



# MARMORE

MENA INTELLIGENCE

## Qatar

Top Economic & Investment  
Themes for 2016

Classification of  
economic and investment  
themes for the Qatari  
financial markets.

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# Top Economic & Investment Themes for 2016

Qatar

## Research Highlights:

Analysis of key economic and investment themes for Qatar in 2016

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## Economic Themes & Investment Implications

Key Themes	Rationale	Stock Market	Bonds	Real Estate	SME
Budget Cuts	Deficit forecasted for the first time in 15 years				
Borrowings to bridge deficit	Government plans to issue bonds to bridge fiscal deficit. Reserves to help prop up ratings.				
Subsidy & Tax Reforms	Electricity and Water revised upwards to soften subsidy blow.				
SMEs	Need for a burgeoning private sector				na
Business Environment	Starting a business has become more difficult with Qatar declining six places to 109				

Source: Marmore; Legend for color codes

Positive Impact	Neutral Impact	Negative Impact
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Crude oil prices have declined by 69% since Jun'14, and are forecasted to remain low in the medium term by most international agencies, such as the World Bank, IMF and other global investment banks. The fiscal and current account surpluses enjoyed by many of the gulf states is expected to come to a halt, with Qatar facing a fiscal deficit situation for the first time in 15 years. Thus far, Qatar has managed the falling gas prices through a combination of secure long-term supply contracts, and flexible supply arrangements, but continues to be extremely reliant on hydrocarbon revenues. Part of the government's revenues is invested in its sovereign wealth fund, while most of it is used to pay wages for public sector employees (21 per cent), support large scale energy and utility subsidies, capital transfers and grants for citizens, such as housing grants of QR 1.2mn per citizen. But with worsening fiscal condition amid the low hydrocarbon price environment revenue streams would need to be used efficiently, and wasteful expenditures need to be curbed. Priority has been shifted to capital expenditures, increasing role of private sector in the economy, and to reduce expenditure incurred in the form of subsidies.

With the second lowest fiscal breakeven oil price (USD 57.8 per barrel) and the presence of ample fiscal reserves and buffer (172 per cent of GDP), Qatar is expected to withstand the current environment of low oil prices better than its regional peers. The country plans to spend USD 200bn on infrastructure as part of its 2030 development plan and this has lured foreign contractors to what promised to be big profits, but project delays and problems with contracts and bureaucracy have left many in difficulties and their returns uncertain. According to Zawya, of all the projects in Qatar that could be categorised as ongoing, on-hold or cancelled, over 10 per cent belong to the latter two categories representing over 20 per cent of the total project value. Qatar could raise debt in domestic and international markets, or it could use its buffers to bridge the deficit. Any actions taken by the government would be watched keenly as it would have wider economic implications.

## Theme 1: Budget Cuts

The government expects to generate USD 42.8bn in revenue in 2016, a 30.9 per cent drop compared to the USD 62bn forecasted for the previous fiscal year.

A new budget, which includes cut in expenditures in anticipation of the country's first fiscal shortfall in 15 years, was released on 16<sup>th</sup> December 2015. Expenditures are forecasted at USD 55.6bn next year, which is a 7.28 per cent decline from the last fiscal year, despite the increase in outlays on government salaries, wages and major projects – such as major transportation initiatives and preparations for the 2022 World Cup.

### Qatar Budget 2016

Item	2014/15	Apr-Dec 2015	Extended Budget Apr'14-Dec'15*	2016
Revenues (Projected)	USD 62bn	USD 46.5bn	USD 108.5	USD 42.8bn
Expenditure (Projected)	USD 60bn	USD 45bn	USD 105	USD 55.6bn
Surplus / (Deficit)	USD 2bn	USD 1.5bn	USD 3.5	-USD 12.8bn
<i>As a % of Revenue</i>	<i>3.20%</i>	<i>3.20%</i>	<i>3.20%</i>	-
<i>Oil Price, \$/barrel, used to equate budget</i>	<i>USD 65</i>	<i>USD 65</i>	<i>USD 65</i>	<i>USD 48</i>

Source: Doha News; \* - Qatar's Ministry of Finance formally announced that the fiscal year 2014/15 will be extended until the end of 2015, so that a new financial year, Jan-Dec, could be followed from 2016.

The government expects to generate USD 42.8bn in revenue in 2016, a 30.9 per cent drop compared to the USD 62bn forecasted for the previous fiscal year. While Qatar's economy is still expanding, it is doing so at a much lower rate than anticipated, which has led to the government to cut its GDP estimate for 2015 by nearly half to 3.7 per cent, down from a forecast of 7.3 per cent made in June. It also lowered its GDP growth expectations for 2016 (4.3 per cent, from 6.6 per cent forecasted in Jun'15) and 2017 (3.9 per cent, from 6 per cent forecasted in Jun'15).

With the oil prices continuing to trend down, energy firms refrained from making additional investments in Qatar, and planned projects faced delays, including the start of RasGas' Barzan gas plant. On the other hand, the non-hydrocarbon sectors, especially the construction of massive infrastructure projects, are expected to grow by 10.1 per cent in 2015, but with projects scheduled to plateau in the coming years amid slowing expansion, growth in many sectors is expected to fall in the future.

A massive drop in revenues caused by lower oil and gas prices is forecast to leave a deficit of USD 12.8bn in next year's budget.

A massive drop in revenues caused by lower oil and gas prices is forecast to leave a deficit of USD 12.8bn in next year's budget. To cover this financial shortfall, the country plans to borrow money rather than tap into the reserves held by the Qatar Investment Authority (USD 256bn), according to the Finance Ministry.

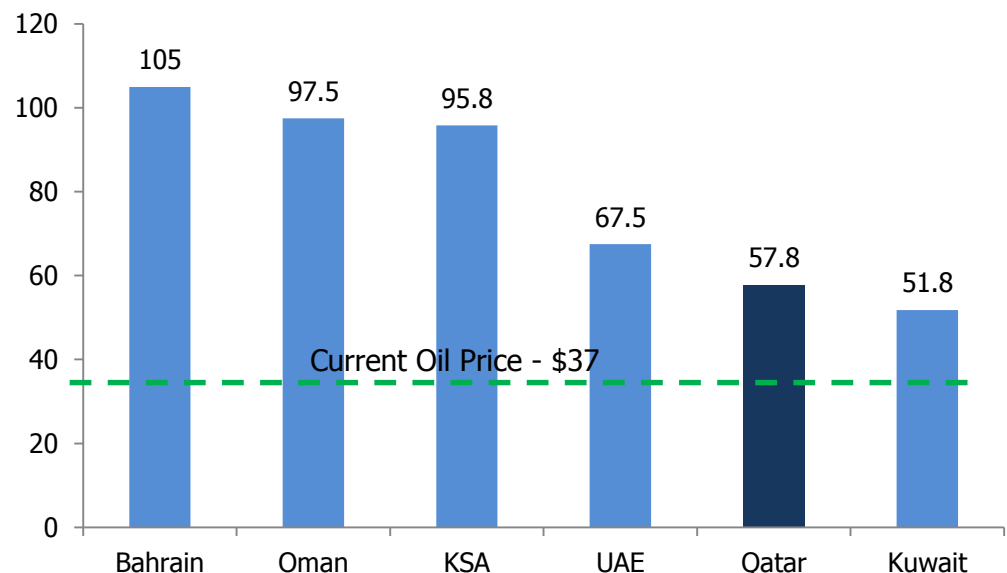
Little details are available on the implementation of these budget cuts, which is likely to be achieved by trimming down government operations, and improving cost efficiency. Many state-funded organizations in Qatar, including Qatar Museums, Qatar Foundation and Al Jazeera, have already been forced to tighten their finances over the past year by reducing their programs and laying off expats.

