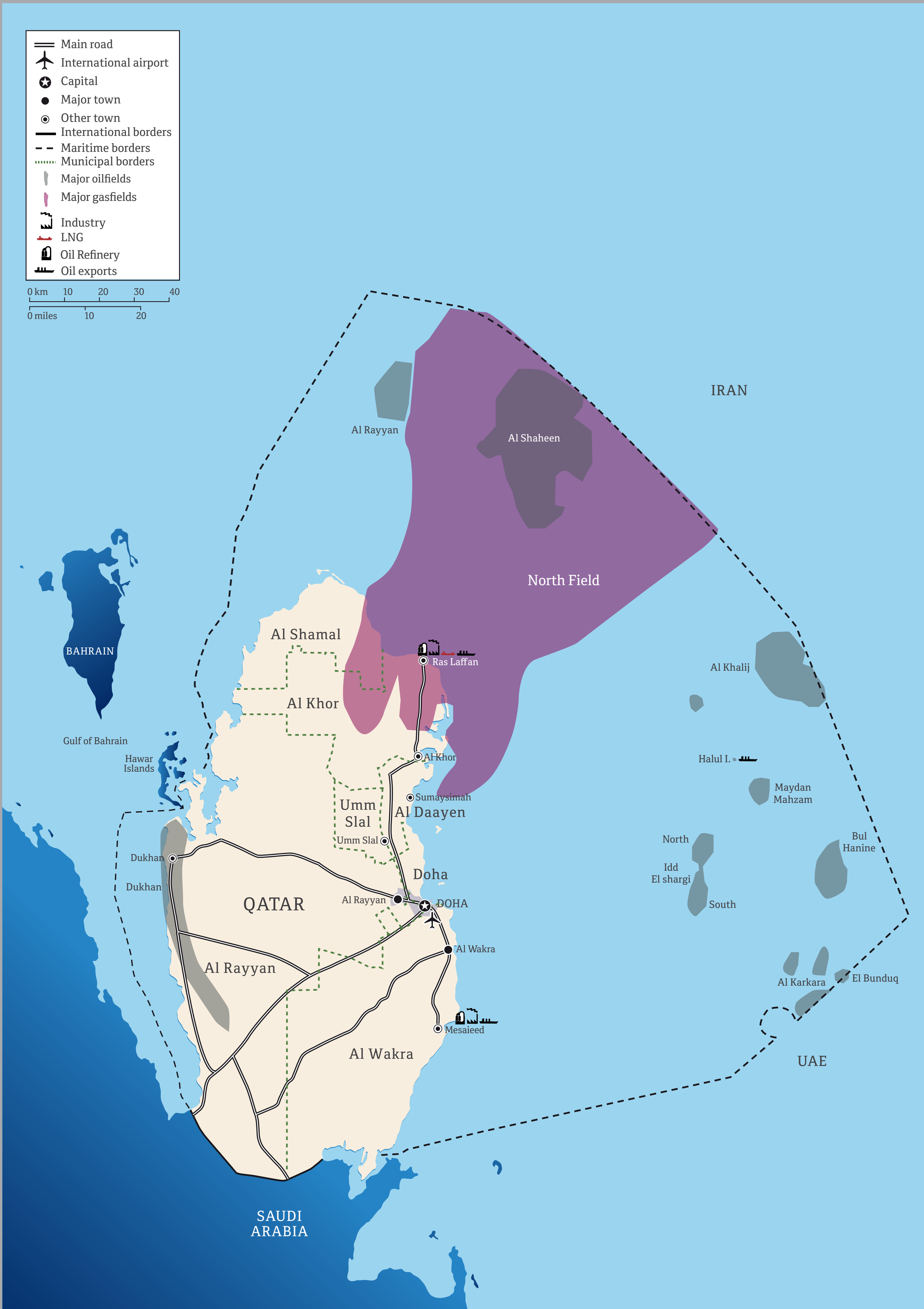
Qatar Economic Insight

2013



Main road
International airport
Capital
Major town
Other town
International borders
Maritime borders
Municipal borders
Major oilfields
Major gasfields
Industry
LNG
Oil Refinery
Oil exports
0 km 10 20 30 40
0 miles 10 20
IRAN
Al Rayyan
Al Shaheen
North Field
BAHRAIN
Al Shamal
Ras Laffan
Al Khalij
Al Khor
Gulf of Bahrain
Hawar Islands
Al Khor
Halul I.
Sumaysimah
Maydan Mahzam
Umm Slal
Al Daayen
Umm Slal
North
Bul Hanine
Dukhan
Idd El shargi
Doha
Dukhan
QATAR
Al Rayyan
DOHA
South
Al Wakra
Al Rayyan
Al Karkara
El Bunduq
Mesaieed
Al Wakra
UAE
SAUDI ARABIA

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Editorial closing, 30th April 2013

Summary

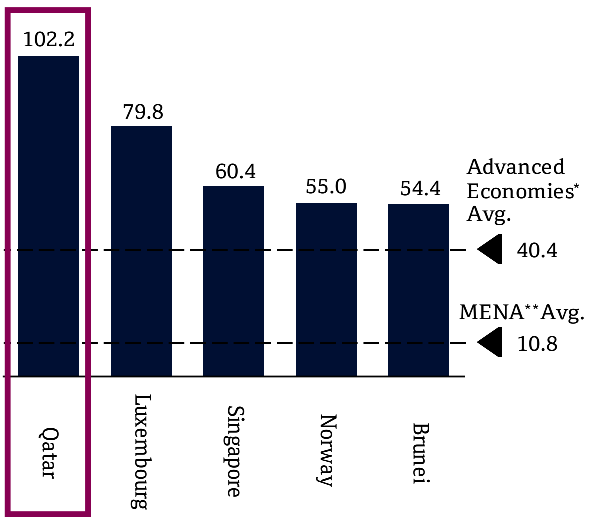
- Qatar was the *fastest growing economy in the world* from 2008-12 as it developed its huge natural gas reserves and emerged as the *largest LNG exporter in the world*.
- The development of natural gas has also boosted the *production of condensates* to 900k b/d in 2012, exceeding Qatar's crude oil production.
- The non-oil and gas sector will be the key growth driver in 2013-14, as *US$183bn of planned investments* through the NDS 2011-16 peaks.
- *Real GDP growth is forecast at 6.5% in 2013 and at 6.8% in 2014*, as growth drivers are shifted towards the non-oil and gas sector and government spending stimulates private sector economic activities.
- *Population growth* is forecast to remain fairly strong at 6.7% in 2013-14 as government expenditure on infrastructure projects gathers pace, drawing in large numbers of expatriate workers.
- The *Qatari workforce* participation in the private sector has increased from 6.8% in 2008 to 8.5% in 2012. However, salary increases by the government in the public sector in 2011 have made it harder to attract nationals to the private sector.
- The Balance of Payments has witnessed major fluctuations in 2011-12 due to large capital movements for the *purchase of foreign assets*. Foreign investment outflows are expected to remain strong in 2013-14 as the global investment environment improves.
- Interest rates are *trending downwards* due to ample liquidity and increased retail competition.
- Inflation has picked up in early 2013, mainly due to rising rents. *Inflation is expected to rise to* 3.5% in 2013 and to 3.8% in 2014 as population growth increases demand for housing.
- Government spending will *focus on infrastructure development* in the run up to the 2022 World Cup and revenue is expected to stabilise in line with our assumption that hydrocarbon prices will ease slightly.
- The *banking system is robust with good asset quality and strong profitability*. Government spending and global expansion will provide growth opportunities in 2013-14.

1. Overview

Qatar was the fastest growing economy in the world, with a growth rate of 12%[1] from 2008-12. This rapid growth was driven by the development of Qatar's huge reserves of natural gas for the production and export of LNG. Qatar has been the world's largest exporter of LNG since 2006. The extraction of natural gas also resulted in the production of condensates[2], which overtook crude oil production in 2012.

The non-oil and gas sector has been supported in recent years by the ramp up in Gas to Liquids (GTL) and petrochemicals production, coupled with a buoyant financial and government services sector. Economic growth has led to tremendous prosperity, which as measured through GDP per capita at purchasing power parity[3] (PPP) was the highest in the world at US$102,211 in 2012 (Fig 1.1).

