PalArch's Journal of Archaeology of Egypt / Egyptology

COPING WITH COVID-19 ECONOMY IN THE GCC COUNTRIES

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Assel Abduallah Albadi, Tayeb Brahimi. Coping With Covid-19 Economy In The Gcc Countries-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(13), 1420-1423. ISSN 1567-214x

Keywords: Economic growth, fiscal deficit, GDP, oil prices, shortfall, Demand, and Supply, COVID-19

ABSTRACT.
This paper examines how the GCC countries are dealing with COVID-19. This paper shows how this outbreak creates difficult conditions for the economy of the GCC countries. From February 2020, the number of confirmed cases continues to increase around the globe. This pandemic situation creates a very alarming situation for the economic cycle. GCC countries depend on hydrocarbon exports, and this outbreak not only reduces the epidemic but also reduces oil prices. In this situation, the GCC countries have a considerable challenge to maintain growth. As a matter of concern, this paper examines how the GDP of the GCC countries has decreased and how demands and supply shortages are occurring. The decrease in oil prices indicates that it takes time to cover these circumstances. Research also suggests that it seems difficult for oil prices to reach $45 per barrel. This pandemic is reducing travel, and this is the main cause of this shortfall. Thus, in this case, the GCC countries must manage the fiscal deficit with a fiscal stimulus. The government is already working on public financing and is providing a fiscal stimulus to the industry.

INTRODUCTION

The novel virus, COVID-19, has affected countries in the Middle East, North Africa and the GCC [1]. According to statistics of 21 April 2020, there are 6,380 cases reported in Saudi Arabia, 4,130 in Qatar and 1,700 in Bahrain [2]. Due to the COVID-19 breakdown of negotiations among the organisation of the petroleum exporting countries and its allies has taken place. Less domestic demand is also the cause of a reduction in business activity [3]. At the end of March per barrel, the price of oil was $22, and the price was less than half as compared to the price of oil at the beginning of March [3]. On April 12, 2020, OPEC cut oil production for May and June by 9.7 million [3]. This demand shortfall suggests that the market is slowly recovering oil prices. There is a rare chance that the price of $45 per barrel will be reached by the end of 2022. This situation is the cause of a decline in income in the Gulf States [4]. Figure 1 shows the oil price from January 2018 extended to December 2022.

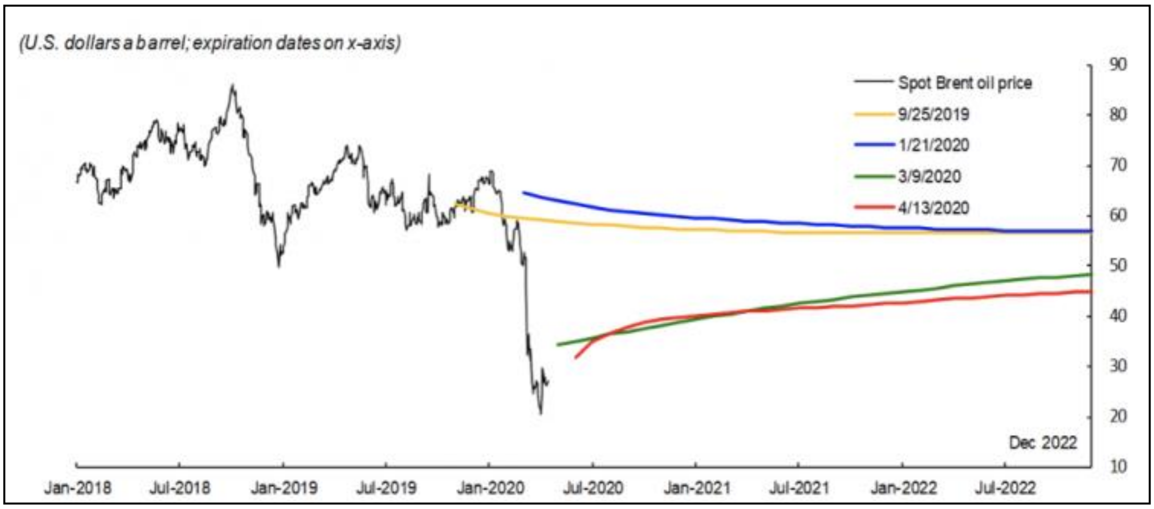

Figure 1 Oil price variations, January 2018 to December 2022

The Government of these countries is providing a stimulus package to protect citizens from economic shutdown. The range of this package is $16.5 billion in Kuwait and $70 billion in the United Arab Emirates, as shown in Figure 2. It is crucial to mobilise these packages because these packages can mitigate the various effects of the COVID-19 pandemic and also help to boost the economic growth of these countries [5].

