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Event Update - IMF Releases 2015 MENA Regional Economic Outlook

May-2015

In its latest MENA Regional Economic Outlook (REO) released on 5th May 2015, the IMF reiterated the expected weak economic trends in the GCC and the overall MENA region and its impact on government finances and overall economic stability. *The report highlighted that with the dramatic fall in oil prices, wealth is gradually expected to shift from the fiscally sound GCC oil exporting countries to oil-importing nations.*

According to the IMF, the overall risk of oil price volatility has increased in the projections, although it continues to expect a modest recovery in the MENA region *despite the fall in oil prices. Nevertheless, the IMF has highlighted the increased downside risk facing the oil exporting GCC countries related to maintaining their respective global oil market shares (in light of the fall in oil prices) that would ultimately result in low government spending and slow non-oil activity.*

Qatar continues to remain the fastest growing market in the region with expected non-oil GDP growth pegged at 10.7% in 2015 slightly slowing to 9.5% in 2016 resulting in total GDP growth of 7.1% and 6.5%, respectively. *According to the IMF, despite the sharp decline in oil prices, growth in the oil-exporting countries in the overall MENA region is projected to remain steady at 2.7% in 2015 further accelerating to 3.7% in 2016. Most oil exporters are expected to use accumulated financial buffers and available cheap financing to cushion some of the impact on growth while gradually slowing their fiscal spending.*

The IMF highlighted the need for multifaceted structural reforms in the region in order to raise economic prospects in a sustainable and inclusive manner in order to deal with socio-economic issues like the high unemployment levels and inflation. *In order to achieve this, specific policy announcements would help to reduce uncertainty about how medium-term fiscal consolidation plans will be carried out, especially in the oil exporting nations.*

	Actual			Projections	
Real GDP Growth	**2012**	**2013**	**2014**	**2015**	**2016**
Percentage Growth					
Bahrain	**3.4%**	**5.3%**	**4.7%**	**2.7%**	**2.4%**
Oil GDP	-8.5%	15.3%	3.0%	-0.6%	0.0%
Non-oil GDP	6.6%	3.0%	5.2%	3.5%	3.0%
Kuwait	**6.6%**	**1.5%**	**1.3%**	**1.7%**	**1.8%**
Oil GDP	10.3%	-0.8%	0.0%	0.3%	0.2%
Non-oil GDP	0.6%	5.6%	3.5%	4.0%	4.5%
Oman	**5.8%**	**4.7%**	**2.9%**	**4.6%**	**3.1%**
Oil GDP	4.1%	3.0%	-0.5%	4.2%	1.1%
Non-oil GDP	7.7%	6.5%	6.5%	5.0%	5.0%
Qatar	**6.0%**	**6.3%**	**6.1%**	**7.1%**	**6.5%**
Oil GDP	1.3%	0.2%	-1.7%	1.2%	0.9%
Non-oil GDP	10.0%	11.0%	11.6%	10.7%	9.5%
Saudi Arabia	**5.4%**	**2.7%**	**3.6%**	**3.0%**	**2.7%**
Oil GDP	5.1%	-1.6%	1.7%	0.9%	1.4%
Non-oil GDP	5.5%	6.4%	5.1%	4.6%	3.7%
United Arab Emirates	**4.7%**	**5.2%**	**3.6%**	**3.2%**	**3.2%**
Oil GDP	7.6%	4.8%	0.2%	0.4%	0.2%
Non-oil GDP	3.3%	5.4%	5.2%	4.4%	4.5%
GCC	**5.4%**	**3.6%**	**3.6%**	**3.4%**	**3.2%**
Oil GDP	**5.4%**	**0.5%**	**0.8%**	**0.9%**	**1.0%**
Non-oil GDP	**5.2%**	**6.5%**	**5.7%**	**5.2%**	**4.6%**
MENA	**4.9%**	**2.3%**	**2.4%**	**2.7%**	**3.7%**
Arab World	**7.6%**	**3.2%**	**2.3%**	**3.2%**	**4.2%**

Source: International Monetary Fund (IMF) MENA Regional Economic Outlook - May 2015

