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Quarterly Financial Newsletter 03/2023

GCC AND UAE : ECONOMIC AND FINANCIAL TRENDS

2022 - 2023

March 2023

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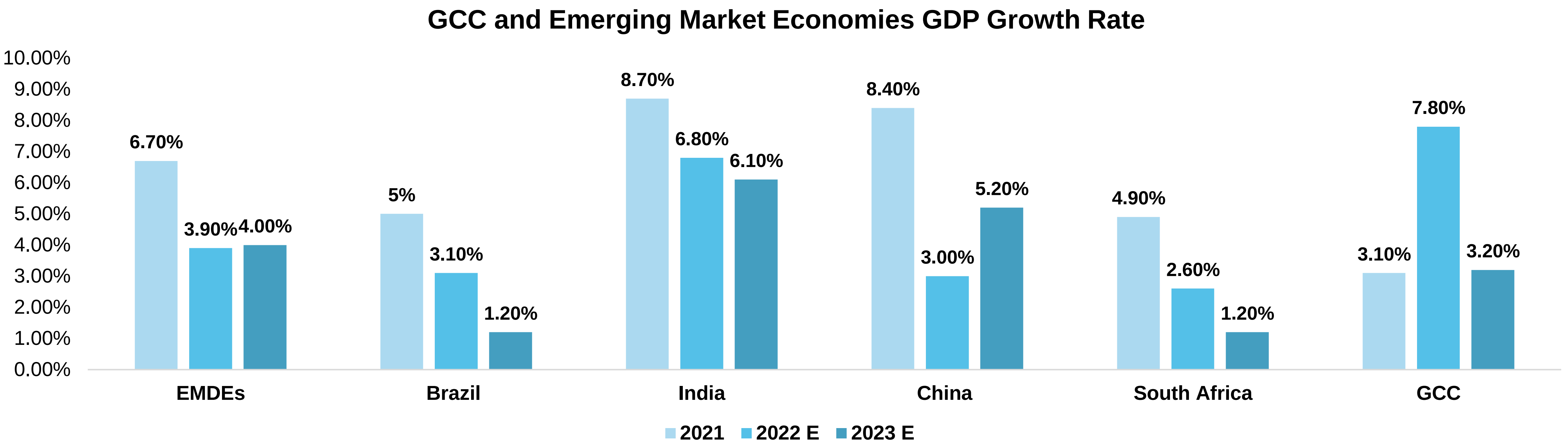
GCC AND EMERGING MARKET ECONOMIES-TRENDS 2022-2023



In Q4 2022, GCC and emerging markets were significantly impacted by high inflation and oil prices, interest rates hikes, food supply disruptions as a result of the ongoing conflict in Ukraine. Growth is projected to marginally increase, from 3.9% in 2022 to 4% in 2023. GCC growth rates will decline to 3.2%(PY 7.8%) due to softening of oil prices and overall slowdown in the rest of the world affecting demand and trade flows.

China experienced a sharp growth slowdown in 2022 due to long, widespread lockdowns to fight the spread of COVID-19 and a historic drop in the real estate market caused it to have one of its poorest growth in decades. It has started to recover while India also experienced a slowdown in 2022 as a result of above factors as well as growing geopolitical tensions. India continues to grow at the fastest pace among the top five global economies. FY 2023 has seen production cuts by OPEC+, resulting in higher oil prices, though global headwinds remain difficult in US & Europe due to demand and supply issues and ongoing energy crisis.

GCC economies non-oil growth is expected to remain strong due to their diversification initiatives. It is driven by performance of the wholesale and retail sectors, while a marked rebound in travel, leisure, and business tourism has also fueled growth in several allied service sectors, including real estate.

Source : IMF, WEO, CBUAE estimates and forecasts for 2022 - 2023

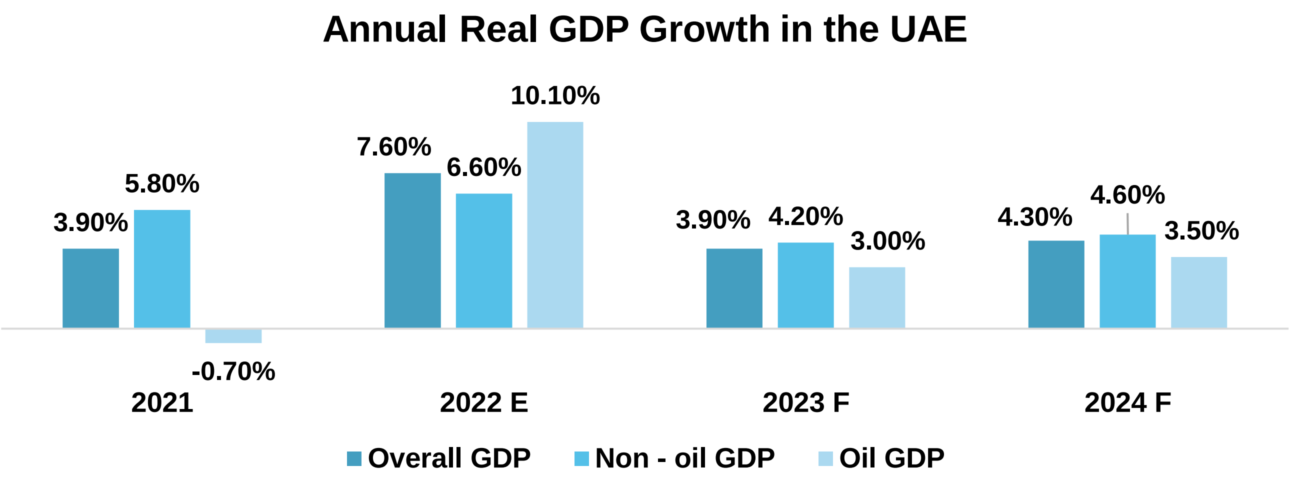
GROWTH IN THE UAE - 2023 AND ONWARDS (CBUAE UPDATE)

