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Event Update - IMF Releases Regional Economic Outlook

October-2019

GCC real GDP growth rates lowered led by both oil and non-oil factors

Taking cues from global weakness and the rising geopolitical issues in the region, the IMF lowered its GDP growth forecasts for the MENA region. **The revisions were noticeable for the GCC countries led primarily by lower oil output expectations for key oil exporters in the region. IMF projected real GDP for the GCC region to grow at 0.7% for 2019 down from 2% at 2018.** Growth rate is expected to pick up in 2020 to 2.5% driven mainly by oil GDP for Kuwait and Saudi Arabia, according to the IMF.

All GCC countries received downward revisions in real GDP growth for 2019 except Bahrain which received a 0.1% upward revision for 2019 to reach 2% compared to 1.8% growth in 2018. Saudi Arabia's real GDP for 2019 is forecasted to grow by 0.2% in 2019 receiving the second largest downward revision (-170 bps) in the GCC. Kuwait is forecasted to grow 0.6% (-190bps) in 2019 and 3.1% (+20bps) in 2020 the second highest GDP growth among the GCC countries in 2020 after Oman.

Both oil GDP and non-oil GDP growth rates for almost all the GCC countries were lowered by the IMF in its latest regional economic outlook. The GCC region and even the larger MENA region has seen an increase in geopolitical events including the attacks on Saudi Arabia's oil facilities, the trouble with oil tankers, and the conflicts in Libya and Yemen. These events have affected both oil and non-oil economic activity in the region and increased volatility of oil prices. **And due to the fiscal dependence on oil revenues, these recent events have increased fiscal vulnerabilities for the region as lower oil revenues limits the ability of the countries to finance infrastructure projects.**

The non-oil economy is expected to be the strongest in Qatar which is expected to grow oil GDP by 3.4% in 2019 and by 3.6% in 2020 led by the preparations for the World Cup in 2022. A slightly slower growth is expected in the UAE at 1.6% and 3.0% in 2019 and 2020, respectively, as the country prepares to host the Expo next year. For Kuwait, higher infrastructure spending in 2019 and 2020 is expected to drive non-oil GDP growth by 2.5% and 3.0%, respectively.

	Actual		Projections		IMF Revisions	
Real GDP Growth	**2017**	**2018**	**2019**	**2020**	**2019**	**2020**
Percentage Growth						
Bahrain	**3.8%**	**1.8%**	**2.0%**	**2.1%**	**0.1%**	**0.0%**
Oil GDP	-0.7%	-1.3%	1.0%	0.2%	0.0%	0.0%
Non-oil GDP	4.9%	2.5%	2.2%	2.5%	0.0%	0.0%
Kuwait	**-3.5%**	**1.2%**	**0.6%**	**3.1%**	**-1.9%**	**0.1%**
Oil GDP	-7.2%	1.2%	-0.8%	3.1%	-2.9%	0.6%
Non-oil GDP	2.1%	1.2%	2.5%	3.0%	-0.5%	-0.5%
Oman	**0.3%**	**1.8%**	**0.0%**	**3.7%**	**-1.1%**	**-2.5%**
Oil GDP	-2.1%	4.7%	-1.1%	5.0%	-0.5%	-5.1%
Non-oil GDP	2.4%	-0.7%	1.0%	2.5%	-1.5%	-0.5%
Qatar	**1.6%**	**1.5%**	**2.0%**	**2.8%**	**-0.7%**	**-0.4%**
Oil GDP	-0.7%	-0.3%	0.4%	1.8%	0.0%	0.0%
Non-oil GDP	3.8%	3.2%	3.4%	3.6%	-1.2%	-0.7%
Saudi Arabia*	**-0.7%**	**2.4%**	**0.2%**	**2.2%**	**-1.7%**	**-0.8%**
Oil GDP	-3.1%	3.1%	-3.1%	1.7%	-3.8%	0.7%
Non-oil GDP	1.3%	2.2%	2.7%	2.5%	0.0%	0.0%
United Arab Emirates	**0.5%**	**1.7%**	**1.6%**	**2.5%**	**-1.3%**	**-0.8%**
Oil GDP	-2.8%	2.8%	1.5%	1.4%	-1.7%	-0.3%
Non-oil GDP	1.9%	1.3%	1.6%	3.0%	-1.1%	-1.0%
GCC Real GDP Growth	**-0.3%**	**2.0%**	**0.7%**	**2.5%**	**-1.4%**	**-0.3%**
Oil GDP	-3.0%	2.5%	-1.4%	1.9%	-2.6%	0.0%
Non-oil GDP	1.9%	1.9%	2.4%	2.8%	-0.5%	-0.6%
MENA Real GDP Growth*	**1.8%**	**1.1%**	**0.1%**	**2.7%**	**-0.6%**	**-0.4%**

