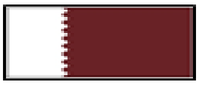
Euler Hermes Economic Research

Country Report

Qatar

Conflict with regional neighbors heightens risks

General Information



GDP	USD164.6bn (World ranking 55, World Bank 2015)
Population	2.24mn (World ranking 143, World Bank 2015)
Form of state	Emirate
Head of state	Emir Sheikh TAMIM bin Hamad Al Thani
Next elections	None

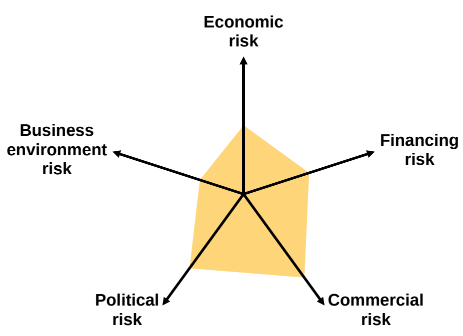
Strengths

- Unlike elsewhere in the region, leadership has been passed to a younger generation, providing a degree of popular support in the short term
- U.S. military support affords some regional protection
- Long-term development strategy that has accelerated diversification away from upstream oil and gas
- Large foreign asset base, including a Sovereign Wealth Fund of USD335bn

Weaknesses

- Regional instability (including Iraq and Syria) and uncertainties (including Iran) impact on risk perceptions
- Conflict with some other Arab states in the region (notably Saudi Arabia, UAE, Bahrain, Egypt) that escalated in June 2017, resulting in significant economic measures against Qatar
- U.S. military bases and the country's oil and gas facilities are potential targets for terrorist or extremist groups
- Despite the active policy of economic diversification, the economy relies heavily on hydrocarbons and this leaves it vulnerable to changes in levels of global activity and in international commodity prices
- Data transparency remains weak for an economy of its size and strategic importance

Country Rating B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Japan	22%	1	12%	China
Korea, Republic of	15%	2	11%	United States
India	13%	3	9%	United Arab Emirates
China	6%	4	7%	Germany
United Arab Emirates	6%	5	7%	Japan

By product (% of total)

Exports		Rank		Imports
Gas, natural and manufactured	54%	1	13%	Road vehicles
Petroleum & products thereof	28%	2	8%	Other industrial machinery & parts
Plastics in primary forms	2%	3	6%	Electrical machinery & appliances
Organic chemicals	1%	4	6%	Other transport equipment
Fertilizers	1%	5	5%	Iron and steel

Source: UnctadStat (2015)

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Economic Overview

Under pressure from neighbors

On 5 June 2017, Saudi Arabia, the UAE, Bahrain and Egypt cut their diplomatic relations with Qatar, accusing Doha of supporting Islamist groups and terrorism, a charge Qatar denies. In addition, the states announced the suspension of air, sea and land transport and travel with Qatar. And, with the exception of Egypt, Qatari citizens are required to return home within two weeks. These restrictions, especially the fact that Qatar's land border with Saudi Arabia – its only land crossing – will be suspended, are more severe than those during a previous eight-month dispute in 2014, when Saudi Arabia, the UAE and Bahrain withdrew their ambassadors from Doha over similar accusations. At that time, trade and travel links were maintained.

In the near term, a military conflict appears unlikely, but a further escalation of economic measures, including actions against Qatari banks (reportedly Saudi and UAE banks have already delayed businesses with them), sanctions or a full-blown embargo, is possible if Qatar does not comply more earnestly with a 2014 agreement which requires it to act seriously against Islamist extremism. Also, Gulf media have aired rumors on a potential future coup against the head of state, Emir Sheikh Tamim bin Hamad Al Thani.

Economic impact

With an estimated USD335bn of assets in its sovereign wealth fund, the Qatar Investment Authority (QIA), Qatar looks able to avoid an immediate economic crisis. And exports of natural gas and oil, accounting for almost 85% of Qatar's exports, should broadly continue though the UAE's ban on Qatari-linked vessels from its waters may complicate shipments somewhat.

