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Event Update - IMF Releases October-15 World Economic Outlook

October-2015

The latest IMF World Economic Outlook (WEO) released in October-15 slashed global growth expectations for the third time this year primarily due to the weak commodity market. World growth has now been lowered by 20 bps for both 2015 and 2016 to 3.1% and 3.6% as compared to the July-15 update. *The highest revision was recorded for the Sub Saharan African region which had its growth slashed due to lower commodity prices, particularly oil, lower demand from China and tightening of global financial conditions for some of the frontier economies in the region.*

The lowered growth projections highlights the weak commodity market and its impact on commodity exporters globally. *According to the analysis, the three-year long weakness seen in the commodity market is due to both cyclical as well as structural factors. This continued weakness in the forecast period is expected to affect growth by almost one percentage points per year between 2015-17 for commodity exporters. For energy exporters, which includes the GCC region, the impact is expected to be more than double due to the steep fall in oil prices over the past year, i.e. a slowdown of almost 2.25 percentage points over the same period.*

Growth in the MENA region is expected to remain modest and almost in line with the previous estimates. *According to the IMF, oil exporters in the region would continue to face the heat on fiscal front as well as on future policy actions whereas oil importers in the region are expected to see accelerated recovery. Lower oil prices would ease the burden of imports for oil importers as well as lower external vulnerabilities giving these countries a helping hand in drafting their monetary policy. Nevertheless, the decline in other commodity prices as well as exchange rate depreciation would offset some of these gains to the oil importers.*

The 56.3% fall in OPEC oil prices from the peak level in 2014 would require oil exporters without fiscal space to lower public spending. *On the other hand, those with fiscal space would have to adjust their fiscal position gradually, as seen in the case of Saudi Arabia, and execute their spending plans by prioritizing key projects.*

IMF Estimates	Real GDP			Consumer Prices			Current Account Balance		
		Projections			Projections			Projections	
	2014	2015 F	2016 F	2014	2015 F	2016 F	2014	2015 F	2016 F
World	**3.4%**	**3.1%**	**3.6%**	**3.5%**	**3.3%**	**3.4%**	-	-	-
MENA	**2.6%**	**2.3%**	**3.8%**	**6.5%**	**6.5%**	**5.5%**	6.1%	-4.0%	-4.7%
Oil Exporters	**2.6%**	**1.8%**	**3.8%**	**5.6%**	**5.8%**	**5.1%**	8.9%	-3.4%	-4.3%
Saudi Arabia	3.6%	3.0%	2.7%	2.7%	2.1%	2.3%	10.3%	-3.5%	-4.7%
Iran	4.3%	0.8%	4.4%	15.5%	15.1%	11.5%	3.8%	0.4%	1.3%
UAE	4.6%	3.0%	3.1%	2.3%	3.7%	3.0%	13.7%	2.9%	3.1%
Algeria	3.8%	3.0%	3.9%	2.9%	4.2%	4.1%	-4.5%	-17.7%	-16.2%
Iraq	-2.1%	0.0%	7.1%	2.2%	1.9%	3.0%	-2.8%	-12.7%	-11.0%
Qatar	4.0%	4.7%	4.9%	3.0%	1.6%	2.3%	26.1%	5.0%	-4.5%
Kuwait	0.1%	1.2%	2.5%	2.9%	3.3%	3.3%	31.0%	9.3%	7.0%
Oil Importers	**2.9%**	**3.9%**	**4.1%**	**9.1%**	**7.0%**	**6.1%**	-4.2%	-4.2%	-4.2%
Egypt	2.2%	4.2%	4.3%	10.1%	11.0%	8.8%	-0.8%	-3.7%	-4.5%
Morocco	2.4%	4.9%	3.7%	0.4%	1.5%	2.0%	-5.5%	-2.3%	-1.6%
Sudan	3.6%	3.5%	4.0%	36.9%	19.8%	12.7%	-7.7%	-5.8%	-5.6%
Tunisia	2.3%	1.0%	3.0%	4.9%	5.0%	4.0%	-8.8%	-8.5%	-7.0%
Lebanon	2.0%	2.0%	2.5%	1.9%	0.1%	1.5%	-24.9%	-21.0%	-19.3%
Jordan	3.1%	2.9%	3.7%	2.9%	0.2%	3.1%	-6.8%	-7.4%	-6.5%

Source: IMF WEO October 2015

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MENA growth rebound expected in 2016, although marginal...

