



Economy, Strategy & Finance Center

Gulf Economic Outlook – Q2 2022

April 2022

GULF VIEW Economic impact of the Ukraine war will spill-over to the benefit of Gulf economies; Soaring oil revenues will help boost non-oil developmental projects

- Oil prices reached 8-year highs in March and retreated by 15 percent by end of April but still remain 63 percent higher than a year ago. As fear levels subside two months into the war in Ukraine, uncertainty remains high as the war unfolds.
- China re-instated new lockdown measures as a new COVID-19 wave hit the country. China's oil imports declined as a result.
- Gulf economies will post fiscal surpluses for the first time in years as a result of higher-than-budgeted oil prices and production.

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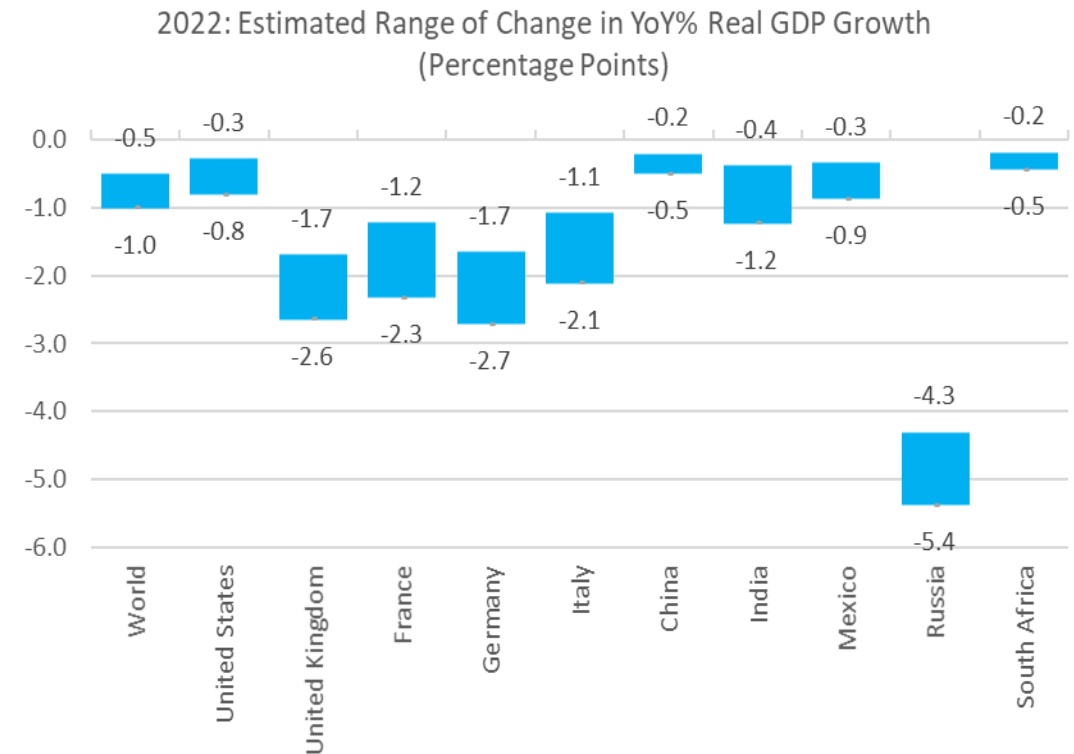


Global

Highlights & Summary

Global economic growth declined as a result of the Ukraine invasion

- The Ukraine war sent shock waves across the world. The response of countries and multinational businesses to Russia's aggression has been swift in the form of sanctions, divestment, and halting of business activities. The broader economic fallout will have implications around the world. Six simultaneous shocks to the global economy from the Russia-Ukraine conflict could notably curb prospects for GDP growth. The shocks include:
 - Spikes in Brent crude oil price to
 - The surge in European natural gas prices
 - The surge in global food prices given outsized Ukraine and Russian shares of total global grain production
 - A surge in base and precious metal prices given outsized Ukraine and Russian shares of total global production
 - Recession in Russia and Ukraine with a spillover effect on other European economies
 - Reductions in European business output and thereby investment given intensified disruptions in supply chains for intermediate goods from Russia and Ukraine
- We also repeated the shock simulations using two other oil prices (\$115/bbl and \$150/bbl in Q2 2022). All shock simulations result in headwinds to global economic growth in 2022 that range from -0.5 percentage points to -0.1 percentage points. However, these potential drags on economic growth vary from country to country.
- For more insights on What's ahead and a 360° view on the Russo-Ukrainian war, head to our [Geopolitics Hub](#).



