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Qatar Economic & Strategic Outlook-III

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1. Summary

Qatar has achieved another year of record performance by registering a stupendous growth of 20% in its nominal GDP for the year 2004. GDP reached to QR103.56bn (US$28.45bn) in 2004 up from QR86.27bn (US$23.7bn) in 2003. Between 2000 and 2004, Qatar's nominal GDP is estimated to have grown at a CAGR of 12.5%. The sharp growth in its GDP boosted its GDP per capita to a record level of $38,241, the highest in the Middle East. With this, Qatar now ranks as one of the world's wealthiest countries, trailing only Luxembourg and Norway. Apart from the strong crude oil prices, the major factors behind this rapid GDP growth were increased exports of oil, LNG, petrochemicals and related industries.

As per the preliminary data released by the Qatar Central Bank (QCB) for the year 2004-05 the state had recorded a positive balance for the fifth successive year. The provisional figures by the QCB shows an estimated surplus for the year 2004-05 despite an increase in spending to meet growing domestic needs. The estimates by the QCB shows revenue to have grown to QR49.6bn in 2004-2005 from QR30.7bn estimated for 2003-2004, an increase of a robust 61.3%. The total expenditure grew by 30.5% to QR35.3bn in 2004-05. The recorded surplus of QR14.3bn was almost four times higher than the surplus of QR3.7bn achieved in the preceding fiscal. This large surplus could be mostly attributed to the surge in oil and gas exports and higher oil prices. In 2004-05, crude oil averaged around $38.48 per barrel which was more than double of the country's conservative estimates on oil-export price of only US$19 per barrel considered for its budget 2004-05.

Qatar's budget for the fiscal year 2005-06 is ambitious in nature. This is true of both expenditure and revenue. The government also expects to register a marginal surplus. The revenue for the financial year 2005-06 is estimated at QR38.03bn, while expenditures are estimated at QR37.8bn and thereby projecting a marginal surplus of QR218mn. Qatar has earmarked a whopping QR11.73bn for public projects for the fiscal year 2005-06. The allocation made for public ventures in the budgetary estimates for 2005-06 is QR2.85bn, or 32 per cent, more than that in the previous budget. Infrastructure projects have this year grabbed a lion's share of the allocations or a hefty QR9.98bn as against QR7.75bn in the last budget.

Qatar enjoyed growing trade surplus for the last several years with the main revenues for country occurring from the exports of oil and gas. Buoyant oil prices throughout last year resulted in the exports (estimated) of the country increasing by a robust 39.6% in 2004 to QR68bn, which was about 65.7% of the country's GDP for the year. Import bill of the country increased by 24.1% in 2004 to QR19.7bn, leaving the merchandise trade surplus at QR48.3bn, which registered a staggering growth of 47% over the preceding year. The increase in the exports could be attributed to strong crude oil prices and also to the increased volume of petroleum and related products. We, at Global, expect that Qatar would continue to record strong trade surplus in 2005 and also in 2006 as volumes of LNG and oil are likely to increase due to the expected increase in production.

The Qatar Central Bank's (QCB) monetary policy will remain focused on maintaining long term peg between the Qatari Riyal and the US Dollar at QR3.64:US$1. Keeping in line with that the QCB will continue to adjust its discount rate in line with the US Federal Reserve rates. Therefore, the QCB has been regularly adjusting its rates depending on the moves by the Fed Reserve. Recently, in November 2005, the QCB raised its interest rates. QCB Rate on loans increased from 4.20% to 4.25% and on deposits from 4% to 4.15%. However, it kept the Repo Rate unchanged at 4.85%. Going forward, further increases in the US Fed rates are likely and therefore the rates in Qatar are likely to go up. The growing inflation rate in Qatar, which is likely to go up further, is also supporting this argument. It is also likely that the QCB may tap the bond market to bring down excess liquidity from the system and thereby keep a check on any significant increase in the rate of inflation.

For the last few years Qatar is witnessing high inflationary trend. The year 2004 was an exceptional year in terms of growth in consumer prices. The Consumer Price Index (CPI) rose steeply by 6.8% in 2004 as compared to 2.26% in the year 2003. This is despite the existence of subsidies and price controls which restrict the rise in consumer prices to some extent. It also seems that consumer spending has gone up in Qatar mainly due to the increased liquidity. This has been further intensified by the weakness of the US dollar in 2004, putting upward pressure on prices of imported goods and commodities.

In 2004, the state's Planning Council announced the final results of the new population census. The new census report puts the total population figure for Qatar at 744,029 which was a 42.5% increase from the 1997 figure of 522,023. This shows a CAGR of about 5.2% over 1997-2004, as compared to the annual average increase of 3.7% during 1986-1997. The rapid increase in population over the last few years is attributed to the strong economic growth causing a multiplier effect on other segments of the economy, resulted into channeling increased funds for investment and the implementation of several large-scale projects. All these resulted into increased labour demand in the economy and thereby leading to the influx of professionals, service and contracting sector staff and others.

Oil prices have remained strong throughout 2004 and have climbed 50 percent this year due to strong demand, driven by economic growth and tight production capacity in OPEC and non-OPEC countries. Recently it has touched to a record high. New York crude oil futures surged to a record $70.85 a barrel on August 30, a day after Hurricane Katrina struck Louisiana and Mississippi, flooding the city of New Orleans, destroying several offshore oil rigs, damaging refineries and closing pipelines. Apart from this heightening geopolitical tensions also helped in setting a bullish tone. This was despite easing of apparent demand from China and lower expectations for world oil demand growth for the year.

A jump in oil prices in the first ten months of '05, apart from hurricanes, was also attributed to a change in the demand patterns across economies and fears on the lack of spare capacity. However, when looked at on a global basis, one does not see a major acceleration in oil demand to substantiate the extent of price increase in 2005. OPEC's demand estimates for 2005 have been slightly downgraded to 83.3mn b/d from the estimate of 83.6mn b/day at the beginning of the year. In exception to the effect of hurricane Katrina on the supply scenario, the overall supply has more or less matched the demand growth in 2005. At present, the demand supply situation does not portray an alarming situation, especially considering that OPEC is already producing at higher levels. Also the robust non-OPEC, non-OECD supply growth will partly counter-balance demand gains, and the boost in the 'implied call on OPEC' will be easily met by the projected OPEC capacity expansions. OPEC's spare capacity is estimated to have increased to 8.1% in the fourth quarter of 2005 compared to 4.9% in the corresponding period of the previous year and is expected to be even higher at 12% in 2006. In spite of having spare capacity for crude production, the scenario is not as comfortable as it looks in the short term due to the damage caused by the hurricanes. The time taken by the refineries to get back to normal operating levels would present a supply deficit situation, especially for the products. For many of the producers, idle capacity can be activated in response to a short duration supply disruption, but is not sustainable on a prolonged basis without incremental drilling and investment. In short, though the situation is not extremely precarious, the fear of disruptive events in the current scheme of affairs could hold the oil prices firm in the medium term.

Qatar's North Gas Field is the largest non-associated gas field in the world, with proven reserves estimated at over 900 trillion cubic feet (tcf), equivalent to about 162 billion barrels of oil (over 15 per cent of the world total). These reserves will be sufficient to support planned production of natural gas for over 200 years. Currently oil and gas sector make up more than 62% of Qatar's economy. The recent development of projects to produce and export natural gas in the form of LNG, piped gas, gas-to-liquid (GTL) and investments in petrochemical and fertiliser industries bear testimony to the fact that Qatar has been trying to diversify its revenue base by reducing its historic dependence on oil export revenues. By the decade-end Qatar plans to boost its oil production capacity to one million barrels per day (bpd) from the existing 750,000 bpd. It plans to nearly triple its present annual production of about 20mn tonnes to 77mn tonnes by 2012 for LNG. It is expected that out of the planned 77mn tonnes of annual production a third will go to the United States, a third to Europe and the rest to Asia.

There are number of other factors that have contributed to making Qatar a success story in the world of natural gas in such a short period of time. Qatar is committed to innovation and the adoption of world-class technology in the hydrocarbon sector. These innovations in turn will dramatically reduce the unit cost of producing LNG. So the country is enhancing the competitiveness of its product. To further reduce costs, Qatar - together with the world's leading shipbuilders - is developing a new generation of large LNG tankers. In January 2005, Qatar Gas Transport Company (Naqilat) had its IPO. It is expected to have the world's largest fleet of LNG tankers and the largest carriers in terms of capacity. In addition to the Far East, Qatar has developed a market for its gas in the European Union. By 2010, Qatar is expected to supply 28 mtpa of LNG to the EU market alone. The success so far achieved reflects Qatar's commitment to innovation and the adoption of world-class technology in the hydrocarbon sector.

In the fast growing Qatari market, the banking sector is becoming highly competitive and challenging, as some of the foreign banks have started to increase their presence in the market. During 2004, the banking sector in Qatar saw a couple of mergers/acquisitions. National Bank of Kuwait (NBK) became the international shareholder of the erstwhile Grindlays Qatar Bank which is now known as International Bank of Qatar (IBQ). NBK has 20 per cent stake in the capital of IBQ. In another development, Bahrain's Ahli United Bank (AUB) acquired 40 per cent stake in Al-Ahli Bank of Qatar and it has been renamed as Ahli Bank QSC. Apart from this, Mashreqbank also plans to spread out its foothold in the Qatari market. We believe that with these, the banking sector in Qatar will experience a new dimension of competition in retail as well as institutional segments. In a major step for a Qatari bank, QNB went global and bought a key London-based wealth management group. The £135mn deal acquired Ansbacher Holdings, a subsidiary of South Africa's FirstRand, the country's second largest bank by assets. The acquisition is a milestone for QNB as it became the first GCC bank to buy an international financial institution of the repute of Ansbacher. To tap the growing importance of Islamic finance, especially in the GCC region, many conventional banks are venturing into Islamic banking which will further change the face of the banking sector in Qatar.

Qatar is becoming a favorite destination for investors. The banking system is developing fast, and the banking products that people find in the international markets are available in Qatar. There are banks negotiating with the Central Bank of Qatar for opening branches in the country. During the period 2000-2004, the total assets of the commercial banking sector grew at a CAGR of 16.3% to QR92.03bn in 2004 from QR50.2bn in 2000. During the same period, total credit facilities grew at a CAGR of 14.2% to reach QR49.5bn, while total domestic credit grew by 14.7% to QR48.3bn.

All the six banks put together have expanded their asset base, net loans & advances and also their deposit base at the similar rate of 24% in 9M of 2005 over 2004 year end figures. QNB is the largest bank in Qatar, in terms of assets size, loans & advances and deposits. However, over the last few years its share has been declining in terms of all major financial parameters. Among the two competing banks namely, Commercial Bank and Doha Bank, the former had grown much faster in terms of the balance sheet size than the latter and took over second position in 2004 from the third in the previous year. In 2004, almost all the banks have sizeably increased their loan book and it also seems that there was a focused approach of all the banks to increase their deposit base to take the advantage of the lowest interest rates prevailed during the year. The most significant part of the operations of the listed local banks in the last couple of years has been the increase in their profitability. The year 2003 saw the net profit of these banks increase by 28.8%, while in 2004 their net profit increased significantly by 41.6%. During the nine months of 2005, the net profit of the listed banks grew significantly by 97% y-o-y to QR3.06bn.

In the recent past Doha Securities Market has posted robust and rather steep gains in the stock prices. In 2005, the Global's DSM Index registered a YTD gain of 82% as at the end of Nov. 2005 as against this the Banking Index moved up much faster as it posted a YTD gain of 96%. Therefore, the valuations of the Qatari banking sector appear to be on a higher side. Currently, the DSM is undergoing intermediary corrections and witnessing profit booking from investors which might bring the prices of some of the banking stocks to realistic levels.

Apart from the oil & gas sector the government is also encouraging industrial and services sector by providing various incentives. Up to 2004, Qatar has made investments of about US$31bn in various projects and recently committed about US$26bn in natural gas projects in partnership with a number of world class companies and investors. New investments in this decade are expected to rise to over $40bn in petrochemicals, fertilizers and other energy sector projects. The vast growth in the energy sector generates and creates the need and the opportunities for special services. The opportunity to invest is now in the service sector to support existing industry, envision and implement a sustainable competitive advantage. Investment opportunities are limitless, sectors such as the chemical, petrochemical and fertilisers are prime examples which would support the further development of the other economic sectors. Qatar is open to foreign participation in joint ventures through technology supply, market administration and equity participation.

The state-owned Qatar Industrial Development Bank (QIDB) announced on May 28th that it had financed 28 small and medium scale industries, in the light industrial sector, to set up manufacturing facilities in 2004. The government is encouraging setting up of medium and small industries by providing incentives to the local private sector establishments. During the first half of 2005, 96 new industrial concerns offering 3,295 job opportunities were created in

Qatar, with total investments reaching QR900mn (US$247.17mn). In the first three months of 2005, the Qatari Ministry of Energy and Industry granted a total of 68 industrial licenses. 34 of these licenses were distributed for the creation of new concerns, 11 for expansion of current operations and 23 licenses for changes in existing concerns. Higher oil and gas prices which have led to higher expenditure by the government in various infrastructure projects along with the generous incentives for the private investors have increased substantially the industrial activity in Qatar. Greenfield projects and joint-venture investments have been receiving substantial boost from the government and also receives good response from the foreign investors.

Apart from the several oil & gas projects which are currently being implemented in Qatar, there are several new and expansion projects which are taking place in the industrial and services sector. During 2004, the Government awarded the second Independent Power and Water (IPW) project, Ras Laffan II, to Qatar Electricity & Water Company (QEWC) and its consortium partners. The project is estimated to cost around US$900mn (QR3.28bn) and will have 1,025 MW of power generation capacity and 60 MIGD of water. A giant gas transport company has been established named Qatar Gas Transport Company Ltd. The company with a capital of QR5.6bn, is among the largest in the world and will own carriers to transport LNG from Qatar to various parts of the world. An acute shortage of hotel accommodation on account of growing number of tourists and business visitors has prompted number of hotel projects. By the time the Asian Games are held in December 2006 there will be 1,700 rooms added to the existing 3,700, making a total of 5,400.

Qatar intends to spend US$13.74bn on infrastructure in the next five years. The Qatari government aims to re-develop roads and sewage networks especially in light of Doha's plans to host the Asian Games for 2006. The Public Works Authority is under pressure to be prepared for the Asian Games scheduled for December 2006. The Qatar Government is committed to a huge escalation of investment over the next few years with upwards of US$100bn in expenditure, US$75bn for oil and gas projects, US$15bn for infrastructure and US$10bn for tourism, leisure and cultural projects.

On the infrastructure front, apart from the development of new international airport and expansion at existing airport there are several other projects. In September 2005, the Deputy Emir and Heir Apparent H H Sheikh Tamim bin Hamad Al Thani approved a law that seeks to permit the setting up of a duty-free Science & Technology Park (STP) in the country. The law is to become effective once it is published in the official gazette. The park, which will be located in the Foundation's Education City, will be a free zone with a special focus on research and commercialization. Worth more than US$100mn, the STP under construction in Doha will have venture capitalists, entrepreneurs and skilled personnel working together to develop and market their products.

Qatar is witnessing an exceptional boom in the real estate sector and there is an increase in investment opportunities in the construction sector. Currently, the demand for residential units and hotel rooms has far exceeded the supply. The country has planned projects worth billions of dollar spanning across various sectors. The Pearl Qatar (US$2.5bn), Education City (US$1bn), the 2006 Asian Games Village (US$700mn), Hamad Medical City (US$410mn) are the few large scale projects. Apart from these, number of commercial and residential construction projects are underway in the country. Among the major stimulating factors for the sector is the government issued a decree, in June 2004, that allows non-Qataris to own real estate in three housing projects. The law allows Qataris and non-Qataris to buy and own real estate of any description in any of the three projects proposed - Pearl Island, West Bay Lagoon and Al Khor Resort. The boom in the building industry and huge allocations for infrastructure projects in Qatar have evoked immense interest not only from the regional players but also from the global construction industry. The new law which allows non-Qataris to own properties will further fuel the demand in the sector. Therefore the sector will continue to witness strong growth in the coming years.

In 2004, Qatari stock market continued its northward ride and reached an all time high. The DSM general index posted a superior gain of 64.5%. The Global DSM Index posted a yearly gain of 48% in 2004 and ended the year at 425. At the end of Nov. 2005, the Global DSM general index registered a whopping YTD gain of 82% to reach 775 points. Strong economic growth, buoyant crude oil prices, excess liquidity, opening of the market for foreign investors and growing corporate earnings were the major factors which staged this dramatic bull run at DSM. In 2004, the market capitalization (m-cap) of DSM went up steeply by QR49.97bn a sharp jump of about 51% and stood at QR147.19bn. Apart from the buoyant stock market the major reasons for this steep increase in m-cap were the listing of two new companies and raising of capital by about 11 companies during the year. At the end of Nov 2005, the DSM's m-cap stood at QR313.4bn which shows a robust growth of 112.9% over 2004 year end level. This growth in DSM has been associated with a significant increase in the earnings of the listed companies. The financial results for the first nine months of the current year (2005) by most of the companies have been encouraging which is further driving the stocks at the DSM. The collective net profits of all the listed companies increased to QR8.65bn in the 9M of 2005, a growth of 42% over corresponding period of the previous year. With the government's thrust on spending on infrastructure and other civil projects, there will certainly be a further economic expansion which will drive almost all the economic sectors of the country. This will further improve the revenue and profitability of listed Qatari companies.

