Radio interview with Dubai Eye's Business Breakfast on UAE's Ministry of Foreign Trade & Economic Outlook, 23 Jun 2025

Dr. Nasser Saidi spoke with Dubai Eye's Business Breakfast team on 23rd June 2025 about the UAE adding a Ministry of Foreign Trade, if there would be any competition with SaudiArabia for tourism & also the outlook for economic growth in the UAE.

Listen to the full radio interview at the link below (from 5:48 to 12:26):

Transcript below:

Dr. Saidi, good morning.

Good morning to you.

Dr. Saidi, a quick word first of all on the evolving situation in the region. I don't want to get drawn on political or security speculation, but a quick word on the economics, if you will.

You mentioned the energy sector, and oil prices have risen a little bit. What's surprising actually is that they haven't risen any more. So the anticipation and expectation in the markets is that most of it is already done and we can

continue.

So probably the impact will be less tourism for a few weeks, but it will come back to normal. That's what the markets seem to be saying.

Dr. Saidi, thank you very much indeed for that. Now, the reason we've asked you to come on was to talk about some significant changes here in the UAE announced over the past 72 hours or so. We have a new ministry here in the UAE, a Ministry of Trade for the first time.

"Not a new minister though, Dr. Thani El-Zayoudi has been heading up trade for the UAE for some time now. First of all, your reaction to the new Ministry of Trade.

I think the important thing is that it's a strategic signalling and positioning. At a time where the rest of the world is talking about greater protectionism, tariffs, tromponomics and the rest, the UAE is saying, I'm creating this trade ministry, foreign trade ministry, and I want to open up to the rest of the world. So the strategic positioning is extremely important from that point of view.

The other thing that's important is that we need to remember that trade policy is a major tool of economic diversification.

In terms of the work that Dr. Al-Zayidi has done already with the SEPA trade deals, now we get quite excited about them in the Business Breakfast Studio and we see the impact that things like the SEPA deal with India, for example, have had over the past three years. But what's your objective assessment as an economist?

"The first point to note is that the UAE is now the most diversified economy in the GCC. Seventy-five percent of output is now non-trade. And if you look at India in particular, this was one of our biggest trade partners apart from China.

And opening up, and what Dr. Zayidi has done, is that you're opening up not only to your existing trade partners, but you're lowering barriers across the board. So amazing achievements over a short space of time. 24 SIPAs, you're going to reach easily 1.1 trillion dollars worth of trade way before 2031.

So I think very much to the credit of the Minister.

The other change that we've had, not quite as significant, is the Ministry of Economy. Now that's an existing ministry. It is now the Ministry of Economy and also Tourism.

Why the need to do that, do you think?

Well, because tourism, because first, services have become much more important for the UAE. Tourism, trade, commerce, all the rest, wholesale and retail trade are a major fraction of the economy. So focusing on tourism is also saying, I'm going to become a global hub for tourism.

"And UAE is well on its way. And importantly, I think transport and logistics, your airports, ports and facilities really make it much easier. It's one of the easiest places to get into.

We do have, of course, emerging competition here in the UAE as a tourism hub for the Gulf region and that is in Saudi Arabia. Embryonic stages yet, but their ambitions are significant. How seriously should the UAE take Saudi Arabia as a tourism competitor?

I think they're largely complimentary. UAE is way ahead in terms of being integrated into global tourism. Saudi has obvious strengths in terms of religious tourism, environmental tourism, et cetera.

But I think they will complement each other. What Saudi and the UAE have done over the past few years is grow their soft power. Look at their hosting of international events, World Cups, et cetera, exhibitions and all the rest."

"And what you have is greater integration of transport services, air, road and rail. That will mean that you'll open up the whole market of the GCC. So I'm very positive in terms of the complementarity of the two.

And why not? If there is competition, so be it. It will mean lower prices and more attractive to tourists from across the world.

We just had a message in. Someone's correcting me, Dr. Saeedi. Aruba has written in saying, it's not the first time there's been a Ministry of Foreign Trade in the UAE.

Aruba's memory is strong. Back in 2010, she said, Her Excellency Lubna Al Qasimi was Minister of Foreign Trade.

