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Economics - CEEMEA

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CEEMEA Economics Quarterly

A deepening divide

The outlook for much of the region has deteriorated further…

…with weak growth and soaring inflation now compounded by rising funding strains…

…throwing the resilience of Saudi Arabia and the Middle East oil states into even sharper relief

This is an abridged version of a report by the same title published on 07 July 2022. The full report contains a further look at the broader CEEMEA region. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Key events in Q3

July

4 **Israel:** Rate decision
7 **Poland:** Rate decision
8 **Turkey:** Fitch rating review
15 **Kuwait:** S&P rating review
15 **Angola:** Fitch rating review
13 **Angola:** Rate decision
21 **South Africa:** Rate decision
21 **Turkey:** Rate decision
22 **Hungary:** Fitch rating review
22 **Poland:** Fitch rating review
22 **Russia:** Rate decision
25 **Ghana:** Rate decision
26 **Nigeria:** Rate decision
27 **US:** Rate decision
31 **Kenya:** Rate decision
Poland: Inflation report

August

4 **Czech Republic:** Rate decision
5 **Czech Republic:** Moody's rating review
5 **Ghana: S&P rating review**
5 **Nigeria: S&P rating review**
9 **Kenya:** Presidential and legislative elections
18 **Egypt:** Rate decision
18 **Turkey:** rate decision
22 **Israel:** Rate decision
24 **Angola:** Presidential and legislative elections
30 **Hungary:** Rate decision

September

2 **Ghana**: Moody's rating review
7 **Poland:** Rate decision
8 **Angola**: Rate decision
16 **Saudi Arabia**: S&P rating review
16 **Russia:** Rate decision
21 **US:** Rate decision
22 **South Africa:** Rate decision
22 **Egypt:** Rate decision
22 **Turkey:** rate decision
23 **Hungary:** Moody's rating review
23-24 **Czech Republic:** Legislative elections
26 **Ghana:** Rate decision
27 **Hungary:** Rate decision
27 **Nigeria**: Rate Decision
29 **Czech Republic:** Rate decision
30 **Kenya:** Rate decision
30 **Oman:** S&P rating review
30 **Poland:** S&P rating review
30 **Turkey:** S&P rating review
Hungary: Inflation report

Rest of the year

October

Russia: Rate decision
Romania: Fitch rating review
Czech Republic: Fitch rating review
Poland: Rate decision
Hungary: Rate decision
Poland: Moody's rating review

November

Israel: Legislative elections
Kenya: Rate decision
Turkey: Fitch rating review
Czech Republic: Rate decision
Israel: Rate decision
Ghana: Rate decision
Egypt: Rate decision
Qatar: S&P rating review
Turkey: Fitch rating review
Israel: S&P rating review
South Africa: Moody's rating review
Poland: Inflation report
Bahrain: Legislative election

December

US: Rate decision
Russia: Rate decision
Czech Republic: Rate decision
Poland: Rate decision
Egypt: Rate decision
Saudi Arabia: Moody's rating review
Kuwait: S&P rating review
Hungary: Inflation report

Sub-Saharan Africa

South Africa

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Form is temporary

The South African economy made a strong start to 2022, growing by 1.9% q-o-q in the first quarter. Domestic demand led the expansion, with the strongest gains for investment spending, which increased by 3.6% q-o-q, and robust support from household spending, government consumption and restocking. Net exports detracted from headline GDP growth. With GDP growth stronger than anticipated, we have raised our full-year growth forecast to 1.7% (1.4% previously), but the outlook looks challenging amid a deteriorating global backdrop, worsening domestic energy shortages, and the impact of severe floods at the start of Q2.

Energy shortages remain the most binding constraint to growth, with state-owned electricity company Eskom implementing Stage 6 power cuts during late June, removing about a 1/6th of demand from the grid in response to severe supply disruptions. At this stage there are few signs that the generation gap will be plugged over our forecast horizon, even as policy interventions suggest they could boost private sector investment in energy projects over the coming quarters. The consumption outlook, meanwhile, faces challenges from a sluggish jobs recovery, slumping consumer sentiment, and the impact of rising domestic inflation and interest rates on household spending power.