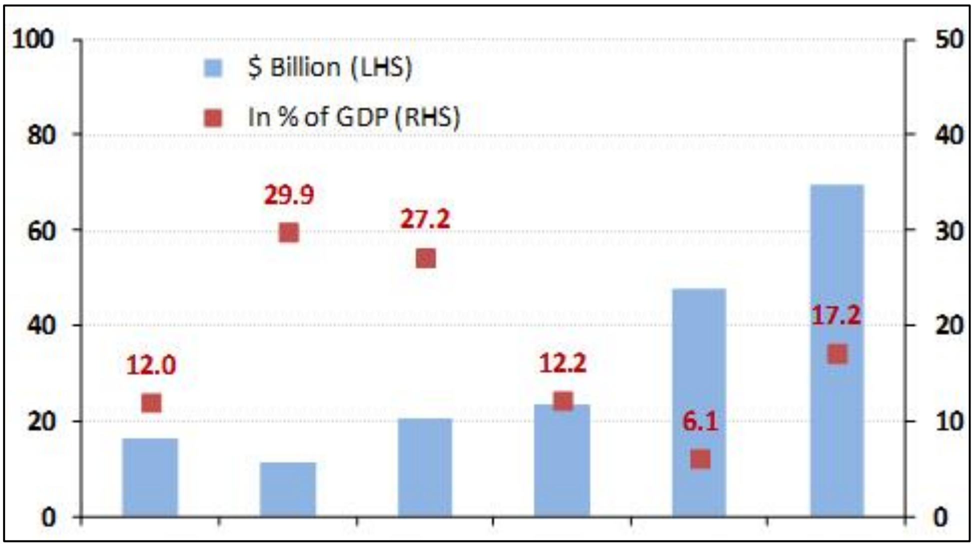

Figure 2 Incentive Packages implemented by the GCC countries

Brief Literature Review

According to Burton [6] the global economy has been shut down as a result of this pandemic, and Gulf countries already depend on the world for the export and production of hydrogen carbon. The COVID-19 Gulf countries may face less demand for gas and oil. In this situation, the government is the last resort for the people; the government provides the citizens with stimulus packages to support them. According to the IMF's Economic Survey [7], the GDP of the Gulf countries will fall from 2.1 to -10.4 by the end of 2020. According to Mahmah [8], Gulf countries may face many economic challenges in the aftermath of COVID-19. The high level of public debt can create an alarming condition for economic growth. In this situation, managing the fiscal stimulus with the fiscal deficit for long-term economic growth is crucial for the Gulf countries [9]. Furthermore, oil prices in many Gulf countries are low from a break-even point, and this will create a deficit for the economy. In the future, there is a greater chance that oil prices and exports of hydrocarbons will deteriorate further in the future. According to Arezki [4], the Gulf countries face a dual shock due to COVID-19 and the collapse of oil prices. This situation creates an adverse supply and demand shock in MENA countries, including Bahrain, Saudi Arabia, Qatar and Kuwait [4]. The disruption of the global supply and value chain reduces the demand for goods and services in these countries.

Research Methodology

This paper sets out the closure of the GCC countries' economic growth; it assumes that this outbreak can change the process of economic development. For this purpose, data on GDP and stimulus packages are provided by the Gulf Organization, while data on oil prices are provided by World Development Indicators. The economic growth of GCC countries uses as a dependent variable while the COVID-19 outbreak, exports, and oil prices are independent variables.

Result and Discussion

There is always a silver lining in every worst situation; an outbreak of COVID-19 and low oil prices can provide an opportunity to advance the path of the announced transformation vision that began in recent years. This situation indicates that the time has come for the government to take precautionary measures for the rapid recovery process. In this poor condition, GCC countries need to improve the process of fiscal financial management and consider reducing unproductive spending and increasing efficiency. There is also a major challenge for GCC countries to consider further diversification and to reduce dependence on oil resources. Adopting a long-term approach can reduce government spending and depend on oil revenues; in this case, GCC countries should move towards strong private sector and non-energy growth.

CONCLUSION

The present analysis shows that the Covid-19 pandemic caused a dramatic economic decline in many industrial sectors, in particular a drop in oil revenues, a drop in oil prices, a slowdown in the rate of economic growth, and many related social and health consequences. The GCC countries have reacted early to stem the pandemic, yet they can face many financial challenges after the COVID-19. The high level of public debt can create an alarming condition for economic growth. In this situation, managing the fiscal stimulus with the fiscal deficit for long-term economic growth is crucial for the Gulf countries.

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