Yes, that's true. That's true.

Thank you, Aruba, for pointing that one out. That is a good memory. Finally, Dr. Saeedi, it's almost time for the half-time report for the UAE economy in 2025, June the 23rd, almost at the end of the first half.

Most of the reports we're reading, World Bank, IMF, points to 4 or 5% growth for the UAE economy this year. What's your reading?

"I think the readings will be correct. We'll have a slowdown probably in the second quarter. It'll pick up rapidly in the third and fourth quarter.

I'm pointing to the fact that digital economy is rapidly growing, clean energy, clean technology are rapidly growing. So all the tech sectors are really going to be a major factor of growth. Take fintech, for example.

We've become a global hub of fintech. So all of that, and I

really want to focus on the tech sector because I think it's really going to be an engine of growth and job creation, but more important, attracting foreign direct investment and people to come and live here. Look at the influx of people coming in for the golden visas, professional visas and all the rest.

So forget the traditional sectors, focus on the tech sectors because I think that's where we're going, e-commerce, digital trade and the like.

"A roadmap for Lebanon: how to prevent it from becoming another Gaza", an extended version of the Op-ed in Arabian Gulf Business Insight (AGBI), 9 Oct 2024

The below opinion piece is an extended version of the opinion piece titled "Lebanon conflict will only exacerbate existing economic crisis" that was published in the Arabian Gulf Business Insight (AGBI) on 9th October 2024.

A roadmap for Lebanon: how to prevent it from becoming another Gaza

The country is battling core infrastructure damage, collapsed business activity and decimated tourism

A major humanitarian crisis is unfolding in Lebanon. Israel's ongoing vast, destructive violence unleashed on Lebanon has exacted a heavy human toll with over 2,300 killed [1], 10,000 wounded, destroyed core infrastructure including public utilities, water, sanitation, power and roads and degraded the public health system. Much of Beirut's Dahieh and South Lebanon stands in ruin. More than 1.2mn persons are forcibly displaced - roughly 20% of the population - in a country that is not equipped to handle a major humanitarian crisis; already bearing the burden of hosting the largest number of refugees per capita globally (including an estimated 200,000-250,000 Palestinian refugees). The humanitarian logistical and operational challenges are compounded by a near absence of financial resources. Massive scale of strikes (3,000 over two days) [2], the use of 2000-pound bombs, evacuation orders in the middle of the night, attacks on health facilities and hospitals — all indicate that Israel is following the same playbook of Gaza in the new killing fields of Lebanon.

In addition to the traditional weapons used like bombs and missiles, Israel has introduced a new type of warfare, adding a new layer of complexity and distrust. The detonation of handheld pagers and walkie-talkies in Lebanon ushers in a new class of warfare: the weaponisation of electronic communications. The deployment of AI-based tools creates a new

class of warfare, including the use of Machine Learning to inform targeting decisions and an evacuation monitoring tool among others [3]. This opens a Pandora's box threatening trust in digital tools and the digital world from telecommunications to electric vehicles, personal computers and digital networks. Already, international flights are banning pagers and walkie talkies, which could theoretically be extended to any electronic device (be it phones or laptops).

The deaths and destruction heave an additional burden to Lebanon's existing misery and socio-economic-politicalenvironmental polycrisis. October 2024 marks five years since the onset of Lebanon's financial crisis, the deepest in global financial history. The absence of a head of state for two years, and effective functioning and unified government has led to inaction. The banking sector's collapse wiped out lifetime savings for most Lebanese, and the epicentre of the problem; the failure to undertake structural reforms, restructure the banking system and the public sector, combined with the absence of a social safety net inflicted severe socio-economic costs with poverty levels exceeding 50% of the population [4]. The country was already reeling from a sharp and disorderly devaluation (98%) of the national currency, hyperinflationary conditions, a collapse in public finances, a massive brain drain, and a collapse of GDP from US\$ 54.9bn in 2018 to US\$ 17.9bn in 2023 and falling further in 2024.

