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Global Outlook:
Saudi Arabia, Kuwait & Bahrain

Q2 2021

1 Paper 2 Reports: Baker Ing & Cedar Rose

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Regional Overview: Gulf Cooperation Council

Macroeconomic Developments & Outlook

Background

The Gulf Cooperation Council (GCC) was formed in 1981 in response to regional insecurity. It comprises the six monarchical, oil-rich states in the Arabian Peninsula - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) - and excludes Yemen. The GCC has established a customs union, but barriers to the free flow of goods and services remain, undermining its aim of creating a full common market. A further aim, that of a common currency, was supposed to be in place by 2010, but is now explicitly opposed by Oman and the UAE. We believe that a common currency is unlikely to established well into the medium term, if at all.

The economies of all six countries are dependent to varying degrees on hydrocarbon earnings, which accrue primarily to the state (see Table 1). The generally small populations (with the exception of Saudi Arabia), combined with the huge hydrocarbon earnings accruing to the state has resulted in high infrastructure spending, the emergence of a private sector that is heavily reliant on government contracts and a strong reliance on expatriate labour. The lack of democratic checks and balances has also seen the emergence of a private sector elite closely tied to the political elite, meaning that commercial legalisation and regulations often create barriers for foreign companies and local businesses without ties to the regime. Positively, the oil revenues have traditionally meant a low tax environment, although this is set to change over the next decade.

Table 1: Hydrocarbon Dependency in the GCC, 2019

Country	Hydrocarbons as % of GDP	Hydrocarbons as % of Exports	Hydrocarbons as % of Government Revenue	Dependency Rating
Kuwait	42.6	90.5	89.3	Very High
Qatar	34.0	85.8	79.2	High
Oman	31.9	60.7	76.2	High
Saudi Arabia	25.9	76.9	64.1	High
Bahrain	15.4	54.6	72.0	Moderate
UAE	22.7	19.2	41.2	Low

Sources: Central Banks/Baker Ing

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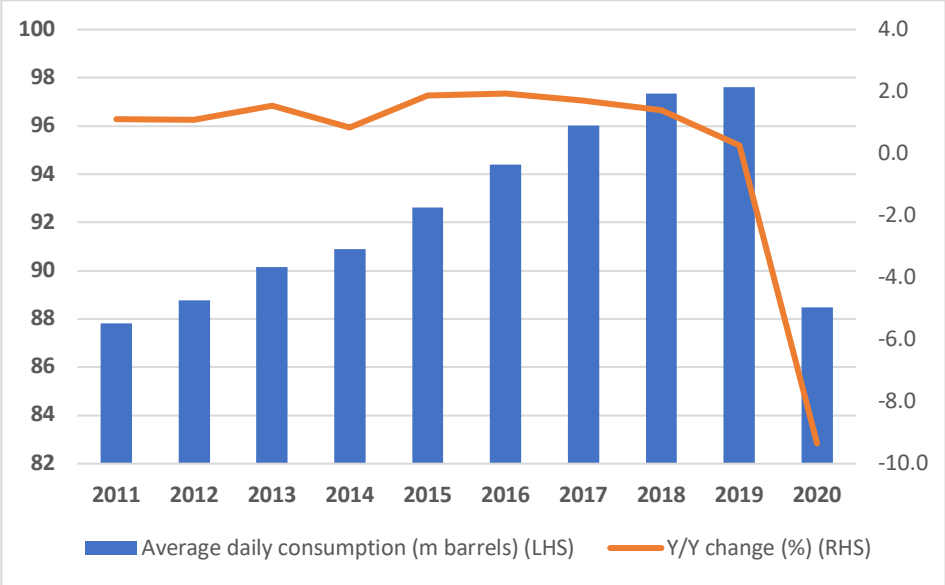
Oil Revenues and Growth Prospects

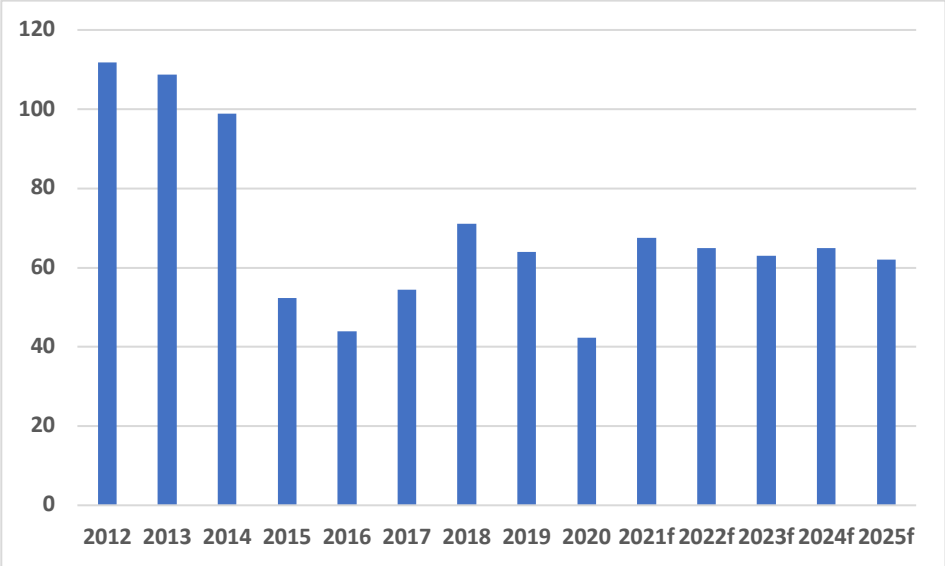
Oil revenues have fluctuated sharply this century, dictated, in part, by production levels, which, in turn, are a function of global demand; thus, oil demand crashed in 2020 as the Covid-19 pandemic hit (see Chart 1). Output can also be subject to OPEC or as at present OPEC+[1] agreements (see Box). Revenues are also a function of the oil price; the inelasticity of the oil price has meant sharp swings over the years (see Chart 2).

Chart 1: Global Annual Oil Consumption, 2011-2020



Sources: BP Statistical Review/Baker Ing

Chart 2: Annual Average Brent Spot Oil Price, 2012-2025, USD/b



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[1] OPEC+ is in informal group of countries comprising the 13 OPEC countries – Algeria, Angola, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, the Republic of the Congo, Saudi Arabia (the de facto leader), the United Arab Emirates and Venezuela - and ten non-OPEC countries - Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

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Source: World Bank/Baker Ing

The OPEC+ Agreements

The first OPEC+ agreement between the OPEC countries and non-OPEC countries, led by Russia, came into force in January 2017 in order to counteract surplus supply, brought on in large part by the surge in output from the US oil shale sector. The agreement covered the first half of 2017, but this was extended in May 2017 through to March 2018. In December 2017, the agreement was further prolonged to the end of 2018. In December 2018, the cuts were pushed through to the end of June 2019 but were again extended in March to the end of 2019. With prices still weak, in December 2019, further cuts were agreed to the end of Q1 2020. When this agreement ended a price war broke out between Saudi Arabia and Russia leading famously to the oil price briefly turning negative in mid-April. This quickly brought about another agreement, which remains subject to monthly review. The latest update to the agreement in July envisages the group increasing its output by 400,000 barrels per month. This will see its production quotas finally phased out in September 2022.

Looking ahead, we expect oil demand to pick up over the next five years leading to increased output amongst the GCC countries. Although demand will pick up as the global economy recovers from the pandemic, other factors will curtail growth potential, including the increasing move towards green energy – even the oil giant countries such as the UAE, Saudi Arabia and Qatar are increasingly looking at developing solar energy, nuclear power and green and blue hydrogen. These countries have also seen domestic demand surge as a result of the cheap, often subsidised, supply curtailing export volumes; fiscal pressures will force the oil exporting countries to move towards global market pricing structures, which will eventually curtail domestic demand.

Turning to the second element of the revenue equation, despite media-catching headlines of oil prices hitting the USD100 per barrel (/b) mark, we are less sanguine about the price over the next five years (see Chart 2). Oil prices in the short to medium term will be constrained by increased output from conventional and non-conventional sources, such as US shale oil. However, beyond our five-year horizon, supply will be curtailed by the recent fall in investment in the sector. A further factor that is likely to boost short-term supply and, therefore, put a ceiling on price is the easing of the OPEC+ agreement, which is provisionally set to end in September 2022. Furthermore, political and security will play an important role in the oil price scenario. If the latest peace deal in Libya lasts, then the country should be able rapidly rebuilt its oil production levels. Similarly, Iraq has the potential to unleash significant volumes onto the market. However, the key market to watch is Iran, if the nuclear deal is re-negotiated then over 1m barrels per day (b/d) could quickly return to the market. Meanwhile, a number of countries have ambitious plans to develop their capacity, believing there is little sense in locking in large volumes as the world moves away from its oil dependency.

