Economic Outlook

GCC & Egypt

May 2024

National Bank of Kuwait
Economic Research Department

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Contents

GCC & Egypt overview

Global economic growth is forecast at a steady but subpar 3.2% in 2024-25, with softer inflation allowing major central banks to cut interest rates and helping the key US economy avoid a 'hard landing'. Oil prices are forecast at $85 on average, incorporating only a gradual unwind of OPEC+ output cuts next year. We believe that non-oil growth prospects in the GCC region remain strong, with elevated oil prices supporting fiscal positions and ongoing solid expansions in the region's two largest economies, Saudi Arabia and the UAE, which have proved resilient to high interest rates to date. Despite clear progress on diversification, sharply lower oil prices are the main downside risk to growth, alongside an escalation in regional geopolitical tensions. In Egypt meanwhile, economic prospects are much-improved though strong reform follow-through is needed for it to fulfil its high-growth potential.

Global growth steady, pace of interest rate cuts uncertain

The outlook for global economic growth is 'steady but slow' according to the IMF, with expansion projected at a subpar rate of 3.2% this year and next. However, the Fund predicts a 'soft landing', with the absence of a destructive 'wage-price spiral' allowing global inflation to moderate and central banks the space to cut interest rates to support growth. The resilient US economy is forecast to grow at an above-trend 2.7% in 2024 slowing to 1.9% in 2025, as a softer labor market slows consumer spending. Expansions in the Eurozone (1.2% on average in 2024-25), UK and Japan (both 1%) will remain weaker, hit by sluggish global demand and with the lagged effects of the energy shock in Europe taking time to unwind. Among major emerging economies, growth in India will be fastest at 6.7% on average in 2024-25, while China could struggle to meet the government's 5% target given headwinds from the moribund property sector, demographic weakness and underwhelming policy support.

Inflation in the US and Europe has come down from the highs of mid-2022, and our base case is that the Federal Reserve is able to unwind previous interest rate hikes gradually, with 50 bps of cuts this year and a further 100-150 bps in 2025. However, one downside risk to the global outlook is that key central banks struggle to lower inflation back to target on a sustainable basis, requiring interest rates to remain high and triggering a 'hard landing' scenario. An escalation in global trade tensions is also a risk (especially ahead of the US presidential election this November), as is handling of the impending reversal of ultra-loose monetary policy in Japan, which could cause financial market volatility. The main upside risk in our view is for falling inflation to provide space for deeper interest rate cuts and boost consumer purchasing power, delivering faster economic growth.

Oil prices should remain supported by a combination of reasonable demand growth and an OPEC-led tightening of supplies, helping Brent average $85/bbl in both 2024 and 2025. Our baseline scenario assumes a rollover of OPEC+'s 2023 voluntary output cuts from June until year end, pressuring global inventories as well as oil GDP growth for deal participants from the GCC. A gradual unwinding of OPEC+ supply cuts is projected for next year, amid an expected slowing in oil demand growth and rising non-OPEC supply. This should be sufficient to return hydrocarbon sector growth to positive territory in Saudi, the UAE, Kuwait, and Oman. We see the balance of risks to oil prices as tilted to the upside, reflecting the relatively tight starting point for fundamentals, still disciplined OPEC+ supply policy and ongoing geopolitical tensions across the Middle East. Downside risks include weaker global demand growth due to high interest rates, and a more-rapid-than-expected unwind of OPEC+ output cuts.

GCC non-oil growth prospects remain strong

Oil sector aside, we expect economic conditions in the GCC to remain upbeat in 2024-25, helped by continued strong non-oil expansions in the region's two largest economies, Saudi Arabia and the UAE, both of which have proved resilient to high interest rates so far. This includes the buoyant property sector in the case of the UAE, which we nevertheless believe will start to cooldown. Relatively high oil prices and reform progress have also set the stage for an improved growth climate in Oman and Bahrain, while Qatar is expected to expand more rapidly as the post-World Cup lull in investment spending fades. Non-oil growth in Kuwait, having underperformed in recent years, is forecast to pick-up from last year's low base, with clear upside potential if the new government is able to speed up economic reforms. Despite manifest and ongoing progress on economic diversification, a large drop in oil prices (that weakens fiscal positions and reduces investment) remains the key downside risk to regional growth, alongside an escalation in regional geopolitical tensions. Higher oil prices and a stronger-than-expected payoff from economic reforms are key upside risks.

Following a tough period, the outlook for Egypt's economy has turned more positive after delivery in March of the long-awaited currency float and the securing of various large international financing deals to address external sector pressures. We expect these changes to pave the way for interest rates and inflation to come down from current high levels, triggering a recovery in economic growth from next year. Long term however, the government needs to demonstrate a sustained commitment to tackling the economy's other structural challenges if Egypt is to fulfil its high-growth potential. ■

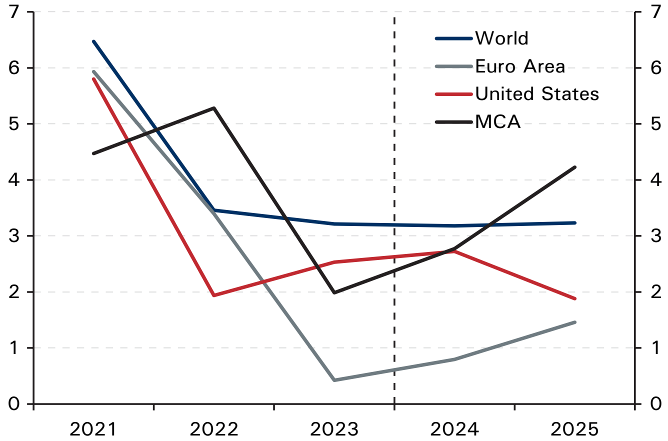
GCC key economic indicators

		2022	2023	2024f	2025f
Nominal GDP	$ trillion	2.2	2.1	2.2	2.3
Real GDP	% y/y	7.0	0.6	1.5	3.5
- Oil	% y/y	11.1	-5.0	-3.3	2.6
- Non-oil	% y/y	5.5	3.8	3.7	3.8
Inflation (avg.)	% y/y	3.6	2.2	2.2	2.3
Fiscal balance	% of GDP	5.7	0.2	0.5	0.0
Current acc. bal.	% of GDP	17.9	8.8	6.1	6.1

Source: Official sources, NBK estimates and forecasts

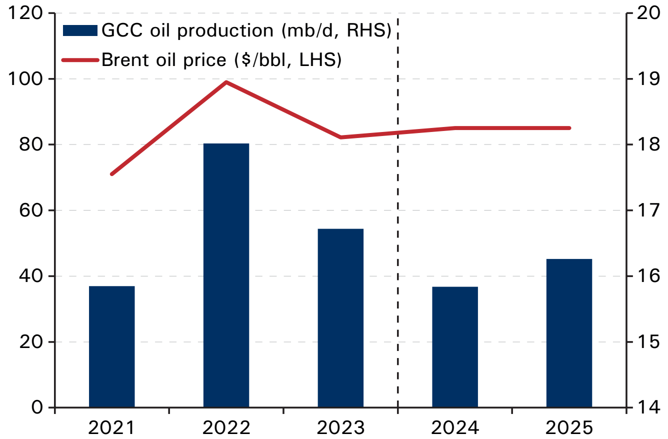
Chart 1: International GDP

(% y/y)



Source: IMF WEO April 2024; MCA=Middle East & Central Asia

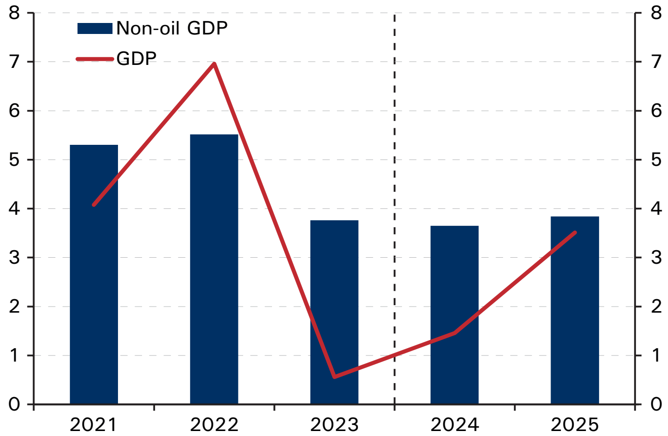
Chart 2: Brent oil price & GCC oil production



Source: EIA, OPEC, NBK estimates and forecasts; oil price is year avg.

