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GCC

Prospects and Challenges

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Plan of the presentation

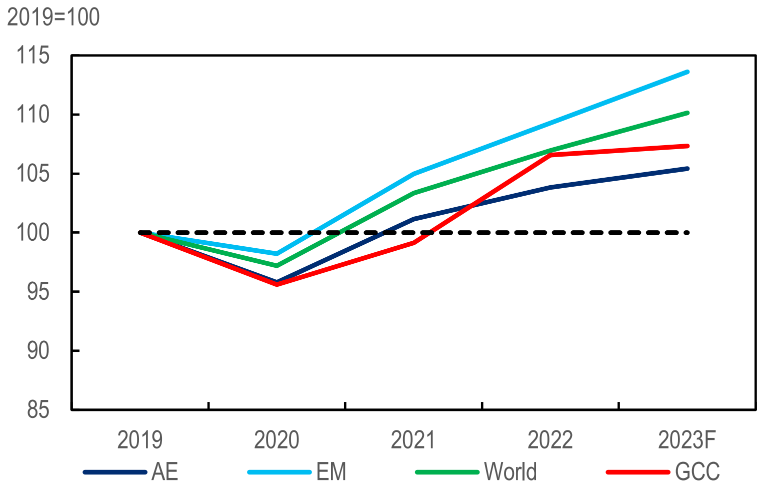
- Macro Overview of the GCC Region
- The Economic Fallout from Amplified Geopolitical Tensions
- Main Themes
  - *Spillovers from softer global economic activity to the GCC*
  - *The outlook for the Fed and GCC central banks*
  - *The inclusion of the Gulf's two powerhouses in BRICS*
  - *A brief review of the GCC's diversification journey*
- The Near-term Economic Outlook for GCC Economies
  - *Saudi Arabia*
  - *UAE*
  - *Qatar*
  - *Kuwait*
  - *Oman*
  - *Bahrain*
- Key Transformational Challenges
- Appendix: Selected Economic, Financial and Oil Market Indicators

Macroeconomic Overview

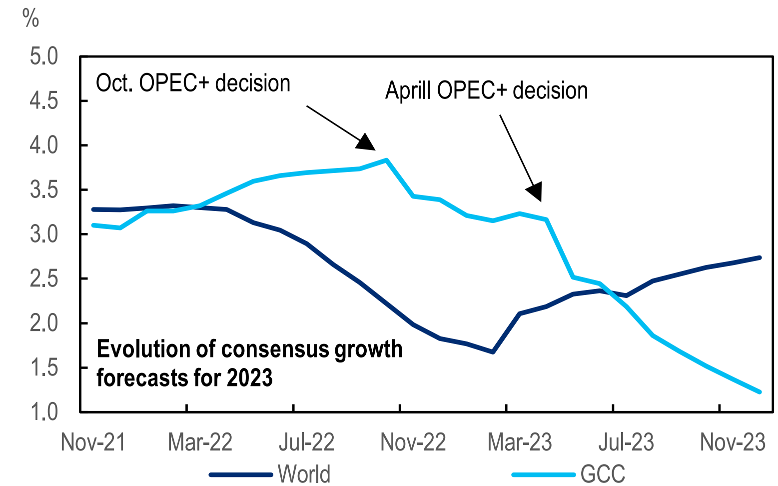
Overview (I)

Activity softened visibly last year due mainly to voluntary oil production cuts.

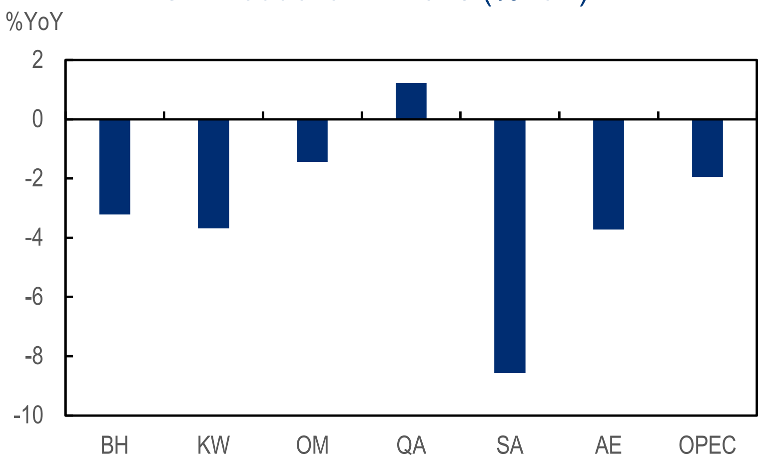
Rebound Following the COVID Shock*



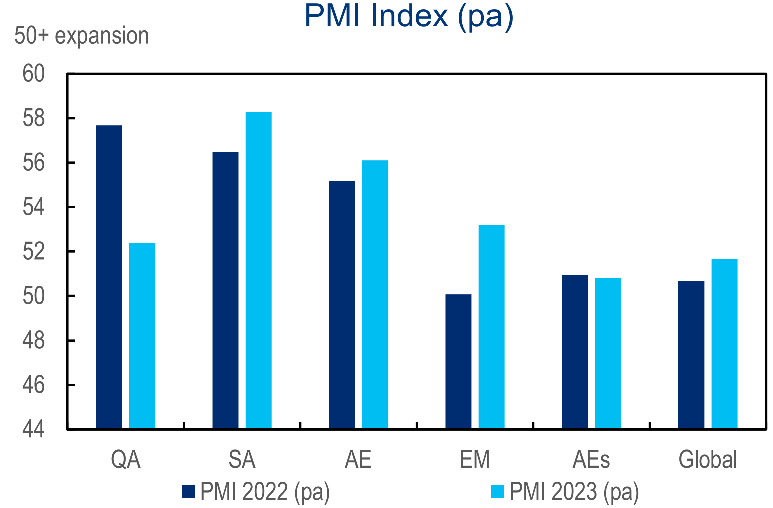
Consensus GDP Growth Forecasts for 2023



Oil Production in 2023 (%YoY)**



PMI Index (pa)



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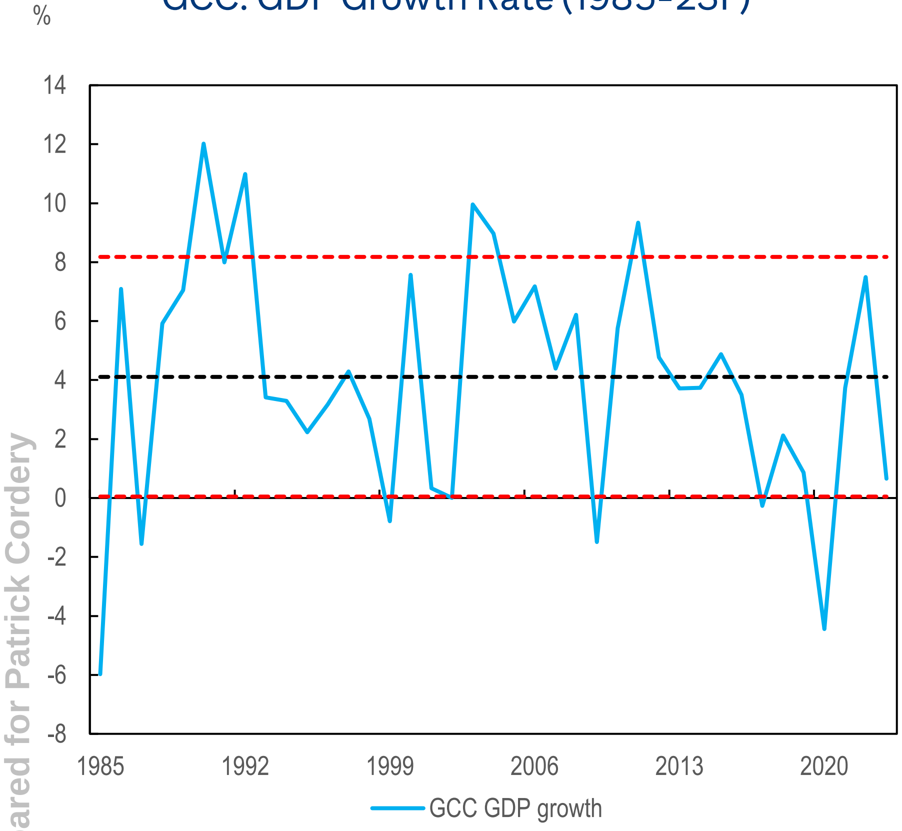
Source: Bloomberg, FocusEconomics, Haver, *IMF, JODI and Citi Research.**For BH (Jan-Oct, 2023) and QA (Jan-Nov, 2023, hydrocarbon production index)

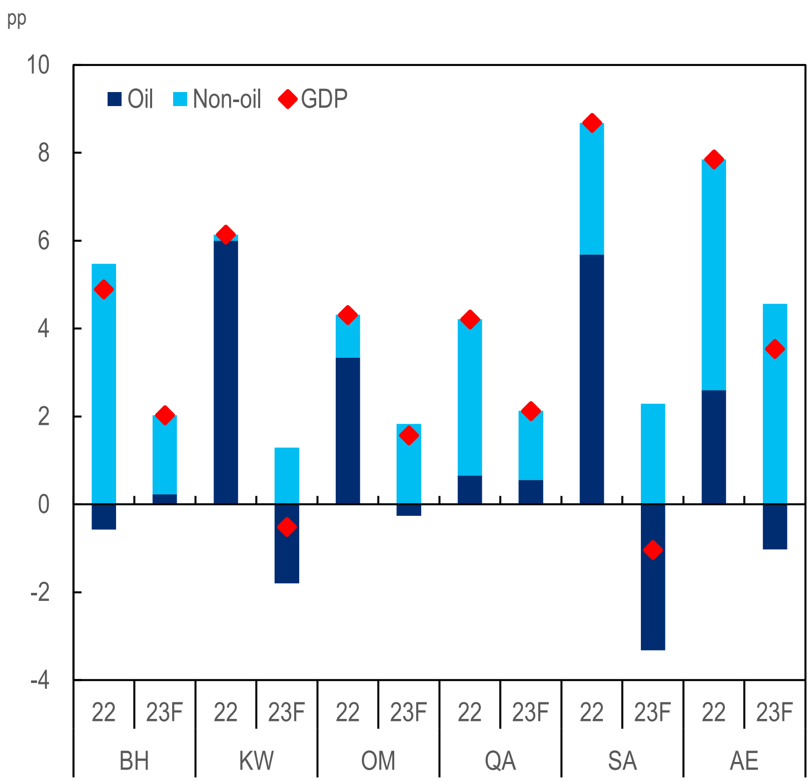
Overview (II)

Economic growth in the GCC region is projected to have decelerated markedly last year to 0.7% from 7.5% in 2022. This was mainly led by hydrocarbon activity, which contracted by about 5.5% in 2023 following an 11.6% expansion in 2022. Standing at about 4.5%, however, non-oil activity held up well and registered a relatively healthy growth last year.

GCC: GDP Growth Rate (1985-23F)



GCC: Contribution to GDP Growth Rate (2022-23F)

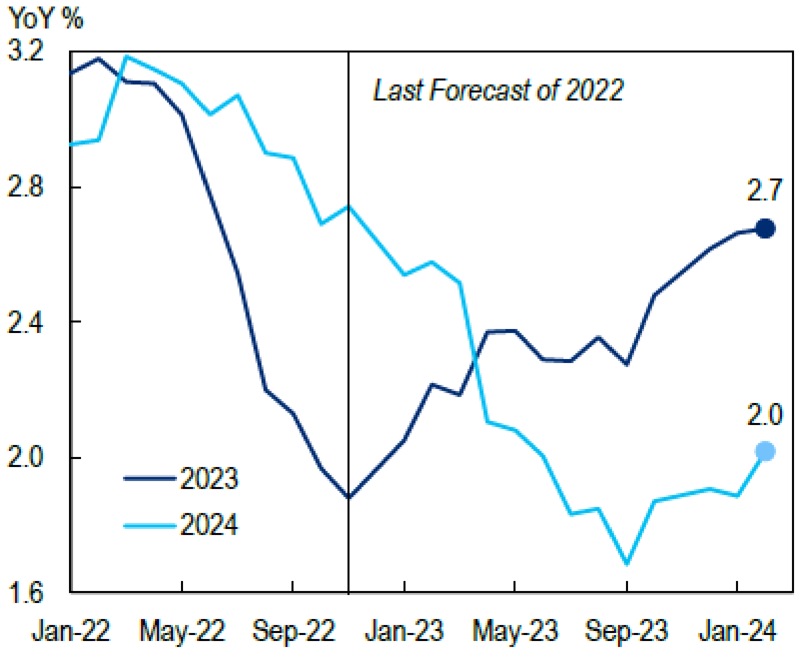


Source: Bloomberg, Haver and Citi Research

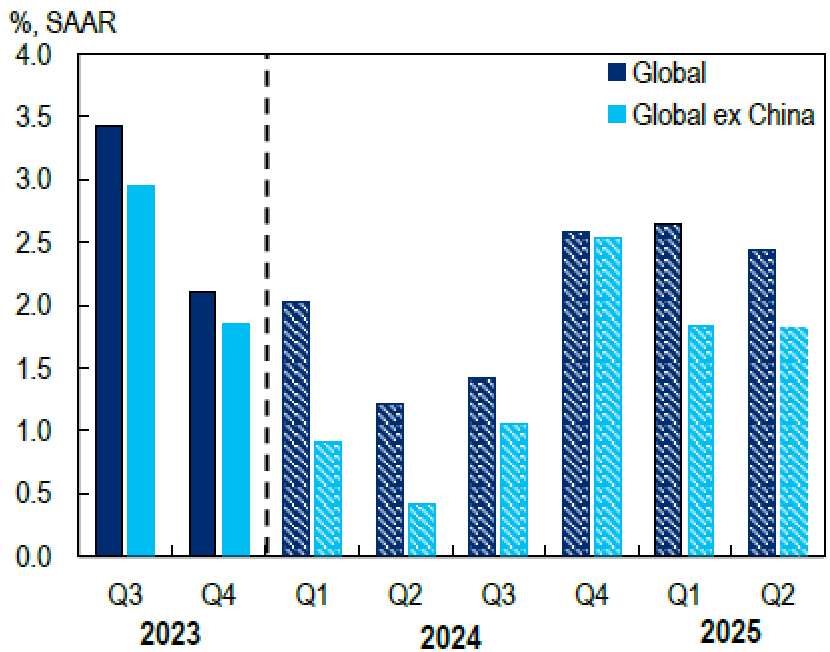
Overview (III)

We see global growth slowing this year to 2%, down notably from last year's near-trend 2.7% pace. Several factors are likely to contribute to the slowdown: (i) *significant lags from monetary policy tightening remain in the pipeline*; (ii) *the global consumer's pent-up demand for services appears to have largely played through, and consumption growth is poised to moderate*; (iii) *these developments should bring a loosening in the labor market, with slower wage growth and rising unemployment*; and (iv) *fiscal policy is slated to be less supportive.*

Evolution of Global Growth Forecasts



Global Growth Forecasts

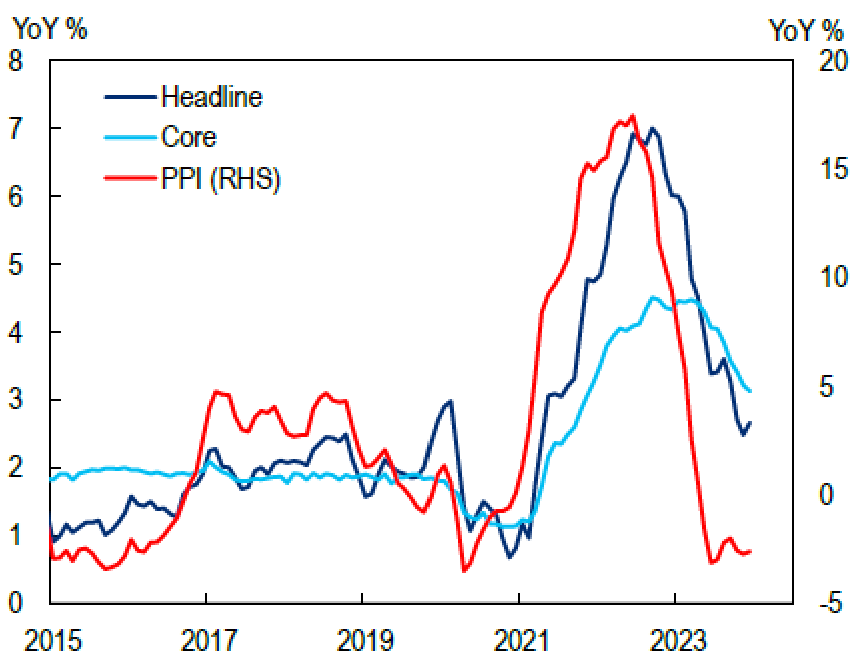


Source: Citi Research, Global Economic Outlook & Strategy - The Tide Turns Toward Softer Global Growth

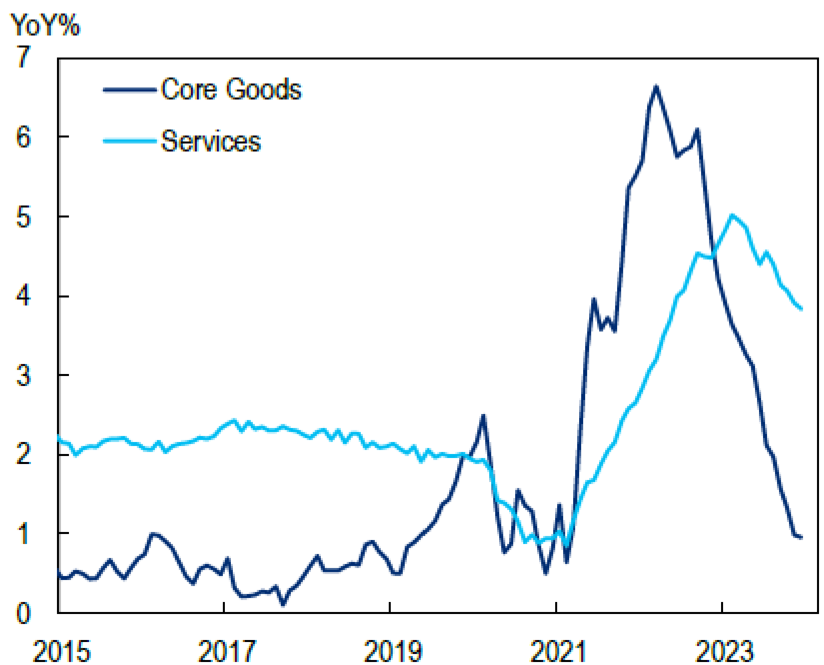
Overview (IV)

Global headline and core inflation have both moderated significantly since 2022. But the decline in headline inflation has been much sharper and more pronounced, on the back of declining food price inflation and lower oil prices. In contrast, the retreat in core inflation has been more gradual: core goods inflation has fallen sharply, as supply chains have healed, and goods demand has softened from its pandemic peaks. Tight labor markets and persistently high wage growth, however, have limited the decline in services inflation.

Global Inflation *



Global Core Goods & Services Inflation

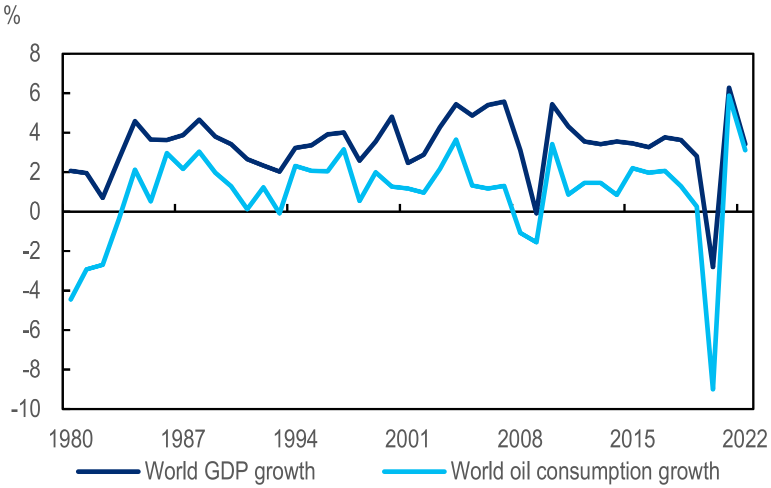


Source: Citi Research *Based on data from 15 major economies, Global Economic Outlook & Strategy - The Tide Turns Toward Softer Global Growth

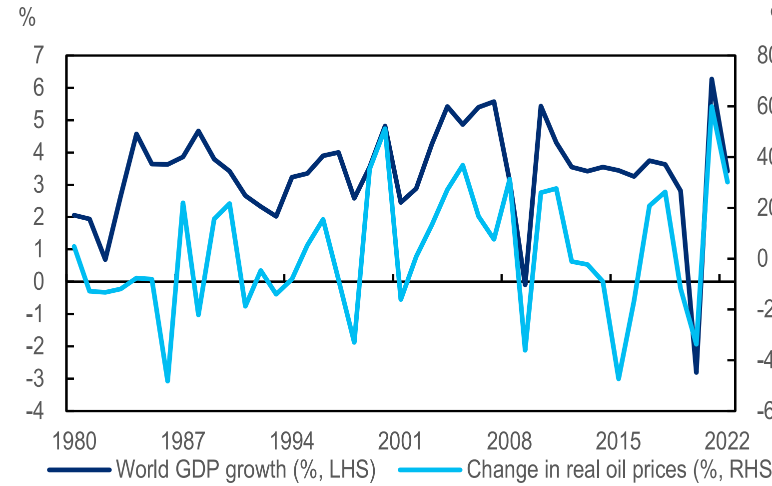
Overview (V)

The projected deceleration in global growth to 2% this year from 2.7% in 2023 is likely to have implications for oil market dynamics and non-oil activity in the GCC region

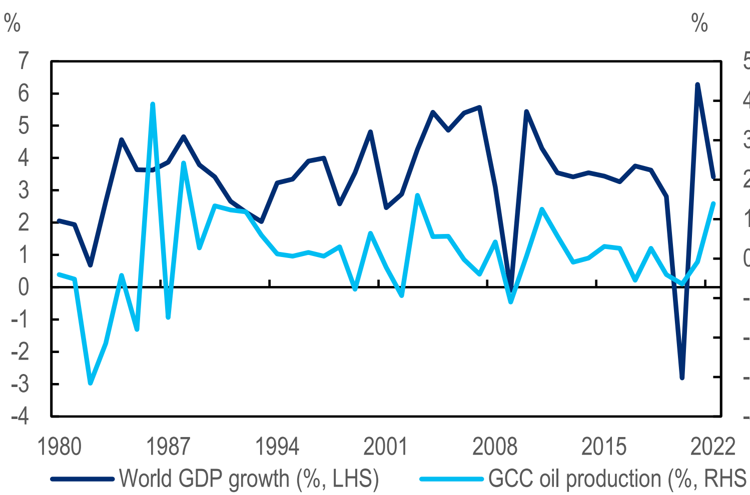
World GDP Growth and Oil Consumption



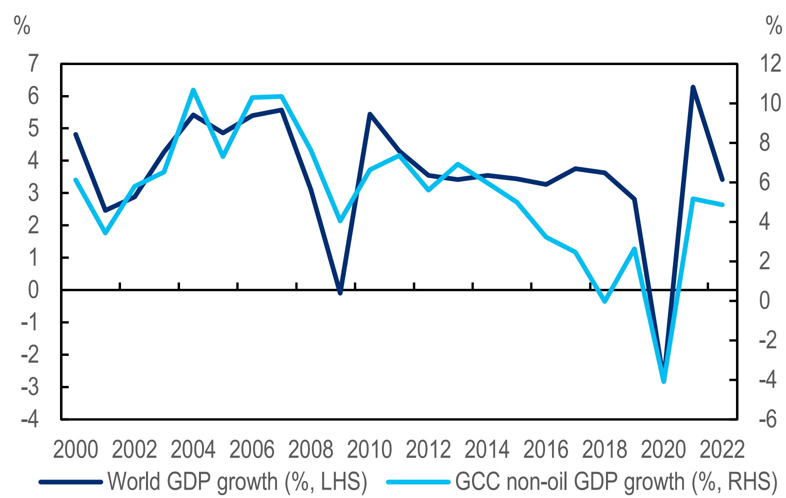
World GDP Growth and Real Oil Prices



World GDP Growth and GCC Oil Production



World GDP Growth and GCC non-oil GDP

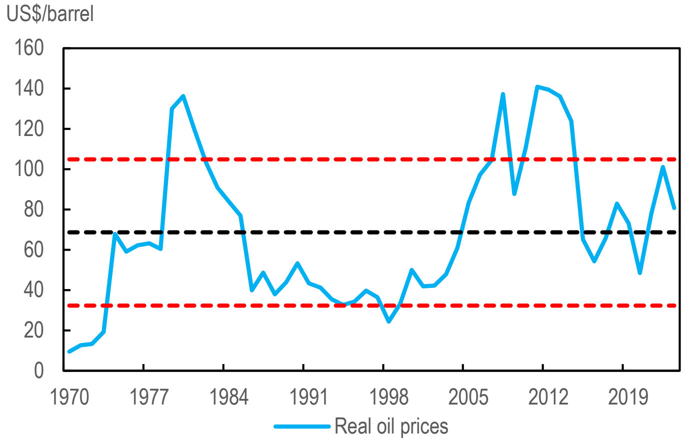


Source: Bloomberg, Haver and Citi Research.

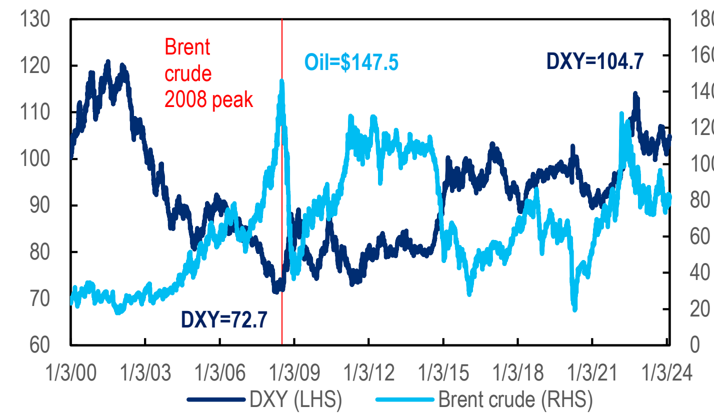
Overview (VI)

In their new baseline, our commodities colleagues see Brent averaging $74 in 2024 (revised down $1) and $60 in 2025 (revised down $10), down from $82 in 2023. In their view, softer market fundamentals—barring major supply disruptions—will lead OPEC+ to roll over its 1Q'24 production cuts throughout the entire 2024 and start tapering them only in 2H'25.

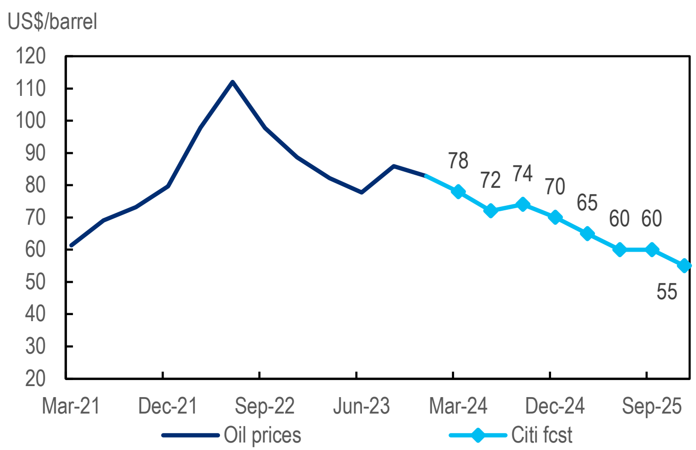
Evolution of Real Oil Prices



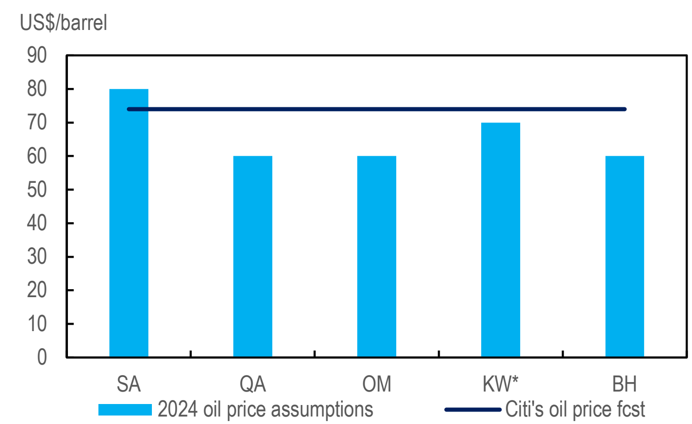
Oil Prices and the USD



Citi's Oil Forecast Trajectory



Oil Price Assumptions in the 2024 Budgets*



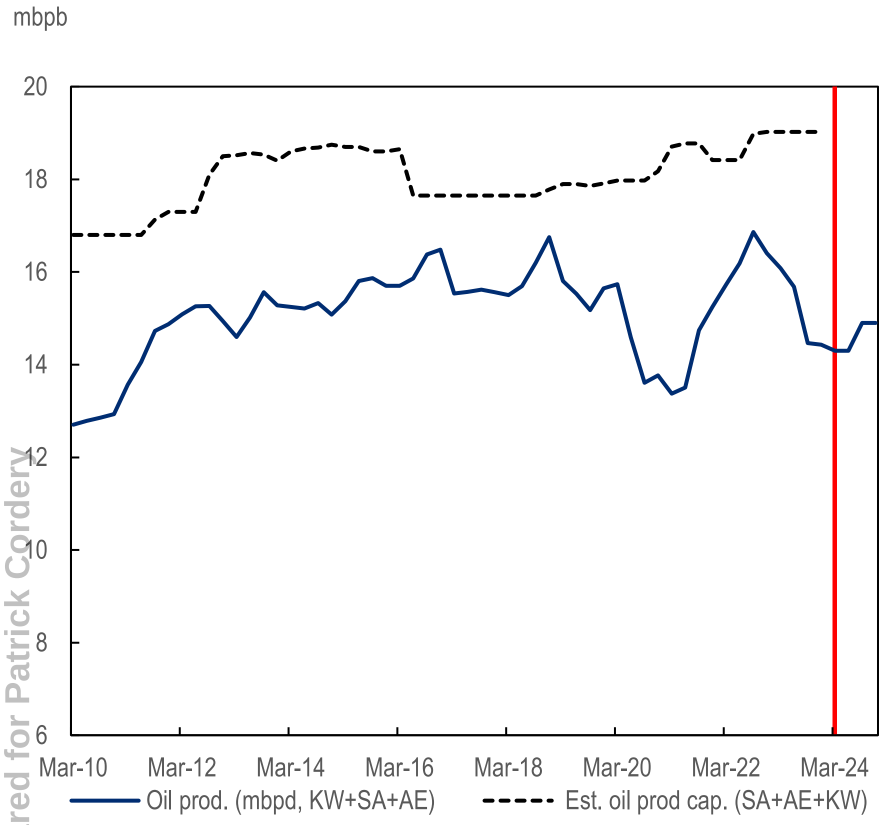
Prepared for Patrick Cordery

Source: Bloomberg, Haver and Citi Research *SA is our own estimate and for KW the figure is from the Draft 2024/25 Budget

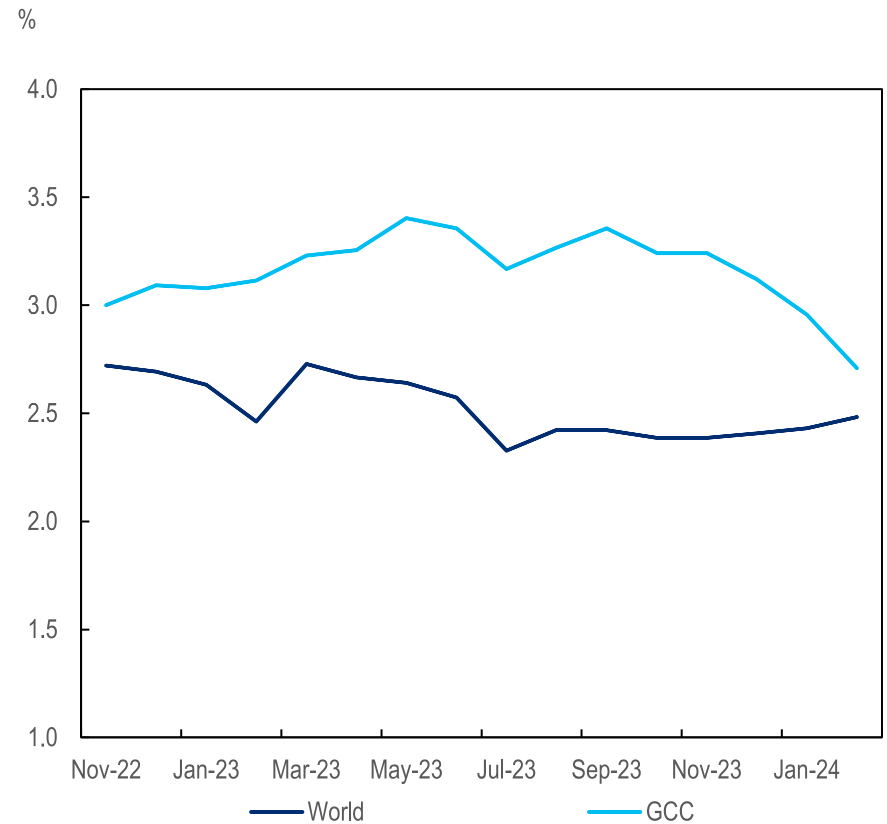
Overview (VII)

On the back of our commodities colleagues' recent update of their outlook for global oil balances, we carried out signification revisions to our GCC macroeconomic forecasts underpinned by expectations of a softer production trajectory.

