

# Weekly Insights

## 18 November 2022

# Will easing inflation in the Middle East improve activity?

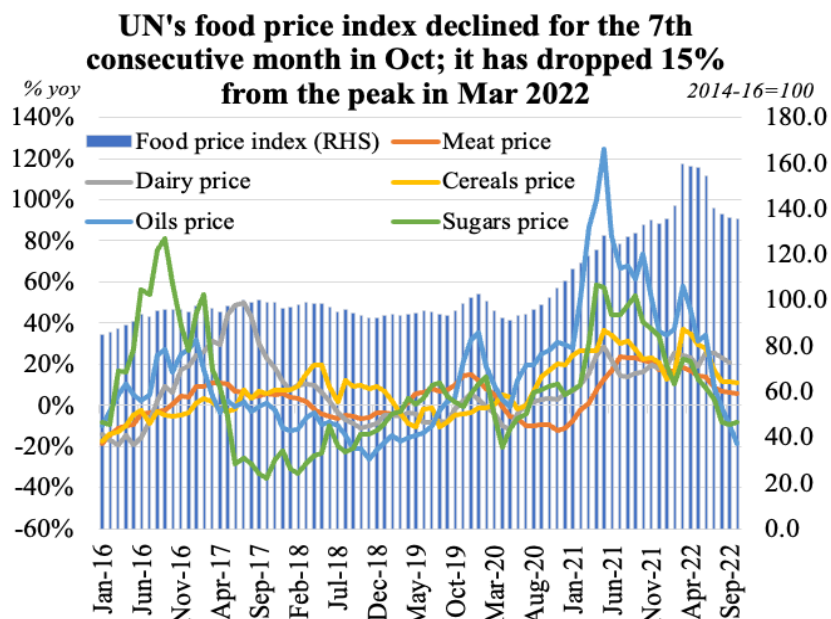
- *Signs of easing inflation globally?*
- *Inflation in the Middle East ease in many nations, but food prices remain high*
- *Inflation in Saudi Arabia eases in Oct: both consumer and wholesale prices*
- *Saudi Arabia's FDI flows stood at USD 2.1bn in Q2 2022*
- *Deposit growth in the UAE outpaced loans & advances in 2022*

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— & ASSOCIATES —

# Signs of encouragement for inflation globally?

- The **Fed's GSCPI readings have eased**, as shipping costs stabilize, and supply disruptions improve amid a reduction in demand for goods
- **UN's food price index appears to have peaked**: it has dropped 15% from its peak in Mar 2022, but in Oct 2022 remained 2% higher vs a year ago
- **Food import costs globally** are projected to reach an **all-time high of ~USD 2trn this year**, up 10% yoy (Source: FAO), raising **concerns of food security and fiscal burden** (especially nations that are dependent on imported food and facing currency depreciation)
- **Costs of services are still high**, feeding overall inflation