Fig 1.1: GDP Per Capita PPP (2012)
(US$k)



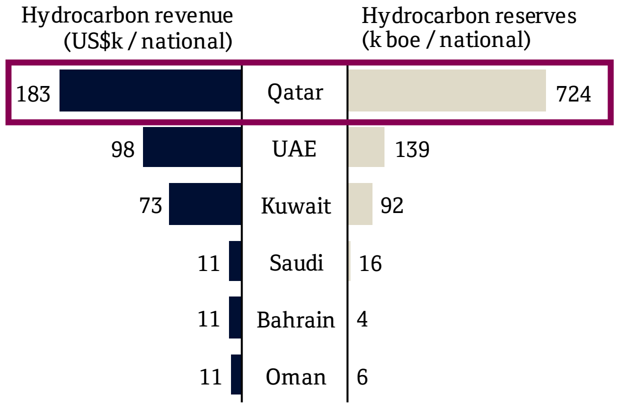
* A grouping of 35 developed global economies
** A grouping of 19 MENA economies
Source: International Monetary Fund (IMF) and QNB Group analysis

Qatar's oil and gas wealth per capita is the highest in the world

Qatar has the third largest gas reserves in the world, estimated at 885 trillion cubic feet (tcf), which along with crude oil and condensate reserves equated to around 192.8bn barrels of oil equivalent (boe) in 2012, compared to Saudi Arabia's 320.1bn boe. With Qatar's population at only 1.8m in 2012, hydrocarbon reserves and revenue per national were the highest in the world at 724k boe and US$183k (Fig 1.2).

[1] This is the compounded annual growth rate (CAGR), which is a geometric mean. In general, unless otherwise specified, all multi-year growth rates mentioned in this report will be CAGRs, rather than arithmetic means.
[2] Condensate is a very light crude oil, mainly produced as a by product of natural gas production.
[3] Adjusts GDP according to the spending power of the local currency.

Fig 1.2: GCC Oil and Gas Wealth (2012)



Source: British Petroleum (BP), IMF and QNB Group estimates

Qatar's sovereign credit ratings are high investment grade

Qatar has the highest credit ratings in the GCC, along with Kuwait. Its ratings also compare favourably with some of the most advanced economies in the world. Qatar's long-term foreign currency rating from Moody's is currently at Aa2 and from Standard and Poor's is at AA. The outlook on the ratings are stable. Qatar's ratings are supported by the country's robust economic fundamentals and strong government finances.

Qatar's 2030 Vision is based on four pillars and achieved through medium-term strategic plans

Government spending is now focused on achieving Qatar's 2030 vision. Qatar's long term growth plans were outlined in October 2008, through the Qatar National Vision 2030. It is based on four fundamental principles of sustainable economic, social, environmental and human capital development. These aims are set to be achieved though a series of medium-term strategic plans. The first National Development Strategy, covers the period 2011-16 (NDS 2011-16) and sets a baseline scenario from 2011-16 (Table 1.1).

Table 1.1: NDS 2011-16 Key Highlights

Indicator	Average 2011-16
Real GDP Growth (%)	6.9
Nominal GDP Growth (%)	9.4
Exports (US$bn)	96.6
Imports (US$bn)	51.0
Total External Debt (% of GDP)	78.0
Oil Price (US$/b)	86.0
Gas Price (US$/m BTU)	9.6

Source: General Secretariat for Development and Planning

2. Demographics

A. Population

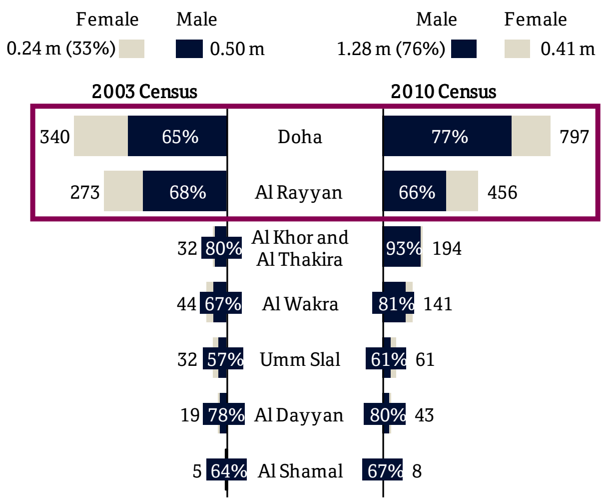
Population growth to remain strong with higher infrastructure spending

Qatar is relatively small in size compared to other GCC countries, with a land area measuring 11.5k km^2. However, it had the second fastest growing population rate in the world from 2008-12 at 4.3%, after Bahrain. Qatar's population grew by 3.4% in 2012 to reach 1.8m. Population growth in recent years has been driven by huge investments in the gas and related sectors, which has led to rapid economic growth and a large inflow of expatriate workers. The expatriate population accounted for 86% of the total in 2012 and increased by 6.5% from 2008-12. Qatari nationals were estimated at around 265k as at year-end 2012.

The inflow of expatriates, especially unaccompanied men in the construction and services sector, has led to a gender imbalance in the population. Males accounted for 74% of the overall population as at year-end 2012. The population is concentrated in and around the capital Doha and Al Rayyan municipalities (Fig 2.1).

Fig 2.1: Population by Municipality (2003/2010)

(k and % share)



Source: Qatar Statistics Authority (QSA) and QNB Group analysis

QNB Group forecasts population growth to remain fairly strong at 6.7% in 2013-14 as government expenditure on infrastructure projects gathers pace. The upcoming projects are expected to be labour intensive and will require additional construction workers. The economic diversification strategy will also see the inflow of professional workers in other sectors of the economy in the coming years.

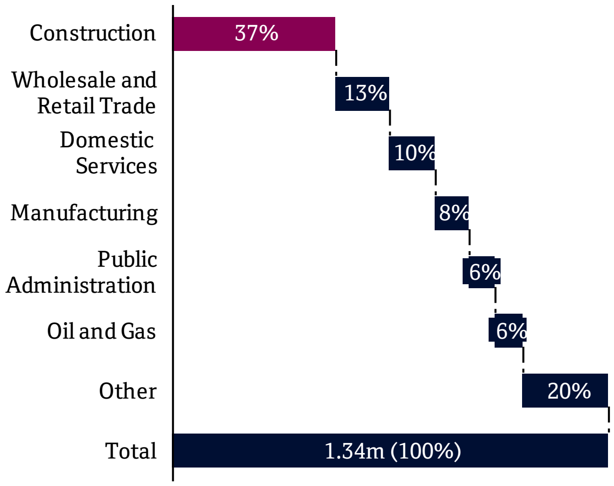
B. Labour Force

Government expenditure will drive huge workforce demand in the construction sector

The total labour force in Qatar grew by 5.5% in 2012 to 1.3m. The expatriate workforce accounted for 94% of the total labour force in 2012. This is mainly due to the large requirements in the construction sector, which is also the largest employing sector in the country (Fig 2.2).

Fig 2.2: Labour Force by Sector (2012)

(% share)



Source: QSA and QNB Group estimates

The private sector currently accounts for 74% of the total jobs in the market, with expatriates taking up the vast majority of available positions. In common with other GCC countries, the Qatari workforce is heavily skewed towards the public sector, with 84% of working nationals taking up jobs in the public sector. Qataris prefer public sector jobs due to the higher pay packages and benefits. Public sector pay increases implemented by the government in 2011 have made it even more difficult for the private sector to attract Qatari nationals.

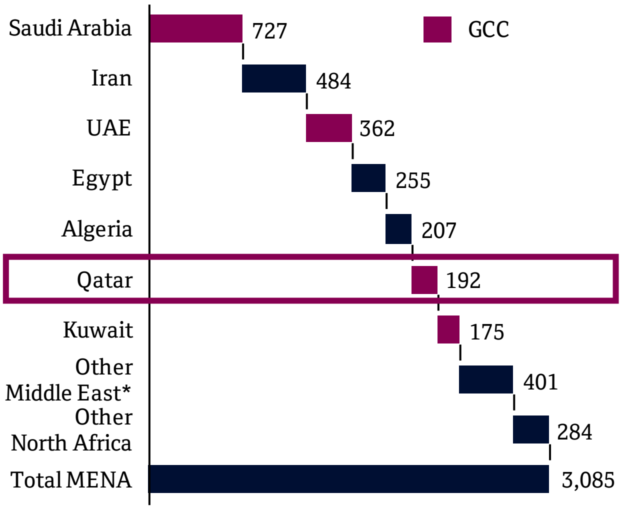
The NDS 2011-16 aims to increase the proportion of Qataris in the private sector workforce to 15% by 2016. Good progress has already been made in this regard with the proportion of Qatari workers in the private sector going up from 6.8% in 2008 to an estimated 8.5% in 2012. The NDS 2011-16 proposes to further increase the Qatari participation through the employment of women, encouraging entrepreneurship and levelling pay scales.

3. GDP

A. Nominal GDP

Qatar has the third largest economy in the GCC and the sixth largest in the MENA Region (Fig 3.1).

