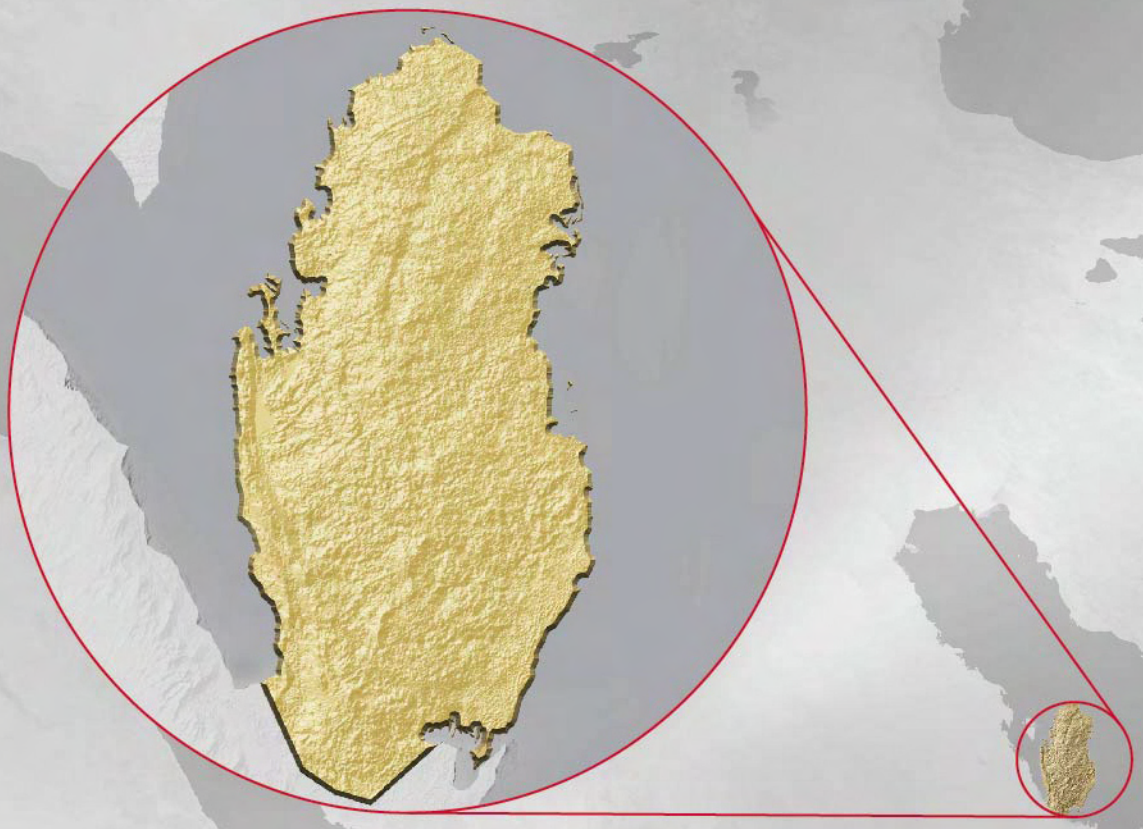
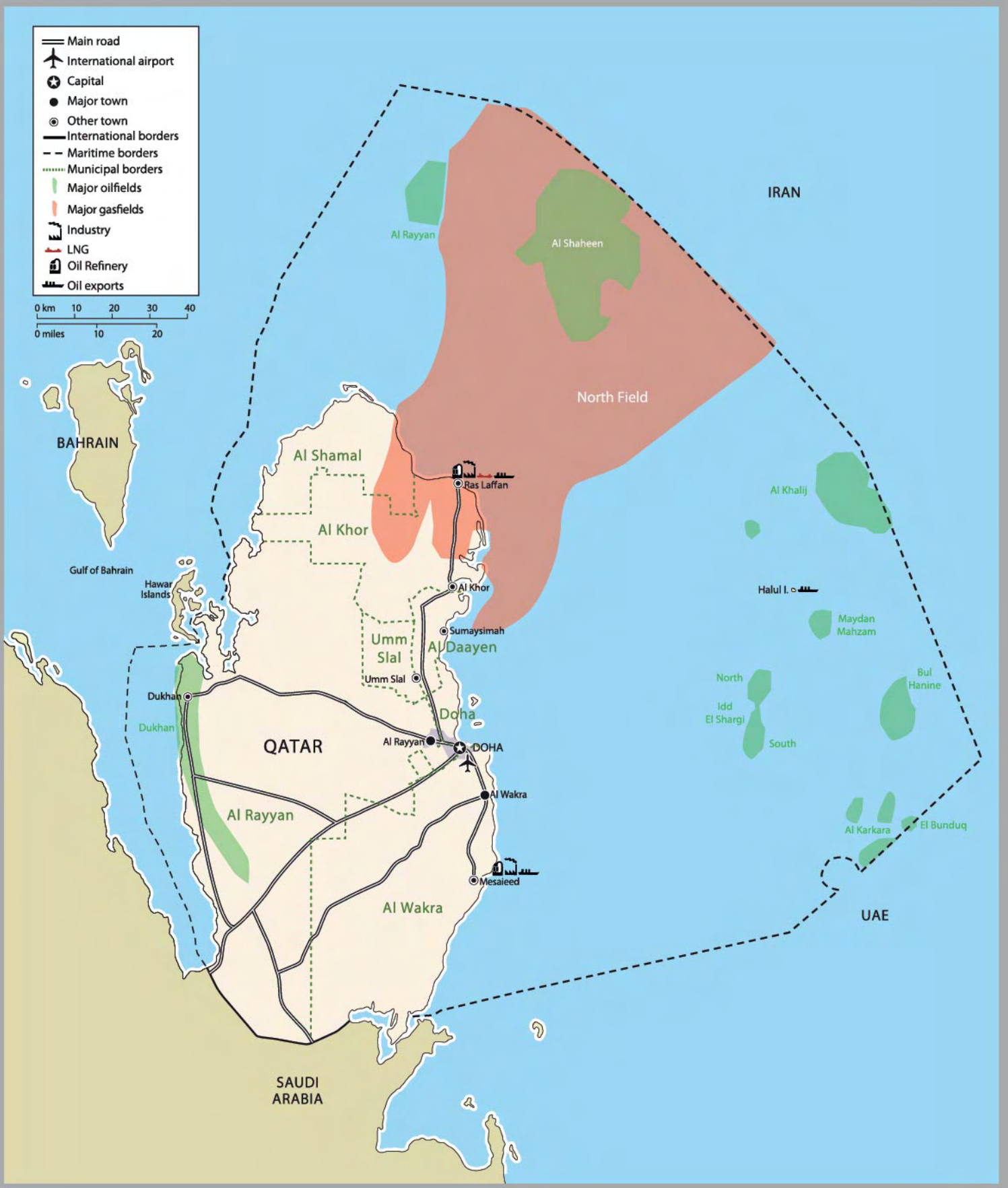
Qatar - Economic Insight

September 2011



QNB CAPITAL


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 Khor
Al Khalij
Gulf of Bahrain
Hawar Islands
Al Khor
Halul I.
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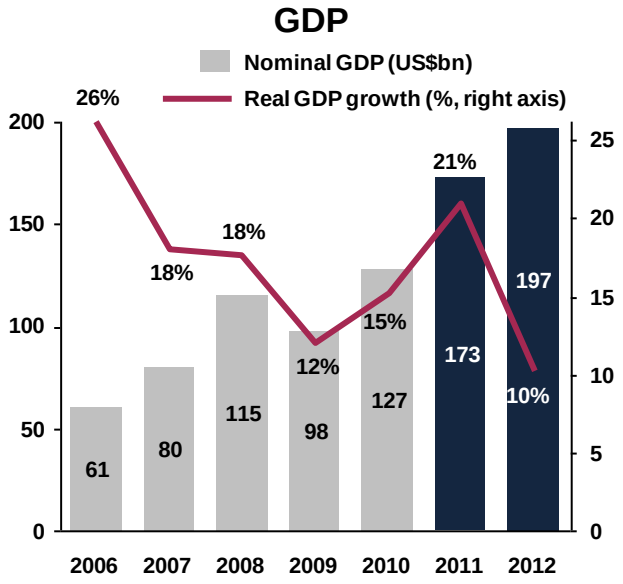
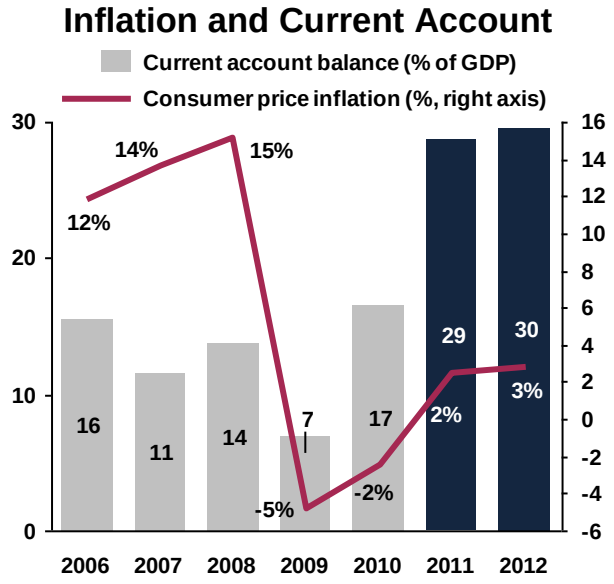
El Bunduq
Mesaieed
Al Wakra
UAE
SAUDI ARABIA

Outlook summary for 2011 and 2012

- Qatar's **population reached 1.7m** in the 2010 census, having grown at 14% a year since 2006. QNB Capital forecasts more moderate annual **growth of 3.5% in 2011-12.** Qatari nationals account for 14% of the total
- Qatar is **the world's fastest growing economy**, with a real GDP growth rate of 16% in 2006-10. The rapid growth will continue in 2011, at 21% and by 10% in 2012. The economy doubled in 2006-10. We forecast that the overall economy will reach **US$197bn in 2012**
- Qatar is planning **US$225bn of investment** in 2011-16. This is in the run up to its hosting of the 2022 FIFA World Cup, and rooted in the model of sustainable development envisaged in the **Qatar National Vision for 2030** (QNV 2030)
- Qatar has **the world's third largest reserves of natural gas**, mainly in the offshore North Field which holds an estimated 894trn cubic feet of gas. Qatar also has around 26bn barrels of oil and condensates reserves
- Production of raw liquid hydrocarbons, crude oil, condensates and natural gas liquids was 1.57m barrels per day in 2010 and is forecast to grow to 1.90m in 2012. Gas production was 11.3m cubic feet per day in 2010 and is forecast to grow to 15.9m in 2012. This includes **77.1m tonnes per year of liquefied natural gas**
- An increasing volume of **raw hydrocarbons are processed** into refined fuels, gas-to-liquids, petrochemicals and fertilisers. Gas also provides power for other industry, such as aluminium smelting and desalination
- The non-oil and gas economy is also growing rapidly. The **construction sector** is forecast to triple from 2006-12, benefiting from ongoing infrastructure, residential and commercial development projects. The **services sector** grew at 23% in 2006-10, led by financial services





Source: QSA, QCB, *QNB Capital forecasts

- The **current-account surplus** is expected to expand to 29% of GDP in 2011-12, because of rising export revenue. Years of surpluses have built up Qatar's foreign exchange reserves and holdings of foreign assets
- After two consecutive years of deflation, caused largely by falling rents, we forecast that **inflation will pick up to 2.4% in 2011** and 2.8% in 2012
- The **fiscal surplus** will be boosted by oil and gas revenues and is expected to rise to an average of US$8bn (4.4% of GDP) in 2011-12
- **Banking sector** assets have grown at 31% a year since 2006 to US$157bn at the end of 2010. The banking sector is prudently managed and well protected with the lowest levels of non-performing loans in the GCC
- The **equity market** had a capitalisation of US$122bn in mid-2011. It has been the strongest performing regional market since the start of 2010
- **The World Economic Forum (WEF) competitiveness index ranks Qatar 17th globally** and 1st in the Middle East. The World Bank's Doing Business index ranks Qatar 2nd globally in terms of paying taxes

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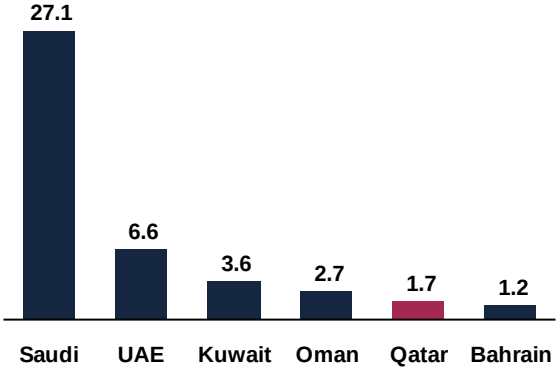
1. Country Overview and Demographics

A. Country Overview

Qatar's **population** reached 1.7m in April 2010 (Fig 1.1), of which 14% were nationals. This is the second smallest population in the GCC after Bahrain and means that Qatar contains 3.8% of the total GCC population.

Fig 1.1: GCC Population (2010)
(million)

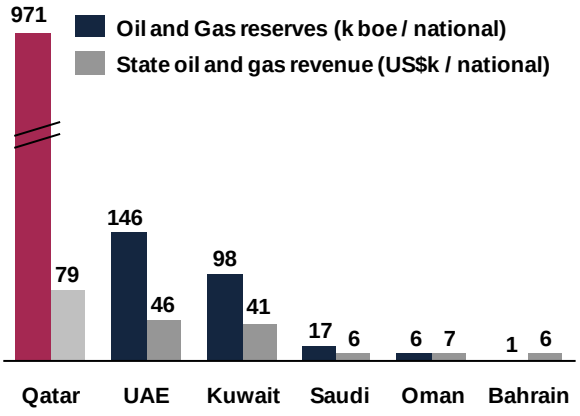


Source: Bahrain, Oman, Qatar and Saudi censuses 2010; Central Bank of Kuwait estimate; QNB Capital estimate for UAE[1]

Qatar has the highest level of oil and gas reserves and revenue per national in the GCC

Qatar has the third largest proven reserves of natural gas in the world, as well as sizeable reserves of oil and condensates. This endows it with enormous wealth relative to the small population. Therefore, hydrocarbon reserves and oil and gas revenue per Qatari national are significantly higher than in other countries in the GCC (Fig 1.2).

Fig 1.2: GCC Oil and Gas Wealth (2009)



Source: BP, IMF and QNB Capital analysis

During the 2000s, Qatar was the fastest growing economy in the world, with the result that it now has the highest level of GDP per capita globally in terms of purchasing power parity. The economy is dominated by the **oil and gas sector**, which accounted for an average of around 62% of nominal GDP in 2010. Qatar has been the world's largest exporter of liquefied natural gas (LNG) since 2006 and accounted for 26% of global LNG exports in 2010.

The government has a vital role in stimulating the economy by disbursing oil and gas revenue

Revenue from oil and gas exports accrue to the **government**, which disburses them throughout the economy. The government normally spends around 30% of GDP per year through the national budget. Therefore, the government has a vital role in supporting and stimulating economic activity.

Qatar's long-term goals were set out in 2008 in the **QNV 2030**, which is based on the principles of sustainable economic, social, environmental and human capital development. The QNV 2030 will be implemented through a series of medium term plans. It has provided the framework for the country's most recent six-year plan, the National Development Strategy (NDS 2011-16)[2], which covers the period from 2011-16 .

To achieve the vision set out in the QNV 2030, the NDS 2011-16 estimates that around US$225bn of investment will be needed during 2011-16. Roughly half of this investment will be in the non-oil and gas sector. The NDS 2011-16 estimates that the government will provide US$95bn, or 42% of total investment laying the foundations for the private sector to make up the remaining US$130bn. The NDS 2011-16 is based on certain economic assumptions which are outlined below (Table 1.1).

Investment in developing a first-class infrastructure will be accelerated as the country prepares to host the 2022 FIFA World Cup. The largest project is the US$29bn metro and rail project. It will be implemented in three phases with completion scheduled for 2022. Other focal areas include roads, industrial zones, and information and communication technology.

Table 1.1: NDS 2011-16 Economic Baseline Scenario

2011	Baseline Scenario for 2011-2016
US$105*	Average oil price of **US$86/barrel**
US$9.8	Average gas price of US$9.6/mBTU
16%	Real GDP growth averaging **6.9%**
9.5%	Non-oil and gas growth of **9.1%**
14%	Real growth in GDP per capita averaging **5.3%**
10.1%	Public fixed investment averaging **10.4%** of GDP
26%*	Services sector accounting for **40%** of GDP by 2016

Source: GSDP, NDS 2011-16 forecasts, *QNB Capital forecasts

[1] The UAE did not conduct a planned census in 2010, but did substantially revise its 2010 population estimate, up to 8.3m from 5.1m (based on information from visa issuance and cancellation). The new population estimate is extremely high and does not match emirate level population figures. Therefore, an average of the old and new official figures, which is close to other third party estimates is used

[2] The QNV 2030 and the NDS 2011-16 were developed by the General Secretariat for Development Planning (GSDP)

Diversification is rooted in Qatar's comparative advantages

Qatar's recent rapid economic growth has benefited from the success of its long term oil and gas investment programme, which has greatly raised export revenue. Oil and gas production is now close to the currently planned capacity and consequently a slowdown in production growth is expected. Therefore, economic **diversification** in the non-hydrocarbon sectors will become increasingly important to deliver future growth and create jobs.

Qatar has already entered new industries that leverage its comparative advantages of inexpensive hydrocarbon feedstock and cheap energy inputs. These include petrochemicals, fertiliser manufacturing and metal production.

Additionally, Qatari services sector companies including iconic brands, such as Qatar Airways and Al Jazeera, are competing on the international stage. In the financial sphere, the Qatar Financial Centre (QFC) has been successful in attracting globally renowned companies[3]. This has helped expand the financial services sector, particularly in the areas of advisory services, insurance, asset management and wealth management.

Investment in education and scientific research aims to develop a knowledge-based economy

A central tenet of the QNV 2030 is to push economic development forward by building a **knowledge-based economy** in Qatar. The aim is to boost the contribution of the services sector to GDP and raise research and development spending to 2.8% of GDP. A key step in achieving this objective is the Qatar Science and Technology Park (QSTP), an initiative of the Qatar Foundation (QF), which now hosts over 30 members, including leading global high-tech research companies.

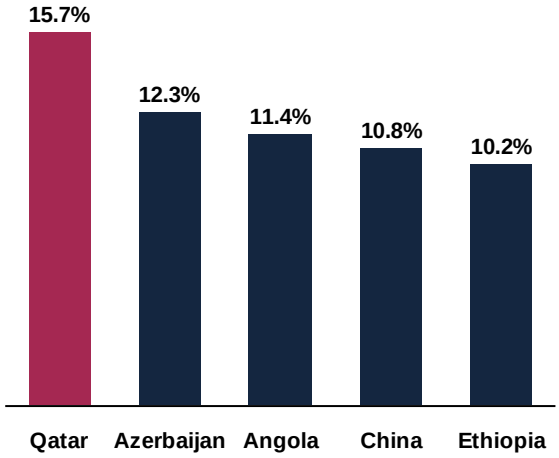
Huge investments have gone into **education**, developing Qatar University and attracting top-class foreign universities to set up affiliates in Doha in the QF's Education City campus[4]. QNB Capital estimates that spending on education will be 3.2% of 2011 GDP, one of the highest in the GCC.

Qatar is currently the fastest growing economy in the world

Qatar is the fastest growing economy in the world, with a compound annual growth rate (CAGR) of real GDP of 15.7%[5] from 2006-10 (Fig 1.3). Huge investments made by the state in natural gas and other sectors have ensured rapid growth and diversification of the economy. Qatar will continue to be the fastest growing global economy in 2011 with an estimated real GDP growth of 21%, according to QNB Capital.

Fig 1.3: Fastest Growing Global Economies (2006-10)

(real GDP CAGR)



Source: IMF and QNB Capital analysis

Qatar has the highest sovereign credit ratings in the GCC

Table 1.2: GCC Long-Term Ratings (2011)

Sovereign	S&P	Moody's	Fitch
Bahrain	BBB	Baa1	BBB
Kuwait	AA	Aa2	AA
Oman	A	A1	N/R
Qatar	**AA**	Aa2	N/R
Saudi Arabia	AA-	Aa3	AA-
UAE	N/R	Aa2	N/R
Japan	AA-	Aa3	AA
Singapore	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
US	AA+	Aaa	AAA

Source: S&P, Moody's, Fitch and QNB Capital analysis

Qatar currently has the highest credit ratings[6] in the GCC, together with Kuwait (Table 1.2). It also compares favourably with some of the most developed economies in the world. Qatar is one of the very few global

[3] There are now 144 companies that have been registered or licensed under the QFC. These include Barclays Bank, Morgan Stanley, Deutsche Bank, Citibank, Goldman Sachs and JP Morgan Chase Bank

[4] Six US universities and one each from France and the UK have established affiliates in Qatar's Education City. These include Weill Cornell Medical College in Qatar, Carnegie Mellon in Qatar and Northwestern University in Qatar

[5] This is the compound 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 (averages). CAGRs are always lower than arithmetic means

[6] Credit ratings are assigned to countries, companies and financial instruments (referred to as issuers). It expresses an opinion about the ability and willingness of the issuer to meet their financial obligations. The ratings are usually classified into three broad categories: investment grade, speculative and default. Qatar's credit ratings are in the upper segment of investment grade ratings, signifying its strong government finances. There are a number of different rating agencies. The principal rating agencies are Standard and Poor's (S&P), Moody's and Fitch

sovereigns that received a ratings upgrade in 2010. Ratings agency Standard and Poor's (S&P) raised Qatar's sovereign long-term foreign and local currency ratings to AA from AA- in July 2010. The outlook on the ratings is stable. S&P mentioned that the upgrade was based on the strengthening of the fiscal and external accounts, and strong growth prospects from the completion of gas projects in 2010-12.

B. Demographics

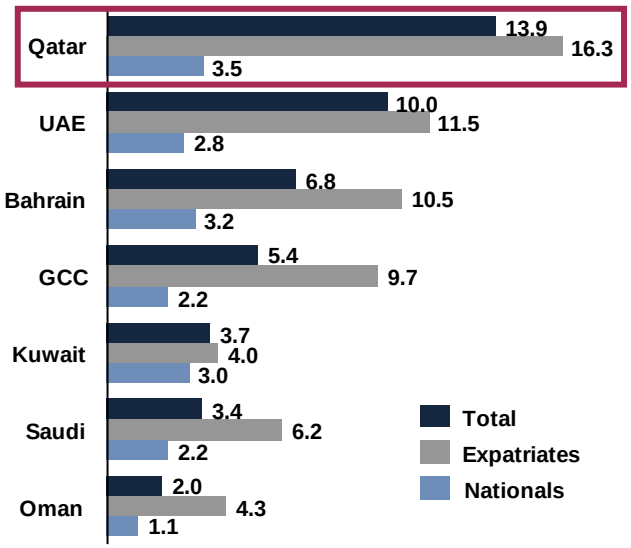
Population

The total population grew by 14% annually during 2006-10

The **total population** recorded 1.7m in the April 2010 census. This implies a growth rate of 14% over the previous five years. We forecast that the population will now grow at a more gradual rate of 3.2% in 2011-12, to 1.8m. We expect a lower growth rate as a consequence of reduced development project activity, leading to lower demand for expatriate labour.

We estimate that **Qatari nationals** numbered around 0.24m, or 14% of the total population in 2010. The growth rate of the national population was around 3.5% between 2006 and 2010. This is one of the fastest national population growth rates in the GCC, second only to Bahrain (Fig 1.4).

Fig 1.4: GCC Population Growth (2006-10)
(% annual growth)



Source: National statistical authorities, QNB Capital estimates

The **expatriate** population was 1.5m in 2010, representing 86% of the total. It grew at an annual rate of around 16% over the previous five years. During these boom years, the growth of the expatriate population was driven by the extraordinary growth of the Qatari economy. This record growth is expected to slow slightly going forward and, therefore, the growth of the expatriate population will also decelerate. In 2011-12, we forecast that the expatriate population will therefore grow at a more moderate rate of 3.3%.

