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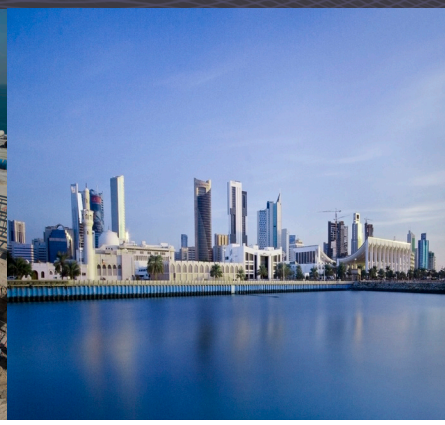
MENA Economic Outlook



3Q 2016

- GCC non-oil growth seen moderating to 3.2% in 2016 as fiscal adjustment picks up
- Ambitious fiscal & structural reform plans promise better growth in medium term
- Oil importers held back by moderate regional & world outlooks, and security issues

MENA Economic Outlook
3Q 2016

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MENA outlook

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GCC non-oil growth to average 3.5% in 2016-17, as deficits spur on reform

Overview and outlook

- **GCC economies to grow moderately on the non-oil side in 2016 and 2017, averaging 3.5% growth. Overall GDP growth to average 2.4%.**
- **Faced with the new "lower for longer" or just "lower" oil price environment, GCC policy makers have embarked on long-term changes and reforms; but adjustment is expected to be slow and gradual.**
- **GCC economies saw their first fiscal deficits in years in 2015 and have started to borrow, domestically and internationally.**
- **Oil importers are held back by a moderate regional and world outlook as well as by persistent security issues.**
- **Modest growth in global oil demand and more restrained supply are helping balance the oil market in 2016; oil prices are rising gradually. The IMF expects world economic growth at 3.2% in 2016.**
- **Major central banks to remain very accommodative, notwithstanding one possible rate hike by the Federal Reserve this year.**

Mid-year, and though our revised outlook for 2016-17 is not qualitatively different from the earlier edition of this report, the growth numbers, world and GCC, have come down. This revised expectation is the result of slightly disappointing world growth in 1H16, primarily in emerging markets, and of heightened uncertainty stemming primarily from Brexit: the momentous decision by the UK to separate from the EU. Europe, which was on track to meet or beat expectations this year, will now be subjected to Brexit winds, with the UK flirting with recession later this year.

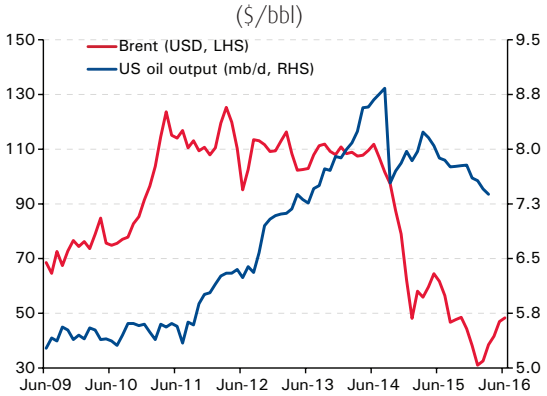
The GCC economies are expected to be marginally affected by all that; however, we revised their outlook somewhat because of more aggressive government action to reduce their fiscal deficits. Most GCC countries moved rather fast to enact spending rationalization and subsidy cuts, Kuwait being the exception. These new measures will eat into near-term growth but are otherwise good news. Though oil prices have recovered from recent January 2016 lows, they are still in the low $50s or lower (Brent basis) and are not expected by anyone to return to their heady $100 levels any time soon. The GCC governments have thus had since mid-2014 to adjust to this new reality and are moving decisively to address it, including a vast 2030 economic plan in KSA. The KSA plan aims at diversifying the economy, raising non-oil revenues, creating jobs and even privatizing part of the oil wealth/production of the country. Kuwait is also floating the idea of privatizing some downstream oil activity.

GCC economic indicators

		2014	2015e	2016f	2017f
Nominal GDP	USD tn	1.6	1.4	1.4	1.6
Real GDP	% y/y	3.3	3.3	2.2	2.6
- Oil	% y/y	1.3	2.3	0.8	0.9
- Non-oil	% y/y	5.4	4.1	3.2	3.7
Inflation	% y/y	2.5	2.8	3.2	3.3
Budget balance	% of GDP	2.0	-9.6	-8.6	-3.7

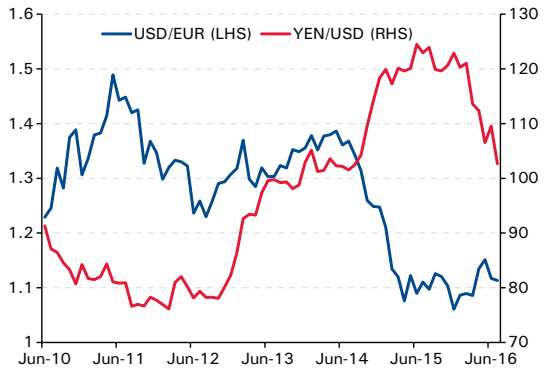
Source: National sources, NBK estimates

Chart 1: Brent oil price and US output



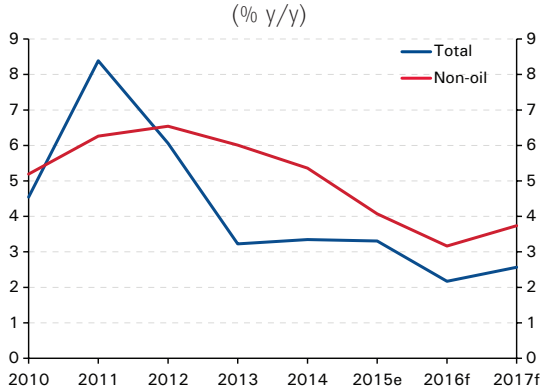
Source: International Energy Agency, Thomson Reuters Datastream

Chart 2: Exchange rates



Source: Thomson Reuters Datastream

Chart 3: GCC real GDP



Source: National sources, NBK estimates

Back to the world economy, the IMF revised its world outlook for 2016 down back in April, to 3.2% from the previous 3.4%. Advanced economies are expected to grow 1.9% and emerging markets 4.1%. MENA is expected to grow 2.9%. We anticipate outcomes close to those numbers, though the bias and risk (acknowledged by the IMF) has to be on the downside. Because of this very moderate growth outlook, oil prices are not expected to take off, though they should firm gradually ahead. The US Federal Reserve and other central banks should continue to err on the side of caution, if not outright continued non-conventional easing (ECB, BOJ), amidst negative interest rates on a wide swathe of sovereign issues.

Mid-year, Brexit was the huge event that injected volatility in financial markets and led to some growth revisions, hitting the UK outlook, the EU outlook, and the rest of the world, in that order. Of course, the aftermath of the Brexit vote saw markets stabilize after a few days, with the realization that the actual Brexit process, though raising many question marks, will play itself out over a period of 2-3 years, under the leadership of the new Prime Minister Theresa May. Compounding the already significant political uncertainty, markets and economies will have to contend later this year with a turbulent US presidential election (November, Clinton vs. Trump) and an Italian referendum on constitutional reforms (October). Both events have the potential to raise anew the anti-establishment anti-status quo temperature, as was done in the Brexit vote.

All the while, in advanced economies, as structural reform remains mired in semi-dysfunctional politics, and fiscal policy remains constrained by high levels of debt, the onus to keep things going and to avoid "accidents" lies with the central banks. Those continue to provide liquidity via unconventional means in many cases, liquidity that is contributing to support equity markets worldwide, as well as negative interest rates in Europe and Japan.

Currencies saw their share of action so far this year, with the dollar losing some ground against the euro before recovering after Brexit (down only 1% ytd), while the yen soared in 1H16 and was up some 14% against the dollar by mid-year. Many factors were at play, but the major one was the revised expectation from "several rate hikes by the Fed" this year to perhaps "only one" 25 bps hike. The US 10-year note yield dipped under 1.5% in July, making historic lows, and driven by a benign Fed and pervasive negative rates in most sectors of the yield curve (Japan, Germany, UK, etc.). For their part, oil prices recovered from their 1Q16 lows and averaged about $40 per barrel in 1H16 after an average of $47 in 2H15. We expect them to move above $50 later this year and to improve gradually into next year.

The new low oil price environment has forced structural reform and adjustment on many GCC countries in order to deal with this new reality. New taxes and revenues are being sought, and subsidy cuts have been enacted with more to come. Furthermore, all GCC countries are expected to post further deficits in 2016. The total GCC deficit was $132 billion in 2015 following a surplus of $33 billion in 2014. This was a deficit of 10% of GDP, which we project to fall to 9% in 2016, and then to less than 4% in 2017, as governments address the problem. As mentioned above, all GCC countries are in the process of adjusting fiscally and have already acted. They are trying to keep the projects and infrastructure spending going in order to sustain the economy and to prepare for the future, while cautiously and gradually reducing some subsidies and benefits. GCC countries are also contemplating new revenues, a VAT tax has been widely discussed and could come in 2018 or 2019 (5%). Of course, the deficits have led to debt financing. Sovereigns have issued some $44 billion in bonds in 1H16 (gross) led by Saudi Arabia. The issuance started in the local domestic markets, but

Abu Dhabi, Oman, and Qatar have already tapped the international market, and the others will follow.

In that context, we now expect real GDP growth of 2.2% and 2.6% for 2016 and 2017, almost 1% below our previous projections. Non-oil GDP should grow 3.2% and 3.7% in the two years, while oil GDP should grow a little under 1%. Liquidity, which tightened a bit since the Fed hiked rates 25 bps in December 2015, and since deficit financing became an issue, remains very manageable. Since we expect that the Fed will hike rates only once this year (25 bps), most GCC countries are liable to do the same with modest impact on their liquidity. And though the individual country performances are more or less in line with the GCC numbers discussed here, we expect Qatar, Kuwait and the UAE to be the better performers, especially when considering non-oil GDP growth. Those countries happen to be the ones with more flexibility thanks to their vast financial resources. Meanwhile, Egypt is struggling with a slowing economy as much delayed reforms and a challenging security environment take their toll. A more upbeat outlook will depend on the recent efforts by the government to revive a credible reform program and win back international investors, though the way forward remains challenging.

Bahrain outlook

Softer oil prices to weigh on growth and widen fiscal deficit in 2016

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Overview and outlook

- **Real GDP growth is expected below 2% in 2016 on depressed oil prices. We foresee a pick-up in 2017 on the back of a potential recovery in oil prices and as the non-oil sector gathers pace.**
- **Inflation is projected to come in higher in 2016 and average 2.5%, predominantly due to subsidy cuts.**
- **The budget deficit is set to widen further in 2016, to 17% of GDP, as oil revenues remain weak.**
- **The banking sector is expected to face some liquidity constraints until at least the end of 2016, on the back of tepid deposit growth.**

Real GDP growth to maintain downward trend in 2016

Economic growth is set to soften further in 2016 as lower oil prices continue to act as a damper on public expenditure and investment growth. We expect growth in real GDP to slow from an estimated 2.3% in 2015 to around 1.6% in 2016, before recovering in 2017 (Chart 1). Non-oil GDP is expected to decelerate to around 2.0% in 2016 as investor confidence remains sluggish. We see real growth in the non-oil sector rising to around 3.8% in 2017 on higher government spending and inflows of official GCC grants targeting housing and infrastructure developments.

Non-oil growth is poised to be bolstered by higher investment levels in the medium- to long-term. The GCC has pledged $10 billion in investment over ten years. Indeed, the airport expansion project is being launched with a $0.93 billion grant from the UAE. In addition to this, Bahrain's Economic Development Board (EDB) plans to invest over $20 billion in industrial and infrastructure projects over the coming years.

However, the strength of non-oil GDP growth remains suceptible to internal concerns, which have overshadowed business optimism in the past. While these concerns have subsided somewhat, they continue to hang over investor confidence and impede gains in the financial services, construction and tourism sectors.

Inflation expected to edge higher in 2016 on subsidy cuts

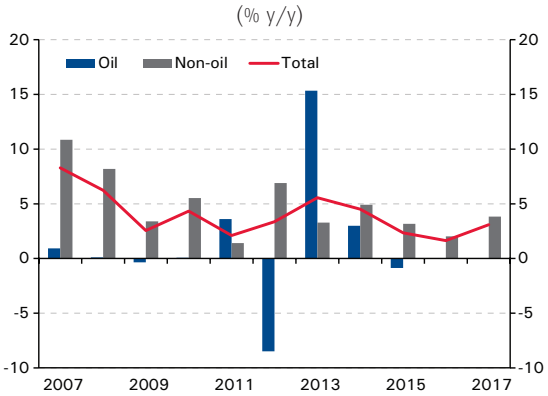
Inflation in the consumer price index (CPI) climbed higher for the most part of 1H16, after subsidy cuts in the food and housing components drove the respective inflation rates higher (Chart 2). However, latest data showed headline inflation steadied at around 3.7% year-on-year (y/y) in May after

Key economic indicators

		2014	2015e	2016f	2017f
Nominal GDP	USD bn	33.8	32.2	31.8	34.9
Real GDP	% y/y	4.5	2.3	1.6	3.1
- Oil	% y/y	3.0	-0.9	0.0	0.0
- Non-oil	% y/y	4.9	3.2	2.0	3.8
Inflation	% y/y	2.7	2.3	2.5	2.5
Budget balance	% of GDP	-5.6	-16.1	-17.2	-13.2

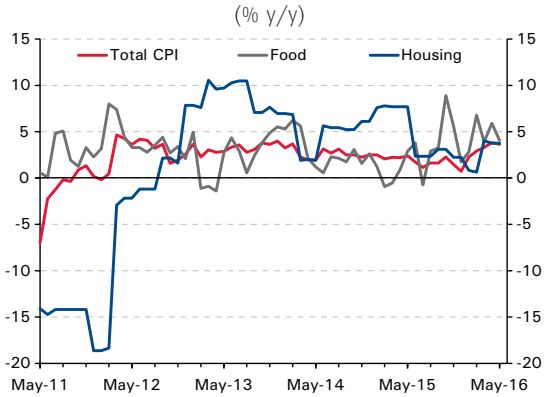
Source: Official source, NBK estimates

Chart 1: Real GDP



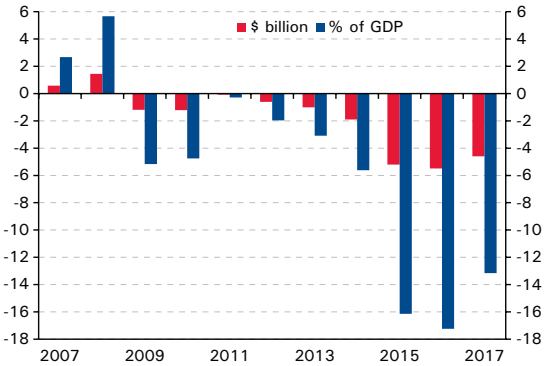
Source: Central Informatics Organization, NBK estimates

Chart 2: Consumer price inflation by sector



Source: Central Informatics Organization

Chart 3: Budget balance



Source: Bahrain Ministry of Finance, NBK estimates

inflation in food remained broadly unchanged and after housing inflation witnessed a notable slowdown, from 5.9% y/y in April to 4.1% y/y.

We expect inflation to edge slightly higher and average around 2.5% in 2016, following the rather strong inflationary gains in 1H16 and on the basis that there may potentially be further subsidy cuts, in a bid to shore up the nation's public finances.

Budget deficit to remain high on lower oil earnings and high spending

Bahrain is forecast to log in one of the largest budget deficits in the GCC region. With the breakeven oil price estimated at around $120 per barrel and oil prices remaining low, we expect the budget deficit to widen and come in north of 17% of GDP in 2016 before narrowing slightly to around 13% of GDP in 2017 (Chart 3).

Bahrain has vowed to embark on austerity measures in line with the IMF's recommendations to help plug its public deficit. Thus far, it has approved a plan to reduce government spending by 30%. Spending cuts have been concentrated on subsidies, while maintaining planned spending on infrastructure and development projects. In August 2015, the government lifted subsidies on meat products. In December 2015, the cabinet approved a new pricing system for diesel, kerosene and jet fuel that will lower subsidy costs and better reflect price increases in other GCC states. In 1H16, it approved the removal of subsidies on utilities.

However, engaging in significant cuts in public spending remains a challenge, especially since the two politically sensitive areas of spending, namely subsidies and public wages, make up two-thirds of total government spending.

Given that the budget deficit is expected to remain high in spite of recent and potentially further subsidy cuts, Bahrain will continue to tap into international bond markets in 2016 to help finance its deficit. In 2015, Bahrain raised $1.5 billion in bonds. In 1H16, the government of Bahrain reopened a two-tranche US dollar bond issue worth $600 million and apparently privately issued a $435 million three-year sukuk.

However, recent downgrades of the nation's long-term credit rating are likely to make any future bond deals more challenging. In June, Fitch, in line with the other two major rating agencies, downgraded Bahrain's long-term credit rating to below investment grade status, citing fiscal deficit concerns.

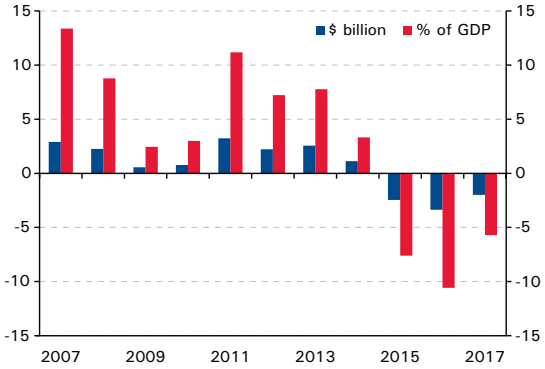
Banking sector liquidity conditions to remain tight

After remaining mostly steady in 2015, recent data show a slowdown in private sector claims growth (Chart 5). Growth slowed from 5.4% y/y in February to 3.3% y/y in March. We expect growth in this segment to ease further in the near- to medium-term amid tighter liquidity conditions.

Total deposit growth remains tepid mainly due to declining government deposits (Chart 6). Growth in government deposits continues to trend lower and remains in negative territory due to lower oil revenues and high levels of government spending. According to the latest data, government deposits fell by 6.3% y/y in March. Growth in private sector deposits also remained weak in March, after it came in unchanged from the previous month at 1.9% y/y. (The sharp drop in government deposit growth between August of 2015 and October 2015 can mostly be attributed to a one-off outlier.)

Growth in the broad M2 money supply remains weak on the back of lower oil prices. This, in turn, has pushed interbank rates higher. In March 2016, M2 money supply growth came in at a mere 2.0% y/y (Chart 7). Bahrain's

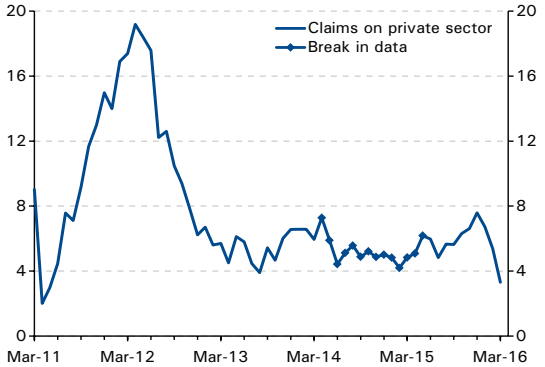
Chart 4: Current account balance



Source: Bahrain Ministry of Finance, NBK estimates

Chart 5: Private sector credit

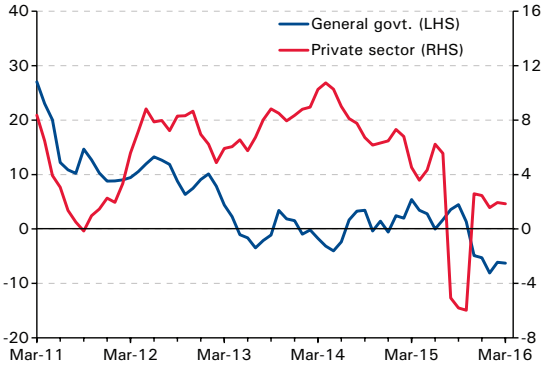
(% y/y)



Source: Thomson Reuters Datastream

Chart 6: Deposits

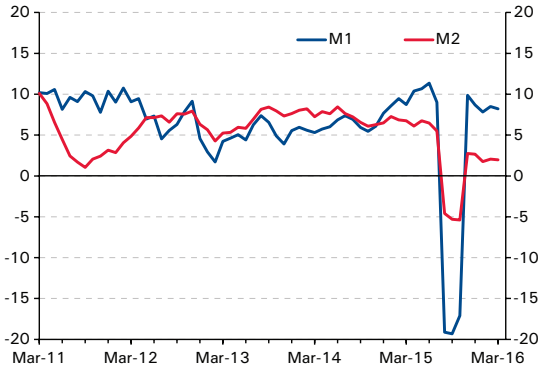
(3-month moving average % y/y)



Source: Thomson Reuters Datastream

Chart 7: Money supply

(3-month moving average % y/y)



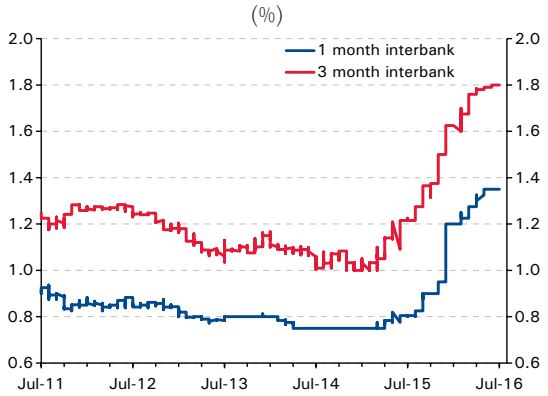
Source: Thomson Reuters Datastream

one-month and three-month interbank rates witnessed steep increases in the first half of 2016. Both rates are due to continue to rise this year on the back of tepid deposit growth (Chart 8).

