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RECOVERY GAINING STRENGTH AMID HIGHER HYDROCARBON PRICES AND WORLD CUP PREPARATION

Economic recovery gaining strength, boosting real growth

Qatar's economic recovery is gaining strength on the back of rebounding domestic demand, higher hydrocarbon prices, and the preparation for the 2022 FIFA World Cup. Within this context, Qatar's real GDP growth shifted from a negative -3.6% in 2020 to 1.5% in 2021, and set to improve further in 2022 mainly reflecting the World Cup and the post-pandemic recovery. In parallel, normalization of political and economic relations between Qatar and the GCC has continued, providing additional support to growth.

Surplus in balance of payments amid higher hydrocarbon prices and global softening of lockdown restrictions

Soft global economic recovery gained strength on the back of rebounding domestic demand, higher hydrocarbon demand and prices, and the preparation for the 2022 FIFA World Cup reflecting significant increase in its current account over year 2021. The latter recorded a figure of US\$ 26.3 billion, attributed to bigger trade balance which has witnessed a 122.3% increase year-on-year. This is mainly due to growth of export earnings that have been more than that of total imports. Subsequently, the balance of payments recorded a surplus of US\$ 1.1 billion in 2021 against a surplus of US\$ 0.5 billion in 2020, a 116.9% hike year-on-year.

Minor fiscal surplus and a more favorable fiscal outlook

Qatar shifted from fiscal deficit in 2020 to minor surplus position in 2021 on the back of higher hydrocarbon demand and revenues, in addition to increased spending amid releasing the lockdown measurements and the global reopening and reactivation of all economic sectors. Actual public revenues increased by 13.2% in 2021 (against a drop of 20.3% in 2020). Public expenditures increased by 5.3% over the past year, from QR 182.5 billion in 2020 (or US\$ 50.1 billion) to QR 192.1 billion in 2021 (or US\$ 52.8 billion). In parallel, Qatar's general government debt-to-GDP ratio reached 58.4% in 2021, down from 72.6% in 2020.

Qatar's consumer prices return to inflation, FX buffers remain on the rise

Qatar's inflation returned to positive territory in 2021 following two years of deflationary pressures and is forecasted to continue rising in 2022. Concurrently, the Qatar Central Bank's foreign currency buffers pursued their upward streak for the fourth year in a row, mainly bolstered by the launching of a jumbo bond by State-owned energy company. In details, consumer prices in Qatar rose by 4.2% on average during the first quarter of 2022 when compared to the same period of 2021, following an increase of 2.3% on average in 2021.

Improving bank operating conditions amid economic recovery

Banking operating conditions improved in Qatar amid the overall economic recovery. Measured by the aggregation of assets of banks operating in Qatar, banking activity grew by 8.6% in 2021 and by an additional 0.3% in the first quarter of 2022 to reach US\$ 503 billion at end-March, the equivalent of 280% of GDP. In volume terms, banking activity grew by US\$ 39.9 billion and US\$ 1.4 billion respectively. The main drivers for asset growth were deposit and credit growth which reported 7.6% and 7.8% respectively in 2021 and flattened in the first quarter 2022.

Extended equity price rally year-to-date, fixed income market drifts lower tracking global sell-off mood

Qatar's equity market continued to benefit from improved sentiment over the first four months of the year 2022 given a post-pandemic economic recovery, revival of business activity after closures, multi-year high Brent oil prices and strong financial results, which resulted into double-digit price gains on the Qatari Stock Exchange. In contrast, the country's fixed income market dipped further into the red over the first four months of the year, mainly tracking US Treasuries move on prospects of more aggressive US Federal Reserve monetary policy tightening to tame decades-high US inflation.

Overall economic outlook likely on the upside

Qatar's real GDP growth is actually expected to accelerate to 3.4% in 2022 as per the IMF (an average of 2.6% in the next five years). The North Field LNG expansion project will support growth prospects and further strengthen fiscal and external positions over the medium-term. Downside risks to the outlook stem from potential new virus strains, geopolitical tensions and conflicts, tighter and more volatile global financial conditions and energy market volatility. In the long run, while Qatar's focus on LNG can help to ease the energy transition process, there is the ultimate risk that the global shift to renewables could reduce demand for hydrocarbon.

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Qatar’s economic recovery is gaining strength on the back of rebounding domestic demand, higher hydrocarbon prices, and the preparation for the 2022 FIFA World Cup. The Qatari authorities’ strong response to the pandemic has helped to minimize the negative impact of the pandemic and facilitate the recovery. Proactive containment measures, massive testing, strong healthcare, and fast vaccination rollout have helped to minimize the health effect of the pandemic and contain the disruptions to economic activities. In addition, the comprehensive economic support package has provided much needed relief to the most affected households and firms and ensured sufficient liquidity in the banking system.

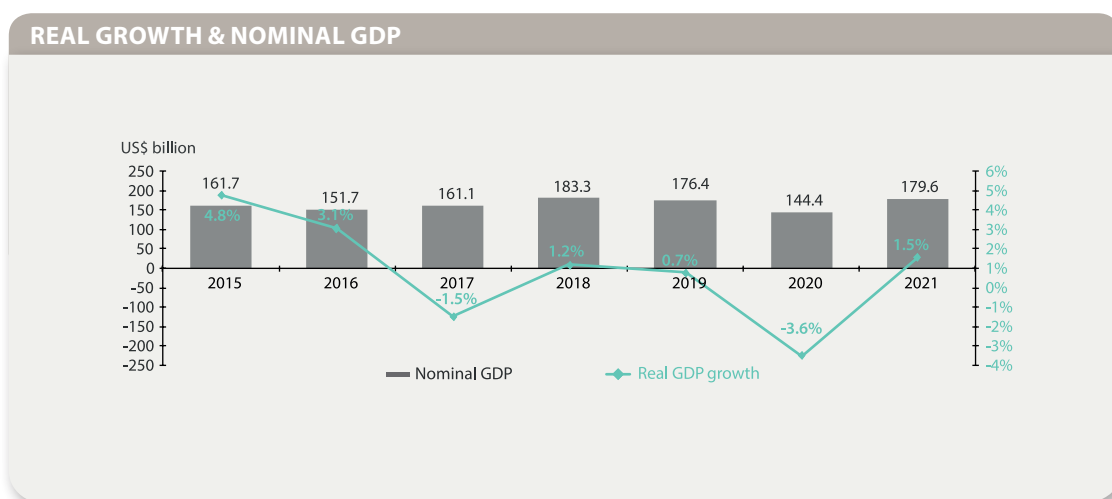
Within this context, Qatar’s real GDP growth shifted from a negative -3.6% in 2020 to 1.5% in 2021, and set to improve further in 2022 reflecting the 2022 World Cup and the post-pandemic recovery. Normalization of political and economic relations between Qatar and the GCC has continued, providing additional support to growth.

At the external level, Qatar continues to enjoy a strong external position. Its current account balance stands at a surplus 14.7% of GDP in 2021. The high level of assets accumulated within the sovereign wealth fund, the QIA, continues to support Qatar’s strong external position.

