QATAR ECONOMIC REPORT

AMID THE NEW CHALLENGES DRIVEN BY LOWER OIL PRICES AND THE CORONAVIRUS PANDEMIC

• Tepid growth amid sluggishness in hydrocarbon and non-hydrocarbon sectors
Qatar, the world’s largest LNG exporter, has seen tepid growth throughout 2019. This reflects sluggishness in the hydrocarbon and non-hydrocarbon sectors. The hydrocarbon sector has reflected production restraint and phasing of new projects, while the non-HC sector reflects a gradual winding down of a decade-long boom associated with the implementation of large infrastructure projects in preparation for the FIFA 2022 World Cup. Real GDP growth is estimated to have weakened to 0.1% in 2019, from 1.5% in 2018. This slowdown was driven by weaker construction activity on the back of lower – albeit still very high – government investment expenditure, with different large-scale infrastructure projects nearing completion (e.g. selected stadiums FIFA World Cup).

• Eroded current account surplus cutting balance of payments surplus to half
Within the context of lower hydrocarbon prices, Qatar witnessed a significant drop in its current account surplus by 74.6% over the year 2019, mainly on the back of a tangible contraction in export earnings that has been more significant than that of total imports. As such, the balance of payments surplus was somewhat cut by half, to reach US$ 9.4 billion over the year, mainly due to a tangible contraction in trade surplus despite the continuing net recovery in financial account.

• Fiscal surplus tangibly slashed to 0.9% of GDP
Within the context of lower oil and gas revenues and amid tangible increases in both current expenditures and public sector wage bill, Qatar’s fiscal position, remaining in modest surplus, has reported a relative deterioration over the year 2019, as fiscal consolidation measures to contain public spending were somehow put on hold. As such, fiscal surplus recorded a tangible drop of 58.0% in 2019, as a result of a rise in public expenditures that has been more significant than that of public revenues. As such, the fiscal surplus went down significantly from QR 15.1 billion in 2018 (US$ 4.1 billion or 2.2% of GDP) to QR 6.3 billion in 2019 (US$ 1.7 billion or 0.9% of GDP).

• Disinflationary pressures emerge, while FX buffers on the rise
Qatar faced disinflationary pressures and monetary policy easing in 2019 and during the first quarter of the year 2020, while its foreign currency buffers remained on the rise, mainly helped by the launching of jumbo sovereign bond issues. Historical low oil price levels and lockdowns imposed by the Coronavirus outbreak had a substantial knock-on effect on prices across different sectors in Qatar during the first quarter of 2020. Consumer prices contracted by 8.9% on average during the first quarter of the year relative to the same period of 2019. This followed a shy contraction of 0.8% on average in 2019.

• Healthy banking activity growth lately and adequate buffers facing COVID-19 spillovers
Qatari banks are well equipped to face COVID-19 and its spillovers, benefiting from high capital buffers, healthy liquidity, good asset quality and profitability metrics, even though they are being challenged by rising asset quality concerns and income generation pressures along with swings in credit conditions potentially affecting foreign funding. The latest statistics point to healthy activity growth in 2019 and in the first three months of 2020, with total assets growing by 9.3% last year and by a further 2.5% in this year’s first quarter to reach the equivalent of US$ 436.4 billion at end-March 2020.

• Sluggish growth looking forward
The rapid and widening spread of the Coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and financial market turmoil are creating a severe and extensive economic and financial shock. Travel restrictions, including suspension of international passenger flights, closure of non-essential businesses and part of the Industrial Area, and banning all public gatherings, will weigh on key sectors of the non-hydrocarbon economy including manufacturing, retail, logistics, and construction. Within this environment, economic growth is expected to remain well below the historical average this year, falling to -4.3% in 2020 as per IMF forecasts. Downside risks to growth are subject to reduced external demand for energy, including liquefied natural gas and associated liquids, which contributes more than 80% to the country’s total merchandise exports.

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Qatar, the world’s largest LNG exporter, has seen tepid growth throughout 2019. This reflects sluggishness in the hydrocarbon and non-hydrocarbon sectors. The hydrocarbon sector has reflected production restraint and phasing of new projects, while the non-HC sector reflects a gradual winding down of a decade-long boom associated with the implementation of large infrastructure projects in preparation for the FIFA 2022 World Cup.

Growth had actually been rebalancing as FIFA-related infrastructure investment tapered while other large projects in the gas and non-hydrocarbon sectors are underway. Expanding LNG capacity is expected to underpin growth in the medium-term. Drags on growth include energy price volatility, COVID-19 disruptions, and the continued diplomatic rift with some Gulf neighbors. The diplomatic rift vindicated the infrastructure-focused diversification strategy, but COVID-19 has worsened underutilization of capacity. Real GDP growth is estimated to have weakened to 0.1% in 2019, from 1.5% in 2018, due to slower non-hydrocarbon growth. This slowdown was driven by weaker construction activity on the back of lower – albeit still very high – government investment expenditure, with different large-scale infrastructure projects nearing completion (e.g. selected stadiums FIFA World Cup).

At the external level, Qatar’s current account surplus is estimated to have decreased to a still strong US$9.4 billion in 2019, from US$16.7 billion in 2018, on the back of lower hydrocarbon prices. Qatar’s financial account has stabilised during the past two years following large outflows due to the diplomatic rift in 2017. While net outflows in the financial account had amounted to a very large 15.0% of GDP in 2017, the economy registered net inflows of 2.8% of GDP in 2019 and 0.3% in 2018. Financial outflows since 2018 primarily comprised overseas investments by the QIA, whereas financial inflows largely stemmed from a return of non-resident funding to domestic banks and two large international sovereign bond issuances.

