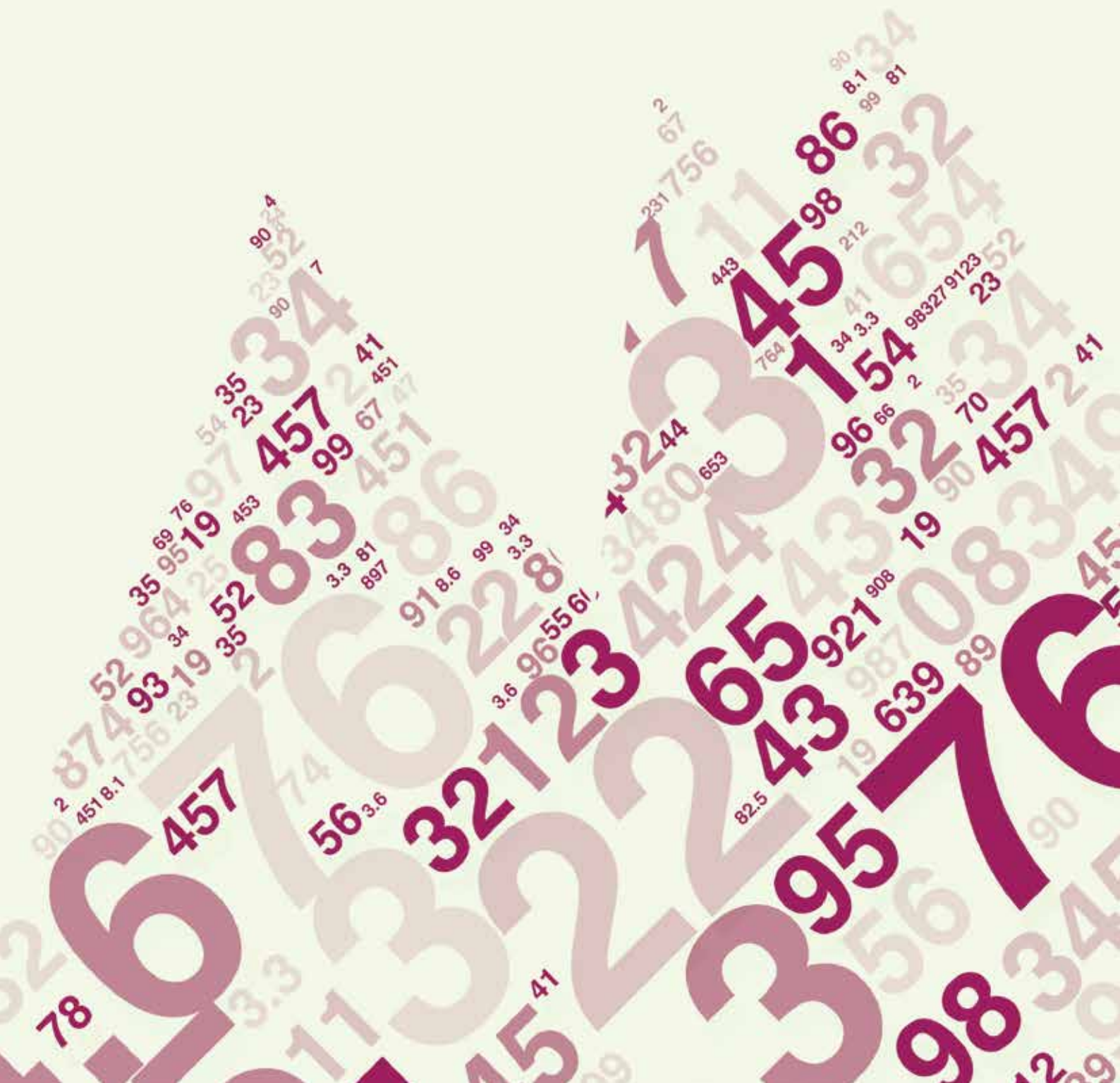


# Qatar Economic Outlook 2015-2017



وزارة التخطيط التنموي والإحصاء  
Ministry of Development Planning and Statistics





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وزارة التخطيط التنموي والإحصاء  
Ministry of Development Planning and Statistics

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# Foreword

This *Qatar Economic Outlook 2015–2017* presents forecasts for the years 2015 to 2017 (part 1), and reviews activity and economic performance in 2014 (part 2).

The assessment has been made at a time of sharp adjustments and increased volatility of oil prices, which widens the margins of uncertainty around the central forecasts.

Over the projection horizon, the non-hydrocarbon sector will continue to account for most of the economy's expansion. The Ministry of Development Planning and Statistics expects that, despite the decline in international oil prices, economic growth will remain robust at 7.3% in 2015. But as the pace of investment activity in the non-hydrocarbon sector begins to taper, and population growth recedes, growth will moderate to 6.6% in 2016 and 6.0% in 2017.

Consumer price inflation is expected to be muted in 2015. Moderation of rental inflation and subdued import prices are expected to bring inflation down to an average of 2.0% in 2015. Global commodity price deflation is expected to recede and this, with moderation of US dollar appreciation, may nudge inflation up in 2016 and 2017, but no significant strengthening is expected of domestic price pressures.

On the fiscal side, the overall balance is expected to narrow in 2015, given lower oil and gas revenues and large expenditure outlays. In 2016, the fiscal balance may register its first deficit in over 15 years. The external current account balance is also expected to be adversely affected by the impact of lower oil prices on export revenues, but the balance should remain positive.

The main downside risk to the outlook is the possibility that oil prices will not track higher in 2016 and 2017, as the forecasts assume.

This *Qatar Economic Outlook* could not have been produced without the generous cooperation of other agencies. I would therefore like to thank Qatar Central Bank, Qatar Petroleum, Qatar Stock Exchange and the Ministry of Finance, for their unstinted cooperation in sharing information and data.

H.E. Dr. Saleh Al Nabit

Minister

Ministry of Development Planning and Statistics

June 2015

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# Qatar—Outlook at a glance

## Economic growth—remaining strong, driven by the non-hydrocarbon sector

Despite lower oil prices, real economic growth in 2015 is expected to rise to 7.3%, buttressed by continued vigour of the non-hydrocarbon sector and the boost to upstream hydrocarbon production from the Barzan gas project. However, nominal gross domestic product (GDP) is expected to contract sharply in 2015, reflecting the drop in global hydrocarbon prices.

In 2016 and 2017 hydrocarbon production will plateau, but solid expansion in non-hydrocarbon activities will sustain overall economic momentum. Services will be the largest contributor to growth, followed by construction. As attention turns towards completing current projects rather than starting new ones, and as population growth eases, growth in the non-hydrocarbon sector is expected to moderate.

In 2014, real GDP expanded by 6.1% but the fall in oil prices in the second half of the year pinched nominal GDP growth for the year, which came in at 4.1%.

### Qatar, outlook at a glance, 2015–2017

	2015	2016	2017
Real GDP growth (%)	7.3	6.6	6.0
Nominal GDP growth (%)	-10.2	4.3	11.4
Consumer price inflation (%)	2.0	2.5	3.0
Fiscal surplus (% of nominal GDP)	1.4	-4.9	-3.7
Current account surplus (% of nominal GDP)	5.3	1.7	4.2

Note: Real GDP in constant 2004 prices.

Source: Estimates from the Ministry of Development Planning and Statistics.

## Inflation—muted, but inching up

Annual inflation, as measured by the change in Qatar's consumer price index, is forecast to average 2.0% in 2015, and to nudge up to 2.5% in 2016 and 3.0% in 2017. Beyond 2015, global commodity price deflation could weaken and the momentum of the strengthening US dollar could wane.

Annual average inflation over the 12 months to end-December 2014 was 3.3%. Rising monthly inflation was still led by the rent and utilities component, which grew by 7.8% on an annualised basis—only slightly slower than in 2013. Foreign inflationary pressures were absent, mirroring soft food and commodity prices globally. The first months of 2015 saw decelerating inflation, as the rise in the rent and utilities component slowed.

## Fiscal balance—positive this year, and then in deficit

In calendar 2015 the overall fiscal balance is expected to stay in surplus, though fiscal deficits could appear in 2016 and 2017. Oil prices, which are forecast to be well below levels of recent years, are expected to squeeze revenues in a context where capital spending programs will move ahead and current spending commitments will be difficult to trim.

Preliminary data for FY2014/15 show that the government's overall surplus was estimated at QR93.9 billion, equivalent to 12% of estimated nominal GDP (over the same period), down from 14.1% at the end of the previous fiscal year.

## **External balance—remaining in surplus, yet gradually declining**

The external current account surplus is expected to drift down in 2015 and 2016, but remain positive. The key factors in the decline are attenuating hydrocarbon export revenue, rising imports (reflecting stronger domestic demand) and higher foreign workers' remittances (in line with the expected growth in the expatriate population).

Qatar posted an ample trade surplus in 2014 of 47.5% of nominal GDP, though somewhat lower than the outcome in 2013. Merchandise exports declined on the back of lower hydrocarbon prices; the surplus was further offset by goods import growth. This pattern, along with a continuing rise of service imports and transfers, led to a slightly lower current account surplus of 25.9% of nominal GDP.

## **Risks to the outlook—mainly from international oil price movements**

Most risks to the outlook are grounded in international oil-price movements. If oil prices rise more quickly than the forecasts in this *Qatar Economic Outlook*, there will be better outcomes for realised nominal income growth, as well as for fiscal and external balances. But if they fall short of projections, the recovery in nominal income growth will be restrained, fiscal balances could deteriorate more sharply and external-payment deficits might arise. Estimated fiscal breakeven oil prices for 2016 and 2017 are above forecast prices, but estimated external-balance prices are below those forecasts.

Domestic risks touch mainly on the scale and complexity of Qatar's planned infrastructure project portfolio. The Ministry of Finance has been proactive in prioritising critical projects and in mitigating coordination and other problems. Yet if delays are experienced, efforts to bring implementation back on track might pull in more workers, adding to the population and accentuating inflationary pressures on front-line services already struggling to meet burgeoning demand.

Looking further out—with Qatar's oil production set to decline and margins on liquefied natural gas likely to face pressures from new sources of supply and increased competition worldwide—a protracted period of lower oil prices would crimp the ability of the hydrocarbon sector to fund the gap between spending and resources generated by the non-hydrocarbon sector. It is therefore critical that ongoing investments in infrastructure and other assets deliver positive economic returns and support productivity gains.

# Part 1—Outlook for 2015–2017

Despite lower oil prices, real economic growth is expected to remain strong in 2015 on the back of vigour in the non-hydrocarbon economy that is set to carry through to 2016 and 2017. Much of the expected acceleration in 2015 is attributable to additional output from the Barzan project, which will come on stream in the middle of the year. In 2016 and 2017 real growth, while solid, will taper, given that expansion of capacity from Barzan will have been completed and output in the hydrocarbon sector will flatten. As government infrastructure spending peaks and as population growth slows, growth of the non-hydrocarbon economy will moderate.

Consumer price inflation is expected to ease in 2015 but will then edge up in 2016 and 2017. The first four months of 2015 have already seen sharply decelerating inflation. A benign global inflationary outlook and a strong US dollar (to which the Qatari riyal is pegged) are expected to subdue imported sources of inflation.

Risks to the outlook are focused on the movement of international oil prices. If oil prices rise more quickly than forecast in this *Qatar Economic Outlook (QEO)*, there will be better outcomes for realised nominal income growth, as well as for fiscal and external balances. But if they fall short of projections, the recovery in nominal income growth will be restrained, fiscal balances could deteriorate more sharply and external payment deficits might materialise.

## Capsule outlook

Real economic growth, despite lower oil prices, is expected to remain strong in 2015 on the back of vigour in the non-hydrocarbon economy that is set to carry through to 2016 and 2017, before it moderates. (The non-hydrocarbon economy encompasses all economic activity other than upstream oil and gas production and other mining activities.) The pipeline of new projects will ebb and activity on many existing projects will level off before completion. As population growth tapers, the stimulus to the non-traded goods and services sector will weaken.

Consumer price inflation is expected to moderate in 2015 before edging up in 2016 and 2017. The first four months of 2015 have already seen sharply decelerating inflation. A benign global inflationary outlook and a strong US dollar (to which the Qatari riyal is pegged) are expected to subdue imported sources of inflation. Slowing population expansion, rising capacity in the non-traded goods sector and moderating growth of government recurrent spending are all expected to dampen domestic price pressures.

Downside risks to the outlook include the possibility of oil prices falling short of expectations, which have already been heavily downgraded since the *QEO* of June

2014; delays or cost overruns (or both) in delivery of key infrastructure projects; and volatility in global financial markets spilling over into the domestic economy and squeezing liquidity. Conversely, geopolitical shocks could possibly cause oil prices to climb steeply, buttressing near-term fiscal and external balances.

Table 1.1 provides a summary of the latest forecasts on key macroeconomic indicators for 2015, 2016 and 2017, and box 1.1 looks at some reasons why they vary from forecasts made in the *QEO Update* of December last year. After a period of comparative economic tranquillity, the revised forecasts take into account the impact of disruptive events in global energy markets, which is one reason why the margin of uncertainty around the *QEO*

**Table 1.1 Qatar, latest forecasts of key indicators**

	2015	2016	2017
Real GDP growth (%)	7.3	6.6	6.0
Nominal GDP growth (%)	-10.2	4.3	11.4
Consumer price inflation (%)	2.0	2.5	3.0
Fiscal surplus (% of nominal GDP)	1.4	-4.9	-3.7
Current account surplus (% of nominal GDP)	5.3	1.7	4.2

Note: Real GDP in constant 2004 prices.

Source: Estimates from the Ministry of Development Planning and Statistics (MDP&S).

### Box 1.1 A changed landscape in six months

The box table presents the forecasts made in the *QEO Update 2014–2016* of December 2014 alongside the revisions made in this *QEO*. Over the intervening period, oil prices have fallen by about 40% and, though they have rallied through to May 2015, they remain low.

The impact of lower oil prices is seen most immediately in the forecast for nominal GDP and in the fiscal and external balances. For given production volumes, lower oil prices drag down value added in the hydrocarbon sector and nominal GDP. As revenues that accrue to the state are highly dependent on royalties and taxes on oil and gas, on investment income from hydrocarbon enterprises and on corporate taxes paid by hydrocarbons entities, lower oil prices depress fiscal revenues and narrow the surplus. Lower oil prices also curtail the value of Qatar’s export revenues.

The timing and magnitude of these impacts are subject to some uncertainty. They will also depend on the actual oil

price realised in 2015 and 2016—the point bears emphasising that the margin of uncertainty around these estimates is large. The estimates for real GDP growth, anchored on broadly known production volumes of oil and gas and related products, are believed more solid.

**Box table Forecast revisions**

	2015 <sup>a</sup>	2015 <sup>b</sup>	2016 <sup>a</sup>	2016 <sup>b</sup>
Real GDP growth (%)	7.7	7.3	7.5	6.6
Nominal GDP growth (%)	6.7	-10.2	8.0	4.3
Fiscal surplus (% of nominal GDP)	8.7	1.4	4.7	-4.9
Current account surplus (% of nominal GDP)	19.5	5.3	16.0	1.7

a = Forecast made in December 2014’s *QEO Update*.

b = June 2015 forecasts.

Note: Consumer price inflation is excluded. Revisions in the construction of the index (see *Prices* in part 2) render revised and earlier forecasts non-comparable.

Source: Estimates from MDP&S.

point forecasts is greater than in the past. Other revisions to forecasts for 2015 and beyond reflect the latest data releases and revisions, as well as updated assumptions. The forecast methodology and assumptions are discussed in box 1.2.

## Economic prospects

### Real economic activity

Volume GDP growth, measured in constant 2004 prices, is expected to grow by 7.3% in 2015, or 1.2 percentage points faster than in 2014. Much of this acceleration is attributable to additional output from the Barzan project that will come on stream in the middle of the year. Barzan is expected to add about 21% to pipeline

### Box 1.2 Forecast methodology and assumptions

The *QEO*’s forecasts are derived from an internally consistent numerical representation of Qatar’s economy, based on standard economic accounting and consistency checks. The framework is based on a flow-of-funds model of the economy in which all sources of funds from the various sectors equal the total uses of funds. This representation has been calibrated and updated with known outcomes for 2014 and data revisions for 2012 and 2013.

All GDP data forecasts are made on the basis of 2004 prices, following the current practice of the Statistics Directorate.

The main forecast assumptions are based on the best assessment of the future made by MDP&S and draw on expert opinion as published in a wide range of sources. Those on Qatar’s interest rates are based on the declared policy of the Qatar Central Bank (QCB). Data on budgetary outcomes and prospects are founded on information obtained from the Ministry of Finance. Data for the years beyond the budget year are obtained by extrapolation of the trends in actual government revenue, expenditure and financing. Assumptions about the external environment are anchored on International Monetary Fund (IMF) *World Economic Outlook (WEO)* forecasts and World Bank forecasts. The major assumptions are shown in the table.

**Box table Forecast assumptions**

	2015	2016	2017
<b>Qatar</b>			
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)	230.6	242.6	256.2
Current	173.7	183.4	190.8
Capital	56.94	59.20	65.45
<b>External environment</b>			
Global growth (%)	3.45	3.76	3.85
US LIBOR, 6-month (%)	0.667	1.913	...
Crude oil price, \$ per barrel	56.0	61.6	65.6
Japanese liquefied natural gas (LNG) price, \$ per million British thermal units (mmbtu)	15.8	11.0	11.1

... = not available.

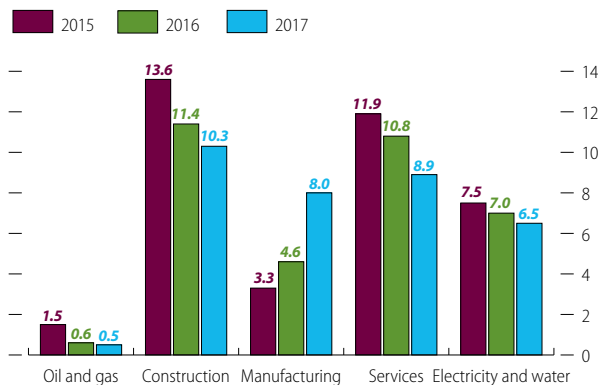
Source: MDP&S estimates consolidated from various sources.

gas production. Strong momentum in the non-oil and gas sector will be sustained by capital spending on infrastructure and by relatively strong population growth this year.

In 2016 and 2017 real growth will taper and moderate to 6.6% and 6.0%. The expansion of capacity from Barzan will have been completed and output in the hydrocarbon sector will plateau. While robust and broad-based expansion of the non-hydrocarbon economy is expected to continue, it will decelerate in these two years as government infrastructure spending peaks and as population growth slows.

Construction—projected to expand by 13.6%—is set to be the fastest-growing sector in 2015 (figure 1.1). Although it will continue expanding through 2016 and 2017, its pace of growth will slow, with the emphasis moving to completing existing investments rather than starting to build new assets.

