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GULF ECONOMIC OUTLOOK 2021- Quarterly Update

Forecasting the Gulf Economy in Times of Crisis

February 2021 | by Hiba Itani

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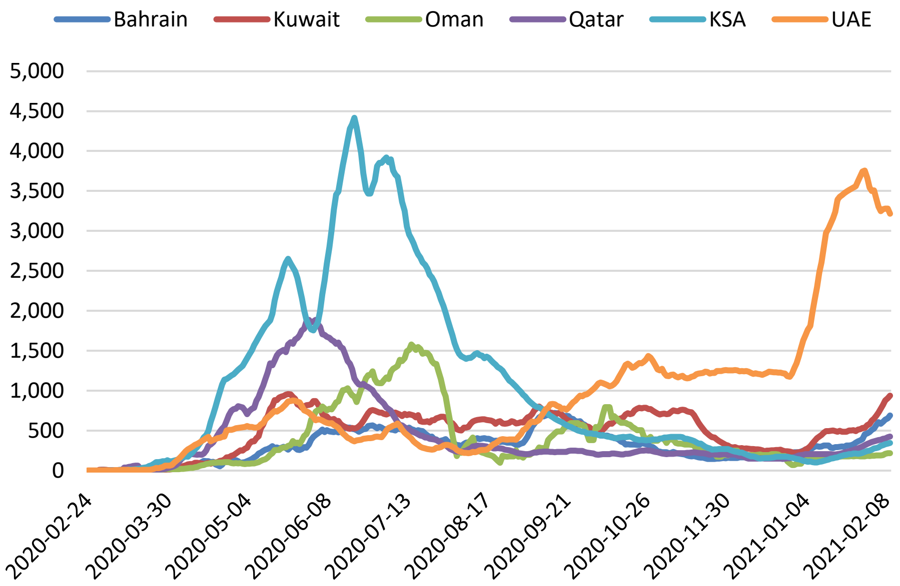
Gulf Region

Highlights & Summary

UAE and Bahrain lead the vaccine race in the region

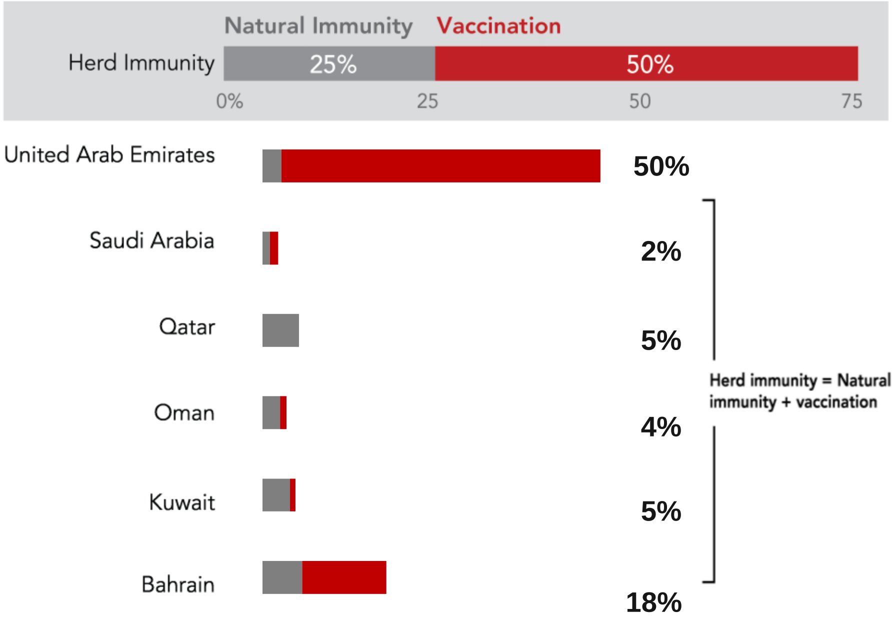
- The second wave of COVID-19 cases hit the US and Europe as early as December 2020, igniting a renewed lockdown in Europe. Travel restrictions and containment measures were reintroduced amid a slow rollout of the vaccine in January 2021. The Gulf region, to date, appears less affected by the second wave, with the exception of the UAE. The UAE lifted all COVID-19-related restrictions and opened its airports back in July 2020, allowing travelers to quarantine in the country prior to going to their final destinations. This resulted in a soaring number of new COVID-19 cases there.
- In terms of vaccination rates, the UAE and Bahrain lead the Gulf region and rank second and fifth globally (as of February 8, 2021). Both countries are administering the Sinofarm II vaccine, which has a 79 percent efficacy according to the interim results of a phase 3 trial in the UAE. Both countries are relying heavily on a rebound in tourism and services to drive non-oil GDP growth in 2021; hence the need to vaccinate and protect the population in order to lift restrictions and allow businesses and tourists to fly safely back into the country.

