The Gulf region economic recovery remains fragile; faces continuous headwinds from oil market. Governments throughout the region will continue to face fiscal consolidation, pushing breakeven oil prices lower.

Non-oil activity to improve during the second half of the year, backed up by successful vaccination campaign in some countries and the revival of in-person activities and tourism.

Consumer confidence remained steady in Q1 2021, on par with Asia Pacific; Nationalization policies boosted confidence in job prospects while the continued low oil price environment dampened spending intentions.

**GULF VIEW** on-going vaccination campaign, rising consumer and business confidence, improvement in the oil market support the economic activity in the region
COVID-19 cases remain high as Gulf governments push the vaccination campaigns forward

The Gulf region witnessed a surge in COVID-19 cases in Q1 2021, mainly in the UAE following the loosening of pandemic related restrictions and opening up its boarders to tourists back in July 2020. The rising cases led to renewed lockdowns and restrictions across the region, leading to a slight reduction in mobility. In Kuwait and Oman, mobility for work and recreational purposes remain the lowest, between 24 to 29 percent lower than the base line of January 2020. On the other hand, Qatar and Saudi Arabia appear the closest to pre-pandemic levels.

Vaccination campaigns are unfolding at different rates in the region. The UAE and Bahrain are leading the way with the highest ratio of vaccinated individuals per 100 person given the fact that tourism constitutes a significant share of their GDP.
A strong global economic recovery to support the oil market during the second half of 2021

The global oil demand recovery stalled in Q1 2021 as a result of resurgence of COVID-19 cases. In Q1 2021, global oil demand registered at 95.2 mb/d, on par with the previous quarter, but remained 6.5mb/d below Q4 2019 levels. Demand from China is increasing, surpassing its pre-COVID levels by 1.1mb/d. The better-than-expected rebound in the US economy, the positive revision to the global economic outlook, and ongoing global vaccination campaigns will provide support for growing oil demand in the second half of 2021. We have raised our Brent price forecast to average $63/bbl in Q2 and to accelerate to $70/bbl in Q3 before falling back to $65/bbl in Q4 2021. However, downside risks remain high, including waves of COVID-19 cases in India and Europe, slowing oil demand from China, a rise in US shale oil production, and OPEC+ rushing to ramp up production.
Global outlook for 2021 is revised up in April from 5.0 to 5.2 percent GDP growth

- Spillover effects from the March US fiscal package led to some upward revisions to global growth.
- Mature economies:
  - US a bit higher to 6.0
  - Europe also revised upward on increased resilience of service sector activity and continued momentum in the industrial sector
  - Japan revised down as mobility restrictions increased and indicators point to weakening outlook
- Emerging Market Economies:
  - Chinese outlook remains unchanged
  - India growth outlook lowered because of rising cases, but still a large pick up over 2020 as a result of base effects
- Recovery will continue into 2022 and may last longer in some emerging economies

Source: The Conference Board, Global Economic Outlook, April 2021 update
Imbalanced economic recovery among the Gulf countries supported by the non-oil sector

- Amid ongoing, yet slow vaccination campaigns, the Gulf region is going through renewed lockdowns and restrictions to limit the spread of the second wave of COVID-19 and its variants. This has curtailed the growth momentum that was recorded during the second half of 2020.
- Although we adjusted our forecast slightly downward for Q1 2021 to reflect the newly imposed restrictions, we expect an acceleration in economic activity by Q3 and Q4 2021 when a significant share of the global population has been inoculated and there is a pick-up in travel. Mobility across cities and a return to offices is expected to improve oil demand. However, travel might remain at least 20 percent lower than pre-pandemic levels.
- Real GDP growth for the Gulf region is expected to rebound by 2.3 percent in 2021 and by 4 percent in 2022. Non-oil GDP is set to grow by 4.5 percent in 2021 but might remain below pre-pandemic levels.
- The economic recovery will likely diverge among the countries of the region and will be highly correlated with the size and the efficient disbursement of government financial support packages to the private sector.
The non-oil sector to follow a K-shaped recovery in 2021:
The pandemic has substantially disrupted some industries and household trends

Economies

**Upside**
- Arrested virus quickly
- Rapid vaccine rollout
- High-Tech producers
- Comparative advantage in international goods trade
- Degree and duration of restrictiveness

**Downside**
- Unable to tackle virus quickly
- Slow vaccine rollout
- High concentration of in-person services
- Dependent upon tourism/sensitive to travel bans
- Uneven monetary and fiscal policy supports

