# Qatar

*Economic growth has accelerated as the government advances its second National Development Strategy that sees the private sector assume greater importance in driving diversification. Public finances and investor confidence have recovered since the 2017 GCC conflict after the government exercised spending restraint, injected liquidity into the banking system, rerouted impacted trade flows and benefitted from higher energy prices. Major risks to the outlook include sensitivity to global energy and capital flows and increased LNG competition.*

## Non-oil activity buoyed by government investment

Growth is expected to accelerate to 2.6% in 2019 from 1.6% in 2018, driven by a recovery in hydrocarbon sector output (0.4%) and ongoing gains in non-hydrocarbon activity (4.4%) as the government's expansive public investments bear fruit. (Chart 1.)

Over the medium term, as infrastructure projects related to the FIFA World Cup 2022 and work on the broader Qatar National Vision 2030 advances, non-oil growth is expected to moderate to around 4% by 2021. By this time, the private sector should have assumed a greater role in driving diversification through greater-value add—in sectors such as manufacturing, services, transportation and real estate—as per 2018's Qatar National Development Strategy 2018-2022 (NDS-2). NDS-2 also prioritizes raising the average productivity of its local and foreign workers, which partly explains last year's decision to offer long-term, skilled expats permanent residency and permit 100% foreign ownership across all business sectors.

The hydrocarbon sector, meanwhile, should get a welcome boost in 2020 from the commissioning of the delayed $10bn Barzan gas production facility. This should raise gas output by 12% (2 bncf/d) and drive higher condensates and NGLs volumes. The most significant contribution, however, will come over the medium-to-long term when LNG capacity expands by over 40% to 110 mtpa, with the addition of 4 new LNG trains by 2024.

## Inflation subdued on housing, food price weakness

Inflation has been in negative territory for six consecutive months (-1.2% y/y), weighed down by continued weakness in the housing/utilities (-1.6% y/y), transport (-2.3% y/y) and food (-0.6% y/y) categories (March data) in the context of slowing population growth (+0.3% y/y to 2.74m in May). (Chart 2.) Inflation will probably settle at an annual avg. of -0.2% this year before rising next year to 3.0% with the probable introduction of the VAT and faster economic growth.

## Public finances benefit from spending restraint and reform

Qatar's fiscal position has strengthened since the authorities began the process of fiscal reform and consolidation (merging ministries, liberalizing fuel prices etc.) after the oil price downturn and as energy prices began to recover from their 2016 nadir. Qatar recorded a surplus in 2018 (2.2% of GDP); that should improve further to 3.2% by 2021 amid continued spending restraint and stable energy prices. (Chart 3.)

The improvement in government finances will also have a positive bearing on public debt. While the authorities accessed the debt markets in 2018 and early in 2019—securing favorable rates amid considerable investor demand—to the tune of $24bn, debt levels are expected to fall from 53% of GDP in 2018 to 41% of GDP by 2021.

## External account to remain in surplus

The external current account (CA) balance, which moved back into surplus in 2017 and reached an estimated 8.3% of GDP in 2018 should remain in surplus over the forecast period. (See Chart 3.) Notwithstanding a slight deterioration in 2019 to 6.4% of GDP on softer oil and gas prices, the CA will benefit in the medium-to-long term from higher gas exports and returns from QIA's overseas assets. QIA's assets are estimated to be around $320bn (167% of GDP), which is a sizeable buffer with which to absorb economic shocks such as the 2017 conflict. Moreover, as the CA has improved, official QCB foreign reserves have recovered, touching pre-conflict levels in March of $33.5bn (6.1 months of imports). (Chart 4.)

## Robust credit growth as non-resident deposits recover

The banking sector has overcome the shock of non-resident capital flight and tighter liquidity associated with the 2017 blockade. Foreign deposits have returned (+29% y/y), private sector credit growth is at a near-three year high (+12.6% y/y) and overall liquidity has improved. (Chart 5.)

## Volatile energy prices and LNG competition are the main risks

Qatar faces several challenges including continued sensitivity to volatile global energy prices and capital flows as well as increasing LNG competition (especially from Australia and the US), which could put downward pressure on prices.

