

Qatar
APRIL 2006



Economic & Financial Review

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1. Overview

Qatar's economy continued to exhibit very strong performance in 2005, as resources struggled to keep up with growth. Bolstered by very favorable energy prices, the government's diversification strategy continued to bear fruit in the gas-rich country. Gross domestic product (GDP) growth further accelerated in 2005, after averaging an impressive 20% since 2003. Per capita income is expected to have topped \$40,000, boosting Qatar higher up the rankings of the richest countries in the world.

After China, Qatar was the second largest user of project financing in the world in 2005, and project activity has actually surpassed capacity. A number of mega projects are being implemented, including the New Doha International Airport, Education City, Pearl of Qatar, and the Hamad Medical Complex, while others, such as the multibillion dollar Energy City, Lusail housing development, and Al-Waab City, are in the pipeline as part of 120 billion dollars' worth of projects planned over the next 10 years.

Private and foreign investors are investing billions of dollars in real estate and industrial projects. Foreign Direct Investment (FDI) inflows have averaged \$650 million in the last three years, and total FDI stock reached above \$4 billion, or 15% of GDP, in 2004, according to United Nations Conference on Trade and Development figures. With the continued liberalization of regulatory restrictions and the massive increases in project financing needs, FDI inflows are expected to have reached even greater levels in 2005.

Meanwhile, due to increased spending on facilities and infrastructure upgrades for the 2006 Asian Games, government expenditures continued to increase, with capital expenditures doubling in size and share of total spending.

Against this backdrop, domestic liquidity surged massively. Some liquidity was channeled into the leading sectors of the economy and spurred strong performances in telecommunication, tourism, manufacturing, construction, and real estate. Oil and gas, however, attracted the lion share with a \$70 billion investment package that will help Qatar become the world's biggest LNG exporter and the undisputed leader in gas-to-liquids (GTL) production by 2010.

Growth in domestic liquidity also affected the performance of the Doha Stock Market (DSM), which overshot in 2005 to unsustainable levels. A correction phase began in the last quarter of the year and extended into the first quarter of 2006. Nonetheless, DSM is slated for better prospects, as corporate earnings appear solid and the economic outlook positive.

The strength of oil and liquefied natural gas (LNG) revenues continued to support improvements in the country's external and fiscal positions. By the end of 2005, net foreign assets held by Qatar Central Bank (QCB) had reached \$4.54 billion, while surpluses in current and fiscal accounts are estimated to have surpassed the previous year records of 26% and 14% of GDP, respectively. Although the external debt is increasing, it remains related to oil and gas projects.

The country's financial system has benefited as well from economic buoyancy. The banking sector is strong and well regulated and recorded the strongest rise in net profits on the stock market in 2005. The insurance sector is rapidly expanding as well. The regulatory and legislative framework for the Qatar Financial Center has been put in place and the center has already attracted a number of leading financial institutions eager to seize project-financing opportunities.

This accelerating growth has put resources under strain and has resulted in spiraling prices. The government, however, is trying to keep inflationary pressures under check and is focusing its energies on easing supply pressures, particularly in the housing market. The government has also lifted visa restrictions on foreign labor, set up a number of industrial zones, and established a host of independent bodies to bypass red tape and increase private and foreign investments. In addition, officials have recently announced plans to set up a free investment area by 2008, allowing 100% foreign ownership.

With new levels of energy prices, the economic boom is not expected to end soon and, according to official forecasts, Qatar's economy is expected to double by 2011. By focusing on gas, the country's ambitious and reform-minded ruling elite has bought itself a winning ticket. The fortunes of this progressive GCC economy are as high as its prospects.

2. Gross Domestic Product

Driven by the hydrocarbon sector, Qatar's economic boom continued to accelerate in 2005. Preliminary figures for the first three quarters of the year indicate acceleration in growth, with third-quarter GDP reaching \$24.9 billion, compared to \$20.7 billion in the same period in 2004. Unofficial estimates of full year growth hover around 30%.

Table 1: Gross Domestic Product

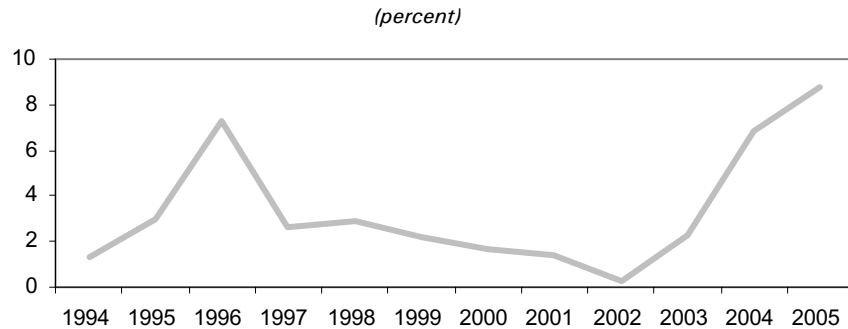
	Million \$			% Change		Million \$		% Change
	2002	2003	2004	2003	2004	9m. 04	9m. 05	04/05
Oil sector	11,186	14,321	17,683	28.0	23.5	12,993	16,566	27.5
Non-oil sector	8,521	9,380	10,769	10.1	14.8	7,721	8,390	8.7
GDP at purchaser prices	19,707	23,701	28,451	20.3	20.0	20,714	24,956	20.5

Source: Qatar Central Bank (www.qcb.gov.qa).

