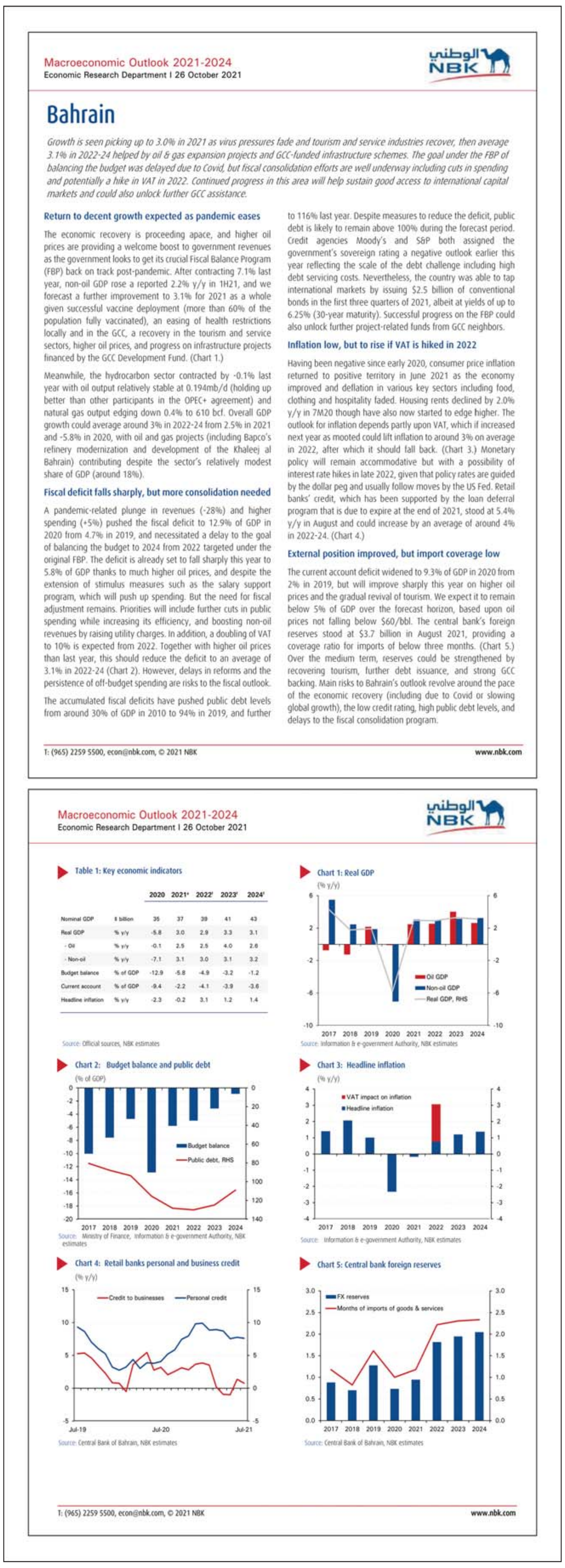

Macroeconomic Outlook 2021-2024
Economic Research Department I 26 October 2021

NBK

Bahrain

Growth is seen picking up to 3.0% in 2021 as virus pressures fade and tourism and service industries recover, then average 3.1% in 2022-24 helped by oil & gas expansion projects and GCC-funded infrastructure schemes. The goal under the FBP of balancing the budget was delayed due to Covid, but fiscal consolidation efforts are well underway including cuts in spending and potentially a hike in VAT in 2022. Continued progress in this area will help sustain good access to international capital markets and could also unlock further GCC assistance.

Return to decent growth expected as pandemic eases

The economic recovery is proceeding apace, and higher oil prices are providing a welcome boost to government revenues as the government looks to get its crucial Fiscal Balance Program (FBP) back on track post-pandemic. After contracting 7.1% last year, non-oil GDP rose a reported 2.2% y/y in 1H21, and we forecast a further improvement to 3.1% for 2021 as a whole given successful vaccine deployment (more than 60% of the population fully vaccinated), an easing of health restrictions locally and in the GCC, a recovery in the tourism and service sectors, higher oil prices, and progress on infrastructure projects financed by the GCC Development Fund. (Chart 1.)

