Event Update - IMF Releases 2016 MENA Regional Economic Outlook

October-2016

Finer details reveal rollover of risks for the GCC

GCC GDP growth for 2016 to be lower by 10bps; 2017 forecasts left unchanged: Finer details and forecasts of the MENA region were released in IMF's Regional Economic Outlook on 19th October 2016, and the agency now forecasts GCC real GDP to grow by 1.7% in 2016 & 2.3% in 2017. Economic growth in the GCC region is projected to be relatively slower, despite the increase in hydrocarbon output, as fiscal tightening and declining liquidity in the financial sector are expected to drag growth down from 3.4% in 2015.

GCC non-oil GDP growth in 2016 slower than earlier expected: Higher oil and gas production led to an upgrade of 80bps to the real oil-GDP growth forecast for 2016 (1.8%) as compared to IMF's April-16 update for the region. Real non-oil GDP on the other hand is expected to come in slower than earlier expected by 70bps (1.8%) for 2016, while the corresponding estimate for 2017 was expanded by 10bps. Fiscal consolidation, credit constraints due to slowing deposit growth are expected to contribute to the drop in non-oil GDP in the current year.

Kuwait fiscal breakeven oil price below USD 50/bbl for 2016 & 2017 and lowest in the GCC: Kuwait's fiscal breakeven oil price was lowered from IMF's earlier update and is now estimated at close to over USD 47/bbl, the lowest in the GCC, and closest to YTD average oil prices. Estimates for Saudi Arabia were raised, in particular for 2016, by USD 13/bbl, as an oil price of USD 79.7/bbl is now required to balance its fiscal budget. Non-oil fiscal balance for the GCC region in 2016 is expected to improve by 8.6% points of non-oil GDP as compared to 2015.

KAMCO expects the rollover of risks to give more leeway to the GCC: Though we remain optimistic about the measures taken so far by the GCC states, with some of the measures already showing desired results, the deferral of global risks leaves more room for employing additional initiatives to boost non-oil private sector growth. Funding gaps would need to plugged in by tapping into international markets if need be, while credit outlay to high priority projects would still be needed, to steer through this period of transition.

	Actual			Projections		Revisions by IMF	
Real GDP Growth	**2013**	**2014**	**2015**	**2016**	**2017**	**2016**	**2017**
Percentage Growth							
Bahrain	5.4%	4.4%	2.9%	2.1%	1.8%	*-0.1%*	*-0.2%*
Oil GDP	15.3%	3.0%	-0.1%	0.9%	0.0%	*0.9%*	*0.0%*
Non-oil GDP	3.1%	4.7%	3.6%	2.4%	2.2%	*-0.3%*	*-0.3%*
Kuwait	0.4%	0.6%	1.1%	2.5%	2.6%	*0.1%*	*0.0%*
Oil GDP	-1.8%	-2.1%	-0.5%	2.0%	2.0%	*0.0%*	*0.0%*
Non-oil GDP	4.0%	5.0%	3.5%	3.2%	3.5%	*0.2%*	*0.0%*
Oman	3.2%	2.9%	3.3%	1.8%	2.6%	*0.0%*	*0.9%*
Oil GDP	0.7%	-0.8%	2.6%	0.8%	1.4%	*-0.3%*	*1.5%*
Non-oil GDP	5.8%	6.6%	4.0%	2.7%	3.7%	*0.2%*	*0.2%*
Qatar	4.6%	4.0%	3.7%	2.6%	3.4%	*-0.8%*	*0.0%*
Oil GDP	0.1%	-1.5%	-0.2%	-0.8%	0.9%	*-1.0%*	*0.1%*
Non-oil GDP	10.6%	10.6%	7.8%	6.1%	5.7%	*-0.5%*	*-0.2%*
Saudi Arabia	2.7%	3.6%	3.5%	1.2%	2.0%	*0.0%*	*0.1%*
Oil GDP	-1.6%	2.1%	4.0%	2.3%	1.1%	*1.7%*	*-0.2%*
Non-oil GDP	6.4%	4.8%	3.1%	0.3%	2.6%	*-1.3%*	*0.2%*
United Arab Emirates	4.7%	3.1%	4.0%	2.3%	2.5%	*-0.1%*	*-0.1%*
Oil GDP	2.9%	0.8%	4.6%	2.0%	2.0%	*-0.1%*	*0.0%*
Non-oil GDP	5.6%	4.1%	3.7%	2.4%	2.7%	*-0.1%*	*-0.2%*
GCC Real GDP Growth	3.1%	3.3%	3.4%	1.7%	2.3%	*-0.1%*	*0.0%*
Oil GDP	-0.1%	0.9%	3.1%	1.8%	1.4%	*0.8%*	*0.1%*
Non-oil GDP	6.3%	5.4%	3.8%	1.8%	3.1%	*-0.7%*	*0.1%*
MENA	2.2%	2.6%	2.1%	3.2%	3.2%	3.2%	3.2%
Arab World	3.1%	2.2%	2.5%	2.9%	3.0%	2.9%	3.0%