At the fiscal level, Qatar continues to enjoy favorable finances, with a fiscal surplus to GDP ratio of 4.1% and a debt to GDP ratio of 58.4% in 2021. Qatar’s high share of foreign-currency debt in total government debt is largely mitigated by its credible currency peg to the 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 denominated in foreign currency, including budgetary hydrocarbon revenue and extra-budgetary investment income from offshore assets held by the QIA, which would prevent a material deterioration of government debt burden and debt affordability metrics even in the unlikely event of an exchange rate depreciation.

At the monetary level, Qatar is characterized by a limited flexibility of monetary policy due to the exchange-rate regime, which pegs the Qatari riyal to the U.S. dollar. Inflation is rising but remains acceptable relative to global peers. Inflation moved from a deflation status in 2020 to 2.3% in 2021 and is forecasted to continue relatively rising in 2022.

The banking sector remains well-capitalized and liquid, with non-performing loans (NPLs) at relatively low levels. Nevertheless, the banks’ growing reliance on nonresident funding to support its domestic credit expansion is a source of vulnerability due to rising currency and maturity mismatches. Qatar’s banks have assets in excess of 250% of GDP and net foreign liabilities of over US\$ 120 billion (60% of GDP) in 2022. Banks’ gross foreign liabilities grew to US\$ 197 billion at end-2021 or close to 40% of total assets, from US\$ 175 billion at end-2020. A supportive oil and gas market outlook and strong estimated investment returns on Qatar’s foreign assets have offset the impact of rising contingent liabilities from the banking sector on Qatar’s credit profile.



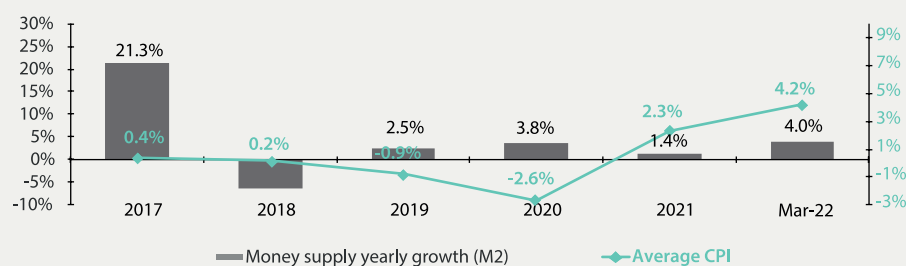
Sources: IMF, Bank Audi’s Group Research Department

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With respect to capital markets, equity and bond markets performances were mixed. At the stock market level, the QE general index reported a rise of 16.9% in the first four months of 2022, following a rise of 11.4% in 2021. This has brought the market capitalization up from US\$ 165 billion at end-2020 to US\$ 183 billion at end-2021 and to US\$ 209 billion at end-April 2022. The price increase was realized within the context of rising trading values as the turnover ratio moved from 17.6% in 2020 to 16.9% in 2021 then to 25.7% in the first four months of 2022. At the bond market level, the CDS spread, a measure of market perception of sovereign risks, rose from 38 bps at end-2020 to 44 bps at end-2021 to 61 bps at end-April 2022.

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-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

Qatari Petrochemical industry recovering from impact of COVID-19 pandemic

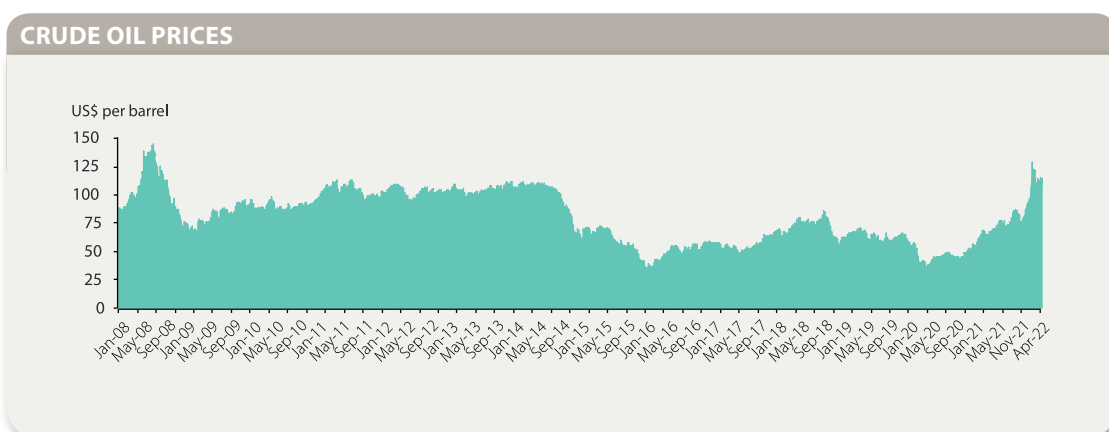
The Qatari petrochemicals industry is currently recovering from the impact of the COVID-19 pandemic. The country's hydrocarbon share out of total GDP rose from 29.0% in 2020 to stand at 36.8% in 2021, mainly fueled by soaring hydrocarbon prices. The contribution of the hydrocarbon to the country's nominal GDP registered US\$ 66.1 billion in 2021, up from US\$ 41.8 billion in 2020.

Qatar produces natural gas from the super giant gas-condensate North Field, which is the largest natural gas field in the world, with estimates from the IEA of in-place reserves totaling 1,800 trillion cubic feet of gas and some 50 billion barrels of condensates. Natural gas production grew by 4.0% in 2021 as external demand began to pick up again and global growth returns to positive territory. The recovery in 2021 means gas production would total just 166.3 bcm, despite the coming online of the Barzan gas field in April 2020, as per Fitch Solutions.

Over the longer term, Fitch Solutions sees that gas production is set to increase to support a major planned expansion of the country's LNG export capacity. Within this context, it is worth mentioning that since the lifting of the drilling moratorium on the North Field, two major projects have been announced, namely the North Field Sustainability Project which is targeting to maintain current levels of production at the field, and the US\$ 2.0 billion North Field Expansion Project which would seek to develop the southern part of the field, with first gas expected in late 2023.

At the level of gas consumption, the COVID-19 pandemic and the associated slowdown in economic growth have weighed slightly on the country's demand for gas in 2020 and 2021, causing a fall in consumption from 41.5 bcm in 2019 to an estimated level of 39.4 bcm in 2021.

On another level, Qatar's crude oil and condensates total liquids output, including NGLs, grew by 1.9% in 2021, reaching 1.89 million barrels per day, from 1.86 million barrels per day in 2020, as per Fitch Solutions. The Barzan project is contributing approximately 30,000 barrel per day of condensates to the country's overall output. In July 2021, the North Oil Company-a JV between TotalEnergies (30.0%) and QE (70.0%)-awarded a contract worth US\$ 635 million to South Korea's Daewoo Shipbuilding & Marine Engineering to deliver a fixed offshore production platform to boost crude oil production from the Al-Shaheen field, which is the country's largest oil producing asset, noting that construction is expected to be completed by the second half of 2023.