UAE hit by a stronger second wave



Source: Our world in data as of February 10, 2021

The vaccine equation

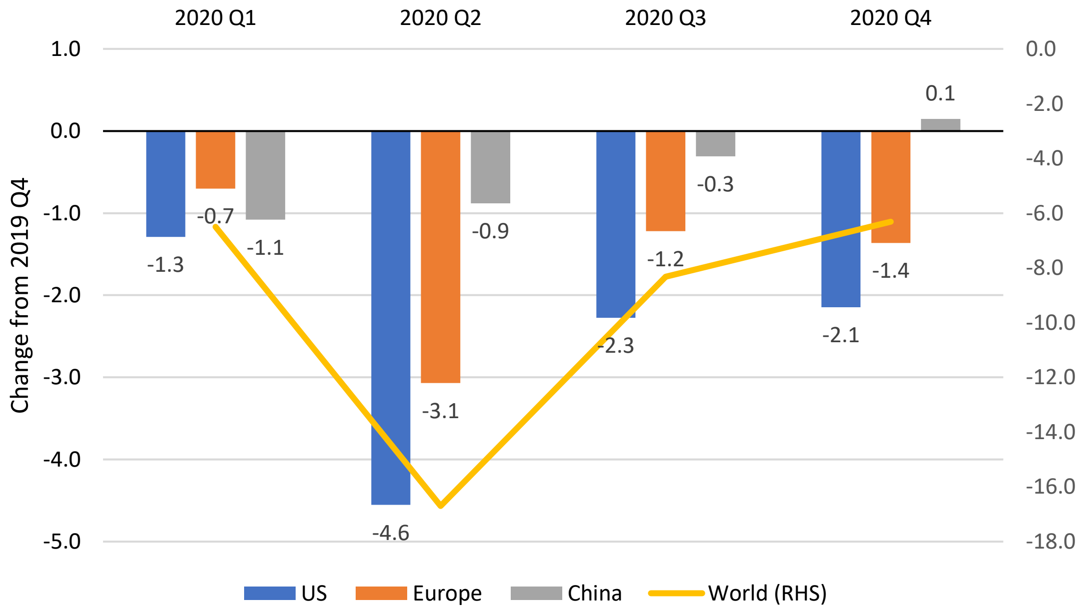


Source: The Conference Board

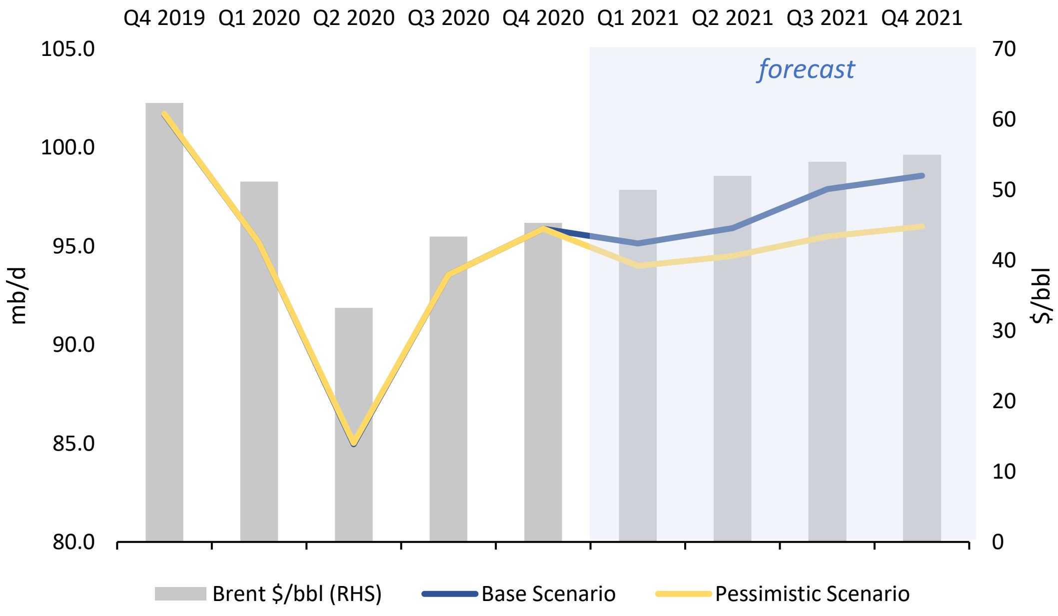
Oil demand recovery stalled by second wave of COVID-19 wave but China continues to lead oil consumption

- Global oil demand has recovered from its trough back in Q2 2020, supported by a rapid economic rebound in China. In Q4 2020, China's oil demand surpassed Q4 2019 levels by 0.1 mb/d, and is expected to continue to increase in 2021, offsetting the slow recovery of oil demand in the US and Europe. The second wave of COVID-19 cases in Q4 2020 and early Q1 2021 is expected to dampen OECD oil demand even further. Asian economies are expected to support global oil demand growth in 2021.
- The Conference Board base case recovery scenario for global oil demand in 2021 assumes: 1) a rapid vaccine rollout and a 75 percent immunity level in the population by the first half of 2021; and 2) an accelerated rebound in economic growth and improvement in aviation activity by the second half of the year. This would push oil demand to an average of 96.9 mb/d for 2021, though it would remain short of 2019 levels by 4.4 mb/d. The Conference Board forecasts Brent prices to average $56/bbl for 2021, a 29 percent increase from 2020, supported by the OPEC+ policy that will continue to control the oil taps according to the oil demand recovery
- A pessimistic scenario entails slower or inefficient vaccine rollouts across the globe, and sluggish containment of the second wave of COVID-19 and its new strains, which would lead to extended lockdown periods. As a result, in this scenario oil demand may be, on average, 6 mb/d lower than 2019 levels.

Regional Oil Demand growth (% y/y)



