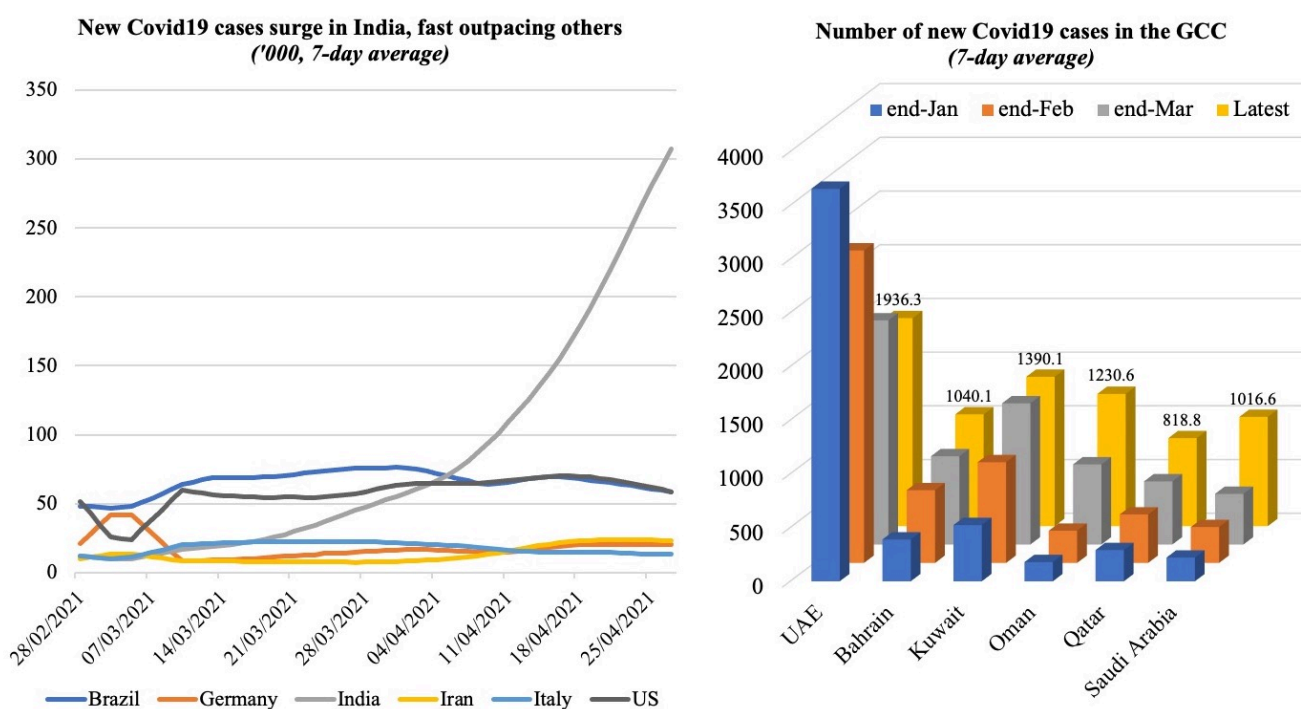


# Weekly Insights 29 Apr 2021: India's exponential rise in Covid19 cases – spillovers into the UAE?

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

## 1. As cases continue to surge in India, pace of global recovery comes into question



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

- **India reported the highest-ever single day cases on Wednesday, at 379,257 & continues to account for almost half the rise in global Covid19 cases.** Concerns about the accuracy of these statistics notwithstanding, it is worrisome that more than 20% of tests are coming positive and that the crumbling healthcare infrastructure (in many states) is leading to around 3k deaths per day!
- **Given India's linkages with the global economy (trade, labour & investment flows), it is not surprising that**

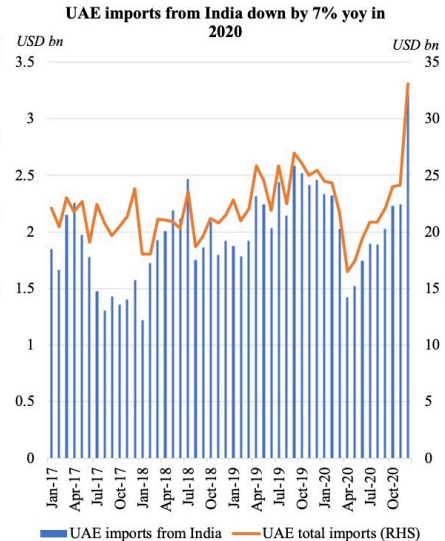
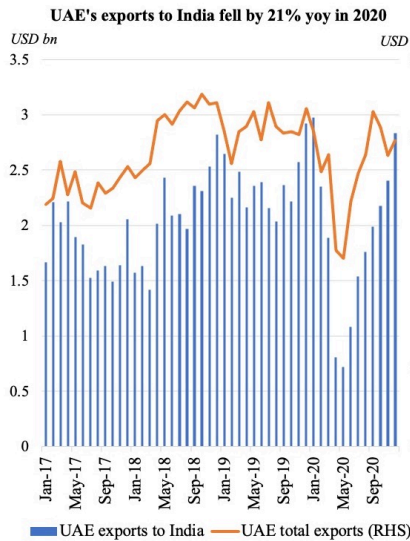
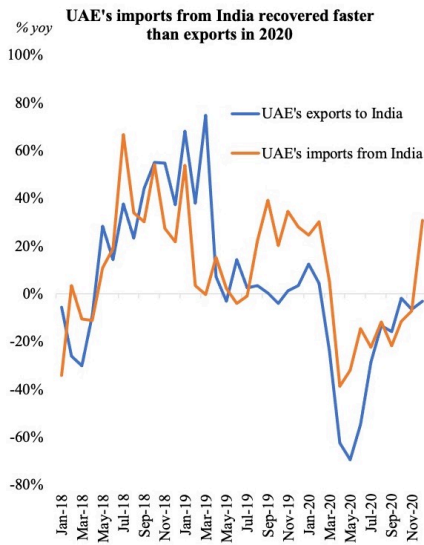
**emergency supplies are coming in from across the globe to contain the spread**; US relaxed its previous ban on exports of raw materials for vaccines.

- Meanwhile, **GCC nations (except the UAE) have seen a steady uptick in cases from the beginning of this year**; UAE's numbers though are still the highest among the lot. In terms of **new cases per million, Bahrain stands the highest (611) and Saudi Arabia the least (29)**, with Kuwait (326), Qatar (284), Oman (241) and the UAE (196) in between.

## **2. India-UAE Links: Trade & Investment**

- **UAE has developed strong links with Asia, and especially India**, over time. A prolonged slowdown in the Indian economy is likely to spillover into UAE's growth.
- First off, trade links: **bilateral trade was around USD 60bn in 2019**, though the Covid19 pandemic saw a decline in trade to USD 41.9bn (-30% yoy). Imports from India recovered much faster than exports into the country after the slump during lockdowns last year. India was the UAE's second-largest trading partner (after China) during pre-Covid times.
- While **oil is a key traded commodity** – about 8% of India's oil imports are from the UAE – exports of precious metals, stones and jewelry remain significant. Indian food imports also have a significant part to play in UAE's food consumption.
- **A slowdown in India would hence affect trade significantly: oil demand** will decline with lower mobility; **higher cases would lead to lower economic activity** – i.e. negative impact on industrial production lowers exports of textiles, machinery products, lower levels of agricultural production implies less food imports from the country.
- Official figures for **Indian investment in UAE** are not

