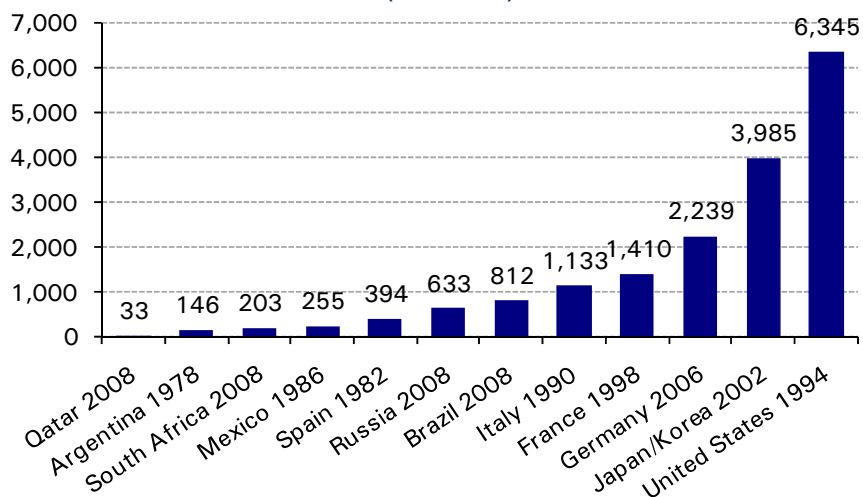


Qatar’s spending on development to boost economy bolstered by hosting the World Cup

- Qatar plans to spend USD100 billion, around 87% of GDP, on constructing or upgrading infrastructure over the coming several years, thus driving future growth.
- Spending will receive a large boost from the award to host the World Cup in 2022. The event will also set tight deadlines and present additional incentive to reach Qatar’s National Vision 2030.
- The GCC region as a whole could gain from spillover effects, specifically regional contractors and businesses, financial institutions.

In IBQ’s latest GCC Brief: On December 2, 2010, the FIFA awarded Qatar the right to host the 2022 World Cup. The cup is one of the most coveted sporting events in the world. Among other things, the world cup draws fans from around the world, on top of players, supporting staff, organizers, and journalists. It is followed by billions around the world. It is estimated that the 2010 competition held in South Africa drew around half a million visitors, almost a third of Qatar’s current population. Qatar will also be the smallest economy to host the World Cup (Chart 1), implying that the event could have a relatively big impact. (Though of course, by 2022, Qatar’s economy will be much larger than it is now.)

**Chart 1: Real GDP (at 1990 prices)
(USD bn)**



Source: UN data

Note: dates correspond to either the date when the respective countries hosted the World Cup or latest available data point, whichever comes later

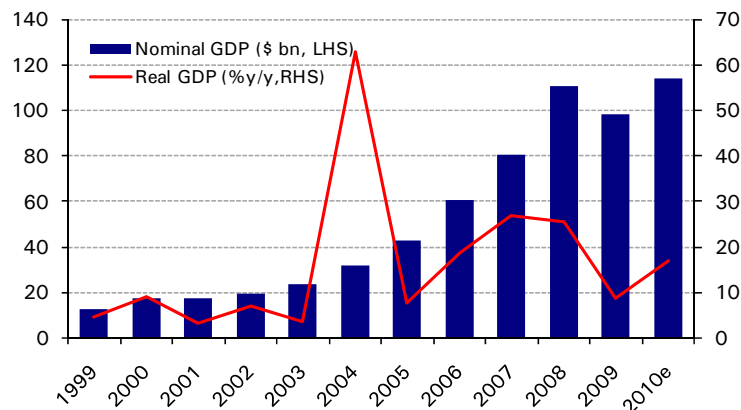
Government on track with large spending program

Prior to FIFA’s announcement, Qatar had already outlined a plan to spend USD100 billion, around 87% of GDP – 2010 GDP in current prices is estimated at USD115 billion (chart 1) – on infrastructure construction or upgrade

over the coming several years. This is part of the country’s ambitious National Vision 2030, to modernize the country.

As part of the plan, the government will spend more than USD40 billion on projects, while the remaining amount will come from government entities such as Qatar Petroleum. The plan will include, among others, a number of high profile mega projects (Table 1), largely in the transportation and housing sectors. The plan includes a USD25 billion metro and rail network, which were initially slated for completion by 2025 – although some sections of the project were to be ready sooner .

Chart 2: Qatar GDP



Source: Central Bank of Qatar and NBK estimates

Qatar is also well into the construction of the first phase of the new USD10 billion airport, dubbed the New Doha Airport, which will eventually replace the current airport. The first phase of the project is scheduled to open in late 2011 or early 2012, with later phases being rolled out between 2012 and 2027. Once completed, the new airport would have the capacity to cater to 24 million passengers yearly .

