



بنك الإمارات دبي الوطني
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Sector

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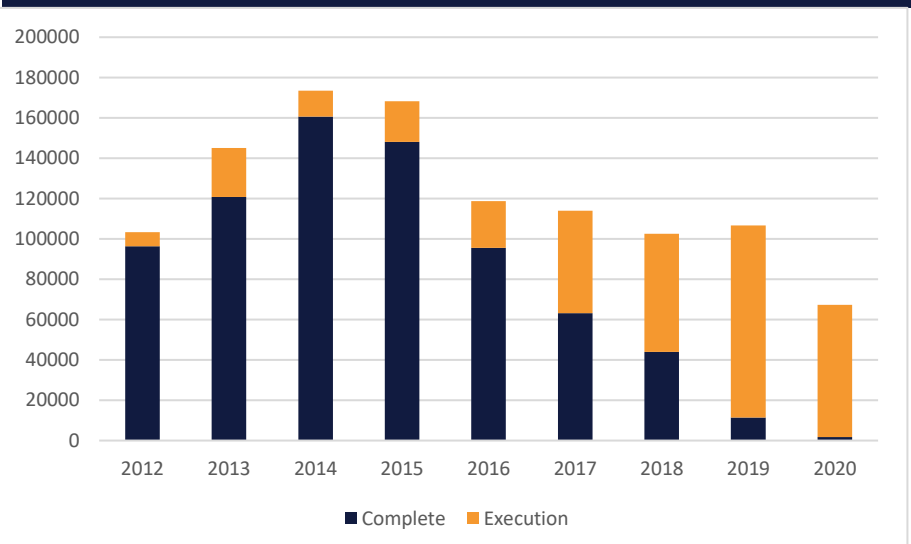
GCC Projects: Revving up?

The construction sector in the GCC has always been a conduit through which governments in the region could realize a large extent of their fiscal spending targets. This happened through direct government spending on infrastructure projects or via quasi government entities that carried out projects in their respective sectors. Another important driver of the region's project market has increasingly been the private sector, backed both by private regional investors, and increasingly through FDI inflows. The classification of the regions' project market is broad, covering everything from pure infrastructure projects in areas like power, transport, and healthcare, through to residential property market and leisure facilities projects like hotels and resorts.

With the onset of the multi-year decline in oil prices that began in 2014, the GCC project market underwent a long-term structural adjustment, that has seen a very wide-ranging program of spending rationalization. This has led to many years of stagnating and even falling spending on construction projects in the region, as existing and ongoing projects were thoroughly scrutinised for their viability in a low spending environment, as lower oil prices led to higher debt levels and record fiscal deficits. The aggregate project market was declining in the region even before the Covid-19 pandemic started, with its onset last year placing further downward pressure on the market's dynamics.

The focus of our first paper on the region's project market is to get a snapshot of where we stand in terms of the pan-GCC project activity. The data in Q1 of this year is looking decisively healthier, especially in contrast to last year. The question is whether this pick-up in spending will be more persistent or is otherwise a blip from a low base that will slow, as has been the case over the last few years. With oil prices in a "good place" this year, the region has more room to boost spending than was the case in 2020, but as most governments in the region have committed to reducing budget deficits over the medium term, it is too early to call. However, should data continue to edge up into the end of the year, the structural dynamics of the GCC construction market will tilt to one of "growth on" for this year and over the medium term. This paper will give a brief outlook on the GCC project market, followed by a country by country snapshot, to create a document that will be published quarterly and allow for a reading of how much and where project spend in the region stands.

GCC Projects Yearly (USD mn)



