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# Robust Growth Outlook In GCC In 2022

## MENA Monthly Outlook Presentation

July 2022

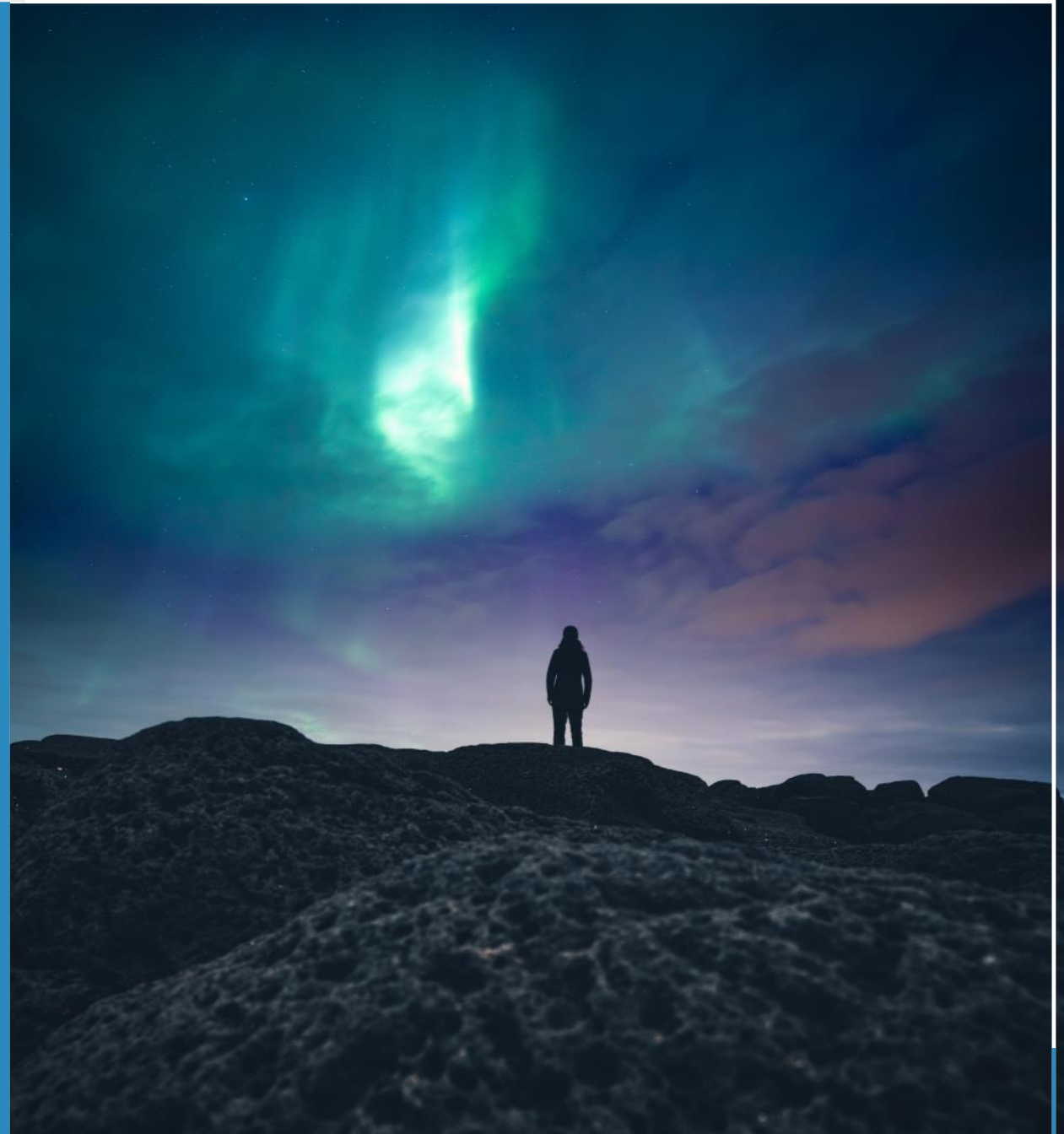
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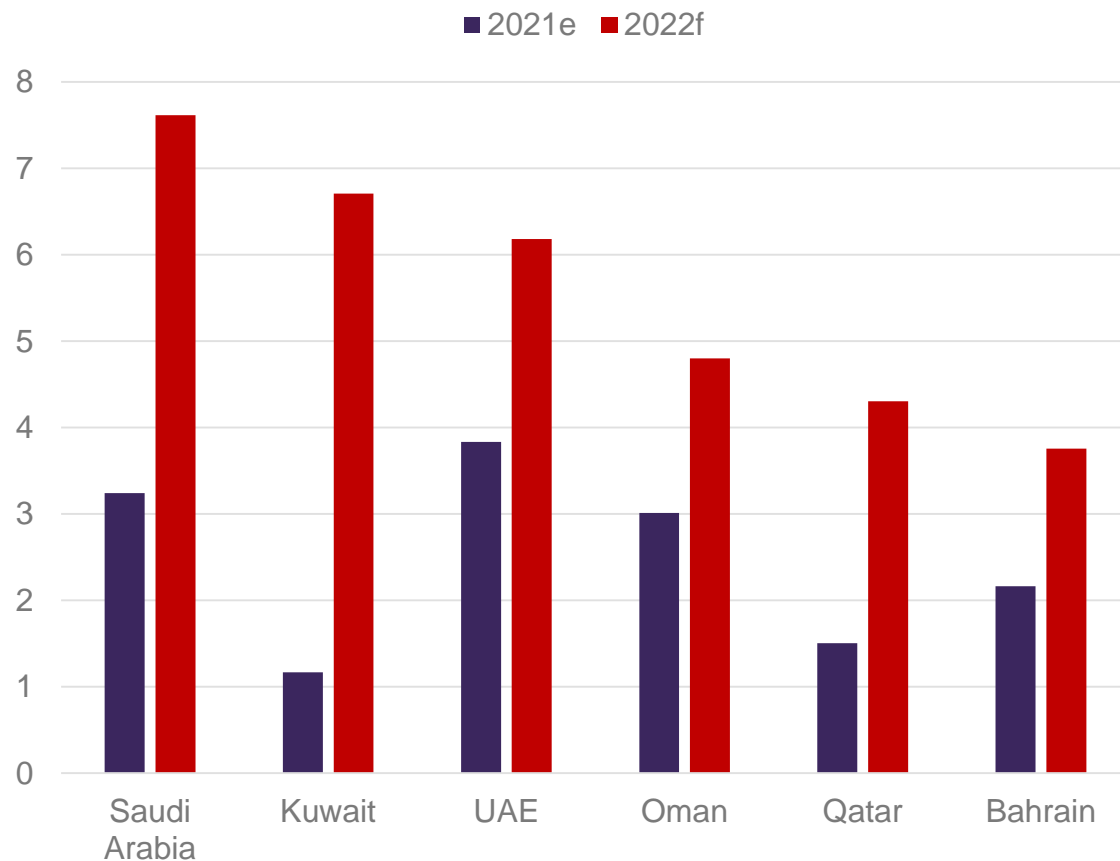
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# Robust GCC Growth Outlook In 2022

