



QATAR ECONOMIC REPORT

THE BLESSINGS OF AN ECONOMY WITH COMFORTABLE TWIN SURPLUSES

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- Economy slowing down but remaining robust**
The Qatari real economy is somehow stabilizing after strong increases in the past several years. Qatar's real GDP growth is slowing now that the current round of investment in gas export capacity has been completed. Growth decelerated in 2012 to a still robust 6.6% rate. Growth was concentrated in manufacturing, construction and government services. Most anecdotal evidence suggests that these sectors continue to be the main drivers of activity, with the hydrocarbon sector broadly flat within the context of the moratorium imposed up to 2015.
- Sustained strong magnitude of external buffers**
Continued high exports positively impacted Qatar's external accounts which managed to remain in a highly comfortable zone in 2012. Indeed, according to Central Bank figures, the State's overall trade surplus widened by 17.8% to US\$ 102.9 billion in 2012, yet representing a relatively slower pace when compared to the 62.2% growth recorded in 2011 within the context of the slower rise in hydrocarbon exports. Consequently, the current account surplus nudged up to 34.0% of GDP in 2012, compared with 30.0% of GDP in 2011 and 18.7% in 2010.
- Comfortable public finance surpluses**
During fiscal year 2012/2013, Qatar's budget surplus progressed at a slower pace within the context of a plateau in LNG production and rising expenditures as the government sought to maintain a strong non-hydrocarbon growth along with ongoing preparations for the 2022 World Cup. Indeed, while remaining in a comfortable zone, Qatar's fiscal surplus, which had more than tripled in fiscal year 2011/2012, reached US\$ 14.9 billion in fiscal year 2012/2013, up by 3.4% annually, as per IMF statistics. The approved FY 2013/2014 budget, which targets US\$ 58 billion in expenditures, will be the largest in Qatar's history and will provide a significant support to domestic demand.
- Monetary conditions marked by growth in reserves and significant expansion in monetary aggregates**
Qatar Central Bank's net international reserves extended their upward trajectory during the first four months of 2013, reaching US\$ 38.3 billion at end-April 2013, up by 17.2% from US\$ 32.7 billion at year-end 2012. The broader Money Supply (M2) expanded by 15.4% during the first four months of 2013 to reach US\$ 120.8 billion at end-April 2013, after expanding by 22.9% in 2012. Authorities seem committed to maintaining the current exchange rate regime, arguing that Qatar's gas and oil exports are denominated in the US currency, and that the peg offers stability and reassurance to investors.
- Healthy banking activity growth coupled with strong financial standing**
Qatari banks have been experiencing solid activity growth throughout 2012 and so far this year, with the healthy economic performances buoyed by ongoing government infrastructure spending and non-hydrocarbons sector growth providing a strong operating environment for banks. Measured by total assets of banks operating in Qatar, total sector activity grew by 17.6% year-on-year in 2012 and by a further 5.5% in the first four months of this year to reach US\$ 236.6 billion at end-April 2013. Qatari banks remain well capitalized with a capital adequacy ratio of 18.9%, and quite profitable with a return on assets of 2.4% and a return on equity of 17.7% on the back of strong asset quality with a NPL ratio of 1.7% of total loans and a provisioning ratio of 97.5% of NPLs in 2012.
- Mixed movements across capital markets since the beginning of 2013**
While the Qatar Exchange posted price increases, the Qatari debt papers were on the decline following rises in US Treasuries yields since the beginning of the year. The Qatar Exchange general index rose by 10.5% during the first five months of 2013 to close at 9,238.00 at end-May 2013, following a drop of 4.8% in 2012. At the fixed income level, Qatar's five-year CDS spread currently stands at around 73 basis points, down by 9 basis points since year-end 2012, which underlines its low risk of default, noting that the Qatar CDS spread is the third lowest in the region and is much below the average CDS spreads in the Middle East (268 bps) and emerging markets (278 bps).

The Qatar Economic Report can be accessed via internet at the following web address: <http://www.banqueaudi.com>



The Qatari real economy is somehow stabilizing after strong increases in the past several years. Qatar's real GDP growth is slowing now that the current round of investment in gas export capacity has been completed. Growth decelerated in 2012 to a still robust 6.6% rate. Growth was concentrated in manufacturing, construction and government services. Most anecdotal evidence suggests that these sectors continue to be the main drivers of activity, with the hydrocarbon sector broadly flat.

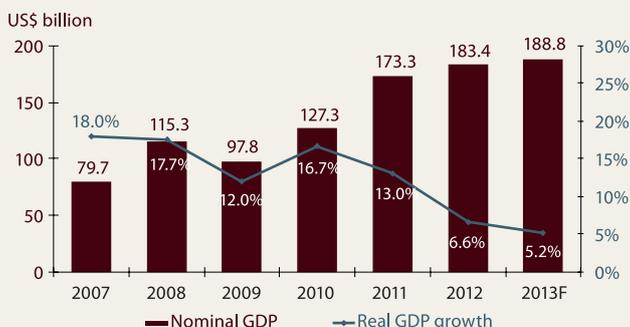
Inflation remained contained over the past year. Consumer price inflation average 1.9% in 2012, similar to the 2011 level. Falling prices in the "rent, fuel and energy" component of the index continue to exert disinflationary pressures, as supply outpaces demand in the Emirate. Strong supply in the housing market, coupled with lower international commodity prices, helped to contain overall inflationary pressures and offset the inflationary impact of the surge in liquidity following large salary increases for Qatari public sector workers and generally expansionary domestic monetary and fiscal conditions.

At the public sector's level, the overall fiscal surplus of 8.2% of GDP in 2011/2012 was higher than expected, reflecting strong hydrocarbon revenues, despite a 45% overrun in current expenditures in the past year compared to the budget, primarily due to spending on goods and services. The surplus was also boosted by the underperformance of development expenditures. The surplus is expected to remain high at 8.0% of GDP in 2012/2013, driven by a marked rise in corporate taxes, as new companies start paying corporate tax, and by high investment income, in addition to high hydrocarbon revenues.

Qatar returned a large current account surplus in 2012, at 34% of GDP, as a widening trade surplus more than offset the increase in net non-merchandise outflows. This has helped raising its Central Bank reserves from US\$ 16.3 billion in 2011 to US\$ 32.7 billion in 2012, the equivalent of 43.8% of Money Supply in local currency. By the time of the finalization of this report, net Central Bank reserves had risen even further to US\$ 38.3 billion, the equivalent of 47.8% of Money Supply in local currency, bearing witness to the strong means to preserve the currency peg.

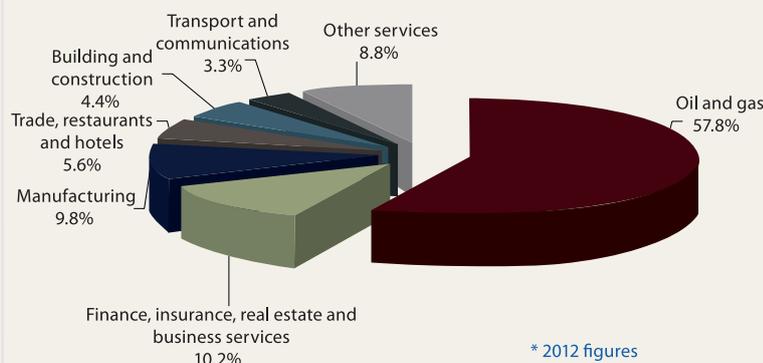
Beyond Central Bank reserves, the country's large external surpluses are invested abroad in property, financial, retail and other sectors by the Qatar Investment Authority. Through its sovereign wealth fund, the country has purchased substantial stakes in some of the World's most recognizable brands. More recently, it has been a key benefactor to cash-strapped regional economies, handing billions to Egypt to help it shore up its deteriorating FX reserve position. Still, there is little transparency as to the extent or liquidity of the country's foreign asset position at large.

