

THE ECONOMY OF QATAR

According to the Qatar Economic Insight report issued by the Ministry of Development Planning and Statistics (MDPS) ("Economic Insight report") (issue 10 of June 2016), the actual economic growth rate is expected to increase to reach 3.9% in 2016 (despite lower oil prices) owing to the continuous strength of the non-hydrocarbon sector and the support of Barzan Gas Project for producing raw hydrocarbons. The report shows that the non-hydrocarbon sector will continue to grow until 2017 and 2018 and maintain the general economic momentum. Services sector will be the biggest contributor to growth, followed by building and construction sector; however, a slowdown is expected in the growth of non-hydrocarbon sector after this period due to the slowdown of population growth and the focus on completing current projects, not on launching new ones.

According to the Economic Insight report, strong growth of Qatar's construction sector, driven by large government investments, a stable work environment and an increase in consumer demand, is expected to continue with an annual growth rate of 9.9% in 2016, 9.2% in 2017 and 7.2% in 2018 and with a continuous increase to reach 10.4% in 2022. The 2022 FIFA World Cup is deemed one of the growth stimulating factors. However, the state needs to diversify its economy, which indicates a need to launch more key infrastructure projects even without holding this event. The real estate sector is expected to effectively overcome all restrictions related to capabilities, although there is a belief that the pressures imposed by wages and material prices would pose an obstacle.

According to the Economic Insight report, the latest data updates indicate that the balance sheet, for the first time in 15 years, will record a deficit in the calendar year 2016. This will continue in 2017 and 2018. The financial deficit of 2016 is estimated at 7.8% of the GDP and is expected to be almost at the same pattern in 2017 and record a decrease in 2018.

The primary data of the calendar year 2015 show that the total government surplus reached QAR 21.3bn, which is 3.5% of the estimated nominal GDP. Notwithstanding the decrease in surplus compared to 2014, its balance remains positive despite the sharp decline in oil prices due to investment income). It is mainly composed of Qatar Petroleum's financial surplus) which is accounted for in the budget with a delay. Subsequently, oil prices, which were higher in 2014 than in 2015, had protected 2015's budget revenues.

The current account in the balance of payment is expected to record a slight deficit of 0.4% of GDP in 2016. However, small surpluses are likely to be achieved in 2017 and 2018. The main factors of decline are Qatar's reliance on hydrocarbon exports and 2016's anticipated low prices. Increased oil prices anticipated in 2017 and 2018 will support the growth of exports. Demand on imports may decline due to the decrease in project capital requirements. However, it remains backed by the demand on raw materials and the increase in consumer demand.

Qatar's commercial surplus decreased by half in 2015 to reach 29.2% of the nominal GDP compared to its value in 2014. The current account recorded a lower surplus of 8.2% of the nominal GDP. The reason for surpluses decline is the decrease in commodity export revenues which fell by 39% as a result of lower oil prices; however, the imports decline in 2015 contributed to reducing the volume of surpluses' decline.

The annual inflation rate, measured by the change in the CPI in Qatar, is forecast to be 3% for 2016. It is also expected to record a slight increase to reach 3.6% in 2017 and 3.8% in 2018. The CPI inflation is expected to increase in 2016 due to higher oil prices which is sold locally in January of such year and the removal of subsidy on water and electricity in late 2015. The first four months of 2016 have already witnessed a significant acceleration in inflation to reach 3.1%. In addition, applying new taxes and removing more subsidies will maintain the local pressure on prices for the short term. After 2016, global prices of raw materials are expected to increase and the momentum of the rise of US Dollar rising is expected to slow down.

Note: Except where another source has been cited, all information, charts and tables included in the section titled "The Economy of Qatar" are derived from the Economic Insight report, issue 10, June, 2016.

