Macroeconomy

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

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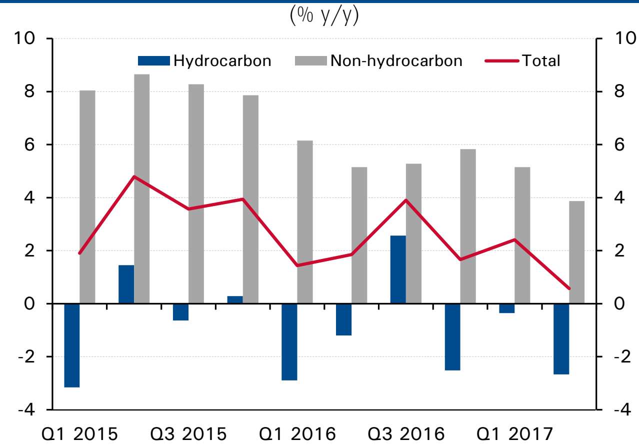
- Non-oil economic growth slowed to just 3.9% y/y in Q2, the weakest since quarterly records began five years ago. Overall GDP growth hit 0.6%, with oil output falling due to OPEC policy.
- The impact of the GCC diplomatic dispute is especially visible in the trade and travel sectors, with visitor arrivals 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

(% y/y)

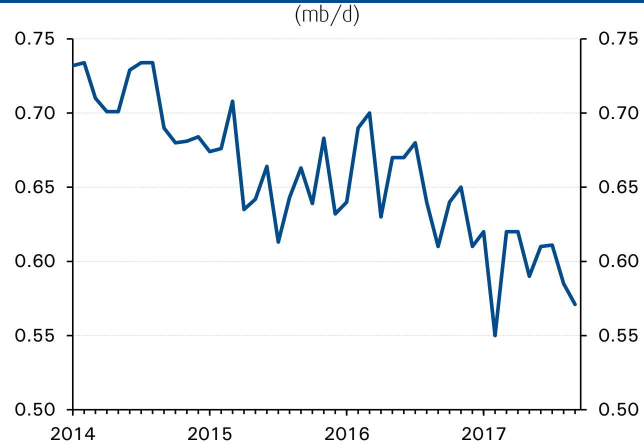


Non-oil growth sank to 3.9% y/y in Q2, its weakest on record; overall growth was affected by output cuts in the oil sector.

Source: MDPS

Chart 2: Crude oil production

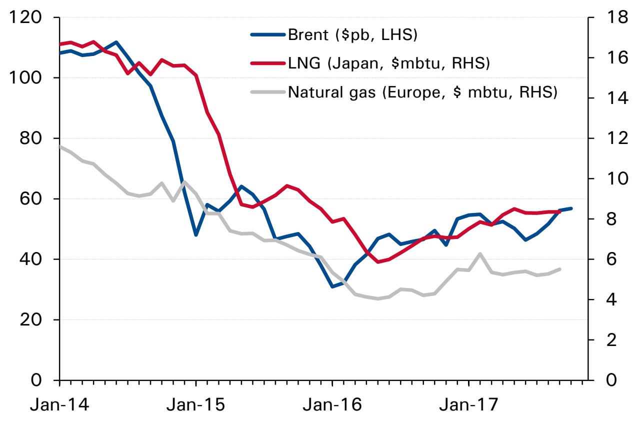
(mb/d)



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

Source: JODI

Chart 3: Oil and gas prices

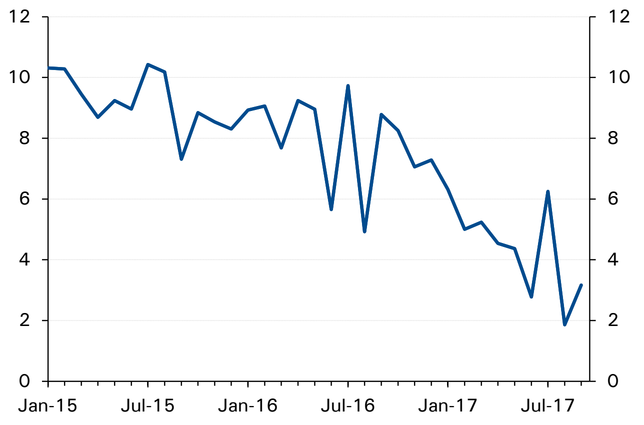


Brent crude has risen from its June low of $45; rising global supplies are keeping natural gas prices subdued.

