Bank Audi

QATAR ECONOMIC REPORT

MAY 2023

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WELL-PLACED TO CAPITALIZE ON THE MOMENTUM CREATED FROM THE WORLD CUP

Significant surge in Qatar's real growth over the past year

Qatar has experienced a decade of rapid transformational change culminating in the FIFA World Cup 2022. Leading up to the tournament, Qatar has been the center of the world's attention, with more than one million fans visiting the country. Continued improvement in domestic demand, buoyed by favorable hydrocarbon prices and the start of the North Field expansion project, as well as the World Cup induced buoyancy, have supported a fast economy-wide recovery. It is within this context that the IMF has estimated real GDP growth in Qatar at a sound 4.2% in 2022, up from 1.6% in 2021.

Qatar's budget surplus hits eight-year high level, on surging oil and gas revenues

Qatar achieved in 2022 an eight-year high budget surplus and saw an improvement in its debt metrics, mainly as elevated energy prices in the aftermath of Russia's invasion of Ukraine significantly boosted public revenues and stoked debt repayments. Public revenues expanded significantly by 53.7% over the year, from US$ 53.2 billion in 2021 to US$ 81.9 billion in 2022, on the back of a massive increase in oil and gas revenues of 62.0% relative to 2021 level. Public expenditures increased at a much slower pace of 8.6%, moving from US$ 52.8 billion to US$ 57.3 billion. As a result, Qatar ran a budget surplus of US$ 24.5 billion, which is the largest since 2014. That being said, the IMF estimated the fiscal surplus at 14.2% of GDP in 2022, up from 4.4% of GDP in 2021.

Inflation reaches multi-year high in 2022 though still well below global averages

Amid soaring global inflation stoked by post-pandemic recovery and Russia's war on Ukraine, Qatar managed to keep inflation at 5% in 2022, a 14-year high, yet well below global averages, mainly due to subsidies and caps on certain products, and the strengthening of the US dollar to which the country pegs its currency, while the Central Bank of Qatar continued to follow the lead taken by the US Federal Reserve in tightening its monetary policy.

Sound banking activity growth and rising profitability

The banking sector in Qatar is actively recovering as the country evolves post the pandemic, displaying strong volume growth supported by stable margins and effective cost management. The economic support packages offered by the government for the relief of some firms helped ensure sufficient liquidity in the banking sector. Measured by the consolidated assets of all banks in the sector, banking activity grew by 4.2% in 2022 to reach US$ 523 billion at year-end. Likewise, deposits increased by 2.6% to reach US$ 275 billion. Bank loans rose by 3.3% over the year to reach US$ 345 billion. As to bank shareholders' equity, it reported US$ 50 billion at year-end 2022, the equivalent of 9.6% of total assets, a relatively sound level by global benchmarks.

Qatari equities remain on fall, fixed income market shifts to positive territory this year

Qatar's equity market remained on the fall this year, mainly pressured by global growth concerns and recent US banking woes, in addition to weak corporate earnings. The Qatar Stock Exchange dipped further into the red over the first four months of 2023, as reflected by a 4.7% decline in the Qatar Exchange general index to reach 10,181.23 at end-April, which followed an 8.1% contraction in 2022. In contrast, the bond market registered price rebounds over the first four months of the year, mainly tracking US Treasuries move, as global recession concerns gained prominence following ten interest rate hikes by the US Federal Reserve since March 2022 and due to recent US banking turmoil, which stoked demand for safety.

Well-placed to capitalize on the momentum created from the World Cup

Looking forward, Qatar is well-placed to capitalize on the momentum created from the World Cup - and beyond - to pursue its national transformation journey, ensuring sustainable economic growth, and continuing to build a knowledge based economy while improving the overall quality of life. Sustained high energy prices and increased demand for alternative natural gas supply to Western Europe will continue to propel the country's development. Within this context, the IMF forecasts Qatar's real GDP growth at 2.4% in 2023 and at an average of 2.8% over the next five years. The coming year will be a crucial one, as the government lays out the final phase of its National Development Strategy on the path to achieving the goals of the Qatar National Vision (QNV) 2030.

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Qatar World Cup 2022 has yielded significant direct and indirect benefits to the Emirate. It is estimated that Qatar reaped US$ 9 billion in profits and US$ 17 billion in revenues from the World Cup. Overall spending on infrastructure in the country stood at around US$ 200 billion since 2020 for developing transport infrastructure including roads, metro, stadiums, hotels and other amenities.

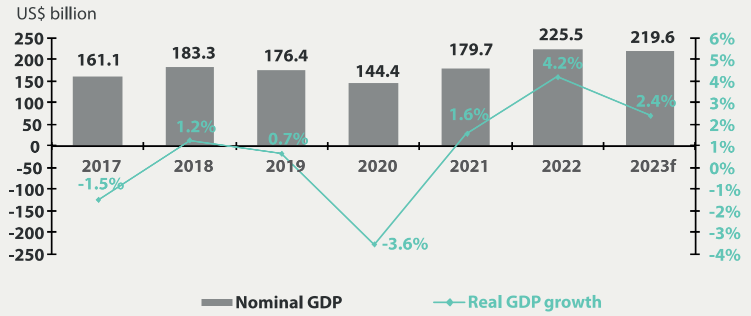
At the monetary level, the year 2022 has been a year of significantly elevated inflation. The IMF estimated average inflation at 5.0% in 2022, up from 2.3% in 2021 within the context of a buoyant domestic demand, in addition to global inflationary pressures. The major contributor to inflation in 2022 was, perhaps surprisingly, not rents but recreation, a component of the consumer price index (CPI) which is heavily driven by air travel. It also received a local boost due to the World Cup on top of the overall post-pandemic recovery in air travel. Within the same monetary context, Qatar's pegged exchange rate regime is believed to remain a credible monetary anchor and continues to serve Qatar well, and will be further supported by fiscal consolidation and competitiveness-enhancing reforms.

At the external level, Qatar has seen its surpluses in current account recording significantly high levels. The current account surplus reported 26.0% of GDP in 2022, against 14.7% of GDP. Amid this environment, QCB international reserves continued their ascent, moving from US$ 57.7 billion at end-2022 to US$ 63.2 billion at end-2022 and to US$ 64.6 billion at end-March 2023. As a percentage of Money Supply in local currency, QCB International reserves increased from 48.7% to 50.1% and to 51.5% respectively over the same period.

At the fiscal level, Qatar has seen its public finances improve considerably. The fiscal surplus as a percentage of GDP reported 10.8% in 2022, against 0.2% in 2021 as a result of both revenue upsurge and spending rationalization. Public revenues to GDP rose from 29.6% in 2021 to 36.3% in 2023, while public spending to GDP contracted from 29.4% to 25.4% respectively. The additional LNG export capacity that will be brought online as a result of the North Field expansion will bring down Qatar's already low fiscal breakeven hydrocarbon price.

The country's strong general government net asset position remains a credit strength, supported by investment returns on Qatar Investment Authority (QIA) assets, and the government's repayment of maturing external debt. Averaging about 150% of GDP, the government's large liquid assets provide it with a strong buffer to mitigate the economic effects of external or financial shocks.

