

20 MAR 2024

## Fitch Upgrades Qatar to 'AA'; Outlook Stable

Fitch Ratings - Hong Kong - 20 Mar 2024: Fitch Ratings has upgraded Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA' from 'AA-'. The Outlook is Stable.

A full list of rating actions is at the end of this rating action commentary.

### Key Rating Drivers

**Rating Upgraded to 'AA':** The upgrade reflects Fitch's greater confidence that debt to GDP will remain in line with or below the 'AA' peer median after falling sharply in recent years, while Qatar's external balance sheet will strengthen from an already strong level. Qatar is likely to retain budget surpluses until the 2030s as a result of the North Field expansion.

Qatar's 'AA' ratings are supported by large sovereign net foreign assets (SNFA), one of the world's highest ratios of GDP per capita and a flexible public finance structure. Rating weaknesses include heavy hydrocarbon dependence and below average scores on some measures of governance, higher government debt/GDP than oil-dependent highly-rated peers and substantial contingent liabilities.

**Sustained Fiscal Surpluses:** We forecast Qatar's general government (GG) budget surplus at 8.6% of GDP in 2024 (2023: 9.3% of GDP), including our estimates of investment income on Qatar Investment Authority (QIA) external assets (5.2% without investment income in 2024). Oil and gas revenue will only marginally drop under our assumption that the Brent oil price will average USD 80/bbl in 2024 (2023: 82). We expect a budget surplus of 6.2% in 2025, despite lower hydrocarbon prices (Brent: USD70/bbl).

We project the first phase of the North Field expansion to start supporting fiscal revenue fully from 2026 and phase two in 2027, assuming no construction delays, and to bring down Qatar's fiscal breakeven oil price to USD50/bbl in 2027 from around USD 64/bbl in 2024, excluding estimated QIA investment income (to USD41/bbl from USD54/bbl including investment income). This reflects our expectation that new spending commitments will amount to a modest fraction of the new liquefied natural gas (LNG) revenue. Qatar's spending plans on economic diversification are more modest than regional peers.

**LNG Ambitions on Track and Expanded:** Qatar Energy (QE) plans to expand LNG production capacity from 77 million tonnes per year (mtpa) to 110 mtpa by end-2025, 126 mtpa by end-2027 and announced a further expansion to 142 mtpa by end-2030. We assume that QE will cover USD12.5 billion of core project costs out of its 2021 bond issuance and a similar amount from its cash flow, spread until 2028, on top of contributions by partners. Funding plans for the 2030 phase will depend on hydrocarbon prices at that time. North Field projects will support both hydrocarbon and non-hydrocarbon growth over 2025-2030.

QE will also cover a significant share of the costs of the ancillary projects associated with the expansion, including downstream plants that will bring its petrochemical capacity to over 15mtpa. QE owns 70% of the Golden Pass LNG project (16mtpa) in Texas, which will start production in 2024, bringing new revenue to the budget via QE dividends.

**Government Debt Declining:** We project debt/GDP to fall to about 47% of GDP in 2024 and 45% in 2025, from a peak of 85% in 2020. This reflects our expectation that the government will continue to repay maturing external debt in 2024 (USD4.8 billion) but is likely to refinance its USD2 billion 2025 maturity in 2024, and will gradually pay down some of its domestic debt. Budget surpluses will still allow Qatar to transfer new funds to the QIA.

The subsequent debt path will depend on how the government chooses to deploy its fiscal surpluses. The persistence of a high global bond yield environment could encourage Qatar to continue to allocate a share of its surpluses to deleveraging beyond 2025, although our baseline assumes that external debt is rolled over. Our debt metrics include government overdrafts with local banks (QAR48 billion at end-2023), which the government does not include in its headline figure.

**Banks Represent Contingent Liability:** Qatar's banking sector is large with assets of 255% of GDP and net foreign liabilities of over USD105 billion (50% of GDP) in 2023. Following the central bank's introduction of measures increasing the cost for banks of short-term foreign financing, banks' gross foreign liabilities declined to USD181 billion at end-2023 or close to 33% of total assets, from USD197 billion at end-2021.

The sovereign has a record of supporting the sector. In the event of loss of confidence by non-resident depositors and investors, the government could be forced to repatriate foreign assets to support banks, with negative implications for the sovereign's own external balance sheet. We estimate the debt of non-bank government-related entities at over 30% of GDP, with limited risk of materialisation.

**Large Sovereign Assets:** We estimate that SNFA/GDP rose to 176% (USD375 billion) in 2023 from 123% (USD291 billion) in 2022. This reflects the drop in nominal GDP, a sharp rise in the QIA's estimated assets, which we assume were buoyed by asset market returns. SNFA stand to rise amid fiscal surpluses until the end of the decade, although they remain vulnerable to financial market fluctuations.

