Event Update - IMF Releases 2016 MENA Regional Economic Outlook

April-2016

IMF in its latest MENA Regional Economic Outlook (REO) released on 25 April 2016, reiterated that low oil prices are expected to drive slower economic trends in the GCC in the near term, while the overall MENA region is likely to be additionally impacted by deepening conflicts. *Government finances in the GCC are expected to deteriorate in the GCC, despite fiscal consolidation measures implemented in 2016, while overall oil production in the region is expected increase over 2016 & 2017.*

The MENA region, however, is expected to grow faster than the GCC over 2016 & 2017 as Iran is expected to drive GDP growth in the region over the period. According to the forecast, Iran's real Oil GDP is expected to grow by 16.9% and 8.8% during 2016 and 2017, respectively, after the lifting of sanctions. *In contrast, as oil GDP growth flattens, non-oil GDP in the GCC region is now forecasted to grow at 3.25% over 2016-2020, significantly below the 7.75% growth over 2006-2015. Real GDP growth rates for 2015 & 16 for all the GCC economies barring the UAE (2015) were revised downwards by the IMF as compared to their Oct-15 outlook.*

Qatar's strong non-oil GDP growth is expected to contribute to the country remaining the fastest growing economy in the GCC, as real non-oil GDP is set to expand by 6.6% and 5.9% in 2016 & 2017 respectively. *Largely, real GDP growth rates across the region now reflect a higher contribution of non-oil GDP, due to the slower growth of oil production across the region. Nevertheless, real oil GDP in Kuwait is reportedly set to expand by 2.0% over the 2016 & 2017.*

KAMCO Research continues to believe that fiscal consolidation would be of paramount importance for the GCC, as deficits would need to be stemmed over the medium term, without impeding growth initiatives, in order to support exchange rate pegs. *Revenue side initiatives would need to intensify beyond initiatives taken so far, as seen from the increase in corporate income tax in Oman, tobacco and alcohol tax in Bahrain and the much-awaited VAT to be implemented across the GCC in 2018.*

	Actual			Projections		Revisions by IMF	
Real GDP Growth	**2013**	**2014**	**2015**	**2016**	**2017**	**2015**	**2016**
Percentage Growth							
Bahrain	**5.4%**	**4.5%**	**3.2%**	**2.2%**	**2.0%**	**-0.2%**	**-1.0%**
Oil GDP	15.3%	3.0%	0.2%	0.0%	0.0%	**1.2%**	**0.0%**
Non-oil GDP	3.1%	4.9%	3.9%	2.7%	2.5%	**-0.6%**	**-1.3%**
Kuwait	**1.0%**	**0.0%**	**0.9%**	**2.4%**	**2.6%**	**-0.3%**	**-0.1%**
Oil GDP	-0.8%	-1.9%	-0.5%	2.0%	2.0%	**-0.5%**	**-0.2%**
Non-oil GDP	4.2%	3.2%	3.0%	3.0%	3.5%	**0.0%**	**0.0%**
Oman	**4.7%**	**2.9%**	**4.1%**	**1.8%**	**1.7%**	**-0.3%**	**-1.0%**
Oil GDP	3.0%	-0.5%	4.2%	1.1%	-0.1%	**0.0%**	**0.0%**
Non-oil GDP	6.5%	6.5%	4.0%	2.5%	3.5%	**-0.5%**	**-2.0%**
Qatar	**4.6%**	**4.0%**	**3.3%**	**3.4%**	**3.4%**	**-1.4%**	**-1.5%**
Oil GDP	0.1%	-1.5%	-1.1%	0.2%	0.8%	**-1.3%**	**-1.2%**
Non-oil GDP	10.6%	10.6%	8.0%	6.6%	5.9%	**-1.5%**	**-1.8%**
Saudi Arabia	**2.7%**	**3.6%**	**3.4%**	**1.2%**	**1.9%**	**0.0%**	**-1.0%**
Oil GDP	-1.6%	2.1%	3.1%	0.6%	1.3%	**-1.1%**	**-0.6%**
Non-oil GDP	6.4%	4.8%	3.6%	1.6%	2.4%	**0.7%**	**-1.4%**
United Arab Emirates	**4.3%**	**4.6%**	**3.9%**	**2.4%**	**2.6%**	**0.9%**	**-0.7%**
Oil GDP	2.9%	4.0%	5.6%	2.1%	2.0%	**3.6%**	**0.0%**
Non-oil GDP	5.0%	4.8%	3.2%	2.5%	2.9%	**-0.2%**	**-1.1%**
GCC	**3.2%**	**3.5%**	**3.3%**	**1.8%**	**2.3%**	**0.0%**	**-1.0%**
Oil GDP	**0.1%**	**1.6%**	**2.8%**	**1.0%**	**1.3%**	**-0.1%**	**-0.4%**
Non-oil GDP	**6.3%**	**5.4%**	**3.9%**	**2.5%**	**3.0%**	**0.1%**	**-1.3%**
MENA	**2.1%**	**2.6%**	**2.3%**	**2.9%**	**3.3%**	**0.0%**	**-0.9%**
Arab World	**3.0%**	**2.2%**	**2.8%**	**2.7%**	**3.2%**	**0.2%**	**-1.0%**

