



MENA ECONOMICS WEEKLY

Diriyah Gate, UAE banks, migrant workers in the Gulf

Reasons to be cautious about Diriyah Gate

Construction started on a new tourist development in Saudi Arabia in recent weeks but the plan risks repeating past mistakes with other megaprojects and diverting resources away from other key areas

Diriyah Gate will be built in a district northwest of the capital Riyadh and the plans envisage the construction of 20 hotels as well as museums, shops and restaurants that will cater for an estimated 25 million visitors annually by 2030.

Diriyah Gate's chief executive has reportedly been told by Crown Prince Mohammed bin Salman to move "full speed ahead" with the project. That's despite the fiscal constraints being imposed by low oil prices and the fact that spending on other areas of the Vision 2030 reform plans is being scaled back.

There are reasons for caution. First, Saudi Arabia has a poor record with megaprojects. King Abdullah Economic City (KAEC) was intended to house 2m residents and a port to rival Dubai by now. There are currently just 5,000 residents and 13 vessels in port at KAEC, compared with 79 at Dubai's Jebel Ali.

A second and related point is that the plans to attract 25m annual visitors to Diriyah Gate seem optimistic. While not directly comparable, figures from Mastercard show that Bangkok is the most visited city in the world with 22m international visitors.

Third, as we've argued before, diverting resources and policymakers' attention to megaprojects such as Diriyah Gate and the Red Sea resort of Neom, and away from other elements of Vision 2030 will ultimately hinder progress in tackling some of the key impediments to the Kingdom's long-run economic prospects. (See [here](#).)

UAE banking sector not entirely in the clear

Comments from the UAE's central bank governor this week that the country's banking sector can withstand shocks of any size were extremely sanguine.

Admittedly, as we argued [recently](#), banks in the UAE are well capitalised and bad loans would have to rise very sharply before recapitalisations would be required. But vulnerabilities in the banking sector have been building in recent years as subdued economic activity has led to a steady rise in non-performing loans (NPLs) and the reliance on wholesale financing has increased.

The coronavirus crisis is likely to result in some stress on banks' balance sheets. After all, key sectors, such as tourism, retail trade and transport have been hit hard and are most vulnerable to ongoing social distancing. And the crisis will exacerbate the problem of overcapacity in Dubai, which may result in some of the Emirate's government-related entities struggling to service their debts. (See [here](#).) A further rise in NPLs will cause banks' balance sheets to shrink and credit conditions to tighten, adding to the headwinds facing the economic recovery.

Gulf expat exodus

Governments in Kuwait and Qatar have taken steps to impose quotas on expatriate workers this week, which will add to the exodus from the Gulf.

There are three main points to take away from this. First, alongside measures to reduce the number of expat workers, the exodus is a sign of the scale of the current economic downturn. Second, the decline in expat workers will add to the headwinds facing domestic demand. While many of these workers are employed in low-wage jobs and remit a large proportion of their salaries, they are still a key component of demand which will now shrink. Third, efforts to improve employment prospects of local workers will need to be stepped up. Measures to reduce workers' reservation wages, improve skills, and entice firms to employ them will be crucial.

The week ahead

OPEC's report for June is likely to show that the Gulf countries continued to over-comply with quotas.


















Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Previous*	Median*	CE Forecasts*
10 th Jul	 Jor	Industrial Production (May)	-	(-15.2%)	-	-
	 Jor	CPI (Jun)	-	+0.5(+0.8%)	-	+0.3%(+0.4%)
13 th Jul	 Kuw	Private Sector Credit (May)	-	(+5.6%)	-	-
	 UAE	Private Sector Credit (May)	-	(+3.3%)	-	-
14 th Jul	 OPEC	OPEC Monthly Oil Market Report	-	-	-	-
	 Qat	CPI (Jun)		+0.7%(-0.4%)	-	+3.1%(-0.7%)
15 th Jul	 Oma	Private Sector Credit (May)	-	(+2.6%)	-	-

Selected future data releases and events

21 st Jul	 Sau	CPI (Jun)	-	(+1.1%)	-	(+0.5%)
	 Kuw	CPI (Jun)	-	+0.3%(+1.1%)	-	-1.3%(+0.1%)
22 nd Jul	 Mor	CPI (Jun)	-	(-0.2%)	-	(+0.7%)
23 rd Jul	 Leb	CPI (Jun)	-	(+56.5%)	-	(+47.7%)
27 th Jul	 Bah	CPI (Jun)	-	+0.2%(+0.2%)	-	-1.0%(-2.5%)
28 th Jul	 Sau	Private Sector Credit (Jun)	-	(2.8%)	-	-
30 th Jul	 Bah	Private Sector Credit (Jun)	-	(+7.9%)	-	-
31 st Jul	 Qat	Private Sector Credit (Jun)	-	(16.6%)	-	-
1 st Aug	 Oma	Private Sector Credit (Jun)	-	(+4.1%)	-	-
5 th Aug	 Egy	Whole Economy PMI (Jul)	(05.15)	40.7	-	-
	 Sau	Whole Economy PMI (Jul)	(05.15)	48.1	-	-
	 Leb	Whole Economy PMI (Jul)	(09.00)	37.2	-	-
	 Tun	CPI (Jul)	-	+0.3%(+6.5%)	-	-0.3%(+5.6%)
	 UAE	Whole Economy PMI (Jul)	(05.15)	46.7	-	-
	 Qat	Whole Economy PMI (Jul)	(10.00)	36.6	-	-

*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 (9 th Jul.)	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 (Aug. '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 (9 th Jul.)	Forecasts		Stock Market	Latest (9 th Jul.)	Forecasts	
			End 2020	End 2021			End 2020	End 2021
Saudi Arabia	SAR/USD	3.7506	3.7500	3.7500	TASI	7,422	8,100	9,300
Egypt	EGP/USD	15.96	17.00	18.00	EGX30	11,127	12,100	14,600
UAE	AED/USD	3.6728	3.6725	3.6725	DFMGI	2,076	2,300	2,775
Algeria	DZD/USD	128.6	145.0	160.0	-	-	-	-
Qatar	QAR/USD	3.6405	3.6400	3.6400	QSE	9,234	10,050	12,050
Kuwait	KWD/USD	0.3077	0.3040	0.3040	KWSE	5,137	5,550	6,550
Morocco	MAD/EUR	10.90	11.20	11.20	MADEX	8,257	8,600	9,500
Oman	OMR/USD	0.3849	0.3845	0.3845	MSM30	3,488	4,000	4,750
Tunisia	TND/EUR	3.23	3.45	3.50	TUNINDEX	6,605	7,000	7,750
Jordan	JOD/USD	0.71	0.71	0.71	ASE	1,596	2,000	2,050
Lebanon	LBP/USD	1505.7	3,000	3,000	BLOM	612	600	650
Bahrain	BHD/USD	0.3770	0.3761	0.3761	BHSE	1,285	1,550	1,850

Sources: Bloomberg, Capital Economics



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