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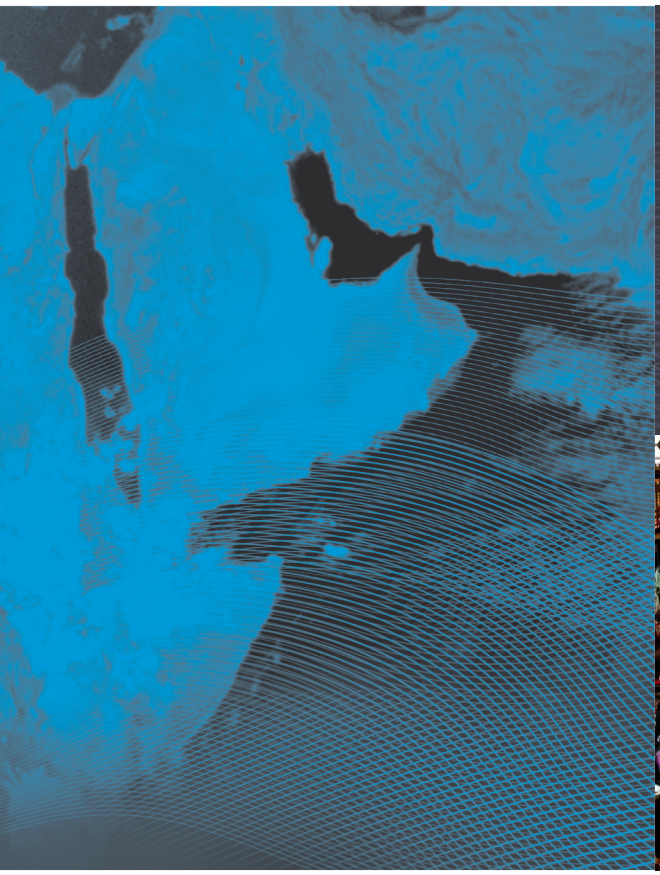

GCC Economic Outlook

July 2013

- Strong growth outlook as private sector conditions improve
- Oil prices seen holding at around $100, though risks either side
- Monetary and fiscal policies to remain accommodative

GCC Economic Outlook
July 2013

Contents

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GCC outlook

Strong non-oil growth over the next two years; expansionary fiscal and monetary policies support private sector recovery…

GCC forecast summary

		2013f	2014f
Real GDP	% y/y	3.7	4.3
- Non-Oil	% y/y	5.8	5.9
Inflation (yr avg)	%	2.3	2.9
Budget balance	% GDP	7.0	5.2

- A combination of elevated public spending levels and improving private sector conditions will see real GCC **non-oil GDP growth** of close to 6% per year in 2013 and 2014, similar to 2012 and nearly 1% point higher than previously forecast. (Chart 1.) The revision is due to upgrades in Saudi Arabia and Qatar, where growth has more momentum than previously thought. Overall **economic growth,** however, will average a more modest 4% per year, thanks to policy-driven declines in oil sector output. Despite the solid growth environment, attention may increasingly focus on the need to address the region's ever more critical economic challenges – notably job creation and fiscal reform.

- We maintain our forecast for **oil prices** at $100 per barrel (pb), on average, for 2013 and 2014. Oil prices have dropped to around this level from $113 in 1Q 2013. Some of this may have been driven by seasonal factors. But given an uncertain outlook for demand and rising non-OPEC supplies, the risks to market fundamentals in 2H13 are evenly balanced. **GCC oil production** has already been cut quicker than we had expected, and real **oil sector GDP** is seen declining 2% this year and unchanged in 2014. (Chart 3.) This will still leave oil output at historically elevated levels, and combined with $100 oil prices should – in the near term at least – be enough to finance rising government spending without draining financial reserves in most countries.

- A deeper than expected slowdown in global economic growth is the main downside risk to this forecast. Oil prices could fall well below $100 for a sustained period, pressuring regional governments to curb their spending plans, thus removing one of the main pillars of economic growth. An alternative (if less likely) risk is that solid consumer sector growth combined with rapid execution of the GCC's vast project pipeline ultimately leads to overheating, price and wage pressures, and challenges for monetary and exchange rate policy.

- For now, GCC **inflation** remains low. Weighted consumer price inflation edged up from 2.0% in mid-2012 to 2.5% by March 2013, driven by rising housing rents in Qatar, and rising 'core' inflation in fast-growing Saudi Arabia. But even in these countries, inflation stands no higher than 4%. The low base, stable international food prices, a relatively strong US dollar (which will help to contain import prices) and low inflation rates in major trading partners are expected to keep GCC inflation at just 2-3% in 2013 and 2014. (Chart 4.)

- **Fiscal policy** is likely to remain expansionary, with aggregate GCC government spending forecast to rise by 6-7% per year in 2013 and 2014. This is lower than in recent years, but – owing to a slight dip in oil revenues – the region's aggregate fiscal surplus is set to decline from 12% of GDP in 2012 to 5% in 2014. (Chart 5.) Meanwhile, **monetary policy** also remains accommodative, with key policy lending rates in most countries at 2% or lower. The slow return to higher interest rates in the US – still some way off – means that any tightening of policy in the GCC is likely to be gradual, and not occur this year.

GCC outlook charts

Chart 1. GCC real GDP
(% y/y)

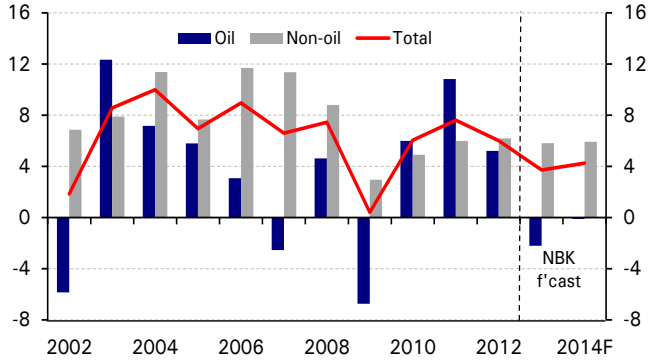


Chart 2. Real GDP by country
(% y/y)

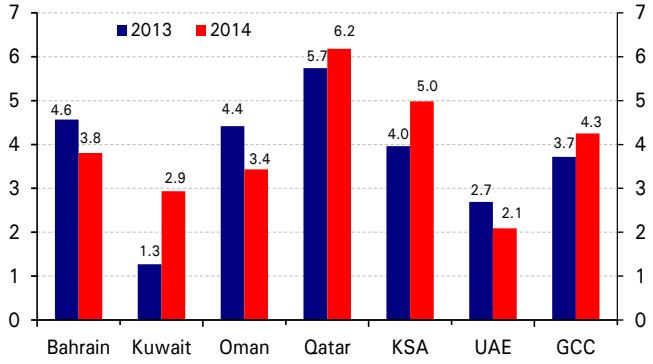


Chart 3. GCC crude oil output[1]
(mn barrels per day)

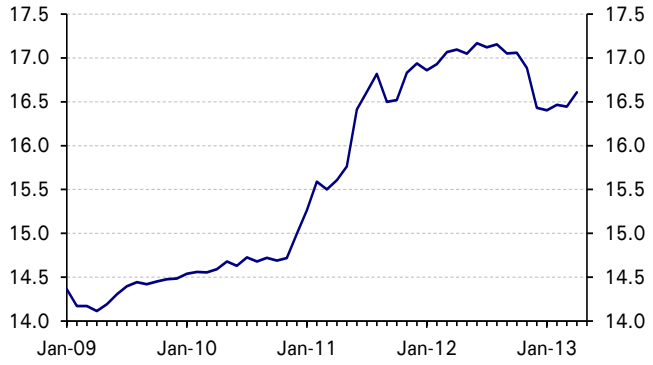


Chart 4. GCC consumer price inflation
(% y/y, year average)

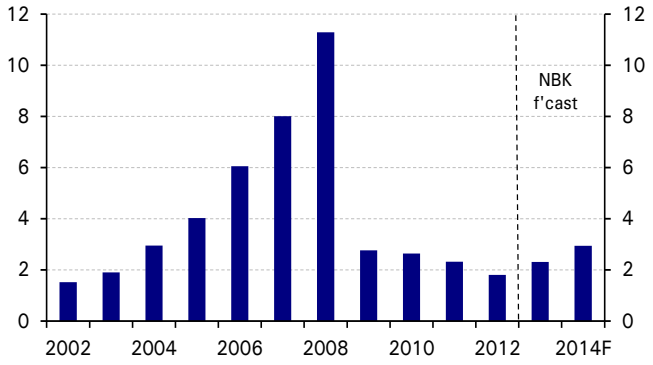


Chart 5. Budget balance[2]
(% GDP)

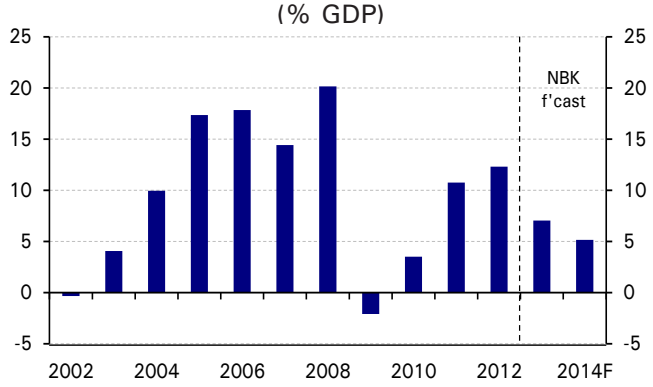
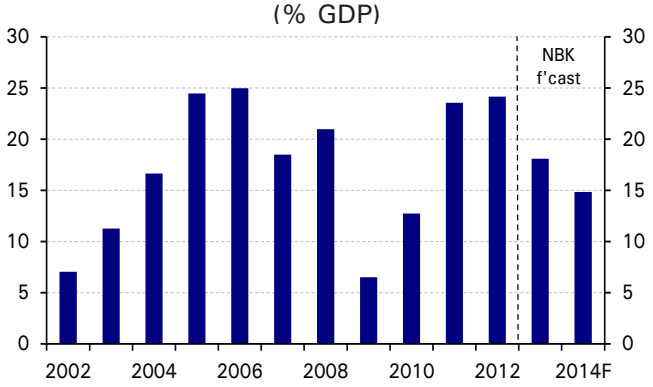


Chart 6. Current account balance
(% GDP)



Source: Official sources / NBK estimates and forecasts
[1] Includes condensate output in Oman and estimates for Bahrain
[2] Includes NBK estimates of off-balance sheet revenues in the UAE and Oman

Bahrain: macro forecasts

Restored oil output and high government spending to drive faster growth; budget deficit to widen further on lower oil prices…

Bahrain forecast summary

		2013f	2014f
Real GDP	% y/y	4.6	3.8
- Non-Oil	% y/y	4.0	4.0
Inflation (yr avg)	%	3.0	2.5
Budget balance	% GDP	-3.5	-3.0

- Economic activity in Bahrain picked up impressively last year as a strong 7% rebound in the non-oil sector more than offset a large contraction in oil production. We expect economic growth to continue to pick-up to around 4-4.5% (from 3.4% in 2012) as oil output is restored to normal levels. Meanwhile, growth in non-oil activity, which accounts for some 70% of GDP, is expected to slow to around 4% – a still robust performance, but below last year's base-skewed figure. (Chart 7.)

- A prolonged technical disruption at the Abu Safa oilfield led to a 17% y/y drop in oil production from the 150,000 bpd field in 1H12. Abu Safa is a jointly shared field with Saudi Arabia and the source of the bulk of Bahrain's oil output. Meanwhile, the smaller Bahrain field is reaping returns from expansion developments. Production from Abu Safa is expected to return to full capacity during 2013, and – coupled with gains from the Bahrain field – is expected to lift oil GDP growth to a whopping 7% this year, before slowing to 3% in 2014 as the rebound in Abu Safa output bottoms out. (Chart 8.)

- 2012 saw a broad-based recovery in the non-oil economy, lifting growth in non-oil GDP to a post-financial crisis high. Though much of this is attributed to a low-base effect following a contraction in some segments in 2011, other sub-sectors – notably manufacturing and government services – are expected to continue to perform solidly. More importantly, high government spending on social transfers, housing and other infrastructure projects should underpin solid private-sector activity going forward.

- Inflation in food prices experienced a brief spike at the start of 2013 to 5%, but has since fallen into negative territory – in line with an easing in international food prices. (Chart 9.) Conversely, inflation in housing rents has continued to rise rapidly, climbing from 2% at end-2012 to 10% in April. Despite the latter, consumer price inflation has remained broadly contained at around 2-4% over the past year. A wave of housing projects that are expected to come on-stream are likely to ease upward pressures on rents, keeping inflation in-check at a moderate rate of around 3% over the next two years. (Chart 10.)

- Bahrain's budget deficit widened to 2% of GDP in 2012 on the back of a large 14% increase in government spending. The 2013/2014 budget seeks to reduce expenditures, though this will solely be accommodated by reductions in project spending allocations; many government infrastructure projects will be financed off-budget through GCC grants. Despite this, an expected dip in oil prices and revenues should widen the budget deficit further to 3-4% of GDP over the next two years. (Chart 11.)

- The current account surplus shrank to 7% of GDP in 2012 as oil exports contracted due to lower production. Although the latter should be restored, lower oil prices are expected to push the surplus to a slightly lower – but still decent – 6% of GDP over the forecast period. (Chart 12.)

