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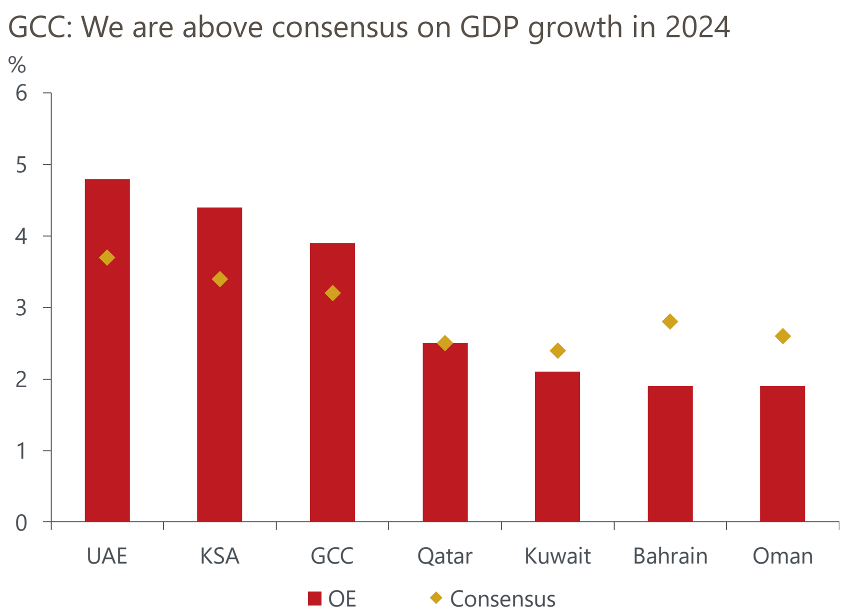
Research Briefing | MENA

Key themes 2024 – The GCC will defy the global slowdown

- **The Gulf Cooperation Council (GCC) region will expand less than we initially thought this year, but growth will improve in 2024 and outpace most advanced and emerging economies. There are four themes that shape our above-consensus 2024 GDP growth forecast for the GCC of 3.9%.**
- ***Energy sector will see a slow turnaround*. We expect regional producers to stick to oil supply curbs in the near-term, before unwinding them later in 2024. This will translate into a positive contribution to overall growth from the energy sector after a retreat this year.**
- ***The non-energy economy will remain decoupled from global trends*. Our key call for 2024 is that non-energy sectors drive overall growth with expansion of 4%. Government policies will underpin this resilience; we see a broadly stable fiscal outlook, and growth in off-budget spending in Saudi Arabia and the UAE. Meanwhile, GCC inflation will hover at a comparatively low level in a global context.**
- ***Tourism and renewables will remain key diversification engines*. We see steadfast investment in non-energy sectors, including tourism and renewables, as it is the essence of regional development visions.**
- ***A widening of the Israel-Hamas war would upend 2024 outlook*. Our optimistic view is vulnerable to a regional war escalation scenario through the prospect of disrupted oil supply, negative impact on investment and travel demand, and a deterioration in the global macro backdrop.**

The slowdown in GCC growth this year was widely expected but the pace of expansion looks on track to miss even our below-consensus view from a year ago. As we approach 2024, we forecast growth will pick up and are optimistic relative to consensus expectations for the region and our projections for most advanced and non-China emerging markets (EMs). However, our optimism could quickly crumble if regional tensions escalate.

Chart 1: Our 2024 GDP growth forecasts for GCC countries are above consensus



Source: Oxford Economics/Focus Economics

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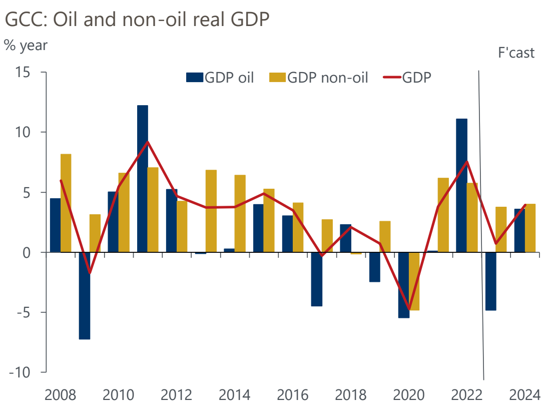
We continued to downgrade our 2023 growth forecasts for the GCC as curbs on oil production deepened. These curbs will make 2023 the weakest year for the regional energy sector since 2009, excluding 2020, driving down headline GDP growth to just 0.7% this year, a quarter of the pace we initially projected.

