Event Update - IMF Releases Regional Economic Outlook

October-2023

Oil output cuts and tight macro policies hinder GCC growth…

In its latest regional economic outlook for the MENA region, the IMF projected that growth in the region is poised to slow down this year before starting to witness improvements in 2024. The slowdown this year mainly reflects the impact of oil production cuts, tight monetary policies in the form of higher interest rates as well as country specific factors. The agency highlighted that in the wider MENA region the combination of several issues including geopolitical risks, country specific challenges and global economic headwinds are proving to be the main drag on the region's economic momentum.

GDP growth in the MENA region is expected to average at 2.0% in 2023 witnessing a 110-bps cut from the IMF's previous forecast. MENA growth in 2024 is expected to reach 3.4%, in line with the previous forecast. The IMF lowered GCC economic growth forecast for the second time this year. Moreover, the region underwent a steeper downward revision this time at 140 bps for 2023 with real GDP growth now lowered to nearly a half of the forecast made in May-2023 at 1.5% as compared to previous forecast of 2.9%. For 2024, the GCC region is expected to record a moderately stronger growth of 3.7%.

The downgrade in the GCC growth for 2023 mainly reflects a steep downward adjustment of oil GDP forecast for the region which was penciled for 1% growth in the May-2023 outlook by the IMF but is now cut to -2.8% in the latest update. On the other hand, non-oil GDP growth is penciled a slightly faster growth of 4.3% vs. previous expectation of 4.2%. Within the GCC, Saudi Arabia witnessed the biggest downgrade vs. May-2023 forecast in 2023 followed by Kuwait and Oman. All GCC countries witnessed a downward revision in their 2023 real GDP Growth except for Qatar which has maintained its previous 2.4% GDP growth forecast.

In terms of global economic growth, the IMF expects a slowdown for 2023 mainly driven by declining global trade, sluggish manufacturing activity and cooling Chinese economy dragged down by instable real estate sector and weaker-than-expected exports. In its last World Economic Outlook, the IMF lowered global GDP growth from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. On the positive side, the IMF said that global headline inflation is on a downward trajectory reflecting the rebalancing of both the fuel and non-fuel commodity prices.

Country/Regions	October-2023 Updated Forecasts					IMF Revisions	
Real GDP Growth	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
Bahrain	**-4.6%**	**2.6%**	**4.9%**	**2.7%**	**3.6%**	**-0.3%**	**-0.2%**
Oil GDP	-0.1%	-0.3%	-1.4%	0.1%	0.1%	0.0%	0.0%
Non-oil GDP	-5.6%	3.2%	6.3%	3.3%	4.3%	-0.3%	-0.2%
Kuwait	**-8.9%**	**1.1%**	**8.9%**	**-0.6%**	**3.6%**	**-1.5%**	**0.9%**
Oil GDP	-9.0%	-0.9%	12.1%	-4.3%	3.3%	-3.4%	1.3%
Non-oil GDP	-8.0%	3.4%	4.0%	3.8%	3.5%	0.4%	0.0%
Oman	**-3.4%**	**3.1%**	**4.3%**	**1.2%**	**2.7%**	**-0.5%**	**-2.5%**
Oil GDP	-3.6%	5.2%	9.6%	-0.3%	2.9%	-1.4%	-6.6%
Non-oil GDP	-3.3%	1.9%	1.2%	2.1%	2.5%	0.1%	0.0%
Qatar	**-3.6%**	**1.5%**	**4.9%**	**2.4%**	**2.2%**	**0.0%**	**0.4%**
Oil GDP	-1.9%	-0.3%	1.7%	2.4%	1.6%	0.5%	0.9%
Non-oil GDP	-4.6%	2.7%	6.8%	2.5%	2.5%	-0.2%	0.0%
Saudi Arabia*	**-4.3%**	**3.9%**	**8.7%**	**0.8%**	**4.0%**	**-1.1%**	1.2%
Oil GDP	-6.6%	0.2%	15.3%	-5.4%	3.2%	-5.8%	1.9%
Non-oil GDP	-3.0%	5.7%	4.8%	4.9%	4.4%	0.0%	0.2%
United Arab Emirates	**-5.0%**	**4.4%**	**7.9%**	**3.4%**	**4.0%**	**-0.1%**	**0.1%**
Oil GDP	-3.8%	-1.1%	9.5%	1.3%	3.8%	-1.5%	0.0%
Non-oil GDP	-5.4%	6.5%	7.2%	4.2%	4.1%	0.4%	0.2%
GCC Real GDP Growth	**-4.7%**	**3.6%**	**7.9%**	**1.5%**	**3.7%**	**-1.4%**	0.4%
Oil GDP	-5.4%	0.1%	12.1%	-2.8%	3.1%	-3.8%	0.9%
Non-oil GDP	-4.1%	5.2%	5.3%	4.3%	4.0%	0.1%	0.1%
MENA Real GDP Growth	**-3.0%**	**4.0%**	**5.6%**	**2.0%**	**3.4%**	**-1.1%**	**0.0%**

