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Qatar: What doesn't kill you makes you stronger

Florence Eid-Oakden, Ph.D, Chief Economist
Charlene Rahall, Senior Analyst

- **Qatar's economy has not only, as we expected, successfully absorbed the shocks from its neighbours' boycott two years ago, it has strengthened -- particularly in banking and foreign reserves.**
- **While there have been some setbacks, notably trade in the immediate region, the rift has actually allowed Qatar to become more self-sufficient.**
- **We still expect tensions to disappear over time but that does not mean the underlying rift will go away, with the latest unfolding over Somalia.**

Economy ploughing ahead

Two years after the boycott by the Saudi Quartet, Qatar's economy has been strong enough to absorb the shocks from the rift. Indeed, it is likely to maintain its position as one of the fastest growing economies in the GCC.

- Real GDP growth is forecast by the IMF at 2.6% this year from 2.2% in 2018 and 1.6% in 2017. This is on par with the 2.8% average over 2018-2020 estimated by Qatar's Planning and Statistics Ministry for 2019.
  - Growth this year will be driven by a recovery in oil output and robust non-oil activity from ongoing infrastructure projects related to World Cup 2022, as well as from higher gas production.
  - These will continue to fuel the expansion of the non-oil sector and provide employment for Qatar's growing population.
  - In Q1 2019, real GDP growth stood at 0.9% YoY compared with 0.7% in Q3 2017 after the boycott began.
- Inflation is low in Qatar (0.1%), and price controls have prevented extortionary profiting from the sale of goods in high demand, especially food items.
  - But next year, the inflation rate is projected to rise sharply to 3.7% if a planned introduction of VAT goes ahead.
- Fiscal consolidation is forecast to continue, albeit at a slower rate.
  - This year, higher oil and gas revenues are expected to raise the fiscal surplus to 6.1% of GDP from 5.3% of GDP in 2018. In Q1 2019, the fiscal surplus stood at 1.2% of GDP.
  - This should provide further room for spending on development projects.
  - The volume of capital expenditures is expected to fall as a result of the completion of the first stages of a number of infrastructure projects. These include the Hamad Port, the Hamad International Airport and a large portion of the roads and bridges currently under, or projected for, construction (accounting for 45.1% of total investment expenditure).

Table 1 – Qatar Macroeconomic Indicators[1]

	2015	2016	2017	2018	2019f
Real GDP Growth (%)	3.7	2.1	1.6	2.2	2.6
Crude Oil Production (Mb/d)	0.6	0.6	0.6	0.6	0.6
Oil GDP Growth (%)	-0.6	-0.9	-0.7	-1.1	0.4
Non-oil GDP Growth (%)	8.5	5.3	3.8	5.3	4.6
CPI Inflation (%)	1.8	2.7	0.4	0.2	0.1
Fiscal Balance (% of GDP)	5.4	-5.4	-2.9	5.3	6.1
C/A Balance (% of GDP)	8.5	-5.5	3.8	9.3	4.6
Total Gov't. Gross Debt (% of GDP)	35.5	46.7	49.8	48.4	52.7
Total Gross Extrn'l Debt (% of GDP)	75.2	127.2	99.6	101.1	106.7
Gross Official Reserves (Mos. of Imports)	7.0	6.1	2.8	5.5	7.8
Nominal GDP (USD B)	161.7	151.7	166.9	192.4	193.5
Population (Millions)	2.4	2.5	2.6	2.7	2.8

- Public debt -- expected at 52.7% of GDP in 2019 from 48.4% of GDP in 2018 -- remains comfortably sustainable. The increase is due to a USD 12B international bond issue in March 2019.
- Despite immediate pressure when the rift began, foreign exchange reserves stood at USD 52.4B in April 2019 (more than eight months of import cover), compared with USD 45.2B in June 2018 (seven months' cover) and a five-year low of USD 24B in June 2017 when the boycott kicked off (three months of imports).
  - Note that most of the country's foreign assets are with the Qatar Investment Authority, which is undergoing its largest overhaul since 2014 by grouping USD 100B of investments in local companies into a new unit.
- Foreign investments into Qatar, including portfolio investment, rose 6.6% YoY in Q1 2019 to USD 198B by the end of the first quarter of this year.
  - The increase is mostly driven by higher portfolio investment which made up 68% of total investments while the rest was in the form of FDI.

Since the rift with its neighbours, alternative trade links and flight routes have been developed, such as the opening of Hamad Port to bypass Jebel Ali in Dubai. While trade with its largest export markets has held up, exports and imports from the GCC as a percentage of total Qatari exports and imports have fallen.

- Even though exports of goods and services declined by 2.3% YoY in Q1 2019, they represented a 16% increase from Q3 2017 when the blockade began.
  - The YoY decrease in total exports was mainly due to the lower value of exports of petroleum gases and other gaseous hydrocarbons.
  - Japan, South Korea, China, India and Singapore remain Qatar's largest export trade partners making up 17.4%, 16.7%, 11.8%, 9% and 7.8% of total Qatari exports, respectively. This ranking was the same before the boycott.
  - GCC countries make up 4.5% of total exports (mainly to the UAE and Kuwait) compared with 9.2% of Qatar's total exports before the rift.
    - Exports to the UAE comprised mainly natural gas via the Dolphin pipeline which has remained open despite the rift.