Lower oil prices and geopolitical tensions in some pockets in the region would result in lower growth during 2015, with the growth forecast for the year further lowered to 2.3%, a decline of 40 bps as compared to the previous estimates. However, IMF expects these issues to ease gradually in 2016 and 2017. As oil exporters suffer, the benefits of lower oil prices to oil importers is growing gradually further supported by economic reforms and growth in the Euro area partially offset by headwinds from the weak consumer confidence.

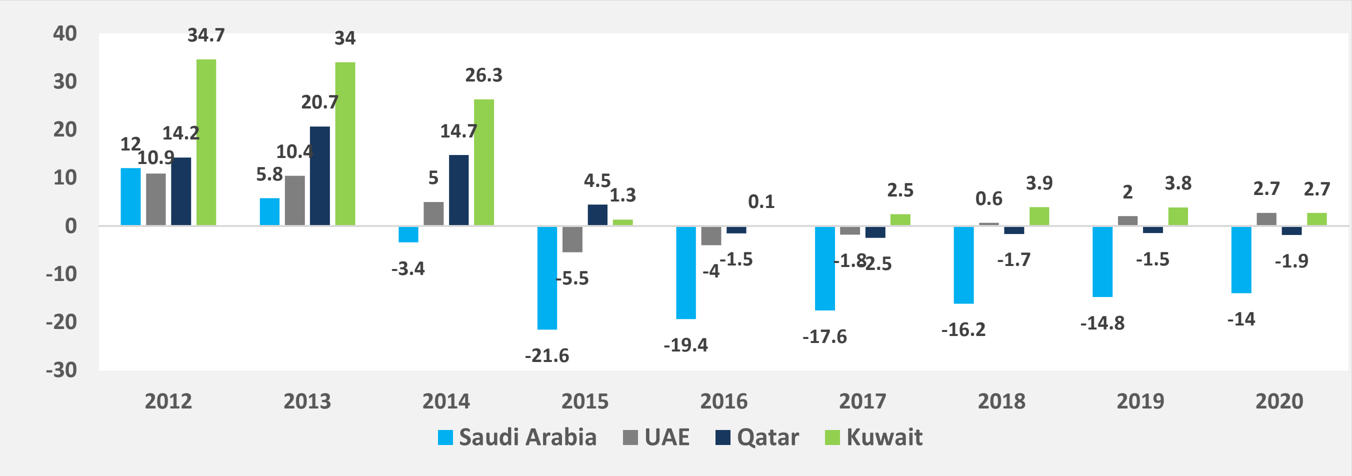
Growth expectations in the GCC saw both positive as well as negative changes. The most significant change was seen in Qatar that saw its 2015 growth target lowered by 240 bps to 4.7% and 2016 growth target lowered by 150 bps to 4.9%. Notably, historical growth for Qatar for 2014 was also lowered by 220 bps to 4.0%. Kuwait also saw its growth expectations lowered by 60 bps for 2015 to 1.2% whereas its 2014 growth was lowered by 120 bps to almost flat growth (a growth of merely 0.1 percentage point). On the positive side, Saudi Arabia's growth expectations was raised by 60 bps to 3.4% for 2015 supported by higher oil output and lowered slightly by 20 bps for 2016 to 2.2%.

Owing to the declining commodity prices across the globe, consumer prices in a majority of MENA oil importing nations and in the GCC are also expected to decline. Price level is also expected to decline in Qatar, Oman and Bahrain, whereas it is expected to rise in Saudi Arabia and more so in the UAE by almost 1.6 points in 2015. On the fiscal front, Saudi Arabia, Oman and Bahrain are expected to report negative current account balance whereas the remaining three countries are expected to see steep decline in their current account balances down to merely single digits.

