Macroeconomy

Qatar: Growth slowing and bank liquidity tightening amid low oil prices

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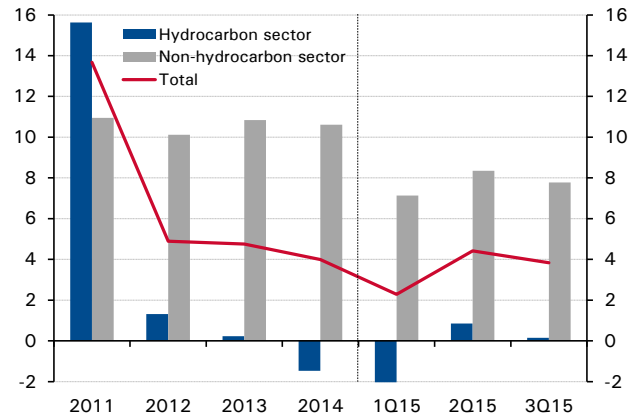
- Real GDP growth slowed to 3.8% y/y in 3Q15; government investment spending, however, underpinned robust non-hydrocarbon sector growth of 7.8% y/y.
- Inflation edged up to 3.3% in February as the cost of housing, utilities and food continued to rise.
- With revenues impacted by lower oil and gas prices, the fiscal balance recorded a deficit of -0.5% of GDP in 3Q15; the authorities have started rationalizing spending and raising domestic fuel prices.
- Robust credit growth of 17.8% y/y in Feb was spurred by rising lending to the public and real estate sectors.
- Liquidity has tightened in the context of slowing deposit growth (6.2% y/y in Feb) and debt issuance.
- Tightening liquidity and fiscal concerns have pushed interbank rates and CDS upwards.
- Low oil prices continue to weigh on market sentiment; as of 10 April, the QE index is down -2.8% year-to-date.

Chart 1: Real GDP

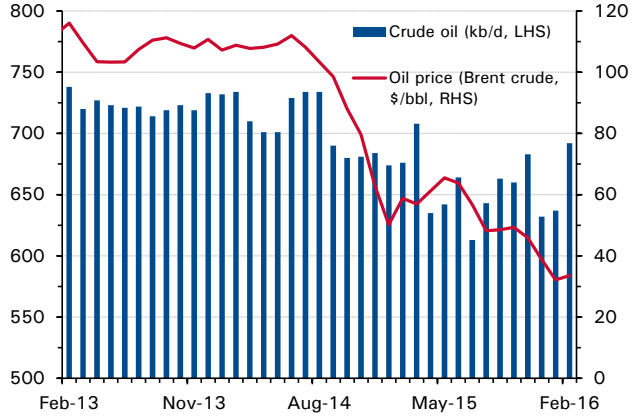
(% y/y)



Growth slowed to 3.8% y/y in 3Q15; robust non-hydrocarbon sector growth of 7.8% is underpinned by public spending.

Source: Ministry of Development Planning & Statistics (MDP&S); 2013 base year

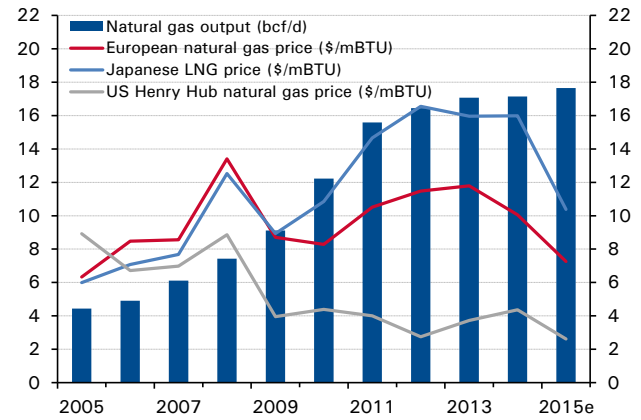
Chart 2: Oil production and prices



Crude output dropped to an average of 660 kb/d in 2015 due to conservative management of Qatar's maturing oil fields.