*Source: IMF REO - Oct 2019, KAMCO Research, *MENA & Saudi Arabia revisions are from Jul-19*

Junaid Ansari
Vice President
+(965) 2233 6912
junaid.ansari@kamconline.com

Mohamed Ali Omar
Analyst
+(965) 2233 6906
mohamed.omar@kamconline.com

GCC Oil Production	Actual		Projections	
Crude Oil Production	2017	2018	2019	2020
Millions of barrels per day				
Saudi Arabia	9.95	10.31	9.75	9.85
Kuwait	2.70	2.74	2.70	2.79
UAE	2.93	3.02	3.10	3.17
Oman	0.97	0.98	0.97	1.03
Qatar	0.61	0.61	0.62	0.63
Bahrain	0.20	0.19	0.20	0.20
GCC	**17.36**	**17.85**	**17.34**	**17.67**

Source: IMF REO Oct-2019

GCC Oil Exports	Actual		Projections	
Crude Oil Exports	2017	2018	2019	2020
Millions of barrels per day				
Bahrain	0.15	0.15	0.15	0.15
Kuwait	1.71	1.69	1.61	1.65
Oman	0.81	0.80	0.76	0.81
Qatar	0.54	0.54	0.55	0.58
Saudi Arabia	6.97	7.37	6.95	6.76
United Arab Emirates	2.40	2.35	2.25	2.31
GCC	**12.57**	**12.90**	**12.28**	**12.26**

Source: IMF REO Oct-2019

Oil production expected to see marginal growth but exports are forecasted to remain low...

IMF data showed the oil production in the GCC is expected to reach a four year low of 17.34 mb/d in 2019 and gradually increase to 17.67 mb/d next year. The higher output comes on the back of higher production in Kuwait and Saudi Arabia and an increase in gas production in Oman and Qatar, according to the IMF. We believe that the expected increase in oil production of more than 300 tb/d is marginal and accounts for merely 1% of the OPEC production. Saudi Arabia will bear the brunt of the cuts with the Kingdom representing 58% of the GCC's oil production in 2018. The Kingdom is expected to reduce its oil production by 5.5% to 9.75 mb/d in 2019 as compared to 10.31 mb/d in 2018. GCC oil exports forecast also followed a similar trend as they were lowered as compared to 2018 export figures. Estimates of oil exports from the GCC region are expected to fall from 12.9 mb/d in 2018 to 12.28 mb/d in 2019 and further decline to 12.26 mb/d in 2020. We believe that increasing production would be difficult for the producers in OPEC due to their commitment to cut production by almost 1 mb/d in order to support prices until Mar-2020 which may be extended given the current price levels. We believe that the IMF's oil GDP forecasts aptly represents the current concerns and uncertainty in the market by being conservative related to oil production as well as in terms of expected oil prices of USD 61.78/b in 2019 and USD 57.94/b in 2020.

