By: Simon Williams, David Faulkner, Melis Metiner, Agata Urbanska-Giner and Matlhodi Matsei

Q1 2022
www.research.hsbc.com

CEEMEA Economics

Playing defence as pressures build

Commodity producers are still the region's bright spots, led by the Middle East...

...but inflation shocks and the COVID-19 surge have forced policymakers onto the defensive, particularly in some countries...

...while global tightening is exposing fiscal and external account vulnerabilities in others

In this redacted version of our CEEMEA Economics quarterly, we discuss:

- **South Africa: Risks, risks, risks**
- **Egypt: Pressure building**
- **Bahrain: Stability and signs of recovery**
- **Kuwait: Signs of progress**
- **Oman: Good, but hard work still to come**
- **Qatar: World Cup year**
- **Saudi Arabia: Cyclical momentum, structural change**
- **UAE: Turning the page**

This is an abridged version of a report by the same title published on 11 January 2022. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Key events in Q1

January

- 03 **Israel:** Rate decision
- 10 **Romania:** Rate decision
- 12 **Poland:** Rate decision
- 13 **Ghana:** Rate decision
- 13 **Angola:** Rate decision
- 14 **Angola:** Fitch rating review
- 14 **Kuwait: S&P rating review**
- 14 **Russia:** S&P rating review
- 20 **Turkey:** Rate decision
- 27 **South Africa**: Rate decision
- 27 **Turkey:** Inflation report
- 28 **Hungary**: Fitch rating review
- 31 **Kenya:** Rate decision

February

- 04 **Czech Republic:** Moody's Rating review
- 04 **Angola:** S&P rating review
- 04 **Ghana:** S&P rating review
- 08 **Poland:** Rate decision
- 09 **Romania:** Rate decision
- 11 **Russia:** Rate decision
- 11 **Turkey:** Fitch rating review
- 11 **Nigeria:** S&P rating review
- 11 **Hungary:** S&Ps rating review
- 17 **Turkey:** Rate decision
- 18 **Poland:** Fitch rating review
- 21 **Israel:** Rate decision

March

- 04 **Kenya:** S&P rating review
- 08 **Poland:** Rate decision
- 12 **Angola:** Rate decision
- 12 **Ghana:** Rate decision
- 17 **Turkey:** Rate decision
- 18 **Russia:** Rate decision
- 24 **South Africa:** Rate decision
- 25 **Hungary:** Moody's rating review
- 25 **Saudi Arabia**: S&P rating review
- 31 **Kenya:** Interest rate
- \- **Poland:** Inflation report

Rest of the year

April

Hungary: Parliamentary elections
Russia: Rate decision
Romania: Fitch rating review
Romania: Moody's rating review
Romania: S&P rating review
Czech Republic: S&P rating review
Poland: S&P rating review
Poland: Moody's rating review
Oman: S&P rating review
Turkey: S&P rating review
Egypt: S&P rating review
South Africa: Moody's rating review

May

Czech Republic: Fitch rating review
Russia: Fitch rating review
Qatar: S&P rating review
Bahrain: S&P rating review
Israel: S&P rating review

June

Russia: Rate decision
Saudi Arabia: Moody's rating review

July

Russia: Rate decision
Kenya: Rate decision
Poland: Inflation report
Turkey: Fitch rating review
Hungary: Fitch rating review
Poland: Fitch rating review

August

Kenya: Presidential election
Angola: Legislative election
Czech Republic: Moody's rating review
Hungary: S&P rating review
Angola: S&P rating review
Ghana: S&P rating review
Kenya: S&P rating review
Nigeria: S&P rating review

September

Russia: Rate decision
Hungary: Moody's rating review
Oman: S&P rating review
Saudi Arabia: S&P rating review
Turkey: S&P rating review
Ghana: Moody's rating review

October

Russia: Rate decision
Romania: Fitch rating review
Czech Republic: Fitch rating review
Poland: Moody's rating review
Romania: S&P rating review
Romania: Moody's rating review
Egypt: S&P rating review