## Solid Growth In GCC In 2022

GCC - GDP Growth, %



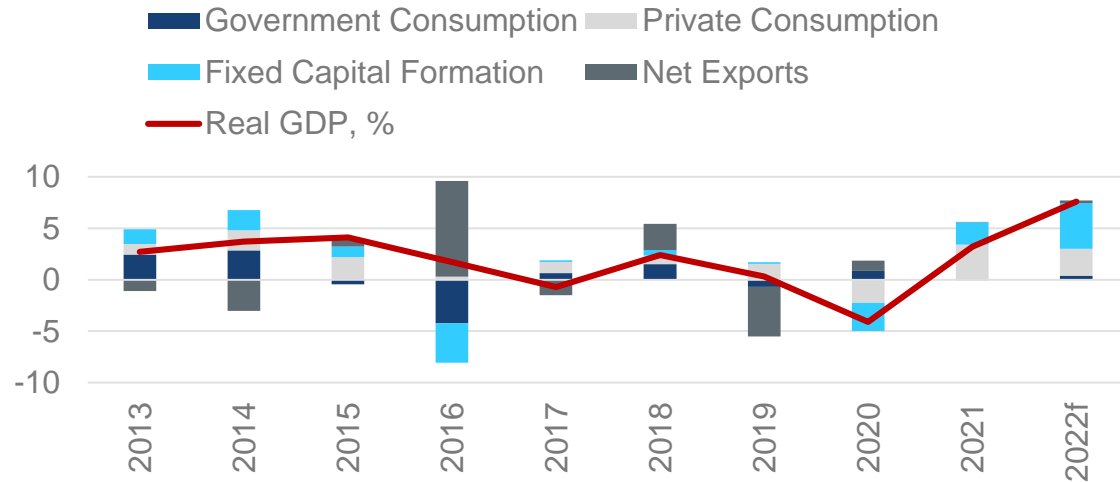
e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

- We forecast GCC economic growth will accelerate from 3.0% in 2021 to 6.6% in 2022, the highest rate of growth since 2011.
- A surge in hydrocarbon production and a strong rebound in tourism activity will support Net Exports, which will be the main driver of growth in the UAE, Kuwait and Oman.
- High energy prices and efforts to diversify sources of economic activity will boost investment across the bloc, and will be the key growth engine in Saudi Arabia, Qatar and Bahrain.
- Private consumption will continue to recover amid the normalisation of economic activity but will face moderate headwinds from rising inflation across all GCC countries.
- Looking further forward, growth will decelerate to 3.7% in 2023 amid slowing hydrocarbon production and tightening financial conditions.
- However, in 2023 economic activity will remain above pre-Covid-19 trends as elevated energy prices will keep supporting both private consumption and investment.

# Saudi Arabia: Growth Will Accelerate...

## Fixed Capital Formation Will Drive Growth...

Saudi Arabia – PP Contribution To Real GDP

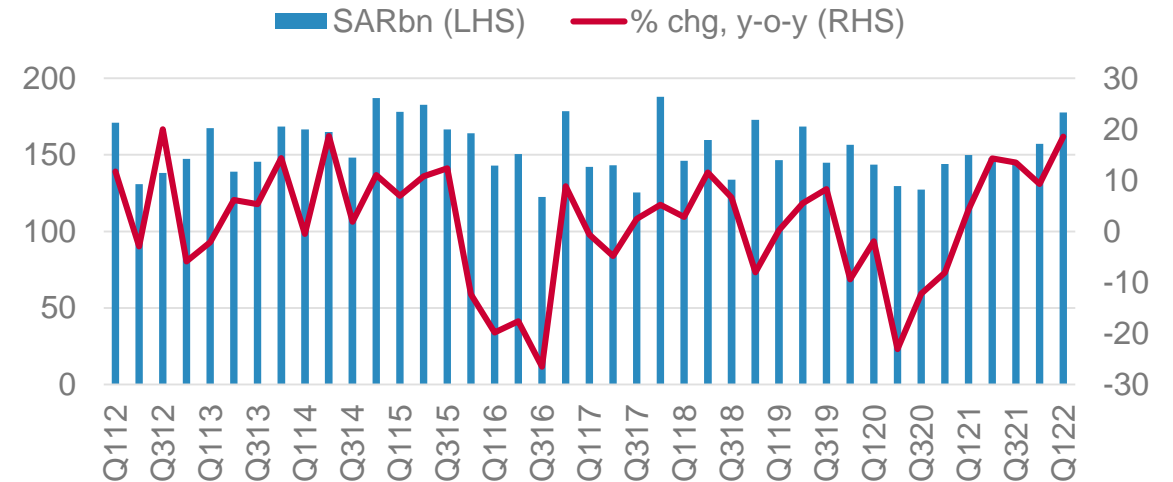


- Saudi Arabia's real GDP growth will accelerate from 3.2% in 2021 to 7.6% in 2022, one the fastest growth rates among EMs.
- Fixed investment will be the main driver of growth, as elevated oil prices will lead to a strong performance of the non-oil economy, boosting investment in the construction and industrial sectors.

f = Fitch Solutions forecast. Source: GaStat, Fitch Solutions

## ...As Highlighted By Q122 Data

Saudi Arabia – Gross Fixed Capital Formation



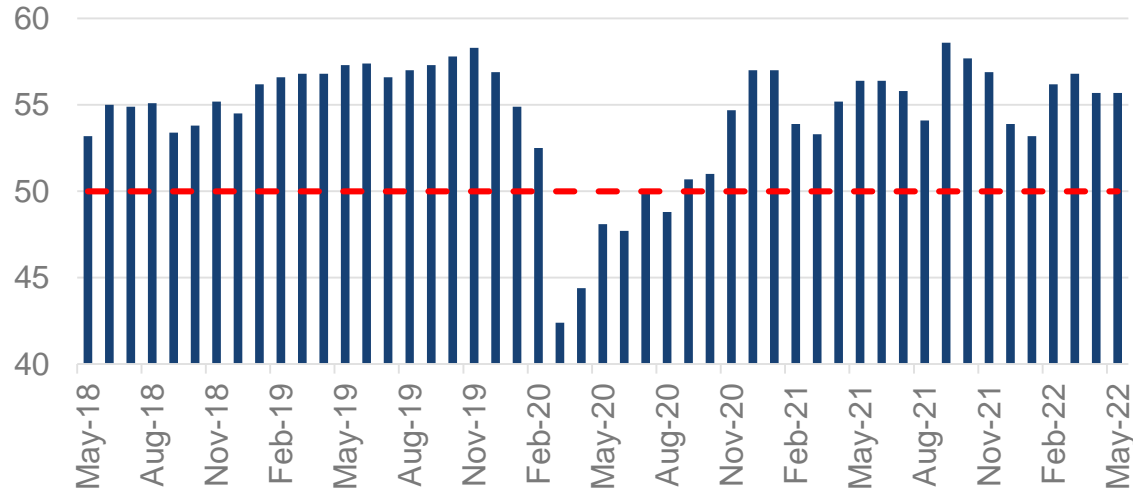
- Q122 data supports our view, as fixed capital formation accelerated by 18.6% y-o-y.
- Investment momentum will stay strong until the end of the year, as high oil prices will improve the liquidity of the government's investment arms, accelerating works on mega-projects.

