GCC Economic Insight

2012

Kuwait
KUWAIT CITY
Arabian Gulf
Bahrain
MANAMA
Qatar
DOHA
RIYADH
ABU DHABI
Gulf of Oman
United Arab Emirates
MUSCAT
Saudi Arabia
Oman
Red Sea
Arabian Sea
Gulf of Aden

Contents

Charts

2012-13 Outlook Summary

- The GDP of the GCC has almost quadrupled since 2001 and ***is likely to reach US$1.5trn in 2013*** as the hydrocarbons sector drives growth, assuming average Brent oil prices of US$108/b in 2012-13.

- Strong government spending has encouraged diversification, leading to expansion in non-oil sectors will be key to boosting ***real GDP growth to 4.6%*** in 2012-13.

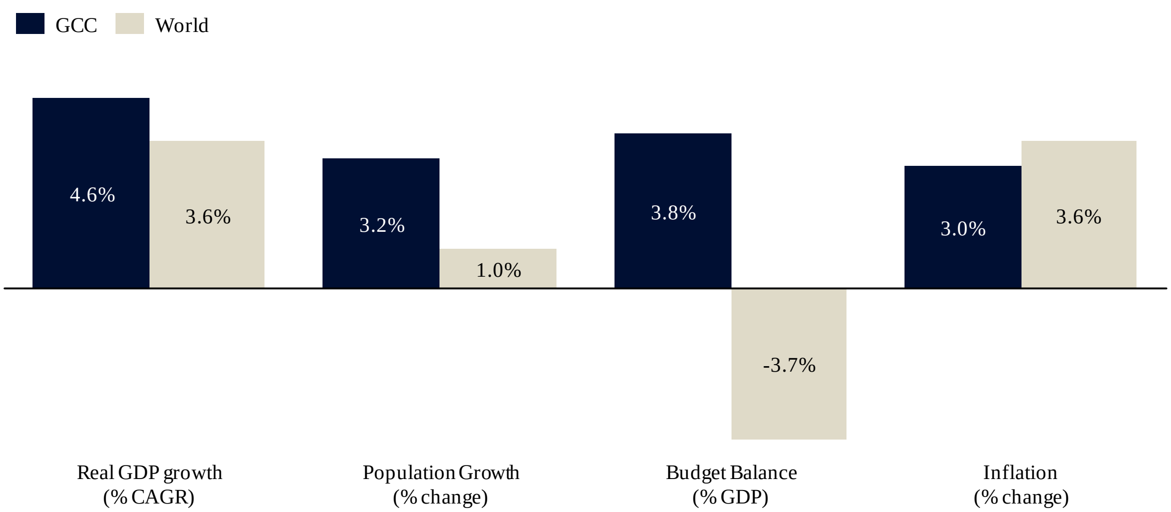
- ***Gas production growth at 4.3% will outpace oil production growth at 0.4%*** due to stable global demand, OPEC caps and an investment focus on the gas sector.

- ***Non-oil industrial growth of 9.0%*** will be driven by manufacturing, particularly heavy investments into petrochemicals, fertilisers and metals production in Qatar and Saudi Arabia, and construction.

- High levels of public expenditure will drive ***growth of 5.6% in services*** in 2012-13, which is largely made up of government and financial services and is expected to account for 36% of nominal GDP.

- Economic activity is attracting foreign workers to the region resulting in population growth that is almost triple the world rate with about ***50m people*** expected to be living in the GCC by 2013.

Key Economic Indicators Comparison (2012-13)



Source: IMF World Economic Outlook (WEO), QNB Group forecasts

- The GCC is likely to have a ***larger current-account surplus than either Japan or Germany*** in 2012-13 as high oil prices boost exports.

- ***Inflation is expected to reach 3.0%*** in 2012-13 mainly due to rising rents in Saudi Arabia, without which forecasted inflation would only be 1.8%.

- Around 86% of the GCC's US$1.2trn in total revenue for 2012-13 will come from the oil sector, supporting ***forecast expenditure of US$1.0trn*** on social investments, administration and infrastructural development projects.

- The ***banking sector is resilient***, well capitalised, profitable, has a low level of non-performing loans and is favourably placed to withstand turbulence in global markets during the forecast period.

- The ***outlook for regional bourses is positive*** as government expenditure and solid GDP growth will support corporate profitability in 2012-13.

- The GCC's ***business environment is internationally competitive***, ranking above the Eurozone in the World Bank's Doing Business rankings (#30) and the WEF Competitiveness rankings (#25) in 2012.

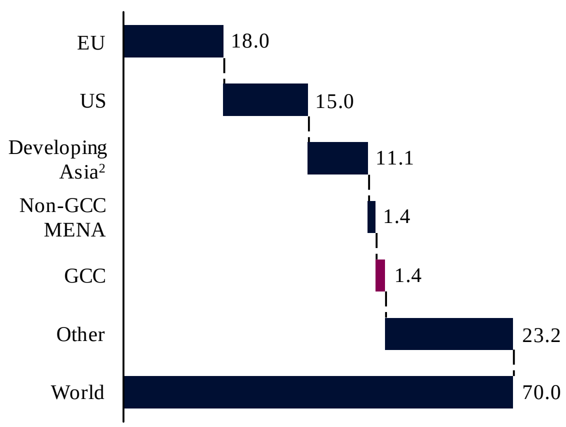
1. Overview and Demographics

A. Overview

The GCC is one of the world's fastest growing regions with nominal GDP of US$1.4trn in 2011

The six nations of the Gulf Cooperation Council[1] (GCC) have a combined nominal GDP of US$1.4trn (Fig 1.1), which accounts for 2.0% of global GDP.

Fig 1.1: GCC's Share of Global Nominal GDP (2011)
(US$trn)



Source: IMF World Economic Outlook (WEO), QNB Group estimate

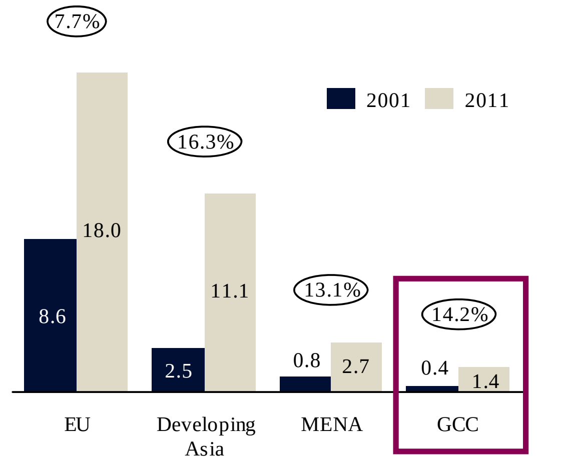
The GDP of the GCC has almost quadrupled in nominal terms since 2001, growing at a compound annual growth rate (CAGR) of 14.2%[3] (Fig 1.2). This has led to a near doubling in its percentage share of global nominal GDP from 1.1% in 2001 to 2.0% in 2011.

The hydrocarbons[4] sector dominates the GCC economy and has been the key growth driver

The rise in the GCC's weight in the global economy is a result of both high energy prices and rapid real economic growth. GCC real GDP grew at an annual rate of 4.7% from 2007-11 compared with a world growth rate of 2.8%, making it one of the fastest growing regions in the world. QNB Group forecasts GDP growth in the GCC to reach 4.6% in 2012-13, outperforming global GDP growth, which the IMF expects at 3.6%.

[1] The Gulf Cooperation Council (GCC) is a political and economic union between the Gulf states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
[2] Developing Asia, as defined by the IMF, consists of 27 countries.
[3] This is the compound annual growth rate (CAGR), which is a geometric growth mean. In general, unless otherwise specified, all multi-year growth rates mentioned in this report will be CAGRs, rather than arithmetic growth means.
[4] Refers to oil and gas in this report.

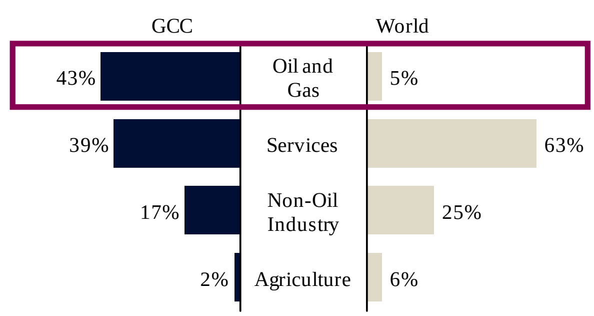
Fig 1.2: Global Nominal GDP Growth
(US$trn, % CAGR shown)



Source: National statistical authorities, IMF WEO database, QNB Group estimates

The GCC economies are dominated by the oil and gas sector (Fig 1.3). Oil and gas accounts for 5% of global GDP, but for 43% in the GCC. Meanwhile, services account for 63% of global GDP but only for 39% of the GCC economy. Advanced economies tend to have large services sectors, and as the GCC develops, the contribution of the services sector to GDP should expand.

Fig 1.3: World and GCC GDP breakdown by Economic Sectors (2010)
(% shares)

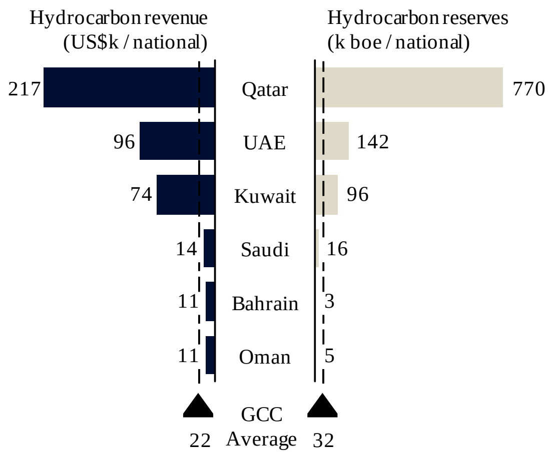


Source: IMF, National statistical authorities, QNB Group estimates

The strong performance in the oil and gas sector over the last five years has been a result of high energy prices and a sharp increase in gas production. Regional oil production grew at 1.5% in 2007-11, to reach 19.4m barrels/day (b/d), while gas production surged ahead by 9.9% a year to 35bn cubic feet/day (cu ft/d). The strong increase in gas production is mainly attributable to Qatar, where production increased at a rate of 24% in 2007-11 to 14.4bn cu ft/d.

The GCC accounts for 36% of the world's proven oil reserves and 22% of gas reserves, equating to 30% of global hydrocarbons reserves, measured in barrels of oil equivalent (boe)[5]. This is a significant share of global natural resource wealth, especially given the GCC's limited share of global population (Fig 1.4).

Fig 1.4: Oil and Gas Wealth (2011)



Source: BP, IMF, QNB Group estimates

Within the GCC, Qatar has by far the largest relative endowment of hydrocarbons wealth, in terms of both reserves and revenue. This is primarily due to its development of the North Field, the world's largest non-associated[6] natural gas field. The overall average revenue and reserves per national (US$22,000 and 32,000 boe respectively) is kept low by the large number of nationals in Saudi Arabia. Excluding Saudi Arabia, revenue and reserves per national in the GCC would be US$53,000 and 91,000 boe.

National development plans aim to expand infrastructure and further diversify economies

In general, GCC economies are at an emerging stage of development. They are currently expanding and modernising basic infrastructure and raising educational standards, which will enable them to gradually move towards a more advanced and services-oriented economic model. GCC countries have produced long-term visions as a guide for their development, along with more detailed medium-term implementation plans:

- **Saudi Arabia**'s ninth development plan covers the period 2010-14 with US$384bn of planned spending
- **Qatar**'s National Development Strategy for 2011-16 with US$225bn of investment is based on the Qatar National Vision 2030
- **Kuwait** has a Vision 2035 and a 2010-14 development plan with US$110bn investments
- **Oman**'s eighth five-year plan runs from 2011-15 with planned total investment of US$78bn
- **Bahrain**'s National Plan maps out land use and infrastructure development up to 2030
- **UAE**'s seven emirates each have their own development frameworks, including Plan Abu Dhabi 2030, which envisaged US$200bn of spending from 2008-13

Strong government spending has encouraged diversification from hydrocarbon dependence

Development plans aim to diversify the economies away from dependence on hydrocarbons and to create jobs for nationals, particularly in the private sector where they are poorly represented.

These development plans are largely funded through hydrocarbon revenue, although most GCC countries have also made serious efforts to enhance their business environments to attract foreign investment and encourage the development of the domestic private sector. On average in 2007-11, GCC governments spent 33% of GDP per year through their national budgets on investment and public services. This spending was vital in stimulating a broad base of economic activity, which has fostered diversification.

The main common features of the GCC's development plans are:

- **Developing basic infrastructure** through heavy investment, including new cities, housing, schools and universities, hospitals and transport systems
- **Leveraging hydrocarbons** to move up the value chain to products such as petrochemicals, or, to power energy-intensive industries, such as metals production
- **Attracting international companies**, especially in the financial sector, by offering a favourable business environment, including low taxes and establishing free zones and financial centres
- **Building a knowledge economy** through investment in education, science and research and offering benefits to high-tech international companies by supporting the development of technology parks

GCC economies have differentiating characteristics in their economic development

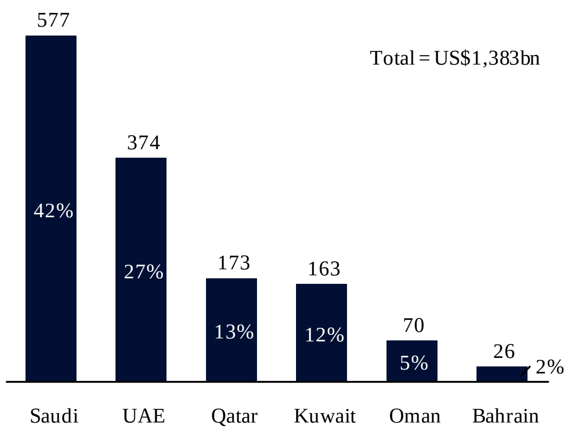
Although GCC states share a number of similar development features, there are also a number of distinguishing characteristics observed. Key characteristics of each state, arranged by order of the size of their economies, are highlighted below.

Saudi Arabia is the largest country in the GCC in terms of its land area, population and GDP (Fig 1.5). Saudi Arabia has the world's largest proven oil reserves, with 19.1% of total global reserves, and its economy is dominated by the oil sector,

[5] This data is based on BP's Statistical Review of World Energy 2011. Hydrocarbons refers to only oil and gas.
[6] A gas field that produces solely gas, rather than gas that is extracted along with oil.

which accounted for an average of 50% of nominal GDP over the last five years. However, owing to the Kingdom's large population, GDP per capita is the lowest in the GCC. The government uses revenue from oil exports to make major investments into basic and social infrastructure, education, health and heavy industry. These investments are aimed at encouraging development, distributing oil wealth and diversifying the economy away from the oil sector.

Fig 1.5: GDP in the GCC (2011)
(US$bn and % shares)



Source: QNB Group estimates

The **UAE** is a federation of seven emirates. Hydrocarbons wealth is concentrated within the Emirate of Abu Dhabi, which accounts for around 60% of the UAE's GDP. The non-oil sector accounted for 63% of GDP in 2011, making the UAE one of the most diversified GCC economies. As hydrocarbons wealth is less predominant in the other Emirates, they followed development models distinct from the rest of the region. These have focused on creating attractive business environments to draw in foreign companies, particularly in the financial and services sectors, and on establishing the infrastructure and services to support large-scale trade. Consequently, the UAE, particularly Dubai which is 30% of UAE GDP, has become a major regional centre for businesses and trade.

Qatar has experienced the most recent economic boom in the GCC, as a result of the rapid development of the North Field, the world's largest non-associated gas field, over the last decade. Qatar is now the world's largest exporter of liquefied natural gas (LNG), accounting for a quarter of global exports, along with other gas, condensate and crude oil exports. The oil and gas sector dominates the economy with an estimated 56% of nominal GDP in 2011. Furthermore, the government is reinvesting hydrocarbons revenue to bolster infrastructure, heavy industry, education and scientific research. These investments are aimed at developing a sustainable economy and reducing dependence on the hydrocarbon sector.

Kuwait is one of the most oil-dependent economies in the GCC with oil and gas production accounting for an estimated 56% of GDP in 2011. Kuwait is the third largest oil producer in the region and has 7.3% of global reserves, much of it in Burgan, the world's second largest oil field. It places a particular emphasis on moving up the oil value chain by oil refining and petrochemicals production, both domestically and through ventures abroad. It focuses on distributing fuel internationally and has a network of around 5,000 Q8 petrol stations throughout Europe.

Oman's oil and gas resources are difficult to extract as they are spread widely and tend to be in difficult-to-access geological formations. Nonetheless, the share of the oil and gas sector in GDP is 52%. In recent years, Oman has been boosting its oil production through enhanced recovery techniques and utilising its gas for industrial projects and export. Oman is a major tourism destination and is also involved in the re-export trade. Nationals form about 65% of the population and have a greater role in the private sector than in most other GCC countries.

Bahrain is the smallest but the most diversified economy in the GCC with its non-oil sector, mainly services, accounting for 70% of GDP in 2011. It was one of the first GCC countries to develop a modern economy partly because its hydrocarbons reserves are relatively limited. Bahrain's government has made a concerted effort to attract foreign businesses to the country, especially in the financial services sector, which accounted for 17.7% of GDP in 2011, the highest in the GCC.

GCC sovereign credit ratings are in line with the world's most advanced economies

Table 1.1: Long-Term Ratings (2011)

Sovereign	S&P	Moody's	Fitch
Qatar	AA	Aa2	N/R
Kuwait	AA	Aa2	AA
UAE	Not Rated	Aa2	Not Rated
Saudi Arabia	AA-	Aa3	AA-
Oman	A	A1	N/R
Bahrain	BBB	Baa1	BBB
Singapore	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
US	AA+	Aaa	AAA
Japan	AA-	Aa3	AA

Source: S&P, Moody's, Fitch, QNB Group analysis

Sovereign credit ratings[7] in the GCC are in the upper tiers of investment grade and are on a par with most advanced economies. Qatar, Kuwait and UAE have the highest ratings (Table 1.1).

The region's high credit ratings are primarily a consequence of strong macroeconomic fundamentals. Recent high oil prices have ensured that GCC governments have had:

- Large **fiscal surpluses**, averaging 9.2% of GDP in 2007-11
- **Low levels of public debt**, averaging 14.5% of GDP in 2007-11

With hydrocarbons reserves expected to last into the long term, these strong fundamentals are likely to persist.

Additional factors supporting GCC countries' ratings include:

- **Low external debt**
- **Large foreign exchange reserves**
- **Moderate inflation** since peaking in 2008
- **Robust growth** in non-hydrocarbon sectors

Strong external positions imply limited risk of ratings downgrades

GCC economies achieve consistent surpluses in both their fiscal and current accounts. The excess hydrocarbon revenue that is not invested domestically accumulates as foreign exchange reserves or is passed on to sovereign wealth funds (SWFs). These funds aim to provide future generations with diversified sources of income and mainly invest internationally.

Current high oil prices, which QNB Group expects to persist in 2012-13, will lead to further expansion of the external net asset positions of GCC governments. This will ease any concerns about external debt levels and make it likely that sovereign credit ratings will maintain their current levels in the short to medium term.

However, the region remains exposed to oil and gas price fluctuations. If the oil price remains consistently below US$80 p/b, it could potentially lead to fiscal constraints in some GCC countries, forcing them to cut back on spending or draw down from their SWFs to maintain expenditure levels in line with existing plans.

The Institute of International Finance (IIF) estimates that the budget breakeven oil price in Saudi Arabia and the UAE was just over US$80/b in 2011. It is unlikely that oil prices will act as a fiscal constraint in the near future as they averaged US$111/b in 2011 and QNB Group is forecasting an average of US$108/b in 2012-13.

[7] Credit ratings are assigned to countries, companies and financial instruments (referred to as issuers). It expresses an opinion about the ability and willingness of the issuer to meet their financial obligations. The ratings are usually classified into three broad categories: investment grade, speculative and default. There are a number of different rating agencies. The principal rating agencies are Standard and Poor's (S&P), Moody's and Fitch.

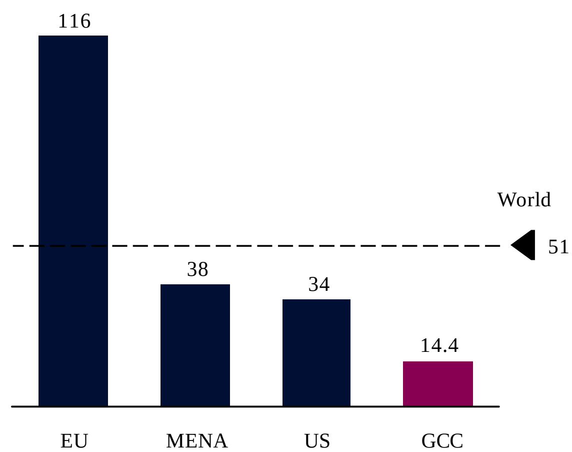
B. Demographics

Population

The GCC accounts for 0.7% of world population and 11% of MENA population

The total population of the GCC amounted to 47m at the end of 2011. This represents about 11% of Middle East and North Africa (MENA) population and 0.7% of world population. The GCC's terrain is mainly arid, and therefore its population density is low. It is less than half the global average (Fig 1.6) and a sixth of the European Union (EU).

Fig 1.6: Population Density (2011)
(Persons/km^2)



Source: National statistical authorities, IMF, QNB Group estimates

Before the introduction of desalination technology, natural fresh water supplies put a limit on population growth. However, parts of the GCC—such as Bahrain, southwest Saudi Arabia and Oman's northern coastal strip—have higher freshwater supplies, from rain or aquifers, and have supported denser populations.

Today, the population density varies considerably by country. Oman has the lowest density, just ten people per km^2, and Saudi Arabia is only slightly higher because it has a similar distribution of habitable regions and cities surrounded by vast desert areas. The other countries have far higher densities because they have relatively small areas relative to their hydrocarbon resources, which fuel large-scale water desalination facilities and finance food imports needed to support dense populations. Bahrain has the highest density, with 1,678 people per km^2, because most of the island is urbanised.

The proportion of nationals in the GCC population has fallen to 52%

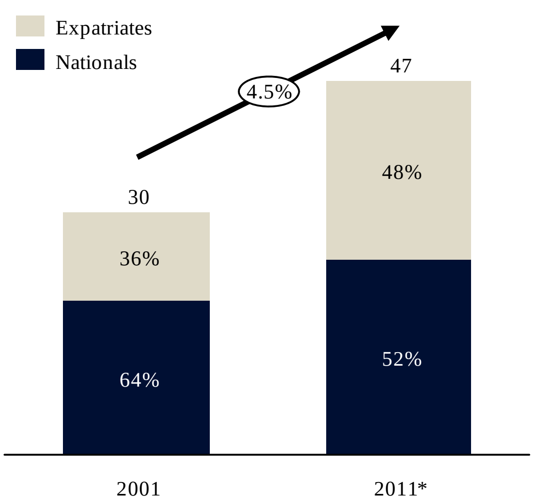
The discovery of massive hydrocarbon resources in the first half of the 20th century led to the rapid development of the region, and hence population growth. Hydrocarbon revenue has been heavily invested in infrastructure, driving construction and real estate booms, and supporting the broader development of the services and manufacturing sectors.

This has led to opportunities that have attracted a large inflow of expatriates to the region. In the last decade, the GCC's expatriate population has grown at 7.4%. This has driven the overall growth rate for the same period to 4.5%, taking the population from 30m in 2001 to an estimated 47m in 2011.

Population growth within the national population has also been high at 2.4%, which is double the global average. This can be attributed to high fertility rates in the region, a youthful population and a lengthening of life-spans supported by investments in healthcare.

The rapid growth of the expatriate population has reduced the proportion of nationals (Fig 1.7) in the overall GCC population.

