

Qatar Economic Outlook 2013-2014



وزارة التخطيط التنموي والإحصاء
Ministry of Development Planning and Statistics



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Foreword

This *Qatar Economic Outlook 2013–2014* presents forecasts for 2013 and 2014.

Its assessment confirms the emergent role of the non-oil and gas economy in driving aggregate growth and in shaping other major trends. Declining yields from maturing oil fields, coupled with gas output that is capped by installed capacity, is likely to spell a gradual retreat in output levels of the hydrocarbon economy and a rising share of non-oil and gas. The Ministry of Development Planning and Statistics (MDP&S) expects that a shift from a marginal expansion of oil and gas production in 2013 to incremental decline in 2014 will nudge headline growth down from 5.3% to 4.5% over these years.

Vigorous activity, however, is anticipated in the non-oil and gas economy. Indeed, growth there could accelerate through to 2014. A large infrastructure spending programme that generates demand for cement, steel and other materials, as well as for services, will provide a stimulus to economic activity. A resumption of fast growth of the population, which is expected to climb to 2.2 million or more by end-2014, and an expansionary fiscal stance will also support growth from the demand side.

A rising population and strengthened demand are already nudging up consumer price inflation. In May 2013, prices had increased by 3.5% over 12 months, largely owing to rising residential rents. Although MDP&S expects that inflation will remain above recent historical averages, it does not foresee continuing acceleration. In annual average terms, headline

consumer price inflation is expected to be about 3.6% in both 2013 and 2014.

Once again, the main risks to the short- and medium-term outlook come from outside the domestic economy. Interruptions to the shipping of hydrocarbon cargoes could undermine Qatar's long-term competitive advantages in gas markets. Declining oil prices could also exert a fiscal squeeze—one that might be felt more intensely in the context of rising spending commitments. But a stout net asset position would help to shield Qatar were such risks to eventuate.

Internally, intense construction activity—which places hefty demands on land and other resources, and which may require current infrastructure to be substantially reconfigured—risks imposing congestion-related and other costs on parts of the non-oil and gas economy.

The *Qatar Economic Outlook 2013–2014* could not have been written without the generous cooperation of other agencies. I would therefore like to thank the Qatar Central Bank; Qatar Petroleum; the Ministry of Finance; the Ministry of Economy and Trade; and the Ministry of Municipality & Urban Planning for willingly sharing information and responding to requests for data.

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¹On 26 June 2013, a government restructuring took place which resulted in the merging of the General Secretariat for Development Planning (GSDP) and the Qatar Statistics Authority (QSA) into what is now the Ministry of Development Planning and Statistics. However, all data links and sources in this report refer to the extant GSDP (www.gspd.gov.qa) and QSA (www.qsa.gov.qa) websites, which remain active.

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Qatar: Outlook at a glance

Qatar, outlook at a glance, 2013 and 2014

	2013 ^a	2013	2014
Real GDP growth (%)	4.8	5.3	4.5
Nominal GDP growth (%)	5.3	8.6	4.6
Consumer price inflation (%)	3.5	3.6	3.6
Fiscal surplus (% of nominal GDP)	5.4	8.1	4.7
Current account surplus (% of nominal GDP)	25.7	26.5	21.7

a = Forecasts made in *QEO 2012–2013 Update* in December 2012.
Source: Estimates from the Ministry of Development Planning and Statistics.

Real GDP growth is expected to grow by 5.3% in 2013

The Ministry of Development Planning and Statistics (MDP&S) forecasts that growth of real gross domestic product (GDP) in 2013 will grow by 5.3%, marginally above the forecast released in December 2012's *Qatar Economic Outlook (QEO) Update*.

This uplift is accounted for by a revision in expected output of oil and gas. Pipeline gas production will rise and unscheduled shutdowns (which held 2012's hydrocarbon output in check) are unlikely to be repeated. Performance of the non-oil and gas sector will match earlier robust expectations, growing at 9.8%, with all components (industry, construction and services) performing strongly.

In 2014, upstream oil and gas is expected to contract as output from maturing oil fields tapers off and gas production hits installed-capacity limits. This will shave aggregate GDP growth, which is put at 4.5%. But growth will continue apace in the non-oil and gas economy. While refining and petrochemical activity will see little expansion, cement and metal production will gather momentum, spurred by demand generated by vigorous construction activity, which will support manufacturing growth. A fast-rising population and the requirements of escalating project activity will underpin robust services activity.

Nominal income growth over the forecast period of the *QEO* will be closely anchored to growth in the real economy. Oil prices (to which the price of Qatar's hydrocarbon basket is linked) are expected to remain elevated but seem likely to slip from the levels seen in the recent past.

Per capita income is set to come off recent peaks

Although the level of real GDP is expected to climb, so, too, is Qatar's resident population. Burgeoning infrastructure activity will create the demand for many more workers. With virtually no slack in the domestic labour market, most of these will be hired abroad. By year-end 2013, it could be that Qatar's population approaches the 2 million mark, and a year later about 2.2 million or possibly more. With the population expanding faster than GDP, per capita income (GDP divided by the resident population) is set to decline.

Productivity gaps suggest the potential for a future growth dividend

Each worker in Qatar's non-oil and gas economy produced less output in 2012 than in 2006. At an aggregate level, measured output per head in that part of the economy declined at an annual average rate of 4%.

While some sectors, such as manufacturing, have shown steady productivity advances, declines are seen across many others. Shifts in the structure of output and employment towards activities with lower productivity have also pulled measured overall productivity measures down. However, to the extent that hours worked have declined, the quality of existing products and services has risen, or new services and products are now being produced, headcount labour-productivity measures may mask true economic advances.

But taken at face value, low and declining productivity—and low wages in the non-oil and gas, private-sector economy—raises questions about incentives for investment in mechanisation and skills upgrading, about inducements for citizens to work in the private sector, and ultimately about the desired size and quality of Qatar's expatriate population. It also hints that Qatar could be operating below its potential. Closing the gap to that potential could provide a future boost to growth in the non-oil and gas economy.

Consumer price inflation will rise, but stay moderate

Consumer prices rose by 3.5% in May 2013 compared with the same month in 2012. An end to rental price deflation (the rental price index reached a low in June 2012) and a subsequent pick-up in rents fuelled headline inflation. Increased demand for rental properties—spurred by a rising population—explains rising rents,

particularly in lower- and mid-priced market segments. As rents constitute over 30% of the consumer price index, movements of residential rents reverberate strongly through to the headline figure.

The *QEO* expects that consumer price inflation in 2013 will average 3.6% (against just 1.9% in 2012). This forecast is consistent with somewhat higher inflation in the second half of 2013, but also anticipates that the accelerating inflationary trend seen since the second quarter of 2012 will peter out by end-2013. However, with a rising population and strong demand in the non-oil and gas economy, there is also little immediate prospect of a moderation in inflation. Headline price inflation for 2014 is kept pegged at 3.6%.

Continuing solid fiscal outcomes are expected

Qatar's fiscal position will remain firm, with a surplus of 8.1% of nominal GDP in calendar year 2013. Despite large programmed increases in both recurrent and capital outlays, robust oil and gas revenues as well as enhanced revenue mobilisation through taxes will provide comfortable fiscal headroom. Realised revenues are likely to surpass budgeted revenues, as the latter are based on conservative planning assumptions for oil prices, which at \$65 a barrel are far below current market rates. If disbursements on capital projects fall short of budgeted spending—as happened in 2012—the surplus could exceed the forecast.

The overall surplus is expected to narrow in 2014 in the wake of the substantial increases in capital spending needed to keep Qatar's capital projects on track. If shortfalls appear in 2013 again, some catch-up might also be expected in 2014. The *QEO* factors in further increases in recurrent expenditure, which has been on a steadily rising trend in recent years.

Despite surging imports external surpluses remain strong

A rising population and substantial project-driven demand for capital equipment and construction materials will cause imports to swell in 2013 and 2014. However, while that will eat into the trade and current account surpluses, these surpluses—buttressed by elevated hydrocarbon export earnings—will remain considerable. The current account surplus for 2013 is forecast to be 26.5% of nominal GDP.

External risks remain to the fore

The risks to this outlook emanate largely from external sources. If events took a turn that interfered with Qatar's ability to freely ship its hydrocarbon cargoes through the Strait of Hormuz, this could weaken its competitive advantage in gas markets and reduce the resources available to the state.

Oil prices remain a perennial source of uncertainty. Recognising this, Qatar prepares its budget using conservative forecasts for oil prices. MDP&S estimates suggest that in the face of large future spending commitments, the "break-even" oil price for Qatar will rise, narrowing Qatar's fiscal cushion. Still, Qatar's formidable net asset position and strong creditworthiness would provide stout defences if external developments soured.

Finally, delivery of a large number of big projects in a confined geographical space poses challenges and, unless well executed, could have adverse effects for businesses in the rest of the economy. Congestion, bottlenecks, disruption to services and the prospect of cost escalation for materials might pose difficulties to firms and discourage new investments during a period of intense construction activity.

Part 1 Outlook for 2013 and 2014

Broad-based expansion of the non-hydrocarbon sector will support forecast GDP growth of 5.3% in 2013: services, manufacturing and construction are all seen growing by 10% or more. Faster investment spending, an expansionary fiscal stance and a continuing influx of workers will underpin demand. Output in the oil and gas sector will climb by 1.4%, but favourable prices for Qatar's hydrocarbon basket will mean that the sector (as in previous years) contributes more to the rise of nominal than of real income. In 2014, growth is expected to moderate to 4.5%. Although the non-oil and gas sector will continue to show vigour, with a forecast pick-up in construction, output from maturing oil fields is likely to contract, exerting a drag on overall growth.

Consumer price inflation will step up in 2013—as a rising population pressures property rents—averaging 3.6% for the year. A similar outcome is foreseen in 2014. The balance-of-payments and fiscal surpluses are set to remain healthy, but with higher projected spending the fiscal “break-even” price for oil will rise.

Table 1.1 Qatar, outlook at a glance, 2013 and 2014

	2013 ^a	2013	2014
Real GDP growth (%)	4.8	5.3	4.5
Nominal GDP growth (%)	5.3	8.6	4.6
Consumer price inflation (%)	3.5	3.6	3.6
Fiscal surplus (% of nominal GDP)	5.4	8.1	4.7
Current account surplus (% of nominal GDP)	25.7	26.5	21.7

a = Forecasts made in *QEO 2012–2013 Update* in December 2012.
Source: Estimates from the Ministry of Development Planning and Statistics (MDP&S).

Capsule summary

Table 1.1 provides a capsule summary of the forecasts in this *Qatar Economic Outlook (QEO)* on five key economic indicators for 2013 and 2014, comparing 2013 forecasts with those made in the *QEO Update* in December 2012. (The forecast methodology and assumptions are discussed in box 1.1.)

Economic prospects

Qatar's economy is expected to expand by 5.3% in 2013 (slightly down from 6.2% in 2012) and by 4.5% in 2014. Despite this expansion of aggregate income and output, per capita GDP is set to decline as a result of fast population growth and of slowing labour productivity (box 1.2 and box 1.4 below).

Receding oil production accounts for almost all the growth moderation in 2013 (see just below). Gas production will be capped by capacity constraints while non-oil and gas output will, with some sector variations, broadly maintain the momentum of 2012. Nevertheless, projected growth for 2013 has been revised up from the *QEO Update*, mainly because of a positive revision to hydrocarbon output levels. Output of pipeline gas is expected to be higher in 2013 than projected in December and oil production is expected to fall more slowly, as the oil fields closed for maintenance in 2012 resume operations, and output from Al-Shaheen, the largest of Qatar's oil fields, grows.

Box 1.1 Forecast methodology and assumptions

QEO's forecasts are derived from an internally consistent numerical representation of Qatar's economy, based on standard economic accounting and consistency checks. This framework has been calibrated and updated with known statistical outcomes for 2012. It is based on a flow of funds model of the economy in which all sources of funds from the different sectors of the economy are equal to the total uses of funds.

The forecasts are based on assumptions about the trajectory of oil and gas prices; production volumes of hydrocarbons (including downstream derived products such as petrochemicals, condensates and refined products); the pace of growth of the global economy; government spending patterns; the US dollar exchange rate; and international and domestic interest rates. The major assumptions are shown in the box table.

These assumptions are based on the best assessment of the future, which is made by MDP&S and which draws on expert opinion derived from a wide range of sources. Assumptions about Qatar's interest rates are based on the declared policy of the Qatar Central Bank. Data on budgetary outcomes and prospects are based on information obtained from the Ministry of Finance (MOF).

Data for years beyond the current budget period (FY2013/14) are obtained by extrapolation of the trends in actual government revenue, expenditure and financing, and from information about project activities that will extend into the

future. Assumptions about the external environment are anchored on forecasts by the International Monetary Fund (IMF) in its *World Economic Outlook (WEO)*. Changes in either the base data (estimates for 2012) or assumptions about the trajectory of key variables will affect the results of the QEO's forecasts. The *Risks* section below looks at implications of different oil and gas prices and government investment levels for the projected outlook for 2013 and 2014.

Box table Forecast assumptions

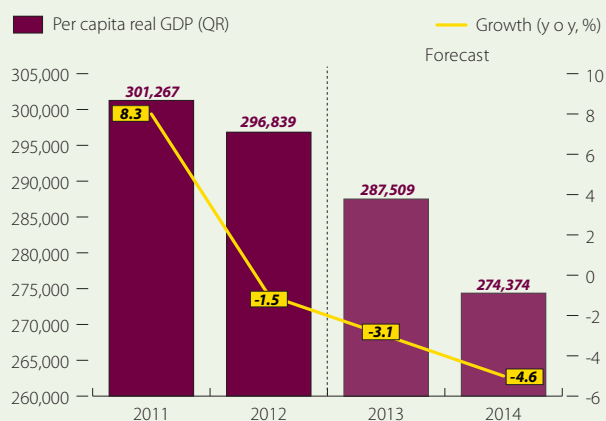
	2012 ^a	2013	2014
Qatar			
QCB's overnight deposit rate (%)	0.75	0.75	0.75
Qatari riyal/\$ exchange rate	3.64	3.64	3.64
Total budget spending (QR billion)	158.5	212.5	245.7
Current	116.3	140.1	159.9
Capital	42.1	72.4	85.8
External environment			
Global growth (%)	3.15	3.3	4.0
US LIBOR, 6-month deposit (%)	0.7	0.5	0.6
Crude oil export price, \$ per barrel	111.1	108.5	103.2
Japanese LNG price, \$ per million British thermal units (mmbtu)	16.6	15.5	15.2

a Preliminary estimates or actual.

