



Summary

Qatar is a small Gulf state with only 0.9m inhabitants, who enjoy one of the world's highest GDP per capita due to the country's vast hydrocarbon resources. The domestic social situation in Qatar is stable, despite the regional fear of contagion of an Arab Spring revolution, as the government has deep pockets, inflation is low at an estimated average of 2.9% for 2011, and the native Qatari population is very content with the social situation. International relations of Qatar have markedly improved in recent years and increased its status as a regional peacekeeper, even being dubbed the Switzerland of the Middle East. The economy is still growing at a rapid pace, estimated at 16% in 2011. Economic policy is geared towards democratization, diversification away from the hydrocarbon sector and higher education for the native Qatari population. The external position is very strong, boosted by the revenues from hydrocarbon exports.

Things to watch:

- The government's diversification efforts

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Qatar				
National facts			Social and governance indicators rank / total	
Type of government	Emirate		Human Development Index (rank)	38 / 169
Capital	Doha		Ease of doing business (rank)	50 / 183
Surface area (thousand sq km)	11.4		Economic freedom index (rank)	27 / 179
Population (millions)	0.9		Corruption perceptions index (rank)	19 / 178
Main languages	Arabic		Press freedom index (rank)	121 / 178
	English		Gini index (income distribution)	41.1
Main religions	Muslim (77.5%)		Population below \$1.25 per day (PPP)	n.a.
	Christian (8.5%)			
	Other (14%)			
Head of State (president)	A.H. bin Khalifa al-Thani		Foreign trade 2010	
Head of Government (prime-minister)	H. bin J. bin Jabir al-Thani		<i>Main export partners (%)</i> <i>Main import partners (%)</i>	
Monetary unit	Qatari Riyal (QAR)		Japan	31
			US	16
			South Korea	13
			Italy	9
			Singapore	8
			Japan	7
			India	8
			Germany	6
Economy 2010			Main export products (%)	
<i>Economic size</i>			<i>Main export products (%)</i>	
	<i>bn USD</i>	<i>% world total</i>	Natural gas liquids	25
Nominal GDP	145	0.23	Liquefied natural gas	25
Nominal GDP at PPP	117	0.16	Crude oil	21
Export value of goods and services	75	0.40	Petrochemicals	6
IMF quatum (in mln SDR)	264	0.12		
<i>Economic structure</i>			Main import products (%)	
	<i>2010</i>	<i>5-year av.</i>	Machinery & mechanical appliances	46
Real GDP growth	14.0	11.4	Base metals	29
Agriculture (% of GDP)	0	0	Vehicles & other transport equipment	14
Industry (% of GDP)	72	71	Food products	6
Services (% of GDP)	28	29		
<i>Standards of living</i>			Openness of the economy	
	<i>USD</i>	<i>% world av.</i>	Export value of G&S (% of GDP)	52
Nominal GDP per head	84447	857	Import value of G&S (% of GDP)	21
Nominal GDP per head at PPP	68142	581	Inward FDI (% of GDP)	3.9
Real GDP per head	46266	579		

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Country risk update

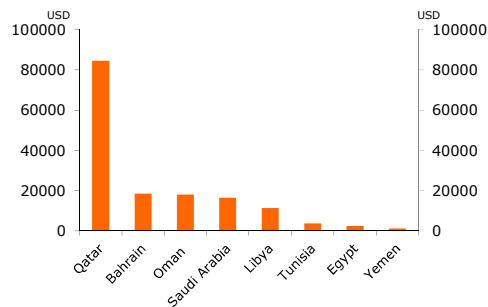
In this update of our country risk report of October 2010, we highlight the domestic social situation in Qatar given the regional fear of contagion of an Arab Spring revolution. We further discuss the international relations of Qatar. The economy is still growing at an enormous pace, although we have revised our GDP growth forecast for 2011 slightly downwards from 17% to 16%. We have not seen any significant change in economic policy, since the fiscal and external position are both very strong, boosted by the revenues from hydrocarbon exports.

Arab spring in Qatar?

We do not think so. Qatar is likely to maintain domestic social stability and security under the rule of the present emir, Sheikh Hamad bin Khalifa al-Thani (59), who may well be in power for the coming decade or even longer. We do not believe the recent unrest across the region will spread to Qatar for several reasons.

