SNAPSHOT

Issue 14
June, 2017

Oil Prices and the Impact on GCC Countries

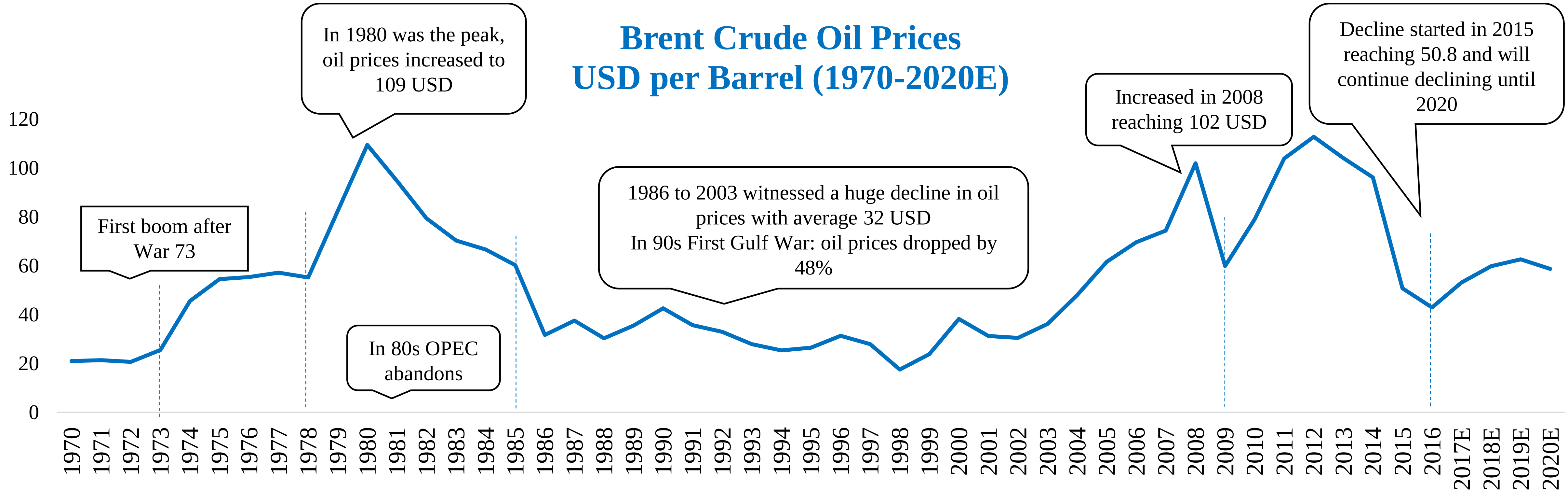
MULTIPLES GROUP
PRIVATE EQUITY & INVESTMENT BANKING

Table of Contents

The drop in oil prices has severely affected the countries of the Gulf Cooperation Council (GCC). This has lowered government revenues and in return negatively affected spending plans. Oil prices decline is expected to continue in spite of the GCC governments efforts to support non-oil sector revenues to fund their spending programs and reinforce the regional economic growth and diversification. In addition, the oil price drop has negatively impacted the RHC sector (real estate, hospitality and construction) across the GCC with a slowdown that is expected to continue over the next few years. However, the governments commitment to host mega events, such as Expo 2020 Dubai, 2022 FIFA World Cup Qatar and various national initiatives of the GCC governments should boost that sector as well as the overall economy performance.

What is the historical and forecasted oil price? And who are the top oil producers?