Source: OPEC, Thomson Reuters Datastream

Chart 3: Gas production and prices

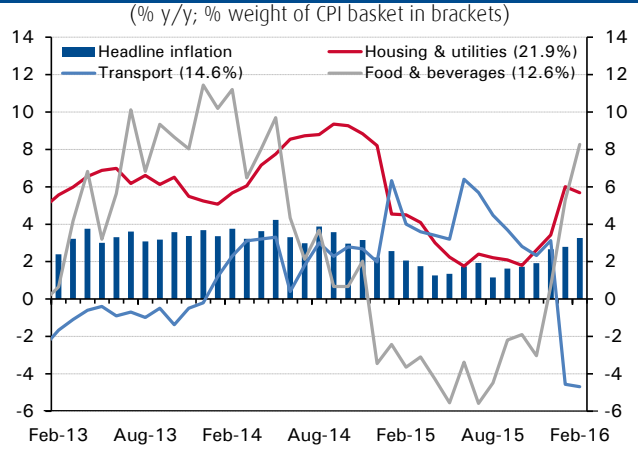


Gas output will rise in 2017 once the Barzan facility is fully on line, but LNG prices (Japan) are down -38% y/y at $8/mBTU.

Source: BP, World Bank, Thomson Reuters Datastream, NBK estimates

Chart 4: Consumer price inflation

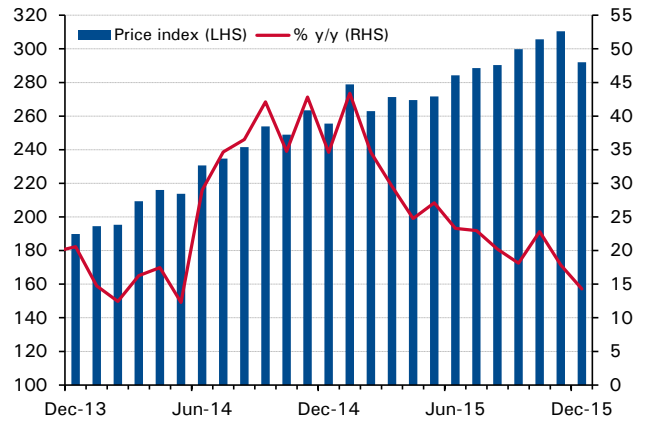
(% y/y; % weight of CPI basket in brackets)



Inflation edged up to 3.3% in Feb upon continued increases in the cost of housing, utilities and foods.

Source: MDP&S

Chart 5: Real estate price index

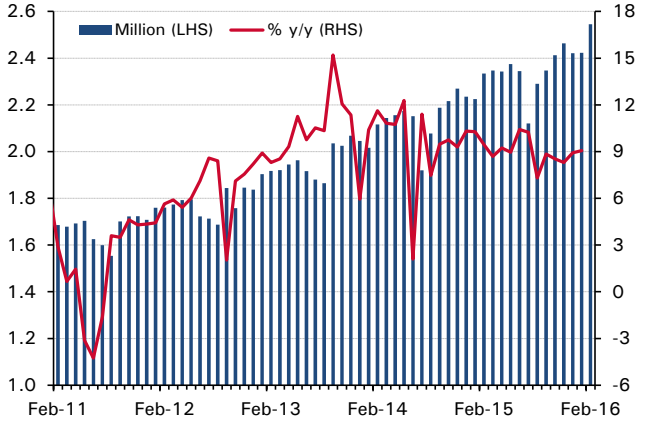


Real estate prices are not rising as fast as before; in 2015 price gains slowed from a peak of 43% to a low of 14%.

