GULF ECONOMIC OUTLOOK 2020 – Q1 Update
Forecasting the Gulf Economy in Times of Crisis

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The Gulf Region face the headwinds of “the perfect storm”

Situation Assessment

- The COVID-19 pandemic has radically changed the prospects of the global economy for the short-, the medium- and potentially for the long-term.

- In the short-term, as governments throughout the world introduce stringent measures limiting physical mobility and social activity to slow the spread of the virus and avert a health crisis, economic activity seriously contracted.

- This is leading to an unprecedented decline in global GDP during the first half of 2020. Rather than seeing a quick v-shaped recovery, the outlook assumes a more u-shaped pattern.

- The Conference Board currently estimates global GDP growth to fall at -4.8 percent for 2020 compared to 2019, which is an unprecedented decline for the post WW-II period.

- The Gulf countries face a somber outlook as well, with the GDP of the region expected to contract by 5.9% in 2020 compared to 2019.

- The Gulf countries whose economies remain highly dependent on hydrocarbon are ahead of “perfect storm” like scenario: a humanitarian crisis, that morphed into a global demand shock and pushed oil prices into a free-fall. A historical oil production cut agreement barely managed to improve prices.

- Fiscal deficits of the region are expected to widen significantly in 2020 and remain in the negative territory in the short term with most of the countries still trying to recover from the 2014 oil price collapse.

- To make things worse, the gulf authorities had to generously intervene through fiscal and monetary support packages to alleviate some of the pain caused by this crisis, adding more pressure on their budgets.

- With foreign reserves quickly depleting and raising pressure on their pegged currencies, the Gulf countries would have to tap the international markets and their sovereign wealth funds to fund the fiscal deficits, highlighting once more the eminent need to decouple the region’s budgets from hydrocarbon revenues.
As the COVID-19 pandemic spreads, the Gulf states go under lockdown

- The Gulf countries were among the first to imposed strict containment measures early on and started repatriating their citizens as soon as the health situation in Europe and the US started deteriorating and in time before the Holy month of Ramadan.

- This was followed by a bold move by Saudi Arabia that suspended the Hajj and Ummrah pilgrimage and put the holly cities of Mekkah and Madinah under 24h lockdown.

- These measures were imposed in parallel with an announcement of a public holiday for the government sector for 2 weeks which was later extended twice for 15 days.

- Despite the soaring number of 73 thousand new cases in the Gulf region during the first 16 days of May 2020, the Gulf countries have partially re-opened or getting ready to do so as of June 1st 2020.

![Gulf Region COVID-19 Confirmed Cases](source: John Hopkins University, May 16, 2020)
The rate of growth of new COVID-19 cases appears to be slowing globally.

- The Coronavirus pandemic that has spread from the Chinese city of Wuhan early January has spread worldwide at a staggering speed.
- 4.7 million cases have been registered so far as of May 16th and resulting in 314 thousand death. Spain has registered so far, the highest death rate of 554.8 death/million, followed by the UK and Italy.

Figure 3 COVID-19 key figures

<table>
<thead>
<tr>
<th>Country</th>
<th>Tests/1000</th>
<th>Beds/1000</th>
<th>Days since 100 confirmed cases</th>
<th>Cases/100,000</th>
<th>Deaths/100,000</th>
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<tbody>
<tr>
<td>Spain</td>
<td>38.6</td>
<td>3.0</td>
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<td>1,000,000</td>
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<td>U.K.</td>
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<td>Italy</td>
<td>47.2</td>
<td>3.2</td>
<td>12</td>
<td>1,000,000</td>
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</tr>
<tr>
<td>France</td>
<td>12.3</td>
<td>6.0</td>
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<td>U.S.</td>
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<td>Germany</td>
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<tr>
<td>Japan</td>
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<td>13.1</td>
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<td>South Korea</td>
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</table>
COVID-19 puts 3.9bn persons under lockdown since March 2020.

- Between March 9th and 26th, almost 92 countries have imposed restrictions on movement in hope of “flattening the curve” of the disease.

- This resulted to around 3.9bn person on lockdown according to data compiled by the Blavatnik School of Government at Oxford University.

- After almost a month, some European countries are starting to ease their restrictions. Spain allowed construction and factory workers to go back to work, while Denmark re-opened primary schools and nurseries. Austria and Germany allowed some non-essential shops to re-open.