November

Kenya: Rate decision
Turkey: Fitch rating review
Qatar: S&P rating review
Bahrain: S&P rating review

December

US: Rate decision
Russia: Rate decision
Saudi Arabia: Moody's rating review

Sub-Saharan Africa

South Africa

David Faulkner
Economist
HSBC Securities (South Africa) (Pty) Ltd

Matlhodi Matsei
Economist
HSBC Securities (South Africa) (Pty) Ltd

Risks, risks, risks

Following the emergence of Omicron in late 2021, South Africa's fourth wave of COVID-19 cases has peaked, with the milder impact on hospitalisations supporting the government's decision not to tighten domestic lockdown restrictions. The economic fallout from Omicron is likely to have been limited, even as strict international travel curbs imposed by several countries halted the nascent tourism recovery.

Low vaccination numbers mean the virus continues to pose a downside risk to growth prospects in an economy that is slowly recovering from losses caused by July's social unrest and tighter lockdown rules in response to the third wave of COVID-19 infections. South Africa's economy contracted by 1.5% q-o-q in Q3 2021 and is still c2% smaller than pre-pandemic levels.

In the near term, we are confident of an improvement in activity, supported by a low base and buoyed by stronger consumer spending, but we have nudged our full-year 2021 growth forecast to just below 5% as a manufacturing strike and power cuts are likely to have weighed on Q4 industrial activity. We see more lasting headwinds to growth in 2022 and, reflecting this, our growth estimate is 1.7% y-o-y. Alongside further waves of COVID-19 infections, energy shortages and the hangover from a labour market that has experienced significant job losses are our primary concerns. Reforms to boost private sector competition in energy, transport and logistics networks currently dominated by state monopolies suggest some potential for stronger investment and long-run growth prospects, although this is only likely to materially influence growth beyond our forecast horizon.

The marked moderation in commodity prices adds another headwind to the macro outlook. Prices for South Africa's key commodity exports have fallen c35% from their peak in May, with the sharpest declines for PGMs and iron ore, and alongside stronger imports are set to reverse the sizeable external gains seen in 2021 and return the current account to deficit in 2022.

Large fuel price increases are putting upward pressure on near-term inflation, and we forecast headline CPI forecast to average 5.1% y-o-y in 2022. We think higher global prices, the ZAR, and renewed food price pressures add upside risks to this forecast, but core inflation is likely to remain well-contained assisted by subdued services price growth. Upward inflation risks played an influential role in the SARB's 25bp rate hike at its November MPC meeting, and we look for a slightly faster pace of policy tightening in 2022.

Stronger government revenues have boosted the near-term fiscal outlook; we now see the FY21/22 fiscal deficit below 5% of GDP, a significantly smaller shortfall than in the government's estimates. Yet, we see no consolidation beyond this and have building concerns about higher structural spending related to increased social grants, government wages, and SOE bailouts, which could erode the quality of the fiscal deficit and add to fiscal vulnerabilities, particularly if revenue gains from higher commodity prices were to reverse.

Quarterly data

	Q1 21	Q2 21	Q3 21e	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	-2.6	19.1	2.9	2.6	1.6	0.3	2.8	2.2
CPI, eop (% y-o-y)	3.2	4.9	4.9	5.9	5.3	5.2	5.0	4.4
Policy rate, eop (%)	3.50	3.50	3.50	-	-	-	-	-
USD/ZAR (eop)	14.78	14.29	15.07	-	-	-	-	-

Source: Refinitiv Datastream, Bloomberg, HSBC forecasts

Middle East and North Africa

Egypt

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

Pressure building

We continue to see some grounds for optimism when we look at Egypt's economic prospects over our forecast period. In particular, the outlook for growth remains strong, with the economy expanding by close to 10% y-o-y in Q3. The figure is flattered by the low base, but the print was the fifth consecutive quarter in which growth gained pace, and lifted GDP some 11% above its pre-pandemic level – one of the fastest and most sustained recoveries anywhere in EM. Encouragingly, there are also signs of a shift in the growth drivers, with the initial reliance on consumption gains giving way to a rise in investment spending and bounce-back in exports. We expect momentum to remain firm, and look for growth to run at around 5% in the current and coming fiscal year. Against that backdrop, unemployment should continue to trend lower.