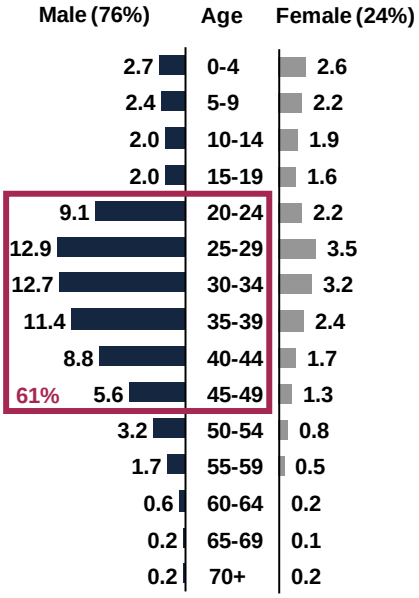
61% of the population are men aged between 20 and 49 years old

Overall, the total population was 76% **male** and 24% **female** in 2010. This gender imbalance is because the majority of expatriates working in Qatar, especially in the construction and services sectors, consists of unaccompanied males.

The age profile of the population is also skewed by the expatriate workforce. Around 61% of the population are males within the core working 20-49 age group (Fig 1.5).

The population is concentrated around the capital city, Doha, which has been the focus of the country's rapid expansion. The Doha municipality itself accounts for 47% of the total population. Adding to this, the municipalities that neighbour Doha (Al Rayyan, Al Wakra and Umm Salal) would account for 86% of the population. The largest municipality outside this area is Al Khor, 50 km north of Doha, which accounts for 11% of the population. There are 149 people per sq km in Qatar, which makes it one of the more densely populated countries in the GCC. In Saudi Arabia, for example, there are about 14 people per sq km.

Fig 1.5: Population by Age and Gender (2010)



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

Labour force

94% of the workforce are expatriates and the private sector is the main driver of job growth

The labour force grew at a rate of 19% between the 2004 and 2010 censuses, leading to a tripling of the economically active population (Fig 1.6). This has mainly been driven by the inflow of expatriates to work in the

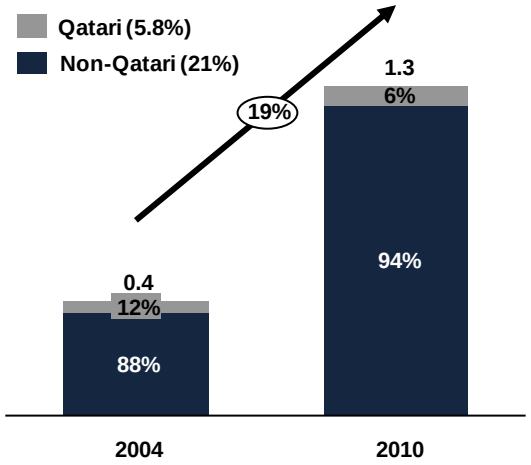
burgeoning economy. Expatriates make up 94% of the workforce. The Qatari workforce has also grown, rising from 52,895 in 2004 to 74,087 in 2010.

The private sector accounts for around three-quarters of jobs and it has been the main driver of job growth. Private sector employment increased by 356% between 2004 and 2010, nearly triple the growth in government jobs over that period.

Non-Qataris account for 99.4% of the private sector workforce. Low-skilled workers in the construction sector make up the largest component of the private sector (42%). They are employed as part of the massive investment and infrastructure projects that are being implemented in the country. The expansion of the economy and the investment programmes has been the main contributor to growth in the private sector workforce.

Fig 1.6: Labour Force by Nationality (2004-10)

(m, CAGRs shown in legend and in chart)



Source: QSA and QNB Capital analysis

The NDS 2011-16 aims to increase the proportion of Qataris in the private sector to 15%

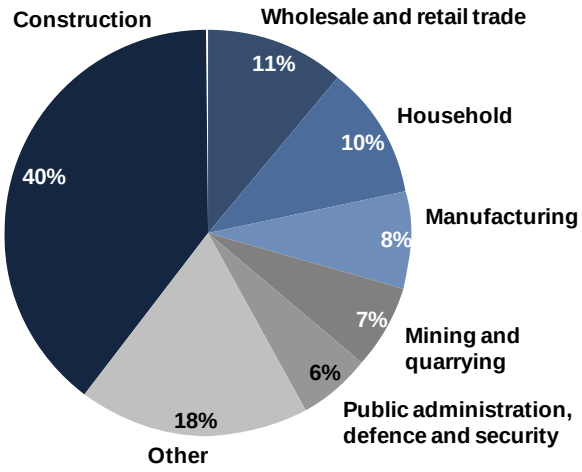
The **Qatari** workforce is predominantly (84%) in the public sector with a further 5% working in the mixed sector (for partly state-owned companies) and 8% working in the private sector. The remaining 3% are either unemployed jobseekers or not actively seeking work. Females account for 37% of the Qatari workforce.

After government administration, the most popular sectors for Qatari nationals to work in are education (11% of the national workforce) and mining and quarrying (6.9% of the national workforce). Large portions of these sectors are state owned.

According to the NDS 2011-16, the pay structure of the labour market offers strong incentives for Qatari nationals to work in the public sector, which has higher pay and more benefits. The NDS 2011-16 aims to increase the proportion of Qataris in the private sector workforce to 15% by 2016. This could be achieved through a variety of reforms such as:

- Encouraging entrepreneurship initiatives and studies
- Reducing the barriers to the employment of women in the private sector
- Levelling out the differences between pay and benefits in the public and private sectors

Fig 1.7: Labour Force by Sector (2010)



Source: QSA and QNB Capital analysis

Workforce skill level

Government investment has helped to improve the skill level in the workforce

The government is investing heavily in education. Around 14% of total expenditure in the state budget for 2011-12 was allocated to education and youth welfare. A similar level of investment has been sustained for the last decade. This has raised the skill level within the national workforce. The proportion of the national population that has attained a university degree increased from 17.7% in 2004 to 20.3% in 2010. A further 27.9% have completed secondary education, up from 19.4% in 2004. Additionally, the proportion of the Qatari labour force at the associate professional level, or higher, has risen from 50% in 2004 to 55% in 2010.

As the skills of Qatari nationals improve, they will be able to take on some roles which currently require expatriate workers. However, the scale of economic expansion in Qatar is too great for the small national population to manage alone. Foreigners will continue to play a crucial role in the economy, both at a professional level and at a semi-skilled level, given the huge construction projects that are currently underway and planned.

Unemployment

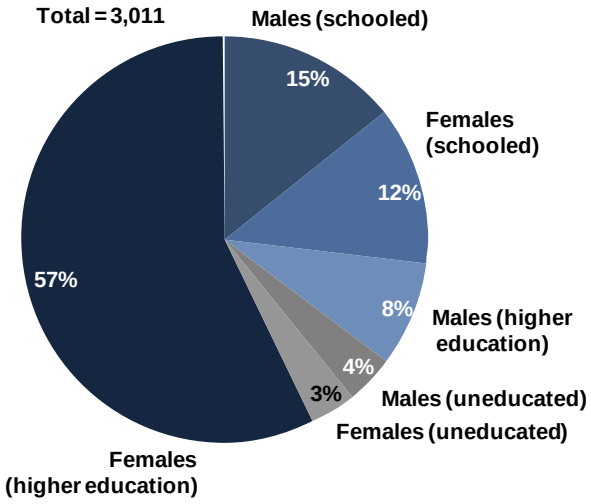
Unemployment is highest amongst the more qualified and amongst females

The unemployment rate for **Qatari** nationals is 4.1%. This is relatively low compared to other GCC countries. The government is in a position to employ most nationals

who are willing to work, or offer them further educational opportunities, which minimises unemployment.

However, the unemployment figures show that 73% of the unemployed Qataris are female (Fig 1.8). Furthermore, 57% are female with a higher level education (vocational, diploma or university). In total, 66% of unemployed Qatari men and women have reached university level education or higher.

Fig 1.8: Qatari Unemployment by Gender and Education (2010)



Source: QSA and QNB Capital analysis[7]

Unemployment within the **expatriate** workforce is considerably lower at 0.2%. This is because expatriate residence permits are linked to their employment.

[7] The differences to the text in the sum of percentages is owing to rounding

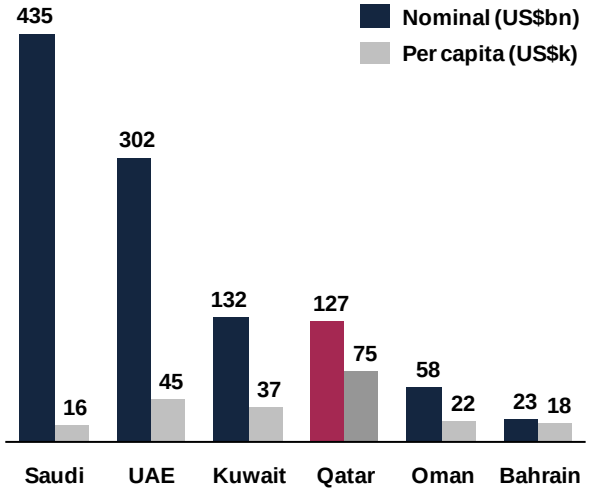
2. Gross Domestic Product

A. Nominal GDP

Qatar is the fourth largest economy in the GCC and the wealthiest in terms of GDP per capita

Qatar's nominal GDP grew by 30% in 2010 to reach US$127bn. Qatar is the fourth largest economy in the GCC (Fig 2.1) and accounted for 12% of the region's GDP in 2010. Nominal growth in 2010 was close to the 38% annual growth achieved during the 2005-08 boom period.

Fig 2.1: GDP in the GCC (2010)



Source: IMF and QNB Capital estimates

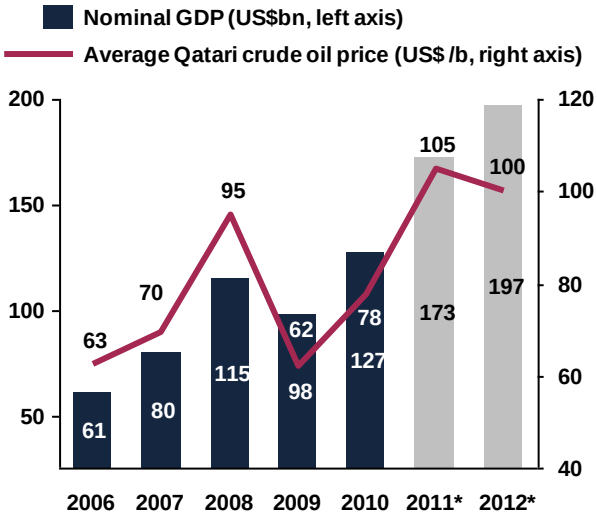
In terms of GDP per capita, Qatar is the wealthiest country in the GCC. This is a result of its high level of oil and gas output relative to the small population.

Rising gas exports and high energy prices have been the main drivers of nominal GDP growth

The oil and gas sector accounted for an average of 61% of GDP in 2006-10. With the development of Qatar's gas fields, liquefied natural gas (LNG) and other gas-related products[8], the gas sector has become an increasingly important component of GDP. Gas-related exports have risen from 38% of total exports in 2006 to a remarkable 60% in 2010 (Section 4). LNG exports alone grew at a rate of 31% during 2006-10.

LNG is largely sold through long-term supply contracts with prices linked to crude oil prices. Spot LNG prices roughly track oil prices, although this can vary according to gas supply and demand. As a result, there tends to be a strong correlation between international oil prices and Qatar's average LNG sales price. A spike in the price of both oil and LNG in 2008 helped boost nominal GDP by 45% to US$115bn (Fig 2.2). A drop in these prices in 2009 drove GDP down 15% to US$98bn, despite expanded LNG production that year. In 2010, Qatari crude oil prices rose again by 25% to US$78/b. This, combined with further LNG expansion, drove the 30% increase in nominal GDP in 2010.

Fig 2.2: Nominal GDP and Oil Prices (2006-12)



Source: QSA, *QNB Capital forecasts

In the first eight months of 2011, Qatari crude oil prices have averaged US$108/b. QNB Capital expects oil prices to be slightly lower in the remainder of the year as global economic weakness negatively impacts demand. Therefore, Qatari crude is forecast to average US$105/b over 2011, falling to US$100/b in 2012.

Based on these strong oil prices and a substantial increase in natural gas production, nominal GDP is expected to grow by 36% in 2011 to reach US$173bn. In 2012, an increase in oil and gas production and growth in the non-oil and gas economy will more than offset softer oil prices, boosting GDP a further 14% to US$197bn. QNB Capital forecasts that the oil and gas sector will grow by 53% in 2011 to US$101bn and by 14% to US$115bn in 2012.

The non-oil and gas sector will, in turn, be boosted by high revenues flowing into the economy from the oil and gas sector. This will lead to a significant 17% growth in the non-oil and gas sector in 2011 and 14% in 2012. The financial services, insurance and real estate sector is expected to expand by 15% in 2011 to US$20bn and by 22% in 2012 to US$24bn due to public and private investment in major projects. Manufacturing is expected to grow by 26% to US$17bn in 2011 and by 11% to US$19bn in 2012 due to higher prices and additional output from new petrochemicals, metals and fertiliser facilities.

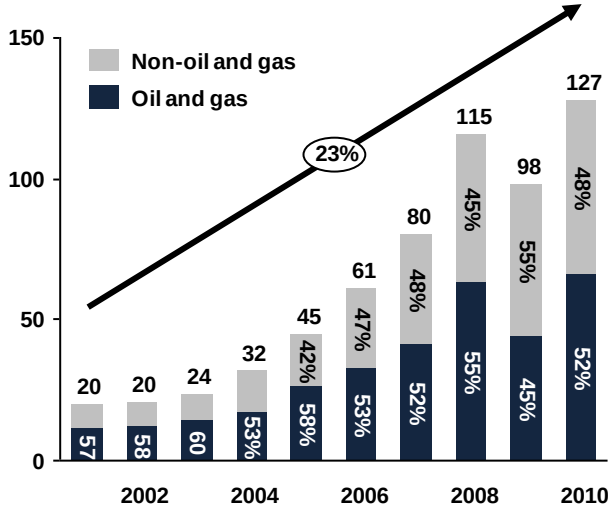
[8] Gas-related products include not just LNG and piped gas, but also condensates and natural gas liquids (NGL), which are extracted from raw gas, as well as GTL. We exclude non-fuel products, such as fertilisers and petrochemicals, which are produced using natural gas as a feedstock

B. Economic Structure

The share of the oil and gas sector in nominal GDP will rise to 58% in 2011-12

The average share of the **oil and gas sector** in nominal GDP ranged between 45% and 60% in 2001-10 (Fig 2.3). It climbed to 55% in 2008 when average oil prices were high before dropping to 45% in 2009 when oil prices declined.

Fig 2.3: GDP by Main Economic Sectors (2001-10)
(Totals in US$bn, CAGR shown)



Source: QSA and QNB Capital analysis

Owing to high average oil prices in early 2011, the share of the oil and gas sector in GDP in the first quarter of 2011 has risen to 57%. With average oil prices forecast to be relatively high in 2011-12, the share of the oil and gas sector in the economy is expected to continue to grow. Therefore, we forecast that the share of the oil and gas sector will average 58% of nominal GDP in 2011-12.

The non-oil and gas sector has grown by a larger absolute amount than oil and gas

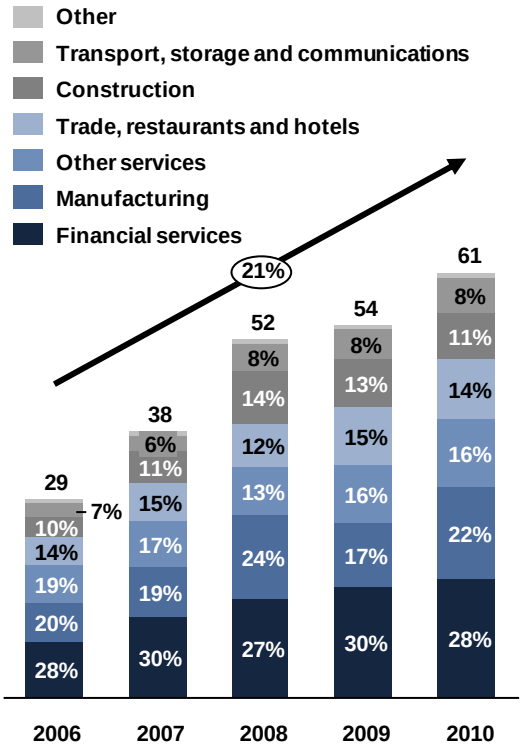
The non-oil and gas sector's share in GDP has risen from an average of 42% in 2001-05 to an average of 49% in 2006-10. This was a result of the non-oil and gas sector growing at a faster rate of 27% during 2006-10, compared to a growth rate of 20% for the oil and gas sector during the same period. The non-oil and gas sector added US$43bn to GDP over this five year period, compared with an extra US$40bn from the oil and gas sector.

The fastest growing part of the non-oil and gas sector in 2006-10 was social services at a rate of 37%. This was a result of growth in government spending on health and education. Wholesale and retail trade were also important drivers of growth, as rising income from hydrocarbons has fuelled a retail boom. Meanwhile, financial services grew at 33% and added US$13bn to GDP over the five year period. This sector has been supported by inflows of hydrocarbons income and increased economic activity. It is also the largest component of non-oil and gas GDP (Fig 2.4).

The manufacturing sector is the next largest component of non-oil and gas GDP. It has also been an important driver of growth at 25% in 2006-10. A large share of the manufacturing sector involves the processing of oil and gas derivatives products. For example, the refining of oil and the production of petrochemicals, fertilisers and gas-to-liquids (GTL, Section 3A), are all dependent on inputs derived from oil and gas. The added value from these sectors is included under manufacturing, which we have classified as a non-oil and gas sector.

Analysis of the main components of non-oil and gas GDP indicates that much of the growth has been dependent on the oil and gas sector. The revenues from oil and gas and their by-products are being dispersed through the economy by the government, banks and oil- and gas-linked elements of the private sector, providing an enormous boost to the non-oil and gas economy.

Fig 2.4: Breakdown of Non-Oil and Gas GDP by Sector (2006-10)
(US$bn, CAGR shown)



Source: QSA and QNB Capital analysis

C. Real GDP

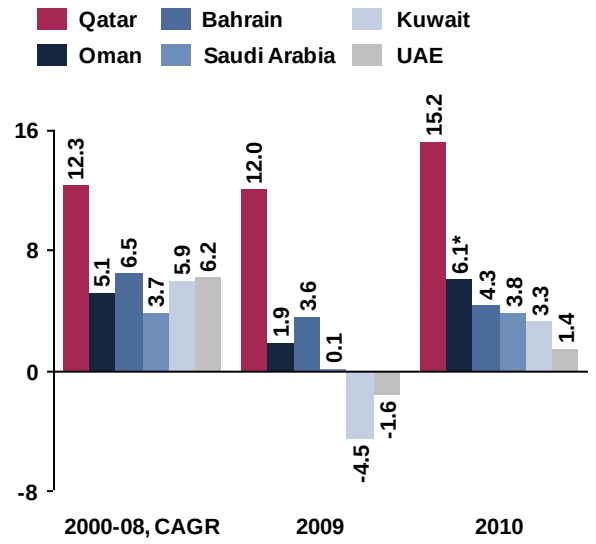
Qatar's real economy has grown faster than the rest of the GCC for a number of years

During 2000-08, Qatar's real GDP growth was 12%. This was more than double the real growth recorded by each of the other five countries in the GCC (Fig 2.5). Qatar's growth also remained well ahead of the other countries during the global downturn and recovery in 2009-10.

Qatar's strong growth over the last decade has been driven by a steady expansion in oil and gas production. The oil and gas sector expanded at a rate of 15% in 2006-10. This has increased inflows of capital into the State, which have helped to create a construction boom. The construction sector grew at a rate of 38% in 2005-09, as massive industrial, infrastructural and residential projects were implemented.

Government spending helps build confidence in the economy and is an important driver of growth. Government spending has averaged around 30% of GDP per year over the last decade. However, a high proportion of this spending goes on imports of capital goods and materials and on wages for expatriates. A proportion of expatriates' wages are remitted to their countries of origin. These factors slightly dilute the impact of government spending on domestic economic growth.

Fig 2.5: GCC Real GDP Growth (2000-10)
(% change, unless otherwise indicated)



Source: National sources, IMF, *QNB Capital estimate

Non-oil and gas growth compensated for a contraction in the oil and gas sector in 2009

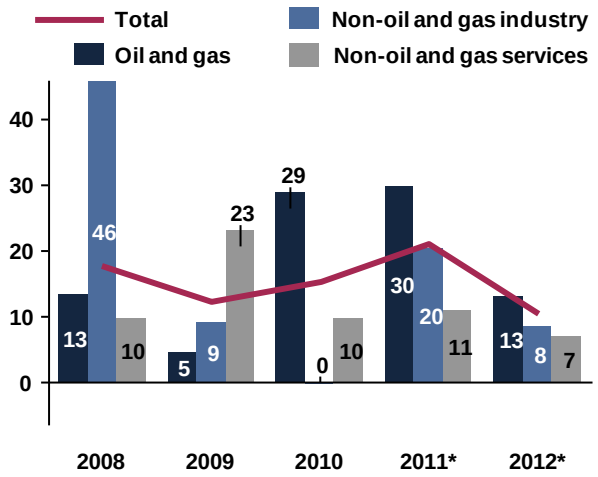
In 2009, real GDP growth slowed down to 12%, from 18% in 2008 (Fig 2.6). This was mainly because the expansion of the oil and gas sector slowed from 13% to 4.5%. This was a result of a 7% cut in **oil output** after OPEC[9] cut the oil production targets of its members at the end of 2008. In the wake of the 2008 financial crisis, OPEC became concerned about falling oil prices and weak global demand. It therefore reduced the output targets for its members. Qatar is relatively compliant with OPEC output targets. In 2010, OPEC production averaged 119% of the targeted maximum level, whereas Qatari production was just 110% of its target.

Meanwhile, natural **gas** production continued to increase in 2009, rising by 16%, as the global financial crisis and recession had little impact on development plans that were nearing completion. This increase more than offset the fall in oil production, keeping total oil and gas GDP growth positive.

The global recession and the slowdown in the oil and gas sector precipitated a broader economic slowdown in the Qatari economy in 2009. The poor global economic outlook led to some investment restraint, although major projects continued to be implemented. The construction boom stuttered as real growth in the sector slowed from 79% in 2008 to 6.9% in 2009. Overall, growth in the **non-oil and gas industrial** sector, including construction, slowed from 46% in 2008 to 9.1% in 2009.

The **services** sector was less affected by the economic slowdown. Real growth was 23% in 2009, close to its historical average. Growth in the sector was boosted in 2009 by an expansion in government services—public administration grew by 24% and social services by 22%. Financial services grew by 26% in 2009.

Fig 2.6: Real GDP Growth by Major Sector (2008-12)
% change



Source: QSA, *QNB Capital forecasts

[9] The Organisation of the Petroleum Exporting Countries (OPEC) is a grouping of 12 oil-exporting countries, which aims to coordinate policies between its member states in order to stabilise oil markets and ensure: a steady income for oil-producing nations; secure supply to oil-consuming countries; and a fair return for investors in the oil sector. OPEC accounts for over 40% of world oil production and is therefore able to influence global oil markets by coordinating production adjustments and setting production targets for its members

The most important drivers of growth in the services sector during 2005-09 were:

- Wholesale trade, expanding at a rate of 35%, owing to rapid population and consumption growth
- Transport, storage and communication, which grew at 32% as mobile phone usage soared
- Financial services benefited from the strong performance and credit growth in the wider economy, growing by 28%

In 2010, oil production increased by 2.6%. We estimate that gas production rose by 31%. Along with a recovery in other sectors, overall real GDP growth picked up again to 15%.

