Weekly Insights
28 July 2023

Macroeconomic Outlook & Risks for the MENA region

- *IMF projects global growth to slip to 3.0% this year (2022: 3.5%)*
- *Growth in Middle East and North Africa is set to decline to 2.6% this year: IMF. What is our outlook for the region?*
- *Kuwait posts its first fiscal surplus in 9 years: KWD 6.4bn in 2022-23*
- *Saudi Arabia's oil exports plunge in May, dragging down overall exports*
- *Saudi Arabia's FDI rises in Q1 2023, as does foreign investment licenses*
- *UAE's net fiscal operating surplus narrows to AED 23bn+ in Q1 2023*
- *UAE's Q2 2023 credit sentiment survey indicates robust lending despite rate hikes*
- *Inflation in Dubai eased to 2.1% in June 2023, the lowest since Jan 2022*

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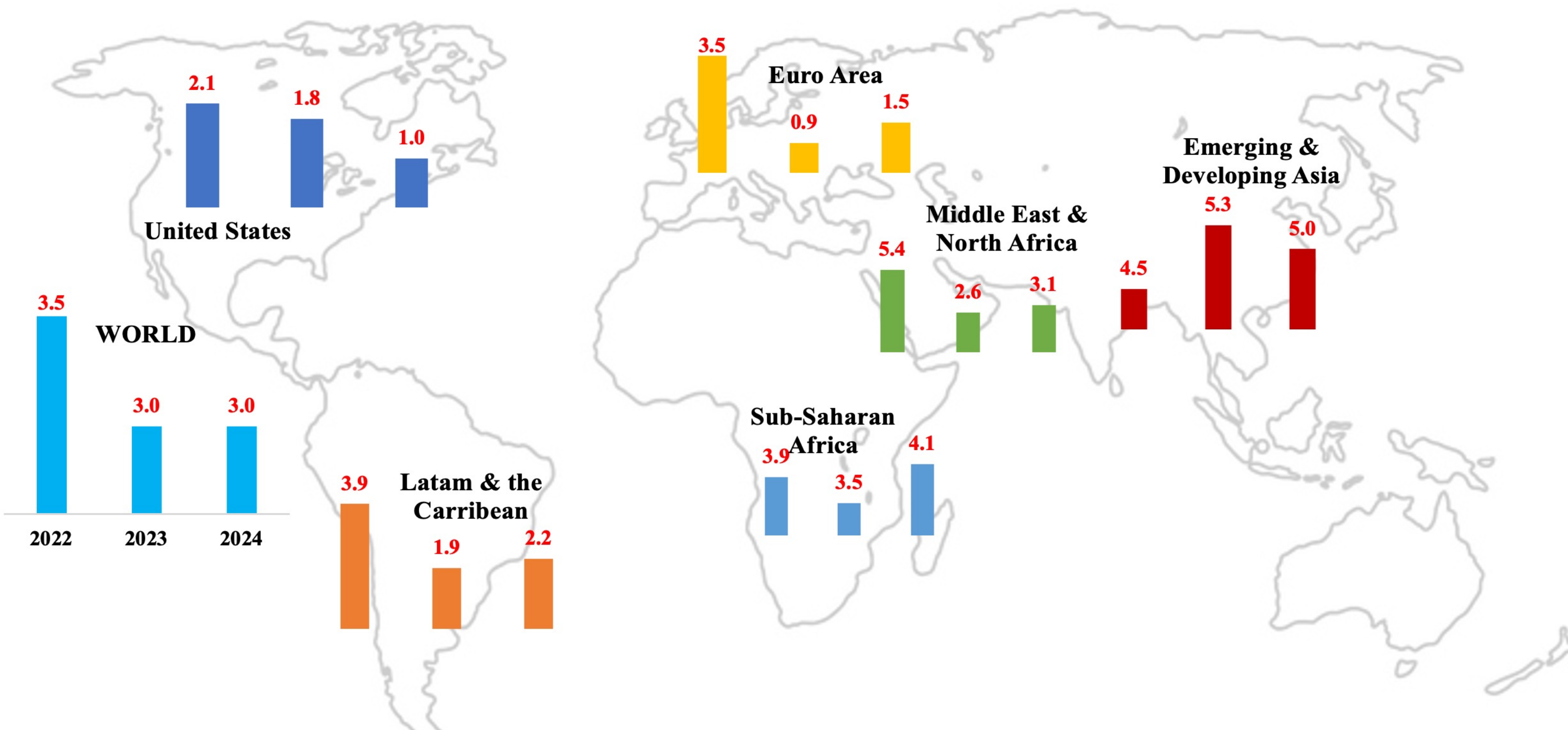
IMF projects global growth to slip to 3.0% this year (2022: 3.5%)

- **Global Economic growth is forecast to fall to 3.0% in 2023**, following 3.5% growth in 2022, with growth supported by emerging markets. In general, manufacturing remains weak alongside stronger services sector activity. China's post-Covid recovery has not sustained the initial boost (with potential spillovers into the rest of the world).
- **Inflation has eased from 2022 peaks**, while food prices remain high; given persistent core inflation (and above central bank targets), major central banks have continued with a tightening policy that has further constrained economic activity.
- **Oil prices are projected to fall by about 21% in 2023**, following the 39% surge last year, reflecting the slowdown in global economic activity. This is **reflected in the growth forecasts for oil-exporter Saudi Arabia** (1.9% this year from 2022's 8.7% growth); given its stature as the largest economy in the region, growth in the wider MENA region is also estimated to decline to 2.6% in 2023. **However, diversification is key**: as long as non-oil sector activity in Saudi Arabia remains robust (forecast of ~ 6%), growth can be resilient.