Bahrain: macro forecast charts

Chart 7. Real GDP
(% y/y)

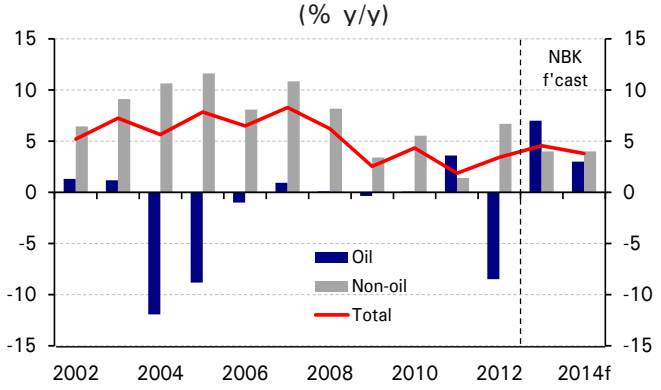


Chart 8. Crude oil output

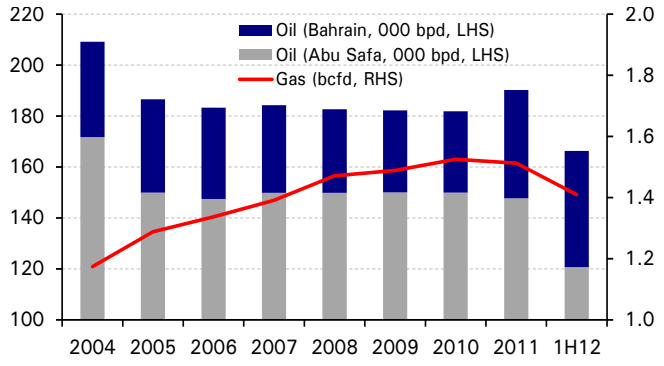
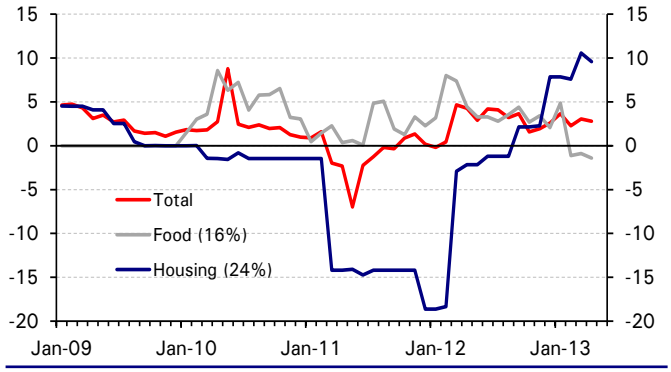


Chart 9. Consumer price inflation by sector
(% y/y)



Note: Data for "Food" series unavailable for the period before Jan. 2010

Chart 10. Consumer price inflation
(% y/y, year average)

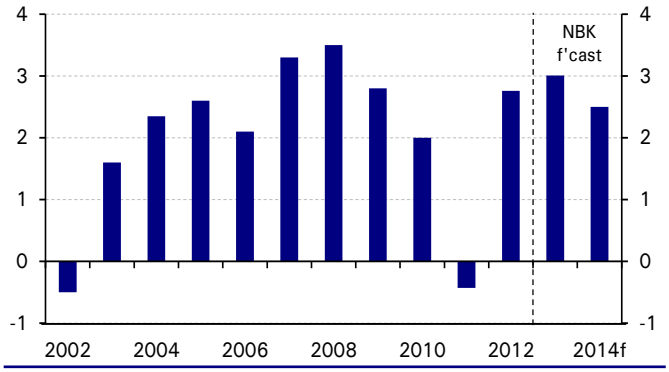


Chart 11. Budget balance
(% GDP)

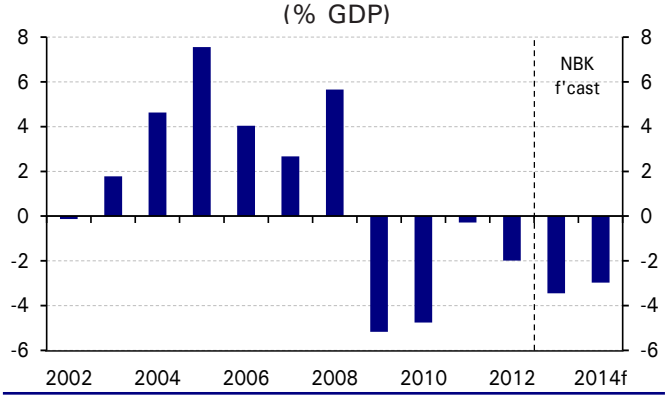
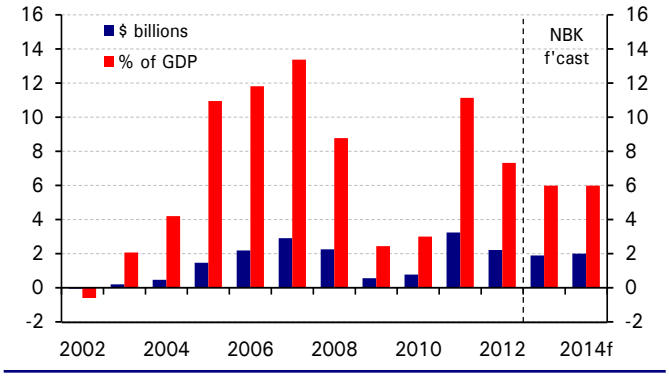


Chart 12. Current account balance



Source: Official sources / NBK estimates and forecasts

Bahrain: money and finance

Deceleration in credit growth eases; stock market sees strongest post-financial crisis rally in 1H13...

- Market indicators have shown a slight improvement in financial conditions in early 2013, following a marked softening in the second half of last year. The sharp deceleration in lending growth has subsided, banking system assets are rising once again, and the stock market has staged a significant rally. Despite this, a more pronounced and sustained recovery in Bahrain's all-important financial sector remains constrained by continued political uncertainty which is affecting investor confidence, retail banks' exposures to the troubled real-estate sector, and the impact of international financial markets on the ailing offshore banking segment and subsequent deleveraging.

- Annual growth in the broad money supply (M2) picked-up to 7% y/y in March from 5% at the start of the year. Growth in the short-term measure M1 accelerated to a similar rate, following a dip into negative territory at the end of last year. (Chart 13.). Money supply growth has been supported by a strong rise in demand and time deposits, both up 7% y/y in 1Q13, which more than offset a 3% y/y drop in government deposits.

- Bank lending growth experienced a sharp slowdown during 2H12, falling from a peak of 19% y/y in April 2012 to 6% y/y by year-end. (Chart 14.) But the rate of credit growth seems to have stabilized during 1Q13 at around the 6% mark – a still solid figure. This has been supported by a slight pick-up in the growth of personal loans, from under 10% y/y at the end of last year to 12% y/y in March. Meanwhile, business loans grew by a more subdued 4-6% y/y in 1Q13, compared to an average of 10% y/y in 2H12. The latter makes up around two-thirds of total retail bank lending.

- Bank assets witnessed a gradual recovery in early 2013, rising by 8% in March from a five-year low in October. (Chart 15.) This was supported by a solid 10% rise in the assets of the larger wholesale banking sector over the same period. Meanwhile, domestically-focused retail banks continue to exhibit steady growth, although some of the smaller Bahraini lenders have been hit hard by weakness in the local real-estate sector and social unrest. Consequently, a number of mergers have taken place in recent months, especially among smaller Islamic banks, in an effort to strengthen their balance sheets.

- The Central Bank of Bahrain (CBB) has maintained its key policy rate – the one-week deposit rate – at 0.5%. (Chart 16.) This is slightly above the 0.25% US Federal funds target rate. Meanwhile, the 3-month interbank rate edged down to 0.3% in 1Q13 from 0.5% in the same period last year. In line with its peg to the US dollar, the dinar regained some ground in the first five months of 2013, strengthening by 2% versus the euro following a 7% decline in 2H12. (Chart 17.) The CBB's foreign exchange reserves climbed to $ 5.5 billion in 1Q13, $ 1.1 billion higher than a year ago.

- The stock market surged by 22% between November and May, with the Dow Jones Bahrain Index breaking through the 100 points level for the first time since 3Q11. (Chart 18.) Encouragingly, this is the strongest rally seen since before the financial crisis. The commercial banks segment has been the star performer, up 31% over the period, perhaps reflecting the steady recovery of the banking sector.

Bahrain: money and finance charts

Chart 13. Money supply
(% y/y)

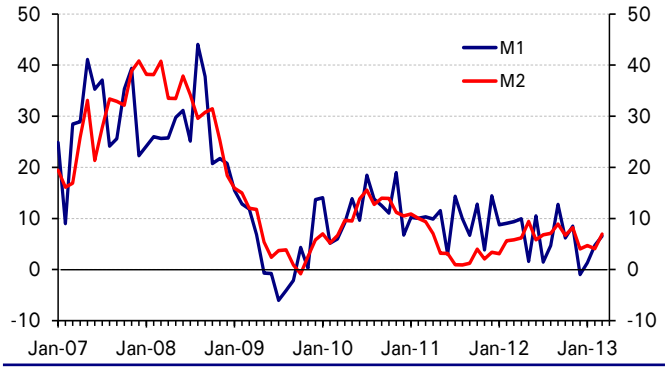
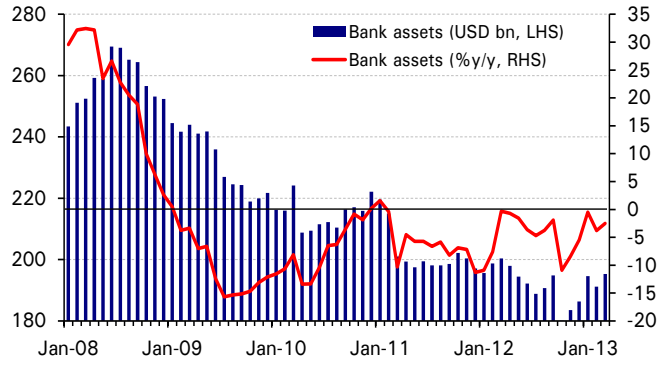


Chart 14. Bank claims on private sector
(% y/y)

Chart 15. Commercial bank assets



N.B. Includes both retail and wholesale banks.

Chart 16. Policy interest rates
(%)

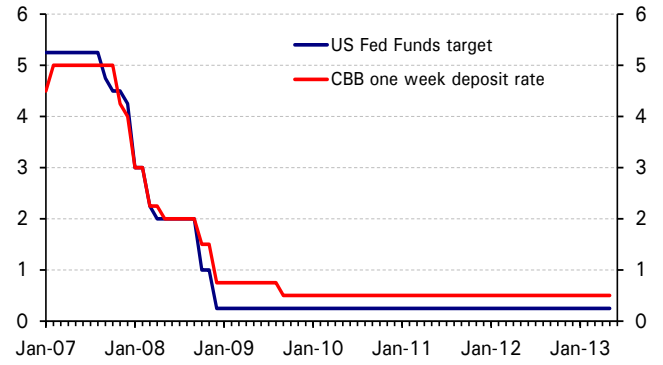


Chart 17. Exchange rate

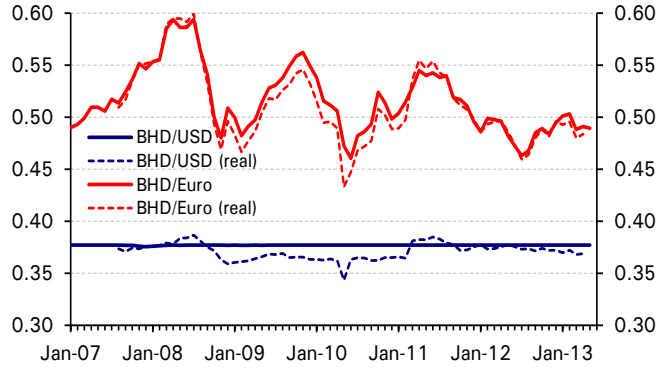
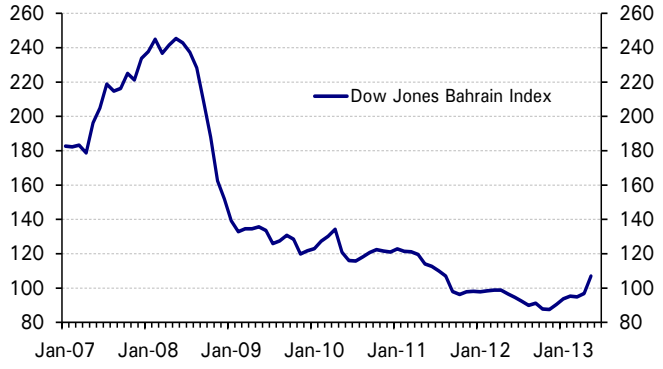


Chart 18. Stock market indices



Source: Official sources / NBK estimates

Kuwait: macro forecasts

Growth supported by strong consumer sector, project start-ups; inflation to edge higher, but remain low…

Kuwait forecast summary

		2013f	2014f
Real GDP	% y/y	1.3	2.9
- Non-Oil	% y/y	4.5	5.0
Inflation (yr avg)	%	2.5	3.5
Budget balance	% GDP	20.0	18.0

- The macro picture remains comfortable, with growth moderate, inflation low and high oil revenues generating vast budget and trade surpluses. However, hoped-for improvements in execution of government mega projects – which would boost investment levels and catalyze activity in the private sector – have been slow to materialize. The eventual start-up of large projects in the power and transport sectors in 2H 2013 should gradually feed through to stronger growth in the non-oil economy, which we now see rising from 4.5% this year to 5.0% in 2014. (Chart 19.)

- Activity in the consumer sector – which has been the backbone of the non-oil sector in recent years – should also remain strong, supported by hikes in benefits, low inflation, and the government's latest debt relief measure. Solid employment growth has also helped. Employment growth averaged 3.0% per year in the three years to 2012, and 4.6% per year for Kuwaiti nationals. But there are challenges going forward. While the share of employed Kuwaitis working in the private sector has continued to rise, the increase has slowed sharply in recent years. Securing rapid and sustainable private sector job growth will require both faster implementation of government projects and economic reforms that improve the economy's long-run sustainable rate of growth.