Oil Prod. Trajectory in Major GCC Countries (KW, SA and AE)



GCC: Evolution of GDP Growth Fcts. for 2024

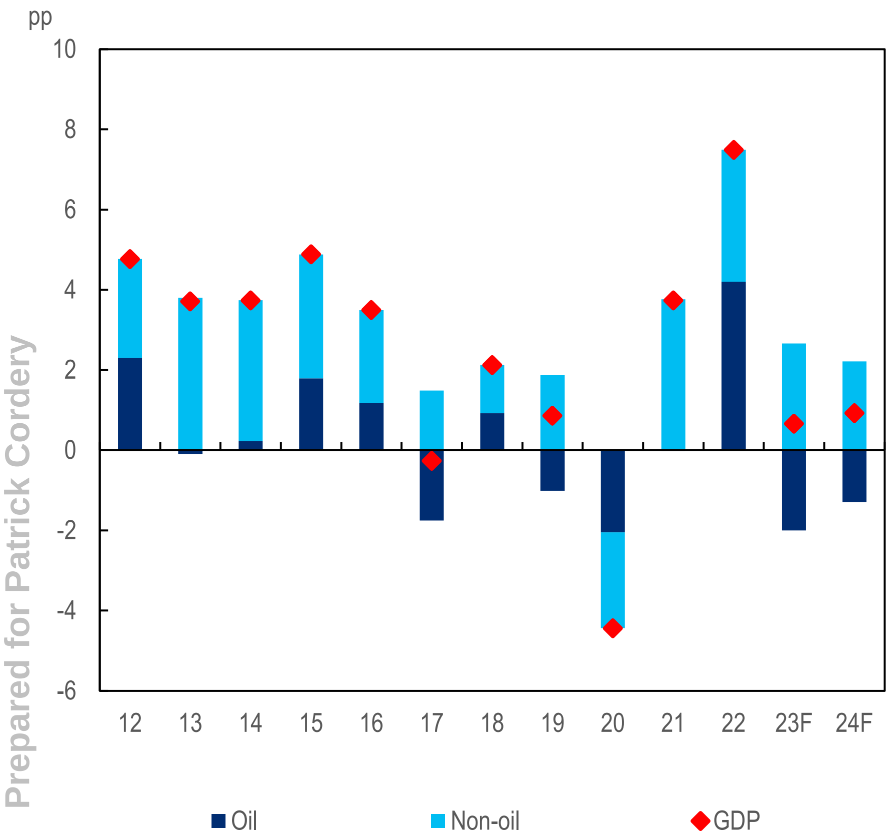


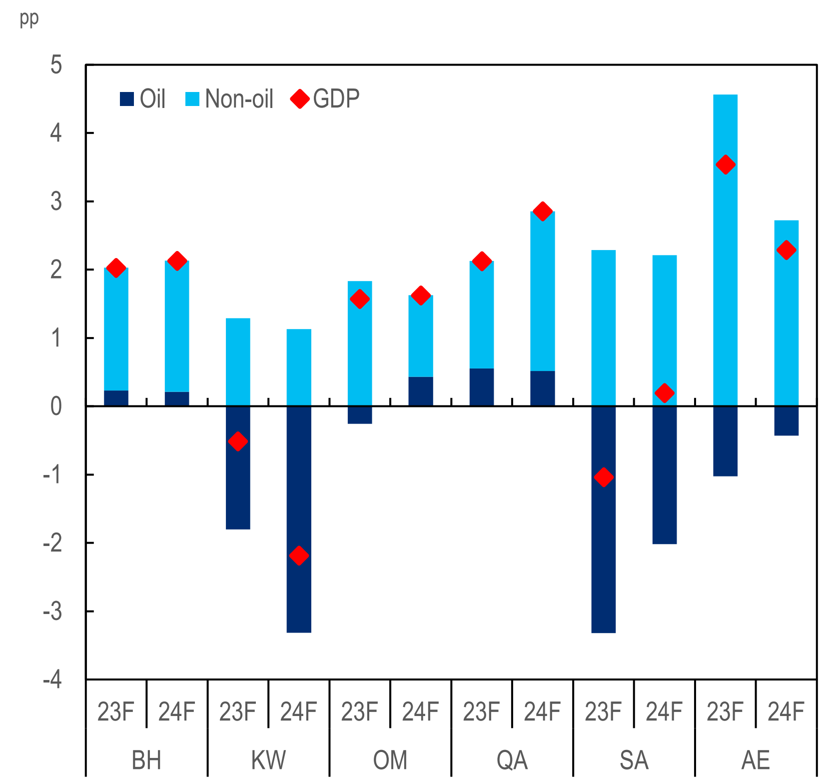
Source: Bloomberg, FocusEconomics, Citi Research, Oil Monitor - Sell rallies in early 2024, before the storm hits in 2025 – we recommend producers consider long-dated insurance/hedging

Overview (VIII)

Citi's updated outlook for global oil balances led us to revise down our GCC growth projection for this year to about 1.0% from 2.4% (our forecast formulated in December 2023). This downward adjustment is largely driven by hydrocarbon GDP, which is now projected to contract by 3.5% as opposed to an almost flattish growth. The noted revision, coupled with our assessment of the recent data on non-hydrocarbon activity, prompted us to downgrade our 2024 non-oil GDP growth projection for the region to 3.6% from around 4%.

Contribution to GDP Growth (pp)

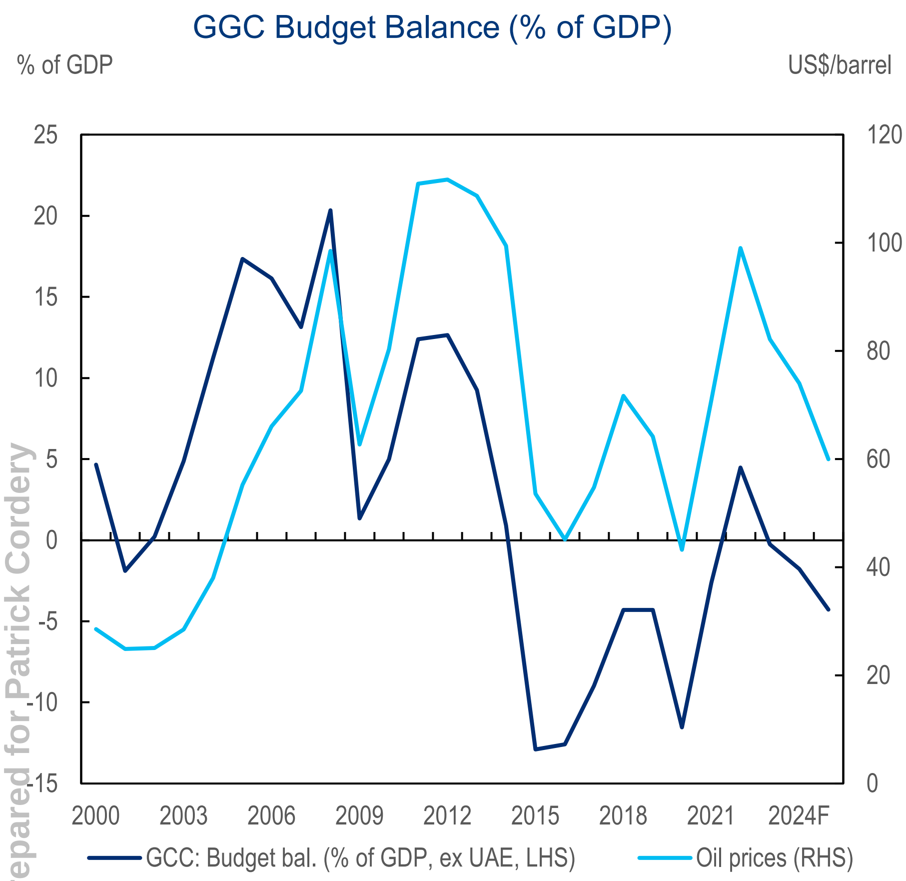


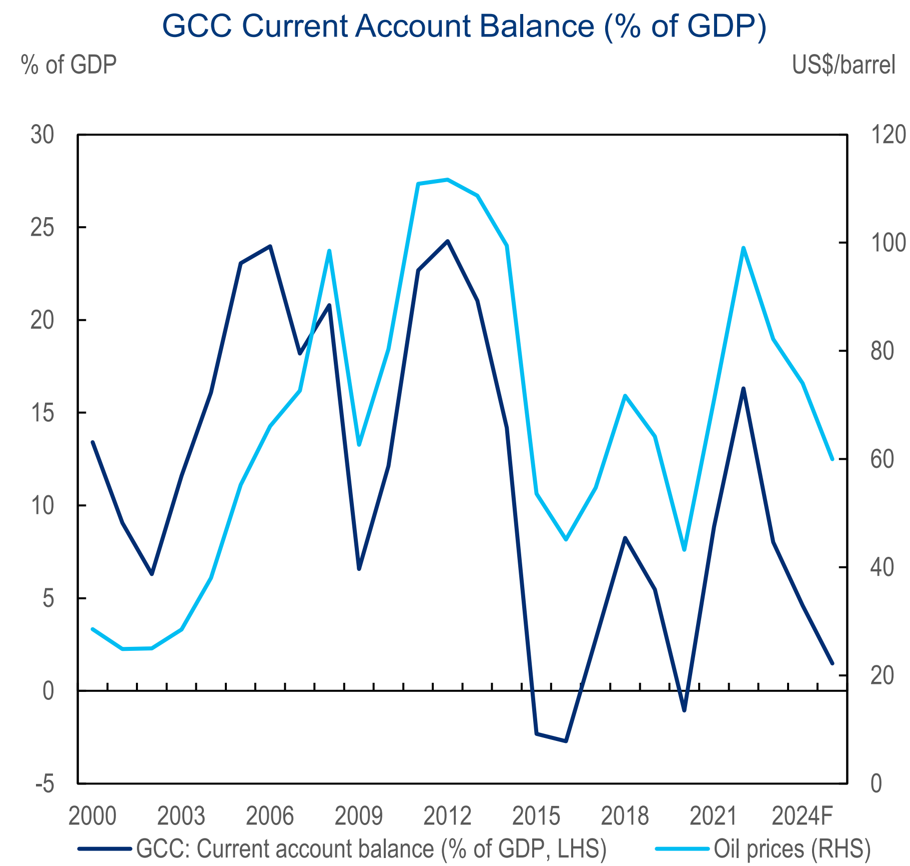


Source: Haver and Citi Research

Overview (IX)

The envisaged path of lower production and softer oil prices also points to a widening of the aggregate budget deficit of the region this year to 1.8% of GDP from an estimated 0.3% in 2023. Similarly, the region's CA surplus expected to narrow this year to around 4.5% of GDP from 8% in 2023.



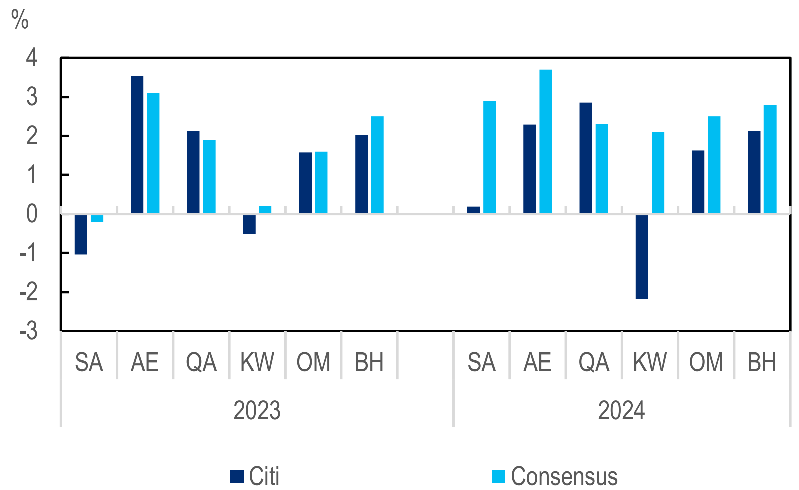


Source: Haver and Citi Research

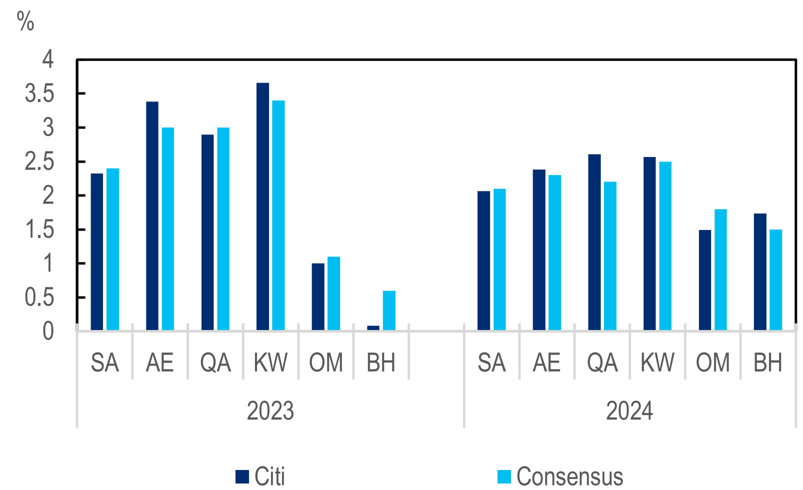
Overview (X)

Our base case forecasts for the GCC countries point to a more cautious economic outlook for the GCC than the consensus.

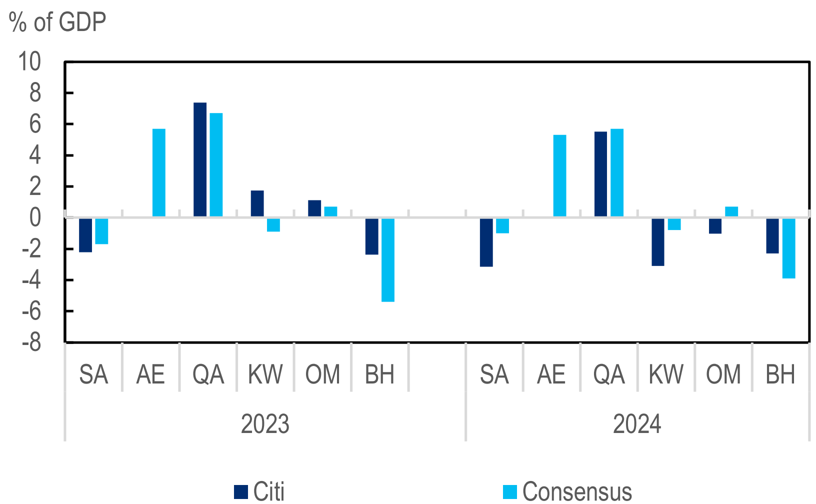
GDP Growth: Consensus vs. Citi



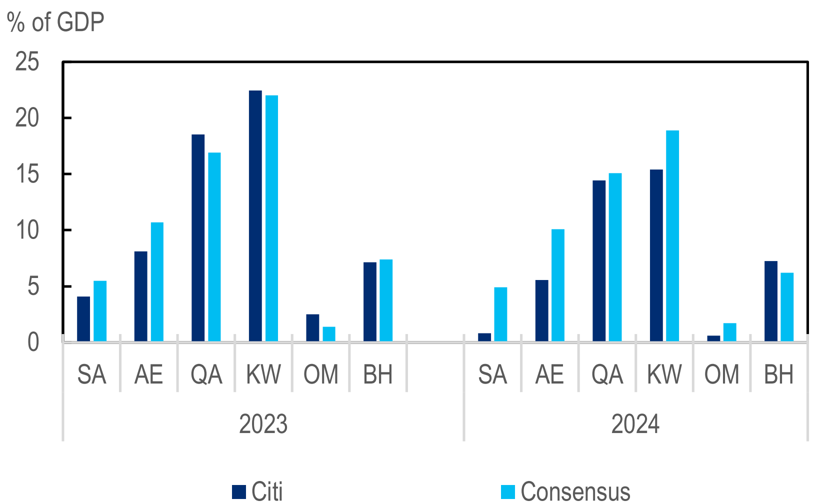
Inflation (pa): Consensus vs. Citi



Budget Balance: Consensus vs. Citi



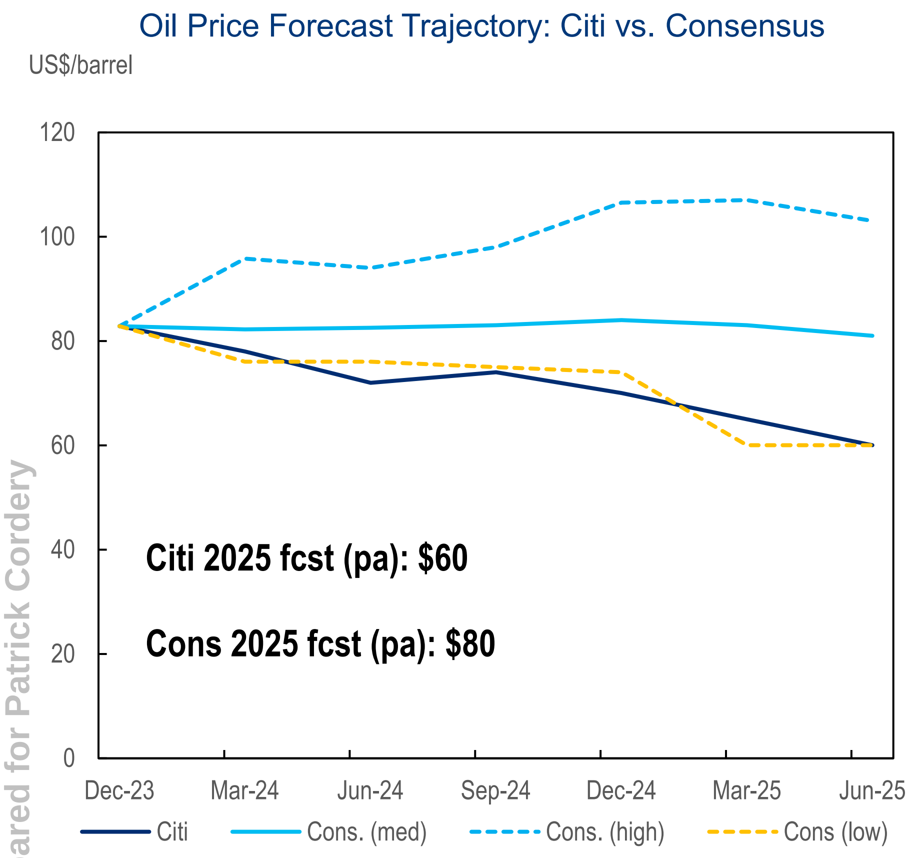
CAB: Consensus vs. Citi

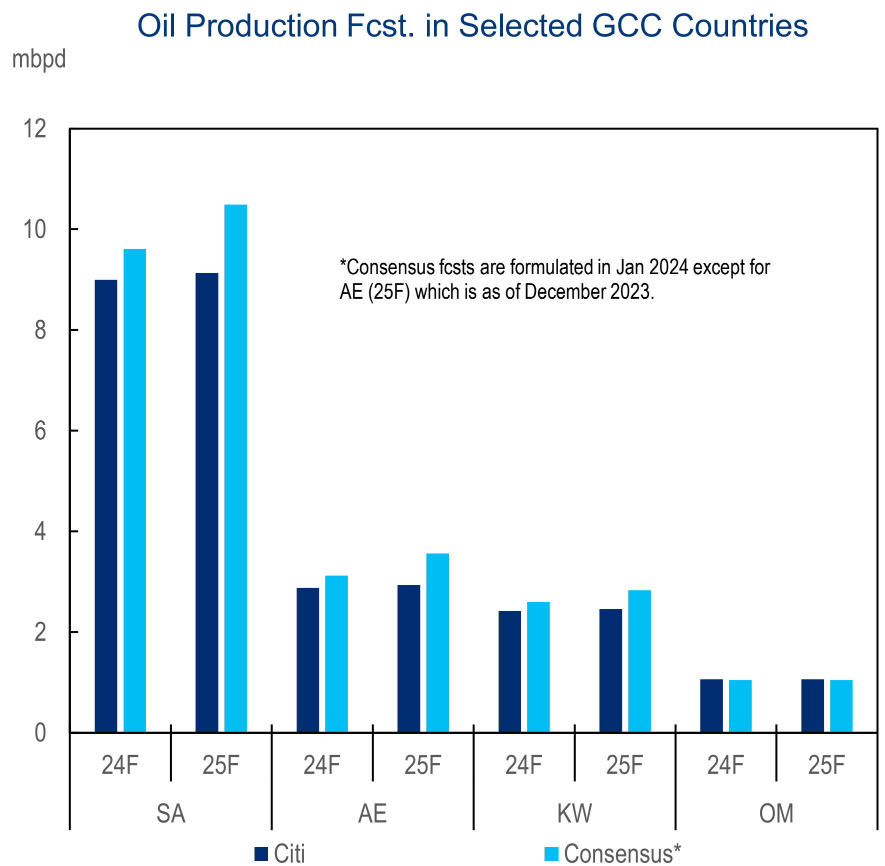


Source: FocusEconomics and Citi Research

Overview (XI)

Our relatively cautious projections for the GCC region are mainly driven by Citi's more conservative oil price and production forecasts.





Prepared for Patrick Cordery

Source: Haver and Citi Research

The Economic Fallout from Amplified Geopolitical Tensions

Economic Fallout from Amplified Geopolitical Tensions (I)

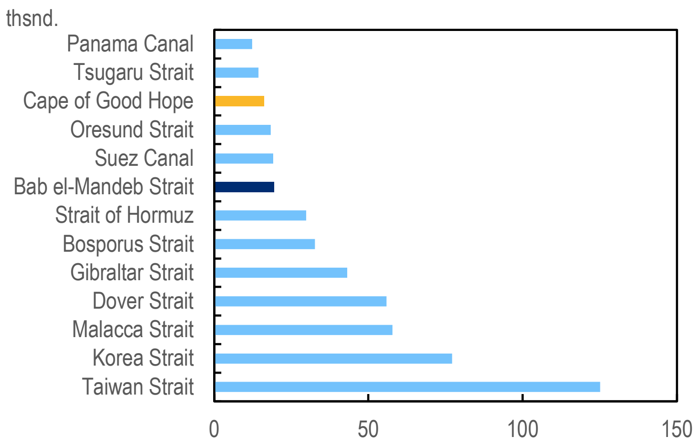
- With rising geopolitical tensions in the region, all eyes are once again on the GCC countries, which account for around 25% of the world's crude output.
- The emergence of proxy battles across the region since the outbreak of the Israel-Hamas conflict has stimulated much discussion on the possibility of a substantive upside in oil prices and a major disruption in commerce, including Arabian Gulf oil exports.
- Disruptions in the Red Sea emerge as another pertinent issue further complicating the multifaceted challenges in the Middle East region.
- The resulting shipping disruptions may have important ramifications for the Gulf states. For instance, Qatar, which accounts for one-fifth of global LNG supplies, and the UAE transport their LNG through the Strait of Hormuz.
- The above-noted deliveries from these countries to Europe normally go through the Red Sea and the Suez Canal. Following the recent developments, however, there is evidence suggesting that such cargos that are bounded for Europe have started opting for the longer Cape of Good Hope route.

Middle East Economics - GCC: Navigating the Economic Fallout from Rising Geopolitical Risks

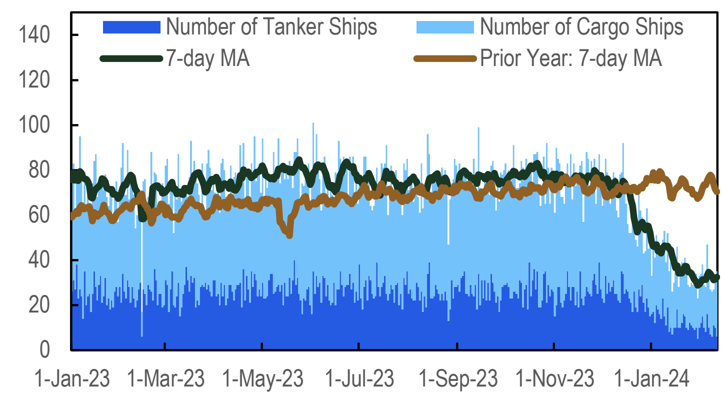
Economic Fallout from Amplified Geopolitical Tensions (II)

Recent developments in the Red Sea region seem to have led commercial vessels to avoid that route. The resulting rerouting may, in turn, have consequences for the duration and the cost of deliveries.

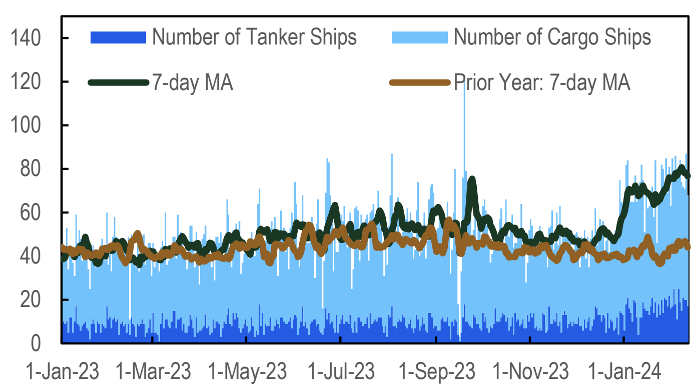
Maritime Choke Points (Avg annual transit calls)



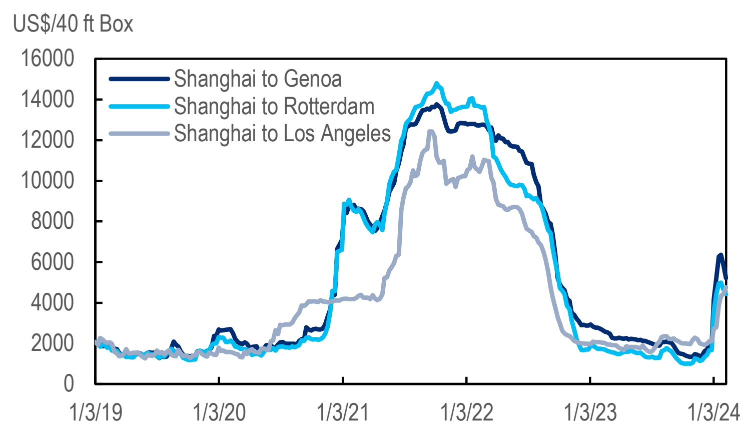
Bab el-Mandeb Strait Daily Transit Calls



Cape of Good Hope Daily Transit Calls

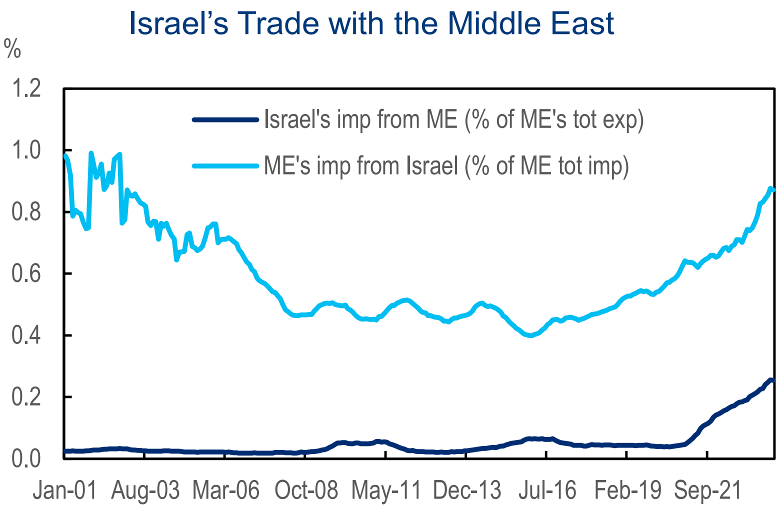


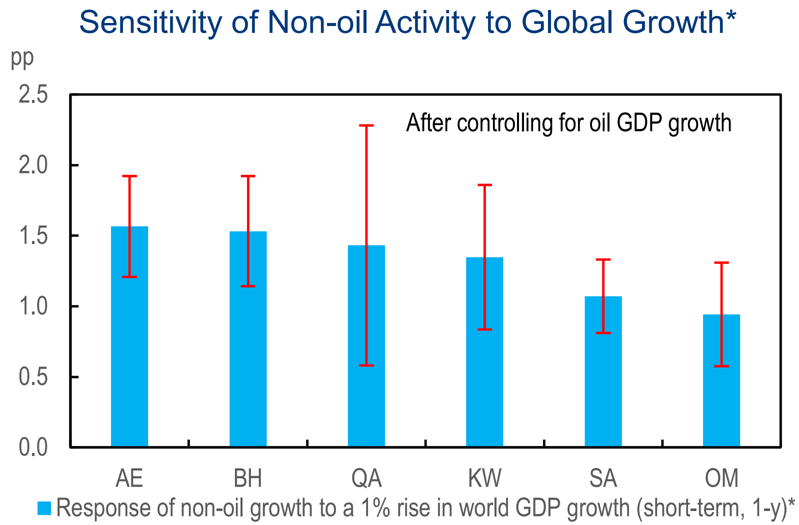
Spot Rates for Ocean Freight*

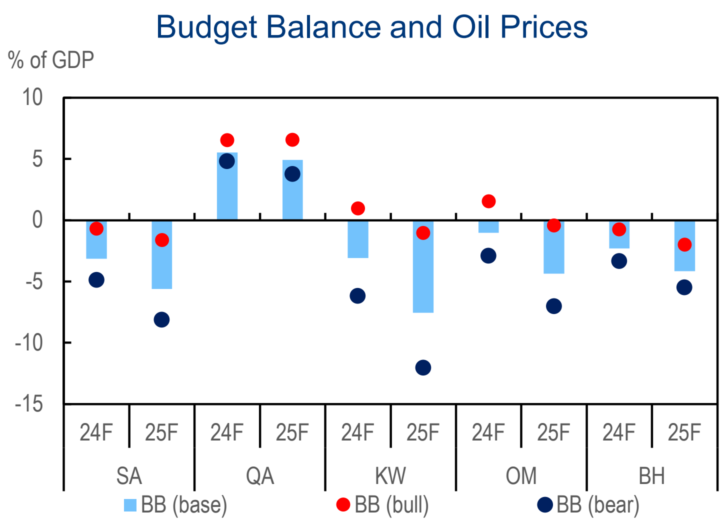


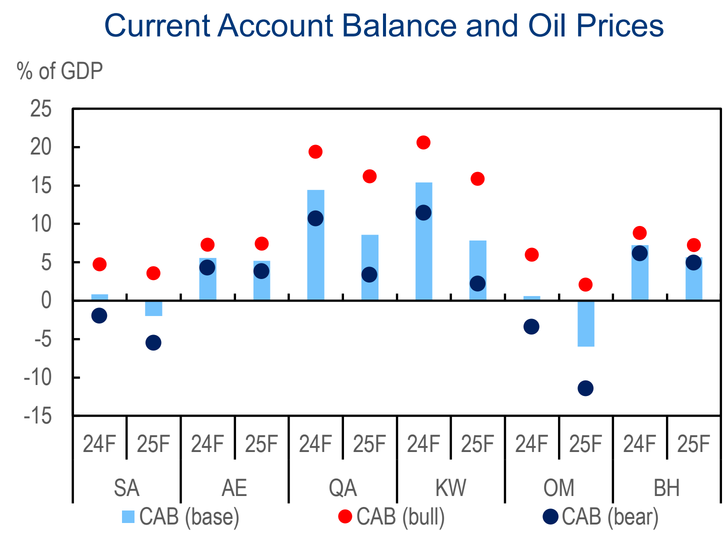
Economic Fallout from Amplified Geopolitical Tensions (III)

To the extent that the current crisis in the Middle East affects global growth, there will be repercussions for non-oil activity in the GCC region in addition to the direct effects associated with oil market developments.









