

A REPORT ON
SME
LENDING STATUS
IN QATAR
2022



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INTRODUCTION

Access to financing is a crucial factor for private sector growth, especially for small and medium enterprises (SMEs). It plays a vital role in stimulating business expansion, fostering innovation, and driving overall economic development. SMEs rely on financing to expand their operations, invest in new technologies, and create job opportunities. Additionally, access to financing enables companies to seize opportunities, enhance competitiveness, and contribute to economic diversification. Thus, this report sheds light on the role of bank financing in Qatar for SMEs, emphasizing its significance in navigating regional and international challenges. Furthermore, it highlights the support provided by bank financing to SMEs in participating in major events such as the successful hosting of the 2022 FIFA World Cup.

Monitoring the current state of bank financing for SMEs is a crucial aspect of tracking the development of this sector. To accomplish this, the Qatar Development Bank, in collaboration with the Qatar Central Bank, has been publishing an annual report since 2016. The report's publication became possible after the Qatar Central Bank introduced Circular (No. A. R. 107/2015) in December 2015. This circular established a unified definition for SMEs within the banking sector in Qatar. As a result, all banking information and statistics related to financial services and products issued by banks are based on this definition. Subsequently, in August 2016, the Central Bank issued Circular (No. A.R. 46/2016), which mandated banks to provide financial statistics regarding their interactions with SMEs. These statistics are reported to the Qatar Development Bank semi-annually.

The purpose of this report is to provide a summary of the most significant information concerning bank financing for SMEs in the banking sector in 2022. It aims to determine the status of bank financing for SMEs in Qatar, focusing on their share of financing, the purpose of financing requests, and distressed debt rates.

The data presented in this report is collected from banks operating in Qatar that offer credit services to SMEs. The Qatar Central Bank facilitated the collection of this data through a standardized form distributed to all relevant banks.¹



¹ Disclaimer

This report relies on data received from multiple banks in Qatar, in accordance with the circular issued by the Qatar Central Bank. It is important to note that the accuracy of the data contained in the report is the sole responsibility of each respective bank. Qatar Development Bank has collected and analyzed the data based on its availability, considering the potential limitations of certain data or the possibility of incomplete data submission by one or more banks.



ECONOMY OVERVIEW

In recent years, the global economy has experienced significant events that have had a profound impact on international trade, commodity prices, and global financial and monetary policies. However, there are now encouraging signs of improvement, despite predictions of a relatively weak recovery. Expectations indicate that the global economy will maintain moderate growth rates, ranging from 3.3% in 2022 to 2.7% in 2023, and approximately 2.9% in 2024. Several factors contribute to this positive growth, including lower energy prices, improved business and consumer confidence, the reopening of businesses, and relaxed preventive measures in China .

Furthermore, tightening monetary policies, reduced energy and food costs, and the resolution of supply chain issues are expected to contribute to a decrease in inflation rates. Economic forecasts suggest varying outcomes for major economies. While the United States and the Eurozone are expected to experience modest expansion, China is anticipated to witness strong growth in its gross domestic product. However, certain risks persist, such as the repercussions of the Russian-Ukrainian conflict, potential inflationary pressures, and the fragility of the financial situation, particularly in heavily indebted countries.²

At the local level, the Qatari economy has shown consistent improvement in recent years, demonstrated by observed growth levels in various sectors. In 2022, the oil sector experienced a growth rate of 1.7%, while the non-oil sector grew by 5.9%. As a result, real GDP grew by 4.3%. These growth rates are remarkable, especially considering the challenges faced by the Qatari economy since 2020 due to the COVID-19 pandemic. In that year, the oil sector contracted by 2% and the non-oil sector by 4.6%. However, the Qatari economy began to recover in 2021, with the non-oil sector growing by 2.6% and reflecting in a real GDP growth of 1.5%. These trends indicate the adaptability of the Qatari economy to different circumstances and highlight the outcomes of diversification efforts beyond the oil sectors.

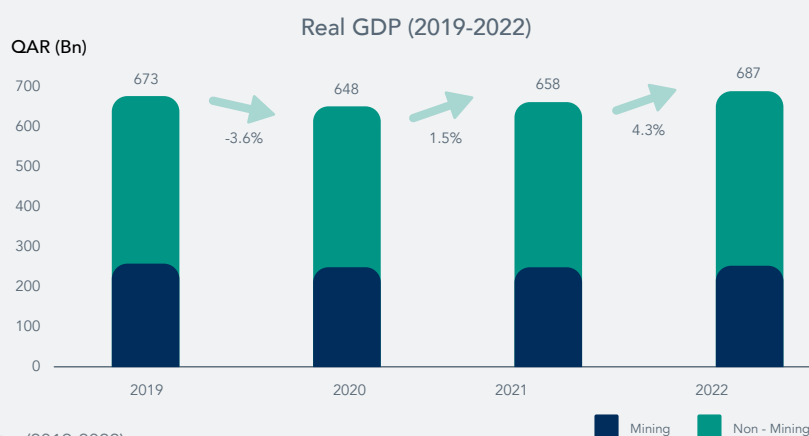


Figure 1: Real GDP in Qatar (2019-2022)

² OECD, economic outlook 2023

On the other hand, the Qatari economy witnessed significant developments in terms of inflation and interest rates in 2022 and 2023, which had substantial implications for companies and the overall economic landscape. After reaching unprecedented levels, with an inflation rate of 6.47% in December 2021, subsequent periods saw positive developments as the inflation rate gradually decreased to 2.36% by August 2023. This decline signifies a positive shift towards price stability, reflecting the effective measures implemented by the Qatari government, particularly in adjusting monetary policies through the Qatar Central Bank.