NOMINAL GDP AND REAL GROWTH RATES



Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



Sources: Central Bank of Qatar, Bank Audi's Group Research Department



At the level of the banking sector, activity growth remains sound for Qatari banks. Measured by the consolidated assets of banks operating in Qatar, bank assets grew by 17.6% in 2012, followed by 5.5% in the first four months of 2013. Accounting for 61% of bank assets, deposits were the main activity growth driver, increasing by 26.0% in 2012 and by 14.2% in the first four months of 2013. Likewise, total credit facilities grew by 26.0% and 4.2% respectively. Qatari banks remain well capitalized with a capital adequacy ratio of 18.9%, and quite profitable with a return on assets of 2.4% and a return on equity of 17.7% on the back of strong asset quality with a NPL ratio of 1.7% and a provisioning ratio of 97.5% of NPLs in 2012.

At the capital markets level, while the year 2012 has reported a relative correction in the QE general index, the 2013 year-to-date performance has been favorable, increasing by 10.5% over the first 5 months raising market capitalization to GDP to 75.5%. Qatari stocks have maintained a strong dividend yield of 4.1%, while valuation ratios are adequate with a P/E ratio of 13.0x and a P/BV ratio of 1.9x. As to fixed income markets, the continued decline in the Emirate's CDS spreads from 127 basis points in 2011 to 82 basis points in 2012 and to 73 basis points in May 2013 bears witness to an extended improvement in market risks at large.

Below is an overview of the major sectors of economic activity, including the real sector, the external sector, the public sector and the financial sector. The concluding remarks are left to the short and medium term prospects, with an assessment of positive and negative risk drivers to the overall outlook.

MONEY SUPPLY AND INFLATION



* IMF full-year forecast

Sources: Central Bank of Qatar, IMF, Bank Audi's Group Research Department



1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Hydrocarbons

Contained growth on capped hydrocarbon output

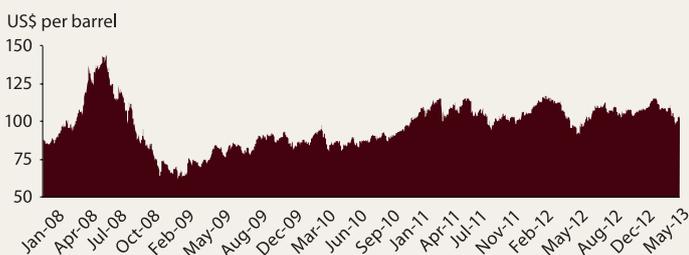
Following hikes in hydrocarbon production to full capacity, which aided in raising real GDP growth to 18% over 2006–2011, activity decelerated considerably in 2012 on account of a weaker momentum at the level of hydrocarbon industries (circa 60% of GDP in 2012). Indeed, Qatar’s stellar economic growth, usually driven by hydrocarbons, has somewhat eased in 2012 as the real growth of such industries decelerated from 15.7% in 2011 to 3.6% in 2012, as per IMF data. As a matter of fact, attention shifted to the non-hydrocarbon segment of the economy which grew at a faster pace than the hydrocarbons one in 2012 within the context of ongoing diversification effort as the moratorium on further development of gas-related projects ends in 2015.

In parallel, Qatar’s LNG output is estimated to have reached 77.0 million tons per year in 2012, rising by 2.9% from 2011, year during which the State had posted a production increase of 29.6%, as per IMF data. That of oil was almost flat at 749 thousand barrels per day compared with 745 thousand barrels per day in 2011, as per the same source. Consequently, such a slowdown created downward pressures on Qatar’s revenues stemming from hydrocarbons as they recorded a decline of 5% according to IMF figures to make up 50% of total revenues in fiscal year 2012/2013 compared with a share of 62% in fiscal year 2011/2012, as per the same source. Export revenues from the hydrocarbon sector were also subjected to a weaker growth as they progressed by 4% in 2012 compared with a 45% rate in 2011, as per IMF data.

To enhance its export capacity, Qatar Petroleum International concluded an agreement with ExxonMobil according to which both would construct a US\$ 10 billion natural gas export terminal based in Texas. The project will involve installing liquefaction at an existing import facility according to Golden Pass Products, a subsidiary formed by the two companies. Both entities plan to ship as much as 15.6 million metric tons of gas annually from the Golden Pass Facility.

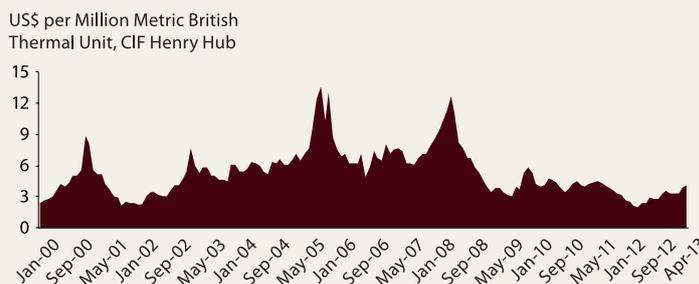
Indeed, the sector remains of significant importance to the economy. Qatar holds the world’s third largest gas reserves (after Iran and Russia), estimated at around 890 trillion cubic feet (US Energy Information Administration), which along with crude oil and condensate reserves equals nearly 193 billion barrels of oil equivalent in 2012. With Qatar’s population at only 1.8 million in 2012, hydrocarbon reserves and revenue per national were the highest in the world at 724,000 billion of oil equivalent and US\$ 183,000 respectively. The government is still embarking on efforts to enhance its hydrocarbons resources. Qatar’s vast gas reserves are located in the offshore North Field, which is the single largest non-associated gas field in the world and currently subjected to a Moratorium. Still, a deposit with 2.5 trillion cubic feet of fuel was found in the Northern part of the country, the first discovery since uncovering the world’s biggest gas field 42 years ago. State-run Qatar Petroleum, Wintershall AG and Mitsui & Co plan to develop

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi’s Group Research Department

NATURAL GAS PRICES



Sources: IMF, Bank Audi’s Group Research Department



the reservoir in a 544 square-kilometer (338 square-mile) area called block 4N off the Persian Gulf State's northern coast.

The future expansion of gas production will also be driven by the Barzan project that is estimated to bring on-stream an additional 1.5 billion cubic feet per day and new discoveries that are likely to add a further 0.7 billion cubic feet per day by 2016. Qatar Petroleum announced that the project, dedicated to supplying domestic industry, is 50% complete and is on course to start up in early 2014.

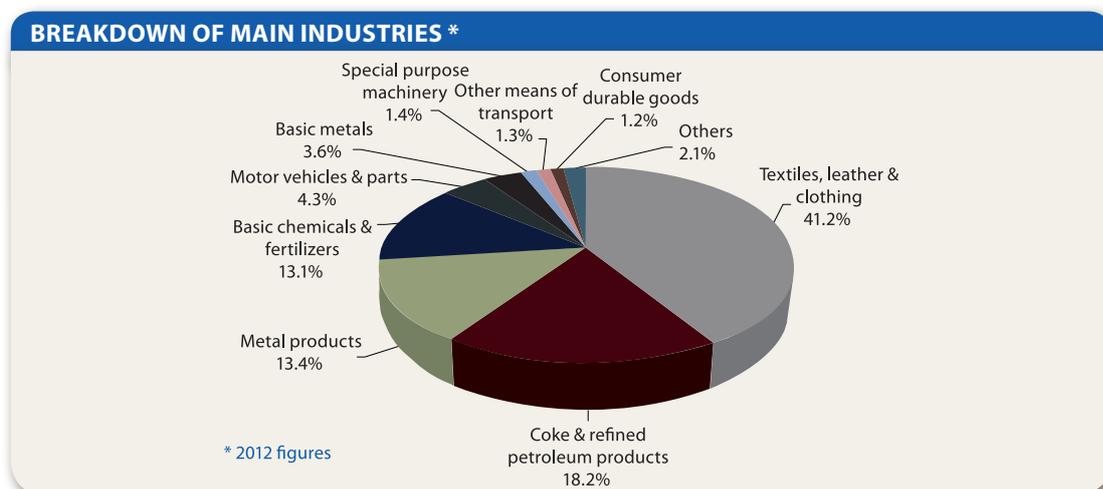
Until 2015, year after which the moratorium ends, hydrocarbon activity should remain almost at the same level as that seen in 2012. Consequently, growth rates would stabilize mainly due to a slowdown in hydrocarbon sector growth, as the self-imposed moratorium on increasing LNG capacity kicks in.