At the monetary level, as the Qatari riyal is pegged against the US dollar, the Qatar Central Bank (QCB) follows US monetary policy. In alignment with the US Federal Reserve, the QCB decreased its main policy rate, the lending rate, by 75 basis points during 2019. Qatar is facing disinflationary pressures which result primarily from price declines in housing and transportation. On an annual basis, average consumer prices declined by 0.8% in 2019 after rising by a mere 0.2% in 2018. The decline in housing prices is driven by the ongoing downturn in the economy’s real estate market.

At the fiscal level, the central government’s budget surplus is estimated to have narrowed to 0.9% of GDP in 2019, from 2.2% of GDP in 2018, on the back of lower public hydrocarbon revenues. While non-hydrocarbon revenues increased due to the implementation of so-called “sin” taxes in January 2019 (e.g. tobacco, alcoholic beverages, energy and sugary drinks), the government has postponed the
implementation of VAT which was scheduled for January 2020 (initially January 2018). Total government expenditure to GDP increased from 27.7% in 2018 to 31.3% in 2019, while government revenues to GDP rose from 29.8% to 32.2% over the same periods. The central government net debt stood at 38.2% of GDP at end-2019 when taking into account government deposits at domestic banks.

At the banking level, total banking activity, measured by the aggregated assets of operating banks, grew by 9.3% in 2019, its fastest growth over the past three years. Likewise, total deposits grew by 4.8% and total credit facilities surged by 10.5%. Interest rates reported a net contraction, following half a decade of net increases. As a benchmark, the 1-year time deposit rate in QR dropped from 3.57% in 2018 to 3.44% in 2019 and 2.59% in March 2020. In parallel, international reserves rose from US$ 49.3 billion in 2018 to US$ 54.5 billion in 2019 and to US$ 55.3 billion in March 2020, the equivalent of 46.2% of Money Supply in domestic currency.

At the capital markets level, equity and bond markets went into significant pressures since the beginning of this year. While equity prices stabilized in 2019, they contracted by 15.9% over the first four months of 2020. Likewise, Qatar’s 5-year CDS spreads, a measure of the market perception of sovereign risks, surged by 88 bps over the first four months of this year, after having contracted by 45 bps in 2019.

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.

Sources: Central Bank of Qatar, Bank Audi’s Group Research Department
1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Hydrocarbons

Sector under pressure amidst relatively lower energy prices

Qatar remains committed to its long-term diversification strategy, as the country’s hydrocarbons share relative to the economy remained on a downward path with a pledge from the authorities to spend on key projects in the non-oil sector.

As part of the country’s diversification policy away from oil, the country’s hydrocarbon share out of total GDP dropped from 53% in 2014 to reach 34% in 2019. Moreover, Qatar's nominal hydrocarbon GDP attained US$ 62.4 billion in 2019, against US$ 70.7 billion in 2018. The latter contracted by 1.8% annually in real terms during 2019, compared to a 2.1% contraction in 2018.

The country’s gas production marginally fell in 2019, declining from 163.0 billion cubic meters (bcm) in 2018 to 160.6 billion bcm in the past year. However, the North Field Expansion (NFE) project is expected to increase crude oil production when initiated in 2023, but until then, gas production is expected to decline, as per Fitch Solutions.

In parallel, the country’s proven gas reserves were valued at 23.9 trillion cubic meters (tcm) in 2019, as per the same source. The country has the world’s third largest dry natural gas reserves, behind Russia and Iran. It is worth noting that the North Field holds the vast majority of Qatari gas reserves, as well as liquids in the form of condensate and LNG.

Moreover, Qatar’s crude oil production averaged 1,971.4 thousand barrels per day in 2020, up from 1,964.8 thousand barrels per day in 2019. As for crude oil reserves, Qatar had 25.0 billion barrels of proven reserves in 2019, compared to 25.2 billion barrels of proven reserves in 2018, as per the US Energy Information Administration.

Within this context, the country’s oil production would further gain track upon the completion of the North Field Expansion project from 1.478 million b/d in 2022 to 1.495 million b/d in 2023. This will add in total 260,000 b/d of condensates when the project is completed.

Last but not least, the country remains committed to its long-term development plan under the National Vision 2030 to diversify its economy away from hydrocarbons, with infrastructure spending related to transport, education, sports, healthcare, telecommunication and hospitality being a key part of this plan. Higher hydrocarbon revenues would support the government’s strategy, even in a an environment of suppressed global energy prices.

CRUDE OIL PRICES

Sources: Bloomberg, Bank Audi’s Group Research Department
1.1.2. Manufacturing

Sector loses steam over the past year

Qatar's manufacturing sector lost some steam in 2019 but remained an important player in supporting the authorities' diversification efforts. The Gulf country's manufacturing sector made up 8.6% of the country's GDP at current prices in 2019, with its share dropping from 9.2% in the previous year, while slightly contracting by 1.9% year-on-year last year to reach QR 84.7 billion (US$ 23.3 billion).

According to the Qatar Financial Centre, the latest PMI survey data for Qatar signaled that lockdown measures put in place to combat the global Coronavirus 2019 (COVID-19) pandemic continued to hamper the non-energy private sector economy in April 2020. Overall current business conditions deteriorated the most of any month since the survey began in April 2017, as indicators for output and new orders both hit record lows. More positively, employment fell only slightly during the month and the backlogs indicator hit a five-month high, suggesting firms are focused on resuming operations when the lockdown is eased, as per the same source.