Chart 3: GCC GDP

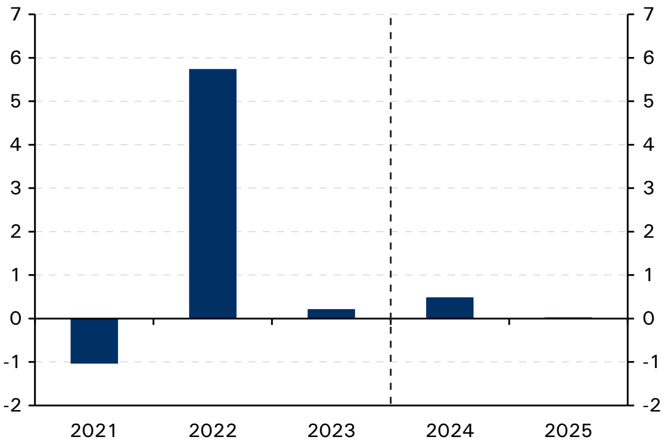
(% y/y)



Source: Official sources, NBK estimates and forecasts

Chart 4: GCC fiscal balance

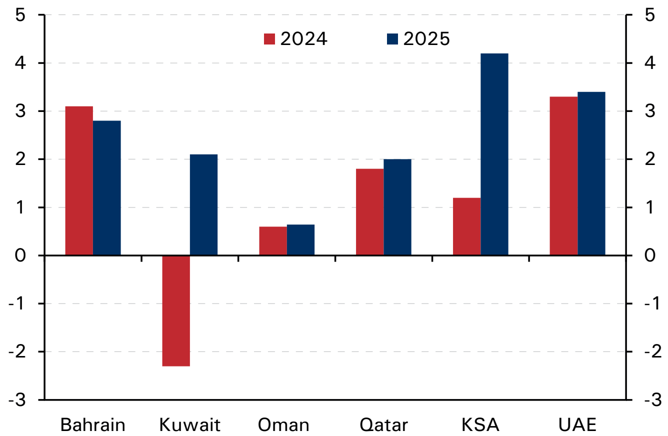
(% of GDP)



Source: Official sources, NBK estimates and forecasts

Chart 5: GCC GDP growth by country

(% y/y)



Source: NBK estimates and forecasts

Bahrain, Oman & Qatar

Economic growth in Bahrain, Oman, and Qatar is forecast to proceed at a moderate pace on average in 2024 and 2025 on decent projected growth in non-oil activity. Oman also stands to benefit from strong reform progress and rising planned investment, which will be key growth catalysts going forward. Fiscal consolidation efforts in Bahrain and Oman have led to reduced fiscal vulnerabilities and improved metrics, while spending restraint in Qatar has delivered a further decline in public debt. Downside risks stem mainly from adverse regional geopolitics and lower energy prices, while higher project spending, better-than-expected results from economic reforms and higher energy prices are risks to the upside.

Bahrain: Growth to pick up in 2024 on oil sector recovery

Having moderated to 2.5% last year amid tighter financial conditions and negative oil sector growth, economic growth is expected to rise in 2024, led by a recovery in the hydrocarbon sector as maintenance works on the Abu Safah field are completed. Growth in the non-oil economy, which now constitutes an overwhelming 84% of GDP, is seen on a mildly slowing trajectory at about 3% in both 2024 and 2025 from 3.5% last year, weighed by still elevated (if falling) interest rates and government fiscal consolidation efforts. Positive factors include rising tourism (hotel GDP grew 19% y/y in Q4 23) and strong growth in the service sector more broadly, while the government's economic recovery plan targets higher project spending and FDI, and vigorous job growth for Bahraini nationals. Bapco's much anticipated refinery expansion project is also expected to be completed by 2025, providing a boost to non-oil activities. Inflation, meanwhile, was negligible in 2023 and should remain well below 2% this year.

Fiscal consolidation efforts since the pandemic have yielded very positive results, though the deficit is forecast at a wider 3-4% of GDP in 2024-25 on higher interest dues, slower progress on non-oil revenue growth, and lower commodity prices versus their peak in 2022. The government's balanced budget target date (2024) may be extended but credible spending control and revenue raising efforts will ensure that GCC fiscal support remains high. More elevated rollover costs (due to higher interest rates) could contribute to a higher debt-to-GDP ratio of 117% by 2025. The key downside risk to the outlook stems from vulnerability to negative oil price shocks which could undermine ongoing fiscal consolidation, a still low credit rating versus peers and pressure low FX reserves.

Oman: Reform progress yields economic benefits

The narrative on Oman's economy has become more positive, following a concerted fiscal consolidation program and progress on key reforms under the government's Vision 2040 program. Non-oil economic growth is projected at 2.5-3.0% in 2024 and 2025, despite headwinds from still-high interest rates, public spending restraint and a fading post-pandemic rebound in job growth. We see the government remaining committed to its transformation of the economy (including lowering the hydrocarbon sector's share of GDP to 8% by 2040 from around 30% recently), which has already seen state-owned firms overhauled, subsidy programs pared back, successful steps to boost female labor force participation and in January 2024 the creation of the $5bn Oman Future Fund aimed at catalyzing domestic investment in sectors such as tourism, manufacturing and green energy. Oil GDP in 2024 will be hit by participation in OPEC+ cuts, but condensate output may expand while multiple energy sector IPOs could boost investment this year.

A small fiscal surplus is seen over the forecast period, with earlier vulnerabilities reduced by a combination of high oil prices and policy discipline. The budget for 2024 provides for a modest 3% rise in spending, with capex unchanged. The government has prioritized reducing debt which has broadly halved since 2020 to 34% of GDP in 2023, triggering a string of credit rating upgrades, though smaller fiscal surpluses going forward will slow future debt reductions. The main upside risk to the outlook is more rapid non-oil growth if the reform program yields stronger-than-expected results. The main downside risk would be a sharp drop in oil prices which pushes the budget back into large deficit and halts reform momentum.

Qatar: Growth moderate ahead of LNG ramp-up

Non-oil growth is expected to accelerate to 2-3% in 2024 and 2025, having dipped last year in the aftermath of the 2022 FIFA World Cup. A recent pickup in credit growth, above-50 PMI readings, and still elevated visitor numbers are supportive of domestic demand which should drive non-oil growth over the forecast period. The fading effects of an exceptionally strong 2022 and – eventually – interest rate cuts albeit from high levels are additional drivers. Total GDP growth, however, will be relatively modest amid growth-neutral budgets and negligible gains in hydrocarbon output until 2026, when the first phase of Qatar's massive LNG capacity expansion is expected to be completed, bringing LNG output to 110 mtpa (43% increase). Crude output is seen broadly steady at 0.6 mb/d in 2024-25.

We forecast solid fiscal surpluses in 2024 and 2025 (around 7-8% of GDP) on account of modest projected increases in hydrocarbon revenues and continued spending restraint. Consequently, gross public debt is expected to continue to decline to an estimated 45% of GDP in 2025 from above 60% in 2021. Beyond 2025 we see the potential for larger fiscal surpluses following the ramping up of LNG exports which can be deployed on development plan-linked capital spending. Indeed, a near doubling of LNG capacity by 2030 to 142 mtpa from the current 77 mtpa is now planned, higher than earlier estimates of a 127 mtpa target, allowing Qatar to control a larger share of the global LNG market. Given the above, risks are skewed to the upside, especially in the event of higher gas prices due to a shortage or stronger demand, while downside risks stem mainly from adverse geopolitics or lower gas prices and demand in the event of a global recession. ■

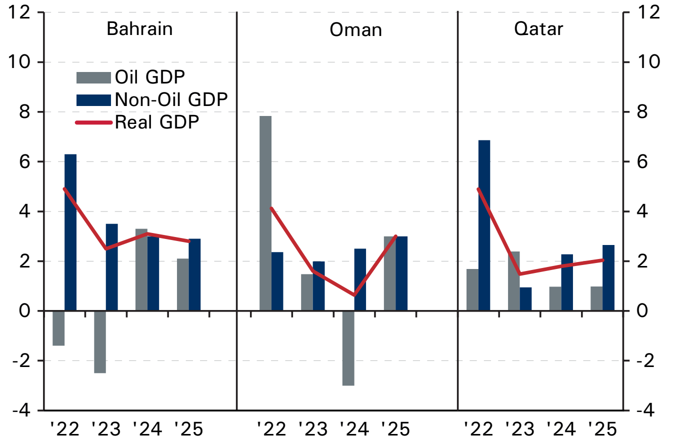
Bahrain, Oman & Qatar key economic indicators

