Event Update - IMF Releases 2017 Regional Economic Outlook

October-2017

GCC non-oil economy to stay resilient in 2018

GCC GDP growth for 2017 and 2018 to be lower: Detailed estimates released in IMF's Regional Economic Outlook for the Middle East & Central Asia forecast GCC real GDP to grow by 0.5% in 2017 and 2.2% in 2018, which is 40 bps and 30 bps lower respectively, than forecasted in April-17. Economic growth in the GCC region is projected to be relatively slower than earlier forecasted, following the extension on the agreement of the oil production cuts, and spillovers from the oil market that continue to weigh on non-oil economic growth.

Non-oil economy growth within the GCC to stay resilient in 2018: Oil GDP in the GCC is expected to contract by 2.3% in 2017, but grow by 1.9% in 2018, even as both estimates were lowered from IMF's April-17 estimates. Non-oil economic growth for the region also witnessed downward revisions, but is expected to be more resilient than oil-GDP, and come in at 2.6% and 2.4% for 2017 and 2018 respectively, despite the impact of ongoing fiscal consolidation.

Kuwait's fiscal breakeven oil price lowest in the GCC: The IMF estimates Kuwait's fiscal breakeven oil price to be the lowest in the GCC for 2017 (USD 46.5/bbl) and 2018 (47.1/bbl), Lower required fiscal breakeven oil prices would provide more flexibility to gradually ease fiscal consolidation measures. Qatar followed with slightly higher fiscal breakeven oil price estimates for each of the years, while the oil price needed for Saudi Arabia's fiscal breakeven was lowered by USD 10.7/bbl for 2017 (USD 73.1/bbl)and USD 4.4/bbl for 2018 (USD 70/bbl).

Ongoing fiscal consolidation in the GCC to lead to more gradual non-oil economic growth: Qatar's non-oil economic growth is forecasted to grow at the fastest pace in the region over 2017 (4.6%) and 2018 (4.7%). Kuwait's non-oil economy followed with growth estimated to come in at 3.5% each for both years. Nevertheless for the GCC region, the IMF estimates non-oil growth to moderate to 3.4% in 2022. KAMCO Research remains positive on the fiscal consolidation plans in the GCC, and its impact on medium and long term non-oil growth, while supply-side developments in the oil market in the short term is expected to lead to a revision in oil-GDP growth estimates for the region.

	Actual			Projections		Revisions by IMF	
Real GDP Growth	**2014**	**2015**	**2016**	**2017**	**2018**	**2017**	**2018**
Percentage Growth							
Bahrain	4.4%	2.9%	3.0%	2.5%	1.7%	0.2%	0.1%
Oil GDP	3.0%	-0.1%	-0.1%	-0.3%	0.0%	0.3%	0.0%
Non-oil GDP	4.7%	3.6%	3.7%	3.1%	2.1%	0.2%	0.1%
Kuwait	0.6%	2.1%	2.5%	-2.1%	4.1%	-1.9%	0.6%
Oil GDP	-2.1%	1.1%	2.0%	-6.0%	4.6%	-3.1%	1.1%
Non-oil GDP	5.0%	3.5%	3.2%	3.5%	3.5%	0.0%	0.0%
Oman	2.5%	4.2%	3.0%	0.0%	3.7%	-0.4%	-0.1%
Oil GDP	-1.7%	4.2%	2.6%	-2.8%	4.0%	-0.8%	-0.2%
Non-oil GDP	6.7%	4.2%	3.4%	2.5%	3.5%	0.0%	0.0%
Qatar	4.0%	3.6%	2.2%	2.5%	3.1%	-0.9%	0.3%
Oil GDP	-0.6%	-0.5%	-1.0%	0.4%	1.4%	-0.7%	1.2%
Non-oil GDP	9.8%	8.2%	5.6%	4.6%	4.7%	-1.1%	-0.6%
Saudi Arabia	3.7%	4.1%	1.7%	0.1%	1.1%	0.0%	0.0%
Oil GDP	2.1%	5.3%	3.8%	-1.9%	0.9%	0.0%	-0.1%
Non-oil GDP	4.9%	3.2%	0.2%	1.7%	1.3%	-0.4%	-0.3%
United Arab Emirates	3.3%	3.8%	3.0%	1.3%	3.4%	-0.2%	-1.0%
Oil GDP	0.4%	5.4%	3.8%	-1.9%	0.9%	1.8%	-5.3%
Non-oil GDP	4.6%	3.2%	2.7%	3.3%	3.4%	-0.5%	-0.2%
GCC Real GDP Growth	3.3%	3.8%	2.2%	0.5%	2.2%	-0.4%	-0.3%
Oil GDP	0.9%	4.2%	3.0%	-2.3%	1.9%	-0.3%	-0.5%
Non-oil GDP	5.4%	3.8%	1.8%	2.6%	2.4%	-0.4%	-0.3%
MENA	2.6%	2.6%	5.1%	2.2%	3.2%	-0.1%	0.0%
Arab World	2.5%	3.4%	3.3%	2.0%	3.1%	0.0%	0.2%