Forecasts of key indicators

	2016	2017	2018
Real GDP growth (%)*	3.9	3.8	3.2
Nominal GDP growth (%)	-2.9	9.0	9.1
Consumer price inflation (%)	3.4	3.6	3.8
Fiscal balance (% of nominal GDP)	-7.8	-7.9	-4.2
Current account balance (% of nominal GDP)	-0.4	0.9	2.8

*In constant 2013 fixed prices

Source: Ministry of Development Planning and Statistics MDPS

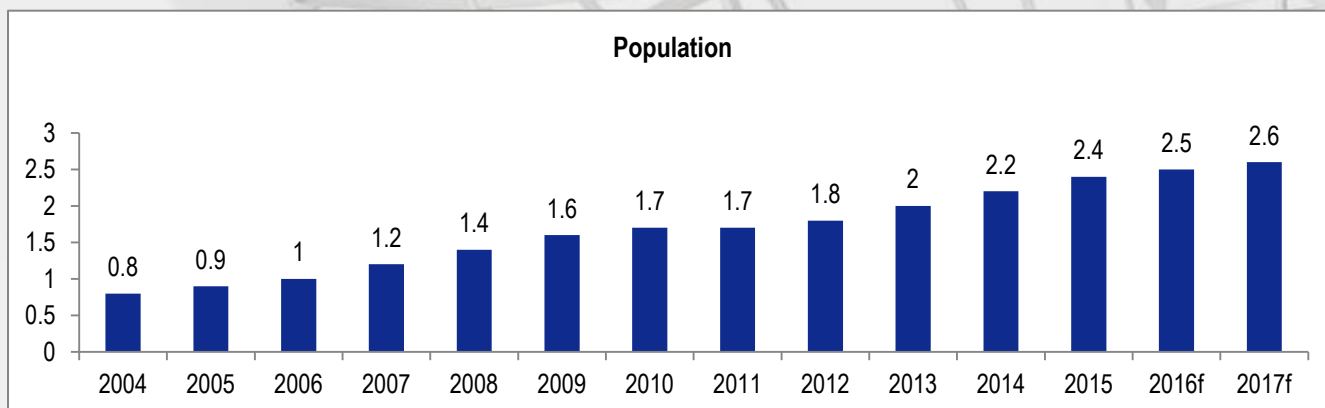
Population Overview

According to the population census issued by the Qatar Statistics Authority, Qatar's population is forecast to grow constantly with an estimated annual growth rate of 4.1% during the period between 2016 and 2017, as the roll out of the infrastructure investment program continues, bringing in more foreign workers. According to Qatar Economic Insight issued by Qatar National Bank (QNB), Qatar's population census reached around 2.4 million at the end of 2015. Around 1.9 million are males and 0.5 million are females.

Qatar's population continues to grow steadily, with an age group below the age of 19 covering more than the third of the population. Despite the rapidly growing economy and government's efforts to improve the educational system, a future challenge of meeting the demand for new jobs for this age group might arise. Labour Force Survey of Q4 of 2015 prepared by MDPS showed an increase of 2.6% in Q4 2015 in the number of economically active population in Qatar, reflecting an increase in the total population number in the same period. The Survey also showed an increase in the number of the participants in labour force from 1.8 million workers in the first quarter to 1.9 million in the fourth quarter of 2015 with a number of males reaching 1.7 million compared to 0.2 million females. The economic participation of the population aged 15 years and older reached 88.4% (of the total 15 years and older age group). The 25 to 34 year age group shows the highest economic participation of 94%. The economic dependency rate reached 30% for Q4 2015.

The Survey showed an increase in paid employees of 2.7% in Qatar's market. This number increased from 1.8 million paid employees in Q3 2015 to 1.9 million in Q4 2015. The average monthly wage for paid employees was QAR 10,782.

Separately, the Survey showed a slight increase of 0.5% in Q4 2015 in the number of economically inactive population of 251,924 persons, with an increase of 1,167 persons compared to Q3 of the same year. The number of job seekers in Qatar was approximately 3,300 persons in Q4 2015, according to the International Labour Organization, with 1,084 male workers and 2,170 female workers. The unemployment rate remained stable at 0.2% from 2014 to Q4 2015.



