Event Update - IMF Releases Regional Economic Outlook

October-2021

Lower oil output to affect GCC GDP recovery in 2021…

In its latest Regional Economic Outlook for the Middle East and Central Asia region, the IMF highlighted the divergent economic recovery across the region from the Covid-19 pandemic mainly led by differing vaccination rates. ***While acknowledging the good progress made since the beginning of 2021, the IMF highlighted some new challenges facing the region. In addition, the increase in cases recently due to the new variant has affected the region differently in terms of infection and death rates depending on vaccination percentages.*** *The situation is further exacerbated by challenges like rising inflation due to supply shortages and higher commodity prices. This has shrunk the monetary policy space for certain economies over and above the limited fiscal policy space.* ***The corporate sector is also facing the heat in terms of higher debt and labor markets. That said, the hope of better vaccination is expected to result in faster growth in 2022.***

GDP growth in the MENA region is expected to average at 4.1% in 2021 in line with the IMF's previous forecast. Growth in 2022 is also expected to reach 4.1%, 40 bps higher as compared to previous expectations. GCC growth witnessed a downward revision of 20 bps for 2021 to a growth of 2.5% but a faster recovery in 2022 is expected to push growth to 4.2%, 40 bps higher than previous forecast. *The downward revision for 2021 came mainly on the back of lowered forecast for oil GDP for the region by 130 bps to a marginal growth of 0.3% whereas non-oil GDP forecast was raised by 30 bps to 3.8%.*

In terms of trade volumes, the report said that merchandise trade has recovered to pre-pandemic levels. However, the services sector is yet to recover as seen in hotel demand that has although recovered, it is yet to see full revival. ***Exports of goods and services from the MENA region is expected to see a sharp recovery this year with a growth of 31.7%, but would be slightly below 2019 levels at USD 1.24 Trillion as compared to USD 1.29 Trillion in 2019 and USD 940.7 Bn in 2020. In 2022, growth is expected to be 7.8%, pushing exports to above pre-pandemic level at USD 1.34 Trillion. Imports are also expected to see similar growth this year and next year at 12.7% and 7.5%, respectively.*** *As a result, current account balance is expected to be positive this year and next year after turning negative in 2020.*

Country/Regions	Oct-2021 Updated Forecasts					IMF Revisions	
Real GDP Growth	2018	2019	2020	2021e	2022e	2021e	2022e
Bahrain	**1.7%**	**2.6%**	**-5.1%**	**2.4%**	**3.1%**	**-0.9%**	**0.0%**
Oil GDP	-1.3%	2.2%	-0.1%	0.0%	0.4%	-0.7%	**-0.3%**
Non-oil GDP	2.4%	2.0%	-5.5%	3.0%	3.7%	-0.9%	**0.0%**
Kuwait	**2.4%**	**-0.6%**	**-8.9%**	**0.9%**	**4.3%**	**0.2%**	**1.1%**
Oil GDP	2.1%	-0.1%	-9.8%	-0.6%	5.0%	**0.7%**	**2.0%**
Non-oil GDP	2.9%	-1.1%	-7.5%	3.0%	3.5%	0.0%	**0.0%**
Oman	**0.9%**	**-0.8%**	**-2.8%**	**2.5%**	**2.9%**	**0.7%**	**-4.5%**
Oil GDP	4.0%	1.4%	-1.7%	3.5%	3.6%	1.5%	**-9.0%**
Non-oil GDP	-1.6%	-2.8%	-3.9%	1.5%	2.3%	0.0%	**0.0%**
Qatar	**1.2%**	**0.8%**	**-3.6%**	**1.9%**	**4.0%**	**-0.5%**	**0.4%**
Oil GDP	-0.3%	-1.8%	-2.1%	1.9%	2.8%	1.0%	**0.7%**
Non-oil GDP	2.2%	2.4%	-4.5%	2.0%	4.7%	-1.3%	**0.1%**
Saudi Arabia*	**2.4%**	**0.3%**	**-4.1%**	**2.8%**	**4.8%**	**-0.1%**	**0.8%**
Oil GDP	3.1%	-3.6%	-6.7%	0.1%	6.8%	-1.5%	**2.0%**
Non-oil GDP	2.2%	3.3%	-2.3%	4.7%	3.6%	0.8%	**0.0%**
United Arab Emirates	**1.2%**	**3.4%**	**-6.1%**	**2.2%**	**3.0%**	**-0.9%**	**0.4%**
Oil GDP	2.5%	2.6%	-6.0%	0.0%	3.6%	-2.8%	**0.8%**
Non-oil GDP	0.7%	3.8%	-6.2%	3.2%	2.8%	0.0%	**0.3%**
GCC Real GDP Growth	**2.0%**	**1.0%**	**-4.8%**	**2.5%**	**4.2%**	**-0.2%**	**0.4%**
Oil GDP	2.5%	-1.5%	-5.9%	0.3%	5.3%	-1.3%	1.0%
Non-oil GDP	1.7%	2.7%	-3.9%	3.8%	3.4%	0.3%	0.0%
MENA Real GDP Growth	**1.4%**	**1.0%**	**-3.2%**	**4.1%**	**4.1%**	**0.1%**	**0.4%**

