

Economy, Strategy and Finance Center Gulf Economic Outlook – Q3 2021 August 2021

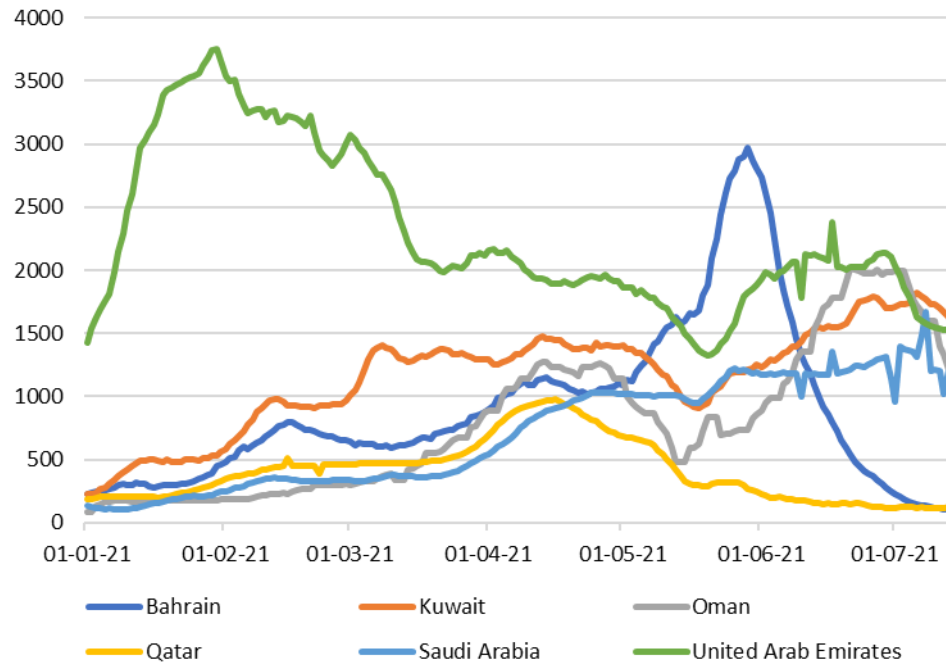
GULF VIEW non-oil economic activity exhibits signs of recovery, supported by improved consumer and business confidence and a positive oil outlook even amid rising COVID-19 cases

- Non-oil private sector growth is set to drive the Gulf region's economic recovery in 2021. The lifting of pandemic related restrictions and ongoing vaccination campaigns will support demand recovery during the second half of this year.
- Improved confidence seen in both The Conference Board® Consumer Confidence Index® and The Conference Board Measure of CEO Confidence™ for the Gulf region hint at a promising recovery outlook.
- Oil prices are expected to stabilize as OPEC+ agreed to boost production by 0.4 mb/d, on a monthly basis, until September 2022.

Ongoing vaccination campaigns didn't shield the region from a third COVID-19 wave

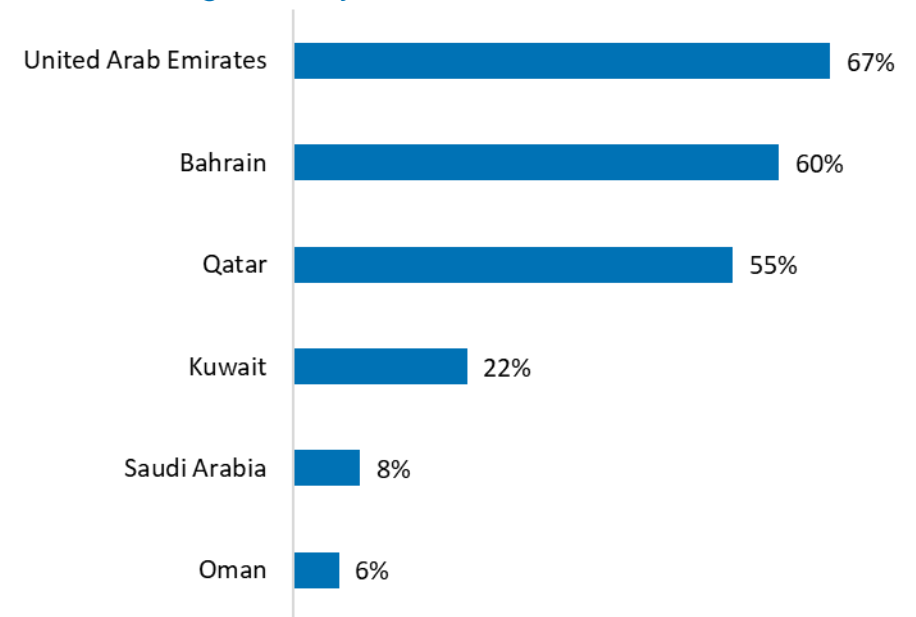
Despite the ongoing vaccination campaigns across the region, with the United Arab Emirates (UAE) leading the Gulf countries in terms of the number of vaccinations, Gulf countries witnessed rising daily COVID-19 cases. The lifting of the pandemic related restrictions and opening of the air and land borders led to increases in the number of cases again. New cases soared virtually overnight in Bahrain (May 2021), in tandem with the decision to allow tourists to fly into the country, which pushed the authorities to re-install temporary lockdown measures. Similarly, Oman and the UAE witnessed rising cases again as travelers entered the country. In terms of vaccinations, UAE, Bahrain, and Qatar lead the region with more than 50 percent of their populations being fully vaccinated.

