

Macroeconomy

# Qatar: hydrocarbon activity recovers in 1Q17, political tensions persist

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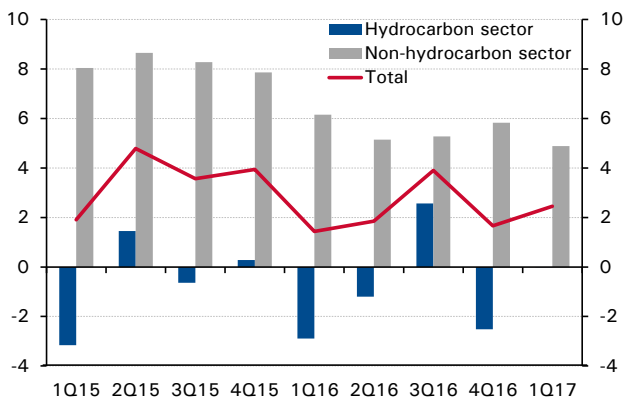
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- Economic growth rebounded in 1Q17 to 2.5% y/y, led by an improvement in hydrocarbon sector output compared to 1Q16.
- The recent GCC diplomatic dispute and economic sanctions may introduce downward pressure on international reserves which remain plentiful.
- CPI inflation continues to moderate (0.1% y/y in May); housing/rents continue to fall into deflationary territory.
- The current account balance flipped into a surplus in 1Q17 after 4 consecutive quarters in deficit.
- Credit growth was steady at 10% y/y in May, despite continuing moderation in lending to the private sector.
- Bond issuance has proceeded apace as Qatar looks to finance its budget deficit without tapping its foreign reserves.
- The QE index has trended lower as political tensions and economic sanctions weigh on investor sentiment.

Chart 1: Real GDP Growth

(% y/y, 2013 base year)

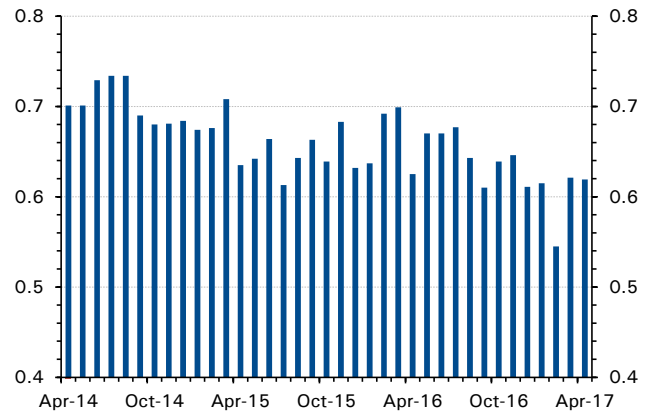


Output grew by 2.5% y/y in 1Q17, but non-hydrocarbon sector activity is moderating; oil and gas activity was flat.

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

Chart 2: Crude oil production

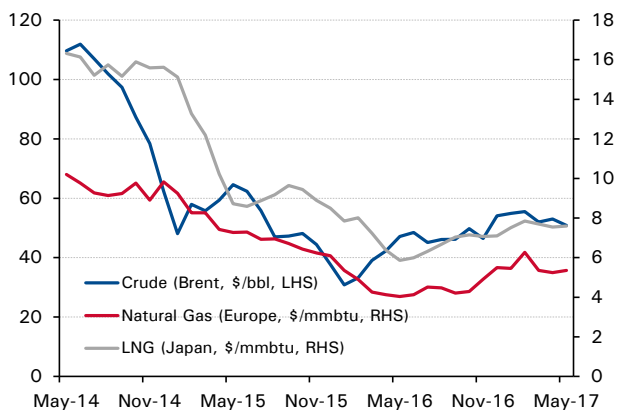
(mb/d)



Crude output is showing a slight recovery; improved production to result from the Al Shaheen oil field in the medium run.

Source: Joint Organizations Data Initiative (JODI), OPEC

Chart 3: Oil and gas prices

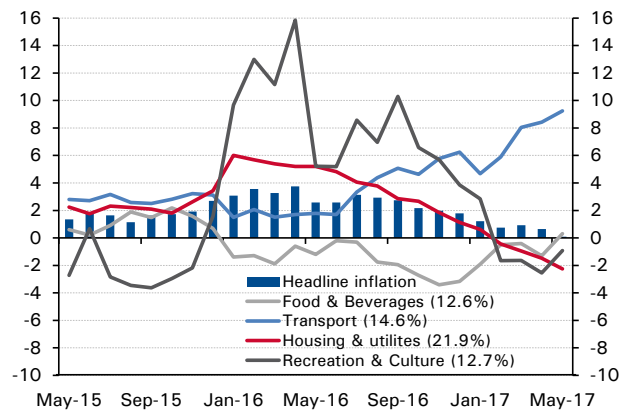


Following crude oil prices, natural gas prices have also softened; European spot prices trade at a discount to LNG prices (Japan).

