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Event Update - IMF Releases its Regional Economic Outlook

Oct-2014

***In its latest regional economic outlook on MENA Region, IMF has indicated that despite setbacks, an uneven global economic recovery continues**. According to the IMF, the growth forecast for the world economy has been revised downward to 3.3% this year, 0.4 percentage point lower than in the April 2014 World Economic Outlook largely due to weaker-than-expected global activity in the 1H-2014.*

***Economic developments in the MENA Region continue to reflect the diversity of conditions prevailing across the region.** Most high-income oil exporters, primarily in the GCC, continue to record steady growth and solid economic and financial fundamentals, albeit with medium-term challenges that need to be addressed. In the non-GCC countries, improving the political and business environment, addressing infrastructure bottlenecks, and enhancing access to finance are important prerequisites for raising investment, productivity, and sustained growth.*

***GDP growth in the GCC region is expected to improve in 2014 to reach 4.4%** after seeing healthy growth of 4.1% in 2013 as per IMF estimated figures. Growth remains steady in most of the GCC countries on the strength of public spending on infrastructure and private sector credit expansion in many countries. Despite the regional issues, in addition to the huge drop in oil prices, IMF upgraded its GDP growth forecast for Saudi Arabia, the region's largest economy to reach 4.6% in 2014 compared to the previous estimates of 4.1% for the same year in May 2014. The outlook of Qatar economy upgraded from a growth rate of 5.9% estimated in May-14 to 6.5% in October for 2014, the highest Growth among its peers in the GCC Region. The IMF estimates Kuwait's growth rate to be 1.4% a sharp decline from the May estimate of 2.6%.*

IMF Estimates	Previous Estimates May 2014			Revisions by IMF			Current Estimates October 2014		
Real GDP Growth	2013 E	2014 F	2015 F	2013	2014 E	2015 F	2013	2014 E	2015 F
Percentage									
Saudi Arabia	3.8%	4.1%	4.2%	0.2%	0.5%	0.3%	4.0%	4.6%	4.5%
United Arab Emirates	4.8%	4.4%	4.2%	0.4%	-0.1%	0.3%	5.2%	4.3%	4.5%
Qatar	6.1%	5.9%	7.1%	0.4%	0.7%	0.6%	6.5%	6.5%	7.7%
Kuwait	0.8%	2.6%	3.0%	-1.2%	-1.2%	-1.2%	-0.4%	1.4%	1.8%
Oman	5.1%	3.4%	3.4%	-0.3%	0.0%	0.0%	4.8%	3.4%	3.4%
Bahrain	4.9%	4.7%	3.3%	0.4%	-0.8%	-0.3%	5.3%	3.9%	2.9%
Real GDP Growth for GCC	**4.1%**	**4.2%**	**4.4%**	**0.0%**	**0.2%**	**0.1%**	**4.1%**	**4.4%**	**4.5%**
Inflation, Avg. CPI	2013 E	2014 F	2015 F	2013	2014 E	2015 F	2013	2014 E	2015 F
Percentage									
Saudi Arabia	3.5%	3.0%	3.2%	0.0%	-0.1%	0.0%	3.5%	2.9%	3.2%
United Arab Emirates	1.1%	2.2%	2.5%	0.0%	0.0%	0.0%	1.1%	2.2%	2.5%
Qatar	3.1%	3.6%	3.5%	0.0%	-0.2%	0.0%	3.1%	3.4%	3.5%
Kuwait	2.7%	3.4%	4.0%	-0.1%	-0.3%	-0.5%	2.7%	3.0%	3.5%
Oman	1.3%	2.7%	3.1%	-0.1%	0.1%	-0.3%	1.2%	2.8%	2.8%
Bahrain	3.3%	2.5%	2.4%	0.0%	0.0%	0.0%	3.3%	2.5%	2.4%
Inflation in GCC	**2.9%**	**3.0%**	**3.2%**	**-0.1%**	**-0.2%**	**-0.1%**	**2.8%**	**2.8%**	**3.1%**
Current account balance	2013 E	2014 F	2015 F	2013	2014 E	2015 F	2013	2014 E	2015 F
Percentage of GDP									
Saudi Arabia	17.4%	15.8%	13.3%	0.3%	-0.7%	-0.9%	17.7%	15.1%	12.4%
United Arab Emirates	14.9%	13.3%	12.4%	1.2%	-2.2%	-0.6%	16.1%	11.1%	11.8%
Qatar	29.2%	25.4%	20.5%	1.7%	1.7%	2.7%	30.9%	27.1%	23.2%
Kuwait	38.8%	37.4%	34.2%	1.7%	3.4%	4.4%	40.5%	40.8%	38.6%
Oman	9.7%	7.8%	2.5%	2.2%	2.1%	3.1%	11.9%	9.9%	5.6%
Bahrain	12.0%	10.4%	9.4%	-4.2%	-3.4%	-3.0%	7.8%	7.0%	6.4%
CA Balance/ % of GDP	**20.2%**	**18.3%**	**15.6%**	**0.7%**	**-0.4%**	**0.3%**	**20.9%**	**17.9%**	**15.9%**

Source: International Monetary Fund (IMF) , May 2014 Report and October 2014 Report.

