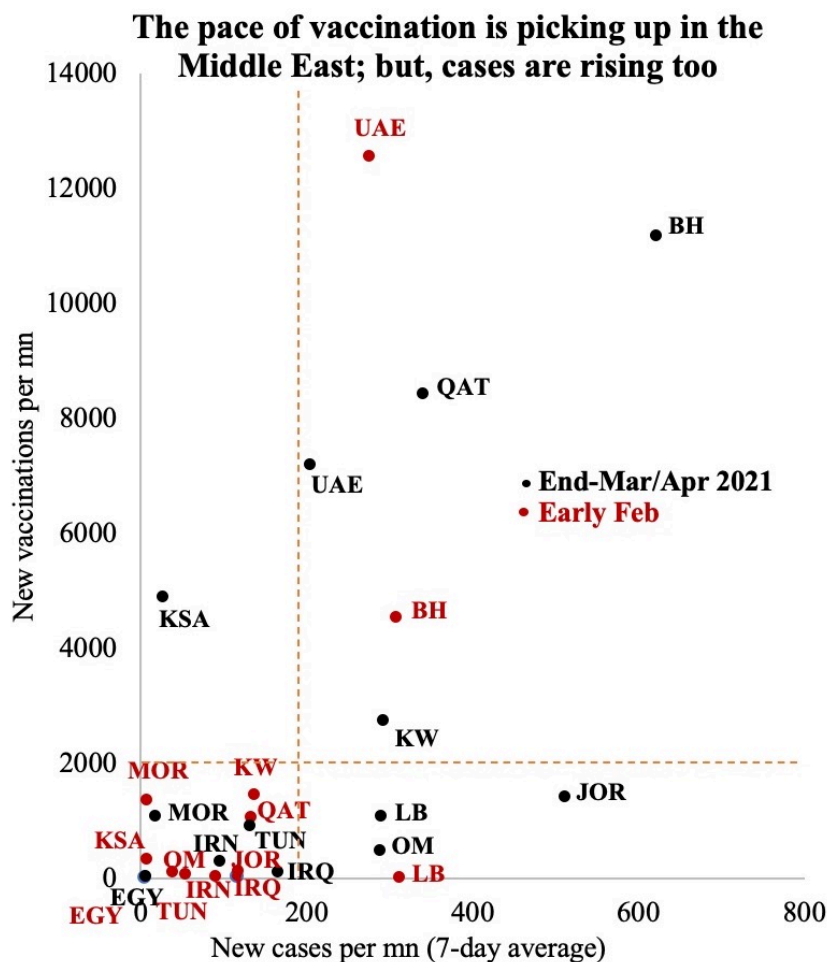


# **Weekly Insights 15 Apr 2021: Will Middle East's growth prospects be vulnerable to external debt levels & limited fiscal room?**

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

The IMF issued its latest Regional Economic Outlook for the Middle East region this week. **Real GDP for the Middle East and North Africa (MENA) region is forecast to grow by 4% this year** (up 0.9 percentage points from the projection in Oct 2020) after having slumped by 3.4% in 2020 (vs an estimate of a 5% drop in the Oct 2020 edition). **Growth outcomes and prospects will still be centred on how the pandemic progresses in the**



Source: Our World in Data, Nasser Saidi & Associates

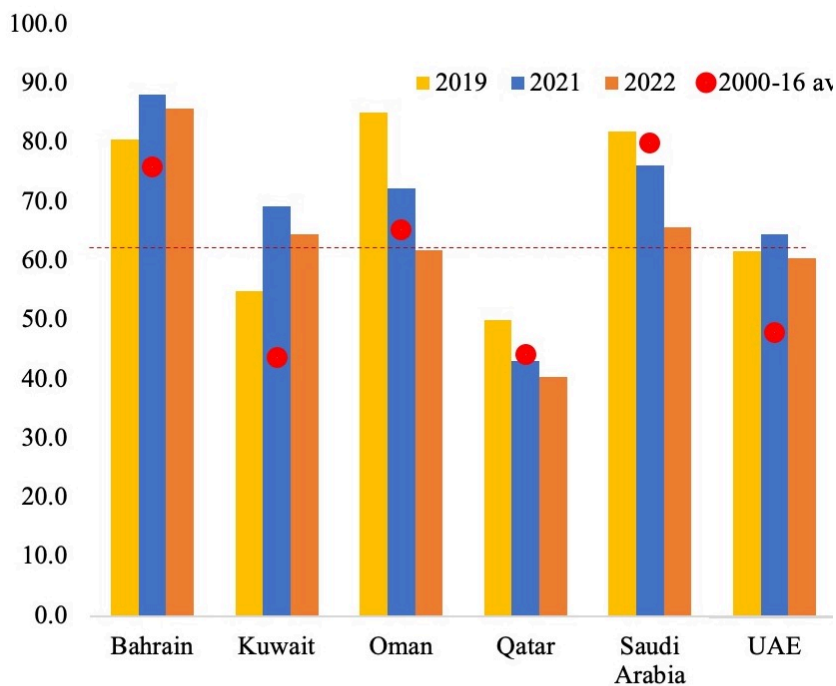
region amid the pace of vaccination. The MENA region is now home to more than 7mn confirmed cases, with Iran the single largest contributor (share of close to 30%) and the GCC accounting for nearly 25%. Infections have been ticking up in the region since the start of this year. This has resulted in increased targeted restrictions and lockdowns in many a nation.

The chart compares the pace of vaccination and new cases. Vaccination pace is picking up in the region: the UAE leads the pack, having disbursed a total of 9.16mn doses as of Apr 13<sup>th</sup>. With the supply of vaccines increasing (thanks to COVAX facility and donations from the UAE, Russia, China etc.), new vaccinations (black dots in the chart) have improved in most nations (compared to early Feb, marked in red). The production of vaccines domestically in the region will also boost supply later this year: UAE plans to manufacture Hayat-Vax, Egypt has an agreement with Sinovac Biotech, and Algeria will produce Sputnik-V from Sep onwards).

Meanwhile, reported cases are also higher compared to early Feb – many countries are now outside the small quadrant on the bottom-left of the chart. Depending on how fast vaccinations can lead to herd immunity will determine recovery paths – especially so in the more tourism-dependent nations (e.g.

Egypt, Jordan, Lebanon).

**Fiscal breakeven prices (USD) expected to decline in 2022, but is currently higher vs current oil price**



Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates

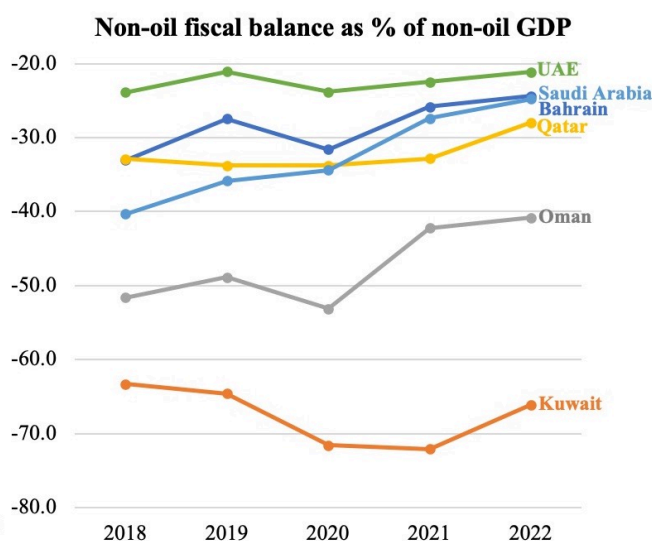
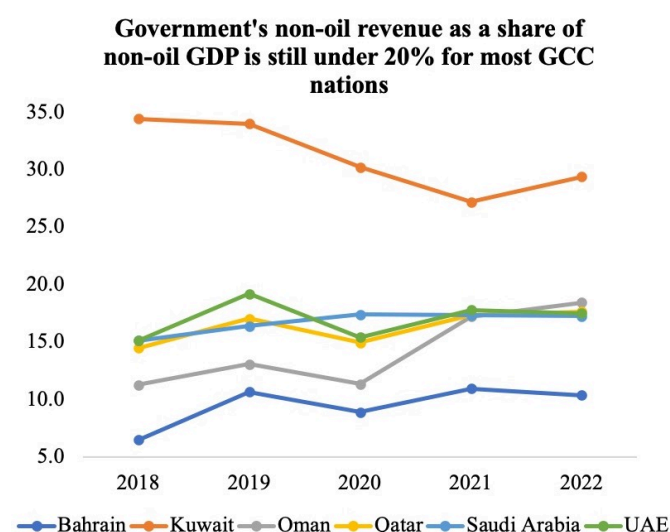
Note: Kuwait's fiscal breakeven oil price is before the compulsory 10% revenue transfer to the Future Generations Fund including investment income.

However, policy measures introduced to support the economy during the pandemic is creating immense fiscal strain. Fiscal deficits widened to 10.1% of GDP in 2020 in the MENA region from 3.8% in 2019. It was severe in the GCC as well: fiscal deficit widened to 7.6% of GDP last year (2019: -1.6%), as the impact was from both

lower oil and non-oil revenues. The **fiscal breakeven price this year ranges from a high USD 88.2 in Bahrain to a low USD 43.1 in Qatar**. While, it is expected to decline across the board next year, it still remains higher than the current oil price levels for most nations. Given new rounds of restrictions and with oil demand not yet at pre-pandemic levels, the **OPEC+'s recent decision to roll back production cuts are likely to depress oil prices**. As real oil prices trend downward, **fiscal sustainability becomes increasingly vulnerable**.

With business operations and revenues affected due to the pandemic alongside weakened domestic demand, non-oil revenues as a share of non-oil GDP declined in 2020: Saudi was the sole exception, given its VAT hike to 15% from Jul 2020. Oman is expected to witness a significant boost in non-oil revenues this year, with the introduction of VAT from Apr 16th. **Oil exporters in the region are still highly dependent on oil revenues, as is evident from the large non-oil fiscal deficits in the GCC**. In 2021, it is forecast at a high 72% in Kuwait

and an average 30.9% and 29.9% in the GCC and MENA oil exporters respectively.



Source: IMF Regional Economic Outlook, Refinitiv, Nasser Saidi & Associates

its and negative economic growth resulted in governments resorting to multiple financing options: borrowing from commercial banks, tapping international and regional markets (bond issuances, commercial loans) as well as drawing down from international reserves at the central banks/ sovereign wealth funds. **Government debt levels increased to 56.4% and 41% in the MENA and GCC regions last year.** Though it is forecast to fall slightly this year, it still remains higher than the 2000-17 average of 36.2% and 24.6% respectively. The IMF estimates financing needs in the MENA to touch USD 919bn for this year and next. Public-financing requirements were likely to stay above 15% of GDP in most parts of the region through end-2022.

**This could pose a significant risk in the coming years:** (a) sectors affected by the pandemic are being supported by government policy stimulus. When this support is rolled back eventually, this could result in bankruptcies, defaults and job losses, further causing an increase in banks' non-performing loans; (b) global financial conditions have been quite accommodative and so long as cost of capital remains low, there will be an appetite for borrowing and even refinancing maturing debt. However, a faster-than-expected global recovery could lead to interest rates hikes, push long-



term rates and funding costs higher, increase sovereign spreads, thereby tightening financing conditions – affecting countries with large external financing needs (and their indebted corporates). Though GCC's sovereign debt levels are relatively low, over USD 100bn is expected to mature in 2021-25.

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

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

Heatmap of Manufacturing/ non-oil private sector PMIs

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

## titling new Covid19 restrictions, PMIs run high

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

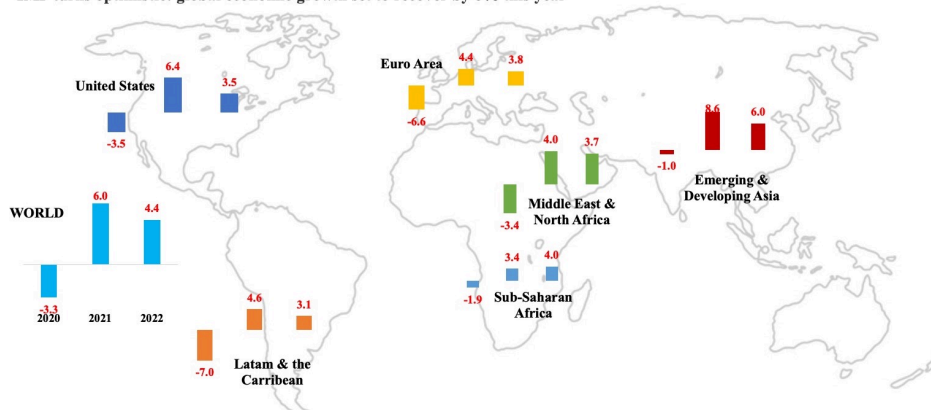
## Chart 2. Optimism spills over into IMF's growth forecasts amid uneven recovery caution

- **The IMF projects 6% yoy growth in 2021, up from the 3.3% contraction last year.** If the forecast is realized, it

would mark the fastest rate of global growth since 1976. While China returned to pre-pandemic GDP levels in 2020 itself (+2.3%), many are unlikely to recover till 2023 – depending on new virus variants, pace of vaccination rollout and extent of fiscal/ monetary stimulus.