**Figure 1.1 Sectoral growth in the economy, constant 2004 prices (%)**



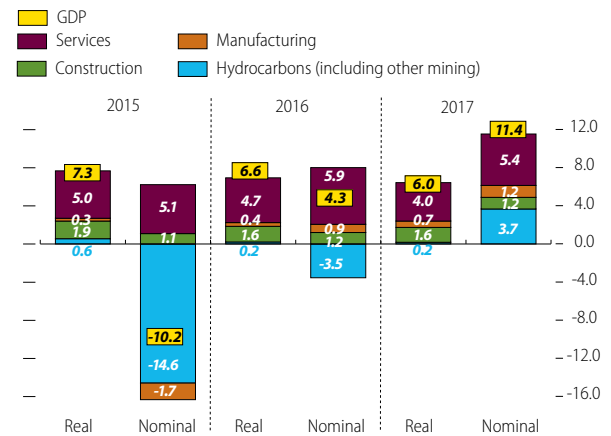
Note: Agriculture is not shown given its very small share in economic output. Source: MDP&S estimates.

[Click here for chart data](#)

The service sector is expected to be the largest contributor to growth and its share in aggregate output will continue to rise (figures 1.2 and 1.3). Financial, real estate, transport and communication, and business services will all benefit from real estate development and infrastructure projects. Trade and hospitality are also expected to grow robustly owing to conference activities and to growth in tourist arrivals, particularly from the region. If the foreseen moderation in population growth comes about, this will, however, clip service sector growth in 2016 and 2017.

Manufacturing will also grow, but only incrementally in 2015. The production of refined products is expected to fall, with expansion of other downstream activities (the production of natural gas liquids and fertilisers) limited by the availability of feedstock. In 2016, though,

**Figure 1.2 Contributions to GDP growth, 2015–2017 (percentage points)**

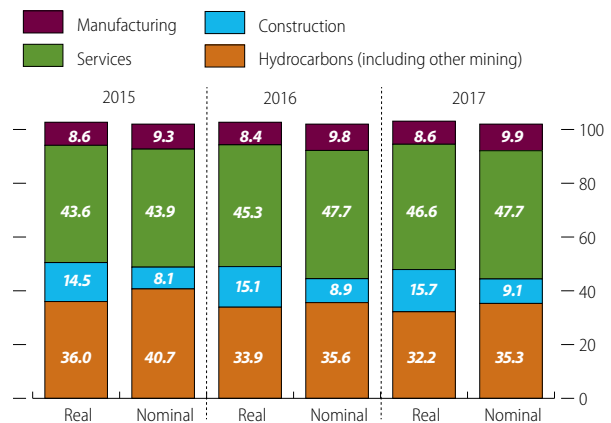


Note: Rounding errors are attributed to agriculture, imputed bank services (FISIM), import duties and electricity and water, which are not shown in the figure.

Source: MDP&S estimates.

[Click here for chart data](#)

**Figure 1.3 Share in GDP, 2015–2017 (%)**



Note: Rounding errors are attributed to agriculture, imputed bank services (FISIM), import duties and electricity and water, which are not shown in the figure.

Source: MDP&S estimates.

[Click here for chart data](#)

manufacturing growth is set to recover as an increase in feedstock from Barzan will lift the production of refined products, fertilisers and petrochemicals. Growing demand for cement and metals stemming from construction and infrastructure projects is expected to sustain momentum in other manufacturing activities.

A new condensates refinery, Laffan 2, is set to come on stream in the fourth quarter of 2016, accounting in large part for the vigorous manufacturing growth expected in 2017. The refinery will produce jet fuel and gas oil to be sold domestically, and will export other products, including diesel, to Asian markets.

### Nominal GDP growth

In current price (or nominal) terms, GDP growth is expected to contract by 10.2% in 2015, reflecting the susceptibility of Qatar’s GDP deflator to movements in hydrocarbon product prices, which are set on international markets. (Rising hydrocarbon prices tend to raise the growth rate of nominal GDP relative to that of real GDP, while falling hydrocarbon prices have the opposite effect.) A drop of about 40% in the price of Qatar’s hydrocarbon basket will register directly in lower income from upstream production and in reduced resources flowing to the state. If, as foreseen, oil and gas prices track back up in 2016 and 2017, nominal GDP growth will resume.

### Inflation outlook

Annual inflation, as measured by the change in the consumer price index (CPI), is expected to average 2.0% in 2015, down from 3.3% in 2014 (using the revised MDP&S CPI—see *Prices* in part 2). In part, the subdued inflation outlook is explained by a lower weight (21.9%) of the housing and utilities component of the index, which has been the principal driver of consumer price inflation in the past two years. However, growth in that component is expected to moderate over 2015 and this, combined with broadly stable import prices for consumer goods, will bring down headline inflation. A weakening in rental inflation and in overall pressures on prices is seen in the inflation data over the first four months of 2015, with a sharp reduction in monthly inflation measured year on year (part 2).

Looking out to 2016 and 2017, a modest pick-up in inflation is seen. Declines in commodity and manufactured goods prices are expected to ease, while a prolonged appreciation of the nominal effective exchange rate of the US dollar seems unlikely. Pressures on the prices of non-traded goods and services stemming from growth of the non-oil and gas economy will persist, but are not seen intensifying.

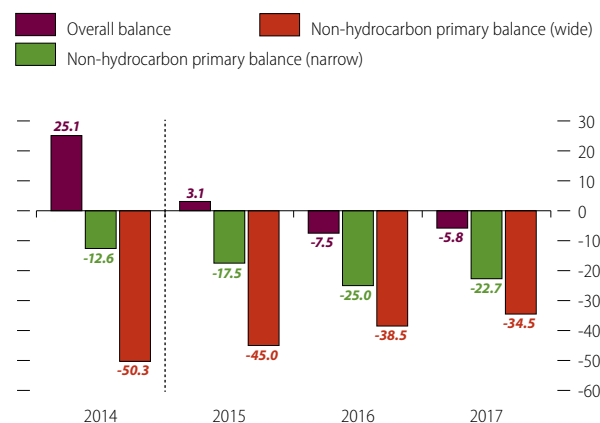
### Fiscal outlook

The QEO fiscal estimates and forecasts are made on a calendar year basis rather than fiscal years (as presented by the Ministry of Finance). However, as of 2016, that Ministry will employ a calendar year budgeting cycle (see box 2.4), making direct comparisons possible. However, following the budget classification of revenues, the QEO’s fiscal calculations make no allowance for investment income that accrues to the Qatar Investment Authority or similar entities.

The fiscal outlook is subject to considerable uncertainty both because of the transition to a calendar year budgeting cycle and of the complex impacts of lower hydrocarbon income on fiscal revenue, and because of the possibility of breaks from past spending trends as implementation of the Ministry of Finance’s reform program gathers momentum.

Given these caveats, the fiscal surplus is expected to narrow considerably in 2015 to 1.4% of nominal GDP, down from 12.3% in 2014 (figure 1.4). This reduction reflects a relatively quick pass-through of lower oil prices on budget revenues. It also factors in increased spending restraint on current expenditures. Capital outlays will rise as implementation of the infrastructure program gathers pace.

Figure 1.4 Fiscal balance (% of non-hydrocarbon GDP)



Source: 2014 preliminary estimates from Ministry of Finance; 2015–2017 forecasts based on MDP&S estimates.

[Click here for chart data](#)

In calendar 2016, it is foreseen that the overall fiscal balance will register its first deficit in 15 years, which the QEO estimates at about 4.9% of GDP.

This estimate assumes that: growth of current government spending continues to move on to a lower trajectory than in the recent past; there are effective cost reductions in the hydrocarbon sector; and additional non-oil and gas revenues accrue to the budget. However, a deficit still appears, as a consequence of an anticipated squeeze on hydrocarbon-linked revenue. The full impact of this squeeze is not felt until 2016 as hydrocarbon-linked investment income—largely the financial surplus of Qatar Petroleum (QP)—accrues to the budget with a lag.

The budget estimates for calendar 2016 are heavily influenced by projected outcomes for 2015, when it is expected that the oil price will average just \$57 per barrel. In 2015, investment income accruing to government reflects a healthier financial outcome in 2014, anchored on an average oil price of \$97.



In the past, the government's budget surpluses have been channelled to the Qatar Investment Authority for investment uses. With fiscal deficits now in prospect, attention turns to their financing. Qatar's strong net asset position and good credit standing will enable deficits to be comfortably financed over the projection period.

The non-hydrocarbon primary deficit (see *Glossary*) provides a measure of the economic stimulus to the non-oil and gas economy provided by government spending funded through hydrocarbon revenues. A narrow measure of this deficit counts, as hydrocarbon income, only royalties on oil and gas and income taxes on oil production as classified by the Ministry of Finance. A wide measure also treats investment income (essentially that part of QP's financial surplus transferred to government) as hydrocarbon revenue and includes a portion of "other miscellaneous revenues" that are likely to be linked to hydrocarbon production.

Larger deficits on both measures of the non-hydrocarbon primary balance are expected in 2015, but subsequently more moderate growth of government spending trims the deficits in 2016 and 2017. The large size of these deficits provides an indication of the dependence of the non-oil and gas economy on hydrocarbon-funded spending. Successful steps towards diversifying the economy would see these deficits shift on to a lower trajectory.

### **Balance-of-payments outlook**

The external current account surplus is expected to contract significantly in 2015, down to 5.3% of nominal GDP, from 26.1% of GDP in 2014. Reduced export revenues slash the surplus in circumstances where Qatar's import bill is likely to expand with the growth of the non-oil and gas economy and of the population. Rising imports are expected to cut further into the surplus in 2016, before healthier revenues in 2017 outpace rising import costs and lift the trade and current account surpluses. Nevertheless, the surplus foreseen in 2017 will be substantially below the formidable surpluses that Qatar has had in the recent past. The income and transfers account will remain in deficit throughout.

In the past, the bulk of current account surpluses have been recycled abroad in the form of overseas investments. Given projected levels of foreign investment, it is now anticipated that the overall balance of payments will register a deficit of about \$8.7 billion in 2015. Foreign reserves are likely to drift lower over the outlook period but will continue to provide comfortable levels of cover, both for imports and any foreign exchange liabilities.

### **Risks to the outlook**

The baseline economic outlook for 2015–2017 sees solid growth in the real economy but in a context of far lower oil prices than recent historical averages, a contraction in nominal GDP and a narrowing of fiscal and current account balances. The tumble in oil prices from June 2014 through to January 2015 was unforeseen, and the rally that has occurred since the most recent trough has seen considerable price volatility.

The prognosis for oil prices is still highly uncertain (see *Oil and gas consensus forecast* below), which translates into both upside and downside risks to the outlook. If oil prices rise more quickly than the forecasts in this *QEO*, there will be better outcomes for realised nominal income growth, as well as for fiscal and external balances. But if they fall short of projections, the recovery in nominal income growth will be restrained, fiscal balances could deteriorate more sharply and external-payment deficits might occur.

A useful metric for gauging how oil prices have an impact on important outcomes is the so-called "breakeven" price of oil, which can be viewed in two perspectives. Fiscally, it is the price which—for given levels of hydrocarbon output, government spending and non-hydrocarbon fiscal revenues—generate hydrocarbon revenues that match the non-hydrocarbon deficit. In balance-of-payments terms, it is the price needed to cover import costs and the deficit on the income and transfer flows of the current account, given non-oil and gas export revenues.

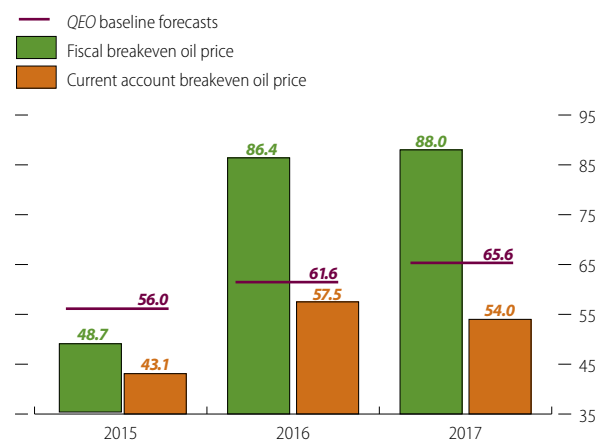
The method of estimating the fiscal breakeven price used in this *QEO* is somewhat more intricate than that in earlier *QEOs*. It accounts for more channels through which oil prices register on fiscal revenues and for lags in the receipt of those revenues on the government budget. Specifically, the breakeven price estimates now depend on assumptions about the timing of the oil-price pass-through to LNG and other product prices, as well as the impacts of oil prices on investment income and on corporate taxes paid by hydrocarbon entities. As these impacts are felt only within a one-year period, the fiscal balance in any calendar period depends not only on the contemporaneous oil price but also on the oil price in the previous calendar period. For the estimates presented below, lagged oil prices are set at their 2014 realised value for the 2015 breakeven calculation, with the baseline oil price assumptions for 2015 and 2016, respectively, used for the 2016 and 2017 breakeven estimates.

The calculation of the current-account breakeven price—presented in this *QEO* for the first time—depends on the factors driving import demand, import prices,

remittances and transfers, and non-oil and gas exports. As in the fiscal breakeven calculations, the prices in the previous calendar period are set at their 2014 realised value or the 2015 and 2016 baseline assumptions.

Figure 1.5 shows the estimated fiscal and current-account breakeven oil prices for 2015–2017 with the baseline oil price underlying this QEO's forecasts.

**Figure 1.5 Breakeven price of oil under different scenarios (\$ per barrel)**



Source: MDP&S calculations.

[Click here for chart data](#)

For 2015, both sets of breakeven prices are less than the baseline price assumptions, and considerably less than the prices realised through to 19 May 2015 (\$59.9 for Brent crude). Realised prices over the remainder of the year would then have to fall steeply from current levels to produce fiscal and current-account deficits in 2015. The estimate for fiscal breakeven prices in 2015 is modulated by the stabilising effect of investment income that accrues in 2014, most of which is booked as government revenue in 2015.

However, given the lower oil prices forecast for 2015, financial surpluses of hydrocarbon entities and investment income received by government in 2016 will retreat. The loss of this income takes up the estimated fiscal breakeven price to \$86.4 in 2016—nearly two fifths higher than the baseline price assumption of \$61.6. If oil prices rose faster than expected and crossed \$86.4, the projected fiscal deficit and the drag caused by lower prices in 2015 would be eliminated. More positively, the QEO estimates that prices would have to fall below \$57.5 in 2016 to produce a current-account deficit. The breakeven prices for 2017 are \$88.0 (fiscal) and \$54.0 (current account).

An indirect impact of lower oil prices and the squeeze on fiscal headroom could be a reduction of government deposits held with the domestic banking system, where in recent years the government has placed substantial

funds that have been important to credit expansion. Any drawdown of these deposits would constrain bank lending, which potentially could have adverse impacts on contractors who borrow for working-capital and other project needs. There is a risk therefore that induced credit constraints could delay projects or lead to project cost escalation which, in the short term, could raise the costs to government, in turn compounding fiscal pressures.

The potential risks linked to delivery of Qatar's complex infrastructure project portfolio are spelled out in earlier QEOs. The Ministry of Finance has been proactive in prioritising critical projects and in mitigating coordination, and other, problems. Yet if delays were experienced—which could be for reasons beyond credit constraints (above)—efforts to bring implementation back on track might pull in more workers, but the risk here is of further additions to the population accentuating pressures on front-line services already struggling to meet burgeoning demand. Such additions would aggravate inflationary pressures, at least in the short term.

Finally, Qatar's oil production is set to decline and LNG margins look likely to face pressure from new sources of supply and increased competition, particularly in Asian markets. If oil prices then remain lower over a protracted period, this would mean a shrinking capacity of the hydrocarbon sector to fund the gap between spending and resources generated by the non-hydrocarbon sector. It is therefore critical that ongoing investments in infrastructure and other assets deliver positive economic returns and support productivity gains.

## Consensus forecasts—GDP and inflation

Table 1.2 presents a summary of the latest publicly available economic forecasts for 2015, 2016 and 2017. A consensus view of Qatar's prospects is obtained as the mean/median of all projections polled. The table also includes the consensus estimate from December 2014 and the QEO forecast.

Since December's QEO, the real and nominal consensus GDP growth forecasts for 2015 and 2016 have been revised downwards, and the consensus inflation forecast is down too, especially for 2015.

### Real GDP growth, 2015–2017

The consensus means for the real growth estimates for 2015–2017 lie in a narrow range between 5.9% and 6.1%, with the view being that growth will drift up in 2016 and 2017. The revised consensus forecast for real growth in

**Table 1.2 Poll of economic forecasts for Qatar, 2015–2017 (%)**

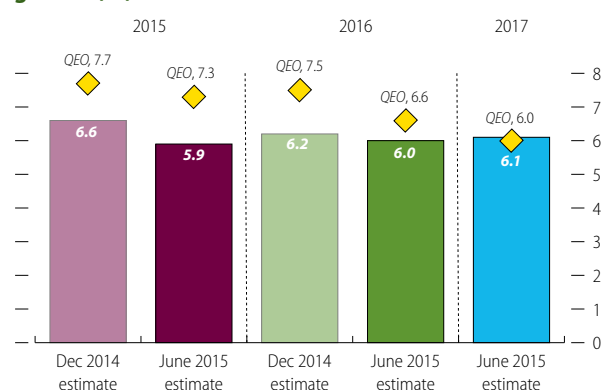
Economic forecaster	Real GDP growth			Nominal GDP growth			Inflation		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
BNP Paribas (Apr 15)	6.9	7.4	6.0	..	..	..	3.0	3.2	3.3
Business Monitor International (Mar 15)	6.6	6.1	5.7	3.1	9.3	10.5	3.8	4.0	4.5
Capital Economics (Mar 15)	5.5	5.0	..	..	..	..	2.5	3.0	..
Citigroup (Apr 15)	3.8	4.1	..	-11.4	17.5	..	2.0	4.5	..
Economist Intelligence Unit (Feb 15)	4.4	4.9	5.7	-13.7	13.9	..	3.5	4.2	4.9
Emirates NBD (Mar 15)	6.3	6.9	..	..	..	..	3.5	3.7	..
Fitch Ratings (Apr 15)	5.7	5.4	..	-9.3	10.8	..	3.6	4.3	..
HSBC (Apr 15)	5.6	5.4	..	-16.7	9.0	..	2.6	2.3	..
IHS Global Insight (Apr 15)	6.1	6.6	6.4	-0.8	8.8	13.0	1.9	2.3	2.7
Institute of International Finance (Mar 15)	6.8	6.4	..	-12.1	15.8	..	2.4	3.1	..
IMF (Apr 15)	7.1	6.5	5.6	-6.2	4.2	9.2	1.8	2.7	2.9
J.P. Morgan Securities plc (Mar 15)	6.1	6.6	..	..	..	..	4.6	4.7	..
National Bank of Kuwait (Apr 15)	6.5	7.0	..	5.2	7.4	..	3.4	4.1	..
Oxford Economics (Apr 15)	6.0	6.4	6.5	-8.6	11.2	12.0	2.1	3.1	3.7
Qatar National Bank (Mar 15)	7.0	7.5	7.9	-14.4	14.6	..	2.5	3.2	3.3
Roubini Global Economics (Apr 15)	6.0	5.5	6.0	..	..	..	3.6	3.5	3.5
SAMBA (Mar 15)	6.3	6.6	6.5	-8.3	8.5	6.9	-8.3	8.5	6.9
Standard and Poor's (Mar 15)	4.0	4.5	4.5	-11.6	11.8	12.1	3.5	4.0	4.0
Standard Chartered (Mar 15)	5.4	5.5	..	..	..	..	4.2	4.5	..
<b>Consensus (mean)</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>-8.1</b>	<b>11.0</b>	<b>10.6</b>	<b>2.4</b>	<b>3.8</b>	<b>4.0</b>
<b>Median</b>	<b>6.1</b>	<b>6.4</b>	<b>6.0</b>	<b>-9.3</b>	<b>10.8</b>	<b>11.3</b>	<b>3.0</b>	<b>3.7</b>	<b>3.6</b>
<b>High</b>	<b>7.1</b>	<b>7.5</b>	<b>7.9</b>	<b>5.2</b>	<b>17.5</b>	<b>13.0</b>	<b>4.6</b>	<b>8.5</b>	<b>6.9</b>
<b>Low</b>	<b>3.8</b>	<b>4.1</b>	<b>4.5</b>	<b>-16.7</b>	<b>4.2</b>	<b>6.9</b>	<b>-8.3</b>	<b>2.3</b>	<b>2.7</b>
<b>Standard deviation</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>6.7</b>	<b>3.7</b>	<b>2.3</b>	<b>2.7</b>	<b>1.4</b>	<b>1.2</b>
<b>Coefficient of variation (%)</b>	<b>16.3</b>	<b>16.1</b>	<b>14.2</b>	<b>-83.5</b>	<b>33.7</b>	<b>21.3</b>	<b>111.9</b>	<b>35.2</b>	<b>31.2</b>
<b>Memo items</b>									
Consensus (mean) (Dec 2014)	6.6	6.2	..	7	8.1	..	4.1	4.3	..
MDP&S forecasts (June 2015)	7.3	6.6	6.0	-10.2	4.3	11.4	2.0	2.5	3.0

... = not available.