Fig 3.1: Nominal GDP in the MENA (2012)
(US$bn)



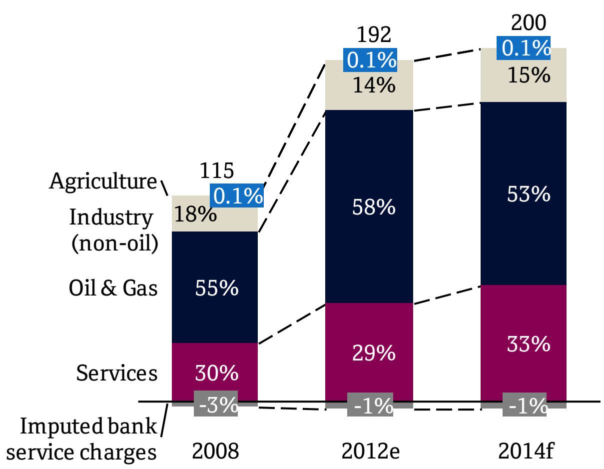
*Includes two GCC Countries (Oman and Bahrain). For Syria, 2010 GDP is used as no other recent estimates are available

Source: QSA, IMF and QNB Group analysis

Higher gas production and energy prices have driven rapid economic growth in recent years

Nominal GDP increased by 12% in 2012 after a rapid expansion by 14% from 2008-12. The gas sector by itself accounted for 42% of total GDP in 2012 and has been the key driver of overall growth as both production and energy prices increased. The non-oil and gas sector also witnessed strong growth at 13% from 2008-12, maintaining its share in overall GDP, supported by manufacturing, financial and other services (Fig 3.2).

Fig 3.2: Nominal GDP by Sector (2008-14)
(US$bn and % share of total)



Source: QSA and QNB Group estimates and forecasts

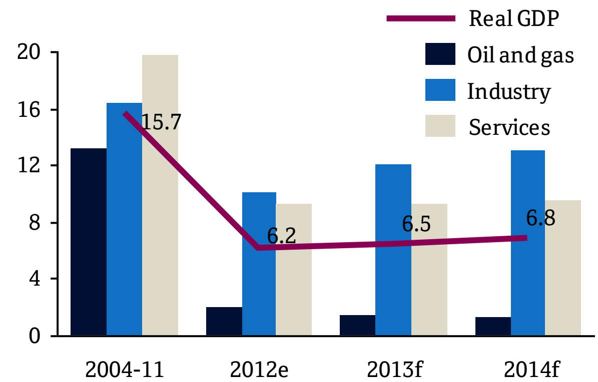
QNB Group forecasts nominal GDP to increase by 4% in 2013 and decline by 1% in 2014, mainly due to lower oil price assumptions.

B. Real GDP

Qatar is currently the fastest growing global economy with key shifts in the coming years

Qatar is the world's fastest growing economy with a Real GDP[4] growth rate of 12% from 2008-12, compared to China who was second with a growth at 9% during the same period. This rapid growth was primarily driven by the services sector and the gas sector. The services sector was driven by financial services, government services, logistics and wholesale and retail trade, while the gas sector was pushed up by the huge expansion in LNG production and exports. Real GDP growth slowed down to 6.2% in 2012 as LNG production reached full capacity and growth was supported by lesser weighted manufacturing and services sectors (Fig 3.3).

Fig 3.3: Real GDP Growth by Major Sectors (2004-14)
(% Growth)



Source: QSA, IMF and QNB Group estimates and forecasts

Large scale infrastructure development will boost private sector economic activities

QNB Group forecasts a real growth of 6.5% in 2013 and 6.8% in 2014 as oil and gas production remains flat and growth drivers are shifted towards the large scale infrastructure development program initiated by the government, as part of the build-up to the 2022 world cup to be held in Doha. The infrastructure development will stimulate buoyant economic activity in construction, financial and services sectors, which are expected to increase by 13%, 8% and 9% respectively in 2013-14.

[4] Real GDP shows the absolute change in the volume of economic output, by keeping prices constant at a certain base year, while nominal GDP shows the total value of economic output.

4. Economic Sectors

Gas and Oil (Section A) is the largest component of nominal GDP, accounting for 58% of GDP in 2012 (Fig 4.1). It includes gas (LNG, pipeline, domestic use and condensates) and crude oil production. It employs just 6% of the total labour force in the country.

Services (Section B) accounted for 29% of overall GDP in 2012. Financial and government services make up the largest sub-components of this sector.

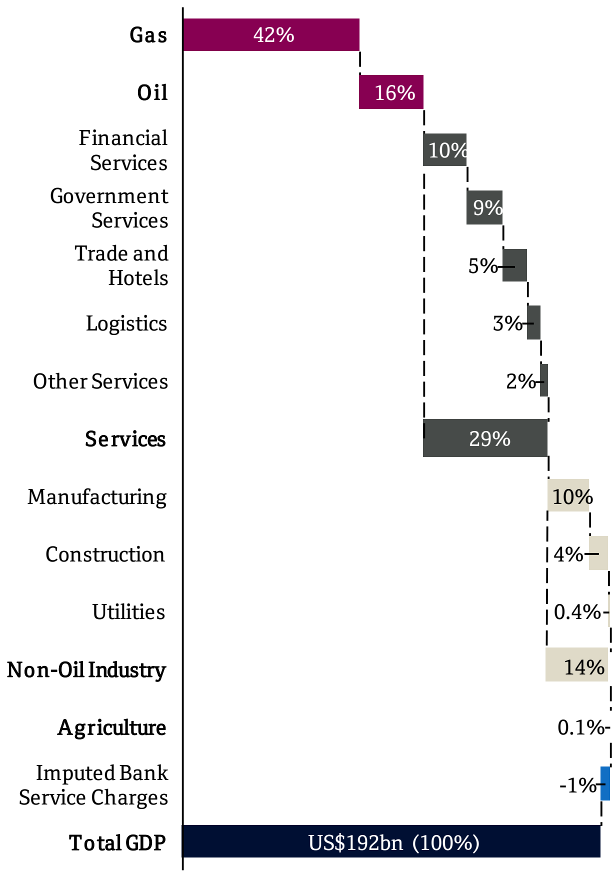
Non-oil Industry (Section C) formed 14% of GDP in 2012. It consists of manufacturing, construction and utilities. The manufacturing sector has witnessed significant growth over the past decade due to large expansions in petrochemicals and fertilisers, along with the production of GTL's.

Agriculture accounts for a very small proportion of GDP, which stood at 0.1% in 2012.

Imputed bank service charges are deducted from the overall GDP.

Fig 4.1: GDP by Economic Sectors (2012)

(% share and US$bn)



Source: QSA and QNB Group analysis and estimates

A. Gas and Oil

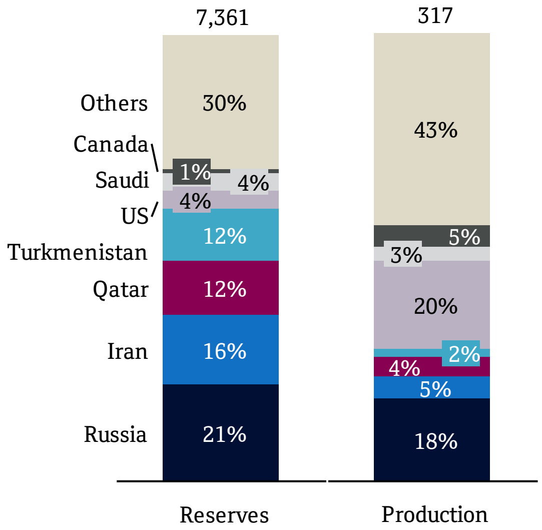
Natural Gas

Gas reserves are third largest in the world and expected to last for over 160 years

Qatar's proven gas reserves are estimated at 885 trillion cubic feet (tcf) as at year-end 2011[5], which translates into the third largest gas reserves in the world (Fig 4.2). At production rates in 2011, reserves would last for around 160 years.

Fig 4.2: World Proven Gas Reserves and Gas Production (2011)

(Reserves – tcf, production – bn cf/d and % share)



Source: BP Statistical Review of World Energy – June 2012, Qatar Petroleum (QP) and QNB Group analysis

Gas production is expected to rise due to Barzan and new discoveries

Qatar's vast gas reserves are located in the offshore North Field, which is the single largest non-associated gas field in the world. The government has placed a moratorium on further project developments in the North Field until the completion of a study into reservoir management and sustainable development are finalised. However, the Barzan domestic gas development project and Block 4 North (a new gas field discovered in March 2013 with an estimated 2.5 tcf of recoverable gas) are not subject to the moratorium. Block 4 North is the first gas find in 42 years and suggests potential for further discoveries in the future.

