Bank Audi

QATAR ECONOMIC REPORT

MAY 2021

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AN IMPROVING MACRO OUTLOOK FOR QATAR, WITH OPPORTUNITIES OUTPACING THREATS AT THE HORIZON

Real GDP contracting by 2.6% in 2020 amid pandemic spillovers, with growth decline yet mitigated by infrastructure related spending and expansionary policies

COVID-19 and the sharp fall in hydrocarbon revenues lead to a contraction of real GDP by 2.6% in 2020 as per IMF estimates, with GDP recording below US$ 150 billion for the first time in a decade. Qatar has been struck very hard by COVID-19 both through global demand and price channels as well as through the domestic health impact. The growth decline has yet been mitigated by infrastructure related spending ahead of the FIFA World Cup in 2022, continued expansion of LNG capacity, and fiscal and monetary response.

First fiscal deficit since Gulf rift amid decline in public revenues

Qatar ran in 2020 its first fiscal deficit in three years given the combined effects of lower hydrocarbon revenues and increased spending aimed to mitigate the economic effects of the Coronavirus pandemic. While public spending declined by 12.5% in 2020, public revenues contracted significantly by 20.3% on the back of a sharp fall in oil and gas revenues by 21.6%, as the collapse in oil prices reverberated through to LNG markets. Besides, non-hydrocarbon revenues contracted by 15.3% year-on-year, with the implementation of some tax reliefs and deferment schemes to offset the economic impact of the pandemic. As such, Qatar ran a deficit of QR 11.3 billion in 2020 (US$ 3.1 billion) for the first time since the Gulf crisis in 2017.

Qatar's FX monetary buffers on a relative rise

Qatar continued to face disinflationary pressures in 2020 and early-2021, while its foreign currency buffers continued to follow an upward streak for the third year in a row, mainly helped by the launching of jumbo sovereign bond issues and a rise in gold reserves. Consumer prices contracted by 1.0% on average during the first quarter of the year relative to the same period of 2020. This followed a contraction of 2.7% on average in 2020. In parallel, Qatar Central Bank's international reserves and foreign currency liquidity grew by US$ 1.8 billion in 2020 to reach US$ 56.3 billion at end-December, which marked their third yearly rise in a row, covering around 47.1% of local currency money supply.

Continuing banking activity growth amid rigorous financial soundness indicators

Growth in banking activity continued in Qatar despite adverse economic conditions. Measured by the aggregation of assets of banks operating in Qatar, banking activity grew by 8.6% in 2020 and by an additional 3.9% in the first quarter of 2021 to reach US$ 480 billion at end-March, the equivalent of 329% of GDP. The main driver for asset growth was deposit growth which reported 6.6% in 2020 and 4.4% in the first quarter 2021. The 8.6% loan growth observed in 2020 is viewed as partly precautionary--to boost private-sector liquidity during periods of heightened pandemic-related uncertainty.

Mixed price movements in Qatar's capital markets

Rising optimism over a global economic recovery with the rollout of COVID-19 vaccines and a strong oil price rebound on prospects of reopening's sparked demand for Qatari equities over the first months of 2021, while putting downward price pressures on the country's fixed income market. The Qatar Stock Exchange ended the first four months of 2021 on a positive note, as reflected by a 4.6% rise in the Qatar Exchange general index. At the level of the fixed income market, Qatari papers came under downward price pressures during the first four months of 2021, mainly tracking US Treasuries move and a global sell-off mood following solid US economic data and on bets that a progress in the rollout of Coronavirus vaccines globally and an unprecedented US relief package would sustain a global recovery.

Real GDP growth back to positive territory in 2021, as energy prices rise, global LNG demand picks up, and economic sentiment improves

Looking forward, real GDP growth is expected to turn positive again in 2021 (2.4% as per IMF forecasts) as energy prices rise, global LNG demand picks up, and non-energy economic sentiment improves once the pandemic is controlled. Over the medium term, growth will reach around 3.6% by 2022 from delivery and legacy investments for the FIFA World Cup. The economic rebound in 2021 and 2022 depends on the control of COVID-19, which is a function of effective containment strategies worldwide and/or effective vaccines to engender widespread immunity – a likely prerequisite for FIFA 2022 to go ahead.

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COVID-19 and the sharp fall in hydrocarbon revenues lead to a contraction of real GDP by 2.6% in 2020 as per IMF estimates, with GDP recording below US$ 150 billion for the first time in a decade. Qatar has been struck very hard by COVID-19 both through global demand and price channels as well as through the domestic health impact, the second highest exposure in the GCC. Yet, stringent containment measures, aggressive testing and trace policies, as well as the effectiveness of the Qatari healthcare system, have resulted in the second lowest death rate amongst this group of countries.

The growth decline has been mitigated by infrastructure related spending ahead of the FIFA World Cup in 2022, continued expansion of LNG capacity, and fiscal and monetary response. Steps taken to improve the business environment, as well as the final push ahead of the World Cup are expected to underpin growth in the medium term.

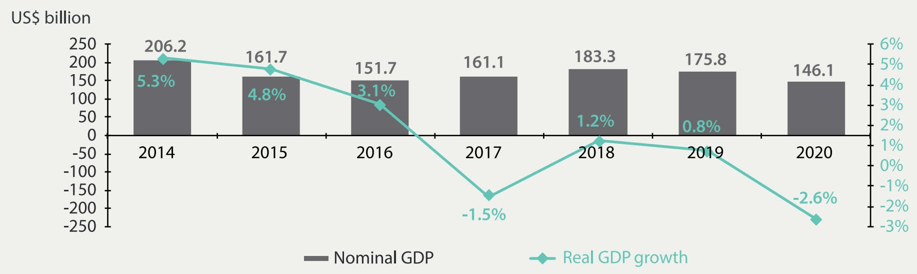
The government undertook a swath of measures to offset the economic effects of the pandemic, including stimulus through tax deferrals and eased credit flow to hard pressed firms and households amounting to QR 75 billion with guarantees to local banks of QR 3 billion (approximately 10% of GDP). On the social side, measures included steps to guarantee basic salary and allowances for workers who are isolated or quarantined, whether they are entitled to sick leave or not.

At the foreign sector level, a relative retreat in the foreign buffer was reported over the past year. As the coverage of imports by exports contracted from 233% in 2019 to 211% in 2020, the trade balance as a percentage of GDP, which reported 23.7% in 2019, contracted to 18.6% in 2020. Subsequently, the current account shifted from a surplus of US$ 4.3 billion to a deficit of US$ 3.6 billion. As a result, the balance of payments saw its surplus declining from US$ 9.4 billion in 2019 to US$ 0.5 billion in 2020.

