Qatar Economic Insight
2016

Contents

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Executive Summary

Recent Developments

- **The Qatari economy grew by 3.6% in 2015** driven by large investment spending in the non-hydrocarbon sector, which grew by 8.2%, while hydrocarbon production fell slightly (-0.5%)
- **Consumer price index (CPI) inflation experienced a broad based decline to 1.6% in 2015** as both global and domestic inflationary pressures moderated
- **The current account surplus narrowed to 8.4% of GDP in 2015** from 24.0% in 2014 as lower oil prices reduced export receipts
- **The budget balance registered a surplus of 1.2% of GDP in 2015**, despite lower oil prices

Macroeconomic Outlook

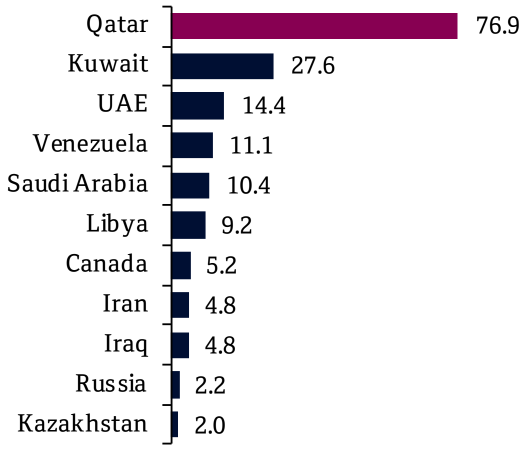
- **Real GDP growth is expected to accelerate from 3.2% in 2016 to 3.8% in 2017 and 4.1% in 2018** with the ramp up in investment spending and initial gas production from the Barzan project
- **Inflation is expected to rise to 3.2% in 2016 and 3.4% in each of 2017 and 2018** in line with the pick-up in global inflation and higher international food and energy prices
- **The current account surplus is forecast to fall to 4.1% of GDP in 2016 before rising to 6.6% in 2017 and 6.0% in 2018** reflecting the projected movement in oil prices and export revenue
- **Lower hydrocarbon revenue and continued capital spending by the government should tip the fiscal balance into a deficit of 5.3% of GDP in 2016**; but the fiscal balance should gradually return to near balance by 2018

Background

Qatar's oil and gas wealth per capita is the highest in the world

Qatar is endowed with major oil and gas reserves, especially in relation to the size of its population. It has the third largest gas reserves in the world after Iran and Russia, estimated at 866tn cubic feet (cf). Qatar has also significant reserves of crude oil and condensates amounting to 1.5% of total proven world reserves. Proven gas, crude oil and condensate reserves totalled 187bn barrels of oil equivalent (boe) in 2015. This corresponds to 76.9k boe per capita, comfortably the highest in the world. At current extraction rates, Qatar's proven gas reserves would last for another 135 years and oil reserves for 40 years.

Oil and Gas Reserves Per Capita (2015)
(k boe)

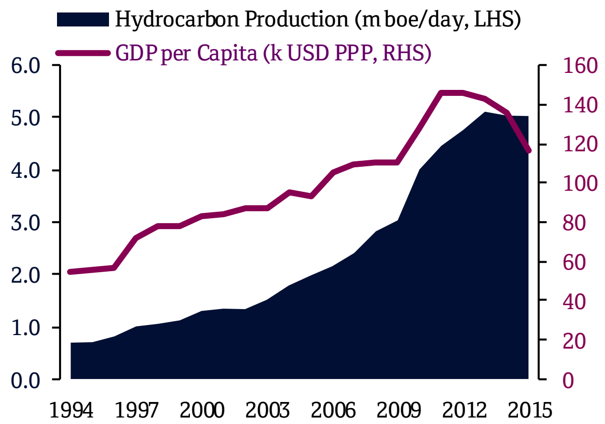


Sources: BP, International Monetary Fund (IMF) and QNB Economics

The development of Qatar's natural gas reserves drove rising per capita income up to 2011

Qatar invested heavily in liquefied natural gas (LNG) from the early 1990s. The sector experienced a rapid growth phase, particularly in the second half of the 2000s. Qatar has pioneered LNG production technology and, as a result, it has become the world's top LNG exporter (31.4% of market share in 2015). The country is the world's second largest gas exporter after Russia once pipeline exports are included. The development of the hydrocarbon sector has made Qatar the richest country in the world with GDP per capita at USD117k in purchasing power parity (PPP) terms in 2015. However, the hydrocarbon phase of economic growth plateaued in 2011 as the authorities implemented a moratorium on further gas export developments in the North Field. Since then, Qatar has entered a new phase of growth driven by the development of the non-hydrocarbon sector and the creation of a more diversified economy.

Hydrocarbon Production and Per Capita GDP

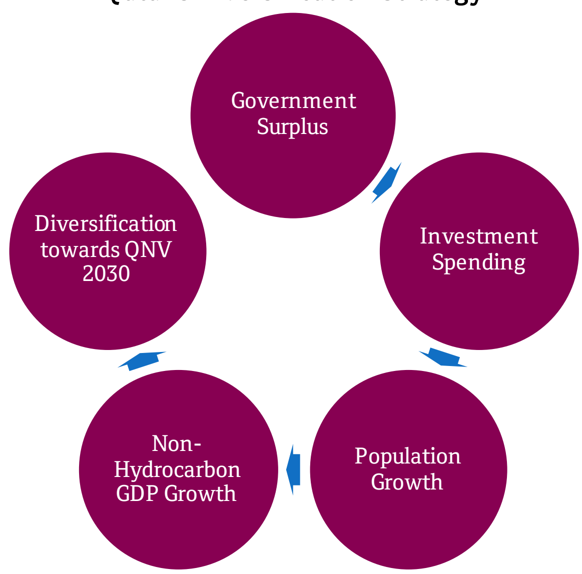


Sources: BP, Ministry of Development Planning and Statistics (MDPS) and QNB Economics

Hydrocarbon revenues are invested in major infrastructure projects, helping to diversify the economy

Qatar's National Vision 2030 (QNV 2030) aims to transform the country into a knowledge-based economy. To that end, Qatar has used its significant hydrocarbon surpluses to undertake a major programme of infrastructure investments. Project spending, needed for the long-term development of the country and also to meet the deadlines ahead of the FIFA World Cup in 2022, is attracting a large influx of expatriate workers. Together, investment spending and population growth provide a major boost to domestic demand, leading to rapid growth in the non-hydrocarbon sector and diversification of the economy away from dependence on oil and gas. Beyond 2022, Qatar is expected to enter a new human capital phase of growth based on attracting, developing and retaining talent. In line with QNV 2030, Qatar aims to transform itself into a knowledge-based economy.

