Qatar Economic Insight

September 2014

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Economics Team
economics@qnb.com.qa

Joannes Mongardini
Head of Economics
+974 4453 4412
joannes.mongardini@qnb.com.qa

Rory Fyfe
Senior Economist
+974 4453 4643
rory.fyfe@qnb.com.qa

Ehsan Khoman
Economist
+974 4453 4423
ehsan.khoman@qnb.com.qa

Ziad Daoud
Economist
+974 4453 4642
ziad.daoud@qnb.com.qa

Hamda Al–Thani
Economist
+974 4453 4646
hamda.althani@qnb.com.qa

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Executive Summary

A. Recent Macroeconomic Developments (2013-14)

- **The economy has started a new diversification phase** as large investment spending in the non-hydrocarbon sector accelerated growth to 6.5% in 2013 (6.1% in 2012) while growth in the hydrocarbon sector slowed
- **Inflation has slowed since mid-2013** (CPI inflation averaged 2.8% in H1 2014) as rising rents were offset by lower global food prices
- **The current account recorded a healthy surplus in 2013** (30.9% of GDP) owing to strong hydrocarbon exports and high oil prices
- **The government has ramped up budgeted capital spending,** driving overall investment and economic growth, while the fiscal surplus increased to 15.6% of GDP in the fiscal year that ended March 31, 2014 (2013/14)
- **Banking asset growth has slowed** to 9.4% in the twelve months to end-June 2014 on lower public sector borrowing; non-performing loans (NPLs) were low at 1.9% of gross loans at end-2013 and banks remained well capitalized, with the average capital adequacy ratio well above the QCB requirement under Basel III

B. Macroeconomic Outlook (2014-16)

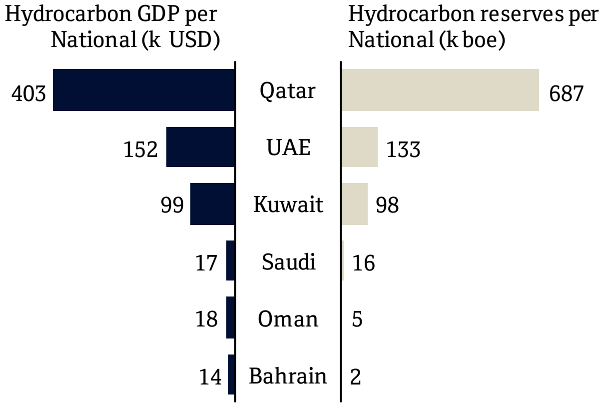
- **We forecast real GDP growth to accelerate** from 6.8% in 2014 to 7.8% in 2016 as hydrocarbon production grows moderately while the non-hydrocarbon sector expands at a double-digit pace on higher investment spending and a growing population
- **Overall inflation is projected to increase moderately** to 3.4% in 2014 and 3.5% in 2015 as rising rents are offset by lower international food prices; there are risks, however, of higher inflation if the economy hits significant supply bottlenecks
- **The current account surplus is expected to narrow gradually to 21.6% of GDP by 2016**, owing to moderately lower oil prices and strong import growth related to infrastructure spending
- **Lower hydrocarbon revenue and rising capital spending could narrow the fiscal surplus** to 8.5% of GDP in 2014/15 and further to 5.3% in 2016/17
- **Bank lending is expected to rise by an average 10.7% in 2014-16**, increasingly driven by the expanding population and steady deposit growth averaging 12.7%; low provisioning requirements and efficient cost bases will support continued strong bank profitability

Background

Qatar's oil and gas wealth per capita is the highest in the world

Qatar has enormous oil and gas wealth, especially in relation to the size of its national population. Qatar has the third largest gas reserves in the world after Russia and Iran, estimated at 872tn cubic feet (tcf). Hydrocarbons generated an average income of USD403k per Qatari national in 2013, much higher than in neighboring GCC countries. Along with crude oil and condensate reserves, this equates to proven reserves of around 188bn barrels of oil equivalent (boe) in 2013. This corresponds to 687k boe of hydrocarbon reserves per Qatari national. At current extraction rates, Qatar's proven gas reserves would last at least another 156 years.

GCC Oil and Gas Wealth Per Capita (2013)

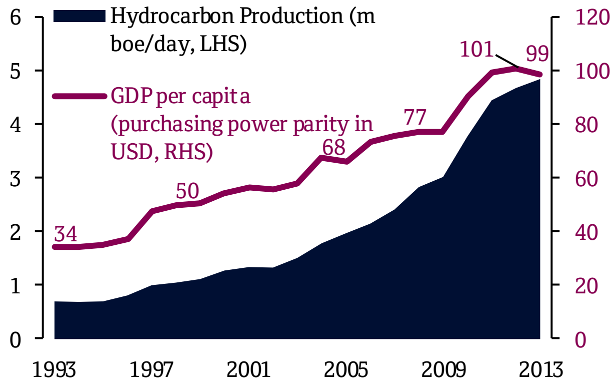


Sources: British Petroleum (BP), International Monetary Fund (IMF) and QNB Group analysis

The development of Qatar's huge natural gas reserves has driven its rising income over the last 20 years

Qatar has invested heavily in the production of liquefied natural gas (LNG) since the early 1990s and became the world's largest LNG exporter in 2006. The extraction of natural gas has also resulted in a significant production of condensates as a byproduct. The development of the hydrocarbon sector has made Qatar the richest country in the world at USD98.8k in GDP per capita on a purchasing power parity basis (PPP). This hydrocarbon phase of rapid growth in the economy has now reached a plateau as the authorities have implemented a moratorium on further gas development in the North Field, with the exception of the Barzan project (see *Hydrocarbons* chapter).

Hydrocarbon Production and Per Capita GDP

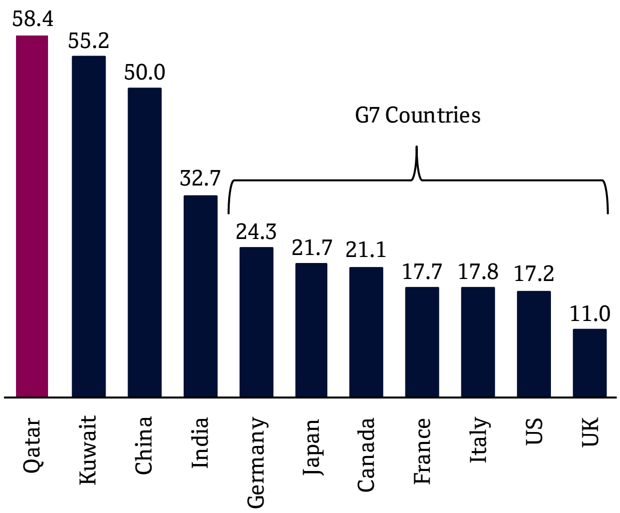


Sources: BP, IMF and QNB Group analysis

Qatar's wealth creates enormous potential for investments in the non-hydrocarbon sector

With the highest savings rate in the world (58.4% of GDP), Qatar has large potential for further growth through domestic investments in the non-hydrocarbon sector. A major program of infrastructure investments has been launched to support the diversification of the economy away from hydrocarbons, leading to double digit growth in the non-hydrocarbon sector. The main areas of investment have shifted from oil and gas to construction and transport. The bulk of these projects are expected to be completed ahead of the FIFA World Cup in 2022, driving growth over the medium term. Rapid growth is helping to build an increasingly skilled workforce in Qatar. Beyond 2022, Qatar is expected to enter a new human capital phase of growth that will depend on attracting, developing and retaining talent. In line with its National Vision 2030, Qatar aims to transform itself into a knowledge-based economy.

Gross National Savings (2013)
(% of GDP)



Sources: IMF and QNB Group analysis

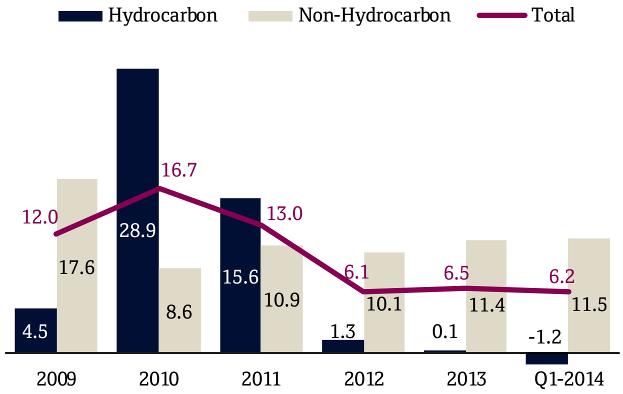
Recent Developments (2013-14)

The economy has started a new diversification phase based on large investment spending in the non-hydrocarbon sector

Real GDP growth accelerated to 6.5% in 2013 on strong investments in the non-hydrocarbon sector while growth in the hydrocarbon sector slowed. The non-hydrocarbon sector accelerated to 11.4% in 2013 (10.1% in 2012) as higher investments and population growth added to aggregate demand. The implementation of major projects created an estimated 120k jobs in 2013 alone. Growth in the hydrocarbon sector slowed to 0.1% in 2013 as the large expansion of LNG production came to an end and oil production stabilized. In the year to Q1 2014, the economy grew by 6.2% as accelerating non-hydrocarbon growth (particularly in construction) offset a temporary decline in hydrocarbon production. Financial services and trade, restaurants and hotels were the other main contributors to Q1 2014 growth, benefitting from the expanding population.

Real GDP Growth

(%, year on year)

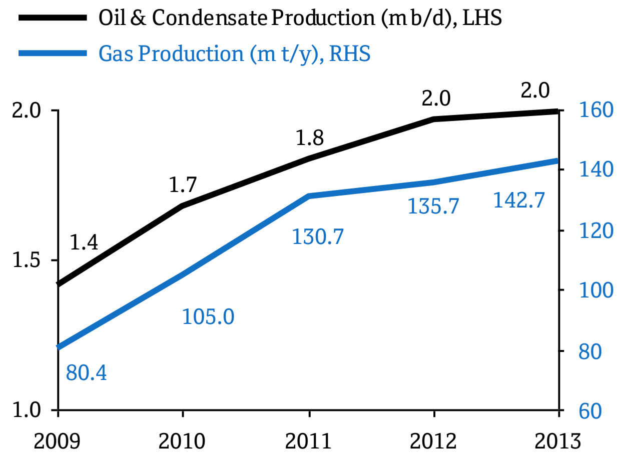


Sources: Ministry of Development Planning and Statistics (MDPS) and QNB Group analysis

Hydrocarbon production is plateauing

Qatar's hydrocarbon production is leveling off as the moratorium on further gas explorations in the North Field is being implemented (see *Hydrocarbons* chapter). Gas production rose moderately in 2013 to meet increasing domestic demand for downstream production of electricity, gas-to-liquids and petrochemicals. Notwithstanding heavy investment in oilfield redevelopment, average crude oil and condensates production has plateaued to around 2.0m b/d in 2013.

Hydrocarbon Production



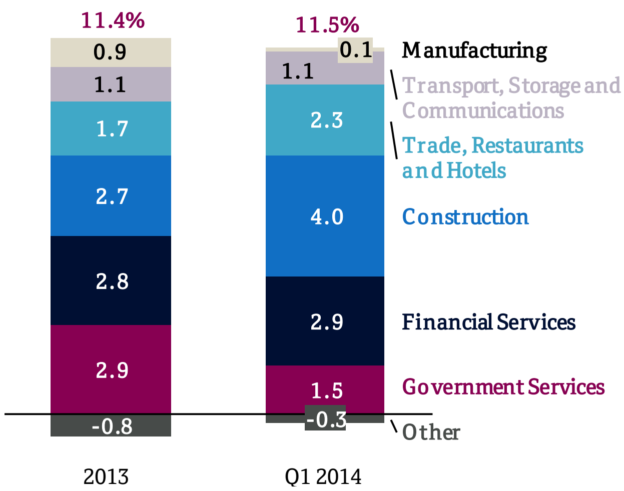
Sources: BP and QNB Group analysis

Construction and services were the largest contributors to non-hydrocarbon growth in 2013 and Q1 2014

The largest contributors to real non-hydrocarbon GDP growth in 2013 were government services, financial services and construction. Government Services expanded robustly on higher demand from the growing population and investment projects, contributing 2.9 percentage points (pps) to non-hydrocarbon growth in 2013. Financial services (2.8pps) and trade, restaurants and hotels (1.7pps) benefited from the rapid population growth as well. Construction activity (2.7pps) expanded rapidly on the implementation of infrastructure projects. For Q1 2014, non-hydrocarbon growth was again driven by construction (4.0pps) and services, including financial services (2.9pps); trade, restaurants and hotels (2.3pps) and government services (1.5pps).