The PMI fell from 46.6 in March 2020 to 39.0 in April, the lowest reading since the series began in April 2017. Moreover, the descent of the headline figure accelerated at the start of the second quarter, with a drop of 7.5 points in April following March's 2.7 point slide. While data for January and February were signaling the strongest quarterly performance since Q1 2019, the March and April figures have inevitably been pulled down by disruption to business operations from the lockdown measures imposed to halt the virus spread, as per the Qatar Financial Centre.

Moving on to financing, it is worth noting that credit facilities to the Qatari industrial sector remained healthy. In fact, credit facilities allocated to the country's industrial projects constituted 1.8% of total credit facilities at March 2020, almost unchanged from the same period of 2019.

On the other hand, the country's manufacturing producer price index (PPI), an index that measures the average change in selling prices received by domestic producers of goods and services over time, was estimated at 49.2 points in March 2020, a decrease of 25.1% when compared to the PPI of March 2019.

Nonetheless, Qatar's manufacturing sector is prepared to meet any demand shortages, particularly in personal hygiene and medical-related products, in view of the global COVID-19 pandemic. The Ministry of Commerce and Industry, in cooperation with the Qatar Development Bank, has a mechanism in place to avoid shortage of any essential items in Qatar in the coming period. For instance, about five local entities are currently manufacturing disinfectants and sanitizers in order to meet the growing demand.

In conclusion, despite coming slightly under pressure in 2019, the country's non-hydrocarbon economy will grow over the coming years, with the manufacturing sector to be one of the key sectors targeted for development. The imposed embargo on the Gulf nation alongside World Cup 2022 preparations has moved Qatar towards self-sufficiency, and a strong manufacturing sector is at the core of that.

1.1.3. Construction

Slowdown in the construction sector amidst increased supply

The Qatari real estate sector, which continues to be part of the country's diversification strategy, encountered a slowdown of 2.0% in real terms in 2019 against a growth of 10.2% reported in the previous year. Construction contributed by 13.9% to Qatar's nominal GDP in 2019, edging down from 15.0% in 2018.

Prices followed a declining path as well whereby the real estate price index reported a yearly decline. The latter stood at 219.5 at end-March 2020, down from 251.6 at end-March 2019. On a quarterly basis, it also reported a fall from 226.1 at end-2019.
In a look at the sub-sectors, rental prices across all three sub-sectors are witnessing decline, as supply continues to outpace demand. Most of this supply is in preparation for the 2022 FIFA World Cup, with a number of these projects expected to reach completion within the next two years, whereby supply is expected to slow down, providing some much needed break to the commercial property market.

In this context, increasing supply coupled with dwindling demand will continue to pressure rent across the board. Yields can be expected to drift as investor demand wanes and no improvement is seen in rental rates in the short term. However, upcoming transport infrastructure projects, such as Lusail Light Rail and Doha Metro, which are due to be completed in 2020, will most likely see demand increase and ease some of the supply constraints over middle term, as per the same source.

Furthermore, major infrastructure projects, such as the expansion of Hamad International Airport and various transport infrastructure projects, would likely boost demand for property assets over the medium term.

At the level of retail property, rental rates are stable owing to moderate demand and ample levels of supply. Doha remains the focus of international tenants, driving the demand for prime retail spaces amid high levels of supply.

On a side note, the real estate and construction sector took a share of 18.2% of credit facilities advanced by the Qatari banking sector at end-March 2020, nearly unchanged from its level over the previous year.

The construction sector is encountering a slight slowdown as when compared to the previous years. Over the medium term, the completion of preparations for the 2022 FIFA World Cup would see the sector struggling to generate growth, as there is little activity in the project pipeline. With nearly two years until the country hosts the major sporting event, Qatar has already completed the bulk of construction work on its new stadia and other buildings required to host the tournament, leading to a rapid cool down in construction.

1.1.4. Tourism

Tourism recovers in 2019, yet suffers from impact of COVID-2019 pandemic

The Qatar tourism industry saw a significant recovery in 2019, following headwinds over 2017-2018 due to Saudi-led blockade. However, this year is set to be challenging for the tourism in Qatar mainly due to the external shocks stemming from the COVID-19 (Coronavirus) global pandemic.
Tourism remained over the past year and before the spread of the pandemic one of the pillars of Qatar’s diversification strategy. The upcoming 2022 FIFA World Cup and the 2023 World Aquatics Championship will also bode well for market growth dynamics as the government targets 10 million visitors annually by 2030. It is worth noting that Qatar’s National Tourism Council was created in 2019 to drive forward the tourism industry into a new phase of growth.

According to the World Travel and Tourism Council (WTTC), the contribution of travel and tourism to GDP stood at 9.1% in 2019, slightly lower that 9.4% reported in 2018. The total travel and tourism contribution to the country's GDP reported US$ 17.5 billion in 2019. In terms of employment, the sector contributed by 11.8% in 2019, up from 9.5% in 2018.

In terms of spending, leisure spending took over a share of 61% of tourists’ spending in Qatar, while business spending took over the remaining 39% in 2019.

According to Ernst & Young, occupancy in four and five-star hotels of Doha registered 69.9% in 2019, above its level of 61.0% in 2018. The average room rate was US$ 112 last year, down from US$ 117 in 2018. This left the rooms’ yield at US$ 78 in 2019, up by a yearly 10.1%.

In the first quarter of 2020, the hospitality sector’s performance deteriorated in terms of occupancy and rooms’ yield, whereby occupancy rate stood at 66%, down from 71% in the same period of last year, while the average room rate rose by a yearly 1.2% to stand at US$ 112 in the aforementioned period of this year. The rooms’ yield contracted by 5.7% from US$ 78 in the first quarter of 2019 to US$ 74 in the corresponding period of 2020.