REAL GROWTH & NOMINAL GDP



Sources: IMF, Bank Audi's Group Research Department

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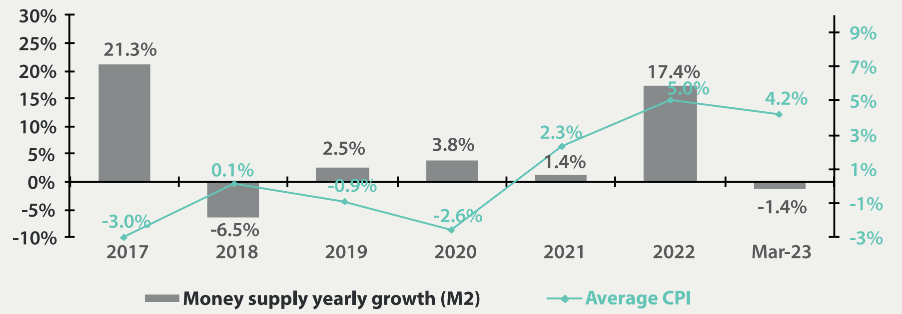
At the banking level, the year 2022 has been a good year for banks operating in Qatar. Measured by the consolidated assets of all banks in the sector, banking activity grew by 4.2% in 2022 to reach US$ 523 billion at year-end. Likewise, deposits increased by 2.6% to reach US$ 275 billion. Bank loans rose by 3.3% over the year to reach US$ 345 billion. As to bank shareholders' equity, it reported US$ 50 billion at year-end 2022, the equivalent of 9.6% of total assets, a relatively sound level by international benchmarks.

With respect to capital markets, a net decline in equity prices was registered this year amid global sell-off, while fixed income markets reported a standstill. In fact, the Qatar Exchange general index reported a contraction of 4.7% over the first four months of 2022, after an annual contraction of 8.1% in 2022, leading to a market capitalization of US$ 162 billion at end-April 2023, against US$ 183 billion at end-2021. This drove the average Price to Earnings ratio to 12.4x at end-April 2023, against 16.8x at end-2021. Likewise, the average Price to Book Value ratio reached 1.4x at end-April 2023, against 17x at end-2021. In parallel, the 5-year CDS spread, reported 42 bps at end-April 2023, against 48 bps at end-2022 and 44 bps at end-2021, revealing a relative stability in the market perception of sovereign risks at large.

The detailed developments in the real sector, external sector, public sector and financial sector are outlined in the sections that follow while the concluding remarks address Qatar's near and medium term economic outlook looking forward.

MONEY SUPPLY AND INFLATION



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

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1 Hydrocarbon sector

Increased Qatar's hydrocarbon share after Russian-Ukraine war

The Qatari petrochemicals industry benefited from surging oil and gas prices in 2022, following Russia's war with Ukraine. Within this context, the country's hydrocarbon share out of total GDP rose from 36.8% in 2021 to stand at 44.0% in 2022. The contribution of hydrocarbon to the country's nominal GDP registered US$ 104.4 billion in 2022, up from US$ 66.1 billion in 2021, which marks an expansion of 57.9%.

Qatar's natural gas output registered positive growth in 2022 spurred by elevated gas prices and rising demand for gas in the aftermath of the Russian-Ukraine conflict. Qatar is expected to maintain higher level of gas output for LNG production in response to growing opportunities for exports to Europe, which is reeling from supply crunch due to the loss of Russian supplies. It is worth noting that the increase in Russian gas supply cuts to Europe, continues to drive global spot LNG prices upwards, as per Fitch Solutions.

Furthermore, Qatar's natural gas production grew by 3% in 2022 and is forecast to grow by 2.0% in 2023 to reach 178 bcm, supported by the bulk of gas production growth stemming from Barzan gas field, based on Fitch Solutions. Gas output growth in the long term will come from the North Field expansion projects, that are earmarked from LNG production.

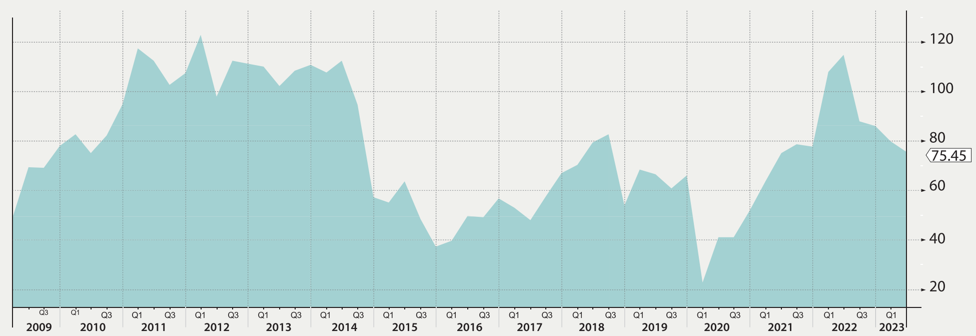
The North Field expansion is a strategic step in cementing Qatar's position as the leading LNG producer and would play a major role in meeting the increasing global demand for LNG.

The North Field expansion project is moving ahead after achieving significant milestones in 2022. These included bringing foreign equity partners into both the North Field East and North Field South phases and signing the first Liquefied Natural Gas (LNG) sales and purchase agreement for the project, as per PwC.

The US$ 28.75 billion North Field East (NFE) project marks the first phase of the project and includes the development of four LNG trains, which each have a capacity of 7.8 Million tons per annum (Mtpa) and are set to come online in 2026. QE has taken the Final Investment Decision (FID) on phase one of the North Field Expansion project, which will raise Qatar's LNG production capacity from 77.0 Mtpa to 110.0 Mtpa by 2026, as per Fitch Solutions.

The second phase will be the North Field South (NFS) expansion, which will add two 8.0 Mtpa trains, increasing LNG production capacity to a total of 126 Mtpa by 2027, up from 77 Mtpa in 2022. This second phase however has not yet reached FID.

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

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At the level of gas consumption, natural gas consumption in Qatar is closely associated with electricity consumption and petrochemical production. Potential growth in gas consumption is expected to come mainly from petrochemical, industrial, residential and commercial sectors. In addition, natural gas in Qatar is extensively used for desalination projects and reinjection purposes in oil and gas production. Fitch Solutions forecasts gas consumption increasing by 2.0% y-o-y in 2023 to 42.2 bcm, from 41.3 bcm in 2022, fueled by a strengthening macroeconomic environment and robust household consumption.

On another level, Qatar's crude oil, NGPL (Natural gas plant liquids) and other liquids production averaged 1,821.8 thousand barrels per day in 2022, up from 1,815.0 thousand barrels per day in 2021, rising by a yearly 0.4% according to Fitch Solutions. The Barzan project is contributing approximately 30,000 barrel per day of condensates to the country's overall output. Over the long term, crude and condensates output would be boosted by the progressive ramping up of the North Field East LNG project, adding up to a total 260,000 barrel per day of condensates over multiple phases once the project is completed.

1.1.2 Manufacturing sector

Continuous expansion in Qatar's manufacturing this year on improved business conditions

The progress of economic diversification under Qatar National Vision 2030 continues to promote the growth of Qatar's manufacturing sector, as the government is seeking to diversify the economy away from the reliance on hydrocarbons with increased private sector investments, which increases demand for industrial space over the medium to long term.

At the nominal level, the contribution of the sector to Qatar's GDP went up from 8.8% in 2021 to 9.2% in 2022. Concurrently, the latest Purchasing Managers' Index (PMI) survey data from Qatar Financial Centre (QFC) showed that the Qatar's manufacturing PMI rose for the fifth time in six months to 54.4 in April 2023, from 53.8 in March 2023, indicating the strongest improvement in business conditions since July 2022. The latest figure moved further above the long-run trend of 52.2.

Sectors covered by the survey include manufacturing, construction, wholesale, retail, and services, noting that confidence was strongest among manufacturers in April 2023. The main boost to the headline PMI was from faster growth in new business, while the employment and stocks of purchases components also had positive directional influences. The output component eased slightly since March 2023, but remained above its long-run trend.

Based on the survey, new business increased at the fastest rate in April 2023, since July 2022. Companies reported receiving large orders, expanded customer bases and rising demand due to the implementation of new projects. New products were also mentioned as sources of growth. The 12-month outlook for the non-energy private sector remained strongly positive. April data also indicated a third successive monthly increase in average wages and salaries, with pay pressures greater than the long-run trend. The Employment Index, tracking the overall level of staffing, rose to a nine month high in April 2023, signaling another increase in workforce numbers.