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

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GCC Oil Production

Crude Oil Production	Actual 2014	Actual 2015	Projections 2016	Projections 2017
Millions of barrels per day				
Saudi Arabia	9.71	10.19	10.30	10.38
Kuwait	2.87	2.86	2.91	2.97
UAE	2.79	2.96	3.03	3.11
Oman	0.94	0.98	0.98	0.99
Qatar	0.67	0.65	0.62	0.60
Bahrain	0.20	0.20	0.20	0.20
GCC	**17.19**	**17.84**	**18.04**	**18.25**

Source: IMF MENA REO October-2016, KAMCO Research

GCC Oil Exports

Crude Oil Exports	Actual 2014	Actual 2015	Projections 2016	Projections 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	0.81	0.80
Qatar	0.61	0.58	0.55	0.54
Saudi Arabia	7.15	7.16	7.31	7.26
United Arab Emirates	2.63	2.51	2.56	2.63
GCC	**13.36**	**13.21**	**13.37**	**13.37**

Source: IMF MENA REO October -2016, KAMCO Research

Oil production target for 2016 revised higher yet again; November OPEC meeting in Vienna to set the tone

Oil production estimates for the GCC was raised yet again by the IMF for 2016, while keeping estimates for 2017 unchanged. Production, is now expected to grow to 18.04 mb/d from the earlier estimate of 18.01 mb/d for 2016. Key driver for the increase in forecast was the production estimate of Saudi Arabia, which was increased from 10.22 mb/d to 10.30 mb/d. Nevertheless, this increase comes against the backdrop of OPEC agreeing to cut production by as much as 700,000 mb/d in Sept-16, its first major agreement since the oil bear market began in 2014. Saudi Arabia in September also announced that it would reduce production if other fellow OPEC members would freeze its own production. Russia also agreed to support the effort to reduce the global glut of an estimated 1.0 -1.5 mb/d. Finer details of the production cutback would be worked out at the next OPEC meeting in Vienna on 30 Nov-16. The extent of production cut from Saudi Arabia will be of paramount interest at the event. Furthermore, the signaling impact on non-OPEC players, and which non-OPEC players would be first to undertake the necessary action, would be keenly followed. On the other hand, according to the IMF, GCC oil exports are projected to be lower than expected in April -16. Oil exports from the region were brought down from 13.48 mb/d to 13.37 mb/d in 2016 and from 13.46 mb/d to 13.37 mb/d in 2017. The drop is ascribed to a decline in exports from UAE & Saudi Arabia and is likely to be due to the weaker global trade conditions and rising domestic consumption, in our view.

