Qatar Economic Outlook 2012-2013

Update

الأمانة العامة للتخطيط التنموي
General Secretariat for Development Planning

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Published December 2012.

General Secretariat for Development Planning, Qatar
Doha Towers
P.O. Box 1855
Doha, Qatar

www.gsdp.gov.qa

Foreword

This *Update* to the *Qatar Economic Outlook* (*QEO*) *2012–2013* of June this year revisits the forecasts presented half a year ago.

Spearheaded by the Department of Economic Development, the General Secretariat for Development Planning (GSDP) intends to publish *QEO* semi-annually, submitting an outlook in the middle of the year and updating it towards the end of that year. In launching an *Update*, GSDP is responding to a growing demand for data, analysis and commentary on contemporary economic developments in Qatar.

The assessment in this *Update* broadly reaffirms the perspective offered in June. The year 2012 marks a watershed for Qatar, as the non-oil and gas sector now accounts for most of the economy's expansion. This pattern will be repeated in 2013—and for the foreseeable future. Recent data confirm that fiscal revenues are starting to diversify more widely, a trend that will lead to sustainable financial foundations for the future.

Consumer price inflation has edged up in 2012 and is expected to accelerate some more over 2013. But inflation remains mild and is unlikely to present a threat to macroeconomic stability. The authorities will continue to deploy their regulatory powers to prevent traders imposing unjustified hikes on consumer prices. The central bank has also been vigilant in managing credit growth and has a full armoury of effective tools to manage domestic liquidity. Qatar's banks are well capitalised and strengthened prudential management practices should protect their asset quality from deteriorating.

The main risks to the short- and medium-term outlook come from outside the domestic economy: should geopolitics develop in a way that disrupts the free flow of gas and oil, the financial resources available to the state will be affected. Nonetheless, under such circumstances, Qatar could mobilise its reserves to shield the economy against any external downdraft.

Other agencies were involved in writing this *Update*, and I would therefore like to thank the Qatar Statistics Authority, whose advise and provision of data was invaluable; Qatar Central Bank; Qatar Petroleum; the Ministry of Economy and Finance; and the Ministry of Business and Trade for their generous cooperation, sharing information and responding to requests for data from GSDP.

H.E. Dr. Saleh Al Nabit

Secretary General

General Secretariat for Development Planning

December 2012

Acknowledgements

Dr. Frank Harrigan, Director of the Department of Economic Development, led the GSDP team. In the department, inputs were provided by Dr. Issa Ibrahim, Sylvie Maalouf, Eugene McQuaid, Habib Millwala, Dr. Osama Noujoum, Fidelis Sadicon and Ali Suleiman. Research and administrative support was provided by Hissa Ahmed Al-Assiry, Moza Al Jasmi, Haya Al Semaiti and Jameela Hamad. Ali Suleiman coordinated the report's production.

Colleagues in the Department of Joint Services, led by Hamad Rashid Al-Athba, and the Public Relations and Communications Unit, led by Asma Nasrollah Mirzaei, facilitated the production and launch of this *Update*. Jonathan Aspin copy edited the report and designed the layout. Ali Barazi translated the English version into Arabic, which Saleem Betar proofread.

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Qatar: Update at a glance

Qatar—Update at a glance

	2012	2012[a]	2013	2013[a]
Real GDP growth (%)	**6.3**	6.2	**4.8**	4.5
Nominal GDP growth (%)	**14.7**	11.2	**5.3**	4.7
Consumer price inflation (%)	**2.0**	2.0	**3.5**	2.5
Fiscal surplus (% of nominal GDP)	**7.9**	7.8	**5.4**	4.8
Current account surplus (% of nominal GDP)	**29.1**	22.0	**25.7**	20.6

a = Forecast made in *QEO 2012–2013* in June 2012.
Source: Estimates from the General Secretariat for Development Planning.

Real GDP growth in 2012 is spearheaded by non-oil and gas

The General Secretariat for Development Planning forecasts that growth of real gross domestic product (GDP) in 2012 will be 6.3%, little changed from the forecast made in the *Qatar Economic Outlook (QEO) 2012–2013* released in June 2012. Robust expansion of activity in the non-oil and gas sector has helped to support overall growth in circumstances where gas activity has started to level out.

In 2013, real GDP growth is expected to slow somewhat as declining yields from maturing oil fields will clip growth in the hydrocarbon sector. Still, spurred by construction activity and by continued vitality in services, non-oil and gas activity will continue apace. Thus overall growth of real GDP in 2013 is expected to be about 4.8%, slightly more than forecast in *QEO 2012–2013*.

High oil prices have supported nominal income expansion

Elevated oil prices benefit Qatar as they boost the income available to pay for imports and to fund budgetary expenditure, and add to the country's net asset position. In 2012, the price of Qatar's hydrocarbon export basket was lifted by higher average crude oil prices, which provided a fillip to nominal income expansion.

Nominal GDP growth in 2012 will exceed real GDP growth and is expected to be about 14.7%. With an expected fall in crude oil prices in 2013, nominal GDP growth will be more tightly linked to expansion in the real economy.

Infrastructure investment is moving ahead

Qatar is making real progress with its formidable pipeline of infrastructure investments that will run through to 2020. These investments cover rail transport (Doha metro, long-distance rail and freight, and the Lusail people mover); roads (local roads, expressways and the Doha crossing); drainage, wastewater and sewage; anticipated investments in power and water; and new stadiums and ancillary facilities for the 2022 FIFA World Cup.

Although challenges in planning, coordination, regulations (land acquisition and environmental approvals) and logistics have slowed the initial tempo, it has begun to pick up in the second half of 2012. Construction activity is now accelerating and is likely to have been a major contributor to growth in the second half of the year.

In 2013, construction is expected to ratchet up some more and expand at a double-digit pace. New infrastructure projects will require many additional workers to be hired, an influx that will provide a stimulus to the wider economy.

Consumer price inflation is edging up

While inflationary conditions remain benign, 2012 has seen an end to the rental price deflation that started in 2009. The rental index component of the consumer price index bottomed out in April and May 2012, and by August rents had climbed above their year-earlier level, adding about 0.5 percentage points to headline inflation in 2012.

Core inflation—excluding volatile components such as rent and food—began to trend down in 2012.

In 2013, a larger population and the demands it places on rental accommodation and other non-tradable services are likely to add to consumer price inflation, but risks of rapid acceleration are low such that inflation is now put at 3.5% in 2013, slightly higher than forecast in June.

Fiscal revenues are more diversified

Preliminary budget estimates for the first half of FY2012/13 (to end-September 2012) suggest that Qatar is well on track to meet its full-year budget targets, despite the likelihood that spending, particularly on capital assets, will pick up in the second half of the fiscal year.

Sizeable revenue increases in the form of taxes and the transfer of retained profits from state-owned companies boosted total revenue to end-September and helped to diversify its composition. Tax collection was also lifted by the introduction of a revised corporate tax regime in 2011 and the continuing expiry of tax holidays for some oil and gas joint-venture partners.

Despite surging imports, external surpluses remain strong

Qatar's current account surplus in the first half of 2012 is estimated at 20.4% of nominal GDP, and the full year at 29.1%. Export earnings from oil and gas have continued to underpin the surplus and are expected to do so again in 2013.

But import demand is on a strong upward trajectory: demand for the raw materials and capital equipment needed to support Qatar's infrastructure programme has jumped and will continue to climb throughout 2013. As the population swells, demand for imported consumer goods will also rise.

Qatar continues to run a deficit on its services and income accounts. The current account surplus is expected to be 25.7% of GDP in 2013.

Qatar has a good cushion against shocks

The outlook for the global economy has deteriorated since June. The International Monetary Fund has revised down its growth forecasts for most major economies and regions of the world.

Although efforts to shore up the vulnerable economies of the eurozone have so far averted renewed crisis, robust structural remedies are yet to be agreed on and pushed through.

In the United States, the clock is ticking with bipartisan political agreement needed on a debt reduction plan before year-end, otherwise automatic large tax increases and spending cuts—the "fiscal cliff"—could threaten the current fragile recovery.

In emerging Asia and other parts of the global economy, the impact of lower demand in the advanced economies has been transmitted to domestic economic activity through weakened export demand.

Qatar would not be immune to further setbacks in the global economy, but any impact on its near-term trajectory should not be large. Lower oil prices, heightened investor risk aversion, asset price deflation and tighter global liquidity and financing conditions would muddy its prospects a little but global shocks—unless catastrophic—would be unlikely to cause more than a wobble in Qatar.

As shown in earlier *QEO*s, crude oil prices would have to fall a long way from current levels to cause a significant fiscal dent. If demand for Qatar's gas were to falter in any particular market, the country has the flexibility to redirect its gas to other markets, and uses. Reassuringly, Qatar's banking system is strongly capitalised and its fiscal defences are solid.

Still, a major risk to Qatar is that an escalation of geopolitical tensions could impair its ability to deliver its cargoes of liquefied natural gas to client markets. Heightened frictions close to home could also disrupt routine economic activity and the successful roll-out of the country's substantial infrastructure programme.

Part 1 Outlook for 2013

Expanding by 9.6% in 2013, Qatar's non-hydrocarbon economy will spearhead overall growth and show a marginal gain from the forecast made in June's *Qatar Economic Outlook* (*QEO*) *2012–2013*. Its growth will help to push real gross domestic product (GDP) to 4.8%, from June's forecast 4.5%. Output in the oil and gas sector, however, after years of blistering performance, will edge lower, as yields from maturing oil fields decline and as gas activity saturates available processing capacity.

Consumer price inflation is expected to step up in 2013, with a rising population creating pressure on property rents, but it should remain contained at around 3.5%. Windfall gains on the price of gas in Japan are expected to underpin stout fiscal and balance-of-payments surpluses. And although uncertainties are yet to dissipate in advanced economies, Qatar has strong fiscal and financial defences that would help to shield it from any downdraft.

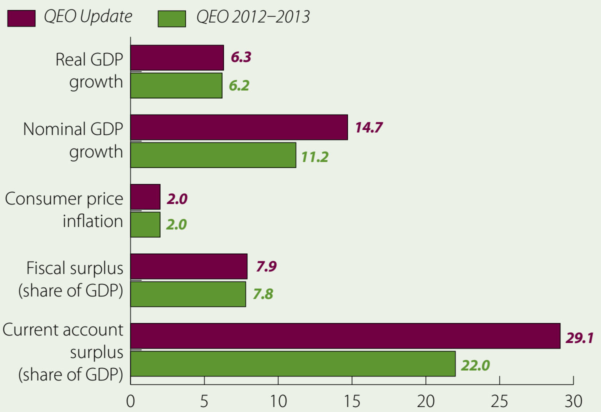
Box 1.1 A focus on 2012 in part 2

Part 2 looks at performance in 2012 and provides an updated perspective on the *QEO 2012–2013* projections of June 2012.

Actual outcomes will not be known until the end of the first quarter of 2013, when Qatar Statistics Authority (QSA) releases national accounts data for the full calendar year. Thus part 2's estimates for 2012 are still in the nature of forecasts, albeit forecasts that incorporate known data for at least half the year.

Both real and nominal GDP growth rates have been revised upwards, but only marginally (box figure). The forecast for consumer price inflation (2012 year average) and the projected fiscal surplus remain more or less unchanged. A larger current account surplus is now penned in partly because of elevated liquefied natural gas (LNG) prices for Qatar's hydrocarbon export basket.

Revisions to Qatar's outlook for 2012 (%)



Source: GSDP estimates.

Click here for chart data

Update on Qatar's outlook

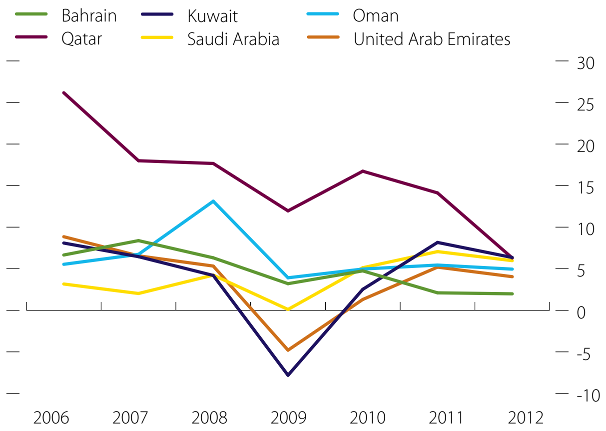
This *QEO Update* revisits the views of the General Secretariat for Development Planning (GSDP) on Qatar's economic prospects for 2012 and 2013.

Part 1 presents revised forecasts for Qatar in 2013. (Part 2 looks at 2012, introduced in box 1.1.) It updates the outlook by accommodating GSDP's revised assessments of the trajectories of the global economy and global energy prices, and by incorporating a range of new data on Qatar's oil and gas, downstream-refining and petrochemical activities. These forecasts also build on recent data on the expected tracks both of major capital-project outlays in Qatar and of government spending.

Prospects for the global economy have dimmed further since the last *QEO*, but Qatar's outlook for 2013 is more likely to be influenced by domestic developments. The scene is set by a large capital spending programme on infrastructure, a growing population, an oil and gas sector in which output has now peaked, and low interest rates. With the completion of major investments in upstream oil and gas activity, economic growth in Qatar will move closer to the norm for countries in the Gulf Cooperation Council (GCC—figure 1.1).

