

Weekly Insights

4 November 2022

Saudi & UAE Non-Oil Sector Growth & Fiscal Consolidation

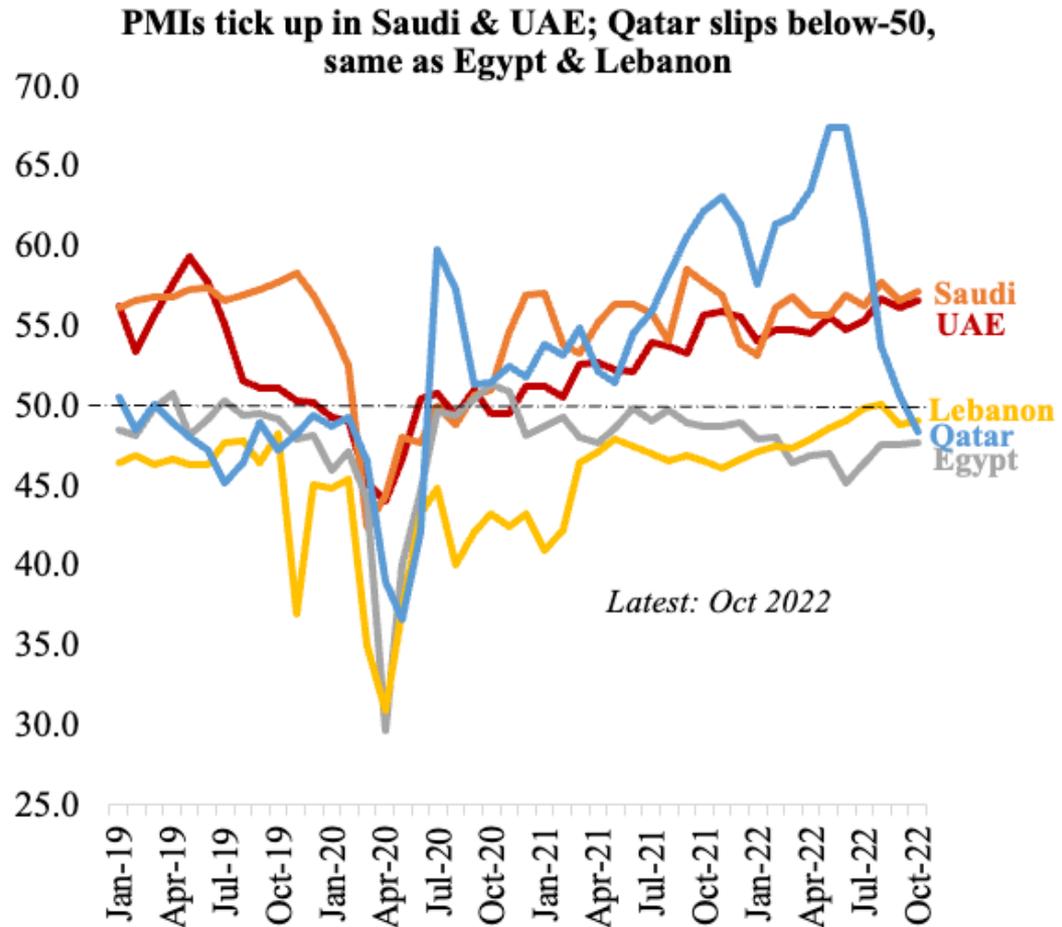
- *Mixed Middle East PMI readings in Oct; input prices are slowing across the board*
- *Saudi Arabia grew by an average 10.2% yoy in Jan-Sep 2022, largely supported by the oil sector*
- *Saudi budget surplus surged to SAR 149.5bn in Jan-Sep 2022 vs a deficit of SAR 5.4bn Jan-Sep 2021*
- *UAE posts fiscal surplus in H1 '22*
- *Inflation in the UAE ticked up to 5.1% in H1 2022; compares to Dubai's 3.8% in H1*

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Mixed Middle East PMI readings in Oct; input prices are slowing across the board

