Qatar Banking Sector 2025 Outlook

Resilient Performance To Continue

S&P Global Ratings

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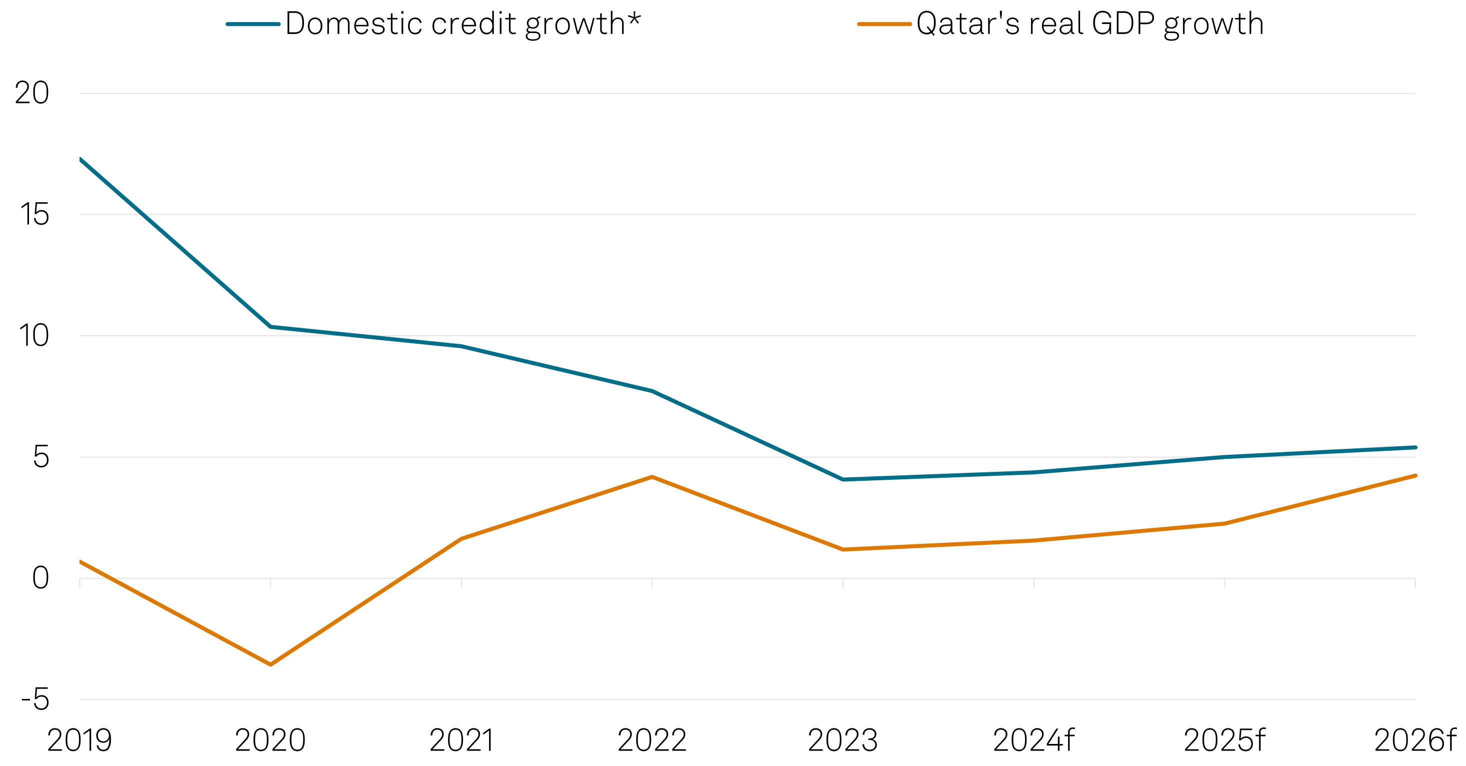
This report does not constitute a rating action

