



MENA ECONOMICS WEEKLY

OPEC+ on track, UAE eases restrictions with Expo in sight

Oil price rebound precedes easy OPEC+ decision

This month's OPEC+ meeting passed without much fanfare as the recent rebound in oil prices prompted the group to push ahead with raising oil output, which will help to lift the Gulf economies further.

OPEC+ was dealing with conflicting pressures ahead of the meeting. On the one hand, the group was having to contend with pressure from the Biden administration to raise output more quickly to push down prices. On the other hand, the fall in oil prices in the first few weeks of August, driven by concerns that the spread of the Delta variant would result in a drop-off in oil demand, had raised the possibility that OPEC+ would hold off from raising output.

In the event, the rebound in oil prices over the past couple of weeks that has pushed Brent back above \$70pb made the group's decision straightforward. Ministers agreed to push ahead with their original plan to raise output by a further 400,000bpd in October, a move welcomed by the White House.

Higher oil output will mechanically support stronger GDP growth in the Gulf economies. And while we expect Brent crude to fall back to \$60pb by the end of 2022, oil export revenues are still likely to be higher next year than in 2021 and budget and current account positions will improve further. Against this backdrop, we expect that policymakers in the Gulf will take steps to loosen fiscal policy. Coming alongside high vaccine coverage in most countries, this underpins our view that the Gulf economies will record strong recoveries over the coming quarters. [Our GDP growth forecasts for 2022 generally lie above the consensus.](#)

UAE trying to lure tourists as Expo nears

The further fall in virus cases in the UAE in recent weeks has prompted officials to ease restrictions as the start of the World Expo nears, but the past week has also brought a reminder that Dubai's troubles with its large corporate debts are far from over.

Daily new virus cases dropped below 1,000 (on a 7-day rolling average basis) this week for the first time since October last year. And deaths have remained low, averaging two per day. The UAE is among the world leaders in the vaccine race and has recently started offering booster jabs.

Against this backdrop, the authorities took further steps this week to lure tourists back to the country. From Monday, travellers from all countries have been able to apply for a tourist visa provided that they have received two doses of a COVID-19 vaccine that has been approved by the World Health Organisation. A PCR test will still be required at the airport of arrival.

Policymakers no doubt have one eye on the World Expo, which kicks off in Dubai at the start of October. The hosting of the event has long been billed as a way to boost Dubai's attractiveness as a tourism and business hub. But as we've warned for some time now, there is a major risk that overcapacity in the real estate and hospitality sectors increases once the Expo rolls out of town. [This would raise serious concerns about the ability of Dubai's government-related entities to meet their large debt obligations](#), with 2023 likely to be a crunch point.

Indeed, this week provided a stark reminder that, more than a decade after Dubai's debt crisis in 2009, a permanent solution has yet to be found. Reports suggest that Limitless, which was one of the developers at the centre of the crisis, is on the cusp of an agreement with creditors over a third debt restructuring in a decade. Creditors will have the option to settle debts at a 50% discount or extend their current position for another seven years.

The week ahead

We expect Egypt's inflation figures for August to show that the headline rate picked up to 6.3% y/y, which means that the central bank is likely to keep interest rates unchanged for a little while longer.



Data Previews

Egypt Consumer Prices (Aug.)

Thu. 9th Sep.

| Forecasts | Time (BST) | Previous | Consensus | Capital Economics |
|---------------------------------|------------|------------|-----------|-------------------|
| Consumer Prices (% m/m (% y/y)) | - | +0.9(+5.4) | - | +0.6(+6.3) |

Inflation continues to rise

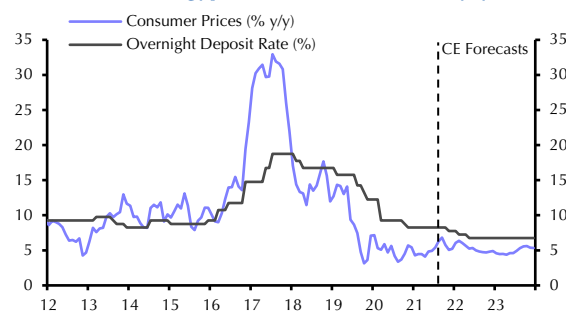
We think that Egypt's headline inflation rate picked up for a fourth consecutive month to 6.3% y/y in August which means that the central bank (CBE) is likely to keep interest rates on hold for a little longer.