Fig 1.7: GCC Population (2001-11)
(m, with % share and CAGR show)



Source: National statistical authorities, *QNB Group estimates

In 2011, 52% of the GCC population were nationals, down from 64% in 2001. There are significant differences between GCC countries in the proportion of expatriates.

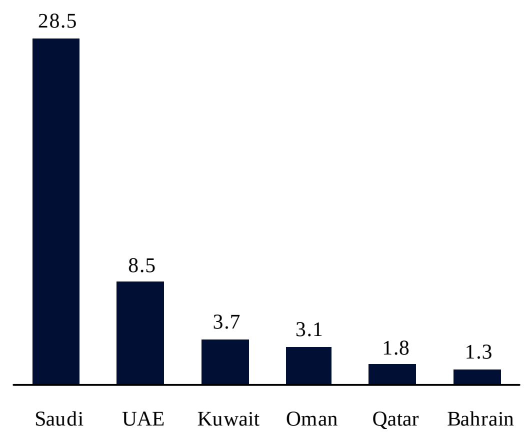
Saudi Arabians account for 80% of GCC nationals

Saudi Arabia has the largest population in the region (Fig 1.8), and its large population of nationals, who represent 80% of all GCC citizens, is the reason why the overall GCC population is still predominantly national, albeit by a small margin.

The different proportional sizes of the expatriate populations across the GCC are explained by several factors, including:

- The relative size of each country's hydrocarbons reserves
- The current stage of country development
- The nature of its non-hydrocarbon economy
- The impact of particular policies

Fig 1.8: GCC Population Breakdown (2011)
(m)



Source: National statistical authorities, IMF, QNB Group estimates

For example, in the UAE and Qatar, hydrocarbons endowments are high compared with the size of the populations. This has led to proportionally larger expatriate populations in the UAE and in Qatar.

The expatriate population has been further boosted by the federal structure of the UAE. This has encouraged the development of the non-oil economy in emirates with limited hydrocarbon reserves, particularly in Dubai, creating further opportunities for expatriate employment.

Economic development in Kuwait and Bahrain began earlier than in the rest of the region. This has led to weaker demand today for expatriate labour to help build basic infrastructure. In Oman expatriates only account for 35% of the population. This is mainly due to its hydrocarbons endowment being low in relation to its local population, leading to fewer opportunities for expatriate employment.

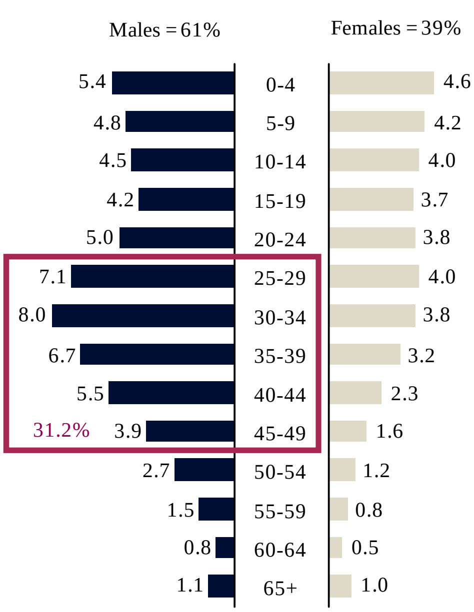
The GCC demographics are skewed by the high share of male expatriate population

The majority of expatriates in the GCC are male as regional labour policies generally favour male employment and as many of the opportunities are in male-dominated sectors, such as construction. Furthermore, the majority of expatriate workers are not accompanied by any family. This is skewing the regional population distribution, producing a sizable bulge in the demographic bands relating to young working males (Fig 1.9).

Overall, **males aged 25-49** made up an estimated 31% of the GCC population in 2010. However, in countries with large expatriate workforces compared with their national populations, the proportion of men in the 25-49 age bracket is considerably higher. For example, in Qatar it is 52% and in the UAE it is 43%. The overall GCC figure is kept lower by the large local population in Saudi Arabia where men aged 25-49 account for 26% of the population.

The demographic structure is also relatively young with 44% of the population under 25 years old as a consequence of high fertility rates within the national populations. This will support an accelerating rate of growth in the size of the local workforce.

Fig 1.9: GCC Population by Age and Gender (2010)
(% of total GCC population)



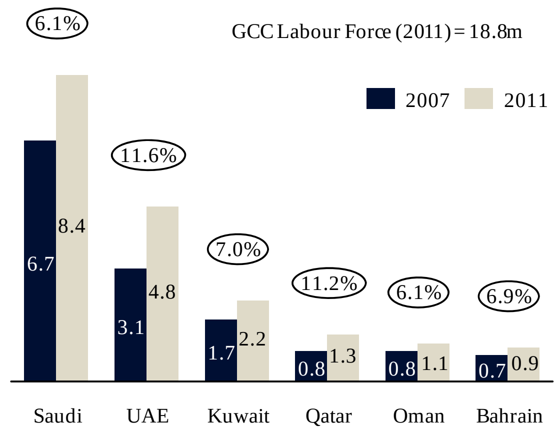
Source: National statistical authorities and QNB Group estimates

Labour force

45% of the GCC labour force is in Saudi Arabia and the private sector is the main driver of job growth

QNB Group estimates that the total labour force in the GCC was 18.8m in 2011 (Fig 1.10), or 40% of the total population. The largest share of the labour force is located in Saudi Arabia, with 8.4m workers, or 45% of the GCC total.

Fig 1.10: Labour Force by Country (2007-11)
(m with CAGRs shown)



Source: National statistical authorities and QNB Group estimates

The GCC labour force grew at an estimated rate of 7.9% from 2007-11, compared with growth of 4.3% for the total population. This faster rate is mainly a consequence of the strong inflows of expatriate workers who now constitute a larger share of the workforce than nationals. The IMF expects the GCC to add 6m new jobs in 2011-15, which would equate to an annual growth in the labour force of about 6.1%.

Unemployment

Unemployment among GCC nationals is low versus prevailing global levels

Official estimates put unemployment amongst nationals in 2010 at:

- 10% in Saudi Arabia
- 6.3% in UAE
- 4.1% in Qatar
- less than 4% in Bahrain
- 3% in Kuwait

There is little data on unemployment amongst expatriates as, unless they are under the sponsorship of a working relative, most will depart the region if they do not have a job.

Unemployment amongst nationals is most likely caused by a combination of factors, including:

- Lack of suitable skills for the labour market, although the level of skills and knowledge should continue to improve given the current emphasis on education
- Preference for public sector employment where there is a shortage of available jobs while the private sector fails to meet their expectations for roles and remuneration

For many years, most GCC countries have had programmes in place aimed at increasing employment of nationals in the private sector, including quotas, training, placement services, subsidies, and other incentives.

To increase private sector employment opportunities for nationals, GCC governments need to enhance higher education to better meet private sector needs. The terms of employment, such as pay and benefits, in the private sector will also need to be improved relative to the public sector. It will be a challenge to promote employment of nationals without imposing undue costs on doing business in the private sector that would erode competitiveness and potentially reduce growth.

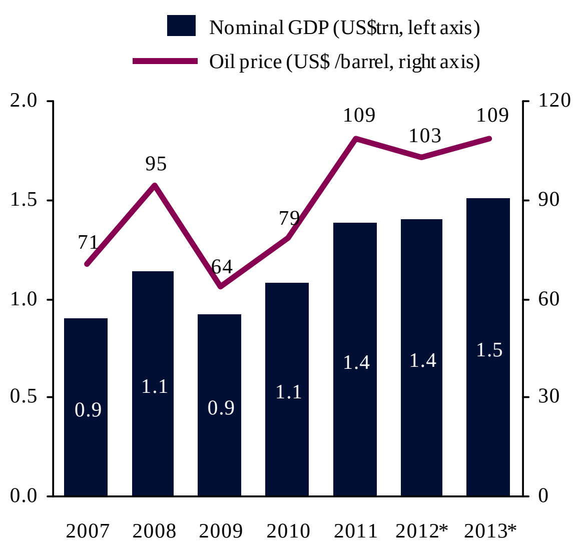
2. GDP

A. Nominal GDP

Rising oil prices have been a major driver for nominal GDP growth over the last decade

The GCC has been undergoing a period of rapid economic growth, resulting in a near quadrupling of its nominal GDP over the last decade at a rate of 14.2% from 2001-11. The key contributor to this growth has been rising oil prices[8] (Fig 2.1), which, barring a contraction in 2009, have increased in every year from 2001 to 2011, growing at a rate of 16.3% a year. The resulting boom in government oil revenue has driven expansion across the whole economy, further boosting nominal GDP.

Fig 2.1: GCC Nominal GDP and Oil Prices (2007-13)



Source: National statistical authorities, *QNB Group estimates and forecasts

The GCC economy has recovered rapidly from the 2009 global downturn

The GCC economy experienced a golden period during 2003-08, when GDP expanded at 19.9%. This was a result of rising demand for energy sources as a consequence of robust global expansion, particularly in Developing Asia. The global financial crisis and economic slowdown which started towards the end of 2008 temporarily drove down energy demand and prices. Average oil prices fell by 33% in 2009, which contributed to the 19.3% decline in the GCC's nominal GDP.

The global downturn had various impacts across the GCC:

- The most oil-dependant economies—Kuwait, Oman and Saudi Arabia—were the worst affected, with their nominal GDP contracting by 28%, 23% and 21% respectively in 2009
- The increase in gas production in Qatar offset some of the impact due to the reduction in oil prices, and GDP only declined by 15%
- In Bahrain and the UAE, the contractions were smaller at 11.4% and 14.1% respectively in 2009, as their hydrocarbons only comprise a third of GDP, or less

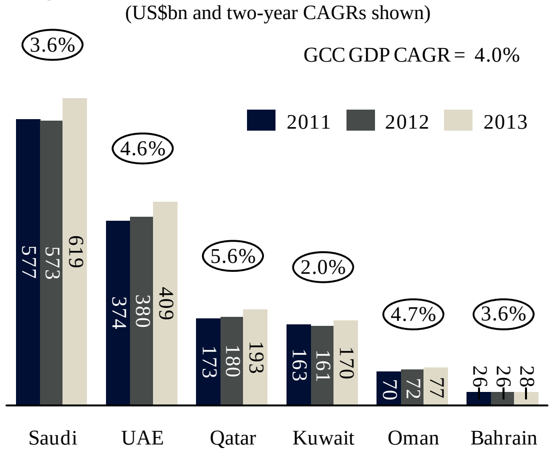
The global economy began to recover in 2010, leading to an increase in energy demand and a rebound in oil prices and the GCC economy. Nominal GDP in the GCC grew by 17.7% in 2010 and an estimated 28% in 2011 to reach a new record of US$1.4trn.

The global recovery faltered slightly in the last quarter of 2011, mainly due to the Eurozone crisis. However, geo-political risks and reductions in oil production in Libya kept oil prices high. The average price in 2011 (US$109/b) was above the previous high set in 2008 (US$95/b).

Assuming average oil prices of US$106/b in 2012-13 we forecast nominal GDP growth of 4%

QNB Group forecasts that GCC nominal GDP will increase by 1.1% in 2012 and by 7.4% in 2013, equating to 4.0% in 2012-13. Relatively flat average oil prices in 2012-13 will lead to overall GCC hydrocarbons sector growth of 1.0%. We assume that oil prices will be slightly lower in 2012 than they were in 2011, averaging US$103/b. Consequently, nominal GDP growth will be moderate with only Qatar and Oman seeing growth in hydrocarbons GDP as a result of increased production.

Fig 2.2: GCC Nominal GDP Forecasts (2011-13)
(US$bn and two-year CAGRs shown)



Source: QNB Group estimates and forecasts

[8] GCC average oil export price.

For 2013, QNB Group assumes that oil prices will pick up slightly to an average of US$109/b leading to strong GDP growth in Saudi Arabia and Qatar. We expect Qatar to be the fastest growing GCC economy at 5.6% in 2012-13 (Fig 2.2) as it experiences its first full year at its new capacity production for LNG and gas-to-liquids (GTLs).

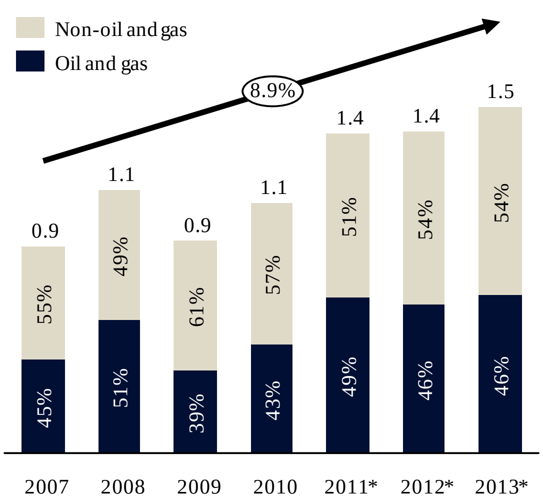
Growth of 6.8% in the non-oil sector will support an overall increase in nominal GDP in 2012-13. Contributing to this growth is the UAE which has a large non-oil sector that is growing relatively fast. Growth in Kuwait will be slower, as it is relatively oil dependent.

B. Economic Structure

The prominence of the oil and gas sector is increasing

The share of the **oil and gas** sector in GCC nominal GDP has increased in recent years, mainly due to higher energy prices. It averaged 45% of GDP in 2007-11 (Fig 2.3), up from 40% in 2002-06.

Fig 2.3: Nominal GDP by Main Economic Sectors (2007-13)
(Totals in US$trn, CAGR shown)

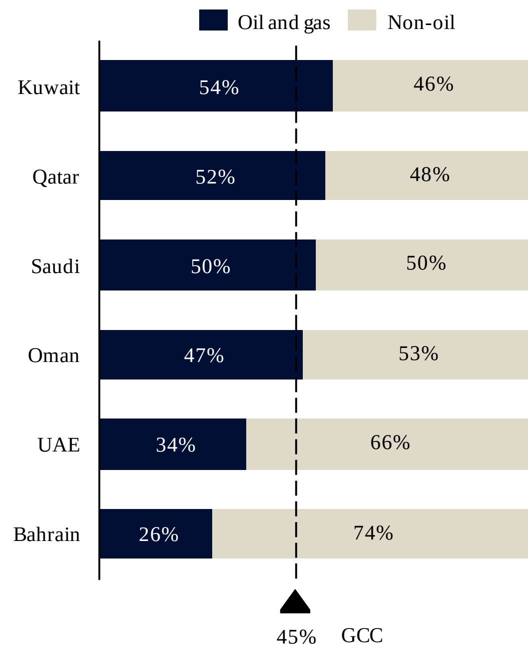


Source: National statistical authorities, *QNB Group estimates and forecasts

Kuwait, Qatar and Saudi Arabia all have hydrocarbons sectors accounting for half of the economy or more (Fig 2.4). In the UAE, the share of hydrocarbons is lower at an average of 34% in 2007-11 as a result of the rapid development of non-oil sectors, particularly in Dubai. Similarly, Bahrain has a relatively small hydrocarbons sector, which only accounts for 26% of its overall GDP, mainly owing to its large services sector.

Despite its declining share, the nominal growth in the non-oil[9] sector over the last decade has been an impressive 11.3%. This shows that much of the surplus revenue from the oil boom has been re-invested in the non-hydrocarbon economy, something that did not happen to the same extent during the oil booms of the 1970s.

Fig 2.4: Breakdown of GCC Nominal GDP by Country (2007-11)
(average % shares of GDP)



Source: National statistical authorities

After hydrocarbons, the services sector[10] is the next largest component of regional GDP, comprising 34% in 2011. Non-oil Industry[11] has a 16% share and agriculture comprises just 1.2%, less than half its share a decade ago. These shares have fallen from 2010 as oil prices increased sharply in 2011.

The services sector accounts for 67% of non-oil GDP

The services sector dominates non-oil GDP, accounting for 67% in 2011. It is further split down into four main sub sectors, among which, **government services** forms the largest component, accounting for 23% of non-oil GDP in 2011 (Fig 2.5), and grew at a rapid rate of 11.6% in 2007-11. This has been primarily driven by increased government spending.

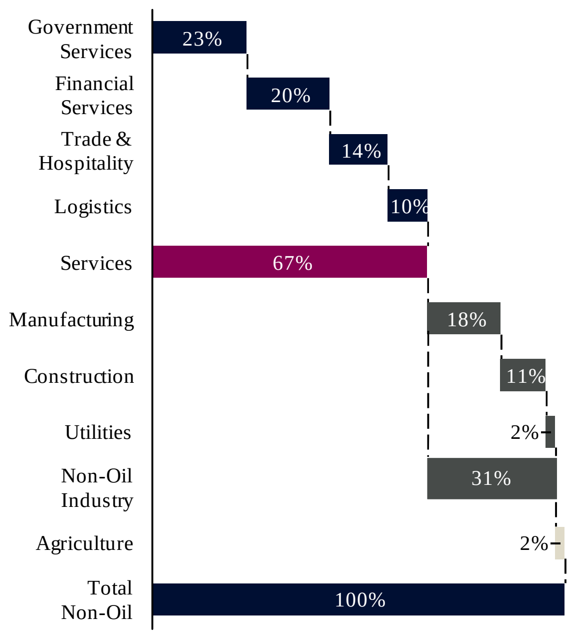
Financial services, including real estate, was the largest sub-sector until 2009, but fell to a 19.8% share of non-oil GDP in

[9] "Non-oil" is commonly used in the region, and hereafter, as a shorthand for "non-oil and gas".
[10] The services sector consists of government and social services, financial services, trade and hospitality, transport and communications, and agriculture.
[11] The industry sector (non-oil and gas) consists of manufacturing, construction, and utilities.

2011, due to the impact of the global financial crisis and weakness in the real estate sector in some GCC countries.

The **manufacturing** sub-sector is the next largest component of non-oil GDP, accounting for 17.8%. It grew rapidly from 2007-11 at a rate of 12.0% as a result of the expansion in projects in the region related to oil refining, gas to liquids (GTL), petrochemicals, fertilisers and metals.

Fig 2.5: Non-Oil GDP by Sector (2011)
(% share)



Source: National statistical authorities, QNB Group estimates

C. Real GDP

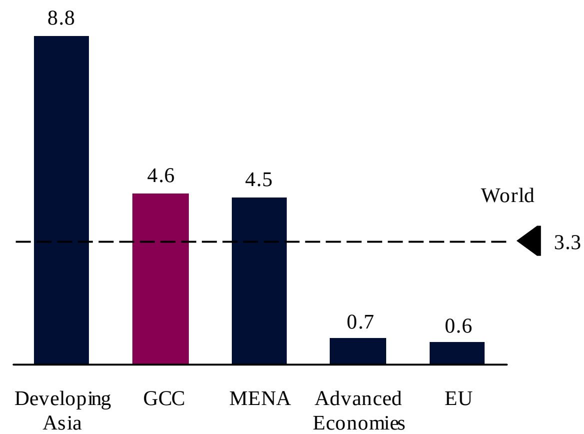
The GCC is among the fastest growing regions in the world

The GCC is one of the fastest growing regions in the world with a real GDP growth rate of 4.6% during 2007-11 (Fig 2.6).

The strong performance of the oil and gas sector has had a positive impact on the non-oil sector. The revenue from oil and gas and their by-products are being dispersed throughout the economy via governments, financial systems and hydrocarbon-linked elements of the private sectors, providing an enormous boost to the rest of the economy.

The government has a particularly strong role in this process. Government revenue, derived largely from oil and gas exports, has been disbursed across the economy, with government spending in the GCC averaging 33% of GDP in 2007-11. This has triggered increased activity in the non-oil sector, which grew at a rate of 6.0% during this period in real terms.

Fig 2.6: World Real GDP Growth (2007-11)
(% CAGR)

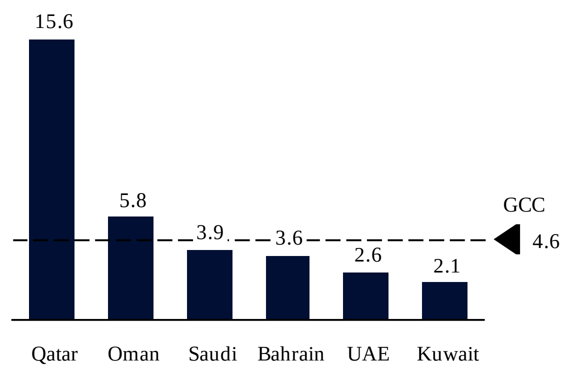


Source: Statistical Authorities, IMF, QNB Group estimates

OPEC production targets have restrained oil production growth but gas production has risen

The real growth in the GCC oil and gas sector has remained subdued, growing by only 2.7% from 2007-11, owing to a cut in oil production targets put in place by OPEC[12] in the last quarter of 2008. The reason for OPEC's action was weaker global demand for oil in the aftermath of the 2008 financial crisis, which pushed oil prices down to an average of US$40/b in December 2008.

Fig 2.7: GCC Real GDP Growth (2007-11)
(% CAGR)



Source: National sources, QNB Group estimates

The exception to the subdued growth in the oil and gas sector has been Qatar's 15.2% growth rate in this sector from 2007-11. The significant increase has come primarily from natural gas production in Qatar, which has more than doubled. Qatar's

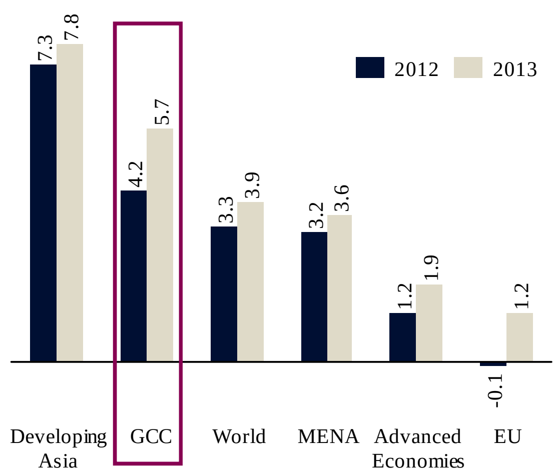
[12] The Organisation of the Petroleum Exporting Countries (OPEC) is a grouping of 12 oil-exporting countries, which aims to coordinate policies between its member states in order to stabilise oil markets and ensure: a steady income for oil-producing nations; secure supply to oil-consuming countries; and a fair return for investors in the oil sector. OPEC accounts for over 40% of world oil production and is therefore able to influence global oil markets by coordinating production adjustments and setting production targets for its members.

non-oil and gas sector grew at 16.1% in 2007-11, more than twice the rate of the next fastest growing GCC country. Overall, this has made Qatar the fastest growing economy in the GCC in 2007-11 (Fig 2.7) and in the world.

Real growth in the GCC in 2012-13 is forecast to be high compared to most other regions

Looking forward, QNB Group expects the GCC to continue its strong growth trajectory in 2012-13 (Fig 2.8).

Fig 2.8: World Real GDP Forecasts (2012-13)
(% change)



Source: IMF WEO January 2012, QNB Group forecasts for the GCC

QNB Group expects oil and gas production to stabilise. Oil production should continue to be constrained by OPEC production targets, which have been close to current production levels since December 2011. Additional increases in production targets are unlikely unless there is a major oil price spike. Overall, oil production is expected to grow at 0.5% during 2012-13.

Gas production is predicted to increase more rapidly, at a rate of 4.9% a year in 2012-13, mainly owing to gas-related projects reaching full capacity in Qatar and to production increases in Saudi Arabia. Overall, oil and gas real GDP is expected to expand at a CAGR of 0.8% in 2012-13.

QNB Group forecasts that growth in the non-oil sector will be stronger than in the oil sector

We expect growth in the non-hydrocarbons sector will drive the GCC economy in the next two years. This will be led by the services sector, particularly public services, as government expenditure is supported by strong hydrocarbons revenue, based on an average oil price forecast of US$106/barrel in 2012-13. Financial services will also be a key growth sector as it benefits from strong economic activity and investment throughout the GCC economy.

