BAYT AL HIKMAH
The Renaissance Project

GCC Economies in the Arab World

Growth and Decline? – The Oil Story

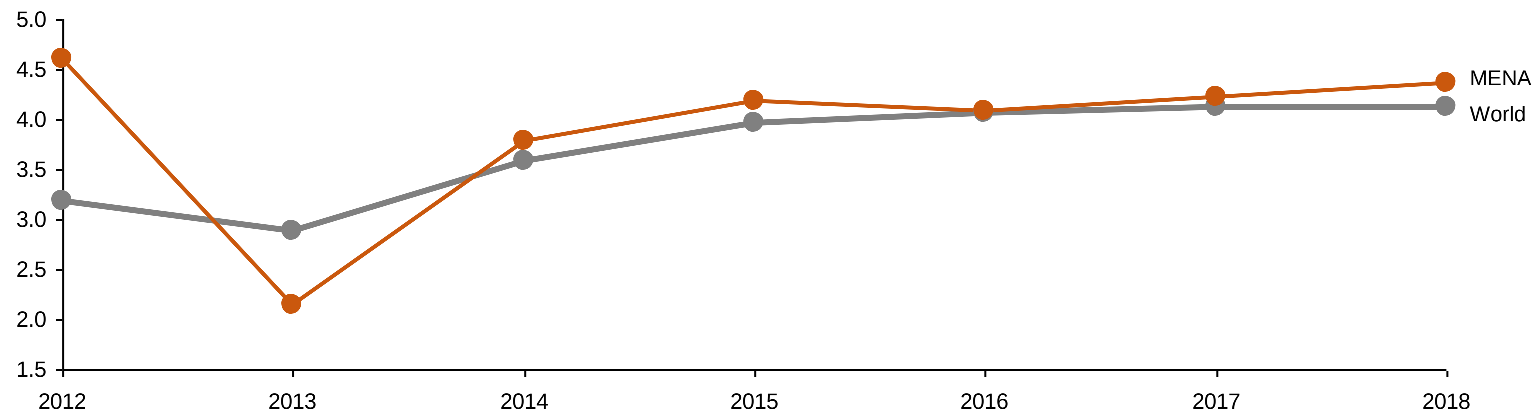
3rd of April 2015
By Mohamed Al Qadhi

MENA will keep pace with world economic growth, driven by the GCC which is expected to contribute 70% of Arab World growth in 2014 and 61% of growth beyond

MENA vs World Growth

MENA's regional growth has outperformed Advanced Economies and is the third fastest growing region behind Sub-Saharan Africa and Developing Asia

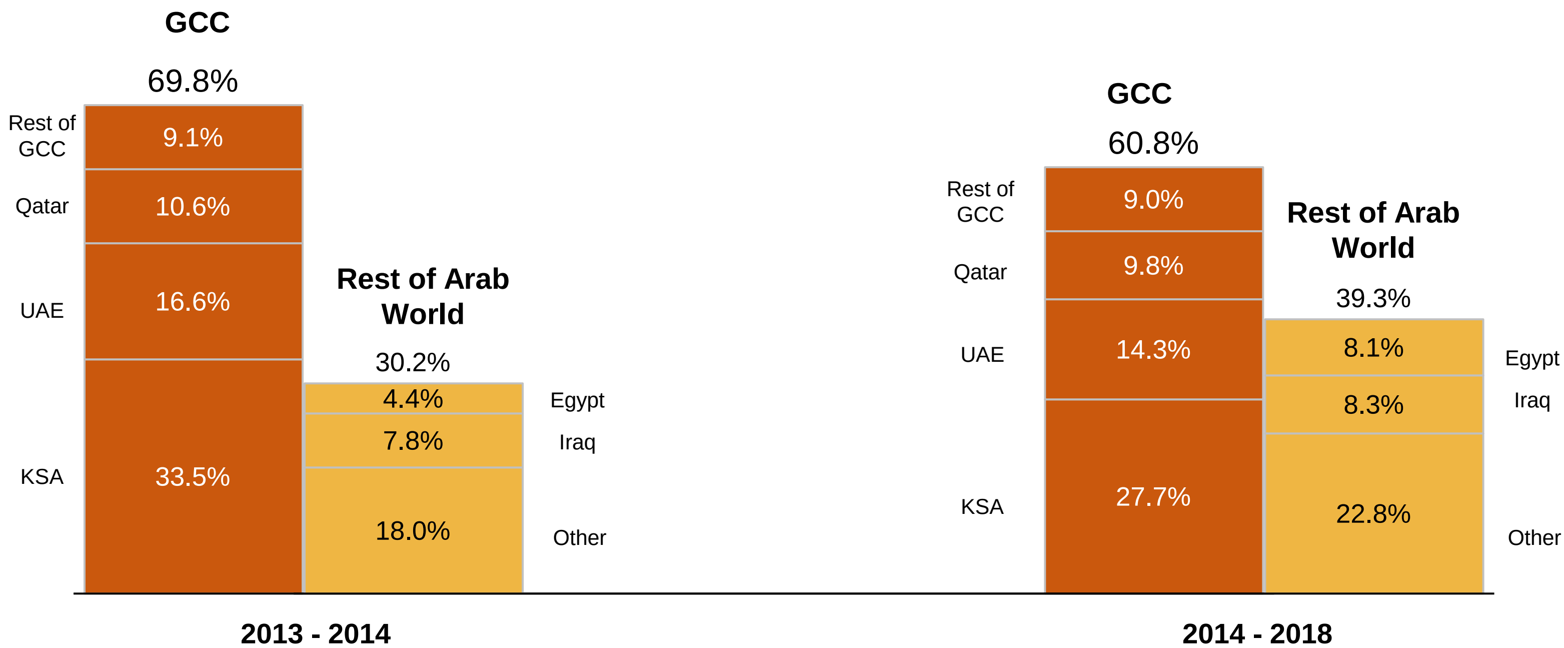
Real GDP Growth (In Y-o-Y % Change, 2012-2018)