History and Forecast

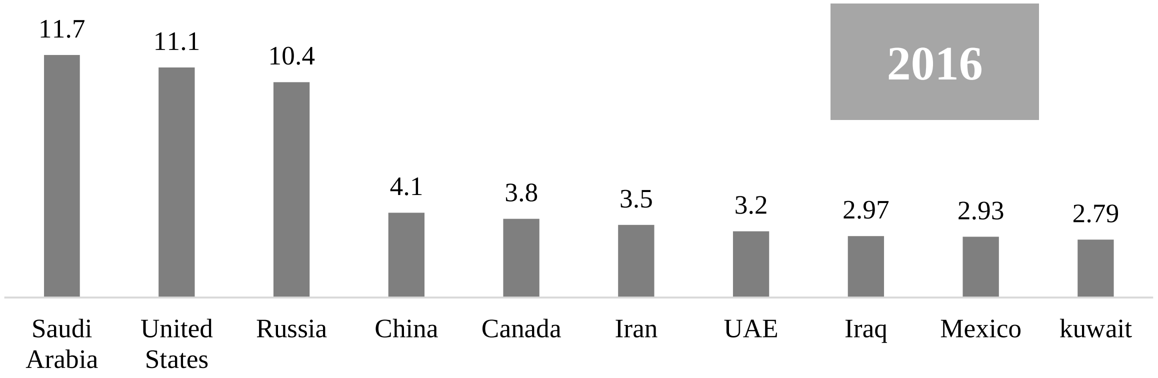


- Global oil prices had declined during the second half of 2014 and continued to fall downward reaching **43 USD** per barrel in 2016.
- Oil prices are expected to slightly increase in 2017 reaching **53.2 USD** per barrel, with no significant increase expected during the next few years 2018-2020.

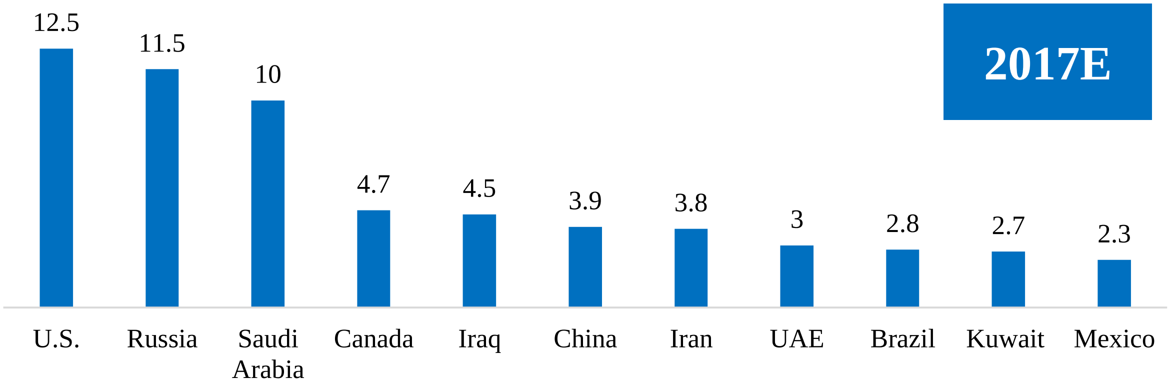
What is the historical and forecasted oil price? And who are the top oil producers?

Top Oil Producers & Exporters

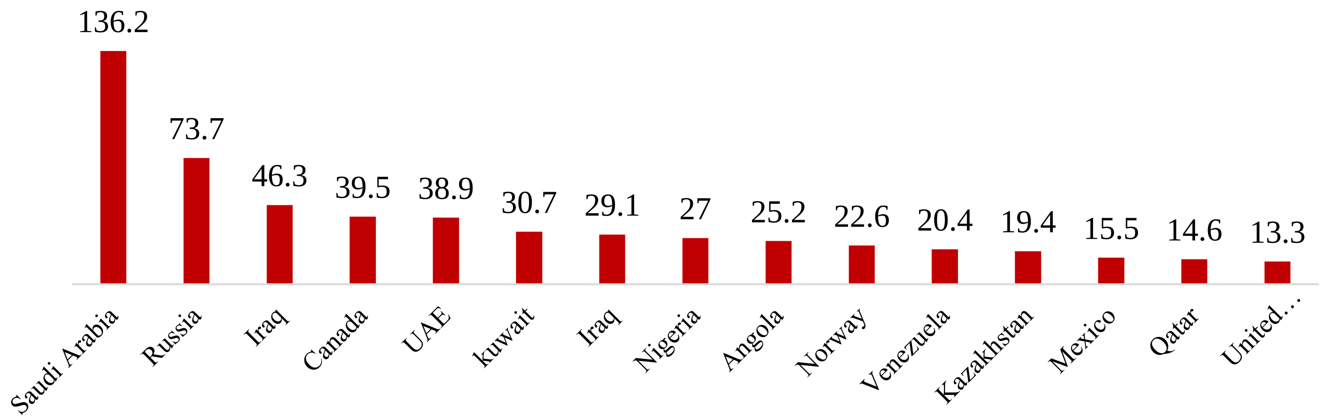
Top Oil Producers (2016, million barrels per day)



