

Weekly Insights 11 Feb 2021: Will Accelerated Vaccine Distribution Catapult UAE to Faster Economic Growth?

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The UAE has seen a surge in Covid19 cases recently, touching a high of 3,977 new cases on Feb 3rd from just under 1,000 new cases on 27th of Dec and settling around a 7-day average of 331.55 new confirmed cases per million persons (latest available). As the cases ticked up, the UAE has re-introduced more stringent restrictions and an active crackdown on non-compliance. Mobility indicators indicate a strong negative relation with the Stringency Index: the tighter the government-imposed restrictions, the stronger is the observed reduction in mobility (Chart 1).

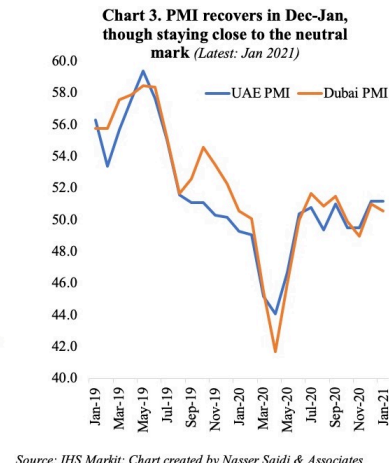
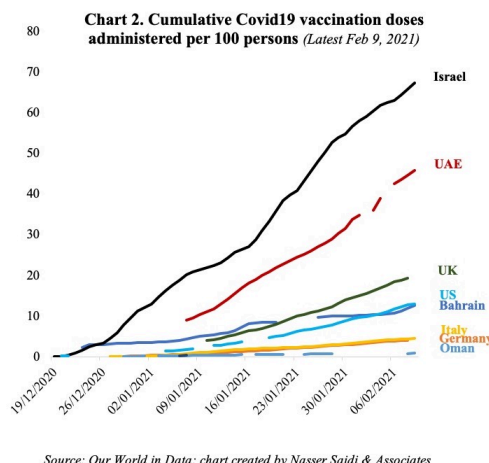
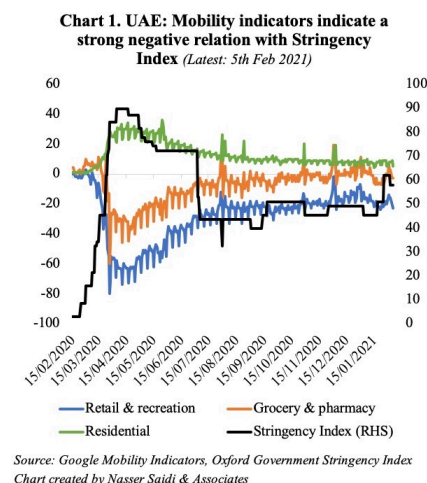
The Vaccination Drive

On the other hand, the UAE is also ramping up its vaccination drive since mid-Dec and is currently a global leader (second to Israel) having administered 45.77 vaccine doses per 100 people (as of 9th Feb, Chart 2). With 4 vaccines being expended currently – Sinopharm, Pfizer-BioNTech, AstraZeneca and Sputnik V – the government looks on track to vaccinate more than 50% of the population by end of Q1 of this year.

Is this sufficient to support economic recovery?

Given the paucity of monthly indicators/ data from official sources, we use the PMI numbers released by IHS Markit to gauge the level of business activity in the country and in the emirate of Dubai (Chart 3). Both PMIs have stayed quite close to the 50-mark (neutral) in Dec-Jan after two consecutive months of being in the contractionary territory. Job prospects seem to be improving in both UAE and Dubai, with increases in

Jan (after nearly a year). Dubai's tourism sector, after an uptick in Dec, has however returned to sub-50 levels – not unsurprising considering the outflow of foreign tourists after the New Year holidays (Dubai-London Heathrow travel corridor was the busiest international air route in the world in Jan, with more than 190k seats scheduled, according to OAG) and potential decline in domestic and international tourists as border/ quarantine restrictions were reinstated.



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ccination drive, it is evident that as the nation inches closer to herd immunity levels, domestic activity as well as business and consumer levels will gradually build up to pre-pandemic levels. However, domestic activity will not be sufficient to sustain long-term economic growth. It is pertinent to note that the UAE has in the past months passed a spate of investor and business friendly structural reforms including to attract skilled professionals to take up residence in the country. While the success of these reforms will not be seen immediately, steady and effective implementation is likely to support economic growth in the medium and longer-term.

How can the UAE step up its recovery? The UAE as a vaccination hub

It is in the best interests of the country, that is hosting the Expo later this year, to see high levels of vaccinated populations within the wider region (and globally). The longer countries remain unvaccinated, the greater the risk of the

emergence of newer variants that could potentially result in another cycle of infections and lockdowns/ closures.

Two potential ways to support this:

1. Increase the production of vaccines: a recent [paper](#) estimates that “increasing the total supply of vaccine capacity available in Jan 2021 from 2bn to 3bn courses per year generated USD 1.75trn in social value, while additional firm revenue was closer to USD 30bn”, far outweighing the investments required to do so. **Vaccination is a public social good with multiple private benefits, just as Covid is a global public bad.** So, the UAE’s plans to manufacture Sinopharm Covid19 vaccine later this year would act as a win-win: it would cater to both domestic and global demand (especially if the vaccine is to be administered on an annual basis) and boost the economy.
2. The manufactured vaccines need to be distributed faster to reach those in need. In this backdrop, the UAE can put its position as a global logistics and transport hub to good use: vaccine delivery to smaller nations in the region as well as using its vast cargo network to transport vaccines across the globe. Dubai, with its **Vaccine Logistics Alliance**, will support WHO’s effort to deliver 2bn doses of vaccines this year; this is in addition to Abu Dhabi’s **Hope Consortium** which was set up for vaccine storage and distribution. This could be supported by **vaccine aid** – either in its contribution to global alliances like Covax (which plans to deliver 2.3bn doses this year) or via the free delivery of vaccines to smaller low-income nations (e.g. India’s free vaccines to Nepal, Bhutan and Bangladesh).