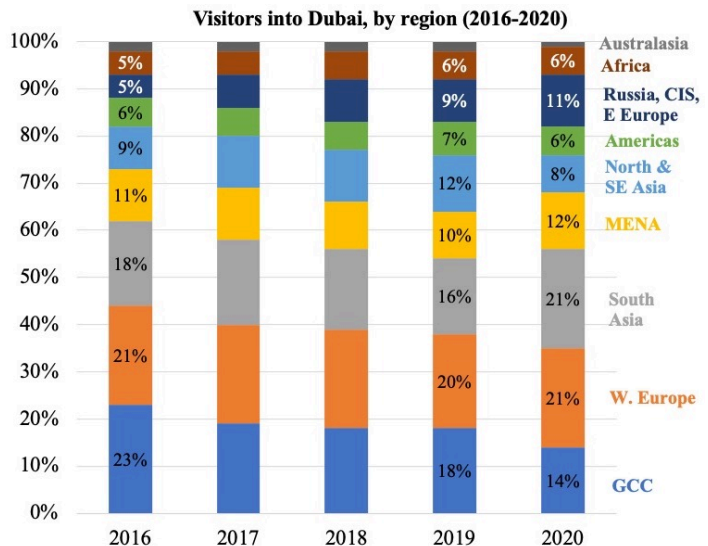
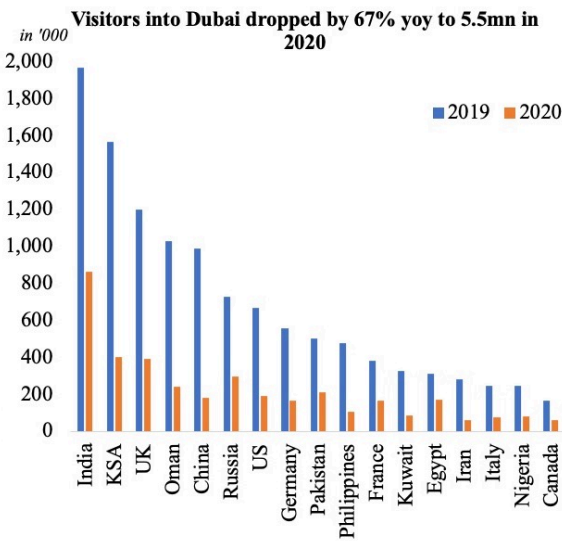
available: the Indian Embassy estimates it at around USD 85bn.



Source: IMF Direction of Trade Statistics. Charts created by Nasser Saidi & Associates

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## E links: Tourism

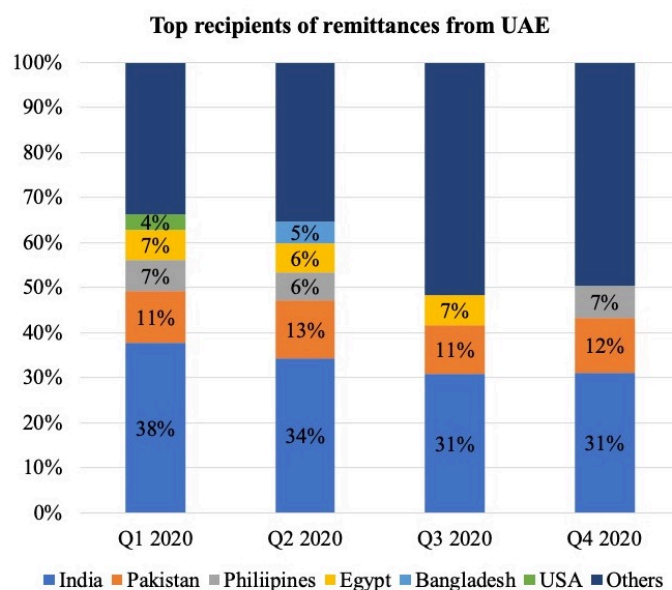
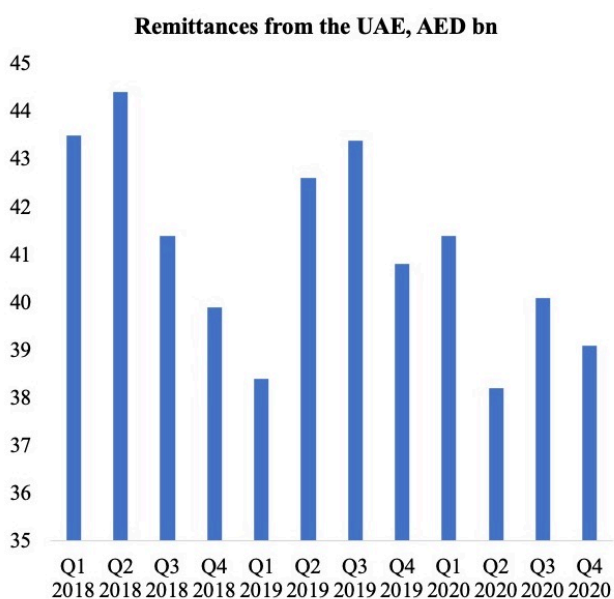


Source: Department of Tourism & Commerce Marketing. Charts by Nasser Saidi & Associates

- Prior to the Covid19 epidemic, **India was the largest source market for visitors into Dubai, attracting 1.97mn visitors out of a total 16.73mn.**
- Covid19 cut short most tourist travel for a significantly large part of the year, resulting in a 67% decline in tourists into Dubai. **India was still the largest source market for Dubai in 2020** – attracting 865k persons (-56% yoy) and South Asia retained its top spot as the largest source of visitors (21% of total).

- **Flights to the Indian sub-continent have been suspended since Apr 25 for 10 days**, and given the exponential rise in cases in India, an extension seems likely – about **300 commercial flights operated weekly in what is one of the busiest international travel corridors**. Newspaper reports suggest an uptick in enquiries for private jets to ferry stranded residents (similar to the lockdowns last year). Cargo operations are carrying on uninterrupted.

#### 4. India-UAE links: Remittances

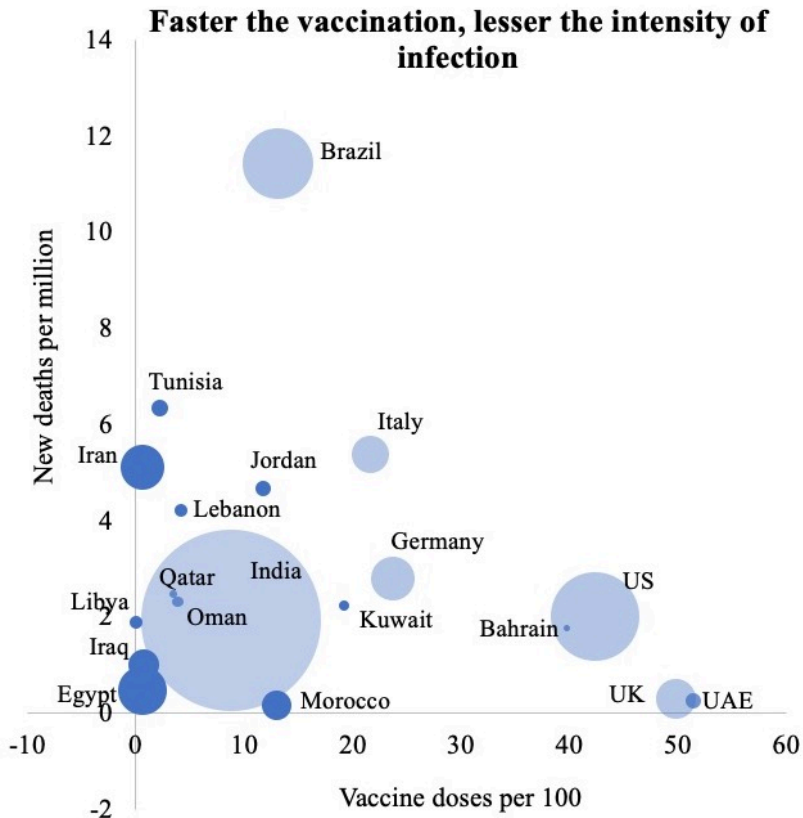


Source: UAE Central Bank. Charts by Nasser Saidi & Associates

- The **UAE-India migration corridor is one of the largest in Asia**: it stood at close to 3.5mn migrants in 2019. (Source: UN World Migration Report 2020). Indians account for around one-third of UAE's total population.
- **In 2020, total remittances from the UAE touched a total of USD 43.2bn** (-4% yoy). While Q1 saw a 7.8% uptick in remittances, Q2 saw the sharpest drop of 10.3%.
- **Remittances to India accounted for 33.5% of its total remittances last year** – maintaining its spot as the largest recipient of remittances from the UAE.
- As India goes into lockdown, it is possible that **UAE will see an increase in remittances to the country** as financial support for families in need. **A weaker Indian**

rupee would further support this pattern.

