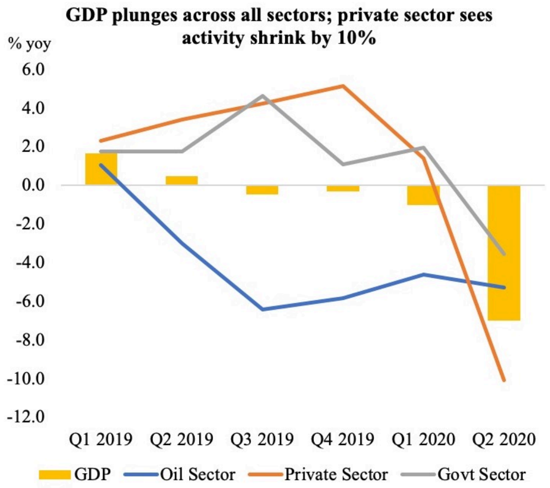
Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates

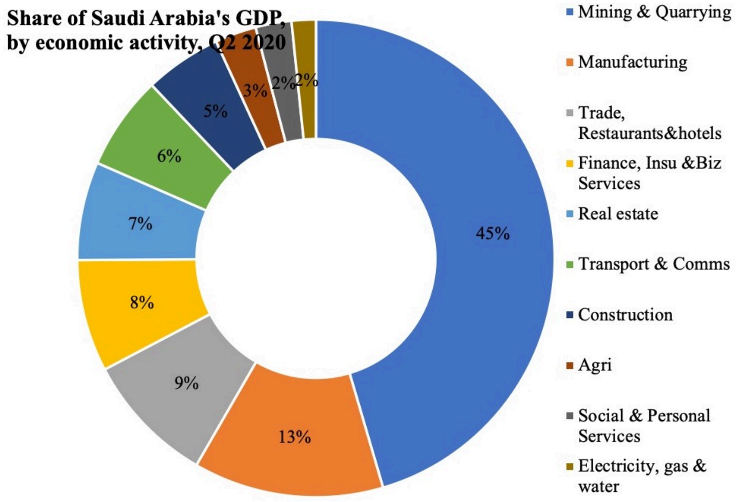


Source: Google Covid19 Community Mobility Report, Nasser Saidi & Associates. Note: Google have temporarily suspended updates in some categories to improve how they are calculated.

2. **Saudi Arabia GDP & economic activity**

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



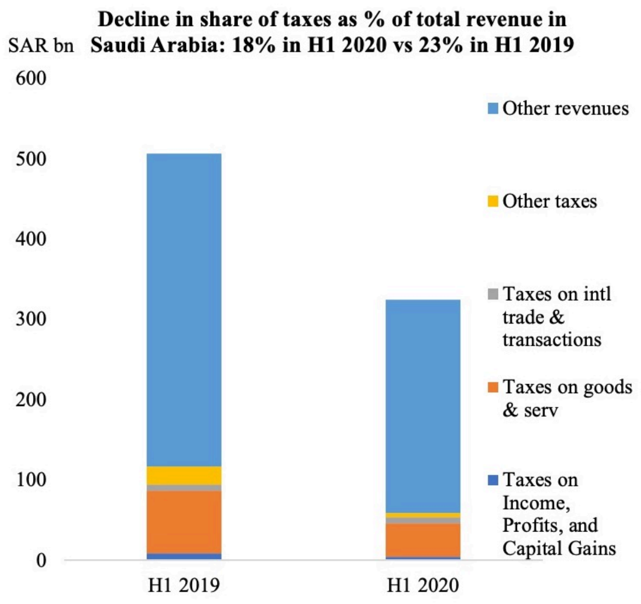


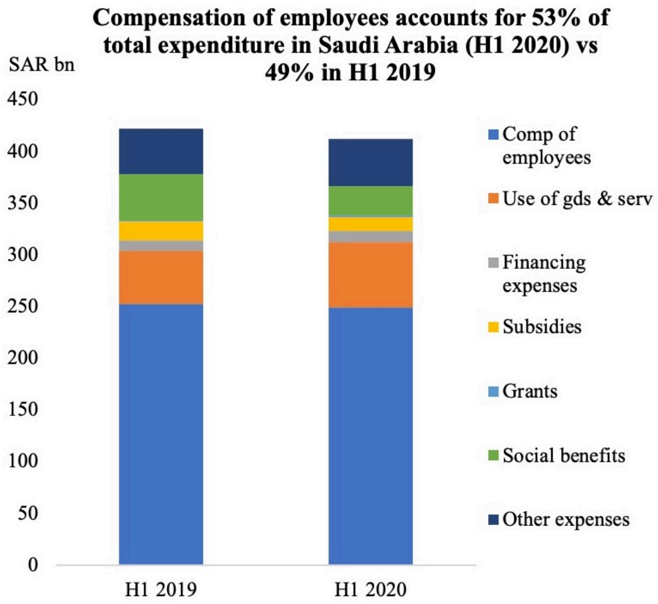
Source: Saudi Arabia GaStat, Nasser Saidi & Associates

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

3. Saudi Arabia's fiscal space

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





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

Medium-term fiscal projections (in SAR bn)

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

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

If Saudi Arabia's fiscal consolidation plans are to be met, reforms are required on both revenue and expenditure side. The

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

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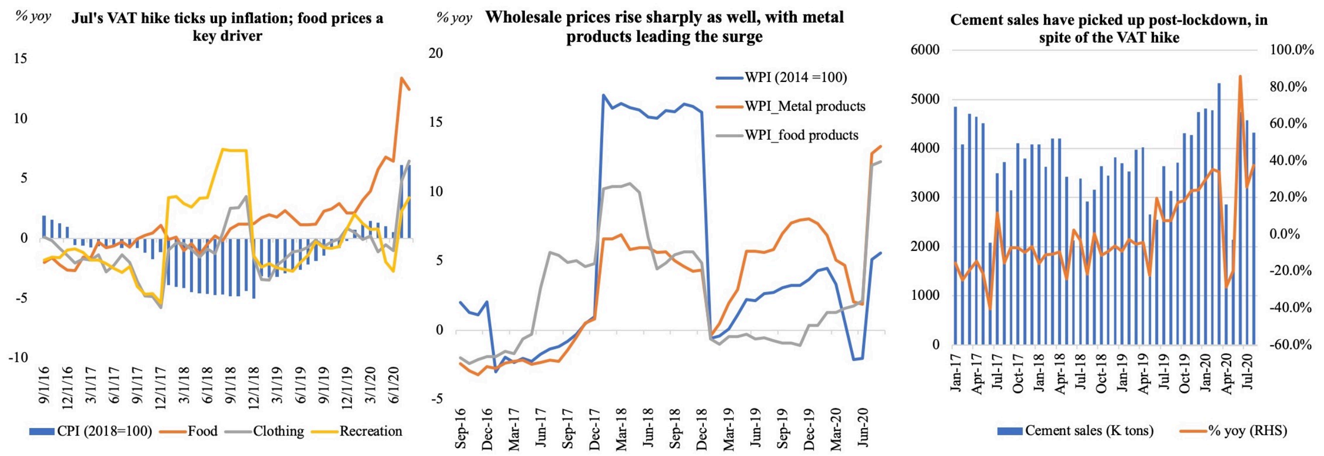
Weekly Insights 22 Sep 2020: Looking beyond Saudi inflation & oil exports

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

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



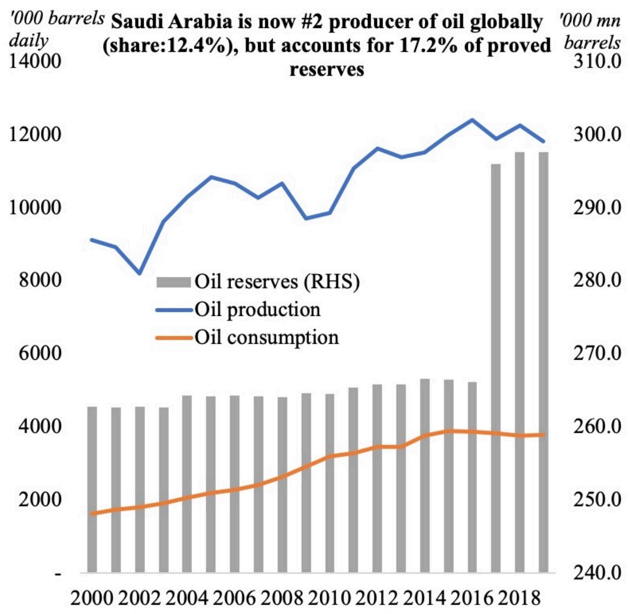
Source: Refinitiv Eikon, GaStat, Argaam, Nasser Saidi & Associates

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

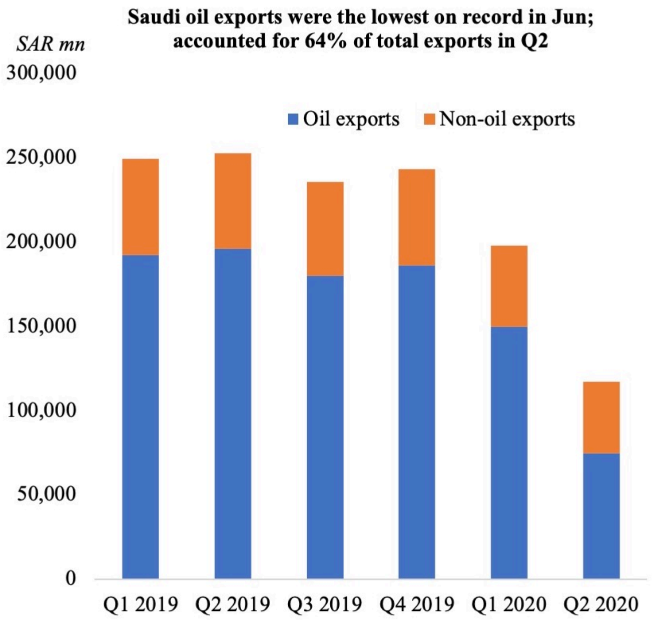
Household spending will be negatively impacted by the VAT hike ([as seen from recent SAMA data]), there seems to be an increase in cement sales – a proxy for the construction sector spending – after the expected dip during the lockdown period. This could be a result of work continuing on mega-projects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

2. **Oil sector in Saudi Arabia**

The latest trade data from Saudi Arabia shows a drop in overall exports in Q2 this year (-53.6% yoy): oil exports were down by 61.8% yoy, and the share of oil exports fell to 64% in Q2 2020 vs 77.5% in Q2 2019. Partly attributable to the OPEC+ cuts and overall weak global demand for oil (given Covid19), this implies a substantial reduction in government revenues from oil (in 2019, an estimated 63% of total revenues was derived from oil). At the same time, non-oil revenue will also have declined: government's postponement of some taxes and fees will bite into revenues and lockdowns would have negatively affected private sector activity.