Oil Demand and Oil Price Forecasts

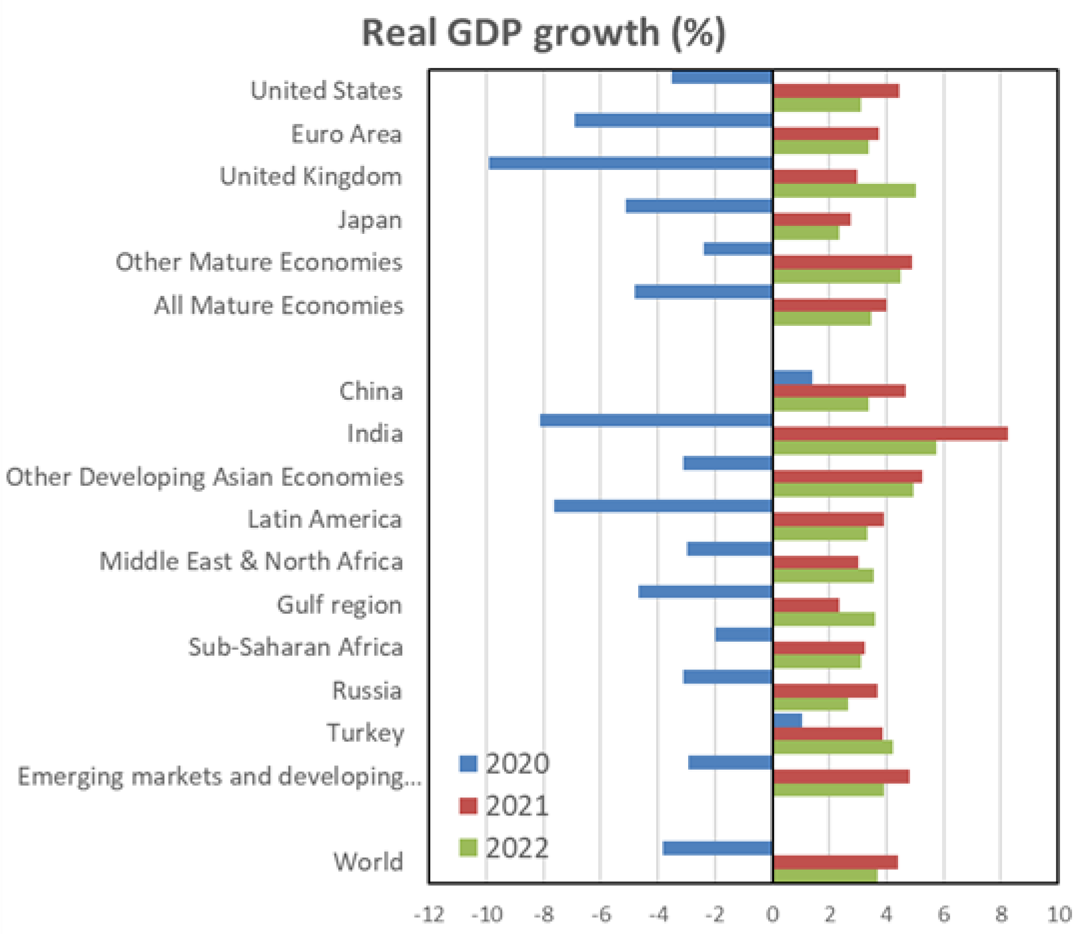


Source: historical data from EIA, forecast from The Conference Board

The global economic recovery from the pandemic will stretch well into 2022

Global Economic Outlook

- The "Great Lockdown" in the first half of 2020 led to a collapse in economic activity, hitting emerging markets and mature economies in equal measure.
- The lifting of restrictions over the summer, massive fiscal stimulus, and easing financial conditions led to a strong rebound in global economic activity in the second half of 2020.
- But the recovery has been uneven:
  - ✓ Sectors more exposed to social distancing measures such as tourism and many service-sector activities were much harder hit, and in many cases, remain depressed
  - ✓ Technology products exporting countries in particular and manufacturers in general have been better able to keep production lines moving. And as global demand shifted from services to goods, global trade in goods recovered to prepandemic levels within seven months (compared to 28 months following the global financial crisis)
  - ✓ Some countries, notably in East Asia, have been better able to suppress the virus, leading to a faster normalization of economic activity
- Renewed restrictions on activity following a surge in cases in Q4 2020 and Q1 2021 are leading to another slowdown in activity, in particular in Europe and Japan. But the impact is much smaller relative to the Q1/Q2 2020 lockdowns, as businesses have learned to adapt, and government has learned to better calibrate policy.
- Widespread global vaccination is unlikely to be achieved by mid-2022, meaning the global economic recovery will extend into 2023, and leading to above long-term average growth in the coming years. However, we don't expect output in most countries to rebound to prepandemic projections due to scarring effects.



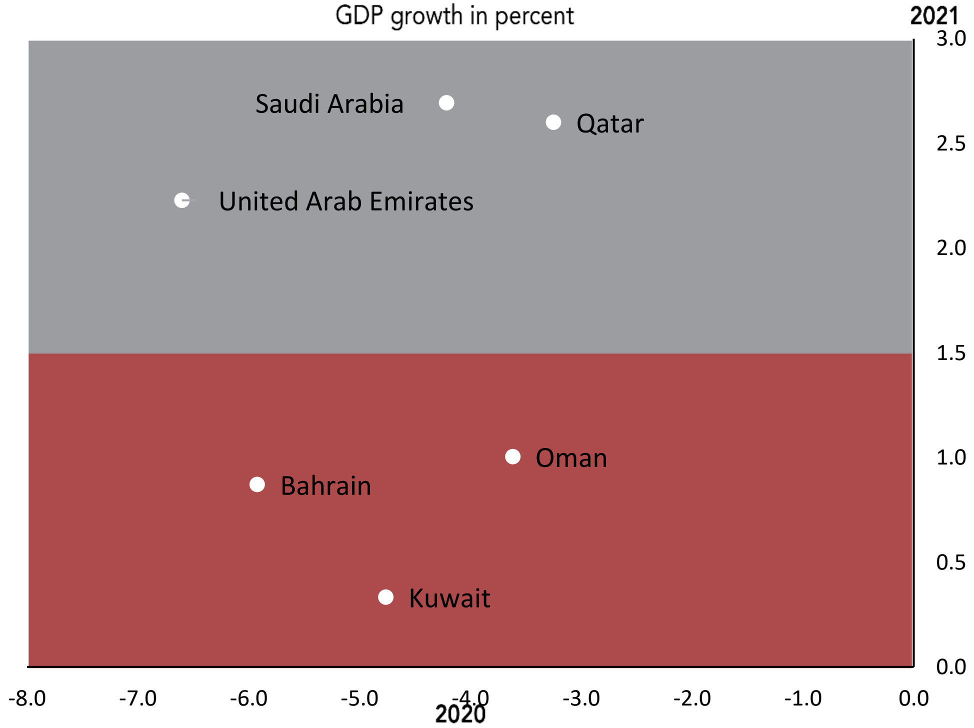
Source: The Conference Board Global Economic Outlook 2021, February 2021 update.

A non-oil recovery is imperative for growth in the Gulf region

Gulf Region GDP

- The second wave of COVID-19 cases, coupled with delays in vaccine production and rollout, will hamper the oil demand recovery and limit the rebound of oil economies in 2021. Although 2020 global growth forecasts have been revised upward slightly, uncertainties surrounding the 2021 recovery path remain high, and the oil demand recovery will continue to face headwinds from the progression of the pandemic.
- As for the Gulf region, The Conference Board expects real GDP to contract by 4.7 percent in 2020 and to rebound by 2.4 percent and 3.6 percent, respectively, in 2021 and 2022. Oil GDP is expected to contract by 4.3 percent in 2020, followed by flat growth in 2021 before gaining momentum in 2022.
- With a subdued 2021 oil demand outlook, the non-oil recovery will be the main contributor to growth in 2021. However, this recovery is subject to the extent of government support to the private sector and the extent of serious reforms to decouple economies from oil production.
- Countries that have long realized that heavy reliance on oil revenues is not sustainable and are committed to their development plans to support the non-oil economy will have a head start in the race to recovery. Hence, the economic recovery of Gulf countries in 2021 will diverge drastically, with Saudi Arabia, Qatar, and the UAE rebounding faster than Oman, Bahrain, and Kuwait.