Headline inflation rose from 4.9% y/y in June to 5.4% y/y in July, its strongest reading since November and taking it back within the CBE's target range of $7\pm 2\%$. The rise in the headline rate was driven by a further pick-up in food inflation.

We think that the headline rate rose further to 6.3% y/y in August. Food inflation is likely to have recorded a large jump, partly reflecting unfavourable base effects. Core price pressures are also likely to have strengthened. (See Chart 1.) Against this backdrop, we think that policymakers will keep the overnight deposit rate unchanged at 8.25% at the MPC meeting in a couple of weeks' time.

However, we think inflation will fall back to the lower bound of the inflation target in November and remain around this level for much of 2022-23. This will open the door for policymakers to resume the easing cycle. We expect the overnight deposit rate to be reduced by a total of 150bp, to 6.75%, by end-22 which is more easing than the consensus anticipates.

Chart 1: Egypt Consumer Prices (% y/y)



Sources: CAPMAS, CEIC, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

| Date | Country | Release/Indicator/Event | Time (BST) | Previous* | Median* | CE Forecasts* |
|---|-------------|---|------------|--------------|---------|---------------|
| 5 th Sep | Egy | Whole Economy PMI (Aug.) | - | 49.1 | - | - |
| | Sau | Whole Economy PMI (Aug.) | - | 55.8 | - | - |
| | UAE | Whole Economy PMI (Aug.) | - | 54.0 | - | - |
| 6 th Sep | Leb | Whole Economy PMI (Aug.) | - | 47.0 | - | - |
| 7 th Sep | Tun | Consumer Prices (Aug.) | - | +0.9%(+6.4%) | - | +0.1%(+6.3%) |
| 8 th Sep | KuW | Private Sector Credit (Jul.) | - | (+3.6%) | - | - |
| | Egy | Foreign Exchange Reserves (Aug., USD) | - | (+40.6bn) | - | - |
| | UAE | Consumer Prices (Jul.) | - | - | - | - |
| 9 th Sep | Bah | Private Sector Credit (Jul.) | - | (+3.9%) | - | - |
| | Egy | Consumer Prices (Aug.) | - | +0.9%(+5.4%) | - | +0.6%(+6.3%) |
| | Egy | Core Consumer Prices (Aug.) | - | (+4.6%) | - | - |
| Selected future data releases and events | | | | | | |
| 10 th Sep | Oma | Private Sector Credit (Jul.) | - | (+2.1%) | - | - |
| | Tun | Balance of Trade (Aug., TND.) | - | (-1.2bn) | - | - |
| 13 th Sep | Sau | GDP (Q2, q/q(y/y)) | - | (-3.0%) | - | - |
| | Oma | Consumer Prices (Aug.) | - | (+2.2%) | - | - |
| | OPEC | OPEC Monthly Report | - | - | - | - |
| 14 th Sep | Qat | Consumer Prices (Aug.) | - | (+3.1%) | - | - |
| | Jor | Consumer Prices (Aug.) | - | (+1.8%) | - | - |
| 15 th Sep | Sau | Consumer Prices (Aug.) | - | (+0.4%) | - | - |
| | Tun | Industrial Production (Jul.) | - | - | - | - |
| 16 th Sep | Egy | Interest Rate Announcement | - | 8.25% | - | - |
| 21 st Sep | Qat | Private Sector Credit (Aug.) | - | - | - | - |
| 22 nd Sep | UAE | Private Sector Credit (Jul.) | - | - | - | - |
| | Mor | Consumer Prices (Aug.) | - | (+2.2%) | - | - |
| | Leb | Consumer Prices (Aug.) | - | - | - | - |
| 28 th Sep | Mor | Interest Rate Announcement | - | 1.50% | - | - |
| | Sau | Private Sector Credit (Aug.) | - | (+15.5%) | - | - |
| 29 th Sep | Bah | GDP (Q2, q/q(y/y)) | - | -0.1%(-2.1%) | - | - |
| | Jor | Industrial Production (Jul.) | - | - | - | - |
| 30 th Sep | Bah | Consumer Prices (Aug.) | - | - | - | - |
| | Qat | GDP (Q2, q/q(y/y)) | - | -1.1%(-2.5%) | - | - |
| | Sau | Balance of Payments (Q2, q/q(y/y), SAR) | - | (+87.3bn) | - | - |