Sources : IMF REO Oct-2023

** Headline GDP for Saudi Arabia is compared with IMF forecast released July-2023*

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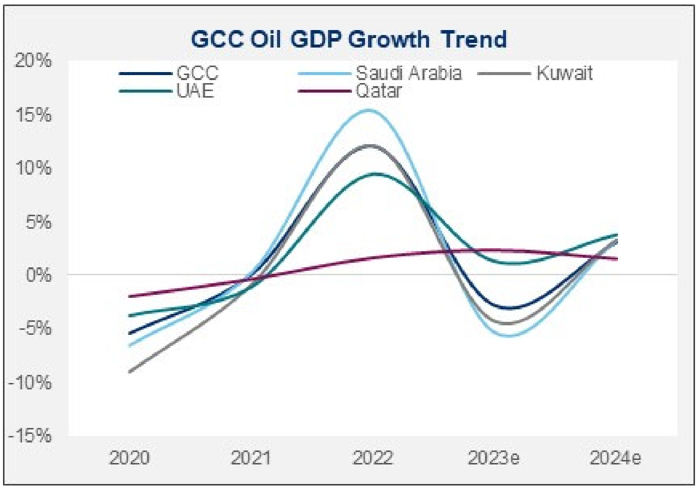
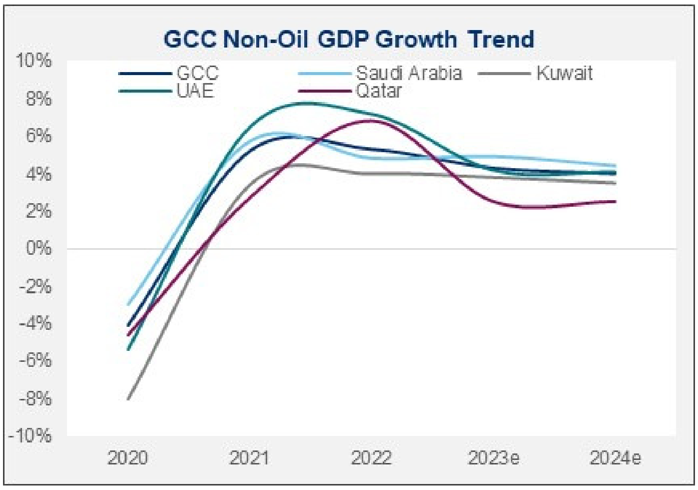
GCC oil GDP growth slashed; non-oil GDP growth revised up marginally.

GCC real oil GDP growth is expected to contract by 2.8% in 2023 after witnessing an expansion of 12.1% in 2022. Headline GDP forecast for the region was also lowered from 7.9% in 2022 to merely 1.5% in 2023. Some of the factors that have contributed to the significant cutdown of the GCC's oil GDP growth expectation this year includes the three rounds of deep OPEC+ oil production cuts that were carried out between October 2022 and June 2023 as well the voluntary cuts announced by Saudi Arabia. In terms of oil exports, the IMF expects the GCC countries to maintain total crude oil exports at 12.5 mb/d recording approximately 8.1% decline from 13.6 mb/d in exports in 2022.





Source : IMF REO Oct-2023

Qatar is expected to lead the GCC in terms of oil GDP growth at 2.4% in 2023 followed by the UAE with an expected growth of 1.3%. Comparatively, Saudi Arabia is expected to witness a contraction of 5.4% in its oil GDP marking it as the region's biggest oil GDP contraction followed by Kuwait which is expected to record a contraction of 4.3% in its oil GDP and Oman with 0.3% expected drop in oil GDP growth.