In 2019, Doha's hospitality sector unveiled an improved performance during the year mainly driven by the successful hosting of around 58 iconic sporting events and 31 international championships including IAAF World Athletics Championships Doha 2019 and FIFA Club World Cup Qatar. The cooperation between the Qatar National Tourism Council and World Tourism Organization has supported the MICE segment demand as well. Furthermore, the launch of an “open visa” policy and the expansion of air routes have also facilitated the tourism growth to the country, as per EY.

In conclusion, the tourism industry in Qatar is expected to contract this year, owing to the COVID-19 (Coronavirus) related shocks that will affect every sector of the global economy and society. However, heavy infrastructure investments have been planned by the government and by private sector stakeholders in the national tourism industry. The government declared that it will invest up to US$ 45 billion in tourism-related activities to accomplish the National Tourism Sector Strategy 2030. In this context, US$ 2.3 billion were allocated for the 2022 FIFA World Cup facilities and an additional US$ 6.9 billion for transport projects.
1.2. EXTERNAL SECTOR

Eroded current account surplus cutting balance of payments surplus to half in 2019

Within the context of lower hydrocarbon prices, Qatar witnessed a significant drop in its current account surplus by 74.6% over the year 2019, mainly on the back of a tangible contraction in export earnings that has been more significant than that of total imports. As such, the balance of payments surplus was somewhat cut by half, to reach US$ 9.4 billion over the year, mainly due to a tangible contraction in trade surplus despite the continuing net recovery in financial account.

In fact, Qatar’s foreign trade figures showed a net contraction in exports by 13.5% alongside a 5.9% decline in imports in 2019, contributing to an 18.4% drop in the foreign trade surplus, according to the Central Bank of Qatar. As such, Qatar’s trade surplus contracted from US$ 51.0 billion in 2018 to US$ 41.6 billion during 2019, to reach the equivalent of 22.7% of Qatar’s GDP, from 26.6% of GDP in 2018, a trend that continued over the first quarter of 2020, as export earnings dropped by 14.9%, along with a decline in imports by 3.6% when compared to the first quarter of 2019.

Going further into details, total exports (including exports of domestic goods and re-exports) reached a total of US$ 72.9 billion in 2019, a decline from US$ 84.3 billion in 2018. The breakdown of exports by category, according to the Ministry of Development Planning and Statistics, suggests that exports of mineral fuels and lubricants, making up the highest share of 85.6% of total exports, posted a decline of 13.7%, while chemicals, with the second highest share of 7.8% of total exports, went down by 16.9% year-on-year, followed by machinery and transport equipments with a drop of 13.7% and manufactured goods with a decline of 2.0%. The geographic distribution of domestic exports indicates that 18.4% of total exports went to Japan, followed by South Korea with 15.6% of the total, China with 12.4%, India with 12.2%, Singapore with 7.6% and Thailand with 3.9% of total domestic exports. As such, Asia ranked first in terms of trade partners accounting for 80% of total exports in 2019.

At the level of imports, a total of US$ 31.4 billion was registered in 2019, compared to US$ 33.3 billion in 2018, registering a decline of 5.9% year-on-year. The breakdown of imports by category suggests that imports of machinery and transport equipment posted the highest share of 40.0% of total imports, posting a decline of 13.8% year-on-year, followed by manufactured goods and miscellaneous manufactured articles with a share of 32.3%, posting a drop by 2.6% year-on-year, food and live animals (with a share of 10.5% of the total) declined by 3.4%, while chemicals and related products (with a share of 8.8% of the total) posted a contraction of 8.2% year-on-year. The breakdown of imports by country of origin shows that 18.8% of the inward merchandise in 2019 came from USA, followed by China with 12.2% of the total, Germany with 7.3%, UK with 6.8%, India with 5.3%, Italy with 4.4% and Turkey with 4.3% of total imports.

On the other side of the external sector, Qatar posted net deficits in its balances of services, income and transfers in 2019, at a higher trend compared to 2018, amounting to US$ 16.3 billion (+14.8%), US$ 4.4 billion (+7.7%) and US$ 16.6 billion (+1.6%), respectively. With regards to the income category, profit repatriation of foreign companies in Qatar remains the largest contributor to the negative balance. As to
the transfers’ category, the latter is dominated by outward remittances of expatriates residing in Qatar, which amounted to US$ 11.8 billion in 2019, up by 3.5% from the previous year.

Under these circumstances, Qatar exhibited a significant contraction in current account surplus by 74.6% in 2019, from US$ 16.7 billion to US$ 4.2 billion, with the latter accounting for 2.3% of GDP, compared to 8.7% of GDP in 2018. As to the financial balance, the latter recorded higher surplus of US$ 6.1 billion in 2019, from US$ 524 million in 2018, as the portfolio investment posted a positive balance of US$ 2.2 billion in 2019, against a deficit of US$ 5.3 billion. Consequently, the balance of payments recorded a surplus of US$ 9.4 billion in 2019, against a surplus of US$ 15.9 billion in 2018, a drop of 40.8% year-on-year. Last but not least, the current account surplus is expected, in 2020, to tumble into a deficit of circa 2% of GDP as per the IMF, for the first time since 2016, owing to drastically weaker global energy prices and disrupted LNG sales due to extremely high level of uncertainty in the current global economic conditions.

1.3. PUBLIC SECTOR

Fiscal surplus tangibly slashed to 0.9% of GDP in 2019

Within the context of lower oil and gas revenues and amid tangible increases in both current expenditures and public sector wage bill, Qatar’s fiscal position, remaining in modest surplus, has reported a relative deterioration over the year 2019, as fiscal consolidation measures to contain public spending were somehow put on hold. As such, the fiscal surplus recorded a tangible drop of 58.0% in 2019 relative to 2018, as a result of a rise in public expenditures that has been more significant than that of public revenues.