Sources : IMF REO October-2021

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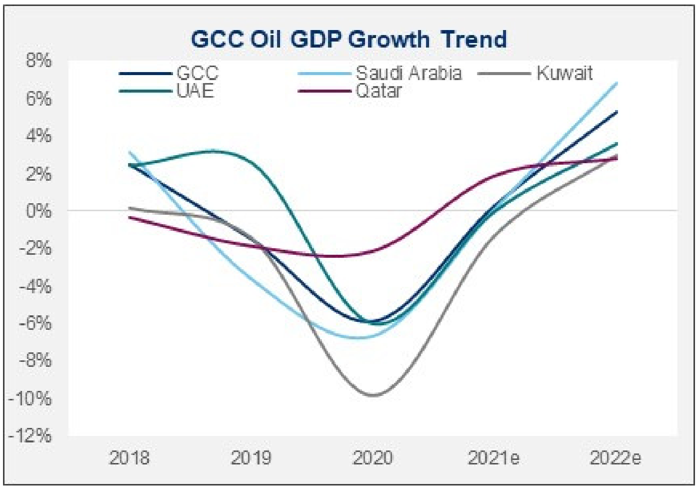
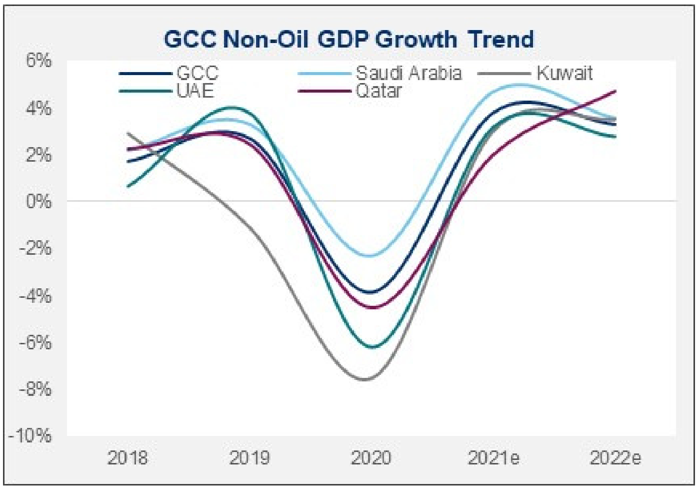
Oil GDP growth pushed out further into 2022…

Oil prices traded at 7-year highs recently with Brent crude trading over USD 85/b levels mainly led by higher global demand for crude oil coupled with constrained supplies from OPEC+ and the US. In addition, the record high natural gas prices in some key markets in Europe coupled with a shortage of coal for electricity generation has forced electricity companies to look for other options to fuel the plants. Diesel oil one such alternative and that is in high demand recently that has further supported the increase in oil prices globally.





