



MENA ECONOMICS WEEKLY

OPEC+ fallout, Oman's upgrade, TUI cancellations

Rally in oil prices to end next year

This month's OPEC+ meeting went as we expected with the group raising production quotas by 400,000bpd and shrugging off pressure to increase output further. As a result, the price of Brent crude rose to over \$83pb on Wednesday although it has since given up some of those gains and [we still expect prices to drop back to \\$60pb by end-2022](#).

Even with lower oil prices, the increase to oil production should more than offset this and mean Gulf oil export revenues strengthen next year. [As we argued last week](#), this will help to improve budget and current account positions in the region.

But the outlook for fiscal policy in the Gulf is mixed. Saudi's preliminary budget, published last Thursday, showed the government intends to keep policy tight for the time being, with spending set to be cut by 6% in 2022 and the budget to return to a surplus in 2023. But some of these government cuts are likely to be offset by [greater investments by the sovereign wealth fund, PIF, into the Kingdom's economy](#) as it shifts its focus away from international investments – with the exception, it seems, of a pending purchase of Newcastle United. And policy could be loosened on the revenue side with a [cut to the rate of VAT](#). Elsewhere, the UAE and Qatar may be in a position to loosen policy too. In contrast, Oman and Bahrain will need to tighten policy further. (See more below.)

Oman gets an upgrade

S&P announced that it had revised Oman's outlook from stable to positive following the Sultanate's shift to tackle the dire public finances. Under Sultan Haitham, a 5% VAT was introduced in April and budgeted spending was slashed by 14% this year. There has been some slippage amid [social unrest](#), but the overall commitment to repair balance sheets appears credible. The latest monthly fiscal data showed that the deficit had narrowed to around 15% of GDP, compared with over 23% in Q1.

Bahrain, in contrast, has been slower to act. Only last week was it [reported that the government may hike VAT](#) to narrow the budget deficit and curb the rise in the debt-to-GDP ratio, which stands at 132%.

Higher oil export revenues will provide some relief to both countries' strained fiscal and external balances. But further fiscal consolidation is still needed, which will hold back recoveries although it would also help to make their case for further financial support from the rest of the Gulf.

TUI cancellations highlight risks to tourism sectors

The travel company TUI announced this week that it would cancel flights from the UK to Egypt (until 16th October) and Tunisia (until 31st October) as it reviews its flight operations following the UK's revised travel guidelines. This highlights that, even as international tourism reopens, temporary disruptions are likely to arise so long as the threat of fresh COVID-19 outbreaks persists. This will continue to weigh on recoveries in more tourism-dependent countries, such as [Egypt](#) and Tunisia where the sector contributes 3% and 8% to GDP respectively.

Saudi labour market conditions improving

Figures released late last week showed that Saudi Arabia's overall unemployment rate came in at 6.6% in Q2 of this year, down from 9.0% in the same period last year at the height of the pandemic. And the breakdown showed that unemployment among Saudi nationals fell to 11.3%, the lowest since 2009.

An additional survey of unemployed Saudis showed that more than 94% would accept a job in the private sector. But this appetite waned when jobs came with long commutes or working hours were more than eight hours per day. It seems more is needed to encourage Saudis into private sector employment, which will be [key to the success of the Vision 2030](#).

The week ahead

Headline inflation in Saudi Arabia and Egypt is likely to have increased last month. (See [Data Previews](#).)



Data Previews

Egypt Consumer Prices (Sep.)

Sun. 10th Oct.

Forecasts	Time (BST)	Previous	Consensus	Capital Economics
Consumer Prices (m/m (y/y))	-	0.0%(+5.7%)	(+5.8%)	+0.8%(+6.2%)

CBE likely to stay pat as inflation increases

We think that Egypt’s headline urban inflation rate picked up to 6.2% y/y in September, which is likely to mean policymakers at the Central Bank (CBE) keep interest rates on hold this month (rather than cut).