The energy-sector headwinds will carry over into 2024 as Saudi Arabia and other OPEC+ members restrict oil output through Q1. A longer extension lasting through H1 is also possible. However, we expect the curbs to unwind later in 2024, translating into a positive contribution to growth from the energy sector. Despite the headwinds, we see the non-energy economy remaining strong, driving overall 2024 GDP growth of 3.9% across the GCC (**Chart 2**).

Chart 2: GCC growth is set to improve in 2024



Source: Oxford Economics/Haver Analytics

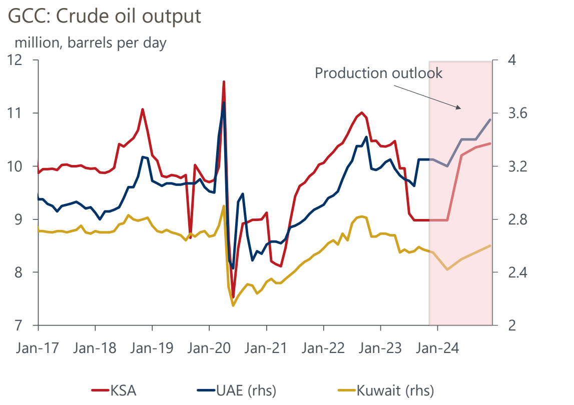
We expect the UAE to outperform regional peers for the second consecutive year, with growth of 4.8% in 2024. Meanwhile, Bahrain, Kuwait, and Oman will fare comparatively worse, with sub-2% growth amid weaker domestic fiscal support.

Energy sector, from a drag to small boost

Our view on OPEC+ policy this year underestimated the prospect of additional output cuts as oil prices retreated. Instead of the modest growth we initially projected, GCC oil output will shrink by nearly 5% this year, with a 7% decline in Saudi Arabia.

We see output gradually rising from Q2 2024, generating energy-sector growth of 3.6% next year. Output will rise at a faster pace in Saudi Arabia, which has seen the deepest cuts this year, and in the UAE, given the agreed upward revision to production quotas.

Chart 3: GCC oil output will edge up in H2 2024



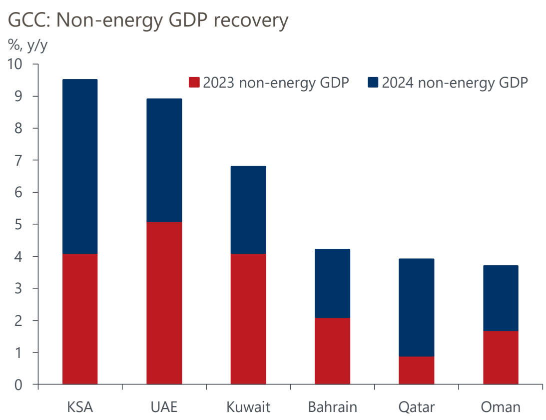
Source: Oxford Economics/IEA

The global backdrop, including a slowdown in China, is discouraging for energy demand, so the announced oil output restrictions have failed to bolster oil prices. However, we expect supply to tighten, lifting Brent oil price above $80 per barrel in 2024.

Non-energy sectors will remain decoupled from global trends

Our key call for 2024 is that the positive non-energy sector performance endures. Although GCC economies slowed more than expected this year, non-energy GDP growth delivered favourable surprises in Saudi Arabia and the UAE, offsetting weaker-than-expected performance in the rest of the region. This strength underpins 2023 GCC non-energy growth forecast of 3.8%, down only slightly from 4% this time last year. Going into next year, high-frequency indicators illustrate solid domestic demand and high levels of business confidence leading us to forecast growth of 4% (**Chart 4**).

Chart 4: Non-energy sector will remain resilient



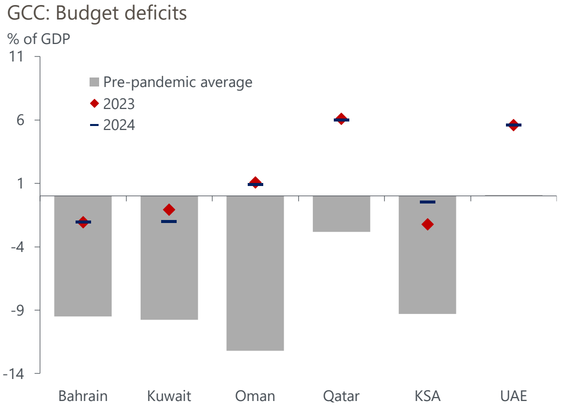
Source: Oxford Economics/Haver Analytics

Four factors drive our optimism on non-energy sectors next year:

1. **Fiscal strength:** Our view on oil production and prices coupled with the positive momentum in the non-energy sector will support GCC budget positions in 2024 after they weakened this year. We forecast the aggregate GCC budget surplus to double next year, to nearly US$36bn, representing 2.1% of projected regional GDP.

