



MENA ECONOMICS WEEKLY

UAE banks, Kuwait's savings, Egyptian cafés

Banking sector risks rising in the UAE

The UAE's banking sector is continuing to show signs of vulnerability and reports over the past week have echoed our concerns. (See [here](#).) Moody's downgraded eight of the UAE's largest banks, including Emirates NBD, to a negative outlook prompting banking stocks in Dubai to slide.

Vulnerabilities in the banking sector have been brewing for some time as subdued economic activity has led to a steady rise in the non-performing loans ratio to levels close to the highs following the 2009 crisis. And we've argued before that the coronavirus outbreak may exacerbate problems of overcapacity in Dubai, causing bad loans to rise even further. (See [here](#).) What's more, relative to other banking sectors in the region, the UAE relies more heavily upon wholesale financing which may become more difficult to roll over during the current crisis.

Kuwait's unprecedented step

A Kuwaiti official confirmed this week that the authorities are considering suspending the automatic transfer of 10% of government revenue to the Future Generations Fund to shore up the public finances

The government has had its hands tied by the fact that parliament has failed to pass a new debt law to enable it to enter international capital markets to secure financing. As a result, policymakers have had to look at ways to curtail spending to prevent borrowing needs from increasing. Overall, the move reinforces the idea that the Gulf countries are no longer the large net savers they were during through the 2000s and the first half of the previous decade.

Oman downgrade puts debt back in the spotlight

Moody's downgrade of Oman's sovereign debt to a negative outlook chimes with our long-held view that the Sultanate's rapid accumulation of debt in recent years is unsustainable. The public debt-to-GDP ratio rose from just 5% in 2014 to 59% last year, with a large chunk due over the next five years.

The slump in oil prices has added to the strains on Oman's balance sheet. One saving grace is that the government has acted quicker to shore up the public finances than it did following the oil crash in 2014. Reports have also suggested that talks are underway with Gulf allies for a financing package (as we have long anticipated), which has supported a narrowing of dollar bond spreads over the past month.

Egypt's café curfew, repression and the economy

Egypt will lift coronavirus-related restrictions from Saturday but the government's plans to keep a permanent curfew in place on cafés, restaurants and malls past 10pm smack of another attempt to clamp down on free speech within the country.

Officials have justified the move due to it being "unproductive" for these establishments to operate late into the night. That's a debate for another day. In any case, Egypt's virus outbreak is not under control and so maintaining some restrictions makes sense.

But the move almost certainly has the ulterior motive of increasing political repression. After all, cafés in Egypt have traditionally been a place for the populace to discuss the issues of the day – it was in cafés that Cairenes apparently plotted the 1919 revolution against British rule and were the scene of intense discussions among revolutionaries during the Arab Spring. The fact that the curfew doesn't apply to tourist areas adds to the impression that is designed to prevent locals from congregating.

As we warned before President al-Sisi's re-election in 2018, though, [political repression now raises the risk of a fresh bout of social unrest further down the line](#). Past experience shows that, in the near-term at least, this would be damaging for the economy.

The week ahead

A raft of Q1 GDP figures are likely to show a sharp slowdown reflecting coronavirus lockdowns imposed in March.



Data Preview

Saudi Arabia GDP (Q1)

Tue. 30th Jun.

Forecasts	Time (BST)	Previous	Consensus	Capital Economics
GDP (% y/y)	-	(-0.3)	-	(+1.0)

GDP growth held up well in Q1, but Q2 set to be terrible

We expect GDP figures to be released next week to show that Saudi Arabia's economy expanded by around 1.0% y/y in the first three months of the year.

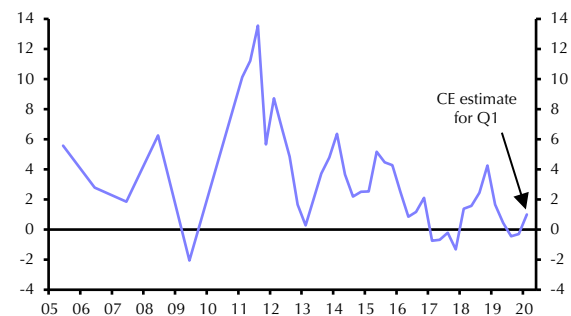
Our GDP Tracker suggests that the economy contracted by around 0.4% y/y in Q1. That said, the Tracker understated the pace of economic growth in recent quarters and we wouldn't be surprised if it is doing so again. As such, we have pencilled in GDP growth of around 1.0% y/y for Q1. (See Chart 1.)

