

Qatar Economic Report

A MIX OF OPPORTUNITIES AND CHALLENGES FOR THE WORLD'S FASTEST GROWING ECONOMY

- ▶ Qatar's economy is delivering an impressive buoyant performance in the midst of sluggish global conditions. According to IMF forecasts for 2010, real GDP growth is projected at 18.5%, the highest worldwide, after a 9% growth in 2009 and close to 15% average growth over the previous three years.
- ▶ Qatar has been significantly resilient to the global crisis as a result of a solid increase in gas output, pre-arranged financing (mainly for hydrocarbon and petrochemical projects) and a number of supportive government measures.
- ▶ The Qatari economy is riding on a massive hydrocarbons capacity expansion boom which is driving its record high growth rates. The liquefied natural gas (LNG) expansion, along with the completion of a massive aluminum plant and other mega projects like the Ras Laffan condensate refinery and Al Khalij Gas II, boosts the State's national economy.
- ▶ Qatar's external sector performance is set to record new highs in 2010, as export activity receives a major boost, underpinned by the current global recovery from the financial crisis, which has triggered rising demand for petroleum products and LNG. Trade and current account surpluses are expected to rebound after the relative declines in 2009.
- ▶ Fiscal development expenditures are likely to continue supporting growth. Those are projected to rise by circa 15% in FY 2009/10, with the government continuing to invest in carefully prioritized and sequenced infrastructure projects. Despite such ambitious planned spending, the fiscal account is expected to remain in comfortable surplus in 2010.
- ▶ Monetary conditions in Qatar were marked in 2009 and early 2010 by stable key interest rates, moderate growth in monetary aggregates, and low or negative inflation, in addition to a tangible growth in international net reserves. Unlike other countries in the region, Qatar did not feel the need to adopt aggressive monetary easing.
- ▶ The Qatari banking sector, which benefited from strong regulator support and continuingly robust economic performances, weathered the global downturn spillovers relatively well. Bank deposits grew by 11.4% year-to-date, generating a lending growth of 8.4%, within the context of a well capitalized banking system.
- ▶ Equity and fixed income markets benefited from growing investor interest. Qatar's General Price Index of its Stock Market rose by 8.5% over the first four months of 2010 and the 5-year Credit Default Swap spreads for Qatar managed to contract by 15 basis points year-to-date.
- ▶ The country is apt to continue reporting among the soundest rates in the region and in the World. Beyond the growth forecast for 2010, the IMF expects a 14.3% rate for 2011 and a 9.2% rate for 2012. It is foreseen that Qatar will become the third largest economy in the GCC by the year 2012.
- ▶ In the long term, a thorough steering of the economy to avoid bubbles related to overheating conditions, a progress in economic diversification away from the oil and gas sector, along with a further improvement of Qatar's institutional profile, would constitute key success factors for the country's growth and development trajectory at large.

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1. ECONOMIC CONDITIONS

Qatar's national economy is delivering an impressive buoyant performance in the midst of sluggish global conditions. The country's economic growth is apt to display strong two-digit rate in 2010, thanks to the continuing expansion of its natural gas sector, the strong countercyclical policy responses by the authorities and the strengthening of external demand apt to lead to a recovery in the non-hydrocarbon sector. According to the IMF forecasts for 2010, real GDP growth is projected at 18.5%, the highest worldwide, after a 9% growth in 2009 and close to 15% average growth over the previous three years.

The Qatari economy is in fact riding on a massive hydrocarbons capacity expansion boom which is driving its record high growth rates. Two major new Liquefied Natural Gas (LNG) projects come on stream in the current year. The LNG expansion, along with the completion of a massive aluminum plant and other mega projects like the Ras Laffan condensate refinery and Al Khalij Gas II boosts the State's national economy. It is worth noting that Qatar's LNG production capacity is actually expected to surge to 77 million tons per year by early 2011.

At the fiscal policy level, development expenditures are likely to continue supporting growth. Those are projected to rise by circa 15% in FY 2009/10, with the government continuing to invest in carefully prioritized and sequenced infrastructure projects. The government is in the process of tendering a large number of large scale infrastructural projects, including a new airport and sea port in Doha, in addition to wide transportation networks and its urban regeneration program under the Public Works Authority. Despite ambitious planned spending, the fiscal account is expected to remain in comfortable surplus in 2010, while trade and current account surpluses are expected to rebound after the relative declines in 2009.

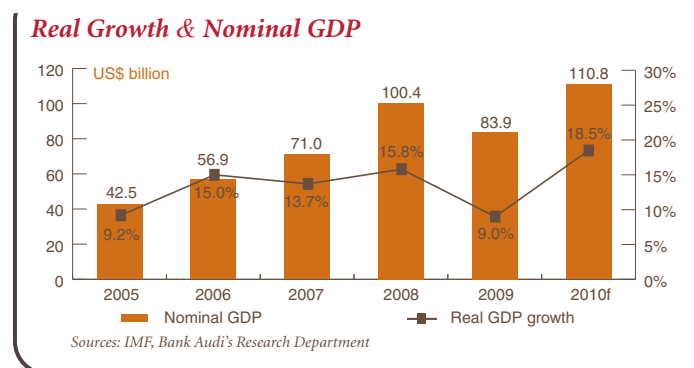
At the monetary policy level, unlike other countries in the region, Qatar did not feel the need to adopt aggressive monetary easing. Qatar indeed has kept benchmark interest rates and reserve requirement ratios on hold since the outburst of the global crisis. As such, the differential with foreign benchmark rates has widened substantially to new historical levels. Within this context, inflation is expected to average 1% this year, after a negative rate of -4.9% in 2009 owing to a large decrease in domestic rents and falling international prices for food and raw materials.

In the midst of buoyant economic activity, banking performance was solid. In the first five months of this year, bank deposits grew by 11.4%, generating a lending growth of 8.4% despite the continuing global and regional credit squeeze. The banking system continues to be well capitalized and profitable, with nonperforming loans among the lowest in GCC, reflecting both prudent regulation and government support to banks in the course of the past year. The authorities preemptive intervention in the banking system was three-fold, including namely capital injection in banks, purchase of banks' equity investment portfolios and purchase of real estate portfolios in the context of falling real estate prices.

At the capital markets level, both equity and fixed income

markets benefited from growing investor interest. Qatar's General Price Index of its Stock Market rose by 8.5% over the first four months of 2010, although trading volumes remain thin at an annual 18.0% of market capitalization. As to fixed income papers, despite growing credit concerns worldwide after the Greece crisis and its wide contagion spillovers, the 5-year Credit Default Swap spreads for Qatar managed to contract by 15 basis points year-to-date, moving from 105 basis points at end-December 2009 to 90 basis points at end-June 2010.

Following are the detailed developments in the real sector, external sector, public sector, monetary sector and financial sector of the Qatari economy.



1.1. REAL SECTOR

1.1.1. The hydrocarbon sector

The hydrocarbon sector is expected to grow significantly this year, forecasted at 25.2% by the International Monetary Fund (IMF), after it grew by 10%, in real terms in 2009. The oil and gas sectors accounted for about 46% of GDP in 2009, while crude oil exports and liquefied natural gas exports represented about 79% of total exports in 2009, according to official sources.

Qatar is estimated to control around 2.2% of the world's proven oil reserves. The country produced in 2009 768 thousand barrels per day (b/d) of oil, according to the Economist Intelligence Unit (EIU), with production expected to rise to 810 thousand b/d this year. Oil exports account for close to 90% of oil production, as consumption of oil in Qatar remains limited compared to gas, standing at a little more than 100 thousand barrels per day.