Source: QNB Qatar Economic Insight 2015

Real GDP Growth Rate

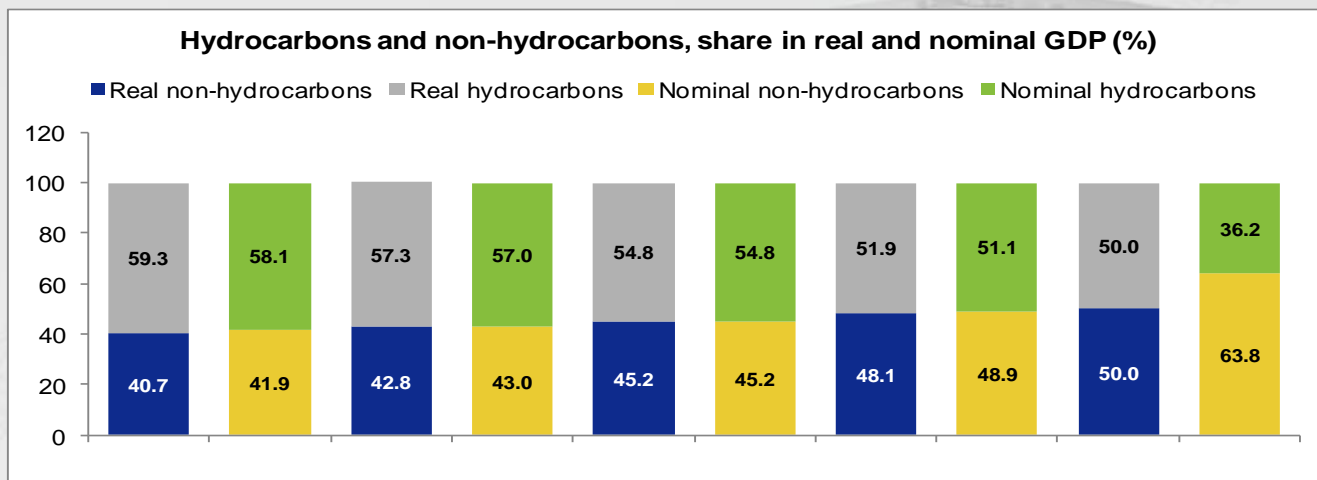
Qatar ranks as one of the highest per-capita income economies in the world. Despite the significant drop in oil prices in 2014 and 2015, with substantial financial resources, Qatar has ample external and fiscal buffers to continue implementing its ambitious investment program. According to the Qatar Economic Insight report issued by the Ministry of Development Planning and Statistics (issue 10), Real GDP grew at 4.1% in 2014, and 3.7% in 2015 via large investment spending. GDP measured by fixed prices for 2013 is expected to grow by 3.9% in 2016, i.e. an increase of 0.2% compared to 2015.

Most of this increase is due to the production of the Barzan gas field, which will enter into the production phase later this year (2016). The field is expected to increase the production of gas transported by pipelines by 21%. The manufacturing industry will also grow as the increase in produced gas amounts gives a push forward this year. Robust momentum will continue in sectors other than oil and gas due to investment spending on infrastructure and the relatively strong population growth this year. GDP growth is expected to slow in 2017 and 2018 to reach 3.8% and 3.2% respectively. The expansion of Barzan field's capacity will be completed and the new "Laffan 2" refinery, scheduled to operate in 2017, will boost hydrocarbon production during those two years. The refinery will produce jet fuel and gas oil for domestic consumption and export other products, such as diesel, to Asian markets. Despite that strong growth in sectors other than oil and gas is expected, it will slow in those two years. Government spending on infrastructure is expected to peak and population growth is expected to slow. Although expectations indicate a decline in the real growth rate in the economy of Qatar, it will remain the highest rate compared to other Gulf states over the forecast period of 2017 and 2018.