Gulf region going through a milder third wave



Source: Our World in Data

Percentage of fully vaccinated individuals



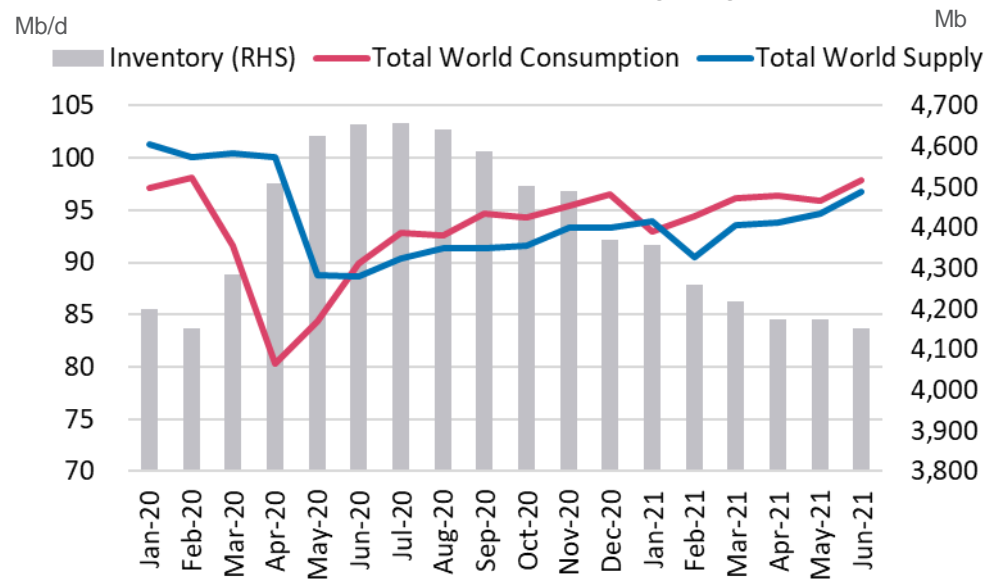
Source: Our World in Data



OPEC+ rift avoidance to stabilize oil prices in 2022

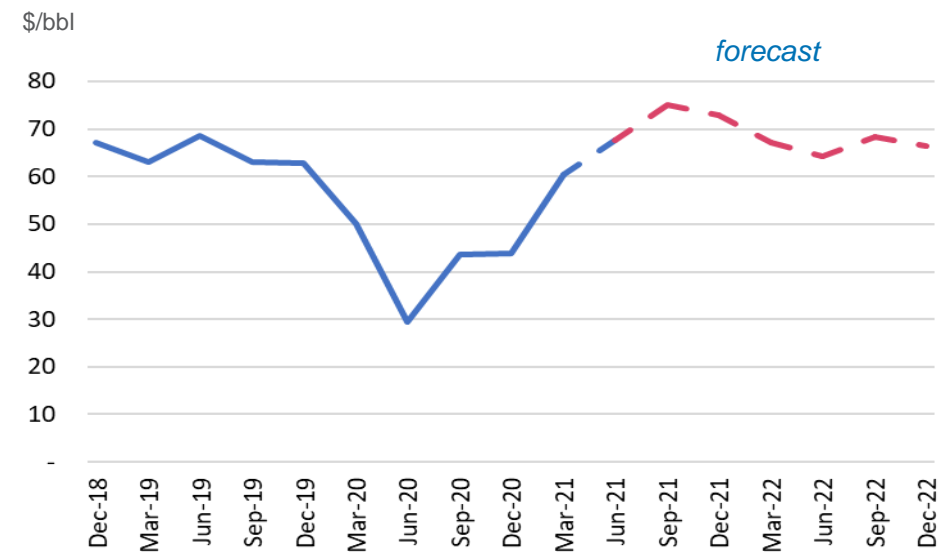
We remain cautiously optimistic about the oil demand recovery as rising concerns over new COVID-19 waves, and the emergence of new variants raise the possibility of renewed lockdowns and travel bans. Global Oil demand showed continuous signs of recovery in Q2 2021, supported by the ongoing vaccination campaigns that allowed air and road mobility to rise. Air travel demand is expected to tighten the oil market even further in the third quarter of this year. The temporary OPEC+ rift over baseline crude production levels pushed oil prices to a two and a half year high before retreating. OPEC+ members have decided to boost oil production by 0.4 mb/d on a monthly basis starting August 2021 until phasing out of the remaining 5.8 mb/d production adjustment by September 2022. In addition, baseline production levels for the UAE, Saudi Arabia, Russia, Kuwait and Iraq will be adjusted upward as of May 2022. We forecast oil prices to average \$75/bbl and \$72.8/bbl in Q3 and Q4 2021, respectively, pushing the 2021 average up to \$69/bbl. The expected higher oil output in 2022 is likely to pull down oil prices to an average of \$67/bbl in that year.