- The **average medium term output loss over 2020-24**, relative to pre-pandemic forecasts, is projected to be 6.1% in low-income countries versus 4.1% and a smaller 0.9% in emerging and advanced nations respectively. This is much lower than the losses seen during the 2008-09 financial crisis (when advanced nations suffered the most).
- The **Middle East's growth forecasts have remained broadly unchanged** though recovery prospects of the GCC (where vaccination pace is quite high) are miles apart from many of the war-torn nations.

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



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

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

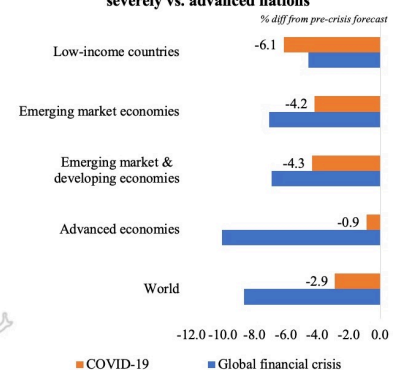
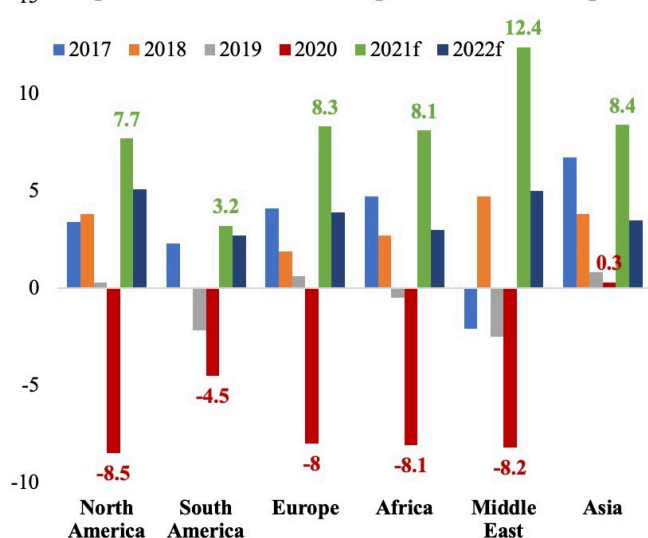


Chart 3.1

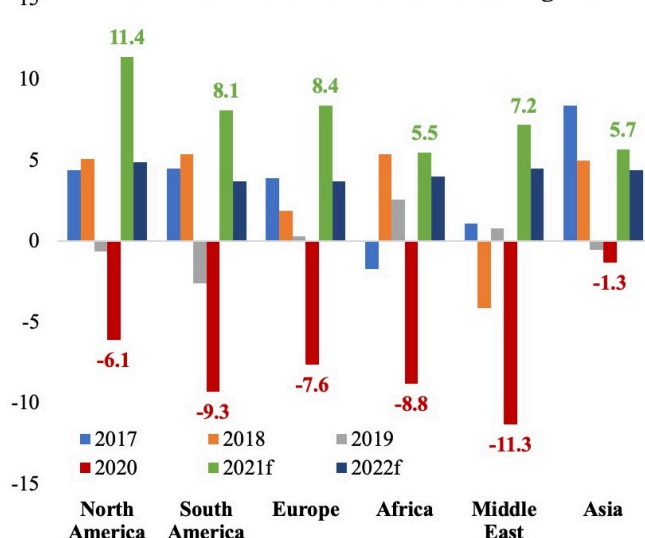
**Merchandise trade poised for recovery in 2021, before slowing in 2022: WTO**

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



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

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



- **Strong, but uneven recovery is the story in merchandise trade volumes as well.** Trade volume is projected to increase by 8% this year and then slow to 4% in 2022. Cross-border trade in services remains subdued and new waves of infection could easily reverse course of trade.
- **Falling oil prices led to a 35% contraction in trade in fuels in 2020:** it had a significant impact on Middle East exports (-8.2% slump in 2020), also resulting in a massive 11.3% plunge in imports. As travel picks up post-vaccine drives, demand for oil will likely strengthen, causing a 12.4% rise in exports in the Middle East this year.
- **Asia, the export hub:** the region's limited impact and faster recovery from the virus + supply of medical supplies & consumer goods supported their export growth last year. This will enable the 8.4% rise in exports this year.

#### Chart 4. Risks to the Rosy Outlook

- **Pandemic-related risks:**
  - New strains of vaccine-resistant Covid19 => prolonged pandemic
  - Highly unequal global roll out of vaccines could reverberate on advanced nations, when lockdowns

are relaxed

- Supply chain disruptions: one leading COVID-19 vaccine includes 280 components sourced from 19 different countries. Any constraint would impact production and distribution
- Insufficient production of vaccines + vaccine nationalism affecting global rollout of vaccines
- **Financial risks:**
  - Avoid a repeat of 2013 “taper tantrum”. Rise in US rates => repricing of risk + tighter financial conditions => negative impact on highly leveraged nations/ businesses (heavy borrowings in 2020, supported by low interest rates: EMEs borrowed 9.8% of GDP & low-income nations 5.5%)
  - Impact of corporate sector when stimulus measures are rolled back: potential bankruptcies/ insolvencies (& job losses), profitability => financial risks & effect on banks’ bottom line
- **Long-lasting effects from the pandemic:**
  - Poverty: an additional 95mn people likely entered the category of “extreme poor” in 2020 versus pre-pandemic projections => rising food prices & social unrest (Lebanon as an example)
  - Labour markets: youth, women & low-skilled workers more affected + impact on productivity
  - Inequality within nations & across economies: not limited to income. Think education, technology
- **Climate change risks:** methane & CO2 levels surged to record amounts in 2020 + stranded assets + preparedness for a low-carbon transition
- **Geo-political risks:** US-China tensions led suppliers to shift away from China (one of the reasons behind the current shortage of computer chips), reshoring and “Made at home” policies

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# "Will the UAE's accelerated vaccine campaign help fuel economic growth?", Oped in The National, 16 Feb 2021

The article titled "[Will the UAE's accelerated vaccine campaign help fuel economic growth?](#)" appeared in the print edition of The National on 16th February 2021 and is posted below.

## Will the UAE's accelerated vaccine campaign help fuel economic growth?

***Nasser Saidi & Aathira Prasad***

*The drive could help improve herd immunity and gradually return business activity to pre-pandemic levels*

Countries around the world, including in the Gulf region, have registered a sharp increase in Covid-19 cases amid a rise in new virus strains.

As the number cases grows, the UAE has reintroduced more stringent restrictions and penalties for non-compliance to ensure the safety of residents and stem the pandemic's spread. In tandem with safety measures, the country has also hastened



its vaccination drive since December and is currently a global leader, having administered 51.11 vaccine doses for every 100 people as of Sunday, making it second only to Israel.

With four vaccines being expended currently – Sinopharm, Pfizer-BioNTech, AstraZeneca and Sputnik V – the government is on track to vaccinate more than half the population by the end of the first quarter of this year.

## **Is this sufficient to support economic recovery?**

Given the paucity of monthly indicators or data from official sources, we use purchasing managers' index numbers released by IHS Markit to gauge the level of business activity in the UAE and Dubai.

Both PMIs have stayed quite close to the neutral 50-mark from December to January after having spent two consecutive months in contractionary territory. Job prospects seem to be improving in Dubai and across the country.

However, Dubai's tourism sector, which recorded a sharp increase in activity in December, returned to sub-50 levels as tourists returned after the New Year holidays and travel restrictions were tightened.

With the vaccination drive, it is evident that as the nation inches closer to achieving herd immunity, domestic activity and business and consumer levels will gradually build up to pre-pandemic levels.

Investor and business-friendly reforms to convince skilled professionals to take up residence in the country will help spur economic activity. While the success of these structural reforms will not be immediate, their steady and effective application is expected to support economic growth in the medium and long term.

## **How can the UAE step up its recovery?**

It is in the best interests of the UAE and Dubai, which is hosting the Expo later this year, for the wider region and the rest of the world to achieve high vaccination levels.

The longer countries remain unvaccinated, the greater the risk of newer strains emerging that could potentially result in another cycle of infections and subsequent movement restrictions.

There are two potential ways to support this.

First, it is crucial to increase the production of vaccines. A recent [paper](#) by the University of Chicago said “increasing the total supply of vaccine capacity available in January 2021 from two to three billion courses per year generated \$1.75 trillion in social value, while additional firm revenue was closer to \$30bn”, far outweighing the investment required to do so.

Vaccination is a public social good that has several private benefits while the coronavirus remains a global threat. So, the UAE’s plans to manufacture the Sinopharm Covid-19 vaccine later this year would be a win-win situation that would cater to both domestic and global demand – especially if the vaccine is to be administered on an annual basis – and boost growth.

Secondly, the manufactured vaccines need to be distributed faster to reach those in need. To this end, the UAE is well-positioned as a global logistics and transport hub – both for delivering vaccines to smaller nations in the region and using its vast cargo network to transport Covid-19 shots around the world.

Abu Dhabi’s Hope Consortium was set up for vaccine storage and distribution while Dubai’s Vaccine Logistics Alliance will support the World Health Organisation’s effort to deliver two billion doses of vaccines this year.

This could be supported by vaccine aid – either in its contribution to global alliances such as Covax, which plans to deliver 2.3 billion doses this year, or through the free delivery of vaccines to smaller and poor nations, for example, India’s campaign to distribute free vaccines in 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, which accounted for about 15 per cent of national gross

domestic product and about 30 per cent of Dubai's GDP in 2019, the impact of Covid-19 has been significant.

Despite Opec+ production cuts and a subdued demand for crude, signs of a recovery in oil demand (declining oil inventories in China and India) and higher oil prices (about \$60 now) will be beneficial to trade and growth.

The UAE's oil and related product exports are about 40 per cent of total exports and the main export destinations include India, China and Japan, which together account for more than 25 per cent of overall exports and are recovering faster than European markets and the US – to the UAE's benefit.

Lastly, no outlook is complete without risks. Long-term diversification away from oil is an overarching imperative, as is decarbonisation and debt sustainability, especially in the context of another potential taper tantrum or a faster-than-expected increase in interest rates that leads to tighter financing conditions.

The UAE should continue to press forward with its clean energy initiatives and energy efficiency policies. As the success of the Mars Hope probe has demonstrated, the country has the will, leadership and access to technology and resources to turn the challenge posed by the pandemic into a lever that can help its economy and activities become green, clean, innovative and resilient to climate change.

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## **Weekly Insights 11 Feb 2021: Will Accelerated Vaccine**

# Distribution Catapult UAE to Faster Economic Growth?

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

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).

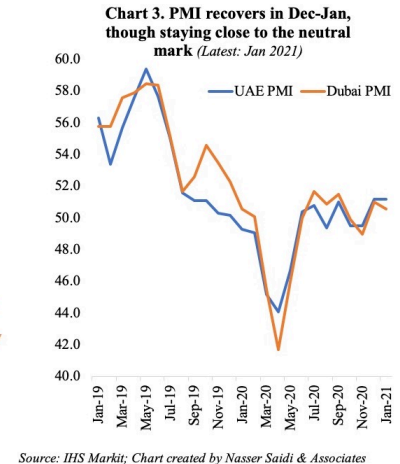
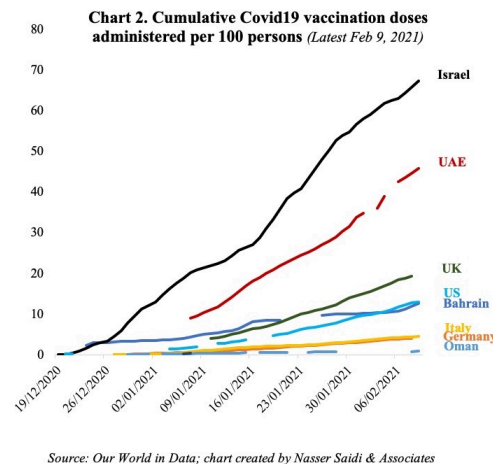
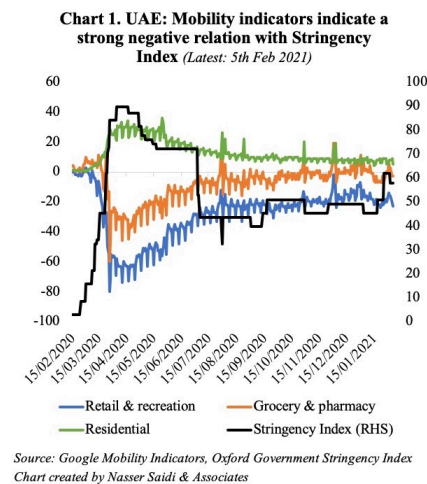
## **The Vaccination Drive**