A global recovery is essential to the UAE’s overall growth prospects: as a country that relies on trade and tourism (together accounting for close to 15% of UAE’s GDP in 2019 and closer to 30% of Dubai’s GDP), the impact of Covid19 has been

drastic (evident from [UAE](#) and [Dubai](#) GDP estimates). The oil sector, which constitutes 30% of UAE's GDP, has been bogged down by the OPEC+ production cuts, alongside the subdued demand for oil. Even as the country promotes clean energy and energy efficient policies, signs of a recovery in oil demand (declining oil inventories thanks to turnaround in consumption in China and India) and higher oil prices (around USD 60 now) will be beneficial to trade and growth: UAE's oil and related product exports are close to 40% of total exports and the main export destinations include India, China and Japan (which together garner more than 25% share of overall exports). A recovery in tourism is likely to take longer in comparison: virus containment, travel corridors, "vaccine passports" and "contactless" airport experiences seem to be some of the ways forward for future travel.

Lastly, no outlook is complete without risks: long-term diversification away from oil is a necessity, as is decarbonization efforts, and debt sustainability policies (especially in the context of another potential taper tantrum / faster-than-expected increase in interest rates, leading to tighter financing conditions).

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Weekly Insights 4 Feb 2021: A Covid19 Balancing Act –

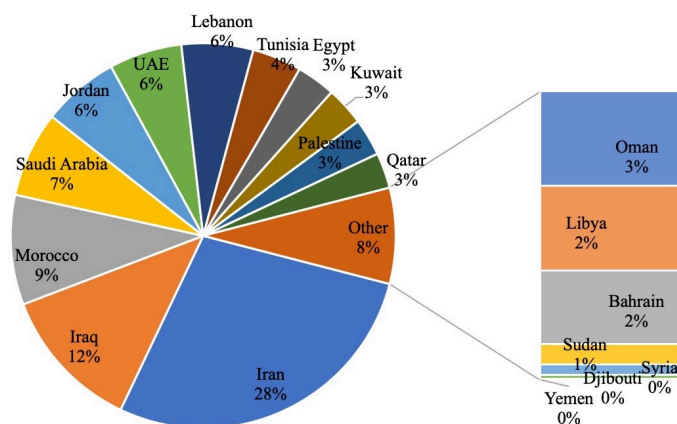
Cases, Vaccinations & Economic Activity

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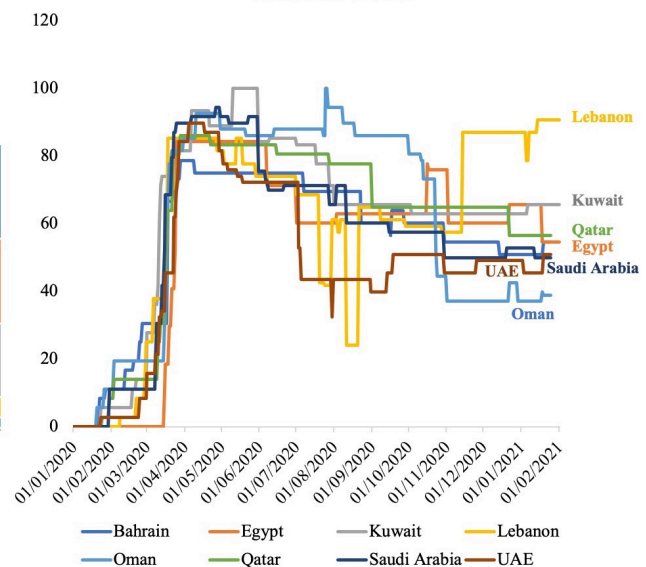
1. Covid19 cases rise in the Middle East & so do Restrictions

- Covid19 cases in MENA crossed 5 million; the **GCC is home to 24% of confirmed cases**
- The uptick in cases has seen many countries **re-introduce border controls** (e.g. Oman, Lebanon), **flight restrictions** (e.g. Saudi Arabia) as well as **capacity/recreational activity** restrictions (e.g. UAE/ Dubai)

Share of Confirmed Covid Cases in MENA
Latest: Feb 4, 2021 6am GMT



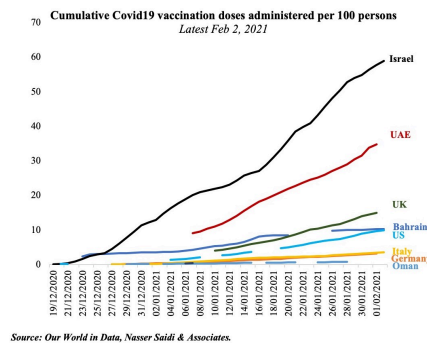
Covid19 Government Response Stringency Index
Latest: Feb 1, 2021



Source: **John Hopkins University** (<https://coronavirus.jhu.edu/map.html>), **Oxford COVID-19 Government Response Tracker** from **Blavatnik School of Government** – **Our World in Data** (<https://ourworldindata.org/grapher/covid-stringency-index>); Charts created by **Nasser Saidi & Associates**.

