The Gulf Region's Economic Outlook for 2019

Perspectives from The Conference Board Global Economic Outlook 2019

Global Economy The global economy has plateaued but shows no signs of falling off a cliff in 2019. Assuming no major disruptions, a gradual slowdown seems most likely. On an annual basis, in 2019, The Conference Board Global Economic Outlook 2019 projects the aggregate global growth to slow slightly to 3.1 percent, from 3.2 percent in 2018. But underlying shifts in the global economic landscape should not be ignored and will become more visible during 2019 and over the coming decade.

Gulf Region As global growth is an essential determinant of the economic outlook for the Gulf Region (i.e., the collective members of the Gulf Cooperation Council, or GCC), the limited slowdown in global growth in 2019 is unlikely to significantly alter trade patterns and the trajectory of the price of oil. One external risk will be tightening monetary conditions, especially in the United States, which may impact exchange rates and inflation in the region - as some GCC countries have their currency pegged to the US dollar. Regarding domestic economies, various reform agendas should help to diversify economic compositions and manage fiscal prudence. The GCC is expected to see an improvement in its GDP growth from 2.2 percent in 2018 to 2.6 percent in 2019. There will be many opportunities in the areas of banking, investment, industry and economic diversification. But with a risk that oil prices may falter, countries should prepare for these challenges to avoid downside surprises.

Weak productivity growth has been a drag on the Gulf Region's GDP growth over the past decade. In the next decade, productivity will remain subdued, but there is upside. This will strongly depend on the region's success in strengthening other qualitative factors in driving growth. Importantly, the composition of the workforce will have to become more skilled, and investment will need to shift towards more high-quality assets including digital assets. Quantitative sources of growth, however, such as investment in physical assets and workers, will remain dominant drivers of growth. With its overreliance on oil and gas production and limited productivity growth, GDP growth for the Gulf Region is likely to be around 2.6 percent in the next decade, only slightly above 2.5 percent during the last 5 years.

Saudi Arabia High oil prices throughout most of 2018 yielded an oil revenue increase in Saudi Arabia and eased the country's fiscal situation. This would be supportive of growth in 2019 if continued. Despite reforms that improved contract enforcement and trade facilitation, Saudi Arabia has seen an erosion in its ease of doing business, according to a global ranking from the World Bank. Inflation pressures are likely to ease once the impact of a newly introduced VAT starts fading away, and non-oil sectors should remain supportive of growth. But, the government's ability to further improve the fiscal situation will greatly depend on oil prices.

UAE The introduction of laws that allow full foreign ownership of assets (by the end of 2018) should attract foreign investors and bolster investment in 2019. Consumption and growth will also be supported by fiscal expansion intended to improve the social sector, and infrastructure spending for the 2020 World Expo. In September, the UAE approved an expansionary 2019 budget, with a 17 percent increase in government spending.

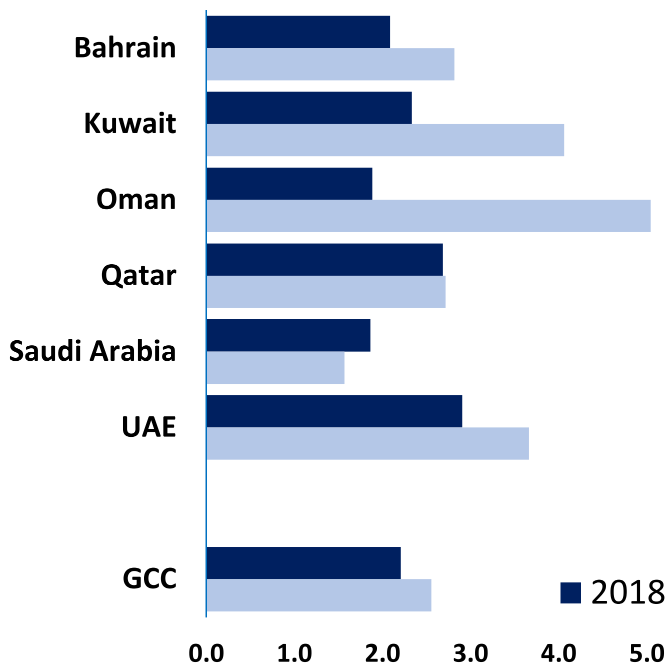
Kuwait High oil prices for most of the year have left the government in a comfortable fiscal situation that will support continued diversification efforts. If oil prices resume this growth path, reversing the recent decline, the government's efforts to expand the non-oil economy will benefit. With such fiscal support, the non-oil economy is likely to remain solid, and Foreign Direct Investment (FDI) inflows are likely to rise.

Bahrain A tight fiscal situation and proposed austerity measures will affect consumers and growth in Bahrain, but a strong construction sector should help.

Oman With high energy prices for most of 2018, the economy has performed well so far in 2018 and the country's fiscal situation has improved somewhat; it is in deficit, however. The proposed investment plans for tourism will help diversification plans. Increased gas production should support growth, but the fiscal imbalances and hydrocarbon dependency remain risks.

Qatar Despite a drop in mineral production, the economy performed well for most of 2018, supported by a strong construction sector growth (thanks to the infrastructure projects for the 2022 World Cup and, to some extent, manufacturing expansion). But that alone is unlikely to help continue to drive growth momentum. A resolution of the dispute with Saudi Arabia could provide an important upside to the economy.

Forecast GDP Growth for the Gulf Region, 2018 and 2019



ABOUT THE CONFERENCE BOARD GLOBAL ECONOMIC OUTLOOK 2019

The Conference Board Global Economic Outlook 2019 provides projections for the output growth of the world economy, including 11 major regions and individual estimates for 33 mature and 36 emerging market economies – including all six member countries of the Gulf Cooperation Council – for 2019-2023 and 2024-2028. The projections are based on a growth accounting model that estimates trend growth as the contributions of the use of labor, capital, and productivity to the growth of GDP. Capital and productivity growth are estimated on the basis of a wide range of related variables during past periods. The trend growth rates obtained from this process are adjusted for possible deviations between actual and potential output. For more information, interactive charts and tables, and details of the model, please visit The Conference Board Global Economic Outlook at www.conference-board.org/globaloutlook.cfm.