Sources: Bloomberg, Bank Audi's Group Research Department

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In the coming period, Qatar's crude oil, NGL and other liquids output is expected to decline marginally in 2022, as additional condensate volumes from the Barzan field that came online in 2020 struggle to offset existing decline rates at the country's maturing fields. In contrast, elevated gas prices and the global economic recovery spurring increased energy use would ensure Qatar's natural gas output registers positive growth in 2022, according to Fitch Solutions.

1.1.2 Manufacturing sector

Qatar's manufacturing sector maintains its growth momentum

Qatar's manufacturing sector continued to be one of the major driving forces in Qatar's economic diversification strategy as the country goes through to Qatar National Vision 2030. This vision focuses on the development of an economy that is less dependent on hydrocarbons. Accordingly, the country's manufacturing strategy targets the establishment of advanced manufacturing value chains with the aim of transforming Qatar into a major hub for production.

At the nominal level, the contribution of the sector to Qatar's GDP edged up from 7.9% in 2020 to 8.8% in 2021. In addition, Qatar's manufacturing PMI increased to 63.6 in April 2022 up from 61.8 in March 2022. This continuous growth reflects the country's National Manufacturing Strategy 2018-2022 aim to accelerate growth in the sector to develop and diversify the State's economy.

On another note, Qatar's Industrial Production index (IPI) for March 2022 stood at 101.2 points, recording a rise of 14.6% compared to the previous month. The IPI index rose by 0.5% compared to the corresponding month in 2021, as per data released by the Planning and Statistics Authority.

In details, according to figures released by the Ministry of Commerce and Industry, the number of new local products registered in the last quarter of 2021 was 81. In the same period, 768 new workers were inducted in factories while factory adherence to industrial requirements remained at 75%. Furthermore, almost 3-day average time was required for industrial development services. In a detailed look, the index of the manufacturing sector rose by 5.4% compared to the previous month as a result of the increase in "Manufacture of refined petroleum products" by 9.5%, followed by "Manufacture of chemicals and chemical products" by 6.1%, "Manufacture of food products" by 2.7%, and "Manufacture of beverages" by 0.7%.

In a look at credit facilities, it is worth noting that financing to the Qatari industrial sector remained healthy, whereby credit facilities allocated to the country's industrial projects constituted 1.6% of total credit facilities at March 2022, nearly unchanged from its level at end-2021.

In conclusion, most of the indicators highlight that the manufacturing sector maintained its growth throughout 2021, as the country continued to focus on the sector serving its diversification strategy. Numerous projects in different industries are developed to well position the sector at large.

1.1.3 Construction

Qatar's construction industry supported by government spending

Qatar's construction industry saw a real growth of 4.0% year-on-year in 2021, during which the market benefitted from a broad uptick in construction activity following the COVID-19 pandemic, as per Fitch Solutions. In nominal terms, the contribution of the sector to Qatar's economy edged down marginally from 14.3% in 2020 to 13.4% in 2021.

On a side note, the real estate and construction sector took a share of 17.6% of credit facilities advanced by the Qatari banking sector at end-March 2022, nearly unchanged from its level at end-2021.

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In details, office rental rates continued its fall, particularly in Doha, due to significant levels of oversupply. This is especially true outside the prime market, where the fall in rental rates have been the hardest. In this context, landlords are offering incentives including rent-free periods in order to attract and retain tenants. In 2021, average rental rates fell by 3.3%, as per Fitch Solutions.

Furthermore, at the level of the retail market, demand will be constrained by the broader economic backdrop, while supply levels continue to grow, so weakness in retail rental rates will continue in the country throughout this year.

At the level of the industrial real estate market, the country's small share is dominated by Doha. However, the creation of two free zones, one in Doha and the other in Al Wakra, should see more industrial-focused investment in the longer term. In the short term, a lack of supply, particularly in light of the recent rise in e-commerce, is leading to a small rise in industrial rental rates.

The completion of the bulk of construction projects ahead of the 2022 FIFA World Cup will lead to a slowdown in the residential and non-residential construction market. The latter reported a growth of 5.2% in 2021.

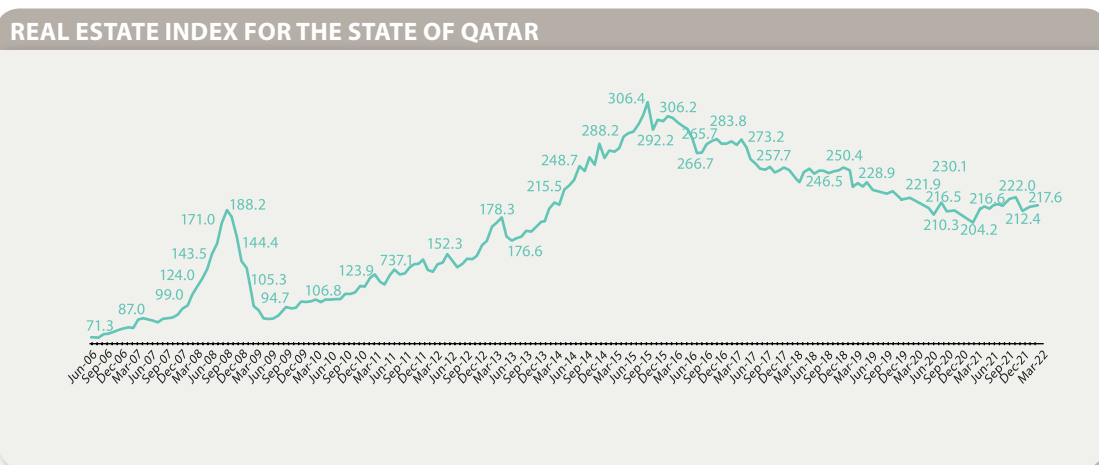
It is worth noting that, over the past few years, the ecosystem underwent a number of changes, the construction environment developed rapidly due to numerous reasons as the market is advancing and evolving with new technologies and disruptive technologies have been introduced into the construction industry such as AI and virtual reality.

In conclusion, Qatar's construction sector maintains its resilience, as government spending continued on projects. The government's aim to diversify the economy is expected to support construction projects. Government spending will play an important role in elevating the growth of the construction sector at large.

1.1.4 Tourism

Qatar's tourism sector rebounds

Qatar tourism continues the preparation for the 2022 FIFA World Cup and the 2023 World Aquatics championship events as the government remains actively committed to its long-term Tourism Vision 2030 agenda. The latter continues to work towards revitalizing the tourism sector as the pandemic subsides. As the sector regains momentum, the Qatari government further dedicated up to US\$ 6.9 billion for transport and infrastructure-related projects in the lead-up to the World Cup, as per Fitch Solutions.



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

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During 2021, Doha’s hospitality market saw a RevPAR rise of 22.4%, from US\$ 60 in 2020 to US\$ 73 in 2021. This increase was mainly backed up by an occupancy improvement of 15.2% while the ADR decreased by 2.7% from US\$ 101 in 2020 to US\$ 99 in 2020, as per Ernst & Young.

