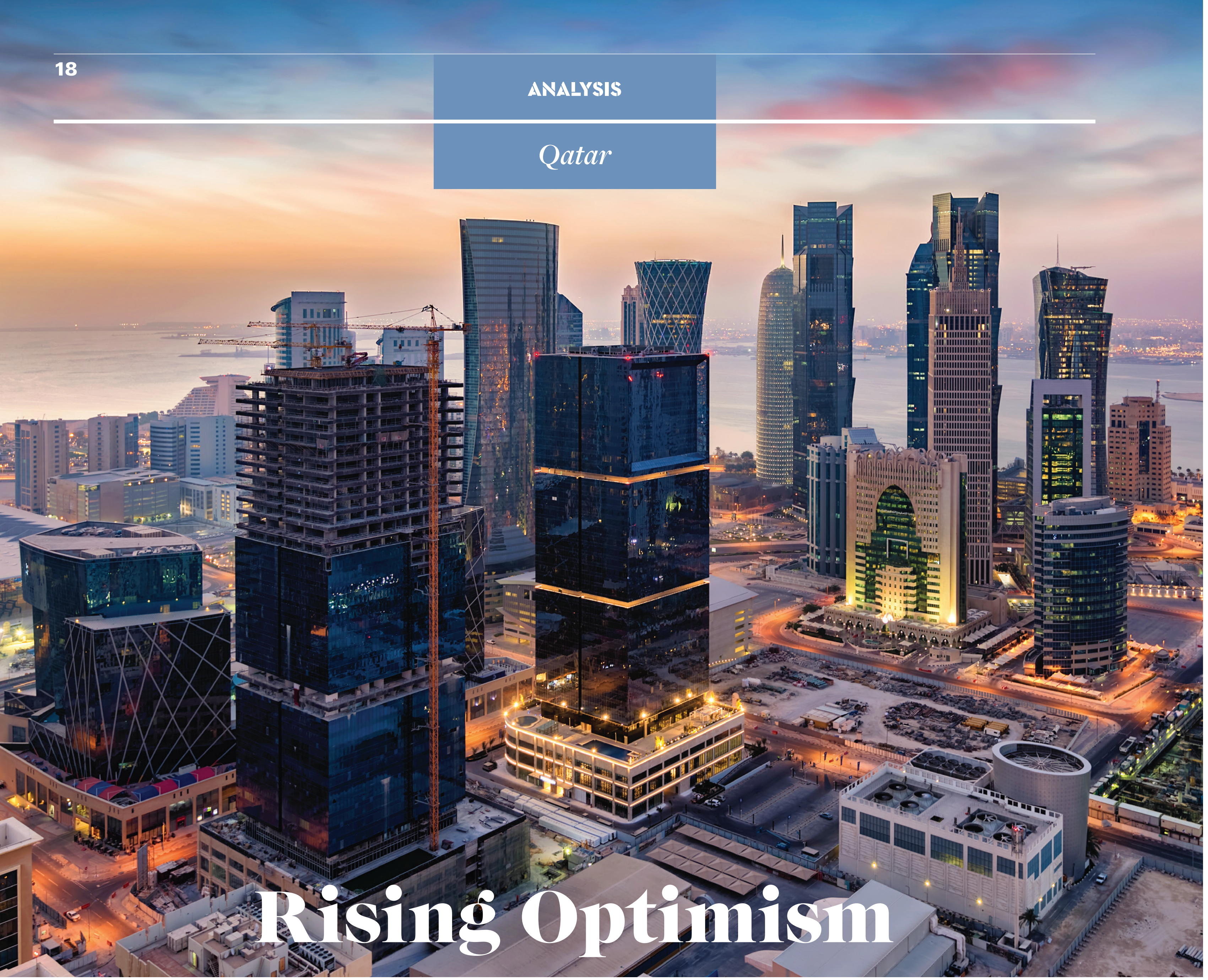

Rising Optimism

QATAR

David Clifton of Hill International shares his insights into Qatar's construction landscape and the economic outlook for the country ahead of the FIFA World Cup 2022

At more than 20%, construction represented a significant part of Qatar's GDP in 2020 (due in part to the contraction of GDP and the ongoing major programmes) and has been growing as a net contributor significantly with 20%+ growth per annum from 2014 until 2018 (23% in 2014, 20% in 2015 and 18% in 2016).

