Bahrain, Oman & Qatar

Higher oil revenues and progress on economic reforms have improved economic prospects in Bahrain and Oman, with Covid-era financial vulnerabilities giving way to fiscal surpluses and solid projected economic growth rates. After the boost this year from hosting the World Cup, growth in Qatar will slow in 2023 but the longer-term outlook is well supported by investments linked to Vision 2030 and the expansion of LNG capacity due by 2027. For Bahrain and Oman, downside risks are mostly linked to lower oil prices and delays to ongoing reforms, which could push fiscal balances back into deficit. In Qatar, risks include near-term economic overheating and logistical challenges related to hosting the World Cup and later on, delays in gas megaprojects. On the upside, higher energy prices would improve economic prospects.

Bahrain: Oil windfall boosts recovery, reforms still a priority

Bahrain's post-pandemic economic recovery has accelerated on the back of higher oil prices and a robust pick-up in consumer and hospitality-oriented sectors. GDP growth reached 6.2% y/y in 1H22, albeit boosted by net taxes (probably related to January's VAT hike), with the gross value added measure up a more modest 3.8%. Oil output is seeing little growth due to capacity constraints, and this will affect overall GDP growth outcomes for this year (5.5%) and next (3.3%). But the outlook for non-oil growth is positive given the easing of fiscal pressures and the government's commitment to its $30 billion Economic Recovery Plan launched late last year, which includes infrastructure investments, expanding sectors such as tourism, hospitality and finance, simplifying government procedures and developing the local workforce. In 2Q22, Bahraini employment rose 4.3% y/y in the private sector and 3.2% in the public sector, suggesting some progress towards the labor market goal.

Elevated oil and aluminum prices will help the government record a fiscal surplus of 0.6% of GDP this year, two years ahead of the updated Fiscal Balance Program target. But with commodity prices seen lower next year, fiscal consolidation will remain an important theme. We expect the budget to be broadly in balance in 2023, based upon further spending control (but no large spending cuts). This will help stabilize the debt to GDP ratio (now 112% of GDP based on the government definition), which nevertheless alongside limited FX reserves remains a concern for the credit rating agencies, and absorb the impact of rising interest rates on the debt service bill. But given the still fragile financial position, a fresh drop in oil prices that results in renewed fiscal deficits, spending cuts and rising public debt remains the key downside risk to the economic outlook.

Oman: Growth to slow but reform drive offers positive outlook

High energy prices and the government's reform program have improved Oman's economic outlook and lowered fiscal pressures. GDP is forecast up 4.8% this year, led by oil and gas but also improved non-oil activity. Initiatives to lift growth include expanding key sectors such as manufacturing, logistics and tourism, boosting investment and the labor supply (especially female participation), improving the business climate, but preserving key parts of social spending. Reforms this year included scrapping foreign ownership limits for listed firms, with the aim of attracting funds ahead of a planned privatization drive over the next few years. We expect further reform progress next year, though GDP growth will slow as oil output levels off and non-oil activity softens due to global factors, lower oil prices, a fading post-Covid bounce and higher interest rates.

The public finances have improved in line with higher energy prices and the government's medium-term fiscal adjustment program, which prioritized spending restraint but also included the introduction of VAT in 2021 that (including excise duties) added 2% of pro-rated GDP to revenues in 1H22. The budget should post a surplus of 5.5% of GDP this year, the first since 2008, narrowing to 3.2% of GDP in 2023. Despite a planned 3% decrease in the 2022 state budget, spending is forecast to increase slightly this year as the as the authorities cushion the impact of higher energy prices through subsidies, as they have indicated. Public debt has been cut to 55% of GDP from 69% in 2021, reducing funding risks and exposure to rising interest rates. Both Fitch and S&P raised the government's credit rating one notch this year reflecting these improved metrics.

Qatar: World Cup and gas investments help drive growth

Qatar's economy is on track to expand at a fast pace in 2022, driven by strong growth in the non-oil sector, which was up 7.2% y/y in 1H22, and should remain robust in H2 given the boost from business preparations, increased tourism and related spending from the World Cup in November. More than 1 million spectators will flock to the country (33% of Qatar's population of 3 million), with potentially 0.2 million present at any one time. Bullish sentiment is reflected in PMI survey numbers, which reached as high as 67.5 in May, though has cooled of late. Changes in hydrocarbon sector output will be minimal given that production is already at capacity levels, and that Qatar is not part of the OPEC+ group. Overall, we forecast GDP to grow by 4.1% in 2022, easing to 2.4% in 2023 as the World Cup impetus fades. Further out, non-oil expansion will be well supported by sizeable Vision 2030-linked investments and the targeted completion of $30 billion of gas megaprojects in 2027, after which the hydrocarbon sector should return as the main growth engine.