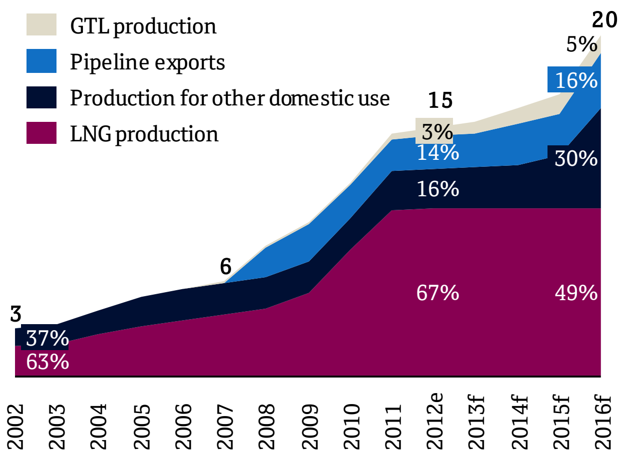
[5] According to BP Statistical Review of World Energy – June 2012.

Gas production has more than doubled in recent years due to LNG, GTL and Energy uses

Gas production has increased from 6bn cf/d in 2007 to around 15bn cf/d in 2012 (Fig 4.3). Production has witnessed an upsurge over the past few years in order to supply: new LNG and GTL facilities; industrial projects, particularly in the petrochemicals sector; and power generation plants.

Fig 4.3: Utilisation of Gas Production (2002-16)

(bn cf/d and % share)



Source: QP, QSA and QNB Group estimates and analysis

Qatar has been the world's largest LNG exporter since 2006 diversifying its customer base

The main driver of higher gas production has been investment in the production of LNG. LNG exports started in late 1996 and was at 2.2m tonnes/year (t/y) in its first full year of exports in 1997. Qatar has been the world's largest LNG exporter since 2006, with export volumes nearly reaching its production capacity of 77m t/y in 2012.

Qatar's main export market has historically been Asia, but it has expanded into new markets in Europe and the Americas and now covers over 23 countries across the globe. Qatar has accelerated its expansion by strategically investing in regasification terminals abroad to facilitate the distribution and storage of LNG. It currently manages three LNG regasification plants (South Hook in the UK, Golden pass in the US, and Adriatic in Italy).

Future expansion will be driven by Barzan, additional pipeline exports and new discoveries

The future expansion of gas production will be driven by the Barzan project that is estimated to bring on-stream an additional 1.5bn cf/d and new discoveries that are likely to add a further 0.7bn cf/d by 2016. The share of gas used for LNG is likely to drop as the moratorium on North Field gas remains in place, and the additional output is used for domestic power and industrial uses. An increase in pipeline exports to the UAE through the Dolphin project is also under negotiation and is likely to take some additional output.

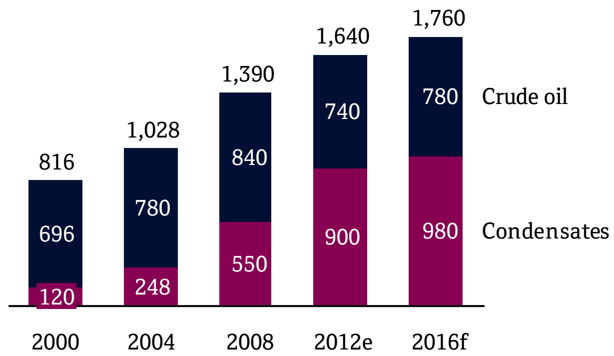
Oil

Condensate output has overtaken crude oil production and is expected to rise further

Qatar's proven crude oil reserves were estimated by QP in 2011 at 2.3bn barrels, while condensate[6] reserves have been estimated at 22.3bn. With the increased extraction of gas through various projects at the North Field, condensate production has gone up from 120k b/d in 2000 to overtake oil production (as condensates are a by-product of gas production), with 900k b/d in 2012 (Fig 4.4), higher than crude oil production of 740k b/d.

Fig 4.4: Oil Production (2000-16)

(k b/d)



Source: QP and QNB Group estimates, forecasts and analysis

Oil production will be boosted by the shift from PSAs to JVs and Barzan

Qatar's crude oil production will receive a boost from the decision in 2012 by QP to convert all production sharing agreement's (PSAs) with foreign partners into joint ventures (JVs). QP will directly invest in projects as crude oil production has been declining in some of the major oil fields in recent years. QP is also looking at increasing reserves/production and sustaining current reservoirs through enhanced oil recovery techniques. This is expected to increase reserves by an additional 1bn barrels and production by 40k b/d by 2016, while slowing the decline from mature fields. Condensate production is also set to rise by about 80k b/d by 2016 as a result of higher gas production.

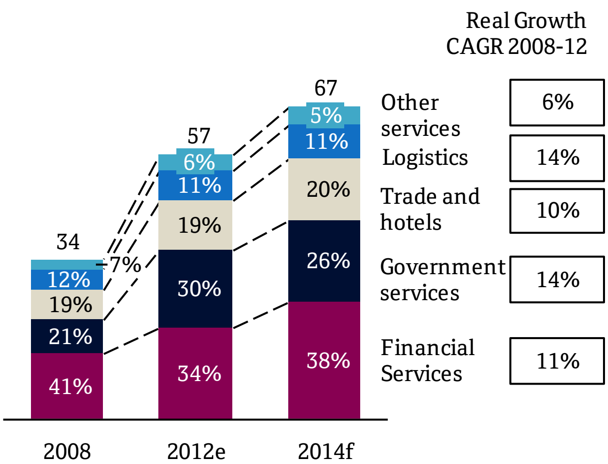
[6] Condensate is a very light crude oil, mainly produced from as a by product from non associated gas fields. In our calculations, we have also included Natural Gas Liquids (NGLs) as condensates.

B. Services

Financial and government services are key contributors and drivers of growth

The services sector accounted for 29% of nominal GDP in 2012, and 47% of the total workforce. In real terms, the services sector grew by 12.6% from 2008-12. All the main sub-sectors have been witnessing strong growth from 2008-12, with the financial and government services being key contributors and drivers of growth in the services sector (Fig 4.5). The services sector grew by 9.3% in real terms in 2012.

Fig 4.5: Services Sector Nominal GDP (2008-14)
(US$bn and % share)



Source: QSA and QNB Group analysis

Financial services includes banking, insurance, real estate and business services. Financial services grew by 11.2% from 2008-12 as lending activity and the real estate got a boost from the expansive government infrastructure spending outlays. Government services, which comprises of public administration, defence, healthcare and education expanded by a quicker 14.1% from 2008-12, as government fiscal budgets have been allocating significant resources in providing public benefits and social development.

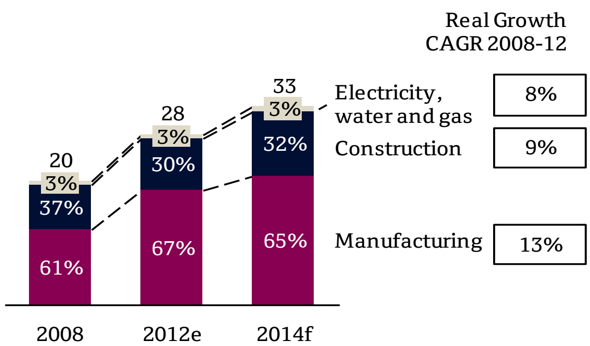
Growth in government services is likely to continue, supported by a 21% increase in capital spending and a 16% increase in current spending in the 2013/14 budget over the 2012/13 budget. Financial services should benefit from the additional infrastructure development projects in 2013-14, driving growth in this sector. Other sub-sectors such as trade, hotels and logistics have also grown strongly, helped by infrastructure development and strong population growth. These are trends that are likely to continue in 2013-14.

C. Non-oil Industry

Manufacturing has peaked with Construction holding significant growth prospects

Non-oil industry consists of manufacturing, construction and utilities. This sector accounted for only 14% of nominal GDP in 2012 (Fig 4.1), but it employs about 46% of the country's labour force, mainly due to the construction sector. The non-oil industry sector grew by 11% from 2008-12 in real terms. The manufacturing sector is the largest contributor (Fig 4.6) and has been a key growth driver with the various projects in the GTL, petrochemicals, fertiliser, metals, cement and other industries coming on-stream in recent years.

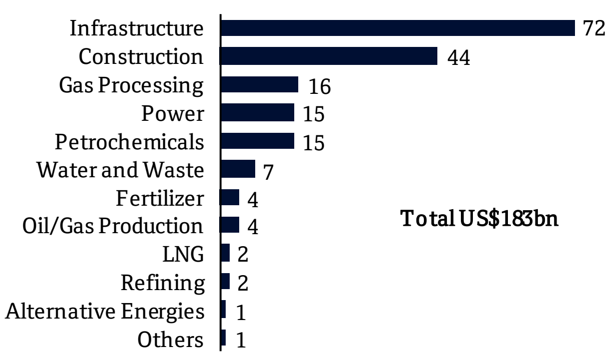
Fig 4.6: Industry Sector Nominal GDP (2008-14)
(US$bn and % share)



Source: QSA and QNB Group analysis

Construction has witnessed a recovery after a slowdown in 2007 and grew by 9% from 2008-12. Increased government allocations and spending on infrastructure development has been a primary growth driver and is the basis for our forecasted 13% expansion in 2013-14. The NDS 2011-16 planned an estimated US$225 bn in investments, out of which US$183bn currently remains outstanding, with infrastructure and construction receiving the highest allocations (Fig 4.7).