UAE and Kuwait breakeven oil prices revised lower

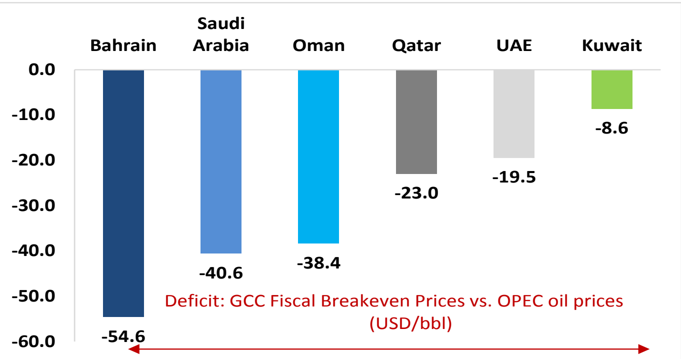
In terms of the breakeven oil prices required for GCC countries to balance their fiscal budgets, all countries were running deficits, as oil prices YTD were lower than all individual breakeven targets. As per our analysis of IMF data, the gap between average oil prices and budgeted breakeven oil prices were largest for Bahrain and Saudi Arabia at over USD 56/bbl and USD 40/bbl respectively. Kuwait and UAE had the least gap between their budgeted oil prices and average oil prices YTD in 2016 with a gap of over USD8/bbl and USD 19/bbl. Moreover, Kuwait is expected to be the only GCC country that is able to balance its fiscal budget when oil prices are below USD 50 per barrel, as per the IMF, as Kuwait has the lowest breakeven oil price of USD 47.8/bbl and USD 47.7/bbl for 2016 & 2017. The breakeven oil prices for Kuwait were lowered since April-16 by USD 4.3/bbl and USD 5.1/bbl for the aforementioned years. UAE's fiscal breakeven oil prices was lowered by double digits, and would now require USD 58.6/bbl and USD 60/bbl for a fiscal neutral budget. On the contrary, the same estimates for Saudi Arabia were raised, in particular for 2016, by USD 13/bbl, as the country would now need an oil price of USD 79.7/bbl to balance its fiscal budget as against USD 66.7/bbl estimated in April-16. As per our calculations, in order to reach the average oil price of USD 50/bbl, oil prices would now need to average over USD 100/bbl, which we deem as highly unlikely, given the fundamentals of the market.

GCC- Fiscal Breakeven Oil Prices

Breakeven Oil Prices	Actual 2013	Actual 2014	Actual 2015	Projections 2016	Projections 2017
USD per barrel					
Bahrain	130.4	122.5	106.3	93.8	92.3
Kuwait	42.5	55.8	48.3	47.8	47.7
Oman	93.8	94.0	99.3	77.5	79.4
Qatar	62.7	57.8	58.3	62.1	63.4
Saudi Arabia	88.9	105.7	92.9	79.7	77.7
UAE	69.4	79.0	60.1	58.6	60.0

Source: IMF MENA REO Oct -2016, KAMCO Research

Breakeven Oil Prices to Average OPEC Oil Price* in 2016



*Source: Bloomberg, IMF MENA REO Oct -2016, KAMCO Research, *Average as of 20th October 2016*

Current Account Balance

	Average	Actual			Projections	
	2000–12	2013	2014	2015	2016	2017
Percent of GDP						
Bahrain	6.3%	7.4%	4.6%	-3.1%	-4.7%	-3.8%
Kuwait	32.8%	39.9%	33.3%	5.2%	3.6%	8.4%
Oman	9.1%	6.7%	5.7%	-17.5%	-21.3%	-17.6%
Qatar	20.0%	29.9%	23.5%	8.2%	-1.8%	0.0%
Saudi Arabia	16.7%	18.2%	9.8%	-8.3%	-6.6%	-2.6%
United Arab Emirates	12.5%	19.1%	10.0%	3.3%	1.1%	3.2%
GCC	**17.0%**	**21.4%**	**13.6%**	**-2.4%**	**-3.7%**	**-0.5%**
MENA	**10.0%**	**10.9%**	**5.6%**	**-4.4%**	**-5.0%**	**-2.8%**