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GCC Oil Production

	Actual		Projections	
Crude Oil Production	**2013**	**2014**	**2015**	**2016**
Millions of barrels per day				
Saudi Arabia	9.63	9.71	9.76	9.87
Kuwait	2.93	2.93	2.94	2.94
UAE	2.74	2.74	2.74	2.73
Oman	0.94	0.94	0.99	0.99
Qatar	0.70	0.67	0.66	0.64
Bahrain	0.20	0.20	0.20	0.20
GCC	**17.14**	**17.19**	**17.27**	**17.37**

Source: IMF MENA REO May -2015, KAMCO Research

GCC Oil Exports

	Actual		Projections	
Crude Oil Exports	**2013**	**2014**	**2015**	**2016**
Millions of barrels per day				
Bahrain	0.15	0.15	0.15	0.15
Kuwait	2.07	2.02	1.98	1.94
Oman	0.83	0.82	0.85	0.83
Qatar	0.63	0.61	0.59	0.58
Saudi Arabia	7.57	7.13	6.96	6.91
United Arab Emirates	2.60	2.58	2.28	2.28
GCC	**13.85**	**13.30**	**12.82**	**12.68**

Source: IMF MENA REO May -2015, KAMCO Research

Oil production set to increase but oil exports are projected to decline...

The IMF has projected a consistent increase in oil production in the GCC primarily on the back of higher production in Saudi Arabia that is estimated to produce 9.8 mbpd in 2015 further increasing to 9.9 mbpd in 2016. We see the increasing oil production as a tool to counter the fiscal impact of the oil price decline (provided it does not lead to further decline in oil prices), in addition to maintaining market share in the oil market. On the other hand, according to the IMF, oil exports are projected to decline consistently as seen since 2013. Overall GCC oil exports are expected to decline from 13.8 mbpd in 2013 to 12.7 mbpd in 2016. The decline is particularly high in UAE with a negative 3-year CAGR of 4.2% followed by Saudi Arabia at -3.0% and Qatar at -2.8%. This decline coupled with the expected low-oil price environment would considerably affect the respective government's coffers.

Significant changes to breakeven oil prices...

Between June-14 and January-15, OPEC oil prices declined by almost 62.4%. However, prices have started recovering recently and were up by almost 53.3% in May-15 as compared to the lowest point in January-15. The fall in oil prices has affected both revenues as well as government spending plans. Although Saudi Arabia and UAE announced minimal changes in their spending plans when they announced the budgets in January-15, we expect some drastic measures in the near term that would affect their fiscal position. According to the IMF, a sharp rise in spending in recent years has made budgets vulnerable to lower oil prices. Most of the GCC economies would be unable to balance their budgets when oil prices approach USD 60 per barrel. The only exceptions are Kuwait which has a much lower breakeven oil price of USD 47.1 per barrel followed by Qatar at USD 59.1 per barrel.

On the other hand, Saudi Arabia has the highest vulnerability to oil price shocks with a breakeven oil price of USD 103 per barrel, which we believe is expected in the near term. The median oil price forecast by 39 analysts for brent crude is USD 78 per barrel in 2017.

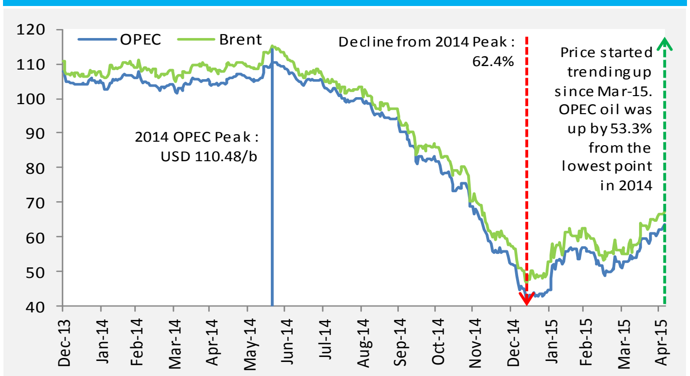
According to IMF's estimates, oil is expected to reach USD 58 per barrel in 2015 before rising gradually to USD 74 per barrel by 2020, in response to a decline in oil investment and production and a pickup in oil demand as the global recovery strengthens. According to the IMF, with the current oil price assumptions, the fall in anticipated oil export earnings in 2015 is USD 287 Bn in the GCC.