Qatar's Diversification Strategy



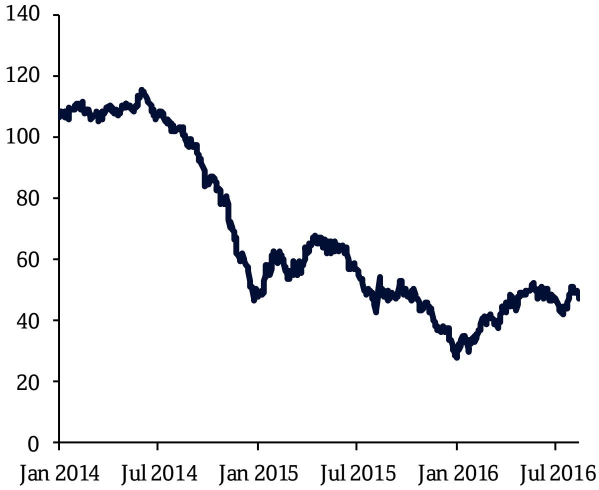
Sources: QNB Economics

Recent Developments (2015-16)

Oil prices have remained volatile, but have rebounded from the multi-year lows experienced in early 2016

Oil prices fell sharply in 2015 to an average of USD53.6 compared to USD99.5 in 2014. The decline was mainly due to large additional supply from the US in the early part of 2015 and from OPEC throughout the year. The new supply exceeded demand growth, which rose to a five-year high. As a result, the oil market was over-supplied by around 1.7m b/d in 2015. The decline in oil prices continued in the beginning of 2016 to a low of USD28/b on concerns about slowing global growth and currency devaluation risk in China. Oil prices have recovered from those lows and have been range bound between USD45/b and USD50/b since the middle of May. The pickup in crude oil prices since the beginning of 2016 was mainly due to stronger oil demand, supported by easier global monetary policy. These developments have offset the drag from higher supply, coming largely from increased Iranian production, which has risen 0.7m b/d since the lifting of sanctions.

Brent Crude Oil price
(USD/b)

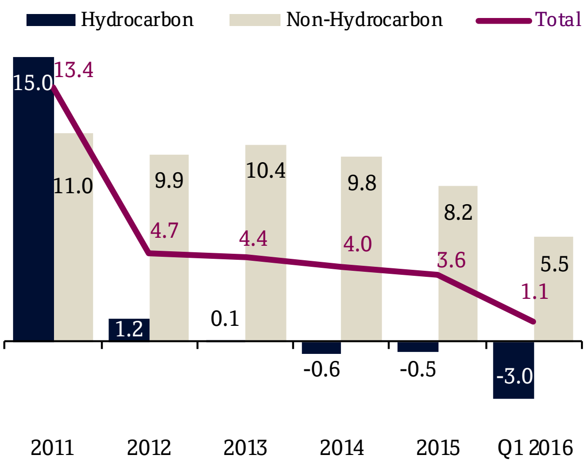


Sources: Bloomberg and QNB Economics

Despite lower oil prices, the economy continued to grow driven by the non-hydrocarbon sector

Qatar's real GDP grew by 3.6% in 2015. The non-hydrocarbon sector continues to be the engine of growth as it accounted for 61.4% of total GDP in 2015. It expanded by 8.2%, driven by the large investment spending programme. The construction sector remains the main direct beneficiary of this programme, contributing an estimated 2.4 percentage points (pps) to non-hydrocarbon GDP growth. The large influx of expatriate workers has generated strong demand for services such as finance, insurance and real estate; trade, restaurants and hotels; and government services. Services were the largest contributor to non-hydrocarbon GDP growth, adding an estimated 5.0pps. Meanwhile, hydrocarbon growth fell by 0.5% in 2015 due to declining hydrocarbon liquid production. In the first quarter of 2016, real GDP growth slowed to 1.1%, on account of both weaker hydrocarbon and non-hydrocarbon growth.

Real GDP Growth
(%, year on year)

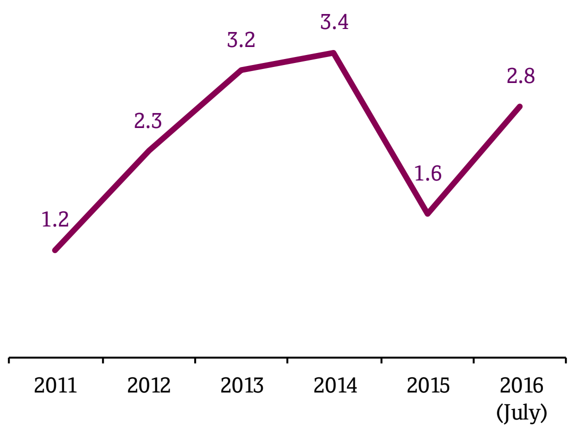


Sources: MDPS, Haver Analytics and QNB Economics

CPI inflation experienced a broad-based decline in 2015 but has picked up thus far in 2016

Inflation fell from 3.4% in 2014 to 1.6% in 2015. The decline in 2015 was partially due to the weakness in global inflation, oil prices and international food prices. Domestic inflationary pressures also eased due to higher supply capacity in the economy, which helped absorb the additional demand from the rising population. Through the first seven months of 2016, inflation has picked up to 2.8% year-over-year. The rise reflects higher costs of recreation and culture (7.8%), education (7.1%) and housing and utilities (5.2%).

CPI Inflation
(%, year-on-year)

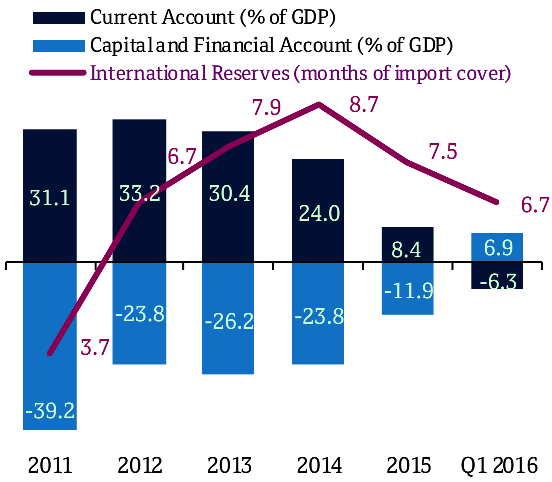


Sources: MDPS, Haver Analytics and QNB Economics

The current account surplus has deteriorated as a result of lower oil prices and hydrocarbon production

The current account surplus fell to 8.4% of GDP in 2015 from 24.0% in 2014. This deterioration reflects lower oil prices and hydrocarbon production. Consequently, export revenues fell from 68.0% of GDP in 2014 to 56.1% in 2015. On the other hand, investment spending and population growth maintained demand for imports, which have increased from 31.0% of GDP in 2014 to 36.0% in 2015. The overall balance of payments registered a deficit of 3.3% of GDP in 2015. As a result, international reserves fell from USD43.0bn to USD40.1bn at end-2015, sufficient to cover 7.5 months of prospective imports and above the recommended level of three months for fixed exchange rate regimes. In the first quarter of 2016, the current account registered a deficit of 6.3%, reflecting the bottoming out of oil prices and production experienced. The capital and financial account moved into a surplus of 6.9% of GDP representing capital inflows to finance the current account deficit.

