

# Market Insights & Strategy

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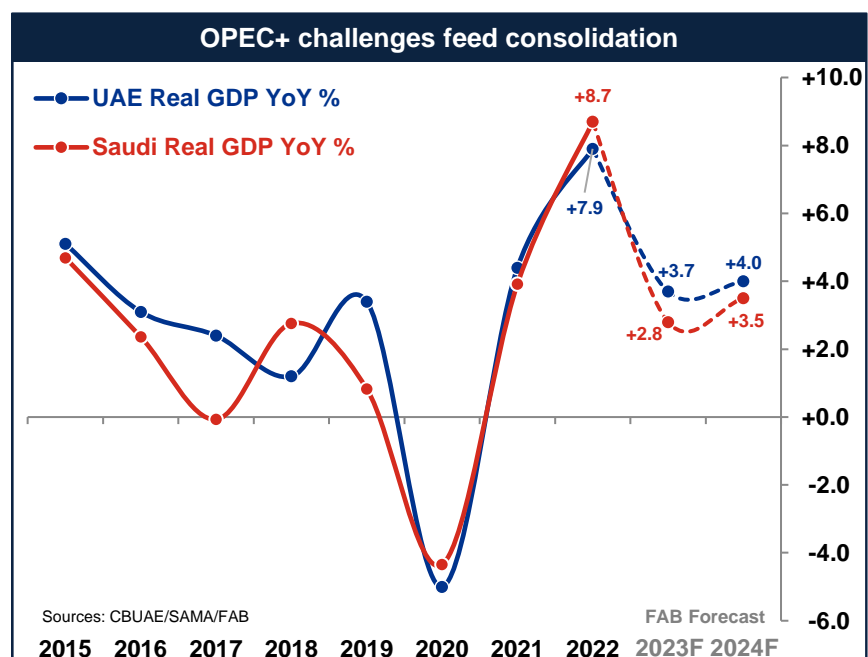
**Simon Ballard**  
Chief Economist

## Revising our 2023/2024 GDP outlook for the UAE and KSA *Pressure from oil production cuts*

- We now forecast the UAE economy to grow by 3.7% in 2023, down from our prior forecast of 5.0%; 2024 GDP growth maintained at 4.0%
- KSA real GDP forecast for 2023 also revised lower. We see the economy expanding by a more modest 2.8% in 2023 (previously 4.8%). 2024 GDP growth forecast at 3.5%
- Growth revisions due primarily to OPEC+ oil production cuts that have been extended to year-end, as well as the impact of tighter financial conditions globally on non-oil sector activity.
- Beyond 2023 though, the regional outlook remains positive, with ongoing expansion in the non-oil sector (incl. real estate and tourism) sustaining robust growth in the medium and long term.

In the context of the recent extension of OPEC+ oil production cuts to the end of this year – and the clear net negative implication that we believe this will have on GCC oil producers' petrochemical revenues and sovereign balance sheets – we are today revising lower our forecasts for United Arab Emirates' (UAE) and Saudi Arabia's (KSA) real GDP growth for 2023.

We now forecast the UAE economy to grow by 3.7% in 2023, down from our prior forecast of 5.0%. At the same time we have reduced our KSA 2023 real GDP target to a more modest 2.8% from 4.8% previously.



At the same time though, we recognize that our downgrades for 2023 and 2024 GDP growth are more marginal than perhaps seen elsewhere. Indeed, our revisions are cushioned to a certain extent by our optimism that the U.S. Federal Reserve will orchestrate a soft landing outcome for the U.S. economy in 2024. Such a scenario, assuming it proves accurate, should help to limit broader, more widespread economic downside risk, including here in the GCC region.

## UAE

We now expect the UAE economy to expand by 3.7% in 2023 (down from our prior forecast of 5.0%). This will represent a marked slowdown from +7.9% real GDP growth in 2022 which was driven by a 7.2% increase in non-oil sector GDP and a 9.5% expansion in oil-sector GDP.