Although stronger new business inflows put pressure on capacity, companies were still able to reduce their levels of outstanding business for the ninth month running in April due to productivity improvements and increased workforces.

On another note, Qatar's Industrial Production index (IPI), which is a short-term quantitative index that measures the changes in the volume of production of a selected basket of industrial products over a given period with respect to a base year 2018, reached 103.5 points in March 2023, up by 4.9% month-on-month and 4.8% relative to March 2022. Higher manufacturing in food, beverages, refined petroleum products and basic metals led to the yearly increase in Qatar's IPI, as per data released by the Planning and Statistics Authority (PSA).

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A look at credit facilities shows that credit facilities allocated to the country's industrial sector constituted 1.5% of total domestic credits in March 2023, slightly lower from its level at end-March 2022 of 1.7%.

Last but not least, it is worth mentioning that localizing the manufacturing industry has been at the forefront of government efforts in target sectors, as per PwC. The Ministry of Commerce and Industry (MoCI) has launched the Advanced Manufacturing Hub (AMHUB) in collaboration with the Qatar Development Bank (QDB) and the World Economic Forum (WEF). The Hub is one of 13 worldwide discussion platforms for industry leaders and relevant public officials to discuss trends and challenges. Concomitantly, the Qatar Free Zone Authority (QFZA) has been successful in attracting manufacturing investors to build a plant producing coating required for oil and gas equipment parts, and the country's first laptop manufacturing plant.

1.1.3 Construction

Qatar's construction industry performance moderating after 2022's boost

Qatar's construction industry saw a real growth of 4.6% year-on-year in 2022, during which the market benefited from projects relating to the FIFA World Cup as well as a broad uptick in construction activity in the aftermath of the COVID-19 pandemic.

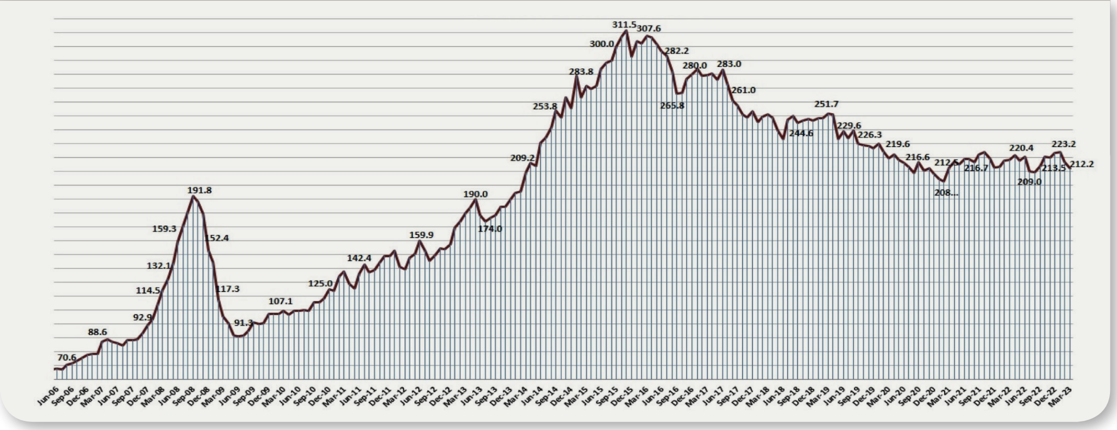
Following the completion of major construction projects, the real growth in the construction industry is forecasted to soften and reach 1.7% in 2023. In preparation for North Field expansion projects as well as some smaller-scale non-residential and transport projects, the average real growth rate in the sector is expected to pick up again between 2024 and 2027 to be registered at 2.1%. However, in the long term, growth in the sector is forecasted to subside again to average 1.3% between 2028 and 2032, as per BMI Research.

While these forecasts remain positive, replicating robust past performances in the sector will be difficult. However, an opportunity offers itself to expand into the development of hydrogen infrastructure in the long-run as global demand grows for low-carbon fuels which also presents itself as a form of economic diversification away from hydrocarbons.

Having said that, a relative slowdown in activity can be noticed in the 16.9% decline in the number of building permits between Q1 2023 and Q1 2022, as per the Qatari Planning and Statistics Authority.

In details, at the level of infrastructure, the sector benefited from FIFA World Cup related projects as the real growth in the industry was recorded at 2.3% in 2022. However, this growth is expected to decelerate as the aforementioned projects have been completed and project pipelines are thinning. In turn, the average real growth in the sector's medium-term (between 2023 and 2027) is forecasted to be 1.8%. This deceleration is then forecasted to pick up pace on the long term (between 2023 and 2032) to average a real growth of 2.2% in line with the country's Vision 2030.

REAL ESTATE INDEX FOR THE STATE OF QATAR



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

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The infrastructure sector will benefit from a handful of large scale projects that were announced such as the Hamad International Airport expansion and the solidification of the Hamad and Al Ruwais Ports. Additionally, infrastructure development projects surrounding the NFE projects is expected to create near-to-medium term opportunities for local companies. The country's energy and utilities sector, especially water-related infrastructure, is also expected to outperform the construction sector as Qatar's water scarcity issue is tackled. Concurrently, projects such as the electrification of the transport sector, the solar sector development and the construction of social, educational, health and industrial building will support the sector's performance as part of Vision 2030, as per BMI Research.

At the level of real estate, in the short and medium term, the sector will experience some challenges, mainly tied to oversupply and the concentration of projects in Doha. However, in the long-term, the real estate sector is expected to benefit from economic diversification efforts as well as the lifting of bans on foreign ownership of property.

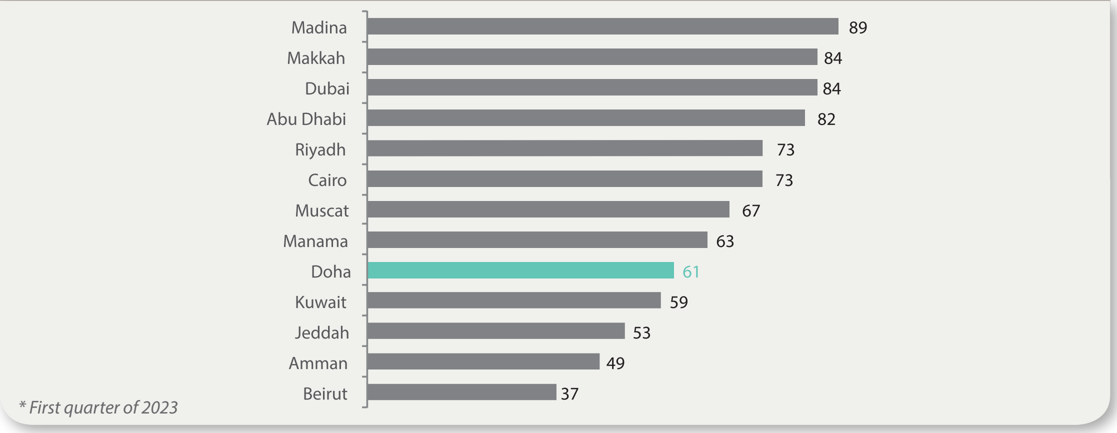
In details, looking at the office real estate sub-sector, the market is expected to return to growth in 2023. This comes as rental rates rising in Doha, Al Wakra and Al Khor by 1.2%, 0.4% and 0.2% respectively during the year. In addition, demand for office space in Doha are expected to pick up pace again following a prior contraction period with demand growth remaining marginal in Al Wakra and Al Khor. However, as the Lusail project concludes in the future, an oversupply issue in the prime office market of Doha could potentially be encountered. On the other hand, diversification efforts through Vision 2030 could offer the potential for an increase in demand, as per BMI Research.

In parallel, the industrial real estate sub-sector is forecasted to continue its positive performance in 2023. On the medium to long term, the sub-sector is expected to benefit from diversification efforts as demand for industrial space increases.