In the first quarter of 2022, the hospitality sector’s performance edged down in terms of occupancy, whereby it stood at 62.5%, down from 77.4% in the same period of last year, while the average room rate rose by a yearly 20.4% to stand at US\$ 108.3 in the aforementioned period of this year. The rooms’ yield contracted by 2.7% from US\$ 69.6 in the first quarter of 2021 to US\$ 67.7 in the corresponding period of 2022. Despite intensified vaccination rollout and events like ATP Qatar Open 2022, the lifting of mandatory institutional quarantine requirement for residents and citizens could have led to Doha’s softened occupancy. However, the sector performance is expected to plunge back with the planned hosting of several international sports events such as 2022 Qatar Masters and MotoGP Grand Prix of Qatar 2022 along with MICE events in the coming months, as per EY.

In this context, Qatar’s hotel sector has developed deliberately since the country was announced as the host of two major global sporting events. Moreover, the government’s aim to diversify the economy and expand tourism has been a major booster for the hotel sector expansion.

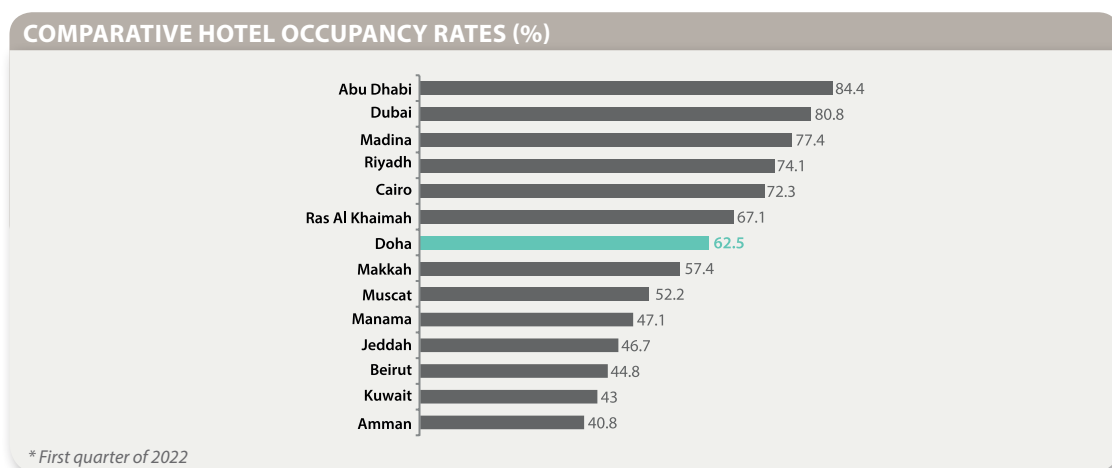
In sum, the overall outlook for the Qatar tourism sector is positive. The sector is rebounding as the COVID-19 pandemic subsides. The government continues its commitment to the sector and has promoted it as a major beneficiary of its long-term Vision 2030 economic diversification agenda. However, on the negative end, risks over the next nine months go back to the Russia-Ukraine conflict, regional geopolitics and a wider global economic downtrend.

1.2 External sector

Surplus in balance of payments amid higher hydrocarbon prices and global softening of lockdown restrictions

Soft global economic recovery gained strength on the back of rebounding domestic demand, higher hydrocarbon demand and prices and the preparation for the 2022 FIFA World Cup reflecting significant increase in its current account over year 2021. The latter recorded a figure of US\$ 26.3 billion, attributed to bigger trade balance which has witnessed a 122.3% increase year-on-year. This is mainly due to growth of export earnings that have been more than that of total imports. Given that Qatar is one of the world’s largest exporters of liquefied natural gas, its current account shall remain in surplus in 2022-2023 supported by higher prices for its gas exports against a backdrop of high global energy demand.

In fact, Qatar’s foreign trade figures revealed growth in exports by 69.3% alongside to 10.2% increase in imports in 2021 contributing to a 122.3% hike in the foreign trade surplus, according to the Central Bank of



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

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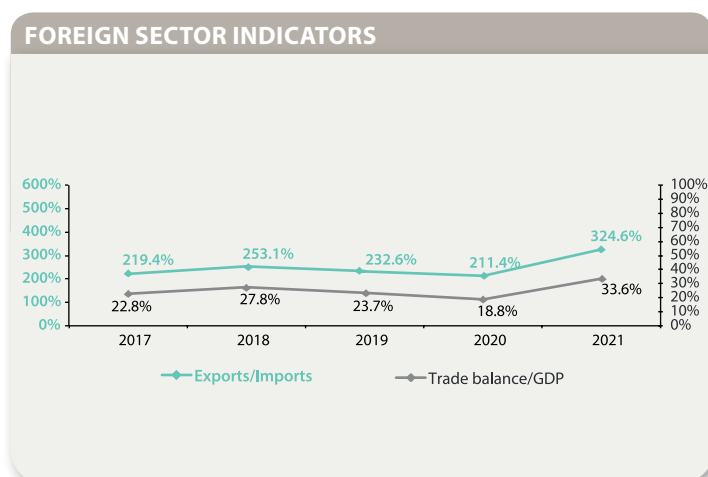
Qatar. As such, Qatar’s trade surplus enlarged from US\$ 27.1 billion in 2020 to US\$ 60.3 billion during 2021, to reach the equivalent of 33.6% of Qatar’s GDP, from 18.5% of GDP in 2020 as per S&P Global.

Going further into details, total exports (including exports of domestic goods and re-exports) reached a total of US\$ 87.2 billion in 2021, up from US\$ 51.5 billion in 2020. 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 Development Planning and Statistics for year 2021, suggests that exports of Mineral fuels, lubricants and related materials making up the highest share of 84.4% of total exports and Chemicals and related products constitutes the second highest share of 9.3% of total exports. The geographic distribution of domestic exports for year 2021 indicates that 15.2% of total exports went to China, followed by Japan with 13.6%, South Korea and India with 12.8% and Singapore with 6.1% of the totals.

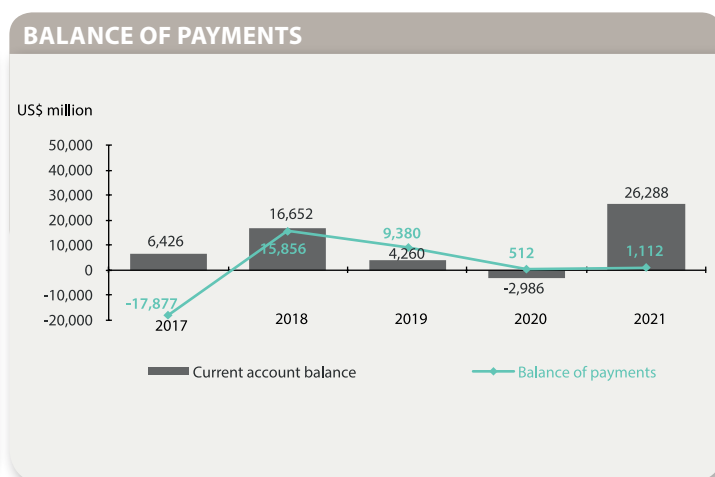
At the level of imports, a total of US\$ 26.9 billion was registered in 2021 compared to US\$ 24.4 billion in 2020, registering an increase of 10.2% year-on-year. The breakdown of imports by category, according to the Ministry of Development Planning and Statistics for 2021, suggests that imports of Machinery and transport equipment’s posted the highest share of 38.7%, followed by manufactured goods classified chiefly by material with a share of 15.4% and chemicals and related products with 10.6% of total imports. The breakdown of imports by country of origin reveals that 16.5% of the inward merchandise during 2021 came from China with, followed by the United States of America with 12.1%, India with 6.5%, Germany with 5.9% and United Kingdom with 5.8% of total imports.