Key Takeaways

- Qatari banks are profitable and benefit from strong capitalization and adequate liquidity, a trend we expect to continue with an only modest drop in net interest margins owing to interest rate cuts.
- The system's external debt is about one-third of domestic credit, but the completion of many infrastructure projects will mean lower funding needs. The government’s highly supportive stance toward its banking sector mitigates the risk of external debt outflows if geopolitical risk escalates.
- The significant increase in country’s liquefied natural gas (LNG) production and its spillover effect on the non-hydrocarbon economy will support the credit growth in the next two to three years.
- We anticipate local funding sources will increasingly fund credit growth on the back of slower public sector deleveraging.
- The system’s leverage is elevated and almost 40% of total domestic credit is in the high-risk and cyclical real estate and related services.
- Continued pressure on real estate prices could accelerate the migration of stage 2 loans to nonperforming loans (NPLs) at some midsize banks, but public-sector initiatives and interest rate cuts will help prevent a more severe deterioration in asset quality.

Macro Outlook: Relatively Tepid Growth

Slower economic activity will restrain credit growth (%)



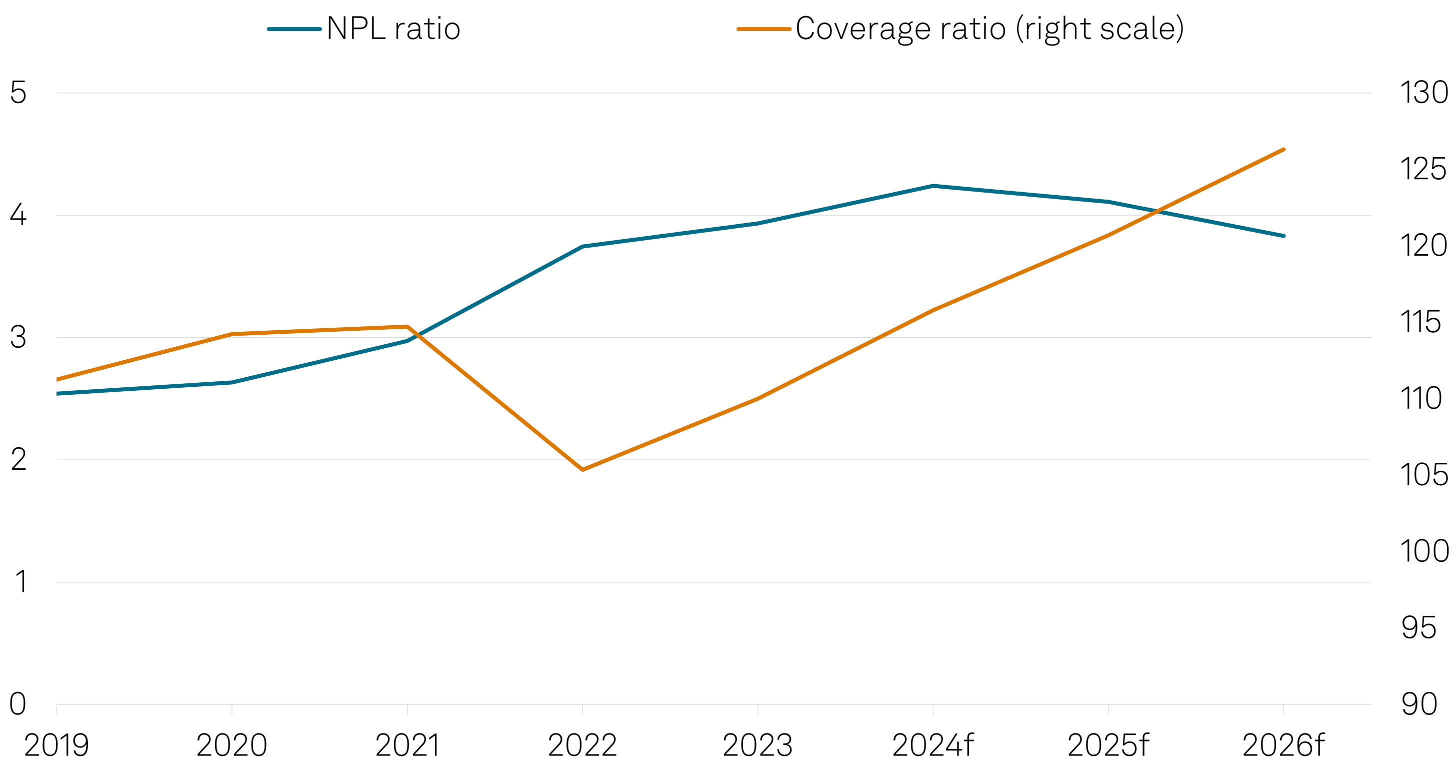
*Total domestic credit excluding direct government lending. f--Forecast. Sources: Qatar Central Bank, National Planning Council, S&P Global Ratings.

