

Weekly Insights

14 Jul 2023

Middle East: Divergent Inflation, Travel & Tourism, Remittances & more

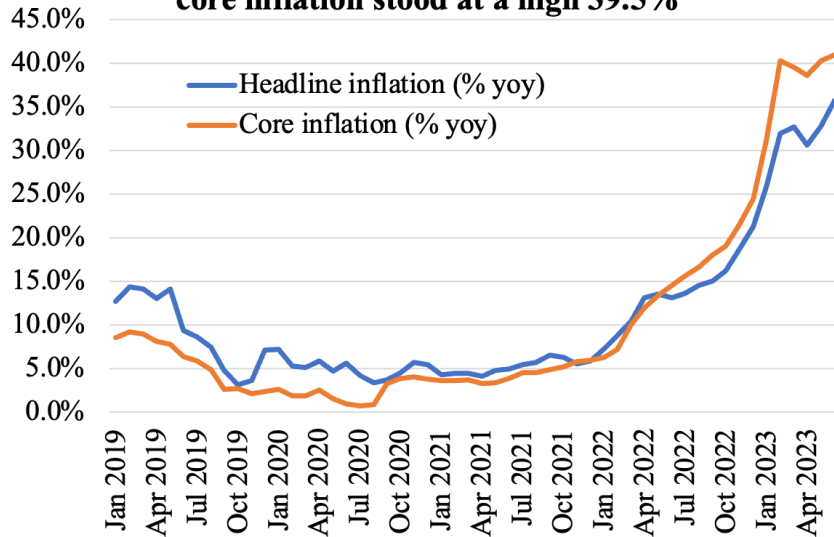
- *Egypt's inflation, asset sales & outlook*
- *In contrast, inflation in Dubai stood at 3.1% in May 2023*
- *DXB welcomed 6.02mn international visitors in Jan-Apr 2023, inching close to pre-Covid levels (6.26mn)*
- *Tourism recovery is a common pattern across the globe, but the Middle East stands out with its strongest post-Covid recovery*
- *Remittances into the Middle East fell by 4% yoy to USD 64bn in 2022; forecast to grow by 1.7% in 2023*
- *Unemployment rate of Saudi citizens fell to 8.5% in Q1 2023*
- *Oman's fiscal surplus hits OMR 581mn as of end-May 2023*

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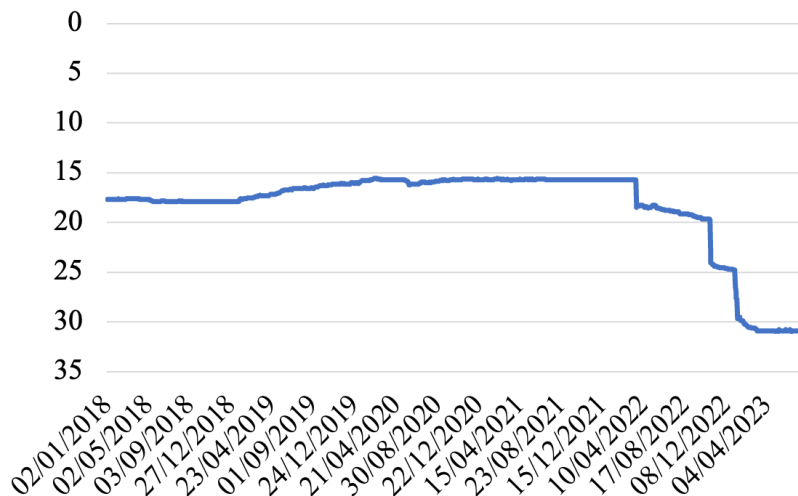
— & ASSOCIATES —

Egypt: Inflation, asset sales & outlook

Egypt's urban inflation rate rose to a record-high 35.7% in Jun, the highest since Jul 2017; core inflation stood at a high 39.5%