At the fiscal level, the combined effects of lower revenues and increased spending changed the positive pre-COVID trends in public finances. With the bulk of government revenues derived from hydrocarbons and given offsetting expenditures to mitigate the economic effects of COVID-19 amongst hardest hit sectors (air travel, tourism and real estate), the fiscal balance is estimated to swing sharply into deficit in 2020. Fiscal deficit to GDP is actually estimated at 2.1% in 2020 as per the IMF, against a surplus of 2.3% in 2019. While public expenses declined by 12.5%, the contraction in public revenues was more significant at 20.3% over the past year.

At the monetary level, with QCB international reserves at US$ 56 billion as at March 2021, equal to almost two years of imports, and with the QIA sovereign wealth fund above US$ 300 billion in assets under management, the country's credit standing remains very strong, in turn underpinning its ample market access and its ability to be an activist investor overseas. Qatar's money supply M2 increased by US$ 6 billion in 2020 (3.8%) and by an additional US$ 3.4 billion in the first quarter 2021. Consumer prices have been in deep deflationary territory in 2020 at -2.7% over the year (-1.0% in March 2021).

REAL GROWTH & NOMINAL GDP



Sources: IMF, Bank Audi's Group Research Department

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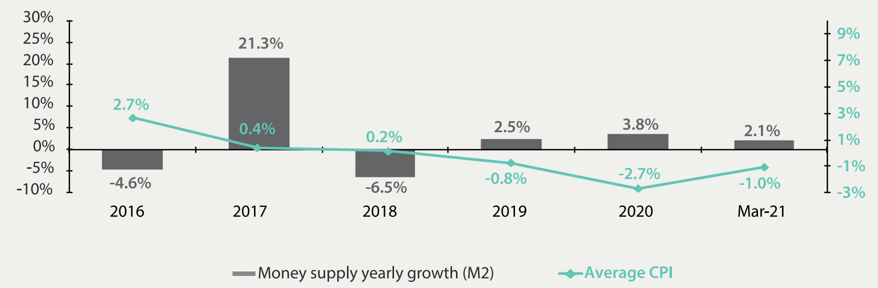
At the banking sector level, growth in activity continued despite adverse economic conditions. Measured by the aggregation of assets of banks operating in Qatar, banking activity grew by 8.6% in 2020 and by an additional 3.9% in the first quarter of 2021. In volume terms, activity grew by US$ 36.4 billion and US$ 18.1 billion respectively. The main driver for asset growth was deposit growth which reported 6.6% in 2020 and 4.4% in the first quarter 2021. Likewise, loan growth registered an 8.6% growth in 2020 and 4.1% in the first quarter 2021. According to latest financial soundness indicators, the banking sector remains well-capitalized and liquid.

At the capital markets level, equity and debt markets were almost stable in 2020 and the early months of 2021. The Qatar Exchange general price index reported a tiny rise of 0.1% in 2020, followed by a 4.6% rise in the first four months of 2021. This was accompanied by a surge in trading volumes, with total value traded rising from US$ 18.6 billion in 2019 to US$ 29.1 billion in 2020 (US$ 11.5 billion in the first four months of 2021). Subsequently, the market turnover ratio (value traded as a percentage of market capitalization) surged from 11.6% in 2019 to 17.6% in 2020 (19.9% over the first four months of 2021). With respect to the fixed income market, the 5-year CDS spread slightly rose from 37 bps at end-2019 to 38 bps at end-2020 and to 45 bps at end-April 2021.

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

MONEY SUPPLY AND INflATION



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

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1 Hydrocarbon sector

Slowdown in the performance of the hydrocarbons sector amidst continued diversification efforts

Qatari authorities are moving ahead with growth plans by focusing on economic diversification in line with Qatar National Vision 2030. The country's hydrocarbon share out of total GDP retreated from 35.9% in 2019 to stand at 28.7% in 2020 amid lower hydrocarbon prices and diversification efforts. The contribution of the hydrocarbon to the country's nominal GDP registered US$ 42.1 billion in 2020, down from US$ 63.1 billion in 2019. In real terms, the sector reported a contraction of 16.7% in 2020, versus a drop of 4.1% in 2019.

At the level of gas production, Qatar reported an increase from 167.5 billion cubic meters (bcm) in 2019 to 169.2 billion bcm in the past year. It is noteworthy that the opening of the Barzan field will raise natural gas production capacity in the months ahead in 2021. Gas output is set to increase by just 5.0%, in 2021, over the low 1.0% growth seen in 2020, due to the global recession muted energy prices and curbed LNG output, as per Fitch Solutions.

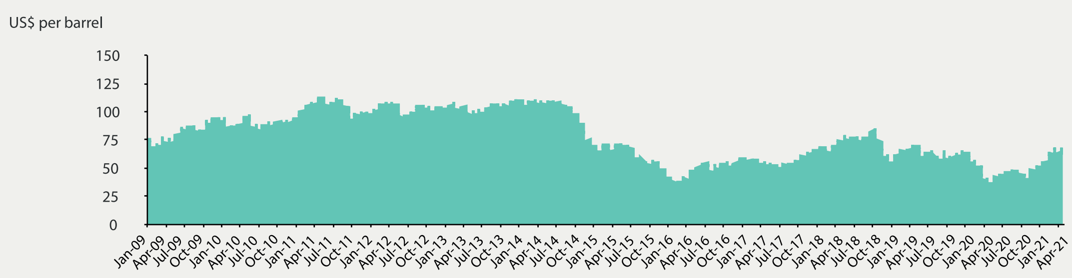
Furthermore, Qatar, similar to other markets in the region, is planning to test its unconventional resource base. While those unconventional basis hold substantial resource potential, these types of reservoirs are typically more technically and commercially challenging to extract.

On another level, Qatar's crude oil production averaged 2,048.6 thousand barrels per day in 2020, up from 1,990.0 thousand barrels per day in 2019, rising by a yearly 2.9%. On a side note, the North Field Expansion (NFE) project is expected to increase crude oil and condensate production when initiated in 2025. A significant increase in crude oil and condensates total liquids output, including NGLs, to highs of 2.22 million barrels/day in 2026 is expected, supported by the progressive ramping up of the NFE project. The delayed Barzan project will add additional condensate volumes in 2021 but will only barely offset current decline rates.

At the level of fuels consumption, the latter was challenged last year as the imposition of social distancing measures and travel restrictions along with Covid-19-related economic disruptions hit the country. In 2021, the global economic recovery should push activity and consumption, and a growth is anticipated. The 2022 FIFA World Cup will contribute to the support of fuels demand.

In conclusion, the instability that hit the world in 2020 stressed the sector further. Yet, 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 various sectors.

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

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1.1.2 Manufacturing sector

Qatar's manufacturing sector regains its positive position

Qatar's manufacturing sector remained a major driving force in Qatar's economic diversification. Its evolutionary industries power the targets of the Qatar National Vision 2030, which aims to transform Qatar into an advanced country capable of sustaining its development and ensuring high living standards for its people. The vision focuses on developing a diversified economy with lower dependence on hydrocarbons, where investment is moving towards a knowledge-based economy and the private sector is growing in importance.