Fig 4.7: Planned Investments (2013-17)
(US$bn)



Source: GSDP, QSA, MEED and QNB Group analysis

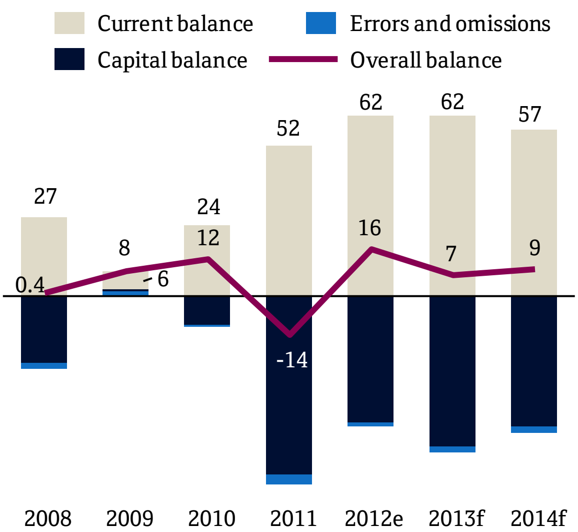
5. External Sector

A. Balance of Payments

The overall balance has witnessed fluctuations due to large capital movements

The overall balance of payments swung from a US$14bn deficit in 2011 to a US$16bn surplus in 2012 (Fig 5.1). The 2011 deficit was mainly due to large capital outflows for investment abroad and occurred despite the rapid expansion in exports revenue, which had almost doubled since 2008 driven by higher hydrocarbon prices and increased production of gas and related products. We expect the overall surplus to shrink slightly in 2013-14, mainly owing to slightly lower hydrocarbon prices resulting in a lower current-account surplus.

Fig 5.1: Balance of Payments (2008-14)
(US$bn)



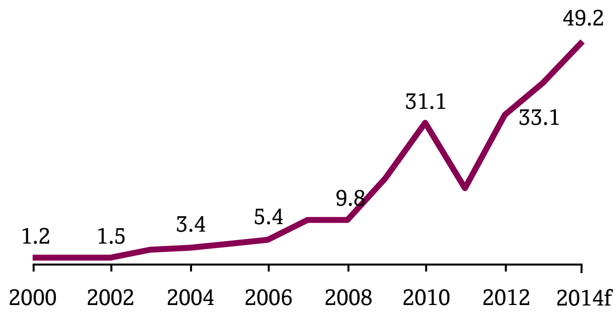
Source: QCB, QSA and QNB Group forecasts

International reserves are expected to rise even as foreign investments remain strong

The overall balance of payments reflects changes in the country's international reserves[7]. Qatar's international reserves have been steadily increasing since 2000 as foreign exchange receipts from exports grew. The pullback in reserves in 2011 was largely due to capital outflows for the purchase of foreign assets. The recovery in reserves in 2012 occurred as the rate of investment outflows slowed.

QCB's foreign exchange reserves were at US$33.1bn as at year-end 2012 (Fig 5.2). This would provide cover for over 16 months of imports, which is well above the IMF suggested minimum of three months. We forecast international reserves to move up gradually in 2013-14, even though investments overseas remain strong.

Fig 5.2: International Reserves (2000-14)
(US$ bn)



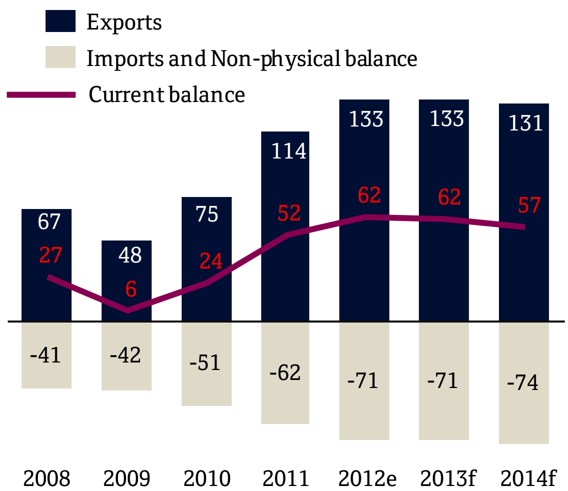
Source: QCB and QNB Group forecasts

B. Current Account

Strong export growth is supporting the current account surplus

Qatar's current account surplus has expanded, driven by strong export growth of 19% from 2008-12. Partially offsetting this increase, imports have grown at a rate of 5% during the same period and non-physical transfers abroad have grown (Fig 5.3). Non-physical outflows increased by 27% from 2008-12, mainly owing to an increase in the repatriation of workers' remittances and company profits as corporate and individual incomes have risen in line with Qatar's rapid economic growth. Transportation services payments are also a significant outflow under the current account, mainly consisting of transport costs related to the export of hydrocarbons and imports of goods.

Fig 5.3: Current Account (2008-14)
(US$ bn)



Source: QCB and QNB Group forecasts

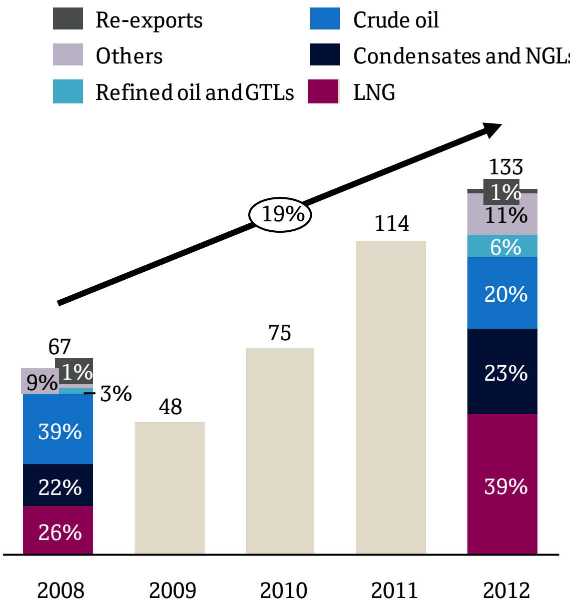
[7] International reserves include the central bank reserves, reserves with the IMF and gold.

Exports

LNG, condensates, GTLs and petrochemicals have been key drivers of export growth

Qatar's exports increased by 16% in 2012 to a record high of US$133bn (Fig 5.4). Growth has come mainly from additional exports of LNG, condensates, GTLs and petrochemicals.

Fig 5.4: Exports (2008-12)
(US$ bn, % share and CAGR shown)

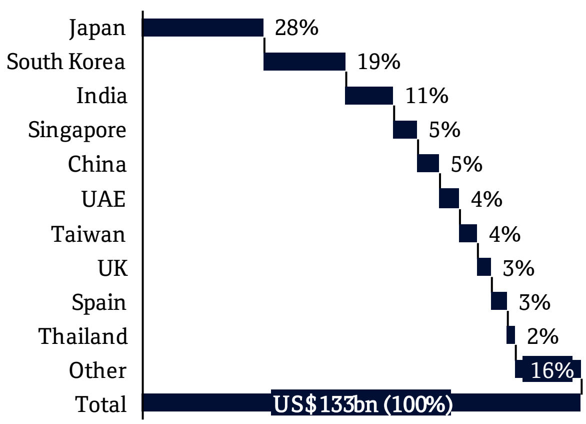


Source: QSA and QNB Group analysis

Over 75% of exports are directed towards Asia

Japan, South Korea and India are the leading export destinations for Qatar (Fig 5.5), due to their demand for LNG.