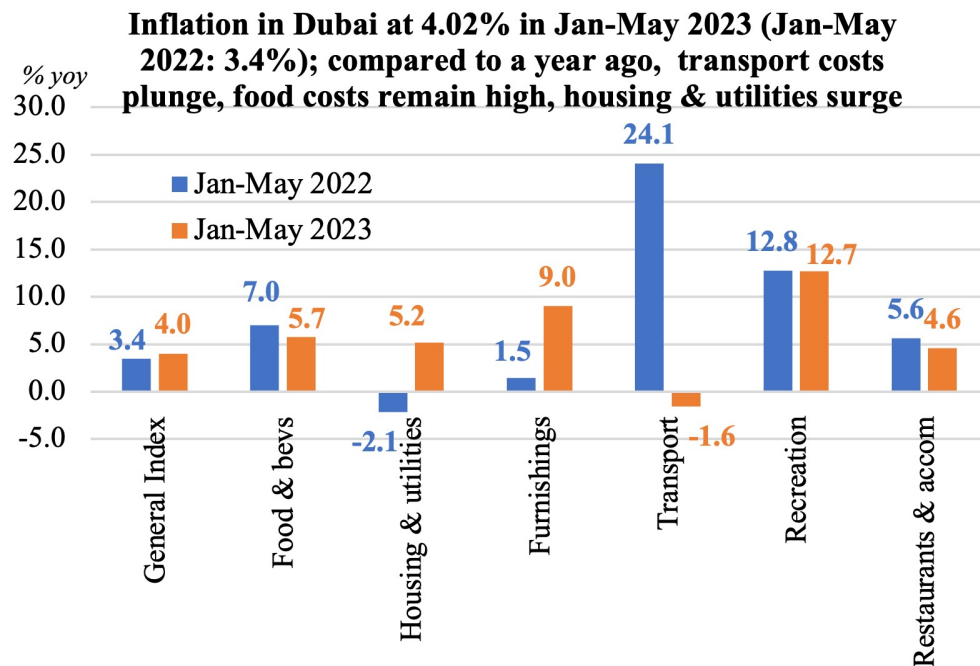
The Egyptian pound has fallen by nearly half over the past year: EGP per USD (inverted scale)



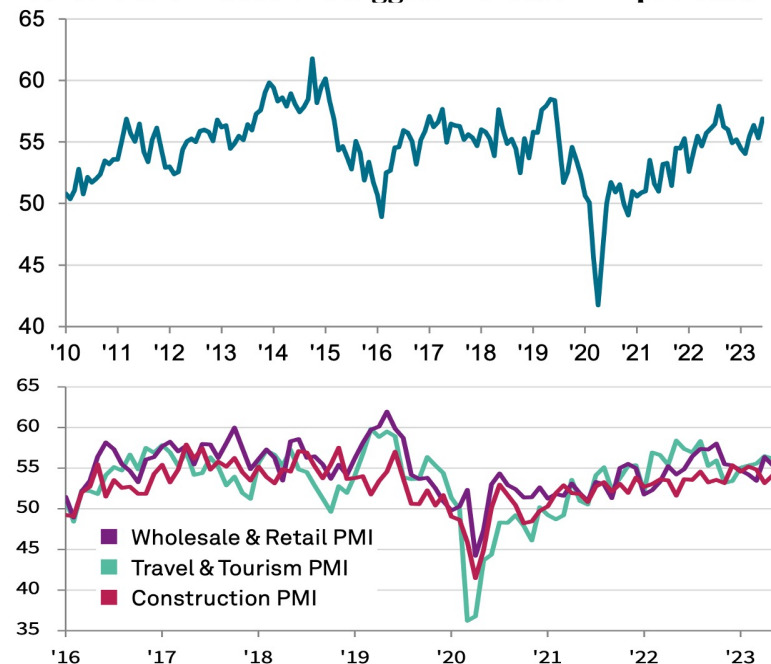
- **Urban inflation in Egypt surged to a record high 35.7% in Jun:** this surpasses the previous record of 32.95% touched in Jul 2017, about 8 months after the currency was devalued by half.
- **Core inflation was at a much higher 41%** (May: 40.3%) and annual food inflation posted a whopping 65.9% jump (from 60%).
- **Inflation is accelerating in Egypt in part due to the Egyptian Pound depreciation pass-through** to consumers and partly due to a **dollar shortage**; EGP has lost close to half its value since last year and there have been import restrictions.
- Egypt already announced as **part of the 2023-34 budget a 50% increase in social spending**. But, at the current speed of price gain, this measure is unlikely to dent the impact of inflation on households.
- Furthermore, IF the authorities proceed with further devaluation, more inflationary pressure is guaranteed.
- **Central Bank has been holding rates steady since March 2023:** prior to that, the apex bank had raised 200bps this year and another 800bps last year. We believe that **more rate hikes are in the offing**, with the next one likely as soon as next month (if not, then by September).
- In this backdrop, **Egypt signed contracts to sell stakes in state assets worth a total of USD 1.9bn** – of this USD 1.65bn will be in foreign currency. **This is a start**, but the nation is **only 1/4th the way through its list of 32 state firms** embarking on privatisation plans. The foreign currency will give some **support in building up a foreign currency buffer** - a condition needed prior to moving to a flexible exchange rate.
- **Meanwhile, domestic demand has been weak**, with high inflation and a weakening currency: non-oil sector PMI remained contractionary (below-50) for the 31st consecutive month in June & forward-looking sentiment was the second-weakest on record.