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 9<sup>th</sup> 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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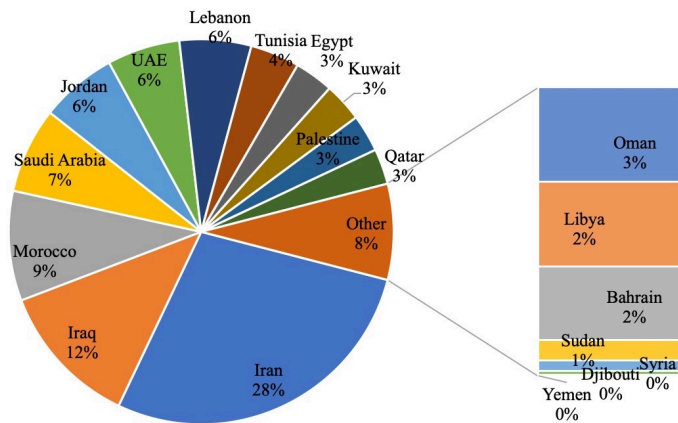
## Weekly Insights 4 Feb 2021: A Covid19 Balancing Act – Cases, Vaccinations & Economic Activity

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

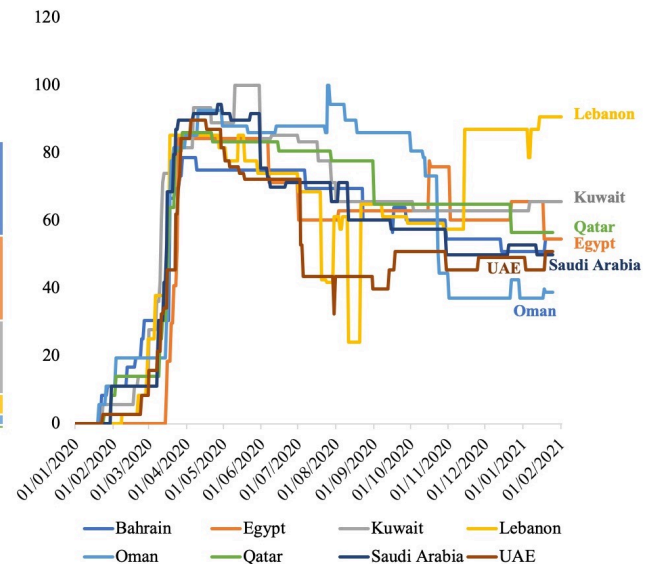
**1. Covid19 cases rise in the Middle East & so do Restrictions**

- 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



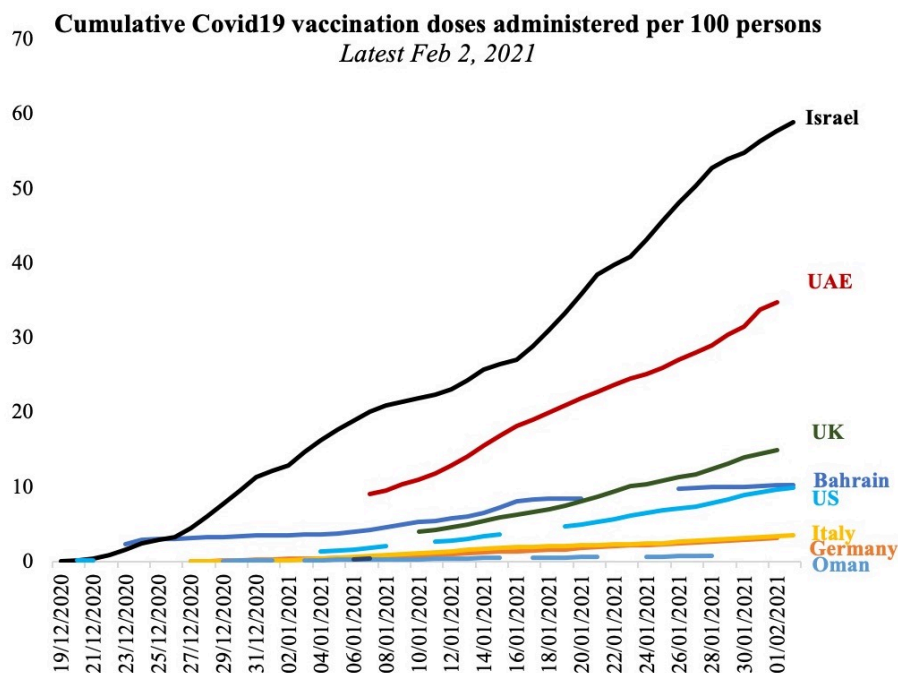
Covid19 Government Response Stringency Index  
Latest: Feb 1, 2021



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
<b>Bahrain</b>	✓		✓	✓	
<b>Kuwait</b>			✓		
<b>Oman</b>	✓		✓		
<b>Qatar</b>	✓	✓ (agreement signed)			
<b>Saudi Arabia</b>	✓		✓		
<b>UAE</b>	✓		✓	✓	✓ (only for emergency use)



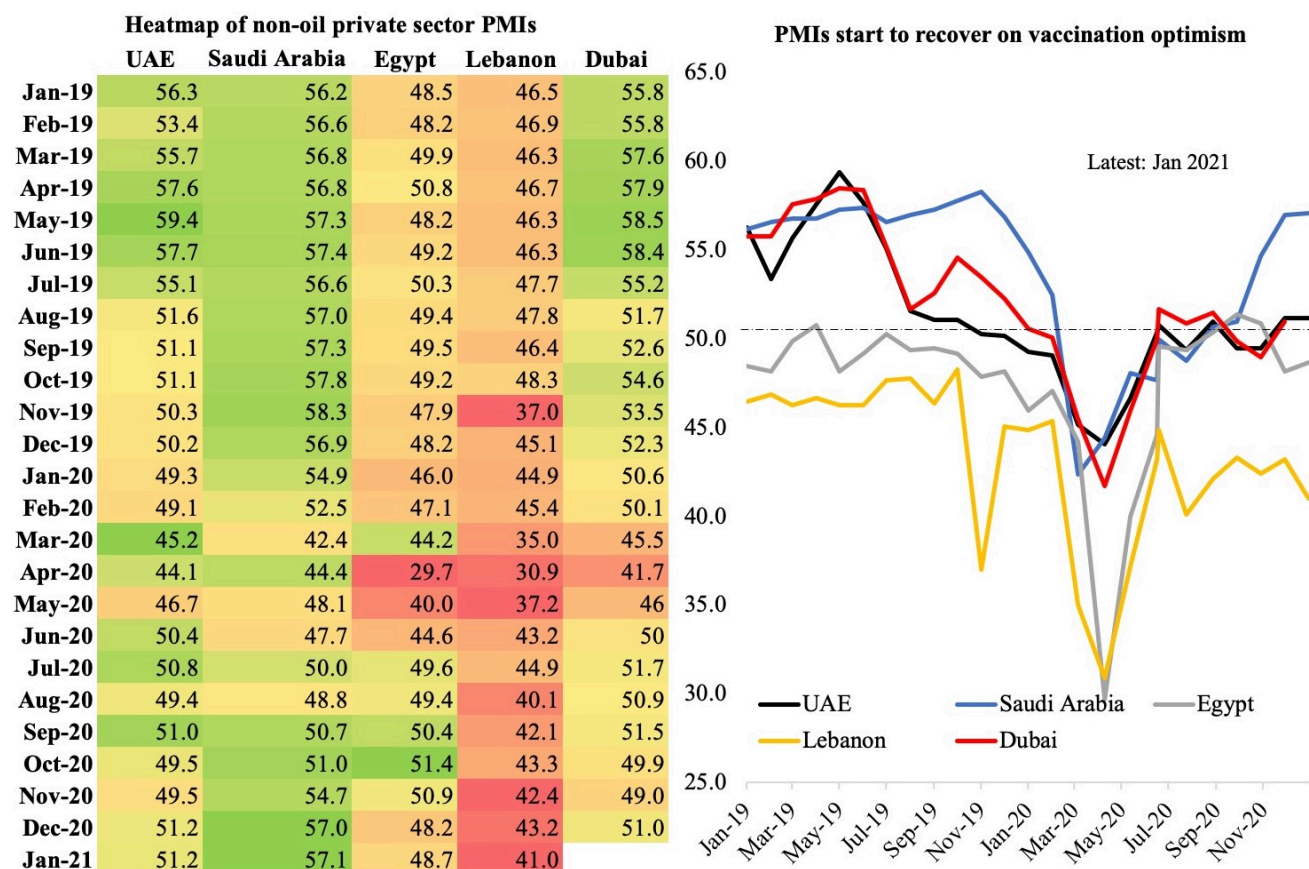
Source: Our World in Data, Nasser Saidi & Associates.

- **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

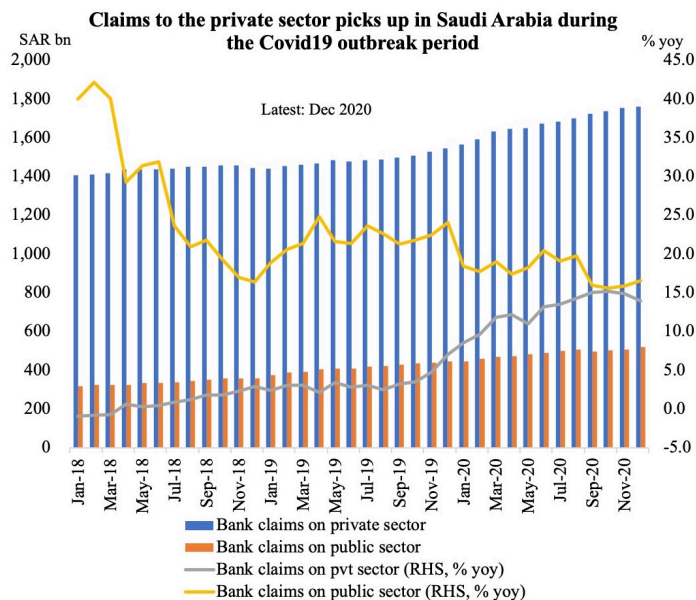
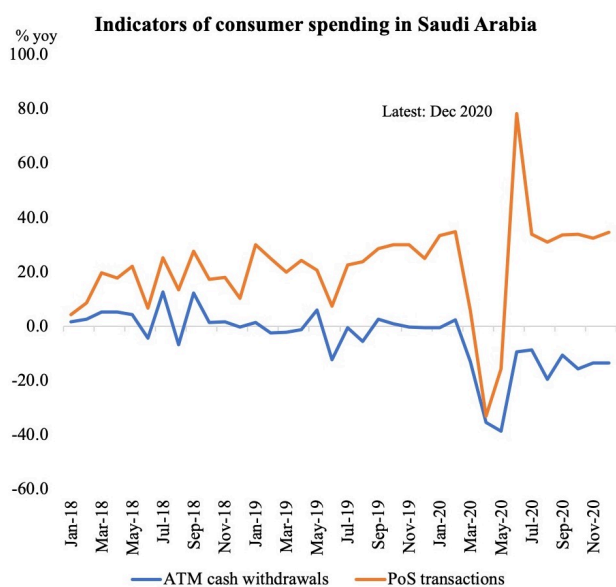
- Lebanon's numbers remain dismal with the complete lockdown adding to the existing socio, economic and political woes



**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



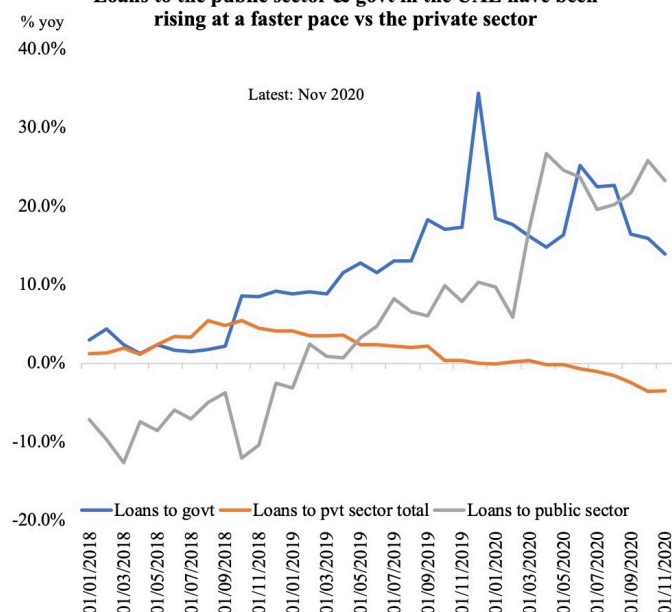
**Source: Saudi Central Bank (SAMA), Refinitiv Eikon, Nasser Saidi & Associates.**

## 5. Indicators of economic activity in the UAE

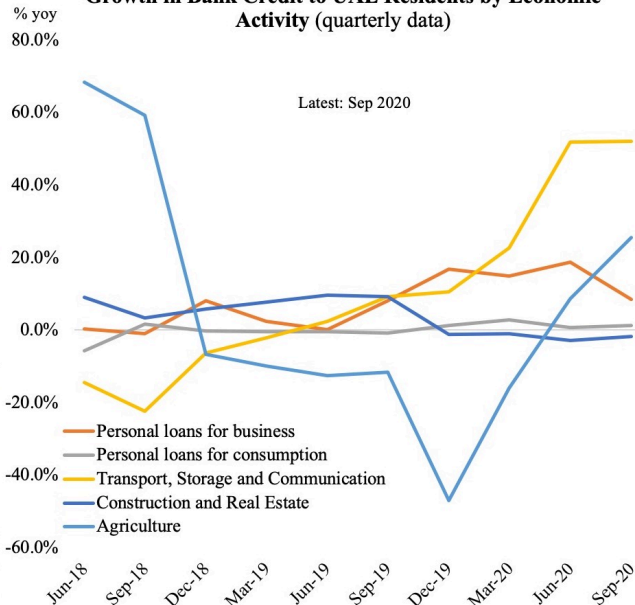
- **More than 2/3-rds of UAE banks' loans went to the private sector** (69.4% as of Nov 2020 vs. 76% in end-2018 & 72% in end-2019), while public sector & government together account for ~30% of all loans in Nov 2020 (vs. 25% a year ago)
- However, the overall **pace of lending** to GREs (+23.2% yoy 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 28 Jan 2021