Source: IMF MENA REO October -2016

Current account deficit estimate for the GCC in 2016 lowered by almost USD 40 Bn from the earlier update

The partial recovery in oil prices recently also meant that the deficit in current account balance to GDP ratio for the full year would be lower as compared to April-16 estimates, by the IMF. The current account deficit estimate for 2016 is now pegged at -3.7% of GDP as against -7.0% of GDP estimated in IMF's previous update. The absolute value of deficits is also expected to decline by 44% in 2016, as compared to earlier estimates of USD 91 Bn. Saudi Arabia alone is expected to contribute to about 83% of the deficit in 2016, as the IMF expects the country to report current deficit of 6.6% of GDP for the year.

Fiscal balance to GDP ratio now expected to be lower and in single digits for 2016 & 17

The most recent estimates of the fiscal balance to GDP ratio for the GCC region also shows improvement from earlier estimates for the current year and 2017. The fiscal deficit of the GCC is expected to be 9.8% of 2016 GDP, lower than the 12.3% deficit of GDP estimated in IMF's previous update. The agency expects an improvement for 2017 as well, as the deficit is expected to lower at 6.9% of GDP, as compared to the earlier estimate of 10.8% of GDP. Saudi Arabia's fiscal deficit to GDP ratio in 2016 was kept constant at 13.5% as against their previous update, but the corresponding figure for 2017 is expected to dip below double digits at 9.5% of GDP for the year, compared to a previous deficit estimate of 10.8%. The IMF continued to reiterate the need for further policy priorities other than the ones recently announced, which would be needed along with a well -defined medium-term fiscal framework for the region. Further policy initiatives in terms of additional streamlining of current expenditures, including the public sector wage bill, increasing the efficiency of public investment and additional energy price reforms were advised by the agency as well. Fiscal consolidation would also continue to require a mix of spending cuts and pro revenue measures.

General Government Fiscal Balance

	Average	Actual			Projections	
	2000–12	2013	2014	2015	2016	2017
Percent of GDP						
Bahrain	0.0%	-5.4%	-5.8%	-15.1%	-14.7%	-11.7%
Kuwait	28.5%	34.3%	28.1%	1.5%	-3.6%	3.2%
Oman	9.2%	4.7%	-1.1%	-16.5%	-13.5%	-10.3%
Qatar	9.3%	22.2%	15.0%	5.4%	-7.6%	-10.1%
Saudi Arabia	8.2%	5.8%	-3.4%	-15.9%	-13.0%	-9.5%
United Arab Emirates	11.1%	10.4%	5.0%	-2.1%	-3.9%	-1.9%
GCC	**10.8%**	**10.8%**	**3.1%**	**-9.4%**	**-9.8%**	**-6.9%**
MENA	**3.7%**	**0.9%**	**-2.7%**	**-9.3%**	**-9.1%**	**-6.4%**
Arab World	**4.1%**	**1.6%**	**-3.1%**	**-10.8%**	**-10.8%**	**-7.6%**

Source: IMF MENA REO October -2016

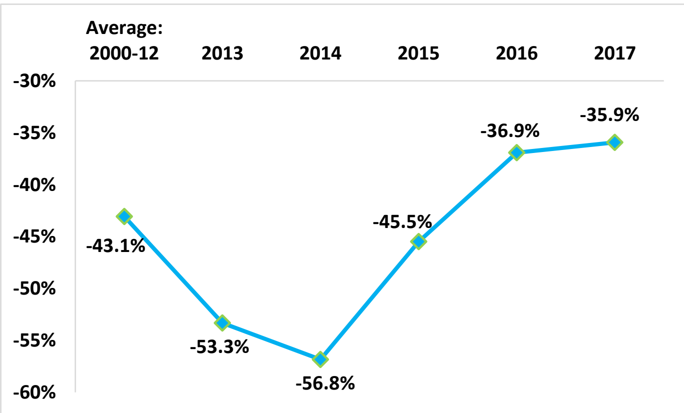
Non-oil fiscal deficit more manageable in 2016 as compared to two years earlier