Source: International Monetary Fund (IMF) MENA Regional Economic Outlook - April 2016

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GCC Oil Production

	Actual		Projections	
Crude Oil Production	2014	2015	2016	2017
Millions of barrels per day				
Saudi Arabia	9.71	10.16	10.22	10.34
Kuwait	2.87	2.86	2.91	2.97
UAE	2.79	2.99	3.06	3.13
Oman	0.94	0.99	0.99	0.99
Qatar	0.67	0.65	0.63	0.62
Bahrain	0.20	0.20	0.20	0.20
GCC	**17.19**	**17.84**	**18.01**	**18.25**

Source: IMF MENA REO April -2016, KAMCO Research

GCC Oil Exports

	Actual		Projections	
Crude Oil Exports	2014	2015	2016	2017
Millions of barrels per day				
Bahrain	0.15	0.15	0.15	0.15
Kuwait	2.00	1.96	1.97	1.98
Oman	0.82	0.85	0.83	0.80
Qatar	0.61	0.58	0.57	0.56
Saudi Arabia	7.15	7.46	7.35	7.30
United Arab Emirates	2.63	2.55	2.61	2.67
GCC	**13.36**	**13.56**	**13.48**	**13.46**

Source: IMF MENA REO April -2016, KAMCO Research

Oil production set to rise further; but oil exports to decline sequentially in 2016 & 17...

Oil production in the GCC is forecasted to increase in 2016 & 17 as per the IMF, albeit marginally by a CAGR of 1.1%, driven by production in Saudi Arabia, where production is expected to grow to 10.22 mbpd in 2016 and 10.34 mbpd in 2017. We view the move by Saudi Arabia to increase production, primarily as an initiative to maintain market share in the light of Iran ramping up production, and aiming to reach 4 mbpd by March 2017. KAMCO Research also expects to witness additional increases in production from Saudi Arabia and leading GCC oil producers, if Iran goes ahead with its target. UAE is also expected to add around 0.14 mbpd over 2015-17, followed by Kuwait which is expected to add 0.11 mbpd over the period. On the other hand, according to the IMF, GCC oil exports are projected to decline sequentially over 2016 & 17. Oil exports from the region are expected to decline from 13.56 mbpd in 2015 to 13.46 mbpd in 2017. The decline is forecasted to be led by a decline in exports by Saudi Arabia (-0.16 mbpd), followed by Oman (-0.05 mbpd). Nevertheless, we expect this decline to be partially offset by spot sales of oil by GCC oil producers, as evidenced in Saudi Arabia for the first time, as Aramco reportedly sold spot oil to an independent Chinese refinery, Shandong Chambroad Petrochemicals Co. Further decline in oil prices would however considerably affect respective governments' revenues and their capacity to spend in the region.

State measures recalibrate breakeven oil prices...

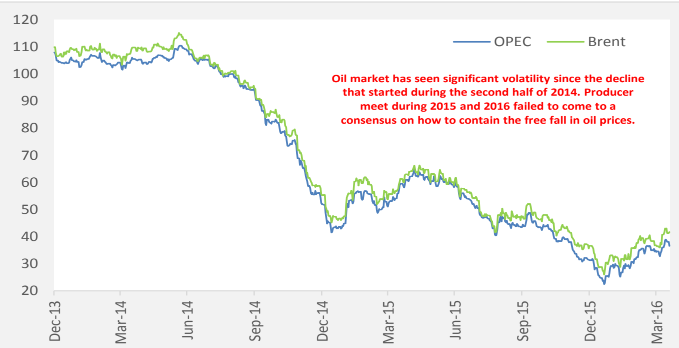
OPEC oil prices declined by around 70% from mid-2014 until now to trade at USD 39.78/bbl. Prices nevertheless recovered from the lows of January 2016 when OPEC prices had reached a low of USD 22.48/bbl. The fall in oil prices have affected revenue streams of GCC governments and have pushed to rationalize their spending plans, as some significant measures were announced in the latter part of 2015 and early 2016. Policy effort is expected to intensify reportedly going forward especially on the revenue side, as most of the adjustments have comprised of spending cuts so far; however newer sources of revenue are also being considered by governments across the GCC. All GCC economies would be unable to balance their budgets when oil prices are below USD 50 per barrel, as per the IMF. Kuwait has the lowest breakeven oil price of USD 52.1/bbl and USD 52.8/bbl for 2016 & 2017, followed by Qatar which also requires oil price to remain in the region of USD 52.4/bbl and USD 54.7/bbl over the period. On the other hand, Bahrain has the highest vulnerability to oil price shocks with a breakeven oil price of over USD 93/bbl over 2016 & 17, as per the IMF, followed by Oman with a breakeven oil price of over USD 73/bbl. The budget cuts from Saudi Arabia were able to ensure that breakeven oil prices needed were lower at USD 66.7/bbl for 2016 & USD 70.2/bbl for 2017 from IMF's earlier update in October-2015.