- However, there is a high risk of resurgence as the countries re-open and the race to find a vaccine or a drug to kill coronavirus is still at the beginning.

Source: The Economist, April 26, 2020
Global stock markets disconnect from the real economy and oil

- Financial markets tumbled as fast as the Lehman collapse back in 2008 but monetary authorities were quick to respond by announcing significant rescue packages that helped stabilize market dynamics.

- April witnessed the biggest monthly rally since 1987, in complete disconnect from the grim global economic outlook and the oil market. Tech company earnings as well as the prospect of possible markets re-opening kept fueling the rally.

Figure 5 WTI versus Equity and Dollar indices

Figure 6 S&P 500: Post-crisis movement
Drop in confidence and ensuing recovery will depend on containment measures, job losses, and policy response.

Figure 7 Consumer confidence outlook – based on Q1 Global CCI and expert opinion from The Conference Board

**Consumer confidence may:**
- Rebound fairly quickly
- Recover, but slowly
- Remain depressed for a sustained period

Source: The Conference Board
The global supply shock has halted consumer spending, igniting a domino effect that will cause continued declines in consumer confidence.

- Government lockdowns to contain the COVID-19 pandemic have forced businesses to close, halting consumer spending.
- How quickly these dominos—spending, jobs, and personal finances—fall, especially in countries implementing shutdowns, will determine how fast consumer confidence drops across specific global markets.

Figure 8 Domino effect on spending

- Spending Intentions Fall: Dried up consumer spending has made workers increasingly susceptible to layoffs or reductions in hours worked.
- Job Prospects Worsen: Job losses or reduced hours destroy stable incomes and stress household finances.
- Personal Finances Deteriorate: Consumer demand then continues to weaken, and the cycle repeats itself, further destroying jobs, weighing on personal finances, and further curbing spending.
Oil demand to shrink back to 2012 levels.

- The containment measures imposed in more than 180 countries curtailed mobility, aviation and trade which account for nearly 60 percent of global oil demand. As per the International Energy Agency (IEA), by the end of March, global road transport activity was almost 50% below the 2019 average and aviation 60% below.

- Oil demand is set to decline by 29mb/d in April and by a smaller magnitude in May as most countries will remain under restraints. As such, by end of 2020, the oil demand gap (oil demand minus oil supply) would remain large. In fact, global oil demand is expected to fall by more than 15 mb/d year-on-year in 2020.

Figure 9 Oil demand gap (consumption minus production) and oil prices (Brent and WTI)

Sources: Historical data from EIA for; forecast from The Conference Board
Even a historical oil supply cut is not enough to balance the oil market.

- Following the drastic fall in global oil demand, OPEC+ countries agreed on a historic output deal to cut production by 9.7 mb/d for May and June, equivalent to a 23% cut from an agreed production level (October 2018), and a further 18% cut for the rest of 2020 and 14% cut in 2021. Saudi Arabia recently pledge to increase further its production cut in June to support oil prices. Additional reductions are set to come from other Non-OPEC countries mainly the US and Canada.

- The production cuts will slightly help alleviate the pressure on oil prices and oil storage capacities, but they are definitely not enough to erase the oil glut.

Figure 10: Annual Change in Oil Supply versus Brent prices

Sources: Historical data from EIA for; forecast from The Conference Board
Oil prices will not rally before mid-2021 when the oil glut shrinks.

The ripple effect of the simultaneous demand and supply shocks is causing a continuous wave of shocks to oil prices.

During the first 30 days of the pandemic (Feb 17= day 0) oil prices fell by 54% prior to inching up slightly post OPEC+ agreement.

Oil prices are now in Super Contango, meaning that storage capacities are full or might become full very soon, pushing producers to sell at “distressed price”.

This has pushed the maturing WTI May futures contract price to fall into negative territory, an unprecedent event caused by the inability of investors to find buyers for their contracts.

The price gap has subsided thereafter with the global production cut coming into effect, although insufficient, and expectations of sluggish oil demand, would keep prices bearish for longer.
Declining consumer confidence in the Gulf Region amid rising health concerns.

- Despite **business optimism** declined much faster than consumer confidence in Q1 however the latter is set to decline as the lockdown persist into Q2.

- Saudi PMI declined sharply for the first time to a low of 42.2 in Q1 2020 and hit a low of 37.5 in April 2020. UAE’s PMI slid to 45.2 during the first quarter, down from a weak 49.1 in Q4 2019 and was down by only 1 point to 44.1 in April.