A sharp fall in oil and gas prices (transmitting any renewed global economic dislocation) and adverse geopolitical developments remain potential game changers, but the baseline forecast assumes that these risks do not materialise.

Figure 1.1 Real GDP of GCC countries (year-on-year change, %)



Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm), accessed 21 November 2012.

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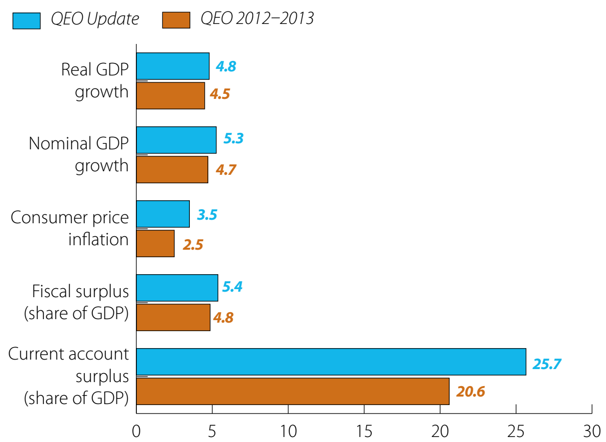
Table 1.1 Forecast assumptions

	2012	2013
Qatar		
QCB's overnight deposit rate (%)	0.75	0.75
Qatari riyal/$ exchange rate	3.64	3.64
Total budget spending (QR billion)	233.7	255.8
Current spending (QR billion)	156.0	169.9
Capital spending (QR billion)	77.8	85.9
External environment		
Global growth (%)	3.3	3.6
US LIBOR, 1-year deposit (%)	3.0	3.0
Crude oil export price, $ per barrel (simple average of spot Brent, WTI and Dubai Fateh)	110.2	109.1
Trade-weighted natural gas price, $ per million British thermal units	14.4	13.9

Figure 1.2 Capsule summary—Revisions to Qatar's outlook for 2013



Source: GSDP estimates.

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Forecast methodology and assumptions

GSDP builds its *QEO* forecasts using a numerical representation—or framework—of the Qatari economy. Using the latest available data it then calibrates this framework, which is consistent with revised QSA estimates of outcomes in 2011. The framework makes few behavioural assumptions but embodies a full set of economic accounting relationships that provide internal consistency and coherence across its different parts.

The revised 2013 forecasts of this part—and the updated 2012 estimates in part 2—rely on assumptions about the path of a number of key variables. The relevant *QEO* forecast assumptions, for both years, are set out in table 1.1.

The *QEO* forecasts are "conditional" in the sense that if beliefs about the values taken by the variables of the table were to change, it is probable that estimated values of the variables "explained" by the framework—such as real and nominal GDP—would also change. However, the data are too few to allow GSDP to apply a modelling approach that would allow it to identify statistical confidence intervals for the forecasts.

Beyond that, views about risks and uncertainty have been canvassed (*Risks*, below) and a perspective provided on the extent of dissonance among expert beliefs about economic prospects (*Consensus forecasts*).

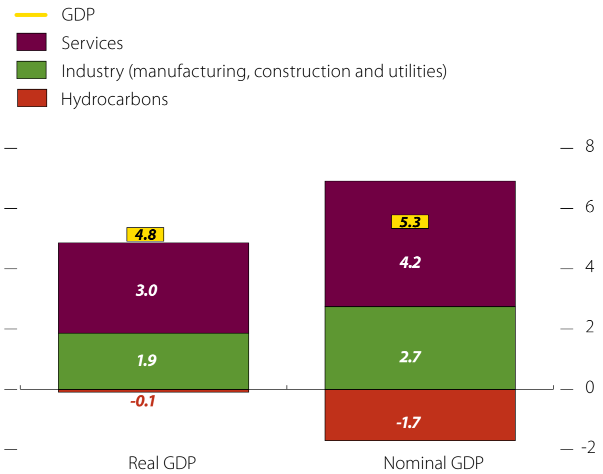
The picture presented in table 1.1 embodies a range of expert opinions. In particular, GSDP's assumptions about the trajectory of the global economy and its constituent parts follow those of the International Monetary Fund (IMF) as set out in the *World Economic Outlook* (*WEO*), released in October 2012.

Other views have also been canvassed, including those of the World Bank on energy prices, the US Energy Information Administration on the energy outlook, the Organisation for Economic Co-operation and Development (OECD) on general developments, and the Asian Development Bank on prospects for emerging Asia, particularly in China and India. The annex provides more detail on methods.

Capsule summary

Figure 1.2 provides a snapshot of this *Update*'s forecasts for 2013, compared with those of *QEO 2012–2013*.

Figure 1.3 Contributions to real GDP growth, 2013 (percentage points)



Note: Data may not sum owing to rounding.
Source: GSDP estimates.

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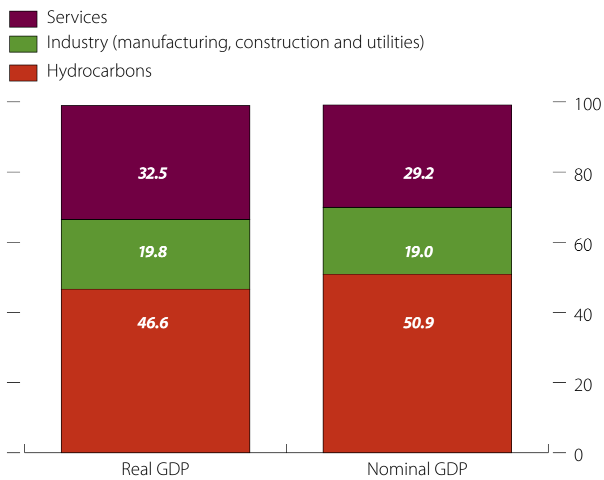
Figure 1.4 Share in GDP, 2013 (%)



Source: GSDP estimates.

Click here for chart data

GDP growth

Real GDP growth is expected to be 4.8%, revised marginally higher from June. Among the underlying components of GDP, the main contributory factor in this upgrade is a smaller predicted decline in oil and gas output—0.2% versus 1.2%—which stems largely from upward revisions to the projections of crude oil volumes for 2013. Little or no growth in LNG production is foreseen during the year, with all gas trains operating at full capacity, other than for maintenance.

The non-hydrocarbon sector is expected to grow by 9.6% in 2013, a marginal (0.1 percentage point) upwards revision on the June 2012 forecast. The forecast contributions to GDP growth are shown in figure 1.3.

By the end of 2013, service activity is expected to contribute more than 60% of the total growth in Qatar's economy, and its share in total real GDP will have risen to 32.5% (figure 1.4), from an expected 31.1% in 2012. Further expansion is anticipated in financial services, telecommunications and transportation, and other service segments. Activity at the new Doha International Airport is expected to ramp up in 2013 ahead of its scheduled opening for passengers the following year.

The share of industry—manufacturing, construction and utilities—in total output is also expected to continue rising in 2013, to 19.8%, from a projected 18.9% in 2012.

Within manufacturing (which covers refining, petrochemicals, metals and non-metallic mineral production) new iron-smelter facilities are due to come on line, and further growth is programmed for refining and fertilisers. The Pearl GTL facility will also see its output expand, and is expected to be running at near full capacity by the close of 2013.

Construction, too, is seen performing strongly in 2013—about 10% growth—reflecting faster roll-out of Qatar's infrastructure pipeline and catch-up on earlier project delays.

Output of utilities (power and water), though just a small component of total industrial value added, will move in step with activity elsewhere in the economy and with the likely continued rising trend of the resident population (part 2).

The forecast for nominal GDP growth for 2013 has also been revised up, to 5.3%; as in June, a little faster than volume growth. An upward revision to the GDP deflator reflects projected increases in the prices of services and industrial output (primarily producer prices for construction). Following downward revisions in the forecasts for crude oil prices and for gas prices in 2013, the deflator for hydrocarbons has been reduced in this revision from the June forecast, but even then, hydrocarbon output is expected to contribute over half of nominal GDP in 2013 (figure 1.4 above).

Prices

Consumer price inflation has accelerated somewhat during 2012 but has stayed low in absolute terms, and is expected to average about 2% for the year.

Much of what Qatar consumes is imported. The cost of imported consumption will therefore depend on trends in global prices and on movements in the nominal effective exchange rate of the US dollar (to which the Qatari riyal is pegged). Pass-through of changes in foreign currency prices of goods to consumers in Qatar is likely to be comparatively fast and complete.

The expectation is that global commodity prices, including food, will fall in 2013 (*Prospects for energy and commodity markets*, below).

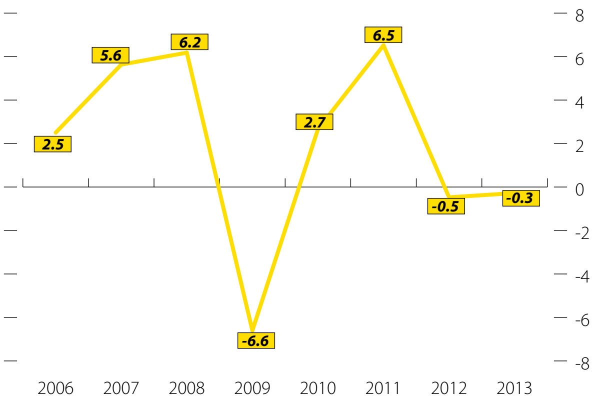
The IMF sees prices of manufactured exports from advanced countries also falling, in US dollar terms, marginally (figure 1.5). It is unlikely that prices of manufactured goods produced in and exported from other regions will rise much, given global demand weakness—and possibly further deterioration. It is expected that these dynamics will help to moderate consumer price inflation in the domestic economy.

No significant shift is anticipated in the effective nominal exchange rate of the US dollar in 2013, although currency values are notoriously difficult to predict. Still, an unforeseen depreciation of the US dollar against the currencies of Qatar's trading partners would add to inflationary pressures.

The forecast of consumer price inflation assumes that there will be no change in the price of utilities or fuel. But other components, such as the costs of entertainment and recreation or health services, could face some upside pressure with expanding demand from a growing population. However, these have a modest weight in the overall price index and their impacts on headline inflation are expected to be slight.

The major swing factor in forecasts of consumer price inflation for 2013 is likely to be residential rents. By October 2012 the rental index had already climbed by 2.2% from the lows recorded in May and June 2012 (figure 1.6). (For a fuller analysis, see part 2.) In the past, the rental component of the consumer price index (CPI) has shown considerable volatility, and this has had a significant pull on the path of overall inflation. To an extent, recorded movements in the rental component

Figure 1.5 Export price of manufactures of advanced economies (year-on-year change, %)



Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx), accessed 8 November 2012.

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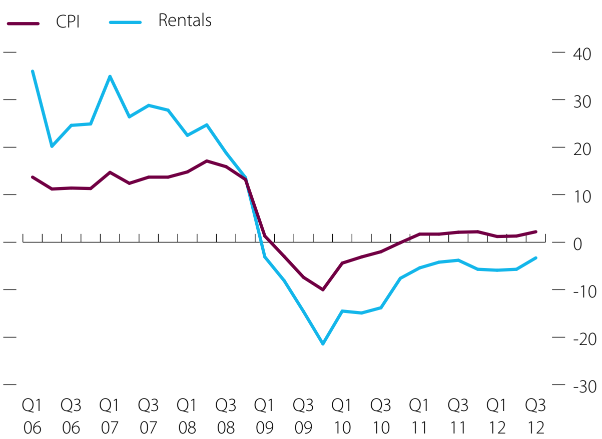
Figure 1.6 CPI and rentals (year-on-year change, %)



Source: QSA Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 28 November 2012.

Click here for chart data

of inflation magnify the amplitude of true movements in rents. This is because the index captures only changes in the cost of new leases whereas, ideally, it should record changes in the cost of all leases, new and existing.

Factoring in the likelihood of further rises in rents but moderate and possibly moderating inflation in other components of the CPI, the *Update* now expects inflation to average 3.5% in 2013, which is an upwards revision of 1 percentage point on the *QEO 2012–2013* forecast.

Fiscal and balance-of-payments outlook

Qatar is again expected to deliver a stout fiscal surplus in 2013. The overall surplus (revenue less recurrent and capital expenditure) is now put at 5.4% of the year's forecast nominal GDP, a solid upward revision from the—still ample—4.8% surplus in June.

The principal reason for this upgrade is a significant upward revision in the forecast gas price for 2013 from mid-year. Japan's decision to reduce its reliance on nuclear energy has created heavy extra demand for gas that has already caused prices to escalate in 2012 by at least 30%. The revised 2013 forecast assumes that these elevated prices will persist.

The uplift in expected hydrocarbon revenue in 2013 also reflects somewhat higher oil volumes than forecast in June, as well as a technical adjustment to how the price of Qatar's hydrocarbon basket is calculated. The latter means that, for given IMF benchmark prices of crude oil and World Bank forecasts for natural gas components, the GSDP methodology now estimates a higher price for Qatar's specific hydrocarbon basket.

Estimates of government expenditure for calendar year 2013 have also been revised up. Budgeted outlays for the current fiscal year (FY2012/13) are now larger than previously foreseen and it is assumed that this will be echoed in steeper commitments beyond this year. Uplifts for recurrent and capital expenditures are now forecast for 2013. Part of that for capital spending is linked to previously delayed spending that is being carried forward on major infrastructure investments, but costs could possibly rise for some projects. Forecast gains to revenue in 2013 more than cover the additional outlays now anticipated.