Source: The Conference Board

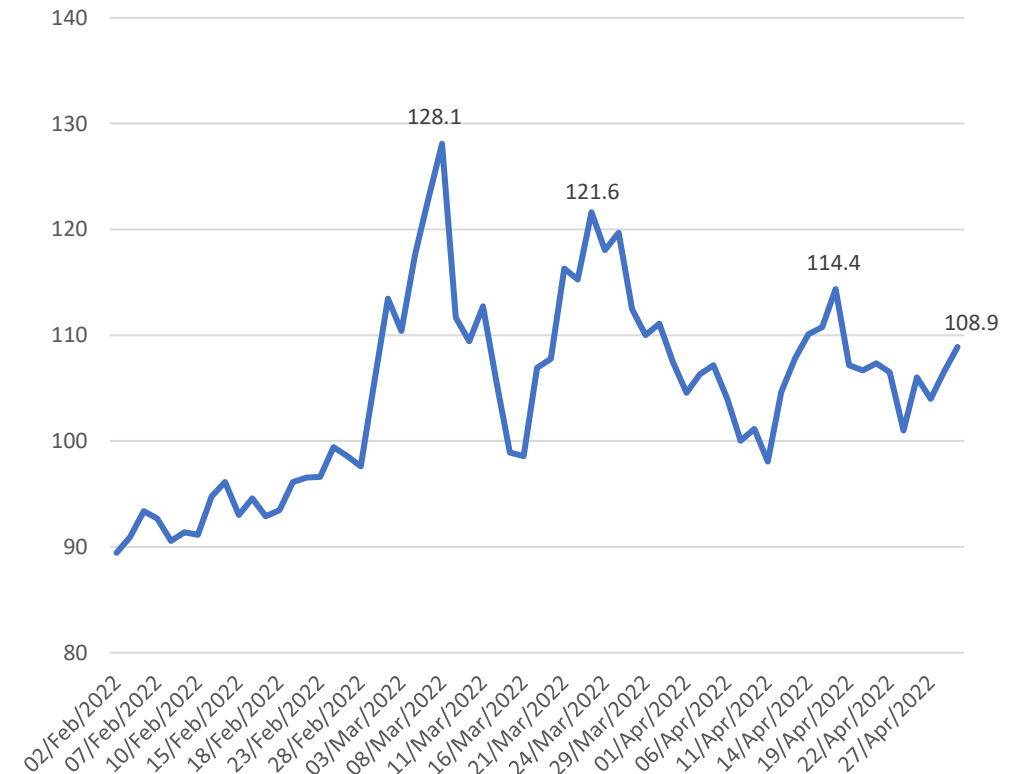


Geopolitical tensions and high levels of fear and uncertainty over potential oil supply disruptions keep oil prices high

- The oil market has been through three major cycles over the past 15 years, each driven by economic fundamentals. As of February 2022, the war in Ukraine signals a fourth cycle. Following the collapse of oil prices in April 2020 as a result of the pandemic, the fourth oil cycle started with oil prices reaching a high of US\$129/bbl in March 2022. Since then, oil prices have cooled down but have logged random spikes. The run-up in oil prices since the start of the war reflects uncertainty, not a decline in production. As of February 2022, according to the Energy Information Administration (EIA) global oil demand reached 101.4 mb/d, surpassing pre-pandemic levels relative to a global oil supply of 99.8mb/d. Hence, the February supply gap (supply less demand) was 1.6 mb/d at an average oil price of US\$94/bbl while the April 2022 oil price averaged US\$105.9/bbl.
- At a supply gap of 1-2 mb/d, historical oil prices averaged US\$72/bbl between 2005 and 2019. Hence the US\$30-40/bbl increment to oil prices appears to reflect the high level of uncertainty surrounding the levels of oil supply in the short term rather than a shortfall in supply. This stems mainly from fear of supply disruptions due to the war in Ukraine and potential sanctions on Russian oil exports. Sanctions imposed to-date include US bans on Russian oil imports, and a set of financial sanctions that include limiting Russia's access to SWIFT and an international credit which may turn oil importers away from Russian oil.

2022 looks like a volatile year for oil prices

\$/bbl



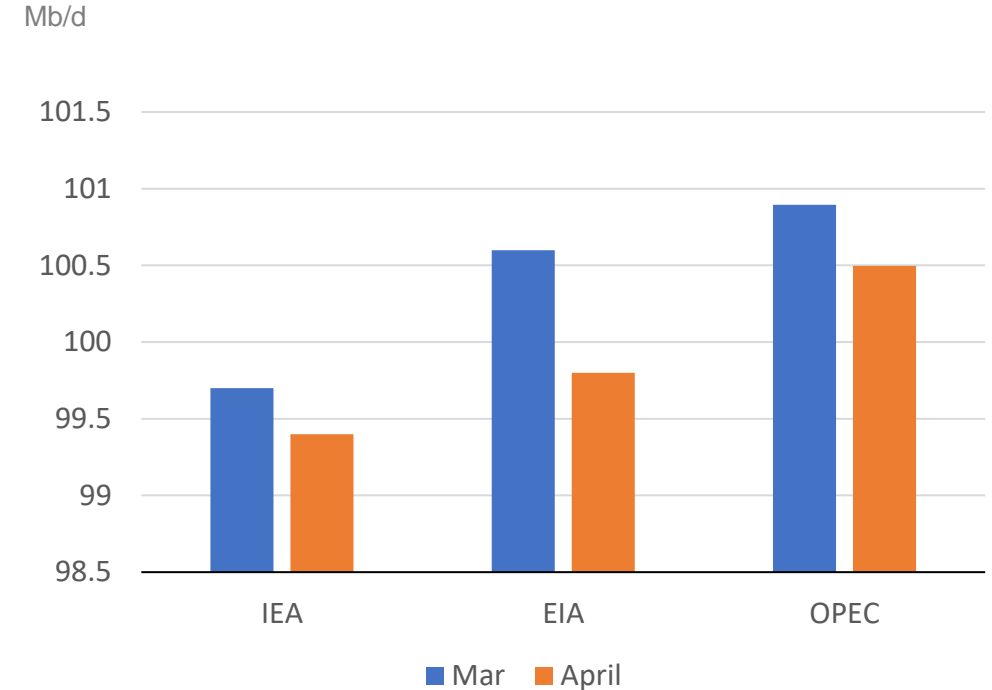
Source: Haver



Major international energy agencies downgraded their estimates of 2022 global oil demand in April 2022

- Our \$125/bbl average oil price forecast for Q2 2022 now appears too elevated given that April average Brent price is around \$106/bbl. However, upside risks remain high. An implementation of a complete oil ban on Russia by the EU given the mounting evidence of atrocities committed by the Russian army against Ukrainian civilians¹ could push oil prices to above \$150/bbl in the first months of the embargo, especially that the EU remains, to date, highly dependent on Russian oil and gas. With an embargo imposed, the EU faces two challenges: the tight supply of LNG and the limited LNG terminals and pipelines in the EU. Those two challenges will hinder the ability to import additional LNG from new sources and push prices significantly upward.
- This will eventually curtail global economic growth and lower oil demand further. In fact, IEA, EIA and OPEC have already downgraded their 2022 global oil demand forecasts in April 2022 by an average of 0.5mb/d. IEA forecasts global oil demand to average 99.4mb/d down 250kb/d from the previous month, very close to EIA's oil demand estimate. OPEC in its April 2022 report, maintained oil demand at 100.5mb/d very close to pre-pandemic levels despite a 0.4mb/d downgrade from March. All three energy agencies cited high inflation globally and China's Zero-Covid policy as main reasons behind the downgrade.