Meanwhile, the hydrocarbon sector contracted by -0.1% last year with oil output relatively stable at 0.194mb/d (holding up better than other participants in the OPEC+ agreement) and natural gas output edging down 0.4% to 610 bcf. Overall GDP growth could average around 3% in 2022-24 from 2.5% in 2021 and -5.8% in 2020, with oil and gas projects (including Bapco's refinery modernization and development of the Khaleej al Bahrain) contributing despite the sector's relatively modest share of GDP (around 18%).

Fiscal deficit falls sharply, but more consolidation needed

A pandemic-related plunge in revenues (-28%) and higher spending (+5%) pushed the fiscal deficit to 12.9% of GDP in 2020 from 4.7% in 2019, and necessitated a delay to the goal of balancing the budget to 2024 from 2022 targeted under the original FBP. The deficit is already set to fall sharply this year to 5.8% of GDP thanks to much higher oil prices, and despite the extension of stimulus measures such as the salary support program, which will push up spending. But the need for fiscal adjustment remains. Priorities will include further cuts in public spending while increasing its efficiency, and boosting non-oil revenues by raising utility charges. In addition, a doubling of VAT to 10% is expected from 2022. Together with higher oil prices than last year, this should reduce the deficit to an average of 3.1% in 2022-24 (Chart 2). However, delays in reforms and the persistence of off-budget spending are risks to the fiscal outlook.

The accumulated fiscal deficits have pushed public debt levels from around 30% of GDP in 2010 to 94% in 2019, and further to 116% last year. Despite measures to reduce the deficit, public debt is likely to remain above 100% during the forecast period. Credit agencies Moody's and S&P both assigned the government's sovereign rating a negative outlook earlier this year reflecting the scale of the debt challenge including high debt servicing costs. Nevertheless, the country was able to tap international markets by issuing $2.5 billion of conventional bonds in the first three quarters of 2021, albeit at yields of up to 6.25% (30-year maturity). Successful progress on the FBP could also unlock further project-related funds from GCC neighbors.

Inflation low, but to rise if VAT is hiked in 2022

Having been negative since early 2020, consumer price inflation returned to positive territory in June 2021 as the economy improved and deflation in various key sectors including food, clothing and hospitality faded. Housing rents declined by 2.0% y/y in 7M20 though have also now started to edge higher. The outlook for inflation depends partly upon VAT, which if increased next year as mooted could lift inflation to around 3% on average in 2022, after which it should fall back. (Chart 3.) Monetary policy will remain accommodative but with a possibility of interest rate hikes in late 2022, given that policy rates are guided by the dollar peg and usually follow moves by the US Fed. Retail banks' credit, which has been supported by the loan deferral program that is due to expire at the end of 2021, stood at 5.4% y/y in August and could increase by an average of around 4% in 2022-24. (Chart 4.)

External position improved, but import coverage low

The current account deficit widened to 9.3% of GDP in 2020 from 2% in 2019, but will improve sharply this year on higher oil prices and the gradual revival of tourism. We expect it to remain below 5% of GDP over the forecast horizon, based upon oil prices not falling below $60/bbl. The central bank's foreign reserves stood at $3.7 billion in August 2021, providing a coverage ratio for imports of below three months. (Chart 5.) Over the medium term, reserves could be strengthened by recovering tourism, further debt issuance, and strong GCC backing. Main risks to Bahrain's outlook revolve around the pace of the economic recovery (including due to Covid or slowing global growth), the low credit rating, high public debt levels, and delays to the fiscal consolidation program.