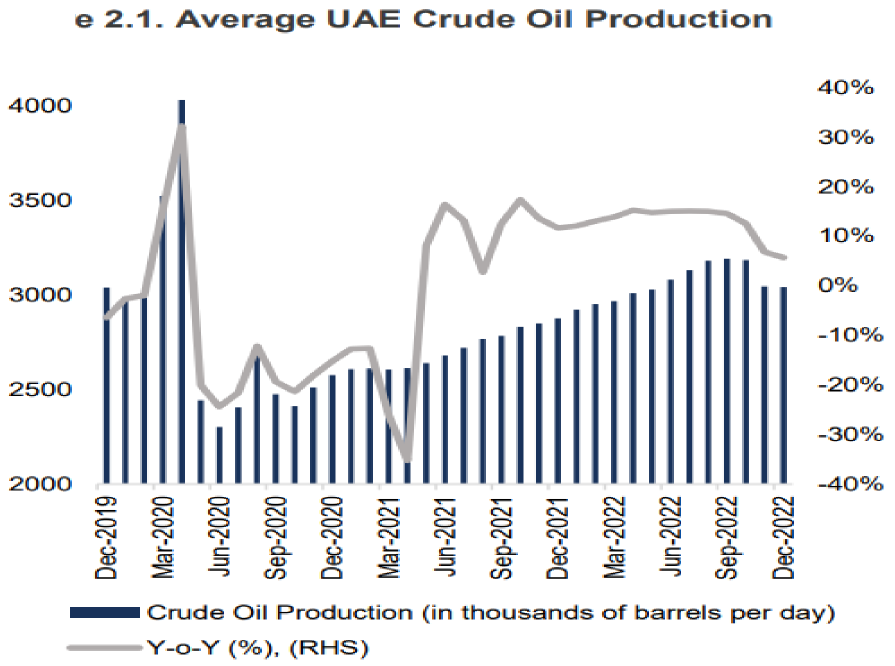
According the report by CBUAE for Q4 2022, the UAE's economy showed a strong performance of both the oil and non – oil sectors. CBUAE expects its growth for the year 2022 to be 7.6% (highest growth in decades) and maintains its forecast for 2023 unchanged at 3.9%.

The hydrocarbon sector experienced a strong increase in the third quarter of 2022, oil production averaged 3.1 million barrels per day in Q4 and the UAE hydrocarbon GDP is estimated to have grown by 10% Y-o-Y, in line with the OPEC+ agreements.

The OPEC+ group has surprised markets by announcing a significant cut in oil production, which is due to be implemented from May 2023 through the close of 2023. The move will see 1.1 mn b/d taken off the market, with the bulk (500,000 b/d) coming from Saudi Arabia's production, with the UAE, Algeria and Iraq also set to contribute. As a result, the CBUAE projects oil GDP to increase by 3.0% and 3.5% in 2023 and 2024, respectively.

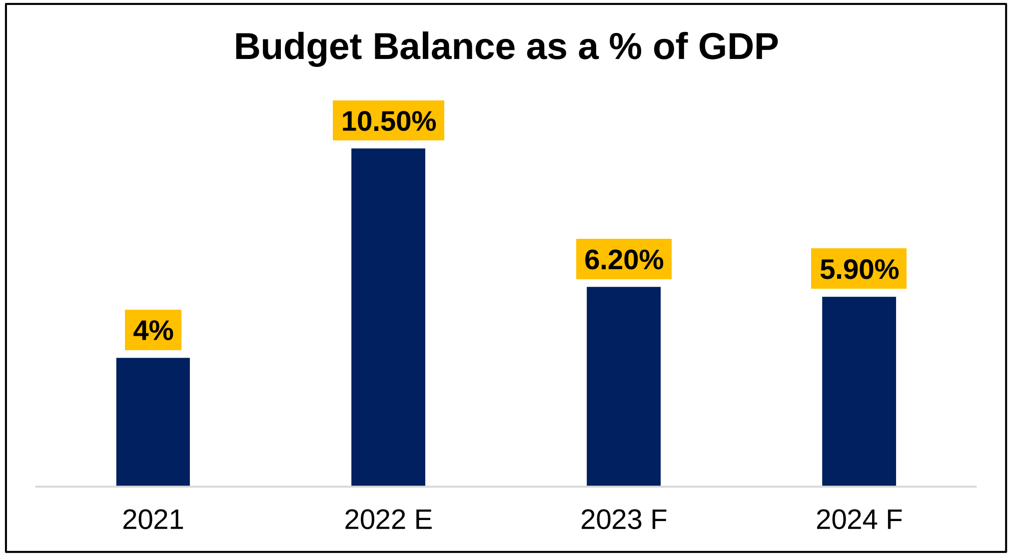
The CBUAE estimates the non-oil GDP growth for 2022 at 6.6%. The main drivers of this strong performance include the real – estate and construction sectors and a dynamic manufacturing sector, such as refineries and aluminum production. For 2023 and 2024, the CBUAE projects the real non – oil GDP to expand by 4.2% and 4.6% respectively, in line with the global growth trends.

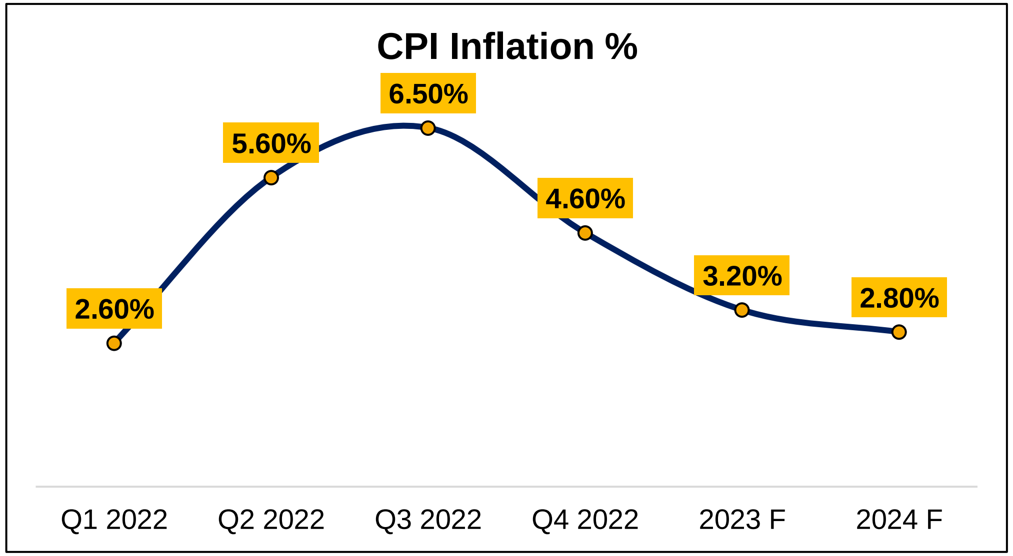




Source : IMF, WEO, CBUAE estimates and forecasts for 2022 - 2023

UAE BUDGET 2023 AND ECONOMIC PERFORMANCE (GDP & INFLATION)





The data from the UAE ministry of finance show the consolidated budget recorded a surplus of AED 195.7bn in 2022, or 10.5% of estimated GDP, up from AED 61.5bn (4% of GDP) in 2021.

