ANALYSIS & FUTURE GROWTH DYNAMICS OF QATAR’S ECONOMY

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1. Analysis of Macroeconomic Fundamentals

1.1 Qatar’s GDP Growth expected to improve in 2018: Energy sector and new initiatives in non-energy sectors to drive growth

Qatar’s economy is poised to record a 3.1% real GDP (at constant prices) growth in 2018 according to IMF, supported by the increasing gas production and sustained spending on the FIFA World Cup 2022. Moreover, the retrieval of the global crude oil prices will also have a positive effect on the hydrocarbon and non-carbon GDP of the economy.

After the initial hiccups due to the diplomatic rift with GCC neighbors in June 2017, Qatar has sailed through the repercussions of the dispute with anchored economic confidence, aided by its financial reserves and infrastructural strength. The country has continued to grow, driven by strong government spending and steady private sector investment, where investors have taken a medium to long term view of the market opportunity. The sustained growth has also been supported by rising oil prices.
Oil and gas receipts, which forms the main revenue source for the government, continued to increase during the second half of 2017. These receipts were largely unaffected by the regional dispute with delivery of gas to the UAE through the Dolphin pipeline remaining uninterrupted.

Despite its vulnerability to the global oil price fluctuations, the country, through its prudent spending in the years of fortune before 2015, has gained an advantageous position compared to other oil exporting countries. The fiscal deficit was second lowest in the GCC region even during the period of low oil and gas price as the breakeven oil price of Qatar is much lower in comparison to the Gulf Cooperation Council (GCC) average.
1.2 Inflation to rise in 2018 factoring the introduction of VAT

Inflation for the year 2017 estimated to be as low as 0.9%. In 2018, the GCC-wide initiative for implementation of VAT is expected to make the Qatar's light tax system more onerous and raise the annual rate of inflation for 2018 by 4.8%.

Figure 3: Qatar Inflation Analysis, 2013 – 2022

Source: National Statistics Office, Qatar Ministry of Development Planning and Statistics, IMF, ConsTrack360
1.3 Qatar sustains high investment grade rating

Owing to its sturdy asset position and low fiscal deficit compared to its GCC peers, Qatar has sustained high investment grade rating for the overall year of 2017. The yield on government 2026 bond increased from around 3.2% in Q2 2017 to 3.6% in December 2017. By the end of 2017, the bond yield earned a 10-30 bps premium against Abu Dhabi, Kuwait and Saudi Arabia.

In 2018, the government is expected to continue to tap international markets accumulate its foreign reserves and refinance US$2 billion of Sukuk, a major government debt instrument.

Figure 4: Qatar Gross Debt Analysis - Market Size & Forecast by Value (QAR Billion), 2013 – 2022

Source: Ministry of Finance or Treasury, IMF, ConsTrack360
1.4 Deposits – state funds and private sector driving growth

The government has induced US$27 billion through public sector deposits. Private sector deposits have remained strong overall in 2017. The growth of deposits over the next two years is expected to be driven by both private and state funding.

**Figure 5: Qatar Government Spending - Market Size & Forecast by Value (QAR Billion), 2013 – 2022**

Source: Ministry of Finance or Treasury, IMF, ConsTrack360
1.5 Equity market outlook is optimistic for the year 2018

Owing to the optimism on account of budget for 2018, fuelling and backing the economic growth, equity market outlook is optimistic. Medium term outlook of the Qatar’s stock market is positive and expected to attract investments from private sector.

Figure 6: Qatar Foreign Direct Investments Analysis – Inflow & Outflow (QAR Billion), 2013 – 2017

Source: Ministry of Development Planning and Statistics, ConsTrack360
2. Key Insights from Qatar’s 2018 Budget

This chapter provides a summary of Qatar’s strategic focus based on 2018 budget.

2.1 Strong focus on driving economic growth through diversification in 2018

Showing no signs of crisis, Qatar’s budget 2018 sends a strong message to the boycotting Arab states that the country will not succumb to the economic pressures. Turning the challenge into an opportunity to grow, Qatar extended its focus to expand and develop different sectors and embraced various major projects like the opening of one of biggest ports in the region Hamad Port.

With a special focus on diversifying revenue inflow from non-hydrocarbon sector, increasing participation from the private sector in the economic growth and developing the local industries is an indication of the economy’s efforts to achieve self-sufficiency. The government has also hiked the allocation for the salaries and wages segment by 8.8% in 2018 budget compared to last year, amounting to QAR52.2 billion.

Qatar also encouraged the industrial sector by offering various incentives such as fees exemption on raw materials, machinery, spare parts and equipment for the industrial establishments, particularly the small and medium sized industries. The government also ensured constant backing and developmental opportunities for industries in sectors including knowledge industries, environmental industry, pharmaceutical and food sectors, and manufacturing industries to contribute more to the gross national income. These incentives and efforts of the government resulted in investments of more than QAR260 billion for about 730 industrial enterprises.

Another prime example of country’s diversification efforts is its attempt to create a hub for educational excellence through Education City, to be built in the outskirts of Doha. The project aims to bring in various foreign universities to collaborate with local institutions to improve on the quality of education and attract more non-residents for educational purpose. Various western universities including HEC Paris and University College London have already become a part of the Education City project.