Box 1.2 Per capita income

While economy-wide income is set to grow in 2013 and 2014, rapid population growth is likely to mean that per capita income will come off the peak reached in 2011 (box figure 1).

Box figure 1 Real GDP per capita

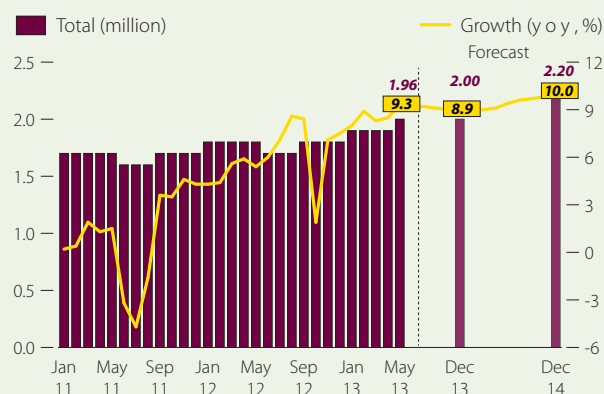


Note: Real GDP per capita is based on year-end population estimates. Sources: (<http://www.qsa.gov.qa/eng/index.htm>) and MDP&S estimates.

[Click here for chart data](#)

The influx of foreign labour is estimated to have raised the population to 1.96 million as of end May 2013, an increase of 9.3% over the same month in 2012 (box figure 2). The upward trend is expected to continue in 2014, with the population reaching about 2.2 million by year end. The bulk of the influx is expected to enter the labour force, with the vast majority entering low-productivity activities such as construction.

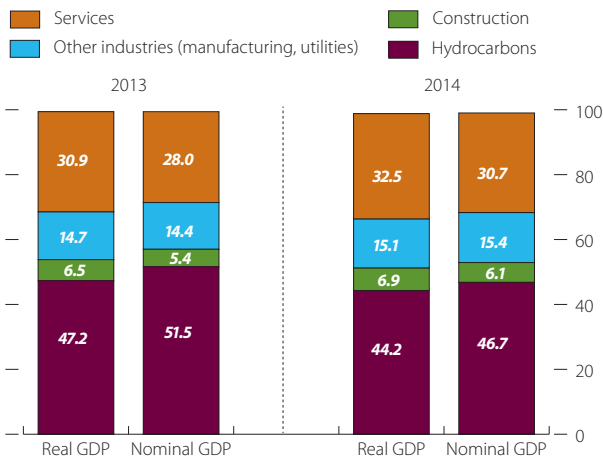
Box figure 2 Population



Source: (<http://www.qsa.gov.qa/eng/index.htm>) and MDP&S estimates.

[Click here for chart data](#)

Figure 1.1 Share in GDP, 2013 and 2014 (%)

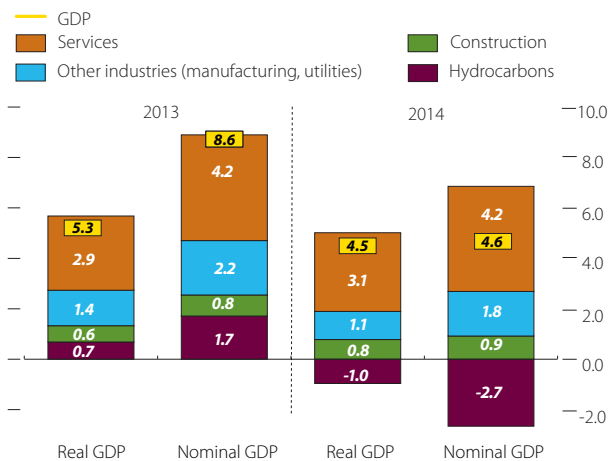


Note: Shares do not sum to 100% as agriculture and indirect taxes are too small to show.

Source: MDP&S estimates.

[Click here for chart data](#)

Figure 1.2 Contributions to GDP growth, 2013 and 2014, (percentage points)

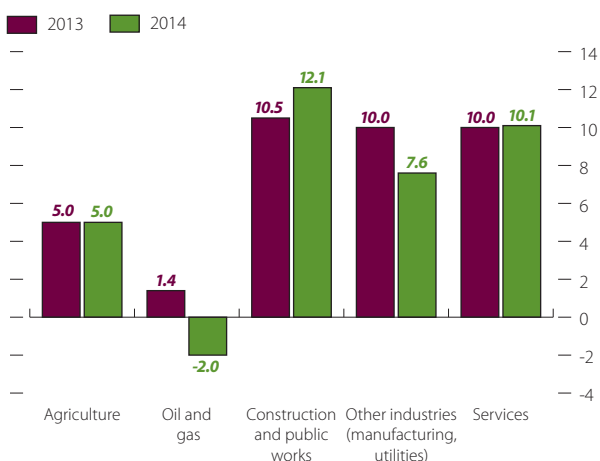


Note: Shares do not sum to 100% as agriculture and indirect taxes are too small to show.

Source: MDP&S estimates.

[Click here for chart data](#)

Figure 1.3 Sectoral growth in the economy, constant 2010 prices (%)



Source: MDP&S estimates.

[Click here for chart data](#)

Over the past few years, both the internal terms of trade (hydrocarbon prices relative to non-oil and gas prices) and the external terms of trade (export prices relative to import prices) have moved substantially in favour of the oil and gas sector, resulting in a much larger cumulative contribution by that sector to nominal than to real income growth. The contribution to nominal income growth is determined largely by external factors, i.e., movements in the price of oil and gas across different markets, while the contribution to real income growth reflects the expansion of oil and gas output, which is largely determined by domestic productive capacity.

In 2013, nominal GDP growth is again expected to be faster than volume growth. Uplift in the expected hydrocarbon export prices received by Qatar, in addition to the higher volume growth, raises the forecast for nominal GDP expansion over the *Update* estimate. But in 2014, nominal growth is forecast to decelerate to 4.6% owing to a predicted dip in global oil and gas prices, and slower real growth.

The share of hydrocarbons in real GDP will remain large but is expected to decline during the outlook period. It is forecast to fall from 49.0% in 2012 to 44.2% in 2014 (figure 1.1), as the sector's growth rate slows to 1.4% in 2013 (from 1.7% in 2012) and output contracts by 2% in 2014. The contraction reflects the continuing decrease in oil production as oil fields mature (box 1.3), and as liquefied natural gas (LNG) production levels out.

Non-hydrocarbon GDP (defined as all economic activity other than upstream oil and gas production) is expected to grow by a robust 9.8% in 2013 and 10.3% in 2014. The growth is expected to be broad based, with services the main contributor, followed by other industries (figure 1.2).

Within the other industries sector (figure 1.3), growth in manufacturing, which accounts for the bulk of other industries' output, is expected to be 10.0% in 2013. Petrochemicals and refining activity contribute over 40% of manufacturing output, with metals and cement accounting for the bulk of the residual. In 2013, availability of additional hydrocarbon feedstock, released from other uses where it was excess to requirements, is expected to lift production of petrochemicals, refined products and fertilisers.

Although little further expansion of these three subcomponents is expected in 2014, overall manufacturing growth is still expected to grow by 7.6% that year. Burgeoning demand by construction for cement and metals will sustain manufacturing's growth.

Construction activity will also be an important driver of real growth in the non-hydrocarbon economy, and is forecast to expand by 10.5% in 2013, accelerating to 12.1%

Box 1.3 Future of oil production

Declining oil production is likely to continue over the short term. Qatar’s offshore fields, particularly Al-Shaheen, which has the largest offshore reserves and production in Qatar, as well as Al-Rayyan and Idd El Shargi, have produced for over 17 years. As they age their yields are expected to decline—likewise with the onshore fields, in production for over 30 years.

However, active consideration is now being given to investments in “enhanced and incremental” oil recovery programmes, which would slow the rate of decline. Initial technical assessments look promising, particularly for Bul Hanine field, and investments are likely to go ahead.

in 2014. The pace of roll-out of Qatar’s large infrastructure spending programme will pick up in the coming years: the government is set to invest heavily in basic infrastructure, particularly transport, including roads, expressways, metro and rail. The construction of new health centres and education facilities will also entail heavy spending.

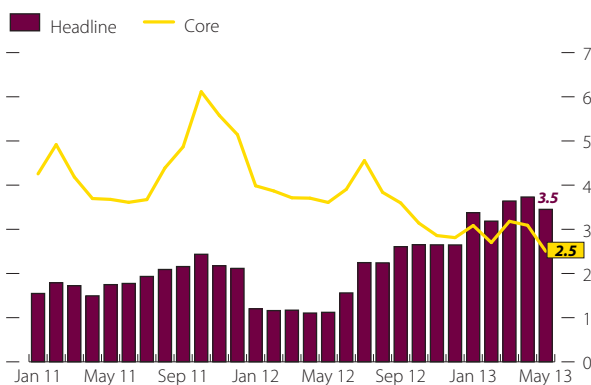
Private construction activity that is centred on residential and commercial buildings, including new malls, hotels and labour accommodation throughout Qatar, will also fuel growth. MDP&S estimates total investment spending on infrastructure from 2013 to 2018 at \$158.9 billion.

The services sector—the largest contributor to growth in 2013 and 2014—is expected to expand by 10.0% in 2013 and 10.1% in 2014. MDP&S’s calculations suggest that Qatar’s population could grow from around 1.96 million (current at end-May 2013) to about 2.2 million by year-end 2014, and anticipated new arrivals will place substantial demand on services, and as well as on utilities. Output in these two sectors is expected to expand to accommodate added demand.

Growth in the financial services subsector should stay on a stable upward path as insurance and Islamic finance continue developing and as banking benefits from the business generated by vigorous construction activity. Trade and hospitality are expected to grow with lively conference activity and an increase in tourist arrivals from within the region. The aviation subsector is likely to see a new wave of expansion. The opening of Hamad International Airport later in 2013 will also boost a range of logistical and service-support activities.

Looking further out, growth in Qatar’s non-oil and gas economy and its competitiveness will increasingly depend on the gains that can be made in efficiency and productivity. Recent trends suggest the potential for a growth dividend—if Qatar can lift productivity in this part of the economy (box 1.4).

Figure 1.4 Monthly headline and core inflation (year on year, %)



Source: MDP&S estimates based on Qatar Information Exchange database (<http://www.qsa.gov.qa/eng/FrequentData/CPI/2013/May/Press%20Release%20of%20CPI%20May%202013%20Eng.pdf>), accessed 13 June 2013.

[Click here for chart data](#)

Inflation outlook

Consumer prices are expected to rise faster in 2013 and 2014 than in 2012, when inflation as measured by the consumer price index averaged 1.9%. The index recorded an increase of 3.5% in May 2013, year on year (figure 1.4). While inflation measured year on year has been rising over the past year, month-on-month data suggest that inflation may no longer be accelerating. Averaged over the year, MDP&S expects inflation to reach 3.6% in 2013 and to remain there in 2014.

Box 1.4 Labour productivity, 2006–2012

Labour productivity in Qatar’s non-oil and gas economy fell at an average annual compound rate of 4% during 2006–2012. This outcome assumes that hours of work have remained more or less stable (see *Data analysis* later this box).

Declining labour productivity may have been influenced by a raft of factors that will prove transient or be later reversed, such as hoarding of labour that is excess to needs in anticipation of a future pick-up in economic activity. (Hoarding makes economic sense when there are high fixed costs of recruitment and the training of new workers is costly.) Recorded changes may also be influenced by the selection of the interval over which productivity has been measured.

The aggregate picture of course masks variations in sector experiences, which the box figure reveals by sector and subsector (or activity), providing a more detailed view.

In several activities, each worker produced less in 2012 than six years earlier. Building and construction—Qatar’s single largest employer—saw declining labour productivity of 2% a year. Much of that retreat occurred in the earlier part of the period, with recent advances partly closing the gap to 2006 levels. In contrast, manufacturing (a highly capital-intensive sector in Qatar, dominated by petrochemicals and refining) improved its labour productivity over the whole period, by an average 4% a year. Somewhat surprisingly, the data suggest an erosion of productivity in finance and associated activities.

But difficult issues beset measurement of service productivity. With the passage of time, the quality of services may improve or benefits may be seen in a wider variety of services on offer, or services may not even be sold in the market—all of which makes it hard to draw firm conclusions from this simple metric. Thus the recorded decline in the headcount metric of productivity in some of the more advanced service subsectors could mask gains accruing through advances in quality and variety. Equally, recorded gains in social and government services need to be interpreted with caution.

Outside oil and gas, the economy is highly labour intensive. In 2006, 94.9% of the labour force produced 54.4% of total non-oil and gas output, a picture that changed little over the six years. Construction employed 39.7% of the labour force yet accounted for just 18.9% of non-oil and gas output in 2012.

Estimates of construction employment may indeed be inflated (some workers assigned to the sector may actually be working in low value-added trading activities), but United Nations data on construction

employment and output show that labour productivity in Qatar’s construction is far lower than regional and global benchmarks. If output and employment in oil and gas (a highly capital-intensive sector) were added to this picture, it would amplify observed imbalances.

Although labour productivity measures need to be interpreted with care, if these data reflect inefficiencies and a non-oil and gas economy operating below its potential, they could point to potential dividends to be reaped from investing in mechanisation and skills upgrading in the non-oil and gas economy. Such investments are, however, unlikely to occur spontaneously and would require changes in the incentives faced by various actors in Qatar’s labour market.

From a longer-term perspective, falling productivity (and the persistence of low wages) raises issues about future competitiveness, the incentives for investment in knowledge and human capital, the attractions of private sector employment for citizens, and indeed, for the size and quality of the expatriate labour force in Qatar.

Data analysis

Qatar labour force surveys—the last survey was conducted in April 2012—capture important information such as labour force participation rates among the working-age population; workers’ age, gender and educational characteristics; main activity of employment; occupation and skill characteristics; and earnings. Households, including collective households, are the basic reporting unit. The survey methods follow the

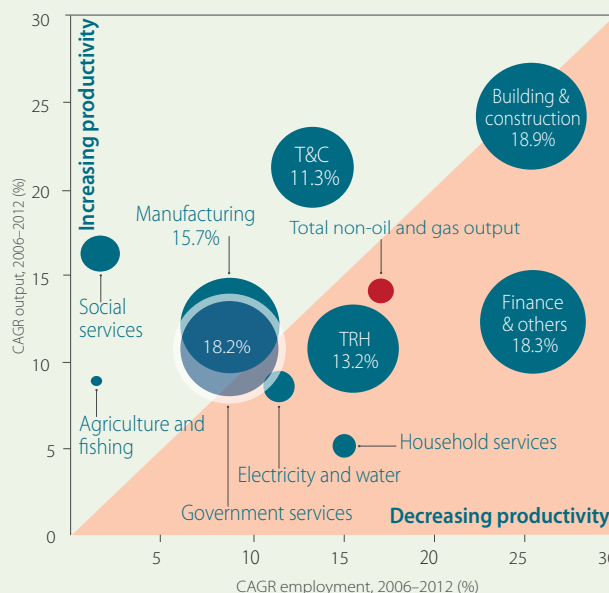
guidelines and standards of the International Labour Organization, which aids international comparability. Sample data are grossed up to estimate totals for the entire economy.