Contributions to Non-Hydrocarbon Growth

(% growth and pps contribution)



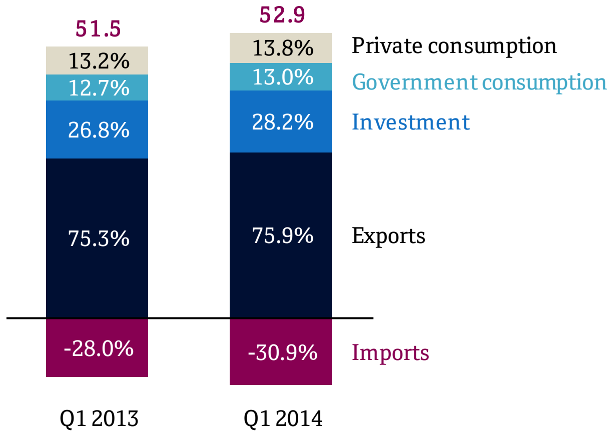
Sources: MDPS and QNB Group analysis

The share of investment in GDP is growing as major projects are implemented

The contribution of investment to nominal GDP rose to 28.2% in Q1 2014 from 26.8% a year earlier, according to new MDPS data published recently. This implies that investment spending is driving economic growth as the major projects are implemented. Meanwhile, private consumption has a comparatively small share of GDP by international comparison, but is growing supported by the increasing population. The share of government is broadly equivalent to that of private consumption as government spending accounts for a large share of economic activity. High domestic demand from consumption and investment is driving strong growth in imports of goods and services. These imports, however, only partly offset the very large export share.

GDP by Expenditure

(bn USD and % share in total GDP)

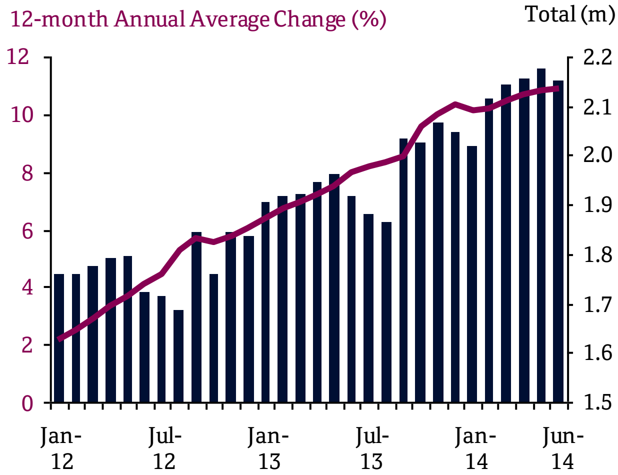


Sources: MDPS and QNB Group analysis

The large investment spending is attracting a new wave of expatriate workers

Investment spending is creating an estimated 120k new jobs each year, leading to double-digit population growth (see *Demographics* chapter). Population grew an average 10.9% in 2013 and continued at the same pace for the first half of 2014, reaching 2.15m in June 2014. Expatriates account for an estimated 86.5% of the population and 94.1% of the labor force (see *Labor Force* chapter), while unemployment was 0.3% in Q1 2014, according to the latest labor survey. The share of females in the population inched up to 26.3% as the share of female workers moving to Qatar increased as well as white-collar workers with their families.

Population Growth



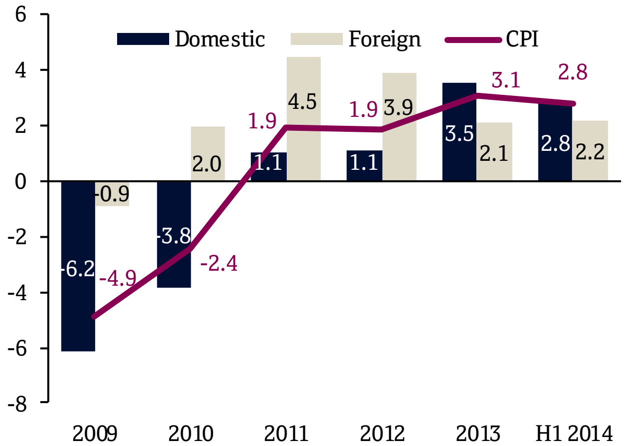
Sources: MDPS and QNB Group analysis

Inflation has slowed since mid-2013 as rising rents have been offset by lower global food prices

Consumer Price Index (CPI) inflation averaged 2.8% in H1 2014, compared with 3.1% in 2013 (see *Inflation* chapter). Following the sharp fall in 2009-10, rents have begun picking up. This has been driven by the rapid population growth, which increases demand for housing. As rents (together with fuel and energy) account for 32.2% of the CPI basket, domestic inflation has been on an upward trajectory, progressively rising from -6.2% in 2009 to 3.5% in 2013. On the other hand, falling global food prices have partially offset rising domestic inflationary pressures, leading to a moderation in foreign inflation to 2.1%. As a result, overall CPI inflation registered 3.1% in 2013 and moderated to 2.8% in the first half of 2014.

CPI Inflation

(% average annual change)

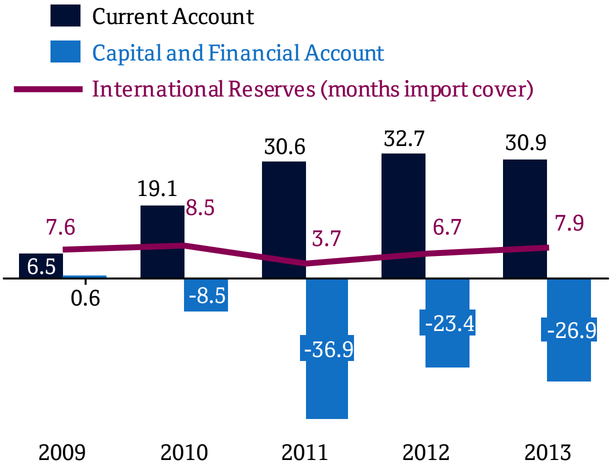


Sources: MDPS and QNB Group analysis

High current account surpluses continue to finance large investments abroad

The current account recorded a healthy surplus in 2013 (30.9% of GDP), owing to robust hydrocarbon prices and rising exports of oil, gas and related products, such as fuels, petrochemicals and fertilizers. This more than offset the import bill, which expanded on strong investment demand. A portion of hydrocarbon revenue is invested abroad through the Qatar Investment Authority (QIA), leading to a capital and financial account deficit. As a result of the growing stock of foreign assets, investment income from abroad rose to around 3% of GDP in 2013, up from 1% in 2009, which is reducing the dependence on hydrocarbon exports. The overall balance of payments recorded a healthy surplus in 2013. As a result, international reserves rose to 7.9 months of import cover (USD42.1bn) at end-2013, well above the IMF-recommended level of three months of import cover for fixed exchange rates.[1]

Balance of Payments
(% of GDP and months of import cover)

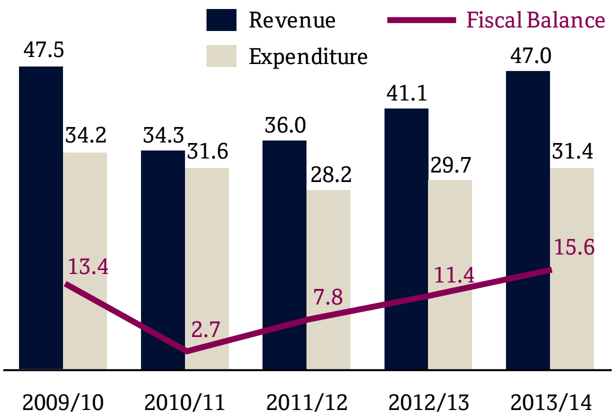


Sources: Qatar Central Bank (QCB) and QNB Group

High hydrocarbon prices have sustained the fiscal surplus

The fiscal surplus increased further in 2013/14 to 15.6% of GDP. Given that the budget was based on a conservative crude oil price of USD65 per barrel, the turnout for the fiscal surplus was significantly higher than budgeted. Revenue was substantially higher in 2013/14 than the previous fiscal year as more revenue than usual was transferred from Qatar Petroleum into the government budget. Expenditure rose as a share of GDP in 2013/14 as capital spending increased by 32.7% while current spending also expanded, although at a more moderate rate.

Fiscal Balance
(% of GDP)

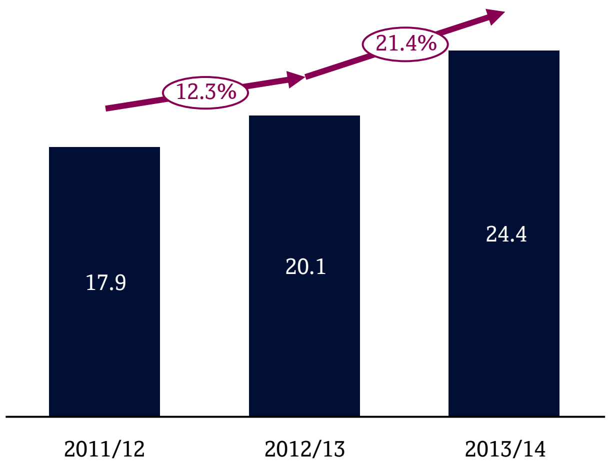


Sources: QCB and QNB Group analysis

The government has ramped up budgeted capital spending, which is driving overall investment and economic growth

Budgeted capital spending grew by an estimated 21.4% in 2013/14, up from 12.3% in 2012/13. In the first half of 2013, the government held back on moving forward with major infrastructure investment projects. Since then, capital spending has been ramped up and a number of contracts have been awarded. Construction has progressed rapidly, particularly in the infrastructure, real estate and transport sectors. For example, the tunneling work and construction of stations for Qatar Rail's metro project is well underway, with an expected completion date for all five metro lines by 2019.

Government Capital Spending Budgets
(bn USD and % annual growth)



Sources: Ministry of Finance (MoF) and QNB Group analysis

[1] The definition of international reserves in months of import cover has been changed since our last Qatar Economic Insight report (April 2014) to bring it in line with the standard IMF definition based on prospective imports of goods and non-factor services.

Major projects are being rolled out, driving growth and diversification

The largest projects are mainly in the transport and real estate sectors (see *Projects* chapter). Qatar Rail is building a new Doha metro (260 km of rail). The project also includes 400 km of mainline rail for domestic freight and high-speed passenger rail lines, including a connection to the planned GCC rail network. The public works authority (Ashghal) is constructing a network of expressways (30 major projects and 900 km of roads), local roads and upgrading existing roads. Also under construction is a new port outside Doha. The new Hamad International Airport opened recently; work on the next phases of the airport will be completed by 2017. A number of large real estate projects are also under construction. The largest is Lusail, a waterfront development to the north of Doha, which will include commercial and residential districts.