We forecast real GDP growth of 21% in 2011 and 10% in 2012

We forecast that real GDP growth will accelerate to 21% in 2011, due to numerous ongoing projects in the private and public sectors. It is expected to slow to 10% in 2012, after a number of these projects have been completed.

Real GDP discounts the impact of prices on a country's output and is instead dependent on changes in the volume of production. We expect production to average around 809,000 b/d in 2011, 1% more than in 2010.

In response to the financial crisis, OPEC implemented cuts in the production targets of its members in October 2008. By 2010 the global economy had begun to recover from the slowdown in growth in 2009, leading to a pickup in oil demand and a rise in production to meet demand. However, there was no change in OPEC's quotas although production has risen above the 2008 targets.

Meanwhile, raw gas production has been rising strongly and we forecast it will grow at a rate of 18% in 2011-12. QNB Capital forecasts that the oil and gas sector will grow by 30% in 2011 and by 13% in 2012 due to output changes to meet demand arising from the recent completion of projects in the gas sector.

We expect the non-oil and gas sector to expand by 14% in 2011 and 7.4% in 2012. This will be driven by population growth and the implementation of a growing number of private and public projects, with confidence buoyed by higher oil prices. The manufacturing sector is expected to achieve 28% growth in 2011 and 8.5% in 2012, mainly due to increases in fertilisers, petrochemicals and GTL output.

3. Production by Sector

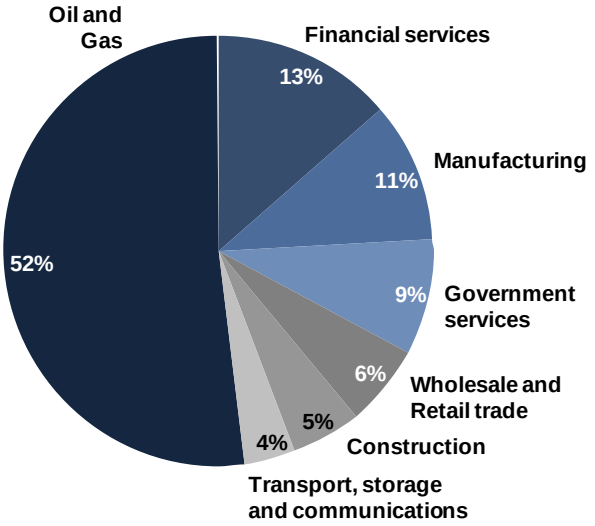
Oil and Gas (Section A) was the largest component in nominal GDP, accounting for 52% in 2010 (Fig 3.1). It includes crude oil and raw gas production.

Manufacturing (Section B) accounts for 11% of GDP and is dominated by oil refining, petrochemicals, fertilisers, steel and aluminium.

Construction (Section C) accounts for 5% of GDP but has been experiencing rapid growth owing to investments in large-scale development projects.

Services (Section D) accounted for 32% of GDP in 2010. It includes financial services, government services, wholesale and retail trade, and transport, storage and communications.

Fig 3.1: Breakdown of GDP by Sector (2010)



Source: QSA and QNB Capital analysis

A. Gas and Oil

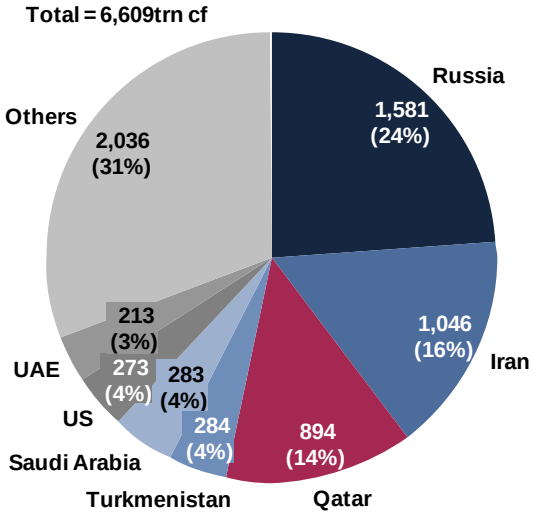
Natural Gas

At current production rates, gas reserves will last for over 200 years

Qatar has the third largest proven reserves of natural gas in the world after Russia and Iran, with a total of 894trn cubic feet (cf), according to BP (Fig 3.2). At current rates of production, these reserves will last for over 200 years. This reserve-to-production ratio will decline, given planned production increases over the next few years, but will remain stable at over 100 years.

Qatar has only relatively recently discovered the full extent of its natural gas reserves. The offshore North Field, was originally discovered in 1971, but its proven reserves did not rise above 300trn cf until 1995. It is now known to be the largest non-associated gas field in the world and accounts for around 99% of Qatar's gas reserves. The remaining proven reserves are associated gas as they are extracted from oil fields.

Fig 3.2: World Proven Gas Reserves (2010)

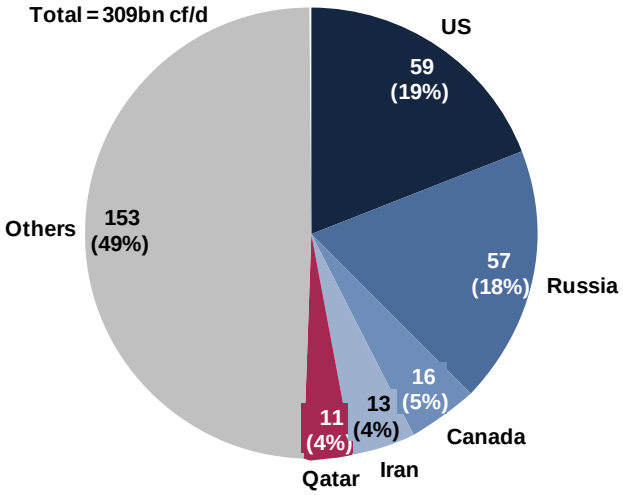


Source: BP Statistical Review of World Energy, June 2011 and QNB Capital analysis

Gas production increased at 23% from 2006-10

The large-scale projects in the North Field have led to major increases in gas production. Qatar ranks fifth in the world in terms of total production of raw natural gas, (Fig 3.3). Its share of global production is small relative to its reserves because significant development of reserves has only begun during the last decade. In the future it may rise to become the third or fourth largest producer.

Fig 3.3: World Gas Production (2010)



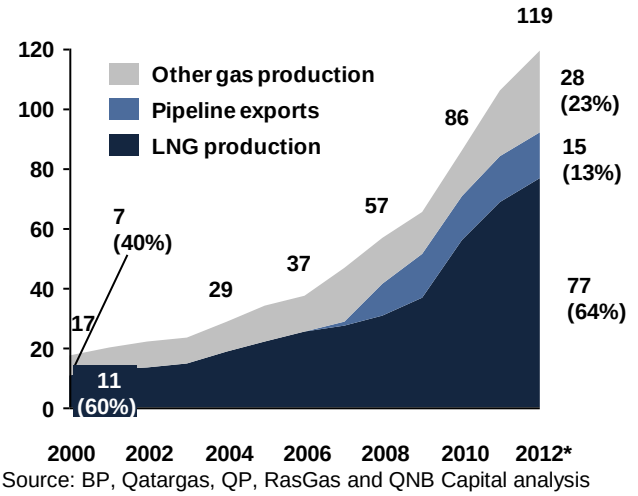
Source: BP Statistical Review of World Energy, June 2011 and QNB Capital analysis

Total natural gas production in Qatar has risen at 21% per year from 37m tonnes/year (t/y)[10] in 2006 to 86m t/y in 2010. In 2010, around 65% of the gas was allocated to LNG production. We estimate that this proportion will remain relatively unchanged in 2011-12 (Fig 3.4) as Qatar ramps up production through LNG trains and also through pipeline gas for export and domestic use.

[10] We have used cf/d for daily production figures and t/y for annual production figures

Fig 3.4: Production of Gas (2000-12)

(m t/y)



Source: BP, Qatargas, QP, RasGas and QNB Capital analysis

Qatar also exports the equivalent of 15m t/y of natural gas through the Dolphin project pipeline to the UAE. QNB Capital estimates that a further 24% of raw natural gas production will go towards other uses, including:

- Power generation
- Feedstock for petrochemical and fertiliser plants
- GTL projects, which chemically convert natural gas into fuel that is liquid at normal temperatures
- Household cooking gas

Total gas production is forecast to increase by 18% per year in 2011-12

To meet the rising domestic and international demand for natural gas, Qatar's gas production is expected to continue increasing. We forecast that it will rise to around 120m t/y in 2012 from 86m t/y in 2010 to meet the requirements of major projects that are due for completion, an increase of 18% per year. This will be a key driver of real GDP growth in 2011-12. However, the scale of investment in the development of the gas sector has slowed and LNG and GTL should both achieve their currently planned peak production levels in 2012. There is currently a moratorium on new gas for LNG exports while a study is carried out to reassess the reserves of the North Field on the basis of Qatar fulfilling its current LNG commitments. As a result, further growth in gas production will only be for domestic use, pending the results of the study.

LNG production capacity has more than doubled from 31m t/y in 2008 to 77m t/y in 2011

Qatar Petroleum (QP)[11] has a number of ventures including Qatargas and RasGas, which between them operate fourteen LNG export trains[12]. When Qatargas' seventh train was commissioned in February 2011, Qatar's LNG production capacity reached 77.1m t/y. This was more than double the capacity of 31m t/y in 2008. Five new LNG trains have been commissioned since 2008. There are a number of foreign companies which are involved as joint-venture partners in the various LNG projects. For example, ExxonMobil is a prominent stakeholder in Qatargas and RasGas. It holds a 10% stake in Qatargas I[13], a 25% stake in RasGas I[14] as well as stakes in other projects. LNG exports are sold through sales and purchase agreements (SPAs) that have been contracted with companies in a number of countries. The purchasing companies often take a small equity stake in the trains providing their LNG. Korea Gas Corporation, the state natural gas company of South Korea, has a 5% stake in RasGas I.

The expansion of LNG infrastructure has increased the scope for flexible sales contracts

The LNG market was initially characterised by long-term contracts, which locked the buyer and seller in at an agreed price. This was to cover the high investment costs required to construct LNG production, transport and regasification facilities. In recent years, more LNG infrastructure has been constructed around the world. This has included storage facilities, such as the Fluxys terminal in Zeebruge, Belgium, which can store about 0.14m tonnes of LNG (about three shiploads), and a terminal is under construction in Singapore with 0.25m tonnes of storage capacity. The expansion of LNG infrastructure has increased the scope for flexibility in LNG contracts and for contracts to shift from long-term to medium-term.

The vast majority of Qatar's LNG is still sold through SPAs, rather than on the spot LNG market. However, the SPAs now include clauses with more price flexibility and that allow for cargoes to be diverted if the buyer is oversupplied. This flexibility has helped Qatar to explore new markets and investment opportunities in regasification terminals, which can receive Qatar's exports. For example, when the US became oversupplied with LNG owing to an increase in supply of shale gas, Qatar was able to divert exports to a number of countries including Japan and China. Demand from these countries has grown strongly owing to rapid economic growth in China and the earthquake and tsunami in Japan, which led to the country cutting back on its nuclear power production. Qatar has also entered new markets, signing a long-term agreement with Argentina and is sending LNG cargoes to Brazil. Qatar is looking at other potential export markets in South America and the Caribbean.

According to Cedigaz data, Qatar exported 55.7m tonnes of LNG in 2010. The top four LNG destinations in 2010 were:

- UK (10.2m tonnes)
- India (7.7m tonnes)

[11] QP is the state-owned company responsible for all phases of the oil and gas industry in Qatar

[12] An LNG "train" is the term for a liquefaction facility. The five largest trains in Qatar, each with 7.8m t/y capacity, are often called "supertrains"

[13] Qatargas I involves two main projects: an upstream joint venture (offshore production and onshore receiving facilities) and a downstream joint venture (an onshore LNG plant)

[14] Rasgas I is a joint venture involving two LNG trains and the production of condensates

- South Korea (7.5m tonnes)
- Japan (7.5 m tonnes)

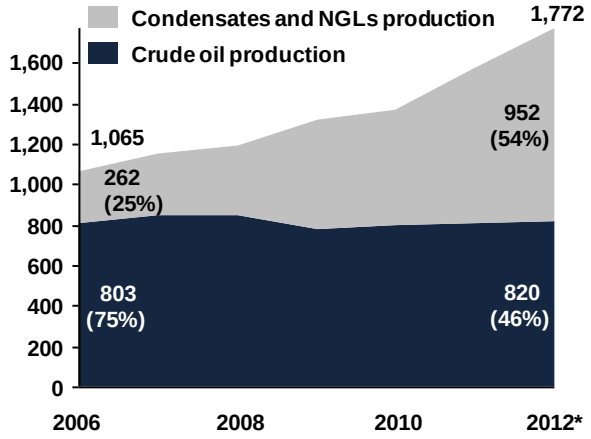
Oil

At current production rates, oil reserves are expected to last for around 45 years

Qatar's proven oil and condensates[15] reserves[16] were estimated at 26bn barrels at the end of 2010, according to BP. This is 1.9% of proven world oil reserves and ranks Qatar 13th globally. Total crude oil, condensates and NGL production in 2010 were around 1.6m b/d, of which 800,000 b/d was crude oil and the remainder condensates and NGL. This equates to 1.7% of world oil production in 2010, according to BP. At this level of production, Qatar's total proven reserves of crude oil and condensates are expected to last for around 45 years.

Fig 3.5: Crude Oil, Condensates and NGL Production (2006-12)

(k b/d)



Source: OPEC, BP, * QNB Capital forecasts

Qatar has one onshore field at Dukhan, which currently produces around 250,000 b/d of crude oil. The remainder of crude oil production is from offshore fields. Owing to OPEC's crude oil production targets (condensates are not subject to the targets), Qatar is currently producing well below its potential capacity of just over 1m b/d of crude oil. In its 2010-14 development plan, QP budgeted US$6.6bn for investment in crude oil projects. This investment has and will continue to boost production at some fields, such as Al Shaheen, offsetting declining production at some of the older fields, such as Dukhan.

Oil production is expected to rise to meet domestic and international demand

Around 150,000 b/d of total crude oil production is used domestically and the remainder is exported, mainly to East Asia (Section 4). In the first half of 2011, production has averaged 809,000 b/d, 1% higher than during 2010. Production in most OPEC member countries has been rising slowly and is slightly above OPEC output targets. This has occurred as world demand for oil has risen and prices have been at higher levels, encouraging producers to increase output levels. We expect oil prices to remain high and world oil demand to continue expanding slowly, and so forecast that crude oil production will rise from an average of 809,000 b/d in the full year 2011 to 820,000 b/d in 2012.

Qatar is also expanding its involvement in the international oil and gas sector. Qatar Petroleum International (QPI) has been established to make strategic investments across the energy value chain around the globe. It is a subsidiary of QP and manages a multi-billion dollar international portfolio of upstream and downstream investments. Various Memoranda of Understanding (MoU) have been signed by QPI around the world with national and international oil companies and governments to explore potential energy investment opportunities. Its current holdings and activities include:

- A joint-venture LNG project in the Yamal Peninsula, eastern Russia, together with Novatek and Gazprom
- Stakes in LNG regasification terminals, such as South Hook in the UK, Adriatic in Italy and Golden Pass in the US
- Petrochemical joint-ventures, including one with Shell in Singapore, the Long Son project in Vietnam and a planned complex in China
- A stake in oil exploration in Mauritania, together with Total
- Bids along with Japanese partners for two independent power projects (IPPs) in Oman

Forecast

We expect the share of oil and gas in GDP to rise from 62% in 2010 to 68% in 2012

The average sale price of Qatar's crude oil was US$78/b in 2010, close to international benchmark prices. We forecast that Qatar's oil prices will average US$105/b in 2011, a 35% increase from 2010. This will boost oil revenue and also revenue from the gas sector as LNG prices are linked to oil prices. We forecast that nominal GDP within the oil and gas sector will grow by 48% in 2011 owing to the combination of higher production and prices. We are forecasting a small drop in oil prices to US$100/b in 2012. However, production increases will result in nominal growth in the sector of around 12%. The oil and gas sector's share in total GDP will increase to 58% in 2012, from 52% in 2010.

B. Manufacturing

The manufacturing sector grew strongly in 2010, increasing by 47% to reach US$13bn. Strong growth is expected to continue, driven by ongoing expansion in fertiliser, petrochemical and metal production. Natural gas is a source of power for all of these industries and an

[15] Condensates are light hydrocarbons that exist as gases below ground but as liquids at normal surface temperatures and pressures. They usually have few contaminants and tend to be more valuable than crude oil

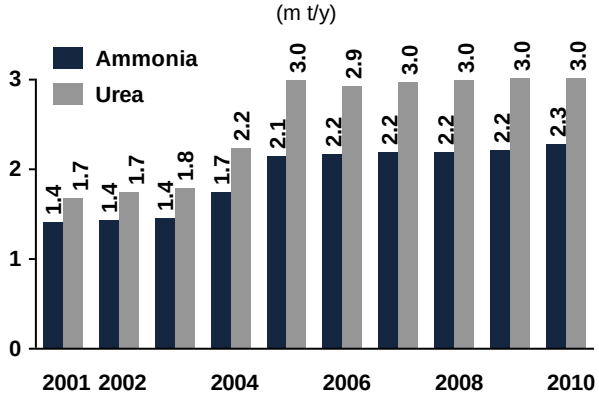
[16] BP defines proven oil and condensates reserves as: "those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating conditions"

important feedstock for some of them. An industrial hub which includes fertiliser and petrochemical plants has been established in Mesaieed, south of Doha.

The expansion of fertiliser production facilities will be a key driver of growth

The **fertiliser** production of the Qatar Fertiliser Company (QAFCO) out of Mesaieed is the largest production from a single site in the world. QAFCO is 75% owned by Industries Qatar. It was established in 1969 and its first plant became operational in 1973. It currently has four integrated trains with a capacity of 6,150 tonnes per day (t/d) of ammonia and 8,700 t/d of urea[17]. In 2010, the plant produced 2.3m tonnes of ammonia, of which 1.7m tonnes was utilised for producing urea (Fig 3.6), aqueous ammonia and melamine. The remaining 0.6m tonnes were exported, mainly to India, Jordan and South Africa. QAFCO produced 3m tonnes of urea in 2010, of which 2.9m tonnes were exported at an average price of US$295/t, mainly to Australia, Thailand and the US.

Fig 3.6: Fertiliser Production (2001-10)



Source: QAFCO and QNB Capital analysis

A fifth train will begin production in the last quarter of 2011 with an estimated cost of US$3.2bn. The train has been designed to produce 1.3m t/y of ammonia and 1.3m t/y year of urea. A sixth train, which will produce a further 1.3m tonnes of urea, is also under construction with completion expected in 2012 and estimated costs of US$610m.

As a result of the expansions, production of ammonia will increase by 55% to 3.8m tonnes between 2010 and 2012 and production of urea will rise by 87% to 5.6m tonnes. QAFCO is targeting net income of around US$1.3bn in 2011. We estimate that this will equate to around 7.6% of the overall manufacturing sector.

The petrochemicals sector is undergoing a rapid expansion

The **petrochemicals** sector is an important component of manufacturing GDP. The expansion of petrochemicals will add downstream value to Qatar's hydrocarbon resources (Table 3.1). It should also encourage economic diversification by making a greater number of industrial raw inputs available in Qatar for the production of plastic items and other goods. QP has major stakes in all petrochemical production in Qatar, either directly or through its 70% stake in Industries Qatar. The largest petrochemicals producer is the Qatar Petrochemical Company (QAPCO), which is majority owned by Industries Qatar with an 80% stake and Total Petrochemical with a 20% stake. QAPCO is the largest producer of low density polyethylene (LDPE) in the Middle East and currently produces 400,000 t/y. LDPE has a wide range of uses. It is most commonly used for the manufacture of plastic bags, bottles, tubing and computer components.

In 2010, QAPCO also produced 800,000 tonnes of ethylene and 46,000 tonnes of sulphur. QAPCO's third LDPE plant will be commissioned in the last quarter of 2011 and will add 300,000 t/y of LDPE production. To diversify and expand its downstream industrial base, QAPCO has set up a number of joint ventures. QAPCO has a 63% stake in QATOFIN, a plant that began operations in 2010 and has the capacity to produce 450,000 t/y of linear LDPE (LLDPE, a shorter-chain polyethylene than LDPE that is mainly used in the production of plastic bags and wrapping material).

In November 1997, Qatar Chemical Company (Q-Chem) was established as a joint venture between QP and Chevron Philips Chemical Company. Its US$1.2bn ethane cracker plant began operations in 2004 and has a capacity of 500,000 t/y of ethylene, 453,000 t/y of high-density polyethylene (HDPE, a stronger plastic than LDPE), 47,000 t/y of Hexane-1 and 36,000 t/y of Sulphur. A second US$1bn plant (Q-Chem II) was completed in 2010, boosting production by 350,000 t/y of Alpha Olefins, which is used to produce 350,000 t/y of HDPE. Q-Chem II was constructed at Ras Laffan in conjunction with an ethane cracker, with a capacity of 1.3m t/y of ethylene, some of which is being used as a feedstock for the Q-Chem II plant.

QP and Shell signed a letter of intent in 2005 to construct a second ethane cracker, also with a capacity of 1.3m t/y of ethylene. It is estimated that the joint-venture plant will cost US$2bn, and is expected to be completed by 2016.

Qatar is also moving up the value chain from basic petrochemicals to more complex products. QAPCO has a 32% stake in the Qatar Vinyl Company (QVC). QVC is a joint venture with foreign partners that has a current production capacity of 730,000 t/y of caustic soda. It also produces 200,000 t/y of ethylene dichloride, and 330,000 t/y of vinyl chloride monomer, which are used in the production of caustic soda. It also produces some polyvinyl chloride (PVC).

The US$650m Qatar Fuel Additives Company (QAFAC) is another important downstream joint venture, with Industries Qatar holding a 50% stake along with foreign partners. The plant became operational in 1999 and is designed to produce 832,500 t/y of methanol, of which 600,000 t/y is exported and the remainder used for the

[17] In some cases production of ammonia and urea has increased above original capacity owing to improved production processes at plants (debottlenecking)

production of methyl tertiary butyl ether (MTBE). It produces 610,000 t/y of MTBE. Methanol is produced from natural gas and has a wide variety of uses, apart from being a clean energy source. MTBE is produced by processing butane and methanol and it is used as a gasoline additive to reduce pollution. The majority of the Methanol produced at QAFAC is exported to the Far East, Europe, India and the Gulf.

Table 3.1: Petrochemical Production of Major Facilities (2011)

Product	Existing Capacity (t/y)	Expansions Underway (t/y)
Ethylene	2,600,000	1,300,000
Alpha Olefins		350,000
Primary products	**2,600,000**	**1,650,000**
Caustic Soda	730,000	
HDPE	453,000	350,000
LLDPE	450,000	
LDPE	420,000	300,000
Sulphur	82,000	
Hexane-1	47,000	
Final products	**2,182,000**	**650,000**

Source: QAPCO, Q-Chem, QP, Industries Qatar and QNB Capital analysis

The increase in the range and volume of petrochemicals products has been rapid in recent years. Ongoing expansion plans will ensure continued growth in the sector. With many other countries in the region also expanding their petrochemical industries, particularly Saudi Arabia, Qatar will hold a cost advantage with a huge supply of cheap natural gas.

Refinery capacity is expected to increase

QP has allocated US$4.1bn to refining and GTL projects in its five-year plan for 2010-14. There are currently two **refineries** in Qatar. The first is at Mesaieed to the south of Doha. This refinery has a capacity of 200,000 b/d and is capable of processing crude oil and condensates. There is also a condensate refinery with a capacity of 146,000 b/d at Ras Laffan, which processes natural gas from the North Field to produce naptha, kerojet fuel, gasoil and LPG. The plant became operational in 2009 and is 51% owned by QP. This means that Qatar has sufficient refining capacity to meet domestic demand with surplus left over for exports. However, QP is still investing in boosting its refining capacity. In August 2011, the initial design and engineering contract was issued for the expansion of the Ras Laffan refinery to further increase capacity by 292,000 b/d. Completion of this project is expected in 2016.