According to the Qatar Financial Centre, the latest PMI survey data for Qatar revealed a strengthening rate of expansion in the non-energy private sector economy in January. Growth rates for both business activity and new business accelerated notably during the month and were among the sharpest registered since the survey began in April 2017, as per the survey. Evidence of a sustained recovery was apparent as the non-oil sector geared up hiring for the longest period in the PMI's history. Employment growth was maintained and expectations for output remained positive. January data also reflected lower average input prices, enabling firms to reduce their selling prices slightly. Furthermore, the volume of inputs ordered by Qatari firms operating in the non-energy economy rose for the seventh consecutive month in January. This marked the longest sequence of growth. Moreover, the rate of growth accelerated since December, likely translating into an upcoming production expansion.

At the level of 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 1.6% of total credit facilities at March 2021, slightly lower from its level at end-March 2020.

Looking at a specific segment, the recycling industry in Qatar is becoming of importance. It currently produces 215 products from 135 factories. Paper products and the printing industry contribute 78 products from 62 factories, according to the Ministry of Commerce and Industry statistics. Furthermore, the Qatar National Development Strategy Goals, 2018-2022, encourages and supports the private sector to pursue sustainable recycling projects for all types of waste, devising a plan to manage solid waste, which would emphasize the country's recycling strategy and handle hazardous waste and substances. The strategy will also raise the percentage of the utilization of recycled materials to 20% by the end of 2022 and recycling 15% of all generated waste by 2022.

In conclusion, the manufacturing sector regained some strength throughout 2020 and the beginning of 2021, following a slowdown due to the spread of the COVID-19 and the measures that accompanied it. Qatar's continuous efforts to promote local manufacturing are expected to help boost production value for the sector in the next few years.

1.1.3 Construction

Qatar's real estate market controlled by oversupply and constrained demand

Qatar's real estate market continued to be affected by weaker oil prices and the ongoing COVID-19 pandemic. Overall supply exceeded demand, pushing all three sub-sectors to have reduced rental costs. Much of this developing supply is due to the preparation for the 2022 FIFA World Cup, with many of these projects expected to be completed within the short-term.

At the level of residential market, preparations for hosting the 2022 FIFA World Cup were a major source of growth in the industry, especially commercial construction, but as projects are being completed, there is little in the pipeline to replace it.

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At the level of the office market, pressure remains on rents, with increasing supply against a difficult economic background and weakening demand. Vacancy rates continue edging up as new developments are completed. The Doha market experienced the most notable decline. However, demand is set to improve marginally in 2021 despite likely weak investor demand, as the effects of the coronavirus pandemic reduce and oil prices begin to recover.

At the level of retail, demand will be constrained by the broader economic backdrop while supply levels continue to grow, meaning weakness is set to persist in retail rental rates across Qatar in 2021. Doha remains the focus of international tenants, boosting thedemand for prime retail spaces amid those high levels of supply. Rental costs are expected to decline for a third consecutive year across all three cities in 2021. As the supply of retail real estate continues to increase in Doha compared with only modest demand, the rental rate is expected to decline in 2021, with landlords struggling to maintain high occupancy rates forced to offer incentives, including rent-free periods, to attract new tenants. There is a growing trend of new retail formats, such as pop-up shops and retail experiences, in an attempt to attract customers and provide alternative retail offerings.

On a side note, the real estate and construction sector took a share of 14.3% of credit facilities advanced by the Qatari banking sector at end-March 2021, down from 18.2% at end-March 2021.

In conclusion, Qatar's economy is set to recover in 2021 after the Coronavirus-induced recession of 2020, yet investor sentiment will likely remain uncertain as demand for the large number of real estate developments is expected to be limited.

1.1.4 Tourism

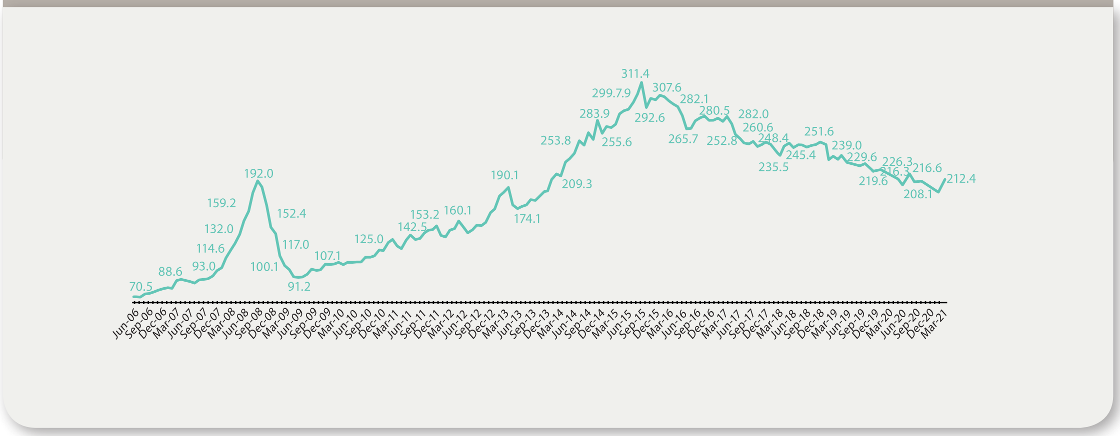
Tourism suffers due to COVID-19 restrictions

The past year was challenging for Qatar's tourism industry as total arrivals plummeted by 75% in 2020 as the COVID-19 pandemic crippled global demand for travel and tourism. However, the removal of the diplomatic embargo supported regional arrivals from GCC.

In details, tourist arrivals retreated from 2,136.5 thousand in 2019 to 532.8 thousand in 2020. International tourism receipts reported US$ 5.92 billion in 2020, down by 69.3% year-on-year.

During 2020, Doha's hospitality market observed a RevPAR drop of 21.9%, from US$ 78 in 2019 to US$ 61. This decline was caused by an occupancy drop of 9.9% together with an ADR decrease of 8.9% from US$ 112 in 2019 to US$ 102 in 2020, as per Ernst & Young. Range of preventive measures such as ban on public gatherings, closure of non-essential businesses, halt on international travels, deferment of major sports

REAL ESTATE INDEX FOR THE STATE OF QATAR



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

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events and the recently announced essential travel regulation might have led to the current performance level of Doha hospitality sector. Though the rising COVID-19 cases are bound to have concerns over the recovery of Doha's hospitality sector, the launch of world class culinary experiences in an effort to lure both domestic and international travelers, mandatory hotel quarantine for travelers from "high-risk" countries and quarantine relaxations provided for 'low-risk' countries are expected to bring an impetus to the performance levels.

In January 2021, the hospitality sector's performance edged up in terms of occupancy, whereby it stood at 70%, up from 69% in the same month of last year, while the average room rate fell by a yearly 21.8% to stand at US$ 85 in the aforementioned month of this year. The rooms' yield contracted by 20.8% from US$ 75 in the first month of 2020 to US$ 60 in the corresponding month of 2021.