2022 global oil demand downgraded



Source: IEA, EIA, OPEC

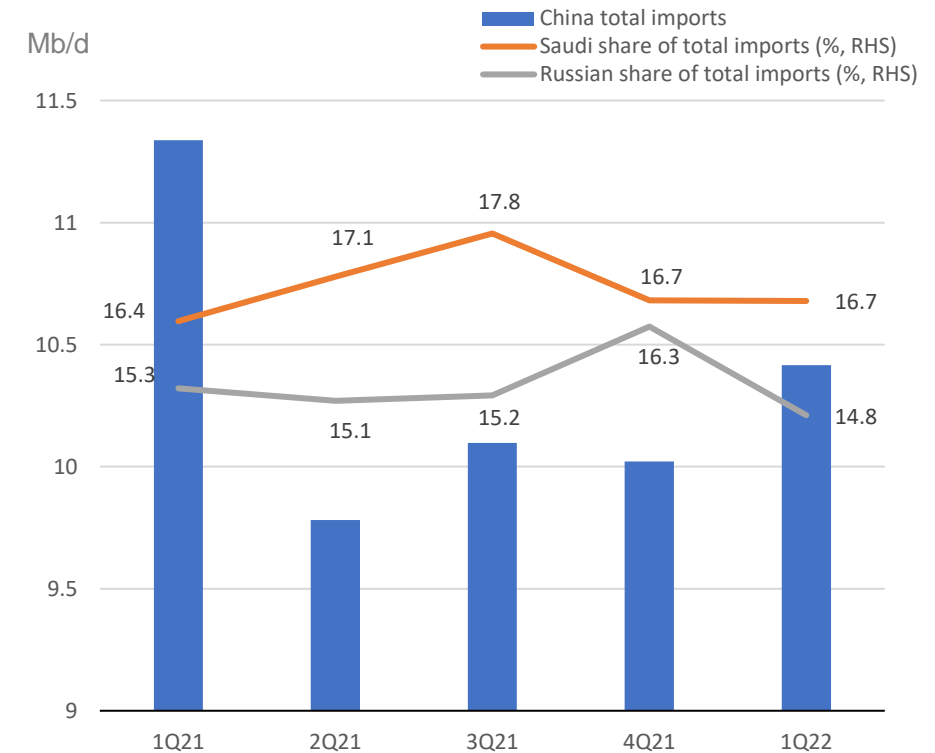
¹ FT



China Q1 2022 oil imports declined from previous quarter

- China and Russia have grown closer as China seeks to localize energy imports. Russia has been pivoting east for allies since the annexation of Crimea in 2014, and China (and India to a lesser extent) stepped in to fill that role. China may take advantage of the cheap-Russian-oil environment, but sanctions and COVID-19 could complicate this decision. Although China has so far adopted a wait-and-see approach to the Ukraine conflict, it remains Russia's strategic partner, and together they present a united front against the US and its partners. Some self-sanctioning by Chinese state-owned banks (Chinese banks are shying away from conducting investment with Russian companies) over fear of secondary sanctions has occurred and they have limited access to credit to fund oil imports. However, Russia still expects China to step up and absorb some of Russia's oil in case of an embargo.
- So far, the resurgence of a COVID-19 wave in Q1 2022 may dampen China's 2022 oil demand outlook. Latest data for Q1 2022, reveal an 8 percent annual decline in China's volume of oil imports (mb/d) as a result of COVID-19 re-instated lockdown measures. China reduced its imports predominantly from USA (-20%), Russia (-20%), Norway (-13%) and the UK (-12%). However, according to [Bloomberg](#) calculations that are based on data from the General Administration of Customs, China imported 10.51mb/d in April 2022, up 4 percent from March. However, it is still unclear whether the excess barrels were bought before or after the war on Ukraine.