But despite that optimism, we are increasingly concerned that balance sheet strains and policy pressures are on the rise. Some of these relate to inflation, which we see pushing through the mid-point of the central bank's target range in Q1 for the first time since 2018. Though we currently expect inflation to hold below the 9% ceiling, the risks are weighted to the upside and there is a growing possibility that this will require CBE to hike, especially if global policy rates continue to rise. In addition to pressure on prices, the budget deficit is also widening more quickly than we had expected, with higher debt servicing costs and other spending gains pushing the shortfall higher y-o-y over the first four months of the fiscal year. The deterioration has prompted us to take our estimate for the full-year 2021/22 shortfall to around 7.5% of GDP – still down y-o-y but up 0.5% of GDP on our previous expectations.

We are most concerned, however, over rising pressure on Egypt's external position, and have pushed our forecast for the current account shortfall up to around 4% of GDP for 2022 – 0.4ppt more than we had previously thought. In good part the revisions reflect data showing the trade-driven shortfall widening last year, but we also fear the Omicron outbreak may slow the recovery in tourism receipts. In addition to the current account deficit, Egypt must also refinance more than USD10bn in external debt that matures this year, taking the overall funding requirement to over 6% of GDP. With its FX buffers still strong, Egypt has scope to absorb these pressures for now ahead of a more fundamental rebalancing later in the forecast period as services exports recover, import growth eases, and FDI starts to pick up. But the large funding gap leaves it exposed to events that either delay the current account narrowing or impede access to finance. The risk is particularly pronounced because heavy offshore positioning in the local currency debt market could generate additional foreign currency demand if souring risk appetite triggers outflows. In such circumstances, pressure on EGP could quickly intensify, putting our forecast of FX stability at risk. A weaker currency would also feed quickly into higher inflation, materially increasing the pressure to move interest rates higher.

Quarterly data

	Q1 21	Q2 21	Q3 21e	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	7.7	1.4	11.0	-	-	-	-	-
CPI, eop (% y-o-y)	4.5	4.9	6.6	6.5	7.1	6.4	5.4	5.8
Policy rate, eop (%)	8.25	8.25	8.25	-	-	-	-	-
USD/EGP (eop)	15.7	15.7	15.7	-	-	-	-	-

Note: quarters are based on calendar year and not fiscal year
Source: Central Bank of Egypt, Ministry of Finance, CAPMAS, CEIC, HSBC forecasts

Middle East and North Africa

Bahrain

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

Stability and signs of recovery

Risks persist, but strong data into the second half of 2021 coupled with the improved outlook for oil prices suggests that Bahrain's pronounced balance sheet strains will continue to fade over our forecast period.

The biggest improvement is in the current account, which generated a second successive quarterly surplus in Q321 – a remarkable improvement on the near double-digit deficit recorded the previous year. Encouragingly, the stronger-than-expected performance last year reflected not just higher energy earnings but also a rapid recovery in non-oil exports and services receipts following the relaxation of COVID-19 restrictions on cross-border activity. Some of these gains may fade, but we also note sustained declines in expatriate remittance outflows over 2021 – an outcome consistent with the double-digit drop in the non-Bahraini workforce since the pandemic hit, which is unlikely to reverse quickly. Even allowing for a pick-up in the import bill as growth recovers, we now see the current account in surplus throughout our forecast period (previously we saw deficits of some 4% of GDP) for the first time since 2013-14. This should allow the central bank to add to reserves that were rising strongly into year-end, rebuilding buffers that came close to exhaustion in 2020 when the pandemic was at its peak.