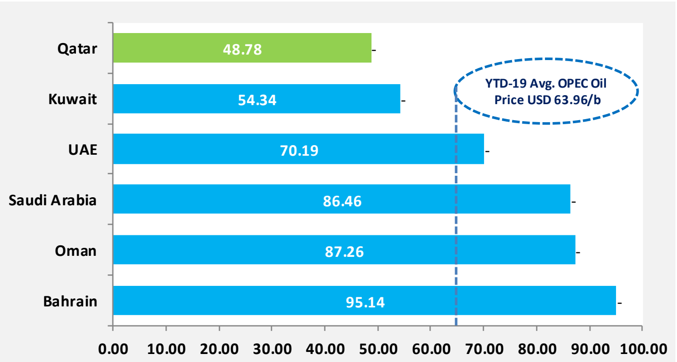
Qatar and Kuwait fiscal breakeven oil prices remain below average oil prices

In terms of the breakeven oil prices for 2019 and based on average oil prices seen in YTD-2019 (USD 64.0/bbl), only Qatar and Kuwait are expected to be in a comfortable position in terms of spending on budgeted expenditure. Qatar had the lowest fiscal breakeven oil price of USD 48.8/bbl for 2019 and even lower at USD 45.7/bbl for 2020. Kuwait was next with a fiscal breakeven oil price of USD 54.3/bbl for 2019 and marginally higher USD 54.7/bbl for 2020. As per our analysis of IMF data for 2019, the negative spread between average oil prices and budgeted breakeven oil prices is estimated to be largest for Bahrain and Oman at around USD 31.2/bbl and USD 23.3/bbl, respectively. Saudi Arabia closely followed with the third highest spread of USD 22.5/bbl as the Kingdom's fiscal breakeven oil price is expected to be at USD 86.5/bbl for 2019. Qatar and Kuwait possess a cushion of around USD 15.2/bbl and USD 9.6/bbl, respectively, to balance their 2019 fiscal budgets, according to our estimates. Nevertheless, barring Oman, fiscal breakeven oil prices for all the other GCC economies were raised for 2019 as compared to May-19 estimates, which shows the impact of the expected fall in production for 2019.

GCC- Fiscal Breakeven Oil Prices	Actual		Projections	
Breakeven Oil Prices	2017	2018	2019	2020
USD per barrel				
Bahrain	112.6	118.4	95.1	91.8
Kuwait	45.7	54.2	54.3	54.7
Oman	96.9	99.5	87.3	87.6
Qatar	50.6	50.3	48.8	45.7
Saudi Arabia	83.7	88.6	86.5	83.6
UAE	59.8	66.7	70.2	70.0

Source: IMF REO Oct-2019

2019 breakeven oil prices vs. Avg YTD-19 OPEC oil prices



Source: Bloomberg, IMF REO Oct-2019, KAMCO Research, OPEC oil price average until 25-Oct-19

Oil prices will determine the strength of ongoing fiscal and current account balance recovery in 2019

Total GCC central government net borrowing as a percent of GDP for 2019 is projected to decline marginally by 20 bps to reach -2.2% from -2.4% in 2018. GCC governments were able to finance budgets by issuing bonds at favorable rates after the decline in oil prices. These borrowing contracted slightly in 2019 on the back of stable and relatively higher oil prices as compared to levels seen in years after the oil market crisis. The IMF projects that the total GCC current account balance is estimated to go down from USD 140.7 Bn in 2018 to USD 86.5 B in 2019 and further decrease to USD 50.7 Bn in 2020. Saudi Arabia's current account balance is forecasted to have the largest decrease among the GCC countries reaching USD 34.2 Bn in 2019 from USD 72.3 Bn in 2018. In terms of current account balance as percentage of GDP, the IMF forecasts GCC current account balance as percentage of GDP to fall from 8.5% in 2018 to 5.3% in 2019 and 3.1% in 2020. Among the GCC countries the IMF forecasts UAE to have the largest current account balance as percentage of GDP at 9.0% for 2019 followed by Kuwait at 8.2%.

The dilemma to produce more and sell cheap or to produce less in the hope of higher prices…

Meanwhile, external factors have contributed even more the oil dilemma of either to produce more and sell cheap or produce less and expect an increase in prices due to the supply shortfall. These external factors primarily include the breakneck speed at which the US is increasing oil supplies from the shale sources. It also includes the expected decline in oil demand due to the global economic slowdown that is making the glut in the oil market even more pronounced. Given that there are no catalysts in the near term that could boost oil demand coupled with a number of fragile factors on the supply front, we believe that crude oil would trade in a tight range in the near term.

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KAMCO Investment Company - K.S.C. (Public)
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