GCC- Fiscal Breakeven Oil Prices

	Actual			Projections	
Breakeven Oil Prices	2013	2014	2015	2016	2017
USD per barrel					
Bahrain	130.4	122.5	107.5	95.1	93.1
Kuwait	42.5	55.8	49.2	52.1	52.8
Oman	98.3	108.6	96.0	73.1	76.7
Qatar	61.9	53.5	51.8	52.4	54.7
Saudi Arabia	89.0	105.7	94.8	66.7	70.2
UAE	69.4	79.0	69.1	71.8	71.7

Source: IMF MENA REO April -2016, KAMCO Research

Oil Price Historical Trend



Source: Bloomberg, KAMCO Research

Current Account Balance

	Average	Actual			Projections	
	2000–12	2013	2014	2015	2016	2017
Percent of GDP						
Bahrain	6.3%	7.3%	4.5%	-3.2%	-6.7%	-5.8%
Kuwait	32.8%	39.5%	31.3%	11.5%	-1.0%	3.3%
Oman	9.1%	6.6%	6.0%	-12.6%	-25.1%	-19.6%
Qatar	20.0%	29.9%	23.6%	4.9%	-5.0%	-4.9%
Saudi Arabia	16.7%	18.2%	9.8%	-6.3%	-10.2%	-6.1%
United Arab Emirates	12.7%	18.4%	13.7%	3.9%	-1.0%	0.1%
GCC	**17.1%**	**21.3%**	**14.5%**	**-1.0%**	**-7.0%**	**-4.1%**
MENA	**10.3%**	**10.8%**	**6.0%**	**-3.9%**	**-7.5%**	**-5.6%**

Source: IMF MENA REO April -2016

Current Account Deficit of USD 91 Bn expected for the GCC in 2016...

The sustained decline in oil prices in 2015 swung GCC's total current account balance from a surplus of USD 238 Bn to a deficit of USD 13.3 Bn in 2015, as per the IMF. Lower oil revenue receipts is expected to widen the current account deficit further in 2016 and 2017, as the deficits are expected to reach 7.0% and 4.1% of GDP respectively for the region. Saudi Arabia alone is expected to contribute to about 70% of the deficit over the period, as the IMF expects the country to report current deficits of 10.2% and 6.1% of GDP for 2016 & 17. However, the IMF expects Kuwait to return to a current account surplus in 2017, amounting to 3.3% of GDP.

Fiscal balance to tilt further towards negative territory...

Impact from lower oil prices was also felt on governments' fiscal balances across the GCC in 2015 as the region's fiscal deficit came in at 9.9% of GDP, as per the IMF. Qatar was the only exception with fiscal surplus of 10.3% of GDP, while Oman reported the largest fiscal deficit at 20.4% of GDP. In 2016 & 17, the region's fiscal balance is expected to worsen as the fiscal deficit is expected to reach 12.3% of GDP in 2016, and marginally recover to 10.8% of GDP in 2017. Saudi Arabia, which recorded a deficit of 16.3% of GDP in 2015, is expected to continue to record double-digit deficits in 2016 & 17, at 13.5% and 11.8% of GDP respectively, despite efforts to reign in on expenditure. Fiscal deficits are forecasted across the GCC in 2017, with Bahrain expected the witness the highest deficit amounting to 15.3% of GDP, while Kuwait is expected to report the lowest deficit at 7.8% of GDP. However, IMF mentioned options that could be used for fiscal consolidation, which include the introduction of VAT that would translate into a savings of 1.5% of GDP, while further reducing energy subsidies could save another 2% of GDP. They also recommended for more efficient public investment rationalization and benchmarking spending to pre-oil price boom levels.

