MOODY'S RATINGS

OUTLOOK
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Contacts

Francesca Paolino +971.4.237.9568
AVP-Analyst
francesca.paolino@moodys.com

George Korniliou, CFA +357.25.696.061
Lead Ratings Associate
george.korniliou@moodys.com

Abdulla AlHammadi, CFA +971.4.237.9693
AVP-Analyst
abdulla.alhammadi@moodys.com

Alexios Philippides +357.2569.3031
VP-Senior Analyst
alexios.philippides@moodys.com

Nitish Bhojnagarwala +971.4.237.9563
Associate Managing Director
nitish.bhojnagarwala@moodys.com

Antonello Aquino +44.20.7772.1582
MD-Financial Institutions
antonello.aquino@moodys.com

Alexander Perjessy +971.4.237.9548
VP-Sr Credit Officer
alexander.perjessy@moodys.com

Banking System Outlook - Qatar

Outlook stays stable on solid operating conditions, sound capital and liquidity

Our outlook on the Qatari banking system remains stable, reflecting our expectation of slightly higher economic growth in 2025-26, as well as the banks' strong capital and liquidity buffers. We forecast real GDP growth of 2.3% for Qatar in 2025, up from 1.9% in 2024, as businesses outside oil-related sectors benefit, in particular, from projects linked to the expansion of the country's liquefied natural gas (LNG) production capacity. We forecast non-hydrocarbon sector growth to accelerate to 3.5% in 2025-26 from an estimated 3% in 2024. These strengths will balance the banks' weakening loan performance, particularly in the real estate and contracting sectors, while profitability should remain stable, with steady operating income and low operating costs offsetting the high cost of risk. Still elevated, though lower, oil prices will support domestic public sector deposit growth, but banks' continued high reliance on confidence-sensitive foreign funding leaves them vulnerable to shocks. The likelihood and capacity of the Qatari government to support banks in financial difficulty will remain strong.

Overview of key drivers

Operating environment	STABLE	=	We forecast real GDP growth will increase to 2.3% in 2025 from 1.9% 2024.
		=	Non-oil growth will improve to 3.5% in 2025-26 from about 3% in 2024, benefiting from projects related to Qatar's expanding LNG production capacity and growing construction and services sectors.
Asset risk	DETERIORATING	–	Problem loans will rise to around 3.5% of total loans, driven by overcapacity in the real estate sector and payment delays in the contracting sector.
		–	High credit concentrations to vulnerable sectors and foreign exposures will also weigh on asset quality.
		=	Lending to highly rated government entities and Qatari nationals supports asset quality.
Capital	STABLE	=	Capital will remain stable and provide good loan loss-absorption capacity.
		=	Banks will maintain large loan-loss reserves.
Profitability and efficiency	STABLE	=	Lower margins will be offset by growing fee and commission income.
		=	Banks will maintain a strong efficiency ratio compared with other GCC systems.
		=	The cost of risk will remain stable at current high levels in some loan segments.
Funding and liquidity	STABLE	=	Banks remain heavily reliant on confidence-sensitive foreign funding.
		=	Liquid buffers will remain stable and cover confidence-sensitive market funding.
Government support	STABLE	=	The government's capacity and willingness to support banks in case of need remains strong and is supported by a consistent track record.

IMPROVING STABLE DETERIORATING

Outlook remains stable on solid operating conditions, sound capital and liquidity

Economic growth will rise slightly in 2025. We expect Qatar's real GDP growth to rise to 2.3% in 2025 and 4.8% in 2026 from 1.9% in 2024, accounting for the new LNG trains coming on stream in 2026. Growth outside the oil sector will likely rise to 3.5% annually in 2025-26 from an estimated 3% in 2024, benefiting from projects related to the country's expanded LNG production capacity, as well as sporting events, business exhibitions and tourism-related activities.[1] We expect private-sector credit growth of around 6% in full-year 2025, up slightly from 4% in full-year 2024.

Loan performance will continue to weaken. Problem loans will rise to around 3.5% of total loans for the system by the end of 2025 from 3.0% at the end of September 2024 (4.1% excluding the largest bank in the system[2]). Stage 2 loans[3] stood at 10.9% for the system at the end of September 2024, from 10.6% at end 2021, but increased to 20.6% when excluding the largest bank in the system at the end of September 2024 from 16.1% at end 2021. Weakening loan performance largely reflects overcapacity in the real estate sector – a growth area for the banking sector loans, along with services and the public sector – and payment delays in the contracting sector. Real estate and contracting together account for around one fifth of bank lending, presenting significant concentration risk. However, recent policy measures[4] should improve the monitoring and mitigation of some of these risks. Furthermore, Qatari banks benefit from significant lending to the low-risk Qatari government and public-sector organisations (29% of loan book in 2024), and personal loans (13% of loan book) are largely to Qatari nationals with high job security. Meanwhile, Qatari banks' loan-loss reserves equaled a high 131% of problem loans at the end September 2024, up from 119% as of year-end 2022, as they continue provisioning for Stage 3 exposures.[5]. Additional asset quality pressures stem from foreign exposures at the larger Qatari banks (for example to Turkiye and Egypt).