The non-hydrocarbon fiscal balance (which subtracts direct contributions of hydrocarbon income to revenue from the overall balance) will remain in deficit. Although non-hydrocarbon sources of government revenue are rising, the bulk of revenue in 2013 (and over the medium term) will accrue from hydrocarbon activity. In 2013, the non-hydrocarbon deficit, adjusted to remove investment income and taxes from hydrocarbon enterprises, is expected to be 20.8% of nominal GDP.

The current account of the balance of payments is seen posting a surplus of 25.7% of nominal GDP in 2013, despite a likely surge in import spending, mainly on materials and capital equipment. Heavier remittance outflows, too, are anticipated, with an increase in the expatriate workforce. The upward revision to estimated earnings from hydrocarbon exports outweighs additional outflows, however.

Risks

The risks faced by Qatar's economy have not materially changed since the assessment given in mid-year's *QEO*. The main risks still emanate from the international economy. Reductions in crude oil prices and more difficult conditions in international credit and debt markets would be the main mechanisms through which Qatar would feel global economic dislocation.

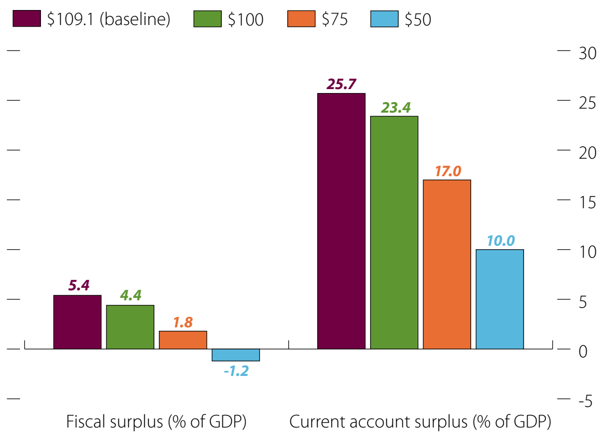
Domestically, inflation is on a mildly upward trajectory, and the authorities remain vigilant. Qatar Central Bank (QCB) has mitigated risks through active credit and liquidity management, just as it has made strenuous efforts to ensure that the requirements of Basel III are met, thus helping to strengthen the position of Qatar's banks.

In the real economy, risks of disruption to business and economic life presented by large infrastructure works—including rail, roads and drainage—are now being addressed through new planning and institutional-coordination initiatives. These measures' success will be vital to ensuring that new infrastructure assets are delivered on time and that they generate promised benefits.

Geopolitical concerns support currently elevated prices for crude oil, but demand and supply fundamentals—as well as still considerable uncertainty about the global economic outlook—suggest that prices could yet soften. And as the price of Qatar's hydrocarbon basket is tightly linked to those for crude oil, a retreat in the latter would reduce the resources that the state has at its disposal.

Yet GSDP calculations suggest that the price of crude oil would have to fall sharply, to below $50 per barrel, to shift the projected fiscal surplus for 2013 into deficit, holding planned spending and other factors fixed (figure 1.7). But with projected increases in government outlays beyond 2013, a protracted period of lower oil prices would underline the importance of efforts to mobilise non-hydrocarbon revenue. The balance-of-payments current account would, though, remain firmly in surplus, even with prices well below $50.

Figure 1.7 Fiscal and current account balances, 2013 (various oil price scenarios, per barrel)



Source: GSDP estimates.

Click here for chart data

Consensus forecasts

As in earlier *QEOs*, GSDP has polled third-party forecasts to provide a "representative" view of prospects. Revisions to these forecasts are revealing both about likely trends and about the confidence with which beliefs about economic prospects are held. This section discusses both 2013 and 2012.

Consensus estimates are calculated for real and nominal GDP growth as well as consumer price inflation (table 1.2). Few sources regularly report data on other indicators of interest. Some of the sources are yet to revise the estimates reported in *QEO 2012–2013* (published in June 2012), shown in red. In these cases, it is assumed that there has been no revision in the beliefs held by the forecasters.

It is unsurprising that the consensus estimates for 2012 (called "December" estimates for convenience) tend to adhere more closely to outcomes that have been partly

Table 1.2 Poll of economic forecasts for Qatar, 2012 and 2013 (%)

Economic forecaster	Real GDP growth		Nominal GDP growth		Inflation	
	2012	2013	2012	2013	2012	2013
Bank of America Merrill Lynch (Aug 2012)	6.1	5.0	…	…	1.5	2.0
Business Monitor International (Jul 2012)	7.8	7.3	11.3	11.9	2.9	4.1
Citigroup (Oct 2012)	6.0	8.3	21.9	14.6	3.0	3.0
Deutsche Bank (Jun 2012)	7.1	4.0	…	…	…	…
Economist Intelligence Unit (Oct 2012)	6.5	5.4	10.6	7.5	1.9	3.1
EFG Hermes (Mar 2011)	5.7	…	…	…	2.0	…
Emirates NBD (Oct 2012)	6.6	5.0	8.0	5.9	2.0	3.5
HSBC (Nov 12)	6.3	5.2	9.8	2.1	3.5	4.7
IBQ-NBK Joint report (Jul 2012)	6.5	4.1	9.0	3.2	1.6	2.0
IHS Global Insight (Nov 12)	4.5	4.3	5.0	1.6	1.7	1.8
Institute of International Finance (Apr 2012)	8.3	5.2	7.0	0.6	1.9	2.2
IMF (Oct 2012)	6.3	4.9	4.0	4.0	2.0	3.0
KAMCO Research (Sep 2011)	7.1	…	7.1	…	4.1	…
Oxford Economics (Oct 2012)	6.2	4.5	11.5	6.9	1.9	3.8
Qatar National Bank (Oct 2012)	5.4	5.3	12.2	6.7	1.9	3.7
Roubini Global Economics (Feb 2012)	8.0	6.0	…	…	…	…
SAMBA (Sep 2012)	5.0	5.2	4.0	5.0	2.5	4.0
Shuaa Capital (Jan 2012)	8.3	…	11.2	…	4.0	…
Standard Chartered (Apr 2012)	5.9	5.6	…	…	3.3	3.8
TAIB Securities (Mar 2012)	6.8	4.5	…	…	4.1	4.5
Consensus (mean)	6.5	5.3	9.5	5.8	2.5	3.3
Median	6.4	5.2	9.4	5.5	2.0	3.5
High	8.3	8.3	21.9	14.6	4.1	4.7
Low	4.5	4.0	4.0	0.6	1.5	1.8
Standard deviation	1.0	1.1	4.5	4.1	0.9	0.9
Coefficient of variation (%)	15.8	20.8	48.0	71.0	35.7	28.6
Consensus (mean) forecasts revised after June[a]	6.2	5.3	9.8	6.3	2.2	3.2
Coefficient of variation (%)	12.5	23.7	51.6	63.2	28.6	28.5
Memo item: Consensus (mean) June 2012	7.4	5.6	7.7	6.4	3.4	3.9[b]

... = not available.

a Calculates the consensus mean, stripping out forecasts that have not been revised since June (in red). b Corrigendum: Discrepancies in inflation forecasts for 2013 reported in June have been corrected in this table.

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

Source: Consolidated from various reports and news articles.

realised, which include estimates of first-half real and nominal GDP (through to June) and of consumer prices (through to October).

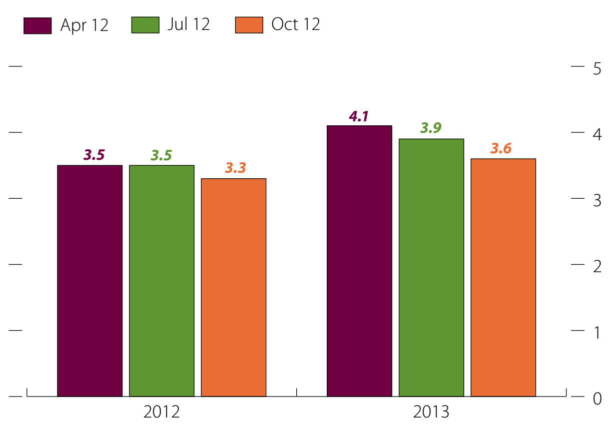
For 2012 (part 2 provides a fuller discussion of GSDP's perspective), most forecasts of real GDP growth released in the second half of the year are lower than those in the first, and the mean is 6.5%, down from the forecast 7.4% in June's *QEO*. Vice versa for nominal GDP, where the consensus is revised up from 7.7% to 9.5%. For consumer price inflation, there is a tendency for the earlier forecasts to be higher than those made later in the year, and the consensus forecast is cut by nearly a full percentage point from 3.4% (June) to 2.5%. These revisions would be accentuated if forecasts that have not been revised since June are removed from the sample.

The revisions made to consensus forecasts from June to December move the consensus forecasts closer to the GSDP estimates of June 2012, for all three indicators. Still, as at mid-year, the GSDP forecasts for 2012's real GDP growth and consumer price inflation remain below consensus and its forecast for nominal GDP growth above consensus (part 2).

As observed in earlier *QEO*s, the dispersion of estimates (as measured by the coefficient of variation) around the consensus is quite large. Surprisingly perhaps, December's revised consensus estimates show no evidence of a convergence in views among those polled for 2012—nor indeed for 2013, which shows less agreement about the outlook for real and nominal income growth, suggesting greater uncertainty about the future.

For 2013, GSDP's expectations are that real and nominal GDP growth will be somewhat lower than the consensus estimates, but the difference is less than one standard deviation for both indicators. Its views on consumer price inflation in 2013 and those of the consensus are very similar.

Figure 1.8 Global real GDP growth projections (%)



Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm), accessed 21 October 2012.

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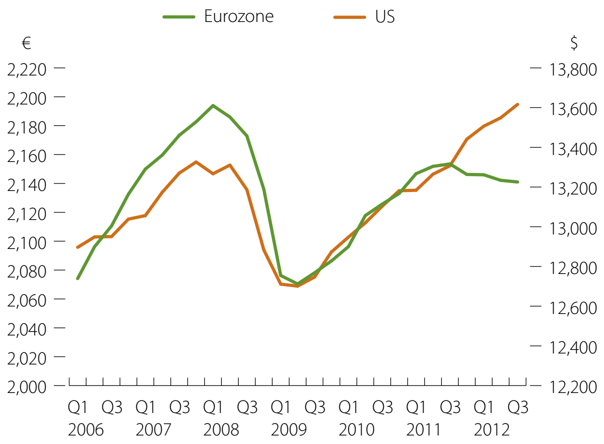
Global economic prospects

In the *WEO* of October 2012, the IMF downgraded its forecast for 2012's global economic growth to 3.3%, a decrease of 0.2% from its April and July 2012 predictions. Hopes for global recovery in 2013 have continued to dim (figure 1.8). These disappointing outcomes and the latest downgrades to forecasts stem from inadequate policy responses to structural financial problems in the eurozone, a fiscal stand-off in the US and pervasive uncertainty that has inhibited private sector spending in advanced countries.

Figure 1.9 Real GDP, eurozone and US (2005 prices, billion)



Note: The eurozone has 17 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

Sources: Eurostat database (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/serach_database#) and US Bureau of Economic Analysis (http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1 #), accessed 22 November 2012.

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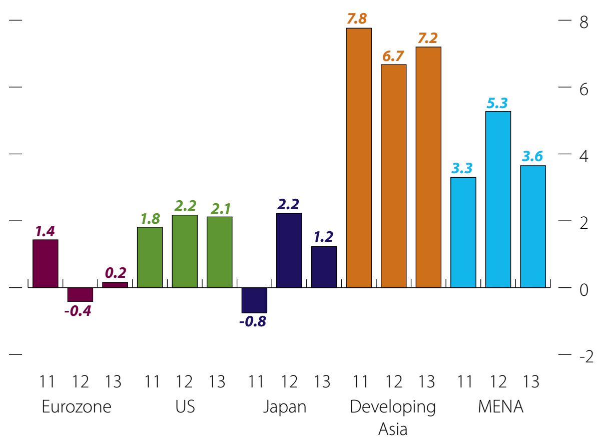
Figure 1.10 Regional real GDP growth (%)



Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm), accessed 21 October 2012.

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Within the global average for 2013, the IMF has taken down growth from April in all major regions, with the largest revisions in the eurozone and Asia—each 0.7 percentage points.

The eurozone re-entered recession in the third quarter of 2012, having seen two consecutive quarters of declining output (figure 1.9), leaving real output no higher than at the start of 2007. Austerity programs have hit demand hard in debt-stricken, peripheral countries and activity is now beginning to suffer in the core economies of Germany and France.

While the outlines of a solution to the bloc's financial and debt crisis are beginning to form, proposed responses, including a banking union, will take time to push through. Over the medium term, structural measures that address chronic deficits in competitiveness will be needed to get ailing countries back to work (unemployment in the eurozone stands at 11.6% as of September 2012 and in Greece and Spain it tops 25%) and to repair their broken balance sheets.