Bahrain stock market remains subdued

The Bahrain All Share Index continued to trend lower in 1H16, in tandem with most GCC and global markets. The oil price outlook remains one of the keys to investor confidence and thus market performance (Chart 9).

Chart 8: Interbank rates



Source: Thomson Reuters DataStream

Chart 9: Stock market index

Source: Thomson Reuters Datastream

Kuwait outlook

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Non-oil activity remains well-supported by fiscal stance and financial buffers

Overview and outlook

- **Economic activity is expected to accelerate despite lower oil prices; non-oil growth to rise to 4-4.5% in 2016 and 2017.**
- **Commitment to the government's development plan remains intact, with improved implementation pace to be sustained.**
- **Fiscal deficits in 2016 and 2017 are manageable thanks to large financial buffers, as fiscal reforms address medium term challenges.**
- **Inflation expected to ease thanks to low global inflation.**

Economic growth has been resilient despite the lower oil price environment facing Kuwait. Non-oil growth is expected to pick up slightly in 2016 and 2017, driven by public investment and a steady consumer sector. While the large decline in oil prices since the middle of 2014 has put pressure on the government's budget, the state's fiscal position is robust and is expected to continue to support large capital spending and steady employment growth, especially among nationals.

Of course, lower oil prices have produced fiscal deficits, though they remain relatively manageable. We estimate a deficit of around 12% of GDP for FY15/16, likely to be followed by a similar-sized deficit in FY16/17 before narrowing markedly in FY17/18. In addition to the steps already taken to reduce the fiscal deficit, the cabinet has approved a package of reforms that includes critical fiscal measures to address Kuwait's fiscal sustainability in the medium to long term. The package also includes a number of structural reforms to boost economic diversity and reduce dependence on the oil sector.

Pressure on the fiscal position is expected to ease in 2017 as Brent is seen gradually improving throughout the remainder of 2016 and into 2017. We see Brent averaging around $45 a barrel in 2016 before rising to average $60 in 2017. Nevertheless, the possibility of lower oil prices for longer remains a significant downside risk for the outlook. Weaker prices would put further pressure on the fiscal and external positions and could push the government toward more significant expenditure cuts and possibly even some reductions or delays in capital spending. However, we think that such a scenario is unlikely.

Capital spending and steady consumer drive improving non-oil growth

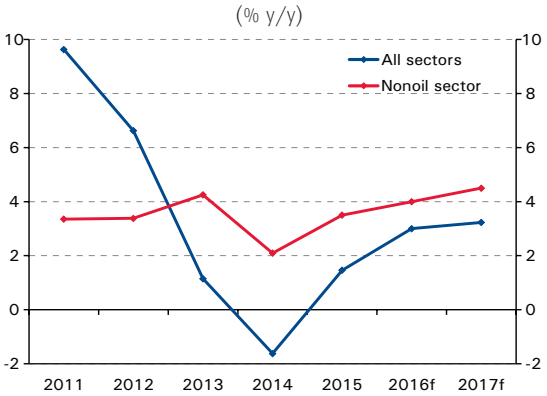
Non-oil sector activity has remained resilient despite lower oil prices. GDP growth in the non-oil sector is estimated to have accelerated to 3.5% in

Key economic indicators

		2014	2015e	2016f	2017f
Nominal GDP	KD bn	46.6	35.2	34.6	40.2
Nominal GDP	USD bn	164	117	115	134
Real GDP growth	% y/y	-1.6	1.5	3.0	3.2
- Oil	% y/y	-1.7	-0.3	2.1	2.1
- Non-oil	% y/y	2.1	3.5	4.0	4.5
Inflation	% y/y	3.0	3.0	3.0	3.0
Budget balance	% of GDP	7.4	-11.9	-12.0	-2.8

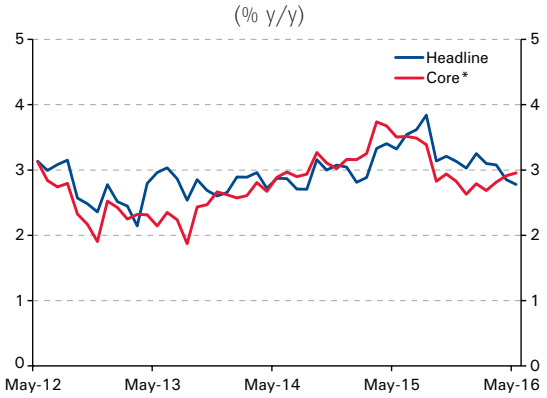
Source: Central Bank of Kuwait, Ministry of Finance, Central Statistical Bureau, NBK estimates

Chart 1: Real GDP growth



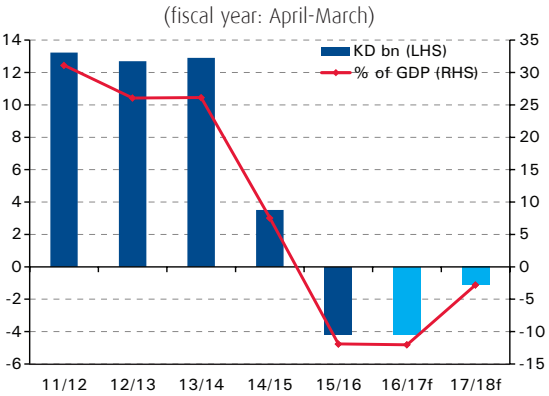
Source: Central Statistical Bureau, NBK estimates

Chart 2: Consumer price inflation



Source: Central Statistical Bureau, NBK estimates

Chart 3: Budget balance



Source: Ministry of Finance, Central Statistical Bureau, NBK estimates

2015 and should come in at 4-4.5% in 2016 and 2017 (Chart 1). We think the pace of growth has been improving since 2014 as the implementation of the government's capital projects improved. Growth has also been supported by a relatively stable consumer sector, bolstered by steady government hiring.

Private credit has reflected the improving pace of economic activity, with growth accelerating to 8.4% year-on-year (y/y) through March 2016 (Chart 4). Credit growth is likely to end 2016 at an average pace of 7%, up from 6% in 2015. In 2017, average growth should rise further to 7.5% driven by a strong appetite to borrow and a banking sector with ample resources and healthy conditions.

Overall GDP growth should improve to 2.9% in 2016 and to 3.3% in 2017. In addition to accelerating non-oil activity, the gradually improving outlook is driven by a resumption of growth in the oil sector; we expect oil production to grow by around 2% in 2016 and 2017, following two years of contraction. The main reason is the gradual return of Neutral Zone output (Wafra and Khafji), which was lost in 2014 and 2015 and accounts for around 250 thousand barrels a day of crude.

Government capital spending key to growth outlook

The outlook for economic growth is driven largely by government capital spending and an improving pace of implementation. The government's development plan targets investment of KD 34 billion by 2020. This sum includes significant private investment, as a number of large projects will be executed as public-private partnership projects (PPP), including the Al-Zour North power and water projects.

After much delay, there has been a clear pickup in the pace of project implementation since 2013. More than KD 7.5 billion in projects were awarded in 2014 and another KD 12 billion during 2015. Awards thus far in 2016 have also kept up the pace, with KD 2.2 billion awarded through May 2016. The improvement in capital spending has also been reflected in the levels of aggregate investment, which are estimated to have risen to 33% of non-oil GDP in 2015 from an average of 30% during the prior four years (Chart 5).

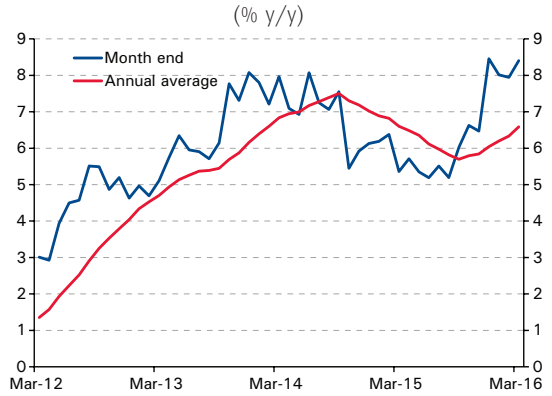
Consumer moderating as confidence is dampened

For years, the consumer sector has been a robust and reliable source of growth in Kuwait. This is expected to remain so in 2016 and 2017, though we see the sector moderating somewhat. The sector is supported by steady growth in employment and salaries, particularly in the government sector and among Kuwaiti households. Cuts in government wages and salaries are unlikely and subsidy reforms are expected to be gradual and to have a relatively limited impact.

Kuwaiti household income from salaries has been resilient, growing by an estimated 3.3% during 2015, according to data from the Public Institute for Social Security. Meanwhile, employment growth remained relatively steady at 3.1% during 2015. Government hiring remained a key source of employment among Kuwaitis, with nearly 20,000 Kuwaiti new hires during the year according to our estimates.

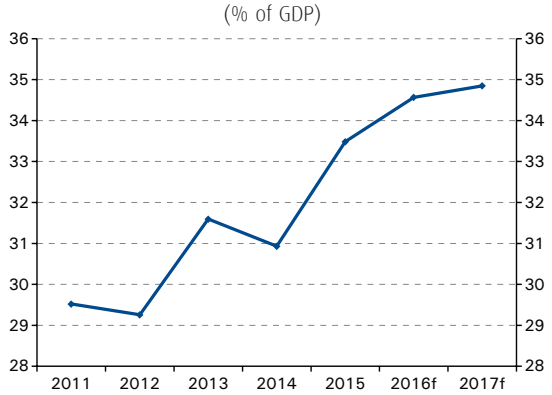
Growth in consumer spending and household borrowing remain near the double-digits. Credit and debit card point-of-sale spending figures reveal growth of 10.9% y/y in 1Q16 (Chart 6), though the pace has continued to moderate from previous years. Household debt growth has also been healthy, standing at 12.2% y/y at the end of March 2016 (Chart 7).

Chart 4: Private credit growth



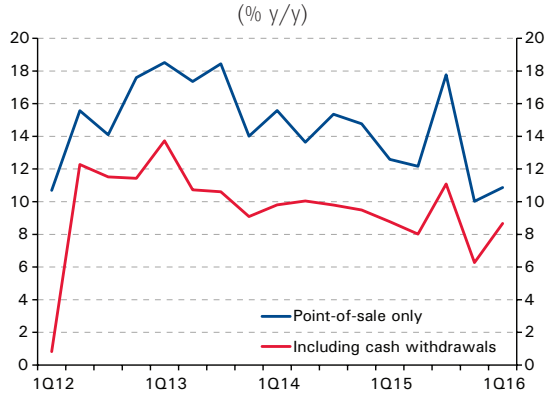
Source: Central Bank of Kuwait

Chart 5: Aggregate investment



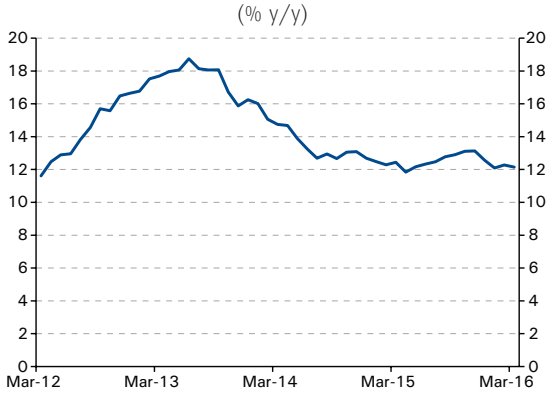
Source: Central Statistical Bureau, NBK estimates

Chart 6: Card transactions



Source: Central Bank of Kuwait

Chart 7: Household debt growth



Source: Central Bank of Kuwait

Despite the relatively healthy consumer, there have been some signs of softness in the sector since the decline in oil prices. The Ara Research & Consultancy consumer confidence index reveals that consumers may be taking a more cautious approach in their spending. The 12-month average index reading was down by 3.8% y/y in May 2016 (Chart 8). Most of this drop was in the durable goods component, which dropped by 9.2%, and in the current income component.

Real estate activity slump deepens, though prices appear to hold

Activity in the real estate market eased significantly in 2015 and thus far in 2016. Total real estate sales during the 12-months through May 2016 dropped by 31% y/y; sales during 2015 had decreased by 29% compared to the previous year's 19% increase (Chart 9). The residential and investment sectors have been the main sources behind lower sales. Residential sales were down by 36% y/y in May 2016, while investment sales were off by 35% y/y. Commercial activity has been more mixed; though commercial sector sales were down by 18% in 2015, the decline narrowed notably by May 2016 to a 1.3% y/y decline.

Despite the drop in sales, real estate prices appear to be holding up relatively well. According to sectoral price indices developed by NBK, 12-month average price growth in the investment buildings sector remains positive at 6.2% y/y in May 2016 (Chart 10). Residential land prices, which had seen some negative price growth last year, are back to seeing prices up compared to a year ago; price growth stood at 3.1% y/y. The only sector to see some negative price growth is residential homes where prices have fallen by a 12-month average of 3.4% y/y as of May 2016.

Inflation easing gradually as domestic pressures recede

Inflation continued to ease somewhat over the last year or so. Headline inflation declined to 2.9% y/y in April 2016, compared to 3.4% a year before (Chart 2). Services excluding housing have been a main source of reduced inflationary pressures, with inflation in this segment declining to 1.7% y/y in April 2016 compared to 3.5% a year ago. By contrast, inflationary pressures from housing rent have remained elevated but steady, with prices rising by 6.3% y/y. Meanwhile, pressures from durables and semi-durables remained subdued. We expect average inflation in 2016 to retreat to around 2.7% compared to a 3.3% average in 2015.

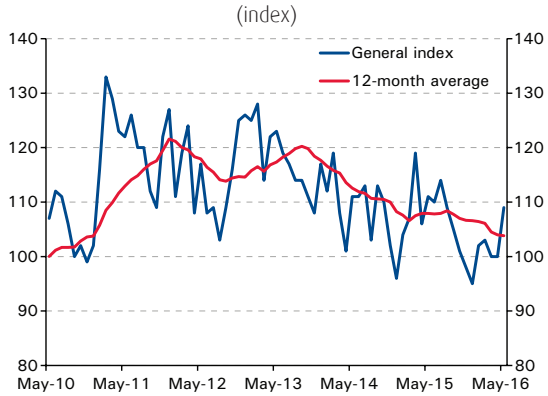
Fiscal deficits will persist for now, but remain manageable

With oil prices still below Kuwait's estimated breakeven price of around $60-65, government finances remain in deficit. A deficit of around 12% of GDP is estimated for FY15/16 (ending in March 2016). We are likely to see another similar deficit in FY16/17 before oil prices move higher in FY17/18, narrowing the deficit to around 2.8% of GDP.

Kuwait's deficits are manageable. Substantial fiscal buffers, in the form of a sovereign wealth fund estimated at well over 400% of GDP, should ensure that Kuwait pulls through the lower oil price period relatively easily and without having to make deep spending cuts. While the government is expected to tap into its liquid assets to finance part of the deficit, debt issuance is also likely to play an important role.

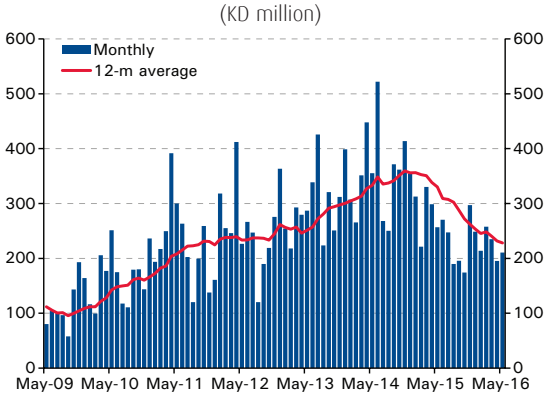
Thus far, the government's response to lower oil prices has focused on rationalizing spending. Government expenditures were reduced by 15% in FY15/16. Around half of this reduction came from the reduced cost of fuel subsidies, whose cost was based on lower oil prices. The other half came from cuts in non-essential spending and reducing inefficiencies and waste.

Chart 8: Consumer confidence index



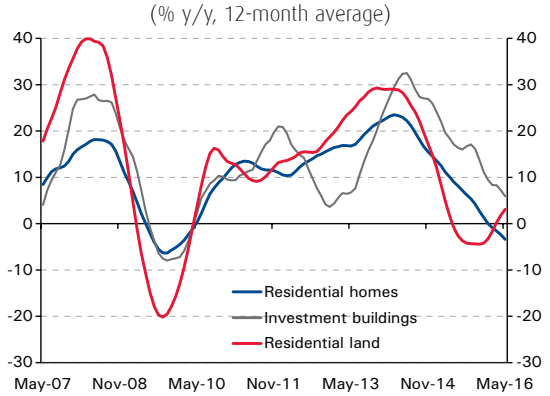
Source: ARA Research & Consultancy

Chart 9: Real estate sales



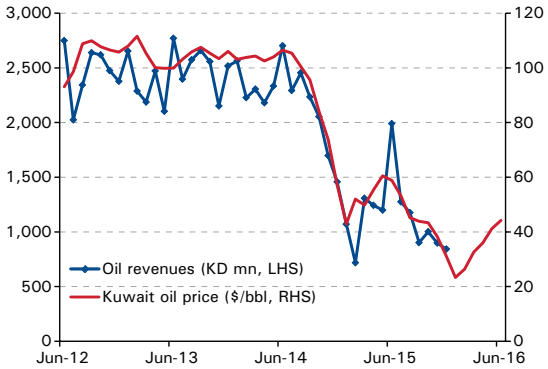
Source: Ministry of Justice

Chart 10: Real estate prices



Source: Ministry of Justice, NBK estimates

Chart 11: Oil price & govt. oil revenues



Source: Ministry of Finance, Kuwait Petroleum Corporation

Importantly, there were no reductions in wages and salaries or in capital expenditures. The FY16/17, which will likely be approved by parliament before the end of June 2016, is not expected to contain large cuts in spending. Instead, we think budgeted spending will be largely unchanged from the year before.

The government has also put forward a package of fiscal reforms to be implemented in the medium term. These include subsidy reform, a corporate income tax, and a value-added tax (VAT). On subsidies, parliament has already moved to hike electricity and water tariffs, with the new rates expected to take effect in the second half of 2017. The cabinet is also likely to go ahead with a hike in petrol prices this summer or fall. These fiscal adjustment measures are expected to reduce the deficit by around 4-5% of GDP within five years.

The government is also taking steps to boost non-oil government revenues. One of those is a comprehensive 10% corporate income tax. This would replace existing taxes imposed on foreign corporates and a number of smaller levies on domestic companies. Another is a 5% value added tax (VAT), to be introduced in conjunction with other GCC countries. The two taxes are not expected before 2019 at the earliest.

Deficit to be financed through asset drawdowns and bond issuance

The government is estimated to need around KD 10-15 billion in deficit financing in the coming five years. While the government is likely to rely largely on its substantial sovereign wealth fund to finance the shortfall in the medium term, debt issuance will also play an important part. The government is thought to have around KD 25-30 billion in mostly liquid foreign assets in its General Reserve Fund (GRF), which are at its disposal to finance the budget deficit. Another KD 130-140 billion in the Reserve Fund for Future Generations (RFFG) is not readily available for the government to spend.

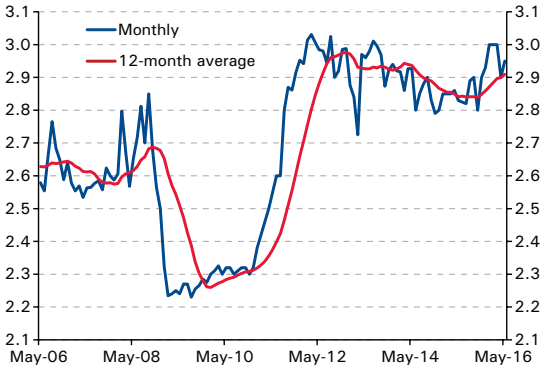
Despite a substantial sovereign wealth fund, Kuwait intends to tap an underdeveloped bond market. Indeed, the Ministry of Finance (MOF) has been busy putting in place the legal and institutional groundwork for an issuance program that has rarely played any role at all in the past in public financing. This has included setting up a bond issuance unit and a coordinating committee. It has also drafted a sukuk law to allow the government to issue Islamic debt instruments, to cater to a growing Islamic finance market. The regulation is expected to be ready before the end of 2016.

Starting in April 2016, the beginning of the FY16/17 fiscal year, the MOF has ramped up issuance of local currency bonds, raising a net of KD 700 million and increasing indebtedness to KD 2.29 billion (6.6% of GDP). Recent issuance has sought to increase the average tenor of government debt, with a greater proportion in 2-5 year bonds; bonds with maturities of 2-10 years now account for 45% of MOF debt, up from 31% at the end of March 2016.