Balance of Payments



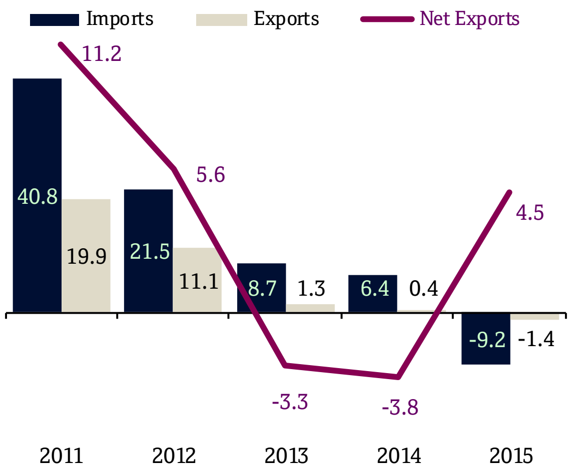
Sources: QCB, Haver Analytics and QNB Economics

Trade was a positive contributor to real GDP growth in 2015

Exports and imports both declined in volume terms by 1.4% and 9.2% respectively in 2015. The decline in exports reflected weaker crude oil production while lower imports reflects a retrenchment in demand from consumers, firms and the government as a result of weak oil prices. However, since imports declined by more than exports in volume terms, the result was a positive net trade contribution to real GDP in 2015 as net exports grew by 4.5% in 2015. Hydrocarbon exports account for over 80% of goods exports and the major destinations for Qatar's exports are Japan, Korea, China and the UAE. Qatar's largest import category is machinery and transportation equipment, representing nearly 50% of goods imports. China, the US, the UAE and Germany are Qatar's main source of imports.

Net Export Growth

(volumes; %, year-on-year)



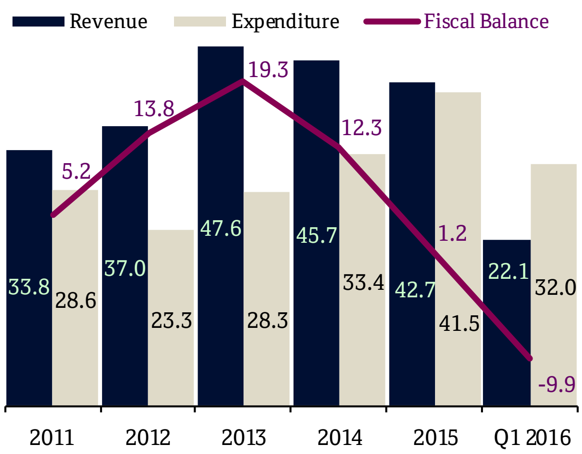
Sources: MDPS, Haver Analytics and QNB Economics

The budget balance posted a small surplus in 2015, despite lower oil prices

The government's budget surplus declined from 12.3% of GDP in 2014 to 1.2% in 2015. The dwindling surplus is due to lower oil prices which have reduced the government's revenue. At the same time, expenditure grew by 1.6% in nominal terms as the government continued its investment programme despite lower oil prices. Public debt is moderate by international standards, estimated at 40.3% of GDP in 2015. This has allowed the government to successfully borrow from international markets. Qatar secured a USD5.5bn syndicated loan in January of 2016, and then issued USD9.0bn of bonds in May 2016. This was the largest bond issuance on record for a Middle Eastern and North African country. The government intends to use these funds to finance future deficits. Through the first quarter of 2016, the government witnessed an estimated deficit of 9.9% of GDP though this was driven by seasonality in spending and revenue.

Fiscal Balance

(% of GDP)



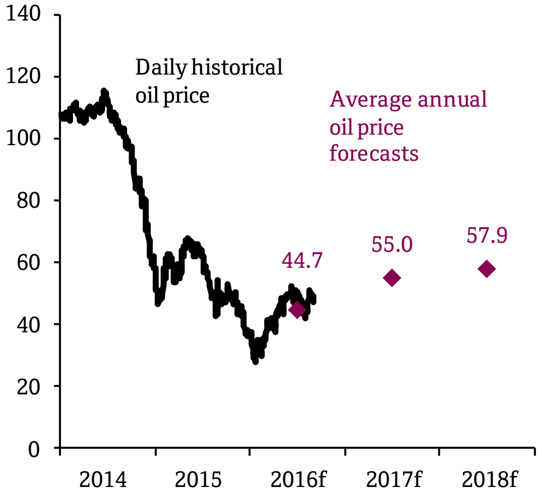
Sources: QCB, Haver Analytics and QNB Economics

Macroeconomic Outlook (2016-18)

The oil market is expected to rebalance in 2017

Oil prices are forecast to continue their recovery as excess supply is reduced. The reduction is mainly from stronger demand growth as well as supply side cuts in the US and non-OPEC producers which are expected to partially offset growth from Iran and other OPEC producers in 2016. As a result, we expect excess supply to be reduced from 1.7m b/d in 2015 to 0.4m b/d in 2016, leading to a forecast of USD44.7/b in 2016. In 2017, excess supply will be completely eliminated as strong demand growth outstrips higher supply from virtually all major producers. The completion of the rebalancing process should support higher oil prices, which we forecast to average USD55.0/b in 2017. In the medium term, oil prices will be determined by the cost of the marginal producers, in this case US shale oil producers, which is currently estimated to be USD60/b. We therefore expect a gradual convergence of oil prices to this level, leading to an average oil price of USD57.9/b in 2018.

Brent Crude Oil Price
(USD/b)

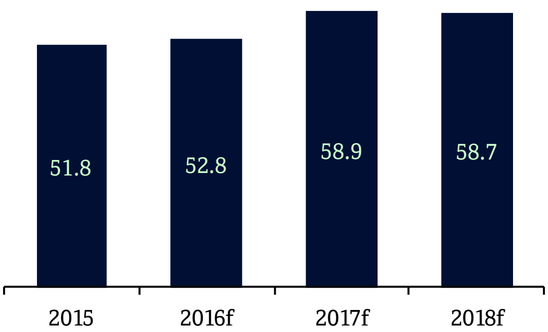


Sources: Bloomberg and QNB Economics forecasts

Qatar has effectively weathered low oil prices and has ample fiscal space to continue its investment programme

We expect Qatar to continue its investment spending programme despite low oil prices for two main reasons. First, the fiscal breakeven oil price for Qatar is forecast to be USD52.8/b in 2016, which is among the lowest of oil and gas exporters. Second, Qatar enjoys moderate public debt levels at 40.3% of GDP allowing it to easily raise debt in domestic and international markets. The government has stated its intention to finance the deficit using debt issuance and to not draw on accumulated reserves. That being said, Qatar's reserves also provide valuable insurance and support its strong macroeconomic position. Over the period 2005-2014, the accumulated current account surpluses for Qatar were USD315.6bn or 191.7% of GDP. These reserves are partially saved at the Qatar Central Bank (QCB) and partially invested through the Qatar Investment Authority (QIA).