Going further into details, actual public revenues went up by a moderate 3.3% in 2019 (against a hike of 27.3% in 2018), from QR 207.9 billion (or US$ 57.1 billion) in 2018 to QR 214.7 billion (or US$ 59.0 billion) in 2019, on the back of a slight drop in oil and gas revenues by 1.8% relative to 2018 level (constituting 79% of total public revenues). However, and while non-hydrocarbon revenues increased by 28.7% year-on-year, due to the implementation of taxes on tobacco, alcoholic beverages, energy and sugary drinks in January 2019, the government has postponed the implementation of VAT which was scheduled for January 2020, knowing that the State has published its 2020 budget without any plans to implement the Value Added Tax.

On the spending front, total public expenditures went up by 8.1%, from QR 192.8 billion in 2018 (or US$ 53.0 billion) to QR 208.4 billion in 2019 (or US$ 57.3 billion), its first increase since 2016. In fact, this rise in public spending was triggered by a 13.0% increase in current expenditures (constituting 30% of total expenditures). In addition, wages and salaries went up by 10.3% (constituting 30% of total expenditures), along with a 3.1% rise in major projects expenditures (constituting the remaining 40% of expenditures). As such, the fiscal surplus went down significantly from QR 15.1 billion in 2018 (US$ 4.1 billion or 2.2% of GDP) to QR 6.3 billion in 2019 (US$ 1.7 billion or 0.9% of GDP).

**SELECTED PUBLIC FINANCE INDICATORS**

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Sources: Central Bank of Qatar, Bank Audi’s Group Research Department
In parallel, it is worth mentioning that Qatar has announced in December 2019 a Budget of around QR 211 billion, its highest in the last five fiscal years. Qatar’s Budget plans to spend 2% more in 2020 compared to 2019, to complete infrastructural projects in the country in light of the approaching FIFA World Cup in 2022. In addition, the 2020 budget was designed to achieve efficiency in the current expenditures while maintaining the allocations required for the completion of major approved projects, while public revenues in 2020 were expected to stay unchanged (assuming oil prices stay at US$ 55 per barrel). This would result in a small surplus of QR 500 million, as per the Budget. However, and in these exceptional times, rising fiscal pressure is expected in 2020, as downside risks to the fiscal position are subject to lower hydrocarbon revenue amid extremely low global hydrocarbon prices, and higher recurrent expenses anticipated to mitigate potential economic severe fallout from the global pandemic.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Qatar faces disinflationary pressures, FX buffers on the rise

Qatar faced disinflationary pressures and monetary policy easing in 2019 and during the first quarter of the year 2020, while its foreign currency buffers remained on the rise, mainly helped by the launching of jumbo sovereign bond issues.

Historically low oil price levels and lockdowns imposed by the Coronavirus outbreak had a substantial knock-on effect on prices across different sectors in Qatar during the first quarter of 2020. Consumer prices contracted by 8.9% on average during the first quarter of the year relative to the same period of 2019. This followed a shy contraction of 0.8% on average in 2019.

The breakdown of the Consumer Price Index by segment during the first quarter of 2020 shows that the education segment was hit most by Coronavirus lockdowns, posting a 22.2% year-on-year contraction. This was followed by the transport segment with -18.1%, given an oil price crash spurred by the Saudi-Russian price war and COVID-19 restriction measures. Also, the culture and recreation segment registered a 12.5% year-on-year decline due to social distancing measures imposed by the pandemic, followed by the tobacco segment with -12.4%, the housing, water, electricity and gas segment with -11.3%, the furnishings and household equipment segment with -9.1%, the clothing and footwear segment with -6.3%, the medical services segment with -3.8% and the miscellaneous goods and services segment with -0.9%. In contrast, the restaurants and hotels segment registered a year-on-year growth of 5.0% during the first quarter of 2020, followed by the communication segment with +4.3%, while the food & beverages segment subsided to zero.

As the Qatari riyal remained pegged against the US dollar, the Qatar Central Bank continued to follow the lead taken by the US Federal Reserve in loosening policy to ease the economic impact of the fast-
spreading Coronavirus pandemic. QCB slashed its overnight deposit rate by 100 bps in March 2020 to 1.0%, following two rate cuts for a total of 50 bps in 2019. The overnight lending rate was cut by 175 bps in March 2020 to reach 2.50%, following three rate cuts totaling 75 bps in 2019. The repo rate was cut by 100 bps in March 2020 to 1.0%, following two rate reductions for a total of 50 bps in 2019.

In parallel, Qatar Central Bank’s international reserves and foreign currency liquidity remained on the rise for the second consecutive year in 2019, growing by 10.6% or the equivalent of US$ 5.2 billion to reach US$ 54.5 billion at end-December 2019. This is mainly driven by a US$ 7.0 billion growth in the “foreign securities” category, as Qatar launched a US$ 12 billion triple-tranche bond in March 2019. CBQ’s FX reserves pursued their upward trajectory during the first quarter of 2020 to reach US$ 55.3 billion at end-March 2020, noting that they are expected to see further growth in April 2020 as Qatar launched a US$ 10 billion triple-tranche bond to bolster its finances amid a double blow of low oil prices and Coronavirus crisis. Within this context, the QCB international reserves and foreign currency liquidity covered around 47.2% of money supply in local currency at end-2019 as compared to 49.2% at end-2018, with this coverage ratio falling further to 46.2% at end-March 2020 amid a higher growth in money supply in Qatari riyal.