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

Source: Consolidated from various reports and news articles. As of 1 May 2015.

2015 of 5.9% is somewhat below the earlier consensus forecast reported in December (6.6%, figure 1.6). There are a variety of possible explanations for this, but it is most likely that analysts' views of growth prospects have been adversely influenced by the retreat in oil prices. As the outlook for oil prices in 2016 has been revised down,

**Figure 1.6 Consensus and QEO estimates of real GDP growth (%)**

Source: MDP&S estimates based on forecasts consolidated from various reports and news articles.

this has probably clipped forecasts for economic growth (see *Oil and gas consensus forecast* below).

The largely unexpected nature of the fall in oil prices and the uncertainty about the consequences for government spending decisions, banking sector liquidity and general economic sentiment are reflected in a wider dispersion of forecasts. Adding to the climate of uncertainty are the timing and speed of anticipated interest rate increases in the US, ongoing monetary easing in the eurozone, and the possibility of a Greek exit from the euro. The variance of forecasts has increased from the earlier December poll, with the increase most pronounced for 2015.

This QEO reports consensus estimates over a three-year horizon to 2017. Fewer forecasts are available for 2017 than for 2015 and 2016 and, as such, averages could be more susceptible to the influence of outlying observations on either side of the mean. In fact, the variation in estimates for 2017 is marginally lower than that in 2015 and 2016 with all but two estimates tightly clustered around the average. The two outliers, Standard and Poor's estimate of 4.5% on the low side, and Qatar National Bank's estimate of 7.9% on the high side, lie

approximately the same distance from the midpoint of the range.

Set in this wider context, the latest *QEO* forecasts show a very different pattern from that of the consensus. Revised modestly down from the forecast in December 2014, the *QEO* GDP growth forecast for 2015 lies beyond the upper end of the consensus range and, unlike the consensus view, the *QEO* forecasts have growth tapering in 2016 and 2017 rather than making incremental advances. However, by 2017, the *QEO* perspective and the consensus numbers on real growth converge, with both forecasts at about 6.1%. The reasoning behind the *QEO* forecasts are set out elsewhere (see boxes 1.1 and 1.2).

### Nominal growth 2015–2017

Nominal growth forecasts for 2015 are mostly in negative territory. The consensus estimate is -8.1%. However, the forecasts are widely dispersed and, while most anticipate a decline in nominal GDP owing to lower oil prices, a handful of analysts foresee a recovery in oil prices sufficient to support an expansion of nominal GDP (see *Oil and gas consensus forecast* below).

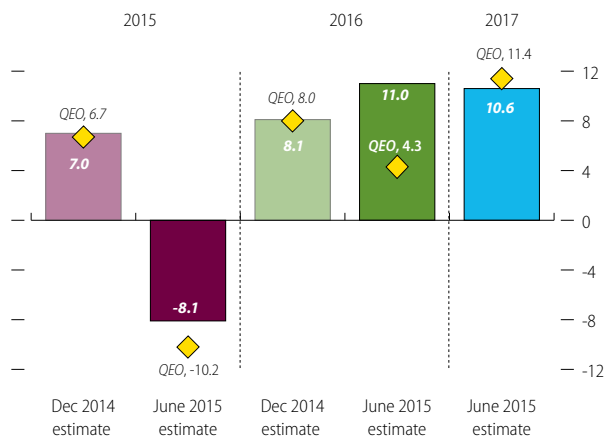
As the impact of lower oil prices on nominal GDP growth is transitory and as oil prices are expected to drift up in 2016 and 2017, forecasts for nominal growth are uniformly positive in those two years at 11.0% and 10.6%. There is also far less dispersion in the nominal growth estimates for 2016 and 2017, reflecting agreement about the upward trajectory of oil prices.

For 2015, the *QEO* forecasts a larger fall in nominal growth than the consensus estimate (figure 1.7) because, given an expectation of faster volume growth, it anticipates a steeper decline in the GDP deflator. It is likely that some analysts have assumed that LNG revenues are more resilient to oil price falls. The *QEO* also projects lower average oil prices in 2015 than the consensus.

### Inflation forecast 2015–2017

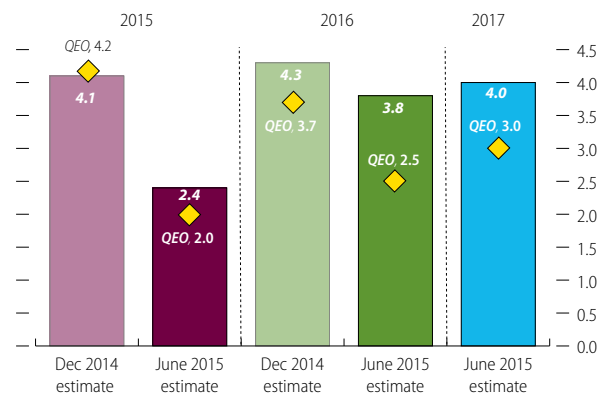
Analysts expect a gradual pick-up in consumer price inflation over 2015–2017, from 2.4% to 4.0% (figure 1.8). Statistical changes in the construction of Qatar’s CPI (see the *Consumer prices* subsection in part 2) make detailed comparisons with earlier forecasts problematic. But on an adjusted basis, the forecasts for 2015 are lower than those reported in the December 2014 *QEO*. The strength of the nominal effective exchange rate of the US dollar (to which the Qatari riyal is pegged—see box 2.6), subdued global commodity prices, and a possible weakening of demand growth in a context of lower oil prices explain these revisions. In 2016 and 2017, as the

**Figure 1.7 Consensus and QEO estimates of nominal GDP growth (%)**



Source: MDP&S estimates based on forecasts consolidated from various reports and news articles.

**Figure 1.8 Consensus and QEO inflation forecast (%)**



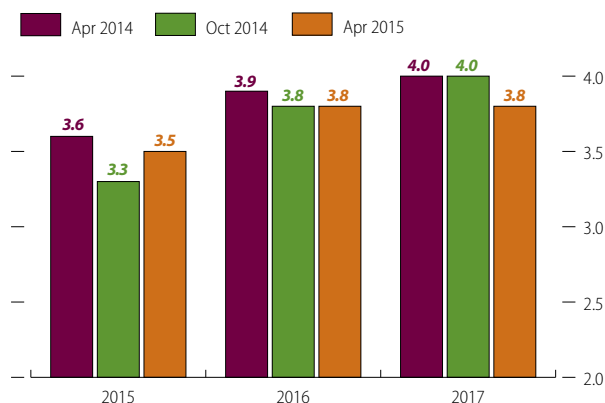
Source: MDP&S estimates based on forecasts consolidated from various reports and news articles.

global recovery gathers pace and downward pressures on global commodity prices ease (see the following sections), it is anticipated that Qatar’s consumer price inflation will edge up.

## Global economic prospects

In its *World Economic Outlook (WEO)* of April 2015, the IMF nudged up its global growth forecast for 2015 by 0.2 percentage points from its October 2014 forecast (figure 1.9). This increase for 2015 is driven mainly by a quicker than expected rebound in advanced economies, more than offsetting downward revisions of anticipated growth in emerging markets.

The IMF now thinks that growth in the US and Europe will be stronger than previously foreseen. In the US, consumption is the main engine of growth, supported by a continued decline in the unemployment rate and an

**Figure 1.9 Global real GDP growth projections (%)**

Source: IMF, WEO April 2015 database (<http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/download.aspx>), accessed April 2015.

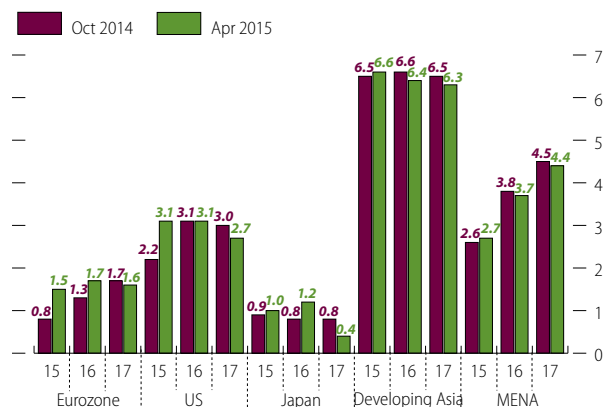
[Click here for chart data](#)

improving housing market. In Europe, factors stimulating economic activity are the lower oil price, declining interbank interest rates, easier liquidity and credit, and a weaker euro (which depreciated by about 7% in real effective terms from October 2014 to April 2015).

In emerging markets the outlook has moderated. Growth in China has been revised downward by half a percentage point as real estate activity, prices and credit growth, and investment all continue to moderate. The 2015 growth outlook for Russia has deteriorated considerably since the October 2014 forecast due to lower oil prices (resulting in lower investments), declining economic confidence and elevated political tensions. The Russian ruble depreciated by 30% in real effective terms from October 2014 to April 2015.

Looking further out, the IMF expects global growth to pick up in 2016 and 2017. It sees advanced economies maintaining their momentum, and some acceleration in emerging commodity-exporting countries (Russia, economies in Latin America and some countries in the Middle East).

Across major economic regions, the picture is mixed (figure 1.10). The IMF expects continued weakness in European growth over the medium to long term, despite its upward adjustments for 2015. Anaemic investment (Germany, Ireland and Spain apart), adverse demographics and weak productivity gains are restraining growth in Europe. In the US, higher consumption has sustained faster expansion than in Europe, but the IMF projects a tapering due to sluggish total factor productivity and a rise in the old-age dependency ratio. It has revised upward slightly its projections for Japan: a weaker yen and lower commodity (particularly oil) prices, which improve Japan's terms of trade and support its monetary policy, have helped to boost prospects.

**Figure 1.10 Regional real GDP growth projections (%)**

Source: IMF, WEO April 2015 database (<http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/download.aspx>), accessed 20 April 2015.

[Click here for chart data](#)

Forecasts for developing Asia see growth continuing steadily, with only fractional year-to-year variations. In the Middle East and North Africa (MENA), growth is expected to accelerate as conditions in energy-importing countries improve. Growth is expected to slow for oil exporters. Globally, the IMF still sees risks as biased to the downside, however (box 1.3).

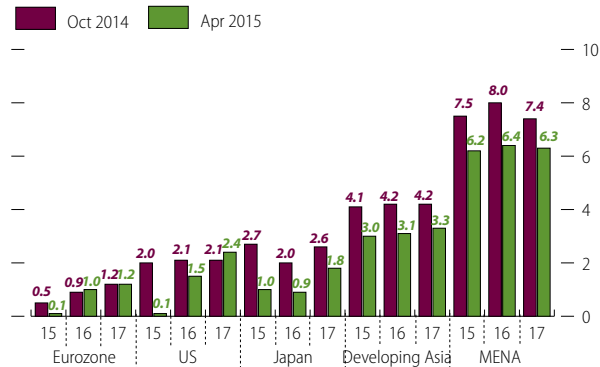
Expectations about inflation outcomes in 2015 have been lowered in all regions (figure 1.11), largely on weaker oil prices, which also feed into the prices of other energy-intensive goods. By 2016, though, inflation is expected to pick up in the eurozone as activity there responds to the stimulus provided by quantitative easing. The outlook for inflation in MENA has improved, but is expected to remain high relative to other major economic regions.

### Box 1.3 Moderated short-term risks, but still tilted to the downside

The increased risks to global growth emphasised in the *WEO* of October 2014 have eased. The lower oil price and the subsequent boost to demand in net oil-importing countries provide a fillip to real economic activity. Further, what was perceived to be a major risk last year—the eurozone slipping into recession and deflation—has eased somewhat. And risks of a sharp slowdown in China and other emerging markets have also attenuated.

However, the IMF still sees more downside than upside risks. The possibility of abrupt and large asset price shifts in financial markets remains a concern, especially given that US dollar interest rates are expected to move up. Geopolitical tensions (Russia, Ukraine, Middle East and parts of Africa) also remain to the fore and could prove disruptive. For countries that have large US dollar-denominated liabilities, a further US dollar appreciation could pose funding challenges and require painful balance-sheet corrections.

**Figure 1.11 Annual inflation projections (%)**



Source: IMF, WEO April 2015 database (<http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/download.aspx>), accessed 20 April 2015.

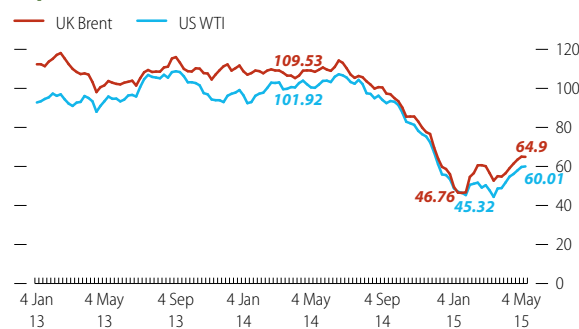
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## Prospects for energy and commodity markets

### Oil prices

Brent crude spot prices hit their most recent low of \$46.4 per barrel during the third week of January 2015, a 59.4% fall from its recorded annual high of just seven months earlier (figure 1.12). The tumble was driven by structural supply and demand factors and by Saudi Arabia’s greater efforts to maintain market share by pumping more oil.

**Figure 1.12 Average weekly crude oil spot price (\$ per barrel)**



Source: U.S. EIA Short-Term Energy Outlook database ([http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_w.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_w.htm)).

[Click here for chart data](#)

Investment in non-OPEC oil production has risen steeply since 2008, led by the shale boom in the US, adding 6 million barrels a day to non-OPEC supply. Simultaneously, growth in global oil consumption slowed to about 0.7 million barrels a day in 2014—half the pace seen in 2012 and 2013—owing primarily to subdued demand in key emerging markets. By December 2014, inventories are estimated to have been 6.1% higher year on year in OECD Americas and 0.9% higher in both OECD Asia Oceania and OECD Europe. In a context of falling prices, OPEC did not curtail

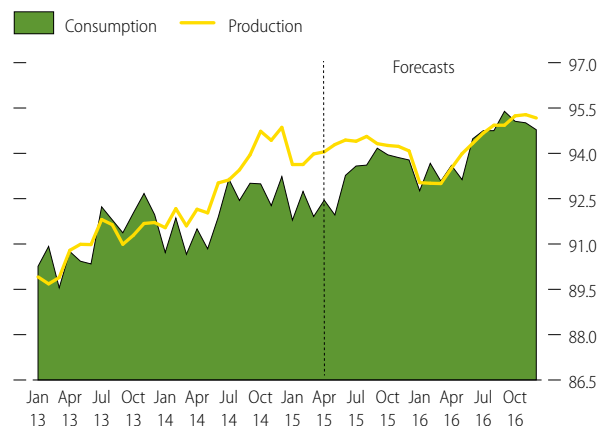
production and export volumes, with Saudi Arabia, OPEC’s swing producer, protecting market share rather than supporting prices through output cuts.

The impacts of these shifts in supply and demand on prices have likely been accentuated by financial bets on price movements. Oil futures markets have seen increasing volumes of “non-commercial” trades that are not linked to physical purchases and sales.

Prices have also exhibited volatility. By 13 May, Brent spot prices had rallied to their most recent peak of \$66.33, up by 47.0% from their January low. Adjustments to lower prices will eventually be made on both the demand and supply sides (box 1.4), but are unlikely to have happened so quickly as to trigger this snap back from January’s trough.

On 7 April 2015 the U.S. Energy Information Administration (EIA) forecast that the trend of softer oil prices would continue through the year, on the view that supply from OPEC and non-OPEC sources would continue to outpace world oil demand growth (figure 1.13). The EIA sees Brent crude rising to \$75 in 2016, as non-OPEC production tapers on retreating investment spending.

**Figure 1.13 International crude oil and liquid fuels, global demand and supply (million barrels per day)**



Source: U.S. EIA Energy Short-Term Energy Outlook database ([http://www.eia.gov/steo/cf\\_query/index.cfm](http://www.eia.gov/steo/cf_query/index.cfm)).

[Click here for chart data](#)

The IMF’s 2015 *WEO* expects a similar trend but with a less pronounced recovery in prices. In April it put 2015’s average crude oil price at \$58.1 per barrel, rising to \$65.7 in 2016 and to \$69.7 in 2017 (figure 1.14).

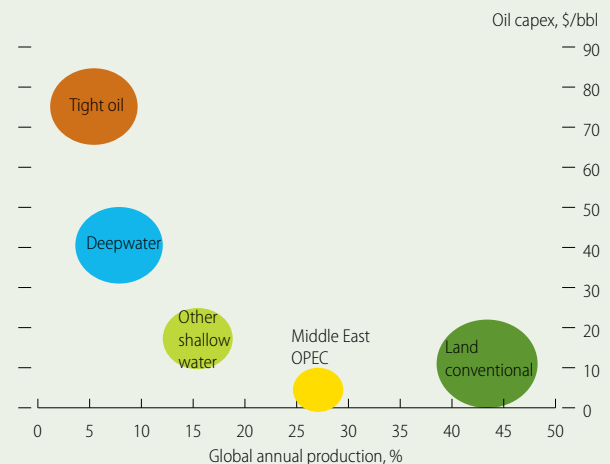
These forecasts draw on a raft of assumptions that themselves are highly uncertain. They do not, for example, factor in the potential impact on prices of, say, Iran, Iraq, or Libya offloading large crude supplies on the market. If sanctions against it are eased, Iran alone could potentially widen the current market surplus by another 30%. And if Iraq and Libya made faster headway in

### Box 1.4 Investment prospects for tight oil

A key adjustment factor in the future price of oil is the response of capital investment in the upstream industry. Efforts by Saudi Arabia are leading to high-cost producers reconsidering their investment and production strategies. With the current subdued oil price, many US-based tight oil producers are issuing second-lien bond offerings (see *Glossary*) to repay borrowings on their shrinking bank credit lines—and for some, to even stay in business.