1.1.2. Manufacturing

Renewed diversification efforts pushing for further projects

The manufacturing sector, which accounts for almost 10% of the country's GDP, has been on top of Qatar's agenda for diversifying away from hydrocarbons. Efforts seem to be paying back with the sector reporting a slight increase in growth levels from 10.6% in 2011 to 11.8% in 2012.

Manufacturing is expected to move forward in its upward path benefiting from several official initiatives. In fact, Qatar has announced a plan to boost petrochemical production from 10 million tons/year (t/y) to 23 million t/y by 2020 as part of its overall stated priority of expanding its "downstream sector". The future plans involve the expansion in ethylene capacity and its derivatives through lifting the capacity of many existing plants as well as building new ones in partnership with international companies. Within this context, many joint ventures will be or have already been established with international companies such as ExxonMobil, Shell and Total. In addition, QAPCO's third low-density polyethylene (LDPE) plant has been officially opened, allowing Qatar to boost its LDPE output to 700,000 t/y, making it one of the largest LDPE manufacturers in the Middle East. Qatar's petrochemical expansion plans, along with those of Saudi Arabia and the UAE, stem from the need to diversify away from reliance on "upstream" hydrocarbon sector, and are based on the belief that the market for petrochemicals will continue to amplify supported by demand in China, India, and other emerging markets, as well as vibrant construction activity in the Gulf countries. Qatar intends to produce complex petrochemicals in addition to basic products, in order to better position itself in view of potential competition from other GCC states, and to benefit from cheap gas inputs. In addition, Qatar Industrial Manufacturing Company (QIMC) and the India-based chemical giant KLJ Organic, have set on a joint venture of US\$ 100 million. KLJ Organic, which is the first Indian company to make the largest investment in Qatar's industrial sector, has already 15% of the globally-traded Chlorinated Paraffin Wax (CPW), caustic soda, hydrochloric acid, and other chemicals. Its share is set to increase to 25% of global output, after the initiation of the project in Qatar.



Sources: Oxford Economics, Bank Audi's Group Research Department



Also, and in line with its economic diversification policy, the State-owned Economic Zones Company (EZC) has adopted the development of three economic zones within Doha and its suburbs. With an authorized capital of US\$ 1.35 billion, the plan includes a total area of development 25% larger than Doha's existing industrial area. The new economic zones are set to target value-added manufacturing including downstream metals, downstream petrochemicals, maritime and other industries in addition to high-value technology, and regional and domestic logistics services.

In order to meet the growing demand for buses in the Middle East, a key project will be launched in Oman to manufacture passenger buses, with Qatar being a major stakeholder along with Oman Investment Fund (OIF). The bus manufacturing and assembling plant will be the largest of its kind in the Middle East. In addition, in late 2012, Qatar has outlined a multi-billion dollar government-backed food security program to be implemented over ten years from 2014 onwards. The country's almost full reliance on food imports is expected to increase in the coming few years with growth in consumption expected to be the highest in the GCC. Indeed, Qatar meets 70% to 80% of its food requirements through imports, and consumption is expected to grow by 6.3% yearly until 2015 according to a report of the World Chambers Congress. The program sets a target of meeting two-thirds of the country's needs. Part of the plan involves building desalination plants that operate on renewable energy, in addition to improving the quality of the soil to augment crop yields and food reserves in case of emergency. Add to this the previously initiated acquisition of farmland overseas. The project has already cost US\$ 300 million. Further funding of billions of dollars is expected to be evenly split between the government and the private sector.

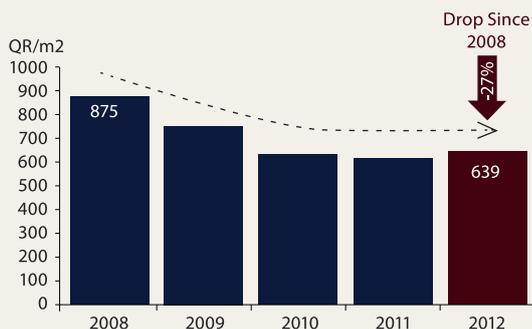
1.1.3. Construction

In the midst of a construction boom

The construction sector in Qatar, accounting for almost 4% of the country's GDP, has been boosted since the selection of the country to host the World Cup at end 2010. The government's strategy that involves earmarking more than US\$ 100 billion for world cup preparations has allowed the sector to recover in 2011 following a stagnation period. Ever since, it has maintained a steady path with growth standing at 10.6% in 2012 compared to a level of 10.5% in 2011.

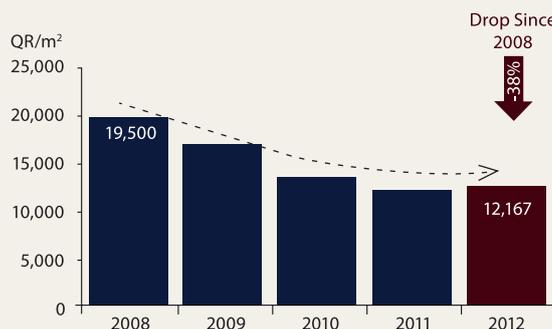
According to Deloitte, Qatar was the third most active GCC construction market in 2012, after the UAE and Saudi Arabia, with US\$ 10.4 billion worth of contracts awarded. Transport infrastructure dominated Qatar's construction sector, with four of the five biggest contracts awarded for major transportation projects. In fact, Qatar has noticed the need for upgrading its transport system in light of the rising car ownership and the inflows of expatriates, both resulting from the rapid economic expansion. As a matter of fact, the national development plan has secured US\$ 14.6 billion for roads and associated facilities. The completion date for these projects was set for 2016 while work has already started in north Doha. Deloitte estimates transport construction in Qatar at 58% of total construction expenditure. It is worth mentioning in this regard that the opening of Qatar's new Hamad International Airport has been hit by another delay. The opening, which has been postponed several times since 2010, was due on April 1, 2013. The postponement was referred to the airport's failure to meet safety and security standards.

AVERAGE RESIDENTIAL RENTAL RATES IN DOHA



Sources: Colliers International, Bank Audi's Group Research Department

AVERAGE RESIDENTIAL SALES PRICES IN DOHA



Sources: Colliers International, Bank Audi's Group Research Department

Also, according to Deloitte, Qatar has the second largest value of projects planned or underway in the GCC after Saudi Arabia. MEED estimates the total value of these projects at US\$ 222 billion. It is expected that Qatar will spend US\$ 140 billion on infrastructure development in preparation for the 2022 World Cup and in line with the country's 2030 Vision. However, according to Business Monitor International (BMI), the majority of these projects are of long-term nature and hence, their growth impact will only be materialized from 2016 onwards.