Capital buffers will remain solid. We expect credit growth to be around 6% in 2025, which combined with Qatari banks' high profit retention policy will maintain the banks' capital ratios at current high levels. Tangible common equity[6] was at a high 16.1% of risk-weighted assets as of September 2024, and regulatory ratios remain well above central bank minimum requirements.

Profitability will remain sound. We expect Qatari banks' net income to remain stable around 1.4% of tangible assets in 2025. Margins will be compressed by interest rate cuts in 2025, as rates on deposits and other funding costs fall more slowly than interests received from loans. Growth in fee and commission income will offset a drop in net interest income, keeping operating income broadly stable. Provisioning costs will remain high, as pressure on the real estate and contracting sectors persists. Further, Qatari banks' cost-to-income ratio remains the best among the Gulf Cooperation Council banking systems at 24%[7] because the country's small and concentrated population allows banks to reach customers without need for extensive and costly branch networks. This high efficiency supports the banks' profitability despite costly investment in digital services and technology.

Reliance on confidence-sensitive foreign funding will remain high. Still elevated, though lower, oil prices will support flows of domestic deposits into the banking system, helping to compensate for prudential regulations aimed at curbing Qatari banks' overreliance on confidence-sensitive foreign funding. The banks' foreign liabilities were 36% of total liabilities in 2024, up from 34% in 2023[8] but down from a peak of 40% at the end of 2021. In addition, risks from volatility-prone foreign funding are partially offset by good diversification across regions and maturities. Further, as interest rates decline, banks should begin to shift toward longer-term funding structures. Lastly, Qatari banks maintain a sound and stable buffer of liquid assets, at around 24.2% of total assets as of September 2024, with most banks reporting high liquidity coverage ratios.[9]

We assume a very high likelihood of government support for Qatari banks. The government's strong willingness to provide a backstop is shown by the preemptive support it has extended to the banks in times of stress and the fact that it has never let a domestic bank default on its debt or deposit obligations. The government's capacity to support banks remains high, with the sovereign long-term issuer rating at Aa2. Our support assumptions translate to an average of four notches of uplift for the deposit ratings of Qatari banks from their Baseline Credit Assessments.

Exhibit 1

Key indicators for Moody's-rated banks in Qatar

	Sept 2024	2023	2022	2021	2020
KEY RATIOS					
Problem Loans / Gross Loans	3.0%	3.1%	3.0%	2.3%	2.1%
TCE / RWAs	16.1%	16.7%	15.9%	15.6%	15.1%
Net Income / Tangible Assets	1.4%	1.3%	1.2%	1.2%	1.2%
Market Funds / Tangible Banking Assets	19.3%	22.0%	20.5%	19.9%	20.6%
Liquid Banking Assets / Tangible Banking Assets	24.2%	25.1%	25.4%	23.7%	23.3%
ADDITIONAL RATIOS					
Loan Loss Reserves / Problem Loans	131%	127%	119%	129%	131%
Loan loss Provisions /Gross Loans	0.8%	1.0%	1.1%	1.0%	0.9%
Loan loss Provisions / Average Gross Loans	0.8%	1.0%	1.1%	1.0%	0.9%
Tier 1 ratio	18.7%	18.7%	18.6%	18.5%	18.0%
Net Interest Margin	2.3%	2.3%	2.3%	2.2%	2.2%
Net income / Average RWA	2.5%	2.4%	2.2%	2.2%	2.1%
Pre Provision Income / Average RWA	4.0%	4.2%	4.1%	3.6%	3.4%
Cost to income ratio	24%	23%	22%	24%	25%
Shareholders' Equity / Total Assets	9.3%	9.3%	9.2%	9.1%	9.1%
Stage 2 / Gross Loans	10.9%	11.7%	11.5%	10.6%	10.8%

Source: Banks' financial statements; Moody's Ratings

Rating universe

We rate four conventional banks and four Islamic banks in Qatar, together accounting for around 96% of banking system assets as of September 2024. The average (asset-weighted) standalone Baseline Credit Assessment (BCA) for Qatari banks is baa2. BCAs are our view of a bank's standalone financial strength without considering support from parent banks, affiliates or the government. The average foreign and local-currency deposit rating is A1, which incorporates four notches of rating uplift derived from our government support assumptions.

This report covers Qatar's whole banking system. However, figures cited in the report are sourced from the financial statements of the eight rated banks.