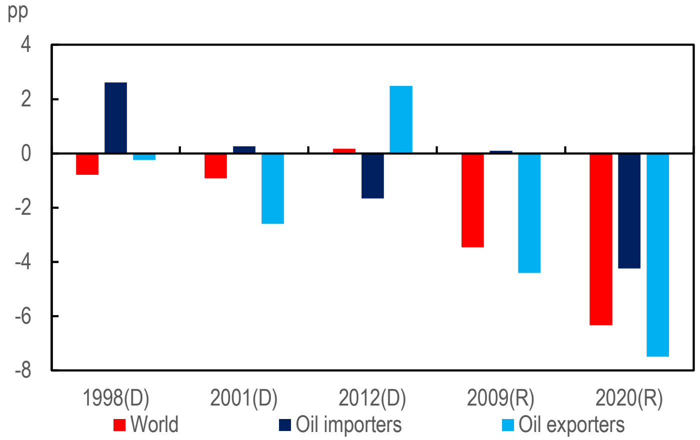
[Middle East Economics - GCC: Navigating the Economic Fallout from Rising Geopolitical Risks]

Main Macroeconomic Themes

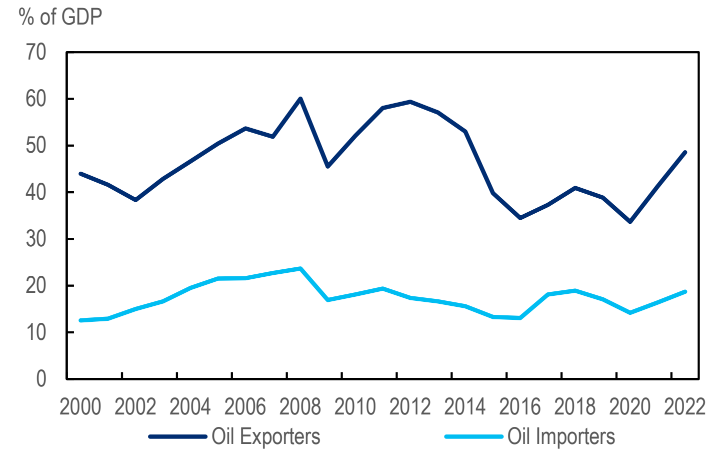
Spillovers from a worsening global backdrop to the GCC (I)

Cursory evidence suggests that the region's oil importers tend to be less affected by global recessions and downturns when compared with oil exporting economies.

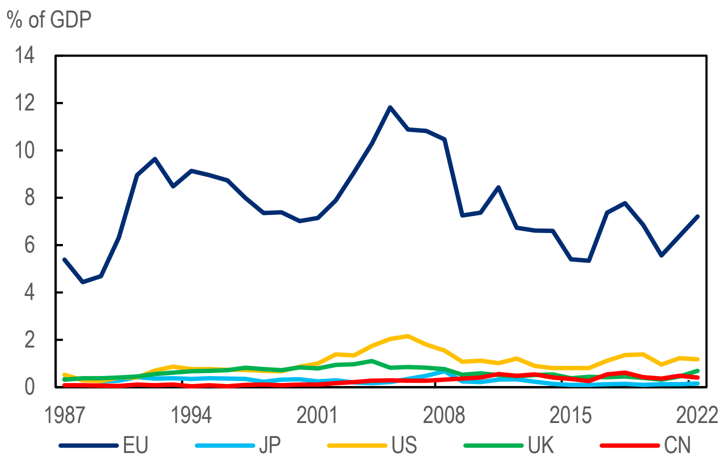
Growth During Global Recessions (R) and Downturns (D)*



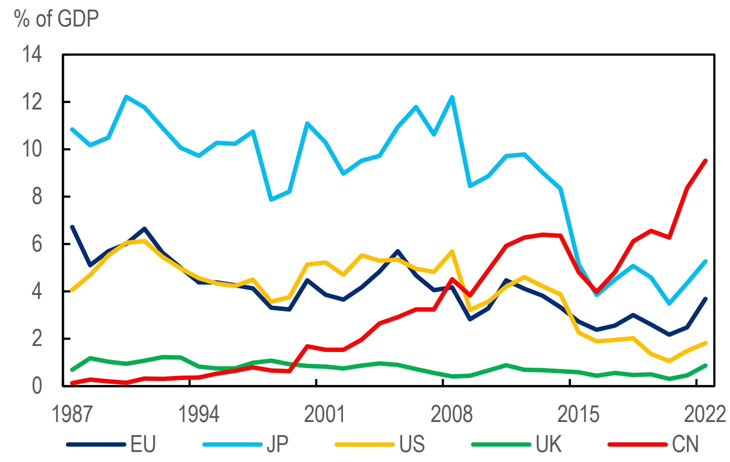
Exports of Goods and Services (% of GDP)



Exports to Selected Countries: Oil Importers



Exports to Selected Countries: Oil Exporters

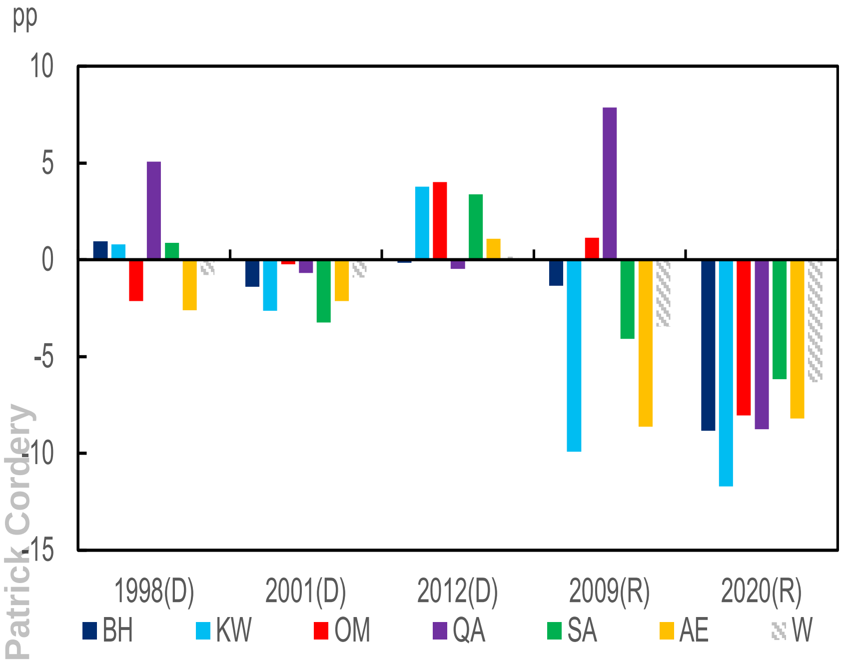


Source: Middle East Economic Outlook: Outlook 2023: Diverging paths amid turbulent challenges. *Deviation from their respective 1980-2021 averages. Our sample for oil exporters includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE, whereas for oil importers we consider Egypt, Jordan, Morocco and Tunisia.

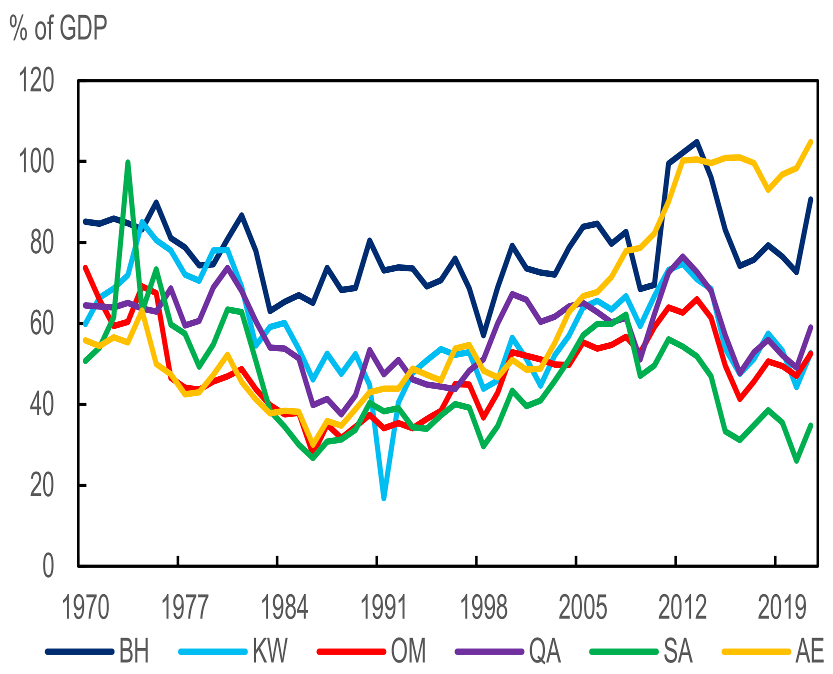
Spillovers from a worsening global backdrop to the GCC (II)

Activity in the GCC region appears to be highly sensitive to global recessions and downturns.

Growth During Global Recessions (R) and Downturns (D)*



Exports of Goods and Services (% of GDP)**

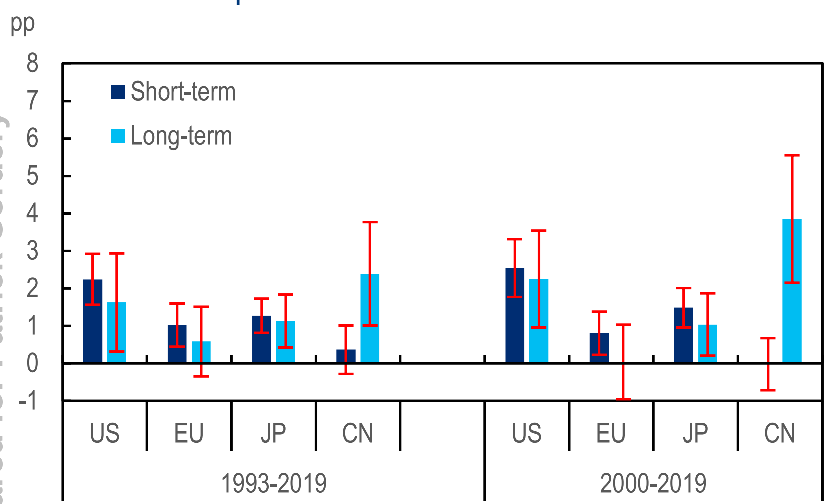


Source: Haver and Citi Research. *Deviation from their respective 1980-2021 averages. **UNCTAD

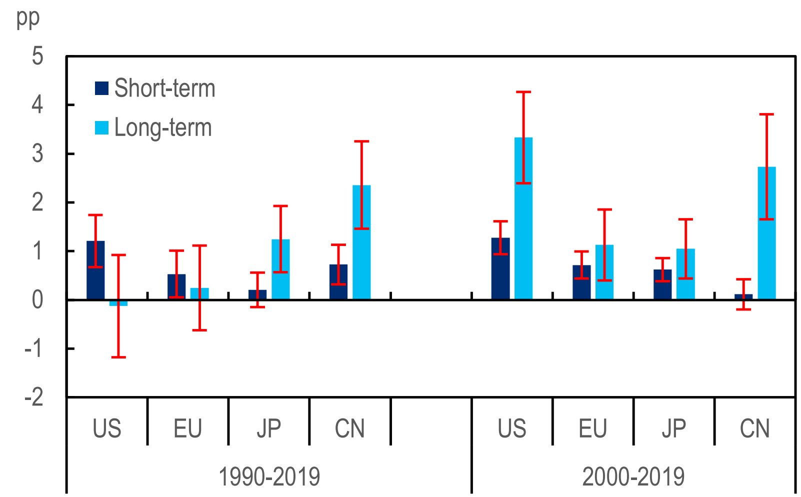
Spillovers from a worsening global backdrop to the GCC (III)

- Spillovers from growth shocks in the US and Japan appear to matter for the Gulf states' export performance in the short run (one-year impact). A 1pp decline in the GDP growth rate in the US and Japan reduces the GCC's exports by 2.5pp and 1.5pp, respectively.
- In the long-run, however, the influence of China's growth on the export performance of the GCC countries stands out, especially in the post-2000 period.
- Economic growth in the GCC seems to be more sensitive to slowdowns in the US, EU and Japan in the post-2000 period. In the long-run, however, our findings demonstrate that growth spillovers from China do matter for economic activity in the GCC region.

Response of XGS to Growth Shocks*



Spillovers from Growth Shocks

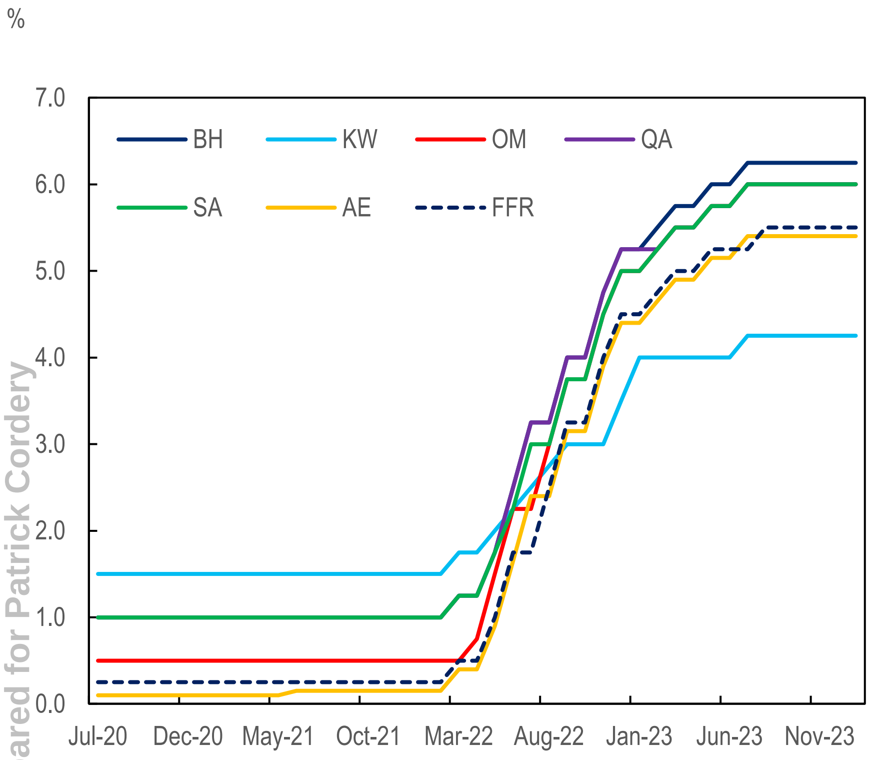


Source: Middle East Economic Outlook: Outlook 2023: Diverging paths amid turbulent challenges. *XGS: Exports of goods and services (real)

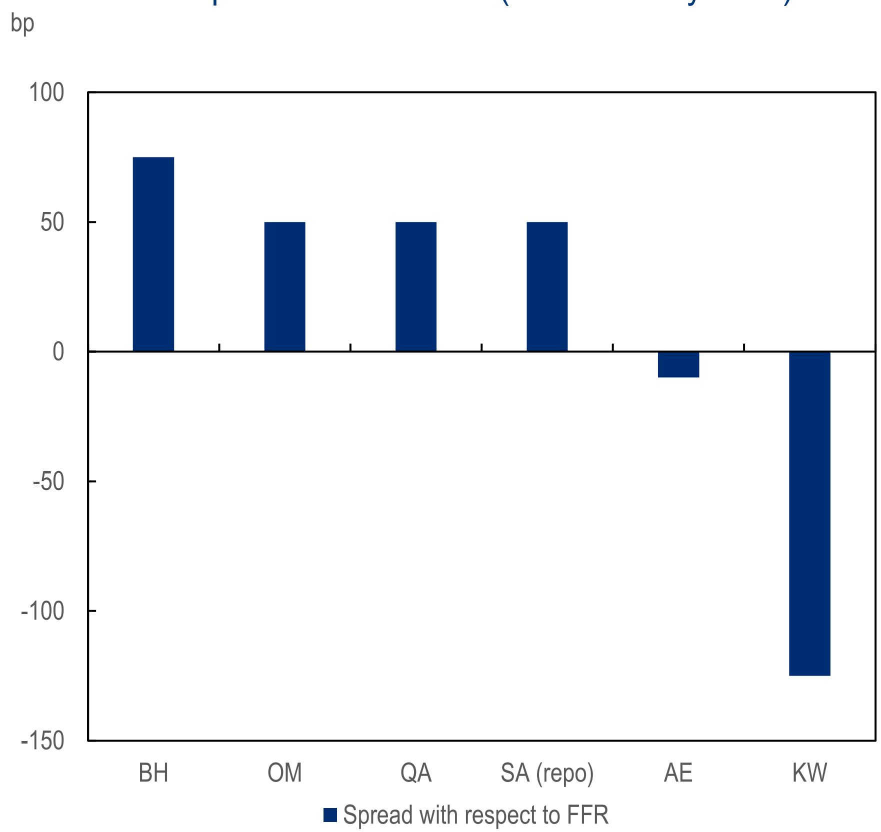
The outlook for the Fed and GCC central banks (I)

On the back of dovish guidance from Fed officials and surprisingly softer core inflation, Citi economists look for the first 25bp Fed rate cut in June as they see the policy rate at 4.25 by the end of 2024. Due to the prevailing exchange rate regime in the region and the openness of GCC capital accounts, monetary policy in the Gulf states cannot substantially deviate from that of the US.

Policy Rates in the GCC Region (%)



Spread vis-à-vis FFR (as of January 2024)

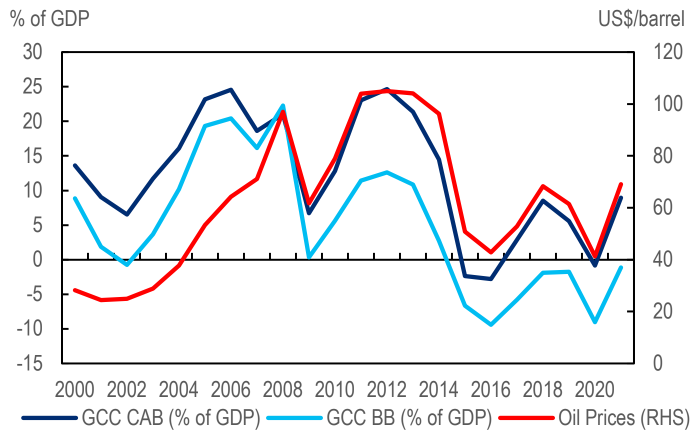


Source: Bloomberg, Haver and Citi Research

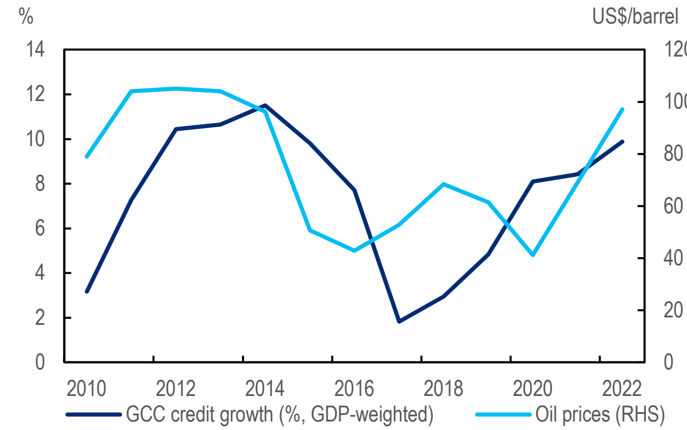
The outlook for the Fed and GCC central banks (II)

There is a strong case for incorporating oil prices when investigating the spillover effects of US monetary policy to the GCC countries. Domestic liquidity conditions, which are influenced by oil prices, are likely to play an important role in affecting the pass-though from policy rates to interbank market rates, with significant implications for lending and deposit rates.

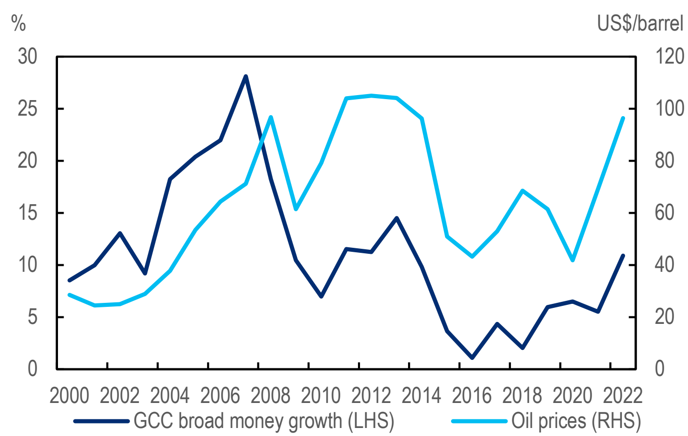
GCC Current Account and Budget Balance



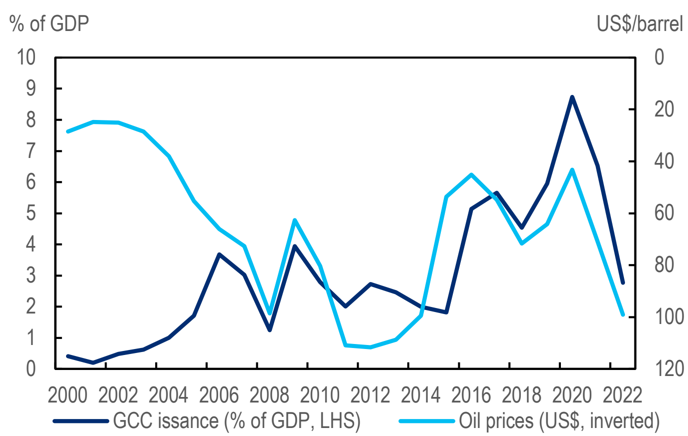
Credit to Private Sector and Oil Prices



GCC Broad Money Growth and Oil Prices



Debt Securities Issued by GCC and Oil Prices



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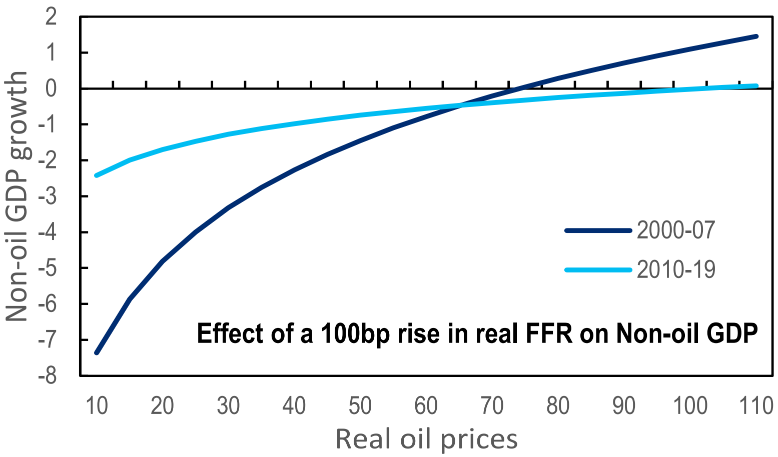
Source: Bloomberg, Haver, IIF and Citi Research. Middle East Economics: The Looming Fed Tightening: What is in store for the GCC?

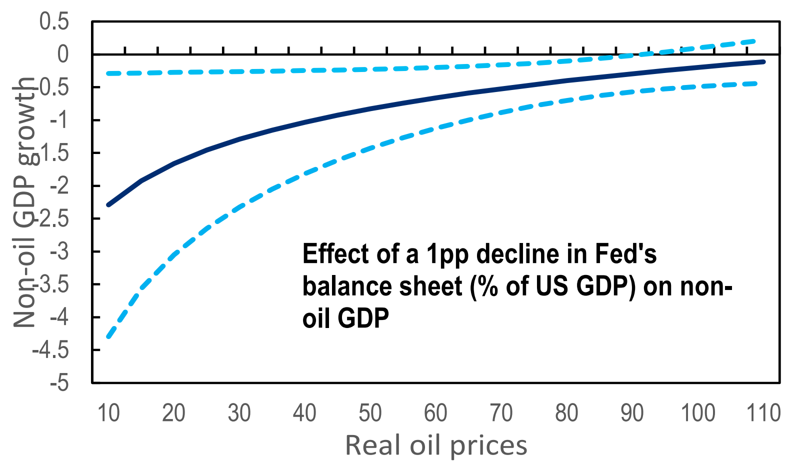
The outlook for the Fed and GCC central banks (III)

- Our empirical findings suggest that oil price-driven liquidity fluctuations play an important role in shaping the impact of the Fed's policy actions on non-oil growth: US monetary policy spillovers tend to be weaker when oil prices are higher.
- At the prevailing level of real oil prices, the findings suggest that the adverse impact of a reduction in the Fed's balance sheet on non-oil activity is likely to be more pertinent for GCC economies.
- Our findings suggest that the estimated impact of a 1pp contraction in the Fed's balance sheet (in relation to US GDP) on non-oil activity is around -0.50pp.

Effect of a 100bp rise in real FFR on Non-oil GDP



Effect of a 1pp Decline in FEDBS on Non-oil GDP (2010-19)*

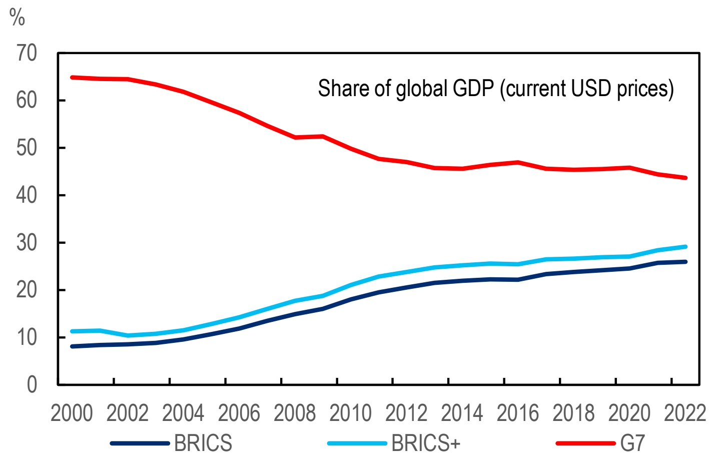


Source: Middle East Economics: The Looming Fed Tightening: What is in store for the GCC? *Dotted lines represent +/-2 SE

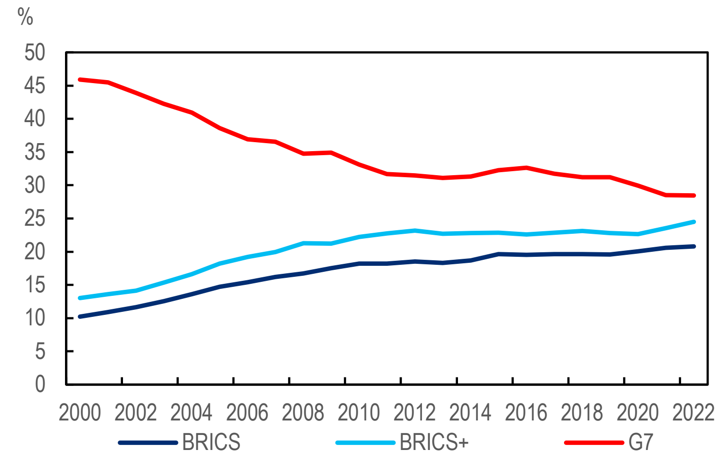
The inclusion of the Gulf's two powerhouses in BRICS (I)

The expanded BRICS would represent about 30% of world GDP and over 45% of the global population, which could enhance the bloc's voice on global economic and political issues. The addition of KSA, the world's top oil exporter, and the UAE, the region's dominant trade hub, to the bloc will bolster their positioning as "middle powers" and provide more financial heft to BRICS.

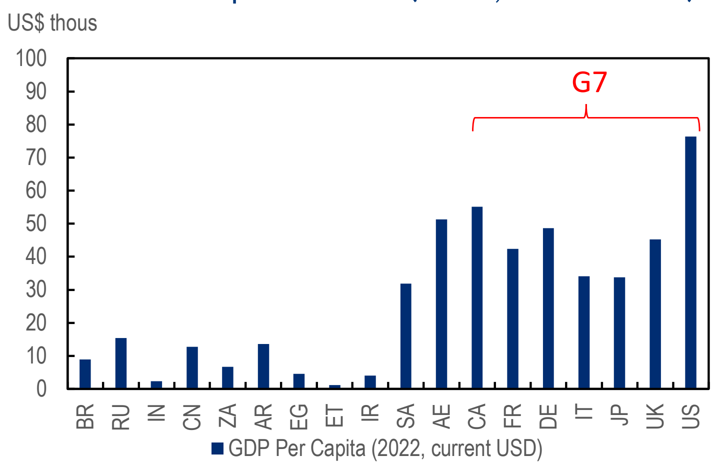
BRICS vs. BRICS+ (% share in world GDP)*



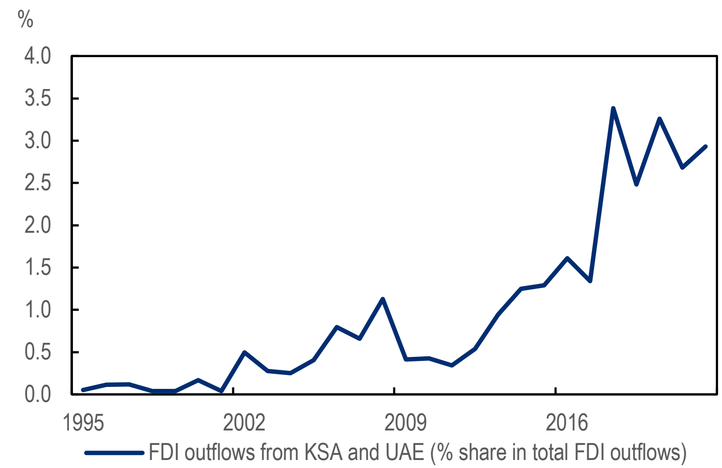
BRICS vs. BRICS+ (% share in global exports)



GDP Per Capita Income (2022, current USD)



FDI Outflows from KSA and the UAE (% share in total)



Source: Haver, Citi Research. [Saudi Arabia and UAE Economics: On the inclusion of the Gulf's two powerhouses in BRICS.](#) *BRICS+ includes AR, EG, ET, IR, KSA and UAE.

The inclusion of the Gulf's two powerhouses in BRICS (II)

- The addition of the Gulf's two powerhouses to the BRICS group is likely to have significant geopolitical ramifications.
- Their membership in BRICS could expand their influence in the international order and allow them to strategically hedge against their traditional relations with the West.
- Both Saudi Arabia and the UAE could also use their BRICS platform to address some of the common challenges they face in the region.
- While both KSA and the Emirates have important security relationship with the US, they also have strong commercial ties with America's rivals for global influence, especially China; and
- The presence of long-standing US partners such as KSA and the UAE in the bloc would strengthen the voices of existing members like Brazil and India, which could, in turn, improve the prospects for cooperation with the West.

Trade between BRICS and the Gulf's Two Largest Economies (2022)

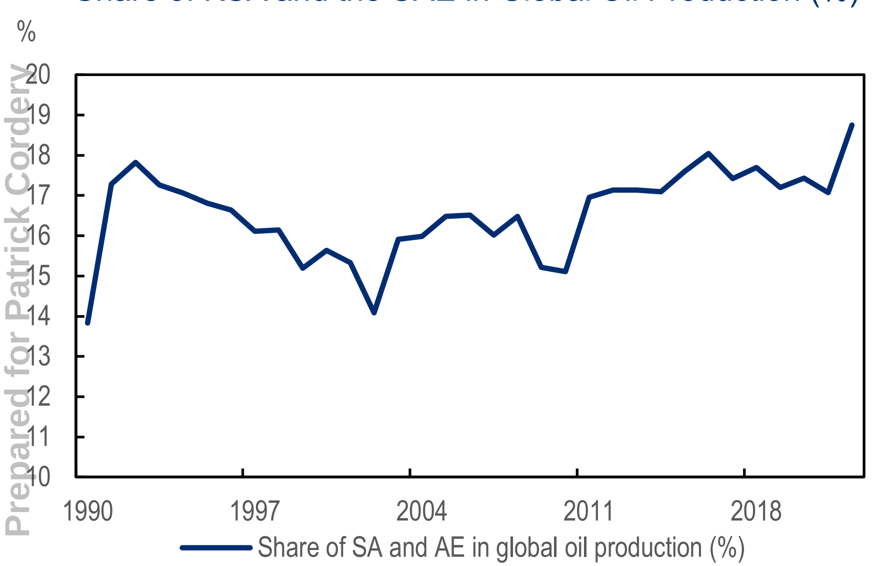
	Brazil		Russia		India		China		South Africa		BRICS	
	X	M	X	M	X	M	X	M	X	M	X	M
US$bn												
SA	5.6	3.3	0.2	1.6	46.2	10.3	77.8	39.1	4.8	1.2	134.6	55.5
AE	2.7	3.9	0.1	4.5	53.8	25.5	45.2	65.5	4.3	4.5	106.0	103.9
Shr in tot (%)												
SA	1.4	1.8	0.0	0.9	11.9	5.6	20.0	21.3	1.2	0.7	34.7	30.2
AE	0.8	1.0	0.0	1.2	15.8	6.7	13.2	17.3	1.3	1.2	31.1	27.5
% of GDP												
SA	0.5	0.3	0.0	0.1	4.2	0.9	7.0	3.5	0.4	0.1	12.2	5.0
AE	0.5	0.8	0.0	0.9	10.6	5.0	8.9	12.9	0.9	0.9	20.9	20.5

Source: Haver, Citi Research. Saudi Arabia and UAE Economics: On the inclusion of the Gulf's two powerhouses in BRICS

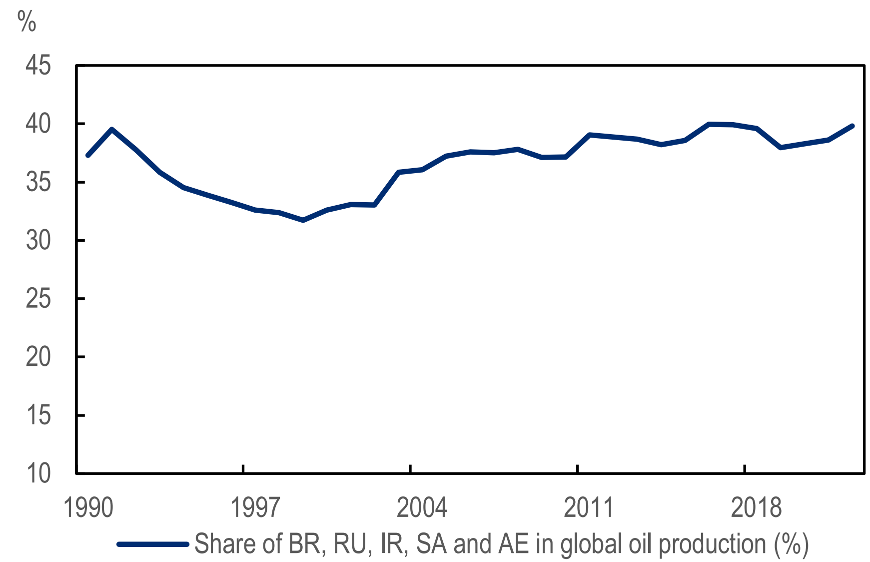
The inclusion of the Gulf's two powerhouses in BRICS (III)

- Saudi Arabia and the UAE are major oil producers, together accounting for about 19% of all global oil production.
- With the inclusion of KSA and the Emirates—along with Iran—in the bloc, the BRICS group would control around 40% of global oil production.
- Their membership in BRICS is likely to strengthen their cooperation with other oil-producing countries in the bloc, such as Russia and Iran, thereby creating a more unified voice in OPEC+.
- By joining BRICS, the Emirates and Saudi Arabia are likely to have more bargaining power and influence in OPEC+, as they will be able to align their interests and strategies with other BRICS members, especially China and India, which, combined, account for 32% and 29% of total exports of KSA and the UAE, respectively.