Source: Qatar Central Bank (QCB), Qatar Ministry of Justice

Chart 6: Population

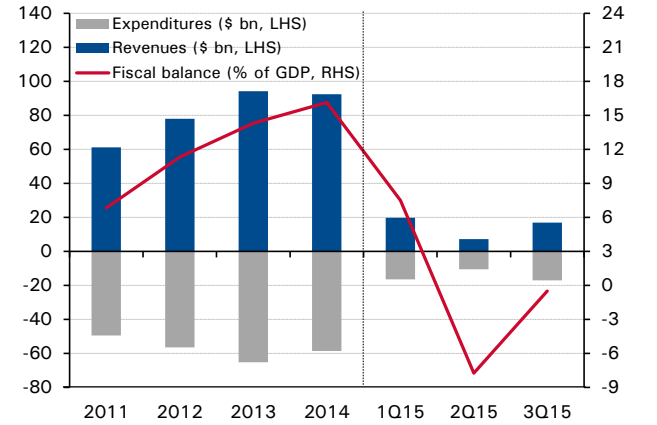
(based on persons physically present)



Annual population growth of 9% (to 2.5 million) has been driven by the labor needs of the country's development plan.

Source: MDP&S

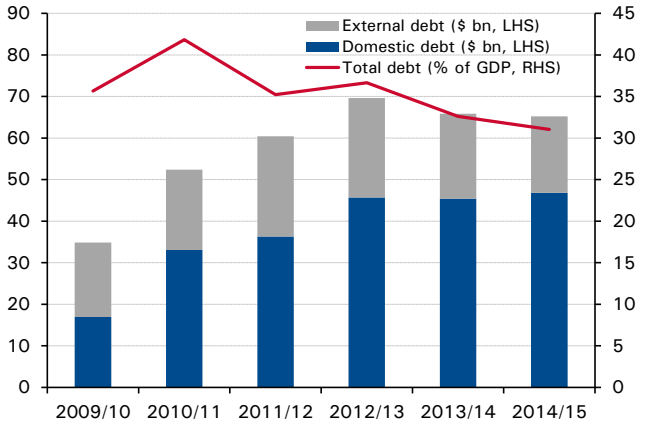
Chart 7: Fiscal balance



With revenues impacted by lower energy prices, the fiscal balance swung into deficit in 2015: -7.7% of GDP in 2Q15.

Source: QCB; Note: 2015 figures are preliminary estimates

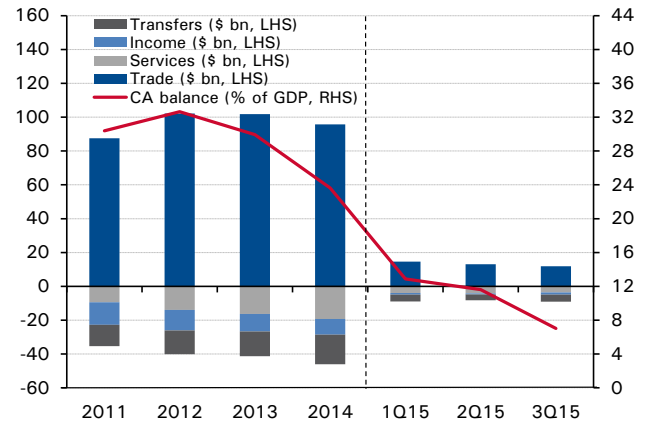
Chart 8: Central government debt (gross)



Public debt is set to rise above 31% of GDP as the government issues bonds and taps bank credit to finance its spending.

Source QCB; Note: figures on a fiscal year basis

Chart 9: Current account balance (CA)

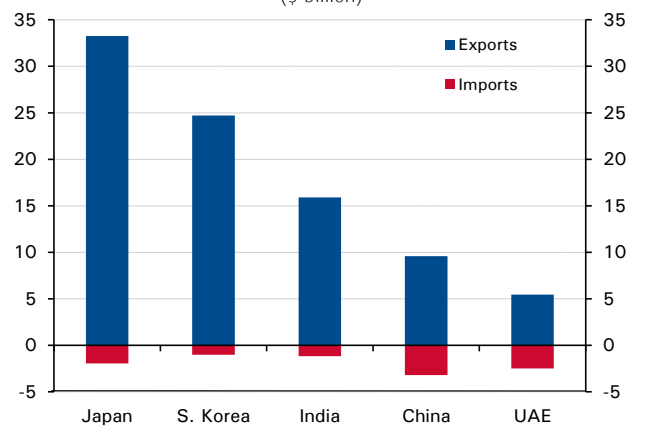


The current account surplus narrowed to 7% of GDP in 3Q15 on lower oil and gas export revenues.