Ongoing Major Projects[2]

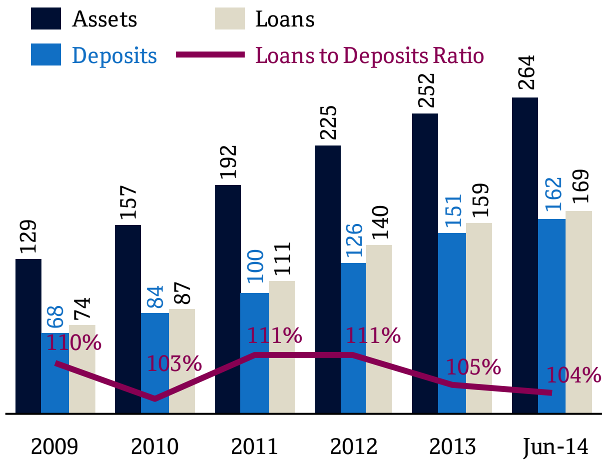
Project	bnUSD	End	Details
Lusail	45.0	2019	Mixed-use development
Qatar Rail	40.0	2026	Metro and rail links
Expressways	20.0	2018	Ashghal expressways
New Airport	15.5	2017	Hamad International Airport
Local roads	14.6	2019	Ashghal roads and drainage
Bul Hanine	11.0	2022	Oilfield redevelopment
Barzan	10.3	2023	Domestic gas production
Barwa Al Khor	10.0	2023	Mixed-use development
Barwa City	8.3	2015	Mixed-use development
Education City	7.5	2014	Universities and colleges
Al Sajeel	7.4	2018	Petrochemical complex
New Port	7.4	2020	New port south of Doha
Pearl Qatar	6.5	2017	Residential development
Al Karaana	6.4	2017	QP/Shell petrochemicals
Msheireb	5.5	2016	Mixed-use development
Sharq Crossing	5.0	2020	Crossing for Doha bay
FIFA Stadiums	4.0	2020	World Cup football stadiums

Source: MEED Projects

Asset growth slowed in 2013-14, while growth in deposits outpaced lending

Banking assets growth slowed from 11.6% in 2013 to 9.4% in the twelve months to end-June 2014 on slowing public sector borrowing. Asset growth is underpinned by strong deposit growth (7.8% in the year to end-June 2014) associated with the government surplus and high population growth. Loan growth (6.1% for the first half of 2014) is lagging deposit growth as the public sector is reducing its reliance on commercial banks to finance capital spending. This is leading to a lower loan to deposit ratio (104% at end-June 2014). Strong economic growth, conservative lending practices, high provisions, and strong regulatory supervision helped keep non-performing loans low at 1.9% of total loans at end-2013. This supported profitability, with return on equity averaging 16.5% in 2013. The average capital adequacy ratio for Qatari banks is high (16.0% of risk–weighted assets at end-2013), compared with the new QCB requirement of 12.5% as of April 2014.

Banking Sector
(bn USD and %)

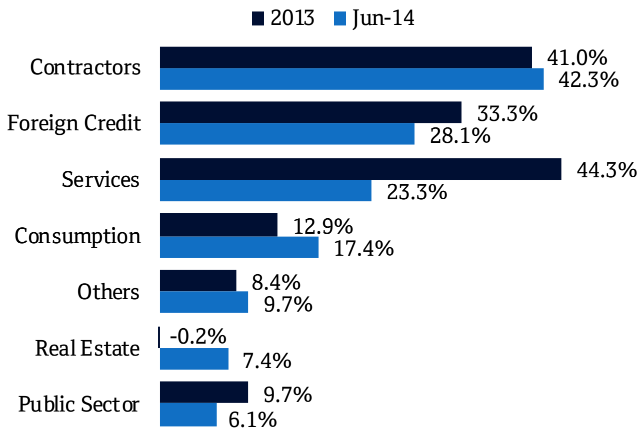


Sources: QCB and QNB Group analysis

Credit growth was fastest for contractors in the year to June 2014

Overall, bank credit expanded by 13.3% in 2013 and 12.8% in the twelve months to end-June 2014. There was acceleration in credit to contractors as the implementation of major projects got underway with some large contracts being awarded, notably for the new Doha Metro. Although lending to the services sector slowed in the first half of 2014, it remained high, together with consumption lending, boosted by strong population growth. Meanwhile, lending growth to the public sector slowed to 6.1% in the twelve months to end-June 2014 as the government reduced its reliance on bank financing to implement projects. Growth in lending to real estate picked up in the first half of 2014.

Bank Credit Growth by Sector
(% growth from a year earlier)



Sources: QCB and QNB Group analysis

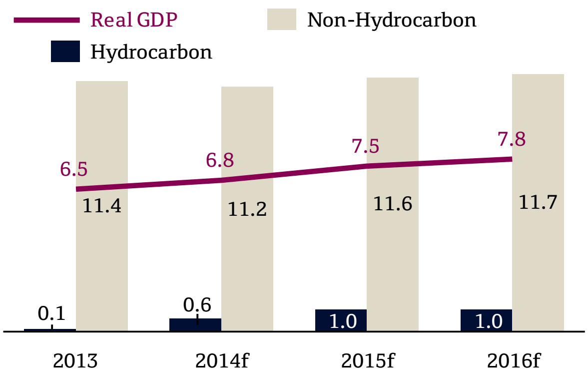
[2] These figures are indicative and their total is not representative of the overall investment spending as projects are in various stages of completion.

Macroeconomic Outlook (2014-16)

Growth is expected to accelerate over the medium term, notwithstanding moderate hydrocarbon expansion

We forecast real GDP growth will progressively accelerate from 6.8% in 2014 to 7.8% in 2016. In the hydrocarbon sector, we expect annual growth to be moderate due to the moratorium on further gas developments in the North Field and the expectation that investment in oilfield redevelopment is only likely to sustain current levels of oil production (see *Hydrocarbons* chapter). Hydrocarbon expansion is likely to range in the 0.6%-1.0% region over the next three years owing to the Barzan gas project—an exception to the moratorium that should come on-stream in 2015—as well as oil field investments.

Real GDP Growth by Sector
(%)

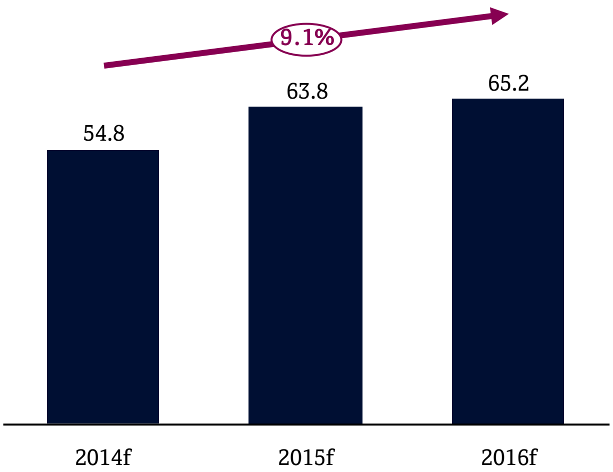


Sources: MDPS and QNB Group forecasts

Large investment spending will drive double-digit non-hydrocarbon growth

The government has recently announced USD182bn for project implementation over the next five years, of which USD27.4bn is in 2014/15. The government investment figures exclude the oil and gas sector, where annual investments are expected to average USD3.0bn over 2014-16. At the same time, annual investments in real estate should average USD14.3bn a year, while investments in petrochemicals, power and water, and in other sectors should average USD12.2bn a year over the same period. Overall, investment spending in the economy is projected to increase by 9.1% a year to USD65.2bn by 2016.[3] This large increase in investment spending will drive double-digit non-hydrocarbon growth. As a result, the share of the non-hydrocarbon sector in GDP is projected to grow from 49.0% in 2014 to 57.2% by 2016.

Investment Spending
(bn USD)

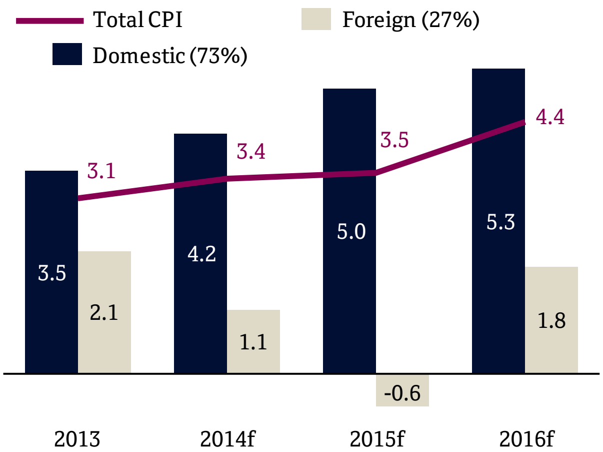


Sources: MEED, MoF and QNB Group forecasts

The influx of expatriate workers will add further pressure on domestic prices

The rapidly expanding population should raise domestic inflation, offsetting lower foreign inflation. We expect population growth to reach 10.1% in 2014 and average 6.0% in 2015-16, adding to demand and driving up rents (see *Inflation* chapter). As a result, we expect domestic inflation to be in the range of 4.2-5.3% in 2014-16. Offsetting this, foreign inflation is likely to slow in 2014-15 as global commodity prices are forecast to fall on weak global demand and record food harvests. As a result, we forecast overall inflation to increase modestly to 3.4% in 2014 and 3.5% in 2015 as rising rents are offset by lower international food prices. With food inflation expected to rise in 2016, overall inflation would accelerate to 4.4% as strong population growth continues to drive up rents. Domestic capacity to absorb major projects and the growth in population may be limited. There is a risk therefore that infrastructure constraints could cause supply bottlenecks, pushing domestic inflation higher than our forecasts.

Inflation
(% change; weights given in brackets)



Sources: MDPS and QNB Group forecasts

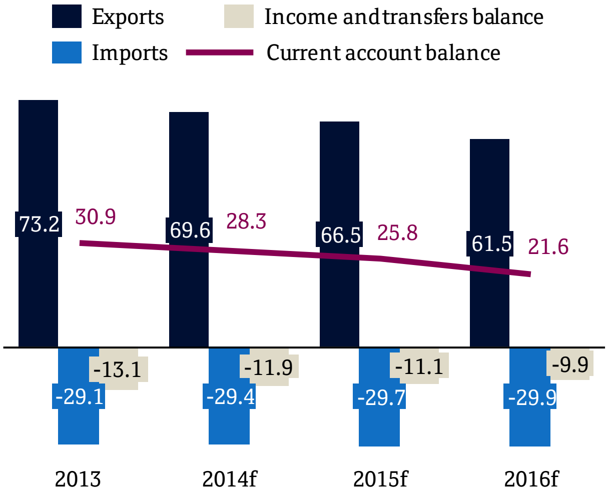
[3] This is the compounded annual growth rate (CAGR), which is a geometric mean. In general, unless otherwise specified, all multi-year growth rates mentioned in this report will be CAGRs rather than arithmetic averages.

The current account surplus will narrow over the medium term on lower oil prices and strong import growth

Strong hydrocarbon export receipts will continue to support large current account surplus. We expect Brent crude oil prices to average USD108/b in 2014, with the price falling to about USD102/b in 2015-16 as current geopolitical tensions are resolved. High crude oil prices would help sustain strong hydrocarbon export receipts despite the moratorium on further gas developments and the expected stabilization in oil production. Import growth will accelerate on higher investment spending and consumption. Consequently, the current account surplus is forecast to narrow gradually to 21.6% of GDP by 2016 on continued strong import demand. Much of the current account surplus is likely to be invested abroad, resulting in large capital outflows. As a result, international reserves will remain broadly stable in 2015-16 at about eight months of import cover.

Current Account Balance

(% of GDP)



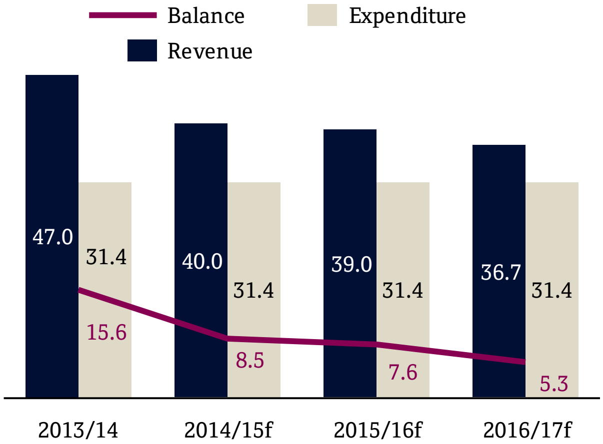
Sources: QCB and QNB Group forecasts

Lower hydrocarbon revenue and strong spending may narrow the fiscal surplus

We expect the fiscal surplus to narrow as capital spending rises and hydrocarbon revenue falls on lower oil prices. Overall, we project a fiscal surplus of 8.5% of GDP in 2014/15, falling to 5.3% in 2016/17. The government intends to increase investment spending on major projects, but this will be offset by restraint on current expenditure. While the wage bill is expected to rise, other current expenditures are projected to be reduced. Total expenditures are expected to grow in line with nominal GDP over the medium term. The corresponding fiscal surpluses are projected to result in a gradual decline in public debt from 34.7% in 2013/14 to 23.8% of GDP by 2016/17.