The war will only exacerbate the existing crisis: we are witnessing increasing population displacement alongside lower consumption, a collapse of business activity and tourism in the country. War could result in an interruption of schooling adding to the long-term scarring effects and of remittances (increasingly in cash), a major source of income for the impoverished population (remittances represent some 30% of GDP). Should the war deepen and extend for longer, GDP could contract by up to 25%, with a sharp decline in foreign trade, wider budget deficits, along with massive emigration,

while inflation would accelerate, and the already-battered pound would become unsustainable with an expansion of the US\$ based cash economy.

In the 12 months of the war on Gaza, more than 80% of civilian infrastructure and more than 70% of civilian homes have been destroyed or severely damaged. Another Gaza scenario on Lebanese grounds, "Lebaza", with massive destruction of civilian infrastructure would result in an reconstruction effort and cost for a country that has neither the resources nor the ability to reconstruct. The war in 2006, devastating impact had а on Lebanon, reconstruction costs exceed US\$ 10bn. Promised international funding under Paris II, was only partial: the pre-condition rollout of structural reforms was not undertaken.

What should be the priorities for Lebanon?

Firstly, mobilisation of humanitarian aid. The UN and the caretaker government launched a Flash Appeal for US\$425. Mn. The GCC has affirmed support (with the UAE leading with US\$100 Mn) and multilateral humanitarian aid has started flowing.

The needs of the displaced must be addressed, compounded by approaching winter. Food, shelter, medical, protection and schooling must be prioritised to avoid long-term scarring effects from a loss in school years even if a ceasefire were to be announced immediately.

Secondly, international access needs to be maintained through ports, airport and international roads to Syria and hinterland. In the 2006 war, Israel bombed Beirut airport's runways, forcing a complete shutdown until the 33-day war ended. This should not be repeated — there have been reports of multiple explosions near the airport. Road access is critical to ensure trade and mobility (including movement of displaced persons to safer areas).

Thirdly, it is urgent to elect a new President and form a new,

empowered national emergency government, capable of building unity and gaining domestic and international confidence to address Lebanon's devastation, reach a ceasefire and plan reconstruction, the cost of which given the growing scale of destruction is likely to exceed US\$25billion.

- [1] Source: Lebanon's Ministry of Public Health.
- [2] The Israeli military carried out 3000 strikes in Lebanon on Sep 24-25, the deadliest since the 2006 war; to compare, US carried out less than 3000 strikes a year, excluding the first year of attack, in the 20-year US-Afghanistan war

[3]

https://www.hrw.org/news/2024/09/10/gaza-israeli-militarys-dig
ital-tools-risk-civilian-harm

[4] Lebanon poverty and equity assessment https://www.worldbank.org/en/country/lebanon/publication/lebanon-poverty-and-equity-assessment-2024





"Time to address Lebanon's crippling banking crisis", guest article for Arab Banker, Autumn 2024

The guest article titled "Time to address Lebanon's crippling banking crisis" was published in the Arab Banker's Autumn 2024 edition.

Lebanon has been mired in economic crisis for almost five years. A combination of acute negligence and mismanagement on the part of the government, the central bank and key institutions culminated in a series of economic and political crises that have left the banking sector on its knees and more than three-quarters of the population living in poverty.

In the guest article for *Arab Banker*, Dr. Nasser Saidi, founder and president of Nasser Saidi & Associates, and Alia Moubayed, emerging markets economist, analyse how the crisis unfolded and chart a proposed roadmap to recovery.

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:

<u>Driving growth beyond oil</u>" 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, 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 ratehiking 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-

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-day break-middle-east-africa-10-18-2023-video

"Global Macroeconomic Developments: Impact on Travel & Tourism / MICE", Presentation at the Abu Dhabi Business Events Forum, 26 Sep 2023

Dr. Nasser Saidi was invited to join as a guest speaker at the Abu Dhabi Business Events Forum held in Abu Dhabi on 26th September 2023.

Dr. Saidi's presentation, titled "Global Macroeconomic Developments: Impact on Travel & Tourism / MICE", focused on the global and regional macroeconomic developments, with a special focus on the drivers and major headwinds. The talk also centred on the GCC's economic transformation and the role played by tourism/ MICE before concluding with slides on the opportunities and risks for the sector in the Middle East.