- Oil output was cut significantly in early 2013, to 2.7 mbpd in March from 3.0 mbpd in December. (Chart 20.) Some of this may have been a response to seasonal factors, which usually see global oil demand weaken in 1H each year. Nevertheless, early signs are that output could fall quicker than we had expected as leading OPEC countries look to offset supply increases elsewhere. We now expect real hydrocarbon GDP to fall by 3% this year and remain unchanged in 2014 (versus 0% and -2% before, respectively). This lowers the headline rate of real GDP growth to 1.3% in 2013 and 2.9% next year, from 6.5% in 2012.

- Inflation fell to a three-and-a-half year low of 1.6% y/y in March 2013, and is also well down on the levels of last year. (Chart 21.) The decline has been driven by falling food price inflation, which has dropped to -0.9% y/y from 10% y/y in March 2012. But excluding food, 'core' inflation has also remained low, standing at 2.4% in March. Given recent trends in global food prices, inflation overall may now have bottomed out, and could edge higher over the coming months. But despite the broad strength of the consumer sector, we expect inflation to remain in the 2-4% y/y range over the forecast horizon, helped by moderate inflation rates in neighboring countries. (Chart 22.)

- Declining oil revenues (from lower production and prices, compared to 2012) will have an impact on the budget balance, but it should remain in huge surplus, at 18-20% of GDP. (Chart 23.) An improved rate of government spending will also be a factor. Spending is forecast to rise 12% in FY2013/14 despite a 0.4% decline in the official budget. Some of this increase reflects higher capital spending on projects, which will support the economy. But inter-governmental transfer payments may also surge after an expected decline last year.

Kuwait: macro forecast charts

Chart 19. Real GDP
(% y/y)

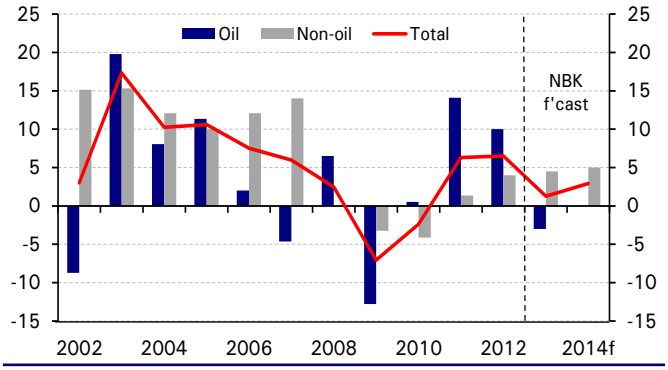


Chart 20. Crude oil output
(mn barrels per day)

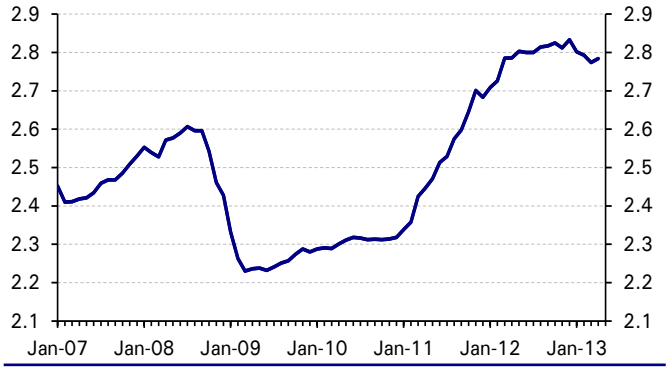


Chart 21. Consumer price inflation by sector
(% y/y)

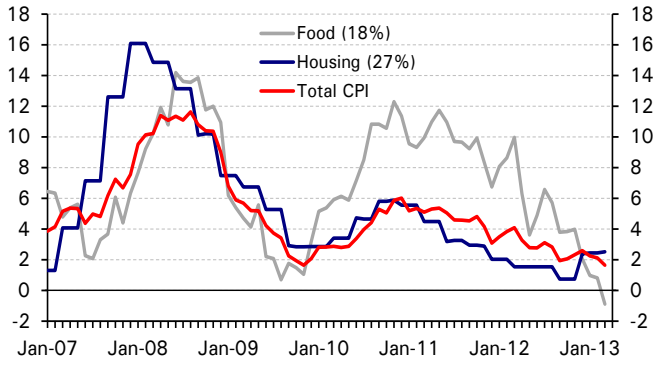


Chart 22. Consumer price inflation
(% y/y, year average)

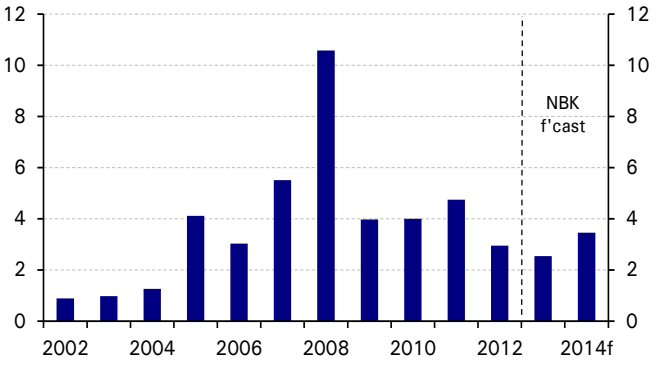


Chart 23. Budget balance
(% GDP, fiscal year)

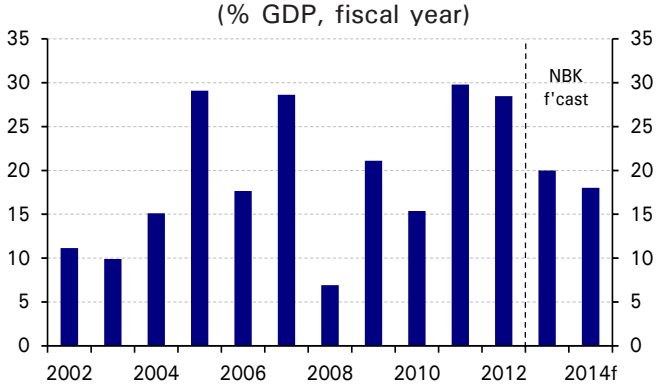
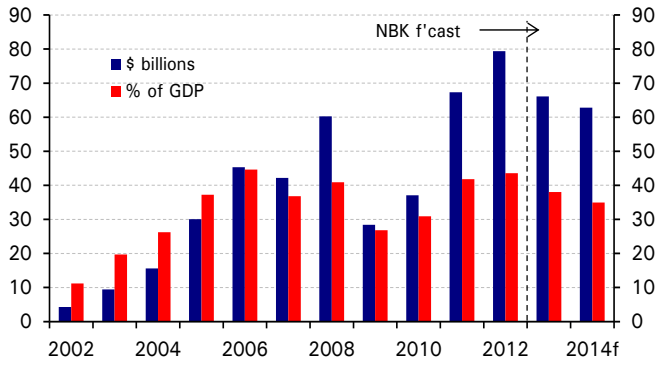


Chart 24. Current account balance



Source: Official sources / NBK estimates and forecasts

Kuwait: money and finance

Strong consumer sector supports credit growth; stock market sees major rally in 1H13...

- Monetary conditions have picked-up a little on the back of steady – if unspectacular – economic growth, a slight easing in monetary policy in 2012 and improved optimism over the prospects for government infrastructure projects. Credit growth has improved, but remains softer than in most other Gulf countries. While lending opportunities remain constrained outside of the consumer sector, the banking system remains well supported by solid growth in deposits, ample liquidity and strong capitalization levels.

- Annual growth in broad money (M2) accelerated to its fastest rate in three years in early 2013, at 10%. (Chart 25.) The increase was driven by a surge in sight deposits, which also helped push growth in the narrower M1 money supply measure to a rapid 24% y/y. Narrow money growth has on average risen much faster than its broader counterpart over the past three years, at 14% y/y versus 6% y/y, helped by the low interest rate environment, which has generated a preference for liquidity. Deposit growth last year was boosted by a surge in government deposits of 24% y/y. But this has since slowed sharply, pushing the government's share of total deposits down from a modern-day peak of 16% last August to 14% by March 2013.

- Growth in private credit averaged 5% y/y in 1Q13, up slightly from an average of 4% in 2012 and 1% in 2011. (Chart 26.) Within the total, consumer credit remains the key driver, accelerating to 17% y/y in 1Q13 from 14% last year. By contrast, the investment sector continues to see rapid deleveraging, with outstanding credit 19% lower y/y in 1Q13. Credit to the remainder of the economy – worth around two-thirds of the total – rose 4% y/y, similar to last year's levels. By freeing up consumer incomes, the recent debt relief law could support consumer credit growth going forward. However, the impact could be obscured in the data by the government's acquisition of the old debt – which may see credit totals decline. This statistical effect aside, the credit environment should improve over the next year.

- Commercial bank assets increased by 8% y/y in 1Q13, unchanged from its average last year. (Chart 27.) Foreign assets – which account for around 20% of the total – have grown much quicker than domestic assets, at 16% y/y in 1Q13. This partly reflects an absence of lending opportunities in the domestic market. But it may also be driven by a 'rebalancing' effect following the sharp decline in foreign assets seen in 2009.

- The Central Bank of Kuwait has maintained its key lending rate, the discount rate, at 2.0% following the 0.5% point cut seen in October 2012. (Chart 28.) Combined with strong liquidity conditions, this has seen system-wide interest rates drift lower. Weighted bank lending rates to the private sector, for example, fell from 5.1% in mid-2012 to 4.7% in March 2013.

- After edging 2% higher in 2012, the main price-weighted KSE index saw a major rally in the first half of 2013, rising 36% to mid-June. (Chart 30.) The rally was disproportionately driven by small caps: the value-weighted index rose by a more modest 10%. The market has benefitted from a calmer domestic political environment, and greater optimism on project implementation. Real estate and finance have been the best performing sectors.

Kuwait: money and finance charts

Chart 25. Money supply
(% y/y)

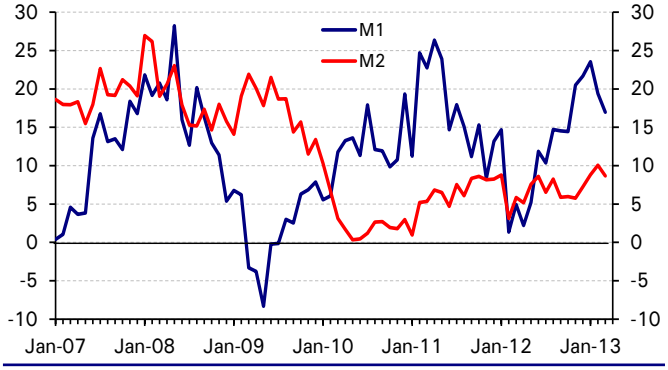


Chart 26. Total bank credit
(% y/y)

Chart 27. Commercial bank assets

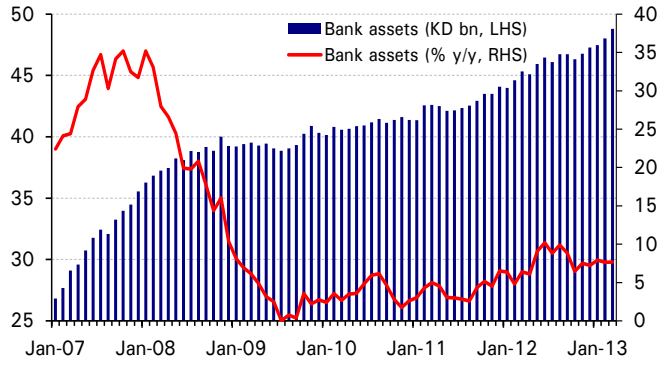


Chart 28. Policy interest rates
(%)

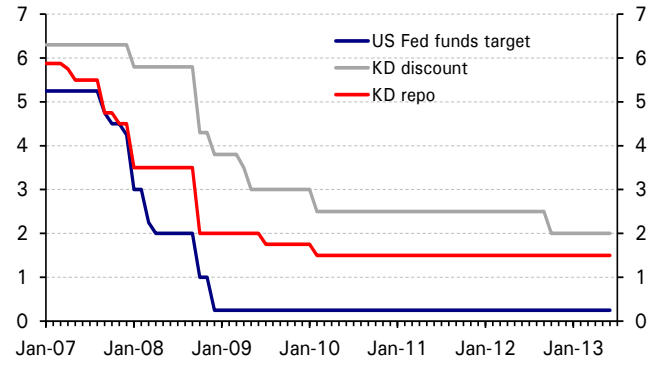
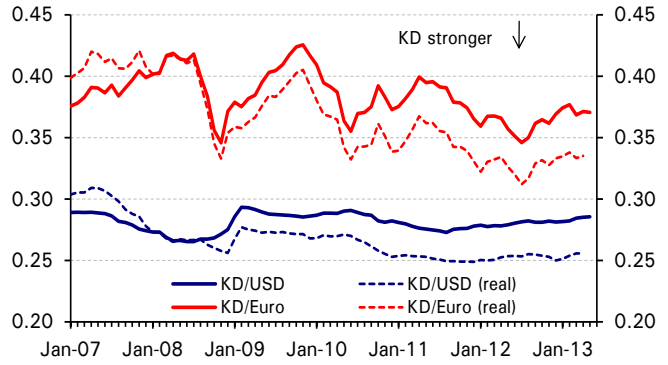
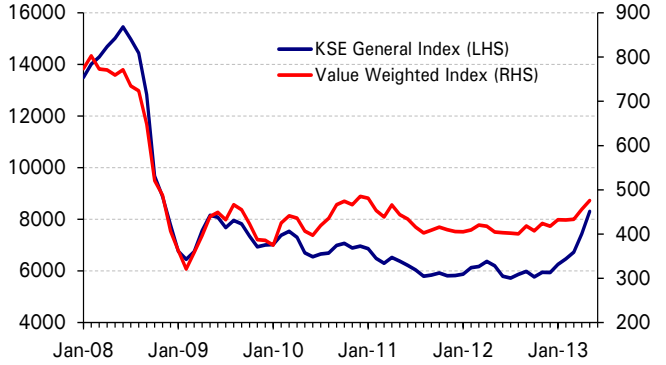


Chart 29. Exchange rate



N.B. Real exchange rate uses Jan 2008 as base period. Calculation based upon Kwt/US/Euro area CPIs.