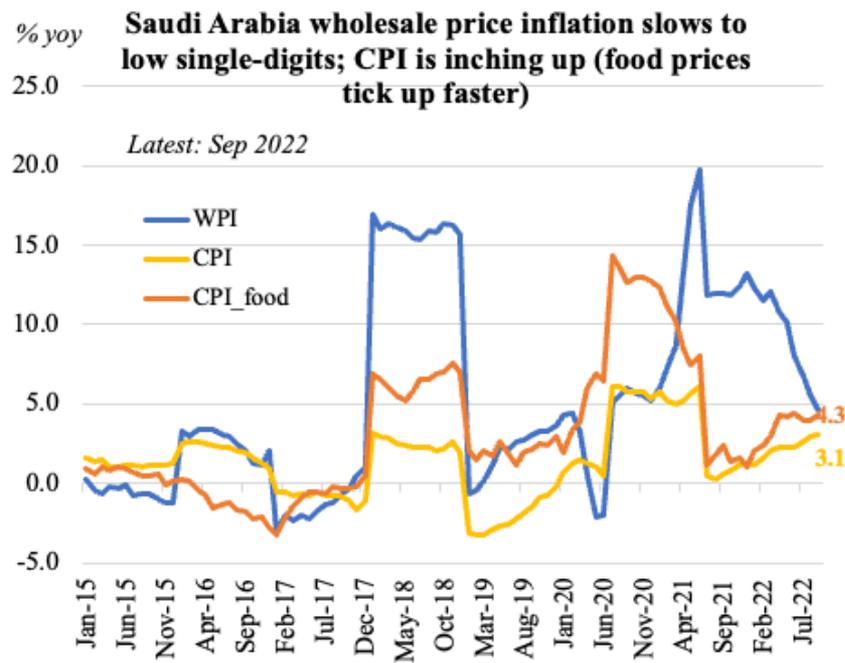
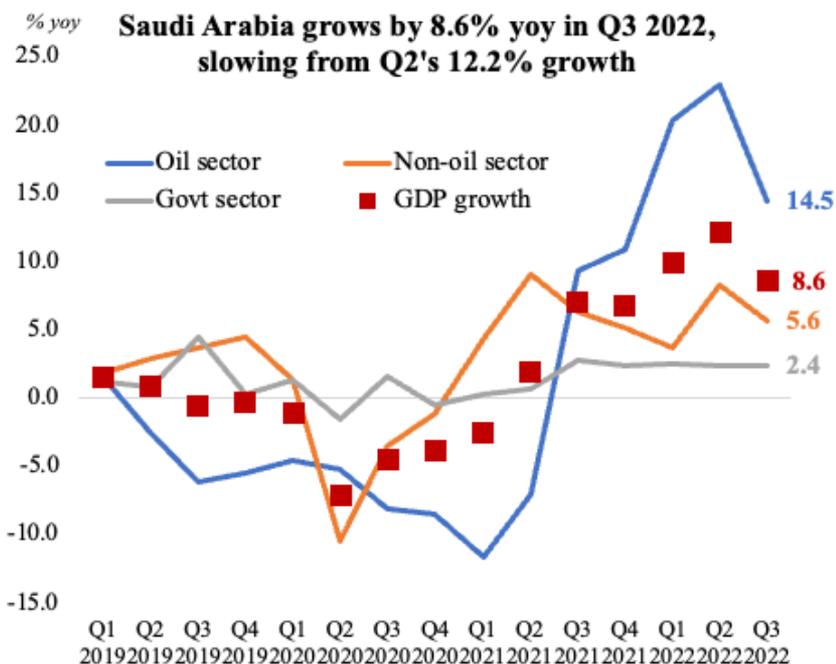
- **Saudi Arabia and UAE PMIs remain in expansionary territory**, with the former posting its 2nd highest reading this year, thanks to an uptick in overall demand
- A point of contrast is that while **Saudi new export orders rose** at the sharpest rate in almost a year, **UAE export orders grew the least since the start of 2022**
- **UAE PMI's employment sub-index rose at the fastest pace since Jul 2016**
- **Qatar's PMI slipped below-50, as new orders fell** for the first time in 27 months; optimism however remains at a 12-month high thanks to the upcoming World Cup
- Even though **Egypt and Lebanon readings remain below-50**, it edged up in Oct. Egypt's IMF deal should support improved sentiment in Nov



