MACROECONOMICS

IMF Staff Conclude Article IV Consultation on Kuwait

1. In late September, IMF Staff issued a statement following the conclusion of their annual Article IV consultations with Kuwait. These consultations form a key part of the IMF's surveillance function of member states' economies.

2. The IMF's main finding was that oil revenues continue to be the mainstay of the Kuwaiti economy (hydrocarbon extraction and export accounted for around 57% of Kuwaiti GDP in 2011), and that Kuwait needs to end its domestic political disagreements if it is to transition to a model of non-oil private sector led growth. Kuwait's production of crude oil in 2012 (average 2.98 million barrels per day, which is around capacity) combined with high global oil prices, played a major role in helping the state achieve an overall real GDP growth rate of 6.2%, (considerably more than the IMF's previous estimate of 5.1%). This was supported by a significant rise in real non-oil GDP growth, which reached 2.2% in 2012 (mainly through increased consumption), compared with 0.9% in 2011, and contractions between 2008 and 2010. This better than expected growth meant Kuwait continued to run a high fiscal surplus in 2012 (33% of GDP). Kuwait's fiscal surplus was accompanied by an estimated current account surplus of 43% of GDP.

3. The IMF identified mixed indications on the efficacy of the Kuwaiti financial sector in supporting macro-level growth. Whilst increased uptake of personal loans saw bank credit grow by 6.2% year-on-year to June 2013, central bank reserves grew by 9% over the same period owing increased deposits.

4. Looking ahead, the IMF expects real non-oil growth to increase to 4.4% over the next 12 months or so, and to 5% beyond 2014. This will be the result of increased domestic consumption (supported by that public sector wage increase) and increased government capital expenditure. But the IMF expects that this growth will be accompanied by increased inflationary pressure (currently around 3%) from 2014 onwards, and reduced fiscal and current account surpluses.

5. In terms of risks, the IMF noted that Kuwait's heavy dependence on oil revenue means that even small production decreases could have considerable impact on GDP growth. Kuwait's fiscal surpluses will buy the state some breathing space, and the government's current oil break-even price is a healthy $70.

Iraq Launches National Development Plan...

6. Iraq's Planning Ministry has launched a National Development Plan covering 2014 to 2017. The plan brings together in one strategy individual plans from across Iraq's Ministries, and outlines a range of indicators (from numbers of paved roads to literacy rates) with targets for improvement by 2017. $379bn worth of investment is required. Much of the plan is focussed around setting a path for Iraq to achieve more diversified economic growth (as with other oil producing states in the region,

hydrocarbon production accounts for the largest share to overall GDP and government revenue). Priorities for investment will be healthcare and education, tourism, construction and agriculture (of which 20% are intended to come from overseas). These are all areas in which UK companies can play a significant role.

7. Iraq's plan has been designed on the basis that Iraq's oil production will rise to almost 9.5mbpd (million barrels per day) by 2017, from around 3mbpd currently, with exports up to 6mbpd. In fact, 2013 is on course to be the first year since 2010 that Iraq has not registered strong production growth, and is now predicted by some analysts to register a fall in production as measured by average monthly sales. April 2013 registered the highest ever monthly export of 2.317mbpd (the rest is refined domestically). But by August 2013, sales were down to almost 2mbpd, and this has continued to fall as planned maintenance takes loading terminals out of action. These falls in exports may last a few months more, but over a period of years, production and exports look set to grow once again. Shell's flagship Majnoon field has restarted production, so should offer further relief to Iraq's planners.

ENERGY

Bahrain and Saudi Arabia Approve Plans for a New Oil Pipeline

8. Bahrain and Saudi Arabia have approved plans to construct a new pipeline to carry crude oil from Abqaiq in Saudi Arabia to the Sitra refinery in Bahrain. The pipeline will have a capacity of 350,000 barrels per day (bpd), and will replace an old pipeline with a capacity of 230,000bpd. This in turn will allow for an increase in input capacity for the Sitra refinery from 267,000bpd to 460,000bpd. Bapco (the Bahraini national oil company) and Saudi Aramco have said they plan to issue a request for tenders for the construction of the 115km pipeline in the final three months of 2013, and award a contract in the second quarter of 2014.

INFRASTRUCTURE

Long Take Off Run for Gulf Airports

9. September has been a busy month for GCC airports. Saudi Arabia has offered updates on its plans to increase capacity network of commercial airports to 100 million passengers per year by 2022. Part of this will require extensions at existing airports (eg. increasing the capacity of King Khalid Airport in Riyadh to 35.5m by 2017, and King `Abd al-`Aziz Airport in Jedda to 30m by 2014). In parallel, the GACA (Saudi Arabia's General Authority for Civil Aviation) is aiming for the completion of a new airport in Medina by 2015, and is progressively handing over responsibility for the construction and operation of new and existing facilities to the private sector (eg. the Haj terminal in Jedda, and VIP lounges across the country).

10. Meanwhile, the authorities in Dubai have confirmed that Maktoum International Airport will start accepting passenger traffic from 27 October. Maktoum has so far

been a freight only airport, but is planned to become the future hub of Emirates Airline with five runways and a passenger capacity of 160m per year.

11. But there have been further delays in Doha for Qatar Airways' planned new hub, Hamad International. The airport was originally scheduled to begin operations in 2010, but the CEO of Qatar Airways has now said the airport will open sometime early next year.