Oil market dynamics points to an ongoing recovery



Source: EIA

Oil prices to remain close to 2018 averages

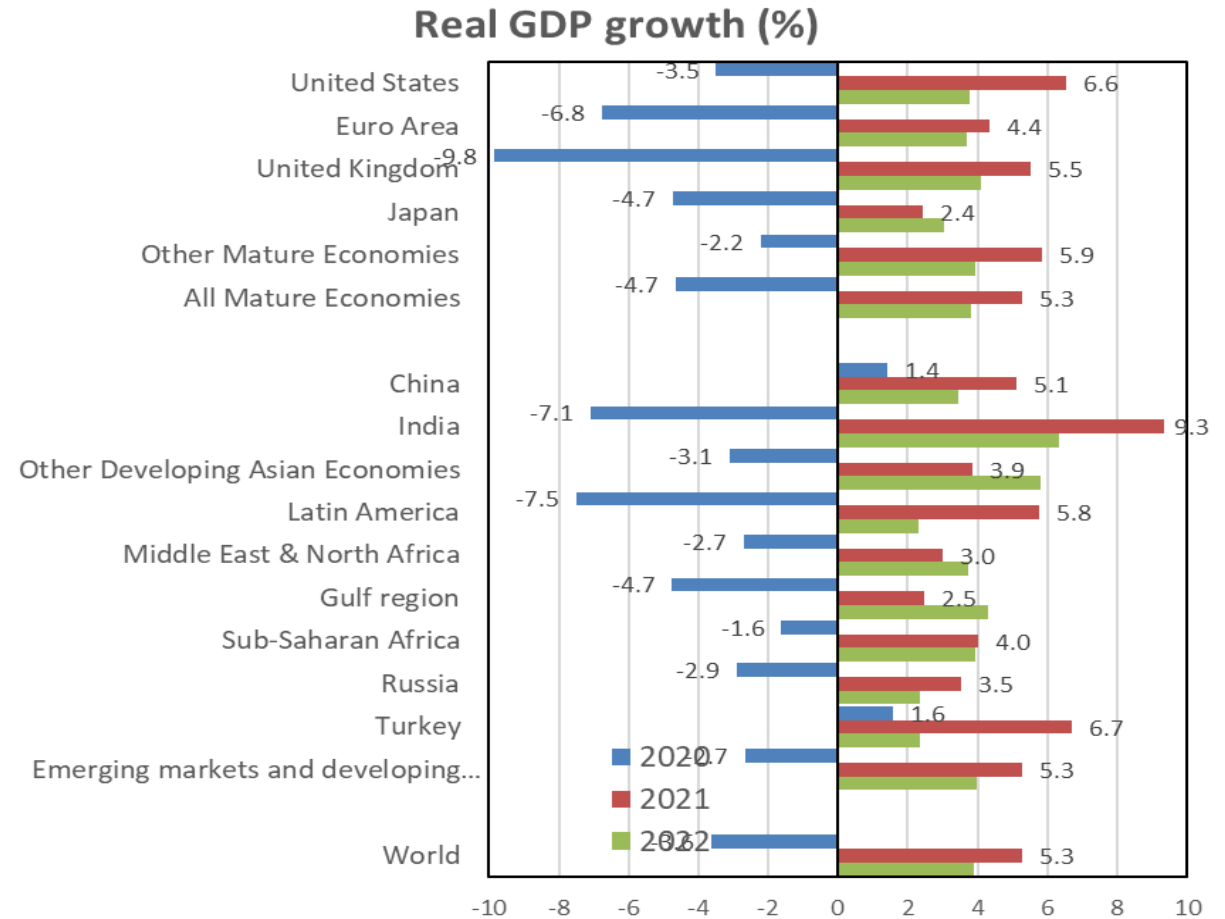


Source: EIA for historical data, The Conference Board



Global economy should rebound in 2021 to grow by 5.3 percent, equally driven by mature economies and emerging markets and developing economies

- The global economy is on course to rebound from the pandemic-induced recession in 2021 led by an increasing number of large economies. So far, outsized consumer demand for goods and exports to satisfy that demand have fueled much of the global economic recovery. Importantly, considerable monetary and fiscal policy supports enabled select economies, such as US, China and parts of emerging economies in Asia, to capitalize on the goods consumption-exports revival more than others.
- Still, this mix of spending is unsustainable and likely will give way to a more balanced recovery that includes consumption of in-person services, capital investment, and greater exports from the rest-of-world instead of domination by high-tech and manufacturing hubs in Asia. This pivot to more spending on services should produce global real GDP growth of 5 percent or more year-on-year in 2021, and above-trend growth in 2022.



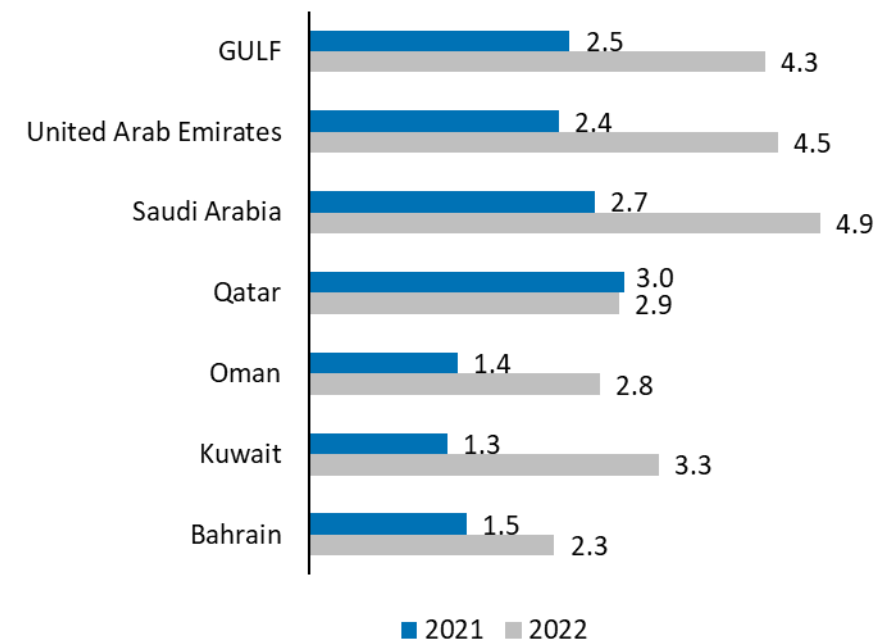
Source: [The Conference Board Global Economic Outlook, July 2021](#)