Crude Oil Production (mb/d)	2021	2022	2023e	2024e
Saudi Arabia	9.10	10.60	9.60	10.00
UAE	2.60	3.10	2.90	3.10
Kuwait	2.40	2.70	2.60	2.70
Oman	1.00	1.10	1.00	1.10
Qatar	0.60	0.60	0.60	0.60
Bahrain	0.20	0.20	0.20	0.20
GCC	**15.90**	**18.10**	**16.90**	**17.50**

Source : IMF REO Oct-2023

In terms of non-oil GDP, the GCC region is forecasted to record a marginally higher growth rate of 4.3% in 2023, recording an upward revision of 10 basis points as compared to earlier forecast, followed by 4.0% in 2024 with another 10-bps upward revision.

The IMF expects Saudi Arabia to lead in terms of non-oil GDP growth in the GCC region with 4.9% growth in 2023 followed by the UAE and Kuwait with growth of 4.2% and 3.8%, respectively.

GCC inflation continues to remain under control as commodity prices moderate...

Global inflation has been easing albeit gradually during 2023 as global central banks coordinated interest rate hikes to rein inflation. However, the persistent double-digit inflation in the MENA region continues to defy the global downward trend especially in economies with high food prices. The IMF penciled the MENA region headline inflation to an average of 17.5% in 2023 followed by a marginal decline to 15% in 2024. Across the MENA region, the IMF expects headline inflation for oil exporters to average 12.9% in 2023 unchanged from 2022 and 9.4% in 2024. The persistent and high inflation rate among the region's oil exporters can be explained by the unyielding price pressures in many non-GCC oil exporting countries. This included double-digit inflation in Iran, Kazakhstan and Azerbaijan. Similarly, MENA core inflation is expected to reach 17.6% in 2023 followed by a slight decline to 15.2% in 2024 indicating that base effects and declines in international food and energy prices have had little effect on the MENA region's persistent 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's 2023 inflation forecast for the GCC region remained unchanged at 2.6% followed by an expected decline to 2.3% in 2024. Inflation in the GCC countries remains much lower than its counterparts in the MENA region mainly due to the lower food and energy prices as well as successful governmental interventions on key commodities.

Moreover, core inflation for the GCC is expected to be significantly lower at 1.9% in 2023 followed by a slight pickup to 2.2% in 2024. Recent monthly inflation data released by Saudi Arabia showed an increase of 2.0% y-o-y in August-2023.

Rent and Housing Services were the key drivers behind the CPI uptick witnessing an increase of 10.8% in August-2023 followed by Food and Beverages prices which witnessed a 0.4% growth. In the case of Kuwait, inflation was recorded at 3.8% y-o-y during August-2023 mainly driven by the Food and Beverages index followed by the Clothing and Footwear index.

Fiscal surplus expectations revised upwards than previous expectations…

On the fiscal front, the IMF continues to forecast fiscal surpluses for the GCC region in 2023. However, the projected surplus as a percentage of GDP has been upgraded. The IMF now expects a fiscal surplus of 3.5% of GDP for the GCC region in 2023 as compared to its previous forecast of 2.4% made in May-2023.

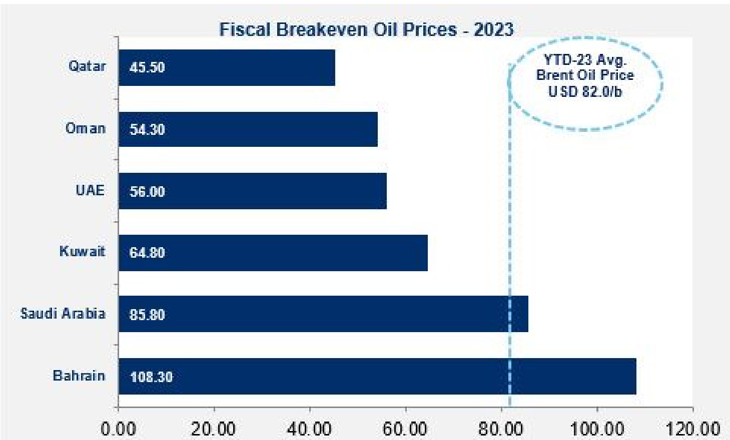
General Government Fiscal Balance	Average	Actual			Projections	
Percent of GDP	2000–19	2020	2021	2022	2023e	2024e
Bahrain	-4.7%	-17.9%	-11.0%	-6.1%	-5.0%	-3.2%
Kuwait	22.1%	-11.7%	-0.3%	19.1%	14.0%	9.5%
Oman	2.4%	-15.7%	-3.1%	7.4%	6.2%	5.9%
Qatar	9.3%	1.3%	4.3%	13.5%	10.8%	10.1%
Saudi Arabia	3.1%	-10.7%	-2.3%	2.5%	-0.3%	0.3%
United Arab Emirates	5.3%	-2.5%	4.0%	9.9%	5.1%	4.4%
GCC	**6.0%**	**-8.0%**	**-0.2%**	**6.8%**	**3.5%**	**3.3%**
MENA	**1.6%**	**-8.4%**	**-2.1%**	**3.0%**	**-0.4%**	**-1.3%**
Arab World	**2.4%**	**-8.6%**	**-1.9%**	**3.7%**	**0.1%**	**-0.8%**