Dividing annual national accounts estimates of value added by labour force survey estimates of total employment in the same activity produces headcount measures of labour productivity by activity.

Such measures have limitations, of course. They do not, for example, capture variations in hours of work and if, say, hours of work decline—a pattern observed in many advanced economies—a headcount measure will tend to underestimate productivity levels.

Similarly, measurement errors are likely in assigning workers to major economic activities (although they are unlikely to be large enough to materially alter the findings).

Box figure Non-oil and gas labour force productivity by activity, 2006–2012



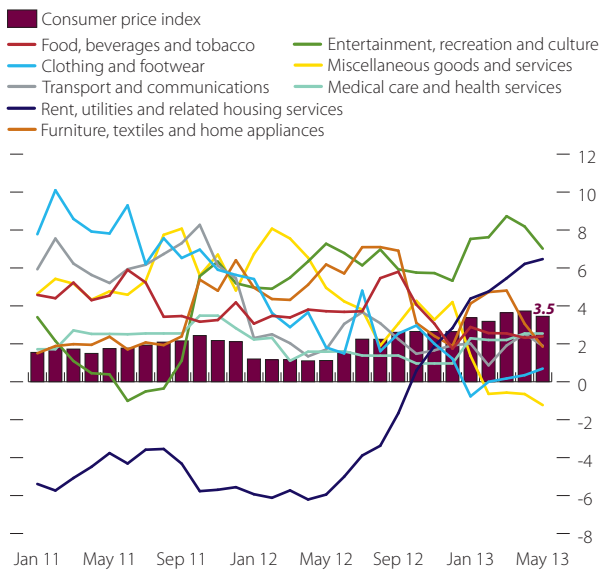
CAGR = compound annual growth rate; T&C = transport and communications; finance & others comprises finance, insurance, real estate and business services; TRH = trade, restaurants and hotels.

Each bubble represents an activity, whose percentage share in total non-oil and gas output, given in the bubble, is depicted by that bubble’s area. In cumulative annual averages over 2006–2012, the vertical axis records growth in sector output, and the horizontal axis growth in headcount employment. Observations above the 45-degree line indicate advances in sector labour productivity; those below, declines.

Sources: Qatar labour force surveys and national accounts data.

[Click here for chart data](#)

Figure 1.5 Monthly inflation (year on year, %)



Source: MDP&S estimates based on Qatar Information Exchange database (<http://www.qsa.gov.qa/eng/FrequentData/CPI/2013/May/Press%20Release%20of%20CPI%20%20May%202013%20Eng.pdf>), accessed 13 June 2013.

[Click here for chart data](#)

This pick-up over 2012 is primarily due to rising rental costs, an index component that accounts for 32% of the basket, as well as climbing entertainment, recreation and culture, which has an 11% weighting (figure 1.5). The reversal of a declining trend in rental costs means that core inflation—which excludes rents, utilities and food—is likely to fall below the projected headline rate (in 2013), for the first time since 2008. Factors that would help to contain domestic price pressures include a firming of the US dollar against major trading currencies, and a boost to global food crop production due to more favourable weather patterns than seen in 2012.

Inflationary pressures are unlikely to abate in 2014 as demand continues to build in the local economy. A continuing influx of foreign labour needed to work on Qatar’s large capital projects programme may push rental prices still higher, especially in “affordable to middle-income” housing, where availability is tighter.

Fiscal outlook

Qatar’s approved budget for the current fiscal year (1 April 2013–31 March 2014) authorises record expenditure, 17% above the budget for the previous fiscal year (FY2012/13). The bulk of the increase is in current spending, with wages and salaries growing by 20%, although budgeted capital expenditure also rises by 17%.

For this outlook, calendar rather than fiscal year forecasts are made of government revenue and spending. In calendar-year terms, and comparing actual outcomes in 2012 with expected outcomes in 2013, total government expenditure for 2013 is forecast to rise by 34.1%. But even with this sharp rise in outlays, an overall surplus of 8.1% of GDP is still expected in 2013, followed by 4.7% in 2014. Solid hydrocarbon receipts and continued growth of taxes will support revenues. Tax revenue is projected at 7.4% of GDP in 2013 (up a notch from 2012), rising to 8.3% in 2014.

The non-hydrocarbon deficit (total expenditure minus non-hydrocarbon revenue) is forecast to be 11.0% of GDP in 2013. It will be financed by revenue from hydrocarbons. In that sense, and despite an anticipated overall sizeable budgetary surplus, fiscal policy is likely to be expansionary. The government’s objective is to finance its entire budgetary operations through non-hydrocarbon revenue by 2020.

These fiscal forecasts assume that government-spending targets are largely met. Yet in FY2012/13, capital spending fell far short of what had been budgeted. Targeted spending for FY2013/14 constitutes a 75% increase in outlays over actual spending in FY2012/13. Thus if

disbursements again fall short of budget, this will—if other things remain equal—add to the projected fiscal surplus.

Outlook for the balance of payments

The external current account surplus is expected to drift down in 2013 and 2014, but remain voluminous, at 26.5% of GDP in 2013 and 21.7% in 2014, against 31.4% in 2012. A reduction in hydrocarbon export revenue coupled with strong demand for imports, driven by investment and a rising population, will narrow the surplus.

These developments and an expected outflow of capital to finance investments abroad will lead to an overall surplus that declines to \$3.0 billion in 2013 and to \$0.8 billion in 2014, down from \$4.7 billion in 2012. Gross foreign reserves are expected to stay at 5.8 months of imports in 2013, falling slightly to 5.7 months of imports in 2014.

These estimates were made before June's decision by Morgan Stanley Capital International (MSCI) to upgrade Qatar's equity market to "emerging" from "pioneer" status. But as this reclassification does not come into effect until May 2014, the headroom for additional foreign inflows into the market is still limited, and as some institutional investors are already present in the bourse, any additional capital inflows from institutional investment funds are unlikely to materially alter the balance-of-payments outlook (box 1.5).

Risks to the outlook

The outlook for the forecast period is generally favourable, but is subject to downside risks. The probability of the risks being realised is low—but if they do hit, their impact could be considerable.

Qatar is susceptible to the effect of spillovers from the world economy through trade and financial channels. Its prosperity depends, self-evidently, on gas and oil production and exports. Any disruptions to LNG transport due to a temporary closure of the Strait of Hormuz, could have major repercussions throughout the economy. The availability of large financial resources provides some room for Qatar to withstand such events (if they materialised), but protracted disruption could weaken Qatar's established competitive advantage in global gas markets.

Downside risks to hydrocarbons prices are another, but perennial, cause of concern. The damage to fiscal balances that would be caused by much lower oil prices is, in future, likely to be amplified by elevated spending commitments, which will narrow Qatar's fiscal buffers.

Box 1.5 MSCI Qatar Index upgraded to emerging market status

On 11 June 2013, MSCI announced that it would upgrade and reclassify the Qatar bourse's index, giving it "emerging market" status.

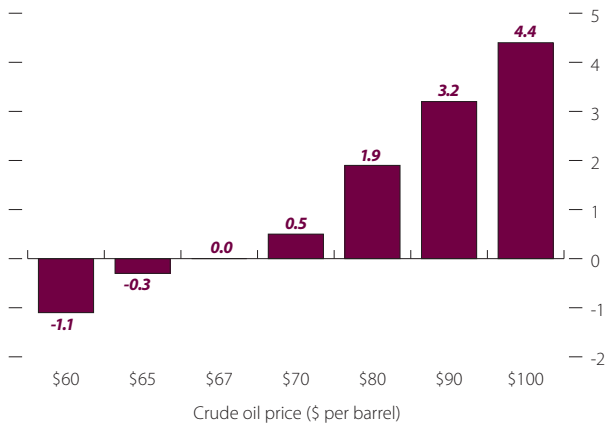
This decision follows initiatives that Qatar Exchange has taken to improve market organisation, operational efficiency and regulation, and its implementation of a functional delivery-versus-payment mechanism. The upgrade may also have been influenced by the moves by major Qatar corporations to lift existing ceilings on foreign equity ownership.

The revised classification will come into effect in May 2014. Qatar should have a weight of about 0.45% in MSCI's emerging market index.

As a result of the upgrade, institutional investors managing emerging market portfolios will now try to increase their presence in the Qatari market. Analysts' estimates of the additional capital attracted to the market range widely from \$350 million to \$1 billion, but such flows are likely to arrive gradually and should not pose serious challenges for liquidity management or materially influence balance-of-payments outcomes.

Opportunities to tap foreign institutional capital will benefit both established companies and those seeking to list on the exchange for the first time. Over the longer term, the increased scope for foreign participation in the market should enhance its depth and liquidity, and support private sector development.

Figure 1.6 2014 Fiscal balance under different oil and gas prices (% of GDP)



Source: MDP&S estimates.

[Click here for chart data](#)

Based on forecasts for 2014, which foresee far higher spending outlays than in 2012 and 2013, MDP&S estimates that Qatar’s “break-even” oil price for fiscal balance in 2014 would be \$67 a barrel (figure 1.6). This calculation assumes that prices received for gas cargoes move in step with oil prices. Heavier spending, perhaps triggered by cost uplifts of projects, would also eat into the projected surplus, raising the break-even oil price. MDP&S calculates that an increase in capital outlays of 10% relative to the baseline forecast could (for given revenues) cut the fiscal surplus by one full percentage point of GDP in 2014. Still, although the fiscal surplus could narrow sharply in response to a conjunction of lower oil prices and higher budget outlays, risks to the surplus on the current account of the balance of payments would be distant.

The final risk to be considered comes from the scale and complexity of Qatar’s planned infrastructure project portfolio, as it presents challenges for logistical management and coordination, especially within such a confined geographical space. A variety of stresses could emerge that would hit business in other parts of the economy. The success of current efforts to strengthen how asset delivery is coordinated and managed is important to ensuring that the wider economy continues functioning with least disruption during a period of intensive construction activity.

Consensus forecasts

Following the practice initiated with the first QEO in June 2012, MDP&S continues to poll third-party forecasts on Qatar’s economy to showcase what others believe to be Qatar’s prospects in the near future. A consensus—or representative—view of Qatar’s prospects is obtained as the mean/median of all the projections polled. Consensus estimates are calculated for real and nominal GDP growth and consumer price inflation, the indicators mostly commonly reported for Qatar (table 1.2).

For Qatar’s real GDP growth in 2013, the consensus mean forecast is 5.4%. Views range widely from 4.2% (IHS Global Insight and JP Morgan) to 8.3% (Citigroup). The consensus view is that real GDP growth will accelerate to 5.7% in 2014. The range of forecasts for 2014 is somewhat tighter, within a 3.6 percentage point margin.

For nominal GDP growth in 2013, slower growth in the volume of the hydrocarbon exports coupled with a lower outlook for oil prices in 2013 takes down the consensus to 6.0% in 2013, followed by a small decrease to 5.9% in 2014.

In terms of consumer price inflation, the consensus mean forecast for 2013 is 3.5%, rising by 0.5 percentage

Table 1.2 Poll of economic forecasts for Qatar, 2013 and 2014, as of 30 May 2013 (%) *

Economic forecaster	Real GDP growth		Nominal GDP growth		Inflation	
	2013	2014	2013	2014	2013	2014
Bank of America Merrill Lynch (May 2013)	5.0	4.9	...	...	2.0	2.5
Business Monitor International (Feb 2013)	5.0	5.9	9.0	10.9	3.5	...
Citigroup (Mar 2013)	8.3	7.2	10.7	13.7	3.0	3.0
Economist Intelligence Unit (May 2013)	4.7	5.0	4.1	2.2	3.1	4.0
EFG Hermes (Feb 2013)	5.4	7.6	6.2	12.9	3.5	4.2
Emirates NBD (Jan 2013)	5.2	...	6.1	...	4.5	...
Fitch Ratings (May 2013)	7.0	7.1	3.2	5.0	4.2	5.0
HSBC (Apr 2013)	6.5	6.5	2.9	-1.0	4.7	5.0
IHS Global Insight (Apr 2013)	4.2	4.8	3.3	2.8	3.5	2.7
Institute of International Finance (May 2013)	5.1	5.3	6.9	8.9	3.0	3.6
IMF (Jan 2013)	5.2	5.0	3.7	4.4	3.0	4.0
JP Morgan Securities plc (May 2013)	4.2	4.0	...	...	3.6	4.9
National Bank of Kuwait (Jan 2013)	5.0	4.9	5.1	5.5	3.4	4.0
Oxford Economics (Apr 2013)	5.0	6.0	12.9	5.4	3.9	4.3
Qatar National Bank (Mar 2013)	6.5	6.8	4.0	-1.0	3.7	4.1
Roubini Global Economics (Mar 2013)	5.0	5.0	...	...	2.7	3.0
SAMBA (Dec 2012)	5.2	5.4	5.0	7.0	4.5	5.5
Standard and Poor's (May 2013)	6.0	5.5	7.1	6.6	3.0	3.5
Standard Chartered (Mar 2013)	4.9	4.8	...	...	3.8	5.1
Consensus (mean)	5.4	5.7	6.0	5.9	3.5	4.0
Median	5.1	5.4	5.1	5.5	3.5	4.0
High	8.3	7.6	12.9	13.7	4.7	5.5
Low	4.2	4.0	2.9	-1.0	2.0	2.5
Standard deviation	1.0	1.0	2.9	4.5	0.7	0.9
Coefficient of variation (%)	18.6	17.9	48.7	76.2	19.3	22.2

* To include your institution's forecasts in future compilations of this table, please contact smaalouf@gspd.gov.qa.

... = No estimates for particular year/indicator.

Note: The World Bank and other forecasters that quote *WEO* and other secondary sources have been removed from this table.