f = Fitch Solutions forecast. Source: GaStat, Fitch Solutions

# ... Due To Strong Performances In Both Non-Oil And Oil Economy

## Momentum In Non-Oil Economy Will Remain Strong

Saudi Arabia – Purchasing Managers Index

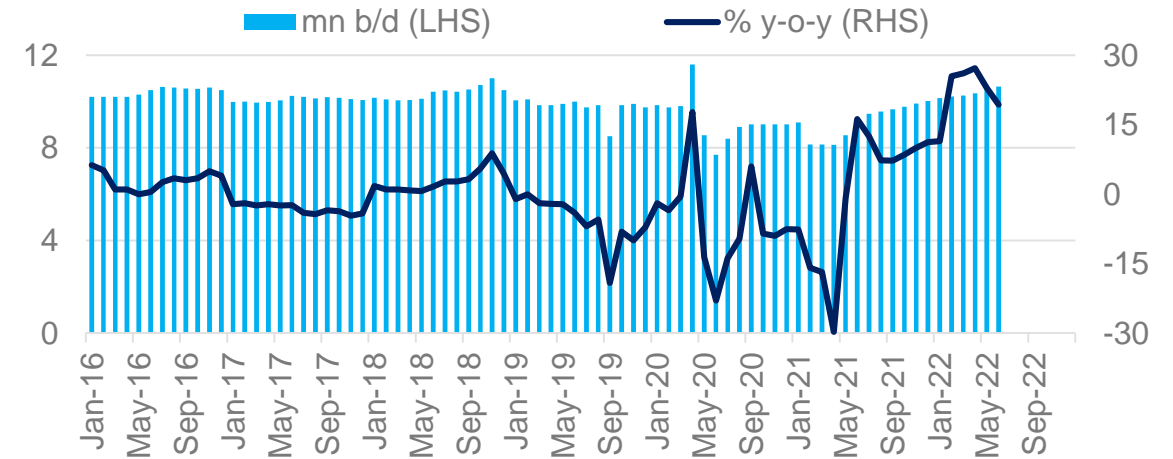


- Private consumption will also be supported by elevated oil prices, as the high oil environment will continue to feed through strong consumer confidence, boosting propensity to spend.
- The shift from pandemic to endemic will also fuel household spending, further supporting the strong performance of the non-oil economy, confirmed by the strong momentum in PMIs.

Note: Above 50 marks expansion. Source: S&P Global, Fitch Solutions

## Easing Of OPEC+ Restrictions Will Further Boost Output

Saudi Arabia – Total Crude Oil Production, mn b/d (LHS) & % y-o-y (RHS)



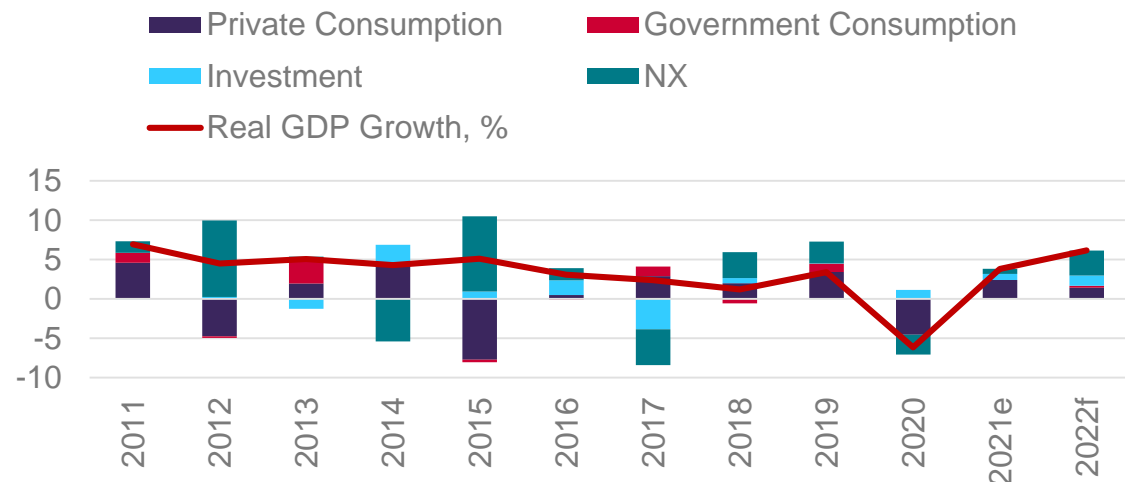
- The easing of OPEC+ restrictions will allow Saudi Arabia's oil output to increase by 12.1% in 2022, which is positive for exports and overall economic growth.
- The anticipated strong export growth will more than offset robust import demand from above-trend consumer spending and investment activity.

Source: OPEC, IEA, Fitch Solutions

# UAE: Economy Set For Fastest Growth Since 2011

## Growth Above 6.0% For First Time Since 2011

UAE – Breakdown Of Real GDP, PP contribution

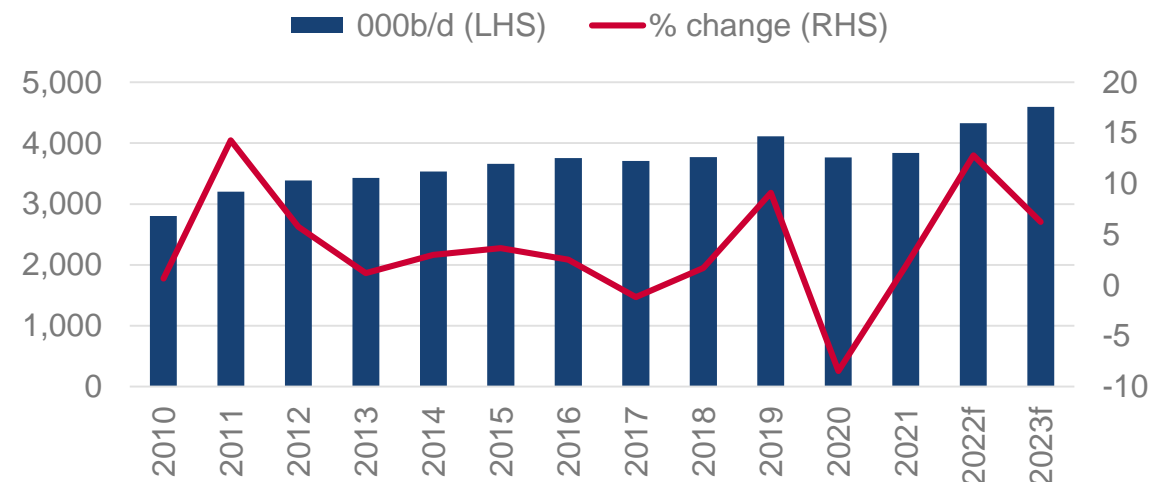


- We expect the UAE’s real GDP growth will accelerate from an estimated 3.7% in 2021 to 6.2% in 2022, the fastest pace since 2011.
- A rapid recovery in the services sector, strong domestic consumption and rising oil output, will contribute to robust economic activity.

e/f = Fitch Solutions estimate/forecast. Source: FCSC, Fitch Solutions

## Double-Digit Growth In Hydrocarbon Output In 2022

UAE – Crude Oil, NGPL & Other Liquids Production



- Higher hydrocarbon production will be the key driver of Abu Dhabi’s 7.4% real GDP growth in 2022. Our Oil & Gas team forecasts the UAE’s oil output will grow by 12.8% in 2022.
- The ongoing recovery in the tourism sector and strengthening domestic consumption will support growth of 4.5% in Dubai this year.

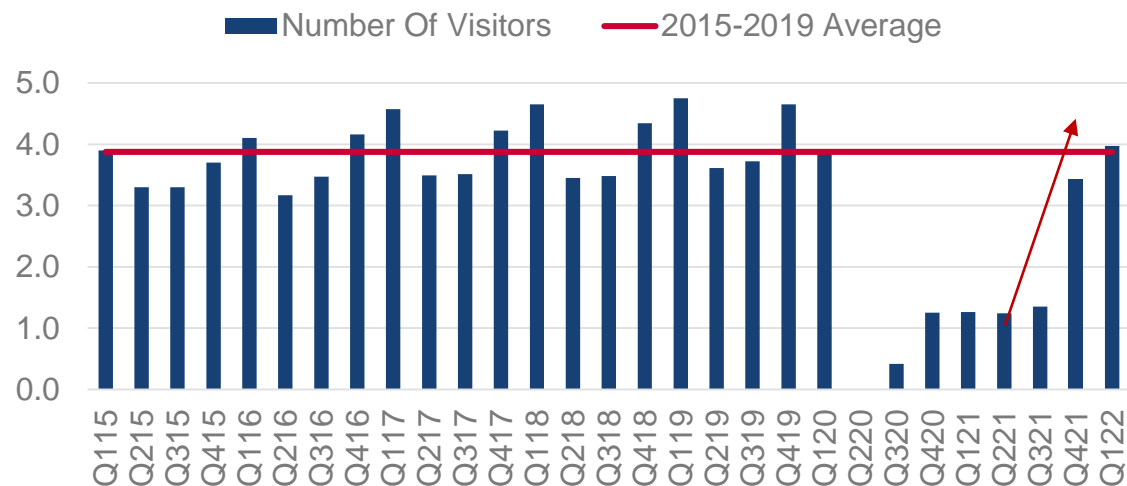
f = Fitch Solutions forecast. Source: JODI, EIA, Fitch Solutions