The government has also announced it intends to tap the international bond market, though no specific plans have been made public. Such a step is critical to allow Kuwait to capitalize on its high credit rating (Moody's: Aa2, S&P: AA, Fitch: AA) and on low international rates. Another important reason to tap international markets is to ease some of the pressure on domestic liquidity, by tapping funds from outside the system.

Chart 12: Crude oil production

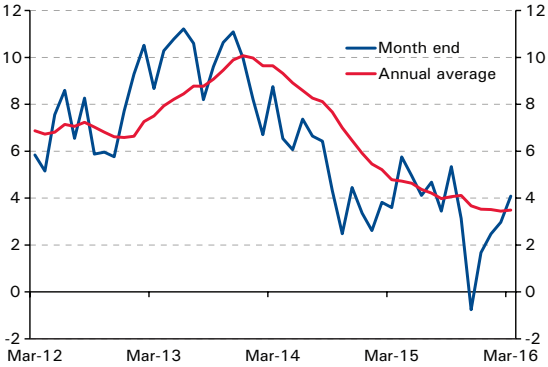
(million barrels per day)



Source: OPEC

Chart 13: Money supply growth

(% y/y, M2)



Source: Central Bank of Kuwait

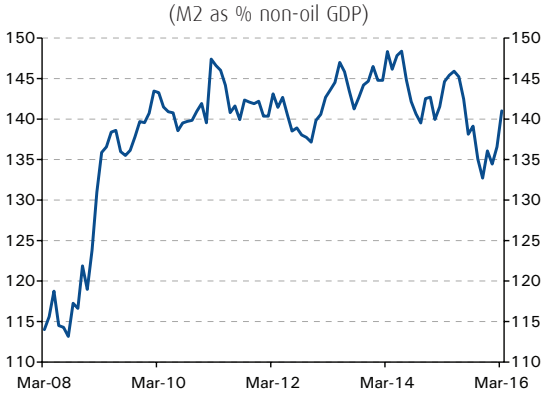
Chart 14: Banks' excess liquidity

(bank reserves as % of bank assets)

Source: Central Bank of Kuwait

Chart 15: Money supply to non-oil GDP

(M2 as % non-oil GDP)



Source: CBK, Central Statistical Bureau, NBK estimates

Current account surplus shrinks on lower oil price

Lower oil prices have also put pressure on Kuwait's external position, though the country remains a net creditor. The current account surplus shrank by nearly 90% in 2015, coming in at KD 1.8 billion or 5.1% of GDP. We expect the current account to shrink further in 2016 to a small deficit of around 1% of GDP on lower oil prices, before improving in 2017 (Chart 16).

The narrower current account surplus resulted in a commensurate drop in Kuwait's financial outflows. Nonetheless, Kuwait remained a net creditor to the rest of the world, with a financial account deficit of KD 2.1 billion. Most of the drop came from a drawdown of liquid assets by the government to the tune of KD 8.1 billion. Kuwait also appeared to repatriate KD 1.5 billion of its direct investments overseas. Meanwhile, Kuwait continued to accumulate portfolio investments in equities and debt securities overseas, adding as much as KD 9.9 billion in 2015.

Liquidity sees some tightening, but remains comfortable

With the government running a deficit and the current account seeing its surplus narrow considerably, there is a concern that system liquidity could be under pressure. We have already seen a slowdown in money supply (M2) growth, which fell from 10% in 2013 to 3.4% in 2014 and a mere 1.7% in 2015. Nevertheless, liquidity levels remain healthy. Money supply (M2) to non-oil GDP stood at 140% in March, which was at the average rate since the financial crisis (Chart 15). However, banks have seen some tightening in liquidity, with excess reserves down by 9.3% over the last two years in May 2016.

Interest rates have moved up over the last year thanks to rising rates in international markets. The Central Bank of Kuwait hiked its policy rate by 25 basis points in December 2015 to 2.25% immediately following the much anticipated rate hike by the US Federal Reserve. The 3-month domestic interbank rate stood at 1.5% in June 2016, up from 1.25% a year ago.

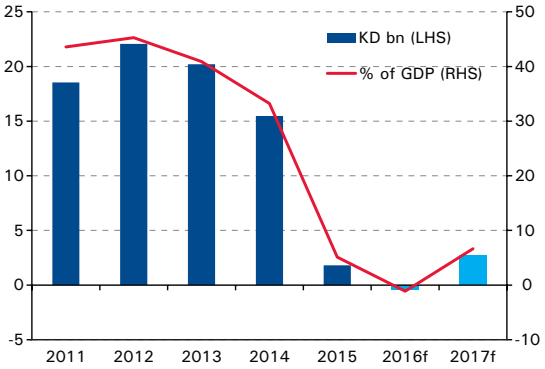
The dinar has strengthened along with the stronger dollar

After appreciating for two consecutive years along with the dollar, the Kuwaiti dinar (KWD) declined slightly during the first half of 2016. The currency, which had risen by 2.9% in each of 2014 and 2015 in trade-weighted-terms, retreated by 1.3% during the first half of 2016. The dinar, pegged to a basket of major currencies with the US dollar having the largest weight, rose against the US currency by 0.7% during 1H16 following declines of 3.6% and 3.5% in 2014 and 2015, respectively (Chart 18).

Stocks down year-to-date in 2016, along with other regional markets

The equity market moved further into red territory during the first half of 2016, following a decline in 2015. Low oil prices continued to weigh on markets across the GCC though part of the decline can also be attributed to a correction in emerging market equities earlier in 2016. The Kuwait Stock Exchange's value-weighted index (IXW) was down by 6.6% year-to-date (ytd) through June 2016 (Chart 19). The MSCI total return index was down by 5.6% for the same period.

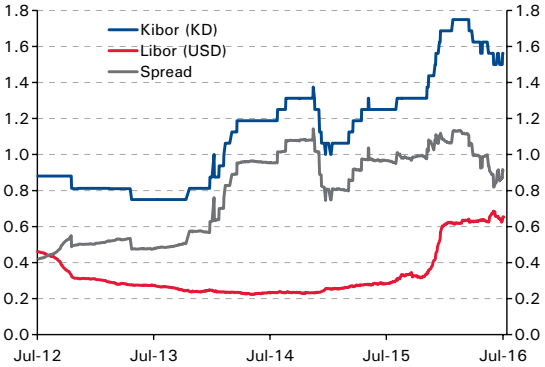
Chart 16: Current account balance



Source: Central Statistical Bureau, NBK estimates

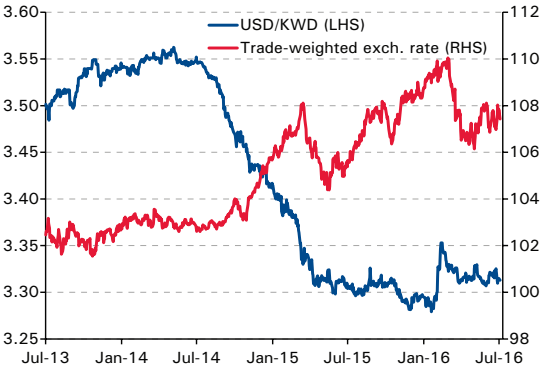
Chart 17: Interbank rates

(%, 3-month)



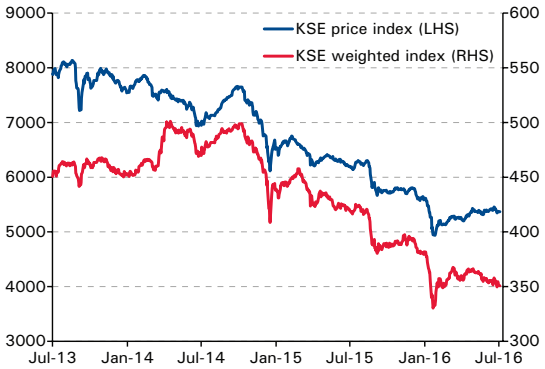
Source: Central Bank of Kuwait, Thomson Reuters Datastream

Chart 18: Exchange rate



Source: JP Morgan, Thomson Reuters Datastream

Chart 19: Stock market indices



Source: Kuwait Stock Exchange, Thomson Reuters Datastream

Oman outlook

Non-oil growth held back by fiscal consolidation efforts

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Overview and outlook

- **Growth is seen weakening to 2.1% in 2016 and 1.8% in 2017.**
- **Fiscal deficit expected at 17% of GDP in 2016, before shrinking to 8% in 2017.**
- **Credit growth is likely to moderate, while liquidity pressures are expected to remain.**
- **Inflation is picking up following subsidy cuts with the increase expected to be maintained through 2016 and 2017.**
- **Equities remain highly correlated with global oil prices.**

Oman's economy is showing signs of slowing. Consumer confidence is weakening, government projects are being cut, and market conditions are bearish. The persistence of low oil prices will see Oman register substantial deficits for 2016 and 2017, increasing the urgency for fiscal consolidation. Following reforms that had little impact on public finances in 2015, the government has come back with a slew of measures targeting excessive spending and better revenue collection. On the downside, these measures are expected to erode future income expectations for both consumers and investors. Credit growth is expected to slow as a result. Tightening liquidity in the banking sector, due to domestic government borrowing and declining deposits, further add to these concerns. On the upside, recent government efforts show its resolve in divesting away from the public sector. Reforms supporting small and medium-sized enterprises and foreign investors hope to spark growth in the non-oil sector. Deepening ties with Iran may also be a boon for both the non-oil and financial sectors.

Real growth is weakening, but some catalysts are in sight

Oil prices continue to impact Oman's economy. While growth was healthy in 2015, at an estimated 3.5%, it is expected to slow in 2016 and 2017 to an average of 2%. Weakening consumer and investor confidence will be the primary drag. A survey by the National Center for Statistics and Information (NCSI) showed a sharp decrease in consumer confidence in 1Q16, stemming mainly from uncertainty over future income. These worries follow cost-cutting measures implemented by the Ministry of Finance in 1H16 (Chart 1).

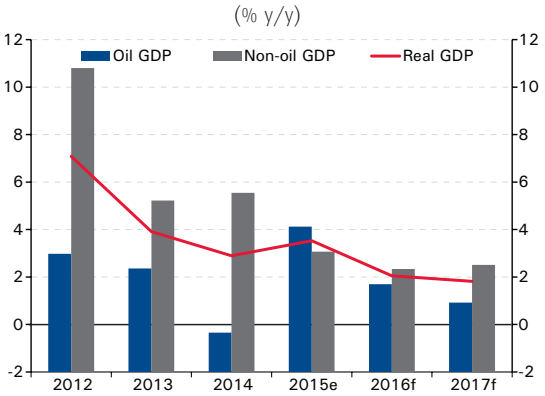
As a result, the general mood in the non-oil sector has been bearish. As of March 2016, growth in the total value of traded real estate slowed to 6% from an average of 32% in 2015; the number of newly registered vehicles retreated by 25% during the month, down for the thirteenth consecutive month; and hotel revenue growth has dropped to 4%, from a 2015 average of 15%.

Key economic indicators

		2014	2015e	2016f	2017f
Nominal GDP	US$ bn	82	70	69	76.8
Real GDP	% y/y	2.9	3.5	2.1	1.8
- Oil	% y/y	-0.3	4.1	1.7	0.9
- Non-oil	% y/y	5.5	3.1	2.3	2.5
Inflation	% y/y	1.1	0.1	2.0	2.4
Budget balance	% of GDP	-3.4	-17.1	-17.4	-8.5

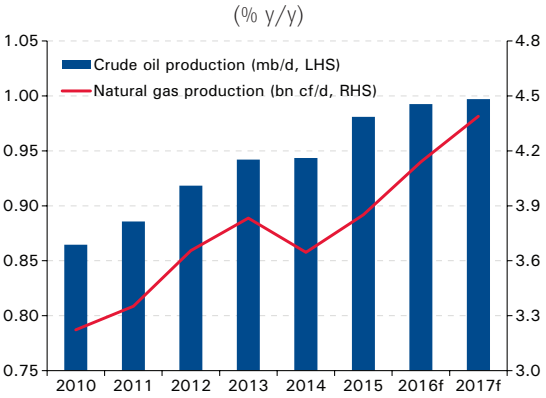
Source: National Center for Statistics and Information, NBK estimates

Chart 1: Real GDP



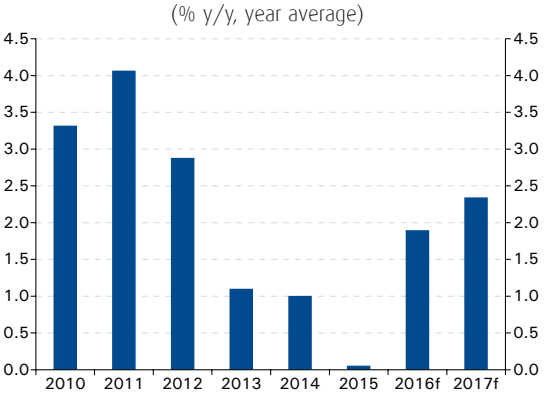
Source: National Center for Statistics and Information, NBK estimates

Chart 2: Hydrocarbon production



Source: National Center for Statistics and Information, NBK estimates

Chart 3: Consumer price inflation



Source: National Center for Statistics and Information, NBK estimates

Iran's resurgence on the global economic stage may help offset the slowdown, with Oman set to benefit from Iran's potential growth, while Iran will look to Oman as a conduit for trade. Oman's neutral stance towards neighboring Iran has allowed it to deepen its relationship following the nuclear deal. Bilateral investments are expected to increase, as Iran vowed to repay Oman for its "allegiance" throughout the negotiations. Several deals have been lined up since. An Iranian car manufacturer will be setting up shop in Oman, while talks of building a $1.5 billion hospital complex, financed by Iran, are underway. Iran's close proximity will also help prop up Oman's tourism sector.

Domestically, Oman is looking to jump start its economy by pursuing its development plan, which will emphasize the role of the private sector in funding more than half of the OMR 41 billion to be spent on the plan. To that aim, Oman has passed legislation allowing for 100% foreign ownership and has abolished minimum capital requirements for firms. The small and medium-sized enterprise sector, a pillar in Oman's diversification strategy, is set to benefit greatly from these developments.

Government project spending will remain instrumental to Oman's non-oil sector, but spending will be reserved to necessary projects, dampening its lift on growth. As of 1H16, the value of awarded projects has decreased by 12% compared to the same period in 2015. Focus will be given to infrastructure and power projects. Oman is faced with an electricity supply gap, threatening its future growth prospects. Energy consumption has also grown rapidly, rising by 14% year-on-year (y/y) in March .

Fiscal pressures are expected to persist

Fiscal pressures are expected to persist in 2016, but may soften in 2017. Low oil prices are expected to offset gains from the gradual implementation of reforms during 2016. A recovery in oil prices, coupled with increased compliance with reforms, may see greater fiscal consolidation in 2017.

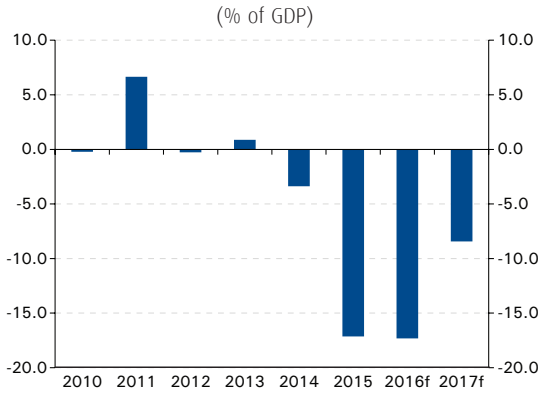
Official data shows Oman's deficit to have reached 17.1% of GDP (OMR 4.7 billion) in 2015, surpassing official expectations. A similar deficit is expected in 2016; though oil prices are seen to be weaker, spending restraint will start to be felt on the gradual implementation of fiscal reforms. In 2017, the deficit is expected to narrow, dropping to 8.4% of GDP, as additional spending cuts and revenue measures are realized and oil prices begin to recover; a potential increase in gas production will also help (Chart 4).

The government has enacted a number of spending and revenue reforms in a bid to reign in on a widening deficit. Benefits, bonuses, and scholarships have been halted at all ministries and quasi-sovereign institutions. Spending restrictions have been implemented as well. Sovereign and quasi-sovereign entities are now required to receive government approval prior to any new ventures, projects, or spending initiative. They are also required to decrease operational expenses by 10% y/y in 2016. The government is also looking to halt subsidizing electricity for commercial, industrial, and government users. This comes on the heels of rapidly growing electricity consumption.

Ministries are also encouraged to look for new sources of non-oil revenue and improving revenue collection. So far, the Sultanate has seen an increase in the cost of vehicle license plates, air traffic fees, and its airport departure tax. Oman may also consider implementing a VAT as early as 2017, one year ahead of other GCC countries, given the difficult condition of its finances.

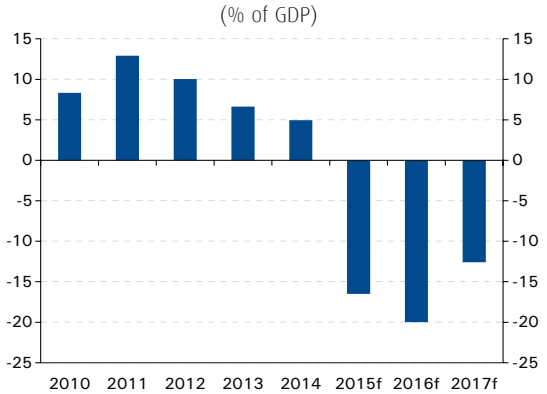
These measures follow some less impactful reforms, such as the liberalization of petrol prices and a subsidy adjustment for industrial power usage that has done little to contain the deterioration in the government's finances.

Chart 4: Budget balance



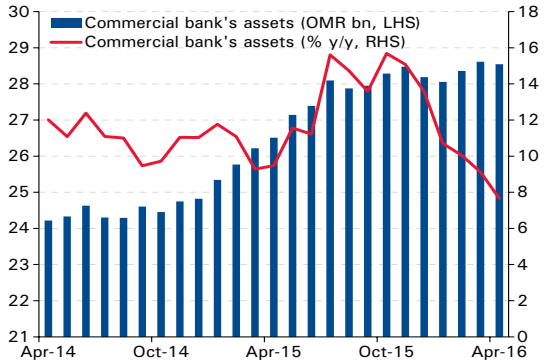
Source: National Center for Statistics and Information, NBK estimates

Chart 5: Current account balance



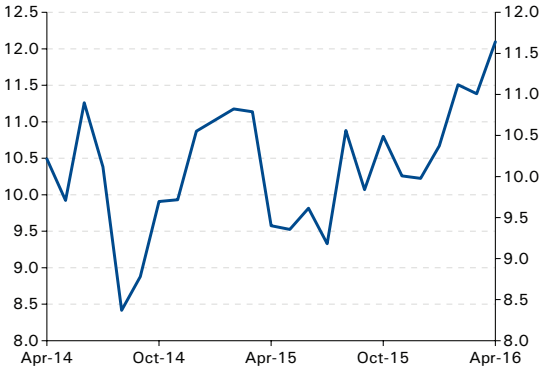
Source: National Center for Statistics and Information, NBK estimates

Chart 6: Commercial bank assets



Source: Central Bank of Oman

Chart 7: Credit to private sector



Source: Central Bank of Oman

The government's low debt level, estimated at 10% of GDP in 2015, and its relatively healthy credit rating, gives it some space to withstand the strain on its budget under lower oil prices. Despite recent downgrades by rating agencies, Oman maintains an investment grade rating and strong appetite for its debt. This was reflected by the Central Bank of Oman's (CBO) latest foray into international debt markets, on behalf of the treasury, as it comfortably raised $2.5 billion. A $1 billion international syndicated loan was also arranged earlier in 2016. The government is looking to capitalize on this momentum and plans to access international markets again with a $2.5 billion sukuk offering. To help finance the 2016 deficit, the CBO plans to borrow more from international markets in addition to drawing down reserves and utilizing donor grants.

Oil production stays strong, needs investment

To offset the drop in oil prices, the government continued to ramp up oil production, but is fast approaching its production limit (Chart 2). Furthermore, decreased investment in enhanced oil recovery will see output plateau close to current levels. As such, growth is expected to moderate to 1.7% in 2016 and 0.9% in 2017 (Chart 1).

Oil output was steady at 994,000 barrels per day in April, averaging 998,000 barrels per day since January 2016. Petroleum Development Oman, the state's largest producer, has been shouldering the bulk of the production growth. The lull in oil prices may hinder this growth, since complex geology and aging wells require constant investment in enhanced oil recovery (EOR) techniques to remain sustainable over the medium term. However, the government, in search of a short-term boost to production, has favored investing in new fields. This sudden shift in production strategy may see the gains from newly developed oil fields offset by decreases in output from older wells over the next few years.

Gas production has remained strong, picking up in April by 15% year-on-year (y/y), with output of 114 million cubic meters per day (mcm/d), on the back of increasing domestic demand. To keep up with domestic consumption, Oman has rescheduled 5% of its LNG exports. Gas exports are nearly all committed to Japan and South Korea. Supply should see a boost once the BP Khazan tight gas project comes into operation late in 2017, which recently received approval for an expansion. A gas pipeline with Iran will also help meet growing domestic demand, with imports set to flow in 2018. There is also talk of jointly developing oil and gas fields with Iran.