One such measure taken by the government was the adjustment of interest rates, especially the repo interest rate. The Qatar Central Bank raised interest rates to combat inflation, starting with an increase from 1.00% to 1.25% in March 2022, followed by gradual increments that reached 6.0% by July 2023. While high interest rates posed challenges for the growth of the private sector, especially SMEs, these increases created a favorable economic environment by ensuring predictability of costs amidst stable prices. This stability enables companies to plan strategically and make informed financial decisions, fostering an environment conducive to growth and investment.





CREDIT MARKET OVERVIEW

Credit availability is crucial for the private sector, especially for small and medium-sized enterprises (SMEs), as it enables them to invest, expand, employ, and innovate, thereby contributing to economic growth and job creation.

In Qatar, the total domestic credit reached approximately 1.2 trillion Qatari riyals in 2022. This credit is distributed among various sectors, including the public sector, private sector, individuals, and non-banking institutions. From 2018 to 2022, domestic credit experienced noticeable growth, with a compound annual growth rate of 9%. However, the growth rate did not exceed 4.5% in the period from 2021 to 2022. The private sector accounted for the largest share of credit at 46.8%, followed by the public sector at 31.2%, and individuals at 21.1% (See Figure 3).

Credit Facilities by Economic Sector (2018-2022)

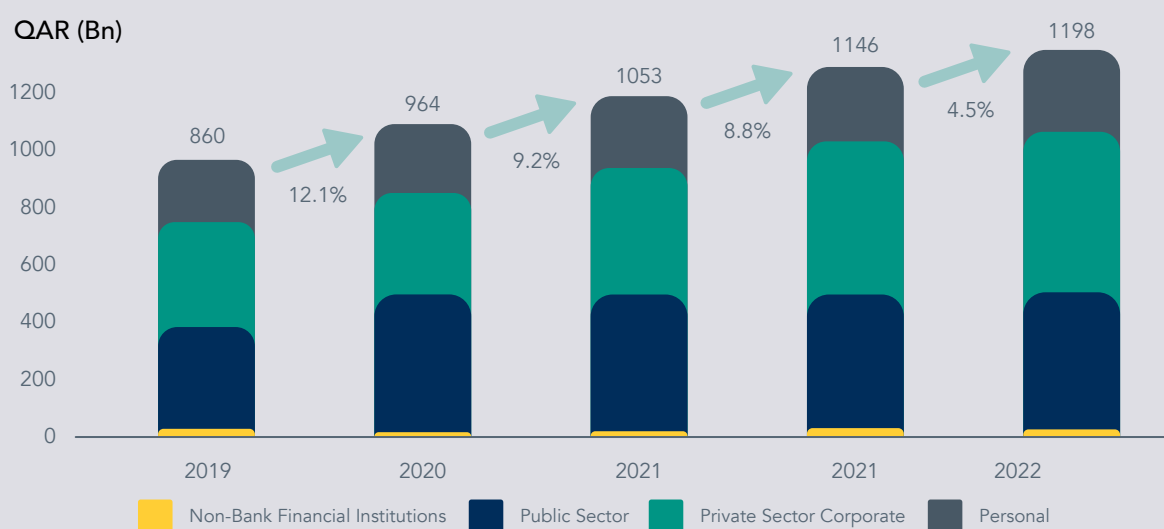


Figure 3: Credit Facilities by Economic Sector in Qatar (2018-2022)

Focusing specifically on credit in the private sector, it has shown remarkable growth in recent years, particularly in 2019 when it reached 28.8%. The growth rate moderated to around 10.1% in 2020, 10.7% in 2021, and declined slightly to approximately 8.0% in 2022. These developments indicate the dynamic nature of the credit market in Qatar and highlight its role in meeting the financial needs of institutions and individuals.

Within the private sector, different economic activities have experienced varying levels of credit growth. The services and trade sectors have witnessed steady growth, while the real estate sector has shown significant expansion. The contractors sector experienced a growth rate of 13.7% from 2021 to 2022, whereas the industrial sector witnessed a decrease of 9.8% during the same period. These trends reflect the diverse distribution of credit among different economic activities.