Total revenue grew 28.7% y/y in 2022 due to higher total tax receipts and social contributions. Total expenditure was fractionally lower than in 2021 and expenditure attributed to higher spending in consumption of fixed capital, subsidies, social benefits being partially offset by the drop in compensation of employees, use of goods and services, interest and grants.

For 2023, a lower revenue is estimated on the back of a lower oil price assumption and no further increase in oil production.

Introduction of corporate tax, a paradigm shift comes into effect in the second half of this year, and will only boost revenues in during 2024-2025 onwards.

The UAE's consumer's price index (CPI) increased by 4.6% in Q4 2022, compared to 6.5% in the previous quarter. CPI Inflation averaged 4.8% for 2022, close to the CBUAE forecast of 4.9%.

The housing sub-index with the largest weight in the CPI basket (35.1%) recorded a 1.6% Y-o-Y increase in Q4 2022, mainly resulting from the sharp increase in commercial and residential rents in Abu Dhabi, Dubai and rest of UAE, especially in high end properties due to influx of residents.

Food and beverages, the CPI category with the second largest weight (12.0%), increased by 7.1%, declining from the 8.5% growth in Q3 2022 as global food prices normalize.

Inflation is projected to decelerate to 3.2%, due to softer price increases in all categories especially transport and F&B. Inflation is projected to slow further at 2.8% in 2024, in line with global trends.

Source : UAE Ministry of Finance, CBUAE, Zawya

Dubai Economic Agenda D33

The Dubai Economic Agenda (D33), which aims to accelerate growth by bolstering Dubai's competitiveness, innovation, and knowledge-based economy on a global scale, invests in human capital development, skill sets, and cutting-edge technology.

The goal of the agenda is to make Dubai a more attractive site for big international businesses and investments by maximizing the benefits of its strategic position and infrastructure.

Its objectives include tripling Dubai's economy over the next ten years and solidifying its position as one of the top three global cities by attaining an economic target of AED 32 trillion (USD 8.7 trillion) during the next 10 years.
The Agenda also intends to boost the value of domestic demand for products and services.

The ambitious targets in the Dubai Economic Agenda (D33) include increasing the total value of international commerce in products and services.

Government spending under the "D33" Agenda will expand over the following ten years, with greater investment in emerging markets and continued growth of established trade and economic sectors.

Raising the competitiveness of the city's thriving business sector is one of the key objectives of the "D33" Agenda and would expand the private sector.

Dubai aims to rank one of the top four global financial centers, with an FDI growth of over AED 650 billion in the coming ten years and yearly AED 100 billion contributions from digital transformation.

Sectors	Past Decade	Next Decade
Foreign Trade	AED 14.2 trillion	AED 25.6 trillion
Foreign Direct Investment growth per year (Avg)	AED 32 billion annually	AED 60 billion annually
Government Expenditures	AED 512 billion	AED 700 billion
Private Sector Investments	AED 790 billion	AED 1 trillion
Value of Domestic Demand for Goods and Services	AED 2.2 trillion	AED 3 trillion

Source : Zawya & Arabian Business

SAUDI ECONOMIC PERFORMANCE AND VISION 2030

KSA recorded a surplus in the year 2022 of SAR 103.9 bn (USD 27.7bn) i.e., 2.5% of GDP compared with 73.4 bn deficit in 2021. This was mainly due to increase in oil revenues due to higher oil prices and taxes on income, profit and capital gains.

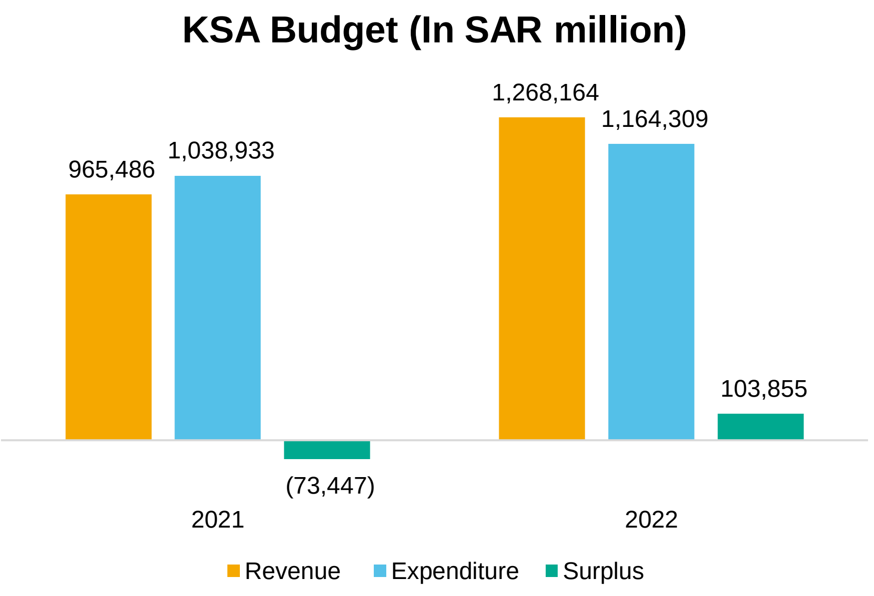
However, in the final quarter Saudi recorded a deficit of SAR 457.bn in Q4 2022 bringing down the total surplus recorded for FY 2022. This was due to higher spending in goods and services which was up 26% y/y and Non - financial assets up 22% y/y.

For 2023, government of Saudi has the annual budget for 2023 with total approved expenditure of SAR 1,114 bn, estimated revenues of SAR 1,130 bn and as estimated surplus of SAR 16 bn (0.4% of GDP).

KSA's budget is linked to the realization of Saudi Vision 2030 objectives and goals. Saudi Vision 2030 is a strategic framework with a goal of Diversifying Saudi's Economy in order to reduce its Oil dependency, and develop the public service sectors such as Infrastructure, Healthcare, Tourism Education, and Recreation.

