Event Update - IMF Releases Regional Economic Outlook

October-2022

High oil prices shelter GCC countries from mounting economic challenges…

In its latest outlook for the MENA region, the IMF highlighted the divergent trends and the varying impact of higher inflation, stronger USD and higher global commodity prices on oil importers and oil exporters in the region. ***While high commodity and fuel prices are increasing fiscal pressures at the regional level, the space for policy maneuvers have shrunk post the pandemic. That said, the IMF highlighted the progress made since the last commodity price surge in responding to these challenges, particularly the relatively limited subsidy this time after several reforms.*** *And once again, the current scenario presents an opportunity for oil exporters to build buffers and enhance their diversification plans.*

The IMF also underscored the weakening of the global economy and the rising risk of recession as other threats facing countries in the MENA region. Furthermore, the continuing Russia-Ukraine conflict, the cost-of-living crisis due rising inflation and the economic slowdown in China were also highlighted. ***The IMF also emphasized that rising benchmark rates and the tightening of global financial situation as another major economic headache facing the countries in the Middle East and Central Asia region. The coordinated increase of interest rates by most central banks in the world in order to fight inflation has tightened global financial conditions more sharply than expected.*** *This is expected to limit the access to global debt markets for some countries in the region and hence exacerbate their response to rein in inflation.*

The IMF's MENA GDP growth forecast remains unchanged from April-2022 at 5% in 2022 up from 4.1% in 2021. ***For oil exporting countries in the region the combination of persistently elevated oil prices and strong non-oil economic growth are counteracting the negative economic impact of elevated food prices and rising interest rates. Moreover, the region's oil exporting countries are expected to gain from increased trade with Europe, as European countries look non-Russian energy exporters to fill the gap in energy imports caused by reduced Russian energy exports to Europe. The IMF penciled GCC real GDP to grow at 6.5% (+0.1% up from its April-2022 forecast) in 2022 and 3.6% in 2023. Moreover, the IMF projects real oil GDP growth to increase 10.5% in 2022 and 3.6% in 2023. The IMF projects global oil prices to average USD 98.2 per barrel for 2022 a 41.2% higher than oil price average of 2021.***

Country/Regions	Oct-2022 Updated Forecasts					IMF Revisions	
Real GDP Growth	2019	2020	2021	2022e	2023e	2022e	2023e
Bahrain	**2.2%**	**-4.9%**	**2.2%**	**3.4%**	**3.0%**	**0.1%**	**0.0%**
Oil GDP	2.2%	-0.1%	-0.3%	0.5%	0.1%	0.4%	0.0%
Non-oil GDP	2.2%	-6.0%	2.8%	4.0%	3.6%	0.0%	0.0%
Kuwait	**-0.6%**	**-8.9%**	**1.3%**	**8.7%**	**2.6%**	**0.5%**	**0.0%**
Oil GDP	-0.1%	-9.8%	-0.3%	12.4%	2.0%	0.4%	0.0%
Non-oil GDP	-1.1%	-7.5%	3.4%	3.9%	3.4%	0.4%	-0.1%
Oman	**-1.1%**	**-3.2%**	**3.0%**	**4.4%**	**4.1%**	**-1.2%**	**1.4%**
Oil GDP	-1.5%	-0.9%	3.7%	8.5%	6.4%	-0.3%	3.5%
Non-oil GDP	-0.9%	-4.5%	1.8%	2.6%	2.6%	0.0%	0.2%
Qatar	**0.7%**	**-3.6%**	**1.6%**	**3.4%**	**2.4%**	**0.0%**	**-0.1%**
Oil GDP	-1.7%	-2.0%	-0.3%	2.3%	1.9%	0.0%	0.0%
Non-oil GDP	2.2%	-4.5%	2.8%	4.0%	2.7%	-0.1%	-0.1%
Saudi Arabia*	**0.3%**	**-4.1%**	**3.2%**	**7.6%**	**3.7%**	**0.0%**	**0.1%**
Oil GDP	-3.3%	-6.6%	0.2%	13.1%	3.3%	0.0%	0.0%
Non-oil GDP	2.8%	-2.5%	4.9%	4.2%	3.8%	0.0%	0.0%
United Arab Emirates	**3.4%**	**-4.8%**	**3.8%**	**5.1%**	**4.2%**	**0.9%**	**0.4%**
Oil GDP	2.6%	-6.1%	-0.1%	8.1%	5.0%	1.7%	1.0%
Non-oil GDP	3.8%	-4.3%	5.3%	4.0%	3.9%	0.6%	0.2%
GCC Real GDP Growth	**1.0%**	**-4.5%**	**3.1%**	**6.5%**	**3.6%**	**0.1%**	**0.2%**
Oil GDP	-1.4%	-5.9%	0.2%	10.5%	3.6%	0.4%	0.4%
Non-oil GDP	2.5%	-3.6%	4.5%	4.0%	3.7%	0.1%	0.1%
MENA Real GDP Growth	**1.0%**	**-3.1%**	**4.1%**	**5.0%**	**3.6%**	**0.0%**	**0.0%**