Healthcare spending is poised to increase to USD 5.7bn from USD 4.3bn in the last fiscal, with several projects planned, including the much-delayed Sidra Medical and Research Center.

While the budget contained funding for the construction of 18 new schools and six kindergartens in 2016 (down from 85 schools in 2014-15), spending on education has come down from USD 7.22bn in the previous fiscal to USD 5.6bn. Healthcare spending is poised to increase to USD 5.7bn from USD 4.3bn in the last fiscal, with several projects planned, including the much-delayed Sidra Medical and Research Center. In addition, funds will be allocated to establish five new health centers and a cancer treatment center, as well as complete Hamad General Hospital and Hamad Medical City. Funding for housing loans through the Qatar Development Bank will also increase by 25 percent to USD 550mn.

Qatar's economy is highly dependent on the sale of oil and gas, and the budget assumes an average oil price of USD 48 per barrel in 2016, which implies that Qatar's budget deficit could widen further, if oil stays around its current price of USD 36 per barrel in 2016.

### GCC Fiscal Breakeven Prices (USD – 2016e)



Funding for housing loans through the Qatar Development Bank will also increase by 25 percent to USD 550mn.

Source: IMF, Reuters; Oil Price as on Dec 20<sup>th</sup> 2015

Qatar government is set to spend USD 72bn over the coming years on infrastructure development with special focus on transport, water, electricity and sewage besides a number of road expansion projects. Out of the total, USD 24bn will go towards transport sector development including on new rail projects and port infrastructure, while USD 15bn will be spent on other infrastructure and USD 8.2bn in water and electricity. Qatar's government has also said that the main goal behind the 2016 budget was to ensure the completion and implementation of major projects in key sectors along with projects related to the FIFA World Cup in 2022.

**Investment Implications****Impact Indicator**

Investment Arena	Relative Impact
Stock Market	Negative
Bond Market	Positive
Real Estate	Negative
SME	Positive

Source: Marmore Analysis

Budget cuts are expected to reduce the economic activity and eventually revenues of the companies.

**Stock Market:** Budget cuts are negative for the economy which is expected to impact the stock market as well. In a country such as Qatar that depends largely on government spending to prop up the economy, budget cuts are expected to reduce the economic activity and eventually revenues of the companies. With investor interest expected to be weak due to various global factors, the decline in earnings prospects would only exacerbate the losses in the share prices.

**Bond Market:** Qatar has decided to borrow to fund its deficits instead of dipping into its reserves. Qatar has also stated that it plans to borrow from both local and foreign money lenders. Government borrowing from outsiders could help in developing the local bond market.

**Real Estate:** Qatar's real estate sector was stable till Q3 2015 according to market reports. However in the final quarter of 2015, real estate prices have come down as the government and hydrocarbon sector have not been actively pursuing offices/commercial spaces during the recent months citing budget concerns. Recent commercial activities have been restricted to the private sector, where lettings of smaller office suites of less than 500 sqms have been dominant. With further budget cuts announced by the government it is expected to be negative for the sector. Retail and hospitality sectors are performing well and they are expected to continue their good performance in 2016 too. Both of the above could be related to the robust growth in tourism and spending related to the FIFA world cup 2022.

The country's non-hydrocarbon sectors, led by construction of massive infrastructure projects, is expected to grow by 10.1 percent in 2015.

**SME:** Qatar government, in its budget, has announced that the spending on key areas such as infrastructure, transportation initiatives and wages will be maintained. The country's non-hydrocarbon sectors, led by construction of massive infrastructure projects, is expected to grow by 10.1 percent in 2015 and this trend could be expected to continue in 2016 also. Qatar has taken measures to increase the contribution of non-oil sector to the country's GDP through its Qatar Development Bank (QDB). Budget cuts are largely restricted to trimming off excessive spending such as those associated with Qatar foundation, Qatar museum etc., In addition to spending on infrastructure Qatar is also focusing on developing its SMEs and we expect growth in SMEs to continue in 2016 as well.

## Theme 2: Borrowings could bridge deficit

In Qatar, the largest issuer of bonds both in terms of volume and value has been the Qatar Central Bank (42% of total issuances by value since 2011).

The government of Qatar has stated that it will not scale back economic development projects or cut state subsidies for fuel and food in response to low oil and natural gas prices, because government finances remain strong. Having the lowest fiscal breakeven oil price in the GCC region after Kuwait, Qatar's huge sovereign wealth, accumulated from past fiscal surpluses, and reserves add up to 172 per cent of its GDP, which should help it weather this period of low oil and gas prices.

Qatar Investment Authority (QIA), estimated to be worth USD 256bn in assets as on June 2015, by the Sovereign Wealth Fund Institute (SWFI), had divested at least three stakes in recent months, the last of which was the October sale of USD 2.5bn shares in the UK-based BG Group. While the reasons for these divestments were not disclosed, it is believed to be linked to the state spending on mega-infrastructure works. More asset liquidations are likely to follow from the QIA's reported paper loss of USD 12bn on equity stakes in Glencore, Agricultural Bank of China and Volkswagen, according to the Financial Times.