Split recovery within the Gulf economies



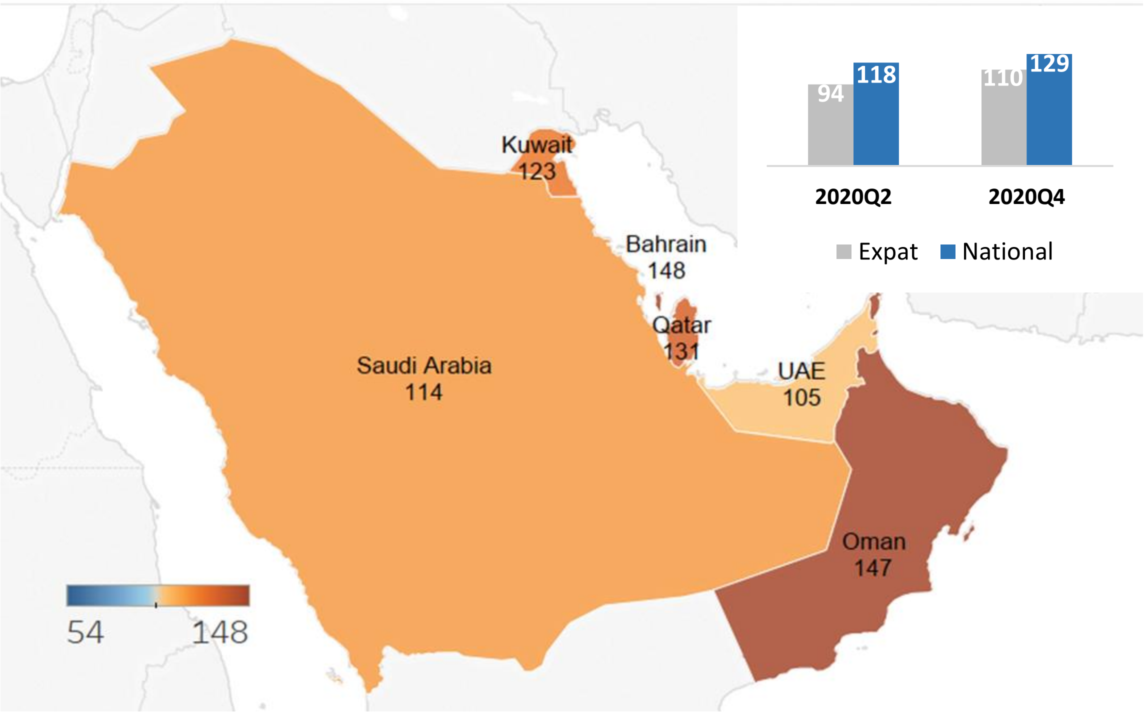
Source: The Conference Board

Consumer Confidence

Despite the uncertainties around the prospects for growth in the non-oil economy, Gulf region consumer confidence remains very high

- The Conference Board® Global Consumer Confidence Index for the Gulf region improved from 104 in Q2 2020 to 117 in Q4 2020 (a reading above 100 is considered positive). All six markets saw a rise in confidence as economic activity resumed and vaccine development quickly advanced. The easing of restrictions, in tandem with the continuous slowdown in daily COVID cases and the imminent rollout of a vaccine, has positively contributed to the overall index level in the Gulf region.
- Fiscal support packages to the private sector and the guaranty of national jobs boosted net consumer optimism around job prospects by 24 percentage points between Q2 and Q4 2020, the biggest improvement among all three drivers. Two-thirds of consumers in the region were optimistic about the future of their jobs, with expats more confident about their job security than nationals.
- Q4 was marked by a slight improvement in personal finances from Q2, with two-thirds of Gulf consumers confident about their personal finances. Across the Gulf, governments have applied different loan, utility bill, and (private) school fee relief programs to alleviate the burden of the crisis, and have supported household balance sheets.
- Consumers in the Gulf remained cautious about their spending despite a 13 percentage point increase in net spending intentions in Q4 2020 from Q2 2020. Expats were neutral about whether it is a good time to spend. Nationals were more optimistic, even as uncertainty persists around the evolution of the pandemic and the economic outlook for the region, which remains tied to an improvement in the oil market.

GLOBAL CONSUMER CONFIDENCE INDEX FOR THE GULF REGION, 2020 Q4: 117



Note: The Global Consumer Confidence Survey was not conducted in China during 2020 Q4. The Global Index for 2020 Q4 reflects the global aggregate without China. A reading above 100 indicates that there are more optimistic consumers than pessimistic ones. A reading below 100 indicates the opposite, with more pessimistic consumers than optimistic ones.
Source: The Conference Board® Global Consumer Confidence Survey, 2020 Q4

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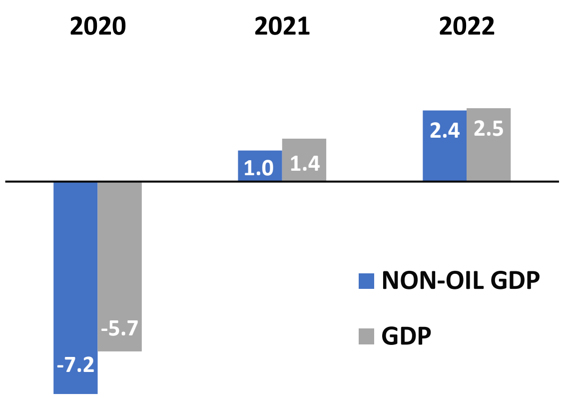
Country Specific

Bahrain is betting on non-oil recovery to overcome the impact of the pandemic

- Bahrain's real GDP will likely contract by 5.7 percent for 2020, followed by a mild recovery in 2021. According to the February 2021 update for The Conference Board Global Economic 2021 Outlook, non-oil GDP growth, the main driver of economic growth in the country, is expected to decline by 7.2 percent in 2020 and rebound by 1 percent in 2021 and 2.4 percent in 2022, supported by the financial, manufacturing, and government services sectors.
- Bahrain is pushing hard to vaccinate its population, and has so far managed to inoculate 10 percent of the targeted population. The faster it reaches a high level of herd immunity, the safer it is to open up the country and allow tourists back.
- Prior to the pandemic, Bahrain was on track with its development plan goals and was able to reduce its fiscal deficit to 5 percent of GDP in 2019. However, the massive decline in non-oil revenues in 2020 pushed the country's budget deficit to around 14 percent. Its debt level jumped to 128 percent of GDP in 2020, up from 103 percent in 2019, and is expected to reach 137 percent of GDP by 2025, according to the IMF. Bahrain continues to rely on the $10 billion zero-interest aid package it received from Saudi Arabia, UAE, and Kuwait to finance part of its fiscal deficit and some development projects. In fact, Bahrain has already used 60 percent of the fund, and has allocated another BD 0.656 billion this year for development projects.
- According to The Conference Board Global Consumer Confidence Index for the Gulf region, consumer confidence in Bahrain increased to 148 in Q4 2020, up 34 points from Q2. Bahrain ranks first in terms of optimism, globally and regionally. Both nationals and expat consumers have high levels of confidence at 150 and 147, respectively. The rise in confidence is the result of gains in all three drivers of confidence, especially with regard to job prospects. Bahrain is the only country in the region to exhibit substantial improvement in spending intentions, with the majority of consumers believing that this is a good time to spend.
- In fact, point-of-sale transactions have recovered substantially since July 2020, but remain 4.3 percent lower than prepandemic levels. The easing of COVID-19 restrictions helped the recovery in services, hotels, and restaurants.