Share of KSA and the UAE in Global Oil Production (%)



Share of BRICS+ in Global Oil Production (%)



Source: Haver, Citi Research. Saudi Arabia and UAE Economics: On the inclusion of the Gulf's two powerhouses in BRICS

The inclusion of the Gulf's two powerhouses in BRICS (IV)

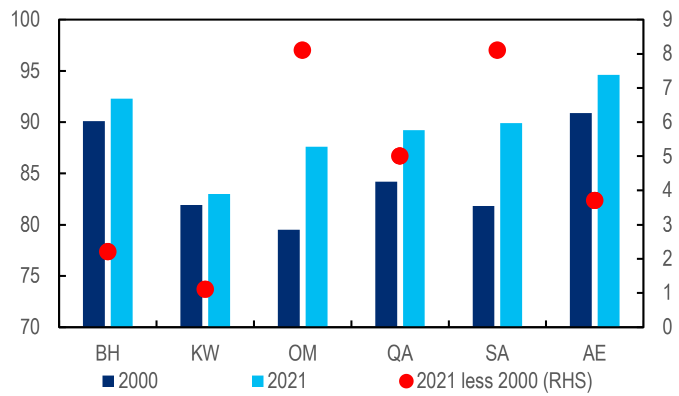
- All in all, the inclusion of Saudi Arabia and the UAE in BRICS is likely to have important implications for the global energy market, the regional security dynamics and the multipolar world order.
- By joining BRICS, Saudi Arabia and the UAE would be in a better position not only to diversify their foreign relations and partnerships, but also expand their markets and opportunities—all of which would support their stepped-up decarbonization efforts.
- Regarding the implications of the addition of KSA and the UAE to BRICS for the de-dollarization debate, we believe that the Gulf states would be willing to explore alternative arrangements involving BRICS members or other regional partners to reduce their reliance on the greenback. Nonetheless, a decisive pivot away from the USD is unlikely in the foreseeable future.

Source: Haver, Citi Research. Saudi Arabia and UAE Economics: On the inclusion of the Gulf's two powerhouses in BRICS

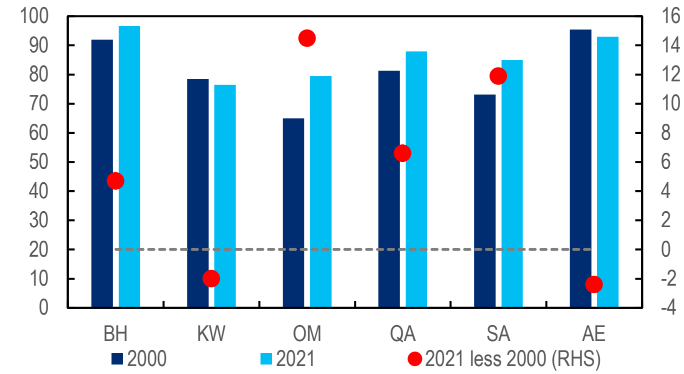
A brief review of the GCC's diversification journey (I)

A quick glance at the Global Economic Diversification Index (EDI) provides a useful scorecard.* While Oman and Kuwait remain among the lowest ranked, the former has implemented reforms and made progress in diversifying its economy, whereas long-running frictions between the executive and legislative branches have stymied economic reforms in the latter. Concurrently, the stagnation of Bahrain's diversification efforts allowed the UAE and the KSA to move up in the EDI ladder.

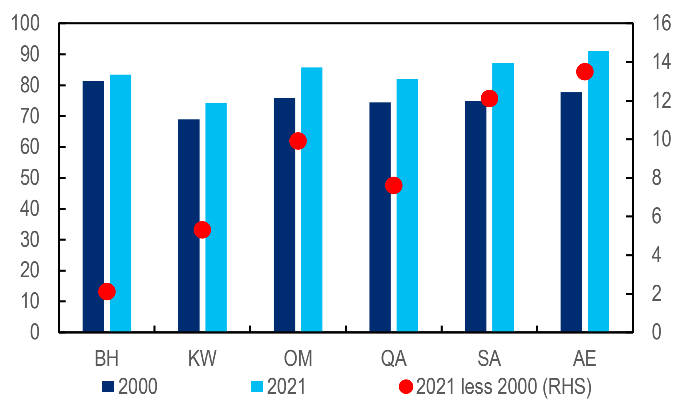
Economic Diversification Index (EDI): 2021 vs. 2000



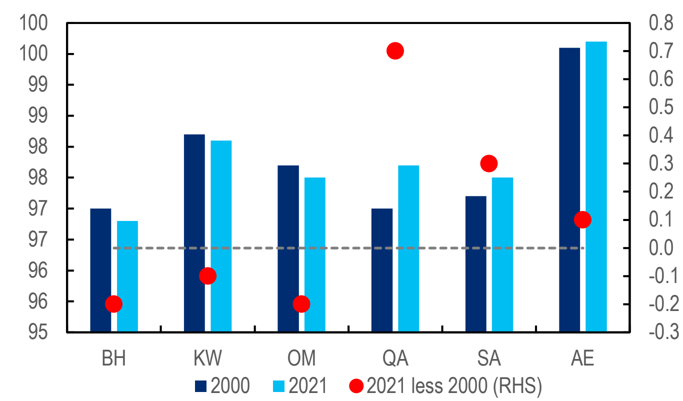
EDI: The Output Sub-component (2021 vs. 2000)



EDI: The Trade Sub-component (2021 vs. 2000)



The Revenue Sub-component (2021 vs. 2000)

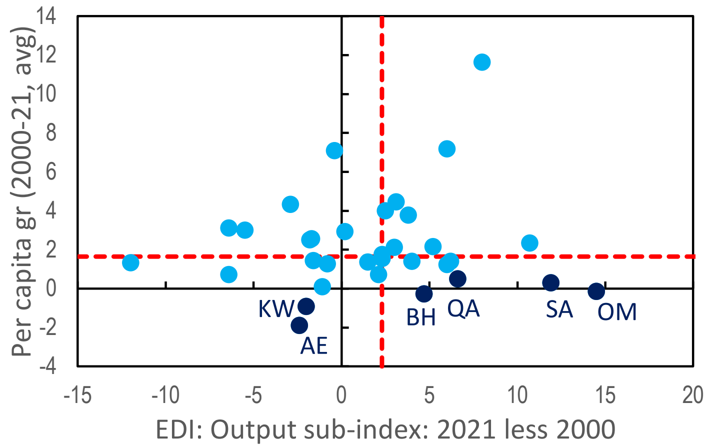


Source: Citi Research Middle East Economics: A Brief Review of the GCC's Diversification Journey *This index quantifies diversification across three areas: output, trade and revenues (Appendix 2)

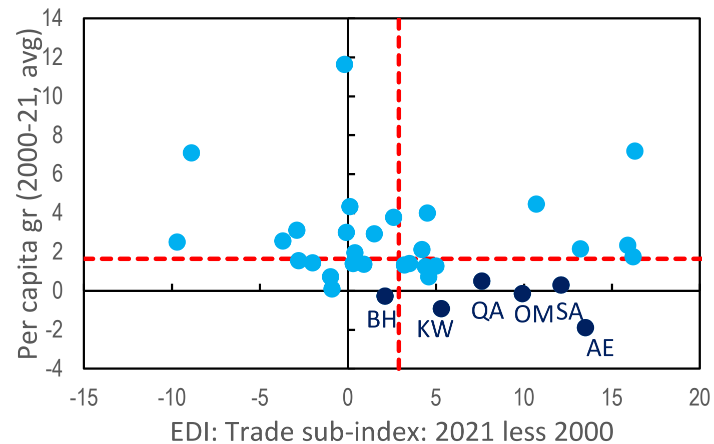
A brief review of the GCC's diversification journey (II)

Despite the encouraging gains in both output and trade diversification, however, the Gulf states have yet to realize commensurate increase in their per capita GDP growth rates.

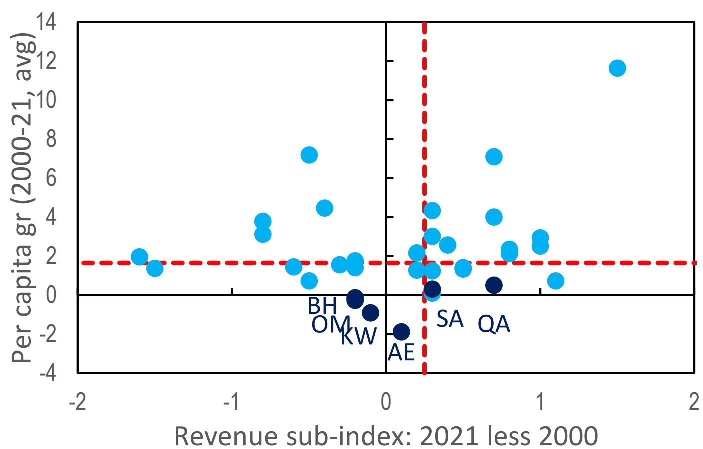
Per Capita GDP Growth and EDI (Output Sub-index)



Per Capita GDP Growth and EDI (Trade Sub-index)



Per Capita GDP Growth and EDI (Revenue Sub-index)



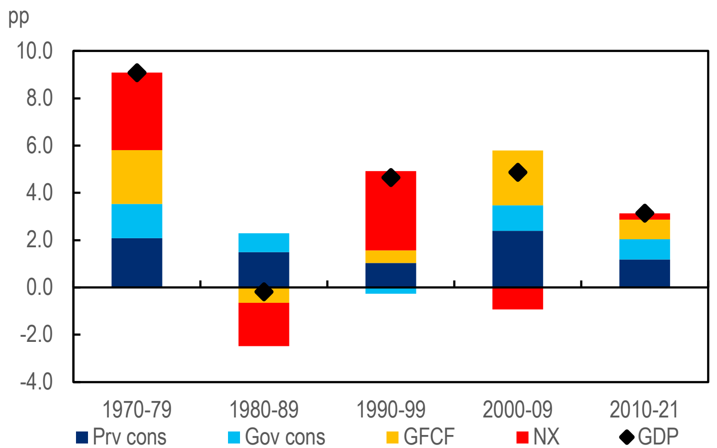
Growth Rate of GDP Per Person Employed (2000-21, pa)*

Source: Middle East Economics: A Brief Review of the GCC's Diversification Journey *Commodity producing countries included in Figures on this slide (2017, PPP)

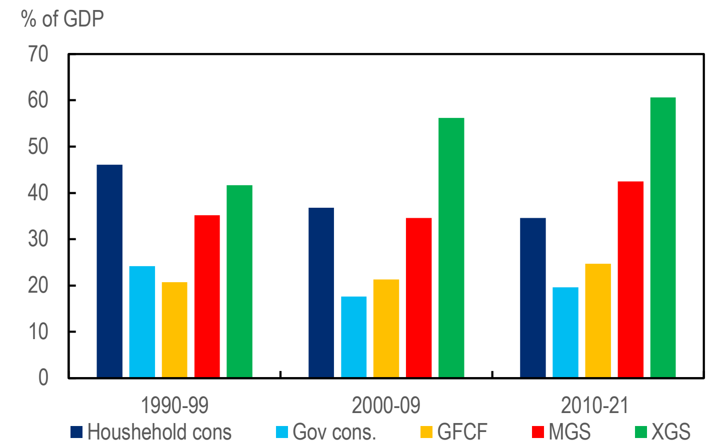
A brief review of the GCC's diversification journey (III)

Most discussions on economic diversification tend to focus on the supply side and the composition of fiscal revenues as well as exports. In natural-resource-rich economies, however, strengthening the link between the sectoral structure of domestic production and domestic demand constitutes one of the most integral components of the diversification process.

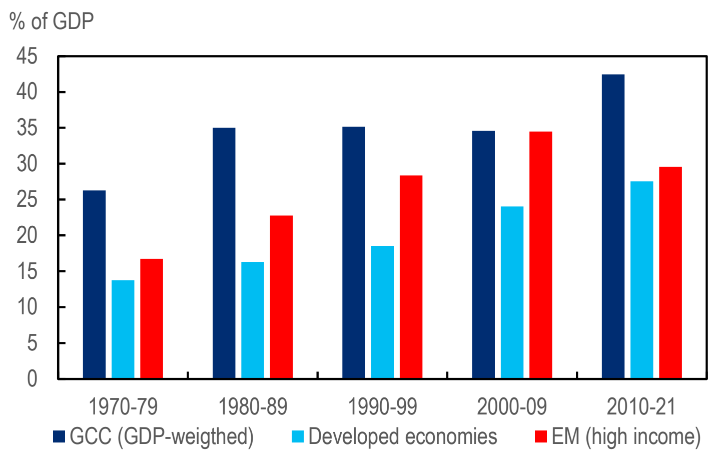
Contribution to GDP Growth (pp, GDP-weighted)



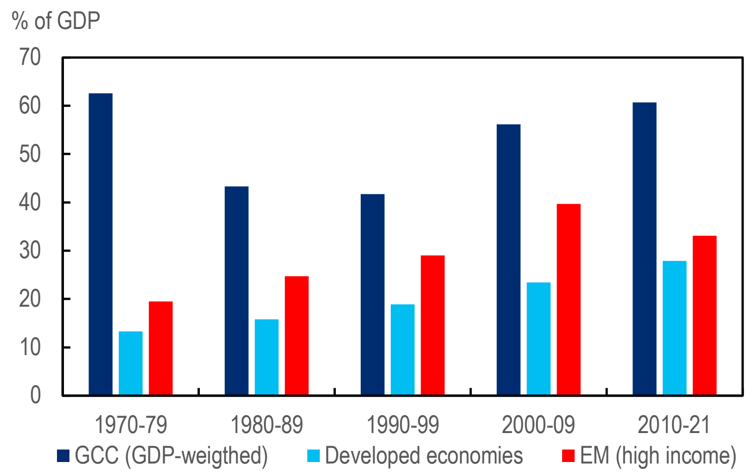
Structure of GDP in the GCC Region (% of GDP)



Imports of Goods and Services: GCC vs. EM and DE



Exports of Goods and Services: GCC vs. EM and DE

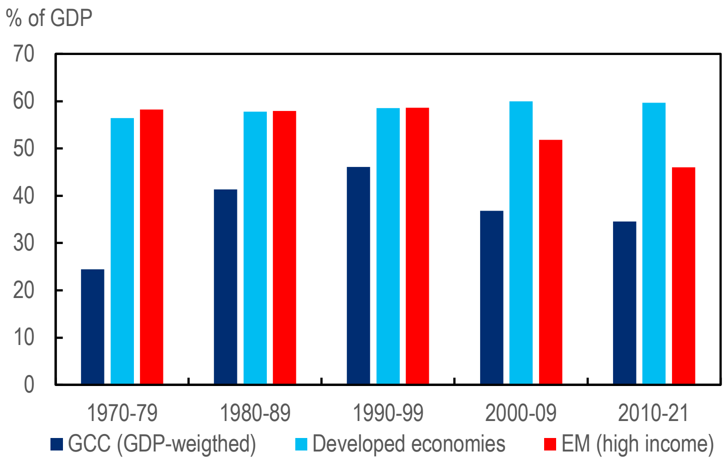


Source: Middle East Economics: What Drives Household Consumption in the GCC?

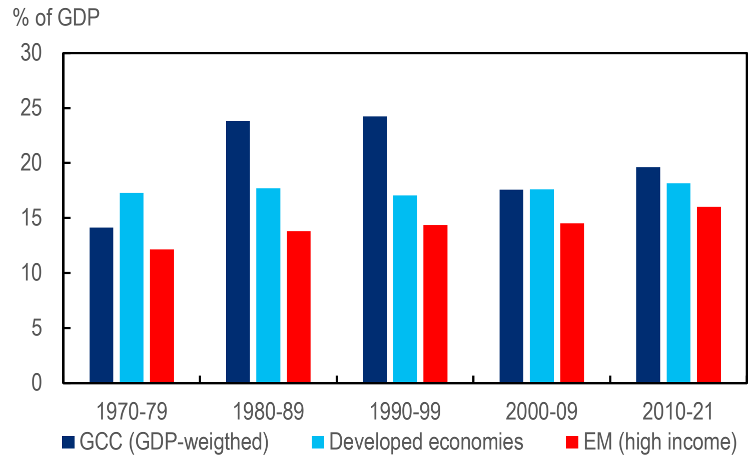
A brief review of the GCC's diversification journey (IV)

Private consumption as a share of GDP in the region is considerably lower than developed economies (DE) and high-income emerging markets (EM), whereas government consumption expenditure as a share of GDP in the GCC is higher than DE and EM.

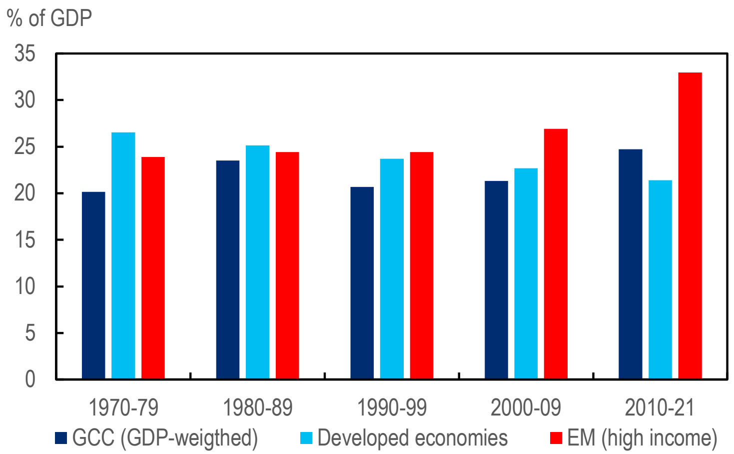
Household Cons. Spending: GCC vs. EM and DE



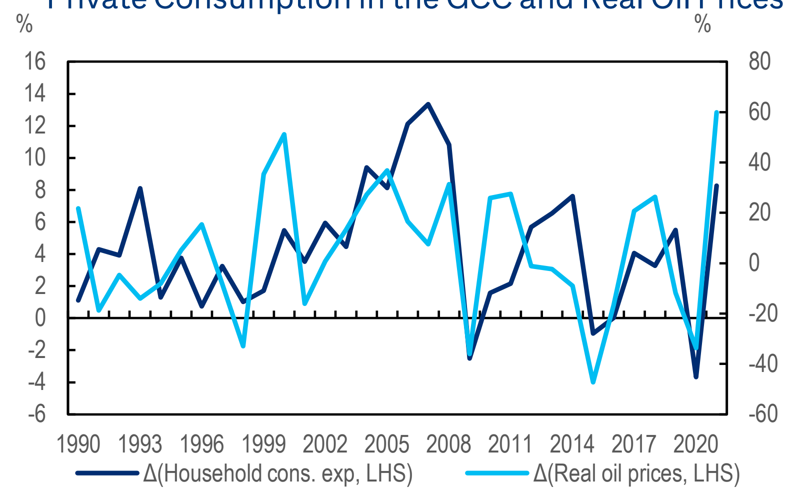
General Gov. Consumption: GCC vs. EM and DE



GCFC: GCC vs. EM and DE



Private Consumption in the GCC and Real Oil Prices

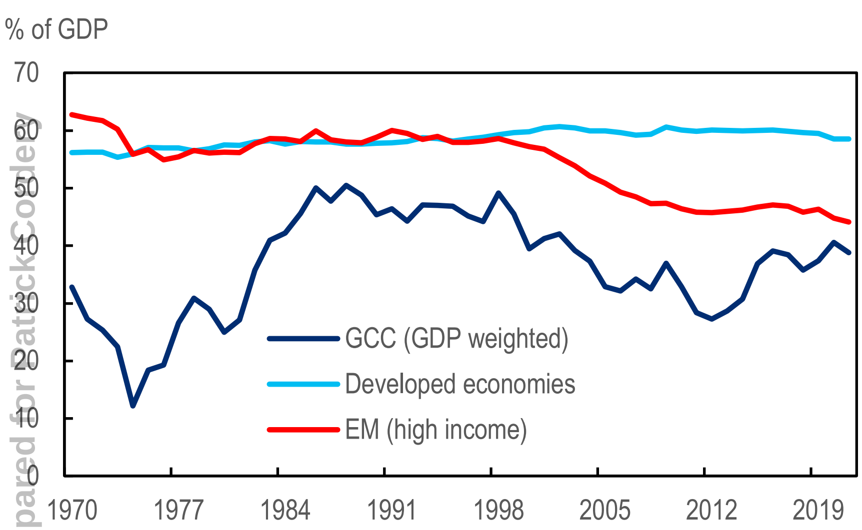


Source: Middle East Economics: What Drives Household Consumption in the GCC?

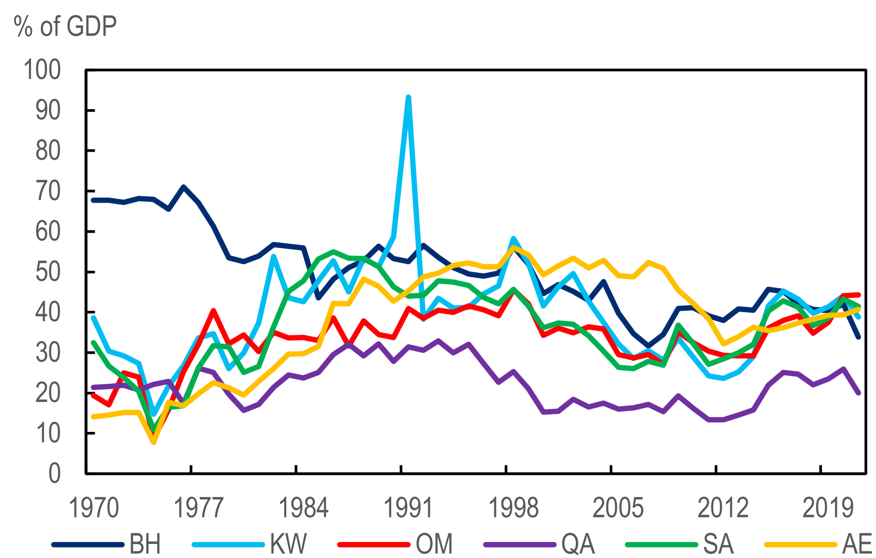
A brief review of the GCC's diversification journey (V)

- An assessment of the composition of domestic demand demonstrates that private consumption as a share of GDP in the region is considerably lower than developed economies and high-income emerging markets.
- Our empirical analysis covering the six GCC nations suggests that the real federal funds rate and real oil prices have a statistically significant effect on household consumption in Bahrain, Saudi Arabia and the UAE.
- On the other hand, the empirical results do not provide strong evidence that oil production plays a significant role in affecting private consumption in the region.

Household Consumption: GCC vs. DE and EM



Household Consumption in BH, KW, OM, QA, SA and AE

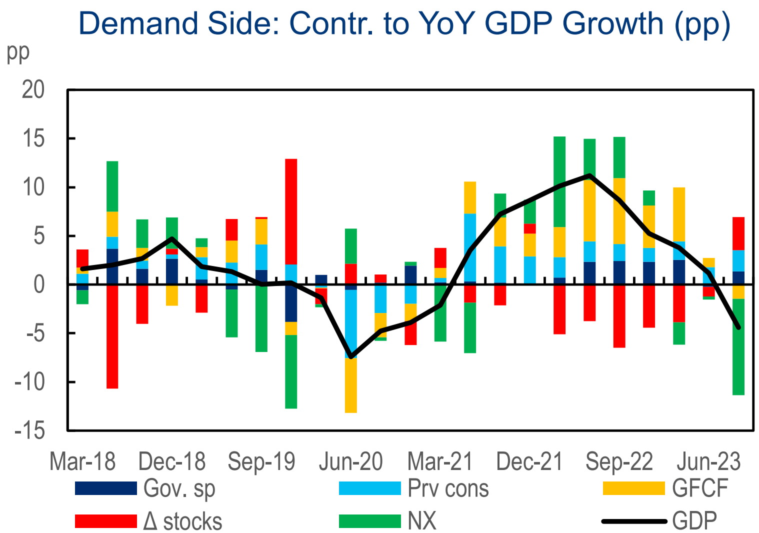


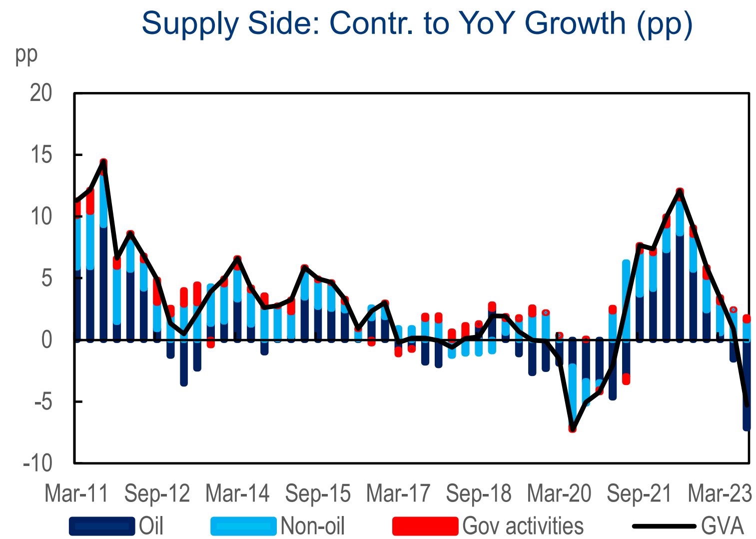
Source: Middle East Economics: What Drives Household Consumption in the GCC?

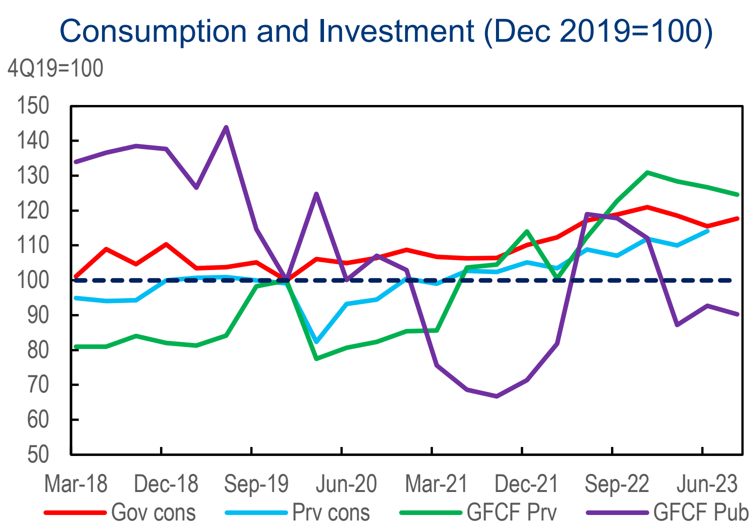
The Near-term Outlook for GCC Economies

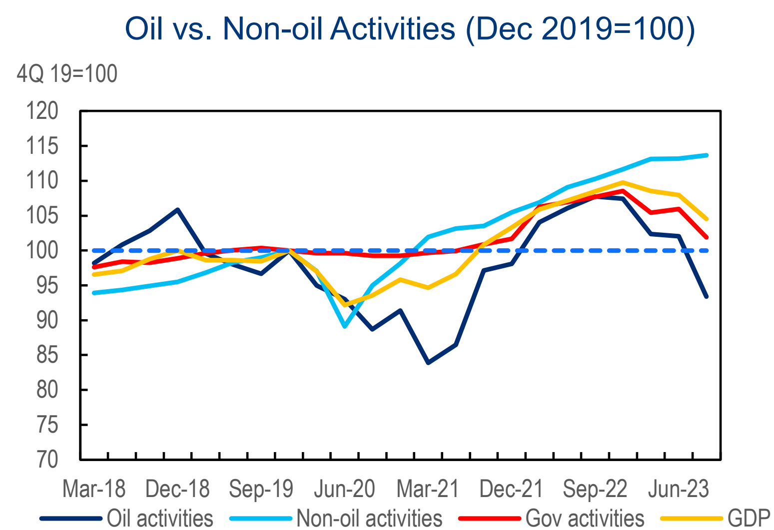
Saudi Arabia (I)

According to flash estimate, the Kingdom's GDP in 4Q shrank by 3.7%YoY %YoY, bringing the contraction for the entire year to 0.9% The noted outcome for 2023 was shaped a 9.2% contraction in oil GDP amid a 4.6% and 4.2% increase in non-oil and government activities.







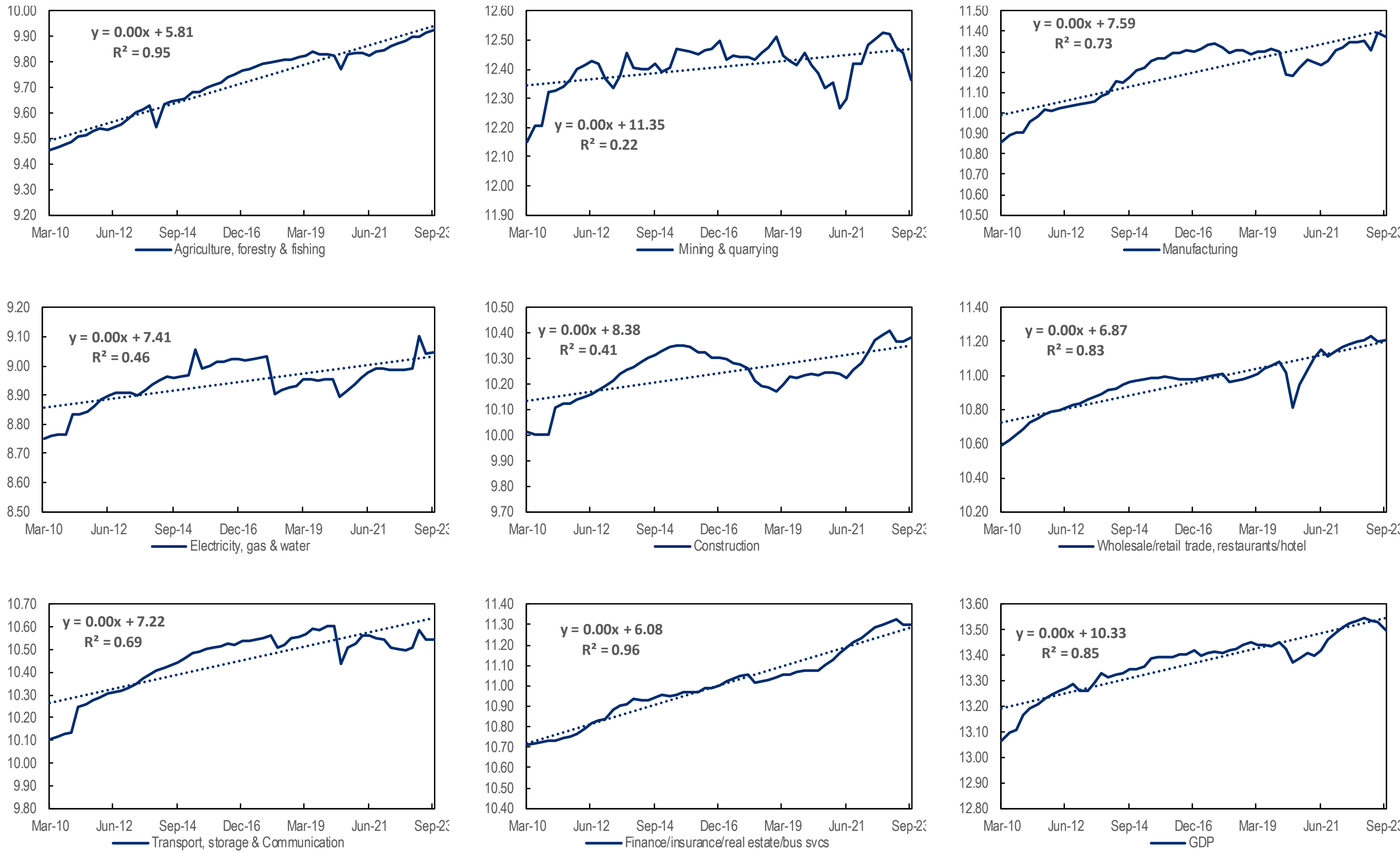


Source: Bloomberg Haver and Citi Research

Saudi Arabia (II)

On the supply side, mining & quarrying and manufacturing sectors seem to be softening amid a pick-up in trade related services and construction activity.

