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**Economics
Summary**

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MACROECONOMICS

Qatar Releases Record Budget

1. On 30 March, the Emir of Qatar agreed his first and Qatar's highest ever budget for the fiscal year 2014/2015. Total planned expenditure was \$60bn. Highlights included:

- \$13.1bn on government salaries and wages (a 22% share of total expenditure and up 7.3% on 2012/13);
- \$ 19.6bn on current expenditure (a 32% share of total expenditure and down 8.2% on 2012/13);
- \$ 3.4bn on capital expenditure (a 6% share of total expenditure and down 12.1% on 2012/13);
- \$24bn on major government projects (a 40% share of total expenditure and up 16.8% on 2012/13); and
- \$7.2bn on education (a 12% share of total expenditure and up 7.3% on 2012/13).

2. The Qatari government said the budget is intended to promote sustainable growth (they're aiming for real growth of 6.8% though the IMF judge 5.9% as more likely; see next item). They also appear to have focussed heavily on infrastructure and plan to: begin work on seven of the eight World Cup stadia; complete the new international airport and new sea port; and achieve significant progress on the rail, metro, and various road projects.

3. Anticipated revenue of \$62bn, combined with the high level of planned spending, means that Qatar expects to post a modest budget surplus of only \$2bn at the end of this financial year. But the actual surplus is likely to be higher, as Qatar based its projected revenues on a conservative global energy price estimate of \$65b per barrel of Brent crude. More generally, the authorities will be hoping that investment today will lead to greater non-hydrocarbon growth tomorrow, and have committed themselves to achieving this aim. The Emir and Finance Minister have both spoken of the need to ensure greater efficiency and value for money on large scale infrastructure projects, and the Emir recently appointed the Prime Minister to oversee improvements in the quality of education.

IMF Concludes Article IV Consultations with Qatar

4. The IMF has released its concluding statement following its Article IV consultations with Qatar in early 2014. Real growth was 6.9%. Whilst this was down from the boom years of 2010 and 2011 (when growth was 10.2% and 13.0% respectively), the IMF expected it will return to 7.1% in 2015, following a slight dip to 5.9% this year. The IMF saw tight global gas markets as the key driver of Qatari growth (and Qatar's 29.2% of GDP current account surplus), but high investment spending (much of which was related to the 2022 World Cup) meant that almost half of GDP in 2013 was derived from the non-hydrocarbon sector. Year-on-year headline inflation in January 2014 was 2.3%, but underlying inflation (discounting for rent, food and utilities in a Qatari context) was just 1.4%. Government finances were in strong shape, with a budget surplus of 9.5% of GDP at the end of FY 2013/14, and a predicted surplus of 11.5% this financial year. The IMF estimated total fiscal debt remained about a third of GDP, but that Qatar would be in surplus if assets from its sovereign wealth fund were counted. The IMF judged Qatar's financial sector remained in good shape. Despite low interest rates, slowed real estate lending and delays to credit backed government investment projects, Qatar's banking system was profitable and non-performing loans accounted for less than 2% of banks' liabilities.

5. Looking ahead, the IMF expect fiscal and current account surpluses to decline as Qatar's LNG production flattens, output from its mature oil fields declines and global energy prices decrease (this last point assumes sustained US gas output and subdued Asian energy demand). Shocks to energy markets constitute the greatest external threats to the Qatari economy, whilst the IMF saw the major

domestic risks as stemming from the government's infrastructure projects. The IMF said that although the government has plans to address inflationary pressures associated with large-scale infrastructure investment, risks remain around long term overcapacity, low returns, and the extent to which current projects will spur private sector growth. The IMF assessed that hydrocarbon resources and fiscal buffers would help Qatar ride out short term challenges, but that the longer term risks required enhanced investment appraisal and policy co-ordination mechanisms within macroeconomic policy making machinery. In terms of financial risk, the IMF saw Qatar as having made considerable progress towards better regulation and BASEL III compliance, but judged more work could be done on monetary policy transparency and liquidity management.

Bahraini Government and IMF Offer Conflicting Growth Estimates

6. The Bahraini Central Statistics Organisation has published data showing that the economy grew by 5.4% in real terms over the course of 2013. Over half of the additional output came from the oil and gas sector, which grew by 14.6%. The non-oil economy grew by only 3.1%, driven mainly by manufacturing, commerce and social services. Growth in two of the Bahraini economy's non-hydrocarbon mainstays: tourism and finance was 0.7% and 1.5% respectively.

7. The IMF were a little more pessimistic. In a press statement following the conclusion of Article IV consultations they estimated Bahrain's real growth in 2013 was 4.9% compared to the Bahraini government, they saw increased hydrocarbon output as the main driver of growth, with the non-hydrocarbon economy growing by only 2.8% in real terms (the IMF estimated that if it had grown it had grown by 6.6% in 2012).

ENERGY

Iran to Oman Gas Pipeline?

8. Iran and Oman signed an agreement for a 50km gas pipeline that would carry gas from Iran to Sohar in Oman during the visit of Iranian President Rouhani to Oman on 12-13 March. The deal would be worth \$60bn over 25 years, and Oman would reportedly cover the \$1bn construction cost of the pipeline. Subject to technical and feasibility studies, the arrangement would come into force in 2015, and would be operated by a joint Iranian-Omani company. Most of the 353 billion cubic feet (bcf) of gas transported per annum in the pipeline would be liquefied and re-exported at Sur in Oman, though some would be used for domestic electricity generation.

9. The idea of a gas pipeline from Iran to Oman is not new, and similar agreements between the two countries were made in 2005 and 2007. Ultimately, much will depend on the outcome of the current E3+3 negotiations with Iran on its nuclear programme.

ECONOMIC AID

Egyptian Army Awards \$40bn Housing Contract to Emirati Firm Arabtec

10. The Egyptian army has awarded Dubai's largest construction firm, Arabtec Holding, a \$40bn contract to build one million houses for Egyptians on low incomes. The project will cover 160 million square metres across 13 sites in Egypt, and will run from the second half of 2014 to 2020. The UAE has been Egypt's biggest financial backer over the last nine months (in terms of publicly announced donations), with \$6.9bn pledged since July 2013.