Fiscal Balance

(% of GDP)



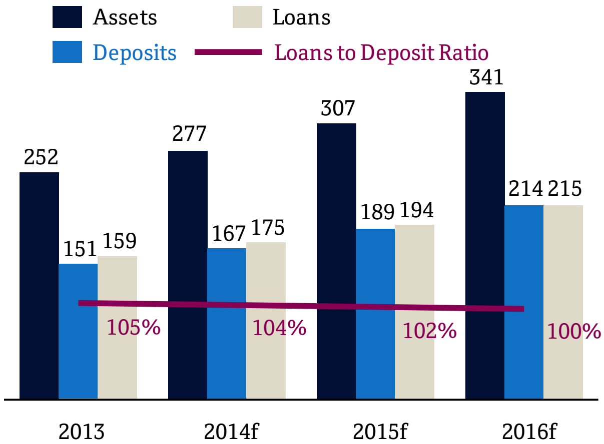
Sources: MoF and QNB Group forecasts

Bank lending is expected to rise, partly driven by the rapidly expanding population

We expect bank lending growth to continue on project financing and the growing population. Growth in domestic credit facilities and investments will support asset growth over the medium term. Lending should be underpinned by rapid deposit growth, reflecting the large fiscal surplus and population growth. Qatar's loan to deposit ratio is expected to decline gradually to reach about 100% by 2016 as it will take time for banks to comply with the new QCB regulation mandating a ratio below 100% by end-2014. NPLs are forecast to remain low during 2014-16 as asset quality is supported by the strong economic environment. Going forward, low provisioning requirements and efficient cost bases will continue to support banks' profitability.

Banking Sector

(bn USD and %)



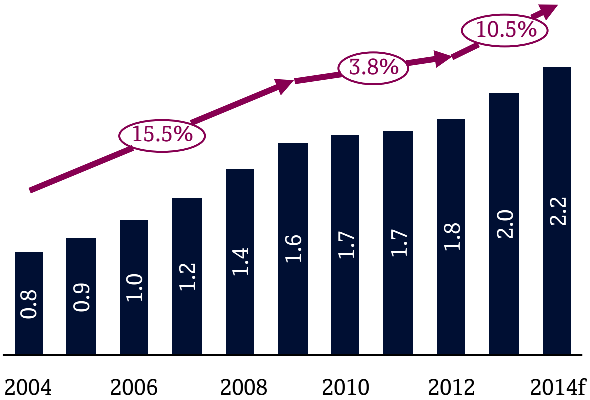
Sources: QCB and QNB Group forecasts

Demographics

Qatar's population is expanding rapidly on a new wave of expatriate workers

A large wave of expatriate workers came in 2004-09 during the development of Qatar's hydrocarbon sector. During that period, population grew at an average annual rate of 15.5%. In 2010-11, there was a sharp slowdown in population growth because of the global recession and the completion of major gas-related projects. Now that the new diversification phase is underway, an additional wave of expatriate workers is moving to Qatar as the country invests heavily in infrastructure and transportation to prepare for the 2022 World Cup (see *Projects* chapter).

Population Growth
(m, CAGRs shown)

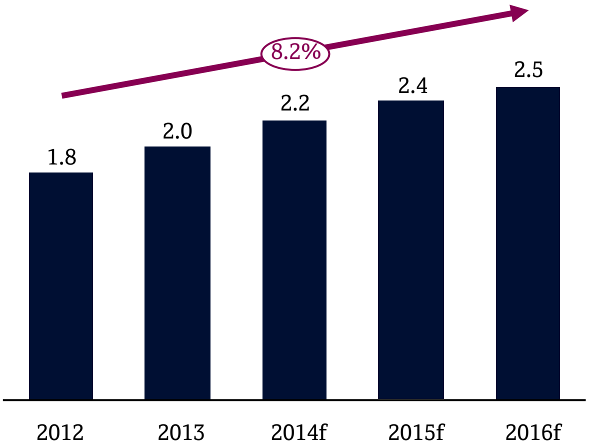


Sources: MDPS and QNB Group analysis

Population is expected to continue growing rapidly over the next three years

The steady increase in population will continue as the economy creates new jobs. The monthly population series shows that year-on-year growth began picking up in mid-2012 and returned to double-digits in August 2013.[4] Since then, population growth has been above 10% up to June 2014. This trend is expected to continue in the coming years, albeit at a more moderate pace, as the government and the private sector ramp up investment spending and thus create a large number of new jobs. Overall, we expect population growth to average 7.3% over 2014-16.

Total Population
(m and % growth)

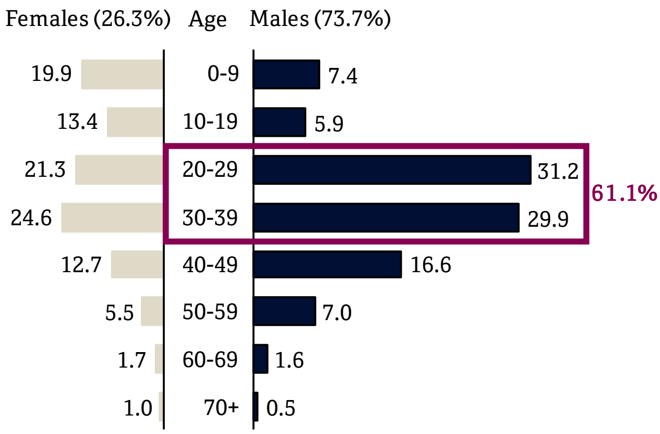


Sources: MDPS and QNB Group forecasts

Demographics are heavily skewed towards young expatriate men

Qatari nationals are estimated to have numbered 279k in mid-2014. The expatriate population accounts for 86.5% of the total population. The bulk of the expatriate labor force is unaccompanied men engaged in the construction and services sectors. This heavily skews the country's demographic profile, with women accounting for slightly over one quarter of the total population. Nevertheless, the female population is growing as more female move to Qatar as well as male white-collar workers with their families. The population is highly concentrated, with 71.0% living in the Doha metropolitan area, according to the 2010 census.

Population by Age and Gender
(% share of population, 2013)



Sources: MDPS and QNB Group analysis

[4] The monthly population growth differs slightly from annual figures as it shows total people in country rather than residents.

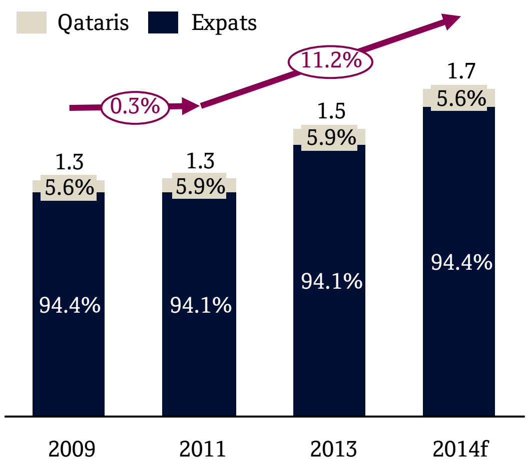
Labor Force

The labor force is growing rapidly

Having stagnated during 2009-11, the labor force is now experiencing a new burst of growth. Data on the labor force show similar trends to population data. The labor force reached 1.6m in the first quarter of 2014, according to the latest survey. We forecast that it will reach 1.7m by end-2014 as the economy is expected to add another 120k jobs this year. The private sector currently accounts for 74.5% of the total jobs and expatriates make up 94.1% of the labor force. The proportion of white-collar workers has risen since 2010, accounting for about 18.3% of the total labor force in 2013 (comprising legislators, senior officials, managers, professionals, technicians and associate professionals), compared with 16.0% in 2010.

Labor Force by Nationality

(m, CAGRs and % shares shown)



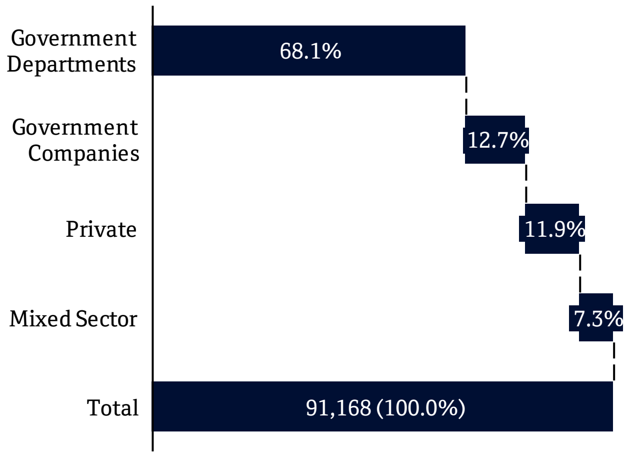
Sources: MDPS and QNB Group analysis and forecasts

Qataris continue to favor public sector employment

Amongst working Qatari nationals, 80.8% hold jobs in the public sector. These figures are comparable with those seen in other Gulf countries. Qataris prefer public sector jobs due to the higher pay packages and benefits. Public sector pay increases implemented by the government in 2011 and 2012 have made it even more difficult for the private sector to compete with the public sector in attracting Qatari nationals. In addition, the Qatari population is relatively young and the female participation rate is low. As a result, the Qatari labor force only accounts for about one third of the total number of nationals.

Qatari Labor Force by Employer (2013)

(% share)



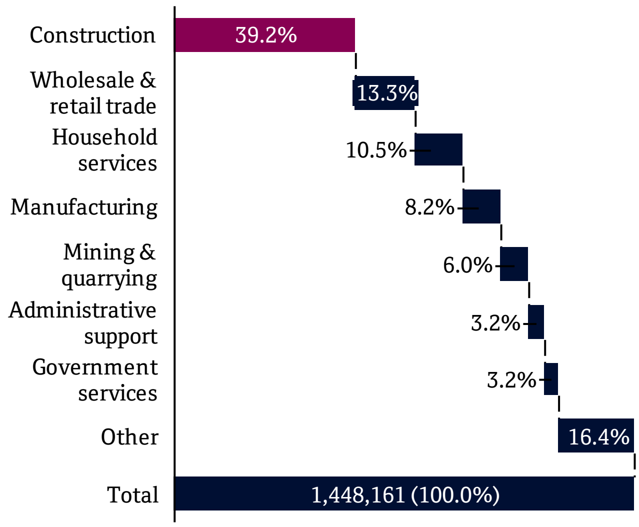
Sources: MDPS and QNB Group analysis

Construction is the largest employer of expatriates owing to the large infrastructure investment program

Almost 40% of the expatriate labor force works in the construction sector. A large proportion of these are low skilled manual laborers on construction sites. The growing population and rising wealth has pushed up employment across a number of services sectors, particularly wholesale and retail trade. Although oil and gas contribute more to GDP than any other sector, it only employs 6.0% of the expatriate labor force. Similarly, most manufacturing is capital-intensive, rather than labor-intensive, and its share of the expatriate labor force (8.2%) is lower than its contribution to GDP.

Expatriate Labor Force by Sector (2013)

(% share)



Sources: MDPS and QNB Group analysis

Hydrocarbons

At current production rates, gas reserves would last at least another 156 years

Qatar discovered the extent of its natural gas reserves in 1971 when the offshore North Field was discovered. The North Field is now known to be the largest non-associated gas field in the world, accounting for around 99% of Qatar's gas reserves. Qatar had raw gas reserves totaling 872tn cf at end–2013, giving it the third largest proven reserves of natural gas in the world after Russia and Iran. At 2013 extraction rates, these reserves would last another 156 years. It is therefore likely that Qatar will continue extracting gas well into the 22nd century.

