

Qatar's strong fundamentals support continued growth

- Qatar has weathered the economic crisis with limited damage. Real GDP could grow by 16% this year, underpinned by rising gas output and strong non-hydrocarbon growth.
- A substantial budget surplus is expected, despite increased spending on infrastructure and diversification. Meanwhile, the external surplus may surpass previous levels, driven by growing hydrocarbon exports.
- After a bout of deflation in 2009, inflation is expected at 4% in 2010. This is well below the double-digit pace of previous years and would allow for greater monetary policy flexibility.

IBQ's latest GCC Brief stated: Qatar has weathered the economic crisis with limited damage. While the crisis did uncover weaknesses in certain sectors (real estate and equities), strong measures taken by the government have helped avert much of the associated losses.

Meanwhile, the Qatari economy maintained its fast paced expansion with real economic growth in 2009 estimated at 9.8%. The economy should continue to grow rapidly, supported by Qatar's strong fundamentals. We do not think that weak spots in the global economy will slow growth, and we expect real GDP growth to accelerate in 2010 and 2011. After that, it should moderate to single digits as Qatar reaches its LNG production target.

Over the coming years, the following factors will play an important role in shaping the Qatari economy:

- a. Qatar has become the largest exporter of liquefied natural gas (LNG) in the world.** The next two years are also expected to see a sizeable increase in output coming online as Qatar progresses towards its production goal of 77 mt/y (million tons per year) of gas, almost 3.4 mboe/d (million barrels of oil equivalent per day) at the end of 2011. This would almost double the 2009 year-end production.
- b. Large trade and budget balances will support growth in the future.** Gas and other oil related exports will support large surpluses in the future as well as investment in other sectors of the economy. The budget for FY2010/11 has earmarked a 25% increase in total spending, and large spending is expected in the future as the government strives to diversify the economy.
- c. Proactive government policies stabilized the financial and real estate sectors during the crisis.** The government is likely to be willing to provide further support in the future in order to promote steady growth.

Strong GDP growth...

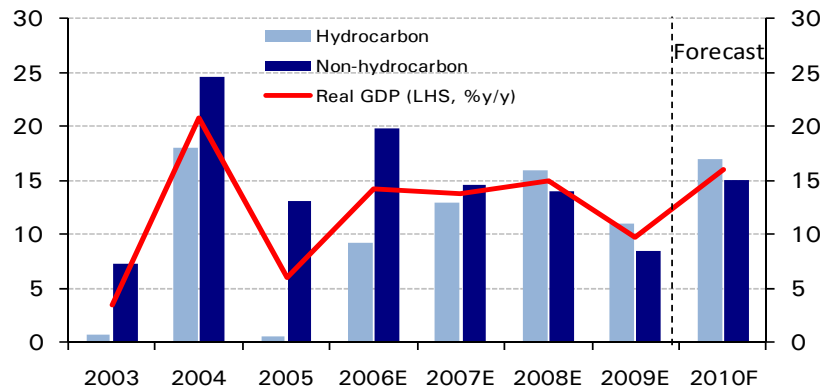
Qatar has witnessed strong growth in recent years. Real GDP growth is estimated at 9.8% in 2009, among the fastest in the world, and is expected to accelerate in 2010 and 2011 to 16% and 12%, respectively, largely in concert with increases in gas output. (See chart 1.) Growth would then moderate, falling to single digit figures, and would become more reliant on the non-hydrocarbon sector.

... underpinned by the hydrocarbon sector

The hydrocarbon sector grew an estimated 11% in 2009, propelled by rising gas production. Qatar produced 0.8 mbpd of crude oil in 2009 and 39 mt/y of LNG. Gas overtook the oil sector as the largest single contributor to GDP in 2008. The sector is set to grow 15% per annum over the coming two years, as Qatar draws nearer to its

target of producing 77 mt/y of LNG at the end of 2011 and as it moves ahead with plans to increase its oil production capacity to 1 mbpd.

Chart 1: Qatar Real GDP
(% y/y)



Source: ThomsonReuters Ecowin, NBK forecast

Booming gas sector key to development...

According to Qatar Petroleum, Qatar's proven natural gas reserves are approximately 900 trillion cubic feet (tcf), equivalent to 168 billion barrels of oil. This places Qatar just behind Russia and Iran as holder of the world's third largest gas reserve, with almost 15% of the total.

In recent years, Qatar has grown into a major player on the world energy scene. Undertaking massive investment in the gas sector, Qatar has become the leading exporter of Liquefied Natural Gas (LNG) in the world. This position should secure Qatar a sizeable revenue stream in the future, to complement its income from the oil sector, and will support the government's diversification efforts.