Developments on the Supply Side (in logs)

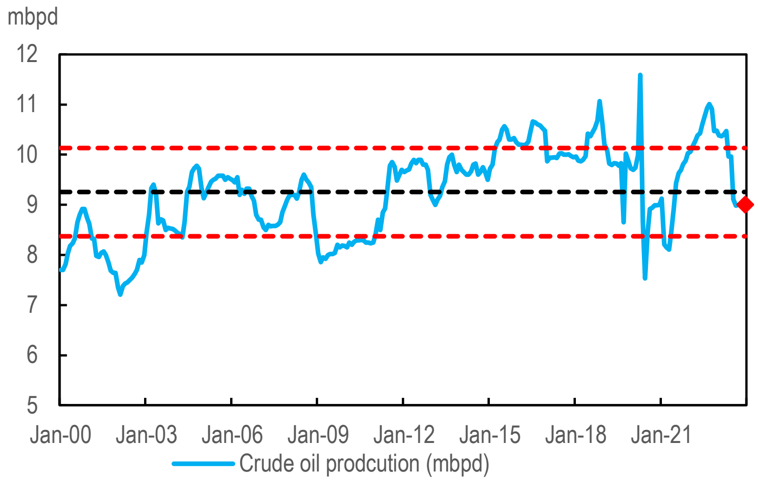


Source: Haver and Citi Research

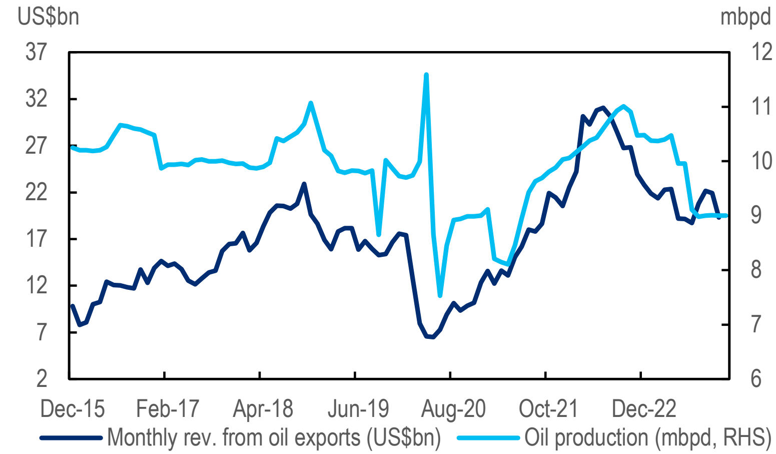
Saudi Arabia (III)

We see oil GDP shrinking this year by about 6.0% after an estimated contraction of 9.2% in 2023. Projected at about 4%, however, non-oil activity is expected to hold up reasonably well this year. Against the noted backdrop, we look for a subdued overall GDP growth of 0.2% in 2024.

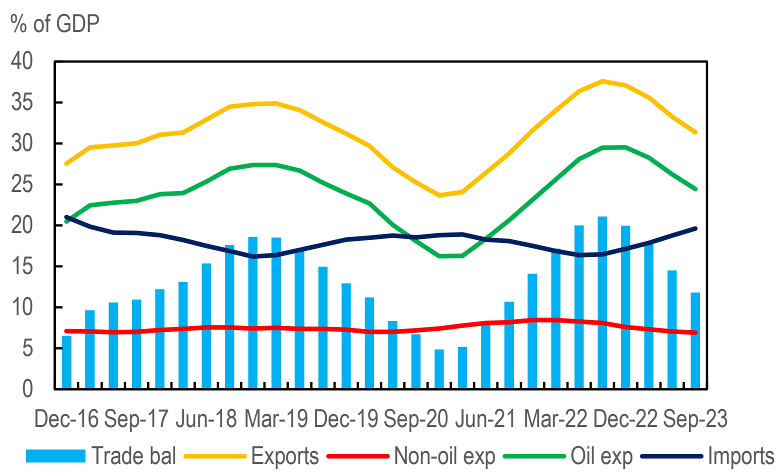
Oil Production (mbpd)



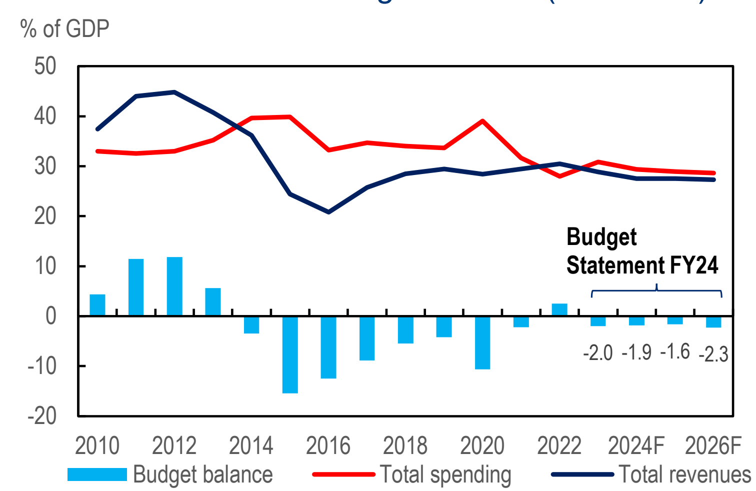
Monthly Revenues from Oil Exports (US$bn)



Trade Balance (% of GDP)



Evolution of the Budget Balance(% of GDP)

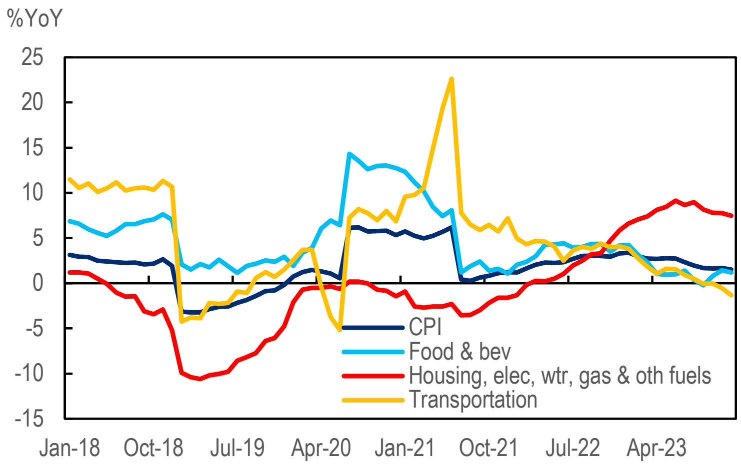


Source: Bloomberg, Haver, KSA MoF (Budget Statement FY2024) and Citi Research

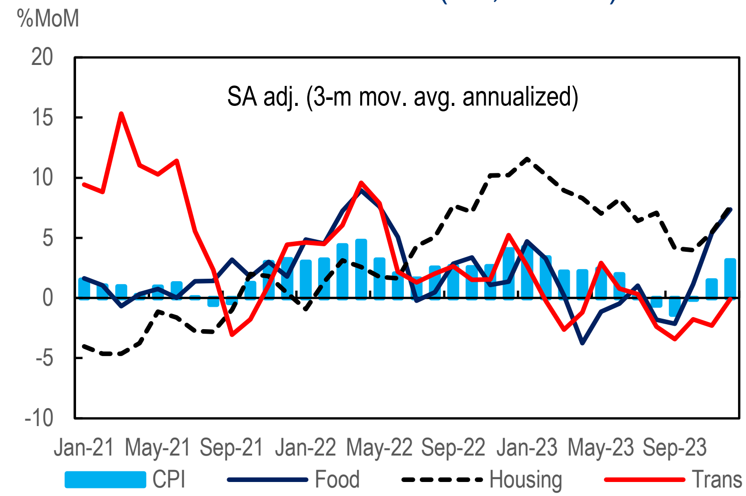
Saudi Arabia (IV)

Inflationary pressures remain subdued despite robust non-oil economic activity. In terms of the momentum of inflation, the housing & utilities component—along with recreation & culture—stands out. We see inflation softening moderately to around 2.0% (pa) this year from 2.3% in 2023.

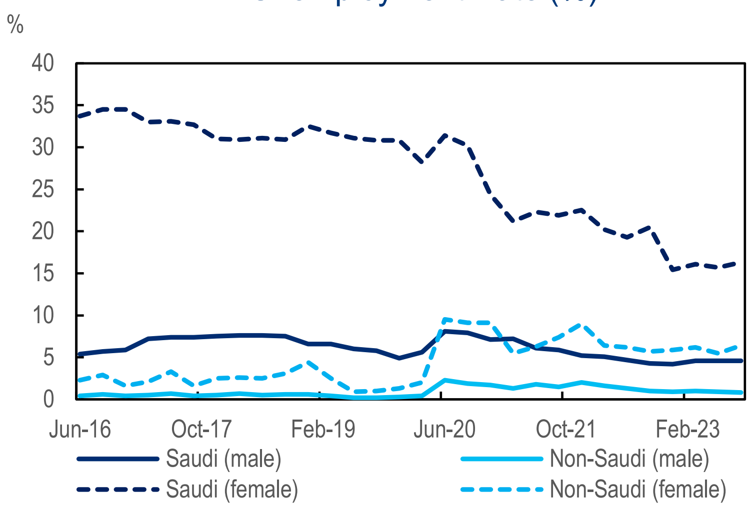
Inflation (%YoY)



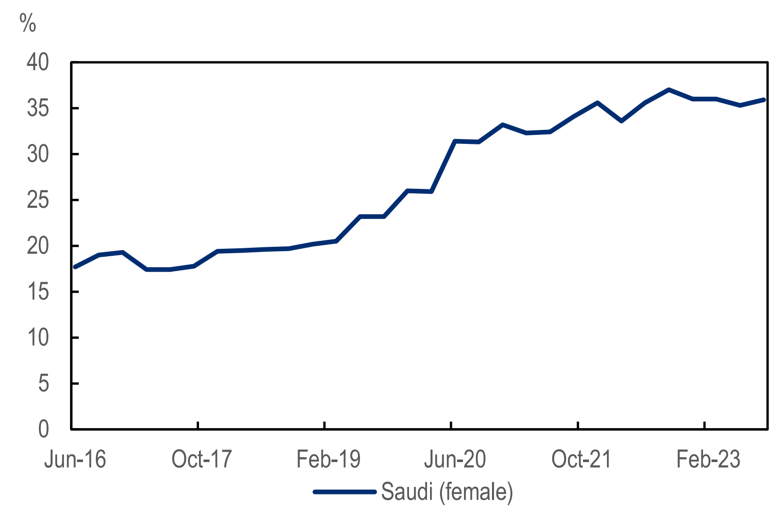
Momentum of Inflation (SA, %MoM)



Unemployment Rate (%)



Female Labor Force Participation

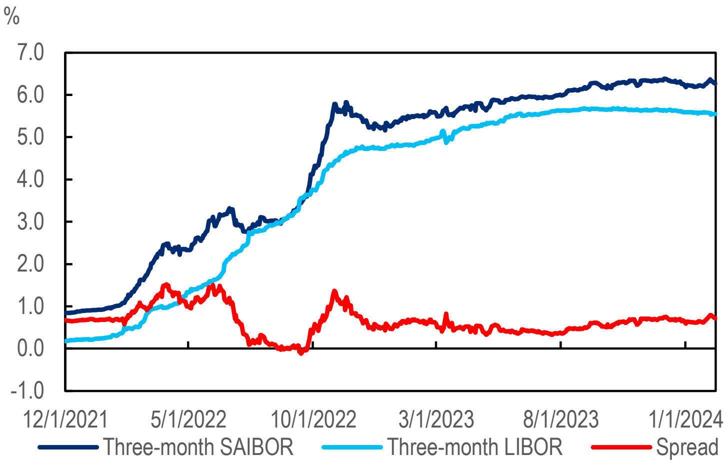


Source: Haver and Citi Research

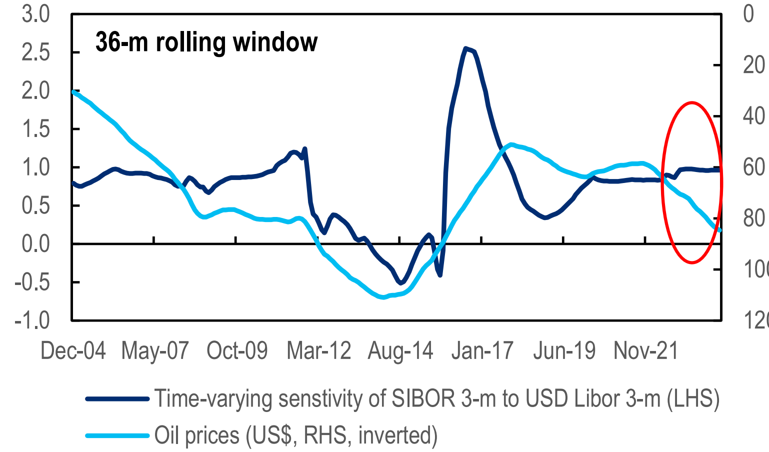
Saudi Arabia (V)

The SAIBOR premium, which is, in part, driven by a rapid rise in lending that has not been matched by deposit growth, has led SAMA to take actions to stabilize liquidity conditions.

Evolution of Three-month SAIBOR and LIBOR

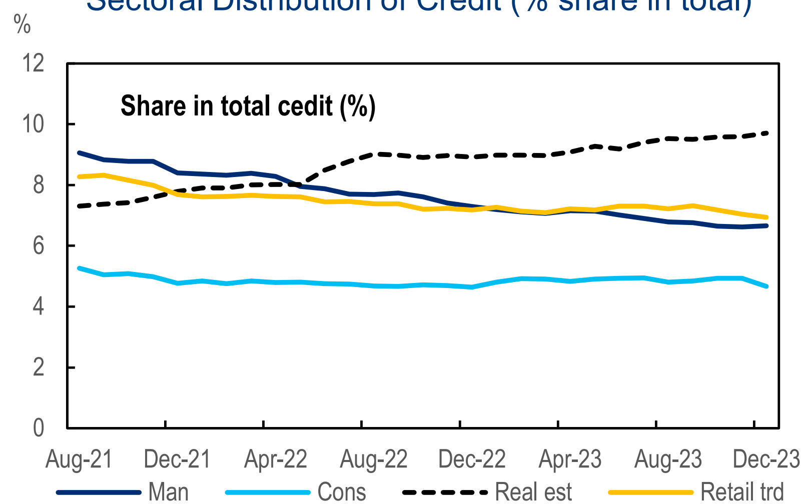


Sensitivity of 3-m SAIBOR to US Rates vs. Oil Prices



Deposits vs Loans (%YoY)

Sectoral Distribution of Credit (% share in total)

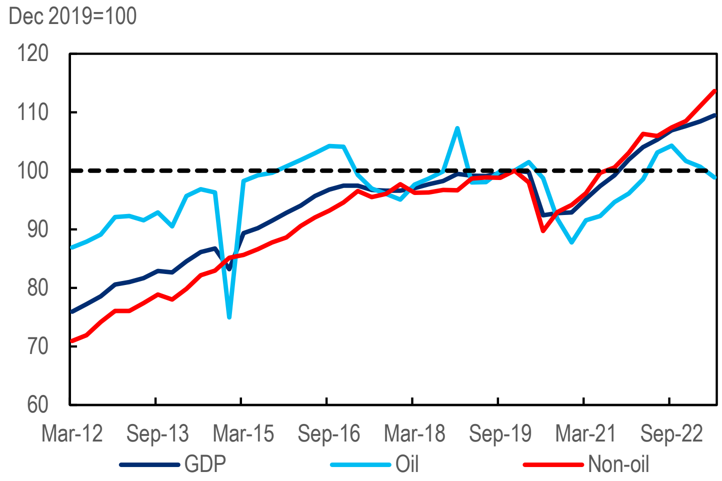


Source: Bloomberg, Haver and Citi Research. Fed Tightening & Saudi Macro/Implications for Banks: Is there Room for RoA Upside/What is Priced In?

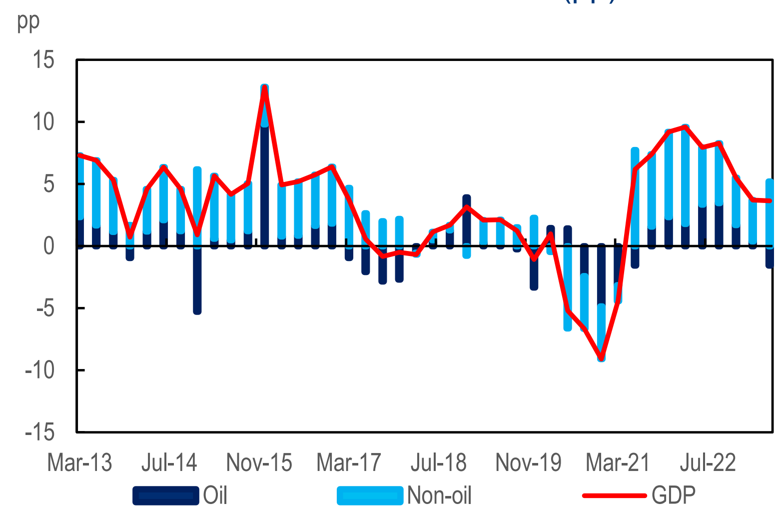
United Arab Emirates (I)

GDP growth in 1H 2023 stood at 3.7%YoY on the back of a 2.2%YoY contraction in hydrocarbon activity and a 5.9%YoY rise in non-oil activity. We see growth decelerating to 3.5% in 2023 from 7.9% in 2022.

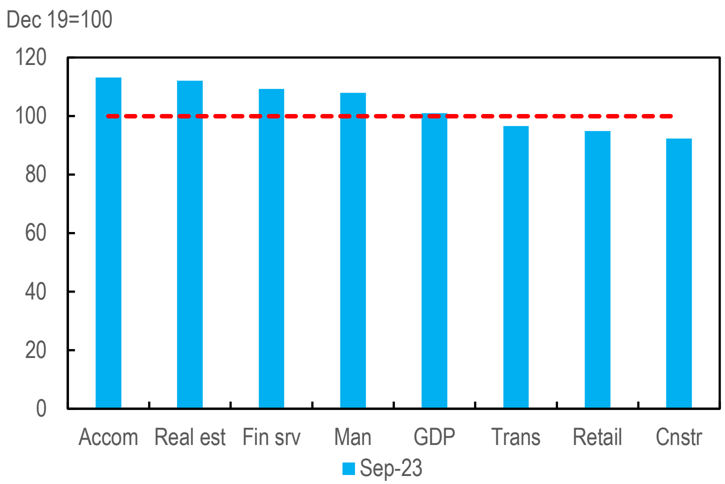
GDP Components (SA, Dec 2019=100)



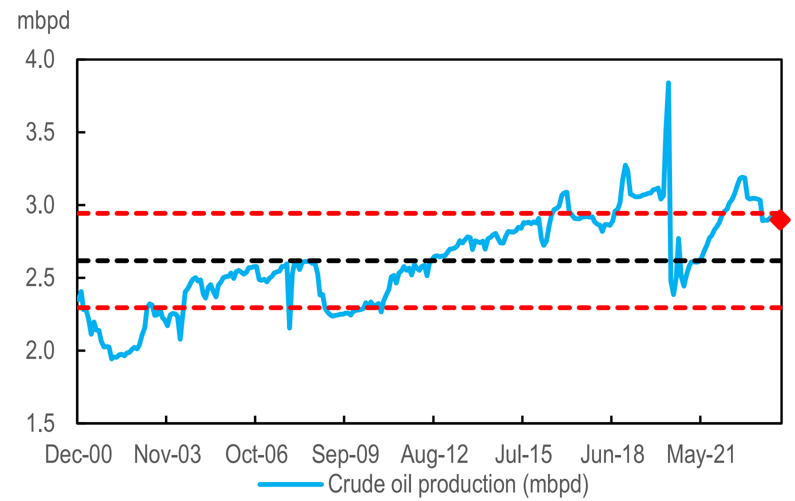
Contribution to GDP Growth (pp)



Dubai GDP: Selected Components (SA, Dec 19=100)



Crude Oil Production (mbpd)



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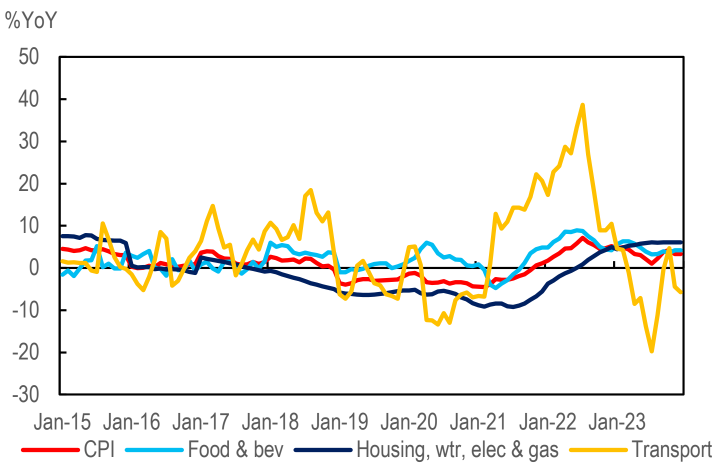
Source: Haver and Citi Research

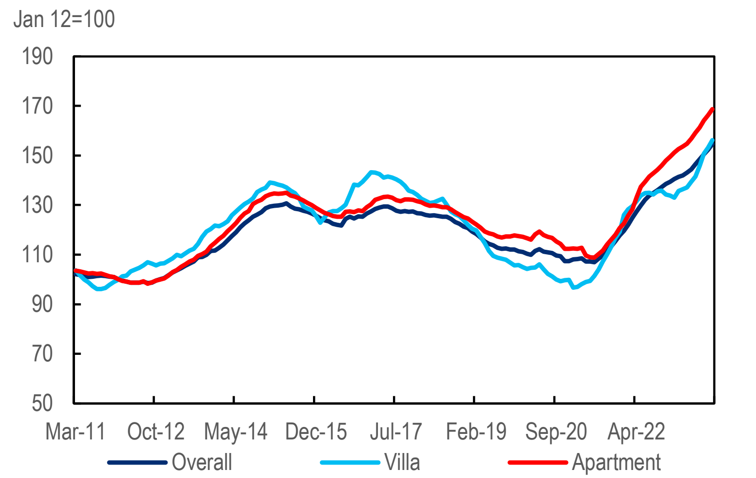
United Arab Emirates (II)

Driven mainly by a sharp rise in transport costs, inflation rose to 4.8% in 2022 from 0.2% in 2021. Looking ahead, inflation is projected to decelerate further to 2.4% this year from about 3.5% (pa) in 2023 and stabilize at around 2.0% over the medium term.

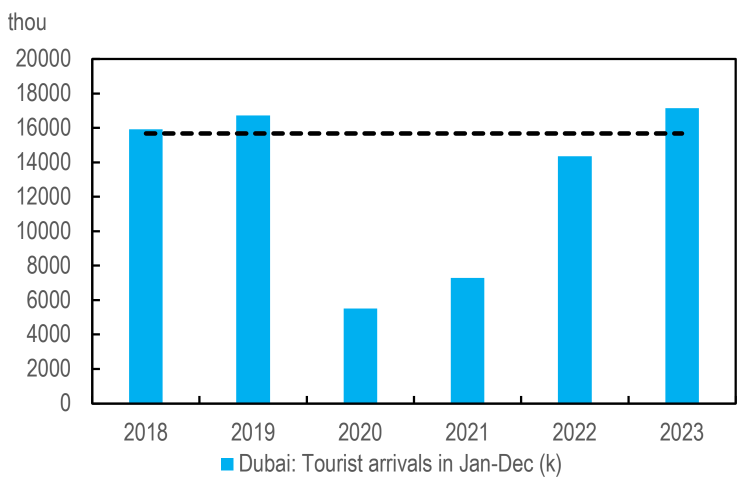
Price Developments: Dubai (%YoY)



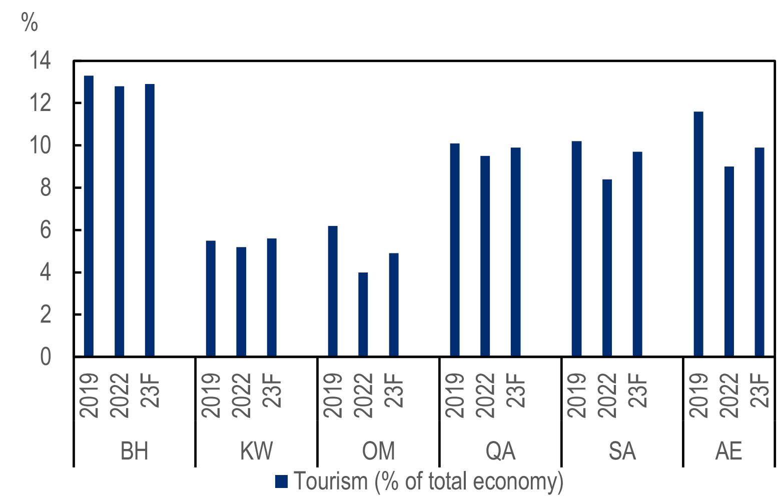
Dubai Residential Sales Price Index (SA, Jan 12=100)



Dubai Tourist Arrivals (thou., Jan-Dec)



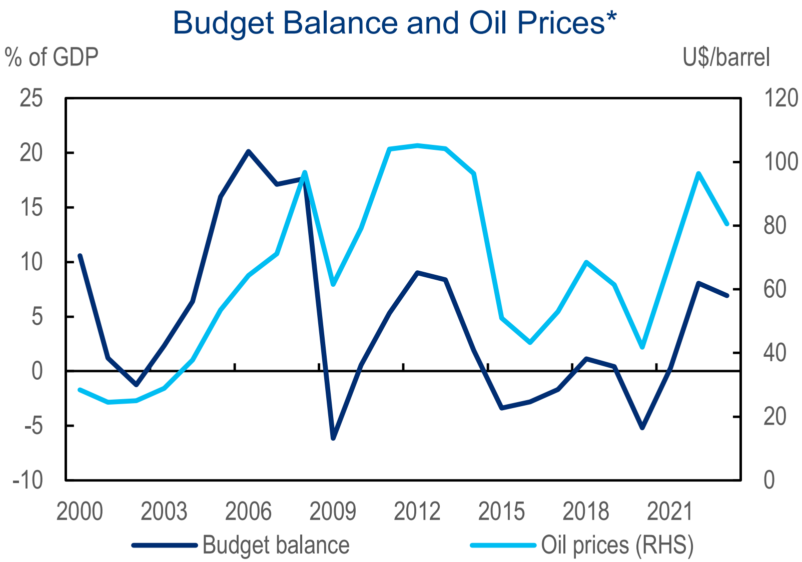
Share of Tourism in the Economy (%)*

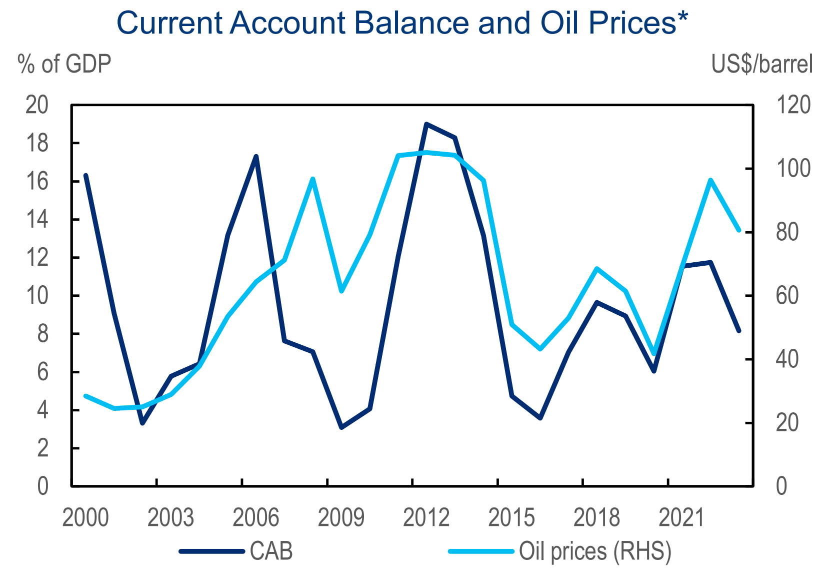


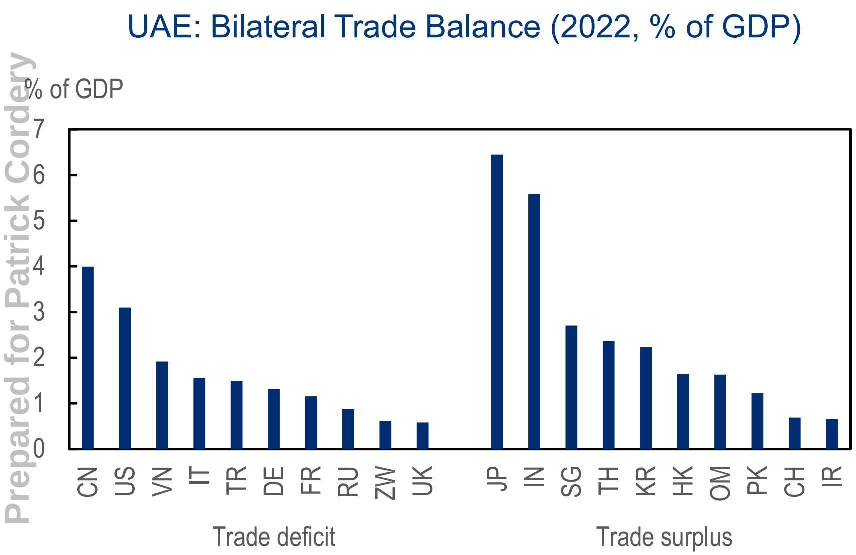
Source: Haver, EY Middle East Hotel Benchmark Survey and Citi Research *World Travel Tourism Council and Citi Research

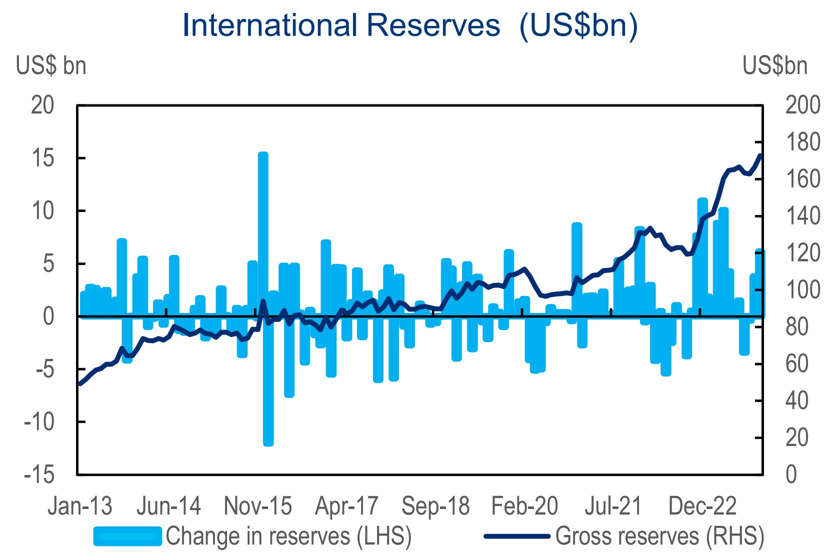
United Arab Emirates (III)

Oil prices continue to play a significant role in shaping fiscal and external performance.







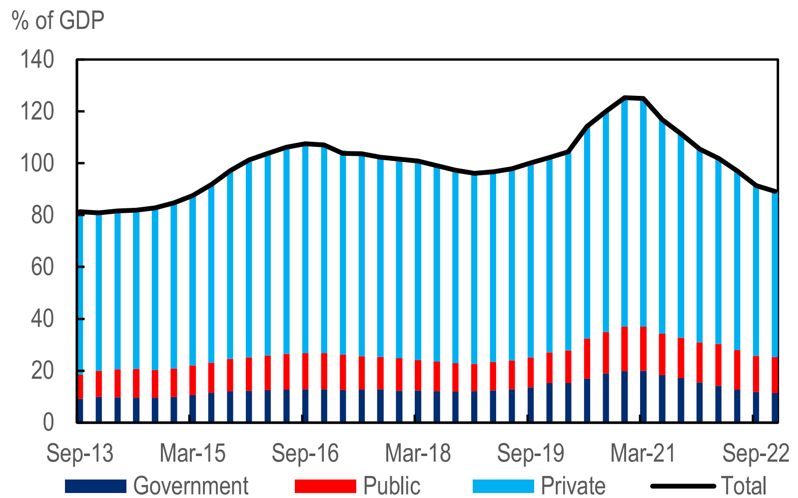


Source: Haver, *IMF and Citi Research

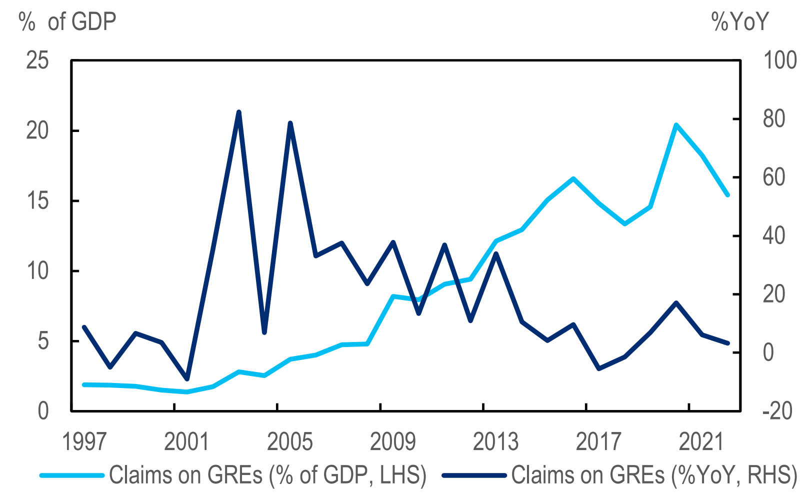
United Arab Emirates (IV)

Credit to the private sector has been holding up amid softer (net) lending to GREs.