Source: World Bank / Thomson Reuters Eikon

Chart 4: Population

(% y/y)

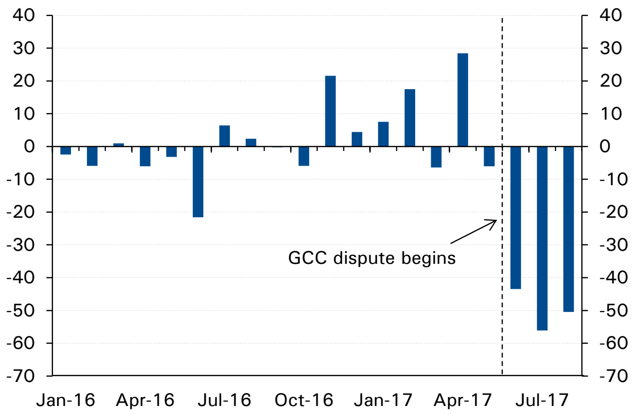


Population growth reached a 6-year low of 1.9% in August, though was slowing well before the GCC dispute began.

Source: MDPS

Chart 5: Visitor arrivals to Qatar

(% y/y)

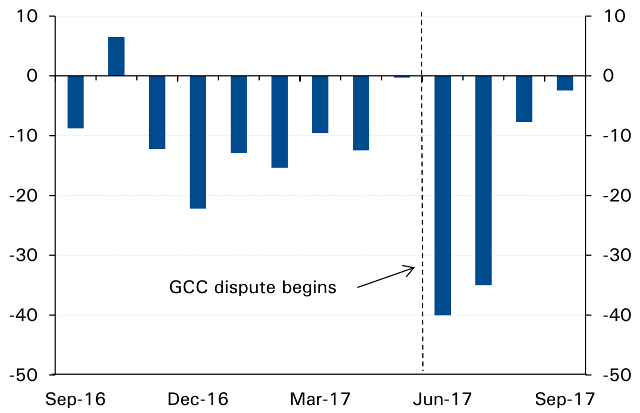


Visitor numbers were down 50% y/y in August; half of all arrivals are typically from the GCC region.

Source: MDPS

Chart 6: Goods imports

(% y/y)

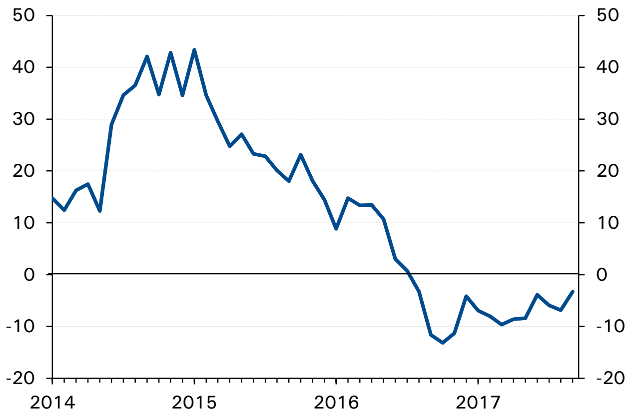


Goods imports have recovered back towards pre-dispute levels, after plunging 40% y/y in June.

Source: MDPS

Chart 7: Real estate price index

(% y/y)

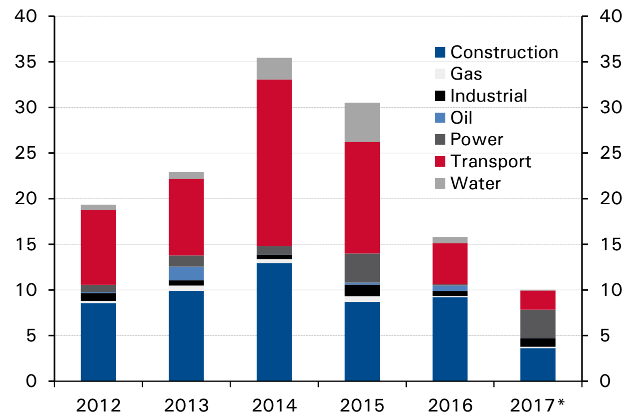


Real estate prices have seen renewed declines since the dispute began, falling 9% between June and September.