To understand the impact of past measures in boosting the non-oil sector in the GCC, we looked at the non-oil fiscal balances data of the region published by IMF over the long term, which included forecasts for the current year and the next year. Data suggested that the non-oil fiscal balance to non-oil GDP ratio worsened from the average estimate of 2000 -2012 until 2014 from 43.1% to 56.8% of non-oil GDP. Nevertheless, deficit reduction measures in the region brought down the deficit figure in the non oil sector to 45.5% of non-oil GDP in 2015. The IMF further estimates the average non-oil deficit to fall by about 20% of non-oil GDP over 2014 to 2017.

External financing route to be tapped to plug in differential

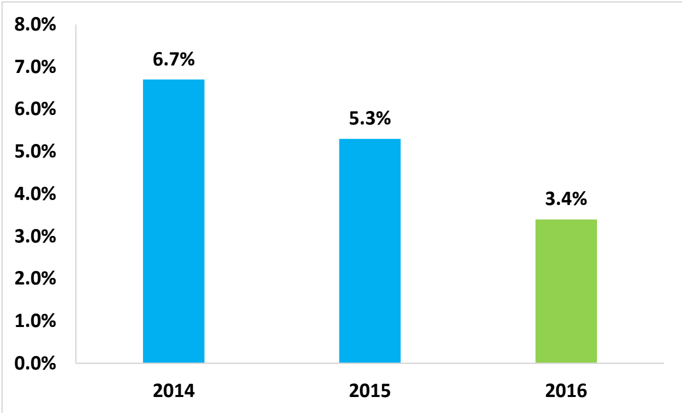
The deficit financing options available to GCC states would include a drawdown of financial assets from sovereign wealth funds, and the issuance of foreign and domestic debt. Bahrain, Oman and Abu Dhabi have either issued bonds or obtained syndicated loans in international markets. The most notable one was Saudi Arabia raising USD 5.5 Bn in each of the 5yr and 10yr bonds and USD 6.5 Bn in 30-year debt amounting to a record USD 17.5 Bn in bond financing internationally, which eclipsed the USD 9 Bn raised by Qatar in May-16. Investors reportedly submitted USD 67 Bn in bids, as per Financial Times, which goes on to show the appetite for such instruments currently, if individual GCC states decide to take this route.

GCC Non-Oil Fiscal Balance (% of non-oil GDP)



Source: IMF MENA REO October -2016, KAMCO Research

GCC Implicit Energy Costs (% of GDP)



Source: IMF MENA REO October -2016, KAMCO Research

Energy price reforms showing positive effects

GCC states have implemented energy price reforms in varying degrees as means of curtailing their state spending. The reforms in the form of higher price is also expected to contribute to a slowing down of energy consumption in the region, and is also expected to provide fiscal adjustment support, as per the IMF. Data from the IMF also suggests that the implicit energy costs for the GCC is expected to drop from 6.7% of GDP in 2014 to 3.4% of GDP in 2016, as a result of the reduction in subsidies and higher revenues from the domestic sale of energy products.

KAMCO view - risks to rollover than diminish in the near term

Though the twin deficits in the GCC have shown some signs of alleviating in 2016 and 2017, we expect this to be only partially contributed by spending cuts and measures adopted so far to increase revenues. Significant global risks in terms of waning global trade activity, a slowdown in China, tighter liquidity conditions from a potential near term interest rate hike in the US, and the impact of Brexit have been rolled over to 2017 and beyond. Nevertheless, KAMCO Research remains optimistic about the avenues available to GCC states and the ability to successfully boost their non-oil economies, as some of the measures have already started showing positive results. However, the implementation of ongoing measures and the introduction of new initiatives would be needed to further boost the private sector non-oil growth. Deficit funding measures such as international bond issuances, along with healthy credit growth backed by conventional or alternative funding for high priority projects, would be incrementally positive in our view.

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