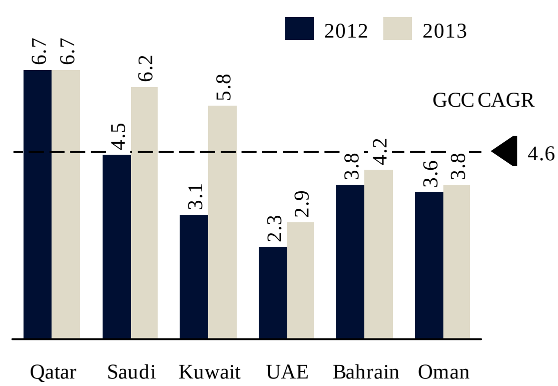
Government investment in development projects will provide a boost to the construction sector. The manufacturing sector (including sub-sectors such as, fertilisers and metals production) will be a key beneficiary of initiatives to diversify economies away from oil and gas dependence.

These sectors are expected to drive real GDP growth in the non-oil sector at a forecast rate of 7.3% during 2012-13 and this will lead to overall real growth for the GCC of 4.6% during the same period.

Activity in GCC oil and gas sectors will continue to underpin growth in the broader economy

Our forecasts for GCC real GDP growth (Fig 2.9) are predominantly driven by the expected impact of oil prices on production and inflows of revenue into the broader non-oil economy.

Fig 2.9: GCC Real GDP Forecasts (2012-13)
(% change)



Source: QNB Group forecasts

We assume a slight drop in oil prices in 2012 versus 2011, which will lead to a small slowdown in real GDP growth, particularly in the more oil-driven economies, such as Saudi Arabia, Kuwait and the UAE. Qatar will be spared the slowdown in 2012 as it benefits from its first full year at new capacity production in the gas sector. Oil production in Oman has been rising due to its efforts to develop its oil fields and there are targets for further production increases in 2012, which will support growth. Growth in Bahrain will be steadier, as it is more reliant on less volatile non-oil sectors, particularly services. In Bahrain, we are expecting a bounce back from a low growth of 1.2% in 2011, which was the result of political unrest.

In 2013, we are assuming a small increase in oil prices. This will reverse the 2012 trend, boosting growth, particularly in the heavily oil-driven economies. Qatar will begin to face capacity constraints and growth should stabilise. Oman's oil field development plans will lead to similar growth as in 2012. Growth in Bahrain is expected to pick up further, as the services sector gains momentum.

3. GDP by Sector

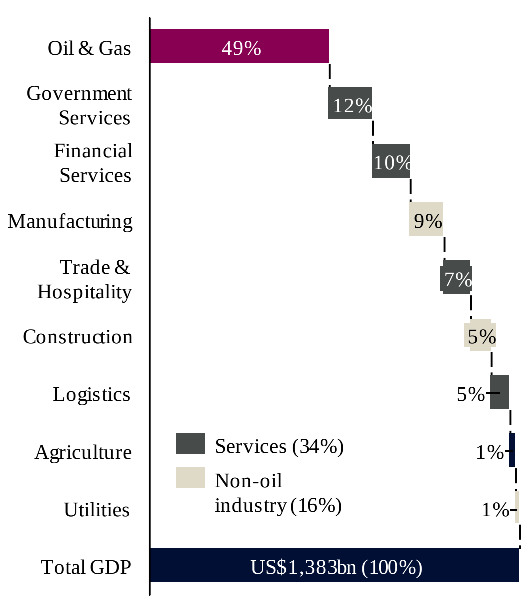
Oil and gas (Section A) was the largest sector in the GCC in 2011, accounting for 49% of total GDP (Fig 3.1). This was slightly higher than its average share of 45% in 2006-10.

Services (Section B) accounted for 34% of GDP in 2011. Government services (public administration, defence, health, education, welfare etc.) and financial services form around 65% among the sub-sectors, followed by trade and hospitality and transport and communications. This sector is a key focus of government spending and policy, which has also benefited the growth in the financial services.

Non-oil Industry (Section C) formed 16% of GDP in 2011. It consists of manufacturing, construction and utilities, in order of their size. The manufacturing sector leverages the region's hydrocarbon reserves through oil refining, GTLs, petrochemicals and metals production. The construction sector has been strong given on-going projects in GCC countries to further develop their infrastructure. Utilities have been expanding in response to a rapidly growing population.

Agriculture is a small sector of the GCC economy given the limited availability of arable land. It accounted for only 1.2% of GDP in 2011.

Fig 3.1: GDP by Economic Sectors (2011)
(US$bn and % share shown)



Source: National statistical authorities, QNB Group estimates

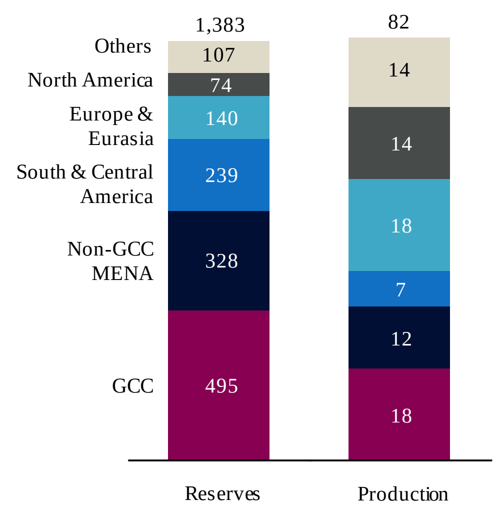
A. Oil and Gas

Oil

The GCC holds 36% of global oil reserves but accounts for only 22% of production

The GCC holds 36% of the world's proven oil reserves but only has a 22% share of global production (Fig 3.2).

Fig 3.2: World Proven Oil Reserves and Oil Production (2010)
(reserves in bn barrels and production in m b/d)



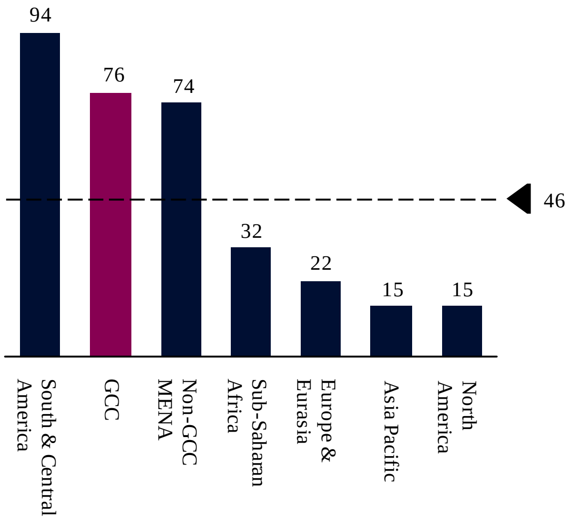
Source: BP Statistical Review of World Energy and QNB Group analysis

It has a larger share of global oil exports, because domestic consumption is lower than in many other oil producing states. GCC oil production is constrained by OPEC production targets, which are aimed at stabilising global oil markets. The development of the GCC oil reserves is also at a relatively early stage compared with other regions. Therefore, enhanced recovery techniques have been more widely employed in regions outside the GCC to maximise production from older fields. Higher energy consumption in other regions has also provided an incentive to maximise production.

Long lifespans of GCC oil fields are expected given low production and high reserves

The positive outcome of low production and high reserves in the GCC is longer oil field lifespans than in many other regions of the world. Reserves-to-production (R/P) ratios for the GCC indicate that, at 2010 production levels, reserves are expected to last for another 76 years (Fig 3.3).

Fig 3.3: World Oil Reserves-to-Production Ratios (2010)
(years of production at prevailing levels)



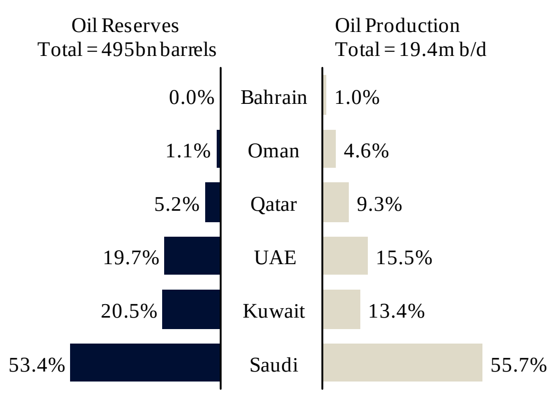
Source: BP Statistical Review of World Energy and QNB Group analysis

The only region with a higher R/P ratio is South and Central America where production is yet to commence from new Venezuelan discoveries. When production does begin, probably in 2013, the R/P ratio will begin to drop.

Saudi Arabia accounts for over half of the reserves and production in the GCC

Over half of GCC oil production is in Saudi Arabia (Fig 3.4).

Fig 3.4: GCC Proven Oil Reserves and Production[13] (2011)
(reserves in bn barrels and production in m b/d, % share shown for top 3)



Source: BP Statistical Review of World Energy, QNB Group estimates and analysis

[13] Bahrain's small official reserves do not include its share with Saudi Arabia in the offshore Abu Safah which has around 5bn barrels of oil, although most of its production comes from this field. With this included, Bahrain's share or regional reserves increase to about 0.5%

Saudi Arabia expanded production in 2011 as it led OPEC in boosting output to combat high oil prices during the first half of the year. This increased the overall GCC oil output by 7.7% in 2011 compared with production growth of 1.4% during 2001-10. There were also sharp increases in production in the UAE (7.0%) and in Kuwait (4.7%) in 2011, to maintain price stability in oil markets.

Qatar's oil production increased by 13.2% in 2011, mainly due to condensates, a high-quality liquid by-product of gas production that now accounts for over half of Qatar's oil production. The increase in condensates extracted was proportional to the increase in gas production. Condensates are not included in the production quotas of OPEC members.

Sustained global demand for oil is expected to keep GCC production at current levels

OPEC crude oil production was 30m b/d in 2011, according to the International Energy Agency (IEA). This is in line with OPEC's production target, announced in December 2011. The IEA does not expect any increase in demand for OPEC oil in 2012, as per its February 2012 oil market report. This suggests that oil production in OPEC will remain flat. Four of the six GCC countries (excluding Bahrain and Oman) are OPEC members, implying that oil production in the GCC is also likely to remain flat.

Additionally, we are forecasting that oil prices will fall slightly in 2012 and then rise marginally in 2013. Oil production in the GCC has a high correlation with prices as production cuts are intended to support falling prices and, conversely, there is an incentive to increase the volume produced when prices are higher. Leading GCC producer, Saudi Arabia, cut production by 8.8% in 2009 when average oil prices fell sharply and then increased production in 2010 and 2011 by 1.2% and 8.4% respectively, as prices rose. We therefore expect its production to rise and fall in line with our price forecasts in 2012-13. The IEA currently puts Saudi Arabia's spare production capacity at 2m b/d, leaving room for significant production increases.

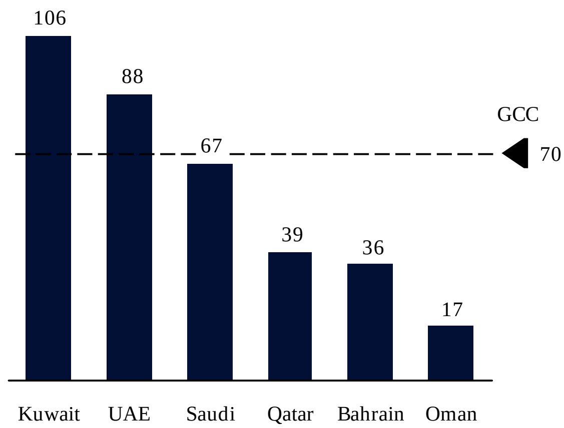
We are expecting oil production to be flat in 2012 as falling production in Saudi Arabia and the UAE is compensated for by programmes to increase output in Kuwait and Oman. Rising production across all GCC countries in 2013 is expected to lead to an overall output increase of 1.4%.

The GCC should be able to further extend its current implied oil field lifespan

The GCC's characteristic of large reserves and comparatively low production is particularly evident in Kuwait, which could produce at current rates for 106 years, based on proven reserves (Fig 3.5).

GCC proven oil reserves have been broadly stable for the last decade, despite rising production. New oil discoveries, enhanced oil recovery (EOR) techniques, and growing condensates production suggest that GCC states will be able to extend the lifespan of their reserves beyond what is currently expected.

Fig 3.5: GCC Oil Reserves-to-Production Ratio (2011)
(years of production at prevailing levels)



Source: QNB Group estimates

The world's largest conventional oil fields are concentrated in the GCC

The world gets its daily oil requirement of around 85m barrels from more than 4,000 fields, according to the EIA. The majority of these fields produce less than 20,000 b/d. In comparison, the biggest oil fields are capable of producing over 100,000 b/d. Of the five top oil fields in the world, four are in the GCC (Table 3.1).

Table 3.1: World's Largest Oil Fields (2010)

Field	Country	Recoverable Reserves (bn barrels)
Ghawar Field	Saudi Arabia	30
Burgan	Kuwait	22
West Qurna	Iraq	21
Safaniya	Saudi Arabia	20
Zakum	UAE	18

Source: EIA, Forbes and QNB Group analysis

Saudi Arabia has the world's largest oil field which produces an estimated 5m b/d, nearly half the country's total output. The benefit of large fields is that they minimise the need for infrastructure and maximise economies of scale, keeping down the cost of extraction.

The GCC has the world's lowest cost of producing oil

Production costs in the GCC are low. Oil extraction is more expensive in places where:

- Fields require **deep drilling**
- Mature fields require **EOR techniques**
- **Deepwater offshore** fields that require expensive infrastructure

These oil field attributes are not common to the GCC.

Based on 2008 estimates from the IEA, oil in Saudi Arabia cost about US$4-6/b to extract, including operating and capital expenditure. This is the world's lowest production cost. Saudi Arabia's oil fields are both large and located near the surface. In the UAE, the cost of producing a barrel is estimated at US$7, while in Oman and Qatar it is estimated at US$15/b, largely due to the higher cost of offshore production.

Production costs in Nigeria, for example, which has deep water offshore fields, are in the range of US$30/b, while those from mature fields in Venezuela are around US$20/b.

The opportunity cost of using oil as a domestic energy source is high

The GCC will need to ensure that it makes the most of its abundance of oil. Subsidies and low costs of producing oil have led to ultra-low costs of energy and fuel in GCC countries, particularly in Saudi Arabia. The opportunity cost of failing to sell this oil overseas, where it can fetch more than US$100/b in international markets, is high. Therefore, the development of other energy resources to free up oil for export is crucial to maximising the benefit from the oil sector.

Natural Gas

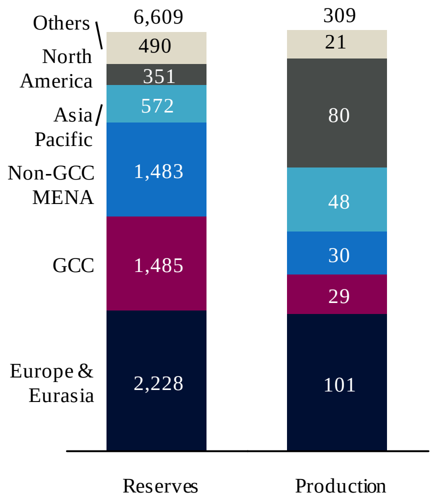
The GCC holds 22% of global proven gas reserves but only accounts for 10% of production

The GCC region has the second largest global proven conventional[14] gas reserves, accounting for 22% of the total (Fig 3.6).

Qatar has the largest gas reserves in the region and the third largest gas reserves in the world, after Russia and Iran. North America accounts for 26% of production, despite having only 5% of conventional reserves. This has been driven by the high level of domestic demand, which in turn has led to the rapid extraction of gas, especially shale gas in the US.

[14] This figure excludes unconventional gas supplies such as shale gas and coal bed methane

Fig 3.6: World Proven Gas Reserves and Gas Production (2010)
(reserves in trn cu ft and production in bn cu ft/d)

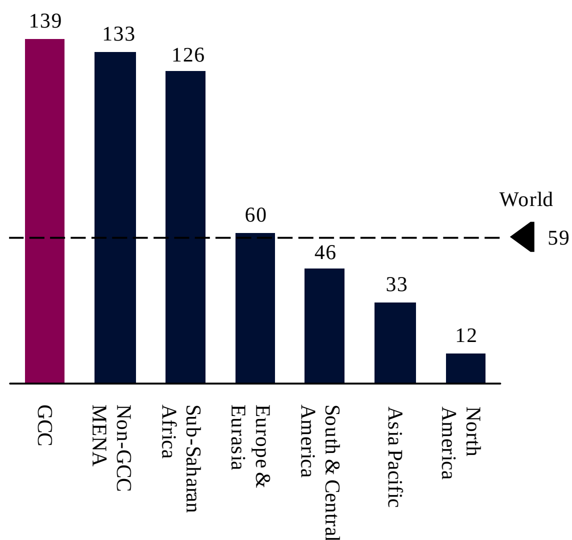


Source: BP Statistical Review of World Energy and QNB Group analysis

At 2010 production levels, the GCC's proven gas reserves would have lasted 139 years

The GCC gas sector has a similar structure to the oil sector with high reserves and relatively low production. Its gas reserves are therefore expected to last considerably longer than other regions of the world with a further 139 years of production to come (Fig 3.7).

Fig 3.7: World Gas Reserves-to-Production Ratios (2010)
(years of production at prevailing levels)



Source: BP Statistical Review of World Energy and QNB Group analysis

The R/P ratio in the non-GCC MENA is boosted by Iran, which has the second largest global proven gas reserves in the world, accounting for 15.8% of the total, but only for 4.3% of world production. Production has been held back in Iran by sanctions, which have restricted the transfer of technology and skills for gas production.

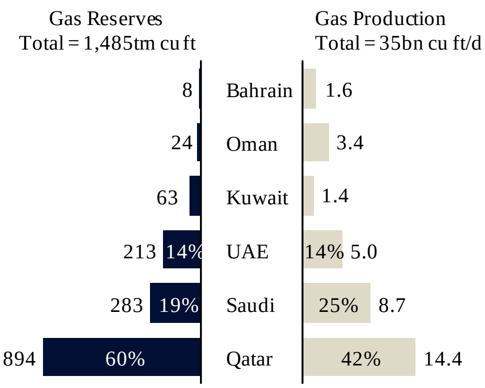
Qatar holds most GCC gas reserves and has driven growth of GCC gas production

Qatar holds the bulk of GCC gas reserves (Fig 3.8), and has emerged in recent years as the largest LNG exporter in the world. Qatar's offshore North Field was originally discovered in 1971, but its proven reserves did not rise above 300trn cu ft until 1995. It is now known to be the largest non-associated gas field in the world.

Qatar took a strategic decision in the early 1980's to exploit its gas reserves, which required substantial investments. At the time, the potential of gas as a source of energy and export revenue was not widely accepted, and so gas distribution infrastructure was lacking. Ongoing investment in Qatar into LNG since then has raised capacity to 77.4m tonnes per year (t/y). Qatar has also increased gas production for pipeline exports, domestic use and as a feedstock for the petrochemicals and fertiliser industry.

Saudi Arabia has the second largest gas reserves in the region. It has historically been focused on the oil sector, but has recently being implementing a strategy to boost gas reserves and production. Its national oil company, Saudi Aramco, aims to produce about 15.5bn cu ft/d by 2015, from 10.2bn cu ft/d currently. The main objective is to use gas for domestic power production, which will free up more oil for export.

Fig 3.8: GCC Gas Reserves and Production (2011)
(reserves in trn cu ft, production in bn cu ft/d, % shares)



Source: BP Statistical Review of World Energy and QNB Group analysis

The UAE was one of the first countries to utilise its gas resources and, as early as 1977, built an LNG plant to export associated gas. However, most of UAE's gas reserves have high sulphur content and are located offshore, making them harder and more expensive to exploit.

Heavy investment and high R/P ratios will drive robust long-term growth in gas production

GCC gas production grew at 9.9% from 2007-11, mainly driven by the continued expansion of Qatar's LNG programme. Qatar's total gas production grew at 24% during this period to reach an estimated 11.3m cu ft/d.

Growth in gas production was between 3% and 5% in the rest of the GCC, with the exception of the UAE where it has stagnated as a result of extraction challenges. In general, with the exception of Qatar, most GCC gas production is associated with oil. Gradually rising oil production and greater efforts to capture more of the associated gas have resulted in these gas production gains.

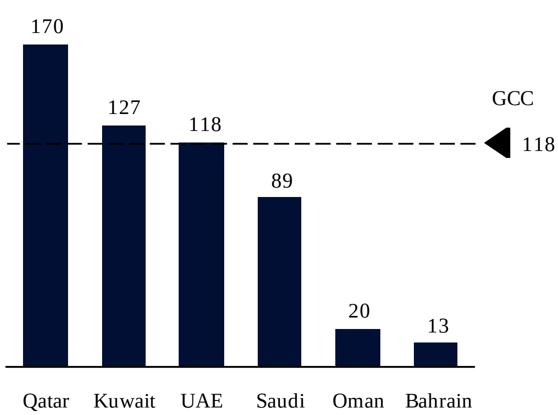
Overall, we expect gas production growth to slow to 4.3% in 2012-13. The moderation will be mainly due to the production outlook in Qatar. In 2012, the state will experience its first full year at LNG production capacity and will also increase gas production to feed a new GTL plant, leading to production growth of 6.9%. However, in 2013 production will be relatively flat.

We expect gas production growth in the remainder of the GCC (excluding the UAE and Qatar) to pick up to 6.0% in 2012-13. Continued investments into capturing more associated gas from oil fields are likely to yield positive results.

The Barzan project in Qatar is scheduled to come on stream in 2015, adding 1.4bn cu ft/d of gas production for domestic use. Beyond 2015, Qatar will again begin to drive further growth in GCC gas production. A moratorium is currently in place on new production projects on the North Field until a study on sustainability has been completed.

The GCC's gas R/P ratio was 118 years in 2011, mainly a result of the large reserves in Qatar (Fig 3.9). However, as production rises, these ratios will fall. QNB Group estimates that the R/P ratio for gas in the GCC will fall to under 100 years by 2015 if there are no major new gas field discoveries.

Fig 3.9: GCC Gas Reserves-to-Production Ratio (2011)
(years of production at prevailing output levels)



Source: QNB Group estimates

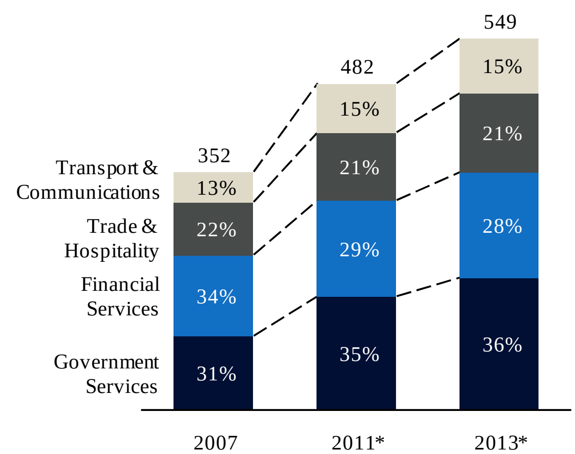
B. Services

The services sector is the second largest component of overall GDP, with a 35% share of regional GDP in 2011. The sector grew by 4.8% in real terms from 2007-11[15] and QNB Group forecasts growth of 6.2% in 2012-13.

Government services is the largest component and a key driver for the services sector

Government services now forms the largest component of the services sector, having increased its share to 35% in 2011, surpassing financial services (Fig 3.10).

Fig 3.10: GCC Services Sector Nominal GDP[16] (2007-13)
(US$bn and % share)



Source: National statistical authorities, *QNB Group estimates and forecasts

This sub-sector has been growing rapidly at a rate of 6.1% from 2007-11. Rising oil revenue has resulted in strong growth in government expenditure, almost doubling between 2007 and 2011, leading to an upsurge in government services.