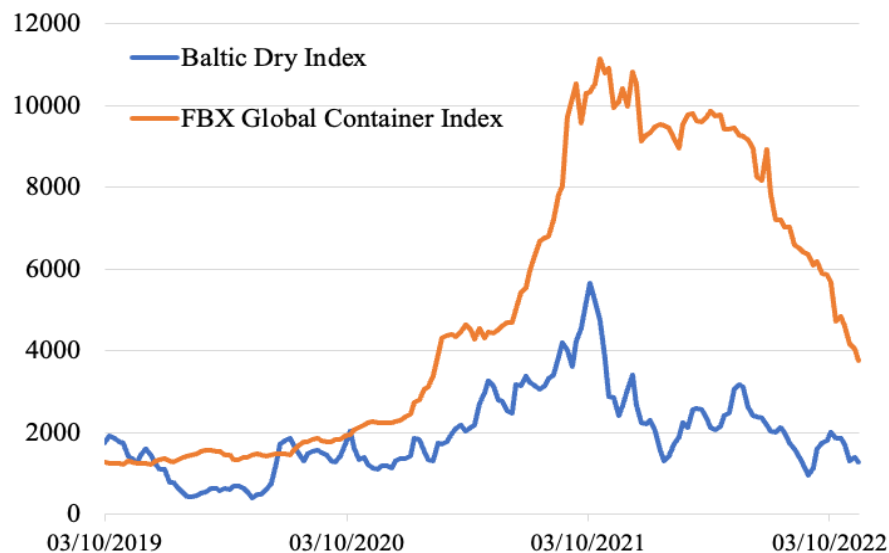


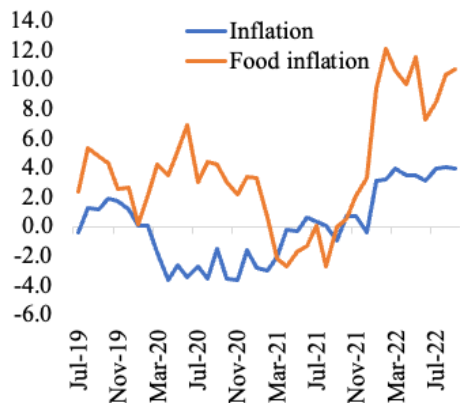
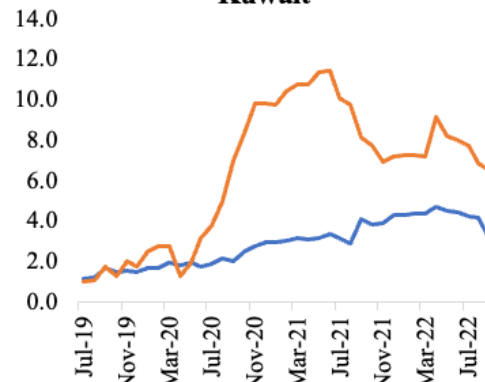
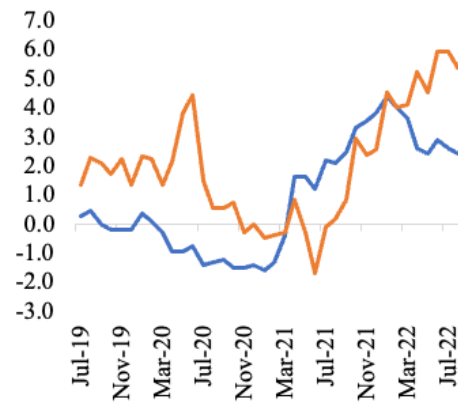
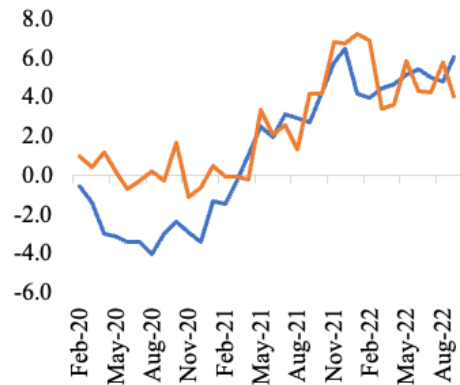
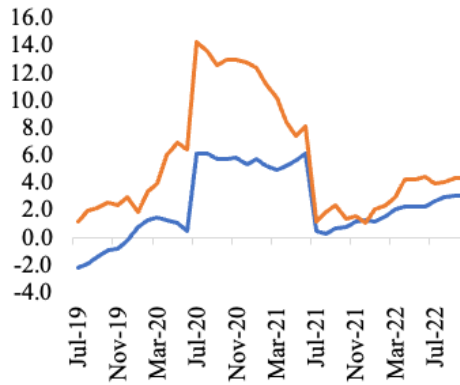
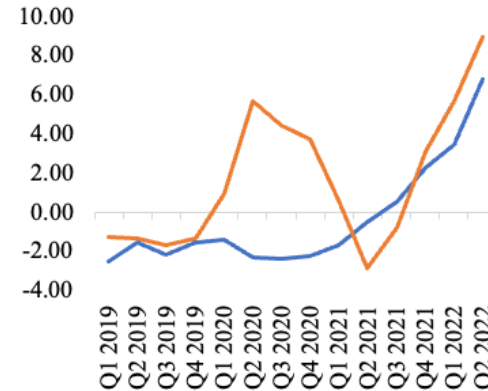
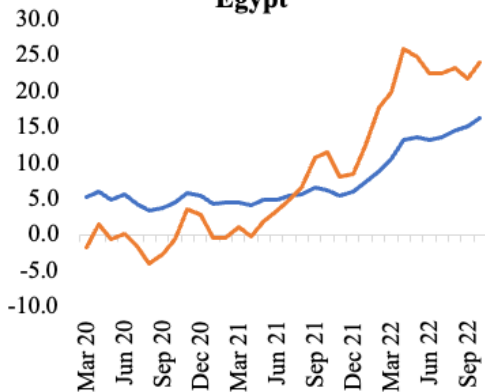
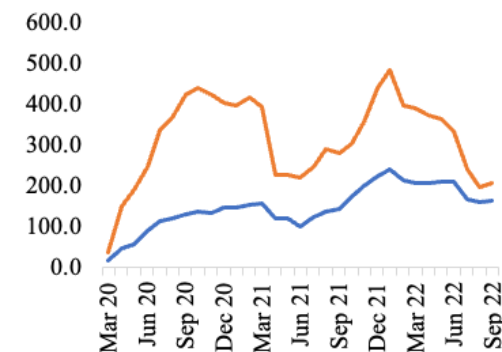
Source: UN FAO, NY Fed, Refinitiv Eikon. Charts by Nasser Saidi & Associates

