Economic Alert iQ

First Citizens
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International
Prepared by: Russel Ramdewar, Analyst II (Research and Analytics)
Russel.ramdewar@firstcitizenstt.com

Economic Alert: Qatar Long-Term Rating lowered to AA- from AA and placed on Negative Watch by S&P after Six Arab Countries Sever Ties

- On June 5, 2017, a group of governments including Saudi Arabia, United Arab Emirates, Bahrain, Egypt, Libya, and Yemen moved to cut diplomatic ties, as well as trade and transport links with Qatar. The measures imposed include a blockade of land, sea, and air access and the expulsion of Qatari officials, residents, and visitors from the group of states.
- According to S&P, these moves were motivated by Qatar's apparently more conciliatory stance towards Iran amid allegations that Qatar is financing terrorist activity.
- Supporting the ratings, Qatar holds the third largest proven natural gas reserves in the world and is the largest exporter of liquid natural gas. According to S&P, Qatar's reserves is expected to provide many decades of production at the current levels.
- Nonresident deposits in Qatar's banking system increased over 2016 by 17% of GDP, which has weakened Qatar's external liquidity position as related external short-term obligations have increased the average maturity of these deposits to under one year.
- S&P estimates government liquid external assets to be worth 170% of GDP, which remains a key rating support.
- Qatar's fiscal and current account deficits could widen as related revenues from regional trade diminish. In 2016, 10% of Qatar's exports was to the group of states that have blocked trade.
- The same group of states provides 15% of Qatar's imports, potentially causing substantial shortages of key materials, including those used for construction projects and food.
- The imposition of air travel restrictions could have significant implications for Qatar Airways' profitability.
- According to S&P the debt of government-related entities (GREs) accounts for approximately 85% of GDP.
- Although still very strong, the government's net asset position (net general government assets are 120% of GDP) could weaken as a result of deploying these assets to support revenue shortfalls and because the potential for debt financing at similar prices to recent issues appears unlikely.

- It is expected that at the moment, Qatar will continue with its substantial infrastructure development, the bulk of which is not related to the 2022 World Cup, but rather developing road and sewerage networks, schools, and public transportation networks.
- As a result of the factors stated above, S&P expects that economic growth will slow, not just through reduced regional trade, but as corporate profitability is damaged because regional demand is cut off, investment is hampered, and investment confidence wanes.

Selected Indicators	2013	2014	2015	2016	2017f	2018f	2019f	2020f
Real GDP growth (%)	4.6	4.0	3.7	3.0	3.4	3.3	3.0	3.0
Export Growth (%)	44.7	(21.9)	(47.8)	(2.3)	1.0	2.0	2.2	2.3
Unemployment Rate (%)	66.0	60.3	46.3	42.5	43.6	43.1	41.4	39.8
General government balance/GDP (%)	24.2	15.5	(6.1)	(2.6)	(1.5)	1.8	5.2	5.0
General government debt/GDP (%)	25.0	25.3	33.5	43.6	48.4	49.2	46.6	44.2
Net general government debt/GDP (%)	(93.3)	(103.5)	(123.3)	(134.0)	(121.5)	(118.2)	(118.9)	(119.4)
General government interest /revenues (%)	1.8	1.9	4.5	4.5	4.9	5.5	5.6	5.3
CPI growth (%)	3.1	3.1	1.9	3.4	3.6	3.8	3.7	3.7
Current account balance/GDP (%)	29.9	23.5	8.2	(4.1)	(2.7)	(1.1)	0.2	1.0
Current account balance/CARs (%)	39.8	33.3	13.7	(7.3)	(4.6)	(1.9)	0.3	1.9

Source: Standard & Poor's

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