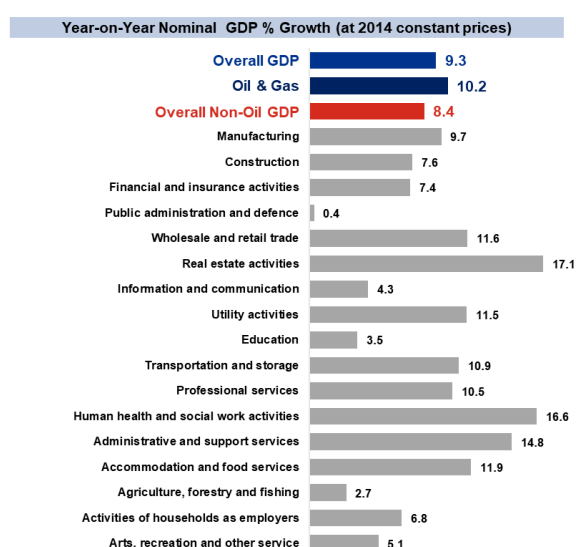
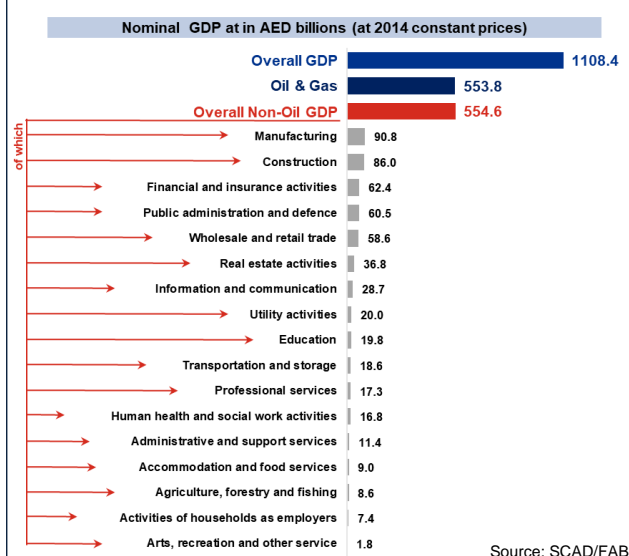
Non-oil activity has long represented the lion's share of economic activity in Dubai, but now, critically, accounts for >50% of nominal GDP in Abu Dhabi. Overall, we expect the UAE non-oil sector to experience robust expansion of 4.5% this year.