Source: Consolidated from various reports and news articles.

points to 4.0% in 2014. The higher inflation rates echo the widely accepted notion that the trend of low steady inflation experienced in the past few years is set to reverse and that prices will rise in the near future. Rents are already going up and the high population influx in 2013 and 2014 will raise demand for and hence the cost of services.

The dispersion of estimates (as measured by the coefficient of variation) around the consensus value remains quite large, as identified in previous *QEOs*. In particular, the coefficient of variation for nominal GDP is striking, at 76.2% for 2014.

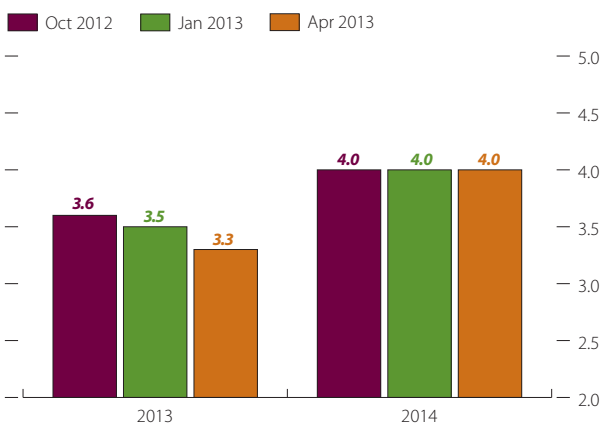
The wide range of nominal GDP forecasts stems from the differences in oil price assumptions underlying the projections. Oil prices movements are extremely difficult to predict (as seen in box 1.7 below).

For 2013, MDP&S's expectations are that real GDP growth will be somewhat lower than the consensus estimate, owing to assumptions about developments in the hydrocarbon sector. As for nominal GDP, MDP&S projects a higher growth rate than the consensus view, a result of the complexities in determining the expected realised price for Qatar's hydrocarbon export basket.

For 2014, however, the consensus values for both real and nominal GDP are larger than those predicted by GDSP (see *Economic prospects* above), again because of the underlying assumptions for volume and prices of hydrocarbon products.

MDP&S expects slightly faster inflation in 2013 than the consensus figure, based largely on the rapid escalation of rents already seen in high-frequency monthly data. However, it anticipates that inflation will not grow much in 2014, falling under the consensus forecast for that year.

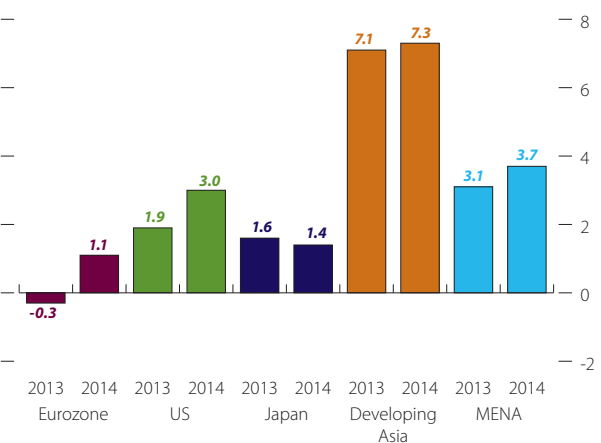
Figure 1.7 Global real GDP growth projections (%)



Source: IMF WEO April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013.

[Click here for chart data](#)

Figure 1.8 Regional real GDP growth projections (%)



Source: IMF WEO April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013.

[Click here for chart data](#)

Global economic prospects

In its *World Economic Outlook (WEO)* of April 2013, the International Monetary Fund (IMF) revised down its forecast for 2013's global economic growth to 3.3%, a decrease of 0.2 percentage points from its January prediction, which was itself 0.1 percentage points below the October 2012 projection (figure 1.7).

The revision reflects a slower than expected global economic recovery in the first quarter of 2013. The pace may gather steam in the second half of 2013 as the "fiscal cliff" appears to have been avoided in the US and the threat of a eurozone breakup has receded. In Japan, a new central bank governor has set a new growth-focused policy. Robust growth in emerging markets, a pick-up in demand in China and recovery in the Middle East and North Africa (MENA) from the destabilising effects of the Arab Spring will help to bolster global growth in 2014, to 4.0% (unchanged from the two previous forecasts).

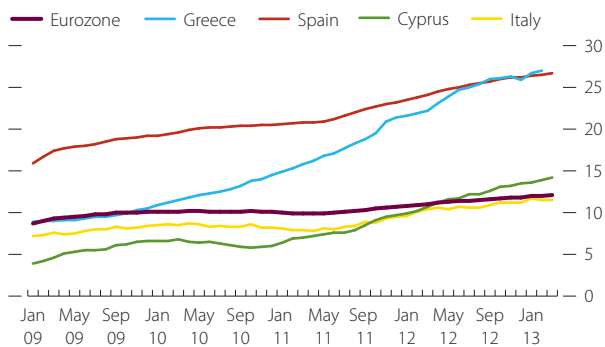
Within the global average, the IMF has revised down 2013's growth rates for all major regions, except for Latin America and Developing Asia. Notably, growth for the eurozone and US were downgraded by 0.2 percentage points each. (Inflation is discussed in box 1.6 below.)

Eurozone. The bloc continues to battle recession (figure 1.8). The downward revision in the forecast growth rate stems not only from a weak periphery but also signs of weakness at the core, with slowdown in Germany and likely contraction in France.

The periphery continues to suffer. Although the risk of a Greek exit from the currency union has receded, the country has entered its sixth year of recession. A banking crisis in Cyprus was the latest in a string of financial crises that hit the bloc, although a bail-out was reached in March 2013.

The responses by the European Union authorities in managing the financial crises remain reactive, formulated case by case, and often when the financial

Figure 1.9 Unemployment, eurozone (%)



Source: EuroStat Statistics database (http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_m&lang=en), accessed 26 May 2013.

[Click here for chart data](#)

markets force them to act. The lack of a framework for managing financial crises and the absence of political will to create a banking supervision union pose risks to the financial integrity of the eurozone. This is particularly worrisome as banks in other eurozone countries, including the far bigger economies of Italy and Spain, may eventually require bail-outs and other forms of financial support.

Spain is in a double-dip recession with unemployment reaching 27% in April 2013. Unemployment has continued to rise across the eurozone, reaching record rates in Greece, Italy and Cyprus as well (figure 1.9). Nonetheless, it is expected that as the current phase of fiscal consolidation is completed, recession could start to bottom and growth resume late in 2014.

Still, risks to economic recovery in the bloc abound, including a deterioration in Spain's political and economic environment, negative sentiments in international markets (following the formation of a new coalition government in Italy) and lack of political will in Germany to continue to support Greece—especially in light of the signs of slowdown in the German economy.

United States. The latest *WEO* expects US growth to dip in 2013 to 1.9% (see figure 1.8). This forecast was made before some more recent positive data, however, which show that consumer optimism in the country is high: US home prices posted their largest year-on-year gain in April since 2006 and financial markets ended May at record highs.

Growth was stronger than expected in the first quarter of 2013 at 2.5% according to the Department of Commerce, and the Labor Department reported that 175,000 jobs were added in May 2013, an improvement on April's (revised) 149,000. However, May's job growth was still below market expectations and, more important, lower than what is needed to boost the recovery (the unemployment rate rose by 0.1 percentage points to 7.6%).

Moreover, although the deal reached in the US Congress in early 2013 forestalled the immediate impact of the fiscal cliff, no progress has been made in alleviating "sequestration", or across the board cuts to federal spending, the effects of which, including job losses and subsequent slowdown in growth, are expected to kick in in the second half of the year.

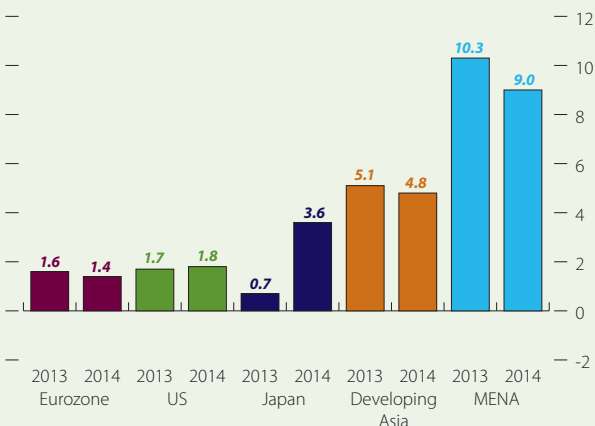
The net adverse impact of these factors may be mitigated by continued quantitative easing (QE) by the Federal Reserve. The current, third round of QE is set to remain in place at least until the end of 2013 and perhaps through 2015, with exit from the policy unlikely until clear signals of economic recovery are discernible. However, even with the more recent favourable developments, the

Box 1.6 Forecasts for inflation, 2013 and 2014

Inflation is projected to remain contained in 2013 and 2014 in all regions, as demand pressures recede in advanced economies and a positive outlook on the supply and stockpiles of both fuel and non-fuel commodities implies lower global commodity prices. Little inflation is expected in food prices, as supplies benefit from better weather prospects.

The *WEO* of April 2013 expects Japan to see a return to inflation in 2013 that will then accelerate in 2014 (box figure), owing to QE, a higher inflation target and fiscal reforms. In MENA, sliding commodity prices will contribute to a decline in inflation from 2013's double digits.

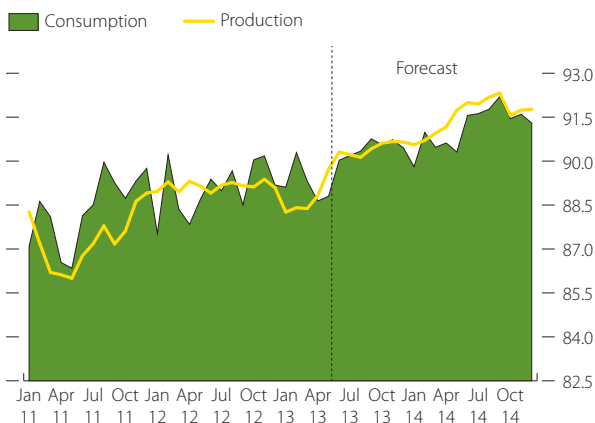
Box figure Annual inflation projections (%)



Sources: IMF *WEO* April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013; for MENA, IMF, *Regional Economic Outlook Update: Middle East and North Africa: Defining the Road Ahead* (<http://www.imf.org/external/pubs/ft/reo/2013/mcd/eng/pdf/mena0513.pdf>).

[Click here for chart data](#)

Figure 1.10 International crude oil and liquid fuels, global demand and supply (million barrels per day)



Source: EIA *Short-Term Energy Outlook* database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 9 May 2013.

[Click here for chart data](#)

balance is likely to be on the downside, supporting the *WEO*'s downward revision to the 2013 growth forecast.

Japan. A shift to growth-focused policies is under way. In April 2013, Japan took a surprise decision to bolster growth through QE and pursue a healthy inflation target of about 2%, with the hope of effectively reversing 15 years of deflation. The jury on the adequacy of these policies and on the political will to continue them as necessary is still out, however.

Developing Asia. The IMF expects steady growth in developing Asia, given a return to a healthy pace of domestic demand expansion in China, and policy improvements in India. The *WEO* forecasts growth in developing Asia of 7.1% in 2013, slightly accelerating to 7.3% in 2014.

MENA. The April 2013 *WEO* revised down the earlier *WEO*'s 2013 GDP growth forecast for the region to 3.1%. Unlike previous years, the gap between growth rates between oil exporters and oil importers is expected to narrow from 3.8 percentage points in 2013 and 0.5 percentage points in 2014, and to disappear by 2014.

This closing is mainly due, among oil-exporting countries, to slower growth as fuel prices weaken in the face of higher global fuel stockpiles and as geopolitical risks diminish; and among oil-importing countries, to a modest resumption of GDP growth as they shrug off the effects of social unrest in the wake of the Arab Spring. However, a further escalation of the conflict in Syria could dampen this outlook.

In 2014, MENA's GDP growth is expected to accelerate to 3.7%, supported by strong government spending in oil-exporting countries and a more stable political environment in the oil-importers.

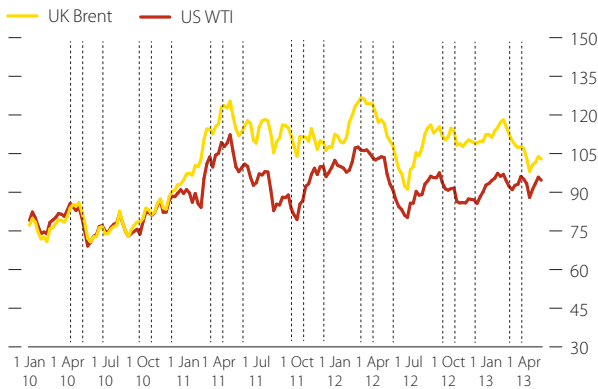
Prospects for energy and commodity markets

Oil prices

The commodities price "supercycle", which has seen oil prices (among others) shoot up since 2001, could reverse in the near future owing to increasing supply and slower growth in demand.

Although world oil consumption was higher than production in the first quarter of 2013, the US Energy Information Administration (EIA), in its May 2013 *Short-Term Energy Outlook*, expected the demand–supply position to switch in the second quarter. Global supply is expected to rise further in 2014, comfortably matching the foreseen rise in demand (figure 1.10) that would

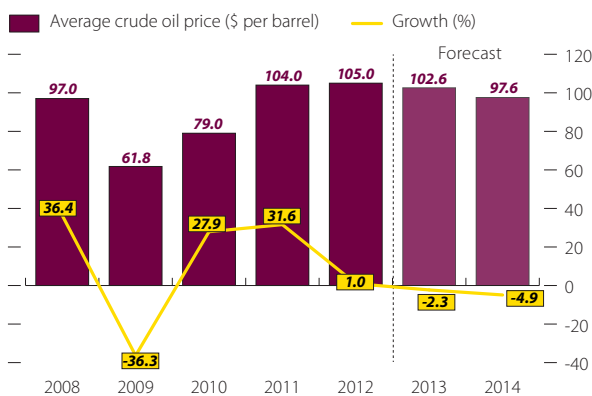
Figure 1.11 Average weekly crude oil spot price (\$ per barrel)



Source: EIA Short-Term Energy Outlook database (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_w.htm), accessed 30 May 2013.