Source: BP Statistics, Nasser Saidi & Associates



Source: GaStat, Nasser Saidi & Associates

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

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

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

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

1. Manufacturing PMIs: Global vs. Regional

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

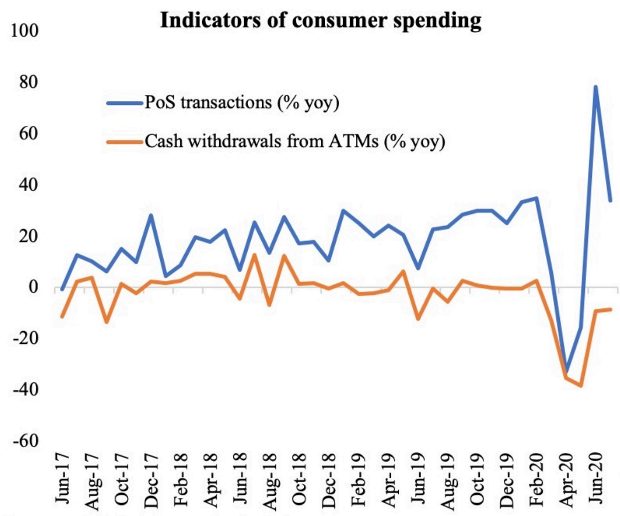
Heatmap of Manufacturing/ Non-oil sector PMIs

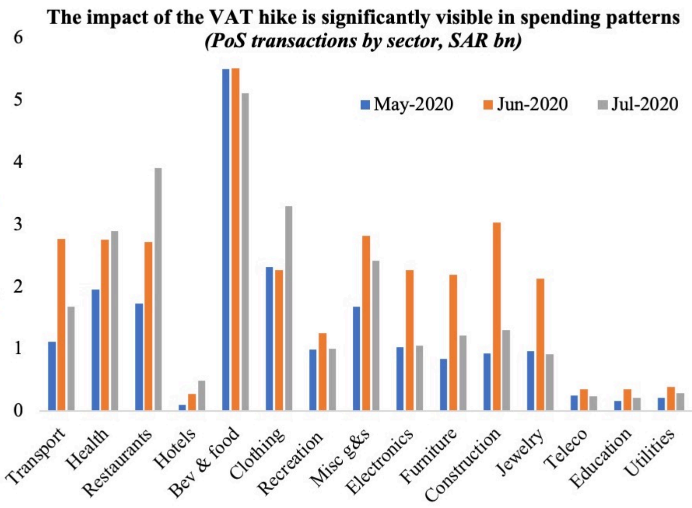
	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8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

Source: Refinitiv Datastream, Nasser Saidi & Associates

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

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

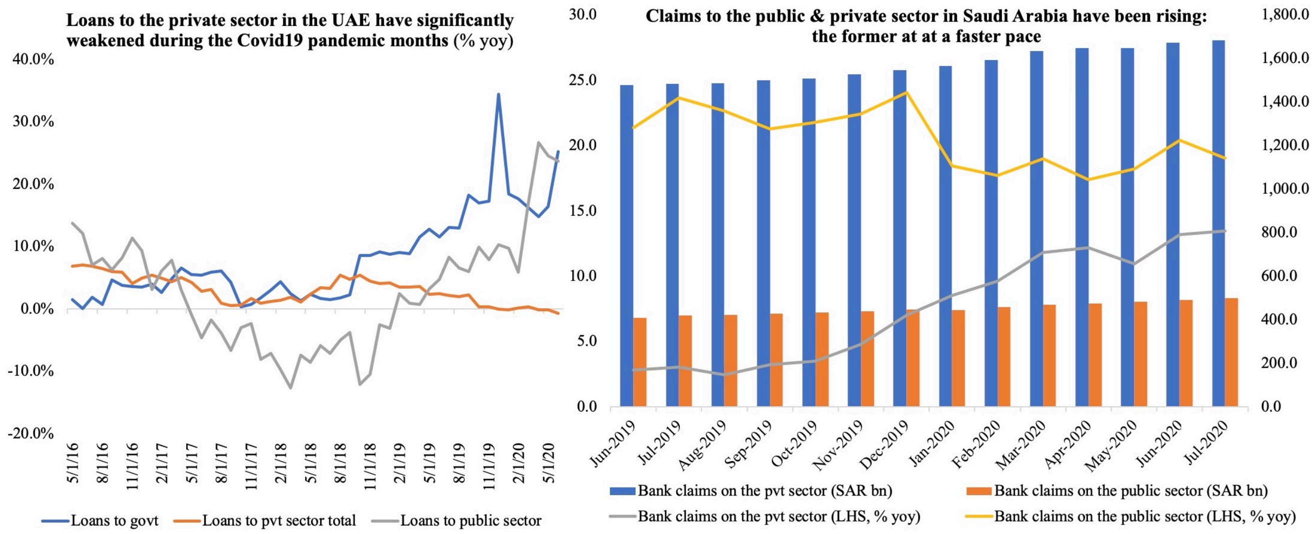




Source: SAMA, Nasser Saidi & Associates.

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

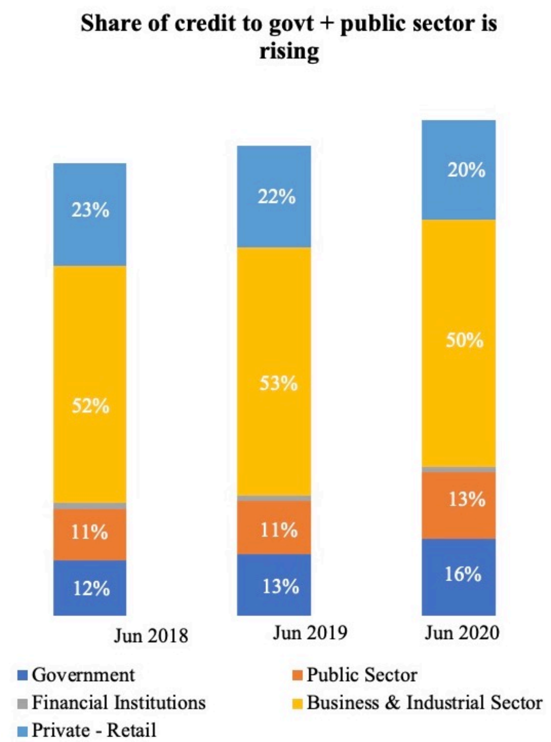
3. Is private sector activity supported by credit disbursement? A tale of two nations

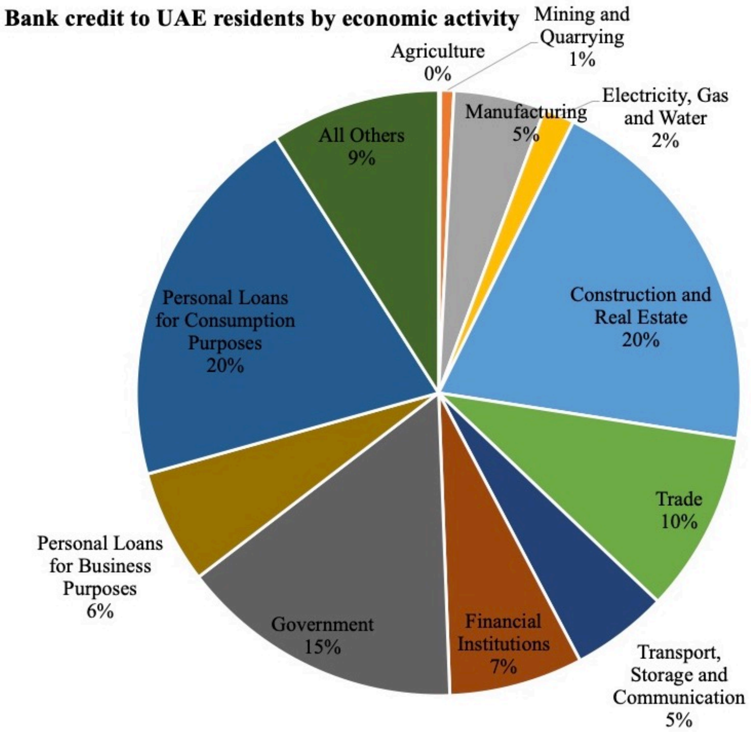


Source: UAE Central Bank, SAMA, Refinitiv Eikon, Nasser Saidi & Associates.

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

4. The big picture of credit activity in the UAE





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

On close inspection, 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**

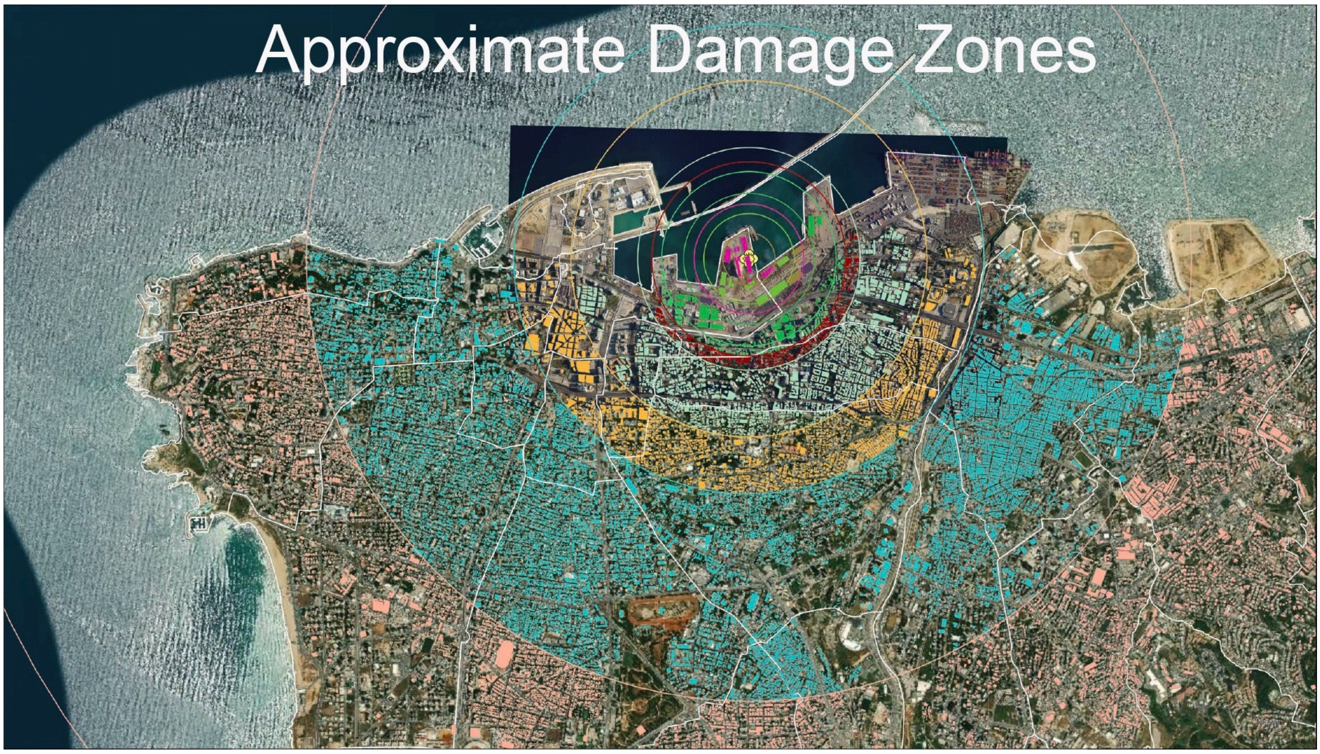
The Beirut port explosion on Aug 4th – which left at least 158 people dead, 6000 injured and 300k homeless – was possibly the last straw for the people already immiserated by an economic, banking & financial meltdown (since Oct 2019) alongside dealing with the Covid19 outbreak. The explosion led to calls 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 additional 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 Pan (size of USD 25-30bn and growing), given cumulative losses owing to lack of reforms so far**.



Source: Khatib & Alami.

