



# Potential impact of COVID-19 on the Qatar economy

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KPMG in Qatar

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# Foreword

At the time of writing, the novel coronavirus (COVID-19) pandemic has infected over 3 million people in more than 200 countries<sup>(1)</sup> – posing an unprecedented challenge to humanity. Things that we previously took for granted – how we live, work, do business, connect with friends and family, and even wash our hands – have all come into sharp focus as the world races to combat this deadly disease.

Qatar reported its first case of COVID-19 on the 29th of February and responded quickly to enforce social distancing and widespread testing. The prompt and rigorous approach adopted by the State has, so far, helped to manage the spread and mitigate the impact on the healthcare system. Mortality rates have been relatively low in comparison to other countries with similar rates of infection.

While the health and wellbeing of citizens and residents has been at the heart of Qatar's response to COVID-19, the State has also taken measures to secure its economy. The Qatar Central Bank declared a QAR 75 billion (\$20.5 billion) stimulus package to the private sector, which will provide much needed relief to various sectors that underpin the economy.

This report provides an overview of the current impact on key sectors of Qatar's economy, which have been affected in different ways. Sectors such as tourism & hospitality and brick-and-mortar retail have been severely impacted by the restrictions on travel and social distancing measures put in place. The energy sector, already reeling from the drop the oil prices, is dealing with the prospect of lower demand, while financial services contend with liquidity pressures and revenue compression.

Other sectors, such as education, have had their entire delivery models challenged, while telecom, media and technology, have experienced growing demand from businesses and consumers.

The pandemic has also highlighted the importance of digital innovation as part of building resilience and meeting the needs of the future.

It will be some time before we know the full extent of the impact of COVID-19 on the global economy. However, it is already clear that the world has changed, and we are embarking on a new normal.

The human spirit enables us to overcome adversity, and we are confident that we will become stronger through this crisis and better prepared to tackle the future.



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(1) <https://www.who.int/emergencies/diseases/novel-coronavirus-2019> accessed on 30 April 2020



# Economic Impact

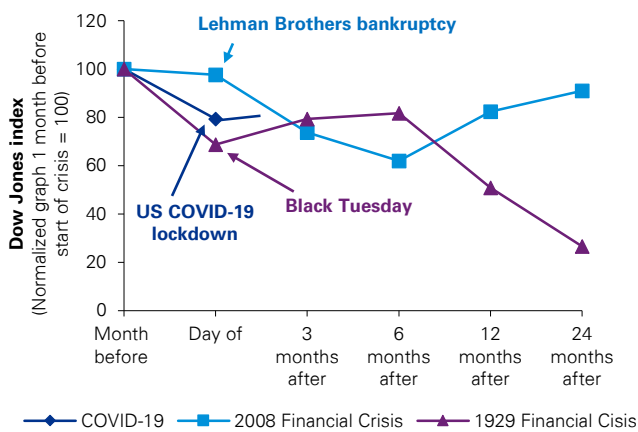


# Overview of Covid-19 Impact Globally

On the 29 February, 2020 Qatar reported its first case of the new coronavirus (Covid-19) and became part of a growing number of countries in which economic and social life would change radically. The impact of Covid-19 is being reassessed on a daily basis, and most analysts agree that it will have a major effect on most businesses, which will be reflected in the GDP over the next couple of years.

According to the United Nations and the World Bank, the global GDP is expected to drop by 1 to 2% in 2020. Companies dependent on imports or exports will be impacted even further by the disruption in supply chains. The WTO expects global trade to fall by 13% to 32% this year. Longer-term changes can be expected, as countries assess ways to become more resilient to similar events in the future. This will likely include adaptations to supply chains and greater use of technology in communications and production.

## Financial market reaction to crisis events



Source: Bloomberg, KPMG Analysis

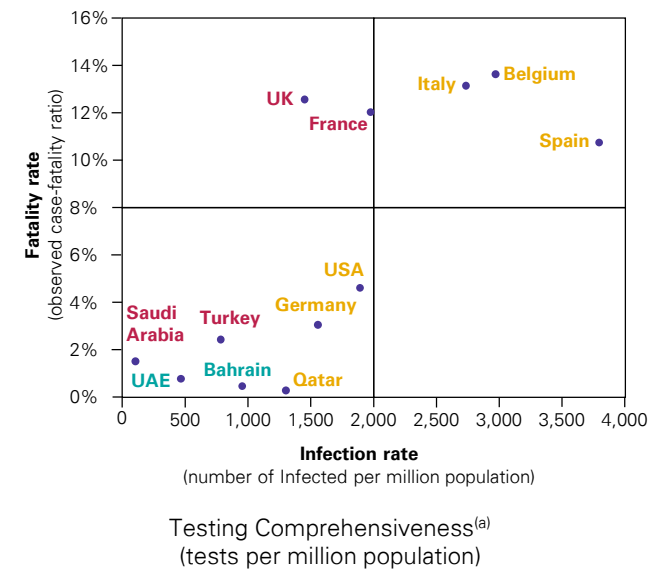
The initial reaction of the market so far has been similar, as illustrated in the graph above comparing the Dow Jones stock exchange index drop during those crises. In 2008, the market had mostly recovered after 2 years, which might be seen as an optimistic outcome for the current crisis. How Covid-19 will compare with those other events in the longer term is still to be seen. But in case it mirrors 1929 financial crisis, the world economy will suffer a much wider impact and will linger for a longer period of time.