Supported by the Jahiz initiative of Qatar's Development Bank, the rise in e-commerce activity and expansionary projects to the Hamad International Airport and Qatar's port capacities, the industrial real estate sub-sector is expected to retain a positive performance over the years. Looking at 2023, demand and supply in the sub-sector is expected to expand with an increase in rental rates and net yield in Doha. This positive performance is expected to sustain in the medium to long term amid diversification efforts and a positive growth environment for the industrial real estate market, as per BMI Research.

The retail real estate sub-sector, which has benefited majorly from the FIFA World Cup in 2022, is expected to notice a mixed performance in 2023. However, the sub-sector has potential in the medium to long term. This comes amid a robust and sustainable increase in household spending in the medium to long term as demographic outlook is positive, rising incomes and an expected increase of retail spending in the medium to long term. This makes Qatar's market ideal for luxury retail especially as a rise in employment is expected amid a circa 60% of the population belonging to the US$ 50,000+ income bracket. Additionally, incentives

COMPARATIVE HOTEL OCCUPANCY RATES (%)



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

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are being given by landlords to attract and retain tenants which could positively impact demand. However, some factors stand as downside risks for the market, notably: Qatar's small population size and the increase in popularity of online retail, as per BMI Research.

At the level of future opportunities and threats for the real estate sector, we can note oversupply, lack of economic diversification, rising inflation & interest rates as well as the possible addition of a 5% Value Added Tax (VAT) as possible threats to the sector looking forward. On the side of opportunities, we can note looser ownership laws for foreigners, the growth in household spending & income, free zone growth, economic diversification efforts, official support towards manufacturing industry development as well as growing demand for industrial real estate, which could all positively affect sector performance looking forward.

1.1.4 Tourism

Qatar's tourism sector on a mostly upwards trend

Tourism in Qatar, which saw a major boost following the FIFA World Cup, continues to benefit from the event. Additionally, the government's bid to diversify the economy has the tourism sector majorly benefiting. The economic environment is expected to remain favorable up to 2027 amid tourism sector focus in Qatar's Vision 2030, the government's diversification plan as well as positive investor sentiment towards GCC countries in general. However, inflationary pressures, commodity price shocks and geopolitical challenges could still pose a risk on the outlook.

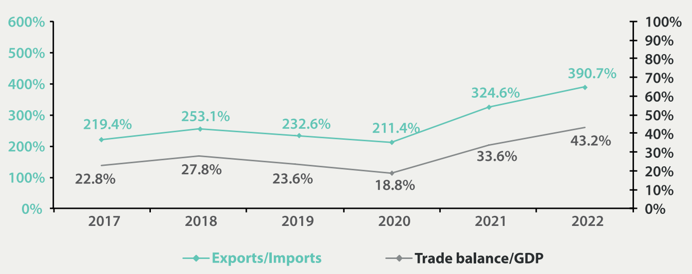
Following the boosted performance noticed in 2022, the number of tourist arrivals continued its upwards trend in the first trimester (T1) of 2023. In details, a total of 1.5 million arrivals were recorded in T1 2023, up from 417,000 arrivals in T1 2022, showing a 259.7% hike year-on-year, as per Qatar's Tourism Authority.

According to BMI Research, total arrivals are expected to reach 3.3 million in 2023, showing a 30.9% increase against the year prior. This upwards trend is forecasted to continue for the next five years with an average growth rate of 10.7%. In parallel, international tourism receipts which are estimated at US$ 18.8 billion in 2022, are expected to continue in an upwards trend in the next five years with an average growth of 3.8% per annum.

These positive developments come as a result of the FIFA World Cup in 2022, the lifting of the GCC blockade and COVID-19 restrictions, the World Aquatics Championship 2024 as well as Qatar's National Tourism Council improving its marketing techniques and social media presence.

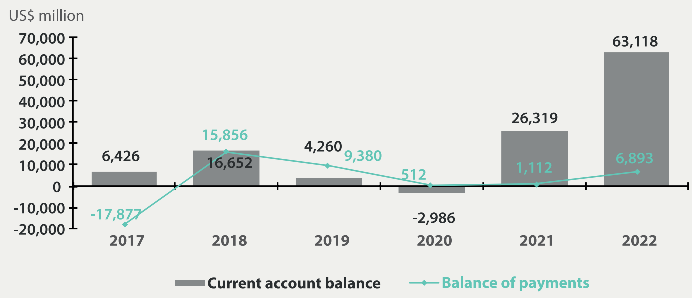
At the level of the hospitability market, when looking at the share of room nights by type of hotel, we see that 5-star hotels held the lion's share with 41.2% of the total, the second largest share is held by deluxe

FOREIGN SECTOR INDICATORS



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

BALANCE OF PAYMENTS



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

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apartments with 26.7%. The third largest share is held by 4 star hotels with 17.5% followed by 3-star hotels, standard apartments and 1 & 2-star hotels with 9.6%, 2.9% and 2.2% respectively in April 2023. The occupancy rate across all types of hotels was registered at 52% in April 2023 showing a year-on-year increase of 3%. Revenue Per Available Room (RevPAR) in the sector showed a year-on-year increase of 27% in March 2023.

In details, looking at Doha's 4 and 5-star hotels performance in the first quarter of 2023, occupancy rate saw a 1.8% decrease year-on-year to reach 60.7%. On the other hand however, the Average Room Rate was recorded at US$ 115/room in Q1 2023, noting a 6.4% increase up from US$ 108/room in the same period of the year prior. In turn, RevPAR noticed a 3.3% increase year-on-year to reach US$ 70/available room, as per EY.

In sum, as Qatar continues to benefit from the exposure provided from the FIFA World Cup 2022, the tourism industry in the country is recording positive performances. This trend is expected to continue in the near future as the tourism sector benefits from the government's Vision 2030 and economic diversification plans as well as international events planned to take place in Qatar.

1.2 External sector

Slowdown in Qatar's external sector amid global economic slowdown

Qatar's external sector performance in the beginning of 2023 has reported a slowdown from the high performance seen in 2022. This comes amid a moderation of oil prices, the end of the FIFA World Cup related activities as well as weaker global demand. This in turn showed a contraction in Qatar's foreign trade balance year-on-year in the first quarter of the year. This contraction noticed throughout the external sector is expected to continue throughout 2023 with a decrease in the overall Balance of Payments (BOP) against figures recorded in 2022.

In fact, Qatar's foreign trade figures revealed a contraction in exports by 5.2% alongside a 6.1% decrease in imports in Q1 2023 against figures from the same period in 2022. In turn, this led to a 4.9% decrease in the foreign trade surplus, according to the Central Bank of Qatar. As such, Qatar's trade surplus decreased from US$ 19.8 billion in Q1 2022 to US$ 18.8 billion in Q1 2023.

Going further into details, total exports (including exports of domestic goods and re-exports) reached a total of US$ 26.3 billion in Q1 2023, down from US$ 27.8 billion in Q1 2022. Qatar is one of the largest global exporters of liquefied natural gas and this is reflected in its trade activity as it's still heavily reliant on energy export revenues. The breakdown of exports by category according to the Ministry of Planning and Statistics for March 2023, suggests that exports of Petroleum Gases and Other Gaseous Hydrocarbons made up the highest share of 70.6% of total exports and Petroleum Oils & Oils obtained from Bituminous Minerals etc. (Crude) constitutes the second highest share of 18.2% of total exports. The geographic distribution of domestic exports for March 2023 indicates that 20.7% of total exports went to China, followed by South Korea with 15.8%, India, Japan and Singapore with 11.6%, 8.1% and 7.4% respectively of the totals.

