QATAR

A FAVOURABLE OUTLOOK

The Qatari economy began 2021 under relatively favourable conditions: thought the regional embargo ended, the Covid-19 pandemic is still active. Despite the fall in oil prices in 2020, the fiscal and current account deficits remained limited. Over the medium term, the development of new gas export capacity should further strengthen an already solid macroeconomic position. The main source of vulnerability remains banks' external indebtedness, which is very high and continues to grow as the economy's expansion accelerates. However, government support is guaranteed, and the external position of the banks should be restored as a result of the expected slowdown in lending and increase in deposits.

A MODEST ECONOMIC REBOUND IN 2021

Two events, pulling in opposite directions, stood out at the beginning of 2021: the lifting of the embargo that had affected Qatar since 2017, and a second wave of the Covid-19 pandemic. The economic consequences of the ending of the embargo are positive in terms of trade and financial flows, but should not be overstated. Whilst the embargo was in force, the Qatari economy was able to diversify its sources of supply and improve its autonomy.

As far as the public health situation is concerned, the death rate due to the pandemic is one of the lowest in the Gulf. However, the number of new cases continues to rise, and new restriction measures have been imposed recently. Government support to the economy in 2020 was substantial, at around 14% of GDP, the bulk of which consisted of support for bank liquidity and a system of restructuring and guaranteeing loans. Despite this, GDP fell 3.7% in 2020, with a 2% year-on-year decline in oil and gas production (40% of GDP) and, more importantly, a sharp drop in non-oil sectors (down 4.6% year-on year), particularly construction, which accounts for 12% of total GDP and contracted by 4%.

In 2021, the economy is likely to return to growth, but the rebound will remain modest at around 1.9%. Oil and gas production is likely to increase only slightly, but progress in the vaccination campaign and the benefits of the lifting of sanctions should boost growth in the second half. GDP will probably return to 2019 levels in 2022, with the expected ending of restrictions relating to the pandemic and the knock-on effects of hosting the football World Cup.

Non-oil GDP has been the main engine of growth over the last decade, but over the medium term the oil and gas sector will take over as the main source of growth due to the development of substantial liquefied natural gas (LNG) production capacity. Production is likely to grow by 60% by 2027. Growth prospects in non-hydrocarbon sectors will be more limited, given the small size of Qatar's population and the limited attractiveness of its economy outside the oil and gas sector. The main sources of economic diversification remain in the downstream sectors of the oil and gas industry.

FORECASTS

	2019	2020e	2021e	2022e
Real GDP growth (%)	-0.4	-3.7	1.9	3.6
Inflation (CPI, year average, %)	-0.6	-2.6	1.8	2.9
Gen. Gov. balance / GDP (%)	1.0	-1.7	4.2	3.3
Gen. Gov. debt / GDP (%)	50	48	47	46
Current account balance / GDP (%)	2.4	-2.5	5.8	3.9
External debt / GDP (%)	123	139	134	135
Forex reserves (USD bn)	38	38	45	54
Forex reserves, in months of imports	6.8	7.0	8.0	9.0

e: ESTIMATES & FORECASTS

TABLE 1 SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH

ECONOMIC ACTIVITY (% Y/Y)

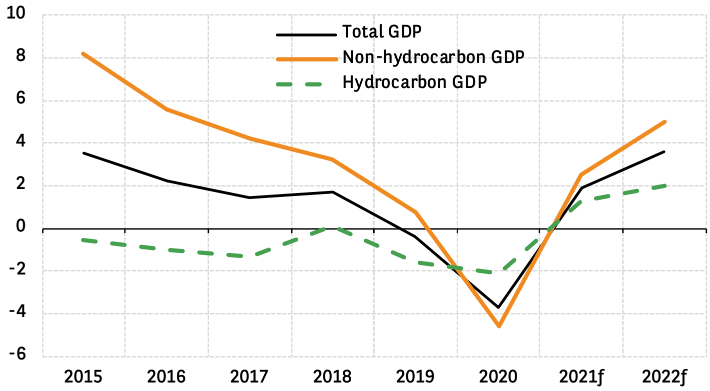

CHART 1 SOURCE: PLANNING AND STATISTICS AUTHORITY, BNP PARIBAS

LNG EXPORT PROSPECTS

In 2017, Qatar brought to an end a twelve-year moratorium on expansion of LNG production capacity, and undertook a USD 50 billion expansion plan that is likely to increase LNG exports by more than 60% by 2027, to some 126 million tonnes per year. Long-term LNG supply contracts will remain as the bedrock of Qatar's commercial policy, but the launch of a dedicated structure could increase sales on the spot market up to some 20% of total sales, depending on market conditions.