**Global Supply Chain Pressure Index (GSCPI) inched up moderately in Oct, after 5 straight months of easing**



**Shipping costs are stabilising, but remain high**



**Bahrain****Kuwait****Oman****Qatar****Saudi Arabia****UAE****Egypt****Lebanon**

**Inflation in the Middle East ease in many nations, but food prices remain high**

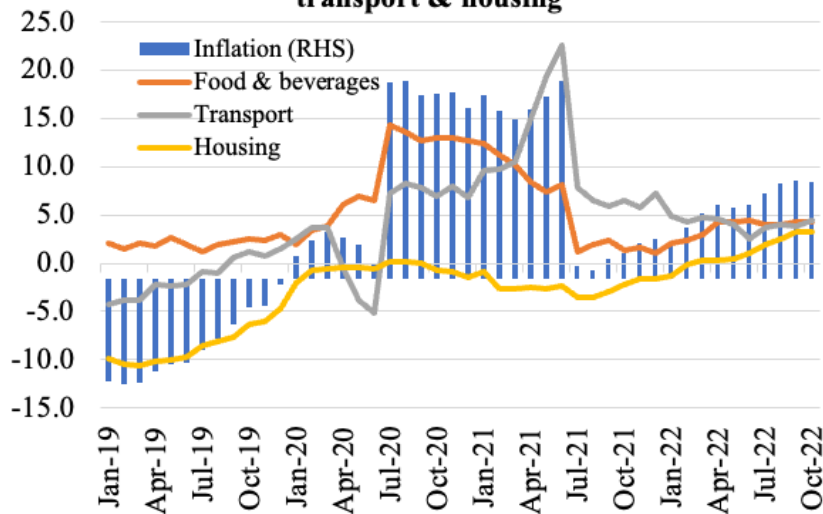
- **Food prices have been rising in the ME**, often at a faster pace than headline inflation. However, broader inflationary pressures have stemmed from **non-traded, higher services prices** (recreation, restaurants, hotels etc.) as well as **transport costs** and housing
- In **Egypt**, inflation quickened to a 4-year high of 16.2% even before accounting for the adoption of a flexible exchange rate; higher rates likely in coming months,
- **Ongoing financial support from the GCC** will benefit Egypt.