Chart 30. Stock market indices



Source: Official sources / NBK estimates

Oman: macro forecasts

Strong growth underpinned by government development spending; fiscal consolidation needed over medium-term...

Oman forecast summary

		2013f	2014f
Real GDP	% y/y	4.4	3.4
- Non-Oil	% y/y	5.0	4.0
Inflation (yr avg)	%	2.0	3.0
Budget balance	% GDP	3.0	2.0

- Oman's economy should continue to perform well, supported by elevated levels of public spending on infrastructure and jobs as the government looks to meet its 2011-2015 development plan goals. Nominal GDP grew by 12% y/y in 2012, including growth of 14% in the non-oil sector – the latter driven by a 30% surge in the public administration segment. But other sectors including transport, trade and tourism also did well, highlighting the broad-based nature of Oman's current development path. Going forward, growth may ease slightly as the impact of recent government stimulus measures fade, but we see real non-oil GDP growth averaging a solid 4-5% or so over the next couple of years. (Chart 31.)

- Rapid population growth has been a stand-out feature of Oman's recent development, mostly reflecting a need for imported labor to work on new development projects. The population grew by an estimated 14% in 2012 to 3.8 million, with expatriates accounting for 75% of the rise. Expats now account for 43% of the population, up from 25% in 2004. There was a corresponding increase of 16% in the private sector labor force, all coming from foreign workers. Private sector employment of Omanis has fallen, though this seems entirely accounted for by a reduction in low paid jobs following an increase in the minimum wage.

- Oil output steadied at 0.9 mbpd in early 2013 following a 4% rise in 2012, its fifth successive year of increase. Output has now risen by 35% since its mid-2007 low, thanks mainly to heavy investment and use of enhanced recovery techniques. (Chart 32.) Gas usage (mostly production but including imports) – central to the government's industrial diversification plans – was volatile in early 2013, after rising by 9% in 2012. Smaller rises in oil and gas output are seen going forward, cutting real hydrocarbon GDP growth from 4% in 2012 to 2-3% per year in 2013 and 2014.

- Consumer price inflation remains low, and has decelerated from a recent peak of 3.2% y/y in October to 2.3% in March 2013. (Chart 33.) Part of this decline is linked to a continued fall in the housing rental component from 2.5% y/y in mid-2012 to just 0.9% in March 2013 – mildly surprising given robust economic growth and the strong employment gains described above. Most other inflation segments remain well behaved. In light of its low starting base, we now expect inflation to average just 2% this year and 3% in 2014, from 2.9% in 2012. (Chart 34.)

- After surging last year to a modern record of 10.7% of GDP, the fiscal surplus is projected to decline to 3.0% of GDP in 2013. (Chart 35.) The fall is linked to a bounce back in (official) budgeted spending by a huge 29%, following reported weakness last year. On the face of it, this looks like a huge fiscal stimulus. In reality, however, some of the increase may reflect a change in reporting practices. Spending has nonetheless been ratcheted up in recent years, leaving the oil price needed to balance the budget at $91 in 2013. Given the country's relatively limited oil resources, medium-term spending consolidation measures are seen as important to stabilize the fiscal position.

Oman: macro forecast charts

Chart 31. Real GDP
(% y/y)

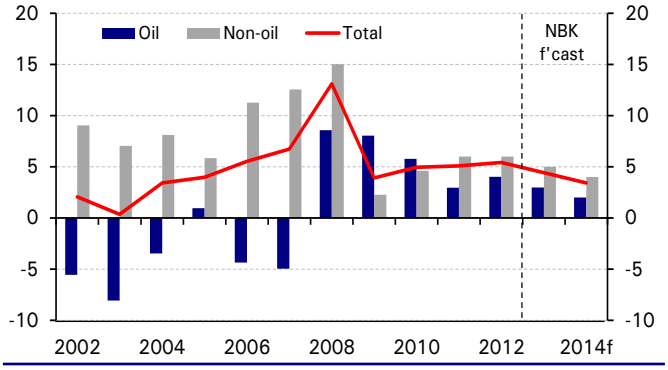
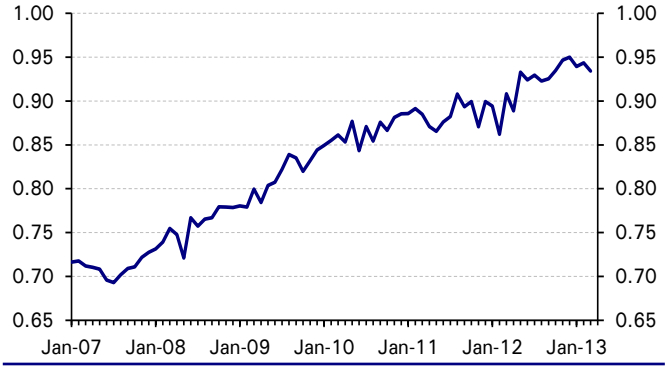


Chart 32. Crude oil output
(mn barrels per day)



N.B. Includes condensate production

Chart 33. Consumer price inflation by sector
(% y/y)

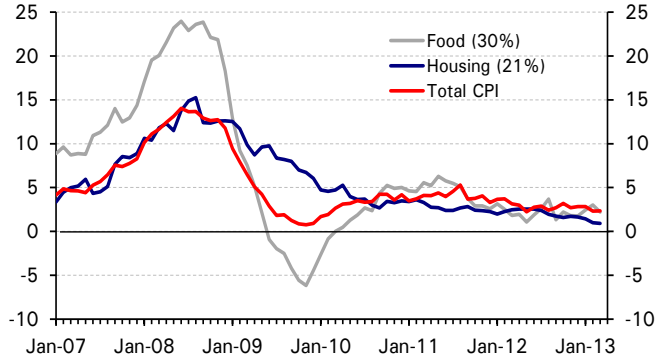


Chart 34. Consumer price inflation
(% y/y, year average)

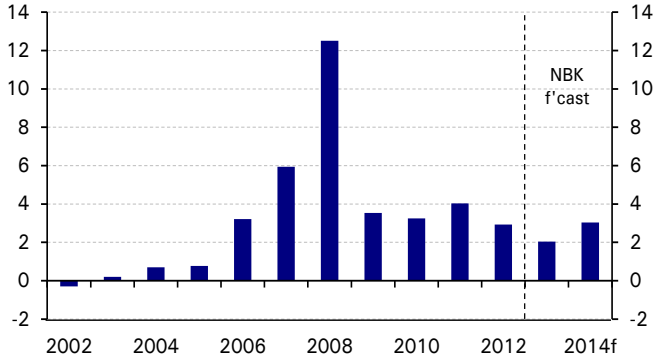
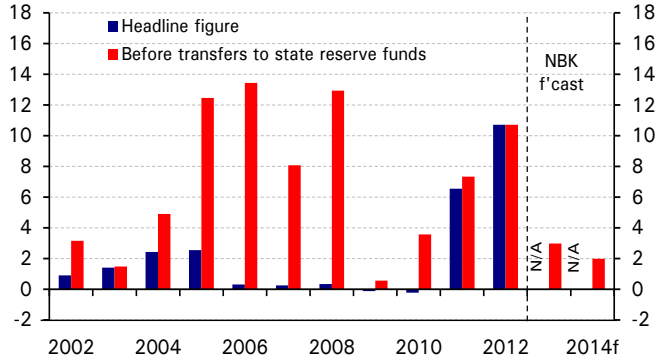
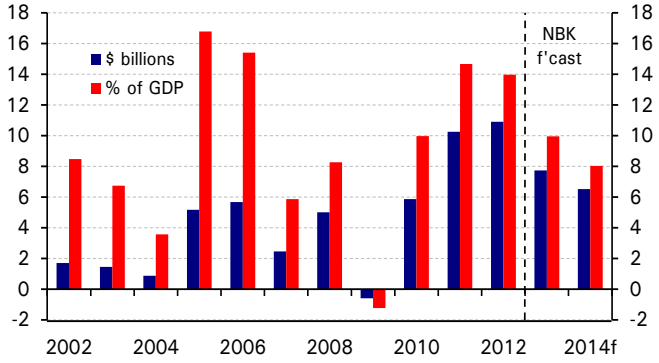


Chart 35. Budget balance
(% GDP)



N.B. Headline figure is not forecast, since it includes discretionary government transfers to the state reserve funds

Chart 36. Current account balance



Source: Official sources / NBK estimates and forecasts

Oman: money and finance

Credit and deposit growth ease significantly; stock market sees early year gains after disappointing 2012...

- Monetary conditions have softened in recent months, partly perhaps due to the fading of government stimulus measures from previous years. But they remain broadly consistent with a decent rate of growth in the real economy. Meanwhile, the banking system is characterized by adequate capital buffers, falling NPLs and solid (if slowing) balance sheet growth. The strong macroeconomic backdrop should provide support for the monetary sector going forward, though risks exist from the economy's reliance upon the hydrocarbon sector, as well as funding and lending concentrations in the banking sector.

- Monetary growth has eased back from the peak rates seen in 2012. Growth in narrow money, M1, slowed to 5% y/y in April from an average of 10% y/y in 2012. (Chart 37.) The latter itself was much slower than the rates seen in the previous two years. The slowdown in the broader measure, M2, has been less pronounced. M2 growth slowed to 9% y/y in April from an average of 14% in 2012. The counterpart to these changes on the asset side has been slower growth in both net domestic assets and net foreign (largely central bank) assets, though the latter has rebounded sharply in absolute terms since the end of last year.

- The easing in monetary conditions is visible from the slowdown in private sector credit growth, which has decelerated to 9% y/y from a peak of 22% in May last year. (Chart 38.) In addition, growth in credit to public sector enterprises – which accounts for more than 10% of total credit and had grown at breakneck speeds in the post-crisis environment – has now slowed. Under rules recently outlined by the Central Bank of Oman (CBO), banks must ensure that lending to SMEs accounts for at least 5% of their loan portfolios by end-2014, up from an estimated 2% now. This need not affect credit growth overall, but there are some concerns that it could generate risks for banks and lead to a relaxation of lending standards.

- Largely reflecting the slowdown in lending growth, growth in commercial bank assets has decelerated to 13% y/y in April from a peak of 25% last May. (Chart 39.) Total assets now stand at OR 22 billion ($56 bn), or 72% of GDP. In addition to the slowdown in credit growth, the rise in banks' foreign assets also slowed. There has been a corresponding decline in deposit growth – most notably from the government, which has nevertheless seen its share of commercial bank deposits rise to 29% from 16% five years ago.

- The Central Bank of Oman (CBO) continues to hold its main official lending rate – the repo rate – at 1%, where it has stood since March 2012. (Chart 40.) Although the previous decline was not absorbed immediately, commercial lending and deposit rates have since drifted lower. The (weighted) average rial lending rate now stands at 5.6%, down around 50 bps from early last year.

- After a disappointing 2012, the main Omani stock market index has had a better 2013, rising by 14% in the first half of the year (to mid-June). (Chart 42.) However, this puts it behind most of its other GCC peers, which are up 7-48%. The industrial segment has led the way, up by 27%, perhaps reflecting robust construction activity and the need for raw materials. In May, daily trading volumes had trebled year-on-year to OR 10.7 billion.