Source: QCB

Chart 8: Projects market

($ billion, value of awards for projects entering execution phase)

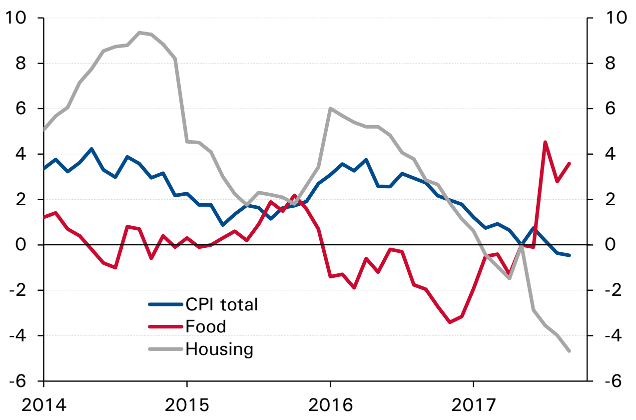


Project activity slowed sharply in 2016 and could ease further this year, particularly in the construction sector.

Source: MEED * As of mid-October

Chart 9: Consumer price inflation

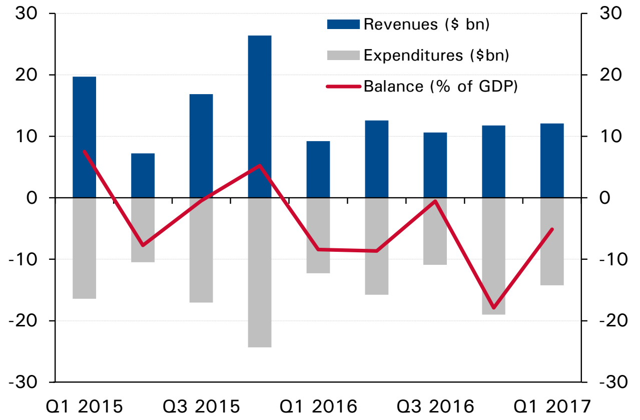
(% y/y)



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.

Source: Thomson Reuters Eikon

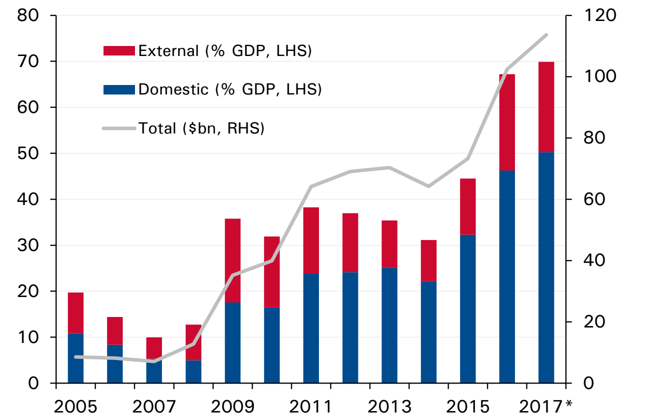
Chart 10: Fiscal balance



The fiscal deficit narrowed to 5% of GDP in Q1 – better than a year earlier – as revenues rose on higher oil prices.

Source: QCB

Chart 11: Central government gross debt

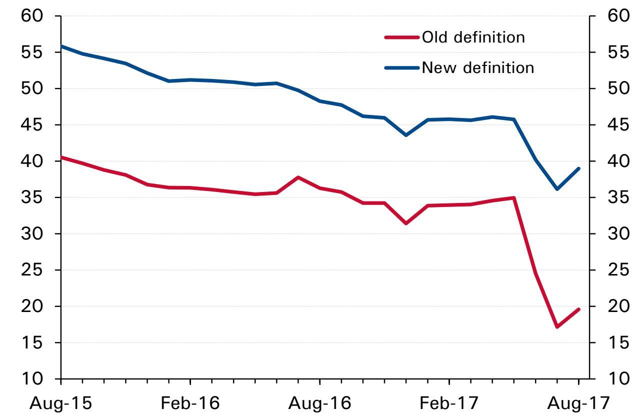


No fresh external debt has been issued so far in 2017, but the government has borrowed some $12bn from local banks.