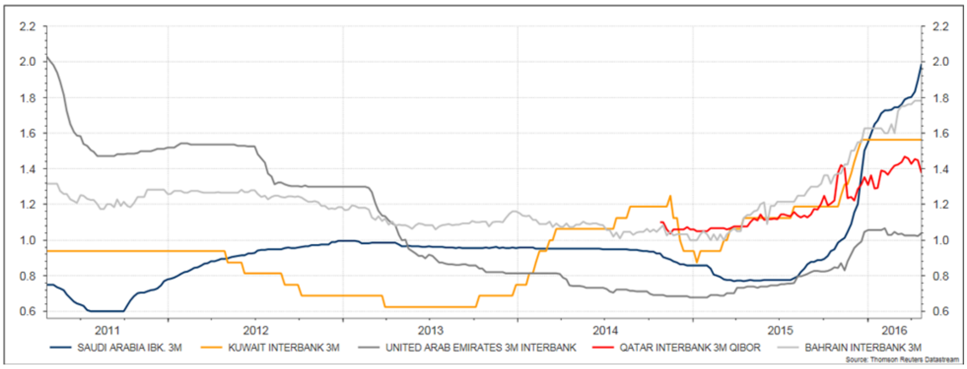
General Government Fiscal Balance

	Average	Actual			Projections	
	2000–12	2013	2014	2015	2016	2017
Percent of GDP						
Bahrain	0.0%	-5.3%	-5.8%	-15.1%	-17.9%	-15.3%
Kuwait	28.5%	34.0%	26.6%	1.1%	-13.5%	-7.8%
Oman	9.2%	3.2%	-1.6%	-20.4%	-19.7%	-17.1%
Qatar	9.3%	16.7%	18.1%	10.3%	-2.7%	-9.0%
Saudi Arabia	8.2%	5.8%	-3.4%	-16.3%	-13.5%	-11.8%
United Arab Emirates	11.1%	10.4%	5.0%	-4.9%	-10.8%	-8.5%
GCC	**10.8%**	**10.2%**	**3.3%**	**-9.9%**	**-12.3%**	**-10.8%**
MENA	**3.8%**	**0.7%**	**-2.6%**	**-9.7%**	**-10.8%**	**-8.9%**
Arab World	**4.2%**	**1.3%**	**-3.0%**	**-11.2%**	**-12.7%**	**-10.5%**

Source: IMF MENA REO April -2016

Banks have now started to show signs of pressure

3-Month Interbank Rates



Banks in the GCC region continued to report higher revenues during 2015, which grew at around 7%, albeit at a slower rate as compared to close to 10% achieved during 2014. Profits grew at an even slower rate of 6% as compared to more than double this rate during 2014. The increase in revenues and bottom-line came as a result of continued execution and approval of infrastructure projects in the region that supported banking earnings.

Nevertheless, due to the decline in oil revenues, oil deposits plunged during 2015 that has squeezed liquidity for a majority of the banks in the region. As a result, the interbank rates in some of the countries have reached the highest level since the financial crisis, as seen in the case of Saudi Arabia.

Higher downside risks to offset genuine efforts...

While lowering growth in the GCC and for the overall global economy, the IMF highlighted higher downside risks that are weighing on future growth prospects. The third consecutive downgrade for global growth expectations for 2016 by 20 bps highlights the fact that prior expectations and growth projections throughout the globe are delayed and uncertainties have increased. A majority of these downside risks are emanating in the emerging markets of which the MENA region forms a part.

Since the slide in oil prices started during the second half of 2014, the economies in the GCC region have taken several steps to deal with the decline in oil revenues. These initiatives initially focused on increasing the oil output to offset the decline in oil prices. However, as the crisis deepened, along with the aforementioned efforts, the economies resorted to other significant and long awaited measures like prioritizing capital investments, cancelling non-essential projects as well as reducing subsidies on energy and utilities. In addition, the levy of taxes is now a reality that has been brought forward to as early as 2018.

KAMCO Research believes that all of the above efforts are expected to aid the GCC economies in the long -run (although project cancellations may have a negative impact on growth in some cases). However, external factors like the slowdown in the growth in global oil demand as well as higher production by other oil producers continue to be significant concerns to the growth rates of economies in the region. The slowdown in China, as well as the longer than expected recovery of some of the key European economies have resulted in less demand for oil which is partially offset by marginal improvement in North America. However, on the positive side, although less probable, if the turnaround in China and the Emerging Markets are faster than expected, we believe this will result in a rise in oil demand that will have a direct impact on oil revenues and growth.

What would move the growth needle for oil exporters?

Global economic slowdown (China, Europe, LatAm)	**Increasing GCC oil output / falling US shale output**
Removal of Iran sanctions	**Higher oil prices**
Higher oil output in Iraq, Mexico, Russia	**Private sector investments**
Political conflicts and social tensions	**Economic diversification**
Project cancellations	**Job creation**
	Lower interest rates
	Adequate banking liquidity
	Fiscal consolidation measures
	Structural reforms

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