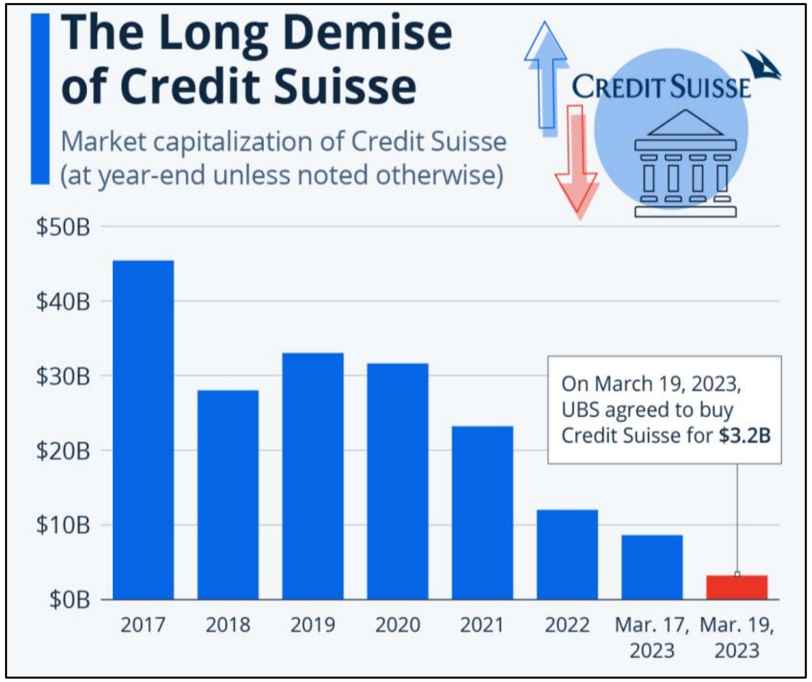
Vision 2030 lays out targets for diversification and improving competitiveness. It is built around three main themes which set out specific objectives to be achieved by 2030.

- **A Vibrant society** – Focus on Urbanism, Culture and Entertainment, Lifestyle, Sports, Umrah, UNESCO heritage sites, Life expectancy.
- **A Thriving economy** – Employment, Education, Entrepreneurship and Innovation, International Competitiveness, Public Investment Fund, Foreign Direct Investment, Non-Oil Exports, Women in the workforce.
- **An Ambitious nation**– Non-Oil Revenues, Government effectiveness, Accountability, Transparency, Expanding online services, Improving governance standards, Non-profits, and volunteering.



Source : Saudi Arabia Embassy Website

2023 BANKING CRISIS (SVB AND CREDIT SUISSE) – "TOO BIG TO FAIL"



Developed economies (US and Europe) are facing possibly the biggest financial crisis, since 2008, as two of the prominent commercial banks Silicon Valley Bank and Signature Bank (US) primarily focused on startups have collapsed.

This was due to a combination of factors including dislocations spurred by higher interest rates, which led to startup and technology clients withdrawing deposits suddenly to keep their companies afloat and move funds elsewhere, thereby triggering one of the biggest bank runs in US history.

This possibly had a contagion risk, led another investment bank Credit Suisse (Switzerland) which had to seek a government lifeline, following years of regulatory penalties eventually leading to its takeover by UBS, making it one of the largest AUM in the world.

The banking regulatory failures prompted various government interventions in US, Europe, and UK to contain the risk thereby disregarding the concept of "***Too Big to fail".***

Credit Suisse was facing difficult times since last few years following series of missteps, shake-ups and fines from regulators.

Its turmoil accelerated when Saudi National Bank (one of Credit Suisse's primary investors) confirmed that it would not provide additional financial assistance to the bank. Soon Credit Suisse's stock price tanked and clients began to pull out their money. On March 16th, Credit Suisse said it would borrow 50 billion Swiss francs (about $54 billion) from the Swiss National Bank in an effort to strengthen its liquidity.

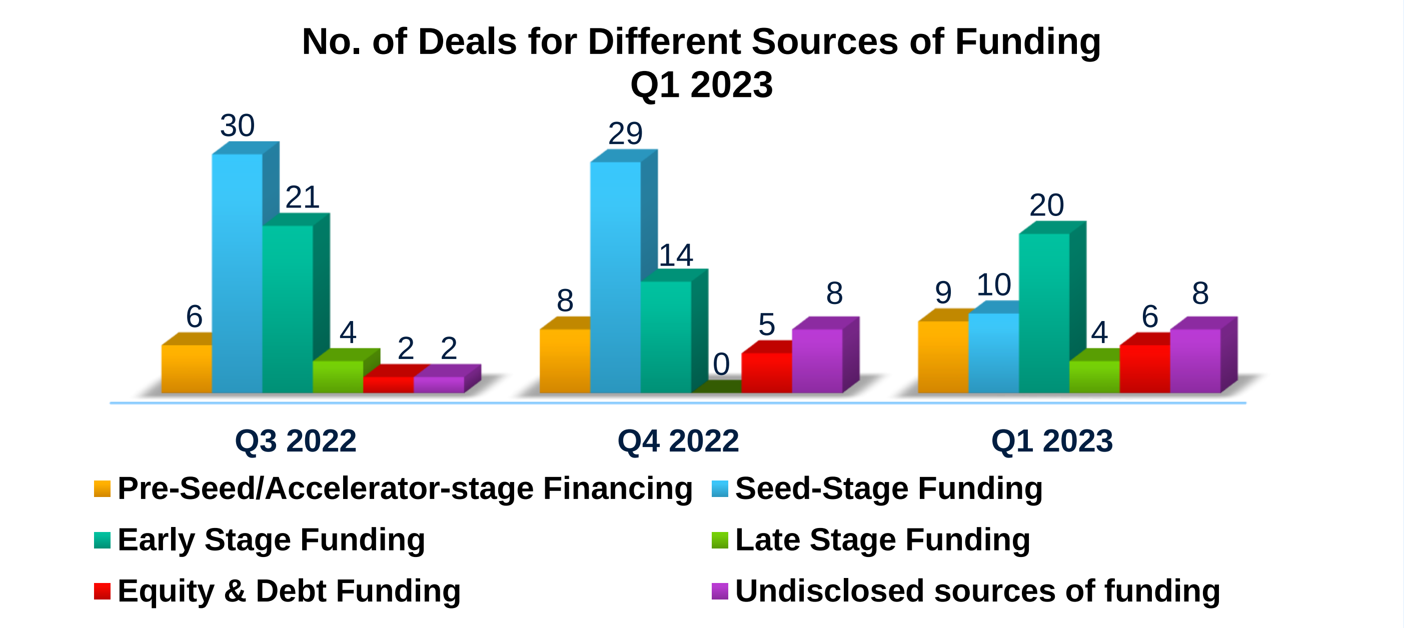
The 167-year old Swiss bank is classified as one of 33 "globally systemic banks," according to the Financial Stability Board, an international body that monitors the global financial system. In ideal terms, it's one of the banks deemed ***"too big to fail."*** The collapse of any of these globally systemic banks could have, domino-effect-like implications for the global financial system.