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2017	2018	2019	2020	2021	2022	Var 22/21
Public revenues	**44.9**	**57.1**	**59.2**	**47.2**	**53.2**	**81.8**	**53.7%**
Public revenues/GDP	27.8%	31.2%	33.6%	32.7%	29.6%	36.3%	6.7%
Public expenditures	**55.8**	**53.0**	**57.3**	**50.1**	**52.8**	**57.3**	**8.6%**
Public expenditures/GDP	34.7%	28.9%	35.5%	34.7%	29.4%	25.4%	-3.9%
Fiscal balance	**-11.0**	**4.1**	**1.9**	**-2.9**	**0.4**	**24.5**	**-**
Fiscal balance/GDP	-6.8%	2.3%	-2.0%	-2.0%	0.2%	10.8%	10.6%

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

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According to the IMF, the volume of export of goods in Qatar will increase by 0.8% in 2023 against figures in 2022. This increase is expected to continue with an average growth of 4.1% in the following five years amid improving global economic conditions, the diversification of the economy in Qatar and an expected easing of inflationary pressures. This increase is especially expected starting in 2025 as the North Field expansion projects will start its operations.

At the level of imports, a total of US$ 7.5 billion was registered in Q1 2023 compared to US$ 8.0 billion in Q1 2022, registering a decrease of 6.1% year-on-year. The breakdown of imports by category, according to the Ministry of Planning and Statistics for March 2023, suggests that imports of Machinery and transport equipment's posted the highest share of 15.4%, followed by Articles of Jewelry & Parts thereof with 4.0% of total imports. The breakdown of imports by country of origin reveals that 19.3% of the inward merchandise during March 2023 came from the United States of America, followed by China with 12.1%, India with 6.3%, Italy with 6.0% and Germany with 5.6% of total imports.

According to the IMF, the volume of imports of goods in Qatar will decrease by 3.3% in 2023 against figures in 2022. This decrease is expected to subside into an average growth of 2.0% in the following five years.

As a result, Qatar's Balance of Trade registered a 4.9% contraction between Q1 2023 and Q1 2022, reaching QAR 68.5 billion (US$ 18.8 billion) in the former.

On the other side of the external sector, Qatar's current account balance posted a 140.1% hike year-on-year between 2022 and 2021 driven mainly by an increase in the Balance of Trade and a decrease in the Balance of Services deficit. Qatar posted net deficits in its balances of services, income and transfers in 2022. In details, the Balance of Services in Qatar posted a deficit of QAR 37.4 billion (US$ 10.3 billion) in 2022 which shows a decrease of 35.8% in deficit against figure from 2021. The balance of incomes and the balance of transfers on the other hand posted a widening of the deficit of 199.9% and 3.1% respectively.

According to the IMF, the current account balance is expected to reach US$ 42.1 billion in 2023, a 28.2% decrease from 2022. This decrease constitutes the start of a softening trend forecasted for the next four years with an average current account balance registered at US$ 33.8 billion during the period.

Qatar reported a deficit in capital and financial balance of US$ 54.0 billion in 2022 which shows a hike of 130.3% from a deficit of US$ 23.6 billion in 2021.

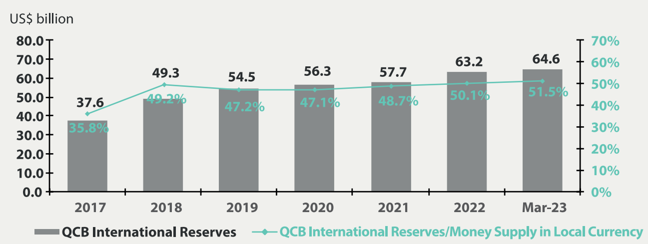
It is worth finally noting that in 2022, net FDI into Qatar was recorded at QAR 277 million (US$ 76.1 million), following a negative net FDI of QAR 4.0 billion (US$ 1.1 billion) in 2021. In turn, the BOP recorded a surplus of U$ 6.9 billion in 2022 against a surplus of US$ 1.1 billion in 2021, a five-fold jump year-on-year.

MONETARY SITUATION

Flows in millions of US$	2017	2018	2019	2020	2021	2022	Q1-23
Net foreign assets	**-4,143**	**-4,086**	**-18,034**	**-27,386**	**-17,064**	**24,162**	**-2,825**
Foreign Assets	-27,464	16,821	9,578	-856	6,416	10,811	-4,163
Foreign Liabilities	23,320	-20,907	-27,612	-26,529	-23,480	13,351	1,338
Net Domestic Assets	**33,205**	**-6,718**	**21,878**	**33,398**	**24,275**	**110**	**115**
Claims on private sector	10,967	16,823	33,781	31,423	27,283	22,302	3,076
Net claims on public sector	11,080	-9,032	4,548	-854	-620	-5,274	-2,815
Other Items (net)	11,158	-14,509	-16,450	2,829	-2,388	-16,918	-146
Broad Money (M2)	**29,062**	**-10,803**	**3,845**	**6,012**	**7,210**	**24,272**	**-2,710**
Money Supply (M1)	-1,445	-1,102	1,546	5,977	511	3,416	-114
Quasi-Money	30,507	-9,701	2,299	35	1,855	25,700	-2,596

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

EXCHANGE MARKET INDICATORS



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

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1.3 Public sector

Qatar's budget surplus hits eight-year high level, on surging oil and gas revenues

Qatar achieved in 2022 an eight-year high budget surplus and saw an improvement in its debt metrics, mainly as elevated energy prices in the aftermath of Russia's invasion of Ukraine significantly boosted public revenues and stoked debt repayments.

Going further into details, actual public revenues expanded significantly by 53.7% in 2022 (against a rise of 12.6% in 2021), from QR 193.7 billion (or US$ 53.2 billion) in 2021 to QR 297.8 billion (or US$ 81.87 billion) in 2022, on the back of a massive increase in oil and gas revenues of 62.0% relative to 2021 level (constituting 85% of total public revenues). This is mainly explained by higher energy prices, as oil and gas prices peaked mid-2022 and Qatar benefited from a rising demand for LNG from Europe since Russia-Ukraine war in February 2022.

On the spending front, total public expenditures increased at a much slower pace of 8.6%, moving from QR 192.1 billion in 2021 (or US$ 52.8 billion) to QR 208.7 billion in 2022 (or US$ 57.3 billion). The expansion in public spending was mainly driven by a 15.7% rise in current expenditures or the equivalent of QR 9.6 billion (constituting 57.7% of total spending growth). In addition, wages and salaries increased by 7.1% (the equivalent of QR 4.1 billion). This came along with a 37.4% expansion in secondary capital (the equivalent of QR 1.3 billion) and a 2.3% rise in major projects (the equivalent of QR 1.6 billion). As a result, Qatar ran a budget surplus of QR 89.0 billion in 2022 (the equivalent of US$ 24.5 billion), which is the largest since 2014. That being said, the IMF estimated the fiscal surplus at 14.2% of GDP in 2022, up from 4.4% of GDP in 2021.

In parallel, Qatar's general government debt decreased to 45.3% of GDP in 2022, from 58.4% in 2021 and 72.6% in 2020, according to the IMF. The sizeable reduction of the central government debt ratio in 2022 resulted from an increase in nominal GDP and debt repayments amid large hydrocarbon windfalls, noting that Qatar didn't tap international debt markets since April 2020.

Within this context, Moody's assigned Qatar an "aa2" fiscal strength rating, which takes into account several considerations: first, Qatar's high share of foreign-currency debt in total government debt is largely mitigated by its highly credible currency peg to the US dollar, which is backed by robust central bank foreign currency reserves and the liquid foreign currency assets of the sovereign wealth fund; second, government revenue is mostly derived from commodity sales that are invoiced in US dollars, which would prevent a material deterioration of government debt burden and debt affordability metrics even in the unlikely event of a significant exchange rate depreciation; third, entities included in Moody's calculation of other nonfinancial public-sector debt have generally been profitable and the risk of their liabilities crystallizing on the government's balance sheet is lower than the headline number would suggest.

