# Event Update - IMF Releases 2018 Regional Economic Outlook

May-2018

## IMF forecasts GCC real GDP growth of 1.9% for 2018 and 2.6% for 2019

Detailed estimates released in IMF's Regional Economic Outlook for the MENA, Afghanistan and Pakistan region forecast GCC real GDP to grow by 1.9% in 2018 and 2.6% in 2019. In the update, 2018 GDP growth was brought down by 30bps, while 2019 estimates for the region was newly published. For 2017, real GDP growth for the GCC region fell by 0.2% y-o-y, as real oil GDP was down 2.8% y-o-y from OPEC oil production cuts.

## Non-oil GDP growth for 2019 kept stable; oil-GDP factors in partial production resumption

For 2018, barring Bahrain and Saudi Arabia, all other GCC countries saw negative revisions to real GDP growth and GDP growth constituents. Growth in Bahrain is expected to be driven by non-oil GDP (+3.6%), benefitted by expected completion of investment projects, while the impact of fiscal adjustment on Saudi Arabia's growth is estimated to be less severe than estimated before. In 2019, IMF expects non-oil GDP growth for the region to stay stable at 2.7%, while the oil-GDP growth estimate of 2.2% y-o-y factors in higher oil production sequentially in 2019. Qatar's non-oil economic growth is forecasted to grow faster than the rest of the region over 2018 and 2019 clocking a GDP growth of 4.1% y-o-y for each year.

## Higher oil price environment allows to focus on sustainable medium term initiatives

Finer details from IMF's regional economic outlook confirms our view that initiatives to bolster the GCC non-oil economy would continue, but be less synchronized than the previous years, as individual GCC countries are likely to use different fiscal tools to shore up their state finances. KAMCO Research sees the backdrop of higher oil prices to give GCC countries more headroom in terms of their ongoing fiscal consolidation plans and managing their current accounts balances. OPEC production cuts, other oil-related supply side factors, and a pickup in global trade have had the desired outcome on oil prices. While this is the case, we believe GCC countries could utilize current conditions to expedite their diversification plans, and push their individual fiscal consolidation plans targeting both additional revenues and expense optimization going forward, to ensure sustainable non-oil economic growth.

| | Actual | | Projections | | IMF Revisions - |
|---|---|---|---|---|---|
| **Real GDP Growth** | **2016** | **2017** | **2018** | **2019** | **2018** |
| *Percentage Growth* | | | | | |
| **Bahrain** | 3.2% | 3.2% | 3.0% | 2.3% | 1.3% |
| *Oil GDP* | -0.1% | -2.2% | 0.3% | 0.0% | 0.3% |
| *Non-oil GDP* | 4.0% | 4.4% | 3.6% | 2.8% | 1.5% |
| **Kuwait** | 2.2% | -2.5% | 1.3% | 3.8% | -2.8% |
| *Oil GDP* | 2.3% | -6.0% | 0.0% | 4.5% | -4.6% |
| *Non-oil GDP* | 2.0% | 2.5% | 3.0% | 3.0% | -0.5% |
| **Oman** | 1.8% | -0.3% | 2.1% | 4.2% | -1.6% |
| *Oil GDP* | 2.1% | -2.8% | 1.0% | 5.0% | -3.0% |
| *Non-oil GDP* | 1.5% | 2.0% | 3.0% | 3.5% | -0.5% |
| **Qatar** | 2.2% | 2.1% | 2.6% | 2.7% | -0.5% |
| *Oil GDP* | -1.0% | 0.2% | 1.0% | 1.2% | -0.4% |
| *Non-oil GDP* | 5.6% | 4.0% | 4.1% | 4.1% | -0.6% |
| **Saudi Arabia** | 1.7% | -0.7% | 1.7% | 1.9% | 0.1% |
| *Oil GDP* | 3.6% | -3.0% | 0.9% | 1.7% | 0.0% |
| *Non-oil GDP* | 0.2% | 1.0% | 2.3% | 2.1% | 1.0% |
| **United Arab Emirates** | 3.0% | 0.5% | 2.0% | 3.0% | -1.4% |
| *Oil GDP* | 3.8% | -2.5% | 0.0% | 2.4% | -0.9% |
| *Non-oil GDP* | 2.7% | 1.9% | 2.8% | 3.3% | -0.6% |
| **GCC Real GDP Growth** | 2.1% | -0.2% | 1.9% | 2.6% | -0.3% |
| *Oil GDP* | 2.9% | -2.8% | 0.6% | 2.2% | -1.3% |
| *Non-oil GDP* | 1.6% | 1.8% | 2.7% | 2.7% | 0.3% |
| **MENA** | 4.9% | 2.2% | 3.2% | 3.6% | -0.2% |

*Source: IMF, KAMCO Research*

*Source: International Monetary Fund (IMF) Regional Economic Outlook - May 2018*

**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 | 2016 | 2017 | 2018 | 2019 |
| *Millions of barrels per day* | | | | |
| Saudi Arabia | 10.46 | 10.01 | 10.05 | 10.15 |
| Kuwait | 2.95 | 2.71 | 2.71 | 2.83 |
| UAE | 3.03 | 2.93 | 2.93 | 3.02 |
| Oman | 1.01 | 0.97 | 0.97 | 1.02 |
| Qatar | 0.65 | 0.61 | 0.61 | 0.62 |
| Bahrain | 0.20 | 0.20 | 0.20 | 0.20 |
| **GCC** | **18.30** | **17.43** | **17.47** | **17.83** |