Source: QCB / Thomson Reuters Eikon / NBK

Chart 12: Official foreign reserves

($ billion)

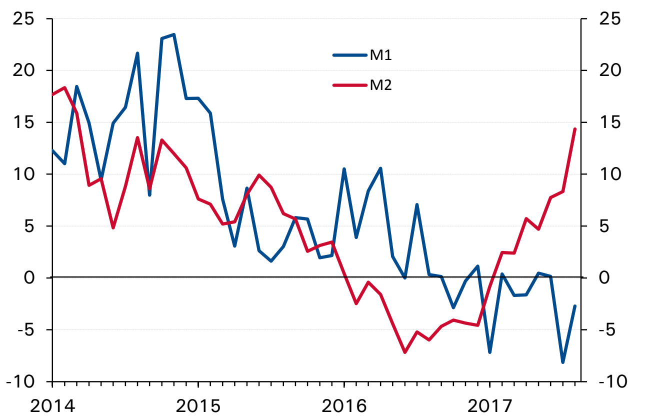


A recent accounting change added $19bn to recorded FX reserves, but they are still down sharply since May.

Source: QCB

Chart 13: Money Supply

(% y/y)

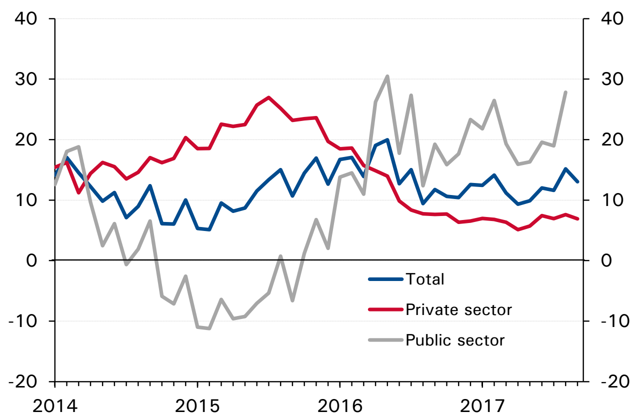


Growth in broad money has surged thanks to a sharp rise in government deposits.

Source: QCB

Chart 14: Bank credit

(% y/y)

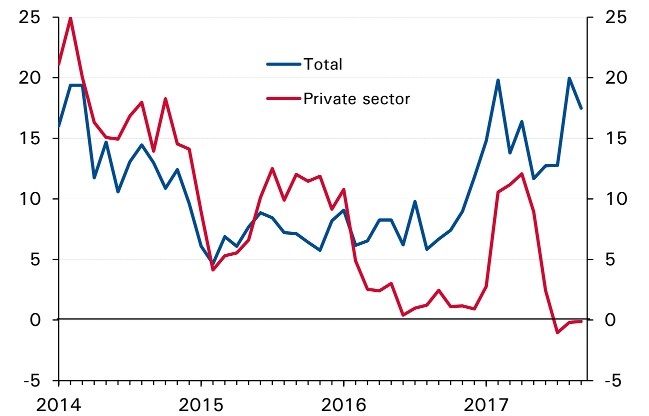


Credit growth has held up reasonably well at 13% y/y, despite continued softness in private sector borrowing.