But parts of the economy could suffer seriously if the dispute drags on for months, notably the (food) retail, construction and transportation sectors may be affected. The suspension of Qatar's land border with Saudi Arabia will affect the imports of food (of which an estimated 40% come via this route) and construction materials (needed especially for the projects related to the FIFA World Cup 2022). Air transport will face higher costs as Qatari airlines are forced to make long detours. And companies servicing Gulf states from Qatar are likely to find it increasingly difficult to operate. Overall, this will also have some impact on the macroeconomic outlook.

GDP growth will remain modest

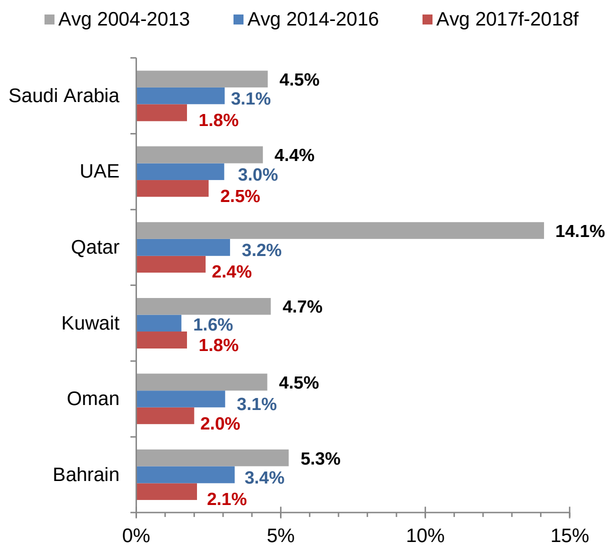
As a result of persistently lower oil prices since mid-2014, real GDP growth fell already to +2.2% in 2016, the lowest annual increase since 1994, and compared to an average +12.2% in 2006-2015. Against the background of the increased political uncertainty, we have revised down our 2017 GDP growth forecast by -1pp to +1.8%. The expected slowdown reflects reduced regional trade, weakened corporate profitability as regional demand is cut off, lower investment and higher inflation. Assuming that regional relations will normalize by the end of this year, growth should recover to around +3% in 2018.

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	3.6	2.2	1.8	3.0
Inflation (%, end-year)	1.6	2.3	3.5	3.0
Fiscal balance (% of GDP)	5.6	-4.5	-4.5	-2.5
Public debt (% of GDP)	34.9	48.0	51.0	52.0
Current account (% of GDP)	8.4	-2.5	-2.5	-1.5
External debt (% of GDP)	48.4	55.8	62.0	60.0

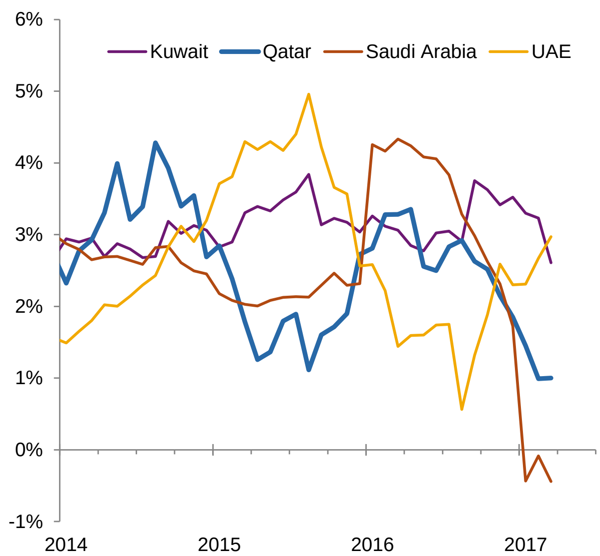
Sources: National statistics, IHS, Euler Hermes

GDP growth in GCC countries



Sources: National statistics, IHS, Euler Hermes

Inflation rate (y/y) in selected GCC countries



Sources: National statistics, IHS, Euler Hermes

Inflation is set to rise but the exchange rate peg should hold

Inflation is forecast to rise from 0.9% y/y in March 2017 to about 3.5% y/y by the end of the year (against our pre-crisis forecast of 2.5% y/y) as a result of higher food prices and construction costs.