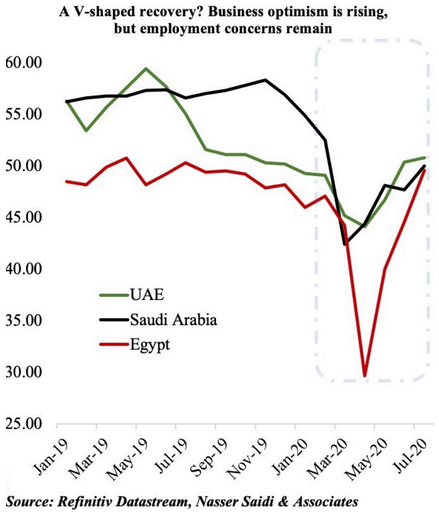
2. **PMI Activity recovers across the globe, including in the Middle East**

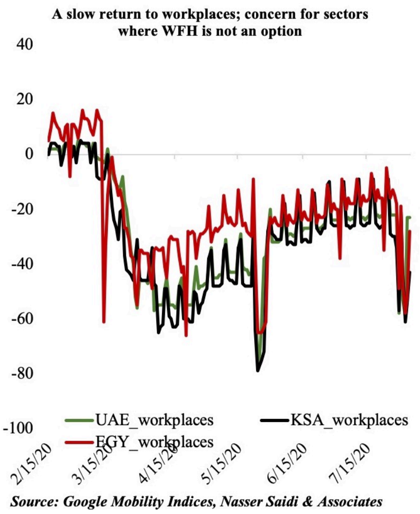
	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8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

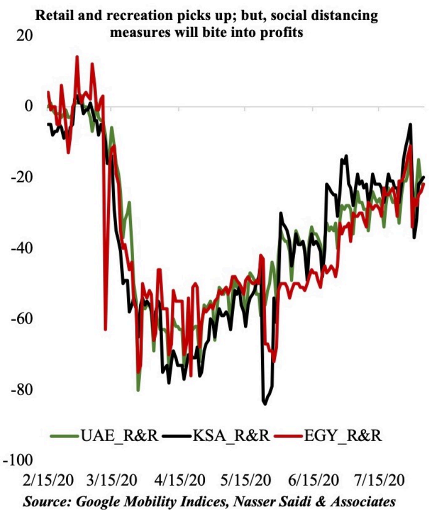
Source: Refinitiv Datastream, Nasser Saidi & Associates

Global manufacturing 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?**







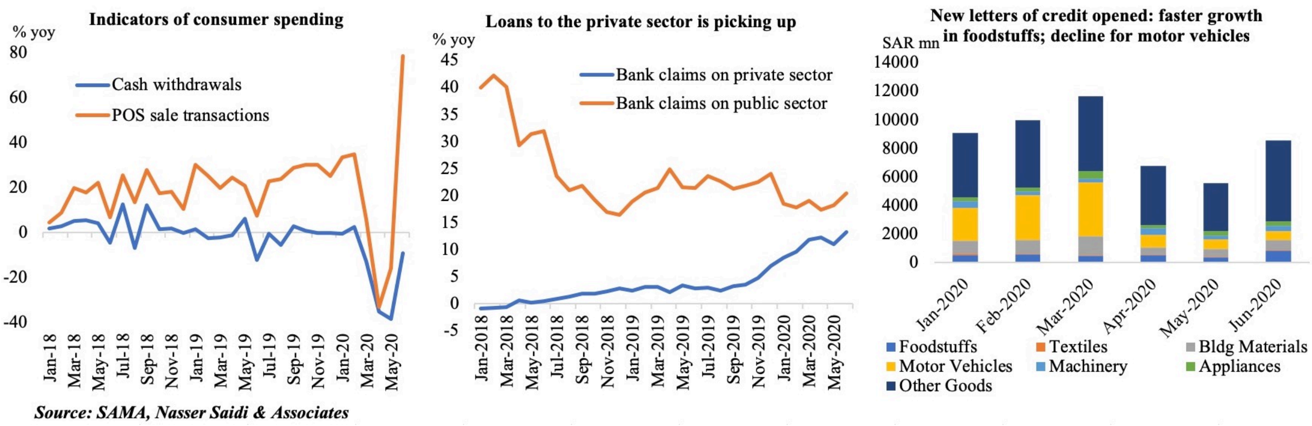
PMIs in the region indicate a sharp V-shaped recovery following the lockdown period, but is it too much optimism from those surveyed? Order books have improved, though export orders remain weak, indicating domestic demand driving the rise.

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.

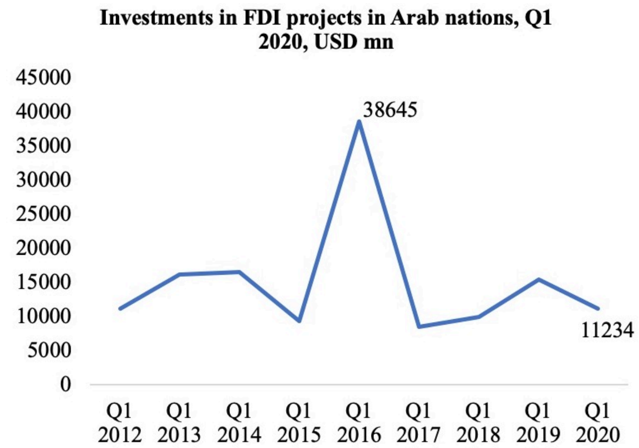
4. **Saudi Arabia: monetary indicators**

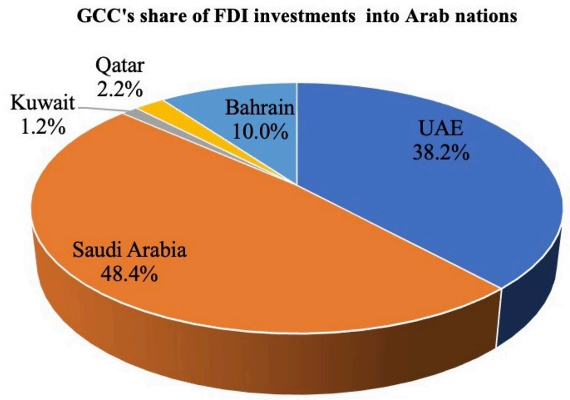


Monetary statistics for Jun 2020 in Saudi Arabia reinforce the trends from the Mobility indicators in the previous panel. Both **indicators of consumer spending** – cash withdrawals and point-of-sale (POS) transactions have ticked up in Jun, ahead of the hike in VAT from July 1st. **Loans to the private 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.





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 FDIin 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 (Dhaman), Nasser Saidi & Associates

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Are mergers the way ahead for the GCC's airline industry post pandemic? Opinion Piece in Gulf Business, Aug 2020

This article appeared in the print edition of Gulf Business, August 2020, which can be accessed online.

Flying together: Are mergers the way ahead for the GCC's airline industry post pandemic?
Cost cutting measures by airlines will not suffice to stem the hemorrhage
Covid-19 has devastated the global aviation industry along with the tourism and hospitality industry. Even though

domestic travel resumed in many nations (in Saudi Arabia, US and China among others) and flying restrictions eased (e.g. intra-Europe flights, UAE’s Etihad and Emirates are each flying to over 50 destinations), 42 per cent of all global commercial airlines fleet are still grounded, according to research by Cirium *[at the time of going to press]*. It is little wonder that the International Air Transport Association (IATA) forecast a 55 per cent decline in traffic levels this year. According to IATA, airline passenger revenues are expected to drop to $241bn in 2020, a 50 per cent decline compared to 2019. This is likely to be an underestimate. Covid-19 has generated the deepest recession in advanced economies since the great depression. Its deadly waves are still unfolding in Africa and Latin America, destroying demand for travel, with a second wave likely, according to epidemiologists.

Markets have reacted accordingly, with the Refinitiv global airlines price return index down by almost half (as of July 13). By end-June, Zoom’s market capitalisation of $72.44bn was worth more than the combined $62bn value of AA, Southwest, Delta, United, IAG (BA), Air France-KLM and Lufthansa. In May, Singapore Airlines reported its first loss in its 48-year history, while many airlines are under severe financial stress or have filed for bankruptcy (Latam, Avianca, South African and others), Chapter 11 protection, or are being restructured (Thai). The US provided a massive $58bn to rescue its airline industry.

To survive the post-Covid-19 world, the aviation sector – including airlines, airports and aircraft manufacturers – will have to be restructured. Despite chatter about “travel bubbles” and “immunity passports”, experts question whether recovered patients are fully immune. About 33 per cent of respondents to an IATA survey (conducted in the first week of June 2020) suggested that they would avoid travel in future as a continued measure to reduce the risk of catching the virus.

For now, one of the major deterrents to travel is the quarantine period: only 17 per cent of the survey respondents were willing to stay in quarantine. If no vaccine is discovered, people will refrain from travelling abroad, with local destinations and road trips preferred. Social distancing will become the norm on flights, reducing available seat capacity by 33-50 per cent, reducing passenger load factors and raising questions about economic efficiency and financial viability.

The triple whammy of lockdowns, low oil prices and financial market turbulence has dealt a severe blow to the Middle East. The lockdown has directly impacted the UAE's trade, tourism, transport and logistics sectors, which lie at the core of its diversification strategy and its role as a global business hub. Similarly, Saudi Arabia may need to review its development plans that include tourism as a key diversification option. The travel and tourism sectors have been critical to the GCC with the sector contributing $245bn to GDP (roughly 8.6 per cent) in 2019, while supporting nearly seven million jobs, according to the World Travel and Tourism Council. With more than half of the total GCC population consisting of internationally networked and mobile expatriates, the spillover and multiplier effects to the overall economy from the post-Covid-19 world requires structural adjustment and revision of diversification policies.

The GCC countries – with five airlines each in Saudi Arabia and the UAE, alongside Oman and Kuwait with two airlines each – have rapidly expanded their international networks in recent years. With small domestic markets and populations, the strategy has ended up subsidising foreign travellers. As international and regional travel remains highly restricted, the airlines' revenue streams have all but evaporated. According to the latest estimates from IATA, wider Middle East and North Africa (MENA) traffic is estimated to fall by 56.1

per cent year-on-year in 2020, resulting in a $37bn loss in net post-tax profit. This will risk over 1.2 million jobs (half of the region's 2.4 million aviation-related employment) and cause a $66bn shortfall in contribution to the region's GDP. Saudi Arabia, Qatar and the UAE are the most exposed.

How should GCC airlines adjust to the massive loss of revenue? Like other airlines globally, Emirates, which expects at least 18-months for a recovery of travel, has grounded much of its fleet, placed employees on unpaid leave, cut the salaries of its workforce by up to a half, and initiated job cuts to reduce its operating costs of some $23bn. The CEO of Qatar Airways disclosed an estimated 55 per cent drop in revenues from last year, and stated that about 20 per cent of its workforce would be cut. Job losses in Saudia are also estimated to be very steep, with the Saudi government providing support by suspending airport slot use rules for the summer season and extending licences and certifications for crew, trainers and examiners. However, the cost cutting measures by the airlines will not be sufficient to stem the hemorrhage.

The majority of GCC airlines are fully government owned. How can they support their airlines? Should the governments consider a bailout? Already, in a bid to tackle the crisis, large stimulus packages amounting to some 18 per cent of GDP are being rolled out across the GCC, including a combination of fiscal measures along with central banks' monetary and credit packages. But with oil revenues accounting for more than 55 per cent of total government revenues in the UAE and over 70 per cent in Saudi Arabia and Bahrain – according to the IMF – the drop in crude prices is being felt strongly. And with the decline in other revenues (including VAT, taxes and fees), a bailout for the airlines – while supportive of the sector – would imply a massive increase in budget deficits. The GCC cannot afford a bailout of their airlines, given the impact of Covid-19 and oil prices on budgets, with the IMF forecasting 2020 average deficits of 10.5 per cent for the region.