China's Q1 2022 oil imports down 8% from a year ago



Source: MEES



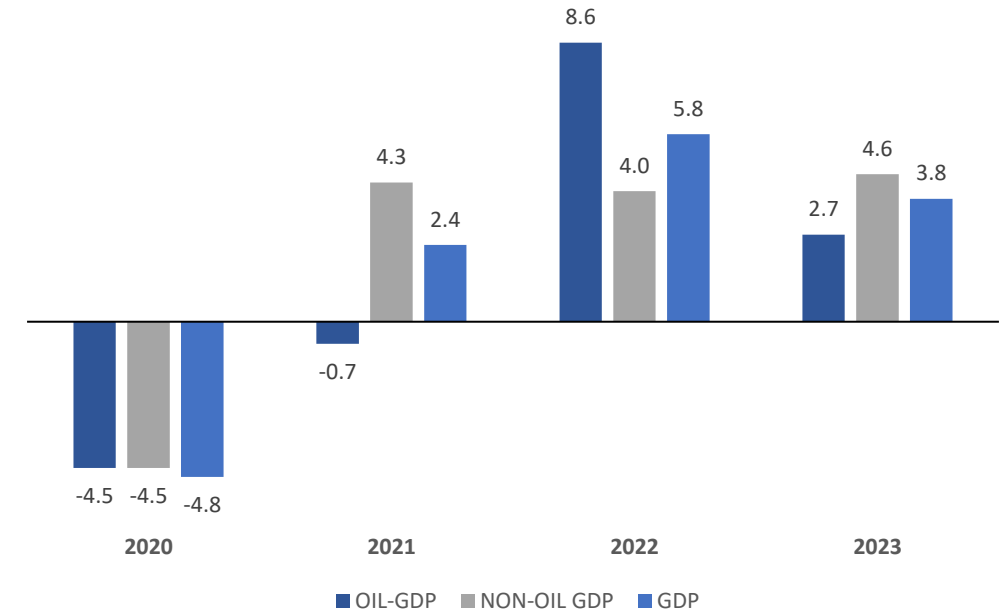
Gulf Region

Highlights & Summary

Gulf economic growth will be positively impacted by the war in Ukraine

- The Russo-Ukrainian war increased oil revenues in Gulf countries. We forecast overall Gulf region GDP to grow by an outsized 5.8 percent, supported by 8.6 percent growth in oil GDP. Although the non-oil sector's contribution will be lower than the contribution of oil GDP, the sector is expected to benefit from elevated oil revenues as fiscal deficits turn into surpluses.
- Despite elevated oil prices, oil producers in the region have not increased production above their existing commitment to OPEC+ to raise monthly production by only 432kb/d up to September 2022.
- While Saudi Arabia and the UAE have enough spare capacity to pump more barrels, Gulf countries continue to keep production at previously agreed levels. By the end of 2023, Saudi Arabia can add an additional 1.5 mb/d versus another 0.5 mb/d for the UAE.
- However, as prices remain high, they may eventually start losing market share to the discounted Russian oil sold to India, China, Iran. Only then may production start rising faster in the Gulf.

Gulf region real GDP Growth (% change)



Source: The Conference Board

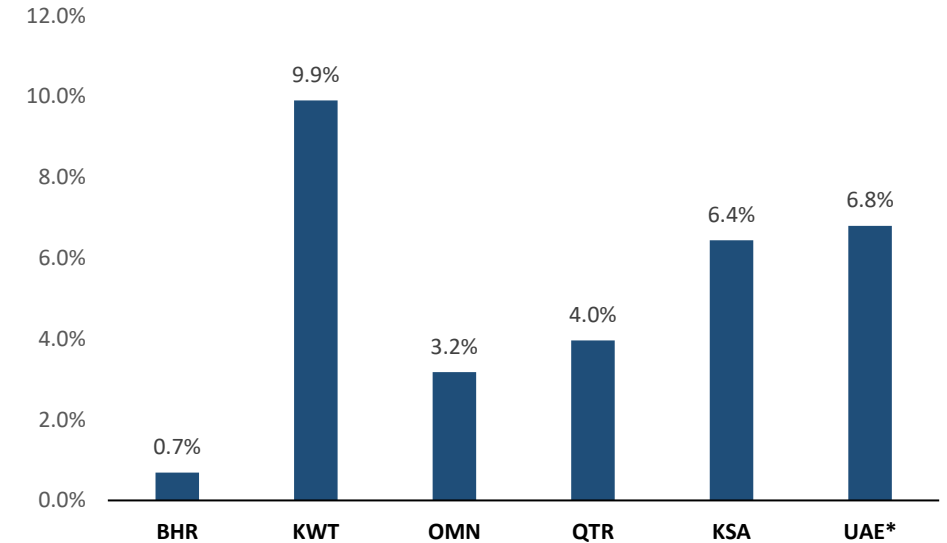


Non-oil GDP growth should maintain a strong momentum in 2022 supported by high oil prices

- We raised our Gulf region’s non-oil GDP growth estimate to 4 percent. The non-oil sector will benefit from the elevated oil prices and see oil revenues channeled into the sector through funding of developmental projects.
- In Q1 2022, consumer spending and credit to the private sector continued to recover while the Purchasing Managers Indexes (PMI) for Qatar, Saudi Arabia and the UAE remained in expansionary territory (above 50 points). Output and new businesses increased substantially in all three indices, while volatility in the oil market translated into higher input costs. Kuwait is set to record the highest surplus to GDP in the region at 9.9%. This is the result of its high dependence on oil revenues and the lack of diversification efforts throughout the last decade that will keep the country exposed to oil market volatility. We estimate a \$10/bbl change in oil price will positively impact Kuwait’s surplus by 5.7%, and 3.2% for Oman while impacting Qatar and Saudi Arabia surpluses by 2.7%.

Gulf Region GDP

GCC fiscal balance as a percentage of GDP



Source: The Conference Board

	BHR	KWT	OMN	QTR	KSA
Impact of \$10/bbl increase in oil price on budget surplus	1.9%	5.7%	3.2%	2.8%	2.7%

Source: The Conference Board



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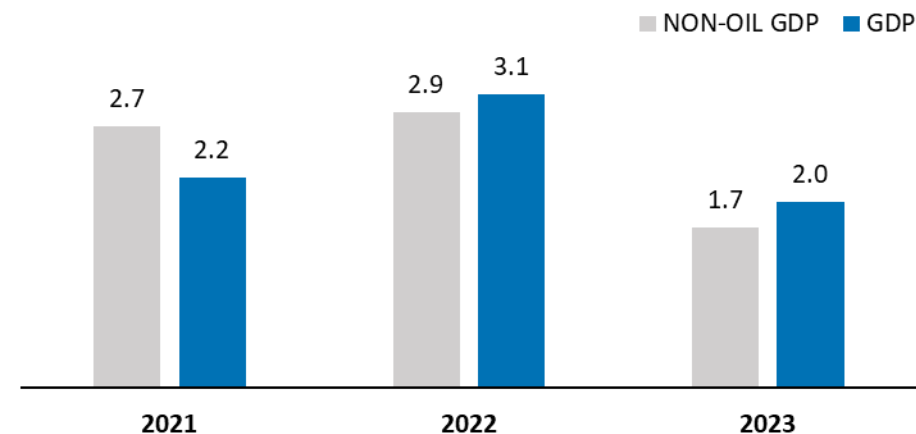
Highlights by Country

Bahrain Both oil and non-oil sectors will support strong economic growth in 2022.