Source: QCB

Chart 10: Top trading partners in 2014

($ billion)

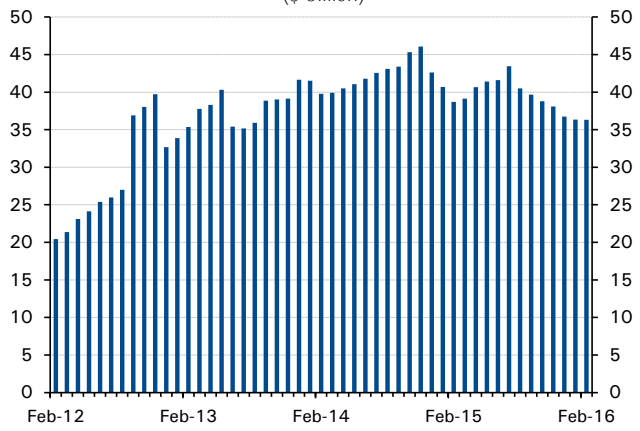


Qatar conducts the majority of its trade with Asia and the Far East; Japan is the largest importer of Qatari LNG.

Source: QCB

Chart 11: Official foreign reserves (net)

($ billion)

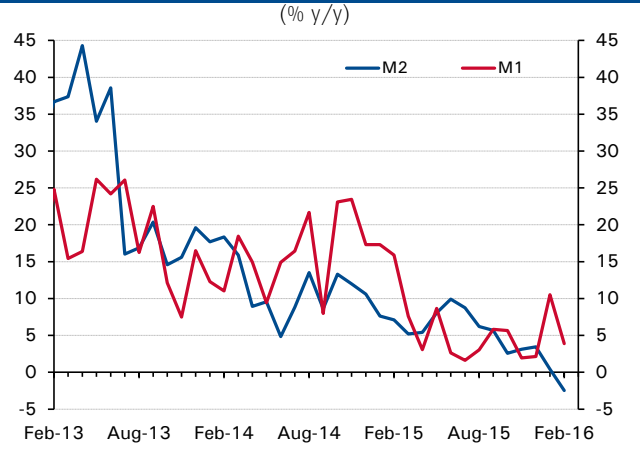


Reserves may have stabilized in Feb at $36 bn (7 months of imports) after falling for 7 consecutive months.

Source: QCB; Note: excludes assets of sovereign wealth fund, QIA.

Chart 12: Money Supply

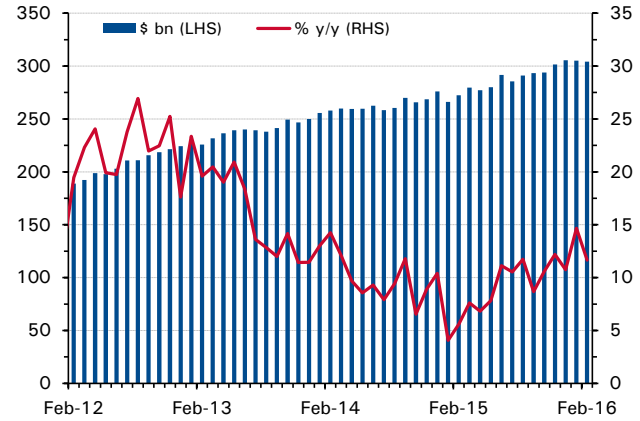
(% y/y)



A fall in foreign currency and demand deposits in Feb led to the first contraction in M2 (-2.5% y/y) since 2009.