Qatar succeeded in enticing international oil companies to develop its oil and gas industry through special production and sharing agreements. In May 2010, Qatar Petroleum and the US company GE Oil & Gas signed partnership deals to help Qatar boost oil and gas capacity by providing technologies for the inspection, maintenance and repair needs of the local oil and gas industry.

Qatar accounts for nearly 14% of global gas reserves. As part of its ongoing efforts to raise the hydrocarbons reserve base, Qatar Petroleum signed an exploration and production-sharing agreement (EPSA) with Royal Dutch Shell

(Netherlands/UK) and China Petroleum Corporation (CNPC) in mid-May 2010, to look at natural gas in an 8,089 square kilometers area close to the North Field, according to the EIU. The EPSA extends over a 30-year period, starting with a five-year 'first exploration period' followed by a 25-year development phase. If gas is found in commercial quantities, Shell and CNPC would produce it and sell it to the state-owned Qatar Petroleum.

The Emirate is the largest exporter of liquefied natural gas (LNG) in the world and is planning to continue expanding its natural gas sector by increasing its liquefied natural gas (LNG) production capacity to 77 million tons per year (t/y) by early 2011 from around 60 million t/y currently. The signing of new gas export agreements is suspended until at least 2013, conditioned upon the results of a study into the North Field's reserves. The state-owned Qatar Petroleum's joint ventures, Qatargas and RasGas, are expected to bring on stream at least two LNG super trains by the end of the first quarter of 2011, both with a capacity of 7.8 million t/y. Four super trains out of the six projected have already started producing, each with a capacity of 7.8 million t/y.

It is important to note that most LNG is sold on the basis of long-term contracts with the US and the UK markets accounting for the majority of the country long-term supply agreements. In May 2010, the energy minister said that China had agreed to increase its imports of LNG by an additional 7 million t/y, to 12 million t/y, and India by an additional 4 million t/y, to 11.5 million t/y, from 2013 while Poland has signed a contract to buy 1 million t/y, as per the EIU.

Moreover, in a bid to diversify the energy sector, the government is investing heavily in gas-to-liquids (GTL) technology which turns gas into high value clean liquid fuels for export. In May 2010, the Emir of Qatar inaugurated the second phase of a domestic gas project, known as Al Khaleej Gas II (AKG II), which consists of a US\$ 4.7 billion plant that processes gas from the Khuff Reservoir. The AKG II project is designed to produce 1.25 billion cubic feet per day (ft/d) of gas, and, combined with Al Khaleej Gas-Phase (AKG I) that began production in 2005, has a production capacity of 2 billion standard cubic ft/d of gas, making it the largest domestic gas supplier in Qatar. This joint-venture project between Qatar Petroleum and ExxonMobil, under a 25-year development and production-sharing agreement, would be a major supplier of clean energy sources for power plants and various industries.

Moreover, the Pearl GTL project is under development by Qatar Petroleum and Shell, and major construction is expected to be complete by the end of 2010 with production ramp-up during 2011. The project would produce liquid fuels, base oils for lubricants and chemical feedstock from natural gas, as well as natural gas liquids and ethane. Finally, the Energy Minister announced in May of this year agreements for the Qatar Helium 2 Project, which would make Qatar the world's second largest helium producer, once the project is completed in 2013. Qatar's first helium facility came on stream in 2005, with a capacity of 700 million cubic feet per year.

In sum, the Qatari economy is riding on a massive hydrocarbons capacity expansion boom, with large investments to develop its gas sector. As global demand for oil

and gas remains firm, gas and oil exports are projected to rise substantially, therefore increasing export revenues, and driving real GDP growth this year, especially that the hydrocarbons sector accounts for almost half of Qatar's GDP.

1.1.2. The non-hydrocarbon sector

Investments in the Qatari oil and gas sector are projected to support activity in the non-hydrocarbons sector. Real non-oil GDP growth is projected to strengthen to 11.5% this year, relative to an 8.0% growth in 2009, according to the IMF, as the government pushes ahead with its investment program.

Manufacturing

Manufacturing activity, including the petrochemical and chemical sectors, is expected to benefit from the rising hydrocarbon output this year. This trend will reverse the one witnessed last year as the manufacturing output contracted, as a result of the global financial crisis. Qatar is expected to record a 7.5% growth in petrochemicals production in 2010, on the back of continuing capacity expansion and the resumption of growth in the global economy, according to Business Monitor International (BMI). This compares with projected global petrochemicals output growth of 4.5% in 2010, according to BMI.

Qatar aims at raising its total petrochemical production from the current 18 million tons a year to 30 million tons a year by 2014, according to the Ministry of Energy and Industry. Petrochemical plants in the country are specialized in manufacturing high quality products including ethylene and various grades of polyethylene. In addition, the country hosts the second largest polyolefin capacity in the GCC after Saudi Arabia, according to BMI. Investments in Qatar Petrochemical Company (Qapco), largely owned by the government, will increase from the current US\$ 1.7 billion to a considerable US\$ 12 billion by 2012, raising the company's production of ethylene and low density polyethylene (LDPE). Qapco has also signed an agreement to set up a LDPE plant at a cost of US\$ 0.5 billion, to be completed by 2011 and to produce 300,000 tons of LDPE per annum. Moreover, as of March 2010, the Ras Laffan Olefins Company ethylene unit started its operations, with a capacity of 1.3 million tons per annum.

Steel production is another important industrial activity in the country. Qatar Steel, a subsidiary of state-owned Qatar Petroleum, recently signed an agreement with Siemens in order to increase its annual production capacity by 30%. The company meets the local demand almost single-handedly and is expected to benefit from the regain of activity in the local construction sector and, to a lesser extent, from the nascent recovery in the construction industry of neighboring countries.

An important milestone in Qatar's drive to diversify its economy away from a reliance on hydrocarbons revenue is the recent production of aluminum by the US\$ 5.7 billion Qatalum smelter. At end-2009, Qatalum, a joint venture between Qatar Petroleum and the world's third largest

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integrated aluminum producer, Hydro of Norway, started its operations. Located at Messaieed, the smelter has a capacity of 585,000 tons a year of aluminum, and the output for 2010 is estimated at 340,000 tons. Qatalum will enable imports of aluminum products to be replaced by locally produced goods, thereby generating additional revenues and creating jobs for Qatar's growing population.

Transport

The government intends to maintain a high level of capital spending on transport, with the aim to strongly develop the transport infrastructure in line with the economic expansion in the country and potentially hosting the Soccer World Cup in 2022. The transportation sector is also expected to benefit from increased export activity. The 2010/11 budget allocated US\$ 9.7 billion for infrastructure.

Indeed, the government has moved forward with key infrastructure projects, such as the new Doha International Airport, and a very large railway project comprising freight and passenger trains and a metro. The new Doha International Airport, which is being built at a cost of US\$ 14.5 billion, would have a capacity of 24 million passengers in its initial opening phase scheduled for the end of 2011. Once fully developed beyond 2015, the airport is expected to handle up to 50 million passengers. As for the rail network program, its estimated budget varies between US\$ 25 billion and US\$ 40 billion, according to Oxford Business Group.

By 2016, Qatar is expected to have a series of rail lines, with the capital Doha alone set to receive 350 kilometers of lines for its metro. The metro grid will consist of four separate lines and some 90 stations, with a line running from Messaieed to the new Doha International airport, and on to downtown Doha and Lusail, while two other lines will connect east and west Doha. In addition, the main line component of the rail network will include a high-speed link to Saudi Arabia, with branches tying Qatar's railway with the planned GCC regional rail grid, and a line connecting Ras Laffan, the center of Qatar's upstream hydrocarbons sector, to Messaieed, the hub of the country's downstream gas and oil industries, according to Oxford Business Group. Moreover, another important rail project is the US\$ 3 billion Qatar-Bahrain causeway that would grant easy access for Qatari producers to Bahraini markets and fast traveling for passengers from Doha to Manama.