[1] Arabia Monitor; IMF.

- Imports of goods and services were down 5.5% YoY in Q1 2019 but 14% higher than in Q3 2017.
  - The YoY drop was mainly driven by a 19.1% drop in the "Machinery and transport equipment" category.
  - The US, China, Germany, the UK and India are Qatar's largest import partners making up 19%, 11.3%, 7.1%, 7% and 5% respectively.
  - The GCC made up 4.6% of total imports (mainly from Oman) versus 16.1% before the boycott.

Banking sector maintains growth

Although some Qatari industries have been negatively impacted by the diplomatic conflict, they have started to recover. Others have become more self-sufficient as a result of the boycott.

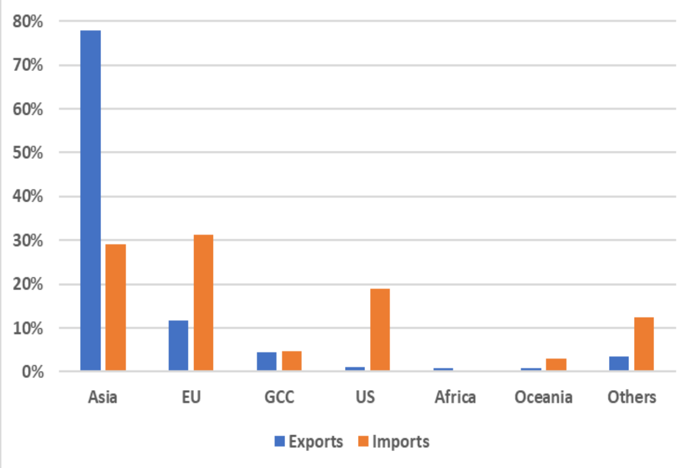
- Overall, the banking sector in Qatar remains healthy.
  - Non-performing loans are low at 1.5%, and banks are well-capitalised and have fully complied with Basel III capital adequacy standards, with an average of 16.6%.
  - Liquidity buffers have remained stable at 24% of tangible banking assets as the outflows observed during the first few months following the blockade were largely offset by inflows from the Qatari government and related entities.
- As Doha entered the third year of the rift at the end of June, growth in credit to the private sector was 14% YoY.
  - This led total assets of commercial banks in Qatar to post about 5% YoY increase to USD 395B at end-June, according to the Qatar Central Bank (QCB).

Real estate recovery underway

The latest data available for Q2 2019 suggests real estate prices were up 2% YoY compared with a 0.4% YoY decline in Q1 2019.

- According to the real estate price index developed by QCB, following an 82% increase during 2012-16, real estate prices fell by 15% during 2017-18.
- Legislation approved in March to extend the number of locations where non-Qataris may own villas and shops within residential and commercial complexes is expected to boost the market. The legislation applies to foreign businesses and investment funds as well as individuals.
  - Adding to the law passed last year to allow greater foreign ownership in the country's ailing property, the Cabinet identified seven additional locations eligible for full freehold foreign ownership.
  - Before the law, foreigners were only allowed 100% ownership of property in the lightly populated upmarket Doha sections of the Pearl and West Bay Lagoon, and in the larger northern resort city of Al Khor.
  - The seven new purchase locations are mainly an expansion into Doha residential areas around the Pearl and West Bay, although the Rawdat Al Jahaniyah investment zone is included.

Figure 1 – Qatar Trade Partners
(As % of Total Qatar Trade with World)[3]



    - The locations are Al Qassar, Al Dafna, Onaiza, Al Wasail, Al Khraij and Jabal Theyleeb.
  - There are also financing incentives from Qatar National Bank which offer loans to expatriates of up to QAR 3M (USD 824K) at rates as low as 4.35%, with terms of up to 15 years.

Two steps forward, one step back

We maintain our view that Qatar's rift with its GCC neighbours will not be solved with any "big bang" announcement, but via a very slow and subtle normalisation that will be uneven in pace and sometimes reversing, such as now over Somalia.

- We have seen in the past couple of months that a slow normalisation had begun on the commercial side. Some measures included:
  - A UAE-Qatar WTO dispute -- concerning certain alleged measures adopted by Qatar -- concluded in early August, as the UAE formally withdrew its complaints and Qatar rescinded the contentious measures.
  - In February, Dubai's largest port operator, DP World, decided that third-party shippers would be allowed to move cargo to and from Qatar.
    - Qatari-flagged ships and vessels with Qatari owners are still prohibited, however.
- In contrast, Qatar and Saudi Arabia are in danger of engaging in another power struggle, this time over Somalia.
  - Qatar has said it will build a new seaport in Hobyo, up the coast from Mogadishu in Somalia.
  - Saudi Arabia, however, has recognised passports from the self-declared state of Somaliland, viewed internationally as only an autonomous region of Somalia.
- Overall, we see steps constituting normalisation coming over the next several quarters, before things get back to normal without fanfare, perhaps over the next couple of years.

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[2] Arabia Monitor; Planning & Statistics Authority, Qatar.

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Arabia Monitor
Aston House| Cornwall Avenue| London L3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com