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

### 1. Global Recovery in 2021, albeit divergent & uncertain

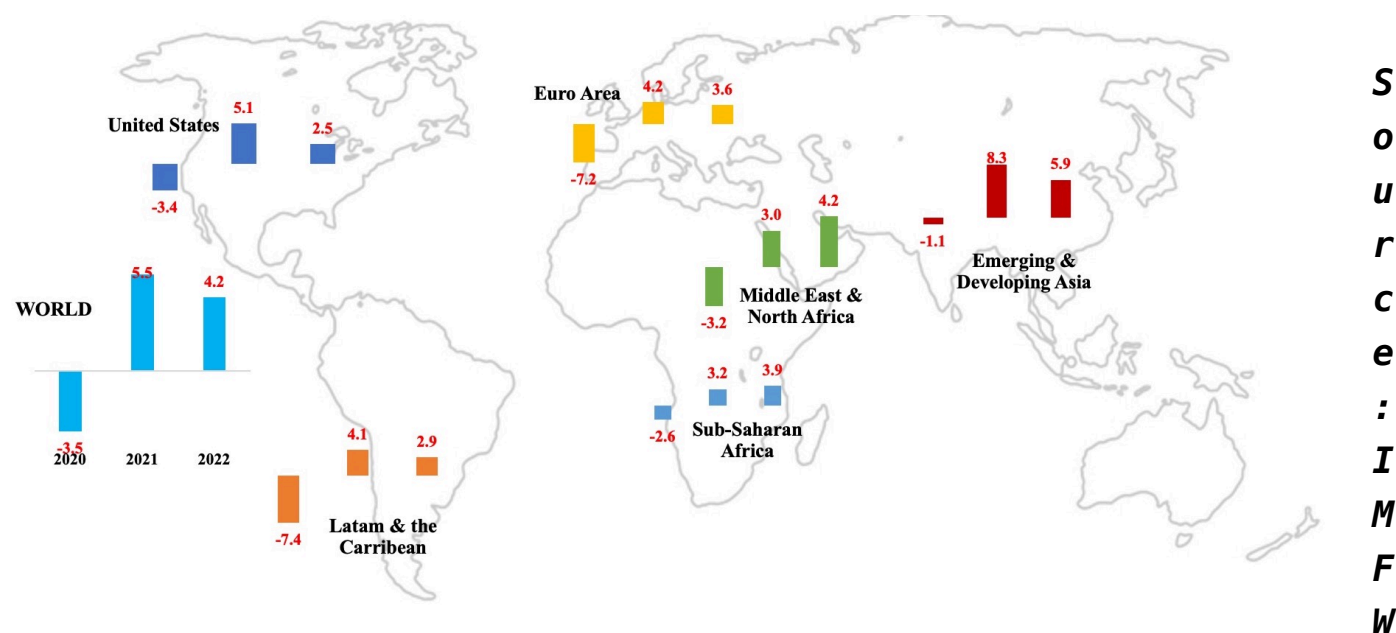
The IMF, in its latest World Economic Outlook update, forecasts global recovery at 5.5% this year and 4.2% in 2022, from a contraction of 3.5% in 2020. There is a divergence in recovery: advanced nations, where growth plunged by 4.9% last year, will recover at a slower 4.3% while emerging markets recover at a faster 6.3% in 2021 (2020: -2.4%). Much of the emerging market recovery is thanks to the effective



containment of Covid19 in China and many of the South-east Asian nations. The growth estimates are based on continuing policy support (and its effectiveness) and roll-out of vaccines (though its pace and logistics issues are identified as a concern) and “supportive financial conditions” (thanks to major central banks’ maintaining current policy rates through to 2022).

While over 150 economies are expected to have their per capita incomes below the 2019 levels in 2021, the projected cumulative output loss over 2020–2025 is forecast to be USD 22trn (relative to the pre-pandemic projections).

**Fig 1. Global economic growth set to recover by 5.5% this year**

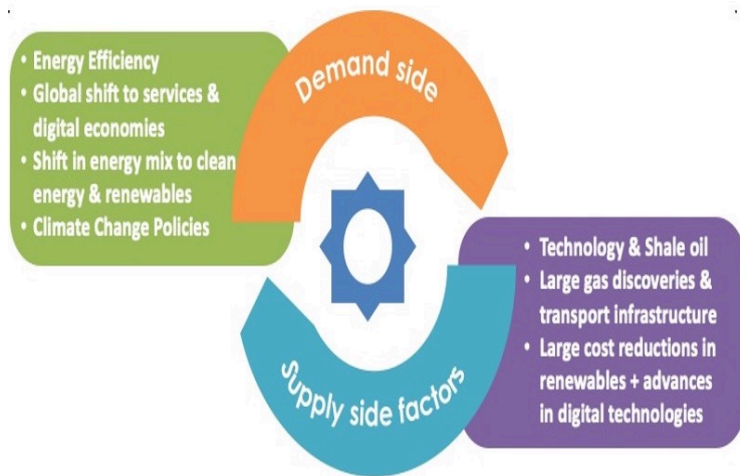


### **World Economic Outlook, Jan 2021**

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

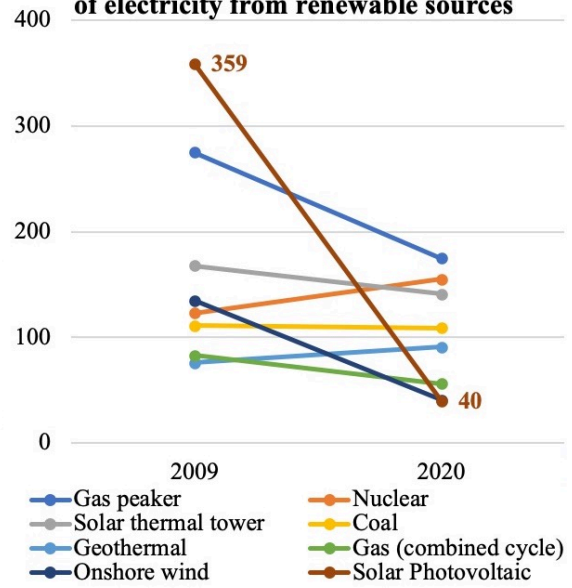
that are likely to keep oil prices within the USD 50-55 mark (Figure 2).

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



Source: Nasser Saidi & Associates

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

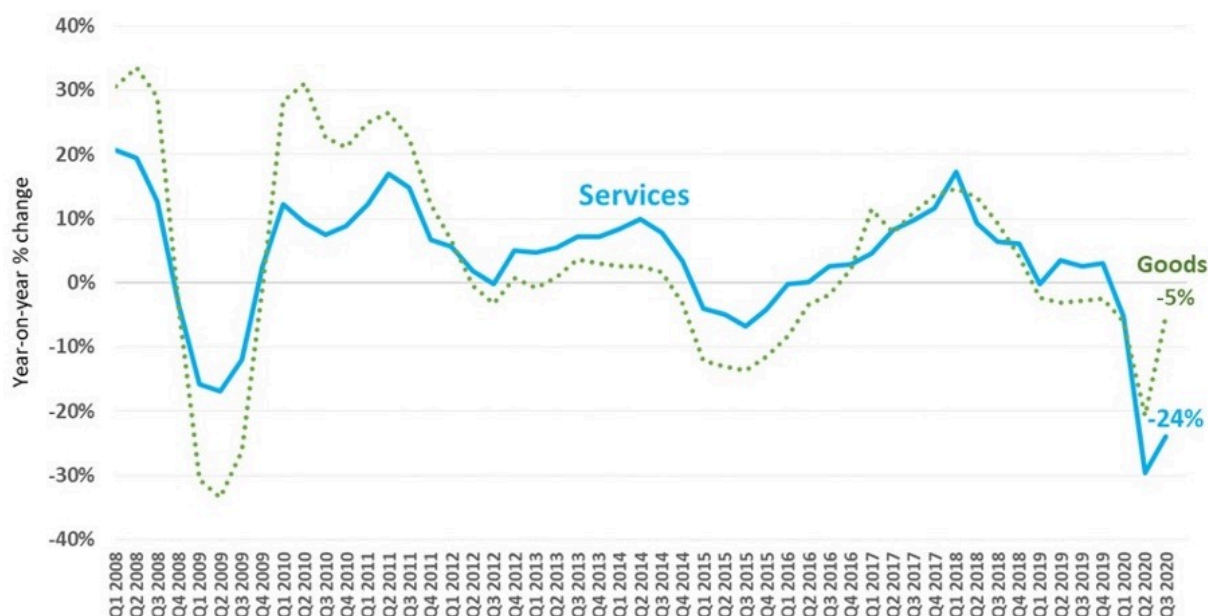


Source: Lazard Levelized Cost of Energy Analysis 2020; Chart created by Nasser Saidi & Associates

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

## 2. Services trade continues to drag

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



Source: WTO, Jan 2021

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

### 3. Labour market recovery in 2021?

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

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

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

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

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

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

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

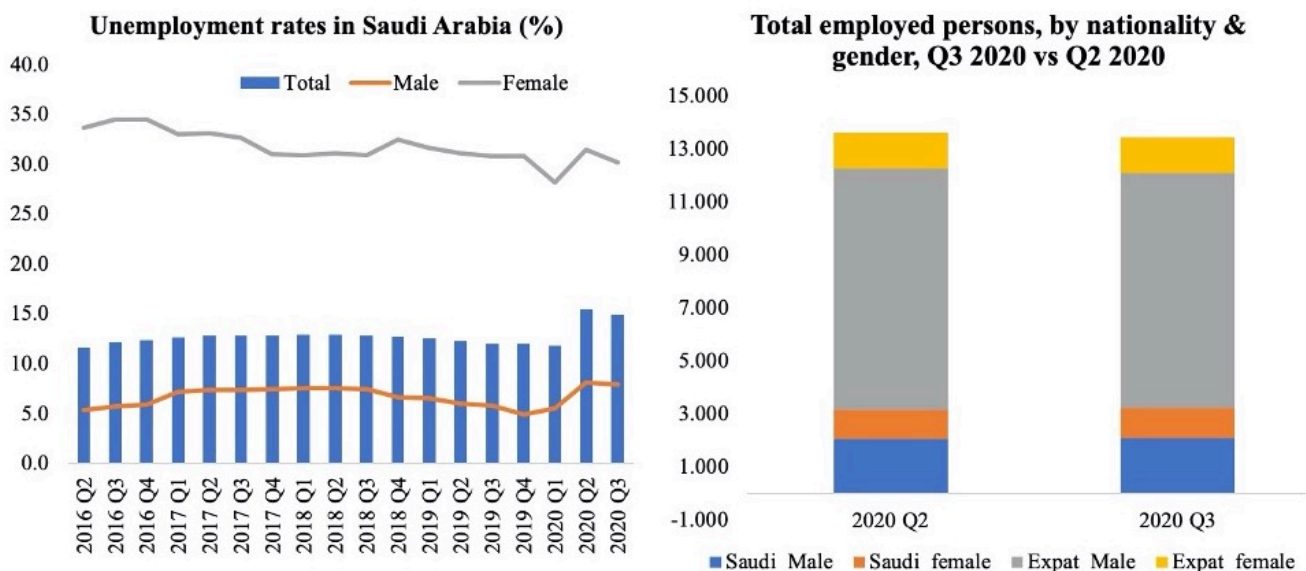
#### **4. Employment in Saudi Arabia**

Separate data releases from Saudi Arabia give us an insight into employment trends in the country, which can be explained

by a combination of Covid19, travel restrictions and Saudization policies:

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

**Fig 6. Labour force indicators in Saudi Arabia**



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

hand, the country has an aim to support female employment (an objective within the Vision 2030 document is to raise women's participation to 30% by 2030), there seems to be a major disconnect: female employment in the private sector is less than 10% of total, and the additional hurdles – like costs of employing women (separate floors/ work areas from the male

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counterparts), social customs, technical skills (focus on degrees in education, humanities) – may be putting off prospective employers.

