

Qatar Business Forecast Report Q2 2014

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Abstracts

Core Views

Qatar's short-term political risk profile remains among the most stable in the region. Despite enjoying little in the way of democratic freedom, Qataris benefit from massive hydrocarbon wealth which is spread generously across the country's native population and enjoy the highest per capita GDP in the world. A small population – and one without much inclination to protest against the government – will keep the country insulated from large-scale public unrest in the immediate term.

Sheikh Tamim bin Hamad Al Thani became the new ruler of Qatar in June 2013, in a peaceful handover from his father, Sheikh Hamad bin Khalifa. The 33-year old Emir's first public address and the composition of his new cabinet suggest that policy continuity will be the order of the day, in line with our view.

Strong growth in the non-hydrocarbon economy, stemming from extensive construction activity and the rapid expansion of the services sector, will drive economic activity over 2014 and 2015. We forecast real GDP of 5.4% this year and 4.9% in 2015, from an estimated 5.7% in 2013.

Key Risks To Outlook

Given the economy's heavy reliance on the hydrocarbon sector, a pronounced global economic downturn – if it were to translate into a sustained drop-off in demand for oil and gas – could impact negatively on our forecasts for Qatar's external account position, budget and growth outlook. That said, we highlight that the country's US\$115bn sovereign wealth fund – as well as its continuing ability to tap international debt markets – provides the economy with significant bulwarks against these risks.

The Qatari government's increasingly assertive foreign policy raises some risks in relation to the outlook for regional political stability. In particular, we highlight the potential for the country's foreign policy to provoke a backlash in the region and the danger that the government could become bogged down in a drawn-out conflict in the Middle East. The withdrawal of three GCC countries' ambassadors from Doha in March 2014 poses a further challenge.

The construction sector remains exposed to the potential for delays and cost overruns, a factor that is increasing and unlikely to improve over the medium term.

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Highly Public Breakdown In GCC Unity

The withdrawal from Qatar of the ambassadors for Saudi Arabia, Bahrain, and the UAE represents a highly public breakdown in inter-GCC relations. Strains between Qatar and other GCC states have been evident for some time, and Doha now finds itself cornered between needing to assuage its neighbours and retaining a maximum of sovereignty over its foreign policy. Over the longer term, the diplomatic crisis highlights yet again the extremely weak prospects for GCC political integration.

Table: POLITICAL OVERVIEW

Foreign Policy II
International Engagement Continues

Qatar has adopted a more measured approach to foreign policy since the ascension of Sheikh Tamim bin Khalifa Al Thani to the throne in June 2013, on the back of a series of challenges abroad and at home. We expect Emir Tamim to refocus on domestic affairs for now, but retain our core view that a drastic shift in the direction of Doha's policies is unlikely. Most of Qatar's engagements are long-term in nature, while the international expansion of Qatari corporates is far from over.

Long-Term Political Outlook
Limited Challenges Ahead

We find it hard to argue that political instability could become a core scenario in Qatar. Nevertheless, with the government playing the role of conflict mediator in one of the hottest international conflict flashpoints in the world, in addition to having a growing young population and increasing number of expatriates, Qatar will not be immune to external and internal shocks in the long run.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Ratings

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Broad-Based Growth In

Non-Hydrocarbon Economy

Strong growth in the non-hydrocarbon economy, stemming from extensive construction activity and the rapid expansion of the services sector, will drive economic activity over 2014 and 2015. We forecast real GDP of 5.4% this year and 4.9% in 2015, from an estimated 5.7% in 2013. Downside risks remain limited at this stage, but include the potential for delays in the construction sector and an ongoing political dispute between Qatar and the rest of the Gulf.

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IPO Driven By Political Considerations

Political and social considerations underpin plans for a series of initial public offerings (IPOs) over the coming decade. At the same time, IPOs will provide a way to boost liquidity in the Qatari stock exchange and develop the country's financial sector.

Monetary Policy

Rental Inflation Re-Emerging As Political Issue

We expect consumer price inflation to remain elevated in Qatar over 2014, on the back of strong increases in rental costs linked to a rising expatriate population. We retain our forecasts for average inflation of 4.0% this year, rising to 4.5% by 2015.

Table: INFLATION

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GCC Subsidies: Change At Last?

The increasing willingness of officials from the Gulf Cooperation Council (GCC) to publicly criticise the region's long-established subsidy schemes represents a change in rhetoric, yet we note that few policy changes have so far been announced. Domestic political tensions will continue delaying the passage of reforms affecting nationals over the coming years, although the provision of subsidies to expatriate workers faces a more limited future. Reform will proceed first in Bahrain and Oman, given their more precarious fiscal positions.

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