

Event Update - IMF Releases Regional Economic Outlook

April-2022

Higher oil prices to accelerate GCC GDP recovery in 2022...

In its latest Regional Economic Outlook for the Middle East and Central Asia region, the IMF highlighted improved prospects for the MENA region, especially the GCC countries. The IMF expects the recovery from COVID-19 induced economic challenges to continue to strengthen. That said, the pace of recovery has been disrupted by the Russia-Ukraine conflict that erupted during the end of February-2022.

Moreover, challenges like divergent economic recovery led by the pandemic and surging inflation that had reached unseen levels in advanced economies were already a concern even before the war. The Russia-Ukraine conflict unbalanced an already not fully recovered global and regional economy. In addition to the Russia-Ukraine conflict, China's constant battle to control COVID-19 and its use of stringent measures which include frequent lockdowns in important manufacturing centers has also affected global supply chain activity.

The IMF also underlined the large-scale dependence of countries in the region on imports and the impact of global food price increases, particularly wheat, which has been exacerbated by the Russia-Ukraine conflict. The agency also expects the region to suffer several other spillovers caused by the war such as tighter global financial conditions, reduced tourism and lower economic growth in Europe that might affect the demand for crude oil and hence affect prices of crude oil and refined products.

GDP growth in the MENA region is expected to average at 5% in 2022 witnessing a 90-bps uptick from the IMF's previous forecast. MENA growth in 2023 is expected to reach 3.6%. GCC growth witnessed an upward revision of 220 bps for 2022 to a growth of 6.4%. The IMF upgraded both the real oil GDP and the non-oil GDP of the GCC in its April-2022 Regional Economic Outlook due to higher-than-expected oil prices and successful mass volume vaccination campaigns. The upward revision for 2022 came mainly due to the higher growth forecasted for Saudi Arabia (+2.8%) coupled with other countries such as Kuwait (+3.9%) and Oman (+2.7%).

The IMF expects oil exporting countries in the region to fare better due to higher oil prices and higher oil production which is inline with OPEC+ agreement. However, inflation projections for oil exporting countries may vary. For the GCC countries inflation is forecasted to reach 3.1% witnessing an upgrade from 2.2% in 2021.

Country/Regions	Apr-2022 Updated Forecasts					IMF Revisions
Real GDP Growth	2019	2020	2021	2022e	2023e	2022e
Bahrain	2.2%	-4.9%	2.2%	3.3%	3.0%	0.1%
Oil GDP	2.2%	-0.1%	-0.3%	0.1%	0.1%	-0.3%
Non-oil GDP	2.2%	-6.0%	2.8%	4.0%	3.6%	0.3%
Kuwait	-0.6%	-8.9%	1.3%	8.2%	2.6%	3.9%
Oil GDP	-0.1%	-9.8%	-0.3%	12.0%	2.0%	0.0%
Non-oil GDP	-1.1%	-7.5%	3.4%	3.5%	3.5%	0.0%
Oman	-0.8%	-2.8%	2.0%	5.6%	2.7%	2.7%
Oil GDP	1.4%	-1.7%	2.2%	8.8%	2.9%	5.2%
Non-oil GDP	-2.8%	-3.9%	1.8%	2.6%	2.4%	0.3%
Qatar	0.7%	-3.6%	1.5%	3.4%	2.5%	-0.6%
Oil GDP	-1.7%	-2.0%	-0.3%	2.3%	1.9%	-0.5%
Non-oil GDP	2.2%	-4.5%	2.7%	4.1%	2.8%	-0.6%
Saudi Arabia*	0.3%	-4.1%	3.2%	7.6%	3.6%	2.8%
Oil GDP	-3.3%	-6.6%	0.2%	13.1%	3.3%	6.3%
Non-oil GDP	2.8%	-2.5%	4.9%	4.2%	3.8%	0.6%
United Arab Emirates	3.4%	-6.1%	2.3%	4.2%	3.8%	1.2%
Oil GDP	2.6%	-6.0%	0.0%	6.4%	4.0%	2.8%
Non-oil GDP	3.8%	-6.2%	3.2%	3.4%	3.7%	0.6%
GCC Real GDP Growth	1.0%	-4.8%	2.7%	6.4%	3.4%	2.2%
Oil GDP	-1.2%	-5.9%	0.2%	10.1%	3.2%	4.8%
Non-oil GDP	2.4%	-4.0%	4.0%	3.9%	3.6%	0.5%
MENA Real GDP Growth	1.7%	-3.3%	5.8%	5.0%	3.6%	0.9%