- Given the recent surge in oil prices, due to the ongoing war in Ukraine and geopolitical tensions, we upgraded **Bahrain's** Real GDP growth by 0.5 percent to 3.1 percent and kept 2023 growth unchanged at 2.2 percent.
- The non-oil sector, the main engine of growth for the country, is expected to grow by a strong 2.9 percent in 2022 before slowing back to 1.7 percent in 2023. For years, Bahrain's non-oil sector has capitalized on tourists from Saudi Arabia. However, with the latter focusing more on their local tourism, we should expect the contribution to GDP of this sector to decelerate going forward.
- Recently published non-oil sector indicators by the ministry of finance point to a continuous recovery. The Economic Recovery Plan helped boost hotel occupancy rates, number of mall visitors, and new commercial licenses. Real estate sector activity improved as well in the first quarter of the year with new building permits rising by 15.8 percent from the previous quarter while the volume of real estate transactions increased by 19.6 percent over the quarter. On the other hand, while point-of-sales transactions increased by 4.2 percent. Meanwhile, Bahraini employment in the private sector increased by 32 percent year-on-year with 7,740 Bahrainis employed in Q1 2022.
- While a suite of economic reforms was put in place in late 2021 to achieve fiscal balance by 2024, an average oil price of \$96/bbl will turn the fiscal deficit into a minor surplus of 0.7% of GDP as early as 2022. However, downside risks from oil volatility and insufficient fiscal consolidation remain.

Bahrain GDP

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



Source: The Conference Board

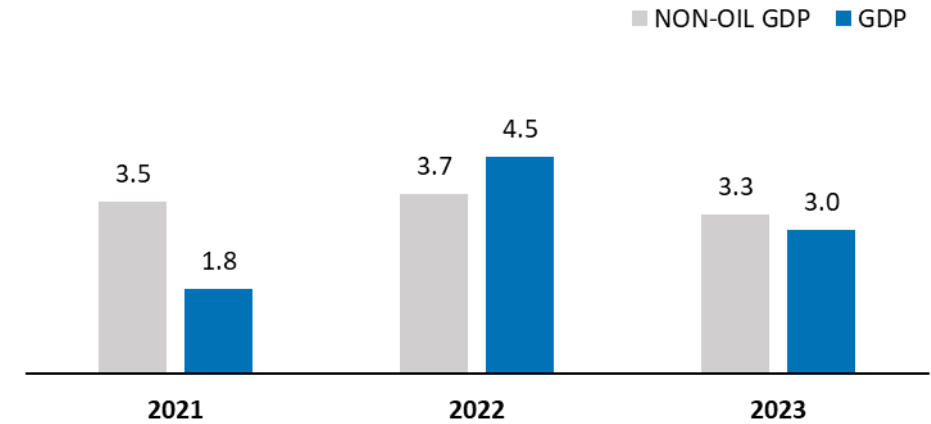


Kuwait GDP is set to record 4.5 percent growth in 2022 following years of muted growth

- **Kuwait's** dependence on oil prices exposes the economy to oil market volatility and limits sustainable growth. Kuwait's GDP is expected to leap from 1.8 percent of GDP in 2021 to 4.5 percent in 2022 before cooling off slightly in 2023. Kuwait's oil production is expected to rise as OPEC+ continues to unwind its oil cuts up to September 2022. The upward revision to GDP is driven by the rise in oil revenues that will support the oil and non-oil sectors.
- The ongoing political deadlock in the country didn't just delay major economic reforms, it left the oil sector struggling for funds and reduced production capacity by more than 500,000 b/d over the past three years. The lack of funding was also exacerbated by labor shortages - mainly expat labor - as the government entities pushed its nationalization policies. Between 2018 and 2021, the total value of projects awarded (oil and non-oil) averaged \$4.6 billion per year, out of which the total value of oil and gas projects awarded averaged US\$485 million per year or around 10 percent of total projects awarded. However, oil and gas projects totaled \$3.8bn in 2017 alone. In 2022 and 2023 we should expect increased momentum in upstream projects in the Gulf region and in Kuwait. Recently, the Kuwait Petroleum Corp. and Japan's Nippon Export and Investment Insurance company signed a memorandum of understanding to fund oil projects worth \$1 billion.
- Non-oil GDP growth is expected to grow by 3.5 percent and 3.7 percent respectively in 2022 and 2023, supported by lifting of most pandemic-related restrictions and the higher oil price environment. Credit to the private sector, one indicator of non-oil activity, reached a historical high of KD 43bn (\$141 bn), up 7.9 percent year-on-year. Credit growth has increased since September 2016, averaging 3.8 percent between September 2016 and December 2021.

