Qatar outlook

Economic recovery to gain traction as oil and non-oil sector output expands

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Highlights

- **Economic growth is expected to gradually rise to 3.0% by 2020, supported by continued infrastructure investment, regulatory reforms and output gains in the gas sector.**
- **Public finances are on a firmer footing thanks to higher energy prices and restrained expenditures; both the fiscal and current accounts are expected to record a surplus in 2018, of 3.1% of GDP and 9% of GDP, respectively.**
- **Non-resident deposit growth has recovered, while private sector credit growth should remain robust.**
- **Market sentiment is more positive, with the Qatar Exchange index's 21% rise in 2018 the region's best performance.**

Economic outlook positive as confidence returns

Qatar's economy has been performing well, with output expected to increase by an annual average of 2.7% over 2018-2020 from 1.6% in 2017 on the back of gains in the non-hydrocarbon sector, especially in manufacturing and construction, and in the gas sector, where the authorities are intent on expanding LNG capacity by 43% by 2024. Underpinning economic activity is the government's expansive public investment program, which is now reaching an advanced stage with the FIFA World Cup only three years away. Qatar's public finances are also on a firmer footing, with the country's first fiscal surplus in three years expected in 2018, at 3.1% of GDP, and its foreign reserves back on the rise, thanks to higher oil and gas prices and restrained public expenditure growth.

Moreover, businesses and investors appear to have regained their confidence in Qatar's economy: non-resident deposits are returning, private sector credit growth, led by corporates, is in the double digits, and the stock market just ended 2018 posting the highest yearly gains in the region at 21%.

Nevertheless, challenges remain, including continued dependence on the hydrocarbon sector, which is at the mercy of volatile energy prices, rising borrowing costs linked to tightening US monetary policy and regional geopolitical risks, with no sign yet of a resolution to the GCC boycott.

Table 1: Key economic indicators

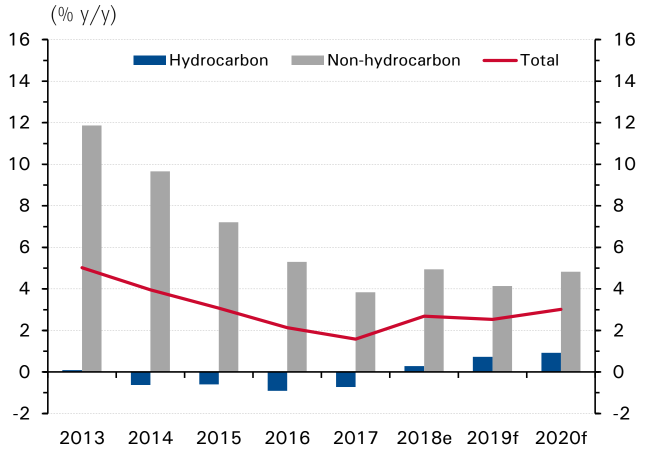
		2017	2018e	2019f	2020f
Nominal GDP	USD bn	167	190	191	190
Real GDP	% y/y	1.6	2.7	2.5	3.0
- Oil	% y/y	-0.7	0.3	0.7	0.9
- Non-oil	% y/y	3.8	4.9	4.1	4.8
Inflation	% y/y	2.7	0.3	1.2	2.3
Budget balance	% of GDP	-5.8	3.1	1.3	1.5

Source: Official sources, NBK estimates

Growth driven by continued infrastructure investment

The non-hydrocarbon sector will continue to spearhead economic growth, rising by 4.1% y/y and 4.8% y/y in 2019 and 2020, respectively, and supported by the government's $200bn infrastructure investment program under the auspices of the Qatar National Vision 2030. (Chart 1.)

Chart 1: Real GDP



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

Activity in 2018 was dominated by output gains in the manufacturing and construction sectors, with the Laffan refinery ramping up production and further progress made in relation to transportation, entertainment and real estate infrastructure projects ahead of the World Cup in 2022. The benefits resulting from regulatory reforms introduced over the last two years, such as allowing 100% foreign ownership across all sectors, accelerating the issuances of commercial and industrial licenses and offering long-term expatriates permanent residency in Qatar, should also accrue over the forecast period.

In the gas sector, the authorities' intention to expand LNG production capacity by 43% to 110 million tonnes per annum (mtpa) by 2024 could see real output gains appear as early as 2020—Qatar Petroleum (QP) has already issued its first tender for drilling rigs. Hydrocarbon sector real GDP growth should, therefore, rise from 0.3% in 2018 to 0.9% by 2020.