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

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

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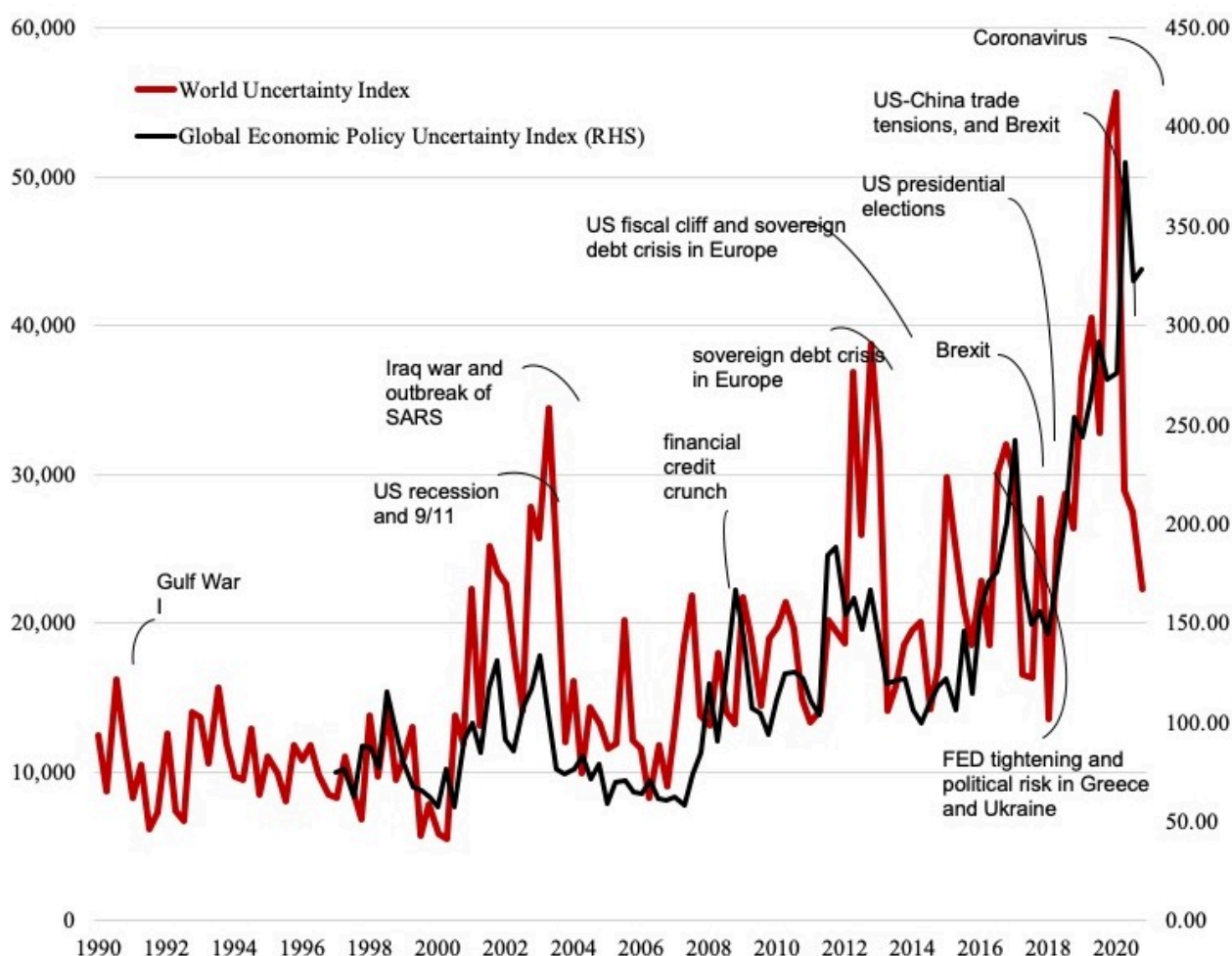
## Weekly Insights 21 Jan 2021:



# 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://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**

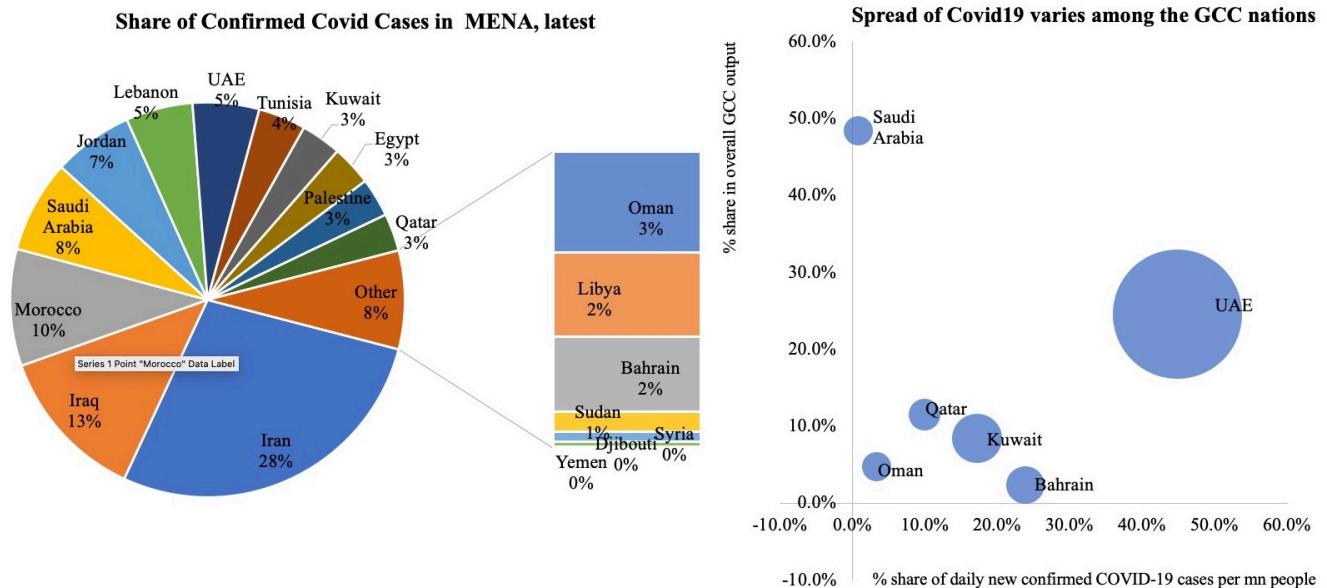


*Source: World Economic Forum Global Risks Perception Survey 2020*

## 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



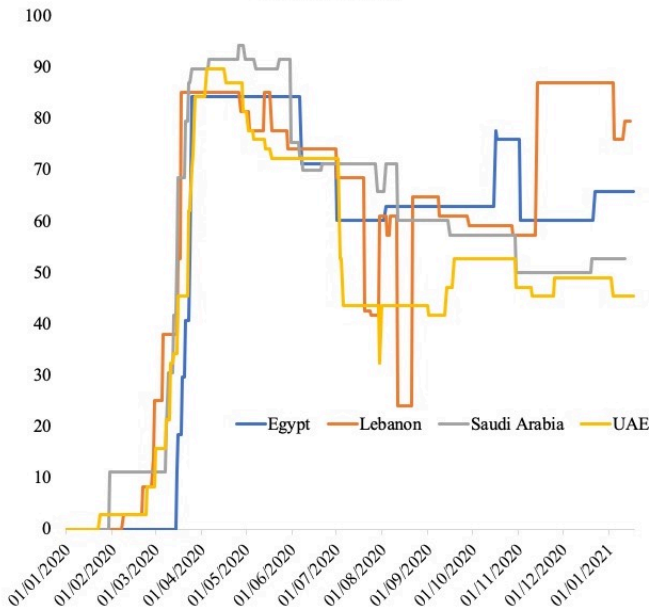
Source: Our World in Data, IMF, Nasser Saidi & Associates. Note: The size of the bubble indicates the 7-day average of daily increase in cases

**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

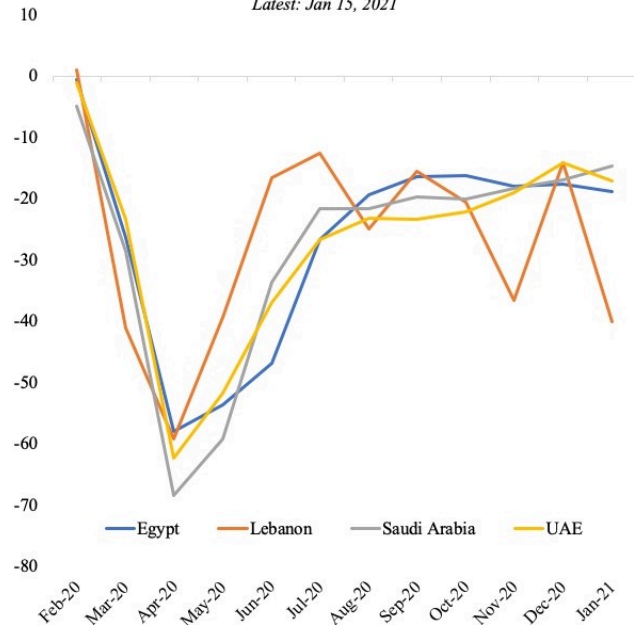
Covid19 Government Response Stringency Index

Latest: Jan 17, 2021



Retail &amp; Recreation Mobility (monthly averages)

Latest: Jan 15, 2021



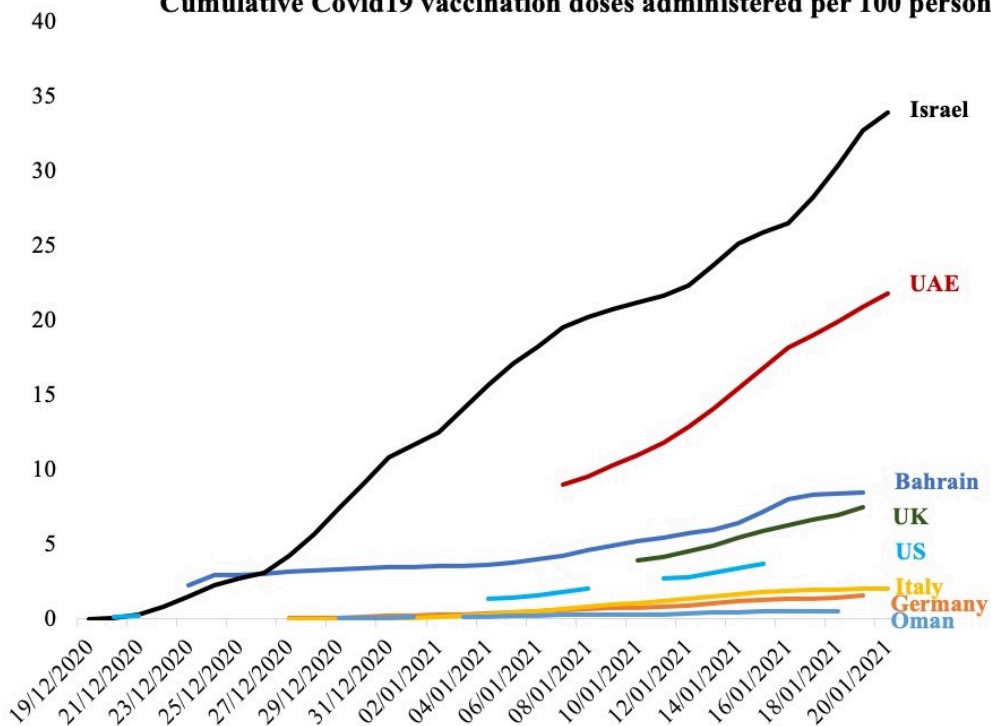
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, Google Mobility Indicators, Nasser Saidi & Associates

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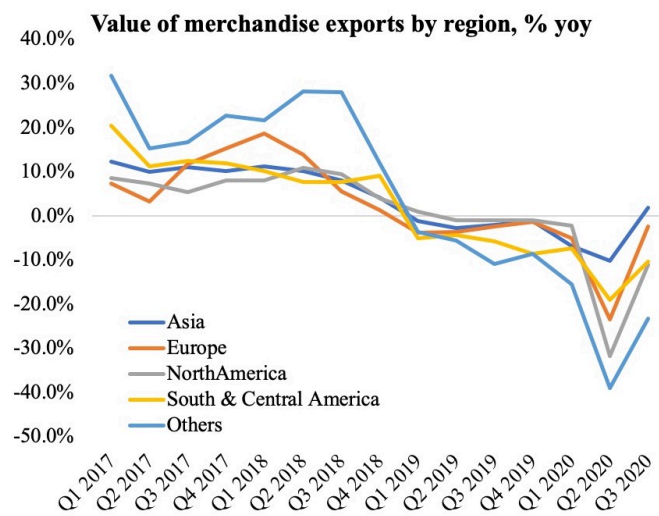
# **Weekly Insights 14 Jan 2021: Trade, Tourism & the Global Vaccination Drive**

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

## **1. Trade recovers in Q3; services trade lags**



**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.



Source: WTO database, Nasser Saidi & Associates



Source: IHS Markit, CPB World Trade Monitor

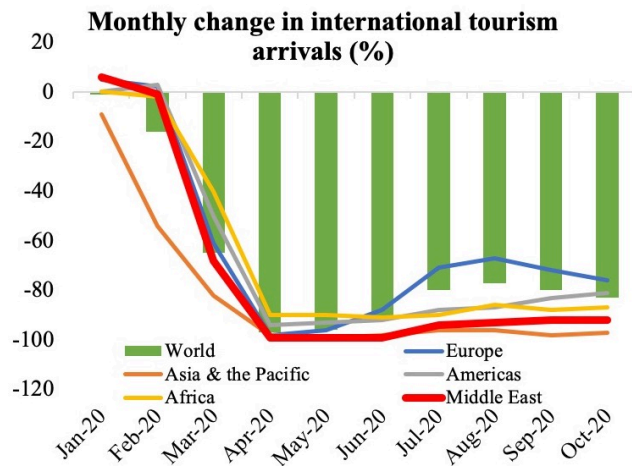
**export orders growth** – a leading indicator for trade activity – slowed in December, according to the latest global manufacturing PMI, and was linked to intensifying supply chain delays. The most cited response for delays amid rising demand was the **lack of shipping capacity/shortage of containers**.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

This week, the WTO launched a new dataset along with the OECD tracking **bilateral services trade of over 200 economies**. The chart shows that the share of intra-regional trade in services is low in Africa (7%), South & Central America (12%) and the Middle East (13%). Unfortunately, since no bilateral services transactions are reported by African or Middle Eastern economies, it is difficult to gauge the underlying factors



leading to this situation. The decline in services trade was significant in 2020 given restrictions on international travel and related drop in tourism revenues.

