

## Weekly Insights, 7 Jan 2021

### UAE's silver linings: has the country turned a corner?

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

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

	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

In the Middle East, while **UAE and Saudi Arabia PMIs improved** (the former recovering from 2 straight months of sub-50 readings), **Egypt slipped to below-50** after 3 months in expansionary territory. While Egypt's sentiment dipped on the recent surge in Covid19 cases, the 12-month outlook improved on optimism around the vaccine rollout. However, the UAE's announcement of the rollout of Sinopharm vaccine in early-Dec seems to have had little impact

Prepared by:

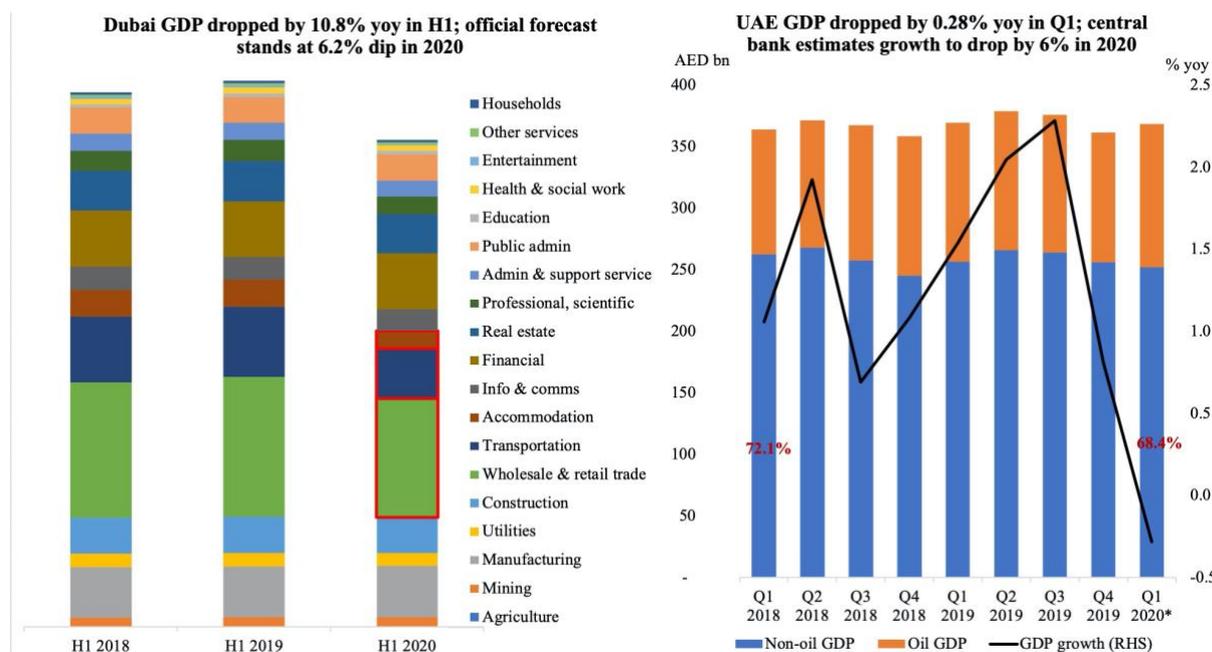
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on the year-ahead outlook, with business activity expected to remain flat over 2021 (survey responses were collected Dec 4-17) and job losses continuing to fall at an accelerated rate.

## 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.



**News of a 5<sup>th</sup> stimulus 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

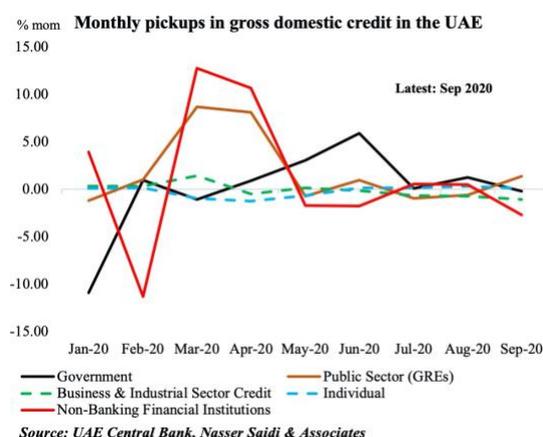
embracing new and old synergies – Israel and Qatar respectively. Medium-term prospects can be further enhanced by accelerating decarbonization and digitisation – [read our op-ed](#).

### 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%).

It has been a **difficult period for MSMEs** (Micro, Small and Medium Enterprises): the number of MSMEs declined by 8.5% qoq in Sep 2020, following an uptick of 3.9% qoq in Jun 2020, signaling deteriorating business conditions that may have forced such firms to close. This also suggests a potential increase in NPLs once the current banks’ support (e.g. deferring loan periods) come to a close. Overall lending to the sector 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.



**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

### 4. Back to “business as usual” for the GCC

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**

<sup>1</sup> 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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— & ASSOCIATES —

**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.

	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%		
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*

**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.**