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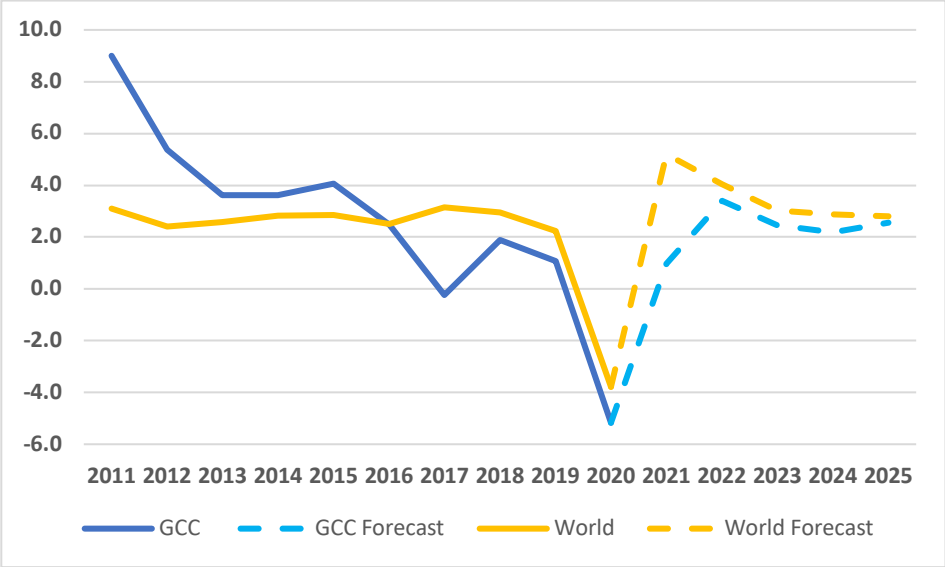
As can be seen in Chart 3 growth in the GCC has fluctuated sharply in the past decade. GCC growth peaked at 9.0% in 2011 but contracted by an estimated 5.2% in 2020 as the GCC economies were hit by a triple whammy following the outbreak of the pandemic:

- the restrictions applied domestically, regional and globally reduced demand for goods and services;
- the collapse in the oil price, which was almost 34% lower than in 2019, and which was almost 10% lower than in 2018; and
- the collapse in demand for oil; oil consumption decreased by 9.3% in 2020. This saw the OPEC+ groups of countries continue to voluntarily curtail production in order to protect the oil price.

Overall, GCC growth has been lower than global growth since the end of the commodity super cycle in 2016; a trend we forecast will continue over the next five years.

Chart 3: GCC and World Growth, %, 2011-2025



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Sovereign Credit Ratings

Table 2 shows the sovereign credit ratings for Bahrain, Kuwait and Saudi Arabia from the big three credit rating agencies globally. Companies that have large public sector ownership, as well as those that borrow heavily from banks, are subject to sovereign risk via both the fiscal and financial channels. When investors believe a country is more likely to default on its debt, the interest rates paid on the debt of that country increase, in order to compensate investors for the higher perceived risk. In such situations, it is often the case that banks see their funding costs increase as well. As such, when sovereign credit risks are elevated, companies in that country can also see their credit risk increase, for example via less favourable bank lending conditions.

Table 2: Sovereign Ratings

	S&P		Moody's		Fitch	
	Rating	**Outlook**	**Rating**	**Outlook**	**Rating**	**Outlook**
Kuwait	AA-	Negative	A1	Stable	AA	Negative
Saudi Arabia	A-	Stable	A1	Negative	A	Negative
Bahrain	B+	Negative	B2	Negative	B+	Stable

Legend

Investment grade
Speculative grade

Sources: S&P, Moody's, Fitch.
Retrieved: 17 July 2021

As can be seen in Table 2, Kuwait and Saudi Arabia, are rated by all three credit agencies as investment grade. This suggests that the credit risks associated with doing business with entities in these four countries are generally minimal. However, Bahrain due to its weaker fiscal and external positions is rated as speculative. The weaker ratings highlight that credit risks are more elevated, despite their oil reserves.

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Credit Risk Outlook Summary

Headwinds

The on-going Covid-19 pandemic will be the main headwind over the next 12 to 24 months. Growth will be dependent to a degree on the success of the vaccine rollout in each country. As at end ofJuly, Bahrain has administered 140 doses per 100 residents, the third highest globally. However, Saudi Arabia has administered almost half this level at 77.5 doses per 100 residents and Kuwait even less at 56.5 doses per 100 residents. By way of comparison, the EU level is 104.6 doses per 100 residents, while the US level is 103.7 doses per 100 residents. Furthermore, the global situation will be a major factor as many emerging economies, including regional neighbours such as Iran (12.3 doses per 100 residents), Iraq (2.8 doses per 100 residents) and Yemen (1.1 doses per 100 residents) are facing challenges in rolling out their vaccine programmes. This lack of success increases the chances of new mutations evolving that may be resistant to the existing vaccines gaining hold.

The second factor is (as discussed above) if oil prices and demand can continue to grow over the period. A sharp fall in the oil price would see credit risk deteriorate across the three countries, with Bahrain particularly vulnerable. Other factors which mitigate a strong rebound include a lack of transparency in the business environment, which is reflected in the weak scores the region receives in international surveys by the likes of the World Bank and World Economic Forum (WEF). The high incidence of corruption is also a major risk as is the weakening of the social contract between the authoritarian states and their populace. In the GCC in return for accepting authoritarian rule, the populace expects the government to provide high standards of living through jobs in the public sector and high welfare spending. However, with increasing fiscal pressure government spending is coming under pressure.

Finally, geo-political factors also undermine the credit risk outlook. Sunni Saudi Arabia and Shi'a Iran have vied for leadership in the region since 1979 and this is played out in Syria, Yemen and Iraq. The June 2021 election of a hard-line president in Tehran increases the risk of Iranian adventurism across the region, with Bahrain particularly vulnerable because of its marginalised Shi'a population.

Across the three countries, we expect company liquidations to start to increase significantly, particularly amongst the SMEs, as government support is eased over the remainder of 2021 and in 2022, with Bahraini companies being the most vulnerable, followed by Kuwait and then Saudi Arabia. One important element to bear in mind is that the dishonour involved in a bankruptcy tends to mean that locally-owned companies will attempt to struggle on using family money. This is likely to mean a deteriorating payment performance in this sector but will fewer bankruptcies. However, foreign-

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owned businesses will be more willing to liquidate their businesses, particularly, if the owners leave the country without paying their debts.

Saudi Arabia

Table 3 summarises the present level of credit risks and the outlook over the next two years for Saudi Arabia.

Table 3: Saudi: Arabia: Credit Risk Outlook

	Credit Risk	Outlook
Growth		↑
Covid-19		↓
Fiscal		↑
Inflation		→
Current Account		↑
FX Reserves		→
Currency		→
Trade Barriers		↑
Political		→

Legend

Credit Risk	High	
	Moderate	
	Low	
Outlook	Improving	↑
	Stable	→
	Deteriorating	↓

Kuwait

Table 4 summarises the present level of credit risks and the outlook over the next two years for Kuwait.

Table 4: Kuwait: Credit Risk Outlook

	Credit Risk	Outlook
Growth		↑
Covid-19		↓
Fiscal		↑
Inflation		↑
Current Account		↑
FX Reserves		↑
Currency		→
Trade Barriers		→
Political		→

Legend

Credit Risk	High	
	Moderate	
	Low	
Outlook	Improving	↑
	Stable	→
	Deteriorating	↓

Bahrain

Table 5 summarises the present level of credit risks and the outlook over the next two years for Bahrain.

Table 5: Bahrain: Credit Risk Outlook

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	Credit Risk	Outlook
Growth		↑
Covid-19		↓
Fiscal		→
Inflation		↑
Current Account		→
FX Reserves		→
Currency		↓
Trade Barriers		→
Political Risks		→

Legend

Credit Risk	High	
	Moderate	
	Low	
Outlook	Improving	↑
	Stable	→
	Deteriorating	↓

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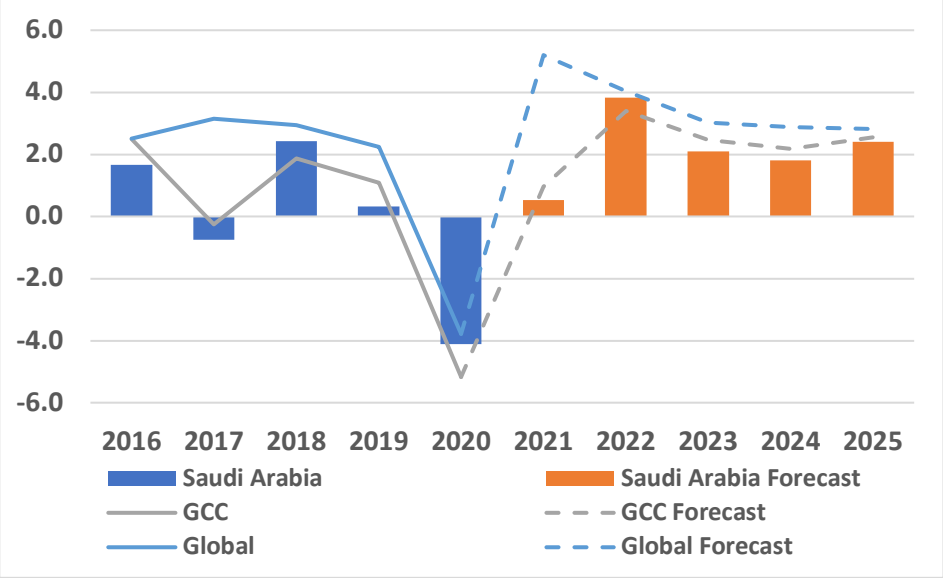
Saudi Arabia

Economic Growth

Based on our Hydrocarbons Dependency Index, Saudi Arabia is the third least vulnerable of the GCC to oil and gas revenue fluctuations. Nevertheless, in 2020, as with the other GCC states, Saudi's economy was hit hard by the impact of the Covid-19 pandemic as a result the economy contracted in real terms by 4.1%, which was a better performance than the outturn for the GCC but worse than the global outturn. Oil production was hit by the OPEC+ quotas, as a result it fell by 5.8% year on year (y/y), while the average oil price fell by 33.9% y/y resulting in the oil sector contracting by 5.4% y/y. In addition, the non-oil sector contracted by 3.1% y/y, its first contraction since 1987.

The position would have been worse were it not for the various fiscal and monetary packages to mitigate the worst effects of the pandemic. The authorities responded swiftly to the pandemic launching a private sector support package worth SAR70bn (2.7% of GDP) in mid-March 2020, with further fiscal support announced as the year progressed. In addition, the central bank (SAMA) announced packages totalling SAR100bn (4% of GDP) in H1 2020.

