

GAS REVENUES PROVIDE ROBUST ECONOMIC PROSPECTS

The Qatari economy, which is poorly diversified and based on long-term gas export contracts, has not experienced the same volatility as elsewhere in the Gulf during the last five years. In the short term, high oil prices and the forthcoming World Cup will support growth and enable a return to substantial external and budgetary surpluses. Likewise, the reduction in banks' external liabilities should continue. Inflation will remain relatively moderate thanks to government intervention and the impact of the stronger dollar on import prices. In the medium term, the macroeconomic outlook is very positive as a result of the significant increase in gas revenues. However, it is less certain in the longer term, in the context of the energy transition. The status of natural gas as a transition fuel is a significant advantage for Qatar, but its reliance on hydrocarbons will remain very high.

ECONOMIC ACTIVITY

The Qatar economy is the least volatile of the Gulf Cooperation Council (GCC). Indeed, gas production (around 85% of hydrocarbon GDP) does not vary much, since it is linked to long-term export contracts. Furthermore, since Qatar is not a member of OPEC, its oil production is not subject to the cartel's quotas policy.

The non-hydrocarbon GDP (approximately 62% of total GDP compared to a GCC average of 66%) is mainly focused on construction, financial services and manufacturing (essentially petrochemicals). Activity in all these sectors remains linked to the oil market, either directly or indirectly via public spending. In this context of low diversification, and given the central role of gas production, the country's economic downturn was moderate in 2020 (down 3.6% compared to a GCC average of 4.9%), but its rebound was also more limited in 2021 (1.6% compared to 2.6%).

Growth is expected to accelerate in 2022 (3.3%), but will remain well below the rest of the region (6%). Oil production should be marginally lower due to the natural decline in the production of mature fields. On the other hand, total natural gas production is expected to rise slightly. Liquefied natural gas (LNG) exports were up 2% (in year-on-year terms) in Q1 2022, reaching 46.5 million tonnes (Mt). The increase in exports to Europe (up 1.1 Mt) and Asia (up 0.7 Mt) was partially offset by a drop in demand from the US (down 1.1 Mt). The current sharp rise in European demand for gas can only be partially met as more than 90% of exports are directed towards Asia under long-term supply contracts. Overall, hydrocarbon GDP is expected to grow by 2% this year.

Activity in non-hydrocarbon sectors should also be sustained (up 4.5%), especially in connection with the World Cup, which takes place from November 2022. Nevertheless, the short-term consequences of this event on activity must not be overestimated. Most of the infrastructure work was completed before 2022 and a large proportion of World Cup visitors will be accommodated in neighbouring states, and in particular Dubai. Approximately 1.2-1.5 million visitors are expected and the services sector (transport, restaurants, etc.) stands to benefit the most. Since the start of the second half of 2022, leading indicators of activity have remained in positive territory, although they are down. The PMI index for September stood at 50.7 compared to 67.5 in June.

In the medium term, economic momentum will undoubtedly come from the hydrocarbon sector, which will see an increase of over 60% in natural gas production and export capacity from 2025. According to the IMF, the construction and production startup phase should lead to a 5.7% increase in GDP until 2027, with the rise in exports leading to a 3.5% increase in GDP. Beyond 2027, the country will receive significant additional export income and budget receipts.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth (%)	-0.4	-3.6	1.6	3.3	2.5
Inflation (CPI, year average, %)	-0.6	-2.8	2.3	4.3	3.0
Gen. Gov. balance / GDP (%)	1.0	-2.1	0.2	13.5	9.9
Gen. Gov. debt / GDP (%)	50	48	47	46	47
Current account balance / GDP (%)	2.4	-2.0	14.6	20.5	14.4
External debt / GDP (%)	123	139	114	97	93
Forex reserves (USD bn)	38	38	39	47	48
Forex reserves, in months of imports	6.8	7.6	7.6	7.8	7.6

e: ESTIMATE & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

QATAR: INFLATION

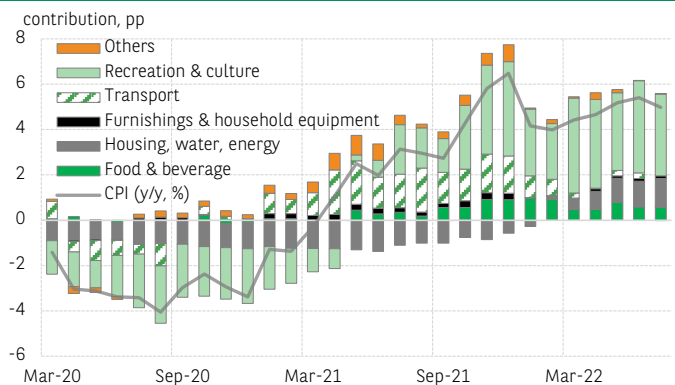


CHART 1

SOURCE: CEIC, BNP PARIBAS

GOVERNMENT INTERVENTION KEEPS INFLATION MODERATE

As in the other GCC countries, consumer price inflation is accelerating in 2022 but is expected to remain moderate. It should reach 4.3% on average, compared to 2.3% in 2021. Price increases are mainly driven by a recovery in the recreation and culture sectors following the lifting of restrictions imposed during the pandemic. Food products are making a positive contribution to price inflation, though this remains moderate as a result of government measures designed to control food prices.