*Source: IMF REO May-2018*

| GCC Oil Exports | | | | |
|---|---|---|---|---|
| | Actual | | Projections | |
| Crude Oil Exports | 2016 | 2017 | 2018 | 2019 |
| *Millions of barrels per day* | | | | |
| Bahrain | 0.15 | 0.15 | 0.15 | 0.15 |
| Kuwait | 2.01 | 1.71 | 1.66 | 1.74 |
| Oman | 0.88 | 0.85 | 0.78 | 0.83 |
| Qatar | 0.57 | 0.54 | 0.54 | 0.54 |
| Saudi Arabia | 7.48 | 7.11 | 7.06 | 7.06 |
| United Arab Emirates | 2.44 | 2.50 | 2.35 | 2.60 |
| **GCC** | **13.54** | **12.87** | **12.55** | **12.93** |

*Source: IMF REO May-2018*

### *Oil production target for 2018 revised lower on higher compliance of production cuts from Saudi Arabia*

The oil production estimate for the GCC was lowered by the IMF for 2018, but the projection represents a marginal increase from 2017 (17.43 mb/d), ascribed to a marginal production increase from Saudi Arabia (34.8 tb/d) in 2018. Production for 2018 is now expected to be 17.47 mb/d, from the Oct-17 estimate of 17.78 mb/d, as the extension of oil production cuts was announced post Oct-17. The production estimate for 2019 (17.83 mb/d) represents an increase compared to the 2018, as the forecast is factoring in oil production levels being pushed back up to some extent next year from an expiration of the OPEC production cut agreement. However, an extension of production cuts into 2019 is still being analyzed by various market participants with no outright consensus currently, firming of which would lead to a revision of oil GDP growth forecasts for 2019. GCC oil exports also followed a similar trend and are projected to be lower than expected in Oct-17. Oil exports from the region were brought down from 13.07 mb/d to 12.55 mb/d for 2018. The export estimate for 2019 was increased sequentially to 12.93 mb/d, likely considering the higher production volumes.

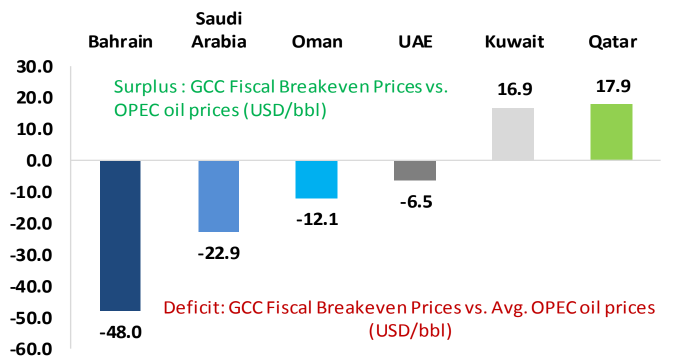
### *Qatar and Kuwait breakeven oil prices well below current prevailing oil prices*

In terms of the breakeven oil prices required for GCC countries to balance their fiscal budgets, based on average oil prices seen in 2018 YTD (USD 65/bbl), barring Qatar and Kuwait, all countries have a higher breakeven oil prices. As per our analysis of IMF data for 2018, the spread between average oil prices and budgeted breakeven oil prices is estimated to be largest for Bahrain and Saudi Arabia at around USD 48/bbl and USD 22.9/bbl, respectively. Qatar and Kuwait have lower breakeven oil prices when compared to average oil prices YTD, and possess a cushion of around USD 17.9/bbl and USD 16.9/bbl to balance their 2018 fiscal budgets currently, according to our estimates. It should be noted that barring Qatar, the breakeven oil prices needed by all other GCC countries to balance their budget have been pushed up since IMF's Oct-17 update for 2018. Nevertheless all breakeven oil prices were either brought down or kept stable for 2019, which shows the impact of prior initiatives implemented so far, and the ongoing focus on fiscal prudence and expenditure optimization by GCC countries.

| GCC- Fiscal Breakeven Oil Prices | | | | |
|---|---|---|---|---|
| | Actual | | Projections | |
| Breakeven Oil Prices | 2016 | 2017 | 2018 | 2019 |
| *USD per barrel* | | | | |
| Bahrain | 106.9 | 116.2 | 113.0 | 110.6 |
| Kuwait | 43.0 | 46.9 | 48.1 | 48.1 |
| Oman | 101.7 | 80.5 | 77.1 | 71.7 |
| Qatar | 52.9 | 48.3 | 47.1 | 44.5 |
| Saudi Arabia | 96.6 | 82.6 | 87.9 | 77.9 |
| UAE | 54.4 | 62.4 | 71.5 | 64.8 |

*Source: IMF REO May-2018*

**2018 breakeven oil prices vs. average 2018 OPEC oil prices**




*Source: Bloomberg, IMF REO May-2018, KAMCO Research, oil prices average until May 2018*

### *Fiscal balances to improve in 2018 & 2019 in GDP terms*

The IMF reduced the fiscal deficit of the GCC for 2018 to -3.6% of GDP from their Oct-17 estimate (-5.0% of GDP). Further the newly released 2019 estimate shows an improvement to -2.2% of GDP. In GDP terms, Kuwait is expected to report the largest fiscal surplus for 2018 and 2019 at 7.0% and 6.1% of GDP, respectively, and remains the only GCC country to report a fiscal surplus in 2018.