- Geopolitical tensions in the Middle East are high but we currently do not expect a full-scale regional conflict, and we anticipate macroeconomic conditions in Qatar will remain broadly stable.
- Qatar's North Field Expansion project will increase LNG production (by about 35% by 2027 in our forecast) and so we expect growth to temporarily average 5.8% in 2026-2027 as compared with an average 2% growth in 2024-2025.
- A return to normal non-hydrocarbon economic activity, relatively flat LNG production until 2025, and completion of many capital projects imply lower requirements for credit, and so we forecast slower domestic credit growth in Qatar of around 5% in 2025-2026 versus the 11% average in 2019-2022.

Asset Quality: Broadly Stable Despite High Levels Of Risky Exposure

- NPLs will remain modestly elevated at about 4% in 2025 before dropping in 2026, when we expect GDP and lending opportunities to pick up amid the LNG expansion, but oversupply in the real estate and hospitality sectors will weigh on banks' asset quality.
- Asset quality should stabilize, thanks to interest rate cuts, precautionary provisions booked over the past few years, and the government's tourism and non-oil diversification push.
- The contribution of Turkiye and Egypt to exposed Qatari banks' lending books is likely to shrink further due to the depreciation of local currencies and lending growth in Qatar.

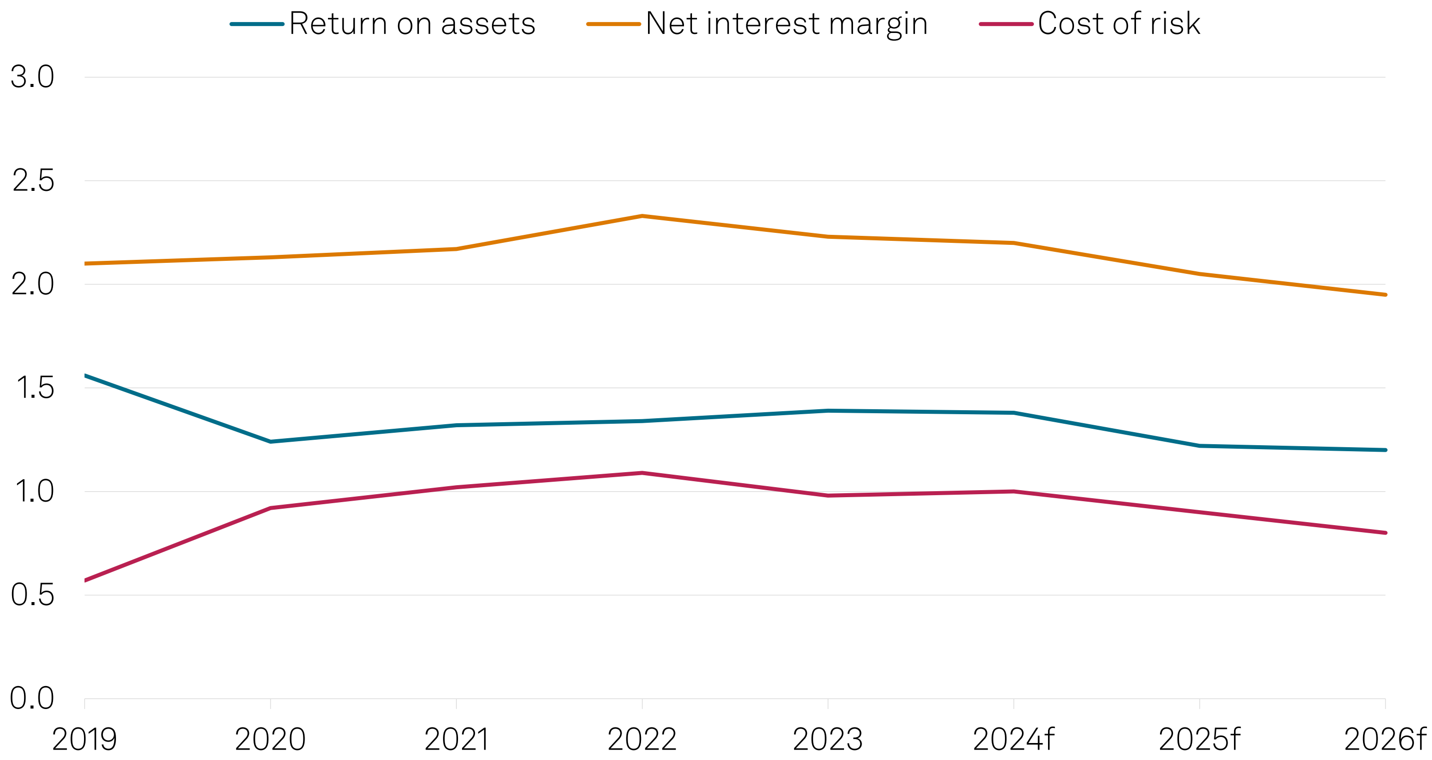
Asset quality is expected to remain stable (%)