# Investment And Tourism Activity Will Support Economic Momentum

## Recovery Momentum In Tourism Sector Will Persist

Dubai – Number Of Visitors, mn

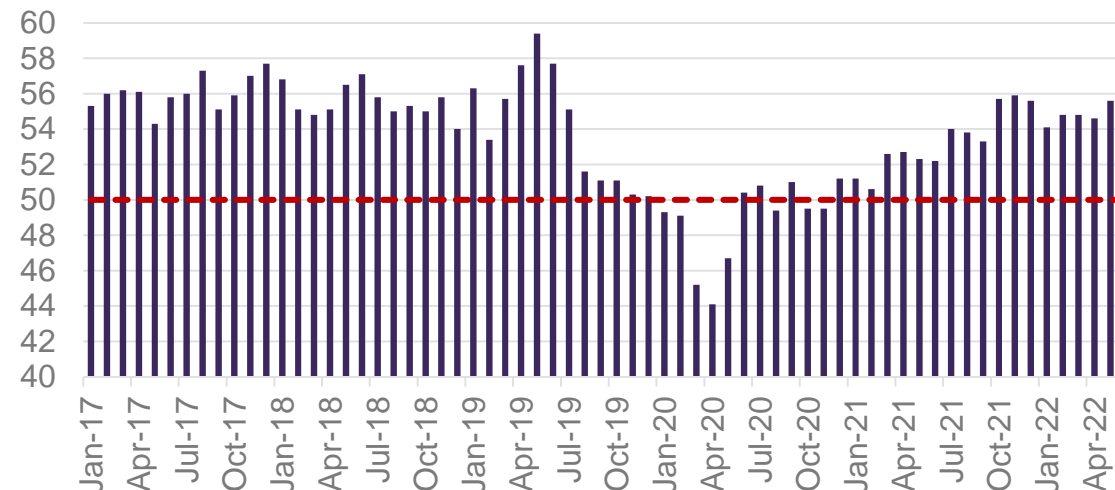


- The strong momentum in the tourism sector that the Dubai Expo created will continue, supporting growth in services exports.
- This is due to the ongoing normalisation of global patterns, Dubai's strong positioning on the global tourism map, new visa facilities and the November 2022 FIFA World Cup in Doha that will encourage fans to stay in the UAE.

f = Fitch Solutions forecast. Source: FCSA, Dubai Tourism, Fitch Solutions

## Non-Oil Economy Remains Strong After Dubai Expo

UAE – Purchasing Managers' Index



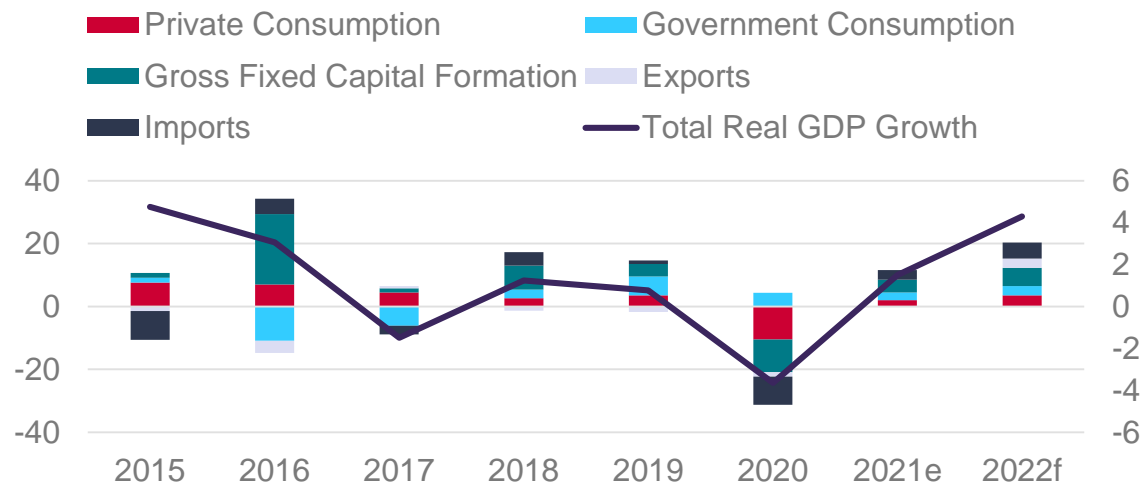
- Investment activity will also remain strong in the coming quarters, supported by reforms and incentives to attract foreign investors, projects in the oil and gas industry, and elevated oil prices.
- Private consumption will remain strong due to the removal of Covid-related restrictions and a growing local population, even though rising inflation will cause some headwinds.

Note: Values above 50 shows an expansion, below a contraction. Source: Bloomberg

# Qatar: Economic Growth Will Be Driven By Higher Investment

## Growth Will Accelerate On Higher Investment

Qatar – Real GDP Growth, % Y-O-Y, & Contributions, PP

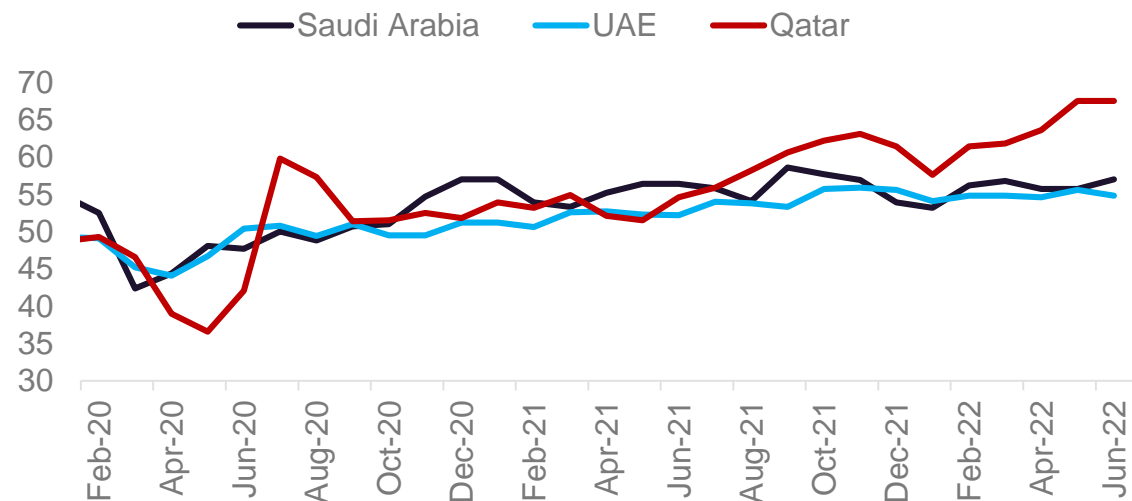


- Qatar’s real GDP growth will surge from 1.5% in 2021 to 4.3% in 2022 as higher hydrocarbon revenues will feed into stronger investment activity in oil- and non-oil sectors.
- Most notably, we anticipate sustained investment in Qatari gas fields, especially from Western countries looking to wean themselves off Russian energy dependence.

e/f = Fitch Solutions estimate/forecast. Source: Qatar Central Bank, Fitch Solutions