... LNG production to double by 2011

Qatar has two major LNG projects, RasGas and Qatargas that currently operate 11 mega trains. Three trains were added in 2009 with a total production capacity of 23.4 mt/y which increased total LNG liquefaction capacity to 54 mt/y (although the trains will not run at full capacity before end 2010). Three additional trains are expected to come online later in 2010 and 2011, with a combined capacity of 23.4 mt/y, pushing the total to 77.4 mt/y.

Weaknesses in gas demand is a risk

Hailed initially as a more eco-friendly substitute for oil, a number of factors are contributing to budding weakness in the gas sector's long term outlook. Following the latest crisis, demand for oil and gas fell, and fears of a protracted fallout from the crisis could further depress demand. There is also growing fear of oversupply following large investments in gas production (conventional and other) in recent years. Accordingly, gas prices have fallen precipitously since 2008.

Despite these threats, Qatar is expected to benefit from its growing gas sector. With production prices well below world averages, Qatar is better positioned than others to weather a drop in prices. However, a better understanding of how these dynamics could affect the future elicits a closer look at gas contracts (and related pricing mechanisms). All in all, this issues re-emphasizes the merits of economic diversification, a goal very high on the government's agenda.

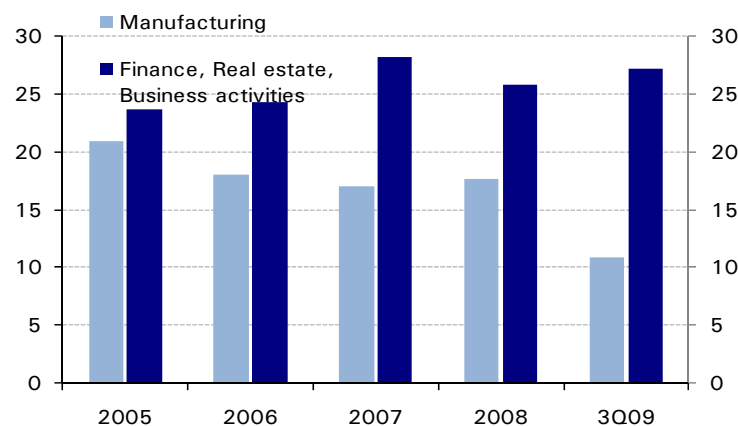
Non-hydrocarbon sector also set to grow

Non-hydrocarbon sectors have also seen considerable growth in recent years, and are expected to grow further. Qatar's plans to diversify the economy have driven large investments in, among others, the manufacturing, infrastructure, health, and education sectors. The non-hydrocarbon sectors grew an estimated 9% in real terms in 2009 and are expected to expand 15% in 2010.

The financial and real estate sectors contributed the largest share of non-hydrocarbon GDP at almost 25%. (See chart 2.) Apart from feeding off growth in the hydrocarbon sector, these sectors are also supported by a rapidly expanding population. The population has grown at a fast 17% rate per annum over the past 4 years, reaching 1.7 mn in March 2010 (Qatar Statistics Authority).

The gas boom in Qatar is not limited to LNG production, but is also helping many downstream sectors that will drive manufacturing growth. Although the manufacturing share of nominal GDP slipped in 2009, the sector is set to regain its position in coming years thanks to rebounding prices and production.

Chart 2: Qatar sector shares of GDP
(% of nominal non-hydrocarbon GDP)



Source: Qatar Statistical Authority

Record government spending in FY2010/11

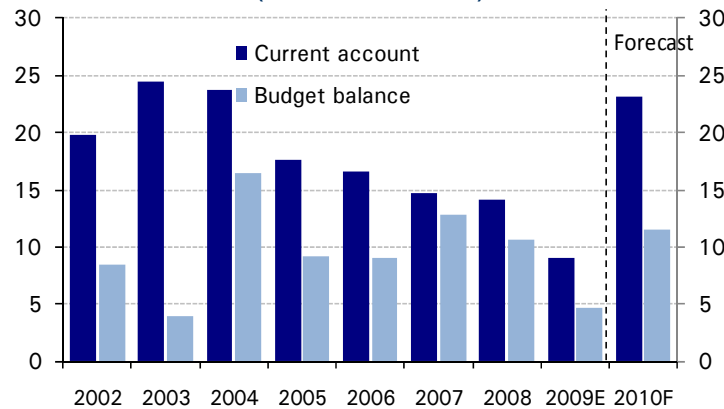
Qatar's budget for FY2010/11 allocates QAR 117.9 bn for general spending, a 25% increase over the previous budget. The budget predicts a QAR 9.7 bn surplus at an assumed oil price of \$55/b. However, higher expected oil prices, based on IBQ projections, should yield a government surplus this fiscal year of 11.5% of GDP, well above previous years. (See chart 3.)