In 2009, QP considered the construction of a 250,000 b/d refinery. A large refinery project may be revived at a later date.

Qatar is the largest producer of GTL in the world and is expanding production

Production of **GTL** is currently undergoing major expansion and Qatar is already the largest producer in the world. GTL enable Qatar to add value to its natural gas resources by transforming raw gas into globally marketable and easily transportable liquid fuels. Oryx GTL, a joint venture between QP and Sasol of South Africa, was the first GTL plant in Qatar. It became operational in 2006 and was the world's largest at the time. The US$1bn plant converts 330m cf/d of natural gas into 24,000 b/d of high grade diesel, 9,000 b/d of naptha and 1,000 b/d of LPG.

Pearl GTL is an even larger joint venture between QP and Shell. It completed the first 70,000 b/d GTL train in 2011. A second train will add another 70,000 b/d of capacity during 2012. In addition the plant will produce 120,000 b/d of natural gas liquids (NGL) and ethane. The total cost of the project is expected to be in the region of US$19bn.

The Qatar Steel Company (QASCO) is a wholly owned subsidiary of Industries Qatar based in Mesaieed. It was commissioned in 1978 as the first integrated steel plant in the Arabian Gulf region. QASCO currently produces:

- 1.5m tonnes of hot briquetted iron, also referred to as direct reduction iron
- 1.7m tonnes of steel billets
- 1.6m tonnes of reinforced steel bars
- 0.2m tonnes of steel coil

QASCO serves the growing demand for steel from the Qatari and regional construction sectors and has established production facilities in Dubai. Expansion plans were initiated in March 2011 for the construction of a 1.1m t/y steel-making plant in Mesaieed. Completion of the plant is expected in 2013.

A new aluminium plant will ramp up production in 2011

Qatalum, Qatar's first aluminium smelter plant began production in August 2010. The plant is a 50:50 joint venture between QP and Norsk Hydro and project costs were around US$6bn. In its initial phase the plant was expected to have a production capacity of 585,000 t/y. However, following initial delays, production has now reached 70% of capacity. The plant has boosted manufacturing growth in 2010 and will add to further growth during 2011.

Manufacturing is forecast to grow at 18% in 2011-12

Overall, the manufacturing sector grew at 15% from 2006-10 in real terms, peaking at a record 22% in 2010. With the completion of expansion projects in fertiliser, petrochemical and GTL, we expect that manufacturing growth will pick up further to 27% in 2011. However,

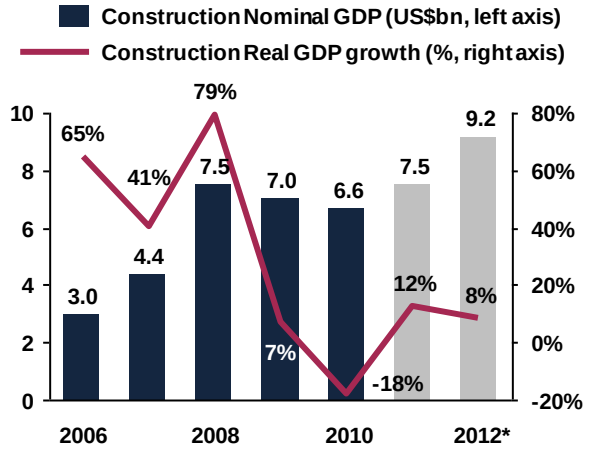
since most of the new production will come online in 2011, growth will slow in 2012 to 8.5%.

C. Construction

The construction sector grew at a remarkable rate of 46% from 2005-08

The construction sector accounted for an average of 5.8% of GDP in 2006-10, up from an average of 5.1% in 2001-05. This increase in the share of GDP has occurred despite the strong price-related growth in the oil and gas sector. Construction has been the fastest growing sector in Qatar in 2006-10 recording a real growth rate of 23%. Growth was 46% during the boom years from 2005-08. The sector peaked in 2008 in both real and nominal terms (Fig 3.7). Construction activities weakened following the financial crisis and global economic slowdown, declining to US$6.6bn in 2010.

Fig 3.7: Construction Sector GDP (2006-12)



Source: QSA, *QNB Capital forecasts

US$185bn worth of projects are expected in the coming decade

An array of major projects have been driving the construction boom in Qatar. According to QNB Capital's review of MEED projects data, the total value of ongoing and upcoming projects in Qatar is currently US$185bn (Table 3.2). Most of the major projects are related to infrastructure, construction, water and power. The largest current project is the development of the national rail system, which aims to relieve congestion in Doha. The network is planned to include:

- 300 km of metro lines in Doha
- An east coast rail link between Ras Laffan industrial complex and the new port in Mesaieed, via Doha, for passengers and freight
- A high speed link between the new international airport and Doha city centre and across a planned causeway to Bahrain
- A freight rail link to Saudi Arabia, to be part of a pan-GCC train network
- Light rail or people mover networks connecting Lusail, Education City and West Bay (a separate US$2.2bn project involves the construction of a people mover in West Bay)

The project is still in the design phase and will be rolled out over a multi-year period with completion expected in 2020.

The New Doha Port is also designed to ease transport congestion in the capital. Currently, the main port is right in central Doha. The New Doha Port that will replace it is being created by massively expanding the existing port at Mesaieed. The expansion is in three phases which will eventually raise throughput capacity to 12m standard international containers per year.

Large mixed-used commercial and residential developments, such as Lusail and Mushreib, are also driving growth in the construction sector. Lusail is being constructed at the Al-Qutaifiyah Lagoon to the north of Doha and is designed for 200,000 inhabitants. It includes the construction of hotels, houses, apartments and about 300,000 square metres of retail space. The Mushreib development aims to transform 750,000 sq metres of central Doha with a mixed-use development built in the style of Qatar's cultural heritage. Phases 2-4 include retail malls, hotels, offices, apartments and shops.

Table 3.2: Major Non-Oil and Gas Projects (2011)

Project	Cost (US$bn)	End-Date
Qatar National Railway System	29.0	2020
New Doha Port	7.0	2027
Lusail mixed-use development	6.3	2014
Kahrama Power plant	5.0	2016
Musheireb (phases 2-4)	4.1	2017
Lusail Development: Al-Sidra Golf Residential Development	3.5	2013
Ras Laffan IWPP Expansion	3.0	2014
Doha International Airport	2.8	2012
Education City: Sidra Digital Medical Care & Research Centre	2.5	2012
Automated People Mover in West Bay	2.2	2020

Source: MEED and QNB Capital analysis

Major projects will drive growth in the construction sector back into positive territory

Most of these major projects are heavily backed by the government. Sustained high energy prices in 2011-12 will boost hydrocarbons revenues and ensure that projects in the construction sector are strongly supported. We therefore expect real growth in the construction sector to bounce back from its 18% contraction in 2010 to expand by 12% in 2011, slowing to 8.5% in 2012 as oil prices dip slightly.

D. Services

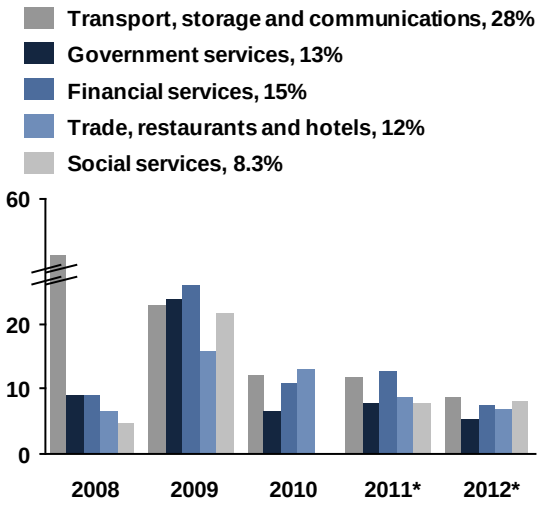
The services sector normally accounts for about 30% of nominal GDP. Real annual growth in the sector has been 23% during 2006-10, broadly in line with overall GDP. The rapidly expanding population and strong growth in private consumption are important factors in driving the growth of the services sectors. Slowing overall GDP and population growth will lead to a commensurate slowdown in the services sector. QNB Capital forecasts that real growth in the sector will be 11% in 2011 and 6.8% in 2012.

Transport, storage and communications is the fastest growing services sector

In 2008-10, **transport, storage and communications** was the fastest growing services subsector, with real growth of 28%, peaking at 51% in 2008 (Fig 3.8). This subsector has benefited from high investment into the expansion of the transport network and from the strong economic growth in the broader economy. It has also been boosted by car sales and strong growth in markets related to mobile communications and the internet.

Fig 3.8: Real GDP Growth in the Services Subsectors (2008-12)

(% change; 2008-10 CAGRs shown in legend)



Source: QSA and *QNB Capital forecasts

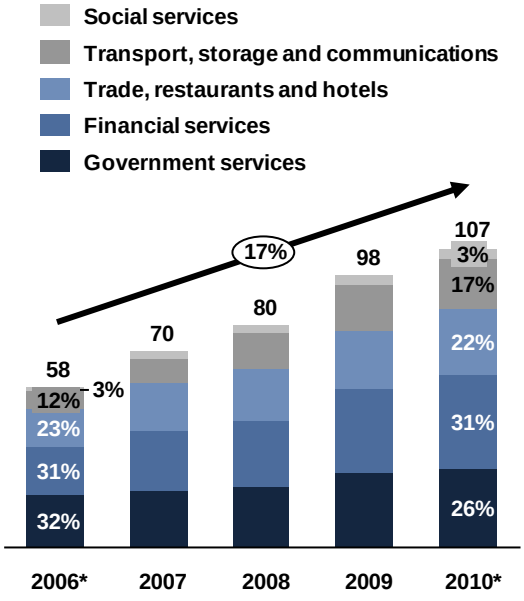
We expect growth in the transport, storage and communications subsector to be around 10% annually in 2011-12. Ongoing projects to expand airports, ports, railways and roads will continue to drive growth in transport. Meanwhile, population growth and the increasing penetration of smartphones will support an expansion in communications. The number of mobile users has continued to expand, despite already high penetration with almost 3m mobile subscriptions. Mobile penetration rose from 120% in 2009 to 150% in 2010 and mobile broadband usage has increased at a rate of 139% annually since 2008 to around 37,000 in 2010.

Government services, which includes healthcare and education, was the largest component of the services sector in 2006. Although its share in services GDP has fallen from 32% in 2006 to 26% in 2010, in real terms it has grown at 22%. With large government commitments, we expect continued real growth in the sector in 2011-12, although at a slower rate of 6.3% as a result of the completion of some major projects, which have driven growth in recent years.

Financial services have performed strongly in recent years, growing by 25% in real terms in 2006-10 and replacing public administration as the largest component of the services sector since 2007. Qatar's rapid economic growth, major investment projects and expanding population have presented an enormous opportunity for financial services. Real estate services are the largest component of financial services, accounting for 60% of the total in 2009. Real estate has benefited from the construction boom in Qatar, growing at 30% in 2005-09[18].

Fig 3.9: Nominal GDP in the Services Subsectors (2006-10)

(US$bn, nominal GDP, CAGR shown)



Source: QSA and QNB Capital analysis, *Do not sum to 100% owing to rounding

The **trade, restaurants and hotels** subsector is also a major component of services GDP, accounting for 22% in 2010. This subsector is dominated by wholesale and retail trade, which accounted for 91% of the total in 2010. Real growth in this subsector was 28% in 2006-10. Qatar's increasingly affluent population has been driving growth in wholesale and retail trade and Doha's growing prominence as a commercial and tourist destination has supported hotel growth.

[18] Data for 2010 is not yet available

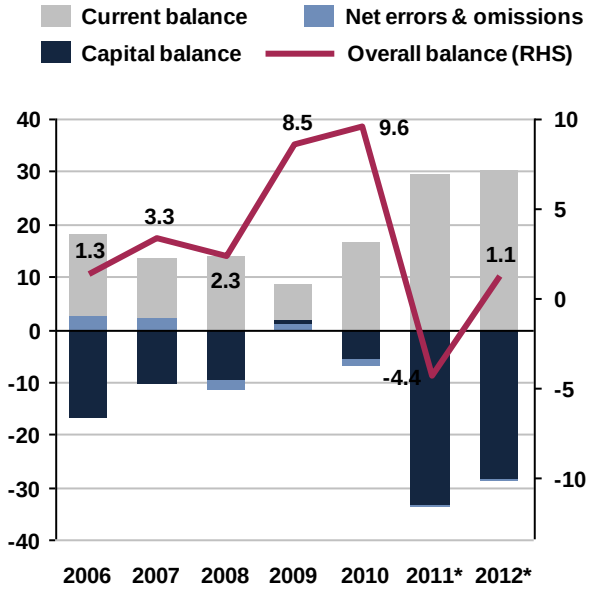
4. External Sector

A. Balance of Payments

International reserves grew rapidly in 2009-10 because of balance of payment surpluses

The **overall balance of payments**, which is the sum of the net flows of foreign currency through the current and capital accounts[19], recorded an average surplus equal to 5% of GDP in 2006-10 (Fig 4.1). This was driven by Qatar's vast export earnings from oil and gas. It was partly offset by imports and non-physical and capital outflows, which are each discussed in detail below.

Fig 4.1: Balance of Payments (2006-12)
(% of GDP)



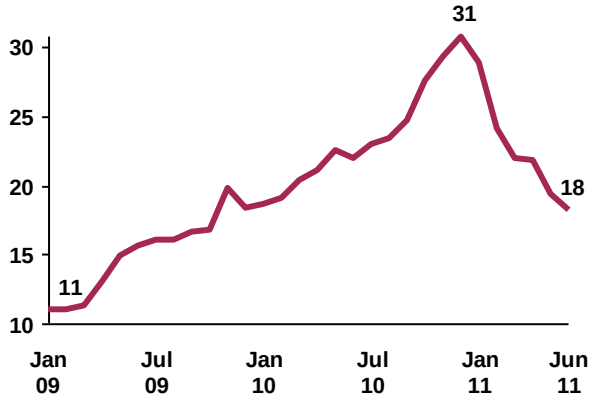
Source: QCB, *QNB Capital forecasts

The balance of payments surpluses represent the increase in Qatar Central Bank's (QCB) **international reserves**. These grew almost six-fold from US$5.3bn at the end of 2006 to US$31bn at the end of 2010. Most of the increase came in 2009-10 (Fig 4.2), when difficulties in international markets meant that more oil and gas export revenue than usual was held as foreign assets, rather than being invested abroad.

This trend reversed in 2011, and the reserves fell sharply as capital outflows increased, declining to US$18bn by the end of June. This represented about 10 months of import cover compared with 17 months at the end of 2010, an extremely healthy ratio relative to the reserves of most other countries.

QNB Capital does not expect reserves to fall much below this level for a sustained period. Instead, we forecast that they will increase to about US$25bn by the end of 2012. In any case, in addition to the QCB reserves, Qatar also has sizable holdings of foreign assets through the Qatar Investment Authority (QIA). These serve as an additional implicit reserve. This would only need to be called upon during a period of sustained low oil and gas prices.

Fig 4.2: International Reserves (Jan 2009-Jun 2011)
(US$bn)



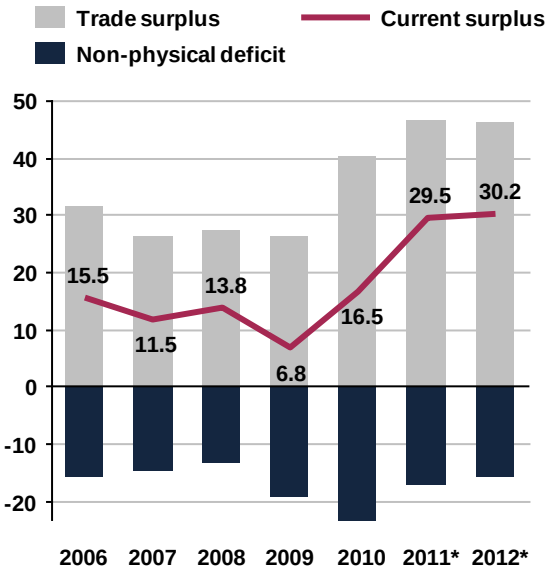
Source: IMF and QNB Capital analysis

B. Current Account

The current account surplus is forecast to widen to an average of 30% of GDP in 2011-12

Qatar's current payments are dominated by trade in physical goods, which consistently records a large surplus. The trade surplus averaged 30% of GDP in 2006-10 (Fig 4.3). By contrast, the non-physical balance, which is composed of services, income and current transfer payments, generally records a sizable deficit, averaging 18% of GDP in 2006-10, partly offsetting the trade surplus.

Fig 4.3: Current Account (2006-12)
(% of GDP)



Source: QCB, *QNB Capital forecasts

In 2009, the current surplus fell to its lowest level in over a decade, in relative terms, at 6.8% of GDP. This was

[19] The capital account comprises payments that relate to ongoing obligations, such as making investments. The current account, on the other hand, comprises payments for immediate exchange with no future obligations, such as purchasing imports or receiving investment income

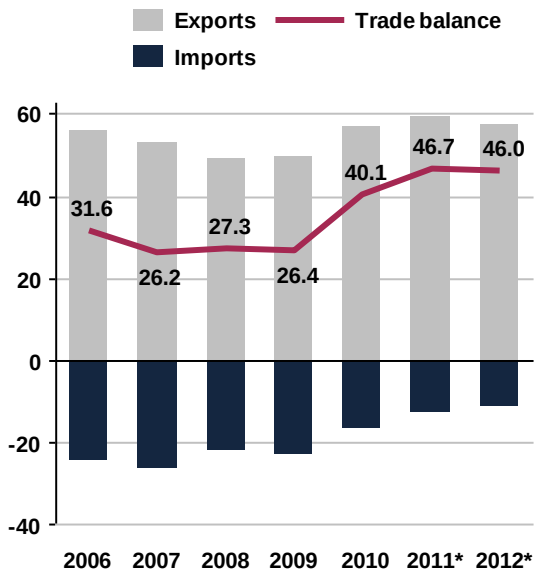
because of the sharp fall in oil prices. However, it recovered rapidly in 2010 and we forecast that it will reach record levels in 2011-12, averaging 30% of GDP, as a result of high oil prices and an increase in LNG production and other exports.

Trade Balance

LNG exports have boosted the trade surplus, which will rise to 46% of GDP in 2011-12

There was a significant shift in the structure of Qatar's balance of trade in 2010, which will likely set the tone for the coming decade. Previously, exports and imports had both been increasing rapidly but maintaining relatively steady shares of GDP. Exports were stronger, leading to an average trade surplus of 27% of GDP in 2006-09 (Fig 4.4). However, the surge in new LNG production capacity in 2010, combined with a fall in imports, boosted the trade surplus sharply to 40% of GDP. We forecast that it will increase even further to an average of 46% of GDP in 2011-12.

Fig 4.4: Trade Balance (2006-12)
(% of GDP)



Source: QCB, *QNB Capital forecasts

Imports have stabilised after a period of rapid industrialisation and population growth

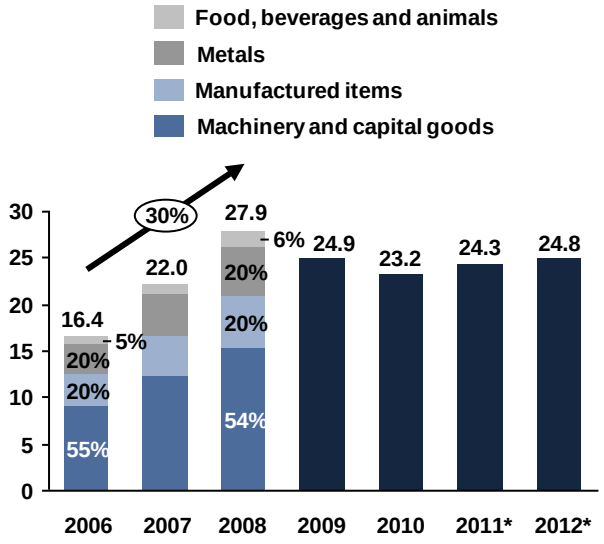
The drop in import costs in 2010 might seem surprising. The economy grew strongly that year and the prices of many of the goods that Qatar imports increased, as the global economy pulled out of recession, lifting demand. However, two important factors contributed to the fall in imports.

Firstly, population growth, a major driver of import growth, slowed sharply. Having increased at a staggering rate of 16% in 2006-09, growth fell to 3.7% in 2010, and is expected to remain relatively subdued in 2011-12 (Section 1B).

Secondly, a sizable component of imports in recent years has been equipment for the new LNG supertrains. Most of this equipment was in place before 2010, hence the fall in imports that year. A standardised breakdown by import category is currently only available until 2008 (Fig 4.5), but it is expected that in 2010 the share of machinery and capital goods will have declined, owing to the near-completion of most of the LNG trains and various other industrial projects (Section 3B).

Our forecast for only a minor growth in imports in 2011-12 is based on expectations of a further decline in capital imports. This will be only partly offset by growth in other categories of imports. Growth in imports of consumer goods in the food and manufactured items categories will continue to be strong, well exceeding forecast population growth. Demand for metal imports will also be high, given the scale of ongoing construction projects (Section 1C).

Fig 4.5: Imports[20] (2006-12)
(US$bn, CAGR shown)



Source: QSA, *QNB Capital forecasts

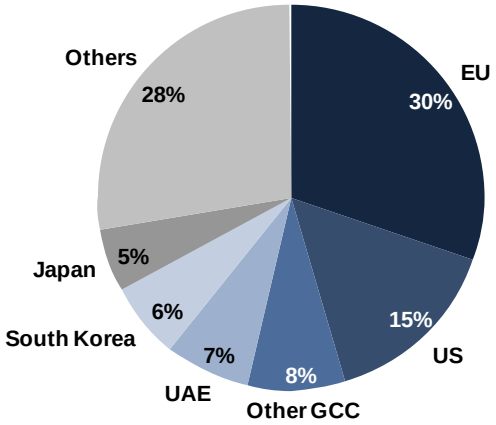
Western countries remain the dominant suppliers of imports to Qatar

The majority of Qatar's imports still comes from its economically developed trading partners, particularly the EU and US (Fig 4.6). Their share has remained relatively steady over the last decade, with the US averaging a 12% share and the EU 35%, led by Germany on 8% and the UK at 6%. This is in contrast with some other GCC countries, where the share of Western imports has declined markedly, as they have been replaced by countries like China (which provided only 5% of Qatar's imports on average in 2006-10). The West has maintained its market share in Qatar because of the high demand for capital and luxury goods.

[20] Imports are shown here at their CIF (cost, insurance and freight) values. These are about 11% higher than the FOB (free on board) value of the goods themselves. Within the balance of payments, the FOB figure for imports is included in the trade balance, while the insurance and freight costs are accounted for within the services component of the non-physical payments

The GCC as a whole provides 15% of imports. Almost half come from the UAE, largely because of re-exports from Dubai's Jebel Ali Port, which is the regional trade hub. The GCC's share has remained fairly constant over the last decade.

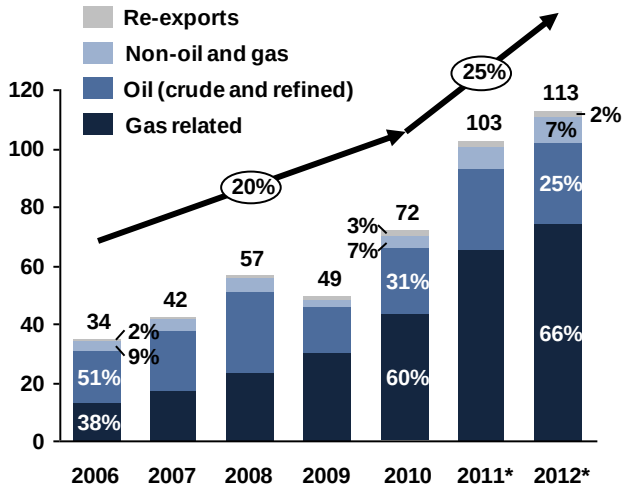
Fig 4.6: Import Sources (2010)
(% of total imports)



Source: IMF, Direction of Trade Statistics and QNB Capital analysis

All categories of exports have grown strongly and the share of gas has increased sharply

Fig 4.7: Total Goods Exports (2006-12)
(US$bn, CAGRs shown)



Source: QCB, QSA, *QNB Capital forecasts

The rapid industrialisation in Qatar has delivered 20% annual export growth over the last five years (Fig 4.7). Earnings from oil exports have been most volatile, because of trends in oil prices and OPEC production targets. Since 2009 gas related exports (including LNG, GTL, condensates and NGL) have been larger than oil exports.