[Click here for chart data](#)

Figure 1.12 Average crude oil price

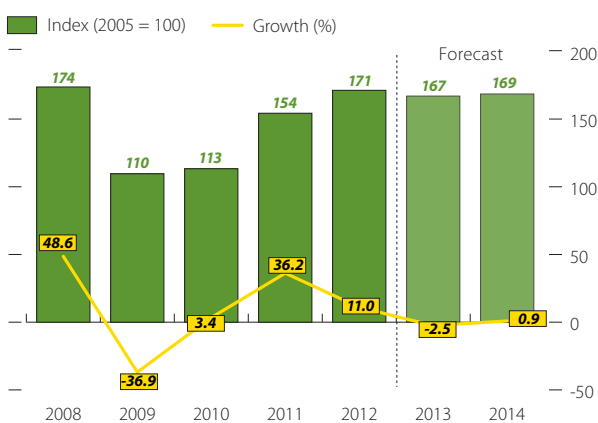


Note: Average crude oil price is the simple average of three spot prices: Dated Brent, West Texas Intermediate and Dubai Fateh.

Source: IMF WEO April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013.

[Click here for chart data](#)

Figure 1.13 Natural gas price index



Note: The index includes European, Japanese and US natural gas price indices.

Source: IMF WEO April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013.

[Click here for chart data](#)

accompany a modest recovery of the world economy. While Japan's forecast growth for 2013 remains low (1.6% according to WEO) and the EIA foresees declining Japanese oil consumption, the monetary stimulus launched in April 2013 may result in higher economic growth and greater than forecast demand for oil there. Still, the expansion in global demand for oil will likely be tempered by expected lower consumption in countries in the Organisation for Economic Development and Co-operation, attributed to the malaise in Europe.

Spot oil prices rose in the first two months of 2013, but declined sharply in April 2013. West Texas Intermediate (WTI) reached \$86.65 per barrel, its lowest since November 2012, and UK Brent dipped to \$96.84 per barrel on 17 April 2013, a low it had not seen since July 2012. The lower prices came at the time of the announcement by the Chinese National Bureau of Statistics of slower than expected GDP growth for China in 2012 and a weaker global demand outlook (figure 1.11), highlighting the sensitivity of oil prices to expected trends in the world economy.

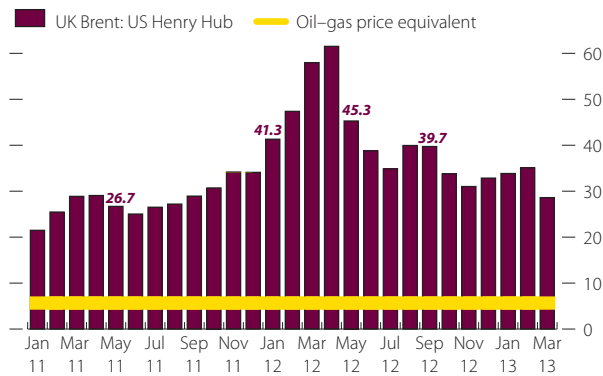
Data from the IMF April 2013 WEO support the view that the upward trend in oil prices seen over the past few years has begun to reverse (see also box 1.7 on the oil and gas consensus forecast). Spot oil prices are forecast to ease to an average of \$102.60 in 2013 and further to an average of \$97.60 in 2014 (figure 1.12). An increase in both non-OPEC oil supply and production of tight oil—a light crude oil found in shale or tight sandstone, hence the name, which came into play due to the shale revolution in the US—will allow for supply buffers. These factors, combined with the dampening impact of the high prices in 2012 on oil demand, will depress prices in the outlook period.

Gas prices

The WEO (April 2013) expects average natural gas prices—a weighted average of Japanese, US and European prices—to decrease by 2.5% in 2013, a downward revision from its October 2012 forecast. However, this decline does not necessarily signal a reversal of the rising trend in gas prices over the last three years, as the decrease is expected to be short-lived, with gas prices rising by about 1.0% in 2014 (figure 1.13).

As pointed out in previous QEOs, natural gas continues to be sold at prices far below its energy equivalent parity with oil—in effect, at a discount to oil (figure 1.14). The gas–oil divergence is set to remain, although it is likely to narrow in the outlook period. The discount in gas prices stems from the larger supplies of natural gas due to higher than anticipated growth in the production of shale gas in the US.

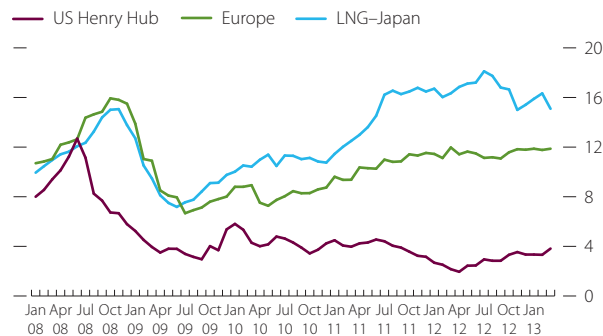
Figure 1.14 Spot price ratios: Crude oil to gas



Note: Ratio above (below) range = gas sold at a discounted (premium) price.
 Sources: World Bank Commodity Markets database (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>) and EIA *Short-Term Energy Outlook* database (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm), both accessed 5 May 2013.

[Click here for chart data](#)

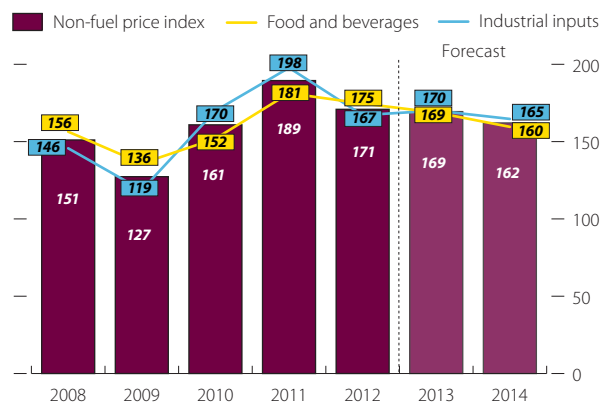
Figure 1.15 Natural gas prices (\$/mmbtu)



Source: World Bank Commodity Markets database (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>) accessed 5 May 2013.

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Figure 1.16 Non-fuel commodity price index (2005 = 100)



Note: Industrial inputs include agricultural raw materials and metals price indexes.
 Source: IMF *WEO* April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013.

[Click here for chart data](#)

The global natural gas market continues to display a high degree of regional segmentation. The price is highest for natural gas sold under long-term contracts linked to oil, as in Japan, lowest if sold on the spot market, as in the US, and within this range if sold through a combination of these arrangements, as in Europe (figure 15).

The demand for liquefied natural gas (LNG) in Japan has eased as nuclear power plants are slowly coming back on stream, following a complete shutdown in the wake of the Fukushima earthquake and tsunami in March 2011. This implies lower Japanese LNG prices in the outlook period. In Europe, higher supply of spot-priced gas supplies and lower demand are expected to bring prices down for 2013 also. In the US, more robust gas demand is expected to outpace the expanded supply of shale and drive gas prices higher for the year.

Starting in 2014, however, global demand is expected to increase, as companies shift to cleaner gas-powered power plants as policies targeting lower carbon emissions come into effect.

China, for example, has set itself an ambitious decarbonisation policy and announced plans to place an absolute cap on greenhouse emissions by 2016, explicitly moving away from its reliance on coal to cleaner energy sources like natural gas. India has already begun substituting natural gas for coal, and has become increasingly dependent on natural gas imports. The EIA expects growth in demand to outpace the rise in natural gas production, leading to higher prices.

Non-energy commodity markets

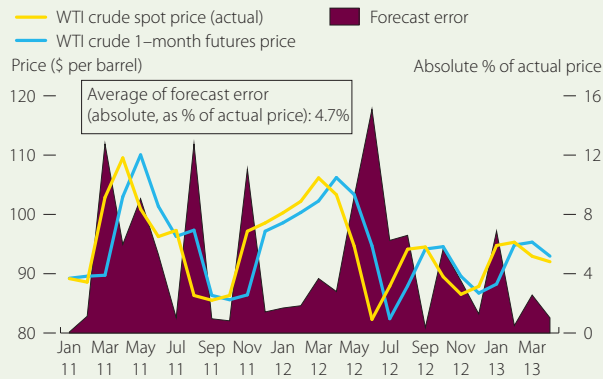
Global non-energy commodity prices are expected to see further declines. According to the IMF (*WEO*, April 2013), the non-fuel commodity price index will decline by 0.9% in 2013 relative to 2012 and fall a further 4.3% in 2014 (figure 1.16). This downward movement is likely to be driven by positive supply-side developments. Despite healthy demand, food prices are expected to drop by 2.0% in 2013 on the back of normal weather conditions, which will result in better food crops. Industrial and raw material prices are also seen declining. However, metals prices are expected to rise by 3% on improved demand conditions, mainly in China.

Risks to the outlook remain, however. Food prices remain elevated historically, and stockpiles are still low after lower grain output due to bad weather in 2012 (heat in the US, drought in Europe and Asia). Worse than expected weather conditions would result in higher food prices. Also, stronger growth in China may lead to supply pressures and higher metal prices.

Box 1.7 Oil and gas consensus forecast

Hydrocarbons prices are notoriously difficult to forecast, and market expectations have in the past been punctuated by price surprises (box figure). A comparison of the historical one-month futures oil prices with their realised spot prices shows that the average absolute error as a percentage of the average price was close to 5% between January 2011 and March 2013.

Box figure Average monthly crude oil prices, spot vs futures



Source: Estimates based on data from EIA *Short-Term Energy Outlook* database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 6 June 2013.

[Click here for chart data](#)

The forecasts of the IMF and World Bank, on which MDP&S draws, are anchored in analysis and market information, but there is a range of other views about the future trajectory of hydrocarbon prices. A high degree of dissonance among analysts would certainly caution against placing too much weight on any single forecast. But equally, convergent beliefs are no guarantee of outcomes in oil or any other market. The box table collates recent forecasts of oil and gas prices.

Based on these data the “consensus view” is that oil prices will be trending down in the outlook period. The consensus average oil price (WTI and UK Brent) for 2013 is \$101.75 per barrel, just shy of the IMF and World Bank forecasts for 2013. There is, however, a substantial dispersion in the forecasts for all prices. UK Brent prices show a \$22 dispersion among forecasts for 2013, and \$26.5 for 2014. A comparatively narrow dispersion of just \$9 for WTI in 2013 widens to \$25 in 2014. For both Brent and WTI, there are more outliers above the consensus average/median than below it.

The consensus view on natural gas is that US Henry Hub prices will climb to \$3.8 per mmbtu in 2013 and exceed \$4 per mmbtu in 2014. Forecasts for gas prices are sparse, however, reflecting the absence of an established global trading platform for gas and market segmentation, leading to a wide variety of prices. The forecasts available are mostly for US Henry Hub prices as US gas sales are made on the spot market, as opposed to via long-term oil-linked contracts, which are more difficult to predict.

Box table Poll of oil and gas prices, 2013 and 2014, as of 30 May 2013

Economic forecaster	Oil (\$/bbl)				Gas (\$/mmbtu)	
	UK Brent		WTI		2013	2014
	2013	2014	2013	2014		
ABN AMRO (Apr 2013)	105.0	100.0	90.0	90.0	3.9	4.5
Bank of America Merrill Lynch (Apr 2013)	110.0	112.0	90.0	92.0	3.9	...
Barclay's (May 2013)	112.0	125.5	95.0	...	...	...
BNP Paribas (Apr 2013)	108.0	108.0	95.0	97.0	...	...
Business Monitor International (Feb 2013)	107.0	99.0	92.0	91.0	...	...
Citigroup (Apr 2013)	104.0	...	90.0	...	...	...
Commerzbank (Apr 2013)	120.0	...	...	...	...	...
Credit Suisse (Apr 2013)	112.0	110.0	98.0	100.0	3.7	4.2
Danske Bank (Apr 2013)	113.0	106.0	98.0	98.0	...	...
Deloitte (Mar 2013)	102.0	105.0	92.0	90.0	3.7	4.0
GAIN Capital (May 2013)	108.0	...	92.0	96.0	...	...
Goldman Sachs (Apr 2013)	105.0	...	...	...	4.4	4.3
Institute of International Finance (May 2013)	108.0	108.0	...	...	...	...
JP Morgan Chase & Co. (Jan 2013)	115.0	122.5	99.0	115.0	...	...
Morgan Stanley (Mar 2013)	123.0	118.5	...	...	3.7	...
Noreda (Mar 2013)	112.0	115.0	...	...	...	...
Oxford Economics (Sep 2012)	101.3	106.4	...	...	...	...
Samba (Mar 2013)	107.0	103.0	...	...	...	...
Scotiabank (Mar 2013)	112.0	112.0	94.0	96.0	3.8	4.0
Societe Generale (Mar 2013)	112.0	...	96.0	...	3.7	...
US Energy Information Administration (May 2013)	105.9	100.8	93.2	92.3	3.8	4.0
Consensus (mean)	109.6	109.5	93.9	96.1	3.8	4.2
Median	108.0	108.0	93.6	96.0	3.8	4.1
High	123.0	125.5	99.0	115.0	4.4	4.5
Low	101.3	99.0	90.0	90.0	3.7	4.0
Standard deviation	5.4	7.8	3.1	7.1	0.2	0.2
Coefficient of variation (%)	5.0	7.1	3.3	7.4	6.0	4.8
Memo items		2013		2014		
Consensus average (UK Brent and WTI)		101.7		102.8		
International Monetary Fund (Apr 2013) ^a		102.6		97.6		
World Bank (Jan 2013) ^a		102.0		102.2		

a Average of Brent, Dubai Fateh and WTI. ... = No estimates for particular year/indicator. bbl = barrel.
Source: Consolidated from various reports and news articles.

Part 2 Performance in 2012

Qatar's non-oil and gas economy performed strongly in 2012, supporting overall GDP growth of 6.2%. Although expansion in upstream oil and gas production was just 1.7%, favourable movements in the price of Qatar's hydrocarbon output basket helped lift nominal growth to 12.2% for the year. Manufacturing witnessed vigorous growth with further expansion of refining and petrochemicals. The tempo of construction activity was slower than some had anticipated, but the sector still advanced by over 10%. Within services, transport and communications rose by a lively 12.2%.

Consumer price inflation accelerated through the year, triggered largely by a resumption of rising rents, particularly in the affordable and mid-priced segments of the market. The fiscal and current account balances were sizeable. The realised fiscal surplus was higher than budgeted, partly because actual prices for Qatar's hydrocarbon output basket exceeded those on which the budget was planned, and partly because of a marked shortfall of disbursements on capital projects.

