

FIFA World Cup Tournament Will Have A Net Positive Impact On Qatar's Economy In Q422

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Key View

- At Fitch Solutions, we believe that the hosting of the FIFA World Cup will have a net positive impact on Qatar's economy in Q422.
- We believe that the tournament will boost growth in Q422 through higher services exports, an uptick in consumption and increased government spending.
- That being said, the tournament will also have some negative implications from an economic point of view, such as weaker terms of trade and the highest quarterly inflation since at least 2012.

At Fitch Solutions, we believe that the FIFA World Cup will have a net positive effect on Qatar's economy in Q422. Scheduled to start on November 13, the FIFA World Cup in Qatar will be the first ever World Cup hosted by a Middle Eastern country. It will also be the first such FIFA tournament not to take place between June and August. Hosting the World Cup played a key role in our macroeconomic forecasts in 2022, and we have provided a detailed snapshot of how the tournament will impact the country in the final quarter of this year. This piece will, however, form just one part of a wider series covering the short and long-term impacts of the World Cup on Qatar and the region more broadly.

In Q422, the hosting of the tournament will have immediate positive effects on Qatar from the perspectives of real GDP growth and the balance of payments via higher consumption, government spending and services exports. On the other hand, the surge in Qatar’s population during the months of the World Cup tournament will lead to substantial demand-side pressure, which will contribute to above-trend inflation and will require a significant increase in goods imports, including food and beverages, as well as a fall in the volumes of LNG available for export (*see table below*).

Positive Impacts Will Outweigh Less Favourable Effects

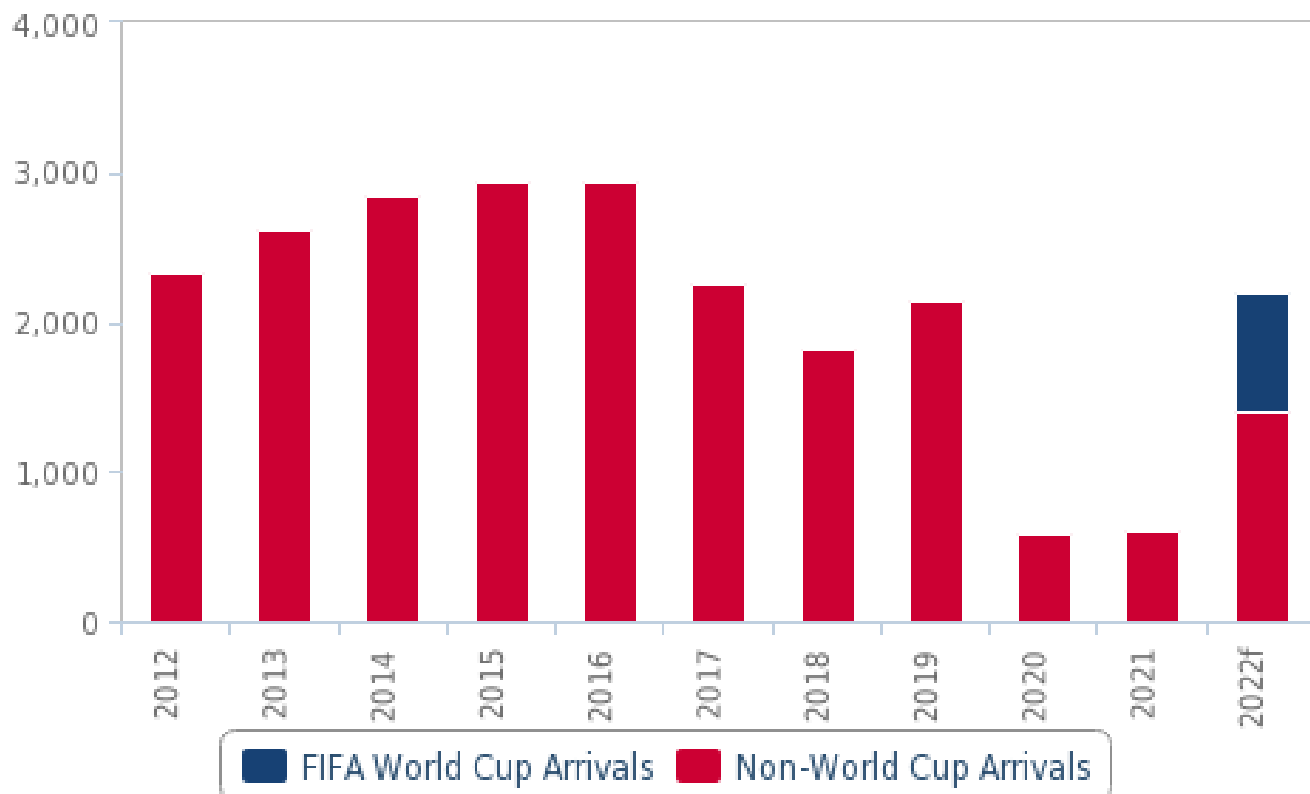
Positive Impact	Less Favourable Effects
Higher Services Exports	Higher Inflation
Stronger Consumption	Rise In Goods Imports
Uptick In Government Spending	Lower Quarterly Gas Exports