Source: International Monetary Fund (IMF) Regional Economic Outlook - Oct 2017, Saudi Arabia Real GDP change is as compared to IMF WEO Jul-17

Faisal Hasan, CFA
Head - Investment Research
+(965) 2233 6907
faisal.hasan@kamconline.com

Thomas Mathew
Assistant Vice President
+(965) 2233 6914
thomas.mathew@kamconline.com

GCC Oil Production				
	Actual		Projections	
Crude Oil Production	2015	2016	2017	2018
Millions of barrels per day				
Saudi Arabia	10.19	10.46	10.02	10.10
Kuwait	2.86	2.95	2.71	2.83
UAE	2.88	3.03	2.88	2.99
Oman	0.98	1.01	0.97	1.01
Qatar	0.64	0.65	0.61	0.65
Bahrain	0.20	0.20	0.20	0.20
GCC	**17.75**	**18.30**	**17.39**	**17.78**

Source: IMF REO Oct-2017, KAMCO Research

GCC Oil Exports				
	Actual		Projections	
Crude Oil Exports	2015	2016	2017	2018
Millions of barrels per day				
Bahrain	0.15	0.15	0.15	0.15
Kuwait	1.97	2.01	1.71	1.79
Oman	0.85	0.88	0.85	0.82
Qatar	0.56	0.57	0.54	0.57
Saudi Arabia	7.16	7.48	7.11	7.11
United Arab Emirates	2.44	2.44	2.43	2.62
GCC	**13.13**	**13.54**	**12.80**	**13.07**

Source: IMF REO Oct-2017, KAMCO Research

Oil production target for 2017 revised lower on production cuts agreement extension; 2018 still shows partial lift-off

Oil production estimates for the GCC was lowered by the IMF for 2017 and 2018, and also represent a decline compared from 2016 (18.30 mb/d), ascribed to the agreement to cut production by oil exporters. Production for 2017 is now expected to drop to 17.39 mb/d from the earlier estimate of 17.66 mb/d for. Key driver for the reduction in production forecasts is the extension of production cuts until March-2018. The production estimate for 2018 at 17.78 mb/d represents an increase compared to the 2017 estimate, and we believe this is still factoring in production levels being pushed back up to some extent next year, albeit during the latter part of the year. However market participants and the rising oil prices seem to be pricing in an extension of production cuts until end 2018 in our view, and this would also translate into a revision of oil GDP growth forecasts for 2018. GCC oil exports also followed a similar trend and are projected to be lower than expected in April -17. Oil exports from the region were brought down from 12.81 mb/d to 12.80 mb/d for 2017. Export estimates for 2018 was however increased from 13.01 mb/d to 13.37 mb/d in 2018, likely taking into account the higher production volumes that would have to be exported.

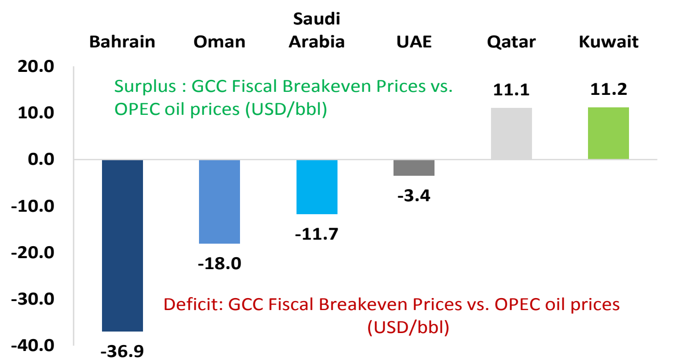
Kuwait and Qatar breakeven oil prices well below current prevailing oil prices