Economic Indicators (Actual)

Calendar Year		**2002**	**2003**	**2004**	**2004**		**2005**	
					3rd Qtr	**4th Qtr**	**1st Qtr**	**2nd Qtr**
Gross Domestic Product	(QR mn)	71,733	86,273	103,563	27,600	28,100	28,938	30,908
GDP Growth	(%)	11.1	20.3	20.5	12.7	1.8	3.0	6.8
Oil & Gas Sector cont. to GDP	(%)	56.8	60.4	62.2	61.6	60.9	65.6	67.2
Non-Oil Sector cont. to GDP	(%)	43.2	39.6	37.8	38.4	39.1	34.4	32.8
Crude Oil Prices								
OPEC Basket	(US$/b)	24.36	28.10	36.05	34.75	36.05	44.08	46.71
Brent	(US$/b)	25.03	28.81	38.23	36.35	38.23	47.58	49.59
Crude oil production	(mn b/d)	0.65	0.74	0.78	0.80	0.80	0.78	0.79
Financial Indicators								
Exchange Rate (end-period)	(US$:QR)	3.64	3.64	3.64	3.64	3.64	3.64	3.64
QCB Rate -Deposits	(%)	1.28	1.23	2.50	2.00	2.50	3.00	3.25
QCB Rate -Loans	(%)	1.58	1.33	2.60	2.10	2.60	3.05	3.30
Repo Rate	(%)	2.00	1.53	3.15	2.65	3.15	3.65	3.90
Foreign Exchange Reserves excl. gold (end-period)	(US$mn)	1,566.8	2,944.2	3,396.0	3,126.0	3,396.0	3,911.0	NA
Money Supply								
M1 (end-period)	(QR mn)	6,289	11,278	14,598	13,049	14,598	18,980	20,402
% change, year on year		20.5	79.3	29.4	-6.0	11.9	30.0	7.5
M2 (end-period)	(QR mn)	32,147	37,223	44,865	41,314	44,865	50,085	55,974
% change, year on year		11.8	15.8	20.5	-1.1	8.6	11.6	11.8
Banking System								
Foreign Assets (net)	(QR mn)	18,016	25,821	31,812	27,232	31,812	35,833	38,551
Total Deposits	(QR mn)	45,770	52,964	60,264	57,494	60,264	68,024	71,854
Private Deposits	(QR mn)	30,226	35,076	42,271	39,124	42,271	47,391	53,058
Total Credit	(QR mn)	35,967	43,346	48,294	48,856	48,294	53,630	57,458
Private Credit	(QR mn)	19,153	23,415	29,824	27,540	29,824	35,137	38,198
Foreign trade								
Exports (FOB)	(QR mn)	39,960	48,711	68,012	14,472	14,907	15,179	18,266
Imports (FOB)	(QR mn)	13,287	15,865	19,691	3,911	5,032	5,172	7,960
Trade balance	(QR mn)	26,673	32,846	48,321	10,561	9,875	10,007	10,306
"Global" DSM Index								
(base year 1999)		183.80	287.83	425.02	363.47	425.02	951.06	769.42

*Source : Qatar Central Bank, OPEC, EIU, **Global** Investment House*

2. Economic News Flow during January 2005 to November 2005

January 2005

- Qatar will set up an international financial center. The Qatar Financial Centre Authority, the center's operator, will report to the council of ministers. A fully independent regulator, the Qatar Financial Regulatory Authority, will oversee business at the center and grant licenses to financial firms.

- Qatar's government decided to partially open the stock market in the country to foreign investors. Non-Qataris would be allowed to own up to 25% of companies listed on Qatar's bourse.

- The developers of the Pearl-Qatar real estate project will release its second batch of properties for sale in February, which is ahead of schedule. The first seven towers and 43 villas released for sale along the island's main marina were sold out in a very short time. United Development Company, the developer of the US$2.5bn project, will market an additional 50 plots of villas and the towers around the Porto Arabia.

February 2005

- The Emir of the country has approved a law that allows expatriates and non-resident foreigners to trade on the Doha Securities Market (DSM) from April 3 this year. However, foreigners, including expatriates, will not be allowed to access the primary market.

- Qatar attracted foreign investments to the tune of US$4.5bn in the private sector last year, according to the Minister of Economy and Commerce. This represents a massive 1,543 per cent increase over 2003.

March 2005

- Islamic banking is likely to get a big boost in Qatar with the regulatory authorities understandably ready to allow commercial banks to diversify into this niche area.

- Qatar plans to spend US$100bn on investments and infrastructure projects by 2012.

- The cost of living has been rising steeply in Qatar with the inflation rate being a hefty 9.5 per cent in 2004, according to the Qatar Chamber of Commerce and Industry (QCCI).

April 2005

- Qatar's state budget for fiscal year 2005-06 (1 April–31 March) shows that its economy is poised to take off in 2005 with revenues set to surge by 45.2% to QR38bn (US$10.4bn), reflecting higher earnings from oil exports and a rising income stream from LNG projects.

- Hinduja Group of India has announced an investment initiative totaling US$10bn with Qatar for infrastructure projects through an Indo-Qatar fund with an initial corpus of US$1bn.

May 2005

- According to Qatar's Minister of Economy and Trade, the government is earmarking US$120bn in projects in Qatar within the next five to eight years. Out of this, US$70bn would go into the hydrocarbons industry and the rest in infrastructure projects.

- Qatar and Kuwait are planning to build jointly a US$2bn petrochemical plant in Qatar. Once completed, the project is expected to be one of the largest of its kind in the Gulf region. Both countries have agreed to enter into a long-term partnership in the petrochemical field.

- A joint Qatar-Italy economic committee met during the month. The meeting included signing a memorandum of understanding for cooperation in the fields of economy, commerce, energy, sports, civil aviation, health, education, culture and customs. Qatari officials expressed their hope to translate the memorandum to a tangible reality that can contribute to achieving bilateral benefits and boost relations between Doha and Rome.

- Qatar has launched a telecommunications regulatory body, in a move to liberalize the sector. The SCICT secretary-general announced that the Supreme Council for Information and Communication Technology (SCICT) is the policy making and regulatory body in Qatar for information and communication technology. The SCICT would be responsible for setting guidelines to allow foreign telecom firms to operate within the country.

June 2005

- Qatar Central Bank (QCB) has announced plans to issue government bonds worth QR2bn (US$549mn). The five-year bonds with a face value of QR10,000 (US$2,746) offers an interest rate of a minimum of 5.5% and maximum of 7% payable half -yearly.

- Qatar is setting up US$274mn facility for small and medium industries which will be the country's first industrial area for small and medium scale industries and will become operational by 2008. The project is part of the authorities' efforts to provide suitable investment opportunities to local and foreign investors, as well as encouraging the local private sector.

- Personal loans have nearly doubled in Qatar over the past seven years to reach QR15bn during this year, as per the survey conducted by the Qatar Central Bank (QCB). During the period spanning from 1999 to 2005, the increase was more than QR7bn, according to the study. The figure stood at QR15bn this year, against QR7.9bn in 1999.

July 2005

- Qatar authorities are to issue a new sponsorship law that would ease residence and visa procedures for expatriates in the country. Several ministries, governmental departments and the national human rights watchdog are discussing the draft law that would reform sponsorship, deportation rules and visa procedures.

- The GDP of Qatar reached $16.4bn for the first half of 2005. The economy is expected to grow by 20% in 2005, government officials said.

- The Qatar Financial Center Regulatory Authority has issued for public comment a draft rulebook on Islamic Finance that will govern Islamic finance operations in the Qatar Financial Center.

August 2005

- Capital Intelligence raised Qatar's long-term foreign currency rating to A+ from A-, and its short-term foreign-currency rating to A1 from A2. The sovereign's long-term local currency was assigned a rating of A+ and its short-term local currency a rating of A1.

September 2005

- Effective from 21-09-2005, the Qatar Central Bank raised QCB Rate on short term deposits from 3.75% to 4.00% and on loan from 3.80% to 4.05%. QCB also raised the Repo Rate from 4.40 % to 4.65%.

- Qatar intends to spend US$13.74bn on infrastructure in the next five years. The Qatari government aims to re-develop roads and sewage networks especially in light of Doha's plans to host the Asian Games for 2006.

October 2005

- On October 3, 2005, the Qatar Central Bank raised QCB Rate on loans from 4.05% to 4.20%. QCB also raised the Repo Rate from 4.65 % to 4.85%. However, interest rates on time deposits remain unchanged at 4.00%. (Source: The Qatar Central Bank)

November 2005

- On November 7,2005, the Qatar Central Bank raised QCB Rate on deposits from 4% to 4.15% and on loans from 4.20% to 4.25%. However, it kept the Repo Rate unchanged at 4.85%. (Source: The Qatar Central Bank)

- The Qatar Central Bank (QCB) is gearing up to implement policies to help curb the rising cost of living and expects inflation rate to peak at a new high by the year-end. Inflation is likely to peak at 6% by the end of this year, says the QCB, stressing that it would try to bring the level down to 2% over the next couple of years. Economic growth is expected to hit 20% by year-end, expressed the governor of the QCB. The governor also hinted at raising the current limit of 25% of listed shares at DSM being available to foreigners for trading, in phases. (Source: The Peninsula)

- The Market Committee of DSM has issued a resolution on November 23, 2005 that terminates the licenses granted to the authorized brokerage banks to practice brokerage business in the DSM. (Source: Doha Securities Market)

3. Macroeconomic Profile

Another year of phenomenal economic growth and to further bolster this growth rate there has been a spate of policy announcements to maintain the growth saga. This has transformed Qatar into one of the most prosperous countries in the world, with the average GDP per capita approaching US$38,241 in 2004. The fast pace of economic growth is set to continue over the medium term, with gas exports planned to quadruple during the next 6 to 8 years.

Political reforms are also in progress to support the country's impressive economic performance. In June 2004, Qatar's first permanent constitution was signed into a law following its overwhelming endorsement in a national referendum in April 2003. The constitution will, among other things, create a partially elected parliament, elections for which were to take place in the first half of 2006 are now likely to take place in early 2007 at the latest, delayed by ongoing problems with the voter list. As a part of gradual process of liberalization and reform, the state of Qatar has also reviewed its labour law and made necessary amendments.

In the recent past the country has taken several steps to attract foreign investors. Towards this end it has set up an international financial center, Qatar Financial Center (QFC). It is aimed to attract international financial institutions and multi-national corporates to set up their offices in the Qatar Financial Centre and to forge closer partnerships with international business houses. The centre will be a totally independent body, managed by QFC Authority. The QFC Authority is the commercial and administrative body responsible for driving the commercial strategy and for developing relationships with the international corporate community and other key institutions both within and outside Qatar. The fully independent QFC Regulatory Authority will oversee business conduct and grant licences to operate in the centre. Both bodies will report to the Council of Ministers. Among the incentives are, all companies setting up their offices at the centre would be entitled to three-year tax holidays, full repatriation of profits and 100% foreign ownership. At the end of three years they will be liable to a relatively low tax rate on profits. The centre has started functioning from May 1st, 2005.

In a milestone move to attract greater international interest in Qatar, the government has issued a decree, in June 2004, that allows non-Qataris to own real estate properties in select housing projects. The law allows Qataris and non-Qataris to buy and own real estate of any description in any of the three projects proposed - Pearl Island, West Bay Lagoon and Al Khor Resort. Non-Qatari buyers could own real estate at the above three locations for 99 years, and that would be extendable for another 99 years. Meanwhile, Qatar has started issuing permanent residence visas to foreigners who buy freehold property in select housing projects. The visa remains valid as long as the foreigner keeps the property in his name. The move is aimed at projecting the country as an open and cosmopolitan society and to compete with similar legislation already in effect in Dubai.

The opening of the bourse to foreigners is also one of the bold steps which shows proactive policy initiatives of the Qatari government. Under the new rules, implemented in April 2005, non-Qataris can own and trade up to 25% of shares of listed companies. In anticipation of this development the market started moving up significantly since the beginning of the year 2005, though the actual law came into effect from April onwards.

Due to its proactive economic policies and investment friendly climate, Qatar appeared at the seventh position in the Inward FDI Potential Index of top 25 economies, in World Investment Report 2005 released by UNCTAD in September 2005.

On the trade treaties front, in June 2005, Qatar and Singapore concluded their final round of negotiations on free trade between the two countries and said they were now ready to sign a formal agreement for the Qatar-Singapore Free Trade Agreement (QSFTA). It is the first FTA that Singapore has with a GCC country. Under the accord, both Singapore and Qatar will eliminate all duties on products entering each other's country. The agreement covers all areas of trade in goods and services, including financial services, e-commerce, investment, government procurement, customs and media co-operation. Bilateral trade between Singapore and Qatar amounts to US$3.6bn, with most of Singapore's investments in Qatar being in real estate, environmental services and oil and gas infrastructure. Under the accord, Qatar has agreed to act as an intermediary for Singapore companies that hope to break into the Middle East market. "Qatar can become an economic outlet for Singaporean companies to distribute their products in the Gulf area and the Arab world and the Middle East," said the Qatari emir. Qatar is also negotiating bilateral free-trade agreements with the US, Japan and Australia. In March 2004, the United States and Qatar signed a Trade and Investment Framework Agreement (TIFA). The agreement is a step closer to the eventual signing of a FTA between the two countries. The TIFA will help facilitate the free flow of goods, services and investment between the two countries. It is the ninth TIFA the US has signed with a Middle Eastern economy.

As surging gas sales allied with a sharp increase in oil prices helped catapult Qatar's economy to its highest ever level. Its rate of growth in the last few years was far ahead of any other Middle Eastern economy. Qatar's economy maintained its growth momentum in 2004. Qatar has been enjoying growing trade surplus for the last several years with the main revenues for country occurring from the exports of oil and gas. Qatar's annual budget for the year 2004-05 also recorded a surplus for the fifth successive year to become the only country in the region to bask under budget surpluses for an extended period of time. Qatar's GDP leaped to QR103.56bn (US$28.45bn) in 2004 from QR86.27bn (US$23.7bn) in 2003, a staggering increase of 20%. The sharp growth in its GDP in 2004 boosted its GDP per capita to a record level of US$38,241, the largest in the Middle East. With this, Qatar now ranks as one of the world's wealthiest countries, trailing only Luxembourg and Norway. Despite an increase in actual expenditure, the budget (2004-05) recorded a surplus of QR8.6bn (US$2.36bn). There has also been a sharp surge in oil and gas exports, which enabled Qatar to record another year of large balance of payment surplus of around QR14.3bn (US$3.93bn) in 2004. The current account balance also recorded a large surplus of nearly QR27.5bn (US$7.6bn). The surplus in trade of goods and services shot to one of its highest levels of around QR48.3bn (US$13.3bn) in 2004.

Recently, Moody's Investors Service has upgraded the country ceilings for long-term foreign currency bonds and bank deposits of Qatar to A1 from A3. Moody's also raised the short-term foreign currency country ceilings to Prime-1 from Prime-2. The government's long-term foreign currency bond rating and long-term local currency issuer rating were also raised to A1 from A3. Moody's said that the outlook on Qatar's ratings remains stable. The rating action acknowledges Qatar's continuing rapid economic expansion, improving debt ratios and ongoing political reforms. In addition, Moody's notes that the financial assets of the public and private sectors have continued to grow, with both estimated to be significant net creditors.

Among the other major moves, Qatar has started providing visa on arrival. At present it is available to the nationalities of about 34 countries which it plans to increase to about 60. The extension of the facility would make Qatar a favorite tourist destination in the region by encouraging more tourists. The authorities are trying to diversify the energy-driven economy and the tourism sector represents an important alternative source of income.

To further boost the growth, the government is acting proactively on economic and financial policies. The government's reforms process for privatization is also likely to pay dividends. Apart from the oil & gas sector, activities are flourishing in almost every sector of the economy, which will further trickle growth in the economy. Exponential economic growth, buoyant crude oil prices, excess liquidity, opening of the market for foreign investors and growing corporate earnings were the major factors which staged a dramatic bull run at DSM during the year 2004 which continued its forward march in the current year so far. In 2004, Qatari stock market continued its northward ride and reached an all time high. The Global DSM Index posted a yearly gain of 47.7% in 2004 and ended the year at 425.02. In the first ten months of 2005 (Jan-Oct) the Global DSM general index registered a significant gain as it went up by a whopping 109% to reach 889.6 points at the end of October 2005. This growth rate in DSM was largely backed by strong macro economic fundamentals and sound financial performance of the corporate sectors in particular.

4.1 Gross Domestic Product (GDP)

Qatar has achieved another year of record GDP growth of 20% for then year 2004

Qatar has achieved another year of record performance by registering a stupendous growth of 20% in its GDP for the year 2004. GDP reached to QR103.56bn (US$28.45bn) in 2004 up from QR86.27bn (US$23.7bn) in 2003. Between 2000 and 2004, Qatar's nominal GDP is estimated to have grown at a CAGR of 12.5%. The sharp growth in its GDP boosted its GDP per capita to a record level of $38,241, the highest in the Middle East. With this Qatar now ranks as one of the world's wealthiest countries, trailing only Luxembourg and Norway. The latest GDP estimates of the Planning Council for the year 2004 also included revised GDP data for the year 2002 and 2003. Apart from the strong crude oil prices, the major factors behind this rapid GDP growth were increased exports of oil, LNG, petrochemicals and related industries.