We expect government expenditure to remain strong which will provide a firm foundation for continued growth in government services in 2012-13, at a rate of 7.3%.

The UAE has held back regional financial services growth

Financial services is the next largest component and includes banks, insurance and real estate, with banks accounting for the majority of the sub-sector. Financial services witnessed a slowdown in growth to 2.5% in the period from 2007-11, compared with 11.2% in 2003-07. This earlier period of rapid growth came from a combination of strong economic

[15] All growth rates are given in real terms in this section, unless otherwise indicated.
[16] Banking charges are usually deducted from GDP and some countries, including Qatar and Saudi Arabia in the GCC, deduct them from the services sector. We have included bank services charges here to ensure consistent comparison.

expansion along with an increasing level of project financing opportunities for various major energy, infrastructure and other development projects. The slowdown in 2007-11 resulted from the spill-over effects of the global financial crisis and also the boom-bust cycle in the real estate sector. This has led to the share of financial services falling from 34% of the services sector in 2007 to 29% in 2011.

The UAE has the largest financial services sector in the GCC, over a third of the regional total, and its slow recovery from the 2008 crisis is dragging down regional financial services growth. UAE banks have been taking relatively large provisions for bad loans and there is still overcapacity in the real estate sector. Excluding the UAE, real growth in the GCC financial services sector would have been 5.1% in 2007-11 versus the 2.5% for all six GCC countries.

Most of the GCC countries are seeking to develop as financial centres and to attract leading global financial institutions. This should support growth in financial services, which we expect to be 4.0% in 2012, picking up to 4.9% in 2013 as oil prices rise, boosting economic activity.

Growing regional wealth has supported the trade and hospitality sub-sector

Trade and hospitality is another important component of the services sector, which grew at rate of 3.7% in 2007-11. The growing wealth of the region has supported consumer demand, which underlies this sector.

The UAE represents 44% of regional trade and hospitality GDP. The diversification strategy adopted by some of the emirates, especially Dubai, has established a vibrant tourism sector and made the region an important retail destination. However, the sub-sector has been negatively impacted by the global slowdown since 2008 and growth has moderated to 1.2% from 2007-11 down from 6.1% from 2003-07. We expect growth to recover to 3.0% from 2011-13.

Qatar has also been able to identify and establish a niche for itself in the tourism sector, by hosting major global conferences and international sporting events. The trade and hospitality sub-sector has therefore received a strong boost, expanding at 13.1% from 2007-11, and is forecast to grow at 10.9% from 2011-13. In the wider GCC, we forecast strong real growth in this sub-sector of 5.4% from 2011-13.

Regional trading hubs and the mobile sector have boosted transport and communications growth

Transport and communications forms the final component of the services sector, and grew at a rate of 8.4% from 2007-11. The UAE is again the most prominent country in this sub-sector, with a 39% share in 2011 as it is the regional trading hub for both shipping and air freight, supported by the presence of various free trade zones.

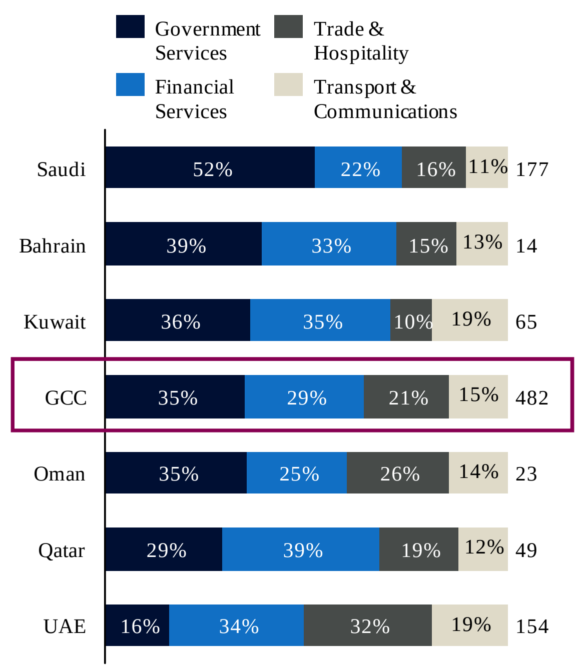
The expansion of the regional telecommunications sector has been exponential. The total number of mobile subscribers in the GCC reached 75m in 2010, up nearly twenty-fold since 2000. The rapid growth of the mobile market seems unlikely to continue owing to market saturation. Mobile penetration rates in the GCC are now amongst the highest in the world with an average of two mobile subscriptions per person. Therefore, we are expecting slightly slower growth in the overall sub-sector of 5.4% in 2012 and 6.7% in 2013.

Saudi Arabia and the UAE differ markedly in the split between government and private services

The government accounts for a much larger share of services in Saudi Arabia than anywhere else in the GCC, amounting to 52% of the sector's total output (Fig 3.11). This highlights the important role of the government in Saudi Arabia in supporting the economy through its fiscal expenditure. Saudi Arabia's five-year development plans have led to a marked increase in spending on education, health, security and social services.

By contrast, in the UAE, the growth of a private services-oriented economy has reduced the relative importance of the government in the services sector, which was just 16% in 2011.

Fig 3.11: GCC Services Sector by Country (2011)
(US$bn and % share)



Source: National statistical authorities and QNB Group estimates

Financial services are particularly prominent in Qatar and are growing rapidly

In Qatar, the financial services sector accounts for 39% of the overall services sector, a higher proportion than anywhere else in the GCC, having surged by 14.9% a year over the past decade. Qatar's rapid economic growth, major investment projects and expanding population have presented an enormous opportunity for financial services. The successful establishment of the Qatar Financial Centre (QFC) has also provided a boost to this sub-sector. Around 150 companies are currently registered with the QFC. The emergence of a vibrant insurance and re-insurance market in Qatar will add further impetus.

C. Non-Oil Industry

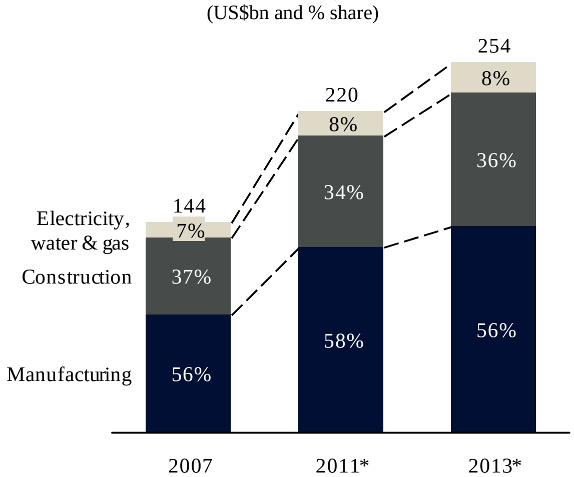
The non-oil industry sector grew at a rate of 8.5% during 2007-11. Its contribution to the GCC's overall GDP reached 16% in 2011 and amounted to US$220bn.

Manufacturing forms the core part of non-oil industry

Manufacturing represented 58% of non-oil industry in 2011 (Fig 3.12). This sub-sector is mainly made up of oil refining, petrochemicals, fertilisers, metals production and other industrial sub-sectors.

Manufacturing grew at 6.8% in 2007-11. Government efforts to diversify GCC economies and leverage their hydrocarbon resources have led to heavy public investment into manufacturing. The sector's growth has also been boosted by rising prices for fuel, petrochemicals, fertilisers and metals.

Fig 3.12: GCC Non-Oil Industry Nominal GDP (2007-13)
(US$bn and % share)



Source: National statistical authorities, *QNB Group estimates and forecasts

Saudi Arabia accounts for 46% of the GCC's manufacturing sector, as a result of its large oil refining, petrochemicals and fertiliser industries. However, Qatar recorded the fastest growth in manufacturing, at 22% during 2007-11. This was a result of capacity expansion in the petrochemicals, fertilisers, steel, aluminium, and GTL production.

Qatar and Saudi Arabia will continue to drive manufacturing growth

Refining capacity is currently around 4.4m b/d in the GCC and grew at 0.8% from 2007-11. Saudi Arabia accounts for 47% of capacity. No further capacity expansions are expected in 2012-13, as new plants will not be completed within this timeframe. However, Saudi Arabia is investing heavily in new refineries and expects to add 1.2m b/d to its capacity by 2017. Other countries such as Qatar and Kuwait also have expansion plans beyond the forecast period.

Future growth in the manufacturing sector will be supported by investments in petrochemicals, fertilisers and metals production. In Saudi Arabia this includes:

- A 3m t/y **fertiliser plant** commenced operations in 2011
- A US$7bn expansion of a **petrochemical facility** expected to be completed by 2014
- A new US$20bn **petrochemical facility** slated for completion in 2015
- A new 4m t/y **bauxite mine** expected to commence production in 2013
- A 2m t/y **alumina refinery** expected to begin production in 2014

Qatar also has major expansions underway:

- US$4bn of **fertiliser projects** will add 2.6m t/y to production in 2012-13
- **Petrochemicals** expansions equating to 2m t/y of production are currently underway
- An **aluminium smelter** that began production in 2010 should achieve its first full year at capacity in 2012
- A 1.1m t/y **steel-making plant** should be completed by 2013
- The completion of a US$19bn **Pearl GTL project** in 2011, which should record its first year at full capacity of 140,000 b/d in 2012

In Oman:

- A new **iron and steel plant** was completed in early 2011 with a US$1bn expansion plan to double its capacity is currently underway
- Two new **petrochemicals plants** are passed their completion dates and should begin production this year

All these major projects will drive the growth of the manufacturing sector in the GCC. We forecast that it will expand by 4.6% in 2012 and 8.8% in 2013. This growth will mainly be driven by Qatar and Saudi Arabia. We forecast that Qatari manufacturing will grow by 8.1% from 2011-13 and Saudi Arabia at the even faster rate of 9.9%. Nonetheless, the contribution of manufacturing to non-oil industry will drop due to even faster growth in the construction sector.

Construction is set to bounce back from its post-financial crisis malaise

Construction forms the second most important part of the non-oil industry sector with a 34% share in 2011, down from 37% in 2007. The construction sector has witnessed a slowdown in recent years with growth of 5.4% during 2008-11, compared to 14.4% in the preceding five years. The sector has been particularly impacted by the effects of the global financial crisis on the financing of projects and a sharp slowdown in the real estate sector, particularly in the UAE, which accounts for 51% of the GCC construction sector. This has led to a drop in its share of non-oil industry.

Oil prices also play a significant role in this sector as they drives government spending and investor confidence, which have a direct impact on the execution of projects. QNB Group expects that there will be a recovery in the construction sector in 2012-13 with growth of 9.6%, supported by strong oil prices and recovering activity in the UAE.

Massive investments are going into electricity and water production to keep pace with demand

Utilities (electricity, water and gas supply) account for a small share in the non-oil industry GDP. The sector grew at 8.7% during 2007-11 but its share in nominal GDP is constrained as governments in the region control utility prices tightly. Real growth has been driven by the rapidly expanding population and the growing economy.

In the electricity sub-sector, growth in energy demand has been strong in recent years at around 8%. This has led to most GCC countries investing heavily in expanding their energy generation capacities to keep up with demand. In Saudi Arabia alone, the electricity authority has announced plans to invest US$100bn during 2010-20 in various projects, aiming to increase power generation capacity from around 50 gigawatts (gw) currently to 75 gw by 2018 and 120 gw by 2030.

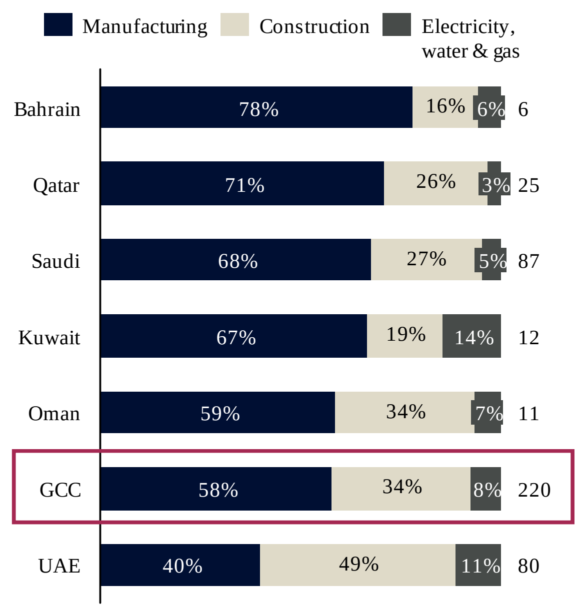
The power and water sectors are closely linked in the GCC as a large proportion of water supply is met through desalination plants, which are heavily energy-intensive. Many power projects are therefore integrated with water production, for example the ongoing US$3.9bn Ras al-Zour power and water project in Saudi Arabia, which will produce 2.4 gigawatts of electricity and 1m cubic metres per day of desalinated water when completed. Major projects throughout the GCC will support growth in the utilities sector going forward. We are forecasting growth of 6.7% in 2012-13.

Most GCC countries are also looking at alternative/renewable energy solutions. For instance, Saudi Arabia has set a goal of achieving 10% energy from renewable sources by 2020, from a near zero level at present and is investing heavily in research into solar power generation. The use of nuclear power is also being scrutinised.

Manufacturing dominates non-oil industry, except in the UAE

The **manufacturing** sector is particularly important in Bahrain, accounting for 78% of total non-oil industry (Fig 3.13), as oil refining is an important part of its economy.

Fig 3.13: GCC Non-Oil Industry by Country (2011)
(US$bn and % share)



Source: National statistical authorities and QNB Group estimates

Major projects in Saudi Arabia and Qatar mentioned earlier have led to manufacturing becoming an important segment in the non-oil sector for these countries. Kuwait also has a large oil refining and petrochemicals sector.

UAE stands out for its relatively low share of its manufacturing sector in non-oil industry. Instead, its focus on major real estate projects has boosted the share of the construction sector.

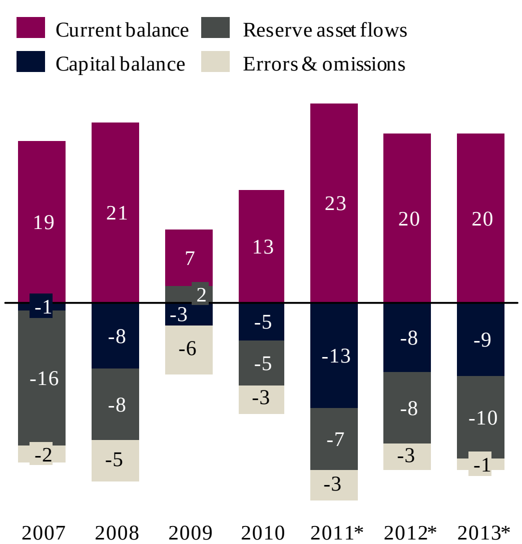
4. External Sector

A. Balance of Payments

Surplus oil and gas export earnings are used to build up GCC foreign reserves and investments

The **balance of payments** is the sum of the net flows of foreign currency through countries' current and capital accounts[17]. The GCC receives large surplus inflows of foreign currency in its current account, as a result of its hydrocarbon exports. This surplus then flows into private and state investments abroad, resulting in net capital account outflows, and into central bank reserve assets[18] (Fig 4.1). Each of these components are discussed in detail in this chapter.

Fig 4.1: Balance of Payments (2007-13)
(% of GDP, + are inflows of foreign currency, - are outflows)



Source: National statistical authorities, *QNB Group estimates and forecasts

The fall in Saudi reserves in 2009, despite all other countries recording small reserve increases, led to a fall in overall GCC reserves that year (appearing as a positive in the balance of payments). The flip side of this is that little of the GCC capital outflows come from Saudi Arabia, which actually recorded net capital inflows during 2007-09. Instead, Kuwait, the UAE and Qatar are mainly responsible for the net capital outflows.

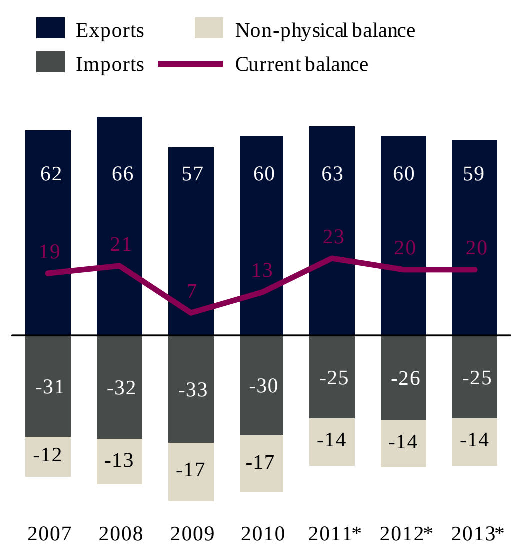
Tracking, categorising and reconciling foreign exchange transactions is extremely complex. The figures frequently do not balance in the way that they should theoretically. This is the reason for the "errors and omissions" component in each country's balance of payments. This line typically averages about 3% of GDP for the GCC as a whole, which is moderate for the MENA region[19]. Ongoing improvements by statistical agencies, aided by the IMF, should cause the errors and omissions line to decline in size going forward.

B. Current Account

The GCC's current account surplus in 2011 was US$322bn, larger than that of any country

The GCC runs a substantial surplus in its current account, which reached an estimated US$322bn (23% of GDP) in 2011. This is because the foreign exchange it earns from hydrocarbon exports far outweighs both payments for imports of goods and services and payments by foreign companies and workers repatriating their income (Fig 4.2).

Fig 4.2: Current Account Constituents (2007-13)
(% of GDP)



Source: National statistical authorities, *QNB Group estimates and forecasts

The region has achieved a current surplus for every year since 1998 (the low oil prices during the 1990s resulted in deficits for half of the decade). The surplus has widened substantially in recent years, except for a brief narrowing during the 2009 global recession.

[17] The capital account comprises payments that relate to ongoing obligations, such as making investments. The current account, on the other hand, comprises payments for immediate exchange with no future obligations, such as purchasing imports or receiving investment income.

[18] A negative entry in the balance of payments means that reserves increase, while a positive entry, as in 2009, mean reserves decrease.

[19] For the GCC, this line is usually negative, suggesting that either some inflows have been overestimated (for example through double counting) or that some current or (more likely) capital outflows have been underestimated. As GCC foreign exchange inflows are probably reliably tracked, as they come largely from hydrocarbon exports by state companies and their partners, and therefore the errors most likely relate mainly to underestimated capital outflows. Saudi Arabia is responsible for the bulk of the region's errors, because of the size of its economy and because errors averaged 8% of its GDP in 2007-10, compared to 4% for Kuwait, the next highest.

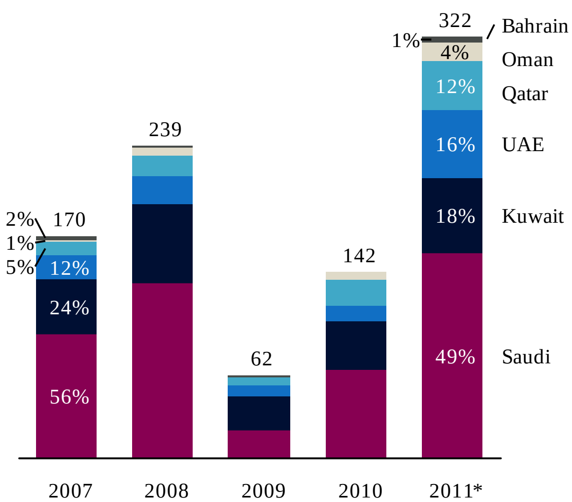
2011 was a watershed year for the GCC's current account as, for the first time, its surplus is estimated to have exceed those of the world's three other great exporters—China, Japan and Germany. In fact, it exceeded each of them by well over 50%. Moreover, in 2011, the GCC's surplus nearly balanced out the net deficit of the OECD, the bloc of 34 of the most developed countries[20]. This illustrates the important role played by the GCC in the global economy.

Oil prices are forecast to remain high in 2012-13, resulting in continued strong current-account surpluses around 20% of GDP.

Saudi Arabia has the largest US dollar surplus, but Kuwait has the largest relative to its GDP

Within the GCC, Saudi Arabia represents the lion's share of the regional surplus, about 49% of the total in 2011 (Fig 4.3), as it is the largest exporter of hydrocarbons in the region, by value. The main structural change over the last five years is Qatar's share has grown from just 5% in 2007 to 12% in 2011, as a result of expansions in its gas exports.

Fig 4.3: Shares of GCC Current-Account Surplus (2007-11)
(US$bn, % share)

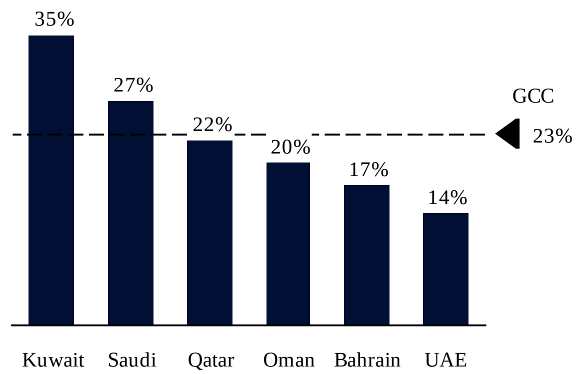


Source: National statistical authorities, *QNB Group estimates

Kuwait's surpluses are the largest in relative terms, equal to an estimated 35% of its GDP in 2011 (Fig 4.4). Kuwait benefits from a strong income surplus in addition to its trade surplus from hydrocarbon exports. The UAE has the smallest current-account surplus in the GCC, at 14% of GDP as its economy is less dependent on exports, with a large services component to its GDP. However, in absolute terms its current account surplus is still second in the region.

Very few other countries come close to the surpluses of GCC countries in relative terms. In 2011, estimates by the Economist Intelligence Unit (EIU) put the relative surpluses of only seven non-GCC countries ahead of the UAE (Iraq, Switzerland, Norway, Trinidad, Singapore, Azerbaijan and Gabon), and all of these countries had surpluses well below the GCC regional average of 23% of GDP.

Fig 4.4: Current Account Surpluses by Country (2011)
(% of GDP)



Source: QNB Group estimates

Trade Balance

The GCC trade surplus is the largest in the world and is forecast to average US$493bn in 2012-13

The GCC trade surplus is the predominant reason for its current account surplus. In 2011, Saudi Arabia is estimated to have had the world's largest trade surplus (US$245bn), just ahead of China, and the GCC regional balance was more than twice that size, at US$520bn (38% of GDP). By contrast, the US trade deficit, the world's largest, was an estimated US$740bn.

Qatar had the largest relative surplus, at 45% of GDP, and Kuwait, Saudi Arabia and Oman are close behind. Bahrain and UAE had the lowest relative balances, at 16% and 23% of GDP respectively in 2011.

The trade balance is forecast to remain similar in 2012-13, averaging US$493bn, based on QNB Group's forecast for average oil export prices of US$106/b for the period.

[20] Most of the countries run current-account deficits, although a few—such as Japan and Germany—do have sizable surpluses. The net deficit of the bloc in 2011 was estimated at US$365bn by the Economist Intelligence Unit (EIU).

Regional trade

Intra-GCC trade only makes up 3% of total trade, but is more important for Oman and Bahrain

Most of the GCC's trade is external. Data on trade by country from the IMF Direction of Trade Statistics puts intra-GCC trade at US$30bn in 2010, equivalent to just 3% of total GCC trade. This share has remained fairly steady in recent years.

Regional trade is more important for certain countries. For example, around a third of imports to Bahrain and Oman come from within the region. This is partly because Bahrain imports crude oil from Saudi Arabia to refine, and Oman imports gas from the UAE. The figure is about 12% for Qatar and Kuwait. Saudi Arabia and the UAE have the smallest shares, each around 5%, which is not surprising as they are the largest GCC economies and each provide about a third of the intra-regional imports.