NPL--Nonperforming loans. f--Forecast. Source: S&P Global Ratings.

Profitability: Good For Now, Some Moderation Due To Rate Cuts

Profitability will slightly moderate (%)



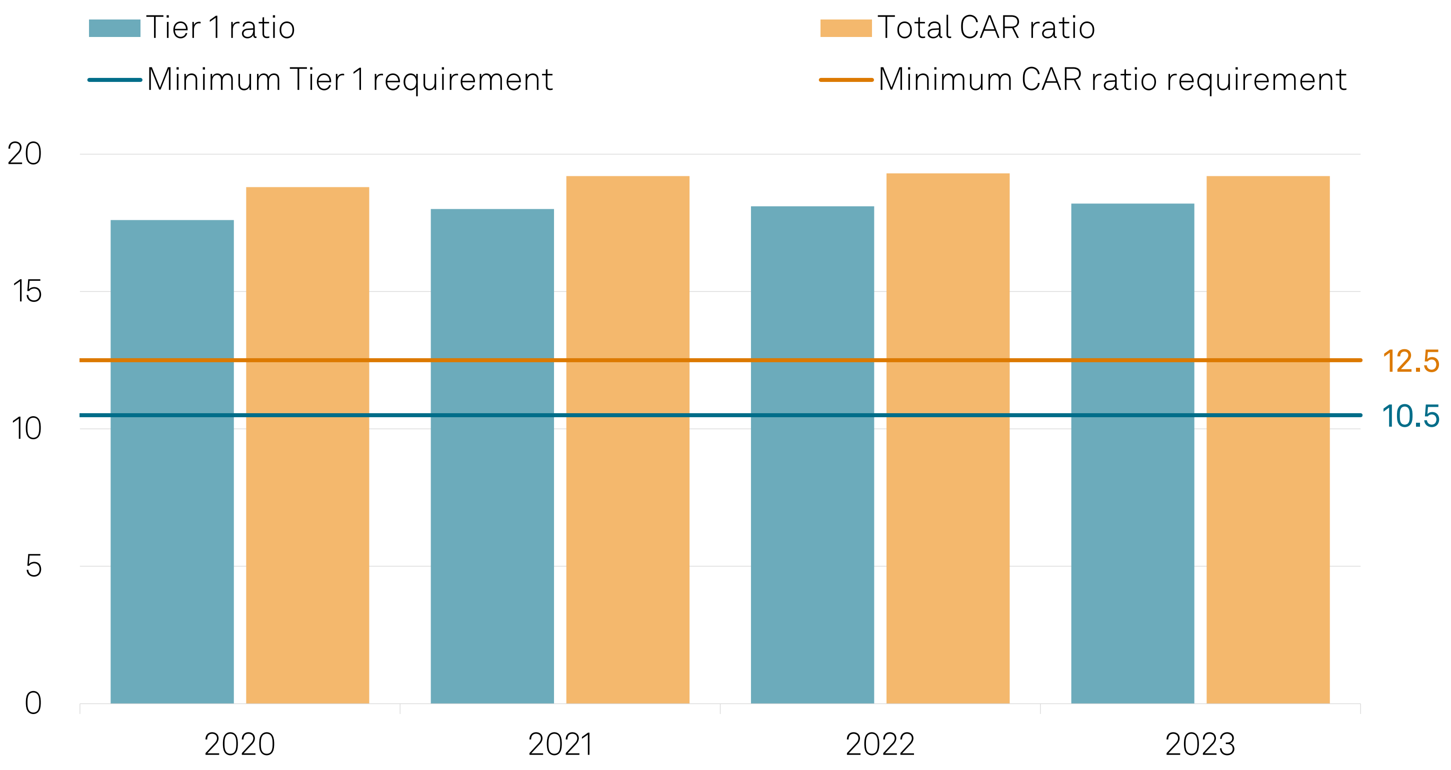
f--Forecast. Source: S&P Global Ratings.

