FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Qatar at 'AA-'; Outlook Stable

Fri 18 Jun, 2021 - 5:17 AM ET

Fitch Ratings - Hong Kong - 18 Jun 2021: Fitch Ratings has affirmed Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook.

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

KEY RATING DRIVERS

Qatar's 'AA-' ratings are supported by large sovereign net foreign assets, one of the world's highest ratios of GDP per capita, a flexible public finance structure and a favourable outlook for debt reduction. Rating weaknesses include high government debt/GDP and substantial contingent liabilities compared with rated peers, heavy hydrocarbon dependence and mediocre scores on measures of governance and doing business.

Despite sharply lower energy prices and the wider impact of the coronavirus pandemic, we estimate that Qatar's general government (GG) budget was in balance in 2020, including the estimated investment income on government external assets. Hydrocarbon revenues declined by 21%, falling by less than benchmark energy prices given lags in the transmission of prices to budgetary receipts. Spending cuts partly offset lower revenues, with total budget spending down by 12.5%, driven by capex cutbacks.

We forecast the 2021 GG budget to return to surplus, at close to 3% of GDP, owing to higher oil prices and ongoing spending restraint even as some postponed capex projects restart. For 2022-2023 we forecast the GG budget surplus will average close to 1% of GDP, as oil prices moderate (to USD54/bbl on average) and increased investment in domestic gas production limits flows to the budget from Qatar Petroleum (QP), the state-owned energy company. Qatar's fiscal break-even oil price is one of the lowest among Fitch-rated energy exporters and is broadly in line with our medium-term oil price assumptions of USD53/bbl.

Government debt declined in nominal terms in 2020, with the government paying down maturities and an additional USD3.6 billion of domestic debt, but increased as a percentage of GDP, to 85% from 72% in 2019, reflecting the denominator impact of the GDP contraction. The government reports a lower debt level (72% of GDP in 2020), which excludes short-term debt in the form of T bills and overdrafts with local banks. In 2020, government overdrafts increased to 12.5% of GDP, from 9.5% of GDP in 2019. Central government deposits in local banks also increased, to 14% of GDP, putting net debt at 71% of GDP. In 2021, we expect the government to pursue a similar policy of paying down maturities, including USD4.1 billion of external debt, but do not assume any additional debt reduction.

The government previously indicated a more aggressive strategy to reduce debt in 2020-2021, following the sharp increase in GG debt/GDP from 30% in 2013-2014. Qatar's government debt levels are significantly higher than the 'AA' peer median of 44% of GDP. We forecast that GG debt/GDP will decline to 73% in 2021, on the back of higher oil prices and a rebound in nominal GDP, and to 70% by 2023. The planned expansion of the North Field gas field is likely to drive debt lower beyond 2025-2026, although given the size of the project there is some risk of delay, in Fitch's view.

QP plans to expand liquified natural gas (LNG) production capacity from 77 million tonnes per year (mtpa) to 110 mtpa by end-2025 and to 126 mtpa by 2027 (an overall increase of 64%) and has taken the final investment decision for phase one. The expansion would also yield substantial volumes of oil condensates and other by-products that can be exported.

The cost of phase one has been announced as USD29 billion, implying a cost of around USD43 billion for the total expansion. We assume that QP will bring in foreign equity partners to share the cost and lock in clients for LNG off-take. We conservatively assume that QP will cover USD20 billion of the total project costs out of its own cash flow, spread over 2022-2028 (on top of debt issuance and contributions by partners). We assume ramp-up of production in 2025-2028, leading to larger budget surpluses, which will trend up to 6-8% of GDP from 2027. Absent other investment initiatives, these surpluses should facilitate lower government debt/GDP and a further build-up in sovereign wealth fund assets.

Contingent liabilities are large, in particular stemming from banks, which have assets in excess of 250% of GDP, exposure to a weak real estate sector and net foreign liabilities of around 70% of GDP. The latter makes the sector vulnerable to potentially volatile external funding. Banks' liabilities to non-residents reached USD174 billion in 2020 or close to 40% of total assets. The sovereign has a record of supporting the sector. Loss of confidence by non-resident depositors and investors could force the government to repatriate foreign assets to support banks, with negative implications for overall sovereign creditworthiness.