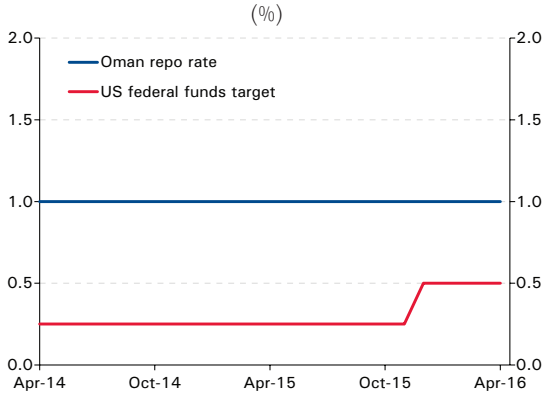
Banking system sees tightening conditions

Banking conditions have tightened following the prolonged decline in oil prices, with credit growth expected to slow this year and next. Government deposits may suffer as well, following net withdrawals to finance the deficit. Continued domestic borrowing by the government and the expectation of a rate hike may strain liquidity conditions.

Private credit growth remains resilient at 12% y/y in April 2016, but may see a slowdown as consumer confidence weakens because of the planned cuts in government spending. Meanwhile, both private and government deposits have seen growth decline. Government deposits were down 1% in April 2016 y/y, its fifth consecutive contraction. As a result, the loan-to-deposit ratio rose to 105% from a 2015 average of 99%. In a bid to shore up deposits, Omani banks have turned to international debt markets for funding.

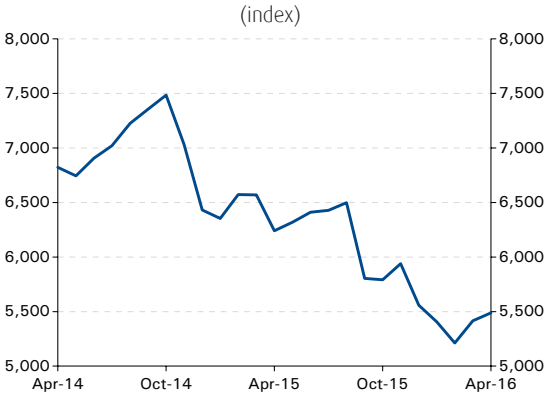
Liquidity conditions have deteriorated on the back of declining deposits and increased domestic government borrowing. The Omani overnight interbank rate was up 21 basis points from January 2016 through April 2016, while

Chart 8: Policy rates



Source: Central Bank of Oman

Chart 9: Muscat Securities Market



Source: Muscat Securities Market

3-month treasury bills were up 64 basis points in June 2016 from a year ago. To cope, the CBO has allowed commercial banks to treat government debt as part of their eligible reserves, up to a maximum of 2% of deposits at the CBO. The measure is expected to ease liquidity constraints and encourage the purchase of government paper.

External economic risk factors may hamper Oman's efforts to ease banking system pressures through international debt offerings. Further US policy rate hikes in 2016 and 2017 and increased global market volatility could see appetite for emerging markets diminish. Upward pressure on the US dollar, and in turn the Omani rial, may discourage investment in Omani debt if its offerings are mispriced.

Oman is the only GCC member not to move its policy rate following the first federal funds rate hike in December 2015, making a move in the policy rate more likely this year (Chart 8).

Oman's financial sector is well capitalized. According to the CBO's latest quarterly financial soundness statistics (Sep. 2015), credit risk remains low in Oman with nonperforming loans (NPL) at 2.0% of gross loans. Capitalization was also high, with a capital adequacy ratio of 15.8% in 3Q15 and a tier-1 capital ratio of 13% at the end of 2015.

Inflation lifted following subsidy cuts

Inflation picked up following recent subsidy cuts. The increase is expected to be maintained in the following years as the government continues to liberalize prices on energy and goods and services, offsetting downward pressures from global food and energy prices. Oman's CPI is seen growing by 2.0% in 2016 and 2.4% in 2017. April's inflation reading came in strong at 2.2% y/y, its highest pace in three years, on the back of increased housing and transportation costs. The recent slowdown in the real estate market may see housing costs subside in the near term (Chart 3).

Current account in deficit on weaker oil revenue

The current account balance is projected to remain in deficit, picking up in 2016 before narrowing in 2017 (Chart 5). Weaker oil prices will more than offset the decline in import prices, keeping the trade balance in deficit into 2016. The removal of international trade sanctions on Iran is expected to provide strong support to the trade balance. The services deficit will continue to expand, albeit at a slower pace as projects aimed at boosting tourism and transport come to fruition. Meanwhile, further growth in the expatriate population will see remittances grow. As of April 2016, Oman's foreign reserves stood at OMR 6.7 billion, or an estimated 5.6 months of 2015 imports.

The stock market rides the oil price recovery wave

Omani stocks, along with equities across the GCC, continue to be strongly correlated with global oil prices (Chart 9). The MSM 30 increased by 7% year-to-date following the rebound in global oil prices during the first half of 2016, outperforming regional peers. Market volatility could see some IPOs delayed in 2016, robbing the market of much needed catalysts.

Qatar outlook

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Non-oil activity buoyant amid continued public investment

Overview and outlook

- **Growth is forecast at 3.9% in 2016-2017 on the back of continued large public investment in the non-oil economy and output gains in the gas sector; non-hydrocarbon growth of 6.3% is expected in 2016-2017.**
- **Further fiscal consolidation is likely as the government scales back non-essential projects and cuts fuel and utility subsidies; the fiscal account should record a deficit of -2.3% of GDP in 2016.**
- **Private sector credit continues to grow at a robust 15.7% y/y.**
- **Liquidity has tightened as a result of slowing deposit growth and debt issuance; banks' foreign liabilities have increased.**
- **Risks to the outlook include rising public debt levels, project delays and softer energy prices.**

Relatively high public investment will continue to underpin Qatari economic growth, especially in the non-hydrocarbon sector. Coupled with output gains in the hydrocarbon sector related to the launch of the Barzan gas production facility in 2016, economic activity is expected to remain rather buoyant. In an effort to control public expenditures, ministries have been merged, infrastructure projects have been reprioritized, and subsidies on domestic fuel and utility prices have been cut. Nevertheless, the country is likely to record this year its first fiscal deficit since 1999; this will be financed through debt issuance rather than asset drawdowns. With state revenues impacted by low oil prices, government deposits have contracted and trailed credit growth, leading to a tightening in banking sector liquidity and a rise in interbank rates. Banks' foreign liabilities have increased as banks have sought to borrow from overseas.

With strong fiscal and external buffers, including its sovereign wealth fund, Qatar is better placed than most of its peers to negotiate the current energy downturn-a fact that was reflected in the AA credit rating status recently affirmed by rating agencies such as Standard & Poor's (S&P) and Moody's. The latter's negative outlook assessment, however, reflects the risks stemming from a continued buildup of public debt and weak implementation of structural reforms. Also, the arrival of Australia and the US as major LNG exporters could herald a new era of price competition.

Government investment spending continues to drive economic growth

The government's $200 billion development plan remains the lynchpin of Qatar's economic growth. Investment spending on a range of public

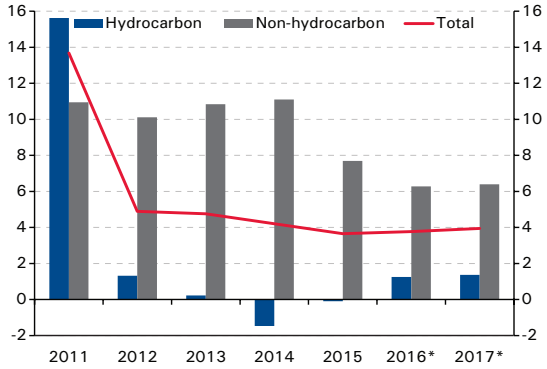
Key economic indicators

		2014	2015	2016f	2017f
Nominal GDP	US$ bn	208.1	166.5	167.0	195.5
Real GDP	% y/y	4.2	3.7	3.8	3.9
- Oil	% y/y	-1.5	-0.1	1.3	1.4
- Non-oil	% y/y	11.1	7.7	6.3	6.4
Inflation	% y/y	3.3	1.6	3.1	2.9
Budget balance	% of GDP	12.6	1.3	-2.3	2.4

Source: National Center for Statistics and Information, NBK estimates

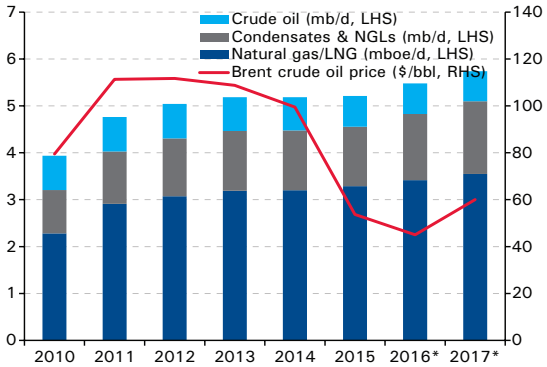
Chart 1: Real GDP

(% y/y, base year 2013)



Source: Ministry of Development Planning & Stats. (MDP&S), NBK est.

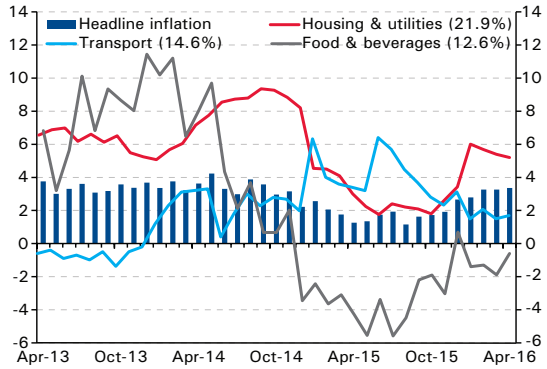
Chart 2: Oil and gas production



Source: BP, JODI, OPEC, NBK estimates

Chart 3: Consumer price inflation

(% y/y, weights in brackets)



Source: MDP&S

projects, including the Qatar Integrated Railway ($40 billion), the new Hamad Port ($7 billion), the Lusail Mixed-Use Development ($45 billion) and the local roads and drainage program ($14.6 billion) as well as 2022 World Cup-specific infrastructure i.e. stadia, will continue to facilitate the expansion of the non-oil economy and provide employment for Qatar's expanding population. Real non-oil growth is forecast to clock in at 6.3% and 6.4% in 2016 and 2017, respectively. This will continue to be supported by gains in the construction, financial services, manufacturing and tourism sectors. (Chart 1.)

Meanwhile, hydrocarbon sector output, having plateaued with the attainment of maximum LNG capacity in 2012, is expected to receive a boost from the commissioning of the Barzan gas production facility this year. Barzan should reach its full production capacity of 1.4 billion cubic feet per day (bcf/d) in 2017. It should also supply additional volumes of condensates and natural gas liquids (NGLs) for export and to the country's refineries-including the upcoming Ras Laffan 2 refinery. These lighter hydrocarbon products took over from crude oil as the dominant liquid fuel products, once crude output from Qatar's maturing oil fields began to decline in 2007. (Chart 2.) Crude output averaged 0.66 mb/d in 2015 and should hold steady over the forecast period as Qatar Petroleum and its international partners look to conservatively manage production at the country's ageing fields. Real hydrocarbon GDP is forecast to grow by 1.3% in 2016.

Inflation to rise on higher rental and food/commodity prices; recent fuel and utility price hikes to boost inflation in the short term

Inflation, as measured by the consumer price index (CPI), is projected to rise gradually over the next two years, from 1.6% in 2015 to 2.9% in 2017 (on an annual average basis). As of April, the headline rate was up by 3.4% y/y, with rising rental costs and rebounding global food and commodity prices the primary triggers. (Chart 3.) Inflation in rental prices (5.2% y/y growth in the housing and utilities component of the CPI in April) has been a long-standing issue in Qatar given the limited supply of residential housing and the rapid increase in the country's population-9.2% y/y in April-as a result of expatriate immigration. Real estate prices were rising at a rate of 13.3% y/y in March.

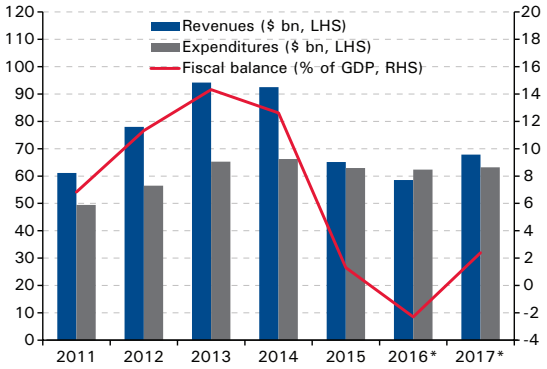
The recent fuel price hikes that were instituted as part of the government's subsidy reform proposals are expected to feed through into the CPI. Their impact is not likely to be significant or long-lasting, however. Furthermore, a strengthening US dollar, to which the Qatari riyal is pegged, should help to restrain imported inflation.

Fiscal consolidation underway but Qatar's first fiscal deficit in 16 years is likely in 2016

With hydrocarbon revenues impacted by the collapse in oil and gas prices and elevated capital expenditures, Qatar is likely to record its first fiscal deficit since 1999 this year, equivalent to -2.3% of GDP. (Chart 4.) Similarly, the current account surplus is forecast to narrow to a 16-year low of 3.2% of GDP in 2016 before rising next year in line with a further recovery in oil prices. (Chart 5.)

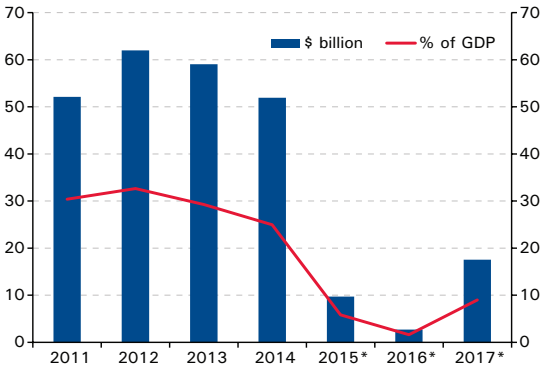
The fiscal deficit expected this year comes despite a concerted effort by the authorities to rationalize expenditures by restraining current spending and scaling back non-essential capital spending. Recent data from MEED projects suggests that this is indeed happening, with the value of contracts awarded so far in 2016, at just $2.1 billion, down a staggering 90% from the $20.1 billion worth of contracts signed during the first half of last year.

Chart 4: Real estate price index



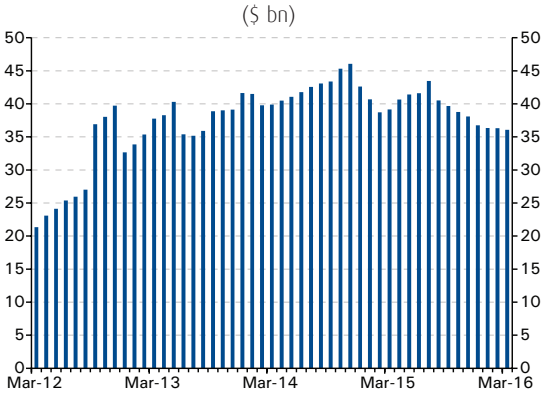
Source: Qatar Central Bank (QCB), NBK estimates

Chart 5: Current account balance



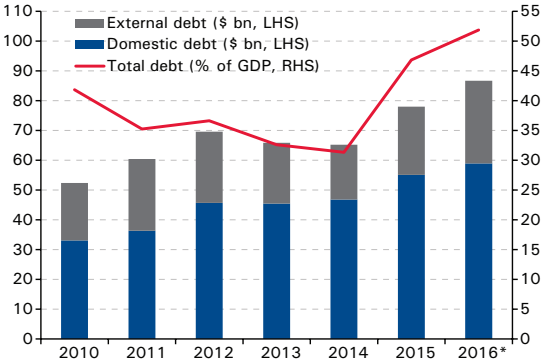
Source: QCB, NBK estimates

Chart 6: International reserves (net)



Source: QCB

Chart 7: Central government debt



Source: QCB, NBK estimates

Moreover, the government has proceeded to reform the state's finances, introducing a QAR 600 billion ($165 billion) spending cap on new investment projects for 10 years, creating a macro-fiscal unit and public investment management department (PIM), overhauling the country's sovereign wealth fund, the Qatar Investment Authority (QIA), and privatizing semi-government institutions. The authorities have begun withdrawing subsidies to certain state institutions in tandem with the broader, nationwide removal of fuel and utility subsidies. The cost of fuel subsidies in Qatar is, however, low by GCC standards, accounting for less than 1% of non-hydrocarbon GDP.

Sufficient fiscal buffers in place, but public debt will rise as the fiscal deficit is financed through bond issuance rather than reserve drawdowns

With $36 billion in international reserves and an estimated $256 billion under management by the QIA, Qatar's fiscal buffers are sufficient for the time being to finance the deficit. (Chart 6.) Having said that, the authorities have already indicated that any deficits would be financed exclusively through borrowing rather than reserve drawdowns. In addition to at least $7.5 billion in domestic bonds and sukuk issued since September 2015 and a syndicated loan of $5 billion secured earlier in the year, a triple-tranche US dollar-denominated bond sale of around $9 billion is expected shortly. This is expected to raise public debt from a low of 30% of GDP in 2014 to potentially over 50% of GDP by year's end. (Chart 7.)

Robust credit growth is facilitating economic expansion, but slowing deposit growth points to liquidity pressures

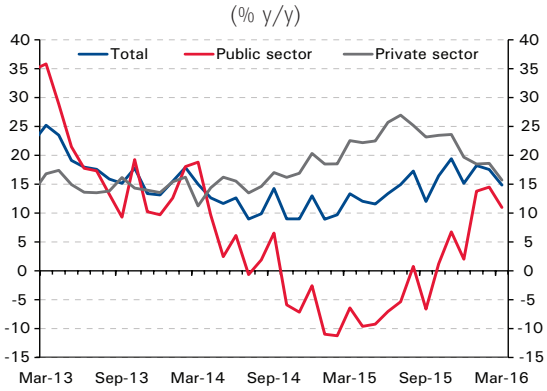
Bank credit growth, a key driver of non-oil activity, has rebounded from the single digit lows of early 2015 to come in at a robust 14.8% y/y in March, according to central bank figures. (Chart 8.) Spearheading the revival has been the public sector, which has begun increasing its demand for credit after a 10-month debt-repayment period in 2014-15 as it pushes ahead with the government's infrastructure development plan. In contrast, private sector credit growth has been in double digits since 2011, although the pace of growth has slowed in recent months to a 19-month low of 15.7% y/y in March. Demand from the construction, real estate, services and consumption sectors account for much of the increase of the last two years. Lending to the real estate sector in particular has accelerated rapidly over the last year, rising by 34.8% y/y in March, to the extent that ratings agencies are once again citing concentration risk; banks' exposure to the real estate sector reached 30% in March.

The flow of deposits, especially public sector deposits, into the banking system has slowed significantly since oil prices began falling in mid-2014 As of March, total bank deposit growth had moderated to 4.0% y/y, which is the slowest rate of growth since the financial crisis. Public sector deposits have been contracting for the best part of a year and a half, and were down -8.5% y/y in March (Chart 9.)

Foreign currency deposits have borne the brunt of the fall, pushing broad money supply growth (M2) into negative territory in both February and March (-0.4% y/y in March) for the first time since the financial crisis. (Chart 10.)

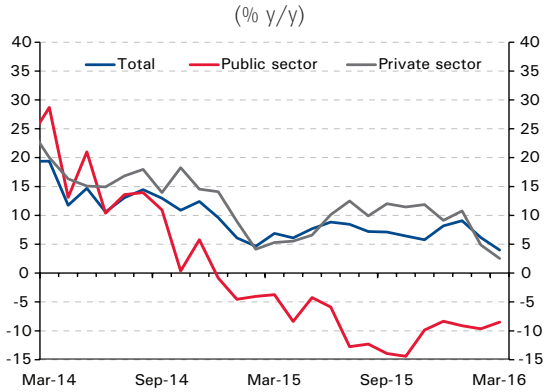
With deposit growth trailing credit growth, concerns over tightening liquidity have resurfaced: the banking sector's loan-to-deposit-ratio was 119% in March, which is not far off April 2012's post-financial crisis-high of 121%. 3-month interbank rates have consequently spiked, hitting a peak of 1.7% in May. (Chart 11.)