## 2. Tourism woes continue globally; Middle East significantly affected



Source: UNWTO, Nasser Saidi & Associates

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

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

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

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

Source: UNWTO, Nasser Saidi & Associates

**Tourism Recovery Indicators: Middle East**

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

Source: UNWTO, Nasser Saidi & Associates

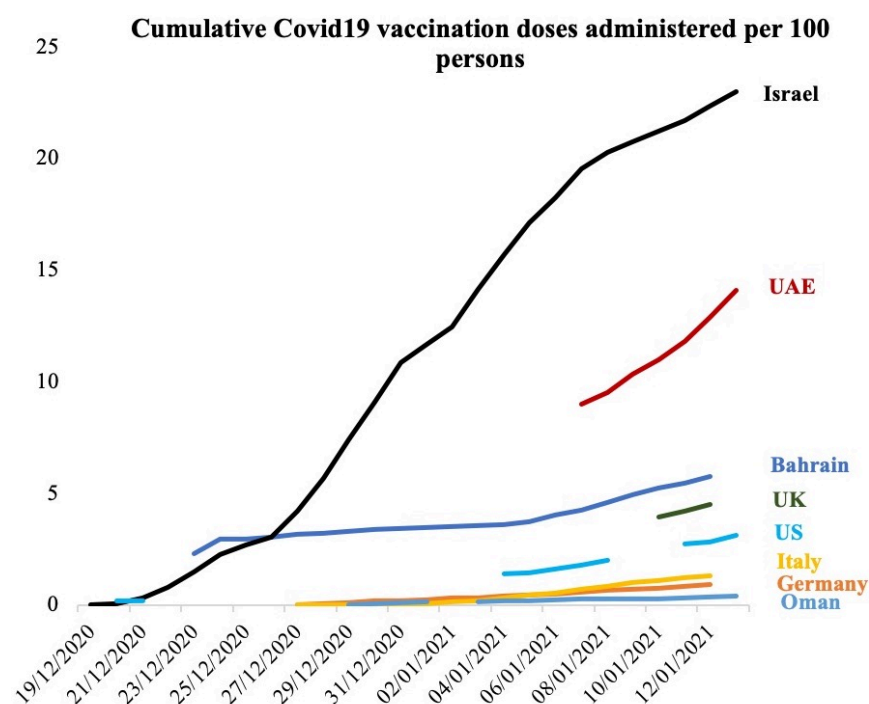
occupancy rates in the region have improved towards the end of 2020, with residents opting for staycations than international travel given restrictions. Egypt reopened international tourist flights to three governorates (including Red Sea) last Jul: overall, the country welcomed 3.5mn tourists last year, 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 12<sup>th</sup> of Nov) resulted in an acceleration in bookings, with the **Dubai-London Heathrow travel corridor revealed as the busiest international air route globally in the first week of January**. Interestingly, Cairo-Jeddah was the second most popular route. With the rollout of vaccines, and nations heading towards achieving herd immunity, the latter half of this year might see a pickup in air travel and tourism: this should also support Dubai's Expo event scheduled to start in Oct 2021 and Qatar's 2022 FIFA World Cup.

### 3. The Global Vaccination Drive picks up

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



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

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

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

Given the data, UAE's aim to vaccinate 50% of the population

by end-Q1 does not seem far-fetched. The faster the vaccination drive, the greater relaxation of quarantine rules, higher the number of travel corridors (“immunity passports”) and UAE could become one of the top tourist destinations globally. **One step further, and if the nation manages to achieve herd immunity, could the nation also aspire to become a “vaccine tourism” hub? (setting aside the ethical aspect).** Furthermore, with UAE also planning to manufacture the Sinopharm vaccine, the potential for Abu Dhabi/ Dubai as vaccine manufacturing and distributing hubs is rising (with the international connectivity of its Etihad and Emirates airlines).

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

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## **Weekly Insights 7 Jan 2021: UAE's silver linings – has**

# the country turned a corner?

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

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

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

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

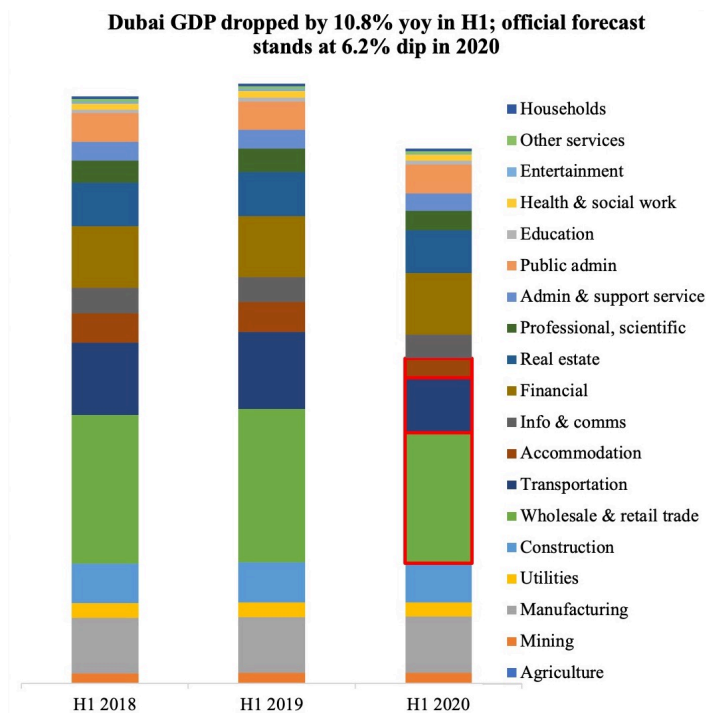
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recent surge in Covid19 cases, the 12-month outlook improved on optimism around the vaccine rollout. However, the UAE's announcement of the rollout of Sinopharm vaccine in early-Dec seems to have had little impact on the year-ahead outlook, with business activity expected to remain flat over 2021 (survey responses were collected Dec 4-17) and job losses continuing to fall at an accelerated rate.

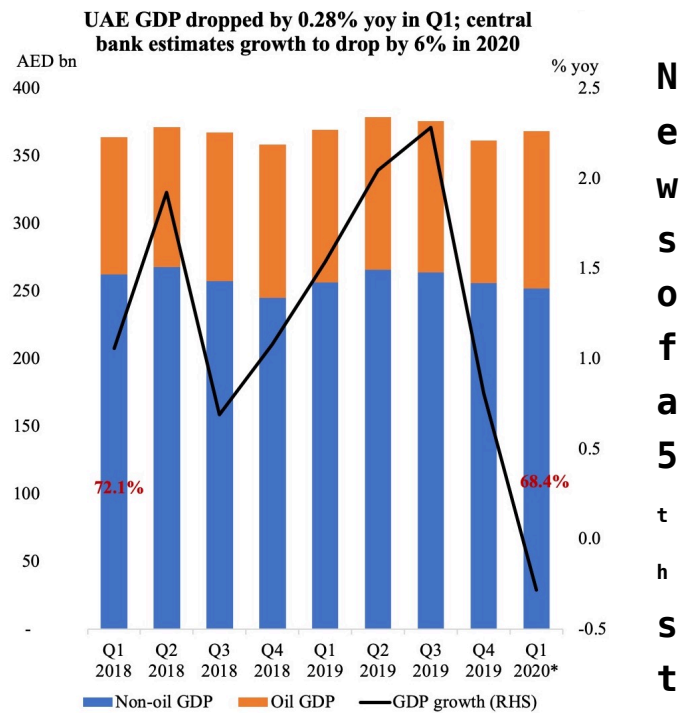
## **2. Covid19 & impact on Dubai & UAE GDP**

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





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



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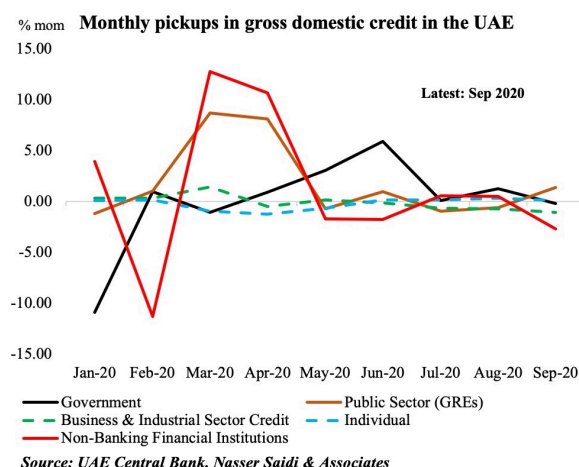
**ulus package worth AED 315mn** (announced on 6<sup>th</sup> Jan) for Dubai – an extension of some incentives till Jun 202, refunds on hotel sales and tourism dirham fees, one-time market fees exemption for establishments that did not benefit from reductions in previous packages and decision to renew licenses without mandatory lease renewal among others – **will support growth this year, as well as the uptick from Expo 2021** (based on widespread vaccinations across the globe and potential resumption of air travel by H2 this year). With plans to inoculate 70% of the UAE population by 2021, we remain optimistic about UAE/ Dubai prospects subject to the effective implementation of the recent spate of reforms (including the 100% foreign ownership of businesses, retirement & remote working visas etc.) as well as embracing new and old synergies – Israel and Qatar respectively. Medium-term prospects can be further enhanced by accelerating decarbonization and digitisation – [read a related op-ed published in Dec.](#)

### 3. UAE credit and SMEs

The UAE central bank has extended support to those persons and businesses affected by Covid19 by launching the **Targeted Economic Support Scheme**, which is now extended till Jun 2021.



Overall credit disbursed till Sep 2020 was up 2.9% yoy and up 1.2% ytd: but during the Apr-Sep 2020, the pace of lending to GREs (+22.7% yoy) and government (+19.6%) have outpaced that to the private sector (-1.0%).



**Table: Bank lending to MSMEs in the UAE**

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

Source: UAE Central Bank, Nasser Saidi & Associates

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

Source: UAE Central Bank, Nasser Saidi & Associates

**in a difficult period for MSMEs** (Micro, Small and Medium Enterprises): the number of MSMEs declined by 8.5% qoq in Sep 2020, following an uptick of 3.9% qoq in Jun 2020, signaling deteriorating business conditions that may have forced such firms to close. This also suggests a potential increase in NPLs once the current banks' support (e.g. deferring loan periods) come to a close. Overall domestic lending also fell by 0.9% qoq as of Sep 2020. The largest share of loans within the MSME sector continues to be to the medium-sized firms (57.3%) and about 1/3-rd to the small enterprises. Considering the amount disbursed per firm, medium enterprises pocketed AED 1.8mn in Q3: this is 3.4 times the amount disbursed per small firm and 5.3 times the amount disbursed to microenterprises. **SMEs also need to think beyond the financial pain point to survive in the post-pandemic era.** In addition to reducing/streamlining operational costs<sup>[1]</sup>, 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
<b>Share of Qatar's exports to</b>					
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%
<b>Share of Qatar's imports from</b>					
Oman	1.1%	1.2%	2.5%	3.1%	3.4%
Saudi Arabia	4.3%	4.3%	2.1%	0.0%	0.0%
United Arab Emirates	8.8%	9.1%	5.5%	0.2%	0.1%

