Macroeconomy

Qatar: Hydrocarbon sector activity picked up in 2H16, liquidity constraints easing

- Economic growth rebounded in 3Q16 on strong hydrocarbon growth, driven by higher natural gas production.
- Activity in the projects market was weak in 2016, with the value of contracts awarded down 50% from 2015; project rationalization by the authorities, supply chain bottlenecks were the main reasons.
- Headline inflation continues to moderate (0.8% y/y in Feb), as housing and transport costs remain in deflation territory.
- Qatar’s fiscal and current accounts have recorded deficits for 3 consecutive quarters in 2016 due to lower gas receipts.
- Bond issuance has proceeded apace as Qatar looks to finance its budget deficit without tapping its foreign reserves.
- Public sector credit growth recovers, improving overall credit growth to 12% y/y.
- The QE index has trended lower of late due to weaker sentiment and softer oil prices.

**Chart 1: Real GDP**

Output expanded by 3.7% y/y in 3Q16 thanks to hydrocarbon sector gains; manufacturing activity is weak, though.

Source: Ministry of Development Planning & Statistics (MDP&S)

**Chart 2: Crude oil production**

Crude output has been declining due to maturing oil fields; Qatar agreed to reduce production as part of OPEC agreement.

Source: Joint Organizations Data Initiative (JODI), OPEC

**Chart 3: Oil and gas prices**

Oil and gas prices recover on OPEC output cuts in Feb, but rebounding US shale production may limit further rises.

Source: World Bank

**Chart 4: Consumer price inflation**

Inflation eased to 0.8% y/y in Feb on moderating housing/rental price inflation and recreation price deflation.

Source: MDP&S
The rate of y/y decline in real estate prices slowed to 4.5% in Dec 2016 after bottoming out in Sept.

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

Contracts awarded (by value) declined by 50% in 2016 due to cutbacks in gov. capex and supply chain bottlenecks.

Source: MEED Projects, NBK

The fiscal deficit narrowed to $1.4bn (-3.6% of GDP) in 3Q16 as government expenditures declined by $473mn.

Source: QCB

Public debt has risen 3 years in a row rose as the authorities issued more bonds to finance their spending plans.

Source: QCB

Almost $14bn worth of sovereign debt has been issued in 2016, including a $9bn USD-denominated bond in May.

Source: QCB, Thomson Reuters Zawiya; * as of 1 March 2017

Qatar has posted a CA deficit for 3 quarters in a row (-3.9% of GDP in 3Q16) due to the decline in oil & gas export revenues.

Source: QCB
Reserves improved by 7% m/m to $33.8bn in January, and still provide more than 6 months of import cover.

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

Bank assets reached $343bn in January (220% of 2016 estimated GDP), driven by improved credit growth.

Source: QCB

Non-resident deposits continue to rise dramatically, by 120% y/y; public sector deposits are still declining by -13% y/y.

Source: QCB

The contraction in broad money supply is easing; liquidity has improved thanks to higher energy prices/oil and gas receipts.

Source: QCB

Despite weak private credit growth, total credit growth is steady at 12% y/y thanks to improved public sector activity.

Source: QCB

Non-resident deposits’ share of banks’ funds has doubled over the last year; banks are also engaging in more debt-financing.

Source: QCB
Foreign liabilities have surged as banks increase their reliance on non-resident deposits and overseas funds.

Source: QCB

The QCB raised its key lending and deposit rates to 4.75% and 1.00%, respectively, after the Fed’s rate hike in Dec 2016.

Source: QCB

CDS’s have eased since June as oil prices firmed and after OPEC indicated it would try to rein in supply.

Source: Thomson Reuters Datastream

Rates remain elevated/bank liquidity tight despite a recent pickup in deposits; the QCB canceled its recent bond issuance.

Source: Thomson Reuters Datastream

Forward rates have eased from 2016 highs, but concerns remain over Qatar’s rising debt levels.

Source: Thomson Reuters Datastream

The QE Index closed at 10,314 on 14 March, down -1.1% ytd on weaker sentiment/lack of catalysts.

Source: Thomson Reuters Datastream
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