Source: Fitch Solutions

The most prominent impact of the World Cup will come from a surge in foreign visitors. The number of arrivals during the tournament, which authorities estimate at between 1.2 million and 1.7 million visitors, will represent a substantial portion of our Tourism team’s projection of 2.2 million visitors in 2022, above the 2.1 million in 2019 (see chart below). As such, Qatar (aided by the World Cup) and the UAE (aided by the Dubai Expo and spillovers from the World Cup) will be the only members of the Gulf Cooperation Council (GCC) to see the number of tourist arrivals in 2022 exceed 2019 levels.

World Cup Will Help Tourist Arrivals Recover To Pre-Covid Levels

Qatar - Total Tourist Arrivals, 000s

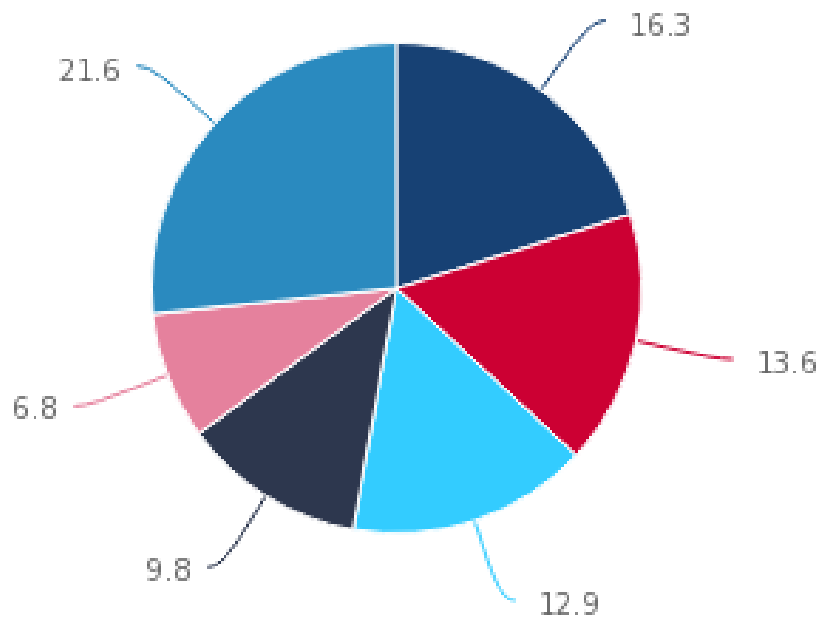


f = Fitch Solutions forecast. Source: Planning and Statistical Authority, Fitch Solutions

We believe that the tournament will feed into higher revenues across several industries in Qatar through higher spending by visitors, residents and government. The most immediate benefits will be to the hotels, restaurants and entertainment industries and Wholesale & Retail Trade.