The broader Money Supply (M2) registered a significant growth of US$ 10.7 billion during the first quarter of 2020 following a US$ 3.8 billion expansion in 2019, mainly supported by a US$ 6.5 billion rise in deposits in foreign currencies and a US$ 4.3 billion increase in the money supply (M1). This came along a US$ 20.6 billion stimulus package announced by the Qatari government in March 2020 to shield the economy following the Coronavirus outbreak.

In the coming period, Qatar would continue to face disinflationary pressures amid a low oil price environment and due to Coronavirus restrictions, with the IMF expecting consumer prices to contract by 1.2% on average in 2020. Concurrently, key policy rates are set to continue to move in alignment with the US Fed monetary policy given the Qatari riyal peg to the US dollar.

1.4.2. Banking Activity

*Healthy activity growth lately and adequate buffers facing COVID-19 spillovers*

Qatari banks are well equipped to face COVID-19 and its spillovers, benefiting from high capital buffers, healthy liquidity, good asset quality and profitability metrics, even though they are being challenged by rising asset quality concerns and income generation pressures along with swings in credit conditions potentially affecting foreign funding. The latest statistics point to healthy activity growth in 2019 and in the first three months of 2020, with total assets growing by 9.3% last year and by a further 2.5% in this year’s first quarter to reach the equivalent of US$ 436.4 billion at end-March 2020.

A detailed look at balance sheet movements over the covered period shows that activity was geared towards higher credit volumes both in 2019 and Q1 2020, being funded last year by higher foreign inflows from non-residents and banks abroad and this year by a pick-up in resident deposits. Total deposits grew by 4.8% in 2019 and by 5.2% in this year’s first quarter alone to reach the equivalent of US$ 245.4 billion at end-March 2020.

In 2019, non-resident deposits grew by 23.2% year-on-year and resident private sector deposits rose by a milder 2.4% while public sector deposits (especially those of the government itself) contracted by 3.2%. This is actually a contraction for the second consecutive year, after a huge expansion following the rift with other GCC States as a support to banks and the domestic economy on behalf of the government. In the first quarter of 2020, resident private sector deposits gained further ground (in local and foreign currencies) and posted a 4.5% increase relative to December 2019, public sector deposits renewed with positive growth (+7.9% over the quarter) and non-resident deposits edged up by a further 2.9%.

Higher liquidity at hand over the covered period of 2019 and 2020 was put to use mostly as further extension of credit domestically amid continuous economic growth in the country until COVID-19-induced confinement slowed down economic momentum. As a matter of fact, credit facilities extended
by banks operating in Qatar rose by a noticeable 10.5% last year and by a further 4.5% so far this year to reach the equivalent of US$ 298.2 billion at end-March 2020.

Over the 15 months spanning between December 2018 and March 2020, domestic credit surged while credit earmarked for abroad declined. Among domestic sectors of activity, the largest beneficiaries of new credits were the services sector (39% share of new domestic credits), followed by general trade (37% share) and the public sector (15% share). Interestingly enough, credit to the real estate and contracting sectors saw a practical stagnation over the covered 15 months. Those two sectors are a source of credit concentration for Qatari banks, accounting for close to a fifth of the total stock of domestic credit at end-March 2020.

Having said that, banks operating in Qatar continue to benefit from an adequate liquidity position on the overall despite some rising pressures lately. While it is true that the loans-to-deposits ratio continues to exceed the 100% threshold, another measure of liquidity, and perhaps a more representative one, reflects rather decent liquidity buffers. Core liquidity, which we measure as the sum of cash, placements at the Central Bank and placements at banks in Qatar and abroad, still accounts for a decent proportion of total deposits with a 25% share at end-March 2020. We must yet note that the fall of dues from banks abroad over the covered 15 months lead to a standstill in total core liquidity that fell short of rising deposit volumes and caused a slight decline in the core liquidity ratio when compared to end-2018.

Anyhow, rising credit volumes do not seem to have come at the expense of asset quality. In fact, according to the latest Central Bank figures, the non-performing loans to total loans ratio stood at 1.8% at end-December 2019, which compares more than favorably to international benchmarks in the 7% range. Also, Qatari banks’ provisioning coverage ratio (of those NPLs) remain more than adequate at 81.9% at

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### EVOLUTION OF BANKING ACTIVITY

<table>
<thead>
<tr>
<th>Var. Total assets</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1-19</th>
<th>Q1-20</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ million</td>
<td>41,211</td>
<td>27,721</td>
<td>14,922</td>
<td>36,153</td>
<td>9,496</td>
<td>10,721</td>
<td>12.9%</td>
</tr>
<tr>
<td>% change</td>
<td>13.5%</td>
<td>8.0%</td>
<td>4.0%</td>
<td>9.3%</td>
<td>2.4%</td>
<td>2.5%</td>
<td>0.1%</td>
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</table>

### BANKING SECTOR ASSET COMPOSITION

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

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### Sources

- Central Bank of Qatar, Bank Audi’s Group Research Department
end-December 2019. It is yet worth noting that the COVID-19 pandemic and quasi-immediate halting of economic activity is likely to leave its imprints on borrowers’ ability to repay and lead to some deterioration of asset quality metrics later on, which is believed to be moderate according to Moody’s recently issued banking system outlook update. The rating agency added that prudent regulatory oversight and banks’ large exposure to the strongly rated Qatar sovereign would shield loan performance from much of the impact.