2. Vaccination drives are picking up

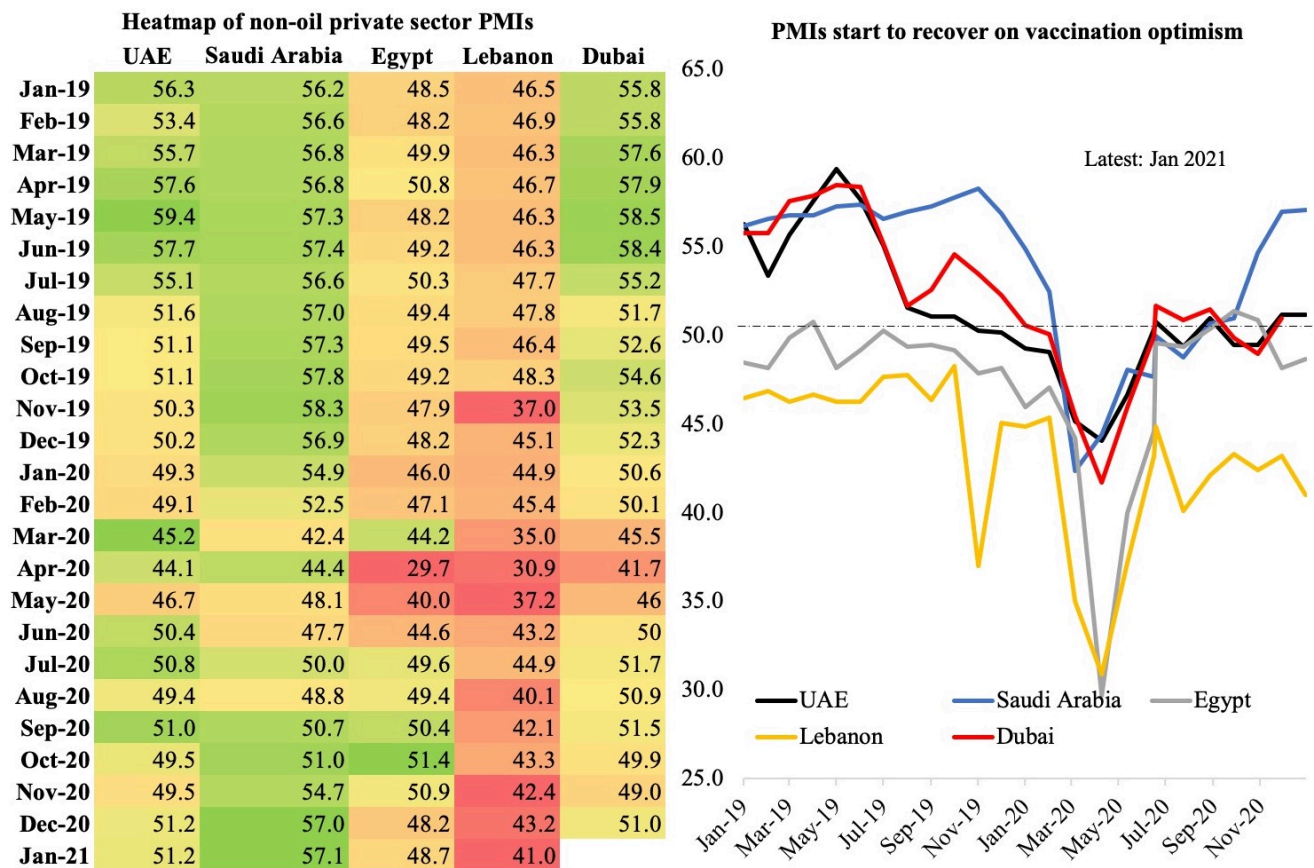
Vaccines approved for use in the GCC					
	Pfizer	Moderna	AstraZeneca	Sinopharm	Sputnik V
Bahrain	✓		✓	✓	
Kuwait			✓		
Oman	✓		✓		
Qatar	✓	✓ (agreement signed)			
Saudi Arabia	✓		✓		
UAE	✓		✓	✓	✓ (only for emergency use)



- **Focus has shifted to vaccination drives**, with almost all GCC nations receiving a combination of supplies including Pfizer, Moderna, AstraZeneca, Sinopharm and Sputnik V vaccines
- **UAE has administered a total 34.8 vaccination doses per 100 people**, behind only Israel (58.8) globally
- In terms of the **share of fully vaccinated population** (i.e. both doses), Israel tops at 21.43% followed by UAE at 2.53% and US (1.81%)
- **UAE's hub status supports distribution**: Dubai's Vaccines Logistics Alliance & Abu Dhabi's Hope Consortium to deliver vaccine doses across the globe
- A **potential manufacturing hub**? UAE is building up its capacity to manufacture the Covid19 vaccine in the future

3. Businesses ride the wave of vaccine optimism in Saudi Arabia & UAE

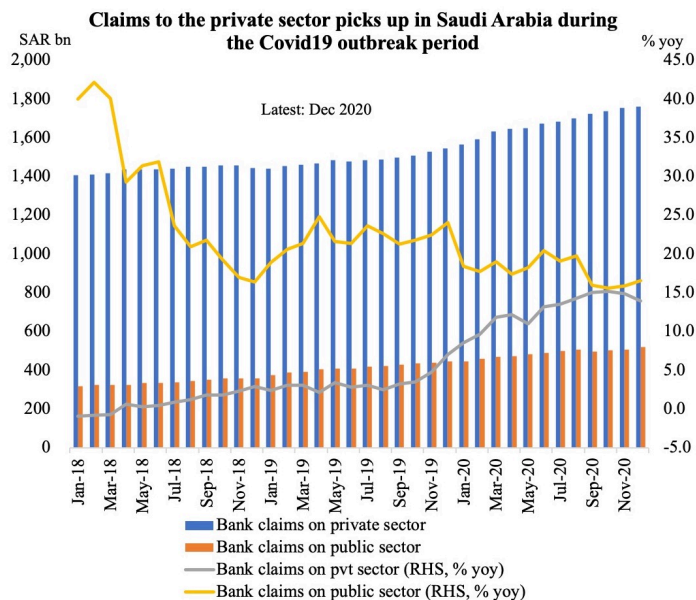
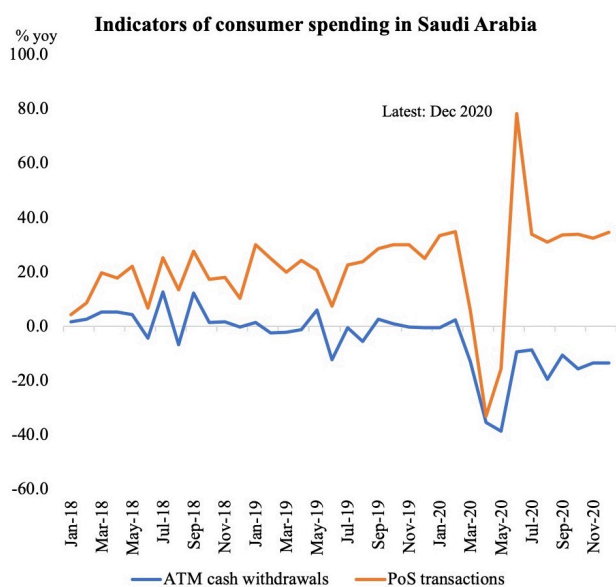
- Jan 2021 PMI data showed Saudi ticking up to a 15-month high while in the UAE, though the headline number remain unchanged, jobs moved into positive territory for the first time in over a year
- Lebanon's numbers remain dismal with the complete lockdown adding to the existing socio, economic and political woes



Source: Refinitiv Datastream, Nasser Saidi & Associates.

