

## Event Update - IMF Releases Regional Economic Outlook

October-2020

### GCC to see steeper real GDP decline in 2020 led mainly by oil...

The social and financial impact of the Covid-19 pandemic resulted in record decline in economic activity across the globe since Q2-2020. However, the faster-than-expected reopening of economies supported a quicker recovery in some economies resulting in lower decline in GDP rates this year. **This was true with the MENA region which is now expected to see a smaller-than-expected decline of 5.0% in 2020 as compared to a slightly bigger decline of 5.7% expected in IMF's June-2020 forecasts.**

**The better-than-expected growth in MENA comes primarily on the back of higher growth in Egypt that is now expected to see a higher positive growth in real GDP during 2020 at 3.5% as compared to 2.0% growth expected in April-2020.** The performance of Egypt highlights the benefits of lower reliance on oil revenues, a diversified economy and the benefits of higher and generous cash transfers during the pandemic to contain the negative impact on the economy and to enable the end-consumers with higher spending power.

**Estimates for the GCC countries was lowered from the previous forecast by 330 bps and real GDP for the region is now expected to decline by 6.0% in 2020. The decline in nominal GDP is expected to be even bigger at -15% to reach USD 1.39 Trillion in 2020 and recover 7.0% in 2021 to reach USD 1.48 Trillion.** Real GDP declines in the GCC was steepened for all the countries except for Saudi Arabia, which saw an upward revision of 140 bps. **The worsening of the growth rates highlighted impact on several fronts including lower oil prices, lower oil revenues as well as lower demand for oil globally. Non-oil sector was also severely hit as the economies came to a standstill during the lockdowns.**

That said, lower spending as compared to the overall emerging market universe resulted in a smaller impact on the fiscal front. For the overall Middle East and Central Asia region, fiscal packages to deal with covid-19 stood at 2% of the GDP as compared to 3% for emerging market and developing economies globally. Although there were wide variations in spending with some of the GCC countries expected to have spent a much larger amount, especially when it came to supporting SMEs. In addition, record bond issuances over the last few months and a rebound in oil prices partially supported on the fiscal front.

Country/Regions	Oct-2020 Updated Forecasts				IMF Revisions	
Real GDP Growth	2018	2019	2020e	2021e	2020e	2021e
<b>Bahrain</b>	1.8%	1.8%	-4.9%	2.3%	-1.3%	-0.7%
Oil GDP	-1.3%	2.2%	0.0%	1.2%	0.0%	0.1%
Non-oil GDP	2.5%	1.7%	-6.0%	2.5%	-1.9%	-0.9%
<b>Kuwait</b>	1.2%	0.4%	-8.1%	0.6%	-7.0%	-2.8%
Oil GDP	0.2%	-1.4%	-8.9%	-1.3%	-8.9%	-4.3%
Non-oil GDP	2.7%	2.8%	-7.0%	3.0%	-4.5%	-1.0%
<b>Oman</b>	0.9%	-0.8%	-10.0%	-0.5%	-7.2%	-3.5%
Oil GDP	4.0%	1.4%	-12.2%	-3.5%	-11.8%	-8.6%
Non-oil GDP	-1.6%	-2.8%	-8.0%	2.0%	-3.0%	1.0%
<b>Qatar</b>	1.2%	0.8%	-4.5%	2.5%	-0.2%	-2.5%
Oil GDP	-0.3%	-1.8%	-2.5%	1.8%	0.0%	0.0%
Non-oil GDP	2.2%	2.4%	-5.7%	3.0%	0.2%	-2.1%
<b>Saudi Arabia*</b>	2.4%	0.3%	-5.4%	3.1%	1.4%	0.0%
Oil GDP	3.1%	-3.6%	-6.1%	3.3%	-6.1%	0.0%
Non-oil GDP	2.2%	3.3%	-5.0%	3.0%	-1.0%	0.3%
<b>United Arab Emirates</b>	1.2%	1.7%	-6.6%	1.3%	-3.1%	-2.0%
Oil GDP	2.5%	3.4%	-6.3%	-2.5%	-6.3%	-4.2%
Non-oil GDP	0.7%	1.0%	-6.7%	3.0%	-1.7%	-1.0%
<b>GCC Real GDP Growth</b>	1.9%	0.7%	-6.0%	2.3%	-3.3%	-1.0%
Oil GDP	2.4%	-1.4%	-6.2%	1.2%	-5.9%	-2.0%
Non-oil GDP	1.7%	2.4%	-5.7%	2.9%	-1.4%	-0.3%
<b>MENA Real GDP Growth*</b>	1.2%	0.8%	-5.0%	3.2%	0.7%	-0.5%

Sources : IMF REO Oct-2020. \* - Saudi Arabia and MENA growth are compared with IMF's June-2020 forecasts.