Source: World Bank

Chart 4: Consumer price inflation

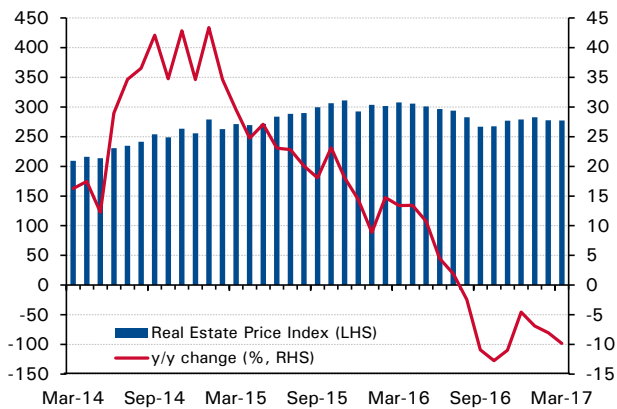
(% y/y; % weight of CPI basket in brackets)



Though transport prices are higher y/y, inflation cooled to 0.1% in May on housing supply glut and low food costs.

Source: MDP&S

### Chart 5: Real estate price index (REPI)

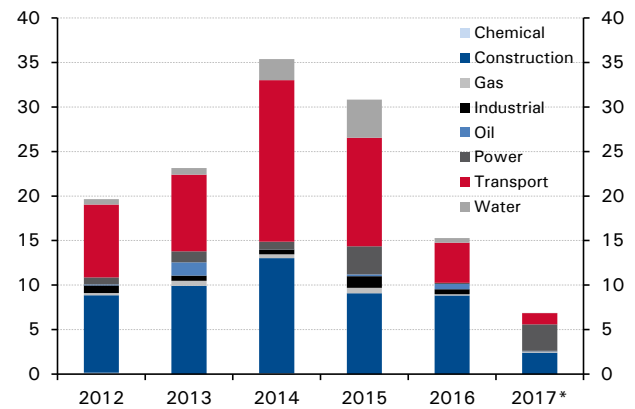


Oversupply in the housing market continues to put downward pressure on prices; the REPI was at -9.8% y/y in March.

Source: Qatar Central Bank (QCB), Qatar Ministry of Justice (MOJ)

### Chart 6: Projects market

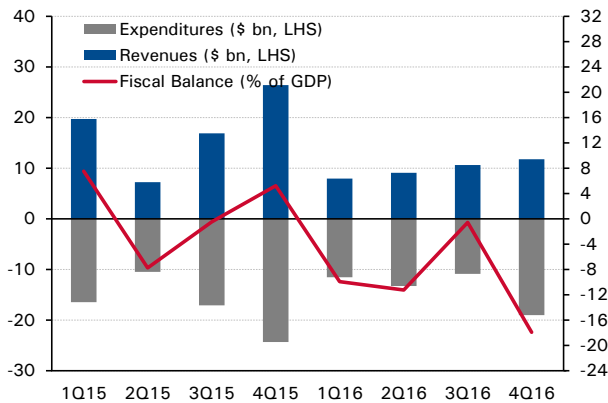
(\$ billion, value of awards for projects entering execution phase)



Contracts awarded so far in 2017 have been focused on the power (\$3.0 bn) and construction sectors (\$2.4 bn).

Source: MEED Projects, NBK. \*year to date figure.

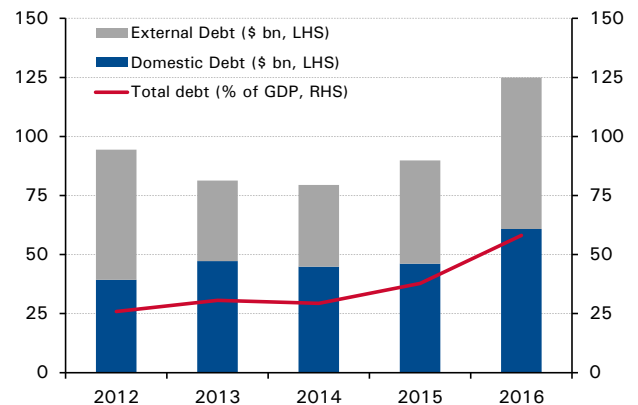
### Chart 7: Fiscal balance



The fiscal deficit expanded to \$-7.2bn (-17.9% of GDP) in 4Q16 as government expenditures increased.