In contrast, inflation in Dubai stood at 3.1% in May 2023; Dubai's non-oil sector firms continue to cut prices charged for goods & services

- In May, inflation in Dubai eased to 3.05% yoy, after easing the month before to 3.27%. The only uptick in May was seen in housing & utilities (5.74% from 5.44%) while transport prices fell the most (-1.57% average in Jan-May vs an average of 22.13% in 2022). Food inflation, though easing, is relatively high (4.8% in May vs 6.7% in 2022); recreation costs fell in May (-1.2% vs 7% in Apr) while restaurants & accommodation has been easing (4.6% in Jan-May '23 vs 6.5% in 2022).
- This easing of costs is shows up in the **PMI for Dubai's non-oil sector**: average input prices rose, but it was weaker than the long-run series average. Though input prices ticked up at the fastest rate in 3 months in June, **firms continued to reduce charges levied, with discounts being offered to support demand** – such behaviour is not sustainable and will have an impact on firms' bottom line and profits. **Construction firms reported the biggest increase in costs, while travel & tourism firms led new order growth.**



Dubai PMI picked up in Jun; new order growth accelerated most in travel & tourism sector; construction faced the biggest increase in input costs

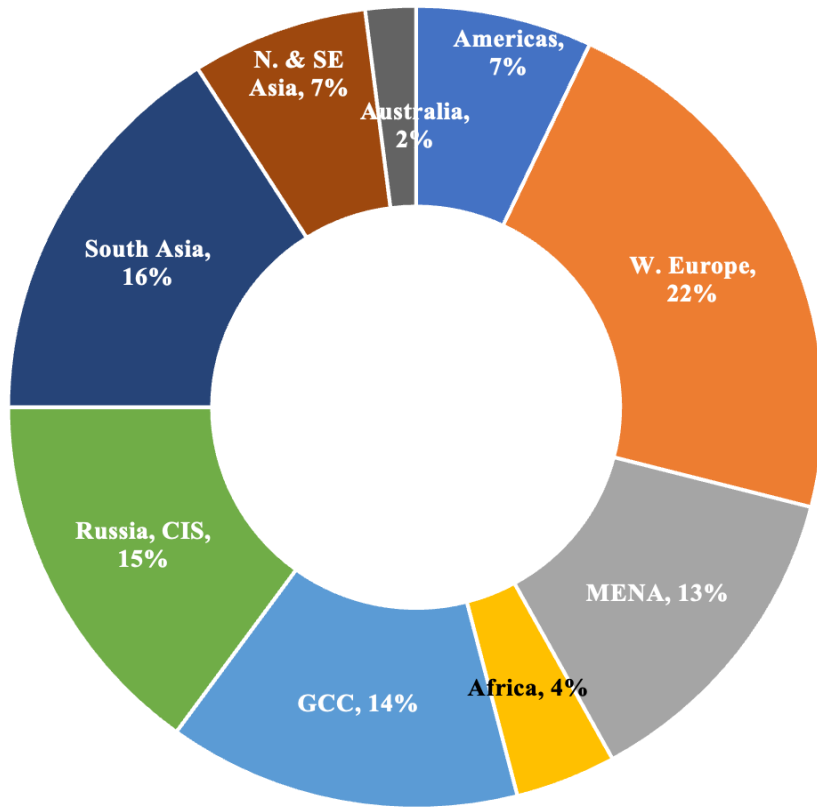


Source: Dubai Statistics Centre, S&P Global PMI.

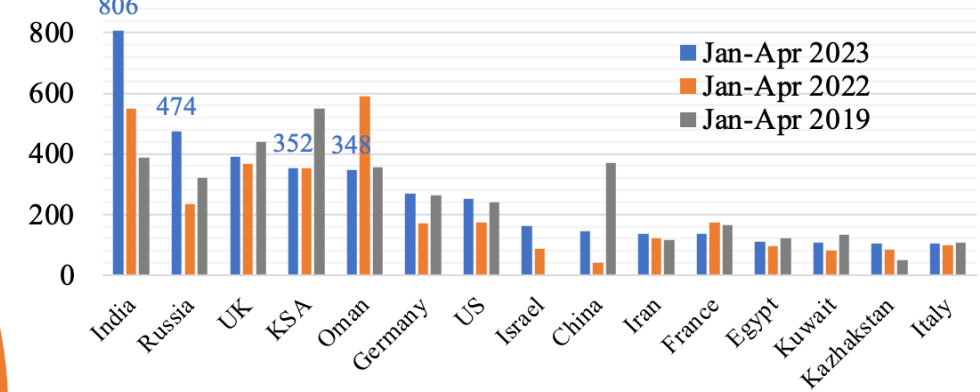
As seen in PMI data, Dubai tourism is gaining. DXB welcomed 6.02mn international visitors in Jan-Apr 2023, inching close to pre-Covid levels (6.26mn). Occupancy rates are higher than the past 3 years, but a tad below pre-Covid days