Chart 4: Saudi Arabia, Real GDP Growth, %, 2016-2025



Source: IMF/Baker Ing

Looking ahead, most of the government support packages will be phased out through 2021 with SAMA's Guaranteed Facility Program currently extended until 14 March 2022. Furthermore, we expect government austerity to continue, undermining a key driver of economic growth. However, support for the private sector will come from the country's sovereign wealth fund, the Public Investment Fund, which in 2020 announced a new policy of supporting the domestic private sector rather than investing its funds purely abroad. To

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this end, it has promised to invest between SAR150-SAR200bn annually in 12 sectors - food, agriculture, aviation, defence, entertainment, tourism, sports, minerals, mining, transportation, logistics, and financial services.

Overall, we expect the recovery will be muted in 2021 as OPEC+ production quotas (albeit easing) will see oil production fall by a further 6.3% y/y, taking output to its lowest level since 2010. Although oil prices are set to strengthen by 60.5% y/y, we forecast that the oil sector will contract in real terms by 4.0% in 2021, while government support and easing lockdowns will see the non-oil sector grow by 5.0%. This will see economic growth of 1.3% for the year and the recovery will strengthen further in 2022 with the economy growing by 3.8%. The oil sector will grow by 4.5%, while the non-oil sector will increase by 3.4%.

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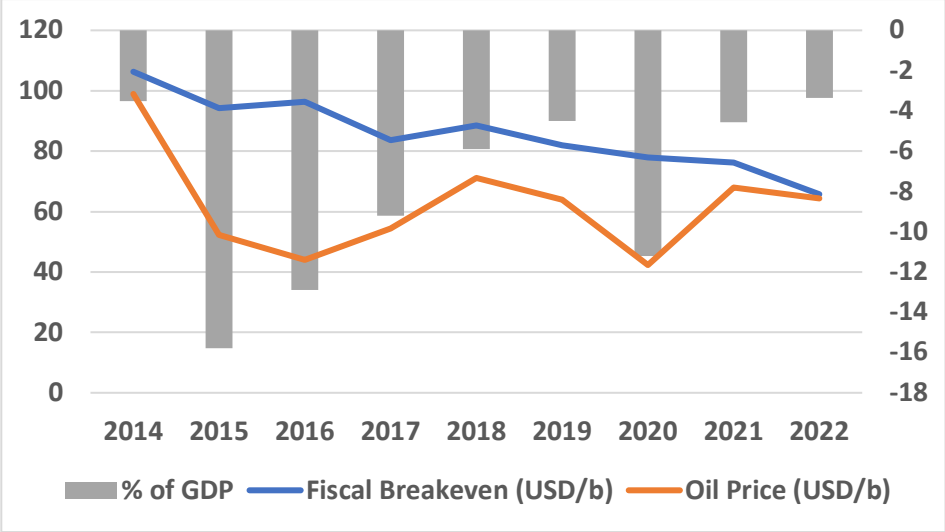
Fiscal Developments

Despite accruing huge volumes of oil revenues, Saudi Arabia has run a persistent fiscal deficit since 2014. The pressure on the budget arises from three structural sources:

- High, albeit falling, dependency on oil revenues: in 2020 over 52% of revenues came from oil.
- Reduced oil revenues as a result of weaker oil prices and falling oil production; in nominal terms oil revenues peaked at SAR1144bn in 2012 but in 2020 the total was only SAR413bn.
- Increased recurrent spending as the authoritarian government attempts to maintain the support of the population against the regional background of the Arab Spring. In 2020, current spending accounted for 85.6% of total expenditure, having more than quadrupled in nominal terms since 2003.

The government is attempting to address these issues but it is difficult to cut current spending without causing a breakdown of the informal social contract on which the stability of the political system depends. It was re-launched its privatisation policy and is using public-private partnerships to develop its infrastructure and reduce state involvement in the welfare sector, in an attempt to move capital expenditure from the state top the private sector. In terms of reducing its oil dependency, it introduced VAT in January 2018 at 5%. Fiscal pressures, as a result of the Covid-19 pandemic, saw the rate increased to 15% in July 2020. We expect further taxes to be introduced over the next few years, starting with those aimed at expatriates. Although, this will have the effect of undermining one of Saudi Arabia's main competitve advantages, it will reduce the pressure on the fiscal position.

Chart 5: Saudi Arabia, Fiscal Position, 2014-2022



Source: IMF/Baker Ing

The attempts to reduce the fiscal deficit were gaining traction until the pandemic struck. The fiscal deficit fell from 15.8% of GDP in 2015 to a more

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manageable 4.5% of GDP in 2019. However, the deficit surged to 11.2% of GDP in 2020. Looking ahead, we expect the deficit to fall sharply in 2021 to 4.6% of GDP and by 2025 the budget will have returned to surplus, driven in part by government austerity. However, in the short term, credit risk will remain elevated, particularly in relation to Saudi companies that rely on government contracts. there is also a possibility that government departments will delay payments.

Positively, beyond the very short term the policy to open the economies to cross-border opportunities as state and quasi-state entities are privatised, subsidies lifted, and trade and investment barriers eased should see increased opportunities and easing credit risks. However, progress is liable to be slow and uneven.

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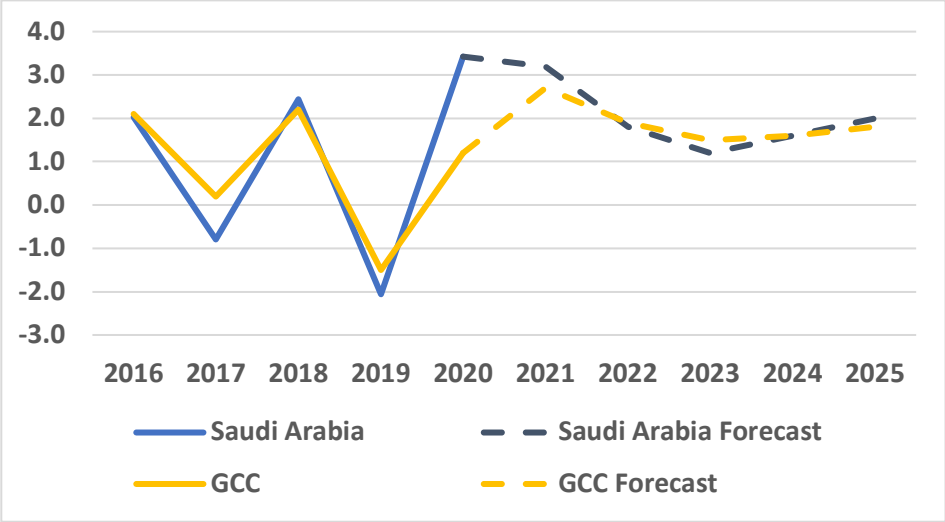
Inflation

The introduction of VAT at 5% in 2018 saw annual average consumer price inflation rise to 2.4%, from a contraction of 0.8% the previous year. In 2019, with the base effects of the VAT implementation having dissipated, annual average consumer prices fell by 2.1%. The inflation environment remained benign in H1 2002, averaging 1.1%, but with the tripling of VAT to 15% in July, inflation surged to an average of 5.8% in H2, resulting in annual average inflation of 3.2%; the highest in the region.

Chart 6: Saudi Arabia, Consumer Price Inflation (%), 2016-2025



Source: IMF/Baker Ing

Inflation has remained strong in H1 2021 because of the VAT price; averaging 5.5%. However, we expect with the base effects having passed, price pressure will be weak in H2 2021, averaging 0.9% bringing the 2021 average to 3.2%; still the highest in the GCC. Thereafter, inflation will remain benign until at least 2025.

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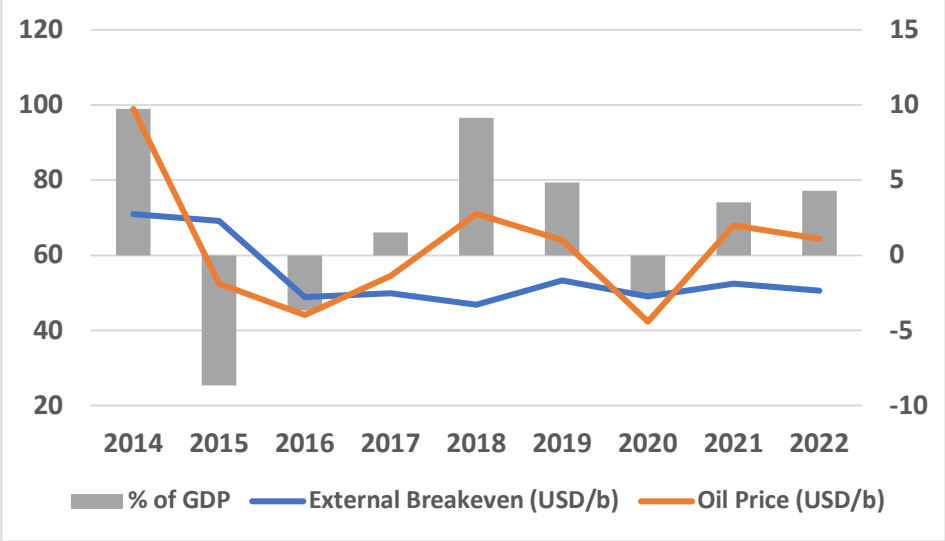
External Developments: Current Account

As with the fiscal position, the current account is heavily dependent on the oil price and, to a lesser degree, oil export volumes. As can be seen from Chart 7, in recent years when the annual average oil price has fallen below USD60/b the current account. Thus, the end of the oil price boom in 2015 saw the current account fall from a surplus of 9.8% of GDP to a deficit of 8.7% as the average oil price fell from USD98.9/b to USD52.4/b. By 2018, the current account had returned to surplus recording a surplus of 9.2% of GDP. However, in 2020, the impact on oil prices and oil export volumes of the Covid-19 pandemic, saw the current account return to deficit (2.8% Of GDP). The outcome would have been far worse as, in common with most countries, the Kingdom experienced serious import compression; imports fell by almost 18% y/y.