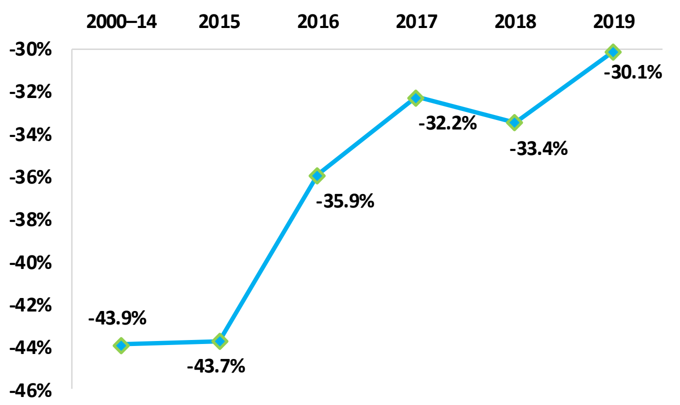
## General Government Fiscal Balance

| | Average | Actual | | | Projections | |
|---|---|---|---|---|---|---|
| | 2000–14 | 2015 | 2016 | 2017 | 2018 | 2019 |
| *Percent of GDP* | | | | | | |
| Bahrain | -0.9% | -18.4% | -17.9% | -15.1% | -11.6% | -11.6% |
| Kuwait | 28.4% | 5.6% | 0.6% | 3.9% | 7.0% | 6.1% |
| Oman | 8.0% | -15.9% | -21.3% | -11.4% | -5.7% | -4.9% |
| Qatar | 9.4% | 1.3% | -9.3% | -6.0% | -1.4% | 3.4% |
| Saudi Arabia | 7.3% | -15.8% | -17.2% | -9.0% | -7.3% | -5.6% |
| United Arab Emirates | 0.1% | -0.5% | -0.5% | -0.3% | -0.1% | 0.0% |
| **GCC** | **8.3%** | **-8.2%** | **-10.8%** | **-5.6%** | **-3.6%** | **-2.2%** |
| **MENA** | **3.2%** | **-8.0%** | **-9.4%** | **-5.2%** | **-3.8%** | **-3.0%** |
| **Arab World** | **3.4%** | **-9.0%** | **-10.7%** | **-5.7%** | **-4.2%** | **-3.0%** |

*Source: IMF REO May 2018*

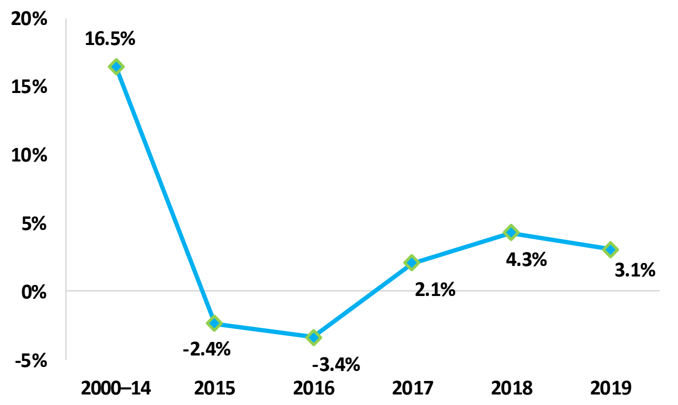
For 2019, apart from Kuwait, Qatar is expected to report a fiscal surplus which amounts to 3.4% of GDP, as per the IMF. To understand the impact of past measures in boosting the non-oil sector in the GCC, we looked at the non-oil fiscal balances data of the region published by IMF over the long term, which included forecasts for the current year and the next year. IMF data suggests that deficit reduction measures in the region brought down the non-oil fiscal deficit to non-oil GDP ratio from 43.9% over 2000-2014 to 32.2% in 2017. The IMF further estimates the non-oil deficit to non-oil GDP ratio of the region to fall to 30.1% by 2019.

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




*Source: IMF REO May-2018*

### GCC Current Account % of GDP trends




*Source: IMF REO May-2018*

### *Current account balance for 2019 factors in partial liftoff of production cuts and lower oil prices*

The current account surplus estimate for 2018 for the GCC is now pegged at 4.3% of GDP as against a neutral current account estimated in IMF's previous update from Oct-17, as higher oil prices are expected to result in better current account balances in the GCC. For 2019, the current account surplus for the region was brought down to 3.1% of GDP, which in our view factors in lower oil prices given that IMF factors in a partial resumption of oil production to levels witnessed prior to the OPEC production cut agreement.

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**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