## 5. The economic case for vaccination



Source: Our World in Data. Chart created by Nasser Saidi & Associates  
Bubble size denotes size of the population

- The discovery of vaccines for Covid19 had brought a sense of consumer and business optimism. However, **with vaccine distributions underway, its pace is less than heartening in many nations.**
- **Israel and UAE have topped the lists in terms of vaccination rates.** There is confirming evidence from Israel of reduced transmissions as a result of the inoculations.
- As the chart on the right (focusing on MENA nations) shows, there is a **negative correlation between vaccination and infection rates.** Anecdotal evidence also suggests that an infection after the first dose of vaccine is much less likely to require hospitalization.
- **Unfortunately for India, the pace of vaccination has been very slow.** Less than 10% of the nation's residents received the vaccine, in spite of it being home to the

world's largest vaccine manufacturer (the Serum Institute).

- **The rapid pace of India's infections also calls into question its vaccine production and distribution channels:** the Serum Institute has not fulfilled its commitment to supply the AstraZeneca vaccine globally (to UK, EU and Covax), but is also planning to sell the vaccine to state governments and private hospitals in the country (at higher rates).
- In the MENA region, new deaths per million are low in the UAE (the leader in vaccine doses per 100 persons) while Iran has a long way to go. If Israel's results are to be emulated, **a coordinated effort should be underway to accelerate the pace of vaccination, resulting in faster return to higher economic activity.**

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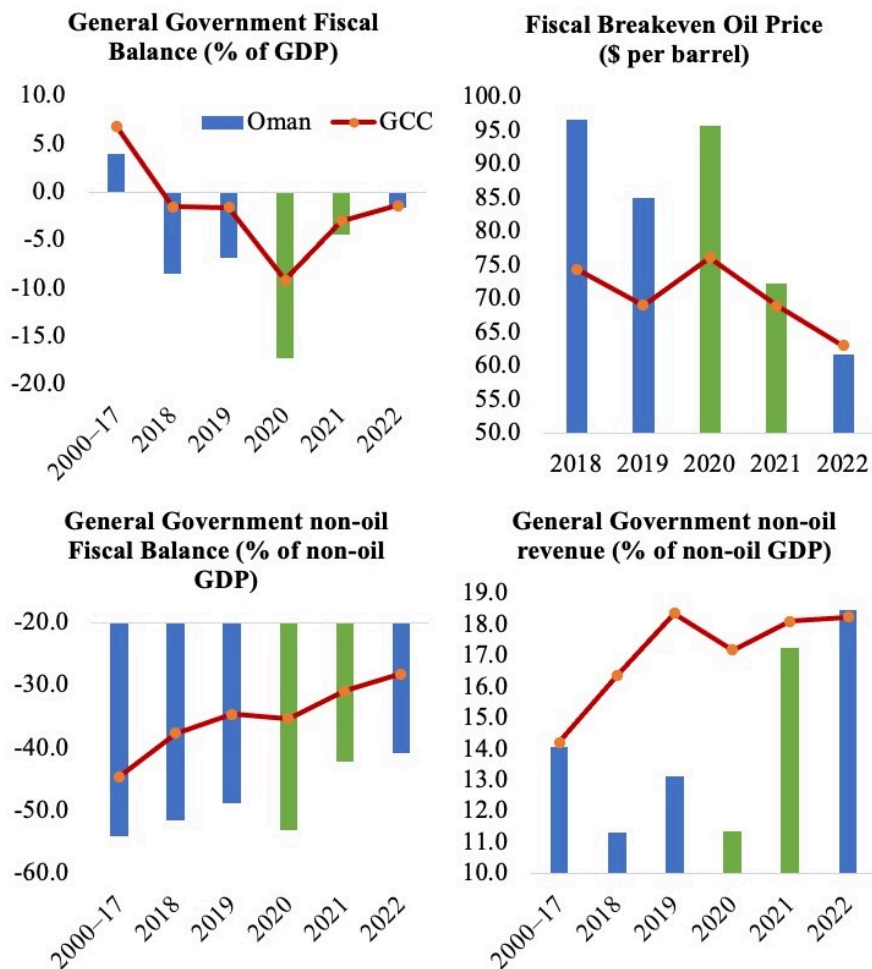


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## Weekly Insights 22 Apr 2021: GCC: Oil-dependence & Path to Climate Resilience

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

**1. Oman: 4th GCC nation to implement VAT**



Source: IMF Regional Economic Outlook, Apr 2021

- **Oman introduced 5% VAT** on most goods and services, **starting Apr 16**
- UAE and Saudi Arabia rolled out 5% VAT in 2018 & Bahrain in 2019
- According to Ministry of Finance estimates, **Saudi increased non-oil tax revenues to 32% in 2018** (vs just 10% in 2010), 36% in 2019 and estimated to rise to 46% in 2020 (given tripling of VAT)
- **UAE** collected AED 27bn in VAT in 2018 (1st year) & AED 11.6bn in Jan-Aug 2020 (pandemic year); **VAT revenues in Bahrain** touched BHD 260mn in 2019 and BHD 220mn in 2020.
- Oman's VAT is estimated to **generate ~OMR 400mn (USD 1bn) in revenue** annually, roughly ~1.5% of GDP (if effectively and efficiently implemented)
- As a result, the IMF projects **fiscal deficit to decline** to 4.5% of GDP in 2021 (2020: 17.5%) & **non-oil revenue to rise** to 17.2% of non-oil GDP in 2021 (2020: 11.4%)

- **This move will lead to** an improvement of Oman's sovereign credit rating + lower the cost of credit + attract more FDI & portfolio investment as a result of the ensuing reduction in macroeconomic risks

## 2. GCC's Diversification Efforts & Renewable Energy policies => Transition to a lower-oil dependent region

- **Unsustainable path of dependence on oil:** current oil demand vs supply, pressure on oil prices + current fiscal & social spending policies => fiscal unsustainability: GCC's aggregate net financial wealth (est. at \$2trn) could be depleted by 2034 (IMF)
- **Oil market structure & dynamics are changing**, given global energy transitions: pre-Covid19, shale & renewables were already displacing conventional oil
- Major **challenges** for the oil market (*non-exhaustive list*):

### –Demand-side factors:

- Gov't plans for sustainable recovery, ambitious **goals for net-zero emissions**
- **Covid19-led collapse in demand:** potential WFH policies & mobility, question marks over recovery of business/leisure air travel
- Energy efficiency improvements, EV penetration

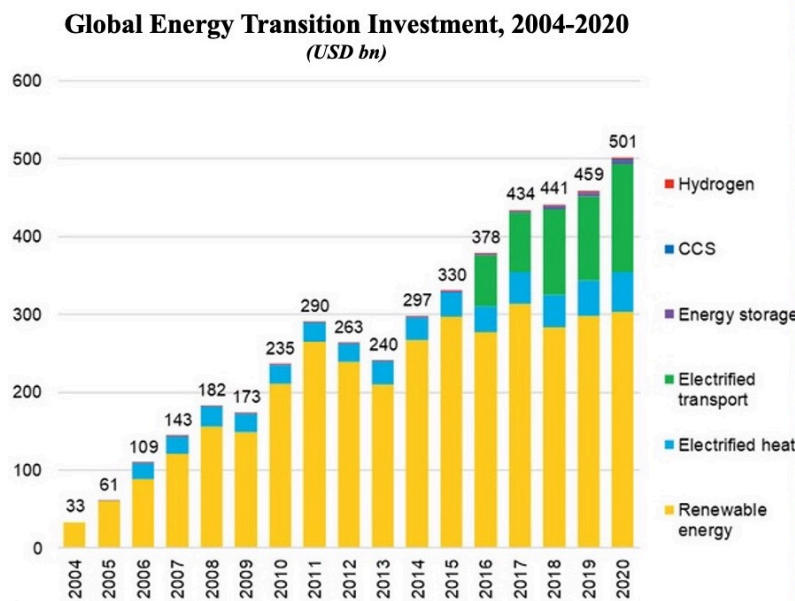
### –Supply-side factors:

- Spending cuts and project delays could slow oil supply growth
- Large cost reductions in renewables + advances in digital technologies
- **Climate Change & Decarbonisation Risks are growing** – could lead to sharp fall in fossil fuel asset prices => stranded assets risk



### 3. Energy Transitions & GCC's ambitious targets

- The two-day virtual Leaders Summit on Climate (from today), hosted by the US President, brings the US back into play with respect to global action against climate change
- Latest news that banks & financial institutions with USD 70trn+ assets pledged to cut their greenhouse gas emissions & ensure their investment portfolios align with the science on the climate adds to the commitment



Source: Energy Transition Investment Trends, BNEF, Jan 2021  
<https://about.bnef.com/energy-transition-investment/>

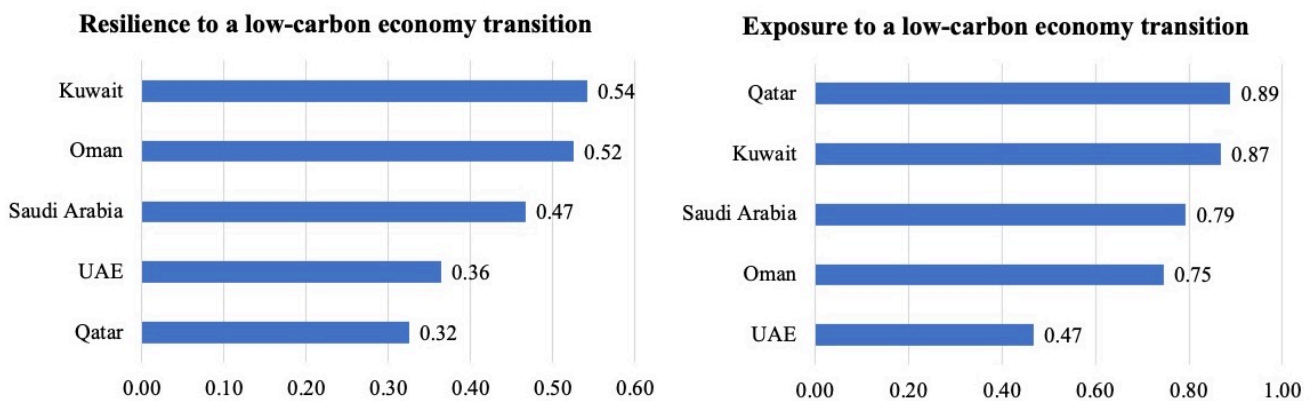
Renewable energy targets	
<b>Bahrain</b>	National renewable energy target of 5% by 2025 & 10% by 2035
<b>Kuwait</b>	Increase the share of renewable generation to 10% by 2030
<b>Oman</b>	Derive at least 30% of electricity from renewables by 2030
<b>Qatar</b>	Attain 20% of its energy from solar power by 2030
<b>Saudi Arabia</b>	Generate 50% of its energy from renewables by 2030
<b>UAE</b>	Reduce GHG emissions to 23.5% vs business-as-usual emissions for 2030
	Increase the share of clean power to 50% of the total energy mix by 2050

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### ations prepared for a low-carbon economy transition?

- The preparedness of countries for a low-carbon transition (LCT) is measured by **exposure and resilience indexes**: highlights turning the risks of an LCT into opportunities for robust growth.
- **GCC nations are significantly exposed**, especially given dependence on oil (resource rents, carbon intensity, GHG emissions): Qatar scores highest exposure & UAE the least
- **However, the GCC are relatively well prepared for an LCT** thanks to its resilience, particularly its relatively good macro stability and supportive business environment

alongside high quality of infrastructure, human capital and institutions



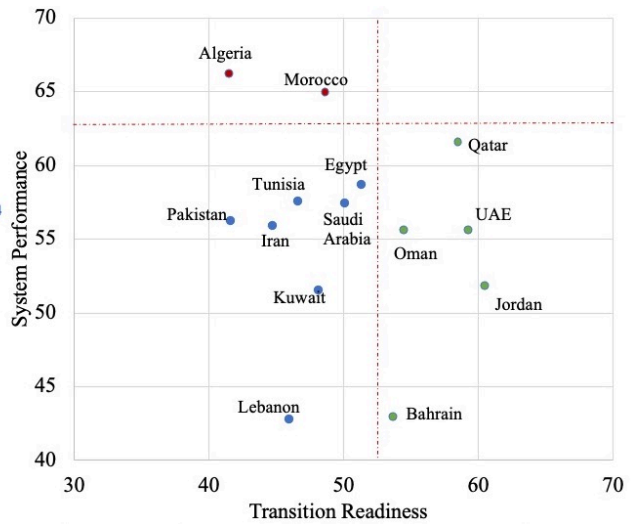
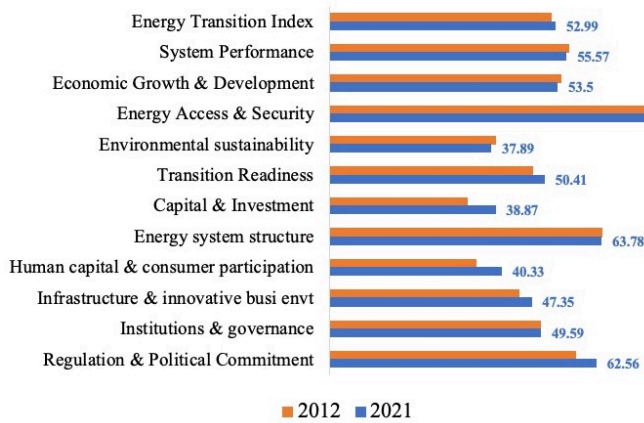
Source: Peszko, G. et. Al (2020) Chapter 5 in "Diversification & Cooperation in a Decarbonizing World", World Bank.

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## Energy Transition Index ranks UAE just behind Qatar wrt energy systems & pathways to clean energy

- **UAE ranked 64th globally on WEF's latest Energy Transition Index (2021)** out of a total 115 nations, just **behind Qatar at 53rd position**. Lebanon ranked lowest in the Middle East region at 112th.
- Among the various components of the Index, **MENAP's average falls farthest from the world average in two**: environmental sustainability (37.89 in MENAP vs 61.32 globally) and capital & investment (38.87 vs 55.17). Of the 11 categories, **region is worse-off compared to 2012 (initial year of results) in 4**: system performance, environmental sustainability, energy system structure and economic growth & development
- The **chart on the right** shows no MENAP countries in the top-right quadrant (high transition readiness & well-performing energy systems). **4 of 6 GCC nations are in the "leapfrog" quadrant (green dots, high readiness but system performance below the mean)**; two countries Algeria and Morocco fall among those with potential challenges (**red dots, above-average system performance but readiness below the mean**).