Previous global crisis events brought not only economic but also political turmoil. In 2007, mortgage defaults in American suburbs triggered the bankruptcy of Lehman Brothers, leading to the world's worst financial crisis since the Great Depression and arguably the creation of the Tea Party and Occupy Wall Street movements in the US. The 1929 stock market crash in New York triggered a collapse of global trade by 65% contributing to the rise of fascism in Europe.

## Covid Impact on Qatar

While Qatar has been impacted by the new coronavirus, it seems to be weathering the storm better than many other countries. The rate of infection in the country is similar to Germany and the UK, but this has so far not been translated into a high mortality rate.

## Infection rate x Mortality rate – selected countries



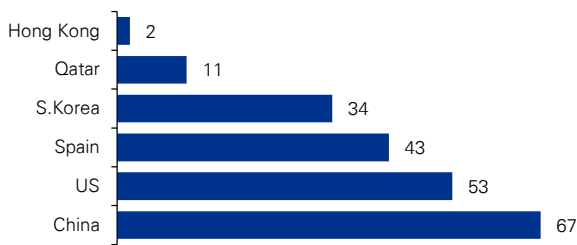
- x – More than 40
- x – 10-40
- x – Less than 10

(a) Note: As per Apr 17, 2020  
Source: John Hopkins University, KPMG analysis

There are at least three key factors that contributed to Qatar's relatively better outcome so far, including: 1) its enforcement of social distancing; 2) its young population; and 3) a capable healthcare system.

### 1. Enforcement of Social Distancing

# of days to declare emergency after first case

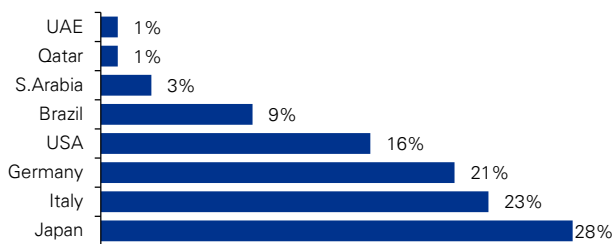


Source: KPMG Analysis

Qatar adopted a prompt response to the coronavirus threat with the enforcement of social distancing and widespread testing.

### 2. Favourable demographics

% of population aged 65 or more

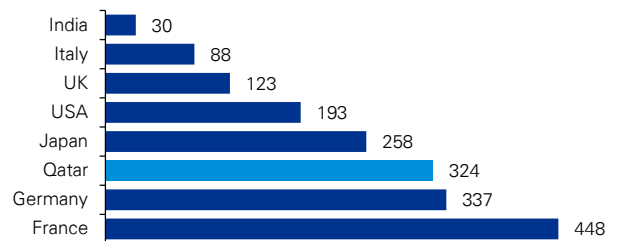


Source: World Bank, KPMG analysis

Qatar's population aged 65 and over is low indicating a reduced risk of deaths.

### 3. Capable Healthcare System

Respirators per million people in selected countries

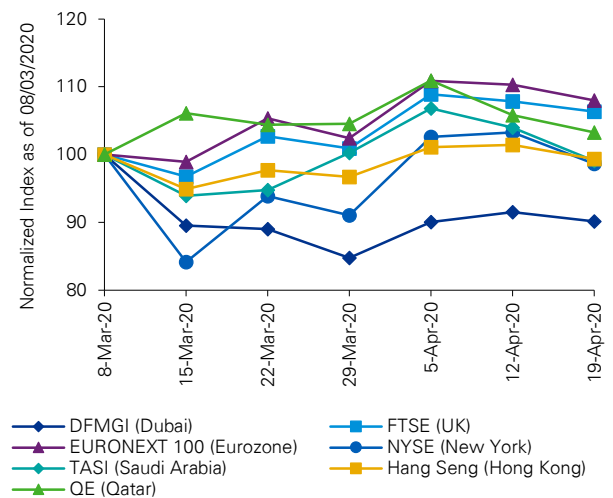


Source: Data from regional health agencies, John Hopkins

Qatar benefits from a well supported health care system in comparison to other affected countries

The business sentiment has also been less adverse in Qatar companies, as reflected in the drop in the local stock exchange index (see graph below), compared to other markets. This is partly due to limited presence of external investors and a QR10 billion government backstop for the stock market. The government also offered a stimulus package of QAR 75 billion to assist small business and hard-hit sectors.