The inflation outlook continues to deteriorate, breaching the SARB's 3-6% target range in May, with higher oil and food price growth and building core pressures meaning that we now forecast CPI inflation to average 6.9% in 2022 and peak at 8% in Q4. We also expect a faster pace of SARB rate hikes as policy responds to inflation that is set to run well ahead of the 4.5% target midpoint, upside inflation risks, deteriorating price expectations, and the faster pace of global monetary policy tightening.

Against these headwinds, elevated prices for a range of commodity exports continue to provide some offset to the macro stresses from higher oil prices and imports. The current account recorded a healthy surplus during 1Q22, supported by a robust trade position and a smaller income deficit, and we expect this to persist in the near term supported by high commodity prices and recovery in tourism.

Higher commodity prices also look set to support government revenue and the near-term fiscal outlook. We see the budget shortfall narrowing to less than 5% of GDP in FY22/23 as stronger tax receipts outweigh the impact of the higher spending levels announced at this year's Budget. This would be significantly smaller than the government's estimates. Nevertheless, we remain cautious about the prospects for consolidation beyond this, concerned that spending levels shift structurally higher in response to increased social grants, government wages, and SOE bailouts. The ruling party's leadership elections in 2022 inject some political risk and uncertainty to the macro outlook.

Quarterly data

	Q3 21	Q4 21	Q1 22	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
GDP growth (% y-o-y)	2.9	1.7	3.0	-0.3	2.3	2.0	0.0	2.1
CPI, eop (% y-o-y)	4.9	5.9	5.9	7.2	7.9	7.6	7.2	6.2
Policy rate, eop (%)	3.5	3.8	4.3	-	-	-	-	-
USD/ZAR (eop)	15.05	15.96	14.61	-	-	-	-	-

Source: Refinitiv Datastream, Bloomberg, HSBC forecasts

Middle East and North Africa

Egypt

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A difficult transition

Egypt's near-term outlook continues to be dominated by the fallout from the Russia-Ukraine conflict, and the toll rising commodity prices and weak global risk appetite are taking on the economy. Headline inflation rose to 13.5% in May, the fastest pace of price growth since Q2 19, with the gains driven by rising food and fuel costs, but data also showing core inflation running at double digit rates. In addition to domestic prices, Egypt's external accounts remain under strain following heavy outflows of portfolio capital in Q1 that have shown no signs of reversing. There has been no repeat of the March devaluation when EGP lost 15% of its value in one day, but the currency shows a weakening bias on a thin interbank market, while the drop in Central Bank reserves in Q2 to fund a debt repayment obligation highlights the impact of global market disruption on Egypt's funding options. PMI scores that have printed below 50 since the start of the year also point to pressure on growth.

In response to the external shocks, Egypt announced in March that it had begun talks with the IMF for a new funded programme. The negotiations on what would be Egypt's fourth funding line since Q4 16 are ongoing, with discussions focused on FX liberalisation and privatisation. On the latter, at least, there has been significant progress, with Egypt laying out plans for a four-year USD40bn sale of assets owned by the state and military, coupled with regulatory overhaul to speed the divestment process. Strong commitments from Saudi Arabia, Qatar, and the UAE to invest heavily in Egypt in addition to providing some concessional support give grounds to look for progress. As well as working with external partners, Egypt also hiked interest rates by a total of 300bps in March and May in a bid to re-anchor inflation expectations.

With time, we are hopeful that the shift in policy focus and strong external support will the see economy stabilise and return to its 6% trend rate of expansion. In the near term, though, the challenges remain pronounced with Egypt needing to fund a USD16bn current account deficit this fiscal year and manage some USD5bn in debt repayments. Continued capital flows from the Gulf coupled with disbursements from the IMF will be key, but funding risks will persist if bilateral and multilateral support does not facilitate market access. This creates downside risks for the currency and the potential of another step change lower against the dollar, though for now we only see modest depreciation.

We currently see inflation peaking at 16%, but any additional FX weakness would push price growth higher, putting fresh focus on the credentials of the central bank which chose to keep rates on hold in June, arguing that price pressures were transitory. Careful fiscal management suggests that the budget outlook is stronger, and we see the deficit falling below 7% of GDP for the first time since 2009. Higher commodity prices and the challenging funding environment create risks, however, which would build if growth slows more quickly than we expect.