Global economic growth expected to grow by 3% in 2023 (2022: 3.5%), amid persistently high core inflation: IMF



Source: IMF World Economic Outlook, Jul 2023. Chart by Nasser Saidi & Associates

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Growth in Middle East and North Africa is set to decline to 2.6% this year: IMF. What is our outlook for the region?

Outlook

- **GDP growth**: for GCC & other oil exporters, lower growth is a result of lower oil production levels; **in the GCC, non-oil sector will support growth**
- **PMI indicates wide divergence** in the MENA region (with expansion in the GCC)
- **Inflation eases but persists**. Relatively high in non-GCC vs GCC, given latter's subsidies, caps on prices, USD peg; housing prices still rising in KSA & UAE
- **Fiscal balance**: GCC have avoided procyclical spending, but need to practice fiscal consolidation (& diversify source of revenue; overall improvement in MENA
- **Monetary policy**: GCC raises rates in line with the Fed; others tighten policy to combat inflation; many nations witnessing sharp currency depreciation
- **Trade & tourism recovery at** varying paces, but inching closer to pre-pandemic levels

Near-term Risks

- **Higher food / oil prices**
- Over-dependence on **food imports** + food security
- Geopolitical changes/ social unrest
- Additional **fiscal support** (i.e. increase in subsidies, wages etc)
- **Higher borrowing costs** (raises interest expense burden)
- **Tighter financial conditions** (effect on debt repayments)
- Further **currency depreciation** (especially in Egypt, Lebanon, Iraq…)
- Extended **slowdown in China**
- Impact from **climate change** (heat, droughts…)

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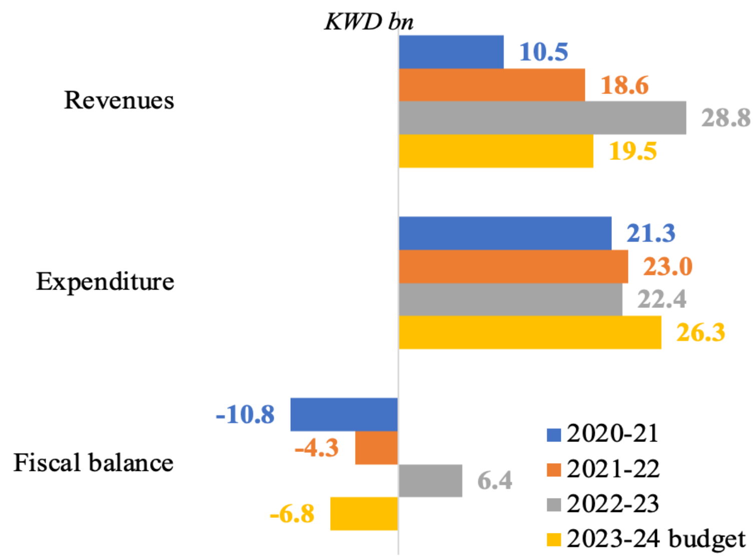
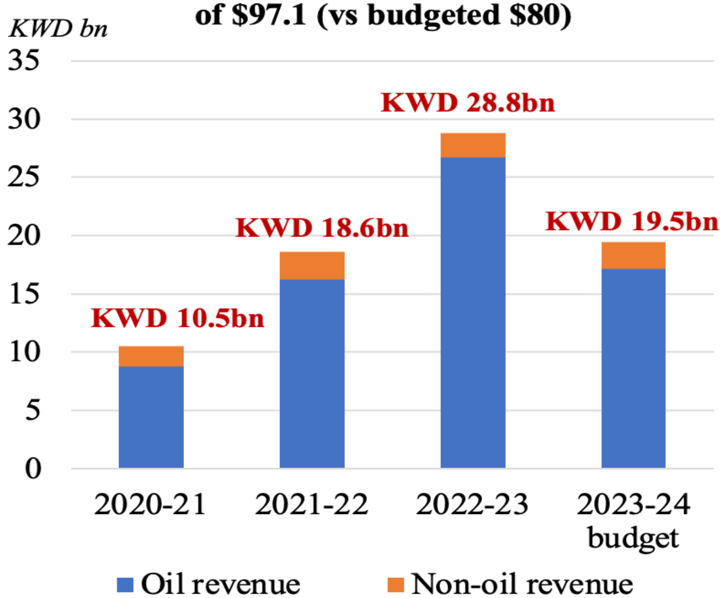
Kuwait posts its first fiscal surplus in 9 years: KWD 6.4bn in 2022-23

- **Kuwait posted a fiscal surplus of KWD 6.4bn in 2022-23**, driven by the surge in oil revenues (64.7%) alongside a 2.6% drop in spending.
- **Revenues grew by 54.7% yoy** to KWD 28.8bn (23.1% higher than the 2022-23 budget, which was based on an oil price of USD 80 vs actual USD 97.1. The 2023-24 budget forecasts a 19.5% drop in oil revenue (based on oil price at USD 70). **Oil and non-oil revenues accounted for 87.1% and 12.9% of total revenues** respectively.
- **Expenditures fell by 2.6% yoy to KWD 22.4bn** (5% lower than the 2022-23 budget), dragged down by capex spending (-20.3% yoy to KWD 2.1bn) while **salaries and subsidies inched lower** by 2% and 2.9% respectively.
- Unlike other GCC nations, **Kuwait is constrained by** its lack of non-oil revenue proceeds and delays in passing its new debt law (that would allow the nation to tap international markets) among others.