The budget on projects currently in the pipeline is broken down over roads (US\$ 20 billion), railways (US\$ 25 billion), New Doha International Airport (US\$ 15.5 billion), stadiums (US\$ 4 billion), a deepwater seaport (US\$ 8 billion), and transport corridor project in Doha (US\$ 1 billion).

Commercial construction accounts for 23% of total construction spending and includes: the Hamad Medical City, due in 2018, and set to become the largest hospital in the world; the already embarked on US\$ 1.37 billion Doha Festival City; and the Lusail City residential project covering 38 square kilometers and housing 450,000 inhabitants.

In addition, a US\$ 22 billion plan for upgrading the power and water sectors over the next eight years has been recently announced. The plan involves building two major power stations, along with 140 substations and five strategic reservoirs, as well as adding 810 km of water pipelines and enhancing desalination capacity. In fact, energy projects seem to be at the heart of Qatar's strategy for the coming few years, with plans to spend US\$ 18.9 billion on electricity and water networks over the next ten years. Further investment in solar power is planned, both to counter criticism over the country's large carbon footprint and to diversify away from hydrocarbons.

1.1.4. Tourism

Expansionary mode in preparation for the 2022 World Cup

Qatar continues to ascend as one of the fastest growing tourism destinations in the Middle East. While it has already gained popularity as a focal hub for business tourism, the country strives to establish itself as a leisure destination, backed by massive spending plans in the context of preparations for hosting the FIFA World Cup in 2022.

Figures by Ernst and Young for four and five star hotel performance in Doha show that occupancy was at 61% in 2012, reporting a slight decrease of 3% compared to 2011 levels. Activity seem to be rebounding this year as occupancy in the first four months of 2013, at 74%, is 3% higher than the one registered in the same period of 2012. The direct contribution of travel and tourism to Qatar's GDP reached US\$ 3.35 billion (1.8% of total GDP) in 2012, as per the World Travel and Tourism Council (WTTC). It is forecasted to rise by 7.1% in 2013, and to rise by 4% per annum in real terms, until 2023, one year after the World Cup.

Qatar has previously stated a target of attracting high income tourists focusing on business travel and



Sources: Ernst & Young, Bank Audi's Group Research Department



high end luxury vacations. However, a new strategy of “diversification” seems to be underway, aiming at entertaining the range of tourism facilities and activities as well as hotel accommodation. In addition, the government intends to involve the private sector in the process, especially when it comes to developing leisure tourism, where the government would be the strategy designer without necessarily owning or being the developer itself.

The Qatar Tourism Authority has targeted a growth rate in the tourism industry of 20% in the next five years. Along with the awaited US\$ 15.5 billion new Doha International Airport, an expansion in hotel capacity is on track. The airport has an estimated capacity to handle, after total completion, 50 million passengers and 320,000 planes per year. Its prospective opening will bring more transit passengers to Qatar, encouraging the travelers passing by to enjoy the country's tourist attractions. As to hotels' building, Qatar plans to inaugurate 45,000 additional hotel rooms to meet the FIFA's requirement of 60,000 room capacity. Within this context, a newly introduced concept of “floating hotels” was adopted by the Qatari authorities thanks to its “space-saving” and “energy-efficient” nature. Qatar has also announced US\$ 65 billion of investments in infrastructure development projects relating to stadium construction, accommodation and upgrading the existing transportation systems.

1.2. EXTERNAL SECTOR

Sustained strong magnitude of external buffers

A combination of continued high volumes and prices of crude oil, LNG and condensates exports have positively impacted Qatar's external accounts which managed to remain in a highly comfortable zone in 2012. Indeed, according to Central Bank figures, the State's overall trade surplus widened by 17.8% to US\$ 102.9 billion in 2012, yet representing a relatively slower pace when compared to the 62.2% growth recorded in 2011 within the context of the weaker rise of hydrocarbon exports. Consequently, the current account surplus nudged up to 34.0% of GDP in 2012, compared with 30.0% of GDP in 2011 and 18.7% in 2010.

A detailed look at the trade activity shows that exports amounted to US\$ 133.7 billion in 2012, rising by 17.0% from 2011, year during which they had increased by more than 100%, as per Central Bank data. Despite such a slowdown, exports managed to sustain their rising streak benefitting from ongoing high energy prices as they remain dominated by LNG and oil. Meanwhile, exports of oil condensate and other gas derivatives also rose during the year, driven by an increasing capacity of the Pear gas-to-liquids project. Overall, hydrocarbon exports, accounting for 91% of total exports, were up by circa 4% in 2012 following a growth of nearly 45% in 2011. As to non-hydrocarbon exports, they progressed by 19% in 2012 driven mainly by those of petrochemicals which were up by 20% over the same period. At the level of imports, they were up by 14.3% to US\$ 30.8 billion in 2012 according to the Central Bank, driven by rising demand for consumer goods from a growing population and higher incomes as well as purchases of capital imports for construction, infrastructure and projects to boost economic diversification. Accordingly, imports of non-LNG and Qatar Petroleum goods were up by 8% in 2012 to account for almost 68% of total imports. The rise in total exports, which exceeded that of total imports, boosted the exports-to-imports coverage ratio as well as the trade balance-to-GDP ratio to new highs of 434.1% and 56.1% of GDP in 2012 from 424.5% and 50.4% of GDP in 2011, respectively.

On the other side of the external sector, Qatar posted net deficits in its balances on services, incomes and transfers in 2012, amounting to US\$ 14.0 billion (+47.6%), US\$ 12.1 billion (-8.6%) and US\$ 14.5 billion (+14.5%), respectively. With regards to services, large transportation payments related to LNG exports offset significantly the State's travel receipts most of which are collected through its position as a transit hub between the West and Asia. In the incomes category, profit repatriation of foreign companies in Qatar remains the largest contributor to the negative balance. As to the transfers category, it is dominated by outward remittances of expatriates residing in Qatar which amounted to US\$ 10.7 billion in 2012, up by 3.8% from the previous year.

As to the capital and financial balances, both recorded deficits of US\$ 6.2 billion and US\$ 38.3 billion in 2012 respectively, with the latter posting a contraction of 35.0% in its shortfall from 2011. This was mainly due to two factors. First, the outflow in investment abroad eased significantly in 2012 moving from a total of US\$ 6.0 billion in 2011 to US\$ 1.8 billion in 2012, as per Central Bank data. As to investment



inflows to Qatar, they moved from a negative balance of US\$ 86.8 million in 2011 to a positive one of US\$ 326.9 million in 2012. Second, the same case was seen at the level of portfolio investment, with the 2011 negative balance of US\$ 18.9 billion moving to a positive one of US\$ 2.8 billion in 2012. Consequently, the balance of payments recorded a cumulative surplus of US\$ 16.1 billion in 2012, against a deficit of US\$ 14.3 billion a year earlier.

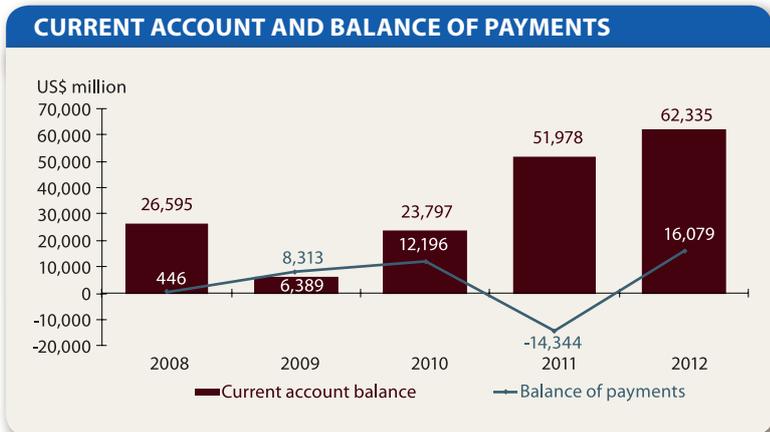
While Qatar's external accounts have been more or less insulated from external shocks in 2012, they remain threatened by potential energy prices volatility. Indeed, risks are somewhat mitigated through long-term contracts of LNG exports (lately to Turkey, Croatia and some Asian countries) concluded with multiple partners, but the risk of surplus tapering off significantly on account of flat LNG production and a declining trend in crude oil production and exports remains. Also, more market competition is expected beyond 2015 as new supply comes on stream.