Industries & Households

- **Firms**: Goods and on-line services
- **Firms**: Amenable to remote work
- **Firms**: Highly automatable
- **HH**: No interruptions in employment and/or income
- **HH**: Owners of assets (e.g., stocks, real estate)

- **Firms**: In-person services
- **Firms**: Not amenable to remote work
- **Firms**: Limited capacity for automation
- **HH**: Interruptions in employment and/or income
- **HH**: Demographics (e.g., race, age, education, gender)
Prospects for the non-oil sector recovery to trace consumer confidence trajectory

- The Conference Board® Global Consumer Confidence Index for the Gulf region, remained relatively steady at 118 in 2021 Q1 compared to 117 in 2020 Q4, on par with Asia-Pacific. The largest two markets in the region, Saudi Arabia and the United Arab Emirates witnessed the only increase in optimism from the previous quarter, supported by a positive economic rebound in 2021, mainly in the non-oil sector, as well as vaccine development and distribution expansion.

- The disparity in confidence between expats and nationals remained high in the Gulf region. Expats’ confidence level declined slightly from 110 in 2020 Q4 to 109 in 2021 Q1 while nationals’ confidence remained unchanged at 128 in 2021 Q1.

- Health topped the list of concerns for the first time since the start of the pandemic, as the second wave of COVID-19 cases hit the region, a bit later, in comparison to the US and Europe. Concerns over job security and the economy continued to worry the majority of consumers in the Gulf who still believe that their economies are in recession. Negligible improvement was noticed from 2020 Q4 in views on whether consumers believed their economy would be out recession 12-months hence.

- The full report about The Conference Board® Consumer Confidence Index® for the Gulf region is available [here](#).
Modest private sector credit is a result of uncertainties that govern the Gulf markets

- Growth in credit to the private sector remained mostly stable throughout 2020. The initial lockdown and the sudden disruption in business activity has curtailed credit growth, but governments and central banks in the region were quick to react. Measures included announcing accommodative monetary policy changes and liquidity support packages to vulnerable and impacted sectors of the economy, with special focus on SMEs. A year later, credit to the private sector in Bahrain, Kuwait and Oman remain unchanged, while momentum as picked up in KSA and Qatar. UAE is the only market to witness a deceleration in credit growth or deleveraging, a flashback to the financial crisis.

- Despite faster credit growth in Saudi Arabia, the Saudi central bank (SAMA) recently announced the extensions of its Deferred Payment Program until June 2021 and its Guaranteed Financing Program for one year until March 2022 to support the private sector in general, and MSMEs in particular. The latter program has disbursed SR8 billion, or 16 percent of the monetary support package ($13.3bn or 2% of GDP) announced back in March 2020.

- Growth in consumer loans started to recover as well as of Q4 2020, in tandem with easing restrictions and the start of the vaccination campaigns. UAE and Oman markets are the exception as consumers refrained from taking new loans.
Qatar’s gas projects put the region’s projects’ market at par with Q1 2020

- Projects awarded in the Gulf region reached $54 bn in 2020, a 36 percent decline from the previous year. The sharp decline in oil revenues and rising expenditures to fight the pandemic, left Gulf governments with little room for capital expenditure.

- Tight 2021 fiscal budgets will eventually limit the amount of funds award to development projects in the respective countries. Excluding the $16.7bn gas projects awarded by Qatar to develop the North fields, Q1 2021 projects awarded would have reached only $5bn, a 77 percent decline from Q1 2020 values. Given Qatar’s intention to increase its LNG production from 77 million tons a year (mt/y) to 110 mt/y by 2025 and to 126 mt/y by 2027, we expect to see further projects awarded to the gas sector.

- Saudi Arabia’s commitment to developing its west coast through multiple ambitious projects will drive construction and transportation sectors awards in the upcoming years.
A non-oil recovery is imperative for growth in the Gulf region

- **Bahrain** real GDP growth is set to improve the least in the Gulf region, by 1 percent from 2021 before accelerating to 2.6 percent in 2022. Bahrain’s economy relies heavily on improvement in tourism and hospitality sectors. Hence the government has ramped up efforts to vaccinate the majority of the population in preparation for lifting of restrictions in the region, especially in Saudi Arabia which constitutes the main source of tourists for Bahrain. In addition, the non-oil sector will continue to benefit from the GCC development fund from KSA, UAE, and Kuwait to pursue large infrastructure projects.