Top Oil Producers (Expected in 2017, million barrels)



Top Crude Oil Exporters by Country (2016, BN USD)



- ➢ The top oil producer in 2016 was Saudi Arabia, while in 2017 U.S was the top followed by Saudi Arabia. U.S will be the top producer in 2017 as result of Donald Trump win in elections.
- ➢ On the other hand, the top exporter is Saudi Arabia.

Question 2

What are the factors contributing to the decline in oil prices?

Global Slowdown

The global recession and very low rates of economic growth in most of industrialized countries and the emerging economies significantly contributed to lowering the oil prices.

Iran Nuclear Deal

Signing the US-Iran nuclear deal in 2015 paved the way for removing the international sanctions against Iran, and this allowed Iran to return to oil market and expand its oil production to 3.6 million barrels per day. This major increase in world oil supply has led to a large surplus in oil supply.

Shale Gas Revolution

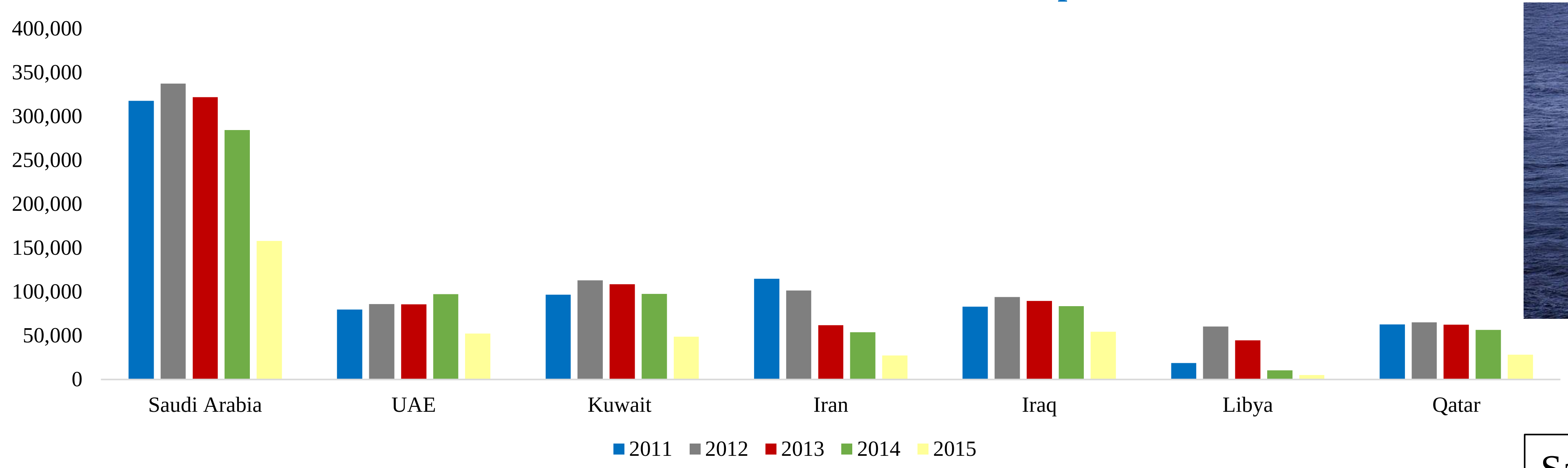
The surge in natural gas production crashed prices, fueling a huge increase in activity in petrochemicals and causing a major switch from coal to natural gas in the electric power industry.