Chart 7: Saudi Arabia, Current Account, 2014-2022



Source: IMF/Baker Ing

Looking ahead, according to the IMF, Saudi Arabi will need the oil price to remain above USD52.5/b in 2021 and USD50.6/b in 2022 in order for the current account to be in surplus. As we are currently forecasting the oil prices to be USD67.5/b in 2021 and USD65/b in 2022, the current account will experience surpluses of 3.5% of GDP in 2021 and 4.3% of GDP in 2022. Furthermore, we expect the surplus to average 5.4% of GDP between 2023 and 2025. In line with other external factors, the surpluses will ensure the impact on credit risk is benign over the next five years.

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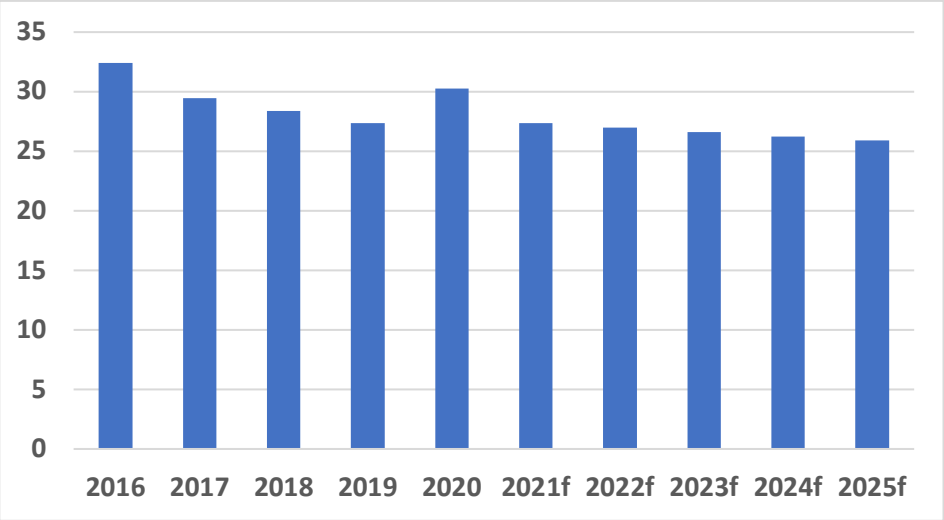
Foreign Currency Reserves

Saudi Arabia's FX reserves as measured by months of import are very strong. In 2020, they were 30.2 months, well above the IMF recommended minimum of 3-months for emerging economies. We expect the level to decline marginally over the forecast period, so that by the end of 2025 import cover will be just under 25.9-months. Furthermore, the assets of the Kingdoms' sovereign wealth fund, the Public Investment Fund (PIF), has assets of USD430bn under its control. As a result, Saudi Arabia is a net international creditor, ensuring cross-border credit risk is benign.

Chart 8: Saudi Arabia, FX Reserves in Months of Imports, 2016-2025



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Currency Risk

In common with the other GCC countries, with the exception of Kuwait, Saudi Arabia has maintained a fixed currency peg to the US dollar at SAR3.75:1USD. The IMF is supportive of the policy, which has rarely come under pressure. The level of foreign assets held by the government means that authorities are able to support the peg if it does come under market pressure. Furthermore, with the majority of export earnings priced in US dollars, there is little reason to devalue the currency or break the peg.

Saudi Arabia was previously behind a push to create a common currency for the GCC, but Oman and the UAE have indicated they no longer support the policy. As a result, we believe there is now only limited enthusiasm for the project and it is unlikely to happen during our five-year forecast horizon.

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Trade Barriers

Saudi Arabia as a member of the GCC applies the GCC Common Customs Tariff of 5% to most imports coming into the Kingdom from outside the GCC (there are no tariffs levied on trade between members of the customs union). However, exceptions include goods that compete with those produced domestically attract a duty of 12% or 20%, while dates are dutiable at 40%, and cigarettes and other tobacco products at 100%. According the WTO, the total trade weighted average tariff for Saudi Arabia was 5.1% in 2019, with the agricultural goods average of 9.4% and non-agricultural goods at 4.4%.

Non-tariff barriers to cross-border trade are relatively high in Saudi Arabia. In the World Bank's *Doing Business 2020* report, the Kingdom is ranked 86th out of 190 economies globally for the category 'trading across borders.' As can be seen from Table 6, Saudi Arabia compares favourably to the Middle East and North Africa average but poorly with the OECD high income countries. We expect the situation to improve slowly over our forecast horizon but the barriers will remain higher that in the OECD high income countries.

Table 6: Saudi Arabia, Non-Tariff Barriers

		Saudi Arabia	Middle East & North Africa	OECD High Income
Time to export (hours)	Border compliance	37	52.5	12.7
	Documentary compliance	11	66.4	2.3
Cost to export (USD)	Border compliance	319	441.8	136.8
	Documentary compliance	73	240.7	33.4
Time to import (hours)	Border compliance	72	94.2	8.5
	Documentary compliance	32	72.5	3.4
Cost to import (USD)	Border compliance	464	512.5	98.1
	Documentary compliance	267	262.6	23.5

Source: World Bank; Baker Ing

Baker Ing

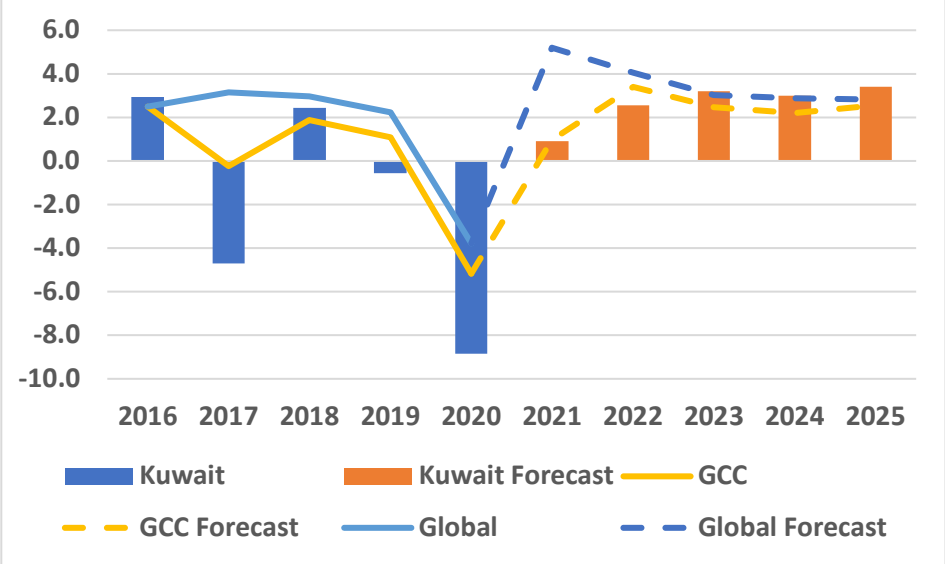
Kuwait

Economic Growth

Kuwait was the worst hit of the GCC by the pandemic in 2020 as the economy was already contracting prior to the outbreak. Real GDP growth contracted by 0.6% in 2019 (the second worst outturn in the GCC after Oman) and by 8.9% in 2020. The outturn was worse than both the GCC average (contraction of 5.2%) and the global outturn (3.8%). Oil production was hit by the OPEC+ quotas as a result it fell by 9.4% y/y, while the average oil price fell by 33.9% y/y, resulting in oil revenues contracting by 40.1% y/y and oil export revenue falling by 38.5% y/y.

According to the IMF, in 2020 the authorities allocated KWD500m, equivalent to 1.5% of GDP, to support the economy. In particular it has: postponed social security contributions for six months for private sector companies; removed government fees on selected sectors provided that savings are passed on to customers; continued providing full unemployment benefits to nationals; and, provided concessional, long-term loans to SMEs though joint financing from the SME fund and banks. The central bank has also produced as a series of monetary packages to support the banking sector.

Chart 9: Kuwait, Real GDP Growth, %, 2016-2025



Source: IMF/Baker Ing

Looking ahead, in line with other GCC economies, we expect only a muted recovery in 2021. OPEC+ production quotas (albeit easing) will result in oil production falling by a further 1.5% y/y; the fifth consecutive annual contraction taking output to its lowest level since 2003. However, with oil prices set to strengthen by 60.5% y/y, we forecast that oil revenues will grow by over 55% in 2021. Along with the government support packages, this will see real GDP growth coming in at 0.5%; the weakest level in the GCC alongside

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Saudi Arabia and below both the GCC weighted average (1.0%) and global growth (5.2%). The recovery will strengthen further in 2022 at 2.5%, still below the expected outturn for the global economy (4.0%) and the GCC (3.4%).