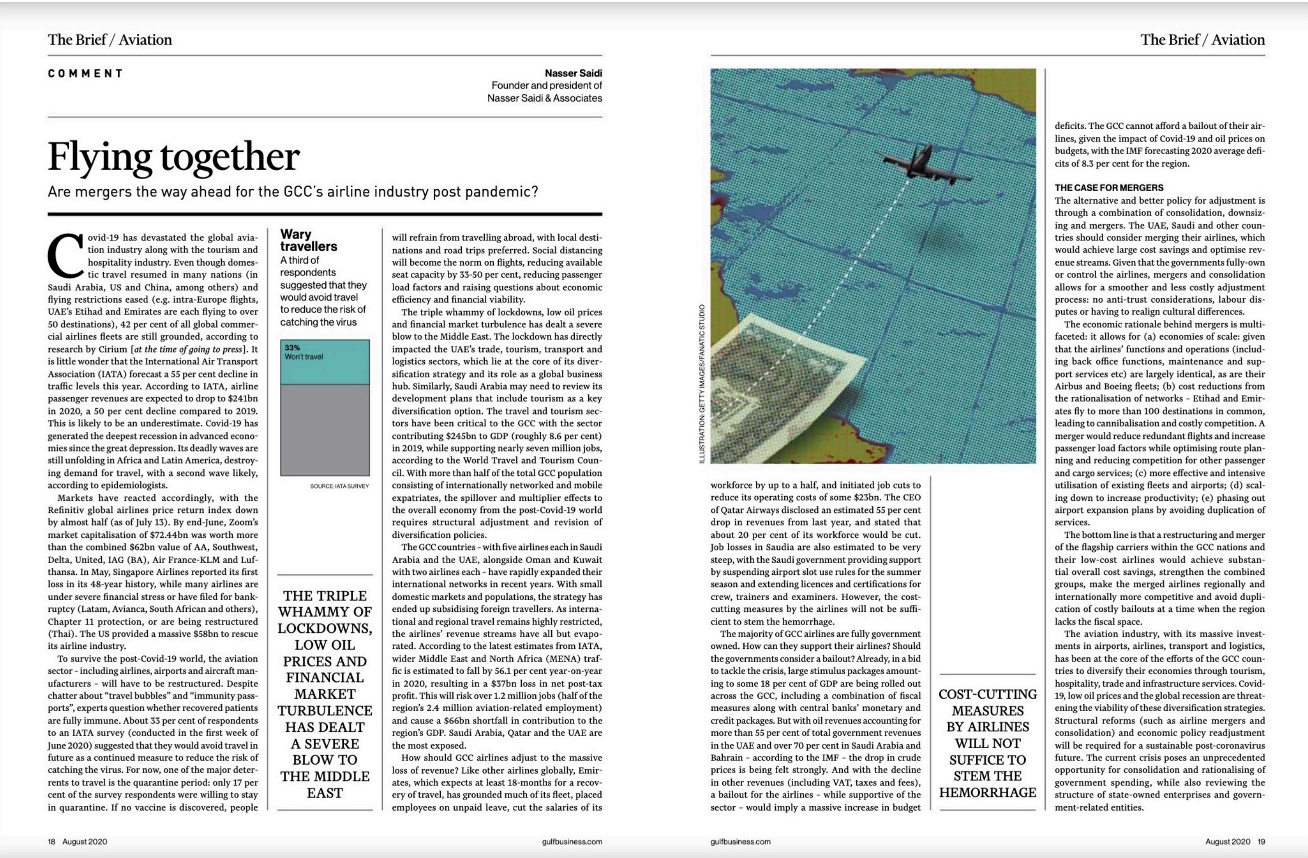
The case for mergers

The alternative and better policy for adjustment is through a combination of consolidation, downsizing and mergers. The UAE, Saudi and other countries should consider merging their airlines, which would achieve large cost savings and optimise revenue streams. Given that the governments fully-own or control the airlines, mergers and consolidation allows for a smoother and less costly adjustment process: no anti-trust considerations, labour disputes or having to realign cultural differences.

The economic rationale behind mergers is multi-faceted: it allows for (a) economies of scale: given that the airlines' functions and operations (including back office functions, maintenance and support services etc) are largely identical, as are their Airbus and Boeing fleets; (b) cost reductions from the rationalisation of networks – Etihad and Emirates fly to more than 100 destinations in common, leading to cannibalisation and costly competition. A merger would reduce redundant flights and increase passenger load factors while optimising route planning and reducing competition for other passenger and cargo services; (c) more effective and intensive utilisation of existing fleets and airports; (d) scaling down to increase productivity; (e) phasing out airport expansion plans by avoiding duplication of services.

The bottom line is that a restructuring and merger of the flagship carriers within the GCC nations and their low-cost airlines would achieve substantial overall cost savings, strengthen the combined groups, make the merged airlines regionally and internationally more competitive and avoid duplication of costly bailouts at a time when the region lacks the fiscal space.

The aviation industry, with its massive investments in airports, airlines, transport and logistics, has been at the core of the efforts of the GCC countries to diversify their economies through tourism, hospitality, trade and infrastructure services. Covid-19, low oil prices and the global recession are threatening the viability of these diversification strategies. Structural reforms (such as airline mergers and consolidation) and economic policy readjustment will be required for a sustainable post-coronavirus future. The current crisis poses an unprecedented opportunity for consolidation and rationalising of government spending, while also reviewing the structure of state-owned enterprises and government-related entities.



COMMENT

Nasser Saidi
Founder and president of
Nasser Saidi & Associates

Flying together

Are mergers the way ahead for the GCC's airline industry post pandemic?

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Wary travellers
A third of respondents suggested that they would avoid travel to reduce the risk of catching the virus

SOURCE: IATA SURVEY

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THE TRIPLE WHAMMY OF LOCKDOWNS, LOW OIL PRICES AND FINANCIAL MARKET TURBULENCE HAS DEALT A SEVERE BLOW TO THE MIDDLE EAST

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ILLUSTRATION: GETTY IMAGES/FANATIC STUDIO

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COST-CUTTING MEASURES BY AIRLINES WILL NOT SUFFICE TO STEM THE HEMORRHAGE

THE CASE FOR MERGERS

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The aviation industry, with its massive investments in airports, airlines, transport and logistics, has been at the core of the efforts of the GCC countries to diversify their economies through tourism, hospitality, trade and infrastructure services. Covid-19, low oil prices and the global recession are threatening the viability of these diversification strategies. Structural reforms (such as airline mergers and consolidation) and economic policy readjustment will be required for a sustainable post-coronavirus future. The current crisis poses an unprecedented opportunity for consolidation and rationalising of government spending, while also reviewing the structure of state-owned enterprises and government-related entities.

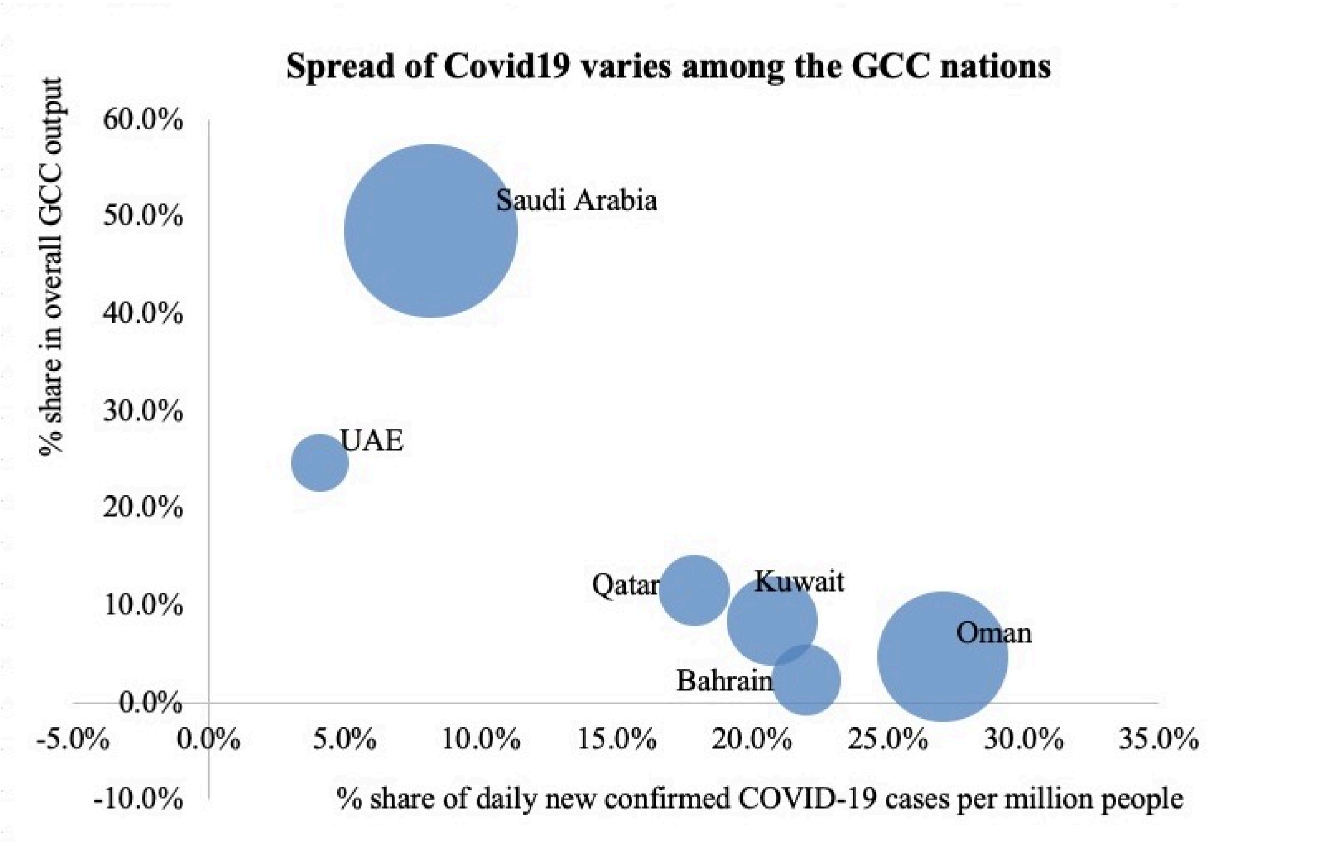
Weekly Insights 27 Jul 2020: Charts on the spread of Covid19 in the GCC + Global trade

Charts of the Week

1. Spread of Covid19 in the GCC

Most GCC nations have begun a phased re-opening of their economies after being in partial/ complete lockdown for weeks. Some restrictions still remain (e.g. partial capacity at mosques, restaurants, movie theatres, gyms etc.) in countries that have reopened (like the UAE); where cases are high, partial nighttime curfews and targeted lockdowns are in place. The spread of the outbreak is varied among the GCC nations.

The chart 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, the UAE seems to be performing better – 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.



