

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, as the government has deep pockets and the native Qatari population is very content with the social situation. Inflation is low at an estimated average of 2.0% for 2012. Qatar has outstanding international relations and is dubbed the Switzerland of the Middle-East. However, an escalation of the civil war in Syria and the conflict between Israel and Iran remain geopolitical risks. The fiscal and external positions are in healthy shape due to the country's sustained hydrocarbon exports, but Qatar remains too dependent on this sector.

Author: **Ashwin Matabadal**
Country Risk Research
Economic Research Department
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands
+31-(0)30-21- 61601
A.R.K.Matabadal@rn.rabobank.nl

Country report QATAR

| Qatar | | | | | | |
|---|------------------------------|----------------------|---|-----------|--------------|----|
| National facts | | | Social and governance indicators rank / total | | | |
| Type of government | Emirate | | Human Development Index (rank) | 37 / 187 | | |
| Capital | Doha | | Ease of doing business (rank) | 40 / 185 | | |
| Surface area (thousand sq km) | 11.4 | | Economic freedom index (rank) | 25 / 179 | | |
| Population (millions) | 0.9 | | Corruption perceptions index (rank) | 22 / 183 | | |
| Main languages | Arabic, English | | Press freedom index (rank) | 114 / 178 | | |
| Main religions | Muslim (77.5%) | | Gini index (income distribution) | 41.1 | | |
| | Christian (8.5%) | | Population below \$1 per day (PPP) | n.a. | | |
| | Other (14%) | | | | | |
| Head of State (president) | A.H. bin Khalifa al-Thani | | Foreign trade 2011 | | | |
| 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 | 27 | US | 13 |
| | | | South Korea | 18 | UAE | 12 |
| | | | India | 8 | Saudi Arabia | 9 |
| | | | Singapore | 7 | UK | 6 |
| Economy 2011 | | | <i>Main export products (%)</i> | | | |
| <i>Economic size</i> | | | <i>Main import products (%)</i> | | | |
| Nominal GDP | <i>bn USD</i> | <i>% world total</i> | Liquefied natural gas | 33 | | |
| Nominal GDP at PPP | 174 | 0.25 | Natural gas liquids | 32 | | |
| Export value of goods and services | 139 | 0.18 | Crude oil | 20 | | |
| IMF quatum (in mln SDR) | 111 | 0.51 | Petrochemicals | 4 | | |
| | 303 | 0.14 | <i>Main import products (%)</i> | | | |
| <i>Economic structure</i> 2011 5-year av. | | | Machinery & mechanical appliances | 29 | | |
| Real GDP growth | 14.1 | 13.6 | Base metals | 21 | | |
| Agriculture (% of GDP) | 0 | 0 | Vehicles & other transport equipment | 15 | | |
| Industry (% of GDP) | 73 | 67 | Food products | 7 | | |
| Services (% of GDP) | 27 | 32 | <i>Openness of the economy</i> | | | |
| <i>Standards of living</i> USD % world av. | | | Export value of G&S (% of GDP) | 64 | | |
| Nominal GDP per head | 101604 | 939 | Import value of G&S (% of GDP) | 19 | | |
| Nominal GDP per head at PPP | 81570 | 657 | Inward FDI (% of GDP) | 3.3 | | |
| Real GDP per head | 54226 | 666 | | | | |

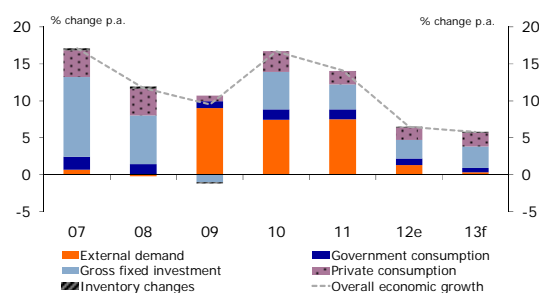
Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Update report:

Since our last country report, dated December 2011, Qatar has remained politically stable. It is the mediator of the Middle East, and is the only country in the world which maintains sound international relations with the US and Iran simultaneously. The country has not been affected by the social unrest emanating from the Arab Spring, as the level of prosperity remains high with nominal GDP per capita of USD 101,604 in 2011. This prosperity is owed to the country's vast hydrocarbon resources. The fiscal and external positions of Qatar remain healthy, on the back of high hydrocarbon export revenues. However, with most of the state's capital-intensive giant energy projects completed, the era of double-digit economic growth won't return shortly. In the second quarter of 2012, growth slipped to 5% year-on-year, sharply down from the double-digit expansion enjoyed in 2011. We estimate economic growth at 6.5% in 2012. The economy of Qatar is at a crossroads. In this update report we analyze the oil and gas base of the country and explain that economic growth will have to be boosted by the non-hydrocarbon sector from now on.

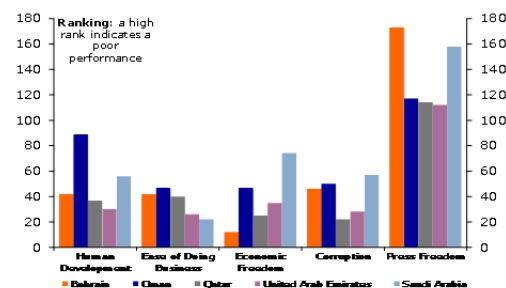
Country report QATAR

Figure 1: Growth performance



Source: EIU

Figure 2: Social & governance indicators



Source: See factsheet

The oil and gas base

Historically, oil and gas have been the twin engines of the Qatari economy. They are the principal providers of government revenue, and large parts of the manufacturing and services sectors are closely linked to these sectors. Oil and gas exports (including petrochemicals) constitute 89% of total export earnings. In the past 15 years, Qatar, in partnership with foreign companies, has invested in excess of USD 70bn to expand its oil and gas capacity. As a result, the country has raised its oil reserves from 3.8bn barrels in the mid-1990s to 15bn barrels, and its production capacity from less than 300,000 barrels a day (b/d) to around 1m b/d (actual production is around 740,000 b/d, however, to prolong the life of the reserves). In 2011 the country's liquefied natural gas (LNG) capacity reached the targeted 77m tons/year (t/y).

However, from now on, oil and gas production is set to more or less stabilize at current levels. Given the evolution of multiple streams of government revenue that have accompanied the development of the oil and gas industry over the past 15 years, it is no wonder that the government has paused further exploitation of the giant North Field until after 2015. This field gives Qatar the third-largest gas reserves in the world after Russia and Iran, exceeding 905 tonnes of cubic feet. This means that there will be fewer investments in oil and gas projects, and, hence, weaker growth in the hydrocarbon sector.

Non-hydrocarbons sector to drive growth

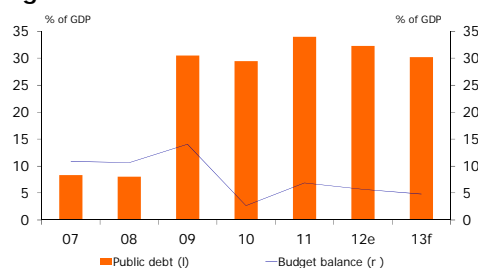
Instead, investments in the non-hydrocarbons sector will drive real GDP growth, as they have been doing in 2012. An expansive government spending program, high liquidity in the banking sector and strong population growth — currently 9% a year — are underpinning increased activity in services, manufacturing and construction. The government is set to continue high levels of capital spending on health, education and tourism, in addition to infrastructure projects related to the 2022 World Cup. According to the state's General Secretariat for Development Planning, Qatar could spend around 10% of GDP in 2012 and 2013 on infrastructure and total project disbursements.

The government's development plans will be a boon for the construction sector. The pipeline of projects includes the launch of the Qatar National Railway System, costing USD 35bn, road networks worth USD 18bn and new stadiums and hotels. Manufacturing is also set for substantial expansion, as Qatar Petroleum starts construction work on three giant petrochemical projects in 2013.