By March 19th, Swiss president Alain Berset announced that Credit Suisse's rival UBS would acquire the bank. Berset called the deal the "best solution to restore confidence that has been lacking in financial markets recently."

However, bondholders will still lose most of their investments — totalling 16 billion Swiss francs or approximately $17 billion — according to the Swiss Financial Market Supervisory Authority, or FINMA.

Source : Bloomberg, Reuters, CNN, Zawya & NerdWallet

START-UP FUNDING FOR MENA - Q1 2023



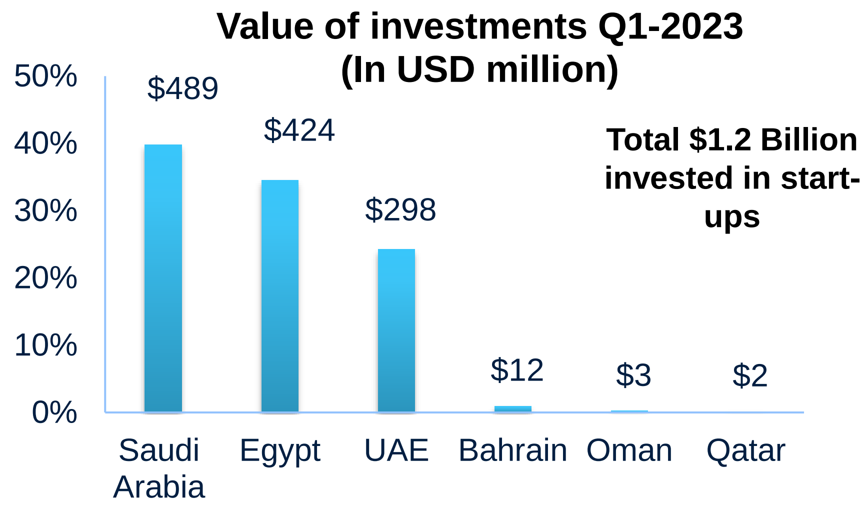
Company Name	HQ Location	Stage	Amount Raised	Valuation	Date
Tamara (BNPL)	KSA	Debt Financing	$150M	$550M pre-funding	Mar-23
Qlub (FinTech)	UAE	Seed	$25M	$150M	Mar-23
Cofe (Marketplace)	UAE	Series B	$15M	$90M	Mar-23
Almentor (EdTech)	UAE	Pre-Series C	$10M	$60M	Mar-23
Aumet (HealthTech)	KSA	Pre-Series A	$7M	$42M	Mar-23

Global investments in high growth companies, no: of deals, IPO exits have sharply declined. However, they have increased investments in early stage start ups in the GCC and Asia with more activity from investors such as Sequoia Capital, 500 Global, Y Combinator, PayPal ventures, etc.

VC firms are now adopting a more cautious approach in late stage start-ups, as opposed to early-stage start-ups due to lower growth and persistent high inflation. Maintaining higher rates of customer acquisition a real challenge as companies now focus on capital efficiency and profitability.

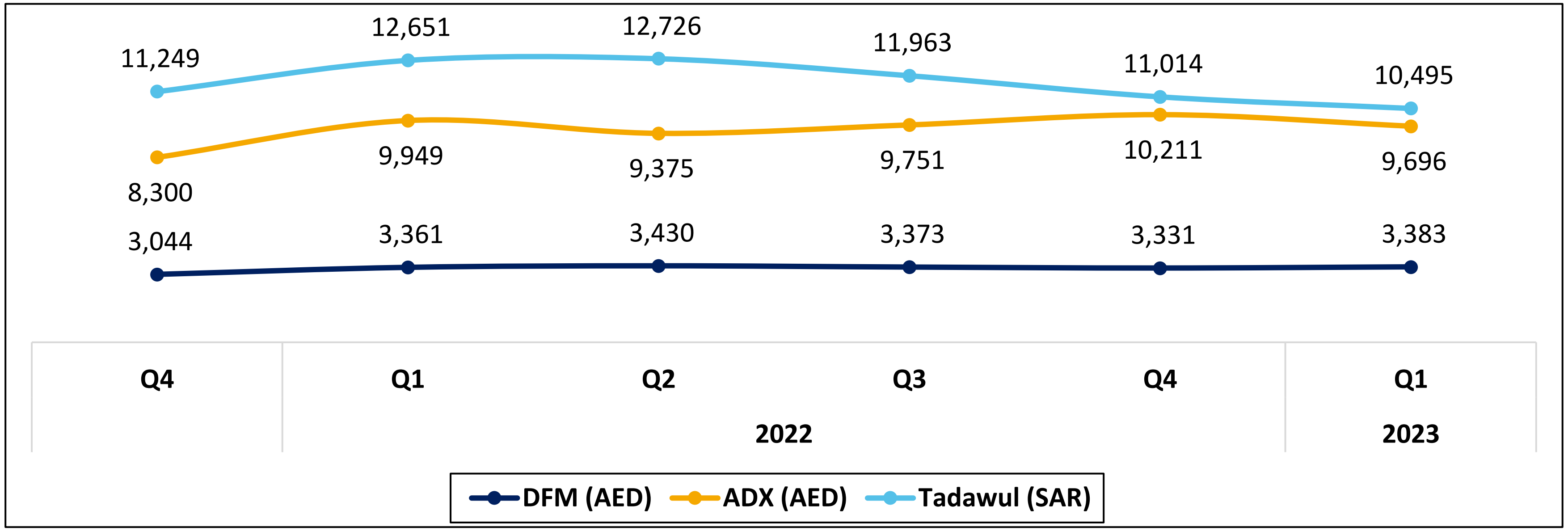
Debt funding has increased including convertible notes, as a preferred source of funding during Q1 of 2023 as opposed to other sources of funding. With investors continuing to tighten funding conditions, the risk of banking crisis increasing in the market, late stage startups are expected to be most impacted by the cash crunch. FinTech (mainly Halan/Egypt $400m). E-grocery (Nana, KSA), Q commerce and other Online Marketplace continues to attract investors, followed by HRTech, PropTech, and last-mile delivery.