On the other side of the external sector, Qatar posted net deficits in its balances of services, income and transfers in 2021, kept almost unchanged from previous year’ amounting to US\$ 16.0 billion (4.8%), US\$ 2.8 billion (-9.2%) and US\$ 15.3 billion (29.5%), respectively. The volume of remittance outflows and private sector credit had improved. In regards to the transfers’ category, it is dominated by outward remittances of expatriates residing in Qatar, which amounted to US\$ 10.9 billion in 2021, up by 8.8% from the previous year.

Qatar reported a deficit in capital and financial balance of US\$ 23.2 billion in 2021 down from surplus of US\$ 4.8 billion in 2020, attributed to a deficit in financial account for US\$ 23.0 and deficit in portfolio investment reaching US\$ -11.9 billion during 2021. Subsequently, the balance of payments recorded a surplus of US\$ 1.1 billion in 2021 against a surplus of US\$ 0.5 billion in 2020, a 116.9% hike year-on-year.



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



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

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1.3 Public sector

Minor fiscal surplus amid rising hydrocarbon prices and a favorable fiscal outlook

Qatar shifted from fiscal deficit in 2020 to minor surplus position in 2021 on the back of higher hydrocarbon demand and revenues, in addition to increased spending amid releasing the lockdown measurements and the global reopening and reactivation of all economic sectors.

Going further into details, actual public revenues increased by 13.2% in 2021 (against a drop of 20.3% in 2020). They increased from QR 171.2 billion (or US\$ 47.0 billion) in 2020 to QR 193.7 billion (or US\$ 53.2 billion) in 2021. This came at the back of a rise in oil and gas revenues for 17.3% in 2021 against its figure in 2020 (constituting 80.7% of total public revenues). Besides, non-hydrocarbon revenues contracted by 1.3% year-on-year, amid the implementation of some tax reliefs and rescheduling schemes to offset the economic impact during the pandemic.

On the spending front, total public expenditures increased by 5.3% over the past year, from QR 182.5 billion in 2020 (or US\$ 50.1 billion) to QR 192.1 billion in 2021 (or US\$ 52.8 billion). It is worth noting that the spending figure of 2021 was less by 13% than its expectation underscoring effective spending control. The rise in public spending was mainly triggered by a 9.4% rise in major projects expenditures (constituting 35.9% of total expenditures). In addition, current expenditures (constituting 31.7% of total expenditures) increased by 5.1%, along with a 1.3% incline in wages and salaries (constituting 30.6% of total expenditures). As such, Qatar attained a surplus of QR 1.6 billion in 2021 (US\$ 0.4 billion), following a deficit in 2020 for QR 11.3 billion (US\$ 3.1 billion).

In parallel, Qatar's general government debt-to-GDP ratio reached 58.5% in 2021, according to Moody's, down from 72.6% in 2020. The rise in nominal debt driven by increase in government's overdrafts with local banks is mitigated by government's revenue, which is denominated in foreign currency, including budgetary hydrocarbon revenue and extra-budgetary investment income from offshore assets held by the QIA. It is assumed that this ratio will be reversed from 2021 onwards, a result of the government's fiscal adjustment measures and its intention to disburse a portion of fiscal surplus to repay maturing debt. Qatar's debt burden is to decline to 41% of GDP in 2022 as per Moody's.

Finally, it is worth mentioning that Qatar approved in December 2021 the 2022 State Budget, with estimated total revenues of QR 196.0 billion, representing an increase of 22.4% compared to the 2021 budget. Expenditure estimates amount to QR 204.3 billion (out of which QR 74 billion allocated for major projects), representing a rise of 4.9% compared to 2021 budget figures due to temporary increase in operational expenses related to the World Cup hosting activities.

Accordingly, the budget anticipates a fiscal deficit of QR 8.3 billion, where the Ministry of Finance will work to cover it through available cash balances and issue of local and foreign debt instruments if required. It is worth mentioning that budget estimates were based on a conservative average oil price assumption of US\$ 55 per barrel due to the recovery in global energy prices, which still reflects the continued adoption of conservative

SELECTED PUBLIC FINANCE INDICATORS

US\$ billion	2016	2017	2018	2019	2020	2021	Var 21/22
Public revenues	46.9	44.9	57.1	59.0	47.0	53.2	13.2%
Public revenues/GDP	30.9%	26.9%	29.8%	33.6%	32.6%	29.6%	-2.9%
Public expenditures	60.9	55.8	53.0	57.3	50.1	52.8	5.3%
Public expenditures/GDP	40.1%	33.5%	27.7%	31.3%	34.7%	29.4%	-5.3%
Fiscal balance	-14.0	-11.0	4.1	1.7	-3.1	0.4	-114.1%
Fiscal balance/GDP	-9.2%	-6.6%	2.2%	2.3%	-2.1%	0.2%	2.4%

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

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estimates of revenues in order to maintain fiscal balance and limit the effects of oil price fluctuations on the performance of public finances at large.

1.4 Financial sector

1.4.1. Monetary Situation

Qatar's consumer prices return to inflation, FX buffers remain on the rise

Qatar's inflation returned to positive territory in 2021 following two years of deflationary pressures and is forecasted to continue rising in 2022. Concurrently, the Qatar Central Bank's foreign currency buffers pursued their upward streak for the fourth year in a row, mainly bolstered by the launching of a jumbo bond by State-owned energy company.

In details, consumer prices in Qatar rose by 4.2% on average during the first quarter of 2022 when compared to the same period of 2021, following an increase of 2.3% on average in 2021, as soaring global commodity prices fueled by the war in Ukraine, especially for food and energy, compounded with recent inflationary pressures sparked by a post-pandemic global economic recovery and supply-chain disruptions.

The breakdown of the Consumer Price Index by segment shows that the culture and recreation segment, which has a weight of 11.1%, registered the largest year-on-year expansion of 28.6% on average during the first quarter of 2022. This was followed by the food & beverages segment with +5.9% (with a weight of 13.5%), the transport segment with 4.3% (weight of 14.6%), the miscellaneous goods and services segment with +3.7%, the clothing and footwear segment with +1.6%, the housing, water, electricity and gas segment and the education segment with +0.5% each, and the furnishings and household equipment segment and the communication segment with +0.4% each. In contrast, the medical services segment posted a yearly price contraction of 3.1% on average during the first quarter of 2022, followed by the restaurants and hotels segment with -2.6%, while the tobacco sector saw no price change over the covered period.

