

## FOCUS



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## Embargo on Qatar: Manageable for the time being, but not perennially

**O**n June 5, 2017 Saudi Arabia, the United Arab Emirates, Egypt and Bahrain (known as the quartet) announced they were breaking diplomatic ties with Qatar, due to the country's relations with Iran and accusations that it supports extremism. The quartet has suspended all air and sea travel links with Qatar, while Saudi Arabia has closed its borders with the country. This means that overland imports of food and other suppliers to Qatar are blocked. Sanctions have had diverse impacts, particularly on trade, capital and human flows. Nevertheless, Qatar, the world's largest exporter of liquefied natural gas, has been able to soften the effect of the crisis so far, thanks to its reserves of cash and gold. The government has taken immediate and effective measures which, along with rising energy exports, have been able to mitigate the challenges arising from the crisis. Against this backdrop Coface expects the Qatari economy to grow by 3.4% in 2017 and by 3% in 2018 - although this is far below the real annualised growth of 13% recorded between 2005 and 2014.

### Impacts of the embargo on the Qatari economy: Under control so far

Growth figures indicate a slowdown in the Qatari economy but this is mainly due to the floundering oil sector and subdued energy prices. Real GDP increased by 0.6% yoy in the second quarter, a slow down from the 2.4% yoy recorded in the first quarter. However, on a quarterly basis, the economy expanded by 0.5% in the second quarter of 2017 - a recovery from the contraction of -1.5% in the first quarter (although figures only cover the first month of the embargo). The lacklustre oil sector was the main reason for the annual slowdown in the economy. The mining and quarrying sector, which accounted for almost half of

GDP on constant prices, shrank by 2.7% year on year in the second quarter of 2017, following a contraction of -0.4% year on year during the first three months. The OPEC agreement, which includes production cuts by major oil producers, has negatively affected the sector. In the second quarter of the year, Qatar's crude oil production fell to 613 thousand barrels per day (tb/d), down from 656 tb/d in 2016 and 663 tb/d in 2015<sup>1</sup>. Non-oil sectors showed a growth of 3.9% year on year in the second quarter of 2017, decelerating from 5.2%. On a quarterly basis, non-oil activity remained flat, indicating that the economy has been affected by the Gulf crisis. Manufacturing output expanded by 1.2% from the previous quarter.

1 - Monthly Oil Market Report, September 2017, OPEC