The absence of data makes it difficult to gauge how quickly public finances – Bahrain's other historical vulnerability – are adjusting. However, we have incorporated higher oil prices and a 5ppt increase in VAT into our forecasts, which should see the fiscal deficit fall to around 2% of GDP over 2022-23. That would be the best outturn since 2012, but the shortfall could fall faster still if the authorities follow through on pledged spending cuts in 2023, potentially putting the policy target of a balanced budget in 2024 within reach. Bahrain's demanding repayment schedule will add another 4-5% of GDP to the overall funding requirement, but improvements in credit fundamentals and the sovereign rating have enhanced access to new funding. The strong statements of support Saudi Arabia, the UAE and Kuwait made for Bahrain's adjustment programme also suggest fresh concessional funding might be made available if required.

Even in these favourable circumstances, we see the debt stock staying high at around 100% of GDP and the public balance sheet dominated by energy receipts – a dynamic that will leave Bahrain vulnerable to economic or political shocks. We also see ongoing fiscal consolidation weighing on a recovery that was slow to gain speed and will likely not see GDP return to its pre-pandemic level until 2023. However, while this means we have not made substantive revisions to our growth numbers, strong point of sales transactions and tourist spending into Q4 suggest upside risks may be building. The government's announcement of a USD30bn (70% of GDP) "strategic projects programme" could also see capital outlays recover faster than we anticipate, though funding has not yet been identified for the 22 projects that lay behind the scheme.

Quarterly data

	Q1 21	Q2 21	Q3 21	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	-2.1	-	-	-	-	-	-	-
CPI, eop (% y-o-y)	-2.04	0.56	-0.87	0.34	2.17	2.17	2.22	2.22
Policy rate, eop (%)	1.00	1.00	1.00	-	-	-	-	-
USD/BHD (eop)	0.34	0.34	0.34	-	-	-	-	-

Source: Bahrain Central Bank, Ministry of Finance, Bahrain Central Informatics Organisation, CEIC, HSBC forecasts

Middle East and North Africa

Kuwait

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

Signs of progress

A decade of policy shortcomings and sustained underperformance mean we remain cautious, but as we reassess Kuwait's economic prospects, we see some grounds for optimism.

The most immediate improvements reflect the impact of rising oil prices and easing OPEC production restrictions on Kuwait's balance sheet. As the most oil dependent of the Gulf states, the pandemic-induced slump had an especially marked impact on Kuwait, with the budget recording a deficit of more than 30% of GDP in fiscal 2020/21 – the highest recorded in the region in at least 25 years. However, the economy's oil intensity has also generated the biggest rebound, with our new forecasts suggesting the deficit will narrow by a little over 20ppt of GDP in 2021/22. The current account is also set to gain, with our forecasts showing surpluses of more than 20% of GDP this year and next, allowing for a further build-up in already high levels of foreign asset ownership.

Alongside these cyclical gains, we are also encouraged by signs that the "National Dialogue" launched by the Emir in October 2021 is making progress as it seeks to resolve the debilitating standoff between the executive and parliament that has seen policymaking grind to a halt. The talks have been complicated by the Emir's ill health, which prompted the temporary transfer of power to the Crown Prince in Q4. But in a symbolically powerful move, the authorities in November pardoned or cut the sentences of several dozen opposition figures, some of whom have returned from exile, and then incorporated opposition figures into the new cabinet formed in December. With the government also including a critic of previous economic policy as finance minister, fiscal reform is likely to be a key part of whatever settlement is reached. The initial focus will be approval of a new debt law that would allow the government to raise funds at home and overseas for the first time since 2018. But debate will also likely cover a raft of stalled initiatives such as the overhaul of subsidies and public wages, the introduction of VAT, and the privatisation of state assets.