That said, the coronavirus crisis means that this is somewhat old news and the figures for Q2 will almost certainly be terrible. After rising in April, oil production has been cut sharply over the past couple of months in a bid to prop up oil prices. And the figures from the non-oil sector are ominous. ATM withdrawals and point of sale transactions, for

instance, dropped by close to 35% y/y in April. The lockdown was only lifted towards the end of June.

A recovery is likely over the rest of the year, but this will be held back by the imposition of fiscal austerity, including a tripling of the VAT rate from 5% to 15% that takes effect in July.

Chart 1: Saudi GDP (% y/y)











Sources: CEIC, Refinitiv, Capital Economics
























Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Previous*	Median*	CE Forecasts*
26 th Jun	 Bah	CPI (May)	-	(-3.6%)	-	(-1.4%)
28 th Jun	 Sau	Non-oil Trade (Apr, SAR)	-	(-22.9%)	-	-
	 Sau	Private Sector Credit (May)	-	(+11.7%)	-	-
29 th Jun	 Bah	GDP (Q1)	-	(-0.4%)	-	(-1.4%)
	 Jor	GDP (Q1)	-	(+2.1%)	-	(-0.8%)
	 Kuw	CPI (May)	-	(+1.9%)	-	(-0.1%)
30 th Jun	 Qat	GDP (Q1)	-	(-0.6%)	-	(-2.7%)
	 Sau	GDP (Q1)	-	(-0.3%)	-	(+1.0%)
1 st Jul	 Mor	GDP (Q1)	-	(+2.1%)	-	(+2.3%)
2 nd Jul	 Bah	Private Sector Credit (May)	-	-	-	-

Selected future data releases and events

3 rd Jul	 Leb	Whole Economy PMI (Jun)	(09.00)	37.2	-	-
	 Egy	Foreign Exchange Reserves (Jun)	-	\$36.0bn	-	-
5 th Jul	 Sau	Whole Economy PMI (Jun)	(04.15)	48.1	-	-
	 UAE	Whole Economy PMI (Jun)	(04.15)	46.7	-	-
6 th Jul	 Egy	Whole Economy PMI (Jun)	(04.15)	40.7	-	-
	 Leb	CPI (May)	-	(+46.6%)	-	(+38.0%)
	 Tun	CPI (Jun)	-	(+6.3%)	-	(+5.6%)
10 th Jul	 Egy	CPI (Jun)	-	(+4.7%)	-	(+5.6%)
	 Egy	Core CPI (Jun)	-	(+1.5%)	-	-
	 Jor	Industrial Production (May)	-	(-15.2%)	-	-
	 Jor	CPI (Jun)	-	-	-	-
13 th Jul	 Kuw	Private Sector Credit (May)	-	(+5.6%)	-	-
14 th Jul	 OPEC	OPEC Monthly Oil Market Report	-	-	-	-
15 th Jul	 Oma	Private Sector Credit (May)	-	(+2.6%)	-	-
18 th Jul	 Qat	CPI (Jun)	-	(-3.1%)	-	(-0.7%)
21 st Jul	 Sau	CPI (Jun)	-	(+1.1%)	-	(+0.5%)
	 Kuw	CPI (Jun)	-	-	-	-
22 nd Jul	 Oma	CPI (Jun)	-	(-0.9%)	-	(-1.1%)
	 Mor	CPI (Jun)	-	(-0.2%)	-	(+0.7%)
23 rd Jul	 UAE	Private Sector Credit (Jun)	-	-	-	-
	 Leb	CPI (Jun)	-	(+56.5%)	-	(+47.7%)

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

Sources: Bloomberg, Refinitiv, Capital Economics



Main Economic & Market Forecasts

Table 1: GDP & Consumer Prices (% y/y)