Amongst the various industries, the following are expected to be growth drivers for the economy in the coming years:

- **Infrastructure construction sector**: Among the non-hydrocarbon sectors, construction industry is poised to drive the growth of the economy owing to investment opportunities offered by the projects related to FIFA World Cup 2022. The preparations for the games are going on full swing with US$500million being spent every week for infrastructure construction including roads, sewage works, hotels and stadiums. Some of the other key projects include the following:
  - Lusail City Development Project – With an estimated budget of US$45 billion, Lusail City Development project is one of the most significant project happening in Qatar.
  - Doha Metro Project – The Doha Metro project is a large scale, ambitious project to build a completely new railway network with an overall length of approximately 300 kms. The project in-progress in the Greater Doha region involves an investment of US$36 billion and is expected to be completed by 2020.
  - Hamad International Airport Expansion – Extension of the existing Hamad International airport is another project that is driving the construction industry growth in Qatar with a project cost of US$15.5 billion.
Msheireb Downtown Doha Regeneration Project – This is one of the most significant mixed-use regeneration project aiming transformation of the old business and commercial district of downtown Doha to a community based living of a new architectural style.

- **Tourism industry:** Qatar’s diversification strategy as part of its Vision 2030 envisions making tourism industry among the main growth drivers of the economy. With a vision to increase the number of visitors to more than 7 million annually by 2030, the country has taken various initiatives including promotional campaigns and establishment of representative tourism offices in various capitals globally. Qatar, in an effort to propel tourism sector, has announced visa exemption for citizens of 80 countries. The revenue generated from tourist spending has posted strong growth. It was estimated to be over US$10 billion in 2017, with an increased share of leisure tourism to 64%, compared to tourist spending of US$1.3 billion and share of 27% in 2012.

- **Barzan Gas Project:** The energy sector is expected to significantly increase its contribution to the economic growth in 2018 with recovery in oil and gas prices, and further supported by the Barzan gas project. Developed as a joint venture between ExxonMobil and Qatar Gas, the Barzan gas project is a US$10.4 billion project that has the capacity to increase the gas production of Qatar by 1.4 billion cubic feet per day. The start-up of the project will scale up the total gas production capacity of Qatar by 20% and can give a 4% boost to the real hydrocarbon sector GDP.

### 2.2 Bigger role for private sector in economic growth

The budget gives significant focus towards encouraging private sector to have a bigger contribution in the implementation of various projects bolstering economic growth. As a step towards greater privatization efforts, the budget supports new contracts worth QAR29 billion in private sectors. Allocations of funds are also directed towards development of economic and free-trade zones, expansion of SMEs, and logistics development for agricultural and food security projects.

### 2.3 Government spending in infrastructure sector is expected to provide new market opportunities

A major chunk of this budget allocation is directed towards transport and infrastructure projects representing 21% of the total spending, amounting to QAR42 billion. This will be used to expand electricity and water networks, and develop infrastructure projects including Lusail Light train, Orbital Expressway, Al Khor Coastal Road, Metro, Al Bustan highway, and Al Rayyan/Dukhan Road.

Allocations of approximately QAR12.5 billion has also been made for development of land for Qatari including water, sewerage, electricity, road, and other infrastructure for a three-year period from 2018 to 2020. The budget also allocates funds for housing development of around 3,000 houses for Qatari nationals, which is expected to boost real estate sector.

### 2.4 Spending on education and healthcare remains strong

With an allocation of QAR22.7 billion, the health sector accounts for 11.2% of the total expenditure directed towards funding major healthcare projects including expanding emergency hospitals, Hamad Medical Corporation (HMC) facilities, and primary healthcare centres. Building up new healthcare centers is also one of the budget agendas costing approximately QAR2.9 billion over the next five years.
The spending on education sector has been increased by 18%, as compared to 2017, with a total outlay of QAR19 billion in the Budget 2018. This will be used to fund some of the major educational projects underway in the field of engineering, medicine, law, and pharmacology of Qatar University. The fund also includes QAR6.8 billion for launch of new schools over the next five years.

2.5 Sound financial plans

Aiming to reduce budget deficit by 1.1% to QAR28.1 billion from QAR28.4 billion in 2017, the budget has sound financial plans for increase in revenue generation. With approximately 46% of the expenditure totalling at QAR93 billion marked for major projects, the revenue is projected to increase by 2.9% to reach QAR175.1 billion in 2018. As a move towards upholding growth during international oil price fluctuations, the government has followed a conservative approach by assuming the oil price at US$45/barrel.

FIFA World Cup 2022 preparations have also been special focus in the budget with allocation of QAR11.2 billion. This allocation will primarily focus on completing stadiums and other sports projects in Qatar Foundation, Al Wakrah, Lusail, Al Rayyan, and Al Khor.

2.6 Qatar’s macroeconomic fundamentals are expected to continue to remain strong

The rapid growth of the Qatar economy in the past decade, backed by the plentiful oil and gas supplies has resulted in constant fiscal surpluses with the economy recording one of the highest GDP per capita in the world.

The oil and gas prices are expected to rise over 2018 and remain strong over the short to medium term. Consequently, vulnerability to the global price swings is unlikely to pose a risk that can impact the country’s growth. Diversification of its revenue sources is, thus, a key initiative that the economy is focusing on for sustainable growth in future.
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