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Qatar's Sovereign Ratings Raised

Capital Intelligence (CI), the international rating agency, today announced that it has raised Qatar's long-term foreign currency and local currency ratings to AA- from A+ and its short-term foreign- and local-currency ratings to A1+ from A1. The outlook for Qatar's ratings is stable.

The ratings reflect the increasing strength and flexibility of the government's balance sheet and the country's external finances, which in turn are underpinned by the sheer scale of hydrocarbon production relative to the small size of the population and supported by the high level of international energy prices. The ratings also take into account the good progress being made towards diversifying the economy and expanding the role of the private sector.

Qatar's economy has expanded quickly over the past five years and growth is expected to remain robust over the medium term, underpinned by substantial investment in productive capacity and infrastructure. CI expects that by 2010 the economy will be roughly five times as large as it was in 2002 (in nominal terms) and GDP per capita will exceed USD100,000 despite strong population growth. Reflecting the implementation of an ongoing development strategy, hydrocarbon production has become more diversified in terms of products and markets and Qatar is now the world's largest exporter of liquefied natural gas (LNG). LNG capacity is expected to more than double by 2010, cementing Qatar's lead and boosting national income. Gas is also supporting the expansion of other energy-intensive industries ranging from petrochemicals to steel. Away from the energy sector strenuous efforts are being made to develop internationally sectors such as tourism and financial services and to turn Qatar into a regional centre for education and healthcare.

The government finances are strong. The budget has been in surplus since fiscal year 2000/01 and is projected by CI to record substantial surpluses in excess of 10% of GDP in 2008-2010 owing to the expected continuation of high oil prices and increased receipts from LNG. Government debt is low at an estimated 11% of GDP (25% of budget revenue) in 2007/08, while government financial assets have grown rapidly over the past five years and probably exceed 100% of GDP. The government's balance sheet provides a substantial cushion against oil price or other economic shocks and the accumulation of financial assets is likely to be an important source of income for future generations.

External liquidity is substantial. The current account surplus is estimated at 22% of GDP in 2007 and is likely to remain above 20% over the medium term, covering amortisation payments on external debt by a large margin and enabling the build up of foreign assets in the official sector.

Qatar's ratings remain constrained by the comparatively high level of public sector external indebtedness and its heavy reliance on oil and gas. Public external debt is estimated at 42% of GDP or 54% of current account receipts at end 2007 and is projected to increase in nominal terms over the coming years in line with the large financing needs of industrial and infrastructure projects. Nonetheless, external debt should remain well within the repayment capacity of the economy and debt ratios are expected to begin declining steadily after 2010. External risks are also mitigated by the country's net external creditor position, with foreign assets in the government and banking sector exceeding gross external debt by a large margin.

Contact:

Anthony Cooke

anthony.cooke@ciratings.com

Tel: +357 2534 2300