Oman: money and finance charts

Chart 37. Money supply
(% y/y)

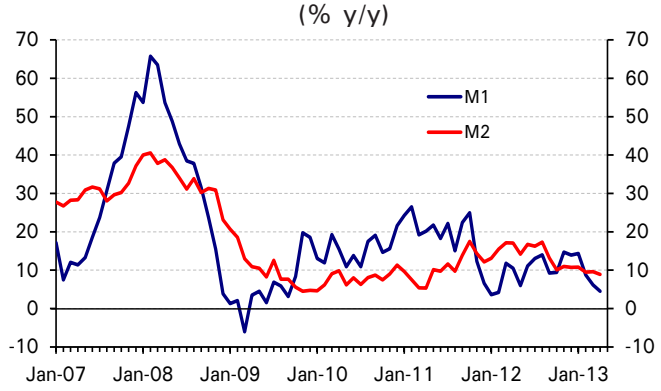


Chart 38. Bank credit to private sector
(% y/y)

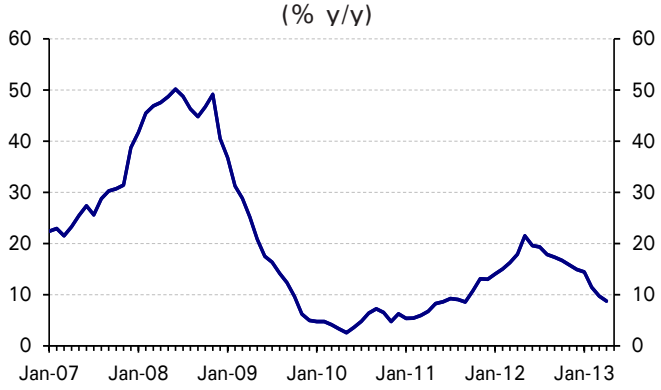


Chart 39. Commercial bank assets

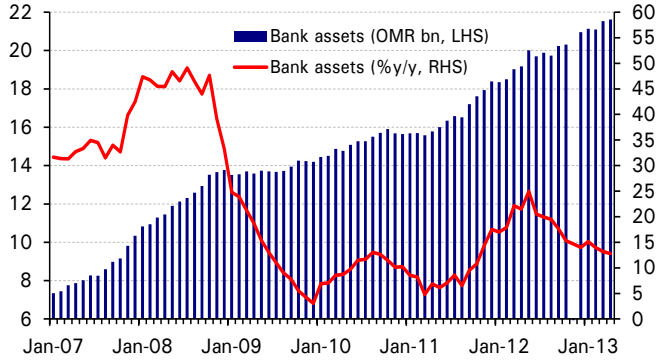


Chart 40. Policy interest rates
(%)

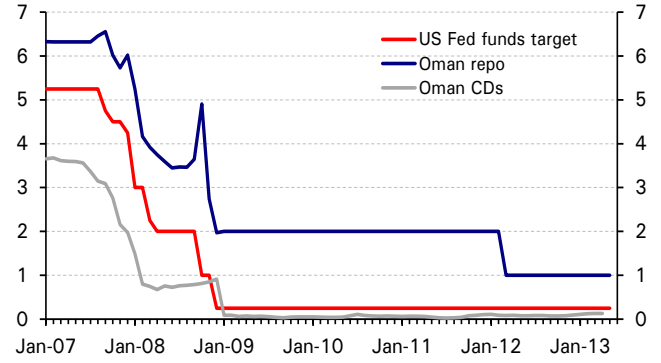
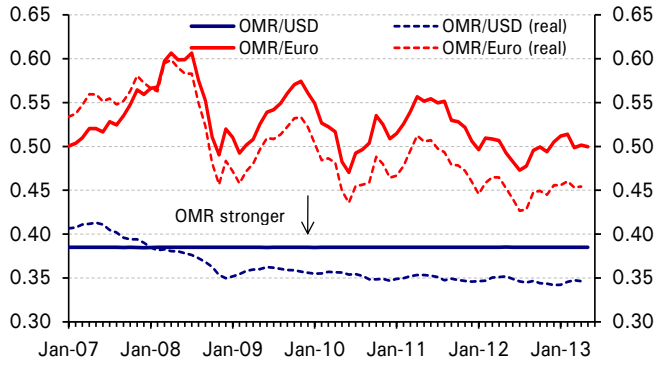
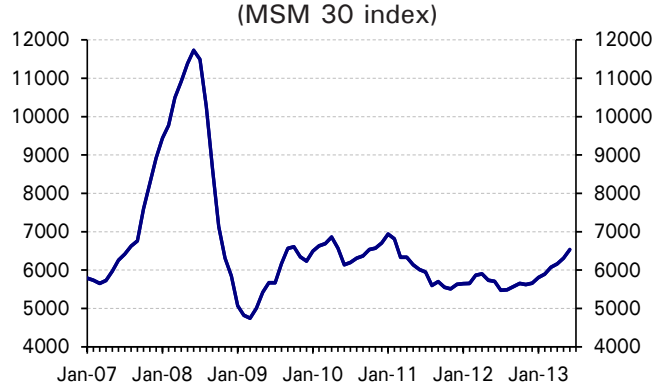


Chart 41. Exchange rate



N.B. Real exchange rate uses Jan 2008 as base period. Calculation based upon Oman/US/Euro area CPIs.

Chart 42. Stock market indices
(MSM 30 index)



Source: Official sources / NBK estimates

Qatar: macro forecasts

Robust non-hydrocarbon growth spearheaded by the government's investment program; rising rents drive inflation; fiscal space narrows...

Qatar forecast summary

		2013f	2014f
Real GDP	% y/y	5.7	6.2
- Non-Oil	% y/y	9.8	10.2
Inflation (yr avg)	%	3.4	4.0
Budget balance	% GDP	5.0	3.2

- Real GDP growth has been slowing since the attainment of maximum LNG production capacity of 77 million tonnes in late 2011. It is forecast to continue along a moderate trajectory in 2013 and 2014: 5.7% y/y and 6.2% y/y, respectively. (Chart 43.) Pending expiry of the moratorium on new North Field gas projects and enhancements to the country's ageing oil fields – oil output has declined by more than 3% y/y (Chart 44) – hydrocarbon sector growth will remain limited to gains from the production of condensates and gas from the Barzan domestic gas production facility. The latter is due to be completed in 2014.

- Economic growth is therefore going to be driven increasingly by expansion in output from the non-hydrocarbon sector, which is forecast to be robust, at 9.8% y/y and 10.2% y/y during 2013 and 2014, respectively. Expansion in the manufacturing, financial services and construction sectors, important pillars in Qatar's drive to diversify its productive base away from hydrocarbons in accordance with the country's National Development Strategy (NDS) 2011-16 and broader National Vision (QNV), is set to gain further momentum over the forecast period.

- Moreover, with more than $225 billion worth of development spending highlighted in the NDS, $150 billion of which is to be borne by the government, public investment is set to accelerate and drive private sector growth as well. High profile infrastructure projects include the rail and metro network, the Lusail City development and the aforementioned Barzan gas project. Moreover, debt markets, as a source of funding for development projects, have increasingly been tapped by both the public and private sectors: $4.8 billion in bonds and $5.5 billion worth of sukuk were issued in 2012.

- Rising rental prices, and to a lesser extent, food and entertainment prices, have pushed Qatar's consumer price index (CPI) upwards over the last year. (Chart 45.) Headline inflation is therefore forecast to increase by 3.4% and 4% in 2013 and 2014, respectively. (Chart 46.) The rebound in rents, which have been a deflationary influence on the CPI since the financial crisis, is largely a reflection of rising demand resulting from population growth. There is still expected to be surplus capacity in the housing market during the forecast period, though.

- Qatar's budget balance is expected to narrow in 2013 and 2014, to 5% and 3.2% of GDP, respectively. (Chart 47.) Current and capital spending growth are expected to outpace revenue growth, with the latter constrained by plateauing hydrocarbon output and a projected decline in oil prices. Non-hydrocarbon sources of revenue such as corporate tax receipts and investment income should assume greater importance in the future as the authorities work towards their stated objective of balancing the budget entirely through non-hydrocarbon revenue streams from 2020.

- Similarly, the current account surplus is also projected to decline over the next two years, from 32% of GDP in 2012 to 27.5% of GDP in 2014. (Chart 48.)

Qatar: macro forecast charts

Chart 43. Real GDP
(% y/y)

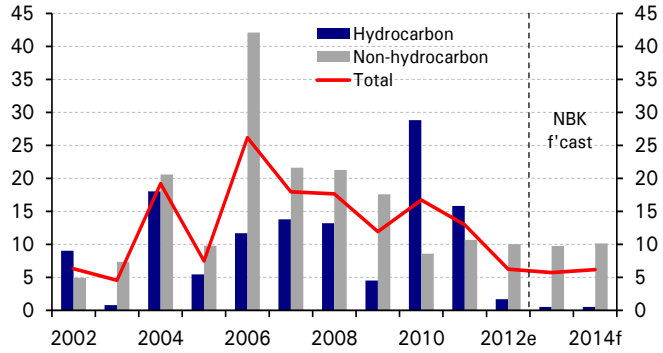


Chart 44. Crude oil output
(mn barrels per day)

Chart 45. Consumer price inflation by sector
(% y/y)

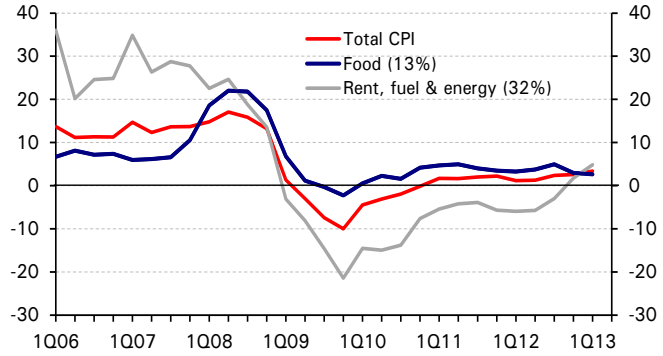


Chart 46. Consumer price inflation
(% y/y, year average)

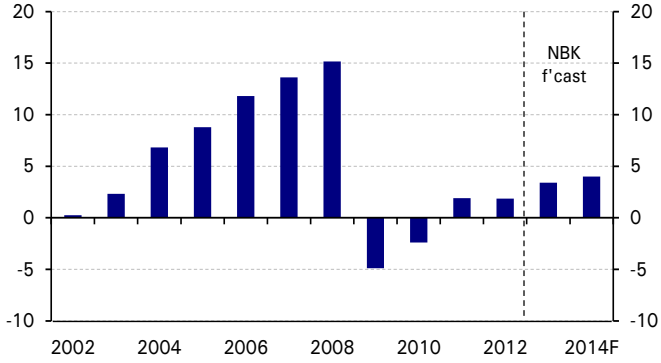


Chart 47. Budget balance
(% GDP)

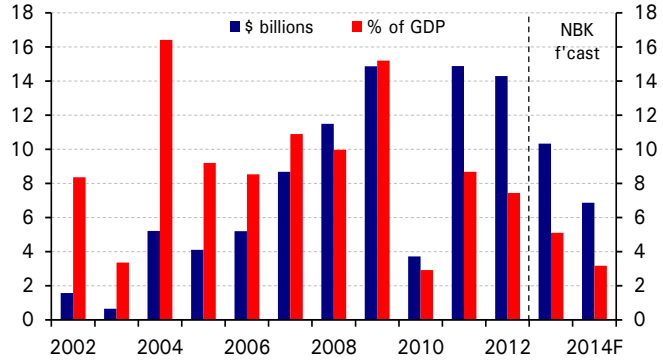
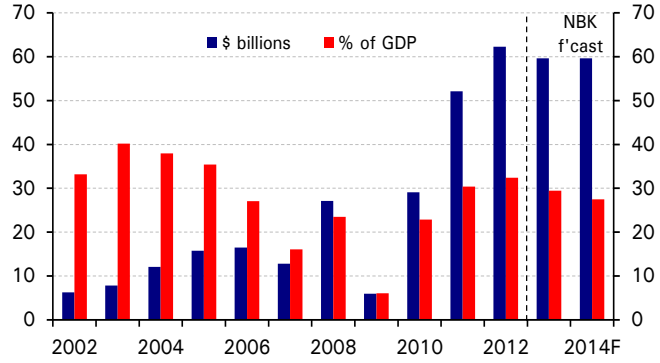


Chart 48. Current account balance



Source: Official sources / NBK estimates and forecasts

Qatar: money and finance

QCB maintains accommodative monetary stance and focus on liquidity management; public sector drives deposit and credit growth...

- The Qatar Central Bank (QCB) is committed to maintaining an accommodative monetary stance while it steps up its efforts to develop a more robust and market-based liquidity-management framework. These initiatives have included: extending the issuance of QR4 billion worth of T-bills to government bonds and sukuk with longer maturities to absorb liquidity and further develop a domestic yield curve; listing T-bills on the Qatar Exchange (QE); and promoting the interbank market through the launch of QIBOR. A domestic credit agency and securities depository is also being established.

- Reflecting the buoyant growth dynamics of the Qatari economy, broad money supply M2 expanded by 44% y/y in April, outpacing M1, which grew by 16% y/y. (Chart 49.) Foreign currency deposits by the government have been a significant driver of M2 growth. Credit to the public sector is also increasingly US dollar-denominated.

- Credit growth, while still a robust 24% y/y in April, has been moderating in recent months as momentum in awarded public sector contracts has slowed. (Chart 50.) Nevertheless, credit to the public sector is expected to accelerate through 2014 as more development projects are tendered. Meanwhile, private sector lending has picked up, with projects in the industrial and services sectors kicking-off. The expected slew of infrastructure projects is also forecast to spur lending to the real estate and construction sectors once more.

- Domestic credit growth has been the primary driver for the rapid increase in the assets of the banking sector. These topped QR861 billion in April, increasing by 19% y/y. (Chart 51.) Domestic investments have also been an important contributor especially through the participation of banks in government-issued domestic debt.

- With growth in bank deposits providing firm support for credit expansion, liquidity is no longer the concern it was last year. The sector's loan-to-deposit ratio has consequently fallen from its high of 123% in April 2012 to 101% in April 2013; interbank lending rates have similarly eased. Government foreign currency deposits have helped to lessen the reliance on foreign wholesale funds that was highlighted by the IMF as a potential liquidity risk in light of the trend in domestic credit dollarization, much of which is directed at medium to long-term projects.

- Qatar's key lending and deposit rates, 4.5% and 0.75%, respectively, are likely to be maintained through 2013-14. (Chart 52.) Inflation, outside of housing rents, remains manageable, while rapid capital inflows seem to have been stemmed even if a relatively wide differential still exists between domestic rates and the US Federal Funds rate (0.25%), to which they are aligned. The authorities will, nevertheless, need to be cognizant of inflation given the pace of economic growth.

- In recent months the Qatari riyal has appreciated against the euro on both a nominal and real basis. The latter is largely a reflection of rising domestic prices. (Chart 53.)

- By the end of May, the 20-stock QE Index had increased by 10.5%, breaching the 9,000 barrier for the first time in 28 months. (Chart 54.) Amid a renewed drive to relax foreign ownership limits, the QE was also approved for inclusion in the MSCI emerging markets index, which should lead to greater portfolio inflows and market liquidity.

