Dun & Bradstreet's
Business Optimism Index – Qatar
Sponsored by the Qatar Financial Centre

QFC
Qatar Financial Centre

Q2 2016

KEY HIGHLIGHTS

- The composite BOI for the hydrocarbon sector is at the previous quarter's level of -7, with a weakening outlook for selling prices.
- At 13 points, the composite BOI for the non-hydrocarbon sector has slipped to its lowest level since Q2, 2009, weighed down by a decline in all parameters comprising the index.
- The Construction and Trade & Hospitality sectors have registered the weakest outlook for Q2, 2016.
- Within the Trade & Hospitality sector, the Hotels and Restaurants segment is more optimistic than the Trade segment with respect to demand, selling prices and profitability as the latter has been more strongly impacted by poor market conditions.
- Within the Finance, Insurance, Real Estate & Business Services sector, the Real Estate & Business Services sector has indicated comparatively brighter prospects.
- The business environment for both hydrocarbon and non-hydrocarbon firms is expected to weaken as a smaller proportion of respondents in each group compared to the last quarter has indicated that no negative factors will impact their operations.
- For oil & gas firms, the impact of falling oil prices is the most important factor that will hurt operations, while the non-hydrocarbon sector is most impacted by competition.
- Investment plans are modestly weaker than in the last quarter for the non-hydrocarbon sector, but have strengthened for the oil & gas segment.

Methodology

The D&B Business Optimism Index

The D&B Business Optimism Index is recognised as a product that measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Business Optimism Index is arrived at on the basis of a quarterly survey of business expectations. It is conducted in various countries that D&B operates in. Over time, the quarterly survey has emerged as a leading indicator of turning points in economic activity in these countries.

A random sample is selected from Dun & Bradstreet's commercial database for conducting this survey. This sample is divided into hydrocarbon and non-hydrocarbon segments to eliminate the dominance of the former over the latter and understand their dynamics individually. The hydrocarbon segment includes Qatar's mining, oil and gas companies whereas the non-hydrocarbon segment encapsulates in its purview the following sectors:

- Manufacturing (90 units)
- Construction (110 units)
- Trade & Hospitality (80 units)
- Transport & Communications (65 units)
- Finance, Real Estate & Business Services (115 units)

The sample is a microcosmic representation of Qatar's business community. The survey respondents are asked if they expect an increase, decrease or no change regarding the following parameters: Volume of Sales, Net Profits, Level of Selling Prices, New Orders received, Level of Stock, and Number of Employees.

The individual indices for each of the above parameters are then calculated by subtracting the percentage of respondents expecting decrease from those expecting increase.

Additional poll questions are asked relating to the current economic scenario and are aimed at gauging the business sentiments with regards to several key current issues.

For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September, and Q4 is the period between October and December each year.

Composite Business Optimism Index

The purpose of the Composite Business Optimism Index is to capture the aggregate weighted behavior of all the six individual indices in the non-hydrocarbon sector. Beginning Q3, 2009, D&B has introduced composite indices for all sub-sectors in the non-hydrocarbon segment to allow one indicator to summarise optimism levels in each of these sub-sectors.

GLOBAL ECONOMIC OUTLOOK

In its latest World Economic Outlook, the IMF has painted a gloomy picture, once again downgrading the growth forecast for the world economy. World economic growth is pegged at 3.2% for 2016, with recovery projected to strengthen in 2017 as conditions in emerging market economies and developing countries start to improve. Slowdown in China and low commodity prices are taking a bigger toll on emerging markets than expected, while advanced countries are still struggling to recover from the financial crisis. Even though the IMF has upgraded China's growth forecast by 0.2%, the country's deceleration continues to hit trade partners around the world. The IMF has warned that the global economy is losing steam, raising fears of a sluggish recovery in the world's key markets. Stagnation in global economic growth could further reduce investment, smother wage growth, curb employment and push government debt to unsustainable levels in some countries. Even though the primary engine of growth in 2016 will be the emerging market economies, some of them, such as Brazil and Russia remain in recession. The recession in these countries is turning out to be deeper and longer than what was earlier anticipated. Other oil exporting countries such as Venezuela, Saudi Arabia, Nigeria and Canada are also facing sharp slowdowns in their growth. They are responding to the sharp drop in commodity prices through sizeable cut backs in investment and hiring.

Europe and Japan continue to register very low growth rates, despite aggressive actions from their respective central banks to rekindle growth and revive inflationary pressures. Also clouding the outlook of the Eurozone is the possibility of the Brexit, which has fostered significant uncertainty about the European block. In the US, the Federal Reserve has begun to gradually normalize interest rates in view of the very low unemployment rate and signs of emerging price pressures. However, the US economy is having a difficult time in attaining strong growth momentum because of the slowdown in the energy sector, and the continued weakness in capital goods orders, manufacturing activity, and exports.