"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 the Arabian 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.

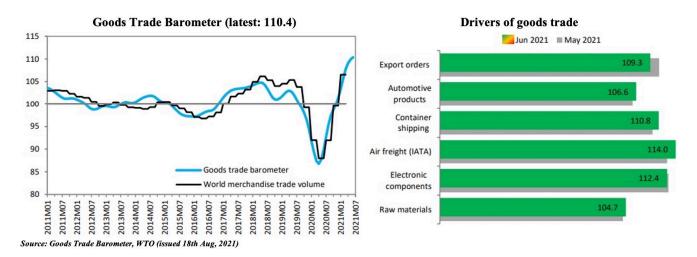
Dr Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist and head of external relations at the DIFC Authority, Lebanon's economy minister and a vice governor of the Central Bank of Lebanon. This article was co-authored by Aathira Prasad, director of macroeconomics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

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

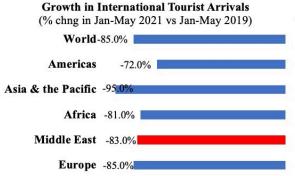
Weekly Insights 19 Aug 2021: Charts of the Week (Global Trade Recovery + Middle East's Tourism Indicators + Fiscal deficits in Bahrain & Kuwait + Consumer & Producer Prices + Industrial Production in Saudi Arabia)

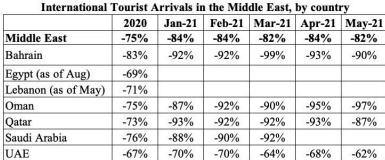
- 1. Recovery in trade in 2021, though the pace is slowing; port closures to lead to delays & higher costs
 - The WTO's latest Goods Trade Barometer, with a record high reading of 110.4, underscores the strength of recovery: it is up more than 20 points in year-on-year terms. However, data suggest that 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

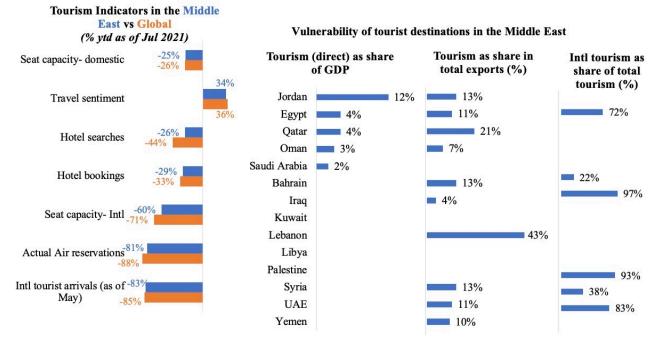
- also evident from recent PMIs: rate of expansion in JP Morgan's global manufacturing PMI had slowed further from May's 15-year high.
- Furthermore, supply chain disruptions will continue to have a negative impact: the recent closure of the Ningbo Zhoushan port in China (following a Covid19 case) is 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.



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







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
BHD mn	H1 2021
Revenue	910
Oil revenue	■ H1 2020 ■ H1 2021
Non-oil revenue	4%
Expenditure	1639 -4%
Recurring Expen	1210 1233 -2%
Deficit ⁻⁷⁹⁸ -520	-35%

	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

23

13

1.4

2.7

1.4

Key macroeconomic indicators, Bahrain

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

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

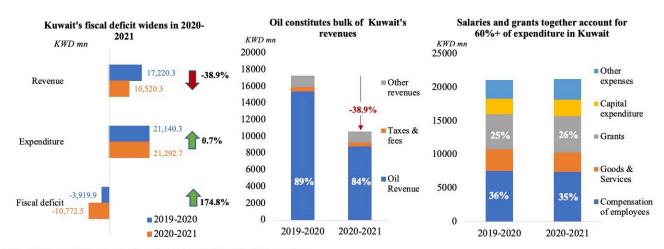
International Reserves (\$)

in months of non-oil

imports

- 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 nonoil 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.



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

Download a PDF copy of this week's insight piece <u>here</u>.