Table 01: Gross Domestic Product

		2002	2003	2004	2Q2005
GDP at Current Prices (Nominal)	QR mn	71,733	86,273	103,563	30,908
GDP at Current Prices (Nominal)	US$ mn	19,707	23,701	28,451	8,491
Nominal GDP Growth	%	11.1	20.3	20.0	6.8
Real GDP Growth	%	7.3	3.3	8.7	NA
Production of Crude Oil	mn bpd	0.65	0.74	0.78	0.79
OPEC Crude Oil Basket Price	US$/b	24.36	28.10	36.05	46.71

Source: Qatar Central Bank, EIU, Planning Council, **Global Research*

Planning Council's estimates indicate that the nominal GDP grew by more than 20% in 2004 to reach QR103.56bn maintaining the previous year's growth rate. Strong prices of crude oil and increased production during 2004 had led to the oil & gas sector maintaining a record of double digit growth rate in 2004 also. However, the growth rate of oil & gas sector was lower in 2004 at 23% as compared to 28% in 2003. At the same time the non-oil & gas sector grew at a higher rate of 15% in 2004 as compared to the growth rate of 10% in 2003.

Table 02: GDP by Economic Activity

(in QR mn)	2002	% of GDP	2003	% of GDP	2004*	% of GDP	CAGR %
Oil & Gas Sector	**40,717**	**56.8**	**52,130**	**60.4**	**64,365**	**62.2**	**25.7**
Agriculture & Fishing	181	0.3	201	0.2	202	0.2	**5.6**
Manufacturing	5,075	7.1	4,927	5.7	6,512	6.3	**13.3**
Electricity & Water	966	1.3	1797	2.1	2,324	2.2	**55.1**
Building, Construction & Real Estate	5,982	8.3	7,086	8.2	8,045	7.8	**16.0**
Trade, Restaurants and Hotels	3,882	5.4	4,346	5.0	5,165	5.0	**15.3**
Transport & Communications	2,489	3.5	2,911	3.4	3,422	3.3	**17.3**
Finance, Insurance & Business Services	3,334	4.6	3,885	4.5	4,279	4.1	**13.3**
Services	9,107	12.7	8,990	10.4	9,249	8.9	**0.8**
Total Non Oil & Gas GDP	**31,016**	**43.2**	**34,143**	**39.6**	**39,198**	**37.8**	**12.4**
Total GDP	**71,733**		**86,273**		**103,563**		**20.2**
% change	**11.1**		**20.3**		**20.0**		

** Preliminary estimates by the Planning Council*

*Source: Qatar Central Bank, Planning Council and **Global** Research*

During 2002-2004, the oil & gas sector CAGR was 25.7%, while non-oil & gas sector grew at a lower CAGR of 12.4%.

Analysis of GDP by economic activity reveals that contribution of the oil and gas sector improved from 60.4% in 2003 to 62.2% in 2004. The contribution of non-oil & gas sector to the GDP declined in 2004 to 37.8% from 39.6% in 2003. Apart from the oil & gas sector only manufacturing and electricity & water sectors had witnessed growth in their share as a % of the total GDP in 2004. The contribution of manufacturing sector increased to 6.3% in 2004 from 5.7% in 2003 while contribution from electricity & water sector increased marginally from 2.1% in 2003 to 2.2% in 2004. Among the non-oil & gas sectors, the major contributor to the GDP in 2004 were services sector at 8.9%, which was followed by real estate, building & construction sector at 7.8%, trade, restaurant & hotels segment accounted for 5% of GDP, while finance, insurance & business services accounted for about 4.1% and transport & communications sector accounted for 3.3% of the GDP.

During 2002-2004, the oil & gas sector achieved a CAGR of 25.7%, while non-oil & gas sector grew at a lower CAGR of 12.4%. Among the non-oil & gas sectors, the growth rate of electricity & water sector was the highest at 55.1% during 2002-04. Transport & communications sector grew by 17.3% which was followed by building, construction & real estate and trade, restaurants & hotels at 16% and 15.3% respectively. While manufacturing and finance, insurance & business services sectors achieved the similar CAGR of 13.3% during the period.

Among the non-oil & gas sectors, except agriculture & fishing and services sectors, all the sectors had registered double digit growth rates in 2004. The highest growth was achieved by manufacturing sector at 32.2% which was negative in 2003 at 2.9%. The sector is witnessing increased activity mainly due to demand escalation in some of the manufactured goods such as steel, cement, etc. The other major reason could be the support from the government to diversify its revenue sources. In 2004, the second highest growth rate was of electricity & water sector at 29.3% which was lower than 86% in 2003, however it was on lower base. Real estate, building & construction sector's growth rate declined to 13.5% from 18.5% in 2003. Despite the decline in growth rate activities are buzzing in this sector mainly because of the budgetary surplus in the last four years and increased allocation towards public expenditure.

Trade, restaurants & hotels also witnessed increase in growth rate to 18.8% in 2004 from 11.9% in 2003, which was largely backed by the increase in outside visitors to Qatar. The hotel sector had witnessed tremendous growth and occupancy was at its peak in 2004. The activities in the sector will further increase in the coming years, as business, sports and tourism events are gathering pace in Qatar. The growth rate registered by the transport & communications sector was 17.6% in 2004. Finance, insurance & business services sector grew at a lower rate of 10.1% in 2004 compared to 16.5% in 2003. Services sector has returned to the positive growth rate of 2.9% as compared to the negative growth of 1.3% in 2003. The services sector comprise of government services, imputed bank service charges, household services, import tariffs, etc.

Table 03: GDP by Type of Expenditure (Current Prices)

(in QR mn)	**1999**	**2000**	**2001**	**2002**	**2003***
Government Final Consumption	11,573	12,715	12,766	12,952	13,405
Private Final Consumption	9,525	9,843	10,030	12,651	13,094
Gross Fixed Capital Formation	8,273	12,584	14,558	21,940	22,707
Increase in Stocks	245	443	500	618	640
Net Exports	15,495	29,061	26,725	23,572	24,505
Exports	27,085	43,496	42,034	42,698	44,192
Imports	(11,590)	(14,435)	(15,309)	(19,126)	(19,687)
Grand Total	**45,111**	**64,646**	**64,579**	**71,733**	**74,351**
Domestic Demand	29,371	35,142	37,354	47,543	49,206

* *Preliminary estimates*

Source: The Planning Council

The data on GDP by expenditure for the year 2004 is not yet available. During 2003, private and government consumption and also gross fixed capital formation have increased at the similar rate of 3.5%. The comparative analysis with previous year shows, the growth in domestic demand was lower in 2003 as compared to 27.3% in 2002. Private consumption also grew at a lower rate of 3.5% in 2003 as compared to 26.1% in 2002. Gross fixed capital formation, which is mainly the capital spending by the government and forms a large part of the domestic demand, grew at a lower pace of 3.5% in 2003 as against the growth of 50.7% in 2002. This is the major reason for a marginal growth in domestic demand. Even though the breakdown of the GDP by expenditure is not available for the year 2004, we believe that the investment spending has maintained its growth rate and both the government as well as private consumption have seen some increase.

The current buoyant crude prices and higher oil production should further boost the economic growth of Qatar. Apart from that, the government's efforts to diversify the revenue base are likely to bring fruits in the coming years as almost all the sectors in the economy are buzzing with activities. This is mainly backed by the increased infrastructure spending by the government and increasing participation of the private sector entrepreneurs. The government has set a nominal GDP target of US$69bn by 2011 which is more than twice of what it achieved for the year 2004, and implies an annual GDP growth of 13.5% till 2011.

4.2 Public Finance

The hydrocarbon sector accounts for the principal source of the government revenues. Apart from that the government also derives revenues from investments, in the form of dividends from banks and companies. Other sources of revenues are customs duties, taxes and charges. The major components of government expenditures are salaries & wages of the public sector, interest payments on borrowed funds and other current and capital expenditures.

2003-04

Increased expenditure led to decline in surplus for the year

The non-oil revenue increased marginally by 5.8% to QR10.96bn

As per the Qatar Central Bank (QCB) the state recoded a surplus of QR3.7bn for the year 2003-04 as against QR5.7bn achieved in 2002-03 which saws a decline of 35%. During 2003-04, the total revenues of the state have grown by 7.7% to QR30.7bn from QR28.5bn in 2002-03. The share of oil revenue was at 64.3% and the share of non-oil revenue was at 35.7% as compared to 63.7% and 36.3%, respectively in 2002-03. The government's total expenditure has grown at a faster rate of 18.5% to QR27bn. The positive aspect of the fiscal spending in the last couple of years has been the increase in the capital expenditure, which would lead to improved economic activity in the future. The government's developmental expenditure grew significantly by 17.7% in 2003-04 to QR5.24bn. The expenditure on salaries & wages have increased at the rate of about 5% same as in 2002-03 and interest cost declined by about 19% to QR1.9bn. Other current expenditure grew by a whopping 36% to QR11.6bn in 2003-04 as against QR8.5bn expended in 2002-03. Despite an increase in expenditure reported surplus was to the tune of QR3.7bn.

Table 04: Summary of Government Finance

(in QR mn)	2002-03 (Actual)	2003-04 (Actual)	2004-05* (Actual)	2004-05 (Budget)	2005-06 (Budget)
Total Revenue	**28,514**	**30,719**	**49,550**	**26,192**	**38,028**
Oil & Gas	18,159	19,759	30,932	N A	N A
Non Oil & Gas	10,355	10,960	18,618	N A	N A
Total Expenditure	**22,800**	**27,016**	**35,256**	**28,352**	**37,810**
Current expenditure	18,345	21,771	27,516	19,469	26,081
Capital expenditure	4,455	5,245	7,740	8,883	11,729
Surplus/ (Deficit)	**5,714**	**3,703**	**14,294**	**(2,160)**	**217**

**Preliminary Data, N A – Not Available*

Source: Ministry of Finance and Qatar Central Bank

2004-05

Surplus for the year grew significantly by almost four times to QR14.3bn

As per the preliminary data released by the QCB for the year 2004-05 the state had recorded a positive balance for the fifth successive year. The provisional figures by the QCB shows an estimated surplus for the year 2004-05 despite an increase in spending to meet growing domestic needs. The revenues have grown to QR49.6bn in 2004-05 from QR30.7bn estimated for 2003-04, an increase of a robust 61.3%. The total expenditure grew by 30.5% to QR35.3bn in 2004-05. As the percentage increase in expenditure was lower than percentage increase in revenue, the recorded surplus of QR14.3bn was almost four times higher than the surplus of QR3.7bn achieved in the preceding fiscal. This large surplus could be mostly attributed to the surge in oil and gas exports and also due to higher oil prices. In 2004-05, Qatari crude oil averaged around $38.48 per barrel, which was more than double of the country's conservative oil-export price of only US$19 per barrel considered for its budget 2004-05.

2005-06

Qatar's budget for the fiscal year 2005-06 is ambitious in nature. This is true of both expenditure and revenue. The government also expects to register a marginal surplus. The revenue for the financial year 2005-06 is estimated at QR38.03bn, while expenditures are estimated at QR37.8bn and thereby projecting a marginal surplus of QR218mn. Qatar has earmarked a whopping QR11.73bn for public projects for the fiscal year 2005-06. The figure was QR8.88bn in 2004-05 budget. The allocation made for public ventures in the budgetary estimates for 2005-06 is QR2.85bn, or 32 per cent, more than that in the previous budget. Infrastructure projects have this year grabbed a lion's share of the allocations or a hefty QR9.98bn as against QR7.75bn in the last budget. Land reclamation has been added to the long list of infrastructure projects that include roads, sewage and sanitation and communications. Key projects that are planned to be funded include an industrial area for small and medium industries and 2,270 housing units for people in limited income brackets. Education accounts for second largest share in the budgetary allocations, at 13 per cent of the total, or QR4.863bn. Healthcare ranks next, with a 10 per cent share, or QR3.821bn, in the total earmarking.

In comparison to 2004-05, the budget for the fiscal year 2005-06 estimated that the revenue to grow by 45% while expenditures have been estimated to grow by 33%. The budget estimated to achieve a surplus of QR217mn as compared to a deficit of QR2.16bn budgeted for the year 2004-05.

The state's treasury generates income primarily from the exports of crude oil and liquefied natural gas (LNG). Qatar is increasingly becoming a primary supplier of LNG in the world. Actual revenue could end up being considerably higher, as officials assumed conservative figures for both oil price and production. The authorities calculated the budget on the basis of a US$27 per barrel. Still, this is significantly higher than fiscal year 2004-05 when the government assumed oil price of US$19 per barrel. If the trend so far in 2005 is any guide, the average oil price would end up considerably higher than the assumed figure for the current fiscal year. Therefore, with favorable economic conditions in the country, strong oil prices, an augmented gas production and export capacity, it is very likely that the 2005-06 budgetary surplus will be higher than what authorities have projected.

4.3 Current Account

In 2004, the merchandise trade surplus registered a staggering growth of 47%

Qatar enjoyed growing trade surplus for the last several years with the main revenues for the country coming from exports of oil and gas. Buoyant oil prices throughout last year resulted in the exports (estimated) of the country increase by a robust 39.6% in 2004 to QR68bn, which was about 65.7% of the country's GDP for the year. Import bill of the country increased by 24.1% in 2004 to QR19.7bn, leaving the merchandise trade surplus at QR48.3bn, which registered a staggering growth of 47% over the preceding year. The increase in the exports could be attributed to strong crude oil prices and also to the increased volume of petroleum and related products.

The exports data for the year 2004 suggests that the chief export items, oil, gas & related products, accounted for around 83.7% of the total exports which was around 81.9% of the total exports in 2003. The top export trade partners for Qatar in 2004 were Japan, South Korea, Singapore, India, and Spain. Japan alone accounted for around 41% of the total export revenues of the country.

The main import items of Qatar consist largely of vehicles, aircrafts and other forms of mechanized transport, machinery, tools, electrical equipments, spare parts and electrical appliances. Over the last five years, Qatar's imports have witnessed significant jump which increased from QR10.7bn in 2000 to QR19.7bn in 2004, a CAGR of 17%. The increase was mainly due to the rapid industrial and infrastructure expansion in the State. In 2004, France displaced USA and emerged as the top exporter to Qatar, alone accounting for 27% of the total imports. This was mainly because of the purchase of a number of Airbus aircraft for Qatar Airways. The top import trade partners for Qatar included France, USA, Saudi Arabia, UAE and Germany.

Table 05: Exports – Main Items

(In QR mn)	**2000**	**2001**	**2002**	**2003**	**2004**
1. Oil, Gas & related items	38,814	36,020	36,083	44,335	58,935
a) Petroleum & Related Products	24,754	21,099	22,482	27,384	35,417
b) Gas	14,060	14,921	13,601	16,951	23,518
2. Chemical & related items	1,700	1,675	1,800	2,253	6,444
3. Iron & Steel	457	688	842	996	1,363
4. Cement	25	19	-	-	-
5. Apparel & Clothing Accessories	513	496	388	311	141
6. Others	76	70	94	127	280
7. Re-Exports	617	603	753	690	850
Total Exports	**42,202**	**39,571**	**39,960**	**48,712**	**68,013**

Source: The Planning Council

The balance of payments surplus stood at QR14.3bn in 2004, registering a fall of 7.2% over 2003

Among the other components of current account, the year 2004 witnessed an increase of 2% in its net outflow on account of services at QR4.47bn and income outflow witnessed dramatic rise at QR8.2bn from QR1.5bn in 2003. Outflow on account of transfers also witnessed significant jump of 36.6% to QR8.2bn from QR6n in 2003 because of the increased remittances by the expatriate workers. In 2004, after taking into consideration all these outflows, the current account surplus saw a growth of 31.2% to QR27.5bn as compared to QR20.9bn in 2003. Capital & financial accounts deficit witnessed significant growth of about 138% to QR13.2bn in 2004 from QR5.5bn in 2003. This resulted in a decline of 7.2% in its balance of payments surplus which stood at QR14.3bn in 2004.

We, at Global, expect that Qatar would continue to record strong trade surplus in 2005 and also in 2006 as volumes of LNG and oil export are likely to increase due to the expected increase in production. Export revenue is likely to get affected as oil prices are likely to soften in the coming years, after remaining in high terrain in the last few years. However, increasing volumes of LNG and oil will partially offset the effect of softening oil prices.

Table 06: Balance of Payments

(In QR mn)	**2000**	**2001**	**2002**	**2003**	**2004***
Current Account	16,655	15,113	13,919	20,943	27,488
Balance of Trade	31,538	27,247	26,673	32,846	48,321
Exports (FOB)	42,202	39,571	39,960	48,711	68,012
Imports (FOB)	(10,664)	(12,324)	(13,287)	(15,865)	(19,691)
Services (Net)	(4,646)	(3,743)	(3,966)	(4,380)	(4,468)
Income	(5,094)	(2,562)	(3,266)	(1,516)	(8,160)
Transfers	(5,143)	(5,829)	(5,522)	(6,007)	(8,205)
Capital & Financial Accounts	(6,858)	(5,558)	(7,408)	(5,544)	(13,194)
Overall Balance	**9,797**	**9,555**	**6,511**	**15,399**	**14,294**
Trade Balance as a % of GDP	*49%*	*42%*	*37%*	*38%*	*47%*
Current Account Balance as a % of GDP	*26%*	*23%*	*19%*	*24%*	*27%*

*Preliminary estimates

Source : Qatar Central Bank

4.5 Monetary Policy

The Qatar Central Bank's (QCB) monetary policy will remain focused on maintaining long term peg between the Qatari Riyal and the US Dollar at QR3.64:US$1. Keeping in line with this, the QCB will continue to adjust its discount rate in line with the US Federal Reserve rates. Therefore, the QCB has been regularly adjusting its rates depending on the moves by the Fed Reserve. Recently, in November 2005, the QCB raised its interest rates. QCB Rate on loans increased from 4.20% to 4.25% and on deposits from 4% to 4.15%. However, it kept the Repo Rate unchanged at 4.85%. Going forward, further increases in the US Fed rates are likely and therefore the rates in Qatar are likely to go up. The growing inflation rate in Qatar is also supporting this argument and is likely to go up further. It is also likely that the QCB may tap the bond market to bring down excess liquidity from the system and thereby keep a check on any significant increase in the rate of inflation.