On the other hand, in maritime transport, work on the US\$ 6.9 billion new Doha port is expected to start soon and the project is planned to be completed by 2015. The annual container-handling capacity of the new port after the completion of the first phase will be 2 million, which is to be upgraded to 6 million in the second phase and to 10 million by 2030, according to the Qatar Civil Aviation Authority. The new port will allow Qatar to further develop its maritime sector, and benefit from its strategic location in the Persian Gulf, in line with its focus on LNG exports.

In sum, the government is planning significant investments in the transportation sector, granting the country an excellent transport network for its residents and foreign visitors.

Construction

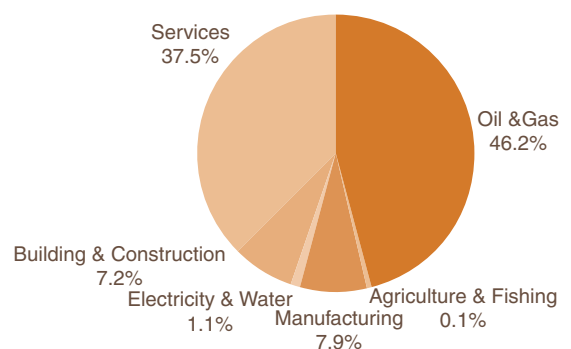
Qatar's construction activity is expected to gradually recover this year, driven by a pick-up in government project activity, although there will be a shift away from real estate projects, which dominated activity in 2007 and 2008, towards large-scale infrastructure projects, according to EFG-Hermes. The construction activity contracted in 2009, due to a slowdown in project implementation, including infrastructure projects, as the government re-assessed its development expenditure plans.

The real estate sector started to recover in the first months of this year, with bank resuming their lending to the sector, but this recovery is projected to be subdued due to the continued oversupply. The total aggregate value of credit to the real estate sector grew by a notable 31.7% between June 2009 and February 2010. This is reversing the trend observed in 2009 as banks were reluctant to lend to the real estate sector, given the fall in property prices and the systemic fall-out of the property correction in Dubai.

Construction activity is picking up this year, as the government has moved forward with key infrastructure projects, such as the US\$ 4 billion Ras Girtas power and water project in the Ras Laffan industrial zone. Moreover, another major infrastructure project under development is the US\$ 5 billion Lusail City, which is to be built on 35 square kilometers in order to accommodate approximately 190,000 residents, 170,000 workers and 90,000 visitors. The first phase of infrastructure works is projected to be completed by the end of next year, while the whole project is planned to be completed by 2014.

Moreover, large developments include the US\$ 5 billion Al-Khor tourist project, the US\$ 2.5 billion Energy City Qatar (ECQ), the US\$ 2.5 billion man-made Pearl Island and the US\$ 5.5 billion Musheireb project. The ECQ project will be built over 1.2 square kilometers of land as home to global and regional energy companies upon completion in 2012. The Pearl Island project is projected to house around 40,000 residents when completed in 2013, adding 40 kilometers of coastline to the area just north of Qatar's capital Doha. In addition, the project is the first residential development in the Gulf Arab state to offer foreign investors freehold property ownership. As for the Musheireb project, it is expected to be completed in 2016, with the first phase due for completion in

Breakdown of GDP by sector in 2009



Sources: Qatar Central Bank, Bank Audi's Research Department

2012. This project aims to revive the old commercial center of Doha across a 35-hectare site and create a landmark within the city, including the latest in environmentally friendly technology.

It is worth noting that 800 environment-friendly compliant building projects are being undertaken in Doha, scheduled for delivery in late 2012. Moreover, the public works authority, Ashghal, recently adopted the concept of sustainable developments in its public building projects, in line with Qatar National Vision 2030 that has placed the preservation of the environment as one of its priorities. On the other hand, the 2010/11 budget earmarked US\$ 2.1 billion for school buildings and educational facilities and US\$ 687 million to support the housing loans fund.

In sum, the construction and real estate sectors should see a more gradual recovery this year, with government spending supporting growth in these sectors of activity.

Tourism

According to the chairman of Qatar Tourism Authority (QTA), about 1.1 million tourists visited Qatar in 2009, while the country's tourist receipts reached about US\$ 0.7 billion last year. The government of Qatar has made significant investments in the country to boost cultural, sport, educational and leisure tourism. Indeed, the QTA has set aside US\$ 17 billion to develop the infrastructure to support the construction of new hotels, resorts and leisure facilities, aiming to grow the tourism sector by 20% per year over the next five years. The goal is to attract about 1.4 million international tourists to Qatar by 2012.

In order to achieve this goal, the QTA adopted a marketing plan promoting Qatar as a promising tourism destination and a hub for business in collaboration with international players and decision-makers through bilateral agreements and strategic partnerships. New investments such as the Doha Convention Center and Towers, due to open in 2012, will accommodate the growing number of business tourists, and the Qatar National Convention Center offering 40,000 square meters of exhibition space is expected to be inaugurated in 2011. Other tourism attractions include the landmark US\$ 3 billion Museum of Islamic Art opened last year, the long-term renovation of the widely appreciated Souk Wafiq area, and the Doha National Museum, which is currently being renovated.

On the other hand, the government has invested heavily in sports infrastructure over the past several years, and was the hosting venue for many internationally celebrated sporting championships in tennis, golf and athletics. The country will host the 2011 Asian Cup and is vying to host the 2022 Soccer World Cup.

The rate of hotel occupancy reached 70% during the first quarter of 2010, according to official sources. It is worth noting that about 95% of visitors come primarily for business and meeting, incentives, conventions, and exhibitions. Currently, Doha counts 44 three to five-star hotels offering about 8,000 rooms, with nearly 2,000 luxury hotels rooms that came on the market in 2009. The total number of hotel rooms and furnished apartments is projected to reach 30,000 by 2013,

according to the QTA. As a matter of fact, City Centre in Doha is being extended to incorporate five new luxury hotels, Marriott Courtyard and Marriott Renaissance Tower, Shangri-La, Rotana Tower and Merweb Hotel, which would provide 1,300 rooms and serviced apartments.

Qatar ranked 37th among 134 countries in the world for competitive global tourism and second in the Middle East and North Africa region in the 2009 Travel & Tourism Competitiveness Report recently published by the World Economic Forum. The country also ranked ninth relative to the accessibility and security of the environment, 22nd relative to the availability of qualified human capital and 28th in the availability of good tourism infrastructure in the world.

In sum, although the tourism sector is not a major contributor to the economy, the authorities are making significant investments in the country to boost business, cultural, sport and leisure tourism in the coming years. In early 2010, the government implemented a law removing the 49% limit to allow full foreign ownership in tourism and other sectors, which should increase foreign direct investment in the country. The public authorities' strong push to the sector, along with the continuous private sector expansion in the hotel industry, should allow Qatar's travel and tourism sector contribution to GDP to reach US\$ 9.3 billion this year, according to the World Travel and Tourism Council.

1.2. EXTERNAL SECTOR

Qatar's external sector performance is at present set to record new highs, as export activity receives a major boost, underpinned by the current global recovery from the financial crisis, which has triggered rising demand for petroleum products and liquefied natural gas (LNG). Petroleum products constitute around 30% of Qatar's exports, and the yearly rise of 60% in average oil prices in the first five months of 2010 definitely plays in favor of the country. LNG, on the other hand, accounts for more than 50% of Qatar's exports, bearing in mind that Qatar retains a dominant position in the global LNG market, at large.