		Bahrain			Oman			Qatar		
		2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f
Nominal GDP	$ bn	43	45	47	115	117	122	202	212	219
Real GDP	% y/y	2.5	3.1	2.8	1.6	0.6	3.0	1.5	1.8	2.0
- Oil sector	% y/y	-2.5	3.3	2.1	1.5	-3.0	3.0	2.4	1.0	1.0
- Non-oil sector	% y/y	3.5	3.0	2.9	2.0	2.5	3.0	1.0	2.3	2.7
Inflation (avg.)	% y/y	0.1	1.4	1.7	0.9	1.0	2.0	3.1	2.5	2.2
Fiscal balance	% of GDP	-3.5	-3.7	-4.0	1.5	1.0	1.0	5.7	8.1	6.9
Current acc. bal.	% of GDP	6.2	4.7	4.8	0.0	-1.0	-1.0	12.9	13.0	11.7

Source: Official sources, NBK estimates

Chart 1: Real GDP

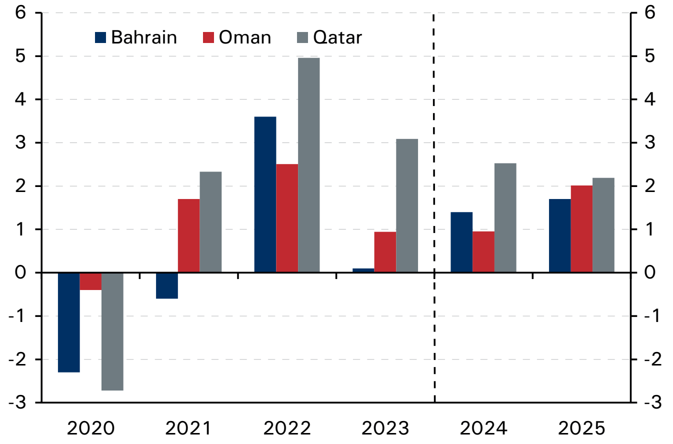
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

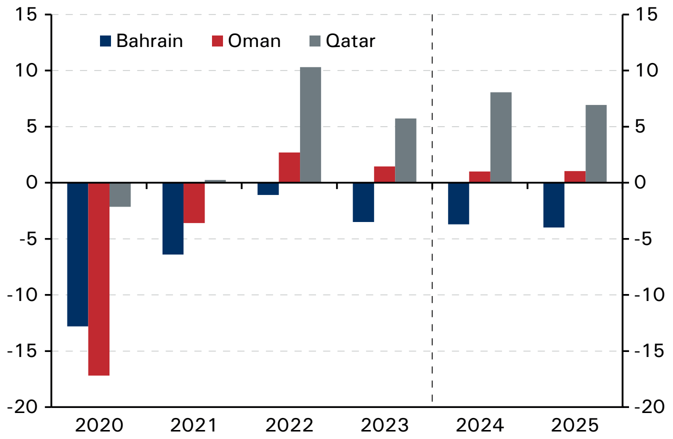
(% y/y)



Source: Government authorities, NBK estimates/forecasts

Chart 3: Budget balance

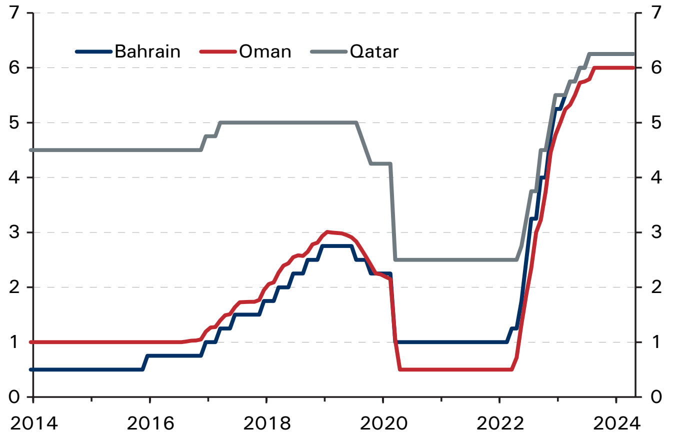
(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*

(%)



Source: Haver *Latest April 2024

Kuwait

Economic growth was weighed down last year by cuts to oil output and a further slowdown in consumer spending. Non-oil growth could pick up this year albeit from a low base, but the near-term recovery is unlikely to be a vigorous one given still-elevated interest rates by recent standards, projected cuts in government spending and ongoing structural impediments which the new government should look to address. The public finances have flipped back into deficit, with capex being squeezed. Accelerating economic reforms are an upside risk to the outlook, while lower oil prices and persistently high interest rates are downside risks.

Oil sector cuts weigh on GDP growth

Economic growth has been ranging at modest levels with oil sector output constrained by Kuwait's participation in OPEC+ production cuts (-400 kb/d since 2022) and subdued non-oil growth following its post-pandemic consumption-driven boost of 2021. Oil GDP is expected to contract further in 2024 (-6.9%) as Kuwait extends its deeper voluntary crude oil production cuts (-135 kb/d to 2.4 mb/d) from H1 to year-end. Next year should see some of these volumes return, albeit gradually, to ease oil market tightness. Headline growth, estimated at -1.8% in 2023, is not expected to turn positive until 2025 (+2.1%).

Moderate non-oil growth expected in 2024-25

Growth in the non-oil sector, meanwhile, has been relatively muted, dropping to 0.3% in 2022, according to official figures, before rising to an estimated 1% in 2023 (based on provisional GDP figures for Q1-Q3 2023). Some pick-up is expected for 2024-25, at 2.5% per year. This partly reflects the low base of previous years – which is well below trend – but also that the slowdown in consumption growth through 2022-23 has largely run its course and that investment spending could pick up following a substantial rise in project awards last year. We also believe that other activity metrics such as credit growth (only +1.7% in 2023) and real estate sales (-22% in 2023) have likely bottomed out, while interest rates could also be cut. Still, any near-term recovery is unlikely to be vigorous given the still-high level of global interest rates, scheduled cuts in government spending (see below) and also structural impediments to economic growth, especially bureaucracy, which the new government appointed in May 2024 should look to address. One positive has been the 615 kb/d Al-Zour refinery project, which since its launch in 2022 has ramped up output of higher value-added products for export.

Inflation and monetary conditions to ease

Inflation has slowly trended lower (+3.0% in March) after persisting in the 3.7% range for most of 2023 on broad-based price rises, but especially in the food and clothing categories. Amid softer consumer demand versus earlier years, we expect inflation to fall to 2.5% (year average) by 2025 from 3.6% in 2023. Meanwhile, US monetary is expected to be loosened through 2024-25. The Central Bank of Kuwait's policy discount rate currently stands at 4.25%, having increased by 275 bps over the recent tightening cycle that began in 2022, versus 525 bps of tightening by the US Fed.

Deficits in the near-term absent fiscal consolidation

The public finances, following a first surplus in 2022 (11.5% of GDP) since 2014, are estimated to have reverted to a shortfall in FY2023/24 of KD2.7 billion (-5.3% of GDP). This is on the back of double-digit expenditure growth (inflated by one-off items) and a sharp drop in oil revenues. This deficit is, nevertheless, well below budget estimates (KD6.8 billion) thanks mostly to higher-than-expected oil prices ($84 versus $70 in the budget). For the current fiscal year, in line with the still-to-be ratified budget, we see expenditures falling (-5% y/y) from the inflated FY23/24 base, which, with oil prices broadly steady, should result in a narrower deficit (3.8% of GDP). Our base case is that the government returns to a mildly more expansionary fiscal stance in FY25/26 (spending +4.5% y/y) focusing on accelerating investment spending on delayed infrastructure projects. This should support demand in the economy, while seeing the deficit widen slightly.

Fiscal reform remains a priority for the government. Key targets in the government's 2023-2027 work agenda included setting medium-term expenditure ceilings, improving procurement practices, reforming subsidies, repricing public services, launching a corporate tax and approving the public debt law. Kuwait has preserved a very high sovereign credit rating over the past year and has enormous fiscal and external buffers held by the KIA (more than $930bn), but access to the latter remains restricted by law. The flip back into persistent fiscal deficits from last year could eventually (over a run of years) result in a liquidity squeeze, until the contentious debt law is approved

Lower oil prices the main risk

While our base case is that progress on economic reforms remains slow-going, accelerating reforms and investment-focused policy-making is a major upside risk to the outlook. Meanwhile, higher oil prices could ease budgetary pressures and result in higher public spending that boosts demand, while lower interest rates could deliver a faster recovery in consumer spending. Commensurately, a sharp drop in oil prices and persistently high interest rates are downside risks. ■