Contingent liabilities from the non-bank sector are also significant. We estimate the debt of non-bank government-related entities at more than 40% of GDP. QP and the globally diversified telecoms operator Ooredoo (A-/Stable, with a Standalone Credit Profile of bbb) account for at least a third of this. Qatar Airways Group is the other main non-bank source of contingent liabilities and has been making losses since FY17. The airline received USD1.9 billion of support from its shareholder (the Qatar Investment Authority) in FY20 and likely further support in FY21.

The government's strong overall asset position currently mitigates risks from contingent liabilities (although these are growing) and has helped Qatar weather external shocks. We estimate that sovereign net foreign assets rose to 187% of GDP (USD274 billion) in 2020 from 136% of GDP (USD239 billion) in 2019, largely reflecting the estimated assets of the QIA, which were buoyed by another year of strong asset market returns (there is also a denominator effect given the decline in GDP in 2020). However, the broader economy-wide external balance sheet is weaker, with net external debt increasing to 41% of GDP from 19% of GDP, primarily reflecting the increase in the banking sector's net foreign liabilities.

Resolution in January 2021 of the dispute that began in mid-2017 between Qatar and the Quartet of the UAE, Saudi Arabia, Bahrain and Egypt is positive for political stability. Qatar remains exposed to escalation of geopolitical tensions in the region, although the risks of this have receded for now.

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, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Qatar has a medium WBGI ranking in the 65th percentile reflecting scores above the 70th percentile across most pillars and a much weaker score for voice and accountability.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

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

- A failure to reduce GG debt/GDP, for example due to higher fiscal deficits than currently forecast, or an assessment that contingent liabilities are likely to crystallise on the sovereign balance sheet.

- 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:

- A marked and sustained reduction in government debt to a level approaching the 'AA' median, for example as a result of a prolonged period of fiscal surpluses, combined with a reduction of the risks associated with large contingent liabilities.

- A substantial improvement in Qatar's external balance sheet to a level more in line with the levels of 'AA' rated regional peers, for example through the build-up of sovereign assets in combination with increased transparency on investments and a reduction in bank and other sector net external debt.

- An improvement in structural factors such as an improvement in governance or business environment indicators to levels approaching the 'AA' medians.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Qatar a score equivalent to a rating of 'A' 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 a flexible government spending structure, our expectation that a return to fiscal surpluses and an expansion of hydrocarbon production will lead to debt reduction, and large usable public sector assets.

- External Finances: +1 notch, to capture exceptionally large sovereign external assets, which are not reflected in official central bank reserves.

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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

KEY ASSUMPTIONS

Fitch forecasts Brent crude to average USD 63/bbl in 2021, USD55/bbl in 2022 and USD53/bbl in the medium term.

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.

Qatar does not publish data on its International Investment Position (IIP). In particular, there is no disclosure on the size, composition and returns of government external assets (mostly relating to the QIA). Fitch produces its own estimates of Qatar's IIP figures based on data from the Bank of International Settlements, Qatar's depository corporations survey and Qatar's fiscal and balance of payments data. The estimates of Qatar's government external assets are derived by compounding the government's investments abroad (from balance of payments statistics) using assumptions about returns and asset allocations. Fitch has sufficient confidence in these estimates to maintain 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 SRM and are therefore highly relevant to the rating and a key rating driver with a high weight.

Qatar has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight.

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.

Qatar has an ESG Relevance Score of '4' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver, as for all sovereigns.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Qatar	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
•	ST IDR	F1+	Affirmed	F1+
•	LC LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
•	LC ST IDR	F1+	Affirmed	F1+
•	Country Ceiling	AA	Affirmed	AA
• senior	LT	AA-	Affirmed	AA-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Toby Iles
Director
Primary Rating Analyst
+852 2263 9832
toby.iles@fitchratings.com
Fitch (Hong Kong) Limited
19/F Man Yee Building 60-68 Des Voeux Road Central Hong Kong

Jermaine Leonard
Director
Secondary Rating Analyst
+852 2263 9830
jermaine.leonard@fitchratings.com

Tony Stringer
Managing Director
Committee Chairperson
+44 20 3530 1219
tony.stringer@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Wai Lun Wan
Hong Kong
+852 2263 9935
wailun.wan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

Sovereign Rating Criteria (pub. 26 Apr 2021) (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, v1.7.1 (1)

Debt Dynamics Model, v1.2.1 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.12.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Qatar	EU Endorsed, UK Endorsed

DISCLAIMER

READ LESS

COPYRIGHT

group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Sovereigns Middle East Asia-Pacific Qatar