It is worth noting that, the Qatari government is attempting to continue improving regional business ties, despite tension in the region. Qatar is predominantly a business destination, but there are strides being made to strengthen the cultural and leisure aspects of the industry, as per Fitch Solutions. The hosting of the 2022 FIFA World Cup and 2023 World Aquatics Championships will help highlight the country as a tourist destination, which will also lead to a diversification in the hotel sector as companies look beyond high-end hotels in anticipation of a wider source market.

In sum, despite the setback of the tourism sector due to the restrictions imposed due to the spread of the COVID-19 pandemic, the Qatari government is trying to boost entrepreneurship within tourism in order to encourage private sector innovation to meet demand in the market.

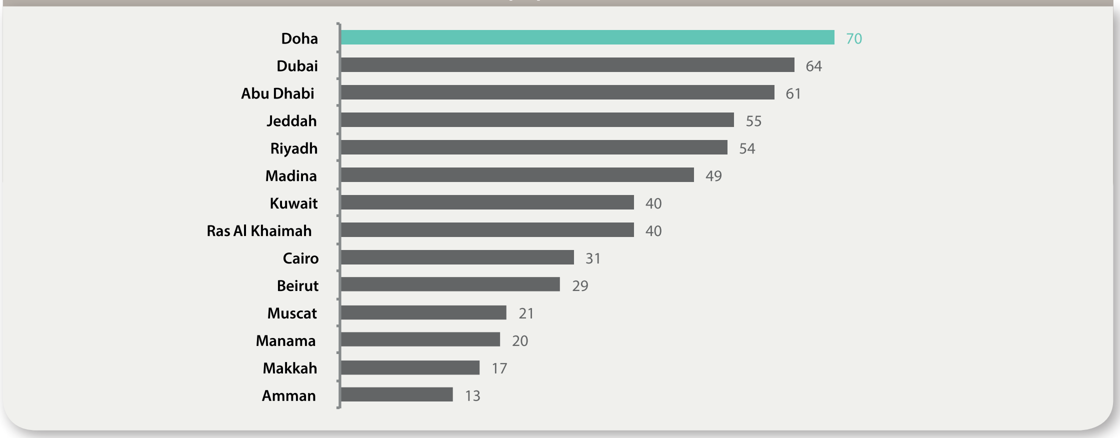
1.2 External sector

Qatar yields surplus in balance of payments in 2020 despite the induced pandemic and economic risks

Amid COVID-19 pandemic and slump in hydrocarbon prices, Qatar witnessed a significant drop in its current account balance over the year 2020 recording a figure of US$ -3.6 billion, mainly on the back of trade balance contraction for 34.7% year-on-year. This was due to drop in export earnings that has been more significant than that of total imports. As such, the balance of payments surplus was reduced to reach US$ 0.5 billion over year 2020, against US$ 9.4 billion in 2019.

In fact, Qatar's foreign trade figures showed a retreat in exports by 29.4% alongside to 22.3% decline in imports in 2020 contributing to a 34.7% drop in the foreign trade surplus, according to the Central Bank of Qatar. As such, Qatar's trade surplus contracted from US$ 41.5 billion in 2019 to US$ 27.1 billion during 2020, to reach the equivalent of 18.6% of Qatar's GDP, from 23.7% of GDP in 2019.

COMPARATIVE HOTEL OCCUPANCY RATES (%)



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

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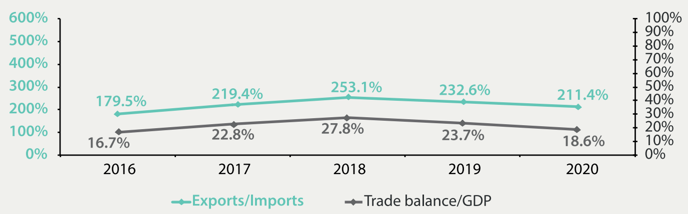
Going further into details, total exports (including exports of domestic goods and re-exports) reached US$ 51.5 billion in 2020, a decline from US$ 72.9 billion in 2019. Qatar is one of the largest global exporters of liquefied natural gas and this is reflected in its trade activity as it's still heavily reliant on energy export revenues. The breakdown of exports by category according to the Ministry of Development Planning and Statistics for Q1 2021, suggests that exports of Petroleum Gases and other Gaseous Hydrocarbons making up the highest share of 62.2% of total exports and Petroleum Oils & Oils obtained from Bituminous Minerals (crude and non-crude) constitutes the second highest share of 21.3% of total exports. The geographic distribution of domestic exports for Q1 2021 indicates that 16.6% of total exports went to Japan, followed by China with 16.4% of the total, South Korea with 15.6%, India with 14.0% and Singapore with 5.8%. As such, Asia ranked first in terms of trade partners accounting for 68.4% of total exports in Q1 2021.

At the level of imports, a total of US$ 23.9 billion was reported in 2020 compared to US$ 30.8 billion in 2019, registering a decline of 22.3% year-on-year. The breakdown of imports by category, according to the Ministry of Development Planning and Statistics for Q1 2021, suggests that imports of Turbojets, Turbo propellers & other gas turbines and its parts posted the highest share of 5.2%, followed by Motor cars & other motor vehicles for individual transport with a share of 4.2% of total imports. The breakdown of imports by country of origin reveals that 14.6% of the inward merchandise during Q1 2021 came from China with 14.6% of the total, followed by the United States of America with 11.5%, India with 6.5%, and Italy with 5.3% of total imports.

On the other side of the external sector, Qatar posted net deficits in its balances of services, income and transfers in 2020, amounting to US$ 15.0 billion (-6.4% relative to 2019), US$ 2.9 billion (-30.8%) and US$ 12.2 billion (-25.1%), respectively. In regards to the transfers' category, it is dominated by outward remittances of expatriates residing in Qatar, which amounted to US$ 10.4 billion in 2020, down by 10.2% from the previous year.

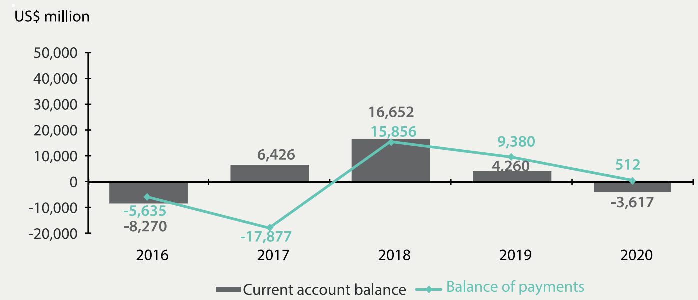
Qatar recorded surplus in financial balance of US$ 0.4 billion in 2020 down from US$ 6.0 billion in 2019, whereas the portfolio investment posted a significant deficit in 2020 reaching US$ -12.3 billion against US$ 2.1 billion in 2019. Consequently, the balance of payments recorded a surplus of U$ 0.5 billion in 2020 against a surplus of US$ 9.4 billion in 2019, a drop of 94.5% year-on-ye ar. This deteriorated figure in BOP is tied to the pandemic challenges, collapse in oil prices, economic risks and economic embargo. In light of the reversal of those factors, Qatar is likely to recover and improve its current account and balance of payment positions in 2021.