*Source: UN Comtrade, Nasser Saidi & Associates*

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

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

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

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

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

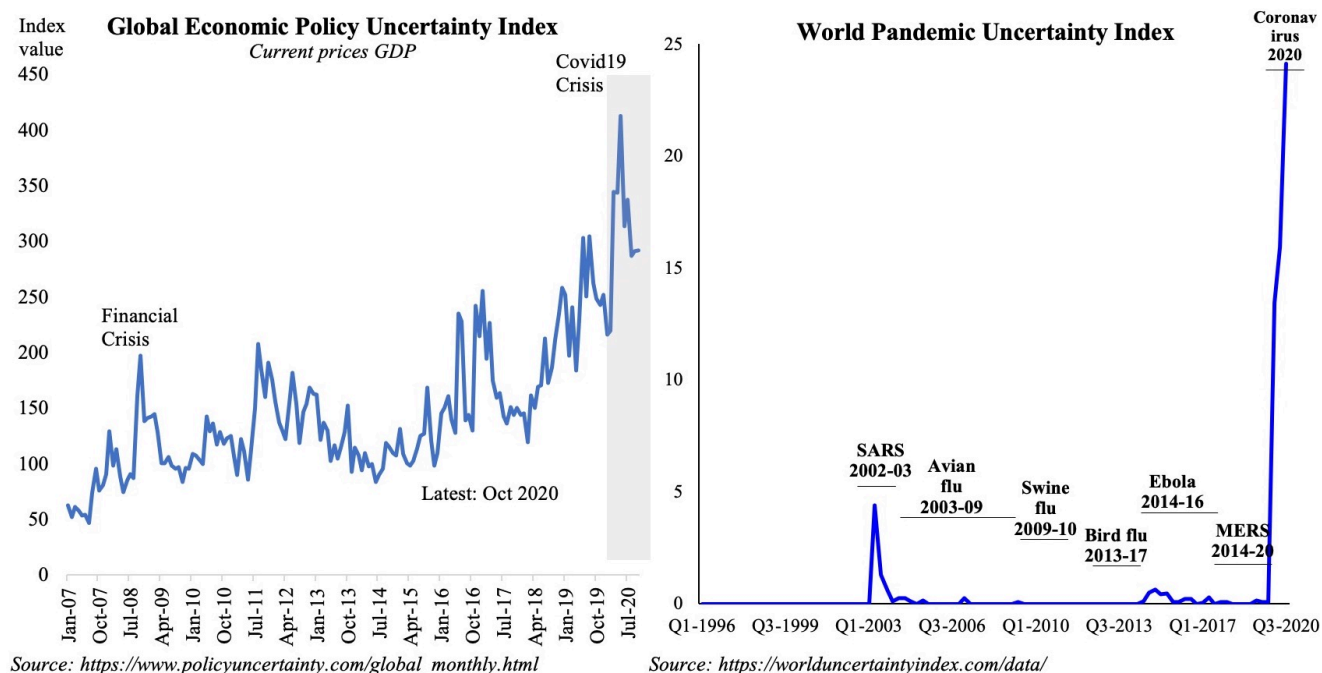
*Download a PDF copy of this week's insight piece [here](#).*

## Chart 1: Uncertainty in the time of Covid19

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

Policy Uncertainty has been severely high this year, when compared to the global financial crisis or Brexit referendum or the US-China trade war phase. With fiscal and monetary responses continuing to support economies, care should be taken to **ease the withdrawal of support in the future.**

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



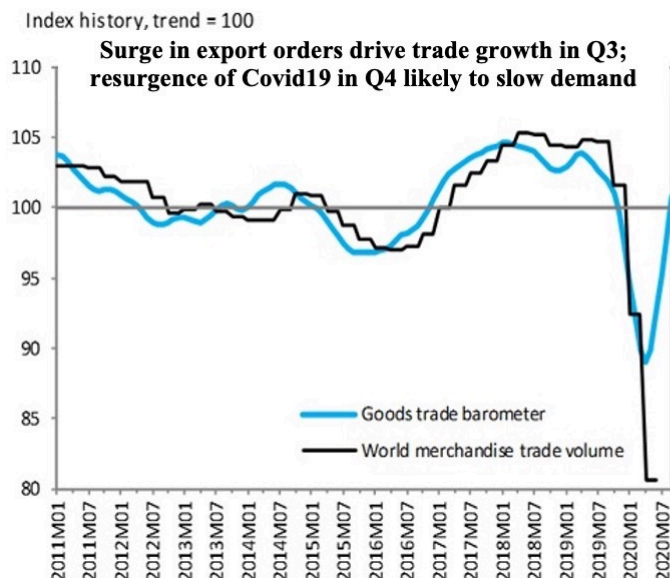
## Chart 2: Trade bounced back in Q3, but will the current surge lead to another drop? Tourist Arrivals remain dismal

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

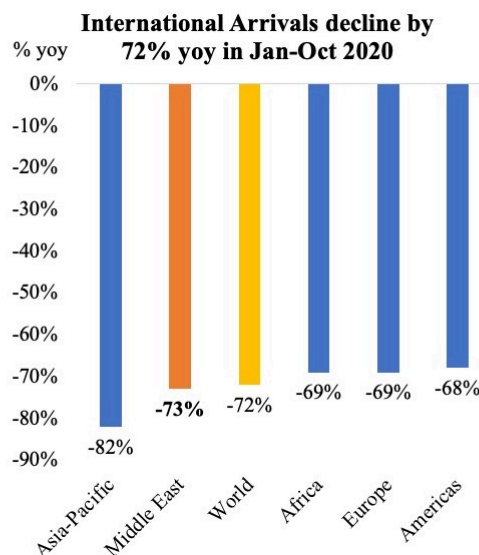
Meanwhile, **thanks to the recovery in new export orders**, both shipping & cargo indicators are turning positive.

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

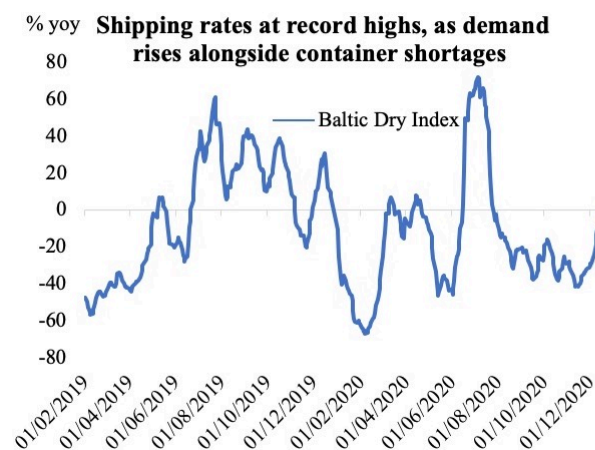
Tourism remains unlikely to recover to near pre-pandemic levels till vaccines reach a substantial proportion of global population. Prior to the recent surge in cases, **domestic tourism (& therefore air travel) had picked up in Europe and Americas**.



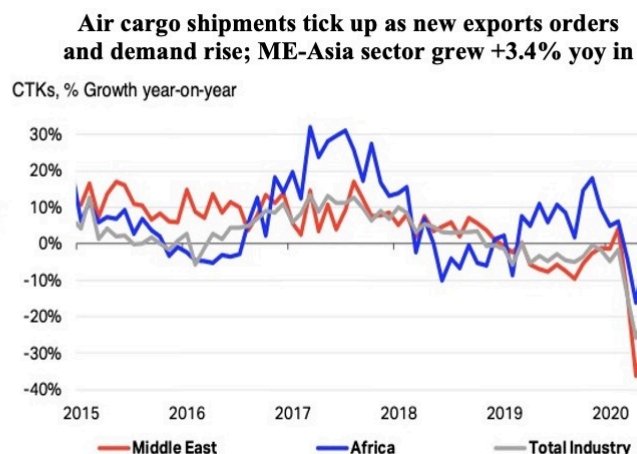
Source: WTO Trade Barometer, Nov 2020



Source: World Tourism Organisation (UNWTO)



Source: Refinitiv Datastream, Nasser Saidi & Associates



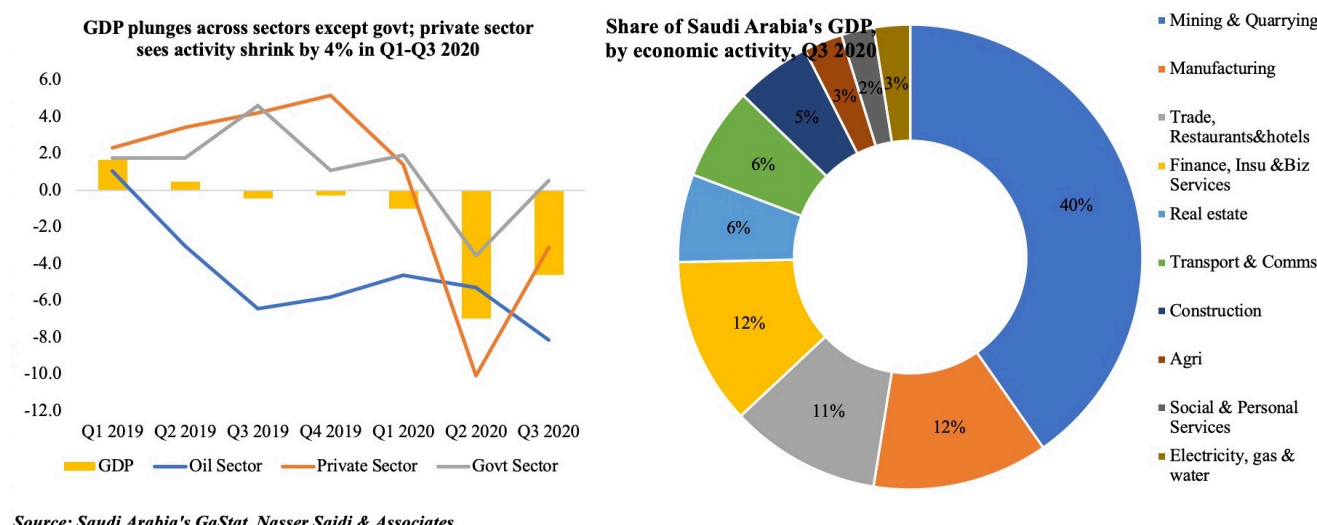
Source: IATA Economics

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

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

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

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



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



# Saudi 2021 Budget

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

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

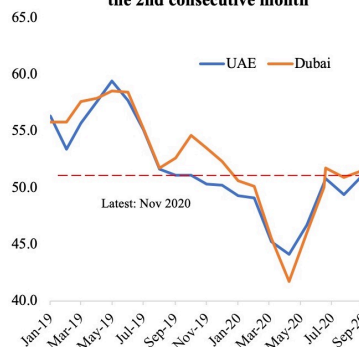
Though **UAE is one of the more "open" economies across the Arab world** (in the Covid19 era), the PMI readings in both UAE and Dubai stayed below the 50-mark for two consecutive months. Vaccine exuberance seems to have been overshadowed by the decline in business, as business expectations turn negative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

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

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

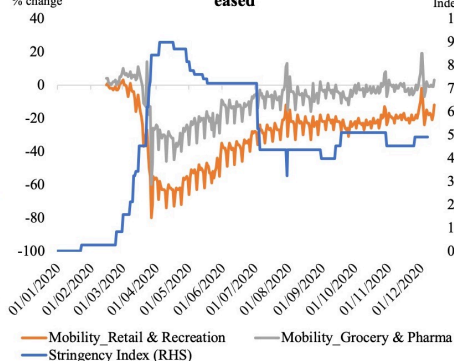
Mobility data from Google shows the **pace of recovery at grocery and pharmacy stores was much faster than that for the retail and recreation outlets** (restaurants, cafes, malls, theme parks etc); **congestion levels are still about 33% below 2019 levels**, though certain days in Nov-Dec showed positive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

UAE and Dubai PMIs stay below 50 for the 2nd consecutive month



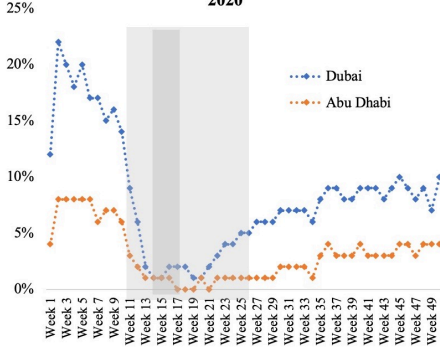
Source: Refinitiv Datastream, Nasser Saidi & Associates

Activity picks up in the UAE as restrictions are eased



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

Average congestion levels for each week in 2020

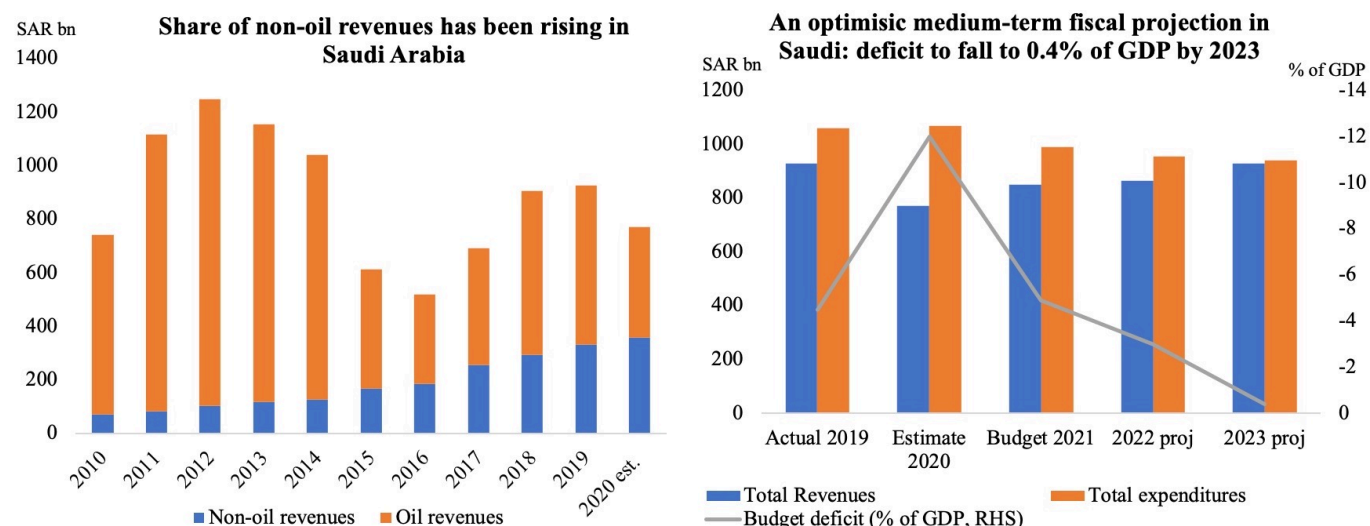


Source: TomTom Traffic Congestion Index, Nasser Saidi & Associates. Grey areas indicate Covid19 restrictions & darker grey the more severe weeks.