Qatar: money and finance charts

Chart 49. Money supply
(% y/y)

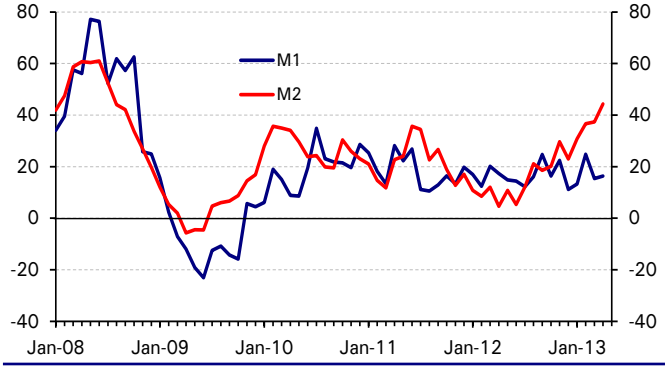


Chart 50. Bank credit
(% y/y)

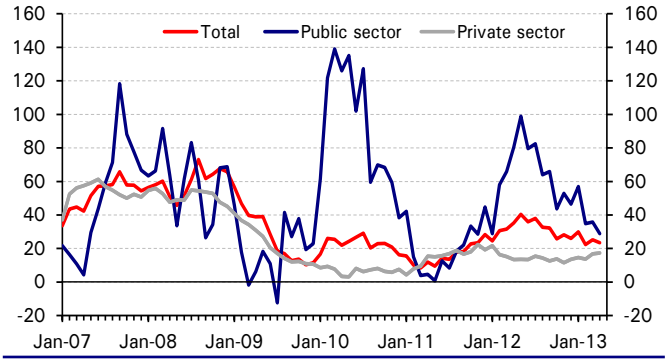


Chart 51. Commercial bank assets

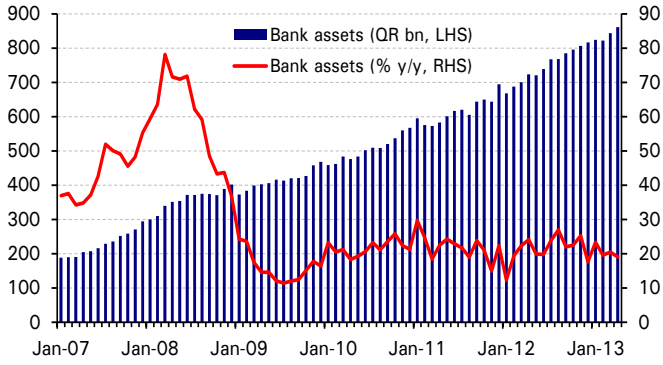


Chart 52. Policy interest rates
(%)

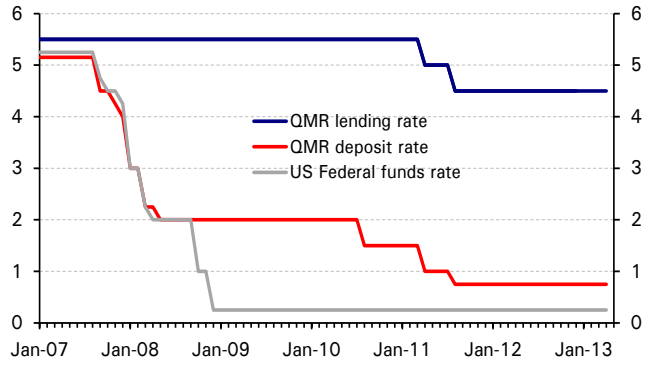
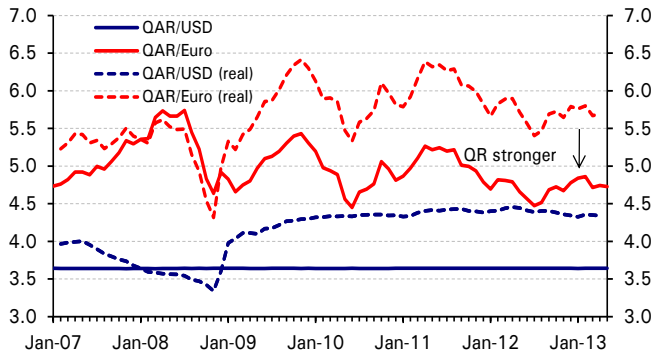
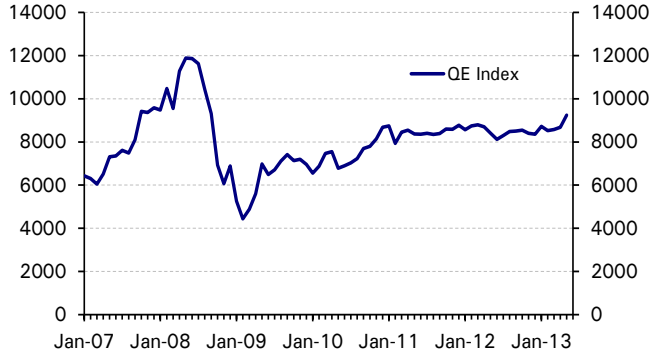


Chart 53. Exchange rate



N.B. Real exchange rate uses Jan 2008 as base period. Calculation based upon Qatar/US/Euro area CPIs.

Chart 54. Stock market



Source: Official sources / NBK estimates

Saudi Arabia: macro forecasts

Non-oil growth moderates from earlier break-neck speed; government spending growth may be entering a softer phase...

KSA forecast summary

		2013f	2014f
Real GDP	% y/y	4.0	5.0
- Non-Oil	% y/y	6.0	6.0
Inflation (yr avg)	%	4.0	4.0
Budget balance	% GDP	7.0	5.0

- Major revisions to GDP data revealed that the Saudi economy has grown much quicker than previously thought in recent years – at almost Chinese-style rates. Real non-oil GDP growth averaged 8% per year between 2005-2012, compared to the 5% (2005-2011) reported before. Growth was driven by across-the-board strength in the industrial and service sectors, with the private sector (9% per year) leading the way. Since the economy has more momentum than previously thought, we have revised up our forecasts for non-oil GDP growth for 2013 and 2014 from 5% per year to 6% (from 7.1% in 2012), with growth driven by investment in housing and industry, alongside employment gains that benefit consumers. (Chart 55.)

- Saudi Arabian oil output fell sharply by 0.7 mbpd to 9.3 mbpd in the 10 months to April 2013, as the Kingdom sought to support oil prices at close to $100. (Chart 56.) These cuts were slightly more rapid than we had expected and as a result, oil sector GDP is likely to be weaker than previously thought this year: we now expect real oil GDP to fall 5%. This will reduce GDP growth overall by 1% - a smaller effect than under the previous set of GDP data where the oil sector had a larger weighting. After this year's sizeable decline, we expect Saudi oil output to be broadly flat in 2014, rather than the small cut seen previously.

- Some indicators show that the pace of private non-oil activity may have eased a touch; ATM and point-of-sale figures, bank lending, and the purchasing managers' index are all off their highs. But they remain at solid levels. The slowdown may be linked to apparent delays in project execution in 2H12, as well as slightly tighter project financing conditions. An easing of these problems, coupled with policy initiatives that support consumers (e.g. the mortgage law, and nitaqat employment regulations) and continued fiscal stimulus will sustain growth going forward.

- Inflation has accelerated somewhat, but remained at a moderate 4.0% in April 2013. (Chart 57.) Much of the pick-up was driven by the food price component of the CPI. But given stable international food prices, we doubt that this rise in domestic food prices has much further to run. Strong economic growth and wage pressures for nationals could invite a further rise in inflationary pressures. However, we assume that these forces will be offset by a drop in food price inflation and the impact of a stronger US dollar in checking import prices. Inflation is forecast to average 4% in 2013 and 2014. (Chart 58.)

- The budget surplus rose to 13.7% of GDP in 2012 on rising oil revenues and a modest 6% increase in government spending (following a much larger increase in 2011). (Chart 59.) Although the fiscal position should remain robust near-term, we think that the government may look to moderate spending growth in future with an eye on longer-term fiscal sustainability. This could translate into a further modest 6% per year increase in spending in 2013 and 2014 – though still enough to finance notable hikes in capital spending. As oil revenues dip, the budget surplus could slip towards 5% of GDP over the next two years.

Saudi Arabia: macro forecast charts

Chart 55. Real GDP
(% y/y)

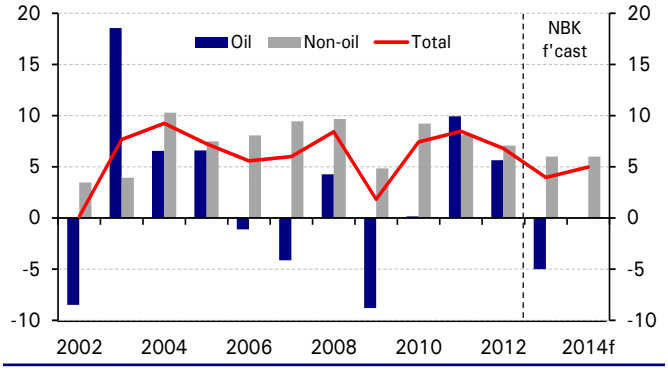


Chart 56. Crude oil output
(mn barrels per day)

Chart 57. Consumer price inflation by sector
(% y/y)

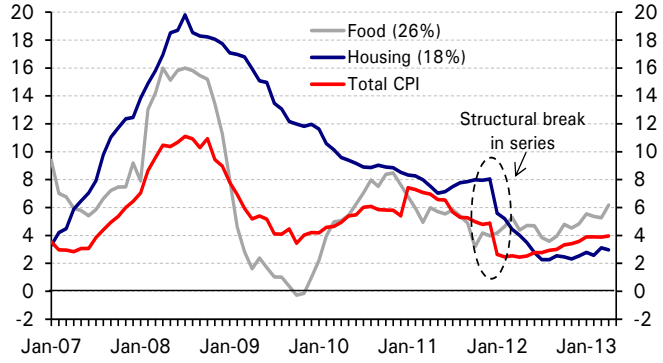


Chart 58. Consumer price inflation
(% y/y, year average)

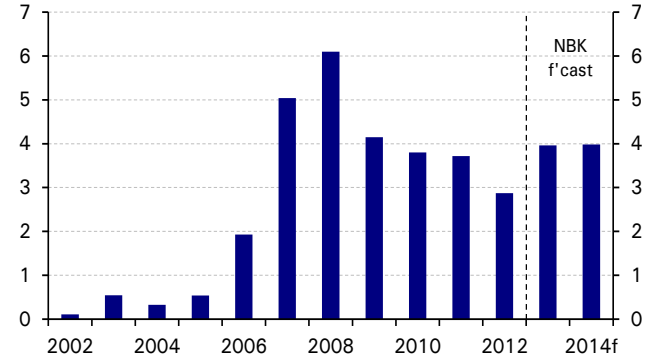


Chart 59. Budget balance
(% GDP)

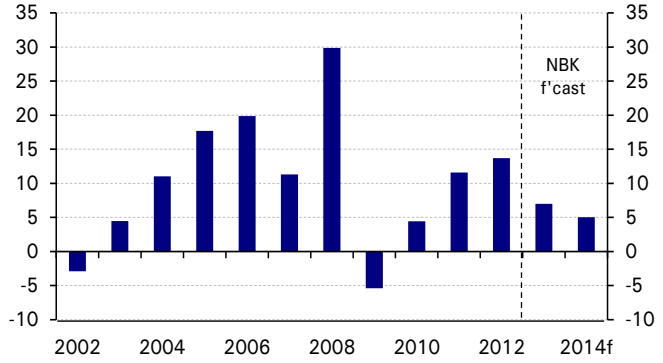
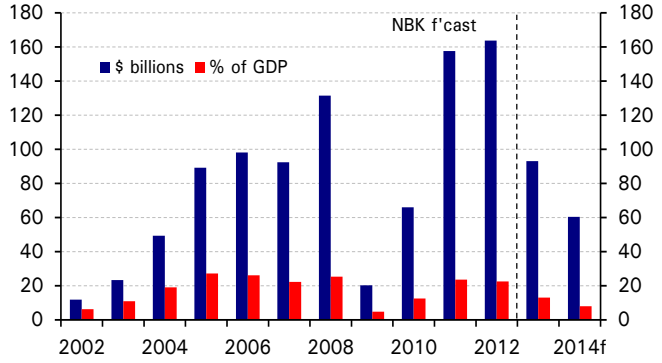


Chart 60. Current account balance



Source: Official sources / NBK estimates and forecasts

Saudi Arabia: money and finance

Acceleration in private sector credit growth eases, but remains at solid rates; buoyant deposits support rising liquidity…

- Financial conditions in Saudi Arabia remain robust. The banking system remains well-capitalized, profitable and highly liquid. And although the rapid acceleration in credit growth has eased, lending is expected to stay at solid rates driven by strong economic growth and the development of the mortgage finance and insurance industries.

- Despite a small dip in the first two months of the year, money supply growth continued to trend upwards in early 2013, reaching its highest rate in over a year. Growth in the short-term measure M1 climbed to 18% in April, from a three-year low of 12% a year earlier. (Chart 61.) Meanwhile, broad money supply growth (M3) accelerated to 14% from 8% a year earlier. The money supply continues to be boosted by solid growth in demand deposits, which were up by a strong 20% y/y in April.

- The three-year long acceleration in credit growth seems to have eased: lending growth held relatively steady at its end-2012 rate of 16% during the first four months of 2013. (Chart 62.) This could be linked to the delays in project execution mentioned above. Nevertheless, a strong and growing domestic deposit base, ample liquidity and high government spending will continue to support lending growth at solid rates. While corporate loans account for around two-thirds of total lending, consumer loans are gradually gaining traction. Housing loans, which constitute a small 5% of banks' loan books, are expected to see growth following the establishment of the new mortgage law.