Regional composition of tourists have remained the same, there are distinct differences top source nations: the major one is the re-entry of Chinese travelers into the top 10; Saudi Arabia and Oman are still among the top 5 but have dropped from top-3. Revenue per available room has fallen vs 2022, as has length of stay (4 from 4.4) & room rates (still-high AED 599 from AED 640)

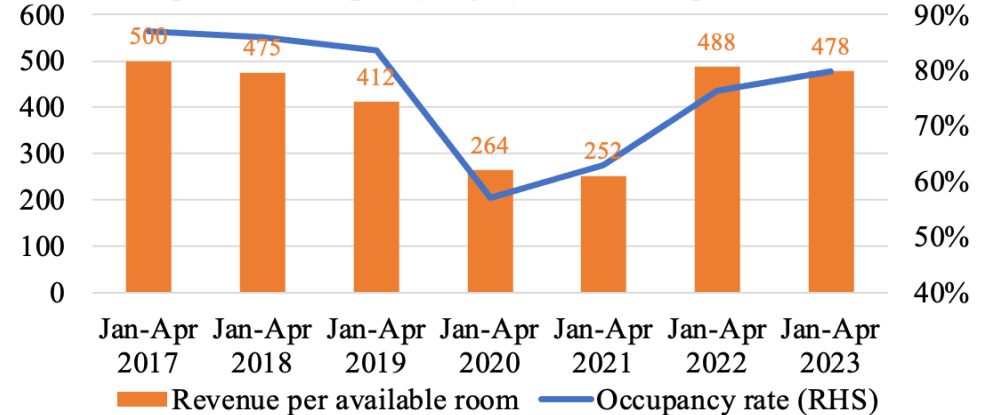
Dubai receives 6.02mn international visitors in Jan-Apr 2023, just under the 6.26mn welcomed in Jan-Apr 2019



Top 5 source nations of visitors into Dubai account for ~40% of total; visitors from China return to 9th overall (but 60% below than Jan-Apr 2019 levels)



Dubai's revenue per available room remains high in Jan-Apr 2023; occupancy slightly lower than pre-Covid

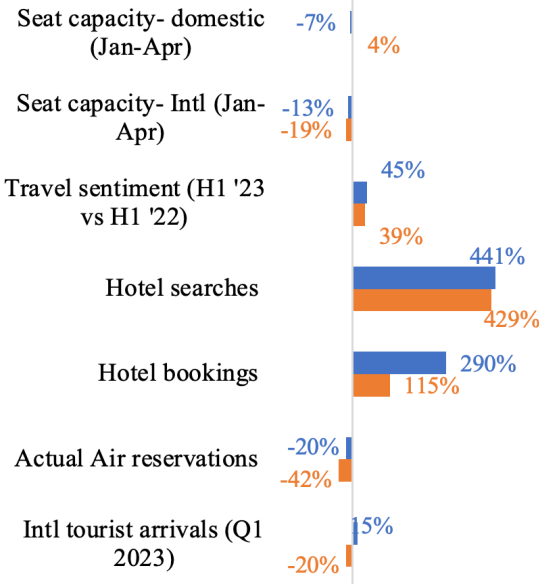


Source: Dubai Department of Economy and Tourism. Charts by Nasser Saidi & Associates

Note: Revenue figures are reflective of reported hotel data including residents and hoppers

Tourism recovery is a common pattern across the globe, but Middle East stands out with its strongest post-Covid recovery in international tourist arrivals (+15% in Q1 2023 vs 2019), also outpaces global average in many indicators

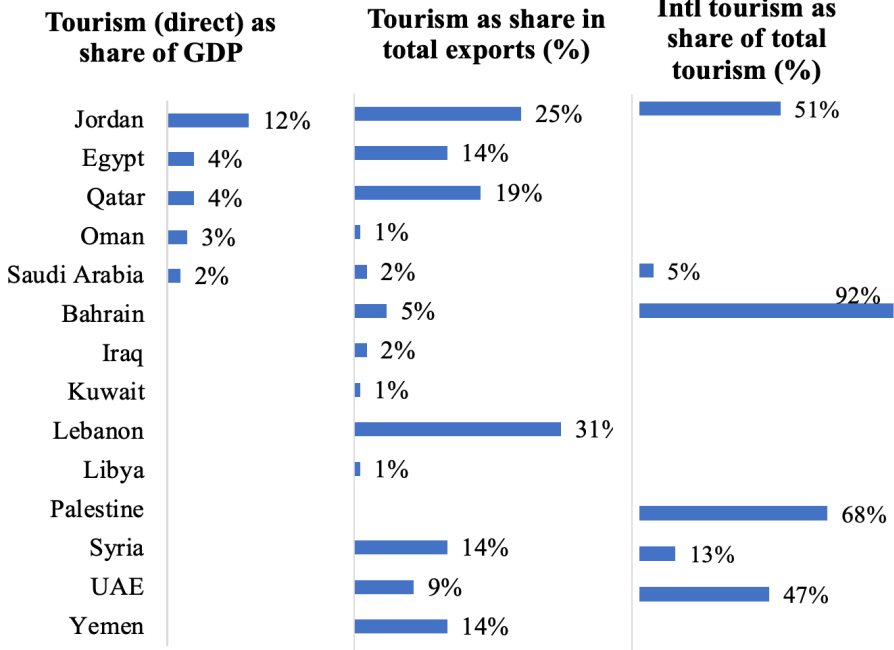
Tourism Indicators: Middle East vs Global (H1 2023, unless specified)