Fiscal policy dynamics diverged across the region this year as energy receipts came under pressure; some countries, including Saudi Arabia, chose to cushion demand through higher spending, while others, like Oman and Qatar, froze or cut spending. Only Saudi Arabia and the UAE have published draft 2024 budgets, but we expect higher revenues to increase governments' leeway to support the economies. We expect Oman, Qatar, and the UAE to maintain fiscal accounts in surplus (**Chart 5**) and project small deficits elsewhere. This underpins our view of median GCC government debt levels declining from 35% of GDP this year to 32% in 2024.

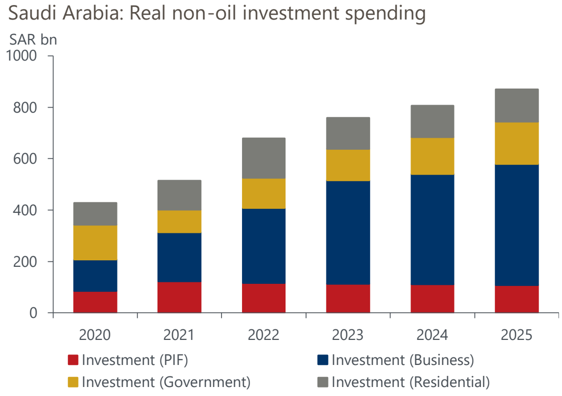
Chart 5: Aggregate GCC fiscal position will improve next year



Source: Oxford Economics/Haver Analytics

2. Investment plans: Non-energy sectors will benefit from investments into existing and emerging industries. Saudi Arabia looks likely to be the leader with a stream of giga, and smaller, projects. We recently upgraded our medium-term investment forecasts to align with the Kingdom's investment strategy, which aims to raise the investment contribution to GDP to 30% by 2030. The initiatives, fuelled by the sovereign wealth fund, range from expanding the tourism industry to a fund aimed at fostering priority sectors and newly set up special economic zones to draw in non-oil FDI. Consequently, we forecast non-energy GDP in the Kingdom to grow at nearly 5.5% next year, up from 4.1% this year.

Chart 6: Investment will rise strongly in Saudi Arabia

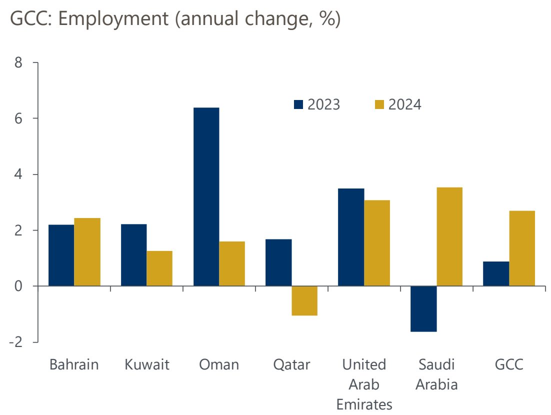


Source: Oxford Economics/Haver Analytics

The UAE will support the economy via various development strategies, including the "We the UAE 2031" vision. We forecast its non-energy GDP growth will ease moderately to 3.8% in 2024 from 5.2% this year.

The investment drive will create jobs, supporting demand. The latest data point to double-digit employment growth across various sectors in Saudi Arabia, with average earnings growing by nearly 5% in H1. The job market in the UAE, considered the region's best for creating job opportunities and retaining talent, also remains a hotspot thanks to the stimulus from tourism, new infrastructure projects and growth in population. Recent surveys suggest hiring remains strong, consistent with our estimates of employment gains (**Chart 7**).

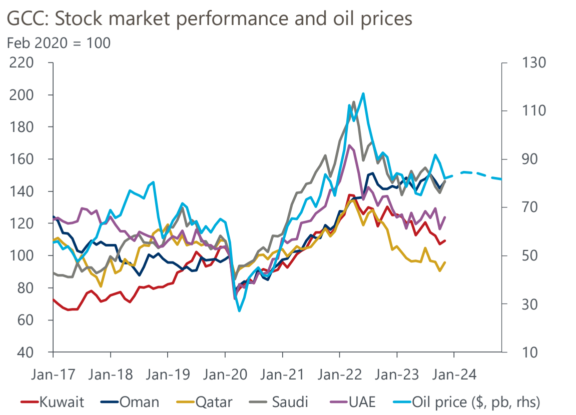
Chart 7: Labour markets will benefit from the positive macro-environment



Source: Oxford Economics/Haver Analytics

3. IPO activity: Ongoing diversification efforts coupled with regulatory reforms and technological upgrades will draw investors to regional bourses, extending growth in IPO activity. Although momentum slowed in H2, weighing on overall proceeds raised this year, the outlook for listings is positive with several large companies planning to turn to stock markets to diversify funding for expansion. Saudi Arabia and the UAE will continue to dominate, cushioning the performance of their equity markets.