Quarterly data

	Q3 21	Q4 21	Q1 22	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	6.6	5.9	10.5	14.7	14.9	15.6	13.7	10.9
Policy rate, eop (%)	8.25	8.25	8.25	-	-	-	-	-
USD/EGP (eop)	15.7	15.7	18.5	-	-	-	-	-

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

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Lifted on the tide

Bahrain's economic outlook continues to improve, bolstered by another quarter of strong energy receipts and signs of recovery in the broader non-oil economy. GDP grew by 5.5% year-over-year (y-o-y) in Q1, and while there is a considerable base effect in the data, high frequency figures point to sustained gains in consumption spending and a further pick up in external services demand into Q2. Labour data show employment finally pushed back above pre-COVID-19 levels in Q1, with the first y-o-y rise in remittance outflows also suggesting the labour market has tightened. More timely data for business sentiment show confidence gained for a third consecutive quarter in Q2, with the survey hitting its highest level since the pandemic. All told, we now see growth rising above 4% this year and 3.5% in 2023 - the strongest two years of growth since 2014. At around USD50bn, we see nominal GDP in 2023, up 30% on its 2020 lows.

The growth outlook has been bolstered by the impact of higher oil receipts on public finances, which has eased the pressure for additional fiscal consolidation. Frustratingly, no timely budget data have been released, but Finance Minister Salman al-Khalifa suggested in early Q2 that Bahrain would meet its goal of a balanced budget ahead of the 2024 target date. We share this view, and notwithstanding the uncertainty brought by limited data disclosure, see the budget generating a surplus of some 4.5% of GDP this year and next. The outturn should see debt stabilise in absolute terms but fall below 90% by the end of our forecast period, down more than 25ppt on its 2020 high. In addition to stronger public finances, we also see Bahrain's external account position steadily reversing the heavy losses of the previous cycle. In line with this view, the current account generated its largest surplus in nearly a decade in Q1 22, and even allowing for higher import costs and a pickup in import demand, we now see the full-year balance exceeding 13% of GDP this year and remaining high in 2023. Large external debt repayments due this year and next will continue to weigh, but the trade driven current account surplus should see FX reserves rise significantly, offering the dinar support.

Despite the apparent recovery in growth over the first months of this year and the sharp pickup in global prices, inflation in Bahrain has remained contained, printing below 3.5% in May with prices actually falling month-over-month (m-o-m). We expect the sequential decline to reverse over the remainder of the year, but the benign early year readings have strengthened our expectation that inflation is unlikely to rise much above 5% over the coming two years – close to the Gulf mean, but well below the CEEMEA average. This will not stop CBB continuing to tighten policy given it has followed the Fed in lockstep through the start of the tightening cycle. The structural reform drive has struggled for momentum, but following a large scale cabinet reshuffle that saw 17 of 22 ministers replaced in June, we will look closely for evidence that the cyclical respite offered by high oil prices is being taken as an opportunity to re-invigorate the broader policy agenda.

Quarterly data

	Q3 21	Q4 21	Q1 22	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	-0.92	-0.41	3.84	3.43	3.84	4.88	2.83	3.66
Policy rate, eop (%)	1.00	1.00	1.25	-	-	-	-	-
USD/BHD (eop)	0.376	0.376	0.376	-	-	-	-	-

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

Middle East and North Africa

Kuwait

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Two steps back

Buoyed by rising oil output and strong energy prices, Kuwait's cyclical outlook has continued to improve. Public finances have shown the largest gains, with data for the first 11 months of fiscal 2021/22 showing the budget shortfall narrowing to just 1% of GDP – an improvement of almost 20ppt of GDP on the same period last year. The gain, the most marked in the Gulf, was driven by an 86% increase in oil receipts that make up 90% of the government's revenue base. We see the budget position strengthening further, and now look for a surplus approaching 10% of GDP in fiscal 2022/23 and remaining high the following year. The surpluses will be the first realised since 2014/15 and should allow the authorities to start to rebuild the General Reserve Fund that was heavily depleted by the sustained shortfalls of recent years.

As well as strengthening public finances, higher oil receipts have boosted the outlook for Kuwait's external accounts. Though they were never a source of vulnerability (Kuwait maintained a surplus in 2020 when pandemic-era oil prices were at their lows), the surplus over 2022-23 is likely to be in excess of 20% of GDP with the risks weighted to the upside despite rising import costs. GDP data continue to lag, but quicker-than-anticipated gains in oil output have prompted us to lift our growth forecast to around 6% for 2022. The outlook for non-oil growth is more muted, but proxy indicators point to a marked acceleration in private consumption over the first five months of the year, boosted by significant gains in lending to households despite Fed-driven rises in interest rates.