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

Saudi Arabia grew by an average 10.2% yoy in Jan-Sep 2022, largely supported by the oil sector

- **Saudi Arabia's flash GDP estimates for Q3 2022 placed overall growth at 8.6% yoy** (slower than Q2's 12.2%). Even though growth has slowed, it was still supported largely by the oil sector (14.5%) amid growth in non-oil (5.6%) and government (2.4%) sectors. In qoq terms, overall Q3 GDP was up by 2.6%, aided by oil (5.8%), government services (1.1%) and non-oil (0.2%) sector activity
- **Consumer prices are ticking up: inflation rose to 3.1% yoy in Sep** while food prices rose at a faster pace of 4.3%. Meanwhile, **wholesale price inflation has fallen from its double-digit increases to under 5% in Sep 2022.**



Source: GaStat. Charts by Nasser Saidi & Associates.

Saudi budget surplus surged to SAR 149.5bn in Jan-Sep 2022 vs a deficit of SAR 5.4bn in Jan-Sep 2021

- **Sticking to fiscal consolidation plans:** the surge in oil revenues in Saudi Arabia has not been accompanied by a similar rise in expenditures this year.

- **Overall revenues grew by 36.5% yoy** to SAR 950.2bn in the period Jan-Sep 2022.

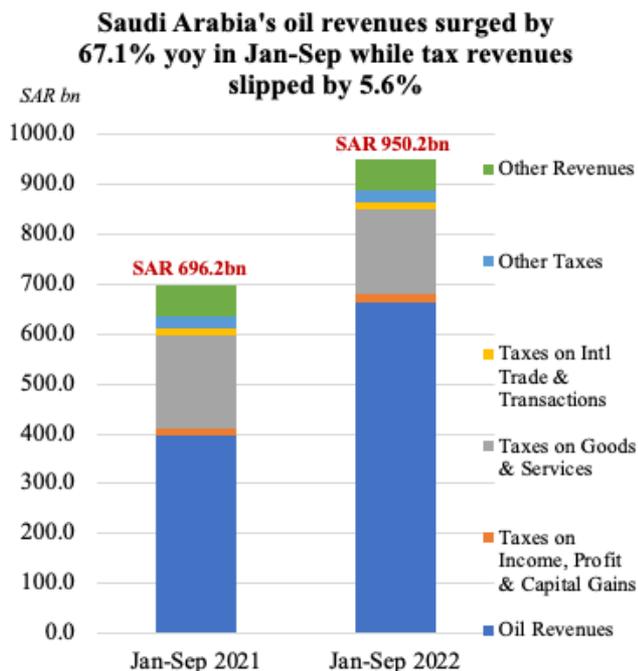
- **Taxes accounted for 79% of non-oil revenues** this year, while oil revenues surged by 67% to SAR 663.1bn.

- In spite of the rise in revenues, **spending rose by just 14%**, allowing a

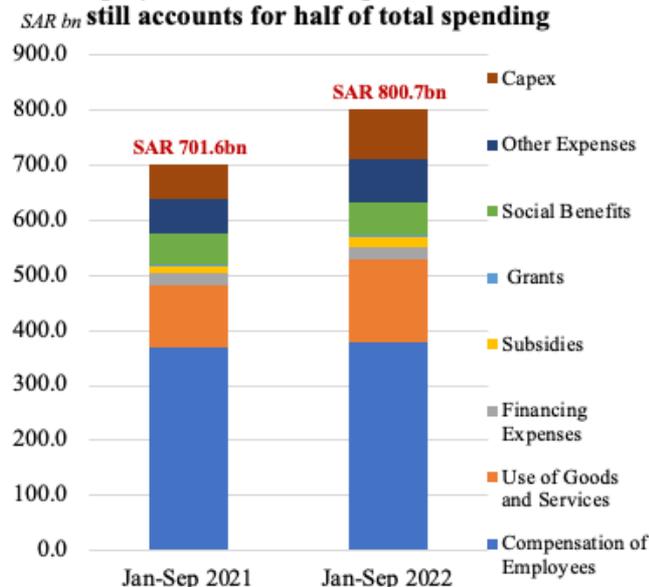
surplus of SAR 149.5bn. Though compensation of employees grew by just 2.4%, it still accounted for nearly 50% of total expenditure. Capex jumped by 42.6% to SAR 91.3bn.