### Bond Issuances in Qatar (2011-2015) (USD Mn)

Issuers & Issue Size (USD mn)	2011	2012	2013	2014	2015	Total	% of Total
Qatar Central Bank			3,296	4,669	3,838	11,803	41.9%
Ministry of Finance - Qatar	5,000					5,000	17.8%
Qatar National Bank S.A.Q.		2,000	2,905			4,905	17.4%
OOREDOO Q.S.C.		1,000	1,000			2,000	7.1%
Doha Bank Q.S.C.		500			750	1,250	4.4%
The Commercial Bank of Qatar (Q.S.C.)		500		750		1,250	4.4%
Qatar Petroleum		705				705	2.5%
Al Khalij Commercial Bank Q.S.C.			500			500	1.8%
International Bank of Qatar Q.S.C.					500	500	1.8%
Qatar Insurance Company S.A.Q.					250	250	0.9%
<b>Total</b>	<b>5,000</b>	<b>4,705</b>	<b>7,701</b>	<b>5,419</b>	<b>5,338</b>	<b>28,163</b>	
<b>% of Total</b>	<b>17.8%</b>	<b>16.7%</b>	<b>27.3%</b>	<b>19.2%</b>	<b>19.0%</b>		

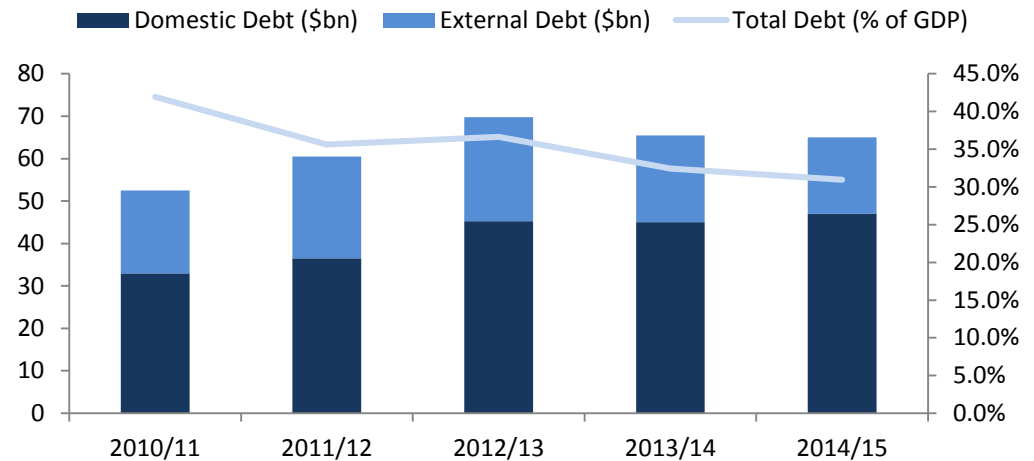
Source: Zawya

In Qatar, the largest issuer of bonds both in terms of volume and value has been the Qatar Central Bank (42% of total issuances by value since 2011). Qatar's corporate bond issuance has been see-sawing over the past five years while the number of sovereign and quasi-sovereign issues have increased. In 2015, four corporate bonds and eight sovereign bonds were issued, and the number of sovereigns is likely to increase to fund infrastructure projects.

Massive capital expenditure projects planned in the run-up to FIFA 2022, existing liquidity crunch in the markets, and a sustained low oil price could lead the country to issue bonds both conventional and Islamic in order to attract investors. Large deficit projected for 2016 implies that bond issues will become more frequent in 2016. Issuance of Islamic bonds is set to gather pace in 2016, with the market forecasted to grow by 15 per cent globally in 2016, according to Thomson Reuters<sup>1</sup>. In the GCC region, Saudi Arabia and Qatar will be at the forefront of this growth.

Large deficit projected for 2016 implies that bond issues will become more frequent in 2016.

<sup>1</sup> Albawba

**Qatar Central Government Debt**

Source: Peninsula Qatar

At present, the Qatari government is looking to conclude a multi-billion-dollar sovereign issue by early 2016. In recent years, the country's gross government debt as a percentage of GDP had declined to 31 per cent from a high of 42 per cent in 2010, after maturing public debt was paid back.

Moody's maintains Qatar's sovereign rating at Aa2 with a stable outlook, despite lower hydrocarbon price affecting revenues, as a sizeable buffer helps support the country's finances. Until 2017, growth is expected to be driven by the non-hydrocarbon sector and the Barzan gas project coming on stream, following which hydrocarbon output will likely flatten. The rating agency forecasts Qatar's fiscal surplus will decline to 6.4% of GDP in 2015, from 16.7% in 2014 and will turn into a small deficit of 2.4% of GDP in 2016. Qatar's debt-to-GDP ratio is estimated to reach 35% in 2016, which is higher than the similarly-rated peers.

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**Investment Implications****Impact Indicator**

<b>Investment Arena</b>	<b>Relative Impact</b>
Stock Market	<b>Neutral</b>
Bond Market	<b>Positive</b>
Real Estate	<b>Positive</b>
SME	<b>Neutral</b>

Source: Marmore Analysis

Listed companies can gain from an alternative source of funding other than the stock market.

**Stock Market:** Creating a local debt market can help with garnering positive opinion about the country's economy but it might not translate into any type of gains for the equity market. Listed companies can gain from an alternative source of funding other than the stock market. Hence we are neutral on the impact.

**Bond Market:** Qatar has made its intentions about borrowing from external lenders to fund its deficits instead of tapping its sovereign wealth funds (SWFs). This is expected to be positive for the development of bond market in the country. Qatar's Central Bank and Ministry of Finance have borrowed close to USD 16Bn over 2010-2015. Developing an active secondary market within the country would greatly help the companies in the region diversify funding sources.

SMEs in Qatar are at an early stage of development who depend on government spending and contracts to expand their business.

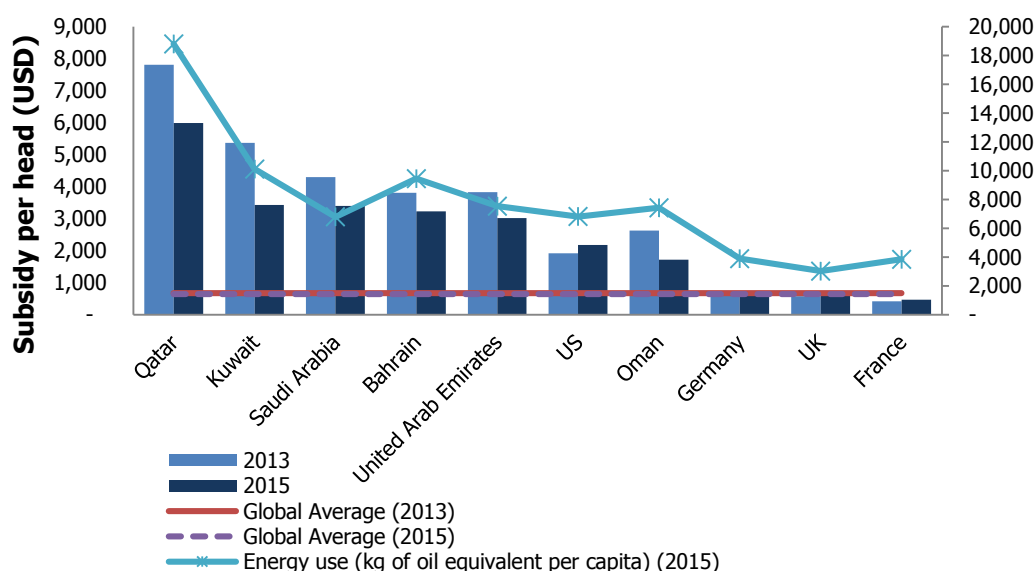
**Real Estate:** Developing a bond market might help the real estate developers to raise funds through this channel. Implementation of BASEL III norms is expected to put pressure on banks as the capital requirement ratio increases. In such a situation, bond markets could prove to be effective for real estate markets.

