QATAR ECONOMIC REPORT

FAVORABLE NEAR TO MEDIUM TERM MACRO OUTLOOK DESPITE HEADWINDS

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- Improving real sector activity

The economy's real sector strengthened in 2018. Total real GDP growth is estimated at 2.2% in 2018, up from 1.6% in 2017, reflecting an acceleration of non-hydrocarbon GDP growth on the back of rising investment spending. Significant fiscal and external buffers have enabled Qatar to successfully absorb the adverse shocks of oil prices and the diplomatic rift in the past few years.

- Current account surplus almost tripled on the back of higher gas prices

Within the context of higher gas prices and LNG production from its North Field in 2018, Qatar, the largest LNG exporter, witnessed a considerable hike in its current account surplus, moving from US$ 6.4 billion in 2017 (or 3.8% of GDP) to US$ 16.7 billion in 2018 (or 8.7% of GDP), mainly backed by a strong growth in export earnings that has been more significant than that of total imports, marking a net improvement in Qatar's external position despite the ongoing regional tensions and emerging market stress. As such, the balance of payments shifted from a large deficit of US$ 17.9 billion in 2017 to a surplus of US$ 15.9 billion in 2018, mainly due to a tangible expansion in trade surplus along with a net recovery in capital and financial accounts on the back of strong non-resident capital inflows.

- Fiscal balance returned to its first surplus since 2014

Qatar's fiscal stance has tangibly improved in 2018, supported by the recovery in oil prices, buoyant investment income transfers, and generally restrained expenditures. Within this context, the fiscal balance shifted from a large deficit to its first surplus since 2014, amid a considerable rebound in hydrocarbon revenues and continued fiscal consolidation efforts with an adequate drop in the broadly contained public spending. In figures, the public balance shifted from a deficit of QR 40.0 billion in 2017 (US$ 11.0 billion or 6.6% of GDP) to a surplus of QR 15.1 billion in 2018 (US$ 4.1 billion or 2.2% of GDP). This improvement in fiscal position has helped to relatively ameliorate government debt metrics. Gross central government debt is estimated to have reached a moderate 48.4% of GDP in 2018, compared to 49.8% in 2017.

- Return of foreign inflows supporting activity growth in a sound banking sector

The Qatari banking sector has witnessed good activity growth on the overall during 2018 and a further healthy progression so far this year, as the country weathered the spat with neighbors quite well and benefits from continued economic growth and favorable prospects. Banks are adequately capitalized, quite liquid and boast strong asset quality indicators while remaining well profitable, which further plays in their favor especially amid difficult operating conditions. Measured by the aggregated assets of banks operating in the country, banking activity grew by 4.0% year-on-year in 2018 and by a further 2.4% in the first quarter of this year to flirt with the US$ 400 billion threshold by end-March 2019.

- Noticeable growth in international reserves along with muted inflation

Qatar's monetary conditions were marked over the year 2018 by a muted inflation, a strong rebound in foreign currency reserves and a further monetary policy tightening in response to interest rate hikes by the US Federal Reserve. In details, Qatar's consumer prices remained muted in 2018, averaging 0.2%, before contracting by 1.4% on average during the first quarter of 2019 when compared to the same period of the previous year. The overnight deposit rate was lifted four times over the year 2018 by a cumulative 100 bps to reach 2.50% at end-December and remained so far stable this year at the same level. In parallel, Qatar Central Bank's international reserves and foreign currency liquidity saw a strong rebound over the year 2018, registering a noticeable growth of 31.0% or the equivalent of US$ 11.7 billion, and by a further US$ 1.1 billion to reach US$ 50.4 billion at end-March 2019.

- Favorable near to medium term macro outlook

Growth in 2019 is projected to increase further to 2.6% driven by the ramp-up in natural gas production. During the 2020-2023 period, real GDP growth is projected to improve further, underpinned by still significant public infrastructure spending, expansion of liquid natural gas production and the hosting of the 2022 World Cup. Despite persisting headwinds, the near to medium term outlook remains favorable in the context of relatively higher hydrocarbon prices, prudent fiscal policy, healthy financial system and accelerated structural reforms.

The Qatar Economic Report can be accessed via internet at the following web address: http://www.bankaudigroup.com

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The economy's real sector strengthened in 2018. Total real GDP growth is estimated at 2.2% in 2018, up from 1.6% in 2017, reflecting an acceleration of non-hydrocarbon GDP growth on the back of rising investment spending. Significant fiscal and external buffers have enabled Qatar to successfully absorb the adverse shocks of oil prices and the diplomatic rift in the past few years.

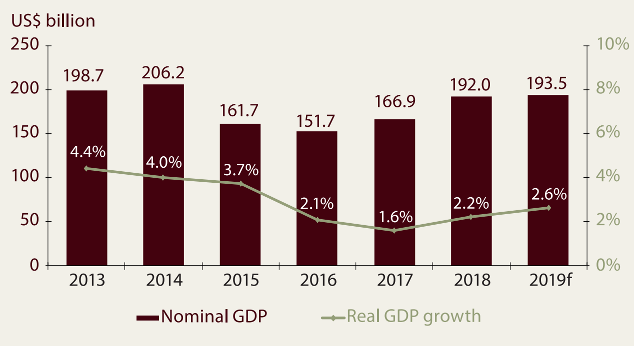
At the external level, non-resident capital inflows have been quite strong over the past year, in stark contrast to other emerging markets, as market perceptions of the country-specific risks seem to be lessening. In parallel, rising global oil prices have lead to an increase in Qatar's current account surplus to an estimated 8.7% of GDP in 2018, compared to 3.8% in the previous year. Beyond such a high current account surplus, Qatar's gross external financing needs are projected to remain significantly large in 2019 at above 50% of GDP within the context of substantial gross external debt rollover needs particularly by domestic banks.

At the monetary level, inflation remained subdued, with average consumer prices increasing by a mere 0.2% in 2018, against 0.4% in 2017. Oversupply of residential and commercial property, combined with the blockade, have put downward pressure on rents, which have contracted by about 12% in the past two years. As the Qatari riyal is pegged against the US dollar, Qatar Central Bank follows US monetary policy. In alignment with the US Central Bank, QCB increased its main policy rate by 100 basis points in 2018. In parallel, official foreign reserves went up from US$ 37.6 billion at end-2017 to US$ 49.3 billion at end-2018, driven by a rise in the current account surplus on the one hand and a reversal of temporary stabilization measures for domestic banks following the blockade on the other hand.

At the fiscal level, the budget balance turned positive in 2018 as hydrocarbon revenues increased following a rebound in oil and gas prices. The overall budget balance is estimated to have registered a surplus of 2.2% of GDP in 2018, compared to a deficit of 6.6% in 2017. The improvement in the budget balance has helped to stabilize government debt metrics. Debt to GDP is estimated at a moderate 48.4% in 2018, compared to 49.8% in 2017. Qatar's fiscal position is accordingly on a sound footing, as the authorities pursued fiscal consolidation during the period of low oil prices by reducing current spending at large.