Faisal Hasan, CFA
Senior Vice President
+(965) 2233 6907
faisal.hasan@kamconline.com

Wassim El-Hayek, CVA
Vice President
+(965) 2233 6908
wassim.elhayek@kamconline.com

MENA growth revised downward from 3.2 percent to 2.7 percent ….

According to IMF, Economic developments in the MENA countries continue to reflect the diversity of conditions prevailing across the region. Most high-income oil exporters, primarily in the GCC, continue to record steady growth and solid economic and financial fundamentals, albeit with medium-term challenges that need to be addressed. In contrast, other countries—Iraq, Libya, and Syria—are mired in conflicts. And yet other countries, mostly oil importers, are making continued but uneven progress in advancing their economic agendas, often in tandem with political transitions and amidst difficult social conditions. In most of these countries, without extensive economic and structural reforms, economic prospects for the medium term remain insufficient to reduce high unemployment and improve living standards. Economic activity in the MENA oil-importing countries has remained lackluster this year at about 3 percent, but growth is expected to pick up to 4 percent in 2015 (broadly unchanged from the May 2014 Update).

GCC economies need to undertake significant reforms….

In the GCC economies, the need is to strengthen their fiscal positions by using the current period of economic strength to save more of their oil windfall. IMF has suggested that most oil exporters also need to adapt their economic model for more sustained, inclusive, and diversified growth. The country's financial fiscal model has been dependent on the growth of government spending supported by increases in oil prices. Transitioning to a more diversified, private sector–driven model requires significant reform. In the GCC countries, the business environment is generally favorable and infrastructure gaps are small. So the reform priorities should center on improving the quality of education and its relevance for private sector needs; reducing distortions that lead to reliance on foreign labor, thereby increasing private sector job opportunities for nationals; and encouraging efficient production of tradable goods and services rather than activity in non-tradable sectors with low productivity growth.

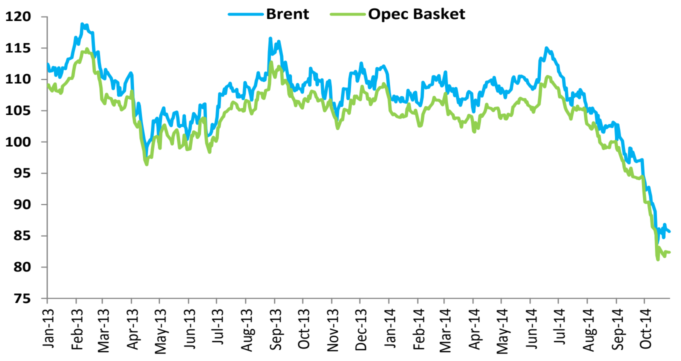
We believe that the inflation situation in the GCC economies will continue to be benign as reflected from the IMF data and projection. However, any further decline in oil prices will have an effect on their fiscal balance and current account balance. Although the current oil prices (above USD 80 per barrel) are above the breakeven prices of most countries, however the high expenditures especially the current expenditure can be a cause of concern in future if the oil prices remain depressed or if the oil exporters take production cuts. What GCC requires is more diversification of their economies which they are looking at seriously through various projects and using oil surplus to spur the non-oil sector which is being seen in the strong growth in the non-oil sector in these economies albeit on a lower base and scale.

In the GCC, the business environment is favorable by international standards, infrastructure gaps are small, and the efficiency of high capital spending is comparable with that in other countries. However, IMF suggests some more measure to build on the progress which includes improving education quality, restraining growth in public wage bills and incentivizing GCC men and women to seek private sector jobs, reducing distortions that lead to excessive reliance on foreign labor, gradually reducing energy subsidies and reorienting incentives toward tradable sectors. It will also help in tackling another challenge that the GCC region faces which is to create jobs for the young population which will be joining the workforce in the near future.

Oil price decline a major risk factor….

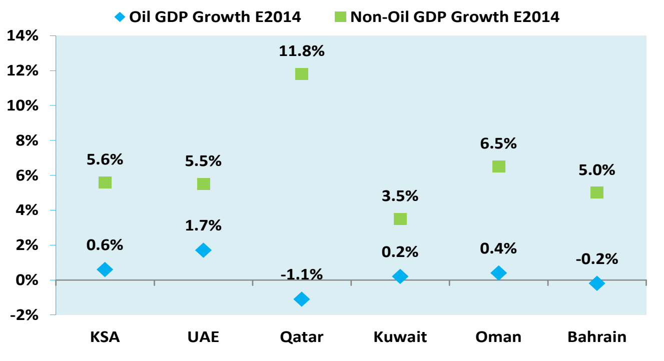
Oil prices needs to be watched out for as higher-than-expected oil supply from other regions (for example, the United States) or lower global oil demand, owing to weaker global economic growth, could also further ease oil markets. As per IMF, oil prices, as well as regional security conditions, are also important sources of risk for activity in the non-oil economy.

Oil Prices Movement (USD/B)



Source: Bloomberg

Oil and Non-Oil Real GDP Growth 2014



Source: IMF, October 2014

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KIPCO Asset Management Company
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 1852626 Fax: (+965) 22492395
Email : Kamcoird@kamconline.com
Website : http://www.kamconline.com