Coupled with this acceleration in growth, however, was a dramatic increase in rent prices and the cost of living generally. This has resulted in inflation rising to 8.8% in 2005, from 6.8% in 2004 and 2.2% in 2003. Fast-paced economic growth and an accelerating population growth are largely responsible for the rapidly increasing prices. The delayed effect of the depreciation of the dollar, against which the riyal is pegged, was another factor. Construction costs rose as well as a number of contracts were awarded simultaneously during the year. Salaries in Qatar, especially those in the construction sector, are now among the highest in the Gulf.

Official sources, however, expect inflationary pressures to ease in 2006, and the government has made moves to remove bottlenecks and keep inflation in check. In the construction sector, it has facilitated the importing of construction material and is expanding airport and port facilities. In the property sector, it imposed a 10% ceiling on rent increases and has announced plans to develop low to medium-income housing.

Graph 1: Consumer Price Inflation



Source: Qatar Central Bank (www.qcb.gov.qa).

3. Hydrocarbon Sector

With sustained increases in oil and LNG prices and production levels, growth in the oil and gas sector further accelerated in 2005, and its contribution to GDP continued to increase. According to preliminary figures for the first three quarters of 2005, the sector's value added was 28% higher than that achieved over the same period in 2004 and the sector's contribution was 68% of GDP compared to 61% in the previous year.

While other oil-rich countries are trying to diversify their economies away from the traditional oil base, Qatar's strategy centers around its natural gas reserves, and it has plans to become the world's number one exporter of GTL and LNG by 2010. The country is also planning to become the energy capital of the world and has launched a multibillion-dollar project building Energy City, the Gulf's first hydrocarbon business center. The Qatar Financial Center Authority is also developing the Middle East's first trading platform dedicated to energy, the International Mercantile Exchange.

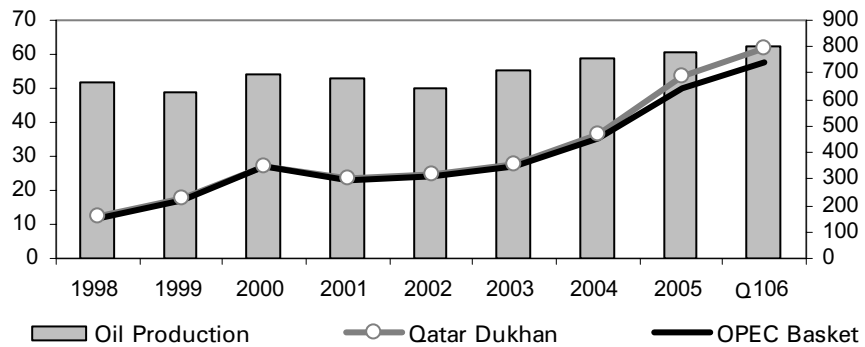
Oil

Oil prices continued their ascent in 2005 to witness a 45% increase, bringing the price of Qatar Dukhan to \$53 per barrel. This upward trajectory has not been exhibiting any signs of letting up, as prices continued to increase in the first quarter of 2006.

To take advantage of these higher prices and strong demand, Qatar raised production levels up to capacity. Oil production increased from an average 759,000 barrels a day (b/d) in 2004 to an average 779,000 b/d in 2005 and 800,000 b/d in the first quarter of 2006. Most of the increments came from offshore fields where the most notable contributions hailed from international oil companies, which account today for 45% of Qatar's oil production capacity.

Graph 2: Oil Prices and Production

(\$ per barrel and thousand barrels a day)



Sources: Middle East Economic Survey for oil production, NBK calculations for prices based on OAEPEC weekly spot prices.

Qatar aims to increase production capacity to 1.1 million b/d by the end of 2009, a target that may even be exceeded, according to Qatari officials. Maersk Oil (of Denmark) expects to add 300,000 b/d to Al Shaheen oil field's production capacity, while Qatar Petroleum (QP) plans on adding 100,000 b/d to Al Dukhan's capacity. Exploration work is also being stepped up, and with 47% of Qatar's territorial area classified as open, there is considerable potential.

Gas

Investments aimed at dwindling oil field recovery and oil field discovery pale in comparison to the investments placed in the country's gas potential. The focus of these investments has been on three main areas: LNG, GTL, and pipeline exports.

LNG production, largely by QatarGas and RasGas, was expanded successfully in 2005, and, according to officials, exceeded 20 million tons (mt). According to Sales and Purchase Agreements and Heads on Agreements, LNG sales amounted to 23 mt in 2005, compared to 18 mt the previous year. LNG prices also continued to increase in correlation to oil prices.

GTL production in Qatar should start in the second quarter of the year with the implementation of the Oryx GTL project, a Sasol/QP venture. By 2011, two other GTL projects, one led by Royal Dutch/Shell/QP and the other by Exxon Mobil/QP, will bring total GTL production to 400,000 b/d. Dry gas will start earning foreign currency at the end of the year thanks to the completion of the first stage of the Dolphin dry gas project, initially exporting some 2 billion cubic feet of dry gas daily to the UAE.

An assessment of the outlook for gas products coupled with contracting constraints led the government to re-evaluate some of its investment plans and increase their focus on the more profitable projects. All new GTL projects were put on hold and the Qatar/Kuwait gas supply project previously planned was cancelled. In contrast, planned investments in LNG production, Qatar's most profitable outlet so far, are increasing with tickets for Qatargas and Rasgas sequels exceeding \$14 billion. Consequently, LNG annual production is expected to reach 77 mt by 2012. Under current

Sales and Purchase Agreements, this increased production will result in a 60% increase in LNG exports. With Heads on Agreements, exports could increase further by another 200%.