Source: QCB

### Chart 8: Central government debt (gross)

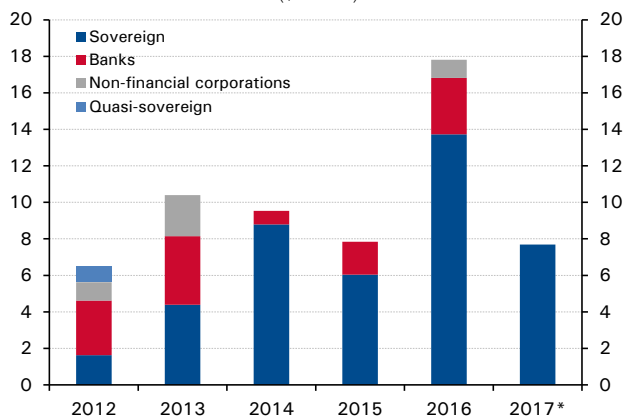


Public debt has risen 3 years in a row as the authorities issued more bonds to finance their spending plans.

Source: QCB

### Chart 9: Bond & sukuk issuances

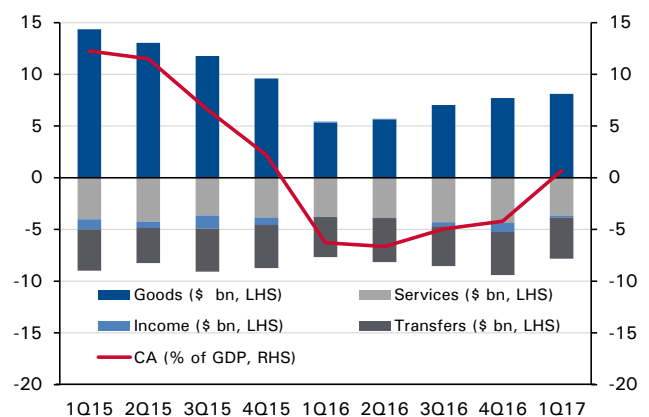
(\$ billion)



Over \$7 billion of sovereign debt has been issued in the first half of 2017 as Qatar looks to ease pressure on its reserves.

Source: QCB, Thomson Reuters Zawiya; \* as of 1 March 2017

### Chart 10: Current account balance (CA)

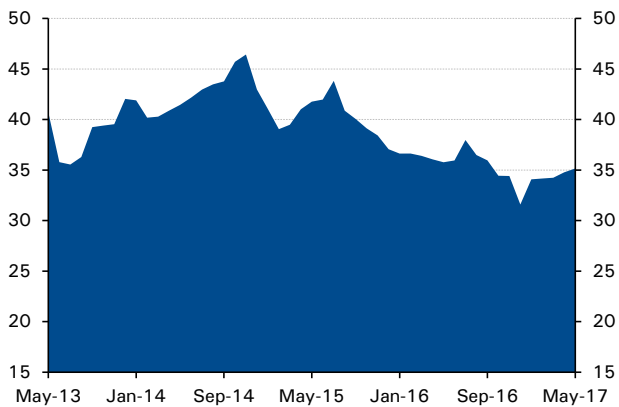


Qatar posted a CA surplus for the first time since 4Q15 as the services and transfers deficits ease. Goods surplus also up.

Source: QCB

**Chart 11: Official foreign reserves (net)**

(\$ billion)

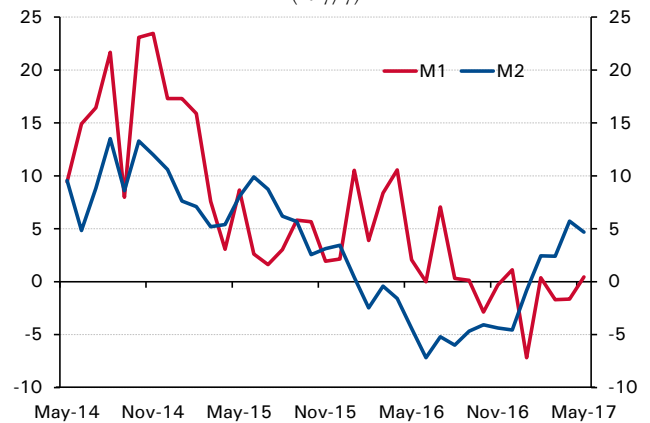


Reserves are under pressure as economic sanctions continue and exchange activity has been hindered.

Source: QCB; Note: excludes the assets of sovereign wealth fund QIA.