Islamic banking in Qatar has grown to 30.0% of total financings as of December 2024 compared with 25.6% as of December 2018. For details on Islamic banking in Qatar, please see the sector profile "Qatar's Islamic Banking System".

Exhibit 2

Moody's-rated Qatari banks

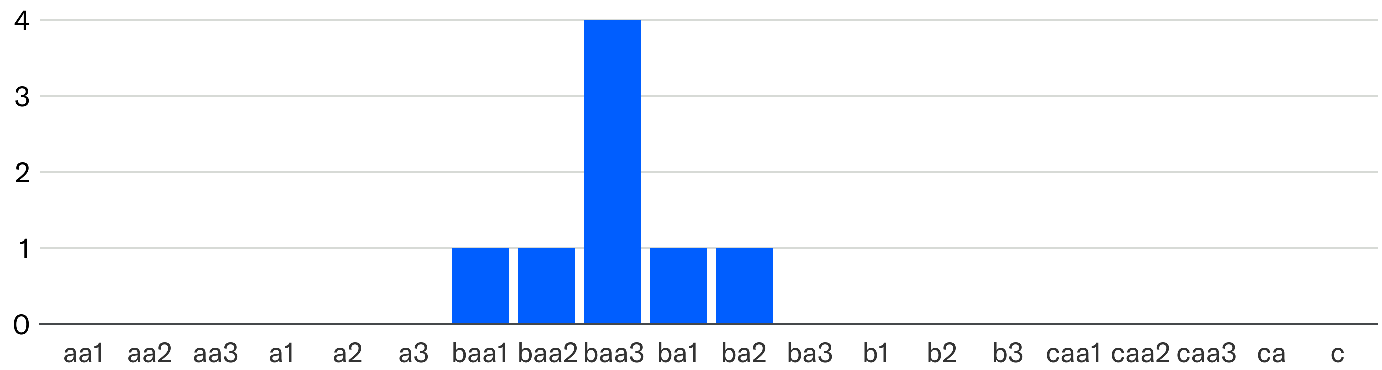
Name of the bank	Total assets Sep 2024 (USD million)	Market Share (Deposits/Assets)	BCA	Government support	Government support notches	Long-term Bank Deposit Rating (local currency)/Outlook
Qatar National Bank (Q.P.S.C.)	351,348	49.9%/53.2%	baa1	Very High	4	Aa3/STA
Qatar Islamic Bank Q.P.S.C.	54,256	12.1%/9.8%	baa2	Very High	4	A1/STA
Masraf Al Rayan (Q.P.S.C.)	45,526	10.4%/8.2%	baa3	Very High	4	A2/STA
The Commercial Bank (P.S.Q.C.)	44,826	7.1%/7.6%	ba1	Very High	4	A3/STA
Dukhan Bank Q.P.S.C.	32,052	7.9%/5.8%	baa3	Very High	4	A2/STA
Doha Bank Q.P.S.C.	30,182	4.9%/5.4%	ba2	Very High	4	Baa1/STA
Ahli Bank Q.P.S.C.	16,903	3.2%/3.0%	baa3	Very High	4	A2/STA
Qatar International Islamic Bank (Q.S.C.)	16,492	3.9%/3.0%	baa3	Very High	4	A2/STA

For Islamic banks, the local-currency deposit ratings refer to the banks' Long Term issuer ratings.

BCA = Baseline Credit Assessment, on a scale from aaa (highest) to c (lowest). BCAs reflect banks' standalone credit strength. Long-term ratings incorporate our affiliate, parental and government support assumptions. STA = stable. NEG = negative.

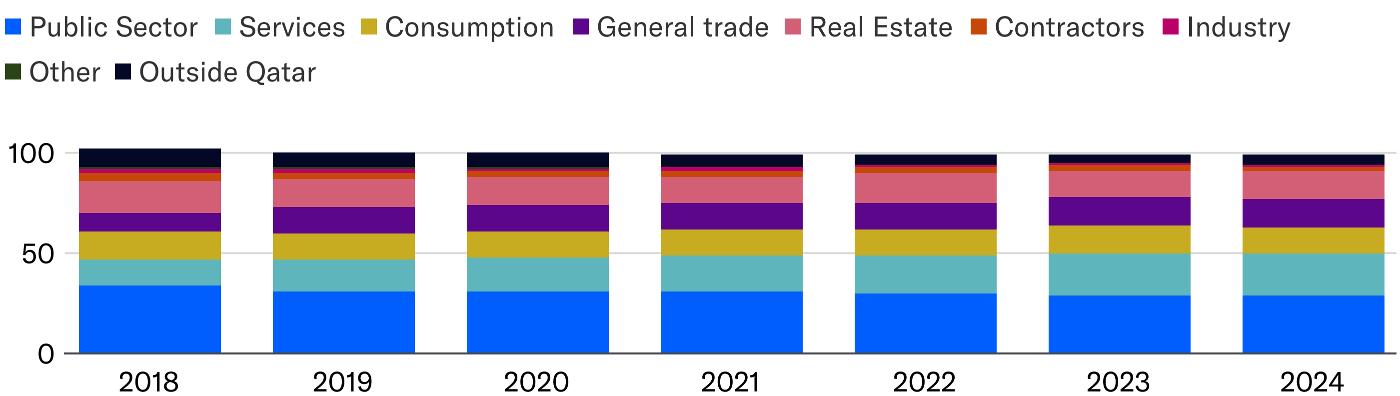
Sources: Banks' financial statements; Moody's Ratings