Source: MEED Projects, Emirates NBD Research

Shady Shafer Elborno
Head of Macro Strategy
ShadyB@emiratesnbd.com

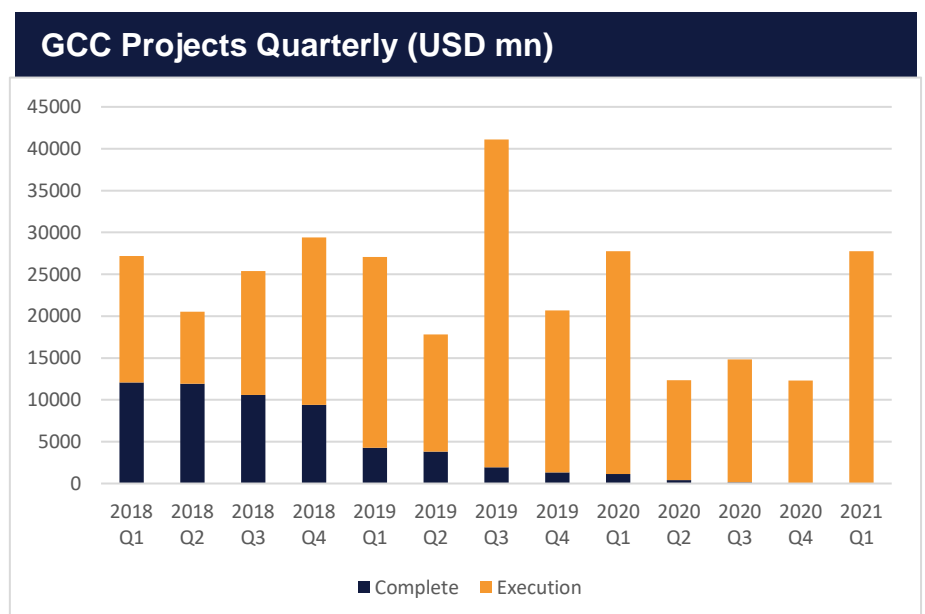
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Is the GCC project market turning around?

In terms of full-year performance, project awards in the GCC showed a stagnant or declining trend in the last six out of seven years as illustrated in the chart on page 1. This is not surprising given the impact of long-term drop-in oil prices that began in 2014. Given the reliance of the regional governments on hydrocarbon revenues to fund spending, tighter budgets on the back of lower oil prices translated into fewer new projects being awarded, extended timelines, rationalizations and cuts to existing projects. The value of projects awarded; both completed and under execution; has dropped from USD 173bn in 2014 down to USD 67bn in 2020. In 2020 alone the project market in the GCC declined by almost 36% compared to 2019 as Covid-19 mandated spending cuts across the region had a significant impact on project spending dynamics.

Measuring the GCC data from a quarterly perspective reflects a more positive picture for the market. Project activity spiked from USD 12bn in Q4 2020 to USD 27bn in Q1 2021. However, spending was not uniform. Quarter-on-quarter increases in project awards came from Qatar and Kuwait while the rest of the GCC countries reported declines, with Saudi Arabia and UAE have seeing the biggest absolute fall in project awards during Q1 2021. Of note for Qatar in particular has been the USD 13bn for the Qatargas -LNG processing trains project, which was the biggest single project driver in the reported data set for Q1 2021. In February 2021, Qatar awarded the project to a consortium formed by Japanese engineering group Chiyoda and French peer Technip.

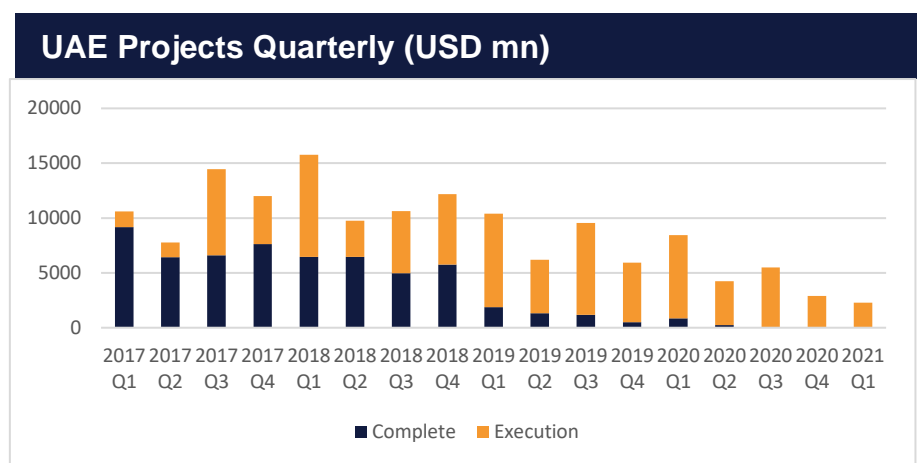
Projects in the region’s oil and gas sectors are likely to frontline the rise in construction spending in the region. With oil prices comfortably higher this year, investments in value generation projects across the regions hydrocarbon sector in both upstream and downstream verticals will likely rise, as would investments in green and renewable energy projects associated to those hydrocarbon sectors. Equally, investments in water and power utility projects remain essential across much of the region, as do investments in infrastructure development that remains a strategic medium to long term goal for regional policy makers to meet the infrastructure needs of their young but rapidly growing populations.