Source: QCB

Chart 15: Bank deposits

(% y/y)

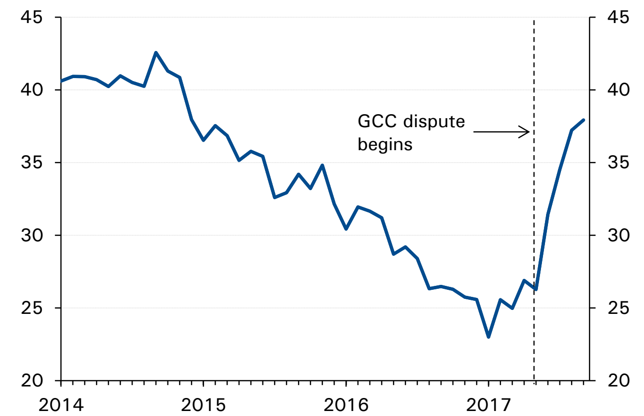


Growth in deposits has recently surged to 18% y/y on the back of injections of government funds, which have offset large non-resident outflows…

Source: QCB

Chart 16: Public sector share of bank deposits

(% of total deposits)

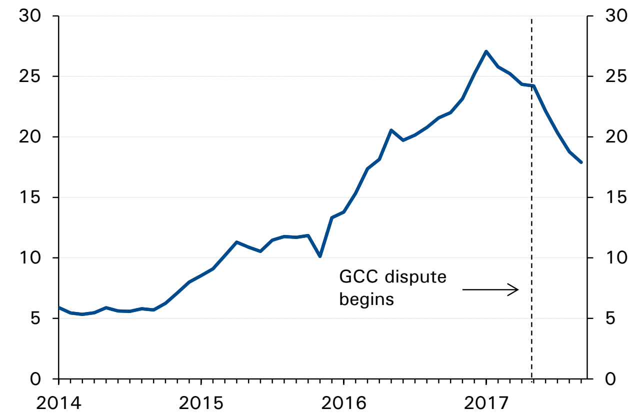


… This in turn has pushed the public sector's share of overall deposits to 38%.

Source: QCB

Chart 17: Non-residents' share of bank deposits

(% of total deposits)



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

Source: QCB

Chart 18: 3-month interbank rates (QIBOR)

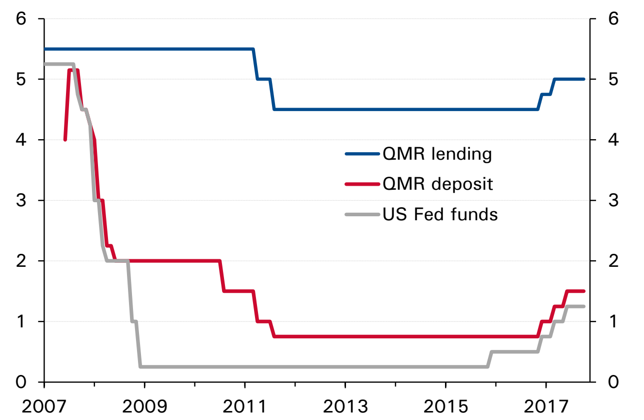
(%)

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

Source: Thomson Reuters Datastream

Chart 19: Key official interest rates

(%)

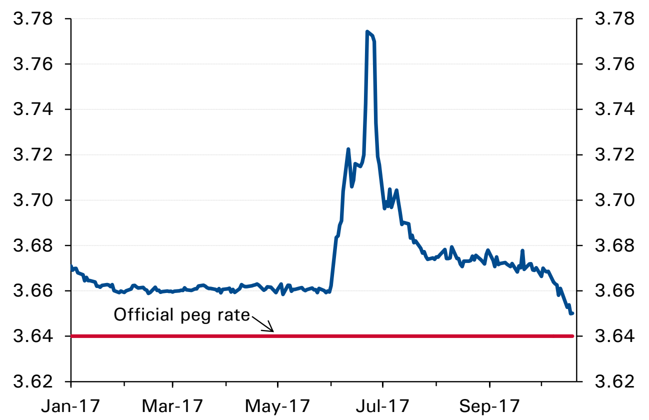


The QCB raised its key deposit rate to 1.5% in June, following the lead of the US Fed. Further hikes are seen in 2017/18.

Source: QCB

Chart 20: Qatar riyal 12-month forward rate

(Qatar riyal per US dollar)



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

Source: Thomson Reuters Eikon

Chart 21: 5-year sovereign CDS

(bps)

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

Source: Thomson Reuters Eikon

Chart 22: Qatar Exchange Index

(index)

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

Source: Thomson Reuters Eikon

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