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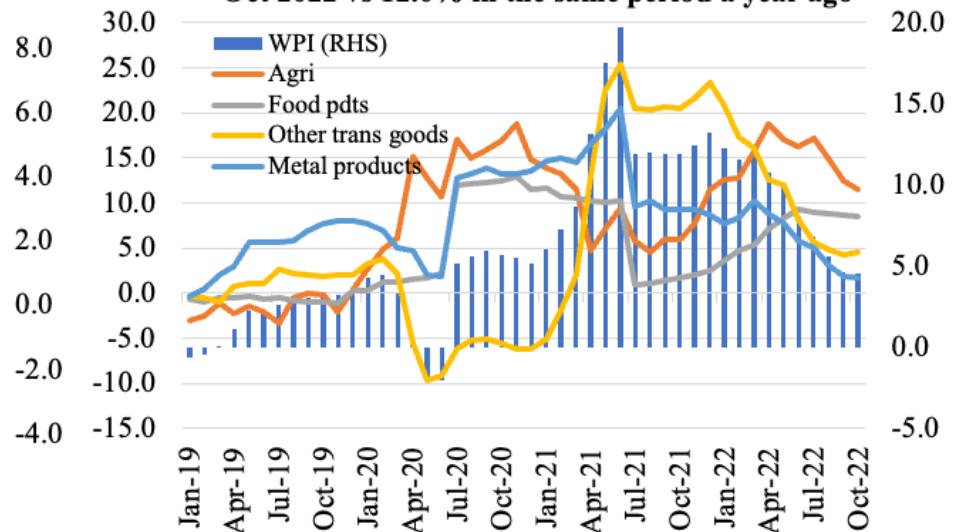
# Inflation in Saudi Arabia eased in Oct: both consumer and wholesale prices

- **Consumer price inflation in Saudi Arabia eased to 3% in Oct**, from Sep's 15-month high reading of 3.1%. An increase in food, transport and housing costs (up by 4.35%, 4.38% and 3.3% yoy respectively) was balanced by a fall in costs of clothing (-1/3% yoy) as well as ease in recreation, education and restaurant/ hotels prices.
- **Wholesale prices eased for the 7<sup>th</sup> straight month in Oct**: prices were up by 4.6% (vs Sep's 4.61% gain), the lowest reading since Jun 2020. Prices have dropped significantly compared to the double-digit increases seen during Apr 2021 to May 2022.
- This confirms the majority response of **easing input prices from the Oct PMI results**. Softening prices have resulted in a strengthening of demand (including export orders), supporting expansion in the non-oil private sector.

**Overall inflation in Saudi Arabia eased slightly to 3.0% in Oct (% yoy) in spite of upticks in food, transport & housing**