Private Sector Credit facilities Breakdown (2018-2022)

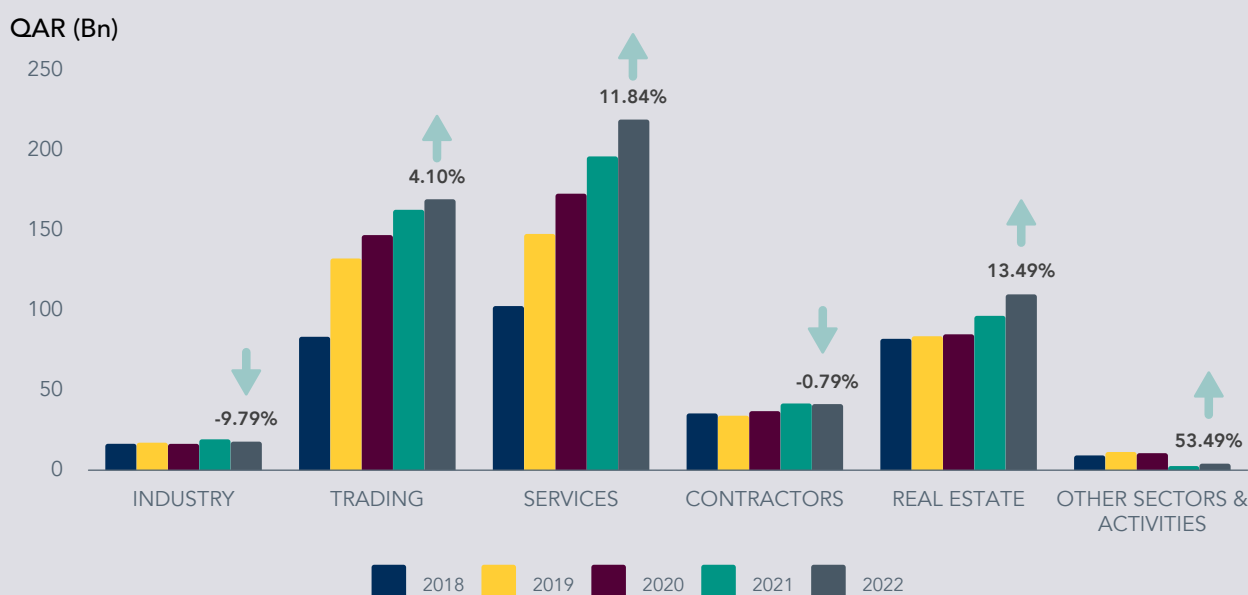


Figure 4: Private Sector Credit facilities by segment (2018-2022)

In 2022, the distribution of the credit balance within the private sector was as follows: services sector 39%, trade sector 30.1%, real estate 19.6%, contractors 7.4%, and industry approximately 3.2%. These figures provide insights into the allocation of credit across different sectors within the private sector.

The previous section of the report aimed to highlight the developments in the Qatari economy and the credit sector, focusing on the private sector as a whole and analyzing the variations in its growth rates and the distribution of credit among different economic activities. This introduction sets the stage for examining a specific category within the private sector, namely SMEs. Which like their counterparts in other countries, often face challenges in accessing the necessary credit and are more vulnerable to regional and global events compared to larger companies. The following sections will delve into the credit growth for SMEs in Qatar.



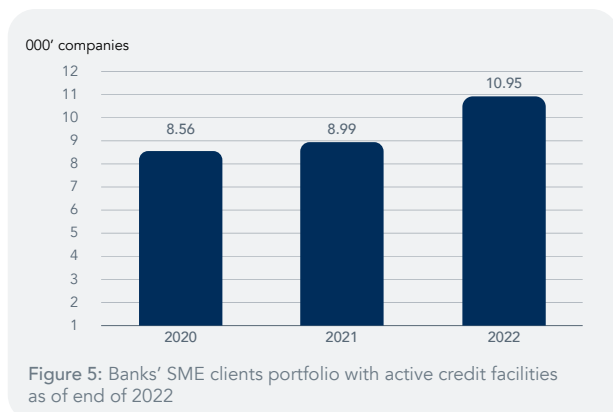


SMEs' AND ACCESS TO CREDIT

As mentioned earlier, SMEs are recognized for their pivotal role in driving economic growth, job creation, and fostering innovation. Their presence brings diversity, enhances competition, and lays the foundation for future enterprises, making their support crucial for a thriving economy.

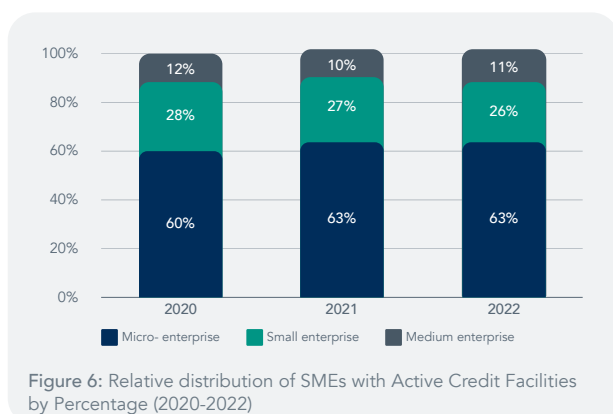
In Qatar, SMEs are instrumental in achieving the goals outlined in the Qatar National Vision 2030, particularly in diversifying the economy. Preliminary estimates indicate that SMEs constitute 98% of total establishments and employ approximately 55% of the workforce in Qatar. Recognizing the significance of SMEs, the State of Qatar has implemented various supportive initiatives to further develop this sector.

Previous studies highlight that access to finance remains a major challenge faced by SMEs worldwide, underscoring the importance of monitoring their ability to access different types of financing, including bank credit, which is the focus of this report.