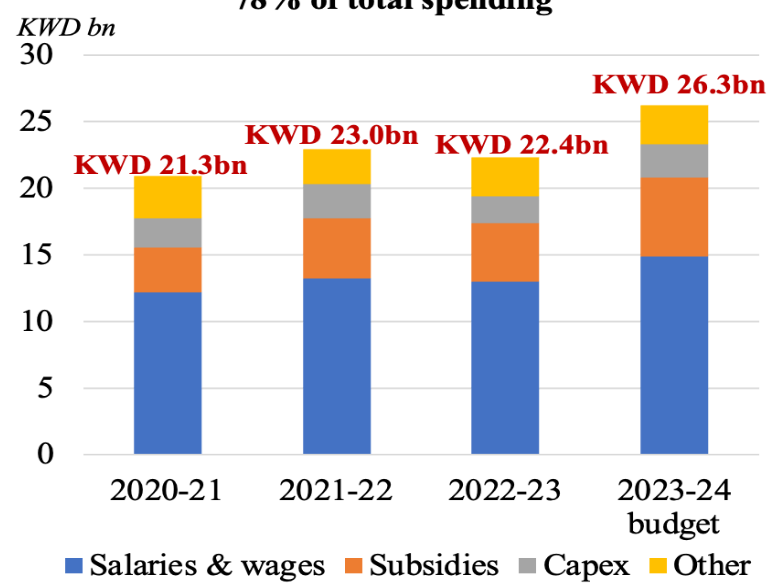
Kuwait records a fiscal surplus of KWD 6.4bn in 2022-23, the first surplus in 9 years



Kuwait: oil revenues account for 93% of total revenues in 2022-23, given oil price of $97.1 (vs budgeted $80)



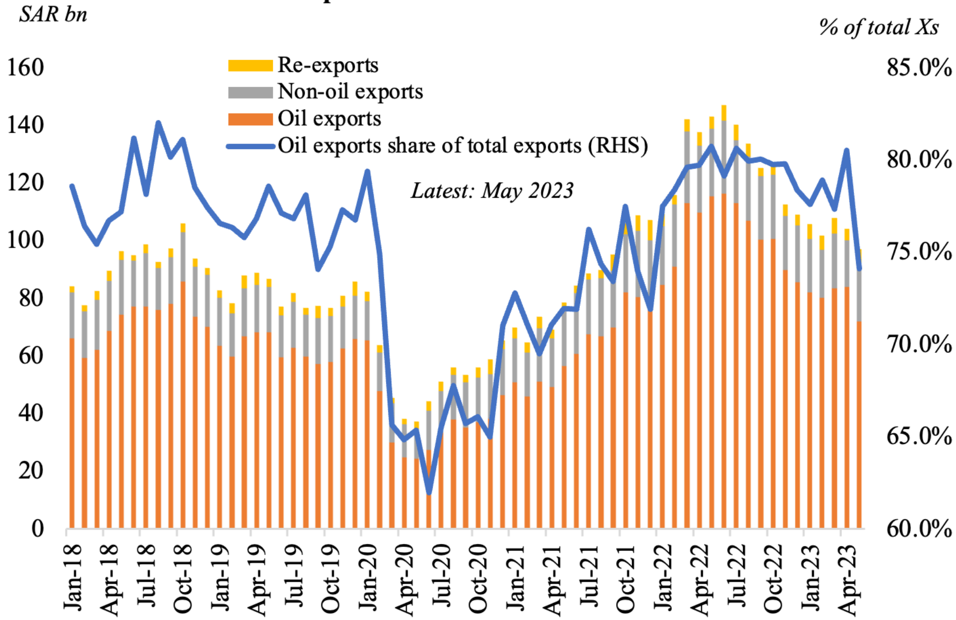
Kuwait: spending declined by 2.6% yoy in 2022-23; wages & subsidies account for 78% of total spending



Source: Ministry of Finance, Kuwait. Charts by Nasser Saidi & Associates

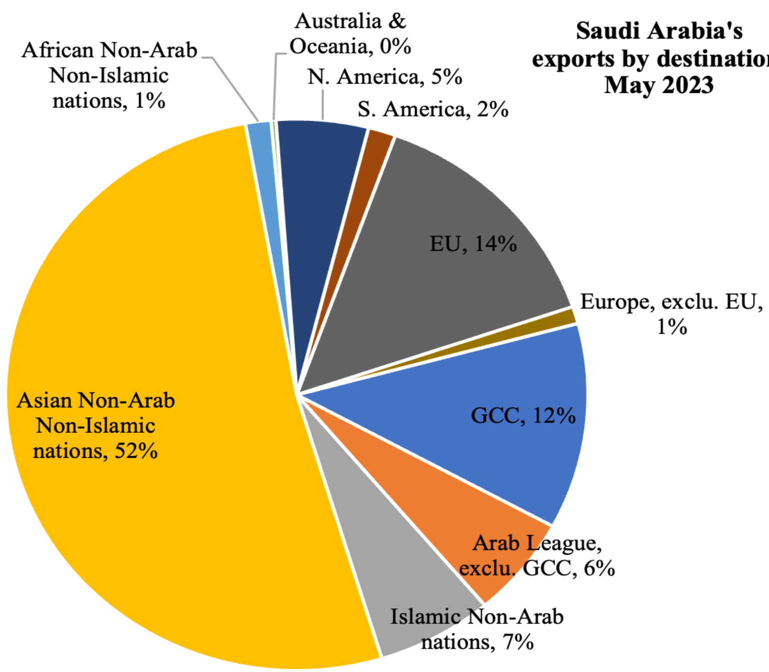
Saudi Arabia's oil exports plunge in May, dragging down overall exports