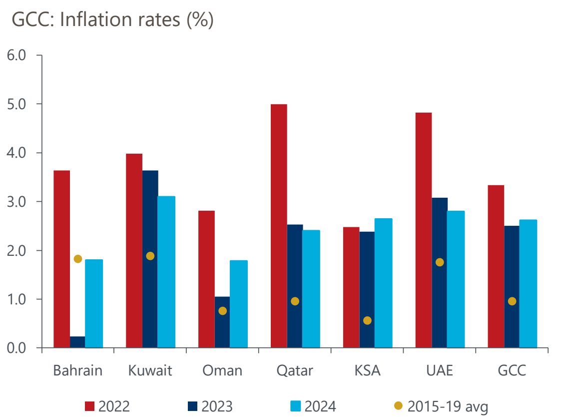
Chart 8: IPO activity will support regional stock markets



Source: Oxford Economics/Haver Analytics

4. Sticky inflation: We expect average GCC inflation to hover around 2.5% in 2024, following the disinflation we saw this year. This is benign in a global context but not too dissimilar from the average inflation across advanced economies of 2.4% next year and higher than pre-pandemic.

Chart 9: Inflation will remain sticky around 2.5%

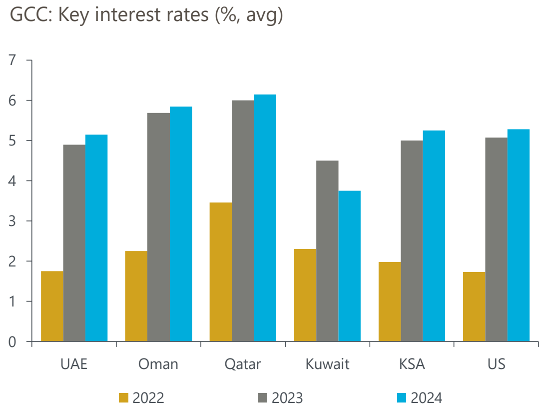


Source: Oxford Economics/Haver Analytics

Food, housing, and services will continue to fuel upward inflationary pressures. The robust outlook for the non-energy sector has pushed up rental prices and this is causing high readings for housing inflation. In Saudi Arabia, housing inflation has averaged nearly 8% year to date; by contrast, housing inflation readings have now turned negative in Qatar.

Despite the relatively benign inflation outlook, most GCC central banks will mirror moves dictated by the Fed, consistent with the currency pegs to the dollar, implying an extended period of higher interest rates. Our baseline assumes rates come down only toward the end of 2024.

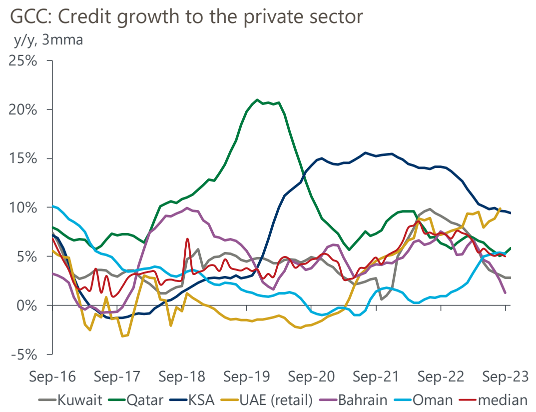
Chart 10: Monetary policy headwinds persist



Source: Oxford Economics/Haver Analytics

This will maintain the headwind to lending, though we continue to expect the overall investment drive across the region to remain supportive of loan growth.