- **In Q3 2022, overall revenues fell by 18.5% qoq** as both oil and non-oil revenues slipped by 8.5% and 39% respectively. **Taxes in Q3 fell by 46% qoq and 30% yoy.**

- **Overall expenditure fell by 2% qoq in Q3 2022**, with declines recorded across grants and social benefits. But, capex ticked up by 12% qoq and 49% yoy to SAR 40.5bn.



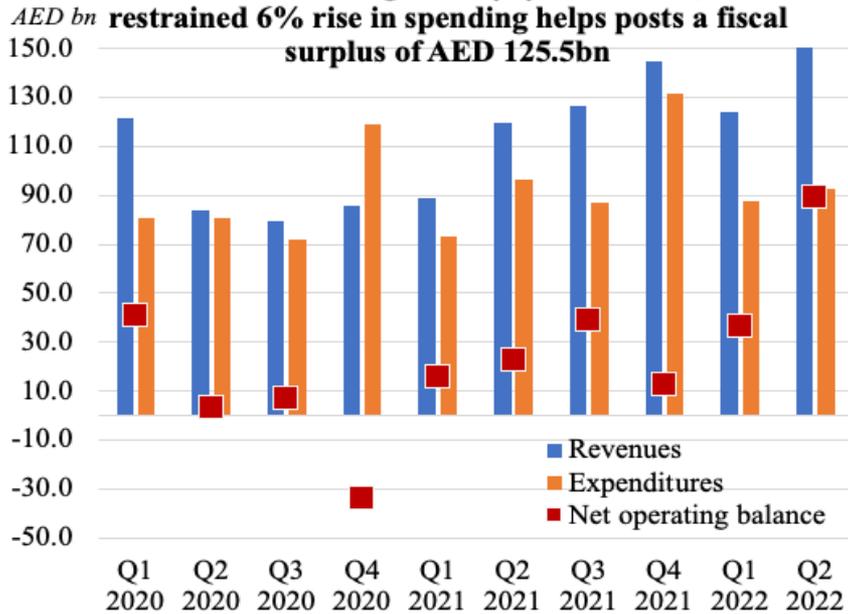
Saudi Arabia's spending inches up by 14.1% yoy in Jan-Sep 2022 with capex up by 42.6%; but, compensation alone still accounts for half of total spending



