

Qatar

After a gain of 1.5% in 2021, economic growth should accelerate to 3.7% in 2022 on strong non-hydrocarbon activity helped by the FIFA World Cup, which could attract some 1.5 million visitors towards year-end. The positive medium-term outlook is underpinned by Vision 2030 investments including in further LNG expansion. Higher gas prices will see a wider fiscal surplus in 2022, though more emphasis on fiscal restraint is also expected going forward. Exposure to volatile energy prices, tighter global financial conditions and a flare up in regional geopolitical tensions are downside risks to the outlook.

Growth to accelerate in 2022 on robust private sector activity

Qatar's economy returned to growth in 2021, with GDP up 1.5%, on stronger consumer demand and lessening Covid-19 disruptions. The swift recovery was underpinned by government support measures (a \$21 billion stimulus package followed by a rapid vaccination rollout) and higher energy prices. Growth is expected to accelerate to 3.7% in 2022 as the non-oil sector expands 5.5% amid a boost to the travel, hospitality, logistics and business support sectors from the FIFA World Cup. The event could attract around 1.5 million visitors in November-December, equivalent to 50% of the country's population of almost 3 million.

Improved private sector activity was evident in the purchasing managers' index survey reading for April, which reached an all-time high of 63.6 led by reportedly strong conditions in the construction sector and rising work backlogs. Robust and broad-based credit growth of 11% in 2021 also points to an expanding private sector, while activity in the real estate market has shown signs of recovery after several years of decline: the Qatar Central Bank's (QCB) real estate price index gained 2.6% y/y in March 2022. Underpinning the medium-term outlook for the non-oil economy is the government's ambitious Vision 2030 program of large infrastructure investments in strategic sectors such as manufacturing, finance, and tourism. While some \$30 billion in natural gas-related projects are planned, we do not expect to see major output gains until the first phase of the North Field gas expansion project is complete in 2026, which should deliver a 43% increase in LNG volumes to 110 mtpa and bolster Qatar's position as the leading global LNG exporter.

Inflation up on higher demand and commodity prices

Pandemic-linked supply chain disruptions and surging global commodity prices are spilling over into domestic prices. CPI inflation hit a 13-year high of 6.5% in December before easing to 4.4% in March. Price rises in the foods, transport, and recreation sectors provided the main inflationary impulse, but housing and utility prices also increased in February and March after a prolonged period of deflation. We expect inflation to average 3.5% in 2022, up from 2.3% in 2021. The QCB, following the US Fed's lead, has raised its overnight repo rate twice this year by a total of 75 bps to 1.75% and its key lending rate by 25 bps to 2.75%. Persistently high inflation would likely justify

further tightening in 2022, and we expect the QCB to move mostly in parallel with the US Fed.

Higher hydrocarbon receipts to boost fiscal position

Higher energy prices should see the budget surplus widen to 12.8% of GDP this year from 0.2% of GDP in 2021. The Ministry of Finance announced a moderately expansionary budget for FY22/23, raising spending by 5% on higher capital and current expenditure outlays compared to the previous budget, as it looks to strike a balance between greater fiscal restraint going forward and supporting economic growth and development objectives. Realized revenues are likely to be substantially higher than budget approximations, which are based on a conservative oil price of \$55/bbl. The economic recovery would allow the government to unwind the remainder of its Covid support measures, including the blanket loan moratorium. Furthermore, it is possible that VAT could be implemented in 2023, supporting public revenues further, though the timeline remains uncertain.

Public debt should decline on lower financing needs

Previously strong debt issuance (\$18.6 billion in bonds and sukuk in 2021) could moderate in 2022 with little need for deficit financing and amid a rising interest rate environment. However, Qatar will still likely make sizeable debt issuances over the medium term to finance its gas expansion plans. A solid economic growth outlook, coupled with higher hydrocarbon receipts, should see the public debt ratio ease over the medium term. Gross central government debt (excluding GREs) is expected to fall to 47% of GDP in 2022 from 55% in 2021. Qatar's credit standing remains robust (AA- by Fitch), backed by large external reserves and a good track record of effective policy-making.

Risks include energy price volatility, weaker global growth

Downside risks to the outlook largely center on energy market volatility, further Covid-19 outbreaks and tighter global financial conditions. The risk of a global downturn amid aggressive Fed policy tightening could weaken the energy demand outlook. Regional geopolitical tensions could also spike should a new nuclear agreement with Iran fail to materialize. Finally, a World Cup that disappoints in terms of turnout and economic contribution could dent investor confidence.