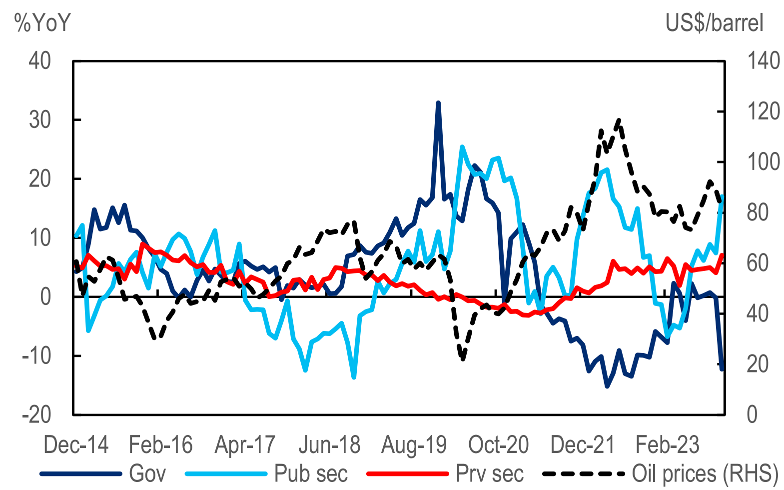
Evolution of Credit (%of GDP)



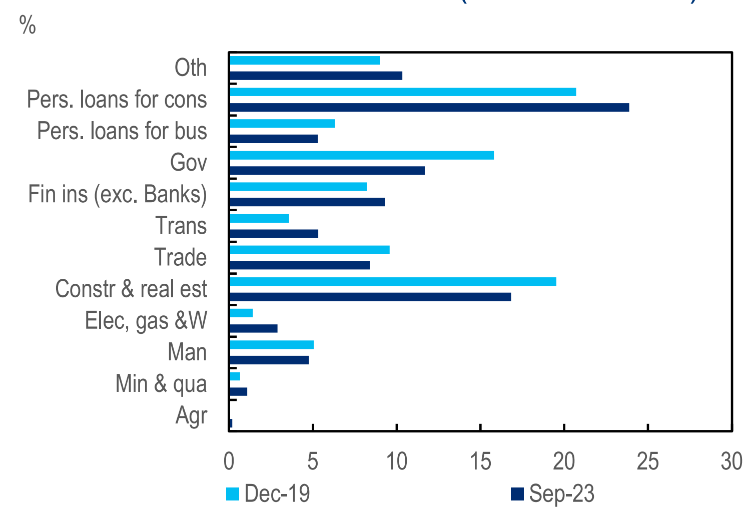
Claims on Gov. Related Entities (GREs)



Lending Activity and Oil Prices



Distribution of Credit (% share in total)

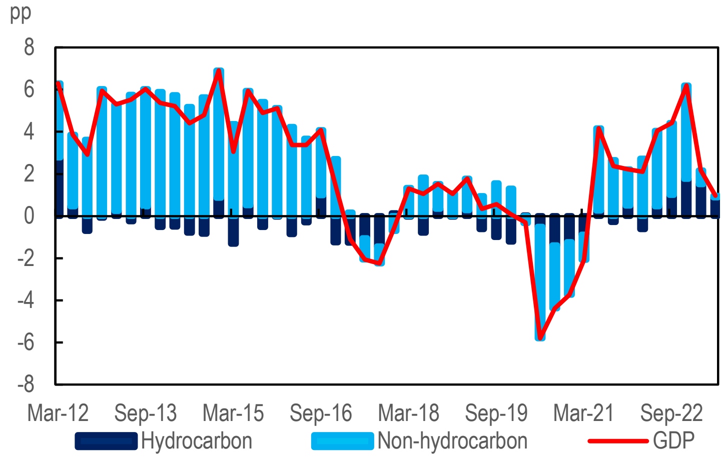


Source: Haver and Citi Research

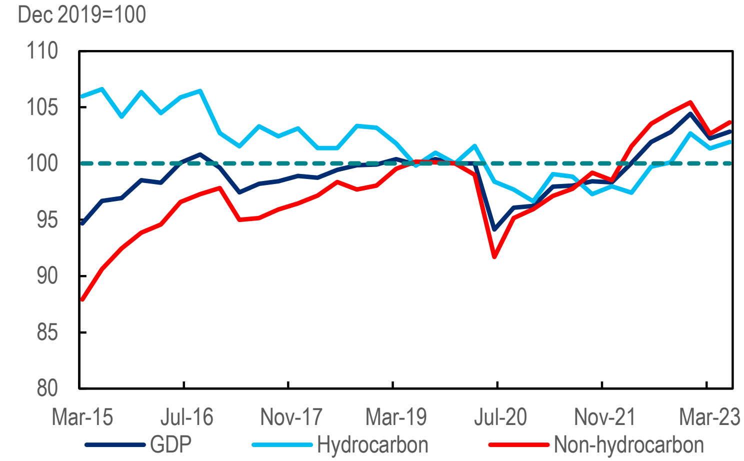
Qatar (I)

GDP growth in 1H 2023 stood at 1.6%YoY. The 1H outturn was shaped by a 3.2%YoY rise and a 0.6%YoY increase in oil and non-oil activity. We expect GDP growth to soften to 2.1% in 2023 from 4.2% in 2022 and look for a moderate acceleration to 2.9% this year.

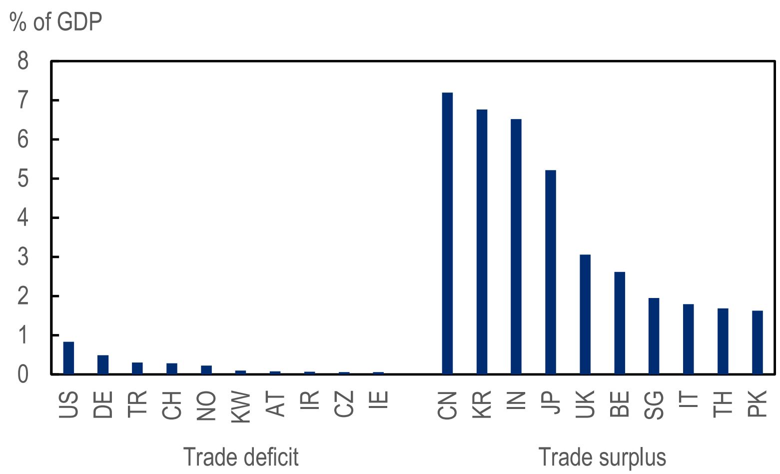
Contributions to YoY GDP Growth



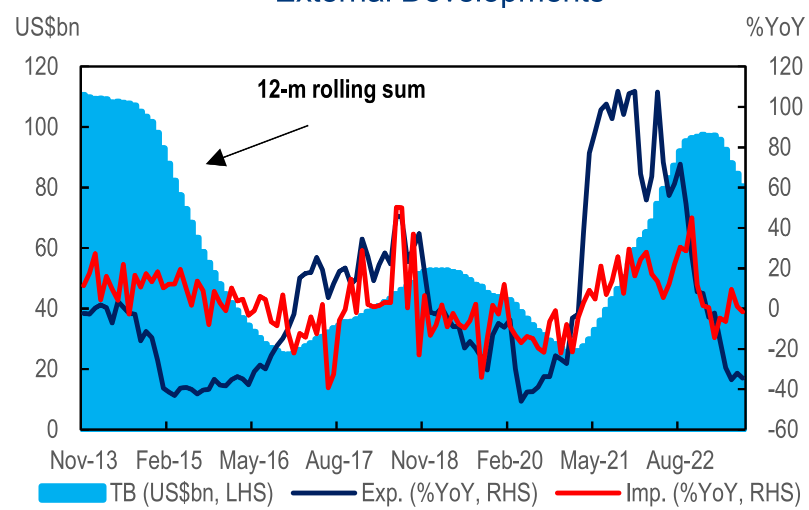
Oil vs. Non-oil Activities (SA, Dec 2019=100)



Bilateral Trade Balance (2022, % of GDP)



External Developments

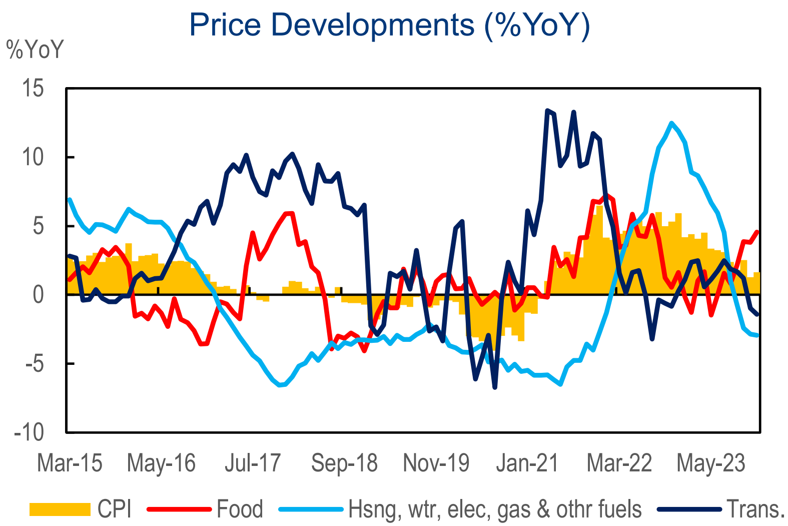


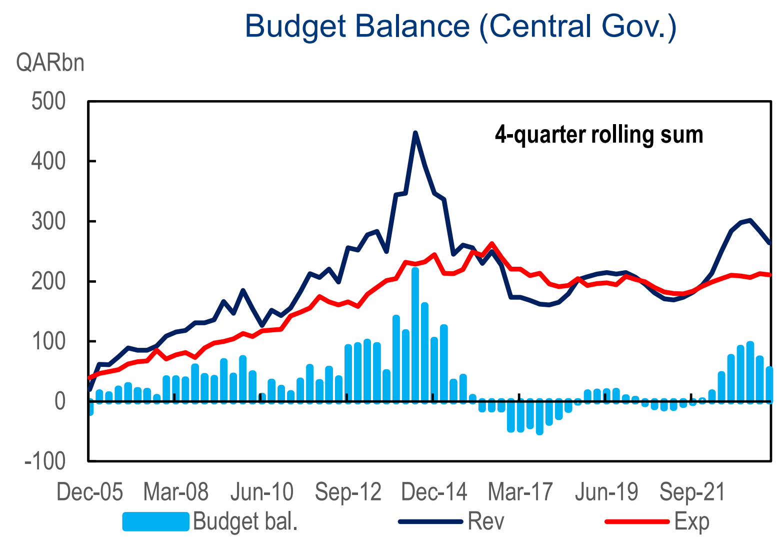
citi

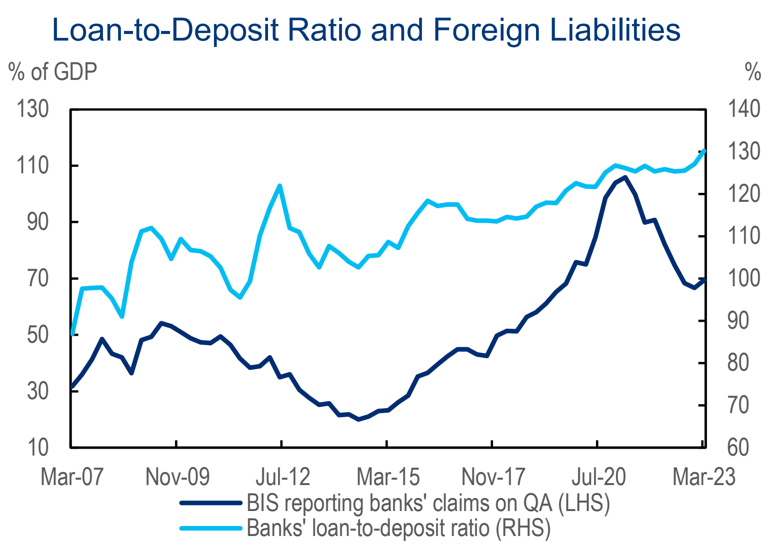
Source: Haver, WB and Citi Research.

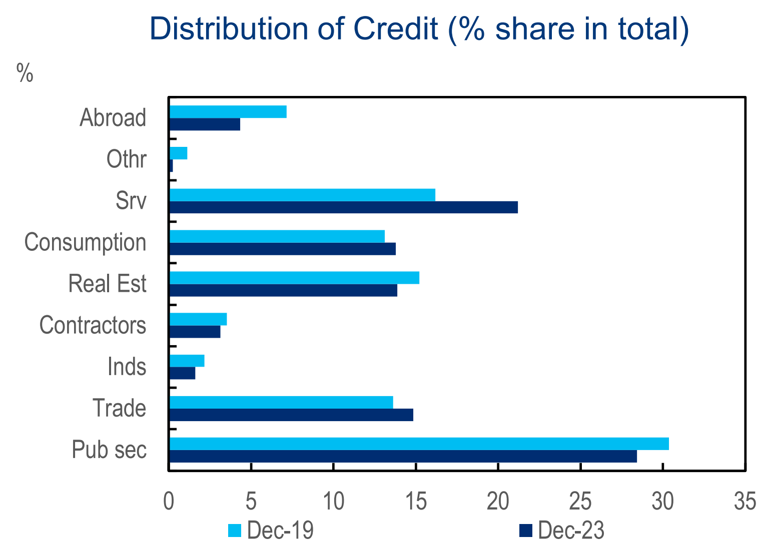
Qatar (II)

Notwithstanding the country's strong sovereign net foreign asset positon, we believe that relatively high foreign liabilities and an elevated loan-to-deposit ratio leave the banking system vulnerable to sudden shifts in non-resident deposits and global risk appetite as global financial conditions tighten.









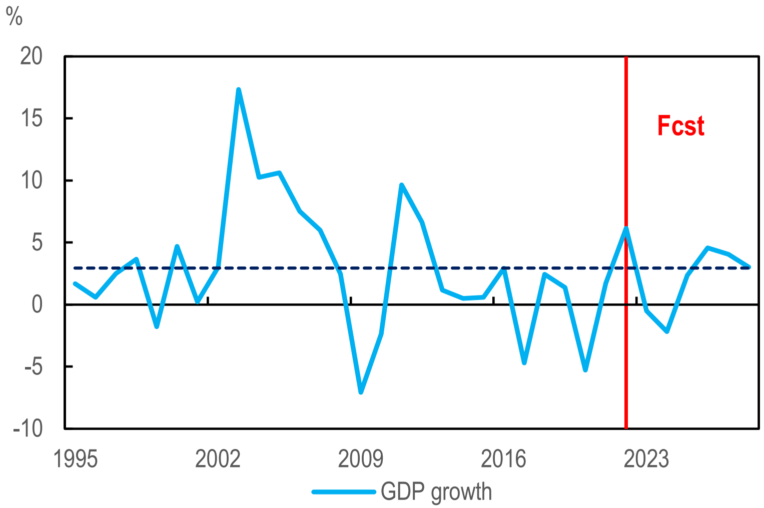
Prepared for Patrick Cordery

Source: Haver, Citi Research, [Middle East Economics View: GCC: Caught Between the Pandemic and Subdued Oil Prices]

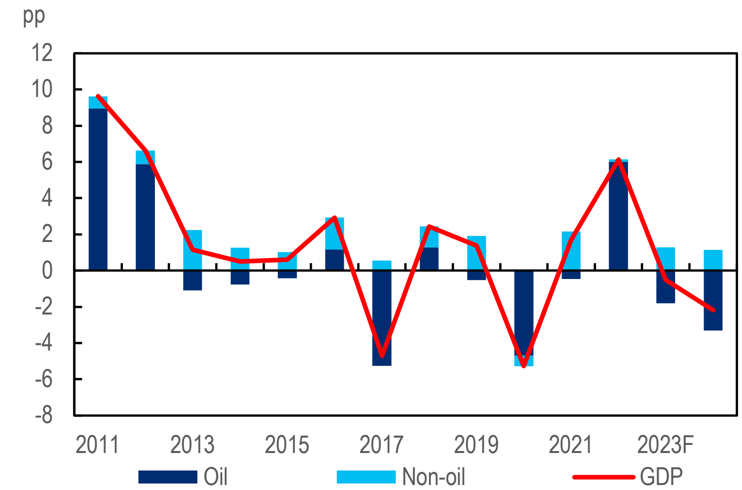
Kuwait (I)

On the back of the envisaged output reduction under the OPEC+ announcement, we expect the economy to contract by 0.5% in 2023 and over 2.0% this year.

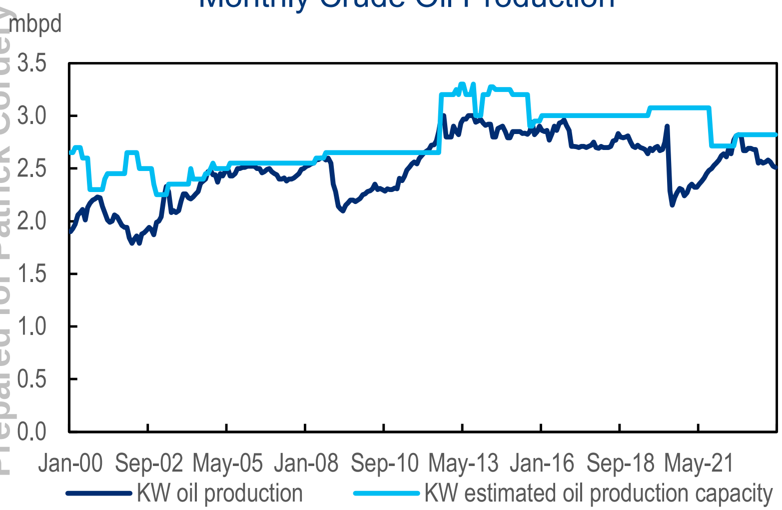
Evolution of GDP Growth



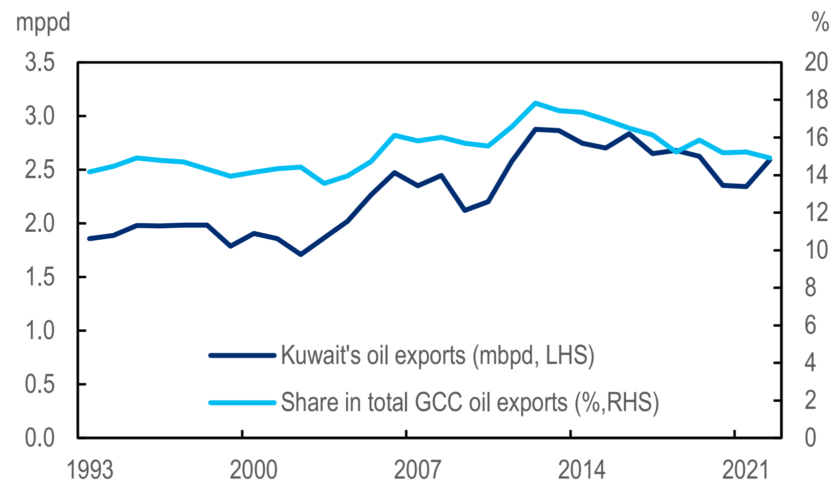
Contribution to GDP Growth (pp)



Monthly Crude Oil Production



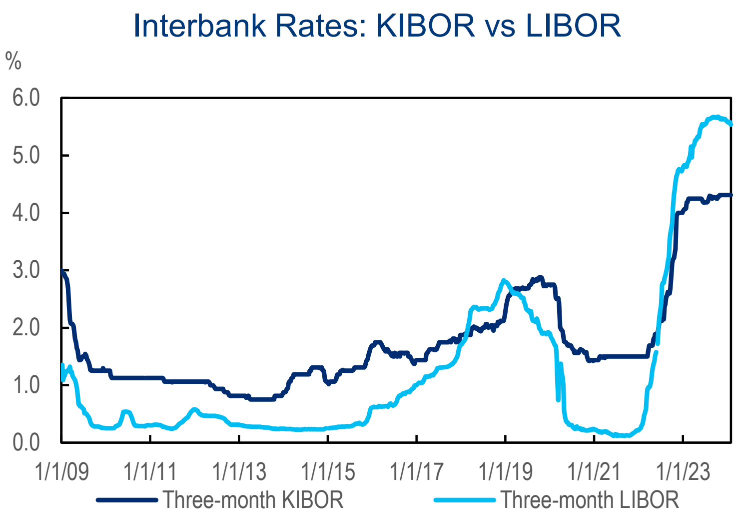
Oil Exports (mbpd)

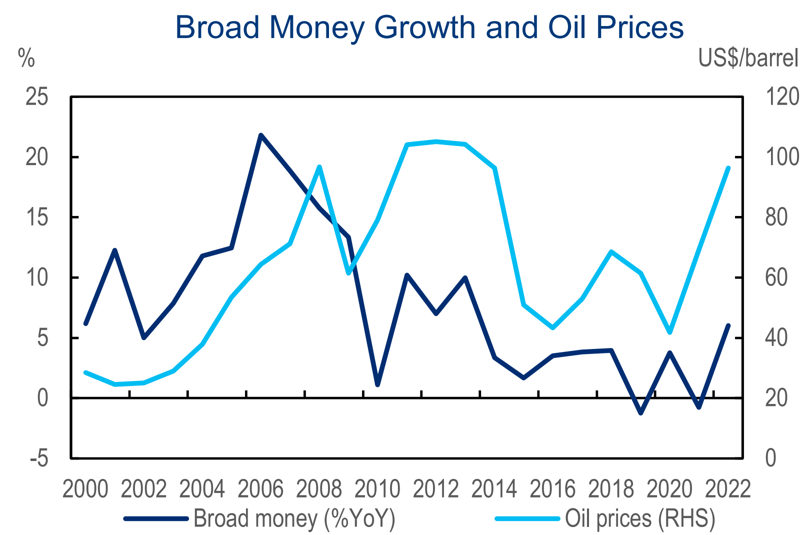


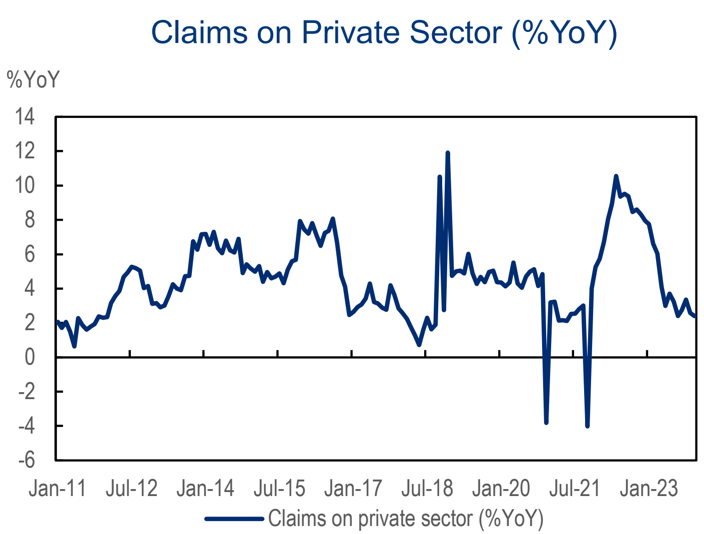
Source: Bloomberg, Haver and Citi Research

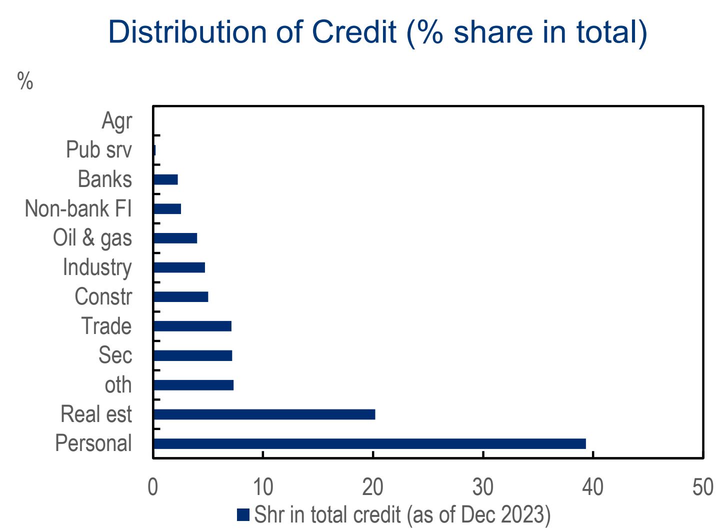
Kuwait (II)

While domestic policy rates are adjusted broadly in tandem with the Fed tightening cycle, Kuwait's peg against an undisclosed currency basket provides an additional margin of monetary policy autonomy relative to single-currency pegs.





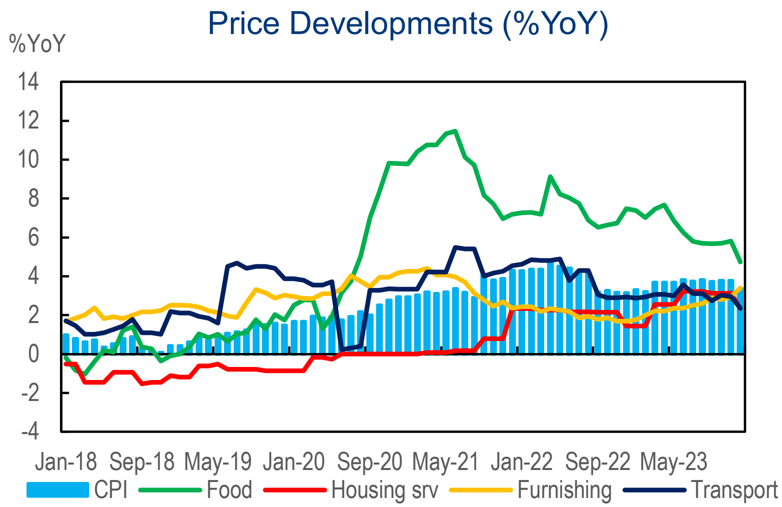


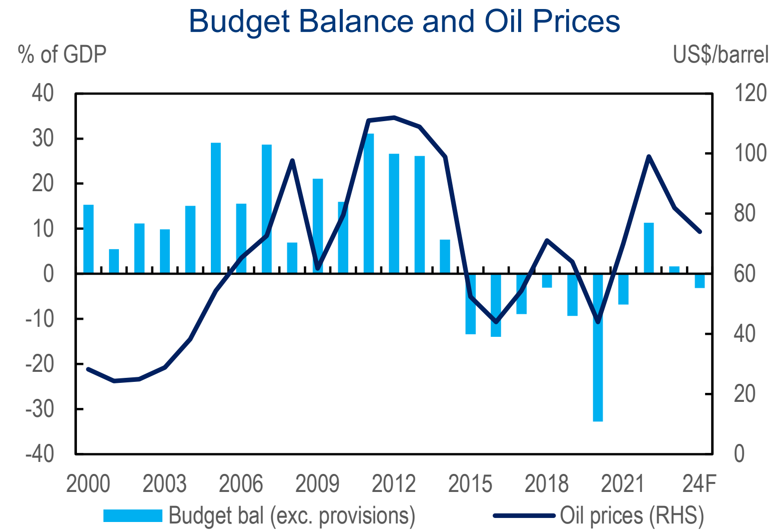


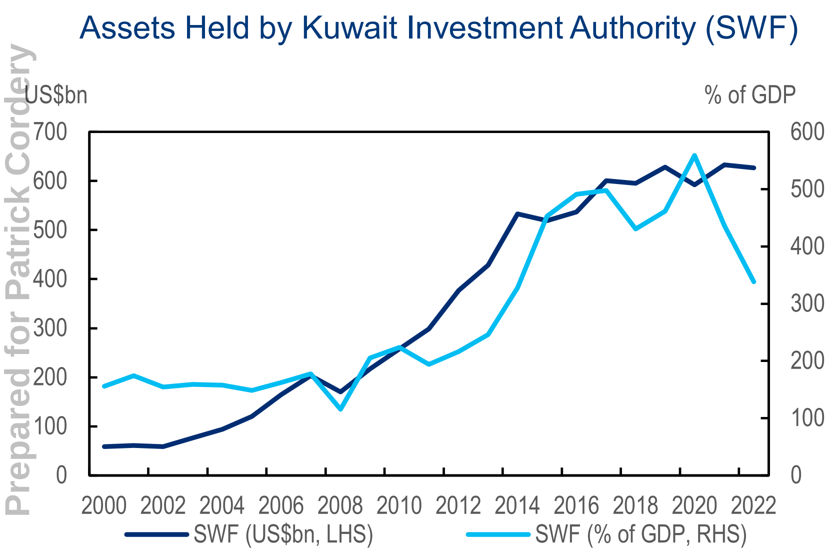
Source: Haver and Citi Research

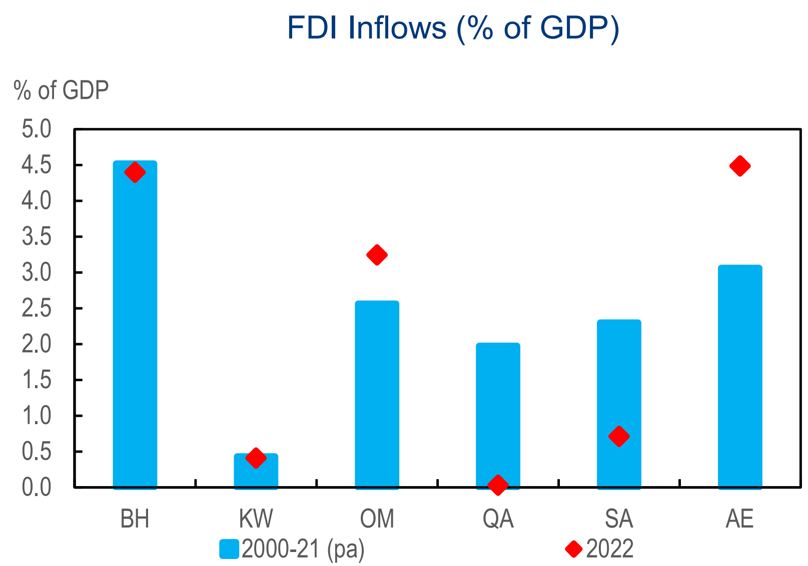
Kuwait (III)

On the back of softer oil revenues, the budget balance is expected to swing from a surplus of 1.8% of GDP in 2023 to a deficit of around 3.0% in this year.