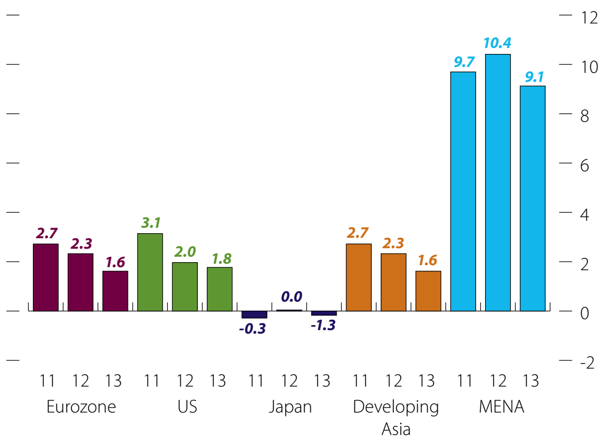
In the US in contrast, real output has continued to grow since the end of its recession (in the second quarter of 2009), although post-recession performance has been the weakest of any since World War 2. In fact, the sluggish road to recovery resembles what happened in the aftermath of other systemic financial crises internationally and in an earlier epoch of US economic history.

A proximate explanation for the weak recovery from the 2007 recession lies in the role that the collapse in the US housing market and household deleveraging played in precipitating and then propagating the crisis. In past episodes of recovery, housing investment has typically helped lead the way out of recession. On this occasion, a sclerotic US housing market in which values have plunged has obstructed recovery. A comparatively muted fiscal response and weak consumer spending (weighed down by housing debt, a weak labour market and depressed earnings) have also played a part.

Recent data releases suggest that progress will remain tentative, although job growth and signs of a recovery in the US housing market—with house prices rising in September 2012 and a range of indicators showing renewed residential building activity—are positive signs. The October *WEO* expects US growth to be 2.2% in 2012, slowing to 2.1% in 2013 (figure 1.10).

Yet a major question mark exists as to whether the US Congress can reach agreement on a deficit and debt reduction programme before the end of 2012. Failure to reach agreement would result in sharp tax rises and deep spending cuts (the so-called fiscal cliff) that could

Figure 1.11 Regional annual inflation (%)



Source: IMF *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm), accessed 21 October 2012.

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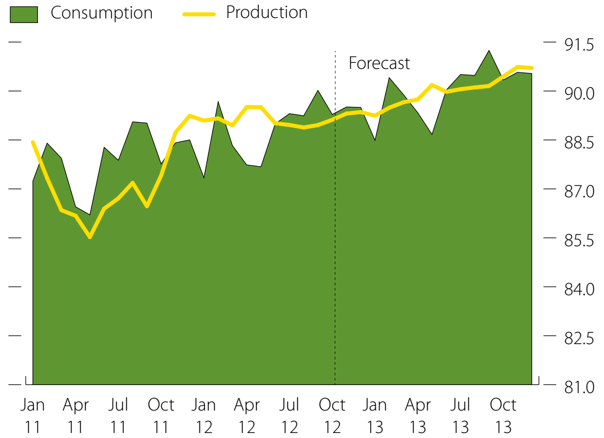
Figure 1.12 Crude oil and liquid fuels global demand and supply (million barrels per day)



Source: US Energy Information Administration, Short-Term Energy Outlook database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 15 November 2012.

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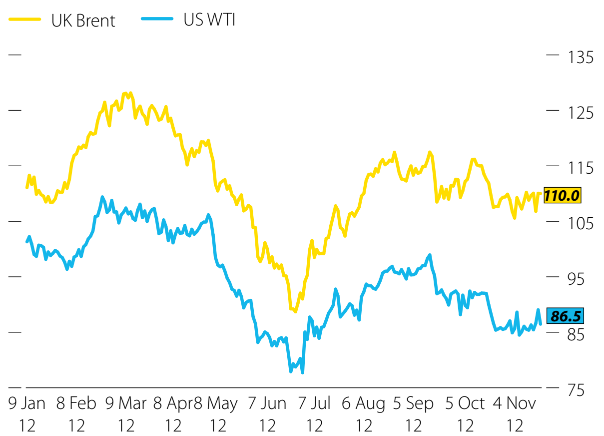
Figure 1.13 Average daily crude oil spot price ($ per barrel)



Source: US Energy Information Administration, Short-Term Energy Outlook database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 27 November 2012.

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derail what is still a fragile recovery. The *WEO* projections assume that a compromise is reached that avoids harmful fiscal tightening.

In Asia, growth in China has slowed owing to the knock-on effects of sluggish global demand, tightening domestic credit conditions and public spending restraint. In India, too, growth has decelerated; higher interest rates, aimed at stemming inflation, have weakened business confidence. October's *WEO* sees growth in developing Asia of 6.7% in 2012, picking up to 7.2% in 2013.

In the third quarter of 2012, Japan slipped back into recession as its fiscal austerity measures began to bite and the transitory boost to economic activity given by reconstruction efforts following the devastating tsunami of 2011 faded.

Closer to home, the *WEO* revised up its GDP growth forecast for the Middle East and North Africa (MENA) to 5.3% for 2012, from 4.2% in April's *WEO*. The gap between oil exporters and oil importers within the region has continued widening, with exporters benefiting from elevated crude prices. In 2013, growth in MENA is expected to slow to 3.6% (as against a 4.6% forecast in the April *WEO*), largely because prospects for oil-exporting countries are expected to narrow with lower oil prices that year.

On the inflation front, in a context of weak global growth and muted demand, the IMF expects that pressures will generally soften in both 2012 and 2013 (figure 1.11).

Prospects for energy and commodity markets

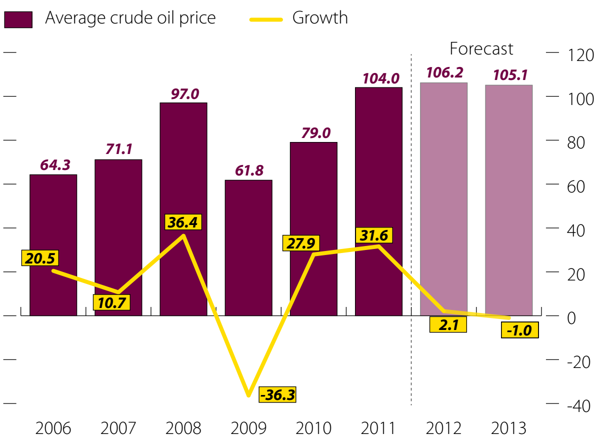
Oil prices

An uncertain outlook for the global economy is casting a shadow over energy and commodity markets. The International Energy Agency has cut its short-term forecasts for global oil demand and predicts anaemic growth in crude oil demand until the second half of 2013.

Supplies from non-OPEC sources, including North America, have continued to build and further growth is expected in 2013. OPEC's supply has been buttressed by faster than expected recovery in Libyan production, expanding Iraqi output and new peaks in Saudi Arabian supplies, while Iranian exports remain constrained. Thus for the rest of 2012 and 2013, global production should roughly match demand (figure 1.12).

Spot oil prices generally fell in late October and early November 2012 (figure 1.13). (Futures prices have also

Figure 1.14 Average crude oil price ($ per barrel)



Note: Average crude oil price is the simple average of three spot prices: dated Brent, WTI and Dubai Fateh.
Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx, accessed 8 November 2012.

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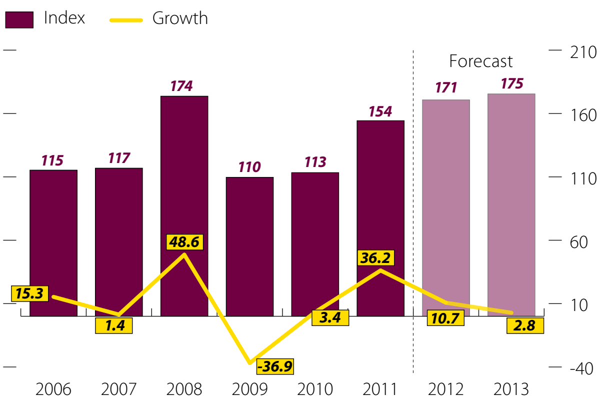
Figure 1.15 Natural gas price index (2005 = 100)



Note: The index includes European, Japanese and US indices.
Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx), accessed 8 November 2012.

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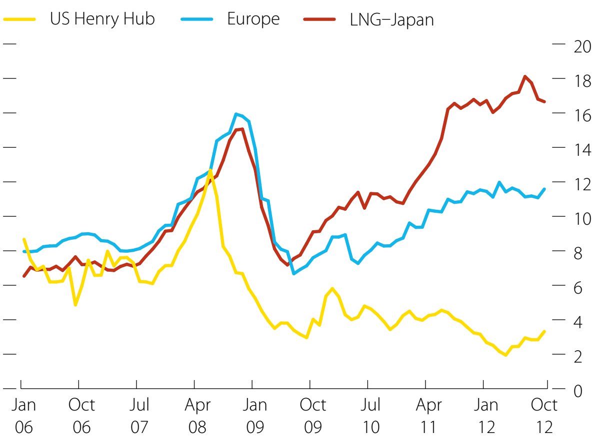
Figure 1.16 Natural gas prices ($ per million British thermal units)



Source: World Bank Commodity Markets database (http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html), accessed 8 November 2012.

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fallen.) In its October 2012 *WEO*, the IMF expected the 2012 annual average oil price to be marginally above 2011's at close to $106, coming down a little to just over $105 in 2013 (figure 1.14). These prices—though still elevated and likely to act as a drag on recovery—are lower than the IMF forecast in April, but higher than its revised forecast of July. Price volatility is likely to stay a feature of the market given lingering economic and geopolitical uncertainties.

Gas prices

The *WEO* (October) projected average natural gas prices—a weighted average of Japanese, US and European prices—to increase by 10.7% in 2012 and 2.8% in 2013 (figure 1.15). Gas continues to be sold at prices far below its energy equivalent parity with oil—in effect, at a discount to oil.

Given the hefty discount on gas-fuelled energy, consumers are increasingly likely to invest in gas- rather than oil-burning equipment in non-transport uses. Bright prospects for gas demand, including the likelihood of continuing growth in China and India's appetite for gas, are expected to eventually exert upward pressure on gas prices, but no significant adjustments are seen in the short term, and impacts will probably continue being regionally differentiated.

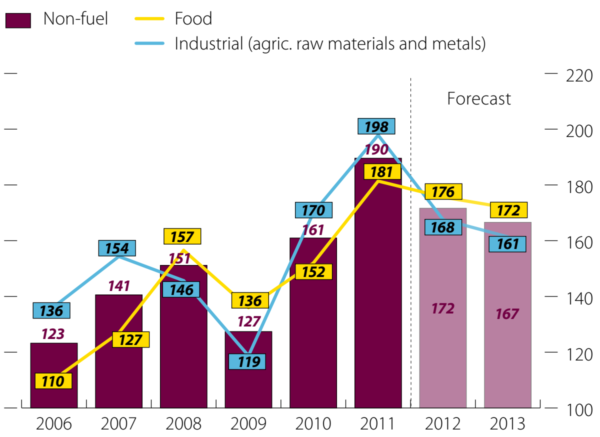
The global market in gas remains highly segmented, with prices across major regions diverging (figure 1.16). The gap between Japanese prices and Henry Hub prices (in the US) widened in August 2008 and more significantly again from July 2011 through the first half of 2012, albeit with a slight reversal in the trend in September and October.

Recent price dynamics have been dominated by regional developments. In the US, fast-expanding supplies of unconventional (shale and lean) gas have driven down prices. But in Asia, the vast majority of trades are linked to the price of crude oil, and a liquid hub market that reflects natural gas supply–demand balances ("gas on gas" pricing) is yet to form. Options for Asian LNG hubs are being considered in the Republic of Korea, Shanghai and Singapore. Asian regulatory, financial and infrastructure challenges will take time to overcome but are not insurmountable.

Non-energy commodity markets

Depressed global demand conditions have reverberated in non-energy commodity markets. The IMF (*WEO*, October 2012) sees a fall in non-fuel commodity prices of 9.5% in 2012 relative to 2011 and a

Figure 1.17 Non-fuel commodity price index (2005 = 100)



Source: IMF, *WEO* October 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx), accessed 8 November 2012.

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further drop of 2.9% in 2013 (figure 1.17). The non-fuel commodity price index fell by about 1.6% between September and October 2012, as the food sub-index declined by 4%. While short-run disruptions to supply, say caused by adverse weather events, may continue to affect food prices, futures markets expect food prices to come down further in 2013.

For metals, the prospect of stronger demand in China and other emerging economies is expected to support demand, and futures markets are anticipating price rises, though the IMF is predicting further falls in 2013.

Annex: Baseline assumptions

New data releases as well as revisions to 2010 and 2011 base-year data are used to update the forecast assumptions. (In September 2012, QSA released revisions—confined to the non-hydrocarbon sector—to the national accounts for these two years.) The base-year accounts, as revised, are aligned with actual data and then projected to 2012 and 2013.

Assumptions about the global economy draw on the IMF's *WEO* of October 2012.

Qatar's realised hydrocarbon prices, both oil and gas, are incorporated in the baseline. The oil price forecasts from the October *WEO* are adopted to forecast Qatar's crude oil export prices in 2012 and 2013. (The price is the simple average of three spot prices: Brent, WTI and Dubai Fateh.) Gas prices for three markets—Europe, Japan and the US—are taken from the World Bank's September 2012 commodity price forecasts and are used to produce a trade-weighted average gas price, with Qatar's 2010 export volumes as the weights.

The most recent data from official national sources are used to construct Qatar's macroeconomic accounts. Actual outcomes for the first half of 2012 are used to calibrate the forecasts. They include data on the national income accounts from QSA (released in September 2012) and on the balance of payments from QCB (released in October 2012), as well as preliminary data for FY2012/13 from the Ministry of Economy and Finance (MOEF) (as of September 2012).