GCC- Fiscal Breakeven Oil Prices

	Actual			Projections	
Breakeven Oil Prices	**2012**	**2013**	**2014**	**2015**	**2016**
USD per barrel					
Bahrain	119.4	125.3	122.5	93.7	89.8
Kuwait	49.0	42.0	57.4	47.1	46.7
Oman	79.8	98.3	108.2	94.3	96.8
Qatar	63.3	61.2	59.1	59.1	62.1
Saudi Arabia	77.9	89.0	111.3	103.0	98.3
UAE	69.9	69.8	74.2	73.1	68.9

Source: IMF MENA REO May -2015, KAMCO Research

Oil Price Historical Trend



Source: Bloomberg, KAMCO Research

Current Account Balance

	Average	Actual			Projections	
	2000–11	2012	2013	2014	2015	2016
Percent of GDP						
Bahrain	6.4%	7.2%	7.8%	5.3%	-2.1%	-0.7%
Kuwait	31.7%	45.2%	39.6%	35.3%	15.7%	19.3%
Oman	9.1%	10.3%	6.6%	2.2%	-15.0%	-13.0%
Qatar	20.1%	32.6%	30.8%	25.1%	8.4%	5.0%
Saudi Arabia	16.2%	22.4%	17.8%	14.1%	-1.0%	3.7%
United Arab Emirates	11.9%	18.5%	16.1%	12.1%	5.3%	7.2%
GCC	**16.5%**	**24.4%**	**20.6%**	**16.5%**	**2.8%**	**5.4%**
MENA	**10.2%**	**13.4%**	**10.7%**	**7.0%**	**-2.0%**	**0.0%**

Source: IMF MENA REO May -2015

Significant impact on Current Account Balance...

The oil price decline and the low price environment that is expected to continue in the near term will turn the longstanding current account surplus of most of the GCC and MENA economies into a deficit in 2015. According to IMF estimates, within the GCC, Saudi Arabia, Oman and Bahrain would together report current account deficits to the tune of USD 16.7 Bn or 2.2% of the combined nominal GDPs of these economies. Whereas, Saudi Arabia alone accumulated current account surplus of USD 403.6 Bn over the past three years (2012-2014). However, surpluses are expected to return gradually over the medium term as a result of a gradual improvement in oil prices and the implementation of fiscal consolidation plans.

Moreover, according to the IMF, the normalization of U.S. monetary policy is expected to tighten financial and monetary conditions in the MENA region, especially in the GCC, although the pass-through tends to be slow and partial.

Fiscal balance to turn negative ...

Lower oil prices will also have a severe impact on government's fiscal balances. According to the IMF, in the GCC, a combined budget surplus for 2014 of USD 76 Bn (4.5 percent of GDP) is expected to turn into deficit of USD 113 Bn (8.0% of GDP) in 2015, narrowing over the medium term to 1.0% of GDP. The largest deficit as a percentage of GDP is expected to be reported by Oman at -14.8% in 2015 and –11.6% in 2016. However, Saudi Arabia being the largest economy and the largest oil producer in the region is expected to bear the biggest USD deficit and second in terms of percentage of GDP at 14.2% in 2015 declining to -8.1% in 2016. Kuwait that had significant fiscal surpluses in the recent years is expected to report positive fiscal balance of 6.2% in 2015 whereas Qatar on the back of its accelerated pace of growth is expected to report 5.6% fiscal surplus in 2015.

General Government Fiscal Balance

	Average	Actual			Projections	
	2000–11	2012	2013	2014	2015	2016
Percent of GDP						
Bahrain	0.2%	-3.2%	-4.3%	-5.7%	-9.9%	-6.2%
Kuwait	28.2%	35.5%	34.9%	25.5%	6.2%	12.9%
Oman	9.5%	4.7%	3.2%	-1.5%	-14.8%	-11.6%
Qatar	9.3%	14.2%	20.5%	14.5%	5.6%	1.9%
Saudi Arabia	10.9%	14.7%	8.7%	-0.5%	-14.2%	-8.1%
United Arab Emirates	11.1%	10.9%	9.9%	6.0%	-3.0%	0.0%
GCC	**12.4%**	**15.1%**	**12.1%**	**4.6%**	**-7.9%**	**-3.6%**
MENA	**4.3%**	**4.3%**	**1.5%**	**-2.0%**	**-8.4%**	**-5.4%**
Arab World	**4.8%**	**5.7%**	**2.3%**	**-2.0%**	**-9.7%**	**-6.1%**

Source: IMF MENA REO May -2015

Nevertheless, legacy economic strength and sound finances do offer some opportunities for fiscal reform...