Chart 8: Bank credit



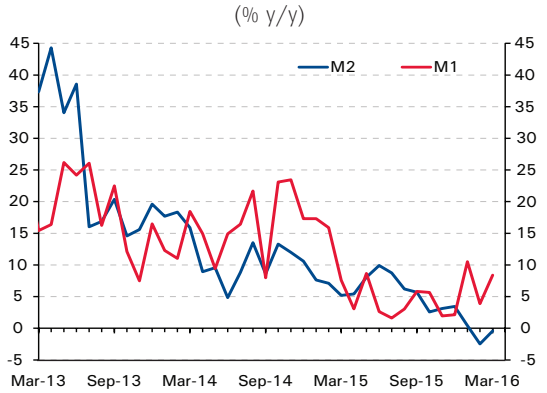
Source: QCB

Chart 9: Bank deposits



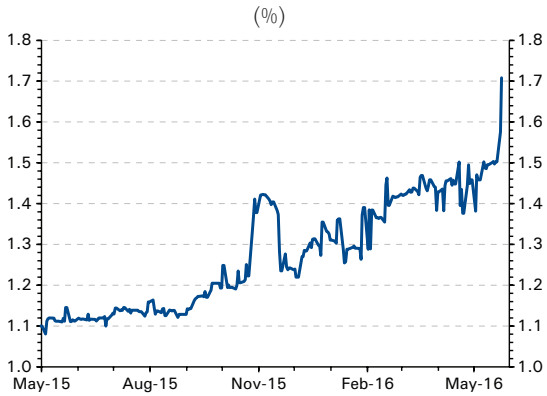
Source: QCB

Chart 10: Money supply



Source: QCB

Chart 11: Interbank rates (3-month QIBOR)



Source: Thomson Reuters Datastream

The prospect of liquidity draining from the system and higher cost of funds prompted the authorities to suspend the central bank's monthly auction of T-bills and sukuk early in 2016. The contribution of interbank funds to banks' total funds was back up to 24.6% in March. Banks' reliance on foreign funds has also increased, with the share of non-resident deposits to total funds up from 4% to 11% in 2 years. Indeed, the net foreign liability position of banks climbed to a high of $33.4 billion in February, or 154.6% of foreign assets. (Chart 12.) This represents almost 11% of the system's total asset base, up from 0.3% in November 2014.

The QCB is expected to follow the US Fed's lead and raise its benchmark rates in 2016

Given the demands of a fixed exchange rate regime, Qatari domestic interest rates tend to be closely aligned with US interest rates. However, the Qatar Central Bank (QCB), with one eye on keeping borrowing costs down, has yet to follow the US Fed's 25 bps rate rise last December and increase its own benchmark lending and deposit rates. These are currently at 4.5% and 0.75%, respectively. (Chart 13.)

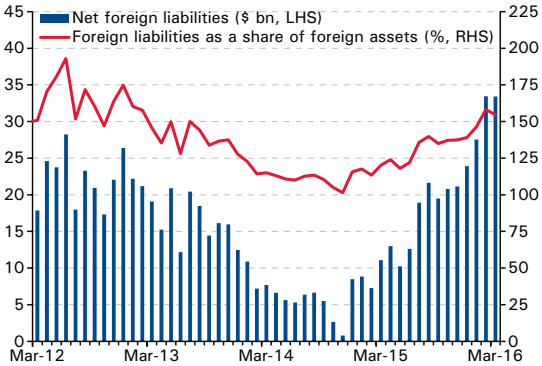
Qatari equities remain subdued on thin trading volumes and disappointing corporate earnings

Despite an improvement in sentiment related to the recent rally in oil prices, the benchmark Qatar Exchange Index (QE) remains down by -6.8% year-to-date at 9,716. (May 2016, Chart 14.) Thinner volumes amid a series of disappointing corporate earnings announcements have not helped. The market is hoping that the introduction of margin trading and securities lending for institutional investors and the inclusion of the Qatari bourse in the FTSE's emerging markets index will boost liquidity.

Rising debt levels, project capacity constraints and medium term LNG competition represent the main risks to the Qatari outlook

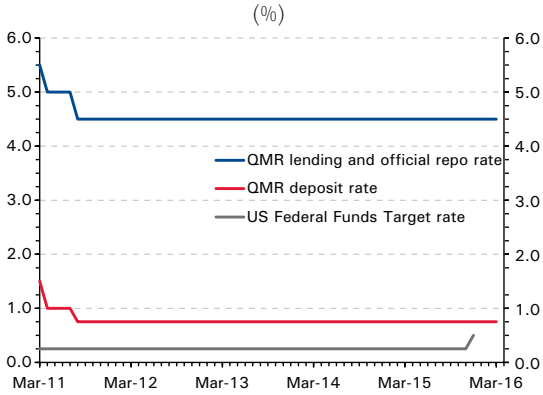
For the time being, with its sizeable fiscal buffers and AA credit rating, Qatar remains well positioned to negotiate the current period of low oil prices. However, public debt and borrowing costs are rising and likely to increase further in 2016 with the expectation of another round or two of US rate rises. Moreover, there are reports that capacity constraints are once more affecting the roll out of projects. Qatar has already been placed on negative watch by Moody's. Risks to Qatar (and GCC countries more broadly) are reflected in elevated sovereign CDS spreads. (Chart 15.) The arrival of Australia and the US as major LNG exporters will undoubtedly put gas prices under further pressure.

Chart 12: Banks' foreign liabilities



Source: QCB

Chart 13: Key interest rates

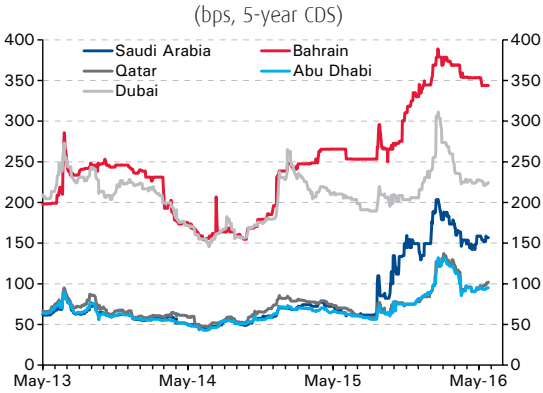


Source: QCB

Chart 14: Qatar Exchange Index (QE)

Source: Thomson Reuters Datastream

Chart 15: Sovereign credit default swaps (CDS)



Source: Thomson Reuters Datastream

Saudi Arabia outlook

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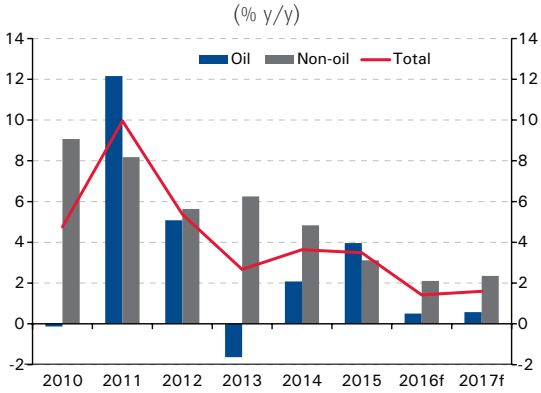
Growth slowing as fiscal consolidation moves ahead

Overview and outlook

- **Growth is forecast to slow from 3.5% in 2015 to 1.4% in 2016 amid lower oil prices and greater fiscal restraint by the authorities.**
- **Inflation rises above 4% after hikes to energy and utility prices.**
- **The fiscal deficit is expected to narrow this year to -11.4% of GDP, from -15.3% of GDP in 2015; the deficit will continue to be financed by reserve drawdowns, bond issuance and international loans.**
- **Contracting bank deposits and debt issuance have led to tighter liquidity in the banking system; borrowing costs have risen.**
- **The Saudi Vision 2030, through the NTP, prioritizes fiscal sustainability, private sector development, and labor market reforms.**

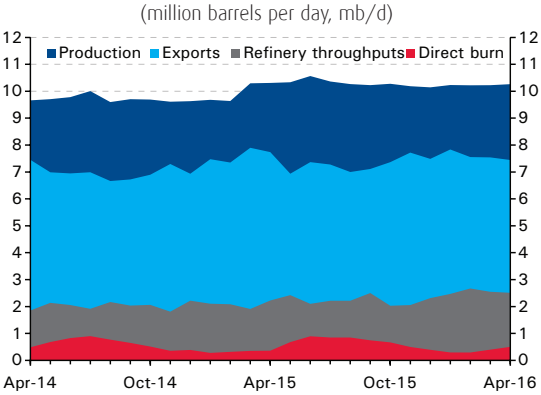
Saudi economic growth has slowed markedly in the two years since oil prices began their descent, impacted by a combination of tighter government control on spending, lower consumer confidence and slower deposit and credit growth. As both the current and fiscal accounts swung into deficit, foreign reserves have fallen, debt issuance has returned and markets remain anxious-stock prices are down, interbank rates and CDS spreads are elevated and speculative pressure on the riyal has increased. Ratings agencies responded by downgrading the kingdom's sovereign credit rating, citing concern over weakening finances and fiscal buffers. Faced with the prospect of a prolonged period of lower oil prices, the Saudi authorities unveiled the Saudi Vision 2030 and the National Transformation Program (NTP), the kingdom's overarching strategic vision and tactical roadmap, respectively, for growth and prosperity in the post-oil era. Wholesale transformation of the Saudi socio-economic model is envisaged, with the private sector, aided by a dynamic and educated Saudi workforce, driving the kingdom's shift away from oil. Fiscal sustainability, government efficiency and labor market reforms are also top of the agenda. Initiatives, such as spending cuts, energy/utility subsidies cuts and the restructure of ministries have already begun. The introduction of value added tax (VAT) and the public listing of up to 5% of Saudi Aramco are also in the works. The plans are undoubtedly ambitious and will face significant challenges, but the government's determination, coupled with the kingdom's ample financial reserves, should give cause for optimism.

Chart 1: Real GDP



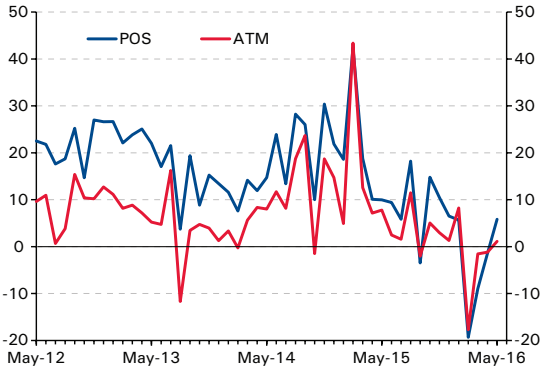
Source: General Authority for Statistics, NBK estimates

Chart 2: Oil production, exports & consumption



Source: JODI, OPEC

Chart 3: ATM and POS transactions



Source: Saudi Arabian Monetary Agency (SAMA)

Key economic indicators

		2014	2015*	2016f	2017f
Nominal GDP	US$ bn	754	632	641	704
Real GDP growth	US$ bn	3.6	3.5	1.4	1.6
- Oil	% y/y	2.1	4.0	0.5	0.6
- Non-oil	% y/y	4.8	3.1	2.1	2.4
Inflation	% y/y	2.7	2.2	4.1	4.2
Budget balance	% of GDP	-3.6	-15.3	-11.4	-7.4

Source: Official sources and NBK estimates; * preliminary estimates

Real oil growth to slow in 2016 as crude output remains at the highs of 2015; natural gas expansion should boost real oil growth

Real oil GDP expanded by 4.0% in 2015 after oil production surged to a record high of 10.2 million barrels per day (mb/d) on average. (Charts 1 & 2.) Elevated output was a direct result of Saudi Arabia's twin strategy of maintaining market share and progressing up the hydrocarbon value-chain (i.e. more refined products). The launch of the Satorp and Yasref refineries during 2014-15 brought an additional 0.8 mb/d of refined products output capacity.

Looking ahead, we expect oil production to average around 10.3 mb/d during 2016-17 in order for the kingdom to maintain export market share and to satisfy rising domestic demand for refined products. Indeed, over the next two years, more Saudi oil could be freed up for export if natural gas is substituted for crude in domestic power generation. The commissioning of the Wasit gas plant this year should eventually see the kingdom's output of gas increase by at least 15%, or 1.7 billion cubic feet per day (bcf/d). This will provide a boost to both oil and non-oil GDP, with the latter benefitting from the additional gas for use as feedstock for downstream processes such as petrochemicals production. Real oil GDP is therefore forecast to expand by 0.5% and 0.6% in 2016 and 2017, respectively.

Non-oil activity will continue to moderate amid further fiscal restraint

The key determinant of the performance of the Saudi non-oil economy is government spending. Last year, amid cutbacks in investment spending and tighter control of current spending, non-oil growth moderated to 3.1%, from 4.8% in 2014. We expect a further slowdown in activity to 2.1% in 2016 as the authorities push ahead with more fiscal consolidation. (See Chart 1.) Reflecting the cooling of the economy, key metrics of consumer and business activity such as point of sale (POS) and ATM transactions, private sector credit growth and the Purchasing Managers' Index (PMI) are subdued, although there was a recent uptick in some of the figures, most notably POS growth data and PMI data, which came in at 5.8% y/y and 54.2, respectively. (Charts 3 & 4.) Meanwhile, private sector credit was expanding at 9.7% y/y in May, but has further to go to meaningfully support activity in the non-oil sector. (Chart 5.) Indeed, according to some reports, the rebound in credit growth since October's low of 5.5% y/y may be more to do with firms borrowing to ease cash flow constraints resulting from delays in government payments than with an uptick in real business activity.

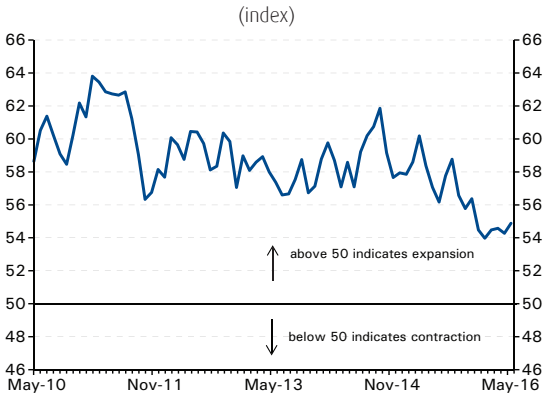
The authorities will be closely monitoring credit for further improvement, given how important it is to the fortunes of the private sector, a key sector in the Saudi Vision 2030. (See table overleaf.)

Similarly, tackling high unemployment, currently around 11.5%, and the low share of Saudis in the private sector-20.7% last year-are urgent priorities. (See Chart 6 and Vision 2030 table.)

Inflation rises markedly on cuts to energy and utility subsidies

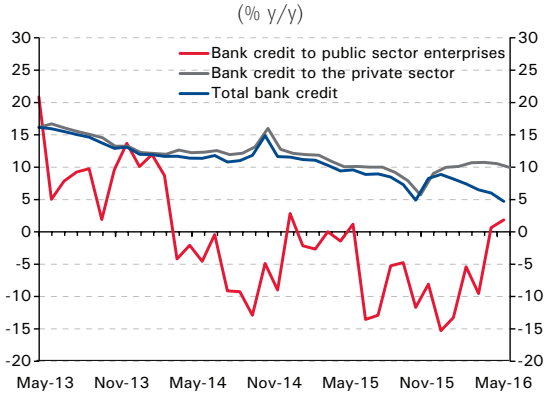
Inflation has accelerated sharply since fuel and utility prices were hiked by the government in January. The increase in consumer prices, as measured by the kingdom's cost of living index, was of the order of 4.1% y/y in May. (Chart 7.) The transportation category, which accounts for 10% of the total index, posted the most dramatic increase in 21 years, rising from 1.3% y/y in December to 12.6% in January before slowing to 11.3% y/y in May, after the government raised the price of gasoline by as much as 67% in an effort to reduce its expensive subsidy bill. Similarly, prices in the housing and

Chart 4: Purchasing Managers' Index (PMI)



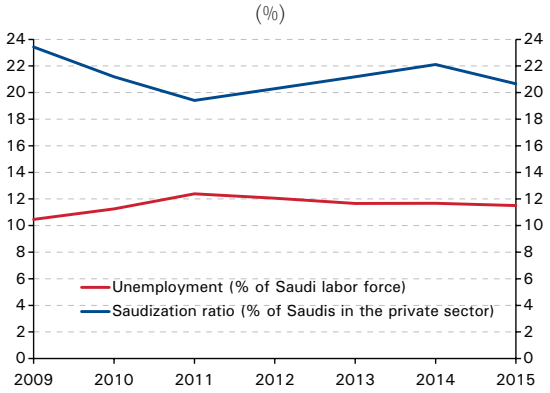
Source: Emirates NBD/Markit

Chart 5: Bank credit



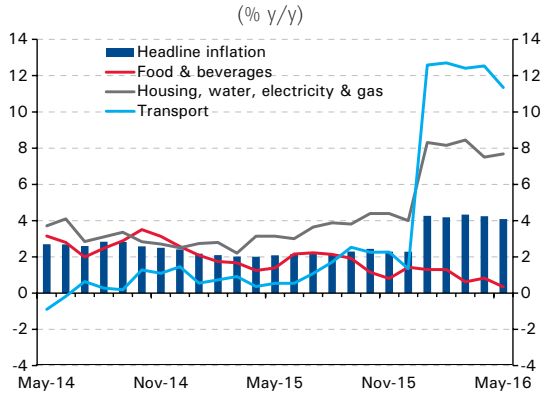
Source: SAMA

Chart 6: Saudi unemployment & Saudization



Source: SAMA, Ministry of Labor

Chart 7: Consumer price inflation



Source: SAMA

utilities segment, which has the greatest weight in the index with 20.5%, were up by 10.3% y/y as of May, they were near 4% y/y in December 2015, after the government raised water and electricity tariffs.

Up until the implementation of these subsidy cuts, headline inflation had been rising by a relatively benign 2.2% y/y. Subdued food and commodity prices and an appreciating US dollar, to which the Saudi riyal is pegged, were restraining imported inflation. Nevertheless, while these trends are likely to persist over the forecast period, inflation is expected to intensify; second-round effects of the subsidy cuts (i.e. as producers pass on higher costs to the consumer) and the persistence of the long-running housing shortage will provide upward price pressure. We have therefore raised our inflation forecast for 2016 and 2017 to 4.1% and 4.2%, respectively.

A third consecutive fiscal deficit is expected in 2016 but subsidy cuts and reforms will put the kingdom on a more sustainable fiscal footing

Saudi Arabia's fiscal deficit widened significantly in 2015 to -15.3% of GDP from -2.3% of GDP in 2014. (Chart 8.) This was due to a combination of elevated expenditures, including King Salman's $23.4 bn accession bonus, and lower oil revenues. Oil revenues fell by 51% in 2015 in response to lower oil prices.

Still, the deficit was much better than the -21% of GDP that many had previously forecast. The government kept a tighter rein on its expenses than many had anticipated, cutting capital spending by an estimated 29% and overall spending by 12% to $260 bn.

Non-oil revenues also surprised, rising by 29% to $45.2 bn, as the government imposed higher taxes on petroleum products and accrued greater returns on its investments at SAMA and the Public Investment Fund (PIF).

Key vision 2030 objectives

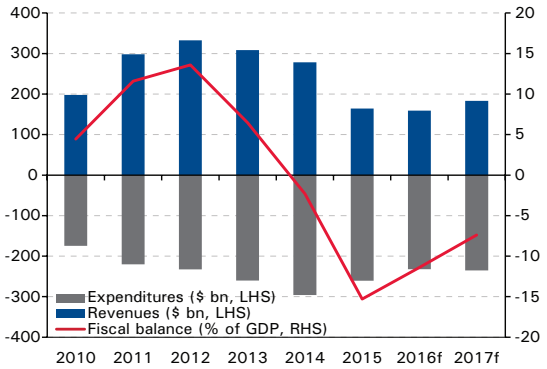
		2015	2030
Private sector	% of GDP	40	65
Small & medium-sized enterprises (SME) sector	% of GDP	20	35
Non-oil exports	% of non-oil GDP	16	50
Non-oil revenue	% of GDP	6.7	16.8
Domestic oil & gas production	%	40	75
Domestic procurement of defense equipment	%	2	>50
Public Investment Fund (PIF) assets	$ billion	160	1,866
Foreign direct investment (FDI)	% of GDP	3.8	5.7
Global Competitiveness Index	Rank	25	10
Unemployment rate	%	11.6	7.0
Female labor force participation rate	%	22	30
Number of pilgrim tourists per year	Million	8	30
Social Capital Index	Rank	26	10
Household savings rate	%	6	10

Source: SAMA, NBK estimates

Balancing the budget through fiscal consolidation and tapping additional non-oil revenue streams were among the dominant themes in the Saudi Vision 2030 and its 4-year tactical roadmap, the National Transformation Program (NTP). According to the NTP, by 2020, the authorities hope to have scaled back non-essential capital expenditures, restrained current expenditures by cutting public sector wages by 5%, and increased non-oil revenues by more than 200%, from SR 163.5 billion ($45 bn) in 2015 to SR 530 billion ($141 bn).