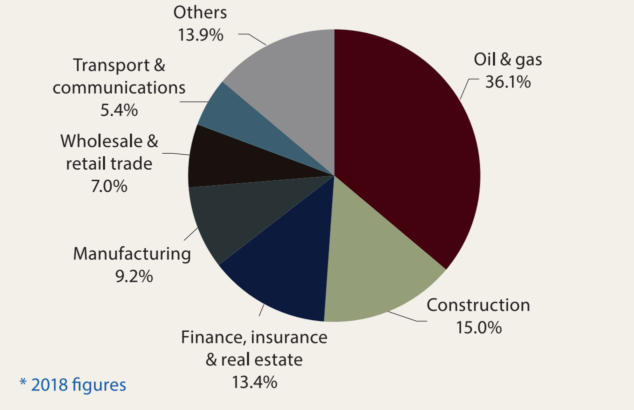
At the banking level, aggregate banking activity, measured by total assets of banks operating in Qatar, rose by US$ 14.9 billion in 2018 and by US$ 9.5 billion in the first quarter of 2019 (a growth of 4% and 2.4% respectively). The banking system remains sound with high-quality assets, strong capitalization, and adequate liquidity supported by large public sector deposits and the gradual return of non-resident flows.

NOMINAL GDP AND REAL GROWTH RATES



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

GDP BREAKDOWN BY ECONOMIC ACTIVITY*

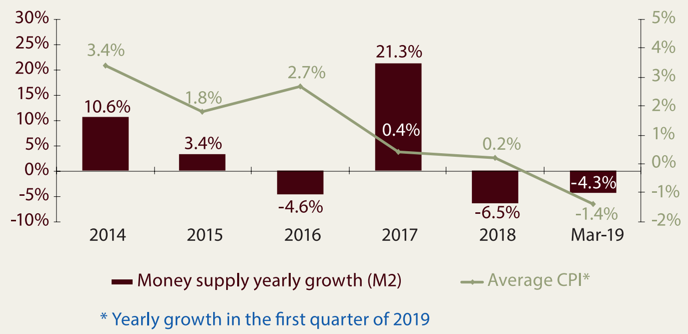


Sources: Central Bank of Qatar, Bank Audi's Group Research Department

As to capital markets, activity in both equity and fixed income markets remained favorable. The Qatar Exchange General Index rose by 20.8% in 2018 and by an additional 0.8% in the first four months of 2019. By end-April 2019, the equity market was trading at an average P/E ratio of 14.4x and an average P/BV ratio of 1.7x, in line with regional averages. In parallel, at the fixed income market level, the five-year CDS spreads contracted from 105 bps at end-2017 to 82 bps at end-2018 and to 64 bps at end-April 2019, suggesting an improved market perception of sovereign risks at large.

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

MONEY SUPPLY AND INFLATION



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

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Hydrocarbons

Hydrocarbon sector share in economy retreating

Despite the rise in energy prices globally, the country's hydrocarbon sector saw a retreat in its share relative to the economy, with authorities focusing their efforts away from hydrocarbons sector.

As part of the country's diversification policy away from oil, the country's hydrocarbon share out of total GDP dropped from 53.0% in 2014 to reach 36.1% in 2018. Moreover, Qatar's nominal hydrocarbon GDP attained US$ 69.3 billion in 2018, against US$ 54.8 billion in 2017. The latter contracted by 2.1% annually in real terms during 2018, compared to a 1.1% contraction in 2017.

The country's gas production fell in 2018, declining from 179.2 billion cubic meters (bcm) in 2017 to 175.6 bcm in 2018. A further decline in Qatari gas production is expected to continue until the North Field expansion project comes on stream from 2023, which should see natural gas production peak at some 212.9 bcm by 2026, as per Fitch Solutions.

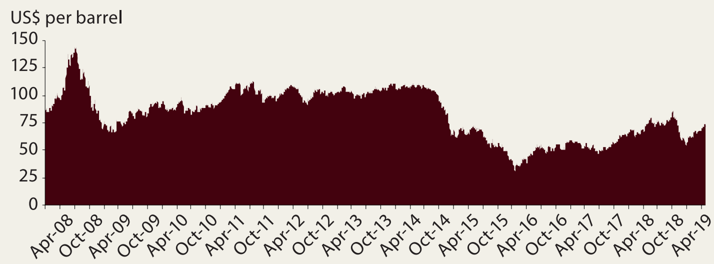
In parallel, the country's proven gas reserves were valued at 23.7 trillion cubic meters (tcm) in 2019, against 24.1 tcm in the past year, as per the same source. It has the world's third largest dry natural gas reserves, behind Russia and Iran. The North Field holds the vast majority of Qatari gas reserves, as well as liquids in the form of condensate and NGLs.

Moreover, Qatar's crude oil production averaged 0.62 million barrels per day so far in 2019, down from 0.63 million barrels per day in 2018, according to the Institute of International Finance. 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.

It is worth noting that Qatar's crude and condensates output will be boosted by the progressive ramping up of the North Field expansion project, slated to come online in 2023. This will add in total 260,000 b/d of condensates when the project is completed. Crude and condensates output will also feel a small boost from the Barzan project, which will add another 22,000 b/d of condensates from 2024 onwards. This should see production peak at around 1.73 million b/d in 2026.

In conclusion, the rise in Qatar's hydrocarbon revenues would ease the pressure of financing the country's expenditures for World Cup 2022. Higher hydrocarbon revenues would also support the non-oil sector, with Qatar investing heavily in capital projects to accelerate economic diversification.

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

1.1.2. Manufacturing

Manufacturing sector sees solid performance in 2018

The country's manufacturing sector witnessed a solid performance in 2018, continuing to play a major role in supporting the authorities' diversification efforts during the past year. The Gulf country's manufacturing sector made up 9.2% of the country's GDP at current prices in 2018, with its share remaining almost unchanged from 9.3% in the previous year, while growing by 4.0% year-on-year last year to reach QR 85.3 billion (US$ 22.6 billion).

Moreover, the latest PMI survey of Qatari non-hydrocarbon private sector businesses by Qatar Financial Centre highlighted a marked increase in the volume of new business. The rate of expansion in March 2019 was the fastest since August 2018, and sharper than the trend pace indicated since the survey began in April 2017. The uptick in business activity helped lift the headline PMI figure for Qatar from February's 48.5 to 50.1 in March 2019.

This improvement was reflected in new orders, higher output, lower stocks of purchases and suppliers' tighter delivery times. The overall rise in the headline figure was slightly tempered by a weaker contribution from employment, however, which had registered a record high earlier in the quarter.

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 1.9% of total credit facilities at March 2019, unchanged from the same period of 2018.

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, showed a decrease of 7.0% year-on-year in Q1 2019. The PPI attained 73.5 during the first quarter of 2019, against 79.1 in the same period of 2018.