Fig 5.5: Export Destinations (2012)
(US$ bn, % share)



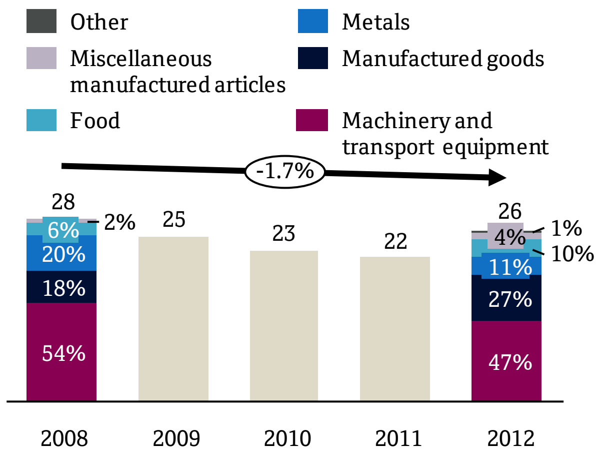
Source: QSA and QNB Group analysis

Imports

Pick up in economic activity and population growth has boosted imports

Qatar's imports grew by 17% in 2012 to US$26bn (Fig 5.6). The increase has been mainly driven by a pick up in project activity and the continued inflow of foreign workers into the country. The fall in imports from 2008-11 was mainly due to lower requirements for machinery and transport equipment for major LNG expansion projects as these were nearing completion. Higher imports in 2012 mark a turnaround as imports of machinery and equipment have again started to pick up as major infrastructure projects have accelerated in the run up to the 2022 World Cup.

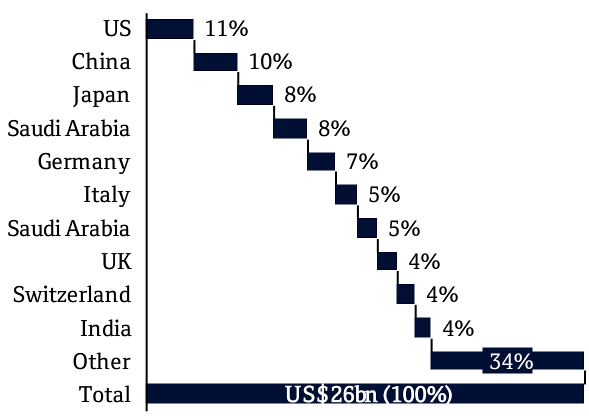
Fig 5.6: Imports (2008-12)
(US$ bn, % share and CAGR shown)



Source: QSA and QNB Group analysis; Note: totals are including customs, insurance and freight (CIF)

The US is the leading import source for Qatar (Fig 5.7), although the EU countries collectively supply 26% of imports. The main import is machinery.

Fig 5.7: Import Sources (2012)
(US$ bn, % share)



Source: QSA and QNB Group analysis

6. Money and Prices

The fixed exchange rate provides stability and encourages foreign investment

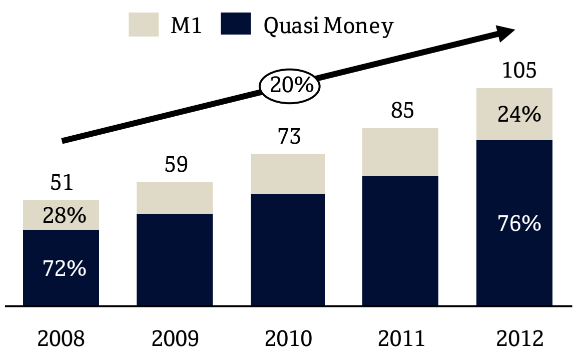
Qatar operates a fixed exchange rate system with the Qatari Riyal pegged to the US Dollar at US$1=QR3.64 since 1981. This means that official interest rates in Qatar closely follow those set by the US to avoid arbitrage pressure on the peg. Although the currency peg limits monetary policy in terms of setting domestic interest rates, it helps to foster a stable macroeconomic environment, encouraging foreign investment, trade and economic growth.

The new law on financial regulation will enhance supervision

A new QCB law regulating financial institutions came into effect in December 2012. In addition to its existing responsibilities of supervision and regulation of banking and financial services institutions in Qatar, the QCB will now also supervise the Qatar Financial Centre Regulatory Authority (QFCRA), the Qatar Financial Markets Authority (QFMA), and will also be responsible for the licensing and supervision of the insurance sector.

Since 2011, the QCB has stepped up the issuance of local T-bills and bonds. This will help to deepen the financial market and to build a local currency yield curve. More developed financial markets could provide additional options for Qatar to finance its large infrastructure development program. The monthly issuance of T-bills is also directed towards absorbing the excess liquidity in the market. Liquidity as measured through money supply (M2) grew by 23% in 2012 (Fig 6.1).

Fig 6.1: Money Supply (2008-2012)
(US$ bn, % share and CAGR shown)

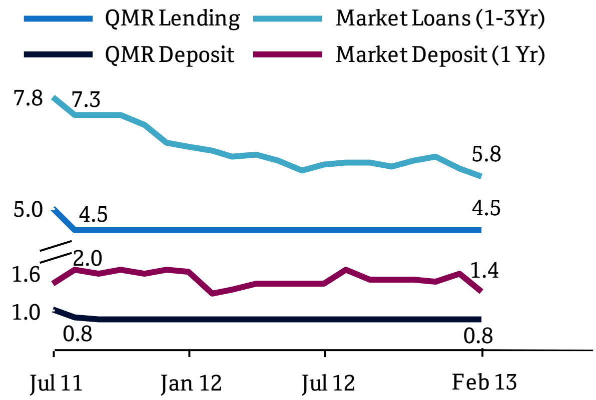


Source: QCB and QNB Group analysis

Interest rates are trending downwards due to ample liquidity and competitiveness

The domestic policy interest rates of QCB for deposits and loans have remained steady since August 2011 at 0.75% and 4.50% respectively. However the weighted average market interest rates of commercial banks have been declining due to ample liquidity and increased competition (Fig 6.2).

Fig 6.2: Interest Rates (Jul 2011- Feb 2013)
(% change)

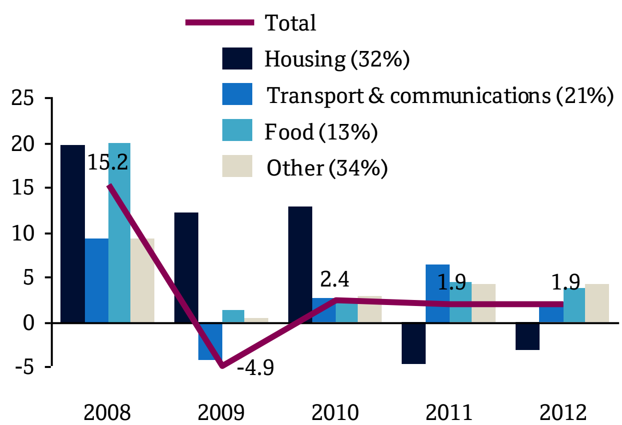


Source: QCB and QNB Group analysis

An upward movement in housing prices is likely to create inflationary pressures in 2013-14

Consumer price index (CPI) inflation, increased by an annual average of 1.9% in 2012. Inflation in Qatar has remained subdued in 2011-12 mainly due to declining rent prices (Fig 6.3). However, rents stabilised in the first half of 2012 and started to rise in the second half. We forecast inflation to increase in 2013 to 3.5%, driven by a continuing increase in rent prices, and to 3.8% in 2014 as increased project activity will see an inflow of workers, putting further pressures on housing supply and prices. Non-rent inflation is expected to remain steady at around 3% as international food prices stabilise and owing to the demand dampening effects of an economy that has slowed from double-digit growth.

Fig 6.3: CPI Inflation (2008-2012)
(% change, weights shown in legend)



Source: QSA and QNB Group analysis

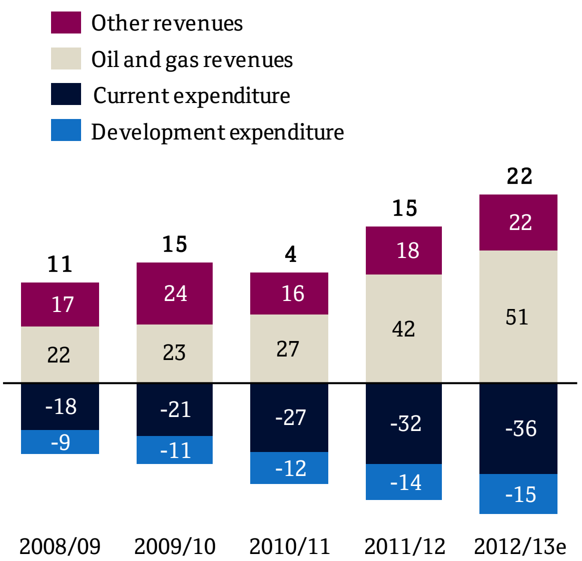
7. Public Finance

Public spending will focus on infrastructure development

Government attention and focus were predominant towards the hydrocarbon sector as Qatar made huge investments in commercialising its natural gas resources. These projects substantially raised the revenues for the government and provided for increased spending (Fig 7.1). These investments were on a declining trend since the last quarter of 2011, with the completion of the last LNG train. Government focus has now shifted from the development of hydrocarbon reserves to infrastructure. This is clearly evident through the NDS 2011-16, which has allocated the largest portion for infrastructure projects (Fig 4.7).

