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Background

In our previous article titled "*Mr. Tump. Vs. A Middle Eastern Bank CEO – Part 1: Where To Look?*", we professed new seven (7) economic moves to be acted by the Trump Administration to address the yawning gap in the USA Budget and Balance Sheet. These 7 economic moves are on top of what we witness today in terms of- *Import Tariffs Spikes* and *Mass Public Servants Layoffs*.

In this article, we march ahead attempting to explore the **impact** of these moves on the Middle East Banking Industry.

While this may sound a far stretched goal requiring supernatural necromancer powers, we adopted a "*Pragmatic*" approach examining the impact of each Mr. Trump's move on the "Middle East Arab Countries" main economic pillars, namely-

1. Oil prices and repatriation of oil proceeds in-region.

2. Population growth and GDP per capita.

3. Real Estate and Non-Oil Trade Flows.

Contextually, in order to make our analytical journey easier, we assume the following-

1. No geo-political disruptive events (e.g. US-Iran reciproical strikes and martime blockades, expansive Gaza-triggered regional war, toppling of regional regimes, extended civil walkouts and strikes).

2. A 3-Year time horizon (2025 – 2028).

3. History repeats itself in terms of "cause-effect" relationships.

At this stage, we would have 2 powerful indicators at our hands- (i) Impact Size and (ii) Impact Probability. The *Impact Size* is measured on a scale of 1 (low) to 5 (major) based on the 3 economic pillars described above. While, the *Impact Probability* is directly proportional to the "*Pliability Factor*" described in our previous article (i.e. Part 1).

By multiplying the Impact Size by Impact Probability, we can alert a Middle East Bank's CEO to what to tackle first as depicted in the attached diagram.

The Oil Economic Pillar

On one end, any Energy Economist knows too well three (3) harsh facts about Oil. These are- (i) much of Oil Trade is based on medium-to-long term bi-lateral agreements and not necessarily the widely publicized WTI and Brent prices, (ii) disparity and inaccuracy of published supply and demand figures and (iii) the high susceptibility of an individual Oil producer to foreign politics (e.g. wars, sanctions, logistics disruptions, OPEC policies).

On the other end, Middle East Bankers have long witnessed the huge impact of Oil prices on their countries' liquidity, investors' appetite and private sectors' growth. Previous economic crises often mandated central banks and governments to pump in liquidity at preferential rates to prop up the banking sector.

Accordingly, we decided to tackle this economic pillar in a simple manner taking into account long-standing proven trends. Let's ponder the following five (5) trends-

1. Over the past 5 years, KSA's and UAE's Oil exports to the USA amounted to **2.2% and 0.1%** of the annual USA consumption. This is accompanied with a **high** year-on-year **volatility** reaching 18.2 M barrel and 4.4 M barrel for KSA and UAE, respectively.

2. Over the past 5 economic crises, Oil prices per barrel plunged on **average by 50-70%.** Key examples include- during Covid-19 it tanked from $66 to $19, during 2008 financial crisis it tanked from $147 to $32 and during the Dot-Com Bubble it tanked from $37 to $18.

3. After a major economic crisis, it typically takes 2-4 years for the Oil price to recover to pre-crisis levels. Hence, once a USA Foreign Policy-induced recession hits, it's safe to assume **3 years** of economic stresses.

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4. The USA **lost its status** as a key Oil client for Gulf Cooperation Council (GCC) Countries few years back. Specifically, over the past 5 years, the US Oil imports accounted for circa 4% and 0.6% of the average annual production of KSA and UAE respectively.

5. A very rough and crude estimation of 2024 GCC Oil production levels and reported government revenues suggests that key GCC producers have extended a weighted average **price advantage** to their strategic partners (e.g. clients, international Oil firms) of **32% below** the 2024 average Brent price of $80.5!

The Punch Line:

In today's world, the USA dependency on GCC Oil is slim, yet a USA Foreign Policy-induced recession is likely to tank the prices by at least 50% for the upcoming 3 years. This fact holds in harsh contrast to Fitch and EIA forecasts for Oil prices to be in the trailing sixties and early seventies dollar per barrel range in the coming 2 years!

The Population Economic Pillar

The Midldle East hosts a circa 290 million people with some interesting characteristics-

1. With a working age (15 to 65 years old) demographic share of 55 – 60%, a minimum mobile penetration ratio of 60% and a weighted average unemployment rate of 10.5%, the region introduces a Middle Eastern Bank CEO with a potential of **96 Million bankable customers**.

2. The GDP per capita **rift** between the GCC region and the rest of the Middle East continues, favoring the former with a factor **10.6x**.

3. The population **rift** between the GCC region and the rest of the Midde East continues, favoring the latter with a factor of **4x.**

4. The USA Foreign Direct Investments (FDI) in the region are **neither geographically spread, nor sizeable**. While comprehsnive, verifiable statistics are fragmented, let's examine the 2024 state-of-affairs in the most populous countries-

4.a. Egypt attracted USD 9.8 B in FDI where the publicly announced projects pertain to China (e.g. USD 6.75 Billion In Skokhna) and GCC (e.g. Qatar acquisition of 23% Chevron stake in Egypt's North El-Dabaa).