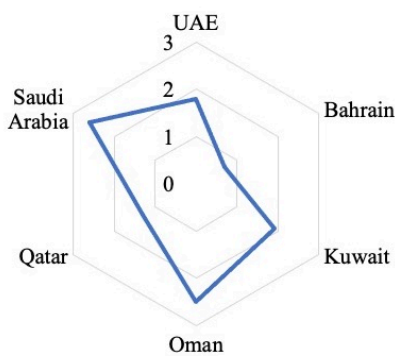
**Energy Transition Index in MENAP region  
2021 vs 2012**



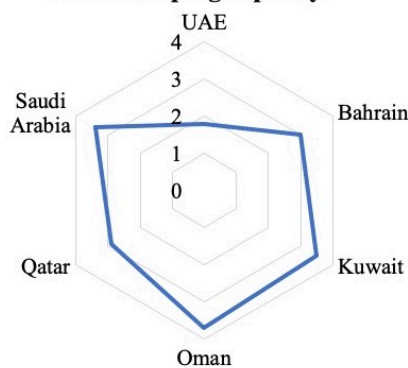
Energy Transition Index 2021, World Economic Forum.  
<https://www.weforum.org/reports/fostering-effective-energy-transition-2021#report-nav>

**6. GCC risk for climate-driven hazards is much lower than regional counterparts**

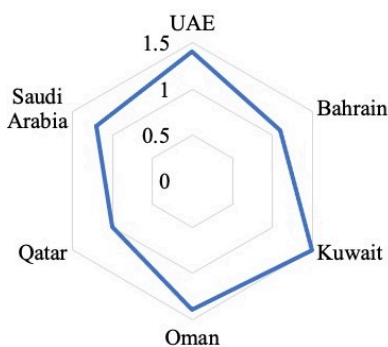
**INFORM Risk Index**



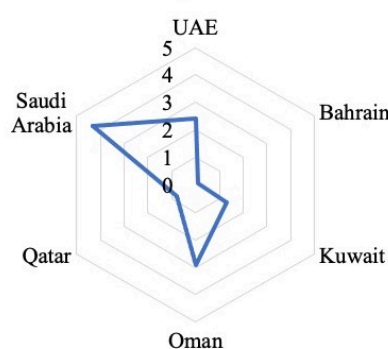
**Lack of coping capacity**



**Vulnerability**



**Climate driven hazard & exposure**



- The climate-driven **INFORM Risk 2021 Index** is derived from 3 dimensions: climate-driven hazard & exposure,

vulnerability and lack of coping capacity.

- **GCC nations fare relatively better, scoring between 1.3 to 2.6 out of a total 10 (riskiest).** But, two scores are comparatively higher: Saudi Arabia's hazard & exposure score (largely due to conflict risk) and Oman's lack of coping capacity (institutional & governance indicators related to increasing the resilience of the society need improvement).

CountryName	HA	VU	CC	INFORM
Bahrain	0.6	1.1	3	1.3
Kuwait	1.2	1.4	3.6	1.8
Oman	2.9	1.4	3.7	2.5
Qatar	0.8	1	2.9	1.3
Saudi Arabia	4.3	1.2	3.4	2.6
United Arab Emirates	2.4	1.4	1.8	1.8

Source: *INFORM Global Risk Index 2021.*

<https://drmkc.jrc.ec.europa.eu/inform->

[index/INFORM-Risk](#)

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# Interview with Al Arabiya TV (Arabic) on the impact of VAT

# rollout in Oman, 19 Apr 2021

Dr. Nasser Saidi spoke to Al Arabiya's Lara Habib on 19th Apr 2021 about Oman's VAT rollout and its impact on the economy. Oman is starting long overdue fiscal adjustment and reform aiming to diversify sources of government & diminish the high dependence on oil & gas revenue, with the introduction of VAT with a 5% rate (but many exemptions). If effectively & efficiently implemented, the VAT should generate about \$1 billion (OMR 400mn) in revenue, about 1.5% of GDP and helping to raise Non-Oil Revenue from 11.4% in 2020 to about 17.2% of Non-Oil GDP in 2021. The onset of fiscal reform will lead to an improvement of Oman's sovereign credit rating, lower the cost of credit and help attract more FDI and portfolio investment as a result of the ensuing reduction in macroeconomic risks.

Watch the full interview (in Arabic) [here](#).

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

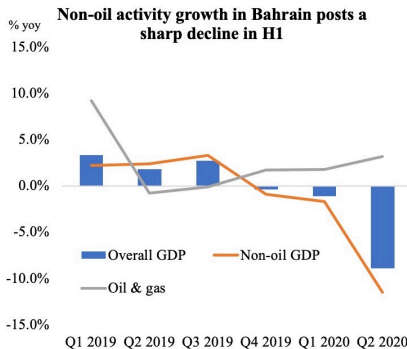
*Charts of the Week: Last week, both Bahrain and Saudi Arabia released Q2 GDP numbers: as expected, overall growth contracted, with private sector activity significantly affected. The initial sections offers a forward-looking perspective on the two nations based on more recent data and proxy indicators.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

*Insights' edition.*

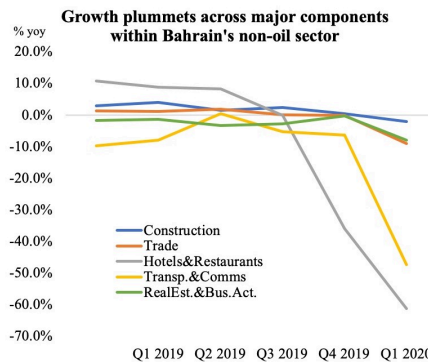
## **1. Bahrain GDP & economic activity**

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

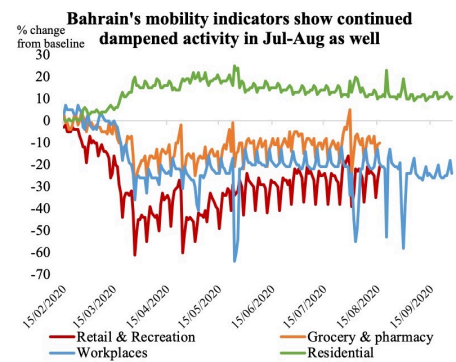
With Covid19-related restrictions slowly being phased out in Bahrain, can we expect a resumption of economic activity? The data for Jul-Aug show the pace of recovery has been slow, with readings for retail and recreation still at an average 26% below the baseline data (pre-Covid19). Recent announcements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



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



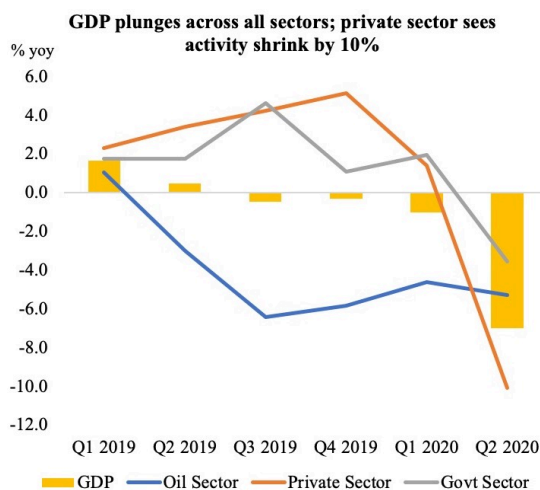
Source: Bahrain Information & eGovernment Authority, Nasser Saidi & Associates



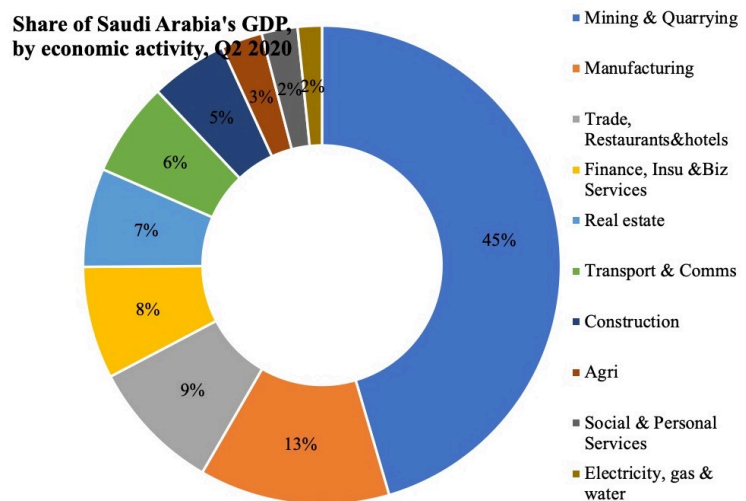
Source: Google Covid19 Community Mobility Report, Nasser Saidi & Associates. Note: Google have temporarily suspended updates in some categories to improve how they are calculated.