- Saudi banks' balance sheets continued to make significant gains. Commercial banks' assets rose by 3% in the first four months of 2013 to a record SAR 1.8 trillion, compared to SAR 1.6 trillion a year earlier. (Chart 63.) Claims on the private sector continue to drive asset growth, though more recently, claims on government entities have risen at a much faster pace. Private sector claims were up by 4% to SAR 1.1 trillion in the four months to April, while public sector claims rose by 14% to SAR 0.3 trillion. This is in line with the easing in private-sector credit growth, with banks increasingly gearing new excess liquidity towards purchases of government securities.

- SAMA's main policy interest rates – the repo and reverse repo rates – have remained at 2% and 0.25%, respectively. (Chart 64.) Interbank rates edged down in early 2013 after peaking at end-2012: the three-month Saudi interbank rate (SAIBOR) fell to below 0.97% in May from 1.00% in December – its highest level since March 2009. Meanwhile, in line with its peg to the US dollar, the Saudi riyal strengthened by some 3% against the euro from February to May – reflecting a rise in the US dollar. (Chart 65.)

- The Saudi stock market rallied by 11% in the six months to mid-June, lifting the Tadawul All Share Index to its highest level in over a year. (Chart 66.) However, the index was still off 5% from its highs recorded in March 2012. The real estate, retail and tourism segments were the best performers in 1H13, with these sectors rising by 27% - 58% in the period January to May.

Saudi Arabia: money and finance charts

Chart 61. Money supply
(% y/y)

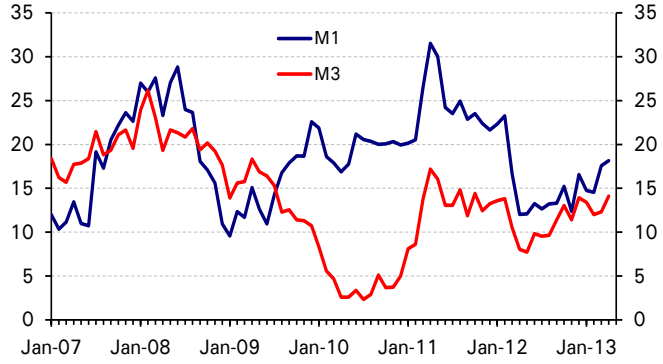


Chart 62. Bank credit to the private sector
(% y/y)

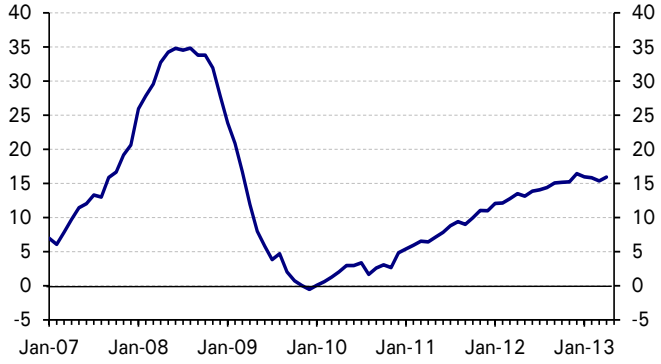


Chart 63. Commercial bank assets

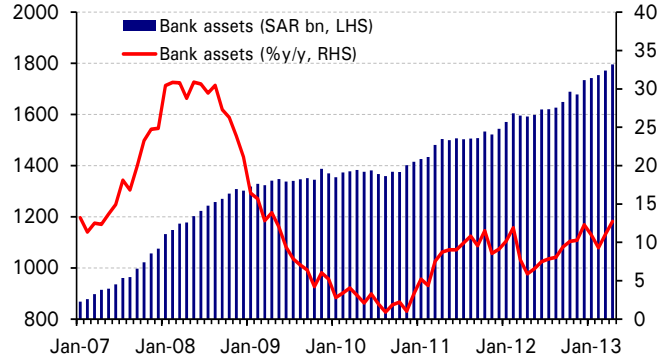


Chart 64. Policy interest rates
(%)

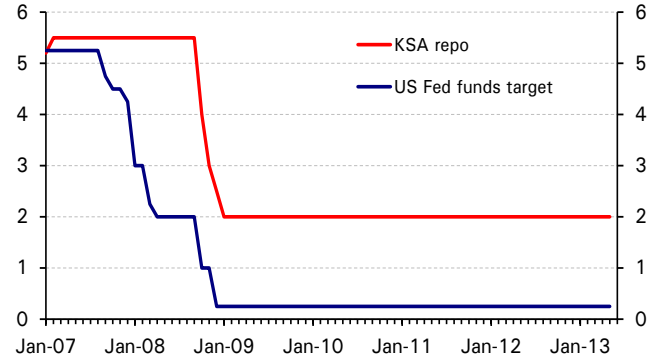
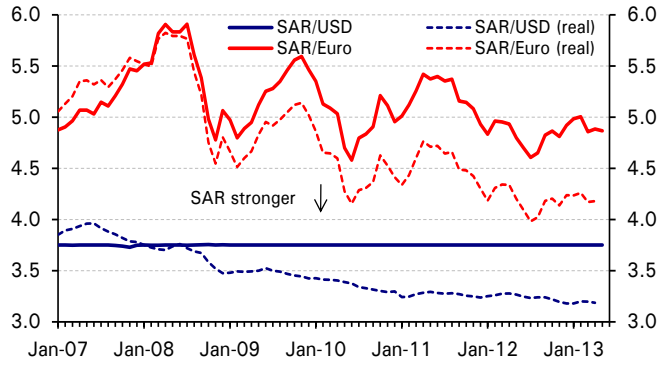


Chart 65. Exchange rate



N.B. Real exchange rate uses Jan 2008 as base period. Calculation based upon KSA/US/Euro area CPIs.

Chart 66. Stock market indices
(All share index)

Source: Official sources / NBK estimates

UAE: macro forecasts

Further signs of economic recovery, trade and tourism lead...

UAE forecast summary

		2013f	2014f
Real GDP	% y/y	2.7	2.1
- Non-Oil	% y/y	4.0	4.0
Inflation (yr avg)	%	1.0	2.0
Budget balance	% GDP	4.0	2.0

- UAE real non-oil GDP is forecast to grow by 4% in both the current year and 2014 (chart 67). While this is an improvement over recent years, it is well below the average of 9% per year seen 2001-2008. The overall macro economy has been helped by solid performances in the trade, tourism, and business services sectors, which have benefitted from the UAE's 'safe haven' status in the MENA region and the country's strong trade ties with emerging markets in Asia. Local equity markets have seen a major rally in 2013 and survey evidence shows the non-oil private sector growing steadily. Debt and restructuring issues – legacies from the financial crisis – at banks and government related entities continue to cast a shadow over the economy's prospects. But even there, signs of improvement are starting to show.

- UAE crude oil output is expected to edge lower over the next two years, as OPEC looks to maintain oil prices around $100 pb in light of soft demand and increased non-OPEC/Iraqi supplies. However, since the UAE's oil output rose by less than that of some other OPEC members in the past, future cuts may also be more modest. (Chart 68.) With real growth in the oil sector being flat-to-down, overall real GDP is expected to grow by just 2.7% in 2013, and 2.0% in 2014 — though this will mask steady improvements in non-oil pillars of the economy.

- The real estate sector in Dubai appears to have turned a corner, with major new development projects reporting high levels of buyer/investor interest. But an oversupply of residential property means the recovery has further to go; transaction volumes and prices remain dwarfed by their pre-crisis peaks. A gradual improvement in market conditions could translate into firmer rents, which in turn could put some upward pressure on the CPI. However, given the low starting point for inflation (0.7% y/y in 1Q13), moderate economic growth, subdued global food prices, and low inflation elsewhere in the region, overall price pressures look likely to remain very modest. We forecast an average inflation rate of 1.0% in 2013, rising slightly to 2.0% in 2014 (charts 69 and 70).

- Consolidated government spending may have fallen 5% in 2012 (following a 19% rise in 2011), driven by a reduction in government bailout spending. Despite a planned $90 billion in investment spending by the Abu Dhabi government between 2013-2017, aggregate government spending growth may turn out to be muted over the next couple of years, with projects implemented at a measured pace and the cash-strapped Dubai government continuing to consolidate. This will help the budget remain in surplus at around 2-4% of GDP (once investment income and oil profits are included), despite a dip in oil revenues. (Chart 71.)

- The external position looks more robust. The current account surplus stood at a modern day record of 17% of GDP in 2012, thanks mainly to buoyant oil revenues and strong growth in non-oil exports (which are now worth nearly double hydrocarbon exports). Falling oil revenues and solid growth in goods imports (which have risen nearly 50% since 2009) may lower the surplus slightly in 2013 and 2014. (Chart 72.)

UAE: macro forecast charts

Chart 67. Real GDP
(% y/y)

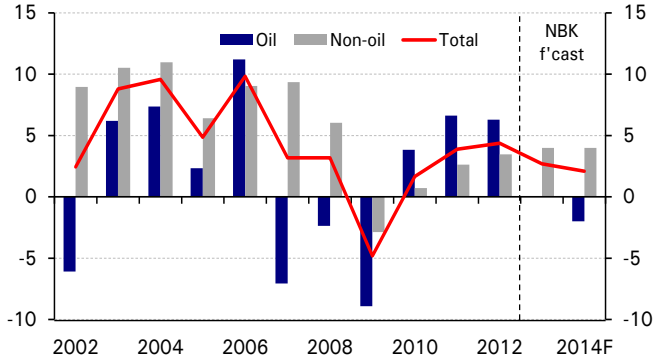


Chart 68. Crude oil output
(mn barrels per day)

Chart 69. Consumer price inflation by sector
(% y/y)

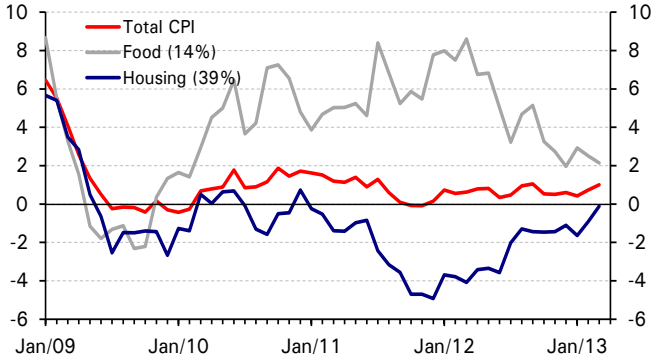


Chart 70. Consumer price inflation
(% y/y, year average)

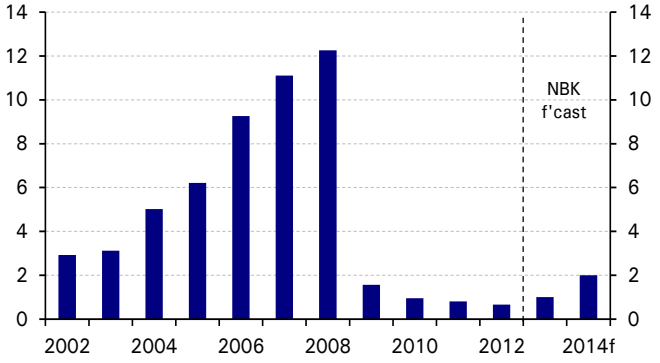


Chart 71. Budget balance
(% GDP)

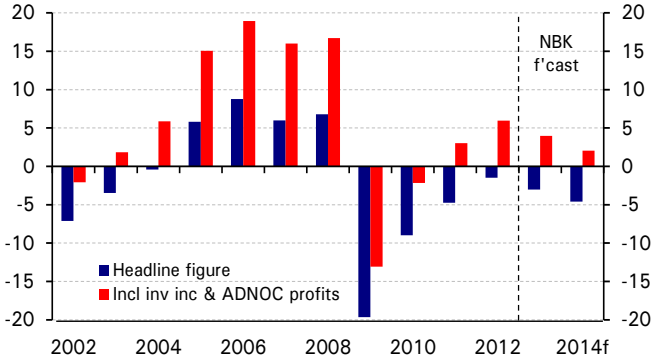
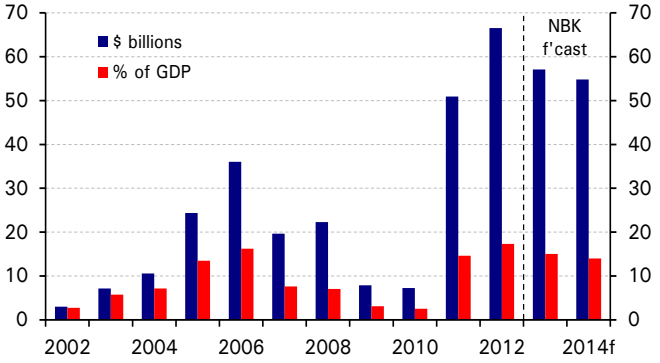


Chart 72. Current account balance



Source: Official sources / NBK estimates and forecasts

UAE: money and finance

Stock markets surge in 1H13 on improved corporate environment; but bank lending remains weak...

- Financial conditions are gradually returning to normal following the financial crisis, but there is still some way to go. On the positive side, corporate debt restructuring has advanced, capital market access and liquidity conditions have improved, economic growth has picked-up and asset prices (notably equities) have risen, benefiting both confidence and bank balance sheets. On the negative side, credit growth is still weak, non-performing loans remain high and – despite the restructurings – a heavy debt repayment burden persists. In addition, fitful implementation of regulatory changes aimed at making the financial sector more stable in future has generated uncertainty.