Source: MEED Projects, Emirates NBD Research

United Arab Emirates

In the UAE the project sector declined sharply over the last couple of quarters, with Q1 2021 coming in lower than an already muted Q4 2020. Between Q1 2019 and Q1 2020 projects awarded in the UAE declined from USD 10.3bn to USD 2.3bn. The decline in the UAE project market can be attributed to a number of factors ranging from **lower government spending** to wide-ranging projects rationalisation exercises across many sectors, in a market that has been traditionally along with Saudi Arabia one of the most active across many subsectors. The construction sector for one is dealing with a market seen as oversupplied, but with the property market stabilizing, dynamics for the property construction sector are improving. We also expect spending on the hydrocarbon sector to pick up in line with wider trends we are seeing across the region.



Source: MEED Projects, Emirates NBD Research

Saudi Arabia

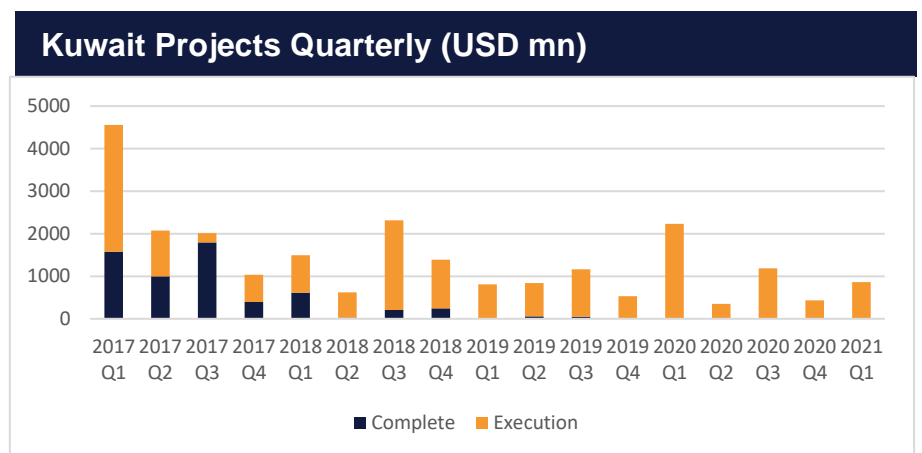
The largest project market in the region, Saudi Arabia has seen muted project spending over the past few quarters, as lower oil prices pressured government coffers. In a country where the budget is a key driver of economic growth, the kingdom's conservative fiscal policy over the past few years has seen projects across most segments drop. Project spend reached a low of USD 2.6bn in Q3 2020, a level not seen since MEED projects began collecting data in 2007. Q1 2021 saw the market nudge back up to USD 5.3bn. Saudi Crown Prince Mohammed bin Salman's aggressive development plans need to gain momentum, given the social and economic development goals he set for the kingdom through Vision 2030. To achieve those goals, the kingdom will need to see investment increase in the coming quarters and years, and the government appears to be looking at ways to boost private sector investment to reduce the reliance on government spending.



Source: MEED Projects, Emirates NBD Research

Kuwait

Kuwait’s project market is one of the smallest in the GCC, especially when measuring project spend vis-à-vis the size of the economy. The main reason the Kuwait project market lags its GCC peers is due to political headwinds, where differences between the many sitting and leaving parliaments and the government has made it difficult to execute both government and private investment. The scale of opportunity to invest across all industry and sector verticals is huge, especially given very little spending has taken place compared to the larger GCC economies and the gaps that exist. Spending levels took a further hit during the pandemic, slowing to just USD 352mn in Q2 2020, a level not seen since 2004. The outlook will remain hinged around a more cohesive government and parliamentary approach, which for the moment looks unlikely.