As a regulatory authority the QCB controls the money supply in the system and regularly makes amendments to economic tools, guidelines, etc. Towards this end, in April 2004 it has reduced the credit-to-deposits ratio applied to commercial banks from 95% to 85%. It has also reduced overdraft-to-credit ratio from 50% to 40%.

Liquidity and Money Supply

In 2004, M1 (narrow money supply) grew by 29% to QR14.6bn which was backed by 21% growth in currency in circulation to QR2.6bn and 31% growth registered in demand deposits to QR12bn. The strong growth in M1 also reveals that the level of consumption has picked-up in the last few years. Over the five year period, 2000-2004, M1 has grown at a faster CAGR of 31% while M2 (broad money supply) has grown at a CAGR of 12%.

In 2004, M2 grew at a modest rate of 20% as compared to the growth rate of 29% in M1

At the end of 2004, M2 was at QR44.9bn, recorded a yearly growth of 20%. In the broad money supply time deposits registered a growth of 15% to QR20.6bn from QR17.9bn in 2003. The reason behind the lower growth rate in time deposits as compared to demand deposits can be attributed to the preference of Qataris to invest their funds in liquid assets. Deposits in foreign currencies grew by 21% in 2004 to QR9.6bn. The Quasi money grew to QR30.3bn in 2004 from QR25.9bn in 2003, registering a growth of 17%.

During the first nine months of 2005, M1 witnessed significant jump of 28.5% over 2004 year end level to reach QR18.8bn. This growth was chiefly backed by an increase of 32% in demand deposits which stood at QR15.8bn. M2 grew by 27% in 9 months of 2005 over 2004 year end level and stood at QR56.97bn.

The reasons behind the increased liquidity in 2004 and also in 9 months of 2005 were the growing credit facilities to various large scale projects and high oil and gas prices.

Table 07: Money Supply

(in QR mn)	2000	2001	2002	2003	2004	Sep-05
Currency in Circulation (1)	1,673.1	1,740.5	1,921.3	2,147.5	2,594.0	2,906.4
Demand Deposits (2)	2,775.7	3,478.5	4,367.7	9,130.2	12,004.4	15,847.3
Money Supply (M1) (3)=(1) + (2)	4,448.8	5,219.0	6,289.0	11,277.7	14,598.4	18,753.7
Time Deposits (4)	17,898.3	18,389.8	19,002.1	17,958.0	20,620.9	24,328.2
Deposit in Foreign Currencies (5)	6,408.9	5,145.6	6,855.9	7,987.3	9,645.7	13,891.2
Quasi Money (6)=(4) + (5)	24,307.2	23,535.4	25,858.0	25,945.3	30,266.6	38,219.4
Money Supply (M2) (7)=(3)+(6)	28,756.0	28,754.4	32,147.0	37,233.0	44,865.0	56,973.1

Source : Qatar Central Bank

During the year 2004, the government raised funds through the issue of domestic bonds. As can be seen from the table below, during the year 2004 there were two bond issues, Fifth and Sixth series of the size of QR1bn and QR2bn respectively. In all the government raised QR3bn through this issues. Both the bonds have five years of maturity period. It seems that these bond issues were mainly aimed at replenishing the earlier bond issues which matured in the year 2004. The total size of the bonds matured in the year 2004 were also QR3bn. By this replenishment mechanism the government is keeping its borrowing level at QR5bn.

In the second quarter of 2005, the government raised QR2bn through five year bonds. This would be to replace the fourth issue, of the same size, matured in June 2005. With this issue the outstanding balance of the government borrowings through domestic bond issues will remain at QR5bn.

Table 08: Domestic Government Bonds

Issuances	Value (QR mn)	Outstanding Balance (QR mn)	Date of Issue	Maturity Date	Interest Rate (%)
First Issue	2,000	-	30/06/1999	30/06/2002	7.75
Second Issue	1,000	-	20/12/1999	29/12/2004	8
Third Issue	2,000	-	26/12/1999	26/12/2004	5-7*
Fourth Issue	2,000	-	30/06/2002	30/06/2005	5-7*
Fifth Issue	1,000	1,000	20/12/2004	20/12/2009	5
Sixth Issue	2,000	2,000	26/12/2004	26/12/2004	5
Seventh Issue	2,000	2,000	30/06/2005	30/06/2010	5.5-7**
Total	**12,000**	**5,000**			

** Interest rates were the QCB rate plus 2% with min. of 5% and max. of 7%*

*** Interest rates will be the QCB rate plus 1% with min. of 5.5% and max. of 7%*

Source: Qatar Central Bank

4.6 Inflation

The country is witnessing unprecedented trend of high inflation

The year 2004 was an exceptional year in terms of growth in consumer prices in Qatar. The Consumer Price Index (CPI) rose steeply to 6.8% in 2004 as compared to 2.26% in the year 2003. This is despite the existence of subsidies and price controls which restrict the rise in consumer prices to some extent. It also seems that consumer spending has gone up in Qatar mainly due to the increased liquidity. This has been further intensified by the weakness of the US dollar in 2004, putting upward pressure on prices of imported goods and commodities.

The steep rise has been witnessed in the case of the price index for rent, fuel & energy which shot up by 16%, from 120.07 in 2003 to 139.55 at the end of 2004. This segment is mainly driven by the high property rents, as fuel & energy prices more or less remain stable in the country. The main cause behind the increasing rents in Qatar is growing demand for housing, especially from expatriates. Increase in consumer spending has resulted in prices of clothing and footwear rising significantly as the price index of this segment has witnessed a jump of 8.09% in 2004. Some of the other major segments which saw increase in their price indices in 2004 included transport & communication (3.66%), furniture and furnishings segment (3.35%), food, beverages & tobacco (3.33%), education, culture & recreation (2.94%) and Misc. goods & services (4.11%). The only segment which witnessed decline in the prices was medical services (-1.42%).

During 2005 also the CPI has continued its forward march, rising to 117.98 in Q2 ended June 2005, a growth of 8.49% over corresponding period of the previous year. The major contributor to this is the soaring housing rents.
The major reasons behind the high inflation are:

- Increased liquidity drives the consumption and thereby increase in prices.

- Continuous rally of Euro against US Dollar made imports costlier as the European Union (EU) countries are the major origins of import for Qatar. In 2004, the top import trade partner of the country was France accounting for 27% of the total imports.

- Over the last few years, Qatari Riyal (QR) had fallen substantially against Euro, 10% in 2004 and 20% in 2003. Till June 2005, the avg. exchange value of QR to Euro displayed further fall of 6% over 2004 year end level.

- A strong euro has led Qatar to pay more for its huge imports from EU countries.

Going forward, we expect that factors such as shortage of housing which is likely to persist in Qatar, growing domestic demand due to strong consumption and dearer imports to some extent will keep the rate of inflation rising in 2005. It is likely to slowdown in 2006 as the US dollar may stabilize to some extent and will cause the local-currency prices of imported goods to cool down. The country is witnessing unprecedented trend of high inflation

Table 09: Consumer Price Index (2001=100)

End of Period	2002	Y-o-Y Change (%)	2003	Y-o-Y Change (%)	2004	Y-o-Y Change (%)	Q2 2005	Chg. over Q2 2004 (%)
Food, Beverages & Tobacco	101.21	1.21%	100.86	-0.35%	104.22	3.33%	105.46	2.24%
Clothing & Footwear	98.30	-1.70%	96.77	-1.56%	104.60	8.09%	98.45	-5.74%
Rent, Fuel & Energy	101.75	1.75%	120.07	18.00%	139.55	16.22%	179.25	29.60%
Furniture & Furnishing	97.13	-2.87%	98.61	1.52%	101.91	3.35%	104.18	1.08%
Medical Services	97.81	-2.19%	100.36	2.61%	98.93	-1.42%	102.25	3.66%
Transport & Communication	101.06	1.06%	92.59	-8.38%	95.98	3.66%	96.12	0.80%
Education, Culture & Recreation	95.90	-4.10%	99.35	3.60%	102.27	2.94%	102.99	1.35%
Miscellaneous Goods & Services	105.24	5.24%	105.98	0.70%	110.34	4.11%	112.47	4.16%
General Index	**100.24**	**0.24%**	**102.51**	**2.26%**	**109.48**	**6.80%**	**117.98**	**8.49%**

Source : Qatar Central Bank

4.7 Population and Labour Force

As per estimates of planning council the population of Qatar to reach 1million by the year 2017

In 2004, the state's Planning Council announced the final results of the new population census. The new census report puts the total population figure for Qatar at 744,029 which was an increase of 42.5% over the 1997 census figure of 522,023. This shows a CAGR of about 5.2% over 1997-2004, as compared to the annual average increase of 3.7% during 1986-1997. The rapid increase in population over the last few years is attributed to the strong economic growth causing a multiplier effect on other segments of the economy, resulted in channeling increased funds for investment and the implementation of several large-scale projects. All these resulted in increased labour demand in the economy, thereby, leading to the influx of professionals, services and contracting sector staff and others.

As per the 2004 census, about 66.7% of the population was represented by males and the rest 33.3% was represented by females. This ratio has been changed in favor of male population as according to 1997 census 65.6% of the population was accounted for by males and the rest 34.4% by females. This is mainly due to the influx of expatriates, largely represented by males. Over 1997-2004, the male population grew at a faster CAGR of 5.4% as compared to the female population which rose at CAGR of 4.7%. We expect that this ratio will further tilt in favor of male population because of increasing labour demand in the country.

Table 10: Population by Gender

	Males	Females	Total
1997 Census	342,459	179,564	522,023
% of total	*65.6%*	*34.4%*	
2004 Census	496,382	247,647	744,029
% of total	*66.7%*	*33.3%*	
CAGR	5.4%	4.7%	5.2%

*Source : The Planning Council and **Global** Research*

The age group classification also shows the gender anomalies. All the age groups shown in the table below shows a higher percentage of males as compared to females. The age group of 15-59 shows a considerably high ratio of males as compared to females. In this age group male population accounted for 71.8% of the total population of this age group. This age group largely represents the working class population. The anomalies in the age group of 15-59 also shows the growing number of expatriate population, especially single males.

Table 11: Population by broad Age Groups

	1997	2004
Below 15 years	**137,705**	**167,618**
Male	70,696	85,166
Female	67,009	82,452
15-59	**370,657**	**565,009**
Male	262,656	405,542
Female	108,001	159,467
60 & above	**12,654**	**11,402**
Male	8,444	5,674
Female	4,210	5,728
Not Stated	**1,007**	**-**
Male	663	-
Female	344	-
Total	**522,023**	**744,029**

Source : The Planning Council

While the planning council estimates the population of Qatar to reach 1million by the year 2017, we believe the if the economic activity in Qatar maintains the same pace, the figure of 1million population would be achieved much earlier. The data from the planning council shows that the increase in the population has been more widespread with the population residing in Doha declining to 45.7% in 2004 from 50.6% in 1997 and 58.9% as per the 1986 census. This might be due to Doha catching up fast as a commercial and business hub where rents have also increased significantly in the past few years, causing a shift in population to other less expensive areas. Al-Rayyan, for example, has witnessed a significant growth in the residing population as it accounted for 36.7% of total population which increased from 32.5% in 1997. Smaller areas like AL Khor seem to have registered the highest increase of 77% in its population, Umm Slal is at number two position with an increase of 72%.

Table 12: Geographical Distribution of Population

	1997 Census		2004 Census	
Municipality	**Population**	**%**	**Population**	**%**
Doha	264,009	50.6	339,847	45.7
AL Rayyan	169,774	32.5	272,860	36.7
AL Wakra	24,283	4.7	31,441	4.2
Umm Slal	18,392	3.5	31,605	4.2
AL Khor	17,793	3.4	31,547	4.2
Others	27,772	5.3	36,729	4.9
Total	**522,023**	**100%**	**744,029**	**100%**

Source : The Planning Council

According to the census conducted in 2004, the economically active population grew to 437,561 which is about 56% higher than the 1997 census data. This could be mainly because of the influx of expatriate laborers and also because of the growing number of the female labourers. Qataris accounted for about 11.5% of the total economically active population. Almost all the sectors in Qatar have witnessed rapid growth in labour force. The construction sector has the largest concentration of work force accounting for about 26.7% of the total active population. The construction sector is buzzing with activity due to the booming real estate sector. Among the other sectors which witnessed growth in their labor force are wholesale/retail trade and real estate sectors.

Table 13: Economically Active Population by Sector & Nationality

	1997	**2004**	**CAGR (%)**
Agriculture, Hunting and Forestry	9,044	10,200	1.7%
Fishing	1,303	1,825	4.9%
Mining & Quarrying	9,364	17,997	9.8%
Manufacturing	24,143	40,038	7.5%
Electricity, gas & water supply	3,206	4,364	4.5%
Construction	56,106	117,049	11.1%
Wholesale and retail, Repair of Motor Vehicles, Motorcycles and personal and household goods	30,622	54,438	8.6%
Hotels & Restaurants	6,068	10,280	7.8%
Transport, Storage & Communications	9,614	15,218	6.8%
Financial Intermediation	3,094	4,766	6.4%
Real Estate, Renting and Business Activities	4,644	11,858	14.3%
Public Administration	49,873	53,438	1.0%
Education	13,954	19,877	5.2%
Health and Social work	5,434	11,554	11.4%
Other Community, Social and Personal Services	7,663	10,130	4.1%
Domestic Services	45,100	53,358	2.4%
Regional and International Organizations and Bodies	595	1,171	10.2%
Others	295	-	-
Total	**280,122**	**437,561**	**6.6%**

Source : The Planning Council

5. Sectoral Trends and Analysis of Domestic Economy

5.1 Oil and Gas

Oil prices have remained strong throughout 2004 and have climbed 50 percent this year due to strong demand, driven by economic growth and tight production capacity in OPEC and non-OPEC countries. New York crude oil futures surged to a record $70.85 a barrel on August 30, a day after Hurricane Katrina struck Louisiana and Mississippi, flooding the city of New Orleans, destroying several offshore oil rigs, damaging refineries and closing pipelines.

Hurricane Katrina shuttered production capacity of over 1.4mn b/d of oil and 8.8bn cf/d of natural gas and disrupted refineries with a total capacity of around 3mn b/d when it hit the Eastern Gulf of Mexico on August 29. While a definitive assessment is not yet possible, recovery profiles suggest a potential loss of 38mn barrels of products in September and up to 70mn barrels of crude and NGLs through to early 2006. Apart from this, heightening geopolitical tensions also helped in setting a bullish tone. This was despite easing of apparent demand from China and lower expectations for world oil demand growth for the year.

Crude Oil Price Movement

In 2004, London Brent crude prices averaged US$38.23/b, which is US$9.42 higher than the average price of US$28.81/b in 2003. In the first eight months of 2005, oil prices rose steeply and reached their life time high. On August 30, a day after Hurricane Katrina battered US oil facilities on the Gulf coast, New York's main oil contract hit a record-high US$70.85 per barrel, while in London Brent reached an all-time high US$68.89 per barrel – more than double the levels in 2003. However, prices have dropped now to about 16% -17% below their all-time high.

In the first eight months of 2005 oil prices rose steeply and reached their life time high

The OPEC's reference basket averaged at US$33.08 per barrel in 2004 and remained above the price band. This higher oil price level makes the OPEC's price band irrelevant as it had been trading out of the range for over a year. Therefore, as of January 31, 2005, the group decided to temporarily suspend its price band of $22 to $28 a barrel, which was set in March 2000. The OPEC's basket averaged at $50.38/b till Oct. 2005, versus $35.74/b during the same period in 2004. The OPEC reference basket declined by $3.25 or 5.6% over the previous month to average $54.63/b in October.

Among the major reasons for the steep spiraling of the oil prices during 2005 are strong surge in world oil demand, uncertainty regarding the flow of Iraqi exports, Venezuelan political instability, Nigerian labor strikes, standoff between the oil tycoon Yukos and the Russian government, and the damage inflicted on the US Gulf Coast and offshore oil installations following hurricanes further aggravated the market. All these factors contributed to push crude oil and other petroleum prices higher and going forward these factors are likely to keep oil prices buoyant in the short to medium term.

Table 14: Trends in Spot Quotations for Selected Varieties of Crude

US$/b	Sept 2005	Oct 2005	YTD Average	
			2004	2005
Reference Basket	57.88	54.63	35.74	50.38
Brent	62.75	58.75	37.59	54.08
WTI	65.28	62.67	40.49	56.02

Source: OPEC Monthly Oil Market Report, November 2005

Demand

A jump in oil prices in the first ten months of '05, apart from hurricanes, was also attributed to a change in the demand patterns across economies and fears on the lack of spare capacity. However, when looked at on a global basis, one does not see a major acceleration in oil demand to substantiate the extent of price increase in 2005. OPEC's demand estimates for 2005 have been slightly downgraded to 83.3mn b/d from the estimate of 83.6mn b/day at the beginning of the year. It should simultaneously be noted that there have been small downward revisions of demand from major consumers like the US. Prospects of the Euro zone too have been downgraded with the major economies facing a clutch of problems impeding their growth. In addition to these, a few of the emerging economies are expected to bear the burnt of the increased gasoline prices. One could say with reasonable surety that the major spurt of oil prices in the last six months have been the result of sentiments arising out of short term imbalances rather than an absolute lack of spare capacity.

Demand growth decelerates....