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

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

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



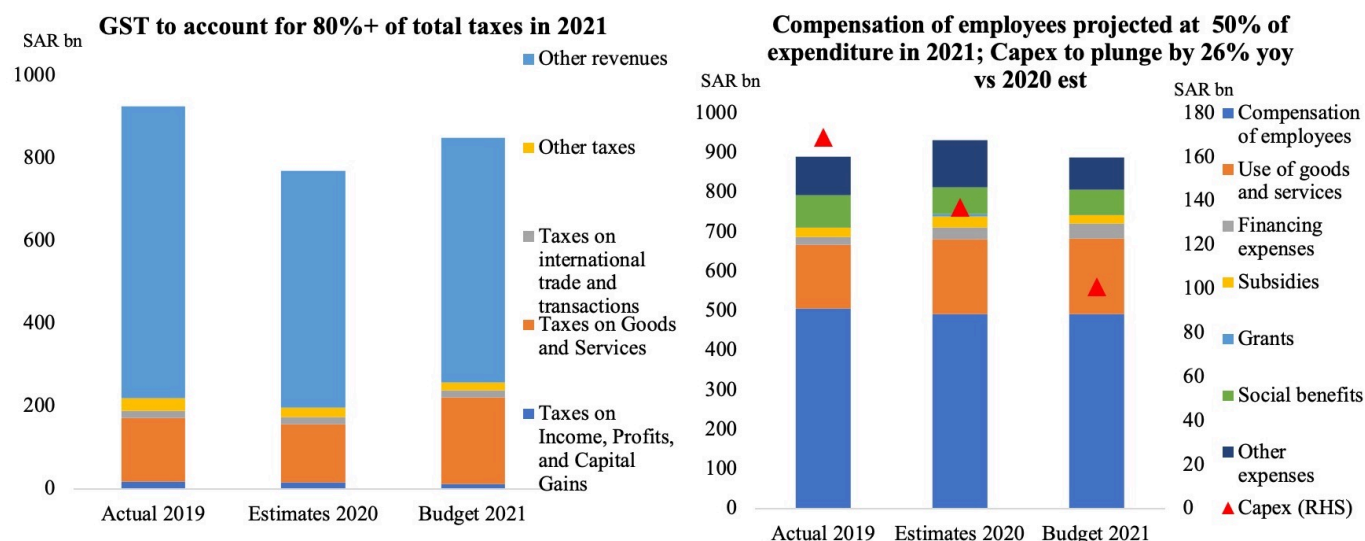
Source: Ministry of Finance, Saudi Arabia, Nasser Saidi & Associates

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

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

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

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



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

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

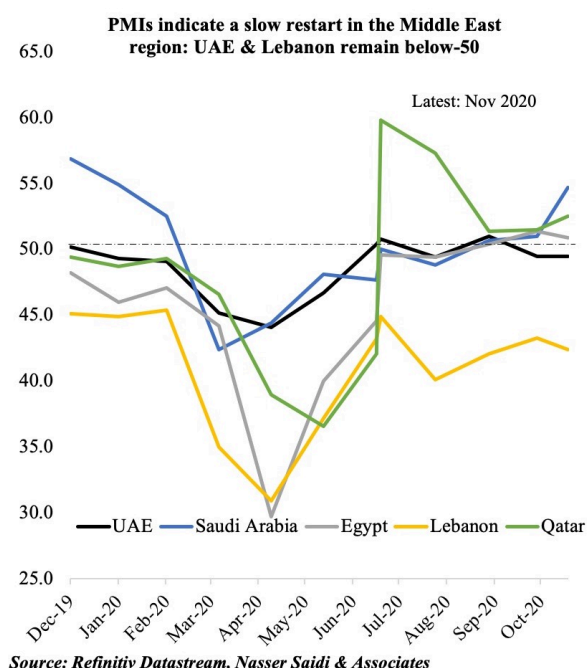
*Download a PDF copy of this week's insight piece [here](#).*

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

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

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

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



Heatmap of manufacturing PMIs

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

Source: Refinitiv Datastream, Nasser Saidi & Associates

Chart 2: Will v

## accines signal a recovery and rescue the airline industry?

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

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

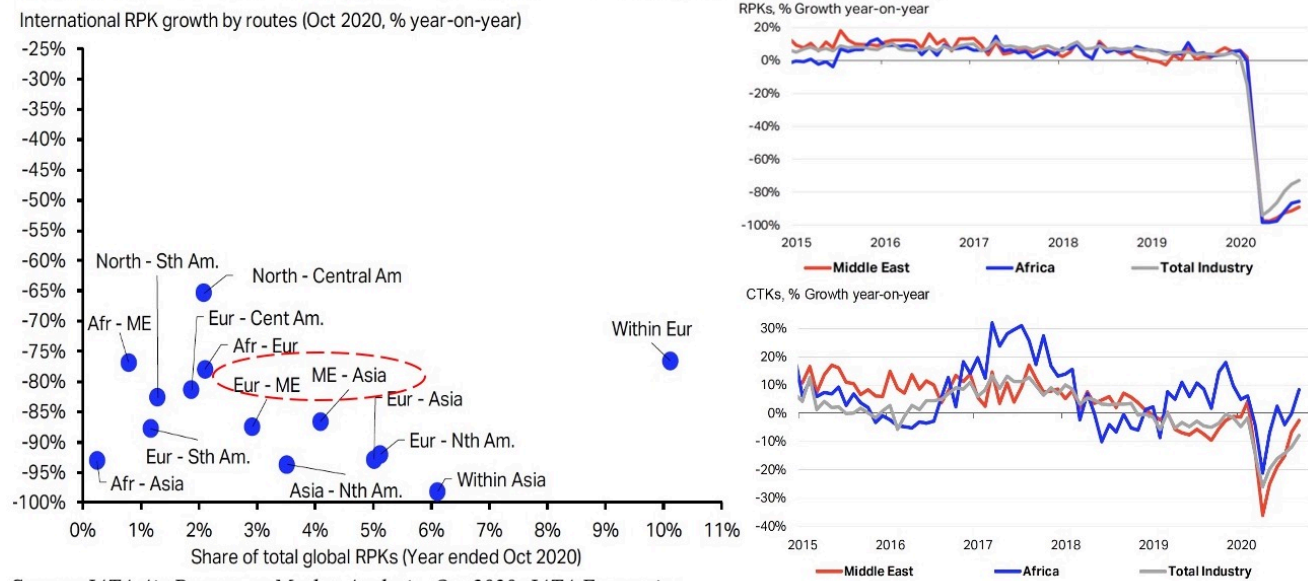
However, **the success of the vaccine distribution is also dependent on the last mile delivery hurdles and vaccine storage facilities.**



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

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

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

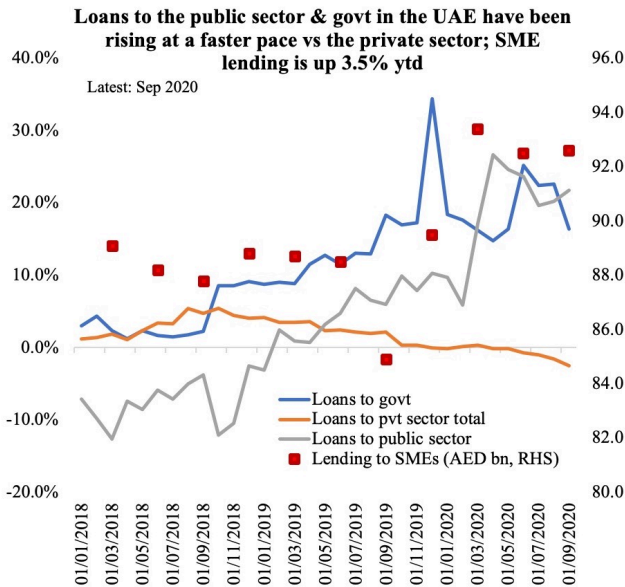


## edit in the UAE

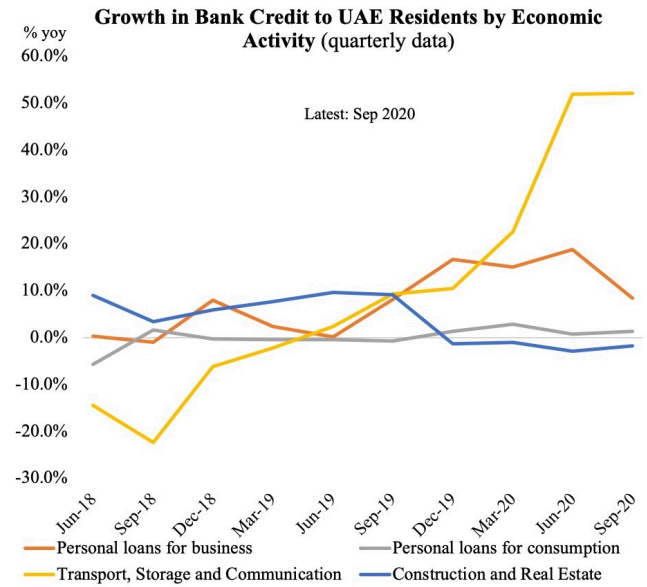
The UAE central bank extended its **Targeted Economic Support Scheme** (Tess) for another six months until June 30, 2021

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

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



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

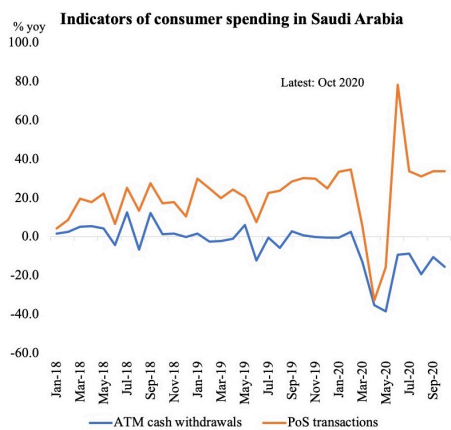


## Indicators of economic activity in Saudi Arabia

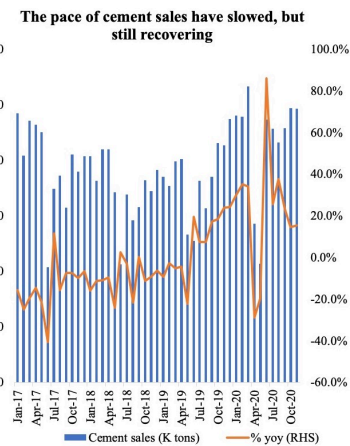
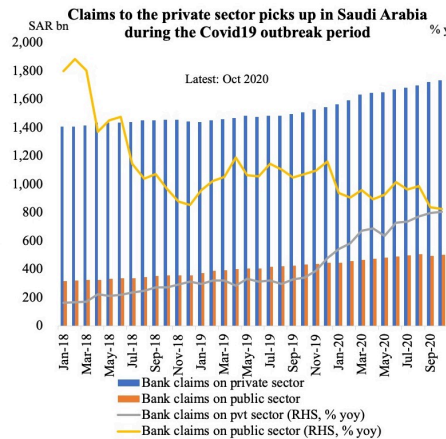
Among the proxy indicators for **consumer spending** – ATM withdrawals and PoS transactions – the latter is picking up faster, supported by transactions in food and beverage (+28.9% during Jan-Oct 2020) and restaurants and cafes (+68.9%); in comparison, transactions at hotels are down by 33%. ATM transactions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

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

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



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



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# "Post-Coronavirus Economy: Trajectories of Global Order": Panelist at Abu Dhabi Strategic Debate, 11 Nov 2020

Dr. Nasser Saidi joined as a panelist in the session titled "Post-Coronavirus Economy: Trajectories of Global Order", at the Seventh Annual Abu Dhabi Strategic Debate organised by the Emirates Policy Centre on 11th November 2020.

The session discussed two broad questions: *How long will COVID-19 continue to affect global economy? How will COVID-19 change the global economy in the future?*

Dr. Nasser Saidi, the Founder and President of Nasser Saidi & Associates, stated that the global economy is being hit by higher uncertainty as global production has dropped by 4.5 percent, global labour income is estimated to have declined by

11 percent and direct foreign investments have fallen by 15 percent at a minimum in the first half of 2020.

“It is important to realise that world top technology companies such as Amazon, Apple, and Microsoft have developed into major powers in the global arena. The COVID-19 pandemic has demonstrated the need for bridging the digital gaps between various countries and the need for addressing internal divisions in these countries themselves,” he added.

Watch the full session below:

A summary of the event can be accessed at:

<https://wam.ae/en/details/1395302885959>