Fiscal Breakeven Oil Price
(USD per barrel)

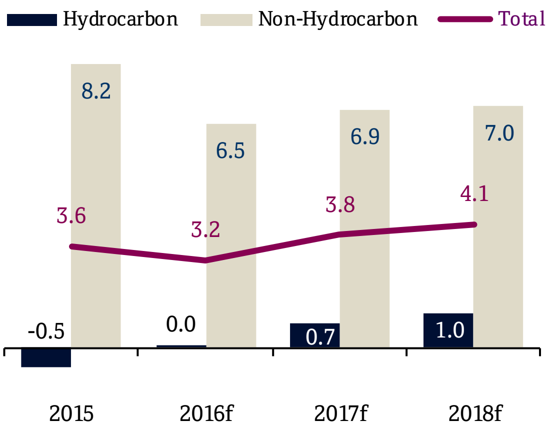


Sources: Haver Analytics and QNB Economics forecasts

Growth is expected to accelerate from 2017, driven by large investment spending and gas production from Barzan

Real GDP is expected to grow by 3.2% in 2016, 3.8% in 2017 and 4.1% in 2018. The non-hydrocarbon sector is forecast to remain the main driver of growth due to the ramp up in investment spending, which is expected to peak towards the end of this decade. In addition, services are projected to benefit from the resulting population growth, which is expected to average 7.0% over the next three years. As a result, non-hydrocarbon GDP growth is expected to reach 6.5% in 2016 before picking up to 6.9% in 2017 and 7.0% in 2018 with the ramp up in investment spending. Meanwhile, hydrocarbon production is expected to be flat in 2016 as declining oil production is offset by initial gas production from the Barzan project (a USD10.3bn project to provide gas to meet the rising domestic demand). Additional gas and condensates production from Barzan should lift hydrocarbon growth to 0.7% in 2017 and 1.0% in 2018, notwithstanding the decline in crude oil production.

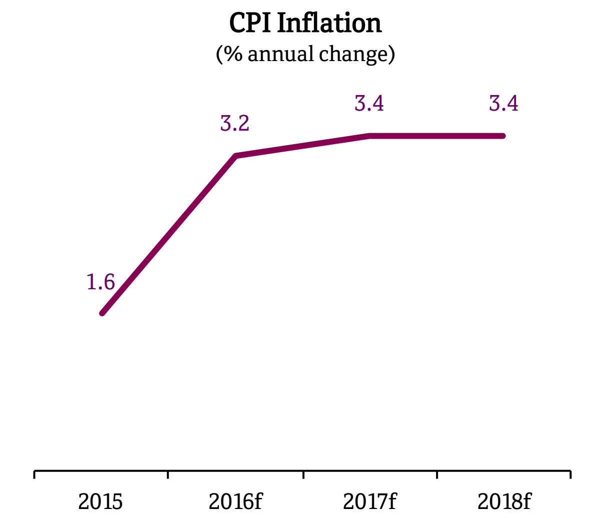
Real GDP Growth
(%, year on year)



Sources: MDPS, Haver Analytics and QNB Economics forecasts

Inflation is expected to pick up on international and domestic factors

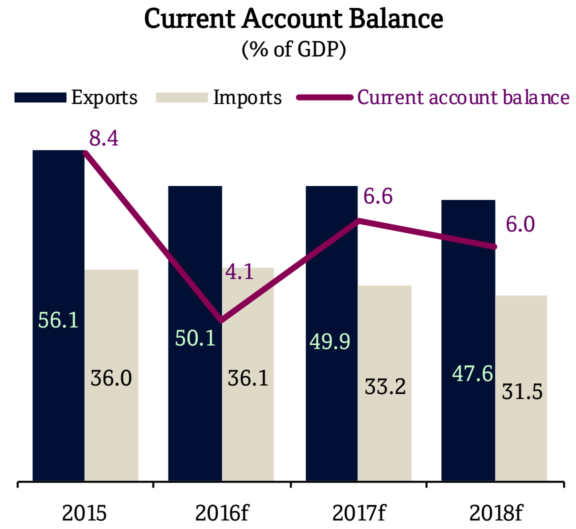
Inflation is expected to rise to 3.2% in 2016 and 3.4% in each of 2017 and 2018. Inflation in Qatar is determined by two major factors. The first is global inflationary developments, since a large part of the Qatari consumer basket is imported. The second is the rate of migration into Qatar, as it represents the additional demand for goods and services. Both of these variables point to rising, but still contained inflation in Qatar over the medium term. Global inflation is expected to pick up with rising oil and food prices and loose monetary policy from central banks in advanced economies. Furthermore, strong population growth in Qatar is expected to generate inflation from domestic sources as the additional demand creates upwards pressures on prices. Additionally, in 2018, the government will introduce a value-added tax which should help maintain inflationary pressure.



Sources: MDPS, Haver Analytics and QNB Economics forecasts

The current account surplus is expected to fall in 2016 before picking up in 2017, reflecting the change in oil prices

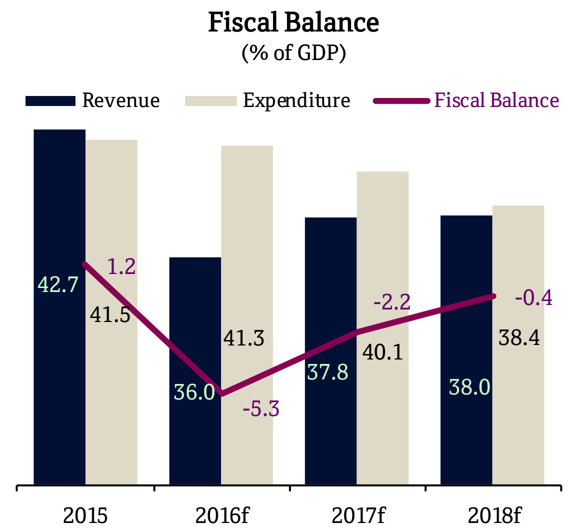
The current account surplus is expected to fall to 4.1% of GDP in 2016 before rising to 6.6% in 2017 and 6.0% in 2018. The profile mirrors the projected movement in oil prices, given that hydrocarbons account for more than two-thirds of Qatari exports. Meanwhile, imports are expected to continue growing due to strong domestic demand from large investment spending and rising population. The capital and financial account is projected to remain in deficit over the next three years on continued Qatari investments abroad. International reserves are expected to be maintained at just below USD40bn, or around seven months of prospective import cover.



Sources: QCB, Haver Analytics and QNB Economics forecasts

Lower hydrocarbon revenue and continued capital spending by the government should tip the budget balance into a deficit

The government's budget balance is expected to register a deficit of 5.3% of GDP in 2016 and 2.2% in 2017, before recovering to near balance in 2018. The government's revenue is expected to recover in 2017 with rising oil prices. Furthermore, the introduction of a value-added tax (expected at 5% rate) should boost the government's revenue in 2018 by about 1% of GDP. On the expenditure side, the rationalisation of current expenditure and the recovery in nominal GDP should lower the public spending share of GDP by 2018, notwithstanding the ramp up in public investments. The government has signalled its intention to finance the deficit with debt issuance. As a result, public debt is expected to rise to 49.3% of GDP in 2016, before moderating to 42.1% in 2018 with the projected recovery in oil prices and nominal GDP.