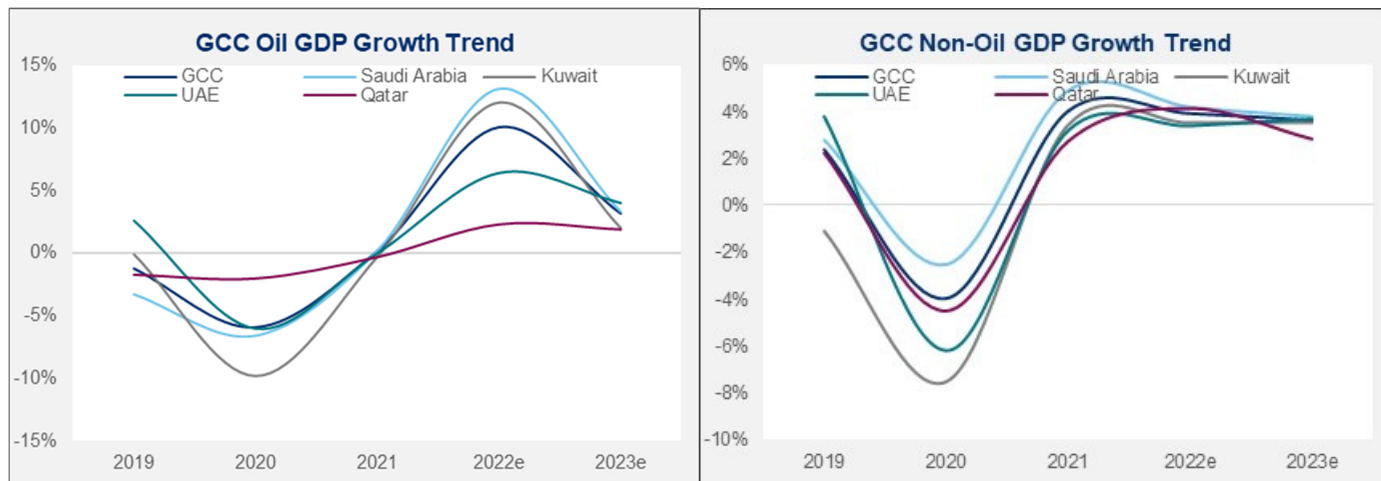
Sources : IMF REO April-2022

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Oil GDP growth drives growth into 2022...

Russia is a major supplier of oil and gas and the sanctions on its oil and gas exports by the US and the European Union due to Russia-Ukraine conflict has had a tumultuous effect on global energy markets entailing the main reason the IMF expects oil prices to remain high during 2022.



Source : IMF REO Apr-2022

The price of Brent crude oil has traded over USD 130/b levels during March-2022 mainly led by higher global demand for crude oil coupled with constrained supplies from OPEC+ and the US after Russia was sanctioned for the Russia-Ukraine conflict. In addition, the soaring oil prices have been accompanied by record high gas prices which has been driven by Russia-Ukraine war.

The IMF increased GCC oil GDP growth forecast by 480 bps for 2022 to 10.1% which is expected to fall back to 3.2% in 2023 indicating a gradual decline of higher base effect is expected in 2023. However, the revisions illustrated that the oil price levels would remain high as there is currently no expected quick solution which would bring the war into quick halt anytime soon. The IMF forecasts that GCC oil production would increase throughout 2022 and 2023 reaching 18.19 million barrels per day in 2022 and increasing to 18.83 million barrels per day in 2023 driven mainly by Saudi Arabia. In its April-2022 meeting the Organization of Petroleum Exporting (OPEC) reported a marginal increase in production during the month with higher output from Iraq and Saudi Arabia partially offset by a steep decline in output in Libya.

Crude Oil Production (mb/d)	2020	2021	2022e	2023e
Saudi Arabia	9.22	9.10	10.62	11.02
Kuwait	2.44	2.43	2.72	2.77
UAE	2.77	2.74	3.05	3.21
Oman	0.95	0.96	1.06	1.08
Qatar	0.55	0.55	0.55	0.55
Bahrain	0.19	0.19	0.19	0.19
GCC	16.12	15.97	18.19	18.83

Source : IMF REO Apr-2022

In terms of oil exports, the IMF forecasts oil exports in the GCC region to increase throughout 2022 and 2023 with total GCC oil exports reaching 14.23 million barrels per day and 14.83 million barrels per day respectively. These higher oil exports are expected to buoy GCC economies when oil prices gradually come down. According to Bloomberg consensus estimate, oil prices are expected to be at US 101.7/bbl in 2023 and USD 89.9/bbl in 2024.

The IMF underlined that recovery for the larger MENA region would be divergent defined by the war in Ukraine, potential of new pandemic waves and higher oil prices. Combined with the sanctions in Russia, the IMF underscores that the economic recovery in 2022 will face extra-ordinary challenges and uncertainties.

Continued Higher CPI may derail recovery for the MENA region...

