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Arqaam Capital Sees Mixed Signals on Qatari Growth *Non-Hydrocarbon Sectors Take a Breather*

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Non-Hydrocarbon Sectors Take a Breather

Qatar may be touted as a model for oil-rich countries that escaped the predicament that befalls economies that are rich in natural resources and ultimately fail to diversify their economies fully. The Qatari government continues to broaden its economy by investing in infrastructure, education, financial services, and tourism. The overall economy is believed to post an estimated 10% real growth in 2009. Against this spectacular real growth, however, a hard-to-miss slow-down in the non-hydrocarbon sector (which makes up roughly 38% of the overall economy) lurks behind. The latest GDP figures suggest that nominal contraction in the non-hydrocarbon sector came in at -2.2% YoY in Q309. With headline consumer inflation for the same period at a -7.4%, that may imply that real growth in the non-hydrocarbon sectors is in the neighborhood of 5%. According to Arqaam Capital estimates, though, the 5% figure is far from accurate since growth in the consumer price index (CPI) has been largely driven by rent prices and thus cannot be used to deflate a nominal rate into a real measure. In reality, we reckon that real growth in non-hydrocarbon GDP could have been closer to 1% than 5%. That does not compare well with some of Qatar's neighbors. For example, it is estimated that while Saudi Arabia's real GDP growth will be close to 0% for 2009, its non-hydrocarbon sector growth is expected to have come at 3%. It is not unusual for Qatar's hydrocarbon sector to lead its growth, but in this cycle, many bank pipes that allocate petrodollar funds to productive uses have been clogged, mostly on exposure to a correcting real estate market. Tight credit, especially for small and medium enterprises (SMEs) and for large infrastructure projects, stands in the way of the strong recovery the non-hydrocarbon industries need. Credit facilities to the private sector rose only 11% in 2009 vs. 45% in 2008 and 47% in 2007. To make sure that hydrocarbon benefits are fairly widely diffused across the economy, the government was not only keen on demonstrating its full support to the banking sector but has also paired that with an expansionary fiscal stance. The government seems adamant on doing as much as possible to grow the economy but even with major initiatives from the government last year to support the banking sector further state intervention may be in the cards for Qatari banks which will eventually translate into stronger non-hydrocarbon industrial growth.