Euler Hermes Economic Research

Country Report

Qatar

Gas-fired

General Information

GDP	USD172.982bn (World ranking 54, World Bank 2012)
Population	2.05 million (World ranking 145, World Bank 2012)
Form of state	Emirate
Head of government	HH Sheikh Abdullah bin Nasser bin Khalifa Al Thani
Next elections	None

Strengths

- Unlike elsewhere in the region, leadership has been passed to a younger generation, providing a degree of popular support in the ST.
- US military support affords some regional protection.
- Large reserves of hydrocarbons, including the world's third-largest proven reserves of natural gas (after Iran and Russia).
- Long-term development strategy that has accelerated diversification away from upstream oil and gas.
- Continuing high rates of GDP growth.
- Fiscal and current account surpluses.
- Large foreign asset base (SWF of USD115bn).

Weaknesses

- The reins of power remain firmly in the hands of the ruling al-Thani family and the population remains largely disenfranchised, providing LT concerns.
- Regional instability (including Syria) and uncertainties (including Iran) impact on perceptions of risk.
- US military bases and the country's oil and gas facilities are potential targets for terrorist or extremist groups.
- Despite the active policy of economic diversification, the economy relies heavily on hydrocarbons and this leaves it vulnerable to changes in levels of global activity and in international commodity prices.
- Data transparency remains weak for an economy of its size and strategic importance.

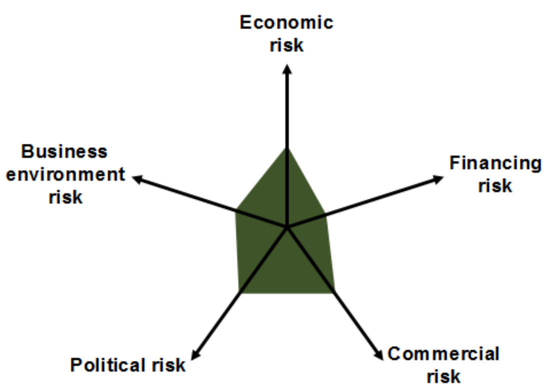
Country Rating

BB1

Country Grade

Country Risk Level

Risk Dimensions



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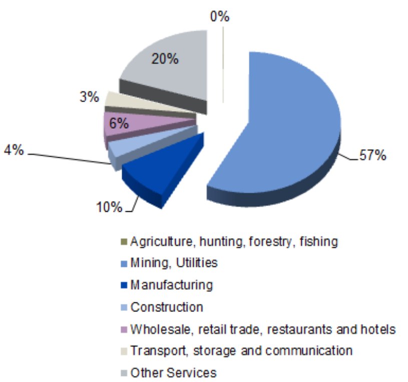
Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
Japan	27%	1	12%	United States
Korea, Republic of	19%	2	12%	United Arab Emirates
India	10%	3	8%	Saudi Arabia
Singapore	7%	4	8%	United Kingdom
United Kingdom	7%	5	6%	Germany

By product

Exports		Rank		Imports
Gas, natural and manufactured	52%	1	10%	Road vehicles
Petroleum, petroleum products and related	40%	2	8%	Electrical machinery, apparatus and appliances,
Plastics in primary forms	2%	3	7%	Other industrial machinery and parts
Organic chemicals	2%	4	6%	Other transport equipment

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	12.0	16.7	13.0	6.5	4.5	5.0
Inflation (%, end-year)	-4.9	0.4	1.9	2.6	3.0	1.6
Fiscal balance (% of GDP)	12.4	2.4	8.2	8.8	4.3	2.8
Public debt (% of GDP)	32.5	38.7	37.0	32.8	30.9	29.6
Current account (% of GDP)	6.5	19.0	30.3	32.4	23.5	20.1
External debt (% of GDP)	70.7	67.2	53.8	48.4	44.3	41.2