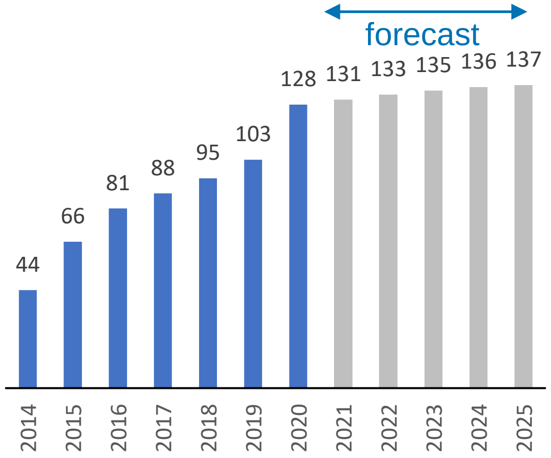
Bahrain

GDP and Non-Oil GDP Annual Growth (in %)



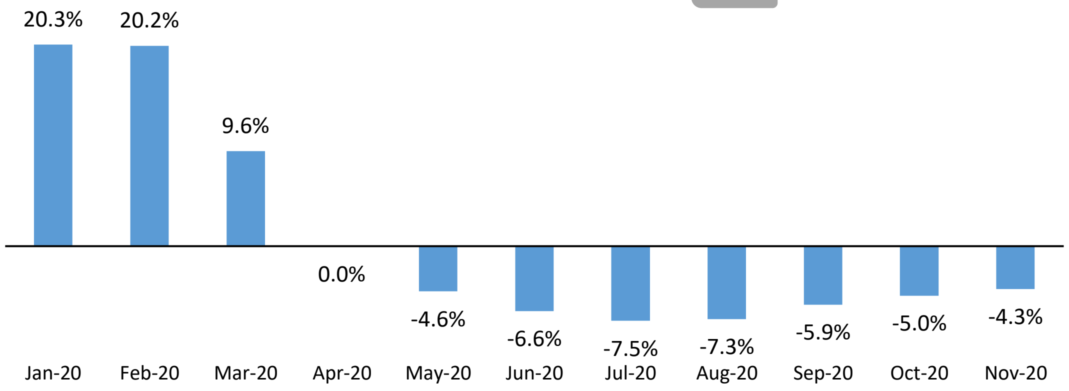
Source: The Conference Board

Public Debt to GDP (in %)



Source: IMF

Point of Sales Values YTD annual growth



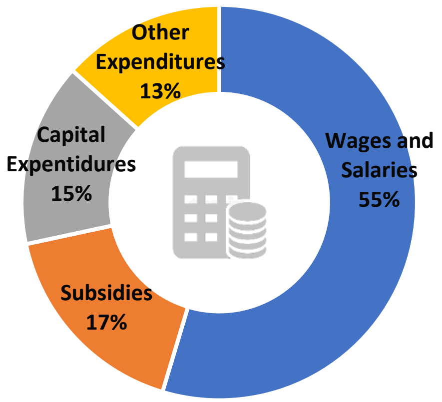
Source: Central Bank of Oman

Kuwait's lack of real economic reforms weakening its 2021 recovery

- Kuwait's GDP growth is forecast to log a 4.6 percent annual contraction in 2020, with a weak recovery in the coming years, according to The Conference Board. Kuwait's lack of serious reforms to decouple oil kept its economy exposed to the volatility in the energy market, and will remain a hurdle to a healthy economic recovery.
- Non-oil GDP is expected to contract by 7.1 percent in 2020 compared to 2019, and to recover by 2.6 percent and 1.8 percent in 2021 and 2022, respectively—a modest recovery in comparison to the forecast rebound of the non-oil sector in the neighboring Gulf countries. This is mainly due to delays in implementing development plan projects and the current tight fiscal situation, which will limit the ability of the government to inject funds to support the private sector.
- Kuwait's 2021/2022 budget was released, with a deficit of KD 12 billion and no sign of economic reforms. The budget is set at $45/bbl with average oil production of 2.425 mb/d, resulting in a 62 percent increase in oil revenues; non-oil revenues are calculated to be 3.8 percent lower than the previous fiscal budget. Wages and subsidies continue to make up more than 70 percent of the budgeted expenditures, while capex represents only 15 percent.
- Kuwait was cash strapped once again in 2020. The oil shock that accompanied the pandemic erased around 60 percent of the country's oil revenues, and government spending had to be increased to combat the pandemic's repercussions. This led Kuwait to register its sixth consecutive deficit in as many years. Funding gaps are usually financed through debt markets and/or the General Reserve Fund. However, since the expiration of the debt law back in October 2017, the government has been exclusively tapping the latter, and those funds are expected to be depleted very soon.
- Despite possessing the world's largest sovereign wealth fund relative to GDP (the size of the future generation's fund is estimated at close to 475 percent of GDP), the Kuwaiti government is legally prohibited from accessing these savings, greatly restricting its liquid position. Dealing with the deficit may require drastic cuts or spending reforms, which in turn may limit greatly needed stimulus and capex expenditures.