In terms of the breakeven oil prices required for GCC countries to balance their fiscal budgets, based on current prevailing price of oil, barring Kuwait and Qatar, all countries have a higher breakeven oil prices. As per our analysis of IMF data for 2018, the gap between prevailing oil prices (approximately USD 58/bbl) and budgeted breakeven oil prices is estimated to be largest for Bahrain and Oman at around USD 36-37/bbl and USD 18/bbl, respectively. Kuwait and Qatar have lower breakeven oil prices and possess a cushion of around USD 11/bbl based on current oil prices to balance their fiscal budgets, according to our estimates. Nevertheless it should be noted that the breakeven oil prices needed by GCC countries to balance their budget have all come down as compared to previous estimates, for both 2017 and 2018, barring Oman in 2017, which goes on to show that fiscal prudence and expenditure optimization are starting to aid GCC countries.

GCC- Fiscal Breakeven Oil Prices					
	Actual			Projections	
Breakeven Oil Prices	2014	2015	2016	2017	2018
USD per barrel					
Bahrain	103.3	118.7	105.7	99.0	95.2
Kuwait	54.5	47.2	43.1	46.5	47.1
Oman	94.0	101.9	88.9	83.6	76.3
Qatar	56.1	50.9	50.0	46.8	47.2
Saudi Arabia	105.0	94.0	96.6	73.1	70.0
UAE	91.0	64.7	60.7	68.0	61.7

Source: IMF REO Oct -2017, KAMCO Research

2018 breakeven oil prices to current OPEC oil price spread



Source: Bloomberg, IMF REO Oct -2017, KAMCO Research, oil prices as of 31st Oct 2017

Fiscal maneuverability to improve in 2017 & 2018

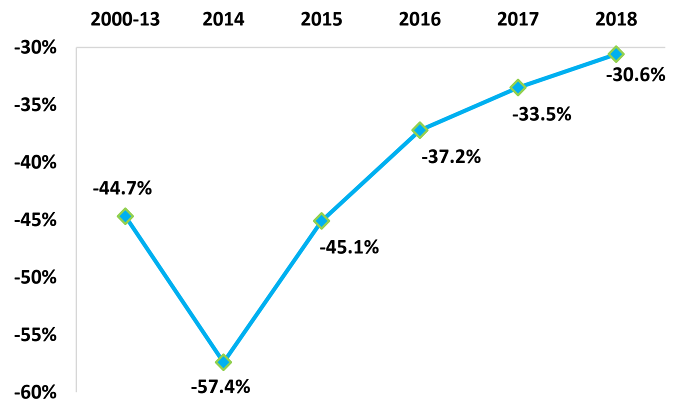
The most recent estimates of the fiscal balance to GDP ratio for the GCC region shows improvement from earlier estimates for 2017, but a marginal deterioration in 2018. The fiscal deficit for the region is expected to be 6.3%% of 2017 GDP, lower than the 6.5% deficit of GDP estimated in IMF's previous update. However, the deficit is expected to be 5.0% of GDP in 2018, as compared to the earlier estimate of 4.0% of GDP. respective years.

General Government Fiscal Balance						
	Average	Actual			Projections	
	2000–13	2014	2015	2015	2017	2018
Percent of GDP						
Bahrain	-0.9%	-1.6%	-18.4%	-17.8%	-13.2%	-11.9%
Kuwait	28.8%	22.3%	5.8%	0.3%	1.5%	1.5%
Oman	8.6%	-1.1%	-15.7%	-21.6%	-13.0%	-11.4%
Qatar	10.3%	15.3%	5.6%	-3.9%	-1.0%	0.5%
Saudi Arabia	8.0%	-3.4%	-15.8%	-17.2%	-8.6%	-7.2%
United Arab Emirates	7.7%	1.9%	-3.4%	-4.1%	-3.7%	-2.2%
GCC	**10.0%**	**2.1%**	**-9.2%**	**-11.9%**	**-6.3%**	**-5.0%**
MENA	**3.2%**	**-2.9%**	**-9.1%**	**-10.0%**	**-5.7%**	**-4.5%**
Arab World	**3.6%**	**-3.3%**	**-10.7%**	**-11.8%**	**-6.6%**	**-5.1%**

