

## Event Update - IMF Releases Regional Economic Outlook

April-2021

### Non-oil GDP to drive faster GCC recovery in the near-term...

The Covid-19 pandemic seems to be far from over globally and in the region, although economies have gained experience and have more tools to deal with the catastrophe. **As a result, in line with the forecasts for global GDP growth rates in 2021 and 2022, the economies in the MENA region are also expected to experience an extended and divergent recovery.** This recovery would depend on the current stage of the pandemic in the country, the economic exposure to sensitive and most affected sectors and the efforts from the government in terms of vaccine administration and other economic reforms. According to the IMF, **economies in the region will have to balance priorities in terms of immediate requirements that includes saving lives and employment as well as deal with near term challenges like rising debt levels and building more sustainable economies.**

**GDP growth in the MENA region is expected to average at 4.0% in 2021, a higher growth vs. the 3.2% estimated in Oct-2020, while growth amongst countries varies depending on how reforms are implemented.** However, this revision came mainly on the back of upward revisions for four out of six GCC countries while 13 countries in the overall region saw their projections pared. We believe that the key reason for this was the reemergence of economic restrictions recently across the region and globally as well as different pace of vaccinations in different countries. **GCC growth was revised up by 40 bps to 2.7% in 2021 as compared to 2.3% expected in Oct-2020 mainly led by Oman and UAE with growth now expected to be 230 bps and 180 bps higher than previous forecasts, respectively.**

**Within the GCC, Bahrain is expected to clock the highest GDP growth of 3.3% in 2021 followed by the UAE with an expected growth of 3.1%.** Saudi Arabia is expected to clock a growth of 2.9% in 2021 while Kuwait is estimated to grow marginally by 0.7% in 2021 followed by a pickup in 2022 at 3.2%. The better-than-expected forecast of the GCC economies growth is underpinned by the expectation of the gulf countries inoculating significant amount of their population by the end of 2021. Most of the GCC countries started their vaccine rollout at the end of 2020 or early 2021. The small expected increase in oil output during 2021 would support growth, while higher oil prices are expected to result in declining fiscal deficits in the near-term.

Country/Regions	Apr-2021 Updated Forecasts					IMF Revisions	
Real GDP Growth	2018	2019	2020	2021e	2022e	2021e	2022e
<b>Bahrain</b>	1.7%	2.0%	-5.4%	3.3%	3.1%	1.0%	0.3%
Oil GDP	-1.3%	2.2%	2.0%	0.7%	0.7%	-0.4%	
Non-oil GDP	2.4%	2.0%	-7.0%	3.9%	3.7%	1.4%	
<b>Kuwait</b>	1.2%	0.4%	-8.1%	0.7%	3.2%	0.1%	0.0%
Oil GDP	0.2%	-1.4%	-9.8%	-1.3%	3.0%	0.0%	
Non-oil GDP	2.7%	2.8%	-6.0%	3.0%	3.5%	0.0%	
<b>Oman</b>	0.9%	-0.8%	-6.4%	1.8%	7.4%	2.3%	-3.6%
Oil GDP	4.0%	1.4%	-2.4%	2.0%	12.6%	5.5%	
Non-oil GDP	-1.6%	-2.8%	-10.0%	1.5%	2.3%	-0.5%	
<b>Qatar</b>	1.2%	0.8%	-2.6%	2.4%	3.6%	-0.2%	-0.3%
Oil GDP	-0.3%	-1.8%	1.3%	0.9%	2.1%	-0.9%	
Non-oil GDP	2.2%	2.4%	-5.0%	3.3%	4.6%	0.3%	
<b>Saudi Arabia*</b>	2.4%	0.3%	-4.1%	2.9%	4.0%	0.3%	0.0%
Oil GDP	3.1%	-3.6%	-7.2%	1.6%	4.8%	-1.7%	
Non-oil GDP	2.2%	3.3%	-2.0%	3.9%	3.6%	0.9%	
<b>United Arab Emirates</b>	1.2%	1.7%	-5.9%	3.1%	2.6%	1.8%	0.4%
Oil GDP	2.5%	3.4%	-6.2%	2.8%	2.8%	5.4%	
Non-oil GDP	0.7%	1.0%	-5.8%	3.2%	2.5%	0.2%	
<b>GCC Real GDP Growth</b>	1.9%	0.7%	-4.8%	2.7%	3.8%	0.4%	
Oil GDP	2.4%	-1.4%	-6.0%	1.6%	4.3%	0.4%	
Non-oil GDP	1.7%	2.4%	-3.9%	3.5%	3.4%	0.6%	
<b>MENA Real GDP Growth</b>	1.2%	0.8%	-3.4%	4.0%	3.7%	0.9%	