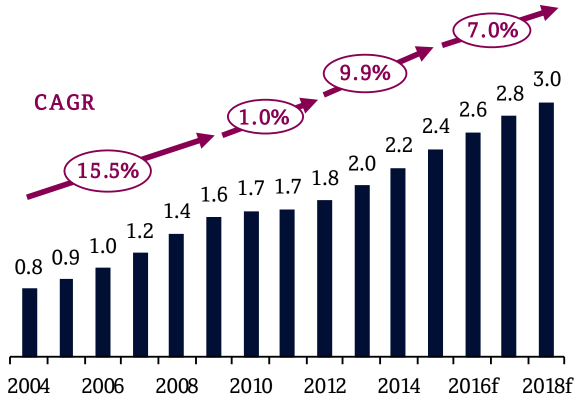
Sources: QCB, Haver Analytics and QNB Economics forecasts

Demographics and Labour Force

Population growth remains strong as investment in projects and diversification draw in expatriate workers

Qatar's population grew at a rapid speed of 10.7% per year from 2004-15. During that period, population tripled from only 0.8m people in 2004 to 2.4m in 2015. Population growth occurred in line with the two major phases of growth, the LNG phase lasting until 2011 and the ongoing diversification phase beginning in 2012. Growth was most rapid from 2004-09, averaging 15.5% per year, due to a large influx of expatriate workers working on the expansion of the LNG facilities. Population growth then slowed to just 1.0% in 2011 as the phase came to an end. Over the period 2012-15, annual population growth picked up again to 9.9% per year as Qatar initiated the economic diversification phase, prompting a further inflow of expatriate workers, mainly in construction. We expect the population to continue to grow at an average rate of 7.0% per year in 2016-18, reaching a total population of 3.0m by 2018.

Mid-Year Population
(m, CAGR)

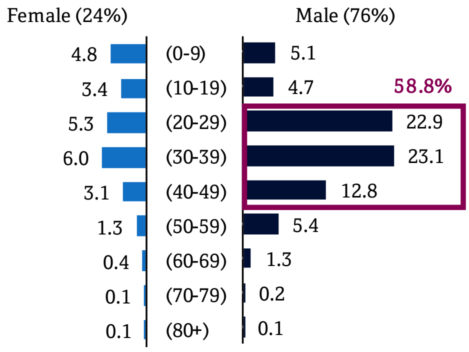


Sources: MDPS and QNB Economics

Demographics are skewed towards expatriate men, as the female share of the population has declined

Qatar's population is skewed, with men aged 20 to 49 years comprising nearly 60% of total population. This reflects the large number of single low skilled expatriate workers. Female population growth (8.0% per year) outpaced that of men (5.0%) over the period of 2009-13 reflecting high skilled expatriate workers bringing their families with them and demand for female workers in the service sector. But over the past two years, female population growth has slowed (6.8% per year compared to 9.5% for males) as the diversification phase has demanded more male construction workers. As a result, the share of females has declined from its peak of 26.3% in 2013 to 24.5% in 2015.

Population by Age and Gender
(% share of population, 2015)

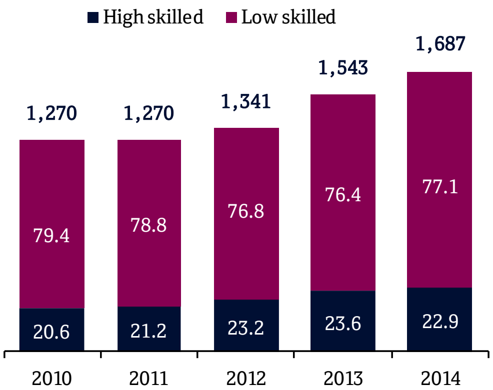


Sources: MDPS and QNB Economics

The labour force has grown rapidly with an increasing skill level

After stagnating in 2010-11, the labour force has since grown at an annual rate of 9.3%, reaching 1.7m in 2014. Expatriates constitute 94.5% of the total workforce. The share of high-skilled labour in the workforce has risen from 20.6% in 2010 to 22.9% in 2014. This suggests that Qatar's commitment to investing in human capital in line with its National Vision 2030 is raising the skill level of the workforce. The ongoing diversification programme of the economy is likely to create more high-skilled jobs going forward.

Labour Force by Skills
(thousands, and % shares shown)



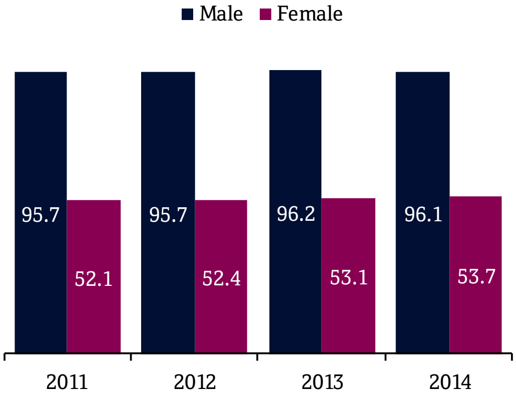
Sources: MDPS and QNB Economics
Note: Latest available annual data are to 2014

The labour force participation rate is high with room for growth among the Qatari female population

The overall labour force participation rate in Qatar was high at 87.6% of working age population (15 years or above) in 2014. For males, labour force participation was very high at 96.1% in 2014 while female participation rate was 53.7%. The Qatari female participation rate has increased from 34.1% in 2011 to 35.3% in 2014. If this trend continues, then the expansion in the domestic labour supply should provide an additional source of economic growth in the future.

Labour Force Participation Rate by Gender

(% of working age population)



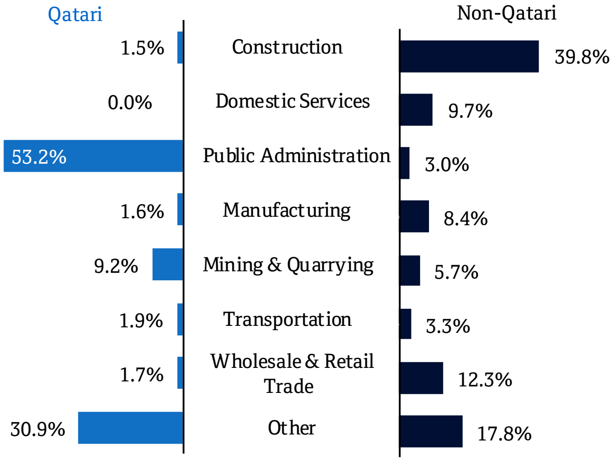
Sources: MDPS and QNB Economics
Note: Latest available annual data are to 2014

The construction sector remains the largest employer

A high proportion of the expatriate workforce (39.8%) is employed in the construction sector. The rollout of the large infrastructure investment program has increased demand for workers in the construction of real estate, transport and other infrastructure projects (see *Projects* chapter). Workers employed in the mining and quarrying sector constitute only 5.9% of the total labour force as this sector is capital intensive. The share of workers in the mining and quarrying sector is also falling (6.4% in 2011) owing to the ongoing diversification of the economy. Qataris made up 5.6% of the workforce in 2014, with 88% of them working in the government or state-owned companies, as government packages offer the most attractive pay and benefit options to locals. Beyond 2022, as the construction phase of growth ends and Qatar moves towards a knowledge-based economy, we expect the share of those employed in sectors such as education (2.5% in 2014, up from 2.1% in 2011), health (1.7%) and professional, scientific and technical activities (1.7%) to grow going forward.

