Economic Outlook

GCC & Egypt

November 2023

National Bank of Kuwait
Economic Research Department

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GCC & Egypt overview

Global growth is set for another sub-par year in 2024, with activity in the US and Europe under pressure from the lagged impact of interest rate hikes and the still-present risk of a US 'hard landing'. Still, oil prices are projected to remain elevated at $85 in 2024 helped by only a partial unwinding of previous OPEC+ supply cuts. Against this backdrop, growth in the GCC region should hold up quite well, amid supportive fiscal policy, no further rate hikes and continued investment-led reforms – especially in the region's two largest economies. The main upside risk to the GCC outlook is from higher oil prices if global demand proves more resilient than expected. Lower oil prices due to a global recession or OPEC+ supply indiscipline, higher-for-longer interest rates and fallout from the conflict in Gaza are key downside risks.

Interest rates to fall in 2024 as global growth slows

Although displaying a degree of resilience in the face of high interest rates, global economic growth has limped along in 2023 and the outlook for 2024 is similar, with the IMF forecasting another sub-par expansion of 2.9% versus 3.0% this year. US growth – which has outperformed in 2023 – is seen slowing to 1.5% from 2.1% this year as the lagged effect of monetary tightening filters through to the real economy and consumer balance sheets weaken. We would not rule out a 'hard landing' involving a sharper-than-expected rise in unemployment, which could prove telling in an election year. Eurozone and UK growth will remain uninspiring at 1.2% and 0.6%, respectively, amid high interest rates, a gradual dissipation of the energy shock, weakness in external demand weighing on exports and less fiscal support than the US. Meanwhile, despite some improving data recently, growth in China may struggle to reach 5% on ongoing property sector woes, with calls becoming louder for the government to take a more aggressive approach to shoring-up the economy.

The spike in inflation across developed countries especially has faded, helped by falling energy and food prices, yet underlying inflation measures remain too high (around 4% in the US and Eurozone) for central banks to declare victory. So while interest rates are at or close to their peaks, policymakers will continue to set a hawkish tone and rate cuts are unlikely to materialize quickly – so long as the 'hard landing' scenario mentioned above is avoided. We think cumulative Fed rate cuts of 50-100 bps through 2024 look plausible, with a more aggressive loosening possible if the economy weakens sharply. However, high US public debt levels and the potential for the Fed to continue with its quantitative tightening policy even while cutting short-term rates could prevent longer-term yields falling too far.

The outlook for oil prices in 2024 is constructive, with Brent expected to benefit from continued tight oil market fundamentals and average $85/bbl – comparable to the $83 expected for 2023. Our base case forecast for 2024 envisages, as per the current OPEC+ plan, a partial reversal of the voluntary production cuts (+800 kb/d) actioned in May 2023 by GCC OPEC+ members Saudi, Kuwait, the UAE and Oman, which should turn real oil GDP growth in these countries more positive after declines in 2023. That said, uncertainties surrounding this forecast are considerable and were the price of Brent to fall to $80/bbl or below for a while, then we think the likelihood of OPEC+ opting instead to roll over all supply cuts well into next year is very high.

GCC growth should hold up well in 2024

Our central view is that while other parts of the world grapple with weak growth and/or recession, the GCC region's economy should hold up reasonably well – so long as oil prices remain elevated. A combination of high oil prices that supports confidence and fiscal positions, expansionary fiscal policy with a focus on investment, the continuation of key pro-growth and diversification reforms, and lower inflation should help the region absorb the impact of elevated interest rates and potentially see non-oil growth sustained at 4%+ in 2024. Rising oil output as earlier cuts start to be reversed will be an additional positive, pushing overall GDP growth to 2.9% from 0.8% in 2023. Solid, reform-led non-oil growth in both Saudi Arabia – which represents half of regional GDP – and the UAE is the main driver, while non-oil expansion across the smaller countries will be positive but more modest. We see another respectable year of 3%+ growth in Kuwait's non-oil economy, with investment taking a more prominent role than previously.

On the fiscal front, we see a small but steady GCC surplus in 2024, with spending up moderately and less debt issuance than in pandemic years due to surpluses and higher borrowing costs. Gross government debt will fall to a modest 27% of GDP in 2024 from 40% in 2020, according to the IMF. Inflation, which has remained quite well contained in the past two years, should ease slightly further.

The main upside risk to the economic outlook remains higher-than-expected oil prices, especially if global oil demand proves more resilient than expected or OPEC+ led by Saudi successfully asserts control of the market by keeping supply tight. On the downside, aside from lower oil prices which could push fiscal balances back into deficit, key risks are from 'higher for longer' interest rates that pressure spending and asset and property prices, and spillover from an escalating conflict in Gaza.

Egypt's economy meanwhile has remained under severe pressure in 2023 amid very high inflation and interest rates, a stalled IMF loan program and little progress on crucial economic reforms. Our base case is for the December 2023 presidential election to give way to a currency devaluation in early 2024 and a fresh commitment by the incoming government to reforms that allows for the restart of the IMF program, in turn triggering the gradual return of confidence, allowing inflation and interest rates to fall later in the year and growth to improve. ■

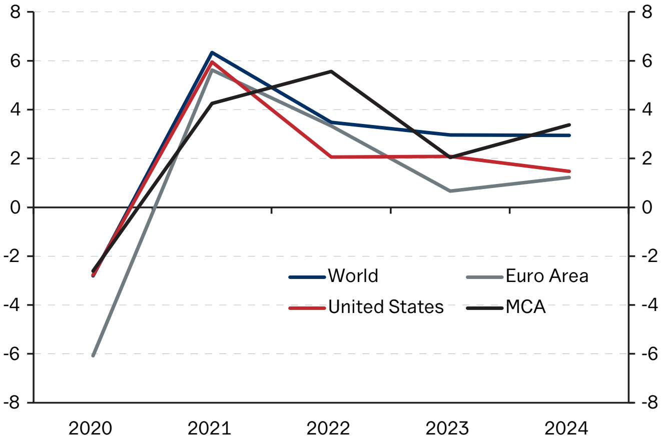
GCC key economic indicators

		2021	2022	2023f	2024f
Nominal GDP	$ trillion	1.7	2.2	2.1	2.2
Real GDP	% y/y	3.4	7.7	0.8	3.0
- Oil	% y/y	-0.1	11.5	-5.0	0.8
- Non-oil	% y/y	5.3	5.5	4.4	4.2
Inflation (avg.)	% y/y	1.9	3.6	2.7	2.3
Fiscal balance	% of GDP	-1.3	5.3	0.6	0.6
Current acc. bal.	% of GDP	8.9	20.3	12.9	12.1

Source: Official sources, NBK estimates and forecasts

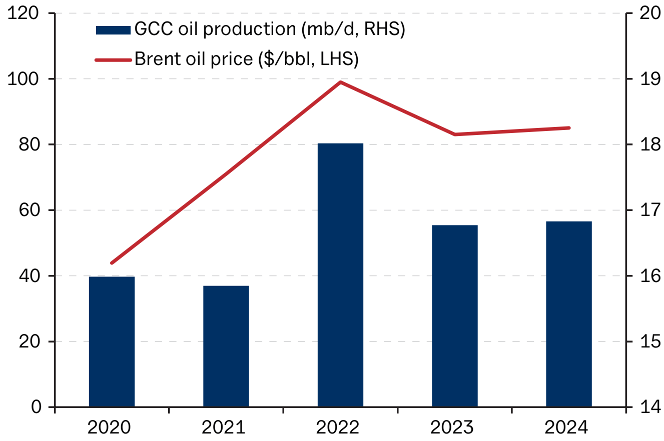
Chart 1: International GDP

(% y/y)



Source: IMF WEO October 2023; MCA=Middle East & Central Asia

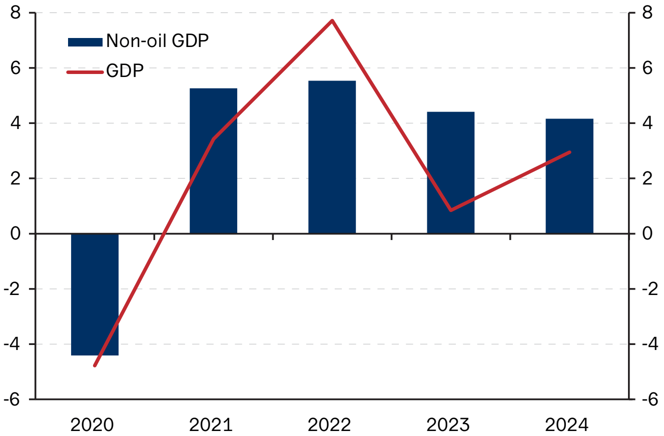
Chart 2: Brent oil price & GCC oil production