1.3. PUBLIC SECTOR

Comfortably flat surplus in FY 2012/2013

During fiscal year 2012/2013, Qatar's budget surplus progressed at its slowest pace within the context of a plateau in LNG production and rising expenditures as the government sought to maintain a strong non-hydrocarbon growth along with ongoing preparations for the 2022 World Cup. Indeed, while remaining in a comfortable zone, Qatar's fiscal surplus, which had more than tripled in fiscal year 2011/2012, reached US\$ 14.9 billion in fiscal year 2012/2013, up by 3.4% annually, as per IMF data. It is worth mentioning that Qatar's fiscal year extends from April to March.

Hydrocarbon receipts, consistently the main driver of revenues, have somehow paved the way to those not related to the oil and gas industry as LNG output capacity hit its maximal level in 2011 and oil production was almost unchanged. Accordingly, after rising by 59.0% in fiscal year 2011/2012, revenues were up by 19.1% to US\$ 81.2 billion in fiscal year 2012/2013. This total almost equally stemmed from hydrocarbons (50%) on one hand and non-hydrocarbon activity (50%) on the other, compared with a nearly 63% share that came from the former in FY 2011/2012. A detailed look shows that hydrocarbon revenues are estimated to have declined by almost 5% to account for 22% of GDP in fiscal year 2012/2013, following a rise of 60.2% a year earlier, during which they accounted for 24% of GDP, as per IMF data. Other fiscal revenues, including investment income from public enterprises (of which investment income of State-owned hydrocarbon enterprises), corporate tax revenues and other non-tax revenues, accelerated from a growth of 56% in fiscal year 2011/2012 to a higher one of 59% in fiscal year 2012/2013 with their share of the State's GDP also progressing from 14.4% to 21.5% mainly driven by the former two components. The first, investment income from public enterprises, progressed by 65% and the second, corporate tax revenues, by 66% as more companies enter the market within the context of an economic diversification and in preparation for the World Cup, as per IMF data. As to the rest of non-tax revenues, they declined by circa 6% in 2012, as per IMF data.



Sources: Central Bank of Qatar, IMF, Bank Audi's Group Research Department

Sources: Central Bank of Qatar, Bank Audi's Group Research Department



In parallel, expenditures totaled US\$ 66.2 billion in fiscal year 2012/2013, up by 23.4% from the previous year during which they had risen by 35.9%. Nearly 57% of the total was allocated to current expenditures compared with 61% in fiscal year 2011/2012 while almost 42% went for capital spending compared with 39% in the previous fiscal year with the former rising at a weaker pace than the latter. As a matter of fact, the government is increasingly shifting focus to economic diversification and growth in non-hydrocarbon sectors through targeted infrastructure investment within the context of ongoing preparations for the World Cup. Hence, capital expenditures increased by 32.8% to account for almost 14.8% of GDP in fiscal year 2012/2013. As to current expenditures, they edged up by 15.5% to account for almost 20.3% of GDP in fiscal year 2012/2013. Under this component, it is worth noting that expenditures related to salaries and wages increased by more than 100% within the context of the authorities' efforts to maintain such spending at its current share of total outlays.

On the overall, expenditures progressed at a faster pace than revenues, thus leading to a practically stable surplus of 8.0% in fiscal year 2012/2013, against 8.2% in fiscal year 2011/2012. The non-hydrocarbon balance yet remained in the negative territory, while improving from the one seen a year earlier as it accounted for 13.6% of GDP in fiscal year 2012/2013, compared to 16.0% in fiscal year 2011/2012 and reflecting the effective efforts of the government in diversifying the economy in general and the non-hydrocarbon revenue base in particular. The negative balance highlights the need for further diversification in years ahead to shield the government accounts from hydrocarbon price volatility. It is worth recalling that LNG production reached a maximum capacity in 2011, somewhat weighing on the revenue base until the end of the LNG moratorium in 2015.

Having amassed significant wealth during previous years, Qatar is reaping the benefits of this fiscal bonanza to embark on a record budget for fiscal year 2013/2014. Accordingly, the government approved an 18% increase in total expenditures to support ambitions plans for infrastructure development. The government budgets that the surplus will dwindle to US\$ 2 billion, or around 1% of GDP, from an estimated surplus of more than 8% of GDP in 2012/2013. However, this is based on an assumed oil price of US\$ 65/barrel. This is a very conservative assumption, with the price of Qatar Marine crude having averaged more than US\$100/barrel so far.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Continuing growth in reserves and expansion in monetary aggregates

Qatar's monetary conditions were marked during the first four months of 2013 by a relative rise in the inflation rate mainly on the backdrop of increases in rental costs, growth in international reserves, and significant expansion in monetary aggregates.

Qatar's Consumer Price Index grew by 3.5% on average during the first four months of 2013, after rising by 1.6% in 2012, mainly driven by steady increases in rental costs due to diminishing over-supply of housing, robust domestic demand, increased fiscal spending, and rising project activity. According to the IMF, the inflation rate is expected to average 3.0% in 2013 due to the acceleration of infrastructure-related

SELECTED PUBLIC FINANCE INDICATORS

US\$ billion	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13E
General government revenues	38.7	46.5	42.9	68.1	81.2
General government revenues/GDP	34.9%	44.2%	30.9%	38.7%	43.5%
General government expenditures	27.5	33.4	39.5	53.7	66.2
General government expenditures/GDP	24.8%	31.8%	28.5%	30.5%	35.5%
General government fiscal balance	11.3	13.1	3.4	14.4	14.9
General government fiscal balance/GDP	10.2%	12.4%	2.4%	8.2%	8.0%

Sources: IMF, Bank Audi's Group Research Department

PUBLIC INDEBTEDNESS AND DEBT RATIO



Sources: IMF, Bank Audi's Group Research Department



construction activities, the convergence in the demand-supply situation in the real estate market, and the increase in the expatriate population, noting that this is its highest since 2008.

The breakdown of the Consumer Price Index by segments during the first four months of 2013 showed that the entertainment, recreation and culture segment rose by 8.0%, followed by the rent, utilities & related housing service segment with +5.2%, the furniture, textiles & home appliances segment with +4.2%, the food, beverages & tobacco segment with +2.6%, the medical care & health services segment with +2.3%, the transport & communication segment with +1.8%, while the miscellaneous goods and services segment and the clothing & footwear segment reported tiny declines of -0.1% each.

With inflation rising above 3% during the first four months of 2013, the Qatar Central Bank didn't cut its policy lending and deposit rates so far this year, extending the trend that was prevailing in 2012, noting that the latest rate cut took place in August 2011 and aimed to boost private sector credit growth. Accordingly, the overnight lending rate stands currently at 4.50%, the repo rate at 4.50%, and the overnight deposit rate at 0.75%.

On the other hand, Qatar Central Bank's net international reserves extended their upward trajectory during the first four months of 2013, reaching US\$ 38.3 billion at end-April 2013, up by 17.2% from US\$ 32.7 billion at year-end 2012, mainly due to a 25.5% rise in balances with foreign banks and a 14.8% increase in foreign securities portfolio. The QCB net international reserves covered around 47.8% of money supply in local currency at end-April 2013, against 43.8% at end-2012.