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Table 1: Key economic indicators

		2020	2021f	2022f	2023f	2024f
Nominal GDP	$ billion	35	37	39	41	43
Real GDP	% y/y	-5.8	3.0	2.9	3.3	3.1
- Oil	% y/y	-0.1	2.5	2.5	4.0	2.6
- Non-oil	% y/y	-7.1	3.1	3.0	3.1	3.2
Budget balance	% of GDP	-12.9	-5.8	-4.9	-3.2	-1.2
Current account	% of GDP	-9.4	-2.2	-4.1	-3.9	-3.6
Headline inflation	% y/y	-2.3	-0.2	3.1	1.2	1.4

Source: Official sources, NBK estimates

Chart 1: Real GDP
(% y/y)

Source: Information & e-government Authority, NBK estimates

Chart 2: Budget balance and public debt
(% of GDP)

Source: Ministry of Finance, Information & e-government Authority, NBK estimates

Chart 3: Headline inflation
(% y/y)

Source: Information & e-government Authority, NBK estimates

Chart 4: Retail banks personal and business credit
(% y/y)

Source: Central Bank of Bahrain, NBK estimates

Chart 5: Central bank foreign reserves

Source: Central Bank of Bahrain, NBK estimates

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Solid earnings lift US stocks further into 'record heights'

People wearing face masks walk past a bank's electronic board showing the Hong Kong share index in Hong Kong, Tuesday, Oct. 26, 2021. Asian shares were mostly higher Tuesday after another rally to a record high on Wall Street. (AP)

Technology shares lead broader market

NEW YORK, Oct 26, (AP): Stocks rose on Wall Street Tuesday and pushed major indexes further into record heights as investors review mostly solid company earnings.

The S&P 500 index rose 0.6% as of 10:28 a.m. Eastern and is hovering just above the record high it set on Monday. The Dow Jones Industrial Average rose 127 points, or 0.4%, to 35,870 and is also just above its record high. The Nasdaq rose 0.9%.

Technology stocks did much of the heavy lifting for the broader market. A mix of companies that rely on consumer spending for goods and services also made solid gains. Health care stocks lagged the market.

Bond yields rose. The yield on the 10-year Treasury rose to 1.65% from 1.63% late Monday.

Solid earnings reports helped lift several major companies. UPS jumped 7.3% as higher shipping rates helped the package delivery service easily beat analyst's third-quarter profit forecasts. Hasbro rose 5.7% after the maker of Transformers, My Little Pony and other toys reported solid financial results.

Higher

Stocks have been pushing broadly higher as companies turn in much stronger profit reports for the summer than analysts had expected. Wall Street is still concerned about how much of an impact supply chain problems will have on a wide range of industries. Many companies have already warned about higher costs cutting into operations.

Paint maker Sherwin-Williams was little changed after its latest results revealed that higher raw materials costs crimped its finances.

Microsoft and Google's parent company, Alphabet, will report their own results after the closing bell Monday, along with Twitter. European markets were higher and Asian markets closed mixed.

Investors still have a busy week of corporate earnings ahead. Airplane maker Boeing and beverage company Coca-Cola will report their results on Wednesday.

General Motors and Ford will also release their results on Wednesday. The reports could help give investors a clearer picture of how the auto industry is dealing with supply chain problems, including a microchip shortage that has been weighing on auto production.

Apple and Amazon will report on Thursday. The companies, along with Microsoft and Google, are the four biggest companies on Wall Street by market value and their stock movements have a huge effect on the S&P 500.

Stocks have been pushing broadly higher as companies turn in much stronger profit reports for the summer than analysts had expected. Historically low interest rates, along with strong corporate profit growth, have helped the S&P 500 more than double from the bottom it set in March 2020 in the early days of the coronavirus pandemic

Global shares were mostly higher Tuesday after another rally to a record high on Wall Street.

France's CAC 40 added 0.8% in early trading to 6,765.92, while Germany's DAX edged up 1.0% to 15,759.82. Britain's FTSE 100 gained 0.7% to 7,270.40.

Japan's benchmark Nikkei 225 added 1.8% to finish at 29,106.01. The advance was helped by a 2.6% jump in electronics and entertainment Sony Corp., which is reporting earnings later this week. Sony, which has video game and movie divisions, has seen sales rise as people opted for stay-home entertainment during the pandemic.