Output is measured using the value-added approach recommended by the United Nations System of National Accounts. Value-added ratios of economic sectors align with QSA's ratios.

Qatar Petroleum has provided updated data on output volumes in the hydrocarbon economy, both upstream (crude oil, liquefied natural gas, condensates and natural gas liquids) and downstream (refined petroleum products, GTLs, fertilisers and other petrochemicals). These data anchor export estimates.

The investment profiles for 2012 and 2013 are estimated from updated information on project costs and assumptions about disbursement profiles, an approach unchanged from *QEO 2012–2013* in June.

Fiscal outcome estimates are expressed in calendar year. The estimates reflect spending information from MOEF's budget estimates for FY2012/13 (April–March); MOEF's estimates of non-oil and gas revenue; and GSDP's estimates of oil and gas revenue based on expected oil price outcomes (rather than the price used in budget planning assumptions). Actual fiscal outcomes in the first half of FY2012/13 are used to fine-tune the forecasts.

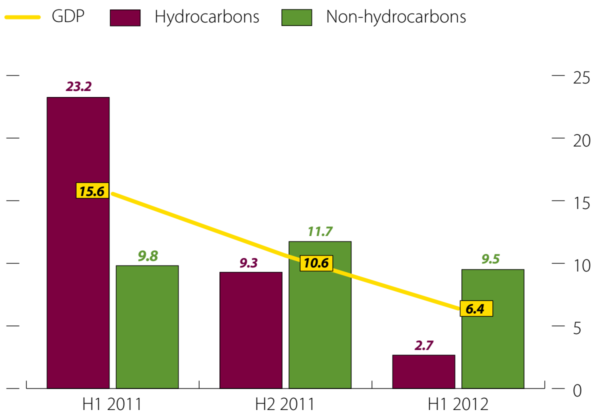
Estimates of consumer price inflation are anchored on, among others, trends in global commodity prices, expected movements of nominal effective exchange rates, prospects for population growth, and conditions in the local housing rental market.

Part 2 Performance in 2012

Qatar's non-oil and gas economy has picked up the reins of growth this year. Expansion there is broad based, buttressed by accelerating infrastructure investment. Construction, transport and communications, and financial services have all grown fast, as has manufacturing, which includes downstream refining and petrochemical activities. The non-oil and gas economy is likely to rise by about 9.3% over the full year, accounting for the bulk of the forecast 6.3% expansion in real GDP, and helping Qatar's economy in nominal terms to reach a shade under $200 billion by year-end.

Headline consumer price inflation is still tame, but towards the close of the year it has begun to edge up, fuelled partly by an end to rental price deflation. Qatar's surplus on the current account of the balance of payments remains sizeable, supported by favourable prices for hydrocarbon exports. And despite hefty budget increases in recurrent and capital expenditures, an uplift in revenue will keep the overall fiscal surplus healthy.

Figure 2.1 Real GDP growth, hydrocarbons and non-hydrocarbons (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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Economic growth

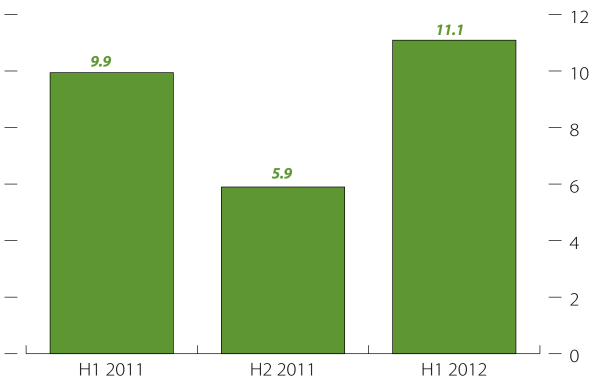
Real GDP

Quarterly estimates of real GDP from Qatar Statistics Authority (QSA) indicate that Qatar's economy expanded by 6.4% in real (volume) terms during the first half of 2012, measured year on year against the same period of 2011 (figure 2.1). Although this half-year outcome is close to the full-year forecast of 6.2% made by the General Secretariat for Development Planning (GSDP) in its *Qatar Economic Outlook* (*QEO*) *2012–2013* of June 2012, second-quarter output growth slowed sharply: real GDP grew by 5.1% in that quarter, down from 7.9% in the first.

Late commissioning of some final additions to liquefied natural gas (LNG) capacity lifted output by 2.7% in the first half of 2012 relative to the same period in 2011. But there was no growth in the second quarter from the first, with oil and gas output registering a slight decline.

A profile of flat gas production and marginally declining oil production (which includes crude oil, condensates and natural gas liquids) is set to continue over the near term. No additional gas production will occur until the Barzan project comes on line, still expected in 2014. In the short term, crude oil production will recede as yields from maturing fields decline. Expected investments in the further development of existing fields (particularly Dukhan) may lift future oil output, but impacts will not be seen until beyond 2015. Little growth is expected in the production of condensates and natural gas liquids in the near term.

Figure 2.2 Manufacturing growth (%)



Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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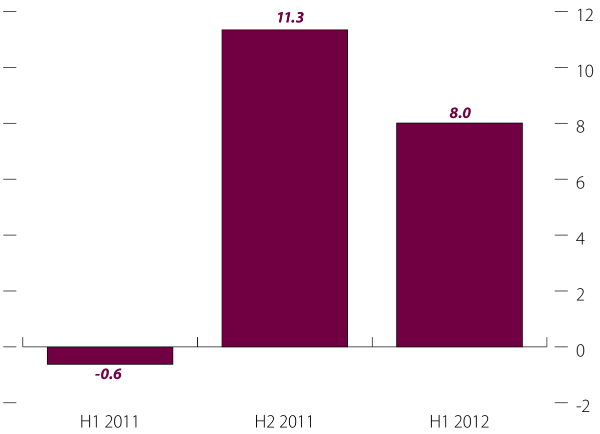
Figure 2.3 Construction growth (%)



Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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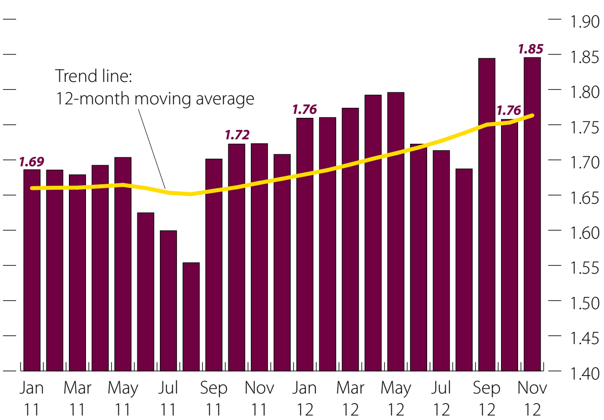
Figure 2.4 Population (million)



Source: QSA Population Structure Archive (http://www.qsa.gov.qa/eng/PS-Archive.htm), accessed 2 December 2012.

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The non-oil and gas sector performed strongly in the first half of 2012, rising by 9.5% from the same period in 2011. But its year-on-year growth in the second quarter slipped to 8.5% from 10.6% in the first.

Qatar's manufacturing expanded by a solid 11.1% in the first half of 2012 (figure 2.2). In volume terms, about 56% of manufacturing activity is accounted for by the production of refined products—including gas-to-liquid products, or GTLs—and of petrochemicals. Both are tied to upstream oil and gas activity through processing of feedstock inputs, namely crude oil, lean gas and condensates.

Much of the manufacturing expansion in the first half reflected the availability of additional feedstock and continued addition to capacity at Pearl GTL. The manufacturing subcomponent of basic chemicals, which includes GTLs, climbed by almost 100% in the first half of 2012. Within petrochemicals, fertiliser production posted strong growth of about 23% following recent expansion of capacity to produce urea and ammonia.

Qatar also produces modest quantities of iron, steel and aluminium. Output in this subsector also stepped up in the first half. Rubber, plastic and other chemical products likewise posted strong growth.

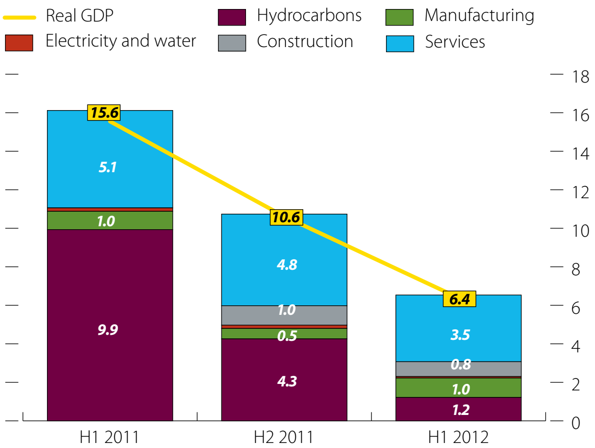
Utilities (electricity and water) grew at close to 10% in the first half of the year. Rising demand for power was supported by broader growth in the economy, particularly in energy-intensive areas such as refining activity, chemicals and metals. An expanding population (figure 2.4 below) added to demand for both water and power.

The strong performance in other parts of the non-oil and gas economy in the first half of 2012 was broad based. Transport and communications led the advance, growing by over 15% compared with the same period in 2011. Continuing investments in information and communications technology and Qatar Airways' expansion programme helped to underpin the strong performance. The margins earned on shipments of Qatar's LNG cargos also spurred activity in this sector.

As the year progressed, construction activity picked up. Growth of 8.0% in the first half (figure 2.3) was driven by strong expansion in the second quarter. Spending on infrastructure began to gather some momentum in the first half and investments continued in large real estate developments, including Lusail, Pearl, Mushereib's Heart of Doha, and Barwa's Financial District.

By mid-year 2012, Qatar's total population had risen to 1.72 million, an increase of just over 6% from one year earlier (figure 2.4). The 12-month moving average trend,

Figure 2.5 Contributions to real GDP growth (percentage points)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Services include transport and communications, trade and hospitality, financial, government, household and social services.
Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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which removes seasonal and other transitory influences, shows that Qatar's population is once again on a rising trajectory.

To meet the demands created by an expanding population, service activity expanded in the first half, with most subsectors growing at 7–9%. Financial services stepped up to meet expanding credit needs—boosted by higher margins—while the government continued to allocate a large portion of budgetary expenditure to education and health. Figure 2.5 illustrates the extent to which overall growth in the economy is now dependent on services and non-oil and gas activity: in the first six months of 2012, services accounted for over half the aggregate growth in the economy.

In June 2012, *QEO 2012–2013* estimated that GDP growth for the full year would average 6.2%. Based on observed performance in the first half, and updated information on expected developments in key sectors for the rest of 2012, real GDP growth for the full year is now expected to be 6.3%, little changed on the earlier forecast. This updated projection incorporates revised QSA estimates of historical GDP and its sector allocation (box 2.1).

The second half of 2012 will probably see oil output tapering off, but gas production continuing to expand. The net effect will be to add marginally to the stimulus to growth that oil and gas provided in the first half, taking real growth in oil and gas to 3.4% for the full year.

Growth in the non-oil and gas sector in the second half will be influenced by a variety of factors, some of which lift growth with others causing it to moderate.

Although manufacturing output will continue to pick up, its pace may slow. Other factors, too, could restrain growth in the second half. By the close of the year, the stimulus that some sectors felt with the large rise in

Box 2.1 Revisions to real GDP data, 2010 and 2011

Estimates of real GDP growth are based on national income accounts measured in 2010 prices (the base year). Latest QSA national accounts estimates, released in September 2012, revise down aggregate GDP figures for 2010 and 2011. Revisions were confined to the non-hydrocarbon sector.

For 2010, estimates of manufacturing and services output (trade and hospitality, transport and communications, and finance) were lowered. Construction was revised up, however. For 2011, the downward revision was largely in services, particularly finance.

The latest GDP forecasts reported in this *Update* use the revised QSA national accounts estimates for 2011 as their base.

salaries and emoluments—given to citizens working in government and the military—in September 2011 will have worn off.

But other factors at play should support growth.

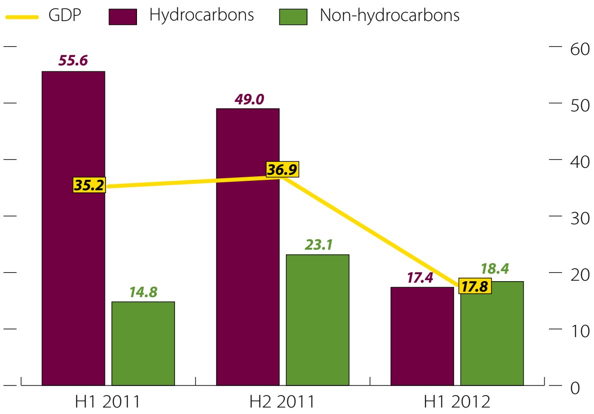
The pace of construction activity is expected to pick up with mobilisation and enabling works now under way for major infrastructure projects, including the Doha metro.

In addition, the resident population continues to increase. As of November 2012, Qatar had 1.85 million residents, a significant jump over the mid-year population and the corresponding number one year earlier (figure 2.4 above).

While many of the new arrivals are lesser skilled workers—each placing limited (and ultimately temporary) demands on local services—the large absolute increase in the worker headcount will nevertheless lift the overall demand for services. Qatar's hosting of the United Nations Climate Change Conference in late November and early December, too, will have lifted activity in services.

This *Update* pegs full year growth in the non-oil and gas economy at 9.3%, a shade lower than the outcome in the first half.