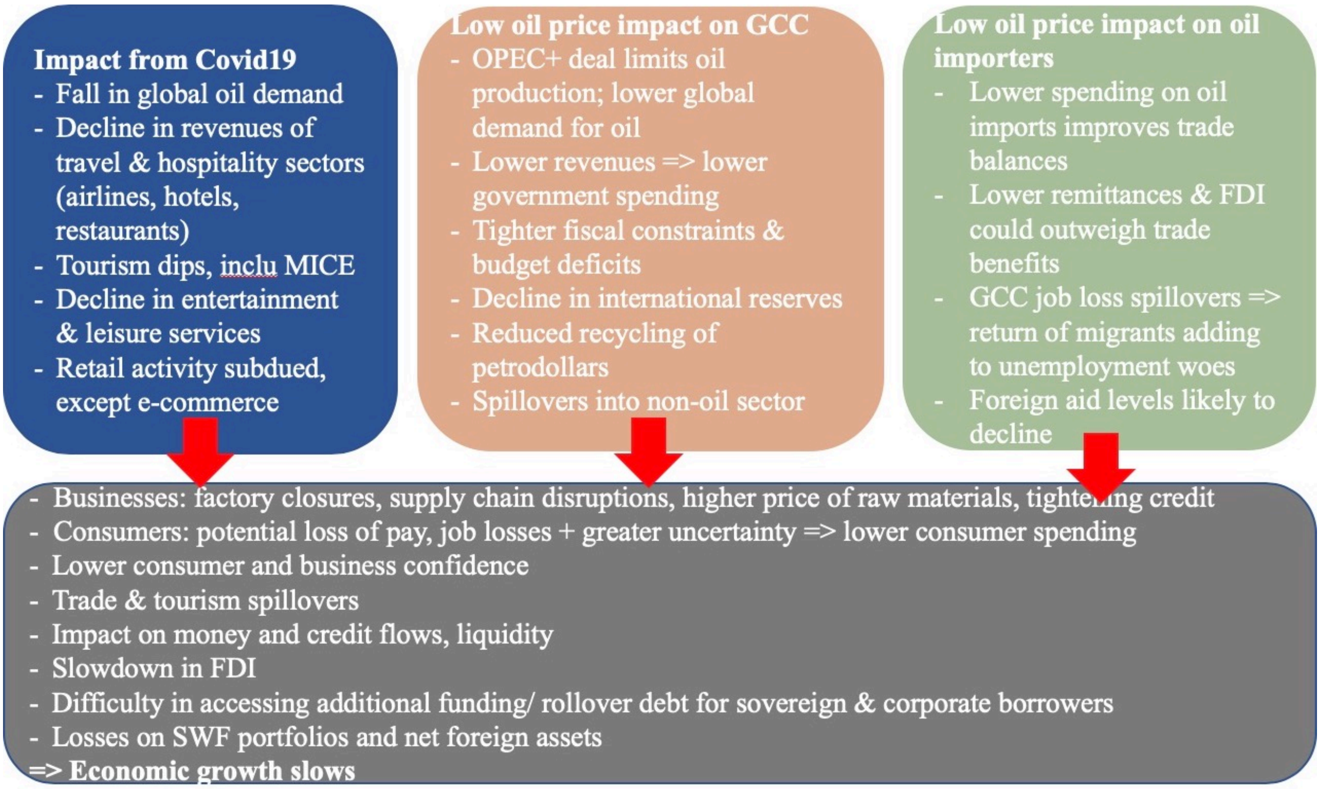
Source: Our World in Data, IMF, Nasser Saidi & Associates. The size of the bubble denotes the 7-day average of daily increase in cases

Saudi Arabia, which accounts for the lion's share in GCC's GDP, also has the highest 7-day average of daily increase in Covid19 cases (size of the bubble). This implies a sharper downturn in GDP this year due to the outbreak, but the effects of lower oil prices and the OPEC+ led cut in oil production will worsen the growth outlook. It is then little wonder that the rhetoric has shifted to diversifying revenue base with more privatisations and a hint of the introduction of an income tax in the future.

The GCC nations with the highest share in total daily increase in count (the highest being Oman) are among those with a lower share of overall GDP. For these nations, the worries are multiplied manyfold: not only will growth be affected by both the outbreak and lower oil prices, fiscal constraints and lower credit ratings will restrain their access to borrow from international capital markets. While governments have tightened purse strings, reducing capital and infrastructure spending will be detrimental to economic growth (especially the private sector).

A decline in growth in oil-exporters also has a negative impact on many oil-importing nations: ranging from job losses (& the return of these residents to home countries that already face relatively higher unemployment rates), lower remittances as well as lower foreign aid and investments.

Chart 2. Economic Impact of Covid19 and low oil prices on the Middle East's oil exporters & importers

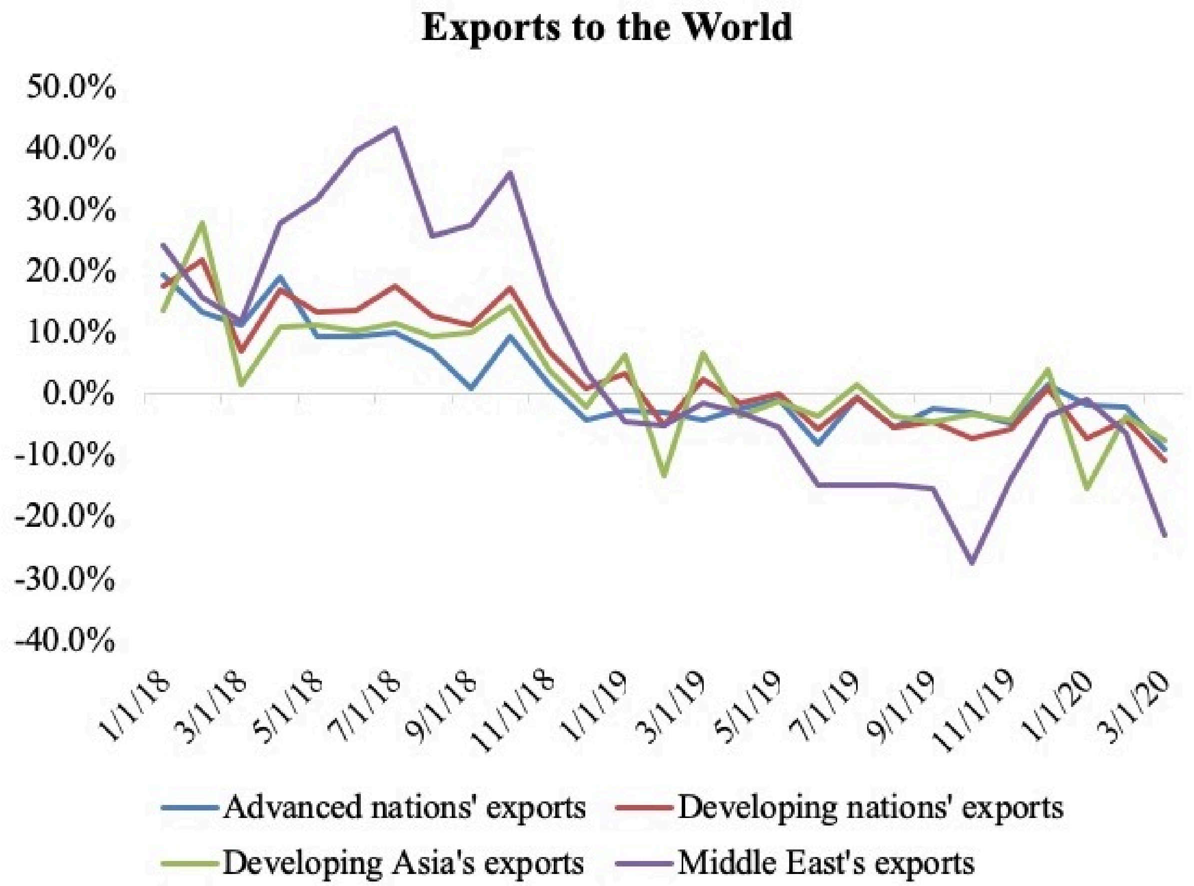


Source: Nasser Saidi & Associates

2. Declining global trade

Along with tourism, global trade has been one of the most-hit by the global Covid19 outbreak. Trade growth had been slowing for the past year, and the pandemic has only accelerated its pace. Monthly data from the IMF's Direction of Trade Statistics reveal that the drop in export growth touched two-digits in Mar, and given lockdown measures and factory shutdowns it can be estimated that data for Apr-May will be far worse.

Chart 3. Global trade continues to decline

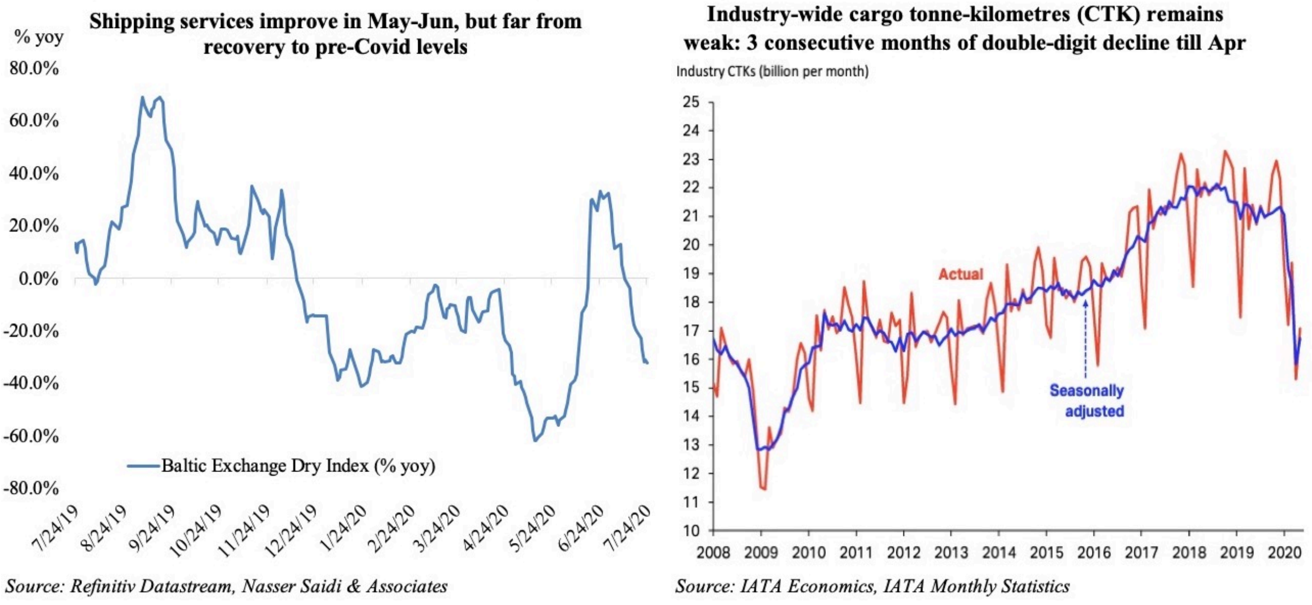


Source: IMF Direction of Trade Statistics, Refinitiv Datastream, Nasser Saidi & Associates

The WTO estimates that trade will drop by 18.5% in Q2 this year, with a full year dip of between 13% (optimistic) to 32% (pessimistic scenario). For the Middle East, the 13.9% decline in total exports in Mar is a result of both lower oil production and lower demand for oil.

Shipping estimates, denoted by the Baltic Exchange's sea freight index, touched a 9-month high in early Jul after recovering in Jun: this should translate into an improvement in global trade after May. Air cargo traffic data from IATA also denote that the cargo levels have shown a slight rebound in Apr (the latest available data). However, note that in both cases, there is a long way to recover to their pre-Covid19 levels. Supply chains remain disrupted though there has been a rebound in manufacturing activity across the globe (latest PMI numbers from Europe and Asia).

Chart 4. Shipping & Cargo services rebound, but remain below pre-Covid19 levels



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How GCC countries can adapt policies for a post Covid-19 world, Article in The National, 23 Jun 2020

This article titled “How GCC countries can adapt policies for a post Covid-19 world” appeared in The National on 23rd June, 2020. The original article can be accessed [here](#).

How GCC countries can adapt policies for a post Covid-19 world

by Dr. Nasser Saidi and Aathira Prasad

As countries emerge from three-months of Covid-19 containment, policy makers need to plan for a transformed post-pandemic world and create a new development model

Covid19 continues to be part of life as we know it. The GCC nations are gradually emerging from lockdown. There are nodes of optimism as the number of recoveries outpace the confirmed cases, including in the UAE.