But while the immediate economic outlook has improved, the dissolution of parliament in June following the resignation of the cabinet in April, underscores the challenges facing the broader policy prospects. The emir had launched a high profile "National Dialogue" in Q3 21 to bridge the gap between government and opposition groups that has weighed on governance for some 20 years. But the collapse of the fourth administration in less than two years and preparations for a second general election in 18 months, highlight the gap that remains between the legislature and the executive and give few reasons to expect meaningful progress on structural reform and key pieces of legislation.

Instead, there are signs of a return to more short-term, pro-cyclical policy choices, with the National Assembly voting for a raft of populist spending increases before it was dissolved, including an increase to the cost of living allowance, a rise in the marriage allowance, and a large one-off payment to pensioners – issues that are likely to be key parts of the pending election campaign. Data also show a sharp acceleration in public sector employment for nationals. As well as potentially setting back reform plans, the expansionary stance risks building long term spending commitments that will be challenging if there are any future oil price declines. Sharp increases in spending also risk pushing inflation above the 5% level we currently see as the cyclical peak.

Quarterly data

	Q3 21	Q4 21	Q1 22	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	4.1	4.3	4.9	5.6	5.0	4.6	4.4	4.0
Policy rate, eop (%)	1.50	1.50	1.75	-	-	-	-	-
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

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Spending up, deficits down

Available data paint a broadly positive picture of Oman's economic performance over the first months of the year, with growth gaining pace and imbalances narrowing, opening the way for a steady rebuilding of the Sultanate's balance sheet after the heavy losses of the previous cycle.

Fiscal performance – a key vulnerability over the past decade - has been particularly strong, with the budget generating a surplus of close to OMR500m over the first four months of the year. This is the equivalent to some 3% of GDP, an improvement of close to 10ppt of GDP on the OMR830m deficit generated over the same period last year. Non-oil revenues gained, but more than 90% of the improvement in the outturn was driven by a 75% y-o-y increase in oil and gas receipts. Provided oil holds close to the USD100/b level that runs through our forecasts, we see the budget surplus rising to around 4.5% over the full year – the strongest outturn in at least 20 years. We see the budget remaining in surplus next year too, and with growth gaining pace look for debt to start to fall toward 55% of GDP by the end of our forecast period.

Higher oil prices have also relieved long standing pressure on Oman's balance of payments, with the trade surplus quadrupling y-o-y in Q1 to the equivalent of more than 20% of GDP. Frustratingly, Oman has yet to release current account data for 2021 let alone the first quarter of this year, but we estimate that the strong trade performance will allow the sultanate to generate an overall surplus of as much as 6% of GDP over 2022-23. Even allowing for significant debt repayments, Oman must manage at a time of market strain, we see reserves rising above 7 months of import cover, strengthening support for the currency.

There is no GDP data for 2022 and high frequency indicators are limited. However, private sector employment has gained pace, there has been a pick-up in company formation, and tourism has continued to rebound from its pandemic losses. Despite strengthening domestic demand and higher global prices, inflation remains contained, with annual price growth slowing to 2.5% in April-May from an average of 4% over Q1. Nevertheless, we expect the Central Bank of Oman to raise the repo rate by a further 200bps over H2, having hiked by 150bps in H1 in line with the Fed and the demands of the dollar-peg.

Against this positive backdrop, however, we continue to note that overall fiscal spending rose by 4% y-o-y over the first four months of 2022, despite the government moving oil and gas outlays off budget. The gains were led by an 11% increase in current spending and with consolidation dominated by surging oil and gas receipts, the expansionary stance could leave public finances exposed should oil price gains reverse. The 20% y-o-y increase in the import bill over Q1 is also significant as is the 9% rise expatriate employment in the first five months of the year, with both markers highlighting the Sultanate's reliance on imported inputs to support growth, which could prove costly if the recent oil windfall fades.