Given the long-standing US dollar peg, the Qatar Central Bank followed in May 2022 the lead taken by the US Federal Reserve in monetary policy tightening to fight a 40-year high US inflation. In details, the Qatar Central Bank raised its overnight deposit rate and repo rate by 50 bps each to reach 1.50% and 1.75% respectively, and lifted the overnight lending rate by 25 bps to 2.75%.

In parallel, Qatar Central Bank's international reserves and foreign currency liquidity grew by US\$ 1.4 billion over the year 2021 to reach US\$ 57.7 billion at end-December, and rose slightly to US\$ 57.8 billion at end-March 2022. The rise in QCB's FX reserves over the year 2021 is mainly explained by a US\$ 5.4 billion expansion in the "foreign securities" category as the State energy company "Qatar Energy" launched a US\$ 12.5 billion four-tranche bond in June 2021, in addition to a US\$ 972 million increase in SDR Holding and

MONETARY SITUATION

Flows in millions of US\$	2016	2017	2018	2019	2020	2021	Q1-22
Net foreign assets	-29,270	-4,143	-4,086	-18,034	-27,386	-17,061	2,572
Foreign Assets	8,304	-27,464	16,821	9,578	-856	6,416	2,847
Foreign Liabilities	-37,574	23,320	-20,907	-27,612	-26,529	-23,478	-275
Net Domestic Assets	22,721	33,205	-6,718	21,878	33,398	19,428	4,137
Claims on private sector	5,651	10,967	16,823	33,781	31,423	27,283	3,597
Net claims on public sector	17,895	11,080	-9,032	4,548	-854	-620	-225
Other Items (net)	-825	11,158	-14,509	-16,450	2,829	-7,235	766
Broad Money (M2)	-6,548	29,062	-10,803	3,845	6,012	2,366	6,710
Money Supply (M1)	0	0	0	0	40,236	511	3,510
Quasi-Money	-6,939	30,507	-9,701	2,299	35	1,855	3,200

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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IMF Reserve Position, and a US\$ 195 million rise in “other liquid assets in foreign currency (deposits)”, which more than offset a US\$ 5.0 billion contraction in “balances with foreign banks” and a US\$ 144 million decline in gold in 2021. That being said, the QCB international reserves and foreign currency liquidity covered around 48.7% of money supply in local currency at end-2021 as compared to 47.1% at end-2020, with this coverage ratio falling to 46.8% at end-March 2022 given a 4.4% growth in money supply in Qatari Riyal.

The broader Money Supply (M2) grew significantly by US\$ 6.7 billion during the first quarter of 2022 following a US\$ 2.4 billion expansion in 2021. This is mainly driven by a US\$ 3.5 billion increase in the money supply (M1), a US\$ 1.6 billion rise in time deposits and a US\$ 1.6 billion expansion in deposits in foreign currencies. Within this context, it is worth mentioning that the Qatar Central Bank said late 2021 that it would begin with the implementation of the future strategy for a gradual reduction of the exceptional support stimulus packages launched in March 2020 to support the economy given the recovery from the impact of the Coronavirus crisis. This would be done through a gradual and deliberate exit that takes into account the various interaction between monetary policy measures and the continuity of economic and banking activity in the country.

In the coming period, the World Bank sees that the possibility of new outbreaks of COVID-19, a spike in consumer price inflation, and rising US interest rates are likely to be modest downside risks given Qatar’s high vaccination rates and sizeable sovereign financial wealth and reserves.

1.4.2. Banking Activity

Improving bank operating conditions amid economic recovery

Banking operating conditions improved in Qatar amid the overall economic recovery. Measured by the aggregation of assets of banks operating in Qatar, banking activity grew by 8.6% in 2021 and by an additional 0.3% in the first quarter of 2022 to reach US\$ 503 billion at end-March, the equivalent of 280% of GDP. In volume terms, banking activity grew by US\$ 39.9 billion and US\$ 1.4 billion respectively. The main drivers for asset growth were deposit and credit growth which reported 7.6% and 7.8% respectively in 2021 and flattened in the first quarter 2022. A surge in non-resident deposits is being witnessed following the resolution in January of the GCC crisis which saw the Quartet states (UAE Saudi Arabia, Egypt and Bahrain) imposing a blockade on Qatar in mid-2017.

Fitch continues to see limited risks to Qatar’s banking sector. While Qatar’s high loan-to-deposit could suggest liquidity risks in the event of a decline in non-resident deposits (28.8% of total deposits in 2021), they expect that the authorities will not hesitate to inject capital into the banking sector if needed. This would happen either by using the QCB reserves, which stood at 42.1% of GDP in 2021 or by monetizing assets held by the Qatar Investment Authority, the country’s sovereign wealth fund, which are currently estimated to be around US\$ 445 billion (210.0% of GDP).

With respect to the quality of assets, Qatari’s bank asset quality remains solid, with non-performing loans (NPLs) at 2.3% of total loans in 2020 (latest available data). Fitch forecasts only a moderate increase in Qatari banks’ NPLs in 2022, as the National Guarantee Program launched in March 2020 will spread the risk of delayed payments over three years.

As to funding Structure, Qatari banks’ liabilities are primarily domestic, albeit with a rising external component (38.8% of the total as of February 2022, up from 37.8% in December, 2021). Fitch expects this external component will continue to slowly rise over the years ahead amid Qatar’s enhanced diplomatic efforts, which will prompt a growing number of foreigners to consider opening an account with Qatari banks.

With respect to the FX Exposure, given the emphasis on overseas expansion in the larger Qatari banks, primarily motivated by the small size of their domestic market, the sector’s foreign currency exposure is gradually rising. As a result, the banking sector’s net external debt at end-2021 increased to a substantial

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US\$ 131 billion (around 81.0% of real GDP in 2021), up from US\$ 57 billion (31% of real GDP) at end-2018. That said, open foreign exchange (FX) positions are largely in US dollars, to which the Qatari riyal is pegged. Given that the authorities' vast financial buffers will keep the riyal's dollar peg stable throughout the next decade, FX-related risks to the banks are viewed as low.

As to capital adequacy, most Qatari banks are well capitalized, with the average Tier 1 capital ratio (CAR) standing at 18.8% in 2020, well above the regulatory limit of 12.5% (plus an ICAAP capital charge of 1% of total capital, bringing the total effective limit to 13.5%). The CAR has increased substantially in recent years as a result of the implementation of international standards – most recently in the form of Basel III regulations, to which the Qatari banks were reported to be fully in compliance with as of end-2020.

Looking forward, Qatari credit growth is expected to accelerate in 2022, due to strong demand for loans from the private sector, in anticipation of the FIFA World Cup. However, loan growth will continue to moderate, especially on the back of tighter monetary policy. Total deposits will also see strong growth this year, amid strong economic activity and elevated hydrocarbon revenues.