FOREIGN SECTOR INDICATORS



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

BALANCE OF PAYMENTS



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

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1.3 Public sector

First fiscal deficit since Gulf rift, on negative implications of pandemic and lower oil prices in 2020

Qatar ran in 2020 its first fiscal deficit since Gulf rift in 2017 given the combined effects of lower hydrocarbon revenues and increased spending aimed to mitigate the economic effects of the Coronavirus pandemic amongst hardest hit sectors.

Going further into details, actual public revenues contracted significantly by 20.3% in 2020 (against a rise of 3.3% in 2019), from QR 214.7 billion (or US$ 59.0 billion) in 2019 to QR 171.2 billion (or US$ 47.0 billion) in 2020, on the back of a sharp fall in oil and gas revenues of 21.6% relative to 2019 level (constituting 78% of total public revenues) as the collapse in oil prices reverberated through to LNG markets, especially for oil-linked LNG contracts. Besides, non-hydrocarbon revenues contracted by 15.3% year-on-year, with the implementation of some tax reliefs and deferment schemes to offset the economic impact of the pandemic.

On the spending front, total public expenditures declined by 12.5%, from QR 208.4 billion in 2019 (or US$ 57.3 billion) to QR 182.4 billion in 2020 (or US$ 50.1 billion). The fall in public spending was mainly triggered by a 21.4% drop in major projects expenditures (constituting 34.5% of total expenditures). In addition, current expenditures (constituting 31.7% of total expenditures) decreased by 7.6%, along with a 5.6% decline in wages and salaries (constituting 31.8% of total expenditures). Within this context, it is worth mentioning that government ministries, institutions and entities funded by the State were required to reduce monthly costs for non-Qatari employees by 30% from June 1, 2020 either by cutting salaries or laying-off workers as the government sought to shore up its finances to cope with the impact of the Coronavirus pandemic. As such, Qatar ran a deficit of QR 11.3 billion in 2020 (US$ 3.1 billion) for the first time since the Gulf crisis in 2017, and compared to an expected surplus of QR 500 million in the General Budget for the year 2020, based on average oil price of US$ 55 per barrel. This is covered by the funds available to the Ministry of Finance from previous public debt issuances in global financial markets.

In parallel, Qatar's general government debt-to-GDP ratio is estimated to have reached 72% in 2020, according to the IMF, up from 62% in 2019, noting that Qatar has issued a triple-tranche bond worth US$ 10 billion in April 2020. This came along an estimated 17% year-on-year contraction in Qatar's nominal GDP in 2020.

Finally, it is worth mentioning that Qatar approved in December 2020 the 2021 State Budget, with estimated total revenues of QR 160.1 billion, split between 76% for oil revenues and 24% for non-oil revenues. Oil revenues are expected at QR 121.6 billion and are based on a conservative average oil price assumption of US$ 40 per barrel. This reflects a continued policy of conservative revenue estimation to maintain a fiscal balance and minimize the impact of the fluctuation in energy prices on the State Budget. Total expenditures are expected to reach QR 194.7 billion in 2021, allocated as follows: 37% for major projects, 31% for current expenditures, 30% for salaries and wages and 2% for minor capital expenditures. Accordingly, the budget anticipates a widening fiscal deficit of QR 34.6 billion. The Ministry of Finance plans to cover the projected deficit from available cash balances or through issuing debt instruments in the domestic and international financial markets, if needed.

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2015	2016	2017	2018	2019	2020	Var 20/19
Public revenues	**51.4**	**46.9**	**44.9**	**57.1**	**59.0**	**47.0**	**-20.3%**
Public revenues/GDP	31.8%	30.9%	26.9%	29.8%	33.6%	32.1%	-1.5%
Public expenditures	**52.6**	**60.9**	**55.8**	**53.0**	**57.3**	**50.1**	**-12.5%**
Public expenditures/GDP	**32.5%**	**40.1%**	**33.5%**	**27.7%**	**31.3%**	**34.2%**	**3.0%**
Fiscal balance	**-1.2**	**-14.0**	**-11.0**	**4.1**	**1.7**	**-3.1**	**-278.0%**
Fiscal balance/GDP	-0.7%	-9.2%	-6.6%	2.2%	2.3%	-2.1%	-4.4%

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

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1.4 Financial sector

1.4.1. Monetary Situation

Qatar's FX monetary buffers on a relative rise

Qatar continued to face disinflationary pressures in 2020 and early-2021, while its foreign currency buffers continued to follow an upward streak for the third year in a row, mainly helped by the launching of jumbo sovereign bond issues and a rise in gold reserves.

Coronavirus containment measures continued to take their toll on prices across different sectors in Qatar during the first quarter of 2021. Consumer prices contracted by 1.0% on average during the first quarter of the year relative to the same period of 2020. This followed a contraction of 2.7% on average in 2020.

The breakdown of the Consumer Price Index by segment during the first quarter of 2021 shows that the culture and recreation segment was hit most by Coronavirus lockdowns, posting a 13.5% year-on-year contraction due to social distancing measures imposed by the pandemic. This was followed by the clothing and footwear segment with -6.8%, the housing, water, electricity and gas segment with -5.7% and the medical services segment with -1.3%. In contrast, the tobacco segment registered a year-on-year rise of 8.4%, followed by the transport segment, which has a weight of 14.6% in the index, with +5.8% given an oil price recovery amid a progress in global COVID-19 vaccinations and prospects of reopenings in addition to OPEC+ oil production cuts. Also, the education segment registered yearly price growth of 3.8%, followed by the restaurants and hotels segment with +3.4%, the communication segment with +3.2%, the furnishings and household equipment segment with +2.7%, the miscellaneous goods and services segment with +2.2% and the food & beverages segment with +0.1%.

Given the Qatari riyal peg to the US dollar, the Qatar Central Bank followed early-2020 the lead taken by the US Federal Reserve in loosening its policy with the aim to ease the economic impact of the fast-spreading Coronavirus pandemic. In details, the Qatar Central Bank slashed its overnight deposit rate, overnight lending rate and repo rate by 100 bps, 175 bps and 100 bps respectively in March 2020 to reach 1.0%, 2.50% and 1.0% respectively, and remained unchanged thereafter.