4. Indicators of economic activity in Saudi Arabia

- **Proxy indicators for consumer spending** – ATM withdrawals and PoS transactions – have shown a **divergence during the pandemic year**
- For the full year 2020, PoS transactions rose by 24% yoy while **ATM cash withdrawals were negative**, declining by 15% – **pointing to the rise in digital/ contactless/ e-payments in a Covid19 backdrop**
- **Overall loans picked up in the country**, with loans to the private sector for the full year rising at 12.8% versus a 17.8% uptick in loans to the public sector

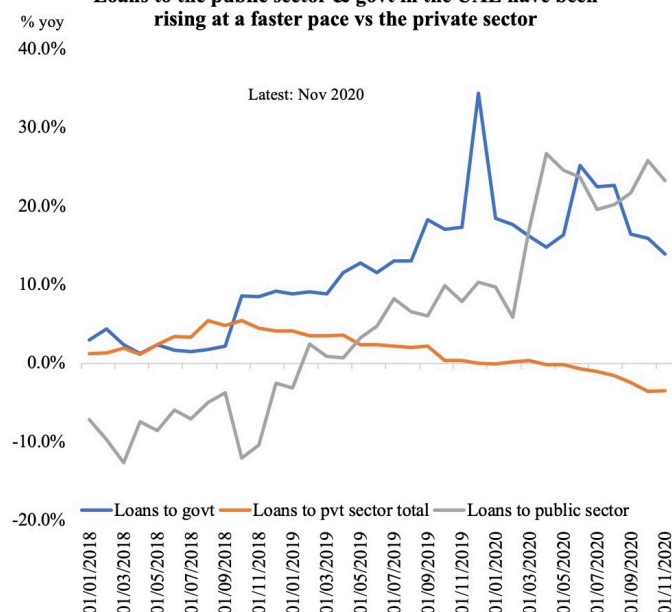


Source: Saudi Central Bank (SAMA), Refinitiv Eikon, Nasser Saidi & Associates.

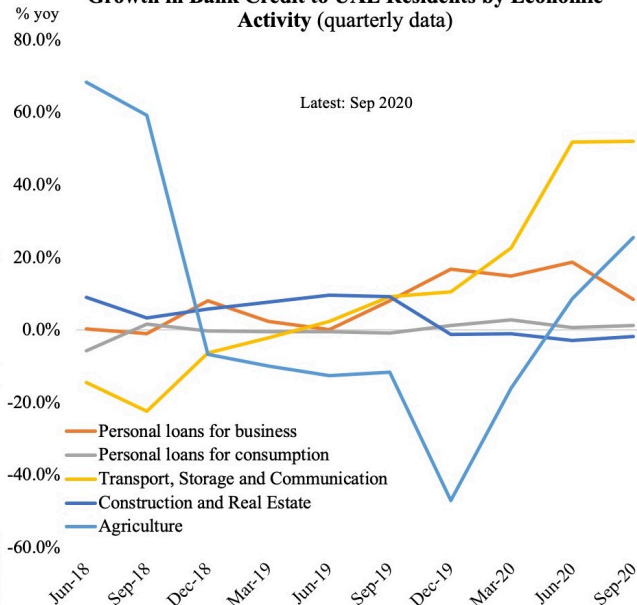
5. Indicators of economic activity in the UAE

- **More than 2/3-rds of UAE banks' loans went to the private sector** (69.4% as of Nov 2020 vs. 76% in end-2018 & 72% in end-2019), while public sector & government together account for ~30% of all loans in Nov 2020 (vs. 25% a year ago)
- However, the overall **pace of lending** to GREs (+23.2% yoy during Apr-Nov 2020) and the government (+18.5%) outpaced the drop in lending to the private sector (-1.6%)
- **Bank credit by business activity** showed an interesting pattern: as of end-Sep 2020, **loans towards agriculture** surged by 18.6% qoq, following a 18% uptick in end-Jun, underscoring the recent 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 the transport & logistics have shown a strong upsurge, rising by 52.1% yoy as of end-Sep.
- **Personal loans for consumption** (accounting for 20.6% of total loans) rose by 1.3% yoy at end-Sep (Jun: 0.7%).

Loans to the public sector & govt in the UAE have been rising at a faster pace vs the private sector



Growth in Bank Credit to UAE Residents by Economic Activity (quarterly data)



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

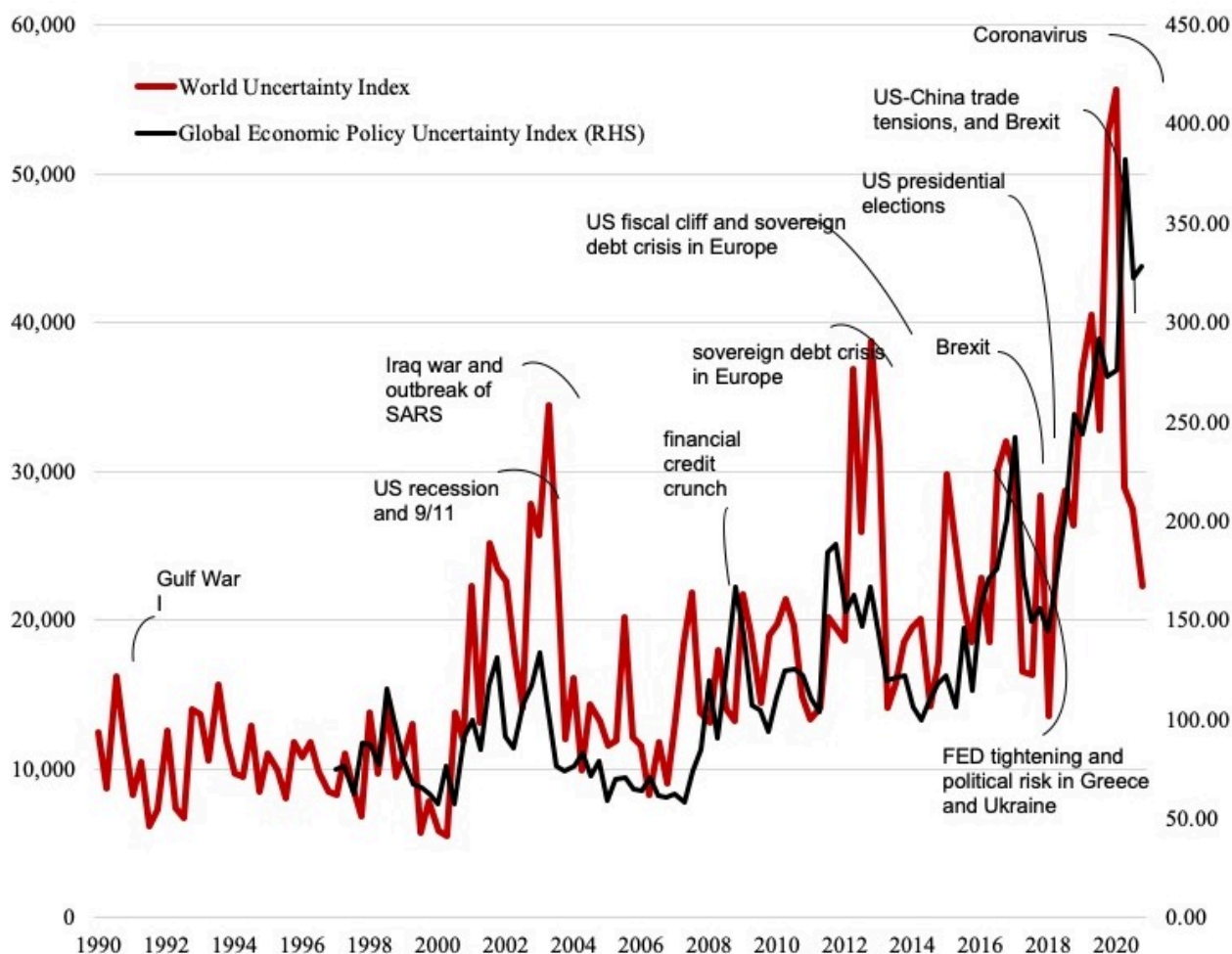
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Weekly Insights 21 Jan 2021: Uncertainty & Risks on one hand and Vaccinations on the other