IMF Estimates	Previous Estimates Apr-15			Revisions by IMF			Current Estimates Oct-15		
Real GDP Growth	**2014**	**2015 F**	**2016 F**	**2014**	**2015 F**	**2016 F**	**2014**	**2015 F**	**2016 F**
Percentage									
Saudi Arabia	3.5%	2.8%	2.4%	0.0%	0.6%	-0.2%	3.5%	3.4%	2.2%
United Arab Emirates	3.6%	3.2%	3.2%	1.0%	-0.2%	-0.1%	4.6%	3.0%	3.1%
Qatar	6.1%	7.1%	6.5%	-2.2%	-2.4%	-1.5%	4.0%	4.7%	4.9%
Kuwait	1.3%	1.7%	1.8%	-1.2%	-0.6%	0.7%	0.1%	1.2%	2.5%
Oman	2.9%	4.6%	3.1%	0.0%	0.0%	-0.3%	2.9%	4.4%	2.8%
Bahrain	4.7%	2.7%	2.4%	-0.2%	0.7%	0.8%	4.5%	3.4%	3.2%
Real GDP Growth for MENA	**2.4%**	**2.7%**	**3.7%**	**0.1%**	**-0.4%**	**0.1%**	**2.6%**	**2.3%**	**3.8%**
Inflation, Avg. CPI	**2014**	**2015 F**	**2016 F**	**2013**	**2014 E**	**2015 F**	**2014**	**2015 F**	**2016 F**
Percentage									
Saudi Arabia	2.7%	2.0%	2.5%	0.0%	0.1%	-0.2%	2.7%	2.1%	2.3%
United Arab Emirates	2.3%	2.1%	2.3%	0.0%	1.6%	0.7%	2.3%	3.7%	3.0%
Qatar	3.0%	1.8%	2.7%	0.0%	-0.2%	-0.4%	3.0%	1.6%	2.3%
Kuwait	2.9%	3.3%	3.6%	0.0%	0.0%	-0.3%	2.9%	3.3%	3.3%
Oman	1.0%	1.0%	2.6%	0.0%	-0.6%	-0.6%	1.0%	0.4%	2.0%
Bahrain	2.5%	2.1%	1.5%	0.2%	-0.1%	0.6%	2.7%	2.0%	2.1%
Inflation in MENA	**6.7%**	**6.3%**	**6.5%**	**-0.2%**	**0.2%**	**-1.0%**	**6.5%**	**6.5%**	**5.5%**
Current account balance	**2014**	**2015 F**	**2016 F**	**2013**	**2014 E**	**2015 F**	**2014**	**2015 F**	**2016 F**
Percentage of GDP									
Saudi Arabia	14.1%	-1.0%	3.7%	-3.8%	-2.5%	-8.4%	10.3%	-3.5%	-4.7%
United Arab Emirates	12.1%	5.3%	7.2%	1.6%	-2.4%	-4.1%	13.7%	2.9%	3.1%
Qatar	25.1%	8.4%	5.0%	1.0%	-3.4%	-9.5%	26.1%	5.0%	-4.5%
Kuwait	35.3%	15.7%	19.3%	-4.3%	-6.4%	-12.3%	31.0%	9.3%	7.0%
Oman	2.2%	-15.0%	-13.0%	-0.2%	-1.8%	-11.3%	2.0%	-16.9%	-24.3%
Bahrain	5.3%	-2.1%	-0.7%	-2.0%	-2.7%	-5.2%	3.3%	-4.8%	-5.9%
CA Balance/ % of GDP for MENA	**7.0%**	**-2.0%**	**0.0%**	**-0.9%**	**-2.0%**	**-4.7%**	**6.1%**	**-4.0%**	**-4.70%**

Source: IMF WEO

Government Surplus / Deficit (Percent of GDP)



Source: IMF WEO October-2015, KAMCO Research

A prolonged period of budget deficits for Saudi Arabia...