The shift from the OECD countries to non-OECD countries as the major growth drivers for the demand of crude as well as products continued in 2005, more so as the growth in the US economy was driven by consumer spending rather than oil intensive activities. As can be seen from the table, OPEC estimates the demand from the OECD countries to remain flat in 2005 vis-à-vis a 2.61% growth for the non-OECD countries. Even for the non-OECD countries, demand growth expectations present a drastic deceleration from that in 2004, something which applies to all without exception, but drastic in the case of China and non-OECD Europe.

Table 15: World Oil Demand

(mn. bpd)	2003	2004	2005E	Volume Increase (%)	Volume Increase (%) in '03	Volume Increase (%) in '04	Volume Increase (%) in '05E	Share (%) in '02	Share (%) in '03	Share (%) in '04	Share (%) in '05 (E)
North America	24.57	25.34	25.58	1.30	1.70	3.13	0.95	30.6	31.1	30.9	30.7
Western Europe	15.33	15.62	15.60	-1.24	1.66	1.89	-0.13	19.1	19.4	19.0	18.7
OECD Pacific	8.78	8.53	8.63	12.40	-8.64	-2.85	1.17	12.2	11.1	10.4	10.4
Total OECD	**48.68**	**49.49**	**49.82**	**3.54**	**-1.40**	**1.66**	**0.67**	**62.4**	**61.6**	**60.3**	**59.8**
Other Asia	7.78	8.36	8.64	2.86	3.18	7.46	3.35	9.5	9.9	10.2	10.4
Latin America	4.67	4.90	4.99	-4.42	2.86	4.93	1.84	5.7	5.9	6.0	6.0
Middle East	5.13	5.44	5.67	1.24	4.91	6.04	4.23	6.2	6.5	6.6	6.8
Africa	2.58	2.70	2.78	4.51	1.18	4.65	2.96	3.2	3.3	3.3	3.3
Total Developing Countries	**20.16**	**21.39**	**22.08**	**0.88**	**3.28**	**6.10**	**3.23**	**24.7**	**25.5**	**26.1**	**26.5**
Former Soviet Union	3.80	3.85	3.85	2.04	-5.24	1.32	0.00	5.1	4.8	4.7	4.6
Other Europe	0.76	0.86	0.88	6.94	-1.30	13.16	2.33	1.0	1.0	1.0	1.1
China	5.56	6.52	6.65	15.35	2.77	17.27	1.99	6.8	7.0	7.9	8.0
Total Other Regions	10.13	11.22	11.38	9.21	-0.69	10.76	1.43	12.9	12.8	13.7	13.7
Total Demand	**78.97**	**82.09**	**83.27**	**3.55**	**-0.14**	**3.95**	**1.44**	**100.0**	**100.0**	**100.0**	**100.0**

Source: OPEC monthly oil market reports

Supply increase matches demand growth....

In exception to the effect of hurricane Katrina on the supply scenario, the overall supply has more or less matched the demand growth in 2005, thanks to concern showed by OPEC on high oil prices and improved scenario in FSU. There has been substantial increase in the production ceilings of OPEC, even after the abrogation of the plan to raise the ceilings by 1mn bpd in the beginning of the year. More importantly, Saudi Arabia, the largest producer of crude oil in the world expressed its willingness to increase production to 11mn bpd from the current levels of 9.5mn bpd. OPEC, which controls 50% of global crude exports, produced 30.1mn bpd of crude in October'05, which is about 1mn bpd more than the production level at the beginning of this year.

Table 16: OPEC's crude oil production

(Mn. bpd)	**2002**	**2003**	**2004**	**Change**	**1Q '05**	**2Q '05**	**3Q '05**	**Oct-'05**
Algeria	0.86	1.13	1.23	0.09	1.31	1.34	1.36	1.37
Indonesia	1.12	1.03	0.97	(0.06)	0.95	0.95	0.93	0.93
Iran	3.42	3.76	3.92	0.16	3.90	3.95	3.94	3.92
Iraq	2.00	1.32	2.02	0.69	1.83	1.84	1.97	1.77
Kuwait	1.89	2.17	2.34	0.17	2.44	2.51	2.53	2.57
Libya	1.31	1.42	1.54	0.12	1.61	1.63	1.65	1.66
Nigeria	1.97	2.13	2.35	0.22	2.33	2.42	2.43	2.46
Qatar	0.65	0.75	0.78	0.03	0.78	0.79	0.80	0.81
Saudi Arabia	7.54	8.71	8.98	0.27	9.22	9.46	9.50	9.46
UAE	1.99	2.24	2.36	0.12	2.40	2.40	2.45	2.49
Venezuela	2.59	2.29	2.58	0.29	2.70	2.64	2.62	2.60
Total OPEC	**25.32**	**26.95**	**29.06**	**2.11**	**29.48**	**29.92**	**30.21**	**30.05**

Source: OPEC monthly oil market reports

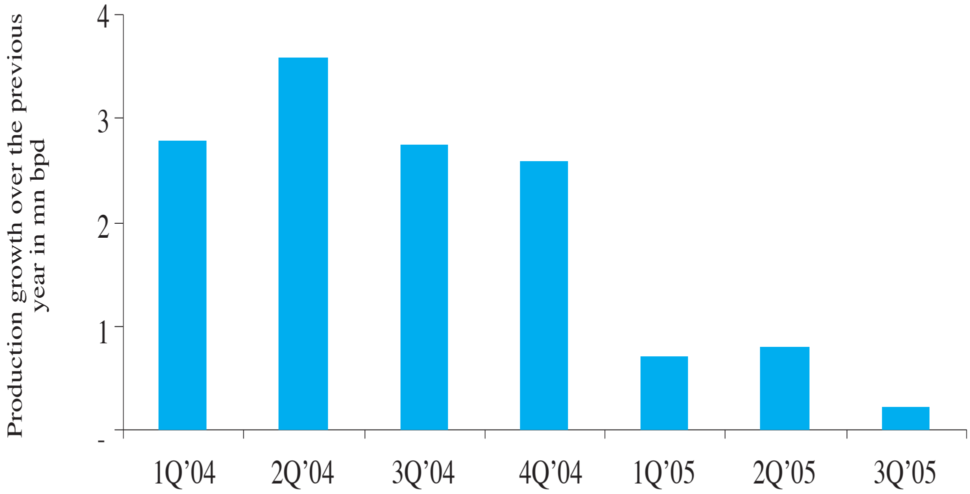
Production increases within OPEC was led by Saudi Arabia, Kuwait, UAE and Libya. Further more, there was an improvement in the geopolitical scenarios in Nigeria and Venezuala compared to the previous year, allowing the production from these countries nudge higher. However, it should be noted that potential for disrupted oil supplies still persist in Nigeria. Iraq continues its struggle against the sabotages by the insurgents in some parts seriously threatening sustained levels of production and exports. Production in Iran too has been erratic and is below its assessed sustainable capacity of 4.1mn bpd.

OPEC production set to increase....

Going forward, OPEC seems to be in a position to increase the production further. Aramco announced plans for maintaining capacity of Arab medium and Arab heavy crude in Saudi Arabia. Lately, production in both UAE and Kuwait has been higher than anticipated and is expected to increase further. Also, increase in light crude production capacities are expected from Libya, Nigeria, UAE and Saudi Arabia. On the other hand, it is of particular concern that downstream bottlenecks remain within OPEC and enough product supplies continues to be a problem.

While OPEC yielded to increase production, a supply rebound in the non-OPEC, non-OECD region also helped in meeting the soaring demand. This rebound, which started from the third quarter of '03, gained further strength in '04, and then tailed off in the first nine months of 2005. Non-OPEC production growth in the short term future could be minimal because of the shut-ins in reaction to the damages caused by hurricane Katrina.

Figure 1: Trend in non-OPEC production growth



Source: OPEC monthly oil market reports

FSU leads the non-OPEC production increase....

Major contributors to an increase in non-OPEC supply included Africa, FSU, Latin America and North America, while there has been a supply slowdown from OECD Europe and Pacific. Most importantly, FSU has been able to sustain the increased production and is estimate to supply an average of 11.53mn bpd in 2005. The current scenario in FSU is much more conducive with a better investment environment and the erstwhile unfavorable tax structures being rectified. Also the non-OPEC supply has become increasingly diversified through boost in production from Africa and Latin America, mainly from Angola and Brazil.

While non-OECD countries continue to drive production growth, OECD production declined to 20.32mn bpd in the second quarter of 2005 compared to the 2004 average of 21.28. So far the majority of the production declines were in the Europe and OECD pacific. North America too is estimated to be in line, thanks to the havoc rendered by hurricane Katrina. A decline of around 0.5mn bpd is estimated for OECD countries in 2005 over 2004, with the decline spread over the all the regions within.

Oil stocks at comfortable levels....

Supply increase and controlled demand increase pushed the OECD oil stocks up to one of the highest levels in a few years. The current position corresponds to a comfortable level of about two months of forward cover. However, US oil and product stocks are already affected by the scenario brought about by the hurricane. US commercial oil stocks witnessed the highest draw in August since the last December. Gasoline stocks have been the most affected. The trend for the gasoline stocks has been more or less similar in Europe signifying a deficit scenario on the product front.

Lower increase in 'Call on OPEC' in 2005....

Increasing stock levels in OECD countries point towards a more comfortable demand-supply balance than about an year back. This is further substantiated as the increase in the 'implied call on OPEC' for '05 is estimated to be much lower than that in the previous year.

Table 17: World crude oil demand supply balance

(mn. bpd)	**2002**	**2003**	**2004**	**2005E**
World Oil Demand	77.0	79.0	82.1	83.3
Non- OPEC Supply*	51.5	52.3	53.8	54.5
Implied Call on OPEC	25.5	26.6	28.3	28.8
OPEC oil production	25.3	27.0	29.1	29.9

Source: OPEC monthly oil market reports

Average for the first three quarters is mentioned for 2005 OPEC oil production

Spare capacity estimated at 8.1%....

The demand supply situation shown above does not portray an alarming situation, especially considering that OPEC is already producing at higher levels. Also the robust non-OPEC, non-OECD supply growth will partly counter-balance demand gains, and the boost in the 'implied call on OPEC' will be easily met by the projected OPEC capacity expansions. OPEC's spare capacity is estimated to have increased to 8.1% in the fourth quarter of 2005 compared to 4.9% in the corresponding period of the previous year and is expected to be even higher at 12% in 2006. However, it should be noted that the most of the incremental capacity to be activated in Saudi Arabia would be for the heavier and sourer crude, which would not have the same kind of demand as in the past. The net increase in demand this year was for medium sweet crude rather than medium sour.

In spite of having spare capacity for crude production, the scenario is not as comfortable as it looks in the short term due to the damage caused by the hurricanes. The time taken by the refineries to get back to normal operating levels would present a supply deficit situation, especially for the products. Also, natural or man-made calamities, when highly disruptive could stretch capacities to unattainable levels on a longer term basis. For many of the producers, idle capacity can be activated in response to a short duration supply disruption, but is not sustainable on a prolonged basis without incremental drilling and investment. In short, though the situation is not extremely precarious, the fear of disruptive events in the current scheme of affairs could hold the oil prices firm in the medium term.

Qatar – Oil & Gas Sector

Oil and gas make up about 62% of Qatar's economy

Qatar's North Gas Field is the largest non-associated gas field in the world, with proven reserves estimated at over 900 trillion cubic feet (tcf), equivalent to about 162 billion barrels of oil (over 15 per cent of the world total). These reserves will be sufficient to support planned production of natural gas for over 200 years. Currently oil and gas sector make up more than 62% of Qatar's economy. The recent development of projects to produce and export natural gas in the form of LNG, piped gas, gas-to-liquid (GTL) and investments in petrochemical and fertiliser industries bear testimony to the fact that Qatar has been trying to diversify its revenue base by reducing its historic dependence on oil export revenues.

By the decade-end Qatar plans to boost its oil production capacity to one million barrels per day (bpd) from the existing 750,000 bpd. It plans to nearly triple its present annual production of about 20mn tonnes to 77mn tonnes by 2012 for LNG. It is expected that out of the planned 77mn tonnes of annual production a third will go to the United States, a third to Europe and the rest to Asia. The State-owned Qatar Petroleum (QP), which manages the country's oil, gas, fertiliser, petrochemicals and refining enterprises in Qatar and abroad, has initiated and developed two major LNG projects with foreign shareholders for the purpose of utilising the North Field gas for exports in the form of LNG. These projects are Qatargas (Qatar Liquefied Natural Gas Company) and RasGas (Ras Laffan Liquefied Natural Gas Company).

Expansion of LNG facilities through RasGas II, Qatargas II, RasGas III, and Qatargas III is being pursued to meet additional export opportunities. Sales and Purchase Agreements (SPA) have been reached with a number of countries, which at their peak in 2007 will reach 29.9mn tonnes per annum (mtpa). Several Heads of Agreement (HoA) have also been signed, and should these turn into confirmed SPAs, total LNG exports would reach about 77.2mtpa by 2012. QP has allocated QR122bn in its five-year plan, starting 2005, for LNG and piped natural gas projects. According to Energy and Industry Minister, Abdullah bin Hamad Al Attiyah, LNG production in the country is set to rise from a projected 20mn tonnes this year to 77 mtpa in 2012; production capacity is set to touch just over 25 mtpa by the end of this year, making Qatar the second largest producer in the world. With proven reserves of over 900 tcf, equivalent to more than 162bn barrels of oil, those reserves are deemed sufficient to meet the planned production for the next 200 years.

There are number of other factors that have contributed to making Qatar a success story in the world of natural gas in such a short period of time. Qatar is committed to innovation and the adoption of world-class technology in the hydrocarbon sector. Qatar was the first producer to build 3.3 mtpa (production) trains; the first to build 4.7 mtpa trains, and is the first to build 7.8 mtpa trains. These innovations will dramatically reduce the unit cost of producing LNG. So the country is enhancing the competitiveness of its product.

To further reduce costs, Qatar - together with the world's leading shipbuilders - is developing a new generation of large LNG tankers. In January 2005, Qatar Gas Transport Company (Naqilat) had its IPO. By any scale no other gas company in the world will come close to Qatar Gas. It is expected to have the world's largest fleet of LNG tankers and the largest carriers in terms of capacity. In a joint venture, Qatar Gas Transport Company (Naqilat) and Overseas Shipholding Group (OSG) will buy four 216,000 cubic metre gas tankers, worth US$900mn, under purchase and time charter agreements with Hyundai Heavy Industries and Samsung Heavy Industries. The ships will be at least 60% larger than the LNG vessels currently in use and will form part of Naqilat's 57-strong fleet by the end of the decade. Qatar will need that number of ships, if it is to export 77 mtpa. It is also to acquire a number of VLCCs (Very Large Crude Carriers), which will require dry dock facilities for maintenance and repair. Naqilat may team up with Ras Laffan Industrial City (heart of the country's natural gas industry) for a QR500mn facility. As per the company's estimate 3,000 ships per year, including LNG, LPG and sulphur carriers will be using Ras Laffan Port by 2012. With a local facility in place, Qatari vessels will no longer need to dry dock in Singapore or Dubai, and Qatar will also be able to service carriers destined for neighbouring Gulf ports.

In addition to the Far East, Qatar has developed a market for its gas in the European Union. Qatar has developed a mega-project in the UK, Qatargas II, with up to 15.8 mtpa exports for 25 years starting in 2008. RasGas II has acquired 3.4 mtpa terminal capacity in Belgium - in the Zeebrugge LNG terminal - and is developing an offshore terminal on the Italian Adriatic coast to receive up to 6 mtpa of LNG for the Italian market. By 2010, Qatar is expected to supply 28 mtpa of LNG to the EU market alone.

Projects

Qatar has reassured world gas markets that it will push ahead with its mega projects to meet the fast growing global consumption and become the world's number one in LNG production. In addition to the US$6bn agreement with Sasol-Chevron for three GTL projects and forming Gulf Drilling International with Japan Drilling Company (JDC), Qatar Petroleum signed several production-sharing agreements with international companies. The Oryx GTL Project will be ready for start-up in December 2005 and first product will enter the international market during the second quarter of 2006. Milestone agreements with Shell and ExxonMobil for major integrated upstream and downstream GTL projects have been reached and three other major GTL projects are at various stages of negotiation. Qatar Petroleum signed a deal with ExxonMobil to build a US$7bn GTL plant, the largest GTL facility in the world. ExxonMobil will provide 100 per cent of the capital, the largest foreign direct investment ever in the Arab world. Production will start in 2011. Qatar has also signed several other agreements like the Dolphin Energy project, which will provide gas to the UAE by way of pipeline. On the downstream front, Qatar is to build a US$540mn methanol plant under a deal signed between Qatar Fuel Additives Company and Taiwan's Chinese Petroleum Corporation. This will be the largest methanol facility in the world.

5.2 Banking Sector

For a detailed discussion on the banking sector, please refer to our Research report on "GCC Banking Sector" published in June 2005.

Current Scenario

In the fast growing Qatari market, the banking sector is becoming highly competitive and challenging, as some of the foreign banks have started to increase their presence in the market. During 2004, the banking sector in Qatar saw a couple of mergers/acquisitions. National Bank of Kuwait (NBK) became the international shareholder of the erstwhile Grindlays Qatar Bank which is now known as International Bank of Qatar (IBQ). NBK has 20 per cent stake in the capital of IBQ. In another development, Bahrain's Ahli United Bank (AUB) acquired 40 per cent stake in Al-Ahli Bank of Qatar and it has been renamed as Ahli Bank QSC. Apart from this, Mashreqbank also plans to spread out its foothold in the Qatari market. We believe that with these the banking sector in Qatar will experience a new dimension of competition in retail as well as institutional segments.