Despite the ongoing diplomatic crisis of Qatar with some of its neighbors in the GCC, 120 new factories opened in the country since the siege, with 60 more establishments to be completed in 2019. In total, the country currently has 809 licensed factories with an investment of over QR 250 billion, as per the Ministry of Commerce and Industry.

Within this context, Qatar plans to build a sugar refinery near Hamad port. The new facility is seen as an effort to avoid supply disruptions in the wake of the country's diplomatic crisis with neighboring countries, including Saudi Arabia, UAE and Bahrain. The new refinery would have a processing capacity of 300 tons a day and is expected to use raw sugar imported from Brazil.

Last but not least, it is anticipated that Qatar's non-hydrocarbon economy will grow over the coming years, and the manufacturing sector would be one of the key sectors targeted for development. A central aspect for the drive to diversify the Qatari economy would be the creation of a knowledge economy, in a similar fashion to changes taking place in the UAE and Saudi Arabia, through the commercialization of research and development in partnership with the private sector.

1.1.3. Construction

Continued growth in the construction sector in preparation for World Cup 2022

The Qatari real estate sector maintained its growing trend in 2018, despite the continued regional boycott. The substantial infrastructure investment plan on the way to the 2022 World Cup will continue to support a healthy expansion of the country's economy.

In real terms, the construction sector grew by 10.2% in 2018, compared to a growth of 11.2% in 2017. The contribution of Qatar's real estate sector to the country's GDP continued to expand in 2018, standing at 15.0% in 2018, up from 12.5% in the previous year.

It is worth noting that in terms of prices, the real estate price index reported an increase year-on-year. The latter stood at 252.0 at end-March 2019, up from 249.2 at end-March 2018. On a quarterly basis, it also reported a rise from 246.2 at end-2018.

Looking at the market segments, rents continue to fall, yet at a slower rate. This indicates a more representative level in several areas of Qatar. The rise in transaction volume by 20% year-on-year in the first quarter of 2019 is partially explained by competitive prices in the market.

In the residential market, the downward pressure on rents seen in 2018 continued in the first quarter of 2019. Commercial rents in the Doha office and industrial sub-sectors is seeing a decrease, mainly due to challenging operating conditions as demand dwindles and supply increases. However, rent for retail properties maintained its buoyancy. This was mainly attributed to relatively good demand for prime spaces. Moreover, the retail property market observed stability in rentals, on the back of upbeat occupier demand, as per the same source. It is noteworthy that Doha remains the focus of international tenants, driving the demand for prime retail spaces amid high levels of supply.

In a look at future supply, building permits declined by a yearly 5% in the first quarter of 2019. The latter reported 2,178 building permits in the first quarter of 2019, down from 2,293 in the same period of 2018. On a side note, the real estate and construction sector took a share of 18.3% of credit facilities advanced by the Qatari banking sector at end-March 2019, declining from its level of 23.3% registered at end-March 2018.

In Qatar, the construction sector is ameliorating though at a slower rate from the previous years. The upcoming large global event, namely the 2022 World Cup, is likely to provide an additional impetus to growth. Hence, the sector is expected to maintain its growth momentum over the coming years.

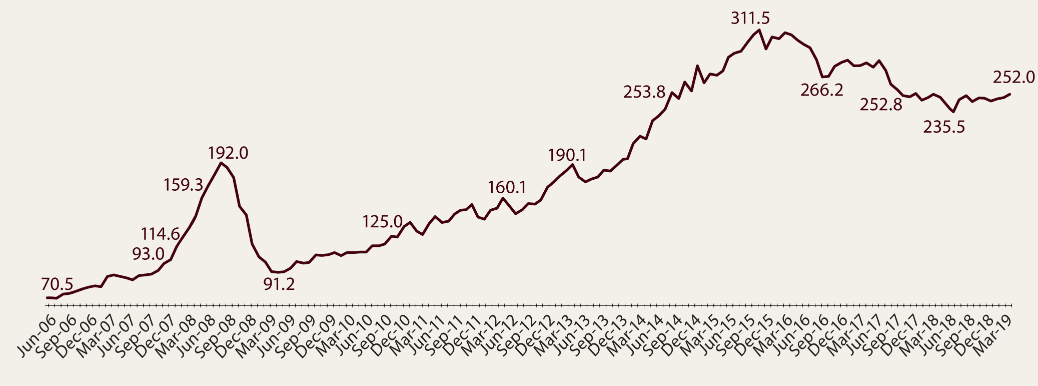
1.1.4. Tourism

Tourism sector continues to be a pillar of diversification amid an improvement in hotel occupancy

Tourism in Qatar remained one of the pillars of the country's diversification strategy. The sector, which plays an important role in the country's preparations for the 2022 World Cup, continued to contribute to the country's GDP, employment and spending.

In details, the contribution of travel and tourism to GDP stood at 9.4% in 2018. The total travel and tourism contribution to the country's GDP reported US$ 17.7 billion, down by a yearly 5.1% from its level in 2017. The sector contributed to employment as well by 9.5% in 2018, as per the World Travel and Tourism Council (WTTC).

REAL ESTATE PRICE INDEX



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

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 2018.

On another note, the performance of the four and five star hotels in Doha was mixed in 2018 when compared to 2017, as per EY. Occupancy registered 60.3% in 2018, above its level of 59.3% in 2017. The average room rate was US$ 122 last year, down from US$ 147 in 2017. This left the rooms' yield at US$ 74 in 2018, down by a yearly 15.2%.

In the first two months of 2019, the hospitality sector's performance ameliorated in terms of occupancy and rooms' yield, whereby occupancy rate stood at 65.7%, up from 56.8% in the same period of last year, while the average room rate declined by a yearly 16.7% to stand at US$ 115 in the aforementioned period of this year. The rooms' yield expanded by 0.4% from US$ 75 in the first two months of 2018 to US$ 76 in the corresponding period of 2019.

In conclusion, the World Cup-driven demand in the services sector (particularly tourism and transportation) continues to play an important role in supporting tourism and its infrastructure, despite the pressures the boycott has put on the sector.

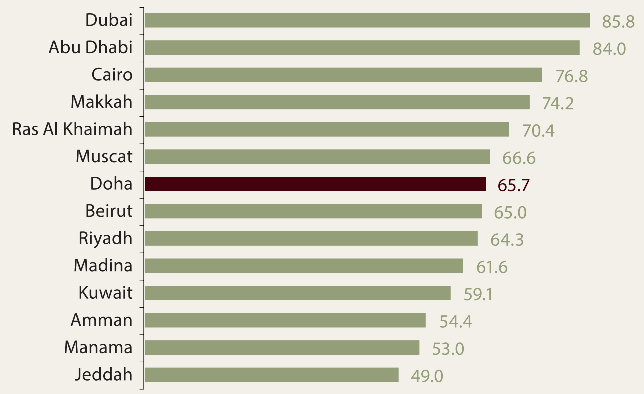
1.2. EXTERNAL SECTOR

Current account surplus almost tripled on the back of higher gas prices in 2018

Within the context of higher gas prices and LNG production from Qatar's North Field in 2018, the largest LNG exporter witnessed a considerable hike in its current account surplus, moving from US$ 6.4 billion in 2017 (or 3.8% of GDP) to US$ 16.7 billion in 2018 (or 8.7% of GDP), mainly backed by a strong growth in export earnings that has been more significant than that of total imports, marking a net improvement in Qatar's external position despite the ongoing regional tensions and growing emerging market stress. As such, the balance of payments shifted from a large deficit of US$ 17.9 billion in 2017 to its first surplus since 2014, reaching US$ 15.9 billion in 2018, mainly due to a tangible expansion in trade surplus along with a net recovery in capital and financial accounts on the back of strong non-resident capital inflows over the year 2018.

