
Despite the falling price of hydrocarbons, Qatar has remained an economic force to be reckoned with.

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Qatar: channelling spending away from the energy sector

Akshay Singh and **Kalpesh Ramwani** from Contax Partners look at how Qatar has transformed itself into a GCC powerhouse

The GCC region, lately, has been under the shadow of oil-price negativity leading to anticipated weaker economic activity. The impact of falling oil prices has called for course correction in the national level growth agendas of all the GCC countries.

Qatar, having the world's third largest natural gas and oil reserves and a population of a mere 1.9 million, is one of the richest countries in the region with the highest per capita income in the world. Qatar has strategically utilised its reserves and transformed itself into a power economy in the GCC region and Arab world. As one of the lowest cost ($2 per million British Thermal Units) producers of liquid natural gas (LNG), growth of natural gas exports has been the chief catalyst in the economic growth of the country and enabled Qatar to pursue its long term vision of economic diversification. This growth has made Qatar the world's largest exporter of LNG.

However, with the price of LNG having fallen sharply since last year, Qatar's earnings from its hydrocarbon sector (which accounts for 50 per cent of the country's total Government revenues) has taken a severe hit. Similar to other hydrocarbon dependent countries, this year, Qatar has also had to face tough decisions. The impact of falling global oil prices has led to the country having to prioritise spending between its largest revenue earner and its long-term diversification vision. The cancellation of major downstream petrochemical projects such as Qatar Petroleum (QP)/Shell's $6.4 billion Al Karaana petrochemicals project and $7.4 billion Al Sajeel project due to sliding oil prices and increasing construction cost, has affirmed the country's intention of focusing on non-energy spends in the short-term and maintaining Qatar's continued focus on infrastructure-related projects for economic diversification.

Contax Partners' analysis of Qatar's future energy spends suggests that out of the proposed $11.7 billion worth of energy projects expected in 2016, only 10 per cent ($1.38 billion) will likely go ahead. Projects in the water and waste sector are expected to see maximum awards in 2016 while Rasgas and Qatargas, the prominent LNG producers in Qatar, are likely to take a cautious approach in going ahead.

The country has however enjoyed strong historical budget surpluses given the high export revenues from oil price above $100 a barrel and LNG price above $4 per mbtu. These surplus revenues have allowed Qatar to invest billions of dollars into the country's infrastructure for propelling its strategic vision of economic diversification and generation of alternate sources of income primarily from development economic clusters related to the 2022 FIFA World Cup. Infrastructure development for the World Cup has now surpassed all other projects on the priority list with other mega projects such as the $12 billion Sharq Crossing Project being put on hold until 2022. While the World Cup remains the top priority, with nearly $74.6 billion worth of transport projects currently in the planning stage or construction, Qatar is struggling in its project execution due to restricted external funding. This has also led to the cuts being made toward its World Cup preparations as the total number of new World Cup stadiums has been reduced from 12 to eight.

Going forward, we are likely to witness Qatar's first budget deficit in over 15 years due to the mismatch in revenue from LNG exports and continued spending on infrastructure related projects. Overall however, Qatar's economy is expected to remain stable in the medium to long term given the favourable outlook of energy prices in 2017. GDP growth rates for Qatar in the long term are expected to be higher than other GCC countries primarily due to the long term gas agreements with key Asian buyers such as Japan and India.

In addition to the current challenges faced by the country's economy, in the coming few months, Qatar will need to make a critical decision on the five-year moratorium on LNG expansion. While the moratorium was put in place to ensure that large initial extraction efforts in the North Dome field—with a volume of 24.7 trillion cubic metres—do not decrease its total output potential, the current reduction in revenue for LNG exports has put into question its future strategy. If Qatar chooses to lift the moratorium, it would be able to expand its LNG production and export capabilities and continue its dependence on LNG exports. This approach will conflict directly with their national strategy of economic diversification. In the current market situation, an excess of supply will lead to a price war in the global LNG market and that may in-turn hurt Qatar's LNG exports in the long term. Thus, Contax Partners believes that Qatar may look to keep the moratorium in place in order to maintain its focus on non-energy projects. The moratorium is likely to remain in place provided that the North Dome field, which represents nearly all of Qatar's total natural gas reserves, is able to sustain current production levels for the medium term.

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With production at record highs, Qatar's focus has remained on maintaining its market share through readjustments of long-term contracts. In order to maintain its share in the long run, Qatar has taken few crucial steps to mitigate the risks of falling LNG prices on the long-term economic growth. In September 2015, Qatar agreed with Petro China to alter deliveries under an existing LNG supply deal for the peak demand during the on-going winter period. This decision was taken to ensure that the anticipated impact of falling LNG prices would be reduced. In a recent significant development, Qatar agreed to waive $1 billion penalty on Petronet LNG Ltd, India's biggest importer of LNG for breaking a long-term LNG contract, and has also consented to change the pricing formula to reflect the slump in global LNG rates.

These actions clearly reflect Qatar's intentions of maintaining their existing relations through adaptive long-term gas agreements with key Asian buyers which account for almost 80 per cent of Qatar's LNG exports. Qatar's strategy of flexible LNG pricing will ensure that sustainable revenues from LNG exports are secured for countering the expected fiscal deficits in the short term and create a platform for a robust economic growth in the long term.