The riyal (QAR) is pegged at 3.64 to the USD. We expect the peg to hold as the Central Bank has large foreign exchange (FX) reserves (about USD33bn at end-March 2017) to support the currency.

Public finances to remain solid

After 16 years of continued large surpluses, persistent low oil and gas prices since mid-2014 pushed the fiscal account into a deficit in 2016, estimated at -4.5% of GDP. We expect a similar deficit in 2017 and a reduction to -2.5% in 2018. Public debt rose from 32% of GDP in 2014 to 48% in 2016 (around USD75bn) and is forecast to increase to about 52% at end-2018.

However, Qatar will remain a large net external creditor thanks to the huge foreign-asset position in the QIA (currently estimated at USD335bn).

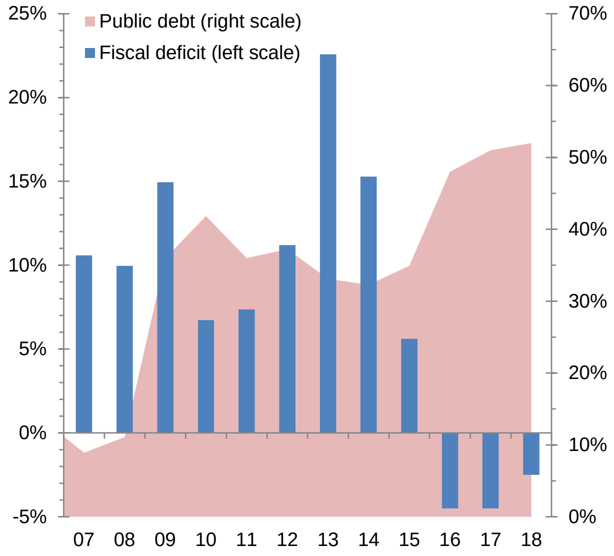
External liquidity to remain unproblematic

In line with the fiscal account, the current account shifted into a deficit in 2016 (estimated at -2.5% of GDP) after 17 years of continued large surpluses. We expect moderate annual shortfalls of about the same size in 2017-2018 as well.

External debt is relatively high, incurred by oil and gas investments since the 2000s, but repayment obligations are unlikely to present liquidity problems. The debt service to export earnings ratio stands at a moderate 15% or so.

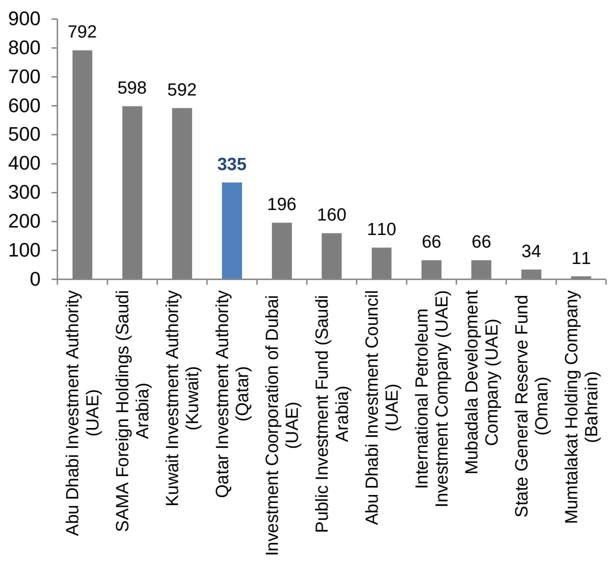
Financial resources will remain strong. Combined FX reserves of the Central Bank and the QIA represent well over 200% of annual GDP and cover more than 70 months of imports.

Public finances (% of GDP)



Sources: IMF, IHS, Euler Hermes

Assets held by Sovereign Wealth Funds of Gulf Cooperation Council members (in USDbn)



Sources: Sovereign Wealth Fund Institute, Euler Hermes

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