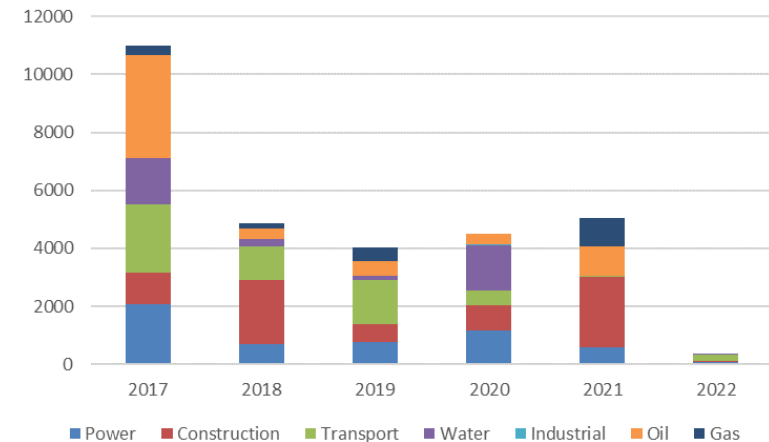
Kuwait GDP

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



Source: The Conference Board

Kuwait awarded projects in USD million



Source: MEED

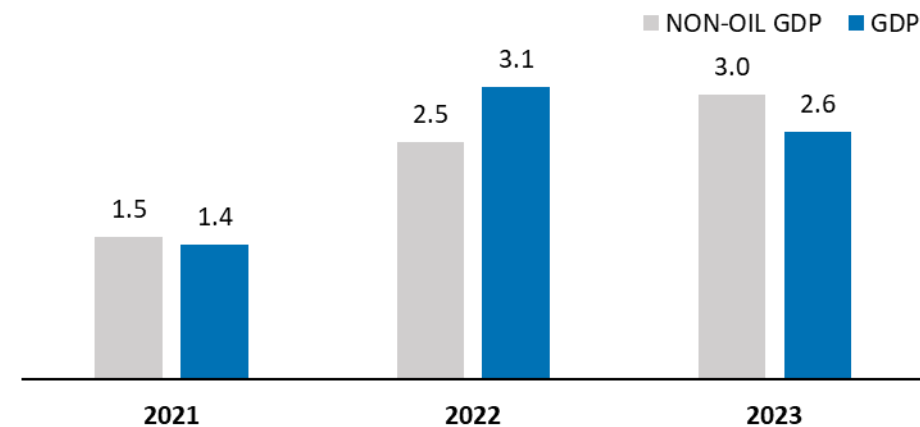


Oman GDP growth is forecast at 3.1 percent in 2022, an upgrade of 0.3 percent from our previous estimate

- In **Oman** economic recovery is on track and reduced government debt is in sight. Increased oil and gas production will support oil GDP growth that is estimated to reach 4 percent.
- Non-oil GDP is expected to grow by 2.5 percent in 2022, supported by improved tourism and rising employment in the private sector. Oman has allowed complete foreign ownership of businesses and real estate with hopes to attract foreign investment and labor. At 96/bbl, almost double the budgeted oil price, we forecast the fiscal surplus to reach 3.2 percent of GDP.
- The Omani government is planning to use the fiscal surplus to pay down high-cost loans and fund further development projects to boost the non-oil sector and employment.
- S&P and Fitch Ratings both recently upgraded Oman's sovereign debt rating on higher hydrocarbon production, economic reforms, and lower debt risk. These upgrades are the first since 2015.

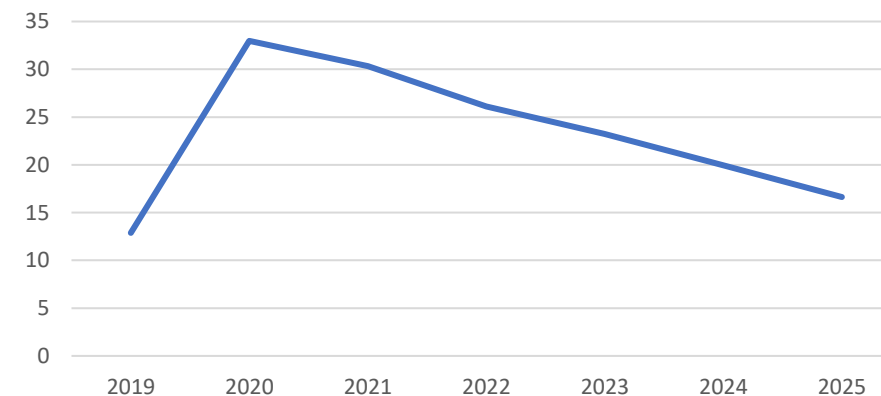
Oman Region GDP

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



Source: The Conference Board

Net Debt to GDP (in %)



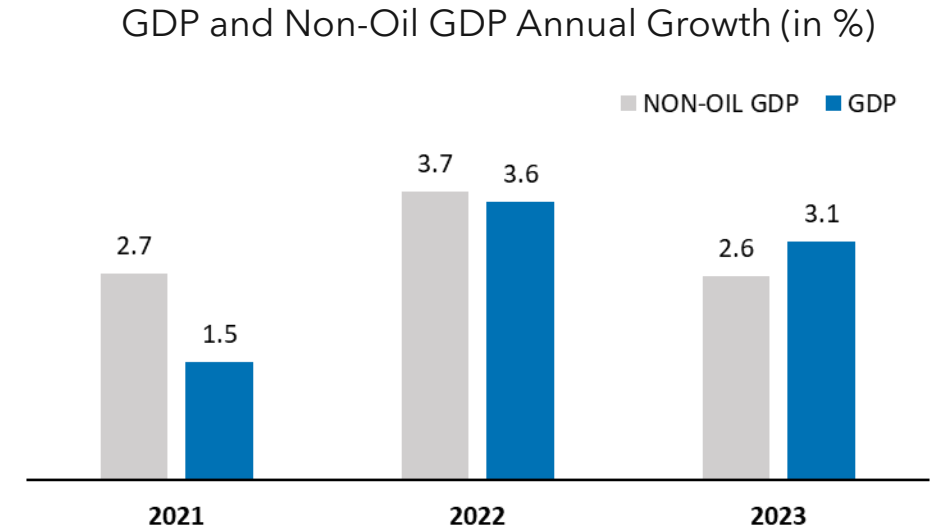
Source: IMF data mapper



Qatar 2022 real GDP to double, reaching 3.6 percent; However growth could be even higher if Qatar had enough spare production capacity to satisfy the current pent-up demand for LNG