Source: MEED Projects, Emirates NBD Research

Qatar

Qatar’s outsized natural gas resources have allowed it a more comfortable buffer with which to spend on projects. Spending over the past few years has been centred around infrastructure for the football World Cup in 2022, and continued investments in the country’s hydrocarbons infrastructure that fuels the country’s fiscal firepower. The many spikes seen in spending over the past few years have been driven by large-scale infrastructure transport projects, World Cup 2022 preparations, and oil & gas infrastructure spend. Spending in Q1 2021 reached a record high on the back of a USD 13bn gas project awarded in February which was the biggest single contributor to regional project spending in that quarter.



Source: MEED Projects, Emirates NBD Research

Oman

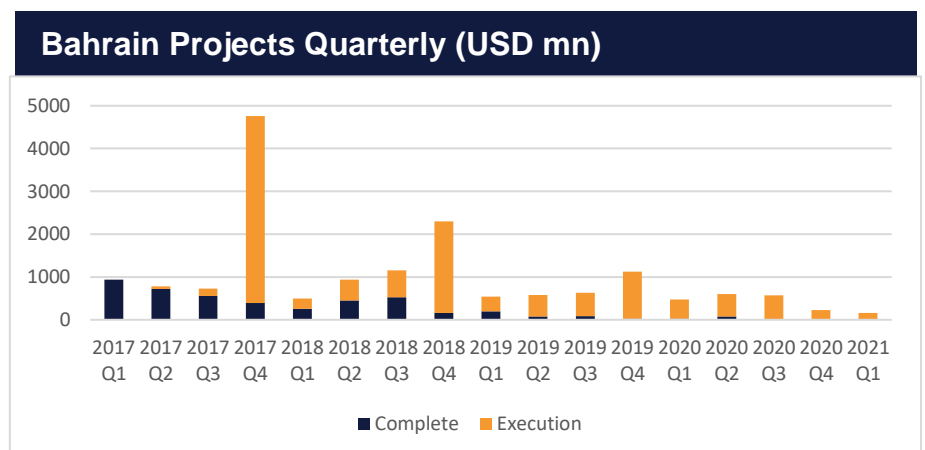
Oman is very actively seeking to diversify its economy and create opportunities for Omanis, this despite being one of the smaller markets in the GCC. Over the past few years, project activity in Oman has picked up, and included several megaprojects completed such as the Duqm refinery, the new Muscat International airport and the Batinah expressway scheme. Faced with the post Covid-19 environment, Oman's projects market will need to attract foreign investment in its major industrial hubs in Sohar, Duqm and Salalah. Strategically, Oman's position on the main East-West shipping axis could attract Chinese investment for its Belt and Road Initiative. The country is also actively developing public-private partnership to support in the funding, construction and operation of future projects.



Source: MEED Projects, Emirates NBD Research

Bahrain

Bahrain's project market will be driven by the pace of the development of its public-private sector partnership agenda, in light of the fiscal headwinds faced by the government in Manama. For instance, the development of all three of Bahrain's independent water and power projects to date under the full private developers ownership, is an example of audaciousness in removing local requirements for minimum government equity stakes in that sector. This places Bahrain ahead of other countries in the region in that respect. The government needs to focus on developing the same sort of self-funding project success in other sectors, in order to meet and deliver its future project aspirations.



Source: MEED Projects, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Khatija Haque
Head of Research &
Chief Economist
+9714 230 7803
khatijah@emiratesnbd.com

Research

Edward Bell
Senior Director, Market Economics
+9714 230 7701
edwardpb@emiratesnbd.com

Shady Shafer Elborno
Head of Macro Strategy
+9714 609 3015
shadyb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Jamal Mattar
Research Analyst
+9714 444 3607
jamaly@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Abdulazeez Adm AlSomali
+966 11 282 5623
abdulazeezso@emiratesnbd.com

Singapore Sales
Shivakumar Srinivasan
+65 6578 5620
shivakumars@emiratesnbd.com

London Sales
Carlo de Vos
+44 (0) 207 838 2279
devosc@emiratesnbd.com

Egypt Sales
Ahmad Okasha
+202 2726 5934
aokasha@emiratesnbd.com

India Sales
Ashish Pahuja
+91 22 6813 6202
ashishpa@emiratesnbd.com

Emirates NBD Capital

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@emiratesnbd.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com