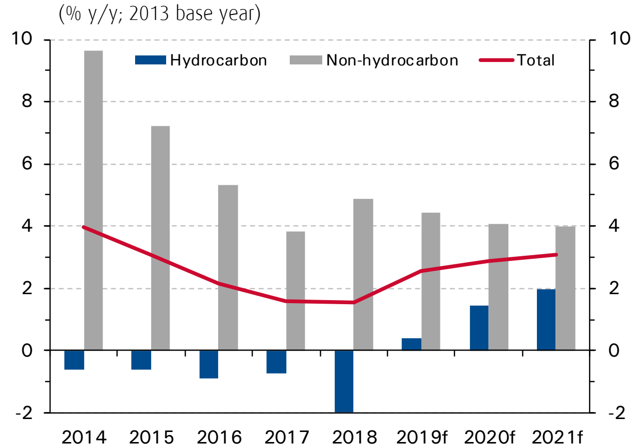
## Table 1: Key economic indicators

| | | 2017 | 2018 | 2019f | 2020f | 2021f |
|---|---|---|---|---|---|---|
| Nominal GDP | $ bn | 167 | 192 | 192 | 200 | 210 |
| Real GDP | % y/y | 1.6 | 1.6 | 2.6 | 2.9 | 3.1 |
| - Oil | % y/y | -0.7 | -2.0 | 0.4 | 1.4 | 2.0 |
| - Non-oil | % y/y | 3.8 | 4.9 | 4.4 | 4.0 | 4.0 |
| Inflation | % y/y | 0.4 | 0.3 | -0.2 | 3.0 | 2.3 |
| Fiscal balance | % of GDP | -6.5 | 2.2 | 1.7 | 2.2 | 3.2 |
| Public debt | % of GDP | 49.8 | 48.5 | 53.0 | 46.7 | 40.9 |
| Current account bal. | % of GDP | 3.8 | 8.3 | 6.4 | 4.0 | 4.4 |

Source: Official sources, NBK estimates

## Chart 1: Real GDP growth

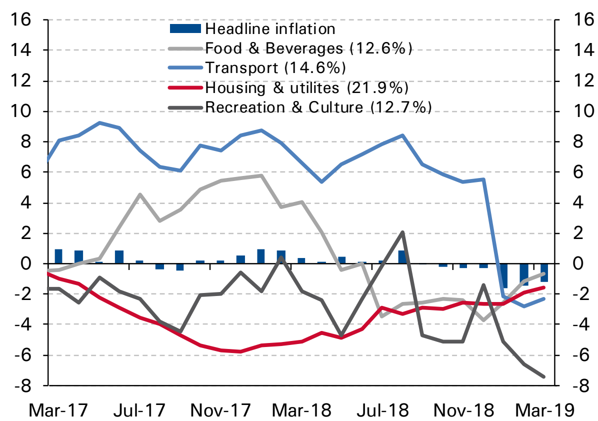
(% y/y; 2013 base year)




Source: Planning & Statistics Authority (PSA), NBK estimates

## Chart 2: Consumer price inflation

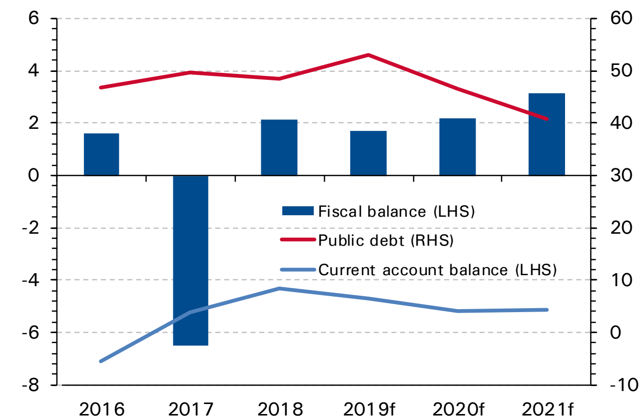
(% y/y; weights in brackets, 2013 base year)




Source: PSA

## Chart 3: Fiscal balance, government debt & CA balance

(% of GDP)




Source: Qatar Central Bank (QCB), NBK estimates

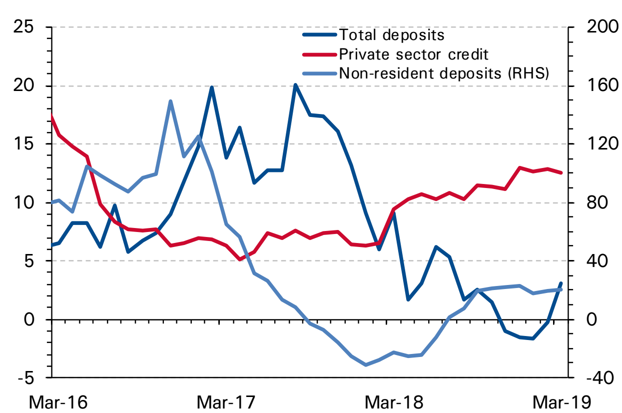
## Chart 4: Official QCB reserves

($ billion)


Source: QCB

## Chart 5: Deposit and credit growth

(% y/y)




Source: PSA