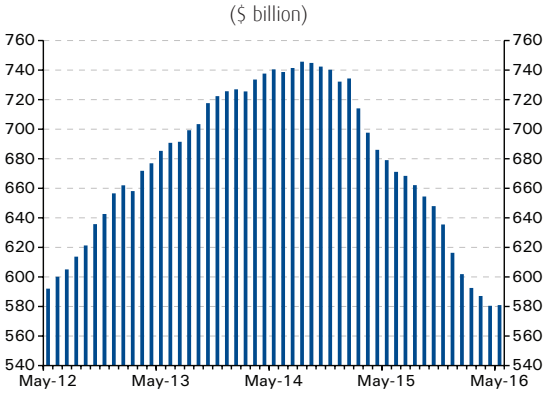
These non-oil revenue streams include: higher fees for public services; new taxes on cigarettes and soft drinks, so called 'sin' taxes; a new GCC-wide value-added tax (VAT), which is expected in 2018 at a rate of 5%; and taxes on undeveloped urban land. A rough estimate of the gain to the

Chart 8: Fiscal balance



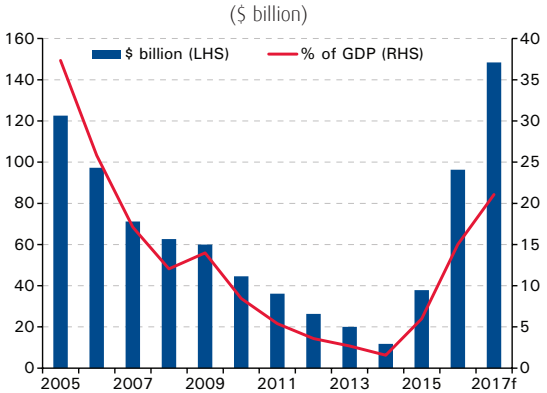
Source: SAMA, NBK estimates

Chart 9: Official foreign reserves (SAMA)



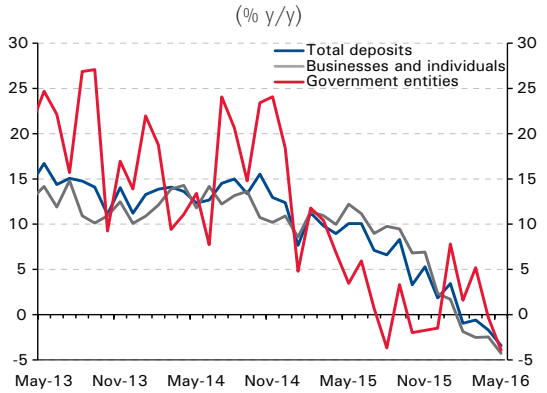
Source: SAMA

Chart 10: Public debt (gross)



Source: SAMA, NBK estimates

Chart 11: Bank deposits



Source: SAMA

Saudi treasury resulting from the introduction of a VAT could be in the order of $9.6 bn, or 22% of non-oil revenues. This would approximate to around 1.5% of GDP. Further fuel and utility price hikes are also expected over the next few years as the authorities look to cut the costly subsidy bill by SR200 billion (8.3% of GDP).

Privatization of state entities is also a key strategic objective. Chief among these will be the sale of state oil giant Saudi Aramco (up to 5% of the company is expected to be floated) and its incorporation in a restructured Public Investment Fund (PIF), the kingdom's newly designated sovereign wealth fund.

According to our estimates, these initiatives should help narrow the fiscal deficit to -11.4% of GDP in 2016 and -7.4% of GDP in 2017. (See Chart 8.)

Large foreign reserves drawdowns in 2015 prompted the government to issue sovereign bonds for the first time in 8 years

The kingdom's official foreign reserves stood at $581 bn in May, declining by $98 bn, or 14.5%, compared to a year ago. (Chart 9.) This equates to a still healthy 26 months of import cover. The rate of reserve drawdown has slowed in 2016, however, as the authorities increasingly use debt financing. Last year saw approximately SR 98 bn ($26 bn) worth of government bonds sold to local financial institutions, which helped to cover just over a quarter of the deficit. In 2016, the authorities augmented their domestic bond issuance program with a $10 bn syndicated loan obtained from foreign banks. A $10-15 bn sharia-compliant Eurobond is also mooted this year.

Public debt, unsurprisingly, has risen. From a historic low of 1.6% of GDP in 2014, gross public debt increased to 5.8% of GDP last year; it should continue rising to 21% of GDP by the end of 2017 at the current rate. (Chart 10.) This is, however, still an extremely low level of debt by international standards.

Rising public debt along with broader concerns over fiscal sustainability, were the key reasons ratings agencies such as Standard & Poor's (S&P) and Moody's downgraded the kingdom's sovereign rating this year. S&P downgraded Saudi Arabia by two notches to A- in January before Moody's followed suit with a one-notch downgrade from AA3 to A1.

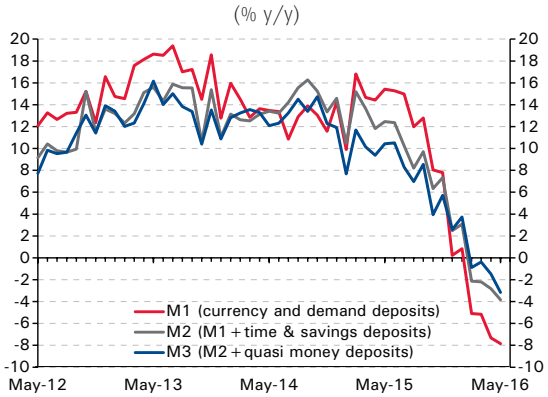
Liquidity tightens amid slowing deposit growth and increasing public debt; riyal under pressure in the forwards market

The drop in oil prices has had a material impact on deposit flows into the banking system. Total bank deposits were contracting by -3.4% y/y in May, led by declines in both government (-3.9% y/y) and private sector deposits (-4.3% y/y). (Chart 11.) Money supply (M3) has contracted for four straight months, falling to -3.2% y/y in May. (Chart 12.)

With overall deposit growth lagging credit growth, the banking system's loan-to-deposit (LD) ratio increased to 86% in May. Liquidity has consequently tightened, along with a rise in interest rates; the 3-month Saudi Arabia Interbank Offered Rate (SAIBOR), for example, is up 15 bps y/y at 2.23%, which is its highest in 7 years. (Chart 13.)

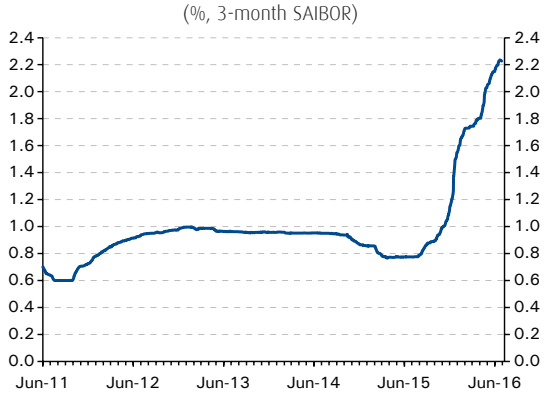
In a move to alleviate some of the liquidity constraints, SAMA recently loosened the LD ratio, allowing banks to lend up to 90% of their deposits (previously 85%). The government is also concerned that its sovereign debt issuance program could crowd out bank lending to the private sector, with negative economic effects Banks have already begun reducing their lower-yielding cash, deposit and treasury bill holdings at the central bank and are

Chart 12: Money supply



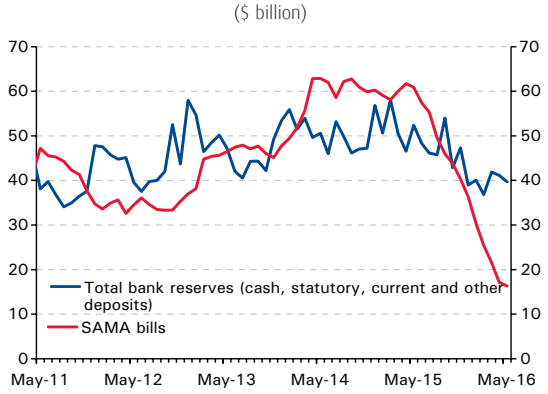
Source: SAMA

Chart 13: Interbank rates



Source: Thomson Reuters Datastream

Chart 14: Bank reserves & holdings of SAMA bills



Source: SAMA

Chart 15: Bank holdings of govt. bonds

Source: SAMA

shifting the liquidity into higher-yielding sovereign bonds. As of May 2016, total bank reserves at SAMA had declined by -24.2% y/y (to $39.7 bn) and holdings of SAMA bills had fallen by -73.2% y/y (to $16.3 bn, Chart 14.) Consequently, reserves at SAMA, as a share of total bank assets, have declined to 6.6%. On the other hand, bank holdings of government bonds increased by 192% y/y in May to $40.9 bn. (Chart 15.)

At the same time, speculation that the authorities would be forced to devalue the riyal, in effect abandoning the 30-year peg to the US dollar, reached its highest in about two decades earlier in the year. The SAR:USD forward exchange rate spiked by 975 forward points over the spot rate to 3.85 on 12 January, though it has since come off that high. (Chart 16.)

The authorities, for their part, however, are unlikely to shift away from an exchange rate regime that has served them well in the past, anchoring both the economy and inflation. The dollar peg provides stability to trade and income flows, especially given the fact that oil, which is priced in dollars, continues to dominate the Saudi economy. With the exception of 2015, over the last decade oil has accounted for close to 90% of the kingdom's export and fiscal revenues.

Meanwhile, 5-year credit default swap spreads (CDS) remain high at 187 bps and very sensitive to changes in the outlook for oil prices and Saudi Arabia's fiscal situation. (Chart 17.) Since oil prices began falling in mid-2014, Saudi CDS have climbed by more than 140 bps.

Borrowing costs rise after the US raises interest rates

Monetary policy has begun to tighten slightly following the 25 bps December increase in the US federal funds rate. Given the exigencies of the fixed exchange rate regime, SAMA also raised its key interest rate, the reverse repo, by 25 bps to 0.5%. (Chart 18.) Borrowing costs are likely to rise further in line with further tightening by the US Fed.

Stock market sentiment remains subdued despite better-than–expected corporate results and some positive moves by the regulator

Despite better than expected first quarter corporate earnings and an improvement in market sentiment following the launch of the Saudi Vision 2030 plan, the Saudi general index, the Tadawul All-Share Index (TASI) remains down by -6.2% year-to-date at 6,480. (Chart 19.)

Following the launch of Vision 2030, the Saudi regulator, the Capital Markets Authority (CMA), has rolled out a number of initiatives. These include removing the 20% limit on foreign investment (in view of the lackluster take-up by foreign companies so far) raising the threshold on foreign stock ownership from 5% to 10% and introducing securities lending and short-selling, which a GCC first. Taken with the planned Aramco IPO, it is hoped that these changes will stimulate FDI and encourage other businesses to pursue public listings.

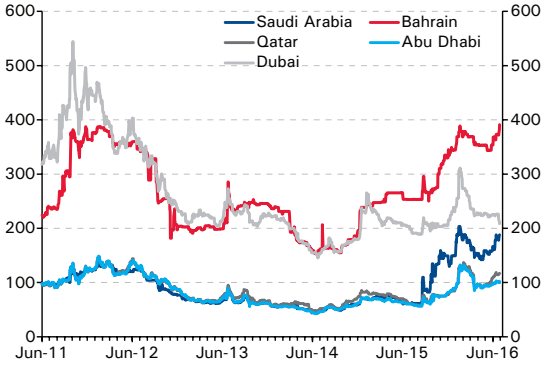
Chart 16: Saudi riyal 12-month forward rate

(Saudi riyal per US dollar, SAR:USD)

Source: Thomson Reuters DataStream

Chart 17: Credit default swaps (CDS)

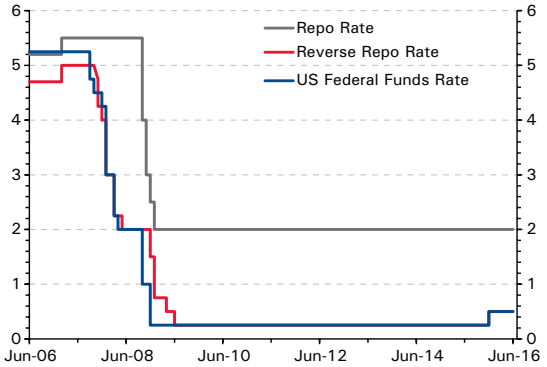
(bps, 5-year CDS)



Source: Thomson Reuters DataStream

Chart 18: Key interest rates

(%)



Source: Thomson Reuters DataStream

Chart 19: Stock exchange index

(Tadawul All-Share Index, TASI)

Source: Thomson Reuters DataStream

UAE outlook

Resilient non-oil economy to support overall GDP growth

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Overview and outlook

- **Real GDP growth is expected to remain in moderation mode in 2016 before improving in 2017.**
- **Non-oil growth is poised to moderate further in 2016 but to continue to support overall GDP growth; non-oil growth seen picking up in 2017.**
- **CPI inflation slows sharply as the effects of the sizeable 2015 subsidy cuts subside.**
- **A higher fiscal deficit is projected for 2016, but it remains manageable thanks to ample fiscal reserves.**
- **The banking sector will continue to see tighter liquidity conditions in 2016, as deposit growth trails behind credit growth. Deposit growth remains soft amid lower oil revenues.**

Real GDP growth in non-oil economy moderating

We expect economic growth in the UAE to moderate to 2.5% year-on-year (y/y) in 2016, on the back of weaker oil GDP growth and moderating non-oil growth. The oil sector continues to be hampered by low international energy prices (Chart 1). Growth in the non-oil sector is envisaged to moderate, but it will continue to see pockets of strength in its hospitality, transport and construction segments.

With international oil prices not poised to see a strong recovery before 2017, real oil GDP growth is forecast to remain weak in at least the near to medium term. We expect growth in the real oil economy to be "flat" in 2016. In 2017, we foresee a slight uptick on higher production levels.

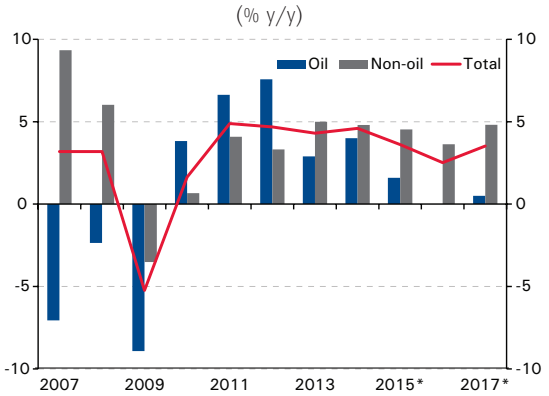
Non-oil sector growth is losing some of its momentum, but our view is that it will remain moderate as gains in the tourism and construction sectors continue to hold. The number of passengers at Dubai International Airport was up by a strong 7.2% y/y in May. Despite some cutbacks, a sizeable portion of construction projects remains on schedule and in progress especially as preparations for the Dubai Expo 2020 continue. These include the construction of buildings, metro expansions, roads and bridges. In its 2016 budget, Dubai pledged Dh16.6 billion for infrastructure projects, Dh1.8 billion higher than in 2015. In early 2Q16, Emaar properties, one of the biggest real estate developers in the UAE, announced that it would build a tower taller than Burj Khalifa (currently the tallest tower in the world) and a new 'mega-retail district' for the Expo 2020.

Key economic indicators

		2014	2015f	2016f	2017f
Real GDP growth	US$ bn	399.4	356.6	366.7	417.0
- Oil	% y/y	4.6	3.6	2.5	3.5
- Non-oil	% y/y	4.0	1.6	0.0	0.5
Inflation	% y/y	4.8	4.5	3.6	4.8
Fiscal balance	% of GDP	2.0	4.1	2.5	2.5
Budget balance	% of GDP	4.2	-1.7	-3.2	1.1

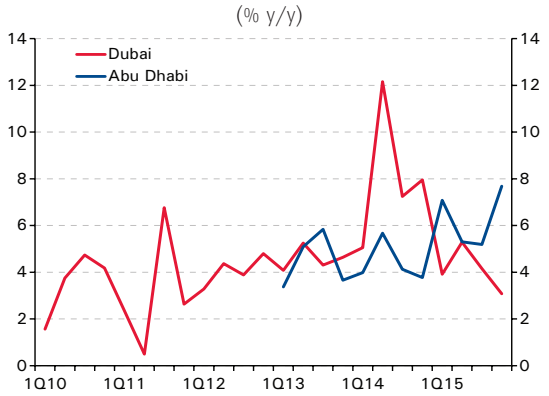
Source: Official sources, NBK estimates

Chart 1: UAE real GDP



Source: UAE National Bureau of Statistics, NBK estimates

Chart 2: Dubai & Abu Dhabi real GDP



Source: Dubai Statistics Center, Abu Dhabi Statistics Center

Chart 3: Purchasing Managers' index

Source: Markit

Dubai's non-oil GDP growth loses some steam but remains decent

Latest data showed Dubai's overall economy slowing from 4.2% y/y in 3Q15 to 3.1% y/y in 4Q15, as growth in the non-oil sector moderated from 4.1% y/y to 3.1% y/y during the same period (Chart 2). For the year 2015 as a whole, Dubai's headline GDP logged in a still decent growth rate of 4.1% y/y, thanks to moderate gains in the non-oil economy. Looking ahead, we may see a slight improvement in GDP growth in 1H16, as reflected in the Emirates NBD Dubai Economy Tracker Index (DET) which has been gaining traction of late. The DET is a forward–looking private survey that tracks the performance of economic activity in Dubai's non-oil private sector. In May it rose to an eight-month high of 54.5 on the back of solid improvements in output and new work, which are indicative of rising domestic demand (Chart 4).

Abu Dhabi's economy to be supported by revival of delayed projects

According to the most recent data, Abu Dhabi's real GDP witnessed a notable uptick in 4Q15, growing by 7.7% y/y versus 5.2% y/y in 3Q15 (Chart 2). The strong pick up came after its non-oil economy grew sharply by 8.2% y/y in real terms. Growth in real oil GDP also witnessed a strong bounce, rising from 3.0% y/y to 7.1% y/y, but this could be attributed to some base effect. Abu Dhabi is expected to continue to log in moderate rates of growth in the quarters ahead as government expenditures continue to hold and delayed projects, including a branch of the Guggenheim Museum, are brought back to the fore.

PMI sees some stabilization in 1H16

The UAE's Markit Purchasing Managers' Index (PMI), a leading economic indicator, appears to have steadied in 1H16 after moderating throughout 2015, thanks to improvements in output, new export orders and new orders (Chart 3). In May, the headline PMI climbed to 54.0 from 52.8 in April. (A reading above 50 indicates an expansion in activity; a reading below 50 indicates a contraction.)

Employment conditions were steady, even as oil prices remain weak, circumventing any strong fears of a major oil-induced disruption to domestic consumption and the overall economy.

Residential property price growth in Dubai poised to plateau in 2016

After trending lower for the most of 2015 on tighter regulations, higher housing supply and risk aversion, growth in Dubai's residential property prices are showing early signs of stabilizing. According to Asteco, a major real estate services company, prices of apartments and villas in Dubai fell by approximately 4.3% y/y and 9.3% y/y, respectively in 1Q16 (Chart 5), compared to declines of 8% and 11% seen in 4Q15.

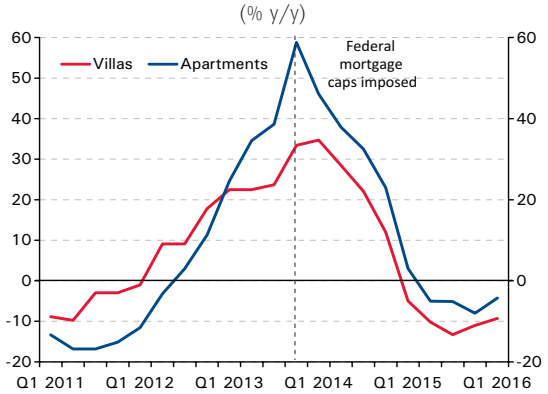
The property market has also been hampered by a stronger dirham (higher US dollar) relative to key emerging market currencies. This has created a dent in sales to Russian and Asian buyers. Nevertheless, for the majority of buyers from the UAE or dollar-based GCC region, the impact has been more limited.

Furthermore, against a backdrop of greater housing supply and more spending-conscious tenants, sellers have been forced to lower prices to attract tenants. Also, buyers are increasingly favoring affordable (mid-range) or end-use housing. Transaction values continue to trend lower, but growth in transaction volumes has been gradually recovering due to rising activity in the "more affordable" housing segment (Charts 6 and 7). We expect to

Chart 4: Dubai economy tracker

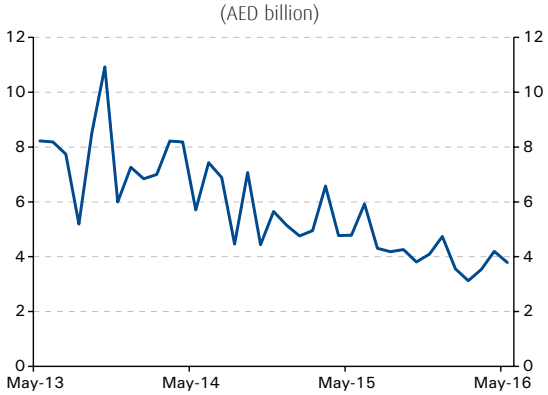
Source: Emirates NBD

Chart 5: Residential property sales prices



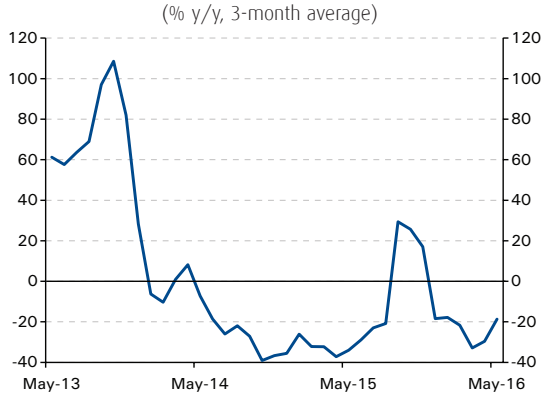
Source: Asteco, JLL

Chart 6: Value of real estate transactions



Source: Dubai Land Department

Chart 7: Number of real estate transactions



Source: Dubai Land Department

see more of this shift towards mid-range housing, especially amid a low oil price environment and tighter lending restrictions.