*In constant 2013 fixed prices
Source: MDPS

The building and construction sector is expected to be the growth leader in Qatar in 2016, as it will grow by 9.9%. Despite its continuous expansion in 2017 and 2018, its growth pace will slow and the focus will change towards the completion of existing investments and not on starting new ones. A new integrated plant for water and electricity (Um Alhoul) is expected to be implemented in 2017 and to be fully operated in 2018 leading to a growth in utilities sector.

The manufacturing industry will grow rapidly at a rate slightly lower than 8% in 2016 because the increase in Barzan field production will raise the production of refined derivatives, fertilizers and petrochemical products. The increasing demand for cement and minerals for building and infrastructure projects is expected to maintain the momentum within other manufacturing activities. "Laffan 2" refinery will significantly contribute in the strong growth of the manufacturing industry in 2017. The expansion of the capacity of Barzan field and the refinery will be completed by 2018. However, the manufacturing industry will grow slowly unless other manufacturing industries are added in the near future.

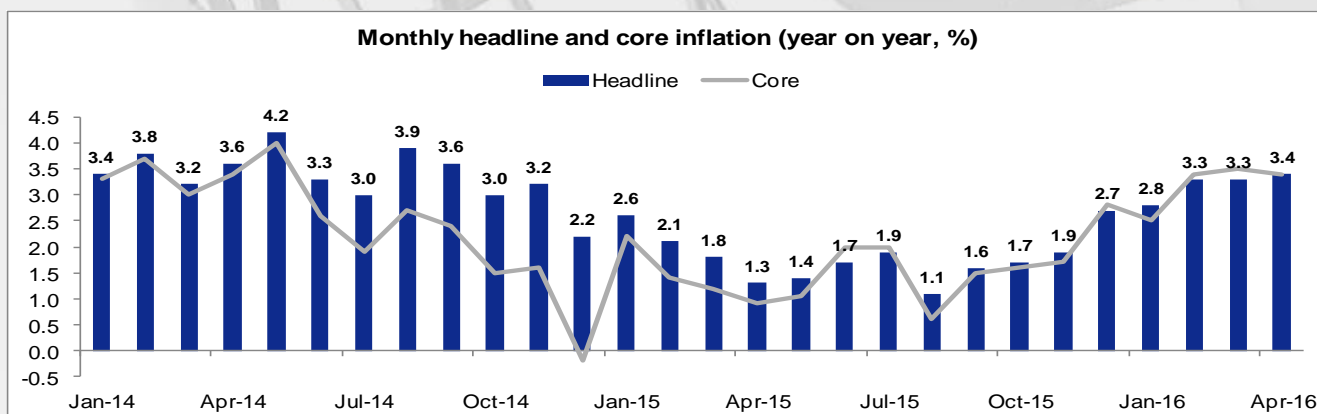


Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying Source: MDPS

Consumer Prices

The general inflation rate scored 1.8% in 2015 (i.e., the change in the average annual percentage of the CPI based on 2013's prices). The main reason for the rate's decline is the moderate imported inflation in 2015, leading to a slight change in traded materials' prices, such as food and beverages which have a weight of 12.6% of the CPI. The slowdown in the prices of items/non-tradable goods contributed to restraining the inflation rate in 2015.