Saudi Arabia is expected to report steep budget deficits owing to the decline in oil prices. IMF projections shows that deficits would remain in double digits as a percentage of revenues starting 2015 when it is expected to be 21.6% of GDP or SAR 511 Bn as compared to 3.4% of GDP or SAR 96 Bn in 2014. The aggregate deficits for the next five years (2015-2019) is expected to be SAR 2.3 Trillion. This would be much higher than the SAR 1.9 Trillion aggregate surpluses recorded over the past 10 years. Deficits for the rest of the countries in the GCC is expected to be much smaller as a percentage of GDP. In fact Kuwait is expected to continue to report surpluses, albeit marginally, over the forecast period. UAE is expected to report deficits for the three years 2015-2017 and turn positive thereafter.

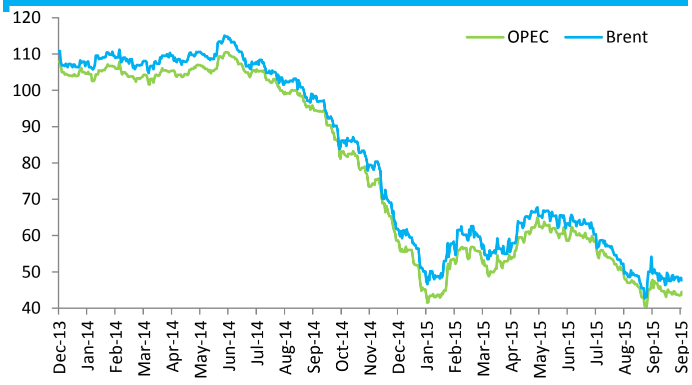
Diversification to remain the focus area for the government...

Saudi Arabia is expected to report better than previously expected growth in 2015 owing to the high oil output that has continued to support growth. Nevertheless, future GDP growth would remain a challenge amid lower oil prices, declining revenues and the need to support ongoing capital expenditure programs. The Kingdom has asserted that it would cut capital expenditure in its 2016 budget and would need to reassess its spending plans by setting priorities and allocating funds to the most important projects. According to MEED, the Kingdom has USD 1.21 Trillion worth of projects in pipeline as compared to the overall GCC projects pipeline of USD 2.82 Trillion.

Silver lining remains...

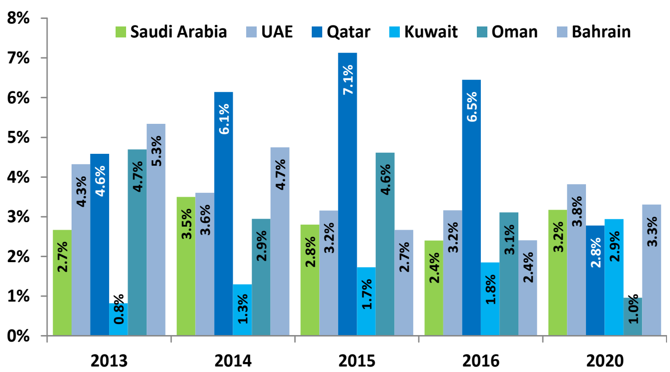
Amid concerns regarding budget deficits and falling revenues, a silver lining remains for the overall GCC region owing to the pile of foreign reserves and surpluses garnered over the past few years of oil price boom. The Kingdom's debt-to-GDP ratio stood at 1.6% in 2014 and is expected to be 6.7% in 2016. According to a recent report, although Saudi Arabia has liquidated some of its foreign assets (in the range of USD 50 to USD 70 Bn) to finance budget requirements, a majority of these asset liquidations are intended for realigning investments in less risky portfolios and asset classes.

Oil Prices Movement (USD/B)



Source: Bloomberg

GDP Growth Rates in the GCC



Source: IMF WEO October-2015, KAMCO Research

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