Growth Contribution to Arab World Economy

Most of the GCC growth is driven by the economies of Saudi Arabia, The UAE, and Qatar which will contribute to 61% of Arab economy growth in 2014 and 52% beyond

Real GDP Contribution by Country (In % Contribution to Arab Real GDP Growth at Constant 2005 US$, 2013-2014, 2014-2018)



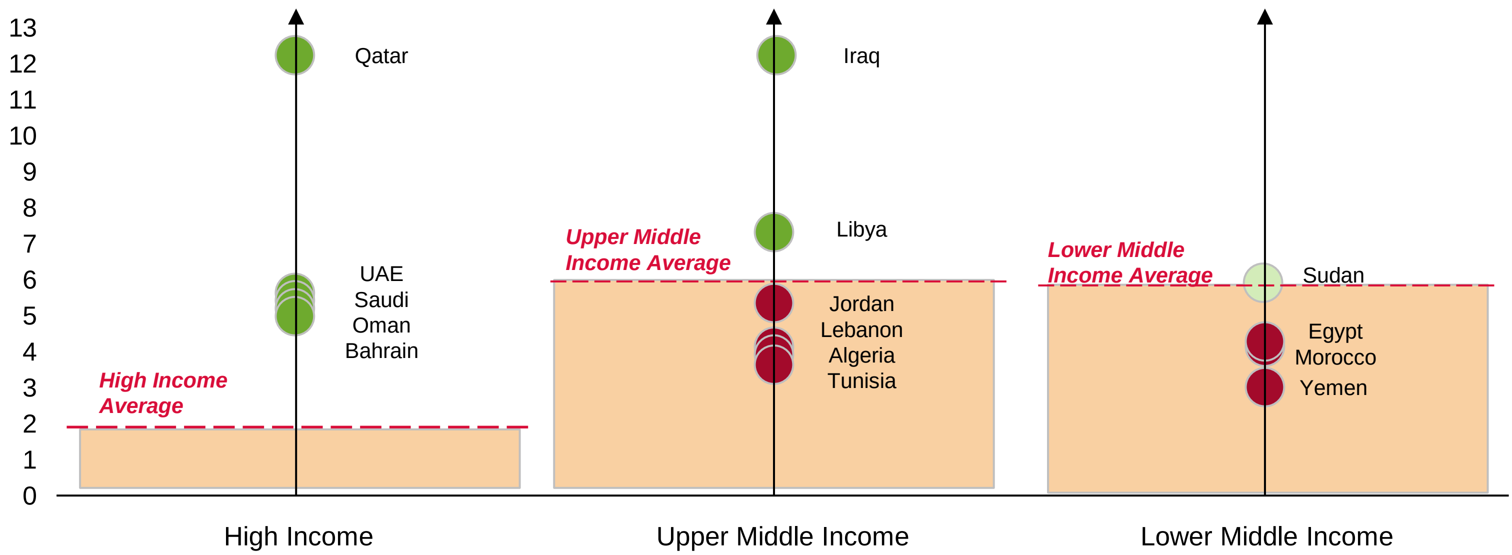
Source- Top Graph: World Economic Outlook Database, IMF, October 2013
Source- Bottom Graph: EIU Database March 2014; Bayt-AlHikmah Calculations

Historically, GCC countries have outperformed their peers, achieving strong growth and the highest living standards in the region

Arab Countries' Economic Growth

Since 2000, GCC members, Iraq and Libya are the only MENA countries that have outperformed countries in their respective income groups . The growth in Iraq and Libya can be attributed to oil and reconstruction efforts

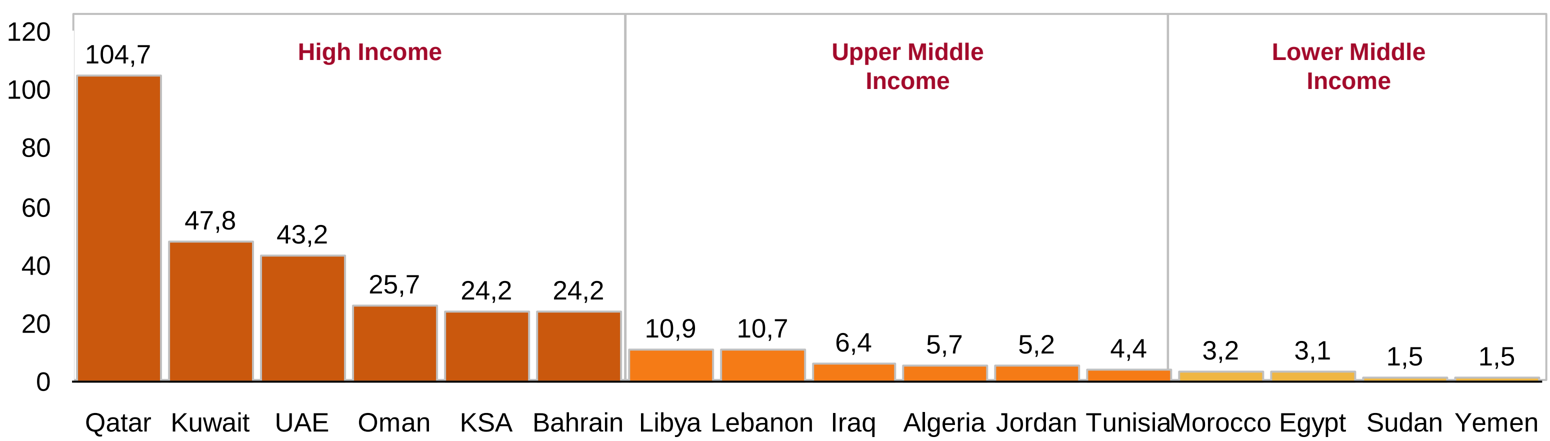
Average Real GDP Growth of Arab Countries by Income Group (In %, 2000- 2012)