Exhibit 3
Qatari banks' BCA distribution



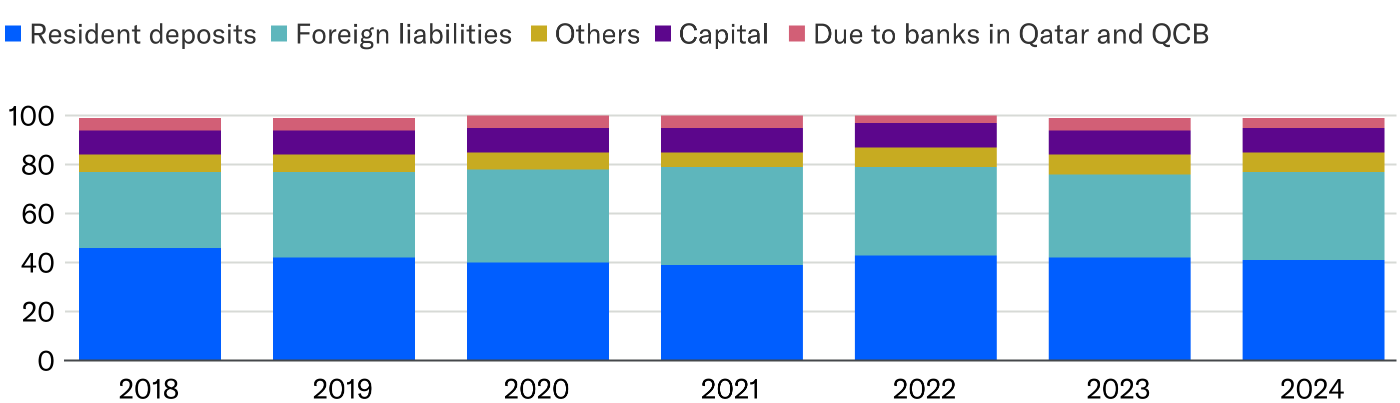
Source: Moody's Ratings

Exhibit 4
Qatari banks largely lend to public-sector entities



Data are represented in percentages
Source: Qatar Central Bank's statistics

Exhibit 5
Foreign liabilities contribution to total funding remains high



Data are represented in percentages
Source: Qatar Central Bank's statistics

Banking System Outlook Definition

The Banking System Outlook reflects our view of credit fundamentals in the banking sector over the next 12 to 18 months. Banking System Outlooks are distinct from rating outlooks, which, in addition to sector dynamics, also reflect issuers' specific characteristics and actions.

The outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of rating outlooks.

Endnotes

1 Non-oil GDP growth dropped to 1.1% in 2023 following 5.7% achieved in 2022, when Qatar hosted the FIFA World Cup and benefited from related infrastructure and investment activity.

2 Qatar National Bank (Q.P.S.C.) (QNB), 53% market share by assets.

3 Under International Financial Reporting Standard (IFRS) 9, loans have three classifications: Stage 1 (performing loans); Stage 2 (loans for which there is increased risk of default) and Stage 3 (nonperforming loans, i.e. problem loans, more than 90 days past due)

4 In 2023, the law regulating the real-estate sector was updated, a Real Estate Platform was launched to collect and centralise data, and a Real Estate Regulatory Authority was established to strengthen regulation.

5 above 90% as of September 2024

6 Our preferred measure of capital for reasons of global comparability. Tangible common equity (TCE) = (common shares + retained earnings and related reserves + treasury stock + foreign currency translation) + amounts related to defined benefit post-retirement plans minus (goodwill and other intangible assets) minus (deferred tax assets) plus (impact of cap on deferred tax assets) plus (non-controlling interest).

7 in the first three quarters of 2024

8 the slight increase of foreign funding in 2024 stemmed from a mix of rising non-residential deposits at those banks operating outside Qatar, new issuances at most banks as maturities approached, and interbank funding

9 The liquidity coverage ratio is a requirement that banks hold sufficient high-quality liquid assets to cover cash outflows for 30 days.

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