Hotels Will Receive The Largest Share Of World Cup Revenues

Russia - Share of Foreign Purchases During 2018 FIFA World Cup, %



Source: Sberbank, Fitch Solutions

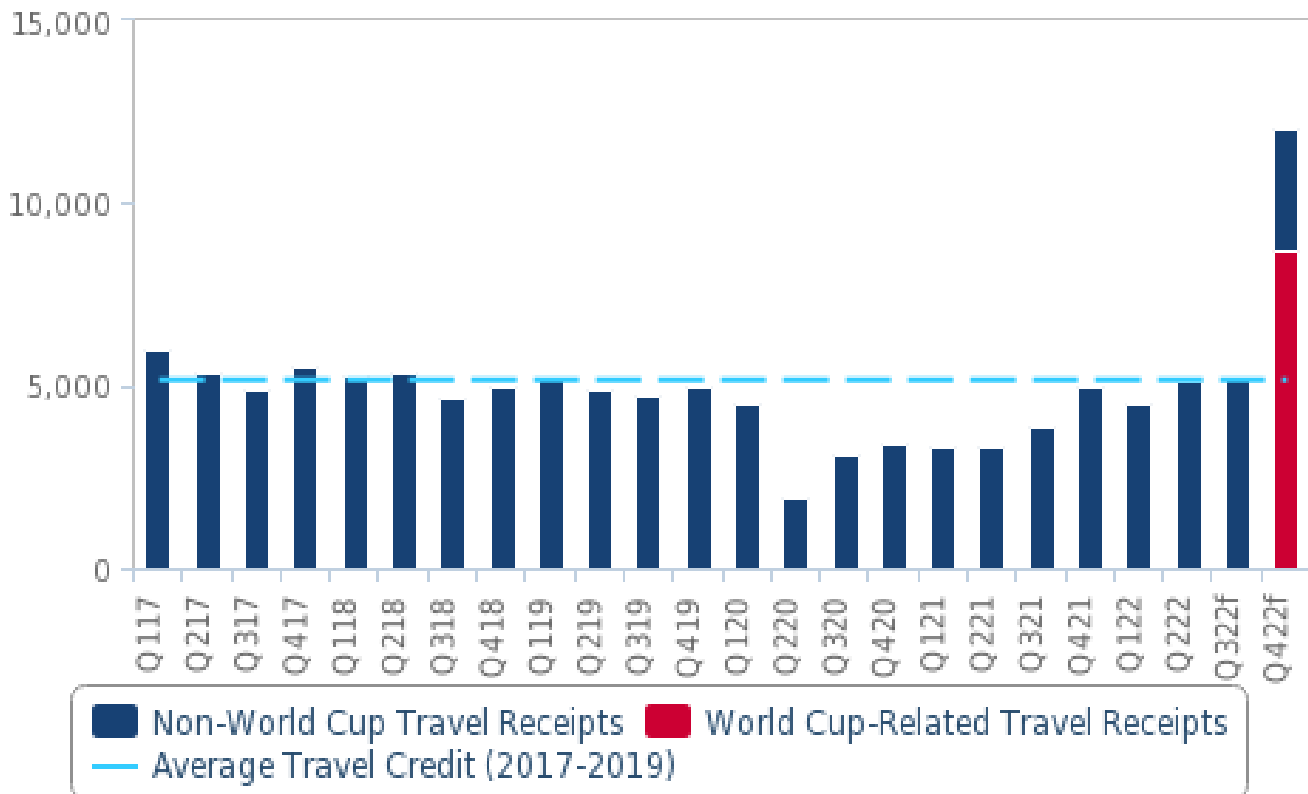
- Hotel And Accommodation:** The task of accommodating the projected number of foreign visitors for the World Cup was always anticipated to be a principal challenge for Qatar as host – our projections suggest that Qatar’s foreign arrivals will represent around 40% of the country’s population, compared to 2.5% and 0.7% in previous World Cup tournaments in Russia and Brazil, respectively. That being said, following data from Russia during the 2018 World Cup tournament, we believe that this will also represent the largest share of service export revenues (see chart above). Whilst profits will be most clearly reflected in hotel sales – the country has built over 100 hotels specifically for the World Cup – extra revenues will also be reflected in the rental of 3,898 rooms in two luxury cruise liners that have been leased by the government for the tournament – the four-star MSC Poesia and five-star MSC World Europa. In addition, revenue will be derived from payments towards the use of around 1000 Bedouin-style tents which have been built just outside the Doha city limits. By comparing spending per tourist arrivals directly before the event (using services exports) with the

projections for tourist arrivals during the upcoming tournament, we believe that tournament-related hotel bookings will add QAR1.7bn in additional revenues in Q422.