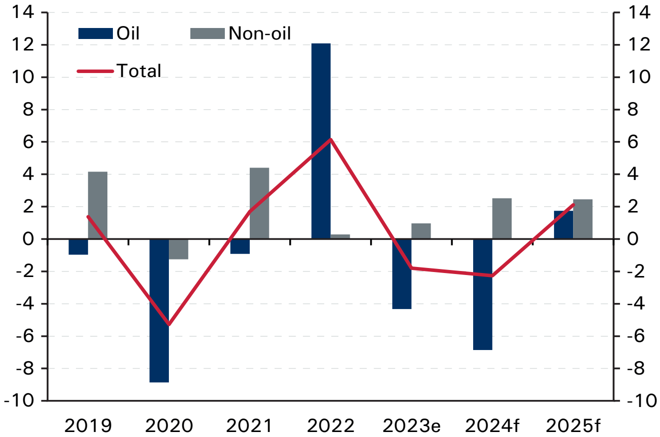
Kuwait key economic indicators

		2022	2023	2024f	2025f
Nominal GDP	$ bn	183	164	163	169
Real GDP	% y/y	6.1	-1.8	-2.3	2.1
- Oil sector	% y/y	12.1	-4.3	-6.9	1.7
- Non-oil sector	% y/y	0.3	1.0	2.5	2.5
- Non-oil ex refining	% y/y	-1.0	0.3	2.4	2.4
Inflation (avg.)	% y/y	4.0	3.6	3.0	2.5
Fiscal balance (FY)	% of GDP	11.5	-5.3	-3.8	-5.2
Current acc. balance	% of GDP	34.5	31.4	24.2	22.7

Source: Official sources, NBK forecasts

Chart 1: Real GDP

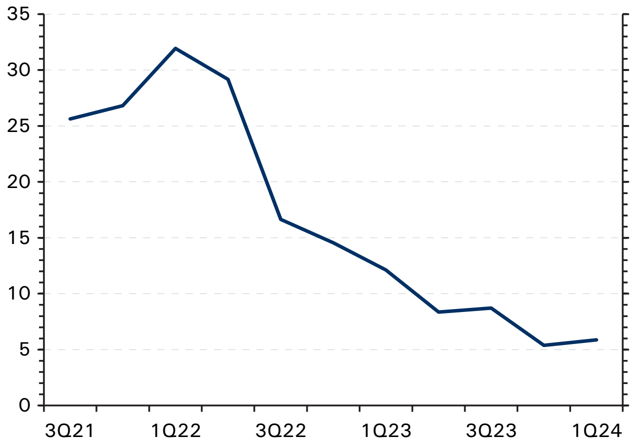
(% y/y)



Source: Central Statistical Bureau (CSB), NBK forecasts

Chart 2: Consumer spending (cards)

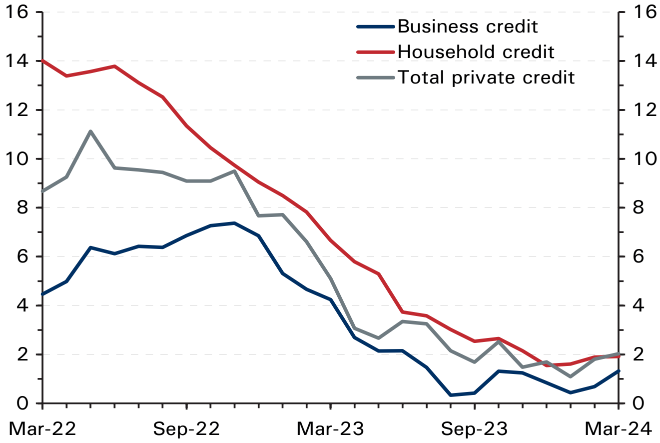
(% y/y)



Source: Central Bank of Kuwait (CBK)

Chart 3: Bank credit

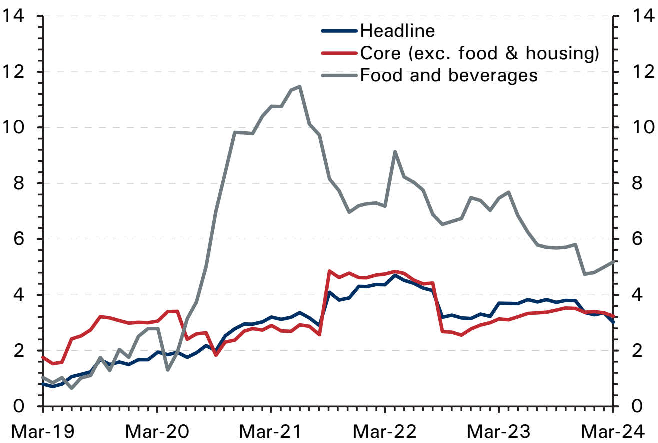
(% y/y)



Source: CBK

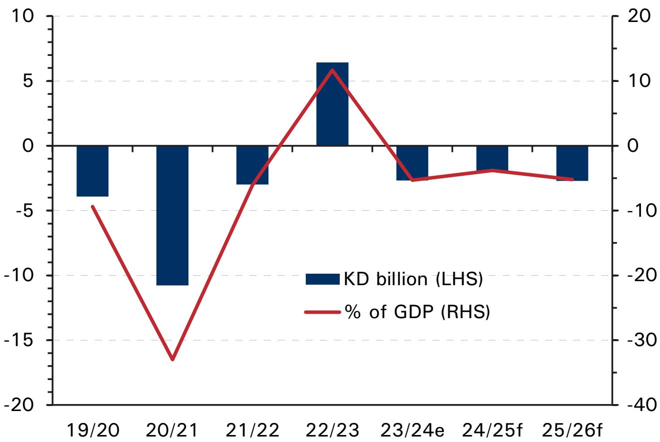
Chart 4: Consumer price inflation

(% y/y)



Source: CSB

Chart 5: Fiscal balance*



Source: Ministry of Finance (MOF), NBK forecasts; *on a fiscal year basis

Saudi Arabia

Non-oil economic growth decelerated in 2023 though remained robust at 3.8% (private sector +4.4%) as consumption expenditure proved resilient. We project non-oil growth to be broadly steady in 2024 (+3.7%) then potentially accelerate in 2025 helped by lower interest rates. Budget deficits in 2024-2025 should be limited given higher dividends from Aramco and a modest rise in government spending. The main upside risk is higher-than-forecast oil production in 2024-2025 while the major downside risk is a weaker-than-expected non-oil expansion that may be triggered by the projected deceleration in government spending growth and/or pressure from ongoing elevated interest rates.

Non-oil private sector growth to accelerate in 2025

Despite higher interest rates, non-oil economic growth remained robust in 2023, softening to 3.8% from 5.3% in 2022. The private sector continued to be the growth driver, although its expansion moderated to 4.4% in 2023 from a strong 5.6% in 2022. Sector-wise, trade, restaurants, and hotels contributed the most to GDP growth, expanding by 7% in 2023 supported by the strong focus on boosting tourism, both inbound as well as domestic. In terms of expenditure on GDP, private-sector investment continued to be the fastest growing, although decelerated sharply to 6.2% in 2023 from a very strong 22% average in 2021-2022.

We expect the constructive macroeconomic dynamics to be sustained in 2024 and potentially accelerate in 2025 as the impact of lower interest rates starts to kick in. Consumer spending remains resilient with the value of POS transactions up around 10% y/y through mid-April, in line with the increase recorded in 2023. Despite ongoing tight liquidity in the banking sector, credit growth (+11% y/y through February) remains buoyant, even showing signs of strengthening in the first months of 2024, driven by corporate credit (+15%). The PMI continues to be favorable (averaging 56.5 in Q1), and while it hit a recent low in January, has improved driven by the important sub-indices of output and new orders. We forecast the non-oil sector to grow by a broadly steady 3.7% in 2024, then 4.2% in 2025 driven by 4.5% and 5% growth, respectively, in the private sector.

This positive outlook is supported by the government's effective policymaking and the upgrade to the projected spending levels for 2024-2025 in the latest budget, but there are challenges along the way. For example, given that government spending soared by an average of 12% in each of the past two years, the spending intensity is set to slow in 2024-2025, weighing on non-oil activity. In addition, given some stalling in the US disinflation progress so far this year, the cut in interest rates is being pushed out to late 2024, keeping Saudi interbank rates, and hence the cost of borrowing elevated, which is not supportive for non-oil activity this year. Consequently, the tailwind of lower interest rates (Saudi policy rates usually move hand-in-hand with the US ones) will be mostly a 2025 story. Another key metric to monitor is foreign direct investment (given that higher investment levels are crucial in achieving Vision 2030 goals), which after rising strongly in 2021-2022, dropped in 2023 to stand at 1.8% of GDP compared with a 5.7% target for 2030.

As for the oil sector, growth was negative in 2023 (-9%) given the production cuts, which had deepened since the middle of that year. Given our house view on oil market dynamics, Saudi oil production is expected to remain at current levels throughout 2024 and increase only gradually next year, translating into oil GDP growth of -5.2% and +3.7%, respectively. However, KSA will likely continue to take a very proactive and nimble role in affecting the global oil supply, which could result in a steep deviation with our oil production assumptions for 2024-2025. All in all, total GDP is forecast to increase by a limited 1.2% in 2024 pressured by the oil sector, then grow by a stronger 4.2% in 2025 as oil GDP growth turns positive and non-oil growth strengthens.