Of the total, QAR 43.5 bn is allocated to capital spending, a 15% increase over the last budget, and of which 82% will be spent on infrastructure. Otherwise, QAR 17.3 bn will be spent on education, a hefty 15% of total, and QAR 8.6 bn on health.

Bigger current account surplus expected in 2010

The external position weakened in 2009. The goods surplus fell sharply owing to a 30% drop in hydrocarbon revenues (lower prices). As a result, we expect Qatar to have recorded a smaller current account surplus in 2009 than in previous years. (See chart 3.) Higher hydrocarbon prices should help oil and gas exports recover this year, pushing the current account surplus to around 23% of GDP, exceeding previous levels and highlighting the gas exports.

Chart 3: Internal and external balances
(% of total GDP)



Source: Qatar Statistical Authority, Qatar Central Bank, NBK forecast

Domestic demand expected to follow economic expansion

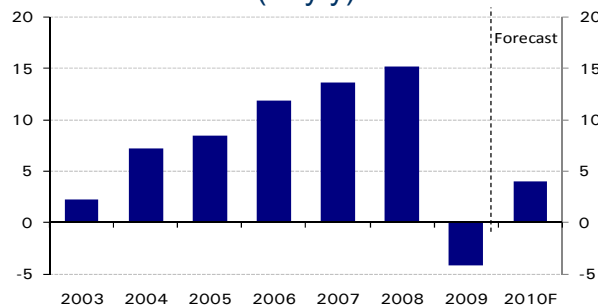
Annual growth in the broad money supply (M2) dipped into negative territory in 1H2009, while M1 (narrow money) dropped even faster. (See chart on page 6.) Nonetheless, by the start of the second half, M2 was growing again, driven by strong government support and by recovering credit growth. As of February 2010, M2 is up 36% y/y, while M1 y/y growth accelerated to 19%. This is in contrast to elsewhere in the Gulf, where monetary growth is still quite weak.

Similarly y/y credit growth slowed during 1H2009, although it remained positive. In the second half, growth picked up and accelerated to 31% (+QAR 63 bn) y/y by the end of February 2010. Growth was largely supported by increased lending to the public sector (+ QAR 47 bn), amounting to almost 80% of the total increase. Otherwise, growth mainly came from real estate (+28%). Notably, credit to consumer and services sectors was down a combined QAR 4 bn (-5%) over the same period.

Inflation expected at 4% in 2010

Qatar plunged into deflation in 2009 as the CPI fell 4.2% y/y, down from a GCC high of 15.2% in 2008. (See chart 4.) While much of the CPI basket has seen lower prices in 2009, the bulk of the decline could be attributed to a drop in housing rents (down 10%). CPI figures for February 2010 show the first monthly increase since May 2009, albeit a small one. Residential rent prices may have stabilized, as indicated by inflation data for early 2010. In other areas, faster economic growth may boost prices, though not by pre-crisis amounts. We see inflation rising to an average of around 4% in 2010. Lower expected inflation, compared with double digit inflation in previous years, would allow for greater monetary policy flexibility..

Chart 4: Consumer price index
(% y/y)



Source: ThomsonReuters Ecowin, NBK forecast

The IBQ report concluded: Qatar's growth will remain strong over the coming years, driven by an expanding gas sector and increased government spending. Nonetheless, weaknesses may still emerge. For one, the real estate sector may deteriorate, particularly commercial real estate where there is oversupply. Otherwise, growing dependence upon gas exposes Qatar to shocks in that sector/commodity. However, a determined drive to diversify the economy and strong government backing should help shield Qatar and secure continued growth. □

Table 1. IBQ forecasts for the Qatari economy

| Variable | | 2008 | 2009e | 2010f |
|-------------------------------|------|-------|-------|-------|
| <i>Real economy</i> | | | | |
| Nominal GDP | \$bn | 100.4 | 85.2 | 104.8 |
| Nominal GDP | %y/y | 41.3 | -15.2 | 23.0 |
| Real GDP | %y/y | 15.0 | 9.8 | 16.0 |
| - Hydrocarbon | %y/y | 16.0 | 11.0 | 17.0 |
| - Non-hydrocarbon | %y/y | 14.0 | 8.6 | 15.0 |
| Budget balance | %GDP | 10.6 | 4.7 | 11.5 |
| Current account | %GDP | 14.1 | 9.0 | 23.1 |
| <i>Money & financial</i> | | | | |
| Crude oil prices ¹ | \$pb | 97.2 | 61.6 | 70 |
| Consumer prices | %y/y | 15.2 | -4.2 | 4.0 |
| QAR/\$ (end yr) | - | 3.64 | 3.64 | 3.64 |
| QMR lending rate | % | 5.5 | 5.5 | 5.5 |
| QMR deposits rate | % | 2 | 2 | 2 |

Source: NBK / ThomsonReuters Ecowin; forecasts are NBK
¹Brent crude