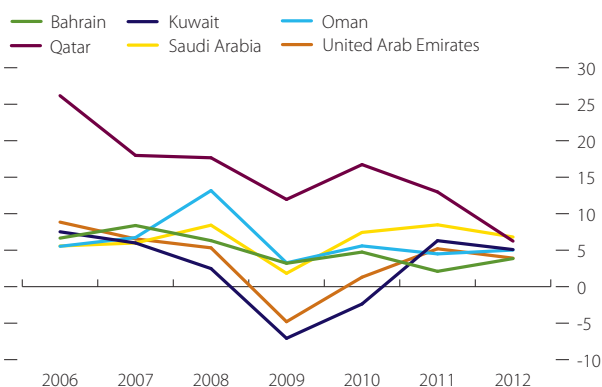
Figure 2.1 Nominal and real GDP growth (%)



Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.2 Real GDP growth, GCC countries (year-on-year change, %)



Source: IMF, *World Economic Outlook* April 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/download.aspx>), accessed 17 April 2013.

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GDP growth

Aggregate analysis

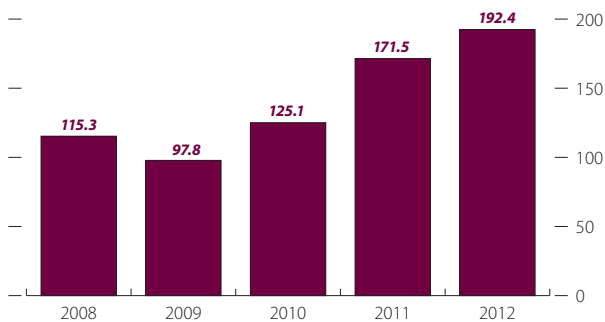
Qatar's economy expanded by 6.2% in real (volume) terms in 2012 (figure 2.1), according to provisional estimates from the Economic Statistics and National Account Department. In nominal (value) terms, it grew by 12.2%. The difference between the growth rates is due to the 6% gain in the price of Qatar's aggregate output basket in 2012, which largely reflects higher oil and gas prices. Qatar's real growth in 2012 converged closer to norms in the Gulf Cooperation Council (GCC) countries (figure 2.2).

Given the hydrocarbon price gains, expansion of real income is likely to have exceeded volume output growth (box 2.1). By the close of 2012, the size of the economy was \$192.4 billion (in current prices) (figure 2.3).

Reflecting the culmination of a successful investment programme in liquefied natural gas (LNG), oil and gas production contributed only marginally to overall growth in 2012 (figure 2.4). Hydrocarbon output grew by just 1.7%, down from a hefty 7% in 2011.

In earlier years, expansion in LNG production had propelled growth, but having almost saturated installed capacity by end-2011, LNG output saw only incremental gains in 2012. The bulk of oil and gas growth in 2012 came from higher output of condensate, a valuable hydrocarbon liquid extracted from raw gas.

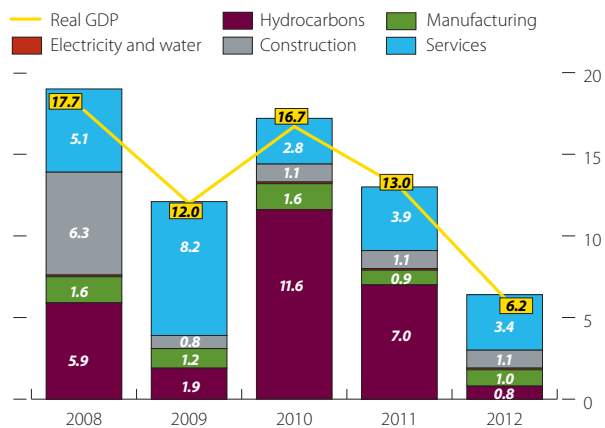
Figure 2.3 Nominal GDP (\$ billion)



Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

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Figure 2.4 Contributions to real GDP growth (percentage points)

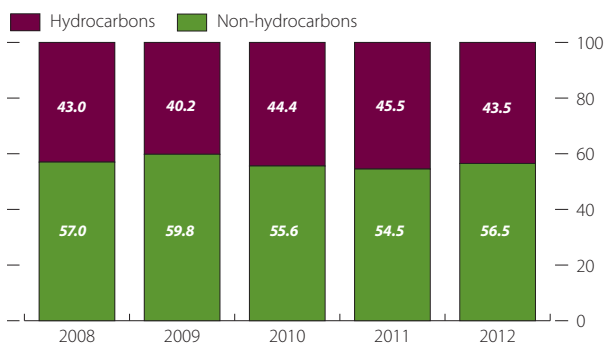


Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Services include transport and communications, trade and hospitality, financial, government, household and social services.

Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.5 Hydrocarbons and non-hydrocarbons, share in real GDP (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.

Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Box 2.1 Income and terms of trade

Volume, or real, measures of GDP do not adequately capture changes in the aggregate resources of the Qatari economy, as the diminishing nature and the eventual depletion of the stock of the main resources of the country (oil and gas underground) are not reflected in real GDP.

The exploitation of these resources converts one type of resource (hydrocarbons) into another (foreign exchange). Thus the overall level of resources in any period does not change as a result of extraction and export. Over time, however, the underground resources dwindle, raising complex questions about the optimal rate of depletion, and choices about today's consumption versus saving and investment to support future consumption.

A more appropriate measure of income that takes into account resource flows into and out of the country is the gross national disposable income adjusted for depreciation of capital stock and depletion of oil and gas resources. A still broader concept, sometimes referred to as genuine progress indicators, would incorporate changes in social and environmental capital too. Such statistical adjustments, though far from straightforward, would be important in assessing whether Qatar's development trajectory is "sustainable".

Changes in the price of Qatar's exports (which are strongly correlated with the price of oil) relative to movements in the price of its import basket—that is, changes in the terms of trade—can generate significant income effects (which filter into the economy through higher public and private consumption and investment). In the case of Qatar where the combined value of imports and exports amounts to over 104.1% of nominal GDP, such impacts can be substantial.

MDP&S estimates suggest that favourable terms-of-trade movements were an important source of income growth from 2006 to mid-2008, but that some of these gains were surrendered in 2009. From 2010 through to 2012 Qatar's terms of trade again improved, with rising oil prices.

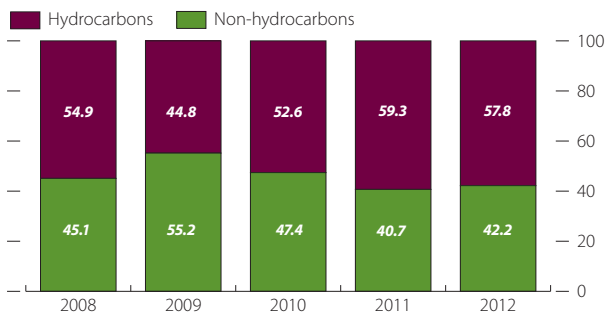
However, to gauge the full impact of oil and gas exports on Qatar's income, the cumulative effect of the terms-of-trade changes since the inception of oil and gas extraction and export should be measured, because changes in a single year can underestimate the longer-term impact of the terms of trade on Qatar's income and on the wealth created by that income.

In 2012, and for the first time, Qatar's condensate output was larger than its oil production. With hydrocarbon growth ebbing, the share of oil and gas in aggregate output slipped in 2012 in real and nominal terms (figures 2.5 and 2.6), although the nominal decline was checked somewhat by the price gain in the hydrocarbon output basket.

Non-hydrocarbon sectoral breakdown

In 2012, manufacturing output grew by 11.8% (figure 2.7). Yet despite this strong growth, the sector's share in aggregate output remained modest at 8.7%, and

Figure 2.6 Hydrocarbons and non-hydrocarbons, share in nominal GDP (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.

Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

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Figure 2.7 Manufacturing output

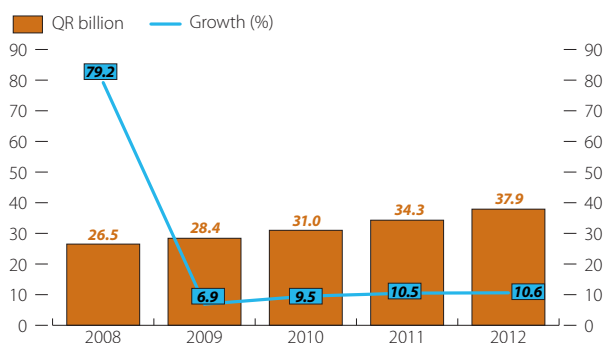


Note: Output is measured in constant prices.

Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.8 Construction output



Note: Output is measured in constant prices.

Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Box 2.2 Summary of monetary, financial and institutional developments, 2012–2013

2012

October. Qatar Exchange (QE) won the “Exchange of the Year” award for the Middle East from *Global Investor* magazine, while the Qatar Financial Centre Authority received the “Best Financial Centre in the Middle East” award from the magazine for the second year running.

November. Qatar Investment Authority used its near 12% stake in mining group Xstrata Plc to support the takeover by global commodities player, Glencore, securing better terms for the entity than originally offered.

December. The Qatar Financial Information Unit (QFIU) launched its strategy for 2013–2017. The QFIU is a specialised government agency, created in October 2004, to deal with problems of money laundering and financial crimes. Over the years the unit has developed its protective “financial watchdog” role while introducing financial-control initiatives and projects relating to national risk assessment and evaluation. It has carried out these initiatives in compliance and partnership with the National Anti-Money Laundering and Terrorist Financing Committee. The QFIU is a member of the “Egmont Group”, a network of similar bodies covering over 100 countries.

Qatar National Bank (QNB) became the first commercial bank in Qatar to launch a Debt Fund. This fund allows investors to invest in debt securities that are directly issued by sovereign and corporate entities based in GCC countries.

Law No. 13 of 2012 was decreed, which regulates the functioning of Qatar Central Bank (QCB), which is deemed an autonomous corporate body with responsibility for its own budget and capital of QR50 billion. It is now owned by the government, and reports directly to H.H. the Emir.

2013

January. The Qatar Credit Bureau announced that all commercial banks would have direct access to clients’ (and borrowers’) credit information and details. This move will facilitate due diligence and permit commercial banks to establish creditworthiness of potential clients. It should also, in the medium term, reduce the number of write-offs and debt defaults on personal financial obligations.

March. QCB announced that it would issue local currency debt every quarter of QR4 billion, split into QR3 billion in conventional bonds with three-year maturity and QR1 billion Islamic bonds, or sukuk, with five-year maturity. The principal objective is to ensure better liquidity management in the banking system, extend the yield curve and to provide options for domestic financing in view of funding and business needs related to Qatar’s large pipeline of infrastructure investments.

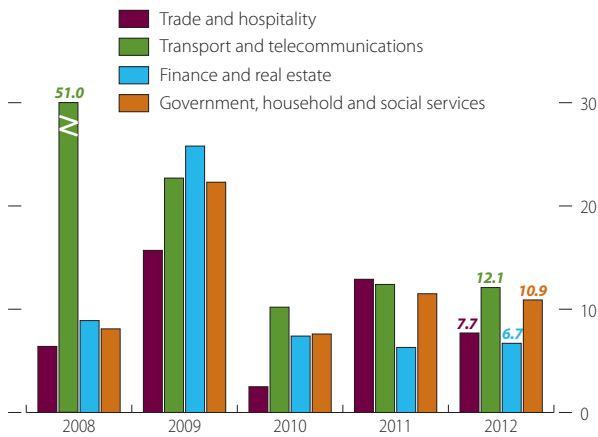
The same month QCB carried out its first issuance along those lines. The issuance was allocated directly to local commercial banks: the three-year tranche yielded 2.75%, the five-year 3%.

May. QCB reported that in the first quarter of 2012, Islamic banks in Qatar had raised QR8 billion through issuing sukuk, with investments by commercial banks holding Islamic bonds reaching QR47 billion that quarter.

The Advisory Council (Shura) approved a draft law for the establishment of a Health and Education Fund with working capital of QR360 billion. The capital will be funded directly through government revenues, annually. The main aim is to provide sustainable financial resources and support for developing the country’s health and education sectors.

June. As in March, QCB successfully issued the quarter’s QR4 billion of local currency debt.

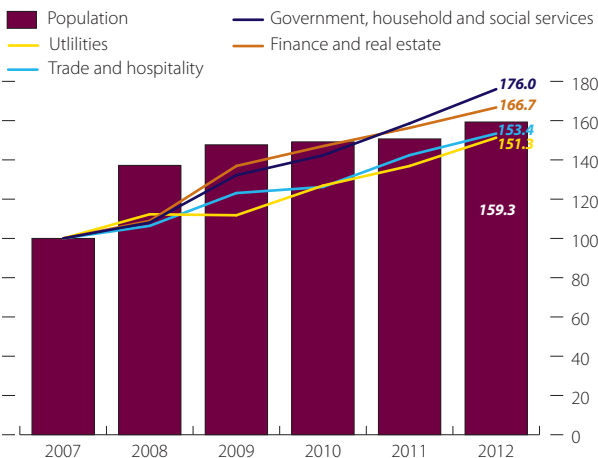
Figure 2.9 Services subsector growth (%)



Note: Output is measured in constant prices.
Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

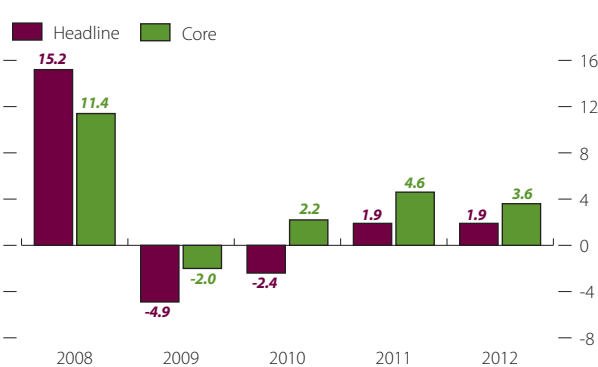
Figure 2.10 Indices for utilities, services and population (2007 = 100)



Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.11 Annual headline and core inflation (%)



Note: Core inflation is headline inflation less food, rent and utilities.
Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

manufacturing contributed just 1 percentage point of overall growth.

Manufacturing in Qatar is dominated by vertically integrated downstream refining and processing, which includes high-quality gas-to-liquid (GTL) fuels at the world’s largest GTL plant—Pearl—and the smaller Oryx facility. Additions to manufacturing capacity have also allowed modest expansion in petrochemicals. Downstream activity (including fertilisers) registered 40.1% growth in 2012.

Outside the hydrocarbon value chain, manufacturing of basic iron and steel grew by 8.8%, in part due to the expansion of Qatar Steel and development of manufacturing works in Mesaieed, south of Doha.