The broader Money Supply (M2) expanded by 15.4% during the first four months of 2013 to reach US\$ 120.8 billion at end-April 2013, after expanding by 22.9% in 2012. The US\$ 16.1 billion variation in money supply during the first four months of 2013 compares to a money creation of US\$ 15.7 billion, resulting mostly from a surge in net foreign assets of US\$ 16.8 billion, a rise of US\$ 3.7 billion in claims on private sector and a drop of US\$ 4.8 billion in net claims on the public sector. The difference between the expansion in money supply and money creation, amounting to US\$ 363.9 million, suggests a monetization of financial claims during the first four months of 2013.

The Qatari Riyal continues to be pegged to the US Dollar at a rate of QR 3.64/US\$ 1. The authorities seem committed to maintaining the current exchange rate regime, arguing not only that Qatar's gas and oil exports are denominated in the US currency, but also that the peg offers stability and reassurance to investors. This outweighs the constraints that a peg imposes on monetary policy.

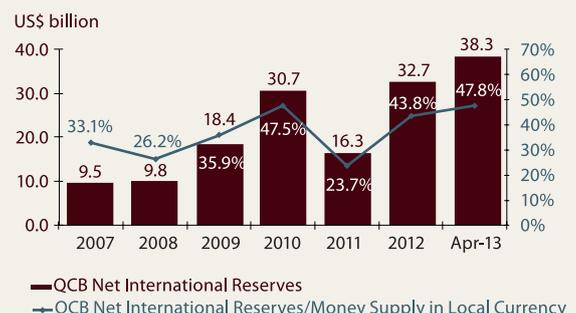
Looking ahead, rising fiscal spending and the acceleration of infrastructure projects would likely add upward pressure on consumer prices in the coming years. Within this context, Qatar Central Bank is unlikely to cut interest rates in the near term, noting that any signs of overheating need to be managed, according to the IMF, through fiscal policy, in particular through restraining further increases in current expenditures to control aggregate demand, combined with liquidity management by the QCB to absorb the structural liquidity surplus, and through macroprudential measures to help smooth excessive credit growth and mitigate pressures from excessive leverage or risk-taking in specific sectors.

EVOLUTION OF MONETARY SITUATION

Variations (US\$ million)	2008	2009	2010	2011	2012	4M-13
Net foreign assets	-3,455	-471	4,624	-12,742	1,538	16,795
Foreign Assets	2,889	6,068	13,097	-6,633	18,843	13,480
Foreign Liabilities	-6,344	-6,540	-8,472	-6,109	-17,305	3,316
Net Domestic Assets	11,770	9,009	9,011	25,173	17,992	-699
Claims on private sector	19,776	1,231	12,816	22,355	24,520	3,711
Net claims on public sector	-564	13,494	2,470	9,670	3,246	-4,774
Other Items (net)	-7,441	-5,716	-6,275	-6,852	-9,774	364
Broad Money (M2)	8,316	8,538	13,636	12,431	19,530	16,096
Money Supply (M1)	2,784	617	4,181	3,712	2,498	3,482
Quasi-Money	5,532	7,920	9,454	8,720	17,032	12,614

Sources: Central Bank of Qatar, Bank Audi's Group Research Department

EXCHANGE MARKET INDICATORS



Sources: Central Bank of Qatar, Bank Audi's Group Research Department



1.4.2. Banking Activity

Healthy activity growth coupled with strong financial standing

Qatari banks have been experiencing solid activity growth throughout 2012 and so far this year, with the healthy economic performances buoyed by ongoing government infrastructure spending and non-hydrocarbons sector growth providing a strong operating environment for banks. Measured by total assets of banks operating in Qatar, total sector activity grew by 17.6% year-on-year in 2012, and by a further 5.5% in the first four months of this year to reach US\$ 236.6 billion at end-April 2013.

Total deposits, a major contributor to total balance sheet growth accounting for 61% of total bank assets, supported activity growth throughout the covered period. As a matter of fact, deposits at Qatari banks grew by 26.0% last year. The breakdown of total deposits by type of depositor reveals that the bulk of additional funding (around 58% of total deposits) stemmed from the supportive public sector, and more particularly time and saving deposits in foreign currencies from government institutions and which were significantly boosted during the second half of the year. The private sector accounted for close to 20% of total deposit growth last year, with the remainder (around 22%) accounted for by non-residents, within the context of healthy domestic economic activity and favourable conditions, especially when compared to some Middle Eastern peers.

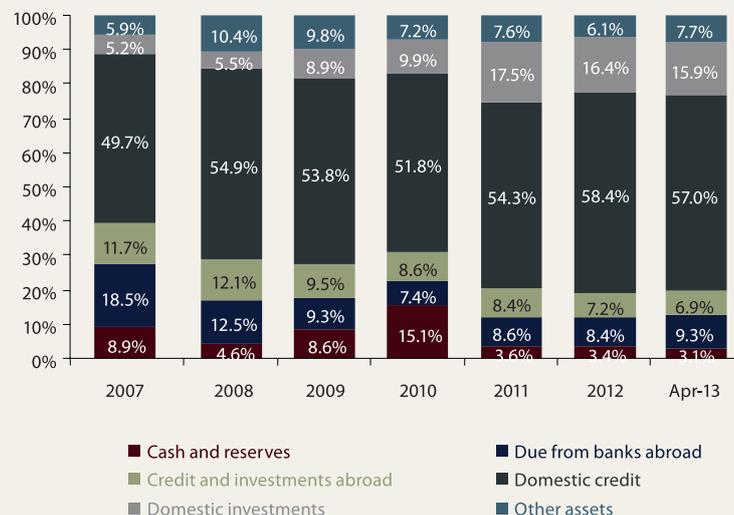
So far in 2013, the resident private sector appears to have been the largest driving force of total deposit increase in Qatar, accounting for 52% of new deposits, while the public sector accounted for 46% of new funds at Qatari banks, and non-resident deposits almost standing still in the first four months of 2013.

EVOLUTION OF BANKING ACTIVITY

US\$ million	2008	2009	2010	2011	2012	4M-12	4M-13	4M/4M	12/11
Var. Total assets	29,555	18,128	27,358	34,840	34,674	9,042	12,256	35.6%	-0.5%
% change	36.5%	16.4%	21.3%	22.3%	18.2%	4.7%	5.4%	0.7%	-4.1%
Var. Total deposits	12,438	9,446	16,463	15,611	26,114	-4,178	17,642	-	-67.3%
% change	27.1%	16.2%	24.3%	18.5%	26.1%	-4.2%	14.0%	18.2%	7.6%
Var. Total credit facilities	22,543	7,644	12,089	24,473	29,254	7,427	5,938	-20.0%	19.5%
% change	51.1%	11.5%	16.3%	28.3%	26.4%	6.7%	4.2%	-2.5%	-1.9%

Sources: Central Bank of Qatar, Bank Audi's Group Research Department

BANKING SECTOR ASSET COMPOSITION



Sources: Central Bank of Qatar, Bank Audi's Group Research Department



Foreign currency deposits from government institutions continued to be the main contributor to public sector deposit growth this year, while in the private sector, retail and corporate deposits almost equally increased, with a slight advantage to the latter, amidst continuing healthy activity momentum in the Qatari economy. Overall, total deposits progressed by an additional 14.2% in the first four months of 2013, reaching a new high of US\$ 143.6 billion at end-April 2013, the equivalent of 76% of GDP.