Inflation to soften further; unemployment at a record low

Inflation (which remained relatively low driven by subsidies, price caps, and strong competition) continued to soften, standing at 1.6% y/y through March with housing rentals (+10.5% y/y) nearly the sole driver of price pressures over the past year. Despite ongoing hot housing rentals, we project average inflation to continue softening, standing at 1.8% and 2% in 2024-2025, down from 2.3% in 2023. Solid non-oil growth and ongoing Saudization initiatives dropped the unemployment rate among Saudis to an all-time low of 7.7% at the end of 2023, down from 8% one year before, and a stone's throw from the 7% target set for 2030.

Manageable fiscal deficits; higher oil GDP upside risk

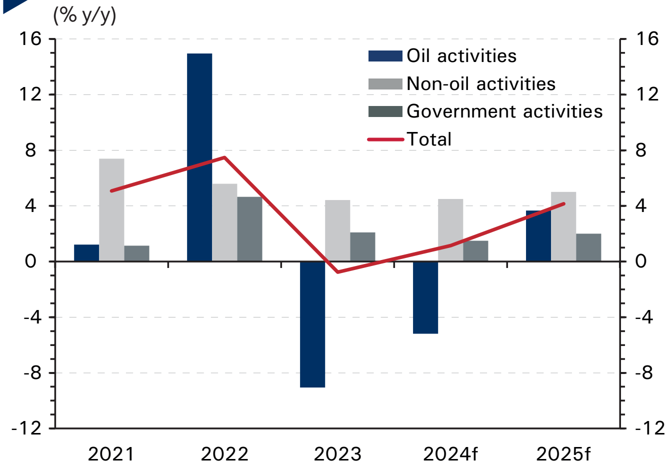
An 11% increase in spending in 2023 and a 12% drop in oil revenues resulted in a 2% of GDP fiscal deficit as non-oil revenues grew 11%. We project limited deficits of 1.7%-2% of GDP in 2024-2025, as government spending (which will likely continue to exceed budget) rises modestly, oil revenues increase driven by higher dividends from Aramco, and non-oil revenues continue growing fueled by an expanding non-oil sector. Hence, debt levels should remain contained, below 27% of GDP by 2025. The main upside risk is higher-than-forecast oil production, leading to stronger GDP growth. The major downside risk is a weaker-than-expected non-oil expansion that may be triggered by the projected deceleration in government spending growth and/or pressure from ongoing elevated interest rates. ■

Saudi Arabia key economic indicators

		2022	2023	2024f	2025f
Nominal GDP	$ bn	1,109	1,068	1,102	1,164
Real GDP	% y/y	7.5	-0.8	1.2	4.2
- Oil	% y/y	15.0	-9.0	-5.2	3.7
- Non-oil	% y/y	5.3	3.8	3.7	4.2
Inflation (avg.)	% y/y	2.5	2.3	1.8	2.0
Fiscal balance	% of GDP	2.5	-2.0	-1.7	-2.0
Government debt	% of GDP	23.8	26.2	27.0	26.9
Current acc. bal.	% of GDP	13.7	3.2	2.4	2.4

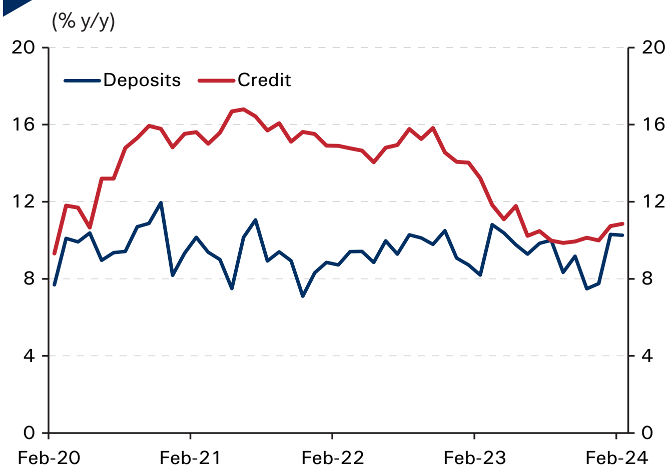
Source: Official sources, NBK forecasts

Chart 1: Real GDP growth



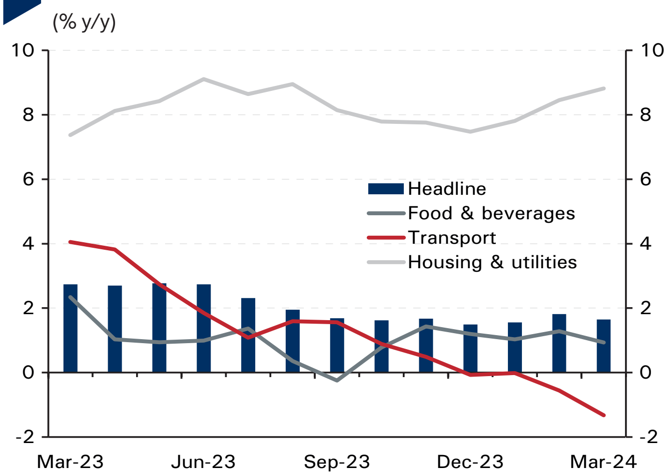
Source: General Authority for Statistics (GASTAT), NBK forecasts

Chart 2: Credit and deposit growth



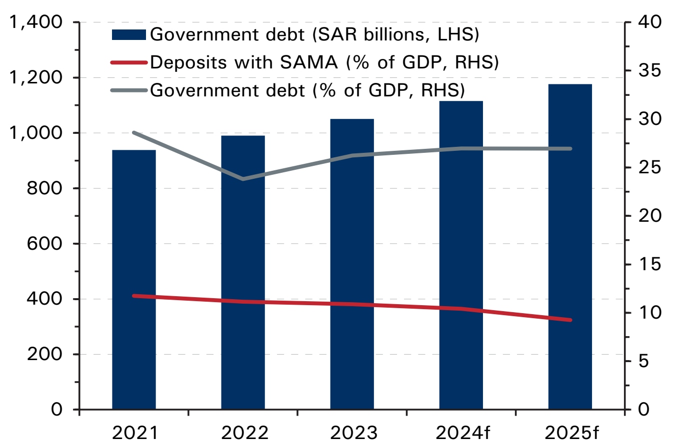
Source: SAMA

Chart 3: CPI inflation



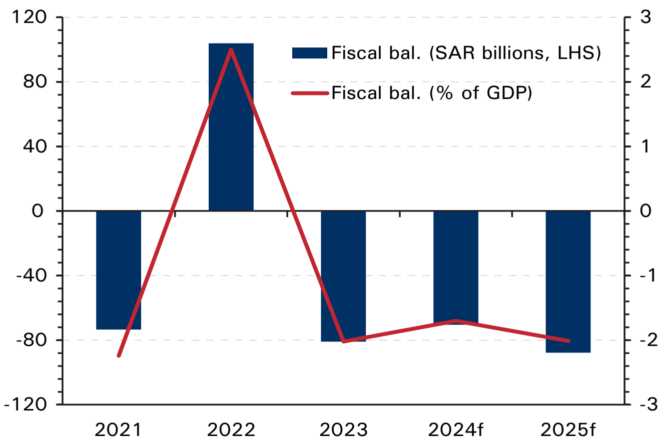
Source: GASTAT

Chart 4: Government debt and deposits with SAMA



Source: GASTAT, Ministry of Finance, SAMA, NBK forecasts

Chart 5: Fiscal balance



Source: Ministry of Finance, NBK forecasts

UAE

Non-oil growth is forecast to remain at 4%+ in 2024-25, with demand underpinned by the ongoing property sector expansion, solid financial sector performance, booming tourism, and the attractive investment climate. Oil sector growth will be weaker, but capacity expansions provide scope for more rapid growth when global market conditions allow. The real estate boom has proved durable in the face of high interest rates, though we expect moderating economic growth, higher pricing, and supply additions to eventually take a toll. Successful diversification has reduced but not eliminated vulnerability to oil shocks versus the past. Other key risks include global growth and interest rate prospects, and regional geopolitical tensions.