As a matter of fact, this growing dependence on LNG rather than oil in recent years has spared Qatar's external account from a major downfall during the global financial crisis in 2009. Qatar's exports dwindled, but the impact was not as severe as it was in other GCC countries that rely to the most part on oil to bolster their exports. As a result, the country's current account narrowed, but it nonetheless remained in surplus in 2009. Overall trade activity declined in 2009, with total goods imported and exported valued at US\$ 62.8 billion, down by a yearly 27.5%, as a result of a fall in both imports and exports. Nevertheless, the latter fell at a faster pace, thereby resulting in a 37.4% deterioration in the trade balance surplus to reach US\$ 21.0 billion in 2009 when using free on board (FOB) merchandise freight figures.

Detailed activity in 2009 suggests that in spite of the slowdown in overall trade activity, the value of Qatar's exports remained almost two times the value of imports, indicating that Qatar

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was indeed far from witnessing a trade deficit, contrary to other GCC countries which either saw their first trade deficit in years, or escaped it by a small margin. Exports totaled US\$ 41.9 billion in 2009, down by 23.7% relative to the previous year. This plummet is mostly the result of a plunge in crude petroleum exports that were slashed by 54.5%, on account of the 36.6% yearly decline in average crude oil prices as well as oil production cuts imposed by OPEC.

As to Qatar's main export item, LNG, it held almost steady and was in fact the backbone of the country's external sector at large. Qatar has positive experience in using LNG exports to uplift its external trade activity through downturns, as it began the development of its LNG program during the 1997-98 oil price crash. Indeed, LNG exports were valued at US\$ 21.5 billion in 2009, down slightly from US\$ 22.5 billion in the previous year. The resilience of LNG exports during the global financial crisis is related to the nature of the LNG market, which is insulated somewhat from the volatility of spot markets. Unlike crude oil, most LNG is sold on the basis of long-term contracts at fixed prices, with already agreed upon pricing formulas. The massive upfront costs to build an LNG export facility require this kind of guarantee in order to secure necessary financing.

Meanwhile, other exports, dominated by condensates, derived refined products, and petrochemicals, also remained more or less stable in 2009, reaching US\$ 5.3 billion in 2009, compared to US\$ 5.7 billion in 2008. Petrochemicals exports, in particular, have been witnessing a steady increase, as demand for them has been progressively increasing in fast-growing Asian markets. Finally, Qatar saw a significant upsurge in its re-export market in 2009, as it almost quadrupled from US\$ 879 million in 2008 to US\$ 3.4 billion in 2009. Latest data available indicates that the country's leading export trade partner was Japan which accounted for almost 34.3% of the total value of exports, followed by South Korea which captured 21.8% of total exports and Singapore with a share of 11.7%.

Imports, on the other hand, amounted to US\$ 20.9 billion in 2009, down by 17.0% relative to the previous year. The decline in Qatar's imports is mostly the result of a price effect, as global commodity prices dampened during the worldwide economic meltdown. Anecdotal evidence suggests that the quantity of Qatar's imports has remained somewhat constant in 2009, and more than quadrupled in four years, as a result of the solid economic conditions and the rising incomes and spending driving purchases from abroad. Qatar's main import items were machinery and mechanical appliances, vehicles and building materials, in line with Qatar's rapid economic expansion. Qatar's main import trade partners were EU countries which accounted for around 35.8% of the total value of imports, according to the latest data available, followed by Arab countries with 16.0%, Japan with 9.6% and the US with 9.0%.

Qatar's merchandise trade surplus, which in spite of its decline remained more or less large, was to a certain extent subdued by a deficit in the services account, amounting to US\$ 3.76 billion in 2009, down slightly from US\$ 3.79 billion in 2008. Nevertheless, the solid merchandise trade surplus had significant positive spillovers on the current account balance, which remained in surplus, in spite of deteriorating global

economic conditions, of precisely US\$ 5.3 billion. Still the decline in the trade surplus has had repercussions on the current account surplus, which nosedived from US\$ 14.2 billion in 2008.

The drop in the current account surplus was further accentuated by the deficits in the income account of US\$ 6.1 billion and the transfer account of US\$ 5.8 billion. The growth in an important expatriate labor force is the major leakage factor. Workers outward remittances stood at US\$ 7.0 billion in 2009, up by 33.1% year-on-year. This growth is even higher than the 17% recorded in the previous year and the annual average growth rate of 25.8% registered in the three years between 2005 and 2007. This in fact reiterates the solid economic performance witnessed in Qatar in 2009 amid the global financial crisis as it mirrors additional hiring by companies, which in turn reflects rising activity.

As to the capital and financial balances, the year 2009 saw a reversal of the trend of regular deficits in these accounts prevailing in previous years with a US\$ 607 million surplus in 2009, compared to deficits of US\$ 11.1 billion registered in 2008, US\$ 8.2 billion in 2007 and US\$ 10.3 billion in 2006.

With no details on the components of this account, it is difficult to pinpoint the reason behind this turnaround, yet it is surely related to the country's impressive domestic economic diversification and expansion program attracting direct investments, which is in turn the major lever behind the substantial GDP registered in 2009 and forecasted in 2010. Although Qatar is being very cautious when it comes to undertaking new projects during the currently critical situation, the country is pressing ahead with some US\$ 140 billion worth of projects that were planned over a period of five years, prior to the crisis. Such projects are in line with the country's diversification strategy, which is proving to be more important now that global recovery is underway.

In total, Qatar's balance of payments recorded a surplus of US\$ 8.3 billion in 2009, rising significantly from a surplus of US\$ 440 million in 2008 and US\$ 3.9 billion in 2007. As a matter of fact, the reversal of the capital and financial accounts into the surplus zone, after years of significant deficits has bolstered the overall balance of payments in 2009 amid a decline in the current account surplus. As a result its share of GDP rose from 0.4% in 2008 and 4.8% in 2007 to reach a five-year record high of 8.5% in 2009.

To sum up, the balance of payments in 2009 has been supported by strong LNG production with the surplus in the trade and capital and financial accounts offsetting all other accounts' deficits. Looking ahead, continued firmness in oil prices, some oil production increases, and a large rise in LNG, condensate and related product exports over the next two years should generate hydrocarbons revenues of US\$ 50 billion in both 2010 and 2011, as per IIF forecasts, which in turn should leave the external sector performance soaring to register new peaks. After narrowing sharply in 2009, the current account surplus would probably reach a new high in 2010, with the surplus driven by strong export earnings growth, of a projected average of 55%, as per the EIU, and relatively flat imports, as rising demand for consumer goods continues to be offset by relatively low global commodity

prices. The increase in exports would be driven mainly by the coming on stream of new LNG, GTL and oil production, causing the trade surplus to rise significantly. With workers remittances also rising amid increased economic activity and income debits surging as foreign companies profits recover, net non-merchandise outflows would also remain substantial.

every intention to adhere to its already approved largest budget so far in the history of the state in order to stimulate and complete existing infrastructure projects.