Saudi non-oil exports fell by 19% yoy to SAR 18.9bn in May 2023; oil exports share fell to 74% of total

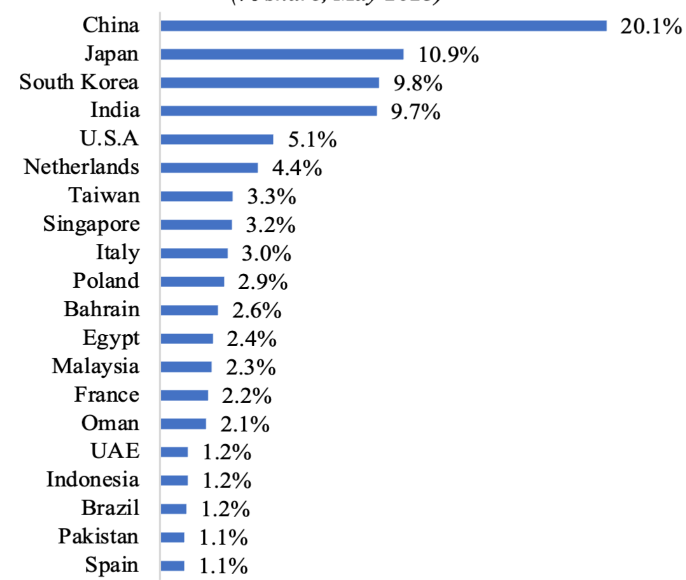


- **Saudi Arabia's exports fell by 32% yoy** and 6.7% mom to SAR 97.1bn in May – this is the lowest reading since Sep 2021. The fall in exports stemmed from oil exports, which plunged by 38% yoy and 14.1% mom mainly on lower prices.
- The **share of oil exports to overall exports fell to 74.1% in May**, the lowest since end-2021.
- **Oil exports to the top 5 destinations** (China, Japan, South Korea, India and the US) **accounted for 56% of the total oil exports** and for the top 20 it was at ~90%.
- Largest non-oil exports (incl. re-exports) were chemicals & allied products and plastics (55% of outbound trade).
- **Imports increased sharply:** 16.9% yoy to SAR 67.7bn, led by machinery & mechanical appliances and vehicles (22% and 17% respectively of total imports).

Saudi Arabia's exports by destination, May 2023



Saudi Arabia's top 20 destinations for oil exports together account for about 90% of total oil exports
(% share, May 2023)