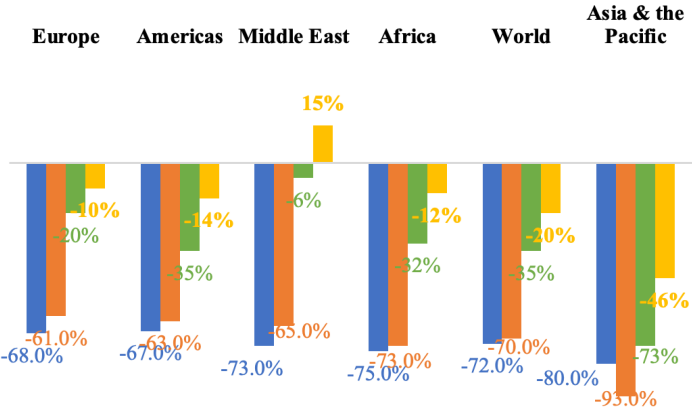
International Tourist Arrivals in Middle East, by country (vs 2019)

	2020	2021	2022	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Middle East	-75%	-71%	-6%	13%	25%	19%	14%	16%	17%
Bahrain	-83%	-67%	-10%	12%	20%	24%			
Jordan	-76%	-55%	-5%	14%	8%	14%			
Lebanon	-71%	-61%	-32%						
Oman	-75%	-84%	-18%	-29%	-14%	-2%			
Qatar	-73%	-71%	20%	4%	202%	123%	73%	117%	104%
Saudi Arabia	-76%	-80%	-5%	57%	49%	38%	50%	65%	79%
Syria	-80%	-73%	-26%	-9%	-3%	0%	-6%	-30%	-31%
UAE	-67%	-57%	5%	18%	25%	14%			

Vulnerability of tourist destinations in the Middle East



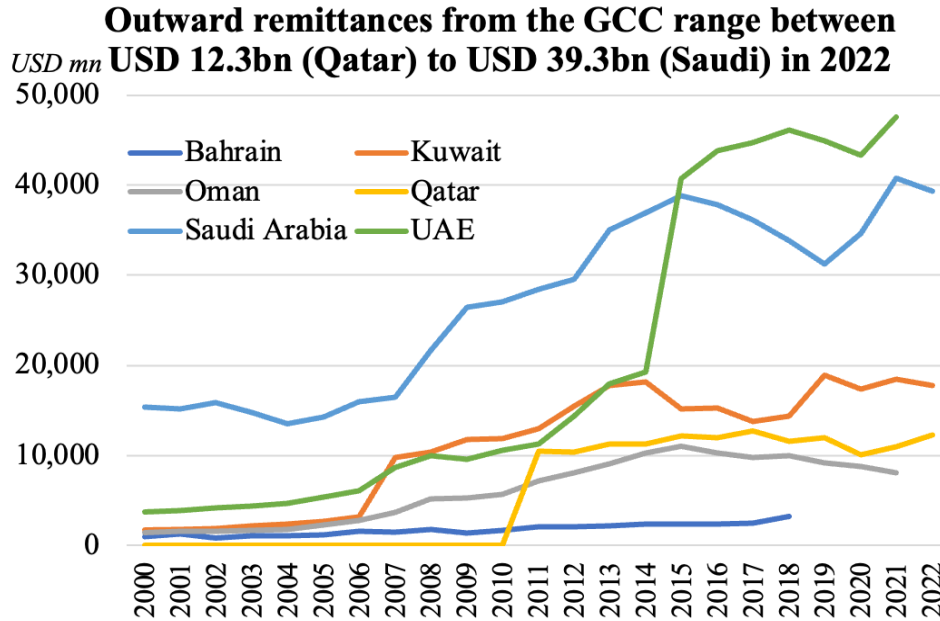
Growth in International Tourist Arrivals (% chng 2020, 2021, 2022, Q1 2023 vs 2019)