Sources : IMF REO October-2022

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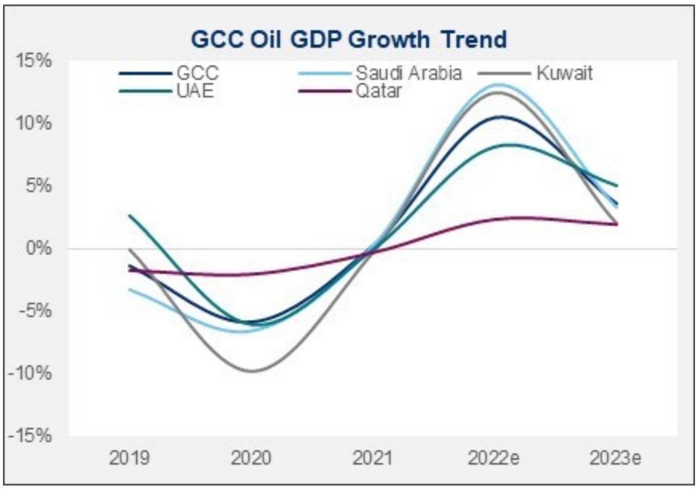
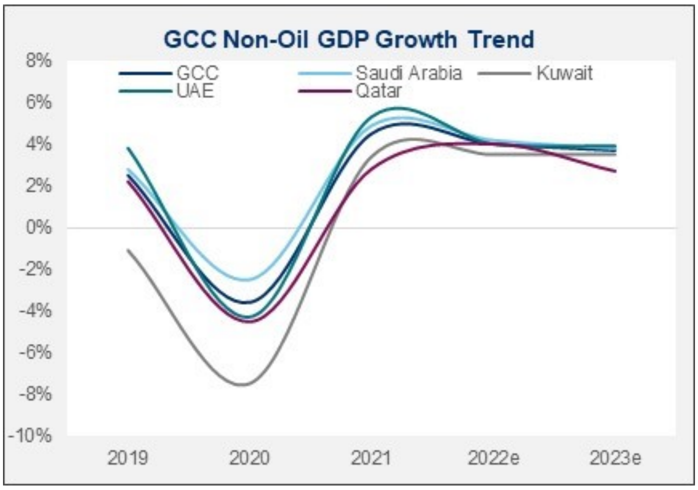
Oil GDP upgraded following higher production; non-oil GDP also revised up marginally

The ongoing sanctions on Russian oil exports due to the continuing Russia-Ukraine conflict have more than offset the impact of falling oil demand due to the slowdown in the global economy. The IMF expects oil prices to be elevated for the rest of 2022 providing buffer from inflation and economic slowdown for oil exporting countries in the MENA region. As a result of higher demand and consistent increase in oil production by the GCC countries until October-2022, the IMF increased GCC oil GDP growth forecast by 40 bps for 2022 to 10.5% which is expected to fall back to 3.6% in 2023 indicating a gradual decline due to a higher base. The revision for 2022 reflected higher average crude oil production in the GCC vs. the IMF's previous forecast. The agency forecasts that GCC oil production would increase throughout 2022 and 2023 reaching 18.24 million barrels per day in 2022 further increasing to 18.93 million barrels per day in 2023 driven mainly by Saudi Arabia, Kuwait, Oman and the UAE. Natural gas production in Qatar is also forecasted to increase from 4.56 mb/d equivalent in 2021 to 4.7 mb/d in 2022 and further high to 4.82 mb/d in 2023.