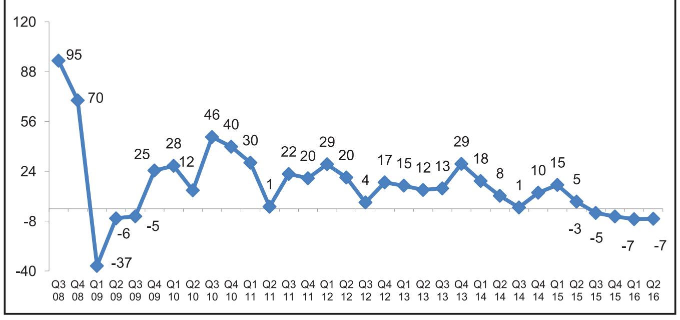
Hydrocarbon sector

The oil market has recovered significantly in recent weeks, assisted by expectations of a production freeze by major producers (which did not materialize), decline in US production, higher refinery runs, declining production in several other non-OPEC regions and an increase in unplanned outages in Iraq and Nigeria. However, markets are expected to remain oversupplied at least during the first half of the year as US crude production is only beginning to ease off, major OPEC producers are maintaining production levels and output from Iran is growing. Iran has pledged that it will raise its production to pre-sanction levels, which will increase OPEC output. Any further significant recovery in oil prices is not expected in the short term, given a heavily over-supplied market, inventories at record high levels, weaker growth in emerging market economies and a stronger US dollar. According to the IEA, in 2015 supply exceeded demand by around 2 million bpd, and for 2016 excess supply is forecast at 1.1 million bpd.

Some strengthening in demand is anticipated in the second half of 2016, underpinned by Asian demand. In this context, it should be noted that demand growth from China will be limited, given the nation's economic slowdown.

While additional growth in Qatar's gas industry is restricted by an on-going moratorium limiting exploration at the North Field, major progress has been made on the Barzan Gas project, which will play a significant role in meeting

Qatar's rising domestic gas demand. Oil production has severely declined in recent years, falling from 845,000 to 709,000 bpd between 2007 and 2014, according to OPEC figures. To improve oil production, Qatar Petroleum announced plans to invest to drill new wells and also to redevelop the Dukhan and Maydan Mahzam fields. However, the recent slump in oil prices is likely to hamper the execution of the government's expansion projects. Additionally, amid the drop in oil prices, Qatar is facing a global glut of liquefied natural gas as new suppliers in US and Australia come on stream. Qatar aims to protect its position by becoming the most efficient producer.



HYDROCARBON SECTOR: COMPOSITE INDEX

The Q2, 2016 business optimism survey for Qatar shows that the composite BOI for the hydrocarbon sector is at the previous quarter's level of -7. Expectations for selling prices have worsened, but the outlook for net profits and hiring has improved. The BOI for volume of sales has slipped to -3 in Q2, 2016, with the key reason cited by respondents being low oil prices and the consequent decline in business opportunities.

With respect to the level of selling prices, 5% of the survey participants expect an increase, while 21% anticipate a decrease resulting in a BOI of -16 in Q2, 2016, which is 11 points lower from the previous quarter. However, optimism with regards to net profits has improved; the BOI has moved up from -20 in Q1, 2016 to -5 in Q2, 2016. The hiring outlook has also strengthened, with the BOI moving up by 8 points q-o-q to 11. Respondents expecting to add to their employee numbers expect new orders.

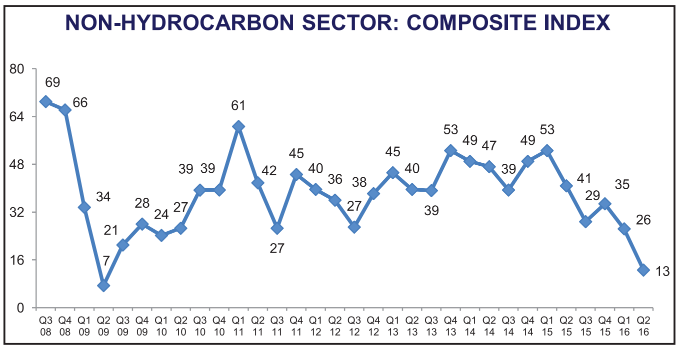
The business environment for oil & gas firms is expected to weaken as the proportion of firms that do not expect any hurdles to their operations stands at 30% in Q2, 2016, compared to 32% in the previous quarter. For the remaining firms, the other important challenges arise from the impact of low oil prices (indicated by 33% of the respondents), delays in payments/receivables (15%), government fees & regulations (8%) and no new projects/ project delays (8%).

Expectations with respect to undertaking investments in business expansion have improved on a quarterly basis; 25% had planned such investments last quarter and this proportion has increased to 33% for Q2, 2016.

Non-hydrocarbon sector

In light of the slump in oil prices, which will impact Qatar's revenues, the country has gone ahead with a conservative budget for 2016. The budget envisages a deficit of QAR 46.5 bn, the first in 15 years, with revenues pegged at QAR 156 bn and expenditures at QAR 202.5 bn. However Qatar has large financial buffers built up from budget surpluses over the past decades and is committed to continued development spending. Health, education and infrastructure accounted for the largest share of the 2016 budget, at 45.4%. Major infrastructure expenditures, which totalled QAR 50.6 bn, would include railways, the new Doha port, several large roadways and the expansion of electricity, water and sewage networks.

Qatar has been transitioning away from an oil based economy and has made significant strides in this direction as highlighted by growth in the non-oil sector out-pacing that of the oil sector since 2012. The key non-hydrocarbon sectors driving this growth are construction and financial services. However, these sectors have been very reliant on oil revenue and government expenditure. The government is now using fiscal policy not only to stimulate growth but also to add to its revenues through venues such as raising petrol prices.