- Annual growth in the broad M2 money supply measure has recovered to 6% after turning negative in mid-2012. (Chart 73.) However, money growth typically does well in the early part of the year before moderating for seasonal reasons in the summer months. A similar pattern can be seen in the narrower money supply measure, M1. But in this case, stronger growth may be genuine: year-on-year M1 growth accelerated to 17% in April, its highest since late 2008. Relatively strong growth in narrow money is one example of the build-up in liquidity in the system.

- Bank credit growth remains soft, standing at 5% y/y in April, and has grown by just 3% per year, on average, over the past four years. (Chart 74.) This reflects a combination of corporate and personal sector deleveraging, lower investment levels and reduced lending capabilities amongst banks. Bank provisions have also continued to rise as a measure of asset quality issues. But the pace of increase has fallen to a post-crisis low of 14% y/y and it is hoped that NPLs will decline through the rest of 2013. To some extent, the outlook depends upon whether or not the restructured debt of 'Dubai Inc.' can be successfully serviced, or a further round of restructuring is required. 'Dubai Inc.' debt is estimated to stand at $93 billion (IMF).

- The authorities continue to look to strengthen the regulatory environment to protect against or prevent future crises. Several measures have been announced, including a tightening of lending limits on large exposures, new liquidity requirements and proposed caps on mortgage lending. The implementation of these measures, however, has been delayed giving rise to confusion. While the recent recovery in real estate prices will benefit lenders, there is a concern that tighter lending restrictions may be needed to prevent the return of property market speculation that may sow the seeds of another boom-bust cycle.

- UAE equity markets have continued to surge, after outperforming their GCC peers through 2012. (Chart 78.) The main Abu Dhabi index rose by 39% from end-December to mid-June, while the main Dubai index increased by 48%. This compares to rises of 7-33% in other GCC countries. The rally has been based upon an improvement in the corporate debt environment and signs of a strengthening real estate market, which has benefitted property developers. June also saw the upgrading of the MSCI UAE market to 'Emerging Market' status from 'Frontier', effective May 2014. The move could lead to a further inflow of institutional funds, supporting prices.

UAE: money and finance charts

Chart 73. Money supply

(% y/y)

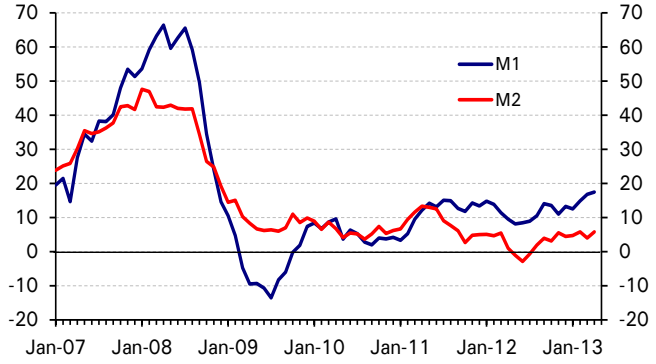
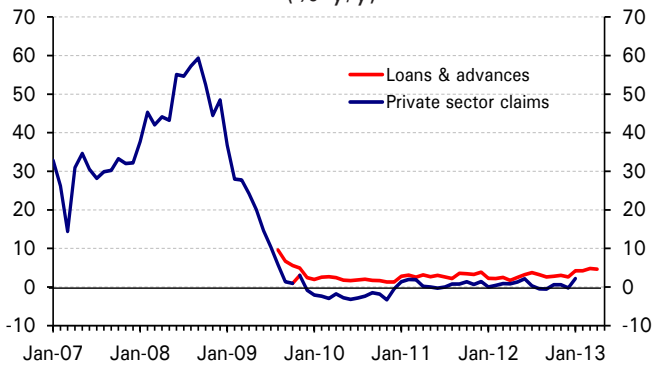


Chart 74. Bank lending

(% y/y)



N.B. Claims data exclude official entities & non-bank financial institutions. Private sector accounts for around 75% of all domestic claims.

Chart 75. Commercial bank assets

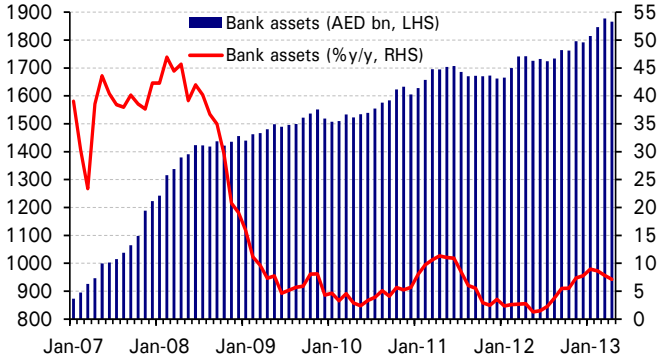
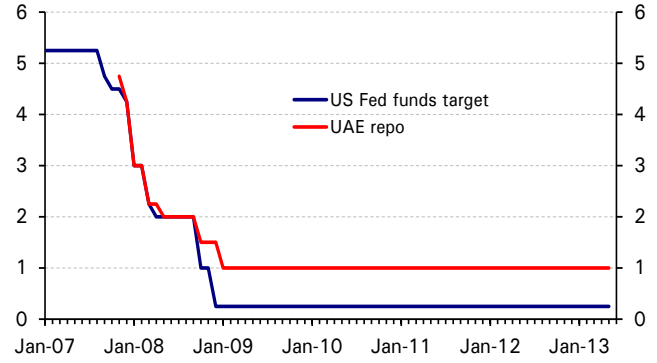


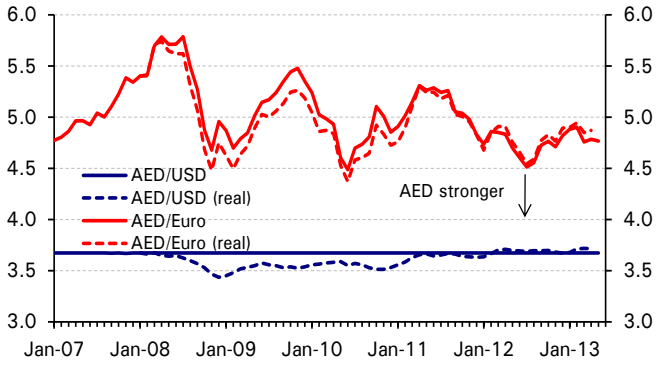
Chart 76. Policy interest rates

(%)



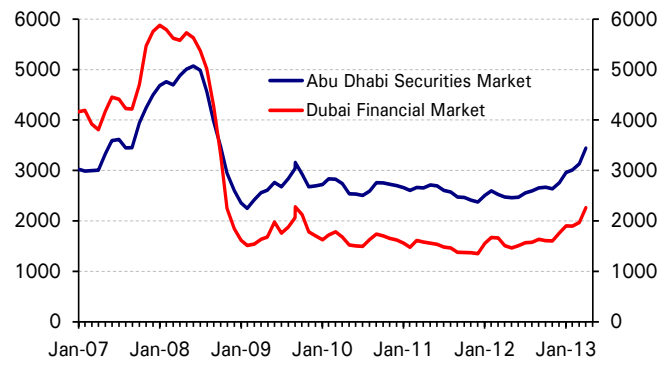
N.B. UAE repo rate was established in November 2007.

Chart 77. Exchange rate



N.B. Real exchange rate uses Jan 2008 as base period. Calculation based upon UAE/US/Euro area CPIs. Not available before 2008.

Chart 78. Stock market indices



Source: Official sources / NBK estimates

Regional macroeconomic data and forecasts

	Unit	2009	2010	2011	2012	2013f	2014f
Bahrain							
Nominal GDP	$ bn	22.9	25.6	29.1	30.3	31.6	33.4
Nominal GDP	%y/y	-10.8	12.1	13.4	4.1	4.4	5.7
Real GDP	%y/y	2.5	4.3	1.9	3.4	4.6	3.8
- Hydrocarbon sector	%y/y	-0.4	0.1	3.6	-8.5	7.0	3.0
- Non-hydrocarbon sector	%y/y	3.4	5.5	1.4	6.7	4.0	4.0
Budget balance	% GDP	-5.2	-4.8	-0.3	-2.0	-3.5	-3.0
Current account balance	% GDP	2.4	3.0	11.1	7.3	6.0	6.0
Consumer prices	% y/y	2.8	2.0	-0.4	2.8	3.0	2.5
BHD/USD (end year)	-	0.377	0.377	0.377	0.377	-	-
Repo rate (end year)	%	2.25	2.25	2.25	2.25	-	-
Kuwait							
Nominal GDP	$ bn	106.0	119.9	160.9	182.2	173.8	179.7
Nominal GDP	%y/y	-23.0	12.7	29.2	14.7	-4.6	3.4
Real GDP	%y/y	-7.1	-2.4	6.3	6.5	1.3	2.9
- Hydrocarbon sector	%y/y	-12.8	0.5	14.1	10.0	-3.0	0.0
- Non-hydrocarbon sector	%y/y	-3.2	-4.1	1.3	4.0	4.5	5.0
Budget balance	% GDP	21.1	15.4	29.8	28.5	20.0	18.0
Current account balance	% GDP	26.8	30.9	41.8	43.6	38.0	35.0
Consumer prices	% y/y	4.0	4.0	4.7	2.9	2.5	3.5
KWD/USD (end year)	-	0.287	0.281	0.278	0.281	-	-
Discount rate (end year)	%	3.00	2.50	2.50	2.00	-	-
Oman							
Nominal GDP	$ bn	48.2	58.8	69.9	78.0	77.6	81.1
Nominal GDP	%y/y	-20.4	21.9	18.9	11.6	-0.6	4.6
Real GDP	%y/y	3.9	5.0	5.1	5.4	4.4	3.4
- Hydrocarbon sector	%y/y	8.1	5.8	3.0	4.0	3.0	2.0
- Non-hydrocarbon sector	%y/y	2.3	4.6	6.0	6.0	5.0	4.0
Budget balance	% GDP	0.6	3.6	7.3	10.7	3.0	2.0
Current account balance	% GDP	-1.2	10.0	14.7	14.0	10.0	8.0
Consumer prices	% y/y	3.5	3.3	4.0	2.9	2.0	3.0
OMR/USD (end year)	-	0.385	0.385	0.385	0.385	-	-
Repo rate (December average)	%	2.00	2.00	2.00	1.00	-	-
Qatar							
Nominal GDP	$ bn	97.8	127.4	171.4	192.2	202.6	217.0
Nominal GDP	%y/y	-15.2	30.2	34.7	12.1	5.4	7.1
Real GDP	%y/y	12.0	16.7	13.0	6.2	5.7	6.2
- Hydrocarbon sector	%y/y	4.5	28.8	15.8	1.7	0.5	0.5
- Non-hydrocarbon sector	%y/y	17.6	8.6	10.7	10.0	9.8	10.2
Budget balance	% GDP	15.2	2.9	8.7	7.4	5.1	3.2
Current account balance	% GDP	6.1	22.8	30.4	32.4	29.4	27.5
Consumer prices	% y/y	-4.9	-2.4	1.9	1.9	3.4	4.0
QAR/USD (end year)	-	3.639	3.641	3.641	3.641	-	-
Deposit rate (end year)	%	2.00	1.50	0.75	0.75	-	-
Saudi Arabia							
Nominal GDP	$ bn	429.1	526.8	669.5	727.3	713.5	756.1
Nominal GDP	%y/y	-17.4	22.8	27.1	8.6	-1.9	6.0
Real GDP	%y/y	1.8	7.4	8.5	6.8	4.0	5.0
- Hydrocarbon sector	%y/y	-8.8	0.2	9.9	5.7	-5.0	0.0
- Non-hydrocarbon sector	%y/y	4.9	9.2	8.1	7.1	6.0	6.0
Budget balance	% GDP	-5.4	4.4	11.6	13.7	7.0	5.0
Current account balance	% GDP	4.7	12.5	23.5	22.5	13.0	8.0
Consumer prices	% y/y	4.1	3.8	3.7	2.9	4.0	4.0
SAR/USD (end year)	-	3.751	3.750	3.750	3.750	-	-
Repo rate (end year)	%	2.50	2.00	2.00	2.00	-	-
UAE							
Nominal GDP	$ bn	254.8	287.4	348.6	383.8	379.9	391.6
Nominal GDP	%y/y	-19.2	12.8	21.3	10.1	-1.0	3.1
Real GDP	%y/y	-4.8	1.7	3.9	4.4	2.7	2.1
- Hydrocarbon sector	%y/y	-8.9	3.8	6.6	6.3	0.0	-2.0
- Non-hydrocarbon sector	%y/y	-2.9	0.7	2.6	3.5	4.0	4.0
Budget balance	% GDP	-13.1	-2.2	3.0	6.0	4.0	2.0
Current account balance	% GDP	3.1	2.5	14.6	17.3	15.0	14.0
Consumer prices	% y/y	1.6	0.9	0.8	0.7	1.0	2.0
AED/USD (end year)	-	3.673	3.673	3.673	3.673	-	-
Repo rate (end year)	%	1.50	1.00	1.00	1.00	-	-

International data (end year unless otherwise stated)

	Unit	2009	2010	2011	2012	2013f	2014f
Brent crude oil spot price	US $ p/b	61.5	79.5	111.2	111.6	100.0	100.0
CRB commodity price index	Index	313.0	421.1	523.6	482.0	-	-
Eur/USD	1$ = €	0.694	0.748	0.773	0.758	-	-
US Fed Fund Rate	%	0.25	0.25	0.25	0.25	-	-
World MSCI stock market index	Index	920	1,168	1,288	1,186	-	-
MENA real GDP (IMF)	%y/y	3.0	5.5	4.0	4.8	3.1	3.7
World real GDP (IMF)	%y/y	-0.6	5.2	4.0	3.2	3.3	4.0

Source: Thomson Reuters Datasteam, official sources, and NBK Economic Research. Includes some NBK estimates.

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