From an export perspective, regional trade is most important to Oman, making up about 14% of its exports, followed by Bahrain on 9% and the UAE at 6%. Re-exports from the UAE, much of them passing through Dubai's Jebel Ali port, were US$86bn in 2010, almost triple the IMF figure for total intra-GCC trade. Certainly some of the re-exports passing through the UAE are bound for other GCC states, although much of it goes to other markets in the wider region.

Imports

The GCC imports food, construction materials, machinery and consumer goods

The GCC purchases a large quantity of imports relative to its size for the following main reasons:

- **Rapid development** requires construction materials and machinery
- **Most food is imported** as the region's terrain is largely arid
- **High incomes** create a demand for the import of consumer goods
- **Rapid population growth** until 2008 contributes to a strong growth in demand.

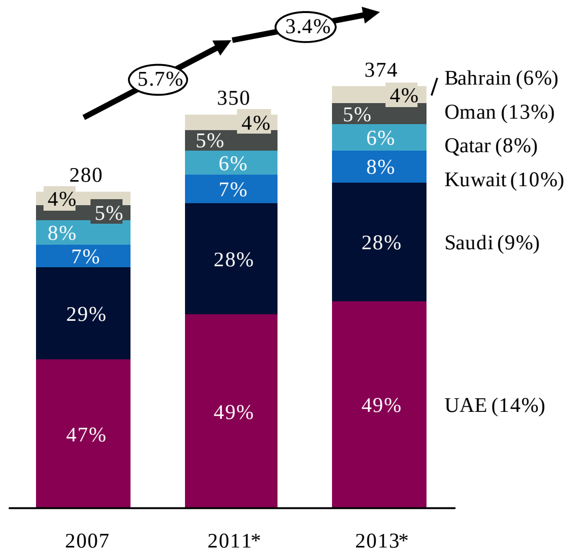
More recently, imports have stabilised at around US$350bn a year (Fig 4.5).

The UAE purchases almost half of GCC imports, although when imports that are re-exported are excluded, this falls to a third.

A clear discernable trend over the last decade has been the rapid increase in the nominal value of Qatar's imports. As recently as 2004 Kuwait purchased twice as much as Qatar. Since 2008, Qatar's imports have levelled off, as the new LNG trains, which required large quantities of high-tech equipment, have been completed.

Fig 4.5: Imports[21] (2007-13)

(US$bn, 2007-11 CAGR shown for each country)



Source: National statistical authorities, *QNB Group estimates and forecasts

India and China have become the leading import sources, surpassing Western countries

The GCC sources its imports from a diverse and steadily shifting range of countries. According to IMF data, imports from India grew by 40% in 2010, causing it to surpass China as the largest supplier to the GCC, providing 12% of total imports (Fig 4.6). China itself surpassed the US in 2008.

However, the US may actually still be the largest supplier to the GCC domestic market itself. This is because 79% of GCC imports from India and 59% from China were received by the UAE, which implies that a sizable proportion of them were destined for re-export outside the region[22]. In comparison, only 37% of imports from the US arrived in the UAE, suggesting a higher proportion were bound for domestic consumption.

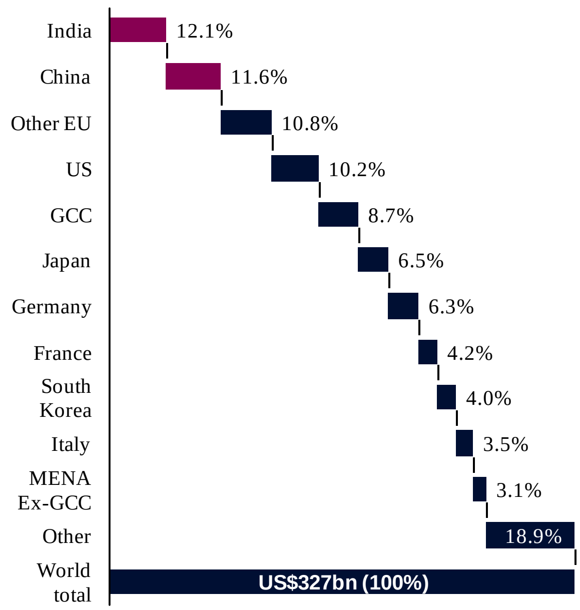
Japan is another major supplier and has declined substantially in importance, down from first place in the 1990s and second place until 2004. The EU as a whole provided 25% of imports in 2010, led by Germany, down from an average of 30% over the previous decade.

Lower cost manufactured goods from China and food and textiles from India have driven the shift in import sources to these countries, away from Western countries that produce higher-end manufactured goods and industrial equipment.

[21] Imports are shown here at their CIF (cost, insurance and freight) values. These are about 11% higher than the FOB (free on board) value of the goods themselves. Within the balance of payments, the FOB figure for imports is included in the trade balance, while the insurance and freight costs are accounted for within the services component of the non-physical payments.

[22] Nearly a third of the region's imports are subsequently re-exported, but there is no data on what share of imports from each country are re-exported.

Fig 4.6: Import Sources (2010)
(% of total imports)



Source: IMF Direction of Trade Statistics, QNB Group analysis

The whole of the MENA region (ex-GCC) is only the tenth largest source of imports for the GCC, providing just 3% of the total. Brazil only provides about 2% of imports, but was the second fastest growing import market, after India, in 2006-10, growing a rate of 21% a year.

Exports

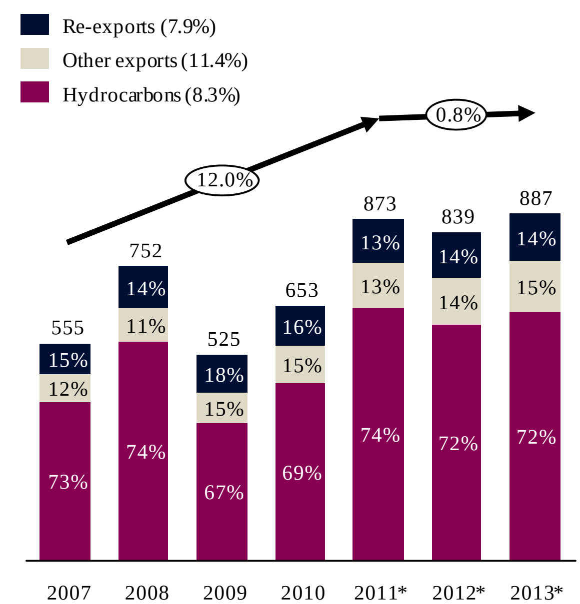
Hydrocarbons overwhelmingly dominate exports in all GCC countries except the UAE

Nearly three quarters of GCC exports are **hydrocarbons,** although their share is volatile owing to oil price changes (Fig 4.7). The UAE has by far the smallest share of hydrocarbons in its exports—65% of direct exports in 2011 (or just 42% when re-exports are counted). Crude oil continues to dominate the region's hydrocarbon mix, although it declined from 78% of hydrocarbon exports in 2008 to 72% in 2011. The relative decline was almost entirely a result of expansion in gas production in Qatar. The value of regional gas exports grew at a rate of 28% in 2007-11, compared with 11% for refined oil and 10% for crude.

The remaining exports, slightly over a quarter of the total, are split between other exports—mainly petrochemicals, fertilisers and metals, industries that rely on hydrocarbons for feedstock or power—and re-exports.

Non-hydrocarbon exports have been growing strongly, at a rate of 15% in 2007-11. Oman has seen the strongest expansion over that period, with 26% growth, as a result of its gas-based industrialisation programme. However, the UAE has also been growing rapidly and continues to dominate regional non-oil exports, largely through manufacturing in Dubai's free-zones. In 2011, the UAE was responsible for 53% of all regional non-hydrocarbon exports, followed by Saudi Arabia at 30% and Oman at 6%.

Fig 4.7: Total Goods Exports (2007-13)
(US$bn, CAGR in 2007-11 shown in legend)



Source: National statistical authorities, *QNB Group estimates and forecasts

As regards **re-exports**, the UAE alone typically accounts for 85% of the re-export value that flows through the region, comprising nearly 40% of total UAE exports. The only other country where re-exports are economically important is Oman, comprising an average of 13% of exports in 2007-11. Oman's ports, particularly Salalah, are conveniently located on the Asia-Mediterranean trade route and are attempting to compete with Dubai on trade facilitation services.

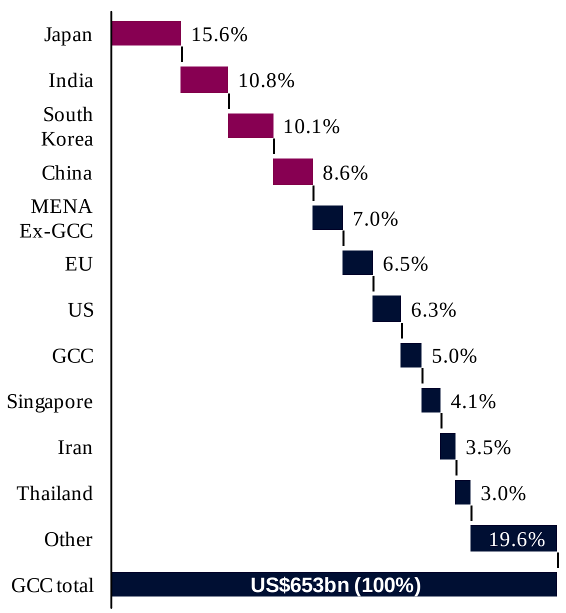
India and China have recently joined Japan and Korea as the GCC's main export markets

The GCC supplies a diverse range of **export markets** (Fig4.8).

Japan has been the main consumer of GCC hydrocarbons for decades, taking in 15.6% of total exports in 2010, down from an average of 23% in the 1990s. Similarly South Korea, another industrialised Asian country lacking domestic hydrocarbon reserves, took in 10.1% of GCC imports in 2010.

India and China have rapidly risen in importance as export destinations, as their economies have grown and sought new supplies of oil and gas. A decade ago China only purchased 3% of GCC exports, and India just 1%. Now India is the second most important export market, at 10.8%, and China the fourth at 8.6%. These shares are likely to increase even further in the future as growth in India and China continues to outperform growth in the US and EU.

Fig 4.8: Export Destinations (2010)
(% of total exports)



Source: IMF Direction of Trade Statistics, QNB Group analysis

The rest of the MENA region is only a destination for about 7% of exports, much of that is probably re-exports through the GCC, but originating in Asia. The EU and US are relatively minor markets, because they largely source their hydrocarbon imports from other regions.

Non-Physical Balance

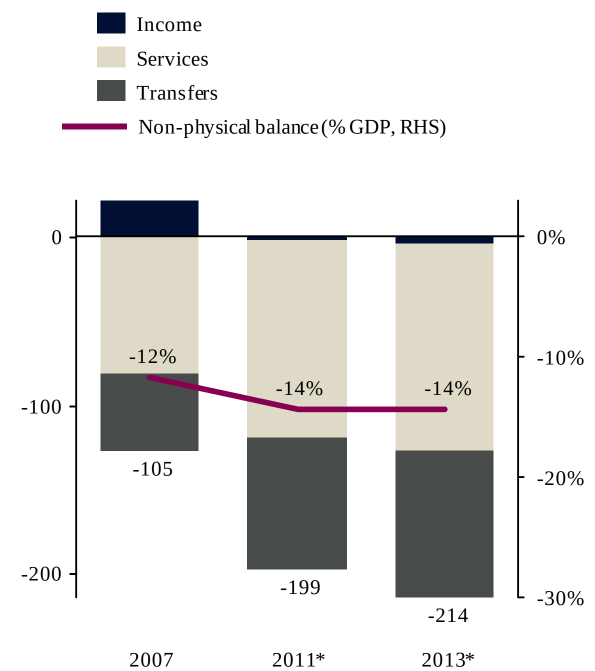
The GCC records annual non-physical deficits of around 14% of GDP

The GCC consistently records net deficits in its balance of non-physical payments, and each GCC country records individual deficits in most years (Fig 4.9).

The **income** balance, relates to cross-border payments of corporate profits and investment income. Half of the GCC countries record deficits in this account, particularly Qatar and to a lesser extent Oman and Bahrain. This is largely because foreign companies play important roles in their economies, particularly in the hydrocarbons sector, and repatriate their profits to their countries of origin.

The other three countries have little foreign involvement in their hydrocarbon sectors, and so only have small levels of profit outflow. Moreover, they receive income inflows from their investments[23] and the foreign activities of local companies. The net result is that Kuwait and Saudi Arabia typically recorded sizable income surpluses, averaging US$9bn and US$8bn respectively during 2007-11, while the UAE recorded smaller surpluses at US$4bn.

Fig 4.9: Non-Physical Balances (2007-13)
(US$bn, unless indicated)



Source: National statistical authorities, *QNB Group estimates and forecasts

The **current transfers** account is composed largely of remittances sent home by expatriate workers. As a result, all GCC countries record sizable and consistent transfer deficits. Total net transfers reached an estimated US$79bn in 2011 and are forecast to grow further to US$87bn by 2013. Remittance payments are broadly proportional to the size of the expatriate populations in each country.

The **services** deficit is the most complex of the three components of non-physical payments. It includes:

- **Transportation costs**, particularly related to hydrocarbons shipments
- **Payments abroad by tourists** and other travellers—whether by visitors to the GCC or GCC residents travelling abroad
- **Foreign payments for professional and financial services**

Bahrain's role as a regional hub for financial services means that it consistently achieves a net services surplus, equivalent to about 10% of its GDP. The other five countries all record large and consistent services deficits ranging from about 4% in

[23] The extent to which income from sovereign wealth fund investments contribute to the income balance for each country is unclear, because this income may be reinvested abroad, rather than repatriated.

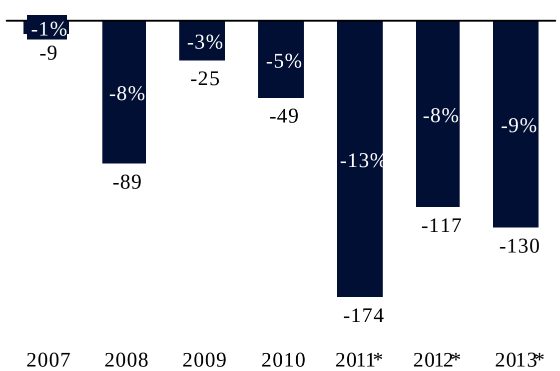
Kuwait and Qatar to about 13% in Saudi Arabia. These deficits are mainly related to the cost of transporting hydrocarbons and employing foreign professional services companies such as engineers, lawyers and consultants.

C. Capital Account

The GCC typically runs a sizable capital account deficit as it invests its current earnings abroad

The capital account[24] can fluctuate markedly year-to-year, unlike other elements of the GCC balance of payments, which follow relatively stable trends, as discussed above. It typically records a deficit for the GCC, but ranges from 1% of GDP in 2007 to an estimated 13% in 2011 (Fig 4.10) and the deficit averaged 8% of GDP over the last decade.

Fig 4.10: GCC Capital Account Balance (2007-13)
(US$bn and % of GDP)



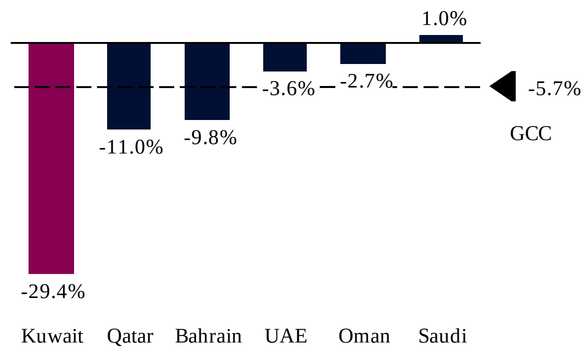
Source: QNB Group estimates and forecasts

The net capital deficit is largely a result of investment outflows, by the state, companies and individuals, counterbalanced by investment inflows.

Kuwait consistently records the largest capital deficit, averaging 29% of its GDP in 2007-11 (Fig 4.11). This is because of its large current account surplus and limited foreign investment inflows.

[24] The IMF refers to this as the "capital and financial account". In its definition, investment flows are grouped within the financial account, while the capital account proper equates just to the capital transfers category in Fig 4.9 (which includes transfers of non-financial assets). However, it is more common not to make this distinction, and simply to refer to all these flows as comprising the capital account. QNB Group follows this usage for simplicity.

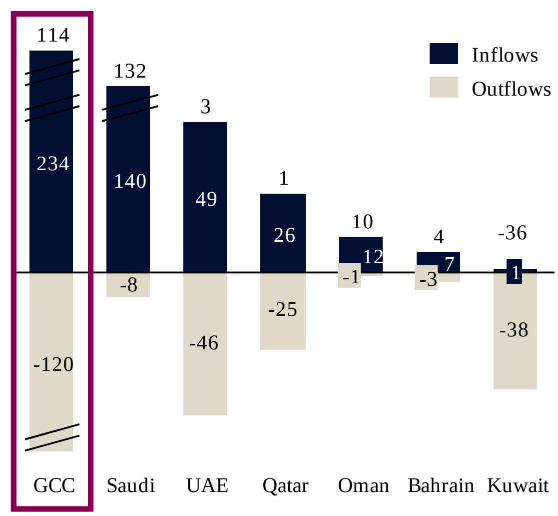
Fig 4.11: Capital-Account Balance by Country (2007-11)
(% of GDP)



Source: National statistical authorities, *QNB Group estimates and forecasts

Saudi Arabia averaged a small capital surplus in 2007-11 (Fig 4.12), because it received substantial inflows of **foreign direct investment (**FDI). It received a record level of FDI in 2008, around US$40bn, which pushed its capital account into a surplus of 7% of GDP that year.

Fig 4.12: Cumulative FDI flows (2006-10)
(US$bn)



Source: UNCTAD, QNB Group analysis

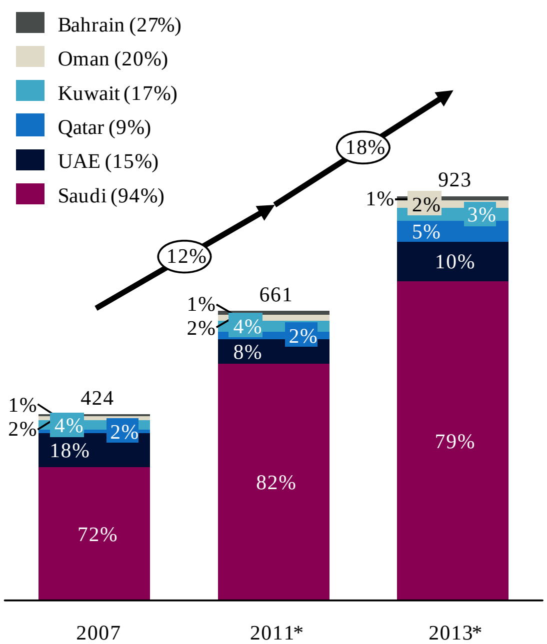
Portfolio investment is another major component of the capital account. However, official statistics providing a breakdown into portfolio inflows (foreign investments in stocks and bonds listed in the GCC) and outflows (investments abroad by GCC entities, particularly SWFs) is not available for all GCC countries.

Net portfolio investment flows can change direction rapidly depending on global market conditions. In 2009, the downturn in global equity markets resulted in many GCC investors liquidating holdings in global markets and repatriating funds, which was a major cause of the sharp narrowing of the capital account deficit that year.

By 2013 the GCC will be approaching US$1trn in international reserves, aside from its SWF assets

The massive current account and fiscal surpluses that have resulted from high oil prices in recent years have enabled GCC countries to greatly increase their holdings of international reserves (Fig 4.13) and foreign assets.

Fig 4.13: International Reserves (2007-13)
(US$bn, % of GDP in 2011 shown in legend)



Source: IMF, *QNB Group estimates and forecasts

One important difference within GCC international reserves is that Saudi Arabia typically invests in highly liquid (cash-like) securities, such as US Treasuries, and counts these funds as part of its central bank's international reserves. The other GCC states, meanwhile, operate sovereign wealth funds (SWFs), separate to their central banks, which channel surplus foreign earnings into a wide range of investments, some of which are liquid securities, while others are in areas such as real estate and industry that are less liquid[25].

This is partly why Saudi Arabia is responsible for the vast majority of the region's international reserves and had reserves equal to 94% of its GDP at year-end 2011, while the next nearest country, Bahrain, had only 27%. GCC combined reserves, totalling US$661bn at end-2011, are greater than those of all other countries aside from China (US$3.2trn) and Japan (US$1.2trn).

The rest of the GCC countries prefer to maintain substantial international foreign exchange reserves with their central banks, channelling other investments into SWFs.

[25] This means that when Saudi Arabia buys a US treasury bond it will be categorised as an outflow to SAMA's international reserve, whereas in Kuwait it might be categorised in the capital account as a portfolio investment by the Kuwait Investment Authority. As a result, the vast majority of the outflows to reserve assets shown in Fig 4.1 are accounted for by Saudi Arabia.

If international reserves were combined with the assets of SWFs across the GCC the picture would look different. The marked-to-market values of these funds are generally not released.

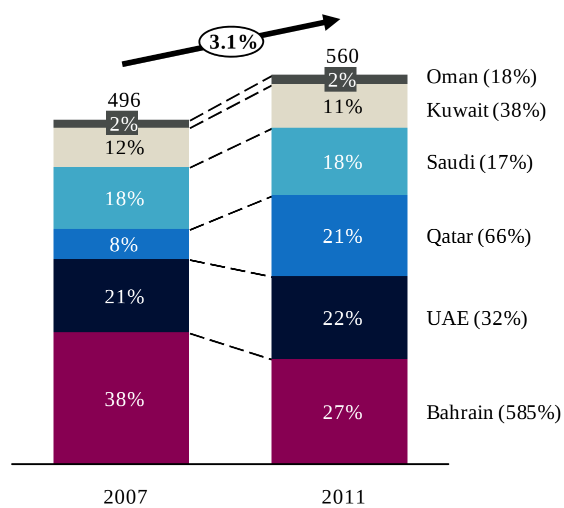
The Abu Dhabi Investment Authority (ADIA), the Kuwait Investment Authority and the Qatar Investment Authority (QIA) are widely considered to be among the world's largest SWFs. The ballpark estimates provided by the SWF Institute puts the combined value of these three funds at over US$1trn, not to mention the smaller SWFs operated by Dubai, Oman, Saudi Arabia and Bahrain. When the SWFs are included in the comparisons, the GCC surpasses Japan in its tally of foreign assets, but is still below that of China.

D. External debt

External debt is low in relation to GDP and external assets

The flip side to international reserves and SWF assets is external debt. Estimates from the IIF (Fig 4.14) put the total GCC external debt at US$560bn in 2011 (41% of GDP), having grown at a rate of just 3% since 2007[26].

Fig 4.14: External Debt (2007-11)
(US$bn, % of GDP in 2011 shown in legend)



Source: IIF, *QNB Group estimates and forecasts

Bahrain has the largest external debt in both absolute and relative terms and Qatar is the second largest in relative terms with 66% of GDP. Qatar's external debt has grown rapidly in the last few years as Qatari companies and the state have taken advantage of their ability to borrow at very low interest rates, on account of solid economic fundamentals.

[26] In fact, the external debt held outside the GCC as an aggregate bloc is somewhat smaller than shown in Fig 4.12, because a part of the external debt of each GCC country, probably a sizable part, will be owed to entities in other GCC countries. However, such data is not available in the public domain, but is estimated at about 20-30%.

Although the IIF figures are reasonable estimates, the publically available data is incomplete, largely because of lack of clarity in the level of external debt held by some GCC companies[27].

For similar reasons, it is also unclear what share of external debt is owed by GCC governments. Although the levels of sovereign bond issuance are well documented, the total external debt owed by government-related entities (GREs) is not so readily available.

The IIF's estimates put Qatar's public sector external debt at around US$102bn in 2011, most of which relates to loans used to finance development of the LNG industry, and the UAE's at around US$92bn, with other countries only having US$1-2bn of government external debt. Despite the lack of publicly available data, there are no cases of debt repayment problems, aside from the widely reported GRE issues in Dubai during 2009-10, as a result of the real estate and financial crisis.