Source: Saudi Arabia's Ministry of Finance. Charts by Nasser Saidi & Associates

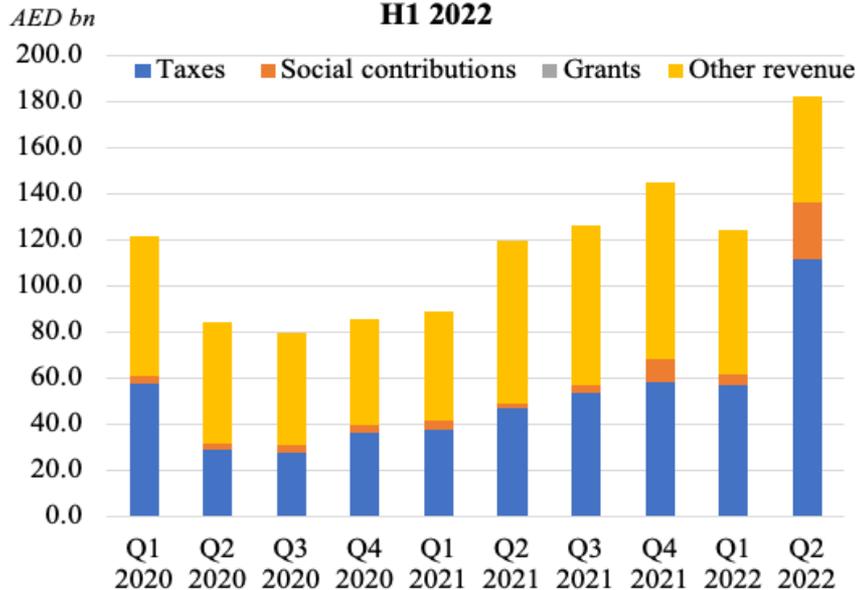
UAE posts fiscal surplus in H1 '22

UAE's revenues surge 47% yoy in H1 2022, but a restrained 6% rise in spending helps posts a fiscal surplus of AED 125.5bn

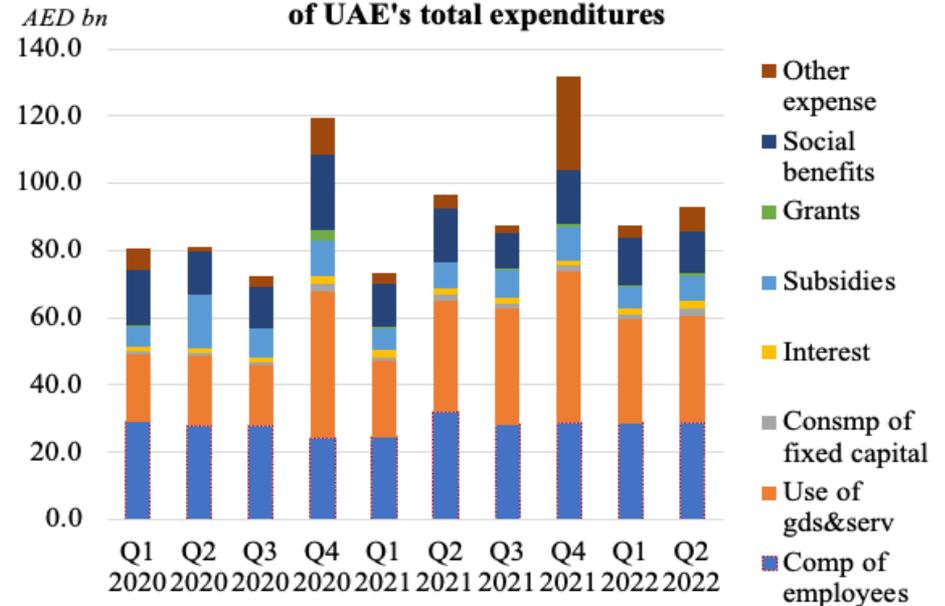


- **Federal revenues** grew by 47% yoy to AED 305.6bn in H1: This is the **largest revenue recorded during a six-month period in the last four years**
- **Spending rose** by 6% to AED 180.1bn in H1, resulting in a 3-fold increase in **net operating balance** to AED 125.5bn
- **Tax revenues doubled** to AED 167.9bn in H1 and **accounted for 55% of total revenues**. This is likely to tick up, once **corporate tax is rolled out**.
- **Compensation of employees** (32% of overall expenditure) edged up by 1% while subsidies declined slightly by 5% to AED 13.8bn