	Share of 2008-18		GDP					Consumer Prices				
	World ¹	Ave.	2018	2019e	2020	2021	2022	2018	2019	2020	2021	2022
Saudi Arabia	1.3	3.5	2.4	0.3	-5.0	2.8	1.3	2.5	-1.2	0.5	1.5	2.5
Egypt	1.0	3.9	5.4	5.5	-2.3	6.3	4.8	14.4	8.6	5.3	6.5	6.0
UAE	0.5	2.8	1.7	1.5	-10.0	10.0	5.8	3.1	-1.9	-2.2	2.5	3.0
Algeria	0.5	2.8	1.5	1.5	-4.0	2.0	2.3	4.3	2.0	3.6	5.9	6.5
Qatar	0.3	7.4	1.4	-0.8	-2.0	3.0	4.3	0.3	-0.6	0.2	1.5	2.6
Morocco	0.2	3.8	3.0	2.3	-6.5	6.0	3.0	1.8	0.7	0.3	1.6	2.0
Kuwait	0.2	1.1	1.2	-0.5	-8.5	4.3	6.5	0.6	1.1	0.7	2.7	2.4
Oman	0.1	4.1	2.0	0.5	-7.3	4.5	2.3	0.9	0.1	-0.4	5.0	1.8
Tunisia	0.1	2.3	2.5	1.0	-8.3	5.3	3.5	7.3	6.7	5.8	5.1	4.9
Jordan	0.1	3.2	2.0	1.8	-6.5	2.8	1.3	4.5	2.0	0.6	3.3	4.0
Lebanon	0.1	3.4	0.2	-3.0	-12.0	0.0	2.0	6.1	2.9	20.0	10.0	6.0
Bahrain	0.1	3.8	2.5	1.5	-4.5	2.3	2.8	2.1	1.0	-1.4	2.3	3.0
Middle East & North Africa	4.5	3.7	2.7	1.7	-5.2	4.6	3.3	5.1	1.8	2.0	3.7	3.9

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2019, PPP terms (IMF estimates).

Table 2: Central Bank Policy Rates

Policy Rate		Latest (25 th Jun.)	Last Change	Next Change	Forecasts	
					End 2020	End 2021
Saudi Arabia	Reverse Repo Rate	0.50	Down 75bp (Mar. '20)	None on the horizon	0.50	0.50
Egypt	Overnight Deposit Rate	9.25	Down 300bp (Mar. '20)	Down 100bp (Jun. '20)	7.00	7.00
UAE	Repo Rate	0.75	Down 75bp (Mar. '20)	None on the horizon	0.75	0.75
Algeria	Discount Rate	3.25	Down 50bp (Mar. '20)	None on the horizon	3.25	3.25
Qatar	Deposit Rate	1.00	Down 50bp (Mar. '20)	None on the horizon	1.00	1.00
Kuwait	Discount Rate	1.50	Down 100bp (Mar. '20)	None on the horizon	1.50	1.50
Morocco	Key Rate	1.50	Down 50bp (Jun. '20)	Down 25bp (Q3 '20)	1.25	1.25
Oman	Overnight Repo rate	0.50	Down 100bp (Mar. '20)	None on the horizon	0.50	0.50
Tunisia	BCT Key Rate	6.75	Down 100bp (Mar. '20)	None on the horizon	6.75	6.75
Jordan	Overnight Deposit Rate	1.75	Down 100bp (Mar. '20)	None on the horizon	1.75	1.75
Lebanon	Repo Rate	10.00	Down 200bp (Dec '09)	None on the horizon	10.00	10.00
Bahrain	1-week deposit facility	1.00	Down 75bp (Mar. '20)	None on the horizon	1.00	1.00

Sources: Bloomberg, Capital Economics

Table 3: Currencies and Stock Markets

Currency		Latest (25 th Jun.)	Forecasts		Stock Market	Latest (25 th Jun.)	Forecasts	
			End 2020	End 2021			End 2020	End 2021
Saudi Arabia	SAR/USD	3.7505	3.7500	3.7500	TASI	7,161	8,100	9,300
Egypt	EGP/USD	16.19	17.00	18.00	EGX30	11,064	12,100	14,600
UAE	AED/USD	3.6728	3.6725	3.6725	DFMGI	2,077	2,300	2,775
Algeria	DZD/USD	129.0	145.0	160.0	-	-	-	-
Qatar	QAR/USD	3.6400	3.6400	3.6400	QSE	9,210	10,050	12,050
Kuwait	KWD/USD	0.3075	0.3040	0.3040	KWSE	5,165	5,550	6,550
Morocco	MAD/EUR	10.88	11.20	11.20	MADEX	8,361	8,600	9,500
Oman	OMR/USD	0.3840	0.3845	0.3845	MSM30	3,524	4,000	4,750
Tunisia	TND/EUR	3.21	3.45	3.50	TUNINDEX	6,702	7,000	7,750
Jordan	JOD/USD	0.71	0.71	0.71	ASE	1,619	2,000	2,050
Lebanon	LBP/USD	1505.7	3,000	3,000	BLOM	612	600	650
Bahrain	BHD/USD	0.3772	0.3761	0.3761	BHSE	1,280	1,550	1,850

Sources: Bloomberg, Capital Economics



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