The agenda is complex and politically sensitive and while we wait for the outcome of discussions we have not included any policy adjustments in our projections. The ongoing uncertainty is also likely to weigh on growth, and our expectation is that the private sector will be slow to invest until the policy outlook is clearer. Public investment is also likely to be weak until spending priorities are addressed – a trend already apparent in the continued decline in the value of projects planned or underway. Against this, consumption did gain pace more quickly than we thought over H221, and with oil output set to gain, we have lifted our forecast for growth in 2022 to a little under 5%. But for now, we expect momentum to fade as the year goes on, with growth of around 3% in 2023 sufficient only to push GDP back to its pre-pandemic level – the slowest recovery from the 2020 slump anywhere in the Gulf.

Quarterly data

	Q1 21	Q2 21	Q3 21e	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	-	-	-	-	-	-	-	-
CPI, eop (% y-o-y)	3.2	2.6	2.2	1.7	1.5	1.9	1.6	1.2
Policy rate, eop (%)	1.50	1.50	1.50	-	-	-	-	-
USD/KWD (eop)	0.30	0.30	0.30	-	-	-	-	-

Source: Kuwait Central Bank, Ministry of Finance Kuwait Central Statistics Office, CEIC, HSBC forecasts

Middle East and North Africa

Oman

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

Good, but hard work still to come

We look for the strains on Oman's balance sheet to continue to ease over our forecast period, with the current account deficit shrinking, public finances heading toward balance, and public debt gains starting to reverse.

The improved outlook is apparent in intra-year data that shows Oman's budget deficit falling to OMR1bn over the first 10 months of 2021 – a y-o-y improvement of more than 7% of GDP. We think the gains likely accelerated into year-end, and see the full-year deficit falling from more than 17% in 2020 to around 5% last year. The 2022 budget anticipates a shortfall of a similar scale this year, but we think the outlook is stronger and see the deficit at around 2.5% of GDP. If realised, the outturn would be the strongest budget performance since 2013 and could see public debt fall below 70% of GDP in 2023 compared to the 2020 peak of 80%. No current account data has been released for 2021, but we estimate that the shortfall fell from 13% in 2020 to around 4% last year which, combined with strong capital inflows, pushed central bank reserves well ahead of their pre-pandemic levels in Q421. With energy export revenues set to remain high and expatriate remittances trending lower as the foreign workforce continues to fall, we see the current account deficit narrowing further. The improved prospects have been recognised by rating agencies, with S&P, Fitch and Moody's upgrading Oman's outlook in Q4.

Yet, while our forecasts show that we too are optimistic on the adjustment underway, we also see grounds for caution. Most immediately, Oman must refinance maturing debt worth some 8% of GDP this year, keeping the overall funding requirement at double-digit levels. More broadly, we are concerned that the fiscal improvement has so far come only from revenue gains, with the bulk stemming from higher oil prices. This leaves Oman exposed to oil price volatility – a vulnerability that looks likely to persist with the 2022 budget omitting the income tax mooted last year, and not lifting the rate of VAT. The budget also promises another year of higher spending, including the reintroduction of "regular bonuses" to public pay.

The more expansionary fiscal stance should offer growth some support and high frequency data shows domestic activity normalising into year-end as progress with COVID-19 vaccinations allowed the authorities to relax the last of their pandemic restrictions. Tourist arrivals have started to pick up, the outflow of expatriates appears to be easing and private sector lending has also turned positive, all offering near-term growth support, while the large investment proposals agreed during a high profile Saudi visit to Oman in December highlight the potential for gains in capital outlays. Oman has published no GDP data since 2020, but we estimate growth at around 3.5% this year from some 2% in 2021, below the GCC average, but sufficient to finally reverse the losses of the 2020 recession.