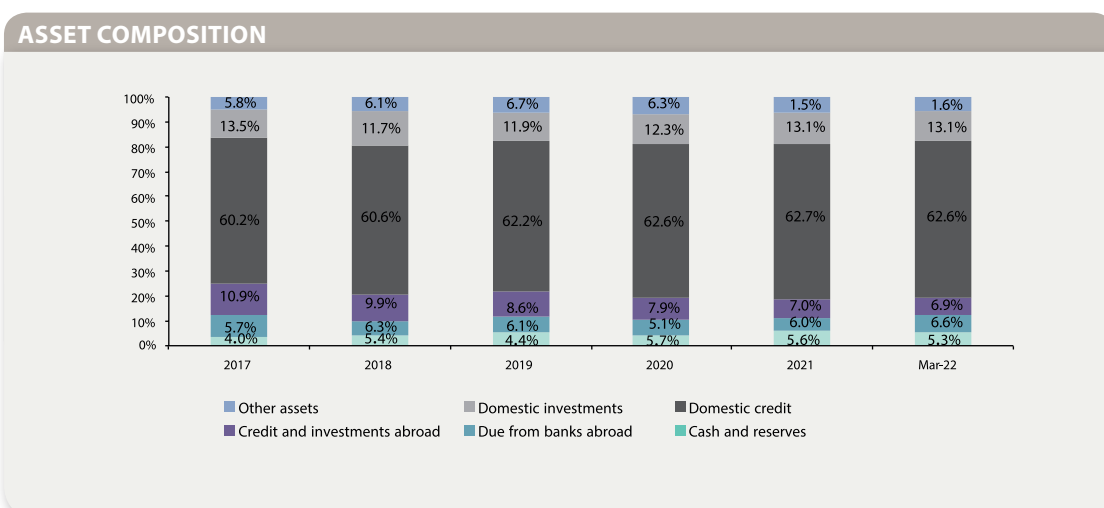
1.4.3. Equity and Bond Markets

Extended equity price rally over the first four months of 2022, fixed income market drifts lower tracking global sell-off mood

Qatar's equity market continued to benefit from improved sentiment over the first four months of the

BANKING ACTIVITY								
US\$ million	2017	2018	2019	2020	2021	Q1-21	Q1-22	Variation Q1/Q1
Var. Total assets	27,721	14,922	36,153	36,434	39,903	18,126	1,385	-92.4%
% change	8.0%	4.0%	9.3%	8.6%	8.6%	3.9%	0.3%	-3.6%
Var. Total deposits	26,416	-3,487	10,661	15,483	18,846	10,899	-1,764	-116.2%
% change	13.2%	-1.5%	4.8%	6.6%	7.6%	4.4%	-0.7%	-5.0%
Var. Total credit facilities	19,707	8,075	27,103	24,622	24,102	12,603	-249	-102.0%
% change	8.5%	3.2%	10.5%	8.6%	7.8%	4.1%	-0.1%	-4.1%

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



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

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year 2022 given a post-pandemic economic recovery, revival of business activity after closures, multi-year high Brent oil prices and strong financial results, which resulted into double-digit price gains on the Qatari Stock Exchange. In contrast, the country's fixed income market dipped further into the red over the first four months of the year, mainly tracking US Treasuries move on prospects of more aggressive US Federal Reserve monetary policy tightening to tame decades-high US inflation.

The Qatar Stock Exchange registered strong price gains during the first four months of the year 2022. This was reflected by a 16.9% surge in the Qatar Stock Exchange general index to reach 13,590.81 at end-April, which is its highest level since September 2014, and followed double-digit price rises of 11.4% in 2021. This is largely driven by (1) soaring oil prices, as Brent oil prices surged by 41.3% over the first four months of 2022, topping the US\$ 107 per barrel level at end-April due to global supply disruptions amid Russia-Ukraine conflict; (2) upbeat corporate earnings, as QSE listed companies registered a 41% yearly increase in total net profits in 2021 and a 26% yearly rise in total net profits over the first quarter of 2022; (3) significant improvement in business activity with Qatar PMI showing expansion in February and March 2022 and reaching a record high in April 2022; (4) prospects of increased banks' profitability in a global monetary tightening environment; and (5) as London Stock Exchange Group entered into an agreement early-April 2022 to provide its trading and market surveillance technology to QSE, a move that would enable the Qatari bourse to expand into derivatives trading.

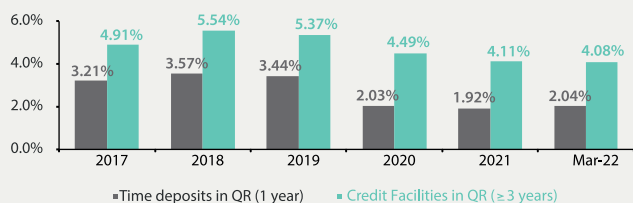
However, the Qatar Stock Exchange came under downward price pressures over the month of May 2022, mainly tracking a global sell-off mood sparked by global recession fears amid persistently soaring US inflation rate and on prospects of more aggressive global monetary tightening, and as some market players sought to lock in their profits following strong equity price rally. This brought year-to-date price gains to low double-digit levels by the time of writing this report.

The number of listed companies on the Qatar Stock Exchange was 47 companies at end-April 2022, with no change relative to end-December 2021. Given strong equity price gains, the QSE market capitalization grew significantly by 14.0% during the first four months of 2022, moving from US\$ 183.4 billion at end-December 2021 to US\$ 209.0 billion at end-April 2022. This followed a 10.9% rise in 2021.

Total trading value on the QSE expanded significantly by 55.9% year-on-year during the first four months of 2022 to reach US\$ 17.9 billion. This followed a 6.6% increase in 2021. The total number of traded shares declined by 3.5% year-on-year, moving from 19,674 million shares during the first four months of 2021 to 18,993 million shares during the first four months of 2022, and the total number of trades surged by 55.4% year-on-year during the first four months of 2022 to reach 1,339,741 trades. That being said, the turnover ratio, measured by the annualized trading value to market capitalization, reached 25.7% during the first four months of 2022 as compared to 19.9% during the corresponding period of 2021.

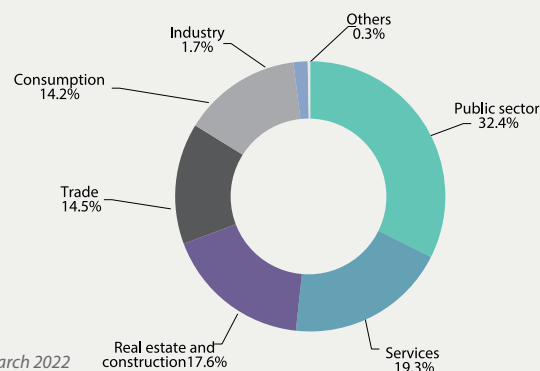
At the level of the fixed income market, Qatari papers drifted lower during the first four months of 2022,

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 2022

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

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mainly tracking US Treasuries move and a global sell-off mood on prospects of a more aggressive US Federal Reserve monetary approach to tame 40-year high US inflation.