Macroeconomic Outlook 2022-2023

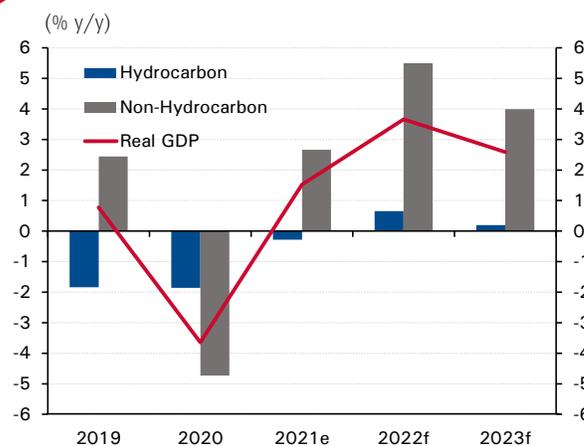
Economic Research Department | 23 May 2022

► **Table 1: Key economic indicators**

		2020	2021	2022f	2023f
Nominal GDP	\$ bn	142	176	191	186
Real GDP	% y/y	-3.6	1.5	3.7	2.6
- Oil	% y/y	-2.0	-0.3	0.7	0.2
- Non-oil	% y/y	-4.5	2.7	5.5	4.0
Inflation	% y/y	-2.7	2.3	3.5	2.4
Fiscal balance	% of GDP	-2.1	0.2	12.8	7.8
Government debt	% of GDP	69.6	55.4	47.0	45.5
Current acc. bal.	% of GDP	-2.5	14.6	14.0	8.1

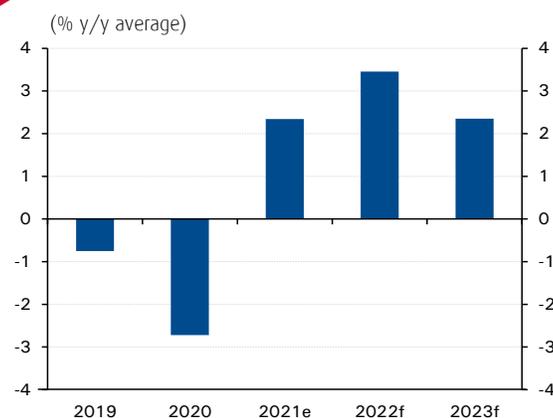
Source: Official sources, NBK estimates

► **Chart 1: Real GDP growth**



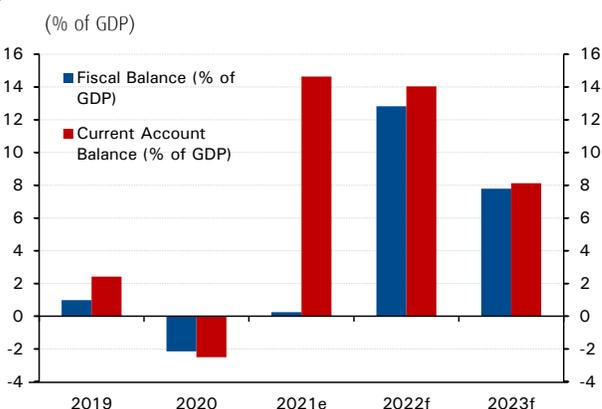
Source: Planning & Statistics Authority (PSA), NBK estimates

► **Chart 2: Consumer price inflation**



Source: PSA, NBK estimates

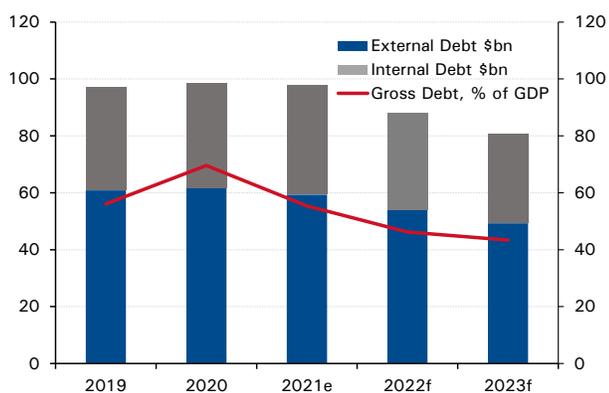
► **Chart 3: Fiscal balance**



Source: Qatar Ministry of Finance, NBK estimates

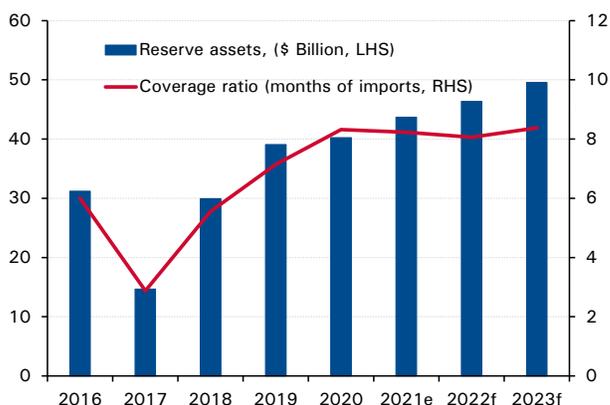
► **Chart 4: Government debt (gross)**

(excluding GREs)



Source: IIF, NBK estimates

► **Chart 5: Official foreign reserves**



Source: QCB, NBK estimates