**Chart 12: Money Supply**

(% y/y)

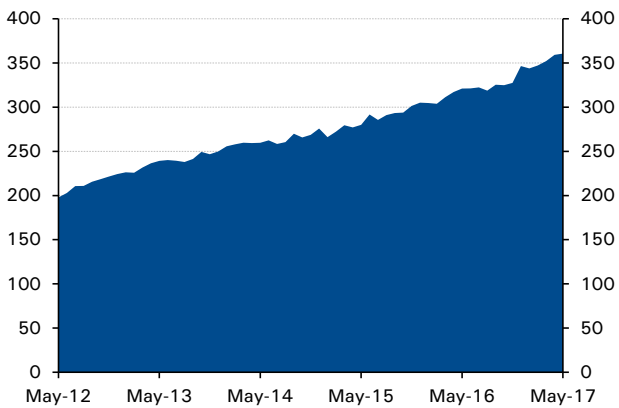


The contraction in broad money supply is easing; liquidity has improved thanks to higher energy prices/oil and gas receipts.

Source: QCB

**Chart 13: Commercial banks' assets**

(\$ billion)

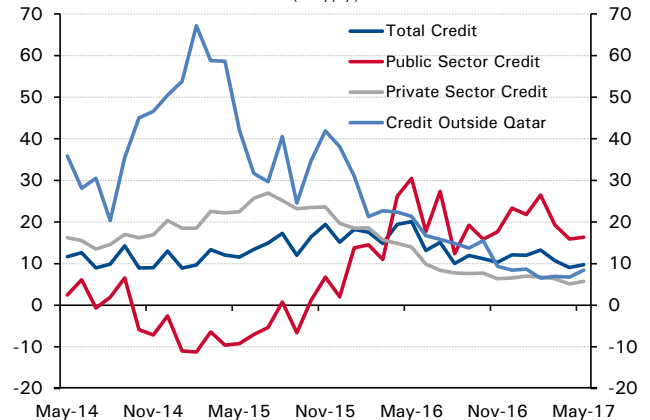


Bank assets reached \$361 bn in January (165% of 2016 estimated GDP), driven by improved credit growth.

Source: QCB

**Chart 14: Bank credit**

(% y/y)

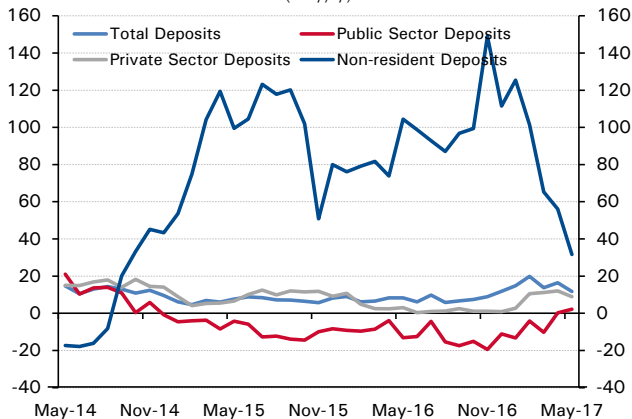


Despite weak private credit growth, total credit growth is steady at 10% y/y thanks to improved public sector activity.

Source: QCB

**Chart 15: Bank deposits**

(% y/y)

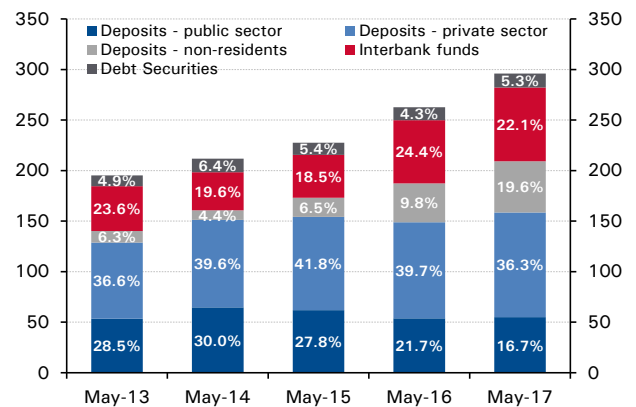


Growth in non-resident deposits slowed but was still growing 31.6% y/y in May.