OPEC

OPEC and Saudi Arabia have decided not to cut oil production from 30 million barrels per day to keep the market share despite the decline in oil prices.

What is the impact of falling oil prices on GCC countries?

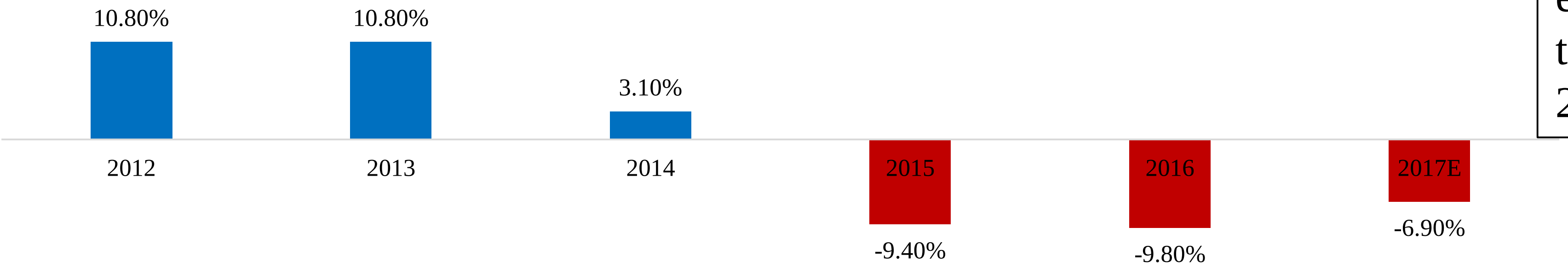
OPEC Members' Values of Petroleum Exports



Source: OPEC Annual Statistical Bulletin

Saudi Arabia remains to be the top OPEC country in terms of petroleum exports despite the drop throughout the years 2011-2015

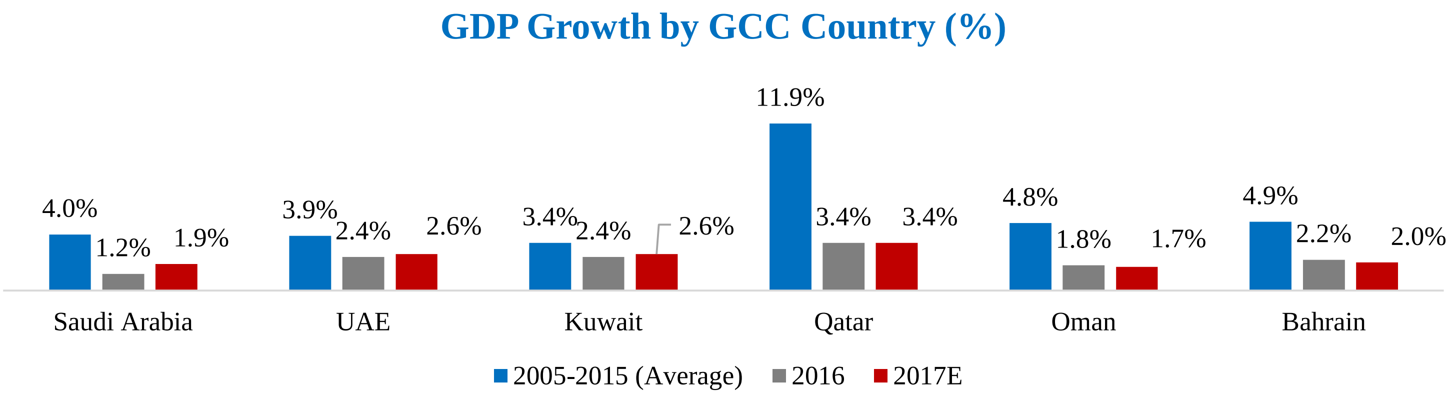
GCC Countries Fiscal Revenues (Surplus/Deficit) (%)



Source: IMF

Question 3

What is the impact of falling oil prices on GCC countries?