### Comparative drop in stock exchange indexes (Jan 01 to Apr 15, 2020)



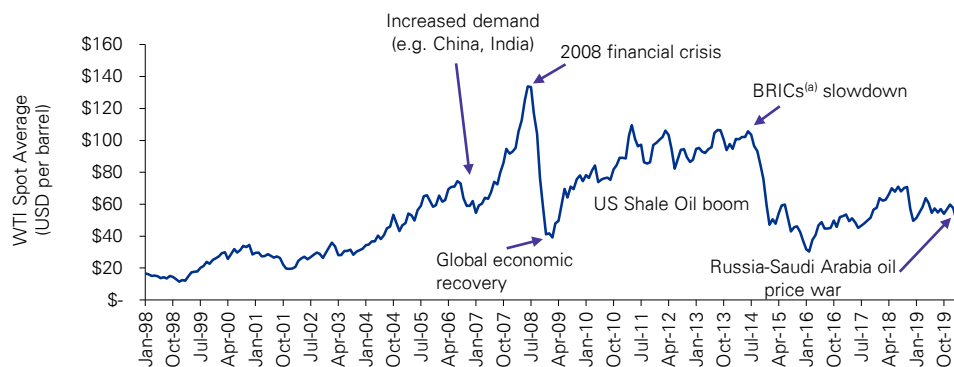
Source: Bloomberg, KPMG analysis

The recent upgrade by Moody's of Qatar's rating to 'Aa3' with a 'stable' outlook in April 15 is also a sign of a resilient economy.

# Impact on Oil & Gas and Other Sectors

As with other major oil & gas exporting countries, Qatar will certainly witness a significant reduction in the demand for its hydrocarbons. The OPEC expects the demand for its crude to drop to its lowest in 30 years (see graph below). This has led oil prices, which were already sliding for the last 6 years due to a slowdown in China and other developing economies, the greater competition from shale oil in the US and more recently the Russia-Saudi Arabia oil price war, to suffer its greatest slump ever. With no place to store it, US crude oil futures traded at a negative value

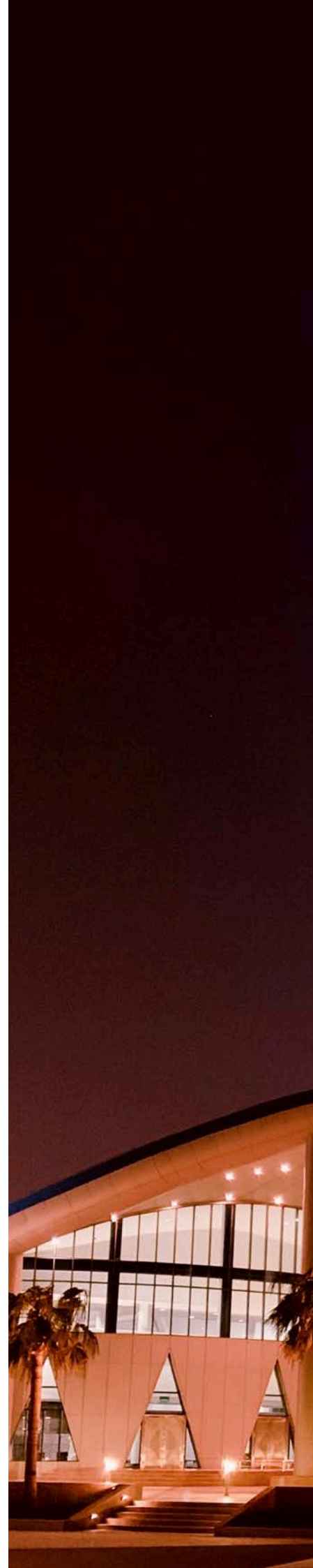
## Price of crude oil (2005 – 2020)



Note: (a) Brazil, Russia, India and China  
Source: Bloomberg, KPMG Analysis

The decrease in oil prices is also causing natural gas prices to fall, given energy demand as a whole is being impacted. Exports of LNG to China are being allocated to new buyers to absorb the additional supply that has come online in the last few years.

Low oil and gas prices, lockdown and the restriction to mobility across countries will delay several oil and gas upstream projects. New projects were already being delayed due the low gas prices amid a growing glut.