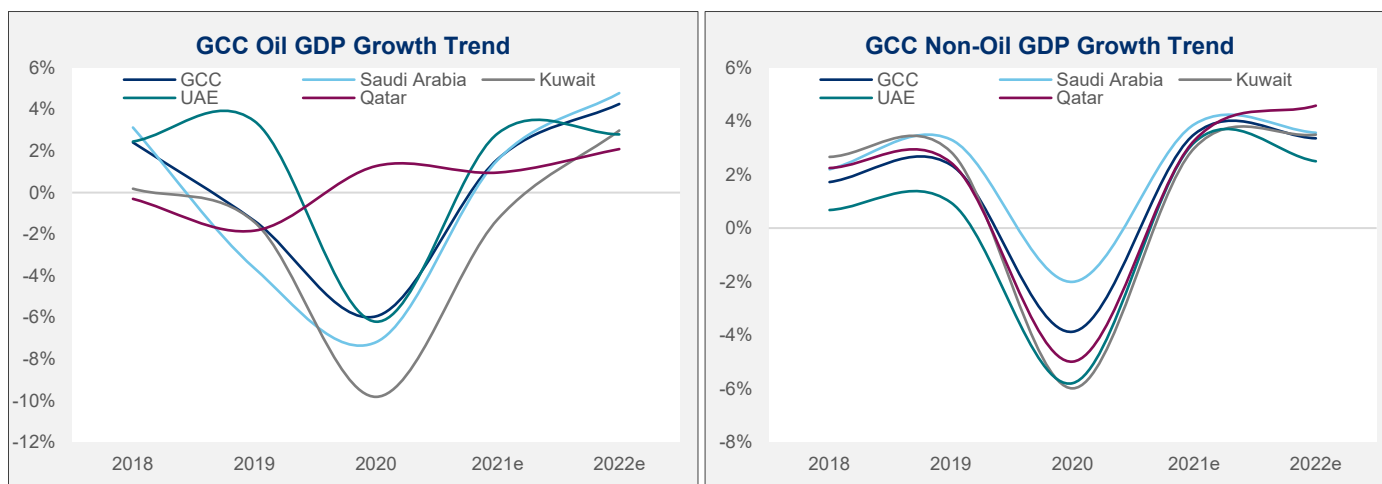
Sources : IMF REO Apr-2021. \* Saudi Arabia is compared with IMF's Jan-2021 forecasts

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### Oil GDP forecast raised to reflect higher production in 2021 and 2022...

The faster-than-expected recovery during 2H-2020 seen in the global economies is also reflected in estimates for the region. One of the key reasons was the recovery in oil prices led by improving demand outlook, as the bulk of the MENA economies are reliant on oil revenues, especially the GCC countries. The increase in oil price has prompted oil producers to pump more crude oil as seen from the recent announcement from the OPEC. The IMF has also forecasted a 0.7% increase in average crude production in the GCC in 2021 followed by a much bigger increase of 5.4% in 2022 indicating further easing of production curbs. As a result, oil GDP for the GCC region was revised up by 40 bps to an expected growth of 1.6% in 2021.



Source : IMF REO Apr-2021

After declining to multi-decade lows during 1H-2020, oil prices recovered during 2H-2020 but closed the years with average Brent crude prices declining by 34.7% at USD 42.0/b. The year 2021 has been promising with average prices for YTD-2021 up almost 50% at USD 61.1/b and median forecast as per consensus estimates is at USD 62.5/b. Higher prices were also seen in non-fuel commodities during 2H-2020 and the IMF expects food prices to remain elevated with nearly 14% increase expected in the IMF food price index in 2021.

### Elevated CPI for the MENA region in 2021 vs. GCC...

Price levels in the region is also expected to see divergent trends in the region and the gap between the overall MENA region and the GCC is expected to further widen in 2021. Core inflation for the MENA region for 2021 witnessed a steep revision from 8.9% expected in Oct-2020 to 13.1% in IMF's latest estimates. The GCC region on the other hand witnessed a downward revision from 2.2% to 2.1% and further down to 1.0% next year as compared to 8.6% expected for the MENA region. The broader consumer price inflation is also expected to see significant difference between the MENA and the GCC region. MENA CPI is expected to reach 12.8% in 2021 led by high single digit inflation in some of the larger economies in the region followed by a gradual easing to 8.6% in 2022 whereas GCC CPI is estimated at 2.7% and 1.9% for 2021 and 2022, respectively.