For comparison, in KSA this figure is 6%, UAE 9% and UK 7%. With sector spending set to increase through the Vision 2030 $16.4 billion stimulus already committed, positive signs are ahead as we move past Q2 and into Q3 and beyond.

We can realistically expect a rebound from 2019 and 2020's contraction in market scale to recording reasonable expansion providing the capital hits the ground.

Contract awards year to date are disproportionately higher the total quantum of awards in 2020 and 2019 (which were $13.4 billion and $12.1 billion respectively – a 10% decrease year on year) standing at c.$19 billion, although this figure is skewed by QatarGas awards of over $14 billion.

As growth returns to the economy in the second half of 2021, we forecast net awards of c.$20-$22 billion driven primarily by infrastructure.

With a 2021 budget surplus based on an oil price breakeven of c.$40 per barrel, Qatar looks certain to run a significant surplus in 2021. With the pandemic's effect tailing off economically and if the Government follows well-established stimulus precedent, a further wave of infrastructure development may see further industry expansion. This is considered highly likely as it aligns to the long-term objectives of the country.

Infrastructure driven
Infrastructure contract awards will drive Qatar's economy forward in the second half of 2021.

20%
of Qatar's GDP in 2020 was from construction

With a net project pipeline of over $130 billion, there is still a significant basis for growth planning. Currently, construction represents just over $42 billion of GDP in 2020, although we forecast this rising to over $75 billion by 2025 where we see a GDP growth of 3.8% in 2021, 3% in 2022 and 2.5% in 2023. Whereas the construction sector is expected to recover slightly slower in 2021 at 3% but accelerate above GDP rates of growth from 2022 to 2025.

With consumer price inflation negative in 2020, similar to most GCC countries, knock on decelerations have been felt within the industry as clients look to future and past budget cuts, where price points have been under significant and constant pressure, even in existing contracts. This trend won't halt in terms of negotiations in the short term, although we are now seeing significant input price increases across commodities globally as economies start opening back up and demand begins the path to recovery.

This will in turn feed into all supply chain areas and thus will have to, at a point, be passed on to the end projects and clients. This can be seen in the growing costs of iron ore which has feed through to rebar prices and will continue to have pressure until capacity catches up.

The industry has, based on the future data forecasts, got a potential capacity issue. Having weathered the global financial crisis (GFC), companies now cut harder and faster in terms of employees.

Coupled with the 30% reduction in non-national staff in government entities, the market does not currently have the ability to absorb a strong uptick in demand. This will ultimately place pressure on salaries, which may represent over 25% of the development cost. Which has previously been seen with the existential growth from the award of the World Cup.

At a macro level, when looking at construction, we must understand the impact of job losses on the economy. Not all the roles in the economy are as productive as each other. If we take construction as an industry worldwide, productivity is c.21% (with only agriculture being less productive at 19%).

Secondly, as we have moved through the economic cycle from the Global Financial Crisis (GFC) and experienced one of the longest growth periods on record, we see businesses and governments become increasingly inefficient and the addition of 'nice to have' positions, departments and entities that Qatar is currently disbanding and hence taking away consumer and infrastructure demand.

Thirdly, positions that are shed, may be replaced (certainly in the GCC) with lower paid staff – if nationalisation is not an option – or merged with other positions to create a hybrid. The replacement of high salaried expatriates has been ongoing since the GFC. C-19 is only likely to accelerate this (this is partially due to economic growth but mostly due to capacity building having been achieved in many vertical markets).

The outlook for 2021 and beyond is positive. Qatar still has the highest GDP globally and in QIA, there are $295 billion worth of assets, which is c.$1m per citizen. The deployment of some of this capital locally and attracting alternative finance (such as ECA's / PPP's) will be key for mid-term growth again.

Growth planning
David Clifton says that with a net project pipeline of $130bn, there is still significant basis for growth planning in Qatar.

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$130 billion
Qatar's net project pipeline