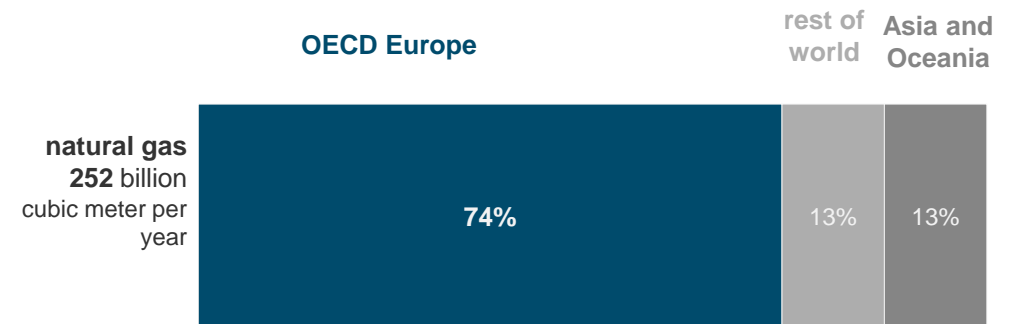
- Qatar** Real GDP recorded a mild recovery of 1.5 percent in 2021, supported mainly by the non-oil sector. Oil GDP growth recorded a minor contraction of 0.3 percent. The country is currently gearing up to host the FIFA World Cup Qatar 2022 although the ongoing war in Ukraine might dampen its impact as less European football fans might travel to Qatar to watch the games.
- While Qatar, a global LNG exporter, is well positioned to navigate this transition era to cleaner energy since LNG is considered the “greener” alternative to oil, it will also play a role in decoupling the EU from its dependence on Russian LNG. Qatar, one of the largest LNG exporters in the world, cannot single handedly compensate for the Russian LNG supply to Europe. While the EU imported around 186 bcm in 2021 from Russia, Qatar exported around 157 bcm, out of which 80 percent went East to South Korea, India, China, Japan, and Pakistan.
- Given Qatar’s current limited spare capacity and its long-term contracts with Asian consumers, Qatar pledged that it will not redirect gas destined to the EU towards the East for a higher price. However, upon the completion of the North field expansion, Qatar will see its capacity rise by 60% in four years.

Qatar GDP



Source: The Conference Board

2021 gas exports from Russia



Source: EIA

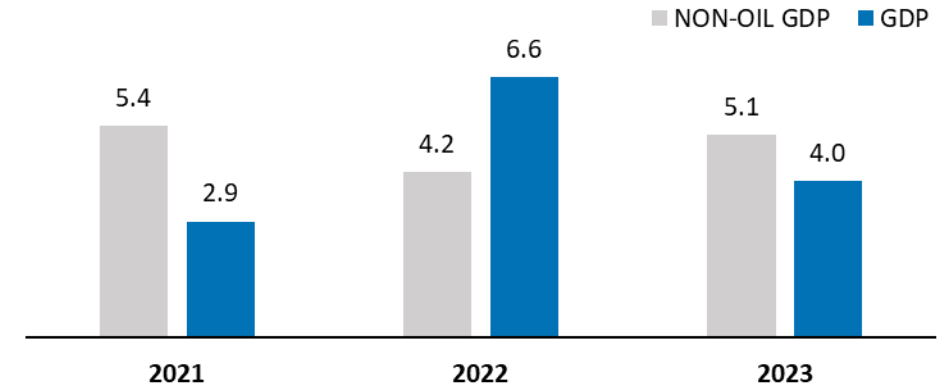


Saudi Arabia is aiming to accelerate implementation of Vision 2030 developmental projects

- **Saudi Arabia** GDP is forecast to post a significant 6.6 percent growth rate in 2022 with oil GDP leading growth momentum. Saudi Arabia is expected to log a fiscal surplus of 6.4 percent of GDP if oil prices average \$96/bbl. Oil production is set to gradually rise and reach 10.3mb/d by the end of 2022. Echoing the OPEC+ narrative, Saudi Arabia believes that market fundamentals do not suggest a need for more barrels, nor does it face constraints in terms of spare capacity. In fact, according to the International Energy Association (IEA), Saudi Arabia holds up to 1.2 mb/d of short order spare capacity, meaning that it can be available immediately and 2.1 mb/d in spare capacity that is available to the market within 90 days.
- On the non-oil front, business activity maintained positive momentum during the first quarter of 2022. The Saudi Purchasing Managers Index (PMI) by Markit reached 56.8 in March 2022, signaling a healthy expansion of the Saudi non-oil private sector, which is supported by rising new orders and increased hiring.
- Aramco's massive profits of \$110bn for 2021 are likely to translate into increased investment in the oil and non-oil sectors with a focus on Vision 2030 developmental projects and upstream projects. The non-oil sector will see investment primarily funneled through the Saudi Public Investment Fund (which owns a 4 percent stake in Aramco since February 2022) and through the Shareek program that incentivizes listed companies to invest their profits with the local private sector. The oil sector will benefit as well from increased oil revenues as the government plans to increase sustained oil production by 1mb/d to 13mb/d by end of 2027.