Arab Countries' GDP per Capita

The GDP per Capita of GCC countries does not reflect the living standards of GCC nationals due to the presence of low paid foreign workers. GDP per capita figures for GCC nationals will likely be much higher than the figures below

GDP per Capita (In Thousands of US$, 2013)



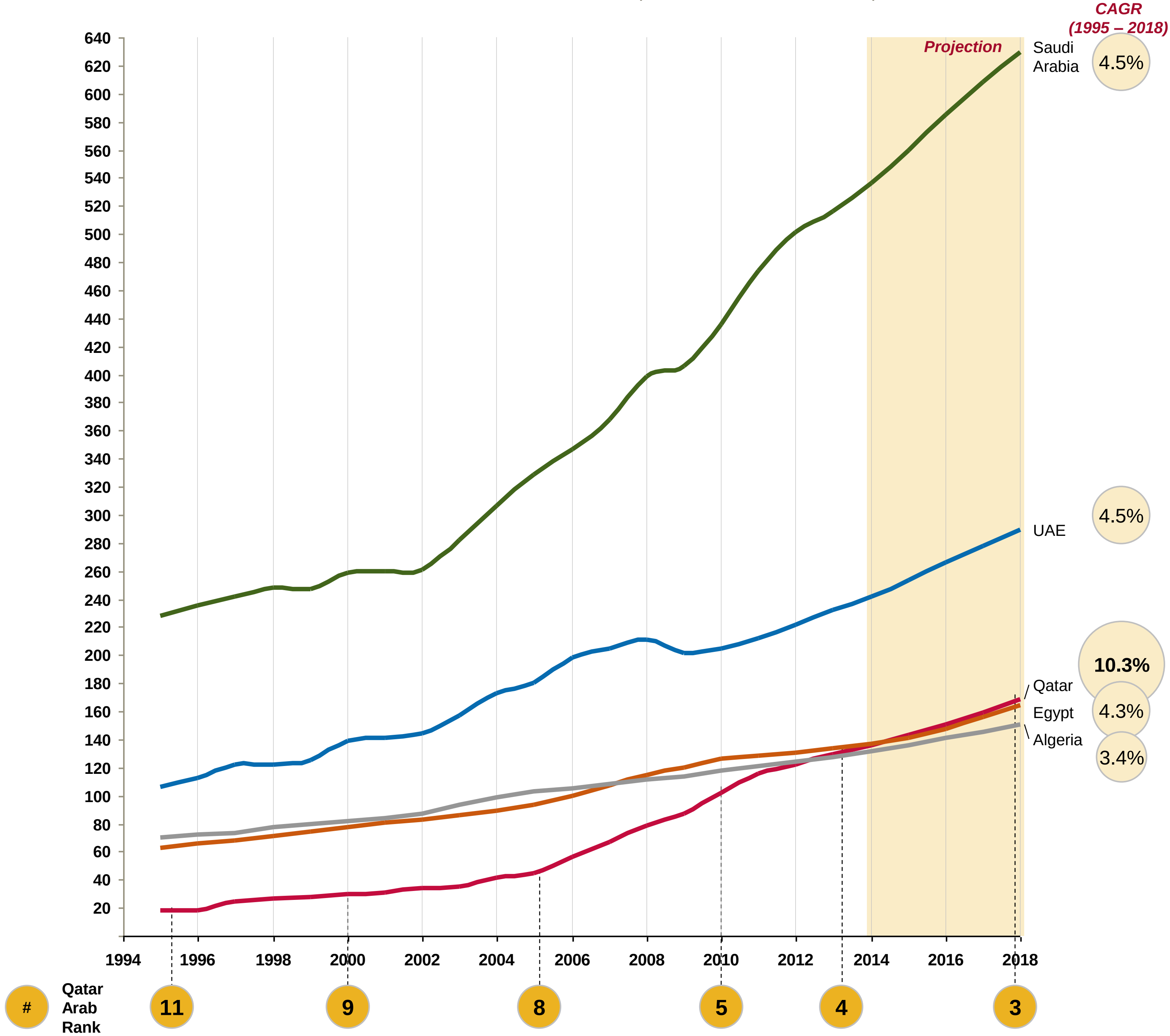
Source- Top Graph: World Economic Outlook Database, IMF, October 2013; World Bank Database
Source- Bottom Graph: EIU Database

GCC members Saudi and UAE are also the 2 largest Arab economies while Qatar is the fastest growing (10%) and is expected to become the 3rd largest Arab economy by 2018

The Rise of Qatar

Qatar went from the 11th biggest economy in the Arab World in 1995 to the 4th largest in 2014. Much of this growth has come in the last decade, driven by strong demand for LNG exports (mainly from Asia)

Real GDP for Selected Arab Countries (In US$ 2005, 1995 – 2018)