## 2. Saudi Arabia GDP & economic activity

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



Source: Saudi Arabia GaStat, Nasser Saidi & Associates



To gauge any underlying change in activity during Q3, we refer to the central bank's data on consumer spending and point-of-sale (PoS) transactions by category. There is a spike before the VAT hike came into place in Jul, as expected, but the Aug

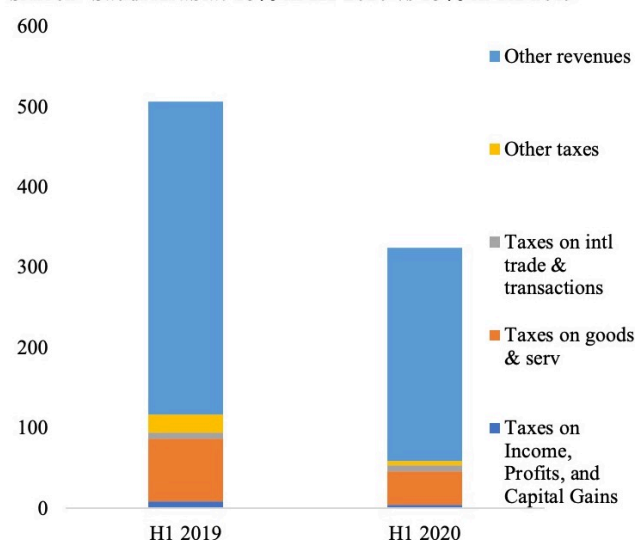
data seems to indicate a slight recovery for hotels (+2.6% yoy, following 6 months of double-digit declines) while items like jewelry and clothing continue to register negative growth. The construction and real estate sector look well-placed to improve in H2 this year: not only has letters of credit opened for building materials imports increased by 64% yoy in Aug (following 5 months of double-digit declines), cement sales has also been picking up during Jun-Aug; a temporary boost for the sector will also come from the recent announcement that real estate would be exempt from the 15% VAT (to be replaced instead by a 5% tax on transactions, of which the government would bear the costs for up to SAR 1mn for the purchase of first homes).

### **3. Saudi Arabia's fiscal space**

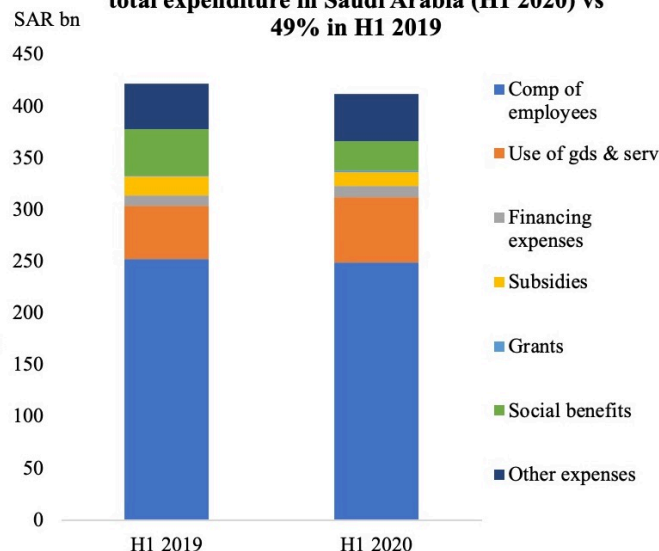
With oil prices around the USD 40-mark, extended government support in Saudi Arabia during the Covid19 outbreak will put a strain on finances. From the H1 2020 estimates disclosed by the Ministry of Finance, it is noticeable that the share of taxes as % of overall revenue has declined to 18% (H1 2019: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



**Decline in share of taxes as % of total revenue in Saudi Arabia: 18% in H1 2020 vs 23% in H1 2019**



**Compensation of employees accounts for 53% of total expenditure in Saudi Arabia (H1 2020) vs 49% in H1 2019**



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

### Medium-term fiscal projections (in SAR bn)

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

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

If Saudi Arabia's fiscal consolidation plans are to be met, reforms are required on both revenue and expenditure side. The Kingdom has already increased VAT to 15% from Jul: however, with subdued demand and consumer spending, it seems unlikely that this move will add substantial revenue this year. We have highlighted in previous editions that Saudi Arabia can benefit from the introduction of other more revenue-generating taxes – e.g. carbon taxes, which will also contribute towards a cleaner environment. Additional measures could include energy price reforms (thereby reducing subsidies) as well as a consolidation or removal/ reduction of various small fees and taxes after undertaking an impact exercise (i.e. do these fees raise significant revenues or do they hinder development of the related sector?). The other major route to take is lowering “compensation of employees”: this can be done either

by reducing the public sector workforce (and increasing productivity through increased digitalization) or by decreasing wages (and synchronizing public holidays) to be on-par with the private sector – these moves could also support creation of jobs in the private sector, lead to higher productivity levels and growth.

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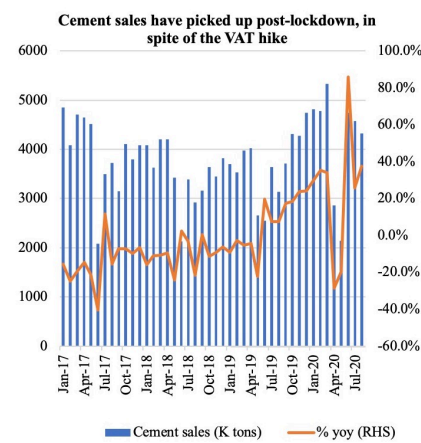
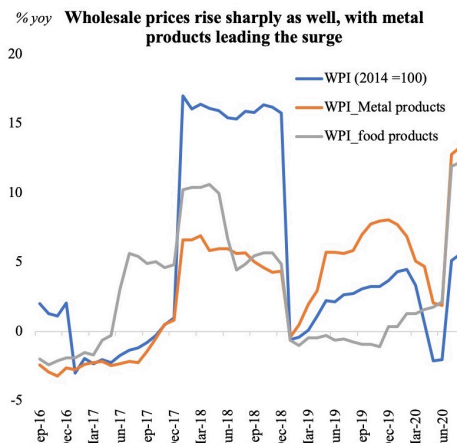
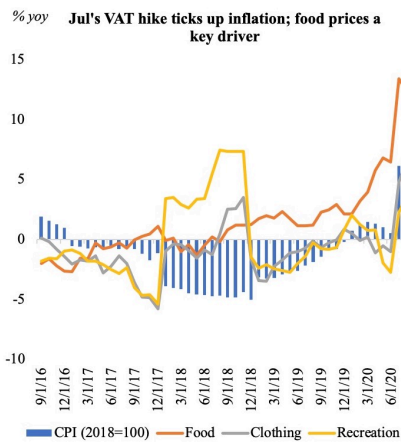
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# Weekly Insights 22 Sep 2020: Looking beyond Saudi inflation & oil exports

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

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



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

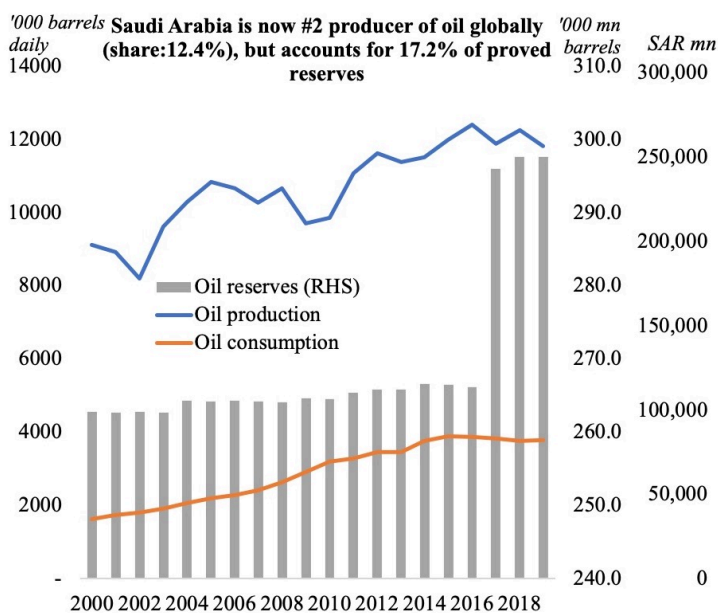
Headline inflation has been climbing in Saudi Arabia from Jul, not surprising given the VAT hike to 15% (from 5% before). The VAT effect is seen across multiple sub-categories, but note that food prices have been ticking up for many months now. Wholesale prices have also increased, similar to when VAT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