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

Chart 3: GCC GDP

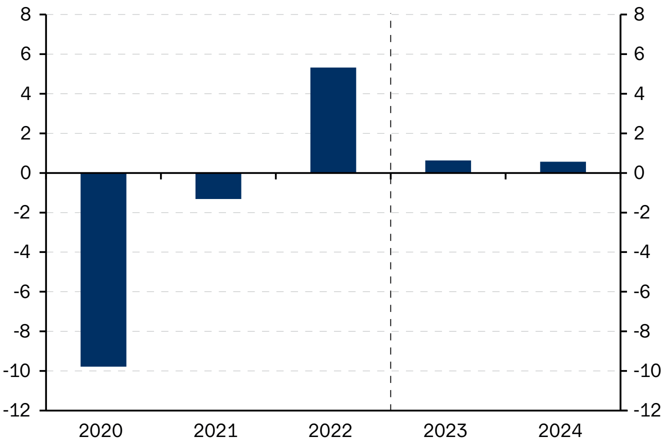
(% y/y)



Source: Official sources, NBK estimates and forecasts

Chart 4: GCC fiscal balance

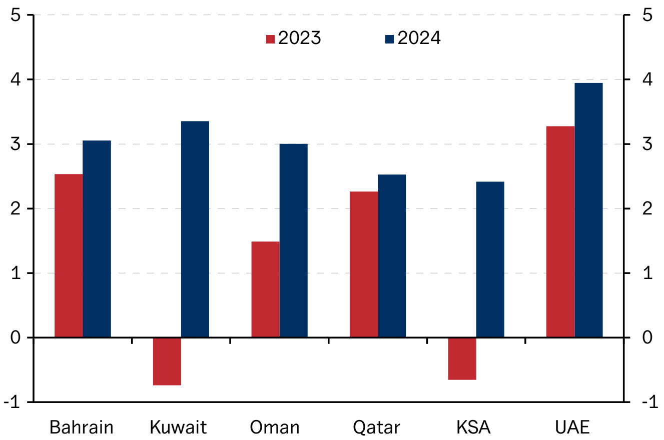
(% of GDP)



Source: Official sources, NBK estimates and forecasts

Chart 5: GCC GDP growth by country

(% y/y)



Source: NBK estimates and forecasts

Bahrain, Oman & Qatar

After the strong expansion seen last year, economic growth in Bahrain, Oman, and Qatar has moderated in 2023 curbed by contractionary monetary policy and limited hydrocarbon sector growth. Growth should improve in 2024 helped by higher projected oil output in Bahrain and Oman, while the non-hydrocarbon sector should continue to drive the Qatari economy, supported by continued project spending and robust consumer demand. A modest deterioration in fiscal positions is expected on lower oil prices since the highs of 2022. Adverse geopolitics and lower oil prices that weaken fiscal balances further are key downside risks, while lower interest rates, higher energy prices, stronger project spending and swifter reform progress are risks to the upside.

Bahrain: Wider fiscal deficit in 2023, but FBP commitment intact

Economic growth has moderated in 2023, forecast at 2.5% versus a well-above-trend 4.9% in 2022 amid elevated interest rates that have hit consumption and borrowing, and lower oil prices. We see improvement next year, led by a 3.2% expansion in the hydrocarbon sector as the completion of maintenance on Abu Sa'faa oil field pushes output higher to 196 kb/d. Growth in non-oil activity (around 80% of the economy), should be broadly steady at 3% amid the peaking of the monetary policy tightening cycle, the government's continued commitment to development projects and still high oil prices. Decent expansion in non-oil GDP should contribute to slightly higher inflation (+1.5%) and credit growth (+2.4%) after softness in 2023.

Some previous progress in narrowing the fiscal deficit was reversed this year, with the deficit forecast to widen to 4.1% of GDP in 2023 (4.8% in H1 2023) on lower oil revenues (around 60% of all receipts). However, we see only limited spending growth and the government's commitment to its Fiscal Balance Program is intact. We expect the deficit to resume its narrowing path in 2024 albeit achieving fiscal balance would require a higher oil price than in our base case. Public debt (including concessional GCC development fund loans) declined to 100% of GDP by end-2022 as bond amortizations and nominal GDP rose. With debt issuance picking up in 2023-2024 to cover a larger fiscal deficit, the debt-to-GDP ratio could edge back up slightly. Given ongoing fiscal consolidation steps, a sharp drop in oil prices remains a key risk to the outlook.

Oman: Better fiscal and debt metrics generate rating upgrades

Following an expected slowdown to 1.5% in 2023, Oman's GDP growth could improve to 3.0% in 2024 aided by the government's economic diversification strategy (Vision 2040) initiatives and higher oil output. Having contracted in 2023, we forecast oil GDP up 3.6% in 2024, given the expected unwinding of OPEC+ voluntary output cuts from January 2024 and higher gas production. Non-oil GDP growth is forecast to improve to 2.7% from 2.4% in 2023 amid higher construction sector output (helped by the Sultan Haitham Smart City and Oman-UAE Rail projects), a potential boost in tourism, and refining gains linked to the ramping up of the OQ8 Duqm refinery – though constrained somewhat by the ongoing need for fiscal caution.

The Medium-Term Fiscal Plan is bearing fruit and we expect the government to post a surplus through the forecast period – just about. This year we forecast a reduced surplus of 0.3% of GDP on the back of lower oil receipts, widening to 1.8% in 2024 on increased oil revenues. Public debt is expected to continue its downward trajectory from 40% of GDP in 2022 (and a peak of 70% in 2020), with the authorities recently identifying a 'safe' debt limit of 30% of GDP signaling that debt reduction will remain a key theme. More positive fiscal and debt metrics prompted ratings agencies Fitch and S&P to upgrade the government's credit rating to "BB+" from "BB" in recent months. Lower-than-expected oil prices or an increase in the government debt-to-GDP ratio due to looser fiscal policy provide the most significant downside risks to our outlook. Key upside risks include higher-than-expected oil prices and stronger-than-projected non-oil growth, which would improve fiscal revenues and reduce social spending pressures on the government.

Qatar: Growth to moderate from exceptionally strong 2022

Economic activity is set to moderate in 2023 from last year's exceptional World Cup-driven growth, curbed by tighter monetary conditions, limited hydrocarbon sector growth, and relative to a very strong 2022. With only minor further increases in gas production expected, the private sector should drive economic growth over the forecast period, with monthly data since April signaling a pickup in non-hydrocarbon activity. PMI numbers were consistently in expansion (9-month average of 53), visitor arrivals remained elevated (up 150% y/y in the period Jan-Aug), while credit growth hit a 19-month high in September of 4.5% despite higher interest rates. We forecast GDP growth of 2.3% and 2.5% in 2023 and 2024 respectively, with non-oil output up 3.1% and 3.5%. Further out, economic activity will be supported by higher construction activity as progress on the $30 billion North field gas expansion megaproject accelerates ahead of the scheduled completion of phase 1 in 2026, which would raise LNG output significantly (from the current 77 mtpa to 127 mtpa), boosting hydrocarbon revenues and enabling the funding of other Vision-linked infrastructure projects.

We forecast fiscal surpluses in 2023 (8.4% of GDP) and 2024 (7.3% of GDP) on the back of still-elevated hydrocarbon receipts and relative spending restraint, although capex on strategic projects may pick up in 2024 as the government takes advantage of improved fiscal space, with its debt-to-GDP ratio having declined from a peak of 73% in 2020 to 48% in 2022. Upside risks to the outlook include higher gas prices possibly from a renewed shortage or a stronger global demand. Downside risks stem from a flare-up in geopolitical tensions or a global recession leading to lower gas demand and prices. ■

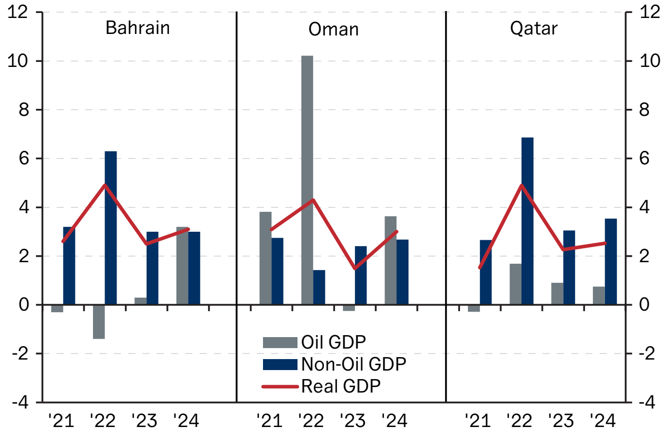
Bahrain, Oman & Qatar key economic indicators