SMEs AS CLIENTS IN BANKING SECTOR

This summary provides key findings derived from bank data on SME financing. In 2022, the number of SME bank clients with existing credit facilities amounted to around 11,000 SMEs, marking a 22% increase from the previous year (Figure 5).

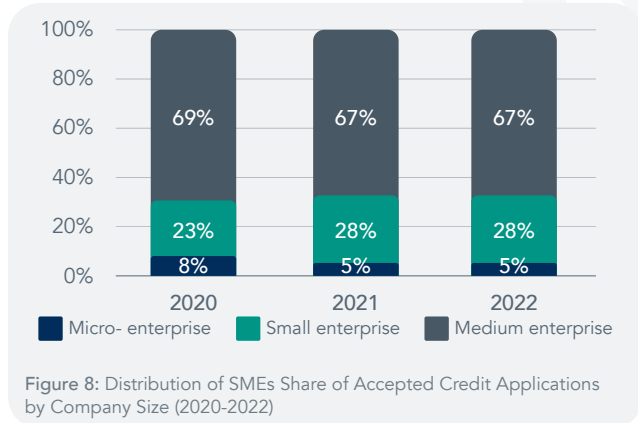
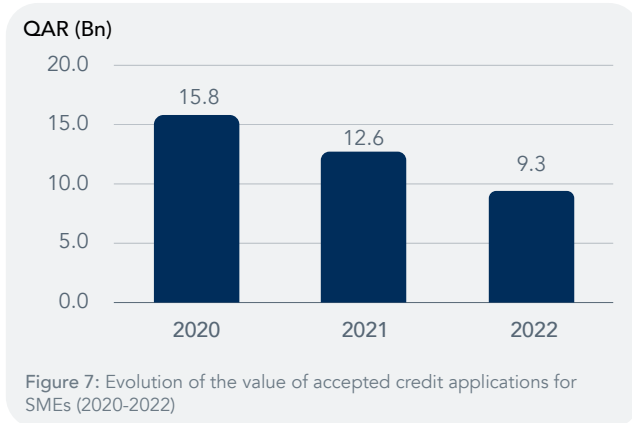


Analyzing the distribution based on company size in 2022, it was observed that 63% of the companies were categorized as micro-enterprises, which was consistent with the previous year. Small enterprises accounted for 26% of the total, while medium-sized enterprises constituted approximately 11%.





CREDIT APPLICATIONS IN 2022

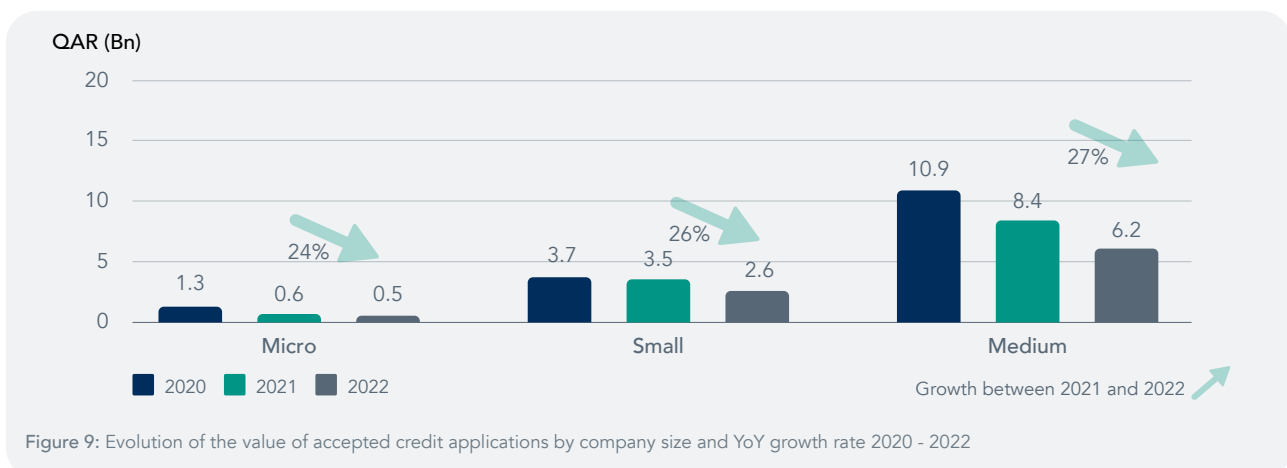


In 2022, the value of credit applications showed a decline compared to the previous year. The accepted credit applications in 2022 amounted to approximately 9.3 billion Qatari riyals, representing a decrease of 26% from the 12.6 billion Qatari riyals recorded in 2021 (Figure 7).

Bank statements indicate several factors contributing to this decline. Firstly, there was a decrease in commercial activity following the completion of projects related to the 2022 FIFA World Cup. Additionally, the successive increases in interest rates led to higher lending costs, reducing the attractiveness of credit facilities. Furthermore, high inflation rates in the region and globally had an impact on private sector activity.

Examining the distribution of accepted credit applications, medium-sized companies retained the largest share, consistent with the previous year, while small companies accounted for 28% and micro companies represented 5% (Figure 8).