Quarterly data

	Q3 21	Q4 21	Q1 22	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	2.5	3.8	3.6	2.7	2.9	3.2	4.0	4.1
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

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Heating up

GDP expanded by 2.5% y-o-y in the first quarter, led by strong non-oil gains. From this firm base, high frequency indicators strongly suggest that domestic demand built significant into Q2, with the whole economy PMI hitting an all-time high in May and consistently printing at the strongest level in the Gulf as both output and new orders gained. Other markers of activity point to robust gains in consumption and investment activity too, while tourism data show a sustained pickup in arrivals.

We believe that the surge in activity in good part reflects final preparations for this year's FIFA World Cup – an event the organisers anticipate will attract some 1.5m visitors during the month over which it is held. This is more arrivals than Qatar usually attracts in a whole year (and equates to more than 50% of the total population) and while preparations for the event are on track, there are some signs that the pickup in demand ahead of the tournament is testing capacity constraints. This includes a pickup in inflation that hit 5.2% in May and which we see peaking at 6.5% in the latter months of this year, before likely falling quickly in 2023 once the tournament is over.

Alongside preparations for the World Cup, Qatar continues to push ahead with the large scale expansion of its LNG capacity, signing a series of investment and financing agreements over Q2 with European and Asian partners who will be the key markets when work is complete in 2026-27. The importance of its gas base is readily apparent in trade data that show total export earnings up more than 70% for the first four months of 2022 compared to the same period last year, with April receipts doubling y-o-y. The surge is even more marked than the gains registered by other regional energy states reflecting Qatar's position as the dominant LNG exporter, and the widening premium of gas over oil prices. Even allowing for an increase in import demand and higher prices for the range of goods on which Qatar is dependent, we see the trade surplus rising to almost USD100bn this year, the equivalent of more than 40% of GDP. The overall current account looks on track to exceed 20% of GDP this year and next, allowing the QIA to add to its already substantial stock of assets.

We also see the budget generating double digit surpluses this year and next – the strongest consecutive outturns since 2013-14. In large part, the surpluses will reflect gains in fiscal oil and gas receipts, but we also expect spending to nudge lower, a reflection less of budgetary conservatism than of the completion of large scale, publicly funded capital projects ahead of the World Cup. We expect the combination of strong economic growth and budget surplus to put public debt on a downward path, with the stock likely falling below 50% of GDP before the end of 2023. We see no prospect of a change in the monetary framework which will remain centred on the dollar peg. Qatar followed the Fed very closely over the first half of the year and we expect it to hike in tandem with the US throughout the tightening cycle.

Quarterly data

	Q3 21	Q4 21	Q1 22	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	2.7	6.5	4.4	5.9	6.3	5.8	3.9	2.0
Policy rate, eop (%)	1.00	1.00	1.25	-	-	-	-	-
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

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Leader of the pack

While the outlook for all of the major Middle East oil producers has strengthened over the past quarter as energy prices have gained, we continue to regard Saudi Arabia as the region's stand-out story. Most immediately, this reflects the outlook for growth, which we now expect to hit 7% in 2022 - the fastest pace of expansion in the Gulf and some 4ppt above the 10-year average. Our new forecast is 0.5ppt higher than we projected three months ago, with the upward revisions marking our expectation that Saudi Arabia will bring forward oil output hikes. However, the upbeat view also marks the strength of the non-oil private sector, which expanded by more than 2% q-o-q in Q1 2022, with high frequency data suggesting activity maintained momentum into Q2. We expect growth to slow next year as oil production plateaus but expect robust non-oil growth to keep the headline rate of expansion high at around 4%. This pace of expansion should be sufficient to see unemployment trend lower, despite continued gains in the size of the labour force driven by demographic trends and a rising female participation rate.

As well as being strong, growth is well balanced, with annual inflation averaging below 2% over the first five months of the year. We expect some pick-up over the second half of this year, but price rigidities and FX gains protect the economy against imported price shocks. There are also no signs that the economy is bumping up against capacity constraints. All told, we see inflation remaining below 5% throughout our forecast period. In addition to stable prices, the outlook for public finances is also strong, with the budget set to record a surplus of more than 10% of GDP this year and next. While the strong outturn largely reflects high energy receipts, Q1 fiscal data shows spending remained under close control – a marked break from previous cycles when outlays quickly rose with rising oil prices, and a trend which should see public debt trend down towards 20% of GDP over our forecast period. The Kingdom also looks set to generate two years of current account surplus that could be worth as much as USD275bn – funds that we expect to be allocated to agencies such as the Public Investment Fund (PIF) rather than SAMA (the central bank) to broaden the asset base.