Figure 2.6 Nominal GDP growth, hydrocarbons and non-hydrocarbons (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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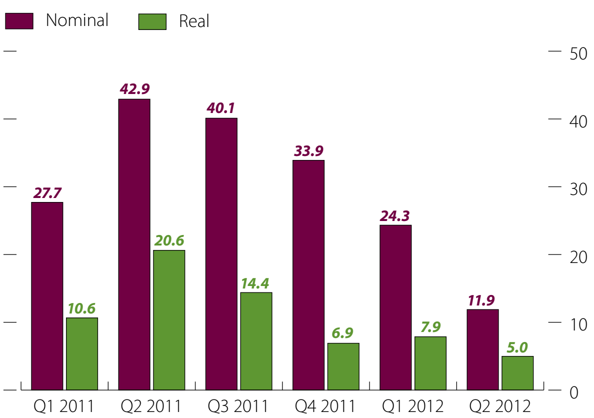
Nominal GDP

Measured in nominal or value terms, GDP expanded by 17.8% in the first half of 2012 (figure 2.6). As explained in earlier *QEOs*, measures of nominal income may provide a better picture of the resources available to the country in circumstances where terms of trade change, particularly the price received for Qatar's output basket of hydrocarbon exports.

First-quarter growth of 24.3% was followed by a more moderate 11.9% in the second (figure 2.7). The gap between real or volume growth and nominal growth is explained by changes in the price of Qatar's output basket, particularly by gains in prices of hydrocarbons and petrochemicals.

Figure 2.7 Quarterly GDP growth, nominal and real (%)



Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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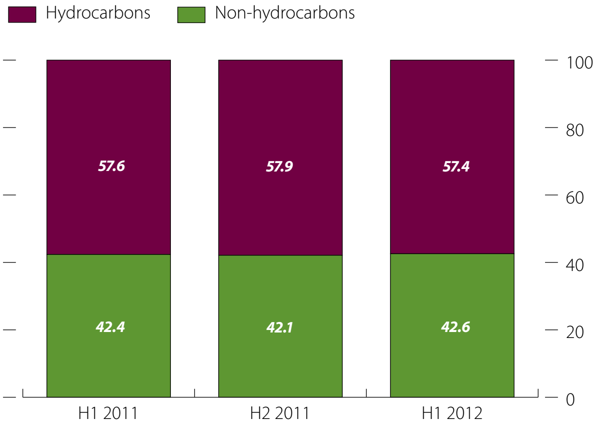
Higher international prices for crude oil, to which the price of Qatar's hydrocarbon basket is closely tied, lifted income in the oil and gas sector. In nominal terms, output of oil and gas rose by over 17% in the first half, compared with a volume expansion of just 2.7%. Manufacturing, in which downstream refining and petrochemical activity features prominently, also benefited from higher prices, with nominal output climbing by 21.7% against volume expansion of 11.1%.

A second factor in nominal income growth was a ramp-up in the output of government services, which

Figure 2.8 Share of nominal GDP, hydrocarbons and non-hydrocarbons (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
Source: GSDP estimates based on QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm).

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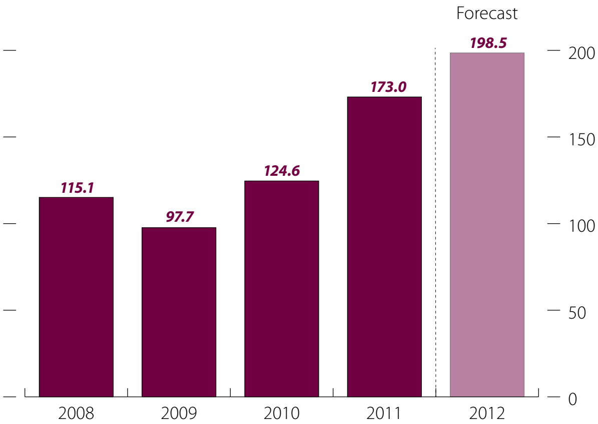
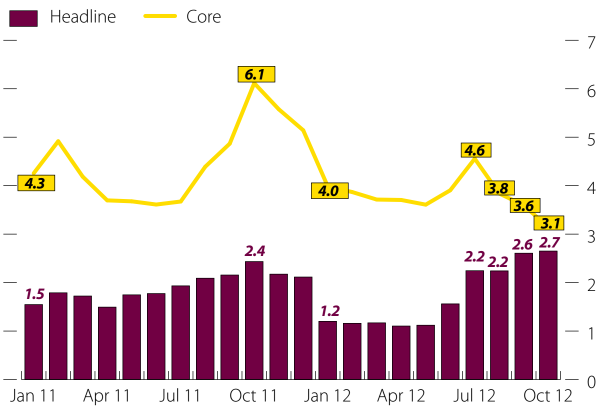
Figure 2.9 Nominal GDP ($ billion)



Sources: QSA release dated 30 September 2012 (http://www.qsa.gov.qa/eng/index.htm) and GSDP estimates.

Click here for chart data

Figure 2.10 Monthly headline and core inflation (year on year, %)



Note: Core inflation is headline inflation less food, rent and utilities.
Source: GSDP estimates based on QSA release dated 14 November 2012 and Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 15 November 2012.

Click here for chart data

surged by 41.7%. This output is recorded at cost, and a substantial component of this cost is employees' compensation. Data for the first half of 2012 therefore reflect the impact of the salaries and benefits award of September 2011.

Removing oil and gas, manufacturing (dominated in nominal terms by refining and petrochemicals) and government activity from the aggregate nominal GDP numbers leaves first-half nominal income growth at a more sedate 10.3%. This is not much faster than volume (real) growth of 9.7% for the same group of activities. In terms of their contributions to aggregate nominal income, oil and gas continued to account for more than half the total (figure 2.8).

Looking at trends within the first half, the *level* of aggregate nominal income in the second quarter dipped below that in the first. Most of the decline was due to lower prices for crude oil in the second quarter, with income expanding in all other sectors.

It is expected that Qatar's crude oil export price for 2012 will average around $110 per barrel. After the second quarter's dip, prices have again picked up. This should provide a fillip to nominal output in oil and gas and in manufacturing. However, the rapid expansion of government services will, absent a further significant rise in compensation, peter out in the second half.

Taking all these factors into account, it is expected that over the full year nominal GDP will grow by 14.7% and that by year-end the overall size of the economy will be about $199 billion (figure 2.9).

Prices

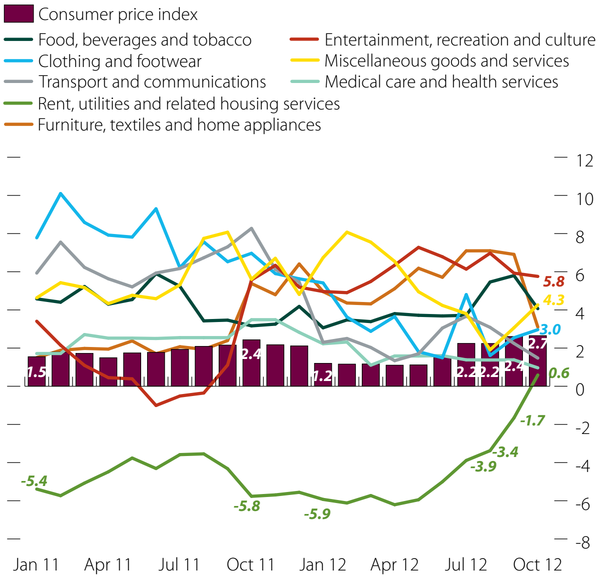
Consumer prices

Headline consumer price inflation, measured as the year-on-year percentage change in the consumer price index, stood at 2.7% in October 2012 (figure 2.10), for an increase of 0.4% on September 2012 prices. The narrower "core" measure—which strips out food, utilities and residential rent, as they are the most volatile components of the consumer price basket—was 3.1% higher in October 2012 than 12 months earlier.

Although headline inflation has been rising since June 2012, the narrower core measure started to moderate in August 2012.

Within the overall consumption basket, inflationary trends are mixed. Price inflation for some components, such as furniture, textiles and home appliances, has

Figure 2.11 Monthly inflation (year on year, %)



Source: GSDP estimates based on QSA release dated 14 November 2012 and Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 15 November 2012.

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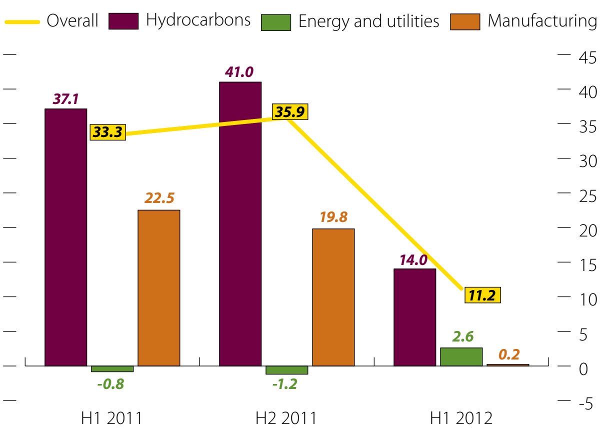
Figure 2.12 Producer price index growth (%)



Source: GSDP estimates based on QSA release dated 3 October 2012 and Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 15 October 2012.

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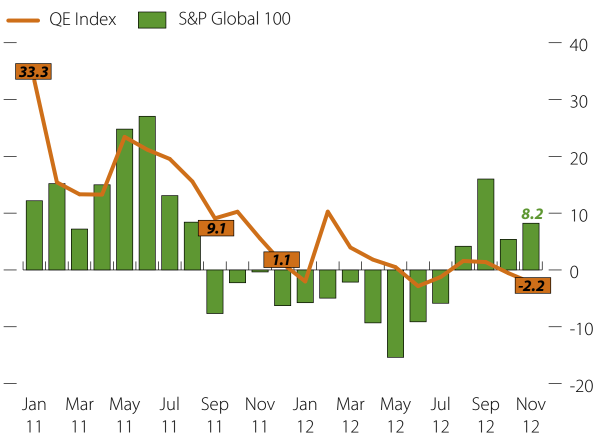
Figure 2.13 QE Index and S&P Global 100 (year-on-year change, %)



Sources: QE (http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/) and CEIC database, accessed 3 December 2012.

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accelerated while for others, such as transport and communications, it has moderated (figure 2.11).

Movements in the rental component of the consumer price index have had a decisive influence on the path of headline inflation in 2012. In April and May, the rental price index bottomed out. Since then, month on month, rents have been rising. While it was only in October that year-on-year rises were recorded for the first time since the last quarter of 2008, slower annualised deflation has likewise been exerting less of a drag on the headline rate. Renewed rental inflation added about half a percentage point to the headline inflation outcome for October.

June's *QEO 2012–2013* forecast year-average consumer price inflation in 2012 at 2.0%. Through to October, annual average inflation ran at 1.8%. Given the possibility of a further mild acceleration (as rents look set to continue their recent rise), this 2.0% estimate for the year remains unchanged.

Producer prices

QSA released a producer price index for the first time in 2010. Calculated using the average of 2006 prices as the base, the index reflects the prices that domestic producers receive for their output (net of taxes plus subsidies).

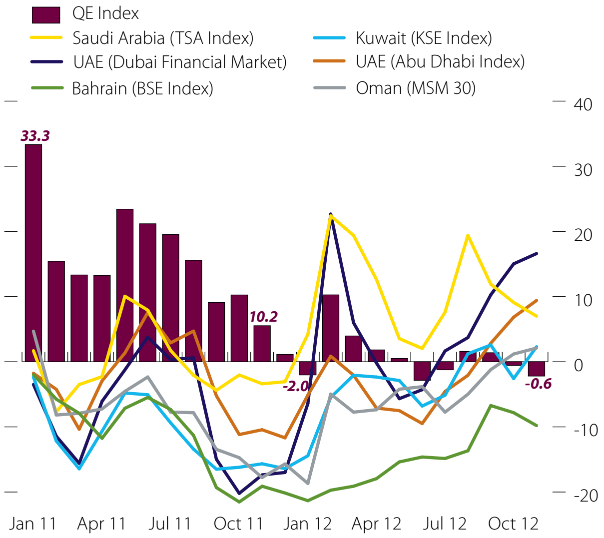
Producer prices advanced in the first half of 2012 by 11.2% (figure 2.12) on the back of rising crude oil prices—they rose sharply in the first quarter, but decelerated in the second. Hydrocarbon price changes, which have a weight of 77% in the index, explain much of the second-quarter slowdown, which was also influenced by a retreat in producer prices for manufactures (largely petrochemicals and refined products).

Asset markets: Equity and property

Qatar Exchange (QE) is the domestic trading platform for equities. The QE Index, a benchmark index of the 20 largest and most liquid stocks, ended November 2012 at 8,401, or about 192 points lower than 12 months earlier (figure 2.13). The slight gains enjoyed through to April have been more than offset by subsequent declines.

Most regional bourses performed poorly in the first half of 2012 with all but the Kingdom of Saudi Arabia ending the half in negative territory. Regional political uncertainties may have influenced investors' perceptions and appetite for risk. Subsequently, some exchanges have made up some of their losses (figure 2.14).

Figure 2.14 Gulf Cooperation Council stock price indices (year-on-year change, %)



Sources: QE (http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/) and CEIC database, accessed 3 December 2012.

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Trading on the Qatar bourse—value and volume—has nevertheless been on a rising trend, and the market has been deepening. Month-to-month variations occur of course, and trading in October 2012 was down on the same month in 2011.