Source: UNWTO. Charts created by Nasser Saidi & Associates

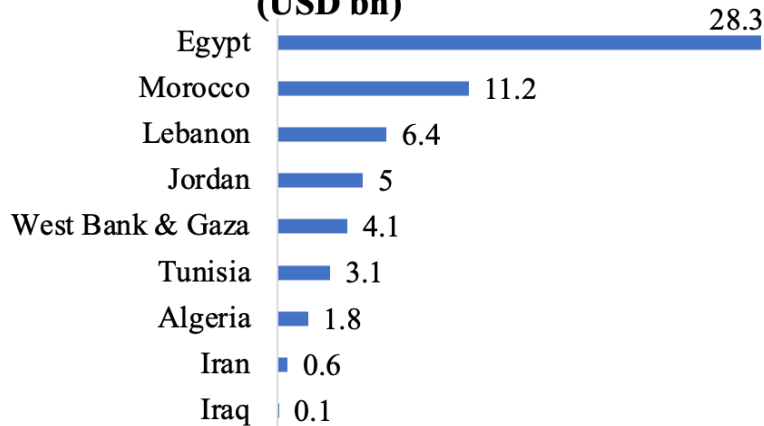


Remittances into the Middle East fell by 4% yoy to USD 64bn in 2022; forecast to grow by 1.7% in 2023

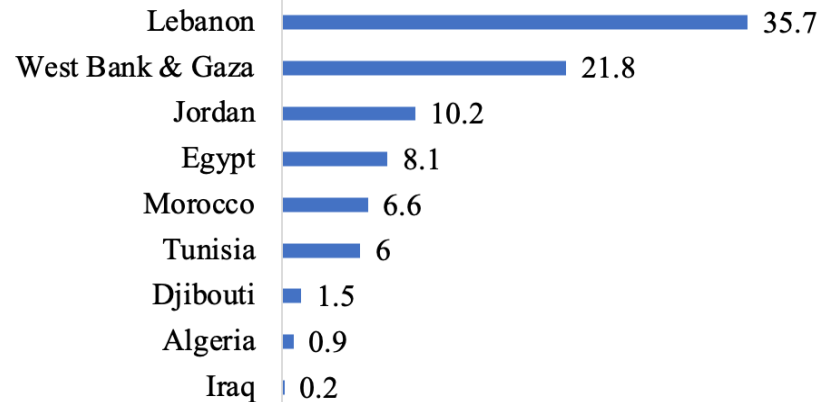


- **Remittances inflows into MENA weakened last year, but is estimated to tick up in 2023.**
- **Why?** Increased inflow of migrants post-Covid, resulting in an uptick in remittances; but many GCC nations' long-term residency programs may lead to a slight decline in remittances back home. Also dependent on degree of inflation & financial volatility in host nation.
- **Egypt is still the largest remittance recipient, but it declined by 10% last year.** Recipients are either selling foreign exchange on the parallel market (given the gap) or holding due to devaluation expectations.
- **Saudi Arabia**, which accounts for 1/3-rd of Egypt's remittances, also recorded a **decline in total remittance outflows in 2022.**
- **Lebanon and West Bank are the most dependent on remittances: 35.7% and 21.8% of GDP respectively last year.**

Top Remittance Recipients in MENA, 2022 (USD bn)



Top remittance recipients in MENA, 2022 (as % of GDP)