## Non-Oil Economy Continues To Strengthen

Qatar – Headline Inflation, % Y-O-Y



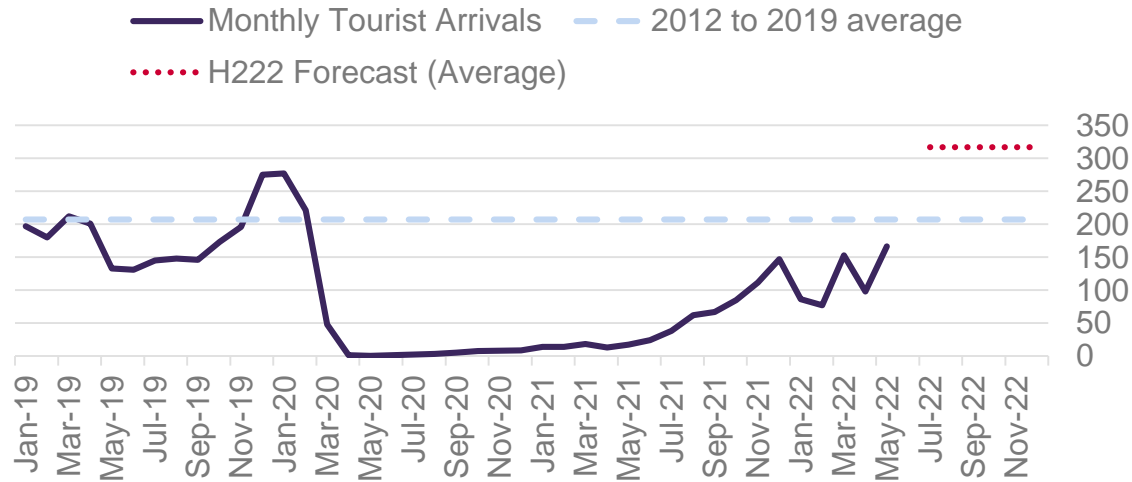
- Meanwhile, activity in the non-oil economy will continue to strengthen, benefiting from high oil prices and from the final preparation related to the FIFA World Cup tournament in November and December.
- Indeed, since H221 Qatar has posted the highest PMI scores among GCC, implying strong activity outside of the oil sector.

Note: Above 50 marks expansion. Source: S&P Global, Fitch Solutions

# ... Net Exports Will Provide A Strong Tailwind In Q422

## Tourist Arrivals Will Surpass Historical Trend In H222

Qatar – Monthly Tourist Arrivals, 000s

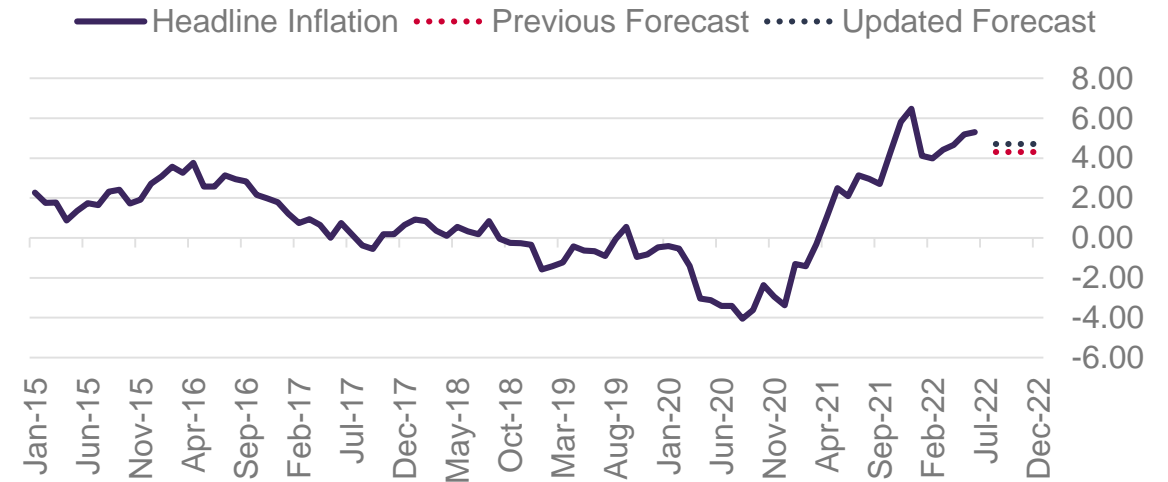


- Net exports will also provide tailwinds to economic activity.
- While gas production will be subject to capacity constraints, limiting the goods exports growth, we anticipate a substantial rise in services exports during the FIFA World Cup tournament, which will attract around one million foreign visitors to Doha.

e/f = Fitch Solutions estimate/forecast. Source: Qatar Central Bank, Fitch Solutions

## Higher Inflation Will Slightly Dampen Consumption

Qatar – Headline Inflation, % Y-O-Y



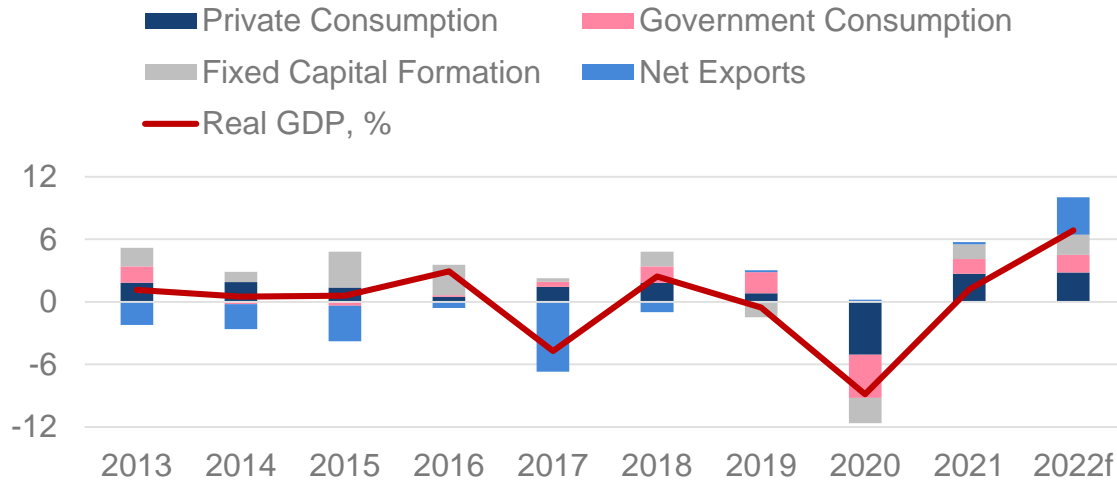
- Although private consumption will remain strong, it will be slightly dampened by higher inflation and borrowing costs in H222 and 2023.
- In June, inflation reached the fastest rate since December 2021, prompting us to revise our 2022 forecast for average inflation from 4.3% to 4.7%.

