

Bahrain, Oman & Qatar

Economic growth in Bahrain, Oman, and Qatar will pick up in 2025 with non-oil GDP rising more than 3% on average supported by government initiatives and projects along with a drop in interest rates. Bahrain is expected to continue recording a fiscal deficit in 2025 on the back of lower oil prices, with ongoing fiscal consolidation efforts expected. Meanwhile, reform efforts in Oman over the years have brought down debt-to-GDP levels and its next 5-year plan may combine further diversification initiatives with attention on sustainability issues. In Qatar, the 2022 post-FIFA World Cup slowdown continues to fade and growth is picking up on the back of strong visitor arrivals and huge LNG capacity expansion plans currently underway.

Bahrain: Growth to improve, fiscal deficit still a challenge

GDP grew 2.3% y/y in H1 2024 on the back of a solid rise in non-oil GDP (3.1%), outweighing a contraction in oil (2.1%). We expect 2024 growth at 1.8% (2.5% in 2023). Next year could see a significant acceleration to 3.9% driven by easier financial conditions due to interest rate cuts and a recovery in the hydrocarbon sector given the winding down of oil production cuts. The non-oil sector, worth 86% of GDP as of Q2 24, will continue to be the major driver of growth reflecting continued efforts towards boosting key sectors including manufacturing and tourism. The BAPCO refinery upgrade is expected to be completed mid-2025 with capacity rising by 40% to 380 kb/d giving a boost to non-oil GDP. Meanwhile, the GCC development fund-financed projects awarded reached \$6bn in total through Q1 24 (since 2017), mainly focused on housing. We also expect credit growth to further edge up in 2025 (from 3% y/y in 2024) on cheaper borrowing costs, giving a boost to consumers and corporates. Inflation should remain low at 2% in 2025 from 1% in 2024.

A drop in global and regional interest rates will also have a major role in containing the debt-to-GDP ratio which has ballooned and is expected at a little less than 130% in 2024 from 100% in 2020. However, we still expect the fiscal deficit to widen in 2025 to 6% of GDP on the expected drop in oil prices. Given structural issues (including still high oil revenue dependence and interest costs having a major 35% share of all expenses), further consolidation measures as needed to restore fiscal balance over the medium term and put the debt-to-GDP ratio on a downward path. The government's credit rating has been unchanged this year (B+ non-investment grade), with agencies expecting more fiscal adjustment over coming years but citing delays in related reforms as a risk to the outlook.

Oman: Improved fiscal resilience delivers rating upgrades

In Oman, non-oil growth is projected at 2.7% and 3.5% in 2024 and 2025 respectively, helped by macro-economic reforms and low levels of inflation which averaged just 0.6% y/y in Jan-Sep 2024 (1.0% in CY2023). The lower interest rate environment will play a role in improving non-oil growth momentum, with policy rates potentially falling close to 4.0% by end-2025 versus the current 5.5%. Overall economic growth will remain subdued at around 1.3% in 2024 (1.5% in 2023) as hydrocarbon GDP contracted by around 1.7% on the back of the OPEC+ production cuts of which Oman was a part. Moving forward, we expect to see an average increase in oil production of around 2.6% in 2025 as OPEC+ productions cuts unwind which would

lift Oman's economic growth close to 3.2%.

The fiscal position remains a key positive turnaround story, and we expect another (albeit reduced) surplus in 2024 of 1.4% of GDP (2.4% in 2023), despite a drop in hydrocarbon revenues and strong growth in expenses of about 8%. Lower oil prices will pressure revenues in 2025, but a small deficit of 0.8% of GDP is forecast – still well below pre-Covid levels. Financial resilience has also been improved by a sharp drop in government debt to 34% of GDP (from a peak of 64% in 2020), contributing to 2 sovereign rating upgrades by S&P over the past 2 years from BB to BBB-, back to investment grade. As the government's 10th five-year plan comes to a successful end in 2025, the next plan covering 2026-2030 will likely re-iterate the focus on development including economic diversification, employment, and tourism, with growing attention to sustainability issues and coping with geopolitical tensions in the region.

Qatar: Moderate growth backed by government efforts

Economic growth is expected to strengthen to 2.4% in 2025 from 1.8% in 2024, as the 2022 post-FIFA World Cup slowdown fades further. Non-hydrocarbon GDP is forecast to grow by 2-3% in 2024-2025 from 1.1% in 2023, benefiting from further growth in visitor arrivals, the labor force and bank credit, plus lower interest rates and government measures to boost non-oil activity. In Qatar's third National Development Strategy, the authorities target average non-hydrocarbon growth of 4% per year during 2024-2030 with a focus on three growth clusters: logistics, manufacturing and tourism. Manufacturing especially will benefit from the country's enormous LNG expansion plans (greater and cheaper feedstock for downstream processes), which will generate a 40% increase in LNG capacity by 2026 (to 110 mtpa) and ultimately an 85% increase by 2030 (142 mtpa). Until then, however, the contribution of oil and gas production to GDP growth will be limited.

The government is expected to continue running healthy, albeit narrowing fiscal surpluses over 2024-25 of about 4.2% of GDP on average. This will be on the back of lower – though still elevated – hydrocarbon revenues due to softer energy prices, and limited expenditure growth (+1.4% in 2025). The budget surplus could be used to lower outstanding public debt to below 40% of GDP by 2025 from 73% in 2020, of which 52% is foreign liabilities. Risks to the outlook are skewed marginally to the upside, with the positive ongoing domestic growth dynamic outweighing the negative risks from steeper-than-anticipated declines in energy prices next year or expanded regional military conflict that could significantly deter labor, capital and trade flows.