It is safe to conclude that Dubai's property market is going through a significant correction and that the measures that were put in place are so far leading the market in the right direction.

Consumer price inflation to remain in moderation gear in 2016

Headline inflation has decelerated sharply since the middle of 2015, as housing inflation (which has a significant weight in the index) eased. Inflation in the consumer price index (CPI) stood at 1.6% y/y in May as housing inflation maintained its downward trend and food inflation softened sharply (Chart 8).

Looking ahead, inflation in housing costs is poised to continue to moderate in 2016 on the back of greater housing supply and as the effects of the electricity and water tariff hike imposed last year, continue to wane.

Food inflation is expected to remain soft in the near to medium term, especially after the Ministry of Economy announced that UAE supermarkets will be cutting the prices of 5,000 food items by up to 70% during the Holy Month of Ramadan in June.

A stronger US dollar and low commodity prices will also help limit upward inflationary pressures from any further subsidy cuts and/or tariff hikes. Consequently, we forecast inflation to slow from an annual average of 4.1% in 2015 to 2.5% in 2016.

The inflation data is more or less in line with the PMI data. According to the Markit PMI, inflationary pressures have remained subdued as staff costs and overall input prices remain moderate.

Fiscal deficit expected to widen in 2016, but remain manageable

The UAE's fiscal balance is expected to log in a deficit of 3.2% of GDP in 2016, on steady spending levels and lower oil earnings (Chart 9). The fiscal balance is expected to return to a surplus in 2017 on the back of an expected recovery in oil prices and a planned increase in oil production.

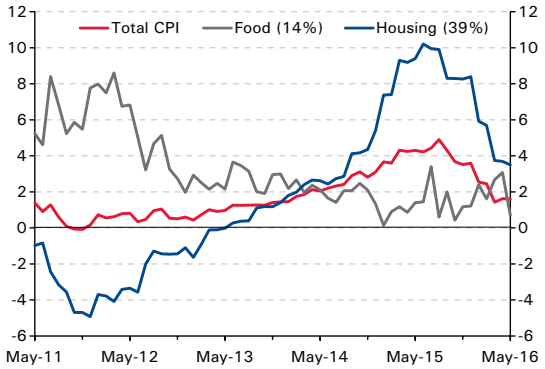
However, it is unlikely that the UAE economy will need to carry out significant fiscal consolidation in the medium-term, thanks to its abundant financial reserves (a staggering 200% of GDP). Both Dubai and Abu Dhabi are scheduled to maintain their high levels of public spending on infrastructure projects. In Dubai, infrastructure spending is expected to accelerate in the run-up to the Expo 2020.

Nonetheless, the major emirates have embarked on some fiscal adjustment and reform. According to official reports, Abu Dhabi has cut back or delayed spending on a number of projects designated as low-priority. Efforts have also been made to rely more heavily on the private sector for implementation of some projects. In November 2015, Dubai passed a law covering public-private partnerships (PPPs) to tap into private sector funding for key projects. Furthermore, the UAE government moved to reduce subsidies in 2015, raising utility tariffs and deregulating petrol prices.

An imposition of a departure-tax at the Dubai International Airport starting on 1 July 2016 may also increase non-oil revenues. A Dh35 ($9.54) departure tax per passenger will be introduced to help finance the emirate's development projects. Given that the Dubai International Airport was the world's busiest in 2015, with 78 million passengers passing through the airport that year, the tax is forecast to raise $500 million annually. Abu Dhabi

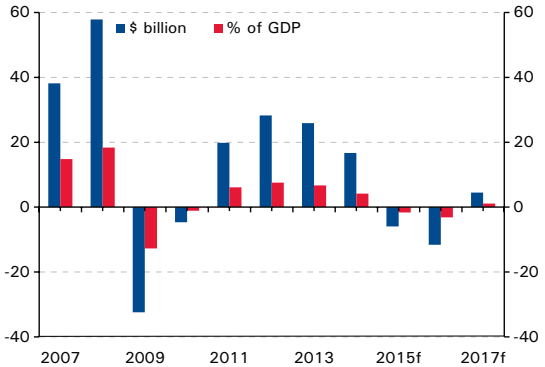
Chart 8: Consumer price inflation by sector

(% y/y, weights in brackets)



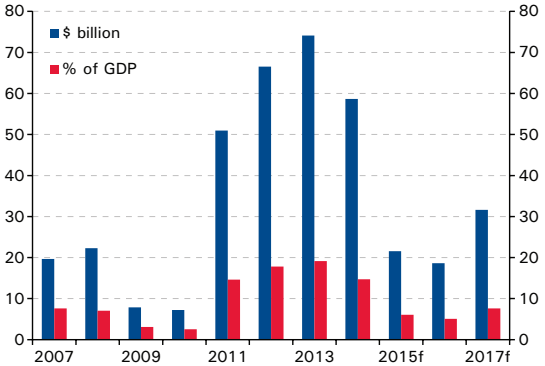
Source: Thomson Reuters Datastream

Chart 9: Budget balance



Source: UAE National Bureau of Statistics, NBK estimates
Note: Budget balance includes ADNOC profits & investment income.

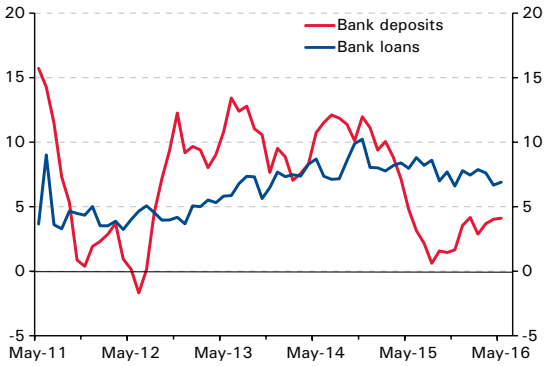
Chart 10: Current account balance



Source: UAE National Bureau of Statistics, NBK estimates

Chart 11: Bank loan & deposit growth

(% y/y)



Source: Central Bank of UAE

recently stated that a Dh35 fee will also be levied on passengers using the emirate's airports from July onwards.

In April, Abu Dhabi announced that it will impose a municipality fee on hotel stays, in an attempt to raise revenue for municipal authorities. The new decree will place a 4% fee on hotel bills and a Dh15 charge per night per room. The new fee follows a similar move by Dubai in 2014. It is not expected to have a significant impact on tourism given that hotel rates have come off this year. Abu Dhabi also introduced a 3% municipal fee on home rentals paid by expats, again somewhat in line with Dubai. The new fee will be collected with monthly utility bills.

Furthermore, it appears that the UAE will be one of the first GCC nations to implement a value added tax (VAT). The first phase of implementation, scheduled for 2018, will require UAE companies with annual revenues greater than $1 million (Dh3.75 mn) to collect and pay VAT. At 5%, the VAT is expected to generate around $3.3 billion (Dh12 bn) in tax revenues.

In an attempt to preserve foreign assets, the UAE is also looking to raise debt on international markets to plug its budget gap. In April, Abu Dhabi sold $5 billion in sovereign bonds, the first issuance since 2009. With a relatively low level of external debt estimated at around 30% of GDP, the UAE has ample room to raise further debt.

Current account surplus to narrow on lower oil export receipts

The surplus in the current account will continue to narrow in 2016, as oil export earnings remain in decline and non-oil export growth moderates. Non-oil export revenues are expected to see some downward pressure, but are nevertheless expected to hold thanks to the modest gains in the trade and tourism sectors (Chart 10). As a result we project the current account balance to narrow slightly from 6% of GDP in 2015 to 5% of GDP in 2016, before edging higher in 2017 on the back of a recovery in oil prices and as non-oil export growth gathers momentum.

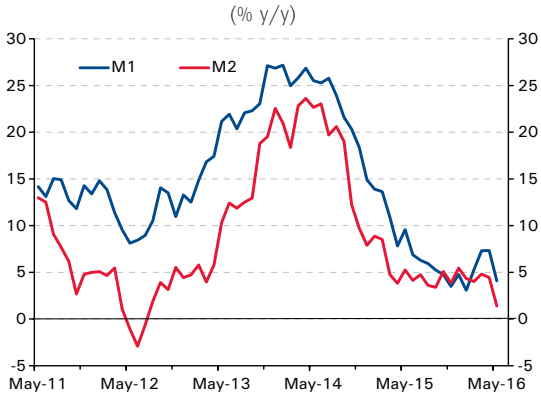
The UAE's non-oil exports will be under some pressure due to the stronger dirham. The stronger dollar has led to an appreciation in the dirham's trade-weighted index, increasing the cost of its exports and making it a more expensive place to visit and invest in (Chart 16). The UAE's major trading partners are in Asia, and those countries saw a further depreciation in their currencies vis-à-vis the dirham. However, given that the majority of tourists visiting the UAE are from the GCC region and that UAE nationals are the predominant investors in the country's real estate sector, the non-oil economy is envisaged to continue to perform well in the current low oil price environment.

Banks continue to see liquidity constraints amid low oil prices

Credit growth has moderated slightly, but continues to log in healthy readings as loan demand from the construction sector continues to hold. Loan growth logged in a reading of 6.9% y/y in April. As capital spending is expected to increase further in the run-up to the Expo 2020 in Dubai, we should continue to see healthy gains in credit lending (Chart 11).

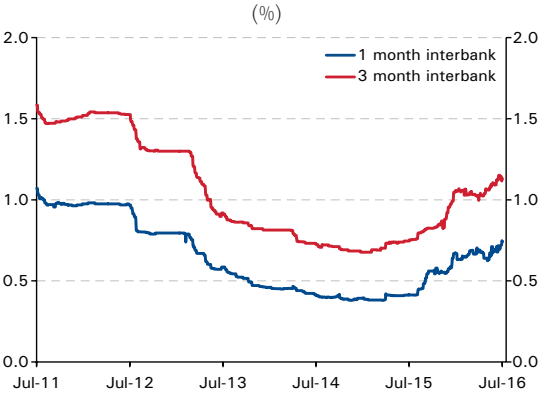
Although bank deposit growth has been gaining some ground, it remains relatively soft due to tepid government deposit growth, which is closely correlated with oil earnings. In May, total deposit growth was at 4.1% y/y (Chart 11). As deposit growth continued to trail behind credit growth, we saw the loan-to-deposit (LTD) ratio rise slightly from 101.1% in April to 101.7% in May. Although the LTD is currently above the lows seen during the year prior to the oil price drop in 2014 when the LTD averaged 97.7%,

Chart 12: Money supply



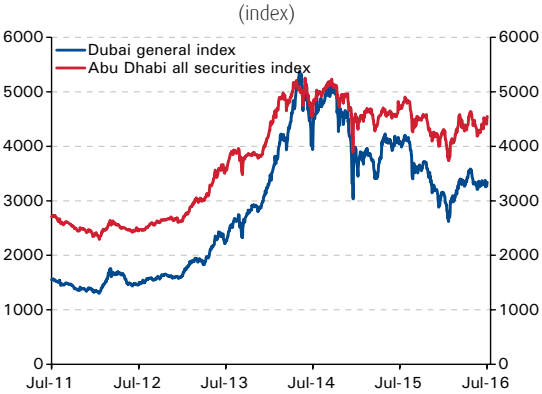
Source: Thomson Reuters Datastream

Chart 13: Interbank rates



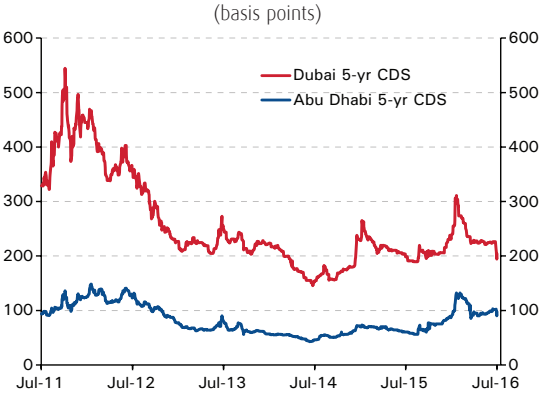
Source: Thomson Reuters Datastream

Chart 14: Stock market indices



Source: Thomson Reuters Datastream

Chart 15: Credit default swaps



Source: Thomson Reuters Datastream

it is still rather modest when compared to the 101.5% average seen over the past year.

Growth in the broad money supply (M2) continues to be weighed down by weaker deposit growth. In May, it was also weighed down by a decline in quasi-money (foreign exchange and longer-term dirham deposits). Consequently, it decelerated from 4.5% y/y in April to an almost four-year low of 1.4% y/y in May (Chart 12).

Both the UAE's three-month and one-month interbank rates continue to rise, and are currently hovering at near three-year highs (Chart 13). We expect these rates to rise further, especially if the US Fed hikes its federal funds rate again this year.

Markets and interest rates

The main Abu Dhabi and Dubai markets have remained subdued in tandem with international and regional markets, which have been roiled by global growth concerns, the low oil price environment and more recently, economic uncertainties following the Brexit vote.

The main credit default swaps (CDS), which are bellwethers of the level of risk within an economy, have come down slightly further recently (Chart 15). At the start of July, the CDS on five-year Dubai and Abu Dhabi government debt stood at 204 and 98 basis points, respectively.

US dollar-dirham peg is here to stay

The dirham has been pegged to the US dollar at a rate of $1 = Dh3.673 since 1997. The current exchange rate policy has helped the UAE economy anchor macroeconomic stability, keep the rate of inflation in check and maintain investor confidence. Although the peg has come under pressure due to the decline in oil prices and a stronger US dollar, in June the Central Bank Governor reiterated that the UAE remains committed to the dollar peg. The UAE has ample reserves to defend its peg to the US dollar if necessary.

Chart 16: Trade-weighted exchange rate

(index, Jan 2000 = 100)

Source: Thomson Reuters Datastream, NBK estimates

Egypt outlook

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Economic recovery stalled, hurt by dollar shortage and tourism collapse

Overview and outlook

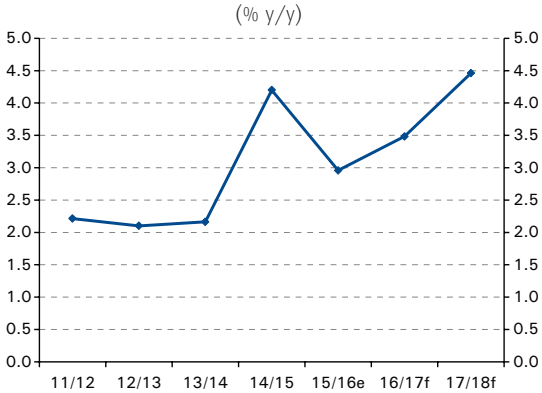
- **Growth is expected to have slowed to 3% in FY15/16; growth should improve to 3.5% in FY16/17 and 4.5% in FY17/18.**
- **Foreign currency shortages and a tourism sector hard hit by terror and uncertainty has hurt economic growth.**
- **The fiscal deficit is expected to have narrowed to 10.3% of GDP in FY15/16; it should improve to 9% in FY16/17 and 8% in FY17/18.**
- **Pressure on the external position remains a challenge, with the current account deficit widening; further devaluations are likely.**

After experiencing a robust recovery in FY14/15 driven in part by a public sector investment push, growth in economic activity stalled in FY15/16 thanks to a shortage of foreign exchange and a collapse of the country's tourism sector. Little progress on fiscal and structural reform, a persistent government deficit and precarious security conditions have hurt investment and the economy. With foreign investors largely staying away, capital controls have remained in place as monetary authorities maintained a costly policy of stabilizing the pound.

The fiscal and external positions continued to face significant pressures. While the fiscal deficit appears to have finally begun to narrow in FY15/16, this was largely due to a drop in the cost of fuel subsidies, thanks to lower oil prices. Reforms to address the deficit have not moved quickly enough, though a number of initiatives are expected in the coming months. The external position also worsened in 2015, with the current account deficit widening and foreign reserves remaining relatively tight. A devaluation in March helped reduce the pressure on the pound, but appeared to do little to ease the severe shortage of foreign currency.

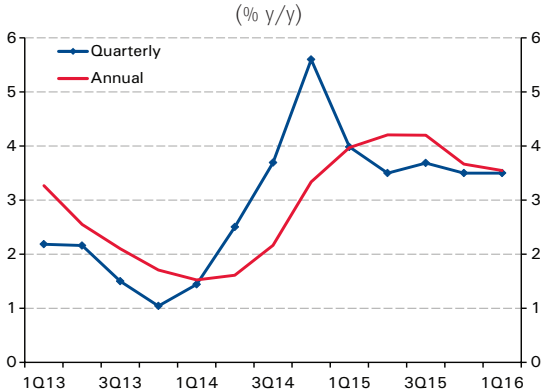
Following a cabinet reshuffle in March, the government has sought to rekindle reform efforts in an attempt to turn the economy around. The government is proposing a number of fiscal reforms whose aim is to narrow Egypt's large deficit and spark renewed interest from foreign investors. There has even been talk that the government is working on a new agreement with the IMF, though nothing has been confirmed. If true, the agreement would require Egypt to commit to reforms in return for an IMF loan of $5-10 billion.

Chart 1: Real GDP growth



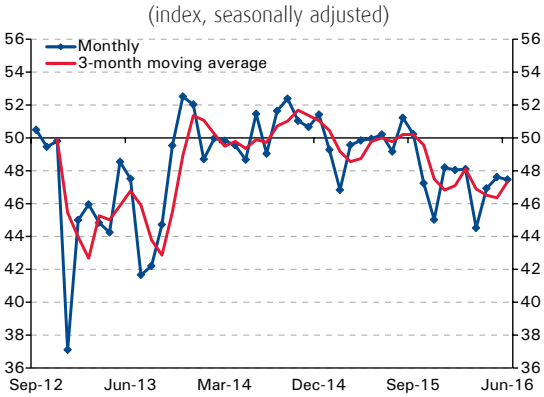
Source: CBE, Thomson Reuters Datastream, NBK estimates

Chart 2: Quarterly GDP growth



Source: Central Bank of Egypt, Thomson Reuters Datastream

Chart 3: Purchasing Managers' Index



Source: Markit

Key economic indicators

		FY14/15	FY15/16e	FY16/17f	FY17/18f
Nominal GDP	EGP bn	2,264	2,502	2,858	3,254
Nominal GDP	USD bn	307	319	361	404
Real GDP growth	% y/y	4.2	3.0	3.5	4.5
Inflation	% y/y	11.4	14.0	11.0	10.0
Budget balance	% of GDP	-11.8	-10.3	-9.0	-8.0

Source: Central Bank of Egypt, Ministry of Finance, Ministry of Planning, NBK estimates

Economy slows further in 2016, after losing steam in 2015

Economic growth is expected to have slowed notably during the first half of 2016 following a more modest slowdown in 2015. According to official data, real GDP growth slowed to 3.5% year-on-year (y/y) in 4Q15 (Chart 2), down from average growth of 4.2% in FY14/15. All indications are that growth slowed further since, to average around 2-2.5%; we estimate FY15/16 growth at around 3.0%. It is also expected to improve more slowly than we had been expecting a year ago, to 3.5% in FY16/17 and 4.5% in FY17/18 (Chart 1).

Growth appears to have worsened gradually over the last 9-12 months. The Ministry of Planning's production index has been in decline for most of the last twelve months. In April, the index was down by 12.7% y/y. According to the index, the slump has come mostly from a decline in tourism and the related transportation sector. Meanwhile, the manufacturing sector, which tends to be an important source of growth, has been essentially flat.

Markit's Purchasing Managers' Index (PMI) has also pointed to a slowdown in activity which appeared to worsen in 2016. The PMI has been below 50 since October 2015, with June at 47.3 (Chart 3). Indeed, the index has averaged 47 between 4Q15 and 2Q16, a level consistent with GDP growth of around 2-2.5%.

Private credit growth has held up better than other indicators but it too has slowed recently. Credit growth eased to 13.9% y/y in May after registering growth of 17.5% y/y in December 2015 (Chart 8). Growth adjusted for Egypt's high inflation declined to 1.4% y/y in May after recording real growth of around 6% in March.

Collapse in tourism key source of slowdown

A key source of slowdown in the economy is tourism. The tragic terrorist attack In October 2015 that downed a Russian plane shortly after takeoff in Sharm El-Sheikh has had a devastating effect on the tourist industry. The attack came at a time when Egyptian tourism was struggling to recover from years of political instability and security threats. Recent April data show that tourist numbers had yet to recover.

In April, the number of visitors was less than half its level of a year before, declining by 54% y/y. Those tourists who did come had shorter stays, with the number of "nights stayed" down by 75% y/y (Chart 6). As a result, receipts from tourism in 1Q16 were down by 62% y/y according to data from Egypt's balance of payments.