Source: GaStat. Charts by Nasser Saidi & Associates

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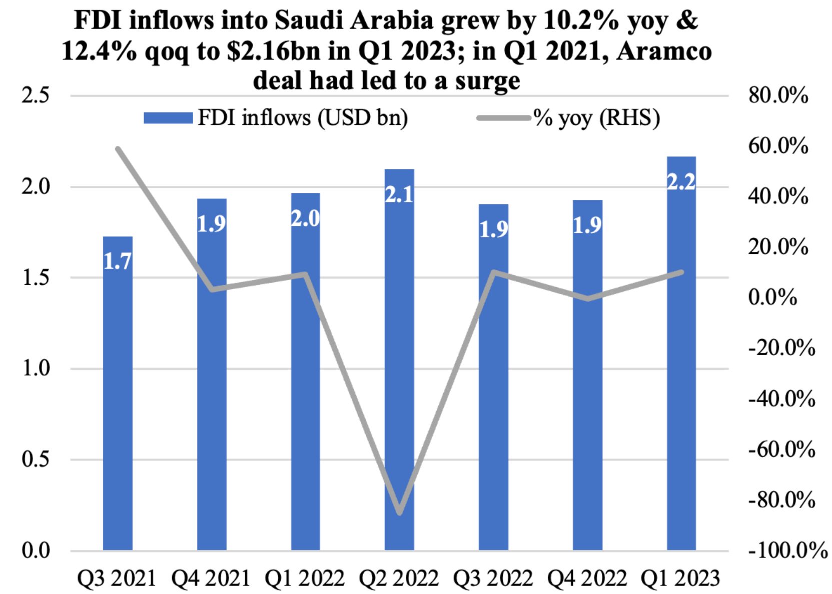
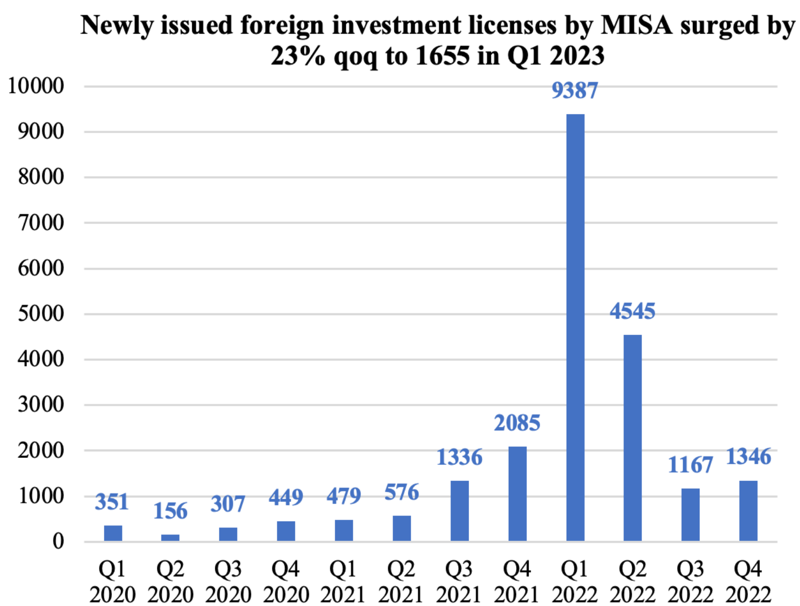
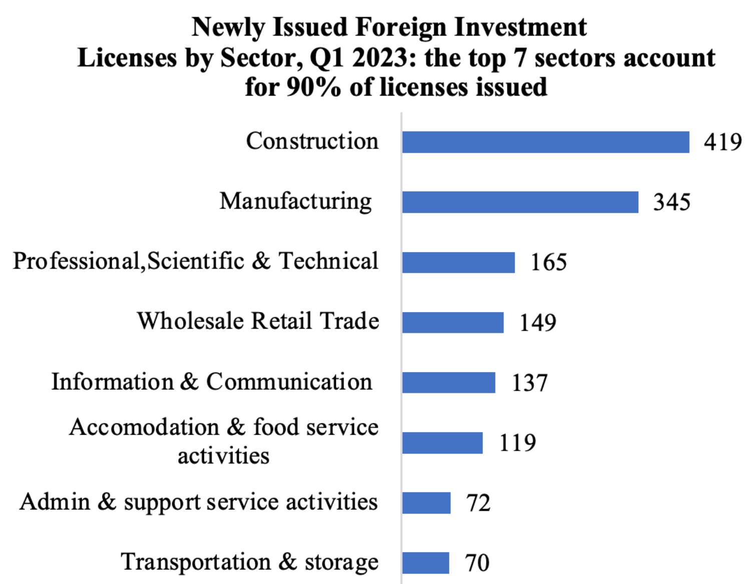
Saudi Arabia's FDI rises in Q1 2023, as does foreign investment licenses

- **FDI into Saudi Arabia increased** by 10.2% yoy and 12,4% qoq **to USD 2.1bn in Q1 2023**. This is the highest reading since Q2 2021 when the Aramco deal had led to a massive surge (to USD 13.8bn).
- The **increase in FDI can be attributed to the host of economic reforms** rolled out in the recent years: an estimated 600 economic reforms since 2016, according to the finance ministry.
- **MISA reported an increase in newly issued foreign investment licenses in Q1 2023**: 23% qoq to 1346.
- **Construction licenses accounted for 1/4th of licenses** given the mega/ giga projects in the pipeline. Manufacturing continues to attract investments as well, with 1/5th share of licenses, thereby confirming strength in manufacturing output (within IP).







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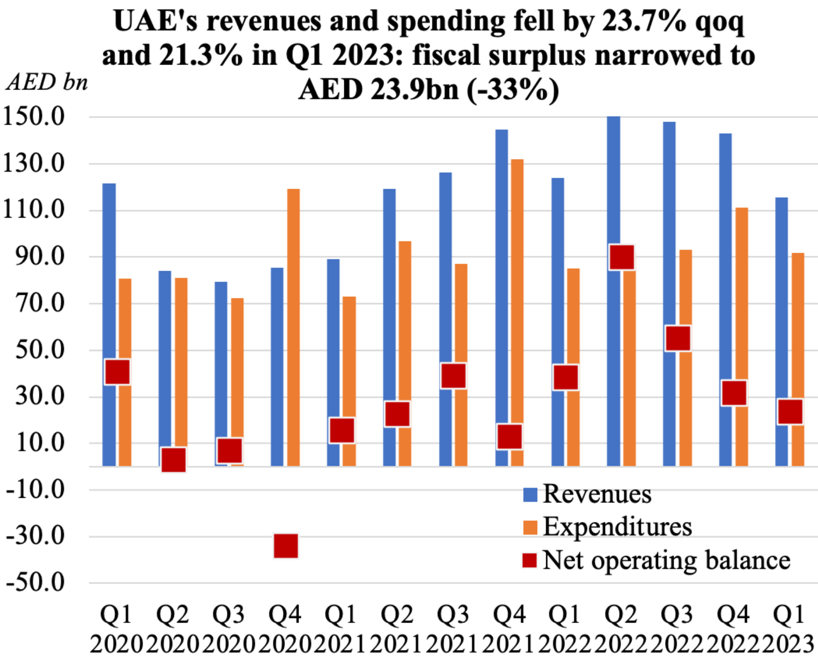
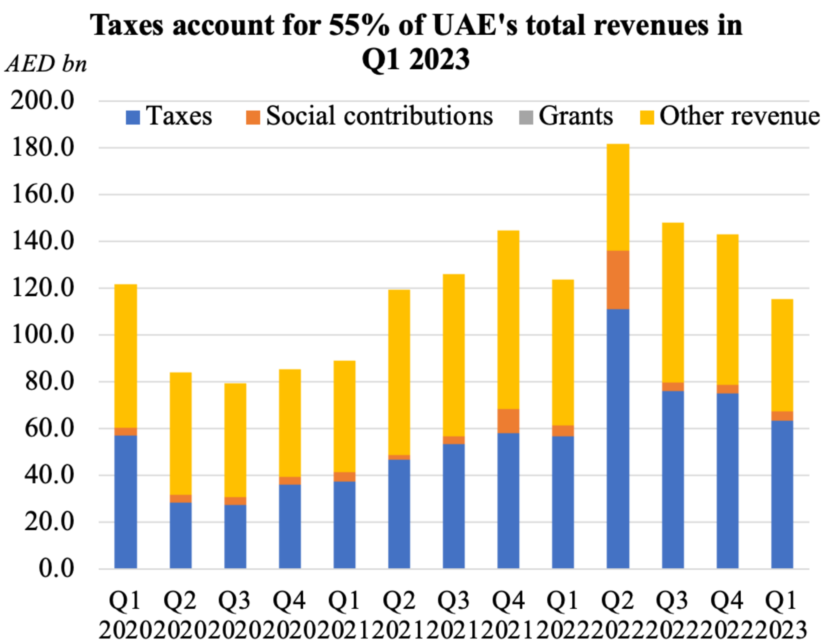
Source: MISA, SAMA.