In a major step for a Qatari bank, QNB went global and bought a key London-based wealth management group. The £135mn deal acquired Ansbacher Holdings, a subsidiary of South Africa's FirstRand, the country's second largest bank by assets. The acquisition is a milestone for QNB as it became the first GCC bank to buy an international financial institution of the repute of Ansbacher.

To tap the growing importance of Islamic finance, especially in the GCC region, many conventional banks are venturing into Islamic banking which will further change the face of the banking sector in Qatar.

Large Banks have a Dominant Presence

Large banks dominate the banking industry by virtue of their size, reach and coverage

In Qatar, large banks such as QNB, Doha Bank and Commercial Bank (CB) dominate the banking industry by virtue of their size, reach and coverage. The large banks also have competitive advantage over the smaller banks on account of their strong brand equity and distribution coverage. Our comparison of the banks in this section would remain confined to only the six listed local banks of Qatar which account for about 85% of the total assets (as of Sept. 2005) in the local banking industry.

The Qatari banking sector is dominated by the Qatar National Bank. In terms of assets, QNB has a dominant presence in the domestic banking industry accounting for 47.1% of the total banking assets of the listed Qatari banks. In terms of total deposits it accounts for 47.2% of total banking deposits of the listed banks. The bank held 51.2% market share of net loans & advances. However, since last few years, QNB is losing its market share in all categories. Among the six listed banks, Commercial Bank held second position in terms of size of assets, customer deposits and loans & advances as of Sept. 2005. The bank held 19% market share in terms of assets, 18.5% in deposits and 16.5% of net loans & advances segment. Doha bank held third position in terms of all the three categories namely, total assets, deposits and net loans & advances with its market share at 13.1%, 12.3% and 12.2% respectively at the end of September 2005.

Among the six local banks analyzed here, Ahli Bank (ABQ) is the smallest bank in terms of asset size, deposits and net loans & advances with its market share at 6.2%, 6.7% and 5.1% respectively at the end of September 2005. The other two medium sized banks are the two listed Islamic banks, namely, Qatar Islamic Bank (QIB), which held 8.6% of the total assets and Qatar International Islamic Bank (QIIB) held the remaining 6%.

Table 18: Market Share of Six Listed Qatari Banks

	Assets		Deposits		Net Loans & Advances	
	2004	Sept. '05	2004	Sept. '05	2004	Sept. '05
Qatar National Bank	49.1%	47.1%	50.3%	47.2%	56.5%	51.2%
Commercial Bank	16.1%	19.0%	14.1%	18.5%	11.6%	16.5%
Doha Bank	13.7%	13.1%	13.7%	12.3%	14.3%	12.2%
Qatar Islamic Bank	9.6%	8.6%	9.9%	8.4%	9.1%	9.5%
Qatar International Islamic Bank	6.2%	6.0%	7.4%	6.9%	5.6%	5.5%
Ahli Bank	5.3%	6.2%	4.7%	6.7%	3.1%	5.1%

*Source: Interim Results of Banks and **Global** Research*

Competition

In Qatar, the State Government plays a key role in the structure of the banking sector by remaining the largest borrower and depositor. Qatar National Bank, being 50% owned by the State Government, gets the lion's share of state-related business. The other commercial banks enjoy lesser share of state-related business, rather they compete strongly on deposit front and also focus more on developing their retail banking businesses. The lack of opportunities in corporate banking, because of the small base of private sector corporates, compels these banks to continue focusing on big ticket government projects and also on retail banking. The main focus areas of foreign banks are trade financing activities, foreign currency operations and corporate advisory services.

Qatar is becoming a favorite destination for investors. The banking system is developing fast, and the banking products that people find in the international markets are available in Qatar. The country has all the regulations that allows banks within the GCC to operate locally. There are banks negotiating with the Central Bank of Qatar for opening branches in the country. However, there is intense competition among the existing banks to increase their client base. Qatar's gas-centric economy and small market are the constraints within which all banks operate. The implementation of the WTO accord could also result in mergers and acquisitions in the banking sector, especially small banks which may face difficulties and therefore might consider mergers and acquisitions as an alternative.

Trends in Credit Facilities

During the period 2000-2004, total credit facilities grew at a CAGR of 14.2% to reach QR49.5bn, while total domestic credit grew by 14.7% to QR48.3bn. Almost all the sectors have witnessed double digit CAGR in their credit offtake, during 2000-2004, except few such as merchandise, credit outside Qatar and others.

Table 19: Trends in Credit Facilities of the Banking Sector

(in QR mn)	**2000**	**2001**	**2002**	**2003**	**2004**	**CAGR %) (2000-04)**	**Sept. 2004**	**Sept. 2005**	**Growth in 9M 2005 over 9M 2004**
Public Sector	10,660.6	16,529.9	16,814.8	19,931.5	18,469.5	14.7%	21,315.7	18,726.0	-12.1%
Merchandise	4,506.7	4,046.9	4,726.5	5,531.5	6,116.4	7.9%	5,378.4	7,747.3	44.0%
Industry	420.2	607.0	936.7	750.4	1,059.9	26.0%	995.2	1,673.8	68.2%
Land, Housing & Construction	1,219.9	1,132.8	1,287.2	3,327.2	5,711.7	47.1%	5,459.4	7,730.2	41.6%
Personal	9,180.6	8,881.9	9,639.9	11,503.1	14,085.3	11.3%	13,130.2	21,605.2	64.5%
Services	476.7	1,065.3	812.4	1,865.1	2,383.5	49.5%	2,044.4	2,205.3	7.9%
Others	1,448.2	1,746.7	1,749.9	437.2	467.5	-24.6%	532.8	1,095.4	105.6%
Total Domestic	**27,912.9**	**34,010.5**	**35,967.4**	**43,346.0**	**48,293.8**	**14.7%**	**48,856.1**	**60,783.2**	**24.4%**
Outside Qatar	1,201.4	1,485.9	246.6	441.5	1,189.1	-0.3%	928.0	2,096.0	125.9%
Total	**29,114.3**	**35,496.4**	**36,214.0**	**43,787.5**	**49,482.9**	**14.2%**	**49,784.1**	**62,879.2**	**26.3%**

Source: Qatar Central Bank

During 9M of 2005 total credit facilities grew by 27%

Sectors which saw their share increase as a percentage of the total credit off-take, during 2000-2004, were credit facilities granted to public sector, industrial, land, housing & construction and services. While credit granted to 'others' declined significantly during this period.

During nine months of 2005, total credit facilities of the banking sector grew by 27.1% to QR62.9bn from QR49.5bn at the year end 2004. Breakdown of the distribution of credit facilities shows that, during 9M 2005, the share of the public sector in the total credit facilities granted has declined to 30% from 37% at the year end 2004, which shows the diversification of lending to other businesses/sectors. The sector witnessed a minuscule growth of 1.4% in credit off-take to QR18.7bn over 2004 year end figure whereas over corresponding period of 2004 it declined by 12% which further points towards diversification of lending to other sectors of the economy. In 9M of 2005, all the sectors of the economy have witnessed growth in their credit off-take, except lending to the public sector.

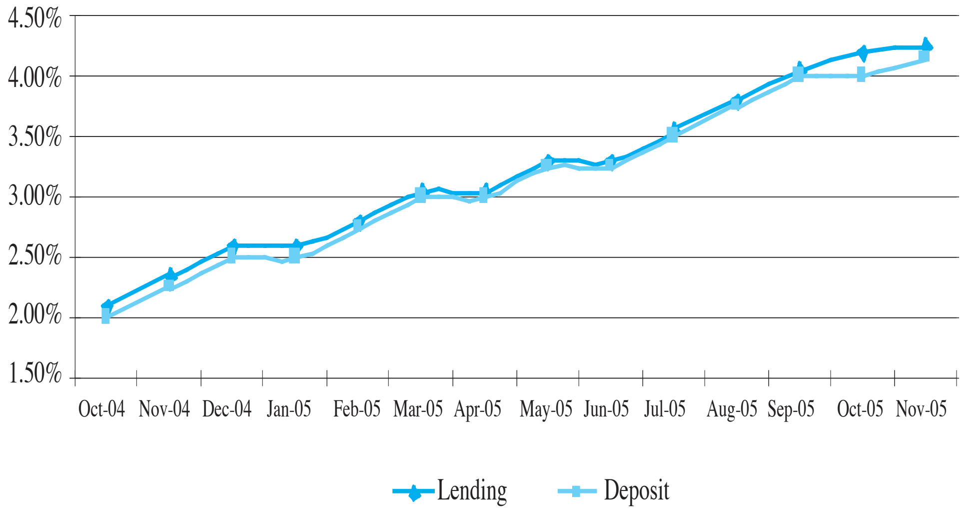
The personal segment, which had the second highest share in the total credit off-take, witnessed a growth of 6% in its share to 34% during 9M of 2005 and a growth of 64.5% over 9M of 2004 to QR21.6bn. For the last few years banks have witnessed significant growth in credit off-take to personal segment due to the increased focus on consumer loans as part of their thrust on retail banking. This was a trend not only in Qatar but in the whole of the Gulf region. The biggest growth in credit facilities was witnessed by the industrial sector, credit facilities granted to the sector grew by 68.2% in 9M of 2005 to QR1.7bn. Among the other sectors, merchandise and land, housing & construction sectors have also witnessed a significant growth in their credit off-take at 44% and 41.6% respectively. As part of diversification of the lending portfolio, majority of the banks in Qatar have increased their focus on regional lending by participation in syndications. Therefore, in 9M of 2005, the external credit of the commercial banks grew by a robust 125.9% to QR2.1bn.

Interest Rate Trend

The interest rates in Qatar follow closely those prevailing in the United States. Therefore, in the last one year, interest rates in Qatar witnessed an upward trend, which can be gauged from the movements in Qatar Central Bank's Monetary Rates (QMR) on lending and borrowing, both of which have almost doubled over the last one year. QMR on lending increased to

4.25% in November 2005 which was at 2.1% in Oct. 2004. QMR's rate on deposit moved along the line of rates on lending, which moved from 2% in Oct. 2004 to 4.15% in Nov. 2005.

Figure 2: Trend in Qatar Central Bank's Monetary Rates



Source: Qatar Central Bank

The rising interest rates have also moved up the demand and time deposits with the banks. Going forward, we believe that interest rates in Qatar will show a rising trend which will take the cue from the rising interest rates in the US.

Conventional banks foraying into Islamic Banking...

To tap the growing importance of Islamic finance, especially in the GCC region, many Qatari banks are venturing into Islamic banking as a window within the conventional bank. All the three major banks, namely Qatar National Bank, Commercial Bank and Doha Bank have entered into Islamic banking during the current year. Recently, Qatar Central Bank accepted the application of Al Ahli Bank for rendering Islamic banking services by establishing two independent Islamic branches. This move by the Qatari banks will further change the face of the banking sector in Qatar.

Three major banks have forayed into Islamic banking

Asset and Liability Composition

During the period 2000-2004, the total assets of the commercial banking sector grew at a CAGR of 16.3% to QR92.03bn in 2004 from QR50.2bn in 2000. During eight month of 2005, the asset base further increased to QR111.4bn. A major portion of this growth in the asset base was funded through the inflow of funds from resident deposits as it accounted for more than 66.6% of the total liabilities as at the end of August 2005.

Table 20: Consolidated Balance Sheet of Commercial Banks in Qatar

(in QR mn)	2003	2004	Aug. 2005
Total Assets	**76,101.6**	**92,026.2**	**111,376.0**
Cash in Q.R.	452.4	528.9	674.9
Due from QCB	1,982.5	2,868.1	4,473.4
Foreign Assets	19,464.9	27,756.4	32,834.6
Domestic Assets	54,201.8	60,872.8	73,393.1
Total Liabilities	**76,101.6**	**92,026.2**	**111,376.0**
Foreign Liabilities	4,103.9	8,169.2	9,249.0
Domestic Liabilities	71,997.7	83,857.0	102,127.0

Source: Qatar Central Bank

During 2004, the foreign assets grew at a steep rate of 42.6% to QR27.8bn and increased its share to 30.2% of the total banking assets from 25.6% in 2003. This further expanded to QR32.8bn at the end of August 2005. The major constituent of the foreign assets are due from banks abroad, credit outside Qatar and investments abroad. The banking sectors' domestic credit portfolio accounted for 53% of the total banking assets and it grew by 22.2% during eight months of 2005 over 2004 year end figure to QR59bn. Keeping in line with the improved activity in the local stock market the commercial banks' domestic investments increased by 19.2% in eight months of 2005 over 2004 year end figure to QR10.5bn.

On the liabilities side, the commercial banks have reduced their dependence on domestic liabilities in 2004 as its share in the total liabilities declined to 91.1% from 94.6% in 2003. Whereas the share of foreign liabilities have increased to 8.9% in 2004 from 5.4% in 2003. The proportion of domestic as well as foreign liabilities remained almost same at 91.7% and 8.3% respectively during the first eight months of 2005.

Foreign banks' dues from Qatari banks had increased by almost 100% in 2004 over 2003 and it further increased by 12.8% to QR8.6bn during the eights of 2005 over QR7.6bn at the year end 2004, which shows the kind of interest the foreign banks have in Qatar's flourishing economy. The major constituents of the domestic liabilities are resident deposits and capital accounts. In 2004, the banks have reduced their dependence on customer deposits which can be seen from the declining share of resident deposits in the total liabilities to 65.5% from 69.2% in 2003. The resident deposits of the commercial banking sector increased by 14.4% in 2004 to QR60.3bn and it increased further to QR74.2bn at the end of August 2005.

At the same time the banks have shored up their capital accounts in 2004 as also in 2005 especially to meet the Basel-II norms and to increase their capital adequacy ratio. In 2004, the share of capital accounts increased to 11.7% in total liabilities from 10% in 2003 and it grew by 40.8% to QR10.7bn. While at the end of August 2005 it further went up by 14.7% to QR12.3bn over 2004 year end level. Total provisions of the banking sector has been declining which is despite the growth in loan portfolio, which suggests strong quality of assets. In 2004, provisions of the commercial banks declined by 8.5% to QR3.6bn which reduced further to QR3bn at the end of August 2005.

Comparison of Listed Banks' Financials

Our comparison of the banks in this section would remain confined to only the six listed local banks of Qatar who accounted for 85% of the total assets (as of Sept. 2005) in the local banking sector. The table appended below gives the broad overview of the size of the balance sheet of all the listed Qatari banks. All the six banks put together have expanded their asset base, net loans & advances and also their deposit base at the similar rate of 24% in 9M of 2005 over 2004 year end figures. As we have discussed earlier QNB is the largest bank in Qatar, in terms of assets size, loans & advances and deposits. However, over the last few years its share has been declining in terms of all major financial parameters. Among the two competing banks namely, Commercial Bank and Doha Bank, the former had grown much faster in terms of the balance sheet size than the latter and took over second position in 2004 from the third in the previous year. In 2004, almost all the banks have sizeably increased their loan book and it also seems that there was a focused approach by all the banks to increase their deposit base to take advantage of the lowest interest rates that prevailed during the year. The deposit base of all the six listed banks put together grew at 23%.

In order to take advantage of the bullish stock market, most of the banks have also increased their investment portfolio. A phenomenon which has been prevalent all across the GCC region is the increase in the share capital of the banks. In 2004, most of the banks in Qatar also followed this trend of shoring-up their share capital by way of bonus issues, rights issues and also through private placement to strengthen their capital base and also to comply with the Basel II requirements. Banks such as Commercial Bank, Doha Bank, QIB and QIIB have issued bonus in FY2004, while Commercial Bank had raised equity by way of issuance of rights also. Ahli Bank had made private placement of shares to the Bahrain-based, Ahli United Bank. In Qatar, all the banks are adequately capitalised to take advantage of the emerging opportunities not only in the local market but in the entire GCC region.

Table 21: Comparative Snapshot of Balance Sheets of Qatari Banks as of 30th Sept., 2005

(in QR mn)	QNB	DB	CB	QIB	QIIB	ABQ
Assets						
Cash & Bank Balances	1,976	458	905	396	256	145
Due from Banks & Other Financial Institutions	6,178	2,623	3,432	1,136	1,760	1,814
Net Loans & Advances	29,869	7,095	9,658	5,569	3,195	2,980
Investments	7,994	2,502	4,446	1,294	707	1,113
Net Fixed Assets	473	105	315	62	37	25
Other Assets	682	354	220	126	72	102
Total Assets	47,172	13,138	18,974	8,582	6,027	6,179
Liabilities						
Due to banks & FIs	2,823	1,313	572	91	16	112
Customer Deposits	34,496	9,009	13,519	6,130	5,014	4,876
Other Borrowed Funds	-	-	1,092	-	-	-
Other Liabilities	1,161	442	450	375	207	125
Minority Interest	-	-	-	52	-	-
Paid-Up Capital	1,038	693	748	663	203	305
Reserves	7,651	1,680	2,593	1,271	587	761
Shareholders' Equity	8,689	2,374	3,341	1,934	790	1,066

*Source: Banks' Interim Results and **Global** Research*

As in terms of the other financial parameters, in the case of interest income too QNB continued to lead far ahead of the other banks. It accounted for about 46% of the net interest of the listed banks. However, other banks have also been trying to increase their interest income. The hike in interest rates since mid-2004 have helped the bank to increase their interest income though marginally. Another significant feature of the year 2004 and as well of the year 2005 was that almost all the banks have focused on increasing their non-interest revenues and we believe that this will be the trend in the coming years too. There are number of projects in the pipeline spanning across the sectors, many companies are planning to tap the capital market and the country has also opened its stock market for foreign investors which will drive the non-interest revenues of the banks. Apart from that the booming economy offers diverse opportunities for the banks who have developed their investment banking divisions.