Non-oil growth to be sustained at a high rate

Economic growth is set to remain robust, with strong demand underpinned by the ongoing property market expansion, solid performance by the financial sector, booming tourism, attractive foreign investment climate and capacity expansion initiatives in the hydrocarbon sector alongside renewables. The non-oil sector grew a very solid 5.9% y/y in H1 2023, driven by tourism-related sectors, finance, trade, and logistics. The PMI gauge points to activity remaining strong since (despite disruptions to Red Sea trade), and we look for non-oil growth to reach a still impressive 4-5% in 2024-25, only slightly down on last year. Notably, credit growth (5.3% in 2023) has not been the main driving force behind non-oil growth post-pandemic, perhaps helping to extend the economic cycle in the face of high interest rates. The government will continue to provide very active support for the business climate, reflecting commitment to its various diversification and development plans including UAE 2031 (doubling GDP in 10 years), Abu Dhabi 2030 (private sector-driven, knowledge-based economy) and D33 (dramatically expand Dubai's trade and investment). The business impact of the introduction of corporation tax in mid-2023 so far seems to have been well absorbed, reflected in a region-leading gain in Dubai's stock market last year (+22%).

In the near term, oil sector growth will be minimal with OPEC+ cuts rolled over in H2 2024, resulting in a mild decline in oil GDP this year then a modest rise (output at 2.96mb/d) in 2025. ADNOC's crude oil production capacity reportedly increased 4% to 4.85mb/d at the end of 2023, leaving scope for rapid growth in future if global market conditions allow. Completion of the Crude Flexibility Project this year will allow the Ruwais refinery to process 420kb/d of heavier and sour feedstock while unlocking higher-value crude for export. Natural gas output is also being expanded under a plan to achieve gas self-sufficiency by 2030, including associated gas from higher oil output.

Property market shows resilience, but slowdown likely

After slowing earlier in 2023, indicators of real estate activity have reaccelerated, with residential prices and rents in Dubai for example up 20% y/y as of March 2024. Strong economic growth, a rising population and improved long-term residency and visa regulations are likely underpinning demand. Although the property market has proved highly durable, we still expect this buoyancy to fade over the forecast period as moderating economic growth, higher pricing and supply additions take a toll. However, tighter real estate financing regulations versus previous cycles and relatively modest post-pandemic credit growth should limit the wider impact of any market correction. Meanwhile, CPI inflation is projected to pick up in 2024-25 to 2.5% on average from 1.6% in 2023, on strong domestic demand and an expected increase in fuel prices. Rising housing rents (which account for 35% of the CPI basket) will also be a supporting factor for inflation.

Strong fiscal and external positions

A combination of lower oil revenues and rising welfare spending (subsidies and social benefits) narrowed the fiscal surplus in 2023 to an estimated 4.6% of GDP, from 9.9% in 2022, despite the introduction of the 9% corporate income tax in mid-2023 (which it is estimated could eventually yield revenues of 1.5% of GDP per year). We expect the budget surplus to continue declining to 3.5% in 2024-25 mainly on lower oil revenues. Strong non-oil growth and new revenue streams (non-oil revenues estimated at 38% of all revenues in 2024) will offset part of the expected increase in welfare and capital spending, given rises in the 2024 federal (+1.6% to AED63.1 billion) and Dubai (+17.2% to AED79.1 billion; +5.8% to AED83.7 billion in 2025) budgets. According to IMF figures, government debt will remain low by international standards at around 30% of GDP in 2024-25, though rising to around 55% once GRE debt is included. Near-term fresh debt issuance is unlikely to be high given budget surpluses and elevated interest rates, but the federal government may issue more dirham-denominated debt to help develop domestic capital markets.

The external finances meanwhile remain very comfortable with sizeable current account surpluses (7-8% of GDP in 2024-25), strong credit ratings (S&P: AA; Moody's: Aa2) and sovereign wealth assets (ADIA & Mubadala) estimated at $1.07 trillion by the SWF Institute and central bank gross reserves of $190 billion in 2023.

Risks include oil prices and regional geopolitics

Strong economic growth and successful diversification are reducing the UAE economy's exposure to oil shocks versus the past. Nevertheless, higher-than-forecast oil prices would still boost government finances and investment, while prospects would also be helped by a pick-up in global growth and/or rapid cuts in interest rates. A severe drop in oil prices, rising regional geopolitical tensions that hurt trade and regional supply chains, as well as a sharper-than-expected property market downturn are key downside risks. ■

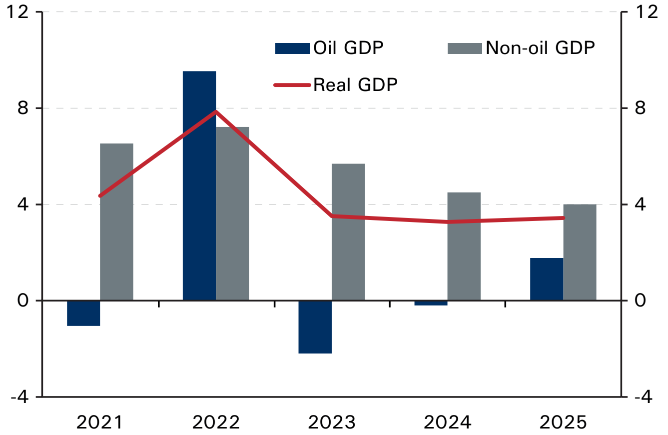
UAE key economic indicators

		2022	2023e	2024f	2025f
Nominal GDP	$ bn	507	505	531	556
Real GDP	% y/y	7.9	3.5	3.3	3.4
- Oil sector	% y/y	9.5	-2.2	-0.2	1.8
- Non-oil sector	% y/y	7.2	5.7	4.5	4.0
Inflation (avg.)	% y/y	4.8	1.6	2.5	2.6
Fiscal balance	% of GDP	9.9	4.6	3.6	3.3
Current acc. bal.	% of GDP	20.3	13.8	7.4	8.3

Source: Official sources, NBK estimates

Chart 1: Real GDP

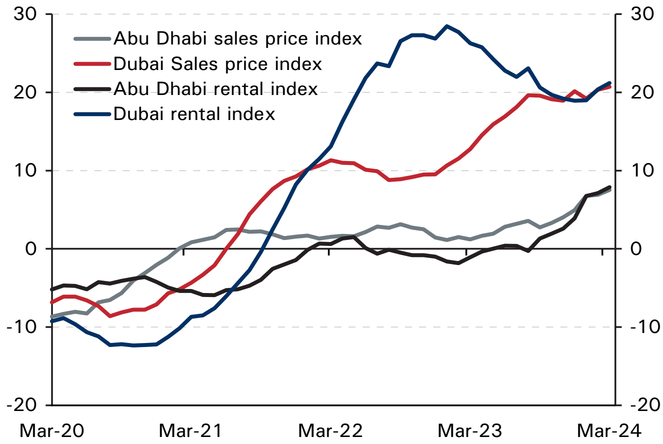
(% y/y)



Source: Federal Competitiveness & Statistics Centre (FCSC), NBK forecasts

Chart 2: Residential real estate prices and rents

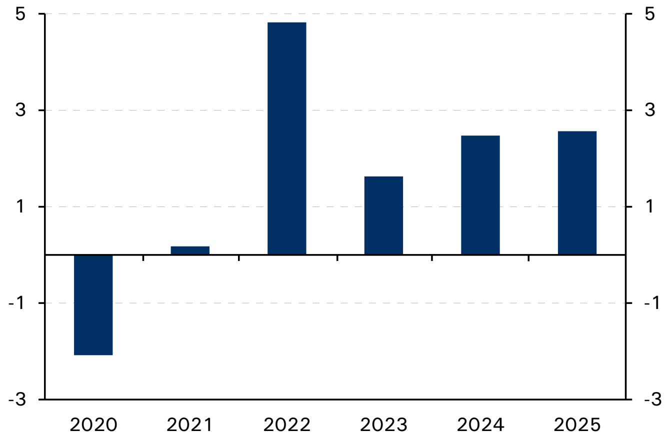
(% y/y)



Source: REIDIN, NBK estimates

Chart 3: Consumer price inflation

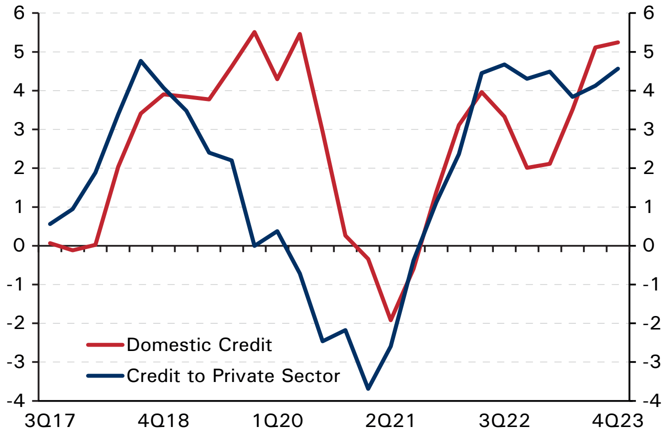
(% y/y)