1. Trade recovers in Q3; services trade lags

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

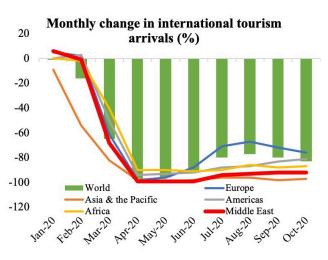


export orders growth — a leading indicator for trade activity — slowed in December, according to the latest global manufacturing PMI, and was linked to intensifying supply chain delays. The most cited response for delays amid rising demand was the lack of shipping capacity/shortage of containers. The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

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

2. Tourism woes continue globally; Middle East significantly affected

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Source: UNWTO, Nasser Saidi & Associates

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

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

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

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

Source: UNWTO, Nasser Saidi & Associates

Source: UNWTO, Nasser Saidi & Associates

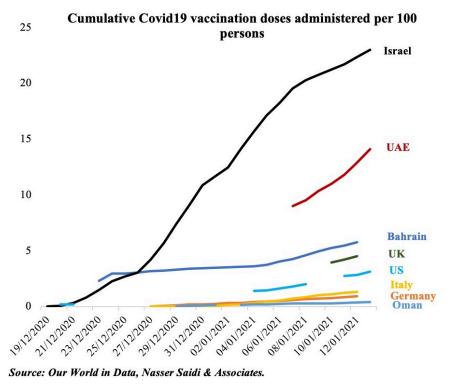
Tourism Recovery Indicators: Middle East

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

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

3. The Global Vaccination Drive picks up

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



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

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

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

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

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

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

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

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

	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
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

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Source: Refinitiv Datastream, Nasser Saidi & Associates

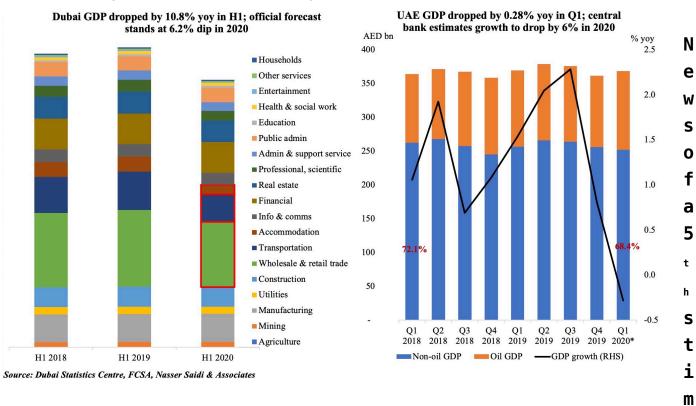
be were released this week. **Overall, recovery seems to be the keyword with improvements in Dec** — in spite of the recent Covid19 surge, the Covid variant and ongoing lockdowns/ restrictions — with new orders and export orders supporting sentiment, with some stability in job creation. However, supply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

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

continuing to fall at an accelerated rate.

2. Covid19 & impact on Dubai & UAE GDP

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



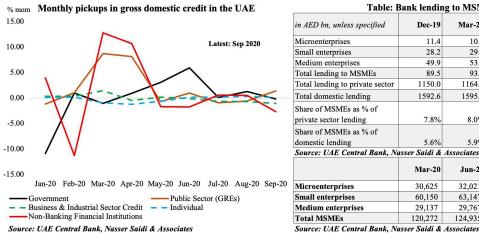
ulus package worth AED 315mm (announced on 6th Jan) for Dubai — an extension of some incentives till Jun 202, refunds on hotel sales and tourism dirham fees, one-time market fees exemption

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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 by accelerating decarbonization and further enhanced 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%).



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, Na	sser Saidi & A	ssociates				

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			

a difficult period for MSMEs (Micro, Small and Medium Enterprises): the number of MSMEs declined by 8.5% gog in Sep 2020, following an uptick of 3.9% gog 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 imp	orts 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 reroute 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 3^{rd} 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 0ct 2021), according to a <u>Bloomberg report</u>.

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

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

Chart 1: Uncertainty in the time of Covid19

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

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

responses continuing to support economies, care should be taken to ease the withdrawal of support in the future.