All categories of companies, including micro-sized, small, and medium-sized, experienced a decrease in their credit applications. Medium-sized companies witnessed the highest decline, with a decrease of 27% in the value of their credit applications between 2021 and 2022. Small companies decreased by approximately 26%, and micro companies saw a decrease of around 24% (Figure 9).





PURPOSE OF CREDIT APPLICATIONS

The purpose for which SMEs seek credit provides valuable insights into market trends and business conditions. Similar to the previous two years, working capital remains the primary reason why SMEs avail credit, highlighting the significant number of SMEs that still require financial support to sustain their businesses. However, there has been an increase in the share of “Growth and expansion” from 21% in 2021 to 23% in 2022 (Figure 10). This indicates a potential improvement in business conditions as more businesses are seeking financing to expand and grow, rather than solely meeting operational requirements.

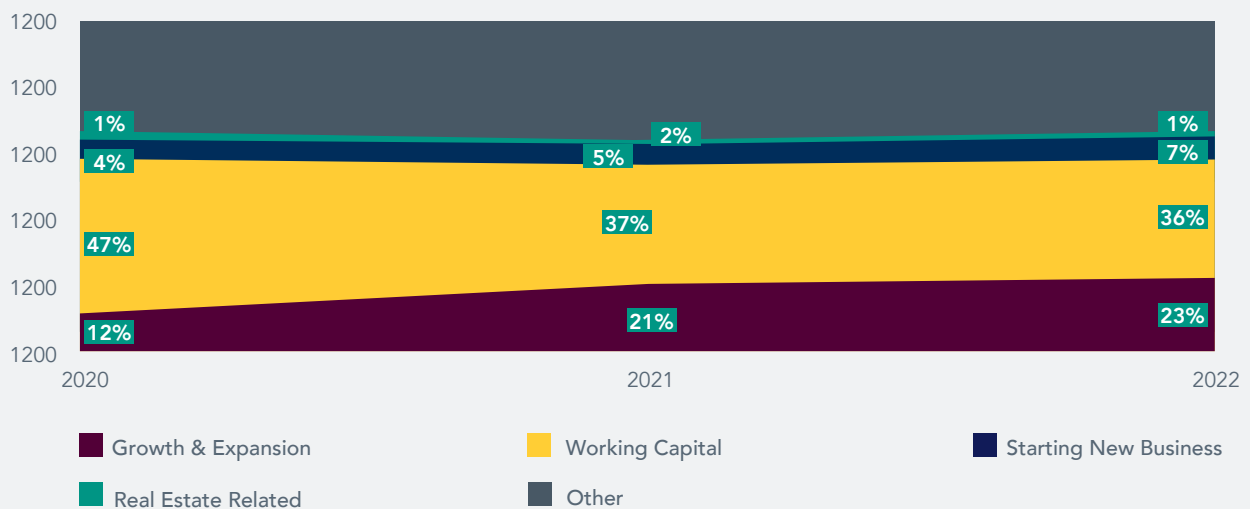


Figure 10: Distribution of SMEs' credit applications by purpose (2020-2022)



CREDIT PRODUCTS

In 2022, despite the decline of value of credit application -as mentioned earlier- some changes happened to the share of different types of credit products.

The data reveals an increase in the share of new direct facilities in comparison to the previous year, rising to 42% from 33% in 2021. Conversely, direct facilities linked to renewal and restructuring experienced a decline, although they still constitute a significant portion of the total credit facilities at 39%. These shifts in percentages indicate a relative stability, which can be attributed to the economic conditions faced by companies, particularly during the post-COVID-19 pandemic period (Figure 11).

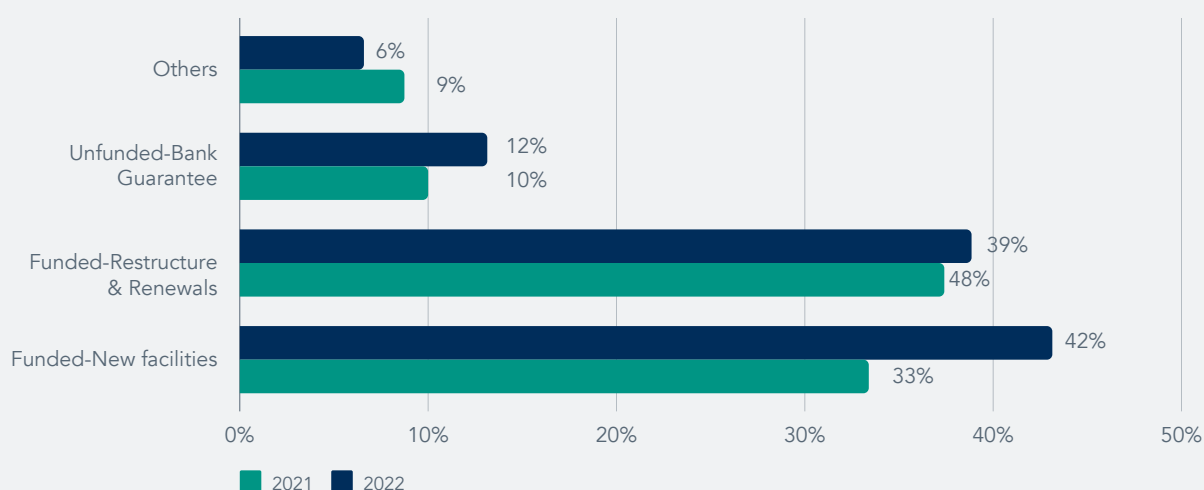


Figure 11: % Breakdown of Credit Products in Demand by SMEs (2021 - 2022)