Yet such measures are likely to have short-term effects only, given the high debt of many of the shale oil developers and high cost structures that require an oil price of around \$70 per barrel to break even—far higher than for Middle East OPEC producers (box figure). As liquidity gets tighter and oil companies adjust their outlooks, the rate of investment is set to fall. Globally, according to the chief economist of the IEA, oil companies are cutting more than \$100 billion in investment spending over 2014. (The *World Investment Energy Outlook* of 2014 estimated total investment in upstream oil and gas at about \$700 billion in 2013.)

### Box figure Oil production and capital expenditure by operating environment, 2014

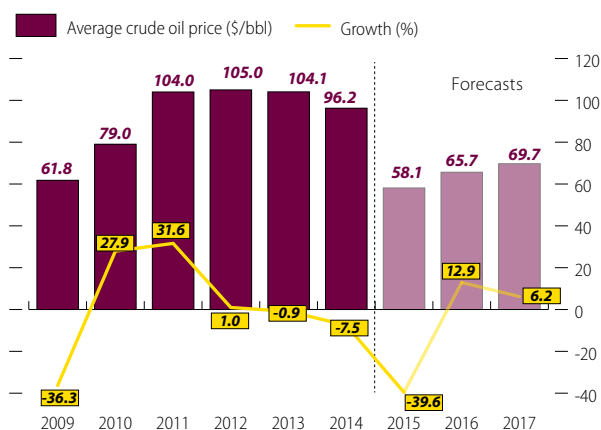


Note: Bubble size represents exploration and production oil capital expenditure, \$ billion.

Source: Schlumberger, Barclays, IEA, SLB Analysis.

[Click here for chart data](#)

Figure 1.14 Average crude oil price (\$ per barrel)



Note: Simple average of three spot prices: Dated Brent, West Texas Intermediate (WTI), and the Dubai Fateh.

Source: IMF, WEO April 2015 database (<http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx>).

[Click here for chart data](#)

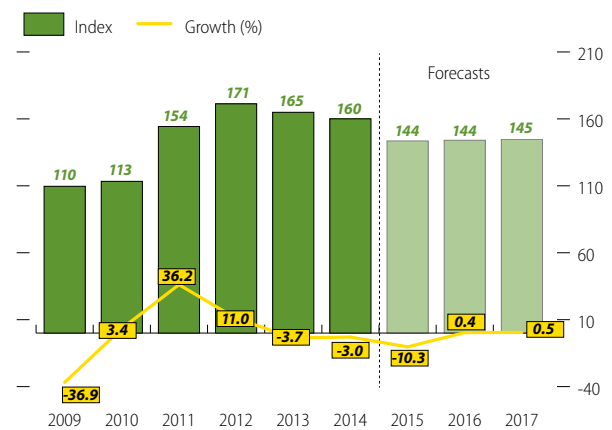
recovering production and exports than currently seems likely, the market surplus could be greater still.

### Gas prices

April's *WEO* revised down the forecast for average natural gas prices in 2015—a weighted average of Japanese, US and European prices—by 7.1% from the *WEO* forecast in October 2014 (figure 1.15 shows the latest revision). Solid European and Japanese prices are expected to sustain prices through 2016 and 2017, but US prices could weaken.

The revision comes on the heels of an unusually mild US winter. US gas inventories on 3 April 2015 were 79% above year-earlier levels, and surplus supply was the

Figure 1.15 Natural gas price index (2005 = 100)



Note: The index is a weighted average of European, Japanese and US prices.

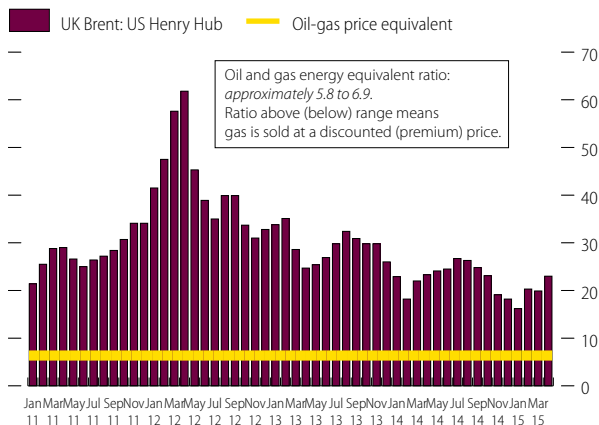
Source: IMF, WEO April 2015 database (<http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx>).

[Click here for chart data](#)

highest since records began in 2005. Between November 2014 (the start of peak demand for heating) and April 2015, this surplus helped trigger a 35% gas-price drop in the US. Marketed production there is also set to increase by 5% this year, setting a production record for the fifth straight year as the shale boom continues. However, price dynamics for the US gas market are largely seasonal, and as very little export capacity exists, the impact on wider global prices is minimal.

Globally, natural gas continues to be sold at prices that are below the energy equivalent parity with oil (figure 1.16). In the first quarter of 2015, the oil-gas price discount wavered, and the oil to natural gas price ratio averaged 18.8, its lowest since February 2014. The energy equivalent price ratio is about 6, or one third the current level.

**Figure 1.16 Spot price ratios: Crude oil to gas**

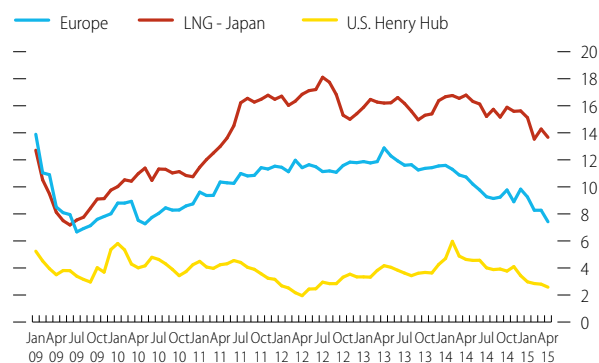


Sources: World Bank Commodity Markets database (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>) and U.S. EIA Short-Term Energy Outlook database ([http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm)).

[Click here for chart data](#)

Gas markets worldwide are highly segmented regionally as there is no globally integrated trading platform for natural gas yet. Of the three regions, the lowest gas prices are in the US, where most gas sales are made spot, and the highest are in Japan, where gas is sold under long-term contracts indexed to Japanese customs-cleared crude prices. In Europe, gas is traded under a patchwork of arrangements, with prices generally a little closer to those in Japan than in the US (figure 1.17).

**Figure 1.17 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>).

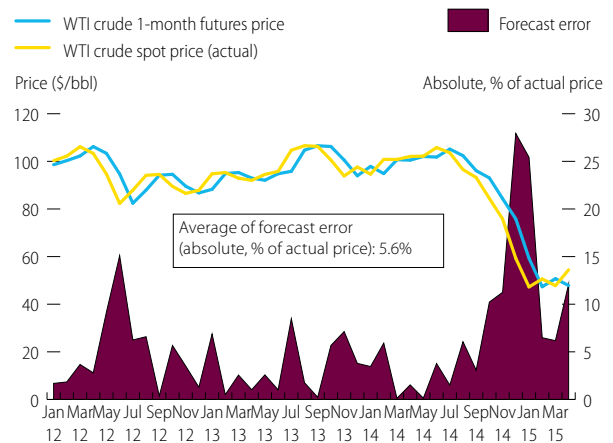
[Click here for chart data](#)

### Oil and gas consensus forecast

Predictions for hydrocarbon prices are extremely difficult to make and usually turn out wide of the mark. Fundamentals driving demand and supply, unanticipated shocks, asset-market influences (such as real interest rates and speculative demand) and geopolitical risks all interact in unforeseen ways.

A comparison of historical one-month oil futures with their actual spot prices pinpoints the divergence. The average absolute error as a proportion of the average price between January 2012 and March 2015 was 5.6% (figure 1.18). This error is higher than those observed previously, perhaps because energy markets were unusually unstable. Longer-dated forecasts—one or two years ahead—are prone to even greater error.

**Figure 1.18 Average monthly crude oil prices: Spot vs futures**



Source: Estimates based on data from U.S. EIA Short-Term Energy Outlook database ([http://www.eia.doe.gov/steo/cf\\_query/index.cfm](http://www.eia.doe.gov/steo/cf_query/index.cfm)).

[Click here for chart data](#)

MDP&S bases its forecasts on an average of the hydrocarbon price outlook of the IMF and World Bank. Many other institutions also publish their views on the future trajectory of oil and gas prices (table 1.3).

For both WTI and Brent crude prices, the forecasts in 2015 have been revised down from the consensus of December 2014. Unlike previously established patterns, the most recent IMF and World Bank forecasts for 2015 are at the lower end of the range of forecasts.

The dispersion in oil price forecasts is also significantly wider than in December: forecasts for WTI in 2015 diverge by over \$31 a barrel, for 2016 by \$56 and for 2017 by \$71. Brent forecasts are similar, with a \$31 gap in 2015 more than doubling to \$66 in 2016, and widening further to \$78 in 2017. World Bank and IMF forecasts also see rising oil prices in 2016 and 2017. The wide variation in forecasts can only be taken as a mark of considerable uncertainty about the outlook.

For gas prices, the table presents US Henry Hub prices, which are set on a liquid spot market as opposed to long-term oil-linked contracts as in most of Europe and Asia. The consensus view is that the US gas price will average \$3.2 per mmbtu in 2015, rising to \$3.7 in 2016 and climbing further to \$4.0 in 2017.



Table 1.3 Poll of oil and gas prices, 2015–2017

Forecaster	WTI (\$/bbl)			UK Brent (\$/bbl)			Natural Gas (US Henry Hub, \$/mmbtu)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
ABN AMRO (Jan 15)	55.0	70.0		60.0	75.0		3.8	4.0	
Australia & New Zealand Banking Group (Feb 15)	47.3	60.6	64.9	49.2	63.6	67.9			
Banco BPI (Mar 15)	48.0	54.0	59.0	54.0	60.0	65.0			
Bank of America Merrill Lynch (Mar 15)	48.5	57.0	74.8	55.0	58.0	79.8	2.9	3.9	4.4
Barclay's (Mar 15)	46.0	57.0		51.0	60.0		2.8	3.6	
Bernstein (Mar 15)	75.0	85.0	90.0	80.0	90.0	95.0			
<i>BMO Capital Markets Corp/Toronto (Mar 15)</i>	47.5	60.0	65.0	56.0	65.0	70.0	2.8	3.3	4.0
BNP Paribas (Mar 15)	55.0	70.0		60.0	75.0		3.0	4.0	
Business Monitor International (Apr 15)	50.0	54.0	60.3	53.0	58.0	62.0	3.0	3.3	3.5
Capital Economics Ltd (Mar 15)	52.0	58.0	63.0	59.0	60.0	63.0	3.3	4.5	5.0
CIBC World Markets Corp (Mar 15)	57.0	70.5		69.5	82.5		3.3	3.8	
Citigroup (Apr 15)	47.0	61.0	70.0	55.0	69.0	75.0	2.7	3.0	3.5
Commerzbank (Apr 15)	56.0	75.0		62.0	78.0		3.0	4.5	
Credit Suisse (Mar 15)	56.0	72.0	75.0	58.0	76.0	80.0			
CRISIL (Mar 15)	55.5	61.5	68.0	59.5	64.5	70.0			
Danske Bank (Feb 15)	61.0	73.0		66.0	78.0				
Deutsche Bank (Mar 15)	54.4	65.0	70.0	59.4	70.0		2.8	3.5	4.3
<i>DZ Bank AG (Mar 15)</i>	61.9			66.9			3.5		
Deloitte (Mar 15)	55.0	64.0	70.0	60.0	69.0	75.0	3.0	3.2	3.5
DNB Markets (Mar 15)				65.0	80.0	84.0			
Economist Intelligence Unit (Mar 15)	51.9	65.5		58.0	71.4				
First Energy Capital (Mar 15)	52.0	67.3	74.5	58.7	72.3	79.5			
Fitch Ratings (Jan 15)	50.0	60.0		55.0	65.0				
Goldman Sachs (Mar 15)	47.2	65.0		50.4	70.0				
<i>HSBC Holdings (Jan 15)</i>				62.5	75.0	90.0			
IHS Economics (Apr 15)	48.0	61.0	69.0	55.0	66.0	74.0	3.7	3.9	4.3
<i>Incrementum AG (Dec 14)</i>	73.3	110.0	130.0	77.5	124.0	140.0			
Institute of International Finance (Apr 15)				60.0	70.2				
Intesa Sanpaolo SpA (Mar 15)	55.3	66.5	72.0	60.0	69.0	75.0	3.1	4.1	4.5
Itau Unibanco Holding SA (Apr 15)	55.3	66.5	68.3	60.1	68.8	70.0	3.1	3.4	3.5
JBC Energy (Mar 15)	53.3	70.4		58.3	74.8				
Jeffries (Dec 14)	67.5	78.0	85.0	72.3	83.0	90.0			
JP Morgan Chase & Co. (Apr 15)	51.8	53.8		59.3	61.8		3.2	3.7	
<i>LarrainVial SA (Dec 15)</i>	64.0	69.0	74.0	70.0	75.0	80.0			
LBBW (Mar 15)	50.0	60.0	70.0	58.0	65.0	75.0			
<i>Lloyds Bank PLC (Mar 15)</i>	59.5	84.0		66.3	93.0		3.2	4.2	
<i>Macquarie Capital USA Inc (Apr 15)</i>	52.0	62.0	75.0	56.0	68.0	81.0	3.1	3.0	3.6
Morgan Stanley (Mar 15)	59.0			70.0	88.0	100.0			
National Australia Bank Ltd (Dec 14)	77.3	85.0		80.3	90.0		4.0	3.9	
Natixis SA (Mar 15)	52.4	60.0	66.0	57.3	63.3	69.0			
Nomisma Energia (Mar 15)	52.1	59.9	63.2	59.1	64.9	67.2			
<i>Nomura International Hong Kong Ltd (Jan 15)</i>	55.0	62.0	70.0	60.0	70.0	80.0	5.0	5.0	
<i>Norddeutsche Landesbank Girozentrale (Mar 15)</i>	56.0	72.0		62.0	74.0	75.0			
Nordea Bank Norge ASA (Dec 14)				62.0	75.0				
Oxford Economics (Apr 15)				56.9	63.6	70.0	3.1	3.6	4.0
<i>Prestige Economics LLC (Mar 15)</i>	58.7	82.0		64.8	85.0		2.8	3.8	
Raiffeisen Bank International AG (Jan 15)	55.0	73.0	82.0	58.0	77.0	85.0			
Raymond James & Associates Inc (Jan 15)	62.0	75.0	80.0	68.0	82.0	87.0	3.0	3.6	3.8
<i>RBC Capital Markets (Apr 15)</i>	54.0	74.0		60.0	79.0		3.0	3.5	
Samba (Feb 15)				60.0	70.0	82.0			
<i>Sanford C Bernstein &amp; Co Inc (Jan 15)</i>	75.0	85.0	90.0	80.0	90.0	95.0	4.0	4.0	4.5
Santander UK PLC (Mar 15)	51.5	57.0	63.0	56.5	65.0	70.0	2.9	3.3	3.7
Scotiabank (Mar 15)	58.0	65.0		63.0	70.0		2.8	3.0	
Societe Generale (Apr 15)	49.3	60.0	65.0	55.2	65.0	70.0	2.9	3.5	4.5
Standard and Poor's (Mar 15)	50.0	60.0	70.0	55.0	65.0	75.0	2.8	3.3	3.5
Standard Chartered (Mar 15)	67.0	93.0	106.0	76.0	100.0	112.0			
TD Securities (Apr 15)	48.9	65.0					3.1	3.3	
Toronto-Dominion Bank/Toronto (Mar 15)	49.0	65.0		55.0	72.0		3.1	3.3	
UBS (Jan 15)	49.0	62.5	75.0	52.5	67.5	80.0	3.3	3.8	4.0
UniCredit Markets & Investment Banking (Mar 15)	54.0	66.0		60.0	70.0				
U.S. EIA (Apr 15)	52.5	70.0		59.3	75.0		3.2	3.6	
Wells Fargo Securities LLC (Feb 15)	58.1	72.0	73.5	61.4	75.0	75.0			
Westpac Banking Corp (Apr 15)	57.0	62.0	73.0	52.0	59.0	70.0			
Consensus (mean)	55.4	67.9	74.2	61.0	73.1	79.6	3.2	3.7	4.0
Median	54.4	65.0	70.0	59.8	70.0	75.0	3.1	3.6	4.0
High	77.3	110.0	130.0	80.3	124.0	140.0	5.0	5.0	5.0
Low	46.0	53.8	59.0	49.2	58.0	62.0	2.7	3.0	3.5
Standard deviation	7.3	10.5	13.7	7.2	11.4	14.5	0.5	0.5	0.5
Coefficient of variation (%)	13.2	15.5	18.4	11.8	15.5	18.2	14.7	12.6	11.6
Memo items									
Consensus average (UK Brent and WTI)	58.2	70.5	76.9						
International Monetary Fund (Apr 15)	58.1	65.7	69.7				3.0	3.3	3.5
World Bank (Apr 15)	53.2	57.2	61.1				3.0	3.2	3.5

a = Average of WTI, Brent and Dubai Fateh spot prices. *Italics* = new forecaster. For gas prices, the table presents US Henry Hub prices, which are set on a liquid spot market as opposed to long-term oil-linked contracts as in most of Europe and Asia.

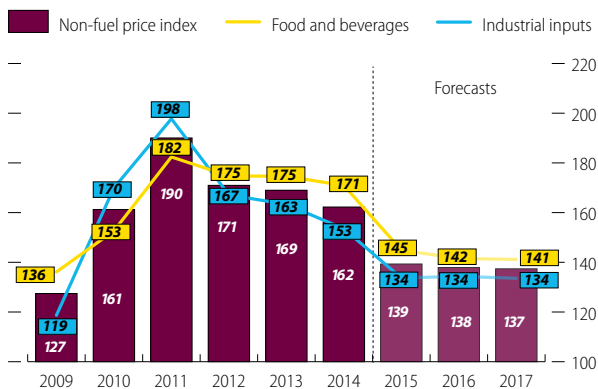
Source: Consolidated from Bloomberg and Reuters surveys, various reports and news articles. As of 27 April 2015.

The consensus gas price forecasts have been revised down from December 2014’s *QEO Update 2014–2016*, reflecting inflated inventories in the US after the mild winter. As with oil, uncertainty has increased: the coefficient of variation for 2015’s gas forecasts is 14.7%, up from 6.2% in December 2014. Box 1.5 shows, however, that these lower gas prices do not undermine Qatar’s LNG export competitiveness.

**Non-energy commodity markets**

Global non-energy commodity prices seem set to continue their declining trend since October 2013. April 2015’s *WEO* expects the non-fuel commodity price index to fall by 14.1% in 2015, then by 1.0% in 2016 and 0.4% in 2017 (figure 1.19).

**Figure 1.19 Non-fuel commodity price index (2005 = 100)**



Source: IMF, WEO April 2015 database (<http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx>).