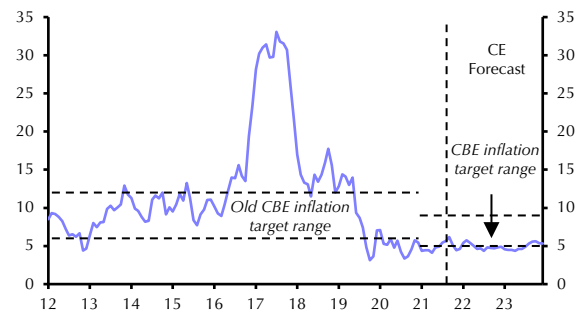
Headline inflation rose from 5.4% y/y in July to a 17-month high of 5.7% y/y in August due to a further rise in food inflation. This pushed the headline rate further within the CBE’s inflation target range of 7±2%.

We think that the headline rate rose further to 6.2% y/y last month. Food inflation is likely to have recorded another increase, partly reflecting global prices as well as unfavourable base effects. Against this backdrop, the CBE is likely to leave interest rates on hold at its next MPC meeting on the 28th October.

However, we think that inflation will fall back over the coming quarters and could drop below the lower

bound of the inflation target in Q2 next year, and remain there over the course of 2022-23. (See Chart 1.) This should open the door for policymakers to resume their easing cycle. We expect the overnight deposit rate to be reduced by a total of 150bp, to 6.75%, by end-2022, which is more easing than the consensus currently expects.

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



Sources: CAPMAS, CEIC, Capital Economics

Saudi Arabia Consumer Prices (Sep.)

Thu. 14th Oct.

Forecasts	Time (BST)	Previous	Consensus	Capital Economics
Consumer Prices (m/m (y/y))	-	+0.1%(+0.3%)	-	0.0%(+0.4%)

Inflation to rise a little

We expect that Saudi Arabia’s headline inflation rate edged up to 0.4% y/y in September.

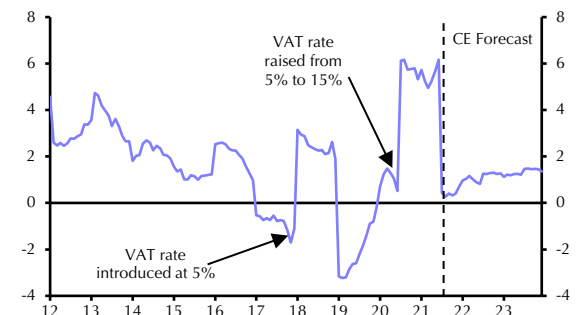
Inflation dipped from 0.4% y/y in July to 0.3% y/y last month, which was driven by weaker clothing and transport prices.

The headline rate is likely to have risen a touch in September on the back of a small rise in food prices. On top of this, timely activity data showed that the Kingdom’s non-oil sector started Q3 on a strong footing which should push up non-food prices too.

Looking forward, the headline rate is likely to pick up further towards the end of this year and into 2022 on the back of some re-opening inflation, the effects of global supply shortages and unfavourable base

effects created by the tightening of restrictions earlier this year. Even so, inflation will remain weak at 1.0-1.5% y/y over the course of 2022-23. (See Chart 2.)

Chart 2: Saudi Consumer Prices (% y/y)



Sources: General Authority for Statistics, CEIC, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Previous*	Median*	CE Forecasts*
Fri 8 th	Tun	Consumer Prices (Sep.)	-	0.0%(+6.2%)	-	+0.3%(+5.8%)
	UAE	Consumer Prices (Aug.)	-	-0.1%(0.0%)	-	+0.2%(+0.3%)
	Kuw	Private Sector Credit (Aug.)	-	(+3.5%)	-	-
Sun 10 th	Egy	Consumer Prices (Sep.)	-	+0.1%(+5.7%)	(+5.8%)	+0.8%(+6.2%)
	Egy	Core Consumer Prices (Sep.)	-	(+4.5%)	-	-
Mon 11 th	Oma	Private Sector Credit (Aug.)	-	(+2.8%)	-	-
Tue 12 th	UAE	Private Sector Credit (Aug.)	-	(-1.8%)	-	-
	Jor	Consumer Prices (Sep.)	-	+0.2%(+2.0%)	-	+0.6%(+2.3%)
	Tun	Balance of Payments (Sep., TND.)	-	-1.8bn	-	-
Wed 13 th	OPEC	OPEC Monthly Oil Market Report	-	-	-	-
	Mor	Interest Rate Announcement	-	1.50%	-	1.50%
Thu 14 th	Qat	Consumer Prices (Sep.)	-	+0.3%(+3.0%)	-	+1.1%(+3.8%)
	Sau	Consumer Prices (Sep.)	-	+0.1%(+0.3%)	-	0.0%(+0.4%)