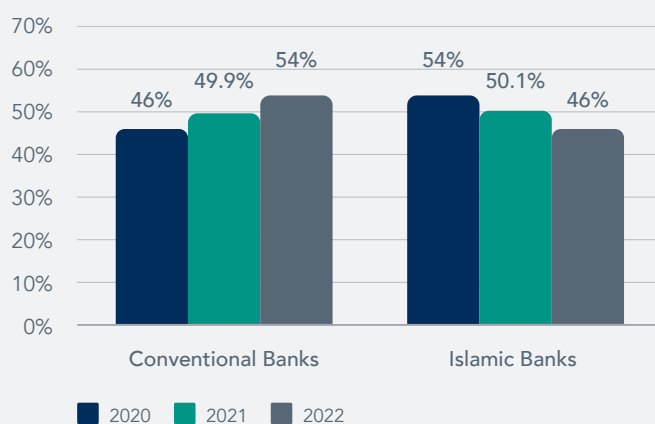


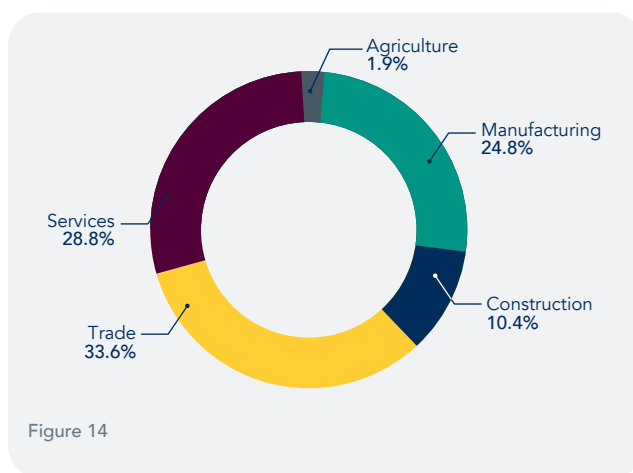
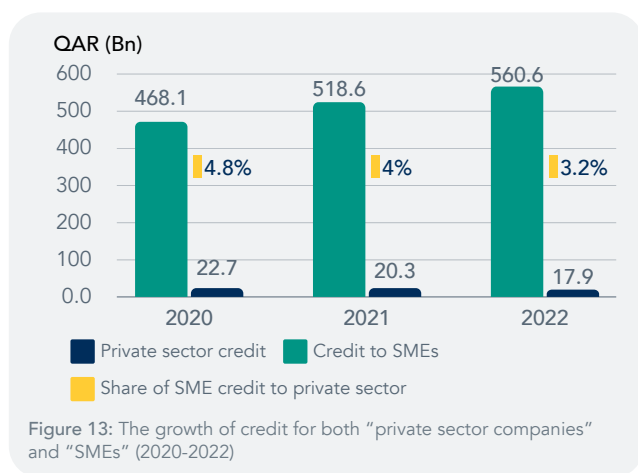
Figure 12: Relative Distribution of Accepted Credit Applications Value between Conventional and Islamic Banks (2020-2022)

In 2022, conventional banks held a higher share of the value of accepted credit applications', accounting for 54%, while Islamic banks accounted for 46% (Figure 12). However, there was a decrease in the share of Islamic banks from 50% in the previous year to 46% in 2022.

SMEs' SHARE IN THE CREDIT MARKET

Although the overall balance of private sector corporate credit experienced positive growth of approximately 8% between 2021 and 2022, this growth rate is the lowest observed in recent years. This can be attributed to the challenging conditions faced by the private sector during this period.

Notably, the credit extended to SMEs was significantly affected, with a decline of approximately 11.8% during the same period (2021-2022). The value of outstanding credit for SMEs decreased from 20.3 billion riyals in 2021 to approximately 17.9 billion riyals in 2022 (Figure 13). It is important to highlight that this value represented around 3.2% of the total value of private sector credit, lower than the previous year (2021) which recorded a figure of 4.0% (Figure 13).



When examining the allocation of SMEs outstanding credit across different economic sectors, there were notable changes compared to the previous year (2021). The manufacturing sector's credit share increased significantly from 11% in 2021 to nearly 25% of the total outstanding credit for SMEs in 2022. This can be attributed to the decline in the share of the services sector, which decreased from 42% in 2021 to 28.8% in 2022. Additionally, the construction sector experienced a decline in its credit share from 14% in 2021 to 10% in 2022. On the other hand, the trade sector witnessed a rise in its credit share, reaching approximately 34% in 2022 compared to 26% in 2021 (refer to Figure 14).

