Public Disclosure Authorized

QATAR

Table 1	2017
Population, million	2.4
GDP, current US$ billion	164.0
GDP per capita, current US$	69705
School enrollment, primary (% gross)[a]	103.0
Life expectancy at birth, years[a]	78.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2015)

GDP growth is estimated to have remained flat at 2.2 percent in 2017, in part reflecting the effects of the ongoing rift with its neighbors. However, growth is expected to strengthen in the medium term to close to 3 percent, supported by rising oil and gas output and 2022 FIFA World Cup related spending. Reforms protecting foreign workers and introducing permanent residency rights for expats will help with longer-term diversification efforts.

Recent developments

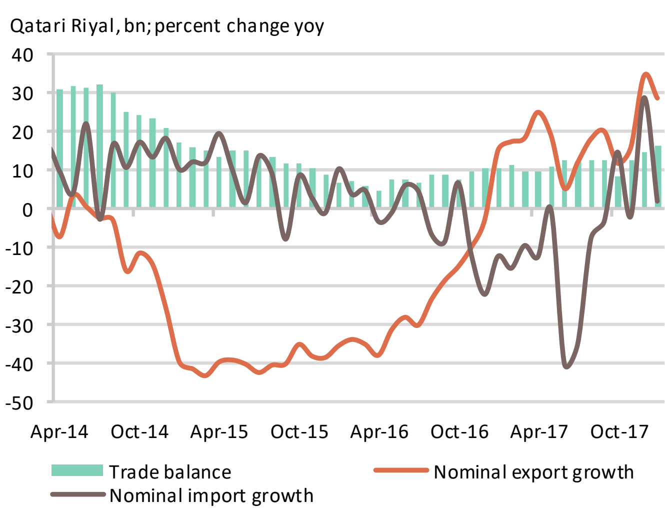
Qatar has been affected by, but is successfully adjusting to, the diplomatic rift with its Arab neighbors that started in mid-2017. The severing of diplomatic ties and freezing of trade flows by Saudi Arabia, the UAE, Bahrain, and Egypt in June 2017 led to an initial sharp drop in imports of 40 percent yoy in June 2017, and contributed to an increase in food inflation. It also dented investor sentiment, visible in a sell-off in equities, squeezed commercial bank access to foreign funds as non-resident deposits at Qatari banks dropped sharply, rising interbank rates and falling foreign exchange reserves.

However, the impact has been short-lived. A re-routing of trade (using Iranian airspace and Omani ports, and opening the new US$7.4 billion Hamad Port), and a diversification of sources of imports (purchasing food through Iran, Oman, Turkey and China) and enhancing domestic food processing. As a result, food inflation has decelerated, while goods imports are back to pre-dispute levels. The banking system remains well capitalized, and asset quality strong, and the liquidity pressures that emerged mid-2017, have waned. While non-resident deposits remain down 25 percent relative to mid-2017 levels, nevertheless, they have been more than fully offset by an influx of government deposits into the domestic banking system of US$43 billion (26 percent of GDP) in public sector–mostly Qatar Investment Authority (QIA)–assets, previously held abroad. The economy rebounded in the third quarter, and growth for the year as a whole is anticipated at 2.2 percent, the same as in 2016. Headline inflation remained muted at 0.5 percent yoy in December.

Qatar's gas exports have also continued despite the diplomatic rift and its LNG market share remains around 30 percent, mainly supplying Japan and other customers in Asia. The steep fall in imports mid-2017 and rising export earnings due to the partial recovery in global energy prices helped to shift the current account back into surplus in the first 3 quarters of 2017, after posting a deficit of 5.5 percent in 2016 (the first in 17 years). Foreign exchange reserves are recovering, rising from a low of US$35.6 billion in September 2017 to US$37.6 billion by end-year.

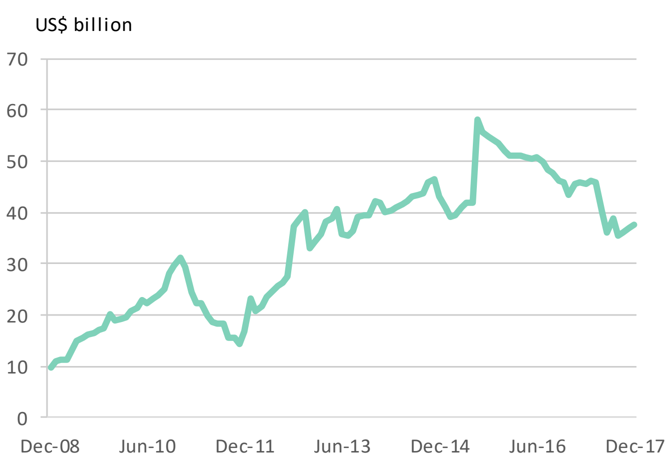
Fiscal consolidation, and the recovery in energy receipts more recently, has placed the fiscal deficit on a narrowing trajectory. In response to the fall in international oil and gas prices, the government had cut back current spending and embarked on energy subsidy reform. Notably it had also pared back a substantial public investment program for 2014-2024 to US$130 billion from US$180 billion, prioritizing projects related to the FIFA 2022 World Cup. As a result, the fiscal deficit is estimated to have declined to 5.0 percent of GDP in 2017 from over 8.3 percent in 2016. The fiscal costs of dealing with the blockade will not pose a substantial risk to fiscal stability given huge financial buffers held by the sovereign wealth fund, the Qatar Investment Authority (QIA).