Source: IMF REO Oct -2017

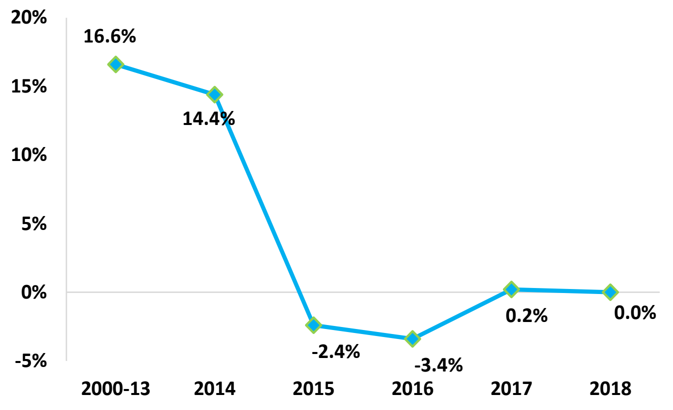
Kuwait is expected to report a fiscal surplus, and the country's fiscal surplus for 2017 and 2018 is expected to come in at 1.5% of GDP estimates for the respective years. Saudi Arabia on the other hand is forecasted to report a fiscal deficit amounting to 8.6% and 7.2% of 2017 and 2018 GDP respectively. To understand the impact of past measures in boosting the non-oil sector in the GCC, we looked at the non-oil fiscal balances data of the region published by IMF over the long term, which included forecasts for the current year and the next year. Data suggested that the non-oil fiscal deficit to non-oil GDP ratio worsened from the average estimate of 2000-2013 until 2014 from 44.7% to 57.4% of non-oil GDP. Nevertheless, deficit reduction measures in the region brought down the deficit figure in the non-oil sector to 37.2% of non-oil GDP in 2016. The IMF further estimates the average non-oil deficit to fall 30.8% of non-oil GDP by 2018. The current account surplus estimate for 2017 for the GCC is now pegged at 0.2% of GDP as against 1.8% of GDP estimated in IMF's previous update from April-17. The lower current account forecast is likely ascribed to a lower USD forecast for the year than earlier expected, in our view, as exports for the region are higher than imports, and are largely USD denominated. Nevertheless, current account trends are expected to show improvement from 2015 (-2.4% of GDP) and 2016 (-3.4% of GDP).

GCC Non-Oil Fiscal Balance (% of non-oil GDP)



Source: IMF REO Oct -2017, KAMCO Research

GCC Current Account % of GDP trends



Source: IMF REO Oct -2017, KAMCO Research

Fiscal consolidation and reforms to continue in 2018

Though fiscal balances and non-oil fiscal balances in the GCC are expected to improvement sequentially over 2017 and 2018 as per IMF, fiscal consolidation will need to continue to push medium term non-oil economic growth higher. The improvement of fiscal frameworks and the development of related institutions are positive in our view, and would be helpful in steering through fiscal readjustment, ascertaining funding sources, and providing appropriate responses and support to unforeseen and short-term negative surprises to sources of growth.

Disclaimer & Important Disclosures

KAMCO** is authorized and fully regulated by the Capital Markets Authority ("**CMA, Kuwait**") and partially regulated by the Central Bank of Kuwait **("CBK")

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest , legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, KAMCO did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

Analyst Certification
Each of the analysts identified in this report certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

KAMCO Ratings
KAMCO investment research is based on the analysis of regional and country economics, industries and company fundamentals. KAMCO company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

* ***Outperform:** Target Price represents expected returns >= 10% in the next 12 months*
* ***Neutral:** Target Price represents expected returns between -10% and +10% in the next 12 months*
* ***Underperform:** Target Price represents an expected return of <-10% in the next 12 months*

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. KAMCO policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by KAMCO's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to KAMCO clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by KAMCO and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. KAMCO has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which KAMCO is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

KAMCO Investment Company (DIFC) Limited ("KAMCO DIFC") is regulated by the Dubai Financial Services Authority (DFSA). KAMCO DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.'

Risk Warnings
Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

Conflict of Interest
KAMCO and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of KAMCO may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. KAMCO may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other KAMCO business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of KAMCO's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

No Liability & Warranty
KAMCO makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. KAMCO will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.

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