[Click here for chart data](#)

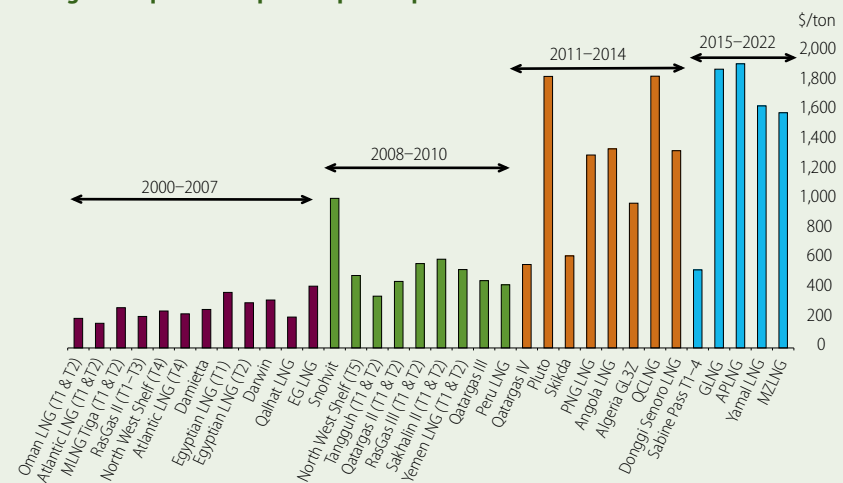
Food and beverage prices are forecast to decline by 15.2% in 2015, by 2.3% in 2016 and by 0.2% in 2017, given a favourable production outlook for most major crops. Industrial and raw materials are also seen falling, by 12.9% in 2015, before marginally recovering to grow by 0.5% in 2016 and then falling back by 0.6% in 2017. Larger metal supplies are expected to come to market—in part induced by earlier investments when prices were high—when demand is softening in larger developing countries. Among other factors, a slowdown in real estate investment in China is seen restraining demand.

**Box 1.5 Qatar to stay highly competitive as an LNG exporter**

Margins for the sizeable number of LNG projects coming online in the next few years are being squeezed from both sides: lower forecast natural gas prices, and liquefaction investment costs that have continued to escalate.

The capital cost of Qatar’s LNG infrastructure is, however, far lower than that of newer trains. So despite the possibility of lower prices, Qatar’s integrated supply chain will keep the country a highly competitive supplier.

**Box figure Liquefaction plant capital expenditure estimates**



Note: The above capital expenditure figures are in money-of-the-days terms for historical costs and 2015 real terms for future costs. The years in the chart represent when the plant started, or will start, production.

Source: FGEnergy/FACTS.

[Click here for chart data](#)

# Part 2—Performance in 2014

Qatar's economy expanded by 6.1% year on year in real (volume) terms in 2014, maintaining the pace set in 2012 and 2013. The non-oil and gas sector accounted for all the GDP growth in 2014, led by services and construction. As a result of lower average oil prices, in nominal (value) terms the economy grew at its slowest pace in over a decade in 2014 (4.1%), even as Qatar added \$8.2 billion to its economy.

Annual average inflation in 2014 stood at 3.3%, based on the newly revised CPI released in January 2015. As in the past, the housing and utilities component was the main driver. Foreign inflationary pressures were absent, given falling global food and commodity prices and an appreciating US dollar.

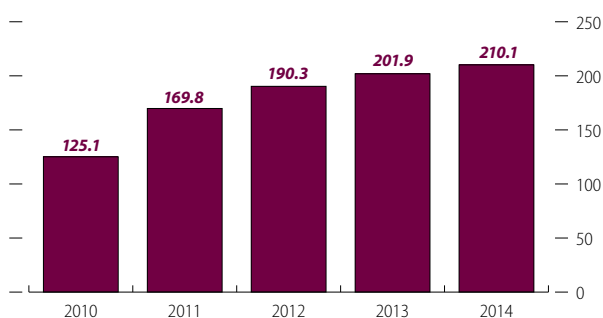
The fiscal, trade and current account surpluses remained sizeable. Recent data from the Ministry of Finance suggest that the fiscal balance for FY2014/15 stood at QR93.9 billion, equivalent to 12% of estimated nominal GDP (over the same period), despite lower hydrocarbon revenues. Both the trade and current account surpluses were down on 2013's outcomes, at 47.5% and 25.9% of nominal GDP, respectively. Rising service imports and transfers, along with lower merchandise export proceeds—given lower hydrocarbon prices—led to lower surpluses on both accounts.

## GDP growth

### Aggregate analysis

In nominal (value) terms the economy grew at its slowest pace in over a decade in 2014 (4.1%), even as Qatar added \$8.2 billion to its economy (figure 2.1). With the population growing faster than nominal income, per capita income declined by 4.8% from 2013 to \$98,241.

**Figure 2.1 Nominal GDP (\$ billion)**



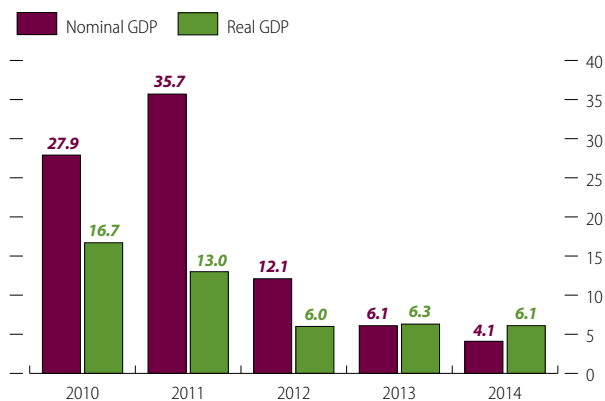
Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

[Click here for chart data](#)

In real (volume) terms measured in constant 2004 prices, the economy grew by 6.1% in 2014 (figure 2.2), maintaining the pace established in 2012 and 2013.

Lower oil prices dragged down the GDP deflator—a measure of the price of all goods and services in the

**Figure 2.2 Nominal and real GDP growth (%)**



Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

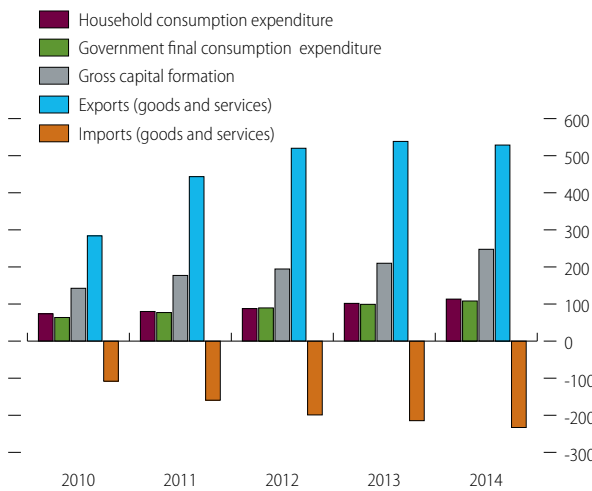
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economy—taking nominal below real GDP growth. The GDP deflator fell by 1.8% from its 2013 level. Sectorally, deflators that fell include those for mining and quarrying (down 1.7%) and for electricity and water (down 1.3%). The value-added deflators for the remaining sectors rose, including most notably those for household services (6.8%), building and construction (3.6%), finance, insurance, real estate and business services (3.5%), transport and communications (1.4%), and manufacturing (1.1%). An increase (or fall) in a sector's value-added deflator occurs when the weighted price of its gross output increases (or falls) relative to the

weighted cost of intermediate goods and services used in production. An explanation of movements at sector level therefore requires a detailed, micro-level analysis of changes in the prices of all inputs—domestic and imported—and of all outputs produced by that sector.

Expenditure-side estimates for GDP show exports, which are dominated by hydrocarbons, as the single largest component of GDP, accounting for 69.1% in 2014 (figure 2.3). Reflecting the combination of many unskilled migrant workers and the capital intensity of the oil and gas sector, household consumption spending constituted only 14.8% of GDP in 2014. The share of consumption spending in GDP has risen moderately over the past three years, albeit from a low base.

**Figure 2.3 Nominal expenditure-side GDP (QR billion)**



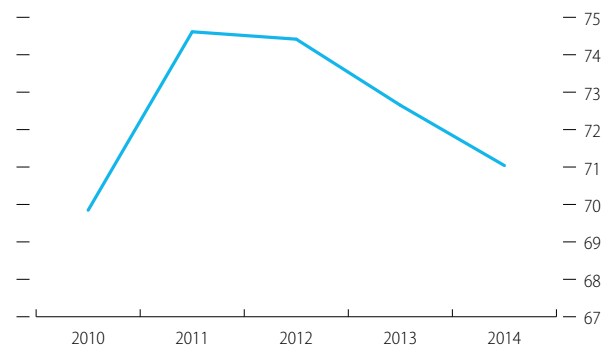
Note: Preliminary estimates for 2014; gross capital formation includes statistical discrepancy.  
 Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.  
[Click here for chart data](#)

Gross domestic investment, the second-largest component of expenditure, accounted for 32.4% of GDP in 2014. Investments include upstream oil and gas production facilities, major real estate development and heavy investments in economic and social infrastructure. Measurement errors in expenditure estimates of GDP (equal to the difference between the uncorrected expenditure-side estimates of GDP and MDP&S’s output-based measures) have been included in the investment figures, and so these figures need to be treated with caution.

Qatar’s imports continued accounting for a sizeable portion of demand in 2014, at 49.7% of final domestic spending (gross capital formation plus household and government consumption). The high level of imports reflects the small and open nature of the economy and its limited domestic economic base.

Qatar’s aggregate savings rate—the difference between nominal GDP and nominal household and government consumption, measured as a share of nominal GDP—stood at 71.0% of GDP in 2014 (figure 2.4). While the aggregate savings rate has edged down over the past three years it remains very high, and is the counterpart to a substantial trade surplus (see *Balance of payments* below) and a high investment rate (above).

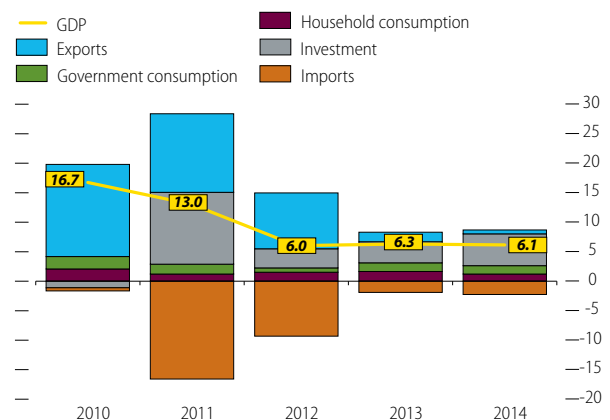
**Figure 2.4 Savings rate (%)**



Note: Preliminary estimates for 2014.  
 Calculation:  $(\text{Nominal GDP} - (\text{Private Consumption} + \text{Government Expenditure})) / \text{Nominal GDP}$   
 Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.  
[Click here for chart data](#)

From an expenditure perspective, following the pattern established in 2013, real growth in 2014 stemmed largely from investment, which contributed over 5.4 percentage points of total growth. Previously, in 2010–2012, exports were the main engine of growth, but with hydrocarbon activity having flattened, exports contributed a meagre 0.7 percentage points in 2014 (figure 2.5).

**Figure 2.5 Contributions to real GDP growth, expenditure (percentage points)**



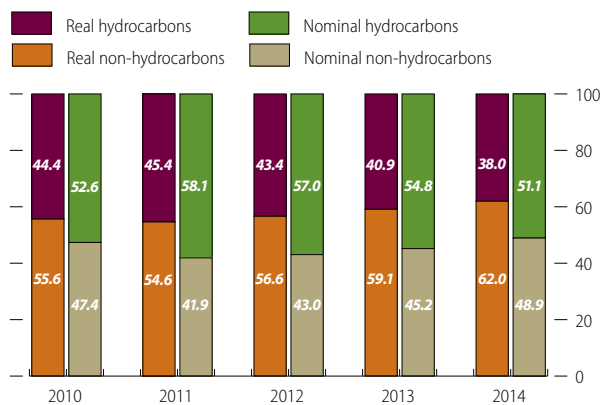
Note: Preliminary estimates for 2014; gross capital formation includes statistical discrepancy.  
 Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.  
[Click here for chart data](#)

### Economic diversification

The non-oil and gas sector accounted for all the GDP growth in 2014. Oil and gas GDP contracted by 1.3%, largely because of a fall in oil production. The fastest-growing components of the non-oil and gas sector were construction (18%), trade and hospitality (14.1%), finance and real estate (12.4%) and transport and telecommunications (10.4%). Government services grew by 8.0%, albeit at a slower pace than in the past.

The share of oil and gas in aggregate output declined again in 2014 in both real and nominal terms (figure 2.6). Measured in real terms using 2004 prices (the base year used for Qatar's national accounts—box 2.1), the share of hydrocarbons in total output is lower than the same share in nominal (current price) terms. Real hydrocarbon prices rose steeply from 2004, giving oil and gas a far higher weight in the nominal than real calculation using 2004 weights. The calculation in nominal terms provides a better barometer of the changing composition of output in the economy: the declining share of hydrocarbons in nominal GDP in 2014 reflects a combination of fast growth of the non-oil and gas sector, a fall in oil and gas prices and a marginal decline in oil and gas output.

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



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

Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>.

[Click here for chart data](#)

The latest Labour Force Survey of 2014, which presents data up to 2013, shows that employment is still dominated by unskilled and semi-skilled workers (figure 2.7). Their share in the total numbers employed remains higher than it was in 2008, though it has decreased fractionally since 2011. The bulk of foreign workers employed in Qatar do not have tertiary qualifications.

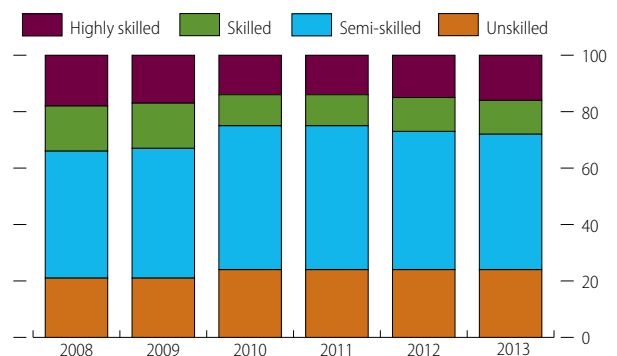
### Box 2.1 Rebasings of the National Accounts in 2013 prices

The Statistics Directorate of MDP&S is currently undertaking an extensive benchmarking and rebasing of Qatar's national accounts, which will result in new national accounts estimates expressed in 2013 constant prices. The constant price estimates of Qatar's national accounts are currently based in 2004 prices. The rebasing exercise will ensure a more accurate and relevant representation of Qatar's economy but it may also change the perspective on how the economy is moving.

The *QEO 2014–2015's* part 1 annex describes how different base year price weights can affect measured rates of economic growth. The reasoning set out there suggests that using 2013 price weights will trim forecast real GDP growth. The main reason is that in 2013 the price of oil measured relative to the prices of other goods and services produced in the economy was substantially higher than in 2004. Consequently, the rebased series will give a larger weight to upstream oil and gas activity (where volumes are predicted to be flat or may decline) and a lower weight to non-oil and gas activity (where almost all volume growth in the economy is expected to occur).

Source: *Window on Economics Statistics*, 11th Issue, [http://www.qsa.gov.qa/eng/publication/economic\\_publication/WindowOnEconomicStatistics/WindowOnEconomicStatistics-11th-Issue-Q4-2014.pdf](http://www.qsa.gov.qa/eng/publication/economic_publication/WindowOnEconomicStatistics/WindowOnEconomicStatistics-11th-Issue-Q4-2014.pdf)

**Figure 2.7 Non-Qatari workers' skills composition (%)**



Source: MDP&S, Labour Force Survey 2014, <http://www.qsa.gov.qa/eng/GeneralStatistics.htm>.

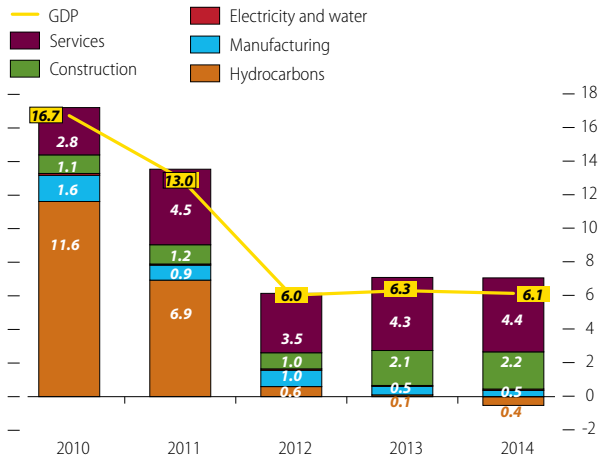
[Click here for chart data](#)

### Non-hydrocarbon sector breakdown

The non-hydrocarbon sector spearheaded economic expansion in 2014, growing at 11.3%, with all subsectors posting solid growth. As in 2013, service activity was the major driver of growth in this sector, contributing 4.4 percentage points (figure 2.8).

Trade, restaurants and hotels was the fastest-growing component, at 14.1% (figure 2.9), propelled by the rise in population and strong growth in tourism. The Qatar Tourism Authority reported an increase in visitors to Qatar of 8.2% in 2014, for an average hotel occupancy rate of 73%, up from 65% in 2013.

**Figure 2.8 Contributions to real GDP growth (percentage points)**

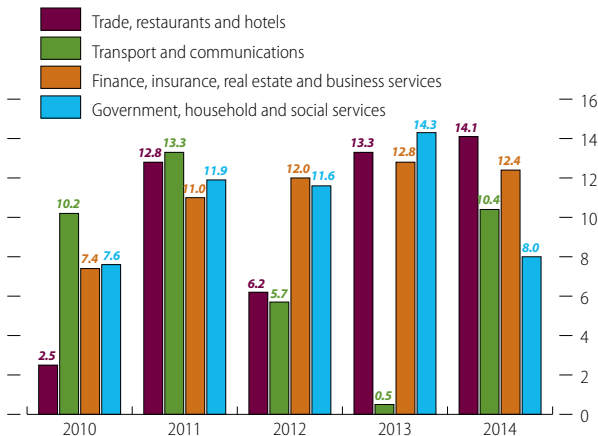


Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Services include transport and communications; trade, restaurants and hotels; finance, insurance, real estate and business services; government, household and social services.

Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

[Click here for chart data](#)

**Figure 2.9 Service subsector growth (%)**



Note: Output is measured in constant 2004 prices.

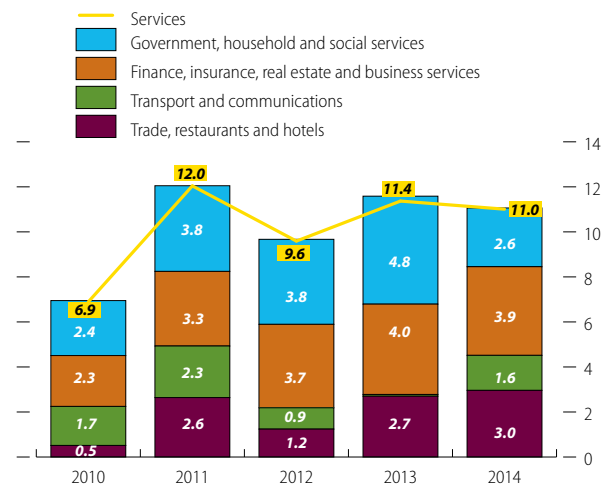
Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

[Click here for chart data](#)

Growth in the finance, insurance, real estate and business services subsector accelerated, expanding by 12.4% year on year in 2014. Much additional credit was offered in response to demand from contractors working on large infrastructure projects, which also drove high growth in the insurance market. Transport and communications increased by 10.4%, driven by Qatar Airways' continued expansion and by the opening of the new Hamad International Airport early in the year.