With natural gas as its new center of gravity, Qatar helped establish the Gas Exporting Countries Forum this year in an effort to exert greater influence over its gas trade. The Forum is comprised of 12 members (including Algeria, Indonesia and Venezuela) who control over 70% of the world's gas reserves and more than 40% of its production.

4. Nonhydrocarbon Sector

According to preliminary statistics, the nonhydrocarbon sector's performance was stable during the first quarters of 2005. Its contribution to GDP, however, continued to decline in the face of rising energy prices and production levels. Growth prospects for the sector are nonetheless strong as authorities hope to gradually overcome supply shortages through a number of capacity expansions and project upgrades.

Manufacturing maintained its position as Qatar's second largest non-oil sector, after government services. Petrochemicals continued to play a leading role in manufacturing, followed by steel, cement, and helium. An estimated five billion dollars' worth of industrial projects are expected to come on stream by 2009, including a \$2.4 billion aluminum facility for Qatar Petroleum and a \$1.5 billion steel factory in Mesaaid for Qatar Steel Co. Plans also include various expansion projects for Qatar Petrochemical Co, Qatar Vinyl, Qatar Chemicals Co, and Qatar National Cement Co.

The construction sector, however, experienced a massive backlog of work, as contracting constraints and price hikes held back billions of dollars' worth of projects. Construction activity, however, remained stable during the year, but with around \$10 billion in investments in infrastructure upgrades planned for the next three years, it has yet to peak.

Meanwhile, the tourism sector continued to expand, although at a slower rate than in 2004. A number of hotels have been built, and others are under construction. According to official sources, by the start of the Asian Games in December of this year, about 1,000 additional hotel rooms will be added to the 2,600 currently available. Other attractions have also been established including the Qatar National Library and the Museum of Islamic Arts.

Table 2: Major Non-Oil Projects

Project Name	Sector	Value (\$ Mn)	Client	Project Status
Mesaieed Petrochemical Complex	Petrochm.	2,600	Qatar Holding Intermediate Industries	FS
The Pearl - Infrastructure Works	Construc.	2,500	United Development	Planned
DIA Infrastructure Packages	Construc.	2,500	NDIA Steering Committee	MCA
Qatalum - Aluminium Smelter	Industry	2,400	Qatar Petroleum	Planned
Ras Laffan Olefins Complex	Petrochm.	2,000	Qatar Petroleum	Planned
Ras Laffan Port Expansion	Construc.	2,000	Qatar Petroleum	MCA
Qatar Transmission Phase VII	Power	1,700	Kahramaa	Planned
Energy City	Construc.	1,600	Gulf Energy Holding	Planned
Qatar Bahrain Causeway	Construc.	1,500	Public Works Authority	Planned
Messaied Steel Plant	Industry	1,250	Qatar Steel Co	FS
Qatar UAE Causeway	Construc.	1,000	Gov. of Qatar Qatar Electricity & Water Co.	Planned
Mesaieed Facility B	Power	1,000	Water Co.	ITB
Al Waab City	Construc.	1,000	Al Waab Development	Planned
Aluminium Smelter Power Plant	Power	1,000	Qatar Petroleum	Planned
Lusail Mixed-use Development	Construc.	1,000	Qatari Diar Real Estate Investment	MCA
DIA Passenger Terminal Complex	Construc.	1,000	NDIA Steering Committee	ITB
Ras Laffan II	Power	900	Q-Power	MCA
Ammonia & Methanol Expansion	Petrochm.	850	Qatar Fuel Additive	OD
Digital Medical Care	Construc.	800	Qatar Foundation	Planned
Asian Games 2006 Infrastructure	Construc.	700	Gov. of Qatar	MCA
West Bay Substations	Power	610	Kahramaa	MCA
Education City	Construc.	600	Qatar Foundation	ITB
Polyethylene & Alpha Olefins Plants	Petrochm.	600	Qatar Chemicals	MCA
Ammonia and Urea Plant V	Petrochm.	600	Qatar Fertiliser	FS
Ras Laffan Ethane Cracker	Petrochm.	600	Ras Laffan Olefins	MCA

Source: MEED projects Feb 2006.

Notes: List of projects only includes those exceeding \$600 million in size.

MCA: main contract award.

FS: feasibility study.

ITB: ITB released.

OD: outline design.

5. Public Finance

The budget surplus in fiscal year 2004/05 (FY04/05) was \$3.9 billion, almost four times the surplus of the previous year. This figure represents a 66% upward revision on the Ministry's preliminary estimates, resulting from year-end adjustments on oil and gas revenues. The revised figure for actual revenues was \$13.6 billion, 61% higher than the level reached in FY03/04. Oil and gas revenues, which constituted 62% of the total, led this remarkable growth. A 72% increase in investment income and a 64% increase in other sources of revenues, which reached record levels, also contributed to this rapid growth.

The government used the revenue windfalls to overspend on current expenditures, which reached \$7.6 billion, 27% higher than in the previous year. Although capital spending increased as well, it failed to reach its target levels due to contracting constraints. Capital spending, nonetheless, doubled in the span of two years and constituted 22% of total spending in 2005, compared to 10% in previous years. This increase reflects the substantial investments made in facilities for the 2006 Asian Games and in infrastructure supporting the industrialization drive.

Off-budget revenues from production-sharing agreements were used to pay for external debt and to fund expansion projects. The rest was deposited in state-owned funds.