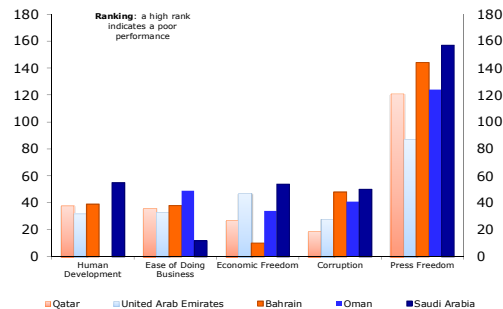
First, and most important, the native population is content with the social situation. Qatar faces few of the unemployment and poverty issues seen in Tunisia, Egypt, Libya and Bahrain. In fact, the oil and gas wealth is spread through the population so well that the population enjoys one of the highest nominal GDP per capita's in the world, at USD 84,447 in 2010. The Gini coefficient, which measures income distribution, is high at 41.1. This implies that wealth is not spread evenly throughout the entire population, which is the case for Qatar as the expat workers in the lower-end services and manufacturing sector performing unskilled labour earn relatively low incomes. These workers are unlikely to protest, as they are seen as instantly replaceable by their Qatari employers.

Chart 1: Income levels



Source: EIU

Chart 2: Social & governance indicators

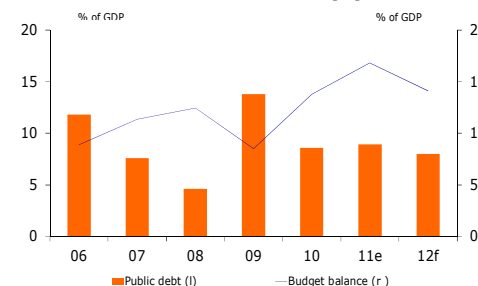


Source: UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Moreover, they are content to the extent that they have found an employment opportunity abroad, which is highly likely to earn better than the employment opportunities in their home country. Qatar further scores very well on social and governance indicators, see chart 2. It scores the best of the countries in the Gulf region.

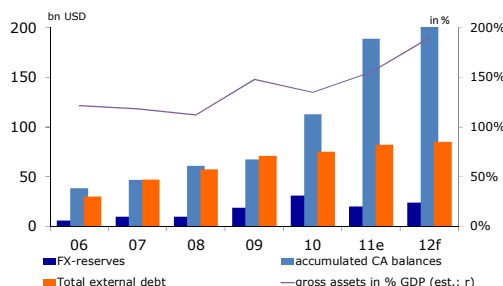
However, Qatar does have a limited degree of press freedom and also has a long-standing non-democratic rule and political parties are banned. The ruling Al Thani family has cemented control of the country in the constitution, which stipulates that the country's rulers must be descendants of the incumbent emir, with the office passing to the emir's son. The reason the population has not been vocal to cry out for democratic reforms in the country is that they have actually been introduced, albeit extremely slowly. The country's first local elections were held in March 1999 and a new constitution was passed by referendum in April 2003, paving the way for a partial transfer of power from the emir to a partly elected legislature and independent judiciary, although these changes have yet to be implemented. In July 2008, the emir appointed 6 new ministers in a major expansion of the cabinet. This has paved the way for the creation of several new ministries, including ministries of environment, social affairs, international cooperation and culture. Thus as the emir has already shown the will towards democratization and the population is content with the social situation, no Arab Spring like uprising is expected in Qatar. Since the government has very deep pockets which grow deeper every year considering the continuous budget surpluses, it can easily provide one-off concessions to citizens, such as free food or a cash hand-out, to decrease any pressure of protest contagion. These deep pockets are expected to last for the coming decades, given the amount of oil and gas reserves in the country. Hydrocarbon export revenues have boosted government revenues and the accumulation of external assets. The stock of FX-reserves has risen to a staggering level of USD 19.6bn in 2011 for a country with a population of only 900,000.

Chart 3: Government's deep pockets



Source: EIU

Chart 4: Estimate of external assets



Source: EIU

High international aspirations

Why did Qatar already show a strong drive toward democratization when the population was already content and no significant risk of anti-government protests existed? Because it wants to raise its profile to become an international political and economic player. The Al-Thani family has recognized that efforts towards democratization are necessary to raise its international standing, especially as a top priority is to strengthen its relations with the US, while maintaining friendly ties with Iran. To further increase its international reputation, Qatar has pursued a high-profile independent foreign policy quite successfully over the years. With its web of alliances in the region, Qatar gained profile as mediator in regional conflicts such as in Lebanon, Palestine and Sudan. If needed, it is able to back up its efforts with financial assistance. It contributed significantly to a NATO-led mission in Libya, granted Egypt USD 500m in financial assistance, met with the Iranian president Ahmadinejad to discuss the unrest in Syria, hosted a meeting of Libya's National Transitional Council and hosted an extraordinary meeting of the Arab League's Peace Initiative Committee to devise a strategy for enlisting support for a declaration of a Palestinian state. However, its high-profile diplomatic engagement on multiple fronts also increases the risk of straining relations with allies that disapprove of its policies or feel that Qatar is interfering in their own spheres of influence. Most recently, Qatari backing for a Gulf Co-operation Council (GCC) initiative in Yemen, which proposes that Yemen's president, Ali Abdullah Saleh, steps down, led to Yemen recalling its ambassador in April. Also Saudi Arabia feels that Qatar is interfering in its sphere of influence. Saudi Arabia's conservative ruling elite also objects to the presence of the Qatar-based Al-Jazeera satellite TV channel, which is openly critical of the Saudi royal family. On the other hand, both countries do cooperate as they share an interest in counter-terrorism and regional security issues. Despite some strained relationships, we believe Qatar can successfully continue its independent foreign policy in coming years.