Stimulus packages across the GCC included a number of common policy actions – rate cuts, liquidity enhancing measures, deferment of loans and credit card payments. Also noteworthy is the support extended to small and medium sizes enterprises (SMEs) and affected sectors impacted by the pandemic-induced lockdowns which include tourism, hospitality and aviation.

After almost 3 months of lockdowns, countries are phasing their recovery plans. As we gradually emerge from Covid-19 containment, policy makers need to plan for a transformed post-pandemic world, which underscores the need to create a new development model.

For the GCC countries, this means reviewing three broad policy measures related to monetary and fiscal policies as well as structural reforms.

Most GCC nations are pegged to the dollar except for Kuwait which pegs its dinar to a basket including the greenback. Hence, the countries follow the Fed's interest rate moves, which may limit the use of other instruments of monetary policy and might restrict other policy moves from the central banks other than stimulus packages to increase liquidity.

So what can the central banks do to support their economies, while maintaining a peg or moving to a currency basket? Two innovative ways of providing support would be the establishment of GCC central bank swap lines and monetising new government debt issued for deficit financing.

The establishment of GCC central bank swap lines, with an option for the larger central banks (SAMA, UAE) to tap the Fed or People's Bank of China (PBoC) would enable regional central banks to tap additional liquidity during times of market stress, support financial stability and provide a liquidity backstop.

Monetising new government debt issued for deficit financing can help avoid the crowding out of the private sector and inject liquidity, given the lack of developed local currency debt markets and central banks' limited ability to conduct open market operations.

On the fiscal policy front as part of their pivot towards diversifying their economies and becoming less reliant on oil revenues, a move towards deficit financing along with the institution of fiscal rules for long-term fiscal sustainability can help accelerate the development of local currency debt and mortgage markets to finance housing and long-term infrastructure projects.

Rationalising government spending either by reducing the size of government, shifting activities to the private sector, and moving to targeted subsidies is another element of fiscal reform. In conjunction governments can issue long term debt that can be bought by central banks during a crisis period which is happening in the US and Europe today.

Diversify government revenues by improving the management of public commercial assets and increasing the efficiency of tax collection is an important element of fiscal reform. Consolidating the large number of fees and charges on consumers and businesses into fewer broad-based taxes, can help lower business and living costs.

The Covid pandemic is also an incentive for "Green New Deals" through investment in public health, domestic AgriTech for food security, renewable energy, clean cities and technologies, that will support job creation and economic diversification. Governments can take the first step to ensure a project pipeline, focusing on public-private partnerships, with targeted incentives for SME participation.

Accelerating the digitisation drive will also lower the cost of broadband internet and accessibility while speeding up the implementation of 5G.

The establishment of social safety nets and protection programs and pension schemes will also help reduce financial burdens that can come around in periods of crisis. For employees, a contribution towards a pension fund would ensure sufficient savings in the event of job losses or retirement and for employers, this provides them with an investment fund and support end-of-service or gratuity payments.

Structural reforms including the acceleration of privatisation, working closer with private sector participation is key. Developing insolvency frameworks to support out-of-court settlement, corporate restructuring and adequately protect creditors' rights is another important element. Enhancing the environment that continues to attract and retain human capital through a permanent residency programme could help generate significant economic gains.

A positive side-effect of Covid-19 is the realisation that working from home is a feasible option. Companies can offer flexible work options, reduce office space and rents, while employees can stay at cheaper home locations, save on rents, and telecommute. To realise these benefits, requires removing barriers by amending labour laws and liberalising voice over Internet Protocol (VoIP).

The Covid-19 perfect storm is an unprecedented opportunity for the GCC countries for a policy reset, to steer toward a new development model for a post-pandemic world and move away from business as usual.

Interview with Dubai TV

(Arabic) on Lebanon, its dim prospects & Saudi Arabia, 21 Jun 2020

Dr. Nasser Saidi appeared in an interview with Zeina Soufan on Dubai TV, broadcast on 21st June 2020, discussing two segments – one, on Saudi Arabia (from 7:00 onwards) and the other on Lebanon and its dim prospects (from 17:00 onwards).
Both sections are part of the video below:

Comments on Saudi Arabia's austerity drive in Reuters, 12 May 2020

Dr. Nasser Saidi's comments on Saudi Arabia's austerity drive & tripling of VAT were part of the Reuters article titled "Promise of future prosperity fades as austerity hits Saudis' pockets", which was published on 12th May 2020.
Comments are posted below.
Dubai-based economist Nasser Saidi said any additional revenues from the VAT hike would be negligible and the move will likely sharpen the recession. "It would add an unnecessary shock to the system at a time when businesses are struggling to stay afloat, households are experiencing lower incomes and expatriates without jobs are returning home," he said.

[Updated 21/6/2020] GCC responses to tackle the Covid19 outbreak

As the GCC nations roll out various economic, financial, health and travel-related initiatives, the latest country-by-country measures is compiled below. Scroll down to see a map of the confirmed Covid-19 cases in the Middle East & North Africa region.

The list is update as of 3:00pm on 21st June, 2020.

Table: GCC responses to tackle the Covid19 outbreak

Bahrain	
Economic & Financial	**Health & travel-related**
Will slash spending by ministries and government agencies by 30% **BHD 4.3bn stimulus package:** Doubling the Liquidity Fund to BHD 200mn + Waiver on utilities bills for 3 months + Delay in loans installments for 6 months + Supporting wages of citizens in pvt sector BHD 5m allocated to Bahraini families in need & individuals affected by Covid-19 **BHD 177mn (USD 470mn) will be added to this year's budget** to tackle emergency expenses related to the Covid19 outbreak **Central bank** moves: – **Banned lenders from freezing customers' accounts** in case of lost jobs or retirement – **Cut overnight lending rate to 2.45% from 4%** to ensure "smooth functioning of the money markets" (before Fed moves) **Parliament**: – Approved **measures like reduction of commercial registration fees** as well as **labour & utility charges** for 6 months Cabinet **authorised the finance minister to directly withdraw funds** with a 5% ceiling from the public account **Bahrain will not collect rents and allowance from all tenants of municipal properties** for three months starting from Apr	– **All non-essential medical services resume operations** – **Shops and industrial enterprises opened on May 7;** restaurants remain closed still for dine-in customers – **Plans to resume Friday prayers postponed** – **Schools scheduled to reopen in Sep** – **Bans public gatherings** of more than 5 individuals – **Bahrain will allow passengers to transit through the international airport;** entry into the country will be limited to only citizens; mandatory 14-day self-isolation
Kuwait	

Economic & Financial	Health & travel-related
Central bank: – **Reduced the discount rate to** 1.5% (from 2.5%) **a record-low** – **Reduced liquidity and capital adequacy requirements for banks & cut risk weighting for SMEs** (estimated to raise bank lending by USD 16bn) – **Domestic banks will defer payment of consumer & SME loans** and financing, credit card instalments for six months Set up a **KWD 10mn (USD 33mn) fund,** to be financed by Kuwaiti banks **Government authorized additional funding** of KWD 500mn (USD 1.5bn) to ministries and state agencies for fight against Covid19 **Suspended fees** on point of sales devices and ATM withdrawals + increased the limit for contactless payments to KWD 25 from KWD 10 The **Kuwait Fund for Arab Economic Development** pledged almost USD 95mn to support government efforts	– **Kuwait eases "total curfew" to between 7pm to 5am;** lockdown on Hawally area has been lifted – **Parliament suspended** for 2 weeks (from Jun 18); **public sector** employees not be allowed to return to offices from this week (starting Jun 21) – **Expiring residence permits/ visas expiring in Jun extended for 3 months** – Closed schools, shopping centres, cinemas, wedding halls & children's entertainment – Halted ALL commercial passenger flights **– All educational institutions in Kuwait will reopen on 4th Aug**
Oman	
Economic & Financial	**Health & travel-related**
CB announces a **$20bn incentive package** – Repo rate cut by 75bps to 0.5%; – Reduce Capital Conservation Buffers for banks to 1.25% from 2.5%; – Lending Ratio / Financing Ratio for lenders increased to 92.5% up from 87.5% – banks and financial institutions to **freeze repayments** of personal and housing loans for three months, effective from May – Reduce existing fees related to banking services + avoid introducing new fees **Finance ministry slashed approved budgets** of civil, military and security agencies by 5% **All government companies have to reduce approved expenditures for 2020 by 10%** + no execution of new projects or capital expenditures for the year; all exceptional bonuses for state employees would be halted **Other measures include** tourism & municipality tax breaks, free government storage facilities and postponement of credit instalment payments	– **Lockdown in Muscat ended; Dhofar Governorate in Oman closed from 12 noon of June 13 until July 3 for tourism** – At least 50% of employees in government entities will work from the offices starting May 31 **– Oman has closed its borders; all domestic and international flights** to and from airports **suspended** from 12 noon of **Mar 29** – **Covid-19 tests and treatments will be done for free** for all communities – **Suspend issuance of tourist visas**; **will not allow cruise ships to dock** at its ports during this period – Schools closed; all public parks closed, public gathering prohibited, Friday prayers at mosques suspended; limited staffing at estate entities – **Few shops in Oman** (consulting, law, audit firms, flower shops, boutiques etc) to **reopen** – **Restrictions are still in place on gatherings** (of more than 5 individuals) on beaches and other public places
Qatar	
Economic & Financial	**Health & travel-related**

A $23.3bn stimulus package – QAR 75bn ($20.6bn) to provide financial + economic incentives for private sector – CB to put in place an **appropriate mechanism to encourage banks to postpone loan installments and obligations of the private sector** with a grace period of 6 months – Qatar Development Bank to **postpone installments for all borrowers** for 6 months – **Qatar**'s government entities directed to **reduce costs for non-Qatari employees by 30% as of Jun 1** (either pay cuts or layoffs) – Directing **govt funds to increase investments in the stock exchange** by QAR 10bn ($2.75bn) – Exempting **food & medical goods from customs duties** for 6 months – **Utilities bill exemption** for SMEs, affected sectors; **rent exemption** for 6 months	– **Four-phased recovery programme planned**: Mosques to reopen Jun 15th, restaurants to partially reopen (Jul 1) – All **international flights suspended** from Mar 18; cargo aircraft, transit flights exempt; travel ban on all travelers except Qatari nationals – **Qatar Airways grounds its A380 fleet;** to **temporarily reduce 40% of staff** (in food and beverage, retail & ground staff) at Hamad Airport – Educational institutions closed; parks and public beaches closed – **Bans social gatherings**; introduces enforcement measures: checkpoints and mobile police patrols – **Private sector companies** instructed **to have 80% of their staff work from home**, effective Thurs (Apr 2) for an initial 2 weeks – **Public transport modes have been stopped** – 6 tonnes of **aid sent to Iran** (medical equipment & supplies); donating $150mn in aid to Gaza
Saudi Arabia	
Economic & Financial	**Health & travel-related**