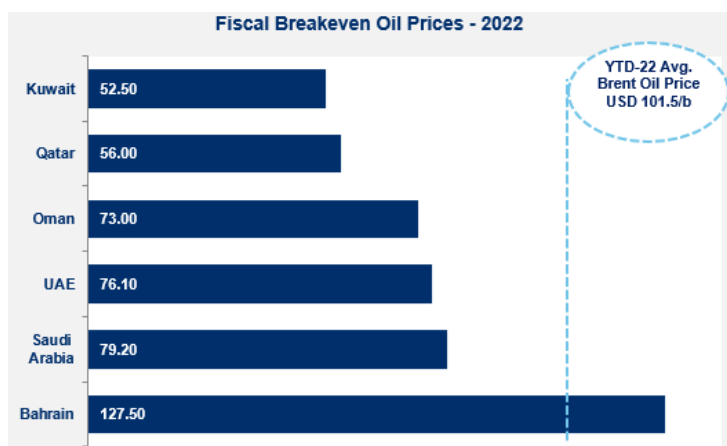
Inflation is one of the key concerns highlighted by the IMF in its recent reports. The IMF underscored that external factors have been the major driver of inflation in the MENA region. One of the main external factors that is affecting inflation is the international food prices crisis which have had a pass-through impact on domestic inflation changes in most countries of the world. Another important driver of inflation in the region and throughout the world has been the supply chain disruptions. The interconnectedness of global supply chains meant that rising prices of one good or item can have the similar effect on other items or goods.

However, inflation outlooks differ across MENA countries including oil exporters. GCC Consumer Price Inflation is expected to remain relatively below global inflation and reach 3.1% in 2022 and 2.3% in 2023. Comparatively, the IMF expects MENA CPI to reach 13.9% in 2022 and 10.4% in 2023. This is due to the lower weight of food in CPI baskets of the Gulf Cooperation Countries vs MENA countries. The IMF forecasts Saudi Arabia's CPI to reach 2.5% in 2022 and 2% in 2023 as compared to

3.1% in 2021. Comparatively, CPI in Kuwait is forecasted to reach 4.8% in 2022 and 2.3% in 2023 as compared to 3.4% in 2021.

Higher oil price gives additional fiscal space to GCC countries...

Fiscal breakeven oil prices have seen a y-o-y decline in three out of six GCC countries but the increase in UAE was significant. Breakeven oil price for the UAE has increased from USD 69.2/b for 2021 to USD 76/b in 2022. Moreover, the recent increase in oil prices provides a much need support on the fiscal front. With oil prices of around USD 105/b, only Bahrain has a breakeven oil price above the current oil price at USD 127.5/b. On the other hand, Kuwait overtook Qatar as the country with the lowest breakeven oil price in 2022 at USD 52.5/b followed by Qatar and Oman at USD 56/b and USD 73/b, respectively. Comparatively, the average price of Brent spot crude stood at USD 101.5/b during YTD-2022.



Source : IMF REO Apr-2022, EIA, Kamco Invest Research

Fiscal surplus expected to improve on higher oil prices and stronger economic growth...

According to the IMF, fiscal deficit for the MENA region is forecasted to improve from a deficit of 3% of GDP in 2021 to a surplus of 1.4% of GDP in 2022 led by continuing economic recovery, soaring oil prices, withdrawal of subsidies and policy support measures and the easing of the Covid-19 restrictions. The region is forecasted to see a fiscal surplus of 7.3% of GDP in 2022 as compared to 1.1% contraction in 2021. The IMF expects all the six GCC countries' fiscal balance to improve in 2022. Barring Bahrain which is forecasted to witness a deficit (-3.3% in 2022 as compared to -11.1% in 2021). Kuwait is forecasted to witness 16.6% improvement in its general government fiscal balance in 2022, the biggest fiscal surplus among the GCC countries, followed by Qatar and the UAE which are projected to witness a fiscal surplus of 8.5% and 8.1% during 2022 respectively.

General Government Fiscal Balance	Average	Actual			Projections	
Percent of GDP	2000–18	2019	2020	2021	2022e	2023e
Bahrain	-4.5%	-9.0%	-17.9%	-11.1%	-3.3%	-4.6%
Kuwait	23.2%	3.1%	-12.8%	-0.5%	16.6%	18.3%
Oman	3.1%	-5.6%	-16.5%	-2.5%	5.6%	6.3%
Qatar	9.5%	4.6%	1.0%	4.1%	8.5%	11.8%
Saudi Arabia	3.4%	-4.4%	-11.3%	-2.4%	5.5%	4.7%
United Arab Emirates	5.4%	0.4%	-5.2%	0.3%	8.1%	6.9%
GCC	6.4%	-1.8%	-9.0%	-1.1%	7.3%	7.1%
MENA	1.6%	-3.0%	-7.9%	-3.0%	1.4%	0.1%
Arab World	2.4%	-2.6%	-9.0%	-2.3%	4.1%	3.6%

Source : IMF REO Apr-2022

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