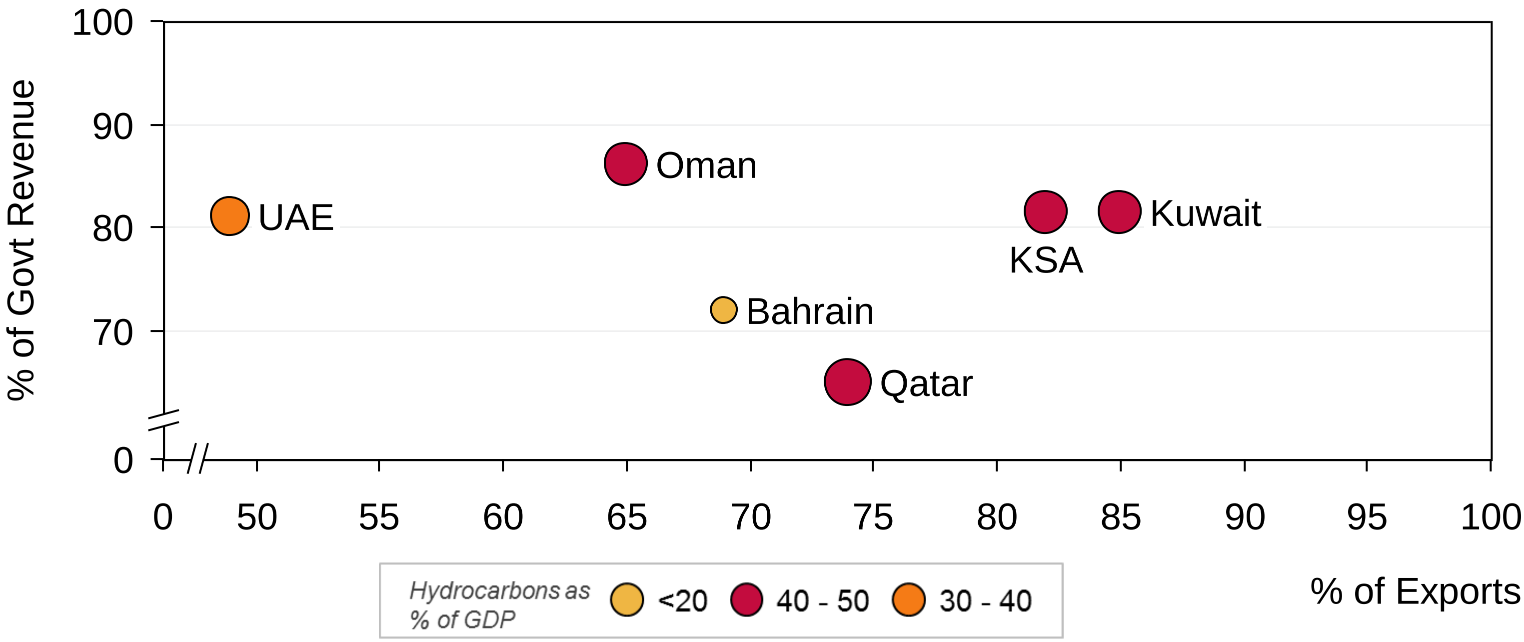
Source: EIU Database; March 2014

The GCC's dominance is driven by hydrocarbons which reached record-high prices and make up the lion's share of GDP, government revenue and exports

GCC Oil Dependence

Bahrain and the UAE are relatively more diversified than other GCC members though hydrocarbons still make up the majority of government revenue and exports

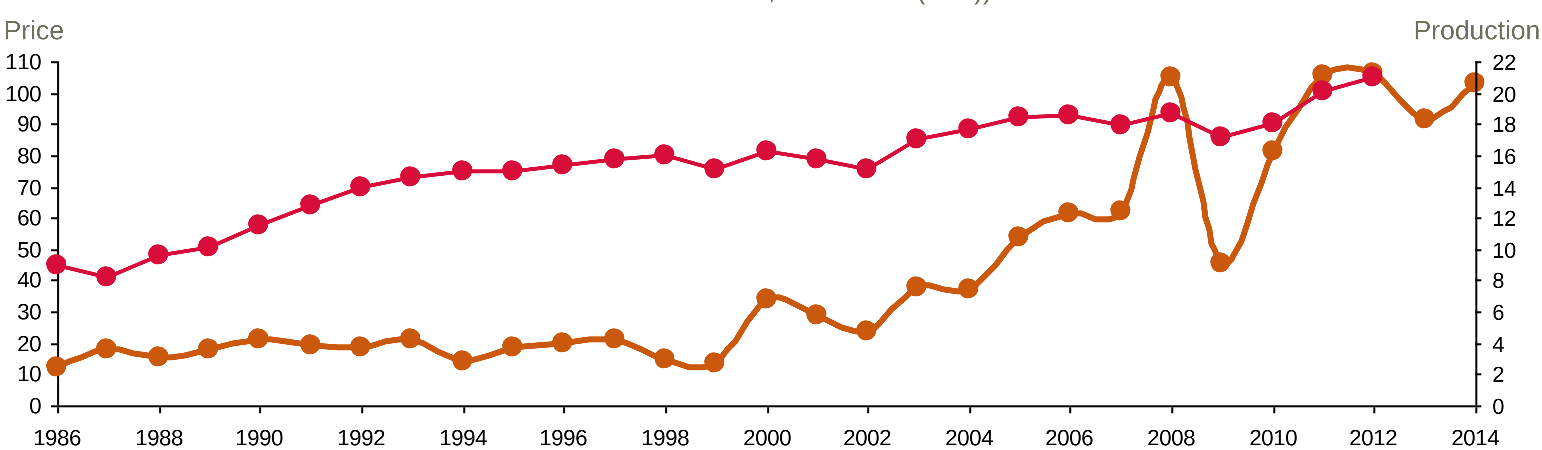
Hydrocarbons as % of Government Revenue, % of Exports and % of GDP, (In %, 2013)