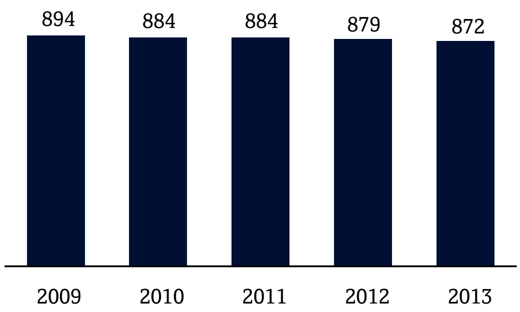
Gas production grew on average 15.4% annually during 2009-13 as additional LNG export facilities became operational

Large-scale LNG projects led to major increases in gas production. Qatar ranks fourth globally for gas production. In 2013, around 52.6% of gas production was allocated to LNG exports, but the expansion program is now complete and LNG production is expected to plateau. Qatar also exports around 11.7% of gas production by pipeline to the UAE. Remaining production goes towards domestic uses, including power generation and water desalination, feedstock for GTLs, petrochemical and fertilizer plants, and household cooking gas. The Barzan project is a USD10.3bn North Field gas development to increase production for domestic use. Initial production is expected in 2015 with incremental growth until 2023. Barzan is an exception to a moratorium on new production from the North Field.

Qatar is likely to benefit from robust global LNG demand over the next few years

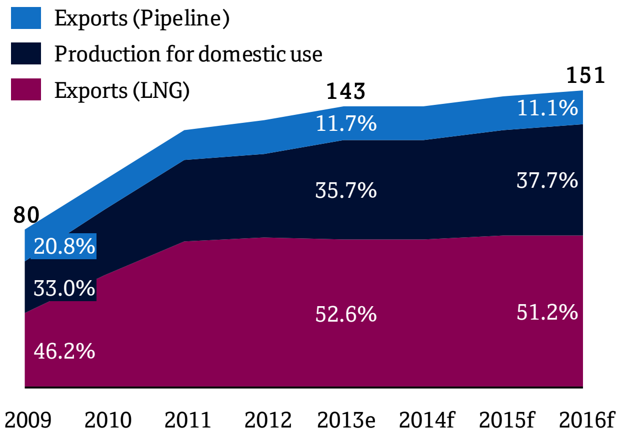
Continued strong Asian demand and slow supply growth are likely to support LNG prices over the medium term. Qatar has benefited from rising prices in Asia where demand has been strong owing to robust GDP growth and the switch to cleaner energy, notably in China. Qatar has, therefore, increased exports to Asia (71.0% of exports in 2013), mainly to Japan, South Korea and India. Weaker growth in Europe has led to a divergence in prices. However, tensions with Russia could boost European LNG demand as an alternative to Russian pipeline gas. Going forward, robust economic growth in Asia and an increasing reliance on LNG may drive demand. A recent USD400bn deal for Russia to supply 38bn cubic meters a year of gas to China for 30 years could bring down Asian prices and boost European prices, leading to price convergence. Major export projects in Australia, Papua New Guinea and the US are not expected to be completed until the 2020s, so demand growth is likely to outpace supply growth. As a result, Qatar is likely to benefit from higher LNG prices for years to come.

Gas Reserves
(tn cf)



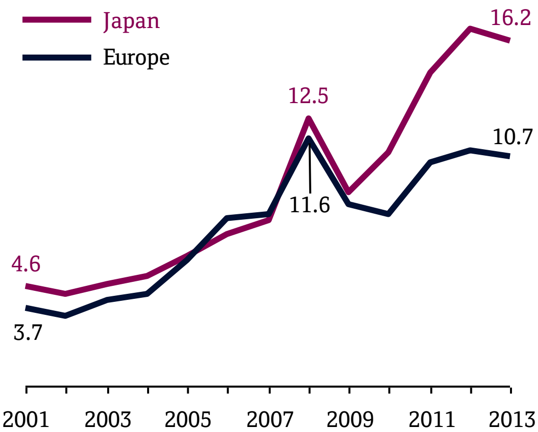
Source: BP

Production of Gas by Usage
(m t/y, % shares shown)



Sources: BP and QNB Group analysis and forecasts

LNG Benchmark Prices
(USD per mBtu)

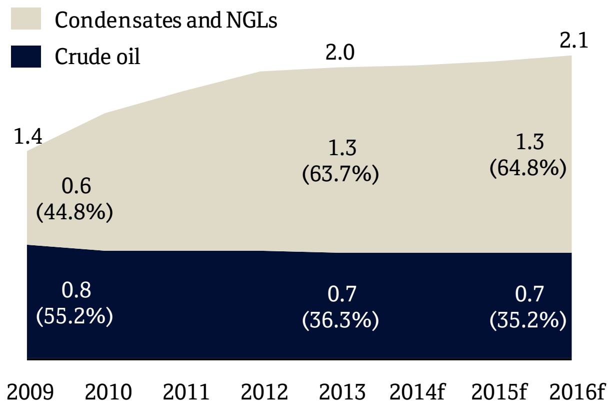


Source: BP

At current production rates, oil reserves are expected to last another 34 years

Qatar's proven reserves of crude oil, condensates and NGLs were estimated at 25.1bn barrels at end–2013, about 1.5% of proven world oil reserves.[5] Rising production of condensates[6] and natural gas liquids (NGLs[7]) have more than compensated for lower crude oil production in recent years. Total crude oil, condensates and NGL production in 2013 was around 2.0m b/d, of which 0.7m b/d was crude oil and the remainder condensates and NGLs. Qatar accounted for 2.0% of world oil production in 2013. According to BP, at current production rates, Qatar's reserves of crude oil, condensates and NGLs will last for another 34 years. Condensates and NGLs are mainly produced along with natural gas and their production has, therefore, risen with gas production. Going forward, condensate and NGL production are likely to continue rising as the Barzan gas project comes on stream. Meanwhile, crude oil production should stabilize as oilfield redevelopment projects are implemented.

Liquid Fuel Production
(m b/d)



Sources: Bloomberg, BP and QNB Group forecasts

Crude oil production has been on the decline, but redevelopment plans should stabilize output

Crude oil production has fallen from a peak annual average of 845k b/d in 2007 to 716k b/d on average in the first five months of 2014. In recent years, Qatar Petroleum (QP) has implemented a redevelopment program to steady production at its oil fields. In 2008-09, QP signed a number of technical service agreements with international oil majors to appraise fields and reassess long-term production prospects. In its 2010-14 plan, QP budgeted USD6.6bn for investment in crude oil projects. A project to double production at the Bul Hanine field to 90.0k b/d has recently been launched. A USD3.0bn project to sustain production at the Idd al-Shargi field should be tendered later this year. Development plans for the largest fields, Al Shaheen and Dukhan, are also being formulated. With this heavy investment in the redevelopment of existing oil fields, we expect oil production to stabilize at current levels of about 700k b/d.

Production of Crude Oil by Field (End-2012)

Oil Field	Operator	Production (b/d)
Al-Shaheen	Maersk	300,000
Dukhan	QP	225,000
Idd al-Shargi	Occidental	105,000
Bul Hanine	QP	45,000
Maydan Mahzam	QP	22,000
Al Khalij	Total	19,000
Rayan	Occidental	8,000
Al Karkara	QPD	7,000
El-Bunduq	BOC	6,500
Total		**737,500**

Source: MEES

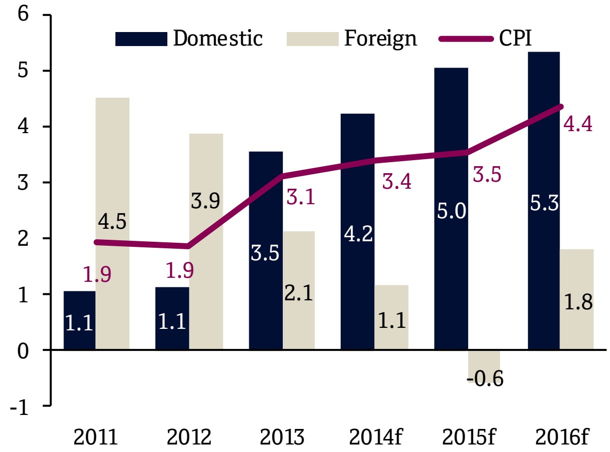
[5] BP defines proven oil and other liquid reserves as: "those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating conditions".
[6] Condensates are light hydrocarbons that form as gases below ground but turn to liquids at normal surface temperatures and pressures. They usually have few contaminants and tend to be more valuable than crude oil.
[7] NGLs are liquids extracted from gas, mainly propane and butane.

Inflation

Qatar's CPI inflation is projected to rise moderately

We forecast overall inflation to rise from 3.1% in 2013 to 4.4% in 2016 on rising domestic inflation. Domestic inflation will mainly be driven by rising rents in response to the growing population. Lower international food prices are likely to keep foreign inflation low, thus partly offsetting the rise in domestic inflation. However, there is a risk that large investments and the growing population could lead to supply bottlenecks owing to limited domestic capacity. This could push up domestic prices more than expected in our baseline forecasts.

CPI, Domestic and Foreign Inflation
(% change)

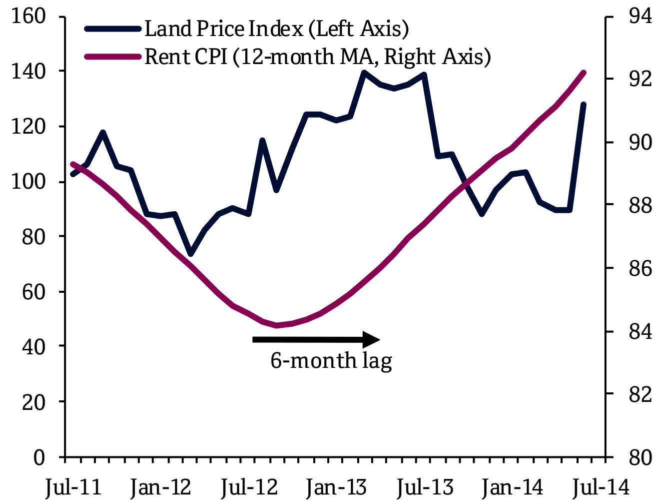


Sources: MDPS and QNB Group analysis and forecasts

Rent inflation is expected to accelerate due to higher land prices

Rapid economic growth and the larger population are pushing up land prices. Land is the main cost in increasing the housing stock to meet the rising demand from the growing population. As a result, land prices in Qatar tend to be highly correlated with future movements in rental prices, with a six-month lag. The recent rise in land prices in early 2014 suggests that rent inflation will be rising in the second half of 2014 and beyond. We expect rent inflation to accelerate to 7.0% in 2014 (up from 5.8% in 2013) and continue rising, reaching 8.5% by 2016. Rising rents, which account for 32.2% of the CPI basket (together with fuel and energy), will push domestic inflation upwards. We therefore forecast domestic inflation to progressively rise from 4.2% in 2014 to 5.3% in 2016.

Land Prices and Rent CPI
(Index)

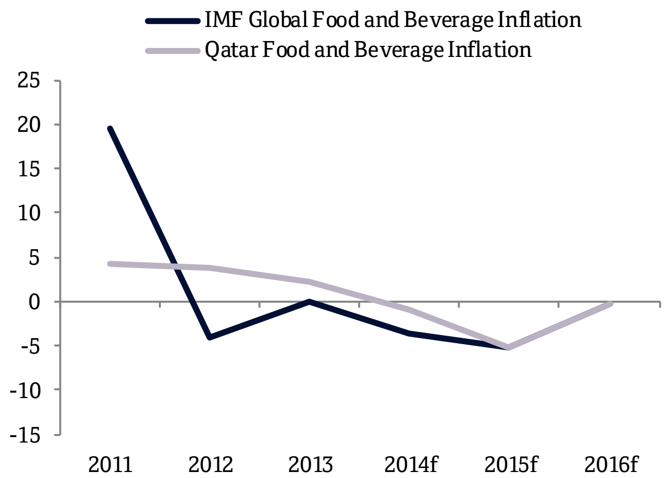


Sources: MDPS, Ministry of Justice and QNB Group analysis

Qatar's foreign inflation is expected to be virtually nil in 2014-15 due to falling global commodity prices

Record harvests and stockpiles are expected to depress global food and beverage prices. The IMF is projecting a decline in global food and beverage prices averaging 4.4% in 2014-15 on record yields. Since Qatar has limited food and beverage production, we assume a large pass-through of lower international food prices to Qatar's food and beverage inflation with a lag. We also forecast that the other components of foreign inflation (clothing and footwear; and furniture, textiles and home appliances) will rise moderately. Overall, we expect foreign inflation in Qatar (accounting for 27.2% of the CPI basket) to range between -0.6% and 1.1% in 2014-15 before bouncing back to 1.8% in 2016 as international food prices begin to rise again.

