Qatar's Economic Outlook- Spring 2016

The latest MENA Economic Monitor Report - Spring 2016, expects Qatar may sustain real GDP growth averaging 3.6% between 2016 and 2018, driven by growth in non-hydrocarbon sectors.

Growth moderated to an estimated 3.7 % in 2015 from 4 % in 2014. It has been primarily driven by the non-hydrocarbon sector, and remains strong as construction, transport, communications, and financial sectors continue to perform well. The hydrocarbon sector has been suffering both from stagnating production since 2012 (largely due to the self-imposed moratorium on additional production from the North Field), and from plummeting oil and gas prices since mid-2014.

The fiscal and external positions have deteriorated despite some measures to rein in spending. After a decade of comfortable surpluses, the fiscal balance has been deteriorating (from a surplus of 17.1 % of GDP in 2014 to an estimated surplus of 0.4 % of GDP in 2015) due to falling oil and gas prices and revenues. The current account balance has shrunk from a large surplus (23.6 % of GDP in 2014) to an estimated deficit of 0.8 % of GDP in 2015. The government is tightening fiscal policy, with the announced 2016 budget showing a decline in both current and capital spending, and a resulting in a total budget of QAR202.5 billion compared to QAR218.4 billion in 2015. However, the investment commitments for the FIFA World Cup 2022, and its plan to diversify the economy, have limited its ability to reduce capital spending. The government is starting to remove subsidies, and has raised fuel prices by 30 % in January. Further, it is developing new revenue sources, including through planning for the implementation of a value added tax with other GCC countries.

Monetary policy has been accommodative and the banking sector continues to grow, albeit at a slower rate. Qatar's Central Bank chose not to mirror the US Federal Reserve's raising of the policy rate in December 2015. But in order to maintain the currency peg to the US dollar, Qatar will need to follow suit if the Fed continues to tighten monetary policy. The commercial banks have adequate liquidity and deposit growth reached 8.2 % in 2015. This deposit growth, however, is slow compared to previous years (19.7 % in 2013 and 9.6 % in 2014) due to the decline in public sector deposits.

The outlook for economic growth remains moderate, despite the slowdown in the hydrocarbon sector. Qatar may sustain real GDP growth averaging 3.6 % between 2016 and 2018, driven by growth in non-hydrocarbon sectors. Nonhydrocarbon growth, however, may be slower than in previous years due to a reduction in manufacturing growth as the push from the expansion of the fertilizers and petrochemicals sectors fades. Services (real estate, transport, communications, and business services) are projected to contribute the bulk of GDP growth over the forecast period, although these sectors will grow at a slower rate than in the past as population growth decelerates and fiscal spending is reined in. The fiscal and current account balances will deteriorate in 2016 before starting to recover over the following two years. Oil production will decline as lower prices discourage investment in maturing fields. Conversely, gas production will increase as the Barzan gas project comes on stream (2016) and expands (2017). As gas production increases and oil and gas prices recover, hydrocarbon exports will experience sizable growth.

The main medium-term risk for the economy is the persistence of the sharp drop in global oil and gas prices, in addition to intensifying competition in the gas market. Continued weakness in oil markets could adversely impact hydrocarbon revenues, economic growth, and financial sector health. Increasing gas market competition in the medium term may further weaken growth.

Key Economic Indicators

	2014	2015e	2016p	2017p
Real GDP Growth (%)	4.0	3.7	3.3	3.5
Inflation Rate (%)	3.3	1.7	2.1	2.8
Fiscal Balance (% of GDP)	17.1	0.4	-5.0	-1.9
Current Account Balance (% of GDP)	23.6	-0.8	-6.9	-3.5