Qatar: Trade, travel and tourism take a near-term hit from diplomatic dispute

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- **Some economic indicators are returning to normal after the initial shock, but others such as visitor arrivals and the stock market remain well below par.**
- **We still expect the non-oil economy to see moderate growth this year and next, but Qatar could lose its title as the region's best performer.**

Initial shock to economy triggered by sanctions may be easing

The economic impact of the dispute with other GCC countries that began in early June has generally been moderate so far, and more visible in some sectors than others. The initial shock to the system via disrupted trade and financial flows has eased, and the non-oil economy looks set to comfortably avoid a recession. But the cost to the Qatari economy of regional isolation could grow over time, especially if, as now seems plausible, the dispute lasts for a number of years. We summarize below the impact of the crisis to date on some key high frequency data.

Trade and travel take the largest hit

Amongst the key economic sanctions imposed by countries participating in the dispute – Saudi Arabia, the UAE and Bahrain in the Gulf – were the cutting of transportation links and restrictions on travel to Qatar. Unsurprisingly therefore, tourism and trade flows have been the most notable casualties.

Visitor arrivals to Qatar plunged 55% between May and June, and were still down 55% y/y in September. (Chart 1.) Visitors from the Gulf typically account for around half of all arrivals to Qatar, and were down a massive 84% y/y in September. Visitors from elsewhere were down a more modest 10% y/y, but had been up earlier in the year.

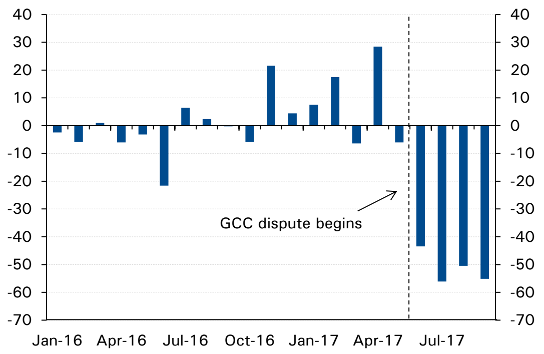
Monthly data on merchandise trade also show a large impact. The value of imports plunged 38% between May and June; the dispute countries accounted for more than 15% of all Qatari imports pre-crisis, while other goods destined for Qatar may have been disrupted in transit. However, by September import levels had recovered close to pre-crisis levels, helped by the sourcing of goods from markets such as Turkey and Pakistan, as well as by increasing use of the newly-opened Hamad Port – the second largest port in the Gulf region behind Jebel Ali. (Chart 2.)

Crucially, however, Qatari oil and gas exports have been unaffected by the dispute, including the 2 billion cubic feet per day of gas Qatar exports (16% of total gas exports) to the UAE via the Dolphin pipeline. This has avoided pressure on the fiscal position and the balance of payments.

Food prices rise by less than feared

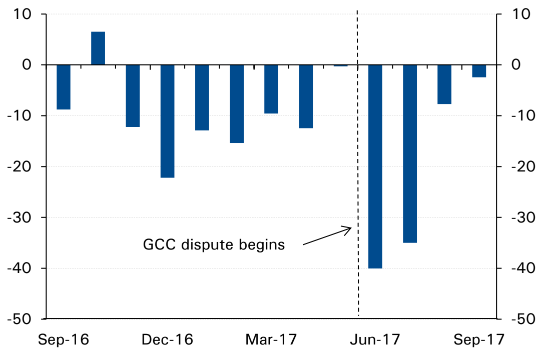
Fears of a major inflation-busting spike in food prices due to restricted imports from neighboring Saudi Arabia have so far not materialized – likely helped by the recovery in imports. Food price inflation did jump from 0% y/y in June to 4.5% in July, but this was less than had been feared and it has since eased back to 3.6% in September. (Chart 3) In fact, inflation overall slipped into negative territory in August at -0.4% y/y driven by renewed weakness in housing costs and weak 'core' pressures. Both of these are likely linked to crisis-related pressures.

Chart 1: Visitor arrivals to Qatar
(% y/y)



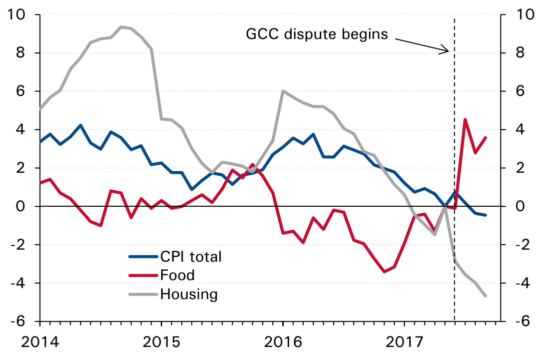
Source: MDPS

Chart 2: Goods imports
(Value, % y/y)



Source: MDPS

Chart 3: Consumer price inflation
(% y/y)



Source: Thomson Reuters Eikon

Property prices show signs of renewed weakness

Residential property prices had been undergoing a correction since early 2016, and though still down in year-on-year terms had more or less levelled off in 1H 2017. (Chart 4.) Since then, however, prices have taken another leg down, falling 9% between June and September – possibly attributable to a drop in confidence and a weaker economic climate. Other asset markets have suffered too, with the local stock market falling 17% since the crisis began, making it easily the region's worst performer. Other GCC markets are -7% to +8%, against a backdrop of greater optimism over the outlook for oil prices.