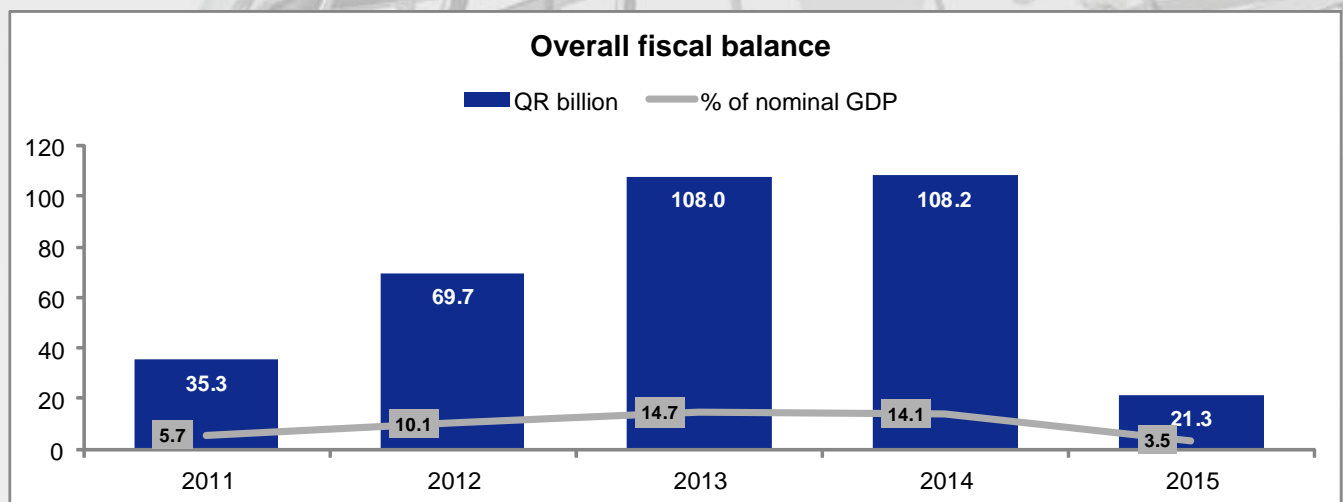
Consumer prices in Qatar are based on a number of national and international factors. External inflation resulting from high prices of imported goods and services moderated in 2015. The prices of international goods and services dropped due to a decline in demand, resulting in lower prices of imported goods in Qatar. Local inflation has become the principal driver of the increase in general inflation due to continuous rapid population growth, accompanied by increasing demand for goods and services. Additionally, the reduction of subsidies on electricity and water resulted in an increase in prices in the last quarter of the year. The core inflation rate (which excludes the temporary and variable components of facilities and residential rents in addition to foodstuff prices) was approximately 1.6% on average in 2015. The value of core inflation has fluctuated over this year, dropping in the first quarter and rising in the second, then falling in August to reach its lowest value in 2015, after which it rose until the end of the year.



Note: Core inflation is general inflation excluding food, drinks, housing, water and electricity. Source: MDPS

Government Surplus

The Economic Insight report indicated that the government surplus in the 2015 budget was estimated at QAR 21.3bn, which is equivalent to 3.5% of the nominal GDP estimated for the same period. The decline of this percentage from the 14.1% recorded at the end of the previous year is due to the decrease in the prices of oil and gas during the period and its negative impact on government income. Government revenues recorded a decline of 20.7% in 2015 compared to 2014. Oil and gas revenues (including hydrocarbon tax revenues and royalties) shrank by 23.2% as a result of a decrease in oil prices starting in mid-2014. Government spending recorded an increase of 7.6% in 2015 compared to 2014. Government spending on current expenses increased in 2015 compared to results in most spending categories. The greatest increase in government spending is to security and defense, water and electricity services, wages and salaries, and education. However, current spending on health sector decreased. According to the Economic Insight report, actual data indicate that the spending percentage recorded for wages and salaries increased by approximately 8.2% compared to the previous year's actual data. (Note: The following chart shows the government surplus percentage of nominal GDP).



Source: MDPS

Natural Resources

Qatar holds the third largest proven natural gas reserves in the world behind Russia and Iran.

Qatar's North Field, discovered in 1971, is the largest non-associated natural gas field in the world with recoverable reserves of more than 25.49 trillion cubic meters. According to RasGas, that is approximately 10% of the world's known reserves. As a result, it is not surprising that Qatar is a dominant player in the world gas market. The country is second only to Russia in terms of natural gas exports, and remains the world's largest LNG exporter—a position it has held for nearly a decade.