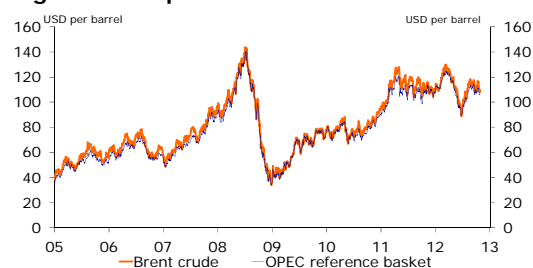
Country report QATAR

Figure 3: Public finances



Source: EIU

Figure 4: Oil prices



Source: Reuters EcoWin

The strong performance in transport, communications and financial services during 2Q12 testifies to the potential of the services sector. Finance, in particular, which accounted for 37% of the service sector during 2Q12, is benefiting from a multitude of financing opportunities for major development projects. In 2011, the services sector, which accounted for 65% of the non-hydrocarbons sector, enjoyed rapid growth of 13.2%, as oil and gas revenue filtered through the economy. This has boosted growth in all sectors from hospitality to financial services, public administration and logistics. While services sector growth may not repeat the high numbers of 2011, it will become a mainstay of the next phase of Qatar's development, alongside a busy construction schedule and expanding manufacturing. This new growth stage also carries risks, given rapid expansion in finance and construction — two sectors that are prone to bubbles. This will require careful monitoring, even though the banking sector is currently sound and the depth of the government's pockets helps to mitigate such risks.

Country report QATAR

| Qatar | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|
| Selection of economic indicators | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013f |
| <i>Key country risk indicators</i> | | | | | | | |
| GDP (% real change pa) | 17.1 | 11.7 | 9.5 | 16.7 | 14.1 | 6.5 | 5.8 |
| Consumer prices (average % change pa) | 13.6 | 15.2 | -4.9 | -2.4 | 1.9 | 2.0 | 3.1 |
| Current account balance (% of GDP) | 10.8 | 12.8 | 6.8 | 16.5 | 30.3 | 32.3 | 29.6 |
| Total foreign exchange reserves (m USD) | 9416 | 9650 | 18370 | 30621 | 16199 | 23299 | 25299 |
| <i>Economic growth</i> | | | | | | | |
| GDP (% real change pa) | 17.1 | 11.7 | 9.5 | 16.7 | 14.1 | 6.5 | 5.8 |
| Gross fixed investment (% real change pa) | 21.4 | 12.6 | -1.9 | 10.7 | 7.7 | 6.0 | 7.0 |
| Private consumption (real % change pa) | 12.2 | 12.4 | 2.8 | 10.2 | 7.0 | 7.2 | 8.0 |
| Government consumption (% real change pa) | 11.3 | 10.2 | 6.6 | 10.5 | 10.0 | 7.0 | 4.5 |
| Exports of G&S (% real change pa) | 13.6 | 12.7 | 16.4 | 21.0 | 18.8 | 2.0 | 2.6 |
| Imports of G&S (% real change pa) | 13.0 | 13.4 | 3.1 | 12.3 | 10.8 | 0.5 | 3.0 |
| <i>Economic policy</i> | | | | | | | |
| Budget balance (% of GDP) | 10.9 | 10.7 | 14.1 | 2.7 | 6.9 | 5.7 | 4.8 |
| Public debt (% of GDP) | 8 | 8 | 31 | 30 | 34 | 32 | 30 |
| Money market interest rate (%) | 4.4 | 1.1 | 2.1 | 1.7 | 0.5 | 0.6 | 1.0 |
| M2 growth (% change pa) | 40 | 20 | 17 | 23 | 17 | 15 | 14 |
| Consumer prices (average % change pa) | 13.6 | 15.2 | -4.9 | -2.4 | 1.9 | 2.0 | 3.1 |
| Exchange rate LCU to USD (average) | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Recorded unemployment (%) | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.5 | 0.3 |
| <i>Balance of payments (m USD)</i> | | | | | | | |
| Current account balance | 8708 | 14137 | 6688 | 21027 | 52610 | 62230 | 61070 |
| Trade balance | 20912 | 31457 | 25854 | 51104 | 83900 | 93830 | 92230 |
| Export value of goods | 42020 | 56593 | 48306 | 72040 | 106978 | 115960 | 114650 |
| Import value of goods | 21108 | 25135 | 22452 | 20937 | 23078 | 22130 | 23420 |
| Services balance | -3726 | -3796 | -3916 | -5769 | -5207 | -4430 | -4130 |
| Income balance | -4239 | -6762 | -9413 | -12944 | -14128 | -15250 | -15150 |
| Transfer balance | -4239 | -6762 | -5837 | -11363 | -11956 | -11920 | -11870 |
| Net direct investment flows | -460 | -2250 | -3459 | 3671 | -216 | -550 | -1340 |