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

1. Global Uncertainty Drops, but Economic Policy Uncertainty Remains High



Source: https://www.policyuncertainty.com/global_monthly.html; <https://worlduncertaintyindex.com/>

Note: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo

- World continues in the throes of the Covid19 pandemic, even as vaccines offer a light at the end of the tunnel
- The rollout has been slow in many nations; approval of other vaccines will help alleviate production/distribution hurdles
- Other policy concerns continue: fallouts from Covid19 across the globe, implementation of Brexit, US new administration's policies (China, Iran,...)
- Political turmoil/ uncertainty: Italy, Israel, Malaysia...

2. Global Risks Shift Gear in 2021

- The World Economic Forum's Global Risks Report 2021 perceives higher risks from environmental categories with extreme weather, climate action failure & human environmental damage taking the top 3 spots
- With spillover effects from the Covid19 outbreak likely

to continue this year and possibly next, it is not surprising that infectious diseases top global risks by impact (& 4th on the “likelihood” list)

- Growing evidence that the Covid19 outbreak has widened existing disparities (poverty, gender, access to health facilities...); digital divide and adoption of technology further adds another layer to the inequalities (ability to work remotely, access online learning, e-commerce...)

Top Global Risks by Likelihood



Top Global Risks by Impact

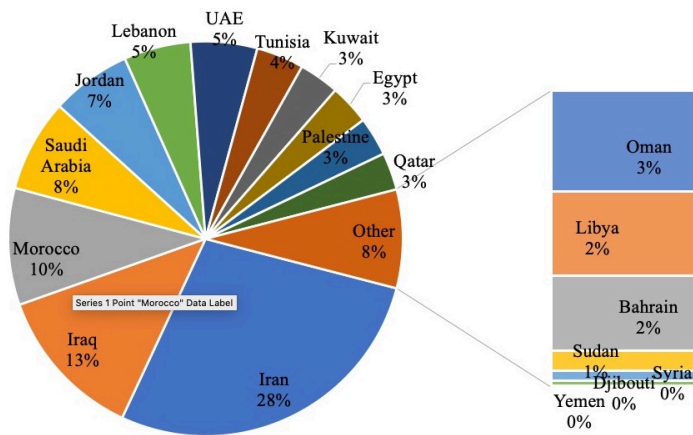


Source: World Economic Forum Global Risks Perception Survey 2020

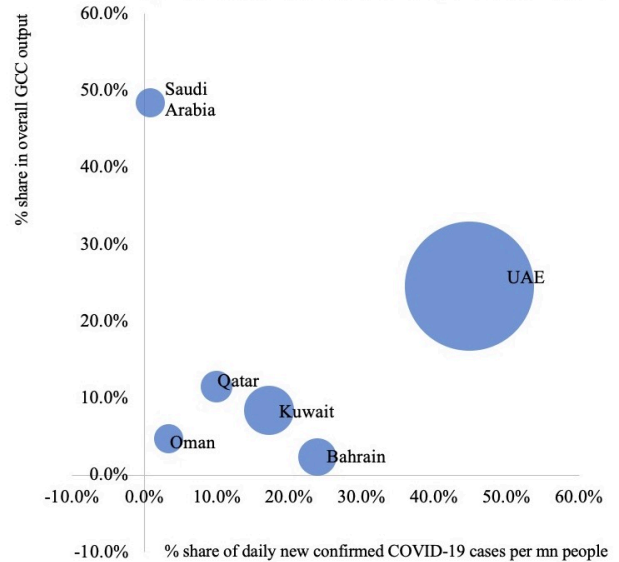
3. Covid19 outbreak continues unabated in the Middle East

- The number of cases in the Middle East continue to rise with Iran the major hotspot accounting for 28% of cases in the region; the GCC nations combined are home to 24% of total cases
- Among the GCC nations, Saudi Arabia accounts for the largest share of cases, while UAE's share of daily confirmed cases per mn persons is highest (the size of the bubble indicates the 7-day average of daily increase in cases). A concerted vaccination effort ongoing in most of the GCC nations offer a glimmer of optimism

Share of Confirmed Covid Cases in MENA, latest



Spread of Covid19 varies among the GCC nations



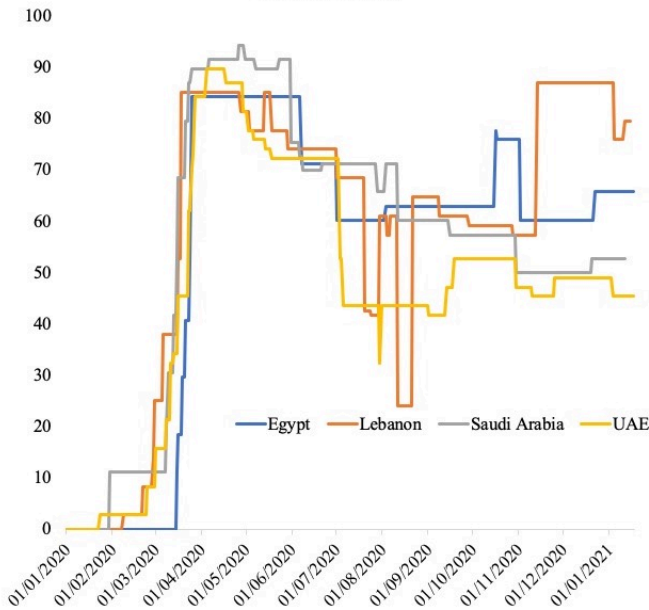
Source: Our World in Data, IMF, Nasser Saidi & Associates. Note: The size of the bubble indicates the 7-day average of daily increase in cases