Economic impact of rising political tension in the region is likely to remain subdued

- The Gulf region is witnessing a third COVID-19 wave despite governments across the region intensifying vaccination campaigns and restricting travel and access to commercial centers, resorts, and schools to vaccinated individuals only. Their goal is to avoid partial or full lockdowns.
- So far, we are keeping our real GDP growth forecast for the Gulf region unchanged at 2.5 percent for 2021 with the non-oil sector supporting growth, while a strong recovery in oil GDP will push real GDP growth to 4.3 percent in 2022.
- Rising consumption of goods and services will remain supportive of non-oil sector growth in 2021. Governments like Saudi Arabia and the UAE will push further their diversification agenda and support their private sectors.
- While a decade ago the countries' visions converged and moved to create a unified Gulf market and a monetary union, their economic interests have diverged in recent years amid the energy transition away from hydrocarbon and has put the largest two players head-to-head rather than in synergy. With the growing adoption of green energy to combat climate change, demand for fossil fuel is expected to peak between 2030 and 2040. Major oil exporters like Saudi Arabia and the UAE, whose economies have long depended on oil revenues, have set in motion ambitious plans to diversify their markets away from oil and develop the renewable energy sector.
- In July 2021, a disagreement between the UAE and the OPEC+ members, mainly Saudi Arabia and Russia over baseline production levels escalated rather quickly beyond the OPEC+ meeting. Saudi Arabia recently announced changes to the GCC tariff agreement, mainly to consider goods that are produced in free trade zones as non-local, a blow to the UAE whose free zones are major drivers of the economy. OPEC+ members eventually reached a compromise on July 14th where the UAE's baseline production of oil will be increased from 3.2 mb/d to 3.5 mb/d from May 2022 onward.

Gulf region real GDP Growth (% change)



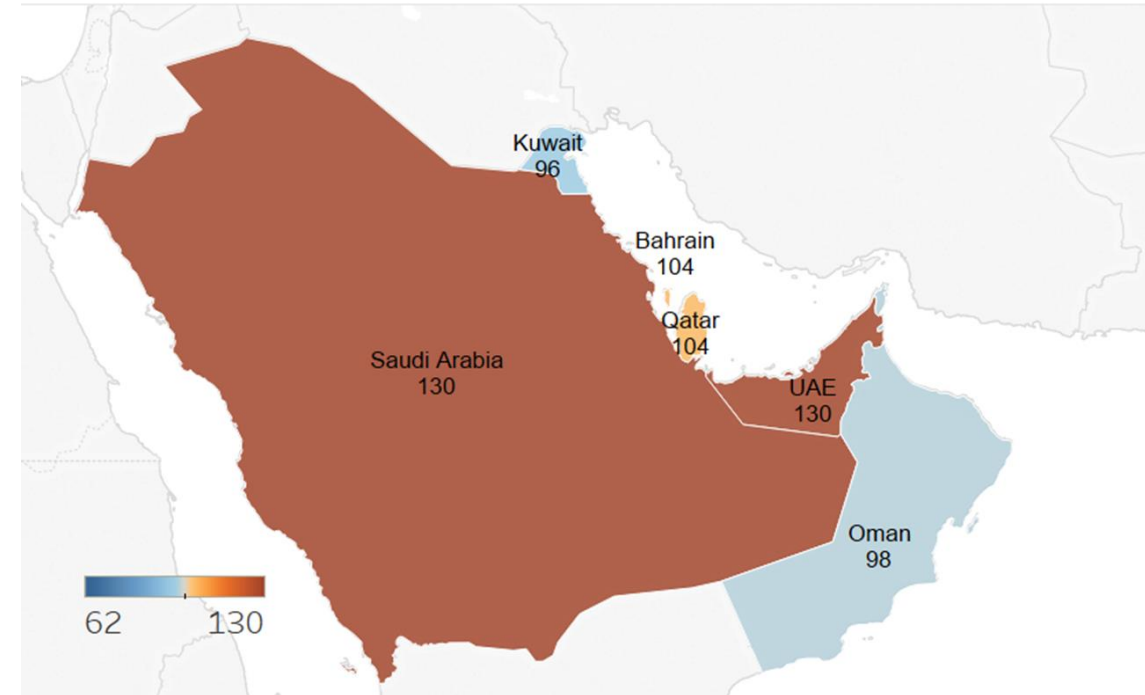
Source: The Conference Board



Consumer Confidence in the Gulf region improved; but disparities across countries widened

- The Conference Board® Global Consumer Confidence Index for the Gulf region, improved to 124 in 2021 Q2 compared to 118 in 2021 Q1. Consumers in Saudi Arabia and the UAE, nationals as well as expats are among the most confident. The positive economic outlook for both markets and the government support to the private sector to overcome the pandemic aftermath has pumped confidence into consumers.
- While Qatar's consumer confidence remained unchanged in 2021 Q2, the other three markets exhibited improving confidence despite facing a challenging economic outlook and only a mild recovery in economic activity.
- The amelioration in confidence in the region was supported by increases in confidence from both expat and national consumers with the exception of expats consumers in Bahrain and Qatar that displayed declining confidence. Overall, expats' confidence level increased by 7 points to 116 in 2021 Q2 and nationals' confidence by 6 points to 134 in 2021 Q2.
- The full report on the latest available results for The Conference Board® Consumer Confidence Index® for the Gulf region is available [here](#).