Oil Prices and Oil Production

GCC oil production has more than doubled in the past 3 decades while WTI oil prices have averaged ~$90 from 2008 to 2014. This has drastically increased GCC oil revenues, budgets and exports

Crude Oil Price WTI Crushing (LHS) and GCC Total Oil Production (RHS) (Oil Price In US$/Bb/d 1986-2014 (Brown), and Production in Bb/d, 1986-2012 (Red))



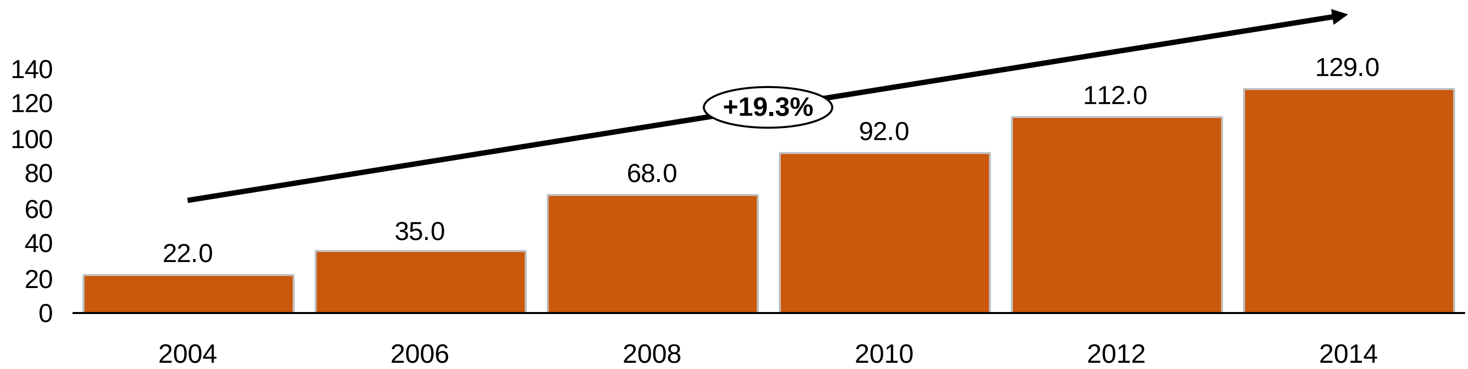
Source- Top Graph: International Monetary Fund Country Reports
Source- Bottom Graph: Thomson Reuters Datastream; BP Statistical Review of the World, 2013

Buoyed by high oil revenues, gov'ts have increased expenditure on capital projects and welfare making GCC citizens among the most satisfied in the world

Expenditure

GCC capital expenditure was driven by Saudi Arabia, Qatar and the UAE who spent heavily on developing infrastructure, cities, and non-oil sectors

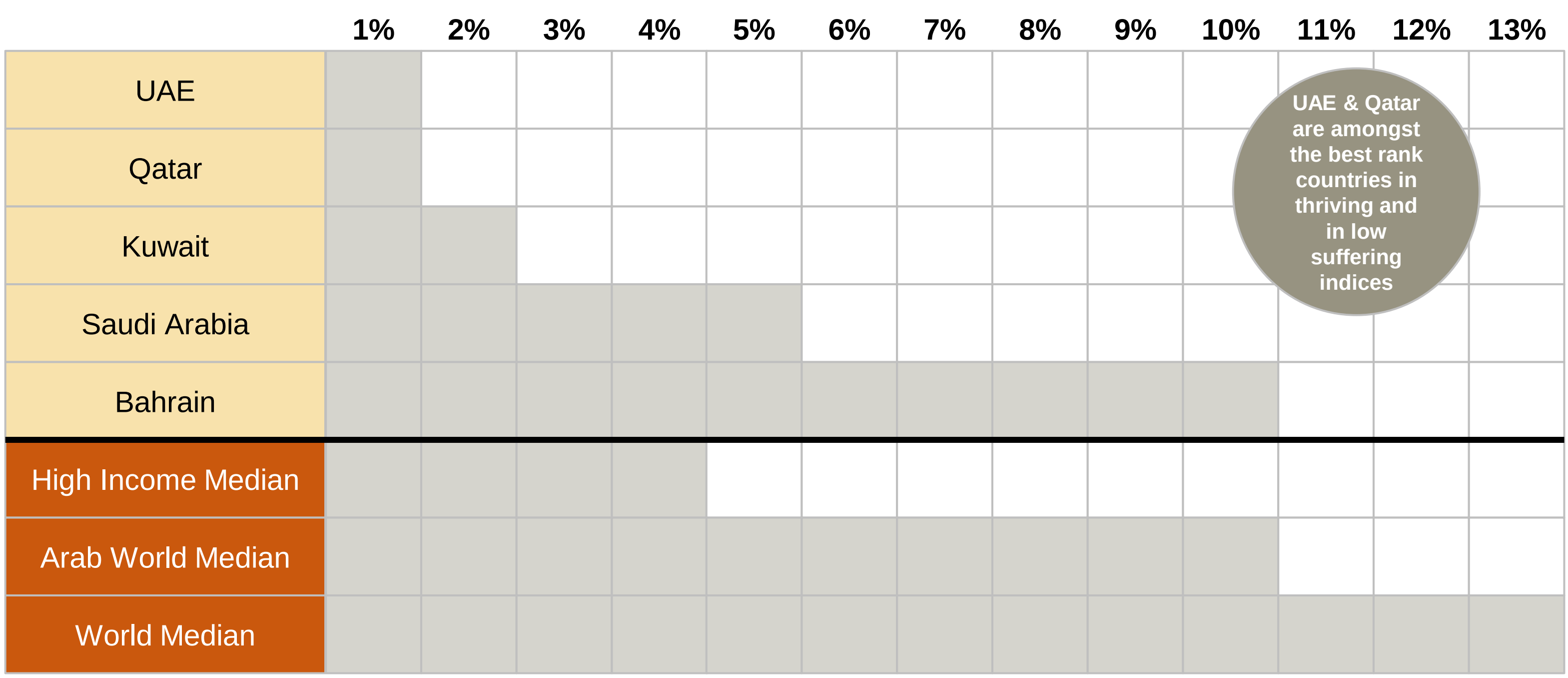
GCC Total Capital Expenditure (US$ billions), 2004-2014



