

Qatar plans to stimulate economy: spending up and interest rates down

- Qatar's economy has been one of the fastest growing in the world over the past few years (real GDP has grown at 23% CAGR between 2003 and 2010). Growth remained robust even after the global financial crisis hit and is expected to rebound to 16% in 2010. However, as the hydrocarbon production capacity buildup peaks in 2011, the non-hydrocarbon sector will be targeted to provide the bulk of future growth to help achieve Qatar's long term goals under the National Vision 2030 and their plans to host the world cup in 2022.
- The Qatari Government appears to be using all levers to keep the economy growing at a fast pace. On the fiscal side, the **national development strategy** 2011-2016 was recently unveiled, with USD 125 billion in budgeted spending. On the monetary side, the Qatar Central Bank (QCB) has recently moved to ease monetary conditions **and encourage lending by cutting its benchmark interest rates** by 50-55 bps.
- **The National Development Strategy 2011-16** falls under Qatar's National Vision 2030, and entails spending USD 125 billion over 5 years, almost 25% of projected GDP for the period (see chart 1). The purpose of the spending will be to upgrade Qatar's infrastructure to accommodate the fast growing population and economy, support growth in the non-hydrocarbon sector, and lay the groundwork for future investments as per the country's bid to host the 2022 World Cup. In doing so, the spending plan should also promote the role of the private sector in the economy.
- Spending will be divided among different entities. Q-companies (excluding Qatar Petroleum and related companies) are to spend over QR130 billion (USD 36 billion), largely on housing projects. Qatar Petroleum and related companies are planning to spend QR88 billion (USD 24 billion) to expand the petrochemical sector. Finally, the government also plans more than USD 65 billion in spending largely on upgrading the country's infrastructure.
- **The QCB cut interest rates** on 5 April, 2011, reducing its lending and deposit rates by 50 bps each to 5%, and 1%, respectively, its first cuts since August 2010 (see chart 2). The QCB also cut its repo rate 55 bps to 5%.
- The interest rate cut is designed to tackle different issues at once. By lowering its lending and repo rate, the QCB hopes to make loans cheaper, in order to spur stalling private sector lending that fell to 8% y/y in February from double digit growth in recent years and more than 40% pre-crisis (see chart 3). The move also aims at encouraging domestic banks participate in financing development projects, by making lending rates of Qatari banks competitive with international banks with access to cheap funds in international markets. Unlike other rich Gulf countries, the Qatari government relies heavily on commercial project financing, not withstanding its growing sovereign wealth fund. Indeed, government borrowing has grown by almost two-fold over the past two years, becoming the main driver of credit growth for local banks. Moreover, worries about inflation are not truly on the table for the moment. Following a deflation bout in 2009 and 2010 that wiped away concerns over double digit price increases in the three years leading to the crisis, inflationary pressures should remain modest this year at around 4% (see chart 4).
- Cutting the central bank's benchmark deposit rate makes it more expensive for domestic banks to hold excess liquidity. The QCB hopes this would encourage banks to lend more. Also, this would bring rates in Qatar and the US closer in-line and discourage any carry trade: investors borrowing cheap dollars, to which the Qatari Riyal is pegged, from international markets to deposit in Qatar at higher rates.

Key variables *(National sources and NBK estimates)*