In fact, Qatar's foreign trade figures showed a strong rise in exports by 24.9% alongside an 8.3% growth in imports in 2018 compared to 2017, contributing to a 38.8% hike in the foreign trade surplus, for the second consecutive year, according to the Central Bank of Qatar. As such, Qatar's trade surplus went up from US$ 36.7 billion in 2017 to US$ 51.0 billion in 2018, to reach the equivalent of 26.6% of Qatar's GDP (from 22.0% of GDP in 2017). Accordingly, the exports-to-imports coverage ratio consequently went up from 219% in 2017 to 253% in 2018.

COMPARATIVE HOTEL OCCUPANCY RATES (%)*



* First two months of 2019, four and five star hotels

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

Going further into details, exports reached a total of US$ 84.3 billion in 2018, an increase from US$ 67.5 billion in 2017, on the back of a relative recovery in hydrocarbon activity over the year due to higher energy prices and strong production of natural gas, with particularly strong demand from East Asian countries. As such, the breakdown of exports by category, according to the Ministry of Development Planning and Statistics, suggests that among the major categories, exports of mineral fuels and lubricants posted the most significant increase of 27.6% year-on-year to make up 86.0% of total exports, followed by chemicals and related goods with a rise of 16.5%, and manufactured goods and miscellaneous manufactured goods with an increase of 9.6%. On the other hand, the main items to have displayed a decline were crude materials with 49.3% and food and live animals with a retreat of 36.9%. The geographic distribution of domestic exports indicates that 17.4% of total exports went to Japan and South Korea each, followed by India with 12.1%, China with 11.4%, Singapore with 8.1% and Thailand with 3.7% of total exports.

At the level of imports, a total of US$ 33.3 billion was registered in 2018, compared to US$ 30.8 billion in 2017. The breakdown of imports by category suggests that among the major categories, imports of manufactured goods and miscellaneous manufactured goods posted the most significant increase of 11.6% year-on-year to make up 30.1% of total imports, followed by chemicals and related goods with a rise of 5.5%, and machinery and transport equipment with an increase of 3.2%. On the other hand, the main items to have displayed a decline were crude materials with 17.1%. The breakdown of imports by country of origin shows that 19.4% of the inward merchandise in 2018 came from USA, followed by China with 12.4% of the total, India with 6.3%, Germany with 6.2%, UK with 5.7% and Japan with 4.4% of total imports.

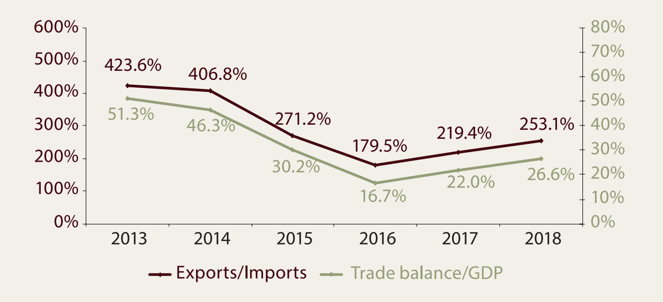
On the other side of the external sector, the capital and financial accounts recorded a shift from a large deficit of US$ 25.5 billion in 2017 to a small surplus of US$ 284 million. This was mainly due to other investment balance that reported a shift from a deficit of US$ 33.2 billion in 2017 to a surplus of US$ 11.2 billion in 2018, mainly with the resumption of non-resident capital inflows in multiple forms, as Qatar issued a US$ 12 billion triple-tranche Eurobond in April 2018 at modest premiums over US Treasuries, attracting significant interest from foreign investors, while the local stock market index was one of the top performers worldwide in 2018. As such, non-resident inflows surpassed US$ 26 billion in the first three quarters of 2018, with non-resident deposits and bank loans picking up.

1.3. PUBLIC SECTOR

Fiscal balance returned to its first surplus since 2014

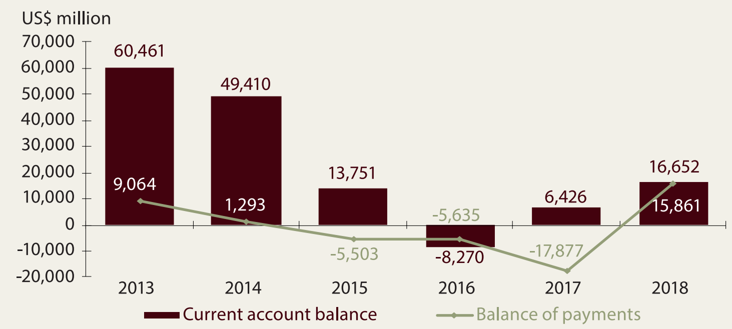
Qatar's fiscal stance has tangibly improved in 2018, supported by the recovery in oil prices, buoyant investment income transfers, and generally restrained expenditures. Within this context, the fiscal balance shifted from a large deficit to its first surplus since 2014, amid a considerable rebound in hydrocarbon revenues and continued fiscal consolidation efforts with an adequate drop in the broadly contained public spending.

FOREIGN SECTOR INDICATORS



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

CURRENT ACCOUNT AND BALANCE OF PAYMENTS



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

Going further into details, actual public revenues went up considerably by 27.3% in 2018 (against a drop of 4.4% in 2017), from QR 163.3 billion (or US$ 44.9 billion) to QR 207.9 billion (or US$ 57.1 billion), on the back of a rebound in oil and gas revenues by 30.2% relative to the 2017 level (constituting 83.3% of total public revenues). While the government has opted to postpone implementation of a comprehensive VAT once again to 2020 at the earliest, acknowledging that popular resistance remains strong, the establishment of a new tax authority should improve tax collection and non-hydrocarbon revenues. The government has implemented taxes on certain goods in January 2019 that include 100% excise duties on tobacco and energy drinks and a 50% levy on sugary drinks.

On the spending front, total public expenditures went down by 5.1%, from QR 203.3 billion in 2017 (or US$ 55.8 billion) to QR 192.8 billion in 2018 (or US$ 53.0 billion). In fact, the decline in public spending was triggered by a 9.6% drop in major projects expenditures (40% of total expenditures), as a large public investment program for 2014-2024 has been pared back, with FIFA 2022 projects given priority. In addition, current expenditures went down by 7.8% (constituting 29% of total expenditures), yet along with a 4.8% rise in wages and salaries. Within this context, public spending will remain broadly contained in 2019 and oriented toward priority sectors including health, education, and infrastructure necessary to host the 2022 World Cup.