Source: QCB

Chart 13: Commercial banks' assets

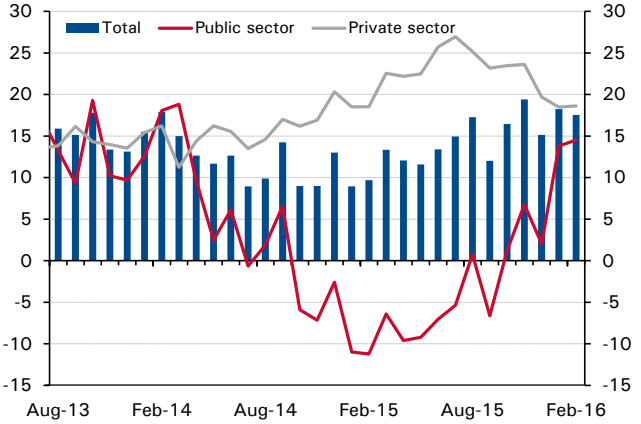


Asset growth picked up in 2015 as credit growth accelerated; growth in domestic/foreign investments has slowed though.

Source: QCB

Chart 14: Bank credit

(% y/y)

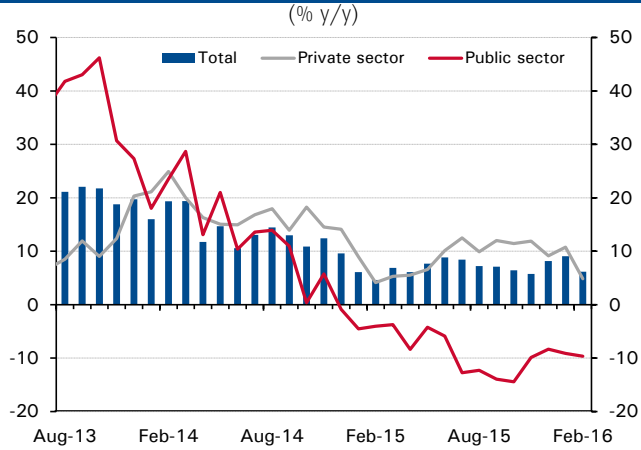


Robust credit growth of 17.5% y/y in Feb was largely due to increased lending to the public and real estate sectors.

Source: QCB

Chart 15: Bank deposits

(% y/y)

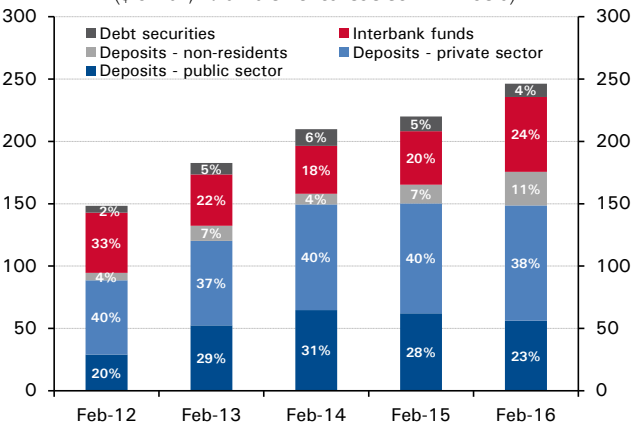


Deposit growth slowed to 6.2% y/y in Feb; government deposits have been hard-hit by the fall in energy prices.

Source: QCB

Chart 16: Banks' source of funds

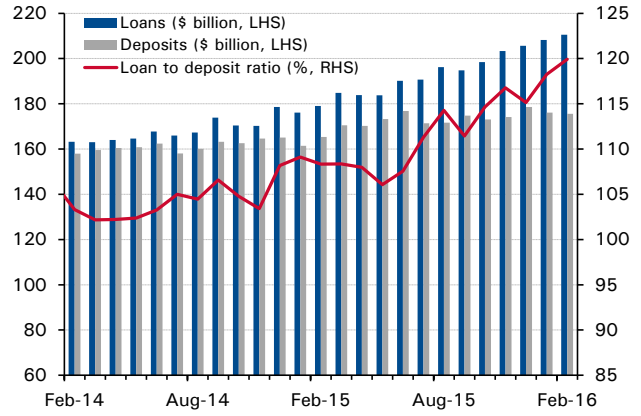
($ billion, % of total funds labeled within bars)



As public sector deposits have declined, the contribution of interbank and non-resident deposits to banks' funds has risen.