Finally, it is worth mentioning that Qatar approved in December 2022 the 2023 State Budget, with estimated total revenues of QR 228 billion, which marks an increase of 16.3% compared to the estimates of the 2022 State budget. Oil and gas revenues for the year 2023 are expected at QR 186.0 billion, compared to QR 154.0 billion for the year 2022, which represents an increase of 20.8%, while non-oil revenues are expected at QR 42.0 billion with no change relative to the 2022 budget. The increase in public revenues is mainly explained by a higher conservative average oil price assumption of US$ 65 per barrel for the year 2023, against US$ 55 per barrel as in the 2022 budget, as a result of the remarkable recovery in global energy prices in 2022, and as international institutions forecast that prices would continue to rise in the medium term, according to Qatar's Ministry of Finance. In parallel, total spending is estimated at QR 199 billion for the year 2023, down by 2.6% relative to the year 2022 budget. Accordingly, Qatar's budget surplus for the year 2023 is expected at QR 29 billion.

In the coming period, Moody's pointed that Qatar's planned expansion of its liquefied natural gas (LNG) production capacity and the government's intention to gradually reduce capital spending after hosting the 2022 FIFA World Cup have the potential to compensate for lower revenue due to lower energy prices over the longer term.

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1.4 Financial sector

1.4.1. Monetary Situation

Qatar's inflation reaches multi-year high in 2022 though still well below global averages

Amid soaring global inflation stoked by post-pandemic recovery and Russia's war on Ukraine, Qatar managed to keep inflation well below global averages in 2022, mainly due to subsidies and caps on certain products, and the strengthening of the US dollar to which the country pegs its currency, while the Central Bank of Qatar continued to follow the lead taken by the US Federal Reserve in tightening its monetary policy.

In details, inflation in Qatar reached a fourteen-year high level of 5.0% in 2022, which is the highest in the GCC region, mainly reflecting strong economic recovery, soaring commodity and energy prices globally following the Russia's invasion of Ukraine and the increased demand with the run-up to the World Cup 2022. However, Qatar's inflation remained well below the global average of 8.7%, as a strong Qatari riyal has eased the full pass-through of higher import prices to domestic consumers and businesses, and as administered food prices along with energy subsidies helped containing inflationary pressures in Qatar.

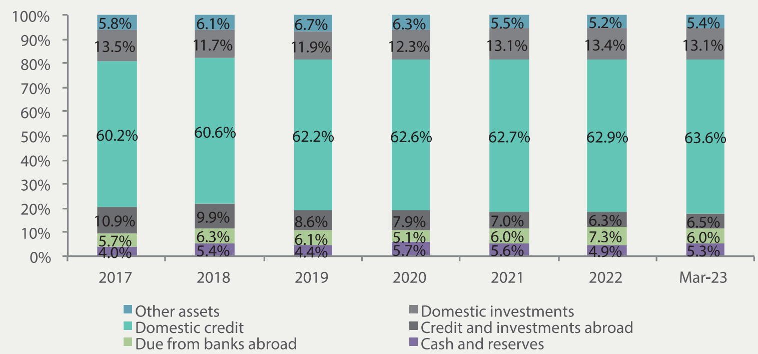
The major contributor to inflation in Qatar in 2022 was the "culture & recreation" segment, which is heavily driven by air travel and has a weight of 11.1% in the Consumer Price Index. The aforementioned segment expanded significantly by 29.6% in 2022 as it received a local boost due to the World Cup on top of the

BANKING ACTIVITY

US$ million	2018	2019	2020	2021	2022	Q1-22	Q1-23	Variation Q1/Q1
Var. Total assets	14,922	36,153	36,434	39,903	21,304	1,385	-6,649	-580.2%
% change	4.0%	9.3%	8.6%	8.6%	4.2%	0.3%	-1.3%	-1.5%
Var. Total deposits	-3,487	10,661	15,483	18,846	6,877	-1,764	-8,701	393.2%
% change	-1.5%	4.8%	6.6%	7.6%	2.6%	-0.7%	-3.2%	-2.5%
Var. Total credit facilities	8,075	27,103	24,622	24,102	10,874	-249	-447	79.2%
% change	3.2%	10.5%	8.6%	7.8%	3.3%	-0.1%	-0.1%	-0.1%

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

ASSET COMPOSITION



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

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overall post-pandemic recovery in air travel. The second largest expansion in prices was in the housing, water, electricity and gas segment (which has a weight of 21.2%) with +6.4%, as the increased demand for people attending the World Cup put pressure on rents. This was followed by the food & beverages segment with +4.0% (with a weight of 13.5%), the miscellaneous goods and services segment with +1.7%, the restaurants and hotels segment with +1.3%, the furnishings and household equipment segment with +1.1%, the transport segment with +0.9% (with a weight of 14.6%), the clothing and footwear segment with +0.8% and the education segment with +0.6%. In contrast, the medical services segment posted a yearly price contraction of 3.0% on average in 2022, followed by the communication segment with -0.6%, while the tobacco sector saw no price change over the covered period. However, inflation started to ease during the first quarter of 2023, as consumer prices rose by 4.2% on average when compared to the same period of 2022.

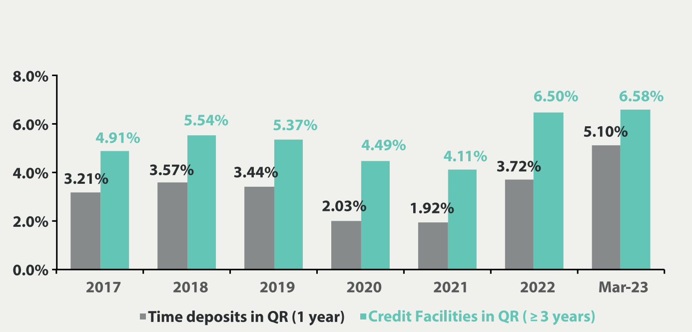
Consistent with the currency peg to the US dollar, monetary policy in Qatar has been tightened broadly following the US Federal Reserve. The Qatar Central Bank raised its overnight deposit rate and lending rate six times over the year 2022, and lifted them twice so far this year to reach 5.50% and 6.00% respectively in May 2023, against 1.00% and 2.50% respectively at end-2021. Concomitantly, the Central Bank of Qatar lifted the repo rate seven times over the year 2022 and twice so far this year to reach 5.75% in May 2023 against 1.00% at end-2021.

In parallel, Qatar Central Bank's international reserves and foreign currency liquidity grew by US$ 5.5 billion over the year 2023 to reach US$ 63.2 billion at end-December, and rose further by US$ 1.4 billion over the first quarter of 2023 to US$ 64.6 billion at end-March, as Qatar used the windfall revenues from oil and gas to rebuild its buffers. The rise in QCB's FX reserves over the year 2023 is mainly explained by a US$ 6.1 billion expansion in the "foreign securities" category, in addition to a US$ 2.1 billion increase in the "gold" category, which more than offset a US$ 2.9 billion contraction in "balances with foreign banks". That being said, the QCB international reserves and foreign currency liquidity covered around 50.1% of money supply in local currency at end-2022 as compared to 48.7% at end-2021, with this coverage ratio rising to 51.5% at end-March 2023.

The broader Money Supply (M2) expanded significantly by US$ 24.3 billion in 2022. This is mainly explained by a US$ 25.7 billion growth in quasi-money, on the back of a US$ 21.2 billion expansion in deposits in foreign currencies amid higher energy prices. Yet, the broader Money Supply (M2) followed a downward trajectory over the first quarter of 2023, falling by US$ 2.7 billion on the back of a US$ 2.6 billion contraction in quasi-money.