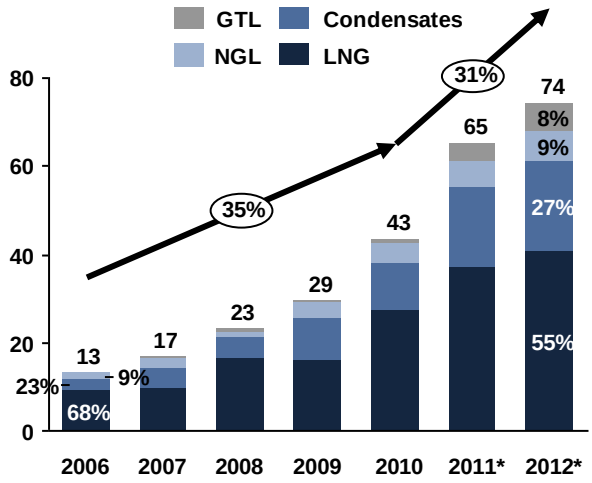
Although the share of non-oil and gas exports has shrunk slightly since 2006, it has been a major achievement to have nearly kept pace with the surge in gas exports.

We forecast that export growth will accelerate in 2011, as LNG production rises to full capacity. Exports should grow further to US$113bn in 2012, more than triple their 2006 level, owing to increases in exports of non-oil products and GTL.

Gas-related exports have grown at a remarkable rate of 35% during the last five years

Qatar's industrialisation programme, harnessing the gas resources of the North Field, has seen gas-related exports more than triple between 2006 and 2010. We forecast that they will increase even further to around US$74bn in 2012 (Fig 4.8) as LNG and GTL production are expected to reach full capacity.

Fig 4.8: Gas-Related Exports (2006-12)
(US$bn, CAGRs shown)



Source: QSA, *QNB Capital forecasts

Although LNG is at the heart of Qatar's gas industrialisation programme, we forecast that by 2012 it will only represent about 55% of total gas-related export earnings. This is largely because of the importance of condensates[21] and NGL. These liquid hydrocarbons are usually extracted from raw gas before it is processed to produce LNG, GTL[22] or pipeline gas for domestic use and export[23]. We estimate that the volume of these extracted hydrocarbons will exceed crude oil in 2011. GTL will also become a major component of exports,

[21] Fig 4.8 only includes the contribution from the export of raw condensates. Some condensates are refined in Qatar and then either used domestically or exported as refined products. QSA data does not specify which refined product exports come from crude oil and which from condensates. Therefore, a part of the contribution of condensates to exports is likely to be included in the oil category in Fig 4.7. However, total refined product exports in 2009 were only US$1.6bn, a small fraction of the export value of either crude oil or condensates

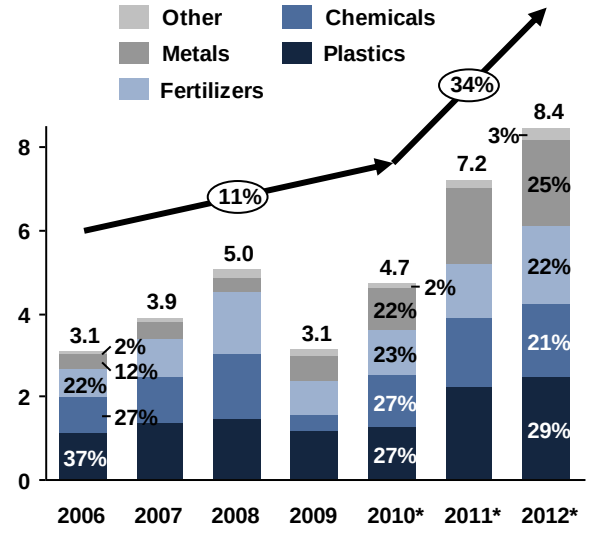
[22] QSA export data does not currently separate out GTL. We have assumed that it is included within the condensates line

[23] The gas exported through the Dolphin pipeline to the UAE and Oman is not currently broken out in QSA export data. It is possible that it is included within the condensates or LNG lines. We estimate that it produces about US$1.3bn in annual export revenue directly from the natural gas, aside from revenue from the condensates extracted before piping

equal to about 8% of gas-related exports in 2012 when Pearl GTL (Section 3B) is operating at full capacity. The gas from the North Field has also been utilised as feedstock and power for a range of industrial facilities, including petrochemicals and metals production (Section 3B).

Non-oil and gas export earnings were volatile in 2006-10 because of global commodity price trends (Fig 4.9). A sharp increase is forecast in 2011-12, a consequence of both higher prices and also new production facilities. In particular, Qatalum and Q-Chem II will both reach full capacity, boosting aluminium, plastics and chemicals production.

Fig 4.9: Non-Oil and Gas Exports[24] (2006-12)
(US$bn, CAGRs shown)



Source: QSA, *QNB Capital estimates and forecasts

Japan and other Asian markets purchase most of Qatar's exports

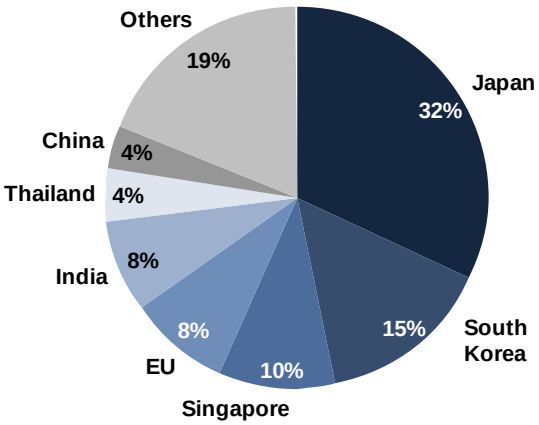
Qatar's exports go all over the world, but Asia remains the most important region (Fig 4.10). Above all, Japan is the key market for both oil and LNG. The relationship is longstanding, and in the 1990s more than half of Qatar's exports went there. Japan's share is likely to increase in 2011. Qatar stepped in to help after the tsunami and nuclear disaster in Japan, boosting LNG exports to help meet its urgent energy needs.

South Korea has only recently become a major export market for Qatar, tripling its share of exports from 5% to 15% between 2008 and 2010. Singapore has long been important, because of its role as a regional hub for oil refining. Similarly, India has long been a key destination for Qatari oil and now also imports LNG.

[24] The QCB breakdown of exports includes three lines: crude oil, LNG and other. Condensates (and by implication GTL) are grouped with LNG, but NGL and refined products are included within the other category. Our figure for 2010 non-hydrocarbon exports has been calculated by taking the QCB figure for the other exports category and subtracting a QSA figure for NGL and our estimate for refined product exports

European countries, particularly Belgium, Spain and the UK, and Thailand have only become significant recipients of Qatari exports in recent years. This is a result of long-term supply agreements with Qatargas and Rasgas for LNG from the various new supertrains.

Fig 4.10: Export Destinations (2010)
(% of total exports)



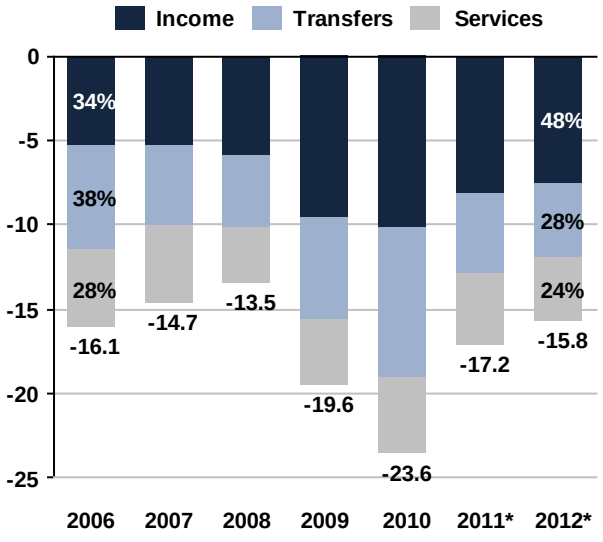
Source: IMF, Direction of Trade Statistics and QNB Capital analysis

Non-Physical Balance

Qatar's sizable non-physical deficit is forecast to narrow, averaging 16.5% of GDP in 2011-12

Qatar consistently records net deficits in the three categories of non-physical payments (Fig 4.11). This is similar to regional peers, such as Saudi Arabia.

Fig 4.11: Non-Physical Balances (2006-12)
(% of GDP)



Source: QCB, *QNB Capital forecasts

The **income** deficit, which is usually the largest component of the overall non-physical deficit, relates to profit repatriation by foreign companies operating in Qatar. Most of the payments are made by firms

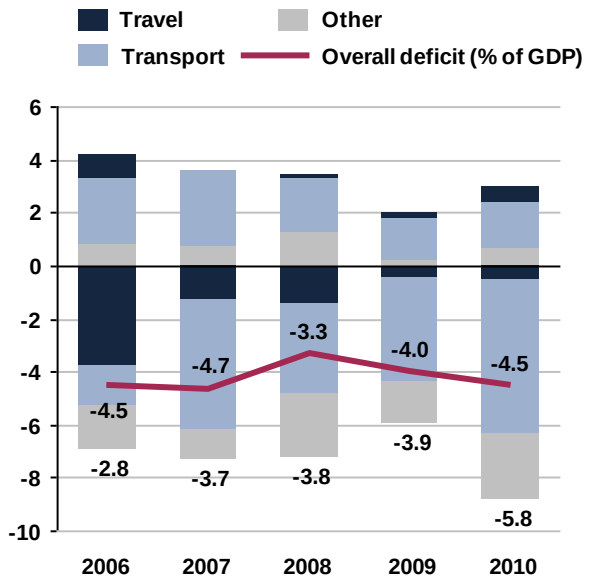
operating in the oil and gas sector, such as Maersk, ExxonMobil and Shell. Income deficits also include dividend payments to foreign equity investors in Qatari companies. In absolute terms, we expect the income deficit to remain broadly constant in 2011-12. However, it is likely to contract as a percentage of GDP owing to strong nominal GDP growth.

The deficit is partly offset by income credits from Qatari investments abroad. However, much of this income is not repatriated and income credits only totalled US$2.4bn in 2010, compared to US$15.3bn in outflows.

The **transfers** deficit is composed largely of remittances sent home by the 1.2m expatriate workers. These remittances averaged US$6,583 per worker in 2010.

The services deficit is mainly comprised of transport charges for LNG exports

Fig 4.12: Services Balance (2006-10)
(US$bn)



Source: QCB and QNB Capital analysis

The **services** deficit is the most complex of the three components of non-physical payments. It is broken down into travel, transport and other services, with both credits and debits in all three categories (Fig 4.12). The overall services deficit averaged 4.2% of GDP in 2006-10, and we forecast that it will remain close to this level in 2011-12. Since 2007, the dominant element has been **transport** debits, much of this related to the cost of exporting LNG cargos.

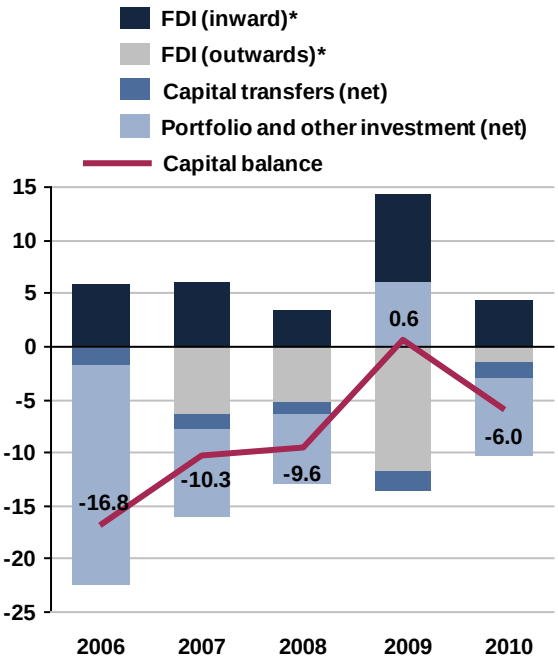
The **travel** category mainly relates to foreign exchange payments by tourists and other travellers. This usually records a net deficit, but in 2010 travel credits slightly exceeded debits. This is a consequence of Doha's increasing prominence as a destination for sports and cultural tourism and conferences. It is also a consequence of the ongoing expansion of Qatar Airways, which aims to establish Doha as an air travel hub. The movement of the travel balance into a surplus bodes extremely well for Qatar's future as an international destination of choice. Travel credits are expected to steadily expand as Qatar gears up towards the 2022 FIFA World Cup[25].

Finally, **other services,** which include foreign exchange payments for professional and financial services provided by firms abroad typically record a sizable deficit.

C. Capital Account

The capital account usually records a deficit as export earnings are invested in assets abroad

Fig 4.13: Capital Account (2006-10)
(US$bn)



Source: QCB, *UNCTAD, *World Investment Report 2011* and QNB Capital analysis

The capital account[26] is dominated by outflows, which are largely related to the investment of surpluses from hydrocarbon exports into foreign assets. These investments are made by the state (mainly through the QIA), companies and individuals. As a result, the capital account recorded an average deficit of 8.4% of GDP in 2006-10, despite a rare surplus in 2009 (Fig 4.13).

The largest component of the capital account is usually **portfolio investment**, which includes all standard investments in tradable securities, particularly by the QIA. The sum of these flows briefly shifted direction in

[25] Travel debits and credits were both unusually high in 2006. This may have been related to Qatar's hosting of the Asian Games that year

[26] The IMF refers to this as the "capital and financial account". In its definition, investment flows are grouped within the financial account, while the capital account proper equates just to the capital transfers category in Fig 4.13 (which includes transfers of non-financial assets). However, it is more common not to make this distinction, and simply to refer to all these flows as comprising the capital account. QNB Capital follows this usage for simplicity

2009 as the downturn in global equity markets resulted in some Qatari investments being liquidated and repatriated. This is why the capital account unusually recorded a small surplus in 2009.

Qatar is both a major source and recipient of FDI

Qatar is both a major recipient and a source of **foreign direct investment** (FDI). In 2009 it received US$8.1bn of FDI[27], about 0.7% of the world total that year. This meant that Qatar ranked second in the Middle East region for inward FDI flows, after Saudi Arabia but ahead of Turkey. According to QSA figures, about half of the FDI into Qatar is for the oil and gas sector and a quarter for manufacturing. The UK was the main source of FDI in 2009, representing about a third of the total. Much of this will have been Shell's investment in Pearl GTL. The US provided about a quarter of FDI and the UAE, Japan and South Korea were also major investors in Qatar.

In 2009, Qatar invested a remarkable US$11.6bn of FDI into other countries. QSA data shows that over half of the outward FDI was in the banking sector, followed by oil and gas, construction and industry. The US was the main recipients of Qatari FDI in 2009. Others included the UAE, UK and Oman.

FDI in 2010 was more subdued, both into and from Qatar, but we expect that it will pick up in both directions in coming years. The major infrastructural development projects in Qatar will attract foreign investment while, at the same time, Qatar's surging trade surplus will be funnelled into investments abroad.

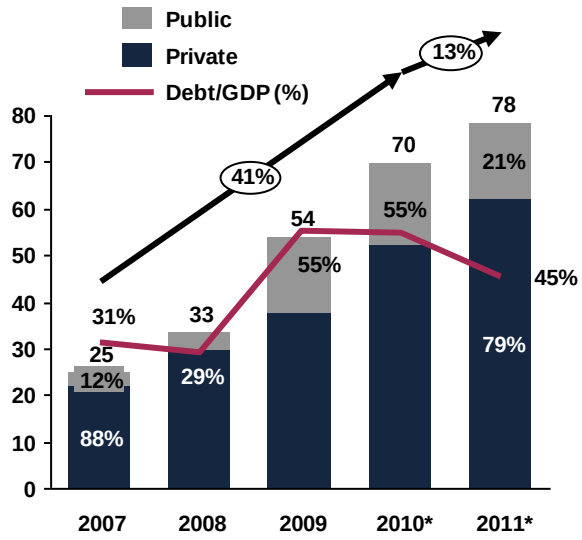
D. Foreign Debt

Qatar's external debt has grown substantially but is now falling as a share of GDP

External debt has increased sharply in recent years, at an estimated annual rate of 41% in 2007-10 (Fig 4.14). Public external debt, in particular, rose sharply in 2009. However, the IMF forecasts that growth in the debt stock will slow to 13% in 2011. This means that the size of the debt relative to GDP will decline from its peak of 55% in 2009 to 47% in 2011. This is a relatively moderate level of debt by regional and international standards, and only about three quarters the size of Qatar's forecast export earnings in 2011.

A sizable part of the debt relates to financing the new LNG supertrains. The IMF estimates that LNG-related debt, both public and private, totalled US$19.7bn in 2009, or 36% of the total external debt that year. Another sizable component of the debt is short-term trade-related financing, which we estimate totalled over US$20bn in 2010, on the basis of comparison with similarly sized regional economies.

Fig 4.14: External Debt (2007-11)
(US$bn. CAGRs shown)



Source: IMF, *IMF estimates and forecasts, excludes bank debt, and QNB Capital analysis

[27] The definitions and measurements of FDI vary. The totals used here are taken from UNCTAD's annual *World Investment Report 2011*, as this is a global benchmark and provides a time series for the period 2006-10. It differs in places from QSA's Foreign Investment Survey, which is the source for shares of FDI by sector and country

5. Monetary Issues

A. Currency

The dollar peg provides stability, but limits the monetary policy tools available to the QCB

The Qatari riyal (QR) has been pegged to the US dollar at a rate of QR3.64:US$1 since 1981. This limits the monetary policy tools at the disposal of the QCB (Section B). The other GCC currencies, aside from the Kuwaiti dinar, also have long-standing pegs to the dollar.

It is unlikely that the currency will be de-pegged or re-valued in the near future. The peg minimises the volatility of hydrocarbons export revenue, as oil and gas are priced in dollars. For foreign investors, the long-term stability of the peg removes some of the capital value risks that are usually associated with investment in countries with floating exchange rates. The dollar itself has been volatile in recent years, but even this has not prompted any moves towards changing the peg in Qatar or other GCC countries.

There are plausible scenarios that could lead to an adjustment to the peg in the long term

The peg could be adjusted in preparation for the launch of a GCC **Monetary Union**. There are plans for a single currency including Saudi Arabia, Bahrain, Kuwait and Qatar (the UAE and Oman have withdrawn). A joint GCC Monetary Council was established in Riyadh in 2010 as the first step towards monetary union.

It is likely that a GCC currency would initially be pegged to the dollar, with the Qatari riyal being converted to the new currency at this fixed rate. The peg might later be changed to a basket of currencies that better reflect the trade relationships of the GCC—along the lines of Kuwait's existing currency regime.

A less likely scenario would be an adjustment to level of the riyal's peg to help stave off imported **inflation**. In 2008, Consumer Price Index (CPI) inflation spiked to 15% (Section C). Some analysts argued that an upward revaluation would help to slow inflation by lowering import costs. However, it would probably require a prolonged depreciation of the US dollar and significant imported inflation, for Qatar to seriously consider adjusting its exchange rate and undermining the stability the long-term peg has created. Such a scenario is highly unlikely in the short to medium term as the dollar remains essential to the global financial system.

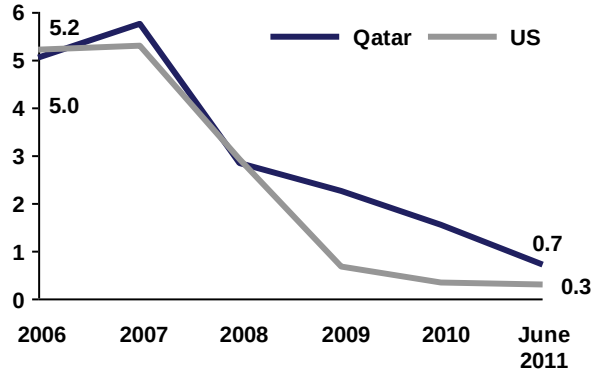
B. Money Supply and Policy Tools

Qatar is unlikely to raise rates until 2013, taking its lead from the US Federal Reserve

The dollar peg requires Qatar's **interest rates** to broadly track US rates to deter major speculative capital flows seeking to arbitrage any interest-rate differential. Interbank lending rates are closely related to official base rates (Fig 5.1).

Therefore, in a series of cuts, the QCB reduced its overnight deposit rate to 0.75% in August 2011, down from 4% in early 2008. The final 25 basis point (bp)[28] cut came on 10th August 2011, the day after the US Federal Reserve announced its decision to keep its benchmark federal funds rate at 0.00-0.25% until 2013. At the same time the QCB's overnight lending rate was also cut by 50 bp to 4.5%.

Fig 5.1: Three-Month Interbank Deposit Rates, Annualised (2006 - June 2011)



Source: QCB and US Federal Reserve and QNB Capital analysis

Given that the Federal Reserve rates are effectively on hold until 2013, QNB Capital does not expect any increase in Qatari interest rates until then. Further rate cuts may be made if credit growth remains sluggish.

The QCB mainly uses bank reserve requirements and lending limits as **monetary policy tools**.

- Commercial banks are required to hold 4.75% of total deposits, including foreign deposits, as cash reserves
- The loan-to-deposit ratio of commercial banks is set at 90%

Money supply has expanded with the economic boom, rising oil prices and growing credit

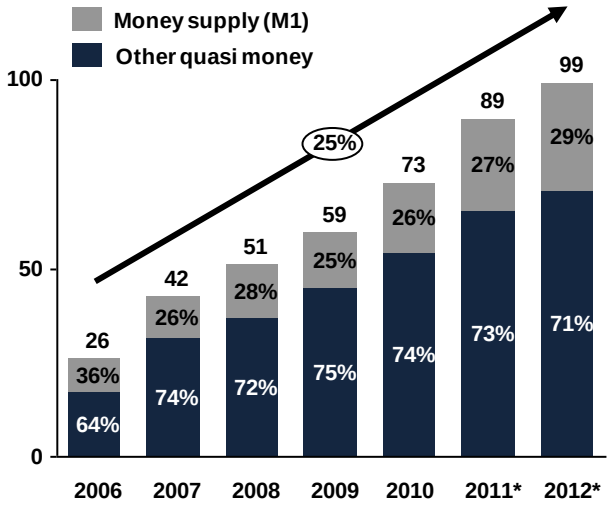
Broad **money supply** (M2) reached QR265bn (US$73bn, or 57% of GDP) in 2010. It grew at a rate of 25% during 2001-10, compared with 7.8% in the preceding decade. The acceleration was a result of the economic boom and high oil prices in the late 2000s (Fig 5.2), which enabled the government to increase its expenditure. Strong growth in domestic credit also encouraged the expansion of the broad money supply.

Quasi money[29] is the largest component of the money supply, accounting for 74% of the total in 2010. It has been growing more rapidly than narrow money (M1), expanding at 36% a year from 2006-10 compared with 20% for M1. As the banking system matures in the medium-term, the growth rate of quasi money is likely to slow relative to the growth rate of narrow money.