Global and Qatar Food and Beverage Inflation
(% change, Year-on-Year)



Sources: IMF and QNB Group analysis and forecasts

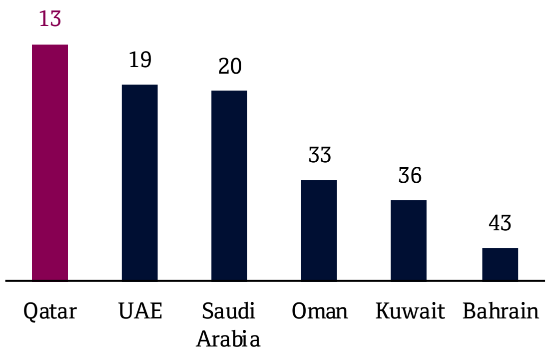
Business Environment

Qatar is the most competitive country in the GCC, according to World Economic Forum (WEF) rankings

According to the 2013-14 WEF Global Competitiveness Report, Qatar is the 13th most competitive economy in the world. This places Qatar ahead of other GCC countries. Qatar ranked high for the efficiency of its goods and labor markets. Access to finance was cited as the most problematic factor for doing business in Qatar. Restrictive labor laws appear to have become less problematic, being cited by only 11.8% of respondents to the WEF survey, against 17.0% in the previous survey.

Competitiveness Rankings (2013-14)

(Rank out of 148, inverted scale)



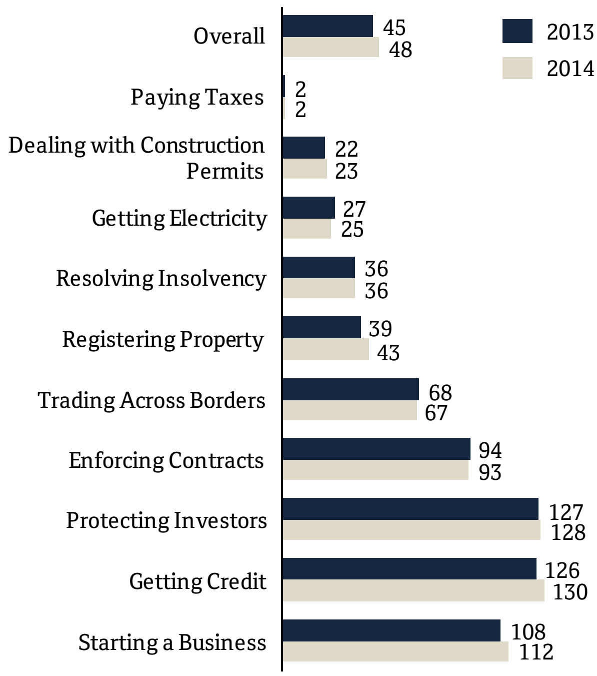
Sources: World Economic Forum (WEF) and QNB Group analysis

Qatar's ranking was slightly down in the World Bank's Doing Business 2014 report

Qatar came 48th in the world in the overall World Bank 2014 Ease of Doing Business rankings. The World Bank index focuses mainly on regulatory issues while the WEF carries out a more comprehensive assessment of the entire environment, taking account of factors such as education, infrastructure, the economy and efficiency. According to the World Bank, Qatar ranked 2nd out of 185 countries for ease of paying taxes, behind the UAE. Qatar also ranks 23rd in the world for dealing with construction permits. On the other hand, the registration process for starting a business deteriorated in 2014, with a rank of 112th in the world compared with a rank of 108th in 2013. Getting credit was the worst category (130th) and deteriorated slightly compared to the previous year.

Doing Business Rankings (2014)

(Rank out of 185)



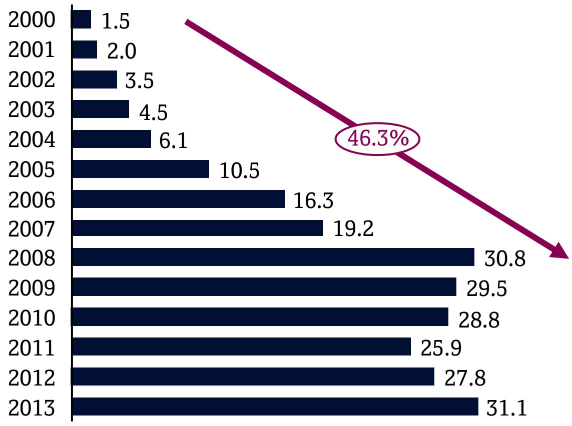
Sources: World Bank and QNB group analysis

Projects

Investment spending continues to drive economic growth

Qatar's development is underpinned by an array of investment projects, which have been crucial to driving its economic growth in recent years. We estimate that project spending grew at a rate of 46.3% from 2000-08. The growth was mainly driven by the expansion of LNG export facilities. Infrastructure projects have driven most of the growth in the non-hydrocarbon sector, averaging 15.3% during 2000-08. Growth in investment spending eased in 2009-11 as the LNG expansion program was completed. However, a new phase of projects got underway in 2013 focused on construction, transport and services, which has helped raise non-hydrocarbon growth from 10.3% in 2012 to 11.4% in 2013.

Estimated Project Spending
(USD bn, CAGR shown)

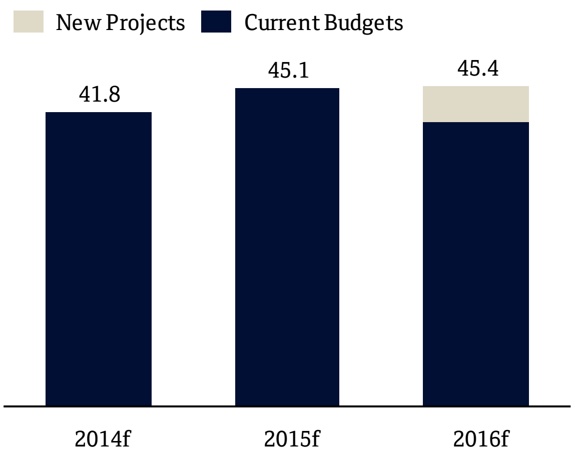


Sources: MEED Projects and QNB Group analysis

Project spending is set to rise going forward, leading to higher growth

Investment spending is set to pick up during 2014-16. The government has major infrastructure plans for the run-up to the 2022 World Cup and has been implementing those plans. A number of major projects are now underway that have commitments to be completed ahead of the World Cup. QNB Group expects project activity to pick up during 2014-16. This includes, for example, the USD45.0bn Lusail real estate development and the USD40.0bn Qatar Integrated Rail project (see Major Projects table on next page). Most projects have a timeframe of 3-4 years, but a couple are much longer term, such as the rail network and some real estate developments.

Spending on Major Projects
(USD bn)

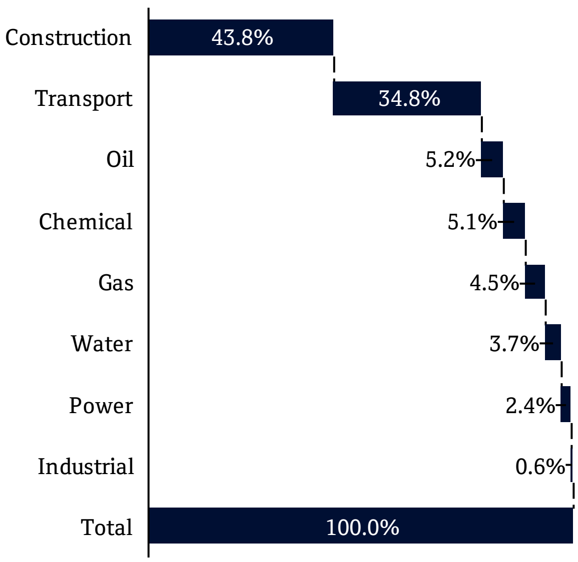


Sources: MEED and QNB Group forecasts

Non-hydrocarbon projects account for the bulk of project budgets

Infrastructure projects in construction and transport currently account for the largest share of project spending. Construction and transport projects make up 78.6% of projects currently underway. While oil and gas accounted for the bulk of projects during 2000-11, their share is budgeted to account for only 9.7% over the next decade. This reflects Qatar's development path, which is now using revenue from the hydrocarbon sector to build up the non-hydrocarbon economy. The bulk of project budgets in construction are for mixed-use real estate developments. Transport spending includes a range of road, rail, sea and air projects. Few new major projects in the gas sector are likely to be initiated in the next few years owing to the North Field moratorium (see *Hydrocarbons* chapter). In the oil sector, projects to boost production at existing fields have been initiated, such as the Bul Hanine redevelopment.

Estimated Project Budgets (as of July-14)
(% shares shown)



Sources: MEED Projects and QNB Group analysis

Major Projects (as of July-14)

Project	Sector	End	Comment
Lusail Mixed-Use Development	Construction	2019	Waterfront development to the north of Doha. The lead developer is Qatari Diar, a QIA property investment fund. This phase includes islands, marinas and residential, commercial and business districts.
Qatar Integrated Rail	Transport	2026	The project scope includes 260km of metro and light rail in Doha and 400km of mainlines, including passenger and freight rail linking Ras Laffan and Messaieed via Doha, a high-speed rail link between the Hamad International Airport, Doha city center and Bahrain via a planned causeway and a freight rail to be linked to a planned GCC network. Tunneling and construction of a number of stations is already underway.
Doha, Lusail and Dukhan Highways	Transport	2018	This project is part of Ashgal's plans to develop a number of major motorways.
Hamad International Airport	Transport	2017	The new airport became fully operational in May 2014 with capacity for 30m passengers. A second and third phase are scheduled to increase capacity to 50m by 2017.
Roads and Associated Facilities	Construction	2019	The master developer for this project is Asghal, the public works authority. It includes a network of roads, utilities and infrastructure. The scope was recently extended and about 26% of the work is complete.
Bul Hanine Oilfield Redevelopment	Oil	2022	QP aims to boost crude oil production in Qatar. Investment in new facilities is expected to double capacity to 90k b/d and extend the life of the field.
Barzan Gas Development	Gas	2023	RasGas is developing this project to increase gas supply to the domestic market to meet rising demand for power as well as to supply ethane and propane to industry. First production is expected by 2015.
Barwa Al Khor Development	Construction	2025	Mixed-use development (villas and town houses, terraces, flats and mixed use areas, 2 sprawling hotels, marina, golf course and shopping malls) to the north of Doha.
Barwa City	Construction	2015	This development to the south of Doha includes residential areas, schools, hospitals, hotels, a golf course, commercial facilities and recreational areas.
Education City	Construction	2014	This project includes a university campus, schools, a science and technology park and associated facilities.
New Doha Port	Transport	2020	Tenders have been issued for initial construction works for a new port to the south of Doha, replacing the old port in central Doha. The project will be completed in five phases, taking total capacity to 12m 20-foot containers.
Al Sejeel Petrochemical	Chemical	2018	A QP/QAPCO petrochemical and aromatics plant.
Pearl Qatar	Construction	2017	Ongoing development of a man-made island near West Bay, Doha's business district. It is the largest real estate development in the country and is the first to offer freehold to international investors. It is around 69% complete.
Al Karaana Petrochemical (Ras Laffan)	Chemical	2017	A QP and Shell petrochemicals project that will produce downstream products such as ethylene glycol and alpha olefins.
Musheireb Mixed-Use Development	Construction	2016	A development project in central Doha that aims to retain elements of cultural heritage. The development will house over 27,000 residents and includes commercial, retail, cultural and entertainment areas. It is about 63% complete.
Sharq Crossing	Transport	2020	Doha Bay crossing from the airport to West Bay and Lusail.
2022 World Cup Stadiums	Construction	2020	Plans for football stadiums for the FIFA World Cup in 2022 are currently in the tendering process. Most of the stadiums will have a capacity of 40k-50k while the Lusail stadium will have a capacity of 86,250 and will host the opening and final matches.

