

A REPORT ON SME LENDING STATUS IN QATAR 2023



CONTENTS

Introduction	4
Economy Overview	5
Credit Market Overview	7
SMEs and Access to Credit	9
SMEs as Clients in Banking Sector	9
Credit Applications in 2023	10
Purpose of Credit Applications	11
Credit Products	12
SMEs' Share in the Credit Market	13
Non-Performing Loans (NPL)	14
Highlights	15



INTRODUCTION

Bank financing is a key factor for private sector growth, especially for Small and Medium Enterprises (SMEs). It helps to stimulate business growth, encourage innovation, and drive overall economic development. SMEs need financing to grow their operations, adopt new technologies, and create job opportunities. Moreover, access to financing allows companies to take advantage of opportunities, improve competitiveness, and contribute to economic diversification. Therefore, this report highlights the role of bank financing in Qatar for SMEs, stressing its importance in overcoming regional and international challenges.

Keeping track of the current situation of bank financing for SMEs is an important part of following the progress of this sector. Qatar Development Bank (QDB), together with Qatar Central Bank (QCB), has been issuing an annual report on this since 2016. The report was made possible after QCB implemented Circular (No. A. R. 107/2015) in December 2015. This circular set a common definition for SMEs within the banking sector in Qatar. Therefore, all bank data and statistics related to financial services and products offered by banks follow this definition. Later, in August 2016, QCB applied Circular (No. A.R. 46/2016), which required banks to provide financial statistics about their dealings with SMEs. These statistics are sent to QDB every six months.

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 2023. 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 banks¹.



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

The global economy in 2024 is characterized by a cautious recovery, with GDP growth stabilizing at modest rates. Major events influencing the economy include geopolitical tensions and policy shifts in central banks. The global GDP is projected to grow by 3.1% in 2024 and 3.2% in 2025, with inflation rates falling faster than expected due to unwinding supply-side issues and restrictive monetary policies^{2,3}.

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 real GDP growth rate was approximately 4.3%, driven primarily by the robust performance of the non-oil sector, which achieved a growth rate of 5.9%. However, in 2023, the growth rate moderated to 1.1%, reflecting a slowdown in the non-oil sector's expansion. Looking ahead, projections for the next two years suggest a gradual recovery, with growth rates expected to reach 2.4% in 2024 and 2.0% in 2025.