As such, the public finance balance shifted from a deficit of QR 40.0 billion in 2017 (US$ 11.0 billion or 6.6% of GDP) to a surplus of QR 15.1 billion in 2018 (US$ 4.1 billion or 2.2% of GDP). This improvement in fiscal position has helped to relatively ameliorate government debt metrics. Gross central government debt is estimated to have reached a moderate 48.4% of GDP in 2018, compared to 49.8% in 2017. It is worth mentioning that the central government debt to GDP ratio had doubled between end-2014 and end-2017, as the shortfall in hydrocarbon revenues after the sharp decline of global oil and gas prices in 2014 led to increasing internal and external borrowing by the government.

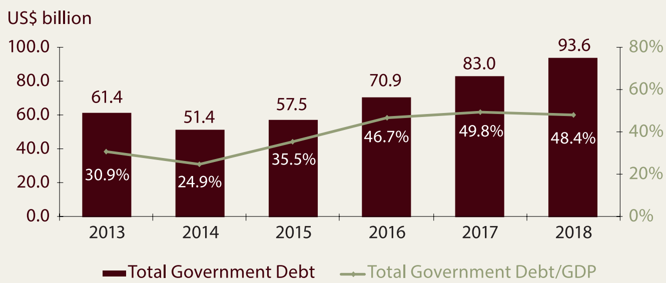
Within this context, the Ministry of Finance announced that the approved budget of the State of Qatar for 2019 will achieve a surplus of QR 4.3 billion (or US$ 1.2 billion). The major thrust for the surplus has come from a 20.5% expected growth in public revenues (at QR 211 billion) amidst a modest 1.7% growth in expenses (QR 207 billion). In 2019, new projects valued at QR 48 billion (US$ 13 billion) are expected to be awarded out of a portfolio of committed projects worth QR 421 billion In addition, the 2019 budget is designed to achieve efficiency in current expenditure while maintaining the necessary allocations for the completion of major approved projects that contribute to the sustainable development targets of Qatar 2030 Vision. The budget also focuses on providing the necessary funds for the development of new housing areas for nationals, enhancing food security projects, and the establishment of infrastructure and facilities in free zones, special economic zones, and industrial and logistics zone.

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2016	2017	2018
Public revenues	46.9	44.9	57.1
Public revenues/GDP	30.9%	26.9%	29.7%
Public expenditures	60.9	55.8	53.0
Public expenditures/GDP	40.1%	33.5%	27.6%
Fiscal balance	-14.0	-11.0	4.1
Fiscal balance/GDP	-9.2%	-6.6%	2.2%

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

PUBLIC INDEBTEDNESS AND DEBT RATIO



Sources: IMF, Bank Audi's Group Research Department

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Noticeable growth in international reserves in 2018 along with muted inflation

Qatar's monetary conditions were marked over the year 2018 by a muted inflation, a strong rebound in foreign currency reserves and a further monetary policy tightening in response to interest rate hikes by the US Federal Reserve.

In details, Qatar's consumer prices remained muted in 2018, averaging 0.2%, before contracting by 1.4% on average during the first quarter of 2019 when compared to the same period of the previous year, as a boycott imposed by four Arab States on Qatar since June 2017 continues to have a deflationary impact on some sectors, such as tourism and housing.

The breakdown of the Consumer Price Index by segment in 2018 shows that the transport segment grew by 6.9% on average year-on-year. Transportation costs have been rising in line with higher crude oil prices as the Qatari authorities are adjusting petrol prices on a monthly basis. This was followed by the medical services segment with +4.0%, the education segment with +3.9%, the clothing and footwear segment with +2.3%, the furnishings and household equipment segment with +1.5%, the restaurants and hotels segment with +0.6%, and the miscellaneous goods and services segment with +0.5%. In contrast, the communication segment reported a yearly decline of 6.9% on average in 2018, followed by the housing, water, electricity and gas segment with -3.9%, the culture and recreation segment with -2.0%, while the food & beverages segment and the tobacco segment subsided to zero, as the increased short-term costs associated with the blockade washed out.

With the Qatari riyal remaining pegged to the US dollar at a rate of QR 3.64/US$ 1, Qatar Central Bank continued to follow the lead taken by the US Federal Reserve in tightening policy. The overnight deposit rate was lifted four times over the year 2018 by a cumulative 100 bps to reach 2.50% at end-December and remained so far stable at the same level, while the overnight lending rate was left unchanged at 5.0% over the year 2018 and so far this year.

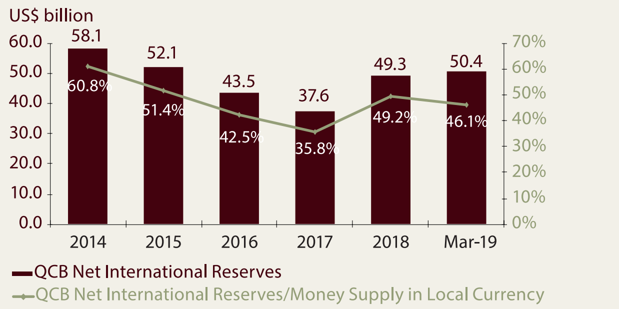
In parallel, Qatar Central Bank's international reserves and foreign currency liquidity saw a strong rebound over the year 2018, registering a noticeable growth of 31.0% or the equivalent of US$ 11.7 billion to reach US$ 49.3 billion at end-December 2018, exceeding the May 2017 level of US$ 45.8 billion seen before the boycott, driven by a rise in the current account surplus on the one hand and a reversal of temporary stabilization measures for domestic banks following the blockade on the other hand. The breakdown of Qatar Central Bank's international reserves and foreign currency liquidity by category shows that the "foreign securities" category grew by US$ 11.2 billion in 2018, accounting for 95.7% of the total growth.

EVOLUTION OF MONETARY SITUATION

Flows in millions of US$	2015	2016	2017	2018	Q1-19
Net foreign assets	**-21,283**	**-29,270**	**-4,143**	**-4,086**	**503**
Foreign Assets	1,398	8,304	-27,464	16,821	6,671
Foreign Liabilities	-22,681	-37,574	23,320	-20,907	-6,168
Net Domestic Assets	**26,052**	**22,721**	**33,205**	**-6,718**	**2,813**
Claims on private sector	16,913	5,651	10,967	16,823	4,131
Net claims on public sector	16,310	17,895	11,080	-9,032	-1,042
Other Items (net)	-7,171	-825	11,158	-14,509	-276
Broad Money (M2)	**4,769**	**-6,548**	**29,062**	**-10,803**	**3,316**
Money Supply (M1)	733	391	-1,445	-1,102	3,028
Quasi-Money	4,036	-6,939	30,507	-9,701	289

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

Qatar Central Bank's international reserves and foreign currency liquidity pursued their upward trajectory during the first quarter of 2019 to reach US$ 50.4 billion at end-March, mainly helped by a 20% rise in "balances with foreign banks". Accordingly, the QCB international reserves and foreign currency liquidity covered around 49.2% of money supply in local currency at end-2018 as compared to 35.8% at end-2017, yet this coverage ratio fell to 46.1% at end-March 2019 amid a higher growth in money supply in Qatari riyal during the first quarter of 2019.