		Bahrain			Oman			Qatar		
		2022	2023f	2024f	2022	2023f	2024f	2022	2023f	2024f
Nominal GDP	$ bn	44.4	44.3	46.4	115.1	110.1	115.2	233.2	205.2	215.5
Real GDP	% y/y	4.9	2.5	3.1	4.3	1.5	3.0	4.9	2.3	2.5
- Oil sector	% y/y	-1.4	0.3	3.2	10.2	-0.3	3.6	1.7	0.9	0.7
- Non-oil sector	% y/y	6.3	3.0	3.0	1.4	2.4	2.7	6.9	3.1	3.5
Inflation (avg.)	% y/y	3.6	0.4	1.5	2.8	1.1	1.5	5.0	3.0	2.5
Fiscal balance	% of GDP	-1.1	-4.1	-2.7	2.6	0.3	1.8	10.3	8.4	7.3
Current acc. bal.	% of GDP	15.4	7.0	6.3	5.0	1.2	2.2	26.6	14.0	13.4

Source: Official sources, NBK estimates

Chart 1: Real GDP

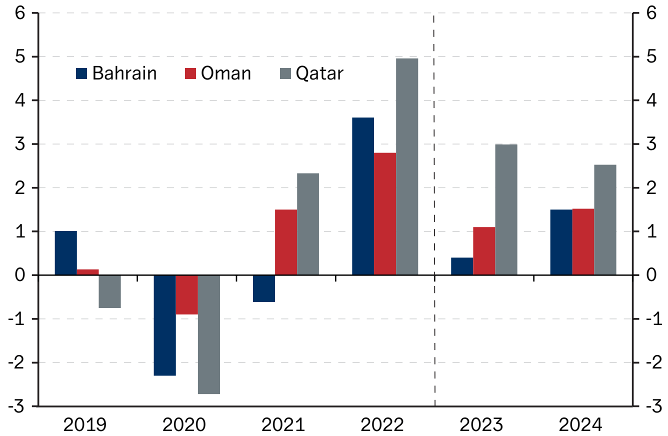
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

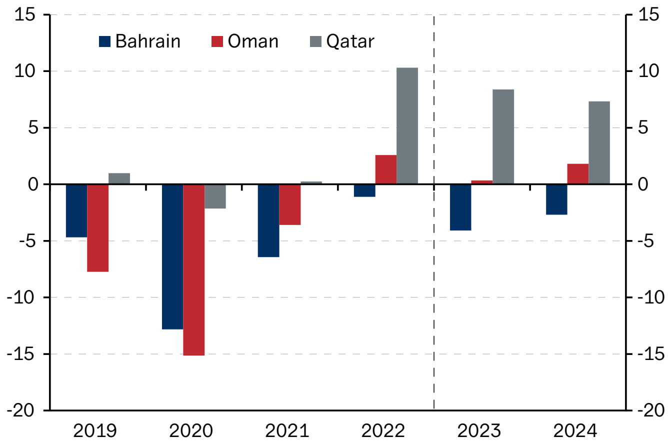
(% y/y)



Source: Government authorities, NBK estimates/forecasts

Chart 3: Budget balance

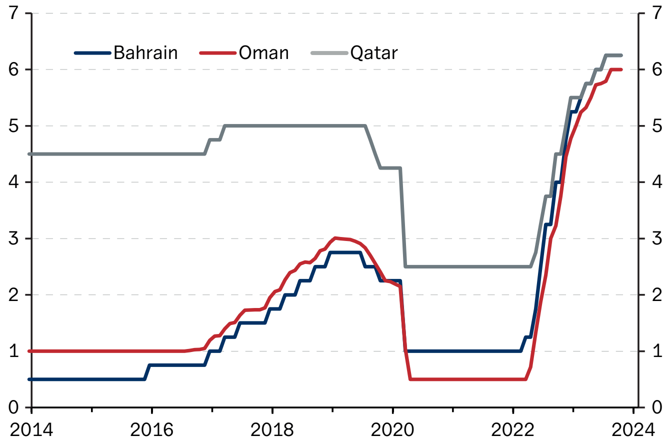
(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*

(%)



Source: Haver *Latest October 2023

Kuwait

Economic conditions are expected to remain positive over the forecast period, with consumer activity constructive, government fiscal policy expansionary amid elevated oil prices and inflation easing. GDP growth will also be boosted in 2024 from additional crude supply following the unwinding of voluntary OPEC+ production cuts. The challenge remains to extend near-term gains into sustainable, long-term improvements to the public finances and economic diversification. Amid a greater sense of political urgency, prospects for progressing key reform steps appear stronger than in previous years.

Oil output down on OPEC+ cuts, refined products surge

GDP growth should turn negative in 2023 (-0.7%) on the back of Kuwait's commitment in April 2023 to additional OPEC+ voluntary oil production cuts, which will cut full-year output by 4.3% to an average of 2.6 mb/d. These cuts are scheduled to be unwound in 2024, which should drive both oil sector and total GDP up 3.3% next year. Higher crude flows will also facilitate further refining sector value-add (classified as non-oil activity), with the newly commissioned 615 kb/d Al-Zour refinery steadily ramping up gasoil and fuel oil output in a key recent megaproject success story.

Non-oil growth normalizes, consumer activity buoyant

Growth in the non-oil economy (ex-refining), meanwhile, has been solid, at a forecast of 3.0% in 2023 (down from an estimated 3.2% in 2022) on the back of buoyant private and expanding government consumption, supported by elevated oil prices. With the exception of project awards and refining sector output, both of which ranged higher in 2023—the former at more than twice 2022's full year levels—key indicators of non-oil activity, such as consumer cards spending (+8.7% y/y in Q3), real estate sales (-18.2% y/y as of Sept) and household credit (+2.6% y/y as of Sept), have been trending downwards in annual growth terms since peaking in 2022. This has taken place amid tighter monetary conditions and softer global economic growth. Looking ahead, we expect non-oil GDP to grow at a similar rate in 2024 on broadly constructive consumer spending, an uptick in household lending growth and still high oil prices. The economy may also benefit from continuing post-pandemic expatriate inflows (employment up 14% y/y to 2.5 million as of mid-2023) to ease labor shortages and drive projects activity.

Inflation likely to ease in 2024

Inflation ranged at around 3.7% for most of 2023 (core rate at 3.2%), likely reflecting a combination of ongoing strength in consumer demand, rising housing rents and lingering supply chain issues. These dynamics are expected to lessen in 2024, helping to bring inflation down to 2.5% on average. Meanwhile, with the US Fed likely to cut interest rates before end-2024, the Central Bank of Kuwait (CBK) may follow suit – although having hiked its discount rate only about half as much as the Fed since March 2022 (+275 bps to 4.25%), it may opt to cut by less on the way down.

Budget deficits through 2024, capex momentum

The public finances have improved amid higher oil prices and generally keener spending oversight. That said, the FY22/23 surplus of 11.8% of GDP, Kuwait's first since 2014, is expected to revert to a deficit of 3.6% of GDP (KD1.83bn) in FY23/24 given the record spending penciled in the budget. This included large, non-recurring outlays on fuel subsidies and employee leave payments. Our deficit estimate is much narrower than the budget's forecast of 6.2% of GDP, given the historical tendency for spending to undershoot the budget and conservative official oil revenue assumptions. Next year, the deficit should narrow to 1.2% of GDP on a moderate spending increase (+4% from FY23/24 excluding one-off items) and still-high oil prices. Capex should see another year of double-digit gains as development projects are prioritized.

Outlook positive but longer-term reforms still key

Overall near-term economic prospects are favorable, with private consumption solid, inflation trending lower and fiscal and external buffers ample (CBK reserve and KIA overseas assets are in excess of $850bn, or 521% of GDP). Public debt (3.0% of GDP) is also extremely low by international standards. Nevertheless, the economy remains exposed to oil price volatility, uncertain OPEC+ oil production policy and disruptive domestic politics. Here fiscal sustainability and economic diversification goals have often run up against populist calls for greater welfare spending and policymaking inertia, respectively.

That said, the new executive and legislature appear to share a greater sense of urgency to address key economic challenges. Priorities in the government's 4-year economic plan (2023-27) include creating a comprehensive fiscal framework, developing the private sector and improving government efficiency. Corporate and excise taxes may be the first revenue-boosting measures to be rolled out, helping to offset increases in retiree pensions and possibly cost-of-living allowances championed by MPs.