Inflation subdued on continued real estate weakness

Inflation, which is expected to average 0.3% in 2018, has been weighed down by continued weakness in the real estate sector (due to oversupply and the moderation in population growth) and by base effects relating to the spike in food prices in 2017 in the aftermath of the GCC trade boycott. Both CPI components were in negative growth territory in November 2018, falling by 2.6% y/y and 2.4%, respectively. Inflation (avg.) should pick up slowly to 2.3% in 2020 (but to more than 3.5% if the VAT is introduced in 2020).

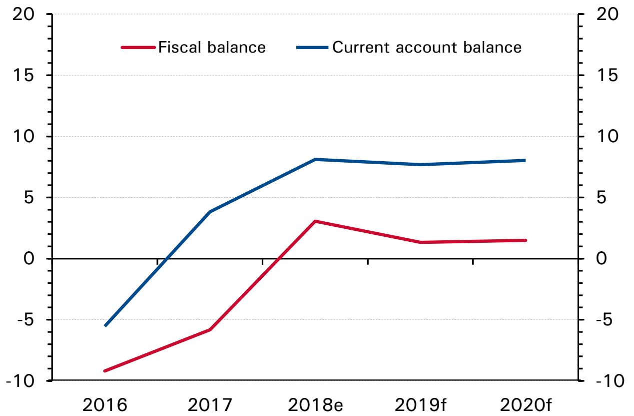
First fiscal surplus expected since 2015

Qatar's fiscal balance is expected to shift into a surplus of 3.1% of GDP in 2018, following three consecutive years of deficits. While this is due primarily to higher oil and gas revenues following the increase in energy prices, restrained expenditures (cuts to subsidies, merging of ministries etc.) and some increase in non-oil revenues are also responsible. (Chart 2.) The fiscal deficit has been financed primarily by domestic debt, although Qatar returned to the international bond markets in April 2018 with a successful $12bn sale. There were no shortage of takers.

The external current account balance, which moved into a surplus in 2017, also improved. Looking ahead, while energy prices are expected to be softer in 2019-20, it is unlikely that either account will slip back into a deficit.

Chart 2: Fiscal and current account balance

(% GDP)



Source: QCB, NBK estimates

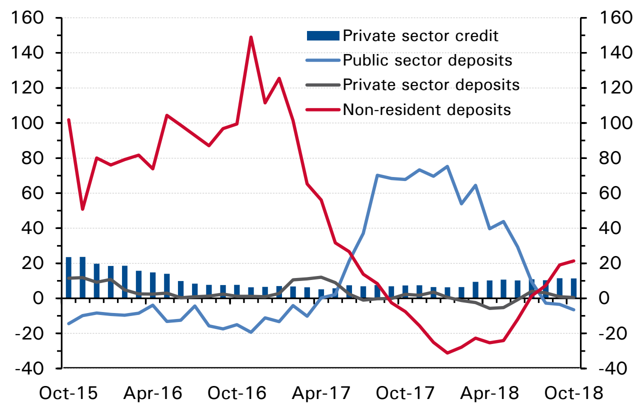
Meanwhile, official QCB reserves (gross) in October 2018, were at $28.2bn, not far off pre-blockade levels.

Banking sector has recovered from post-blockade capital flight, while credit growth continues to be robust

Furthermore, thanks to timely injections of liquidity by the Qatari sovereign wealth fund, the QIA, the government was able to offset the outflows of non-resident deposits that followed the dispute. Overall, foreign bank liabilities—deposits from overseas banks, non-residents and debt securities—have increased by about 20%, as of October 2018, with non-resident inflows in particular recovering after bottoming out at QR135bn in November 2017, a drop of 27% from pre-embargo levels. Growth in the overall and private sector deposit base has been weak, though, running at 1.5% y/y and 0.5% y/y in October 2018, respectively. Base effects relating to 2017's sizeable government deposit placements are also at play, though.

Chart 3: Credit and deposit growth

(% y/y)



Source: QCB

Private sector credit growth, on the other hand, has outpaced deposit growth (+11.4% y/y), thanks to increased demand from the services, general trade and real estate sectors. This is positive for the broader economy, coming against a backdrop of rising borrowing costs—the Qatar Central Bank (QCB) raised its benchmark QMR deposit rates four times in 2018 (25 bps each time) in line with the US Fed's monetary tightening schedule.

Qatari equities outperformed regional peers in 2018

The benchmark Qatar Exchange (QE) index rose 21% in 2018, outperforming regional stock indices. Starting from a lower base compared to its GCC neighbors following 2017's negative performance, Qatari equities benefitted from sizeable portfolio inflows linked to the MSCI rebalancing and generally positive sentiment linked to higher energy prices. The authorities' relaxation of foreign ownership limits and the rating agency Moody's affirmation of the sovereign's Aa3 rating and its revision of the outlook on the government's long-term issuer ratings from negative to stable also helped to instill confidence in Qatar's economy.

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