

Qatar

Following a contraction of 3.6% in 2020, GDP is expected to grow by 2.7% this year, largely on recovering non-hydrocarbon sector output amid the easing of travel restrictions and improving business activity. Non-oil activity should benefit further in 2022 from the World Cup, and further out by investments under the economic diversification agenda. Higher gas prices, coupled with fiscal consolidation, should see the public finances return to surplus in 2021. Exposure to volatile energy prices and high debt levels are longer-term downside risks to the outlook, though improved neighborly relations are a positive.

Economy to return to growth in 2021

After last year's pandemic-linked contraction of 3.6%, Qatar's economy is expected to grow by 2.7% in 2021 and by 2.8% on average in 2022-24. Having eased business and mobility restrictions since mid-2021, the recovery in consumer sentiment and business activity is gaining traction and driving non-hydrocarbon sector growth. The PMI reached 58.2 in August, the second highest reading on record, and consumer spending is expected to rebound by an estimated 5% in 2021 (-8.5% in 2020). Services, such as travel, transport and tourism, will lead the non-oil recovery and especially in 2022, when Qatar's hosting of the FIFA World Cup will boost tourism and travel receipts (an estimated 1.2 million visitors are expected, around 50% of the current population). Growth in the hydrocarbon sector will gain from slightly higher oil production and, in nominal terms, elevated oil and LNG prices in line with stronger global economic and energy demand.

Medium-term growth is also underpinned by Qatar's Vision 2030 development plan. It includes large investments to boost gas production (LNG output to rise by 40% from 77 mtpa to 110 mtpa by 2026 in the first phase), and a further push for diversification through investment in infrastructure and strategic sectors including manufacturing, finance, tourism and ICT.

Inflation returns on higher demand and commodity prices

Consumer prices fell 2.6% in 2020 due to the economic downturn, including renewed downward pressure on housing rents which fell 4.5% y/y. (Excluding housing, inflation was -2%.) Recovering consumer demand and higher global commodity, food and transportation costs had pushed inflation back up to +2.7% by September 2021, though weak housing rents continue to weigh. The Qatari authorities have already reinstated food and medical customs duties, while monetary policy is expected to remain loose (the key interest rate was cut to a 15-year low of 2.5% in 2020). We expect inflation to average 2% in 2021, rising to 2.3% on average in 2022-24.

Fiscal balance to return to surplus on higher revenues

A sizeable support package, coupled with reduced hydrocarbon revenues and lower corporate tax receipts led to a modest fiscal deficit (2.1% of GDP) in 2020. Stimulus measures included QR75

billion (12% of GDP) of funds for the private sector, QR10 billion injected into the Qatar Stock Exchange, and the suspension of utilities fees and customs duties on food and medical items for a 6-month period (ending September 2020). In 2021, a surplus of 5.8% of GDP is expected, mainly on the back of increased oil and gas receipts due to higher energy prices. Fiscal restraint will be exercised in the near term as the authorities aim to consolidate the finances, lower the public sector wage bill (expat government employee wages were already cut by 30% in 2020) and reduce discretionary spending. Capital expenditure is also likely to decline this year as major World Cup-related projects are completed, and further out, VAT could be introduced by 2023, bolstering public revenues. The government is expected to resume an expansionary budget once fiscal pressures subside in order to meet its ambitious economic development goals.

Public debt may gradually decline on lower financing needs

Qatar Petroleum made the largest emerging market debt offering so far this year with its \$12.5 billion bond sale to finance the North Field gas expansion. Low interest rates and strong investor demand for GCC debt should lead to continued debt issuance, albeit at a slower pace due to an improving fiscal position. Moreover, decent economic growth coupled with higher hydrocarbon receipts should see public debt ease gradually over the medium term. Qatar's credit standing remains robust (AA- by Fitch), backed by large external reserves and a good track record of effective policy-making.

Covid uncertainty and LNG competition the main risks

Given its reliance on LNG exports, downside risks to the outlook stem mainly from exposure to volatile gas prices, which could soften on weaker energy demand and/or oversupply. However, the current narrative is one of supply shortage, with international gas prices surging. With the lowest cost base in the industry, Qatar is well-placed to compete on price with international LNG players. Domestic risks stem mainly from a slower-than-expected economic recovery, Qatar's relatively high public debt levels, and continued pandemic uncertainty. Improved neighborly relations are positive for the economy and regional security.