Source: QCB

**Chart 16: Banks' source of funds**

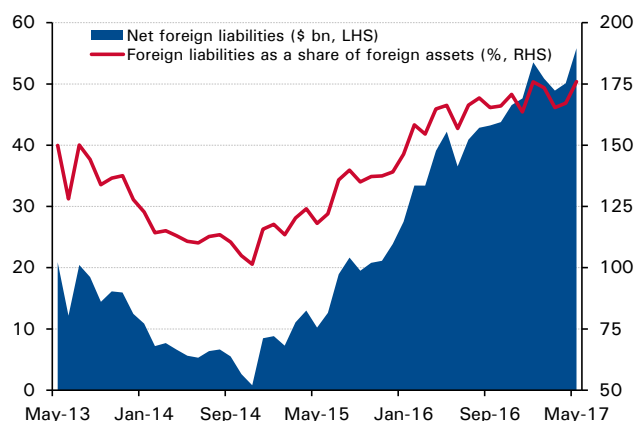
(\$ billion, % of total funds labeled within bars)



Non-resident deposits' share of banks' funds is significant and a cause for concern, given the current political backdrop.

Source: QCB

### Chart 17: Banks' foreign liabilities



Foreign liabilities have surged as banks have increase their reliance on non-resident deposits and overseas funds.

Source: QCB

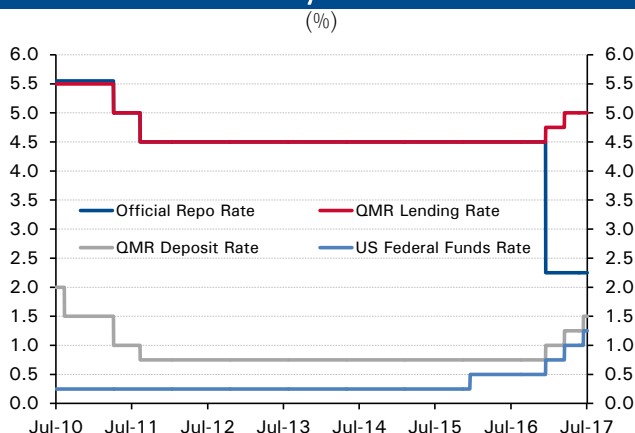
### Chart 18: Interbank rates (QIBOR)



Rates remain elevated, bank liquidity tighter due to the ongoing economic sanctions and political standoff.

Source: Thomson Reuters Datastream

### Chart 19: Key interest rates

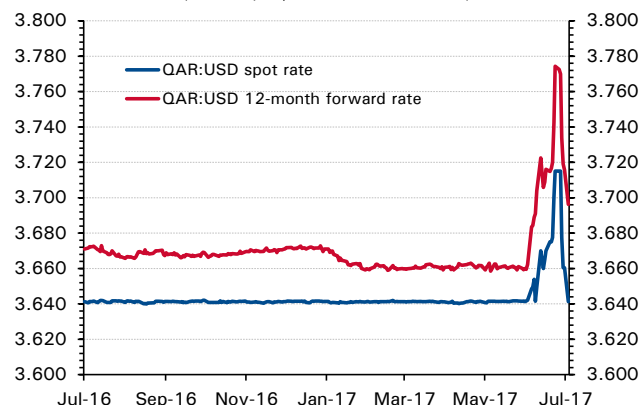


The QCB raised its key lending and deposit rates to 5.0% and 1.5%, respectively; the repo rate was lowered, however.

Source: QCB

### Chart 20: Qatar riyal 12-month forward rate

(Qatar riyal per US dollar, QR:USD)

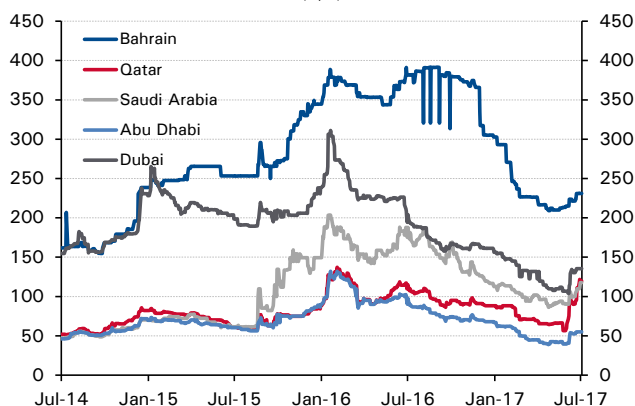


Forward rates have eased a little from the shocks of the diplomatic dispute, but are still higher than before.

Source: Thomson Reuters Datastream

### Chart 21: 5-year sovereign CDS

(bps)



CDS's have risen steadily in June and into July as diplomatic/political tensions continue.

Source: Thomson Reuters Datastream

### Chart 22: Qatar Exchange Index (QE)

(index)



The QE exchange closed at 8936.5 on 3 July, down to levels last seen in January 2016, as the recent sanctions bite.

Source: Thomson Reuters Datastream

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