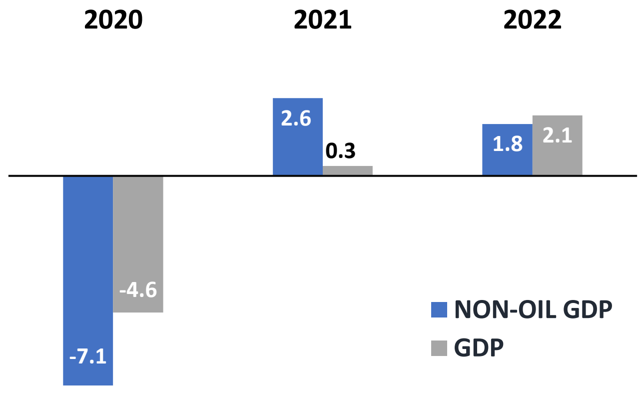
Kuwait

Budget Allocation 2021/2022



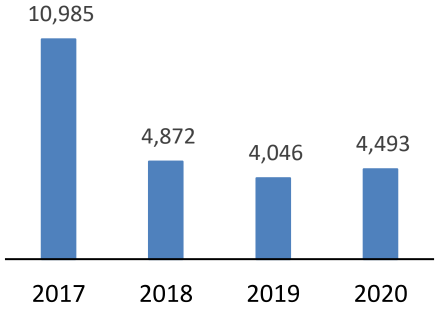
Source: Kuwait Ministry of Finance

GDP and Non-Oil GDP Annual Growth (in %)



Source: The Conference Board

Projects Awarded (in USD Mn)



Source: MEED

SWF Funds	In $Bn	% GDP
Kuwait	592	475%
Saudi Arabia	915	117%
UAE	1,350	333%

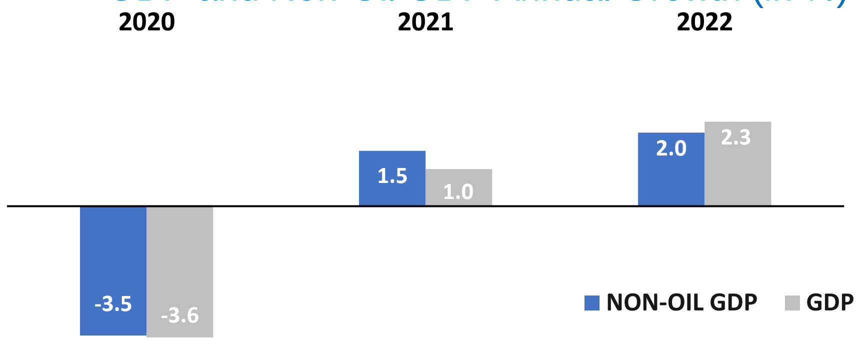
Source: Zawya

The pandemic has accelerated Oman's long-awaited reforms and nationalization program

Oman

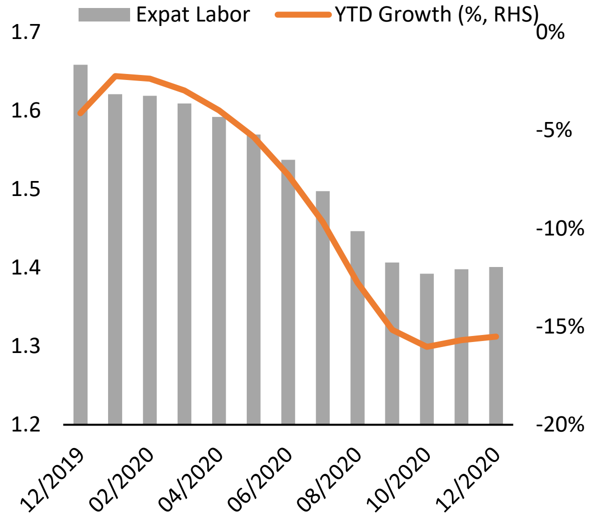
- COVID-19 has severely impacted the Omani economy. The Conference Board expects Oman's GDP to contract by 3.6 percent in 2020 from 2019, followed by a mild recovery of 1 percent in 2021, before accelerating again in 2022.
- The year 2020 was supposed to mark the kickoff of Oman Vision 2040. The preliminary economic targets of the Vision entail increasing real GDP growth by 5 percent annually between 2020 and 2040, with fiscal balance deficits not to exceed 3 percent of GDP. However, the repercussions of the pandemic erased all previous progress in reducing the budget deficit, which is expected to hit 20 percent in 2020, per the IMF. According to the Ministry of Finance, the country is planning to fund its deficit through a combination of foreign borrowing (42%), local borrowing (31 percent), and reserves (27 percent). Oman also received $1 billion in direct financial aid from Qatar in November 2020.
- With oil prices expected to remain low—below $70/bbl for the next two years—Oman reacted quickly to curb its weak fiscal position and enacted a series of reforms to boost its non-oil revenues and limit government expenditures. Starting in April 2021 the country will introduce a 5 percent VAT tax, followed by an income tax on wealthy individuals by 2022—the first of its kind in the region. Oman will also start reducing electricity subsidies until they are completely phased out by 2025.
- The Omani labor market has undergone significant changes, with the government taking serious steps to nationalize the labor force. As of December 2020, 15 percent of the expat labor population had left the country, yet those jobs were not replaced by nationals.
- Despite the harsh reality of steep fiscal deficits and the exodus of expat labor, consumers in Oman are optimistic, ranking second in the Gulf in terms of confidence. Confidence improved from 131 in Q2 2020 to 147 in Q4 2020.

GDP and Non-Oil GDP Annual Growth (in %)



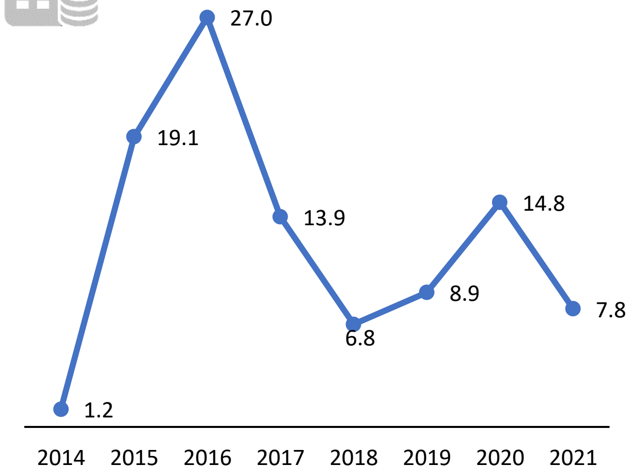
Source: The Conference Board

Expat Labor



Source: CEIC

Fiscal Deficit as a % GDP



Source: CEIC

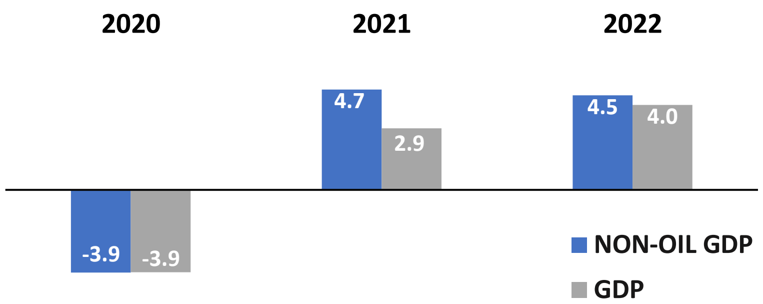
Qatar’s non-oil GDP is expected to drive growth in the coming years