- We expect the Federal Reserve to cut the rates by 175 basis points (bps) by year-end 2025, including the 100bps already delivered in 2024, and given the riyal's peg to the U.S. dollar, QCB will likely mirror these cuts.
- We expect banks profitability to decline slightly due to the lower interest rates and the replacement of external funding by more expensive local funding sources.
- We expect cost of risk to trend down thanks to the supportive economic environment and lower rates, which will give some breathing space to struggling real estate exposures.

Capitalization: Adequate And Expected To Remain So

- Qatari banks are well capitalized.
- The total capital ratio and Tier 1 ratio, including capital conservation buffer for the whole banking system, remain well above the central bank's minimum requirements of 12.5% and 10.5%, respectively.
- Supportive shareholders, dividend payouts that tend to be below 50%, and strong profitability are expected to contribute to stable capitalization levels.

Adequate capital buffers (%)



CAR--Capital adequacy ratio. Sources: Qatar Central Bank, S&P Global Ratings.

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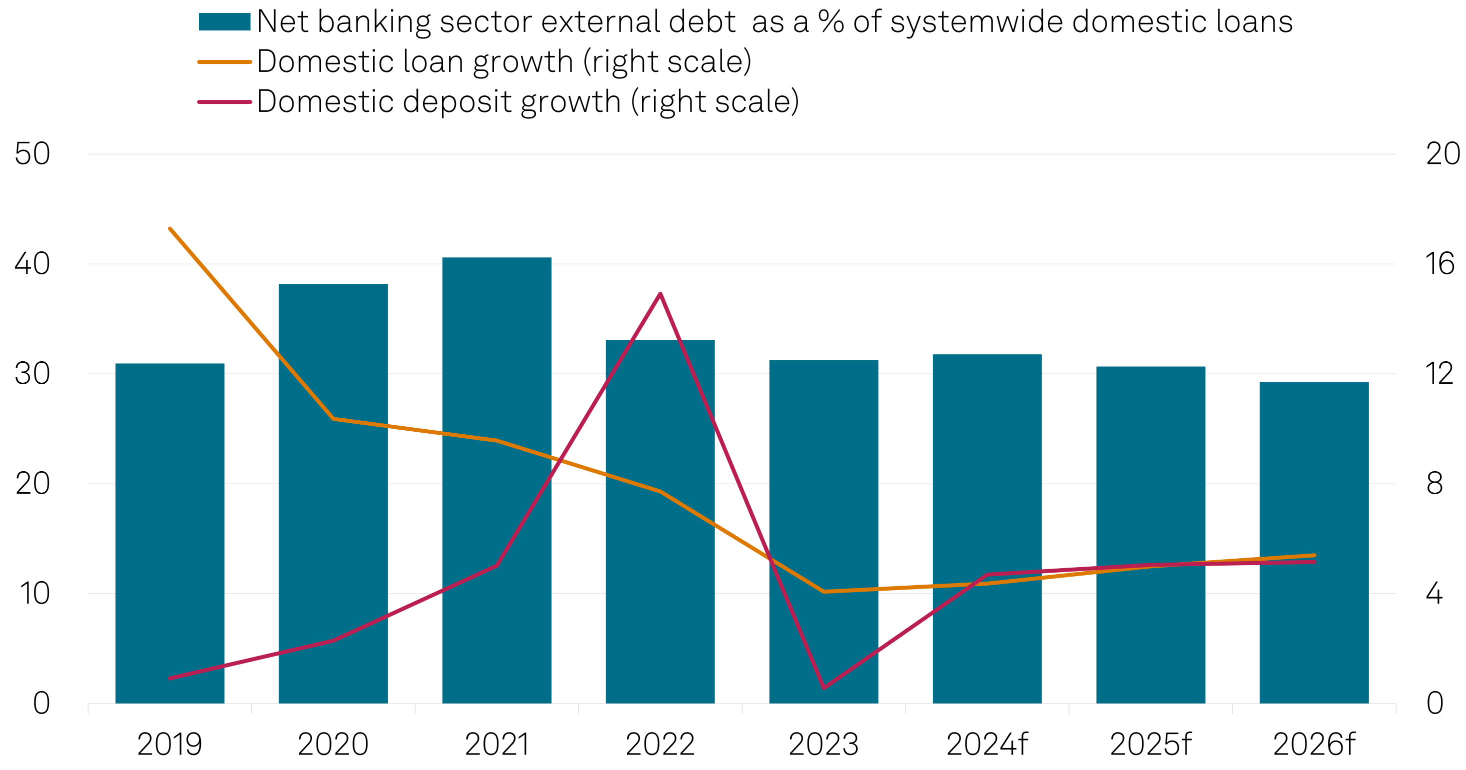
Funding: The Trend Of Stabilizing External Debt Will Continue

External funding will soften and local funding sources will fund the credit expansion (%)



f--Forecast. Sources: Qatar Central Bank, S&P Global Ratings.

- External debt is significant in Qatar, and we see a risk the banking system's high external debt could trigger significant capital outflows if geopolitical risks escalate.