4.b. KSA attracted circa USD 26 B in FDI, +80% of which are attributed to China.

4.c. Iraq reported an FDI of USD 24 Billion, the key contributors (in no particular order) are- KSA (e.g. USD 3 B Iraqi-KSA Investment Company), UAE, China (e.g. USD 17 B Faw Port-Turkey linkage) and Qatar (e.g. USD 9.5 B in power plans and cities development).

5. The non-military aid rendered by USA to the Middle East over the past 3 years is estimated to be USD 5-6 Billion, that is a **measly 0.2%** of the region's combined GDP. Hence, the suspension of aid is unlikely to have a material impact, unless specifically addressed to a war- or a famine-struck country.

6. A foreseen devaluation of the USD and a reduction in Fed Rates are likely to tank the purchasing power of the GCC population and Jordan, contributing to high inflation and a spike in consumer credit to make ends meet for living expenses.

The Punch Line:

The USA Foreign Policies to shrink Aid and FDI in the region are unlikely to undermine the region's GDP per capita, given the high disparties present today and the USA shrinking share over the past 3 years.

The Non-Oil Industries Economic Pillar

Real Estate Perspective

Aside from the fierce forces of war-displaced refugees and destruction of key urban centers, we foresee the following forces in play-

1. Further exodus of affluent US citizens to highly safe and well-developed Tax Heavens in Riyadh, Dubai and Abu Dhabi, thus shoring up demand and propping up prices of the luxury dwelling segment. Some consular references estimate that 100 K and 80 K American citizens live in KSA and UAE, respectively. In UAE, Americans contributed an average of USD 2-3 B per annum in real estate investments, with CBRE reporting a 12% yoy increase in inquiries from American investors.

2. The impact of the Trump Administration's new "*Gold Card*" visa scheme and their planned changes to the present "*EB-5 Investor Program*" is not yet evidenced. It's unlikely to trigger a reverse exodus of affluent population from the Middle East to the USA, given the relatively high threshold of USD 5 M, the prevailing negative sentiments against immigrants and the recent instability of USA ICE policies (e.g. citizenship by birth).

3. With respect to raw materials of Steel, Cement and Aluminum. The region is a net exporter of Cement, specially KSA and Egypt. The region imports most of its processed steel from China, India and Vietnam. Last, the region is a net exporter of Aluminum.

Non-Oil Trade Flows

We employed estimation and forecasts to examine few dynamics of the Non-Oil trade flows between the USA and the Top-5 Arab economies in the Middle East as witnessed in the Table below.

Country	Export To US In $B	Import Fom US In $b	In Favor Of US	YoY Growth Rate	% Of GDP
KSA	12.7	13.2	Yes	-12%	2.4%
UAE	7.5	27	Yes	+9.5%	6.8%
Egypt	2.5	6.1	Yes	27.5%	2.2%
Iraq	1.7	7.4	Yes	-14.9%	3.6%
Qatar	1.8	3.8	Yes	-15.7%	2.6%

Source: Alberta Advisory Estimation Model, 2023 - 2024

The key observations can be summarized as follows-

1. The USA has **no non-Oil trade deficit** with the region. Hence, there is no incentive for the USA to dig its heels deep on reciprocal tariffs disputes with Arab countries.

2. Except for UAE, any USA Non-Oil Trade disruption is likely to have a **small impact** on the countries; capped at **2-4%** of a country's GDP. When stressed, the countries can adjust their supply chains to favor Canada, Europe, Africa, Latin America and Asia, in no particular order.

3. **Two third** of the countries exhibit **shrinking trade ties** with the USA compared to 2023. Intuitively, Asian suppliers are repeatedly proving to be cheaper and less-prone to foreign policy disruptions. In case of the Defense Industry, Europe is taking on huge strides to supply readily, while co-investing in the region (e.g. France supply of Raffale Jets to Egypt and Qatar, Germany supply of Air-To-Air missiles to KSA).

4. The USA 25% import tariffs impact will be most felt in **GCC exports of Aluminum** to the USA which is estimated to be 700,000 metric ton amounting to 15-17% of USA annual consumption. The same applies to the Middle East export of approximately USD 1.5 B of **cement** to the USA.

5. It's unclear whether the Middle Eastern Arab Countries will introduce retaliatory tarrifs on the USA exports in the sectors of- Aviation, Technology and Defense.

6. Jordan may be the most impacted from USA Import Tariffs as Jordan's annual exports to 2024 are estimated to be USD 3.1 B (i.e. 6% of Jordan's GDP). In addition, Jordan enjoys a trade surplus with the USA.

The Punch Line:

The Middle East region is economically weaned off the USA products and services. Yet, Aluminum, Cement and Information Technology(IT)-related products and services continue to be thorny areas to watch for in the unfolding Tariff wars.

In our final part of this series, we examine how a Middle East Bank's CEO should brace up for these risks.

Thank You.

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