Bahrain, Oman & Qatar

After a solid 2022, economic growth in Oman, Bahrain and Qatar is set to moderate in 2023 on lower expected hydrocarbon revenues and softer albeit still decent non-oil growth in the latter two, as the positive effects of the post-Covid rebound and the World Cup (Qatar) fade. Higher interest rates and restrained government spending are also likely to limit non-oil growth. In turn, fiscal positions are projected to deteriorate slightly over the forecast period after improving notably in 2022. Upside risks to the outlook stem from a milder than expected global downturn and the positive implications on hydrocarbon demand and prices, while the possibility of a severe recession and adverse geopolitics, or delays in key investments and reforms are risks to the downside.

Bahrain: Decent growth seen but fiscal reforms still crucial

Economic growth reached 4.9% in 2022, boosted by higher oil and aluminum prices and an upturn in hospitality-oriented sectors, though the pace is seen lower this year (2.6%) and next (3.2%). Oil and gas output – now worth less than one-fifth of GDP – will likely stagnate further in 2023 (-0.5%) as OPEC+ keeps quotas unchanged. Meanwhile, activity in the non-oil sector, which surged 6.2% last year on a strong H1, should see further albeit more modest growth given the government's commitment to the $30 billion Economic Recovery Plan, which focuses on growing vital sectors such as hospitality and financial services and launching strategic projects. Bahrain also stands to benefit from the economic transformation in Saudi Arabia, with the Saudi sovereign wealth fund announcing plans to invest in Bahrain's key sectors while we also see positive spillover effects on trade from strong growth in Bahrain's larger neighbor. We expect non-oil GDP growth of around 3.1% per year in 2023-24. Meanwhile, inflation could fall to 1.8% on average in 2023 as the impact of last year's doubling of VAT to 10% unwinds.

Despite higher oil and aluminum prices in 2022, the government recorded a 14th consecutive although much-reduced budget deficit of 1.1% of GDP, with spending overshooting the budget. We see a wider deficit of 3.6% of GDP this year given lower oil prices, and fiscal consolidation remains an important theme (the Fiscal Balance Program commits to balancing the budget by 2024). Risks to the outlook in 2023 seem tilted to the downside, with higher interest rates potentially pressuring economic activity and high public debt levels (113% of GDP in 2023 on the government definition), while a drop in oil prices could pressure already-low FX reserves.

Oman: Reforms and high oil prices see fiscal position improve

After a strong 2022 (+4.3%), growth in Oman is expected to ease in 2023 (+0.8%), with the non-oil sector replacing the oil sector as the main driver. Although a relatively minor producer, Oman was included in the voluntary production cuts announced by the OPEC+ group in March, and this will contribute to a 3.3% drop in oil GDP this year. Meanwhile, non-oil growth came in at a subdued 1.6% in 2022 held back by a 23% plunge in the construction sector (10% of non-oil GDP); excluding this, non-oil growth was a robust 5%+. Absent a similar drop in construction this year, non-oil growth should increase, helped also by improving manufacturing and tourism (driven by objectives set in the 2040 National Tourism Strategy) and despite headwinds from softer global growth, lower oil prices and higher interest rates.

Higher oil prices and hydrocarbon output helped the government earn its first fiscal surplus in nearly a decade in 2022 – but consolidation remains a key theme. The budget targets a 6% cut in spending in 2023, albeit with some oil & gas investment spending seemingly moved off balance sheet. But with oil prices likely to come in much higher than the budgeted $55/bbl, we think there is headroom for a small spending increase this year while limiting the deterioration in the fiscal balance. Reforms under the Medium-Term Fiscal Plan (2020-24) – including spending rationalization and the introduction of VAT in 2021 – have already yielded improvements, with public debt levels cut to about 40% of GDP in 2022 (61% in 2021). Also, S&P raised the outlook for the government's BB credit rating to positive from stable in April (signaling a possible future rating upgrade), citing reduced public debt and the economy's improved resilience to oil shocks due to reforms.

Qatar: Growth to ease following World Cup boost in 2022

Qatar's economy grew by 4.8% in 2022, lifted by a strong 6.8% expansion in the non-oil sector boosted by hosting the FIFA World Cup in Q4. The event drew some 1.2 million visitors, delivering a striking 65% y/y expansion in hospitality sector output in Q4. We expect non-oil growth to decelerate this year as the World Cup boost fades, budgeted government capex is trimmed (-12% capex), and as higher interest rates dampen the demand for credit. On the plus side, higher than average visitor numbers so far this year and a 7% increase in the budget wage allocation could support consumption. The PMI activity gauge's move further into expansion territory in March (53.8) is also a positive, following puzzling softness last year. On the fiscal front, last year's large surplus of 10% of GDP on the back of higher LNG and non-oil revenues should decline slightly over the forecast period to about 8% of GDP in 2024. (Most of Qatar's gas is sold on long-term oil-linked contracts.) Last year's strong performance resulted in a sharp reduction in the government debt-to-GDP ratio from 55% to 37% (excluding GREs) and a recent outlook upgrade by Fitch to AA- positive. Inflation should ease to 3.5% as the economy cools and global inflationary pressures ease.