Overall, GCC countries' debts are relatively small in relation to both their GDP and their holdings of external assets. Indeed, even if total government-related debt for the region were as high as US$400bn[28], this would still be less than a third of regional GDP and perhaps a fifth of total government-owned external assets. Moreover, future revenue in the region is reasonably expected to be strong, which is why most GCC states and a growing number of GCC companies have a high rating (well into investment grade) allowing them access to the capital markets at competitive interest rates.

[27] In its 2011 Article IV report on the UAE, the IMF notes that its figure for external debt (estimated at 40% of GD in 2011, slightly higher than IIFs figure) mostly relates to foreign liabilities of the banking system because of "incomplete coverage of debt raised by non-banks in the international markets".

[28] An estimate based on the IIF data and a worst-case scenario for GRE debt.

5. Money and Prices

A. Currency

US dollar pegs provide stability, but limit the monetary policy tools available to central banks

All currencies in the GCC are pegged directly to the US dollar (Table 5.1), with the exception of Kuwait, which is pegged to a basket of currencies that is heavily weighted in favour of the US dollar. Therefore, the exchange rate between the Kuwaiti Dinar and the dollar remains relatively stable. It averaged KD0.28 per dollar in 2011 and its annual average has remained in the range KD0.27-0.29 during the past five years.

Table 5.1: GCC Exchange Rates (2011)
(Local Currency per US dollar)

Country	Local Currency per US Dollar
Bahrain	BD 0.3760
Kuwait	KD 0.2765
Oman	OR 0.3845
Qatar	QR 3.6400
Saudi Arabia	SR 3.7500
UAE	AED 3.6725

Source: Central banks and QNB Group analysis

It is unlikely that any of the GCC currencies will be de-pegged or re-valued in the near future. The pegs minimise the volatility of hydrocarbon export revenue, as oil and gas are priced in US dollars. For foreign investors, the long-term stability of the pegs removes some of the capital value risks that are usually associated with investment in countries with floating exchange rates.

There are plausible scenarios that could lead to an adjustment to currency pegs in the long term

The pegs could be adjusted in preparation for the launch of a GCC **monetary union**. There are plans for a single currency including Saudi Arabia, Bahrain, Kuwait and Qatar (the UAE and Oman have withdrawn from the initiative). A joint GCC Monetary Council was established in Riyadh in 2010 as the first step towards union.

It is likely that a GCC currency would initially be pegged to the US dollar with the local currencies that are already dollar pegged being converted to the new GCC currency at equivalent weights, leading to no underlying change in the value of their currencies. The peg might later be changed to a basket of currencies heavily weighted in the favour of the US dollar, reflecting the importance of hydrocarbons exports, which are priced in US dollars. Other currencies that might be included in a GCC currency basket in the future could include the Yen or the Euro, which are currencies of the GCC's important trading partners, and already part of their international reserves.

A less likely scenario would be a pre-union adjustment to the level of local currency pegs to help stave off imported **inflation**. During the 2000s, GCC inflation accelerated, peaking at 11.2% in 2008. Some analysts argued that an upward revaluation would help to slow inflation by lowering import costs. However, it would probably require a prolonged depreciation of the US dollar and significant imported inflation for GCC states to seriously consider adjusting their exchange rates. Such a scenario is highly unlikely in the short to medium term as the US dollar remains essential to the global financial system.

The GCC monetary union project has been largely modelled on the Euro. The sovereign debt issues currently being faced in the Eurozone have highlighted some of the problems with currency unions. This may cause GCC policy makers to re-evaluate whether the efficiency and stability gains of creating a single currency outweigh the possible disadvantages, making the timeline unclear.

B. Money Supply and Policy Tools

GCC rates are likely to remain low until at least 2014, taking their lead from the Federal Reserve

The US dollar pegs in the GCC require central banks to keep their interest rates broadly in line with US rates. This is necessary to deter major speculative capital flows seeking to arbitrage any interest-rate differentials. Interbank lending rates are therefore closely related to interbank rates in the US (Fig 5.1).

Fig 5.1: GCC Average Three-Month Interbank Rates* (2007-11)
(%)

Source: GCC central banks and US Federal Reserve, *average excludes UAE owing to lack of official data

Therefore, as the US Federal Reserve cut its benchmark federal funds rate from 5.25% at the end of 2006 to 0.00-0.25% at the end of 2008, GCC central banks also adjusted to lower rates (Table 5.2). These rate cuts drove down average interbank lending rates.

Table 5.2: Central Bank Policy Rates
(end-February 2012)

Country	Central Bank Policy Rate
Bahrain	0.25%
Kuwait	0.75%
Oman	2.00%
Qatar	0.75%
Saudi Arabia	0.25%
UAE	1.00%

Source: Central banks

However, GCC interbank rates have not been tracking rates in the US as closely as in the past. They have averaged a premium of 0.7 percentage points to US rates in 2009-11 versus a discount of 0.3 percentage points in 2007-08. GCC central banks have not needed to cut rates as aggressively as the Federal Reserve because:

- Ultra-low rates were not so necessary to stimulate borrowing and economic activity in the GCC as they were in the US in 2009-11
- Inflation is more of a concern in the GCC
- The prevailing premium has not encouraged excessive inflows of capital

In January 2012, the Federal Reserve announced that US policy rates would remain at their current low levels until late 2014. Therefore, GCC interest rates are likely to remain at their current historically low levels throughout our 2012-13 forecast period.

As GCC central banks are bound to US interest rate policy they tend to employ alternative monetary policy tools. These tools include:

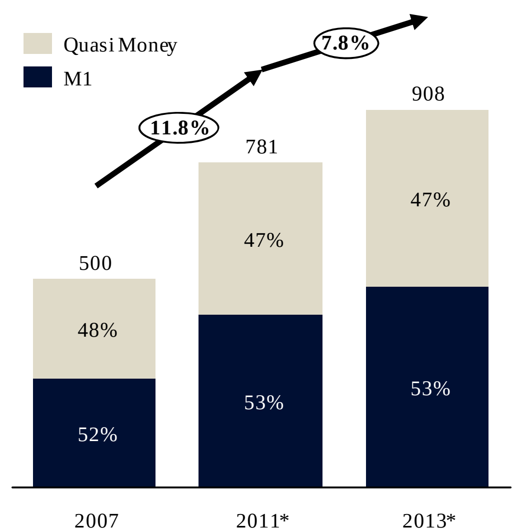
- **Reserve requirements** for banks
- **Lending limits**, such as caps related to salary multiples for customers and loan to deposit ratios for banks
- **Open market operations**, such as certificates of deposits, debt issuance and repo and reverse repo transactions
- **Lending rate caps** for banks

Economic expansion, rising oil prices and credit growth have boosted money supply

Broad **money supply**[29] (M2) in the GCC grew at a rate of 11.8% from 2007-11 to reach US$781bn (Fig 5.2), or 57% of GDP, in 2011.

[29] The sum of narrow money (M1) and Quasi-money. Quasi-money refers to assets that are easily convertible into cash, such as money market accounts and bank deposits. M1 refers to the actual notes and coins in circulation.

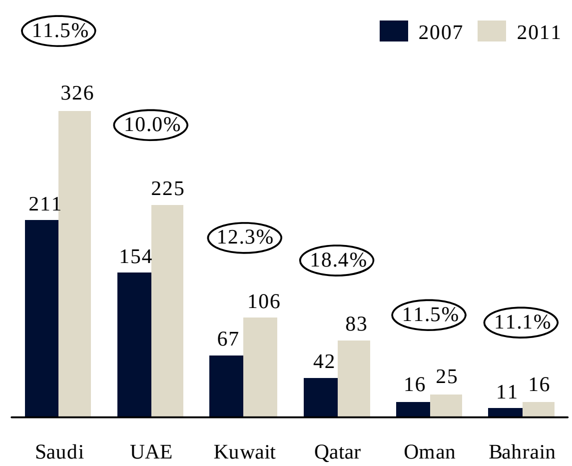
Fig 5.2: GCC Money Supply (2007-11)
(US$bn, CAGR shown)



Source: Central banks, *QNB Group estimates and forecasts

The strong growth in money supply is mainly a result of the economic boom during the 2000s combined with strong growth in domestic credit. This surge in money supply happened throughout the GCC, but was particularly strong in Qatar (Fig 5.3) where both GDP and credit growth were the highest in the region during 2007-11.

Fig 5.3: Money Supply by Country (2007-11)
(US$bn, CAGR shown)



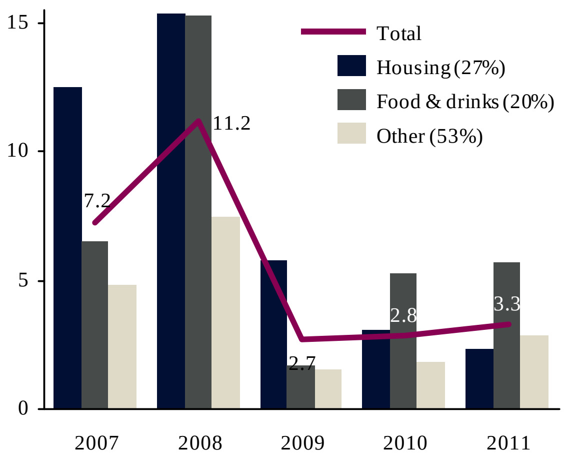
Source: Central banks and QNB Group analysis

C. Inflation

Falling rents and continued fuel subsidies have held down inflation since 2009

Consumer price index (CPI) inflation in the GCC peaked in 2008 at 11.2%, driven predominantly by rapidly rising housing costs and food prices (Fig 5.4).

Fig 5.4: GCC CPI[30] (2007-11)
(% change, weights of components indicated in legend)



Source: National statistical authorities and QNB Group analysis

Housing and food costs have the highest weight in regional CPI baskets (Table 5.3).

Table 5.3: GCC CPI Weights by Sector
(% weight in regional CPI basket)

Sector	Weight
Housing	26.8%
Food and drink	20.3%
Transport and communications	17.2%
Furniture	8.9%
Clothing	8.6%
Miscellaneous[31]	19.2%

Source: National statistical authorities and QNB Group analysis

The global slowdown in 2009 and the bursting of the real estate bubble in a number of countries in the GCC led to a decline in the cost of housing during the year. As a result, CPI inflation slowed to 2.7% in 2009. Since then it has recovered steadily and picked up to 3.3% in 2011 from 2.8% in 2010.

GCC inflation is currently well below the global average of around 4.5% and the 13.8% average that QNB Group estimates for the rest of the MENA region. Fuel subsidies have insulated the region from the direct impact of sharp increases in oil prices. The benchmark Brent crude rose by 39%, on average in 2011, even more than the 34% increase in 2008.

The strongest contribution to inflation in the GCC in 2011 came from rising food prices, driven by shortages in the first half of the year which saw a 23% average rise in the UN Food and Agriculture Organisation's benchmark index of basic food prices. Regional exchange rates are closely linked to the dollar and food price increases have tended to coincide with dollar weakness, accentuating the local impact of rising food prices.

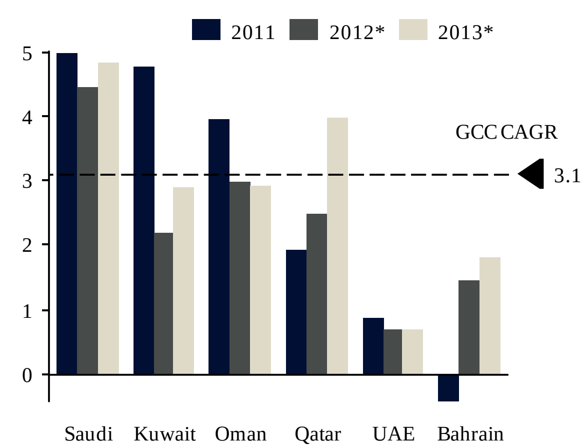
Rents declined in Bahrain (-12.4%), Qatar (-4.8%) and the UAE (-2.4%) in 2011, continuing the trend of the last few years as housing markets adjusted from the 2008 peak. However, rents rose moderately in Kuwait and Oman, and by 7.7% in Saudi Arabia, where there is a shortage of housing.

In most other price categories, such as transport and communications, which accounts for 17% of the regional CPI basket, there were only mild rises across most of the region.

GCC inflation would only be 1.2% if Saudi Arabia was excluded

We have weighted our GCC CPI basket based on GDP. Saudi Arabia accounts for 41% of overall GDP in the GCC and has the highest inflation in the region (Fig 5.5) as a result of rising housing costs. Therefore, it has a significant impact on the overall index. Excluding Saudi Arabia, inflation in the GCC would have only been 1.8% in 2011.

Fig 5.5: Inflation by Country (2011-13)
(% change in CPI)



Source: National statistical authorities and QNB Group analysis, *QNB Group forecasts

Food prices are driven by a mixture of global markets, subsidies and domestic demand. Bahrain saw the most moderate increase, of 2%, and Kuwait the fastest, at 9.6%.

Price inflation in the transport and communications category tends to be moderate in all GCC countries. This is a

[30] The regional inflation figures have been calculated based on GDP weights.
[31] The CPI baskets of individual countries have various categories that are not in common with other countries. We have included these categories under a miscellaneous sector.

consequence of fuel subsidies and a long running trend of downward market pressure on telecom prices as GCC markets have opened up to competition. Qatar saw the highest rise, of 6.4%, largely as a result of a small increase in fuel prices implemented at the beginning of the year.

Inflation is expected to be moderate in 2012-13 at 3.0%

Looking ahead, QNB Group forecasts that inflation will be moderate at 3.0% in 2012-13. Rents are expected to return to positive growth in all countries; although at moderate rates. This could be offset by an expected easing in food price inflation.

This forecast is based on our expectations for oil prices. Oil prices are a key determinant of inflation in the GCC and the global economy:

- They directly impact the inflow of **hydrocarbon revenue** into the GCC economy, driving demand for goods
- They affect the cost of **electricity,** which in turn influences the prices of goods and services
- Oil is utilised in the manufacture of **plastics** a key component in a plethora of products
- They impact food prices as they affect the cost of **transportation**
- They are correlated with **global demand**

Therefore, as we expect average oil export prices to drop slightly to US$103/b in 2012 from US$109/b in 2011, we also expect a slowdown in inflation to 2.8%. A small recovery in oil prices to US$109/b in 2013 will lead to a small acceleration in inflation to around 3.2%.

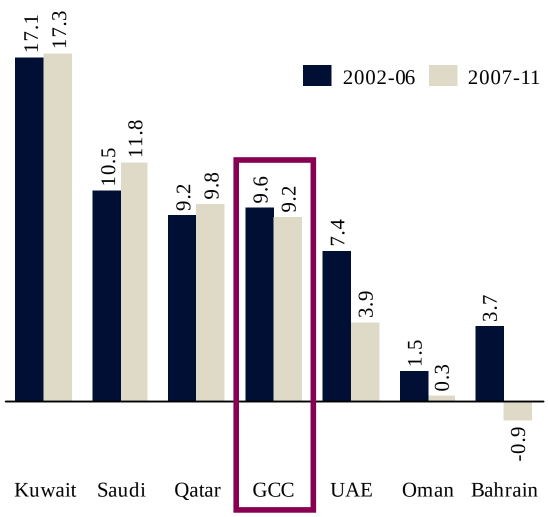
Inflation will remain high in Saudi Arabia as housing shortages will take some time to resolve. Excluding Saudi Arabia, we expect inflation to be 1.6% in 2012 and 2.1% in 2013.

6. Public Finance

High oil prices ensure strong fiscal surpluses across most of the GCC

Most GCC governments have recorded strong surpluses in their fiscal accounts over the last decade (Fig 6.1). The aggregate regional surplus averaged US$84bn a year (9.4% of GDP) over this period.

Fig 6.1: Fiscal Balances (2002-11)
(% of GDP)



Source: National ministries, QNB Group estimates

Revenue: GCC budgets are usually based on conservative oil price assumptions. Oil prices have risen steadily, with Brent averaging US$42/b in 2002-06 and US$84/b in 2007-11. Therefore, actual oil revenue (representing 84% of total revenue in 2002-11) has tended to be greater than budgeted. For this reason, the more hydrocarbon-dependent states, such as Kuwait, Qatar and Saudi Arabia, tend to have wider surpluses than states such as UAE and Bahrain that have larger non-oil sectors.

Expenditure: capital spending tends to be lower than budgeted in the GCC as all countries are implementing ambitious development plans, leading to congestion in the pipeline of projects. Kuwait, in particular, faces long delays in approving and implementing projects, leading to lower-than-expected expenditure.

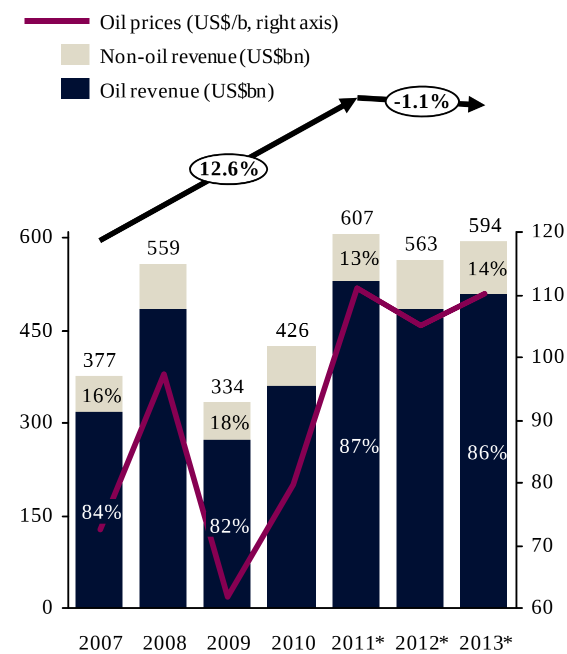
The aggregate GCC budget surplus is forecast to fall from an estimated 10% of GDP in 2011 to an average of 3.8% in 2012-13. Slightly lower oil prices will constrain revenue while current spending commitments and the roll out of development projects will lead to continued growth in government expenditure.

A. Revenue

About 87% of the US$607bn in government revenue in 2011 came from the oil sector

Government revenue in the GCC grew at 12.6% from 2007-11 (Fig 6.2).

Fig 6.2: GCC Government Revenue (2007-13)
(US$bn, CAGR shown)



Source: National ministries, *QNB Group estimates and forecasts

Government revenue broadly tracks oil prices as they drive the export revenue that national oil companies receive in the GCC. Governments then take a share of this revenue to finance public expenditure. The relative size of this share each year depends on the costs of production, the profits due to foreign oil companies and the funds set aside for investment by the national oil companies. Oil revenue is estimated to have reached US$530bn in 2011, a new record.

In nominal terms, non-oil government revenue has increased at a rate of 6.7% from 2007-11, reaching US$77bn. However, because oil revenue has grown faster, the non-oil share has fallen from 15.7% of total revenue in 2007 to 12.7% in 2011.

Non-oil revenue is mainly generated from investments and taxes

Non-oil government revenue is mainly derived from investment income and taxes or other fees. Many GCC countries have sovereign investment vehicles, such as the QIA and ADIA, which invest state assets, predominantly overseas. These investments yield income which is intended to provide GCC states with a sustainable source of revenue beyond the oil and gas sectors. The income can be drawn on, particularly in years of low oil prices, or reinvested for the future.

Taxes and other fees also constitute an important share of revenue. In Qatar this accounts for 14% of total revenue and in the UAE it accounts for 20%. However, some of this may be taxes on oil companies and, as such, simply represents additional oil revenue. The UAE has a larger non-oil sector than most other GCC states, and non-oil taxes and fees are therefore a relatively important aspect of its income.

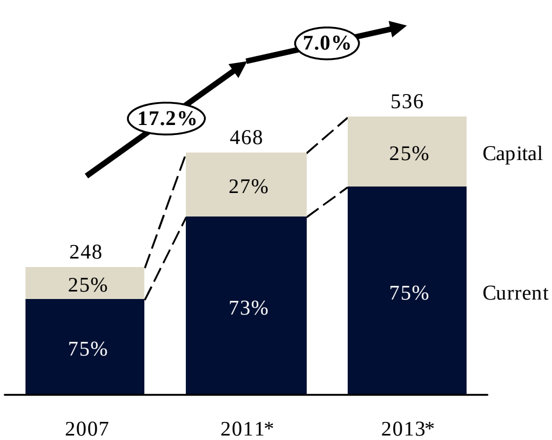
QNB Group's estimate for 2011 government revenue of US$607bn (44% of GDP) is based on an average oil export price of US$109/b. Oil is forecast to decline slightly to an average of US$103/b in 2012, leading to a corresponding drop in government revenue to US$563bn (40% of GDP). Similarly, a pick up in average oil prices to US$109/b in 2013 will boost revenue to US$594bn.

B. Expenditure

Expenditure has grown faster than revenue over the last five years

Expenditure growth has been even more rapid than the growth in revenue, at 17.2% from 2007-11 (Fig 6.3).

Fig 6.3: GCC Government Expenditure (2007-13)
(US$bn, CAGR shown)



Source: National ministries, QNB Group estimates and forecasts

Total GCC expenditure reached an estimated US$468bn in 2011, or 34% of GDP. This is on par with the global average of around 33% of GDP for 2011. Within the GCC, expenditure is estimated to have ranged from 27% of GDP in Qatar to 43% in Kuwait.

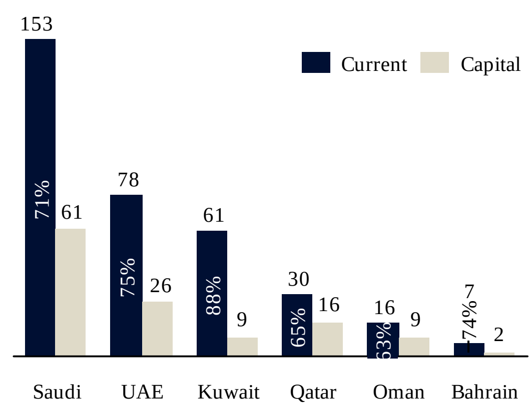
Current expenditure mainly consists of supplies and services for public administration, particularly wages. It accounts for the bulk of public spending amounting to 77% of total expenditure in 2011. The remaining expenditure is **capital expenditure**, or investment, mainly in development projects.

Capital spending has grown at a rate of 17.7% over the last four years, versus 17.1% for current spending. In the medium-term, major projects, such as a planned intra-GCC railway and a wide range of other infrastructure developments, will support high levels of capital spending.

The GCC's largest economy, Saudi Arabia, accounts for 46% of government spending in the GCC (Fig 6.4). Its massive annual oil revenue (estimated at US$266bn in 2011) funds:

- **Social investments** in education and health
- A large **public administration** that helps provide employment for Saudi nationals
- Capital spending of US$61bn in 2011 on **major development projects** such as the economic cities

Fig 6.4: Breakdown of Government Expenditure (2011)
(US$bn, current spending as % of total spending shown)



Source: QNB Group estimates

Qatar's estimated capital expenditure of US$16bn in 2011, was the second largest in the GCC after Saudi Arabia, and is an indication of the scale of the state's infrastructure development plans. Qatari capital spending has grown at 33% for the last decade, and we expect the growth to continue, at a rate of 11.4% during 2012-13. Similarly, Oman and Bahrain are also investing heavily in development projects, and therefore have a high share of capital spending.

In the UAE and Kuwait, development is further advanced than in the rest of the GCC, as much of the infrastructure is already in place. These countries are therefore focused more on current expenditure, on areas such as public wages, public services and subsidies.