Source : IMF REO Oct-2022

Saudi Arabia is expected to lead in the GCC in terms of oil GDP growth that is expected at 13.1% in 2022 followed by Kuwait with an expected growth of 12.4%. Oman and UAE are expected to be next with oil-GDP growth of 8.5% and 8.1%, respectively.

In terms of non-oil GDP, the GCC region is expected to clock a relatively slower growth rate of 4.0% in 2022 followed by 3.7% in 2023 following a marginal upward revision of 10 bps for both the years. Saudi Arabia is once again expected to lead in terms of non-oil GDP growth of around 4.2% in 2022, in line with previous forecast, followed by Bahrain and Qatar and the UAE with growth rates of 4.0% each this year.

Crude Oil Production (mb/d)	2020	2021	2022e	2023e
Saudi Arabia	9.22	9.10	10.62	11.02
Kuwait	2.44	2.43	2.73	2.78
UAE	2.77	2.74	3.08	3.25
Oman	0.95	0.97	1.06	1.13
Qatar	0.55	0.55	0.55	0.55
Bahrain	0.19	0.19	0.19	0.19
GCC	**16.12**	**15.98**	**18.24**	**18.93**

Source : IMF REO Oct-2022

GCC inflation still under control led by proactive policies and subsidies

Decades high inflation was seen across the globe and the MENA region was no exception with headline inflation averaging at 15.1% in the region as of July-2022. Prices are expected to remain elevated for the rest of the year and expected to come in at 12.1% in MENA (excluding Sudan) for 2022, 110 bps above the forecast in April-2022. Inflation for 2023 was also revised up by 260 bps and is expected to average at 11.2%. The revisions mainly reflected delayed effects of higher food prices and exchange rate depreciations in some cases along with inflationary pressures. Core inflation, on the other hand is expected to be lower than headline inflation, indicating a relatively lower impact of food and energy prices for the MENA region vs. global averages. Core inflation is expected to reach 14.3% in 2022 followed by a slight decline to 13.7% in 2023. A better harvest season in some MENA economies and food subsidies are some of the key reasons for the relatively lower core inflation.

For the GCC, headline inflation is expected to be much lower as compared to global trends as well as vs. the broader MENA region. The IMF expects GCC inflation of 3.6% in 2022 followed by a policy supportive 2.6% in 2023. Core inflation for the GCC is expected to be significantly lower at 1.5% in 2022 followed by 2.5% in 2023. Recent monthly inflation data released by Saudi Arabia showed an increase of 3.1% in Septtember-2022, the highest y-o-y increase since June-2021. Food and Beverages and Transport groups were the key drivers behind the CPI uptick witnessing an increase of 4.3% and 3.8% respectively. In the case of Kuwait, inflation was recorded at 4.1% during August-2022 mainly driven by the education price index followed by F&B index.

The inflation trend in Kuwait has been gradually receding since April-2022 when y-o-y monthly inflation stood at 4.7% led by declines by the Food & Beverages and Clothing & Footwear groups. Qatar's inflation rate hit the highest rate in nine months after it increased by 6.0% y-o-y during September-2022 mainly driven by the Recreation and Culture sector which registered 35.6% y-o-y rise during September-2022 as the country makes final preparations to host the FIFA World Cup.

Fiscal surpluses eyed in the GCC after seven years; Kuwait to lead with a surplus of 14.1% of GDP in 2022

On the fiscal front, there is good news for oil exporters in the region mainly led by the elevated crude oil prices globally. The IMF expects energy exports in the Middle East and Central Asia region to earn a total additional benefit of about USD 1 Trillion over 2022-2026. The IMF estimates that the GCC countries are expected to see a significantly higher savings rate and may save about a third of their oil revenues. This is reflected in the average current account surplus for the GCC which is estimated to be in double digits in 2022 and 2023 at 16.7% and 13.7% of the GDP, 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%	-4.7%	-6.0%
Kuwait	23.2%	2.9%	-12.9%	-0.4%	14.1%	14.1%
Oman	2.8%	-4.8%	-16.1%	-3.2%	5.5%	2.3%
Qatar	9.6%	4.9%	1.3%	4.4%	12.5%	16.0%
Saudi Arabia	3.4%	-4.4%	-11.2%	-2.3%	5.5%	3.9%
United Arab Emirates	5.4%	0.4%	-5.2%	2.1%	7.7%	4.9%
GCC	**6.4%**	**-1.7%**	**-8.9%**	**-0.6%**	**7.3%**	**6.0%**
MENA	**1.8%**	**-3.1%**	**-8.2%**	**-3.0%**	**0.7%**	**-0.7%**
Arab World	**2.6%**	**-2.8%**	**-9.1%**	**-2.3%**	**3.5%**	**2.5%**