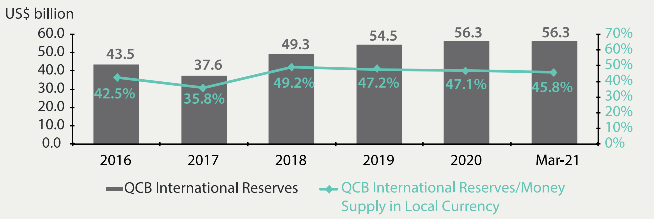
In parallel, Qatar Central Bank's international reserves and foreign currency liquidity grew by US$ 1.8 billion in 2020 to reach US$ 56.3 billion at end-December, which marked their third yearly rise in a row. This is mainly explained by US$ 2.6 billion rise in the "foreign securities" category, as Qatar launched a US$ 10 billion triple-tranche bond in April 2020 and a US$ 1.4 billion increase in gold amid a flight to safety during the pandemic, in addition to a US$ 0.6 billion growth in other liquid assets in foreign currencies, which overshadowed the US$ 2.8 billion contraction in balances with foreign banks. Qatar Central Bank's FX reserves registered a mere expansion of US$ 66 million during the first quarter of 2021 and remained quoted at US$ 56.3 billion at end-March, as the contraction in "foreign securities" and "gold" was offset by a growth in "balances with foreign banks". Within this context, the QCB international reserves and foreign currency liquidity covered around 47.1% of money supply in local currency at end-2020 as compared to 47.2% at end-2019, yet this coverage ratio fell to 45.8% at end-March 2021 given a 3.1% growth in money supply in Qatari Riyal.

MONETARY SITUATION

Flows in millions of US$	2015	2016	2017	2018	2019	2020	Q1-21
Net foreign assets	**-21,283**	**-29,270**	**-4,143**	**-4,086**	**-18,034**	**-27,386**	**-8,173**
Foreign Assets	1,398	8,304	-27,464	16,821	9,578	-856	6,384
Foreign Liabilities	-22,681	-37,574	23,320	-20,907	-27,612	-26,529	-14,557
Net Domestic Assets	**26,052**	**22,721**	**33,205**	**-6,718**	**21,878**	**33,398**	**11,615**
Claims on private sector	16,913	5,651	10,967	16,823	33,781	31,423	5,036
Net claims on public sector	16,310	17,895	11,080	-9,032	4,548	-854	6,236
Other Items (net)	-7,171	-825	11,158	-14,509	-16,450	2,829	343
Broad Money (M2)	**4,769**	**-6,548**	**29,062**	**-10,803**	**3,845**	**6,012**	**3,442**
Money Supply (M1)	733	391	-1,445	-1,102	1,546	5,977	2,313
Quasi-Money	4,036	-6,939	30,507	-9,701	2,299	35	1,130

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

EXCHANGE MARKET INDICATORS



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

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The broader Money Supply (M2) registered a significant growth of US$ 3.4 billion during the first quarter of 2021 following a US$ 6.0 billion expansion in 2020, mainly supported by a US$ 1.4 billion rise in time deposits and a US$ 2.3 billion increase in the money supply (M1). This followed a US$ 20.6 billion stimulus package announced by the Qatari government in March 2020 aimed to shield the economy following the Coronavirus outbreak.

In the coming period, the IMF expects Qatari consumer prices to grow by 2.4% in 2021 following two years of deflationary pressures, mainly driven by a progress in vaccinations, a gradual reopening and an oil price recovery. In parallel, key policy rates would 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

Continuing activity growth amid rigorous financial soundness indicators

Growth in banking activity continued in Qatar despite adverse economic conditions. Measured by the aggregation of assets of banks operating in Qatar, banking activity grew by 8.6% in 2020 and by an additional 3.9% in the first quarter of 2021 to reach US$ 480 billion at end-March, the equivalent of 329% of GDP. In volume terms, banking activity grew by US$ 36.4 billion and US$ 18.1 billion respectively. The main driver for asset growth was deposit growth which reported 6.6% in 2020 and 4.4% in the first quarter 2021. According to latest financial soundness indicators, the banking sector remains well-capitalized and liquid.

The 8.6% loan growth observed in 2020 is viewed as partly precautionary--to boost private-sector liquidity during periods of heightened pandemic-related uncertainty. In some cases, it also reflects credit to projects that are less likely to require additional funding, for example, infrastructure. In line with this, and their expectation of only a slightly higher oil price, S&P expects that credit growth will moderate slightly over 2021. Although the 2022 World Cup may prompt an increase in small and midsize enterprise and retail credit, most of the related expenditure is nearing completion.

With respect to interest rates, the observed declining trend was extended further. The interest rate on Time deposits in QR (One-year) declined from 3.44% at end-2019 to 2.03% at end-2020 and to 1.85% at end-March 2021. In parallel, the interest rate on credit facilities shrank from 5.37% at end-2019 to 4.49% at end-2020 and to 4.37% at end-March 2021.

It is worth mentioning that external liabilities' growth has been a salient credit feature of the Qatari banking system since 2016. With relatively static domestic deposits, nonresident deposits and external debt have funded brisk domestic credit growth through 2020 for both the private sector and government-related entities (GREs).

External funding can prove volatile in times of economic or geopolitical instability, as was the case in 2017 when a group of Arab states implemented a boycott against Qatar. In S&P's view, the strong capacity and willingness of the government to provide support if needed partially mitigates these risks, but the Qatari banking sector's net external liabilities reached just under US$ 99 billion at end-Sept, 2020. S&P expects Qatari banks' net external debt (including nonresident deposits) will contribute to the funding of roughly 35% of domestic loans over the next couple of years. Contributing to the rise in this ratio, the government plans to reduce its debt burden over the next few years and could withdraw funds placed with domestic banks to repay maturing debt.

In S&P's view, these factors weaken their assessment of risks pertaining to Qatari banks' funding profiles and its overall banking system industry risk assessment. Although they expect the overall economic effect on the banking system will be manageable, the full extent of related damage will become visible only when regulatory forbearance measures are lifted in 2021 (unless they are extended further). S&P expects cost of risk in the system will have nearly doubled by year-end 2021 versus 2019. With a low-interest-rate environment, profitability is likely to be squeezed, but capitalization shouldremain supportive of banks' overall creditworthiness.

Last but not least, in its latest IMF staff visit to Qatar, the IMF says that while the moratorium on loan repayments provides an opportunity for banks and businesses to adjust to the new environment, the continued proactive monitoring of credit portfolio risks will support banks' role in the economic recovery. The IMF welcomed the continued cooperation across financial sector regulators to strengthen the regulatory and supervisory frameworks at large.

1.4.3. Equity and Bond Markets

Mixed price movements in Qatar's capital markets after COVID-19 vaccine rollouts and strong oil price rebound

Rising optimism over a global economic recovery with the rollout of COVID-19 vaccines and a strong oil price rebound on prospects of reopenings sparked demand for Qatari equities over the first months of 2021, while putting downward price pressures on the country's fixed income market.