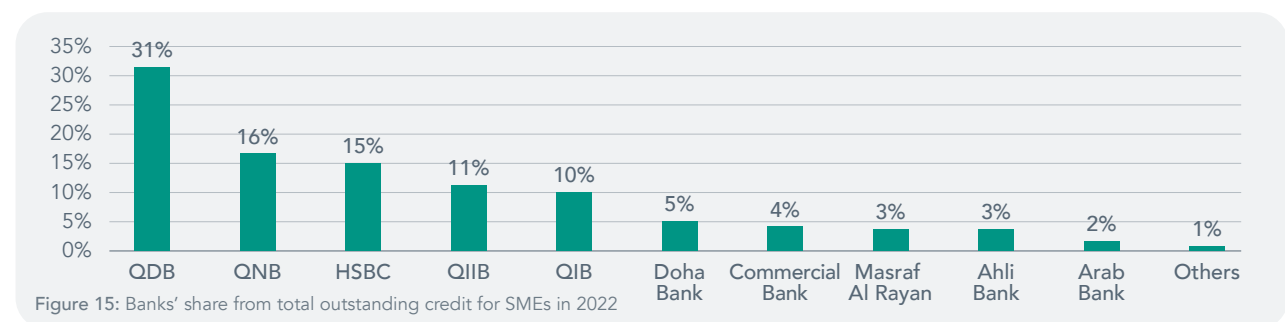


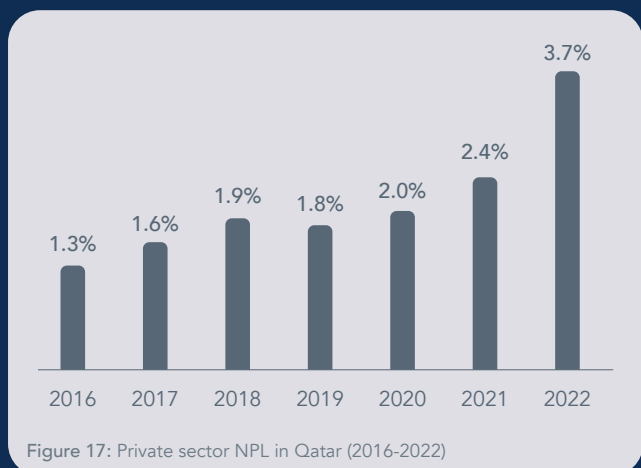
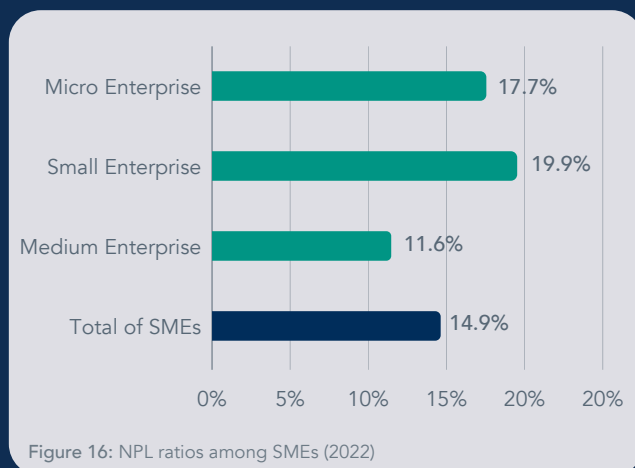
Figure (15) displays the share of each bank from the total outstanding credit for SMEs in 2022. Qatar Development Bank (QDB) emerged as the leading bank with a share of 31%. Following, QNB, HSBC, QIIB, and QIB held notable shares in the outstanding credit for SMEs. The specific distribution of shares among these banks can be seen in Figure (15).



NON-PERFORMING LOANS (NPL)

Non-performing loans (NPLs) are loans that are in default or at significant risk of default, indicating borrowers' difficulties in making scheduled payments.

In the case of SMEs, NPLs tend to be relatively higher compared to larger companies. This can be attributed to various factors, including limited financial resources, vulnerability to economic downturns, higher risk profiles, operational challenges, and a potential lack of financial literacy among SME owners and managers. These circumstances collectively contribute to the relatively higher incidence of NPLs in the SME sector.



In 2022, SMEs in Qatar saw an increase in their non-performing loan (NPL) ratio reaching 14.9% compared to 6.9% in the previous year (Figure 16). The data reveals that medium enterprises had the lowest NPL ratio at 11.6%, while small enterprises and micro enterprises had higher ratios of 19.9% and 17.7% respectively.



Similarly, the high rates of NPLs are not solely limited to SMEs but can extend to the broader private sector. However, it is natural for non-performing loan rates to be higher among small and medium-sized companies due to their inherently higher risk compared to larger companies. Nonetheless, the challenging and volatile international conditions experienced by markets have also impacted non-performing loan rates across various countries' credit markets. This reflects the global economic situation following the COVID-19 crisis, including fluctuations in global demand and the effects of tightened monetary policies and prolonged periods of high interest rates in banking markets. In Qatar, there has been a relative increase in the ratio of non-performing loans to total loans, rising from 2.4% in 2021 to 3.7% in 2022 (Figure 17).