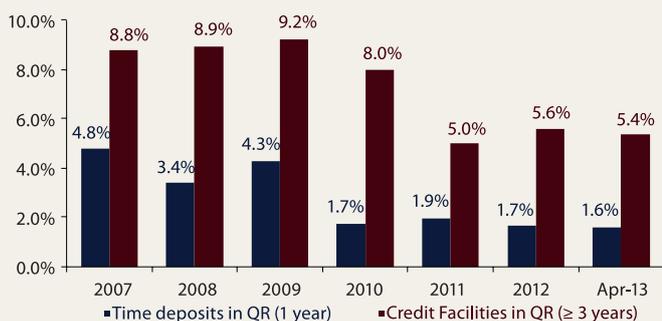
Qatari banks benefit from a stable deposit-based funding structure which, although showing some deposit concentration, is mostly sticky with about 40% of deposits stemming from the broad public sector. Besides, banks have lately started to diversify their funding sources, tapping into international fixed income markets and taking advantage of their strong credit ratings and ultra-low borrowing rates. At the same time, the past accumulation of wholesale interbank foreign liabilities amid fast rising demand for credit exacerbated asset/liabilities maturity mismatches, with relatively short-term funding channelled into longer term financing. Part of such short-term foreign funding comes from European banks, though exposure to GIIPS (Greece, Ireland, Italy, Portugal and Spain) reportedly remains limited, and could raise refinancing risks. It is yet worth noting that adding to recent bond issuances, the recent stepped up deposits from the public sector helped banks limit their foreign borrowing, particularly interbank.

With deposit volumes boosted by the recent public sector injection reflecting the supportive role played by the Qatari authorities, banks have seen their funding strains ease. In fact, the credit facilities to deposits ratio stood at around 111% at end-2012, noting that the second half deposit boost helped decrease the said ratio from a peak of 122% by mid-year. And with credit activity decelerating so far in 2013 from a comparatively high base, the ratio moved down to reach a near two-year low of 101% at end-April 2013. Anyhow, liquidity pressures are more compensated by the satisfactory balance sheet liquidity of banks. Core readily available liquidity, consisting of reserves and placements at banks, reached 27.3% of deposits (despite solid deposit growth over the covered period) and 16.5% of assets at end-April 2013, providing some liquidity buffers to Qatari banks, with more liquidity possibly obtained through the sale of other liquid assets in the form of government debt securities.

While liquidity strains for Qatari banks have eased relatively, lending activity did increase, and at a solid pace, especially during the year 2012. Total credit facilities grew at a similar pace to deposits in 2012 (+26.0%), with the biggest recipient of new loans being the public sector, accounting for 66% of new credit facilities, and government institutions leading the way. All sectors of activity reported rising lending volumes, notably real estate (around 9% of total new credit facilities) bearing in mind a good number of projects are linked to the 2022 soccer World Cup needs, though growth in real estate and retail loans decelerated last year mostly due to regulations on lending limits by the Central Bank.

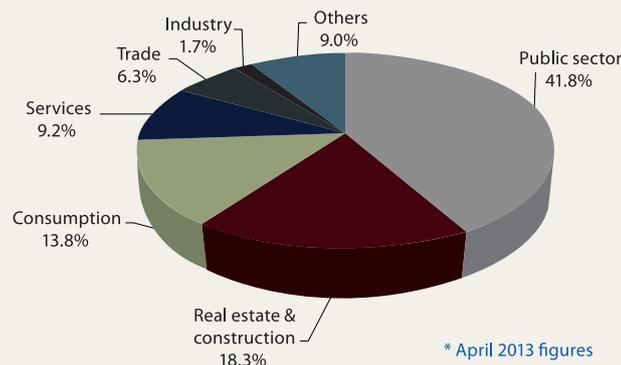
So far in 2013, credit facilities growth decelerated (volume growth down 16% relative to the first four months of 2012), reporting +4.2% in the first four months of 2013 to reach US\$ 145.7 billion at end-April. This is partly due to the slowdown in credit facilities to government institutions, a practical standstill in those to the government, and a contraction in lending to semi-government institutions. Real estate lending volumes declined so far this year due to a decrease in April, within the context of fewer project awards this year, and delays in some infrastructure linked projects tendering. The largest contributors to

INTEREST RATES ON TERM DEPOSITS & CREDIT FACILITIES



Sources: Central Bank of Qatar, Bank Audi's Group Research Department

CREDIT FACILITIES BY ECONOMIC ACTIVITY*



Sources: Central Bank of Qatar, Bank Audi's Group Research Department



additional credit facilities this year turned out to be the services sector (+US\$ 3.6 billion) and the non-resident sector (+US\$ 2.0 billion).

The rapid rise of credit volumes did not occur at the expense of asset quality, which remains among the very best in the region and beyond. According to Central Bank data, sector-wide non-performing loans stood at a very favorable 1.7% of total loans at end-2012, with the ratio maintaining its previous year's level amid buoyant economic conditions and current regulations limiting real estate and retail lending exposure, while provisioning improved to cover almost the entire NPLs, as the loan provisions to non-performing loans ratio surged to reach 97.5% at end-2012, against an already favourable 87.2% at end-2011. It is true that there are concentrations in the banks' loan portfolio, but a large part of those loans (about 42% at end-April) are allocated to the solid public sector, which alleviates concerns given lack of delinquencies.

The sizeable quantity effect banks in Qatar benefited from last year offset the rather tight spread environment and, coupled with relatively low provisioning needs and relatively healthy other revenues given favorable economic conditions, helped banks maintain overall solid profitability ratios. In fact, the net interest income to total income ratio moved upwards last year, from 53.0% in 2011 to 71.4% in 2012. Also, the return on average assets and return on average equity ratios stood at 2.4% and 17.7% last year as per Central Bank data, comparing more than favorably to regional and international averages.

Last but not least, Qatari banks remain well capitalized. Central Bank data indicates a relatively high regulatory capital to risk weighted assets ratio of 18.9% at end-2012 which, although slightly lower than the 20.6% level at end-2011 within the context of a higher denominator following the surge in bank lending, remains well above the 10% minimum requirement of the Central Bank and the 8% global regulatory threshold. More particularly, the bulk of banks' capital consists of Tier 1 capital, as the regulatory Tier 1 capital to risk weighted assets ratio stood at 18.2% at end-2012, helped by capital injections on behalf of the Qatari public sector. While banks' internal capital generation is somewhat limited given relatively high dividend pay-out ratios, their sound capital adequacy levels provide them with sound growth capacities and more than adequate buffers against potential shocks.

1.4.3. Equity and Bond Markets

Mixed performance on Qatari capital markets

Qatar's capital markets saw mixed movements since the beginning of the year 2013. While the Qatar Exchange posted price increases, the Qatari debt papers were on the decline following rises in US Treasuries yields, while the country's five-year CDS spreads saw small contractions since year-end 2012.

In details, the Qatar Exchange general index rose by 10.5% during the first five months of 2013 to close at 9,238.00 at end-May 2013, following a drop of 4.8% in 2012. This compares to an average increase of 8.2% in Arab stock markets prices, as per the S&P Pan Arab Composite Index, as some regional bourses benefited from stability in crude oil prices at above US\$ 100 per barrel and saw recovery in the real estate market. As to market pricing ratios, the Qatar Exchange traded at a P/E of 13.0x at end-May 2013 versus 13.4x at end-2012, and compared to a P/E of 13.5x in the MENA region. Also, it traded at a P/BV of 1.91x at end-May 2013 versus 1.86x at end-2012 and compared to a P/BV of 1.63x in the MENA region. In addition, the Qatar Exchange posted a dividend yield of 4.10% at end-May 2013 as compared to 4.12% at end-2012.

The market capitalization rose by 10.9% during the first five months of 2013, moving up from US\$ 126.3 billion at end-2012 to US\$ 140.1 billion at end-May 2013 within the context of a rise in prices coupled with a stability in the number of listed companies at 42. The market capitalization represented 75.5% of GDP at end-May 2013, up from 68.9% in 2012, which reflects the rising dimension of the Qatar Exchange in the Qatari economy.