Labour Force by Sector

(% share, 2014)



Sources: MDPS and QNB Economics
Note: Latest available annual data are to 2014

Projects

The focus of investment spending has shifted to the non-hydrocarbon sector since 2011, driving economic growth

Qatar's development is underpinned by an array of investment projects, implemented by the government and state-owned companies. Infrastructure projects drive GDP growth directly, by increasing investment spending in the economy, and also indirectly as they bring in expatriate workers, which raises consumption. Investment spending has gone through two phases. The first spanned 2000-11, and was mainly driven by the expansion of LNG facilities, peaking in 2008. This has been followed by a second phase which has focused on economic diversification beginning in 2012 and is expected to continue until the end of the decade. Investment spending on the non-hydrocarbon sector is expected to increase in line with the 2030 National Vision and in preparation for the World Cup 2022, surpassing the investment levels seen during the height of the LNG expansion phase.

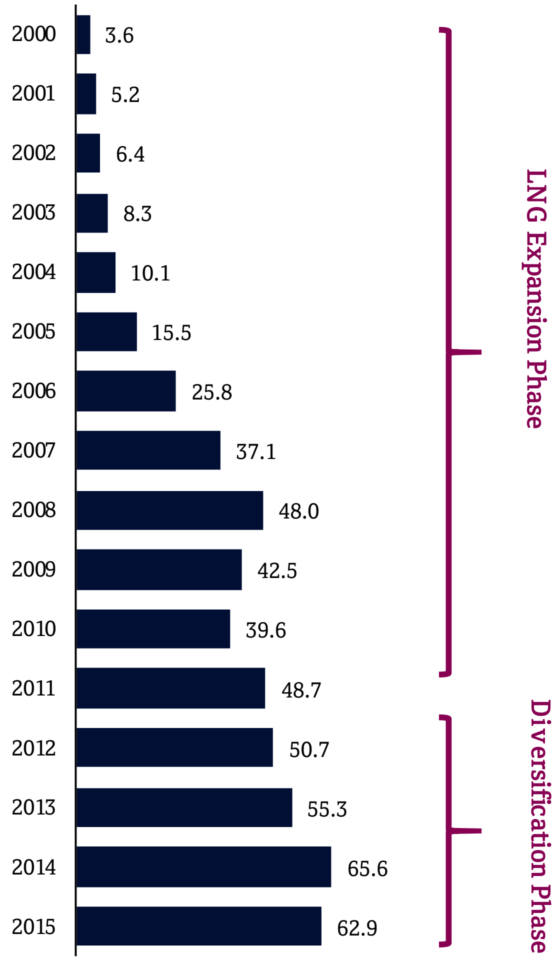
Investment spending is set to rise going forward, sustaining high growth

Investment spending is set to pick up in the coming years as the implementation of a number of major projects ramps up. For example, work on the USD45bn Lusail real estate development continues to progress as do other large projects related to rail, road networks, drainage, utilities and other infrastructure projects. In 2016, two new major projects have been announced thus far, a USD8.0bn project to expand Hamad International Airport and a USD3.3bn expansion of the electricity transmission system by Qatar General Electricity & Water Corporation (Kahramaa).

Construction and transport projects account for the bulk of project budgets

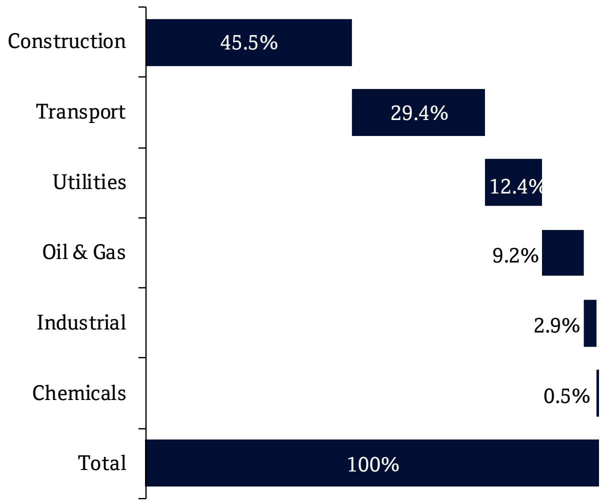
Construction projects, which span residential, mixed-used and commercial developments, account for the largest share of project spending reflecting the burgeoning demands of rapid population growth. The Lusail and Barwa Al Khor construction projects alone account for 25% of all major project spending. In the transport sector, new roads, railways, airport expansion and ports are all under construction. Besides this, the growing population is also driving demand for utilities, such as drainage, water and electricity. While oil and gas accounted for the bulk of projects during 2000-11, their share is expected to account for only 9.2% between 2015-18. No new major projects in the gas sector are likely to be initiated in the next few years. In the oil sector, projects to sustain existing production have been initiated or awarded. Qatar Petroleum has begun implementation of a USD11bn project to boost production from the Bul Hanine oil field and the international oil company, Total, was recently awarded rights to manage the Al-Shaheen oil field beginning in 2017, Qatar's largest oil field. Total has pledged to invest USD2.0bn over five years to at least maintain production levels.

Investment Spending
(bn USD)



Sources: MDPS, Haver Analytics QNB Economics

Investment Spending by Sector (2015-18)
(% shares shown)



Sources: MEED Projects and QNB Economics

Major Projects (as of August-2016)