Table 3: Public Revenues and Expenditures

	Million \$			% Change	Million \$		
	02/03 a	03/04 a	04/05 a	04/05	03/04 b	04/05 b	05/06 b
Revenues	7,834	8,439	13,613	61.3	5,930	7,196	10,447
Oil and gas	4,989	5,428	8,498	56.5	3,327	3,971	5,722
Investment income	2,368	2,215	3,813	72.1	1,882	2,240	3,448
Other revenues	477	796	1,302	63.6	721	984	1,278
Expenditures	6,264	7,422	9,686	30.5	6,404	7,789	10,388
Capital	1,224	1,441	2,126	47.6	1,691	2,440	3,222
Current	5,040	5,981	7,559	26.4	4,714	5,349	7,165
Wages & salaries	1,648	1,729	2,070	19.7	1,664	1,723	1,735
Interest payments	614	534	432	-19.1	398	330	432
Supplies & services	444	533	418	-21.6	315	322	276
Others	2,334	3,185	4,640	45.7	2,336	2,974	4,723
Surplus (Deficit)	1,570	1,017	3,927	286.0	-474	-593	60

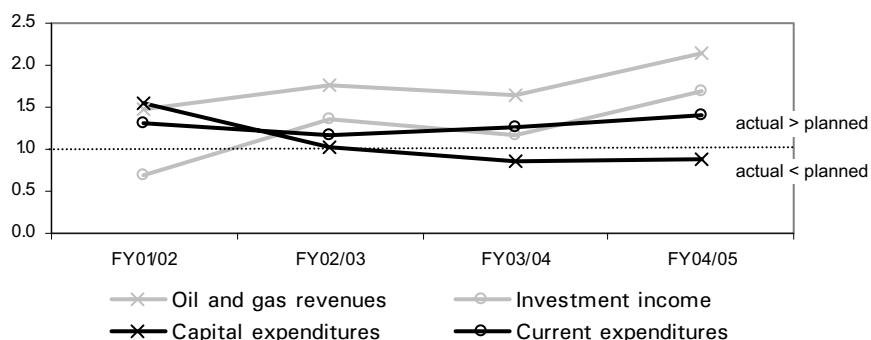
Source: Qatar Central Bank (www.qcb.gov.qa).

Note: Fiscal year is from April 1 to March 31.

For FY05/06, the government's budget projections predict significantly higher revenues than in past years, and likewise for expenditures, resulting in a \$60 million surplus. The government plans to spend \$10.39 billion, 31% of which is allocated to capital expenditures mainly for land acquisitions, social services, roads and health care. The figure also includes a portion of the funds committed for low and medium-income housing. Despite these relatively higher projections, actual figures are expected to edge higher up. Unofficial estimates for the budget surplus in FY05/06 exceed \$5 billion.

Qatar stands out among its peers in its relatively low exposure to oil price volatility. Since the country's gas sector is free from quotas of the kind imposed by OPEC on oil production, it can offset falls in hydrocarbons prices by increasing gas sales. Moreover, diversification in downstream oil and gas industries, such as GTL production, which are less tied to oil prices, reduces the economy's exposure to changing oil prices. Despite this reduced exposure and soaring hydrocarbon prices, Qatar maintains conservative estimates for its oil prices (\$17 p/b for FY03/04, \$19 p/b for FY04/05, and \$27 p/b for FY05/06).

Graph 3: Actual / Budgeted



Source: Qatar Central Bank (www.qcb.gov.qa).

Note: A ratio > 1 implies that actual figures exceed budget projections, and vice versa.

The budget for FY06/07 has been approved and is the largest yet on record. It is expansionary with planned expenditures of \$15.3 billion, 47% higher than planned in the previous fiscal year with equally higher revenues of \$15.6 billion. This will result in a surplus of \$681 million, ten times the budget surplus projected in FY05/06. Seventy percent of planned expenditures will be allocated to the development of major projects.

6. Money and Banking

Monetary Developments

Growth in money supply (M2) accelerated during 2005 to 43%, and M2 reached a record level of \$17.7 billion. This growth in total liquidity contrasts with the 19% average rate of the last two years when it was closely aligned with growth in GDP. The drastic increase largely resulted from a 50% increase in net foreign assets, from \$8.8 billion in 2004 to \$13.1 billion in 2005, reflecting net capital inflows that helped swell commercial banks' deposits abroad and QCB's foreign assets portfolio.

The rise in liquidity reflected strong growth in all components of M2. A 10% increase in money in circulation and a 62% increase in demand deposits lifted M1 to \$6.14 billion. Time and saving deposits increased by 26% and foreign currency deposits by 64%, bringing quasi money total balances to \$11.51 billion.

The structure of M2 has also been changing in the last few years with a shift to more liquid deposits. Moreover, the share of foreign currency deposits in quasi money aggregates has been continuously rising, and has

increased from 28% at the end of 2002 to 38% at the end of 2005, reflecting a growing financial dollarization.

Table 4: Monetary Survey

	Million \$			% Change		
	2003	2004	2005*	2003	2004	2005
Total liquidity (M2)	10,226	12,326	17,657	17	21	43
Money (M1)	3,098	4,011	6,143	39	29	53
Money in circulation	590	713	787	12	21	10
Demand deposits	2,508	3,298	5,356	47	31	62
Quasi-money	7,128	8,315	11,513	10	17	38
Time and saving deposits	4,934	5,665	7,159	5	15	26
Foreign currency deposits	2,194	2,650	4,354	21	21	64
Foreign assets (net)	7,093	8,736	13,129	46	23	50
Central bank (net)	2,873	3,358	4,546	91	17	35
Commercial banks (net)	4,220	5,381	8,583	26	28	59
Domestic assets (net)	3,133	3,590	4,528	-20	15	26

Source: Qatar Central Bank (www.qcb.gov.qa).