GLOBAL CONSUMER CONFIDENCE INDEX FOR THE GULF REGION, 2021 Q2: 124



Note: A reading above 100 indicates that there are more optimistic consumers than pessimistic ones. A reading below 100 indicates the opposite, with more pessimistic consumers than optimistic ones.

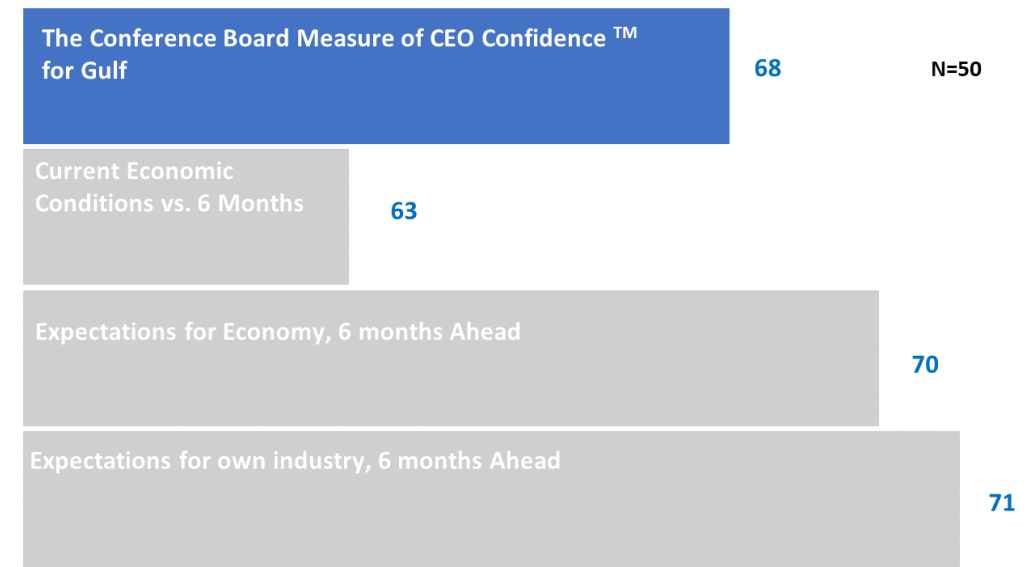
Source: The Conference Board® Global Consumer Confidence Survey, 2021 Q2



Prospects for the non-oil sector recovery to trace consumer confidence trajectory

- CEOs and Chairs of some Gulf region companies are increasingly optimistic about the business and economic outlook for 2021. Overall, the measure of CEO Confidence for the Gulf region increased substantially, from 51 in the second half of 2020 to 68 in the first half of 2021. (A reading above 50 indicates more positive than negative responses.)
- Sentiment regarding current economic conditions and expectations for the region over the next six months are the main driver behind this improvement, soaring to 63 and 70 from 45 and 52 in H2 2020, respectively.
- The improved confidence can be attributed primarily to the lifting of most of the pandemic related restrictions in the Gulf region and the return of in-person activities and services, as well as ongoing vaccination campaigns. Recovery of oil demand and oil prices likely further increased optimism for the CEOs in the region.

The Conference Board Measure of CEO Confidence™ for the Gulf region, H1 2021 update



Source: The Conference Board Measure of CEO Confidence™ for the Gulf Region



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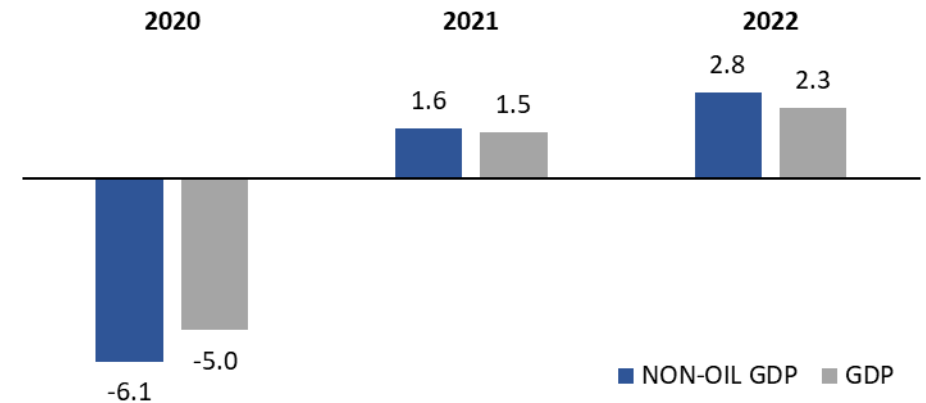


Country Specific

Bahrain is likely to face slow and uncertain recovery in the upcoming years

- Bahrain** real GDP is set to grow by 1.6 percent in 2021 and by 2.6 percent in 2022. The non-oil sector is expected to contribute significantly to growth in 2021, supported by the extended fiscal support packages to combat the COVID-19 repercussions on the economy.
- Although the country has been running fiscal deficits since the 2014 oil price collapse, fiscal reforms will be a lower priority this year than public health and targeted support packages to the most vulnerable segments of the population. The GCC development fund will continue to guarantee investment in relevant development projects.
- Downside risks remain elevated. Recurrent COVID-19 waves and renewed lockdowns may hinder the recovery of the financial, transportation and communication and tourism sectors, all of which have exhibited signs of recovery during the first half of 2021. Furthermore, greater austerity measures, including cutting subsidies and raising energy prices, may be needed in 2022 to bring the fiscal deficit back in line with the Fiscal Reform Program. This would come at the cost of limiting non-oil GDP growth.