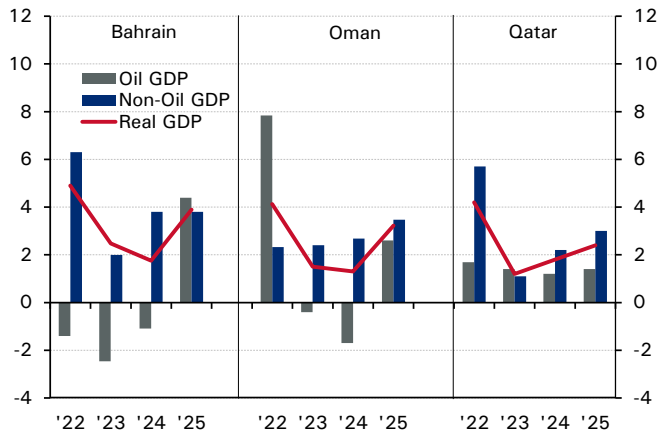
Table 1: Key economic indicators

		Bahrain			Oman			Qatar		
		2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f
Nominal GDP	\$ billion	43.2	45.1	46.6	109	114	127	213.0	218.9	226.3
Real GDP	% y/y	2.5	1.8	3.9	1.5	1.3	3.2	1.2	1.8	2.4
- Oil sector	% y/y	-2.5	-1.1	4.4	-0.4	-1.7	2.6	1.4	1.2	1.4
- Non-oil sector	% y/y	2.0	3.8	3.8	2.4	2.7	3.5	1.1	2.2	3.0
Inflation	% y/y	0.1	1.0	2.0	1.0	0.8	0.9	3.1	1.6	1.6
Budget Balance	% of GDP	-3.7	-4.3	-5.7	2.4	1.4	0.8	5.6	4.6	3.7
Current account balance	% of GDP	6.2	4.7	4.8	0.40	-0.40	-2.1	17.1	13.5	13.0

Source: Official sources, NBK estimates.

Chart 1: Real GDP

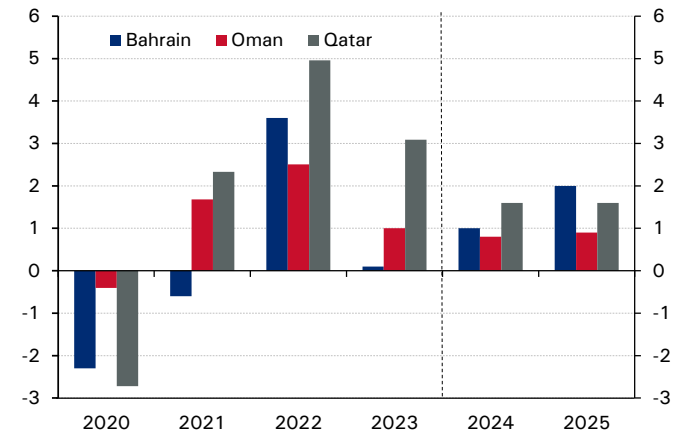
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

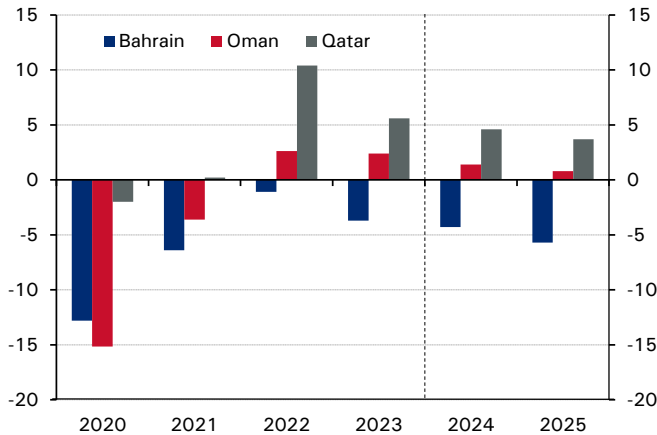
(% y/y)



Source: Government authorities, NBK estimates/forecasts

Chart 3: Budget balance

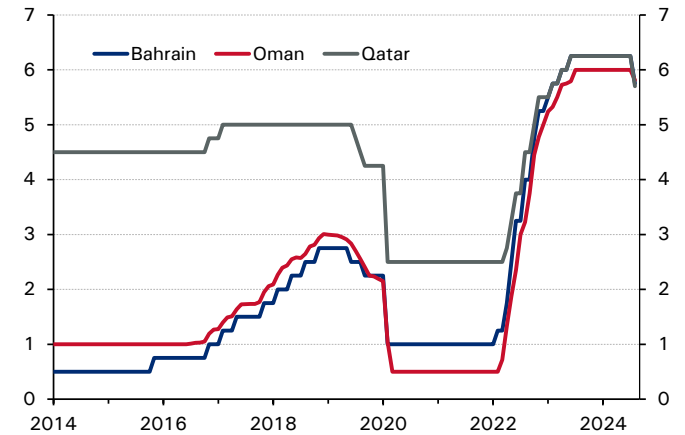
(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*

(%)



Source: Haver *Latest 6 November 2024