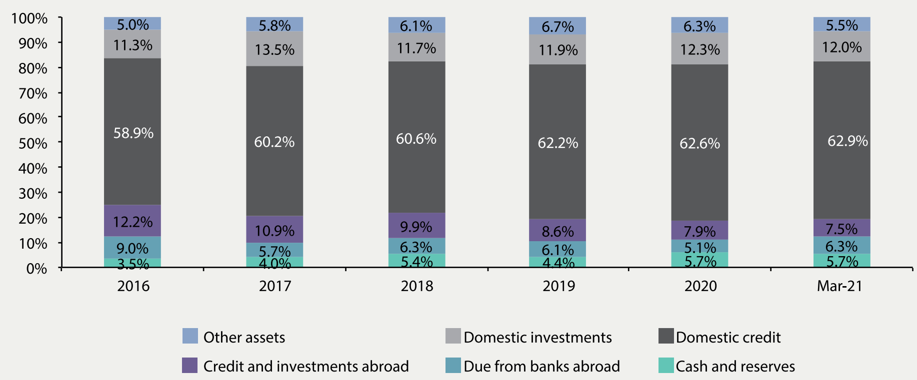
The Qatar Stock Exchange ended the first four months of the year 2021 on a positive note, as reflected by a 4.6% rise in the Qatar Exchange general index to reach 10,911.4 at end-April, following shy price gains of 0.1% in 2020. This is largely driven by a strong monthly equity price recovery in April 2021 (+4.9% m-o-m), (1) mainly tracking global equity strength following after the IMF raised its 2021 global growth forecast to 6% and expected the Qatari economy to grow by 2.4% in 2021 following a 2.6% contraction in 2020; and given (2) a strong recovery in 2021 first quarter corporate earnings; (3) an oil price rebound, with Brent prices surging by 30% over the first four months of 2021, mainly on improved global oil demand outlook on bets that the Coronavirus pandemic would subside with the ongoing rollout of COVID-19 vaccination

BANKING ACTIVITY

US$ million	2016	2017	2018	2019	2020	Q1-20	Q1-21	Variation Q1/Q1
Var. Total assets	41,211	27,721	14,922	36,153	36,434	10,721	18,126	69.1%
% change	13.5%	8.0%	4.0%	9.3%	8.6%	2.5%	3.9%	1.4%
Var. Total deposits	21,049	26,416	-3,487	10,661	15,483	12,152	10,899	-10.3%
% change	11.8%	13.2%	-1.5%	4.8%	6.6%	5.2%	4.4%	-0.8%
Var. Total credit facilities	24,897	19,707	8,075	27,103	24,622	12,765	12,603	-1.3%
% change	12.1%	8.5%	3.2%	10.5%	8.6%	4.5%	4.1%	-0.4%

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

ASSET COMPOSITION



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

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programs; and (4) on improved investor sentiment after the Qatari cabinet approved on April 15, 2021 a draft law allowing non-Qatari investors to own up to 100% of the capital of listed companies, and decided to maintain the Central Bank liquidity support for local banks as the country is facing a second wave of Coronavirus infections.

The number of listed companies on the Qatar Stock Exchange rose from 47 companies at end-December 2020 to 48 companies at end-April 2021. Given decent equity price gains and listing activity, the QSE market capitalization grew by 4.8% during the first four months of 2021, moving from US$ 165.4 billion at end-December 2020 to US$ 173.3 billion at end-April 2021. This followed a 3.3% expansion in 2020.

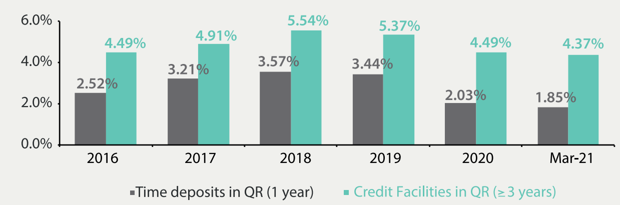
The total trading value on the QSE expanded significantly by 75.9% year-on-year during the first four months of 2021 to reach US$ 11.5 billion. This followed a 56.2% increase in 2020. The total number of traded shares rose by 92.7% year-on-year, moving from 10,209 million shares during the first four months of 2020 to 19,674 million shares during the first four months of 2021, and the total number of trades surged by 39.0% year-on-year during the first four months of 2021 to reach 862,067 transactions. That being said, the turnover ratio, measured by the annualized trading value to market capitalization, reached 19.9% during the first four months of 2021 as compared to 14.4% during the corresponding period of 2020.

At the level of the fixed income market, Qatari papers came under downward price pressures during the first four months of 2021, mainly tracking US Treasuries move and a global sell-off mood following solid US economic data and on bets that a progress in the rollout of Coronavirus vaccines globally and an unprecedented US relief package would sustain a global economic recovery, and after the US Federal acknowledged in its April 2021 FOMC meeting that inflation has risen while pointing to "transitory" factors behind the rise, and maintained its ultra-low interest rate policy.

A closer look at individual bonds shows that sovereigns maturing in 2026 and 2030 registered price contractions of 1.88 pt and 11.0 pts respectively during the first four months of 2021. Ooredoo papers maturing in 2026 recorded price drops of 1.58 pt. Amongst financials, Commercial Bank of Qatar'23 and Qatar National Bank'25 registered price decreases of 0.12 pt and 1.13 pt respectively during the first four months of 2021. This followed across-the-board price gains in 2020, which have tracked US Treasuries move over the year on global growth concerns amid rising Coronavirus cases globally, and as escalating geopolitical tensions flocked demand for safety.

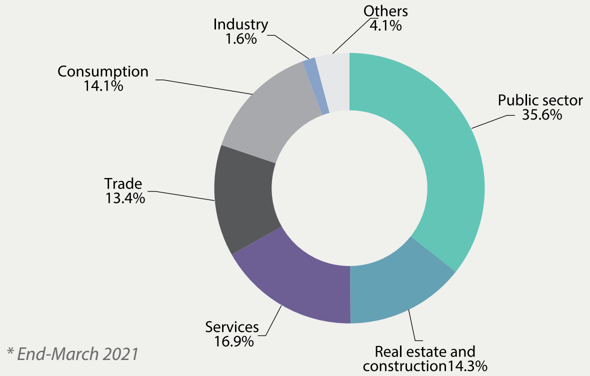
As to the cost of insuring debt, Qatar's five-year CDS spread, which measures the market's perception of sovereign risk at large, expanded slightly by 7 bps over the first four months of 2021 to reach 45 bps at end-April. This followed an erratic movement over the year 2020, as the cost of insuring debt reached a triple-digit level over the March-May 2020 period, hitting an unprecedented high level of 187 bps on March 19, 2020, mainly on growing global growth concerns following the outbreak of the Coronavirus pandemic, before falling back to 38 bps at end-2020 (as compared to 37 bps at end-2019) on increasing optimism that

BANKING SECTOR INTEREST RATES (IN QR)



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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



** End-March 2021*

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

a rollout of Coronavirus vaccines globally and a new US stimulus agreement would lead to a sooner-than-expected global economic recovery.

