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14 October, 2020

The IMF is becoming more optimistic about GCC growth

◆ The IMF revised upwards its growth forecast for Saudi Arabia, the GCC's largest economy.

◆ The Fund is forecasting that the price of oil will average US\$41.69 this year and US\$46.7 in 2021.

◆ The multilateral organization, however, revised down its growth forecast for the UAE as a result of the slowdown in the tourism sector.

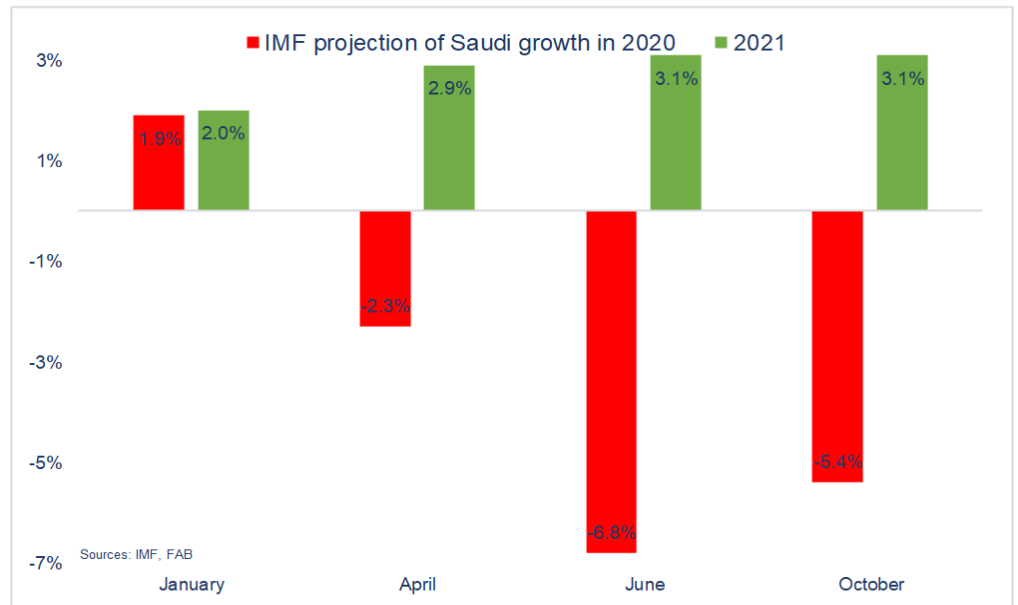
◆ FAB's Chief Economist continues to forecast the UAE economy will contract 3.2% this year but expand 2.4% in 2021.

◆ The FAB AAC continues to be overweight MENA assets given that they offer higher value relative to similar securities elsewhere.

Things are not looking great for growth in the Gulf Cooperation Council, but they have improved. That is one of the messages which can be gleaned from the latest World Economic Outlook update of the International Monetary Fund.

The IMF is forecasting that the economy of the Middle East and North Africa region will contract by 5% this year, but that it will expand by 3.2% next year. The key components of that forecast are Saudi Arabia, the UAE and Egypt, the biggest economies in the region according to the IMF's geographical division.

Of these, Egypt is still seen expanding by 3.5% this year. This is better than the 2% 2020 growth the IMF had forecast back in April. Saudi Arabia is expected to contract 5.4% in 2020, which is also an improvement versus the 6.8% contraction the IMF had forecast in June.



Both economies are also seen expanding next year, Egypt by 2.8% and Saudi Arabia by 3.1%. The outlier in this subgroup is the UAE. The IMF said that it expects it to contract 6.6% this year and to expand only 1.3% next year. That was a significant downward revision from the April outlook, when the Fund had forecast that the UAE would shrink 3.5% this year and expand 3.3% next year.

The World Economic Outlook did not elaborate on the pessimism related to the UAE, but it may have to do with the weight of the services industry in the country, which has one of the most diversified economies in the GCC.

While the IMF probably employs some of the world's best economists, they may be missing the full picture here. The UAE has been one of the most effective countries in the world in combating the Covid-19 virus spread, which has allowed airports and hotels in the country to open up faster. It is early days, but this could pay dividends.

The IMF has revised upwards its forecast for growth in KSA, the GCC's biggest economy

Dubai was already the world's fourth most visited destination last year. Having opened faster and having shown its ability to control the virus could result in a larger market share of the global tourism industry going forward. The postponement of the EXPO 2020 to next year may consolidate that shift as travel-starved people could have more reason to flock to the country.

The IMF is also forecasting higher oil prices next year, which would support the economies of most of the oil-producing countries in the region. This is one of the factors which help explain why FAB's Chief Economist, Simon Ballard, continues to predict that the UAE's economy will shrink by 3.2% this year, but expand at a rate of 2.4% in 2021, a more optimistic view than the IMF's.

Investment Strategy Update

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