The broader Money Supply (M2) contracted by 6.5% or the equivalent of US$ 10.8 billion in 2018 to reach US$ 155.0 billion at end-2018, driven by a US$ 5.8 billion decline in deposits in foreign currencies, a US$ 3.9 billion decrease in Qatari riyal denominated time deposits, and a US$ 1.1 billion retreat in the money supply (M1). A closer look at factors affecting money supply (M2) shows that other items (net) contracted by US$ 14.5 billion, followed by a US$ 9.0 billion drop in net claims on government and a US$ 4.1 billion fall in net foreign assets, while claims on the private sector registered a growth of US$ 16.8 billion.

Looking forward, interest rates in Qatar are set to continue to track the US monetary policy given the Qatari riyal peg to the US dollar, while inflation is expected to rise to 3.7%, as per the IMF, once a 5% Value Added Tax is introduced by 2020.

1.4.2. Banking Activity

Return of foreign inflows and continued credit growth in a sound banking sector

The Qatari banking sector has witnessed good activity growth on the overall during 2018 and a further healthy progression so far this year, as the country weathered the spat with neighbors quite well and benefits from continued economic growth and favorable prospects. Banks are adequately capitalized, quite liquid and boast strong asset quality indicators while remaining well profitable, which further plays in their favor especially amid difficult operating conditions. Measured by the aggregated assets of banks operating in the country, banking activity grew by 4.0% year-on-year in 2018 and by a further 2.4% in the first quarter of this year to flirt with the US$ 400 billion threshold by end-March 2019.

On the liabilities side, the situation more or less normalized in the covered period as external financing withdrawn in the immediate aftermath of the blockade, mostly non-resident deposits and interbank placements, has gradually returned with more attention being paid to the funding sources diversity and deposit maturity structure. At the same time, public sector deposits placed with banks following the blockade have been reduced.

Indeed, after a 25% reduction in 2017, non-resident deposits rose by 23% last year and by a further 4.4% in the first quarter of 2019 and placements with banks abroad followed similar patterns. Conversely, resident deposits, which had risen by 1.3x in 2017 after public authorities supported the deposit base, declined by 6.5% last year before renewing with growth in the past couple of months and posting a 4.5% increase in Q1 2019. All in all, total deposits rose by 3% in the 15 months to end-March 2019, contracting slightly in 2018 and rising moderately so far this year.

We note though that the average maturity of most external funding is relatively short and does not exceed one year. Given the more volatile and confidence-sensitive nature of those deposits, swings in global sentiment could have spillovers on domestic banks through this channel and thus raise refinancing risks. Nonetheless, Qatari authorities are both willing to and capable of stepping in should such a scenario materialize in the future.

On the asset utilization side, nearly three quarters of total balance sheet growth both last year and during this year's first quarter were attributed to rising credit activity domestically, noting that banks also increased their liquidity levels through deposits with other banks. It seems that higher oil prices and returning foreign financing have given a boost to the sector's liquidity. Official statistics point out to a 3.2% increase in credit facilities granted by banks in the full year 2018 and an almost similar rise (+2.8%) only in the first quarter of this year.

A closer look at the Qatar Central Bank quarterly publication reveals that the growth of bank credit to the private sector economy was more pronounced than the headline figure shows, as the lending portfolio to the public sector contracted by 7% last year before mildly edging up (+2%) so far this year. This means that credit facilities to the private sector grew at a healthy pace of 13.0% in 2018 (the highest yearly volume growth in three years) and extended their growth with +3.5% in the first quarter of 2019.

In parallel, banks operating in Qatar parked part of the additional liquidity at other banks domestically and abroad and at the Central Bank, thereby boosting their core liquidity ratios. Core liquidity, which we define as banks' cash balances and deposits at the Central Bank and banks (in Qatar and abroad), rose by 23.7% in the full year 2018 and by a further 2.2% in Q1 2019. As a percentage of deposits, core liquidity reached 27% at end-March 2019, rising from 22% at end-2017. This is in line with regional, emerging market and global benchmarks, shedding light on sound liquidity buffers. It is yet worth noting that the credit facilities to deposits ratio remains above 100% (114%), i.e. above the cap introduced by the sector regulator. The latter monitors the ratio, even though implementation has not begun, noted Moody's in its latest banking system outlook report issued in Q4 2018.

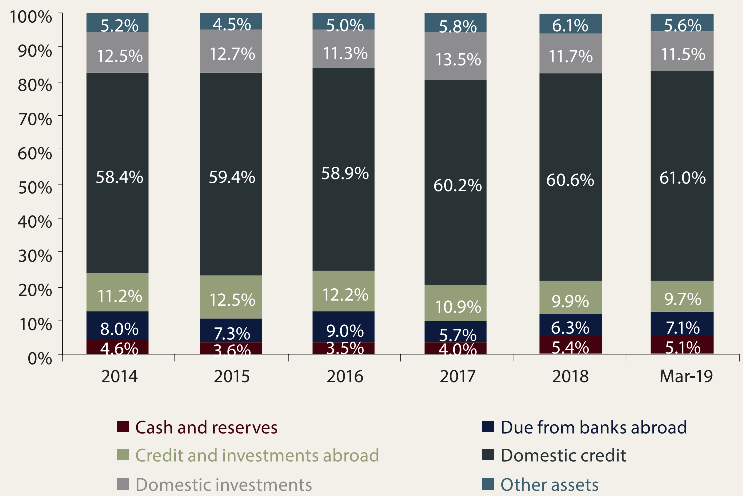
Moreover, Qatari banks maintain favorable asset quality metrics in absolute and relative terms. While slightly edging up last year as per the latest available figures, the ratio of non-performing loans to total loans, at 1.9%, remains much lower than regional, emerging market and global averages. The provisioning coverage ratio, at 75.8% at end-2018, is adequate and in line with international benchmarks. Nevertheless, we note that the real estate and contracting sectors, accounting for about 20% of total lending portfolio of banks at end-March 2019, remain a source of high exposure for the latter. This is especially more noticeable as the level of NPLs has been historically inversely related to realty prices which have softened over the past three years.