The oil surpluses accumulated over the years by countries especially in the GCC is expected to be partially utilized over the medium term for fiscal consolidation plans at a faster pace. The IMF suggests that the fiscal consolidation is done in a growth-friendly manner by limiting spending overruns and slowing the growth of public wage bills and other current expenditures and ensuring the productivity of capital spending.

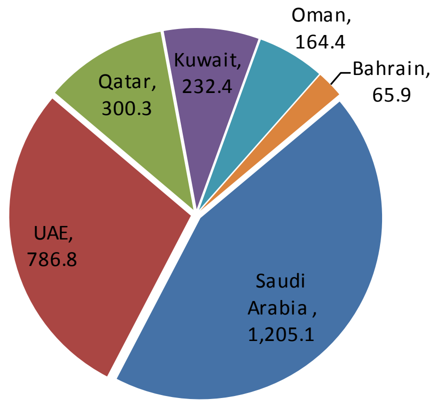
There are several initiatives already announced in the GCC. For instance, the UAE continues to have a gradual fiscal consolidation, whereas in Bahrain, the government announced increase in natural gas prices for industrial users (+11%) and an increase employee medical insurance fees (paid by employers) in early 2015. On the other hand, Saudi Arabia announced a large fiscal spending package worth around 4% of GDP in February 2015. The remaining GCC economies announced curb in current and capital expenditures at varying levels.

In terms of subsidy-related measures that continues to be one of the key areas that IMF highlighted for drastic measures, the GCC economies are already rethinking their strategies on the subject. For instance, Kuwait raised diesel and kerosene prices earlier this year and has instituted a monthly price review mechanism whereas the UAE and Qatar have considerably reduced fuel and electricity subsidies.

Banks continue to hold strong balance sheet resulting in sound financial position...

The FY-14 results announced by banks in the GCC region highlights their strong financial position with increasing profitability. Total assets for listed GCC banks have grown by 11.5% to around USD 1.75 Trillion in 2014 as compared to USD 1.57 Trillion at the end of 2013. Similarly, total customer deposits grew by approximately 10.1% to USD 1.22 Trillion in 2014. On the credit facilities front, total loan portfolio of listed GCC banks grew at the rate of almost 11.4% to USD 1.04 Trillion in 2014 as compared to USD 0.94 Trillion in 2013. According to the IMF, GCC banks are expected to remain sound despite the sharp decline in oil prices and slowing loan growth on the back of their strong current financial position.

Projects planned/under progress (USD Bn)



Source: MEED (April-2015)

Furthermore, banks will also get support from the continuing government infrastructure investments, which despite the lower pace, continues to remain strong. Total value of projects planned or under progress in the GCC stood at USD 2.8 Trillion, according to the latest data from MEED. This project activity is expected to drive nonoil growth, bank credit, and profitability, although liquidity could tighten as oil-related bank deposits decline, and NPLs could rise, according to IMF. However, banks are well positioned to absorb the shocks.

Diversification is all the more relevant in the current context...

The need for diversification of GCC economies has been continuously reiterated. However, with the decline in oil prices, the results of diversification efforts have become apparent and the overall effort has become all the more relevant. We believe and share IMF's view that there is an urgent need to move away from the past growth models based on oil-driven government spending and sharing of oil wealth through subsidies and public employment for nationals that led to low productivity growth to a new model where economic growth is driven by a diversified private sector. According to a recent Ernst & Young report, if the GCC were to achieve average OECD level of economic diversification, the region could see additional gains of up to USD 17.7 Bn. We believe that the public private partnership (PPP) model being deployed in several projects in the GCC is one of the best ways of generating private sector participation and growth.

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