This year's spike in gas prices provides further general support for economic sentiment and especially government finances, though the impact is limited by Qatar's relatively small exports to Europe (estimated at 14% of all gas exports) where prices rose furthest, and any contractual pricing issues. We forecast large fiscal surpluses in both 2022 (16.0% of GDP) and 2023 (9.2%), which will also enable a sizeable reduction in public debt (from 58% of GDP in 2021), addressing previous calls by credit rating agencies in this regard. In addition to global factors, logistical challenges relating to the World Cup, rising inflation (currently 6%), post-World Cup spare capacity and delays in gas megaproject execution are near-to-medium term risks, though mitigated by Qatar's large external reserves, good reform progress, and solid credit rating.

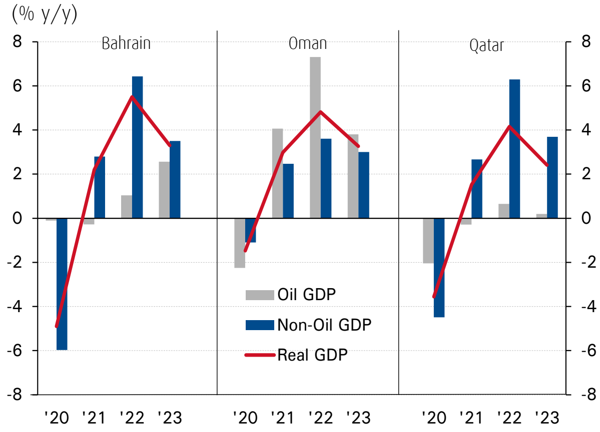
Table 1: Key economic indicators

		Bahrain			Oman			Qatar		
		2021	2022f	2023f	2021	2022f	2023f	2021	2022f	2023f
Nominal GDP	$ billion	38.9	43.6	44.7	85.8	103.9	104.5	176.5	209.8	204.3
Real GDP	% y/y	2.2	5.5	3.3	3.0	4.8	3.3	1.5	4.1	2.4
- Oil sector	% y/y	-0.3	1.0	2.6	4.1	7.3	3.8	-0.3	0.7	0.2
- Non-oil sector	% y/y	2.8	6.5	3.5	2.5	3.6	3.0	2.7	6.3	3.7
Inflation	% y/y	-0.6	3.6	2.8	1.5	3.0	2.3	2.3	4.3	3.2
Budget Balance	% of GDP	-6.5	0.6	0.1	-3.7	5.5	3.2	0.2	16.0	9.2
Current account balance	% of GDP	6.7	9.4	7.5	-3.8	5.7	2.1	14.6	18.8	12.1

Source: Official sources, NBK estimates.

Chart 1: Real GDP

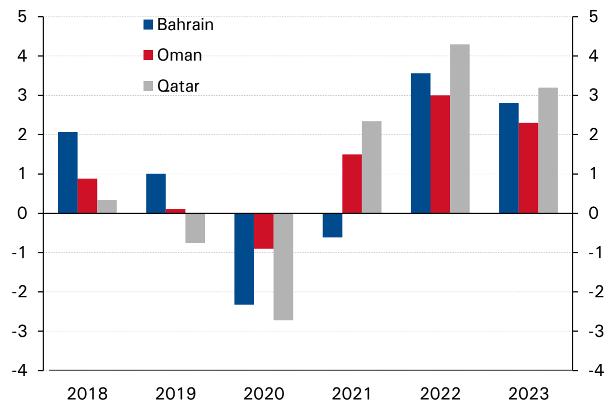
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

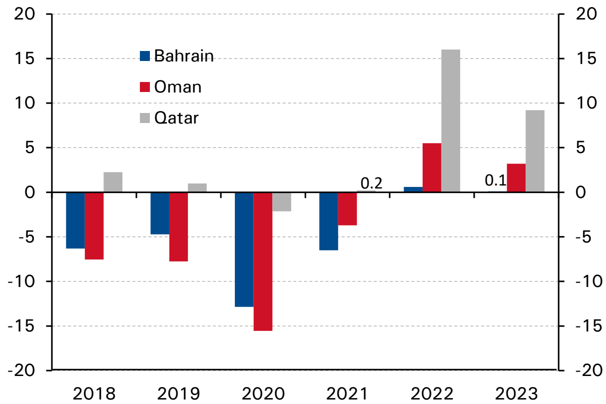
(% y/y)



Source: Government authorities, NBK estimates/forecasts

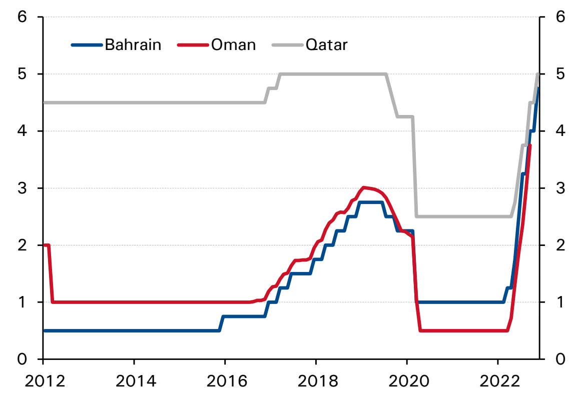
Chart 3: Budget balance

(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*



Source: Haver *2022 figure as of Nov 6