Qatar: Dispute hits growth and trade, but initial shock to economy may be easing

- Non-oil economic growth slowed to just 3.9% y/y in Q2, the weakest since quarterly records began five years ago. Overall GDP growth hit 0.6%, with oil output falling due to OPEC policy.
- The impact of the GCC diplomatic dispute is especially visible in the trade and travel sectors, with visitor arrivals to Qatar down 50% y/y in September. Imports, however, appear to have staged a recovery.
- CPI inflation fell into negative territory in August and September, with further steep falls in housing costs more than offsetting rising food prices linked to the GCC dispute; house prices have seen renewed declines.
- Government injections have more than offset the withdrawal of $12 billion in foreign cash from the banking system since May, with the result that deposit growth surged to 18% y/y in September.
- Interest rates have risen partly due to hikes in official policy rates; speculation on the currency peg has receded after spiking in June, but the offshore spot market has been volatile. Equities are down 18% since early June.

**Chart 1: Real GDP Growth**

Non-oil growth sank to 3.9% y/y in Q2, its weakest on record; overall growth was affected by output cuts in the oil sector.

**Chart 2: Crude oil production**

Crude output dropped to 0.57 mb/d in September; compliance with OPEC production cut targets is at 127%.

**Chart 3: Oil and gas prices**

Brent crude has risen from its June low of $45; rising global supplies are keeping natural gas prices subdued.

**Chart 4: Population**

Population growth reached a 6-year low of 1.9% in August, though was slowing well before the GCC dispute began.
Visitor numbers were down 50% y/y in August; half of all arrivals are typically from the GCC region.

Goods imports have recovered back towards pre-dispute levels, after plunging 40% y/y in June.

Real estate prices have seen renewed declines since the dispute began, falling 9% between June and September.

Project activity slowed sharply in 2016 and could ease further this year, particularly in the construction sector.

Inflation has slipped into negative territory since August, reflecting further falls in housing rents; food prices, however, have been pushed higher by the diplomatic dispute.

The fiscal deficit narrowed to 5% of GDP in Q1 – better than a year earlier – as revenues rose on higher oil prices.
No fresh external debt has been issued so far in 2017, but the government has borrowed some $12bn from local banks.

Source: QCB / Thomson Reuters Eikon / NBK

A recent accounting change added $19bn to recorded FX reserves, but they are still down sharply since May.

Source: QCB

Growth in broad money has surged thanks to a sharp rise in government deposits.

Source: QCB

Credit growth has held up reasonably well at 13% y/y, despite continued softness in private sector borrowing.

Source: QCB

Growth in deposits has recently surged to 18% y/y on the back of injections of government funds, which have offset large non-resident outflows...

Source: QCB

... This in turn has pushed the public sector’s share of overall deposits to 38%.

Source: QCB
Non-residents have withdrawn some $12bn from local banks since the diplomatic dispute began in June.

Tighter liquidity and higher policy rates have pushed up interbank rates in recent months.

The QCB raised its key deposit rate to 1.5% in June, following the lead of the US Fed. Further hikes are seen in 2017/18.

Speculative pressure on the currency peg in the forward market has eased of late, but the offshore spot market has seen some volatility.

CDS rates have eased back from their June/July highs, but concerns remain over diplomatic/political tensions.

The QE stock index has continued to sink in recent weeks, and has now fallen 18% since the GCC dispute began.
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