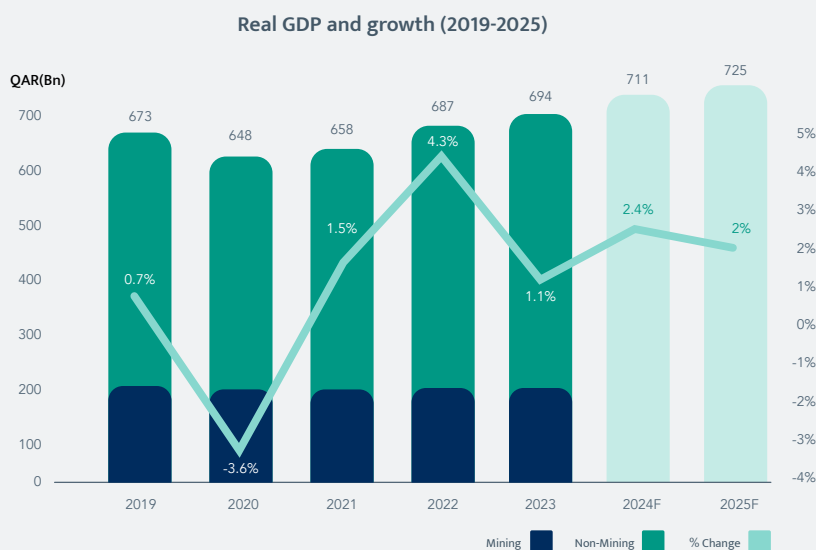


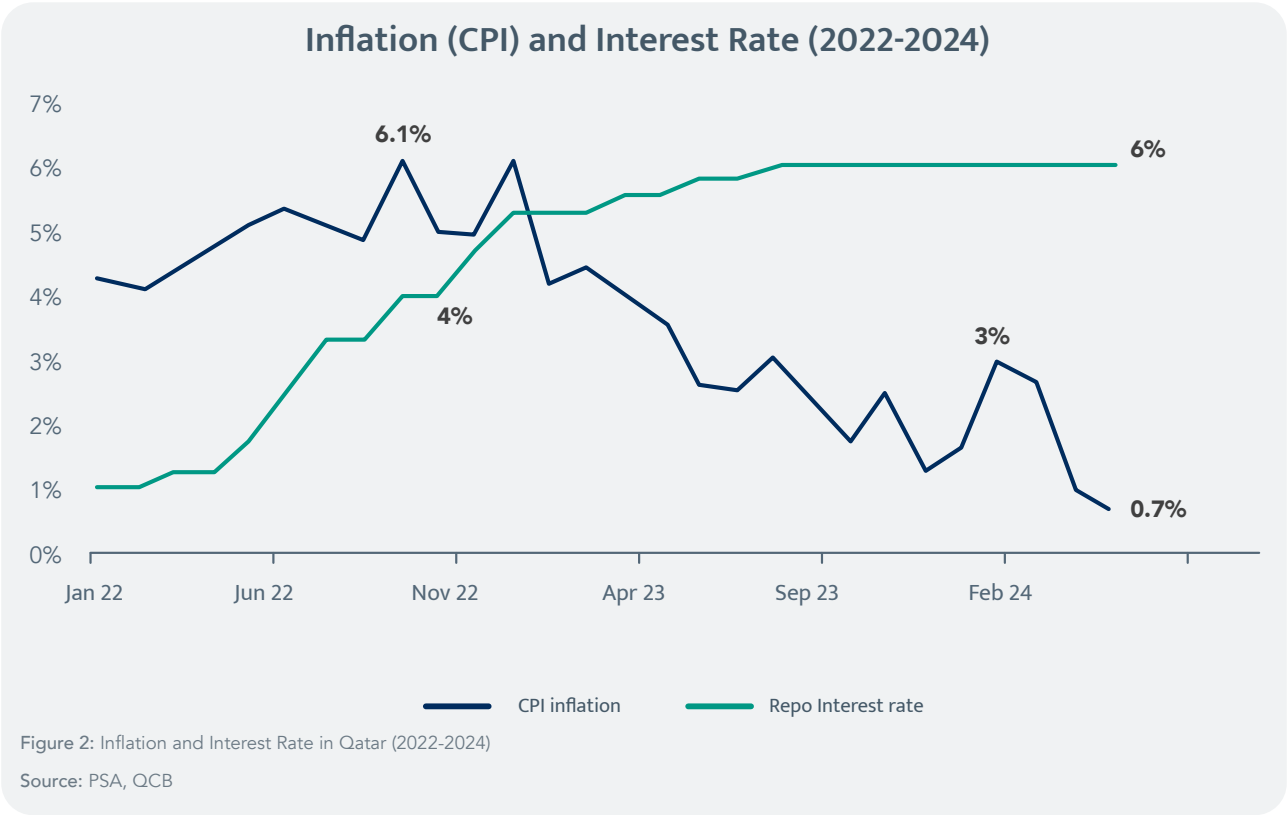
Figure 1: Real GDP in Qatar (2019-2025)

Source: PSA, IMF, Team Analysis

² World Bank, global economic prospects

³ IMF, economic outlook 2024

Inflation rates reached a high point in December 2021 and stayed above 4% for the rest of 2022, before they began to drop in 2023 and 2024. During the period of high inflation, policy interest rates increased gradually until they reached 6% in July 2023. Then, as inflation rates went down in 2023 and 2024, QCB kept policy rates unchanged from July 2023 until April 2024. It should be noted that interest rates in Qatar are aligned with the ones of the US federal reserve, as the policy of the Qatar Central Bank (QCB) involves a fixed exchange rate targeting strategy against the US dollar, with a fixed parity of 3.64 Qatari Riyals per US dollar.