– **SAR 120bn worth measures** to support the pvt sector including postponement of VAT/ excise/ income tax/ Zakat payments, exemptions of govt dues etc – **SAMA's SAR 50bn stimulus package**: financing support for SMEs (including deferred loan payments, concessional loans) and coverage of points of sale & e-commerce fees – **SAMA's measures for supporting & financing the private sector**: adjusting or restructuring the current funds without any additional costs or fees + reviewing reassessment of interest rates and other fees on credit cards + refunding travel-related forex transfer fees – **SAR 7bn allocated to Health Ministry in addition to the SAR 8bn package earlier** + SAR 32bn approved for healthcare facilities – **Government will cover 60% of private sector salaries (of Saudi citizens)** hit by Covid-19; first payment to be send on May 3. – Will **allow private businesses** (affected by Covid19) **to reduce working hours and permit wages to be reduced** by not more than 40% **– Additional set of measures announced:** SAR 50bn to accelerate payment of private sector dues & provide liquidity to several sectors while a further SAR 47bn was set aside for the health sector **– Saudi Industrial Development Fund** revealed a SAR 3.7bn (USD 3.62bn) stimulus package for industrial sector companies – **Initiatives to reduce private sector's burdens related to manpower**: e.g. lifting halts on non-payment of fines, fines related to workers recruitment etc. – **Saudi Arabia will cut SAR 50bn** (USD 13.32bn or less than 5%) of the 2020 budget; **cost of living allowance scrapped** **– VAT to be tripled to 15% starting 1st Jul** – Land borders with UAE, KW, Bahrain closed except for commercial trucks; shipping services suspended from 50 countries; cargo traffic not affected	– **Restrictions eased across the nation**: **Saudi Arabia initiates the 3rd phase of its recovery plan** by opening most commercial activities **from Jun 20.** Mosques in Makkah are also set to reopen with social distancing measures in place. – **Domestic flights resume; intl passenger flights still suspended + workplace attendance in both public and private sectors** – **Malls reopen with multiple safety measures** – **Mosques reopened with restrictions; Umrah pilgrimages** to Mecca & Medina under a temporary ban – Capital Markets Authority **urged shareholders & invested in listed companies to vote electronically** in upcoming meetings; **Tadawul reduces trading hours**
United Arab Emirates	
Economic & Financial	**Health & travel-related**

UAE announces a 2-phase recovery plan: short-term gradual re-opening (includ the AED 282.5bn stimulus) + focus on sectors "with high potential" in the long-term (AI, 5G, IoT, Blockchain, RE, EVs, 3D printing, robotics…) **Central bank**: – **AED100bn stimulus** to facilitate temporary relief on private sector loans & promote **SME lending**; support also the **real estate sector** – 50% reduction in reserve requirements for demand deposits to 7% (releasing ~ USD 16.6bn in liquidity) – **Banks to** reschedule loans contracts + grant deferrals on monthly loan payments (till end-2020) + reduce fees and commissions **UAE Cabinet: additional AED 16bn stimulus to** reduce cost of doing business, support small business, accelerate implementation of govt infrastructure projects **Ministry of Economy reduced fees of 94 services** **Dubai: AED 1.5bn stimulus** package to support businesses affected by Covid19 including 10% reduction in utilities bills **Abu Dhabi**: AED 5bn in utilities subsidies; free road tolls till end-2020, 20% rebate on rental values for restaurants + tourism & entertainment sectors (+ faster implementation of Ghadan-21 initiatives) **Dubai Freezones launch stimulus package:** rents postponed for six months; cancellation of fines; free movement of labour with temporary contracts **Federal Tax Authority extends the Excise Tax return submission deadline** for March and April 2020 to May 17, 2020	– **Varied restriction across emirates:** Abu Dhabi imposes movement ban from/to the emirate till Jun 23rd; **– Easing of restrictions:** mall capacity increased; restaurants, gyms, beaches, museums reopen. **– Dubai permits shopping malls and private businesses to operate at full capacity** – **Metro services re-open**; buses and taxis are operational – 30% of federal employees return to work from May 31; **full capacity in Dubai's govt offices & 30% in Sharjah's govt offices from Jun 14** – **Curfews reduced** to between 10pm-6am; in Dubai from 11pm to 6am **– Entry for residents overseas to start from Jun 1**; temporary ban to issue new visas – All inbound, outbound and transit flights suspended from Mar 25; **Emirates bookings are open from Jul 1** for 12 Arab nations; UAE **airports welcome transit passengers**. – **Schools to be closed till end-Jun;** distance learning extended. Schools will reopen in Sep, though discussions ongoing regarding the method of learning in the 2020-21 academic year. – **Mosques, churches and other places of worship remain closed** – **Opened, with social distancing measures:** public parks, beaches, cinemas, gyms – **Supporting others:** Sends 2 batches critical **medical aid to Iran** in Mar + f**lew 215 people from different countries out of Wuhan** to Abu Dhabi's Emirates Humanitarian City

Map: Number of Confirmed Covid19 cases by country *(Source: Johns Hopkins University)*

Middle East

North Africa

Iran & Afghanistan

Interview on Bloomberg Radio about the oil price wars, 10 Mar 2020

Dr. Nasser Saidi was interviewed on Bloomberg Radio on the 10th of Mar 2020: he spoke extensively about the ongoing oil price war, relations between Saudi Arabia and Russia and the role of shale oil in this ongoing saga.

The Russians were worried about the growing proportion of U.S. shale oil in the global market says Nasser Saidi, president and founder of Nasser Saidi and Associates, and the argument with the Saudis was about how to contain it. Saidi tells

Daybreak Europe’s Caroline Hepker and Roger Hearing some U.S. producers will now be flushed out, but the more efficient ones could still be competitive at a price of $35-40 a barrel.
Running time 09:05
Listen to the interview: https://www.bloomberg.com/news/audio/2020-03-10/saidi-saudi-russia-oil-dispute-is-about-u-s-shale

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Interview on CNN's Connect The World with Becky Anderson on Covid19, low oil prices and Lebanon, 9 Mar 2020

Dr. Nasser Saidi was interviewed on CNN’s Connect the World with Becky Anderson on the 9th of Mar 2020.
Watch the interview videos below:
Just how bad are things with Lebanon’s economy? What will a combination of COVID19 & the collapse in oil prices bring about in the MENA region? With global stocks falling fast, oil plummeting and COVID19 fears spreading, how should policymakers respond to the crises?

"Whither Saudi Arabia & the GCC? Challenges & Opportunities": Opening Keynote at the the Bonds, Loans & Sukuk Saudi Arabia, 19 Nov 2019

Dr. Nasser Saidi presented the opening keynote at the Bonds, Loans & Sukuk Saudi Arabia event held in Riyadh on 19th Nov 2019.
The presentation titled "Whither Saudi Arabia & the GCC? Challenges & Opportunities" covered a perspective on growth and structural change in Saudi Arabia alongside views on MENA's economic outlook and risks. With the global economy in a synchronized slowdown, it was also pertinent to understand the key drivers of asset prices and also discuss the impact of trade and economic wars.

Podcast on the Aramco IPO with The National, 13 Nov 2019

The world's biggest crude oil producer, Saudi Aramco launches the subscription period for its much-anticipated IPO as it rolls on with its ambitions to become the globe's pre-eminent integrated energy and chemicals company.

Host Mustafa Alrawi, assistant editor in chief of The National, and Kelsey Warner, The National's future editor, talk with Dr Nasser Saidi, regular contributor to The National and president of the economic advisory and business consultancy Nasser Saidi & Associates, about the Aramco IPO. Dr. Saidi discusses the IPO's strategic importance, outlook for the oil market and strategy alliance with China.

In this episode:

Kelsey and Mustafa on Adipec (0m 32s)

Dr. Saidi on the IPO (8m 21s)

Headlines (27m 14s)

https://audioboom.com/posts/7421977-adipec-and-the-saudi-aramco-ipo

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Comments on the Aramco IPO in Bloomberg, 10 Nov 2019

Dr. Nasser Saidi's comments on the Aramco IPO (and details in its prospectus) appeared in the article titled "Saudi Aramco IPO starts November 17, offer size still pending" published by Bloomberg on 10th Nov 2019.

The full article can be accessed at: *https://www.bloomberg.com/news/articles/2019-11-09/saudi-aramco-initial-public-offering-to-start-november-17*

The comment is posted below:

'Lack of Clarity'

"This lack of clarity in the prospectus shouldn't alarm us as it's a book building exercise and let's be clear Saudi will do whatever it takes to make this IPO successful because so much hinges on it," Nasser Saidi, president of Nasser Saidi & Associates said in an interview on Bloomberg TV on Sunday. "This is part of an overall privatization program, which has

often been delayed so now we're getting to the beginning of that program."

Panelist at the launch of IMF's MENA Regional Economic Outlook, 28 Oct 2019

Dr. Nasser Saidi participated as a panelist at the IMF's launch of the Regional Economic Outlook report for the Middle East and North Africa region, which took place at the Dubai International Financial Centre on 28th October, 2019.
The panel discussion covered many aspects including the economic outlook for UAE, Saudi Arabia, Egypt and other nations while also addressing the issues of geopolitical risks, job creation and climate change among others.
The IMF report can be accessed at https://www.imf.org/en/Publications/REO/MECA/Issues/2019/10/19/reo-menap-cca-1019
Watch the video of the panel discussion below:

Introductory remarks at CEBC's "ESCO Market in MENA: Challenges vs Opportunities"

event, 15 Sep 2019

Dr. Nasser Saidi, in his role as the Chairman of the regional Clean Energy Business Council (CEBC), provided the introductory remarks at the event titled “ESCO Market in MENA: Challenges vs Opportunities” that took place on September 15th in Dubai.
Dr. Saidi’s presentation explored the current energy use in the Middle East region, before highlighting the benefits and challenges of energy efficiency policies and outlining the role of Energy Service Companies (ESCOs) and their regional experience. The presentation finishes touching on the way forward in energy efficiency reforms and the role of theCEBC in this regard (including the working group on energy efficiency).

Bloomberg Daybreak: Middle East Interview, 29 May 2019

In the 29th May, 2019 edition of Bloomberg Daybreak: Middle East, Dr. Nasser Saidi talks to Yousef Gamal El-Din and Manus Cranny on the Tadawul’s inclusion in the MSCI Emerging Markets index and the UAE central bank’s growth forecasts.

Watch the interview below (Dr. Nasser Saidi speaks from 35:00 to 41:00)

https://www.bloomberg.com/news/videos/2019-05-29/bloomberg-daybreak-middle-east-full-show-05-29-2019-video

China-US Tensions, War with Iran Dominate Medium-Term GCC Risk Landscape: Interview with Bonds & Loans, Apr 2019

Dr. Nasser Saidi's interview with Bonds & Loans, published in Apr 2019, titled "*China-US Tensions, War with Iran Dominate Medium-Term GCC Risk Landscape*" is posted below. The original can be accessed here.

Despite a positive macro outlook, a blend of rapidly rising regional tensions and an evolving trade dispute between China and the US will weigh more heavily than previously thought on the GCC's economic prospects in the medium term, argues Dr. Nasser Saidi, Founder and President of Nasser Saidi & Associates and Lebanon's former Minister of Economy.

Bonds & Loans speaks with Dr. Saidi about the regional economic outlook, progress on fiscal reforms in the region, structural shifts in the Middle East's political dynamic, and how to avoid the pitfalls of state-led development as currently practiced.

Bonds & Loans: What do you see as the top risks facing GCC markets in 2019?

Nasser Saidi: The first major risk is the oil price. The second relates to spill-overs of international political and economic tensions. The third is climate change.

Oil prices and revenues continue to dominate the macroeconomic risk paradigm in the region, dominating trade, current accounts, and gross output. Despite reform efforts over the past few years, we have yet to see substantial progress on making the GCC less vulnerable to oil price volatility, or on diversification more broadly. Oil prices over the next two years, which we anticipate will hover between the USD55 and USD60 per barrel bracket, subject to added geopolitical risk, remain substantially below breakeven points, which will continue to weigh on the region's current account deficits. This means that many of the GCC countries will have to continue with fiscal adjustments to address their sustainability, while drawing from new and existing funding sources to make up the difference.

Spill-overs from global economic tensions – and here specifically, the economic standoff between the US and China – is also a significant risk. This isn't just about trade, it seems, but rather increasing confrontation at multiple levels: trade; China's role on the global stage; technology; intellectual property; market access. More fundamentally, it's about economic regime change in China, the world's second largest economy. As China forges ahead with its larger strategic objectives, it is becoming a globalist on a scale yet to be seen.