| Net portfolio investment flows | -12700 | -22610 | -5570 | -19515 | -34495 | -39490 | -44470 |
| Net debt flows | 17338 | 9938 | 22960 | 28232 | 16970 | 11390 | 7220 |
| Other capital flows (negative is flight) | -8529 | 1031 | -11811 | -21034 | -49231 | -26460 | -20490 |
| Change in international reserves | 4357 | 246 | 8808 | 12382 | -14362 | 7130 | 1980 |
| <i>External position (m USD)</i> | | | | | | | |
| Total foreign debt | 47162 | 57100 | 80060 | 108292 | 125262 | 136650 | 143870 |
| Short-term debt | 7347 | 8749 | 6252 | 5830 | 6432 | 6170 | 6250 |
| Total debt service due, incl. short-term debt | 11157 | 12682 | 15364 | 17024 | 16361 | 16700 | 21380 |
| Total foreign exchange reserves | 9416 | 9650 | 18370 | 30621 | 16199 | 23299 | 25299 |
| <i>Key ratios for balance of payments, external solvency and external liquidity</i> | | | | | | | |
| Trade balance (% of GDP) | 25.9 | 28.4 | 26.3 | 40.1 | 48.4 | 48.6 | 44.6 |
| Current account balance (% of GDP) | 10.8 | 12.8 | 6.8 | 16.5 | 30.3 | 32.3 | 29.6 |
| Inward FDI (% of GDP) | 5.8 | 3.4 | 8.3 | 4.3 | 3.3 | 2.7 | 2.3 |
| Foreign debt (% of GDP) | 58 | 52 | 81 | 85 | 72 | 71 | 70 |
| Foreign debt (% of XGSIT) | 100 | 93 | 156 | 140 | 110 | 110 | 117 |
| Debt service ratio (% of XGSIT) | 24 | 21 | 30 | 22 | 14 | 13 | 17 |
| Interest service ratio incl. arrears (% of XGSIT) | 4 | 3 | 7 | 6 | 5 | 4 | 5 |
| FX-reserves import cover (months) | 2.3 | 3.5 | 4.1 | 7.4 | 11.2 | 6.2 | 8.8 |
| FX-reserves debt service cover (%) | 84 | 76 | 120 | 180 | 99 | 140 | 118 |
| Liquidity ratio | 162 | 185 | 172 | 208 | 277 | 282 | 279 |

Source: EIU

Disclaimer

This document is issued by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. incorporated in the Netherlands, trading as Rabobank Nederland, and regulated by the FSA. The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy or completeness. It is for information purposes only and should not be construed as an offer for sale or subscription of, or solicitation of an offer to buy or subscribe for any securities or derivatives. The information contained herein is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient. All opinions expressed herein are subject to change without notice. Neither Rabobank Nederland, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith, and their directors, officers and/or employees may have had a long or short position and may have traded or acted as principal in the securities described within this report, or related securities. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities are described in this report, or any related investment. This document is for distribution in or from the Netherlands and the United Kingdom, and is directed only at authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 or to persons described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001, or to persons categorised as a "market counterparty or intermediate customer" in accordance with COBS 3.2.5. The document is not intended to be distributed, or passed on, directly or indirectly, to those who may not have professional experience in matters relating to investments, nor should it be relied upon by such persons. The distribution of this document in other jurisdictions may be restricted by law and recipients into whose possession this document comes from should inform themselves about, and observe any such restrictions. Neither this document nor any copy of it may be taken or transmitted, or distributed directly or indirectly into the United States, Canada, and Japan or to any US-person. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of Rabobank Nederland. By accepting this document you agree to be bound by the foregoing restrictions.