In any case, banks benefit from comfortable capital buffers should pressures on their capital base arise. Official figures reflect a high capital adequacy ratio of 18.6% at end-December 2019 supported by continued profit generation. Most of the regulatory capital consists of Tier 1 capital, with a Tier 1/risk-weighted assets ratio of 17.5%. Both ratios are higher than the minimum requirements of 12.5% and 8.5% respectively, excluding domestic systemically important banks buffers, although rising NPLs might to some extent erode such buffers. Nonetheless, it is widely believed that in case of need, the Qatari government would step in and support banks as was done in the past. Authorities actually announced that the Central Bank would provide liquidity support to the banking sector.

Last but not least, banks display solid profitability ratios, with a sector-wide return on average assets ratio of 1.6% and a return on average equity ratio of 15.8% in 2019, owing to a favorable cost structure. Looking forward, deteriorating economic conditions are likely to reduce lending activity, fee income generation capacity and lead to higher provision charges, thus adding to more pressure on margins after key policy rate cuts and impacting banks’ bottom lines.

All in all, challenging conditions are likely to impact Qatar’s banking sector, but the latter’s solid financial standing and the support of the wealthy sovereign and the sector regulator are likely to help banks steer through the pandemic’s repercussions in the period ahead.

1.4.3. Equity and Bond Markets

*Qatar’s capital markets under downward price pressures on Coronavirus fears and oil price crash*

Following healthy price gains in 2019, activity in Qatar’s capital markets was tilted to the downside during the first four months of 2020, mainly on growing fears over the worst global economic downturn since the 1930s Great Depression after the Coronavirus outbreak, and as an oil price crash posing a threat to fiscal balances in oil-dependent countries soured investor sentiment.

The Qatar Stock Exchange (QSE) plunged in the red during the first four months of 2020, as reflected by a 15.9% fall in the Qatar Exchange general index to reach 8,764.05, sweeping out 2019 price gains of 1.2%. This is mainly driven by (1) growing fears over the worst global economic downturn since the 1930s Great Depression due to the spread of the Coronavirus pandemic, with the IMF expecting the global economy to shrink by 3.0% in 2020, (2) an oil price crash and concerns that an April OPEC+ deal to slash global supplies by 10% would not offset a historic drop in global oil demand, and (3) some unfavourable financial results, with all listed companies in the Qatar Exchange registering a 20% year-on-year contraction in net
profits during the first quarter of 2020. Within this context, it is worth mentioning that a QR 75 billion stimulus package, announced by the Qatari government in March 2020 to counter the economic impact of the fast-spreading Coronavirus pandemic, helped somehow calming investor nerves and halting panic selling, as reflected by a 6.8% monthly increase in the Qatar Exchange general index in April 2020.

The number of listed companies on the Qatar Stock Exchange remained at 47 companies at end-April 2020, with no change relative to end-December 2019. Given significant equity price falls, the QSE market capitalization contracted by 15.3% during the first four months of 2020, moving from US$ 160.1 billion at end-December 2019 to US$ 135.7 billion at end-April 2020. This followed a 1.0% contraction in 2019.

The total trading value on the QSE grew by 2.3% year-on-year during the first four months of 2020 to reach US$ 6.5 billion. This followed a 1.2% contraction in 2019. The total number of traded shares increased more than ten times year-on-year, moving from 905 million shares during the first four months of 2019 to 10,209 million shares during the first four months of 2020, and the total number of transactions surged by 27.4% year-on-year during the first four months of 2020 to reach 620,015 transactions. That being said, the turnover ratio, measured by the annualized trading value to market capitalization, reached 14.5% during the first four months of 2020 as compared to 11.9% during the corresponding period of 2019.

At the level of the fixed income market, Qatari papers came under downward price pressures during the first four months of 2020, as the fast-spreading Coronavirus pandemic and collapsing oil prices stoked fears of a global economic downturn and raised concerns over fiscal balances in countries reliant on oil income. This followed decent price gains in 2019, as intensifying trade war between the US and China spurred demand for safety.

A closer look at individual bonds shows that sovereigns maturing in 2029, 2040 and 2049 registered price contractions of 0.63 pt, 3.69 pts and 3.50 pts respectively during the first four months of 2020. Ooredoo papers maturing in 2025 recorded price drops of 1.16 pt. Amongst financials, Commercial Bank of Qatar’23 and Qatar Islamic Bank’24 registered price decreases of 3.17 pts and 0.67 pt respectively during the first four months of 2020.

As to the cost of insuring debt, Qatar’s five-year CDS spreads, which measure the market’s perception of sovereign risk at large, expanded significantly by 88 bps during the first four months of 2020 to reach 125 bps at end-April. This followed a 45 bps contraction in 2019. It is worth noting that the Qatar CDS spreads is the second lowest in the region after Kuwait (105 bps), and is much below the average CDS spreads in the Middle East (386 bps), emerging markets (328 bps) and global markets (464 bps).

As to new issues, after raising US$ 12 billion from the sale a triple-tranche bond in March 2019 that has attracted US$ 50 billion in orders, Qatar has taken the lead in sovereign bond issues in 2020, becoming the first GCC country to test investor appetite in April amid the combined global shock from oil and Coronavirus through the sale of a triple-tranche US$ 10 billion bond that has attracted orders of around US$ 45 billion. Qatar sold a US$ 2 billion five-year bond at 300 bps over US Treasuries, US$ 3 billion 10-year notes at 305 bps over US Treasuries and US$ 5 billion 30-year notes at a yield of 4.4%.