[28] Basis points refer to percentage change where 1 bp = 0.01%. Therefore, 25 bp = 0.25%

[29] Quasi money refers to assets that are easily convertible into cash, such as money market accounts and bank deposits

Fig 5.2: Money Supply (2006-12)
(US$bn, CAGR shown, totals are broad money or M2)



Source: QCB, *QNB Capital forecasts

Foreign currency deposits have declined significantly

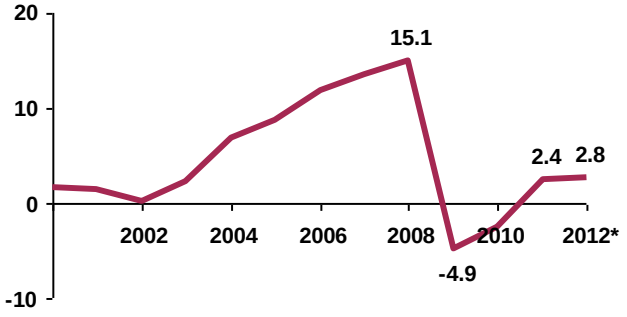
There has also been a long-term trend for an increase in the proportion of deposits held in Qatari riyal. Foreign currencies, which were 34% of the total in January 2007, declined to 22% as at June 2011. This has most probably been a consequence of the financial crisis and global recession, which has encouraged Qataris to withdraw their savings from foreign currencies that may have been perceived as at risk.

The proportion of demand deposits has also fallen from 28% in January 2007 to 23% in June 2011, indicating that there is an increased propensity for Qataris to save.

C. Prices and Wages

Historically, inflation in Qatar has been extremely low. The **CPI** grew at 3.0% during 1995-2004. It picked up considerably to 12% in the 2005-08 oil boom, although there was a contraction in prices during the global slowdown in 2009-10 of 3.7% a year (Fig 5.3).

Fig 5.3: CPI (2000-12)
(Annual % change)



Source: QSA, *QNB Capital forecasts in 2011-12

The QSA has recently introduced a **producer price index** (PPI) of the industrial sector. The data series currently only goes back to the first quarter of 2010. In the period from Q1 2010 to Q1 2011, PPI inflation was 25%, which compares with CPI inflation of just 1.7% over the same period. The sharp increase in the PPI was driven by the surge in fuel prices.

An expansive economy, public spending and housing have driven inflation

Inflation has been driven higher by the economic boom, high oil prices and strong government spending, all of which have increased domestic demand. Qatar is also heavily dependent on imports of food and other goods and is therefore affected by imported inflation as international commodity prices rise.

Consumer Price Index

Rent prices have driven the increase and subsequent contraction in the CPI

Rent, fuel and energy have the strongest weighting in Qatar's CPI basket, accounting for 32% of the index. This component also grew faster than all of the other categories in 2005-08, at a rate of 25% (Fig 5.4). During Qatar's economic boom, rental prices rose rapidly.

According to a survey by DTZ, a UK-based real estate research company, prime office rental rates in the diplomatic quarter of Doha increased by 67% from US$49 per square metre per month in the first half of 2006 to a peak of US$82 in the first half of 2008. Residential compound villa rents also increased, rising by 35% from US$4,900 per month for a four bed villa in the first half of 2006 to US$6,600 in the first half of 2008. These factors were largely responsible for the CPI inflation of 14% in 2005-08.

Rent was also the key driver for the contraction in the CPI in 2009-10, falling at a rate of 12% a year. According to the DTZ research, prime office rental rates fell by 13% from the first half of 2008 to US$71 in the second half of 2010 and compound villas fell 38% to US$4,100 over the same period.

During the first six months of 2011, rental prices have continued to fall, at an average annual rate of 4.8%, matching anecdotal accounts. This fall in prices will be partially counteracted by a 25% increase in the price of fuel by the Qatari government in January 2011, which will be reflected in the transport and communications category. We also expect rental prices to begin to recover in the second half of 2011.

The second most highly weighted category in the CPI is **transport and communications**, representing 21% of the overall index. Prices changes in this category have been more moderate, only rising at a rate of 4.3% in 2005-08 and contracting at a rate of 1% in 2009-10. This category is dominated by automotive costs and the cost of mobile phones. The prices of these items tend to be less elastic than other basic goods.

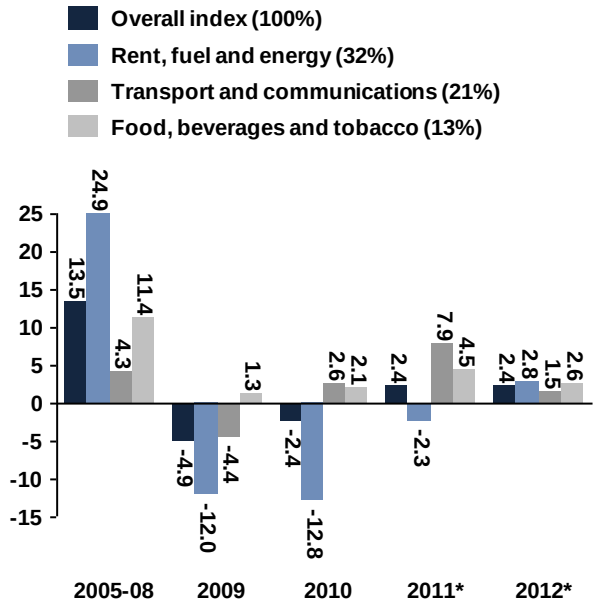
During the first six months of 2011, costs in this area have begun to pick up, rising at an annual average rate of 6.1%. We expect this category to average 7.9% for the full year, given strong consumer confidence. This will bring prices back above their 2008 level, after which inflation is expected to slow to around 1.5% in 2012.

Food, beverages and tobacco and transport and communications are other drivers of inflation

The **food, beverages and tobacco** component of CPI was also an important factor driving inflation. It has the third strongest weighting in the CPI basket, accounting for 13%. Inflation in this sector was 11% in 2005-08 and slowed to 1.7% in 2009-10. The vast majority of goods in this category are imported into Qatar and inflation has therefore been driven by international food prices. These prices rose sharply in 2005-08 but fell during the subsequent recession.

During the first six months of 2011, prices in the food, beverages and tobacco category have been rising once again, at an annual average rate of 4.8% in line with fresh increases in international food prices because of poor harvests. We expect food price inflation to average 4.5% over the whole of 2011, slowing to 2.6% in 2012 on the assumption of more normal global harvests.

Fig 5.4: CPI (2005-12)
(% change, index weighting in brackets)



Source: QSA, *QNB Capital forecasts

The five smaller categories are omitted from (Fig 5.4):

- Education, entertainment, and culture (11% of the index)
- Furniture, textiles and home appliances (8.2%)
- Miscellaneous goods and services (7.2%)
- Garments and footwear (5.8%)
- Medical care and medical services (2%)

We forecast overall inflation of 2.6% in 2011-12

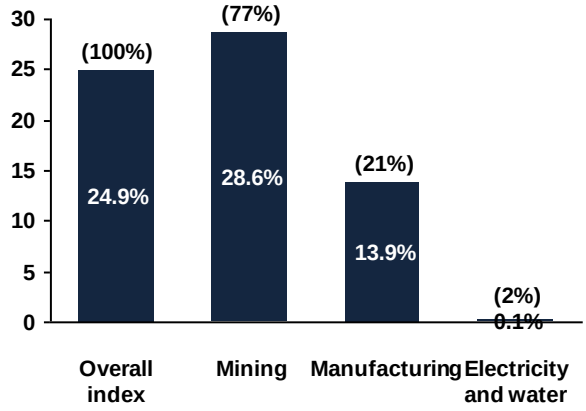
We expect rising prices in the food, beverages and tobacco and transport and communications categories to more than counteract the falling prices in the rent, fuel and energy category. This will lead to inflation of around 2.4% in 2011. By the end of 2011, prices will have largely recovered from their 2009 collapse following the financial crisis. There will be a slowdown in inflation across most categories in 2012, although we expect rent prices to begin picking up again. Overall, we expect inflation to average about 2.8% in 2012.

Producer Price Index

The PPI is closely correlated to oil prices

The highest weight in the PPI basket is given to **mining**, which accounts for 77% of the index (Fig 5.5). Within this, crude oil prices account for 50%, natural gas for 32% and condensates 18%. Inflation in this category has been 29% from the first quarter of 2010 to the first quarter of 2011. As natural gas and condensate prices are often linked to oil prices, this category will be closely correlated with our oil price forecast, rising by around 35% in 2011 and falling by around 4.8% in 2012.

Fig 5.5: PPI (Q1 2010 - Q1 2011)
(% change, index weighting in brackets)



Source: QSA and QNB Capital analysis

Manufacturing is the next most heavily weighted category, representing 21% of the index. Inflation has risen by 14% in this category from the first quarter of 2010 to the first quarter of 2011, which has mainly been driven by an 18% increase in the price of refined petroleum products and a 11% increased in the price of basic chemicals, used in the petrochemical industry. As the inputs for petroleum products and petrochemicals are oil and gas based, this category is also closely correlated with oil prices.

The remaining 2% of the index is made up of **electricity and water**. Prices in this category are fixed by the government, and are therefore likely to remain relatively stable. They fell marginally by 0.1% from the first quarter of 2010 to the first quarter of 2011.

Wages

Based on labour surveys conducted by the QSA, average wages have risen from US$17,200 per year in 2006 to US$25,700 in 2009. This equates to an annual increase of around 14% and is broadly in line with CPI. The best paid sectors are shown below (Table 5.1). In September 2011 the government announced a 60% increase in the salaries of Qatari nationals working with state departments, a 120% rise in the salaries of military officers and a 50% rise in the salaries of military personnel of other ranks. This will boost the average salary in the public administration sector in 2011.

Table 5.1: Top Paid Sectors (2010)

Sector	Average Annual Salary (US$)
Mining and Quarrying	55,279
Public Administration	50,093
Electricity, gas and water supply	49,098
Financial intermediation	49,055

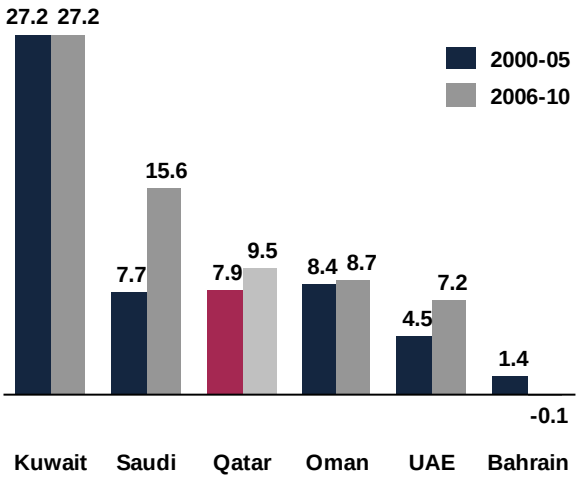
Source: QSA and QNB Capital analysis

6. Public Finance

High oil prices have ensured strong fiscal surplus in Qatar and across most of the GCC

Most GCC governments have recorded strong surplus fiscal positions over the past decade (Fig 6.1), mainly due to high oil prices. Qatari oil prices rose from an average of US$32/b in 2000-05 to US$74/b in 2006-10, contributing to the higher surplus in the later period.

Fig 6.1: GCC Budget Balance (2000-10)
(% of GDP)



Source: IMF, QNB Capital estimates

Qatar has recorded budget surpluses in every fiscal year[30] since 2000/01. Data from the Ministry of Economy and Finance (MOEF) shows that the government budget surplus averaged US$5.6bn or 9% of GDP from the fiscal year 2001/02 to 2010/11. QNB Capital forecasts that the budget surplus will rise to US$8.5bn (4.9% of GDP) in 2011/12, easing slightly to US$7.5bn (3.8% of GDP) in 2012/13[31].

A. Revenue

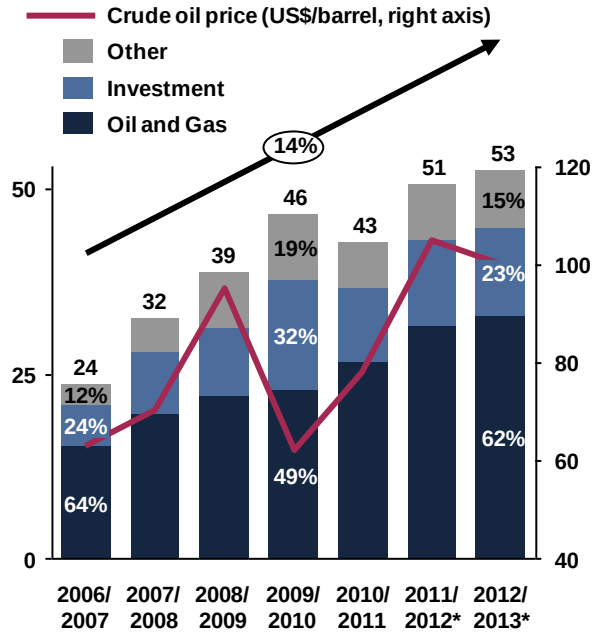
Oil and gas revenue increased by 17% in the 2010/11 budget year

Government revenue is primarily derived through state-owned QP, which is responsible for all phases of the oil and gas industry in Qatar. **Oil and gas revenue** accounts for the largest share of budget revenue and averaged around 58% of total revenue from 2006/07 to 2010/11 (Fig 6.2).

Oil and gas revenue grew at a rate of 21% in 2001/02 to 2005/06, as oil prices increased from an average of $24/b in 2001/02 to $52/b in 2005/06. It slowed slightly in 2006/07 to 2010/11 to a rate of 19%.

Investment revenue accounts for the second largest portion of government revenue and averaged 26% of the total in 2006/07 to 2010/11. It consists of income from the state's investments within Qatar and overseas, through QIA and other government-related companies. This income has fluctuated according to market performance.

Fig 6.2: Fiscal Revenue (2006/07 to 2012/13)
(US$bn, CAGR shown)



Source: MOEF, *QNB Capital Forecasts

Other revenue accounted for the remaining 16% of overall budget revenue on average from 2006/07 to 2010/11. This mainly consists of corporate taxes, import duties and licensing fees. It therefore varies in line with economic activity in Qatar and its share of total revenue increased from an average of 9% from 2001/02 to 2005/06.

A drop in investment and other income led to a decline in revenue in 2010/11

Preliminary data on actual budget revenue for 2010/11 released by the MOEF shows a 7.8% decline in overall revenue to US$43bn. Although oil and gas revenue increased by 16.5% to reach US$27bn, investment revenue fell by 33% to US$9.9bn, and other revenue went down by 29% to US$6.3bn, leading to the overall decline. Cuts in corporate taxes[32] were mainly responsible for the drop in other revenue in 2010/11. A fall in private sector activity in 2010/11 could also have contributed.

The falls in investment and other revenue were offset by the oil and gas sector. Oil prices increased by 21% for the fiscal year 2010/11 to average US$85/b, although production was restricted to 793,000 b/d as a result of

[30] Qatar's fiscal year runs from 1st April to 31st March. 2006/07 therefore refers to the fiscal year from 1st April 2006 to 31st March 2007

[31] New budget guidelines in Qatar's NDS 2011-16 set out a programmatic budget modernisation process. Budgets from 2012 will be prepared under a new functional classification of expenditures and based on strategic and operational plans developed by various government ministries

[32] Law No. 21 of 2009, which became effective from 01/01/2010, set the tax rate at a flat 10%, from previous rate bands rising to 35%. The low tax rate is directed towards attracting foreign direct investment

OPEC's target output guidelines. The net effect in 2010/11 was a small increase in oil and gas budget revenue.

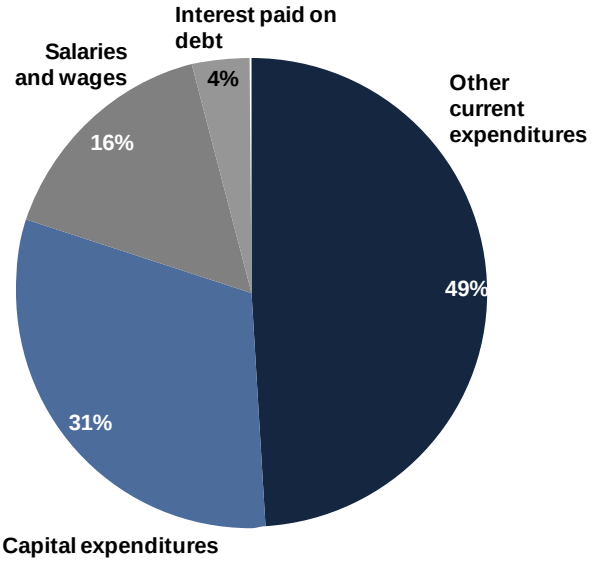
The biggest state budget in Qatar's history was released in March 2011 with overall revenue forecast at US$45bn. This was despite the fact that a conservative oil price assumption of US$55/b was used which compares to an average price of US$112/b during the first five months of the 2011/12 fiscal year.

Based on our forecasts for growth and Qatari oil prices, we forecast that actual revenue will rise by 18% to US$51bn in 2011/12 and by a further 3.8% to US$53bn in 2012/13. Despite the increase in the nominal figures, revenue as a percentage of GDP will fall to 27% in 2012/13 from 34% in 2010/11. This is a consequence of our expectation for overall economic growth to be faster than the increases in revenue.

B. Expenditure

Expenditure has grown faster than revenue over the last five years

Fig 6.3: Government Expenditure (2010/11)



Source: MOEF and QNB Capital analysis

Expenditure grew at a rate of 23% in 2006/07 to 2010/11 to reach US$39bn. This compares with revenue growth of 19% over the same period. The government has announced planned expenditure for 2011/12 of US$38bn. Actual expenditure usually exceeds the initial budget estimates and QNB Capital forecasts that it will be US$42bn in 2011/12, up 7.6% on 2010/11 rising a further 7.1% to US$45bn in 2012/13[33].

The bulk of expenditure, 69% in 2010/11, is current expenditure, with capital expenditure accounting for the remainder (Fig 6.3). The largest category of expenditure is other current expenditure which accounted for 49% of the total. A breakdown for this category is not provided but it is likely to consist of supplies and services for public administration, defence and security. Other current expenditure has grown at a rate of 25% over the past five years.

Salaries and wages have also been growing at a fast pace of 28% in 2006/07 to 2010/11 as the government remains the main employer of new national entrants to the labour market. The increase in wages in state departments and in the military announced in September 2011 (Section 5C) amounts to US$2.7bn and will support expenditure growth in this area in 2011/12.

Capital expenditure has grown faster than current expenditure at a rate of 26%

As the government has remained committed to its large development programme, capital expenditure has been rising at a rate of 20% per year from 2006/07 to 2010/11. This has led to the share of capital expenditure in total expenditure rising from 26% in 2006/07 to 31% in 2010/11, although it has fluctuated considerably from year to year.

As the government has taken on more debt to finance current and capital expenditure, the interest bill paid on this debt has also increased considerably at a rate of 24%.

The largest increase in the planned budget for 2011/12 is for capital expenditure which is expected to rise 33% to US$16bn while current expenditure is expected to rise 10% to US$23bn. The major allocations for development expenditures were:

- US$8.2bn for infrastructure, including the completion of the new Doha International Airport, the new Doha port, roads, drainage, land reclamation and expansion of the electricity and water network
- US$5.3bn for education and youth welfare, including the establishment of academic and school buildings and educational facilities
- US$2.4bn for healthcare, including the completion of new hospitals and new health facilities

The annual budget is part of a broader six-year development planning framework. To incorporate this framework, the government developed the NDS 2011-16, which was published in March 2011. The NDS 2011-16 provides a framework to focus the annual budgets on achieving QNV 2030. The NDS 2011-16 thus aims to balance five major challenges identified in the QNV 2030:

- To mould modernization around the preservation of Qatari culture and traditions
- To balance the needs of this generation and those of future generations
- To manage growth and avoid uncontrolled expansion

[33] In recent years, falls in oil prices have not led to cutbacks in expenditure. For example, in 2009 oil prices fell by 33% but the government still increased expenditure by 16%. Therefore, the small drop in oil prices forecast in 2012 is unlikely to lead to cutbacks in expenditure

- To match the size and quality of the expatriate labour force to the selected path of development
- To align economic growth with social development and environmental management

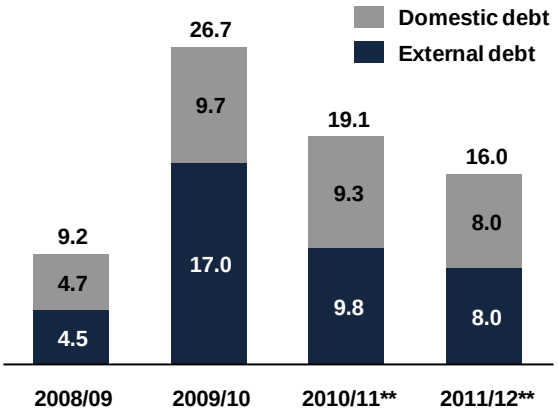
The NDS 2011-2016 builds on 14 sector strategy reports[34], which identify the priority areas and initiatives to meet the five challenges.

C. Public Debt

Public debt is falling which should help to encourage private sector credit growth

Public debt fell to a low of US$9.9bn (9.2% of GDP) in 2008, according to the IMF (Fig 6.4). The hefty budget surpluses in prior years had led to the government paying down much of its debt. Public debt levels increased sharply by 184% in 2009/10 to US$28bn (27% of GDP). This occurred as the government stepped in to support the local economy as private sector borrowing contracted in the aftermath of the global financial crisis.

Fig 6.4: Public Debt (2008/09 to 2011/12)
(% of GDP)



Source: IMF, *IMF estimates and forecasts and QNB Capital analysis

Qatar's public debt level is easily manageable and low in comparison to debt in most other countries[35]. Furthermore, as the private sector has recovered, public debt levels are estimated by the IMF to have fallen in 2010 and are expected to fall further in 2011. This implies that the government plans to stabilise its debt levels, which will lead to a decrease in government debt as a percentage of GDP. By reducing borrowing from the financial system, the government should increase bank appetite for lending to the private sector which is in line with current QCB policy to encourage credit growth in the private sector.

The government has issued long-term and short-term debt to establish a local yield curve

The government had a total of US$25bn (QR90bn) of bonds outstanding as at June 2011. These generally have a maturity of three to five years and coupons of 5-8%. Almost all of this long-term debt is issued in local currency. There was US$10bn of foreign currency bonds issued by the State of Qatar outstanding as at August 2011, according to Deologic. Since the beginning of 2011, the government has also begun to issue 3-month T-bills each month and had US$960m (QR3.5bn) outstanding in June 2011. This is all denominated in local currency. The primary purpose of the bond and T-bills debt issuance is to form the basis for a domestic interest-rate yield curve. The T-bills are also used as a tool to absorb excess liquidity in the banking system.

[34] The sectors are culture, economic diversification and private sector development, economic infrastructure, economic management, education and training, environment, family cohesion and women's empowerment, national health, institutional development and modernisation, labour market, natural resource management, public safety and security, social protection, and sports

[35] For example, public debt in the US has reached 100% of GDP

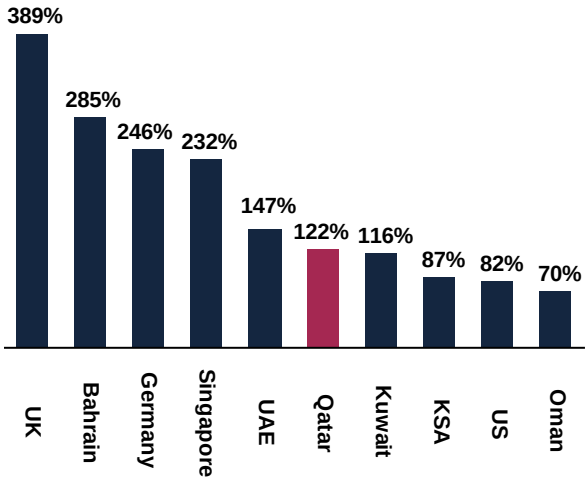
7. Banking Sector

A. Overview

Qatar's total banking sector assets to GDP reached 122% in 2010 (Fig 7.1). The growth in total banking sector assets has been driven by rapid economic growth and large capital investments, which have encouraged overall loan growth. Loans made up the majority of assets (55% in June 2011) and have been responsible for the bulk of growth in assets since 2006.

Banking assets as a percentage of GDP provide a measure of the importance of the banking sector compared with the overall economy. Qatar's banking assets as a percentage of GDP are low relative to some economies. However, asset quality is extremely high in Qatar compared with other banking sectors which have a higher proportion of non-performing loans. The higher banking assets to GDP ratios in Europe have become a cause for concern in recent years due to loan quality issues. As such, Qatar's ratio is at a relatively safe level.