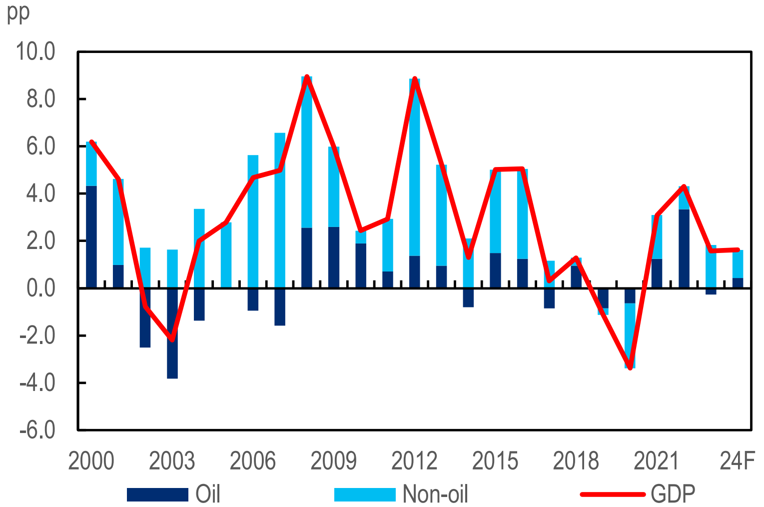


Source: Haver, IIF, UNCTAD and Citi Research

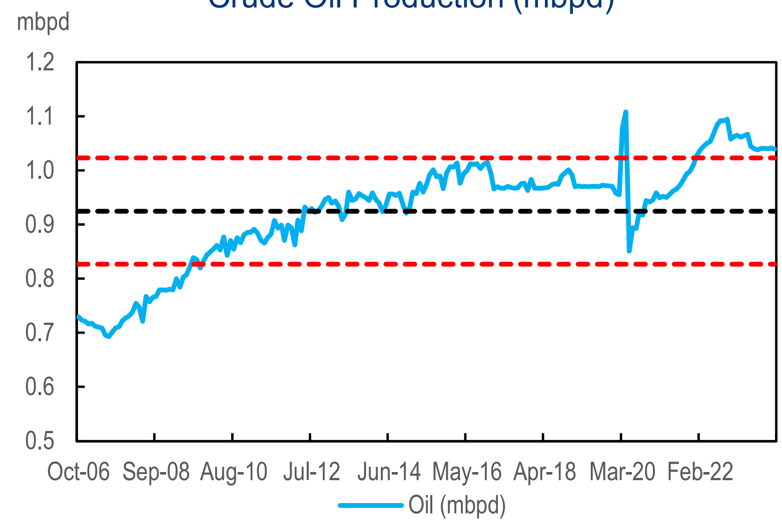
Oman (I)

We expect GDP growth to decelerate to 1.8% in 2023 from 4.3% in 2022. This year's growth is projected at 1.7% amid a softer non-oil GDP growth (1.8% vs. 2.8% in 2023)

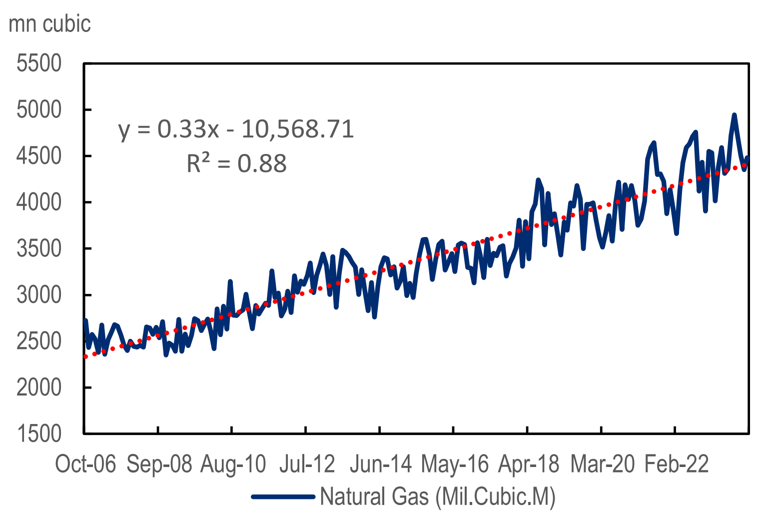
Contribution to GDP Growth



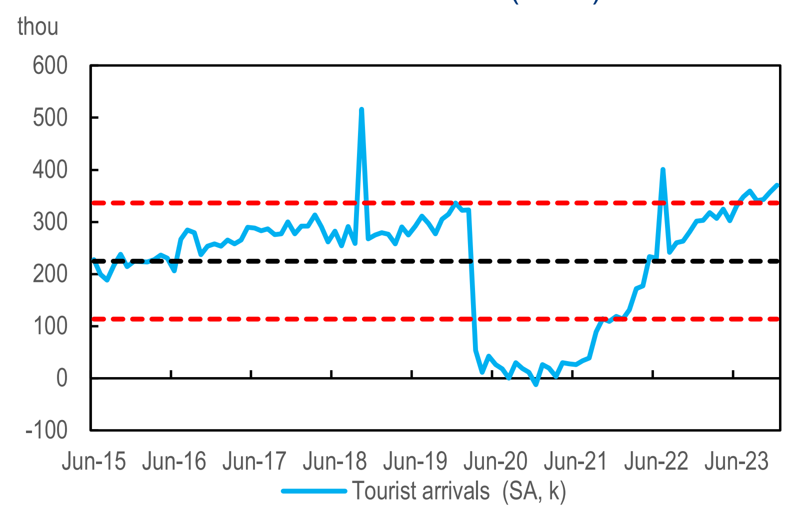
Crude Oil Production (mbpd)



Natural Gas Production



Tourist Arrivals (thou.)

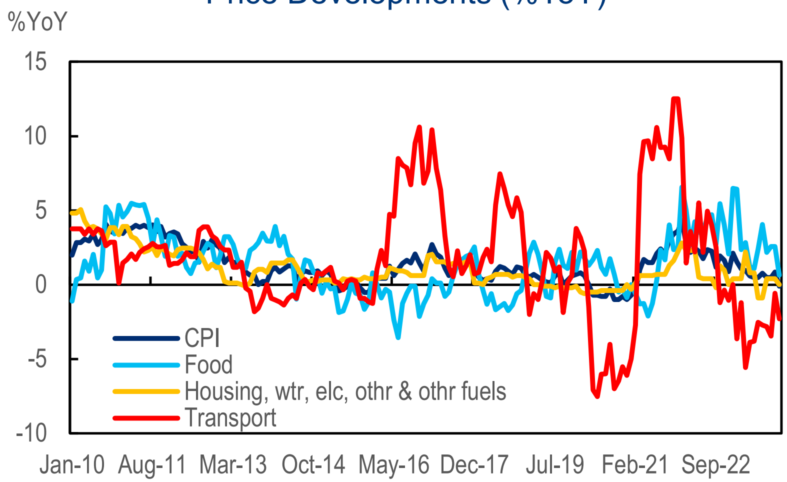


Source: Haver and Citi Research

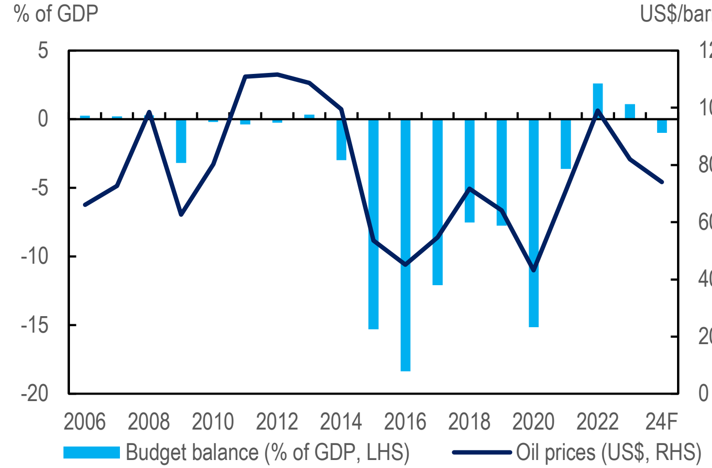
Oman (II)

The authorities have made encouraging progress in fiscal adjustment and structural reform implementation. Softer oil revenues lead us to expect the budget balance to swing into a deficit of 1.0% of GDP this year from a surplus of 1.0% in 2023.

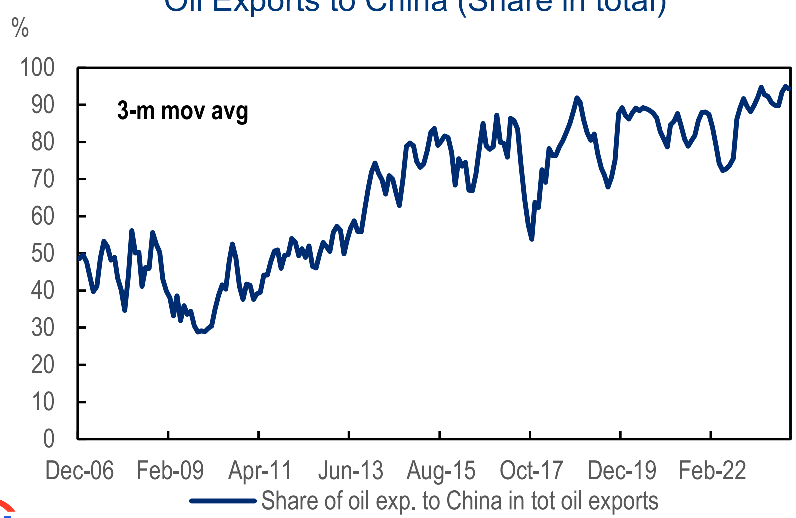
Price Developments (%YoY)



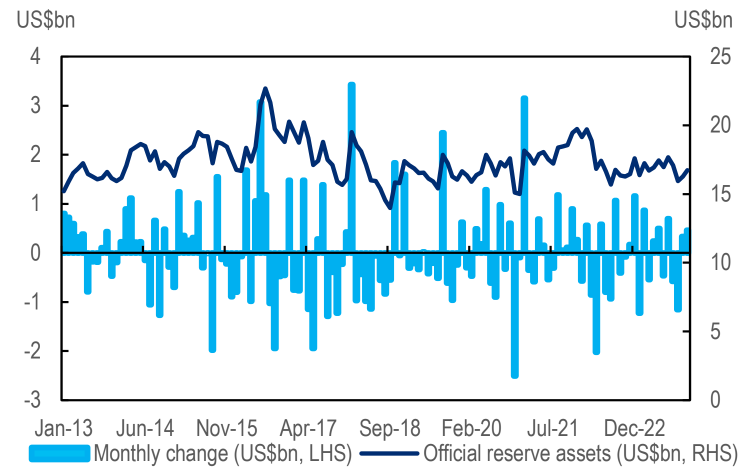
Budget Balance and Oil Prices (% of GDP)



Oil Exports to China (Share in total)



Evolution of International Reserves

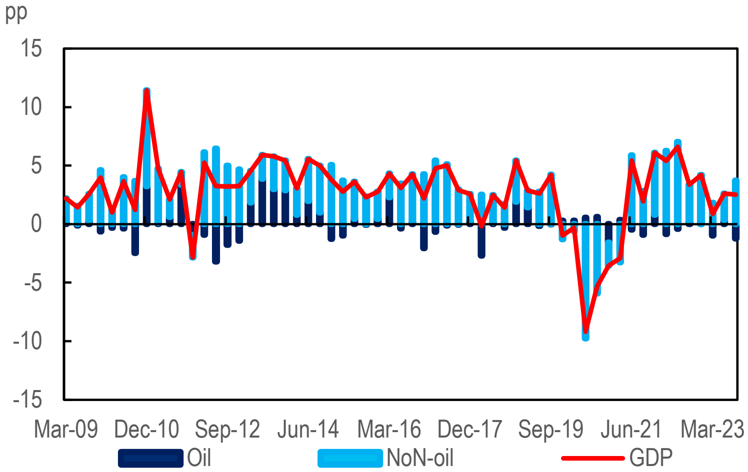


Source: Haver and Citi Research

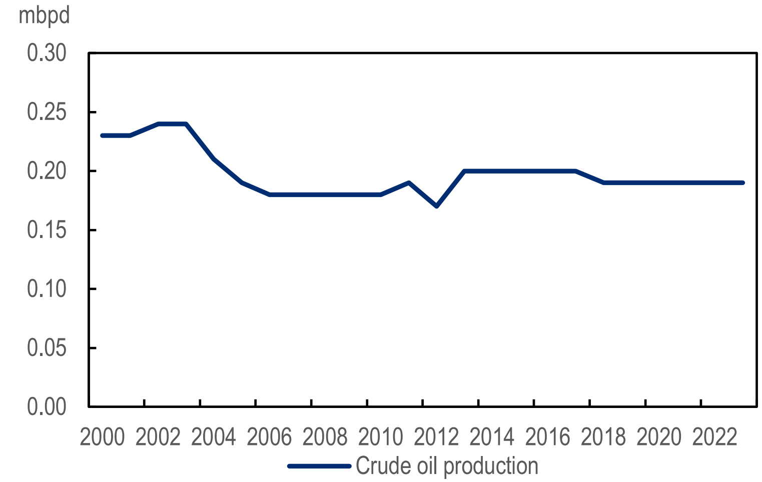
Bahrain (I)

Economic growth is expected to decelerate to 2.1% in 2023 from 4.9% in 2022 due mainly to softer non-oil activity (3.1% vs. 6.6% in 2022). We expect GDP growth to be around 2.4% this year.

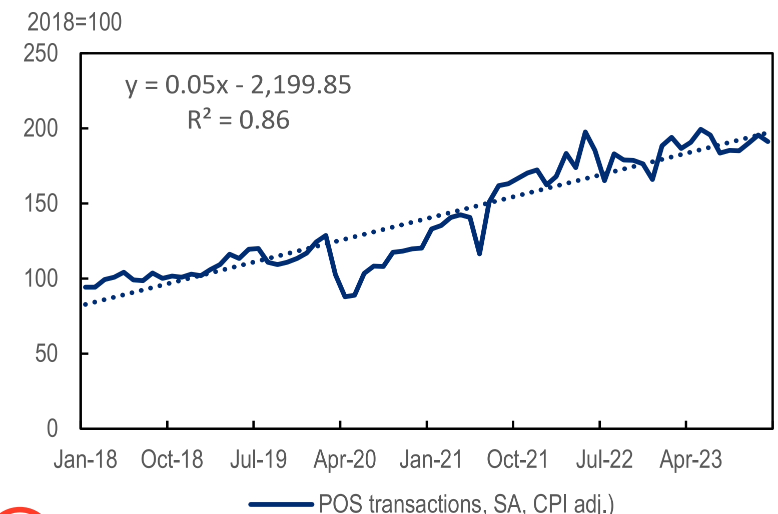
Contribution to GDP Growth (%YoY)



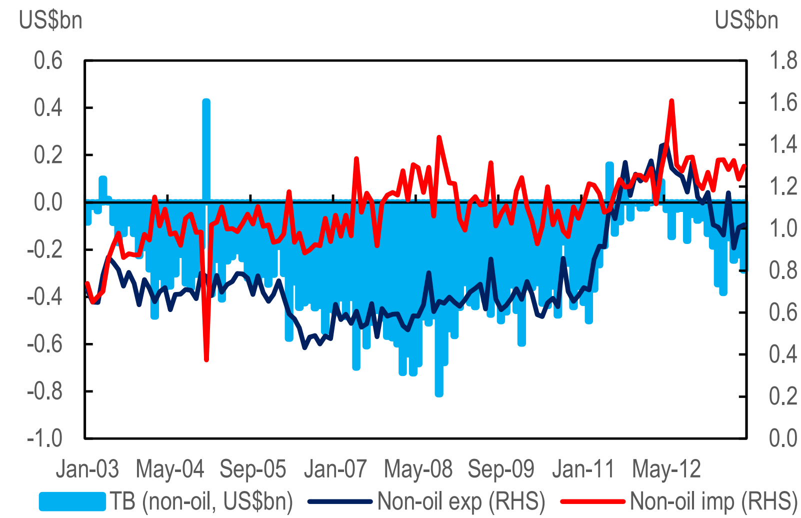
Oil Production (mbpd)



POS Transactions (SA, CPI adj., 2018=100)



Non-oil Trade Balance (SA, US$bn)

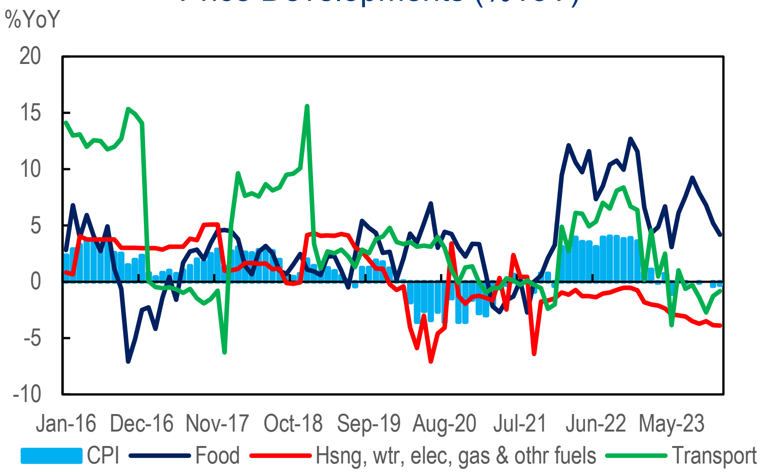


Source: Haver and Citi Research

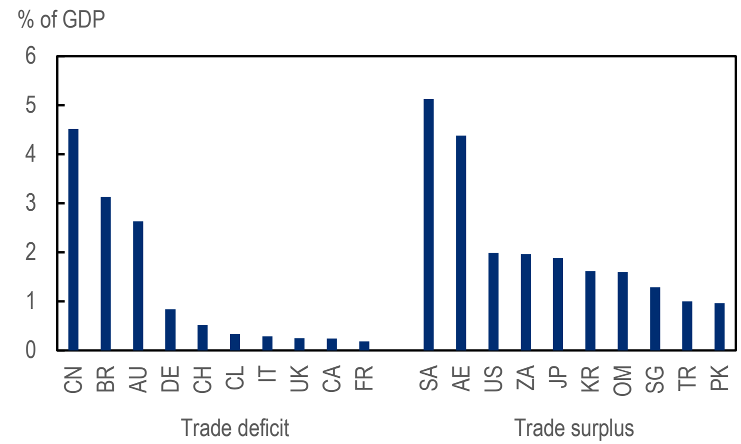
Bahrain (II)

Spending restraints and the doubling of the VAT rate to 10% in 2022 bode well for the outlook as we the budget deficit contained at around 2.5% this year. As we discussed previously, a durable and stronger fiscal adjustment is needed to buttress macroeconomic stability and the credibility of the peg.*

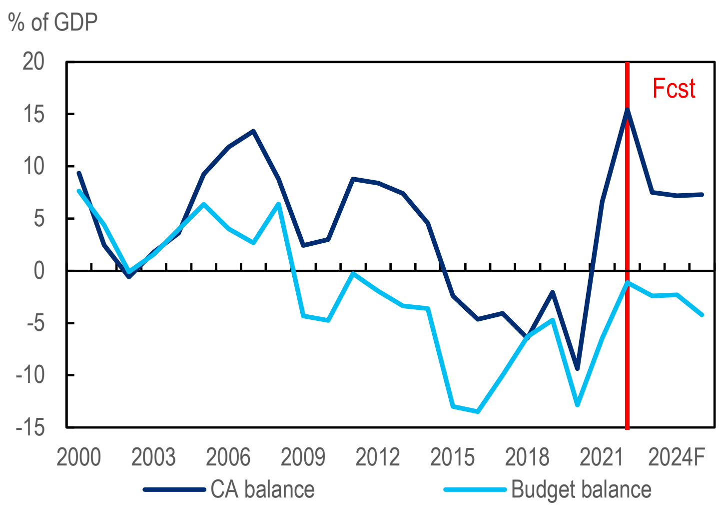
Price Developments (%YoY)



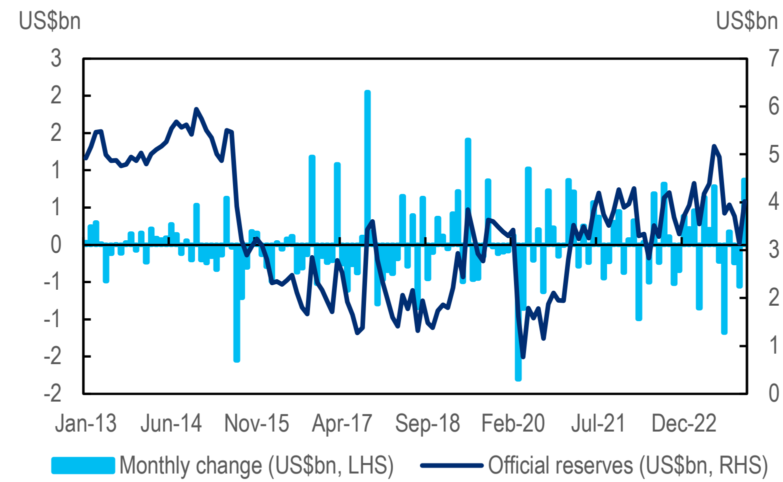
Bilateral Trade Balance (2022, % of GDP)



Current Account and Budget Balances (% of GDP)



Evolution of International Reserves

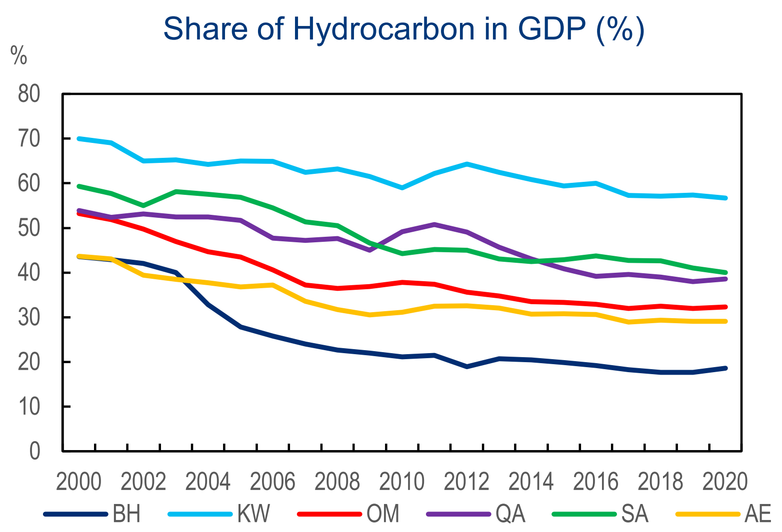


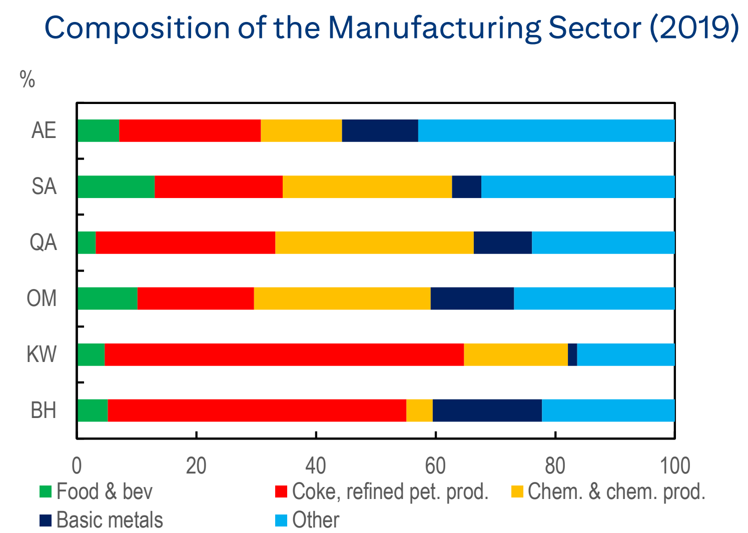
Source: Haver and Citi Research * [Middle East Economics View: GCC: Caught Between the Pandemic and Subdued Oil Prices]

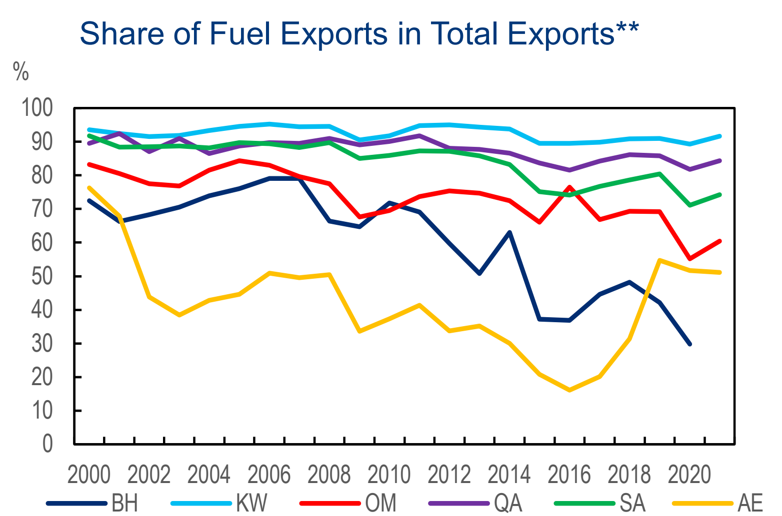
Key Transformational Challenges

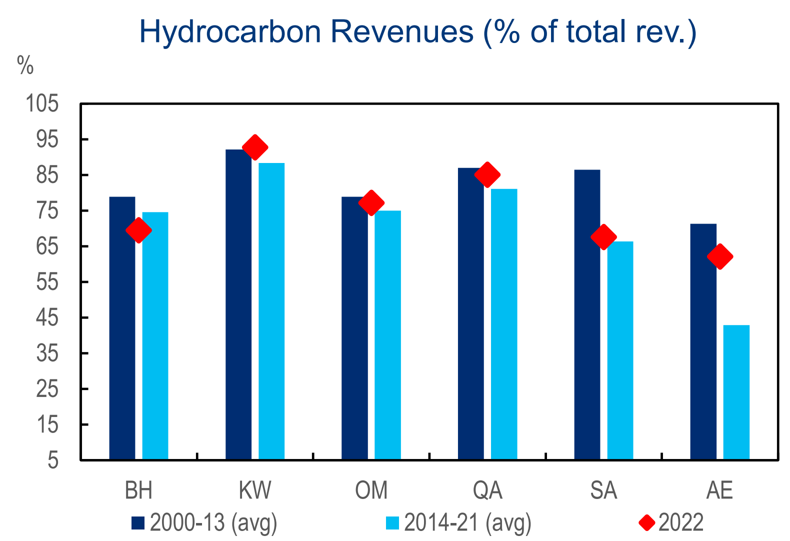
Key transformational challenges (I)

Economic diversification remains vital to the future of the GCC as many countries in the region are still highly reliant on oil. The possibility of more subdued oil demand and prices suggests that it is likely to become harder for GCC countries to rely on oil export revenues for their future prosperity.







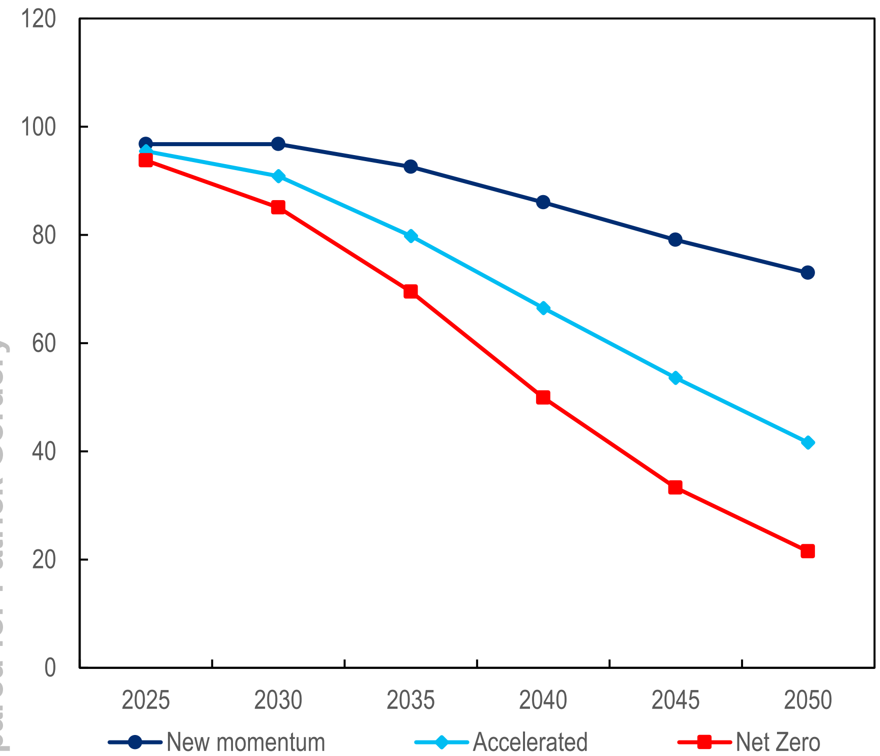


Source: Bloomberg, Haver, UNCTAD and Citi Research. **Figures exclude re-exports.

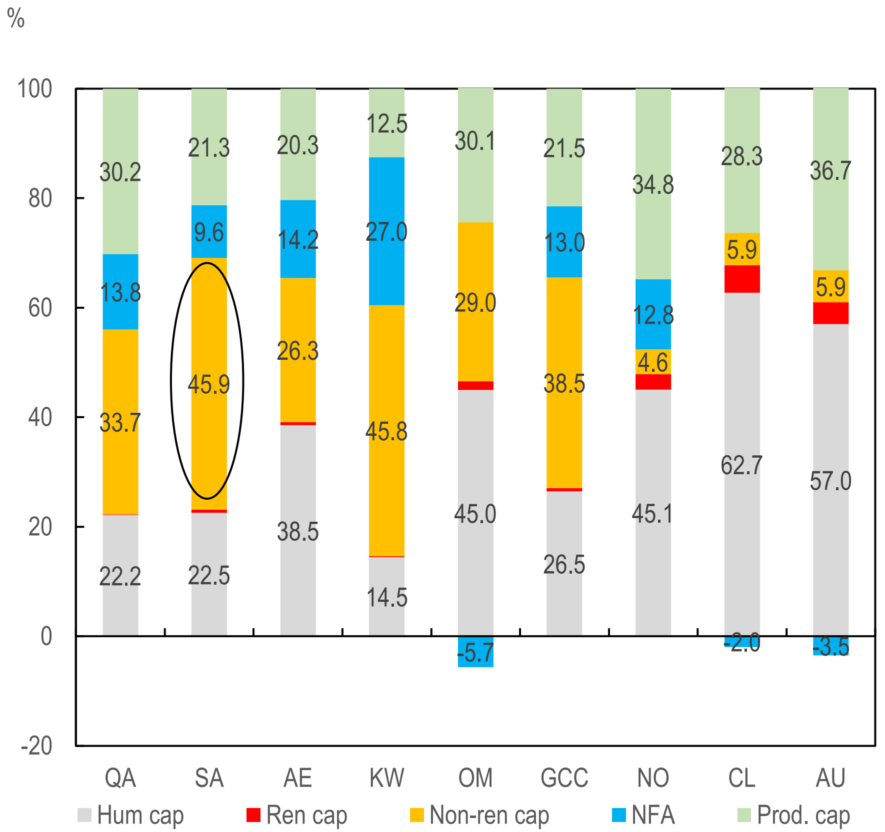
Key transformational challenges (II)

A decline in demand for fossil fuels owing to climate policies and the falling costs of alternative energy technologies might permanently lower the value of the Gulf states' non-renewable natural capital. Consequently, the future performance of the GCC countries will largely hinge on how policymakers manage to diversify their portfolio by, for instance, investing in human capital, building their stock of productive assets and boosting the value of renewable natural capital.

The Outlook for Oil Demand*



Comp. of National Wealth (2018, % share in total)

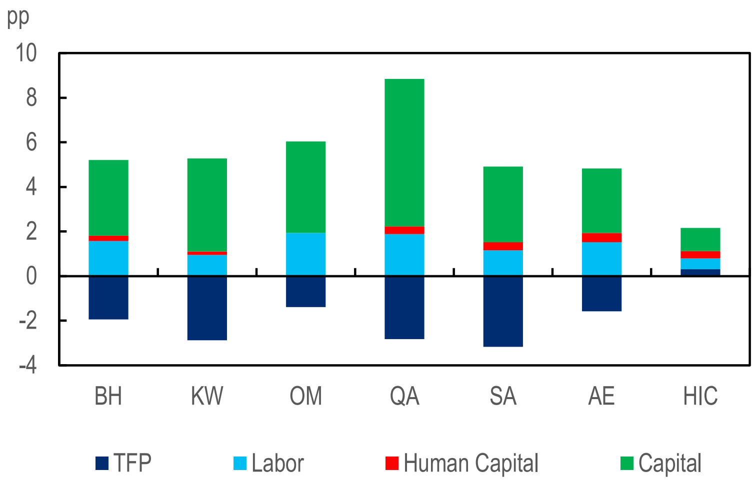


Source: Haver, World Bank and Citi Research. *bp Energy Outlook (2023)

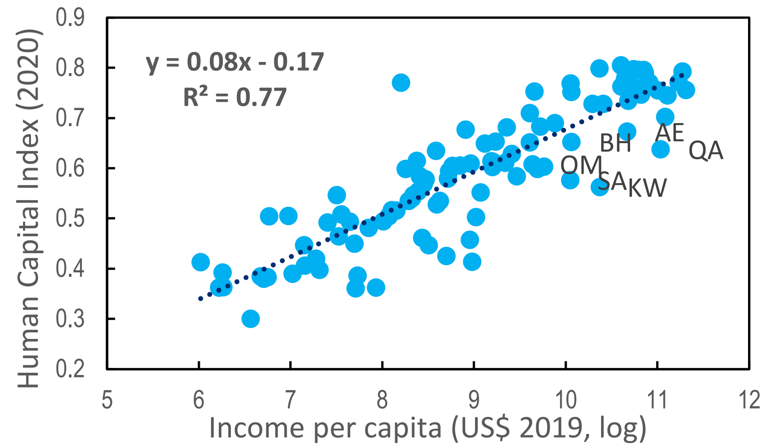
Key transformational challenges (III)

Key structural indicators including human capital and regulatory quality rank GCC countries at levels below what would be predicted by their GDP per capita, underlining the need to intensify policy efforts in these areas.