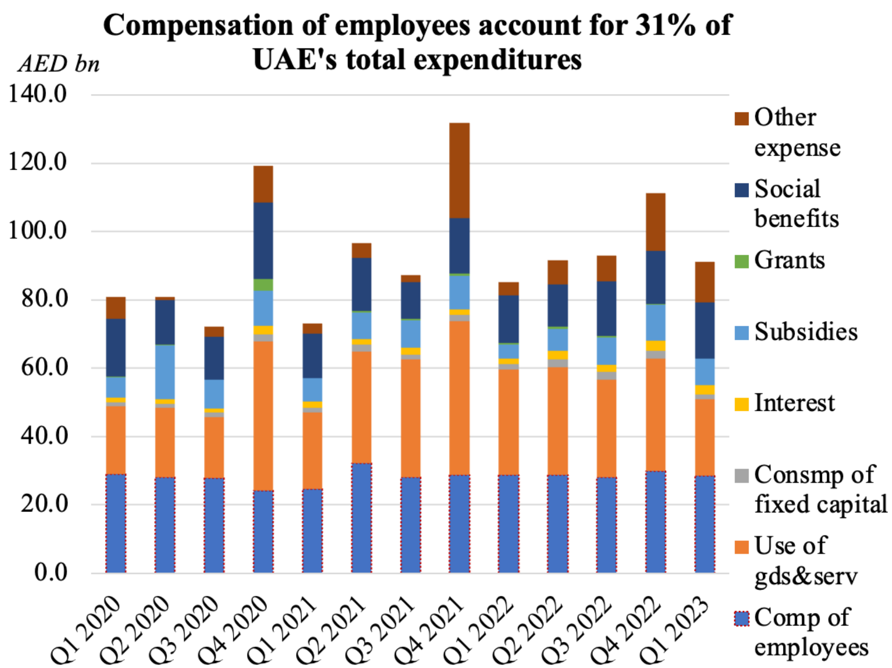
Note: High volume in Q1 2022 is due to investment licenses granted under 'Tasattur' - initiative to combat the spread of commercial fraud.

UAE’s net fiscal operating surplus narrows to AED 23bn+ in Q1 2023



- **UAE’s federal revenues** declined by 6.6% yoy and 19.2% qoq to AED 115.6bn in Q1 2023. Taxes accounted for 55% of total revenues, underscoring the government’s efforts to diversify source of revenues (away from oil).
- Though **tax revenues** ticked up by 12.1% yoy to AED 63.5bn in Q1 2023, they **declined by 18.1% qoq**.
- **Spending fell** by 21.3% qoq to AED 91.7bn in Q1 2023, resulting in a **narrowing of net operating balance** to AED 23.9bn.
- **Compensation of employees** (31.1% of overall expenditure) fell by 0.6% yoy and 4.8% qoq to AED 28.5bn while social benefits posted a 15.6% yoy increase to AED 16.3bn. Both **subsidies and grants almost doubled** in Q1 2023 in yoy terms.