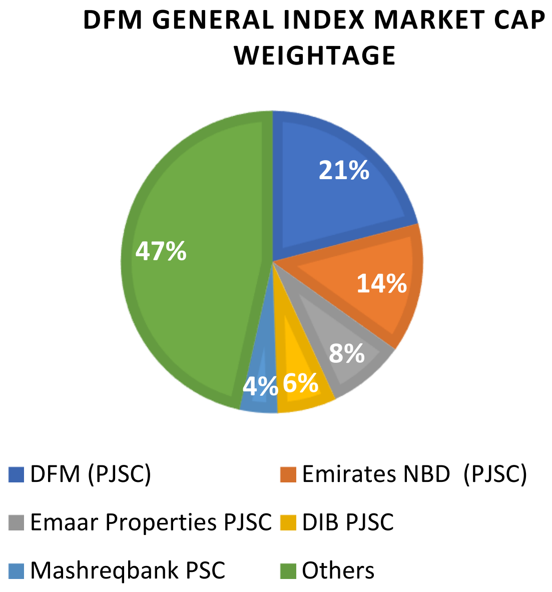
Stage	Funding
Pre-Seed/Accelerator-stage Financing	$14 Million
Seed-Stage Funding	$63 Million
Early-Stage Funding	$217 Million
Late-Stage Funding	$303 Million
Equity & Debt Funding	$559 Million
Undisclosed sources of funding	$72 Million

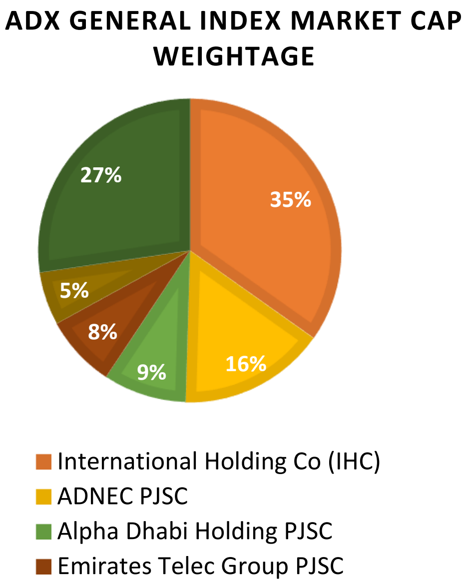


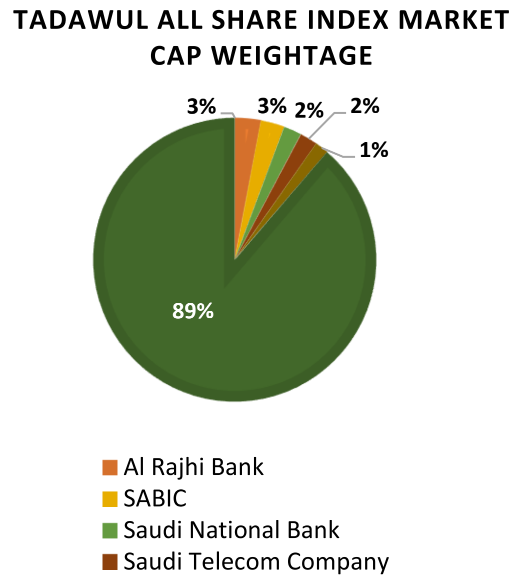
Source: Magnitt, Wamda, Dealroom, Crowe Research & Analysis

CAPITAL MARKETS PERFORMANCE TRENDS – UAE (ADX/DFM) and KSA (TADAWUL)









The GCC Economies have seen a decline in their Stock markets majorly due to market pricing in the impact of Interest rates hikes, slowing demand, unfolding bank crisis combined with rising Inflation.

KSA's benchmark Index fell by 0.4% compared to the previous quarter. DFM rose marginally by 2.28% however ADX observed a sharp fall by 7.64%, owing to drop in shares of National Corporation for Tourism & Hotels, Agthia Group, MBME Group, etc.

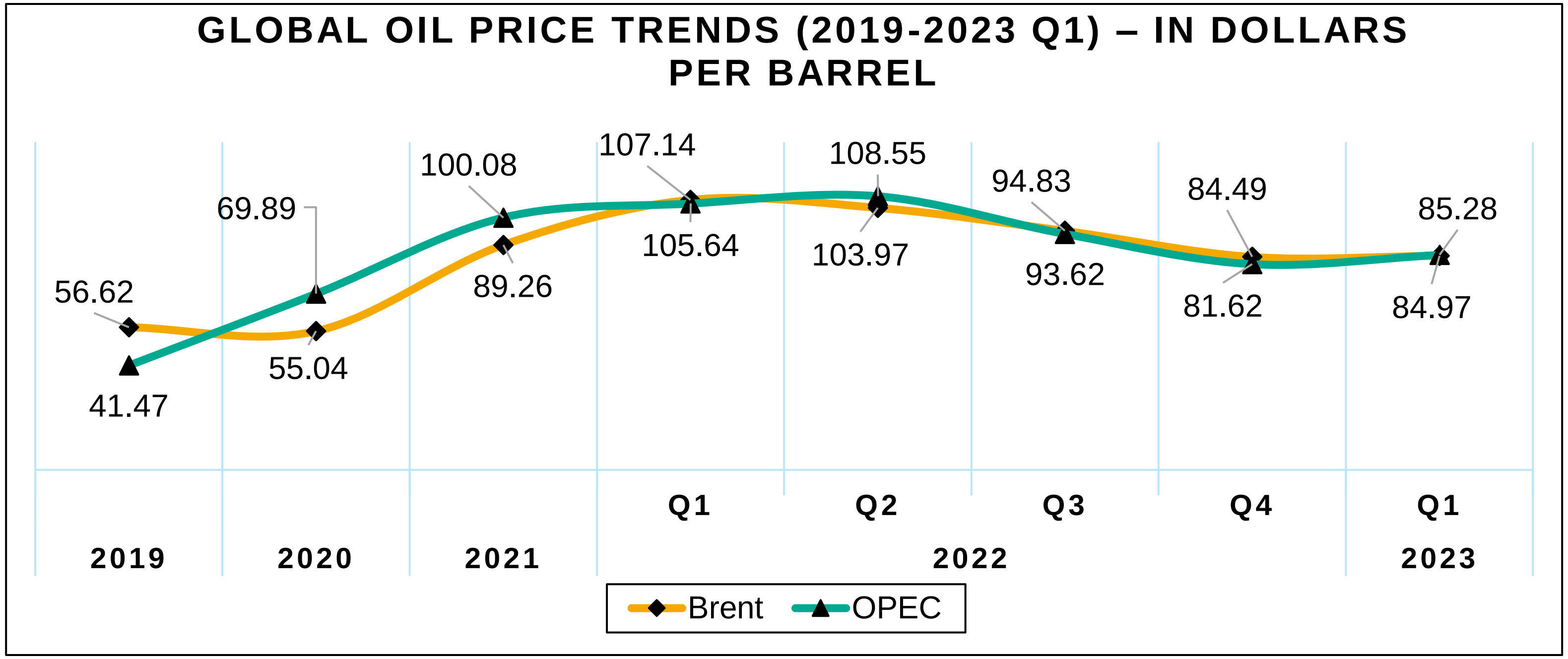
DFM's Index shows stable performance, as the real-estate market boom continues in Dubai along with increasing growth estimates.