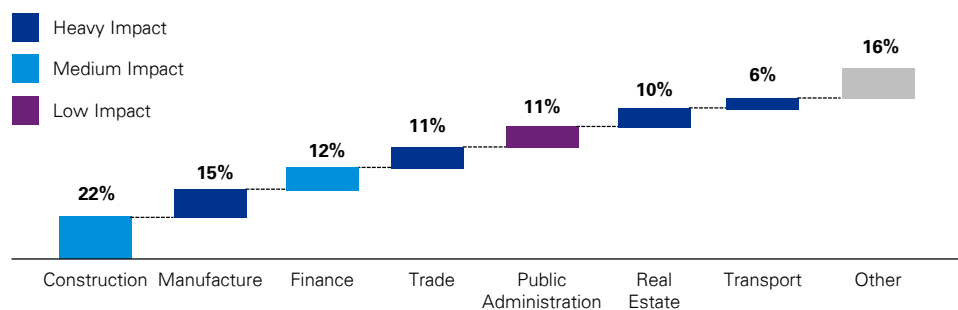






Non-hydrocarbon sectors are likely to be struck at different levels of intensity in Qatar, depending on how they have been impacted during the lockdown period and their dependency on global trade. The graph below shows Qatar’s main industries (excluding hydrocarbons) and the level they are expected to be impacted in the short term.

### Share of Non-hydrocarbon GDP and Expected Level of Impact from Coronavirus by Sector (2018)



Source: PSA, KPMG Analysis



**Manufacture and trade** are being strongly affected by the lockdown with significant reduction of activities and major cash flow constraints. According to the community data collected by Google on Qatar, the movement of people dropped by 63% around retail & recreation areas and 35% for grocery & pharmacy.



The **transportation** sector as a whole witnessed a significant reduction in the movement of people and merchandise, while aviation came to an almost standstill. According to a Google data analysis on Qatar, the movement of people dropped by 60% around public transport hubs.



**Construction** in the private sector construction projects has been greatly affected by the coronavirus. Government projects mostly related to World Cup (stadium completion, Ashghal road projects) are ongoing but pace seems to be affected.



The **financial services** sector is better shielded than in the 2008 financial crisis by stronger capitalization, a wider use of digital solutions and their expected role in transferring money from the government to distressed companies.



For the **real estate** sector, retail and hospitality assets will be very highly affected, whereas for residential and commercial assets the impact is low on the short term (no leases have been foreclosed, no offices are closed – only quoted rents have fallen for new tenants).



**Public administration** should be less affected as the government is expected to continue to support it.



# Scenarios

Four potential scenarios for the outcome of the coronavirus crisis have been analyzed. In all cases, the global GDP growth rate for 2020 is expected to drop, by -1.5% in the most optimistic scenario where the lockdown is phased out over summer, to -11.5% in a scenario where the return to normalcy would happen only in 2023.

	Scenario 1 'Base'	Scenario 2 'Winter Return'	Scenario 3 'Optimistic'	Scenario 4 'Pessimistic'
<b>Assumptions</b>				
<b>Lockdown</b>	Ends by summer	Ends by summer, returns in winter	Full end by summer	Remains for 1 year
<b>Social Distancing</b>	Remains for 6 to 12 months	Remains 12 months	Phased out over summer	Remains for 12 to 18 months
<b>Global Travel</b>	Restricted	Restricted	Close to normal	Restricted
<b>Winter Outbreak</b>	Manageable	Not manageable	Less likely	Not manageable
<b>Business &amp; Trade</b>	Home-working remains	Home-working remains	Back to normal	Home-working remains
<b>Possible Health Drivers</b>				
<b>Testing</b>	Widespread testing	Widespread testing in some countries	Widespread testing in some countries	Countries cannot test all suspected cases
<b>Immunity</b>	Better contact tracing	Tests show small % of population are immune	Large % of population are immune	Limited visibility on who is immune
<b>Warmer Weather</b>	Case growth drops	Case growth drops but returns in winter	Case growth drops greatly	Growth drops slightly and returns in winter
<b>Vaccine</b>	Progress with 2021 target	Progress with 2021 target	Developed and produced sooner	Unavailable to masses for 12-18 months
<b>Care Capacity</b>	Critical care surge capacity increases	Capacity increases but not enough for second wave	Capacity increase not required as large % of population are immune	Critical care capacity not sufficient
<b>Outcomes</b>				
<b>Global Oil Demand</b>	Decline of 90,000 barrels per day	Decline of 175,000 barrels per day	demand grows by 480,000 barrels per day	decline of 730,000 barrels per day
<b>GDP Growth 2020<sup>(a)</sup></b>	(3.8%)	(5.9%)	(1.2%)	(11.5%)
<b>Back to normal by</b>	2022	2022	2021	2023
<b>Economic Recovery</b>	'U' shaped	'W' shaped	'V' shaped	'L' shaped

Note: (a) Weighted average GDP growth has been calculated by taking an average of forecast growth for the USA, Eurozone, China, Japan and the UK from ING data

Source: KPMG Analysis, ING Article 2020, IEA Publication 2020



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