System-wide, supply-side and regulatory reforms (e.g. of business, housing and labor markets) alongside initiatives to boost historically soft investment rates will be essential to realize productivity gains and economic diversification goals. Mooted housing development and mortgage laws plus the potentially sizeable 'Ciyada' domestic investment vehicle could be positive initiatives on the horizon. ■

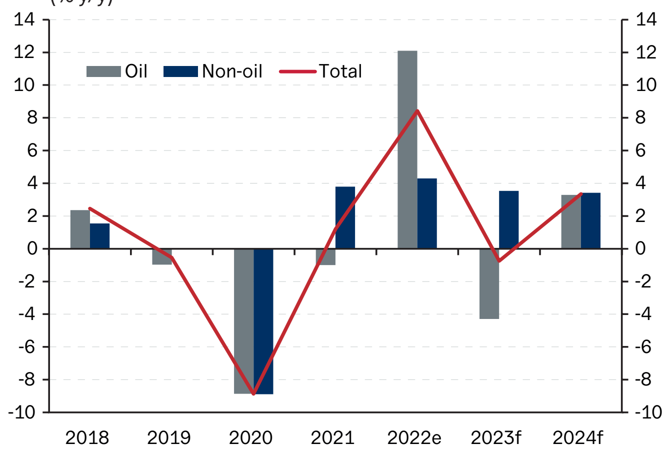
Kuwait key economic indicators

		2021	2022	2023f	2024f
Nominal GDP	$ bn	139	177	163	172
Real GDP	% y/y	1.2	8.4	-0.7	3.3
- Oil sector	% y/y	-1.0	12.1	-4.3	3.3
- Non-oil sector	% y/y	3.8	4.3	3.6	3.4
- Non-oil ex refining	% y/y	3.4	3.2	3.0	3.0
Budget balance (FY)	% of GDP	-10.3	11.8	-3.6	-1.2
Current act. balance	% of GDP	26.8	35.3	26.9	22.9
Inflation (avg.)	% y/y	3.4	4.0	3.6	2.5

Source: Official sources, NBK forecasts

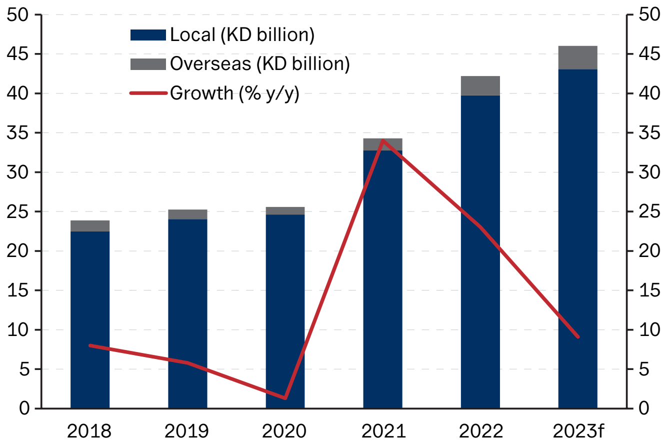
Chart 1: Real GDP

(% y/y)



Source: Central Statistical Bureau (CSB), NBK forecasts

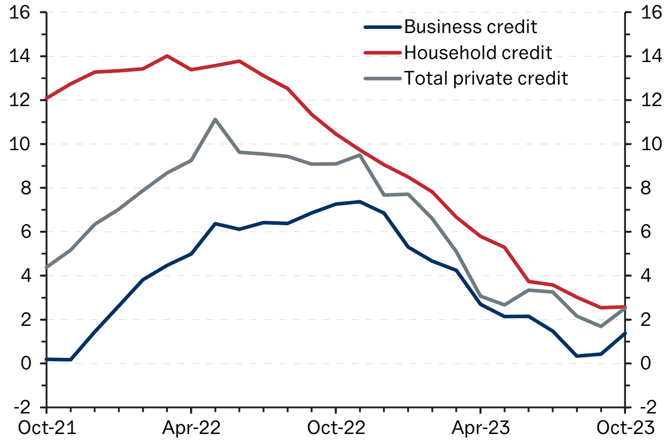
Chart 2: Consumer spending (cards)



Source: Central Bank of Kuwait (CBK)

Chart 3: Bank credit

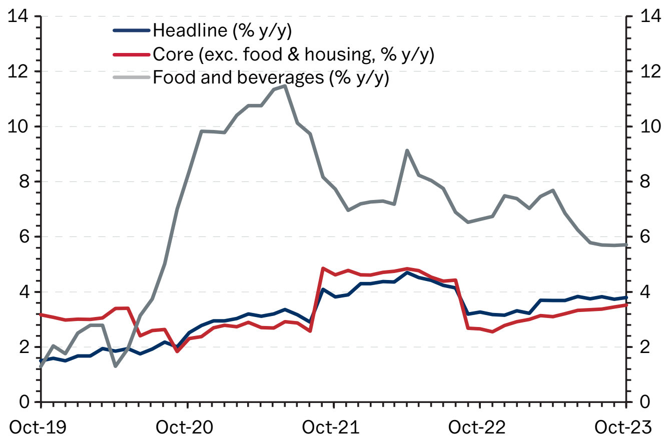
(% y/y)



Source: CBK

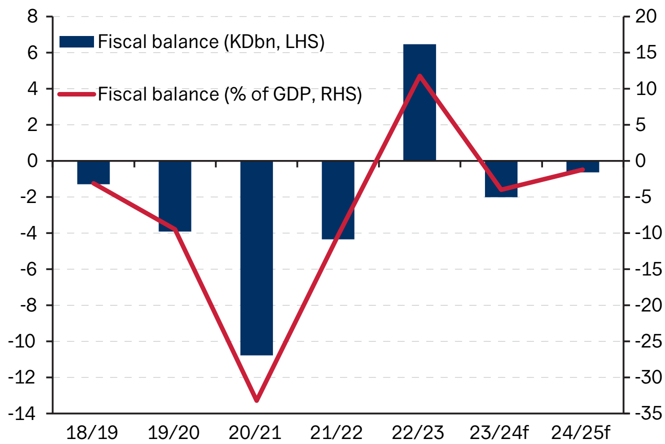
Chart 4: Consumer price inflation

(% 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 remained solid at 5.3% in 1H2023 led by the private sector (+5.7%) as investment spending continued to be the main growth driver. Despite elevated interest rates, we project ongoing solid non-oil growth of 4.7% and 4.5% in 2023 and 2024, respectively, driven by the private sector. Inflation will likely continue to soften while the expansionary fiscal policy should result in only limited public deficits in 2023 and 2024 given solid non-oil revenues. The main upside risk is higher-than-forecast oil production in 2024, while the major downside risk is a steeper-than-expected softening in non-oil growth driven by elevated interest rates and geopolitical tensions.

Non-oil private sector to drive growth in 2024

Despite higher interest rates, non-oil economic growth remained solid, standing at 5.3% in 1H2023 following a 4.8% expansion in 2022. The private sector (+5.7% in H1) remained the main growth driver, although the government sector's expansion strengthened to 3.7%. Sector-wise, trade, restaurants, and hotels contributed the most to GDP growth, expanding by 8.7% in H1 supported by the strong focus on boosting tourism. In terms of expenditure on GDP, private investment continued to contribute the most to GDP growth, expanding by 8.5% in H1 while government investment was the fastest growing at 21%, both indicating a solid expansion in production capacity, which bodes well for future growth.

The favorable growth dynamics are expected to be sustained in the remainder of 2023 and 2024, despite elevated interest rates. Consumer spending remains strong with the value of POS transactions up around 10% y/y through October, though softening from +18% in 2022. Despite tighter liquidity in the banking sector, credit growth, although moderating, remains in double digits at around 10% y/y through October driven by corporate credit (+13%) and, although softening, mortgage lending (+11%). PMI levels continue to indicate strong growth, averaging 57.2 in Q3, but lower than the multi-year high of 59.2 in Q2. Given all that, we forecast the non-oil sector's growth to finish 2023 at 4.7%, moderating to a still strong 4.5% in 2024 driven by north of 5% expansion in the private sector.

This constructive growth outlook is driven by the government's ongoing reforms as well as by an expansionary fiscal policy. The 2024 pre-budget statement has government spending in 2024 and 2025 13% higher than previously budgeted as the government switched to an expansionary fiscal policy, projecting fiscal deficits in these two years after previously forecasting surpluses. The role of the Public Investment Fund and the National Development Fund in terms of enabling that growth is crucial with the former, for example, creating more than 560k direct and indirect jobs since 2016. Meanwhile, given a 5.25% increase in the US federal funds rate since March 2022, SAMA has hiked its policy rates by a similar 5%, and together with ongoing tight liquidity in the banking sector (given a faster growth in credit than in deposits) drove interbank rates to multi-decade highs of north of 6%. Nevertheless, the tightening cycle is close to being done with current market-implied expectations pointing to US rate cuts commencing in the second half of 2024, which will alleviate some pressure on Saudi interbank rates, and hence drop the cost of borrowing, which will be positive for credit expansion and non-oil growth.