Source: FCSC, NBK forecasts

Chart 4: Domestic credit

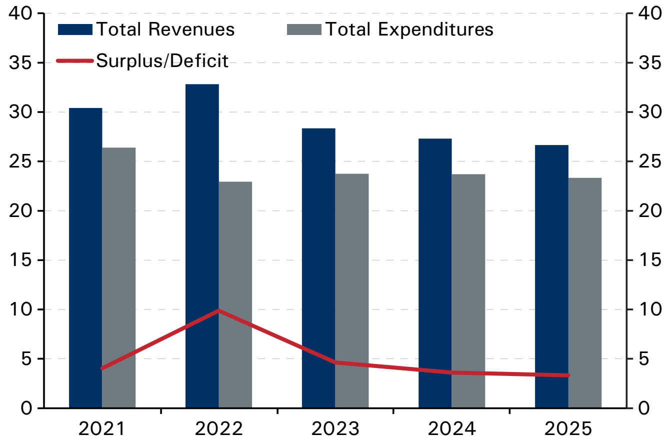
(% y/y)



Source: Central Bank of the UAE

Chart 5: Fiscal balance

(% of GDP)



Source: Ministry of Finance, FCSC, NBK forecasts

Egypt

The economy looks to have turned a corner in recent months following the resumption of capital inflows, the devaluation of the currency and the introduction of measures linked to the IMF program. Inflation also looks to be trending down. GDP growth should accelerate to 3.5% in FY24/25 from an expected 2.5% in the current year, while in the external sector, we see a manageable net financing gap of close to $10 billion in the next 3 years, benefitting from the Ras El Hekma and other financing deals. Risks to the outlook include regional geopolitical conflict and 'higher for longer' interest rates on the downside, while greater than expected reform benefits and lower than expected inflation and interest rates are upside risks.

Positive early signs from reform initiatives

The Egyptian government has embarked on the long-awaited economic reform process, having secured a wave of new investment and loan commitments from the UAE government, the IMF and other international bodies that provide a much stronger financial platform. As part of the upgraded deal with the IMF, the authorities shifted in March to a more free-floating regime for the pound, which has subsequently dropped by 34%. Stricter fiscal consolidation is on the agenda, with energy subsidies cut and non-tax revenues increasing on the back of a privatization program that appears to be accelerating. Financial transparency has also improved, with the first ever General Government budget produced and more frequent financial reporting on the performance of state-owned enterprises. While it is still too early to judge the success of these initiatives, there are already some promising signs, and the outlook for Egypt's economy is much improved versus six months ago.

Growth to bottom out and bounce back in FY24/25

Economic growth slowed to 2.5% in 1H FY23/24 from 4.2% in 1H FY22/23, a rate that we see maintained for the full year. This is well down on FY22/23's reading of 3.8% and comes amid tighter monetary policy (an 8% hike in interest rates in March), gradually unwinding import restrictions, high – though moderating – inflation (down to 33% in April) and the weaker pound. Recent policy reforms will help growth bounce back in FY24/25 to the 3.5-4.0% range as inflation cools further, interest rates begin easing (potentially in Q3 2024) and foreign currency liquidity becomes more readily available, helping sectors such as the energy, manufacturing, wholesale & retail trade and the consumer sector, recover. Moreover, the government has said that it is committed to reducing its footprint in key sectors of the economy to enable the private sector to play a greater role in the market.

External financing gap almost covered but FX float is key

In addition to the $35 billion Ras El Hekma investment deal the authorities signed with the UAE in February, Egypt received around $18 billion in LCY debt investments and concluded financing agreements worth $20 billion over the next three years. Also adding to the FCY pile since March is a recovery in remittances, tourism and exports following the EGP float. Given these developments, Egypt's external risk metrics are at their most favorable in some time: 5-yr CDS rates have compressed to 613 bps from 1835 bps a year ago and 5-yr Eurobond yields are in single digits for the first time in several months – and should improve further over the forecast period. We estimate that the net cumulative external financing gap will fall to $10 billion by the end of FY25/26 (from a high of $40bn last year), a figure that could easily be covered through annual Eurobond issuance of $3-4 billion. Reducing the financing gap will, of course, be contingent on maintaining a flexible exchange rate that reflects the external dynamics of the economy.

Investment policies key to finance consumption

Given the importance of imports in Egypt's current account and of consumption for the economy (accounting for more than 90% of GDP), which will take time to shift under a new economic model, it is key that investment inflows (and technological know-how) are maintained to help finance a current account deficit that we expect at around 2-4% of GDP in the medium term. This will require a business environment more conducive to stimulating foreign investment (both direct and portfolio) across a range of sectors. A favorable regulatory environment built on a solid institutional framework should be a central plank of government FDI and business policy, as well as sound macroeconomic management. A high level of vocational education attainment will also be critical in providing the skilled labor force to realize business ends and compete with other emerging markets.

Regional geopolitics and reform benefits are key risks

Egypt has been sensitive to spillover from a succession of geopolitical confrontations in recent years, from the Russia-Ukraine crisis (impact on tourism) to the conflict in Gaza (refugees) and disruptions to Red Sea shipping (Suez Canal receipts). A global monetary environment of 'higher for longer' interest rates would also adversely affect Egypt, raising external borrowing costs. On the upside, the government's recent commitment to reform and the tenets of the IMF program looks serious and is unlikely to waver over the forecast period. Reforms could yield economic benefits more quickly or more strongly than we expect, boosting economic growth. There is also potential for inflation to fall more rapidly than forecast, allowing interest rates to be cut and growth to accelerate more sharply. ■

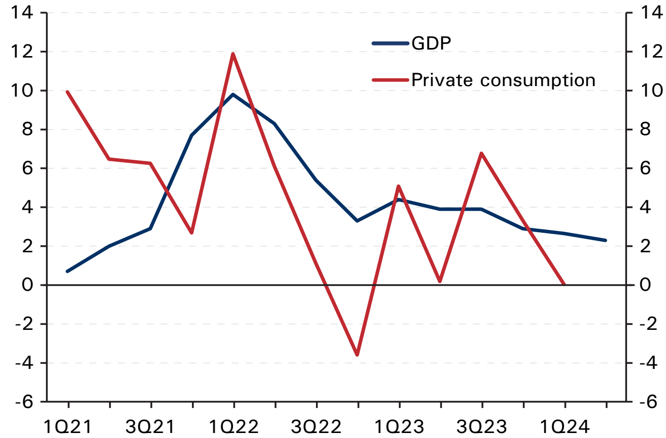
Egypt key economic indicators*

		FY22/23	FY23/24	FY24/25
Nominal GDP	EGP bn	10,377	13,810	16,656
Real GDP	% y/y	3.8	2.5	3.5
Fiscal balance (FY)	% of GDP	-6.0	-4.0*	-8.5
Inflation (avg.)	% y/y	24.1	36.0	25.0
Current acc. bal.	% of GDP	-1.6	-6.3	-2.9

Source: Official sources, NBK forecasts. *Fiscal deficit shrinks from 8% as per the new agreement whereby the MoF will receive half of the Ras El Hekma deal in local currency.

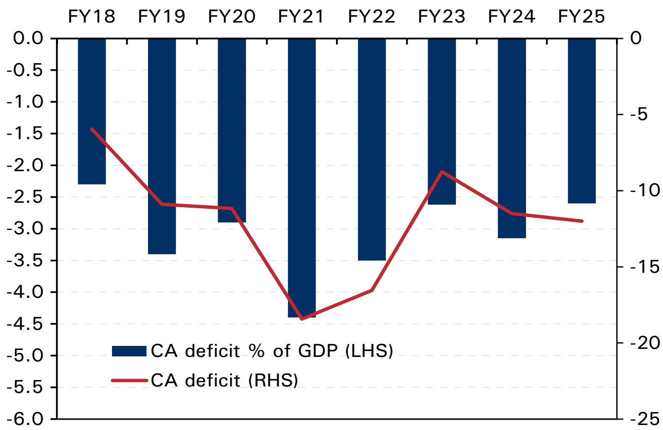
Chart 1: Real GDP

(% y/y)