The total trading value amounted to US\$ 7.3 billion during the first five months of 2013, falling by 20.0% relative to the corresponding period of the previous year. On the backdrop of a rise in the market capitalization and a fall in total trading value, the annualized turnover ratio reached 12.5% during the first five months of 2013, down from 17.6% during the corresponding period of 2012.



Regarding new measures adopted by the Qatar Exchange so far this year, it is worth mentioning that the bourse started early 2013 real-time calculation and dissemination of the QE Al Rayan Islamic Index, which reflects the price performance and dividend income of QE listed stocks that are Shari'a compliant according to Al Rayan's Shari'a Supervisory Board. Also, the QE stated in March that any component exceeding a 15% weight in the QE index as of market close March 31, 2013 will have its weight capped at the 15% level and excess weight allocated to remaining stocks proportionately.

Last but not least, it is worth highlighting that the Qatar exchange was upgraded by MSCI, whose equity indices are tracked by investors with about US\$ 7 trillion in assets, to emerging market status from frontier market status on June 11, 2013, following five years of review, which would result in access to a larger pool of investments. The upgrade occurred on the back of improved market accessibility and a surge in liquidity across the Qatari market. In fact, Qatar has improved its delivery-versus-payment systems and currently includes the buyer-cash-compensation procedure, where the buying investor is paid in cash if a security is unavailable for delivery on settlement day.

At the level of the fixed income market, prices of sovereign papers, high grade names like Qtel and Qatari Diar and papers issued by financial institutions like QNB and CBQ saw price drops across the board during the first five months of 2013, mainly due to rises in international benchmark yields after the US Federal Reserve Chairman said the Central Bank may cut the pace of asset purchases if policy makers see indications of sustained growth.

Qatar's five-year CDS spread currently stands at around 73 basis points, down by 9 basis points since year-end 2012, which underlines its low risk of default, noting that the Qatar CDS spread is the third lowest in the region after Saudi Arabia (68 bps) and Abu Dhabi (70 bps), and is much below the average CDS spreads in the Middle East (268 bps) and emerging markets (278 bps).

As to new issues, Qatar Telecom issued in January 2013 a US\$ 500 million 15-year bond with a coupon of 3.875% and sold another US\$ 500 million 30-year bond with a coupon of 4.5%. Within the financials space, QNB launched in April a US\$ 1 billion seven-year bond at a coupon rate of 2.875%. As to credit ratings, Moody's said at end-December 2012 that Qatar's "Aa2" foreign and local currency ratings are supported by the country's very high economic and government financial strengths. Also, S&P affirmed in May 2013 its long-term and short-term foreign and local currency ratings on Qatar at "AA/A-1+" with "Stable" outlook.

Looking forward, the authorities' efforts to develop a deep and liquid domestic debt market would bring important benefits in financing, monetary transmission and liquidity management and would reduce exposure to foreign market instability. In parallel, plans to list government bonds on the Qatar Exchange, and the lead taken by the QCB in setting up a domestic credit rating agency and a central securities depository are important steps toward developing a local debt market, as per the IMF.

CAPITAL MARKETS INDICATORS

	2008	2009	2010	2011	2012	May-13
Market Capitalization (US\$ billion)	76.7	87.9	123.7	125.6	126.3	140.1
Market Cap/GDP	66.5%	89.9%	97.1%	72.5%	68.9%	75.5%
Total value traded (US\$ billion)	48.2	25.3	18.5	22.9	19.4	7.3
Total number of shares (million)	3,894	3,450	2,094	2,303	2,428	668
No. of listed companies	43	44	43	42	42	42
% Chg. in QE general index	-28.1%	1.1%	24.8%	1.1%	-4.8%	10.5%
P/E ratio	18.5x	15.2x	16.7x	13.0x	13.4x	13.0x
P/BV ratio	4.0x	2.8x	2.5x	2.1x	1.9x	1.9x
Dividend yield	3.1%	2.7%	2.9%	3.3%	4.1%	4.1%
CDS spreads (bps)	218	100	88	127	82	73

Sources: Qatar Exchange, Zawya Investor, Bloomberg, Bank Audi's Group Research Department

CAPITAL MARKETS PERFORMANCE



Sources: Qatar Exchange, Bank Audi's Group Research Department



2. CONCLUDING REMARKS

After a decade of very strong economic growth, Qatar has emerged as the richest country in the World. The Emirate's GDP per capita is by some margin the highest in the World on a purchasing power parity basis, and the gap between Qatar and the other richest countries is growing fast. That yet does not take into account the major income disparities within the country, which are much more acute than elsewhere.

Growth is tempering to more normal and sustainable levels amidst a moratorium for a couple of years to go. According to the latest global economic forecasts issued this April, real GDP growth is forecasted at 5.2% in 2013, keeping its one-digit level for the second consecutive year. Inflation is forecasted at 3% in 2013, against 1.9% in 2012 according to IMF figures. Inflation will be kept up by a number of related factors including a diminishing over-supply of housing, rising public spending, surging project activity, a higher population and rising credit growth.

With little change in LNG output because of the moratorium, it is clear that growth will be heavily dependent on the non-oil sector for at least the next two years. More specifically, construction, trade and hotels and government services will lead the way as the government implements its huge infrastructure plans. This is driven by its planned hosting of the 2022 soccer World Cup and also by an expanding population. The government is committed to spending US\$ 140 billion through to 2022 to diversify the economy ahead of the World Cup.

The approved FY 2013/2014 budget, which targets US\$ 58 billion in expenditures, will be the largest in Qatar's history and will provide a significant support to domestic demand. It confirms that fiscal stimulus is set to continue despite lower oil prices. It is worth noting that the steady increase in expenditures has raised the oil price breakeven in the budget, but the rapid expansion in LNG production has kept the change in the fiscal breakeven well below regional peers. Public projects will represent a major source of non-hydrocarbon growth and support domestic banks.

It is worthy to note that public finances are likely to remain comfortable: any budget deficits going forward are likely to remain modest, despite projections for stagnating revenues and rising expenditures, and Qatar easily has the fiscal space to cover these deficits, either through borrowing or drawing down its substantial external assets. The IMF puts the total amount of assets invested with the QIA at US\$ 175 billion in its recent Article IV Consultation report.

The outlook of the Qatari economy requires a careful analysis of positive and negative risk drivers. At the level of positive risk drivers, we mention the vast hydrocarbon reserves and the leading exporter of liquefied natural gas, the high economic wealth level with GDP per capita estimated at US\$ 99,000, the high fiscal position with a low fiscal break-even oil price, the strong external balance sheet with large foreign assets and current account surpluses, and the low unemployment rate combined with one of the most advanced and extensive welfare and free education systems in the Gulf.

At the level of negative risk drivers, we mention the fact that public institutions are in the early stages of development, the limited monetary policy flexibility amidst the fixed exchange rate with the US Dollar, and the significant data gaps and limited transparency compared with international standards, the overall vulnerability to regional geopolitical risks, notwithstanding the fact that growth could be constrained by escalating costs and difficulty of coordinating the various megaprojects.

While strengths outpace weaknesses in the Emirate's outlook, there are challenges that need to be addressed. According to the IMF, since growth hinges on the successful implementation of the infrastructure plan, managing external risks calls for building a contingency plan for prioritizing and sequencing capital projects, refraining from further ad hoc increases in current expenditures and boosting fiscal buffers and international reserves when oil prices are high. It is important to end by saying that that Qatari authorities should remain cognizant of the risks, building adequate financial cushions to withstand even strong shocks, thus strengthening the resilience capacities of the Qatari economy at large.



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