- The Conference Board expects Qatar’s economy to contract by 3.1 percent in 2020, to rebound by 3.3 percent in 2021, and expand further ahead of the FIFA World Cup Qatar 2022. The impact of the pandemic in Qatar has been milder than in other countries in the region due to its fiscal breakeven oil price of $40/bbl—lower than other Gulf countries—which has shielded the economy from the volatility in the energy market and Qatar’s high financial buffers.
- Nevertheless, as the world’s largest LNG exporter, Qatar suffered from the repercussions of COVID-19. According to the IEA’s Gas 2020 report, global LNG is expected to decline by 4 percent in 2020 and recover gradually in 2021 and beyond. Similar to oil demand, a gas demand recovery is dependent on a successful vaccine rollout. Oil GDP is expected to contract by 1.8 percent in 2020 and recover marginally by 2 percent in 2021.
- Non-oil GDP is forecast to retreat by 4.5 percent in 2020, despite strong government support to the private sector. Construction activity remained strong throughout 2020, reflecting Qatar’s commitment to successfully launch FIFA World Cup Qatar 2022. The value of construction projects awarded in 2020 reached $4.9 billion, up 3.5 percent from the previous year and the highest in the region, followed by Saudi Arabia at $3.4 billion. Improvement in trade and services activities is expected following the end of Qatar’s rift with Saudi Arabia, UAE, Bahrain, and Egypt.
- Qatar’s 2021 fiscal budget was approved in December 2020, with a deficit of $9.4 billion, due to lower oil revenues. Expenditures were reduced by 7.5 percent from the 2020 budget, mainly due to a 19.9 percent cut in the budget for major projects. Spending on wages and salaries saw a minor decline of 1.9 percent versus an increase in current expenditures by 4.7 percent from the previous year.
- According to The Conference Board Global Consumer Confidence Index for the Gulf region, Qatar’s consumer confidence reached 131 in Q4 2020, up 21 points from Q2 2020. Confidence in jobs, personal finances, and the spending outlook improved for both national and expat consumers. Qatar’s Purchasing Manager Index remained stable for Q4 2020, above the 50 expansion mark, following a significant rebound in Q3.

Qatar

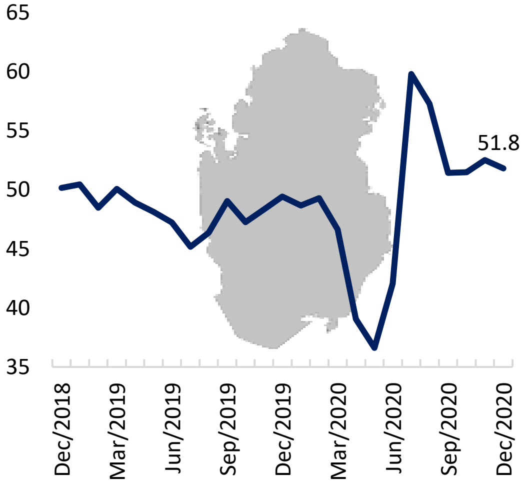
Budgeted oil price $40/bbl

GDP and Non-Oil GDP Annual Growth (in %)



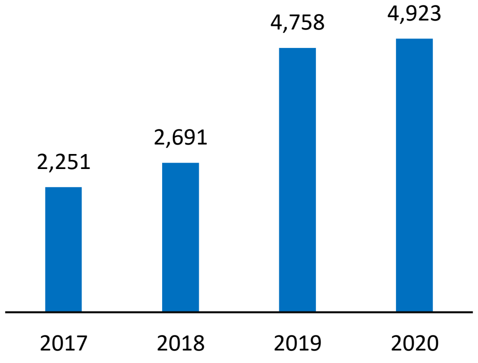
Source: The Conference Board

Qatar Purchasing Power Manager Index (PMI)



Source: Markit

Construction Projects Awarded (in USD Mn)



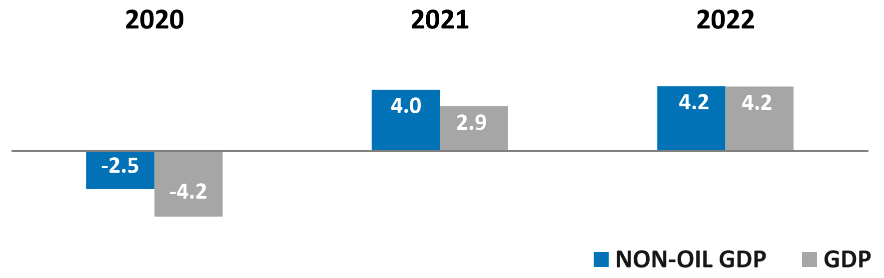
Source: MEED

Saudi Arabia’s 2021 GDP growth is expected to lead the economic recovery of the region, supported by massive government funding

Saudi Arabia

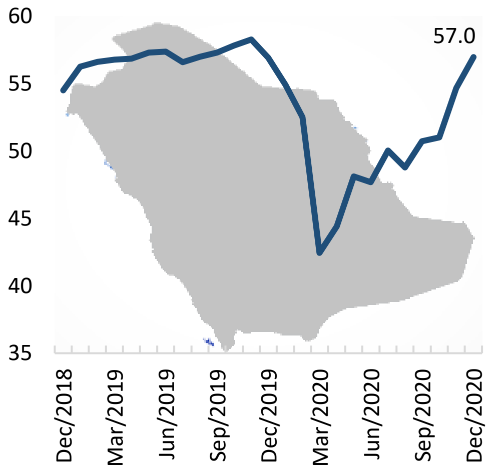
- Saudi Arabia’s GDP is expected to contract by 4.2 percent in 2020, followed by a rebound of 2.9 percent and 4.2 percent, respectively, in 2021 and 2022.
- According to the February 2021 update for The Conference Board Global Economic Outlook, Saudi Arabia’s non-oil GDP is expected to grow sharply—by 4 percent—in 2021, following a lackluster performance in 2020 (but still much better than the non-oil sector for its neighboring countries). The government’s strong commitment since early 2016 to its Vision 2030 plan, and its focus on decoupling the economy from oil and increasing private sector participation, shielded Saudi Arabia’s non-oil sector, and will provide the economy with the momentum needed to reboot amid a weak recovery in oil demand, mainly during the first half of 2021. In fact, the country’s Public Investment Fund announced back in November 2020 that it would inject $40 billion annually into the local economy in 2021 and 2022, fostering strong and stable non-oil sector growth for the coming years. These funds will be assigned to multiple sectors, including tourism, sports, industry, agriculture, transportation, and mining.
- Oil GDP is expected to grow by 1.1 percent in 2021 in tandem with the global oil demand recovery as a result of the vaccine rollout. However, downside risks continue as the second wave of COVID cases reaches China and other east Asian countries, which could lead to a renewed lockdown and lower demand for Saudi oil.
- The 2021 fiscal budget projects a 4.9 percent deficit to GDP for 2021, a strong improvement over the expected 12 percent deficit to GDP in 2020. Non-oil revenues are expected to increase by 10 percent year over year, mainly driven by tax revenues.
- Both the Consumer Confidence Index and the Purchasing Manager Index recovered in Q4 2020, as the number of COVID cases remained low despite an easing of most restrictions. Saudi consumer confidence rebounded in Q4 2020 to 114, seven points shy of prepandemic levels but 11 points higher than in Q2, with consumers more confident about the outlook for their jobs and personal finances. Similarly, the Saudi Purchasing Manager Index has clearly recovered, reaching 57 points, on par with prepandemic levels.