Other big gainers included Nippon Telegraph & Telephone, which jumped 5.4% after it upgraded its earnings outlook.

"Sentiments in Asia may largely mirror the stellar performance in Wall Street overnight, while the COVID-19 situation in China remains on watch with control measures being tightened," said Yeap Jun Rong, market strategist at IG in Singapore.

China has reimposed travel restrictions in some areas to combat outbreaks of the virus that are adding to concerns over a slowing economy.

Hong Kong's Hang Seng fell 0.4% to 26,038.27. The Shanghai Composite declined 0.3% to 3,597.64.

Samsung's Lee Jae-yong fined $60 mln

SEOUL, South Korea, Oct 26, (AP): Samsung's de facto chief Lee Jae-yong was fined 70 million won (about $60,000) on Tuesday for illegally using the anesthetic drug propofol, about two months after he was released on parole over a separate corruption case.

The Seoul Central District Court said it convicted Lee, vice chairman of Samsung Electronics, of violating a law on drug controls. It said Lee was also ordered to forfeit about 10 million won ($8,570). Lee, who is the third-generation heir of South Korea's biggest company, Samsung, has been involved in a series of corruption cases lately. The company's crown jewel, Samsung Electronics, singlehandedly represents about 20% of South Korea's entire stock market value and one-fourth of its total exports.

Prosecutors earlier accused Lee of taking propofol at a hospital in Seoul about 40 times for non-medical purposes. Lee's lawyers said he took propofol in line with a doctor's prescription, according to the court.

Propofol is used for anesthesia and sedation. Its use gained notoriety in 2009 when pop star Michael Jackson died of a propofol overdose.

In August, Lee was released from prison after serving 18 months of a 30-month sentence for embezzling millions of dollars from corporate funds to bribe then-President Park Geun-hye. The bribery scheme was to ensure Geun-hye's support for a 2015 merger between two Samsung affiliates that tightened Lee's control over the corporate empire. Lee is also facing a separate court trial over alleged stock price manipulation, auditing violations and other financial crimes related to the 2015 merger.

As Part of RBI Asia Trailblazer 2021

NBK Best Retail Bank in Kuwait, and Best Loyalty/ Rewards Program in the Middle East

National Bank of Kuwait (NBK) was recognized by two awards at the 12th "Annual Asian Trailblazer Awards - 2021" namely: Best Retail Banking Services in Kuwait, and Best Loyalty/ Rewards Program in the Middle East.

"Retail Banker International" magazine presents the annual Asian Trailblazer Awards, in cooperation with Middle East Economic Digest "MEED Middle East", a leading provider of news established in 1957, specialized in economic data, and the global data provider "GlobalData" specialized in providing data and research. Its team includes 2,000+ analysts and researchers, 150+ experts in information technology and artificial intelligence, and 50+ consultants with extensive experience in strategic consulting. Moreover, RBI collaborates with the Arena International, a leading global organizer of international conferences.

RBI awards recognize the top global financial institutions in the retail banking sector. The contenders are categorized by their geographical location and grouped into regions: North America, Europe, Africa, the Middle East, Latin America, and Asia. The jury panel includes a group of consultants and analysts in the retail banking sector, in addition to representatives from world-renowned consulting firms.

NBK strives to deliver a full-spectrum banking experience and exclusive services reflecting its leadership and excellence

Retail Banker International Asia Trailblazers Awards recognize and showcase the best in class retail banking and consumer finance companies from across the Asian continent.

This year, NBK has been recognized as the winner of the Best Customer Loyalty/ reward Program in the entire Middle East region.

NBK Reward program is unique in the region that provides the bank's credit card customers with meaningful and valuable reward points based on their card spends.

NBK Rewards Program creates a richer banking experience by designing all campaigns to cater to customers' expectations and various lifestyles

This award comes at a time when the whole world is impacted by a health crisis, which is a testament to NBK's excellence in providing top-notch digital services, as well as its commitment to reward its customers with exceptional offers and prizes.

NBK seeks to provide exclusive and distinguished banking services reflecting its leading position in Kuwait and across the region. It is also committed to offer its customers a full-spectrum banking experience that meets their individual needs.