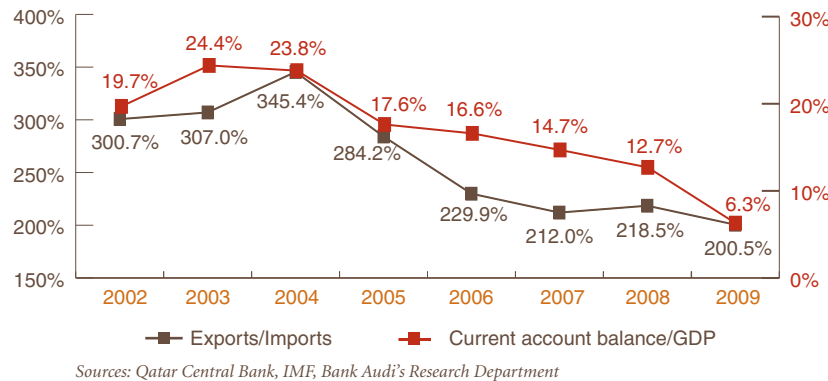
Oil and gas receipts accounted for the bulk of central government revenues in FY 2009/10, in spite of the plunge in oil prices, whereas the rest mainly came from return on investments, with Qatar being an active investor through its state wealth fund. As a matter of fact, the decline in Qatar's oil and gas revenues, resulting from the plunge in oil prices during the global financial crisis, has resulted in a gradual retreat in the share of oil and gas revenues from total revenues from 60.0% in FY 2007/08 to 56.7% in FY 2008/09 to 44.9% in FY 2009/10. In absolute terms, oil and gas revenues declined by a yearly 13.2% in FY 2009/10, but remained at a healthy level of US\$ 19,078 million. In fact, the amount of oil and gas revenue generated in FY 2009/10 is almost equal to that registered in FY 2007/08 and exceeds those recorded in FY 2006/07 and FY 2005/06. The drop in oil and gas revenue during FY 2009/10 remained in check for two main factors, the foremost being the increase in gas production as Qatar relies heavily on gas revenues, much more than it does on oil revenues, and the secondary being the timing of the fiscal year, which meant that the weakest oil and hydrocarbon prices (4th quarter 2008 and 1st quarter 2009) fell into the previous fiscal years.

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Meanwhile, revenues from investment saw an upsurge of 61.9% to US\$ 14,801 million, and were in fact the major lever behind an increase of 9.7% in total revenues in Qatar during FY 2009/10 for the latter to reach US\$ 42,493 million. The former increase is attributed to the stellar rise in investment in Qatar, which in turn propelled significant economic expansion. As to other revenues, they were affected by the overall favorable economic conditions in the country as well, thereby reporting an increase of 13.1% in FY 2009/10 to US\$ 8,614 million.

Expenditures, in contrast, remained much lower than revenues, in spite of their continued increase in FY 2009/10. The Qatari government increased its spending in FY 2009/10 in order to fuel economic growth, with the overall result being an 8.9% rise in total expenditures for the latter to reach US\$ 29,694 million. The pace of increase in spending has

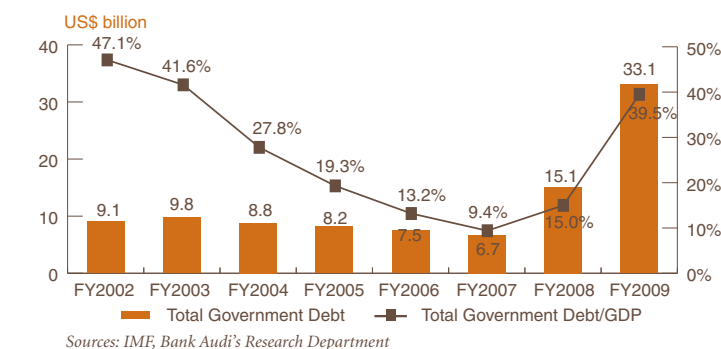
Foreign Sector Indicators



1.3. PUBLIC SECTOR

Strong fiscal conditions allowed Qatar to weather the repercussions of the global turmoil crisis. A series of substantial public finance surpluses that were mainly generated from hydrocarbons, but were properly invested, allowed the government to use an expansionary fiscal policy in fiscal year 2009/10 as a countercyclical measure. This in turn allowed the government to pursue its development strategy, and drive up real economic growth. Currently, as FY 2010/11 kicks-off, the Qatari government is keeping fiscal stimulus packages in place at a time when other countries are beginning to consider spending cuts. Indeed, the government has shown

Public Indebtedness



Public Finance Indicators

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Total Public Revenues/GDP	35.9%	47.7%	42.5%	41.5%	45.6%	38.6%	49.5%
Non-oil Public Revenues/Non-oil GDP	31.2%	35.6%	30.9%	34.6%	41.8%	42.5%	56.1%
Total Public Expenditures/GDP	29.4%	31.3%	32.8%	32.4%	32.8%	27.0%	36.6%
Non-oil Fiscal Balance/Non-oil GDP	-40.6%	-33.0%	-50.3%	-41.3%	-33.5%	-26.4%	-16.2%
Public Fiscal Balance/GDP	6.4%	16.4%	9.7%	9.1%	12.8%	11.5%	12.9%

Sources : IMF, Bank Audi's Research Department

decelerated from double-digit growth rates witnessed in Qatar during previous years, mostly as a result of a fall in global inflation and lower costs of goods and services, as per statements from Qatari officials. Within expenditures, capital spending has seen a notable rise since the beginning of the decade, especially with the pick-up in infrastructure spending, however current expenditures still dominate overall spending. This is partly due to the fact that much of Qatar's investment program has been developed by raising funds, especially in the hydrocarbon sector. Nevertheless, capital expenditures have been an important driver of central government expenditure since 2005, bearing in mind that it has risen six-fold over five years. Capital spending was valued at US\$ 9,865 million in FY 2009/10, up by a yearly 7.3%, while current expenditures went up by a yearly 9.7% to US\$ 19,829 million, on account of a rise in salaries and wages, and interest payments.

With the increase in revenues outpacing the increase in spending, Qatar's fiscal surplus continued to widen in FY 2009/10, contrary to projections earlier in the year suggesting that it would contract as a result of the crisis. The fiscal surplus reached US\$ 12,799 million, up by a yearly 11.7%.

Moving forward, this year's budget (FY 2010/11) is set to be the highest in the country's history so far. The government's intention of pushing ahead with its investment program is reflected in the budget statement, which encompassed a 25% increase in overall spending from the previous budget. Indeed, government spending would remain strongly expansionary, with the greatest acceleration remaining on the capital side. Within capital expenditure, the budget specifically mentioned a number of its projects as key priorities, such as the New Doha International Airport and the New Doha Port. Considerable investment would also be directed to the Qatar Foundation, which invests in education, healthcare, science and technology. Investment expenditure is slated to account for around 30% of total spending. Revenue estimates in the historic budget are put at US\$ 35.0 billion, up by 44% from those budgeted in 2009/2010, thereby leaving the overall surplus assumed in the budget at US\$ 2.7 billion.

It is worth noting however, that the 2010/11 budget is based on an oil price of US\$ 55 per barrel, which is somewhat an underestimated assumption, bearing in mind that since the beginning of FY 2010/11 (April 2010) and until now, average oil price has been at US\$ 78 per barrel. As such, similar to the case in FY 2009/10, projected revenues and surplus are likely to significantly outpace budgeted figures. Even if this is not the case and oil prices tumble, a downturn in Qatar's fiscal accounts remains easily manageable with Qatar's built up cumulative fiscal surpluses, summing up to around US\$ 42 billion over the last five years. In addition, the State has a big sovereign wealth fund, the Qatar Investment Authority, that has sizeable foreign assets. These have been already put to use during difficult times, such as the government purchase of equity stakes in local banks, demonstrating the authorities' determination to exploit all resources and shield the economy.

Another financing measure also easily feasible in Qatar is borrowing. Direct government debt remains at a comfortable level, despite seeing a strong increase in FY 2008/09 and FY 2009/10. Total government debt reached US\$ 33.1 billion, more than doubling from US\$ 15.0 billion in 2008/2009 and

increasing almost 6 times from US\$ 6.7 billion in 2007/08. The debt-to-GDP ratio rose to 39.5% in 2009/10 from 15.0% in the previous year, yet remained lower than the ratio of around 45% in the beginning of the decade, on account of the high economic growth in recent years.