**SME:** SMEs in Qatar are at an early stage of development who depend on government spending and contracts to expand their business. Developing a bond market for an industry that is still at infancy might not work out as planned. Data is scarce with regard to SMEs and as a result bond investors might not be overly willing to fund the SMEs if they try to take the bond route.

### Theme 3: Subsidies and Tax Reforms

Qatar tops the list of countries in terms of energy consumption per capita. Qatar's energy consumption per capita is in fact 7.4X higher than the global average. Part of the high energy consumption is due to the fact that energy consumption is heavily subsidised in Qatar leading to excessive consumption. It is only recently that Qatar has started to introduce fines for wasting electricity and water. Qatar has the highest energy subsidies per capita in the world, forecasting total state subsidies after tax worth \$14.47 billion in 2015, equating to nearly \$6,000 per capita<sup>2</sup>, based on a population of 2.41 million.

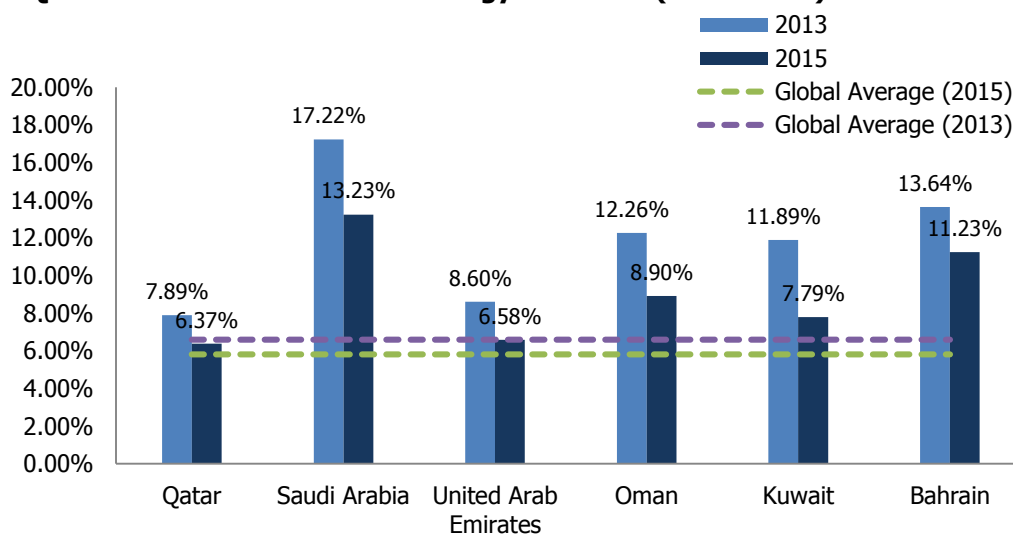
#### Subsidies per head (\$/head) - 2015



Source: IMF

The fall in oil and gas prices has reduced the subsidy burden of Qatar and as a result the subsidies that it pays out as a % of GDP has also come down.

#### Qatar and other GCC nations Energy Subsidies (2013-2015)



Source: IMF

Qatar's energy consumption per capita is in fact 7.4X higher than the global average.

The fall in oil and gas prices has reduced the subsidy burden of Qatar and as a result the subsidies that it pays out as a % of GDP has also come down.

<sup>2</sup> IMF

Qatar is one of the world's largest consumers of water and electricity per capita and its use is increasing as its population increases.

Qatar is one of the world's largest consumers of water and electricity per capita and its use is increasing as its population increases. In 2014, the amount of electricity generated in Qatar jumped 11.6 percent to 38,693 gigawatt hours (GWh) . Roughly that is the amount of energy that can power 3.4 million homes for a year. Qatar has taken its 1st step in reforming energy consumption in the country with tariff hikes in Kharamaa.

In September 2015, Kahramaa introduced a hike in tariffs for non-Qatari households and in addition to that incorporated slab rates for both water and power consumption. Electricity bands, of which there were previously two, have now been expanded to six for residential customers. Kahramaa has also raised prices for government, commercial and industrial consumers. Another major change that Kahramaa has brought in is the introduction for slab rates for water consumption which where hitherto charged on a flat rate.

#### Electricity and Water Charges (Revised for residential)

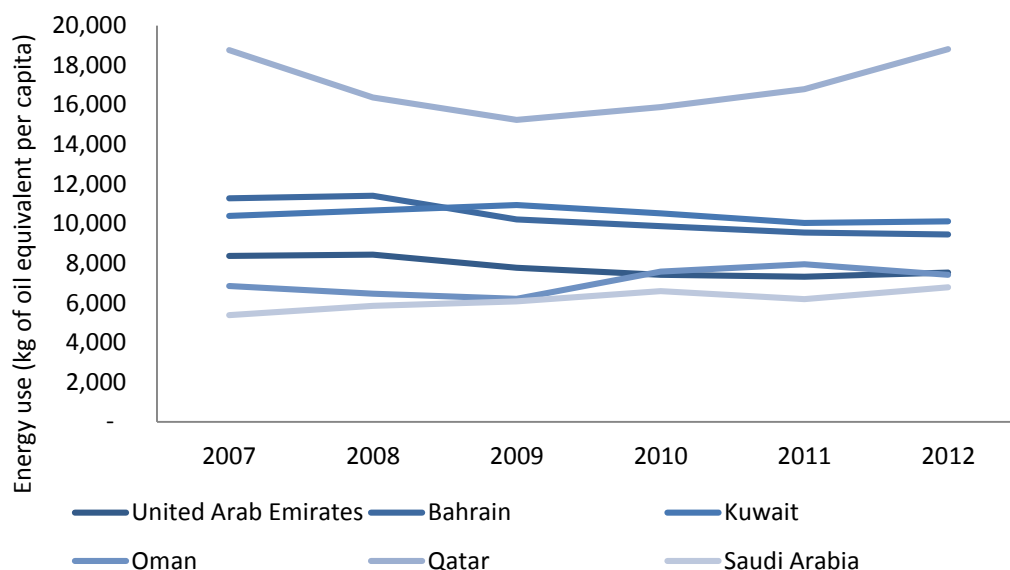
Range (Kwh)	Tariff (QR/Kwh)
1-2000	0.08
2001-4000	0.09
4001-6000	0.10
6001-8000	0.12
8001-15000	0.18
15001-Max	0.22

Electricity bands, of which there were previously two, have now been expanded to six for residential customers.