Source: QCB

Chart 17: Loan to deposit ratio (LD)



With deposit growth trailing credit growth, banks' LD ratios peaked at 119% in Feb, raising concerns about liquidity.

Source: QCB

Chart 18: Interbank rates

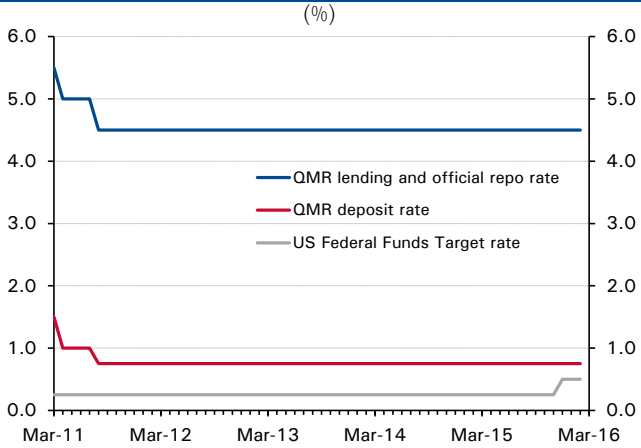
(%, 3-month QIBOR)

Tightening liquidity is reflected in rising interbank rates; the 3-month rate spiked at 1.47% in March.

Source: Thomson Reuters Datastream

Chart 19: Benchmark interest rates

(%)

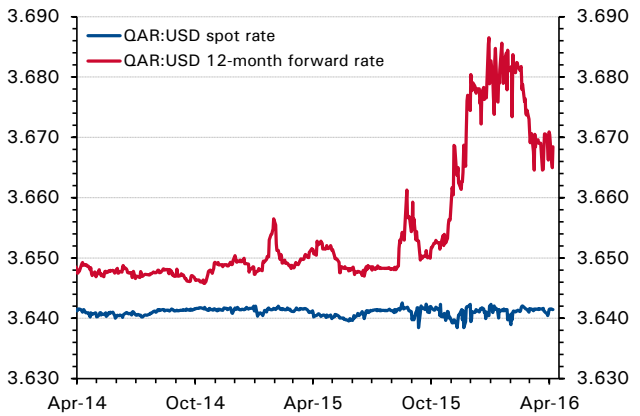


Key rates remain unchanged despite a 25 bps hike in the US fed funds rate in Dec. with which Qatari rates are aligned.

Source: QCB

Chart 20: Qatar riyal 12-month forward rate

(Qatar riyal per US dollar, QR:USD)

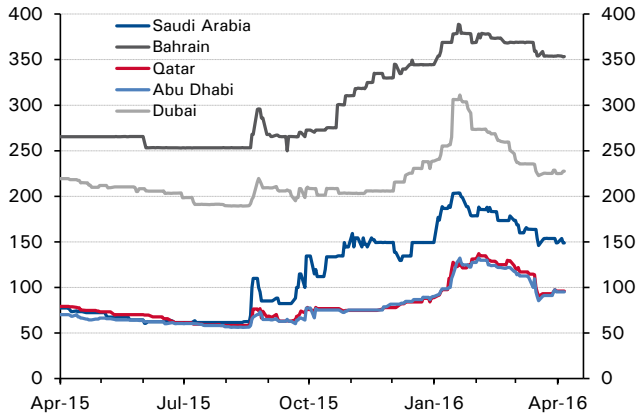


The currency peg came under pressure in the fwds market on concerns that low oil prices might force a devaluation.

Source: Thomson Reuters Datastream

Chart 21: 5-year sovereign CDS

(bps)



Elevated CDS reflect ongoing fiscal concerns and several GCC sovereign ratings downgrades. Qatar's AA is under review.

Source: Thomson Reuters Datastream

Chart 22: Qatar Exchange (QE) Index

(index)

Despite a recent recovery, the QE remains down -2.8% ytd at 10,129; low oil prices continue to weigh on market sentiment.

Source: Thomson Reuters Datastream

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