Source: IMF

- ➢ According to the International Monetary Fund (IMF), GDP growth in GCC countries is forecasted to average +2.3% in 2017.
- ➢ Growth will be influenced by oil price, which is expected to be around 51 USD/ barrel in 2017.

- ➢ Saudi Arabia is considered the most important oil exporter in the world as it produces about 11 million barrels per day.
- ➢ Sharp decline in government revenues as a result of the decline in oil prices.
- ➢ Saudi Arabia faces a budget deficit representing 20% of GDP and the Kingdom has been forced to liquidate 70 BN USD worth of foreign reserves

- ➢ UAE is one of the most diversified economies among the GCC, which has proven resilient to falling oil prices. The non-oil private sector has shown strong growth fueled by domestic demand and tourism, especially in Dubai. Domestic demand is powered by strong retail sales.
- ➢ However, government deposits at domestic banks have declined by 50 BN AED (13.6 BN USD).

What are the challenges facing GCC countries and how are they reacting?

Challenges

The fiscal deficit of GCC aggregate countries is expected to reach 8.4% of the GDP in 2016 from 7.9% in 2015, marking the largest deficit in the history of the GCC.

GCC economies are predicted to grow by 2.6% in 2017.

Economic diversification, increased global trade and foreign assets are the prime focus of the governments in the GCC region.

Bahrain and Oman have experienced low growth, owing to fewer financial buffers. Meanwhile, Kuwait, Qatar and the UAE comparatively have more financial assets to support them over the short to medium term.

In the case of banks, liquidity could tighten due to the decrease in oil-related bank deposits and an increase in nonperforming loans (NPLs). However, they are well-cushioned to absorb the shocks.

Question 4

What are the challenges facing GCC countries and how are they reacting?

How are they reacting?

- Non-oil revenue will increase to 530 BN SAR (141 BN USD) by 2020 from 163.5 BN SAR. Public-sector wages and salaries will fall to 456 BN SAR from 480 billion, and make up 40% of total spending.
- Oil output capacity is expected to stay at 12.5 million barrels per day by 2020, with refining capacity rising to 3.3 million barrels per day from 2.9 million.

- UAE is considered the most diversified economy in the region, driven by vision 2021, which seeks to establish the UAE as one of the most competitive countries in the world, supported by sustainable and diversified economy. In addition, UAE is trying to estimate all possible scenarios of oil reliance and reduce the oil contribution of the oil sector in the economy to 20% of GDP by 2020.

- The Sultanate's oil wealth has been a traditional pillar of growth of the economy which approximates to 90% of government revenues and accounts for more than 50% of GDP; however, the government has been actively making efforts to diversify its reliance on oil sector and focus on other sectors.

- Bahrain, with higher break-even levels and lower fiscal reserves, face high challenges.

Conclusion

Despite price fluctuations throughout the years, oil continues to be a major contributor to economic performance in the GCC. However, economic diversification is vital for the Gulf countries to ensure sustainable economic growth. Some countries have already taken measures and national reforms to lessen the dependencies on oil, such as Saudi National Transformation Program and the like. The question remains on how sustainable are these efforts to hedge against the impact of the falling oil prices along with other strategic deals such as arms deals with huge government spending.

THANK YOU
THE END

Research Department Contact:
research@multiplesgroup.com

Cairo Office
Zepter Building:
Building S5-6, Area 5
District 1, 5th Settlement
New Cairo, Egypt
P.O. Box: 11477

Dubai Office
Office No. N 415
North Tower, Emirates
Financial Towers, DIFC
P.O. Box: 506726
Dubai, UAE.
Tel: +97143518187