Selected future data releases and events

15 th Oct	Tun	Industrial Production (Aug.)	-	-	-	-
21 st Oct	Qat	Private Sector Credit (Sep.)	-	(+7.2%)	-	-
22 nd Oct	Mor	Consumer Prices (Sep.)	-	0.0%(+0.8%)	-	-
28 th Oct	Jor	Industrial Production (Aug.)	-	(+5.7%)	-	-
	Sau	Private Sector Credit (Sep.)	-	(+15.1%)	-	-
	Egy	Interest Rate Announcement	-	8.25%	-	-
29 th Oct	Egy	Current Account Balance (Q3, USD.)	-	-3.5bn	-	-
1 st Nov	Bah	Consumer Prices (Sep.)	-	-	-	-
	Kuw	Consumer Prices (Sep.)	-	-	-	-
3 rd Nov	Egy	Whole Economy PMI (Oct.)	-	48.9	-	-
	Sau	Whole Economy PMI (Oct.)	-	58.6	-	-
	UAE	Whole Economy PMI (Oct.)	-	53.3	-	-
	Leb	Whole Economy PMI (Oct.)	-	46.9	-	-
	Qat	Whole Economy PMI (Oct.)	-	60.6	-	-
4 th Nov	Egy	Foreign Exchange Reserves (Oct.)	-	\$40.8bn	-	-
	OPEC	OPEC Meeting	-	-	-	-

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

Sources: Bloomberg, Refinitiv, Capital Economics



Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates

Country	Policy Rate	Latest (7 th Oct.)	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 (Q2 2022)	8.25	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

Country	Currency	Latest (7 th Oct.)	Forecasts			Stock Market	Latest (7 th Oct.)	Forecasts		
			End 2021	End 2022	End 2023			End 2021	End 2022	End 2023
Saudi Arabia	SAR/USD	3.7502	3.7500	3.7500	3.7500	TASI	11,552	11,750	12,100	12,700
Egypt	EGP/USD	15.65	16.00	17.00	18.00	EGX30	10,536	11,500	12,700	13,600
UAE	AED/USD	3.6726	3.6725	3.6725	3.6725	DFMGI	2,767	3,050	3,400	3,700
Algeria	DZD/USD	136.9	160.0	170.0	180.0	-	-	-	-	-
Qatar	QAR/USD	3.6411	3.6400	3.6400	3.6400	QSI	11,569	10,900	12,000	13,100
Kuwait	KWD/USD	0.3012	0.3040	0.3040	0.3040	KWSE	6,880	5,600	6,100	7,100
Morocco	MAD/EUR	10.48	10.50	10.50	10.50	MADEX	10,621	10,500	11,950	13,600
Oman	OMR/USD	0.3840	0.3845	0.3845	0.3845	MSX30	3,950	4,200	4,850	5,600
Tunisia	TND/EUR	3.28	3.50	3.70	3.80	TUNINDEX	7,277	7,850	8,950	10,200
Jordan	JOD/USD	0.71	0.71	0.71	0.71	ASE	2,080	1,900	2,200	2,550
Lebanon	LBP/USD	1505.7	7,500	7,500	7,500	BLOM	981	750	850	1,000
Bahrain	BHD/USD	0.3769	0.3761	0.3761	0.3761	BHSE	1,699	1,700	1,950	2,250

Sources: Refinitiv, Capital Economics

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

Country	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	9.2	5.2	4.8	5.0	5.0	
UAE	0.5	2.8	3.4	-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	-4.9	-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	0.3	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	-0.8	-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	-6.7	-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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