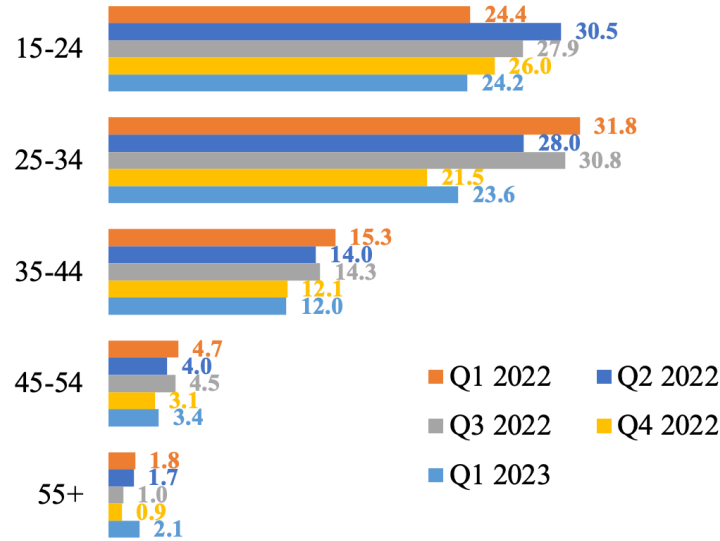


Unemployment rate of Saudi citizens fell to 8.5% in Q1 2023

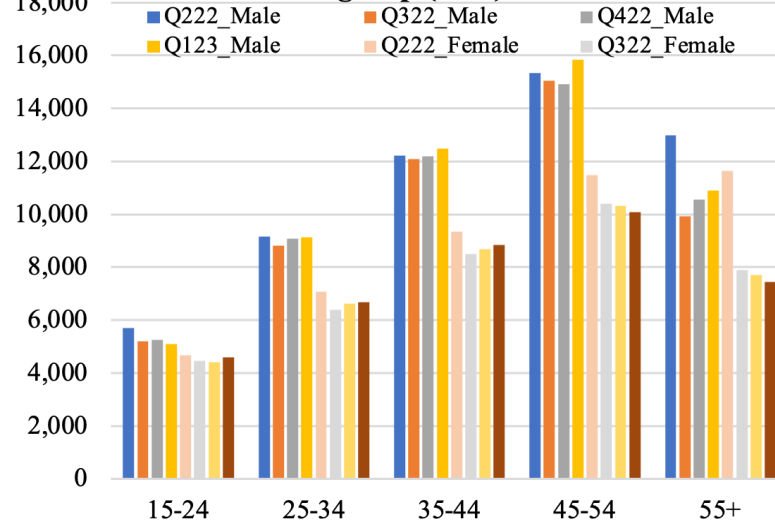
- Unemployment in Saudi Arabia (inclusive of expats) inched up to 5.1% in Q1 2023 (Q4: 4.8%).
- Saudi citizens unemployment rate also ticked up: 8.5% in Q1 (Q4: 8%).
- Female unemployment among Saudis rose to 16.1% in Q4 (less than half of 33.7% in Q2 2016); though some age groups saw declines (the under-24 and the 35-44 age groups)
- Female labour force participation remained unchanged at 36% in Q1 while females' wages barely moved (0.1% qoq to SAR 7,723).

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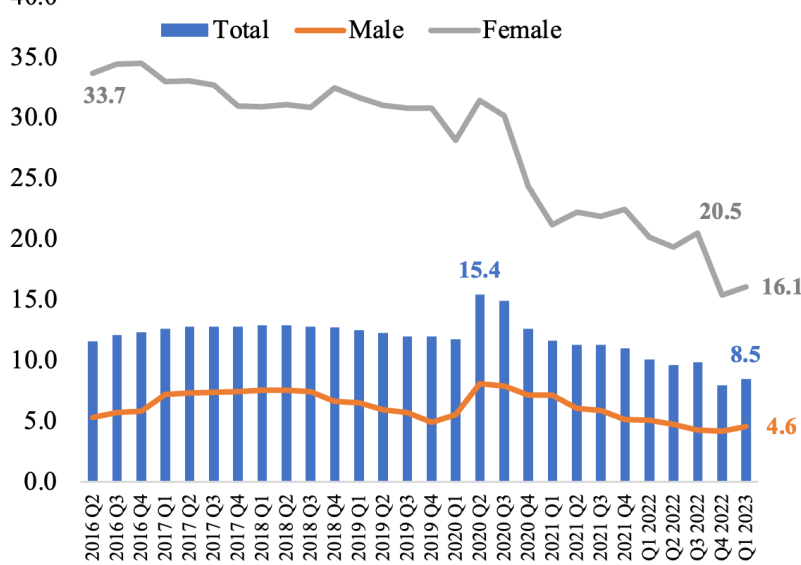
Saudi female unemployment rate for 25-34 and 45+ age groups increase in Q1 2023



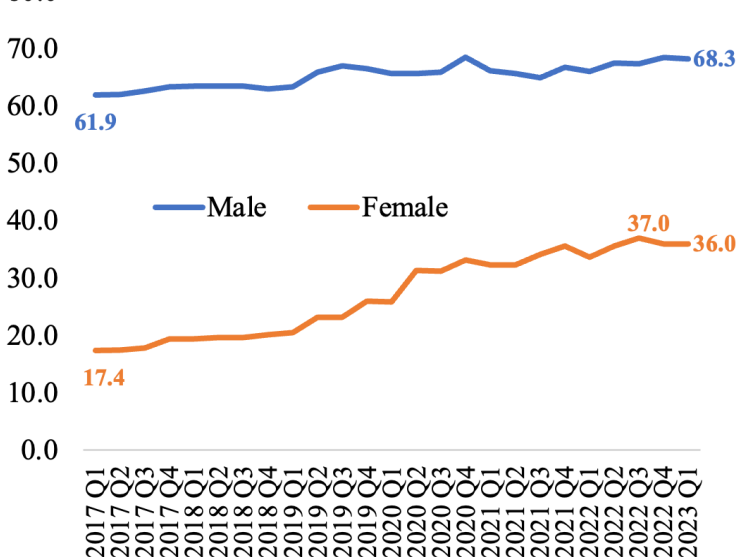
Average monthly wages of Saudi nationals increased by 2% qoq in Q1 2023; sharpest fall was seen among Saudi females in the 55+ age group (-4%)



Unemployment rate of Saudi nationals inches down to 8.5% in Q1 2023 (Q4 2022: 8%)