Public sector steps in to boost bank deposits

There have been visible changes in the banking sector, too. Foreigners have withdrawn some $12 billion (23%) of their deposits from Qatari banks since June, though the rate of withdrawal has slowed in recent months. By itself, this could have left a large hole in banks' balance sheets, and a potential funding crisis. But these non-resident outflows have been more than offset by $28 billion (+51%) in inflows from the public sector, pushing the latter's share of total deposits to 37%. (Chart 5.) The net result of these flows has been to see overall deposit growth surge to 18% y/y in September from 12% in May. Credit growth, meanwhile, remains encouragingly solid at 13% y/y.

Interest rates pushed higher, though affected by higher policy rate

Interest rates have risen across the complex – but not by much and not all of it is related to the crisis. Official policy rates were hiked by 0.25% in mid-June following a move by the US Fed, and this triggered rises in commercial rates. Interbank rates have risen around 50bps since early June, with half of the increase occuring before the rise in the policy rate.

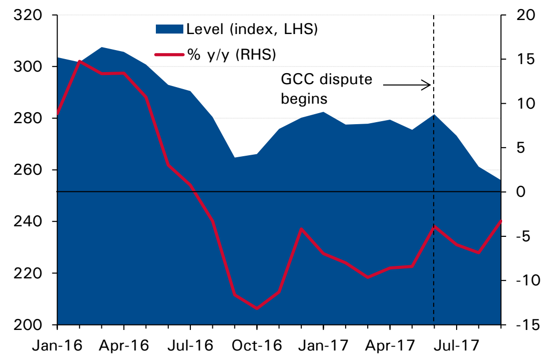
Meanwhile, yields on the government's 2026 sovereign bond are up slightly, but at 3.6% they remain low and the recent rise reflects comparable movements in other GCC countries. There was little material impact on yields from a one-notch post-crisis credit rating downgrade from both S&P and Fitch.

Finally, conditions on the foreign exchange market have been slightly more volatile. In the days following the start of the dispute, speculation on the currency peg spiked, with the 1-year forward rate rising to QAR3.77/US$1, or 4% weaker than the 37-year old pegged rate of 3.64. (Chart 6.) It has sinced entirely receded. The offshore spot market has also seen volatility due to low levels of liquidity. International reserves at the central bank fell 44% to $20 billion between May and August, but by only 15% to $39 billion based upon a reclassification of assets in October.

Non-oil growth slowing – but still well clear of recession

Finally, the 2Q 2017 GDP data incorporate nearly one full month of crisis-affected data, and show that non-oil growth slipped to just 3.9% y/y – the weakest quarterly figure since records began in 2011 – pushing overall GDP growth down to 0.6%. (Chart 7.) If all of the slowdown in Q1 was attributed to the diplomatic dispute, then this would equate (hypothetically) to non-oil growth slowing to just 1.3% y/y over a full quarter. But it is also possible that the hit to growth will be smaller in subsequent months, as the initial disruption to activity wanes. Although there are downside risks from an intensification of the crisis, we are for now maintaining our view that non-oil growth will slow to 4% this year and next, from 5.6% in 2016.

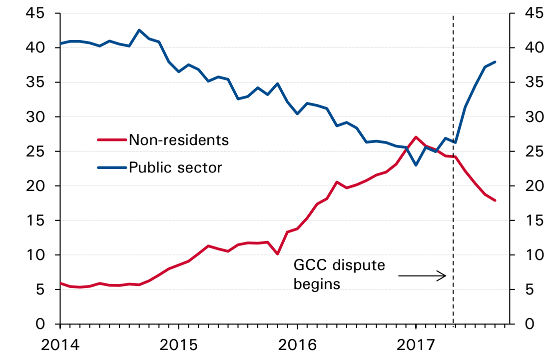
Chart 4: Residential property prices



Source: QCB

Chart 5: Share of total bank deposits

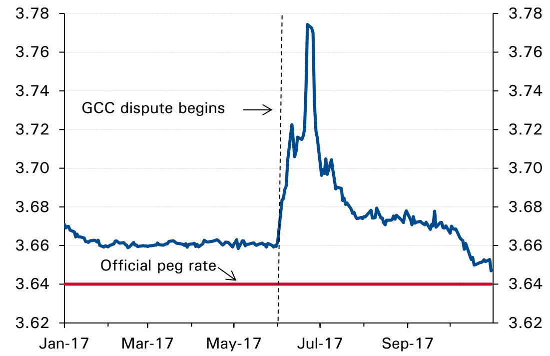
(% of total deposits)



Source: Thomson Reuters Eikon

Chart 6: Riyal 1-year forward exchange rate

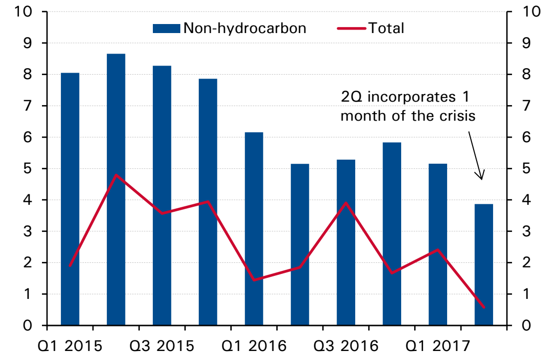
(QAR/US$1)



Source: Thomson Reuters Eikon

Chart 7: Real GDP

(% y/y)



Source: Thomson Reuters Eikon

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