Source: Qatar Central Bank, Fitch Solutions

# Kuwait: Economic Growth Accelerating On Strong Oil Economy...

## Net Exports Driving Pick-Up In Real GDP Growth...

Kuwait – PP Contribution To Real GDP

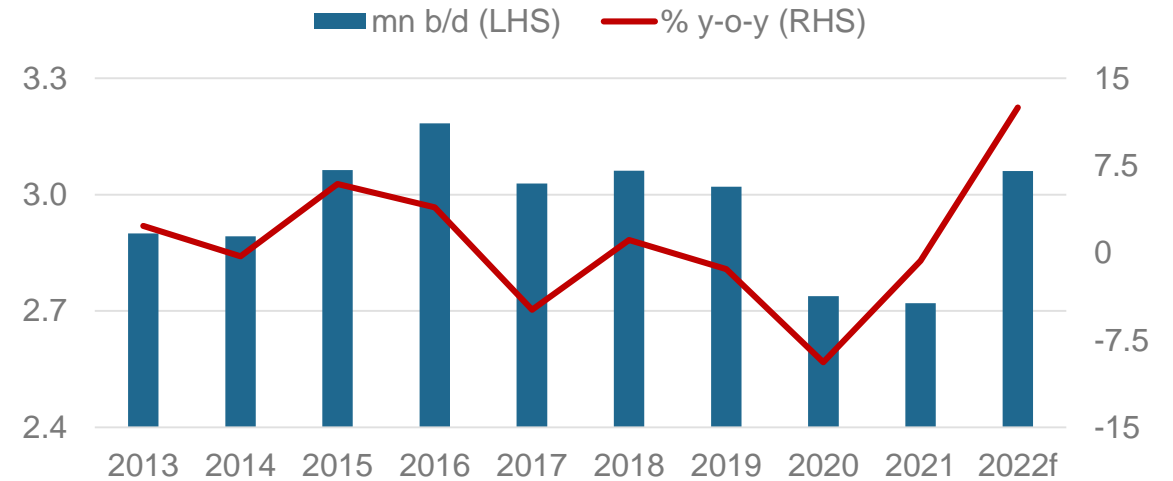


- We forecast that Kuwait's real GDP growth will accelerate from an estimated 1.2% in 2021 to 6.7% in 2022.
- Growth will be mainly driven by a strong performance of the oil sector, as growth in oil output will drive up net exports and elevated oil prices will support the non-oil economy.

Note: Above 50 marks expansion. Source: S&P Global, Fitch Solutions

## ...As OPEC+ Supply Restrictions Ease

Kuwait – Total Crude Oil Production, mn b/d (LHS) & % y-o-y (RHS)



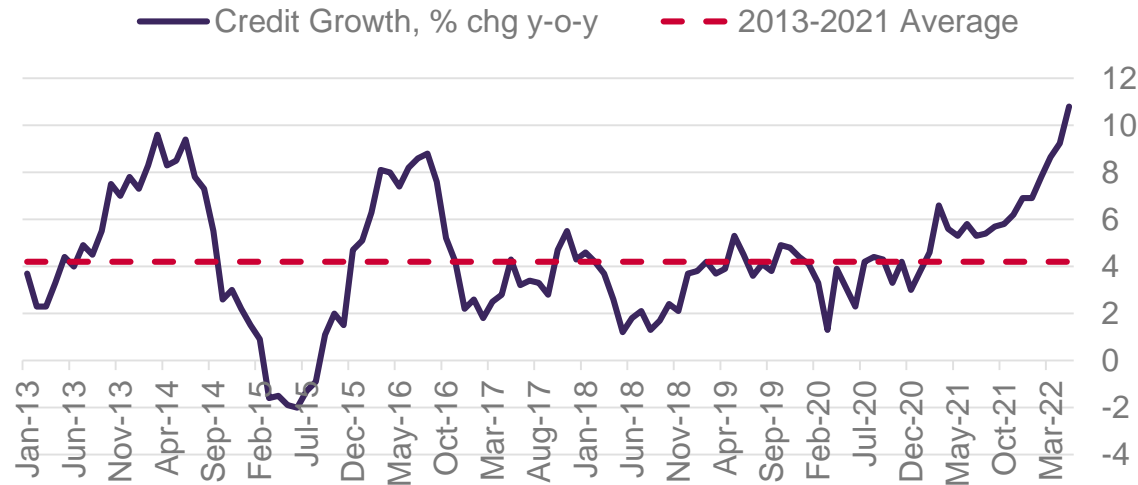
- The easing of OPEC+ supply restrictions will allow oil production to grow by 12.5% in 2022.
- Since oil traditionally accounts for over half of Kuwait's output and for over 90.0% of total exports, this alone will allow Kuwait to post the fastest growth in ten years.

f = Fitch Solutions forecast. Source: OPEC, IEA, Fitch Solutions

# ... And Some Gains In Non-Oil Economy, Despite Political Gridlock

## High Oil Prices Fueling Non-Oil Economy...

Kuwait – Credit Growth, % change

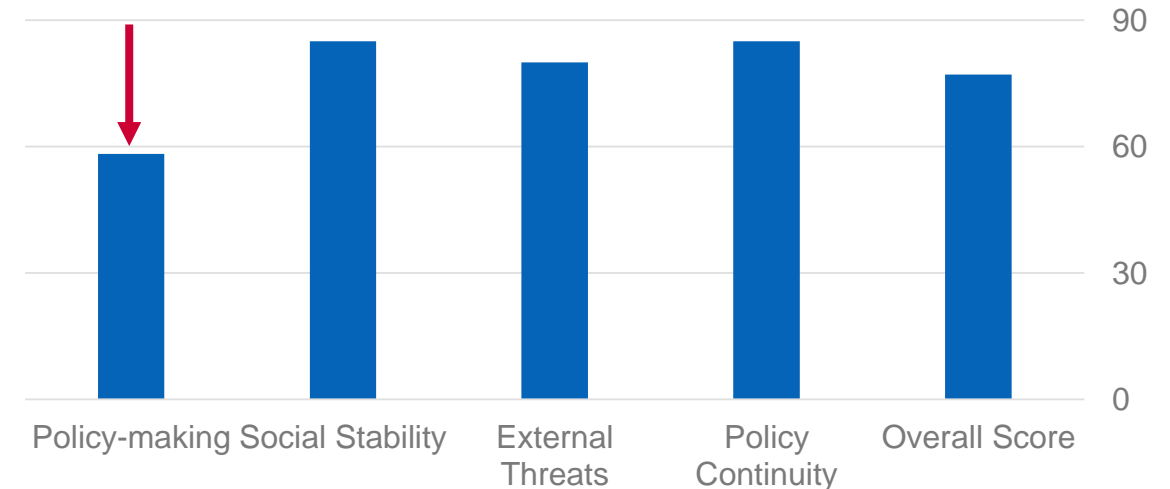


- The non-oil economy will also perform above-trend in 2022 thanks to elevated oil prices, which will keep boosting consumer confidence and propensity to spend.
- Construction works in the Al Zour refinery and in the maritime sector, driven by public investment, will also provide tailwinds to the non-oil economy.