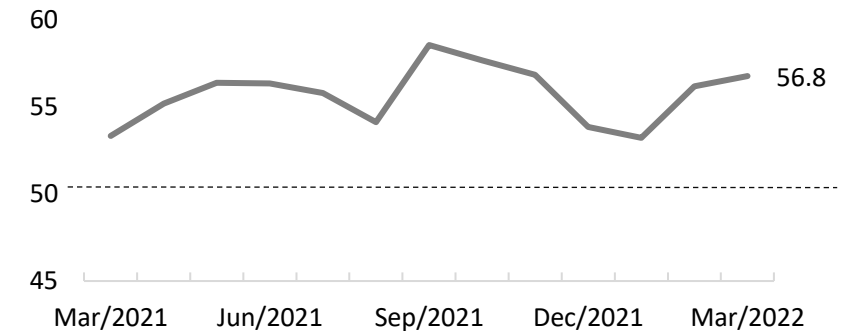
Saudi Arabia GDP

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



Source: The Conference Board

Saudi PMI



Source: IHS Markit

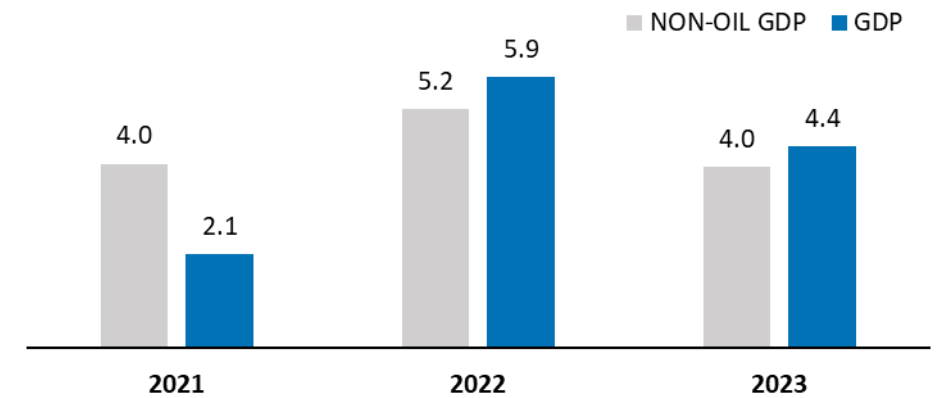


UAE: Non-oil activity is close to reaching pre-pandemic levels supported by strong tourism and real estate recovery

- United Arab Emirates** Real GDP is set to grow by 2.1 percent in 2021 and by 6.3 percent in 2022 before slowing back to 4.2 percent in 2023. We upgraded our 2022 estimates as a result of improved oil demand and production. GDP growth in 2022 will be driven by the oil sector as OPEC+ members continue to unwind cuts until September 2022. We forecast oil production to average 2.9mb/d in 2022, slightly revised downward due to production capacity concerns.
- Non-oil activity is close to reaching pre-pandemic levels. Q4 2021 witnessed a rebound in activity in multiple sectors such as tourism, real estate, and trade which translated into increased employment and a strong PMI in expansionary territory. In fact, hotel occupancy rates in Dubai reached 82 percent in Q4 2021, surpassing the Q4 2019 level of 80.6 percent, supported by the launch of Expo 2020 Dubai that ran between November 2021 and March 2022. Residential property prices are back on positive trajectory, an increased momentum fueled by the Golden Visa policy which allows big investors to obtain a 10-year residence permit. In contrast, the Dubai Commercial Property Price Index has been steadily declining since March 2016. In Q3 2021 (last available data point to date) reveals a 12 percent decline in office prices, while Dubai retail property prices declined 12% between 1H2021 and 2H2020.
- We expect strong overall economic activity that reinforces the non-oil private sector to continue throughout 2022 and 2023. The effects of the Russo-Ukraine war on global activity will accelerate non-oil activity, mainly in the real estate sector as Russian oligarchs and other high-profile individuals might see Dubai real estate as a safe haven investment not subject to sanctions.

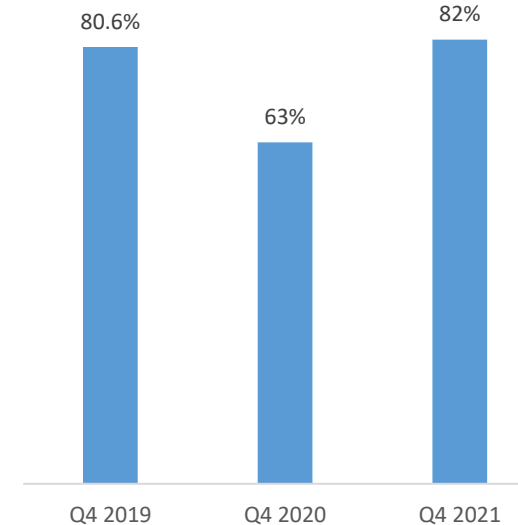
United Arab Emirates GDP

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



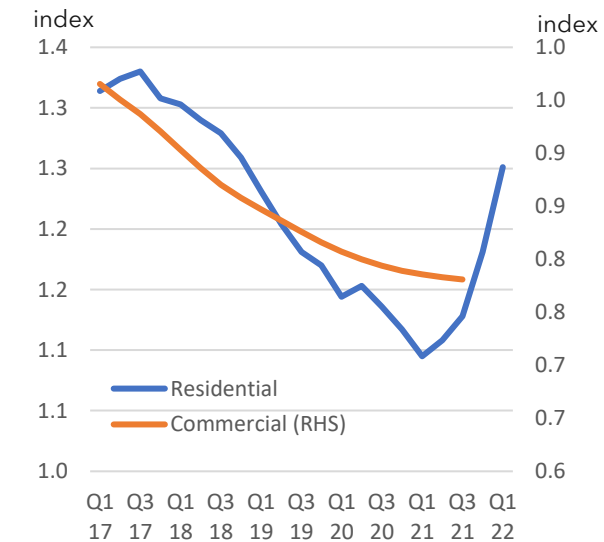
Source: The Conference Board

Dubai Hotel Occupancy Rate



Source: UAE Central Bank, Q4 2021 report

Residential and Commercial Price Indices



IMPORTANT INFORMATION

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