#### Junaid Ansari

Vice President

+(965) 2233 6912

[jansari@kamcoinvest.com](mailto:jansari@kamcoinvest.com)

#### Mohamed Ali Omar

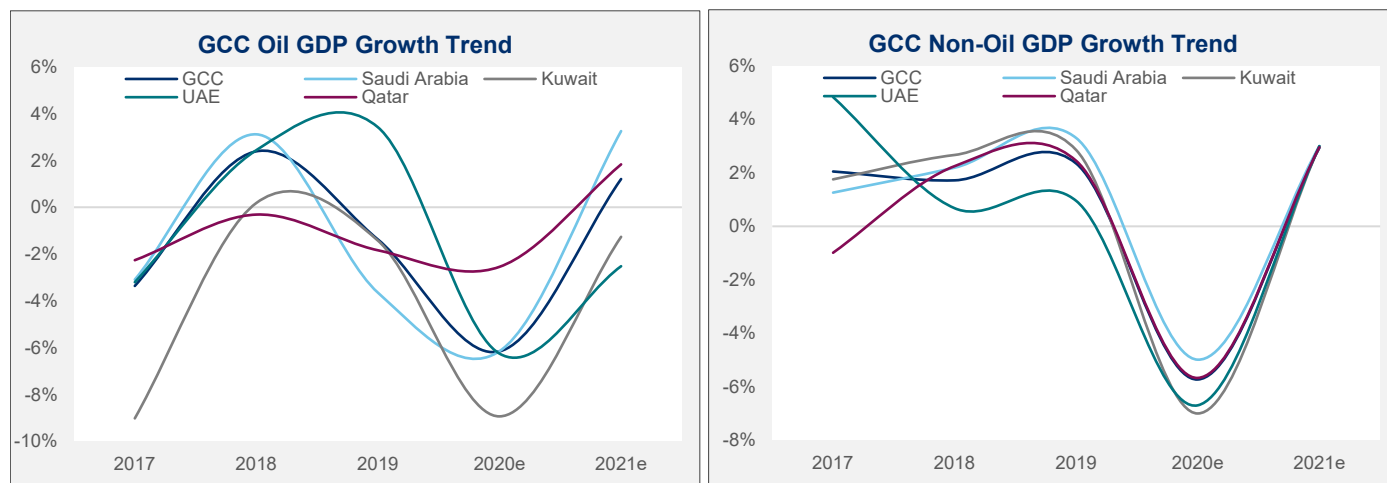
Analyst

+(965) 2233 6906

[momar@kamcoinvest.com](mailto:momar@kamcoinvest.com)

### Oil GDP sees further downward revisions following weak oil prices and demand...

Both oil GDP and non-oil GDP growth rates for almost all the GCC countries were lowered by the IMF in its latest regional economic outlook. The estimates for oil-GDP was lowered by 590 bps to a decline of 6.2% in 2020 while the revision for 2021 oil GDP was -200 bps with GDP now expected to recover to a growth of 1.2%. In terms of non-oil GDP, the revision was relatively smaller at -140 bps for 2020 with GDP expected to decline by 5.7%, whereas in 2021 GDP is expected to grow by 2.9% after a revision of -30 bps.



Source : IMF REO Oct-2020

Oman is expected to see the steepest y-o-y decline in the GCC during 2020 with a 10.0% fall in GDP and is also the only country that is expected to show a decline even in 2021 despite the lower base of 2020. The revisions reflect a steep decline in estimates for crude oil production in Oman from 0.96 mb/d in the April-2020 forecast to 0.81 mb/d in the Oct-2020 forecast. The revision next year is expected to be even steeper from a forecast of 1.01 mb/d in the previous report to 0.76 mb/d in the latest report. Non-oil GDP in Oman is expected to show a decline of 8.0% in 2020 whereas oil GDP is expected to show a steeper decline of 12.2%. We believe that the announcement to introduce VAT in Oman within the next six months (by April-2021) should support government revenues and would result in revision of GDP forecasts in the near term.

