

Qatar Business Forecast Report Q4 2013

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Abstracts

Core Views

Qatar's short-term political risk profile remains one of the most stable in the region. Despite having 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 – 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.

Qatar's economic growth will be largely driven by the non-hydrocarbon sector over 2013 and 2014, with expanding domestic consumption and progress on infrastructure investments fuelling economic activity.

However, weaker performance in the hydrocarbon sector will drag down overall growth, and we expect Qatar's real GDP to expand by 5.0% and 4.8% in 2013 and 2014 respectively, down from 6.2% in 2012 and a yearly average of 15.6% during 2007-11.

We project average consumer price inflation in Qatar to rise to 4.0% in 2014, up from 1.9% in 2012 and our forecast of 3.5% for 2013.

Rising rental rates will continue to constitute the main inflationary force, on the back of a sharply growing population and an undersupply of affordable housing.

Major Forecast Changes

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.

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Limited Challenges For The Coming Decade. 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.

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Monetary Policy

Inflation To Rise Further In 2014. We project average consumer price inflation in Qatar to rise to 4.0% in 2014, up from 1.9% in 2012 and our forecast of 3.5% for 2013. Rising rental rates will continue to constitute the main inflationary force, on the back of a sharply growing population and an undersupply of affordable housing.

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