Potable Water (m <sup>3</sup> )	Tariff (QR/Kwh)
1-20	4.4
21-70	5.4
71-150	6.4
151-250	7.4
251-Max	9.4

Source: Qatar Economic Outlook for 2015–2017

The progressive bands of consumption charge is very similar to the ones that were introduced in Abu Dhabi last year. Additional revenues that are accruing to the government through such fee increases should help the government in bringing its subsidy outlay. Approximately half of the subsidies are for electricity, and the growth rate in consumption of electricity here is approaching 10%.

**Per Capita Energy Usage (Kg of Oil Equivalent per capita)**

Source: WorldBank

**Taxation**

Qatar currently imposes only corporate tax and withholding tax on business operations that takes place within its borders. There are no personal income taxes or VAT (Value Added tax). Given the impact of oil price decline on the country's finances taxation is one area that Qatar can focus on to shore up its finances. Qatar is also the only country that does not impose fees or taxes on wages.

**Qatar Current Tax Rates**

Area	Tax Overview
Corporate tax rates	The general tax rate is a flat 10% 35% rate applies to oil and gas operations
Withholding tax rates	5% on royalties 5% on technical services 7% on commissions, interest, brokerage fees directors' fees, attendance fees, and for other services performed in whole or in part in Qatar

Source: Deloitte

Over the past few years the GCC region has been planning to introduce VAT regime in its member countries. However experts opine that Qatar would be one of the last countries in the GCC region to implement a VAT regime. Historically Qatar has been self-sufficient with the amount of money that it generates through the sale of oil and gas (primarily gas). This situation could be changing at a rapid pace given the steep fall in oil & gas prices.

Qatar is expected to face its first ever budget deficit in 15 years on account of reduced revenues and increasing infrastructure spending. While Qatar has made its intention of borrowing funds from abroad instead of tapping into its savings clear, it has not made any such announcement related to taxation. Given the current financial situation it might be worthwhile for Qatar to give VAT implementation a second thought.

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Experts opine that Qatar would be one of the last countries in the GCC region to implement a VAT regime.

The VAT is an ideal revenue instrument for the GCC including Qatar owing to the huge consumption expenditure.

In a recent announcement, The IMF had favored Qatar imposing value-added tax (VAT) on goods and services and bringing local and GCC companies within the income tax net to boost its non-energy revenue. The VAT is an ideal revenue instrument for the GCC including Qatar owing to the huge consumption expenditure. If designed properly, the VAT could generate as much as 1.5 to 2 percent of non-hydrocarbon GDP<sup>3</sup>. Qatar's total GDP currently stands at \$203 Bn with non-hydrocarbon sector roughly contributing 40% of it (\$81 Bn). A back of the envelope calculation reveals that if implemented properly this could fetch close to \$1.6Bn in tax revenues.

An advantage that VAT has over other taxes is the VAT is relatively simple to administer and will have no impact on foreign direct investment into the country or exports from the country. VAT is a transparent mechanism whereby there is minimum burden on consumers as it is collected in small fragments from various parties along the stage of production and distribution. While the cost of living is expected to suddenly increase, the final cost increase to the consumers would be less than the VAT rate as some of the cost increase from VAT would be absorbed in the value chain.

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<sup>3</sup> IMF

**Investment Implications****Impact Indicator**

<b>Investment Arena</b>	<b>Relative Impact</b>
Stock Market	<b>Neutral</b>
Bond Market	<b>Positive</b>
Real Estate	<b>Neutral</b>
SME	<b>Neutral</b>

Source: Marmore Analysis

As a first step Qatar has started to increase the price of water and electricity from September.

Stock Market: Rationalizing subsidies and introducing taxes are generally expected to have positive impact on the economy. As a first step Qatar has started to increase the price of water and electricity from September. Fiscal tightening measures are expected to have neutral impact on the stock market due to the twin effect of investors positively weighing the intention of the government to cut down spending and de-regulation but at the same time, the disposal income at the hands of investors reduces thereby reducing liquidity in the stock market.

Qatar's real estate market is not expected to have much of an impact owing to subsidy rationalization.

Bond Market: Subsidy reforms can help the country to gain improved ratings from credit rating agencies around the world. Increased country ratings would help the country to borrow at a lower interest rates which would have a trickle down impact on the economy.

Real Estate: Qatar's real estate market is not expected to have much of an impact owing to subsidy rationalization. Buyers of real estate properties might have to take into consideration the increased charges that they have to shell out and anticipate future increase in prices of utility services.

SME: Increase in the electricity and water charges might slightly hamper the growth of SMEs. However given the government support that the industry is expected to receive as part of its diversification move is expected to be positive for SMEs.

## Theme 4: Push for SMEs Growth

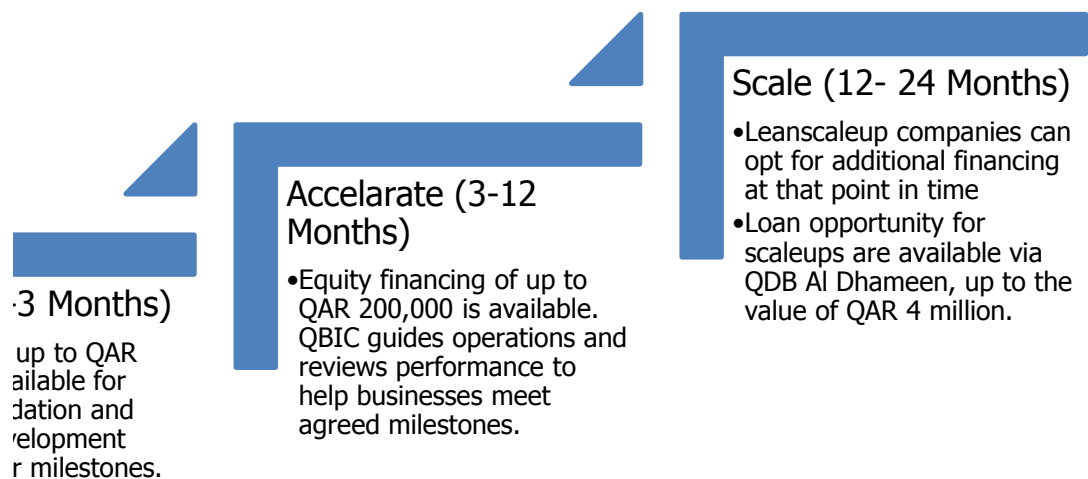
Qatar has been pushing for the growth of SMEs as part of its Qatar National Vision plan 2030. SMEs have the capacity to provide jobs, encourage innovation and diversification in an economy, bolstering the private sector and fostering entrepreneurialism.