Source : IMF REO Oct-2021

However, the IMF slashed GCC oil GDP growth forecast by 130 bps for 2021 to 0.3% and raised 2022 growth forecast by 110 bps, indicating a delayed recovery for the region. The revisions indicated that an increase in OPEC production will be pushed to next year. This was also evident in the lowered oil production forecast for the GCC countries from 16.29 mb/d in the previous forecast to 15.97 mb/d in the October-2021 forecast. For 2022, the IMF once again lowered oil production forecast to 17.08 mb/d as compared to its previous forecast of 17.17 mb/d. However, higher average oil prices in 2022 is expected to more than offset the estimated decline in production resulting in a faster growth in nominal GDP. In addition, the low base effect also plays a role in positive revision of GDP growth in 2022.

Crude Oil Production (mb/d)	2019	2020	2021e	2022e
Saudi Arabia	9.81	9.22	9.10	9.91
Kuwait	2.70	2.43	2.42	2.54
UAE	3.06	2.79	2.74	2.87
Oman	0.97	0.95	0.96	1.01
Qatar	0.58	0.53	0.55	0.56
Bahrain	0.19	0.19	0.19	0.19
GCC	**17.31**	**16.10**	**15.97**	**17.08**

Source : IMF REO Oct-2021

The IMF highlighted that recovery for the larger MENA region would be defined by the convergence of five factors that includes rate of vaccination, policy space depending on the level of debt and inflation, dependence on tourism, oil market and political and humanitarian challenges. On the policy front, the IMF also underlined the regulatory efforts in the GCC countries that helped to sustain economic momentum that included credit subsidies, credit guarantees and loan repayment deferrals and the government guarantee program for bank loans and SMEs in Kuwait.

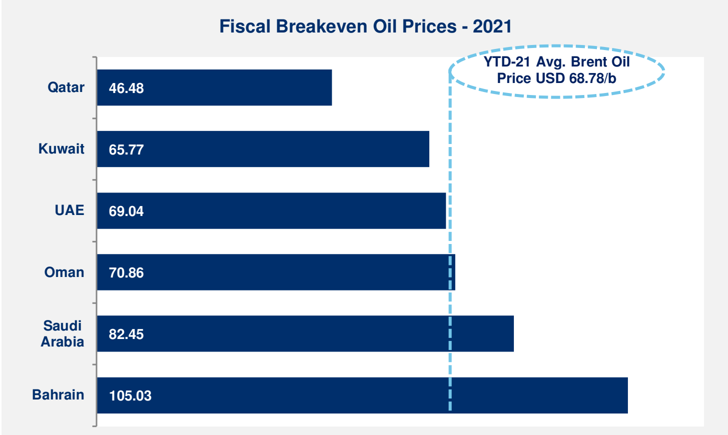
Continued Elevated CPI for the MENA region in 2021 vs. GCC…

Inflation is one of the key concerns highlighted by the IMF in its recent reports. With consistently high inflation rates led by multi-year high commodity prices as well as record low interest rates, the IMF suggested central banks to be cautious when it comes to raising rates so as to avoid any disruption to economic growth. However, inflationary pressure is consistently different for different markets depending on how the regulators are managing prices. Core inflation for the MENA region for 2021 witnessed was revised upwards from 12.8% forecasted in Apr-2021 to 13.1% in IMF's latest estimates. The GCC region on the other hand witnessed a downward revision from 2.7% to 2.0% and further down to 1.0% next year as compared to 7.9% expected for the MENA region. The broader consumer price inflation is also expected to see significant difference between the MENA and the GCC region.