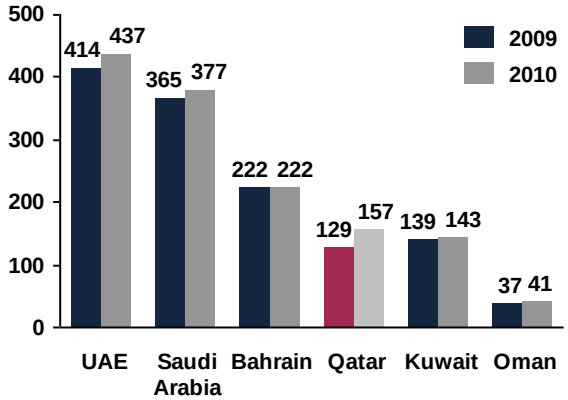
Fig 7.1: Total Banking Assets to GDP (2010)
(Total Assets as % of GDP)



Source: Central banks and QNB Capital analysis

Qatar is the fourth largest economy in the GCC and has the fourth largest banking sector (Fig 7.2). In terms of total assets, the Qatari banking sector grew faster than all the others in the GCC in 2010, at a rate of 22%.

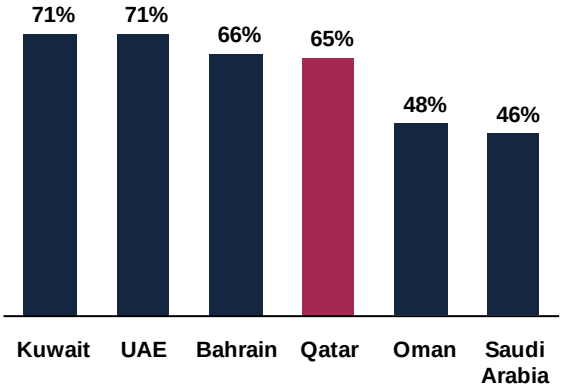
Fig 7.2: GCC Total Banking Assets (2009-10)
(US$bn)



Source: Central banks and QNB Capital analysis

Qatar also has a relatively high level of domestic loan penetration, relative to GDP, by regional standards (Fig 7.3). This suggests that the domestic market is well penetrated by the banking sector.

Fig 7.3: GCC Loan Penetration (2010)
(Loans as % of GDP)



Source: Central banks and QNB Capital analysis

Prudent oversight has kept the banking sector well protected

QCB has taken a proactive role in the supervision of the banking sector to ensure that it remains well protected[36]. QCB has applied the Basel II Framework[37] since 2007 and is ahead of schedule for the implementation of the Basel III framework, which requires adherence to International Financial Reporting Standards. The timeline for the completion of different aspects of the Basel III framework falls between 2013 and 2019. Since 2008, QCB has required that banks hold 4.75% of total deposits as reserves and it also penalises any bank that exceeds a 90% loans to deposits ratio. In April 2011, QCB also introduced maximum limits on loans secured against individual salaries for the amount and maturity:

- US$549,500 over six years for Qatari nationals
- US$110,000 over four years for expatriates

QCB also capped the interest that could be charged on these personal loans at 1.5% over its benchmark interest rate. Its benchmark lending rate is currently 4.5% and so the maximum rate that can be charged is 6%.

Qatar took a number of additional measures to protect the banking sector from the effects of the financial crisis in 2008-11:

- In January 2009, the government committed to buy 10%-20% of Qatari banks' listed equity (based on October 2008 prices). The initial 10% acquisition was completed in two stages, with the government taking a 5% stake in January 2009 for

[36] The rating agency Moody's assigns Qatar's banking sector a financial strength rating (BFSR, bank financial strength ratings are Moody's opinions on the intrinsic safety and soundness of a bank enterprise) of C-, which is at par with countries such as Germany, the UK and Japan. Additionally, the Qatari banking system received a stable outlook from the rating agency, Fitch, in June 2011. Fitch stated that the operating environment for banks will continue to improve in 2011

[37] Basel II is a set of international banking recommendations for regulators to use as guidance for their risk and capital management requirements

US$714m and a further 5% stake in January 2010 for US$741m. The government purchased a further 10% stake in Qatari banks in the first quarter of 2011. QNB, in which Qatar Holding already held a 50% stake, was excluded from the equity stake purchases

- In March 2009, QCB purchased all QE investment portfolios that the banks wanted to sell, amounting to US$1.8bn
- In June 2009, QCB implemented a program to purchase a part of the real estate loan portfolios and investments of the local banks, amounting to US$4bn

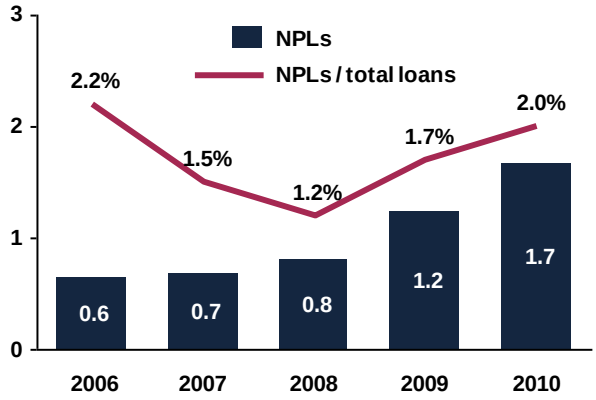
These measures have helped ensure that the banking sector is well protected. Qatar's banking sector capital adequacy ratio (CAR) has remained high in recent years. It reached 16.1% in 2010 from 13.5% in 2007, according to QCB. This is well above the QCB requirement of 10% and the Basel II minimum requirement of 8%.

The government initiatives and support to the banking sector have helped ensure strong capitalisation and also provided additional liquidity for banks.

Non-performing loan (NPL) ratios are the lowest in the region

NPLs did increase slightly in 2009 in the aftermath of the financial crisis, like most countries. However, the ratio of NPLs to total loans remains the lowest in the region. The NPL ratio rose from 1.2% of total loans in 2008 to 1.7% in 2009 and 2% in 2010 (Fig 7.4).

Fig 7.4: NPL Values and Ratios (2006-10)
(US$bn)



Source: QCB and QNB Capital analysis

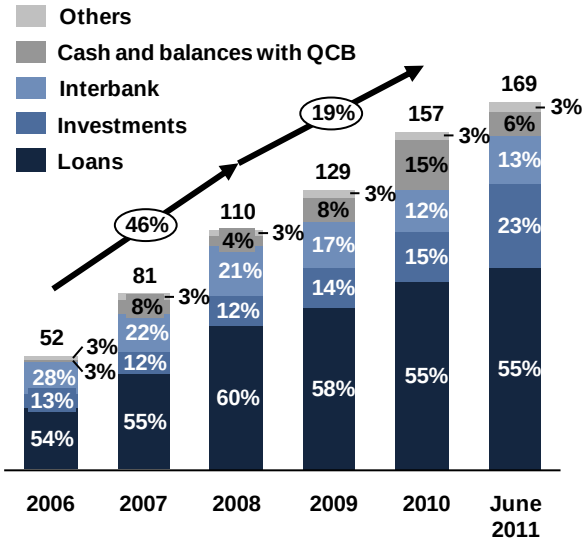
The increase was mainly a consequence of the economy feeling the squeeze of the global economic slowdown. Qatari banks also had an exposure to the real estate sector as 27% of private sector loans were real estate loans in 2010. Risks for loans to real estate companies persist as rental prices have declined due to excess supply.

B. Bank Performance

Total assets grew at a rate of 31% from 2006-10, led by credit growth

The total **assets** of commercial banks grew at a rate of 31% from 2006-10. This growth was significantly stronger from 2006-08, when it reached 46%, easing to 19% from 2008-10 (Fig 7.5). **Loans** are the largest component of total assets and grew by 54% from 2006-08. This strong credit growth spanned the private and public sectors and was driven by rapid economic growth, increasing private consumption and large allocations in government spending for major development projects.

Fig 7.5: Total Banking Sector Assets (2006 - June 2011)
(US$bn, end-period, CAGRs shown)



Source: QCB and QNB Capital analysis

From 2008-10, there has been an almost fivefold increase in the commercial bank reserves held with the QCB (cash and balances with QCB). This is a result of an increase in the reserve requirement with QCB from 2.75% to 4.75% in April 2008. The increase was designed to absorb the excess liquidity in the banking system.

The increase in the investments of commercial banks has continued at a steady growth rate of around 30%. Domestic investments have almost doubled in the first six months of 2011, reaching US$31bn in June. Correspondingly, their share of total assets increased from 15% in December 2010 to 23% in June 2011. The main reason behind this high growth is an increase in commercial bank investment in government bonds and T-bills (Section 6C). Bank investment in these instruments has risen from US$11bn in December 2010 to US$26bn in June 2011.

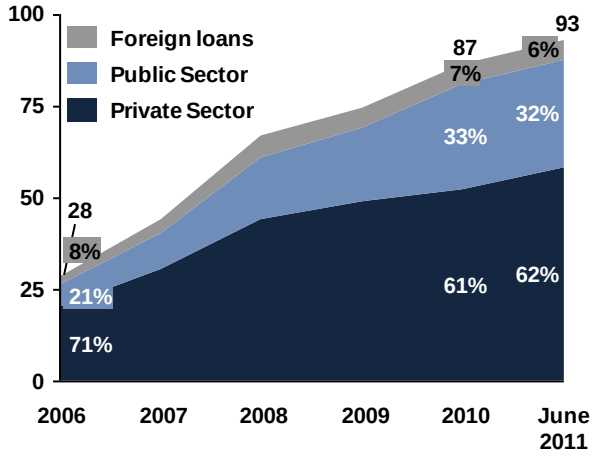
Public sector lending grew faster than private sector lending in 2006-10

Commercial bank lending is predominantly provided to the private sector (Fig 7.6). However, lending to the public sector grew more rapidly in 2006-10 at a rate of 45% compared with 25% for the private sector. This was mainly a result of major government-backed development projects, financed through commercial banks.

Private sector lending now seems to be accelerating. In the first six months of 2011, commercial bank lending to the private sector increased by 10%, compared with a 3.4% growth in lending to the public sector. This suggests that activity in the private sector is picking up and that banks have eased credit facilities further. Overall loan growth has been healthy, rising by 7.6% in the first six months of 2011.

Fig 7.6: Banking Sector Lending (2006 - June 2011)

(US$bn)



Source: QCB and QNB Capital analysis

QCB interest rate cuts are aimed at stimulating credit growth

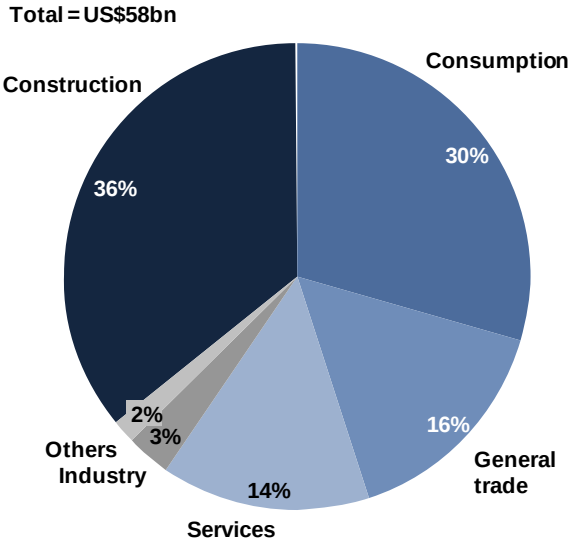
Foreign loans grew at 40% in 2006-08 but contracted at 3% in 2009-10, owing to the weak conditions in the global economy. However, a recovery in 2011 saw a 0.2% increase in foreign loans in the first six months. Overall, in the first three months of 2011, lending went up by 8%. QCB cut its main lending interest rate by 50 basis points to 4.5% in August 2011 with the stated aim to encourage credit growth. Additionally, following interest rate cuts in the US, a large differential had been created between US and Qatari interest rates (Section 3B). This would have given the QCB further reason to cut benchmark interest rates.

Construction is the largest and fastest growing sector in terms of lending

The largest category of lending to the private sector is the construction sector (Fig 7.7), which accounts for 36% of private sector lending. The construction sector has expanded at a rate of 45% from 2006-10, making it the fastest growing sector for credit growth. Credit growth in this sector has been boosted by the ongoing construction boom in Qatar. Lending in the construction sector expanded by 8.4% in the first six months of 2011 compared with a contraction of 25% in the first six months of 2010, indicating that the sector has seen a strong recovery.

The next largest component of lending is for consumption purposes (mainly personal loans), which accounts for 30% of the total. The rapidly increasing affluence in Qatar has boosted the consumer sector. However, growth in this sector is relatively slow at 10% from 2006-10.

Fig 7.7: Lending to the Private Sector (June 2011)

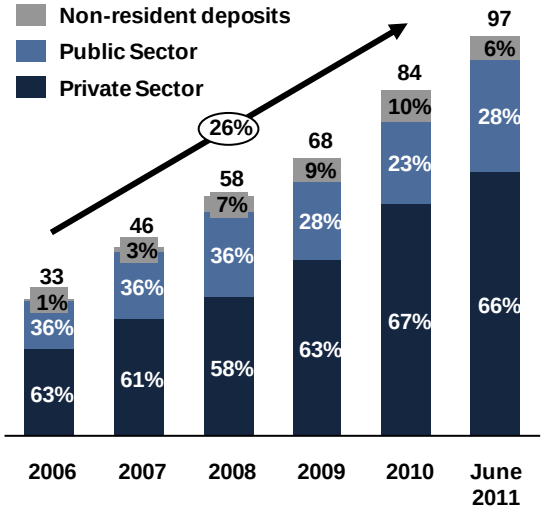


Source: QCB

Medium to long-term deposits are growing faster than short-term deposits

Fig 7.8: Banking Sector Deposits (2006 - June 2011)

(US$bn, CAGR shown)



Source: QCB and QNB Capital analysis

Looking at the other side of the balance sheet, total commercial bank **deposits** have also been growing strongly at 26% from 2006-10 (Fig 7.8). Deposits accounted for 57% of commercial banks' total liabilities as at June 2011. Private sector deposits grew at 25% from 2006-10 compared with 18% for public sector deposits. The share of private sector deposits in total deposits has therefore grown over the period from 63% in 2006 to 66% in June 2011.

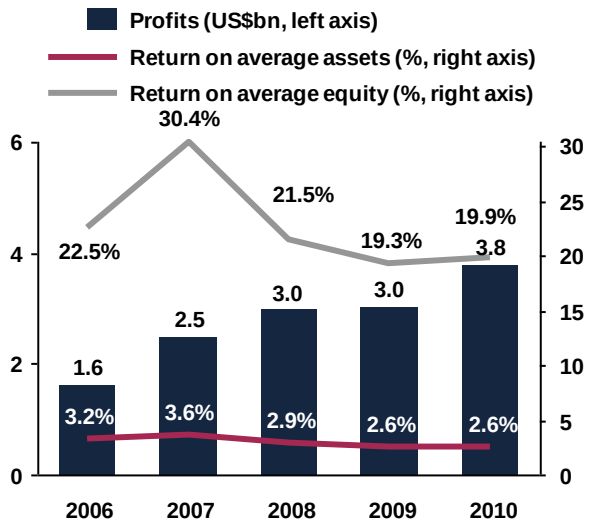
Demand deposits account for 29% of total deposits, and time and savings deposits for 65% (the remaining 6% are the deposits of non-residents and are not classified according to their term). Time and savings deposits have been rising at a faster rate than demand deposits, partly as a result of strong economic growth and also suggesting that there is an increasing propensity to save. Qatar has a relatively high proportion of time and savings deposits (for example, time and savings deposits account for 46% of deposits in Saudi Arabia). This may be a consequence of Qatar's relatively high affluence or greater risk aversion.

Around 78% of deposits are local currency deposits and 22% foreign. The proportion of foreign currency deposits has fallen from 29% in 2008 as the financial crisis dampened appetite for foreign currency holdings.

Banking sector profits have grown at 23% a year in 2006-10

Commercial banks' profits have been growing steadily at a rate of 23% from 2006-10 (Fig 7.9). Qatari banks were able to maintain profit levels, even in 2009, a period when most global and regional banks suffered losses.

Fig 7.9: Banking Sector Profits and Returns (2006-10)
(US$bn)



Source: QCB, published financial statements and QNB Capital analysis

The decline in the banking sector returns on average equity in 2009 to 19%, from a peak of 30% in 2007, can be attributed to the increasing equity base of Qatari banks brought about by the government's capital injections. Returns on average assets followed a similar pattern.

Qatar National Bank (QNB) was the most profitable regional bank in the first half of 2011

During the first six months of 2011, QNB recorded the strongest profits in the MENA region with US$966m, up 30% compared to June 2010. It was followed by Al Rajhi whose profits had risen by 2.3% since June 2010 to US$945m and by NCB whose profits had risen 11% to US$781m.

In the Qatari market, QNB was by far the most profitable bank in the year to June 2011. It recorded profits almost four times the profits of the next most profitable bank, Commercialbank. The only bank to have stronger profit growth was Al Khaliji, which saw profits grow by 122% in the year to June 2011 to US$68m.

C. Structure of the Sector

There are six conventional local banks, four fully Sharia-compliant Islamic banks, and one specialised bank (Qatar Development Bank (QDB), which is a state-owned bank for financing small and medium scale development projects). QNB is the largest bank in Qatar in terms of total assets (Fig 7.10).

In the MENA region, QNB was the third largest bank by overall assets at the end of June 2011 with US$72bn. It was placed behind Emirates NBD (US$78bn) and National Commercial Bank (US$84bn). QNB recorded the strongest asset growth amongst the top ten banks in the MENA region at 42% in the year to June 2011. This helped lift the bank from fourth in June 2010 to third place in June 2011. It remained the fastest growing bank by assets amongst the top ten MENA banks in the second quarter of 2011, with total assets increasing by 8.6%.

A decree from QCB in February 2011 may boost the market share of the Islamic banks

The **Islamic banks** are:

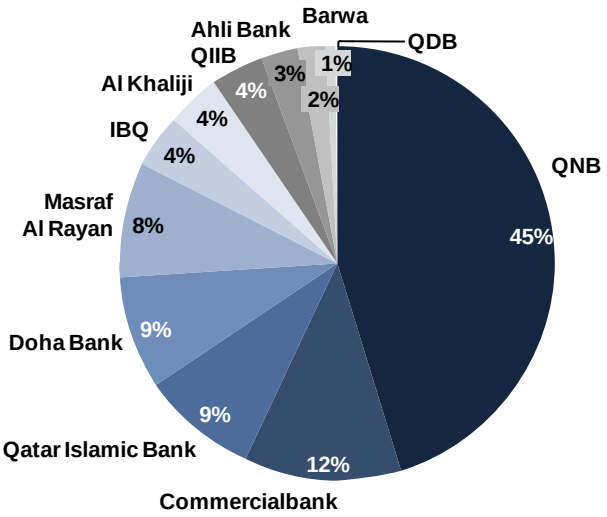
- Qatar Islamic Bank
- International Islamic (QIIB)
- Masraf Al Rayan
- Barwa Bank

The Islamic banks account for 22% of market share by total assets. Islamic banks are likely to benefit from a decree issued by QCB in February 2011 that required conventional lenders to close down their Islamic operations by end of 2011. Most of the local banks had Islamic windows, as did one foreign bank, HSBC.

As a consequence of the ruling, some banks were considering selling their Islamic portfolio, as per the sale of International Bank of Qatar's (IBQ) Islamic banking

assets to Barwa Bank in August 2011. Banks have also been considering converting their Islamic portfolios to conventional. Although no new incremental business (assets or liabilities) is permitted, banks have the option to keep existing Islamic loans until they have matured.

Fig 7.10: Market Share of Local Banks by Total Assets (June 2011)



Source: QCB and QNB Capital analysis

The domestic credit of foreign banks has increased by 14% for the first half of 2011

The seven **foreign banks** had a total of US$9.4bn in total assets as at June 2011, equivalent to 5.5% of the total banking sector. Their share of loans was lower though, at 4.5%. Foreign bank total assets have grown at 23% from 2006-10, slightly slower than the growth of local bank total assets. The foreign banks are:

- Arab Bank
- Bank Saderat Iran
- BNP Paribas
- HSBC
- Mashreq Bank
- Standard Chartered
- United Bank Limited

HSBC is by far the largest of the foreign banks, with US$5.3bn in total assets (3.4% of total banking sector assets) at the end of 2010, which equated to 46% of foreign bank total assets at the time. Standard Chartered, the second largest, is not even half of the size, with US$2.2bn in total assets, but is growing quickly having more than doubled its total assets since 2008.

Domestic credit of foreign banks has risen by 14% in the first half of 2011 to US$4.2bn from US$3.7bn in the corresponding period of 2010. Nearly a quarter of foreign bank loans are personal loans. Foreign banks lend a lower proportion of total loans to the public sector than the local banks at 20% in June 2011. Owing to capital restraints, foreign banks tend to be restricted to smaller private sector projects rather than the larger projects that tend to be implemented by the public sector.

In the first half of June 2011, the total assets of foreign banks contracted by 17%. This was mainly the result of a 59% drop in the reserves of foreign banks with the QCB from US$3.5bn to US$1.4bn. This is most probably a consequence of cuts in interest rates by the QCB. The benchmark rate QCB pays on deposits has fallen from 2% in June 2010 to 1% in June 2011. Similarly, the reserves of local banks at the QCB have fallen in the year to June 2011, but only by 12%.

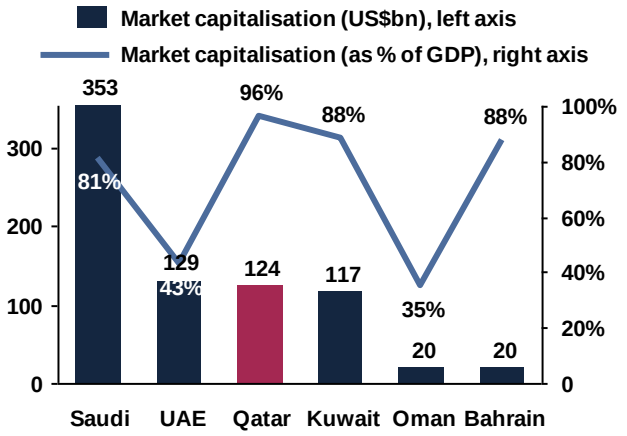
Domestic investments of the foreign banks fell by 29% from US$2.6bn in June 2010 to US$1.8bn in June 2011. While local banks have benefited from the increased local currency debt issuance of the QCB, foreign banks are not currently permitted to invest in these instruments.

8. Equity Market

The Qatari stockmarket is the third largest in the GCC but there is scope for growth

The Qatari bourse, the Qatar Exchange (QE), is the third largest stockmarket in the GCC (Fig 8.1). Its equity market capitalisation was US$124bn at the end of 2010, equivalent to 16% of total regional capitalisation of US$764bn. The QE had the highest market capitalisation to GDP in the GCC at 96%, in 2010. The main driver of capitalisation in recent years has been the large capital increases by listed companies and also the government's taking a 10-20% equity stake in banks (Section 7A). There remains room for the Qatari stockmarket to grow as the domestic economy is expected to deliver superior growth, relative to other countries in the region.

Fig 8.1: GCC Market Capitalisation (2010)



Source: Various stock exchange websites and annual reports[38] and QNB Capital analysis

Established in 1995, the QE (initially called the Doha Securities Market) officially started operations in 1997. The bourse opened up to foreign investors in April 2005, limiting their participation to 25% of the free-floating, non-government held shares of listed companies. The equity market has grown from 17 listed companies at its inception to 42 at present. The bourse is currently limited to equity listings, but trading in other asset classes, such as bonds, is expected by the end of 2011. There is also an initiative underway to encourage smaller companies to list by establishing a parallel market with lower capital requirements.