- The latest **consumer confidence survey** in Saudi Arabia and the UAE logged increased concerns about health during 1st quarter of 2020 from 8% in Q4 2019.

- Both indicators are set to decline even further in Q2 as all of the Gulf countries have gone on full lockdown throughout the month of April and are expected to ease restrictions after mid-May. Dubai is reportedly getting ready to welcome back tourists as early as July 2020 even though the World Expo has been delayed to 2021.

### Figures

**Figure 13**
PMI - Business Confidence

**Figure 14**
CCI - Consumer Confidence

Source: IHS Markit

Source: The Conference Board® Global Consumer Index in collaboration with Nielsen
Digital technologies are the new oil of the 21st century.

- Consumers around the world and in the Gulf region shifted their behavior overnight in light of the quick spread of the coronavirus. As we explore these changes, the Saudi point of sales transactions for March 2020 are a good gauge to help us understand those shifts and highlight the effect of the COVID-19 crisis on the consumer behavior in the Gulf region.

- Some traditional sectors soared like food and beverages and health while that eased the anxieties of social distancing thrived, like the electronic and electric devices and telecom highlighting the growing importance of digital technology in our lives.

Figure 15  Saudi Arabia March 2020 point of sales transactions (% year-on-year)
Contraction in the Gulf region GDP in 2020 followed by a mild recovery in 2021.

- The Gulf countries are currently facing not only one but two seismic shocks:
  - A demand shock that has halted most sectors as the coronavirus turned into a pandemic.
  - Quickly followed by a supply shock with oil prices losing more than 50% in a matter of weeks, and significant decline in global oil demand.

- The significant cut in oil production results in a 2.5-3.5% cut in headline GDP growth in 2020, especially for countries that are more dependent on oil revenues like Kuwait and Oman.

- The scenario used for the Gulf economies is a U-shaped recovery with a gradual and slow opening of the economy and return of social activities.

- The region's GDP is forecasted to decline by 5.9% in 2020 and then to recover by 2.2% in 2021.

- This is in line with the IMF Longer Outbreak Scenario and not their baseline scenario which is a V-shape recovery.

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**Gulf Economic Outlook - Q1 update**

**GULF REGION GDP OUTLOOK 2020-2021**

**Figure 16 Annual GDP Growth 2020 - 2021**

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf Region</td>
<td>-5.9</td>
<td>2.2</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>-7.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>-5.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Qatar</td>
<td>-4.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Oman</td>
<td>-3.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Kuwait</td>
<td>-7.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Bahrain</td>
<td>-3.7</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: The Conference Board
Three scenarios for 2020 with one result: a significant GDP contraction in 2020

- Depending on the efficiency of the containment measures and the number of new COVID-19 cases, the region is subject to three possible scenarios for 2020 and 2021; however, all three would result in a significant GDP contraction in 2020.

- Under the U shape recovery scenario in 2020 (extended contraction, slow recovery), Q2 is set to witness the sharpest GDP, with the OPEC+ agreement going into effect. Economic weakness would stretch into Q3 and Q4 would see a shy return of non-oil activity, specially for the services sectors.

- The V shape recovery scenario (deep contraction, fast recovery) is more of an optimistic scenario, where the deep economic contraction is in Q2 only, followed by a stronger recovery in Q3.

- However high uncertainty reigns if the economy gets opened up too fast leading to a second wave of COVID-19 cases. Then we are faced with a W-shape (2nd contraction in Q4 due to new peak).

- GDP of the gulf region is expected to recover modestly in 2021 as oil production increases slightly and non-oil GDP improves by 2.1% y/y.
Bahrain’s GDP to shrink by 3.7 percent in 2020

- The timing of the COVID-19 crisis couldn’t be more wrong for Bahrain. The oil sector was going through significant infrastructural and legislative changes that would boost its contribution to GDP. However, the OPEC+ agreement to cut production for the upcoming 18 months, will negatively impact the sector and its ongoing projects.

- Bahrain’s GDP index (Q4 2019=100) is expected to decline to a low of 91.9 in Q2. The remaining two quarters of the year would see a very significant recovery in the GDP index to 97.8 by Q4 2020 since Bahrain was among the first few countries to open up malls and restaurants early April, amidst restrictions on the number of customers.

