



World Economic Situation and Prospects

Weekly Highlight

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Public investment to ensure long-term growth in Qatar

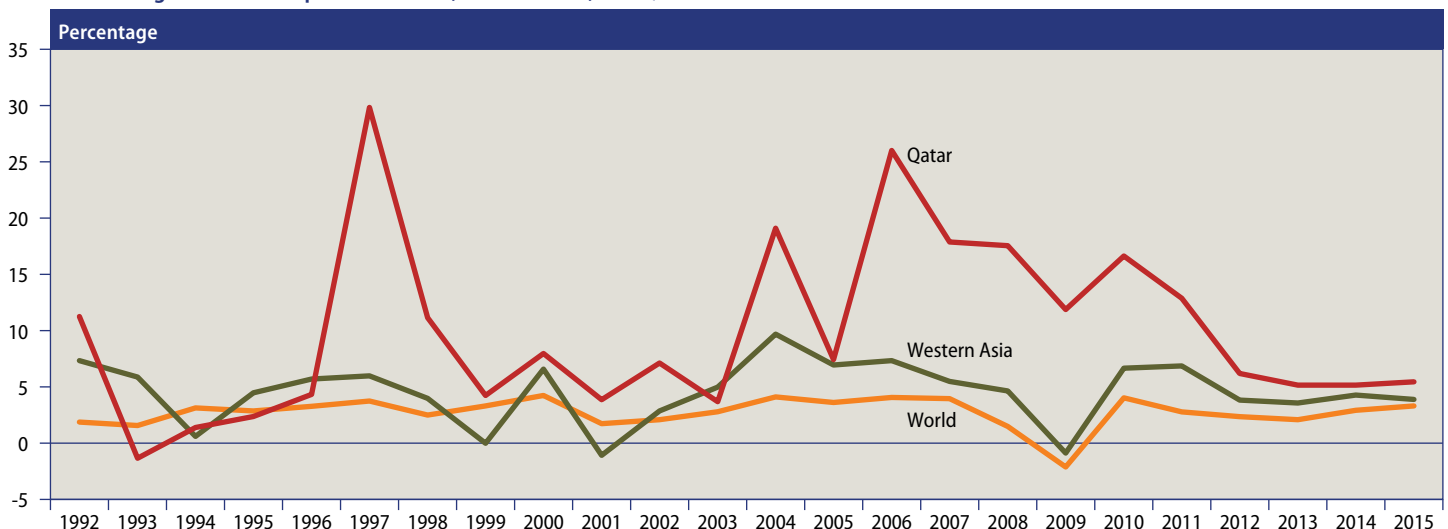
In the last decade, Qatar's gross domestic product (GDP) quadrupled and its per capita GDP became the highest in the world, according to the 2012 IMF ranking. In addition to income per capita, other standard of living dimensions, such as health and education, have also been improving. This is the result of strong economic growth combined with advanced and extensive welfare and free education systems. Today, the country's Human Development Index (HDI) is the highest in the Middle East, although it still ranks thirty-sixth in the world. Notwithstanding such remarkable improvements in human development, and the fact that the country still possesses significant oil and gas reserves, the main challenge for Qatar is to make sure that its economic expansion is sustainable over the long term. The country is still highly dependent on oil and gas revenues, as well as foreign expertise and construction workers. In order to ensure the prosperity of future generations, Qatari leaders acknowledge that economic diversification should be their priority.

In 2013, the expansion of Qatar's economy was already driven mainly by non-energy sectors, such as the services and construction sectors, although hydrocarbons continued to be the main contributor to GDP. In the first nine months of 2013, the non-oil sector expanded by more than 10.0 per cent, while the oil sector rose just 0.8 per cent. This reflects the expansionary fiscal policy introduced by the Government, as well as the self-imposed moratorium on liquefied natural gas output expansion, at least until 2015, giving priority to non-oil sectors. This strategy may limit faster economic growth in the short term, but ultimately it will help to boost non-oil sectors and ensure longer-term prosperity.

In the next few years, Qatar's service and construction sectors are expected to continue to be the main beneficiaries of expansion; the Government is planning to spend US\$ 140 billion until 2022, mainly in pioneering infrastructure in order to host the World Cup, as well as to build a new railway system and a mega airport. These massive construction projects will require attracting more foreign workers and amending some of the existing labour laws, which do not yet comply with the requirements of the World Cup organizers. For the next few years, the National Development Plan anticipates an 8-13 per cent growth in the non-oil economy. In addition to the Government's ambitious infrastructure expansion, the main strategy of the "Qatar National Vision 2030" plan is to convert the revenues from hydrocarbons into higher human and industrial capital.

Thus, Qatar's fiscal policy has been and will continue to be extremely expansionary, as its development strategy will focus on diversifying the economy from the traditional hydrocarbons sector to becoming an educational, manufacturing and financial hub in the region. There are, however, a few downside risks. The eventuality of sharply lower oil and gas prices could hurt government revenues. In addition, an increase in the global gas supply would also put pressure on the state-owned liquefied natural gas company. Although Qatar is still in a strong fiscal position in the medium term (the fiscal surplus is expected to narrow from around 9 per cent of GDP in 2013/14 to around half of that in 2014/15), the Government will need to find the right balance between public spending and foreign and private investment, while ensuring long-term growth.

Figure
Growth in gross domestic product: World, Western Asia, and Qatar



Source: DESA/DPAD.