The composite BOI for the non-hydrocarbon sector has slipped to the lowest level since Q2, 2009, weighed down by a decline in all parameters comprising the index. The composite BOI stands at 13 in Q2, 2016 compared to 26 in Q1, 2016 and 41 in Q2, 2015. Overall expectations have deteriorated due to the impact of low oil prices, the drying up of new projects or projects being put on hold, impact of slowdown in the global market, rising competition and seasonal downturn during the summer months. The BOI for volume of sales has dropped from 37 in Q1, 2016 to 18 in Q2, 2016 as 39% of the respondents foresee an increase in their volumes in comparison to the 21% that expect a decrease. The BOI for new orders has lowered by 17 points from 41 in Q1, 2016 to 24 in Q2, 2016. The index for level of selling prices shows expectations of stability, as 70% of the firms expect no change in the parameter. 13% of the firms anticipate an increase in their selling prices due to an increase in costs or new orders, while another 17% have forecast a decrease, resulting in a BOI of -4 for Q2, 2016. Softer demand and selling prices outlook has led to lower optimism for profitability; the BOI has declined by 9 points on a quarterly basis to 12 in Q2, 2016.

The decrease in composite BOI is reflected in the softening business environment situation; 43% of firms have indicated that they are not likely to face any obstacles during Q2, 2015 compared to 51% in Q1, 2016. Competition remains at the top of the table as the main concern, as cited by 21% of the respondents. 13% are concerned about the impact of low oil prices and 10% about delays in payments/receivables.

30% of the firms intend to invest in business expansion in Q2, 2016; the corresponding proportion in Q1, 2016 was 33%.

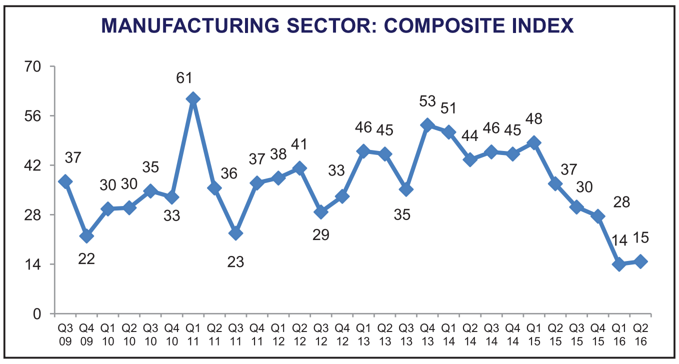
SME vs Large company

The overall optimism levels of the two groups is similar; however SMEs are optimistic about new orders, while large companies have a stronger outlook for selling prices.

- Expectations for volume of sales are similar, with a BOI of 18 for SMEs and 17 for large companies. The BOI for new orders for SMEs is higher at 25 versus 19 for large companies.
- Optimism for net profits is comparable; the BOI for SMEs stands at 11 against 13 for large companies.
- The BOI for number of employees stands at 13 and 14 for SMEs and large companies respectively.
- With respect to level of selling prices, the BOI is at -5 for SMEs versus 0 for large companies.

SMEs are more optimistic than large companies with respect to the business environment as 40% of the former have indicated that there are no negative factors that might impact their business operations, compared to a corresponding 32% of the latter.

Manufacturing sector

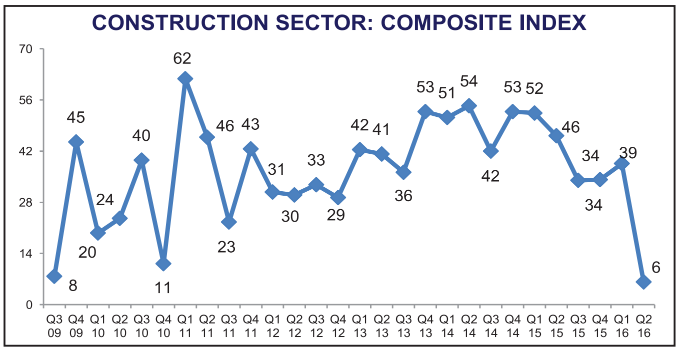


Poor market conditions have held down the optimism of the Manufacturing sector. Even though the composite BOI has inched up from 14 in Q1, 2016 to 15 in Q2, 2016, it remains much lower than the index value of 37 observed a year ago. The demand parameters have tracked sideways; the BOIs for volume of sales and new orders stand at 22 and 30 respectively in Q2, 2016 versus 23 and 28 in the last quarter. A majority (73%) of the firms expect stability in the level of their selling prices, while 9% expect an increase and the remaining 18% a decrease. Prospects for net profits have become weaker; the BOI has dropped by 6 points on a q-o-q basis to 12 in Q2, 2016. However the hiring optimism has modestly firmed up, with the BOI edging up from 17 in Q1, 2016 to 19 in Q2, 2016.

The business environment for manufacturing firms appears to have become tougher; 41% of them have indicated no hindrances to their operations in Q2, 2016 compared to a corresponding 60% in Q1, 2016. The chief concerns for this sector are competition (24%), delays in payments/receivables (16%) and impact of oil prices (7%).

Business expansion plans in Q2, 2016 are comparable to the previous quarter; 31% of the manufacturing firms intend to invest in such activities in Q2, 2016 compared to 34% in Q1, 2016.