Quarterly data

	Q1 21	Q2 21	Q3 21	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	-	-	-	-	-	-	-	-
CPI, eop (% y-o-y)	-0.4	1.2	2.5	4.1	4.2	3.0	2.9	2.3
Policy rate, eop (%)	0.50	0.50	0.50	-	-	-	-	-
USD/OMR (eop)	0.385	0.385	0.385	-	-	-	-	-

Source: Oman Central Bank, Ministry of Finance, National Centre for Statistics and Information, CEIC, IIF, HSBC forecasts

Middle East and North Africa

Qatar

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

World Cup year

We remain upbeat on Qatar's near and long-term prospects, with an already robust outlook now bolstered by rising oil prices and even stronger gains in natural gas receipts. Trade data for the first ten months of 2021 gives a sense of the windfall higher energy receipts have brought, with export earnings receipts up more than 60% y-o-y, leaving Qatar with a trade surplus of around 30% of GDP. We estimate that these strong export gains underpinned a current account surplus of some 6% of GDP for the full year, a figure we expect to push toward 10% of GDP over our forecast period, even as import demand gains with the recovery in growth.

Rising oil and gas income coupled with significant spending restraint were also sufficient to push public finances back into surplus over the first three quarters of last year, with the full-year outturn likely to have run at over 3% of GDP – the strongest performance in the Gulf. The draft 2022 budget forecasts a deficit of QAR2.3bn, and includes provision for higher spending ahead of and during the FIFA World Cup, which begins in November. But even allowing for these additional outlays, we see revenue running well ahead of the authorities' conservative assumption and look for a surplus approaching 6% in both 2022 and 2023. These strong fiscal and external account performances should see Qatar continue to add to the already large stock of sovereign wealth managed by the QIA and pay down public debt, which we see falling to around 50% of GDP by the end of our forecast period, from over 75% of GDP in 2020.

Although Qatar rebalanced more quickly than other Middle East oil producers, recovery was slow to come through, with GDP data to the start of Q320 showing non-oil GDP still below its pre-COVID-19 levels and struggling for momentum. High frequency data for subsequent months, however, has been much more positive, led by the whole economy PMI, which hit record highs in October and again in November. We are optimistic that these gains will persist over the rest of this year, driven in good part by final preparations for the FIFA World Cup and then by the tournament itself, which may attract up to two million visitors in a month– close to the number of tourists Qatar usually receives in a full year. Growth is likely to slow when the surge in demand associated with the tournament fades, putting fresh focus on the longer-term returns investment in infrastructure for the event will generate. But LNG and gas fired industry remain the mainstay of the economy, with rising investment in new capacity set to drive growth on, with a new focus on green energy – the World Cup is due to be "carbon neutral" and Qatar has committed to a 25% cut in greenhouse emissions by 2030.

Fitch put Qatar's banking system on review for possible downgrade in October, citing the system's reliance on non-resident deposits and exposure to the real estate sector. The vulnerabilities are not new, however, and S&P's confirmation of the sovereign's AA- rating underscores the authorities' likely capacity to provide support if required.

Quarterly data

	Q1 21	Q2 21	Q3 21	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	-2.2	4.0	-	-	-	-	-	-
CPI, eop (% y-o-y)	-0.3	2.0	2.7	5.0	4.3	4.4	4.0	3.3
Policy rate, eop (%)	1.00	1.00	1.00	-	-	-	-	-
USD/QAR (eop)	3.64	3.64	3.64	-	-	-	-	-

Source: Qatar Central Bank, Ministry of Finance, Qatar Statistical Authority, CEIC, HSBC forecasts

Middle East and North Africa

Saudi Arabia

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

Cyclical momentum, structural change

We remain optimistic on Saudi Arabia's economic prospects, and look for activity to gain pace over our forecast period and for the Kingdom's fiscal and external account balances to gain strength. At over 6%, the growth rate we anticipate for 2022 will be the fastest pace of expansion in more than a decade, and will run at roughly double the rate recorded in 2021 when the economy bounced back from its pandemic-driven contraction. In part, the high figure reflects our expectation that OPEC output quotas will continue to ease, pushing export volumes and industrial production sharply higher. However, we also expect the non-oil economy to perform well – a view strengthened by accelerating GDP growth in Q321 and strong high frequency data in Q4 that suggested momentum building into the new year. Private consumption will remain the key driver, but we also see investment gaining pace as the Kingdom steps up delivery on its capital spending plans. Although headline growth is likely to moderate in 2023 as oil production stabilises, at a little under 4% it will remain well above the five-year average as domestic demand continues to expand. Growth at this pace should see unemployment trend lower, despite the rising participation rate.