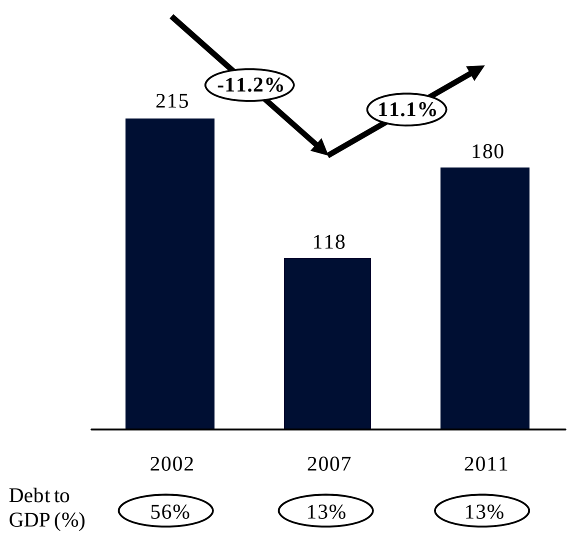
QNB Group estimates that strong growth in regional revenue from high oil prices in 2011 stimulated a 23% increase in expenditure to US$468bn (34% of GDP). Persistent high revenue in 2012-13 should enable GCC governments to comfortably finance their expenditure plans and we forecast that expenditure will grow at 7.0% a year to reach US$536bn (36% of GDP) in 2013.

C. Public Debt

GCC public debt in the five smaller states has grown at 31% a year for the last four years

GCC governments paid down public debt[32] as oil prices rose in 2002-07, but thereafter made use of their ability to borrow cheaply to finance their investments (Fig 6.5).

Fig 6.5: GCC Public Debt (2002-11)
(US$bn, CAGRs shown)



Source: IMF World Economic Outlook and QNB Group analysis

GCC public debt peaked in 2002 at US$215bn. As oil prices rose from an average of US$25/b in 2002 to US$73/b in 2007, GCC governments found little need to borrow. Furthermore, Saudi Arabia decided to pay down its government loans to reduce the burden of debt service. This led to a reduction in Saudi government debt from US$183bn in 2002 to US$71bn in 2007 and drove the overall GCC public debt down to US$118bn.

Since 2007, GCC public debt has grown at 11.1%, despite Saudi Arabia repaying a further US$31bn of debt. Excluding Saudi Arabia, total public debt in the other five GCC states grew at a rate of 31% from 2007-11. Qatar and the UAE have been the main contributors to this debt increase.

[32] Public debt refers purely to the debt of the central government and excludes the debt of government-related entities (GREs). It includes both domestic and external debt.

In Qatar, public debt increased sharply from US$7.1bn in 2007 to US$49bn in 2011, according to the IMF. This occurred as the government stepped in to support the local economy as private sector borrowing contracted in the aftermath of the global financial crisis. The Qatari government has been issuing sovereign debt to support the growth of local capital markets by creating a benchmark for bond pricing. In addition, the Qatar Central Bank has expanded a monthly Treasury bill issuance program.

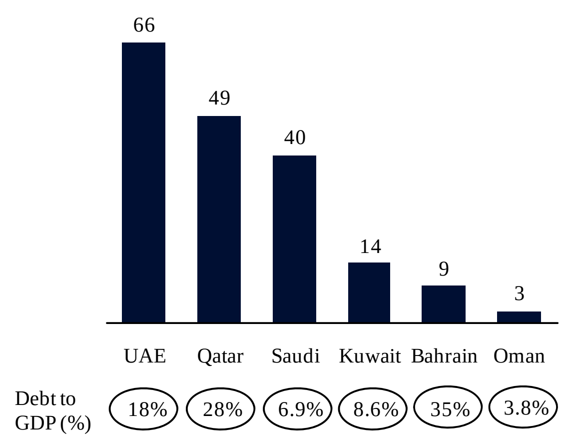
Qatar's public debt levels remain low as a percentage of its nominal GDP, at just 28% in 2011. The Qatari government also has around US$6bn on deposit in the local banking system as well as its international reserves. This indicates that Qatar's debt levels remain comfortably manageable.

In the UAE, sovereign debt has increased from US$63bn in 2007 to US$92bn in 2011. However, this excludes GRE debt, which amounted to US$182bn in 2010, according to the IMF. The authorities in the UAE, and particularly in Dubai, have borrowed extensively to fund large-scale property developments and investments overseas, aimed at diversifying sources of income. This led to the forced restructuring of Dubai World debt in the aftermath of the financial crisis. The restructuring and sovereign support has ensured that debt levels in the UAE are manageable for the time-being.

Public debt is relatively low and generally manageable in the GCC

Generally, public debt levels in the GCC are low and manageable at 13.1% of GDP (Fig 6.6).

Fig 6.6: Breakdown of Public Debt in the GCC (2011)
(US$bn and % of GDP)



Source: IMF and QNB Group analysis

Bahrain has the highest level of debt to GDP in the GCC at 35% and recorded small fiscal deficits averaging 1.1% of GDP in 2009-11 as it borrowed to support the economy following the financial crisis. In the medium term, Bahrain should have no problem returning its fiscal balance to surplus and current debt levels are therefore sustainable.

7. Banking Sector

A. Overview

GCC banks have been resilient during the fallout from the global financial crisis

The GCC banking sector continues to show strong growth and has been resilient during the global financial crisis. GCC banks are predominantly domestically focused which has shielded them to a large extend from the aftermath of the financial crisis. Additionally, GCC banks have traditionally adopted a conservative approach to risk, which has largely limited their exposures to high risk structured products.

The banking sectors of all GCC countries are currently assigned stable outlooks by the three major rating agencies[33], with the exception of Bahrain, where political tension has led to a negative credit risk outlook.

Standard and Poor's Banking Industry Country Risk Assessment (BICRA)[34] is a methodology that evaluates and compares global banking systems. The assessment is based on a matrix of economic and industry risks. It now also takes into account potential governmental support to the sector. All the GCC governments are categorised as being highly supportive and their banking sectors are included in the BICRA intermediate risk group (Table 7.1).

Table 7.1: Banking Risk Assessment
(On a scale from 1 to 10)

Country	BICRA Group	Economic Risk	Industry Risk
Saudi Arabia	2	3	2
Qatar	4	4	5
Kuwait	4	4	5
Oman	4	4	4
UAE	5	5	5
Bahrain	6	6	6
US	3	3	4
UK	3	4	3
Malaysia	4	5	3
Turkey	5	6	5

Source: Standard and Poor's and QNB Group analysis

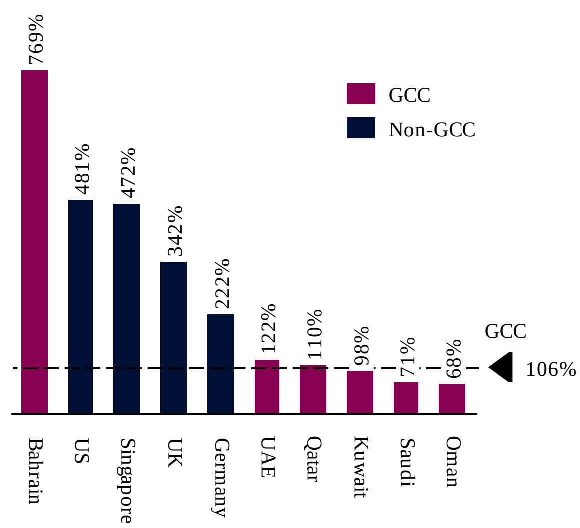
Large oil and gas revenues in the GCC have produced strong fiscal and current-account surpluses and high levels of net foreign assets. This has provided them with the fiscal flexibility to support their banking sectors.

Moody's provides its own banking industry risk assessment through its average bank financial ratings (BFSR)[35] by country. Saudi Arabia has a BFSR of C, while Qatar, Kuwait and Oman are rated at C-, UAE at D+, and Bahrain at D.

The GCC has a low ratio of total banking assets to GDP

The total banking sector assets in the GCC reached 106% of GDP in 2011. The ratio, which provides a measure of the importance of the banking sector to the overall economy, is relatively low for most GCC countries compared with some major advanced economies (Fig 7.1). Bahrain is an exception, which has skewed the overall GCC ratio. It has one of the highest ratios of banking assets to GDP, due to a large presence of wholesale banks which account for 66% of total banking sector assets.

Fig 7.1: Total Banking Assets to GDP (2011)
(Total Assets as % of GDP)



Source: Central banks and QNB Group analysis

The asset quality of GCC banking sectors is improving, although it remains high in some countries. The Non Performing Loans (NPLs) ratio varies across the GCC[36] with a low of 2.0% in Qatar to a high of 8.9% in Kuwait. The NPL ratio in Saudi Arabia was 3.0%, Oman was 3.3%, Bahrain 4.0%, and UAE 5.6%.

[33] Standard and Poor's, Moody's and Fitch.
[34] A BICRA analysis for a country covers rated and unrated financial institutions that take deposits, extend credit, or engage in both activities. A BICRA is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group1) to the highest-risk (group 10).

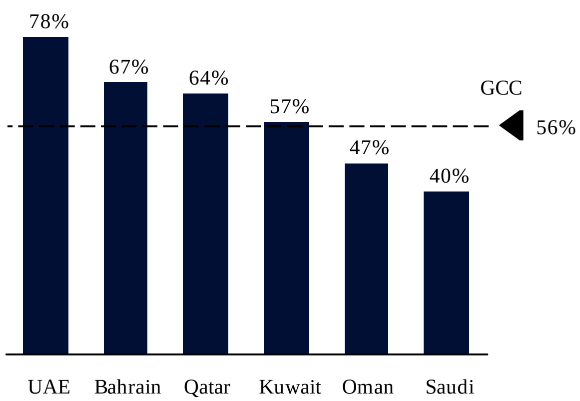
[35] The BFSR represents Moody's opinion of a bank's intrinsic safety and soundness. Assigning a BFSR is the first step in Moody's bank credit rating process. Moody's BFSRs range from A to E, with "A" for banks with the greatest intrinsic financial strength and "E" for banks with the least intrinsic financial strength.
[36] IMF Data as at year-end 2010, based on the September 2011 Middle East Regional Economic Outlook.

The GCC regulators have also encouraged banks to adopt a more conservative provisioning policy, which has led to improving coverage ratios[37]. According to the IIF, Saudi Arabia had the highest coverage ratio of 115% as at July 2011, followed by Oman (104%), Qatar (95%), UAE (76%), Kuwait (70%), and Bahrain (60%).

Loan penetration underlies lower levels of banking assets to GDP

Loans as a share of banking assets in the GCC reached 56% in 2011, which remains low compared to countries like the UK and US where the share is as high as 153% and 242% respectively. This explains the low share of banking assets to GDP. The UAE has the highest level of domestic loan penetration in the GCC (Fig 7.2), primarily as a result of extensive lending to the real estate sector.

Fig 7.2: Loan Penetration (2011)
(Loans as % of GDP)



Source: Central banks and QNB Group analysis

Central banks' oversight has kept the banking sector well protected

The central banks of GCC countries have played a very proactive role to limit the effects of the global financial crisis and economic slowdown:

- They have all applied the Basel II Framework[38] as part of their regulatory structures to ensure stability in the sector
- They have differing reserve requirements, depending on local banking dynamics, but all are generally prudent. For instance, Qatar Central Bank requires banks to hold 4.75% of total deposits as reserves and sets the loans-to-deposits ratio at 90%
- They have also required more conservative capital adequacy ratios (CAR) than the minimum of 8% required by Basel II

GCC banks have generally exceeded these requirements with the following aggregate CARs in 2010:

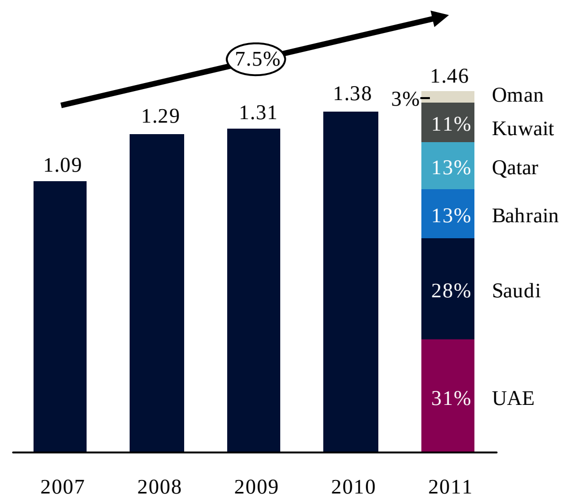
- 21.8% in UAE
- 18.9% in Kuwait
- 17.1% in Saudi Arabia
- 16.1% in Qatar
- 15.8% in Oman
- 12.0% in Bahrain

B. Performance

Robust asset growth has been driven by GDP and capital investments, particularly in Qatar

GCC banking sector assets grew by 6.1% in 2011 to reach US$1.46trn. The UAE has the largest banking sector in the GCC (Fig 7.3).

Fig 7.3: Total Banking Sector Assets (2007 - 2011)
(US$trn, CAGR shown)



Source: Central Banks and QNB Group analysis

Total **assets** of GCC commercial banks grew at a rate of 7.5% from 2007-11. This growth was significantly stronger than from 2003-07 due to the huge loan growth brought about by rapid economic expansion and large capital investments.

Among the GCC countries, Qatar's banking sector had the fastest assets growth in the region, at 24% from 2007-11, driven by rapid economic growth and increased business activity.

[37] Provisions to non-performing loans.
[38] Basel II is a set of international banking recommendations for regulators to use as guidance for their risk and capital management requirements.

Government spending and private consumption have been the main lending growth drivers

Total **loans** in the GCC increased by 15.4% from 2007-11. This strong credit growth spanned the private and public sectors and was driven by rapid economic growth, increasing private consumption and large allocations in government spending for major development projects.

Lending and asset growth has also been supported by strong growth in the deposit base. Total **deposits** have increased by 13.0% from 2007-11 and accounted for 59% of commercial banks' total liabilities as at year-end 2011.

C. Structure

The banking sector in each GCC country is dominated by a few domestic banks

GCC banking sectors are relatively concentrated, with a few domestic players in each country dominating the market. Islamic banks have grown rapidly in recent years to gain a significant market share and currently account for around 37% of overall banking assets.

In each of the GCC states, the largest three banks are domestic and account for between 30-66% of total banking sector assets. The main highlights of each banking sector are as follows:

Bahrain: The Bahraini banking sector accounts for 13% of total assets in the GCC. The banking sector is the largest in the region in terms of assets to GDP, with 769%. This is mainly due to the presence of wholesale banks that account for 66% of overall assets. Retail banks account for only 18% of total assets, while Islamic banks represent 13%. Along with the UAE, Bahrain's retail banking sector is the least concentrated in the GCC. The three largest retail banks (Bank of Bahrain and Kuwait, National Bank of Bahrain, and Ahli United Bank) constitute only 31% of the total banking sector's assets. Bahrain also has a vibrant wholesale banking sector. Due to its linkages with global financial markets, the wholesale banking sector has been impacted by the global financial crisis, with tighter liquidity conditions and higher risk based on CDS spreads.

Kuwait: The banking sector accounts for 11% of GCC assets and is highly concentrated with the three largest banks (National Bank of Kuwait, Kuwait Finance House and Gulf Bank) accounting for 66% of the sector's total assets. A number of heavily leveraged investment companies have encountered debt problems since 2009, negatively impacting a number of the banks that lend to them.

Oman: The banking sector is the smallest in the region, accounting for 3% of GCC assets. It is highly concentrated with the largest three banks (Bank Muscat, National Bank of Oman, and Bank Dhofar) controlling more than 62% of the sector's assets. In 2011, Oman approved the opening of Islamic banks, which could increase competition.

Qatar: The banking sector in Qatar is the third largest in the region, with assets at 110% of GDP in 2011. The sector is highly concentrated with the three largest local banks (QNB Group, Commercialbank, and Qatar Islamic Bank) accounting for 62% of total assets. Foreign banks operating in Qatar are primarily focused on serving the retail sector, with the exception of BNP Paribas.

Saudi Arabia: The banking sector accounts for 28% of GCC assets but is relatively small, with assets at around 71% of GDP. Part of the reason for the small size of the banking sector relative to GDP is the presence of five sizable specialised credit institutions, which have combined assets that are close to half of the banking sector. The sector is fairly concentrated with the three largest banks (National Commercial Bank, Al Rajhi Bank, and Samba Financial Group) accounting for 46% of total assets. There are high levels of state ownership in four banks, reaching 80% in the largest bank, the National Commercial Bank.

UAE: The banking sector accounts for 31% of the GCC total and assets are over 122% of GDP, the second highest in the region after Bahrain. The sector has a low concentration as the three largest banks (Emirates NBD, National Bank of Abu Dhabi, and Abu Dhabi Commercial Bank) account for 43% of total assets. GREs have stakes in a number of major banks in the UAE. Bank exposure to the real estate sector has been a growing concern due to the downturn in the real estate market, mainly in Dubai. Real estate loans were 23% of overall loans in 2010.

The ten largest banks account for 42% of overall banking sector assets

The top 10 banks in the GCC account for 42% of GCC banking sector assets. QNB Group is the largest bank by assets. Saudi and UAE banks dominate the top ten (Fig 7.2).

Table 7.2: Top GCC Banks by Assets (2011)

Bank	Country	Assets (US$bn)
QNB Group	Qatar	82.9
National Commercial Bank	KSA	80.3
Emirates NBD	UAE	77.5
National Bank of Abu Dhabi	UAE	69.6
Al Rajhi Bank	KSA	58.9
Samba Financial Group	KSA	51.4
Abu Dhabi Commercial Bank	UAE	50.0
National Bank of Kuwait	Kuwait	48.9
Kuwait Finance House	Kuwait	48.3
Riyad Bank	KSA	48.2

Source: National stock exchanges and QNB Group analysis

GCC banks remain profitable compared with other global banks

GCC banks have been able to maintain strong profitability, even in the midst of the global financial crisis. This was mainly due to limited exposure to high risk structured products, a good regulatory environment, strong demand for Islamic banking and good support from the sovereigns. Net profit of the top ten GCC banks increased by 12% over the past three years and by 18.1% in 2011. QNB Group is the leading GCC bank in terms of profitability (Fig 7.3), with one of the fastest growing profit levels in the region at 32% in 2011.

Table 7.3: Top GCC Banks by Net Profit (2011)

Bank	Country	Net Profit (US$bn)
QNB Group	Qatar	2.06
Al Rajhi Bank	KSA	1.97
National Commercial Bank	KSA	1.60
Samba Financial Group	KSA	1.15
National Bank of Kuwait	Kuwait	1.09
National Bank of Abu Dhabi	UAE	1.01
First Gulf Bank	UAE	1.01
Riyad Bank	KSA	0.84
Abu Dhabi Commercial Bank	UAE	0.83
Saudi Fransi Bank	KSA	0.78

Source: National stock exchanges and QNB Group analysis

Shareholders' equity continues to grow despite the effects of the global financial crisis

The equity base of GCC banks has risen in recent years. This is mainly due to rights issues, equity participation by GREs and a conservative dividend policy. QNB Group was the leading bank in the region (Table 7.4), with its equity growing by an impressive 73.4% in 2011.

Table 7.4: Top GCC Banks by Shareholders' Equity (2011)

Bank	State	Shareholders Equity (US$bn)
QNB Group	Qatar	11.5
Emirates NBD	UAE	9.5
National Commercial Bank	KSA	9.1
Al Rajhi Bank	KSA	8.8
National Bank of Kuwait	Kuwait	8.3
Riyad Bank	KSA	8.0
National Bank of Abu Dhabi	UAE	7.2
Abu Dhabi Commercial Bank	UAE	6.0
Saudi British Bank	KSA	4.6
Alinma Bank	KSA	4.2

Source: National stock exchanges and QNB Group analysis

The largest banks have strong ratings and stable outlooks

The financial crisis resulted in increased scrutiny by the rating agencies. For the GCC region, while the ratings of a number of banks were downgraded in 2009-10, the major banks were largely not impacted.

Table 7.5: Ratings of Largest GCC Banks
(Long-term foreign currency ratings)

Bank	Moody's	S&P	Fitch
QNB Group	Aa3	A+	A+
National Commercial Bank	A1	A+	A+
Emirates NBD	A3	Not Rated	A+
National Bank of Abu Dhabi	Aa3	A+	AA-
Al Rajhi Bank	A1	A+	A+
Samba Financial Group	Aa3	A+	A+
Abu Dhabi Commercial Bank	A1	A	A+
National Bank of Kuwait	Aa3	A+	AA-
Kuwait Finance House	Aa3	A-	A+
Riyad Bank	A1	A+	A+

Source: Moody's, Standard and Poor's and Fitch

Foreign banks have a limited presence in the GCC banking sector

Foreign banks have had a presence in all GCC countries for decades. With the establishment of national banks in the fifties and sixties, the market share of foreign banks decreased. Currently, foreign banks have a small presence in most GCC countries, except for Bahrain. The market share by assets of foreign banks in the GCC is as follows:

- 57% in Bahrain
- 21% in UAE
- 14% in Oman
- 10% in Kuwait
- 5% in Qatar
- 3% in Saudi Arabia

Macroeconomic fundamentals and full government backing ensure a stable outlook

The performance of the GCC banking system is expected to remain favourable, supported by:

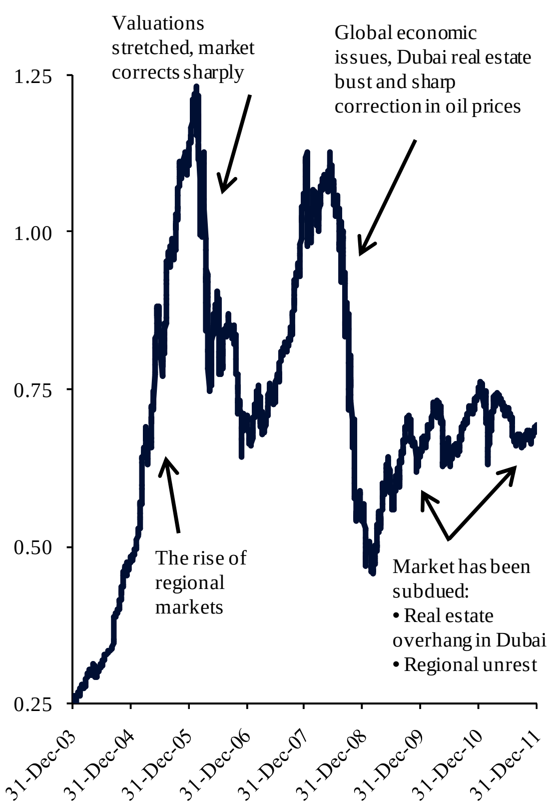
- The region's strong **macroeconomic fundamentals**
- The expected **decline in non-performing loan ratios**
- The full **governmental support** of banks' capital and liquidity
- The **expansion of non-oil private sector GDP**, which QNB Group forecasts will rise by 6.0% in 2012 and 7.9% in 2013
- The continued **high levels of government spending**, which will be resilient to oil price fluctuations as a result of low government debt levels and a large accumulation of reserves

8. Equity Market

GCC equity market capitalisation has almost tripled since 2003

The GCC stockmarkets are increasingly making their presence felt on the global equity market landscape. The total equity market capitalisation of the region's seven bourses grew at 13.2% from 2003-11 to reach US$693bn (Fig 8.1). Growth has been volatile but has increased the region's share of global market capitalisation[39] to 1.5%, nearly double its 0.8% share at the end of 2003.

Fig 8.1: Market Capitalisation in the GCC (2003-11)
(US$trn)



Source: Bloomberg and QNB Group analysis

A number of factors contributed to the growth of market capitalisation across the GCC. This included new listings (family business, state owned companies), and capital increases by listed companies. Improving rules, regulations and transparency standards have also led to increased investor awareness and participation.

[39] The global market capitalisation does not include exchange traded funds (ETFs) and global depositary receipts (ADRs) as they do not directly represent companies. It includes only actively traded, primary securities on the country's exchanges to avoid double counting. Therefore, the market capitalisation figure amounts to less than the sum of the stock exchange market capitalisation data.