EVOLUTION OF BANKING ACTIVITY

US$ million	2015	2016	2017	2018	Q1-18	Q1-19	Variation Q1/Q1
Var. Total assets	29,659	41,211	27,721	14,922	8,555	9,496	11.0%
% change	10.7%	13.5%	8.0%	4.0%	2.3%	2.4%	0.2%
Var. Total deposits	13,513	21,049	26,416	-3,487	-410	9,941	-
% change	8.2%	11.8%	13.2%	-1.5%	-0.2%	4.5%	4.6%
Var. Total credit facilities	27,052	24,897	19,707	8,075	7,244	7,264	0.3%
% change	15.1%	12.1%	8.5%	3.2%	2.9%	2.8%	-0.1%

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

BANKING SECTOR ASSET COMPOSITION



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

Banks in Qatar also boast sound capital adequacy ratios, shielding them from potential pressures on their capital base. QCB-disclosed sector-wide figures show that the regulatory capital to risk-weighted assets strengthened further in 2018, moving from 16.8% at end-2017 to 18.0% at end-2018. The bulk of regulatory capital consists of Tier 1 capital, noting that the Tier 1 ratio similarly strengthened from 16.5% at end-2017 to 17.0% at end-2018. It is yet worth mentioning that the top 20 loan exposures account for more than 200% of the banks' tangible common equity as per Moody's estimates, though risks are mitigated by the high portion of loans extended to high-quality Qatari government and government-related borrowers within these exposures.

Last but not least, a favorable cost structure given the small and concentrated population allowing banks to service clients without an extensive and costly branch network has lead to cost-to-income ratios generally under the 30% mark. This, along with rising credit volumes and stable interest margins (at 1.9% noting that increases in funding costs are being offset by continuous repricing of assets), has been supportive of profitability. As such, sector-wide profitability ratios have been on the rise, with the return on average assets ratio moving from 1.5% in 2017 to 1.6% in 2018 and the return on average equity ratio moving from 13.9% to 15.3% over the same period.

1.4.3. Equity and Bond Markets

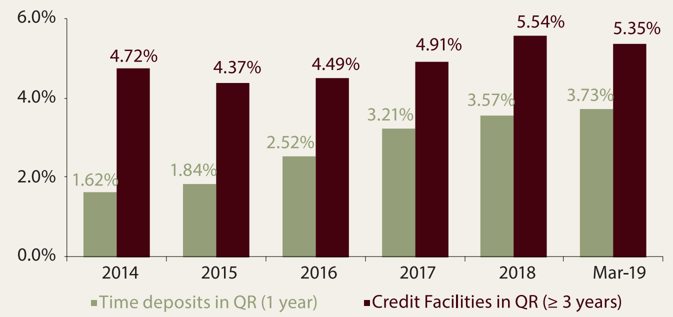
Strong equity price rebound, coupled with contractions in CDS spreads

Qatar's equity markets bounced back in 2018 and continued to trace an upward trajectory during the first four months of 2019, given an increase in foreign ownership limit and on rising bets that Qatar would mitigate the economic and financial fallout of the boycott. In parallel, Qatar's fixed income market, which came under downward price pressures in 2018, saw a price rebound during the first four months of 2019 after the US Fed abandoned projections for any interest rate hike in 2019.

The Qatar Stock Exchange registered a strong price rebound in 2018, as reflected by a 20.8% surge in the Qatar Exchange general index to reach 10,299.01, sweeping out all 2017 losses tied to an embargo imposed by four Arab States on Qatar in June 2017. The strong price rally over the year 2018 was mainly supported by an increase in foreign ownership limit of some bluechips, which is expected to leave a positive impact on the stocks' weightings on emerging market indices, in addition to some favourable full-year financial results, restored confidence in the fundamentals of the Qatari economy after months-long blockade imposed by three GCC countries and Egypt, and rising average oil prices over the year 2018. A closer look at equities' performance shows that 19 out of 46 listed stocks posted price gains in 2018 (including heavyweight Qatar National Bank, Industries Qatar and Qatar Islamic Bank), while 27 stocks posted price falls. The QE general index pursued its upward trajectory during the first four months of 2019, rising by a shy 0.8% to reach 10,376.80 at end-April 2019.

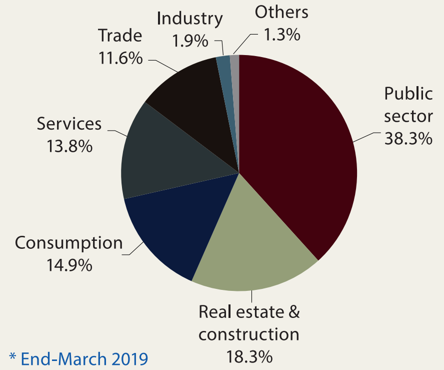
The number of listed companies on the Qatar Stock Exchange rose from 45 companies at end-2017 to 46 companies at end-2018 and remained stable at this level at end-April 2019. This, combined with healthy

INTEREST RATES ON TERM DEPOSITS & CREDIT FACILITIES



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

CREDIT FACILITIES BY ECONOMIC ACTIVITY*



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

equity price gains, resulted into a 24.7% growth in the market capitalization in 2018, moving from US$ 129.7 billion at end-2017 to US$ 161.7 billion at end-2018, before retreating to US$ 160.5 billion at end-April 2019 mostly due to a de-listing activity.

The total trading value on the QSE grew by 3.4% in 2018 to reach US$ 18.8 billion, and increased by 3.0% year-on-year during the first four months of 2019 to stand at US$ 6.4 billion. The total number of traded shares dropped by 7.3% in 2018 to reach 2,286 million shares, while the total number of transactions rose by 25.0% in 2018 to reach 1,042,985 transactions. That being said, the turnover ratio, measured by the annualized trading value to market capitalization, reached 11.6% in 2018 as compared to 14.0% in 2017, and was quoted at 11.9% during the first four months of 2019 as compared to 13.3% during the corresponding period of 2018.

At the level of the fixed income market, Qatari papers came under downward price pressures in 2018, posting price falls of up to 10.0 pts, mainly tracking an emerging market weakness after the US Federal Reserve raised its benchmark interest rate four times over the year 2018, and on fears of a global economic slowdown amid deepening US-China trade disputes. Yet, Qatari papers witnessed a price recovery during the first four months of 2019, tracking US Treasuries move after the US Federal Reserve held interest rates unchanged at its March FOMC meeting and suggested to keep rates the same for the rest of the year 2019.

In details, sovereigns maturing between 2021 and 2048 saw decent price gains of 1.04 pt to 6.61 pts during the first four months of 2019. Ooredoo papers maturing between 2021 and 2043 recorded price rises of up to 5.39 pts over the covered period. Also, financials such as Commercial Bank of Qatar, Qatar National Bank, Qatar Islamic Bank, Ahli Bank Qatar and International Bank of Qatar registered price increases of up to 3.87 pts during the first four months of 2019.

As to the cost of insuring debt, Qatar's five-year CDS spreads, which measures the market's perception of sovereign risk, contracted by 18 bps during the first four months of 2019 to reach 64 bps at end-April. This followed a 23 bps contraction in 2018. It is worth noting that the Qatar CDS spreads are the third lowest in the region after Abu Dhabi (58 bps) and Kuwait (61 bps), and is much below the average CDS spreads in the Middle East (226 bps), emerging markets (153 bps) and global markets (171 bps).