The favourable growth outlook is also supported by the room for manoeuvre Saudi policymakers look set to enjoy. The budget was close to balance in Q321, and with higher oil receipts accelerating the fiscal adjustment delivered by recent spending and revenue reforms, we now expect the budget to deliver its first surplus since 2013 in 2022. This year's budget is cautious, suggesting oil gains are not yet set to trigger significant increases in central government spending or the roll-back of tax increases. However, the strengthening public balance sheet is likely to encourage off-budget government agencies such as the Public Investment Fund (PIF) and the National Development Fund (NDF) to step up the pace at which they execute their high profile infrastructure and industrialisation plans. In addition to fiscal space, monetary policy will remain loose, with Fed-driven tightening in 2022 and 2023 set to leave the policy rate negative in real terms at a time when reduced government borrowing needs should see liquidity rise.

We also think that Saudi Arabia will continue to deliver on structural reform, building on gains that have overhauled the Kingdom's labour market, housing market, financial markets, legal environment, and social code since Vision 2030 was first launched in 2016. A fresh set of IPOs into year-end strengthens our view that the programme has strong support, with the focus for the coming two years set to be boosting public and private investment, with the authorities likely to place particular emphasis on lifting FDI. A critical challenge will be to ensure that the PIF, NDF and others do not crowd out or distort the role of the private sector in development. Guarding against import substitution and promoting competition will also be key to achieve long-term productivity gains as well as short-term growth.

Quarterly data

	Q1 21	Q2 21	Q3 21	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
GDP growth (% y-o-y)	3.1	3.1	4.7	-	-	-	-	-
CPI, eop (% y-o-y)	4.9	6.2	0.6	1.5	2.3	2.4	2.9	3.0
Policy rate, eop (%)	0.50	0.50	0.50	-	-	-	-	-
USD/SAR (eop)	3.75	3.75	3.75	-	-	-	-	-

Source: Saudi Arabia Monetary Agency, Central Department of Statistics and Information (CDSI), CEIC, HSBC forecasts

Middle East and North Africa

UAE

Simon Williams
Chief Economist, CEEMEA
HSBC Bank plc

Turning the page

We had always expected that the UAE's recovery from the 2020 pandemic shock would become apparent in the latter months of last year, but the speed with which activity seems to be recovering is running ahead of our expectations. Encouragingly, the cyclical recovery is being framed by strengthening domestic and external balances and a renewed appetite for structural reform. The Omicron variant pushed COVID infection rates sharply higher into the new year, which poses a risk to near-term services growth, but the UAE's highly effective vaccination programme has kept hospitalisation rates low and guarded against significant tightening of activity restrictions.

The continued absence of intra-year GDP makes it difficult to gauge how strong the upturn in growth actually is, and there are relatively few high frequency indicators on which to draw. However, the whole economy PMI has trended sharply higher over much of the third and fourth quarters of the year, consumer sentiment gained, and confidence in job prospects strengthened. Lockdown restrictions were wound down over the summer, but it was only over the cooler winter months that pent-up demand for goods and services gained traction. The travel and tourism sectors also started to recover over H2, with visitor arrival numbers well below their pre-pandemic levels but trending sharply higher, supported by Expo 2020 events.

The Omicron surge has given us pause, but overall we expect these trends to support fresh gains in consumption and services exports this year, with growth also set to be buoyed by higher oil output as easing OPEC production restrictions push industrial production and goods exports higher. Given the severity of the 2020 downturn and last year's lagged recovery, it will take time for investment to gain, particularly in the private sector where corporates have continued to de-lever. However, we expect capital spending to start to push higher as sentiment firms and spare capacity is taken up, particularly with real estate prices finally gaining after more than 6 years of sustained decline. The Fed-driven monetary tightening we expect over the forecast period is unlikely to dent private demand for credit if growth continues to firm, but it is the public sector that is likely to lead as higher oil prices and rising fiscal surplus encourage governments and state firms to step up execution of their development plans.