Countries need to be prepared for a phase of unemployment and wave of business closures when exiting the crisis.

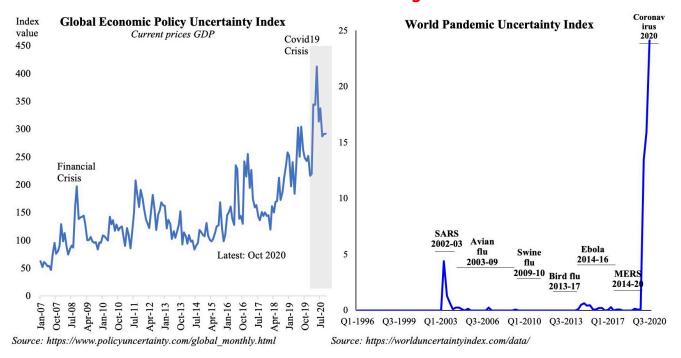


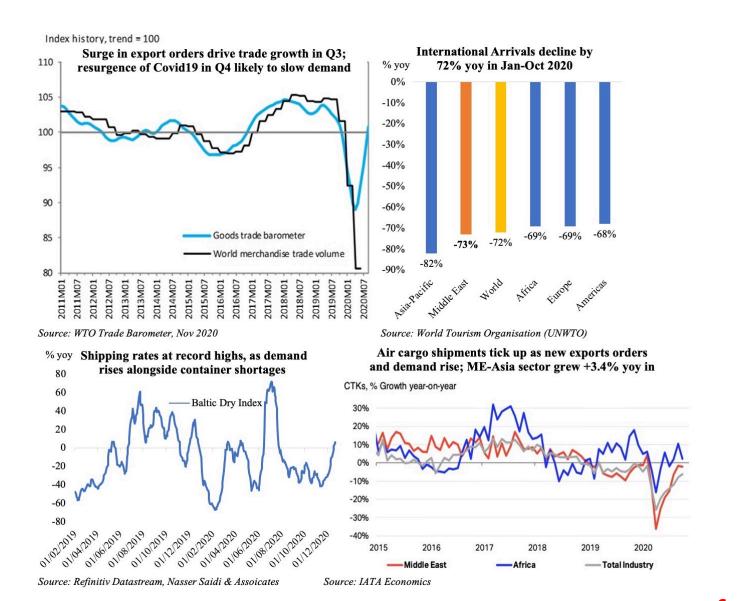
Chart 2: Trade bounced back in Q3, but will the current surge lead to another drop? Tourist Arrivals remain dismal

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

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

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

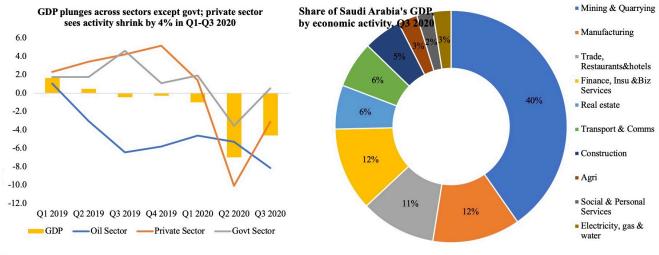
Tourism remains unlikely to recover to near pre-pandemic levels till vaccines reach a substantial proportion of global population. Prior to the recent surge in cases, domestic tourism (& therefore air travel) had picked up in Europe and Americas.



hart 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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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 <u>online</u>.

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 its review development plans that include tourism a s 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 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.