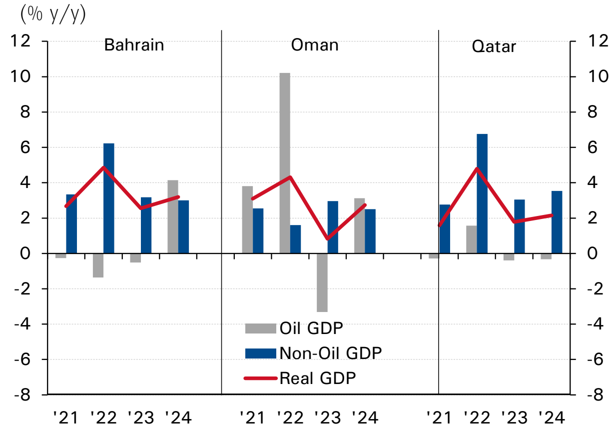
The medium-term economic outlook looks solid supported by $30 billion of North Field gas expansion megaprojects still in the pipeline, mostly due for completion by 2026, as well as other vision 2030 linked investments, especially in the health and education sectors. Improved neighborly ties and a stronger tourism industry are also supportive. Upside risks to the outlook include higher gas prices possibly from a renewed shortage or a stronger global economic and oil demand outlook. Downside risks stem from a flare-up in geopolitical tensions or a deeper than expected recession leading to weaker gas demand and prices.

Table 1: Key economic indicators

		Bahrain			Oman			Qatar		
		2022	2023f	2024f	2022	2023f	2024f	2022	2023f	2024f
Nominal GDP	$ billion	44.4	43.9	45.9	114.5	107.1	115.5	233.2	205.6	217.8
Real GDP	% y/y	4.9	2.6	3.2	4.3	0.8	2.7	4.8	1.8	2.1
- Oil sector	% y/y	-1.4	-0.5	4.1	10.2	-3.3	3.1	1.6	-0.4	-0.3
- Non-oil sector	% y/y	6.2	3.2	3.0	1.6	3.0	2.5	6.8	3.1	3.5
Inflation	% y/y	3.6	1.8	1.5	2.8	2.0	1.5	5.0	3.5	2.5
Budget Balance	% of GDP	-1.1	-3.6	-1.1	3.0	-1.5	2.0	10.3	8.7	8.2
Current account balance	% of GDP	15.4	11.2	9.8	7.1	3.3	5.5	26.6	13.8	14.4

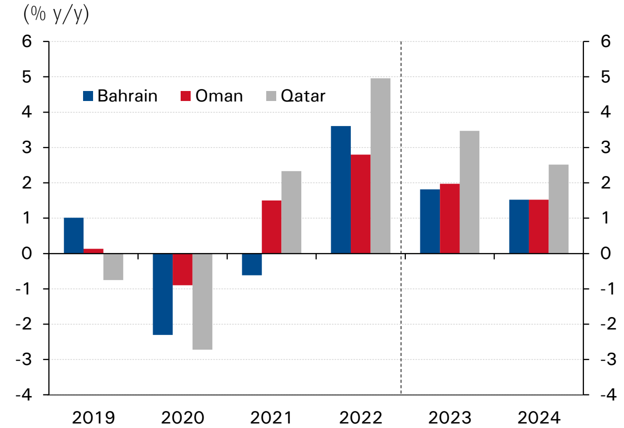
Source: Official sources, NBK estimates.

Chart 1: Real GDP



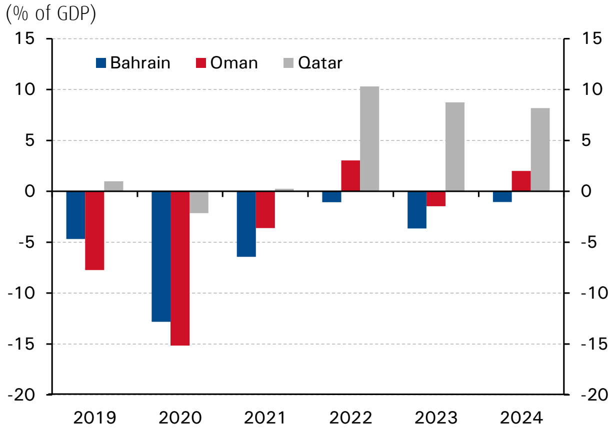
Source: Government authorities, NBK estimates/forecasts

Chart 2: Inflation



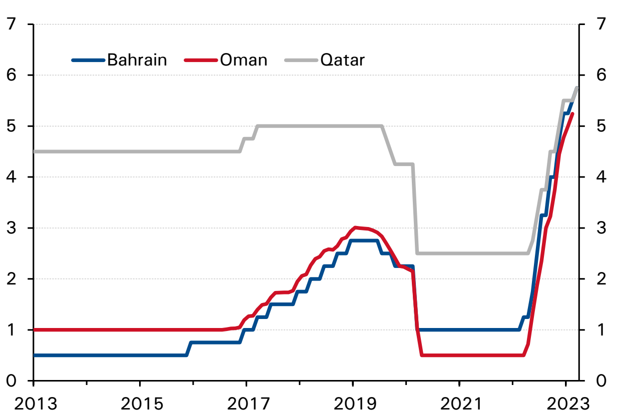
Source: Government authorities, NBK estimates/forecasts

Chart 3: Budget balance



Source: Government authorities, NBK estimates/forecasts

Chart 4: Key policy interest rates*



Source: Haver *2023 figure as of April 20