As the most open economy in the Gulf, the UAE is more exposed than its peers to any persistent set-back to the recovery in travel and tourism or weaker global trade. But against this prime downside risk, we also note the speed with which the UAE has accelerated its structural reform programme, following up on reforms to the labour market and commercial regulations with an overhaul of the working week and a spate of new listings on the country's financial markets. More liberalising measures are planned, spurred in part by intensifying competition between Saudi Arabia and the UAE, with the measures having scope to act as a catalyst for near-term investment plans as well as lifting potential growth rates over the longer term.

Quarterly data

	Q1 21	Q2 21	Q3 21e	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f
CPI, eop (% y-o-y)	-1.1	-0.5	1.2	1.6	2.5	2.1	2.1	2.1
Policy rate, eop (%)	1.25	1.25	1.25	-	-	-	-	-
USD/AED (eop)	3.67	3.67	3.67	-	-	-	-	-

Source: UAE Central Bank, Ministry of Finance, National Bureau of statistics, HSBC forecasts

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Simon Williams, Melis Metiner, David Faulkner, Agata Urbanska-Giner and Matlhodi Matsei

Important disclosures

This document has been prepared and is being distributed by the Research Department of HSBC and is not for publication to other persons, whether through the press or by other means.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investment products mentioned in it and/or to participate in any trading strategy. Advice in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document and take into account their specific investment objectives, financial situation or particular needs before making a commitment to purchase investment products.

The value of and the income produced by the investment products mentioned in this document may fluctuate, so that an investor may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Value and income from investment products may be adversely affected by exchange rates, interest rates, or other factors. Past performance of a particular investment product is not indicative of future results.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

1 This report is dated as at 11 January 2022.
2 All market data included in this report are dated as at close 05 January 2022, unless a different date and/or a specific time of day is indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Legal entities as at 1 December 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

Issuer of report
HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

In the UK, this publication is distributed by HSBC Bank plc for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. Nothing herein excludes or restricts any duty or liability to a customer which HSBC Bank plc has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC Bank plc in the UK will not enjoy the protections afforded by the UK regulatory regime. HSBC Bank plc is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In the European Economic Area, this publication has been distributed by HSBC Continental Europe or by such other HSBC affiliate from which the recipient receives relevant services

The document is distributed in Hong Kong by The Hongkong and Shanghai Banking Corporation Limited and in Japan by HSBC Securities (Japan) Limited. Each of the companies listed above (the "Participating Companies") is a member of the HSBC Group of Companies, any member of which may trade for its own account as Principal, may have underwritten an issue within the last 36 months or, together with its Directors, officers and employees, may have a long or short position in securities or instruments or in any related instrument mentioned in the document. Brokerage or fees may be earned by the Participating Companies or persons associated with them in respect of any business transacted by them in all or any of the securities or instruments referred to in this document. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

The information in this document is derived from sources the Participating Companies believe to be reliable but which have not been independently verified. The Participating Companies make no guarantee of its accuracy and completeness and are not responsible for errors of transmission of factual or analytical data, nor shall the Participating Companies be liable for damages arising out of any person's reliance upon this information. All charts and graphs are from publicly available sources or proprietary data. The opinions in this document constitute the present judgement of the Participating Companies, which is subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. This document is neither an offer to sell, purchase or subscribe for any investment nor a solicitation of such an offer.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All US persons receiving and/or accessing this report and intending to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at www.business.hsbc.com.sg for contact details. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV).

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by Banco HSBC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document. HSBC Bank plc is registered in England No 14259, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions for accessing research and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications ("the Terms"). Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the Terms. If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the Terms and any other conditions or disclaimers applicable to the provision of the publications that may be advised by PB.

[1184533]