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Higher oil prices could really help GCC government budgets

♦ Most governments in the region have budgeted oil prices at US\$45/barrel.

♦ FAB, meanwhile, has forecast an average price for Brent crude of US\$58/barrel in 2021.

♦ Brent prices hit the highest level in a year, trading at US\$58.7/barrel, after OPEC+ agreed on keeping some output curbs for longer.

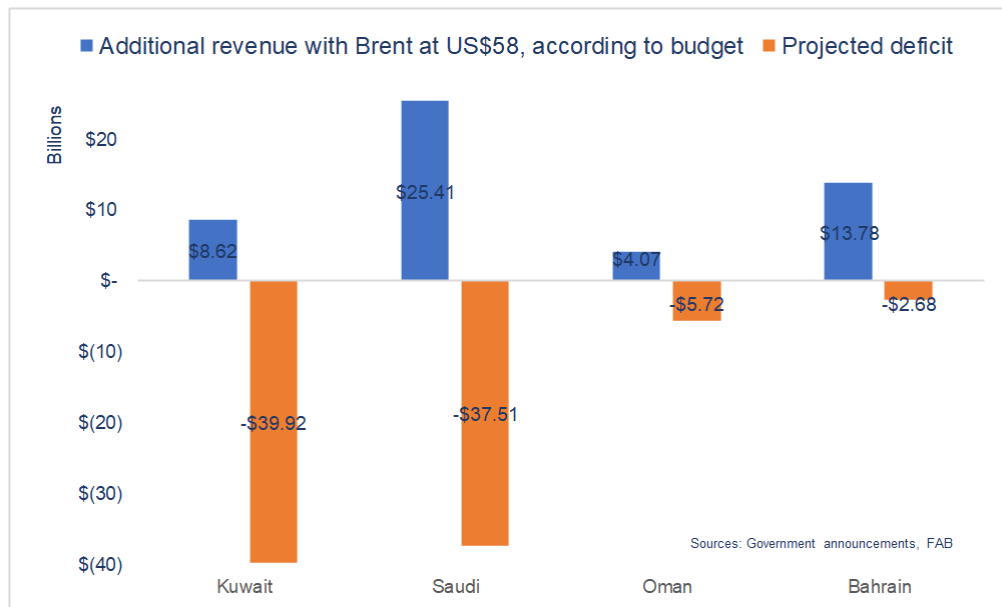
♦ Oman and Bahrain are the ones set to get the biggest relative boost to revenues from higher oil prices.

♦ The FAB AAC is overweight in equities, IG and EM bonds, and gold, and is underweight alternatives.

The decision by OPEC+ to delay increasing their output just as US inventories fell more than expected have pushed the price of Brent crude to US\$58.7/barrel, its highest since January, 2020. The rally is upending many oil price predictions for this year, which have been mostly looking at prices staying around the US\$43/barrel average recorded in 2020.

It is, however, a welcome surprise for oil-producing nations in the GCC region, which had also predicted that Brent crude would remain around US\$45/barrel this year. With many of the countries in this group depending on oil for most of their fiscal revenues, higher prices are good.

If prices steady up around here and FAB's forecast of an average of US\$58/barrel this year materializes, it could mean a much better fiscal outcome than most countries in the region had prepared for. And this is good news for investors.



The lower-rated countries in the region are the ones that stand to benefit the most from higher oil prices. Oman and Bahrain, for instance, could erase their forecast deficit if they do not spend anything more than what they forecast and if revenues increase due to higher oil prices.

Oman, for instance, projected a deficit of about US\$5.7 billion this year, assuming oil prices of US\$45/barrel. About 63% of the country's fiscal revenues are derived from hydrocarbons, according to the IMF. Assuming this, and applying FAB's forecast oil price of US\$58/barrel instead, would add some US\$4.1 billion in revenues to Oman's government coffers.

Bahrain offers a similar equation, with the budget calling for a deficit of US\$2.7 billion on a forecast oil price of US\$45/barrel. If oil were to stay around US\$58/barrel, the country could get as much as US\$13.8 billion more in revenues, considering that 76% of its fiscal input derives from hydrocarbons, according to the IMF.

At current Brent crude prices, some of the GCC economies could reduce their deficits

These two countries in particular, have started to rein in their spending and seek ways of getting more revenues. Both are enacting value added taxes and Oman expects to spend 14% less this year than last. Bahrain is still considering higher spending this year to deal with the fallout of the coronavirus global crisis. However, the country was working its way towards balancing its budget before the crisis and is likely to stay in that path.

Perhaps most important, Fitch Ratings forecast Brent crude to average US\$45/barrel this year, and other agencies have similar expectations. If they are forced to revise those expectations higher, they will also have to revise all of their assumptions about the ability of GCC countries to pay their debts, and maybe even their ratings.

Investment Strategy Update

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