Project	Sector	End	Budget (bn USD)	Comment
Lusail Mixed-Use Development	Construction	2019	45.0	Waterfront development to the north of Doha. The lead developer is Qatari Diar, a QIA property investment fund. This phase includes islands, marinas and residential, commercial and business districts.
Qatar Integrated Rail	Transport	2026	40.0	The project scope includes 260km of metro and light rail in Doha and 400km of mainlines, including passenger and freight rail linking Ras Laffan and Messaieed via Doha, a high-speed rail link between Hamad International Airport and Doha city centre and a freight rail to be linked to a planned GCC network. Tunnelling and station construction is underway.
Hamad International Airport	Transport	2020	23.5	There have been two phases of this project. The first phase was USD15.0bn development of the Hamad International Airport. The second phase is USD8.0bn expansion of the airport is expected to be awarded in 2016. The expansion involves increasing the size of the terminal by 50%, adding 24 airplane gates and enlarging two concourses (D&E).
Ashghal Expressway Programme	Transport	2018	20.0	This project is part of Ashghal's plan to develop a number of major motorways.
Ashghal Local Roads & Drainage Programme	Transport	2019	14.6	A network of roads, drainage, utilities and related infrastructure.
Bul Hanine Oilfield Redevelopment	Oil	2028	11.0	Qatar Petroleum (QP) aims to boost crude oil production in Qatar. Investment in new facilities is expected to double capacity to 90k b/d and extend the life of the field.
Barzan Gas Development	Gas	2020	10.3	RasGas plans to increase gas supply to the domestic market to meet rising demand for power and other industrial uses. First production is expected later this year.
Barwa Al Khor Development	Construction	2025	10.0	Mixed-use development (villas, town houses, terraces, flats, two hotels, a marina, golf course and shopping malls) to the north of Doha.
Water Security Mega Reservoirs	Utilities	2026	7.7	To address rising water demand, Qatar General Electricity & Water Corporation (Kahramaa) has launched projects to maintain 7-days of strategic water storage within its network.
Education City	Construction	2016	7.5	A university campus, schools, a science and technology park and associated facilities.
Hamad Port	Transport	2020	7.4	A new port to the south of Doha, replacing the old port in central Doha. The project will be completed in three phases, with annual capacity expected to reach 1.7m tonnes of cargo, 1m tonnes of grains and 500,000 vehicles.
Pearl Qatar	Construction	2017	7.0	Ongoing development of a man-made island near West Bay, Doha's business district. It is the first real estate development to offer freehold to non-Qataris.
Musheireb Mixed-Use Development	Construction	2016	5.5	A project in central Doha that aims to retain elements of cultural heritage. The development will house over 27,000 residents and includes commercial, retail, cultural and entertainment areas.
2022 World Cup Stadiums	Construction	2020	4.0	The construction contract for one of the football stadiums (Al-Bayt Al-Khor) for the FIFA World Cup in 2022 has been awarded. Most of the stadiums will have a capacity of 40-50k spectators while the Lusail stadium will have a capacity of over 86k spectators and will host the opening and final matches.
Qatar Transmission	Utilities	2019	3.3	Qatar General Electricity & Water Corporation (Kahramaa) is planning to construct Phase 13 of the Qatar Transmission project which aims at developing and strengthening the electricity transmission system and infrastructure to support consumer population and industrial demand.
Qatar Economic Zones	Construction	2018	3.2	Manateq, formerly known as the Economic Zones Company, is developing three major new economic zones at different locations. The contract for the design and construction of one of the zones has already been awarded. Ras Bufontas, will be a warehousing and logistics hub located next to the new airport, covering an area of 4 sq km. Also planned are: a 38 sq km construction materials and services zone in Al Karana, south of the Industrial Area; and a 34 sq km light manufacturing zone at Um Alhoul, near the new Hamad Port.

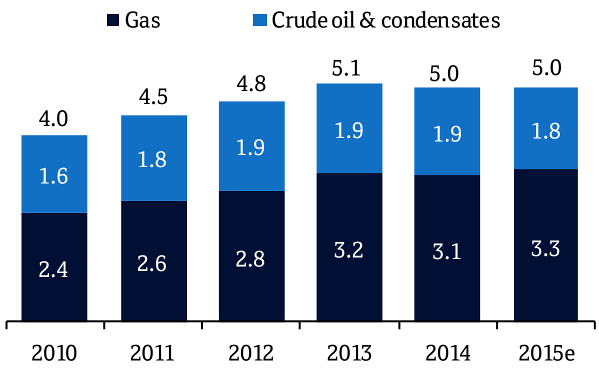
Sources: MEED Projects and QNB Economics

Hydrocarbons

Hydrocarbon production has stabilised, as higher gas production has offset lower crude output in recent years

Qatar's total hydrocarbon production in 2015 was 5.0m barrels of oil equivalent per day (boe/d), unchanged from the previous year. But underlying the aggregate production figure, there was a modest change in the composition of oil and gas. Gas production, which represented 65.2% of total hydrocarbon output in 2015, increased by 4.2%, reflecting a rebound from a decline in gas production of 2.0% in 2014, mainly due to maintenance shutdowns. Gas production growth has slowed in recent years as a result of the government's moratorium on further gas exploration in the North Field. Meanwhile, Crude oil and condensates (including natural gas liquids (NGLs)), which accounted for 34.8% of hydrocarbon production in 2015, experienced its third consecutive year of decline.

Hydrocarbon Production
(m boe/d)

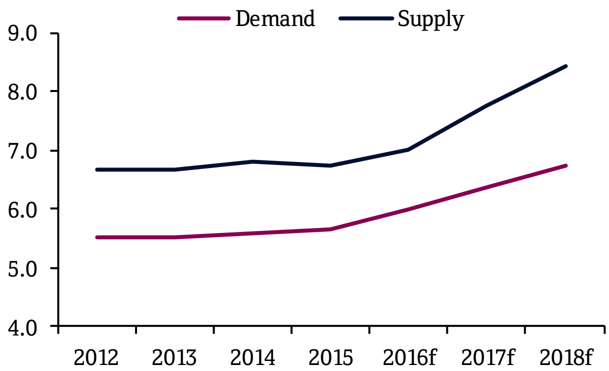


Sources: BP and QNB Economics

Qatar has been a dominant player in the global LNG market, which is expected to be over-supplied until at least 2020

The global market for LNG has grown dramatically over the past decade. LNG supply added an average of 1.1 m boe/d each year since 2005. Qatar emerged as a major contributor to the immense increase in supply by becoming the world's largest LNG exporter, accounting for almost a third of global LNG exports in 2015. But now the LNG market is beset by over-supply and low prices, which are linked to crude oil prices and have been falling since mid-2014. The high price environment in the past had encouraged excessive production and investment. As a result, existing supply has outstripped demand and past investments in major projects from Russia, the US and Australia are expected to bring more supply on stream in the coming years, keeping the market over-supplied until at least 2020.

Global LNG supply and demand outlook
(m boe/d)

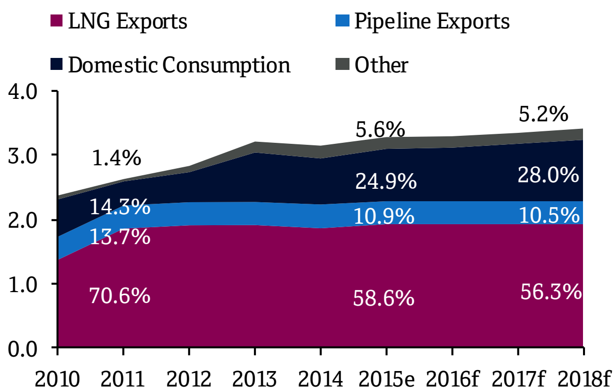


Sources: Boston Consulting Group, Goldman Sachs, International Energy Agency and QNB Economics forecasts

Domestic gas consumption is set to increase but exports have plateaued due to a government moratorium

LNG (58.6%) and pipeline (10.9%) exports of gas accounted for the majority of gas production, while domestic consumption reached a high of 24.9% in 2015. Gas exports have not increased due to a government-imposed moratorium restricting further expansion and this is expected to continue over the medium term, plateauing exports. On the other hand, domestic consumption has grown strongly in recent years having increased its share of production from 14.3% in 2011 to 24.9% in 2015. The projected population growth and continued large infrastructure investment should drive domestic demand going forward. In response, the government has initiated the Barzan project, a USD10.3bn gas development, to meet this rising demand primarily in the power and water sectors with production set to begin the second half of this year. As a result, the share of gas production for domestic use is projected to rise to 28.0% by 2018.