GCC Citizen Life Satisfaction

Citizens in the UAE, Qatar and Kuwait live lavishly, supported by generous welfare payments which include free land and housing grants, debt write-offs, free education and healthcare abroad, high salaries, and much more

% of Population "Suffering" (In% of Population rating their life satisfaction as 4 or below out of a scale of 10), 2010



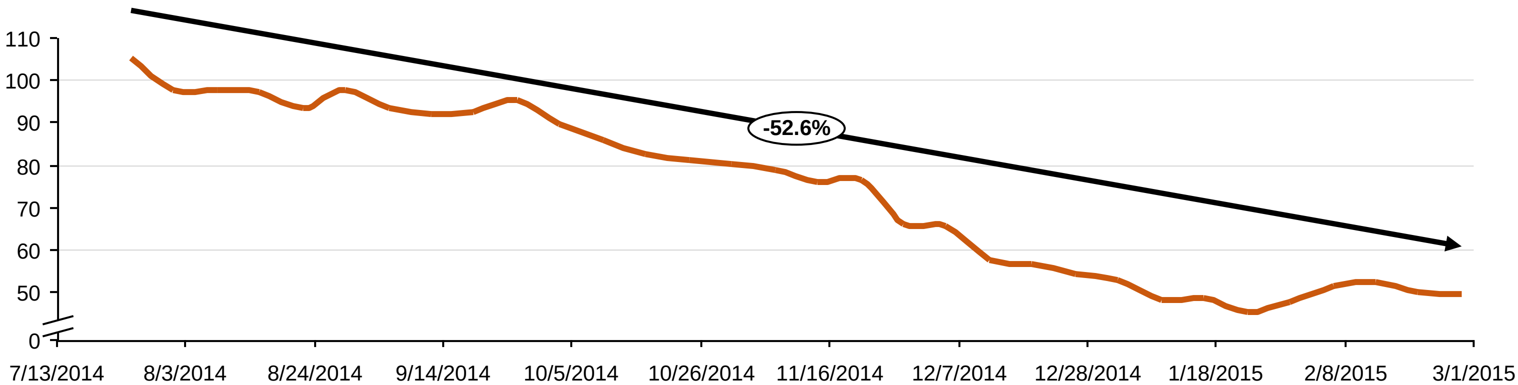
Source- Top Graph: World Economic Outlook October 2014 Database, IMF GCC Country Report Estimates, Ministries of Finance Estimates, Bayt Al Hikmah calculations
Source- Bottom Graph: Wellbeing Survey - World Poll Results, Gallop, 2010

But such spending requires high oil prices, which have recently tumbled to ~$50, well below the average fiscal breakeven prices of $82

Oil Price Drop

The drop in prices serves the political and economic interests of the GCC . Low prices pressure political opponents like Iran and Russia on issues such as nuclear proliferation and Syria. They also pressure US shale oil producers

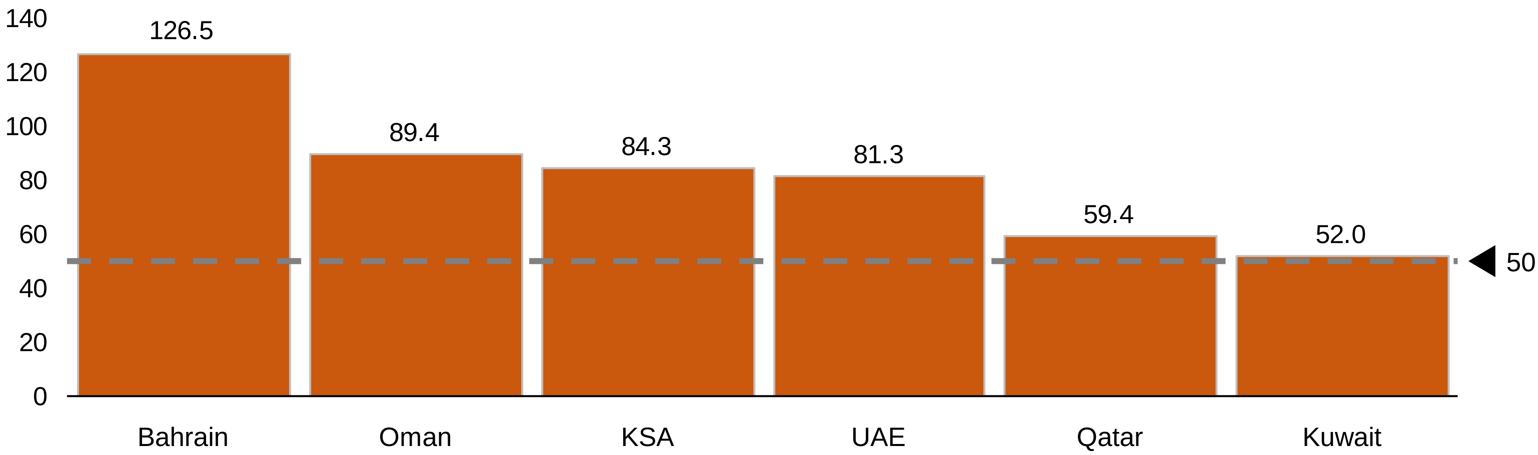
Crude Oil Price WTI Crushing (In US$/Bb/d, By Week 25th of July 2014 to 27th of February 2015)