- This is mitigated by the strong track record of support from the government in case of need.
- Most major infrastructure projects have been completed, softening the need for external funding. We expect local funding sources will fund credit expansion in 2025-2026. In the first nine months of 2024, domestic deposits increased by about 5% compared with less than 1% growth in 2023.

Overview Of Our Ratings

- Sovereign rating: **AA/Stable/A-1+**
- Qatar National Bank (Q.P.S.C.): **A+/Stable/A-1**
- The Commercial Bank (P.S.Q.C.): **A-/Stable/A-2**

BICRA snapshot

Banking Industry Country Risk Assessment Group				5
5	**Economic Risk | Trend: Stable**	**6**	**Industry Risk | Trend: Stable**	
Economic resilience	Low risk	Institutional framework	Intermediate risk	
Economic imbalances	High risk	Competitive dynamics	Intermediate risk	
Credit risk in the economy	High risk	System wide funding	Very high risk	

Government Support:
Highly supportive

As of Jan. 7, 2025. Source: S&P Global Ratings.

Related Research

- Banking Industry Country Risk Assessment Update: Qatar, Nov. 22, 2024
- Global Banks Country-By-Country Outlook 2025, Nov. 14, 2024
- GCC Banking Sector Outlook 2025, Nov. 13, 2024
- Commercial Bank (P.S.Q.C.) (The), Nov. 4, 2024
- Qatar Ratings Affirmed At 'AA/A-1+'; Outlook Stable, Oct. 29, 2024
- What Would An Escalation Of The War In The Middle East Mean For GCC Banks?, Oct. 21, 2024
- Qatar National Bank (Q.P.S.C.), Oct. 1, 2024

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