At the same time, energy prices are constrained by the persistence of high subsidies (equivalent to 3.7% of GDP according to the IMF). Finally, the stronger performance of the US dollar against the main global currencies since the start of the year (the DXY index has risen by 15% since January 2022) is having a beneficial effect on imported inflation, given the Qatari riyal is pegged to the US dollar. Inflation is expected to reach 3% on average in 2023.

A RETURN TO BUDGET SURPLUSES

Despite a strong reliance on hydrocarbon income (more than 80% of total income), Qatar's public finances held up well against the fall in oil prices in 2020, thanks to a decrease in certain categories of investment spending. The budget surplus, which was limited in 2021, should be very high in 2022 (14% of GDP) owing to the rise in oil prices. Revenues from LNG (which were 30% higher than oil revenues in 2021, according to the IMF) are highly dependent on oil prices. In 2023, sustained oil prices should enable a surplus equivalent to approximately 10% of GDP. While Qatar's budget performance has been very favourable, progress towards diversifying fiscal resources has been limited compared to what can be seen around the Gulf. Qatar is one of only two countries in the region (with Kuwait) that has not introduced a value added tax (VAT). In this context, and given the significant increase expected in LNG production capacities, the public finances will remain highly reliant on hydrocarbon revenues in the medium term.

Paradoxically, despite good fiscal performance, government debt is relatively high (58% of GDP in 2021). The government took advantage of favourable market conditions to finance major investment projects through borrowing, and has continued to allocate part of its budget surpluses to the sovereign wealth fund. With the end of the cycle of infrastructure projects such as transport and stadium, and the favourable budgetary outlook, the fall in government debt that began in 2021 looks set to continue. Based on the IMF's assumption that two thirds of the budget surplus will be transferred to the sovereign wealth fund, government debt is expected to amount to 33% of GDP in 2024.

The increase in hydrocarbon revenues and the slowdown in the project cycle also have a positive impact on the net external position of the banking system. This position had actually been deteriorating significantly since 2009 (USD -114 billion in June 2022, *i.e.* approx. 50% of GDP), because of the need to find external resources to finance investment policy. This trend has reversed since the end of 2021 as a result of the slowdown in domestic borrowing and the rise in residents' deposits. In August 2022, growth in domestic credit reached 0.5% yoy, while domestic deposits accelerated by 12.7%. Net external liabilities should continue to shrink, but it remains a potential risk to public finances as the government would support the banking system in case of necessity.

THE CHALLENGE OF THE ENERGY TRANSITION

As a major hydrocarbon producer (the fourth largest gas producer in the world and the largest exporter), Qatar is exposed to the consequences of decarbonisation policies implemented in order to fight against climate change. Qatar itself only contributes 0.3% of total annual CO₂ emissions, but its greenhouse gas (GHG) emissions per capita are among the highest in the world (41 tonnes in 2019, which is more than six times the global average). Furthermore, the forthcoming 60% increase in gas production capacity and the growing needs of the population (*e.g.* for water from desalination plants, which are particularly energy-intensive) will contribute to an increase in GHG emissions, and the IMF estimates these could reach 30% by 2030.

QATAR: COMMERCIAL BANKS' BALANCE SHEET, MAIN ITEMS

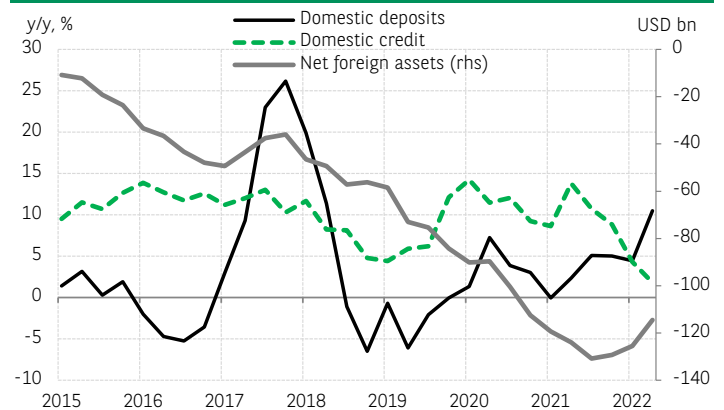


CHART 2

SOURCE: IMF, BNP PARIBAS

Qatar is faced with the challenge of a fall in the demand for hydrocarbons (even if the pace of this remains uncertain), and in the long run, of a drop in the value of hydrocarbon-related assets. Yet it has several advantages, and is largely basing its policy of decarbonisation on technological solutions. Natural gas emits relatively lower GHG than other fossil fuels. It is regarded as a transition fuel, facilitating the switch from fossil fuels to renewables. As is the case for all the other hydrocarbon producers in the Gulf, the development of carbon capture and storage technologies should reduce the carbon footprint of gas production. The target is to reduce CO₂ emissions by 11 Mt a year by 2035 (total emissions from the consumption of fossil fuels and industry were 107 Mt in 2020). This would reduce the carbon intensity of LNG plants by approximately 35%. Finally, reducing the volume of flared gas should also help meet this objective. With regard to the primary energy mix, the development of solar capacity could enable 20% of the country's electricity to be produced from renewable energies, whose contribution to the energy mix is currently marginal.

Pascal DEVAUX

pascal.devaux@bnpparibas.com