Bahrain, Oman & Qatar

Economic growth in Bahrain, Oman, and Qatar is forecast to proceed at a moderate pace on average in 2024 and 2025 on decent projected growth in non-oil activity. Oman also stands to benefit from strong reform progress and rising planned investment, which will be key growth catalysts going forward. Fiscal consolidation efforts in Bahrain and Oman have led to reduced fiscal vulnerabilities and improved metrics, while spending restraint in Qatar has delivered a further decline in public debt. Downside risks stem mainly from adverse regional geopolitics and lower energy prices, while higher project spending, better-than-expected results from economic reforms and higher energy prices are risks to the upside.

Bahrain: Growth to pick up in 2024 on oil sector recovery

Having moderated to 2.5% last year amid tighter financial conditions and negative oil sector growth, economic growth is expected to rise in 2024, led by a recovery in the hydrocarbon sector as maintenance works on the Abu Safah field are completed. Growth in the non-oil economy, which now constitutes an overwhelming 84% of GDP, is seen on a mildly slowing trajectory at about 3% in both 2024 and 2025 from 3.5% last year, weighed by still elevated (if falling) interest rates and government fiscal consolidation efforts. Positive factors include rising tourism (hotel GDP grew 19% y/y in Q4 23) and strong growth in the service sector more broadly, while the government's economic recovery plan targets higher project spending and FDI, and vigorous job growth for Bahraini nationals. Bapco's much anticipated refinery expansion project is also expected to be completed by 2025, providing a boost to non-oil activities. Inflation, meanwhile, was negligible in 2023 and should remain well below 2% this year.

Fiscal consolidation efforts since the pandemic have yielded very positive results, though the deficit is forecast at a wider 3-4% of GDP in 2024-25 on higher interest dues, slower progress on non-oil revenue growth, and lower commodity prices versus their peak in 2022. The government's balanced budget target date (2024) may be extended but credible spending control and revenue raising efforts will ensure that GCC fiscal support remains high. More elevated rollover costs (due to higher interest rates) could contribute to a higher debt-to-GDP ratio of 117% by 2025. The key downside risk to the outlook stems from vulnerability to negative oil price shocks which could undermine ongoing fiscal consolidation, a still low credit rating versus peers and pressure low FX reserves.

Oman: Reform progress yields economic benefits

The narrative on Oman's economy has become more positive, following a concerted fiscal consolidation program and progress on key reforms under the government's Vision 2040 program. Non-oil economic growth is projected at 2.5-3.0% in 2024 and 2025, despite headwinds from still-high interest rates, public spending restraint and a fading post-pandemic rebound in job growth. We see the government remaining committed to its transformation of the economy (including lowering the hydrocarbon sector's share of GDP to 8% by 2040 from around 30% recently), which has already seen state-owned firms overhauled, subsidy programs pared back, successful steps to boost female labor force participation and in January 2024 the creation of the $5bn Oman Future Fund aimed at catalyzing domestic investment in sectors such as tourism, manufacturing and green energy. Oil GDP in 2024 will be hit by participation in OPEC+ cuts, but condensate output may expand while multiple energy sector IPOs could boost investment this year.

A small fiscal surplus is seen over the forecast period, with earlier vulnerabilities reduced by a combination of high oil prices and policy discipline. The budget for 2024 provides for a modest 3% rise in spending, with capex unchanged. The government has prioritized reducing debt which has broadly halved since 2020 to 34% of GDP in 2023, triggering a string of credit rating upgrades, though smaller fiscal surpluses going forward will slow future debt reductions. The main upside risk to the outlook is more rapid non-oil growth if the reform program yields stronger-than-expected results. The main downside risk would be a sharp drop in oil prices which pushes the budget back into large deficit and halts reform momentum.

Qatar: Growth moderate ahead of LNG ramp-up

Non-oil growth is expected to accelerate to 2-3% in 2024 and 2025, having dipped last year in the aftermath of the 2022 FIFA World Cup. A recent pickup in credit growth, above-50 PMI readings, and still elevated visitor numbers are supportive of domestic demand which should drive non-oil growth over the forecast period. The fading effects of an exceptionally strong 2022 and – eventually – interest rate cuts albeit from high levels are additional drivers. Total GDP growth, however, will be relatively modest amid growth-neutral budgets and negligible gains in hydrocarbon output until 2026, when the first phase of Qatar's massive LNG capacity expansion is expected to be completed, bringing LNG output to 110 mtpa (43% increase). Crude output is seen broadly steady at 0.6 mb/d in 2024-25.

We forecast solid fiscal surpluses in 2024 and 2025 (around 7-8% of GDP) on account of modest projected increases in hydrocarbon revenues and continued spending restraint. Consequently, gross public debt is expected to continue to decline to an estimated 45% of GDP in 2025 from above 60% in 2021. Beyond 2025 we see the potential for larger fiscal surpluses following the ramping up of LNG exports which can be deployed on development plan-linked capital spending. Indeed, a near doubling of LNG capacity by 2030 to 142 mtpa from the current 77 mtpa is now planned, higher than earlier estimates of a 127 mtpa target, allowing Qatar to control a larger share of the global LNG market. Given the above, risks are skewed to the upside, especially in the event of higher gas prices due to a shortage or stronger demand, while downside risks stem mainly from adverse geopolitics or lower gas prices and demand in the event of a global recession.