Table 1: Select non-hydrocarbon mega projects

Project	Cost (\$bn)	Scope	Completion date
Qatar National Railway System	25	300km Doha metro, light-rail, freight and high speed lines, passenger stations	2025
New Doha international airport	10	Handle 50 million passengers. Phase 1 expected in 2011 to handle 24 million.	2015
New Doha Port	7	Port with a capacity of 6 million 20-foot equivalent units	2027
Dohaland - Musheireb	5.5	Spread over 750,000 m ² , 226 bldgs. to house 28,000 resident, parks, schools, hotels with around 700 rooms	2017
Qatar-Bahrain causeway	4	Road and rail bridge from Qatar to Bahrain	2015
Doha Bay crossing	1	12 km crossing and associated works	2014

Source: MEED Projects

Other prominent projects include a USD7 billion deep water seaport and a USD1 billion crossing to link the new airport with projects in the northern part of Doha. An additional USD20 billion will also be spent to build and expand roads. Moreover, there are currently several housing projects underway and there are plans to start several more to accommodate Qatar's ballooning population. The latter has witnessed a 128% increase since 2004 (1.7 million currently).

How would the World Cup help?

Hosting the World Cup foremost adds a sense of urgency and an ultimate hard deadline for the completion of projects critical to a successful hosting. As a first step, officials in Qatar have already announced the launch of a staggering 200 projects in different areas by the first quarter of 2011. Also, officials have pledged that preparations for the World Cup would push the metro and rail projects forward to accommodate the expected inflow of tourists. Also, the USD4 billion Qatar-Bahrain causeway, which had witnessed multiple delays since its announcement, could finally receive the green light.

While all the above projects were planned independently of 2022, Qatar would also benefit through additional spending on projects undertaken solely for the World Cup. Qatar will receive an unexpected boost from two primary areas. On the one hand, the actual bid outlines having 12 stadiums ready by 2022. The stadiums, costing around USD4 billion, include three existing venues which would be expanded and nine new state-of-the-art stadiums with capacities of at least 43,000 each. Furthermore, Qatar plans to build 90,000 additional hotel rooms. Although under FIFA requirements Qatar would only need to build 65,000 rooms, Qatar has pledged to build an additional 25,000 rooms for assurance.

Indeed, the resulting boost to the economy is not to be underestimated, and comes at a most opportune time. It coincides with Qatar reaching the targeted 77 million tons per year of LNG production and amid much speculation over Qatar's ability to sustain its rapid growth after gas related projects are completed.

Implications for the Qatari economy

Qatar is set to benefit enormously from currently planned spending in general, as well as from the impact of the World Cup. Continued economic growth would be the primary result, just when the fast-paced growth, induced by the large buildup in capacity in the hydrocarbon sector in recent years, was set to come to an end. This vast spending program will also help diversify the economy away from hydrocarbons. Moreover, the private sector will have a greater role to play, reducing the government's contribution in the economy.

Investment in infrastructure will also help relieve some of the bottlenecks and shortages that have built up in many areas, because expansion in infrastructure had not kept up with the rapid growth of the economy or population. The new investments will pull the economy back into balance and help set the stage for further growth in the future. This also bodes well for Qatar's plans to boost its tourism and become a pole of attraction in the region.

Spending will also have tremendous repercussions for the country's financial sector. The banking and investment sector could be one of the main beneficiaries. Already, government backed projects have been very instrumental in 2010 in helping the banking sector's quick recovery in the aftermath of the global financial crisis. Sustained future plans will help banks generate revenues through balance sheet growth and increased fee generating businesses. The plan could also result in deeper stock markets with some companies likely to go public for their funding. This will improve Qatar's competitiveness and its bid to become one of the financial hubs for the region.

Implications for the region

The whole region is set to gain from Qatar's spillover effects. This is especially true for the many contractors in the region that have built up their stocks and operations in the region, prior to the crisis induced slowdown.

Developments could also force some intra-regional integration between players. Already, a first cross border merger has been announced between the GWC and Agility that could be a harbinger of future similar transactions. Intra-regional trade would also get a boost. A good deal of the raw materials involved in the construction of many projects will be sourced from neighboring countries.

Large regional financial institutions would also benefit by sharing in financing and servicing the plethora of projects. This would be especially the case as more and more regional companies take part in the execution of the different projects and look for local and regional financing.

A word of caution

There are always risks to take into consideration when assessing such ambitious plans. To begin with, planned spending runs the risk of placing some strong pressure on government finances in the short to medium term. The government has already issued several bonds in the past few years, and has increased its borrowing from local banks. Moreover, as is often the case, actual spending tends to exceed budgeted costs, and the ultimate bill might see some considerable upward revision over the years. Still, large foreign asset reserves and strong hydrocarbon revenues would cushion any sharp unforeseen spike in spending estimates.

The increased activity from the planned projects will undoubtedly place significant upward pressure on prices of goods and services in Qatar. This could be a significant factor for the country, especially considering that inflation in Qatar has exceeded the GCC average in the years following the oil boom.