The only service subsector where growth slowed in 2014 was government, household and social services (figure 2.10). Most value added in the government sector is accounted for by wages and salaries, and government steps to rein in expenditure growth in 2014 kept growth

**Figure 2.10 Service subsectors' contribution to services growth (percentage points)**



Note: Output is measured in constant 2004 prices.

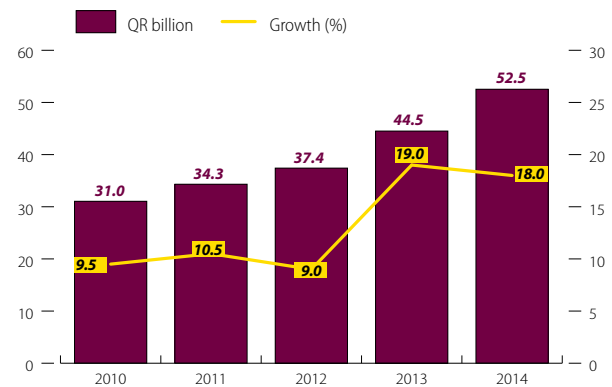
Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

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in the wage bill in check. Preliminary data for FY2014/15 indicate a reduction in the wages and salaries category for the first time in a decade (see *Fiscal accounts*).

Buoyed by Qatar's huge investments in infrastructure and real estate, construction output grew at a rapid 18.0% (figure 2.11), contributing 2.2 percentage points to overall growth. Large projects include Qatar Rail and real estate developments for Lusail City and Msheireb (Downtown Doha).

**Figure 2.11 Construction output**



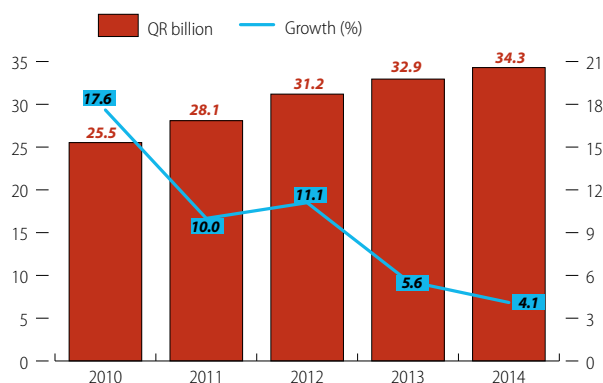
Note: Output is measured in constant 2004 prices.

Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

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Compared with services and construction, manufacturing grew at a tepid 4.1% (figure 2.12), contributing just 0.4 percentage points to aggregate growth. Manufacturing growth is partly constrained by the availability of feedstock from upstream production, where supply has now plateaued. Production of refined petroleum products fell by 3.2% in 2013, whereas

Figure 2.12 Manufacturing output



Note: Output is measured in constant 2004 prices.  
Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 17 May 2015.

[Click here for chart data](#)

petrochemical output grew by 8.4%, half the rate of a year earlier. Growth in fertilisers, too, slowed appreciably from 2013, with output inching up by just 0.8%. Growth in other manufacturing industries held steady at 5.6%, close to 2013's rate.

## Prices

### Consumer prices

MDP&S released a new CPI series in early 2015. The new series, with a base of 2013, draws on an updated sampling frame and new expenditure weights. The previous sampling frame dates from 2006, when the Qatari economy was much smaller than today, retail choices were limited and the population much less numerous (about 40% less).

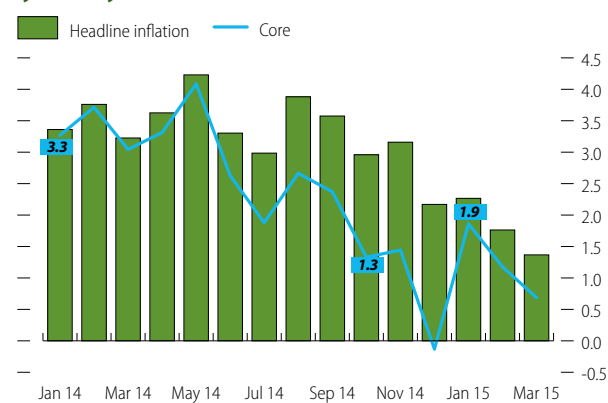
The new CPI series identifies 12 elements of the consumption basket, up from eight in the old one, entailing changes to their weights. The most notable change is a reduction in the housing, water and electricity category from 32.2% to 21.9%. This adjustment is based on new information from the 2013 household expenditure survey and from adjustments to estimates of imputed rent for owner-occupied dwellings. Estimates for individual components can also differ from those that would have been generated by the older sampling frame. MDP&S has re-estimated the CPI for 2013 and 2014 using the new approach, helping to create a bridge between the new and old CPI series. Comparisons with earlier QEO forecasts of inflation are problematic, however, as these were based on the old CPI series. In reporting inflation outcomes for 2014 the QEO will now use the new CPI series.

Based on the new series, headline inflation (the change in the average annual CPI level) stood at 3.3%

in 2014; based on the old series the same primary data generate a figure of 3.0%. This revised estimate is mainly attributable to a higher estimate of housing and utilities costs, which more than offset their lower weight in the new index. Furnishings and household equipment, recreation and culture, as well as miscellaneous goods and services, also grew faster than previously recorded under the old CPI index.

Underlying core inflation (which removes the transitory and volatile components of utilities and residential rents, and of food and beverage prices) was 2.5% in 2014. It peaked in May 2014 before trending down through to the first quarter of 2015 (figure 2.13).

Figure 2.13 Monthly headline and core inflation growth (year on year, %)

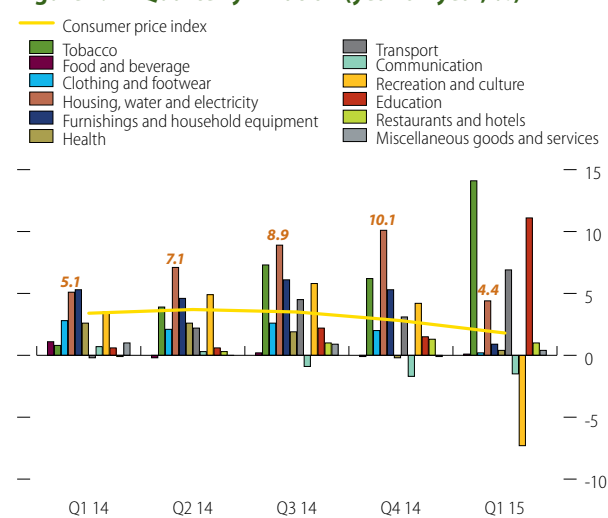


Note: Core inflation is headline inflation less food, beverages, housing, water and electricity.

Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 15 May 2015.

[Click here for chart data](#)

Figure 2.14 Quarterly inflation (year on year, %)



Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 15 May 2015.

[Click here for chart data](#)

Housing and utilities was the main driver of consumer price inflation over 2014, growing by 7.8% on an annualised basis and accelerating through to the last quarter before easing in the first quarter of 2015 (figure 2.14). Educational services, traditionally a subdued segment, rose by 11.1% in the first quarter of 2015, possibly reflecting the pressure that a rising population is placing on local services. External drivers of inflation were muted during 2014 (box 2.2).

**Box 2.2 Sources of consumer price inflation in Qatar**

Inflation has two main sources: foreign (i.e. imported) and domestic. For a discussion of the historical dynamics of inflation, see *QEO 2014–2015*, box 2.2.

Foreign inflation is caused by price increases of imported goods and services owing to nominal effective exchange rate depreciation or rising costs of goods and services in exporting countries (or a combination of the two).

Domestic inflation occurs when local demand (for goods and services) is greater than their domestic supply (a positive output gap). For given levels of productive capacity, possible contributors to excess demand could be fiscal spending growth, monetary expansion or a fast-rising population. Sometimes negative shocks to supply, say due to natural disasters or geopolitical events, can generate a positive output gap.

For 2014, external sources of inflationary pressures were muted. Global commodity prices and the unit values of manufacturing products retreated. Moreover, the nominal effective exchange rate of the riyal appreciated alongside the US dollar, to which it is pegged.

Domestically, continued fast population growth and a pick-up in investment spending added to domestic price pressures.

**Producer prices**

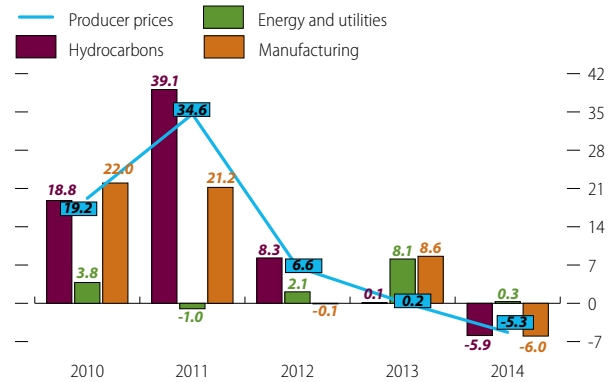
For the first time since 2009, the producer price index (PPI) declined in 2014 (figure 2.15). The global slide in oil prices led to a decrease in the PPI of 5.3%. The only component of the hydrocarbons PPI index to exhibit growth was LNG, which was up by 0.9%. (LNG prices are linked to oil prices, but the link occurs with a lag.) Manufacturing, which is dominated by petrochemicals and refining industries that rely on oil and gas feedstock, also registered a sizeable decrease, falling by 6.0% year on year.

**Asset markets: Equities and property**

**Qatar Stock Exchange**

Qatar Stock Exchange (QSE), the trading platform for domestic equities, has witnessed both expansion and significant volatility over the past year. Its market

**Figure 2.15 PPI growth (%)**

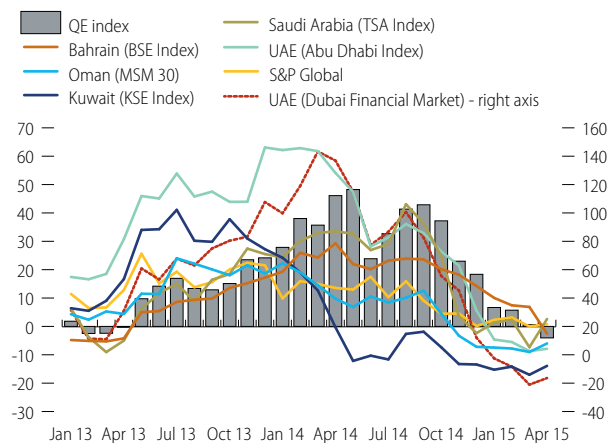


Source: MDP&S estimates based on data at <http://www.qsa.gov.qa/eng/index.htm>, accessed 15 April 2015.

[Click here for chart data](#)

capitalisation reached QR676.8 billion at the end of 2014, after rising 21.8% year on year. The QE Index, a benchmark index of the largest and most liquid 20 stocks, was up 18.4% from December 2013, outperforming the S&P Global Index, which stayed virtually flat (figure 2.16). MSCI’s upgrade of the QSE to emerging market from frontier status led to higher rates of foreign portfolio investment (box 2.3) and a substantial increase of overall trading value by 166.1%.

**Figure 2.16 Gulf Cooperation Council stock price indices and S&P Global (year-on-year change, %)**



Sources: QE (<http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/>) and CEIC database, accessed 11 May 2015.

[Click here for chart data](#)

Set against robust performance through much of 2014, the equity market began a retreat in the last quarter of the year and fell back further in the first quarter of 2015. By end-April 2015, the QE index had declined by 4.0% year on year. Performance in other GCC markets was mixed. Saudi Arabia’s TSA Index was up by 2.6% but Kuwait posted a decline of 13.9%.

Equities listed on Qatar’s market are still expensive compared with those on other regional bourses. As of

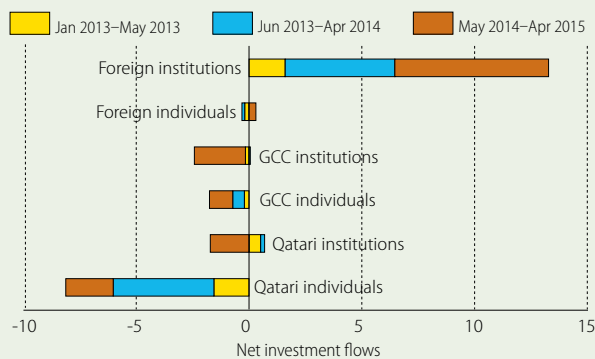


### Box 2.3 QSE—journey through MSCI upgrade and beyond

In June 2007, MSCI put Qatar on its watch list for potential upgrade to “emerging market” from “frontier market” classification, identifying with international institutional investors hurdles to be overcome for the upgrade. In response, QSE improved its operational efficiency and market access. By 2012, major initiatives such as the adoption of an improved trading model, new order types, and a revamped settlement process had been completed, and subsequently in June 2013, MSCI confirmed the upgrade, to come into effect from June 2014.

Trading data suggest foreign institutional investors favored the changes. From January 2013 till April 2015, net buying by that category of investor was about QR13.28 billion (box figure 1). The average daily value traded increased from QR252.5 million (January–May 2013) to QR539.6 million (June 2013–April 2014) to QR697.7 million (May 2014–April 2015). During this overall period the QSE Index rose by 43.97% and the MSCI Qatar Index by 48.53% (box figure 2).

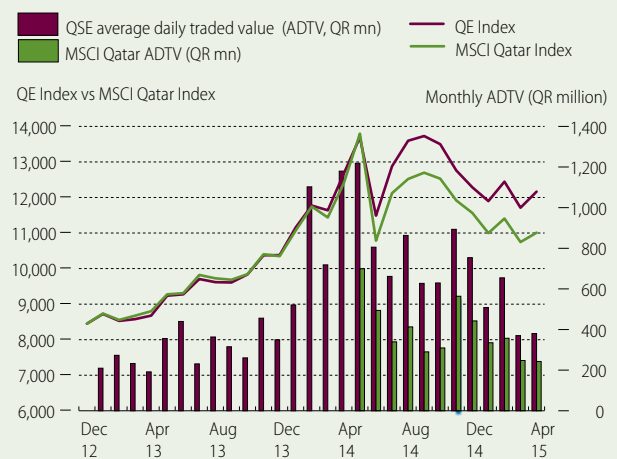
**Box figure 1 Net buying or selling by investor category (QR billion)**



Source: QSE.

[Click here for chart data](#)

**Box figure 2 QE Index vs MSCI Qatar Index**



Source: QSE and MSCI.

[Click here for chart data](#)

end-April this year, QE’s price-to-book ratio stood at 1.9, surpassed only by the Saudi Stock Exchange at 2.3. QE’s trailing 12-month price-to-earnings ratio stood at 14, but was exceeded by Saudi Arabia (18) and Kuwait (15).

The performance of regional bourses remains closely tied to the fortunes of the hydrocarbon sector, with the recent exception of Saudi Arabia. Whereas the MSCI emerging markets index had risen by 9.6% from the beginning of the year through to April 2015, the MSCI GCC has risen by 15.4%, reflecting the recovery in the price of oil (Brent is up 12.8% year to date). MSCI Qatar is trailing behind, however, falling by 0.9%. The earlier sharp slide in the oil price led to the QE Index registering a five-year high in volatility, with the annualised standard deviation of daily returns standing at 17.2% since January 2014.

Among the 43 stocks listed on the QSE, those firms concentrating on insurance and financial services posted the largest gains in 2014, with insurance registering 69.4%.

The market for treasury bills and bonds remains shallower than that for equities. Despite the Qatar Central Bank (QCB) issuing QR48 billion of treasury bills throughout 2014, the traded value of all treasury bills over the year declined by 0.8% to QR3.95 billion. Likewise, the secondary market for government

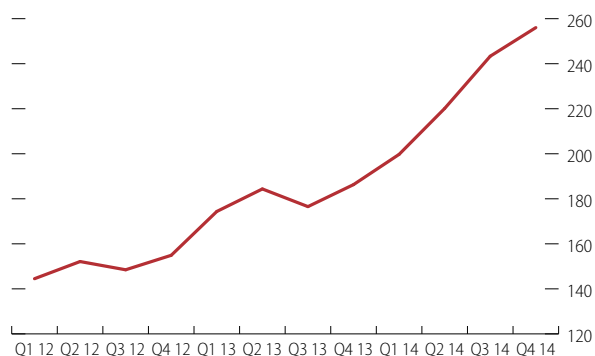
bonds was thin, with two issues responsible for 68% of all trades throughout the year. Those traded in the secondary market came to 2.4% of all outstanding government bonds and Sukuks. Government authorities have sought to increase transactions in these instruments to support wider financial development objectives.

#### Real estate

According to the QCB real estate price index, transaction prices at end-2014 were 34.7% higher than a year earlier (figure 2.17). This index removes transactions that are considered outliers or that do not reflect transactions at arm’s length (e.g. property transfers within families). It is adjusted for seasonal variations to arrive at estimates for the non-commercial real estate sector.

With land and villa prices continuing to appreciate year on year, the average index level for 2014 (229.8) is 19.6% higher than the index peak of August 2008 (192.2). Residential prices were the only subcomponent to register a decline in prices over 2014 (falling nearly 20% year on year).

**Figure 2.17 QCB real estate price index**



Note: The real estate price index provides data on sales transactions of real estate properties (including land, villas, and residential estates) based on data supplied by the Ministry of Justice.

Source: QCB, <http://www.qcb.gov.qa/English/Publications/Statistics/RealEstate/Pages/RealEstatePriceIndex.aspx>, accessed 15 May 2015.

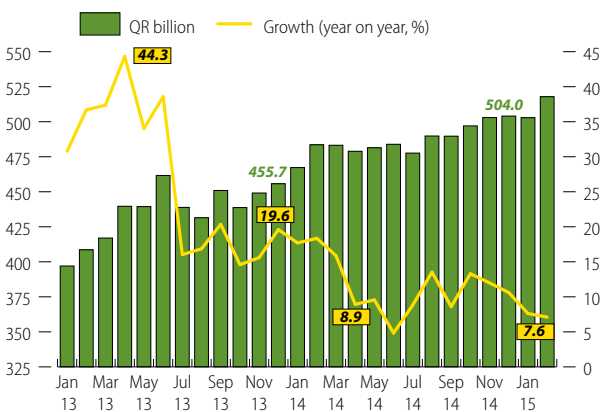
[Click here for chart data](#)

## Money supply and credit

### Money supply

Growth in money supply—based on its broad definition, M2—slowed to 10.2% in December 2014 from 19.6% the previous year, continuing the trend from the second half of 2013 (figure 2.18). Growth slowed from average year-on-year expansion of 24.5% in 2013 to 11.8% in 2014.