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<tbody>
<tr>
<td>Market capitalization (US$ billion)</td>
<td>152.0</td>
<td>154.8</td>
<td>129.7</td>
<td>161.7</td>
<td>160.4</td>
<td>135.7</td>
</tr>
<tr>
<td>Total value traded (US$ billion)</td>
<td>25.7</td>
<td>19.0</td>
<td>18.2</td>
<td>18.8</td>
<td>18.6</td>
<td>6.5</td>
</tr>
<tr>
<td>Total number of shares (million)</td>
<td>2,302.2</td>
<td>1,977.0</td>
<td>2,465.1</td>
<td>2,286.0</td>
<td>11,416.0</td>
<td>10,209.0</td>
</tr>
<tr>
<td>No. of listed companies</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>Change in QE general index</td>
<td>-15.1%</td>
<td>0.1%</td>
<td>-18.3%</td>
<td>20.8%</td>
<td>1.2%</td>
<td>-15.9%</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>15.5</td>
<td>15.6</td>
<td>16.5</td>
<td>14.9</td>
<td>14.8</td>
<td>15.5</td>
</tr>
<tr>
<td>P/BV ratio</td>
<td>1.6x</td>
<td>1.1x</td>
<td>1.3x</td>
<td>1.6x</td>
<td>1.5x</td>
<td>1.3x</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>5.2%</td>
<td>5.2%</td>
<td>4.5%</td>
<td>4.0%</td>
<td>3.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Five-year CDS spreads (bps)</td>
<td>93</td>
<td>80</td>
<td>105</td>
<td>82</td>
<td>87</td>
<td>125</td>
</tr>
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Sources: Qatar Exchange, IMF, Bloomberg, Bank Audi’s Group Research Department

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<th>CAPITAL MARKETS PERFORMANCE</th>
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Sources: Qatar Exchange, Bank Audi’s Group Research Department
As to credit ratings, Fitch affirmed in February 2020 Qatar’s Long-Term Foreign-Currency Issuer Default Rating (IDR) at “AA-“, with a “stable” outlook. Qatar’s “AA-” rating reflects, according to Fitch, continued fiscal and external surpluses, a strong sovereign net foreign asset position and one of the world’s highest ratios of GDP per capita.

Also, Standard & Poor’s affirmed 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 indicates S&P’s view of broadly balanced risks to the ratings. Despite a sharp economic contraction and low hydrocarbon prices, S&P doesn’t expect the government’s fiscal and external stock positions would materially deteriorate beyond its expectations.

With Qatar contending with falling oil prices, the widening spread of the Coronavirus pandemic and deteriorating global economic outlook, the country’s capital markets may remain under pressure in the coming period despite some relief provided by the economic and financial support announced by the Qatari authorities.

2. CONCLUSION

The rapid and widening spread of the Coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and financial market turmoil are creating a severe and extensive economic and financial shock. For Qatar, the principal channel of transmission is the impact of lower oil prices on government revenues and exports. A drop in economic activity during 2020 is resulting from the measures to suppress the spread of the Coronavirus pandemic, which will mainly affect the transportation, tourism and hospitality as well as retail. Despite some relief provided by the economic and financial support package announced by the authorities, economic activity will also be dampened by delays in government capital spending.

Travel restrictions, including suspension of international passenger flights, closure of non-essential businesses and part of the Industrial Area, and banning all public gatherings, will weigh on key sectors of the non-hydrocarbon economy including manufacturing, retail, logistics, and construction. They together make up about 30% of Qatar’s overall GDP. Construction activities will also be subdued in part due to the government postponing discretionary projects as a policy response to rising pressure on hydrocarbon revenue. Weak demand due to a prolonged pandemic could also lead local businesses to reduce capital investments, which make up about two-thirds of gross capital formation in Qatar’s economy. Downside risks to growth are subject to reduced external demand for energy, including liquefied natural gas and associated liquids, which contributes more than 80% to the country’s total merchandise exports.

Within this environment, economic growth is expected to remain below the historical average this year, falling to -4.3% in 2020 followed by positive growth of 5.0% in 2021 as per the IMF. Gas output from the Barzan project will have only a marginal effect on growth in part because of insufficient domestic demand for its full capacity in the initial years. The government plans to increase liquefied natural gas production by about 64% to 126 million tons annually (approximately 3.1 million barrels per day of oil equivalent) from 2025 through 2027. Public investment, much of which is outside the hydrocarbon sector, will gradually taper off with major infrastructure projects nearing completion in the next three years. This will weigh on economic activity in construction and associated sectors that will be partially offset by investment related to expansion of the North Field gas project.

At the external level, a current account deficit to 1.9% of GDP is expected in 2020 and another deficit of 1.8% is expected for in 2021, based on the decline in average annual hydrocarbon prices and import demand will grow moderately over the next two years. At the fiscal level, general government balance is expected to continue to generate surpluses of 5.3% in 2020 and 1.4% in 2021. The contractionary trend is owing to much weaker energy prices and disrupted LNG sales as force majeure clauses are invoked. At the monetary level, deflation is likely to continue this year, with inflation displaying -1.2% in 2020 before turning positive to 2.4% in 2021. Inflationary pressures should remain muted, aside from when VAT is implemented.
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 substantial government assets under QIA management, the very large hydrocarbon reserves, the moderate central government debt levels and the low domestic stability risks. At the level of risks constraining the outlook, we mention the substantial geopolitical risks, the low economic diversification, the large government contingent liabilities due to the large size of the banking sector and the low transparency of economic data.

While those risk factors are real challenges, we believe strengths outpace weaknesses and opportunities outweigh threats at the horizon. The government is bringing in structural reforms to diversify Qatar’s economy and reduce its dependence on hydrocarbons. The reform agenda pertains to the overall business environment, labor law, real estate market liberalization, increased foreign ownership limits, and public-private partnerships. Despite taking time to materialize, these reforms could gradually increase Qatar’s long-term growth potential at large.