As to new issues, after raising US$ 12 billion from the sale a three-tranche bond in April 2018 that has attracted US$ 53 billion of orders, Qatar sold in March 2019 US$ 12 billion worth of bonds and drew around US$ 50 billion in demand. The debt sale is split into tranches of five, ten and 30 years. The US$ 2 billion five-year notes offer 90 basis points over US Treasuries, while the US$ 4 billion 10-year and the US$ 6 billion 30-year debt offer 135 bps and 175 bps respectively over the same benchmark.

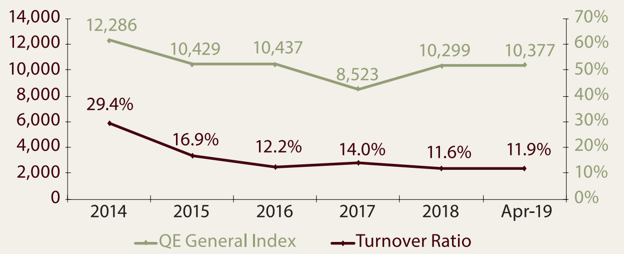
As to credit ratings, Fitch revised in June 2018 Qatar's outlook to "stable" from "negative" and affirmed its long-term foreign currency IDR at "AA-", signalling that Qatar has successfully managed the fallout from the previous year's rupture of trade, financial and diplomatic relations with the Quartet consisting of the UAE, Saudi Arabia, Bahrain and Egypt.

CAPITAL MARKETS INDICATORS

	2014	2015	2016	2017	2018	Apr-19
Market capitalization (US$ billion)	185.9	152.0	154.8	129.7	161.7	160.5
Market capitalization/GDP	90.2%	94.0%	102.0%	77.7%	84.2%	83.3%
Total value traded (US$ billion)	54.8	25.7	19.0	18.2	18.8	6.4
Total number of shares (million)	4,440	2,302	1,977	2,465	2,286	905
No. of listed companies	43	43	44	45	46	46
Change in QE general index	18.4%	-15.1%	0.1%	-18.3%	20.8%	0.8%
P/E ratio	16.2x	11.5x	15.6x	16.5x	14.9x	14.4x
P/BV ratio	2.1x	1.6x	1.1x	1.3x	1.6x	1.7x
Dividend yield	3.7%	5.2%	5.2%	4.5%	4.0%	3.8%
Five-year CDS spreads (bps)	82	93	80	105	82	64

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

CAPITAL MARKETS PERFORMANCE



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

Also, Moody's changed in July 2018 the outlook on Qatar's long-term issuer ratings to "stable" from "negative" and affirmed the long-term issuer and foreign-currency senior unsecured debt ratings at "Aa3". The key driver of the outlook change to "stable" is Moody's assessment that Qatar can withstand the economic, financial and diplomatic boycott in its current form, or with possible further restrictions, for an extended period of time without a material deterioration of the sovereign's credit profile.

Finally, Standard & Poor's revised in December 2018 its outlook on Qatar to "stable" from "negative" and affirmed its "AA-/A-1+" long-term and short-term sovereign credit ratings. The "stable" outlook reflects S&P's view that Qatar would continue to effectively mitigate the economic and financial fallout of the boycott, and would continue to pursue prudent macroeconomic policies that support large recurrent fiscal and external surpluses over 2018-2021.

Looking forward, a well-developed debt market is an important prerequisite for overall financial sector development. A deep and liquid government securities market facilitates monetary policy transmission, finances infrastructure projects and promotes financial market development. In the absence of any fiscal imperative for a government to mobilize resources, regular issuance of government debt is nonetheless necessary to support the development of the debt market. The lengthening of the maturity profile of debt issuance would also encourage the emergence of a risk-free yield curve across the term structure, which would help in the pricing of other financial instruments, as per "the Strategic Plan for financial sector regulation" within the overall objectives of Qatar National Vision 2030.

2. CONCLUSION

The regional blockade is expected to ease over the year to come, supporting the economic recovery as the government accelerates the pace of World Cup-related projects. The impact of the regional blockade has been somewhat manageable thanks to generous sovereign support, but the economy may feel some longer lasting effects. Meanwhile, hydrocarbon activity, which is dominated by natural gas, is set to rise substantially in 2019, following four years of decline. It is worth mentioning that Qatar Petroleum has announced plans to increase LNG processing and export capacity by over 40% (from 77 million tons to 110 million tons annually) over the next five to seven years via the construction of four new LNG trains.

Within this context, growth in 2019 is projected to increase further to 2.6% driven by the ramp-up in natural gas production. During the 2020-2023 period, real GDP growth of about 2.7% annually is projected, underpinned by still significant public infrastructure spending, expansion of liquid natural gas production and the hosting of the 2022 World Cup. Near to medium term outlook remains favorable in the context of relatively higher hydrocarbon prices, prudent fiscal policy, healthy financial system and accelerated structural reforms.

At the monetary level, CPI inflation is expected to remain below 2% through 2019. The implementation of VAT by early 2020 could temporarily raise inflation, as was the case in Saudi Arabia and the UAE. The Qatar Central Bank will continue to closely track the Fed's rate increases due to its fixed exchange rate, which could lead to tighter financing conditions and put the brakes on a recent acceleration of credit growth to the private sector.

At the foreign level, a modest decline in the current account surplus to a still high average of 4.4% of GDP is foreseen for 2019-2020, as slight declines in annual global oil prices and domestic oil production are expected. While still high, the forecasted current account surpluses of the next two years are substantially lower than during the years of elevated oil prices when the average current account surplus stood at above 20% of GDP.

At the fiscal level, while a slight decline in hydrocarbon revenues might take place in the next couple of years, the public finances are expected to benefit from expenditure restraint and rising non-hydrocarbon revenues following the implementation of taxes on certain goods in January 2019. The budget balance is forecasted to post an average surplus of 6.4% in 2019-2020. Subsequently, the debt to GDP ratio is expected to further decline to 45.9% in 2020. Qatar's external and fiscal balances are expected to show net improvements even in the face of ongoing regional tension and lingering emerging market stress.

The analysis of Qatar's short to medium term outlook actually requires a careful examination of strengths and opportunities relative to threats and challenges. At the level of the former, we mention the very large hydrocarbon reserves, the exceptionally high per-capita incomes, the substantial government assets under the management of the Qatar Investment Authority, the moderate central government debt and the low domestic stability risks. At the level of risks constraining the outlook, we mention the substantial geopolitical risks, the high reliance on hydrocarbon export proceeds, the relatively elevated total external debt, the mild transparency of economic data and the large contingent government liabilities due to the large size of the domestic banking sector.

While those risk factors are real challenges, we believe strengths outpace weaknesses and opportunities outweigh threats at the horizon. The main policy challenge for Qatari policy makers is to minimize downside risks stemming from volatility in energy prices and continued political/diplomatic tensions in the region. The continued diversification of the economy away from hydrocarbons remains the most significant medium to long term challenge looking ahead.

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