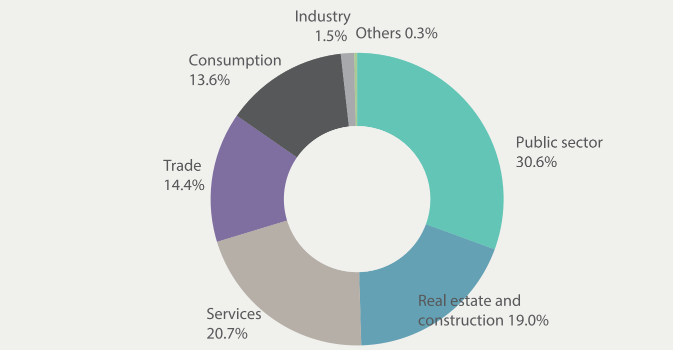
Looking forward, the IMF expects Qatar's inflation to moderate gradually to around 3.0% on average in 2023, mainly on prospects of a slowing global economic growth in the aftermath of aggressive global monetary tightening, while the Central Bank of Qatar would continue to track US Fed moves.

BANKING SECTOR INTEREST RATES (IN QR)



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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



** End-March 2023*

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

1.4.2. Banking Activity

Sound activity growth and rising bank profitability

The banking sector in Qatar is actively recovering as the country evolves post the pandemic, displaying strong volume growth supported by stable margins and effective cost management. The economic support packages offered by the government for the relief of some firms helped ensure sufficient liquidity in the banking sector. Measured by the consolidated assets of all banks in the sector, banking activity grew by 4.2% in 2022 to reach US$ 523 billion at year-end. Likewise, deposits increased by 2.6% to reach US$ 275 billion. Bank loans rose by 3.3% over the year to reach US$ 345 billion. As to bank shareholders' equity, it reported US$ 50 billion at year-end 2022, the equivalent of 9.6% of total assets, a relatively sound level by international benchmarks.

The credit quality of Qatari bank assets remains solid, with non-performing loans recorded at 2.4% of total loans in 2021, though this figure is expected to have increased in 2022 due to the lagged effects of the Covid-19 pandemic and rising interest rates. The loan-to-deposit ratio rose in 2022, but is expected to fall again in 2023, and liquidity risk is not a problem for the country. Credit growth will moderately accelerate in 2023 but remain below pre-pandemic levels.

In fact, in terms of liquidity, the government has considerable asset buffers, with a significant amount of net international reserves at its central bank as well as more than US$ 445 billion of assets managed by the Qatar Investment Authority. This, together with a sizeable stock of liquid foreign assets, provides the country with a suitable safeguard.

With respect to profitability, banks' net profits rose in 2022, driven by widening net interest margins and higher noninterest income. However, loan-loss provisioning charges continued to rise and dampen profitability.

Net interest income actually increased despite higher interest expense. According to Moody's, total operating income rose by 17% for rated banks, largely driven by an 18% increase in net interest income, more than offsetting a rise in interest expense as interest rates reversed and started to rise for both loans and deposits. The increase in net interest income was driven by a higher net interest margin, which rose to 2.3% for 2022 from 2.1% a year earlier.

Growth in operating profit was also supported by an increase in non-interest income, which rose by 11% from a year earlier and is now higher than prepandemic levels. The increase largely reflected a combination of trading gains, fee-generating activity and a better financial performance by associates.

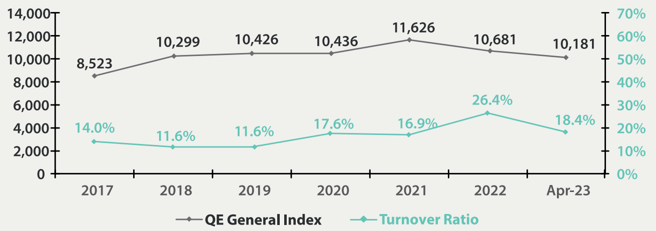
Operating efficiency continues to improve. The banks' aggregate cost-to-income ratio improved further to

CAPITAL MARKETS INDICATORS

	2017	2018	2019	2020	2021	2022	Apr-23
Market Capitalization (US$ billion)	129.7	161.7	160.1	165.4	183.4	167.1	162.2
Total value traded (US$ billion)	18.2	18.8	18.6	29.1	31.0	44.1	9.9
Number of shares traded (million)	2,465	2,286	11,416	55,155	47,037	45,380	11,377
No. of listed companies	45	46	47	47	47	47	50
Change in QE general index	-18.3%	20.8%	1.2%	0.1%	11.4%	-8.1%	-4.7%
P/E ratio	16.5x	14.9x	14.8x	17.4x	16.8x	11.9x	12.4x
P/BV ratio	1.3x	1.6x	1.5x	1.3x	1.7x	1.4x	1.4x
Dividend yield	4.5%	4.0%	3.8%	3.4%	2.3%	4.0%	4.6%
Five-year CDS spreads (bps)	105	82	37	38	44	48	42

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

CAPITAL MARKETS PERFORMANCE



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

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21.9% during 2022 from 24.1% a year earlier. While combined operating costs increased by 6%, this was more than offset by income growth, driving further improvement in the cost-to-income ratio as per Moody's.

Pressure on profitability will increase as loan-loss provisioning charges rise. Loan loss provisioning charges rose by 13% during 2022 in absolute terms compared with a year earlier. However, as a proportion of pre-provision income, the ratio declined to 33% in 2022 compared with 35% in 2021. The increase in provisioning charges was driven by an increase in stage 2 and 3 loan balances. The recent increase in NPLs followed the lifting of support measures in 2022 that were introduced to offset the negative effects of the COVID-19 pandemic. Despite the increase, the banks' coverage ratio remained strong at 122% for banks rated by Moody's.

With respect to capitalization, capital levels remain strong in Qatar. Aggregate tangible common equity was broadly stable around 16% of risk-weighted assets as of December 2022, supported by strong earnings.

Finally, in its SWOT analysis of the Qatari banking and financial services industry, Fitch Solutions identifies the following strengths:

• More than 80% of the population are immigrants.
• Third highest concentration of millionaires in the world.
• Healthy banking sector, and among the most stable in the Gulf Cooperation Council region.

Among weaknesses rise the following:
• Non-existent independent regulator, creating inefficiencies in different sectors and lack of concentration.
• Over-reliance on hydrocarbon products.

With respect to opportunities, the following were identified:
• Expansion in Middle Eastern countries to challenge the region's top players.
• Growth in the Islamic banking and financial sector.
• The growth of fintech.
• The authorities are keen to develop Qatar as a regional financial hub.

As to threats, they revolve around the following:
• Strong competition from Saudi Arabia and the UAE.
• Ongoing regional dispute.
• Oil price volatility.

1.4.3. Equity and Bond Markets

Qatari equities remain on fall, fixed income market shifts to positive territory over the first four months of 2023

Qatar's equity market remained on the fall during the first four months of the year 2023, mainly pressured by global growth concerns and recent US banking woes, in addition to weak corporate earnings. In contrast, the bond market registered price rebounds over the first four months of the year, mainly tracking US Treasuries move, as global recession concerns gained prominence following ten interest rate hikes by the US Federal Reserve since March 2022 and due to recent US banking turmoil, which stoked demand for safety.

The Qatar Stock Exchange dipped further into the red over the first four months of 2023, as reflected by a 4.7% decline in the Qatar Exchange general index to reach 10,181.23 at end-April, which followed an 8.1% contraction in 2022. This came within the context of a 10% year-on-year contraction in the profitability of 50 listed companies in the first quarter 2023 to reach QR 12.5 billion, compared to QR 13.9 billion in the first quarter of 2022, and as foreign outflows gained momentum on US banking industry woes and worries that a global fight against inflation would tip the global economy into a recession. Equity price falls on the Qatar Stock Exchange took place despite an improvement in the non-oil activity, as the headline Qatar Financial Centre PMI, which is a composite single-figure indicator of non-energy private sector performance, indicated in April 2023 the strongest improvement in business conditions since July 2022.

The number of listed companies on the Qatar Stock Exchange rose from 47 companies at end-2022 to 50 companies at end-April 2023. On the back of equity price falls and new listings, the QSE market capitalization

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contracted by 2.9% during the first four months of 2023, moving from US$ 167.1 billion at end-December 2022 to US$ 162.2 billion at end-April 2023. This followed an 8.9% contraction in 2022.