The most significant part of the operations of the listed local banks in the last couple of years has been the increase in their profitability. The year 2003 saw the net profit of these banks increase by 28.8%, while in 2004 their net profit increased significantly by 41.6%. During the nine months of 2005, the net profit of the listed banks grew significantly by 97% y-o-y to QR3.06bn. For the 9M ended Sept. 2005, QNB's net profit accounted for about 38% of the total net profits of the listed local banks and was also more than twice that of its closest competitor.

Table 22: Comparative Snapshot of Income Statement of Qatari Banks for the nine months ended Sept. 30, 2005

(in QR mn)	QNB	DB	CB	QIB*	QIIB	ABQ
Operating Statement						
Interest Income	1,551	472	552	360	192	187
Interest Expense	(610)	(166)	(214)	(88)	(85)	(91)
Net Interest Income	941	307	338	273	108	96
Non-Interest Income	611	367	425	239	309	80
Recoveries (Provisions) for loans	132	(1)	(5)	(24)	(12)	2
Other Provisions / Recoveries	3	-	-	-	-	-
Impairment of inv. Securities	3	-	(10)	(1)	-	(8)
Operating Expense	(509)	(155)	(204)	(93)	(63)	(65)
Net Profit	1,172	517	544	371	341.2	105

*Source: Banks' Interim Results and **Global** Research*

Operational Performance of Peer Banks

QIIB has the lowest operating income per employee

Over the last few years two banks namely, Commercial Bank and Doha Bank have vigorously focused on expanding their network of branches, the same was not the case for other banks. Commercial Bank has expanded its branch network very fast as compared to the other banks. Banks have made significant investments on improving customer services and expanding delivery channels in recent years. As can be seen from the table below, QNB has the largest network of branches with 34 branches followed by Commercial Bank, Doha Bank, and QIB. Whereas other two banks namely, QIIB and Ahli Bank have the smallest network of branches. In terms of operating income, QNB is way ahead of its rivals.

In terms of employee productivity, QIIB has the lowest operating income per employee while QNB has the highest operating income per employee. In the case of QNB, we have excluded the employees of subsidiaries from the total number of employees of 1,096. QIIB has the lowest operating expense per employee, while QNB has the highest considering the size of its operations.

Table 23: Comparison of Operating Performance of the Listed Banks (FY 2004)

(in QR mn)	QNB	DB	CB	QIB	QIIB	ABQ
No. of Branches	34	19	23	9	8	8
No. of Employees	749	538	673	422	269	199
Operating Income (Net of Provisions)	1160	538	523	407	147	137
Operating Expenses	(335)	(173)	(196)	(111)	(64)	(54)
Operating Profit	825	366	327	296	84	83
Operating Income Per Employee	1.55	1.00	0.78	0.96	0.55	0.69
Operating Expense Per Employee	0.45	0.32	0.29	0.26	0.24	0.27
Operating Profit Per Employee	1.10	0.68	0.49	0.70	0.31	0.42

*Source: Banks' Annual Reports and **Global** Research*

Valuation Matrix

In the recent past Doha Securities Market has posted robust and rather steep gains in the stock prices. In 2005, the Global's DSM Index registered a YTD gain of 82% as at the end of Nov. 2005 as against this the Banking Index moved up much faster as it posted a YTD gain of 96%. Therefore, the valuations of the Qatari banking sector appears to be on a higher side. Currently, the DSM is undergoing intermediary corrections and witnessing profit booking from investors which might bring the prices of some of the banking stocks to realistic levels. As of Nov. 24, 2005 the average price earnings ratio for the banking sector stood at 28.8x based on their annualised earnings for the nine months period ended Sept. 2005. QIB enjoys the highest P/E multiple of 49.2x followed by Doha Bank with 27.2x.

Table 24: Comparative Valuation of Qatari Banks (9M 2005)

	QNB	DB	CB	QIB	QIIB	ABQ
Price* (QR)	368.9	270.5	224.8	367.3	527.8	117
EPS - annualised (QR)	15.0	9.9	9.9	7.5	22.4	4.6
Book value (QR)	83.7	34.2	44.7	29.2	38.9	35.0
P/E (x)	24.5	27.2	22.6	49.2	23.6	25.4
P/BV (x)	4.4	7.9	5.0	12.6	13.6	3.3

** Price as of November 24, 2005*

*Source: Banks' Interim Results and **Global** Research*

The average price to book value of the sector was at 7.8x the book value as of Sept. 2005. QIIB enjoys the highest price to book value of 13.6x followed by QIB with 12.6x. Ahli Bank has the lowest price to book value of just 3.3x. We believe that the discounting enjoyed by some of the banks are likely to decline from the current levels due to profit booking / correction.

Qatari Banking Sector Outlook

The economy of Qatar has registered a strong growth over the last few years, needless to say due to strong crude oil prices. It has recorded another year of astonishing performance by registering a 20.5% growth in its GDP for the year 2004. The sound economic fundamentals will further boost growth in the economy which can be gauged from the flourishing activities in almost every sector of the economy and banking sector would be one of the major beneficiaries of this boom.

Qatari banking sector is in the midst of change and becoming more challenging

The structure of the banking sector in Qatar is in the midst of a change as regional banks have started to put their footprint in the country by taking stakes in the existing banks. The local conventional banks are venturing into Islamic banking and a few large local banks have also started to spread their wings into foreign markets through acquisitions. Also, other regional banks have plans to enter the Qatari market. We believe that the banks' entry into the fast growing Islamic banking segment could help these conventional banks improve their business levels and enhance profits over the medium term.

To face this changing industry dynamics many banks, domestic as well as foreign, have started to expand their operations especially in the retail banking segment. Apart from a change in the market dynamics, local Qatari banks have also concentrated on capital expansions and many banks have increased their capital base in the past few years and this trend is expected to continue in the near future. This measure will help the banks to shore-up their CAR and to leverage their balance sheet and will help the banks to tap profitable lending opportunities the country would offer in the coming years.

5.3 Industrial & Services Sector

The government is encouraging industrial and services sector by providing various incentives

Apart from the oil & gas sector the government is also encouraging industrial and services sector by providing various incentives. Up to 2004, Qatar has made investments of about US$31bn in various projects and recently committed about US$26bn in natural gas projects in partnership with a number of world class companies and investors. New investments in this decade are expected to rise to over $40bn in petrochemicals, fertilizers and other energy sector projects.

The vast growth in the energy sector generates and creates the need and the opportunities for special services. The opportunity to invest is now in the service sector to support existing industry, envision and implement a sustainable competitive advantage. Investment opportunities are limitless, sectors such as the chemical, petrochemical and fertilisers are prime examples which would support the further development of the other economic sectors. Qatar is open to foreign participation in joint ventures through technology supply, market administration and equity participation.

The state-owned Qatar Industrial Development Bank (QIDB) announced on May 28th that it had financed 28 small and medium scale industries, in the light industrial sector, to set up manufacturing facilities in 2004. Of the 28, the bank disbursed loans worth QR31.8mn (US$8.7mn) to 13 projects for the purchase of capital equipment and QR12.4mn to 15 units for raw material and operational requirements. The bank also helped promote two joint ventures between Qatari investors and international companies, involving investment of QR43mn, in 2004. One project will produce high intensity discharge lamps for street lighting and the other explosion-proof electrical fittings for use in petrochemical complexes, refineries, natural gas liquefaction & processing plants and infrastructure projects.

QIDB, capitalised at QR200mn, offers soft loans to Qatari entrepreneurs to set up small and medium industries, preferably using locally available feedstocks. It also helps investors in preparing feasibility studies and finding foreign technology collaborators.

The government is encouraging setting up of medium and small industries by providing incentives to the local private sector establishments. Qatar offers free plots, tax holidays and exemption from customs and excise on export and import of goods and equipment. Locally manufactured goods get preference in government purchases. The department of industrial development at the Ministry of Energy and Industry has also started receiving applications for plots at the new industrial area for Small and Medium Industries at Salwa, 10 km west of Doha. The first phase of the new area offers 331 plots for nine categories of industries, ranging from food and beverages to fabricated machinery units.

During the first half of 2005, 96 new industrial concerns offering 3,295 job opportunities were created in Qatar, with total investments reaching QR900mn (US$247.17mn). In the two months of May and June, 28 new industrial concerns were registered in the Qatari Ministry of Energy and Industry. These firms, which have reportedly started operations, provide 1,782 jobs and have a combined capital of QR522mn. During this period, three food and beverages industry concerns were also created, two in the spinning, textile, clothing and leather category, three in the wood and wood products industry, four in the chemical and chemical products and coal, rubber and plastics category, ten in the metal products, machines and equipment industry and six in the basic non-metallic mineral products industry.
In the first three months of 2005, the Qatari Ministry of Energy and Industry granted a total of

68 industrial licenses. 34 of these licenses were distributed for the creation of new concerns, 11 for expansion of current operations and 23 licenses for changes in existing concerns. These projects would provide 1,513 new jobs and have total investments of QR386mn. 19 licenses were granted to the crude non-metallic mining products industry, while 18 were granted to the category of chemical, chemical products, coal, rubber and plastics industry - the two largest amounts of licenses granted during this period.

The country is also planning to set up a Free Investment Zone (FIZ). The businesses, such as manufacturing or services to the energy sector to be set in the FIZ would be governed solely by the separate regulatory authority. The zone would allow 100 per cent ownership and full repatriation of profits. These units will also be exempted from payment of customs duties on all items imported or exported. The government also issued a decree which stipulates that any Qatari or expatriate individual or corporate body, may establish a firm, either private or limited company, in the FIZ. The FIZ units would be exempted for 20 years from income tax or from all other taxes.

Qatar's government is also committed to privatisation which may get a further boost with some other key corporations in the state-controlled energy sector being identified for public participation. There are also incentives to foreign capital to form JVs with their national counterparts, and for 100 per cent ownership in certain sectors like agriculture, industry, health, education, tourism and the development and exploitation of natural resources or energy and mining.

Higher oil and gas prices which have led to higher expenditure by the government in various infrastructure projects. Alongwith this, the generous incentives for the private investors have increased substantially the industrial activity in Qatar. Greenfield projects and joint-venture investments have been receiving substantial boost from the government and also receives good response from the foreign investors.

Apart from the several oil & gas projects which are currently being implemented in Qatar, there are several new and expansion projects which are taking place in the industrial sector.

Several new and expansion projects are underway in the industrial sector

Major Projects

Ethane Cracker Complex

On February 28th, QP and Royal Dutch/Shell signed a letter of intent (LoI) to set up an ethane cracker and derivatives complex at Ras Laffan Industrial Area, 85 km north of Doha. The project is projected to cost US$2bn. It is designed to produce 1.3mn tpa of ethane and derivatives and is expected to go on stream in 2010. The participants are eyeing the fast-growing emerging economies of Asia for marketing the products. The ethane cracker complex will draw its feed (ethane-rich gas) from natural gas liquids (NGL) plants at Messaieed and Ras Laffan and convert it into value-added products. Ethane is a building block of the petrochemical industry.

Q Power Q.S.C (Ras Laffan – II)

During 2004, the Government awarded the second Independent Power and Water (IPW) project, Ras Laffan II, to Qatar Electricity & Water Company (QEWC) and its consortium partners. The project has been awarded on a build, own, operate and transfer (BOOT) basis. The project is estimated to cost around US$900mn (QR3.28bn) and will have 1,025 MW of power generation capacity and 60 MIGD of water. It will be implemented in two phases. During the first phase, 600 MW of power and 15 MIGD of water capacities will be implemented by 2006 while the second and final phase of the project is slated to go on stream by 2008, which will see the plants capacities meet its full designed parameters.

Table 25: Project and Scheduled Implementation

	Power (MW)	Water (MIGD)
Phase I		
- to be implemented by 2006	600	15
Phase II		
- to be implemented by 2008	425	45
Total	**1,025**	**60**

Source: QEWC and Zawya

A consortium led by QEWC, International Power plc of UK and Chubu Electric of Japan are promoting the Ras Laffan II project, under the new entity named Q Power Q.S.C, which was incorporated in January 2005. QEWC will have 55% equity stake in the project and the other two promoters namely, International Power Plc. and Chubu Electric will own 40% and 5% respectively. The promoters will fund the US$900mn project by raising 80% through debt and financing the remaining 20% through equity. The plant's entire power and water output will be sold to KAHRAMAA under a long-term power and water purchase agreement (PWPA). On April 3rd, 2005, Sheikh Tamim laid the foundation stone of the country's second independent water and power project (IWPP) at Ras Laffan.

Table 26: Means of Financing

Means of Financing	Proportion	US$ mn
Debt	80%	720
Equity	20%	180
Total	**100%**	**900**

Source: QEWC and Zawya

RAF – B Expansion

QEWC is also undertaking expansion at RAF B stations, where it is setting up a 500 MW of power plant and 20 MIGD of water. The project will have capital outlay of about US$450mn (QR1.64bn), which is likely to be funded by about 75-80% of debt and 20-25% of the company's own funds, which has not yet been finalized. The project is likely to start commercial operations from mid-2007.

LNG Transportation and Dry Dock Projects

A giant gas transport company has been established named Qatar Gas Transport Company Ltd (QGTC). The company with a capital of QR5.6bn, is among the largest in the world and will own carriers to transport LNG from Qatar to various parts of the world. The company came out with its IPO in January 2005. The new company's activities will include the transport of LNG. In addition to investing in LNG vessels, QGTC will also build and operate a new state-of-the-art ship dry dock and repair facility in Ras Laffan. The project will be implemented in association with Ras Laffan Port Authority, a state body responsible for the administration of the port. The project is estimated to cost QR500mn (US$137.4mn), of which QR300mn will be contributed by QGTC and the remainder by the authority. The project is expected to be operational by 2008.

In 2005, the Global's Industrial index registered a highest YTD gain of 158.5% at the end of November 2005 and it has moved up much faster than the General index which posted a YTD gain of 82%. Service sector index registered a YTD gain of 25%.

5.4 Infrastructure

Qatar intends to spend US$13.74bn on infrastructure in the next five years. The Qatari government aims to re-develop roads and sewage networks especially in light of Doha's plans to host the Asian Games for 2006. The Public Works Authority is under pressure to be prepared for the Asian Games scheduled for December 2006. The Qatar Government is committed to a huge escalation of investment over the next few years with upwards of US$100bn in expenditure US$75bn for oil and gas projects, US$15bn for infrastructure and US$10bn for tourism, leisure and cultural projects.

A US$1.6bn package for electricity and water sectors

The Qatar General Electricity and Water Corporation or Kahramaa has outlined its four-year plan to carry out major infrastructure projects in the electricity and water sector, with a total expenditure set at US$1.6bn for 2005-2009. Vice-chairman Essa Shaheen Al Ghanem, announced that 55 new electricity stations and several projects to develop water distribution networks are to be undertaken by 2009. This will also involve an increase in the capacity of existing electricity sub-stations by 60%, he added. The electricity sector accounts for the lion's share of the plan with a US$1.1bn budget of which US$675mn has been allocated to ongoing projects and US$432mn for projects under study. Meanwhile, the water sector picks up US$424mn of which US$310mn is for projects currently in progress, including the 88-kilometre Ras Laffan B water pipeline to areas such as Bani Hajjar, Gharafa, Duhail and the Salwa industrial zone.

New Airport Project

In March 2005, an international consortium comprised of companies from Belgium, the US, Holland and Qatar began work on reclaiming land from the sea for the new Doha International Airport. The new airport will be completed in three stages. The first stage, designed to cater to 12mn passengers annually, is to be completed in 2008 and the final stage, capable of handling 50mn passengers, in 2015. The budget for the first phase is put at US$2.5bn, while the overall development, including all phases, is estimated to cost US$5.5bn. The new airport is to be built 4km east of the existing Doha International Airport on a 2,200-hectare site, half of which will be reclaimed from the sea. It will have two runways: one 4,850 metres long, capable of handling fully laden Airbus 380-800 superjets; and the other 4,250 metres long for VIP and strategic use. A cargo terminal, with a capacity of 750,000 tonnes per year, will be built alongside a three-storey passenger terminal.

Expansion at the Existing Airport

Qatar is increasing its passenger handling capacity, at a cost of around US$150mn, at its existing airport, which is currently operated by Qatar Airways on behalf of the QCAA. The current passenger airport handling capacity is 4mn a year, which will be expanded to handle 7.5mn a year. The need to expand passenger handling capacity arose from the expected increase in traffic in the burgeoning economy and also due to the upcoming Asian Games in Qatar.

Expanding Hospitality Sector

Doha has 37 hotel projects in progress

Room rates in Qatar have gone through the roof in the past few years, and obtaining a room can be a major headache for visiting executives. In the year-to-date hotels in Qatar have achieved above 80% occupancy levels and the number of conferences taking place in Qatar are also increasing. An acute shortage of hotel accommodation on account of growing number of tourists and business visitors has prompted number of hotel projects By the time the Asian Games are held in December 2006 there will be 1,700 rooms added to the existing 3,700, making a total of 5,400.

The latest addition to the hotel sector is the 232-room Four Seasons in the West Bay. In 2006 the hotels which will open in time of Asian Games are 259-room Renaissance, 200-room Marriott Courtyard, 120-unit Marriott Executive Apartments, and 250-room Shangri-La. Apart from these, for 2006 La Cigale, Grand Hyatt and the Ramada are the big brands due to open; along with Qatar National Hotel's own Al Sharq Village Resort. Still in the planning stages are new hotels to be managed by Hilton, Inter-Continental, Dusit Thani and Kempinski. There will also be three new hotels in the Pearl-Qatar, three at the new airport and three in the Education City; and 10 hotels on the North Beach after the existing Ritz-Carlton Doha. This is a formidable pace of expansion for such a relatively small market, and bottlenecks in the supply of cement are already being reported.