The GDP declines for the rest of the GCC is also expected to remain subdued in 2020 at mid to high-single digit percentages across countries. For 2021, however, majority of the economies are expected to recover and show a positive trend in GDP. Saudi Arabia is expected to see the biggest growth in 2021 at 3.1% followed by Qatar and Bahrain at 2.5% and 2.3%. These growth rates reflect higher oil and non-oil GDP in Saudi Arabia, whereas for Qatar and Bahrain, non-oil GDP is expected to be the key driver.

### OPEC+ compliance would mean low oil production and exports in 2020...

The downward revisions in GDP for 2020 reflects the decline in oil production as a result of the OPEC+ agreement to implement deep output cuts during May-2020 to July-2020 followed by a gradual pickup in output for the remainder of the year.

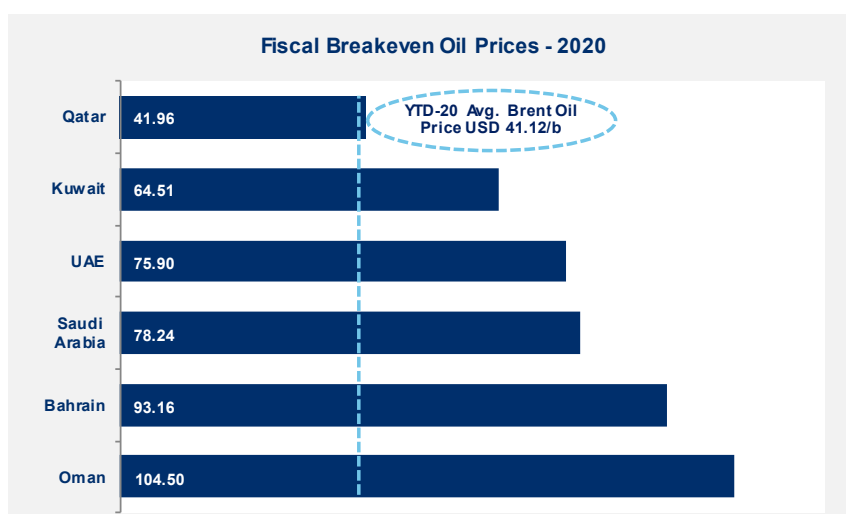
Crude Oil Production (mb/d)	2018	2019	2020e	2021e	Crude Oil Exports (mb/d)	2018	2019	2020e	2021e
Saudi Arabia	10.31	9.81	9.25	9.50	Saudi Arabia	7.37	7.04	6.81	6.74
Kuwait	2.74	2.70	2.46	2.43	Kuwait	1.69	1.60	1.31	1.23
UAE	3.00	3.06	2.78	2.67	UAE	2.61	2.47	2.13	2.03
Oman	0.98	0.97	0.81	0.76	Oman	0.80	0.76	0.60	0.55
Qatar	0.61	0.62	0.62	0.61	Qatar	0.54	0.55	0.56	0.57
Bahrain	0.19	0.20	0.20	0.20	Bahrain	0.15	0.15	0.15	0.15
<b>GCC</b>	<b>17.83</b>	<b>17.35</b>	<b>16.12</b>	<b>16.16</b>	<b>GCC</b>	<b>13.16</b>	<b>12.57</b>	<b>11.57</b>	<b>11.27</b>

Source : IMF REO Oct-2020, Kamco Invest Research

The overall GCC region's oil output is expected to average at 16.12 mb/d in 2020 as compared to the previous forecast of 17.37 mb/d and is expected to remain almost flat in 2021 at 16.16 mb/d. Lower crude oil production would also be reflected in oil exports from the region. In 2020, oil exports from the GCC is expected to reach 11.57 mb/d as compared to 12.65 mb/d expected in April-2020. For 2021, crude oil exports are now expected to decline to 11.27 mb/d as compared to expected growth in April-2020. The decline comes on the back of a y-o-y fall in forecasted exports from 4 out of 6 GCC countries. We believe that the IMF's oil output forecasts adequately represents the fall in output led by the OPEC+ agreement that will see only gradual tapering of cuts next year.