**Figure 2.18 Money supply: M2**



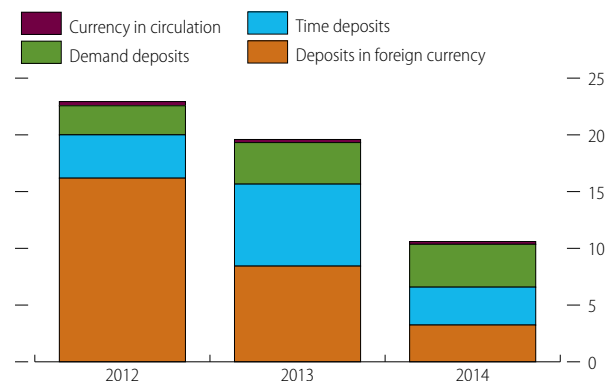
Source: QCB *Monthly Monetary Bulletin* February 2015, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

[Click here for chart data](#)

Money supply growth in 2014 was driven mainly by deposit growth from the private sector (individuals and businesses). Demand deposits in local currency were the main driver of expansion, with a 22.5% increase in deposits of businesses and 8.1% by the public sector (figure 2.19).

Time deposit growth was also led by businesses (7.6%), offsetting contraction in the public sector (of 6.0%). Central government and government institutions have reduced their deposits from 2013 by 16.1% and

**Figure 2.19 Contribution to money supply growth (percentage points)**



Source: QCB *Monthly Monetary Bulletins*, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

[Click here for chart data](#)

11.9%, respectively; semi-government institutions have increased theirs by 4.9%.

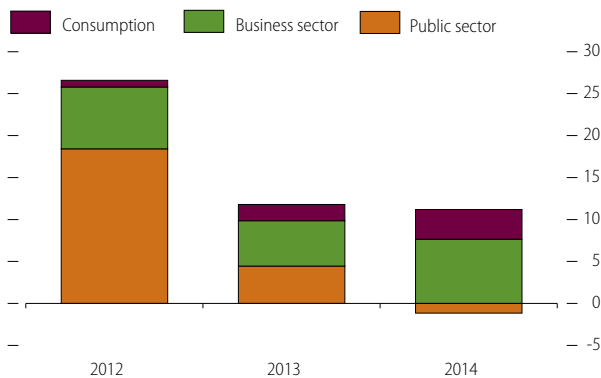
Foreign currency and time deposits largely accounted for slower monetary growth in 2014. The public sector holds about 75% of total foreign currency deposits and, as seen, these deposits barely changed from 2013. The government collected lower oil and gas revenues (in US dollars) as oil prices fell in 2014 (see *Fiscal accounts*), and may also have faced larger calls on its foreign currency resources as the pace of project activity picked up. It is also possible that a rebalancing of the government’s asset portfolio (noted in *QEO 2014–2015*) has kept growth of government foreign currency deposits in check. For private sector account holders there appears to have been a shift from time- towards demand-deposits, which may to some degree have reflected the need by construction companies for greater liquidity during project execution.

### Credit

The slowdown in money supply growth in 2014—the result of substantially lower public sector growth contributions—is mirrored in the movements of the counterpart assets of the banking system. Bank credit growth slowed to 10% in 2014 from 11.8% in 2013 (figure 2.20).

New bank credits in 2014 were exclusively to businesses and individuals, while credit to the public sector contracted by about 2.6%, pulling overall domestic credit growth down. The public sector credit contraction is the sum of increased central government credit (up 14.5%) combined with a decreasing loan portfolio for both government institutions (down 8.2%) and semi-government institutions (down 7.4%). The contraction for government and semi-government institutions

**Figure 2.20 Contribution to credit growth (percentage points)**



Source: QCB Monthly Monetary Bulletins, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

[Click here for chart data](#)

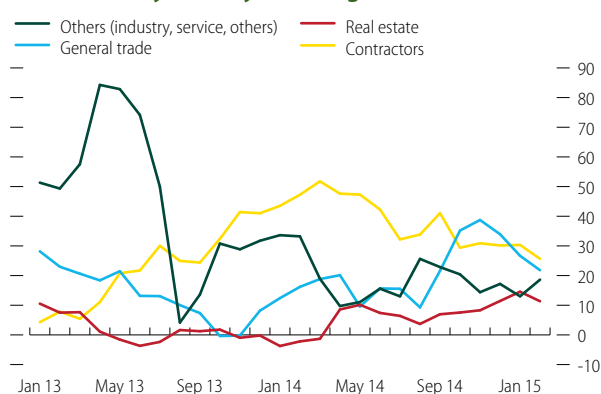
stems from the increased scrutiny by the Ministry of Finance for new borrowing for these institutions and possibly from their further streamlining of infrastructure investment plans.

Consumer credit in contrast grew strongly in 2014, by 23.5%, in part due to a rising population. Commercial banks continued with their vigorous credit promotion campaigns in 2014, and increased consumer borrowing may have been used to finance asset acquisitions or to refinance existing obligations (some of which could be offshore) on more favourable terms, as well as to support consumption.

Business sector credit saw a 19.1% expansion in 2014, driven primarily by credit to service businesses and contractors (figure 2.21). Credit to real estate, the largest component of private sector credit (figure 2.22), picked up in 2014, having been nearly flat in 2013.

The government continued to hold net claims on the banking sector in 2014 (figure 2.23). However, as the

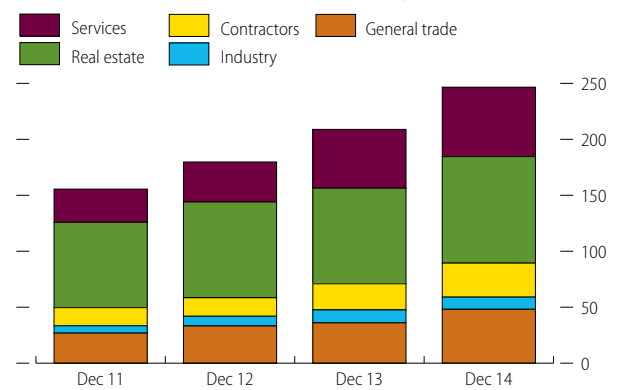
**Figure 2.21 Growth of commercial banks' business sector credit (year-on-year change, %)**



Source: MDP&S estimates based on data available from QCB Monthly Monetary Bulletins, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

[Click here for chart data](#)

**Figure 2.22 Private business credit by main sector**

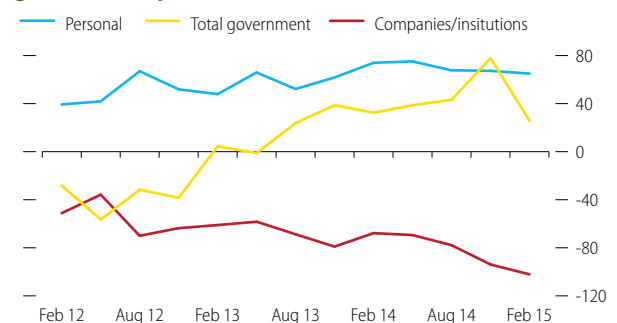


Source: QCB Monthly Statistical Bulletins, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

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pinch of lower oil and gas revenues started to be felt in the last quarter of 2014, net banking assets shrank. Companies and institutions remained as net borrowers and their net borrowing increased further over 2014. The net position for individuals stabilised during 2014, with credit growth and deposits broadly in balance.

**Figure 2.23 Balance deposits and credits for the government, private sector and individuals (QR billion)**



Source: QCB Monthly Statistical Bulletins, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

[Click here for chart data](#)

## Fiscal accounts

This section analyses government revenue and spending based on preliminary estimates for FY2014/15 received from the Ministry of Finance on 31 March 2015. The final numbers will change for two reasons: the current 21-month fiscal year, ending on 31 December 2015, is exceptional (box 2.4); and the government maintains an open book accounting system, which allows revenues and spending to be recorded for some time after the fiscal year has ended (box 2.5).

### Government revenue

Preliminary estimates of total government revenue as of 31 March 2015 show a decrease of 15.8% in FY2014/15 from the previous fiscal year's outcome (figure 2.24). Oil

**Box 2.4 Transition to a new budget calendar from 1 January 2016**

The State of Qatar is changing its budget year from 1 April–31 March to a 1 January–31 December calendar year, from 2016. The new period will help better synchronise budgeting across the state and is part of a wider programme to modernise the state’s financial management system.

In the transitional period—1 April 2014 to 31 December 2015—FY2014/15 is extended by nine months. All revenue and expenditure as budgeted for 1 April 2014 to 31 March 2015 are prorated to 31 December 2015. The budget programs QR169.3 billion of total revenue for the nine months (QR395 billion for the 21 months) and QR163.8 billion of expenditure (QR382.2 billion).

**Box 2.5 Effects of open book accounting on presented FY2014/15 performance**

Preliminary estimates for the first 12 months of FY2014/15 in the QEO may not reflect actual performance. Based on an analysis of historical trends, the gap between actual and budget revenue figures will narrow.

**Revenue**

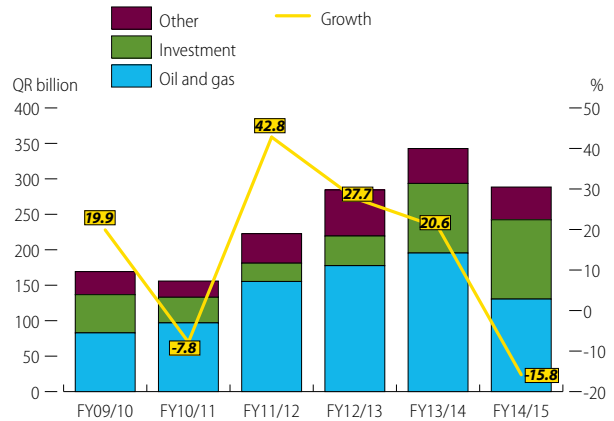
Preliminary estimates of total government revenue show a decrease of 15.8% in the first 12 months of FY2014/15 from the previous fiscal year’s outcome. However, over the last three years total government revenue estimates were revised upward by 15–25% in the first few months after the fiscal year ended, mainly owing to delays in recording oil and gas–related tax revenues and royalties. For these first 12 months, it is also expected that the actual total revenue decrease will be less pronounced than the preliminary data suggest.

**Expenditure**

On the expenditure side, preliminary estimates indicate that total actual spending in the first 12 months of FY2014/15 declined by 18.1% from the previous fiscal year, and as with revenue over the last three years total government expenditure estimates were also revised upward, by 12–28%, in the months after fiscal year-end. Expenditure revisions were the highest for capital expenditure and for “other current expenditure”. On this basis, the decline in current and capital expenditure for the 12 months to 31 March 2015 should be less than suggested by the preliminary data—it may even switch to a slight increase.

and gas revenues (hydrocarbon-related tax revenues and royalties) shrank by 33.2% as a result of the oil price drop that materialised in the second half of 2014 and then stabilised in the first quarter of 2015. “Other” revenue showed a 6.2% decline from FY2013/14. Preliminary receipts for customs duty, corporate income tax, and public utility fees were all slightly lower than in FY2013/14 at this cut-off date.

**Figure 2.24 Composition of fiscal revenue and total revenue growth**



Note: Until FY2013/14 the fiscal year ran from 1 April to 31 March. FY2014/15 is a transitional period, from 1 April 2014 to 31 December 2015. In this graph the FY2014/15 reflects the period 1 April 2014 to 31 March 2015 and is based on preliminary fiscal data received on 31 March 2015.

Source: Ministry of Finance.

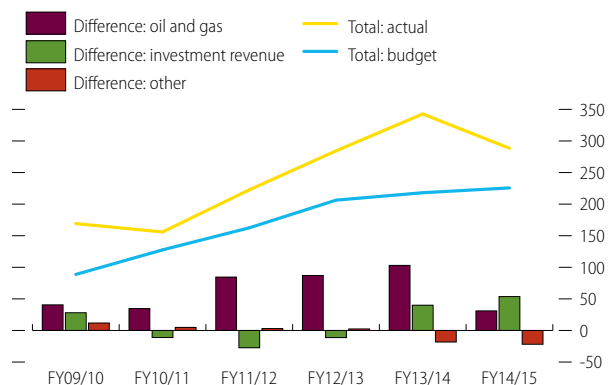
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Investment income increased over the first 12 months of FY2014/15 by 14% from the previous fiscal year. As such income reflects dividend income from QP, and as these dividends are based on the previous year’s results, the investment revenue increase largely reflects QP’s financial performance in 2013. An upward revision to revenue estimates for the 1 April 2014 to 31 March 2015 period is expected in line with previous years.

For FY2014/15, preliminary estimates suggest that actual revenue is 27.8% above that budgeted. Investment as well as oil and gas revenues received exceeded the budgeted figures, more than offsetting lower than budgeted other revenue (figure 2.25).

A pattern of other revenue collection falling short of budget estimates appears to have continued into FY2014/15. The preliminary estimates of

**Figure 2.25 Difference between actual and budget government revenue (QR billion)**



Note: See note to figure 2.24.

Source: Ministry of Finance and MDPS calculations.

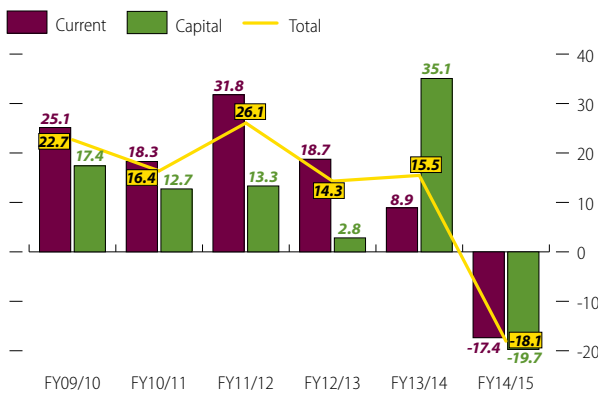
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(non-hydrocarbon-related) corporate income tax collection is 34.1% lower, and customs duties 61.9% lower, than budgeted. As customs duties have experienced recording delays in the past their receipts might come in higher, but for corporate income tax such delays have been slight, suggesting the actual outcome could remain below the budgeted figure.

### Government expenditure

Preliminary budget estimates as of 31 March 2015 show an 18.1% decline against actual spending in FY2013/14—19.7% capital and 17.4% current (figure 2.26). These lower numbers may to some extent reflect tighter scrutiny over spending, but as with revenue, upward revisions are expected.

**Figure 2.26 Fiscal expenditure growth (%)**



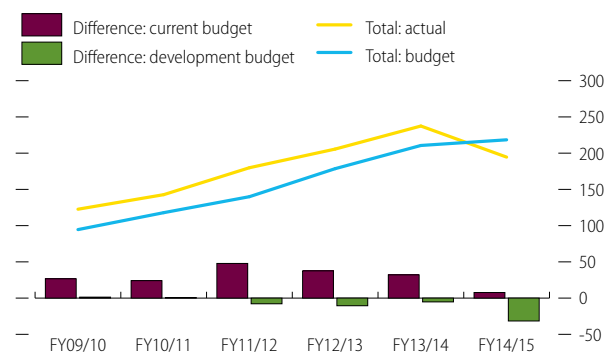
Note: See note to figure 2.24.  
Source: Ministry of Finance.

[Click here for chart data](#)

Current expenditure estimates for the first 12 months of FY2014/15 are less than FY2013/14 outcomes across all expenditure categories. The largest gaps are for wages and salaries, health and general administration. Preliminary data suggest that recorded outlays for wages and salaries are 2.7% lower than previous fiscal-year actuals. Delays in recording outlays on wages and salaries have been negligible in the past, suggesting that spending on this category may have fallen for the first time in 10 years.

Preliminary total spending booked through 31 March 2015 was 11% under budget, and splits into its broadly established pattern of higher than budgeted current spending and lower than budgeted capital expenditure (figure 2.27). Larger (5.9%) current outlays stem mainly from higher than budgeted out-turns for general administration and grants spending. Lower than budgeted spending on defence and security, on interest payments and on health partly offset higher spending on other categories.

**Figure 2.27 Difference between actual and budget government expenditure (QR billion)**



Note: See note to figure 2.24.

Source: Ministry of Finance and MDPS calculations.

[Click here for chart data](#)

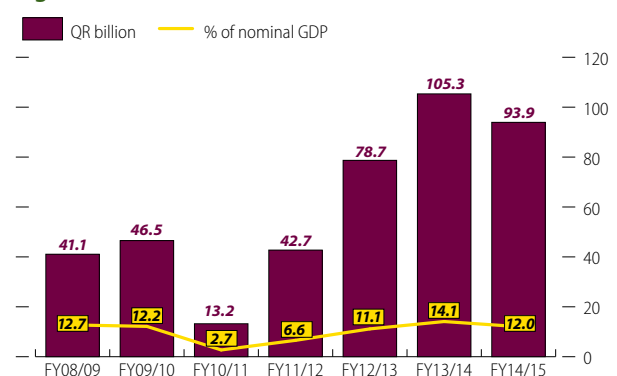
Capital expenditure was 36% lower at end-March than actual spending in FY2014/15, possibly reflecting delays in implementing projects and in processing payments. If, as in the past, payment processing catches up, the capital spending estimate could be revised sharply upwards. Still, in the past three years actual capital spending has fallen short of that planned by 7–14%.

### Fiscal balance and debt

At 31 March 2015, the government’s overall surplus was estimated at QR93.9 billion, equivalent to 12% of estimated nominal GDP (over the same period), down from 14.1% at the end of the previous year (figure 2.28).

The non-hydrocarbon primary balance—the total fiscal balance net of interest payments and income received directly from oil and gas (royalties on oil and gas plus taxes on income from oil production)—as a percentage of non-hydrocarbon GDP narrowed in the first 12 months of FY2014/15 from the previous fiscal year (figure 2.29). This is largely the result of higher investment income and rapid non-hydrocarbon GDP growth. If investment

**Figure 2.28 Overall fiscal balance**

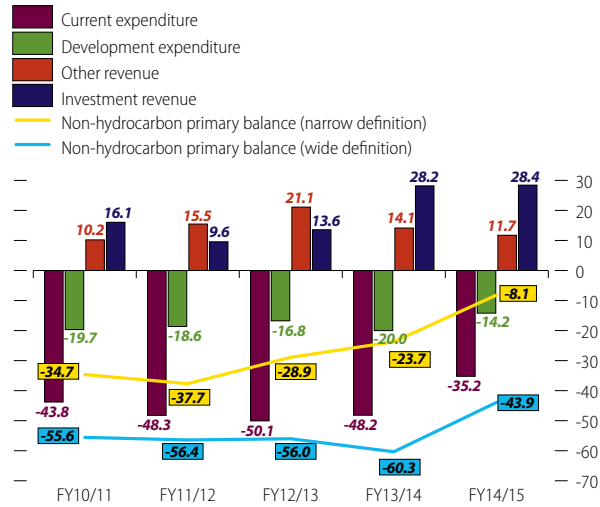


Note: See note to figure 2.24.

Source: Ministry of Finance.

[Click here for chart data](#)

**Figure 2.29 Non-hydrocarbon fiscal primary balance (% of non-hydrocarbon GDP)**



Note: See note to figure 2.24. In MDP&S computations, the wide definition counts investment income as hydrocarbon revenues and includes a portion of other miscellaneous revenues (corporate income tax) that is thought to be linked to hydrocarbon activity.

Source: Ministry of Finance.