- **Wholesale and Retail Trade:** The tournament will also have positive spillovers on the retail sector, which accounts for around 6.3% of GDP. In line with data from the tournament in Russia, we believe that the 2022 World Cup will boost sales in clothing stores (13.6% of total foreign revenues during the Russian World Cup tournament), sporting goods stores (12.9%), supermarkets (9.8%), and other miscellaneous retail centres. Using the same methodology as for hotels, we believe these industries will gain QAR4.30bn in additional revenues. Meanwhile, the World Cup will also drive up goods purchases by Qatari citizens, especially those living in Doha, who will benefit from widespread retail and entertainment activity in the capital.
- **Arts, Entertainment and Recreation:** We also believe that the tournament will boost income towards arts, entertainment and recreation businesses, which represent a further 1.0% of GDP. This is because authorities have arranged over 90 large-scale events and entertainments to take place alongside the football tournament, including the FIFA Fan Festival, the 'Corniche' entertainment centre, and water sports activities along Ras Abu Aboud Beach.

Surge In Foreign Visitors Will Drive Up Tourism Revenues

Qatar - Tourism Revenues, QARmn



f = Fitch Solutions forecast. Source: Fitch Solutions

- Healthcare And Security Services:** The healthcare and security services, which represent 9.2% of GDP, will also benefit from the tournament. We believe that authorities will boost spending on hospitals and health services to minimize pressure on the domestic health system. We also project that there will be a rise in funding for security services surrounding the event. Indeed, in September, authorities announced a policy to recall citizens who had recently completed national service to bolster security in Doha and elsewhere during the tournament.