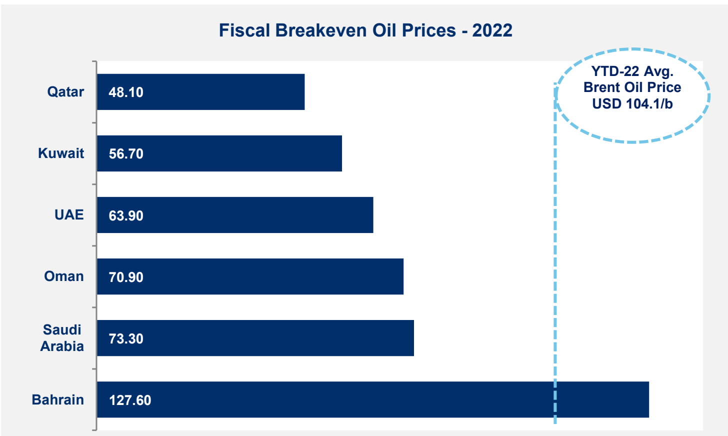
Source : IMF REO Oct-2022

For the broader MENA region, fiscal balance is expected to be positive for the first time in eight years in 2022, albeit marginally at 0.7% of GDP. However, in 2023, the IMF expects the MENA fiscal balance to turn once again negative at -0.7% of GDP. The fiscal balance in the GCC is also expected to turn positive after seven years in 2022 at 7.3% of GDP followed by 6.0% of GDP in 2023. The last time the GCC aggregate fiscal balance was positive was in 2014, the year that saw the rout in oil prices, at 3.1% of GDP. That said, there continues to be wide divergence at the country level in the GCC. Kuwait is expected to post the biggest fiscal surplus in the GCC this year at 14.1% of GDP followed by 12.5% of GDP for Qatar. Saudi Arabia, Oman and the UAE are expected to post mid-single digit surpluses ranging from 5.5% to 7.7% of GDP in 2022 while Bahrain is expected to remain in the red with a fiscal deficit of 4.7% of GDP in 2022. The divergence is expected to continue in 2023 with Bahrain once again expected to post a higher fiscal deficit of 6.0% of GDP, while on the other hand, Qatar is expected to lead next year with a fiscal surplus of 16.0% of GDP followed by Kuwait at 14.1% and UAE at 4.9%.

Higher oil revenues and relatively lower spending reflected in a y-o-y drop in breakeven oil prices…

The increase in oil revenues this year vs. last year has given a big boost to the GCC governments on the fiscal front. The relatively higher revenues vs. continued spending by GCC governments has resulted in a decline in fiscal breakeven oil prices in all the GCC countries, barring the UAE, for 2022. On the spending side, however, the projects market in the GCC has remained muted over the last few quarters with a steep decline in quarterly contract awards seen during Q3-2022 led by mounting global economic challenges and fears of an impending recession. The total value of contracts awarded in the GCC during 9M-2022 declined by 26.2% to USD 53.0 Bn, down from USD 71.7 Bn in 9M-2021.

At the country level, barring Kuwait and Bahrain, the breakeven oil prices for 2022 witnessed a downward revision for the rest of the GCC countries in IMF's latest report vs. their projections in April-2022. Moreover, with current oil prices of around USD 95/b, only Bahrain has a 2022 breakeven oil price above the current oil price at USD 127.6.0/b. Qatar continues to boast the lowest breakeven oil price this year at USD 48.1/b followed by Kuwait and UAE at USD 56.7/b and USD 63.9/b, respectively. Comparatively, the average price of Brent spot crude stood at USD 104.1/b during YTD-2022.



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

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