A closer look at individual bonds shows that sovereigns maturing in 2026 and 2030 registered price contractions of 4.38 pts and 13.88 pts respectively during the first four months of 2022. Ooredoo papers maturing in 2026 recorded price drops of 8.22 pts. As to papers issued by financial institutions, Commercial Bank of Qatar'23 posted price decreases of 3.26 pts. Prices of Qatar National Bank'25 fell by 5.93 pts. QIB'24 saw price declines of 4.45 pts. This followed across-the-board price falls in 2021 ranging between 1.53 pt and 12.88 pts, which have tracked US Treasuries move on prospects of a global monetary policy tightening.

As to new issues, Qatar saw a slew of new bond issues over the year 2021, as bond issuers sought to raise funds before a much-anticipated interest rate hike in 2022. The State-owned energy company Qatar Energy (formerly known as Qatar Petroleum) raised US\$ 12.5 billion from the sale of a four-tranche bond. The bond sale attracted around US\$ 40 billion in orders. Also, Ooredoo returned to debt capital markets for the first time since 2016 through the sale of a 10-year US\$ 1 billion at 100 bps over mid-swaps. The bond sale was more than three times oversubscribed. Amongst financials, QNB, The Commercial Bank, Doha Bank and Ahli Bank Qatar issued bonds for a total of US\$ 3.2 billion.

As to the cost of insuring debt, Qatar's five-year CDS spread, which measures the market's perception of sovereign risk at large, expanded by 17 bps over the first four months of 2022 to reach 61 bps at end-April, noting that it remained stable in 2021.

As to credit ratings, S&P Global Ratings affirmed in May 2022 its "AA-/A-1+" long-term and short-term foreign and local currency sovereign credit ratings on Qatar, 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 over the next two years, against a backdrop of high global energy demand.

Also, Fitch Ratings affirmed in April 2022 Qatar's long-term foreign currency Issuer Default Rating at "AA-" with a "stable" outlook. Qatar's "AA-" ratings are supported, according to Fitch, by large sovereign net foreign assets, one of the world's highest ratios of GDP per capita, a flexible public finance structure and a favorable outlook for debt reduction.

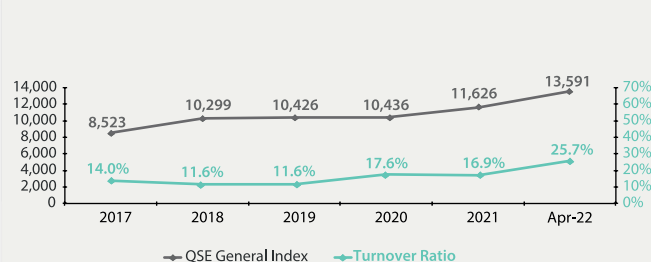
In the coming period, the prospects of a series of aggressive interest rate hikes by the US Federal Reserve, and global growth concerns sparked by the war in Ukraine and new COVID-19 outbreaks, would continue to weigh on Qatar's capital markets.

CAPITAL MARKETS INDICATORS

	2016	2017	2018	2019	2020	2021	Apr-22
Market Capitalization (US\$ billion)	154.8	129.7	161.7	160.1	165.4	183.4	209.0
Total value traded (US\$ billion)	19.0	18.2	18.8	18.6	29.1	31.0	17.9
Number of shares traded (million)	1,977	2,465	2,286	11,416	55,155	47,037	18,993
No. of listed companies	44	45	46	47	47	47	47
Change in QE general index	0.1%	-18.3%	20.8%	1.2%	0.1%	11.4%	16.9%
P/E ratio	15.6x	16.5x	14.9x	14.8x	17.4x	16.8x	55.2x
P/BV ratio	1.1x	1.3x	1.6x	1.5x	1.3x	1.7x	1.7x
Dividend yield	5.2%	4.5%	4.0%	3.8%	3.4%	2.3%	2.7%
Five-year CDS spreads (bps)	80	105	82	37	38	44	61

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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2. CONCLUSION

Looking forward, Qatar's overall economic outlook is likely on the upside. Real GDP growth is actually expected to accelerate to 3.4% in 2022 as per the IMF (An average of 2.6% in the next five years). The North Field LNG expansion project will support growth prospects and further strengthen fiscal and external positions over the medium-term. Downside risks to the outlook stem from potential new virus strains, geopolitical tensions and conflicts, tighter and more volatile global financial conditions and energy market volatility. In the long run, while Qatar's focus on LNG can help to ease the energy transition process, there is the ultimate risk that the global shift to renewables could reduce demand for hydrocarbon.

With respect to the gas sector, Qatar Energy (QE) plans to expand liquefied natural gas (LNG) production capacity from 77 million tonnes per year (mtpa) to 110 mtpa by end-2025 and to 126 mtpa by 2027 (an overall increase of 64%) and has taken the final investment decision for phase one. The expansion will also yield substantial volumes of oil condensates and other by-products for export. The cost of phase one has been announced as US\$ 29 billion, implying a cost of around US\$ 43 billion for the total expansion.

At the external level, the favorable external position is likely to persist. Qatar's current account is expected to remain in a very strong surplus in 2022-2023 (19.9% and 15.1%), supported by higher prices for its gas exports, the contracts for which are mostly linked to oil prices. The current account will moderate over 2024-2025 (9.7% and 6.8%), when oil prices are expected to decline as per Standard and Poor's.

At the fiscal level, amid rising hydrocarbon prices and a favorable fiscal outlook, the authorities' commitment to medium-term fiscal consolidation is particularly welcome. A balanced and growth-friendly consolidation strategy could help to achieve the dual objectives of intergenerational equity and diversification. The strategy would call for diversifying revenues and accelerating the implementation of the value-added tax (VAT), enhancing current spending efficiency, and reorienting spending to promote productivity, economic diversification and a greener economy. The implementation of the strategy could be underpinned by a well-designed medium-term fiscal framework (MTFF) and enhanced fiscal transparency and governance.

At the banking sector level, to balance the need to facilitate the recovery and to ensure banking sector strength, a carefully calibrated exit from remaining support measures is crucial. In this context, the planned gradual reduction in the allocation for the zero-interest repo facility is welcome, while the strength of the economic recovery would allow the exit from the blanket loan moratorium in the near future—IMF recommends replacing it with time-bound measures targeting distressed but viable borrowers. Diligent banking supervision should continue, including for banks to promptly recognize and address NPLs and comply with provisioning and capital requirements. Banks' large and increasing exposure to foreign liabilities poses potential risks as global financial conditions tighten, while the existing prudential framework and efforts to lengthen the maturity and diversify the sources of foreign funding are mitigating factors. Prudent public finance management and a reduced public sector's footprint in the domestic banking sector could avoid crowding out private credit.

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 public-sector debt burden with high government debt/GDP and substantial contingent liabilities and the elevated external debt and some transparency shortcomings with mediocre scores on measures of governance.

Finally, in its latest IMF Article VI mission report, the Fund says that to secure the recovery and foster stronger and more diversified growth, policy priorities include to carefully manage the exit from remaining financial sector support to safeguard banking sector strength, embark on a growth-friendly medium-term fiscal consolidation, and further advance structural reforms to achieve the goals in Qatar National Vision 2030 at large.

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