- Bahrain’s GDP is projected to contract by 3.7 percent in 2020. The non-oil sector is expected to negatively contribute to GDP by 3.2 percent in 2020 and then to bounce back by 2.2 percent in 2021.
Bahrain’s budget under tremendous pressure while trying to commit to its Fiscal Balance Program

- In February 2020, the minister of Finance announced the reduction of budget deficit as a percentage of GDP from 6.5 percent in 2018 to 4.7 percent in 2019, as a result of implementing several fiscal reforms under the Fiscal Balance Program implemented back in October 2018.

- Bahraini government announced on March 17th, $1.5bn (or 4.2% of GDP) stimulus package for a period of three months to support the economy. The support package comprises seven initiatives, most importantly payment salaries of nationals working in the private sector, payment of the utility bills for Bahraini nationals and companies and doubling the liquidity fund to support the SMES.

- As of April, it was agreed to reduce non-priority government agencies expenditure by up to 30 percent and delay some capital expenditure as a way to accommodate for the emergency COVID-19 expenditures and the expected lower revenues.
Kuwait’s GDP is expected to contract by a sharp 7.3% in 2020

- Kuwait’s GDP index (Q4 2019=100) is expected to decline to a low of 90.5 in Q2 as a result of the extended lockdown period and the surge in new COVID-19 cases in May. The country will get ready to re-open by the beginning of June, following an imposed 20 days of full lockdown early May.

- The remaining two quarters of the year would see a very mild recovery resulting in a sharp 7.3 percent contraction in 2020, followed by a 2.4 percent recovery in 2021.

- Kuwait has agreed to cut its oil production by 23 percent in May and June 2020, followed by an 18% cut for the year as part of the OPEC+ agreement. Subsequently, oil GDP is set to contract by 10.6 percent y/y in 2020.

- Equal contribution from both the oil and non-oil sectors will boost Kuwait’s GDP up by 2.4% in 2021, however real GDP would still lag behind 2019 levels.
Kuwait Budget deficit expected to reach 36 percent to GDP excluding investment income

- Kuwait’s economy remains highly dependent on hydrocarbon revenues. Since the financial crisis, Kuwait has pushed back diversification reforms and implemented only a partial release of water and electricity subsidies and remained reluctant at introducing VAT and excise taxes.

- At $30/bbl, Kuwait is expected to see its fiscal deficit soar to KD 13bn or 36 percent of GDP, the largest since 2008 and above 38 percent after the transfers to the Future Generations Fund.

- In the light of the pandemic, the government announced an emergency fiscal support package of KD 500Mn or 1.4 percent of GDP to help alleviate the negative impact of the coronavirus crisis. Those support packages include mainly:
  ✔ postponing social security contributions for 6 months for private sector companies
  ✔ removing government fees on selected sectors
  ✔ providing low interest, long-term loans to SMEs through joint financing from the SME fund and banks
Oman gets ready to kickstart its Vision 2040 with a setback

- Constrained oil demand and low oil prices are expected to reduce Oman GDP by 3.7% in 2020, under the U shape scenario. The economy would recover marginally in 2021, supported mainly by non-oil activities.

- Reduced oil revenues and emergency surge in expenditures to weather the COVID-19 pandemic will exercise tremendous pressure on an already burdened fiscal budget.

- Year 2020 is supposed to mark the kickoff of the Oman Vision 2040. The preliminary economic targets of the vision entail a GDP growth of 5 percent in 2030 and 2040, and fiscal balance deficits not to exceed 3 percent of GDP. The COVID-19 pandemic will cause a slight setback to the vision but would probably highlight even more the urgency for diversification away from the hydrocarbon sector.
Qatar to face a sharp decline in GDP in 2020 following several years of weak economic growth

- Qatar has been witnessing tamped economic growth for the last few years with FIFA 2022 infrastructure projects coming to an end and delayed mega LNG projects.

- Qatar GDP index had a strong Q1 start, then plunged down to 91.5 in Q2, following the COVID-19 pandemic, faltering oil and gas prices as well as the slowdown in economic activity.

- Qatar’s GDP index will slowly recovery throughout 2020, however it would record a 4.3 percent contraction for 2020, followed by a strong 3.3 percent in 2021.

- Early March, the Qatari authorities announced a generous support package of $20.6bn or 13 percent of GDP in an effort to support the hard-hit sectors of the economy.
Qatar LNG sector less impacted by COVID-19 than the oil sector

- Qatar is the world’s largest exporter of liquified natural gas (LNG) in the world and for several years it has been trying to expand its capacity production through the North field gas projects that would boost Qatar’s production by 43% by end of 2024.