Source: Central Bank of Egypt (CBE), Ministry of Planning, NBK forecasts

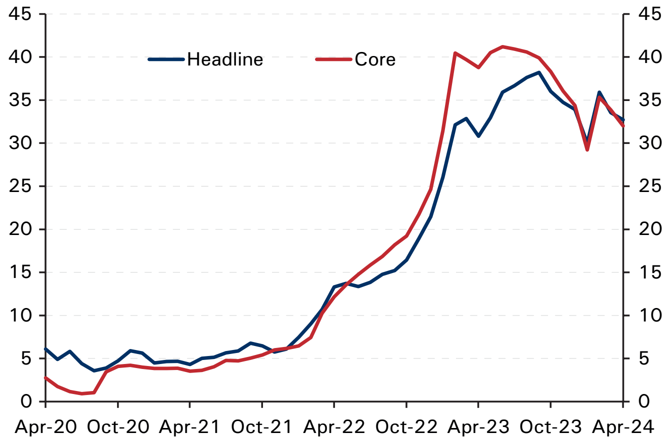
Chart 2: Current Account deficit



Source: Central Bank of Egypt, NBK Forecasts

Chart 3: Consumer price inflation

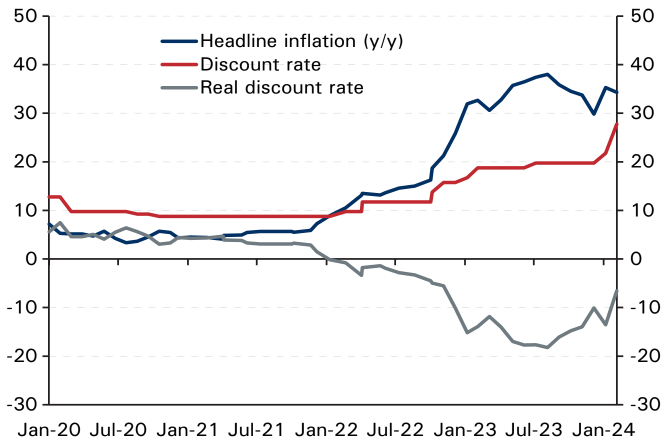
(% y/y)



Source: Central Bank of Egypt

Chart 4: Inflation and policy interest rates

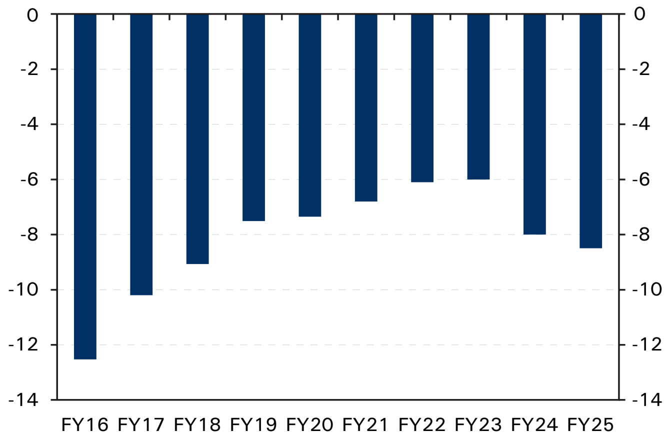
(%)



Source: Central Bank of Egypt, NBK Forecasts

Chart 5: Fiscal Deficit

(% of GDP)



Source: Central Bank of Egypt, NBK Forecasts

Economic data and forecasts

Regional

Bahrain	Unit	2019	2020	2021	2022	2023	2024f	2025f
Nominal GDP	USD bn	38.6	34.7	39.3	44.4	43.2	45.3	47.2
Real GDP	% y/y	2.1	-4.6	2.6	4.9	2.5	3.1	2.8
Hydrocarbon sector	% y/y	2.2	-0.1	-0.3	-1.4	-2.5	3.3	2.1
Non-hydrocarbon sector	% y/y	2.1	-5.6	3.2	6.3	3.5	3.0	2.9
Budget balance	% of GDP	-4.7	-12.8	-6.4	-1.1	-3.5	-3.7	-4.0
Current account balance	% of GDP	-2.1	-9.4	6.6	15.4	6.2	4.7	4.8
Inflation	% y/y	1.0	-2.3	-0.6	3.6	0.1	1.4	1.7
Kuwait								
Nominal GDP	USD bn	138.7	107.5	141.8	182.8	164.1	163.3	168.7
Real GDP	% y/y	1.4	-5.3	1.7	6.1	-1.8	-2.3	2.1
Hydrocarbon sector	% y/y	-1.0	-8.9	-0.9	12.1	-4.3	-6.9	1.7
Non-hydrocarbon sector	% y/y	4.2	-1.2	4.4	0.3	1.0	2.5	2.5
Budget balance	% of GDP	-9.3	-32.7	-7.0	11.5	-5.3	-3.8	-5.2
Current account balance	% of GDP	12.9	4.5	26.4	34.5	31.3	24.2	22.7
Inflation	% y/y	1.1	2.1	3.4	4.0	3.6	3.0	2.5
Oman								
Nominal GDP	USD bn	88.1	75.9	88.2	113.9	117.4	120.1	125.1
Real GDP	% y/y	-1.1	-3.4	3.1	4.1	1.6	0.6	3.0
Hydrocarbon sector	% y/y	-2.6	-2.0	3.8	7.8	1.5	-3.0	3.0
Non-hydrocarbon sector	% y/y	-0.4	-4.0	2.6	2.4	2.0	2.5	3.0
Budget balance	% of GDP	-7.7	-15.1	-3.6	2.7	1.5	1.0	1.0
Current account balance	% of GDP	-4.5	-16.1	-5.4	5.1	0.0	-1.0	-1.0
Inflation	% y/y	0.1	-0.9	1.7	2.5	0.9	1.0	2.0
Qatar								
Nominal GDP	USD bn	172.8	141.9	176.6	233.2	202.2	211.7	218.8
Real GDP	% y/y	0.7	-3.6	1.5	4.9	1.5	1.8	2.0
Hydrocarbon sector	% y/y	-1.7	-2.0	-0.3	1.7	2.4	1.0	1.0
Non-hydrocarbon sector	% y/y	2.2	-4.5	2.7	6.9	1.0	2.3	2.7
Budget balance	% of GDP	1.0	-2.1	0.2	10.3	5.7	8.1	6.9
Current account balance	% of GDP	2.4	-2.1	14.6	26.6	12.9	13.0	11.7
Inflation	% y/y	-0.8	-2.7	2.3	5.0	3.1	2.5	2.2
Saudi Arabia								
Nominal GDP	USD bn	838.6	734.3	874.2	1108.6	1067.6	1102.3	1163.6
Real GDP	% y/y	0.8	-3.6	5.1	7.5	-0.8	1.2	4.2
Hydrocarbon sector	% y/y	-3.3	-6.9	1.2	15.0	-9.0	-5.2	3.7
Non-hydrocarbon sector	% y/y	3.5	-2.3	5.6	5.3	3.8	3.7	4.2
Budget balance	% of GDP	-4.2	-10.7	-2.2	2.5	-2.0	-1.7	-2.0
Current account balance	% of GDP	4.6	-3.5	4.8	13.7	3.2	2.4	2.4
Inflation	% y/y	-2.1	3.4	3.1	2.5	2.3	1.8	2.0
UAE								
Nominal GDP	USD bn	418.3	349.7	415.5	507.4	505.5	531.5	556.6
Real GDP	% y/y	1.1	-5.0	4.4	7.9	3.5	3.3	3.4
Hydrocarbon sector	% y/y	-2.6	-3.8	-1.1	9.5	-2.2	-0.2	1.8
Non-hydrocarbon sector	% y/y	2.7	-5.4	6.5	7.2	5.7	4.5	4.0
Budget balance	% of GDP	2.6	-2.5	4.0	9.9	4.6	3.6	3.3
Current account balance	% of GDP	8.9	6.0	11.6	20.3	13.8	7.4	8.3
Inflation	% y/y	-1.9	-2.1	0.2	4.8	1.6	2.5	2.6
Egypt (Fiscal year ending June)								
Nominal GDP	USD bn	302.2	363.8	427.0	445.0	413.0	406.0	354.0
Real GDP	% y/y	5.6	3.6	3.3	6.7	3.8	2.5	3.5
Budget balance	% of GDP	-8.2	-7.5	-7.1	-6.1	-6.0	-4.0	-8.5
Current account balance	% of GDP	-3.6	-2.9	-4.4	-3.6	-1.6	-6.3	-2.9
Inflation	% y/y	13.9	6.0	4.5	8.5	24.1	36.0	25.0

International

	Unit	2019	2020	2021	2022	2023	2024f	2025f
Brent crude oil (year average)	$ p/b	63.7	43.9	71.0	99.0	82.2	85.0	85.0
Rogers International Commodity Index	Index	2,454.4	2,265.6	3,196.8	3,828.3	3,647.5	---	---
Eur/USD	1 $ = €	0.89	0.82	0.88	0.93	0.9	---	---
US Fed Fund Rate	%	1.75	0.25	0.25	4.5	5.5	---	---
MSCI World stock market index	Index	2,358.5	2,690.0	3,231.7	2,602.7	3,169.2	---	---
MENA real GDP (IMF)	% y/y	1.0	-3.0	4.3	5.2	1.9	2.7	4.2
World real GDP (IMF)	% y/y	2.8	-2.7	6.5	3.5	3.2	3.2	3.2

Source: Refinitiv, Haver, Official sources, IMF, NBK estimates

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