Breakeven oil price mixed among GCC countries…

The projects market in the GCC has witnessed a decline as compared to the end of last year mainly led by project completions. On the other hand, new project awards are mainly in Saudi Arabia, according to data from MEED Projects, while most of the other GCC countries have seen a decline in new project awards during Q3-2021. Nevertheless, the government continues to play an active role in the project market and as a result, fiscal breakeven oil prices have seen an increase for the bulk of the GCC countries despite active and increasing participation from the private sector in the form of PPP projects. Only

Kuwait and Oman are expected to see lower breakeven oil prices this year as compared to previous estimates while the forecast for the rest of the GCC countries has been revised upwards. The change in expectations for 2022 are almost similar to that in 2021 with higher breakeven oil prices across the board, barring Oman. However, the recent increase in oil prices provides a much need support on the fiscal front. With oil prices of around USD 85/b, only Bahrain has a breakeven oil price above the current oil price at USD 105.0/b. Qatar continues to boast the lowest breakeven oil price this year at USD 46.5/b followed by Kuwait and UAE at USD 65.8/b and USD 69.0/b, respectively. Comparatively, the average price of Brent spot crude stood at USD 68.8/b during YTD-2021.



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

Corporate profit recovery driven by exposure to vulnerable sectors...

The IMF highlighted that corporates in the MENA region entered the pandemic with already high leverage and pressure in terms of growth, profitability and liquidity. These issues were exacerbated by the pandemic. As the pandemic receded, the recovery process was swift for the overall region but varied across companies. According to the IMF, corporate profits reached pre-pandemic levels during Q1-2021 but showed widening divergence across different sectors. Surprisingly, the recovery in oil exporting countries (primarily GCC countries) lagged that oil importers. The key reason was that revenues for corporates in the former contracted 50% less than in oil importing countries. Moreover, oil exporting countries have 20% more companies in sectors that were severely affected by the pandemic as compared to companies in oil importing countries. Our data on corporate profits for the GCC region showed Q2-2021 profits reaching USD 45.0 Bn as compared to USD 38.2 Bn in Q2-2021 and USD 14.2 Bn in Q2-2020.

Fiscal deficits expected to decline on easing of economic restrictions...

According to the IMF, fiscal deficit for the MENA region is forecasted to decline from 8.3% of GDP in 2020 to 4.5% of GDP in 2021 led by continuing economic recovery, higher oil prices, withdrawal of subsidies and policy support measures and the easing of the Covid-19 restrictions. The GCC region is expected to see a faster improvement, although there continues to be wide variations within the region. Qatar, the only GCC country projected for fiscal surplus, is expected to continue to see higher surpluses of 2.8% in 2021 and 5.7% in 2022. For the overall GCC region, fiscal deficit is expected to contract to 1.8% of GDP in 2021 from 8.8% in 2020 and further improve to -0.4% in 2022. However, the IMF warned that although fiscal deficits as percentage of GDP are expected to decrease compared to the high numbers they touched in 2020, they will likely remain greater than precrisis levels for the medium term.

General Government Fiscal Balance	Average	Actual			Projections	
Percent of GDP	2000–17	2018	2019	2020	2021e	2022e
Bahrain	-4.1%	-11.8%	-9.0%	-17.9%	-8.0%	-8.0%
Kuwait	24.4%	9.2%	5.0%	-8.3%	-1.5%	1.0%
Oman	3.7%	-7.7%	-5.6%	-18.7%	-2.6%	1.1%
Qatar	9.8%	5.9%	4.9%	1.3%	2.8%	5.7%
Saudi Arabia	3.7%	-5.9%	-4.5%	-11.3%	-3.1%	-1.8%
United Arab Emirates	5.6%	1.9%	0.6%	-5.6%	-0.5%	-0.2%
GCC	**6.8%**	**-1.5%**	**-1.5%**	**-8.8%**	**-1.8%**	**-0.4%**
MENA	**1.8%**	**-2.1%**	**-3.2%**	**-8.3%**	**-4.5%**	**-3.9%**
Arab World	**2.6%**	**-2.1%**	**-2.8%**	**-9.2%**	**-3.7%**	**-2.6%**

Source : IMF REO Oct-2021

The current account balance for the GCC countries is expected to be supported by higher oil prices that would strengthen the external position of the region from a surplus of 5.8% of GDP in 2019 followed by a deficit of 0.4% of GDP in 2020 to a surplus of 6.0% of GDP in 2021.

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