- The COVID-19 pandemic had a slightly lesser impact on the natural gas dynamics and outlook for 2020 and 2021. In fact, according to the IEA, LNG dynamics have decoupled from oil markets for a few reasons:
  - LNG was oversupplied since 2019 as a result of booming US shall production which pushed prices down to $1.7/mbtu in April 2020 from $4.0/mbtu back in December 2018.
  - IEA in its Global Energy Review 2020 estimates a 3 percent decline in demand for Q1 and a 5% drop for 2020, a much milder decline than the forecasted oil demand drop as LNG products are primarily used for heating (residential and commercial sector), power generation and industrial production and would eventually recover more quickly.
Saudi Arabia’s oil GDP drags GDP headline down to a 5.7% contraction in 2020

- Saudi Arabia’s GDP index (Q4 2019=100) is expected to decline to a low of 89.4 in Q2 as a result of the sharp decline in oil prices and reduced non-oil activity. The country has agreed to cut 2mbd in April then followed by a pledge in Mid-May to cut further its production to insure the elimination of the oil glut. The economy would recover slightly in Q3 and Q4 but remains 5 percent below Q4 2019 levels.

- This would result in a sharp 5.7 percent contraction in 2020, followed by a healthy recovery of 2.5 percent in 2021.

- With a 23 percent cut in oil production and more than 17 percent decline in global oil demand in 2020, the Saudi oil GDP would decline by 6.6 percent in 2020 and remain stagnant in the following year.

- Most of 2021’s growth is going to stem from the non-oil sector as oil production and prices are set to remain low as the global demand slowly goes back to pre-coronavirus levels.
Saudi Arabia faces a double-digit budget deficit in 2020

- Saudi Arabia’s oil revenues would be cut by more than half as oil prices remain in the $30/bbl range.

- The coronavirus spread has pushed the Saudi government to cancel the Hajj season, the second largest source of revenues after oil. In 2019, Saudi Arabia generated around $8 billion in Hajj revenues.

- In a bold move, Saudi Arabia announced on May 12 that it will increase its VAT from 5 percent to 15 percent starting as of July 2020 while the cost of living allowance that was introduced back in 2018 will be suspended as of June 1st. This decision is part of more extensive expenditures cuts and extensions. Several major projects pertaining to the Vision 2030 will be affected as well. This would result in a $26 billion in expenses, or about 100 billion Saudi riyals.

- Saudi Arabia logged a $9bn deficit in Q1 2020, following the collapse of oil prices. As per the Ministry of Finance the country may resort to $26bn in borrowings and $32bn withdrawal from its foreign reserves to fund this year’s deficit.

Figure 31 Saudi Arabia Fiscal Balance

Source: Haver for the historical data, forecast by The Conference Board
UAE’s GDP to be hit by a sharp 7.4 percent contraction in 2020

- UAE’s economic activity lost momentum fairly quickly with COVID-19 impacting instantly supply chain, transport and tourism (Chinese tourist make up 6% of total UAE tourists). In Q2, the GDP index would decline to 92.3 or 7.7 percent since Q4 2019.

- The remaining two quarters of the year would see a very mild recovery in the GDP index to 94.2 by Q4 2020. Non-oil activity will remain subdued for the rest of the year although the country has been partially open since early May and is getting ready to welcome back tourists as early as July 2020. The highly anticipated Expo 2020, that was supposed to start in November of this year will be postponed till end of 2021.

- This would result in a sharp 7.4 percent contraction in 2020, followed by a 1.6 percent recovery in 2021. Non-oil GDP will be severely hit this year, marking a 5.9 percent contraction.

- The UAE government announced a $7.2bn (or 2 percent of GDP) fiscal support measures mostly aimed at supporting the private sector in form of reduced government fees, increased subsidies, accelerating infrastructure projects as well as liquidity support to the SMEs.
Endnotes and sources

1. For further details on the US, advanced and emerging economies head to The Conference Board Global Economic outlook.

2. Gulf countries historical GDP and fiscal budget data are from Haver, forecast by The Conference Board.

3. Details of the countries fiscal and monetary support packages are from the IMF Policy Tracker.

4. Historical Oil demand and production data from EIA Short Term Energy Outlook, May 2020, forecast by The Conference Board.

5. IEA Global Energy Review 2020
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