Both external and domestic debt contributed to the debt increase in FY 2009/10. On the external side, US\$ 10 billion of sovereign debt was issued in April and November 2009. November's issuance was also the world's largest in emerging markets and the largest international dollar-denominated sovereign issue in 2009. Qatar did not need to issue bonds to meet any financing requirements in 2009 given its continued fiscal surplus and FX reserve position, although the funds are likely to be directed towards ongoing projects. Instead, the recent issuances were to create a benchmark yield curve for corporate and financial institutions. Moreover, these sovereign bonds were aimed to act as a catalyst for the stagnant corporate bond market and a number of new corporate issuances were subsequently seen. As to domestic debt, it is mainly in the form of credit from local banks. It also rose at the end of 2009 as the government again started to borrow from the local banking sector to push ahead with its infrastructure program.

In conclusion, Qatar's public finance conditions remain very comfortable and can easily allow the authorities to pursue the developmental plans to reach the 2030 National Vision. The only risk remains the hydrocarbons' price fluctuations, yet unlike other oil exporters, this should be somewhat mitigated with the economic expansion and diversification in the right direction and as investments in LNG, that is less subject to international price volatility and at the same time a high return resource for the government, come online.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Monetary conditions in Qatar were marked in 2009 and early 2010 by stable key interest rates, moderate growth in monetary aggregates, and low or negative inflation, in addition to a tangible growth in international net reserves.

Deflation rate averaged 4.9% in 2009, with country's CPI moving down from 130.86 on average in 2008 to 124.50 on average in 2009, owing largely to a sharp drop in domestic rents due to excess in housing supply and a deceleration in population growth that dictated a fall in demand, pointing out the impact of the global financial crisis on the real estate market in Qatar. This was coupled with a fall in international prices for food and raw materials that entailed reduction in import prices. The breakdown of the consumer price index by segments showed that the rent, fuel & energy segment dropped by 12.0%, followed by the clothing & footwear segment with -4.5%, the transport & communication segment with -4.4%, the furniture & furnituring segment with -2.0%, and the education, culture & recreation segment with -1.2%. It is worth highlighting that only three segments saw yearly average growth in their price indices in 2009, namely the miscellaneous goods and services segment, the medical services segment, and the food, beverages & tobacco segment. In addition, the

Consumer Price Index declined by 0.5% during the first quarter of 2010, according to latest figures provided by the Qatar Central Bank, mainly driven by a drop in prices in two segments, namely the rent, fuel & energy segment (-2.7%) and the clothing & footwear segment (-1.6%).

Looking forward, the IMF expects inflation to be around 1% in 2010, on account of increases in international prices for food and raw materials and the impact on domestic prices of planned infrastructure investments. Within this context, it is worth noting that consumer prices started to edge upward recently, reversing the trend in deflationary pressures.

The Qatari riyal continued to be pegged to the US Dollar at a rate of QR 3.64/US\$1. The authorities are committed to maintain the current exchange rate regime, arguing not only that Qatar's gas and oil exports are denominated in the US currency, but also that the peg offers monetary stability and reassurance to investors. The Real Effective Exchange Rate is broadly in line with the economic fundamentals, according to the IMF, and the peg is likely to remain until the formation of the planned gulf monetary union. It is worth mentioning that Qatar formally endorsed the monetary union agreement in December 2009.

The Qatar Central Bank (QCB) maintained its key rates unchanged after the eruption of the global financial crisis, with its repo rate and lending rate standing at 5.55% and 5.50% respectively, on the objective of containing inflation, preventing the extension of bad loans, and keeping a positive differential against US benchmark rate in order to prevent capital outflows. Additionally, the Central Bank's reserve requirement was kept on hold at 4.75%. The IMF cautioned that this policy could attract speculative inflows as investors reevaluate global risks. Within this context, the QCB indicated that it monitors inflows carefully and showed readiness to adjust interest rates if needed.

Qatar saw moderate growth rates in money supply in 2009 within the context of the country's robust economic activity and the improvement in domestic liquidity. In fact, the narrow measure of money supply (M1) grew by 4.4% in 2009, moving up from US\$ 13,975 million at end-2008 to US\$ 14,592 million at end-2009, and extended its growth during the first four months of 2010, attaining US\$ 16,272 million at end-April 2010. Moreover, the broader money supply (M2) accelerated by 16.9%, moving up from US\$ 50,551 million at

end-2008 to US\$ 59,088 million at end-2009, and continued to expand by 10.3% during the first four months of 2010, hitting US\$ 65,158 million at end-April 2010. The acceleration in the broader money supply (M2) in 2009 was mainly driven by a substantial growth in net claims on government.

Within the context of a strong economic performance in 2009, the Central Bank's net international reserves ended the year 2009 with a staggering rise of 86.7% relative to the previous year, moving up from US\$ 9.8 billion at year-end 2008 to US\$ 18.4 billion at year-end 2009. The whopping rise in 2009 compares to a tiny yearly increase of 3.0% in 2008. The QCB net international reserves covered around 35.9% of money supply in local currency in 2009 as compared to 26.2% in 2008, which mirrors the Bank's growing ability to meet demand for foreign currencies and to defend the currency peg.

In the period ahead, a key challenge facing the authorities is to dampen the potential risk of overheating stemming from the growth strategy and gradual recovery in international commodity prices. In this regard, the IMF encourages authorities to prioritize infrastructure projects carefully in order to mitigate the emergence of supply bottlenecks and cost-push inflation.

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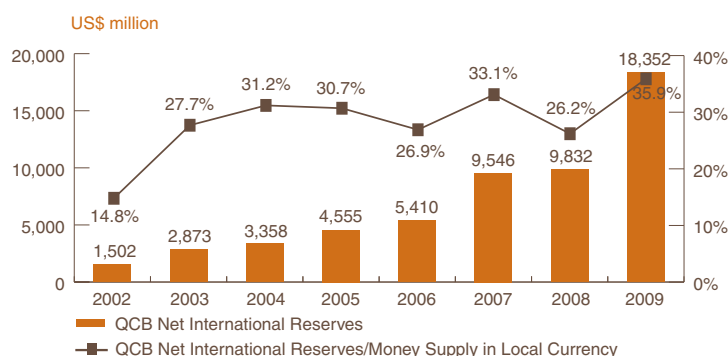
1.4.2. Banking Activity

The Qatari banking sector, which benefited from strong regulator support and continuingly robust economic performances, weathered the global downturn spillovers relatively well and has continued to post healthy growth so far this year. Total sector activity, measured by consolidated assets of banks operating in Qatar, rose by an additional 3.5% over this year's first five months to reach US\$ 133.9 billion at end-May 2010, following a quite decent 16.2% growth during the year 2009.

Sector activity remained driven to a large extent by total deposits, which accounted for nearly 60% of total bank balance sheets at end-May 2010. Total bank deposits in Qatar actually rose by 11.4% between December 2009 (US\$ 67.8 billion) and May 2010 (US\$ 75.5 billion), coming in extension to a healthy 16.2% rise in 2009. A closer look at total deposits in Qatar's banks shows that both the 2009 and first five months of 2010 volume growth was due to solid rises in resident private sector deposits in local currency, and to a certain extent non-resident deposit growth.

This comes within the context of sustained economic activity fostering further improvement in per capita income, part of which has been captured by local banks, as well as maintained confidence in the Qatari banking sector favored by banks' healthy financial standing and local authorities' preemptive support measures following the outburst of the global crisis. Recent IMF put official intervention in the Qatari banking sector during 2009 at about 6.5% of GDP, and which materialized mostly through the government's equity injections in Qatari banks through the Qatar Investment Authority -which led to a double-digit rise

Exchange Market Indicators



Sources: Qatar Central Bank, Bank Audi's Research Department

in banks' capital accounts over the covered period- and purchases of banks' real estate and equity investment portfolio within the context of a downturn in regional property markets and volatility in capital markets across the globe. Such measures were aimed at providing liquidity support if needed, and maintaining stability in the local banking sector while improving further its resilience to adverse conditions.