Source: CBK, Fitch Solutions

## But Political Risk Tempers Future Outlook

Kuwait – Short-Term Political Risk Index



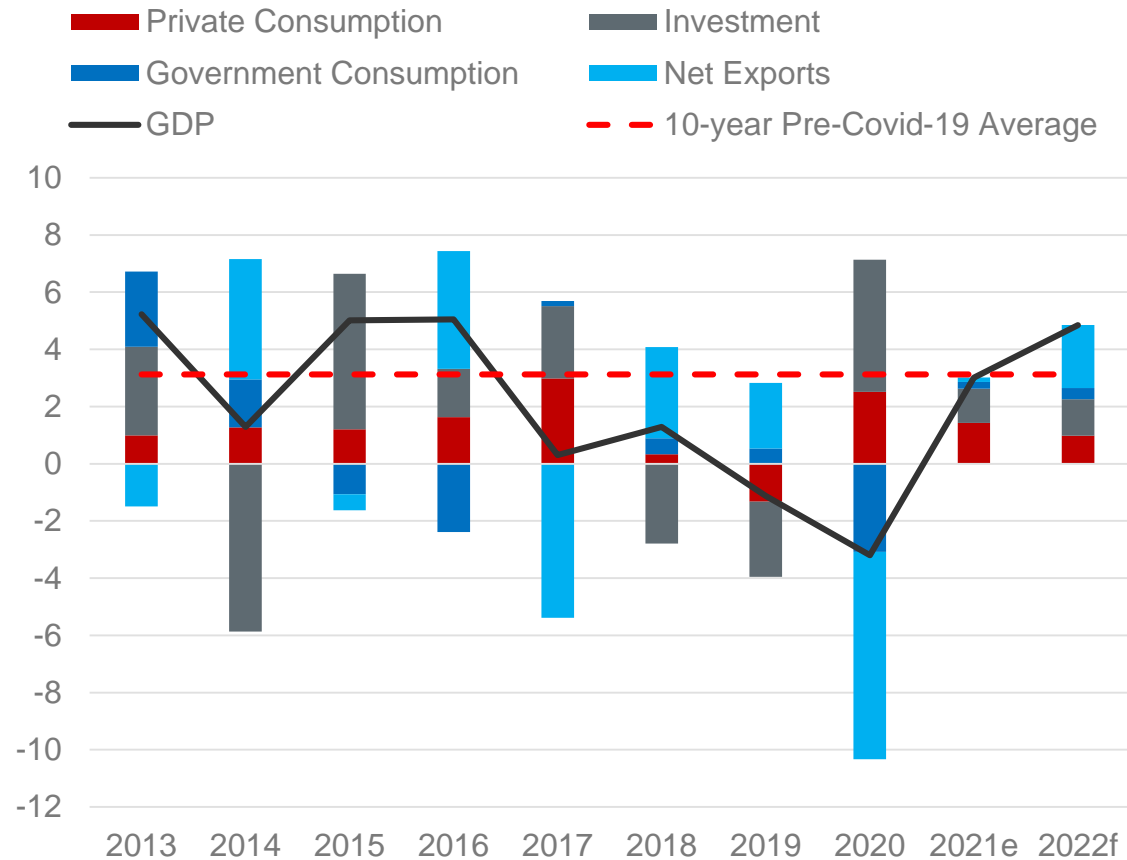
- However, the ongoing political gridlock makes us less bullish about Kuwait's medium-term growth outlook, which will remain dependent on the performance of the oil sector.
- Indeed, persistent political bickering between the Cabinet and the parliament has been blocking law amendments aimed at attracting foreign investment and supporting private sector growth.

Note: Score out of 100. Higher Score = Lower Risk. Source: Fitch Solutions

# Oman: Strong Growth In 2022 Supported By The Oil Economy

## Growth Above Pre-Covid-19 Trends In 2022

Oman - Real GDP Growth, % y-o-y & Contributions, pp



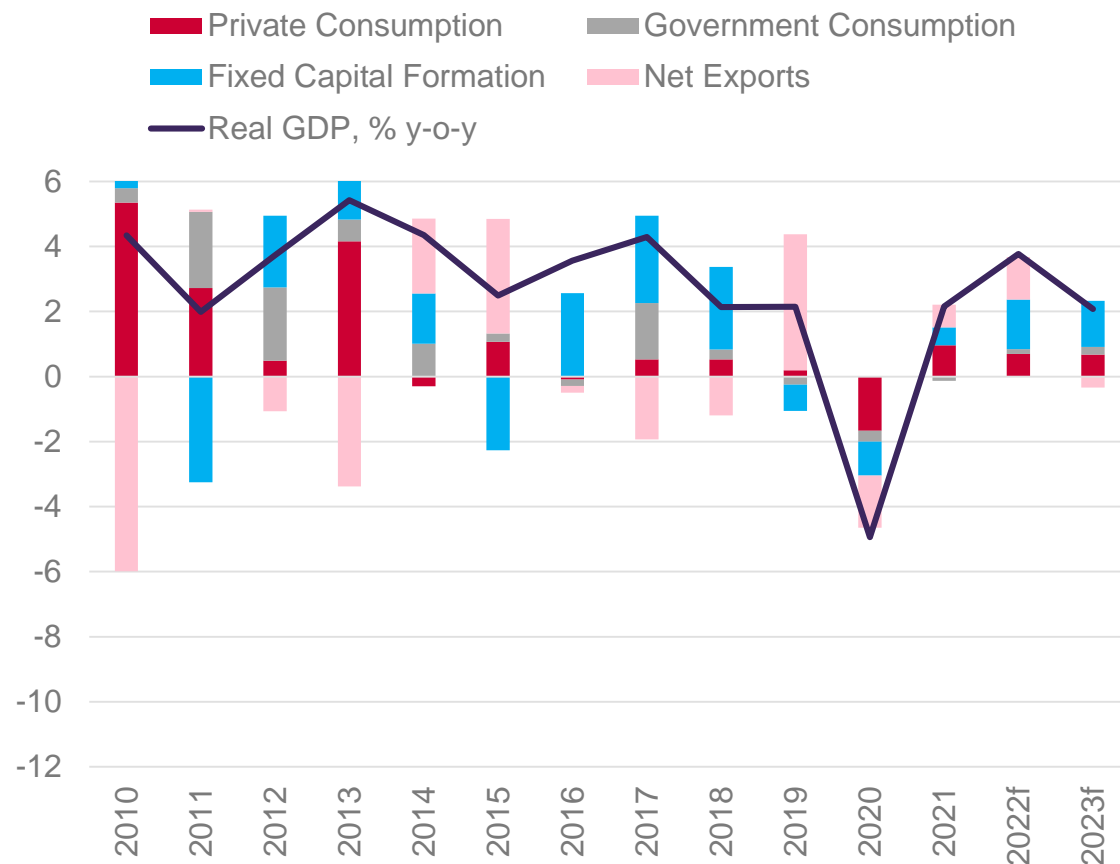
e/f = Fitch Solutions estimate/forecast. Source: NCSI, Fitch Solutions

- We forecast Oman's economic growth will accelerate from 3.0% in 2021 to 4.8% in 2022.
- Hydrocarbon related economic activity will be the main driver of economic growth, as we forecast hydrocarbon production to increase by 7.6% in 2022.
- A surge in hydrocarbon production, strong demand for non-hydrocarbon exports and a recovery in tourism will support net exports' contribution to economic activity.
- Investment will remain strong amid government efforts to diversify sources of economic activity, in line with Oman Vision 2040.
- Higher hydrocarbon revenues allowed the government to increase subsidies, which will partly offset the impact of inflationary pressures, monetary tightening and unfavourable base effects on private consumption growth.

# Bahrain: Real GDP Growth Will Benefit From High Oil Prices

## Stronger Export Demand And Investment Will Drive Growth

Bahrain – Real GDP Growth, % & Components Of GDP, pp contribution



f = Fitch Solutions forecast. Source: UN Data, National Accounts, Fitch Solutions

- Bahrain's real GDP growth will accelerate from 2.2% in 2021 to 3.8% in 2022, exceeding the 2010-2019 average of 3.4%.
- Non-oil activity will be the main driver of headline growth, as weak growth in hydrocarbon output will continue to drag on the oil sector.
- Q122 GDP data support our view, as the 7.8% y-o-y expansion in the non-oil economy more than offset the 4.7% y-o-y contraction in the oil sector, resulting in robust headline growth of 5.5%.
- Economic activity will remain strong in coming quarters, but base effects will weigh on quarterly growth readings.
- Fixed investment and net exports will benefit from elevated global commodity prices and strong growth in Bahrain's main export markets.
- This will more than offset the impact of accelerating inflation – which we forecast at 3.5% in 2022 - and aggressive monetary tightening on private consumption.