The main reason why economic warfare between the US and China is important for the GCC is that it could weigh on GCC integration with Asian supply chains. Asia currently accounts for a substantial portion of commodities demand, and China is now the largest importer of GCC oil and gas, so any reduction of the growth rate in China – coupled with the fact that the US is looking to increase production and shipments of shale oil – will have a negative effect on global oil demand.

Finally, climate change is a huge risk. Extreme weather events are increasing, especially in this part of the world, and insurers – as well as investors and the banks – have significantly under-priced climate risk. We could end up having a Minsky moment as a result: once the industry reckons with the scale of its exposure to the fossil fuels industry, we could see an acute and substantial drop in the value of assets exposed to climate risk. This is a social as well as financial risk, but it is largely only viewed as a social risk at present. That is starting to change, particularly in

Europe, but it needs to shift much more quickly.

Other global macro risk factors relate to the massive build-up of household and corporate debt on the horizon blended with a tightening liquidity environment, and the uncertain interest rate trajectory in the US. In emerging markets, this is compounded by the fact that a sizeable portion of that debt is denominated in foreign hard currencies, and rising maturities over the next three years.

Bonds & Loans: A significant portion of your presentation at last year's Bonds, Loans & Sukuk Middle East conference focused on political shifts emerging across the wider Middle East. How have some of those shifts played out? Do you see geopolitical risk rising or falling?

Nasser Saidi: You still have wars ongoing in Syria and Yemen. In Syria, to an extent, we are seeing a lower level of violence, but self-congratulatory statements about defeating ISIS are blatantly misplaced; rebel and national armed forces may have temporarily vanquished the group militarily, but all of the conditions that led to the formation and growth of ISIS – high levels of unemployment, poverty, disengagement with the state, lack of viable economic prospects – continue to persist. These conditions will not change unless global powers start seriously re-considering how they approach post-violence reconstruction in places like Iraq, Syria, Yemen, and Libya among other places.

A failure to address these conditions could likely lead to another boiling over of discontent, particularly among the region's youth. Best estimates for growth in most countries in the Middle East don't exceed 2.2%, which barely covers population growth in many of them – so what this means is a decline in real income per capita.

Added to this are rising geopolitical tensions linked to the spat between China and the US, particularly around the Belt and Road Initiative, which the GCC countries – particularly the UAE and Oman – are investing heavily into. This is to further integrate the Middle East into China's global logistics and trade infrastructure. But it's unclear whether that will come at the cost of relations with the US. That the GCC no longer talks as one coherent bloc of countries compounds this risk, and diminishes the region's capacity to negotiate at the global level.

Finally, I am increasingly concerned that we may see armed confrontation with Iran. If you listen to the rhetoric of the top brass in the US, and their diplomatic activities within the Middle East, they seem to be setting the stage for war with Iran – not dissimilar to the build-up seen before the first gulf war with Iraq. Any armed confrontation would of course have dire implications for global oil prices, and the region more specifically.

Bonds & Loans: As the largest economy in the region, many look to Saudi Arabia for a sense of the trajectory many of the region's economies are on, particularly in terms of reform. How would you assess GCC states' progress on diversifying their economies away from oil?

Nasser Saidi: This is one of the biggest challenges facing the region. It has become quite obvious since the collapse in oil prices that this is not cyclical, but structural, which means the region's governments need to target diversification in three major ways: trade diversification, in the sense that these countries need to ween themselves off their overreliance on oil exports; production diversification, so moving away from oil to non-oil activities and services; and government revenue diversification.

Saudi Arabia is the biggest economy in the Arab world, followed by the UAE. What happens in Saudi Arabia is important because of its size, and the economic benefits that its neighbours enjoy through trade. But it's also to some extent a litmus test on the success of reforms in the region. What has been proposed in Saudi Arabia, in terms of modernisation efforts included in the National Transformation Plan and Vision 2030, is really the mother of all reform efforts in the region, and all the countries in the GCC need the country to succeed in this endeavour. Failure will invite a backlash from more conservative segments of leadership, and potentially, large pools of the population, but it will also weigh on the development of neighbouring economies as they depend heavily on the opening of the Saudi economy to boost their prospects.

Bonds & Loans: There continues to be significant optimism around Egypt's economic prospects, but some of its fundamentals – like youth unemployment, and productivity – are worrying. Do you think the country can achieve its ambitions without a fairly radical shift away from how the economy is managed?

Nasser Saidi: It's an important point, but we should also pay heed to what has been achieved so far. The IMF, and its regional peers like the UAE, Saudi Arabia, and Kuwait, have lent substantial support to the country – in large part because the country is too big to fail. We've seen a rise in interest rates and greater monetary policy freedom, with inflation trending down towards 8.5% from peaks in excess of close to 30% in 2017. We've seen a partial reform of fuel subsidies, price adjustments in the power sector, and a decline in recorded unemployment over the past couple of years, with some facilitation by Egypt's neighbours of youth participation in their labour markets.

The country needs to reconsider its state-led development strategy, which means PPPs and privatisation need to move further up the policy agenda. But it comes with a warning. Under Mubarak, the beneficiaries of privatisation largely included the coteries around the leader – including his family. There was no trickle-down, in other words, and that issue still remains; addressing this would also help address unemployment. What this also means is that the country needs to achieve a transformation away from strong dependence on agriculture and the Nile, which remains its lifeline. This can be achieved through the dispersion and increased use of technologies and modern techniques in the agricultural sector to raise productivity and reduce dependence on dwindling water supplies, as we are seeing increasing desertification. More broadly, the industrialisation strategy undertaken by Egypt – which has been largely military or state-led – cannot be the future; this applies as well to the GCC governments, which also need to foster a more vibrant and prominent private sector.

Economic reforms – like the removal of subsidies, increasing cost recovery through public services – require a new social contract. We have the beginnings of one, but it's not there yet.

More crucial is the issue of overall governance. What you effectively have is a government within a government. President Sisi has consolidated power and is looking for a renewal of his mandate, not unlike Ergodan in Turkey, and there is a high level of concentration of power; parliament in Egypt has largely become a Potemkin parliament. The question of inclusiveness – politically, economically, socially – looms large.

Bonds & Loans: The UAE economy has undergone a significant transformation over the past decade. Can the country continue to thrive if it does not adjust to shifting demographics on the ground via the changing nature of labour migration?

Nasser Saidi: The situation in the UAE is different to that of Saudi Arabia and its neighbours in the sense that it is much more diversified. Dubai contributes about 40% of the UAE's GDP, if you include the Emirate's free zones – where a range of multinational private corporates operates. It has been able to secure significant foreign investment, much more FDI than others in the region. This is due to the quality of core infrastructure and logistics hubs, rule of law, and free zones.

For a long period, the country attracted a great deal of low-skilled, low-cost labour to build that infrastructure. Much of that infrastructure has now been achieved, which means moving onto the next phase: modernisation and digitalisation of the economy. But it will take a long time before modern sectors emerge as strong contributors to GDP, as well as human capital; that labour needs a viable pathway to remaining in the UAE for the long-term.

There have been a number of reforms addressing this. There is a 10-year residency visa for export specialists; 100% foreign ownership is now allowed in non-strategic sectors of the economy; there is the prospect of allowing companies operating in free zones to secure dual licenses that allow them to operate both onshore and in free zones. This is the beginning of a much longer-term liberalisation effort that will foster long-term residents.

But over the long-term, the country may do well to move towards the Swiss model. If you look back at Switzerland’s history, and the development of its infrastructure, it was largely developed at a time when the country was overwhelmingly agrarian by nature. It has turned itself into a strong services hub for Europe and the rest of the World by strategically investing in key sectors, but it also reformed the way in which expat workers could obtain long-term residency and, eventually, citizenship, turning a transient working population into a strong contributor to GDP composed of long-term residents.

Creating permanent economic citizens has many benefits. It is helpful in terms of balance of payments; in building a social security system and long-term investment pools, which goes hand in hand with deepening the capital markets and the insurance and pension segments. It also means the development of a true middle class, which means moving away from a model based on tourism to one that fosters more organic, domestic support of key sectors; but it also means diverging from the country’s existing overreliance on real estate and hospitality, which is unsustainable in its current form.

Comments on Bahrain's economy

in Devdiscourse, 18 Mar 2019

Dr. Nasser Saidi's comments on Bahrain appeared as part of the article "Bahrain economy recovers after bailout from Saudi, Kuwait, UAE" published on devdiscourse.com on 18th March 2019. The full article can be accessed at: *https://www.devdiscourse.com/article/international/447973-bahrain-economy-recovers-after-bailout-from-saudi-kuwait-uae*
Comment are posted below:
Bahrain, which does not have the vast oil wealth of its neighbours, discovered a large oil and gas field off its west coast last year and is in talks with U.S. oil companies about developing it. The discovery could be an important source of revenue but its benefits are unlikely to materialise soon as converting the estimates to reserves is a costly and lengthy process. *"It takes a minimum of four to five years, so if you're going to get any revenue it's not going to be immediate, so you still have to face the adjustment to a large fiscal deficit and a large budget deficit," said Nasser Saidi, a Dubai-based economist.*
S&P has not factored in any contribution from the fintech initiative in its estimates for Bahraini economic growth. *"How much more are you going to get from fintech? Are you going to add 1 or 2 per cent of GDP? I don't think so, it's not a big employment generator," said Saidi.*
But Bahrain's prime position as a "stepping stone" to Saudi Arabia could wane given the fast pace of change in the conservative country as it moves to relax social restrictions and build entertainment and tourism industries. It is also developing its own manufacturing sector. *"It used to make sense four or five years ago, it doesn't make sense now that Saudi Arabia has opened up," said Saidi.*

Bloomberg Daybreak: Middle East Interview, 9 Dec 2018

In the 9th December, 2018 edition of Bloomberg Daybreak: Middle East, Dr. Nasser Saidi speaks to Youssef Gamal El-Din about the ongoing US-China trade & economic wars, Fed & the inversion of the US yield curve, UK Parliament's Brexit vote, France's Yellow Vest protests & investor sentiment, and OPEC cut & crude oil price movements.

Watch the interview below.

The original link to the full episode (Dr. Nasser Saidi speaks from 06:00 to 24:00):

https://www.bloomberg.com/news/videos/2018-12-09/bloomberg-daybreak-middle-east-full-show-12-09-2018-video

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Bloomberg Daybreak: Middle East Interview, 7 Oct 2018

In the 7th October, 2018 edition of Bloomberg Daybreak: Middle East, Dr. Nasser Saidi comments on the importance of Saudi Crown Prince's interview with Bloomberg (the delayed Aramco IPO, diversification policies, managing of expectations re Vision 2030 etc.), US unemployment rates, and the ongoing US-China trade wars.

Watch the interview below.

The original link to the full episode (Dr. Nasser Saidi speaks from 07:30 onwards): *https://www.bloomberg.com/news/videos/2018-10-07/bloomberg-daybreak-middle-east-full-show-10-07-2018-video*

"Markets, Oil & Trade Wars: Choppy Waters Ahead for the GCC", Presentation at the Institutional Investor Middle East Global Private Markets Forum, 18 Sep 2018

Dr. Nasser Saidi gave a closing keynote presentation titled "Markets, Oil & Trade Wars: Choppy Waters Ahead for the GCC" at the Middle East Global Private Markets Forum organised by Institutional Investor in Dubai on the 18th of September 2018. The presentation covered the global macroeconomic outlook and risks, and looked in depth at the reform and transition in the GCC given the backdrop of the New Oil Normal. The session also discussed the medium-term outlook for Saudi Arabia and GCC, and concluded with a few key takeaways.
Click here to download the presentation.