On the lending front, while credit facilities extended to the economy stalled during the early part of 2009 within the context of strong deleveraging across the region and the world at large which led to increased cautiousness on behalf of Qatari banks, the gradual improvement in global credit conditions as of the second half of the year started to leave positive imprints on local lending activity. Bank credit facilities resumed their upward trend as of the third quarter of 2009, thus posting an overall 11.5% rise in credit facilities in the full-year 2009 and an 8.4% growth so far this year to reach US\$ 80.7 billion at end-May 2010.

The breakdown of total credit facilities granted by Qatari banks reveals that credit growth is driven by the public sector component which has embarked on a series of infrastructure development projects, while private sector led credit growth remained narrower, especially so far this year. Credit facilities to the public sector rose by 27.8% over the first five months of 2010 (rather similarly to the 2009 performance) while those to the private sector (including non-residents) practically

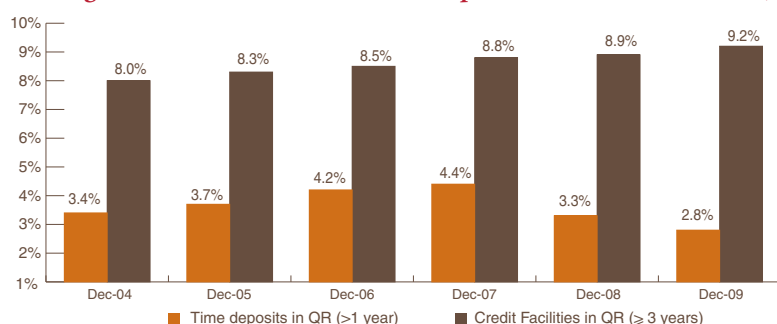
stagnated so far this year (+1.0%, as compared to a 7.9% growth in 2009).

As such, bank activity growth, even though decelerating in the post-crisis outburst period, managed to post decent progression rates in absolute terms and bucked overall regional and global sector trends. Such performances actually contributed to maintaining Qatari banks' financial soundness indicators at comparatively favorable levels. On the profitability front, banks' core revenues somewhat benefited from a favorable quantity effect which, coupled with authorities' intervention somehow limiting mark-to-market losses and loan loss provisioning, supported bottom line figures. Although the latter fell short of major banking aggregate performance, profitability ratios remained solid in absolute terms and compare more than favorably to regional and global benchmarks. Indeed, latest available Central Bank figures indicate that the sector's return on average assets reached 2.6% in 2009, against 2.9% in 2008, and return on average equity stood at 19.3% in 2009, as compared to a slightly higher 21.5% in 2008 due to equity injections in banks during 2009.

On the liquidity front, indicators actually improved in 2009, as Central Bank figures show a rise in liquid assets outpacing that of total bank balance sheet, with the liquid assets to total assets ratio moving from 32.9% in 2008 to 36.3% in 2009. This comes within the context of the government purchase of banks' loan and equity portfolios in exchange of more liquid assets such as cash and government bonds. Also, with lending growth turning lower than that of deposits within the context of overall delicate credit conditions across the globe, the credit facilities to deposits ratio improved, moving from 114.3% at year-end 2008 to 109.8% at year-end 2009 and to a lower 106.8% at end-May 2010. On the capital adequacy front, banks remain well capitalized, with recent equity injections further bolstering their Basle II capital adequacy ratio, which stood at 16.1% in 2009 against 15.5% in 2008, as per Central Bank figures.

On the asset quality front, although large banks

Banking Sector Interest Rates on Time Deposits and Credit Facilities (in QR)



Sources: Qatar Central Bank, Bank Audi's Research Department

Monetary Indicators

	2008					2009					Variation	
	Q1	Q2	Q3	Q4	2008	Q1	Q2	Q3	Q4	2009	Q4/Q4 2009/2008	2009/2008
Var. M2 (US\$ million)	6,108	5,813	-400	-3,205	8,316	-1,249	2,394	5,645	1,747	8,538	-	2.7%
Inflation rate (variation of CPI)	4.7%	3.3%	3.2%	1.4%	15.1%	-6.2%	-1.0%	-1.5%	-1.5%	-4.9%	-2.8%	-19.9%
Cleared checks (US\$ million)	21,007	31,099	20,088	17,457	89,651	15,732	16,170	13,681	14,528	60,110	-16.8%	-33.0%
Velocity (Cleared cheques to average deposits)	1.71	2.23	1.37	1.20	1.72	1.10	1.10	0.86	0.87	0.95	-27.2%	-44.6%

Sources: Qatar Central Bank, Bank Audi's Research Department

Banking Activity

	2008					2009					Variation	
	Q1	Q2	Q3	Q4	2008	Q1	Q2	Q3	Q4	2009	Q4/Q4 2009/2008	2009/2008
Var. Total assets	12,442	8,751	775	7,587	29,555	-784	4,740	1,181	12,990	18,128	71.2%	-38.7%
% change	15.4%	9.4%	0.8%	7.4%	36.5%	-0.7%	4.3%	1.0%	11.2%	16.2%	3.8%	-20.3%
Var. Total deposits	6,187	7,086	-754	-82	12,438	-2,052	4,649	4,718	2,131	9,446	-	-24.1%
% change	13.5%	13.6%	-1.3%	-0.1%	27.1%	-3.5%	8.3%	7.7%	3.2%	16.2%	3.4%	-10.9%
Var. Total credit facilities	5,454	5,799	5,703	5,587	22,543	-3,366	917	4,649	5,443	7,644	-2.6%	-66.1%
% change	12.4%	11.7%	10.3%	9.1%	51.1%	-5.0%	1.4%	7.2%	7.9%	11.5%	-1.2%	-39.6%

Sources: Qatar Central Bank, Bank Audi's Research Department

saw credit losses in household and construction/real estate lending portfolios (latter losses were actually somewhat limited by government regulations regarding real estate loans), their credit quality ratios remain among the most favorable in the Gulf region. Total sector NPLs/Total loans ratio stood at 1.7% in 2009, against 1.2% in the previous year. This mirrors prudent regulation and authorities' support measures to the sector following the global crisis outburst. Similarly, such NPLs continue to be adequately provisioned for, with the loan loss provisions to NPLs ratio at 84.5% in 2009.

All in all, the Qatari banking sector appears well positioned to benefit from both the gradual upturn in the global and regional economies and the ongoing development projects in the domestic market. Adding to this, good prospects for banking products and services demand within the context of a fast-growing resident base at 7.7% on average per annum over the past ten years within the context of a rising number of foreigners entering the Qatari labor market, could provide a solid base for banks to continue expanding and contribute further to the expansion of a continuously developing domestic economy in the period ahead.

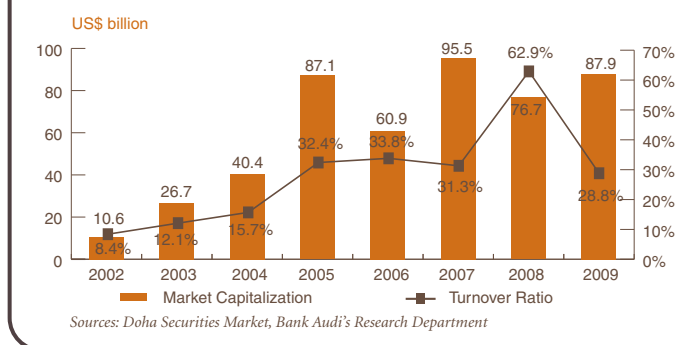
1.4.3. Equity and Bond Markets

After registering sharp drop in prices in the aftermath of the global financial crisis, the Qatar Exchange (the successor to the Doha Securities Market) managed to end the year 2009 with a modest positive rise in prices, extended further in the first few months of this year.