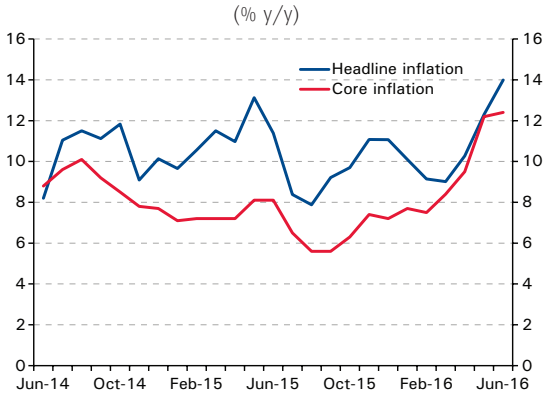
CBE hikes rates as recent devaluation pressures inflation

Inflation has picked up over the last year, reaching a more than 7-year high in June. Headline inflation in consumer prices rose to 14% y/y, while core inflation rose to 12.4% y/y (Chart 4). A devaluation of the pound by 12% in March was largely behind spiking inflation in recent months.

The Central Bank of Egypt (CBE) moved to hike its policy rates several times thus far in 2016, in an effort to combat higher inflation. The CBE increased rates by 50 basis points in January, the first such move since a rate cut a year before. Another two rate hikes took place after the March devaluation; 150 bps in March and another 100 bps in June. The CBE deposit rate now stands at 11.75% and the CBE lending rate at 12.75% (Chart 11).

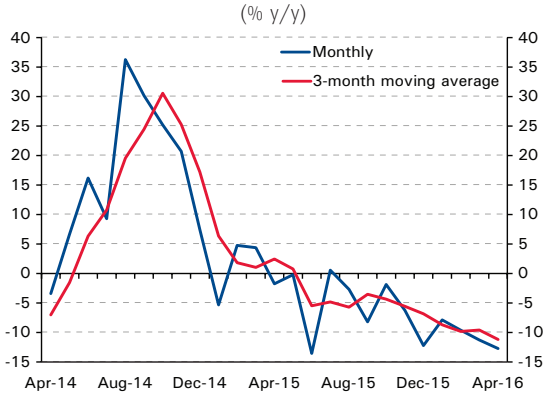
Treasury bill rates have risen in tandem with the hike in policy rates. The 3-month treasury bill yield rose to 14%, up from 11.2% in December 2015. This increase is already being felt in the budget, where interest payments

Chart 4: Consumer price inflation



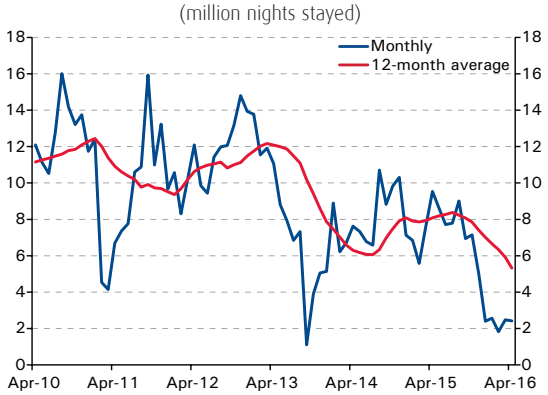
Source: Central Bank of Egypt, Thomson Reuters Datastream

Chart 5: Production index



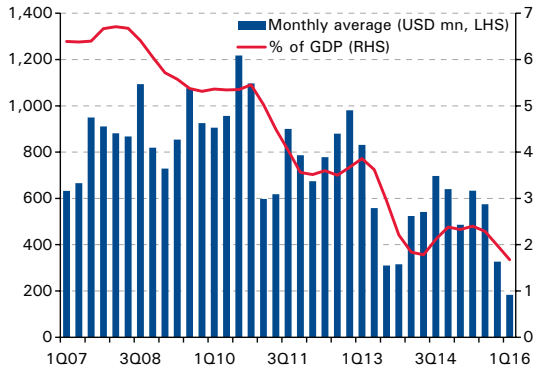
Source: Ministry of Planning, Thomson Reuters Datastream

Chart 6: Tourism



Source: CAPMAS, Thomson Reuters Datastream

Chart 7: Tourism receipts



Source: CBE, Thomson Reuters Datastream, NBK estimates

have risen notably to account for 9.9% of GDP in April compared to 8.4% a year before.

Fiscal deficit has narrowed, but remains a key concern

The fiscal deficit has improved over the last year, thanks to lower oil prices and a decline in the cost of fuel subsidies as a result. Still, the large deficit remains a key concern for the country's outlook. A decline in official grants and rising interest payments have hurt the budget, while new revenue initiatives have stalled. The deficit declined to 12.6% of GDP for the twelve months ending in April 2016, compared to 13.8% a year before (Chart 9). We expect the outcome for the fiscal year ending in June 2016 to be even lower still at 10.3% of GDP.

This improvement reflects the government's efforts to control spending growth which has been somewhat effective. Spending in the twelve months ending in April 2016 grew by only 1% compared to the same period a year before. While most of the improvement came from a decline in the cost of subsidies, which now account for 4.7% of GDP, down from 8.9% a year before, there were improvements elsewhere. Growth in wages and salaries was more than halved to 6.6% y/y even as inflation remains in the double-digits. Growth in "other expenditures" was also slashed to 7.5% y/y.

Some of these gains were offset by deterioration elsewhere in the budget. Revenue growth was weak at 1.8% y/y through April. While a decline in official grants was largely to blame for this, tax revenue growth also appeared to weaken to 2.1% y/y. As a result, revenues during the twelve months ending in April amounted to 18.9% of GDP, down from 20.5% a year before. At the same time, the cost of servicing government debt rose from 8.4% of GDP to 9.9% in April.

The government is currently mulling a number of reforms that it hopes parliament will ratify in the coming months. One of those includes a value added tax (VAT) to replace the existing and less efficient sales tax. The initiative should, once in place, provide new revenues of around 0.7-0.9% of GDP. Other initiatives include further cuts in subsidies and public sector payrolls.

Financing deficit has come largely from banks

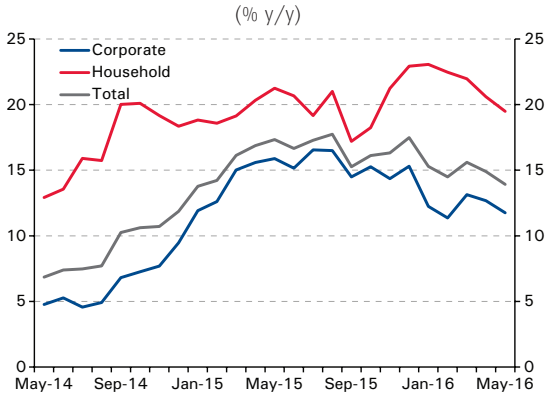
In recent years, the government has largely resorted to domestic issuance to finance its deficit and most of this debt has been absorbed by banks. This has come at a cost of crowding out lending to the private sector. Over the last six years, claims to the government have risen from 25% of assets to 59% in March 2016. By contrast, lending to the private sector accounts for only 26% of bank assets. To counter this, the government is seeking to issue international bonds later this year. Plans are to issue $3-5 billion in international bonds during the current fiscal year (FY16/17), probably starting in September.

Yields on Egypt's existing international bonds have risen over the last year. A USD bond maturing in 2040 yielded 8.1% in mid-July, up from 7.4% a year before. During this period, Egypt sovereign bonds have seen their yield spread to US rates rise from 400 basis points (bps) to 600 bps, largely reflecting the worsening outlook and the higher risk of default. Credit default swap (CDS) rates have risen from 300 bps to just under 500 bps.

Current account deficit widened in 1Q16

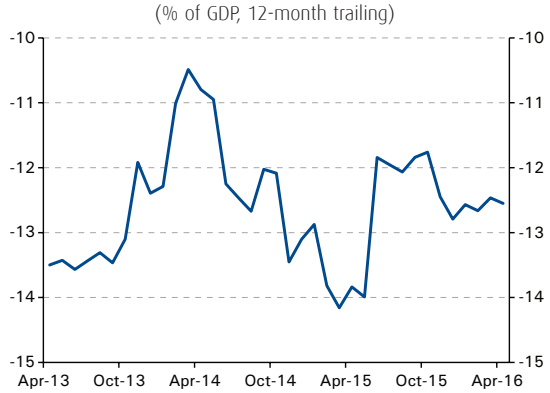
Egypt's current account weakened further in 1Q16, with the deficit widening to $5.5 billion. The 12-month trailing deficit rose to 6.1% of GDP compared

Chart 8: Private credit



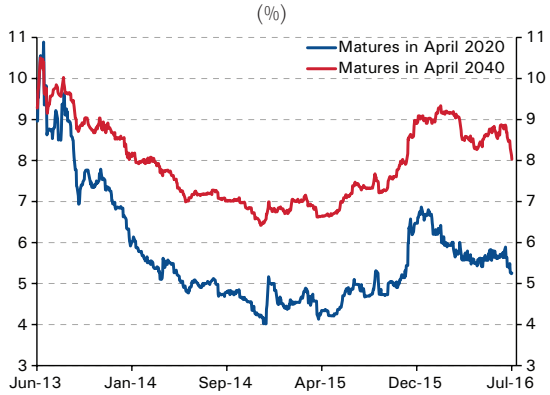
Source: Central Bank of Egypt, Thomson Reuters Datastream

Chart 9: Fiscal balance



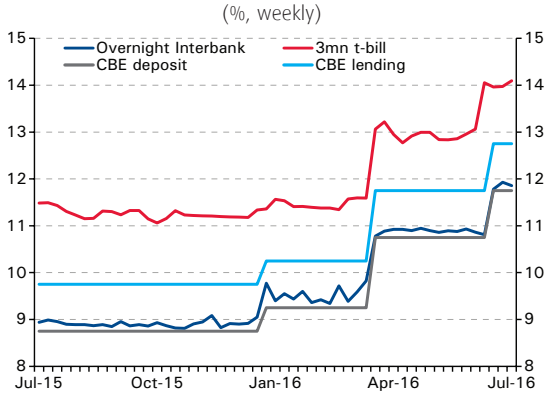
Source: Ministry of Finance, Thomson Reuters Datastream

Chart 10: USD sovereign bond yeilds



Source: Thomson Reuters Datastream

Chart 11: Interest rates



Source: Central Bank of Egypt, Thomson Reuters Datastream

to 3.4% a year before. The deterioration was due largely to a collapse in tourism revenues, and declines in worker remittances and foreign grants. By contrast, the trade deficit narrowed thanks in large part to a drop in imports. Meanwhile, foreign direct investment (FDI) continued to show strength (Chart 12).

The trade balance narrowed by 1% y/y during the twelve months through 1Q16. The improvement came mostly from a contraction in nonoil imports, which fell by 5% y/y. Meanwhile, the trade balance was hurt by deterioration in nonoil exports, which fell by 9.9% y/y. Lower oil prices also hurt the balance; while they resulted in mostly offsetting declines in oil imports and oil exports, on the net lower oil prices had a more detrimental impact on the trade balance.

The deterioration in the current account did not come from the trade balance, but from lower services receipts and transfers. Net receipts from services were down by 34% y/y, most of it from a decline in tourism receipts. Transfers declined by 28% y/y, with worker remittances down by 12% and foreign grants falling to zero.

Foreign direct investment (FDI) continued to increase, helping to finance a growing current account deficit. FDI rose to 2.4% of GDP during the twelve months ending in 1Q16, compared to 2.0% a year before. Egypt attracted $7.1 billion in FDI during the year through 1Q16, up from $6.1 billion the year before. Meanwhile, portfolio investment saw a relatively small outflow during the same period.

Official reserves see gradual improvement but remain tight

Official foreign currency reserves held by the CBE remained tight though they have seen some improvement in recent months. Reserves rose to $17.5 billion at the end of June 2016 or 3.5 months of imports, up from $16.3 billion in September (Chart 13). The position continued to benefit from generous support from GCC allies, who propped up CBE reserves with deposits of $4.4 billion between July 2015 and March 2106.

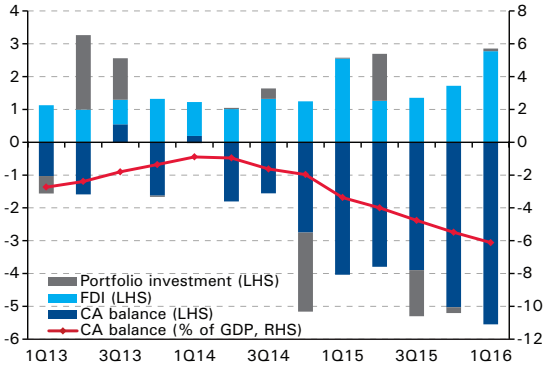
Capital controls have remained in place as monetary authorities continued a policy of supporting the pound; as a result, the market has suffered a severe shortage of foreign currency which has at times hindered business activity. The CBE devalued the pound in March in an effort to stem the pressure and improve access to foreign currency in the market (Chart 14). The Egyptian pound (EGP) fell by 12% against the US dollar on 16 March and has been steady since at 8.88. Through July, the trade-weighted value of the EGP was down by 9.4% y/y. Despite the devaluation, the pound continues to have an active unofficial market, where the currency trades at a 20-23% discount to the official rate (or 11-11.5 EGP/USD) according to press sources.

Equities market has outperformed region thus far in 2016

Egypt's stock market has outperformed most regional markets thus far in 2016, though it has come off its recent peak. The market rallied in March on news of a CBE devaluation; it gained again in July when it appeared the CBE would move again to devalue the currency. The EGX30 index was up 7.1% through 11 July 2016 (Chart 15); the Egypt MSCI total return index was also up a stronger 18% ytd, though in dollar terms the index was only up by 4.1%.

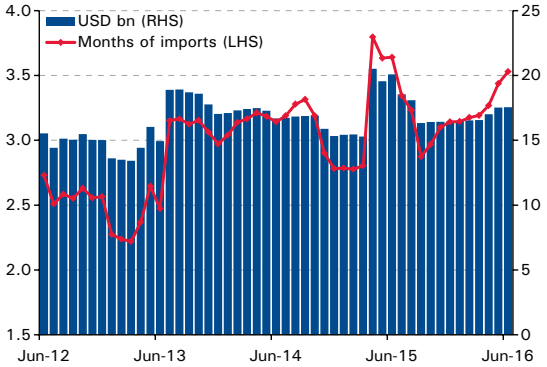
Chart 12: Balance of payment

(LHS: USD billion; RHS: % of GDP)



Source: Central Bank of Egypt, Thomson Reuters Datastream

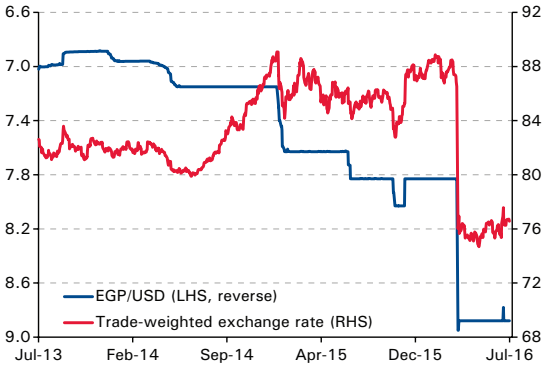
Chart 13: Official reserves



Source: Central Bank of Egypt, Thomson Reuters Datastream

Chart 14: Exchange rate

(LHS: EGP/USD; RHS: index)



Source: JP Morgan, Thomson Reuters Datastream

Chart 15: Stock exchange

(EGX30, thosand)

Source: Thomson Reuters Datastream

Regional economic data and forecasts

	Unit	2011	2012	2013	2014	2015e	2016f	2017f
Bahrain								
Nominal GDP	USD bn	29.1	30.6	32.8	33.8	32.2	31.8	35.0
Real GDP	% y/y	2.1	3.4	5.6	4.5	2.3	1.6	3.1
Oil sector	% y/y	3.6	-8.5	15.3	3.0	-0.9	0.0	0.0
Non-oil sector	% y/y	1.4	6.9	3.3	4.9	3.2	2.0	3.8
Budget balance	% of GDP	-0.3	-2.0	-3.1	-5.6	-16.1	-17.2	-13.2
Current account balance	% of GDP	11.1	7.2	7.8	3.3	-7.6	-10.6	-5.7
Inflation	% y/y	-0.4	2.8	3.2	2.7	1.8	2.5	2.5
Kuwait								
Nominal GDP	USD bn	154.0	174.2	174.3	163.7	117.0	115.6	134.6
Real GDP	% y/y	9.6	6.6	1.1	-1.6	1.5	3.0	3.2
Oil sector	% y/y	15.6	10.3	-1.8	-1.7	-0.3	2.1	2.1
Non-oil sector	% y/y	3.4	3.4	4.2	2.1	3.5	4.0	4.5
Budget balance	% of GDP	31.1	26.0	26.1	7.4	-11.9	-12.0	-2.8
Current account balance	% of GDP	43.6	45.3	40.9	33.2	5.1	-1.1	6.7
Inflation	% y/y	4.7	2.8	2.7	3.0	3.0	3.0	3.0
Oman								
Nominal GDP	USD bn	68.5	77.0	79.1	81.7	70.2	69.9	76.8
Real GDP	% y/y	-1.1	7.1	3.9	2.9	3.5	2.1	1.8
Oil sector	% y/y	2.0	3.0	2.4	-0.3	4.1	1.7	0.9
Non-oil sector	% y/y	-3.7	10.8	5.2	5.5	3.1	2.3	2.5
Budget balance	% of GDP	6.7	-0.3	0.9	-3.4	-17.1	-17.4	-8.5
Current account balance	% of GDP	12.9	10.0	6.6	5.0	-16.2	-20.1	-12.6
Inflation	% y/y	4.0	2.9	1.1	1.1	0.1	2.0	2.4
Qatar								
Nominal GDP	USD bn	171.4	189.8	201.9	208.1	166.5	167.0	195.5
Real GDP	% y/y	13.0	6.2	4.6	4.2	3.7	3.8	3.9
Oil sector	% y/y	15.6	1.3	0.2	-1.5	-0.1	1.3	1.4
Non-oil sector	% y/y	10.9	10.1	10.6	11.1	7.7	6.3	6.4
Budget balance	% of GDP	6.8	11.3	14.3	12.6	1.3	-2.3	2.4
Current account balance	% of GDP	30.4	32.6	29.3	25.0	5.8	1.6	9.0
Inflation	% y/y	1.7	1.9	3.1	3.3	1.6	3.1	2.9
Saudi Arabia								
Nominal GDP	USD bn	669.5	733.9	744.3	753.8	631.5	641.2	704.3
Real GDP	% y/y	10.0	5.5	2.6	3.6	3.5	1.4	1.6
Oil sector	% y/y	12.2	5.1	-1.6	2.1	4.0	0.5	0.6
Non-oil sector	% y/y	8.2	5.8	6.1	4.8	3.1	2.1	2.4
Budget balance	% of GDP	11.6	13.6	6.5	-2.3	-15.3	-11.4	-7.4
Current account balance	% of GDP	22.0	20.6	16.2	7.7	-11.4	-12.2	-7.4
Inflation	% y/y	3.7	2.9	3.5	2.7	2.2	4.1	4.2
UAE								
Nominal GDP	USD bn	348.5	373.4	387.2	399.4	356.6	366.7	417.0
Real GDP	% y/y	5.2	6.9	4.3	4.6	3.6	2.5	3.5
Oil sector	% y/y	6.6	7.6	2.9	4.0	1.6	0.0	0.5
Non-oil sector	% y/y	4.5	6.6	5.0	4.8	4.5	3.6	4.8
Budget balance	% of GDP	5.7	7.6	6.7	4.2	-1.7	-3.2	1.1
Current account balance	% of GDP	14.6	17.8	19.1	14.7	6.0	5.1	7.6
Inflation	% y/y	0.8	0.7	1.1	2.0	4.1	2.5	2.5
Egypt (fiscal year)								
Nominal GDP	USD bn	261.7	267.9	285.9	307.0	319.5	360.9	404.4
Real GDP	% y/y	2.2	2.1	2.2	4.2	3.0	3.5	4.5
Budget balance	% of GDP	-10.6	-13.6	-12.3	-11.8	-10.3	-9.0	-8.0
Current account balance	% of GDP	-3.9	-2.4	-0.9	-4.0	NA	NA	NA
Inflation	% y/y	7.3	9.8	8.2	11.4	14.0	11.0	10.0

International data

	Unit	2011	2012	2013	2014	2015e	2016f	2017f
Brent crude oil spot price (year average)	USD p/b	111.2	111.6	108.7	99.0	52.4	45.0	60.0
CRB commodity price index	Index	482.0	484.1	457.3	437.8	374.8	-	-
Eur/USD	1$ = €	0.773	0.758	0.736	0.827	0.921	-	-
US Fed Fund Rate	%	0.25	0.25	0.25	0.25	0.5	-	-
MSCI World stock market index	Index	1,183	1,339	1,661	1,730	1,663	-	-
MENA real GDP (IMF, yr avg)	% y/y	4.6	5.0	2.1	2.6	2.3	2.9	3.3
World real GDP (IMF, yr avg)	% y/y	4.2	3.4	3.3	3.4	3.1	3.2	3.5

Source: Thomson Reuters Datastream, official sources, NBK estimates

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