Construction sector

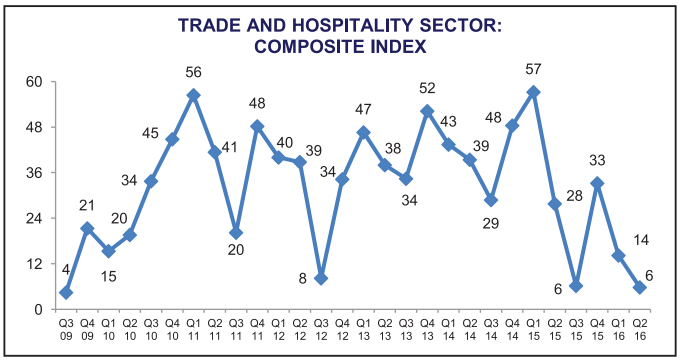


The composite BOI for the Construction sector has dropped to its lowest level in the series due to the non-availability of new projects/clients and low demand resulting from weak economic conditions. The BOI for volume of sales has plunged from 45 in Q1, 2016 to 10 in Q2, 2016 and that for new orders from 53 to 10. The forecast for level of selling prices has also dropped sharply, with the BOI dropping by 20 points q-o-q to stand at -3 in Q2, 2016. Consequently, the outlook for profitability and hiring has also deteriorated; the BOI for net profits has dropped from 35 in Q1, 2016 to 4 in Q2, 2016 and that for number of employees has dropped by 31 points to 4.

Reflecting the sharp decline in the composite BOI, the Construction sector's forecast for the business environment has weakened with 23% of the firms citing no obstacles to their business operations in Q2, 2016; the corresponding proportion in the previous quarter was 43%. Competition (29%), impact of oil prices (17%) and delays in payments/receivables (14%) are the main concerns of this sector.

25% of the construction firms have said that they intend to invest in business expansion in Q2, 2016 compared to 43% of the firms in the last quarter.

Trade and Hospitality sector

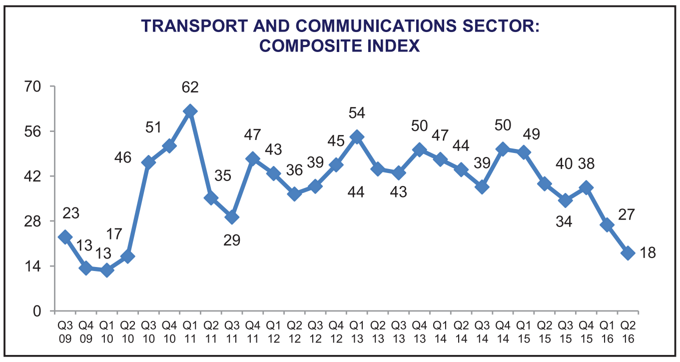


An economy wide slowdown has led the Trade & Hospitality sector to drop its outlook sharply. The composite BOI has decreased from 14 in Q1, 2016 to 6 in Q2, 2016 as all five parameters have registered declines. The Hotels and Restaurants segment is more optimistic than the Trade segment with respect to demand, selling prices and profitability as the latter has been more strongly impacted by the poor market conditions. For the overall sector, the BOI for volume of sales has declined by 12 points on a quarterly basis to 5 in Q2, 2016. Over the same period, the BOI for new orders is down by 6 points to 22. 76% of the firms expect their price levels to remain unchanged, while 18% expect a fall in their prices; the BOI for level of selling prices stands at -12 in Q2, 2016 compared to -2 in Q1, 2016. Consequently, firms have lowered their prospects for profits in Q2, 2016 with the BOI for net profits sliding by 8 points q-o-q to stand at 1. Hence, the hiring outlook has also softened; the BOI has declined from 19 in Q1, 2016 to 13 in Q2, 2016.

Mirroring the drop in overall sentiments, firms in this sector have downgraded their optimism about the business environment. 45% of the respondents expect no hindrances to their business operations in Q2, 2016 compared to 48% in Q1, 2016. Competition has been cited as the major obstacle by 35% of the firms. Another 14% are concerned about the impact of low oil prices.

26% of the respondents plan to invest in business expansion in Q2, 2016; the corresponding proportion was similar at 28% in Q1, 2016.

Transport and Communications sector

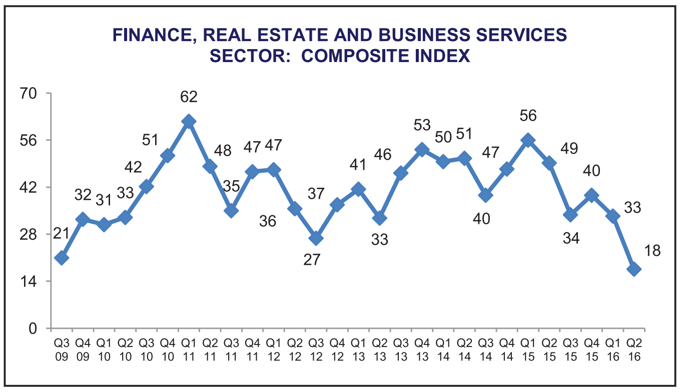


The overall prospects of the Transport & Communications sector have been hit by poor market conditions and demand and decrease in the number of new projects/ clients. The composite BOI has registered a 9 point drop from 27 in Q1, 2016 to 18 in Q2, 2016. The BOI for volume of sales has decreased from 45 in Q1, 2016 to 29 in Q2, 2016, while the BOI for new orders has dropped from 41 to 29 over the same period due to fewer projects, slow demand and the impact of low oil prices. The level of selling prices index has witnessed an uptick, rising from -4 in Q1, 2016 to 0 in Q2, 2016. Despite sluggish demand prospects, the outlook for profits has strengthened, with the BOI going up by 11 points q-o-q to 22 in Q2, 2016. The index for number of employees has dropped sharply from 41 in Q1, 2016 to 10 in Q2, 2016.