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

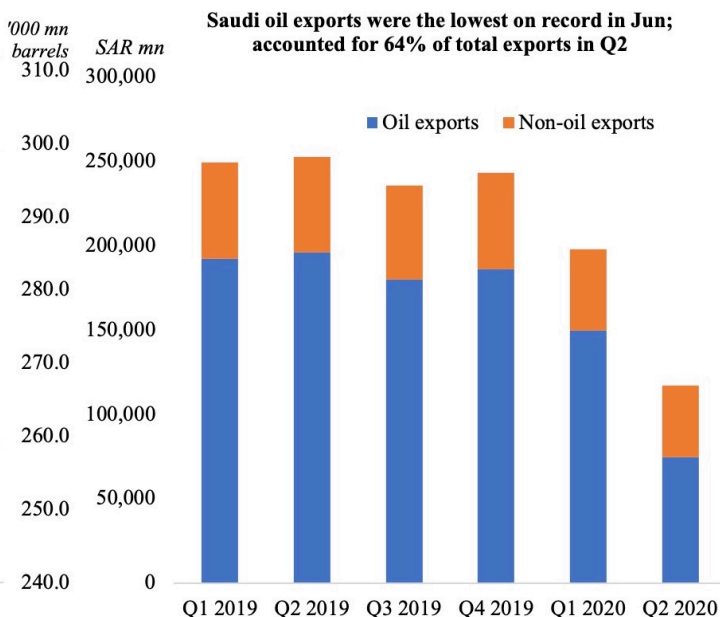
## 2. Oil sector in Saudi Arabia

The latest trade data from Saudi Arabia shows a drop in overall exports in Q2 this year (-53.6% yoy): oil exports were down by 61.8% yoy, and the share of oil exports fell to 64% in Q2 2020 vs 77.5% in Q2 2019. Partly attributable to the OPEC+

cuts and overall weak global demand for oil (given Covid19), this implies a substantial reduction in government revenues from oil (in 2019, an estimated 63% of total revenues was derived from oil). At the same time, non-oil revenue will also have declined: government's postponement of some taxes and fees will bite into revenues and lockdowns would have negatively affected private sector activity.



Source: BP Statistics, Nasser Saidi & Associates



Source: GaStat, Nasser Saidi & Associates

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

The recently released data on world energy from BP shows that though Saudi Arabia is now the second-largest producer of oil globally (behind the US), its proven reserves still account for 17.2% of overall global reserves. But, with the rising rhetoric that oil demand may already have peaked, the

pertinent question is whether oil could end up being a stranded asset sooner than later. In this backdrop, with the Covid19 pandemic and a resultant push for climate change policies (before it is too late), it is imperative that the recovery model for Saudi Arabia (and rest of the fuel-exporting nations) includes a strong clean energy policy component within overall reforms, alongside a recasting of its economic diversification model and social contracts.

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

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

### **1. Manufacturing PMIs: Global vs. Regional**

Manufacturing PMI numbers for August signal a tentative recovery compared to the massive dip in the Covid19 lockdown period. Global manufacturing PMI reached its highest in 21 months (51.8 from Jul's 50.6), as output and new orders rose at the fastest rates since Apr and Jun respectively, while export demand stabilised. The headline manufacturing indices in the US and Europe improved as restrictions were lifted and

more production came online. However, a key point to note is that in many cases export demand has not recovered as much as domestic demand (post lockdown). Meanwhile, services sector activity has almost stalled: the initial rebound is tapering off given ongoing social restriction policies. The bottom line is that though PMIs have shown some improvement, the impact might be hampered by rising unemployment, subdued international demand alongside overall economic and public health uncertainty.

**Heatmap of Manufacturing/ Non-oil sector PMIs**

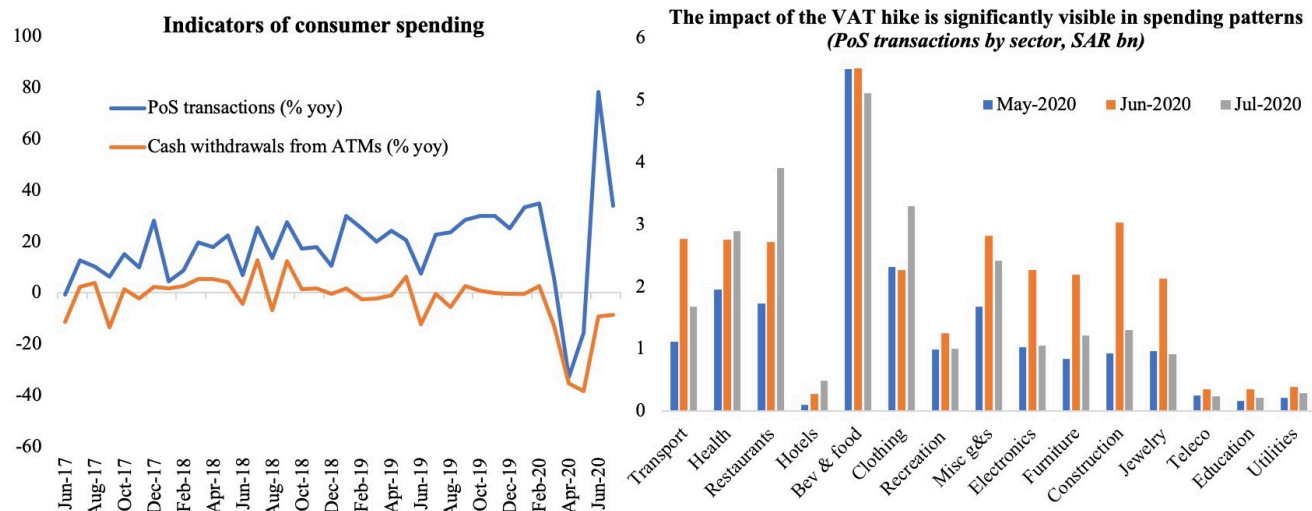
	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8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

Source: Refinitiv Datastream, Nasser Saidi & Associates

From the list above, only Japan and countries from the Middle East are sub-50 indicating a contraction. Egypt posted the 13<sup>th</sup> straight month of contraction in Aug, while both Saudi Arabia and UAE moved below 50. The relevant question for the region is why? A sharp decline in jobs is the main drag on headline indices, as firms try to lower operational costs amid a scenario of weak demand and subdued growth prospects. In the UAE, not only did the employment sub-index fall to its lowest in 11 years (with one in 5 panelists reducing number of employees) but firms also had to deal with price discounting to remain competitive. In Saudi Arabia, the hike in VAT (from

Jul) drove up input costs, adding more pressure on firms. Overall, a prolonged weaker recovery could lead to firm closures, that would lead to job losses, bankruptcies as well as an impact on the banking sector via an increase in NPLs.

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

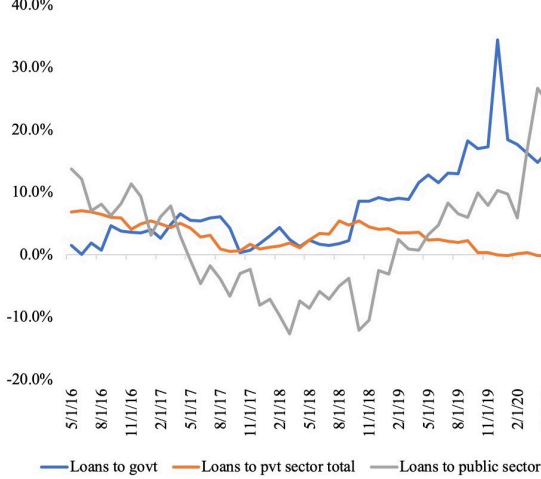


Source: SAMA, Nasser Saidi & Associates.