Sources: MEED Projects and QNB Group analysis

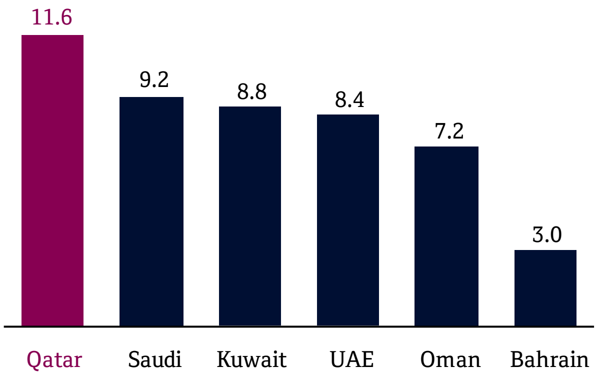
Banking

Qatar's banking sector is the fastest growing in the GCC

Robust asset growth (11.6% in 2013) has made Qatar's banking sector the third largest in the GCC. Growth has been driven by the strong expansion in lending as well as domestic and foreign investments. Asset penetration in the Qatari economy continues to grow, with the ratio of total banking assets to GDP increasing from 97% at end-2008 to 124% at end-2013. It is expected to grow further as asset growth outpaces nominal GDP growth. Asset quality is strong with non-performing loans (NPLs) expected to remain below 2.0% of total gross loans during 2014-16. Banks are well-capitalized with capital adequacy ratios well above the QCB requirement under Basel III of 12.5%. Lending growth is expected to remain strong, ranging between 10-11% in 2014-16 underpinned by rapid deposit growth.

GCC Banking Sector Asset Growth (End-2013)

(% growth year-on-year)



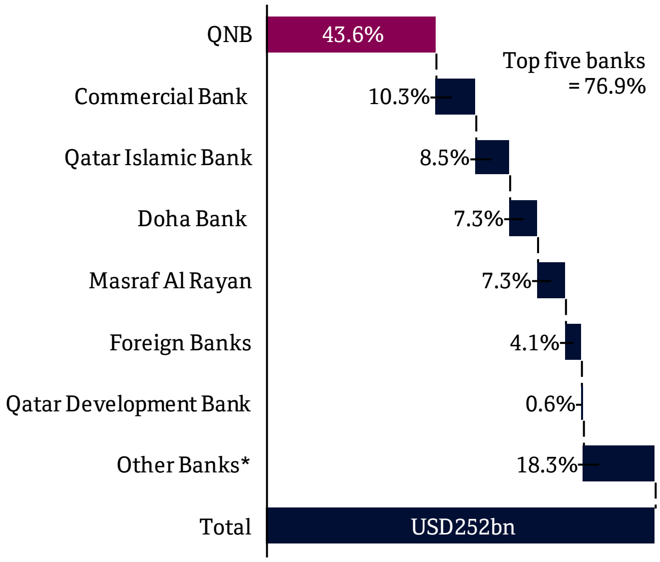
Sources: National central banks and QNB Group analysis

The banking sector is highly concentrated

The top five banks account for 76.9% of the sector's assets making it highly concentrated. The QCB announced in 2011 that conventional banks would no longer be allowed to run Islamic windows, leading to a clear separation between Islamic and conventional banks. Of the 12 Qatari banks, four are classified as Islamic and eight as conventional, including the government-owned Qatar Development Bank. Among the top five banks, two are Islamic: Qatar Islamic Bank and Masraf Al Rayan. Islamic banks' assets grew rapidly following the QCB's decision as funds shifted towards the purely Islamic banks. However, their growth converged to that of conventional banks in 2013. QNB is the largest bank in the Middle East and North Africa (MENA) region with total assets of USD121.8bn as of end-2013 and accounts for 43.6% of total banking assets in Qatar. In addition to domestically licensed banks, there are around 150 financial services companies with a presence in the Qatar Financial Centre (QFC). The QFC provides a favorable offshore business environment with the aim of positioning Qatar as a business and financial hub.

Banks' Share of Total Assets (End-2013)

(% share)



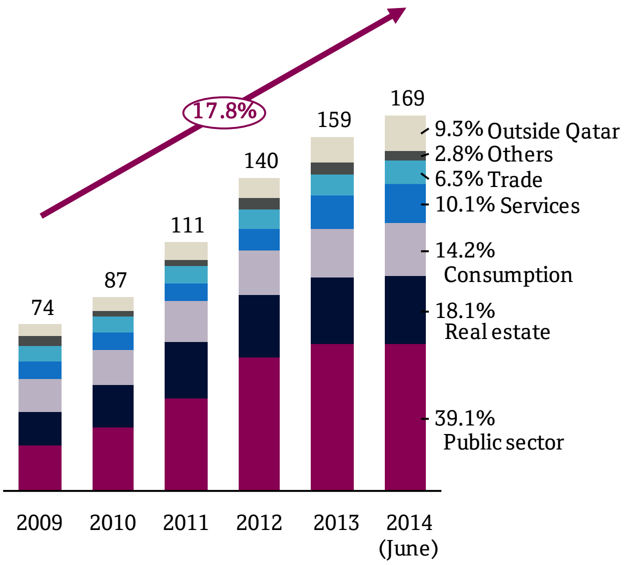
*Ahli, Al Khaliji, Barwa, International Islamic, and International Bank of Qatar

Sources: Bankscope, QCB and QNB Group analysis

The public sector takes the largest share of bank credit

Credit facilities to the public sector accounted for 39.1% of overall loans at end-June 2014. Overall credit facilities increased by 13.3% in 2013 and a further 6.1% in the first six months of 2014. This represents a slowdown from the 26.0% growth rate recorded in 2012. Lending to the government has been flat so far in 2014. This is occurring as the government has recently relied more heavily on its own surpluses to finance infrastructure projects and less on credit from the banking system. Finally, growth in loans to services has been strong owing to rapid population growth and the ongoing diversification of the economy.

Bank Credit Facilities
(bn USD, % share and CAGR shown)

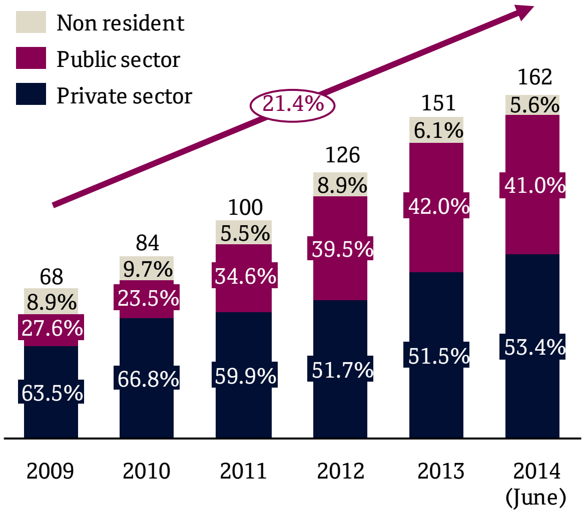


Sources: QCB and QNB Group analysis

The private sector has driven growth in deposits so far in 2014, while banks continue to tap bond markets

Deposit growth continues at a rapid pace. Banking sector deposits increased by 19.7% in 2013 and another 7.8% by end-June 2014 to USD162bn. The public sector was the key driver for overall gains in banking sector deposits in 2013, reflecting the large fiscal surplus. The private sector, however, has driven growth in deposits so far in 2014, with growth of 11.0% at end-June 2014. Although retail deposits form a stable source of funding, Qatari banks have been widening their funding options in recent years, including by tapping international bond markets. They issued USD4.4bn worth of bonds in 2013 and USD0.4bn so far in 2014.

Bank Deposits
(bn USD, % share and CAGR shown)



Sources: QCB and QNB Group analysis

Qatari banks maintain high investment-grade ratings

Qatari banks have high credit ratings along with strong support from the sovereign. This has allowed them to successfully access international bond markets and find funding options at favorable rates. In recent years, the local bond market has also been boosted by the issuance of sovereign bills and bonds, which provide a benchmark yield curve and thus make it easier for banks to issue debt and raise funding.

Credit Ratings of Top 5 Banks (July-2014)

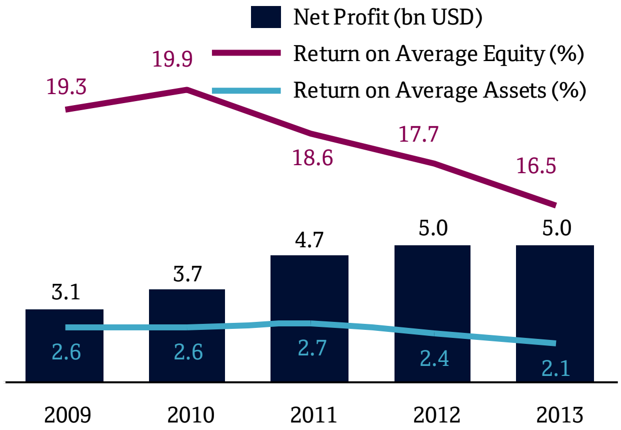
	Capital Intel.	Moody's	Fitch	Standard & Poor's
QNB	AA-	Aa3	A+	A+
Commercial Bank	A	A1	A	A-
QIB	A		A	A-
Masraf Al Rayan		A2		
Doha Bank	A	A2	A	A-

Sources: Bloomberg and QNB Group analysis

Banking sector profitability is strong and its outlook is stable

Low provisioning requirements and an efficient cost base have supported the banks' overall profitability. The net profit of Qatari banks remained strong in 2013. The return on average equity stood at 16.5% in 2013 while the return on average assets was 2.1%. We expect Qatar's banking sector to maintain its profitability in 2014 as banks expand credit facilities for contractors, private sector consumption and investments.

Bank Profitability

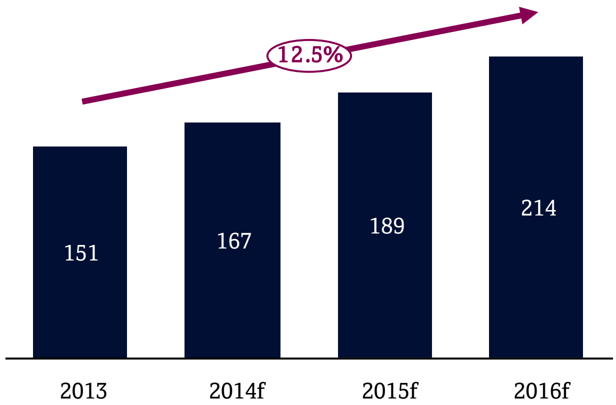


Sources: IMF, QCB and QNB Group analysis and forecasts

Bank deposits are set to grow…

Rapid population growth and continued large fiscal surpluses are likely to result in double-digit deposit growth over the medium term. Strong population growth (see *Demographics* chapter) and robust non-oil GDP growth will drive the expansion of private sector deposits, which currently account for 53.4% of total deposits. The fiscal surpluses should also contribute to deposit growth, albeit at a slower pace than in the past. Overall, we forecast deposits to grow at an annual rate of 12.5% over 2014-16.

Bank Deposits
(bn USD and CAGR shown)

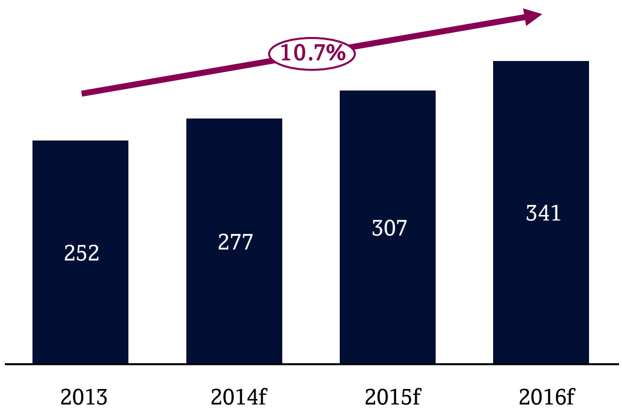


Sources: QCB and QNB Group analysis and forecasts

…supporting rising bank assets

Robust deposit growth and good access to international bond markets will provide ample liquidity for banks to expand loans and investments. Large infrastructure spending (see *Projects* chapter), strong non-hydrocarbon growth and rapid population growth will provide opportunity to expand lending and investment domestically. Foreign assets, which currently account for nearly 20% of total assets, have been growing rapidly (17.0% in the year to end-June 2014). This is likely to continue as banks redeploy their ample domestic liquidity into their international expansions. Overall, we expect strong asset growth to average 10.7% over 2014-16.