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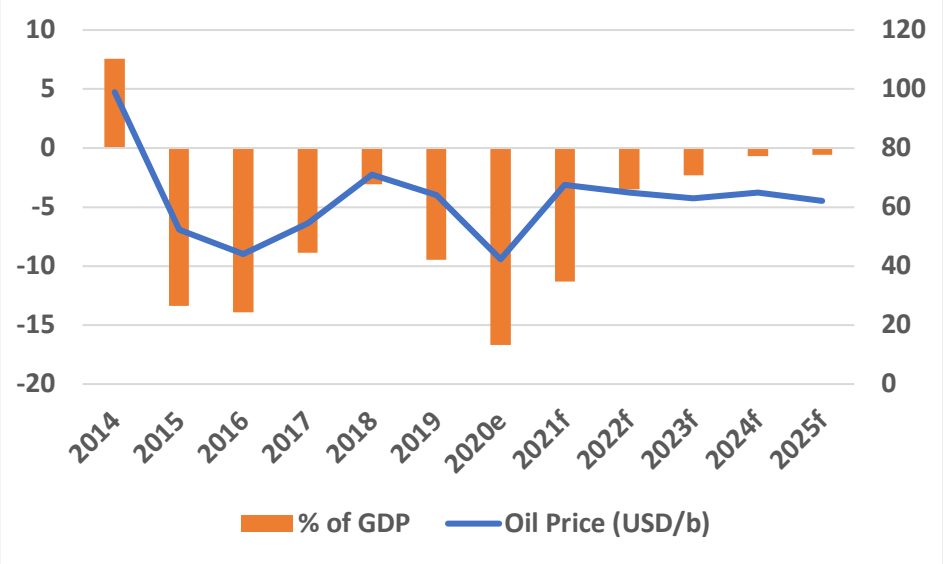
Fiscal Developments

Prior to the collapse in the oil price from 2014 Kuwait had been running strong fiscal surpluses; indeed, in the decade to 2013 these averaged 22.4% of GDP. However, in 2015, the country recorded its first fiscal deficit this century at 13.4% of GDP. The deficit worsened to 13.9% of GDP in 2016, before gradually falling to 3.1% of GDP in 2018. A further fall in the oil price in 2019, along with political issues which curtailed the ability of the government to cut spending, saw the deficit surge again to 9.5% of GDP. The impact of Covid-19 saw the fiscal deficit return to double figure territory in 2020 to an estimated 16.7% of GDP.

Due to the political system in Kuwait, the government faces major difficulties in attempting to cut spending or raise taxes. Unlike in other GCC countries, parliament actively opposes government policies as members of parliament use their position to ensure that their constituents continue to access high welfare spending and jobs while keeping taxes and charges for government services to a minimum. Hence, Kuwait has yet to implement VAT as agreed with its fellow-GGC members; this should have happened in 2018. Furthermore, privatisation and public-private partnerships are also unpopular with parliamentarians.

Chart 10: Kuwait, Fiscal Position, 2014-2022



Source: IMF/Baker Ing

Looking ahead, we believe parliament will continue to be a considerable obstacle to implementing much needed fiscal reform; in cutting back spending, raising non-oil revenues and through privatisation. However, with oil prices expected to remain in the low to mid-USD60s/b through to 2025, we would expect the fiscal deficit to fall slowly to 6.5% of GDP by 2025. In the next two years, credit risk associated with the fiscal performance will be elevated, particularly if dealing with government entities and state-owned

enterprises or private sector companies that are heavily reliant on government contracts. We expect credit risks to ease thereafter but still to be higher than in historical terms for Kuwait.

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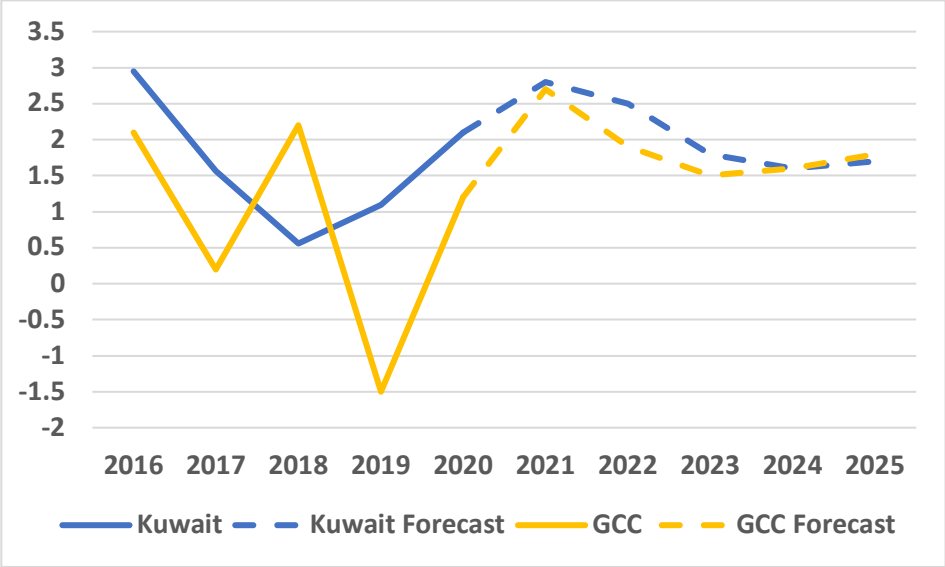
Inflation

In common with global trends, annual average consumer price inflation has remained benign in Kuwait since 2012. However, it has tended to be higher than the GCC average, with the exception of 2018 when Saudi Arabia and the UAE introduced VAT at 5.0%, giving a temporary boost to consumer prices in these countries. In 2019, annual average consumer price inflation came in at 1.1%. However, the impact of the pandemic on prices because of supply side issues saw prices slowly rise throughout 2020, starting at 1.7% y/y in January and finishing the year at 3.0% y/y, giving an annual average of 2.1%.

Chart 11: Kuwait, Consumer Price Inflation (%), 2016-2025



Source: IMF/Baker Ing

In the first half of 2021, upward pressure on prices has continued with prices rising in April by 3.1% y/y with a year-to-date average of 3.1%. However, we expect prices to start to ease in the second half of the year, with annual average inflation coming in at 2.8%. In 2022, annual average consumer prices are forecast to come in at 2.5%. Thereafter, price pressure will remain weak with prices growth averaging 1.7% y/y between 2023 and the end of 2025.

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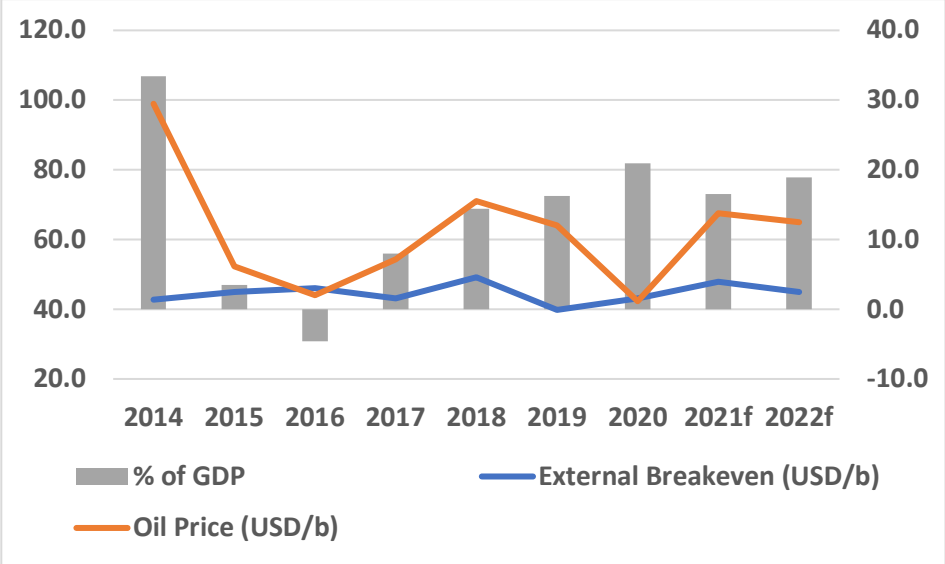
External Developments: Current Account

As with other GGC members, Kuwait's current account position is heavily dependent on the global oil price and, to a lesser degree, oil export volumes. As can be seen from Chart 12, Kuwait's external breakeven price, as calculated by the IMF, has normally been below the global oil price, even in years when the oil price has been weak: the exception being 2016, when the current account recorded its first deficit (4.6% of GDP) this century. The volatility of the oil price has meant that that current account surpluses have swung wildly, ranging from a low 3.5% of GDP in 2015 to a high of 33.4% of GDP in 2014. In 2020, import compression due to the pandemic outweighed the negative impact on oil export revenues, resulting in the current account returning a surplus of 21.0% of GDP.

Chart 12: Kuwait, Current Account, 2014-2022



Source: IMF/Baker Ing

According to the IMF, Kuwait's external breakeven oil price will be USD48/b in 2021 and USD45.0/b in 2022. We are currently forecasting average oil prices of USD67.5/b in 2021 and USD65/b in 2022. As a result, we expect Kuwait to record surpluses of 16.6% of GDP in 2021 and 18.9% of GDP in 2022. Furthermore, the current account surplus will average 18.5% of GDP between 2023 and 2025. The surpluses will ensure cross-border credit risk will remain benign over the next five years.