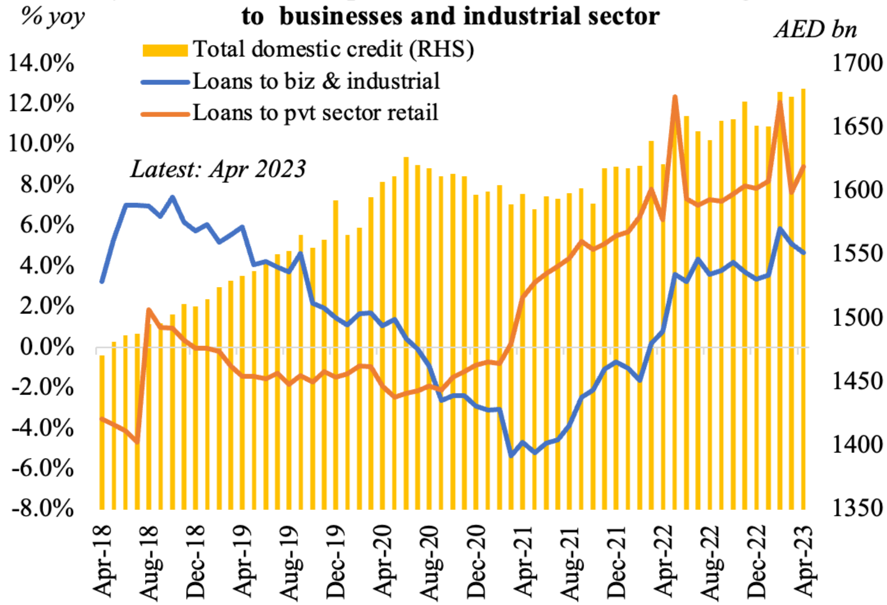




Source: UAE Ministry of Finance. Charts by Nasser Saidi & Associates

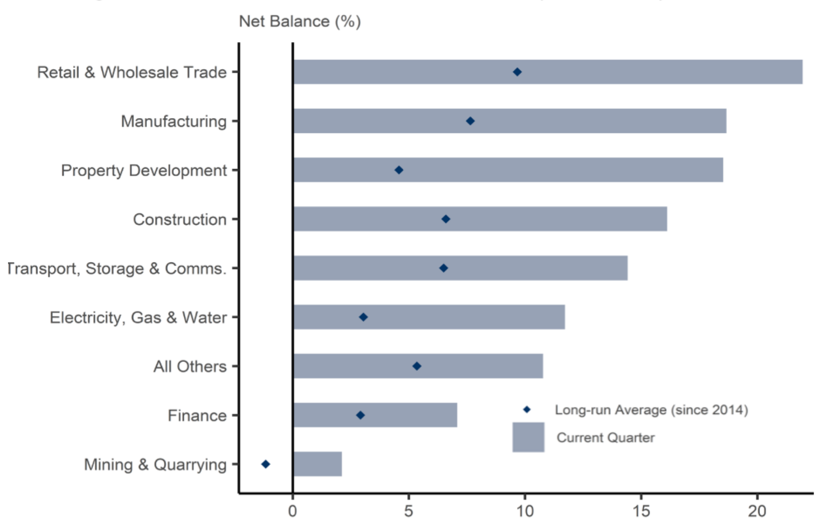
UAE's Q2 2023 credit sentiment survey indicates robust lending despite rate hikes; healthy demand expectations for personal lending in next quarter

Growth in loans to UAE's private sector ticks up by 2.8% year-to-date as of Apr 2023; about half of the credit goes to businesses and industrial sector

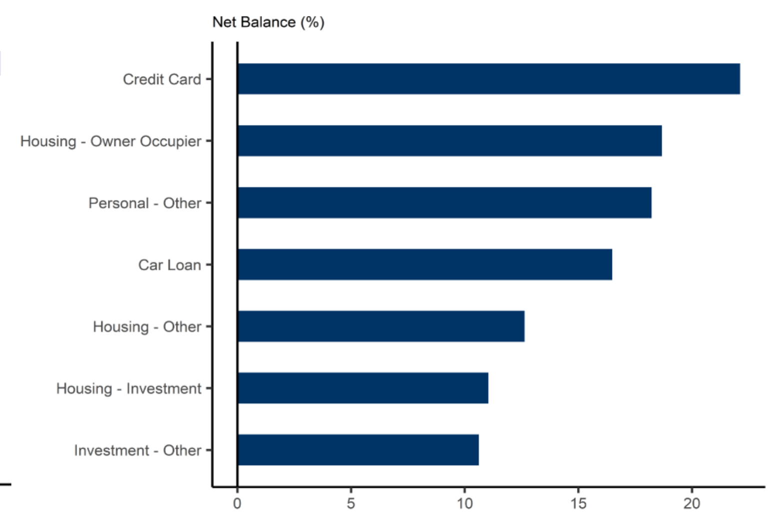


- Loans disbursed to UAE's **business & industrial sector accounts for ~50% of total domestic credit**.
- UAE central bank's credit sentiment survey shows a **healthy credit appetite**, despite the steady increase in interest rates in line with the Fed (given the dollar peg). Demand is rising alongside banks' willingness to lend (credit 2.8% ytd till Apr)
- Growth in **demand for business loans** was robust in Q2 2023 (though lower than Q1): net balance of +21.8 vs Q1's +23.4. Demand was **high among large firms, SMEs & GREs:** expected to continue into Q3. Dubai recorded the strongest growth rate.
- **By industry**, demand was relatively strong in retail & wholesale trade, manufacturing, property development & construction. Positive economic outlook outweighed impact of interest rates.
- **Personal loans** demand jumped to +24.4 in Q2 2023, with **highest reading since Jun 2014**. **Credit cards and housing** were the most significant segments.