GDP and Non-Oil GDP Annual Growth (in %)

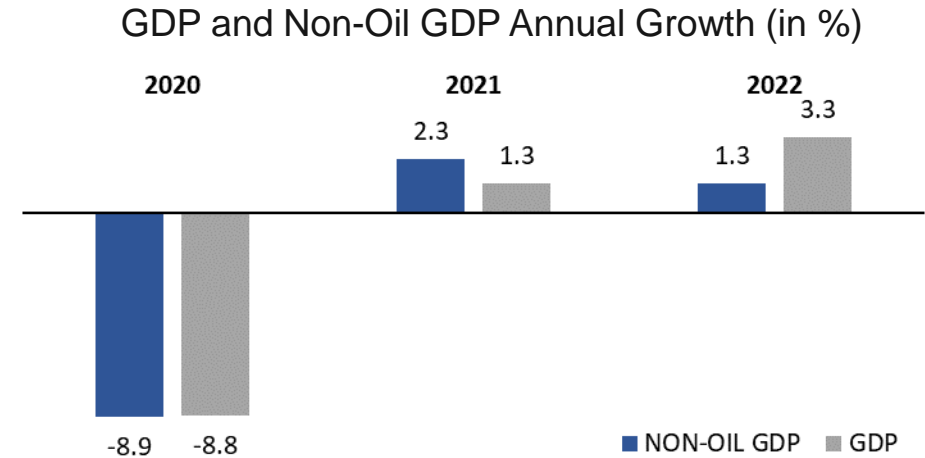


Source: The Conference Board

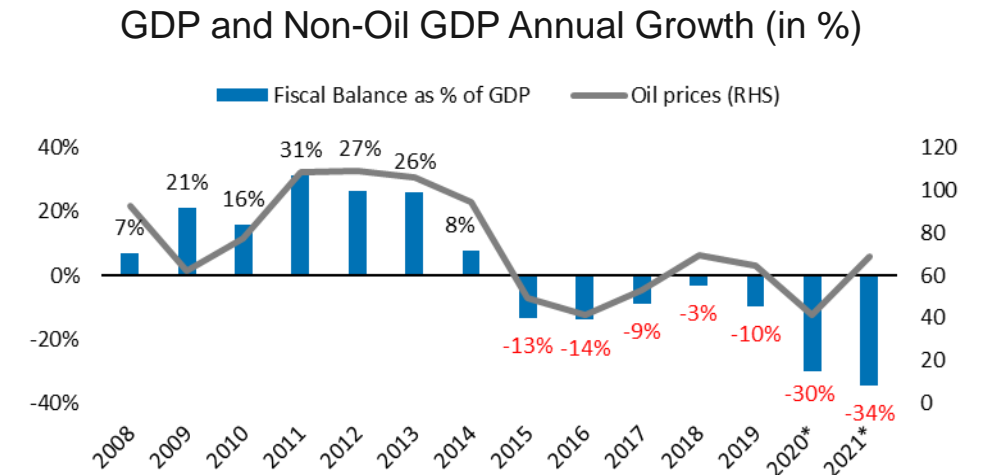


Political deadlock to constrain non-oil GDP growth in upcoming quarters

- Kuwait** real GDP is set to grow by 1.6 percent in 2021 and by 2.6 percent in 2022. The non-oil sector is expected to contribute significantly to growth in 2021, supported by the extended fiscal support packages to combat the COVID-19 repercussions on the economy.
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Source: The Conference Board



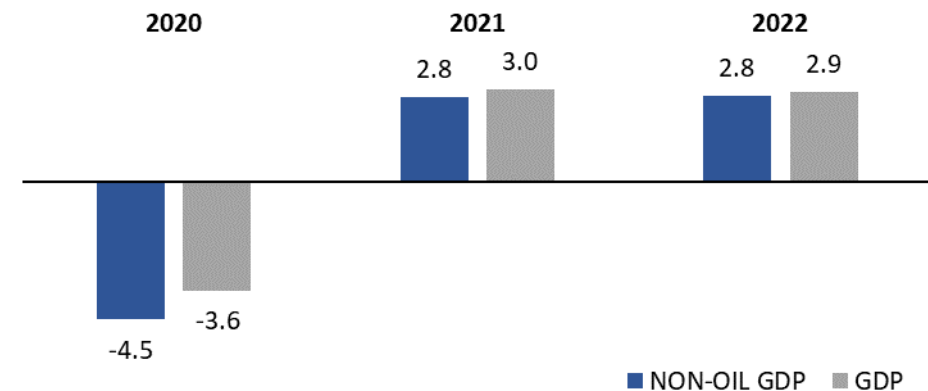
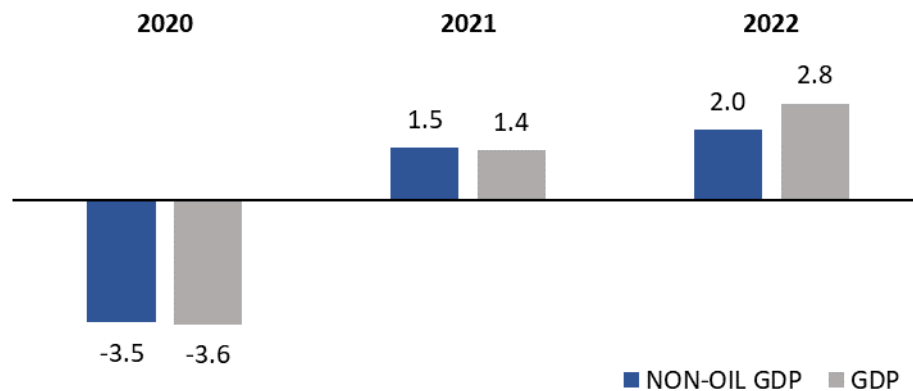
Source: Kuwait Ministry of Finance, * The Conference Board Forecast