*m/m(y/y) unless otherwise stated

Sources: Bloomberg, Refinitiv, Capital Economics



Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates

| Policy Rate | | Latest (2 nd Sep.) | Last Change | Next Change | Forecasts | | |
|--------------|-------------------------|----------------------------------|-----------------------|---------------------|-------------|-------------|-------------|
| | | | | | End 2021 | End 2022 | End 2023 |
| Saudi Arabia | Reverse Repo Rate | 0.50 | Down 75bp (Mar. '20) | Up 25bp (H2 2023) | 0.50 | 0.50 | 0.75 |
| Egypt | Overnight Deposit Rate | 8.25 | Down 50bp (Nov. '20) | Down 50bp (Q4 2021) | 7.75 | 6.75 | 6.75 |
| UAE | Repo Rate | 0.65 | Up 5bp (Jun. '21) | Up 25bp (H2 2023) | 0.75 | 0.75 | 1.00 |
| Algeria | Discount Rate | 3.25 | Down 50bp (Mar. '20) | Up 25bp (H2 2023) | 3.25 | 3.25 | 3.50 |
| Qatar | Deposit Rate | 1.00 | Down 50bp (Mar. '20) | Up 25bp (H2 2023) | 1.00 | 1.00 | 1.25 |
| Kuwait | Discount Rate | 1.50 | Down 100bp (Mar. '20) | Up 25bp (H2 2023) | 1.50 | 1.50 | 1.75 |
| Morocco | Key Rate | 1.50 | Down 50bp (Jun. '20) | None on the horizon | 1.50 | 1.50 | 1.50 |
| Oman | Overnight Repo rate | 0.50 | Down 100bp (Mar. '20) | Up 25bp (H2 2023) | 0.50 | 0.50 | 0.75 |
| Tunisia | BCT Key Rate | 6.25 | Down 50bp (Sep. '20) | None on the horizon | 6.25 | 6.25 | 6.25 |
| Jordan | Overnight Deposit Rate | 1.75 | Down 100bp (Mar. '20) | Up 25bp (H2 2023) | 1.75 | 1.75 | 2.00 |
| Lebanon | Repo Rate | 10.00 | Down 200bp (Dec '09) | None on the horizon | 10.00 | 10.00 | 10.00 |
| Bahrain | 1-week deposit facility | 1.00 | Down 75bp (Mar. '20) | Up 25bp (H2 2023) | 1.00 | 1.00 | 1.25 |

Sources: Refinitiv, Capital Economics

Table 2: Currencies and Stock Markets

| Currency | | Latest (2 nd Sep.) | Forecasts | | | Stock Market | Latest (2 nd Sep.) | Forecasts | | |
|--------------|---------|----------------------------------|-------------|-------------|-------------|--------------|----------------------------------|-------------|-------------|-------------|
| | | | End 2021 | End 2022 | End 2023 | | | End 2021 | End 2022 | End 2023 |
| Saudi Arabia | SAR/USD | 3.7504 | 3.7500 | 3.7500 | 3.7500 | TASI | 11,309 | 11,350 | 11,900 | 12,650 |
| Egypt | EGP/USD | 15.63 | 16.00 | 17.00 | 18.00 | EGX30 | 11,300 | 11,500 | 12,700 | 13,600 |
| UAE | AED/USD | 3.6728 | 3.6725 | 3.6725 | 3.6725 | DFMGI | 2,908 | 3,050 | 3,400 | 3,700 |
| Algeria | DZD/USD | 134.9 | 160.0 | 170.0 | 180.0 | - | - | - | - | - |
| Qatar | QAR/USD | 3.6411 | 3.6400 | 3.6400 | 3.6400 | QSI | 11,063 | 10,900 | 12,000 | 13,100 |
| Kuwait | KWD/USD | 0.3004 | 0.3040 | 0.3040 | 0.3040 | KWSE | 6,813 | 5,600 | 6,100 | 7,100 |
| Morocco | MAD/EUR | 10.58 | 10.50 | 10.50 | 10.50 | MADEX | 10,315 | 10,500 | 11,950 | 13,600 |
| Oman | OMR/USD | 0.3840 | 0.3845 | 0.3845 | 0.3845 | MSX30 | 3,974 | 4,200 | 4,850 | 5,600 |
| Tunisia | TND/EUR | 3.30 | 3.50 | 3.70 | 3.80 | TUNINDEX | 7,339 | 7,850 | 8,950 | 10,200 |
| Jordan | JOD/USD | 0.71 | 0.71 | 0.71 | 0.71 | ASE | 2,071 | 1,900 | 2,200 | 2,550 |
| Lebanon | LBP/USD | 1505.7 | 7,500 | 7,500 | 7,500 | BLOM | 1,040 | 750 | 850 | 1,000 |
| Bahrain | BHD/USD | 0.3770 | 0.3761 | 0.3761 | 0.3761 | BHSE | 1,663 | 1,700 | 1,950 | 2,250 |