Bank Assets
(bn USD and CAGR shown)



Sources: QCB and QNB Group analysis and forecasts

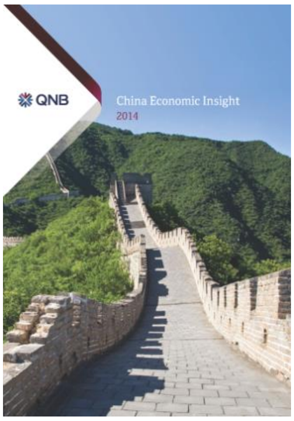
Key Macroeconomic Indicators

	2009	2010	2011	2012	2013	2014f	2015f	2016f
Real sector indicators								
Real GDP growth (%)	12.0	16.7	13.0	6.1	6.5	6.8	7.5	7.8
Hydrocarbon sector	4.5	28.9	15.6	1.3	0.1	0.6	1.0	1.0
Non-hydrocarbon sector	17.6	8.6	10.9	10.1	11.4	11.2	11.6	11.7
Nominal GDP (bn USD)	97.8	125.1	169.8	189.9	202.5	218.0	231.3	255.4
Growth (%)	-15.2	27.9	35.7	11.9	6.6	7.7	6.1	10.4
Hydrocarbon sector (% of GDP)	44.8	52.6	58.1	56.8	54.4	51.0	46.4	42.8
GDP per capita (PPP, k USD)	77.2	90.9	99.4	100.9	98.8	98.9	97.9	100.1
Consumer price inflation (%)	-4.9	-2.4	1.9	1.9	3.1	3.4	3.5	4.4
Domestic (73% of basket)	-6.2	-3.8	1.1	1.1	3.5	4.2	5.0	5.3
Foreign (27% of basket)	-0.9	2.0	4.5	3.9	2.1	1.1	-0.6	1.8
Budget balance (% of GDP)	13.4	2.7	7.8	11.4	15.6	8.5	7.6	5.3
Revenue	47.5	34.3	36.0	41.1	47.0	40.0	39.0	36.7
Expenditure	34.2	31.6	28.2	29.7	31.4	31.4	31.4	31.4
Public debt	36.0	31.9	33.6	36.3	34.7	25.2	24.8	23.8
External sector (% of GDP)								
Current account balance	6.5	19.1	30.6	32.7	30.9	28.3	25.8	21.6
Goods and services balance	22.1	38.6	45.9	46.4	44.0	40.2	36.9	31.5
Exports	51.1	62.3	71.7	75.2	73.2	69.6	66.5	61.5
Imports	-29.0	-23.8	-25.8	-28.8	-29.1	-29.4	-29.7	-29.9
Income balance	-9.6	-10.3	-7.8	-6.4	-5.6	-4.8	-4.3	-3.8
Transfers balance	-6.0	-9.1	-7.5	-7.4	-7.5	-7.1	-6.7	-6.2
Capital and Financial account balance	0.6	-8.5	-36.9	-23.4	-26.9	-27.6	-24.2	-19.2
International reserves (prospective import cover)	7.6	8.5	3.7	6.7	7.9	8.0	8.0	8.0
External debt	82.0	87.4	76.1	83.9	82.7	75.6	69.8	64.4
Monetary indicators								
M2 growth	16.9	23.1	17.1	22.9	19.6	14.0	14.1	14.1
Interbank interest (%, 3 months)	2.3	1.6	1.5	1.1	1.1	n.a.	n.a.	n.a.
Exchange rate USD:QAR (av)	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Banking indicators (%)								
Return on equity	19.3	19.9	18.6	17.7	16.5	n.a.	n.a.	n.a.
NPL ratio	1.7	2.0	1.7	1.7	1.9	1.9	1.9	1.9
Capital adequacy ratio	16.1	16.1	20.6	18.9	16.0	n.a.	n.a.	n.a.
Asset growth	16.2	21.3	22.1	17.5	11.6	10.0	11.0	11.0
Deposit growth	16.2	24.3	18.5	26.0	19.7	11.0	13.2	13.2
Credit growth	11.5	16.4	28.3	26.0	13.3	10.0	11.0	11.0
Loan to deposit ratio	109.8	102.8	111.3	111.3	105.4	104.4	102.4	100.4
Memorandum items								
Population (m)	1.64	1.72	1.73	1.83	2.03	2.24	2.39	2.51
Growth (%)	13.3	4.7	1.0	5.7	10.9	10.1	7.0	5.0
Oil production ('000 bpd)	781	733	734	734	724	730	730	730
Average Brent Crude Oil Price (USD/b)	61.9	79.8	111.0	111.8	108.7	108.0	102.0	102.0
Average Raw Gas Production (bn cf/d)	8.6	11.3	14.1	14.6	15.3	15.3	15.7	16.1

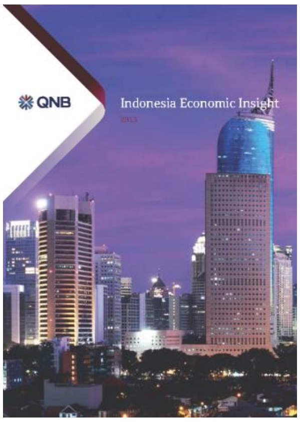
Sources: Bloomberg, BP, QCB, MDPS, MEES, MoF, IMF and QNB Group forecasts

QNB Group Publications

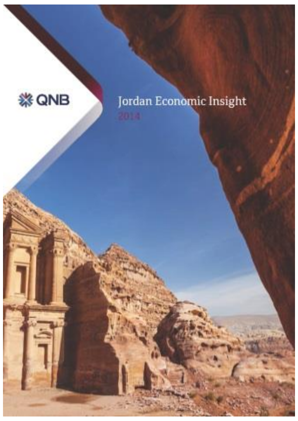
Recent Economic Insight Reports



China 2014



Indonesia 2013



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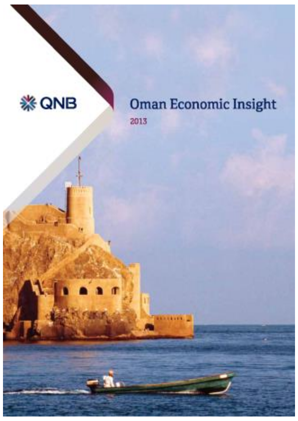
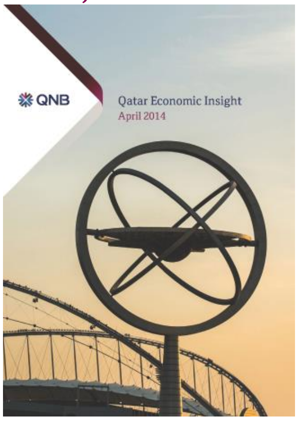


Oman 2013



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QNB International Branches and Representative Offices

China
Room 930, 9th Floor
Shanghai World Financial Center
100 Century Avenue
Pudong New Area
Shanghai
China
Tel: +86 21 6877 8980
Fax: +86 21 6877 8981

Lebanon
Ahmad Shawki Street
Capital Plaza Building
Mina El Hosn, Solidere – Beirut
Lebanon
Tel: +961 1 762 222
Fax: +961 1 377 177
QNBLebanon@qnb.com.qa

South Sudan
Juba
P.O. Box: 587
South Sudan
QNBSouthSudan@qnb.com.qa

France
65 Avenue d'lena
75116 Paris
France
Tel: +33 1 53 23 0077
Fax: +33 1 53 23 0070
QNBParis@qnb.com.qa

Mauritania
Al-Khaima City Center
10, Rue Mamadou Konate
Mauritania
Tel: +222 45249651
Fax: +222 4524 9655
QNBMauritania@qnb.com.qa

Sudan
Africa Road - Amarat
Street No. 9, P.O. Box: 8134
Sudan
Tel: +249 183 48 0000
Fax: +249 183 48 6666
QNBSudan@qnb.com.qa

Iran
Representative Office
6th floor Navak Building
Unit 14 Africa Tehran
Iran
Tel: +98 21 88 889 814
Fax: +98 21 88 889 824
QNBIran@qnb.com.qa

Oman
QNB Building
MBD Area - Matarah
Opposite to Central Bank of Oman
P.O. Box: 4050
Postal Code: 112, Ruwi
Oman
Tel: +968 2478 3555
Fax: +968 2477 9233
QNBOman@qnb.com.qa

United Kingdom
51 Grosvenor Street
London W1K 3HH
United Kingdom
Tel: +44 207 647 2600
Fax: +44 207 647 2647
QNBLondon@qnb.com.qa

Kuwait
Al-Arabia Tower
Ahmad Al-Jaber Street
Sharq Area
P.O. Box: 583
Dasman 15456
Kuwait
Tel: +965 2226 7023
Fax: +965 2226 7031
QNBKuwait@qnb.com.qa

Singapore
Three Temasek Avenue
#27-01 Centennial Tower
Singapore 039190
Singapore
Tel: +65 6499 0866
Fax: +65 6884 9679
QNBSingapore@qnb.com.qa

Yemen
QNB Building
Al-Zubairi Street
P.O. Box: 4310 Sana'a
Yemen
Tel: +967 1 517517
Fax: +967 1 517666
QNBYemen@qnb.com.qa

QNB Subsidiaries and Associate Companies

Algeria
The Housing Bank for Trade
and Finance (HBTF)
Tel: +213 2191881/2
Fax: +213 21918878

Iraq
Mansour Bank
Associate Company
P.O. Box: 3162
Al Alawiya Post Office
Al Wihda District Baghdad
Iraq
Tel: +964 1 7175586
Fax: +964 1 7175514

Switzerland
QNB Banque Privée
Subsidiary
3 Rue des Alpes
P.O. Box: 1785
1211 Genève-1 Mont Blanc
Switzerland
Tel: +41 22907 7070
Fax: +41 22907 7071

Bahrain
The Housing Bank for Trade
and Finance (HBTF)
Tel: +973 17225227
Fax: +973 17227225

Jordan
The Housing Bank for Trade
and Finance (HBTF)
Associate Company
P.O. Box: 7693
Postal Code 11118 Amman
Jordan
Tel: +962 6 5200400
Fax: +962 6 5678121

Syria
QNB Syria
Subsidiary
Baghdad Street
P.O. Box: 33000 Damascus
Syria
Tel: +963 11-2290 1000
Fax: +963 11-44 32221

Egypt
QNB ALAHLI
Dar Champollion
5 Champollion St, Downtown 2664
Cairo
Egypt
Tel: +202 2770 7000
Fax: +202 2770 7099
Info.QNBAA@QNBALAHLI.COM

Libya
Bank of Commerce and Development
BCD Tower, Gamal A Nasser Street
P.O. Box: 9045, Al Berka
Benghazi
Libya
Tel: +218 619 080 230
Fax: +218 619 097 115
www.bcd.ly

Tunisia
QNB Tunisia
Associate Company
Rue de la cité des sciences
P.O. Box: 320 – 1080 Tunis Cedex
Tunisia
Tel: +216 7171 3555
Fax: +216 7171 3111
www.tqb.com.tn

India
QNB India Private Limited
802 TCG Financial Centre
Bandra Kurla Complex
Bandra East
Mumbai 400 051
India
Tel: + 91 22 26525613

Palestine
The Housing Bank for Trade
and Finance (HBTF)
Tel: +970 2 2986270
Fax: +970 2 2986275

UAE
Commercial Bank International p.s.c
Associate Company
P.O. Box: 4449, Dubai,
Al Riqqa Street, Deira
UAE
Tel: +971 04 2275265
Fax: +971 04 2279038

Indonesia
QNB Kesawan Tower, 18 Parc
Jl. Jendral Sudirman Kav.
52-53 Jakarta 12190
Tel : +62 21 515 5155
Fax : +62 21 515 5388
qnbkesawan.co.id

Qatar
Al Jazeera Finance Company
Associate Company
P.O. Box: 22310 Doha
Qatar
Tel: +974 4468 2812
Fax: +974 4468 2616