At a global level, the LNG market is becoming increasingly competitive, with a notable strong increase in exports from the USA (shale gas), which in just a few years has become the world's third largest exporter, overtaking Russia. That said, prospects for the Qatari LNG industry remain favourable over the medium to long term. In general terms, although it still produces greenhouse gas emissions, burning LNG is less polluting than burning oil or coal. According to the International Energy Agency, growth in demand for LNG will be outstripped only by demand for renewable energy over the medium term. In addition, Qatari LNG enjoys some of the lowest production costs in the market. Asia, its traditional market, is likely to remain the region seeing the strongest growth in demand for gas.

SOLID PUBLIC FINANCES AND EXTERNAL BALANCES

In 2020, the fall in oil prices resulted in a drop in fiscal revenue. Some 85% of total revenue comes from the oil and gas sector. However, we estimate that the budget deficit remained modest, at 1.7% of GDP, thanks notably to a reduction in investment spending. Direct fiscal support to the economy was limited and the government avoided any increase in current spending. Between 2016 and 2019, public sector investment was very high, accounting for more than 40% of total spending, but this cycle now seems to have come to an end with the completion of the bulk of the infrastructure related to the 2022 World Cup.

In 2021 and 2022, the budget should return to surplus given the expected increases in oil prices and control over spending. The fiscal breakeven oil price is around USD 50, the lowest level in the Gulf States. Over the medium term, the sharp increase in revenue from LNG exports will bring a significant improvement in the budget.

The external accounts are dominated by hydrocarbon exports (more than 85% of total exports, including 64% from LNG). The trade balance has a large structural surplus, equivalent to 25% of GDP on average between 2015 and 2019. In 2020, the current account ran a deficit equivalent to 2.5% of GDP. The rebound in oil prices should help the current account move back into surplus in the short term. As with the public accounts, the introduction of new LNG export capacity should help generate significant current account surpluses over the medium term.

Total external debt is very high (139% of GDP in 2020) and has been climbing steadily. This level of debt is not, in and of itself, a threat to the emirate's solvency. Government assets are greater than 200% of GDP.

IS BANKS' EXTERNAL DEBT A VULNERABILITY?

Notwithstanding the above, the composition of external debt is a source of economic vulnerability. Part of this debt (around 15% of the total) has been contracted by the government and by private non-financial companies. The rest consists of Qatari bank debts to foreign counterparts. External bank debt has built up continually over recent years due to a lack of local resources to cover domestic demand for lending. Annual growth in claims on the private sector (around 60% of total domestic credit) has averaged 13% since 2015 (7.4% for the public sector), whilst deposits grew by an average of only 2.3% over the same period. Total bank assets represent around 240% of GDP. Against this background, banks have called on external resources (37% of total bank resources in 2020) in the form of non-resident deposits (37% of total external liabilities) and interbank loans (48%), with the remainder consisting of debt issued on international markets. The net foreign asset position of the banking system has been negative since 2009 and has worsened significantly since 2018, with a doubling of net external liabilities. It reached USD 112 billion in December 2020, or some 75% of GDP.

This situation creates a double vulnerability: for the banking system, and to a lesser extent for the government. The increased dependence on external financing makes the banking system vulnerable to any economic or political event that could affect the confidence of external lenders in Qatar. Meanwhile, the government has significant

COMMERCIAL BANKS' BALANCE SHEET: MAIN ITEMS (Y/Y %)

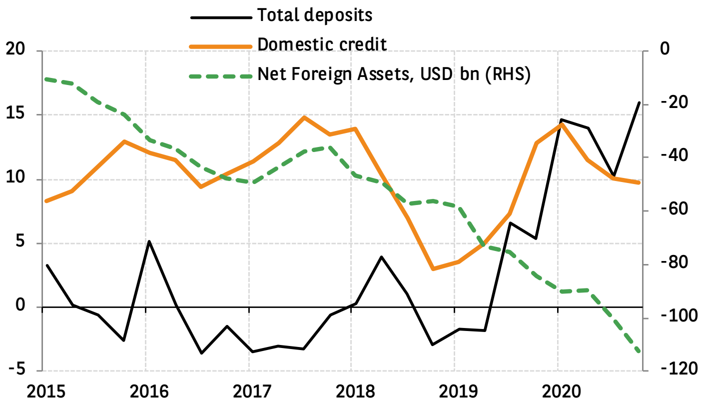

CHART 2 SOURCE: IMF, BNP PARIBAS

involvement in the banking sector, both in the form of deposits (around 30% of total domestic deposits) and through significant stakes in banks' capital. Thus banks' external liabilities can be considered as contingent liabilities for the government. However, we believe that there are a number of factors that limit the scale of this vulnerability. Because of its close ties to the government, the banking sector enjoys very favourable external credit ratings. In case of difficulty, government support to the sector is substantial. For example, deposits from the government, which has significant resources, rapidly offset the withdrawal of a segment of non-resident deposits following the embargo in 2017. Over the medium term, we would expect banks' net external liabilities to be reduced. On the credit side, financing requirements are also likely to slow, following the completion of major infrastructure investments. On the resource side, the increase in government revenue as a result of greater LNG exports will result in bigger, less volatile public sector deposits.

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