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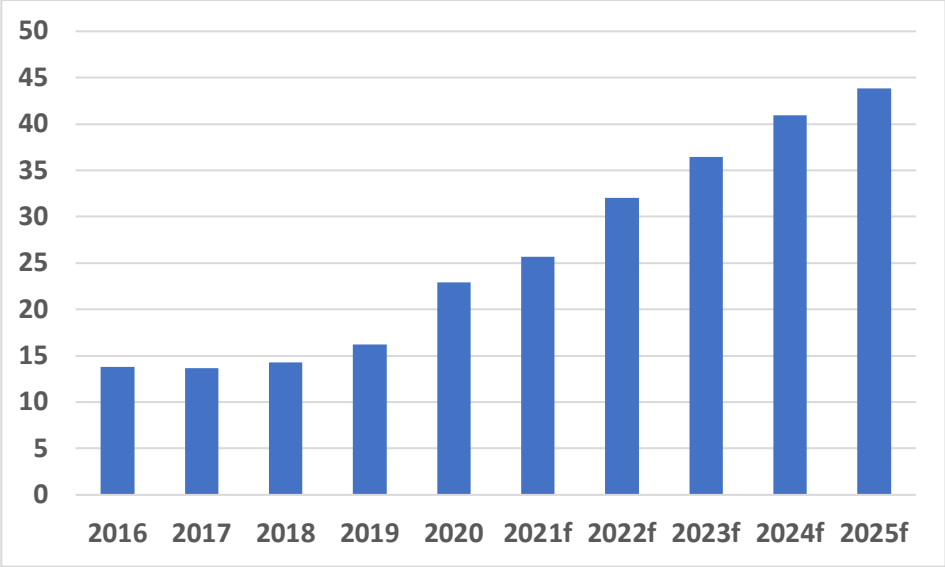
Foreign Currency Reserves

Kuwait's FX reserves position is very strong. FX reserves as measured by months of import at the end of 2020 were 22.9 months, significantly above the IMF recommended minimum of 3-months for emerging economies. Over the next five years, FX reserves will increase each year, finishing 2025 at almost 44.0-months' worth of imports. In addition, the sovereign wealth fund (SWF), the Kuwait Investment Authority, which according the Sovereign Wealth Fund Institute is the third largest SWF globally, has assets worth USD692.6bn. As a result, Kuwait is a net international creditor, ensuring cross-border credit risk associated with foreign reserves is benign

Chart 13: Kuwait, FX Reserves in Months of Imports, 2016-2025



Source: IMF/Baker Ing

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Currency Risk

Kuwait, exceptionally amongst the GCC members, does not have a fixed currency peg to the US dollar. Instead, the Kuwaiti dinar is pegged to an undisclosed basket of currencies. However, we believe that the US dollar comprises a significant portion of the basket, as such the dinar fluctuates only marginally against the US dollar. In 2020, the exchange rate averaged KWD0.306:1USD, having averaged KWD0.304:1USD in 2019. Going forward, we expect the dinar to remain in the range of KWD0.304:1USD to KWD0.308:1USD. The level of foreign assets held by the government means that authorities are able to support the peg, if necessary.

Over a decade ago, the GCC members agree to create a common currency for the GCC, but since then the UAE and Oman have indicated they no longer support the policy. As a result, we believe there is now only limited enthusiasm for the project and it is unlikely to happen during our five-year forecast horizon.

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Trade Barriers

Kuwait applies the GCC Common Customs Tariff of 5% to most imports coming into the country from outside the GCC (there are no tariffs levied on trade between members of the customs union). Certain basic foodstuffs and medicines or medical items are exempt from the duty, while tobacco products attract a duty of 100%. According the WTO, the total trade weighted average tariff for the Kuwait was 4.7% in 2019, with agricultural goods averaging of 5.1% and non-agricultural goods at 4.1%.

Non-tariff barriers to cross-border trade are very high in Kuwait. In the World Bank's *Doing Business 2020* report, Kuwait is ranked 162nd out of 190 economies globally for the category 'trading across borders.' As can be seen from Table 7, Kuwait compares unfavourably in most of the categories in relation to the Middle East and North Africa average and very poorly with the OECD high income countries. We do not expect the situation to improve over our medium-term forecast horizon.

Table 7: Kuwait, Non-Tariff Barriers

		Kuwait	Middle East & North Africa	OECD High Income
Time to export (hours)	Border compliance	84	52.5	12.7
	Documentary compliance	72	66.4	2.3
Cost to export (USD)	Border compliance	665	441.8	136.8
	Documentary compliance	227	240.7	33.4
Time to import (hours)	Border compliance	72	94.2	8.5
	Documentary compliance	96	72.5	3.4
Cost to import (USD)	Border compliance	634	512.5	98.1
	Documentary compliance	332	262.6	23.5

Source: World Bank; Baker Ing

Baker Ing

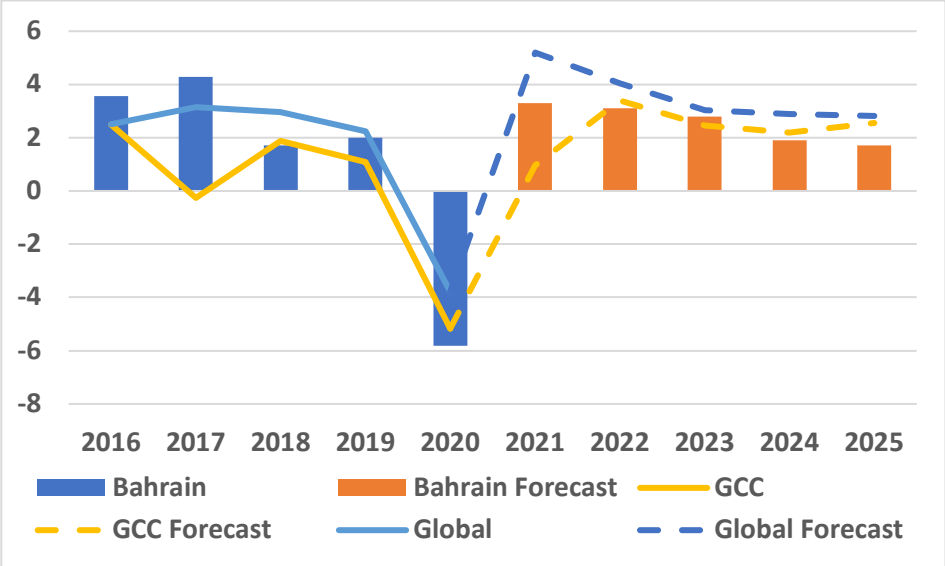
Bahrain

Economic Growth

Bahrain's economy is the smallest in the GCC and one of the most vulnerable. It is heavily reliant on support from the larger GCC economies, in terms of economic assistance, trade and investment. It also shares an oil-field with Saudi Arabia, with production and reserves shared equally, although Saudi Arabia operates the field on behalf of Bahrain. Bahrain's reliance on the government's recycling of oil revenues, its financial sector and tourism to drive its economic growth made it vulnerable to the Covid-19 pandemic. As a result, the economy shrank by 5.8% in real terms in 2020, worse than both the GCC weighted average (3.8%) and global contraction (3.8%) oil revenues.

Despite the economic difficulties facing the government, Bahrain's response to the Covid-19 pandemic was strong. According to the IMF, the country's initial fiscal package introduced in March 2020 amounted to around 6% of GDP. Parts of the package have been extended into 2021. Monetary support was provided by the central bank, including a zero-interest lending facility to banks totalling BHD3.7bn (29% of GDP).

Chart 14: Bahrain, Real GDP Growth, %, 2016-2025



Source: IMF/Baker Ing

Looking ahead, Bahrain's economy will rebound the strongest of the GCC countries in 2021, registering growth of 3.3% as oil production increases by 5.6% y/y and oil prices rise by 60.5% y/y. In 2022, a recovery in the tourist sector should help growth come in at 3.1%. However, growth will slow over the following three years to reach 1.7% in 2025.

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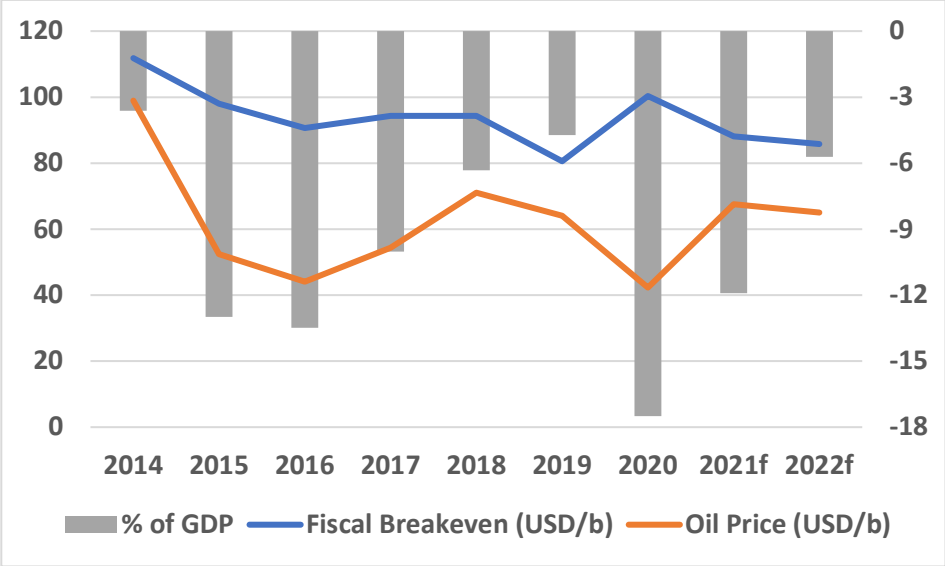
Fiscal Developments

Bahrain's fiscal position is a key vulnerability for credit risk. In 2009, the fiscal position slipped into deficit for the first time since 2002 at 4.3% of GDP, despite the relatively strong oil price. The deficit worsened when the oil price collapsed in late 2014, averaging an unsustainable 12.2% of GDP between 215 and 2017. Conditional support from its GCC partners saw the government start to address the deficit which fell to a more manageable 4.7% of GDP in 2019, before the pandemic struck. However, the negative impacts of the Covid-19 in terms of sharply reduced oil revenues and increased government spending saw the deficit rocket to a record high of 17.5% of GDP.

Chart 15: Bahrain, Fiscal Position, 2014-2022



Source: IMF/Baker Ing

Looking ahead, we forecast the budget will remain in double-digit territory in 2021 before falling to 5.7% of GDP in 2022. The unsustainable nature of the deficit in the short-term forecast horizon will ensure credit risks remain elevated. Although, the risks should be mitigated to a degree by economic support from the other GCC countries, these countries are facing their own issues as the pandemic lingers. Furthermore, support from the other Gulf countries will be conditional on Bahrain addressing the fiscal deficit. As a result, we expect the position to improve to 2025, when the deficit should be a more manageable 2.8% of GDP; thereby ensuring an improvement in the credit risk environment.