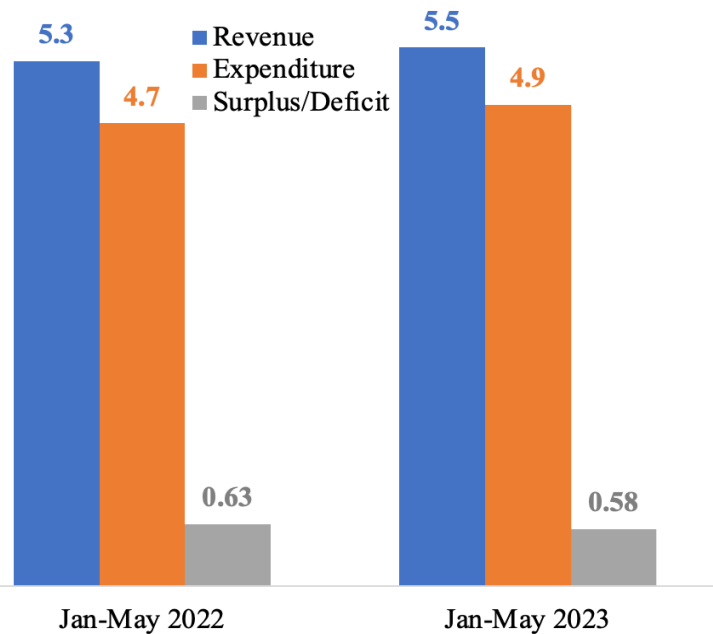
Saudi female labour force participation rate stays unchanged at 36% (Q3 2022: 37% & higher than 17.4% in Q1 2017)



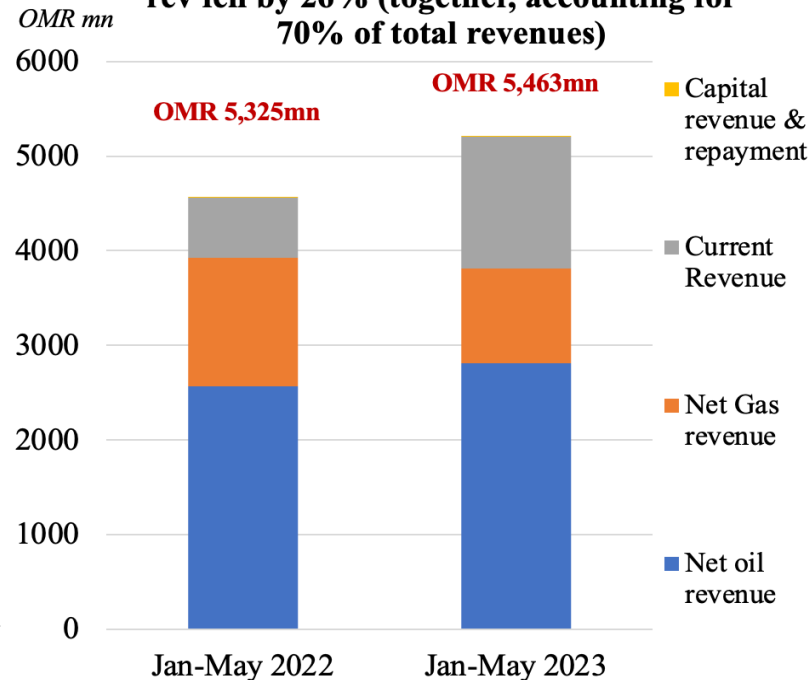
Oman's fiscal surplus hits OMR 581mn as of end-May 2023

- **Oman posted a budget surplus of OMR 581mn at end-May 2023:** total revenue was up by 3% yoy while spending grew at a faster pace of 4%. This compares to a projected deficit of OMR 1.3bn as per the 2023 budget.
- Increased production & higher oil prices led to a **9% increase in net oil revenue to OMR 2.8bn** in May 2023: prices averaged USD 84 per barrel (+2.4% yoy) and oil production increased 2.9% to 1.064mn barrels per day.
- **Net gas revenues plunged** by 26% to OMR 1,003mn (largely due to “due to the deduction of gas purchase and transport expenses from the total revenue” according to the ministry). But together **net oil and gas revenues accounted for 70% of total public revenue**, making it more vulnerable to volatility in the oil & gas markets.
- While **current expenditure declined** (-9% to OMR 3.4bn), there was a 31% hike in “contributions and other expenses” (to OMR 678mn); latter due to an increase in electricity and oil subsidies amounting to OMR 244mn and OMR 143mn in Jan-Apr. Furthermore, **OMR 166mn was transferred to future debt obligations** budget-item.

Oman: Revenue grew by 3% yoy in Jan-May 2023 & spending by 4%, registering a surplus of OMR 0.58bn



Oman's revenues rose in Jan-May 2023: 9% yoy jump in net oil revenues while net gas rev fell by 26% (together, accounting for 70% of total revenues)



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

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