Qatar - Maintaining its momentum

A slump in the oil price will impact government revenues this year but will not deter Doha from its ambitious development and diversification plans, says Wadih AbouNasr - Qatar Country Senior Partner

After several years of headlines proclaiming Qatar's economic transformation into the richest country in the world per capita, having been awarded the FIFA World Cup 2022 as well as being regarded as an international deal-maker and regional power broker, the slump in the oil price could be viewed as a challenge to those achievements. In truth, the country is better-placed than many of its neighbours to ride out this period of turbulence in the oil market, and will continue to boast of strong economic growth and offer attractive investment opportunities to the private sector.

Obviously none of the oil exporting countries of the Gulf are immune from the effects of the slump in the oil price of the past 18-month price slump, and Qatar is no different. The Ministry of Finance is forecasting a 30 percent drop in revenue this year. The budget for 2016 forecasts revenue of QR156bn and spending at QR202.5bn.

That leaves the government with a projected 46.5bn riyal ($12.8bn) deficit this year, its first in 15 years, despite a cut in total spending. However Qatar has large financial buffers built up from budget surpluses over the past decades, a sound reputation in international bond markets, and is committed to continued development spending that will help drive economic growth this year.

That has not stopped a wave of redundancies in state-owned companies across different industries. The reduction in spending will continue to have a trickle-down effect through the economy as government entities seek to do more with less, and there is greater scrutiny on budgets and outcomes.

Non-Oil economy

Qatar has already made some headway in transitioning from being an economy driven by the hydrocarbon sector. Growth in the non-oil sector out-paced the oil sector since 2012.

Construction and financial services have become the largest contributors to growth in the non-oil sector. There is still more that needs to be done in this area to reduce the reliance not only on oil revenue but also government spending. In the meantime, expenditure on key areas like health, education, and infrastructure related to the World Cup in 2022 will continue to drive growth and offer lots of opportunities for private sector investment. Qatar's National Vision 2030 aims to transform the country into a knowledge-based economy, and the commitment to that goal remains firm even if there is some period of rationalization during this period of lower oil prices.

Overall investment this year could still be $22 billion, so even with an anticipated slowdown in spending there will still be significant investment opening for the private sector. Economic growth is still expected to be about five percent over the next two years, and unlike many of its GCC neighbours growth may actually be faster this year than in 2015.

The 2016 budget is based on an average oil price of about $48 a barrel, compared to $65 a barrel last year and among the lowest breakeven points in the region. This conservative stance puts the government in a good position as efforts to freeze oil output in a bid to support prices gather pace.

Amid the drop in oil prices, Qatar is facing a looming global glut of liquefied natural gas (LNG) as new suppliers in U.S. and Australia come on stream. Qatar aims to protect its position by becoming the most efficient producer. It is one of the lowest cost gas producers in the world, controls major supply routes, and owns its own fleet of ships which give it the flexibility to ensure it is exploiting the best deals. By controlling production, liquefaction, transportation and

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import terminals around the world, Qatar aims to remain the most profitable LNG producer even as competition intensifies.

The government is taking some measures in response to the drop in revenue. The Emir, His Highness Sheikh Tamim Bin Hamad Al Thani is making a series of necessary reforms not only to diversify revenue sources, but also on the spending side. In addition to using fiscal policy to stimulate growth, Doha earlier this year cut subsidies on fuel prices, resulting in a 30 percent rise in petrol prices.

Organisations like the IMF have long urged the region to remove costly and regressive subsidies that do nothing to curb excessive consumption, and redirect the savings into development spending.

The move followed a speech by His Highness Sheikh Tamim Bin Hamad Al Thani late last year in which he said the government would focus on greater efficiency in its spending, ending corruption and wastefulness, and privatise some state-owned firms. He urged citizens to develop a more entrepreneurial culture and sought a greater push to diversify the economy away from oil.

Business landscape

These are welcome measures for the longer-term health of the economy, and coupled with the wider reform agenda will make Qatar an attractive prospect for foreign businesses

The government will need to continue to improve the pace of reform it is to attract the private investment it wants. An increasing focus on Public Private Partnerships (PPPs) to deliver government projects and services will help drive growth in the private sector, reduce government capital spending, and diversify the economy. Establishing a robust PPP framework and building a track-record of successful partnerships with the private sector will be essential.

Increasing Foreign Direct Investment will be a key part of transforming Qatar's infrastructure investments into long-term contributors to the economy and ensure that the government gets value for money from its investments. In this area Qatar has so far lagged behind the rest of the region. The relative value of FDI stock to the size of the economy is the second lowest in the region, ahead of only Kuwait, according to 2014 data from UNCTAD. Bringing in more FDI will help transform the competitiveness of the economy and will be essential to achieving the Vision 2030 goals of creating a knowledge economy by bringing in foreign know-how and experience that local entrepreneurs and companies will be able to leverage.

The introduction of VAT, planned for 2018 as part of a GCC wide initiative, will also help the state diversify its sources of revenue away from the cyclicality of the oil price.

Qatar's private and quasi-private sector already boasts the region's largest bank Qatar National Bank, and regional champions like Qatar Airways and Qatar Electricity and Water Company (KAHRAMAA), which is taking its local expertise in developing power and water plans across the region. Qatar Petroleum, the world's biggest producer of LNG, is also planning to expand overseas. Qatar Exchange is in active discussions to attract more listings to increase the depth and breadth of the stock market, which has been part of the MSCI Emerging Market index since 2014. This helps to attract large pools of international capital and should help revitalize the exchange, which has only seen one IPO since 2010.

The success Qatar has made of its heavy investments in LNG in the early 1990s demonstrate the state's ability to create world-class industry leaders and execute on ambitions.

Outlook

As attention increasingly shifts to other areas of the economy, as articulated in the Vision 2030, that same focus and experience will be in evidence again. Qatar has strong fiscal buffers, a clearly defined development agenda, and global ambitions. The lower for longer oil environment will place more pressure on the Qatar economy but may well ultimately provide impetus to achieving its latest set of ambitions to move beyond the hydrocarbon sector.

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