The regional bourses have gradually opened up to foreign investors since 2000, but their participation is generally limited to a maximum of 49% or less. The only exception is the Saudi market, which currently does not allow direct foreign investment, but does permit share swap arrangements through approved local intermediaries, which enable foreign investors to get some indirect exposure to the market.

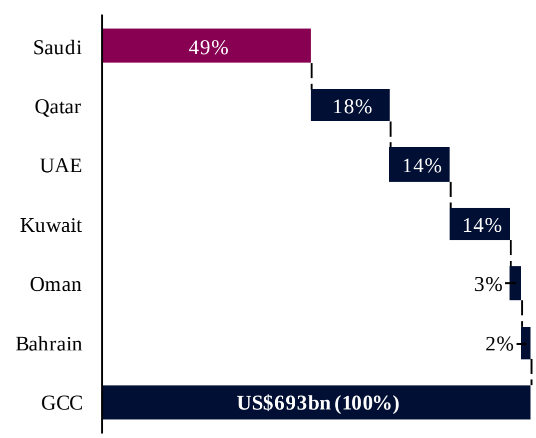
Boom and bust cycles have driven GCC stockmarkets

The growth of the stockmarkets has not followed a constant trend. The partial opening to international investors coincided with high levels of domestic investor interest in the region. The rise in regional markets during 2001-05 was also fuelled by retail investor speculation, which was partially funded through borrowings. Rapid economic growth and an improving outlook also had a positive effect on investor sentiment. The combination of these factors led to excessive valuations and a peak in market capitalisation of US$1.2trn at the beginning of 2006 and a subsequent crash by 48% to US$643bn by year-end.

Regional stockmarkets recovered through 2007 and most of 2008. However, the global financial crisis in late 2008, coupled with the bursting of a real estate bubble in some places, such as Dubai, weighed on the markets. Sentiment was also impacted by low oil prices, which fell sharply during the fourth quarter of 2008, reaching a low of US$37/b in December from a high of US$146/b in July. At the end of February 2012, the total market capitalisation of the GCC bourses stood at US$747bn, implying subdued performance in the last few years (Fig 8.1).

The Saudi stockmarket is by far the largest in the GCC and Qatar holds the number two spot

Fig 8.2: Market Capitalisation by Country (2011)
(US$bn)



Source: Bloomberg and QNB Group analysis

Saudi Arabia is the largest regional stockmarket in terms of market capitalisation accounting for 49% of the total as at year-end 2011 (Fig 8.2).

The GCC stockmarkets outperformed their emerging markets peers in 2011

2011 was a tough and volatile year for equity markets around the world. However, the benchmark S&P/IFC Global GCC Price Index USD[40] (S&P GCC) only declined by 8.2%, compared with a 20.4% decline for the MSCI Emerging Markets Index (MSCI-EM).

Historically the MSCI-EM[41] has significantly outperformed the S&P GCC and MSCI World Index (MSCI-W[42]) on the back of rising foreign portfolio investments and greater investor interest in those markets. We believe the key reason for the out-performance of the S&P GCC versus the MSCI-EM in 2011 was a greater outflow of foreign portfolio investments from emerging markets as part of a flight to safety in the wake of the euro zone crisis.

The GCC offers comparative yields and valuations with other regions

At the end of 2011, the S&P GCC exhibited relatively better margins and dividend yields than the other two indices. Regarding return-on-equity (ROE), the S&P GCC offered returned 16.8% versus 21% and 22.7%, respectively for the MSCI-EM and MSCI-W (Table 8.1).

Table 8.1: Key Financial Indicators of Equity Indices (2011)

Index	Net profit Margin	Dividend Yield	Return on Equity	PE Ratio	Positive PE Ratio
S&P GCC	34.9%	4.0%	16.8%	16.3	11.9
MSCI-EM	18.1%	3.0%	21.0%	10.6	10.1
MSCI-W	14.8%	2.9%	22.7%	12.8	12.0

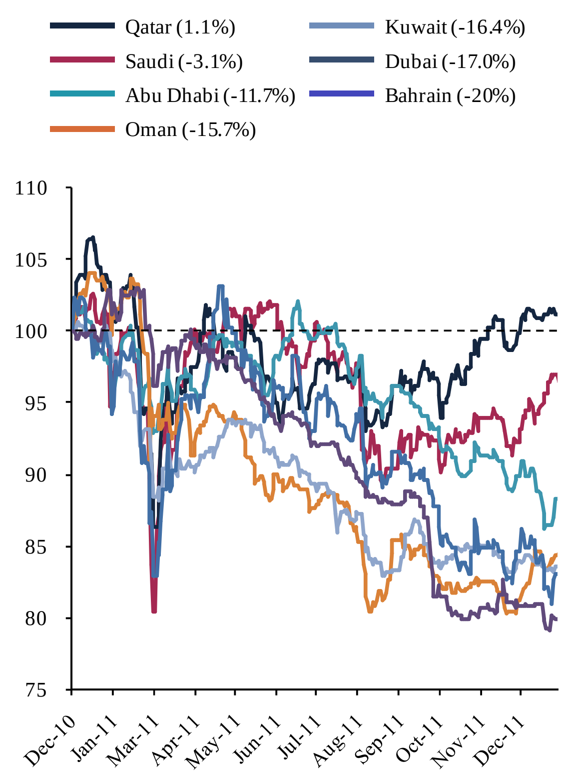
Source: Bloomberg and QNB Group analysis

The S&P GCC traded at a higher price-to-earnings (PE) multiple of 16.3x versus 10.6x and 12.8x, for the MSCI-EM and MSCI-W, respectively. However, the PE ratio is distorted as some companies in the region, particularly in the UAE real estate sector, continue to face losses following their post-financial crisis debt problems. The positive PE ratio, which only includes the earnings of profit-making companies, suggests that these companies in the GCC are not significantly overpriced relative to international peers.

Qatar and Saudi Arabia cemented their status as regional safe havens in 2011

In 2011, the Qatar Exchange Index was the only primary equity market index in the GCC (and one of the few worldwide) to make gains, rising by 1.1% (Fig 8.3).

Fig 8.3: Performance of Stockmarket Indices (2011)
(Indices based to 31st December 2010, annual gain shown in legend)



Source: Bloomberg and QNB Group analysis

The next best performance was from the Saudi Tadawul Index, which declined by 3.1%. All other countries suffered double-digit declines, impacted to a certain extent by concerns related to political unrest in the MENA region.

The Saudi stockmarket was supported by the announcement of US$169bn in public spending stimulus and by the overall strong level of oil prices in 2011. Bahrain suffered due to political instability. Kuwait bore the brunt of uncertainty created by new capital market regulations and slow execution of the country's development plan. Although the UAE is perceived by investors as a regional safe haven, real estate issues and Dubai's government-related debt concerns unnerved the markets.

Relatively unscathed by the regional unrest, the Qatari stockmarket benefited from its significant economic expansion

[40] The Standard and Poor's (S&P) GCC indices include stocks from 264 listed companies in the GCC.
[41] An index created by MSCI Inc., formerly Morgan Stanley Capital International to measure equity market performance in global emerging markets. The Emerging Markets Index is a float-adjusted market capitalisation index that consists of indices in 26 emerging economies.
[42] Stock market index that covers 1,600 'world' stocks and is often used as a common benchmark for 'world' or 'global' stock funds.

and attractive macro-economic and company fundamentals. The aggregate net income of the 20 companies included in the Qatar Exchange Index increased roughly 31% in 2011. However, the PE multiple declined from 13.6x in 2010 to 10.8x in 2011. As of 2011, the PE multiple for Qatar was the lowest in the GCC (Table 8.2).

Table 8.2: Key Financial Indicators (2011)

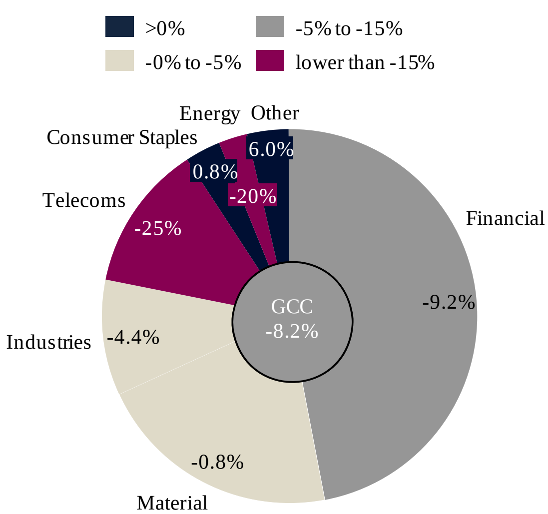
Index	PE Ratio	Dividend Yield (%)
Qatar	10.80	4.1
Oman	11.90	4.8
Abu Dhabi	13.10	4.2
Saudi Arabia	13.80	3.5
Kuwait	14.47	3.3
Bahrain	19.80	5.5
Dubai	44.70	3.9

Source: Bloomberg and QNB Group analysis

Drilling down into the sectors, the financial sector was the primary cause of poor GCC performance in 2011. It has a 47% weight in the index and declined by 9.2% (Fig 8.4). The 25% decline in the telecoms sector (13% weight on index) was also a major drag on markets.

Fig 8.4: GCC Stockmarket Performance by Sector (2011)

(% change shown with share of pie according to sector weights)



Source: Bloomberg and QNB Group analysis

The outlook for GCC stockmarkets remains firmly positive

The GCC's positive economic outlook for 2012-13 should support the region's stockmarkets. Capital investments by governments and solid GDP growth, underpinned by high oil prices, should lead to bottom-line growth for the GCC-listed companies in the medium-term. Moreover, the region's listed equities offer some of the highest dividend yields globally.

Therefore, given a subdued market performance in the last three years, exacerbated by double-digit declines for most regional indices in 2011, we expect portfolio investors to actively cherry pick value-growth stocks in the region in 2012-13.

Qatar and the UAE are being considered for inclusion in the MSCI Emerging Markets Index

Further upside is possible if the Qatar and UAE bourses were to graduate to the MSCI-EM from the MSCI Frontier Markets Index. At present, none of the GCC nations have MSCI-EM status, and only Egypt and Morocco are included from the broader MENA region. QNB Group estimates that an upgrade could attract around 0.5% of 2011 market capitalisation in fresh inflows of foreign capital from investment funds that track the MSCI-EM.

Both Qatar and the UAE have recently rolled out delivery versus payment models of trade settlements as per international standards. Over time, this new framework should reassure institutional investors that their assets will be fully safeguarded.

The MSCI-EM inclusion for the UAE, is likely in June 2012. For the Qatar Exchange (QE) to qualify for MSCI's Emerging Markets classification, foreign ownership limits will likely have to be relaxed for some companies. Foreign ownership is currently limited at 25% of free-float market capitalisation by most companies. Until this has been amended, an upgrade in classification is unlikely.

Greater access to foreign investors in Saudi Arabia could boost markets this year

The major positive event for regional capital markets this year is likely to be the opening of Saudi capital markets to qualified foreign investors. This may also lead to the re-inclusion of the Saudi index in one of the MSCI indices, giving some further positive impetus to GCC stock exchanges. Investors should be cognizant of the fact that the Saudi market dominates the GCC market capitalisation and traded value.

QNB Group also expects the further broadening of regional capital markets. The GCC bourses are generally dominated by equity listings, but trading in other asset classes, such as bonds and derivatives, is likely to pick up in the future as investors become more sophisticated about asset classes and risk-adjusted exposures.

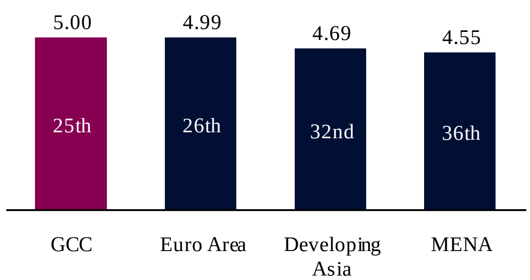
9. Business Environment

The GCC is one of the most competitive regions based on WEF rankings

The Global Competitiveness Report 2011/12, produced by the World Economic Forum (WEF) creates an index to compare the competitiveness of 142 countries. QNB Group analysed different regions, ranking them by using a weighted average of the individual scores (relative to nominal GDP) and has identified the GCC as one of the most competitive regions globally, ahead of the Euro Area, Developing Asia and MENA. If the GCC was a country, it would be 25th in the rankings, just ahead of New Zealand and China. The Euro area would be ranked 26th, Developing Asia 32nd and MENA 36th (Fig 9.1).

Fig 9.1: Regional Competitiveness Scores and Ranks (2011/12)

(score, with rank out of 142 countries)

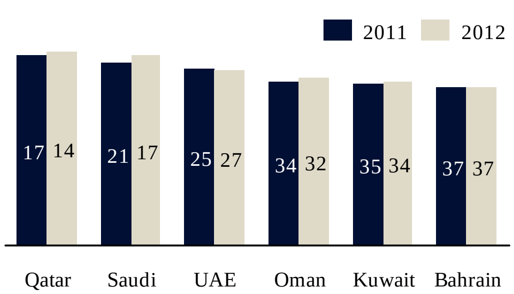


Source: WEF, Global Competitiveness Report and QNB Group analysis

Qatar was 14th out of 142 countries in the WEF rankings and first in the GCC. This was a significant improvement from 17th position out of 139 countries in 2010/11 owing to ongoing improvement in its macroeconomic fundamentals. The last of the Gulf States is Bahrain, ranked 37th, owing to its small economy. GCC competitiveness is improving relative to the rest of the world. Most countries experienced an improvement in their ranking compared to the previous year (Fig 9.2).

Fig 9.2: GCC Competitiveness Ranks (2011-12)

(rank out of 142)



Source: WEF, Global Competitiveness Report and QNB Group analysis

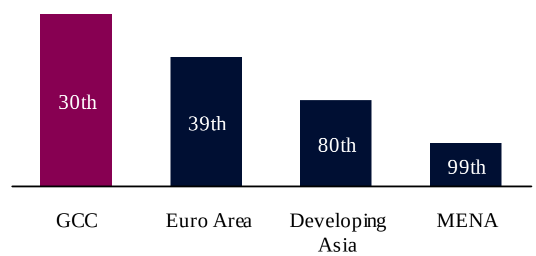
The higher regional ranking is due to an improving macroeconomic environment, government institutions, business sophistication and innovation.

The World Bank doing business index also ranks the region favourably

A similar analysis was done by QNB Group using the World Bank Doing Business Ranks 2012 to rank the regional GCC business environment by using a GDP weighted average on the rankings. This indicates that the GCC has one of the best business environments globally when compared to other regions, ahead of the Euro Area, MENA and Developing Asia. Using this methodology, if the GCC were a country it would rank 30th in the world (Fig 9.3). This corroborates the high rankings of the GCC in the WEF index.

Fig 9.3: Regional Doing Business Ranks (2012)

(rank out of 183)

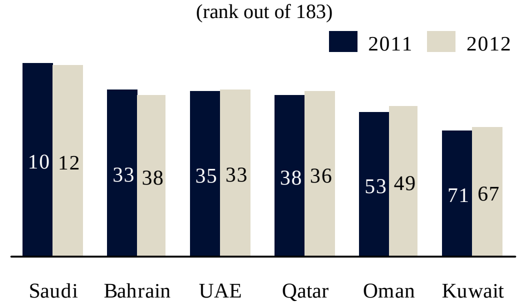


Source: World Bank Doing Business and QNB Group analysis

Saudi Arabia is the highest ranked country in the GCC at 12th out of 183 countries. All of the GCC countries had an improvement in the ease of doing business rank in 2012, except Saudi Arabia and Bahrain, compared to the 2011 ranking (Fig 9.4).

Fig 9.4: GCC Doing Business Ranks (2011-12)

(rank out of 183)



Source: World Bank Doing Business and QNB Group analysis

The main drivers for the improvement are starting a business became easier, credit information systems were improved and export and import procedures were streamlined.

Key Macroeconomic Indicators

	2007	2008	2009	2010	2011	2012	2013
Population							
Total (m)	39.5	42.6	44.0	45.4	**46.8**	**48.3**	**49.8**
Growth (%)	6.9	7.9	3.3	3.0	**3.2**	**3.2**	**3.1**
GDP							
Nominal GDP (US$bn)	898	1,136	917	1,080	**1,383**	**1,392**	**1,495**
Growth (%)	13.1	26.6	-19.3	17.7	**28.1**	**0.7**	**7.4**
Oil & gas sector (% of GDP)	45.3	50.7	39.1	43.4	**48.6**	**46.3**	**45.8**
Real GDP growth (%)	4.2	5.7	0.3	**4.8**	**8.0**	**4.0**	**5.2**
Oil & gas growth (%)	-2.9	3.8	-4.2	4.3	**6.8**	**0.7**	**0.5**
Other sectors growth (%)	9.7	7.0	3.3	5.1	**8.7**	**6.0**	**7.9**
Fiscal indicators (% of GDP)							
Revenue	42.0	49.2	36.4	39.4	**43.9**	**40.5**	**39.7**
(US$bn)	377	559	334	425	**607**	**563**	**594**
Expenditure	27.6	29.0	39.1	35.4	**33.9**	**36.7**	**35.9**
(US$bn)	248	330	358	382	**468**	**511**	**536**
Balance	14.4	20.2	-2.6	4.0	**10.0**	**3.7**	**3.8**
(US$bn)	129	229	-24.2	43.6	**138**	**52.0**	**57.4**
Current account (% of GDP)							
Balance	18.9	21.0	6.7	13.2	**23.3**	**19.7**	**19.7**
(US$bn)	170	239	61.8	142	**322**	**274**	**295**
Trade balance	17.8	34.4	24.2	30.2	**37.6**	**34.2**	**34.1**
Exports	61.8	66.1	57.1	60.5	**62.9**	**60.1**	**59.1**
Imports	-31.2	-31.7	-32.9	-30.3	**-25.3**	**-25.9**	**-25.0**
Services balance	-9.1	-9.6	-11.0	-10.2	**-8.5**	**-8.4**	**-8.3**
Income balance	2.4	1.2	0.4	-0.2	**-0.1**	**-0.3**	**-0.3**
Current transfers balance	-5.1	-5.0	-6.9	-6.6	**-5.7**	**-5.9**	**-5.8**
International reserves	47.3	45.6	54.7	**51.8**	**47.8**	**55.8**	**61.7**
Industry indicators							
Oil production (m b/d)	18.2	19.0	17.5	18.0	**19.4**	**19.4**	**19.5**
Oil export price (US$/barrel, weighted)	**70.5**	**94.6**	**63.6**	**78.7**	**109**	**103**	**109**
Gas production (bn cu ft/day)	23.7	25.8	26.6	30.4	**34.5**	**36.4**	**37.5**
Monetary indicators (% change)							
Consumer price inflation	7.2	11.2	2.7	2.8	3.3	**2.8**	**3.2**
Food	6.5	15.3	1.7	5.3	**5.7**	**4.0**	**4.4**
Housing	12.5	15.4	5.8	3.0	**2.3**	**2.7**	**3.1**
Broad money growth	30.6	19.1	9.9	7.1	**11.3**	**8.4**	**7.1**

Source: National statistical authorities, central banks, IMF, **QNB Group estimates and forecasts**

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Economics Team

Mohamad Moabi	Assistant General Manager	+974 4440 7660	mohamad.moabi@qnb.com.qa
Roy Thomas	Senior Economist	+974 4497 5927	roy.thomas@qnb.com.qa
Minko Markovski	Economist	+974 4497 5928	minko.markovski@qnb.com.qa
Hamda Al-Thani	Economist	+974 4497 5930	hamda.althani@qnb.com.qa
Justin Alexander	Senior International Economist	+974 4497 5926	justin.alexander@qnb.com.qa
Rory Fyfe	International Economist	+974 4497 5929	rory.fyfe@qnb.com.qa

QNB Branches and Offices

Head Office

P.O. Box 1000, Doha, State of Qatar
Tel. +974 4440-7407
Fax +974 4441-3753

Branches	
Air Force Base	Industrial Area
Al Gharrafa	Mesaieed
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24-Hour Call Centre 4440 7777

Branches can be contacted through the Call Centre

QNB International Branches and Representative Offices:

United Kingdom
51 Grosvenor Street,
London W1K 3HH
Tel: (+44) 207 647 2600, Fax: (+44) 207 647 2647
QNBLondon@qnb.com.qa

France
65 Avenue d'lena
75116 Paris
Tel: (+33) 1 53 23 0077, Fax: (+33) 1 5323 0070
QNBParis@qnb.com.qa

Kuwait
Al-Arabia Tower, Ahmad Al-Jaber Street, Sharq Area
P.O. Box: 583
Dasman 15456
Tel: (+965) 2226 7023, Fax: (+965) 2226 7031
QNBKuwait@qnb.com.qa

Lebanon
Ahmad Shawki Street, Capital Plaza Building
Mina El Hosn, SOLIDERE, Beirut
Tel: (+961) 1 762 222, Fax: (+961) 1 377 177
QNBLebanon@qnb.com.qa

Mauritania
Al-Khaima City Center
10, Rue Mamadou Konate
Tel: (+222) 5249651
QNBMauritania@qnb.com.qa

Oman
Qatar National Bank Building
MBD Area - Matarah
Opposite to Central Bank of Oman
P.O. Box: 4050
Postal Code: 112, Ruwi
Tel: (+968) 24783555, Fax: (+968) 2477 9233
QNBOman@qnb.com.qa

Sudan
Africa Road – Amarat Street No. 9
P.O. Box: 8134 Khartoum
Tel: (+249) 183 480000, Fax: (+249) 183 48 6666

Singapore
One Temasek Avenue
22-03 Millenia Tower
Singapore 039192
Tel: (+65) 6499 0866, Fax: (+65) 6884 9679
QNBSingapore@qnb.com.qa

Yemen
Qatar National Bank Building
Al-Zubairi Street
P.O. Box: 4310 Sana'a
Tel: (+967) 1 517517, Fax: (+967) 1 517666
QNBYemen@qnb.com.qa

Iran - Representative Office
6th floor Navak Building
Unit 14 Africa Tehran
Tel: (+98) 21 88 889 814, Fax: (+98) 21 88 889 824
QNBIran@qnb.com.qa

Libya - Representative Office
Burj Al Fatah – 19th Floor
P.O. Box: 91351 Tripoli
Tel: (+218) 213362131 / 2, Fax: (+218) 213362134
QNBLibya@qnb.com.qa

QNB Subsidiaries and Associate Companies:

Iraq
Mansour Bank - Associate Company
P.O. Box: 3162
Al Alawiya Post Office
Al Wihda District Baghdad
Tel: (+964) 1 7175586, Fax: (+964) 1 7175514

Jordan
The Housing Bank for Trade and Finance - Associate Company
P.O. Box: 7693
Postal Code 11118 Amman
Tel: (+962) 6 5200400, Fax: (+962) 6 5678121

Qatar
Al Jazeera Islamic Company - Associate Company
P.O. Box: 22310 Doha
Tel: (+974) 4682812, Fax: (+974) 4468 2616

Switzerland
QNB Privée Suisse - Subsidiary
3 Rue des Alpes,
1211 Genève 1
P.O. Box: 1785
Tel: (+41) 22 907 7070, Fax: (+41) 22 907 7071

Syria
QNB Syria - Associate Company
P.O. Box: 3800 Damascus
Tel: (+963) 11 335 3660, Fax: (+963) 11 335 3670

Tunisia
Tunis Qatari Bank - Associate Company
Rue de la cité des sciences
B.P 320 – 1080 Tunis Cedex
Tel: (+216) 71713555, Fax: (+216) 71713111
www.tqb.com.tn

UAE
Commercial Bank International - Associate Company
P.O. Box: 4449, Dubai, Al Riqqa Street, Deira
Tel: (+971) 042275265, Fax: (+971) 04 2279038

Qatar National Bank SAQ
P.O. Box 1000
Doha, Qatar

Tel: (+974) 4440 7407
Fax: (+974) 4441 3753

qnb.com.qa