GDP and Non-Oil GDP Annual Growth (in %)



Source: The Conference Board

Saudi Purchasing Power Manager Index (PMI)



Source: Markit

Fiscal and Debt Positions

	2020	2021
Budget Deficit (% GDP)	12%	4.9%
Debt (% GDP)	34.3%	32.7%

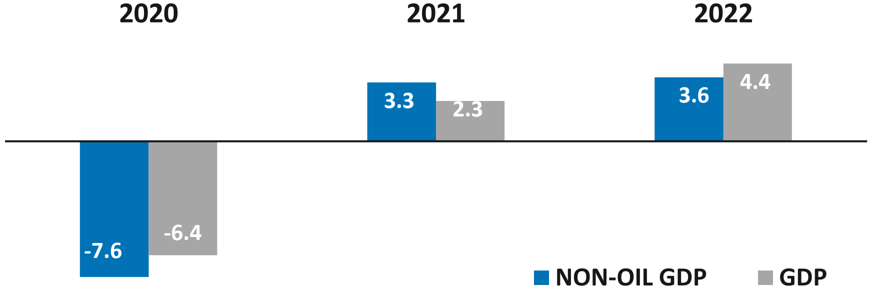
Source: Saudi Ministry of Finance

UAE looks to tourism and Expo 2020 to revive its sluggish non-oil economy

United Arab Emirates

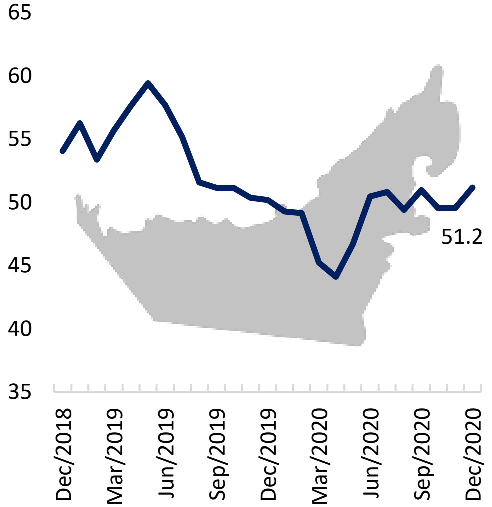
- UAE GDP is expected to contract by 6.4 percent in 2020 from 2019, and to recover mildly in 2021 at an annual growth rate of 2.3 percent, before gaining greater momentum in 2022, supported by the non-oil sector.
- A non-oil GDP recovery in 2021 depends heavily on the progress of the vaccine rollout, locally as well as internationally. Non-oil GDP, mainly generated by the Emirate of Dubai, relies heavily on services, tourism, and real estate. All three sectors have been hit hard by the COVID-19 containment measures, and depend on the long-awaited Expo 2020 Dubai (postponed till October 2021) to recover. Until we reach herd immunity (estimated to be at 75 percent—25 percent from natural immunity and 50 percent from vaccinations), a recovery of those sectors will remain frail and volatile.
- Tourism and services activities, mainly in Dubai, are significant enough to ensure the recovery of the non-oil sector in 2021. The Expo is forecast to attract around 25 million visitors in the first six months, according to the planners; however, this number seems too optimistic, given the second wave of COVID cases in Q1 2021 and the slow global vaccine rollout. As of November 2020, the average occupancy rate in Dubai hotels and hotel apartments had reached 52 percent, compared to 75 percent for the same period in 2019, supported mainly by local tourism. Although the pandemic wiped out international tourism, local tourism helped support the sector between May and October 2020, with the number of rooms sold to domestic visitors increasing from 2.74 million in 2019 to 5.68 million in 2020, an increase of 107 percent.
- UAE consumer confidence as per The Conference Board Global Consumer Confidence for the Gulf region crossed the “100” optimistic mark in Q4, following a dip in Q2 2020. Confidence remained the weakest in the region at 105 however, dampened by low spending intentions and reduced optimism with regard to jobs and personal finances. Similarly, Markit’s Purchasing Manager Index for the UAE edged slightly higher, crossing the 50 mark to 51.2. This was due to an improvement in new orders, partly from higher external demand, although businesses continue to report declining number of employees to control costs.

GDP and Non-Oil GDP Annual Growth (in %)



Source: The Conference Board

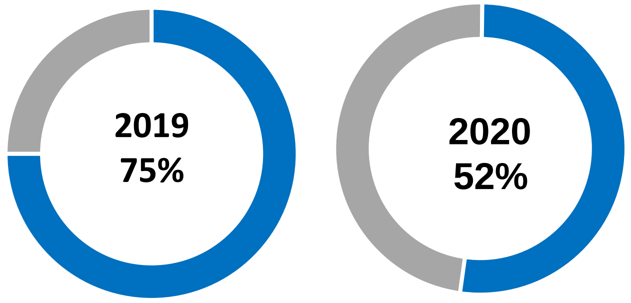
UAE Purchasing Power Manager Index (PMI)



Source: Markit

Dubai Average Occupancy

YTD Nov 2020



Source: Dubai Tourism

IMPORTANT INFORMATION

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+965 22208096 | TCBGulfcenter@conference-board.org
www.conference-board.org/gulf

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