**Declining wholesale prices: averaged 8.7% in Jan-Oct 2022 vs 12.0% in the same period a year ago**

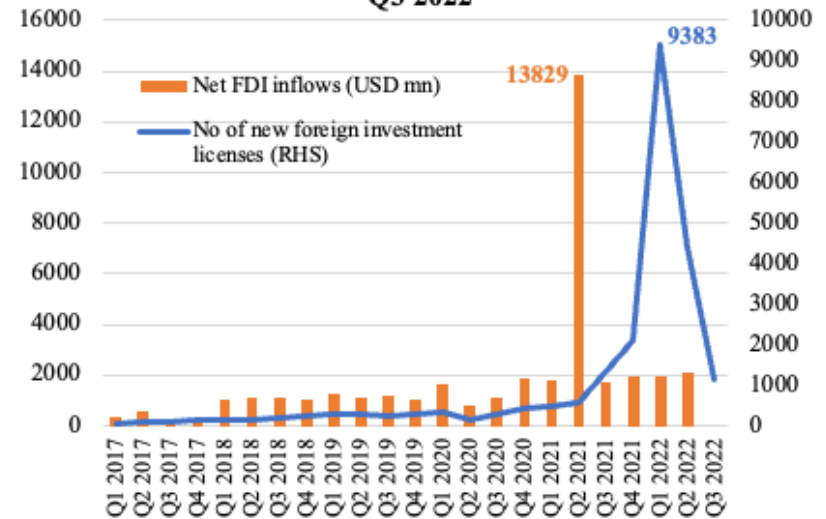


Source: GaStat. Charts by Nasser Saidi & Associates

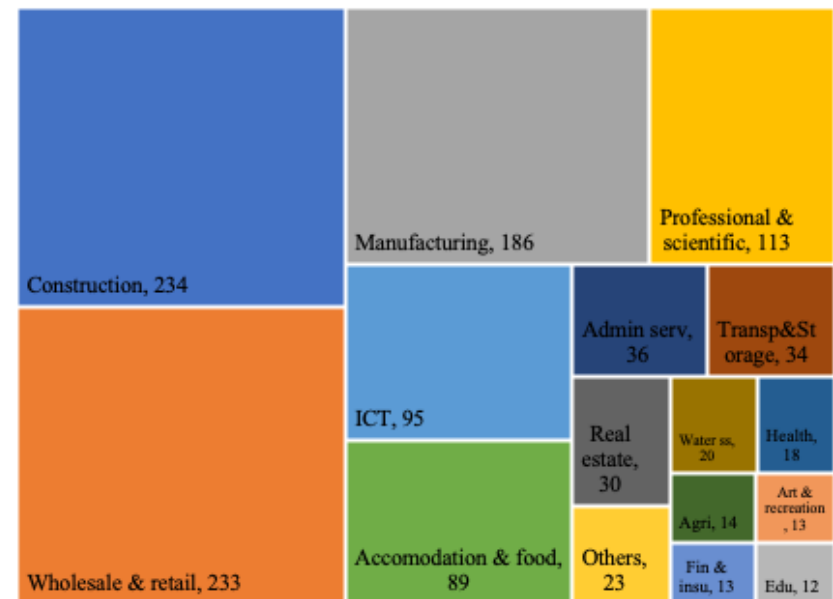
# Saudi Arabia's FDI flows stood at USD 2.1bn in Q2 2022

- In Q2 2022, Saudi Arabia's FDI inflows stood at USD 2.1bn: this was up 6.6% qoq but lower by 85% in year-on-year terms. The yoy decline was a result of the **surge in FDI due to the one-off Saudi Aramco deal in Q2 2021**. If that is excluded, FDI grew by 46.5% yoy in Q2 2022.
- The **number of investment licenses issued surged in 2022 (till Q3)** by 527.4% to 15k.
- Together, **construction, wholesale and retail, manufacturing and professional activities** accounted for close to 2/3-rd of the new licenses issued in Q3 2022.
- The Economic and Investment Monitor revealed that **203 deals were closed in 2022 (till Q3)**, up 133.3% yoy; entrepreneurship & innovation sector reeled in the most deals (47 out of 53 in Q3 2022).
- The **appetite for investment was also evident from the recent Saudi-Korea Investment Forum**, which saw 26 investment agreements & MoU's signed with a combined value of SAR 112.7bn (USD 30bn).
- Worthwhile bearing in mind that Saudi Arabia launched, last year, the **National Investment Strategy** - which aims to attract SAR 388bn in FDI annually, creating jobs and increasing investments contribution to GDP to 30% by 2030 (2019: 22%).

In H1 2022, net FDI inflows up touched USD 4bn; no of foreign investment licenses rise to 15k in Q1-Q3 2022