### UAE banks still riding the positive GDP wave

Quarterly operating profit of top five UAE banks

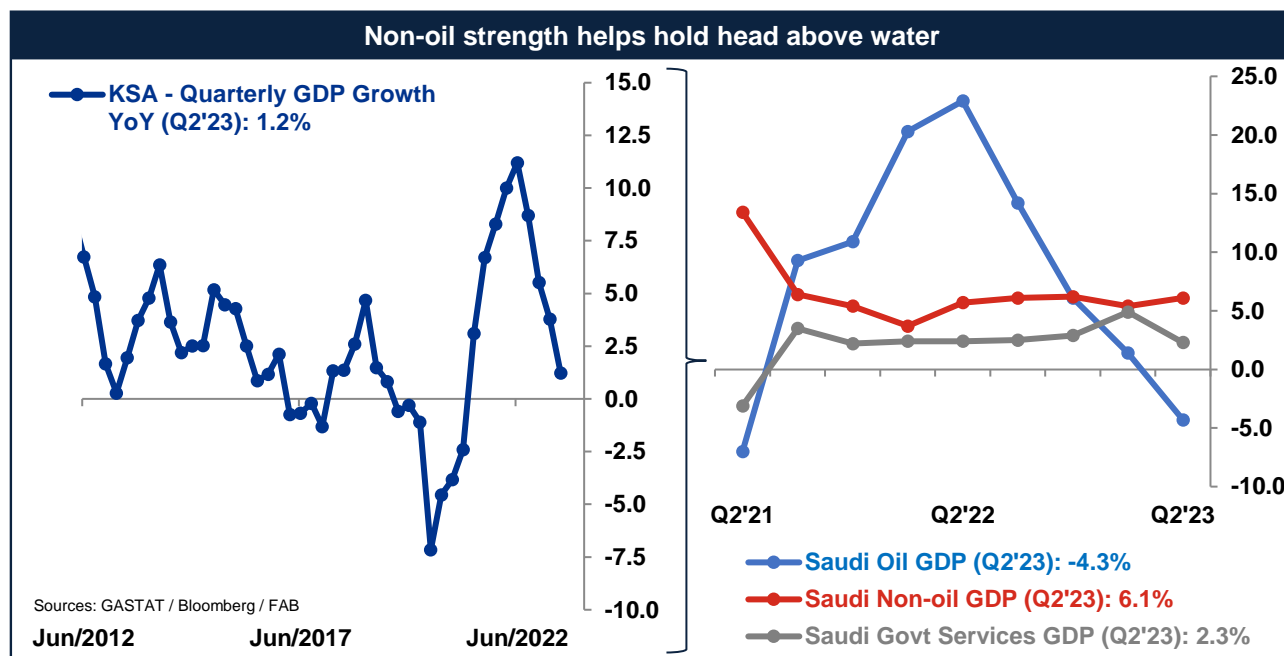


### Abu Dhabi: Overall GDP Performance in 2022

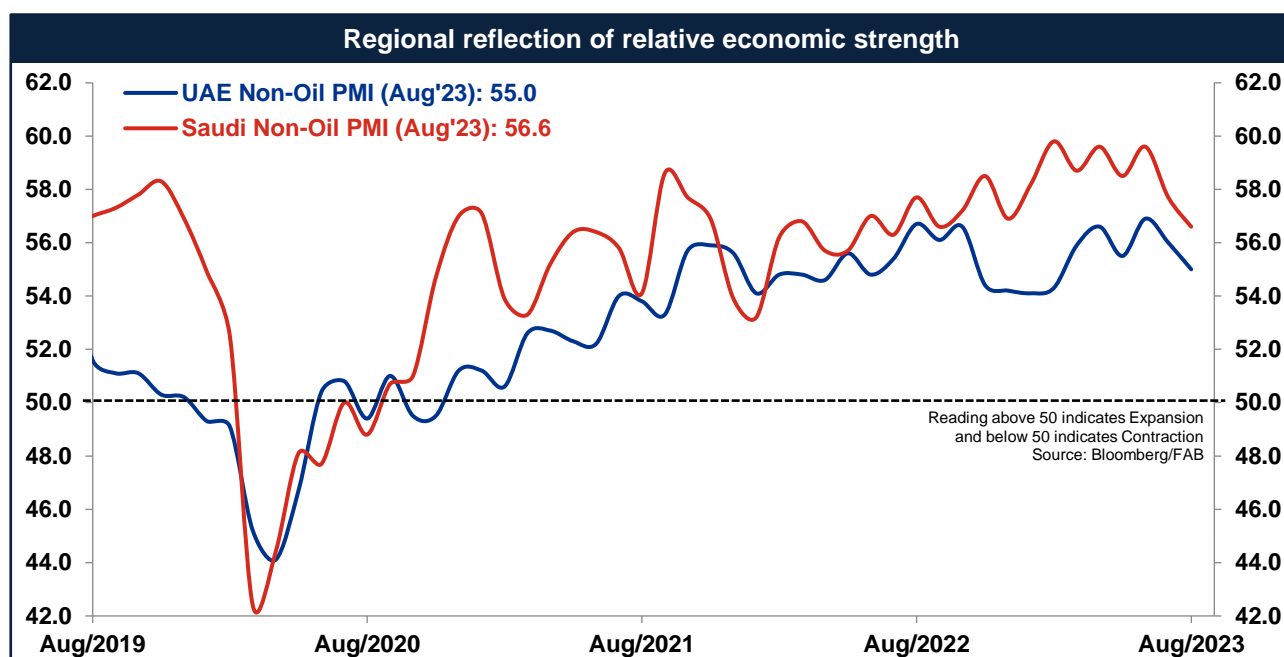


## Saudi Arabia

As a result of reduced oil production we believe there will be an even more marked negative impact on the KSA economy, GDP growth of which we now expect to come in closer to 2.8% than our earlier 4.8% target. Looking ahead to 2024, we have then reduced our forecast for KSA real GDP growth to 3.5% (from 4.0% previously). Similar to the outlook for the UAE, we expect marginally stronger economic performance by KSA in 2024, albeit still restricted by persistently tight financial conditions and a weakening global macroeconomic environment.



Across both economies, we expect the majority of positive economic momentum to now come from the non-oil sectors, with labour participation rates rising and tightening at the same time on the back of government investment initiatives aimed at underpinning economic diversification and growth potential. Meanwhile, we continue to expect headline inflation in both the UAE and KSA to moderate over the coming months as the CBUAE and SAMA leave rates elevated in line with those of the Federal Reserve, due to the respective currency pegs. This prospect of maintaining rates high for longer, will help to keep a lid on price pressures as we head toward 2024.



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