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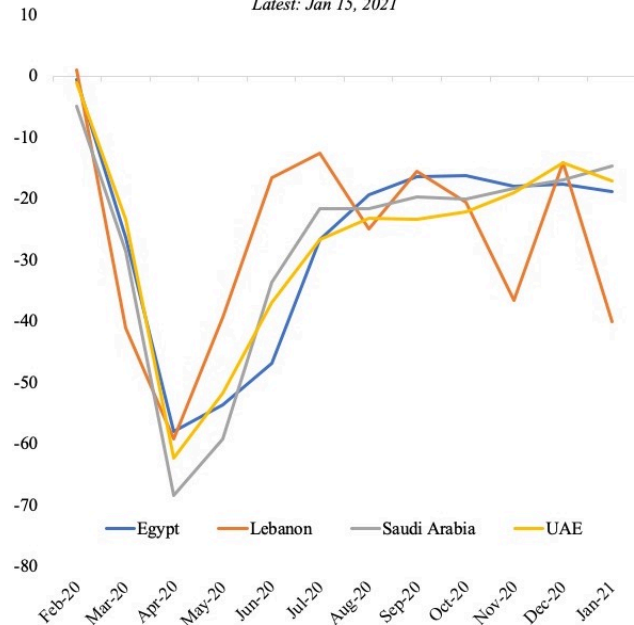
e restrictions, larger the drop in mobility; recovery in Saudi

- With cases rising at a faster rate in the recent weeks, some economies in the Middle East have enforced restrictions recently: Lebanon's lockdown has resulted in an uptick in the Stringency Index while UAE remains one of the most open (least stringent) in the region
- Mobility (retail and recreation) has dropped in a highly restricted Lebanon (-40% compared to the 5-week period Jan 3- Feb 6, 2020). Egypt and UAE are still around 20% below the baseline, while in Saudi, mobility is picking up

Covid19 Government Response Stringency Index
Latest: Jan 17, 2021



Retail & Recreation Mobility (monthly averages)
Latest: Jan 15, 2021



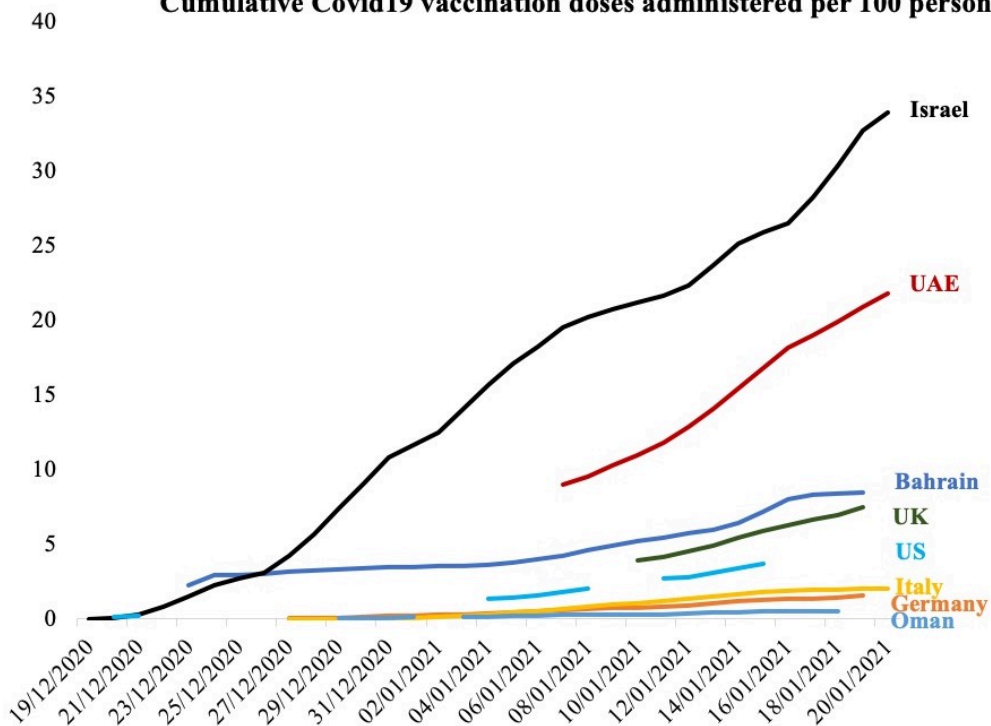
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, Google Mobility Indicators, Nasser Saidi & Associates

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.

Drives Raise Hope for Recovery in 2021

Cumulative Covid19 vaccination doses administered per 100 persons



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

- Israel, UAE and Bahrain top the list of cumulative vaccine doses administered per 100 persons (chart)
- Almost 1 in 5 persons in the UAE have received at least one dose of the vaccine, and 2.5% of the population are fully vaccinated (i.e. both doses received)

- The vaccination drives in both Israel and UAE have picked up pace recently, with the 7-day average of daily vaccine doses administered per 100 persons was at 1.46 and 1.11 respectively (as of Jan 20, 2021)

Benefits from the vaccination drive for UAE

- Race towards herd immunity
- Lower uncertainty, greater consumer & business confidence
- Ability to reopen the economy fully, resume economic activity at pre-Covid19 pace
- Travel corridors open up, supporting tourism & hospitality sectors
- Support for domestic sectors including trade & logistics as global demand picks up
- Stronger links with Asia, given the region's faster paced recovery vis-à-vis US/ Europe
- Support regional economies with vaccination doses