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

Growth weakens but remains high

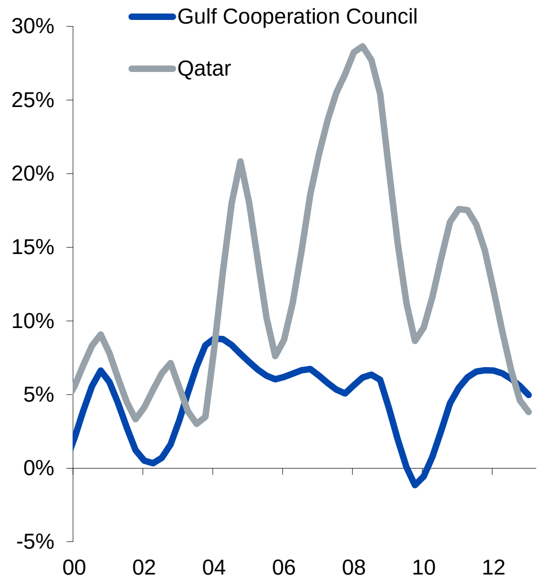
It is a mark of the pace of recent economic growth (GDP expanded by an annual average +12.4% in 2004-08) that single-digit growth of +4% to +5% from 2012 onwards is seen as a slowdown. In fact, annual expansion of around +5% represents a more stable economic environment, compared with the rapid gas sector-led expansion of the earlier period (real GDP increased by +26% in 2006). Indeed, in 2012, growth was driven mainly by a robust performance in the non-hydrocarbon sector as annual gas output appeared to plateau in 2011-12 at around 150 billion cubic metres, compared with 77 billion in 2008.

Outlook is for stable growth in 2013-14

Against a background of sluggish global growth and uncertain energy demand, as well as recent output increases, Qatar announced a moratorium on further expansion in LNG (liquefied natural gas) production until 2015. However, the non-hydrocarbon sector will continue to grow positively, particularly as construction and transport will be spurred by preparations for Qatar to host the 2022 FIFA World Cup. EH expects GDP growth to be +4.5% in 2013 and +5% in 2014.

Recent discoveries of untapped gas fields suggest continuing high GDP growth rates beyond the forecast period.

GDP growth (y/y, 4 qtrs cumulated %)



Sources: IHS Global Insight, Euler Hermes

Economic Policies

The Qatari planning authorities are not resting on the rewards and revenues from earlier investment in gas output. There is an active policy of diversification away from the upstream hydrocarbon sector. In particular, large infrastructure projects ahead of the 2022 FIFA World Cup are the focus of a development plan. The latter includes publicly-funded projects of over USD100 billion for a national railway system, new international airport, new port and hotels, sport stadiums and other associated requirements to host a major international event.

Inflationary pressures remain low and the banking sector sound

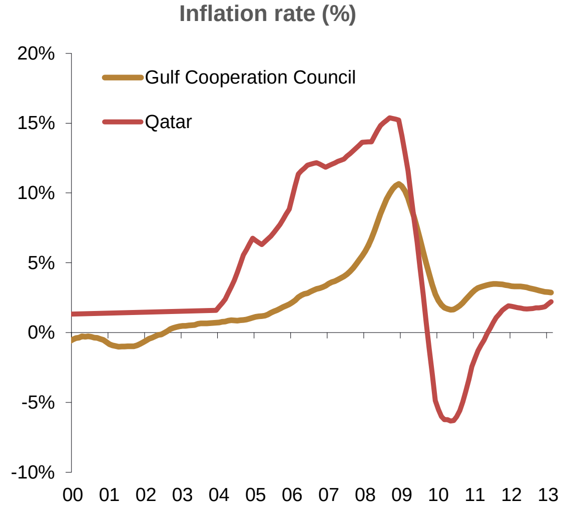
In the banking sector, both provisioning and non-performing loans remain low and independent assessments suggest that the financial sector as a whole is strongly profitable and that banks are adequately capitalised. As a result, banks are able to extend lines of credit to businesses in the non-hydrocarbon sector to allow funding towards infrastructure projects and economic diversification strategies. In any event, the central bank has shown willingness to implement emergency measures to support liquidity and shore up confidence in the banking system, in need. Qatar has a substantial asset base on which to draw if support is needed, with ample internal and external financial surpluses, including a large foreign-asset position. The sovereign wealth fund, Qatar Investment Authority is estimated to control assets of around USD115 billion. Meanwhile, public-sector credit growth will also remain strong.

Despite a generally expansive fiscal stance, inflationary pressures remain subdued. EH expects inflation rates to be mainly within the official target range of 3-6%.