Total market capitalisation of the index reached QR459 billion in November 2012, an increase of about 4% from a year earlier. In April 2012, QE introduced three new indices so that seven primary subsectors are now covered (box 2.2).

Real estate. Excess supply persists in most segments of the market. Compared with the first half of 2010, rental prices for office and retail space remain depressed (figure 2.15). Residential rents, too, are far below their earlier levels, though are now rising on a monthly basis. Based on the most recent peak of the rental component of consumer price inflation in the first quarter of 2010, residential rents in October 2012 were still about 11%

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

January. QE hosted a workshop on market development for small and medium-sized enterprises (SMEs). This event followed up on QE's 2011 announcement forming the SME market, called the "QE Venture Market".

February. Qatar Central Bank (QCB) advised Qatar's commercial banks to review the impending Basel III regulatory requirements for common equity capital ratios, and present their comments to support a coordinated compliance transition. Implementation is set to begin in January 2013.

April. Qatar Investment Authority (QIA) announced that it had $30 billion to invest in 2012. Qatar Holding LLC—QIA's foreign investment division—acquired a 3% stake in France's Total, Europe's third-largest oil company.

To supplement the existing QE Index, QE introduced new equity indices, for a total of seven: banks and financial services; industrials; transportation; real estate; insurance; telecommunications; and consumer goods and services. A total return version of the QE index was also launched, which measures both price performance and income from dividends for the 20 largest and most liquid stocks on the QE.

June. QCB reiterated its commitment to keeping interest rates low, via sound policy making and active liquidity management. MSCI announced that it would keep QE under review for possible upgrading to its "Emerging Market" classification.

July. For the first time since 2003, the government issued Islamic bonds (dollar-denominated sukuk). Amounting to $4 billion, the issuance took advantage of global demand for low-risk investments and sharia-compliant assets, amid international market uncertainty.

QCB issued QR4 billion ($1.09 billion) in Treasury bills—QR2 billion in three-month notes and QR1 billion (each) in six- and nine-month paper.

Capital market and financial reforms announced in July transferred the responsibility as principal regulatory authority for QE from the Qatar Financial Markets Authority to QCB. Other reforms include support to accelerate the creation of banks' brokerage divisions.

September. QCB, working with GSDP and the International Monetary Fund, hosted the Capital Markets Conference 2012 in Qatar. This event brought together policy makers, market players and industry experts to look at ways of enhancing the policy, operational and regulatory environment to support further development of domestic debt markets across Gulf Cooperation Council countries. The event was important for Qatar in view of its priority to develop its domestic debt market in the context of the *National Development Strategy, 2011–16*.

In its August *Financial Stability Review*, QCB stated that Qatar's commercial banks would meet the Basel III requirements by end-2012. The report also explained how the high levels of common equity capital held by Qatar's domestic commercial banks would help to ensure compliance.

October. With Enterprise Qatar, Qatar Development Bank and the Bedaya Centre, Silatech unveiled SILA, Qatar's first "business angel" investment fund network to facilitate the development of business start-ups. (*Sila* means "connection" in Arabic.) This move is part of an effort to plug the financial needs and challenges facing new business start-ups and to help promote entrepreneurship and SME development in Qatar.

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

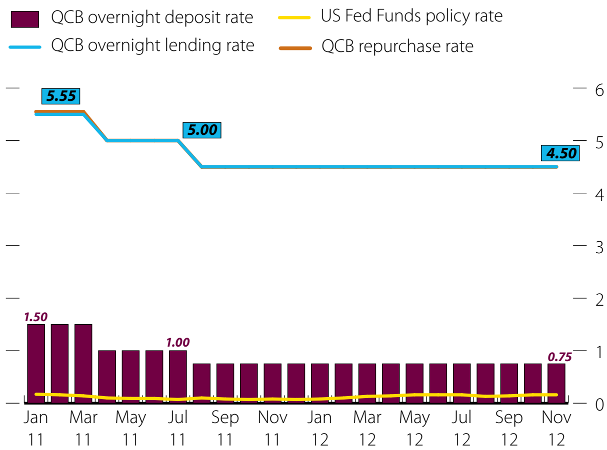
November. QIA used its near 12% stake in mining group Xstrata Plc to support the takeover by global commodities player, Glencore, securing better terms for the miner than originally offered.

Figure 2.15 Real estate rental rates, Doha (QR per square metre per month)

Note: Rental rates are average of minimum and maximum. The index captures new market transactions, making no allowance for the quality and location of the underlying real estate assets, nor incorporating the price of the underlying stock.
Source: Business Monitor International *Qatar Real Estate Report*, various issues.

Click here for chart data

Figure 2.16 Policy rates (% per year)



Sources: QCB *Quarterly Statistical Bulletin* September 2012, US Federal Reserve database (http://www.federalreserve.gov/datadownload/) and CEIC database, accessed 2 December 2012.

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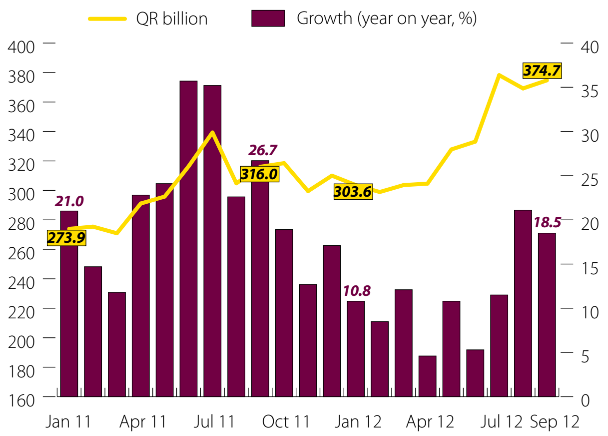
Figure 2.17 Money supply (M2)



Sources: QCB *Quarterly Statistical Bulletin September 2012* and CEIC database, accessed 9 November 2012.

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lower. Within the residential sector, the picture is variable: whereas the high-end segment remains over-supplied, rents for mid-range properties have been picking up since July.

Industrial rental rates saw a sharp pick-up in the first half of 2012, possibly due to rising demand for space for light fabrication and bulk storage.

Interest rates, money supply and credit

There has been no change in the main policy rate (the overnight lending rate) of QCB since August 2011, which remains at 4.5% (figure 2.16). QCB continues to keep interest rates low in a context where the US Fed Funds policy rate has remained historically low, as the Federal Reserve continues to expand liquidity in the economy. Although a positive spread exists between Qatari riyal and US dollar interest rates, limits on the deposits that domestic banks can place with the central bank (above the required statutory levels) have stemmed arbitrage opportunities.

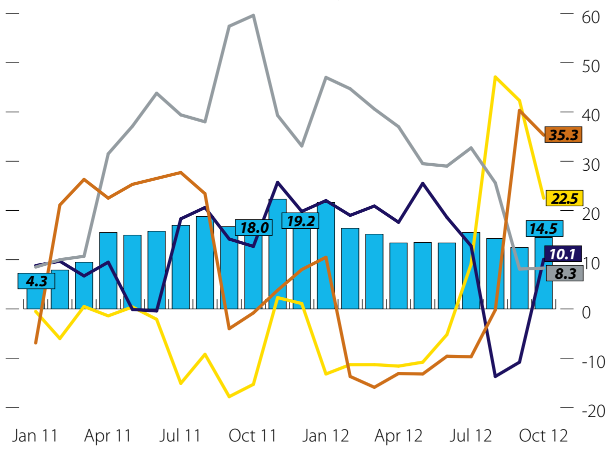
Broad money supply (M2) through to September 2012 grew by 18.5% relative to the same month in 2011 (figure 2.17). On the consolidated balance sheet of the banking sector, domestic credit and net foreign assets expanded with the growth in the money stock.

In 2012, commercial bank credit to the private sector has climbed at a steady double-digit pace, although this masks considerable month-to-month volatility for individual sectors (figure 2.18). Credit to industry and services, having extended the contraction of 2011 through to June 2012, has grown rapidly in the second part of the year. Credit to contractors and the real estate sector continues to expand but the rate of growth has moderated through 2012. Possibly in response to tighter controls, including caps on loans, growth of consumer credit has also moderated through 2012 (such credit even contracted in August and September). For its part, the general trade sector has seen a contraction in the volume of bank credit over much of the year.

The level of non-performing loans in the domestic banking system remains low, provisions are generous and capital buffers are strong (box 2.3).

Bank credit to the public sector (which includes government, government institutions and semi-government bodies) has shown vigorous growth in 2012, picking up on the momentum that started in the second part of 2011 (figure 2.19).

Figure 2.18 Growth of commercial banks' private sector credit (year on year, %)



Sources: QCB *Quarterly Statistical Bulletin* September 2012 and CEIC database, accessed 22 November 2012.

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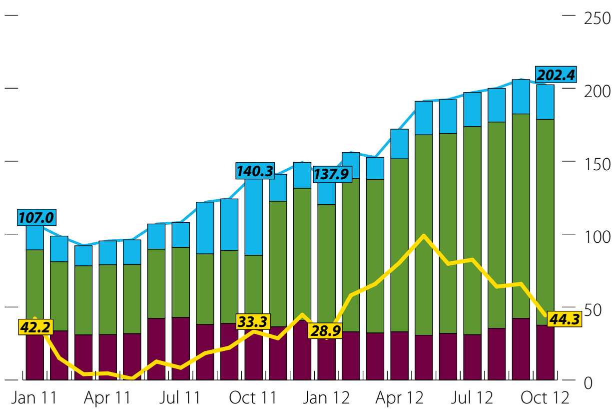
Figure 2.19 Growth of commercial banks' public sector credit



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

Sources: QCB *Monthly Monetary Bulletin*, October 2012 and CEIC database, accessed 22 November 2012.

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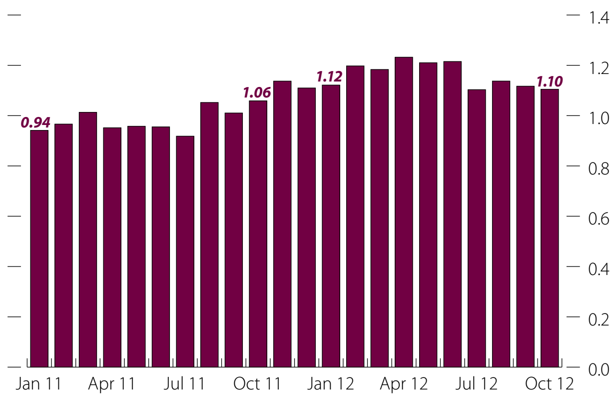
Figure 2.20 Loan-to-deposit ratio



Sources: QCB *Monthly Monetary Bulletin* October 2012 and CEIC database, accessed 22 November 2012.

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Box 2.3 Non-performing loans are no cause for concern

Prudential indicators published by QCB show that non-performing loans (as a share of total loans) were 1.7% in 2011 (the latest year for which data are available), down from 2.0% in 2010, while capital in risk-weighted assets was almost 21%. QCB also reports that banking profits grew by around 22% in 2011, with interest income the major contributor.

First half results for 2012 confirm continued strong performance in the domestic banking sector. In a QCB survey conducted in the first half, commercial banks reported that they expected credit risks to decline over 2012.

Additionally, QCB "stability indicators" and "stress tests" reported in the QCB's *Financial Stability Review* of August 2012 indicate that banking balance sheets should be resilient to a range of adverse shocks, including those emanating from the eurozone, since Qatar's banks have minimal direct exposure to the bloc's sovereign debt, and their indirect exposure—through interbank assets—is also limited.

Credit to government institutions, which are fully state-owned enterprises, is on the rise, accounting for 70% of total credit to the public sector by October. More than half of total public sector credit is linked to service-related projects like air and water transport as well as telecommunications. Construction-related loans account for about 19% of the total.

Deposit growth in the banking system lagged behind loan growth in 2012, and in October the loan-to-deposit ratio stood at 1.10 (figure 2.20). Banks still rely on the interbank money market to bridge part of the gap.

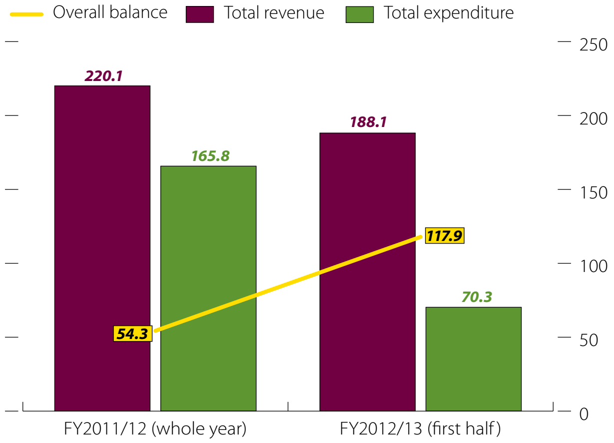
Banks have also mobilised longer-term bond finance to support anticipated business needs as building works pick up speed on Qatar's large pipeline of project investments. Some local banks have tapped international capital markets, issuing foreign-currency bonds with maturity dates that extend over the next eight years. By October 2012, outstanding foreign-currency bond issuance by domestic banks amounted to around $7.0 billion, with 70% of the total issued in 2012.

Fiscal accounts

Following the extension of FY2011/12 from March to June 2012, Qatar's fiscal year is now back on a regular footing and data for the current fiscal year cover the period from April 2012 to March 2013. The new processes and systems that led to the delay in the budget are now complete.