Break Even Oil Prices (1)

The majority of government revenue is derived from oil and gas. Taxes are often not levied in GCC states (UAE & Bahrain), or are restricted to corporations with exemptions for nationals (KSA)

Fiscal Break Even Oil Price for GCC Countries, 2013



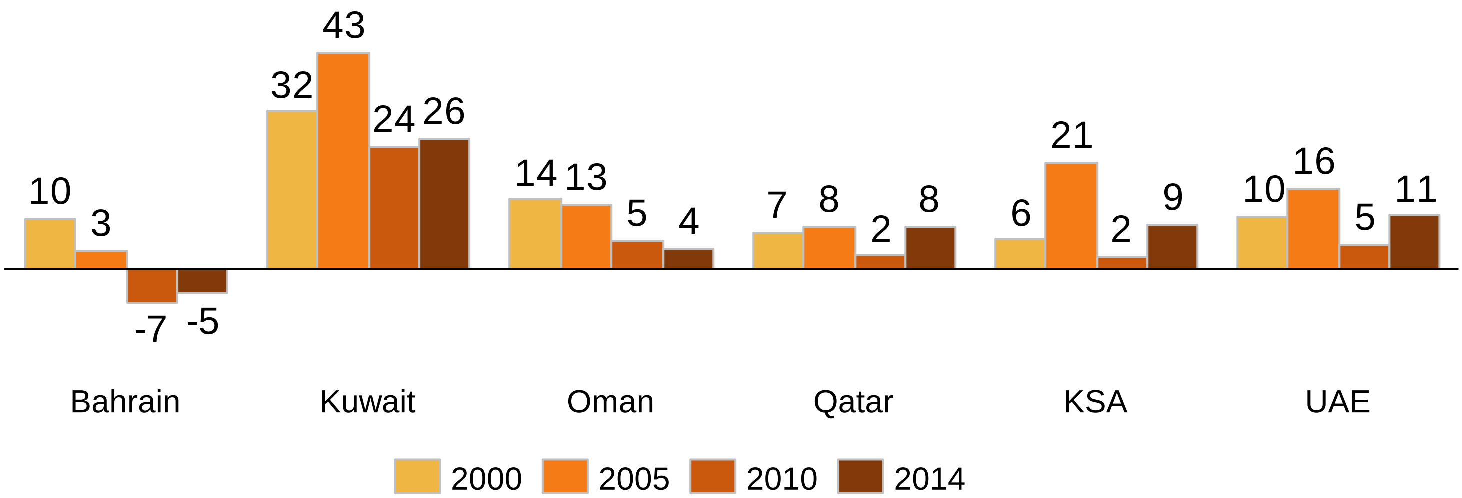
Notes (1): *The oil price at which the fiscal balance is zero*
Source- Top Graph: Thomson Reuters DataStream
Source- Bottom Graph: MENA and Central Asia Regional Economic Outlook", IMF, May 2014

GCC countries will be able to weather the storm due to years of government surplus, low debt, and huge sovereign wealth funds to draw on - except for Bahrain…

Fiscal Balance

Kuwait, Oman, Qatar, KSA and the UAE have all posted government surpluses since 2000 except for the year 2009 where fiscal stimulus packages and the global financial crisis led to deficits in some countries

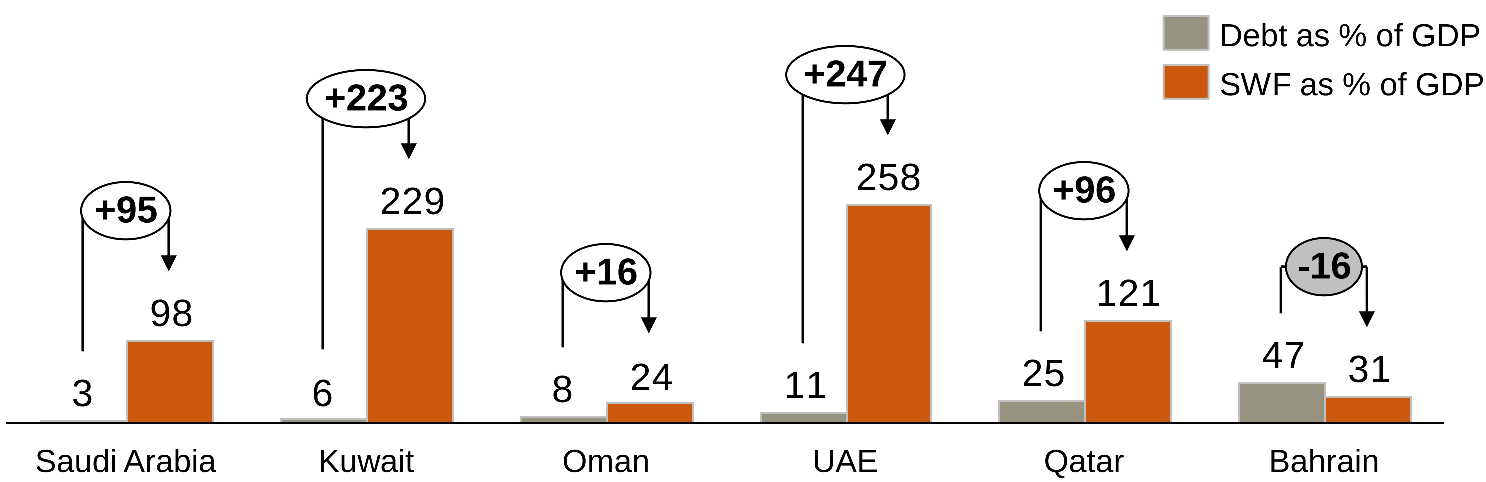
Government Net Lending / Borrowing (In % of GDP, 2000, 2005, 2010, and 2014)