Production of gas by usage
(m boe/d, % shares shown)



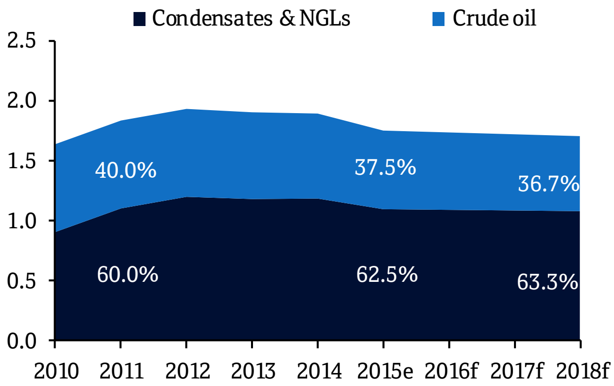
Sources: BP and QNB Economics forecasts

Oil production will continue to experience natural declines but investments are being made to boost production

Total liquid hydrocarbon production in 2015 was 1.8m b/d, of which 0.7m b/d was crude oil and the rest condensates and NGLs. Crude oil production declined in 2015 due to maturation of Qatar's major oilfields. Going forward, crude oil output is expected to continue declining. To stem the decline in crude oil production, Qatar Petroleum has initiated a redevelopment programme in the Bul Hanine and Dukhan oilfields to offset natural declines and boost production in the medium-term. Additionally, Total won the bid to take a 30% stake in the al-Shaheen field, Qatar's largest oil field with an estimated 300k b/d production, beginning in 2017 from the incumbent Maesrk. Total has pledged to invest USD2.0bn over five years to at least maintain the current level of production in the field. However, despite these efforts, in the near-term we expect crude oil production to fall to 36.7% of total liquid hydrocarbon production by 2018. Condensate and NGL production is expected to maintain its level and is projected to reach 63.3% of total liquid hydrocarbon production by 2018.

Production of crude oil and condensates

(m b/d production, % shares shown)



Sources: Bloomberg, BP and QNB Economics forecasts

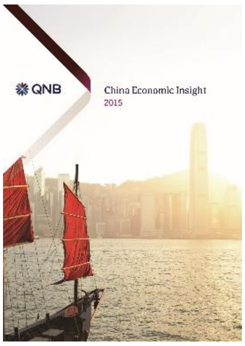
Key Macroeconomic Indicators

	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real sector indicators								
Real GDP growth (%)	13.4	4.7	4.4	4.0	3.6	3.2	3.8	4.1
Hydrocarbon sector	15.0	1.2	0.1	-0.6	-0.5	0.0	0.7	1.0
Non-hydrocarbon sector	11.0	9.9	10.4	9.8	8.2	6.5	6.9	7.0
Nominal GDP (bn USD)	167.8	186.8	198.7	206.2	164.6	163.9	188.0	204.1
Growth (%)	35.7	11.4	6.4	3.8	-20.2	-0.5	14.7	8.6
Non-hydrocarbon sector (% of GDP)	41.2	42.0	44.3	47.5	61.4	67.7	65.1	66.2
GDP per capita (k USD)	145.7	146.2	142.5	135.8	116.5	121.8	128.9	125.8
Consumer price inflation (%)	1.2	2.3	3.2	3.4	1.6	3.2	3.4	3.4
Budget balance (% of GDP)	5.2	13.8	19.3	12.3	1.2	-5.3	-2.2	-0.4
Revenue	33.8	37.0	47.6	45.7	42.7	36.0	37.8	38.0
Expenditure	28.6	23.3	28.3	33.4	41.5	41.3	40.1	38.4
Public debt	36.0	37.2	33.1	32.3	40.3	49.3	45.3	42.1
External sector (% of GDP)								
Current account balance	31.1	33.2	30.4	24.0	8.4	4.1	6.6	6.0
Goods and services balance	46.5	47.2	43.1	37.0	20.1	14.0	16.8	16.1
Exports	72.6	76.5	72.7	68.0	56.1	50.1	49.9	47.6
Imports	-26.1	-29.3	-29.7	-31.0	-36.0	-36.1	-33.2	-31.5
Income balance	-7.9	-6.5	-5.2	-4.5	-2.2	-1.7	-1.9	-1.9
Transfers balance	-7.5	-7.5	-7.4	-8.5	-9.5	-8.2	-8.2	-8.2
Capital and Financial account balance	-39.2	-23.8	-26.2	-23.8	-11.9	-4.8	-6.0	-5.3
International reserves (prospective import cover)	3.7	6.7	7.9	8.7	7.5	6.9	6.9	6.9
External debt	76.9	84.8	80.4	79.5	80.6	n.a.	n.a.	n.a.
Monetary indicators								
M2 growth	17.1	22.9	19.6	10.6	3.4	n.a.	n.a.	n.a.
Interbank interest (%, 3 months, end of period)	1.5	1.1	1.1	1.5	2.5	n.a.	n.a.	n.a.
Exchange rate USD:QAR (av)	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Memorandum items								
Population (m)	1.73	1.83	2.00	2.22	2.44	2.63	2.82	2.99
Growth (%)	1.0	5.8	9.3	10.6	10.0	7.9	7.1	6.1
Oil production ('000 bpd)	1,834	1,931	1,903	1,893	1,751	1,731	1,708	1,698
Average Raw Gas Production (bn cf/d)	14.1	15.2	17.2	16.8	17.6	17.6	17.9	18.3
Average Brent Crude Oil Price (USD/b)	110.9	111.7	108.8	99.5	53.6	44.7	55.0	57.9

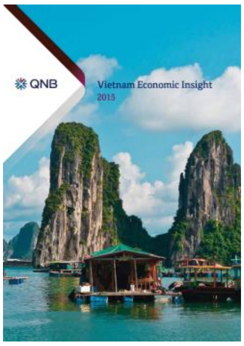
Sources: BP, IMF, MDPS, QCB, Haver Analytics and QNB Economics forecasts

QNB Group Publications

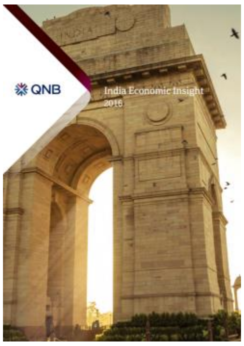
Recent Economic Insight Reports



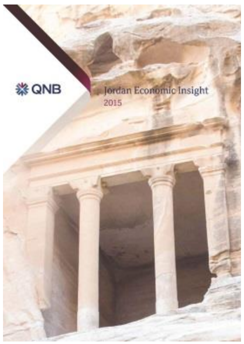
China 2015



Vietnam 2015



India 2016



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