Construction grew by 10.6% in 2012, sustaining the momentum established in the previous two years (figure 2.8 above), and making a modest contribution to aggregate growth. While robust, growth fell short of the most bullish forecasts. A variety of factors—including lengthy regulatory and contracting processes, coordination challenges with complex projects, and the redesign of some infrastructure assets—conspired to delay the start of some projects and to move others onto a slower track.

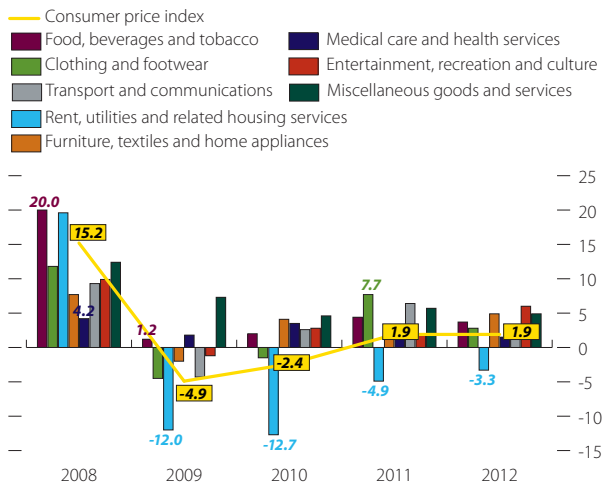
With 9.2% expansion, services were the major driver of growth in 2012, accounting for around half (3.4 percentage points) of aggregate growth (see figure 2.4). The sector has a weight of over one third in total output and comprises four subsectors, all of which recorded steady growth in 2012 (figure 2.9), aided by a rising population (figure 2.10).

The transport and telecommunications subsector grew by a lively 12.1% in 2012, reflecting fleet and route expansion by Qatar Airways as well as investments in the domestic telecoms infrastructure. Qatar owns a modern LNG tanker fleet, and margins earned from the shipping of gas contribute to services output.

Finance and real estate grew by 6.7% as rising incomes and an expanding population lifted demand for financial services, and as new real estate projects were released on to the market. Within trade and hospitality, the Qatar Tourism Authority reported that average hotel occupancy rates improved from 2011, reaching 64% in 2012.

Outside services, a rising population and growth in the non-oil and gas economy also supported the 10.5% expansion in the electricity and water sector in 2012.

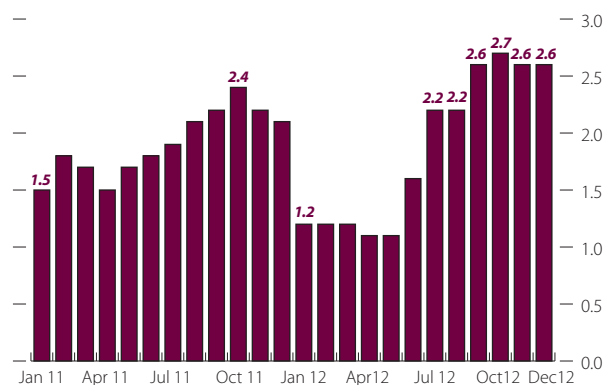
Figure 2.12 Annual inflation (%)



Source: Qatar Information Exchange database (<http://www.qix.gov.qa/>), accessed 28 April 2013.

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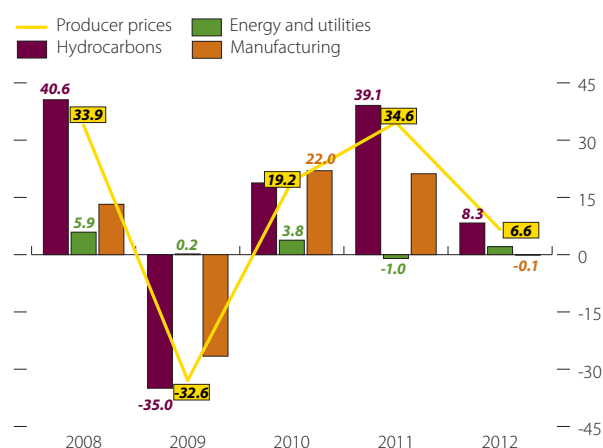
Figure 2.13 Monthly headline inflation (year on year, %)



Source: MDP&S estimates based on data available at (<http://www.qsa.gov.qa/eng/index.htm>), accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.14 Producer price index growth (%)



Source: MDP&S estimates based on data available from Qatar Information Exchange database (<http://www.qix.gov.qa/>), accessed 29 April 2013.

[Click here for chart data](#)

Prices

Consumer prices

Headline inflation was maintained at 1.9% in 2012 (figure 2.11 above), marginally below the 2.0% forecast made in June 2012's *Qatar Economic Outlook*. The rate is measured by the average annualised percentage difference in QSA's consumer price index.

The rent, utilities and related housing services component, which has a weight of over 30% in the index, was down by 3.3% in 2012 from 2011, and helped to offset rising prices in other components: transport and communications services were up by 2.3%; furniture, textiles and home appliances by 4.9%; and entertainment, recreation and culture by 6.0% (figure 2.12).

Core inflation saw an increase of 3.6% (see figure 2.11). This narrower measure excludes utilities, residential rent and food (the most volatile components of the index).

Tame headline inflation for the whole year masked accelerating price increases (or a switch from declining prices) as the year wore on. The pattern began to shift in June 2012 when rents stopped declining, and became firmer in the last quarter with a return to moderate rental price inflation: by end-2012, the rent, utilities and related housing services component was 4.4% higher than June's trough. Measured year on year, the headline price index in December 2012 was up by 2.6% on December 2011 (figure 2.13).

The continued build-up of Qatar's resident population through December 2012 (up by 5.7% over December 2011) stimulated demand for rental properties, supporting modest rental hikes in the lower and mid-market segments of the market, where supply is tightest.

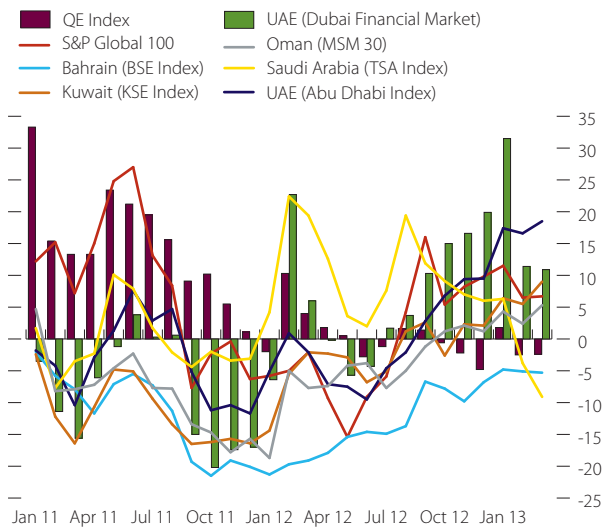
Producer prices

In 2012, the producer price index (box 2.3) rose by 6.6% (figure 2.14). Hydrocarbon prices staged gains of 8.3%, as Qatar's gas cargoes were redirected from lower-priced European destinations to East Asia, where oil-indexed prices for gas are higher. (Global benchmark oil prices were little changed in 2012, however.) The prices of refined petroleum products and petrochemicals,

Box 2.3 The producer price index

This index was released for the first time in 2010. Producer prices reflect what domestic producers receive for their output (net of taxes plus subsidies) and cover hydrocarbons, energy and utilities, and manufacturing.

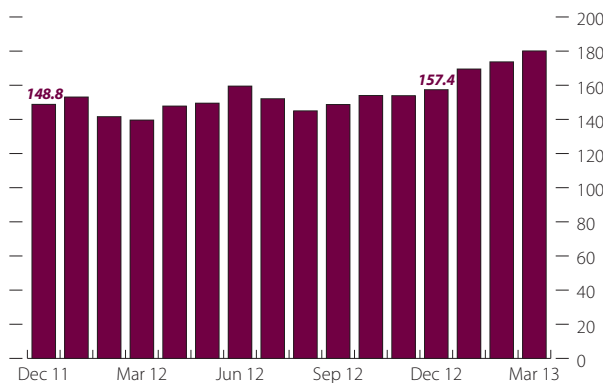
Figure 2.15 GCC stock price indices and S&P Global index (year-on-year change, %)



Sources: Qatar Exchange (<http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/>) and CEIC database, accessed 29 April 2013.

[Click here for chart data](#)

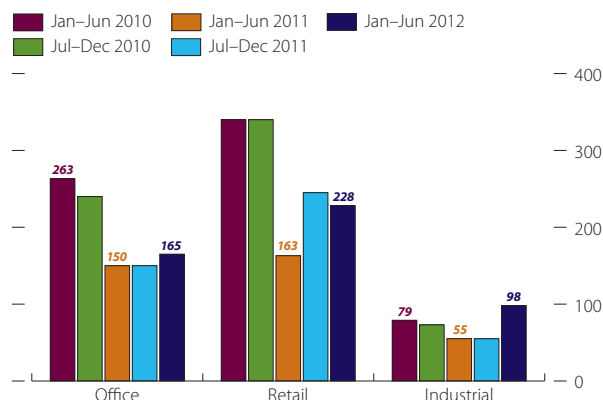
Figure 2.16 QCB real estate price index



Source: Qatar Central Bank (<http://www.qcb.gov.qa/English/Publications/Statistics/RealEstate/Pages/RealEstatePriceIndex.aspx>), 28 April 2013.

[Click here for chart data](#)

Figure 2.17 Real estate rentals, Doha (QR per square metre per month)



Note: Rental rates are average of minimum and maximum. The index captures transactions, making no allowance for the quality and location of the underlying real estate assets, nor incorporating the price of the underlying stock. No data for Jul–Dec 2012 nor Jan–Jun 2013.

Source: Business Monitor International, *Qatar Real Estate Report*, various issues.

[Click here for chart data](#)

which have a substantial weight in the manufacturing component of the producer price index, were broadly flat in 2012, having made significant gains in 2011.

Asset markets: Equities and property

Qatar Exchange. QE is the domestic trading platform for equities (and see box 2.2 above). The QE Index, a benchmark index of the largest, and most liquid, 20 stocks, ended 2012 at 8,359, down 420.1 points (4.8%) from December 2011.

The performance of equities in Qatar bucked both the global and wider regional trends in 2012 (figure 2.15), where gains were the norm in the second half of 2012. Programmes of central bank purchases of debt (quantitative easing) that expanded liquidity and sustained historically low interest rates in advanced countries supported global equity market advances.

Qatar’s equity market was largely unaffected by these wider influences. For the majority of stocks, a cap of 25% exists on foreign ownership and foreign institutional interest has been limited by the continued classification of Qatar as a “pioneer market” by Morgan Stanley Capital International (although this was changed to “emerging” in June 2013—see box 1.5 in part 1).

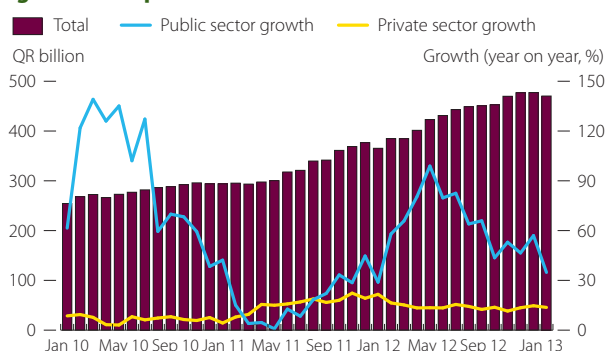
It appears that local factors—including caution on the profit outlook for major markers—rather than global forces exercised a more important influence on Qatar’s market movements in 2012.

Lower trading volumes accompanied lower equity prices in 2012: the value of stocks traded declined by 14.4%. Trading in the services component of the index declined by 33.8%. There was no change in the number of companies listed on QE during 2012—43. Total market capitalisation inched up during 2012 to reach QR460 billion.

Real estate. In January 2013, QCB released a Real Estate Price Index, with fiscal year 2009/10 (April–March) as the base. It showed that real estate prices at the end of 2012 were 5.8% higher than a year earlier (figure 2.16). The average of the index for 2012 (150.2) is still 22% lower than the peak seen in August 2008 (192.2) but points to substantial recovery since the lows of 2009. These figures broadly mirror those that can be detected in the rental market using consumer price information.

Reporting on the first half of 2012, data from Business Monitor International suggest that industrial rents jumped (year on year) by 78.2%, retail rents climbed by 39.9%, and office rents rose by 10% (figure 2.17).

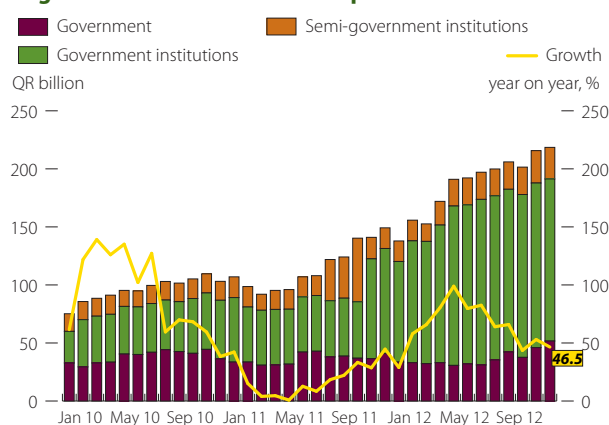
Figure 2.18 Total credit, private and public sector growth components



Sources: QCB, *Quarterly Statistical Bulletin, March 2013* and CEIC database, accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.19 Commercial banks' public sector credit

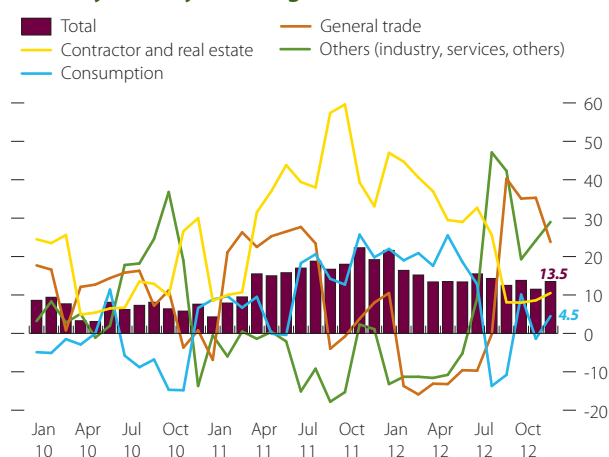


Note: Public sector includes government, government institutions (companies fully owned by government) and semi-government bodies (companies with 50% government ownership).