# Fitch Solutions Vs Bloomberg Consensus

## 2022 Real GDP Growth

%

Country	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Algeria	2.99	-	-
Egypt	6.17	5.50	5.00
Iran	7.77	-	-
Iraq	7.76	-	-
Israel	4.78	5.00	5.00
Kuwait	6.79	7.00	6.70
Lebanon	3.45	-1.00	1.30
Libya	8.57	-	-
Morocco	1.62	1.30	2.55
Oman	4.85	4.50	4.00
Qatar	4.30	4.70	4.60
Saudi Arabia	7.61	7.60	7.00
Tunisia	2.26	2.30	2.80
UAE	6.18	5.60	5.20

## End-2022 Exchange Rate

Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
DZD/USD	149.25	-	-
EGP/USD	19.11	19.10	15.70
IRR/USD	48,000.00	-	-
IQD/USD	1,460.00	-	-
ILS/USD	3.35	3.40	3.30
KWD/USD	0.32	0.30	0.30
LBP/USD	25,000.00	-	-
LYD/USD	4.58	-	-
MAD/USD	10.50	-	-
OMR/USD	0.39	-	-
QAR/USD	3.64	3.64	3.64
SAR/USD	3.75	3.75	3.75
TND/USD	3.25	-	-
AED/USD	3.67	3.67	3.67

Last updated July 28. Source: Bloomberg, Fitch Solutions



# Fitch Solutions Vs Bloomberg Consensus

## 2022 Average Inflation

%

Country	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Algeria	9.70	-	-
Egypt	13.20	11.75	8.20
Iran	33.00	-	-
Iraq	5.00	-	-
Israel	3.90	3.80	3.20
Kuwait	3.90	4.45	3.65
Lebanon	155.71	174.50	127.50
Libya	6.80	-	-
Morocco	5.20	5.00	3.00
Oman	2.20	3.20	2.05
Qatar	4.70	4.45	4.00
Saudi Arabia	2.20	2.50	2.15
Tunisia	7.80	8.10	7.70
UAE	3.50	3.85	3.35

## End-2022 Policy Interest Rate

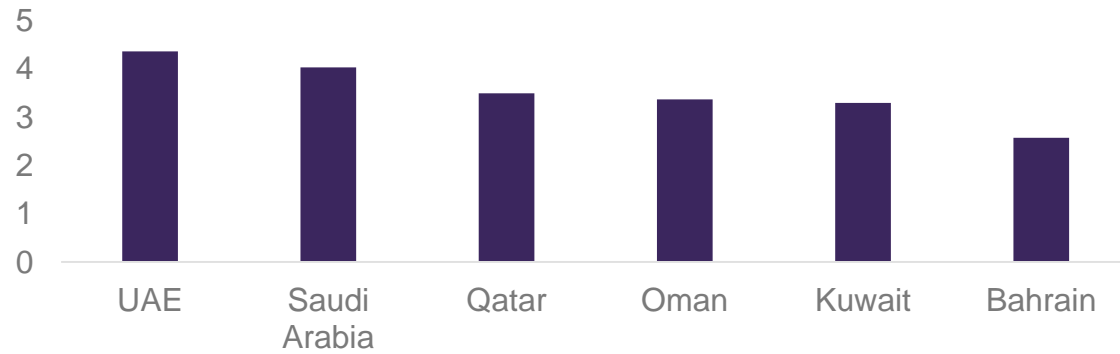
%

Country	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Algeria	3.50	-	-
Egypt	13.25	-	-
Iran	-	-	-
Iraq	4.00	-	-
Israel	1.75	1.70	1.70
Kuwait	3.50	-	-
Lebanon	10.00	-	-
Libya	3.00	-	-
Morocco	2.00	-	-
Oman	3.75	-	-
Qatar	4.75	-	-
Saudi Arabia	3.50	-	-
Tunisia	8.25	-	-
UAE	3.65	-	-

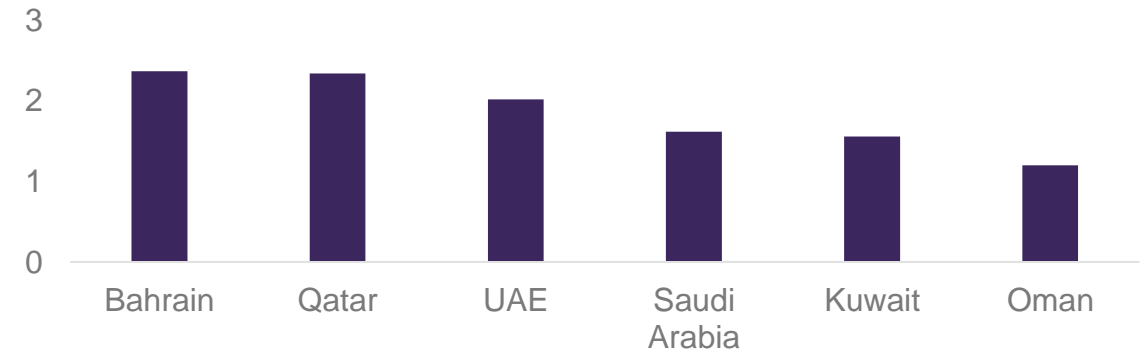
Last updated July 28. Source: Bloomberg, Fitch Solutions

# Data Pack

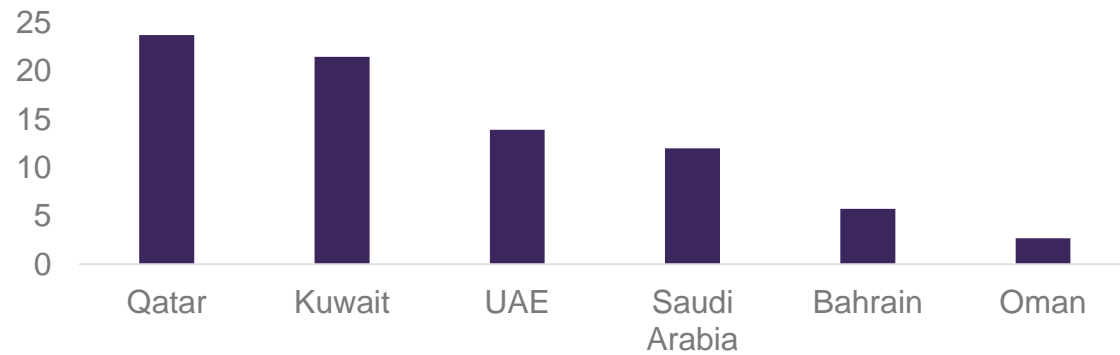
### Real GDP Growth, % (2022-2026)



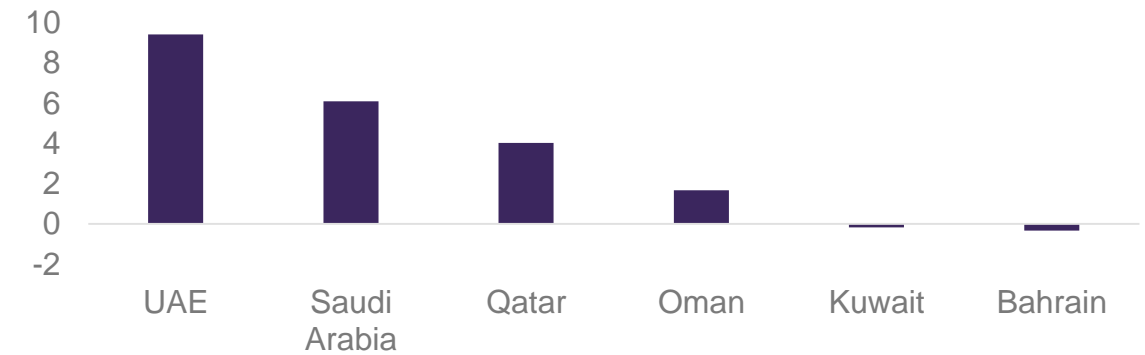
### Consumer Price Inflation, % (2022-2026)



### Current Account Balance, % of GDP (2022-2026)



### Budget Balance, % of GDP (2022-2026)



Source: National Sources, Fitch Solutions

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