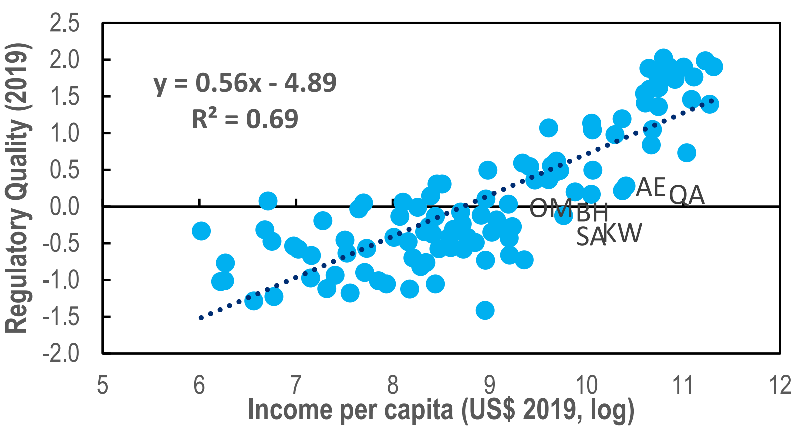
Contribution to GDP Growth: GCC vs. HICs* (1981-2019)



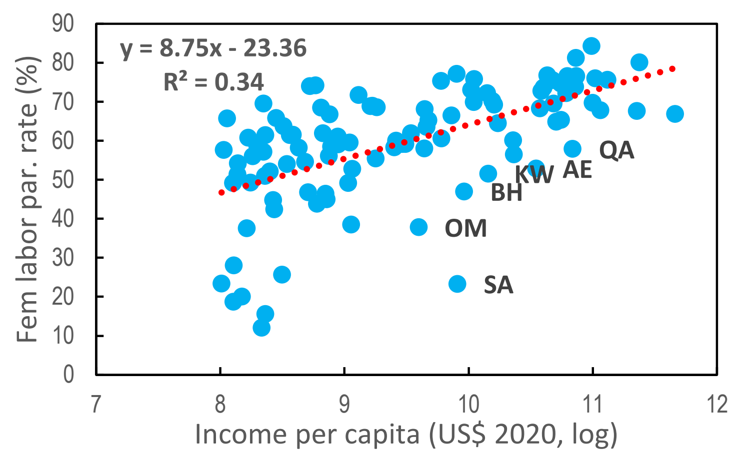
Human Capital Index



Regulatory Quality



Female Labor Participation Rate (%)



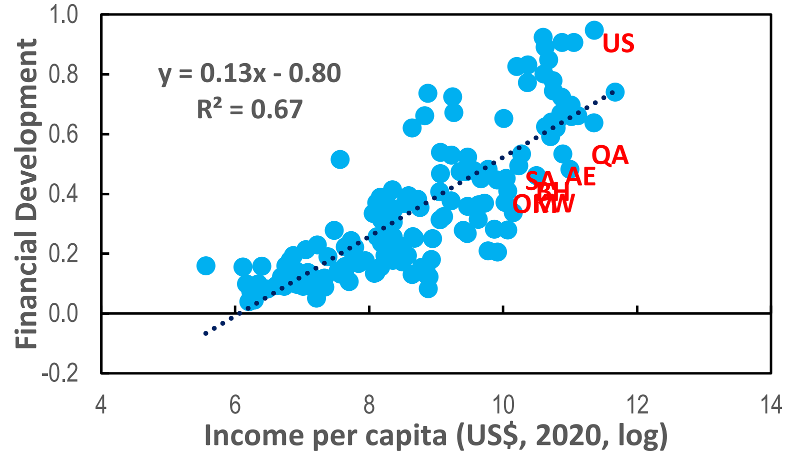
Key transformational challenges (IV)

In terms of financial development, GCC countries seem to lag behind economies with similar levels of per capita income due to their less favorable position in the "financial institutions" component of the index.

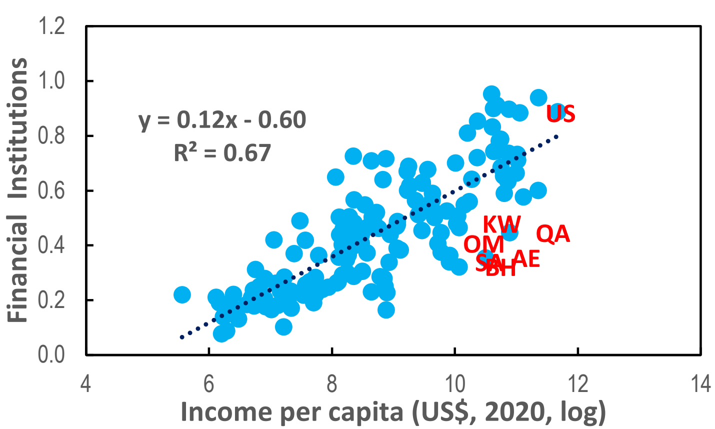
Construction of the Financial Development Index*

	FINANCIAL INSTITUTIONS	FINANCIAL MARKETS
DEPTH	1. Private-sector credit (% of GDP) 2. Pension fund assets (% of GDP) 3. Mutual fund assets (% of GDP) 4. Insurance premiums, life and non-life (% of GDP)	1. Stock market capitalization to GDP 2. Stocks traded to GDP 3. International debt securities government (% of GDP) 4. Total debt securities of nonfinancial corporations (% of GDP) 5. Total debt securities of financial corporations (% of GDP)
ACCESS	1. Branches (commercial banks) per 100,000 adults 2. ATMs per 100,000 adults	1. Percent of market capitalization outside of top 10 largest companies 2. Total number of issuers of debt (domestic and external, nonfinancial corporations, and financial corporations)
EFFICIENCY	1. Net interest margin 2. Lending-deposits spread 3. Non-interest income to total income 4. Overhead costs to total assets 5. Return on assets 6. Return on equity	1. Stock market turnover ratio (stocks traded/capitalization)

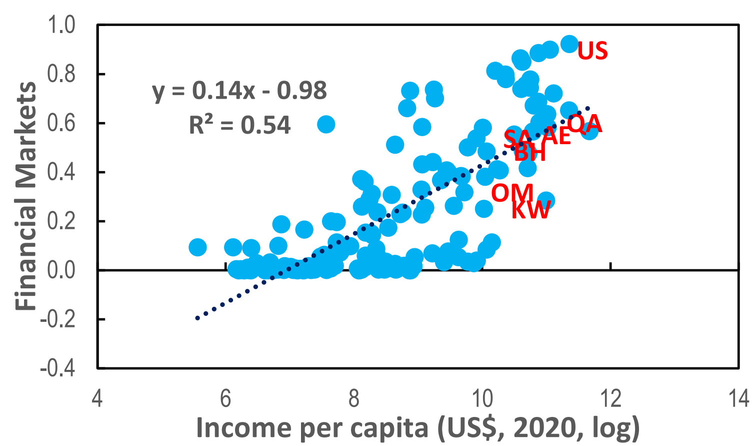
Financial Development



Financial Institutions



Financial Markets



Source: Haver and Citi Research, *Rethinking Financial Deepening: Stability and Growth in Emerging Markets

Key transformational challenges (V)

- Despite progress, Gulf states' high exposure to oil prices remains an important source of vulnerability.
- The uncertainty associated with the trajectory for oil production, amplified geopolitical tensions in the Middle East and a less conducive global backdrop this year emerge as important risk factors clouding the outlook.
- Our analysis on the region's growth performance demonstrates that there is considerable scope for structural reforms to bolster productivity, which could serve as a new engine for growth.
- Given the region's wide structural reform deficits and disappointing productivity gains, slower than-desired progress in transforming their economies would lead to a considerably less favorable macroeconomic environment when their oil reserves become stranded or depleted.
- In light of our findings, we argue that policy efforts should center not only on narrowing the region's long-standing structural reform deficits in labor markets and human capital, but also on improving the institutional and regulatory environment.

Source: Citi Research, Middle East Economics View: The Future of Economic Growth in the GCC Countries;

Appendix

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Appendix 1—GCC: Selected Indicators

	2020	2021	2022F	2023F	2024F	2020	2021	2022F	2023F	2024F
			Bahrain					**Qatar**		
Nominal GDP, USD bn	34.5	39.3	44.4	44.2	44.7	144.4	179.7	236.3	224.2	219.0
GDP per capita, USD	23,439	26,116	29,110	28,041	28,071	50,963	65,401	80,573	75,860	73,555
Real GDP, yoy avg	-4.6	2.6	4.9	2.1	2.4	-3.6	1.6	4.2	2.1	2.9
CPI, % avg	-2.3	-0.6	3.6	0.1	1.6	-2.5	2.3	5.0	3.1	2.9
Local Currency/US$, avg	0.38	0.38	0.38	0.38	0.38	3.64	3.64	3.64	3.64	3.64
Current Account, USD bn	-3.2	2.6	6.8	3.2	3.1	-3.0	26.3	63.1	41.5	31.5
% of GDP	-9.4	6.6	15.4	7.1	7.0	-2.1	14.6	26.7	18.5	14.4
Consolidated gov. balance (% of GDP)	-12.8	-6.4	-1.1	-2.4	-2.3	2.0	0.2	10.4	7.4	5.5
			Kuwait					**Saudi Arabia**		
Nominal GDP, USD bn	107.5	141.8	182.8	167.4	154.8	734.3	874.2	1108.6	1066.2	1061.8
GDP per capita, USD	23,018	31,140	39,985	36,247	33,218	23,271	28,396	34,454	32,655	32,063
Real GDP, yoy avg	-5.3	1.7	6.1	-0.4	-2.3	-4.3	4.3	8.7	-0.9	0.2
CPI, % avg	2.1	3.4	4.0	3.6	2.4	3.4	3.1	2.5	2.3	2.1
Local Currency/US$, avg	0.31	0.30	0.31	0.31	0.31	3.75	3.75	3.75	3.75	3.75
Current Account, USD bn	4.8	37.4	63.1	37.6	23.9	-25.5	41.7	151.5	42.2	6.5
% of GDP	4.5	26.4	34.5	22.5	15.4	-3.5	4.8	13.7	4.0	0.6
Consolidated gov. balance (% of GDP)	-32.7	-7.0	11.5	1.8	-3.1	-10.7	-2.2	2.5	-2.2	-3.2
			Oman					**UAE**		
Nominal GDP, USD bn	75.9	88.2	114.7	108.4	104.9	349.7	415.5	507.4	503.5	501.3
GDP per capita, USD	16,940	19,481	23,240	21,652	20,632	37,674	43,468	52,664	51,843	51,210
Real GDP, yoy avg	-3.4	3.1	4.3	1.8	1.7	-5.0	4.4	7.9	3.4	2.3
CPI, % avg	-0.4	1.7	2.5	0.9	1.2	-2.1	0.2	4.8	3.4	2.4
Local Currency/US$, avg	0.38	0.38	0.38	0.38	0.38	3.67	3.67	3.67	3.67	3.67
Current Account, USD bn	-12.3	-4.8	5.8	2.9	0.9	21.1	48.0	65.6	42.9	29.2
% of GDP	-16.2	-5.4	5.0	2.7	0.8	6.0	11.6	12.9	8.5	5.8
Consolidated gov. balance (% of GDP)	-15.2	-3.6	2.6	1.1	-1.0					

Source: Haver and Citi Research

Appendix 2—Global Economic Diversification Index

Sub-components of the Global Economic Diversification Index

Production/ Activity Diversification Indicators	Trade Diversification Indicators	Government Revenue Diversification Iindicators
Real GDP	Total value of exports	Excise tax revenue as a percentage of GDP
Agriculture value added as a percentage of GDP	Fuel exports as a percentage of merchandise exports	Income tax revenue as a percentage of GDP
Gross fixed capital formation as a percentage of GDP	Export market concentration index (Hirschman-Herfindal Index, HHI)	Goods & services tax revenue as a percentage of GDP
Industry value added as a percentage of GDP	Total value of imports	Tax revenue as a percentage of GDP
Manufacturing value added as a percentage of GDP	Manufactured exports as a percentage of total merchandise exports	Total revenue as a percentage of GDP
Resource rents as a percentage of GDP	Medium- and high-technology manufactured exports as a percentage of manufactured exports	Trade revenue as a percentage of GDP
Services value added as a percentage of GDP	Merchandise exports as a percentage of GDP	
Medium- and high-technology manufacturing value added share in total manufacturing value added	Total value of services exports	
Manufacturing value added per capita	Export product concentration index	
	Import product contentration index	

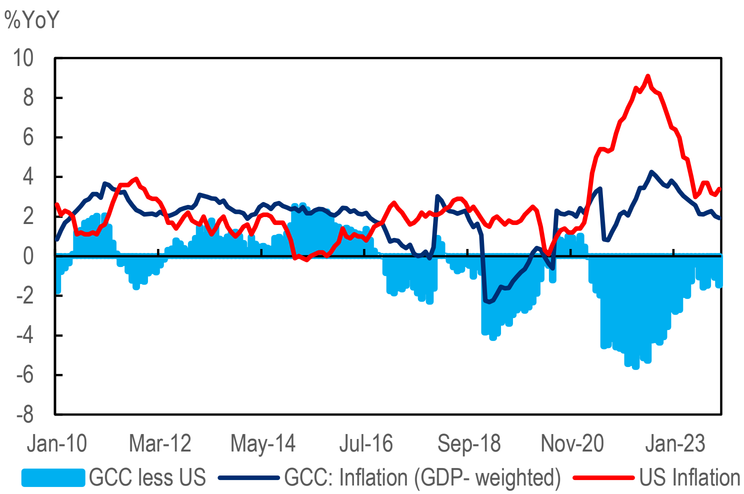
Source: Citi Research, Global Economic Diversification Index

Appendix 3—Structure of the CPI Index and Subsides

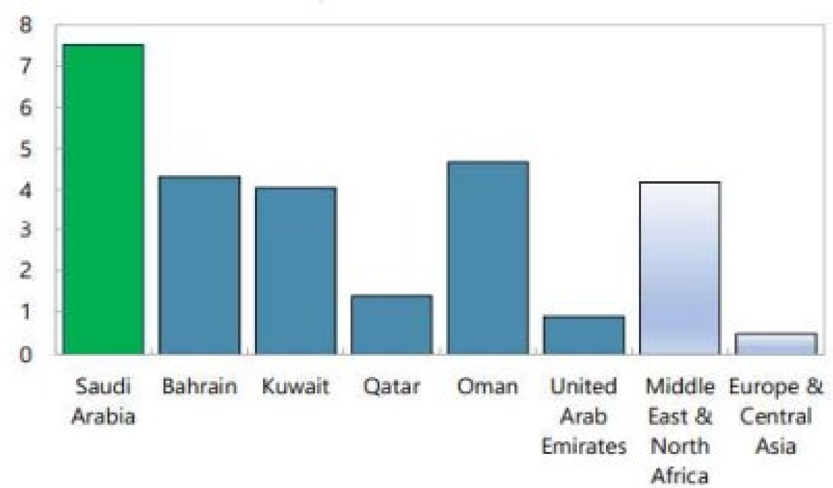
GCC: Weights in the CPI Basket

	BH	KW	OM	QA	SA	AE
Food & beverages	12.21	16.71	23.90	13.45	18.78	11.96
Clothing & footwear	5.21	8.03	5.96	5.58	4.20	5.18
Housing & utilities	25.02	33.21	26.48	21.17	25.50	35.13
Transportation	17.84	7.54	19.17	14.59	13.10	12.69
Restaurants & hotels	6.52	3.42	6.10	6.61	5.60	4.61
Education	8.62	4.19	1.37	5.78	2.90	7.62
Health care	2.15	1.48	1.16	2.65	1.43	2.22
Communication	4.00	3.98	5.63	5.23	5.62	5.89
Recreation & culture	5.48	3.85	1.14	11.13	3.06	3.13

Inflation: US vs. GCC (GDP-weighted)



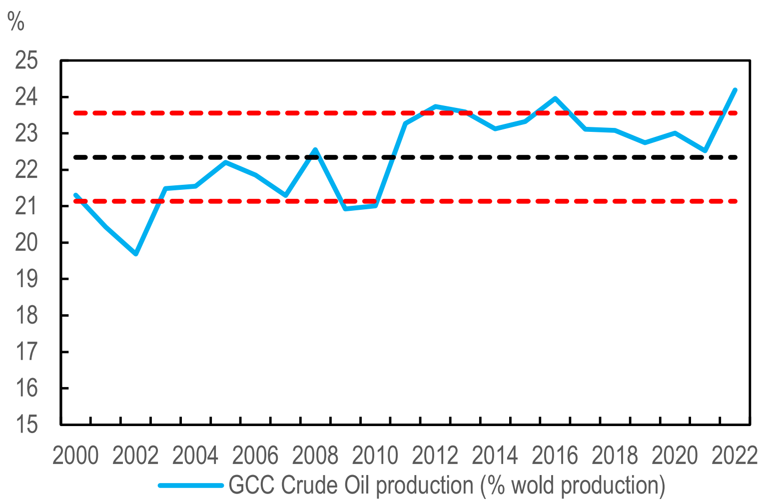
GCC: Energy Subsidies (% of GDP)*



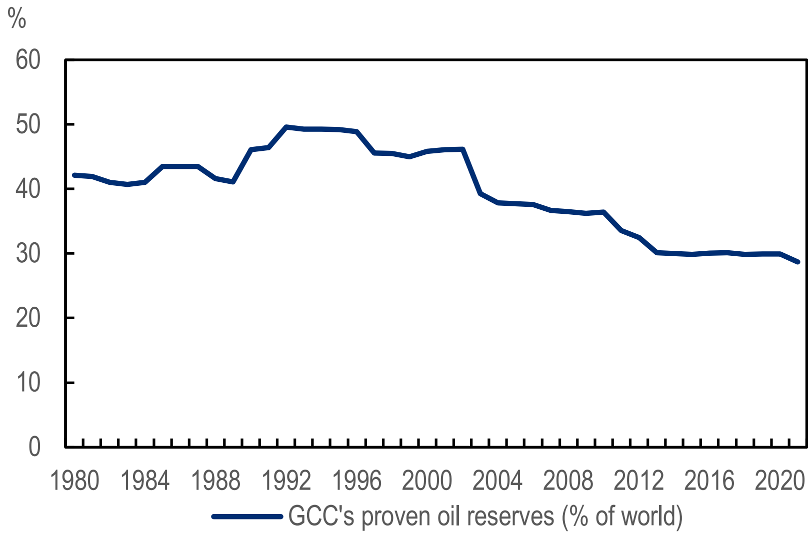
Source: Citi Research. *IMF (November 29, 2022) and Middle East Economics: What drives inflation in the GCC?

Appendix 4—Selected Oil Market Indicators

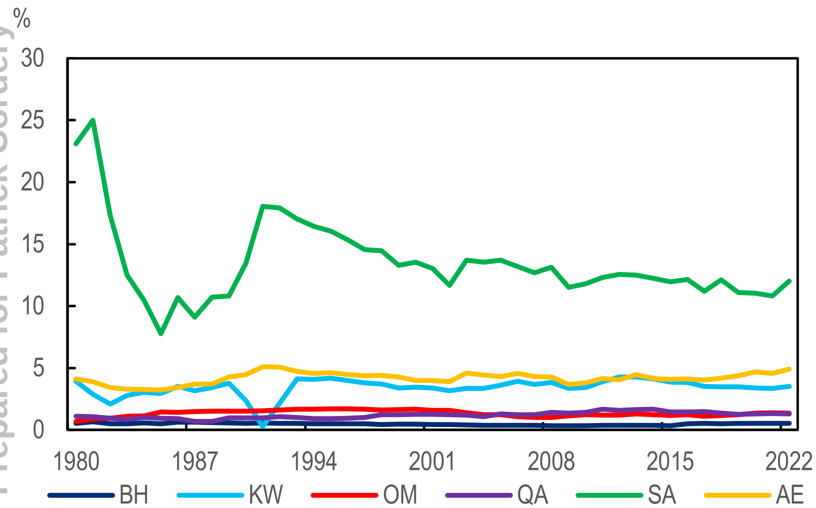
GCC Oil Production (% of World Production)



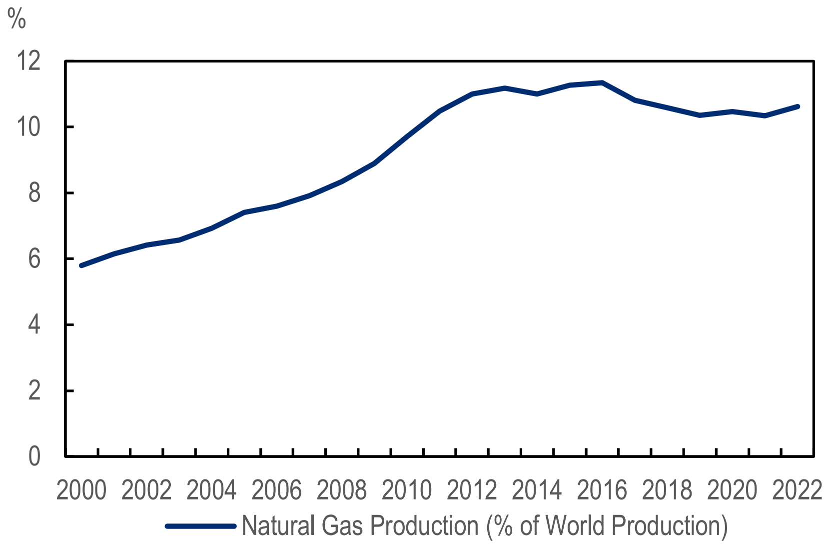
GCC's proven Oil Reserves (% of World)



Crude Oil Exports (mbpd, % World Crude Oil Exp)



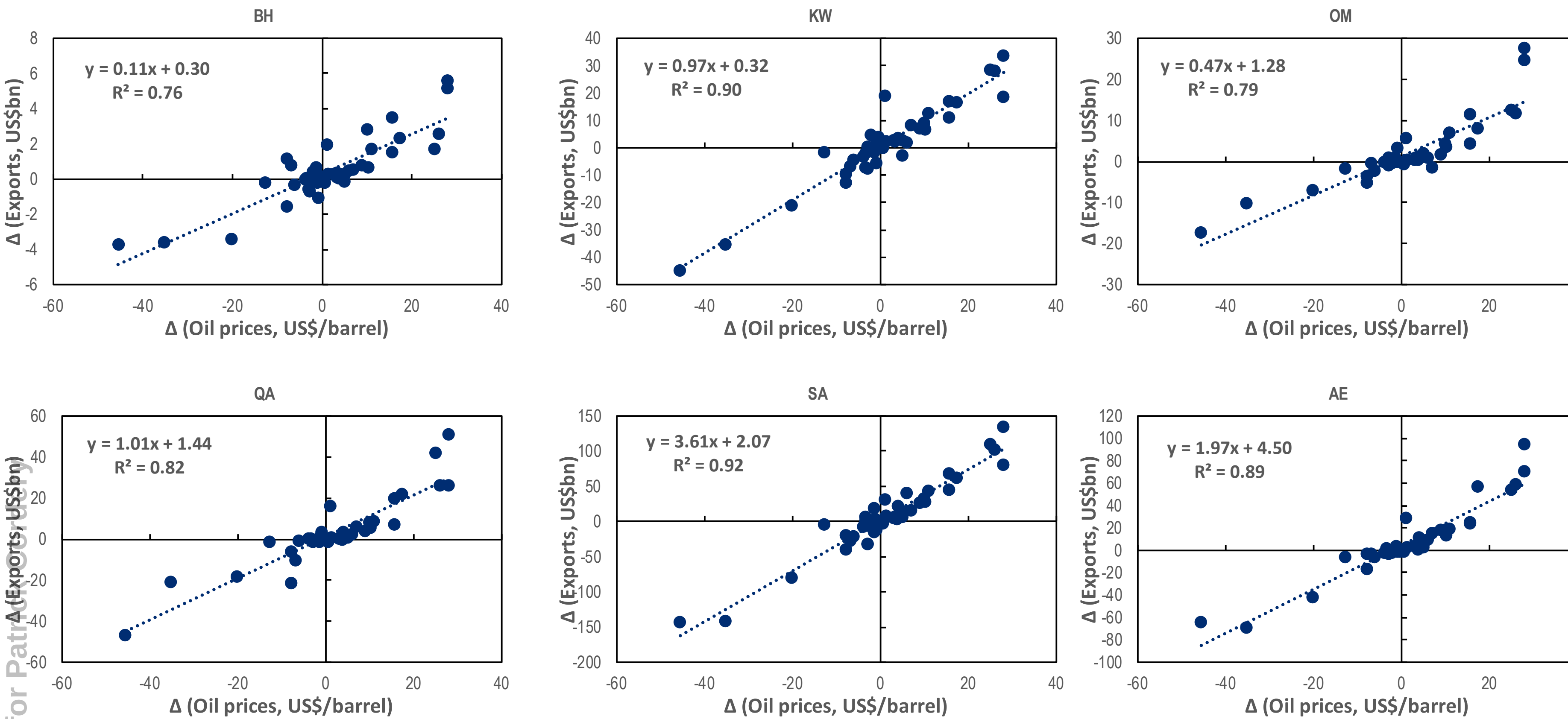
GCC Natural Gas Production (% of World Production)



Source: Haver and Citi Research

Appendix 5—Oil Prices and Gross Export Receipts (1980-22)

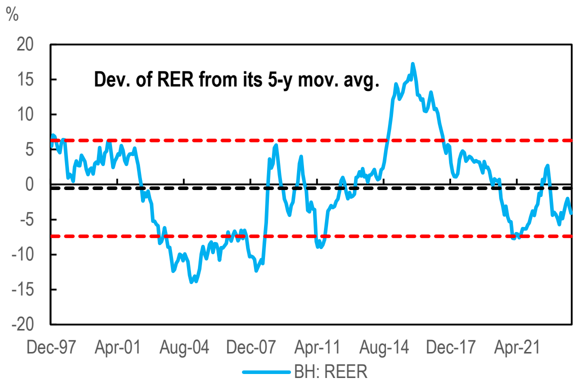
In varying degrees, gross exports receipts in the region remain sensitive to oil price fluctuations.

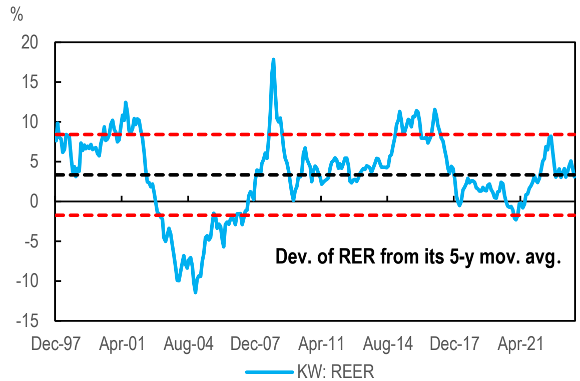


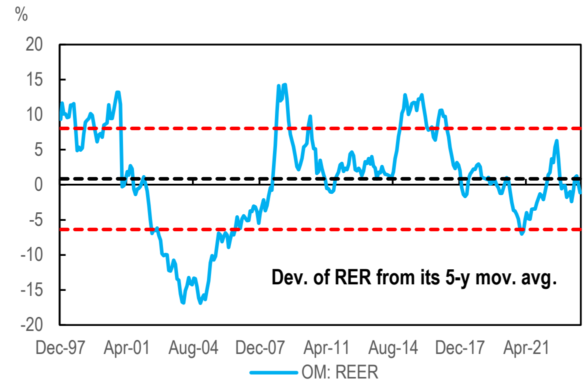
Source: Haver and Citi Research

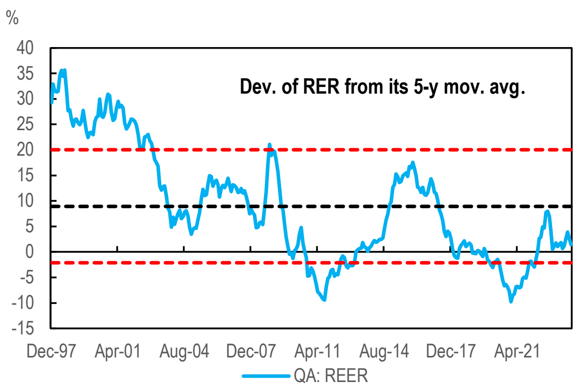
Appendix 6—Real Effective Exchange Rate

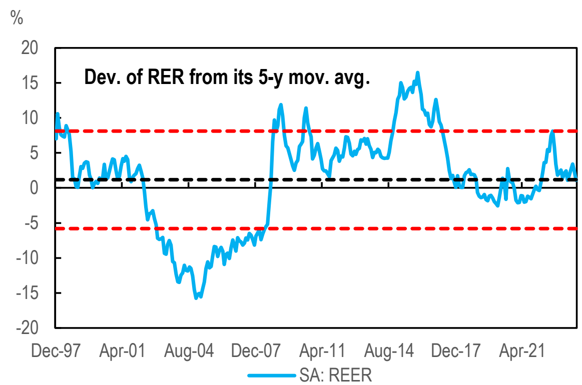
Deviation of the REER from Its Five-Year Moving Average (%)

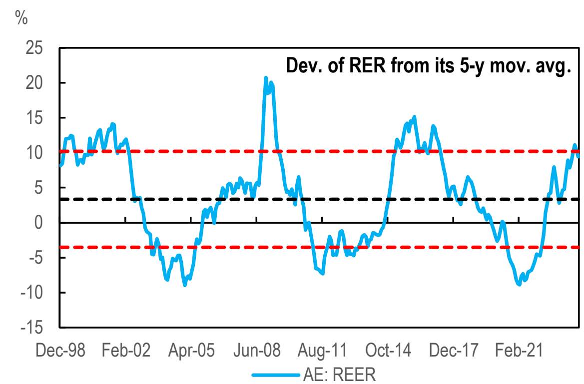










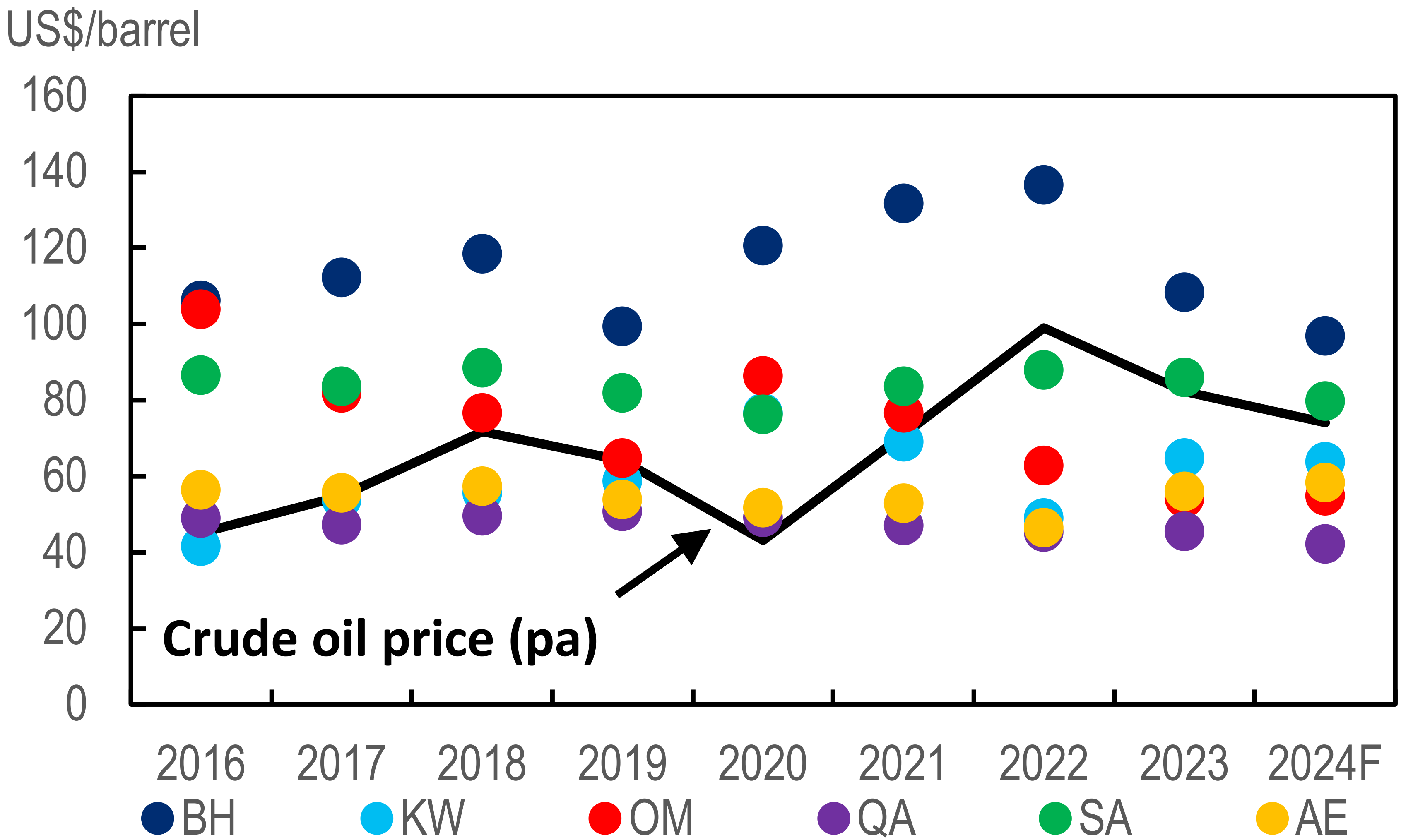


Source: Bruegel and Citi Research. Middle East Economics: Impact of strong USD and elevated crude prices on GCC's RER

Appendix 7— Fiscal Breakeven Oil Prices

In the majority of the GCC countries, *ceteris paribus*, fiscal strains could emerge over the medium term if oil prices decline below $65/b for a sustained period.

Breakeven Fiscal Oil Price (US$ per Barrel): GCC Countries*



Source: IMF and Citi Research *The fiscal breakeven oil price is the oil price that is necessary to balance the budget of an oil-exporting economy.

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