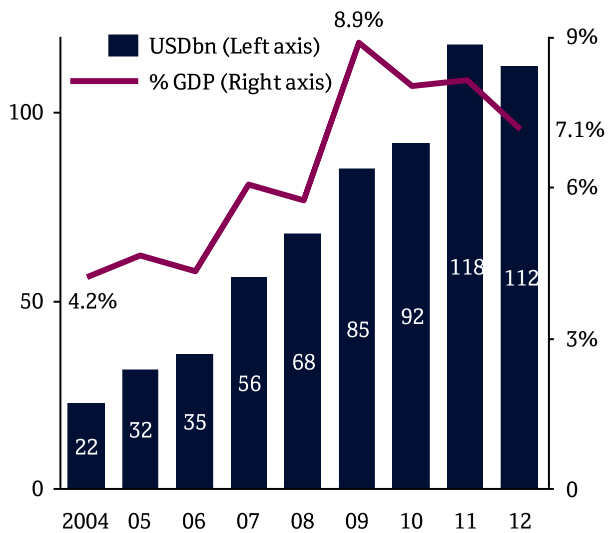
QNB Economics
economics@qnb.com.qa
29 September 2013

GCC Capital Expenditure Expected to Rise in 2013

Gulf Cooperation Council (GCC) governments are investing heavily in infrastructure, and spent an estimated USD112bn on capital projects in 2012, according to their budget outturns. Not only is this high in absolute terms, it also represented 7.1% of the GCC region's GDP, up from just 4.2% in 2004.. In 2013, QNB Group forecasts that GCC capital expenditure will rise further to 8.2% as more projects get underway. This will be the second highest share on record (after 2009 which was distorted because low oil prices that year reduced regional GDP by 19%, but most capital projects continued on schedule). Rail schemes such as the Doha, Riyadh and Abu Dhabi metros and the high speed inter-city rail network under construction in Saudi Arabia, will all boost GCC capital spending going forward.

GCC Public Capital Expenditure (2004-12)
(USDbn, % of GDP)



Source: IMF, GCC ministries of finance, QNB Group forecasts

Effective public capital expenditure in the GCC is even larger than the budget data suggests. This is because government agencies sometimes spend off budget and because of the usage of public private partnerships for some megaprojects. These partnerships are particularly used for power stations, such as the Al-Zour North plant recently contracted in Kuwait, and the private sector finances construction under a long term service agreement with the state. Although the private sector finances the capital expenditure, it is originated by the state and only made possible by virtue of the public-private contract.

In addition, a broad framework to guide capital investment has been provided by vision statements with a time horizon of decades, such as the Abu Dhabi Economic Vision 2030, which have been developed by most GCC states. Increasingly they are also utilising more detailed medium-term plans, such as the Qatar National Development Strategy (QNDS) 2011-16, to help implement these ambitious visions.

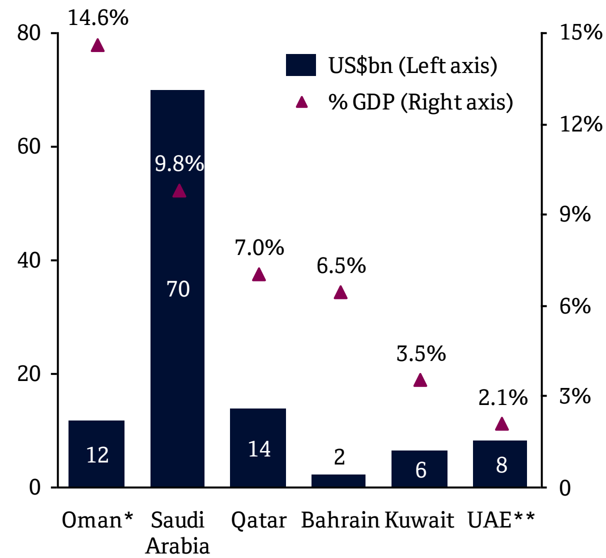
There are significant differences in relative spending levels between states, however, the data requires some interpretation in order to compare like-with-like. Although Oman ranks first in terms of capital expenditure as a share of GDP (14.6% in 2012), this is largely because it includes investment in oil and gas within the budget. In other GCC states the accounts of the national oil companies, including their capital expenditures, are not consolidated into the overall budget. Non-oil capital expenditure in Oman was still high, around 9.8% of GDP, equal with Saudi Arabia.

Conversely, the UAE appears to rank at the bottom regionally, spending just 2.1% of GDP on budgeted development projects, according to the IMF's estimated consolidated federal accounts. However, this is likely to be an underestimate, as capital expenditure is dispersed widely across governmental and quasi-governmental agencies in the seven emirates. In reality, spending in the UAE is likely to be closer to the regional average. Meanwhile, Kuwait was a laggard, spending just 3.5% of GDP. This is because of repeated hurdles to the implementation of its 2010-14 Development Plan. However, capital expenditure in Kuwait is likely to pick up as contracts have now been awarded for a number of significant megaprojects such as the Sheikh Jaber Bridge over Kuwait Bay.

Qatar spent the second largest amount in 2012 (USD13.5bn). This is because of both the major infrastructure projects underway in the run up to the 2022 World Cup and the significant investments in health and education to meet the human development goals of Qatar's National Vision 2030 and the QNDS 2011-16.

Looking ahead, QNB Group expects that government capital expenditure, both direct and through public-private partnerships, will remain high throughout the GCC over at least the next decade. Common themes across the region include rail networks to relieve congestion in major cities and connect the Gulf's major coastal hubs. Also further expansions are planned in power and water desalination capacity plus social spending on schools, hospitals and housing. Many GCC countries have medium term spending plans running into hundreds of billions of dollars. For example, Saudi Arabia committed in 2011 to invest USD67bn on housing alone, to build half a million new homes. Meanwhile, Abu Dhabi has committed to USD90bn in capital expenditure between 2013-17.

Public Capital Expenditure by Country (2012)
(USDbn, % of GDP)



Source: GCC ministries of finance; *Includes investment in the oil sector; **IMF estimate