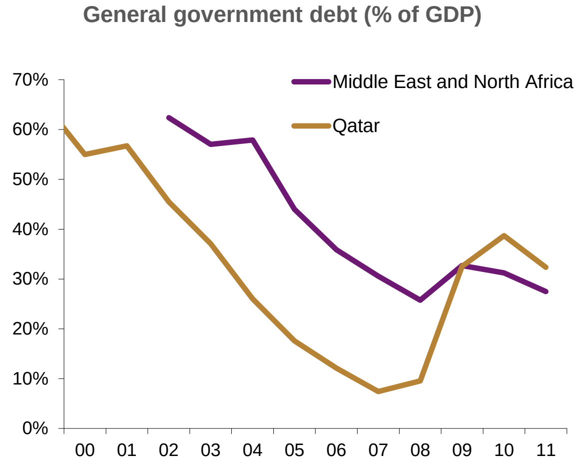
EH does not expect the exchange rate regime to change in the forecast period to end-2014, with the fixed peg of QAR3.64 = USD1 throughout. Progress towards a full Gulf monetary union has been limited and EH does not envisage the introduction of an effective GCC single currency in this period.

Continuing fiscal surpluses

Oil and, particularly, gas revenues underpin the country's fiscal stance. Despite large outlays from the budget that provide social services for its citizens and partly fund significant expenditure on infrastructure, surpluses are regularly recorded in the fiscal accounts. In 2000-08, the annual budget surplus averaged +8.5% of GDP. EH expects the fiscal balance to remain strong, with budget surpluses equivalent to +4.3% and +2.8% of GDP in 2013 and 2014, respectively, despite continuation of significant expenditures on health, education and infrastructure.



Sources: IHS Global Insight, Euler Hermes



Sources: IHS Global Insight, Euler Hermes

External Sector

Large current account surpluses

Despite a lacklustre global economy, Qatar's export trade is focused on Asia (over 60% of goods shipped out of the country) where economies have been generally stronger. In addition, demand for energy sources (gas and oil account for over 90% of exports) is relatively inelastic, gas shipments are contracted over lengthy periods and oil prices have remained stable, despite the advent of North American shale-related products. Accordingly, Qatar's exports in 2012 generated around USD130 billion, an increase of almost 79% over 2010.

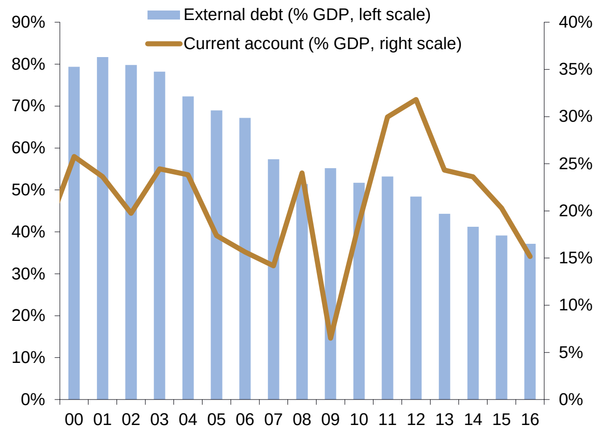
With a current moratorium on new LNG output limiting export growth and an increasing import bill reflecting high government spending and accommodative domestic credit conditions, the trade surplus will decline. In turn, this will result in a lower surplus on the current account. However, the current account surpluses in 2011 and 2012 were equivalent to over +30% of GDP. EH expects the current account surpluses to remain over +20% of GDP in 2013 and 2014.

FX reserves are currently around USD35 billion and provide an import cover of over six months. In addition, the country's sovereign wealth fund, the Qatar Investment Authority, is estimated to control assets of around USD115 billion.

External debt stock and repayment obligations are comfortable and small relative to the asset base

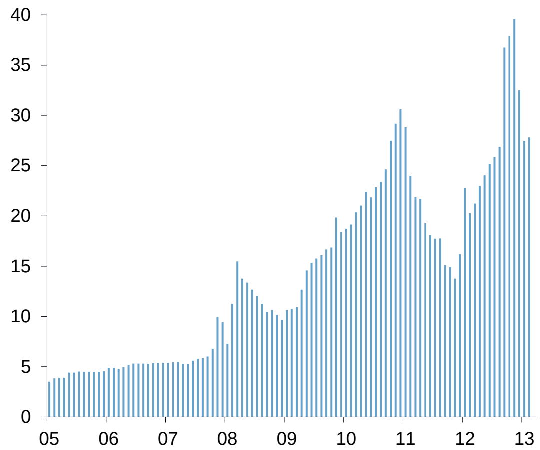
Total foreign assets, including official reserves at the central bank, foreign assets held by commercial banks and assets of the SWF, far exceed the country's external liabilities. External debt ratios are relatively low, with total foreign debt stock at around 48% of GDP and 62% of export earnings and the debt service ratio on existing obligations is around 7% of export receipts. As a result, external payments of debt obligations (and, by association, settlement of trade payments) will not be problematic.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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