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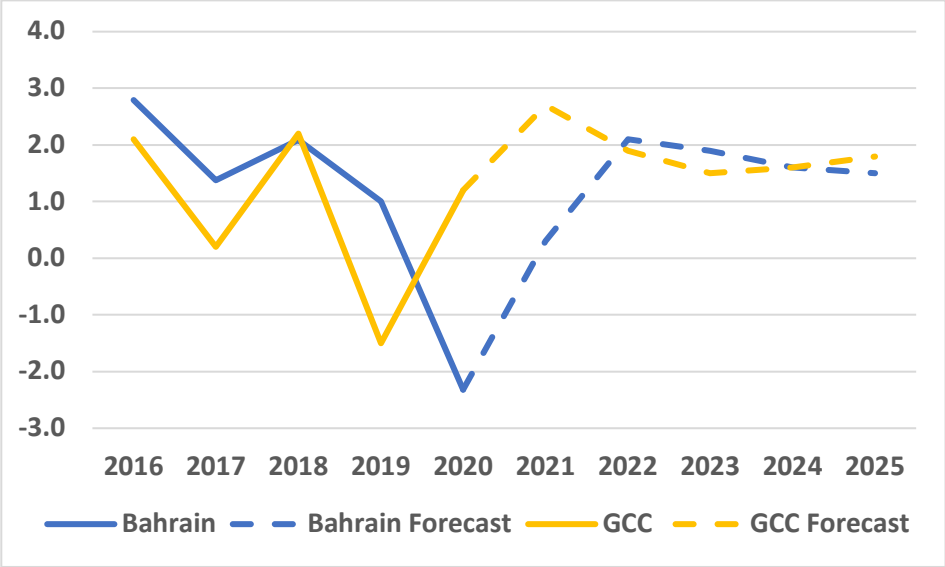
Inflation

In common with global trends, Bahrain had been experiencing a low inflation environment even during 2019 when VAT at 5% was introduced average annual inflation was only 1.0%. The outbreak of the pandemic saw deflation take hold. As a result, annual average consumer prices fell by 2.3% in 2020, despite rising global food, energy and commodity prices as a result of supply side difficulties.

Chart 16: Bahrain, Consumer Price Inflation (%), 2016-2025



Source: IMF/Baker Ing

In 2021, there are signs that the deflationary trend is coming to an end. Prices have increased m/m in both April and May and 12-month deflation has fallen to 0.3% in May, from 3.0% in February. We forecast annual average consumer price inflation will come in at 0.3% in 2021 before rising to 2.1% in 2022 and then easing through to 2025 when it will average 1.5%. The deflationary environment has raised credit risks, which will improve as low prices become the norm through to 2025.

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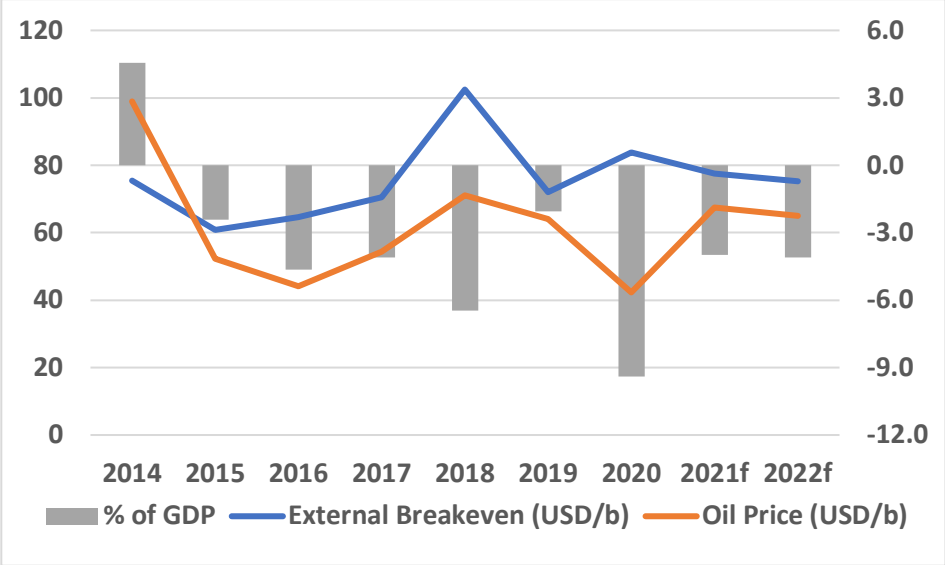
External Developments: Current Account

Bahrain has been experiencing current deficits since 2015, when the oil price collapsed. Prior to that it had run current account surpluses since the start of the century with the exception of 2002. In 2019, the deficit had fallen to its lowest level since 2015 at 2.1% of GDP, but impact of the pandemic on oil demand and prices saw the deficit increase to an unsustainable 9.4% of GDP. Oil export revenues fell by 40.0% y/y, while other export levels were stable and imports fell by 48% y/y.

Chart 17: Bahrain, Current Account, 2014-2022



Source: IMF/Baker Ing

According to the IMF, Bahrain's external breakeven oil price will be USD77.6/b in 2021 and USD75.3/b in 2022. We are currently forecasting average oil prices of USD67.5/b in 2021 and USD65/b in 2022. As a result, we expect Bahrain to experience deficits of 4.0% of GDP in 2021 and 4.1% of GDP in 2022. Furthermore, the current account deficit will average 3.7% of GDP between 2023 and 2025, putting pressure on the credit risk environment as debt is built up to meet the deficit.

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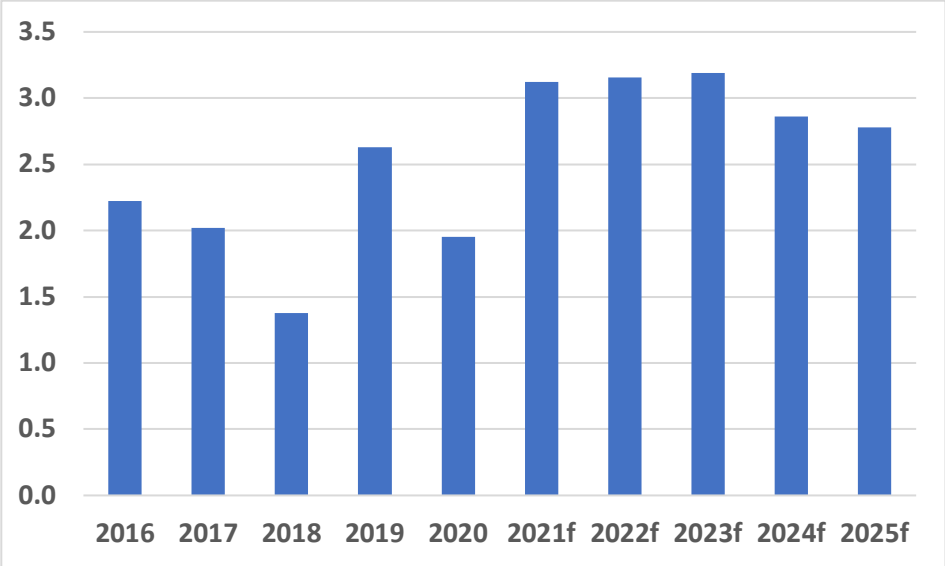
Foreign Currency Reserves

Bahrain's FX reserves position as measured by months of imports is another source of weakness for the credit risk environment. For the past five years it has been below the IMF recommended minimum of 3-months for emerging economies. At the end of 2020 it was only 2.0 months. Looking forward, we expect financial support from main GCC countries to boost this level to around 3.2 months in 2021 and 2022, thereafter it will slip back below the threshold re-igniting pressure on credit risk.

Chart 18: Bahrain, FX Reserves in Months of Imports, 2016-2025



Source: IMF/Baker Ing

The international investment position is supported by the sovereign wealth fund (SWF), Mumtalakat, which according the Sovereign Wealth Fund Institute, has assets worth USD18.7bn. However, external debt levels are extreme at 257.7% of GDP, while public debt has more than doubled in recent years from 42.6% of GDP in 2014 to over 100% of GDP in 2020. We expect these debt levels to continue growing which will add pressure to the credit risk environment.

Baker Ing

Currency Risk

Bahrain, as with the other GCC countries with the exception of Kuwait, has pegged its currency to the US dollar at a rate of BHD0.376:1USD. While, the IMF has been supportive of the fixed rate peg, this is liable to come under increasing pressure into the medium term as the current and fiscal accounts remain in deficit, FX reserves stay weak and public sector debt and external debt continue to climb. The mitigating factor is that we would expect Saudi Arabi, the UAE, Qatar and Kuwait to continue to support the authorities through balance of payment support. Nevertheless, these sources remain vulnerable to political pressures as seen by the recent 3.5-year boycott of Qatar and the growing tensions between the UAE and Saudi Arabia.

Over a decade ago, the GCC members agree to create a common currency for the GCC, but since then the UAE, along with Oman, have indicated they no longer support the policy. As a result, we believe there is now only limited enthusiasm for the project and it is unlikely to happen during our five-year forecast horizon.

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Trade Barriers

Bahrain applies the GCC Common Customs Tariff of 5% to most imports coming into the country from outside the GCC (there are no tariffs levied on trade between members of the customs union). Around 400 goods including basic foodstuffs, diplomatic and consular imports, military and security products, civilian aviation, personal effects and used household items, passenger accompanied luggage and gifts, goods destined for charitable use, ships and other vessels for the transport of passengers and floating platforms, and products to be used for industrial projects and medicines or medical items are exempt from the duty. Bahrain imposes a 125% tariff on alcohol and a 100% import duty on tobacco. According the WTO, the total trade weighted average tariff for the Bahrain was 4.3% in 2019, with agricultural goods averaging of 17.4% and non-agricultural goods at 4.2%.