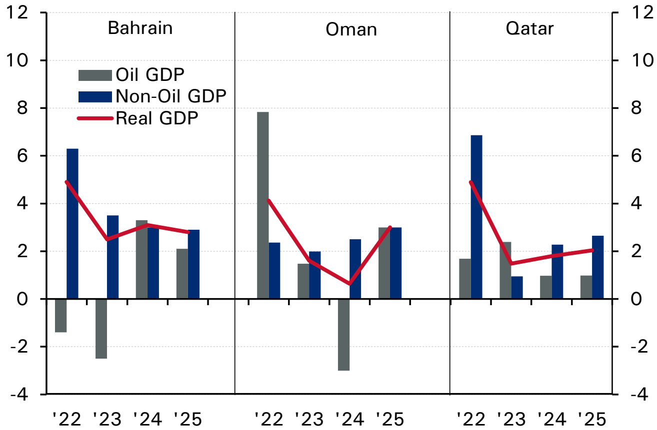
Table 1: Key economic indicators

		Bahrain			Oman			Qatar		
		2023	2024f	2025f	2023	2024f	2025f	2023e	2024f	2025f
Nominal GDP	$ billion	43.2	45.3	47.2	115	117	122	202.2	211.7	218.8
Real GDP	% y/y	2.5	3.1	2.8	1.6	0.6	3.0	1.5	1.8	2.0
- Oil sector	% y/y	-2.5	3.3	2.1	1.5	-3.0	3.0	2.4	1.0	1.0
- Non-oil sector	% y/y	3.5	3.0	2.9	2.0	2.5	3.0	1.0	2.3	2.7
Inflation	% y/y	0.1	1.4	1.7	0.9	1.0	2.0	3.1	2.5	2.2
Budget Balance	% of GDP	-3.5	-3.7	-4.0	1.5	1.0	1.0	5.7	8.1	6.9
Current account balance	% of GDP	6.2	4.7	4.8	0.0	-1.0	-1.0	12.9	13.0	11.7

Source: Official sources, NBK estimates.

Chart 1: Real GDP

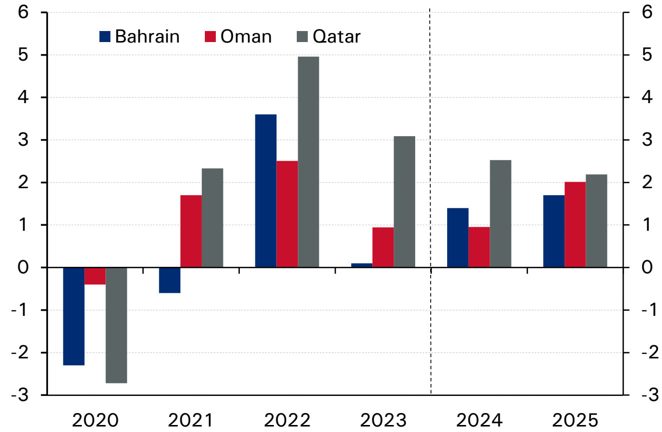
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

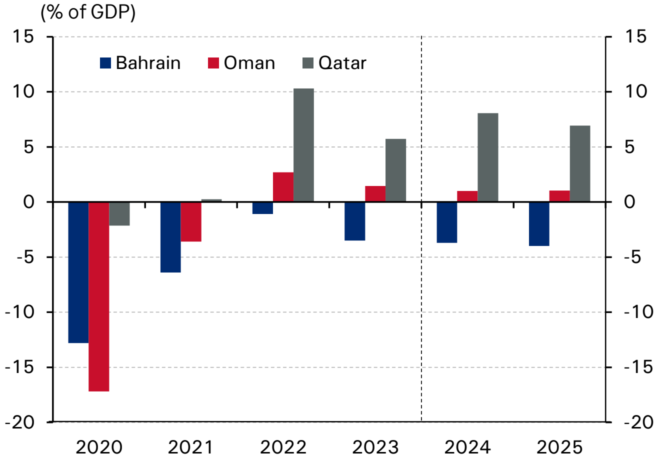
(% y/y)



Source: Government authorities, NBK estimates/forecasts

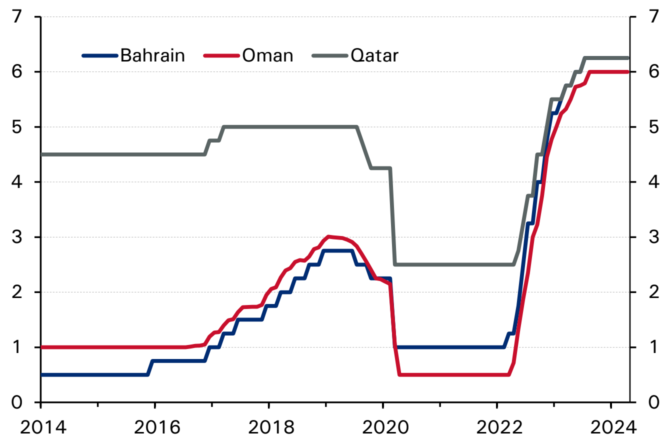
Chart 3: Budget balance

(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*



Source: Haver *Latest April 2024