Qatar							
Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
<i>Key country risk indicators</i>							
GDP (% real change pa)	12.8	17.1	11.7	9.5	14.0	15.8	5.9
Consumer prices (average % change pa)	11.9	13.6	15.2	-4.9	-2.4	2.8	3.8
Current account balance (% of GDP)	16.4	10.8	12.8	6.8	31.2	42.3	42.5
Total foreign exchange reserves (mln USD)	5383	9416	9650	18370	30621	19671	23671
<i>Economic growth</i>							
GDP (% real change pa)	12.8	17.1	11.7	9.5	14.0	15.8	5.9
Gross fixed investment (% real change pa)	12.8	21.4	12.6	-1.9	6.2	2.8	2.7
Private consumption (real % change pa)	29.1	12.2	12.4	2.8	9.7	6.7	7.3
Government consumption (% real change pa)	31.5	11.3	10.2	6.6	9.5	6.2	6.5
Exports of G&S (% real change pa)	24.9	13.6	12.7	16.4	20.5	19.3	5.8
Imports of G&S (% real change pa)	42.4	13.0	13.4	3.1	12.3	4.4	4.2
<i>Economic policy</i>							
Budget balance (% of GDP)	8.9	11.4	12.4	8.5	13.8	16.8	14.1
Public debt (% of GDP)	12	8	5	14	9	9	8
Money market interest rate (%)	4.8	4.4	1.1	2.1	1.7	5.0	5.5
M2 growth (% change pa)	40	40	20	17	23	23	12
Consumer prices (average % change pa)	11.9	13.6	15.2	-4.9	-2.4	2.8	3.8
Exchange rate LCU to USD (average)	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Recorded unemployment (%)	0.9	0.4	0.4	0.5	0.5	0.4	0.5
<i>Balance of payments (mln USD)</i>							
Current account balance	9916	8708	14137	6688	45111	76370	81770
Trade balance	19240	20912	31457	25854	51104	79010	85290
Export value of goods	34051	42020	56593	48306	72040	104340	109870
Import value of goods	14811	21108	25135	22452	20937	25330	24590
Services balance	-2763	-3726	-3796	-3916	11792	14990	14900
Income balance	-3281	-4239	-6762	-9413	-12944	-12310	-12800
Transfer balance	-3280	-4239	-6762	-5837	-4841	-5310	-5630
Net direct investment flows	32	-4125	4300	1255	403	1860	470
Net portfolio investment flows	-13890	-12700	-22610	-5570	-19515	-34500	-44490
Net debt flows	9402	17338	10203	13430	4339	6910	2870
Other capital flows (negative is flight)	-4618	-4864	-5784	-6995	-17957	-61450	-36630
Change in international reserves	843	4357	246	8808	12382	-10800	3990
<i>External position (mln USD)</i>							
Total foreign debt	29824	47162	57365	70795	75135	82050	84910
Short-term debt	6444	7347	8749	6252	5830	7060	6850
Total debt service due, incl. short-term debt	7967	9761	12025	14509	12401	12190	13840
Total foreign exchange reserves	5383	9416	9650	18370	30621	19671	23671
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	31.8	25.9	28.4	26.3	35.3	43.7	44.3
Current account balance (% of GDP)	16.4	10.8	12.8	6.8	31.2	42.3	42.5
Inward FDI (% of GDP)	0.3	1.4	6.1	5.5	3.9	3.3	2.8
Foreign debt (% of GDP)	49	58	52	72	52	45	44
Foreign debt (% of XGSIT)	74	100	93	138	97	74	72
Debt service ratio (% of XGSIT)	20	21	20	28	16	11	12
Interest service ratio incl. arrears (% of XGSIT)	4	4	3	6	4	3	3
FX-reserves import cover (months)	2.5	2.3	3.5	4.1	7.4	10.2	6.8
FX-reserves debt service cover (%)	68	96	80	127	247	161	171
Liquidity ratio	167	168	187	173	220	278	270

Source: EIU

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