Sources: QCB, *Quarterly Statistical Bulletin, March 2013* and CEIC database, accessed 29 April 2013.

[Click here for chart data](#)

Figure 2.20 Growth of commercial banks private sector credit (year-on-year change)



Sources: QCB *Quarterly Statistical Bulletin, March 2013* and CEIC database, accessed 29 April 2013.

[Click here for chart data](#)

Interest rates and credit

Official interest rates saw no changes in 2012 or in the first five months of this year, staying at levels last reset in August 2011—the overnight lending rate at 4.5% and the overnight deposit rate at 0.75%. Given the peg of the Qatari riyal to the US dollar and an open capital account, the deposit rate is tightly linked to comparable US dollar rates.

Due to vigorous growth of loans to public sector entities (which include government, government institutions and semi-government bodies—figure 2.18), overall credit expanded by 33.5% in the year to December 2012. Bank-financed spending on large public sector infrastructure works by government institutions drove much of this expansion (figure 2.19).

Commercial banks' credit to the private sector in December 2012 was 13.5% higher than a year earlier (figure 2.20). There was also a marked slowing in the growth of consumer lending in 2012. Here, too, tighter controls on commercial banks helped to contain growth of consumer credit, with year-on-year growth of just 4.5% by December 2012.

Fiscal accounts

At the close of FY2012/13, the government's overall surplus (its revenue less the sum of current and capital expenditure) was estimated at QR73.0 billion (table 2.1 and figure 2.21), an increase of QR53.4 billion on the FY2011/12 outcome. Relative to nominal GDP, the surplus measured 10.4%. Realised revenues were higher than those initially programmed in the FY2012/13 budget, largely because actual oil prices in the fiscal year exceeded the conservative \$65 per barrel planning assumption. Conversely, actual spending fell far short of budgetary provisions, with all of that reflecting lower than budgeted capital spending.

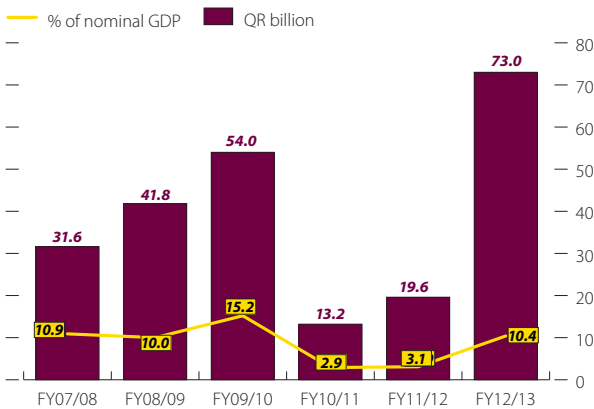
Table 2.1 Government spending and revenue, budget and actual, FY2011/12 and FY2012/13 (QR billion)

	FY2011/12		FY2012/13	
	Budget	Actual	Budget	Actual
Total expenditure	139.9	158.9	178.6	158.1
Current	81.9	113.4	116.5	116.6
Capital	58.0	45.5	62.1	41.5
Total revenue	162.5	178.5	206.3	231.2
Surplus	22.5	19.6	27.7	73.0

Note: Surplus may not sum owing to rounding.

Source: MDP&S estimates based on data from the Ministry of Finance (MOF).

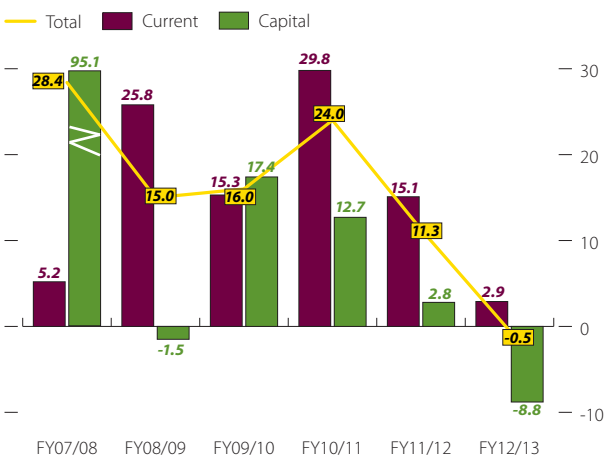
Figure 2.21 Overall fiscal balance



Note: The fiscal year runs from 1 April to 31 March.
Source: MOF.

[Click here for chart data](#)

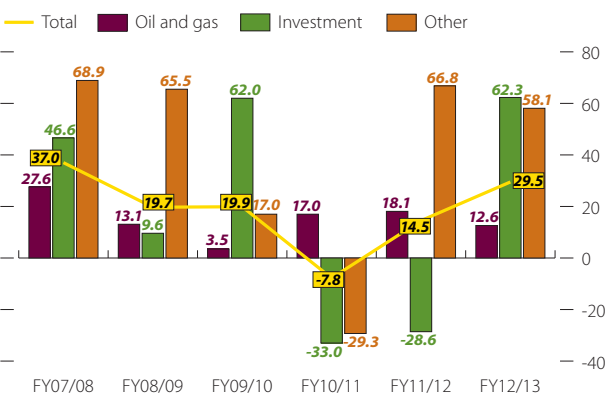
Figure 2.22 Fiscal expenditure growth (%)



Note: The fiscal year runs from 1 April to 31 March.
Source: MOF.

[Click here for chart data](#)

Figure 2.23 Fiscal revenue growth (%)



Note: The fiscal year runs from 1 April to 31 March.
Source: MOF.

[Click here for chart data](#)

Government spending

The budget for FY2012/13 programmed an increase in spending of 27.6% over the previous year’s budget (and 12.4% more than actual spending in FY2011/12). Nearly all this increase was for capital projects (up 36.6% on FY2011/12 outcomes)—mainly transport, drainage, communications and utilities infrastructure—with only a modest rise for recurrent outlays (2.7%). Contracting by 8.9%, actual capital spending in FY2012/13 not only missed the budget target by QR20 billion but also slipped QR4 billion below the previous fiscal year’s outcome.

The majority—65%—of planned outlays remained on current expenditure. Covering wages and salaries, interest payments, subsidies, foreign grants and spending on goods and services, such expenditure came in on broadly on target, expanding by 2.9%. The government’s wage bill, which climbed strongly in FY2010/11 after the September 2011 increase in wage benefits for citizens, posted only a modest 5% rise.

In total, the planned spending increase in FY2012/13 failed to materialise, and actual government expenditure growth was flat (figure 2.22).

Government revenue

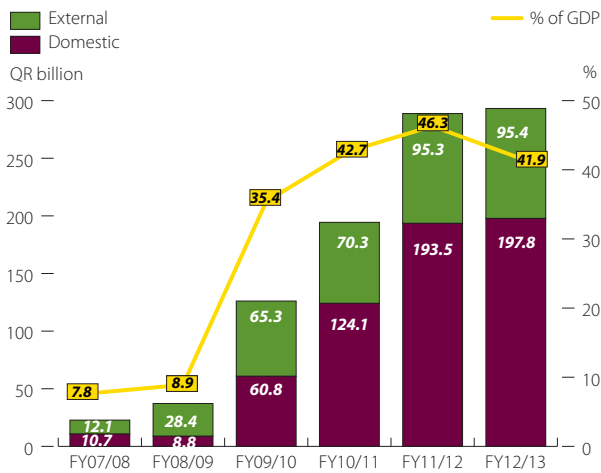
Total revenue accruing to government rose by 29.5% in FY2012/13 over the previous fiscal year’s outcome (figure 2.23). Oil and gas income rose by 12.5%, buoyed by higher prices for Qatar’s hydrocarbon output basket and a modest expansion of volumes. Realised oil and gas revenues were about 42% higher than the budget forecast.

Investment income (which accrues largely from profits transferred by Qatar Petroleum to the MOF) and “others” including business and corporate income tax soared in FY2012/13, by some 60% over the previous year. Part of the increase is explained by revised accounting procedures that now book Qatar Petroleum’s retained profits (which formerly were kept on Qatar Petroleum’s accounts) with the MOF.

Non-hydrocarbon fiscal balance

Oil and gas resources are exhaustible and Qatar will one day have to look to other sources of income to meet its needs. Removing direct oil and gas revenues from the sources of government income allows estimation of the non-hydrocarbon fiscal balance—the gap between total spending and fiscal revenue that is not linked to oil and gas production. This deficit indicates the resources that will need to be mobilised from non-hydrocarbon sources over the long run.

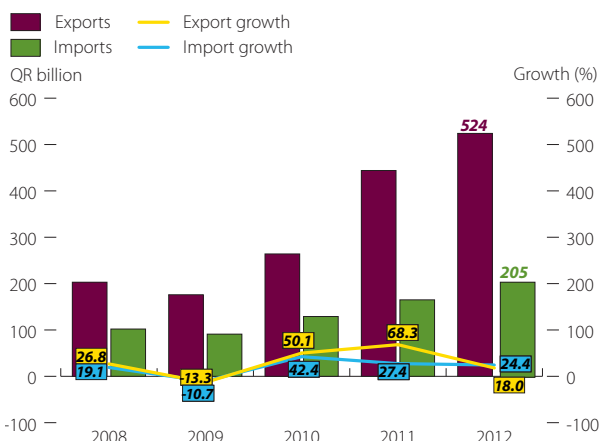
Figure 2.24 Total government debt



Note: The fiscal year runs from 1 April to 31 March.
Source: MOF.

[Click here for chart data](#)

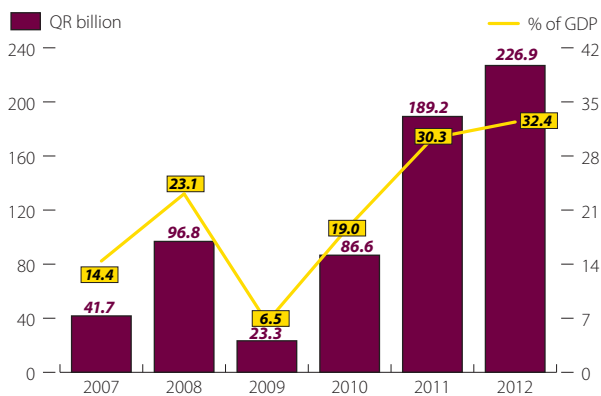
Figure 2.25 Total trade growth



Sources: Data for 2008 and 2009 are MDP&S estimates based on data from Qatar Information Exchange (<http://www.qix.gov.qa>). Data for 2010, 2011 and 2012 are MDP&S estimates based on QCB balance-of-payments data.

[Click here for chart data](#)

Figure 2.26 Current account



Note: Data are MDP&S estimates based on QCB balance-of-payments data.
Source: QCB (<http://www.qcb.gov.qa/English/Publications/Statistics/BalanceofPayments/Pages/default.aspx>).

[Click here for chart data](#)

A non-hydrocarbon fiscal deficit of QR55.8 billion is estimated for FY2012/13, equivalent to 8.0% of nominal GDP, or somewhat less than the equivalent deficit in FY2011/12. However, some of the revenue booked under investment and taxes is directly linked to the activities of entities that derive their income from oil and gas production, and if this income were also netted out, the non-hydrocarbon deficit would be larger.

Debt

Government debt inched up in FY2012/13, reaching QR293.2 billion excluding guarantees, equivalent to an estimated 41.9% of nominal GDP (figure 2.24). There was no increase in government foreign obligations over the fiscal year and the small increase in domestic borrowing came from a continuing programme of issuance of domestic bonds and Treasury bills.

As the government runs large surpluses, these local currency issuances are not needed for budgetary financing purposes, but rather help to support the development of a domestic capital market. (Estimates of government debt do not include the domestic or foreign currency borrowings of semi-government institutions, which rose steeply in 2012—see *Interest rates and credit*, above.)

Trade and foreign currency reserves

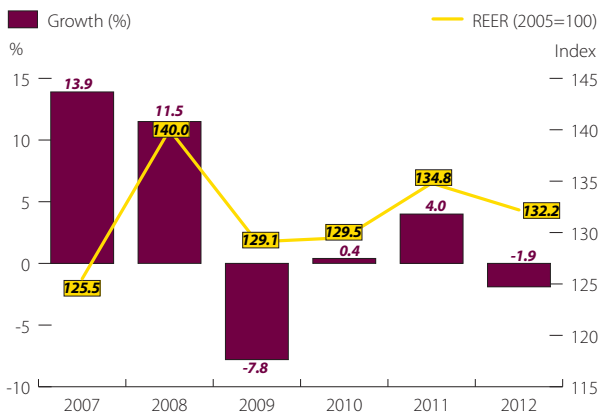
Preliminary estimates show that Qatar once more recorded a sizeable trade surplus in 2012—45.5% of nominal GDP—on this measure slightly up on 2011's outcome (44.7%). Higher LNG prices were the main factor in the higher value of exports, which rose by 18.0% relative to 2011. Imports increased faster than exports, at 24.4%, but from a far smaller base (figure 2.25).

The current account surplus, too, stayed substantial in 2012 (figure 2.26). Up by QR37.7 billion on 2011, it climbed from 30.3% to 32.4% as a share of nominal GDP. As in previous years, the large trade surplus offset a deficit on the services (QR50.9 billion) and income (QR44.2 billion) accounts.

As in 2011 the combined deficit on the income and services accounts is primarily due to large remittance outflows (profits and wages). An MDP&S estimate of the dividend income accruing to the Qatar Investment Authority (QIA) provides a partial offset to these outflows. Total investment income receipts are estimated at QR23.7 billion in 2012, an increase of QR1.3 billion over 2011.

QCB's foreign currency reserves stood at QR120.4 billion at end-December 2012, up by QR59.5 billion on the

Figure 2.27 Real effective exchange rate index (2005 = 100)



Source: MDP&S estimates.

[Click here for chart data](#)

previous year. This doubling of reserves in 2012 reflected a decision by QCB to allocate an increasing proportion of the surplus to short-term, liquid foreign currency assets.

Terms of trade and the real effective exchange rate

The real effective exchange rate (REER) provides a measure of competitiveness for a country's output in the global market place. It captures movements in the nominal effective exchange rate and adjusts for differential price inflation among countries.

MDP&S estimates suggest that Qatar's REER depreciated by 1.9% in 2012 (figure 2.27). This occurred because the US dollar, to which the riyal is pegged, lost value against the currencies of Qatar's major trading partners. The continuing trend of low inflation in Qatar—lower than in its major trading partners—also contributed to the depreciation of the REER.