We estimate that Qatar's economy became a net external creditor at 17% of GDP at end-2023 (total net asset positions are much stronger given our estimate of QIA equity holdings). Qatar had been a net external debtor since 2018 in contrast to 'AA' rated peers and in particular highly-rated GCC hydrocarbon exporters.

**Regional Stability Risks:** Qatar has broadly normalised its relations with the GCC in recent years, although points of tensions remain. Qatar continues to position itself as a mediator in relations between Western powers and Iran and Hamas, among others.

The Israel-Gaza war has caused an increase in regional instability. Qatar has not been directly affected so far, but risks of escalation persist from the ongoing conflict in Gaza, the involvement of the Houthis

from Yemen in disrupting Red Sea transit, the activity of other groups with links to Iran and US reprisals against these groups in Yemen, Iraq and Syria.

**ESG - Governance:** Qatar has an ESG Relevance Score (RS) of '5[+]' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBI) have in our proprietary Sovereign Rating Model. Qatar has a medium WBI ranking at the 70th percentile.

## RATING SENSITIVITIES

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

**-External Finances:** A deterioration in Qatar's external balance sheet, for example, due to renewed increases in net external debt, pressure on non-resident funding for banks requiring liquidity injections by the sovereign, or signs of sustained unfavourable investment returns on sovereign assets.

**-Public Finances:** A renewed rise in GG debt/GDP, for example, due to a return to fiscal deficits, or an assessment that contingent liabilities are likely to crystallise on the sovereign balance sheet.

**-Structural Features:** A sharp escalation of regional geopolitical tensions that threatens Qatar's economic and financial stability, for example, if it caused capital flight from banks or prolonged disruptions of Qatar's hydrocarbon and transport sectors.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

**-Structural Features:** Improvement in structural factors such as reduction in hydrocarbon dependence and a strengthening in governance, and a reduction in geopolitical risk while maintaining strong fiscal and external balance sheets.

## Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Qatar a score equivalent to a rating of 'AA-' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

-Public Finances: +1 notch, to reflect that compared to the SRM score, Qatar has large usable public sector assets, a flexible spending structure and a low and declining fiscal breakeven oil price.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

## Country Ceiling

The Country Ceiling for Qatar is 'AA+', 1 notch above the LT FC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +1 notch above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Standard international investment position data for the Qatar is not available; there is no disclosure on the size of Qatar's sovereign external assets (mostly relating to the QIA).

The main elements of external assets and liabilities are available from Qatari sources, creditor sources and the IMF/World Bank/BIS; Fitch's estimates of Qatar's sovereign external assets are derived by compounding estimated government cash surpluses using assumptions about returns and asset allocations.

The treatment and/or mitigants above provides us with sufficient confidence in our analysis of the credit profile to maintain or assign the rating.

## ESG Considerations

Qatar has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's Sovereign Rating Model and is therefore highly relevant to the rating and a key rating driver with a high weight. As Qatar has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Qatar has an ESG Relevance Score of '5[+]' for Rule of Law, Inst. & Reg. Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's Sovereign Rating Model and is therefore highly relevant to the rating and a key rating driver with a high weight. As Qatar has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Qatar has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Qatar has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Qatar has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and a rating driver, as for all sovereigns. As Qatar has track record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on

the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](http://www.fitchratings.com/topics/esg/products#esg-relevance-scores).

## Fitch Ratings Analysts

### **Cedric Julien Berry**

Director

Primary Rating Analyst

+852 2263 9950

Fitch (Hong Kong) Limited 19/F Man Yee Building 60-68 Des Voeux Road Central Hong Kong

### **Toby Iles**

Senior Director

Secondary Rating Analyst

+852 2263 9832

### **Jan Friederich**

Managing Director

Committee Chairperson

+852 2263 9910

## Media Contacts

### **Peter Fitzpatrick**

London

+44 20 3530 1103

[peter.fitzpatrick@thefitchgroup.com](mailto:peter.fitzpatrick@thefitchgroup.com)

### **Jack Li**

Beijing

+86 10 5957 0964

[jack.li@thefitchgroup.com](mailto:jack.li@thefitchgroup.com)

## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Qatar	LT IDR	AA 	Upgrade	AA- 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA 	Upgrade	AA- 
	LC ST IDR	F1+	Affirmed	F1+
	Country Ceiling	AA+	Affirmed	AA+
	• senior unsecured <sup>LT</sup>	AA	Upgrade	AA-

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Applicable Criteria

[Country Ceiling Criteria \(pub.24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub.06 Apr 2023\) \(including rating assumption sensitivity\)](#)

#### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.1 [\(1\)](#)

Debt Dynamics Model, v1.3.2 [\(1\)](#)

Macro-Prudential Indicator Model, v1.5.0 [\(1\)](#)

Sovereign Rating Model, v3.14.1 [\(1\)](#)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Qatar EU Endorsed, UK Endorsed

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