

Title: Qatar Economic Outlook 2021 - 2023

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Introduction

- Background on the Qatari Labor Market:

Qatar's rapid economic expansion over the past few decades has been supported by a large influx of expatriate workers. The discovery of oil in the 1940s enabled the development of production and service activities requiring labor. The population grew from 0.11 million in the 1970 census to 0.39 million expatriate workers in 2004, driven by demand for workers in sectors like construction, services and manufacturing. The adoption of the Qatar National Vision 2030 in 2008 and being awarded the 2022 FIFA World Cup in 2010 catalyzed massive investments in infrastructure, triggering another wave of expatriate labor inflow. From just 0.39 million in 2004, the number of expatriate workers doubled to 1.94 million by 2020.

- Current State of the Labor Market:

As per the 2020 census, 94.4% of Qatar's 2.05 million economically active population were expatriate workers. The skewed skill composition remains a key challenge, with unskilled and semi-skilled workers constituting 31.6% of the non-Qatari workforce. The gender ratio is also highly uneven, with males making up 71% of the total population in 2020. While expatriate workers have been crucial for Qatar's growth, dependence on low-cost foreign labor has led to issues like skills mismatch, low productivity, stagnant wages, inadequate working conditions and limited labor market governance.

Objectives of the Report:

This report examines Qatar's economic performance during 2017-2020 and provides projections for 2021-2023 based on assumptions about the recovery from COVID-19 and economic diversification. The analysis focuses on key indicators like GDP, employment, prices, public finances and trade. The report aims to assess the impacts of recent geopolitical and pandemic-related disruptions on the Qatari economy and chart the course for sustained growth and resilience.

Methods:

The report utilizes data from official national sources, international institutions like the IMF and World Bank, and private sector forecasts. Trend analysis is employed to study macroeconomic indicators before and after major events like COVID-19. Scenario-based projections for 2021-2023 are provided, based on assumptions about the recovery of hydrocarbon and non-hydrocarbon activities.

Key Findings:

1. Qatar's real GDP grew at an average annual rate of just 0.13% during 2017-2019, with the non-hydrocarbon sector growing at 1.1% while hydrocarbon activities declined by 1.4%.

2. In 2020, real GDP contracted by 3.6% due to COVID-19 impacts, with non-hydrocarbon and hydrocarbon activities declining by 4.5% and 2% respectively.
3. A partial recovery of 1.45% was witnessed in the first 3 quarters of 2021, driven by 2.9% growth in non-hydrocarbon activities.
4. The CPI inflation rate averaged -0.2% during 2017-2019 due to lower housing and telecom costs but rebounded to 1.97% during Jan-Nov 2021.
5. The merchandise trade surplus narrowed from 27.8% of GDP in 2018 to 18.8% in 2020, resulting in the current account surplus declining from 9.1% in 2018 to 2.5% in 2020.
6. Employment in tourism-related sectors like transportation, hospitality, entertainment and retail declined significantly during COVID-19 due to lockdowns and travel restrictions.

Key Insights:

- The share of hydrocarbon GDP declined from 49% in 2014 to 37% in 2020, indicating the economy has diversified. But hydrocarbons remain crucial, accounting for 82% of exports and 51% of government revenue in 2020.
- Analysis shows Qatar's growth depends heavily on external factors like global energy prices, demand shocks, geopolitics and pandemic-related disruptions.
- Fiscal, monetary and economic policies have played a key role in restoring growth after disruptions by supporting affected sectors, safeguarding employment and strengthening buffers.
- With nearly 95% expatriate population, Qatar remains highly reliant on foreign labor across economic sectors, especially low-skilled workers employed on temporary contracts.
- COVID-19 accelerated digitalization as businesses shifted operations online; this transformation needs to be continued to enhance productivity and improve delivery of public services.

Projections for 2021-2023 in the report

Under the base case scenario, Qatar's real GDP is projected to grow by 1.5-1.9% in 2021 and 1.6-2.3% in 2022, primarily driven by the non-hydrocarbon sector. The CPI inflation rate is expected to average 2-3.5% over 2021-2023, reflecting global price pressures. The budget surplus is forecast to be 1.9-3.6% of GDP during 2021-2023 while the current account surplus is projected at 5.8-11.5% of GDP for the same period.

Challenges Facing the Labor Market:

- The predominance of low-skilled temporary migrant labor has resulted in low productivity and wages, poor living conditions, and violation of rights.
- The small share of Qatars in the private sector workforce can be attributed to skill and wage mismatches along with cultural factors.
- The inability to retain expatriates for long durations results in high turnover and recruitment costs for employers.
- The skewed gender ratio and low female participation in the labor force poses a demographic and economic challenge.

- Gaps in data availability constrain analysis of the labor market's structure, dynamics and policy impacts.

Recommendations:

- Continue diversifying the economy by expanding output and employment in non-hydrocarbon tradable sectors.
- Undertake reforms to improve the business and investment climate, including streamlining regulations, strengthening investor protections and privatizing non-strategic activities.
- Build workforce skills and enhance labor productivity through education, training programs and technology adoption.
- Reform the sponsorship system to enable greater labor mobility and protection of expatriate workers' rights.
- Strengthen institutional capabilities for evidence-based policymaking, implementation and impact evaluation.

Future Prospects:

Qatar's economic outlook remains contingent on containing COVID-19, stability in energy markets, geopolitics, and implementation of reforms. While risks persist, hosting the 2022 World Cup and infrastructure investment are expected to boost growth. Sustaining post-event growth requires further economic diversification, labor market reforms, and improvement in productivity and competitiveness.

Limitations of the Report:

- The analysis relies partially on forecasts and scenarios which are subject to uncertainties.
- Data constraints limit assessment of emerging socio-economic trends across certain sectors.
- Limited details are provided on the quantitative models and methodologies underlying the projections.

Conclusion:

In summary, the report provides important insights into Qatar's economic structure, performance issues and growth prospects while identifying policy priorities and reform needs. Achieving the sustainable development goals outlined in the Qatar National Vision 2030 requires decisive steps to diversify the economy, strengthen institutions, upgrade workforce skills, and ensure resilience.