NBK's strategy in meeting its customers' needs is focused on constant communication with all segments of society and identifying their needs through various digital channels and advanced analytical methods, based on the latest artificial intelligence (AI) technologies.

It is worth mentioning that NBK Rewards Program boasts offers and rewards that are all designed to cater to customers' various lifestyles, exceptional campaigns all year round, as well as exclusive offers and prizes that contribute to enrich the banking experience of NBK Credit Card holders.

With returning to normal life, NBK launched a variety of exceptional rewards for its customers, including cashback campaigns, salary acquisition rewards, and other exclusive offers and draws that were well-received and appreciated by customers.

From June 2020 to July 2021, NBK continued to offer outstanding banking services and products, making a qualitative leap in digital and modern banking services in the Kuwaiti market, most notably: the launch of several digital payment solutions using smartwatches and mobile phones, launching its new branch at The Avenues, offering exceptional and advanced banking services and solutions, enabling customers to make all their transactions quickly and easily through interactive devices, in addition to providing a mobile branch to serve customers during COVID-19 lockdowns, offering eQMatic Service for getting a queue number digitally, and introducing Bill Splitting through NBK Mobile Banking App.

NBK has the largest network of local and international branches with 68+ branches and 338 Automated Teller Machines (ATM), in addition to NBK Rewards Program with 900+ partner outlets.

For more information about the 2021 Annual Asian Trailblazer Awards, please visit the website: https://www rbiasiatrailblazer.verdict.co.uk/2020-winners/

The bank adopts unique and innovative ways to stay closer to its customers, despite the impacts of the pandemic

Qantas moves up flights

CANBERRA, Australia, Oct 26, (AP): Qantas Airways on Friday brought forward its plans to restart international travel from Sydney as Prime Minister Scott Morrison predicted tourists would be welcomed back to Australia this year.

Vaccinated Australian permanent residents and citizens will be free to travel through Sydney from Nov. 1 without the need for hotel quarantine on their return.

Two weeks ago, Morrison said Australians, skilled migrants and students would be given priority over foreign travelers in opening to Sydney. He predicted tourists would return in 2022 or later.

But while tourists would retain their low priority, Morrison now expects they will return this year.

"That is very possible and very achievable before the end of the year," Morrison said.

Sydney-based Qantas announced services to Thailand, Singapore, South Africa and Fiji had been brought forward by weeks or months. A new service to New Delhi would begin in December, the first to India in almost a decade.

The New South Wales state government's decision to dispense with quarantine requirements for vaccinated travelers in Sydney had significantly increased travel demand, a Qantas statement said.

The 22,000 staff employed by Qantas and its budget subsidiary Jetstar would return to work in December, six months earlier than planned.

The changes are being driven by New South Wales' rapid uptake of vaccines. By Friday, 83% of the population aged 16 and older was fully vaccinated and almost 93% had at least one dose of a vaccine.

Only the national capital Canberra has a higher proportion of the population vaccinated.

Australia had one the lowest vaccination rates of any wealthy country due to supply problems and public distrust of locally manufactured AstraZeneca. It now has one of the highest due in part to supply deals done with Britain, Poland and Singapore.

Melbourne, Australia's most populous city after Sydney, came out of 77 days of lockdown on Friday after Victoria state reached a benchmark of 70% of the target population fully vaccinated.

Pandemic restrictions were eased despite Victoria recording its deadliest day of the delta variant outbreak with 16 COVID-19 deaths. There were also 2,189 new infections detected in the latest 24 hours.

"Victorians, it's fair to say, have done a quite amazing thing. So many people going and getting vaccinated so quickly," Victoria Premier Daniel Andrews said.

"We've always said that lockdowns were a function of not having the vaccine that we needed but if we got vaccinated, we'd have so many more options," he added.

Sydney, where the delta outbreak began in June, came out of lockdown last week after reaching the same 70% vaccination benchmark. New South Wales reported five COVID-19 deaths on Friday and 345 new infections.