- **Oman** continues to face headwinds from recurrent COVID-19 waves that curtailed the recovery of the non-oil sector, predominantly tourism and in-service activities. We maintain our economic growth forecast for 2021 at a modest 1.4 percent before it accelerates in 2022 to 2.8 percent. The gradual rise in OPEC+ production and the recovery of global oil demand and prices will support oil GDP growth next year.

- **Qatar** real GDP is set to rebound by 2.8 percent in 2021 and advance further by 2.9 percent in 2022. Lifting of pandemic related restrictions and the ongoing vaccination campaign allowed business activity to improve and Q1 2021 quarterly GDP to growth by 1.3 percent over the previous quarter. Positive momentum will remain in the upcoming quarters unless another pandemic wave hits and derails the country from its recovery path, especially around the FIFA World Cup Qatar 2022 matches.

GDP and Non-Oil GDP Annual Growth (in %)

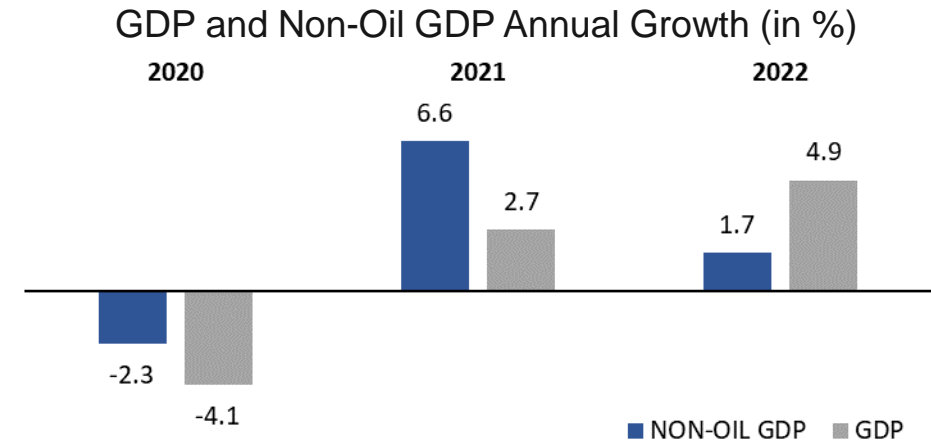


Source: The Conference Board

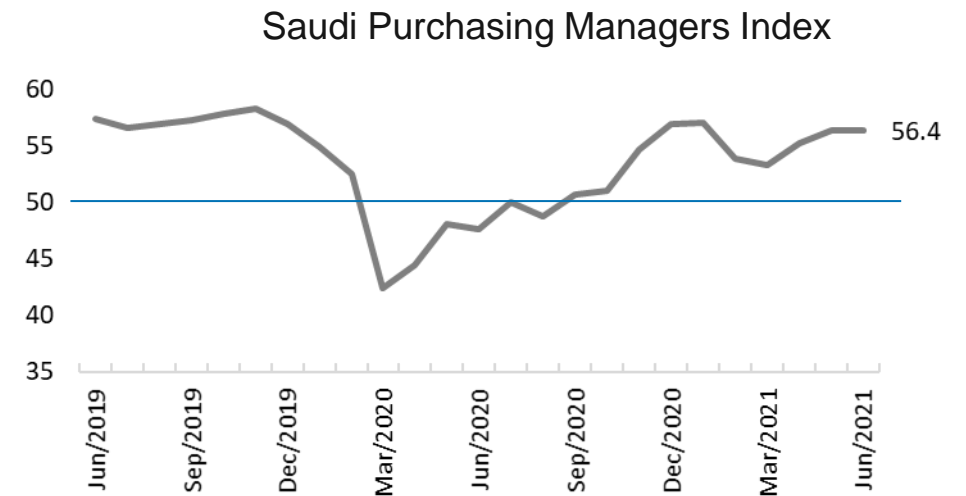


Saudi Arabia is set for strong economic growth in 2022 supported by increased oil production despite diversification efforts to increase the non-oil sector's contribution to GDP

- Saudi Arabia** GDP is set to grow by 2.7 percent in 2021 and a stronger 4.9 percent in 2022. The non-oil sector is forecasted to log 6.6 percent growth this year before slowing back to 1.7 percent in 2022 as oil GDP takes the lead. While recently released Q1 2021 GDP witnessed a slight contraction of 0.6 percent over the previous quarter, we expect an acceleration in the upcoming quarters supported by lifting of pandemic related restrictions and the ongoing vaccination campaign that will support internal tourism and the return of the Hajj season (although limited to residents of the country).
- Business activity gained traction in the second quarter of 2021 and is expected to maintain this elevated momentum until the end of the year. The Saudi Purchasing Managers Index (PMI) averaged 56 points in Q2 2021 signaling a healthy expansion of the Saudi non-oil private sector supported by rising new orders and increased hiring. Labor reforms in favor of nationals and improved economic activity will positively impact the Saudi labor market in the upcoming years.
- Oil GDP is expected to be the main engine of growth in 2022, following a forecasted contraction of 2.9 percent this year. While Saudi Arabia continues to push its diversification agenda, it is still relying on elevated oil prices to fund its ambitious non-oil development plans. This raises its incentives to support a balanced oil market.