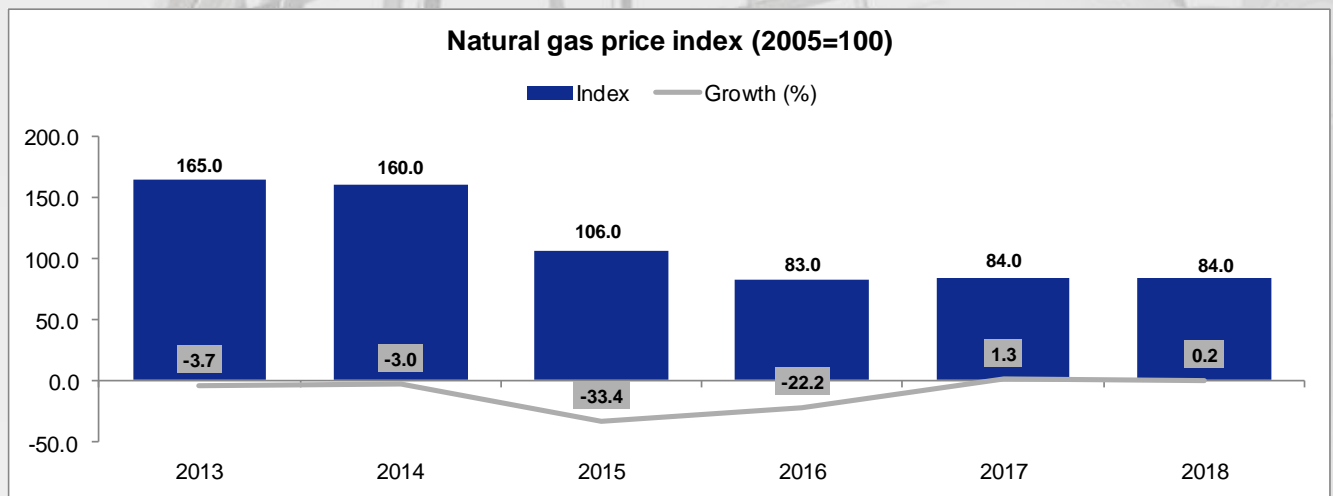
Crude oil prices reached their lowest value in the third week of January, 2016, when the Brent price reached \$25.8 per barrel and reached its highest value of \$49.7 per barrel on 26 May, 2016. Similarly, Qatar marine crude oil hit its lowest in late January, scoring \$23.2 per barrel and reached its highest value of \$46.6 per barrel in late May. Qatar marine crude oil prices follow the same pattern of Brent prices, the most widely adopted in the world.

For Qatar, gas prices are much more important than oil prices because the value of gas exports exceed that of oil exports. The value of LNG exports exceeded the value of all other hydrocarbon products in 2015, representing approximately 46% of total commodity exports. Approximately a quarter of Qatar's exports of LNG is sold at spot

delivery prices, and the rest is sold in accordance with contracts related to oil prices (with a delay of 6 months). As for the distribution of LNG exports, in 2015, two-thirds were exported to Asia, where higher prices prevail.

International LNG prices dropped during the last six months due to production surplus in the sector. Qatar has maintained its production capacity since 2011, but new exports from Australia and the United States have begun to emerge. Because most of Australia's exports go to Asia and as Japan resumes operation of certain nuclear plants, prices in Japan witnessed the greatest decline but are still the highest in the region. Crude oil prices including customs fees in Japan decreased by 40.1% between November 1, 2015 and May 1, 2016. Prices associated with the American Henry Hub only decreased by 8.5% in the same period. Usually, in the US, where most gas is sold at spot prices, lower prices prevail, while Japan has the highest prices because gas is sold by way of long term futures associated with crude prices including custom fees.

Given the excess in shipping capacity and the anticipated affluence in LNG supplies, Qatar is developing and renewing its marketing policy in order to protect its shares in the market, especially favoring long term supply agreements for LNG exports. Due to lower attractiveness of LNG prices and its anticipated affluence, the World Economic Outlook report issued by IMF in April, 2016, tempered its expectations for natural gas average prices in 2016 (the weighted average price in the Japanese, American and European markets), by 10.8% against the same report's forecasts in October 2015. It also forecasts price stability on a large scale in 2017 and 2018.



Note: The index is the weighted average price in the Japanese, American and European markets.

Source: IMF, World Economic Outlook