Change in Demand for Business Loans by Industry



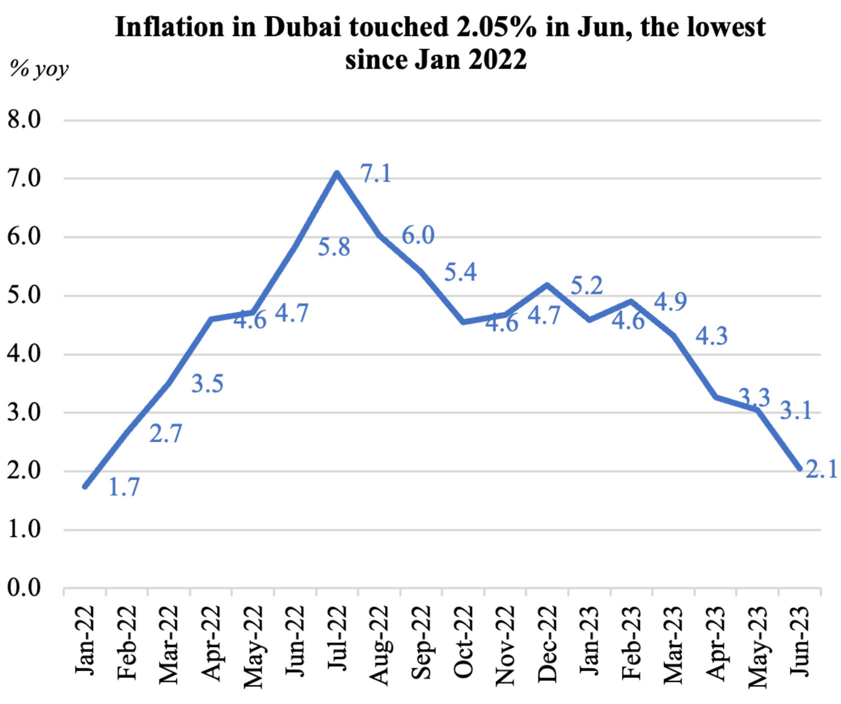
Change in Appetite for Personal Loans

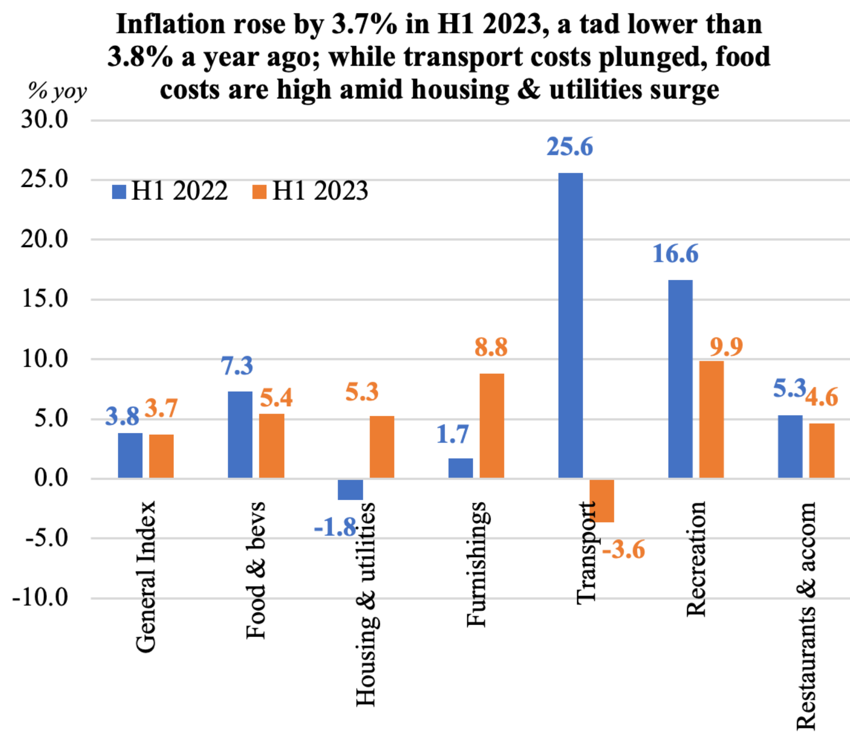


Source: Credit Sentiment Survey Q2 2023, UAE Central Bank.

Inflation in Dubai eased to 2.1% in June 2023, the lowest since Jan 2022

- **In June, inflation in Dubai eased to 2.1% yoy** (May: 3.1%), the lowest reading since Jan 2022. June saw slower increases in food prices (3.9% from May's 4.8%) and furnishings (7.7% from 8.2%) alongside sharper declines in transport prices (-13.9% from -7.1%) and recreation (-4.4% from -1.2%).
- **Upticks** were seen in **housing & utilities** (a **record-high 5.94%** from 5.74%) and **restaurants & accommodation** (4.87% from 4.56%). Housing & utilities have the largest relative weight in the CPI basket (40.68%). **Real estate prices & rents have risen quite rapidly**: according to CBRE, Dubai residential property prices surged by 16.9% in the year to June 30, the fastest in almost a decade while average rents rose at a faster pace of 22.8% (slowing from 24.2% at end-May, and moderating).
- **Comparing prices in H1 2023 vs 2022**, headline inflation has eased slightly (3.7% from 3.84%), supported by the **plunge in transport costs** (-3.62% vs 25.6%). The **largest increases were seen in education** (1.17% from 0.17%), furniture (8.81% from 1.69%) and clothing (5.4% from 3.49%).





Source: Dubai Statistics Centre. Charts by Nasser Saidi & Associates.

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