A final consideration is the costly legacy assets that would remain after the world cup concludes. The 12 stadiums that will be built for the event are excessive for a country of the size of Qatar, although the authorities intend to get around this by dismantling and gifting some of the stadiums to other countries once the event is over. Also, the country runs the risk of building excess supply in certain sectors, mainly in hotel rooms. Still, as mentioned before, the bulk of the spending will see its way to needed projects and to build the proper infrastructure of Qatar regardless of the requirements of the World Cup. Also, the returns of hosting the event (tourism, TV rights etc) should cover a good deal of the additional expenses.

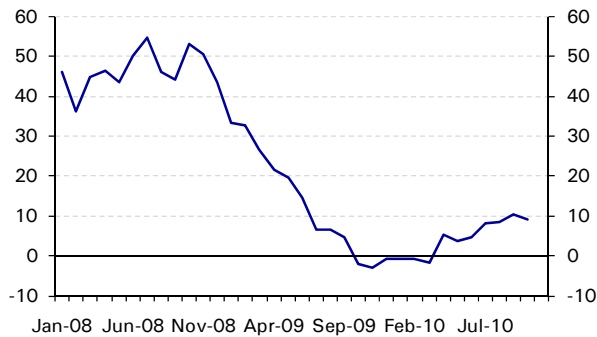
Bottom line

The benefits should heavily outweigh any challenges that lie ahead. Qatar does need to address structural issues following the phenomenal growth of recent years, and needs to pave the way for future growth. Hosting the World Cup will set tight deadlines, create extra spending, bring in new expertise, and present additional motivation and incentives to reach Qatar's National Vision 2030. □

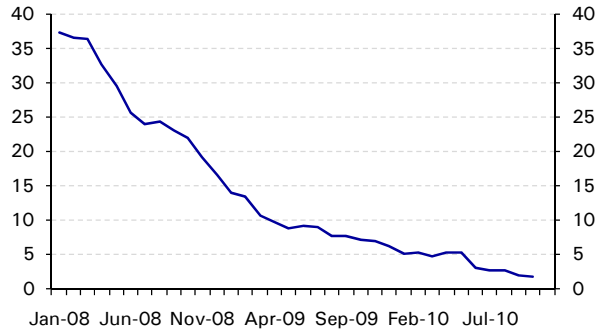
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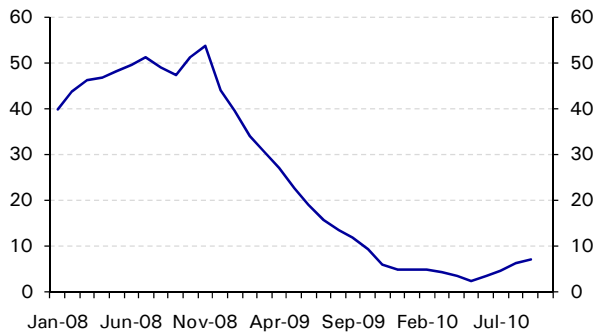
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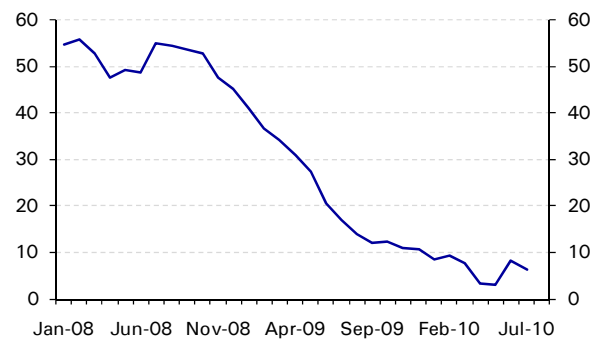
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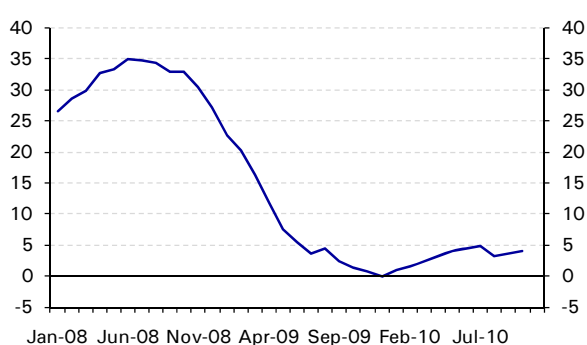
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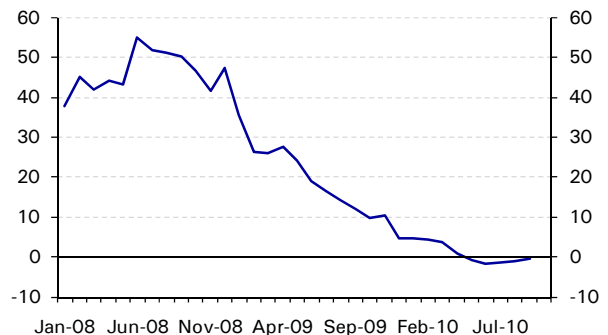
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