Market Cap and Weightage: The pie-chart shows the key stocks that contributed to the capital market performance in the first quarter with respect to market capitalization weightage (as of 31st March 2023).

Dubai Financial Market (Dubai), International Holdings Co (Abu Dhabi), and Al Rajhi Bank (Saudi Arabia) hold the most weightage in the respective indices.

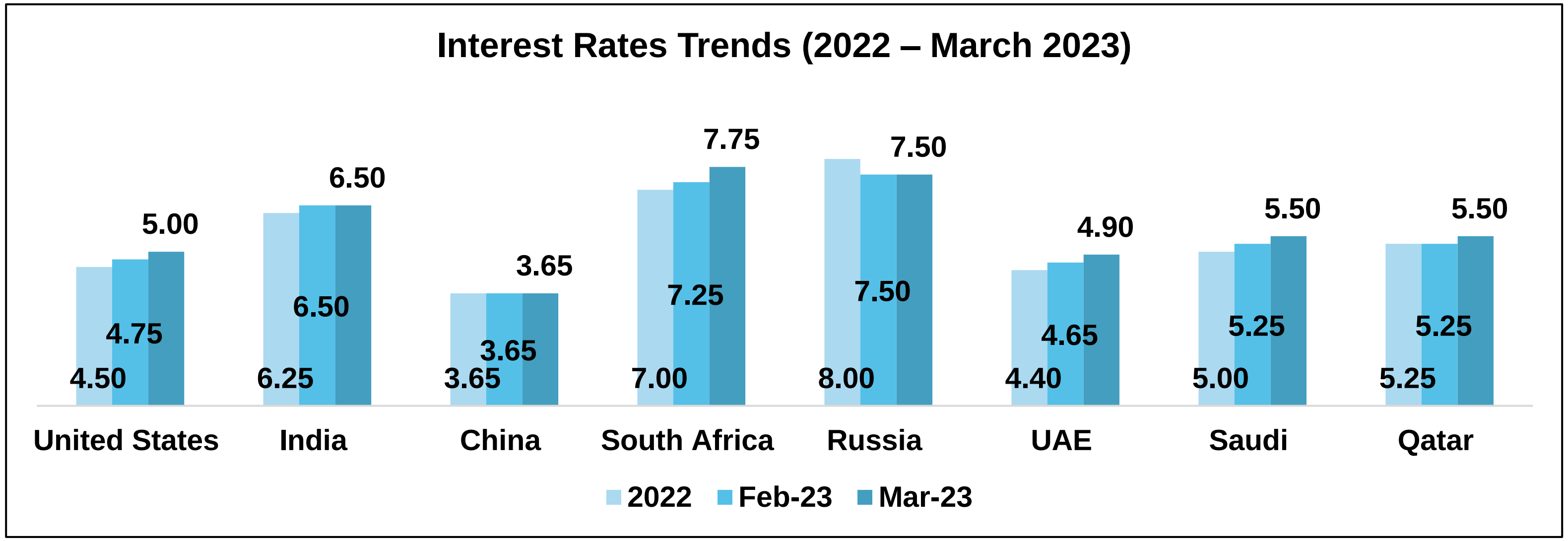
Source: Crowe Research & Analysis

OIL PRICE & CENTRAL BANK INTEREST RATE MOVEMENT TRENDS



Oil prices will remain high 2023, impacting demand, overall global economic backdrop remains negative, continuing COVID-19 flare-ups, energy supply shortfalls caused by sanctions on Russia, Opec+ cuts in March.

Brent has however fallen more than 20% since Q1 of 2022 and was trading around $85 a barrel at the end of Q1 2023.



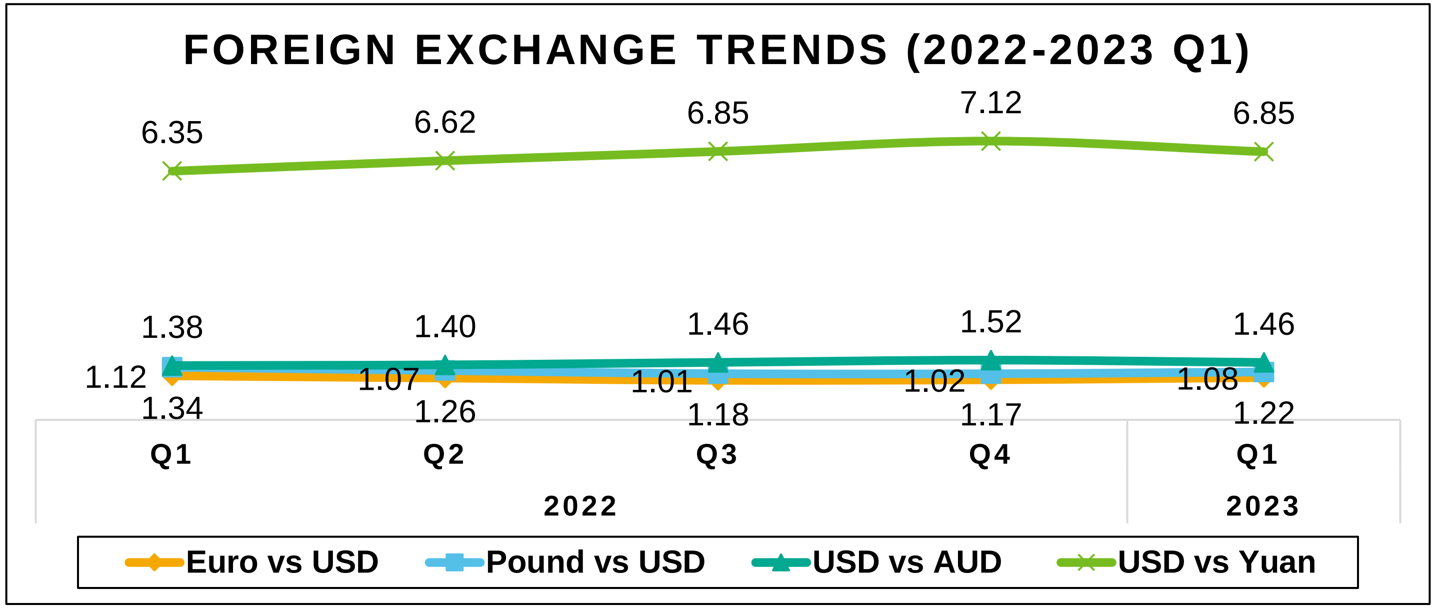
Most global central banks may be close to halt their interest-rate hikes though inflation targets are not met.