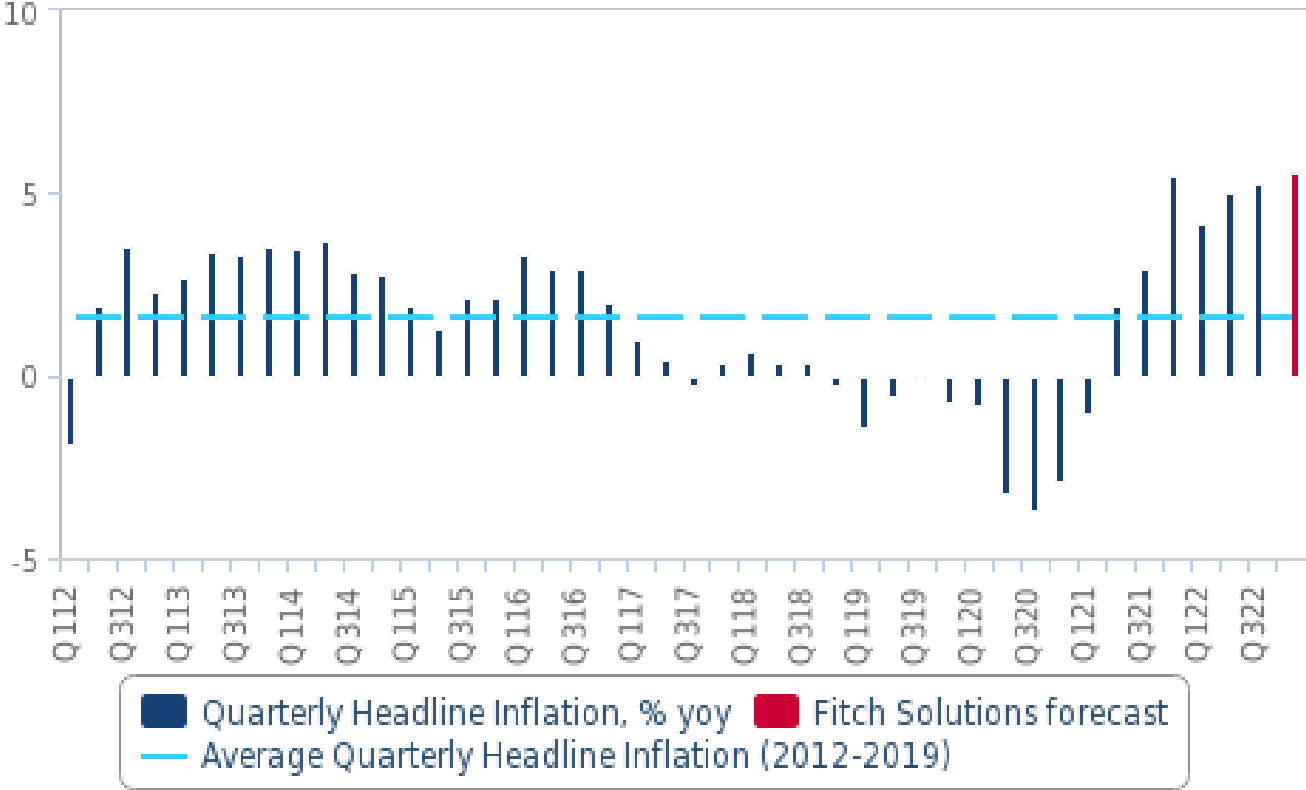
The Other Side Of The Coin

Although the net impact of the World Cup will be positive on economic activity, we also highlight that Qatar will experience some less-favourable repercussions in Q422 as host of the tournament. We anticipate that the rise in tourist arrivals will contribute to a pronounced uptick in the country's goods import bill. The rise in imports will mostly be driven by higher food imports during the event, needed to feed the expanded population in Doha (food accounts for around 6.0% of Qatar's goods imports), as well as by stronger retail activity.

Meanwhile, higher demand will also feed into an uptick in prices in a number of key components of Qatar’s CPI basket, including food and drinks (13.5%), housing and utilities (21.9%), transport (14.6%) and recreation and culture (5.9%). The rise in food and transport demand will add to supply-side inflation pressures stemming from the Russia-Ukraine war, which served as the major inflationary driver in 2022. All things considered, we project that headline prices will rise by 4.4% y-o-y in Q422, significantly above the quarterly pre-pandemic trend of 1.6% y-o-y between 2013 and 2019. Inflationary pressures from the World Cup will put Qatari inflation on a higher path, resulting in an above-trend average inflation of 2.5% in 2023

Quarterly Inflation Will Reach Highest Levels Since At Least 2012

Qatar - Quarterly Headline Inflation, % yoy

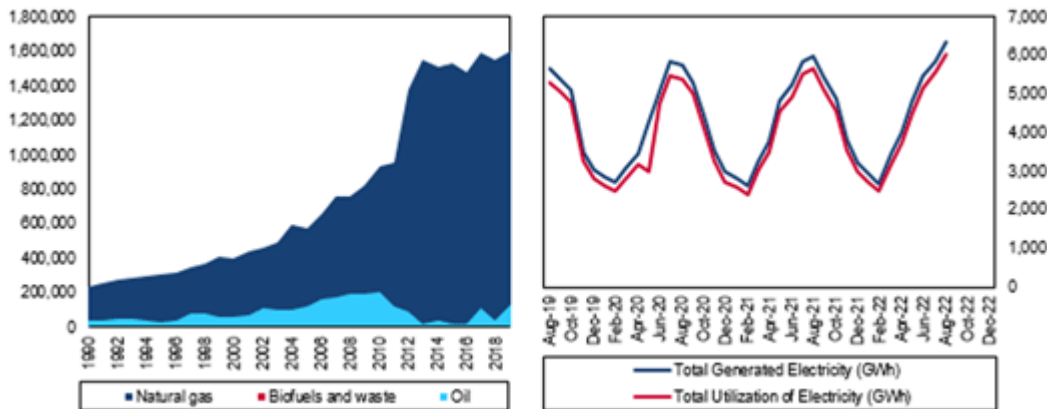


Source: Planning and Statistical Authority, Fitch Solutions

We anticipate a fall in quarter-on-quarter gas export growth during the tournament. Qatar typically produces around 90% of its electricity from natural gas (see chart below, left). Meanwhile, we anticipate that the major influx of tourists and the energy-intensive desalination processes required to provide drinkable water, paired with air conditioning in stadiums, hotels and retail centres will require a significant increase in electricity output.

Stronger Domestic Electricity Demand Will Mean Less LNG Available For Export

Qatar – Total Electricity Supply By Source, TJ (LHS) & Total Generated Electricity & Total Utilization of Electricity, GWH (RHS)