As for the oil sector, growth was negative in H1 (-1.5%) given the production cuts, which have deepened since July, resulting in a projected 8.7% plunge in 2023. Given our house view on oil market dynamics, Saudi oil production is expected to increase from current levels, but growth to remain slightly negative (-1%) for 2024. 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 assumption for 2024. All in all, total GDP is forecast to drop by a limited 0.7% in 2023 pressured by the oil sector, then grow by 2.4% in 2024 driven by the non-oil sector.

Inflation to soften, unemployment touching record lows

Inflation continued to soften, standing at 1.6% y/y through October with housing rentals (+9.3% y/y) nearly the sole driver of price pressures over the past year. Nevertheless, housing rentals are likely beyond their peak y/y increase, relieving pressure on the overall inflation rate going forward, which we project at an average of 2.3% this year and 2% in 2024. Solid non-oil growth and ongoing Saudization initiatives dropped the unemployment rate among Saudis to 8.3% in Q2, down from 9.7% one year before and nearly half the post-Covid high of 15.4% recorded in mid-2020.

Limited fiscal deficits despite expansionary fiscal policy

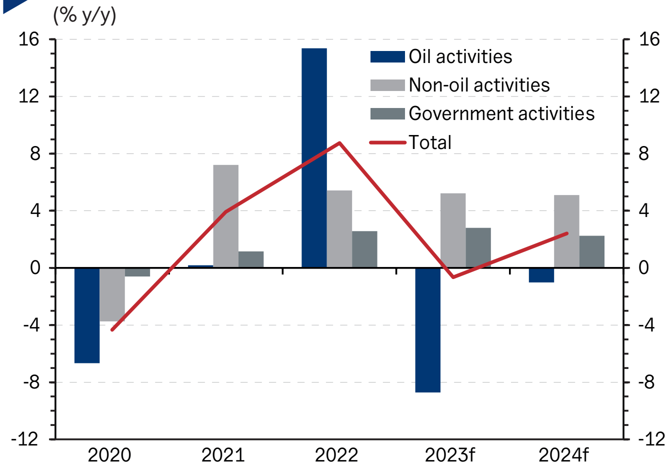
A 12% increase in spending in 9M2023 and a 24% drop in oil revenues resulted in an estimated 1.5% of GDP fiscal deficit as non-oil revenues expanded by a solid 22%. We project limited deficits of 2.1% and 1.7% of GDP in 2023-2024, despite the higher levels of government spending, mainly due to ongoing solid increases in non-oil revenues and higher dividends from Aramco, given the newly-adopted performance-linked dividends. Hence, debt levels should remain contained, below 27% of GDP by 2024. A main upside risk is higher-than-forecast oil production in 2024, leading to stronger GDP growth, while the major downside risk is a steeper-than-expected softening in non-oil growth driven by elevated interest rates and geopolitical tensions. ■

Saudi Arabia key economic indicators

		2021	2022	2023f	2024f
Nominal GDP	$ bn	869	1,108	1,053	1,102
Real GDP	% y/y	3.9	8.7	-0.7	2.4
- Oil	% y/y	0.2	15.4	-8.7	-1.0
- Non-oil	% y/y	5.7	4.8	4.7	4.5
Inflation (avg.)	% y/y	3.1	2.5	2.3	2.0
Fiscal balance	% of GDP	-2.3	2.5	-2.1	-1.7
Government debt	% of GDP	28.8	23.8	25.9	26.4
Current acc. bal.	% of GDP	5.1	13.6	4.9	4.7

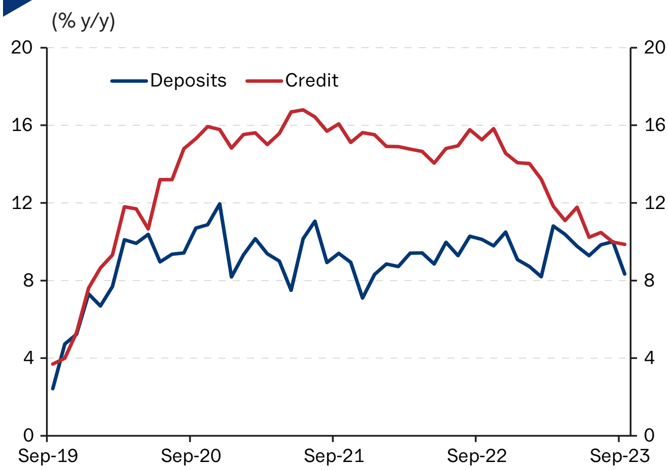
Source: Official sources, NBK forecasts

Chart 1: Real GDP growth



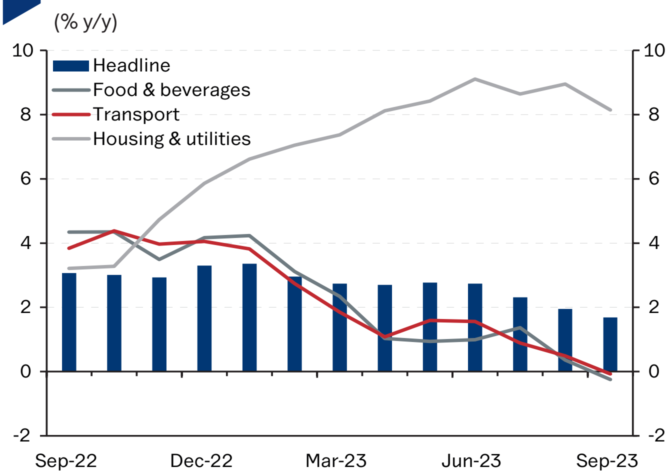
Source: General Authority for Statistics (GASTAT), NBK forecasts

Chart 2: Credit and deposit growth



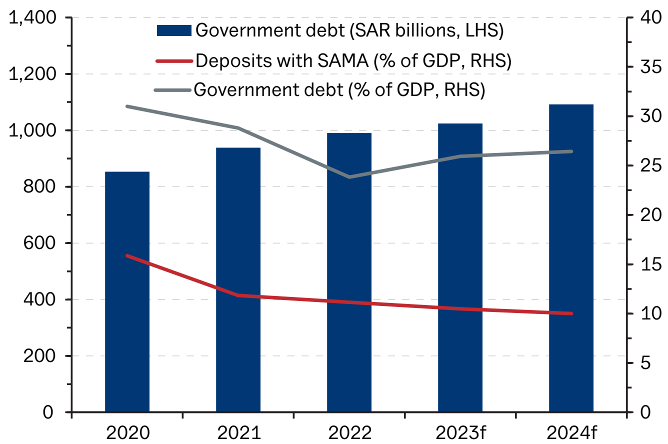
Source: SAMA

Chart 3: CPI inflation



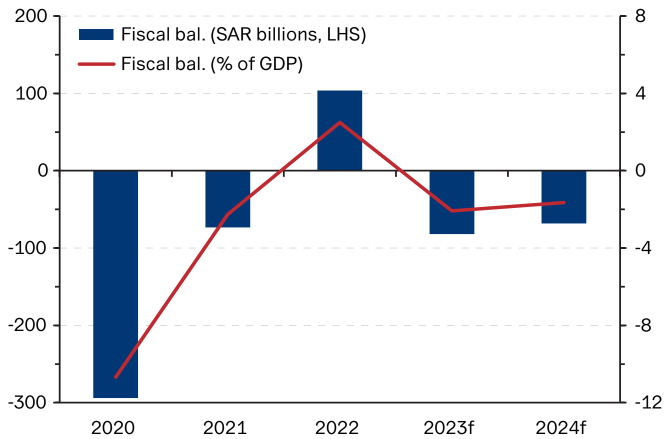
Source: GASTAT

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

Although slower than in 2023, we expect the non-oil economy to expand by a solid 4%+ next year, benefiting from still high oil prices, persistent government pro-growth reforms in pursuit of development goals, supportive fiscal policy, and easing inflation. We expect Dubai's real estate boom to fade further, but any systemic fallout should be limited. Within an overall positive economic outlook, key downside risks include lower oil prices, a global slowdown, a sharper-than-expected real estate correction and regional geopolitical tensions impacting inward investment. Key upside risks include higher oil prices, rapid increases in domestic oil production and greater-than-expected resilience to a global downturn.

Non-oil growth to remain solid in 2024

After surging in 2022, economic growth is set to soften over 2023-24 on lower oil production, normalizing non-oil growth, tighter financial conditions, and a slowing global economy. However, non-oil growth should remain solid on steady implementation of the government's pro-growth agenda and investments under net zero emissions goals. As COP 28 approaches in late 2023, the government updated its pledge to cut UAE carbon emissions by 40% in 2030 (up from 31%) while state energy firm ADNOC brought forward its net-zero target by five years to 2045, unlocking more opportunities for the private sector and enabling the non-oil sector to drive sustainable growth over the long term. Near term, oil sector output could fall this year by 1.7% following May's voluntary output cuts. But the reversal of OPEC+ cuts in early 2024 and the scheduled quota upward revision by 200k b/d in 2024 to 3.2 mb/d could result in 2.5% growth in 2024. Plans to raise oil production capacity to 5 million b/d by 2027 (currently at 4.65 mb/d) would support medium-to-long-term growth, even amid the sped-up green objectives.