SAMA did not fully match the Fed in June, and was alone in the GCC in hiking by 50bps rather than 75bps. The divergence highlights the tension between Saudi Arabia's policy needs and those of the US where inflation is much more pronounced. However, we view the move as fine tuning, not the start of a break from the dollar-peg. As a result, we expect rates to rise with the Fed over H2, but look for the authorities to use other tools to support credit conditions (SAMA deposited USD10bn in the banking system in June to boost liquidity) and to draw on their fiscal strength to support growth if required. We are also hopeful that the Kingdom will push ahead with the structural reform agenda framed by the Vision 2030 programme, building on a raft of liberalising measures rolled out over the past five years. This is likely to have a particular focus on privatisation, with more than 70 firms slated to be sold in the near term. We also expect a pick-up in infrastructure investment, with a strong focus on logistics and the service sector.

Quarterly data

	Q3 21e	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	0.6	1.2	2.0	2.5	3.3	3.9	3.8	3.6
Policy rate, eop (%)	0.50	-	-	-	-	-	-	-
USD/SAR (eop)	3.75	-	-	-	-	-	-	-

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

Middle East and North Africa

UAE

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Outperformer

We remain fundamentally upbeat on prospects for the UAE, an economy that, alongside Saudi Arabia, looks set to be a regional outperformer. Quantifying the cyclical upturn is difficult given the dearth of aggregate macro data, but high frequency indicators suggest the recovery is strong and has momentum. The whole economy PMI, for example, has remained well above 50 and has trended higher into Q2. This includes the stand-alone survey for Dubai, which gained pace in Q2, despite the World Expo coming to a close at the end of March.

The upswing is likely to have been bolstered by a recovery in travel and tourism, with Dubai tourist arrivals now close to pre-pandemic levels. Demographic growth also appears to have picked up speed, with new inflows of expatriates strengthening domestic demand. This includes demand for real estate, with average prices in Dubai rising at double-digit levels throughout the first half of the year. Private sector credit growth has also turned positive in annual as well as in sequential terms through the first months of the year, with the UAE Central Bank credit survey suggesting demand from households and corporates continues to rise, despite the pick-up in interest rates.

With oil production also gaining, we estimate growth could push above 5% this year and remain high at around 4% in 2023, more than 3ppt above the ten-year average. The pace at which high-end real estate prices are rising gives us pause, but overall does not suggest the acceleration in growth is leading to imbalances in the broader economy. Inflation readings for the UAE as a whole are not available past December 2021, but price readings for Dubai are a good proxy and show annual CPI at a little over 4% in May. This includes a significant base effect and with the PMI showing output prices flat, there may be some downside risk to our unchanged forecast that sees inflation peaking at around 6% in Q4. We are also constructive on the outlook for public finances, with strong oil prices likely to deliver a budget surplus of around 10% of GDP this year and next. The external account position is also robust, and we have pushed our forecast for the current account surplus to double-digit levels in response to higher energy prices and the rebound in services earnings.

We expect the UAE to hike rates in line with the Fed over the rest of the year, just as it did over the first half of 2022, while also developing its recently-established treasury bond market to boost control of domestic monetary conditions. We expect fiscal policy to remain cautious, though provisional data showing a sharp rise in outlays in Q4 21 raises questions over the conservative budget plans laid out for 2022 at an emirate and federal level. We also look for further progress on structural reform, with the ongoing privatisation programme only the most high-profile element of a drive to boost private sector investment and attract offshore capital inflows. Mohammed bin Zayed al-Nahyan's accession as ruler of Abu Dhabi and President of the UAE in May is unlikely to trigger any shift in policy priorities.

Quarterly data

	Q3 21e	Q4 21f	Q1 22f	Q2 22f	Q3 22f	Q4 22f	Q1 23f	Q2 23f
CPI, eop (% y-o-y)	1.2	2.5	5.0	5.8	6.4	5.7	4.2	3.4
Policy rate, eop (%)	1.50	-	-	-	-	-	-	-
USD/AED (eop)	3.67	-	-	-	-	-	-	-

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

Disclosure appendix

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Additional disclosures

1 This report is dated as at 07 July 2022.

2 All market data included in this report are dated as at close 06 July 2022, unless a different date and/or a specific time of day is indicated in the report.

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