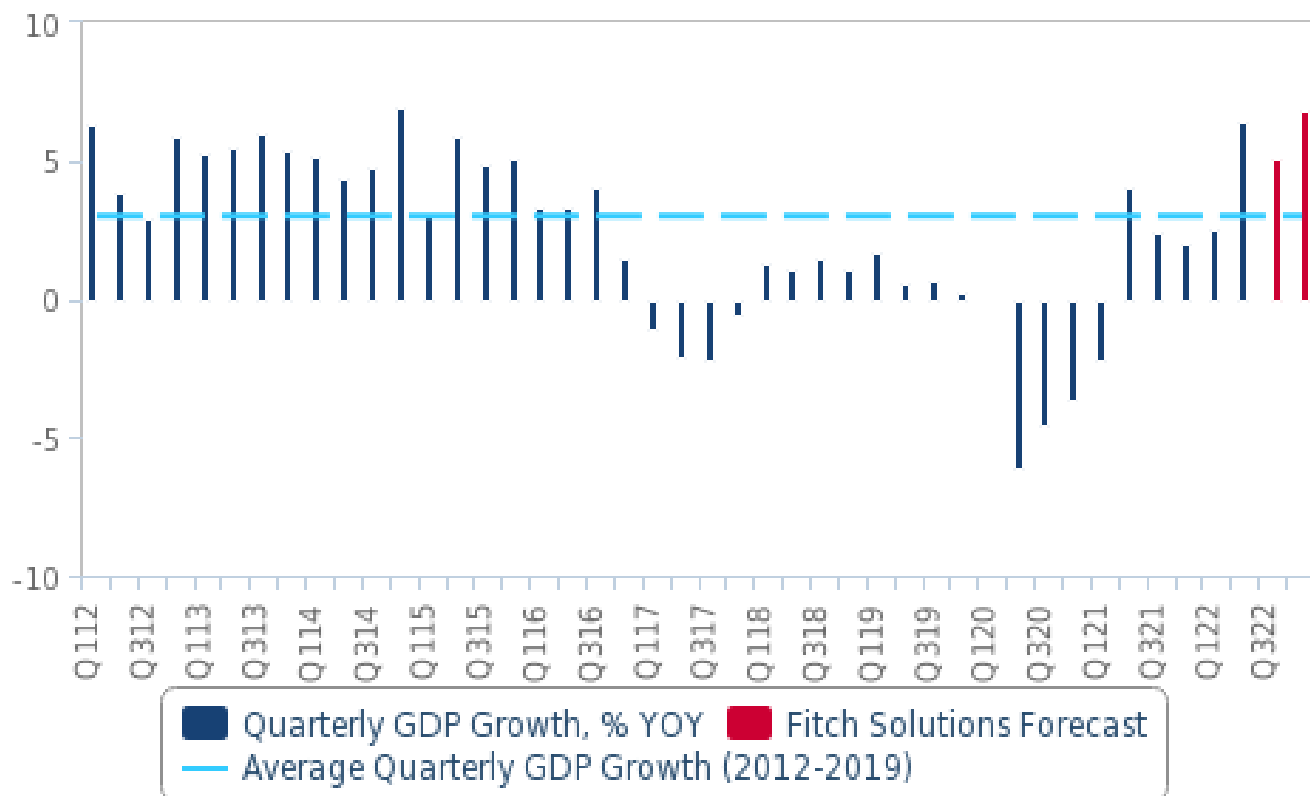


Source: International Energy Agency, Planning & Statistical Authority, Fitch Solutions

Indeed, domestic electricity consumption typically peaks during the summer, when higher temperatures require a greater use of energy-intensive air conditioning units, and stays on a downward trend during the remaining months of the year (*see chart above, right*). However, this year we will likely see a reversal in the trend, with consumption increasing in November and December. Despite this, the rise in domestic electricity consumption will not put a significant strain on infrastructure relating to the supply of domestic electricity as the World Cup will take place during non-peak months, suggesting significant spare capacity to accommodate this. From an export point of view, the greater domestic use of natural gas will leave a smaller supply of LNG available for export, compared to the same period in previous years.

World Cup Will Contribute To Higher Quarterly Growth

Qatar - Real GDP Growth, % y-o-y & Components (LHS) & Quarterly Real GDP Growth, % y-o-y



f = Fitch Solutions forecast. Source: Planning and Statistical Authority, Fitch Solutions

All things considered, the preparations for the World Cup and the event itself will help boost Qatar’s real GDP growth from 1.5% in 2021 to 5.2% in 2022. Indeed, the event will feed into higher service exports, as well as private and public consumption. Whereas historically activity in the non-oil economy slows significantly on a q-o-q basis, we believe the World Cup will reverse this trend making it one of the strongest quarterly increases in recent years. We believe that quarterly growth in Q422 will come in at 5.3% y-o-y, above the 3.0% average between 2012 and 2019 (see chart above, right). Consequently, Qatar will register its fastest annual growth since 2014 (see chart above, left).

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