In details, the Qatar Exchange Index (known as QE Index) reported a tiny increase of 1.1% in 2009 and it extended its rise during the first four months of 2010, moving up by 8.5% since year-end 2009. These compare to a much higher rises in Arabian stock markets of 16.1% in 2009 and 13.2% during the first four months of 2010, as per Morgan Stanley Capital International data.

The breakdown of the QE index by sector in 2009 shows that the services sector witnessed the highest index surge of 10.1%, followed by the industrial sector with 9.5%, while the insurance sector posted a fall in its index of 13.2%, followed by the banking and financial sector with -4.1%.

Capital Markets Performance



The Qatar Exchange ended the year 2009 with 44 companies as compared to 43 companies at end-2008, and the total number of listed companies remained unchanged during the first four months of 2010. The Qatar Exchange has had one mega initial public offering in 2009 for an amount of US\$ 952 million when the Qatari unit of Vodafone Group Plc offered 40% of its shares for sale, noting that the IPO was fully subscribed and was marked by a huge interest from both individual and institutional investors.

The very tiny increase in the number of listed companies in the Qatar Exchange was coupled with a small rise in prices in prices in 2009, which resulted in a moderate growth in the market capitalization of 14.7%, up from US\$ 76.7 billion at end-2008 to US\$ 87.9 billion at end-2009, bringing the market capitalization to GDP ratio to 104.8% in 2009 as compared to 76.4% in the previous year. The market capitalization grew by 28.4% during the first four months of 2010, hitting US\$ 112.9 billion at end-April 2010.



The total number of shares traded during the year 2009 reached 3.5 billion shares, as compared to 3.9 billion shares in the previous year, dropping by 11.4%. The services sector was the most active sector in 2009, as the number of shares traded for the sector reached 1.7 billion shares, capturing 49.7% of the total volume traded, followed by the banking and financial institutions sector with 1.4 billion traded shares, representing 40.2% of the total. The remaining percentage was allocated to the industrial and insurance sectors. As to the first four months of 2010, the total number of shares traded tumbled by 28.2% relative to the corresponding period of 2009, reaching 761 million shares.

The drop in the total number of shares traded coupled with a small rise in prices, resulted in a fall in the total trading value year-on-year in 2009. In fact, the total value of shares traded amounted to US\$ 25.3 billion at end-2009, tumbling by 47.5% relative to the previous year. The division of the total trading value by category showed that the insurance sector led the decline with 66.8% drop in the total trading value to hit US\$ 0.4 billion at end-2009, followed by the banking and financial sector with 55.4% decline to reach US\$ 9.6 billion, the industrial sector with 42.2% decrease to end at US\$ 4.2 billion, and the services sector with 39.0% drop to reach US\$ 11.0 billion. The total trading value remained almost stable during the first four months of 2010, reaching US\$ 6.8 billion, edging down by 0.9% relative to the corresponding of the previous year, mainly driven by a rise in prices that outweighed the drop in the number of shares traded.

In view of the sharp drop in the total trading value and a rise in the market capitalization in 2009, the turnover ratio, measured by the total trading value to market capitalization, fell from 62.9% at end-2008 to 28.8% at end-2009, and it reached 18.0% during the first four months of 2010.

Finally, in order to prop up liquidity at Qatar Exchange, the Qatar Financial Markets Authority and the Qatar Central Bank have allowed in March 2010 national banks to trade and buy shares of companies listed on Qatar Exchange. However, the order limits the volume of trade by a single bank to US\$ 41

million for a single day. It is worth mentioning that banks had been banned from trading on Qatar's bourse since the government bought their equity investment portfolios in 2009 in an emergency move to bolster capital. Separately, the Qatar Financial Authority unveiled in March 2010 that it intends to issue licenses to national banks to open brokerages. These moves would improve market sentiment as they would allow banks to boost their fee income and diversify their revenue.

As to fixed income debt instruments, a total of US\$ 10 billion sovereign bonds were issued in 2009 (US\$ 3 billion in April and US\$ 7 billion in November), which provided short-term financing for several quasi-governmental projects. The issue in November was the largest ever emerging market sovereign bond issue and was twice oversubscribed. In addition, the government issued US\$ 2.7 billion in sovereign bonds on June 1, 2010 (half conventional and half Islamic sukuk) maturing over eight years and paying a 6.5% coupon. This was the first time that any domestic bond is issued with the aim to help develop a local debt market and to provide the authorities with a monetary policy tool to manage inflation. As to corporate bonds, a total of US\$ 5.4 billion was issued in 2009. It is worth mentioning that the five-year CDS spread in Qatar contracted by 15 basis points during the first half of 2010, hitting 90 basis points at end-June 2010, and underlining an even lower default risk, noting that the Qatar CDS spread is among the lowest in the region.

Looking forward, the IMF suggests, in its latest Article IV Consultation Mission Report, that the Qatari authorities could benefit from developing a domestic sovereign benchmark yield curve. This would facilitate long-term borrowing by banks in domestic currency and improve efficiency in the pricing of financial products, thereby diversifying overall financial risks.

2. CONCLUSION

Qatar has been indeed resilient to the global crisis as a result of a solid increase in gas output, pre-arranged financing (mainly for hydrocarbon and petrochemical projects) and a number of supportive government measures. The country is apt to continue reporting among the soundest rates in the region and in the World. Beyond an 18.5% forecast for 2010, the IMF forecasts a 14.3% rate for 2011 and a 9.2% rate for 2012. It is foreseen that Qatar will become the third largest economy in the GCC, overtaking Kuwait, by the year 2012, rising meanwhile to one of the top macroeconomic picks by investors in the MENA region. In a longer run however, deceleration in investment growth might be expected as gas related projects would be completed.

Within this context, assessing Qatar's outlook requires considering the various strengths, weaknesses, opportunities and threats that the Qatari economy and its major sectors of activity are subject to:

At the level of strengths rise first the high level of prosperity with per capita income at US\$ 82,000 the highest in the region, the rapidly expanding gas production with the large exports capacity of Liquefied Natural Gas, the resilience to global shocks driven by Qatar's significant reliance on long-term contracts at fixed prices which makes it insulated somewhat from the volatility of spot markets, in addition to the strong net external position and the reported large cushion of government financial assets.

At the level of weaknesses, we mention the large dependence on hydrocarbons within the context of a weakly diversified economic base, the wide government spending which could erode fiscal flexibility, the significant recent rise in public sector gross indebtedness, the relatively weaker institutional profile relative to peer countries and the poor disclosure regarding the government's assets.

At the level of opportunities, we mention first the large economy with significant growth reserves, the growing strategic importance of Qatar's political role in its regional context, the aggressive anti-cyclical stimulus fiscal packages, the important infrastructural projects underway or in the pipeline and the targeted structural measures aiming at boosting economic diversification in addition to the potential improvement in the quality and transparency of Qatar's political, administrative and legal institutions.

At the level of threats, a number of challenges lie at the horizon. Those are mainly tied to the need to manage a potential overheating of the economy over the medium term, the plausible effects of a slow global recovery with prolonged economic sluggishness, the reduced availability of financing for projects and the possible contagion from risks of regional political instability.

It is the interaction of such strengths, weaknesses, opportunities and threats that would determine the country's economic prospects over the years to come, though there is no single doubt that pent-up opportunities outpace latent challenges at the horizon. In the long term, a thorough steering of the economy to avoid bubbles related to overheating conditions, a progress in economic diversification away from the oil and gas sector towards high value added export oriented sectors, along with a further improvement of Qatar's institutional profile constitute key success factors for the country's growth and development trajectory at large.

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