As to credit ratings, Standard & Poor's affirmed in May 2020 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 that, despite a sharp economic contraction and low hydrocarbon prices, S&P expects Qatar's credit profile would remain resilient, supported by its wealthy economy and strong government and external net asset positions. S&P also expects that the government would provide timely extraordinary liquidity support to the banking system in the less likely event of sudden and sharp reversals in foreign flows.

Fitch affirmed in June 2020 Qatar's long-term foreign currency Issuer Default Rating at "AA" with a "stable" outlook. Qatar's "AA-" ratings reflect, according to Fitch, a strong sovereign net foreign asset position, one of the world's highest ratios of GDP per capita and a flexible public finance structure allowing for favorable debt dynamics and a robust response to limit the fiscal impact of the Coronavirus pandemic. These strengths are balanced against a high level of debt and exceptionally high contingent liabilities compared with rated peers, heavy hydrocarbon dependence and mediocre scores on measures of governance and doing business, as per Fitch.

Also, Moody's affirmed in September 2020 the Government of Qatar's long-term issuer and foreign-currency senior unsecured debt ratings at "Aa3" and maintained the "stable" outlook. The rating affirmation is supported by a number of strengths embedded in Qatar's credit profile, which underpin the sovereign's resilience to shocks, including the current shock triggered by the Coronavirus pandemic and lower global oil prices. In particular, these strengths include Qatar's exceptionally high level of per-capita income, very large hydrocarbon reserves with low extraction costs, the government's very robust net asset position and an established track record of macroeconomic policy effectiveness. The "stable" outlook balances, as per Moody's, elevated regional geopolitical risks and the risk that an extended period of depressed oil prices delays the anticipated reversal of the weakening in government debt and debt affordability metrics against the potential fiscal and economic upside stemming from the planned expansion of the liquefied natural gas production capacity.

Looking forward, a continuous progress in global vaccination rollouts, growing prospects of a global economic recovery, and an expected rebound in the domestic economy would continue to fuel optimism across Qatar's capital markets, sparking appetite for riskier assets and turning away investors from safe-haven assets.

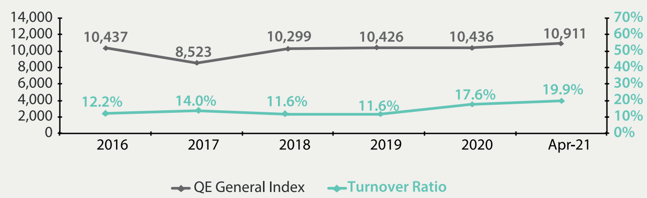
CAPITAL MARKETS INDICATORS

	2015	2016	2017	2018	2019	2020	Apr-21
Market Capitalization (US$ billion)	152.0	154.8	129.7	161.7	160.1	165.4	173.3
Total value traded (US$ billion)	25.7	19.0	18.2	18.8	18.6	29.1	11.5
Number of shares traded (million)	2,302	1,977	2,465	2,286	11,416	55,155	19,674
No. of listed companies	43	44	45	46	47	47	48
Change in QE general index	-15.1%	0.1%	-18.3%	20.8%	1.2%	0.1%	4.6%
P/E ratio*	11.5x	15.6x	16.5x	14.9x	14.8x	17.4x	18.8x
P/BV ratio*	1.6x	1.1x	1.3x	1.6x	1.5x	1.3x	1.5x
Dividend yield*	5.2%	5.2%	4.5%	4.0%	3.8%	3.4%	2.7%
Five-year CDS spreads (bps)	93	80	105	82	37	38	45

** 2021 Figures are as at end-March*

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

CAPITAL MARKETS PERFORMANCE



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

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2. CONCLUSION

Looking forward, Qatar's real GDP growth is expected to turn positive again in 2021 (2.4% as per IMF forecasts)as energy prices rise, global LNG demand picks up, and non-energy economic sentiment improves once the pandemic is controlled. Over the medium term, growth will reach around 3.6% by 2022 from delivery and legacy investments for the FIFA World Cup. The economic rebound in 2021 and 2022 depends on the control of COVID-19, which is a function of effective containment strategies worldwide and/or effective vaccines to engender widespread immunity – a likely prerequisite for FIFA 2022 to go ahead. Existing testing and tracing infrastructure will be helpful to quickly administer vaccines to the population, in turn safeguarding the investment in event-based tourism and services.

At the foreign sector level, the current account is set to turn into surplus over 2021-22 (7.1% and 7.9% respectively) with global rebound and FDI recovery (the latter driven by new LNG projects and recent improvements to the business environment). The recent recovery in international oil prices bodes well for Qatar's foreign sector outlook at large. It is worth mentioning that consistent with the projected global recovery, oil prices are projected by the IMF to grow by 30% in 2021 from their low base in 2020, in part reflecting the OPEC+ supply curbs.

At the fiscal level, as the pandemic is controlled, global demand picks up, and energy prices normalize, the fiscal deficit is expected to regain balance and turn into surplus by 2022 (7.3% as per IMF forecasts). Public sector balances will also be supported by the introduction of a VAT. The improvement in public finances, along with the economic recovery, should result in a decline in public debt to GDP from 71.8% at end-2020 to 59.8% at end-2021 and 53.9% at end-2022. As the recovery consolidates, the efforts to mobilize non-oil revenues and optimize expenditures should continue. A gradual fiscal consolidation would help preserve net public sector wealth.

The analysis of Qatar's short to medium term outlook actually requires a careful examination of strengths and opportunities relative to the threats and challenges. At the level of the former, we mention the exceptionally high per capita income, the vast hydrocarbon reserves and the robust government net asset position, notwithstanding the positive spillovers of the recent normalization of relations between Qatar and its neighbors. At the level of risks constraining the outlook, we mention the heavy reliance on hydrocarbon revenue, the relatively high public-sector debt and the elevated external debt and transparency shortcomings.

While those risk factors are real challenges, we believe strengths outpace weaknesses and opportunities outweigh threats at the horizon. The "strength" factors provide significant shock absorption capacity and mitigate the vulnerability of government revenue to temporary declines in oil prices, such as the one caused by the coronavirus pandemic, as well as the economic and financial risks arising from Qatar's exposure to regional geopolitical tensions.

Finally, in its latest IMF staff visit to Qatar, the IMF says the ambitious structural reform agenda underpins Qatar's economic diversification efforts to enhance long-term potential growth. The abolishment of the Kafala sponsorship system and strengthening labor protection are welcomed steps in facilitating labor mobility and spur productivity. These measures along with the new real estate and public-private partnerships (PPP) laws should help Qatar to improve its competitiveness. Reforms towards strengthening minority investors protection, contract enforcement, and insolvency resolution will further improve Qatar's business environment, mobilize foreign direct investment, and support economic diversification at large.

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