Note: * Preliminary figures.

Credit Facilities

A remarkable 39% increase in domestic credit facilities also contributed to the expansion of domestic liquidity. While public sector credit has historically dominated domestic debt, private sector credit increased by 63% in 2005 and, at a level of \$13.4 billion, constituted 72% of total facilities.

Personal facilities led growth within loans to the private sector, thus constituting 37% of domestic credit. Due to the mushrooming of residential and commercial projects in Qatar, real estate loans were an additional source of growth in domestic credit, rising by 53% to \$1.69 billion.

Credit facilities extended for trade, followed closely by lending to construction, were also sources of growth. Construction loans doubled in 2005 to \$922 million, reflecting increased spending on infrastructure projects and on preparations for the 2006 Asian Olympic Games. Even though they still constitute a small share of the total, industry credit facilities more than doubled in 2005 due to the increased attention to non-oil sectors.

On a different note, total credit outside Qatar doubled in 2005 to reach \$650 million.

Table 5: Credit Facilities

	Million \$				% Change		
	2002	2003	2004	2005	2003	2004	2005
Total domestic credit	9,881	11,908	13,268	18,507	21	11	39
Public sector	4,619	5,476	5,074	5,124	19	-7	1
Private sector	5,262	6,433	8,193	13,384	22	27	63
Personal facilities	2,648	3,160	3,870	6,794	19	22	76
Real estate	286	520	1,114	1,699	82	114	53
Trade	1,298	1,520	1,680	2,248	17	11	34
Construction	68	394	456	922	482	16	103
Services	223	512	655	808	130	28	23
Industry	257	206	291	665	-20	41	128
Other sectors	481	120	128	247	-75	7	92
Total credit outside Qatar	68	121	327	650	79	169	99

Source: Qatar Central Bank (www.qcb.gov.qa).

Growth in public and private sector deposits facilitated the increase in credit facilities. Both types of deposits exhibited robust growth, at 42% and 38% respectively. Private sector deposits, however, dominated and, at \$14.5 billion, comprised 63% of resident deposits.

The continued rapid expansion of credit facilities and foreign assets led to a 42% increase in commercial banks' total assets to reach \$35.8 billion.

Table 6: Consolidated Balance Sheet of Commercial Banks

	Million \$			% Change		
	2003	2004	2005	2003	2004	2005
Total Assets	20,907	25,282	35,797	15	21	42
Cash and balances with QCB	669	933	1,423	12	40	53
Foreign assets	5,348	7,625	11,442	35	43	50
Domestic credit	11,908	13,268	18,507	6	11	39
Credit facilities to private sector	6,433	8,193	13,384	19	27	63
Credit facilities to public sector	5,476	5,074	5,124	-9	-7	1
Domestic investments	2,027	2,430	2,976	17	20	23
Interbank deposits	435	443	734	65	2	66
Fixed assets	165	212	221	11	28	4
Other assets	354	372	493	0	5	33
Total Liabilities	20,907	25,282	35,797	15	21	42
Foreign liabilities	1,127	2,244	2,859	58	99	27
Due to QCB	27	93	116	-49	246	25
Interbank deposits	476	473	711	57	-1	50
Resident deposits	14,474	16,556	23,250	10	14	40
Public sector deposits	6,037	6,343	8,724	5	5	38
Private sector deposits	8,437	10,213	14,526	13	21	42
Provisions	1,077	986	856	-5	-8	-13
Capital accounts	2,095	2,949	3,998	41	41	36
Other liabilities	1,631	1,981	4,006	5	21	102

Source: Qatar Central Bank (www.qcb.gov.qa).

Interest and Exchange Rate Trends

The Central Bank has maintained a fixed exchange rate for the Qatari Riyal (QR) at 3.64QR/\$ since 1980. This peg to the dollar has kept the currency's exchange rate with other GCC countries fixed but caused it to vary in relation to non-GCC currencies in the same direction as the dollar. The year 2005 witnessed a slight appreciation in the dollar against major currencies such as the Euro, Japanese Yen, and the Pound Sterling, consequently strengthening the QR against these currencies.

Due to this policy, QCB synchronized interest rate changes with those of the US Federal Reserve. Qatar's money market rate thus followed the upward trend in dollar rates, to reach 4.75% on deposits of local banks and 5% on lending to local banks in April 2006. The Repo rate also increased, and stood at 5.6%.

Commercial Bank Results

The Qatari banking sector had a phenomenal performance in 2005, with the seven local banks doubling their aggregate net profits. A 45% increase in net interest income, and the doubling of fees and commissions, contributed to growth in profits. Similarly, a remarkable surge in investment income from \$99.8 million to \$458.2 million, resulting mainly from a number of local banks' having taken advantage of the bull run in the local equity market, made a significant contribution to the improved results.

Qatar National Bank continued to be the dominant player in the market and recorded the highest profit in 2005. Commercialbank, however, significantly increased its capital and demonstrated its intention to begin competing for a larger share of the market. Of the local commercial banks, Doha Bank reported the highest return on equity of 49%. Significant profit growth, post-provisions, was recorded at Qatar International Islamic Bank, with a 424% increase, and at International Bank of Qatar that achieved a 142% increase.