Taxes account for 55% of UAE's total revenues in H1 2022



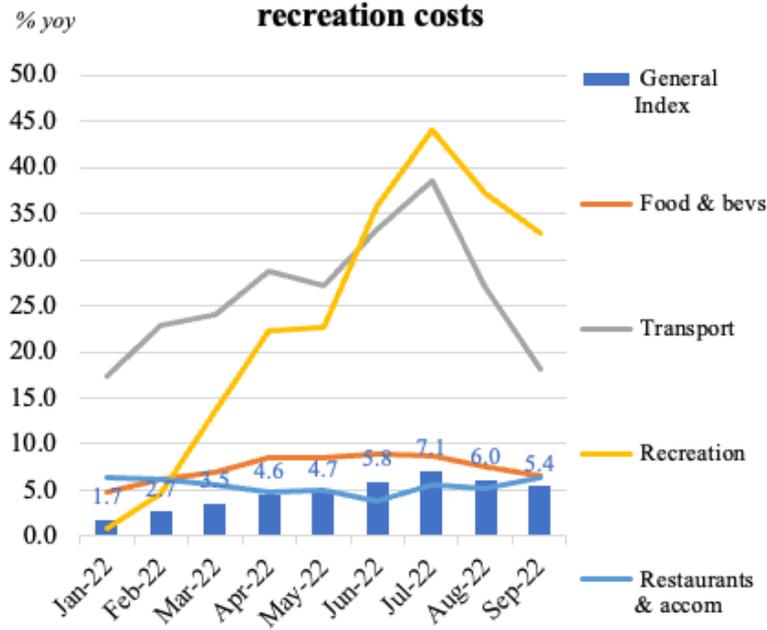
Compensation of employees account for nearly 1/3-rd of UAE's total expenditures



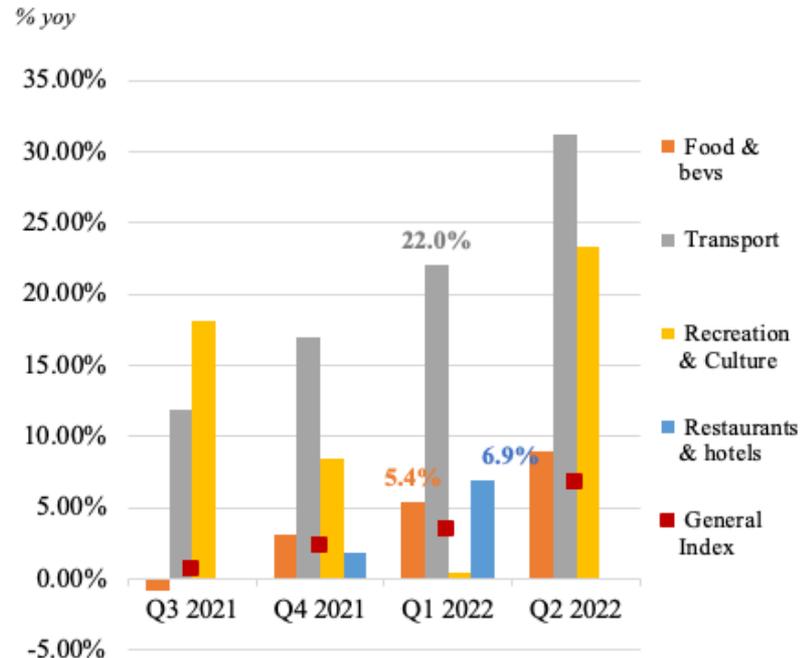
Inflation in the UAE ticked up to 5.1% in H1 2022; compares to Dubai's 3.8% in H1

- **Inflation in the UAE inched up to 6.8% in Q2 2022**, double the 3.4% reading clocked in Q1, with the biggest increases registered in transportation (31.2% from 22% in Q1) and recreation (23.3% from 0.5% in Q1). Housing (with a weight of 35.1%) declined by 0.4% (lower than Q1's 2% drop).
- **Inflation rates in Dubai and UAE stood at 3.8% and 5.1% in H1**. A few categories saw higher prices in Dubai: food (7.3% vs UAE's 7.2%), clothing (3.5% vs 2%), recreation (16.6% vs 11.9%).
- **The UAE central bank forecasts inflation at 5.3% in 2022**. In its latest quarterly review, it also alluded to a significant increase in the 3m moving average of private sector wages in Aug, without providing a specific number.

Inflation in Dubai averaged 4.6% in Jan-Sep 2022, largely driven by transport & recreation costs



Inflation in UAE climbed to 6.8% in Q2 (Q1: 3.4%)



Source: Dubai Statistics Centre, FCSA, UAE Central Bank. Charts created by Nasser Saidi & Associates

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