The non-oil sector saw vibrant growth in H1 2023 of 9.2% y/y and 3.2% in Abu Dhabi and Dubai respectively, with retail trade, hospitality, and finance the main drivers. Non-oil growth in H2 2023 may have softened as the effects of high interest rates take hold, though still supported by the post-pandemic recovery in tourism (Jan-Aug 2023: 22% y/y) and strong PMI readings – which at 56.4 on average in July-October remained firmly in expansion territory and above historical norms. After a stellar H1, non-oil growth for 2023 could reach 5.2% with further easing in 2024 on elevated funding costs, moderate credit expansion, softer real estate activity and slowing global growth. However, a still-strong outlook is underpinned by high oil prices, resilient activity in the Gulf region and government efforts to achieve vision goals (UAE 2031, D33, and Abu Dhabi 2030), which will sustain reform momentum and strengthen economic fundamentals over the medium term.

Softening inflation and real estate activity

Inflation could slow to 3.2% on average in 2023 after reaching its highest level since 2008 at 4.8% in 2022 due to spiking fuel and recreation prices (liberalized pricing makes UAE inflation more sensitive to global energy prices than other Gulf economies). Next year, we see inflation easing to 2.8% as non-oil growth slows and food prices soften, offsetting a limited rise in fuel prices. Housing services (35% of the CPI basket), mostly rents, have also put upward pressure on inflation this year (+6.1% y/y in September in Dubai), but there are signs that the rental market is cooling after a very strong run. Dubai's two-year residential property sales boom also appears to be slowing (sales +15% y/y in October versus 65% in December 2022), affected by high valuations, rising interest rates and seemingly less intense overseas buying versus last year. Our base case is for market activity to soften further in 2024 and for the boom to draw to a close. However, with recent market buoyancy not driven by excessive borrowing and the non-oil economy expected to expand strongly next year, the systemic consequences of a faded property boom should be limited.

Fiscal surpluses in 2023-24, budgets target higher capex

The fiscal position achieved a surplus of 4.8% GDP in H1 2023 (13.4% in H1 2022) on lower revenues (-19.2% y/y) due to declining oil prices and a faster rise in spending (+8.3% versus +3.0%). Higher spending came on nearly doubling social welfare and low-income households' subsidies, including food and energy inflation assistance. For 2023 as a whole, we expect a slightly larger surplus of 5.1% of GDP, as higher oil prices in H2 and the phased introduction of the 9% Corporate Income Tax from mid-2023 boost revenues, while expenditures could see a mild seasonal slowdown (+6.4%). The expansionary stance should continue next year with Federal and Dubai 2024 budget spending allocations up by 2% (to $17bn) and 17% (to $22bn), respectively, with higher capital provisions to support non-oil growth. We expect another 6% rise in consolidated expenditures in 2024 and a smaller pick up in revenues, resulting in a surplus of 4.4% of GDP. ADIA & Mubadala assets estimated at $1.1 trillion, according to SWF institute, complemented by large external surpluses and declining public debt during the forecast period (estimated at 29.4% of GDP in 2023 by the IMF), provide additional support for the country's strong credit ratings (S&P: AA; Moody's: Aa2).

Geopolitical tensions could weigh on investor sentiment

We see a positive overall economic outlook for the UAE amid an increasingly competitive regional climate. Key downside risks however include lower oil prices, a slowdown in global growth that affects UAE trade and inward investment, a sharper-than-expected correction in the real estate market and rising geopolitical tensions in the region that affect investor sentiment, hindering the country's efforts to attract capital and push ahead with its ambitious development plans. Key upside risks include higher oil prices, rapid increases in oil production and greater-than-expected resilience to a global slowdown. ■

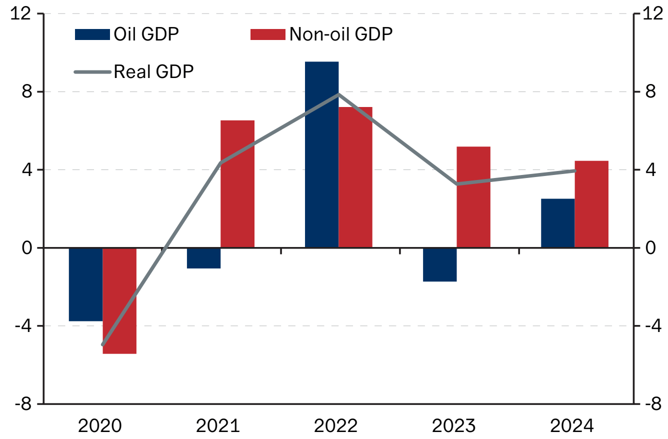
UAE key economic indicators

		2021	2022	2023f	2024f
Nominal GDP	$ bn	415	507	504	533
Real GDP	% y/y	4.4	7.9	3.3	3.9
- Oil sector	% y/y	-1.1	9.5	-1.7	2.5
- Non-oil sector	% y/y	6.5	7.2	5.2	4.5
Inflation (avg.)	% y/y	0.2	4.8	3.2	2.8
Fiscal balance	% of GDP	4.0	9.9	5.1	4.4
Current acc. bal.	% of GDP	11.6	30.7	27.7	26.1

Source: Official sources, NBK estimates

Chart 1: Real GDP

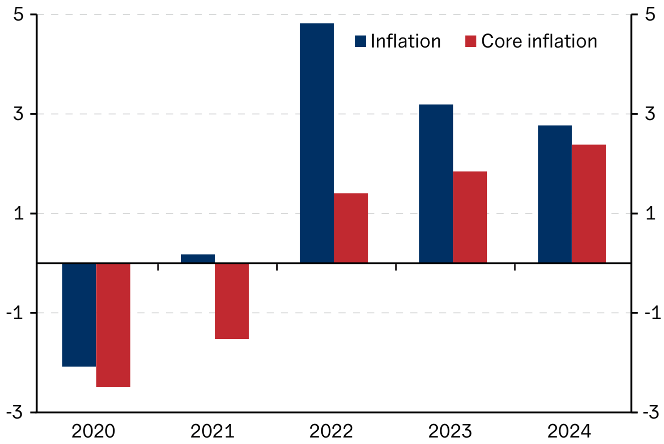
(% y/y)



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

Chart 2: Consumer price inflation

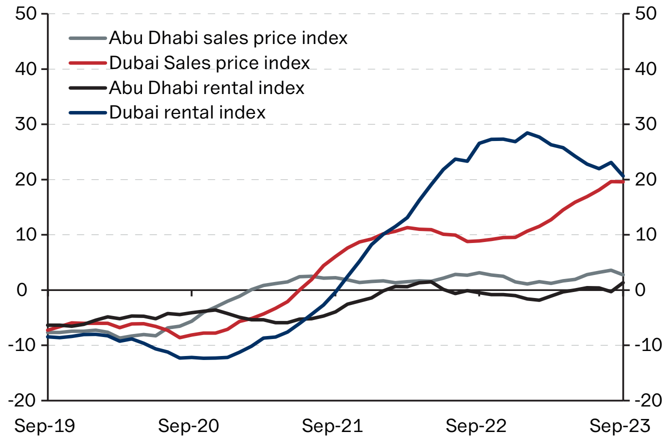
(% y/y)



Source: FCSC, NBK forecasts.