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

East/ GCC

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

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

Chart 1: PMIs in the Middle East/ GCC

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

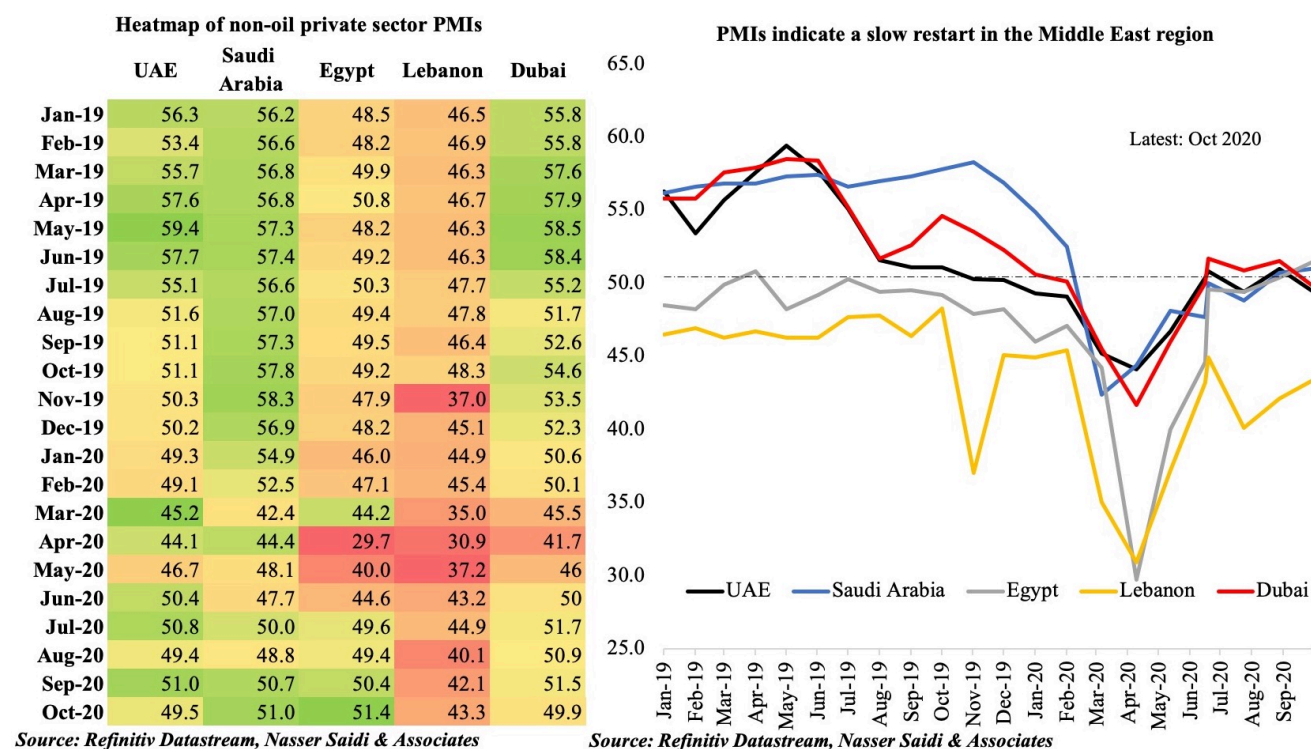


Chart 2: String

ency Index & Mobility

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

However, when it comes to mobility, the UAE seems to be a few steps behind its regional peers. This seems to be in line with

a recent McKinsey finding that countries focused on keeping virus spread near zero witnessed their economies moving faster. So, ending lockdowns and reopening the country is not sufficient for resumption of economic activity. Another potential reason could be that increased use of e-commerce is leading to less footfall in retail and recreational facilities.

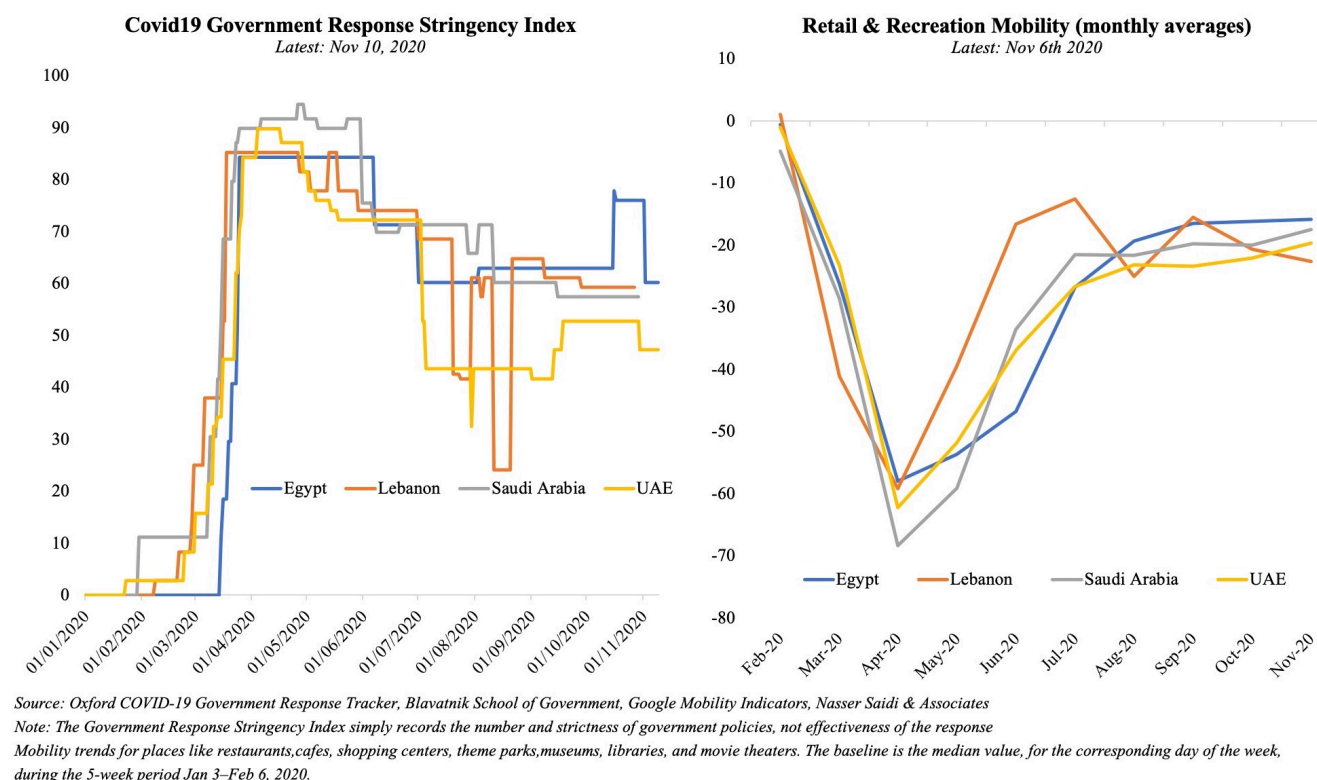
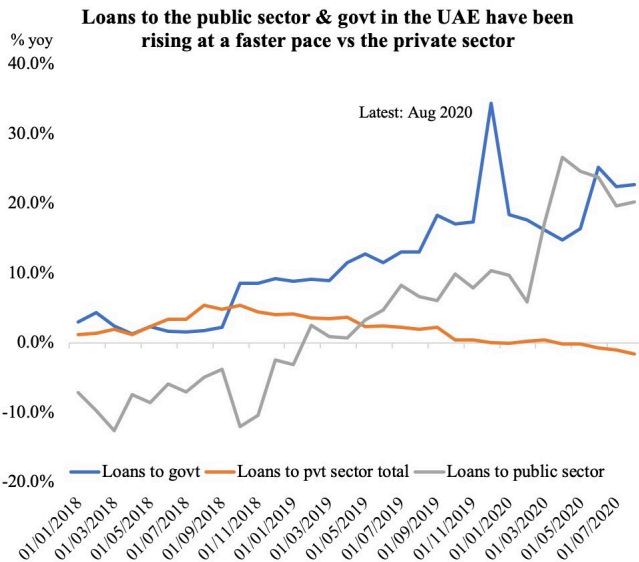