Source : IMF REO Oct-2022

The fiscal deficit forecast for the broader MENA region also reflected this positive revision as deficit is now expected to come in at 0.4% of the GDP in 2023 as compared to IMF's previous forecast of a deficit of 1.0%. The current account surplus for the GCC region has also been revised to USD 203.6 Bn as compared to previous estimate of USD 180.5 Bn. However, the surplus remains smaller when compared to 2022 which stood at USD 350.8 Bn. The y-o-y decline mainly reflected the impact of oil production cuts made by oil exporting GCC countries.

In terms of individual countries in the GCC, there was a significant upward revision on many GCC countries made by the IMF mainly reflecting the significant increase in oil prices of around 30% during Q3-2023. Saudi Arabia which was expected to show a fiscal deficit of 1.1% of GDP in 2023 in the previous forecast is now expected to show a smaller deficit of 0.3% of GDP followed by a fiscal surplus of 0.3% in 2024.

Kuwait is expected to post the biggest fiscal surplus of 14% this year (vs. 7.0% surplus as per previous forecast) followed by a lower surplus of 9.5% next year. The IMF forecasts Bahrain to record 5% fiscal deficit in 2023, the biggest among the GCC countries, and 3.2% of fiscal deficit in 2024. Only Saudi Arabia and Bahrain are expected to record fiscal deficits in 2023 while only Bahrain is forecasted to record a fiscal deficit in 2024. The forecast for Qatar continues to show the second-biggest fiscal surplus of 10.8% of GDP in 2023 followed by 10.1% in 2024 while the UAE has an expected fiscal surplus of 5.1% of GDP this year followed by 4.4% next year.



Source : IMF REO Oct-2023, EIA, Kamco Invest Research

Oil revenues expected to be hit by lower volumes and lower average prices in 2023 and 2024.

The increase in oil revenues in 2022 due to the higher production and exports supported the MENA economies especially the GCC countries on the fiscal front resulting in surpluses in 2022 and forecasted surplus in 2023 after deficits during the previous two years. However, in 2023, the continuing production cuts announced by the OPEC+ combined with the voluntary oil production cuts by Saudi Arabia recently are expected to result in lower oil revenues. On the spending side, however, the projects market in the GCC has recently shown signs of recovery with higher project awards during the first nine months of the year.

Total value of projects in the GCC reached USD 52.8 Bn in Q2-2023, their highest mark in over 2 years. All GCC countries are expected to see growth in contract awards except for Qatar which may see dip in contract awards during the year. As a result, there has been a significant drop in fiscal breakeven oil prices for all the GCC countries barring Qatar. The fiscal breakeven oil price for 2023 is expected to be lower for four out of six GCC countries. The fiscal breakeven price is expected to be the highest in the case of Bahrain at USD 108.3/b while Qatar continues to show the lowest price of USD 45.5/b. Brent crude oil averaged at USD 100.9/b last year and the average so far this year was significantly lower at USD 82.0/b. The IMF’s world economic outlook released recently showed an oil price forecast of USD 80.49/b this year based on futures markets and is expected to fall to USD 79.9/b by 2024. The lowered forecast for breakeven oil prices for most GCC oil exporters shows higher realized oil prices since the start of the year that was also reflected in the oil price forecast for the year by the IMF. This impact was only partially offset by lowered expectations for oil production. The agency upgraded its oil price forecast for 2023 from 73.1 per barrel to 80.5 per barrel while for 2024 the forecast was raised from 68.9 per barrel to 79.9 per barrel. In the case of Saudi Arabia, however, the raised breakeven oil price reflects a sharp downward revision in oil production expectations from 10.5 million barrels per day to 9.6 million barrels per day in the new forecast coupled with higher expenditures by the Kingdom announced recently.

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