Currently the SMEs in Qatar account for 80% of the companies that are registered in the state but they account for 10% of the GDP, which is far less than its peer Dubai where SMEs account for 40-46% of the GDP albeit with a much lower dependence on oil<sup>4</sup>.

Qatari banks have started providing much needed fillip for SME industries by offering a wide range of banking and financial services from bank accounts to loans. Qatar government's aim is to develop a balanced economy and to diversify away from oil.

Qatar government has recently launched a \$27.4 Mn Qatar business incubation centre making it the third largest incubator in the region. This incubation centre has 715 applications for start-ups till date and has incubated 37 companies. This incubation programme has spent close to \$300,000 on funding its start-ups till date and earnings from companies that they have invested in is close to \$800,000 till date. This program uses online application system to shortlist candidates and on successful acceptance into the programme, these start-ups move through three successive stages. On successful completion of each stage, they are eligible for more funds.

### Qatar Business Incubation Process



Source: QBIC

Qatar government has recently launched a \$27.4 Mn Qatar business incubation center making it the third largest incubator in the region.

This incubation programme has spent close to \$300,000 on funding its start-ups till date.

<sup>4</sup> Oxford Business Group

Qatar Development Bank (QDB), guarantees up to 85 percent of commercial loans, limited to QR15 million (\$4.1 million), for SME projects, under its Al Dhameen program.

The Bedaya Centre is a joint venture between the Qatar Development bank and Silatech which aims at honing the entrepreneurship skills of the Qatari youth.

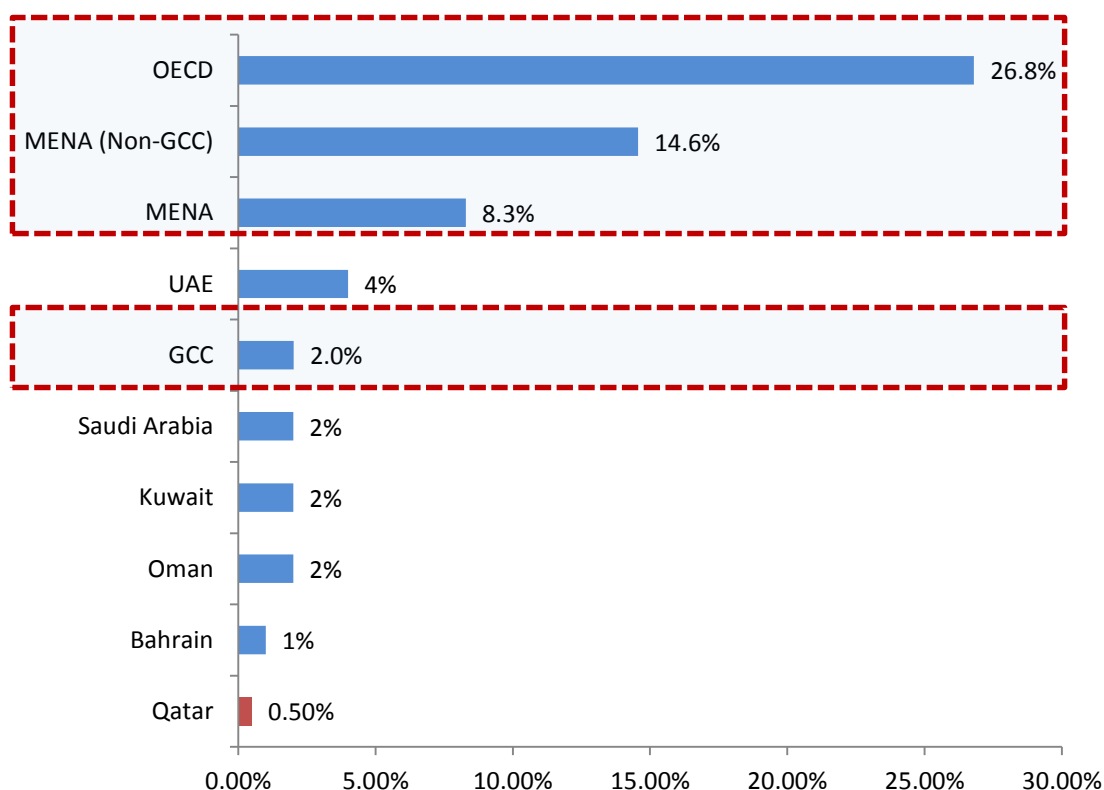
In addition to the steps that are mentioned above the Qatari government has stepped up efforts to encourage entrepreneurship among Qatari youths at the grass root level.

The Bedaya Centre is a joint venture between the Qatar Development bank and Silatech which aims at honing the entrepreneurship skills of the Qatari youth through its training and workshops. Career guidance is another important area in which the Bedaya centre operates. In 2014 the Bedaya centre has undertaken close to 250+ hours of advising sessions for start-ups and has also supported 80 startups in transforming idea stage to implementation stage.

### The Way forward

Qatar has already started to do a lot of things that needs to be done to encourage entrepreneurship and startup culture. However a key issue that sticks out is the availability of finance for these SMEs. As show in the chart below, Qatar's bank lending for SME is the lowest in the region at 0.5%.

### Low banking support for SMEs in the region



In 2014 the Bedaya centre has undertaken close to 250+ hours of advising sessions for start-ups.

Source: Union of Arab Banks/World Bank Financial Flagship Report 2011; International Finance Corporation; Banks and the World Bank, 2010

Qatar, and the Arab World at large, needs to develop its home-grown venture capitalists before they can open up an SME exchange.

**Private Equities and Angel Investors** - SME exchange is one of the many options for SME financing along a ladder that is frequently linked to the life cycle or stage of growth of the SME. Qatar, and the Arab World at large, needs to develop its home-grown venture capitalists before they can open up an SME exchange. The elements that are necessary to promote a competitive startup environment is lacking in Qatar. These institutions are slowly starting to emerge in places such as Egypt, Jordan and UAE. They are, however, much more risk-averse compared to their American counterparts, and they tend to deal only with companies in the "growth" phase. Given the current state of affairs the need of the hour is "Private equities, Venture capitalists and Angel Investors". There are also no advanced accelerators in the country which is necessary for a helping the startups move up their value chain. To encourage the investments in the small and medium sized enterprises, Qatar Stock Exchange has come up with the QE venture market which is meant for SMEs with minimal track record and limited resources. The ultimate aim of the SME exchange is to facilitate a channel for funding which would ultimately help in expanding their business.

Qatar Shell - in close collaboration with Qatar Development Bank (QDB) signed five agreements with local SMEs.