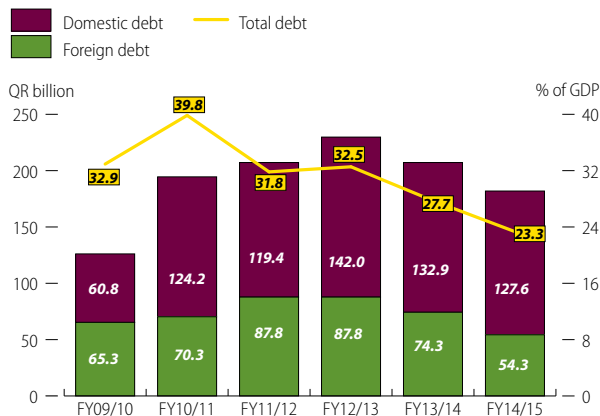
[Click here for chart data](#)

income—essentially dividends to government from QP—is considered as oil and gas-related revenue, the non-hydrocarbon primary fiscal deficit as a share of non-hydrocarbon GDP is far larger.

Total gross government debt declined to QR181.9 billion (23.3% GDP) over the first 12 months of FY2014/15 (figure 2.30). Foreign debt fell by a hefty QR20 billion and domestic debt by a more modest QR5.3 billion. However, total government debt figures do not tell the whole story about the financial position of the State of Qatar.

On one side, the guarantees and borrowing of semi-government institutions are not included in the estimates. For example, outstanding credit to government institutions (100% government owned)

**Figure 2.30 Total government debt**



Note: See note to figure 2.24.

Source: Ministry of Finance.

[Click here for chart data](#)

and semi-government institutions (more than 50% government owned) in the Qatari banking sector amounted to QR167.5 billion in January 2015. These borrowings are not captured by the central government debt figures, but should be considered in an analysis of the state’s fiscal position. Also, as the estimates are of gross debt, they take no account of the assets owned by the state, but estimates of the state’s net asset position are not available.

### Trade and foreign currency reserves

Despite a decline in the price of oil, Qatar’s trade balance narrowed only slightly in 2014, posting a surplus of QR366.1 billion or 47.5% of nominal GDP. The muted impact of the oil price decline on the trade surplus can be traced to the timing of the price decline, much of which occurred in the last quarter, and to the delayed impact of the decline on the price of LNG exports. Preliminary estimates suggest that merchandise imports, in FOB terms, declined in value by 1% over their 2013 level.

Strong growth of the non-oil and gas economy in 2014 and a sharp rise in population (9.3%) both acted to increase the volume of imports. Given this, the decline in the recorded value of merchandise imports suggests that either the price of Qatar’s import basket fell in 2014 or that a statistical reclassification of certain goods into services imports has occurred. Weakness in global commodity markets and a fall in the unit value of manufactured goods would have contributed to lower goods prices. For imports priced in currencies other than US dollars, the nominal effective appreciation of the US dollar (to which the Qatari riyal is pegged) in 2014 reduced import costs for given volumes (box 2.6). When services imports are added to merchandise imports, total imports post solid growth, though still somewhat more muted than that of the non-oil and gas economy, or of major demand components of expenditure (figure 2.31).

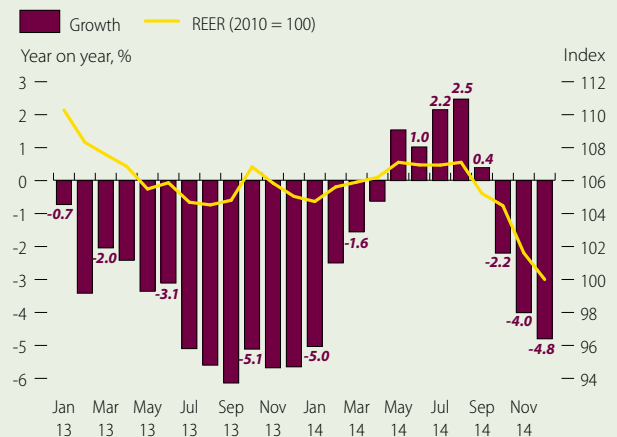
On the back of its solid trade surplus, Qatar’s current account also remained firmly in the black, posting a surplus of QR199.6 billion in 2014 equivalent to 25.9% of nominal GDP (figure 2.32). Deficits on the income (QR33.9 billion), transfers (QR62.3 billion) and services (QR70.4 billion) accounts shaved the trade surplus. The deficit on the income and transfers account is primarily due to continued large remittance outflows (profits and wages). The services deficit widened by 18.6% year-over-year, driven by travel, transportation and others categories, which together with a reduced trade surplus, pulled the overall current account balance QR26 billion below the level seen in 2013.

**Box 2.6 The riyal's appreciation in nominal effective terms**

As Qatar's currency is pegged to the US dollar, it has appreciated in nominal effective terms since the middle of 2014, reducing imported inflationary pressures. The real effective exchange rate (REER) has shown a similar appreciation (box figure).

The REER captures movements in the nominal effective exchange rate and adjusts for differential inflation among trading-partner countries.

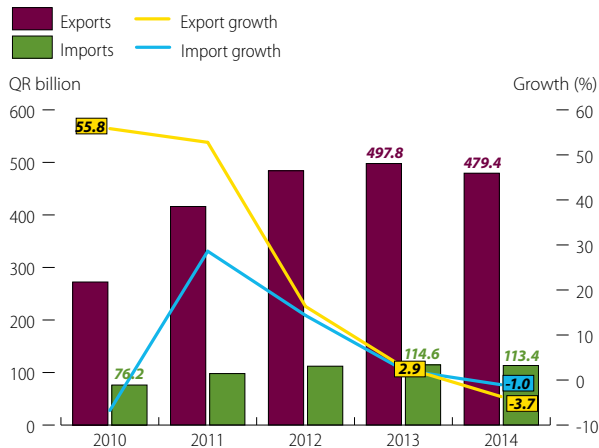
**Box figure Qatar's real effective exchange rate index**



Source: MDP&S staff estimates.

[Click here for chart data](#)

**Figure 2.31 Total trade growth**

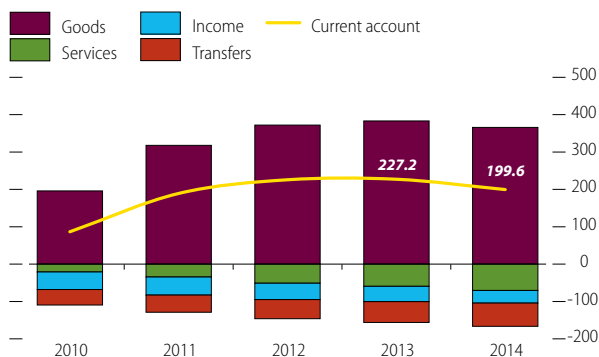


Note: Export and Import data for goods only.

Source: QCB BOP Quick links, at <http://www.qcb.gov.qa/English/Publications/Statistics/BalanceofPayments/>, accessed 19 April 2015.

[Click here for chart data](#)

**Figure 2.32 Current account (QR billion)**

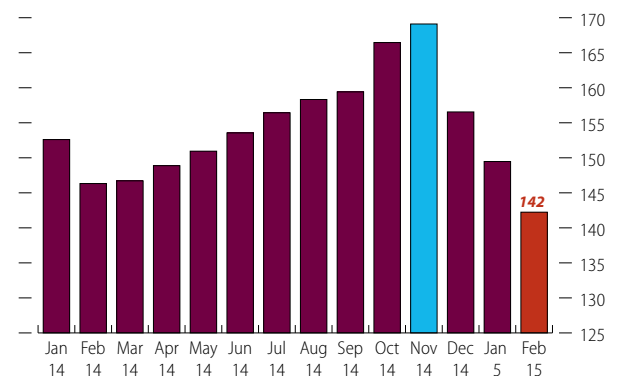


Source: QCB Quarterly Statistical Bulletins, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/Statisticalbulletins.aspx>, accessed 15 April 2015.

[Click here for chart data](#)

QCB's gross foreign currency reserves stood at QR156.6 billion at end-December 2014, up by QR3.4 billion on the previous year (figure 2.33). Total international reserves grew by 2.2%. However, starting in November 2014, foreign currency reserves began to fall. By February 2015, reserves had fallen by 15.9%. The reduction in official reserves is from a high base, and in February reserves accounted for 4.8 months of total imports. The fall in foreign exchange reserves are due to a marked slowdown of inflows, primarily hydrocarbon exports, alongside steady demand to support goods and services imports.

**Figure 2.33 Total international reserves (QR billion)**



Source: QCB *Monthly Monetary Bulletin*, February 2015, <http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx>, accessed 19 April 2015.

[Click here for chart data](#)





# Glossary—Key economic concepts

## Gross domestic product

Gross domestic product (GDP) is a fundamental macroeconomic aggregate that plays a central role in macroeconomic analysis, although it has limitations (see below).

### *What is GDP?*

GDP is widely used as a measure of economic output, as it represents the value of final goods and services produced in a given period of time, usually one year. Another way of looking at it is as the sum of value added across all sectors in the economy over a period.

### *How is GDP measured?*

There are three main approaches to measure GDP, which should give the same results.

- **Production approach:** GDP is equal to the sum of value added across all sectors i.e. the gross output minus the value of intermediate consumption of goods and services summed across all sectors.
- **Expenditure approach:** GDP is the sum of final consumption of goods and services by the government and private sector; of gross investment (additions to physical stock of capital in the economy, including changes in inventories); and of net exports of goods and non-factor services (exports minus imports).
- **Income approach:** GDP is the sum of all income generated from the production process. This includes compensation of employees, and the gross operating surplus of enterprises such as profits, rents and interest.

### *What is the difference between GDP valued at factor cost and at market prices?*

GDP at factor cost is the sum of all factor-of-production incomes generated from the production process (such as wages, profits, rents and interest), while GDP valued at market prices is GDP at factor cost plus indirect output taxes, less subsidies to businesses, which creates

a wedge between the incomes earned by factors of production and the price paid for output in the market.

### *What is the difference between nominal and real GDP?*

Nominal GDP values economic output using current prices, the prices prevailing over the period during which GDP is measured. Accordingly, changes in nominal GDP will reflect changes in prices as well as changes in the volume of output. Real GDP values output at constant prices by using the prices of a selected year called the “base year”. When relative prices change, the choice of the base year can influence measured real GDP growth.

### *What is the GDP deflator?*

This is simply the ratio of nominal and real GDP, and hence it can be considered a measure of the aggregate price level of all domestically produced goods and services in the economy.

### *What is GDP per capita?*

This is total GDP divided by the resident population of the country. While it is commonly used as a proxy for standard of living, GDP per capita is not a measure of personal income nor necessarily of the representative well-being of the population.

### *What are the limitations of GDP as a measure for economic output and income?*

GDP measures do not normally capture the value of goods and services that are not traded in the market, such as volunteer and charitable services and goods and services produced for own use. Similarly, the existence of a large underground economy or black-market activities (which are not that important in Qatar) would result in a GDP measure that underestimates the true size of the economy.

### *What is final consumption?*

This consists of goods and services used by the household and government sectors to satisfy their current needs or wants.

### ***What is investment?***

Gross investment is equivalent to the economy's acquisition of fixed assets (or gross fixed capital formation) plus the value of inventory changes. Net investment is equal to gross investment less the consumption of fixed capital (i.e. depreciation) and is equal to the addition to the physical stock of capital in the economy between two periods.

### ***What is national saving?***

This is national disposable income less final consumption expenditure.

### ***What is national income?***

This is equal to GDP plus factor income receivable from non-residents less factor income payable to non-residents.

### ***What is national disposable income?***

This equals national income plus the sum of all current transfers in cash or in kind receivable by resident institutional units from non-resident units and subtracting all current transfers in cash or in kind payable by resident institutional units to non-resident units.

## **Fiscal concepts**

### ***What is the overall fiscal balance?***

This is the difference in a given period between total government revenues (including grants) and total government expenditures (current and capital) plus net lending.

### ***What is the primary balance?***

This is the overall fiscal balance net of all interest payments and receipts by government. The primary balance provides an indicator of the current fiscal support for aggregate demand since interest payments are linked to stocks of liabilities and assets of the previous period.

### ***What is the non-hydrocarbon (primary) fiscal balance?***

This is the overall fiscal balance less oil and gas revenues, which in Qatar is defined in terms of direct revenues (royalties and taxes) received from hydrocarbon production. Investment income from government companies and government-linked companies, which may accrue from hydrocarbons-related activities, is not included in the definition of oil and gas revenues. The non-hydrocarbon fiscal balance provides an indication of the fiscal stimulus to the local economy funded by oil

and gas revenues. The non-hydrocarbon primary fiscal balance adds back (nets out) all interest payments from the non-hydrocarbon balance.

### ***What is cash accounting?***

Cash accounts record revenue when cash is received and expenses when they are paid in cash, irrespective of when the income fell due or the expenditure commitments were made. Although they are important for understanding what the government contributes to liquidity in the economy and for managing cash, cash accounts may not provide a true picture of the government's financial position.

### ***What is accrual accounting?***

Accrual accounts record transactions when the underlying event or commitment occurs, regardless of the timing of the related cash settlement. Revenues are recorded when income is earned, and expenses are recorded when liabilities are incurred or resources consumed. In principle, the difference between cash-based balances and those calculated on an accrual basis should equal "changes in arrears".

### ***What is "quasi-fiscal" spending?***

This is expenditure executed by state-owned (financial and non-financial) enterprises. It is in character similar to expenditure normally executed by the government, but is not included in the government budget (or listed under "contingent liabilities" in the budget). Central bank operations that entail implicit subsidies or taxes are also quasi-fiscal in nature.

### ***What is the fiscal year?***

The State of Qatar will start its first calendar-based fiscal year in 2016. The previous fiscal period FY2014/15, which ran from 1 April 2014 to 31 March 2015, has been extended to 31 December 2015, a period of 21 months. All revenue and expenditure as budgeted for 1 April 2014 to 31 March 2015 are prorated to 31 December 2015.

### ***What is the difference between the narrow and broad definitions of the non-hydrocarbon primary fiscal balance?***

The narrow definition is the overall fiscal balance, plus interest payments, less revenue received directly from oil and gas (tax revenues and royalties on production). Under a broader definition, investment income (dividends to the government from QP) and corporate income taxes paid by hydrocarbon entities are also counted as oil and gas-related revenue.

The non-hydrocarbon primary fiscal balance is an indicator of the stimulus that government spending

provides to the non-oil and gas economy. Cyclically adjusted measures can be used to gauge the fiscal stance of government. A non-hydrocarbon fiscal deficit (inclusive of interest charges) larger than the budgetary resources that oil and gas resources can yield implies future charges on fiscal resources.

## Financial concepts

### *What is a secondary market?*

A secondary market is one where investors can trade assets or securities with others, as opposed to simply purchasing them from the issuing entities themselves.

### *What are second-lien bond offerings?*

Second-lien debts are subordinate to the rights of other, more senior debts issued against the same collateral, or a portion of the same collateral. In the event of a default, second-lien debts stand behind higher-lien debts in terms of rights to collect proceeds from the debt's underlying collateral. For this reason, second-lien debt is usually considered riskier than higher-lien debt and often comes with a higher interest rate. Issuing such securities usually points to financing difficulties, meaning the issuer is unable to obtain funds via traditionally established avenues.

## Monetary concepts

### *What is reserve money or M0?*

Reserve money is a liability of the central bank. It is the sum of (i) currency issued by and held outside the central bank; (ii) banks' deposits at the central bank to satisfy reserve requirements and for clearing purposes; and (iii) in the case of Qatar, other reserves including bank deposits at the central bank in excess of requirements. Reserve money can also be expressed in terms of the central bank's counterpart assets, which fall into two main categories: net foreign assets, which comprise the net official international reserves plus any other net foreign assets that are less liquid and hence are not included in the net official international reserves; and net domestic assets, which include central bank net claims on government (claims minus deposits) and claims on other sectors.

### *What is narrow money or M1?*

This is currency in circulation plus demand deposits. Narrow money is considered "liquid". Narrow money typically pays zero or relatively low rates of interest.

### *What is "quasi money"?*

This is the less liquid part of the money supply and includes savings deposits and all deposits denominated in foreign currency.

### *What is "broad money" or M2?*

This is the sum of quasi-money and M1.

### *What are official foreign reserves?*

These are the central bank's liquid foreign assets that can be used to secure the country's external payments at any moment. Reserves include gold, foreign exchange, and the reserve position at the International Monetary Fund. Reserves are usually presented in net terms by excluding from the gross official foreign reserves the central bank's foreign liabilities.

### *What is "credit"?*

Credit creation involves the provision of resources by the lender (such as banks or any other financial institution) to the borrower. In this way the lender acquires a financial claim and the borrower incurs a liability to repay in the future. Credit to non-financial sectors (such as government, private businesses and households) is mainly used to finance production, consumption and capital formation.

### *What is the trailing price-to-earnings ratio?*

This is calculated by taking the current stock price and dividing it by a company's trailing earnings per share for the past 12 months. This measure differs from the forward price-to-earnings ratio, which uses earnings estimates for the next four quarters.

### *What is the price-to-book ratio?*

This ratio compares a stock's market value to its book value, calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

## Balance-of-payments concepts

### *What is the trade balance?*

This is the difference between a nation's imports and exports of merchandise measured over a specified period (normally a calendar year). The trade balance is part of the wider current account balance.

### *What is the free on board (f.o.b.) price?*

The f.o.b. price of exports and imports of goods is the market value of the goods at the point of uniform valuation (the customs frontier of the economy from which they are exported). It is equal to the cost, insurance, freight (c.i.f.) price less the costs of transport

and insurance charges, between the customs frontier of the exporting (importing) country and that of the importing (exporting) country.

***What is the c.i.f. price?***

The c.i.f. price is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country.

***What is the income and services balance?***

This is the sum of net income received from non-residents and the balance in services trade measured over a specified period. The income account comprises flows derived from labour (wages paid to non-resident employees) and from net investment income. The services balance consists mainly of payments for travel, transport, communications, construction, housing rentals and financial services.

***What is the current account balance?***

This is the sum of the trade, income and services balances, plus net current transfers, which include cash transfers, gifts in kind and remittances (which are sizeable in Qatar) sent by foreign workers to families back home. It is termed the current account because goods and services are generally consumed in the current period.

***What is the capital and financial account balance?***

This records purchases or sales of financial assets or transactions related to international borrowing and lending. It also includes capital transfers.

***What is the international investment position and the capital account***

The international investment position of a country is a financial statement presenting both the composition and value of a country's external financial assets and liabilities. The difference between these assets and liabilities is its net international investment position.

***What is external debt?***

This is the stock of outstanding contractual liabilities, issued by the public and private sector to non-residents, that have been disbursed.

## **Exchange rate concepts**

***What is the bilateral exchange rate?***

This is the price of one currency measured in units of another. The nominal US dollar exchange rate for the Qatari riyal is pegged at QR3.64 = \$1.

***What is the nominal effective exchange rate (NEER)?***

Unlike the bilateral exchange rate, the NEER is not a market price but an index number that measures the weighted average of the country's bilateral exchange rate against a basket of trading partners' currencies over a given period. The size of the weights normally reflects their relative importance in the country's international trade or in its overall foreign transactions, including external financial transactions. Movement of the NEER provides an indication of changes in the value of the domestic currency against the currencies in the basket. An appreciation occurs when a domestic currency unit can buy more of the basket of currencies.

***What is the real effective exchange rate (REER)?***

This is the NEER adjusted for differential inflation rates between a home country (Qatar, for example) and its trading partners. An appreciation of the REER can occur either because the NEER is appreciating or because domestic inflation in the home country (Qatar) is higher than that in its trading partners. Changes in the REER provide a measure of the change in the currency's purchasing power and of the price competitiveness of the country's tradeable goods and services against trading partners' goods and services.