FIGURE 1 Qatar / Goods Trade Balances



Source: Haver.

FIGURE 2 Qatar / International Reserves, US$ billion



Sources: Qatar Central Bank, Haver.

Absolute poverty is not an issue for citizens. In the context of the National Development Strategy 2011-16 the authorities have adopted a national relative poverty line and a welfare measurement methodology to track living standards of the population and identify vulnerable households. This threshold is equal to the half of the median household's income, and about 8 percent of Qataris in 2013 lived on an income less than that—a share broadly unchanged from 2007. Lower incomes correlated with household dependency ratio, job market status, educational attainment, female headship and disability.

Spatial differences in welfare exist, both for monetary and non-monetary measures, notably between more urbanized and less urbanized areas. Expatriate workers face additional challenges, from delays or withholding of wages, poor working conditions, substandard employer-provided accommodation, irregular recruitment practices and lack of information on how to enforce their rights.

Outlook

Growth is expected to recover to 2.8 percent in 2018, and rise further to an average of 3 percent in 2019/20, as rising energy receipts help ease fiscal constraints, spending on the multi-year infrastructure upgrade ahead of the FIFA World Cup continues and as the US$10 billion Barzan natural gas facility comes onstream in 2020. Qatar's peg to the US Dollar means that monetary policy will gradually tighten in tandem with the US. Government efforts to ease the costs and to lighten the effects of the blockade on the population will likely limit the scope for cutting spending sharply. Nevertheless, key tax policy and administration measures, including the introduction of a VAT and excises during 2018 are expected to further contain the fiscal deficit over the medium term, although inflation should also rise to close to 2.4 percent as a result in 2018. A recovery in imports, in particular capital goods related to infrastructure spending, should keep the current account surplus modest in the near term.

Risks and challenges

In the near term, downside risks stem from the ongoing diplomatic crisis. Over the medium term, the emergence of new suppliers in the United States, East Asia and Africa and rising global gas supply (including from Qatar's North Field) poses downside risks to global LNG prices. Other external risks include regional instability risks, and global financial volatility that affects capital flows and cost of funding although these are mitigated by narrowing fiscal deficits and the return to current account surplus. On the domestic front, delays in the implementation of the VAT and other taxes will reinforce dependence of public sector finances on hydrocarbons sector, which accounts for nearly 90 percent of government revenues (directly and indirectly).

Qatar's investment-driven growth strategy over the past decade has helped to transform standards of living for citizens, but has also given rise to concerns including sustainability with persistently low energy prices, signs of excess capacity and demographic imbalances. Given the uncertain medium-term outlook for the gas sector, the development of the non-hydrocarbon sector is critical. Recent permanent residency reforms are an important step, and a first among GCC countries, to help attract and retain highly skilled foreign workers needed to achieve long term objectives become a knowledge economy. In addition, Qatar will also need to raise the productivity of its human and physical capital, and undertake structural reforms to improve the business environment.

TABLE 2 **Qatar** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	4.0	2.2	2.2	2.8	3.2	2.8
Private Consumption	8.1	3.5	1.2	2.5	2.5	2.0
Government Consumption	1.1	-21.0	-2.5	0.2	0.0	-0.1
Gross Fixed Capital Investment	1.4	8.0	2.2	5.4	6.4	3.8
Exports, Goods and Services	-0.8	1.7	0.5	2.5	3.0	3.4
Imports, Goods and Services	-8.9	-3.9	-5.0	4.0	5.0	4.0
Real GDP growth, at constant factor prices	4.0	2.1	2.2	2.8	3.2	2.8
Agriculture	8.7	4.0	0.4	1.5	1.9	1.9
Industry	2.0	2.0	0.5	1.9	2.4	2.4
Services	8.6	2.2	6.1	4.7	4.8	3.6
Inflation (Consumer Price Index)	1.9	2.9	0.4	2.4	2.0	1.5
Current Account Balance (% of GDP)	8.5	-7.5	2.6	3.8	3.3	3.2
Financial and Capital Account (% of GDP)	-7.7	6.4	-3.7	-4.9	-4.2	-4.4
Net Foreign Direct Investment (% of GDP)	-2.8	-3.0	-2.8	-3.1	-3.3	-3.1
Fiscal Balance (% of GDP)	1.4	-8.3	-5.0	-3.7	-2.0	-0.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.