Chart 11: High interest rates weigh on lending

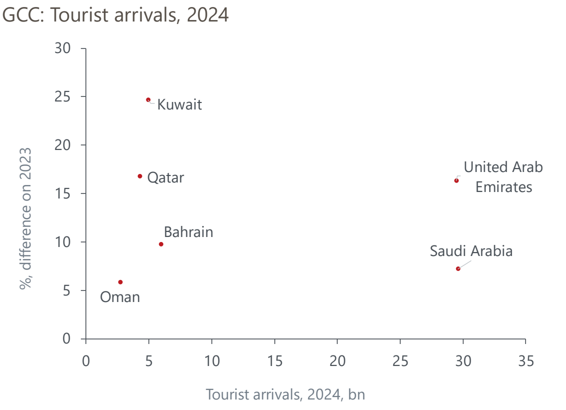


Source: Oxford Economics/Haver Analytics

Tourism and renewables will remain key diversification engines

GCC tourism outperformed other regions this year, with visitors in nearly every country rising above pre-pandemic levels. We see further expansion in 2024 and beyond, which will contribute to overall economic growth and resilience to global headwinds. In Saudi Arabia, we expect 27.6mn overnight tourists this year, rising to 30mn in 2024, and more than 50mn by 2032. The government has recently upgraded its 2030 visitor target to 150mn (domestic and international), from 100mn, and aims for the tourism sector to contribute 6% of GDP this year and 10% by 2030. Our preliminary analysis suggests the unified GCC tourist visa, which should come into effect in 2024 or 2025, could boost visitor arrivals in the region by 22mn by 2030.

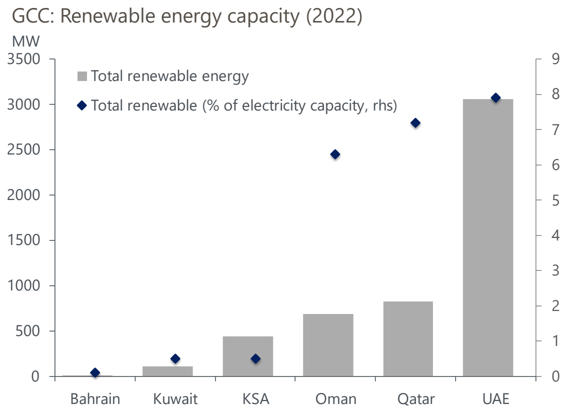
Chart 12: Tourism will remain a key driver of non-energy growth



Source: Oxford Economics/Tourism Economics

We think the GCC will continue to seek opportunities in the energy transition, with governments harnessing the windfall from fossil fuels to support the rollout of low-carbon alternatives. The UAE pioneered the region's net-zero path and has actively pursued green solutions to reduce its carbon footprint. While hosting the COP28 climate summit, the UAE launched a $30bn fund to finance green projects.

Chart 13: The UAE leads regional green efforts



Source: Oxford Economics/IRENA

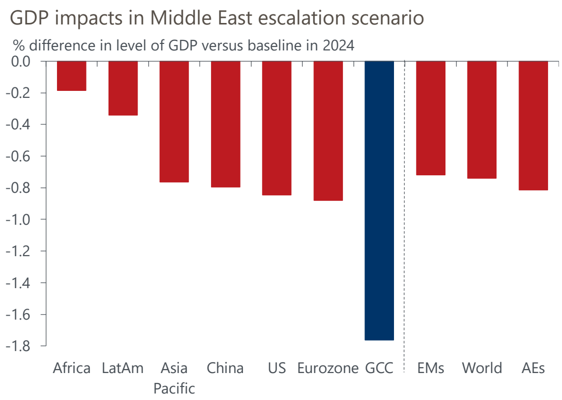
The UAE has signalled it may accelerate its net zero strategy, which currently commits the country to invest $163bn to achieve net zero emissions by 2050, with $54bn of this amount allocated to boost renewable usage by 2030. Meanwhile, Saudi Arabia has followed with a green initiative worth $190bn and aims to generate half of its electricity from renewable sources by 2030, compared to less than 1% currently. Regional governments have advanced investments into initiatives and technologies that will help them reach these commitments by re-purposing revenues from oil.

War spillover threatens 2024 outlook

Our optimistic view is vulnerable to an escalation of the Israel-Hamas war. In our baseline, we assume the conflict does not spread to other countries in the region. Market fears of escalation have also subsided since the onset of the conflict on October 7.

Still, our scenario analysis suggests GCC growth would be 1.8ppts lower in the event the war escalates in a way that disrupts the regional, and global, supply of oil. Although the region would likely benefit from the resulting spike in oil prices, the pace of expansion would slow due to a drop in supply, a negative impact on inward investment and travel demand, and a deterioration in the global macro backdrop. Under this scenario, which we give a 10% probability, global central banks would raise policy rates in the face of heightened near-term price pressures, lowering global growth by 0.7ppts.

Chart 14: GCC growth could be 1.8% lower if regional war escalates



Source: Oxford Economics

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