Fig 7.1: Fiscal Balance (2008/09-2012/13)

(US$ bn, overall balance in bold)



Source: Ministry of Economy and Finance, QCB and QNB Group forecasts

Government revenues continue to be dependent on the oil and gas sector, which accounted for an average of 61% of total revenues over the past five fiscal years. Oil and gas revenues increased by 22% in 2012, taking its share in overall government revenues to a high of 70% in 2012. This was mainly due to the higher oil prices which averaged US$109/b during the fiscal year and gas and condensate production. Other government revenues (investment, corporate taxes, customs duties etc.) increased by 19% in 2012 and is likely to increase as new taxes, such as service for restaurants is implemented.

Government expenditure grew by 17% over the last five fiscal years ending 2012/13. The major increase in government spending has come from current expenditure, which accounts for around 71% of total spending. Current expenditure increased by an average of 15% over the last two fiscal years as the government raised salaries, which forms the bulk of current expenditure along with other public administration expenses. Interest paid on government debt has witnessed a sharp upturn over the last two fiscal years, with a rise in borrowing. Development expenditure increased by an average of 13% over the past two fiscal years and is expected to witness a large growth as indicated in the 2013/14 budget.

Government spending will be higher than budgeted in 2013/14

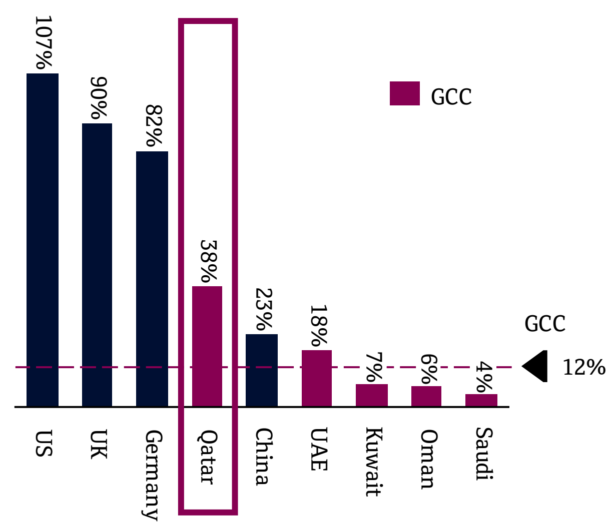
The government announced a record State Budget for 2013/14, with overall expenditures budgeted to increase by 18% to US$57bn and revenues expected to increase by 6% to US$60bn. The 2013/14 budget is based on a conservative oil price assumption of US$65/b, and we expect a surplus of US$10bn, compared to the budgeted surplus of US$2bn. This surplus is expected to develop even as overall spending is estimated to be 11% higher than budgeted, due to the ramp up in infrastructure development to meet the timeframe requirements for the 2022 World Cup. The 2013/14 budget has allocated US$24bn for development projects, out of which core infrastructure projects such as the rail, road and utility network etc. received the largest handout of US$13bn.

The Government debt rise is related to developing the financial markets

The rise in government debt to GDP rose to 38% in 2012 (Fig 7.2) and is mainly related to domestic T-Bills and bonds issued as the government aims to build a local currency yield curve.

Fig 7.2: Government Debt (2012)

(% of GDP)



Source: Ministry of Economy and Finance, IMF and QNB Group estimates

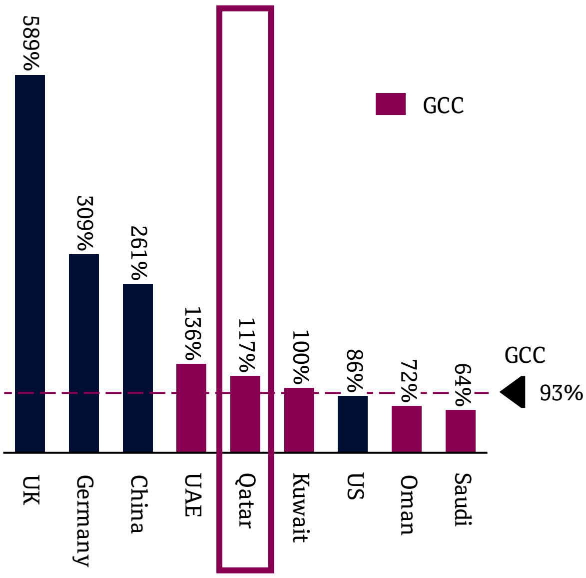
8. Banking

The banking system is expanding robustly with good asset quality

The banking system in Qatar has been robust, with a rapid growth of 19% from 2008-12. Higher energy prices and increased gas production have provided for large public spending programs, which has driven credit growth and resulted in overall asset gains. Total banking assets to GDP increased from 97% in 2008 to 117% in 2012. This is still a comparatively low level compared to economies with major global financial centres such as UK and Germany (Fig 8.1). However, Qatar's banking sector asset quality is stronger than many countries in the world with the non performing loans (NPL) estimated at just 2% of total loans in 2012. Qatar's banking system also has sound capitalisation, with a capital adequacy ratio of 19%.

Fig 8.1: Total Banking Assets to GDP (2012)

(Total Assets as % of GDP)



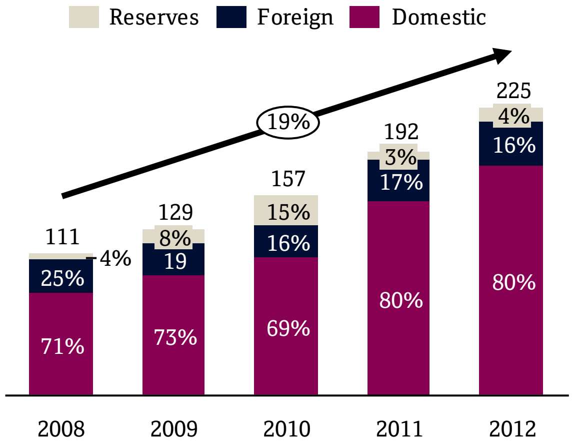
Source: IMF, Central Banks and QNB Group analysis

Qatar has the fastest growing banking sector in the GCC with local banks dominant

Qatar has the third largest banking sector assets in the GCC and has stood at the forefront of asset growth in the region. Qatar had the highest growth rate of 18% in banking assets region-wide in 2012. The main growth driver was domestic assets (Fig 8.2), which comprised mainly of credit (71%) and investment (21%), that increased by 27% and 11% respectively in 2012. Conventional banks account for the largest share of assets (72%) and, therefore, were largely responsible for the strong growth in assets, with their balance sheets expanding by 18% in 2012.

Fig 8.2: Total Banking Sector Assets (2008-12)

(US$bn, % share and CAGR shown)



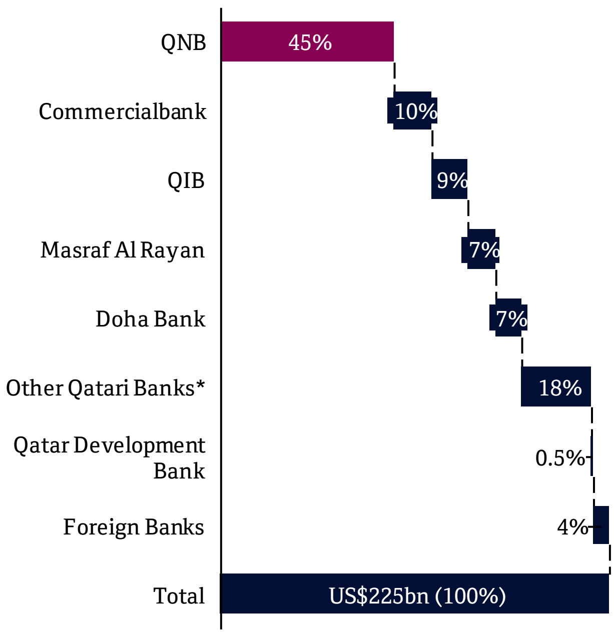
Source: QCB and QNB Group analysis

Top 5 banks account for 78% of banking sector assets

There were 18 QCB licenced banks operating in Qatar as at year-end 2012. This includes 6 commercial, 4 islamic and 7 foreign banks. Also present is the government-owned Qatar Development Bank. Qatar's banking sector is highly concentrated with the top 5 banks accounting for 78% of total banking sectors assets in 2012 (Fig 8.3). QNB is the largest bank in the MENA region with total assets of US$100.8bn as at year-end 2012.