Science and Technology Park

In September 2005, the Deputy Emir and Heir Apparent H H Sheikh Tamim bin Hamad Al Thani approved a law that seeks to permit the setting up of a duty-free Science & Technology Park (STP) in the country. The law is to become effective once it is published in the official gazette. The park, which will be located in the Foundation's Education City, will be a free zone with a special focus on research and commercialization. Worth more than US$100mn, the STP under construction in Doha will have venture capitalists, entrepreneurs and skilled personnel working together to develop and market their products. The STP's main activity is to provide accommodation, laboratory and office space to companies on a non-profit lease basis. The park is due to open in 2006.

Non-Qatari individuals and companies will be singly or jointly permitted to set up projects on research and development (R&D) work, product development, technical training and consultancy services in the proposed free zone. Foreign investors putting up projects in a park are to be allowed 100 per cent ownership and full capital and income repatriation benefits. Conditions governing sponsorship change, including nationality quotas, would not apply to expatriates taking up a job in the proposed park provided there is a permission from the Interior Ministry. Priority would be given to Qatari nationals in employment by such projects. Expatriates already based here will be able to join a company being established in the said park with clearance from the Interior Ministry.

The park will have a board which will be responsible for managing its affairs and issuing licences to businesses being set up. No other licensing rules prevalent in the country will apply to the above businesses. But criminal and civil laws of the state will indeed be applicable to them. The board will fix licensing and other fees and frame extensive rules specifying terms and conditions for a business seeking entry to the park. A licensee will lose his right to set up a business after expiry of six months from the date the licence was issued. The licence will be withdrawn in case of violation of rules. Pursuing a business other than the one for which a company has been licensed, will be treated as a serious violation attracting a jail term of up to six months and a penalty of up to QR5,000. Equipment, machineries or any other goods being imported for use by a business being set up in the proposed park will be totally exempt from customs levy. No export levy will be applicable to goods produced in the said park. However, goods being sold within the country but outside the proposed park will attract the normal customs duty that is applicable to imported products. Businesses being set up in the park will be exempt from all taxes, including income tax. The property of such a business is not to be seized under any circumstance, but capital and other cash can be seized on the orders of a local court. A business wanting to wind up its activities will be required to notify the board in writing at least six months in advance. If the board deems it necessary, it can allow an applicant to have an office or unit outside the science and technology park for a temporary period. A licence issued to a business will not be transferable.

We believe that in a country where the oil and gas industry is dominant, this would help to diversify and expand the economy while creating technologically advanced job opportunities.

5.5 Real Estate, Construction and Housing

For a detailed discussion on the real estate sector, please refer to our Research report on "GCC Real Estate Sector" published in December 2004.

Demand for construction materials and equipments is at an all time high

Qatar is witnessing an exceptional boom in the real estate sector and there is an increase in investment opportunities in the construction sector. Currently, the demand for residential units and hotel rooms has far exceeded the supply. The economic boom and the increase in population have resulted in the rents going up by 50 to 70% per cent. The sky-rocketing rents has become an issue of concern to expatriates in Qatar. The services committee at the Qatar Chamber of Commerce and Industry (QCCI) has debated a proposal to construct low-cost housing units for low-income expatriates to address the issue of spiraling house rents in Qatar.

The construction activity in the country is booming and the sector was witnessing a shortage of cement. The cement shortage in the country was triggered by spiraling construction activities that saw old residential and commercial premises razed to make way for plush new ones. A huge demand for the building material also exists due to various infrastructural projects that are currently ongoing in the country as well as those for the Doha Asian Games 2006. Demand for construction technology, power, building materials and equipment is at an all-time high.

As per the data from the Planning Council, among the non-oil & gas sector, the sector made the second highest contribution of 7.8% to the GDP in 2004 which is next to services sector's contribution of 8.9%. The sector's growth rate was about 13.5% in 2004, which is lesser than the previous year's growth rate of 18.5%. The level of public expenditure is a very important factor impacting the growth of this sector in the economy. Due to the realization of budgetary surpluses in the last four to five fiscal years, the level of public spending has also increased. For the fiscal year 2005-06, Qatar has earmarked a whopping QR11.73bn for public projects.

Table 27: Building Permits Issued by Municipality (in numbers)

Municipal Area	2000	2001	2002	2003
Doha	1,445	1,545	1,579	1,581
AL Rayyan	1,184	1,305	1,418	1,372
AL Wakra	199	184	217	262
AL Khor	177	153	192	287
Umm Slal	363	369	468	409
Total	**3,368**	**3,556**	**3,874**	**3,911**
% Change	**3.8**	**5.6**	**8.9**	**1.0**

Source: The Planning Council

The country has planned billions of dollar projects spanning across various sectors. The Pearl Qatar (US$2.5bn), Education City (US$1bn), the 2006 Asian Games Village (US$700mn), Hamad Medical City (US$410mn) are a few of the large scale projects. Apart from these number of commercial and residential construction projects are under way in the country.

The number of building permits issued have witnessed significant jump in the past few years, though it later plateau. As per the Planning Council, the growth in the number of building permits was at 8.9% in 2002 which increased from 3.8% in the year 2000. The growth rate in the year 2003 came down to just 1%.

Among the major stimulating factor, the government has issued a decree, in June 2004, that allows non-Qataris to own real estate in three housing projects. The law allows Qatari's and non-Qataris to buy and own real estate of any description in any of the three projects proposed - Pearl Island, West Bay Lagoon and Al Khor Resort. Non-Qatari buyers could own real estate at the above three locations for 99 years, and that would be extendable for another 99 years. The "freehold property owner" not only receives permanent residency but gets a provision for inheritance. The Government has a vision of transforming the State into a high quality destination for cultural tourism, beach resorts, shopping, lifestyle, business and sports events. This vision is supported by an ambitious construction programme involving an investment of billions of dollar by the Government and investment partners over the next few years.

Qatar Real Estate Investment Company (QREIC) is the only listed company in the real estate sector. During 2004, the company's net profit grew by 5.7% to QR56.2mn from QR53.2mn in 2003. The company had accounted for prior year adjustments of QR4.7mn in 2004, otherwise the company's profit would have been higher. It reported a strong growth of 96.8% in its net profit to QR64.8mn for 1H 2005. With the improved performance the company's stock price improved by 34.9% on a YTD basis to QR114.30 as of Aug. 31, 2005. United Development Company, a diversified company, also has interest in the real estate sector with its project – the Pearl Qatar. The company's stock price witnessed sharp run up during the year 2005, it reported a YTD growth of a robust 206.9% to QR79.5 as of Aug. 31, 2005. The rise in the stock prices of these companies could be attributed to the booming real estate sector in particular and the buoyant stock market in general.

The boom in the building industry and huge allocations for infrastructure projects in Qatar have evoked immense interest not only from the regional players but also from the global construction industry. To take advantage of unprecedented boom in the real estate sector, many regional firms have started establishing their shops in the country. The sector will continue to witness boom due to the increased allocation by the government in the past few budgets for public projects such as health, education, housing and infrastructure, which will fuel the economic activities in almost every economic sectors. That will fuel the demand for the housing sector as well. Apart from this, several projects are coming up in the country that will increase the labour demand, and therefore the demand for the housing sector. The new law which allow non-Qataris to own properties will further fuel the demand in the sector. Therefore, the sector will continue to witness strong growth in the coming years.

6. Doha Securities Market (DSM) Performance

Global DSM general index grew by 48% in 2004 and further by 82% at the end of Nov. 2005

Strong economic growth, buoyant crude oil prices, excess liquidity, opening of the market for foreign investors and growing corporate earnings were the major factors which staged a dramatic bull run at DSM during the year 2004 and in the current year so far. In 2004, Qatari stock market continued its northward ride and reached an all time high. The DSM general index posted a superior gain of 64.5%. In May 2005, Global launched indices for Qatari stock market representing general market index and other sectoral indices, viz. Banking, Insurance, Industrial and Services. The general index is a market capitalization-weighted index and comprises of all the thirty one companies listed in the DSM (base year 1999). The Global DSM Index posted a yearly gain of 48% in 2004 and ended the year at 425. At the end of Nov. 2005, the Global DSM general index registered a whopping YTD gain of 82% to reach 775 points.

DSM currently has thirty one companies listed on its exchange. During the year 2004, two companies had been listed, The Meat & Live Stock Co. (in January 2004) and The Warehousing Company (in March 2004). With these, the number of listed companies at DSM increased to 30. The year 2005 witnessed mega IPO of Qatar Gas Transport Company (Naqilat) which closed with great response as the issue had been over-subscribed by 9.5 times. The stock listed in the month of April 2005 at about 12 times its offer price of QR5 per share (partly paid) which was the first listing of the year so far and increased the number of listed companies to thirty one. The second IPO of the year was Dlala, a new brokerage and investment company. The issue was priced at par i.e. QR10 per share and as per the market reports the IPO has received good response from the investors. On December 04, 2005, the mega IPO of a real estate venture named ‘Barwa’ which is promoted by Al Diyar Investment Company was launched, which would be the last IPO of the year.

The major development of the year 2005 was the opening of the market for foreign investors. **A law that allows expatriates and non-resident foreigners to trade on the Doha Securities Market from April 3 this year has been approved by the Emir of the country.** The Minister of Economy and Commerce also made the announcement that once the bourse is opened up for trading to foreigners, they could seek entry to the boards of listed companies and become directors. In anticipation of this development the market started moving up significantly since the beginning of the year 2005, though the actual law came into effect from April onwards.

DSM registered a significant growth in 2004, which continued so far in the current year as well. The four major sectors in the DSM are banking, insurance, services and industry. In 2004, Global’s insurance sector index went up by 144.8% to reach 613.92 and banking sector index increased by 88.7% to 588.24. Thus, both these indices have outperformed the Global’s DSM index in terms of percentage gains. The indices of the other two sectors namely services and industrial have underperformed the DSM market index in 2004 and grew by 45.2% and 5.3% respectively.

In just two months of 2005, DSM significantly outpaced the growth rate it achieved in the whole of the previous year. Global DSM index moved up by a whopping 327.98 points to 752.71, a growth of 77% over 2004 year end value. Till November 2005, Global DSM index achieved a YTD gain of 82%. The YTD gain of the industrial and banking sector indices was at 158.5% and 96.4% respectively, thus outperforming the Global's DSM index by a significant margin. The indices of other two sectors, insurance and services witnessed a gain of 42.8% and 24.9% during the eleven months of 2005.

Table 28: Stock Exchange Indices Performance

DSM Indices	2003	2004	% Change	Nov. end 2005	% Change over Dec. 2004
Global General Qatari Index	287.8	425.0	48	775.0	82
Banking	311.7	588.2	89	1,155.0	96
Insurance	250.8	613.9	145	876.9	43
Industrial	241.2	254.0	5	656.8	159
Services	320.5	465.2	45	579.9	25

*Source: **Global** Research*

The value of shares traded at DSM witnessed a 97% surge in 2004, to reach QR23.1bn

Keeping in line with the increase in the stock market indices, DSM also witnessed robust growth in trading activity. Trading activity as depicted by the value of shares traded witnessed a 97% surge in 2004, to reach QR23.1bn. As a percentage of the total value of shares traded at DSM in 2004, the banking sector accounted for 40%, services 34.8%, industrial sector 21.2% and the insurance sector a minuscule 4%.

This growth in trading activity continued to remain strong in 2005 as well. The value of shares traded swelled to QR94.6bn in the 11-months (Jan-Nov) of 2005. The services sector dominated trading accounting for 43% of the total traded value. While banking and industrial sectors accounted for 27.6% and 27% respectively of the total value traded in DSM during the period Jan-Nov 2005.

Table 29: Stock Exchange Activity (Value of shares traded at DSM)

(in QR mn)	2003	2004	% change	YTD (Jan - Nov '05)
Banking	3,418.00	9,257.83	**170.86**	26,073.41
Insurance	344.20	920.83	**167.53**	2,300.81
Services	3,968.40	8,027.60	**102.29**	40,661.76
Industrial	3,991.80	4,888.31	**22.46**	25,554.50
Total Market	**11,722.40**	**23,094.57**	**97.01**	**94,590.47**

Source : Doha Securities Market

In 2004, the volume of shares traded witnessed significant jump of 60.7% to reach 305.4mn shares

In 2004, the volume of shares traded also kept pace with the rising market. The volume of shares traded witnessed significant jump of 60.7% to 305.4mn shares. Services sector led the trading volume in 2004 as it accounted for 46.9% of total volume traded, followed by the industrial sector which accounted for 32.3%. The banking sector accounted for 17.9% of volume traded and the insurance sector accounted for the rest of the 2.8% of the total volume.

During the eleven months of 2005, the volume of shares traded grew 3 times over total volume registered in 2004. The total trading volume stood at 946.2mn shares. Services sector accounted for the highest volume of about 67%, which was mainly because of the Qatar Gas Transport Company accounting for the highest volume traded in the services sector.

Table 30: Stock Exchange Activity (Volume of shares traded at DSM)

(in mn)	2003	2004	% change	YTD (Jan-Nov '05)
Banking	39.0	54.9	40.7	87.0
Insurance	6.7	8.5	26.1	10.7
Services	72.4	143.5	98.2	633.0
Industrial	71.9	98.6	37.1	215.4
Total Market	**190.0**	**305.4**	**60.7**	**946.2**

Source : Doha Securities Market

M-Cap of DSM shows steep YTD growth of 112.9% till Nov 2005.

Out of the 30 listed companies at DSM in 2004, only 6 companies' stock prices, registered a decline in their value while all the other 24 saw their share value increase. In 2004, the market capitalization (m-cap) of DSM went up steeply by QR49.97bn a sharp jump of about 51% and stood at QR147.19bn. Apart from the buoyant stock market, the major reasons for this steep increase in m-cap are listing of two new companies and raising of capital by 11 companies during the year. Out of the four sectors, the insurance sector was the major gainer in its m-cap with a gain of 145% and the banking sector accounted for the largest m-cap of about QR55.9bn. At the end of Nov 2005 the DSM's m-cap stood at QR313.4bn which shows a robust growth of 112.9% over 2004 year end level.

Table 31: Market Capitalization of DSM

(in QR mn)	2003	2004	% change	Nov. end '05
Banking	28,419	55,859	96.6	109,680
Insurance	3,523	8,633	145.1	12,872
Services	34,108	35,918	5.3	96,922
Industry	31,172	46,780	50.1	93,885
Total Market	**97,222**	**147,191**	**51.4**	**313,358**

Source : Doha Securities Market

Soaring oil prices, a continuing economic boom backed by a large inflow of foreign funds into the country and near-stoppage of capital's flight are the major factors contributed to the current rally at Doha Securities Market (DSM). During 9M of 2005, the aggregate earnings performance of the listed companies increased by about 42% over the corresponding period of the previous year. While the YTD gain of the market, till September 2005, was about 112%. Therefore, going forward we believe that the market will remain in a corrective phase for short term and it is better to adopt a cautious approach. However, we expect that it will continue to remain firm in the medium to long term due to a mix of factors, prominent among them being the firm crude oil prices, increase in public expenditure by the government, etc.

Corporate Earnings

The listed companies and banks in Qatar have performed exceedingly well in the year 2004 which also played an important role in the rally witnessed in DSM in 2004. The major growth drivers for the corporate earnings have been the low interest rates, increased government spending and improved liquidity in the system. The year 2004 witnessed a profit growth of 59.2% with collective net profits of the listed banks and companies stood at QR7.83bn. In terms of sectoral growth in earnings in 2004 over 2003, it was the industrial sector which recorded the highest growth of 104% to reach QR2.77bn, which was mainly due to the decent performance by Industries Qatar. While other sectors namely, Insurance sector achieved a profit of QR316.3mn (81% growth), banking sector's profit stood at QR1.96bn (42% growth) and services sector's at QR2.78bn (39% growth). Sector-wise, services, industrial, banking and insurance accounted for 35.5%, 35.4%, 25% and 4% respectively of the collective net profits of all the listed companies at DSM in 2004. In 2004, Industries Qatar took the place of Qatar Telecom and topped the list of locally listed companies in terms of profitability with net profits of almost about QR2.5bn in 2004, which was nearly 32% of the total profits of all listed companies in Qatar.

The financial results for the first nine months of the current year (2005) by most of the companies have been encouraging which is further driving the stocks at the DSM. The collective net profits of all the listed companies increased to QR8.6bn, showing a growth of 42% over corresponding period of the previous year. With the government's thrust on spending on infrastructure and other civil projects there will certainly be a further economic expansion which will drive almost all the economic sectors of the country. This will further improve the revenue and profitability of listed Qatari companies.

As Qatar being an upcoming economy we expect almost all the sectors in Qatar to do well

Table 32: Corporate Earnings of DSM Listed Companies

(in QR mn)	2003	2004	% Chg.	9M 2004	9M 2005	% Chg.
Banking	1,385.8	1,962.4	41.6	1,554.1	3,062.6	97.1
Insurance	174.8	316.3	81.0	266.8	381.5	43.0
Services	2,004.2	2,783.0	38.9	2,278.9	2,397.6	5.2
Industry	1,357.2	2,772.7	104.3	1,976.2	2,805.2	41.9
Total Market	**4,921.9**	**7,834.5**	**59.2**	**6,076.1**	**8,646.9**	**42.3**

Source : Doha Securities Market

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