Sources: Refinitiv, Capital Economics

Table 3: GDP & Consumer Prices (% y/y)

| | Share of 2010-19 World ¹ | | GDP | | | | | | Consumer Prices | | | | |
|---|--|------------|------------|-------------|------------|------------|------------|------------|-----------------|------------|------------|------------|------|
| | Ave. | | 2019 | 2020e | 2021 | 2022 | 2023 | | 2019 | 2020 | 2021 | 2022 | 2023 |
| Saudi Arabia | 1.2 | 3.5 | 0.3 | -4.1 | 4.8 | 6.3 | 3.0 | -2.1 | 3.4 | 3.3 | 1.5 | 1.3 | |
| Egypt | 0.9 | 3.9 | 5.7 | 1.5 | 5.0 | 5.8 | 5.8 | 8.6 | 5.2 | 4.8 | 5.0 | 5.0 | |
| UAE | 0.5 | 2.8 | 3.0 | -6.3 | 2.3 | 5.5 | 1.0 | -1.9 | -2.1 | 0.0 | 1.5 | 1.3 | |
| Algeria | 0.4 | 2.8 | 0.8 | -9.8 | -0.5 | 3.8 | 1.8 | 2.0 | 2.4 | 5.0 | 6.0 | 5.5 | |
| Morocco | 0.2 | 3.8 | 2.6 | -6.3 | 9.0 | 4.0 | 3.8 | 0.7 | 0.7 | 1.5 | 2.0 | 1.3 | |
| Qatar | 0.2 | 7.4 | -0.4 | -3.9 | 1.5 | 4.0 | 2.3 | -0.6 | -2.6 | 2.3 | 3.3 | 2.5 | |
| Kuwait | 0.1 | 1.1 | 0.4 | -8.9 | 2.5 | 8.8 | 1.0 | 1.1 | 2.1 | 3.3 | 2.3 | 2.3 | |
| Oman | 0.1 | 4.1 | 0.5 | -6.0 | 0.3 | 4.8 | 3.3 | 0.1 | -0.8 | 1.8 | 1.3 | 0.8 | |
| Tunisia | 0.1 | 2.3 | 1.0 | -8.6 | 3.5 | 4.3 | 3.8 | 6.7 | 5.6 | 5.5 | 6.3 | 5.8 | |
| Jordan | 0.1 | 3.2 | 2.5 | -1.6 | 2.5 | 4.0 | 3.5 | 0.8 | 0.3 | 2.3 | 1.5 | 1.3 | |
| Lebanon | 0.1 | 3.4 | -3.0 | -40.0 | -20.0 | 12.0 | 2.5 | 2.9 | 84.9 | 185.0 | 140.0 | 65.0 | |
| Bahrain | 0.1 | 3.8 | 1.8 | -5.1 | 2.8 | 3.8 | 2.5 | 1.0 | -2.3 | -0.5 | 1.8 | 1.5 | |
| Mid. East & North Africa² | 4.0 | 3.7 | 1.8 | -4.4 | 3.3 | 5.7 | 3.3 | 1.5 | 2.2 | 3.1 | 3.0 | 2.8 | |

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2020, PPP terms (IMF estimates). 2) Regional inflation aggregate excludes Lebanon.



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