Chart 3: Real estate prices and the rental market

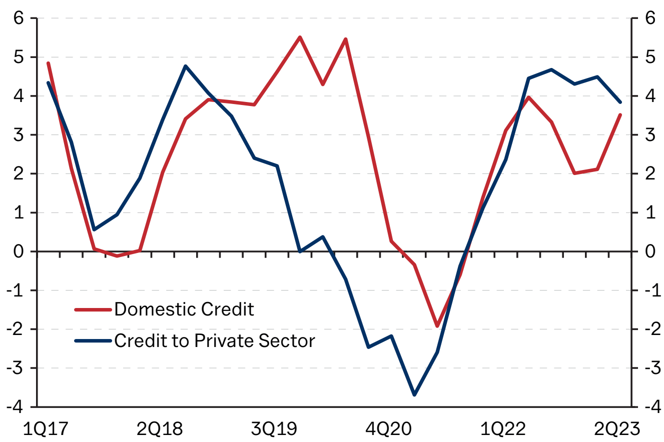
(% y/y)



Source: REIDIN, NBK estimates

Chart 4: Domestic credit

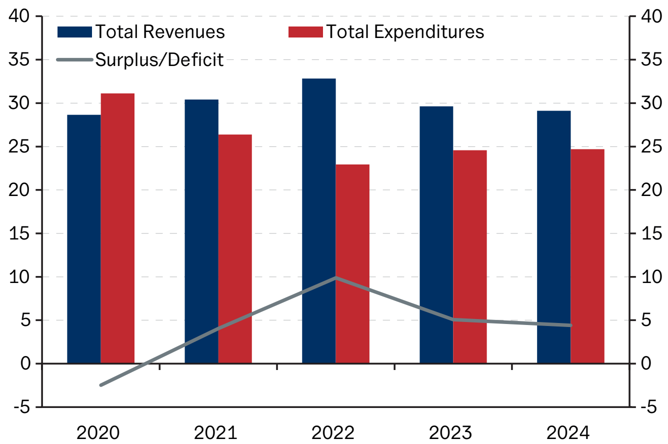
(% y/y)



Source: Central Bank of the UAE

Chart 5: Fiscal balance

(% of GDP)



Source: Ministry of Finance, FCSC, NBK forecasts

Egypt

Economic conditions will remain tough in CY2024 with the year potentially starting off with key reform measures such as a long-awaited currency devaluation and fiscal austerity measures that would allow for the resumption of the postponed IMF program reviews. Growth will remain low at 4.0% in FY23/24 but could pick up the following year conditional on the government following through on reforms, or else pushing the recovery out even further. Import compression and the tapping of unconventional financing channels have prevented pressures to default on external debt from escalating or reserves being drawn down for now. But the need to attract strong capital inflows should be a key focus for 2024.

An economic paradigm shift in 2024 is crucial

Policymaking faces a paradigm shift next year that will be key in delivering an economic recovery starting FY24/25. Presidential elections are scheduled for mid-December, and following this we expect to see signs that the government is committed to orthodox economic policies that address existing vulnerabilities and put growth back on track. A shift to a more freely floating exchange rate regime is at the top of the agenda, followed by stronger momentum on the privatization program that offers the private sector scope to take more of the lead on growth, and finally a clear commitment to the December 2022 IMF program in general in order to unlock program financing tranches as well as indirect funds from the GCC and multilateral institutions. Early signals of the government not delivering this paradigm shift would push the recovery story out further.

Economic activity to remain stagnant in FY23/24

GDP growth slowed to 3.8% in FY22/23 from 6.2% in FY21/22, with this figure revised down from an earlier estimate of 4.2%. The Ministry of Planning expects growth at 4.2% for FY23/24, slightly above our forecast of 4.0%. The sharp slowdown in growth recently comes as inflation has spiraled to an all-time high of 40% y/y, interest rates have doubled, and the Egyptian pound is trading at a 35% discount to the official rate on the unofficial market. We expect the economic environment to remain tough in the remainder of FY23/24 as major macro-economic reform measures take place following the elections, including a devaluation of the EGP, fiscal austerity measures, and possible interest rate hikes. We expect growth to remain little changed at 4.2% in FY23/24 (well below par for Egypt's development level) with a recovery in FY24/25 conditional on implementation of the above reform measures.

External financing pressures remain high

Although there has been some progress with regards to the privatization program (total of $1.9bn of government asset sales), momentum remains slow and insufficient to cover external debt obligations in FY23/24 which we estimate at $22bn, assuming that GCC deposits are renewed. Amid slow progress on asset sales, the government has tapped unconventional financing channels such as guaranteed bonds (JPY and CNY bonds), through which it raised $1.5bn over October-November.

An import compression strategy has worked so far in cutting Egypt's import bill, which was down by 30% y/y in FY22/23 but also clearly had its toll on export growth as the majority of Egyptian exports depend on imported machinery and raw materials. The current account deficit narrowed to 1.6% of GDP in FY22/23 from 3.6% in the previous year - but temporarily in our view, and will widen once again to 2.6% in the current fiscal year. This is driven by an assumption that US dollar availability allows for a pickup in consumption and investment and thus higher imports.

One key upside risk is a possible external debt negotiation and/or multilaterals re-financing maturing loans. We have started to see early signs of this with Egypt signing an MoU with China to swap part of its upcoming maturing loans into development projects. Further similar agreements could be forthcoming, and we also expect faster progress on the government's asset sale program.

Inflation will moderate but policy rates could rise

Inflation had accelerated to 38% y/y in September on the back of the spiraling unofficial exchange rate, product shortages and rising global energy prices. While unfavorable year-on-year base effects have also contributed, monthly price rises have been in the 1-2% range. Next year, key cost-push inflationary pressures would kick in following a possible currency devaluation and subsidy cuts, though inflation could be capped at around 25% y/y helped by the favorable base effect. Despite the moderation in inflation from current levels, some degree of further monetary tightening is expected by the central bank (policy rates up by 2-3%) next year to re-establish progress in getting inflation back towards the bank's 7% +/- 2% target.

Economic policies beyond the medium term

Over the longer term, Egypt will need to follow-through with wider economic structural reforms to bring its growth, sustainably, to 7-8%. Like the infrastructure transformation that took place over the past 10 years, authorities should put human infrastructure (health & education) as key priorities over the next decade. Health & education expenditures are at 6% of GDP, half of the world average. Meanwhile, the government needs to dismantle existing inefficient regulations and red tape to boost investment, both local and foreign. Egypt is ranked 114th in the ease of doing business, unchanged from its rank 20 years ago. ■

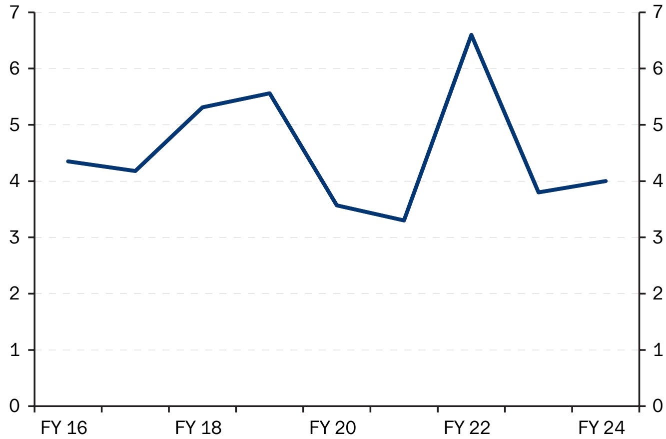
Egypt key economic indicators*

		FY22/23	FY23/24	FY24/25
Nominal GDP	EGP bn	10,377	11,888	13,433
Real GDP	% y/y	3.8	4.0	5.0
Fiscal balance (FY)	% of GDP	-6.0	-7.0	-7.6
Inflation (avg.)	% y/y	24.1	27.2	12.5
Current acc. bal.	% of GDP	-1.6	-2.6	-2.9

Source: Official sources, NBK forecasts * Fiscal years ending June

Chart 1: Real GDP

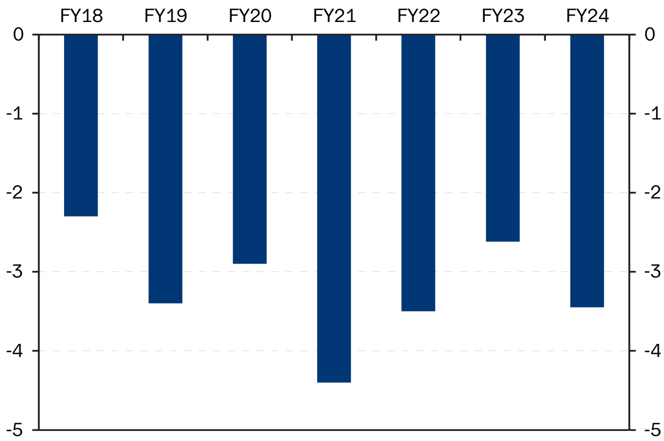
(% y/y)



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

Chart 2: Current Account deficit

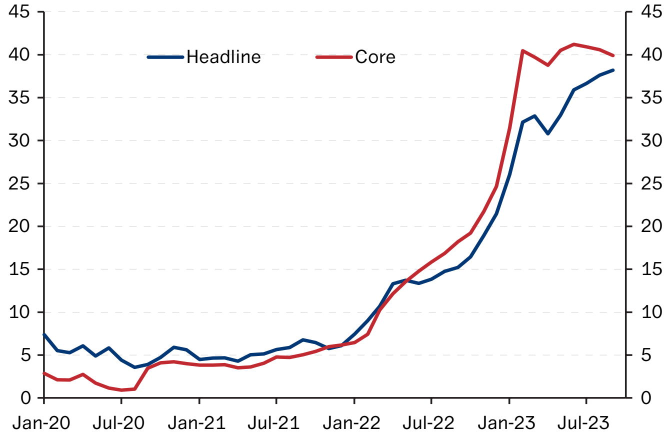
(% of GDP)