### Debt requirements may ease on higher oil prices...

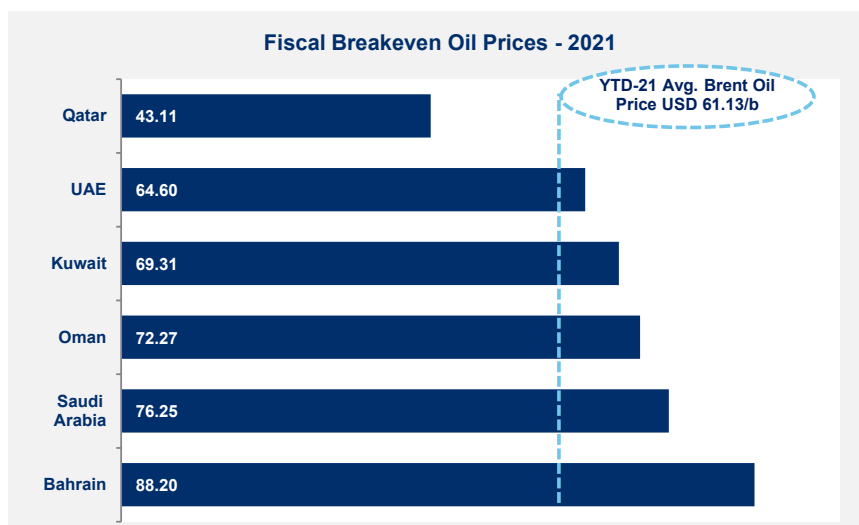
The IMF highlighted the rising levels of debt in the MENA region as the pandemic resulted in higher government debt. Financing needs increased in order to implement swift reforms as well as to offset the steep decline in revenues, especially for the oil exporters. These reforms were initially in the form of relaxations for government duties, loan moratoriums in collaboration with the banking sector in order to support the critical SME sector. According to the IMF, primary deficits widened in the MENA region by an average of 7% of GDP as in the post pandemic era vs. the pre-pandemic levels. Debt issued to support the deficits resulted in an average increase of 9 percentage points in the region's debt-to-GDP ratio. The favorable financing conditions in the regional and international markets and the continued requirement for spending are expected to result in elevated levels of debt issuances in the region in 2021 and 2022. However, we believe, that higher oil prices would lower financing requirements for oil exporters in the region and would offset the overall funding requirement for the MENA region.

Crude Oil Production (mb/d)	2019	2020	2021e	2022e
Saudi Arabia	9.81	9.22	9.24	9.80
Kuwait	2.70	2.43	2.40	2.47
UAE	3.06	2.78	2.86	2.96
Oman	0.97	0.95	0.96	1.11
Qatar	0.58	0.60	0.63	0.64
Bahrain	0.19	0.20	0.20	0.20
<b>GCC</b>	<b>17.31</b>	<b>16.17</b>	<b>16.29</b>	<b>17.17</b>

Source : IMF REO Apr-2021

### Breakeven oil price set to rise on higher spending in the GCC

The higher planned spending by the GCC governments is expected to result in higher breakeven oil prices for 2021. According to the IMF, barring Oman and the UAE, the rest of the GCC economies are expected to see elevated levels of fiscal breakeven oil prices. Oman's steep decline in breakeven oil price for 2021 from USD 109.5/b expected in Oct-2020 to USD 72.3/b in IMF's latest forecast came mainly on the back of several ambitious reforms implemented by the Sultanate over the last few months. These measures are mainly aimed at reducing the fiscal deficit to 1.7% of GDP by 2024 and includes reforms like gradual lifting of state subsidies on electricity and water until completely lifting by 2025, income tax on high earning individuals in 2022 and other sector specific plans. Bahrain is expected to see the highest breakeven oil prices in the region and needs a price of USD 88.2/b to balance its budget followed by Saudi Arabia at USD 76.25/b. Noticeably, only Qatar's breakeven oil price of USD 43.1/b for 2021 was below the current YTD-21 average oil price of around USD 61/b.



Source : IMF REO Apr-2021, EIA, Kamco Invest Research

### Fiscal deficits expected to come under control only gradually...

According to the IMF, fiscal deficit for the MENA region is expected to ease from 10.1% of GDP in 2020 to 5.8% of GDP in 2021 led by relatively lower Covid-19 related spending by the governments and higher revenues vs. 2020 as lockdowns and restrictions are expected to have relatively smaller impact.

General Government Fiscal Balance	Average	Actual			Projections	
Percent of GDP	2000–17	2018	2019	2020	2021e	2022e
Bahrain	-4.1%	-11.8%	-9.0%	-18.3%	-9.1%	-9.4%
Kuwait	24.4%	9.0%	4.4%	-9.4%	-6.8%	-4.5%
Oman	3.9%	-8.3%	-6.7%	-17.3%	-4.4%	-1.5%
Qatar	9.8%	5.9%	4.9%	1.3%	1.4%	7.3%
Saudi Arabia	3.7%	-5.9%	-4.5%	-11.1%	-3.8%	-2.5%
United Arab Emirates	5.6%	1.9%	0.6%	-7.4%	-1.3%	-1.1%
<b>GCC</b>	<b>6.8%</b>	<b>-1.6%</b>	<b>-1.6%</b>	<b>-9.2%</b>	<b>-3.0%</b>	<b>-1.4%</b>
<b>MENA</b>	<b>1.7%</b>	<b>-2.6%</b>	<b>-3.8%</b>	<b>-10.1%</b>	<b>-5.8%</b>	<b>-4.7%</b>
<b>Arab World</b>	<b>2.6%</b>	<b>-2.7%</b>	<b>-3.5%</b>	<b>-10.6%</b>	<b>-5.5%</b>	<b>-3.9%</b>

Source : IMF REO Apr-2021

The GCC region is expected to see a much better improvement although within the region there continues to be wide variations. Qatar on the other end is expected to continue to see higher surpluses of 1.4% in 2021 and 7.3% in 2022. For the overall GCC region, fiscal deficit is expected to contract to 3.0% of GDP in 2021 from 9.2% in 2020 and further improve to a deficit of 1.4% of GDP in 2022.

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