Deregulation in 2009 led to an increase in the number of brokerages in the market

Prior to 2006 the banks were operating brokerages. However, between 2006 and 2009, banks were not permitted to operate brokerages and Dlala Brokerage was established to take over the banks' brokerage operations. This led to a Qatari brokerage market that was highly regulated with only seven active players.

In May 2009, the Qatar Financial Markets Authority (QFMA) issued a new set of financial services regulations. Among other subjects, the new regulation stipulates that brokerage has become part of financial services activities and would be regulated by the QFMA. Consequently, commercial banks were again allowed to perform brokerage activities.

Deregulation has led to a number of commercial banks establishing new brokerage operations. QNB Financial Services was the first incumbent to receive a license and set up operations. Commercialbank Investment Services and Ahli Brokerage Company have also started operations. Al Khaliji bank has also received a brokerage license from the QFMA and is moving towards being operational. There are a total of 10 operational brokerages as at August 2011.

The 2009 regulations had a significant impact in opening up the capital market in business areas, such as brokerage activities, asset management, custody and research. All these activities will be licensed under the QFMA. By opening up these areas to new entrants, the new regulations will add to the efficiency and depth of Qatar's capital markets. A uniform regulator across capital markets is helpful in increasing transparency levels and investor confidence (especially foreign investors). It also helps Qatar further develop international best practice standards in market oversight.

In 2009, Qatar's aim to create a world class finance centre around a global exchange moved forward with the formation of the Qatar Exchange (formerly Doha Securities Market). The Qatar Exchange is a strategic partnership between Qatar Holding (investment arm of the QIA), which holds a 80% stake and NYSE Euronext which holds a 20% stake. This tie-up enabled the QE to benefit from the transfer of technology, personnel and intellectual property from NYSE Euronext. In 2010, a new trading system was launched, increasing efficiency and transparency which will help to attract global investors to the QE. The new trading system also provides the basis for further expansion into the trade of new products such as bonds, derivates and exchange traded funds.

The QE remains under active consideration for inclusion in the MSCI Emerging Markets Index

The QE Index is the Qatari bourse's primary index and consists of the top 20 major stocks in the exchange. The QE is currently included in the MSCI Frontier Markets Index but MSCI is considering upgrading it to Emerging Markets status with a decision expected in December 2011.

For the QE to qualify for MSCI's Emerging Markets classification, foreign ownership limits will likely have to be relaxed for some key companies. At present, none of the GCC nations have MSCI Emerging Markets status, and only Egypt and Morocco do in the broader MENA

[38] Stock exchange websites and annual reports from the Tadawul in Saudi Arabia, the Abu Dhabi Securities Exchange in the UAE, the Dubai Financial Market in the UAE, the Qatar exchange in Qatar, the Kuwait Stock Exchange in Kuwait, the Muscat Securities Market in Oman and the Bahrain Stock Exchange in Bahrain

region. QNB Capital estimates that an upgrade could attract more than US$1bn in fresh inflows of foreign capital from investment funds that track the MSCI Emerging Markets Index.

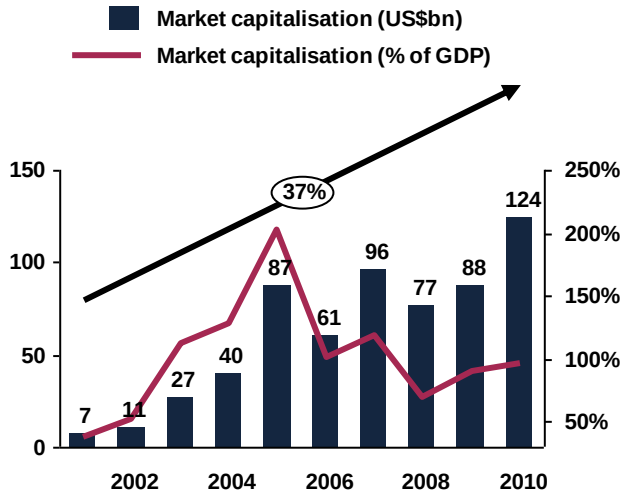
Market capitalisation has been volatile but remains firmly on a growth path

During 2001-2010, Qatar's market capitalisation rose at a rate of 37% from US$7.3bn to US$124bn (Fig 8.2). This was driven by new listings, capital increases by existing companies and increasing interest in the stockmarket as the economy grew.

The growth of the market has not followed a constant trend. Market capitalisation reached US$87bn at the end of 2005, before a stockmarket crash in 2006 when market capitalisation declined by 30% to US$61bn. The partial opening up of the market to non-Qatari investors in early 2005 coincided with high levels of investor interest in the region. Many individuals invested heavily in the bourse during the 2001-05 boom. This helped stretch valuations to high levels, with the price-to-earnings multiple (P/E) for the QE Index exceeding 29 times in 2005. This led to the sharp correction in 2006, which was followed by another boom in 2007 and a smaller bust in late 2008, when capitalisation fell by 20% to US$77bn as regional markets were hit by the global liquidity crunch.

Fig 8.2: Qatar Market Capitalisation (2001-10)

(yearend, CAGR shown)



Source: QE and QNB Capital analysis

The market has been recovering strongly since mid-2009. Investors have been attracted by Qatar's strong LNG-driven growth, and the market movements display some correlation with oil prices. The Qatari government also lent strong support to the banking sector during the financial crisis, making US$1.4bn of capital purchases and purchasing equity and real estate assets. The financial sector accounted for 35% of the average market capitalisation in 2008-10. The government support to the sector was therefore an important factor in supporting the stockmarket during this period.

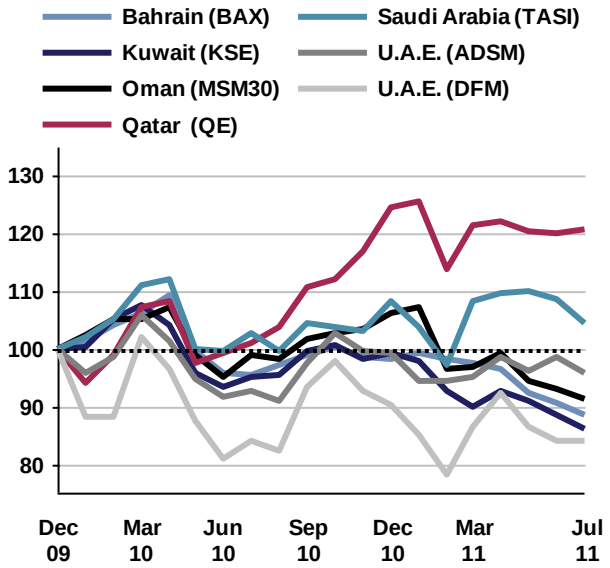
Despite the recent growth, valuations remained reasonable, with the index trading at a P/E multiple of 11 at the end of August 2011, according to Bloomberg. This compares with P/E multiples of 14 in Saudi Arabia, 30 in Dubai, 11 in Bahrain, 13 in the US and 8.3 in Singapore. Moreover, Qatar's December 2010 achievement of winning the rights to host the 2022 FIFA World Cup and the massive infrastructure spending associated with it, will add further confidence to the market over the next decade.

Following strong gains in 2010, QE market capitalisation has been stable in 2011

In 2010, the QE index rose by 25%, significantly outperforming its GCC peers on the back of strong economic growth. When based to 31st December 2009, the only GCC stockmarkets to be in positive territory as at the end of July 2011 were Qatar and Saudi Arabia (Fig 8.3). Over the course of 2011, regional unrest adversely influenced most GCC exchanges. Despite being unaffected by the regional unrest, Qatar's market capitalisation declined by 1.1% during the first half of 2011, to US$122bn. The QE Index declined by 3.7% during this period, as the larger companies in the index were more affected than smaller stocks.

Fig 8.3: GCC Stockmarket Performance (2010-11)

(monthly index, based to end-Dec 2009)



Source: Stock exchange websites and QNB Capital analysis

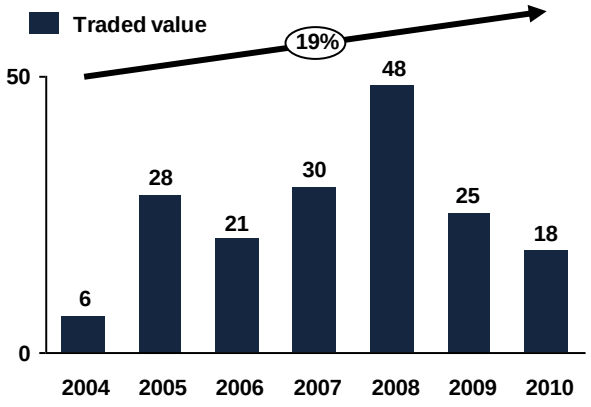
Trading values have declined since 2009 due to regulations and muted IPO activity

The value of trading on the QE rose rapidly during 2001-08. Despite the stockmarket crash in 2006, traded value recovered strongly during 2007-2008. However, after reaching an annual peak of US$48bn in 2008, it declined in 2009 and 2010 (Fig 8.4).

Some of the key factors behind this decline included:

- QCB restricted banks from taking on new domestic equity exposures in the first quarter of 2009 and only partially removed the restriction a year later, capping it at QR150m (US$41m) per bank
- QCB imposed a ban on bank financing for trading in securities, effective from June 2009

Fig 8.4: Value of Shares Traded (2004-10)
(US$bn, CAGR shown)

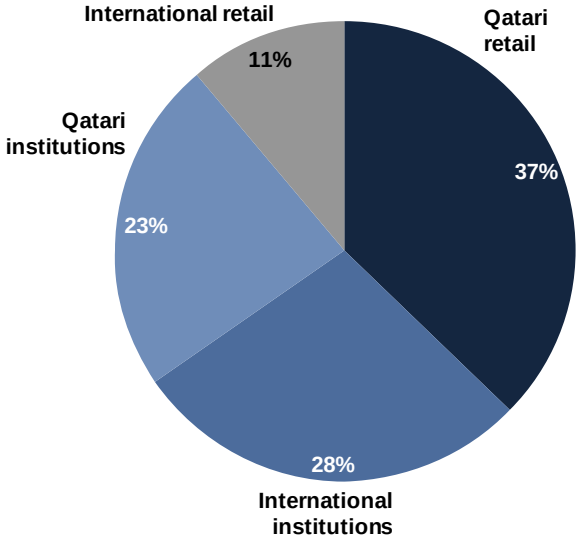


Source: QE and QNB Capital analysis

Traded value has recovered somewhat to US$13bn in the first six months of 2011, compared with US$9.7bn in the first half of 2010 and US$8.7bn in the second half of 2010. In April 2011, QCB further lowered personal loan limits, capping them at QR2m and QR400,000 for Qatari nationals and expatriates respectively, which may reduce retail-trading activity.

There is a growing foreign institutional presence on the QE

Fig 8.5: Investor by Type (June 2011)



Source: QE and QNB Capital analysis

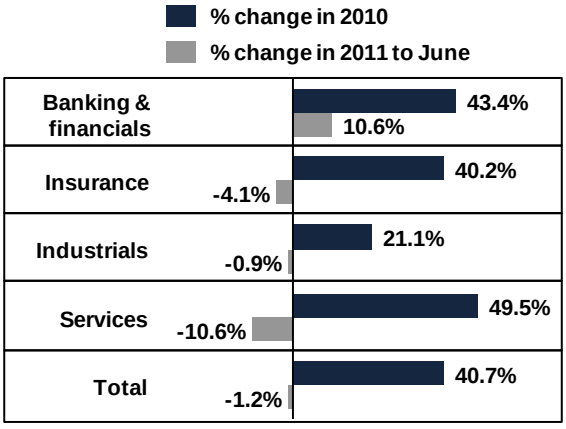
The presence of retail investors in the market has been declining. In 2008, retail investors were responsible for 66% of the total traded value on the exchange (Fig 8.5). However, this figure declined to 57% in 2010 and has further fallen in the first six months of 2011. Retail investors accounted for 48% of the total traded value in June 2011, with institutional investors making up the majority for the first time.

Despite increasing institutional investor participation, their presence remains limited in comparison to large mature bourses such as New York and London, where institutional investors make up over 80% of the traded value. Restrictions on foreign investment have been a factor in limiting institutional presence on the QE. Companies listed on the QE are required to allow a foreign ownership of up to 25%, excluding government ownership. Some listed companies allow foreign ownership up to the maximum permitted 49%. Any future increases in permitted foreign ownership levels should boost the institutional presence in the bourse.

Services and banking drove stockmarket gains in 2010 while industrial sectors lagged

The **services sector** led the gains in market capitalisation, up 50% in 2010, outperforming the overall exchange (Fig 8.6). This was primarily a consequence of the listing of Ezdan Real Estate, the largest services company on the QE and the third largest company by market capitalisation, representing 14% of the stockmarket in June 2011. During the first six months of 2011, the market capitalisation of the services sector has declined by 11%. The sector accounted for 43% of stockmarket capitalisation at the end of 2010 (Fig 8.7).

Fig 8.6: QE Sector Performance by Market Capitalisation (2010 to June 2011)



Source: QE and QNB Capital analysis

The **banking and financial institutions sector** possesses the next largest market capitalisation on the QE, accounting for 35% of the total. Following a 43% gain in 2010, it was the only sector that expanded in the first six months of 2011, increasing by a further 11%. QNB is the largest company by market capitalisation on the QE, representing 20% of the total in June 2011. Besides bullish sector fundamentals, QNB's 25% rights

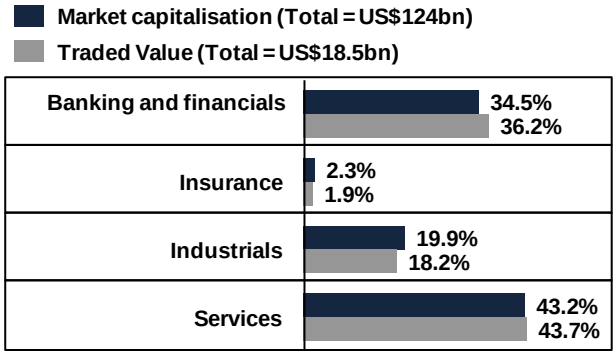
issue in May 2011 helped to boost the sector's market capitalisation.

The **industrial sector** is the third largest sector on the QE, representing 20% of total market capitalisation. Industries Qatar makes up most of the sector and was the second largest stock on the exchange as of June 2011 with 17% of total market capitalisation. The company has been boosted by a number of major industrial projects, particularly in the fertiliser and petrochemical sectors.

Of the ten largest companies:

- Five are banks (QNB, Qatar Islamic Bank, Commercialbank, Masraf Al Rayan and Doha Bank)
- Four are services companies (Ezdan Real Estate, Barwa Real Estate, Qatar Telecom, the dominant telecom services provider, and Qatar Electricity and Water, the leading utility company)
- One is an industrial company, Industries Qatar

Fig 8.7: Market Capitalisation and Traded Value (2010)



Source: QE and QNB Capital analysis

The top five performing stocks, based on total returns[39] in 2010, were as follows:

- National Leasing or Al-Ijarah, a services company with focus on infrastructure in Lusail and Islamic leasing, returned 145%
- Medicare Group, a services company operating the Al Ahli Hospital, returned 100%
- Qatar Islamic Insurance, the smallest insurance player based on market share of gross premiums written, returned 71%
- Qatar Fuel or Woqod, the sole distributor of various fuels, returned 69%
- QNB returned 66%

Table 8.1: Largest Companies by Market Capitalisation (August 2011)

Company	Market Cap (US$bn)
QNB	25
Industries Qatar	19
Ezdan Real Estate	16
Qatar Telecom	7.0
Commercialbank	5.5
Qatar Islamic Bank	5.2
Masraf Al Rayan	5.0
Qatar Electricity & Water Co	3.6
Doha Bank	3.4
Barwa Real Estate Co	3.2

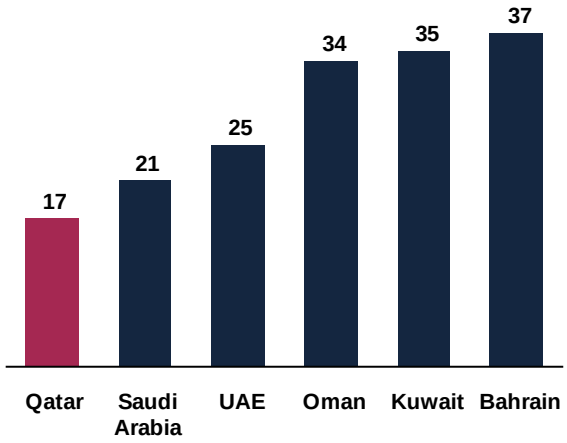
Source: QE and QNB Capital analysis

[39] Total returns are the gains from the movement of the share price plus dividends received as cash or bonuses

9. Business Environment

Qatar is the most competitive country in the GCC according to WEF rankings

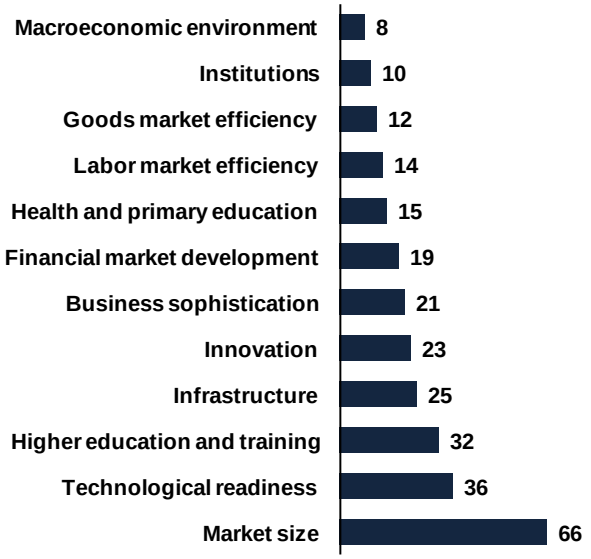
Fig 9.1: GCC Countries in the Competitiveness Rankings (2010-11)
(rank out of 139)



Source: WEF, Global Competitiveness Report and QNB Capital analysis

The Global Competitiveness Report 2010-2011, produced by the WEF, ranked Qatar **17th out of 139** countries. This was a significant improvement from 22nd position out of 133 countries in 2009-10 and also puts Qatar ahead of all the other countries in the GCC (Fig 9.1).

Fig 9.2: Competitiveness Ranks by Category (2010-11)
(rank out of 139)



Source: WEF, Global Competitiveness Report and QNB Capital analysis

The improvement in Qatar's rankings was mainly a result of a higher score in the categories of business sophistication and innovation. Qatar also moved up to top rank for the government procurement of advanced technology products. This, along with investment in technology, has improved indicators such as the availability of scientists and engineers and spending on research and development. This has had the remarkable effect of increasing Qatar's ranking for capacity for innovation from 109th to 45th. The main factors impacting business sophistication were an improvement in the quantity and quality of local suppliers and the higher sophistication of production processes.

Qatar's rankings also improved in the following areas:

- Basic requirements, mainly as a result of the major investment going into infrastructure
- Efficiency enhancers, mainly as a result of improved financial market sophistication and greater efficiency in the goods market

The WEF carries out a survey of businesses as part of its competitiveness assessment. It found the most problematic factors for doing business were:

- Restrictive labour regulations
- Access to financing
- Inadequately educated workforce
- Inadequate supply of infrastructure

Qatar ranks 2nd globally for paying taxes in the World Bank's Doing Business rankings

Qatar ranked 2nd out of 183 countries for ease of paying taxes in the World Bank's 2011 Doing Business rankings, behind the Maldives. Qatar introduced a harmonised corporate tax rate of 10% in 2010, eliminating the bands that were in place previously.

Qatar also ranked well in the following categories:

- Dealing with construction permits (30th)—the cost of this permit is lower in Qatar than anywhere else in relative terms, at 0.8% of income per capita
- Closing a business (36th)
- Trading across borders (46th).

In the GCC, Qatar ranked above Oman and Kuwait in the Doing Business rankings in 2011 but behind Saudi Arabia, Bahrain and the UAE. The World Bank index focuses mainly on regulatory issues, while the WEF carries out a more comprehensive assessment of the entire environment, taking account of factors such as education, infrastructure, the economy and efficiency.

Qatar's overall position in the 2011 Doing Business rankings was 50th versus 39th in 2010. This was mainly a due to the introduction of a single new minor procedure to register for taxes and obtain a company seal.

In the last two years, the World Bank has added Getting Electricity data to the Doing Business report, although this has not yet been included in the overall index. Qatar has the fourth lowest cost of electricity as a percentage of income per capita at 5.1% and has the fewest procedures for getting connected at 3 procedures.

Key Indicators

	2006	2007	2008	2009	2010	2011	2012
Population							
Total (m)	1.0	1.2	1.4	1.6	1.7	**1.8**	**1.8**
Growth (%)	15.1	16.5	19.1	13.3	3.7	**3.5**	**3.0**
GDP							
Nominal GDP (US$ bn)	60.9	79.7	115.3	97.8	127.3	**173.0**	**196.6**
Oil and gas sector (US$ bn)	32.3	41.2	63.3	43.8	65.9	**100.9**	**114.8**
Non-oil and gas (US$ bn)	28.6	38.5	52.0	54.0	61.5	**72.1**	**81.8**
Nominal GDP growth (%)	36.7	30.9	44.6	-15.2	30.2	**35.9**	**13.7**
Real GDP growth (%)	26.2	18.0	17.7	12.0	15.2	**21.0**	**10.2**
Oil and gas growth (%)	11.7	13.8	13.2	4.5	28.8	**29.5**	**13.1**
Non-oil and gas growth (%)	42.1	21.6	21.3	17.6	6.0	**14.1**	**7.4**
Fiscal indicators (% of GDP)							
Revenue	38.8	40.6	33.6	47.5	33.6	**29.3**	**26.7**
Expenditure	30.3	29.7	23.6	32.3	30.7	**24.3**	**22.9**
Balance	8.5	10.9	10.0	15.2	2.9	**4.9**	**3.8**
Public debt	-	-	9.2	28.7	19.1	**16.0**	-
Current account (% of GDP)							
Balance (US$ bn)	9.5	9.2	15.9	6.7	21.0	**51.3**	**59.4**
(as % of GDP)	15.5	11.5	13.8	6.8	16.5	**29.7**	**30.2**
Trade balance	31.6	26.2	27.3	26.4	40.1	**46.9**	**46.0**
Exports	55.9	52.7	49.1	49.4	56.6	**59.5**	**57.4**
Imports	-24.3	-26.5	-21.8	-23.0	-16.4	**-12.6**	**-11.3**
Services balance	-4.5	-4.7	-3.3	-4.0	-4.5	**-4.2**	**-3.9**
Income balance	-5.4	-5.3	-5.9	-9.6	-10.2	**-8.1**	**-7.6**
Current transfers balance	-6.1	-4.7	-4.4	-6.0	-8.9	**-4.8**	**-4.4**
International reserves	8.7	11.7	8.3	18.3	30.7	**13.1**	**12.6**
External debt (US$bn)	19.5	24.8	33.5	54.0	69.5	**78.4**	**85.9**
Industry indicators							
Oil production ('000 bpd)	802.9	845.3	842.8	781.0	801.0	**809.0**	**820.0**
Crude oil price (US$/barrel)	62.5	69.6	94.7	61.9	77.7	**105.0**	**100.0**
Raw gas production (bn cu ft/day)	4.9	6.1	7.4	8.6	11.3	**14.1**	**15.9**
Monetary indicators (%)							
Consumer price inflation	11.8	13.6	15.2	-4.9	-2.4	**2.4**	**2.8**
Foods and beverages	7.3	7.3	19.9	1.3	2.1	**4.5**	**2.6**
Rent, maintenance and water	26.0	29.3	19.7	-12.0	-12.8	**-2.3**	**2.8**
Wholesale price inflation							
Interbank deposit rate	5.0	5.8	2.8	2.3	1.6	-	-
Broad money growth	37.9	73.4	19.7	16.9	23.1	**22.8**	**10.7**
Exchange rate US$:QR (avg)	3.64	3.64	3.64	3.64	3.64	**3.64**	**3.64**

Source: QSA, QCB, IMF, **QNB Capital estimates and forecasts**

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