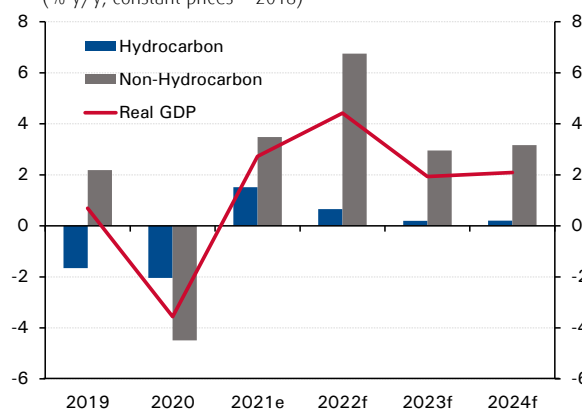
► **Table 1: Key economic indicators**

| | | 2020e | 2021f | 2022f | 2023f | 2024f |
|-------------------|----------|-------|-------|-------|-------|-------|
| Nominal GDP | \$ bn | 142 | 162 | 167 | 173 | 180 |
| Real GDP | % y/y | -3.6 | 2.7 | 4.4 | 1.9 | 2.1 |
| - Oil | % y/y | -2.0 | 1.5 | 0.7 | 0.2 | 0.2 |
| - Non-oil | % y/y | -4.5 | 3.5 | 6.7 | 3.0 | 3.2 |
| Inflation | % y/y | -2.7 | 2.0 | 3.0 | 2.0 | 2.0 |
| Fiscal balance | % of GDP | -2.1 | 5.8 | 3.5 | 1.2 | 0.8 |
| Government debt | % of GDP | 70 | 55 | 50 | 47 | 44 |
| Current acc. bal. | % of GDP | -2.5 | 4.0 | 0.8 | 0.5 | 2.0 |

Source: Official sources, NBK estimates

► **Chart 1: Real GDP growth**

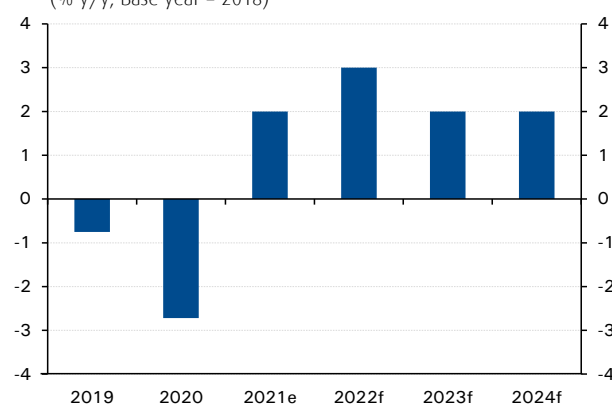
(% y/y; constant prices = 2018)



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

► **Chart 2: Consumer price inflation**

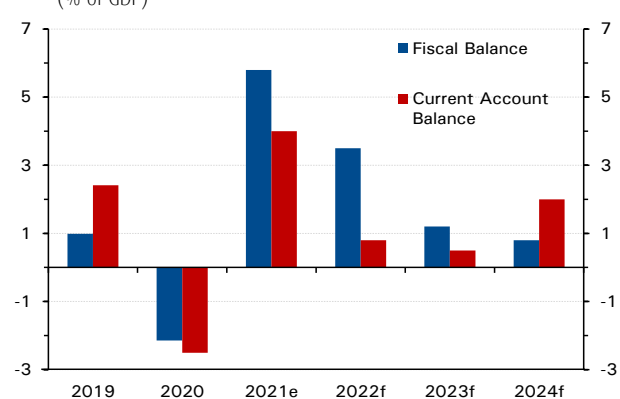
(% y/y; Base year = 2018)



Source: PSA, NBK estimates

► **Chart 3: Fiscal balance**

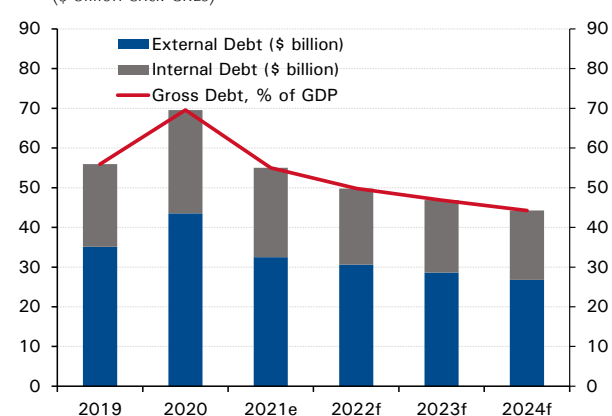
(% of GDP)



Source: Qatar Ministry of Finance, NBK estimates

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

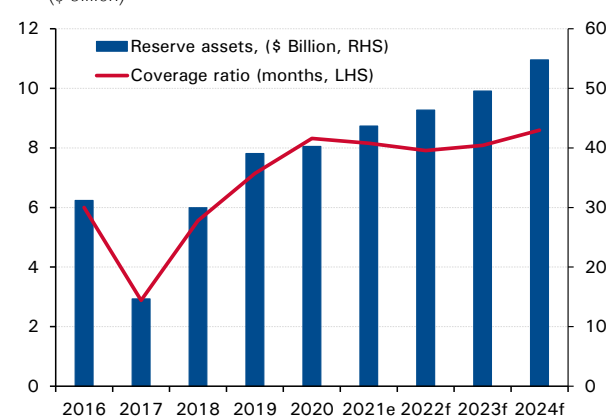
(\$ billion excl. GREs)



Source: IIF, NBK estimates

► **Chart 5: Official foreign reserves**

(\$ billion)



Source: QCB, NBK estimates