Going against the overall trend, the business environment outlook for the Transport sector has firmed up, with 58% of the firms indicating no obstacles to their operations in Q2, 2016 against 49% in the previous quarter. 14% of the firms are concerned about the impact of oil prices and another 11% each have said that government fees/regulations and delays in payments/receivables will hurt their business operations.

Despite a brighter outlook for the business environment, investment plans have weakened; 35% intend to undertake investments in business expansion in Q2, 2016 versus 41% last quarter.

Finance, Real Estate and Business Services sector



The optimism level of the Finance, Real Estate & Business Services sector has dropped to its lowest level in the series, weighed down by an economic slowdown in Qatar due to poor demand, low oil prices and fewer projects. The composite BOI stands at 18 in Q2, 2016, down from 33 in Q1, 2016. The Real Estate & Business Services sub-segment is much more optimistic than the Finance & Insurance segment about volume of sales, but the latter is modestly more confident about new orders and net profits.

The BOIs for volume of sales and new orders have declined from 49 in each case in Q1, 2016 to 22 and 31 respectively in Q2, 2016. Selling prices outlook has weakened considerably; the BOI has dropped by 13 points to 1. The net profits parameter is lower by 7 points from 28 in Q1, 2016 to 21 in Q2, 2016. Employment forecast is also softer, with the index declining by 14 points q-o-q to stand at 13 in Q2, 2016.

55% of the respondents in this sector do not expect any hindrances to their operations during Q2, 2016. The corresponding proportion for Q1, 2016 was modestly lower at 51%. 14% of the firms have indicated that they are concerned about the impact of low oil prices, while 9% will likely feel the impact of competition and another 8% will be hit by delays in payments/receivables.

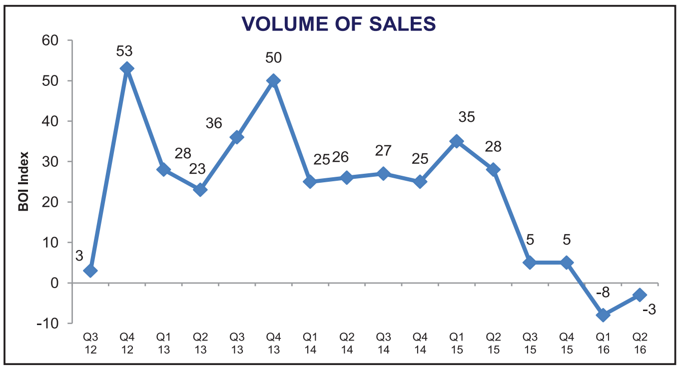
Business expansion plans have improved as 34% expect to invest in such activities this quarter compared to 24% in Q1, 2016.

Appendix

Hydrocarbon sector

Volume of Sales

The BOI for the volume of sales parameter of the Hydrocarbon sector is marginally up from last quarter's series low of -8 to -3 in the current quarter. A majority 41% of the sector respondents anticipate sales volumes to remain steady while 31% anticipate a decline due to lower oil prices and as projects come to near completion.

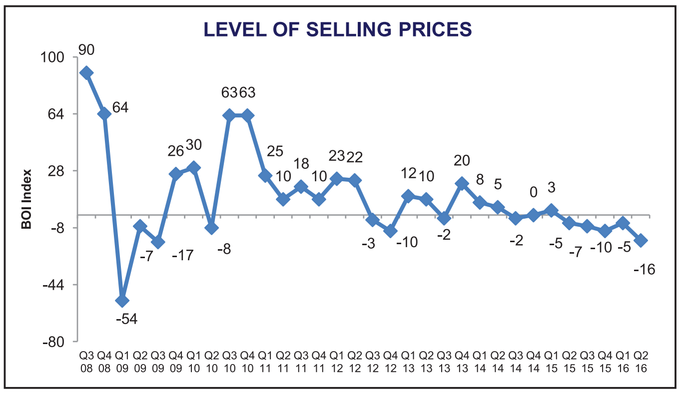


Level of Selling Prices

The BOI for the level of selling prices parameter continued to wallow in the negative zone and is recorded at -16 in Q2, 2016 from -5 in the previous quarter. However, a significant proportion of the participants - 74% foresee prices to stabilize, while 21% expect a decrease in this parameter mainly due to competition.