Fig 8.3: Banks Share of Assets (2012)

(% share)



* Ahli Bank, Al Khaliji, Barwa, International Islamic, and International Bank of Qatar

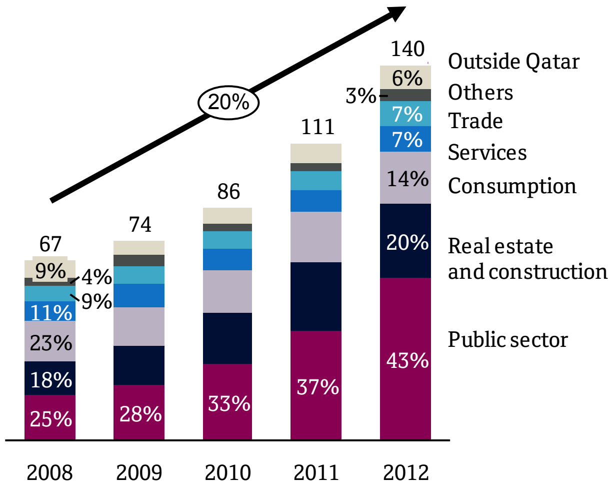
Source: QCB, individual bank financials and QNB Group analysis

The public sector is the largest recipient and driver of overall credit growth

Overall credit facilities increased by 26% in 2012 to US$140bn. Credit facilities to the public sector accounts for the largest portion of overall loans (Fig 8.4). Lending to the public sector shot up by 47% in 2012 to US$60bn and has been increasing by an average of 43% over the past three years. This is mainly due to the increasing use of short-medium term funding by the public sector to finance ongoing infrastructure projects. Growth in loans to the real estate sector and consumption (retail) slowed down in 2012 mainly due to regulation on lending limits set by the QCB.

Fig 8.4: Banks Credit Facilities (2008-12)

(US$bn, % share and CAGR shown)



Source: QCB and QNB Group analysis

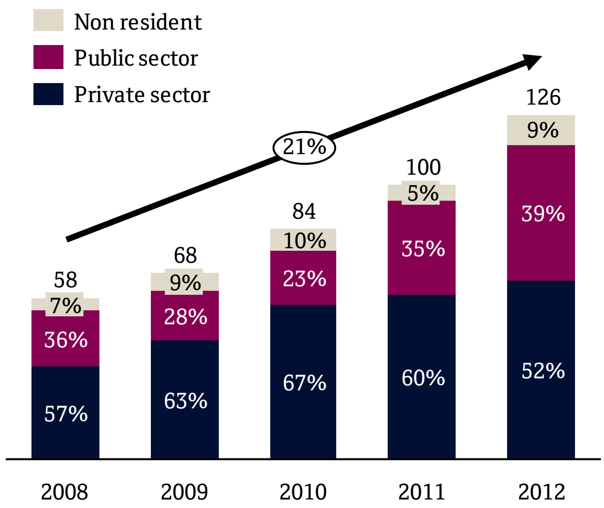
The public sector forms a stable source of funding as options widen

Banking sector deposits increased by 26% in 2012 to US$126bn (Fig 8.5). The public sector was the key growth driver for overall gains in banking sector deposits. Deposits from the public sector rose sharply by 44% (US$15bn) in 2012 and came mainly in the form of long-term foreign currency deposits. Non-resident deposits went up by 105% (US$6bn) in 2012.

Even as the increasing public sector deposits form a stable source of funding for the Qatari banks, they have increasingly been widening their funding options in recent years. Banks have been tapping into international bond markets and in 2012 issued bonds to the tune of US$4.5bn. Qatari banks have high credit ratings, along with strong support from the sovereign. This has allowed them to successfully access international debt markets and find funding options at competitive rates. The local bond markets have also been developing successfully in recent years as the government issued T-Bills and bonds. This will provide an additional source of funding for banks in the coming years.

Fig 8.5: Banks Deposits (2008-12)

(US$bn , % share and CAGR shown)



Source: QCB and QNB Group analysis

Banking sector profitability metrics are strong with a stable outlook and promising prospects

The net profit of Qatari banks increased by 7.5% in 2012 to reach US$4.4bn. The return on average equity (ROAE) stood at 17.5%, while the return on average assets was at 2.7%. Higher lending, a low cost base and low provisioning requirements have supported the banks overall profitability.

We expect Qatar's banking sector to maintain its profitability in 2013-14. It is expected to continue on its strong growth trajectory as rising infrastructure spending by the government provides for ample opportunities in credit growth, coupled with further global expansion by local banks.

Qatari banks have been swiftly expanding their global footprint in recent years. Most local banks already have an international presence through branches, offices and subsidiaries. Current plans will see the continuing increase in the international expansion by local banks. QNB has the largest international network among local banks, with a presence in 25 countries. Other local banks are also actively seeking international growth opportunities. Qatari banks will continue to look at international expansion in 2013-14 as global banking asset prices remain attractive and as Qatar rapidly expands its international investments, providing related banking needs and opportunities.

Key Macroeconomic Indicators

	2008	2009	2010	2011	2012	2013f	2014f
Population							
Total (m, year end)	1.45	1.64	1.72	1.73	1.83	1.96	2.08
Growth (%)	19.1	13.3	4.7	1.0	5.7	6.8	6.6
GDP							
Nominal GDP (US$bn)	115.3	97.8	125.1	171.5	192.4	**200.2**	**198.7**
Growth (%)	44.6	-15.2	27.9	37.0	12.2	**4.1**	**-0.7**
Oil and Gas Sector (% share)	54.9	44.8	52.6	59.3	57.8	**53.8**	**52.8**
Real GDP Growth (%)	17.7	12.0	16.7	13.0	6.2	**6.5**	**6.8**
Oil and Gas Sector Growth (%)	13.2	4.5	28.9	15.7	1.7	**1.4**	**1.2**
Non-oil Sector Growth (%)	21.3	17.6	8.6	10.8	10.0	**10.4**	**10.8**
Fiscal Indicators (% of GDP)							
Revenue	33.6	47.5	34.2	35.3	38.0	**37.0**	**36.1**
(US$bn)	38.7	46.5	42.8	60.5	73.2	**74.0**	**71.7**
Expenditure	-23.6	-32.3	-31.3	-26.6	-26.5	**-32.1**	**-34.9**
(US$bn)	-27.3	-31.6	-39.1	-45.5	-50.9	**-64.3**	**-69.4**
Balance	10.0	15.2	3.0	8.7	11.6	**4.9**	**1.2**
(US$bn)	11.5	14.9	3.7	14.9	22.3	**9.7**	**2.3**
Public debt	8.9	35.4	42.7	33.2	38.1	**40.0**	**39.0**
Current Account (% of GDP)							
Balance	23.1	6.5	19.0	34.3	37.6	**35.3**	**33.3**
Trade Balance	36.6	26.1	43.1	54.9	57.3	**54.4**	**53.2**
Exports (US$bn)	67.3	48.0	74.8	114.3	133.7	**133.7**	**131.2**
Imports (US$bn)	-25.1	-22.5	-20.9	-20.1	-23.5	**-24.7**	**-25.6**
Services Balance	-3.3	-4.0	-4.6	-5.5	-5.2	**-5.0**	**-5.3**
Income Balance	-5.9	-9.6	-10.3	-7.7	-7.1	**-6.9**	**-7.3**
Current Transfers Balance	-4.4	-6.0	-9.1	-7.4	-7.4	**-7.2**	**-7.3**
International Reserves (US$bn)	9.8	18.8	31.1	16.7	33.1	**40.1**	**49.2**
Import Cover (months)	4.7	10.0	17.8	10.0	16.9	**19.5**	**23.1**
External Debt	29.1	51.1	56.7	51.3	53.0	**53.9**	**56.4**
Industry Indicators							
Crude Oil Production (k b/d)	842.8	781.0	733.0	734.0	733.7	**740.0**	**753.3**
Qatari Crude Oil Price (US$/b)	95.2	62.1	77.8	108.6	111.2	**108.0**	**102.0**
Gas Production (bn cf/d)	7.9	9.1	11.9	14.7	15.3	**15.7**	**16.6**
Monetary indicators (%)							
Consumer Price Inflation	15.2	-4.9	-2.4	1.9	1.9	**3.5**	**3.8**
Food	19.9	1.3	2.1	4.3	3.7	**2.9**	**3.3**
Housing	19.7	-12.0	-12.8	-4.8	-3.3	**3.7**	**4.0**
Weighted Average Deposit Rate (1-yr)	3.4	4.3	1.7	1.9	1.7	**-**	**-**
Weighted Average Lending Rate (1-3yrs)	8.6	9.4	8.7	6.6	6.3	**-**	**-**
Broad Money (M2) Growth	19.7	16.9	23.1	17.1	22.9	**11.5**	**13.0**
Exchange Rate US$:QR	3.64	3.64	3.64	3.64	3.64	**3.64**	**3.64**

Source: QSA, QCB, QP, Ministry of Economy and Finance, IMF and **QNB Group estimates and forecasts;** Data as at 30th April 2013

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