**Tie-up with global companies** - As part of a nationwide strategy to support local small and medium-sized enterprises (SMEs), Qatar Shell - in close collaboration with Qatar Development Bank (QDB) signed five agreements with local SMEs. The five Qatari SMEs that have been awarded contracts are: Mozon Industries for the manufacture of large open-head steel drums; KEPCO for the manufacture of low voltage cables; Pioneer Metal Company W.L.L. for the manufacture of electrical cable trays; Prince's Lights for the maintenance, repair and re-certification of ATEX two-way radios; and Rumaillah Motors W.L.L. for the maintenance and service of offshore diesel generators<sup>5</sup>. Tie-ups with a global brand would help the local businesses in tapping new markets abroad or within the region in similar fields.

<sup>5</sup> Shell- Qatar official Website

## Investment Implications

### Impact Indicator

Investment Arena	Relative Impact
Stock Market	Neutral
Bond Market	Neutral
Real Estate	Positive
SME	n.a

Source: Marmore Analysis

**Stock Market:** Qatar's push for SME growth is positive for the economy. SMEs in the country are at a nascent stage and currently funded by the banks and hence it could take some more years before they are ready for listing on the stock market. Qatar has started an SME exchange for listing its SMEs. Listing and fund raising in the stock market could however take sometime before it can be viewed as an alternate funding arrangement for SMEs. Given the current stage of growth the SMEs impact on stock market is expected to be limited.

**Bond Market:** Creation of a local debt market would provide alternative financing options, alleviate pressures in the banking system and consequently reduces the cost of capital for firms. Qatar's SMEs have long been funded by banks. Bond markets can immensely benefit if SMEs start to raise funds by issuing bonds for funding their growth. Raising funds through bond issuance could be a first step before SMEs can tap the equity markets. However there are huge gaps that needs to be addressed in order to encourage companies to approach the bond market. Till such a mechanism is in place, the creation of a bond market might not actually help the SMEs.

**Real Estate:** Strengthening the private sector and building a more diverse economic base forms a key component of Qatar's National Vision 2030, the state's long-term development plan. Non-hydrocarbon sector is expected to grow at 10.1% in 2016 which includes SMEs. We expect more contribution to come from SMEs in forthcoming years owing to favourable policies of the government such as the incubator program and the SME Exchange. Given the expected strong growth in the SME sector, we expect the commercial real estate sector to be positively impacted by it.

**SME:** Not applicable

Qatar's push for SME growth is positive for the economy. SMEs in the country are at a nascent stage and currently funded by the banks

We expect more contribution to come from SMEs in forthcoming years owing to favourable policies of the government such as the incubator program and the SME Exchange.

### Theme 5: Need to Improve Business Environment

The Ease of Doing Business rankings, published every year by the World Bank, measures how easy or difficult it is to start and run a small- or medium-sized enterprise, while following the relevant local regulations. It measures changes in regulations in 11 spheres affecting the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation. Qatar, which has a GNI per capita of USD 90,420, falls in the High Income category among the 189 economies that were considered for the rankings. But for a country with such high per capita income, at 68, Qatar has fared poorly in the rankings, despite middling among its GCC peers. It lags behind the UAE, which is the best in the rankings at 31, for the region.

#### GCC Ease of Doing Business and components, 2015 Rankings

Economy	UAE	KSA	Qatar	Bahrain	Oman	Kuwait
Ease of Doing Business Rank	31	82	68	65	70	101
Starting a Business	60	130	109	140	149	148
Dealing with Construction Permits	2	17	8	9	46	133
Getting Electricity	4	24	111	77	60	128
Registering Property	10	31	28	25	33	68
Getting Credit	97	79	133	109	126	109
Protecting Minority Investors	49	99	122	111	134	66
Paying Taxes	1	3	1	8	10	11
Trading Across Borders	101	150	119	85	69	149
Enforcing Contracts	18	86	112	101	70	58
Resolving Insolvency	91	189	51	85	105	122

Source: World Bank Doing Business

Ranking of economies is determined by arranging the list of economies in accordance with their distance to frontier (DTF) scores, which benchmarks economies with respect to regulatory practice, and shows the absolute distance to the best performance in each Doing Business indicator. Distance to frontier score is measured on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. Qatar DTF score has declined from 71 to 66 over the last three years, although marginal improvement was seen in the 2016 rankings.

#### Qatar Ease of Doing Business and Starting a Business, 2014-16 Rankings

	Year	Ease of Doing Business Rank	Overall DTF	Starting a Business					
				Rank	DTF	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in min. capital (% of income per capita)
Qatar	2014	..	71.18	..	83.18	8	8.5	5.1	62
	2015	65	65.82	103	83.14	8	8.5	5.2	62.6
	2016	68	65.97	109	83.22	8	8.5	5.1	61.5

Source: World Bank Doing Business

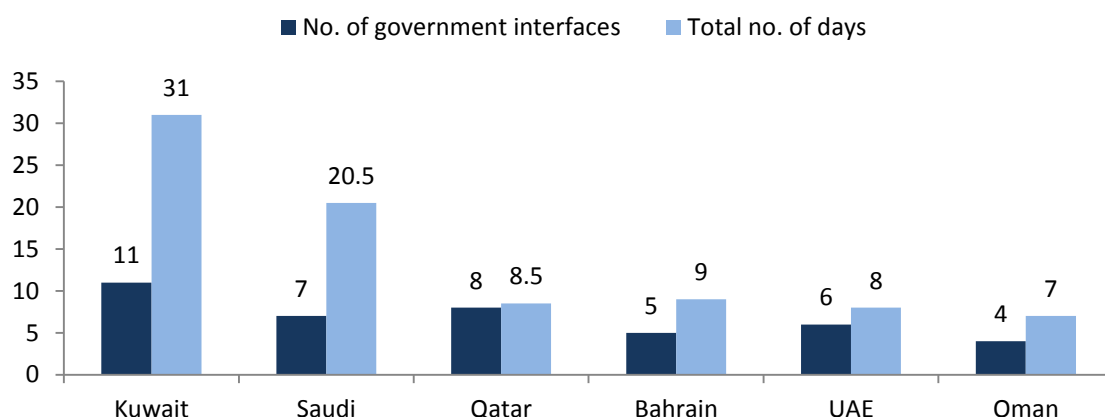
Qatar, which has a GNI per capita of USD 90,420, falls in the High Income category among the 189 economies that were considered for the rankings.

Qatar DTF score has declined from 71 to 66 over the last three years, although marginal improvement was seen in the 2016 rankings.

The number of interfaces has a visible correlation with the number of days to complete the procedure of setting up a business.

In Qatar an entrepreneur has to deal with 8 government interfaces to start a business, Although better than Kuwait (11) Qatar still lags behind Oman (4), Bahrain (5) and the UAE (6). The number of interfaces has a visible correlation with the number of days to complete the procedure of setting up a business. Globally, Qatar stands at 109 in the ranking of 189 economies on the ease of starting a business.