Source: Central Bank of Egypt, NBK Forecasts

Chart 3: Consumer price inflation

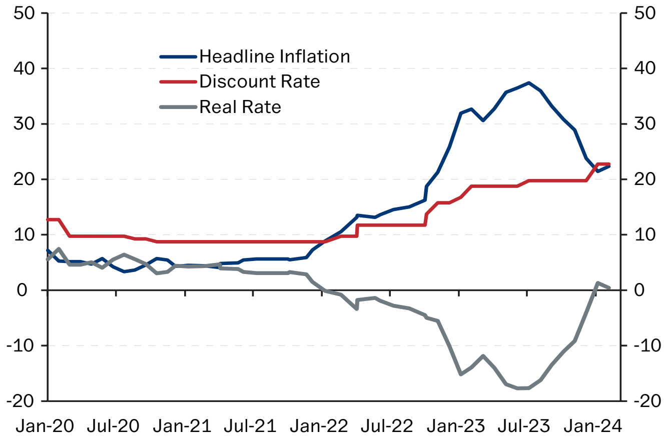
(% y/y)



Source: Central Bank of Egypt

Chart 4: Policy rates and Real rates

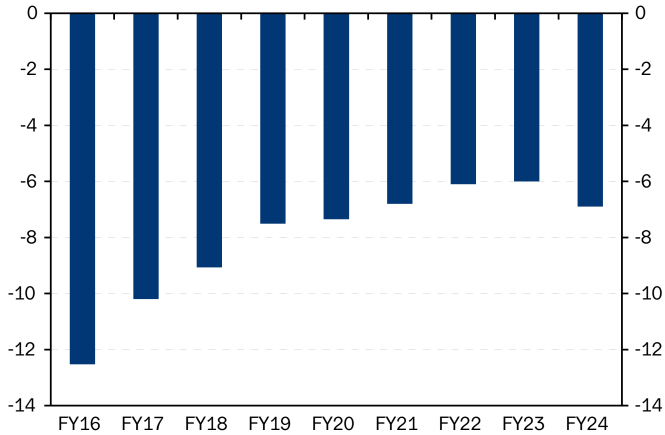
(% y/y)



Source: Central Bank of Egypt, NBK Forecasts

Chart 5: Fiscal Deficit

(% of GDP)



Source: Ministry of Finance, Central Bank of Egypt, NBK Forecasts

Economic data and forecasts

Regional

Bahrain	Unit	2018	2019	2020	2021	2022	2023f	2024f
Nominal GDP	USD bn	37.7	38.6	34.7	39.3	44.4	44.3	46.4
Real GDP	% y/y	2.1	2.1	-4.6	2.6	4.9	2.5	3.1
Hydrocarbon sector	% y/y	-1.3	2.2	-0.1	-0.3	-1.4	0.3	3.2
Non-hydrocarbon sector	% y/y	2.9	2.1	-5.6	3.2	6.3	3.0	3.0
Budget balance	% of GDP	-6.3	-4.7	-12.8	-6.4	-1.1	-4.1	-2.7
Current account balance	% of GDP	-6.5	-2.1	-9.4	6.6	15.4	7.0	6.3
Inflation	% y/y	2.1	1.0	-2.3	-0.6	3.6	0.4	1.5
Kuwait								
Nominal GDP	USD bn	138.1	136.2	105.8	139.4	177.4	163.1	172.1
Real GDP	% y/y	2.0	-0.5	-8.9	1.2	8.4	-0.7	3.4
Hydrocarbon sector	% y/y	2.4	-1.0	-8.9	-1.0	12.1	-4.3	3.3
Non-hydrocarbon sector	% y/y	1.5	0.0	-8.9	3.8	4.3	3.5	3.4
Budget balance	% of GDP	-3.1	-9.5	-33.2	-10.4	11.8	-4.0	-1.3
Current account balance	% of GDP	11.2	10.1	1.4	26.8	35.2	27.0	22.9
Inflation	% y/y	0.6	1.1	2.1	3.4	4.0	3.5	2.5
Oman								
Nominal GDP	USD bn	91.5	88.1	75.9	88.2	115.1	110.1	115.2
Real GDP	% y/y	1.3	-1.1	-3.4	3.1	4.3	1.5	3.0
Hydrocarbon sector	% y/y	3.0	-2.6	-2.0	3.8	10.2	-0.3	3.6
Non-hydrocarbon sector	% y/y	0.5	-0.4	-4.0	2.7	1.4	2.4	2.7
Budget balance	% of GDP	-7.5	-7.7	-15.1	-3.6	2.6	0.3	1.8
Current account balance	% of GDP	-4.5	-4.5	-16.1	-5.4	5.0	1.2	2.2
Inflation	% y/y	0.9	0.1	-0.9	1.5	2.8	1.1	1.5
Qatar								
Nominal GDP	USD bn	183.3	172.8	141.9	176.6	233.2	205.2	215.5
Real GDP	% y/y	1.2	0.7	-3.6	1.5	4.9	2.3	2.5
Hydrocarbon sector	% y/y	-0.3	-1.7	-2.0	-0.3	1.7	0.9	0.7
Non-hydrocarbon sector	% y/y	2.2	2.2	-4.5	2.7	6.9	3.1	3.5
Budget balance	% of GDP	2.3	1.0	-2.1	0.2	10.3	8.4	7.3
Current account balance	% of GDP	9.1	2.4	-2.1	14.6	26.6	14.0	13.4
Inflation	% y/y	0.3	-0.8	-2.7	2.3	5.0	3.0	2.5
Saudi Arabia								
Nominal GDP	USD bn	846.6	838.6	734.3	868.6	1108.1	1052.9	1102.2
Real GDP	% y/y	2.8	0.8	-4.3	3.9	8.7	-0.7	2.4
Hydrocarbon sector	% y/y	2.3	-3.3	-6.7	0.2	15.4	-8.7	-1.0
Non-hydrocarbon sector	% y/y	-0.9	3.5	-3.0	5.7	4.8	4.7	4.5
Budget balance	% of GDP	-5.5	-4.2	-10.7	-2.3	2.5	-2.1	-1.7
Current account balance	% of GDP	8.5	4.6	-3.1	5.1	13.6	4.9	4.7
Inflation	% y/y	2.5	-2.1	3.4	3.1	2.5	2.3	2.0
UAE								
Nominal GDP	USD bn	427.3	418.3	349.7	415.5	507.4	504.0	531.5
Real GDP	% y/y	1.3	1.1	-5.0	4.4	7.9	3.3	3.9
Hydrocarbon sector	% y/y	4.5	-2.6	-3.8	-1.1	9.5	-1.7	2.5
Non-hydrocarbon sector	% y/y	0.1	2.7	-5.4	6.5	7.2	5.2	4.5
Budget balance	% of GDP	3.8	2.6	-2.5	4.0	9.9	5.1	4.4
Current account balance	% of GDP	9.5	8.9	6.0	11.6	30.7	27.7	26.0
Inflation	% y/y	3.1	-1.9	-2.1	0.2	4.8	3.2	2.8
Egypt (Fiscal year ending June)								
Nominal GDP	USD bn	250.2	302.2	363.8	427.0	445.0	413.0	-
Real GDP	% y/y	5.3	5.6	3.6	3.3	6.7	3.8	4.0
Budget balance	% of GDP	-9.0	-8.2	-7.5	-7.1	-6.1	-6.0	-7.0
Current account balance	% of GDP	-2.4	-3.6	-2.9	-4.4	-3.6	-1.6	-2.6
Inflation	% y/y	22.0	13.9	6.0	4.5	8.5	24.1	27.2

International

	Unit	2018	2019	2020	2021	2022	2023f	2024f
Brent crude oil (year average)	$ p/b	71.5	63.7	43.9	71.0	99.0	83.0	85.0
Rogers International Commodity Index	Index	2,194.3	2,454.4	2,265.6	3,196.8	3,828.3	---	---
Eur/USD	1 $ = €	0.87	0.89	0.82	0.88	0.93	---	---
US Fed Fund Rate	%	2.50	1.75	0.25	0.25	4.5	5.5	---
MSCI World stock market index	Index	1,883.9	2,358.5	2,690.0	3,231.7	2,602.7	---	---
MENA real GDP (IMF)	% y/y	1.4	1.0	-3.0	4.0	5.6	2.0	3.4
World real GDP (IMF)	% y/y	3.6	2.8	-2.8	6.3	3.5	3.0	2.9

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

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