Capital and Reserves for the seven local banks increased by 56% from \$3.6 billion to \$5.6 billion. The ratio of shareholder's equity to total assets rose to 17.8% in 2005, from 16% in 2004 and 12% in 2003.

Two Qatari banks took steps to broaden their activity. Qatar National Bank, that had previously acquired Ansbacher, an international financial service provider, bought a 30% stake in Investment House, a local Islamic investment company, and a 25% interest in Mansour Bank, Iraq. Commercialbank acquired a 34.85% share of the equity in National Bank of Oman and became responsible for its day-to-day management. Both banks, together with Doha Bank, opened Islamic branches.

In addition, two new banks are set to begin operations at the end of 2006, one, Islamic bank Al Rayan, with a capital of \$2 billion, and the other, Gulf Commercial Bank, with a capital of \$1 billion.

Table 7: Commercial Bank Results

(million \$ at end of period)

	Assets		Loans		Deposits		Net Profits	
	2004	2005	2004	2005	2004	2005	2004	2005
Qatar National Bank	10,865	13,753	7,305	8,648	8,136	10,016	227	422
Doha Bank	3,020	4,184	1,494	2,279	2,216	3,029	101	217
Commercialbank	3,555	6,094	1,844	2,990	2,281	3,587	95	206
Qatar Islamic Bank	2,127	2,624	1,171	1,641	1,598	1,886	81	140
Ahli Bank	1,177	1,698	397	959	754	1,245	24	39
Qatar Int'l Islamic Bank	1,373	1,741	720	933	1,198	1,395	24	128
Int'l Bank of Qatar	552	1,280	277	617	414	985	10	25
Qatari banks	22,669	31,374	13,209	18,067	16,597	22,142	563	1,177
Foreign banks	2,669	na	1,339	na	2,076	na	76	na

Source: *International Bank of Qatar.*

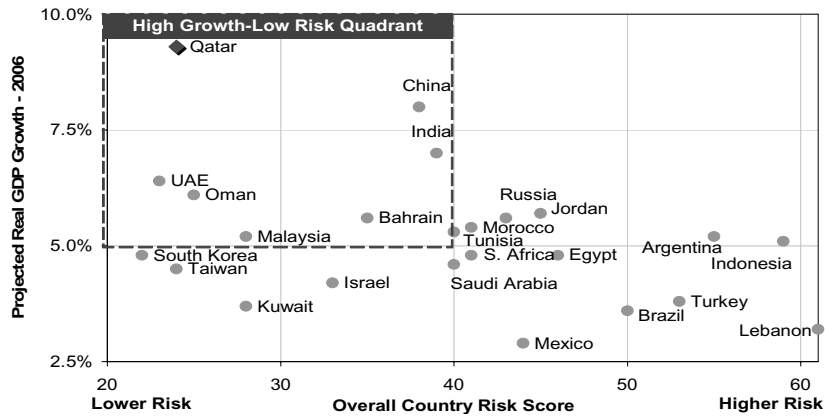
For the past year, Qatar Central Bank has focused its energies on harmonizing the banking regulations with international standards. In this vein, it has required banks to report their capital adequacy under the provisions of the Basel II requirements and has refined the calculation methods for the Loans and Advances Ratio (formerly Advances to Deposit ratio) and the Liquidity ratio. It has also loosened regulations to allow some IPO financing and more real estate credit.

In May 2006, the Qatar Financial Centre (QFC) will be celebrating its one-year anniversary. The Center was established to attract international financial institutions to take advantage of the domestic and regional project financing opportunities. QFC works independently from the government of Qatar and the QFC Authority is its independent regulatory authority. To this day, the QFC Authority has granted licenses to six institutions including Arab Jordan Investment Bank, Credit Suisse Financial Services (Qatar), Ansbacher, BDO Jawad Habib Consulting, Arab Law Bureau, and United Gulf Financial Services. More licenses are expected to follow shortly.

7. Doha Securities Market

The positive outlook of Qatar’s economy is the main driver for investments in the Doha Securities Market (DSM). A comparison between Qatar and 23 emerging economies in terms of each country’s projected real GDP growth for 2006 and its sovereign risk score –as estimated by the Economist Intelligence Unit– shows Qatar as having the highest growth potential with significantly lower sovereign risk score (Graph 4). The combination of such high growth potential –projected at 9.3%– and low country risk makes investments in Qatar exceptionally rewarding from a risk-return perspective.

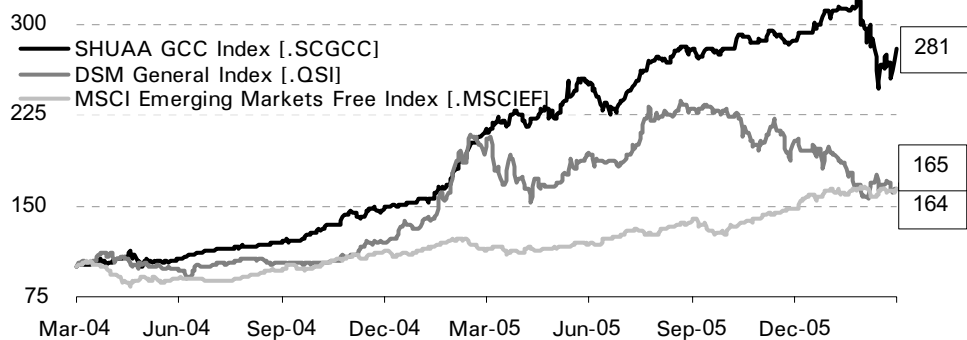
Graph 4: GDP Growth Estimate versus Overall Country Risk Score



Sources: The Economist Intelligence Unit and NBK.