#### Number of government interfaces vs. number of days to complete all procedures



Source: World Bank, Markaz Research

In recent years, the procedure for starting a business was modified. Obtaining a company seal was combined with commercial registration with the chamber of commerce through a one-stop window. The former made it more difficult to start a business, while the later reduced the number of interfaces.

While improvements in ICT are happening at a rapid pace, there is still lot of improvements.

In terms of implementing changes to improve the business climate, it is suggested that the reforms be approached through the two-pronged framework of transformative reforms and enabling reforms. Transformative reforms are those steps that will have to be definitely taken in order to boost competitiveness, but are usually very difficult and sensitive to chalk out and implement. Enabling reforms are those items that do not shape fundamental structural differences, but are akin to value add-ons. At times, governments can be tempted to use enabling reforms for their symbolic value to portray the image of ongoing reforms.

For instance, in terms of easing bottlenecks to starting a business in Qatar, it is clearly evident that technology penetration has to be higher in order to reduce the number of procedures, interfaces and time take to start a business. While improvements in ICT are happening at a rapid pace, there are still lot of improvements that need to be made in terms of both setting up the infrastructure and upgrading the skills of the workforce.

## Investment Implications

### Impact Indicator

Investment Arena	Relative Impact
Stock Market	Neutral
Bond Market	Negative
Real Estate	Negative
SME	Neutral

Source: Marmore Analysis

**Stock Market:** Qatar's worsening business environment is expected to be neutral for stock markets since the impact on listed companies may not be that large. Doing Business indicates that on an average a Qatari entrepreneur has to deal with 8 separate government bodies to start their business which is higher than its peers. Such bottlenecks for businesses put off foreign investors and hence dampen sentiments.

**Bond Market:** In terms of getting credit, Qatar ranks the lowest among all other countries in the region. Globally, Qatar stands at 133 in the ranking of 189 economies on the ease of getting credit indicator. Qatar's main weakness in credit sector stems from two major indicators – legal rights for borrowers and lenders and how much credit information is shared. Unless they are improved in the forthcoming years the bond market would not have much of an impact. Owing to its current position we expect a negative impact on the bond impact.

**Real Estate:** Qatar stands at 28 in the ranking of 189 economies on the ease of registering property. Qatar currently stands third behind UAE and Bahrain. In terms of registering property Qatar's economy is performing well. However, in terms of getting construction permits, Qatar fares well below its peers. Doing business indicates that Qatar actually increased the cost and time involved in dealing with construction permits in 2012. Given the outlook for a slowdown in economic outlook in 2016, we feel that real estate could be negatively affected.

**SME:** The impact of SMEs is expected to be neutral owing to the government programs that are in place despite the worsening business indicators. Initiatives such as the Qatar Business Incubation Centre are expected to ease the process of setting up the business for SMEs. Qatar government has also said that while its cutting down its budget most of the cuts from reducing excessive government spending and its planned spending on country's diversification is infact increasing.

Globally, Qatar stands at 133 in the ranking of 189 economies on the ease of getting credit indicator.

Qatar stands at 28 in the ranking of 189 economies on the ease of registering property.

**A Selection of Key Reforms in Qatar: 2013-2015**

Sector	Highlights
Financial Services	The Qatar Financial Centre (QFC) released rules covering 3 areas of regulation: Corporate Governance (Governance and Controlled Functions Rules 2012), Anti-Money Laundering (AML/CFT regime amendments) and Combating the Financing of Terrorism ("AML/CFT") and Islamic finance windows.
	The government issued the Central Bank Law, Law No. 13 of 2012
	Qatar Financial Centre issued new prudential rules for insurance companies.
	Regulations introduced by the Qatar Central Bank to curb local banks' investment options.
Governance	Retail tariff instruction document issued for both permanent and promotional tariffs.
	Qatar customs authorities released new regulation that all cargo shipped to and from Qatar must be palletized in a safe and secure mode in order to facilitate customs inspection process.
	The Ministry of Labor and Social Affairs indicated that reforms to the Kafala system of sponsorship would be made soon.
	Private sector companies are being provided respite from completion from public sector companies
Capital Markets	In order to attract more investments into the country, the Cabinet approved that non-Qatari investors may enjoy a ratio of up to 49% in terms of ownership shares. The earlier limit was 25%.
Private Enterprise	Qatar has removed the minimum capital requirements for limited liability companies in order to encourage small and medium enterprises (SMEs) sector.
Education	Advisory Council approves draft law to regulate private schools

Source: Marmore

## Appendix

Key Economic Indicators	2012	2013	2014	2015e	2016f
Real GDP (QR Billion)	702.67	734.9	764.1	795.64	831.5
Real GDP Growth (%)	4.9	4.6	4.0	4.1	4.5
Hydrocarbons real GDP Growth (%)	1.2	0.1	-1.5	-0.4	1.3
Non-Hydrocarbons real GDP Growth (%)	10.2	10.6	10.6	9.0	7.7
Hydrocarbons exports (USD Billion)	122.3	121.4	114.5	60.9	60.4
Current Account Balance (% GDP)	32.6	46.3	24.4	4.4	1.6
Fiscal Balance (% GDP)	11.2	15.5	16.2	1.5	1.8
Hydrocarbons real GDP (% of Total)	57	54.8	51.1	34.2	32.3
Total Foreign Assets (USD Billion)	342.5	394	419.6	421.71	426.4
Inflation (%)	1.9	3.0	4.0	4.0	5.0
Central government revenue (QR Billion)	284.32	346.6	337.1	237.59	242.4
Hydrocarbon revenue (QR Billion)	177.55	195.2	164	98.632	98.44
Hydrocarbon revenue (% of Total)	62.4	56.3	48.7	41.5	40.6
Central government expenditure (QR Billion)	205.55	231.7	219	227.73	230
Current Expenditure (QR Billion)	153.99	163.2	140.6	153.43	153.5
Current Expenditure (% of Total)	74.9	70.5	64.2	67.4	66.7
Capital Expenditure (QR Billion)	51.6	68.4	78.3	74.3	76.5
Population (Million)	1.7	1.9	2.2	2.3	2.5
Unemployment Rate, %	0.5	0.3	-	-	-
Per capita \$ GDP	103,606	98,710	93,990	78,829	73,725
Crude oil production (barrels/day thousand; average)	732	727	712	698	684
Consumption of oil (b/d thousand; average)	250	268.3	287	304.25	321
Gas production (b/d thousand; oil equivalent; average)	2,838	2,991	2,991	2,991	3,051
Consumption of gas (b/d thousand; oil equivalent; average)	526.15	580.3	638.4	670.3	703.8

Source: IMF, IIF

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