Chart 3: Indica

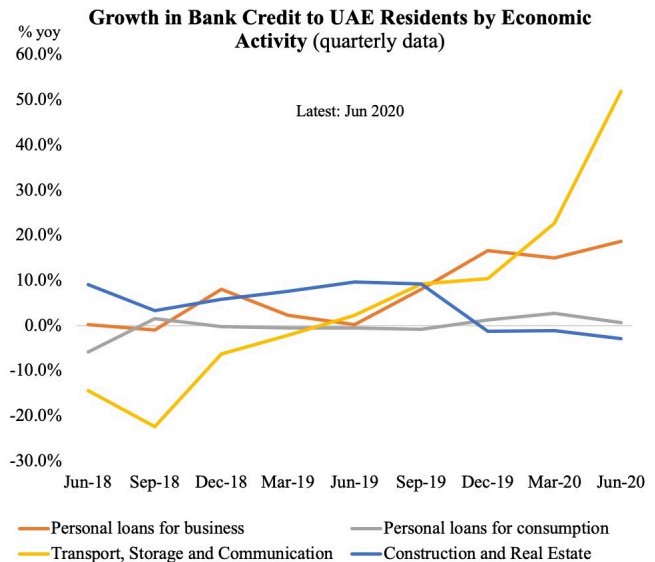
tors of economic activity in the UAE

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

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



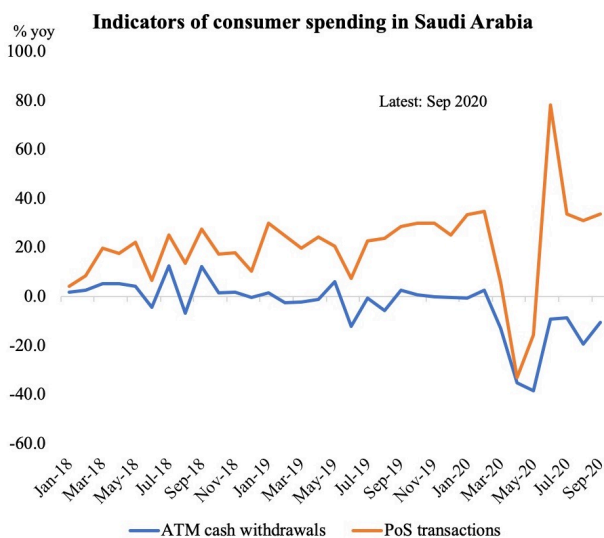
Source: UAE Central Bank, Refinitiv Eikon, Nasser Saidi & Associates.



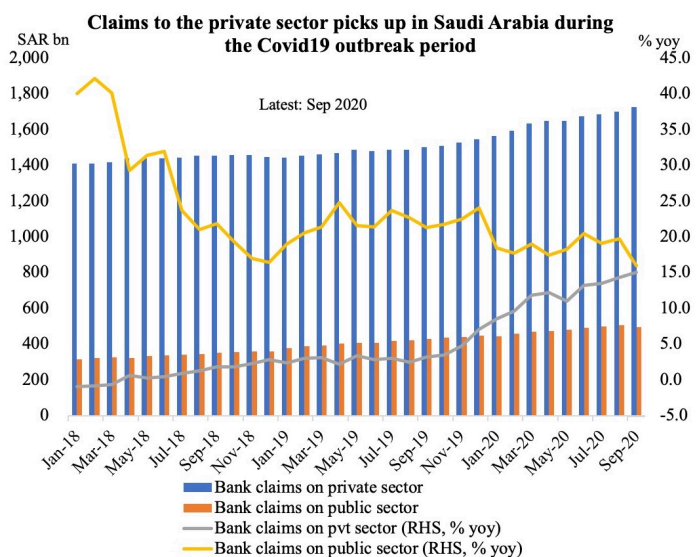
icators of economic activity in Saudi Arabia

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

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



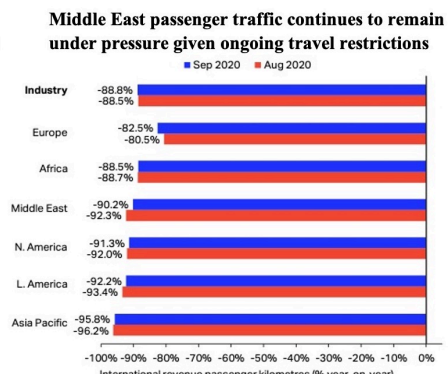
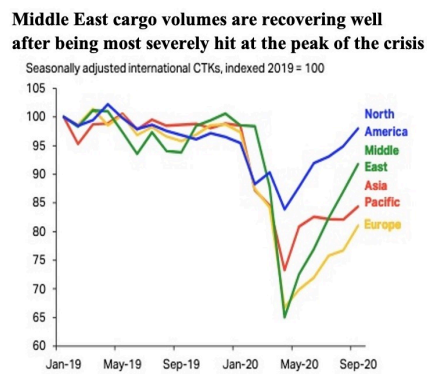
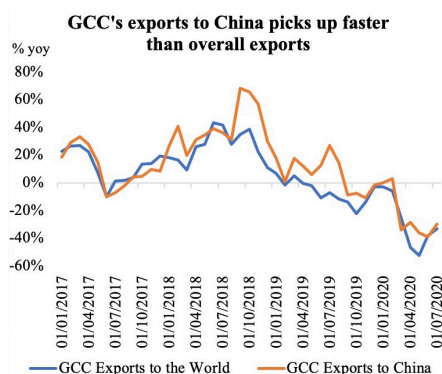
Source: SAMA, Refinitiv Eikon, Nasser Saidi & Associates.



kages with the global economy

In linkages with the global economy, we consider

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



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