Despite this rosy outlook for the economy, the last two years were not easy for the DSM. Graph 5 depicts the 2-year rebased performance of the DSM General Index [.QSI] against the SHUAA GCC Index [.SCGCC] and the MSCI Emerging Markets Free Index [.MSCIEF]. Over the period, the DSM General Index was the most volatile index of the three indices; it reached the peaks of the SHUAA GCC Index early in 2005 to fall back to the MSCI Emerging Markets Free Index performance level recently. Both the growth in liquidity and the concentrated market structure contributed to this volatile performance.

Graph 5: Performance of DSM versus GCC & Emerging Markets



Sources: Reuters, SHUAA Capital, MSCI and NBK.

Note: Indices are rebased to show relative performance over last two years.

As illustrated in Table 8, trading volume and value grew by 345% and 238%, respectively, from their levels in 2004. Of the four major sectors, the services sector recorded the highest growth in trading activity, while the insurance sector recorded the least growth. Trading activities in both years were also very concentrated. The five most traded companies consistently accounted for over 60% of total trading activity.

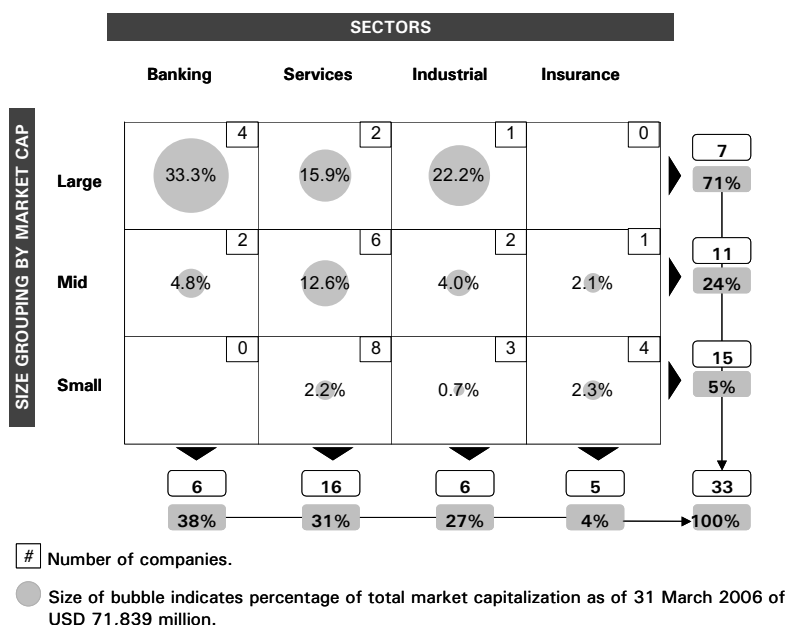
Table 8: Trading Volume and Value in the DSM

	Trading Volume (Shares billion)			Trading Value (Million \$)		
	FY 2004	FY 2005	% Growth	FY 2004	FY 2005	% Growth
Services	8.0	44.6	455%	39.6	192.4	385%
Industrial	4.9	27.3	459%	27.2	63.6	134%
Banking	9.3	28.5	207%	15.2	26.2	73%
Insurance	0.9	2.5	173%	2.3	3.2	38%
Total	23.09	102.84	345%	84.36	285.38	238%

Source: The Doha Securities Market.

Compared to the other GCC markets, the DSM still offers very concentrated and limited investment options. The market has only 33 companies that can be segmented into four major sectors: banking, industrial, services, and insurance. An analysis of the distribution of listed companies by sector and size –with companies with a market capitalization greater than \$15 billion classified as "large", and companies with market capitalization below \$2 billion classified as "small"– reveals a high level of concentration (Graph 6). The seven largest companies accounted for 71% of the total market capitalization, with Industries Qatar (IQ) [IQCD.QA] alone accounting for 22% of the market. The 11 medium-sized companies represented 24% of the market while the remaining 15 small companies accounted for only 5%. The banking sector, which comprises six banks, is the largest sector accounting for 38% of market capitalization.

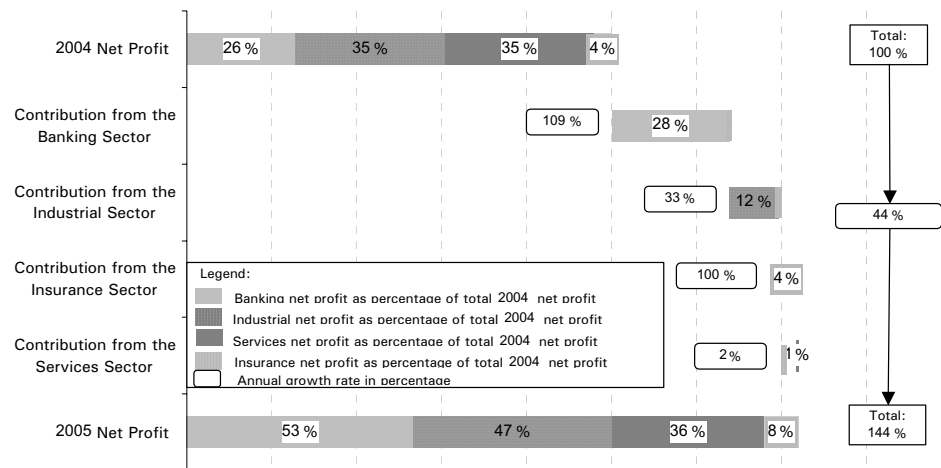
Graph 6: Segmentation DSM Market Capitalization by Size and Sector



Sources: The Doha Securities Market, Reuters and NBK.

