



MENA ECONOMICS WEEKLY

Gulf rulers' health, Dubai property downturn

Health fears bring leadership changes onto agenda

The health of the leaders of Saudi Arabia and Kuwait has come into the spotlight this week and, while we think that a leadership transition wouldn't alter the economic outlook for Kuwait, it would heighten political risk in Saudi Arabia.

Kuwait's Emir Sabah al-Ahmad al-Sabah underwent surgery on Sunday, although his condition is reportedly critical and he was flown to the US earlier today for further treatment. If the emir were to pass away, it's unlikely to significantly alter the outlook for Kuwait's economy. Parliament has been the main hindrance to the reforms that are needed to improve the country's long-term economic prospects.

Saudi Arabia's King Salman was also hospitalised this week. Thankfully, the king's condition does not appear to be as severe as that of his Kuwaiti counterpart. But even so, he is widely acknowledged to be in poor health. In the event of the king's death, the throne would pass to Crown Prince Mohammed bin Salman (MbS).

Of course, MbS has been de facto leader and number one policymaker for several years now. He orchestrated the incursion into neighbouring Yemen, the blockade on Qatar and is the face of Saudi economic policy, including the Vision 2030 reform plans. Accordingly, if MbS were to become king we doubt that much would change on the policymaking front. Some would even argue that, as king, MbS would be able to further consolidate his power and this would enable him to accelerate Vision 2030.

But MbS's kingship would be far from plain sailing. We warned in a [Focus](#) a few years ago that, having been a staid affair for many decades, the rise of MbS meant that Saudi politics now represented a key risk to the economic outlook. After all, his centralisation of power has moved the Kingdom away from the consensus-building that has underpinned

policymaking for many years. And MbS has a history of rash and poorly judged policy missteps.

King Salman has often acted as a check and balance on his son and mediated in disagreements between MbS and other members of the royal family. If MbS were to reign supreme, bouts of political upheaval are likely to become a more common occurrence.

Dubai's property downturn deepens

Concerns appear to be building that the downturn in Dubai's real estate sector is worsening, further raising the risk that government-related entities (GREs) struggle to service their debts and banks' loan books will deteriorate.

Figures released last week showed that the year-on-year decline in residential prices and rents gathered pace in June and both are now 30-35% below their late-2014 peak. Reports this week have echoed our previous concerns that, with new supply coming on stream and demand likely to stay weak, the property market will remain in the doldrums for some time.

The property downturn means that developers are likely to experience a fall in revenue and property-focussed GREs may find it more difficult to service their large upcoming debts. (See [here](#).)

One implication is that banks in the UAE are likely to nurse rising losses on their loan books. Around a fifth of all bank lending is made up of loans to the construction and real estate sectors, with the latter largely made up of mortgages, and, as developers' revenue streams suffer and the current crisis weighs on household incomes default rates are likely to rise. A higher rate of bad loans would cause banks' balance sheets to shrink and credit conditions to tighten, adding to the headwinds facing the economic recovery. (See [here](#).)

The week ahead

Saudi private sector credit figures for June are likely to show that the pace of lending eased further.



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Previous*	Median*	CE Forecasts*
27 th Jul	Bah	CPI (Jun)	-	+0.2%(+0.2%)	-	-1.0%(-2.5%)
28 th Jul	Sau	Private Sector Credit (Jun)	-	(+10.8%)	-	-
30 th Jul	Bah	Private Sector Credit (Jun)	-	(+7.9%)	-	-
1 st Aug	Oma	Private Sector Credit (Jun)	-	(+4.1%)	-	-
Selected future data releases and events						
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	-	-
7 th Aug	Mor	Unemployment Rate (Q2)	-	8.1%	-	-
10 th Aug	Egy	CPI (Jul)	-	+1.8%(+8.7%)	-	+0.5%(+4.4%)
	Kuw	Private Sector Credit (Jun)	-	+0.8%(+4.8%)	-	-
11 th Aug	Jor	Industrial Production (Jun)	-	(-1.1%)	-	-
	Jor	CPI (Jul)	-	+0.5%(+0.8%)	-	+0.3%(+0.4%)
	UAE	CPI (Jun)	-	0.0%(-1.5%)	-	+0.7%(-3.1%)
12 th Aug	OPEC	OPEC Monthly Report	-	-	-	-
13 th Aug	UAE	Private Sector Credit (Jul)	-	(+2.7%)	-	-
	Egy	Interest Rate Announcement	-	9.25%	-	8.25%
14 th Aug	Tun	GDP (Q2, q/q(y/y))	-	+0.4%(+1.2%)	-	-11.6% (-13.2%)
17 th Aug	Qat	CPI (Jul)	-	-0.2%(-0.6%)	-	+0.1%(-0.4%)
	Sau	CPI (Jul)	-	+0.3%(-2.2%)	-	+5.8%(+6.0%)
21 st Aug	Mor	CPI (Jul)	-	-0.9%(0.3%)	-	-0.3%(+1.2%)
	Leb	CPI (Jul)	-	-0.5%(+1.4%)	-	+8.8%(+149.5%)
24 th Aug	UAE	Private Sector Credit (Jul)	-	(+2.6%)	-	-
	Kuw	CPI (Jul)	-	+0.3%(+1.1%)	-	+0.1%(0.0%)

*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	2019	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	3.0	-10.0	10.0	5.8	3.1	-1.9	-2.2	2.5	3.0
Algeria	0.5	2.8	1.5	0.8	-4.0	2.0	2.3	4.3	2.0	3.6	5.9	6.5
Qatar	0.3	7.4	1.4	-0.4	-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	0.4	-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	2.5	-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	2.0	1.8	-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 (23 rd 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 (23 rd Jul.)	Forecasts		Stock Market	Latest (23 rd Jul.)	Forecasts	
			End 2020	End 2021			End 2020	End 2021
Saudi Arabia	SAR/USD	3.7501	3.7500	3.7500	TASI	7,427	8,100	9,300
Egypt	EGP/USD	15.94	17.00	18.00	EGX30	10,459	12,100	14,600
UAE	AED/USD	3.6728	3.6725	3.6725	DFMGI	2,051	2,300	2,775
Algeria	DZD/USD	127.5	145.0	160.0	-	-	-	-
Qatar	QAR/USD	3.6400	3.6400	3.6400	QSE	9,358	10,050	12,050
Kuwait	KWD/USD	0.3068	0.3040	0.3040	KWSE	4,864	5,550	6,550
Morocco	MAD/EUR	10.93	11.20	11.20	MADEX	8,294	8,600	9,500
Oman	OMR/USD	0.3849	0.3845	0.3845	MSM30	3,543	4,000	4,750
Tunisia	TND/EUR	3.23	3.45	3.50	TUNINDEX	6,553	7,000	7,750
Jordan	JOD/USD	0.71	0.71	0.71	ASE	1,587	2,000	2,050
Lebanon	LBP/USD	1505.7	3,000	3,000	BLOM	599	600	650
Bahrain	BHD/USD	0.3769	0.3761	0.3761	BHSE	1,285	1,550	1,850

Sources: Bloomberg, Capital Economics



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