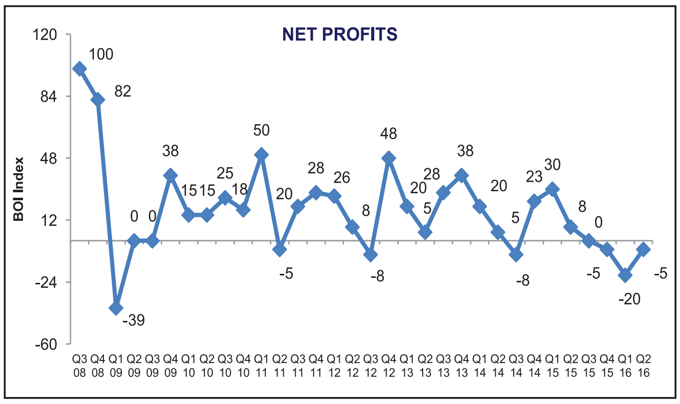
Dun & Bradstreet's

Business Optimism Index – Qatar



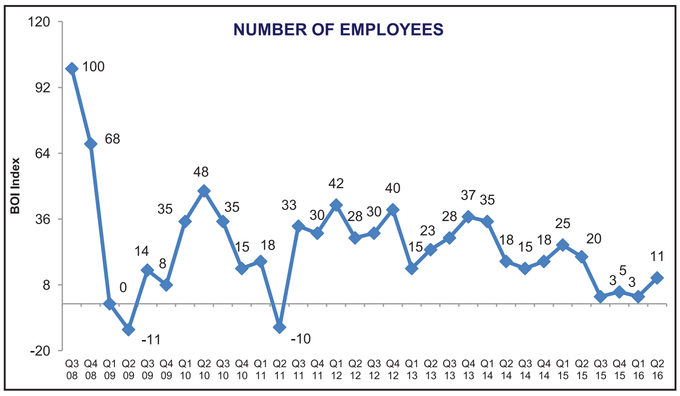
Net Profits

The profitability BOI for the Hydrocarbon sector is up to -5 in Q2, 2016 from -20 in Q1, 2016. More than half – 53% of the participants anticipate stability, while 21% foresee an increase in their net profits amid rising sales volumes and selling prices.



Number of Employees

The sector's hiring expectations have strengthened; the BOI for the number of employees is recorded at 11 in Q2, 2016 from 3 in Q1, 2016. While nearly 70% of the

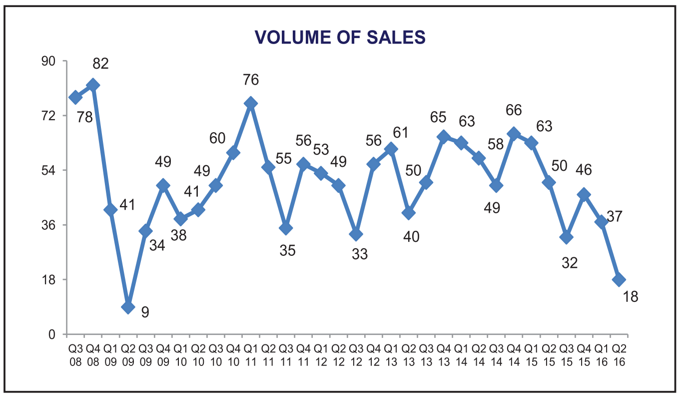


respondents cited stability in their headcount numbers, 21% will up this number so as to tackle project workloads and increasing business from expansion plans.

NON-HYDROCARBON SECTOR

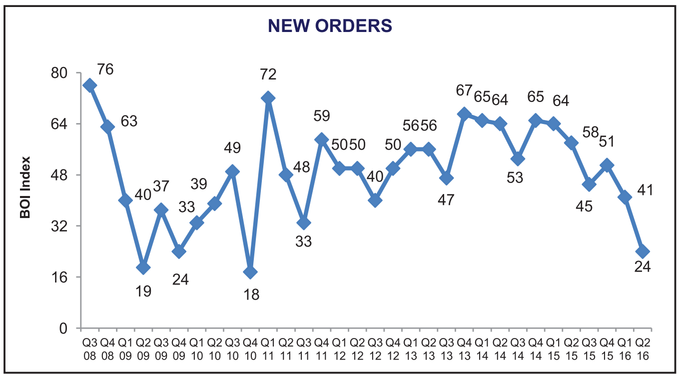
Volume of Sales

The BOI for the volume of sales parameter of the Non-hydrocarbon sector has descended to 18 in Q2, 2016 from 37 in Q1, 2016. 40% of the sector participants anticipate volumes to remain firm, while 21% expect this parameter to decrease due to competition, lack of new projects, poor business prospects and the impact of oil prices.



New Orders

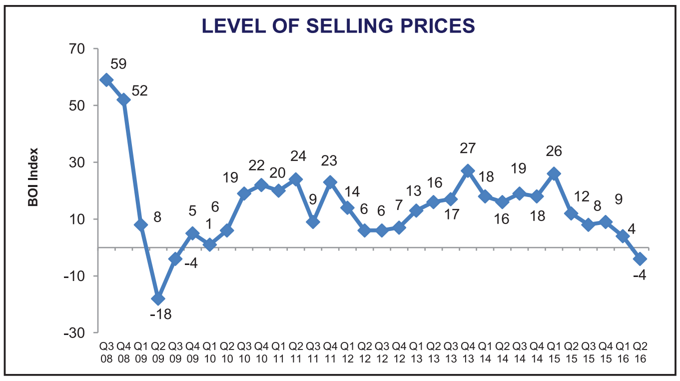
The BOI for the new orders parameter is recorded at 24 in the current quarter, down from 41 in Q1, 2016. 40% cited an increase in their order book status owing to an uptick in demand due to promotional activities, new projects



and clients. On the other hand, 16% expect new orders to decline mainly due to a dearth of new projects.