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

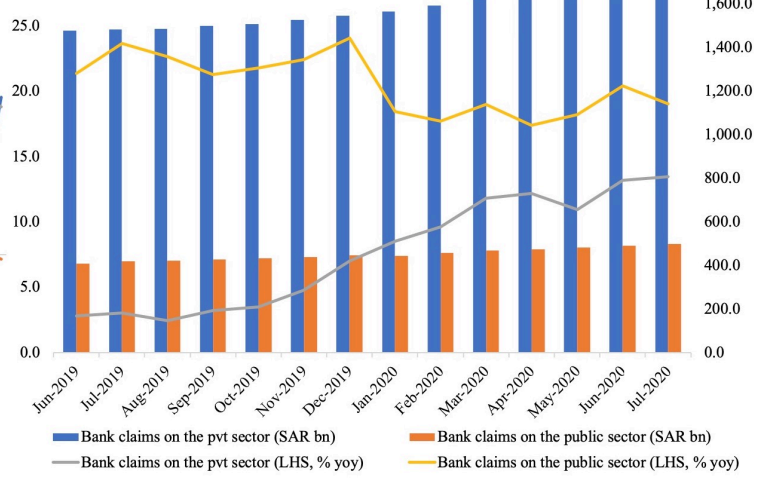
## 3. Is private sector activity supported by credit disbursement? A tale of two nations

Loans to the private sector in the UAE have significantly weakened during the Covid19 pandemic months (% yoy)



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

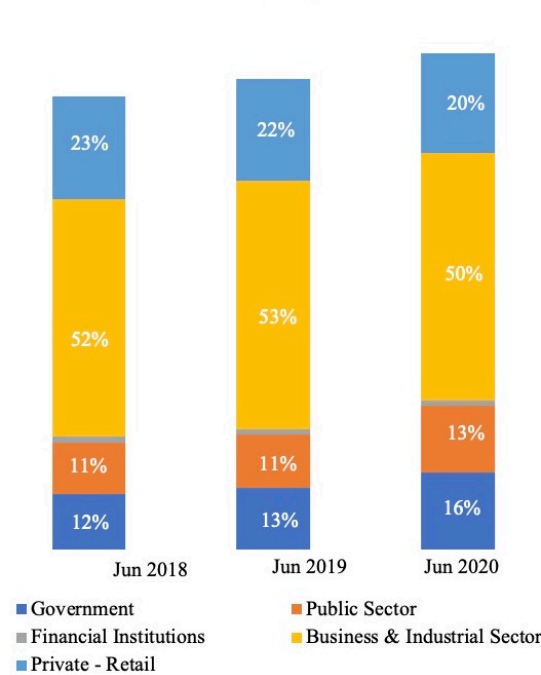
Claims to the public & private sector in Saudi Arabia have been rising: the former at a faster pace



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

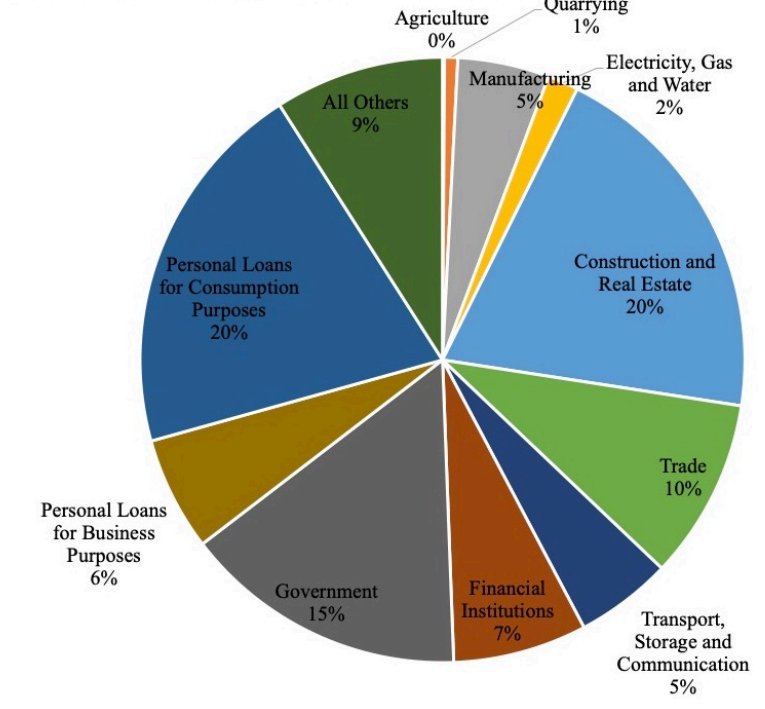
4. The big picture of credit activity in the UAE

Share of credit to govt + public sector is rising



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

Bank credit to UAE residents by economic activity





on, lending to the private sector in the UAE has been on the decline since Aug 2018 and worsened during the pandemic phase (Fig 3). In both year-on-year and month-on-month terms, growth in credit to the public sector and government constantly outpaced the private sector, leading to a growing share of the public sector and government. UAE banks lent most to the business sector (50% of total, as of Jun 2020 vs. 53% in Jun 2019), while the public sector & government together account for close to 30% of all loans (vs. 24% a year ago). Lending remains quite high for construction/ real estate (20%), government (15%) and personal loans (20%); this compares to 21.8%, 12.9% and 21.2% respectively a year ago.

The UAE central bank has been proactive in releasing liquidity to the financial sector during Covid: in addition to the Targeted Economic Support Scheme (Tess) rolled out in Mar, in early-Aug it temporarily relaxed the net stable funding ratio (NSFR) and the advances-to-stable resources ratio (ASRR) by 10 percentage points to enhance banks' capacity to support customers. As of July 18, banks had withdrawn AED 43.6bn, equivalent to 87.2%, of the AED 50bn Tess programme made available to them. The central bank also disclosed that, as of Jul 2020, 260k individuals and 9527 SMEs had availed the interest-free loans under Tess; credit to SMEs accounted for 9.3% of total amount disbursed to the private sector and individuals had received support worth AED 3.2bn from banks. This is but a drop in the ocean compared to the overall amount made available to the banks (i.e. AED 50bn Tess, part of the wider AED 100bn stimulus unveiled in Mar, and a further easing of buffers raising stimulus size to AED 256bn).

In this context, the questions to be answered are two-fold: 1. Are customers not seeking loans during these troubled times? Or 2. Are banks unwilling to lend during these troubled times? The answer is not crystal-clear, but more likely a combination of both (as evidenced below).

According to the latest "Credit Sentiment Survey" by the UAE

central bank, about 53% of respondents stated that the demand for both business and personal loans in Q2 had declined either substantially or moderately. In the backdrop of Covid19, and heightened economic uncertainty, it is likely that consumers do not want to take on loans they cannot service or repay in case of job loss or firm closures; the same applies for businesses in sectors that are tourism-specific or aviation/travel-related firms or others affected by the pandemic (insolvencies/ bankruptcies). On the other hand, for banks, knowingly lending to such firms/ customers could result in an increase in NPLs that would affect their profit margins and bottom line: going by the H1 earnings of the 4 largest listed banks in the UAE, combined net profits are down by 36% yoy while provisions have increased (ENBD by 243% yoy). So, banks have tightened credit standards instead, hence lowering pace of lending to the private sector. Both demand side and supply side of credit are impacting credit.

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

Dr. Nasser Saidi's comments on Saudi Arabia's austerity drive & tripling of VAT were part of the Reuters article titled "Promise of future prosperity fades as austerity hits Saudis' pockets", which was published on 12th May 2020.

Comments are posted below.

*Dubai-based economist Nasser Saidi said any additional revenues from the VAT hike would be negligible and the move will likely sharpen the recession. "It would add an unnecessary shock to the system at a time when businesses are struggling to stay afloat, households are experiencing lower incomes and expatriates without jobs are returning home," he said.*