Non-performing loan ratios to total loans in EU countries for 2022

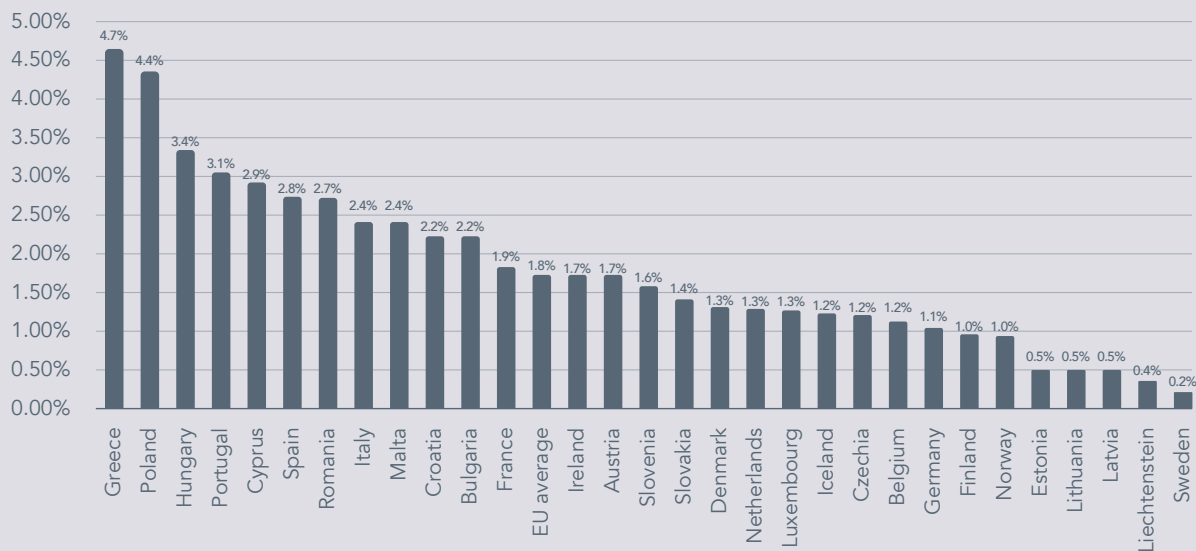
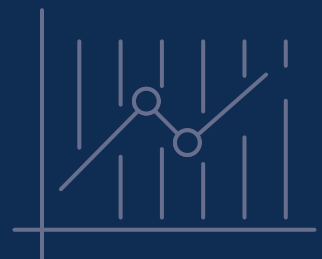


Figure 18: Non-performing loan ratios to total loans in EU countries for 2022

Source: Statista.com





HIGHLIGHTS

1

Despite facing various regional and international events, the Qatari economy has shown significant improvement in recent years. This is evident through sustained growth in GDP and notable levels of economic diversification. The growth of both oil and non-oil economic activities has played a crucial role in driving this positive trend.

2

Inflation in Qatar has exhibited a downward trajectory in recent times, following a period of significant levels. This decline reflects the measures implemented by Qatari authorities to mitigate inflationary pressures, with a notable focus on adjusting interest rates to promote price stability.

3

Overall, the credit market in Qatar experienced consistent growth between 2018 and 2022, as evidenced by the expansion of credit provided to private sector companies.

4

In 2022, the number of SMEs with active credit facilities in Qatar increased compared to the previous year, reaching nearly 11 thousand SMEs, with micro-enterprises comprising 63%, small enterprises accounting for 26%, and medium enterprises making up approximately 11%.

5

However, in contrast, the year 2022 experienced a decline in the total value of credit applications compared to the previous year. Accepted credit applications amounted to approximately 9.3 billion Qatari riyals, representing a decrease of 26% compared to 2021. This decline can be attributed to various factors, including the direct impact of high lending costs. Additionally, there was a slowdown in certain economic activities following the completion of preparations and projects associated with the 2022 World Cup events.

6

The primary purpose for SMEs seeking credit in 2022 remained working capital, but there was an increase in the share of SMEs seeking financing for growth and expansion, indicating an improvement in business conditions.

7

The data reveals that there was an increase in the proportion of new direct facilities in comparison to 2021, reaching 42% compared to the previous year's 33%. Conversely, direct facilities related to renewal and restructuring experienced a decline, although they still constituted a significant portion of the total credit facilities at 39%. These changes in percentages reflect the relative stability of the conditions faced by these companies compared to the period of the initial outbreak and escalation of the COVID-19 pandemic. During that time, companies were in dire need of financing to sustain their operations.

HIGHLIGHTS

8

The total share of SMEs in private sector credit experienced a decrease of approximately 11.8% between 2021 and 2022. This decline was primarily driven by a significant reduction in credit granted to SMEs operating in the services and construction sectors.

9

In 2022, SMEs experienced an increase in the percentage of non-performing loans, reaching 14.9% compared to 6.9% in the previous year. Among the SME categories, medium-sized companies recorded the lowest non-performing loan rates at 11.6%, while small and micro companies had rates of 19.9% and 17.7%, respectively. This increase may be an anticipated outcome after the state implemented lending programs to support companies during the COVID-19 pandemic, aiming to meet their financial needs and ensure business continuity. It is important to note that some international analyses have highlighted the financial risks associated with the aftermath of the pandemic, particularly with the expansion of national lending programs in many countries. These analyses have linked the expansion of such programs with expected increases in non-performing loan rates, both during the initial crisis in 2020 and in the subsequent years.





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