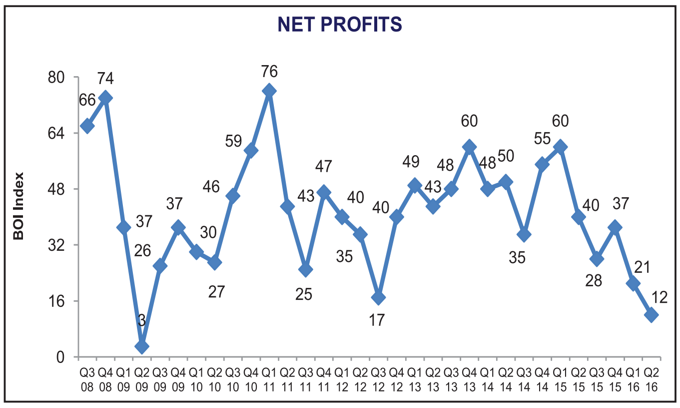
Level of Selling Prices

The BOI for the level of selling prices parameter has slipped into the negative territory to -4 in Q2, 2016 from 4 in the previous quarter. While 70% foresee stable pricing levels, 17% expect prices to slip largely due to the prevailing market competition.



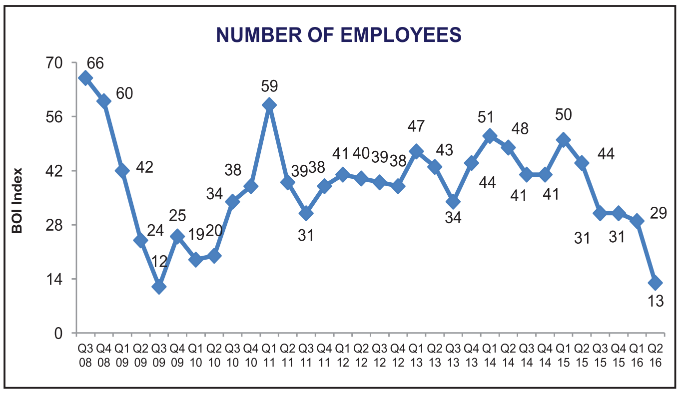
Net Profits

In line with lower expectations for volumes and prices, the BOI for the net profits parameter descended to 12 in Q2, 2016 from 21 in Q1, 2016. 34% expect an increase in profitability owing to increasing sales volumes and prompt payment receivables, while 22% foresee a decrease owing to higher overheads.



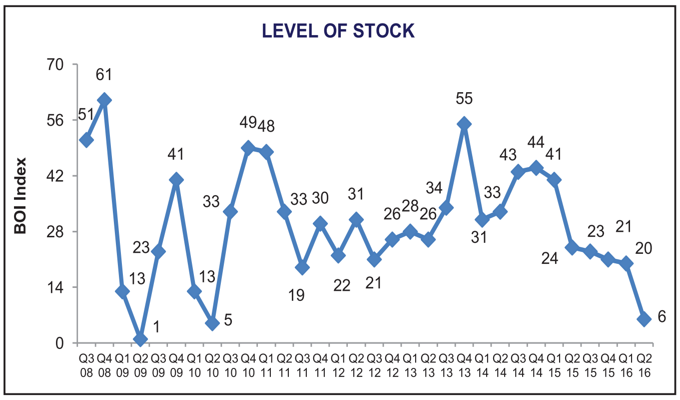
Number of Employees

The hiring indicator has declined substantially to record 13 in the current quarter from 29 in Q1, 2016. However, 67% of the respondents highlighted stability, while 10% will decrease their manpower numbers due to grim market conditions, lack of demand and no new business prospects.



Level of Stock

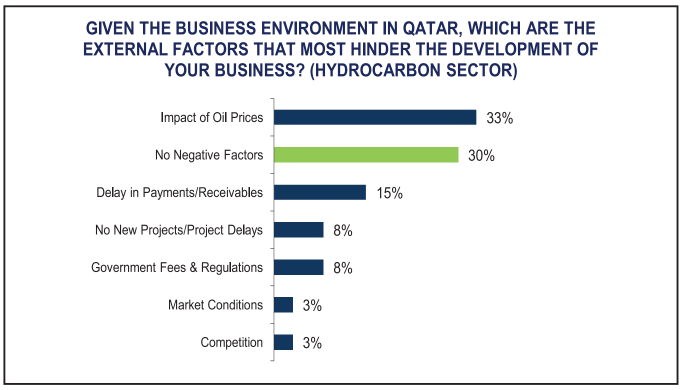
The BOI for the level of stock parameter has weakened considerably to 6 in Q2, 2016 from 20 in the previous quarter. Nearly three in five participants (56%) are content with their current inventory levels, while 19% will tone this level down due to lack of market demand and new projects.