- **Kuwait** real GDP is expected to recover by 1.4 percent in 2021 and by 1.7 percent in 2022 – marking one of the mildest recoveries in the region. Lack of reforms and the political deadlock that is preventing the renewal of the debt law are curtailing the economic recovery and raising the financial burden on the government. Although the non-oil sector will be the main driver of the 2021 economic recovery, it will struggle to regain what was lost during the pandemic year as continued restrictions and the closure of borders are having detrimental impacts on businesses.

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

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Source: The Conference Board
A non-oil recovery is imperative for growth in the Gulf region

- **Oman** implemented a suite of fiscal reforms that will help reduce the budget deficit in 2021 and boost non-oil revenues. The country started implementing the 5 percent VAT tax on April 16 and is expected to generate around $1bn in tax revenue annually or 1.5 percent of GDP. Oman is expected to log 1 percent GDP growth in 2021 before witnessing an acceleration in economic activity in 2022.

- **Qatar** real GDP is set to rebound by 2.8 percent in 2021 following a 3.8 percent contraction in 2020. Private sector non-oil activity picked up in Q1 2021 despite the rising number of COVID-19 cases and renewed restrictions. Qatar recorded the smallest deficit to GDP in the region in 2020 and is expected to mark a 0.5% deficit to GDP in 2021 as it continues to assume a conservative oil price assumption of $40/bbl. Non-oil activity has surged in Q1 2021 and will continue in the upcoming quarters as the vaccination campaign progresses and the government prepares for the FIFA World Cup 2022.

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

Source: The Conference Board
Saudi Arabia is set for a strong rebound in 2021 with the non-oil sector revealing early signs of recovery

- **Saudi Arabia** GDP is set to grow by 2.5 percent in 2021 and a stronger 4.8 percent in 2022. The non-oil sector will be the main driver of growth in the country as the oil market tries to balance itself in the upcoming years. All eyes are now locked on Saudi Arabia to witness the massive transformation in the non-oil sector in the upcoming years, giving the commitment to Vision 2030.

All economic indicators point to a strong 5.4 percent rebound in the non-oil sector in 2021, thanks to the generous fiscal and monetary packages aimed at supporting the private sector businesses, in particular the SMEs. The Public Investment Fund is assigned to fund $40 billion annually in development projects while the “giga projects” - Neom, Qiddiya, Red Sea Project and Amaala, ambitious projects utilizing technology, sustainability and natural landscapes - will be financed through external funding.

Foreign direct investments soared in Q4 2020, reaching $1.87bn, rising by 72% from the previous quarter and by 80% year-on-year. Despite this rise, total FDI for 2020 reached 1% of GDP, still well below the 2030 target of 5.7%. The government continues to revamp its investment regulations in order to ease business in the country and attract foreign investment that is crucial for the development of the giga cities.

As for the oil sector, Saudi Arabia remains a swing player in the oil market, as it decided to increase unilaterally its production cut by 1mb/d from February to April before gradually ramping up production in a cautious move to protect oil prices. Oil GDP is expected to contract by 1.8 percent in 2021 before leaping by 6 percent in 2022.
UAE anxiously awaits the return of tourist

- **United Arab Emirates** is pushing hard to vaccinate the majority of the population by the first half of 2021. Although the second wave has unexpectedly hit the UAE hard at the beginning of Q1 2021, pulling our quarterly forecast down, we expect an acceleration of economic activity in tandem with the rapid rollout of the vaccine regionally and globally by the second half of the year. This should lead to the return of tourists and the success of the Dubai Expo 2020 that will take place in October 2021.

The Conference Board forecasts 2.4 percent growth in 2021, supported by 3.9 percent growth in the non-oil sector. 2022 will witness a further rebound in the non-oil sector as tourism, services and trade return to pre-pandemic levels, raising real GDP growth to around 3.9 percent.

While we expect a recovery of in-person sectors like tourism, hospitality and services, the banking and real estate sectors will likely remain under pressure throughout 2021. Accommodative monetary policy will keep banking profits low in 2021 while non-performing loans (NPL) increase, which are currently the highest in the region. As of Q4 2020, the NPL-to-total loans ratio reached 8.2 percent, the highest since 2014.
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The Conference Board Gulf Center for Economics and Business Research provides trusted insights primarily in the areas of economics, strategy, finance and human capital within the Gulf region to enable businesses to anticipate what’s ahead, improve their performance, and better serve society.

SUPPORTING ORGANIZATIONS
The work of The Conference Board Gulf Center is enhanced by funding, support, and thoughtful guidance from the following organizations:

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