### Further pressure to issued debt and other means to raise funds...

The higher government spending due to the Covid-19 pandemic coupled with a decline in oil prices has resulted in higher estimated fiscal breakeven oil price for the GCC countries. According to the latest estimates, barring Bahrain, the fiscal breakeven oil prices for the rest of the GCC countries has seen an increase for both 2020 and 2021. Oman needs the highest oil price to balance its budget in 2020 at USD 104.5 /b followed by Bahrain and Saudi Arabia at USD 93.2/b and USD 78.2/b, respectively. Oman's fiscal breakeven price has seen the biggest increase in the latest IMF estimates with an increase of USD 17.7/b for 2020 and USD 29.7/b for 2021, whereas for the rest of the GCC countries, the revisions were ranging from low to mid-single digits.



The increase in fiscal breakeven prices also highlight the fall in average crude prices this year and in 2021 as oil revenues are expected to remain subdued. The YTD-2020 Brent crude oil prices stood at USD 41.12/b which is expected to remain flattish by the end of the year with only marginal increase. According to IMF, oil price is expected to average between USD 42 to USD 45/b. Subdued oil prices would result in additional debt issuances by the economies in order to meet budgeted expenditure, in addition to a relook of policies that improve private sector participation in an economy's development.

Source : IMF REO Oct-2020, EIA, Kamco Invest Research

### Fiscal deficits expected to reach double digit percentages for Oman, Saudi Arabia and Bahrain in 2020...

According to the IMF, fiscal deficit for the MENA region is expected to rise from 3.7% of GDP in 2019 to 10.6% of GDP in 2020 due to a decline in government revenues caused by the economic restrictions imposed to tackle the spread of covid-19. The IMF's forecast for the oil exporting GCC region is no different owing to the combined effect of low oil prices and the covid-19 lockdowns. GCC's fiscal deficit is expected increase from 2.0% of the GDP in 2019 to 9.2% of GDP in 2020 while recovering slightly to -5.7% of GDP in 2021.

General Government Fiscal Balance	Average	Actual			Projections	
Percent of GDP	2000–16	2017	2018	2019	2020e	2021e
Bahrain	-3.0%	-14.2%	-11.9%	-10.6%	-13.1%	-9.2%
Kuwait	25.4%	6.3%	9.0%	5.4%	-8.5%	-10.7%
Oman	4.9%	-14.0%	-7.9%	-7.1%	-18.3%	-16.8%
Qatar	10.5%	-2.5%	5.9%	4.9%	3.0%	3.3%
Saudi Arabia	4.5%	-9.2%	-5.9%	-4.5%	-10.6%	-6.0%
United Arab Emirates	6.1%	-2.0%	1.9%	-0.8%	-9.9%	-5.1%
<b>GCC</b>	<b>7.6%</b>	<b>-5.6%</b>	<b>-1.5%</b>	<b>-2.0%</b>	<b>-9.2%</b>	<b>-5.7%</b>
<b>MENA</b>	<b>2.7%</b>	<b>-5.6%</b>	<b>-2.3%</b>	<b>-3.7%</b>	<b>-10.6%</b>	<b>-7.7%</b>
<b>Arab World</b>	<b>3.1%</b>	<b>-6.4%</b>	<b>-2.4%</b>	<b>-3.3%</b>	<b>-10.8%</b>	<b>-7.9%</b>

Source : IMF REO Oct-2020

Out of the six GCC countries, only the Qatar is projected to run a fiscal surplus in 2020 and 2021 at 3% and 3.3% of GDP, respectively. Oman and Bahrain are expected to record the largest fiscal deficits in 2020 at 18.3% of GDP and 13.1% of GDP, respectively, followed by Saudi Arabia which is expected to run a deficit of -10.6%. Furthermore, Kuwait which has been running consecutive fiscal surpluses for the last four years is also expected to delve into the red with a fiscal deficit of 8.5% of GDP in 2020 and 10.7% of GDP in 2021. The IMF expects deterioration of the GCC's fiscal balance to ease in 2021 since the region's economy is expected to be fully open at that time and the covid-19 restrictions lifted, which were the main drivers of the increase in deficits.

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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) 2233 6600 Fax: (+965) 2249 2395

Email : [kamcoird@kamcoinvest.com](mailto:kamcoird@kamcoinvest.com)

Website : [www.kamcoinvest.com](http://www.kamcoinvest.com)

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