Earnings of 29 of the listed companies grew by 43% in 2005. As can be seen in Graph 7, the major sources of growth originated from the banking and industrial sectors. Further, Table 9 details the reported net profit of the individual companies. The largest increase in net income originated from the banking sector which recorded a growth of 109%. Although income from various investment activities grew significantly in 2005, it contributed only to a fifth of total net profit in 2005.

Graph 7: Sources of Growth in Net Profit by Sector



Sources: *Individual companies' annual reports and NBK.*

As a consequence of the higher earnings base and lower price levels, the Price to Earning (PE) ratio of the DSM contracted by over 40% since its peak levels in mid-2005. Although the PE level of 19 times 2005 earnings still shows a premium of around 30% over the benchmark PE multiple for the MSCI Emerging Markets Index, above average growth potential of Qatar's economy may explain this premium.

Table 9: Earnings Summary of Select DSM-Listed Companies

	Earnings (USD Millions)		YOY Growth	PE Multiple
	2004	2005		
Banking	555	1,159	109	24
Qatar National Bank	229	425	86	20
Qatar Islamic Bank	81	141	74	37
Qatar Commercial Bank	96	207	117	26
Doha Bank	102	218	114	23
Al Ahli Bank Qatar	24	39	64	25
Qa Int'l Islamic Bank	25	129	424	19
Insurance	88	176	99	18
Qatar Insurance	34	79	130	19
Doha Insurance	8	12	53	18
Qatar General Ins. & Reins.	30	29	(4)	18
Al Khaleej Insurance	9	22	154	16
Qatar Islamic Insurance	7	34	355	16
Industrial	768	1,019	33	18
Qatar Industrial Manufacturing	20	28	41	10
Qatar National Cement	47	48	2	25
Qatar Flour Mills	3	3	(14)	17
Industries Qatar	690	889	29	18
United Development Co.	9	51	483	24
Qatar German Co. for Med. Dev.	(1)	1	nmf	67
Services	764	777	2	14
Qatar Telecom	403	302	(25)	20
Qatar Electricity & Water	208	180	(13)	10
Qatar Shipping co.	62	114	86	19
Qatar Real Estate	16	31	100	25
National Leasing	3	7	151	38
Qatar Navigation	45	79	76	27
Medicare Group	(3)	(15)	nmf	nmf
Qatar Technical Inspection	1	1	10	25
Qatar Cinema & Film Dist.	1	2	76	18
Qatar Fuel	29	66	125	11
Qatar Meat & Livestock	(0)	6	nmf	26
Gulf Warehousing	0	3	na	55
Total	2,175	3,131	44	19

Sources: Individual companies' annual reports, Reuters and NBK.

Notes: nmf: not meaningful.

na: not applicable.

Key Economic and Financial Indicators for Qatar

(in million QR except when stated otherwise)

	2004	1Q05	2Q05	3Q05	4Q05
Population ('000)	744	...	...	...	...
Oil price (\$/barrel)	36.08	44.72	51.64	59.63	57.35
Crude oil production (mbd)	0.76	0.77	0.78	0.78	0.79
GDP	103,563	28,938	29,817	32,084	...
<i>annual growth rate</i>	<i>20.5%</i>	<i>1.3%</i>	<i>4.80%</i>	<i>7.60%</i>	...
Oil & gas share (%)	62.2	65	66	67.8	...
Other sectors share (%)	37.8	35.0	34	32.2	...
Per capita GDP (000QR)	139.2	...	...	...	...
CPI (2001 = 100)	109.48	111.48	117.98	121.24	125.83
year-on-year inflation	6.8	-0.22	5.83	2.76	3.79
Exchange rate (QR per \$)	3.64	3.64	3.64	3.64	3.64
Money supply (M2)	44,865	50,085	55,974	56,973	64,291
Quasi-money	30,267	31,105	35,572	38,219	41,908
Net foreign assets	31,812	35,833	38,551	41,570	47,789
QCB foreign assets	12,166	14,087	15,987	16,402	16,577
Commercial bank assets	92,026	103,037	110,236	117,352	130,300
Claims on private sector	29,824	35,137	38,198	42,057	48,716
Private deposits	42,271	47,391	53,058	54,067	61,405
DSM index	6,494	11,148	10,484	12,512	11,053
<i>year-on-year growth</i>	<i>65%</i>	<i>72%</i>	<i>-6%</i>	<i>19.3%</i>	<i>-12%</i>
Balance of payments	14,294	4,541	4,755	...	...
Current account	27,000	6,696	8,276	...	...
Trade balance	48,321	10,007	10,306	...	...
Exports	68,012	15,179	18,266	...	...
Oil exports	31,046	...	...	...	...
Gas exports	23,497	...	...	...	...
Imports	-19,691	-5,172	-7,960	...	...
Capital & financial account	-4,861	-2,400	-1,768	...	...
Other (net)	-8,333	...	...	...	...
	04/05a	1Q05	2Q05	3Q05	4Q05
Revenues	49,550	8,297	1,140	...	...
Oil and gas revenues	30,932	...	...	...	...
Expenditures	35,256	10,327	8,527	...	...
Surplus (deficit)	14,294	-2,030	-7,387	...	...

Sources: Qatar Central Bank (www.qcb.gov.qa), OAEPC (www.oapec.org), MEES (www.mees.com)



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