The total trading value on the QSE contracted significantly by 44.6% year-on-year during the first four months of 2023 to reach US$ 9.9 billion. This followed a large expansion of 42.2% in 2022. The total number of traded shares dropped by 40.1% year-on-year, moving from 18,993 million shares during the first four months of 2022 to 11,377 million shares during the first four months of 2023, and the total number of trades surged by 7.1% year-on-year during the first four months of 2023 to reach 1,243,975 trades. That being said, the turnover ratio, measured by the annualized trading value to market capitalization, reached 18.4% during the first four months of 2023 as compared to 25.7% during the corresponding period of 2022.

At the level of the fixed income market, Qatari papers posted price rebounds over the first four months of 2023, mainly tracking US Treasuries move, as tighter credit conditions in the US resulting from aggressive monetary tightening and the recent banking sector woes, fueled global recession fears. This triggered a fight to safety. A closer look at individual bonds shows that Qatari sovereigns maturing in 2026 and 2030 registered price expansions of 0.50 pt each. This followed large contractions of 9.25 pts and 22.50 pts respectively in 2022, mainly tracking declines in US Treasuries after the US Federal Reserve delivered outsized interest rate hikes since March 2022 to fight multi-decades high inflation.

Concomitantly, Ooredoo papers maturing in 2026 reported price increases of 0.13 pt over the first four months of 2023, following significant price contractions of 11.97 pts in 2022. As to papers issued by financial institutions, QIB'24 saw price expansions of 0.25 pt over the January-to-April 2023 period. This followed a 7.70 pts fall in prices in 2022. Also, QNB'25 closed up by 1.13 pt over the first 4M of 2023, following price drops of 7.93 pts in 2022.

As to the cost of insuring debt, Qatar's five-year CDS spread, which measures the market's perception of sovereign risk at large, contracted by 6 bps over the first four months of 2023 to reach 42 bps at end-April, the lowest in the MENA region. This followed a small expansion of 4 bps in 2022.

On the other hand, it is worth noting that Qatar didn't tap international debt markets since April 2020. This came within the context of rising debt-servicing costs since March 2022, reduced deficit financing needs amid elevated oil and gas prices, and Qatar's commitment to medium-term fiscal reforms.

As to credit ratings, Fitch Ratings revised in March 2023 the outlook on Qatar's long-term foreign currency Issuer Default Rating to "positive" from "stable" and affirmed the IDR at "AA-". The revision of the outlook reflects Fitch's expectation that debt to GDP would remain in line with or below the "AA" peer median, while Qatar's external balance sheet would strengthen from an already strong level.

S&P Global Ratings raised in November 2022 its long-term foreign and local currency sovereign credit ratings on Qatar to "AA" from "AA-" and affirmed its short-term foreign and local currency sovereign credit ratings at "A-1+", with a "stable" outlook. The "stable" outlook reflects S&P's view that Qatar's fiscal and external buffers should continue to benefit from the country's status as one of the world's largest exporters of liquefied natural gas (LNG) over the next two years, further boosted once production increases in relation to the North Field Expansion (NFE) over 2025-2027.

Concurrently, Moody's changed in November 2022 the outlook on the Government of Qatar to "positive" from "stable" and affirmed its long-term issuer and foreign currency senior unsecured debt ratings at Aa3. Moody's also affirmed the Government of Qatar's (P)Aa3 foreign-currency senior unsecured medium-term note program rating. The change of outlook to "positive" reflects, as per Moody's, the prospect that the improvement in Qatar's debt metrics, observed in 2021-22 as a result of elevated energy prices, can be sustained in the medium term even if oil and natural gas prices moderate over the next few years.

Looking ahead, Qatar's equity market may attract billions of passive US dollar flows if the US$ 450 billion Qatar Investment Authority and the General Retirement and Social Insurance Authority proceed with a plan to consolidate their local holdings worth up to US$ 3 billion under a separate entity. On the other hand, Qatari bonds are poised to benefit from the country's near-term to medium-term favorable outlook, supported by the ongoing LNG expansion and sustained domestic demand, while high interest rates and reduced sovereign financing needs would continue to limit the flow of new issuances in Qatar.

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2. CONCLUSION

Looking forward, Qatar is well-placed to capitalize on the momentum created from the World Cup - and beyond - to pursue its national transformation journey, ensuring sustainable economic growth, and continuing to build a knowledge based economy while improving the overall quality of life. Sustained high energy prices and increased demand for alternative natural gas supply to Western Europe will continue to propel the country's development.

Within this context, the IMF forecasts Qatar's real GDP growth at 2.4% in 2023 and at an average of 2.8% over the next five years. The coming year will be a crucial one, as the government lays out the final phase of its National Development Strategy on the path to achieving the goals of the Qatar National Vision (QNV) 2030. This includes more push and generated impact on local content, private sector participation, national digitization, and government excellence, enabled by forward-looking laws and regulations, procurement and budgeting framework, labor policies, and an upskilling agenda.

At the monetary level, inflation is expected to moderate to 3.0% in 2023 and to an average of 2.3% over the next five years amid tempering global inflation and following the significant tightening monetary policy over the past year or so. At the external level, the current account is expected to record a surplus of 19.2% of GDP in 2023 and an average of 14.0% of GDP over the next five years.

At the fiscal level, revenue is set to fall by 14% under Fitch's assumption that the Brent oil price will average US$ 85/bbl in 2023 (2022: 98.6). However, the end of 2022 Football World Cup outlays, less spending on large projects and restrained current spending trends will allow Qatar to maintain budget surpluses until 2025, despite lower hydrocarbon prices. The first phase of the North Field expansion is expected to start supporting fiscal revenue fully from 2026 and phase two in 2027, assuming no construction delays, and to bring down Qatar's fiscal breakeven oil price below US$ 50/bbl from around US$ 57-58/bbl in 2023-24, excluding estimated QIA investment income. The government is likely to find new spending outlays aimed at diversifying the economy, but Qatar is expected to retain surpluses under Fitch's long-term oil price forecast of US$ 53/bbl at 2025 prices.

Within the same context, Qatar's fiscal surplus is estimated to record a high of 14.7% of GDP in 2023 (Next 5-year average of 11.6%) according to IMF forecasts. This will allow debt/GDP to fall to about 45% of GDP in 2023 and 43% in 2024 according to IMF forecasts, from a peak at 73% in 2020. This reflects expectations that the government will continue to repay maturing external debt in 2023 (US$ 7.5 billion) and 2024 (US$ 4.8 billion) and to gradually pay down some of its domestic debt. Large surpluses will still allow Qatar to transfer new funds to the QIA.

The analysis of Qatar's short to medium term outlook actually requires a careful examination of strengths and opportunities relative to the threats and challenges. At the level of the former, we mention the exceptionally high per-capita income, the vast hydrocarbon reserves and the robust government net asset position with large sovereign net foreign assets (SNFA) and a flexible public finance structure. At the level of risks constraining the outlook, we mention the heavy economic and fiscal reliance on the hydrocarbon sector, the relatively high but declining public-sector debt burden and the elevated external debt along with transparency shortcomings. Having said that, we firmly believe strengths and opportunities outpace threats and challenges at the horizon.

In its last Article IV Consultation mission report, the IMF concurred on the need to strike a balance between supporting the recovery and avoiding procyclical policies and buildup of financial sector vulnerabilities. Accelerating structural reforms will also be critical to foster a transformational recovery and build climate resilience. IMF called for continued fiscal prudence amid high hydrocarbon prices and agreed on the need for a gradual, growth-friendly fiscal consolidation over the medium term. It stressed the need to accelerate structural reforms and leverage global trends, such as digitalization and climate actions, to build a more inclusive, diversified, and greener economy. IMF encouraged further efforts to boost the mobility and safety nets for expatriates, incentivize private sector employment, enhance private sector competitiveness, and accelerate climate mitigation and adaptation at large.