The Brief / Aviation The Brief / Aviation

COMMENT

Flying together

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

ovid-19 has devastated the global avia-tion industry along with the tourism and hospitality industry. Even though domes-sand Arabia, US and China, among nativen) and high generations assed (e.g. intra-Berope flights, UAFS Elihad and Emirates are each flying to over-30 destination). 42 per cent of all global commer-cial airlines fleets are still grounded, according to Substantial and the still are still are still as in the research by Crimin (after time of going to press). It is little wonder that the International Air Transport traffic levels this year. According to LTA, airline substances are expected to frow 15 Masses are represented from 15 Masses This is likely to be an underestimate. Covid-19 has generated the deepest recession in advanced econo-mies since the great depression. It deadly waves are still unfolding in Africa and Latin America, destroy-ing demand for trace, with a second wave likely, according to epidemiologists.

a). The US provided a massive \$58hs to rescue little industry; survive the post-Covid-19 world, the aviation or-including airlaines, airports and aircraft manturers - will have to be restructured. Despite rabout "travel bubbles" and "immunity passes," experts question whether recovered patients by immune. About \$5 per cent of respondents IATA survey (conducted in the first week of Despite air and the provided of the provided of the provided in the provided of the provided of the provided in the provided of the provided of the provided in the provide



THE TRIPLE WHAMMY OF LOCKDOWNS, LOW OIL PRICES AND FINANCIAL MARKET

TURBULENCE A SEVERE BLOW TO THE MIDDLE nations 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.

also madical mirror turbulence disa scalar 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 strategy and its role as a global business development; almost has include tourism as a key diversification option. The travel and tourism secrets have been critical not the GCW with the sector contributing \$2450 nt to CDP (roughly & 6 per cent) in 2019, while supporting nearly seven million jobs, according to the World Travel and Tourism Committee of the CDP of the

region's GPP. Sauda r.Tavass, con-the most exposed. How should GCC airlines adjust to the massive loss of revenue? Like other airlines globally, Emir-ates, which expects at least 18-months for a recov-ery of travel, has grounded much of list 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 \$320n. The EOD (Qutar Airway) clindscoled an entitated 5 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 soft use ruised 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 suffi-cient to stem the hemorrhage.

COST-CUTTING MEASURES MEASURES BY AIRLINES WILL NOT SUFFICE TO

HEMORRHAGE

lines, given the impact of Covid-19 and oil prices on budgets, with the IMF forecasting 2020 average defi-cits of 8.3 per cent for the region.

THE CASE FOR MERGERS

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 awing and optimise revenue attenue. Generally, and the consolidation or control the airlines, mergers and consolidation allows for a smoother and less costly adjustment process: no and trust consideration, labour dis-

consolidation) and economic policy readjustment will be required for a ustainable 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 govern-

"Is the Middle East Ready for China?", Presentation at NUS Middle East Institute Annual conference, Feb 11-12 2019

Dr. Nasser Saidi participated in the National University of Singapore(NUS)'s Middle East Institute's annual conference held in Singapore over 11th and 12th of February, 2019. Part of the panel on "Finance and Economics", Dr. Saidi presented his views on whether the Middle East is ready for China, also identifying the building blocks of a strategic China- Middle East partnership. He stated that if Middle Eastern states could behave like the 10-member regional

trading bloc, it could pave the way for a regional free-trade agreement with China to further improve trading volumes and future infrastructure investments from the Chinese; working together would also help the region battle the ongoing threat of terrorism.

Click to play the video of the panel session below:

More on the

event: https://mei.nus.edu.sg/event/the-middle-east-pivot-chin
as-bri-between-geostrategy-and-commercial-opportunity/

Media coverage:

https://www.scmp.com/news/asia/southeast-asia/article/2185754/middle-eastern-states-have-lessons-learn-asean-buildinghttps://www.forbes.com/sites/arielcohen/2019/02/14/will-china-replace-the-u-s-as-the-middle-east-hegemon

"The Coming Chinese Century: Building a Strategic Alliance between the UAE Falcon & the Chinese Dragon", Presentation to the Ajman Executive Council, 18 Sep 2018

Dr. Nasser Saidi delivered a presentation titled "The Coming Chinese Century: Building a Strategic Alliance between the UAE Falcon & the Chinese Dragon" to the Ajman Executive Council on 18th September 2018. The presentation focused on the US-China trade wars, and concluded with recommendations on how the UAE/

Ajman and China can strengthen relations going forward.

More details on the knowledge event, which was attended by H.H. Sheikh Ammar bin Humaid Al Nuaimi, Crown Prince of Ajman and President of the Ajman Executive Council, can be accessed here.

The presentation can be downloaded here.