Non-tariff barriers to cross-border trade are middling in Bahrain. In the World Bank's *Doing Business 2020* report, Bahrain is ranked 77th out of 190 economies globally for the category 'trading across borders.' As can be seen from Table 8, Bahrain compares well in all the categories, with the exception of border compliance, time to export in relation to the Middle East and North Africa average but poorly compared with the OECD high income countries. It does however, better the OECD average in terms of border compliance, cost to export. We expect the situation to remain around these levels over our medium forecast horizon.

Table 8: Bahrain, Non-Tariff Barriers

		Bahrain	Middle East & North Africa	OECD High Income
Time to export (hours)	Border compliance	59	52.5	12.7
	Documentary compliance	24	66.4	2.3
Cost to export (USD)	Border compliance	47	441.8	136.8
	Documentary compliance	100	240.7	33.4
Time to import (hours)	Border compliance	42	94.2	8.5
	Documentary compliance	60	72.5	3.4
Cost to import (USD)	Border compliance	397	512.5	98.1
	Documentary compliance	130	262.6	23.5

Source: World Bank; Baker Ing

Baker Ing

Cedar Rose Perspective

Open Data Insights

Gulf Cooperation Council (GCC), political and economic alliance of six Middle Eastern countries—Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman. Arabic is the most widely spoken language with several subregional dialects. The language is still considered a challenge and a barrier in capturing and analyzing properly the data if not translated.

Regional interest in open data has often been encouraged by international engagement with a global open data community where an increasing number of governments are adopting open data commitments because of the expansion of international networks and programs looking at "data for development" initiatives.

GCC countries are still facing challenges such as lack of capabilities to utilize Big Data, lack of awareness about the importance and availability of Big Data and the data standards not defined for most governments in GCC. Therefore, these countries need to ensure that government entities can store, share, and analyze large amount of data by building the right and solid foundation.

The focus today in mainly on data related to business registration information, affiliations, entities hierarchies and Ultimate Beneficial Ownership data. Challenges are not just limited to the transparency and availability of this type of data. Below table shows the availability, comprehensiveness, and quality of business information in each of the following three countries:

1. Saudi Arabia
2. Bahrain
3. Kuwait

Country	Saudi Arabia	Bahrain	Kuwait
Data availability	Data fairly available	Data available	Data fairly available
Language	Only in Local language	Local & English Language	Local & English Language
Data Comprehensiveness	10%	80%	60%
Data Quality	60%	70%	40%
Financial Information	Not Required to be filed	Not Required to be filed	Not Required to be filed

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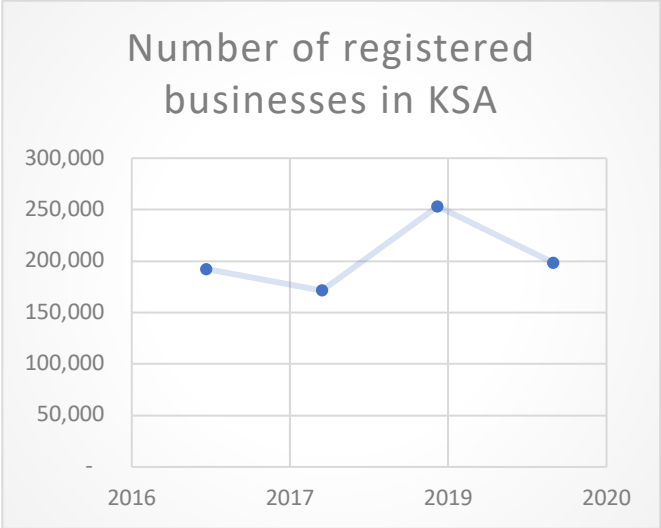
Saudi Arabia

Country	Saudi Arabia
Data availability	Data fairly available
Language	Only in Local language
Data Comprehensiveness	10%
Data Quality	60%
Financial Information	Not Required to be filed

As the Kingdom of Saudi Arabia is making dramatic changes and opening its doors to the world with Saudi vision 2030, data transparency and availability are playing a major role. The kingdom has initiated a new ambitious Big Data strategy and the progress has been seen in the last few years in terms of transparency, and availability of the data.

Business Registration information is only available in local language in Saudi Arabia, and is not comprehensive; for instance, shareholders and directors' information is hard to find. Financial information is not required to be filed and therefore is not made available, even for credit bureaus.

The below graph shows the number of added businesses for the past 4 years in the country, which reflects the negative impact of COVID-19 during 2020 where less businesses have registered compared to 2019:



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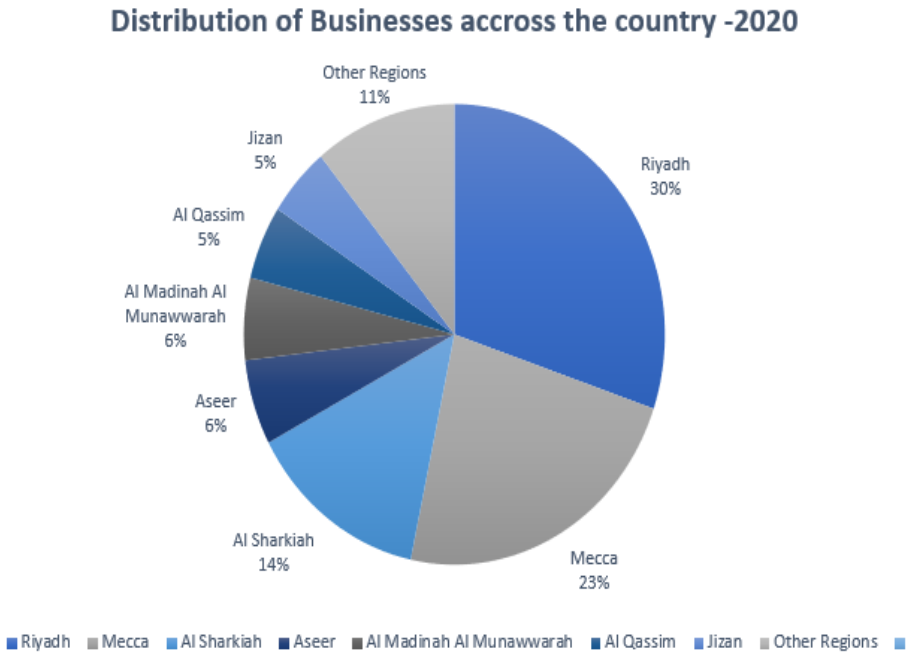
REGISTERED COMPANY

09787114

These businesses are distributed across the country as follows:



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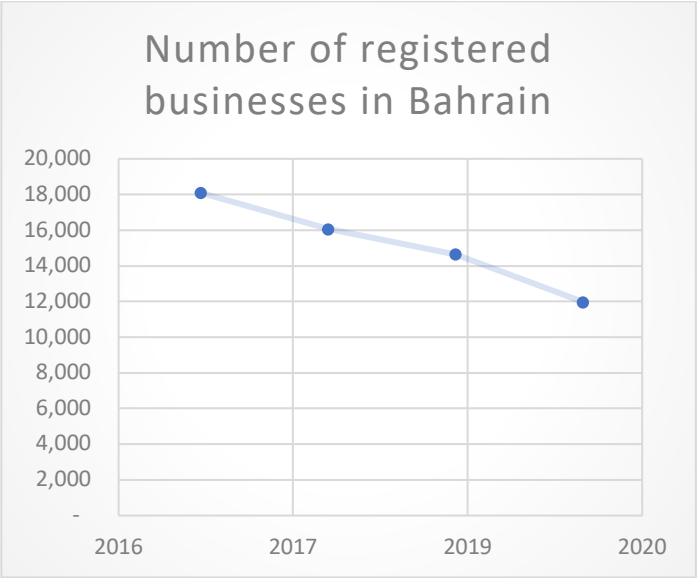
Bahrain

Country	Bahrain
Data availability	Data available
Language	Local & English Language
Data Comprehensiveness	80%
Data Quality	70%
Financial Information	Not Required to be filed

Bahrain is giving a significant weight to open data in several areas. Open data is well regulated under the personal data protection law (PDPL) which came into action in 2018 to regulate the data dissemination process and gives individuals in Bahrain rights in relation to how their personal data can be collected, processed, and stored. The country is implementing an Open Data Strategy to encourage and enable the use of public data to push the development of the economy.

Although Bahrain is one of the best countries in GCC in terms of Data Availability, however Financial Information is still not available as it is not required to be filed by local businesses.

In terms of business registration in the country, the below graph shows the number of added businesses for the past 4 years in the country, which reflects the negative impact of COVID-19 during 2020 where less businesses have registered compared to 2019, and shows that there was a decrease in the number of registered businesses even before the pandemic too:



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Kuwait

Country	Kuwait
Data availability	Data fairly available
Language	Local & English Language
Data Comprehensiveness	60%
Data Quality	40%
Financial Information	Not Required to be filed

Kuwait through its open data portal and other governmental portals give access to use and reuse its data freely without any legal constraints. The country is adopting the open government data concept to enhance its transparency, accountability, and individual participation.

The data quality of the business information is poor as the translation and transliteration of the data within the local authorities is not totally correct or even clean, manual intervention is needed to cleanse and have the right translation of business information.

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Cedar Rose Capabilities

With over 20 years of experience, Cedar Rose has learned the required techniques to know how to produce high quality, correctly translated and source graded data. Data, on the surface, is the same for everyone, yet when correctly and expertly managed, data can be utilised in many ways. It can be used for analytical reasons; it can be sold to those who do not have the resources or experience to collect data and many other ways that it can be utilised.

Additionally, Cedar Rose has been in operation within the hardest of regions, the Middle East and North Africa, across all of our years of experience. Our teams have learnt the necessary procedures of how to gather data, how to organise it and how to present it to our clients in standard, internationally acceptable formats to become the highest quality necessary.

The highest level package, Directorship & Shareholding - includes full link analysis within our database, which displays different connections between companies and individuals, this exclusive feature can help your company strategically plan and assess for the future as well as tracing ultimate beneficiary owners (UBOs).