Source: The Conference Board

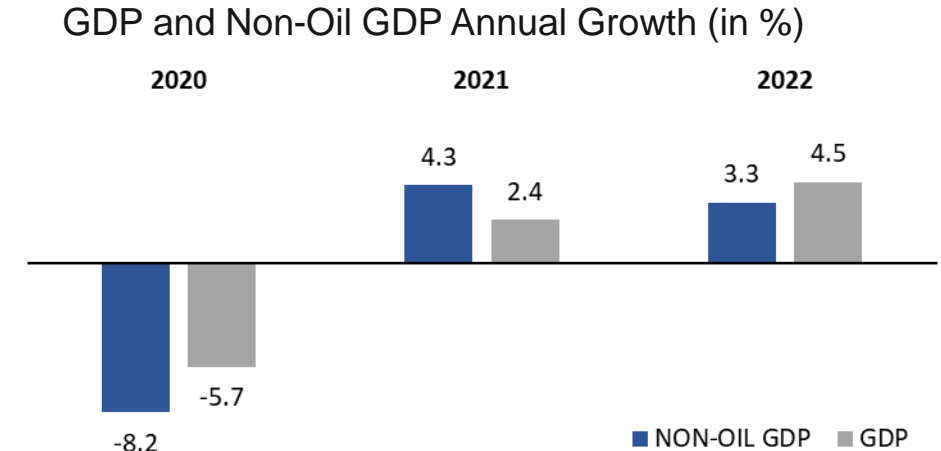


Source: IHS Markit

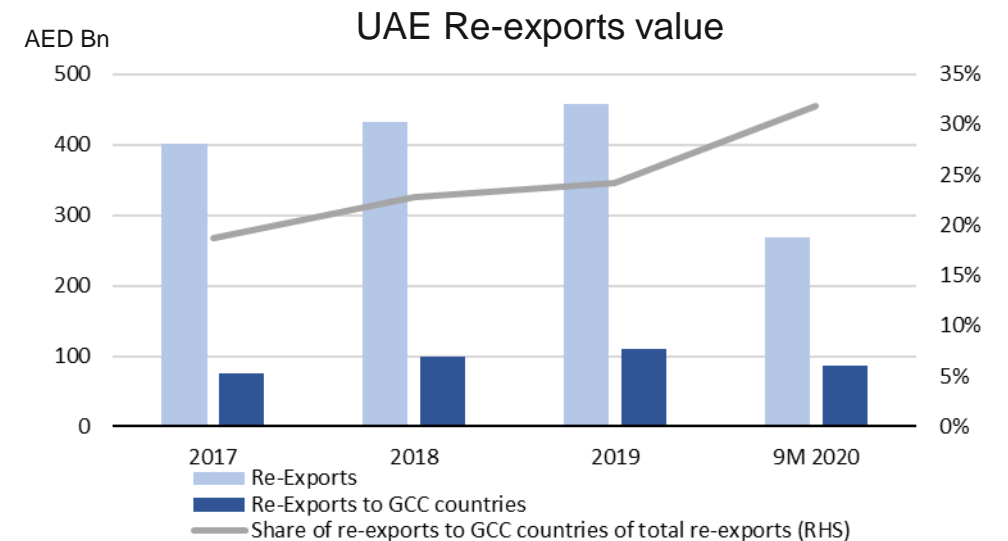


UAE eyes longer term growth while economic recovery remains on track

- United Arab Emirates** is fighting more than ever to maintain its position as the region's business hub as Saudi Arabia intensifies its diversification efforts. The Conference Board forecasts 2.4 percent growth in UAE's GDP this year, followed by a strong 4.5 percent rate in 2022. Increased oil production in 2022 will support the oil GDP recovery while oil revenues will allow the country to promote non-oil projects and support COVID-19 impacted sectors like tourism and SME sectors.
- The Conference Board increased the non-oil GDP growth forecast from 3.8 percent to 4.3 percent in 2021. Non-oil growth should be supported by improved tourism figures and overall strong market activity – reinforcing the non-oil private sector as suggested by the UAE PMI.
- Saudi Arabia amended its imports rules in July 2021 to consider products manufactured in free trade zones as non-local products and hence denying them from preferential tariff concessions. This rule change will have a direct impact on UAE's re-exports in the short run. The UAE's share of re-exports to the GCC reached 32% for the first 9 months of 2020 (latest available data) and has probably surpassed this level by H1 2021.
- However, the UAE is focused on longer-term growth. It recently announced two new initiatives, among others, to stimulate the non-oil economy. First, Operation 300bn, UAE's industrial strategy to raise the industrial sector's contribution to GDP from AED 130bn to 300bn by 2031 and the new National Agenda for Non-oil Export Development that plans to increase non-oil exports by 50 percent and promote Emirati products and access 25 new markets. Multiple initiatives and reforms are underway to increase the attractiveness to foreign investors, talents and innovation.



Source: The Conference Board



Source: Federal Competitiveness and Statistics Centre



IMPORTANT INFORMATION

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