

## State of Qatar Outlook Revised To Stable On Slower Institutional Reform; Ratings Affirmed

**Primary Credit Analyst**

Luc Marchand  
London  
(44) 20-7176-7111  
luc\_marchand@  
standardandpoors.com

**Secondary Credit Analyst**

Farouk Soussa  
PhD.  
London  
(44) 20-7176-7104  
farouk\_soussa@  
standardandpoors.com

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*Rationale*

On Sept. 13, 2005, Standard & Poor's Ratings Services revised its outlook on the State of Qatar to stable from positive, amid unforeseen delays to institutional reform. At the same time, the 'A+' long-term and 'A-1' short-term ratings on Qatar were affirmed. In addition, Standard & Poor's revised its outlook on Qatar Petroleum to stable from positive, and affirmed the 'A+' long-term foreign currency rating on the entity.

The outlook revision on Qatar reflects the reduced likelihood of a near-term upgrade, because of the unanticipated delays in planned institutional reform. A new constitution that lays the foundation for limited popular participation in political processes, greater clarity in leadership succession, and more transparency and accountability in governmental operations came into force in June 2005. However, the reform process has slowed, with parliamentary elections, for example, possibly being postponed until 2006 or 2007.

The ratings are supported by sustainable fiscal policy, substantial external liquidity, strong economic prospects, and high per capita income. The ratings remain constrained by high public sector external debt (particularly relative to other petroleum-exporting countries) and less developed political and economic institutions compared with other 'A' rated sovereigns.

Standard & Poor's expects Qatar's strong fiscal performance to continue. Assuming an average Brent crude price of about \$52 per barrel, a fiscal surplus of about 17% of GDP is projected in 2005-2006. General government debt is expected to continue to decline to 26% of GDP at fiscal year-end 2005-2006 (March 31, 2006). Taking into account the government's deposits would reduce its debt burden to a projected 2.6% of GDP in 2005-2006.

The ratings on Qatar also benefit from a strong external liquidity position, with current account surpluses of about 36%-44% of GDP forecast for 2005-2008. These improvements have been driven mainly by increases in export receipts from liquefied natural gas (LNG), which should continue to grow over the next few years thanks both to strong foreign direct investment boosting capacity, and to higher oil prices. Qatar's GDP per capita, estimated at \$45,700 in 2005, places it among the world's highest-income nations. Economic growth is expected to maintain its impressive pace, at about 5.0% in 2006-2007 and 15.5% in 2008, compared with a projected 10.8% in 2005. Inflation jumped to 6.8% in 2004 and is expected to improve to a still-high 4.5% in 2005, mostly due to the weakness of the U.S. dollar (to which the national currency is pegged) and to capacity problems in the construction sector.

Project-related borrowing in the past few years led to a build-up of gross public sector external debt that peaked at 167% of current account receipts (CARs) in 1997, but declined to less than 53% by 2004. This ratio is expected to rise to 67% by 2007 due to plans for substantial increases in natural gas export capacity that will need significant financing. Based on the financing schemes used in the past few years, however, the potential contingent liabilities for the government should be limited.

Qatar's political system is evolving slowly from a traditionally tribal structure, with a history of succession problems, toward one with more modern attributes. The new constitution promulgated by the Emir, Sheikh Hamad bin Khalifa al-Thani, in June 2004, is expected to enhance government accountability and transparency over time, and to strengthen the predictability of decision-making.

## Outlook

The stable outlook on Qatar balances the government's considerable success in continuing to foster improved economic and fiscal performance against inflationary pressures and hurdles to political reforms. Although the 2004 constitution reduces the likelihood of political and economic shocks, institutions are not yet sufficiently developed to support a fully efficient market economy. Upward momentum on the ratings will depend on the government effectively strengthening the country's political system and institutions and addressing the capacity difficulties linked to rapid economic development.

### *Ratings List*

To	From
State of Qatar	
Sovereign credit ratings	
A+/Stable/A-1	A+/Positive/A-1
Senior unsecured debt	
A+	
Qatar Petroleum	
Foreign currency issuer credit rating	
A+/Stable/—	A+/Positive/—

NB: This list does not include all ratings affected.

## Group E-Mail Address

SovereignLondon@standardandpoors.com

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