Preliminary data from the Ministry of Economy and Finance (MOEF) for the first two quarters of FY2012/13

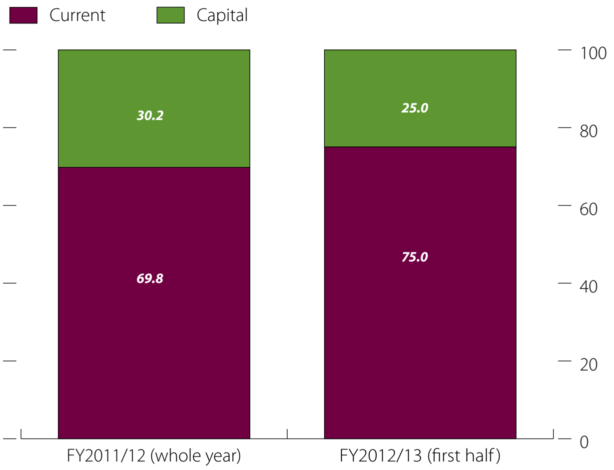
Figure 2.21 Fiscal accounts (QR billion)



Note: FY2012/13 data are preliminary, for 1 April–30 September (first half).
Sources: MOEF and QCB *Quarterly Statistical Bulletin* September 2012.

Click here for chart data

Figure 2.22 Fiscal expenditure (% of total)



Note: FY2012/13 data are preliminary, for 1 April–30 September (first half).
Sources: MOEF and QCB *Quarterly* Statistical *Bulletin* September 2012.

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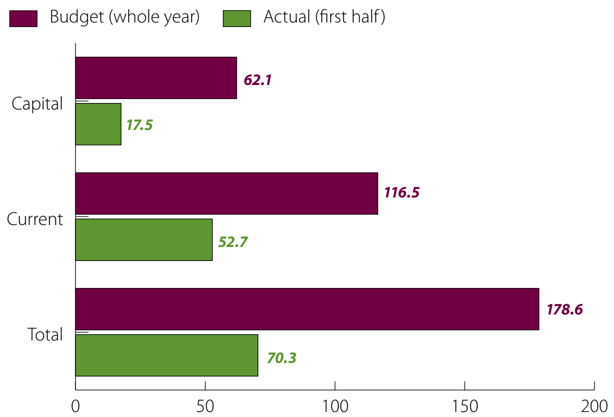
Figure 2.23 Fiscal expenditure, FY2012/13 (QR billion)



Note: Actual FY2012/13 data are preliminary, for 1 April–30 September.
Sources: MOEF and QCB *Quarterly Statistical Bulletin* September 2012.

Click here for chart data

(April–June and July–September) show a fiscal surplus of about QR118 billion (figure 2.21). That surplus was QR64 billion higher than the surplus posted for the full fiscal year of FY2011/12 (at QR54 billion).

Government expenditure

Total government expenditure stood at QR70.3 billion in September 2012. Fiscal expenditure is generally restrained in the first part of a fiscal year, and total expenditure in the first half of the current fiscal year was no different. Of total expenditure, current expenditure accounted for about 75% of the total (figure 2.22). An increase in outlays for wages and salaries, following the September 2011 award, and delays in mobilising some capital projects, explain part of the shift. After two quarters in FY2012/13, total realised fiscal spending was about 39% of the budgeted amount (figure 2.23), suggesting that a ramp-up may occur in the second half of the fiscal year.

Government revenue

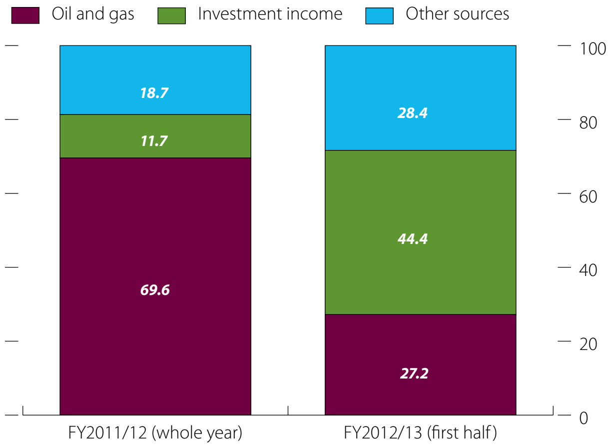
Total revenue for the first half of FY2012/13 amounted to QR188 billion. The composition of revenue shows strong advances in the contributions made by investment income and by other sources, including corporate taxes (figure 2.24). Corporate tax income rose on the expiry of tax holidays for some joint-venture partners in the oil and gas sector and because of effective mobilisation of corporate taxes.

Receipts in the first two fiscal quarters were 91% of the budgeted full-year amount (figure 2.25). Investment income receipts exceeded the full-year budget estimate, and hydrocarbon receipts were about 57%. The rise in investment income from the previous fiscal year partly reflects the lower transfers made by Qatar Petroleum to MOEF that year as the company retained income (which it added to its capital) and revised accounting practices which now transfer all of Qatar Petroleum's retained earnings to the ministry.

The ministry's hydrocarbon revenue estimates are based on a crude oil price of about $65 per barrel, which is below currently realised prices. Full fiscal-year revenues seem likely to surpass the original budget estimate, which would also lift the realised surpplus over the budget estimate.

Although a shift to non-hydrocarbon revenue sources to finance the budget is under way, and is expected to gather momentum, it is still likely that the full-year budget will again reveal a large deficit on the non-hydrocarbon balance (figure 2.26), defined as the

Figure 2.24 Fiscal revenue (% of total)



Note: FY2012/13 data are preliminary, for 1 April–30 September (first half).
Sources: MOEF and QCB *Quarterly Statistical Bulletin* September 2012.

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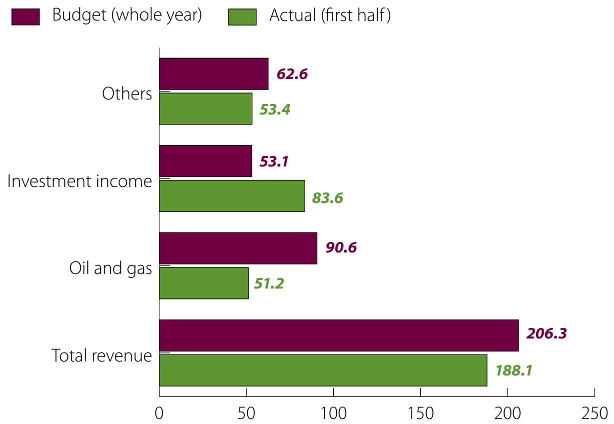
Figure 2.25 Fiscal revenue, FY2012/13 (QR billion)



Note: Actual FY2012/13 data are preliminary, for 1 April–30 September.
Sources: MOEF and QCB *Quarterly Statistical Bulletin* September 2012.

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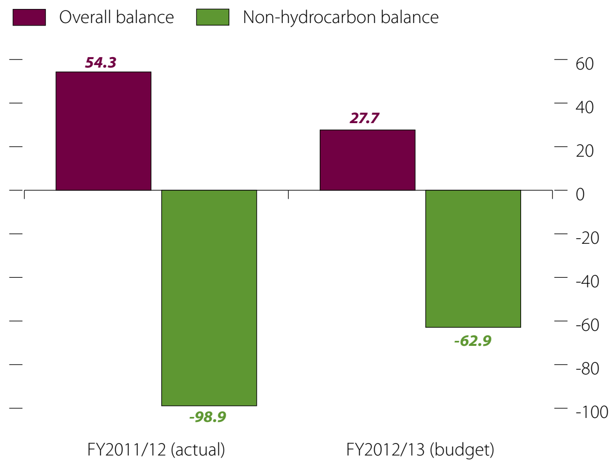
Figure 2.26 Fiscal balance(QR billion)



Sources: MOEF and QCB *Quarterly Statistical Bulletin* September 2012.

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primary balance less oil and gas revenue. The published budget estimates suggest a non-hydrocarbon deficit of about 8.6% of GDP for FY2012/13. The projected deficit on a wider definition of fiscal income accruing from oil and gas (which would include a portion of investment income and tax receipts from hydrocarbon enterprises) would be larger still.

Debt

Official data on government debt for the current fiscal year are unavailable. At the close of FY2011/12 (end March), government debt had reached QR209.3 billion, equivalent to an estimated 33.1% of nominal GDP.

Data from a variety of sources point to a possible increase in levels of government debt since the start of FY2012/13. QCB data show that government borrowings from domestic banks had risen to QR42.3 billion by September 2012, up from QR32.2 billion at the end of FY2011/12. In July, the government tapped the international sukuk market for $4 billion, in five- and 10-year tranches.

Trade and balance of payments

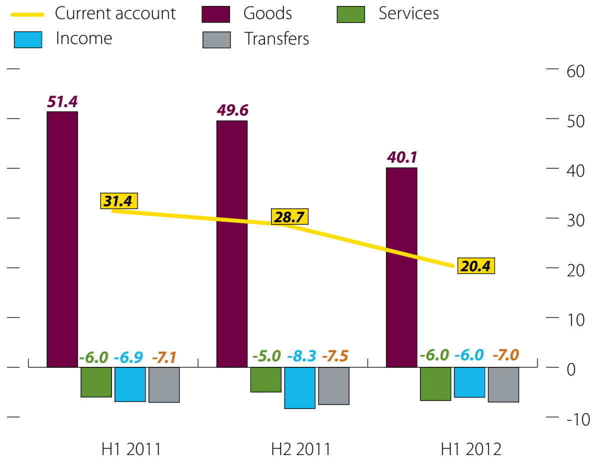
Qatar again posted a robust trade surplus in the first half of 2012, of about QR140 billion or equivalent to 40.1% of GDP (figure 2.27). A surge in import demand narrowed it from the first half of 2011. Merchandise exports grew by 2.1% (year on year), but were far outpaced by merchandise imports, which soared by 37.1%.

Capital goods (machinery and transport equipment) were the single biggest contributor to import growth in the first half, soaring by 36% and accounting for 16.5 percentage points of the total import increase. Burgeoning demand for capital goods has been spurred by Qatar's pipeline of infrastructure projects. Imports of manufactured goods imports also posted high growth, accounting for 6.6 percentage points of the increase in total imports.

The first-half trade surplus once gain supported a hefty current account surplus. Deficits on the income and services accounts and large outward remittances amounted to 19.7% of nominal GDP, leaving an overall current account surplus of 20.4%.

As of 30 September 2012, Qatar's gross foreign reserves stood at QR135.9 billion (figure 2.28). They not only reflect continuing export earnings from the current account surplus, but increasingly, too, a conscious choice to allocate a larger portion of surpluses to liquid reserves to meet expected future needs.

Figure 2.27 Current account components (% of nominal GDP)



Note: 2012 data are preliminary.
Source: QCB (http://www.qcb.gov.qa/English/Publications/Statistics/BalanceofPayments/Pages/default.aspx).

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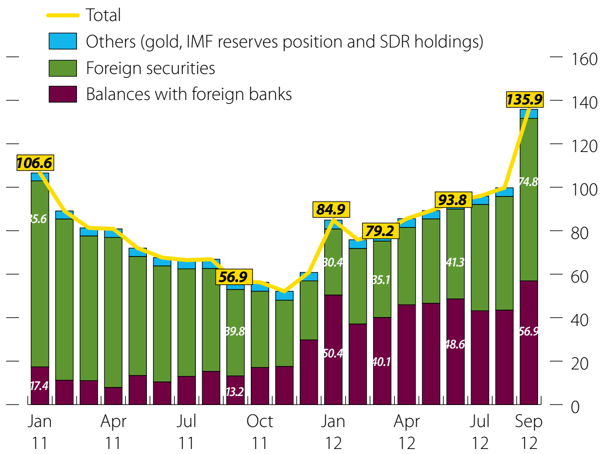
Figure 2.28 Foreign reserves (QR million)



Sources: QCB *Quarterly Statistical Bulletin September 2012* and CEIC database, accessed 9 November 2012.

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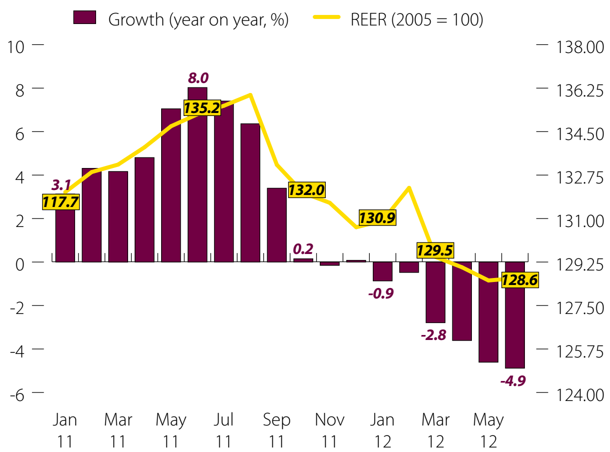
Figure 2.29 Real effective exchange rate index



Source: GSDP estimates.

Click here for chart data

Terms of trade and the real effective exchange rate

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

GSDP estimates suggest that Qatar's REER was 4.9% lower in June 2012 than 12 months earlier (figure 2.29). This was largely because the US dollar (to which the riyal is pegged) lost value against the currencies of Qatar's major trading partners, although lower inflation in Qatar in 2012 than in these partners also played a role.