Debt and Wealth Funds

The UAE has the biggest sovereign wealth funds in the GCC valued at a total of 1075 $US Billion and are only second to China world wide. Saudi Arabia has the 2nd largest funds in the GCC valued at 762.5 $US Billion

Gross Domestic Debt and Sovereign Wealth Fund Value (as % of GDP, 2014)



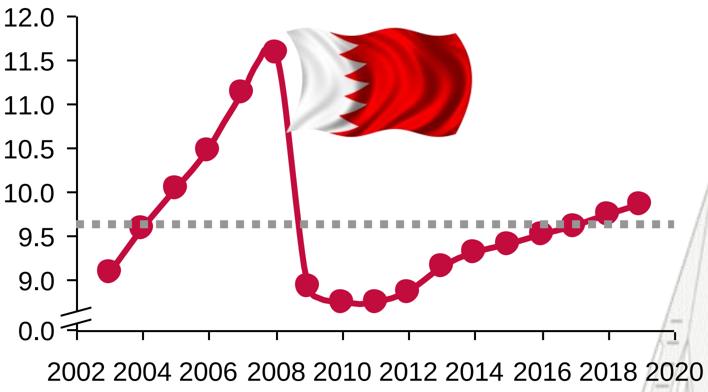
Source- Top Graph: World Economic Outlook Database October 2014, IMF,
Source- Bottom Graph: World Economic Outlook Database, IMF, October 2014; SWF Institute, March 2015; Bayt Al Hikmah Calculations

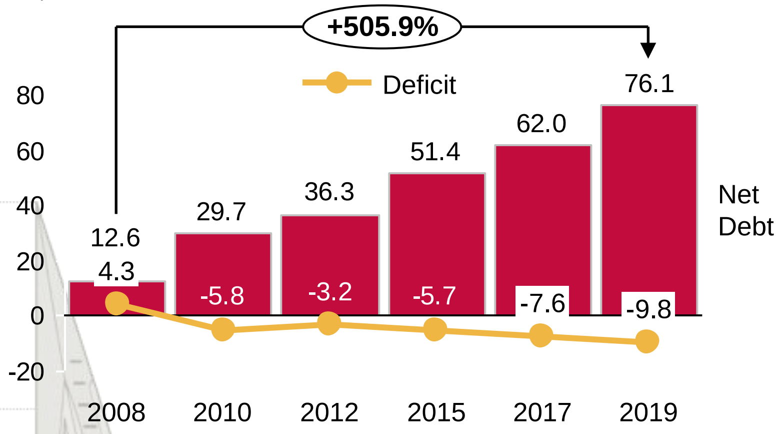
Bahrain has a high deficit, ballooning debt, and low oil and SWF reserves, putting it at risk of fiscal collapse and insolvency, requiring GCC aid to survive

Economic Decline & Fiscal Instability

The 2008 financial crisis caused Bahrain's GDP per capita to collapse; it wont reach 2004 levels till 2017 and will not recover to highs of 2008. In addition, debt level will increase by 500% from 2008 to 2019 , driven by fiscal deficit

On the Left, Real GDP per Capita in Thousand Bahraini Dinars, 2002 – 2019, On the Right, Government Net Debt and Deficit as % of GDP, 2008 to 2019

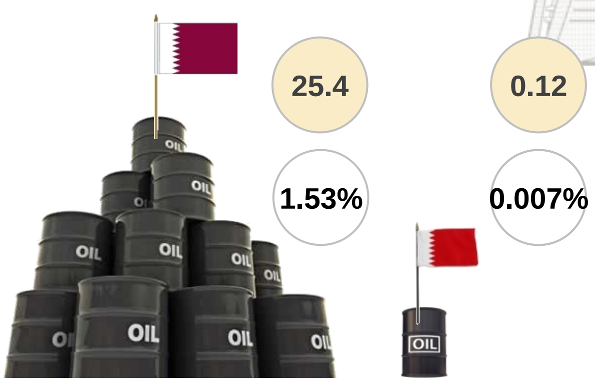




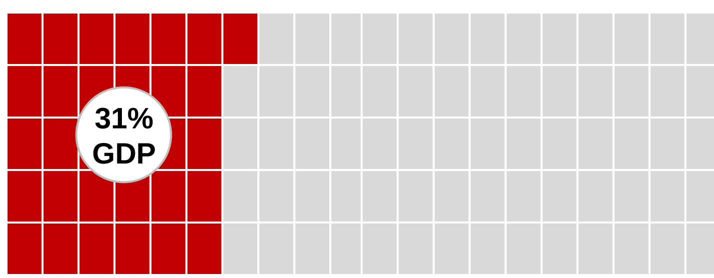
Insufficient reserves

Bahrain doesn't have vast oil reserves (only 0.12 billion barrels - less than 0.01% of the world's total) or a large SWF account (valued at 10.5 Billion US$ only) to cover its fiscal shortfall. To stay afloat, it must depend on GCC aid

On the Left Oil reserves in Billions of Barrels and % of World Reserves 2014, On the Right SWF in % of GDP, 2014)



Bahrain Mumtalakat Holding Company - SWF



xx Billions of Barrels

X% % of World Reserves

Source- Top Graphs: World Economic Outlook Database October 2014, IMF
Source- Bottom Graph: EIA Oil Reserve Estimates; SWF Institute, March 2015