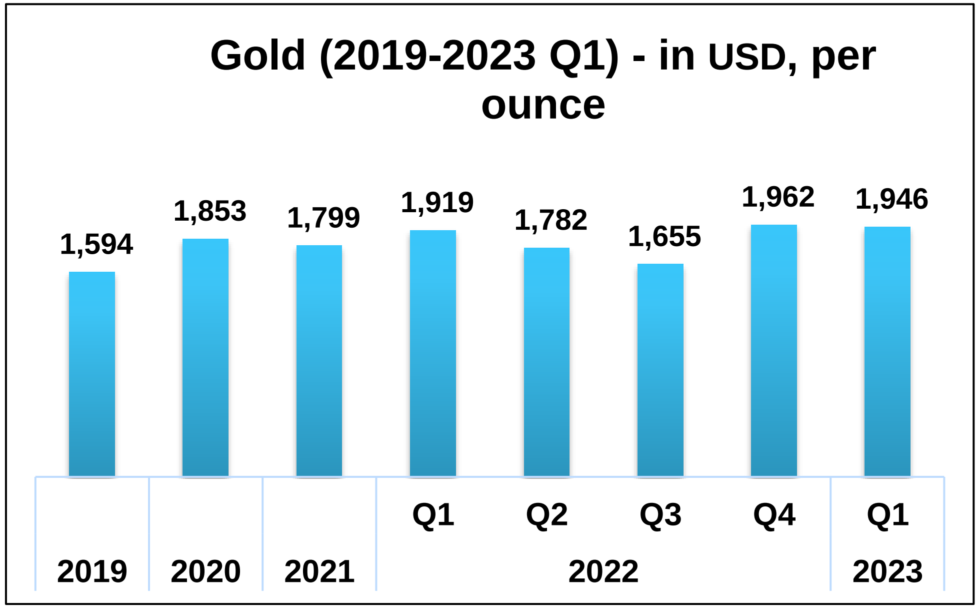
The ECB and regional counterparts might keep going longer.

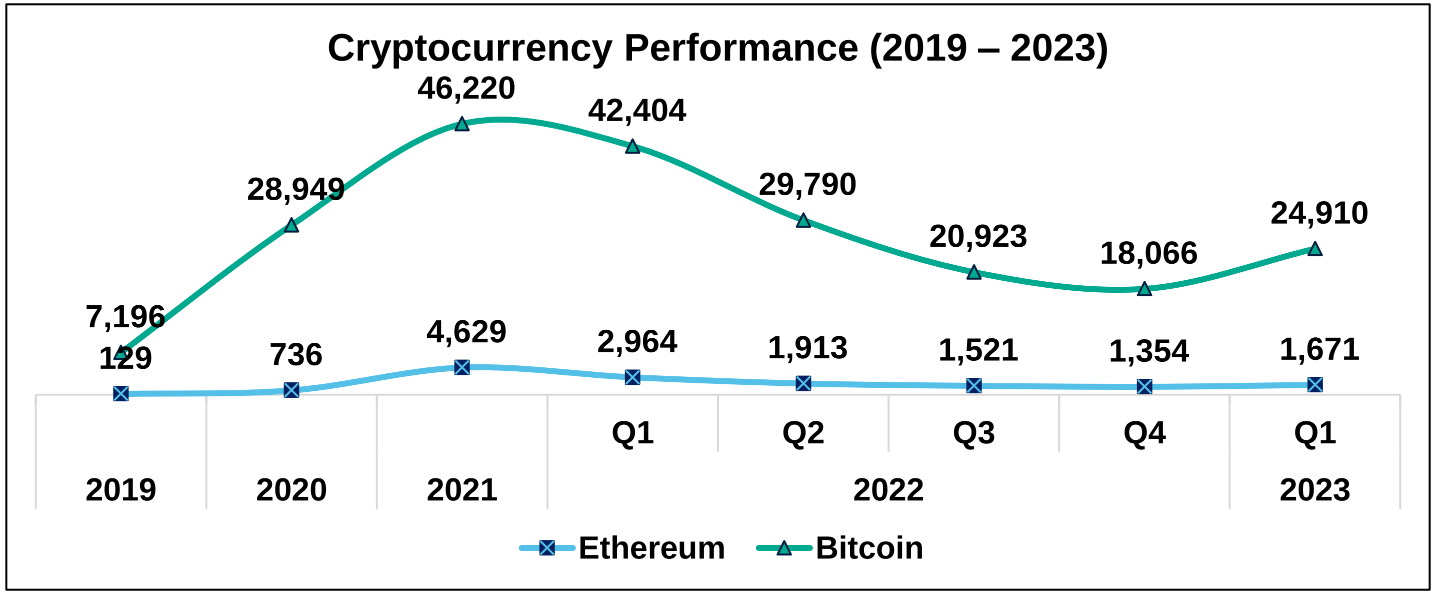
There are indications that BRICS, may however pivot towards halting further rate hikes, thus pointing towards rate cuts towards year end/ or mid year 2024, with many advanced-world countries not far behind late next year to come out of brief recession.

Source: Bloomberg, Reuters, McKinsey Reports, Crowe Research & Analysis

GOLD, FOREIGN EXCHANGE, & CRYPTOCURRENCY MOVEMENT TRENDS







Major cryptocurrencies rallied, riding a roller coaster in 2023, still much lower than the peak of 2021, overcoming negative headlines from the collapse of Silvergate Capital and contagion from the downfall of crypto exchange FTX in November 2022. Additionally, U.S. regulators acting against top crypto exchange Binance has resulted in significant impact on the crypto commodity market.

Gold regained safe harbour status, advancing towards $2,000 an ounce levels after mixed messaging on the outlook for rates by the Federal Reserve. Investors are seeking refuge in gold, a safe haven and as a store of value to combat inflation. Going forward, the outlook for 2023 and the performance of gold will be heavily influenced by the interaction between inflation and central-bank intervention.

FX rates remain stable amid countries searching for other currencies as a form of exchange, especially BRICS (mainly China, India) , Saudi Arabia, UAE, Russia & other countries starting to trade in mutual currencies. USD status as reserve currency seems to start fading.

Source: Crowe Research & Analysis

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