BUSINESS CHALLENGES

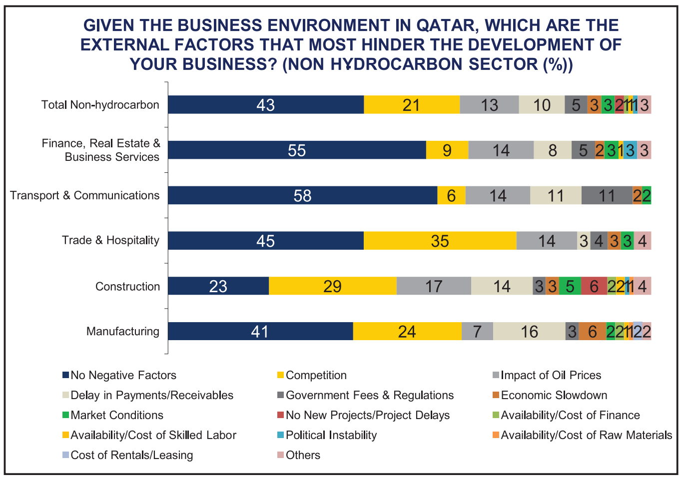
Hydrocarbon sector

The impact of oil prices continues to be the topmost concern faced by 33% of the oil & gas sector firms in Q2, 2016, compared to 49% in the previous quarter. Businesses continue to be cautious as 30% expect no negative factors to impact them as against 32% in the previous quarter. The delay in payments/receivables (15%), coupled with project delays/no new projects and government fees and regulations (8% in each case) are the other major challenges cited by firms in this sector.



Non-hydrocarbon sector

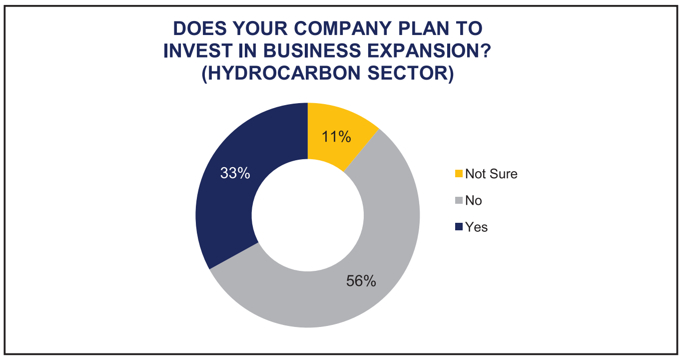
Sentiments with reference to the business environment in the Non-hydrocarbon sector have deteriorated as a lower proportion of 43% of respondents cited no hindrances to their operations in the current quarter compared to 51% in the previous quarter. The main concerns affecting firms this quarter include competition (21%), impact of oil prices (13%) and delays in payments/receivables (10%).



INVESTMENT PLANS

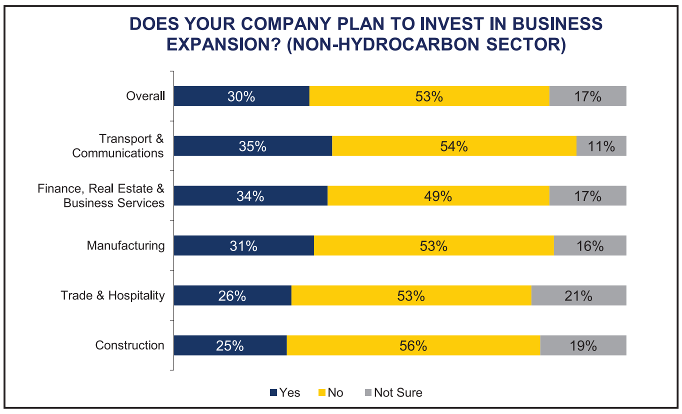
Hydrocarbon sector

Business capacity expansion plans of firms in the Hydrocarbon sector have strengthened as 33% of the respondents intend on taking up such activities in Q2, 2016 (25% in Q1, 2016), while a lower proportion 56% will not do so (65% in Q1, 2016).



Non-hydrocarbon sector

In terms of business expansion plans, sentiments in the Non-hydrocarbon sector have weakened as 30% of the firms indicated such plans in Q2, 2016 versus 33% in the previous quarter. A significant proportion, 53% will hold back such investments in the current quarter versus 54% in Q1, 2016.



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About Qatar Financial Centre

The QFC is a fully onshore business and financial centre located in Doha, and provides an excellent platform for firms to incorporate and do business in Qatar and the region. It offers its own legal, regulatory, tax and business infrastructure, which allows 100% foreign ownership, unlimited repatriation of profits, no restrictions on the currency used for trading, and charges a competitive rate of 10% corporate tax on locally sourced profits.

These foundations have helped to foster Doha's world-class business environment. Qatar is currently ranked as the 14th most business-friendly country in the world (Economic Forum Global Competitiveness Report 2015-2016) and within the top 20 financial centres worldwide (Global Financial Centre Index March 2015).

The QFC has recently undertaken several legal and structural enhancements, together with process improvements, to encourage a broader range of professional and business services firms to be licensed, facilitated by streamlined processes, significantly shortening the turnaround time for applications.

For more information about the QFC, please visit qfc.qa

Dun and Bradstreet South Asia Middle East Ltd.
Mr. Rajesh Mirchandani
Chief Executive Officer
Liberty House, DIFC
P.O. Box: 506511
Dubai, UAE
Tel: +971 4 3695700
Email: eag@dnbsame.com

Qatar Financial Centre
Mr. Yousef Fakhroo
Chief Marketing and Corporate Communications Officer
QFC Tower, 20th Floor, West Bay
P.O. Box: 23245
Doha, Qatar
Tel: +974 4496 7777
Email: contact@qfc.qa
qfc.qa