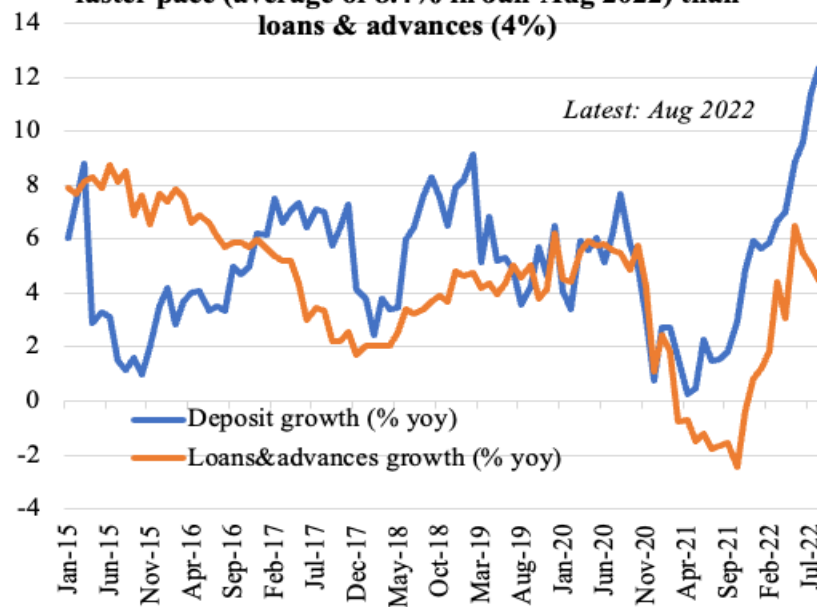


Number of new foreign investment licenses by sector, Q3 2022



Source: Ministry of Investment, Saudi Arabia

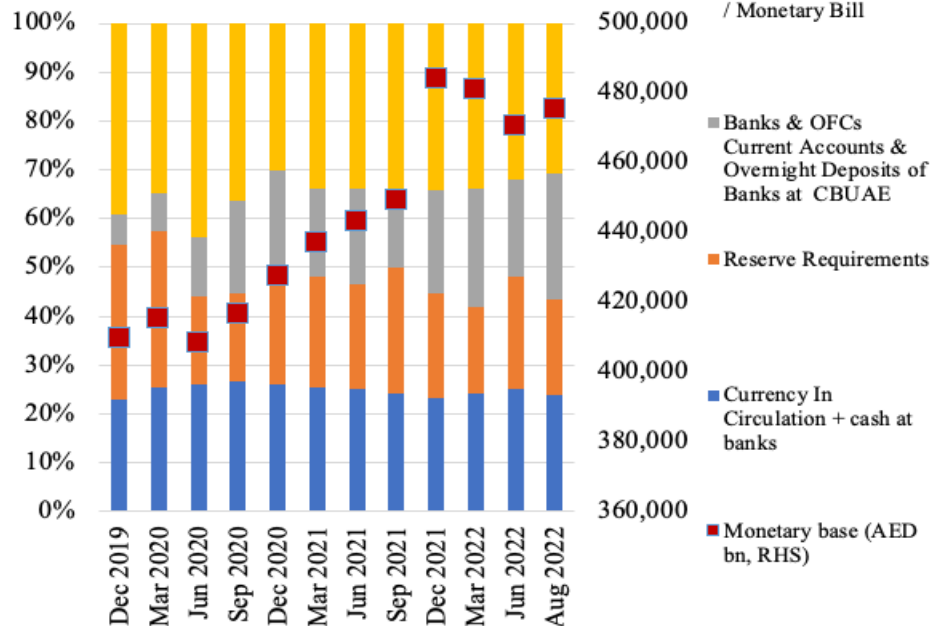
**Deposit growth in the UAE has been rising at a faster pace (average of 8.4% in Jan-Aug 2022) than loans & advances (4%)**



**Growth in loans to UAE's private sector has been rising since Nov 2021, and has averaged 3.4% this year**



### UAE's Monetary Base & components



## UAE Banking Indicators Aug 2022

- **Deposit growth in the UAE outpaced loans & advances in 2022:** an average of 8.4% and 4% respectively in Jan-Aug this year.
- **In Aug alone, domestic credit declined by 0.4% mom** & credit to the private sector fell by 0.2%; the only segment that witnessed an uptick was retail customers (a modest 0.97% gain).
- **Monetary aggregates M2 & M3 grew in Aug;** **currency in circulation outside banks dipped** by 1.23% mom in Aug. Monetary base inched up by 1.0% to AED 475.5bn.

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