CREDIT MARKET OVERVIEW

Credit access is essential for the private sector, especially for small and medium-sized enterprises (SMEs), as it allows them to invest, grow, hire, and innovate, thereby supporting economic development and job creation.

In Qatar, the total domestic credit reached around QAR 1.2 trillion in 2023. This credit is allocated among various sectors, including the public sector, private sector, individuals, and non-banking institutions. From 2019 to 2023, domestic credit witnessed significant growth, with a compound annual growth rate of 6.3%. However, growth rates showed a decline in recent years, with rates recorded at 2.9% in 2023 and 4.5% in 2022. Notably, the private sector accounted for the largest share of credit, rising to 48% in 2023 from 44% in 2019. This was followed by the public sector, which held a 30% share in 2023, down from approximately 33% in 2019 (See Figure 3).

Credit Facilities by Economic Sector (2019-2023)

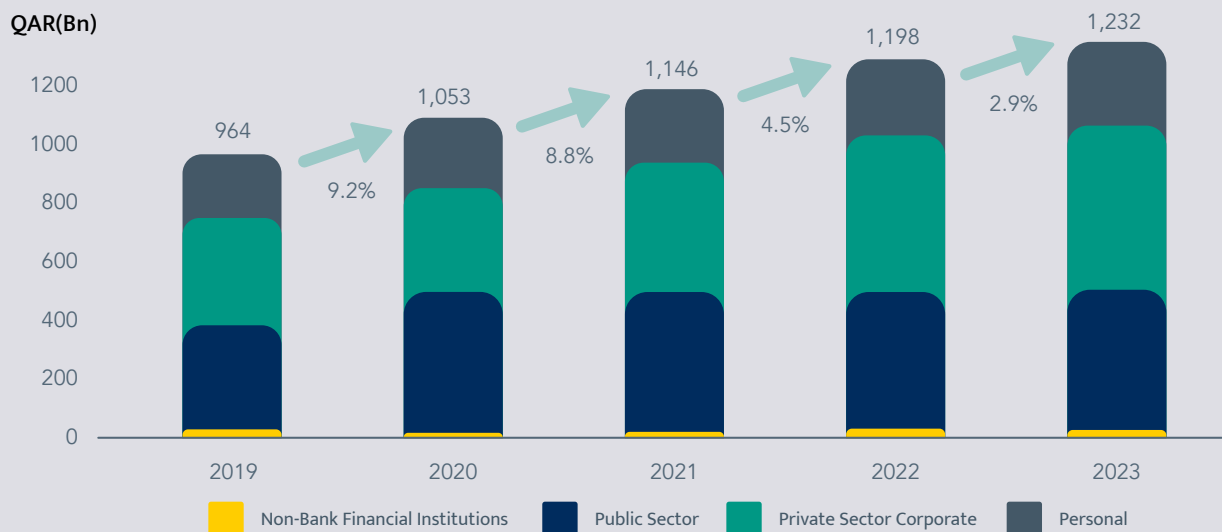


Figure 3: Credit Facilities by Economic Sector in Qatar (2019-2023)

Source: QCB, Team Analysis

Credit to the private sector has demonstrated sustained positive growth in recent years, though the growth rate slowed to 5.9% in 2023 compared to 8.1% in 2022, 10.8% in 2021, and 10.1% in 2020.

Different economic activities within the private sector experienced varied credit growth trends between 2022 and 2023. Sectors such as industry, realestate, and contractors saw declines in credit balances by 9.9%, 9.4%, and 6.8%, respectively. In contrast, the services and trade sectors experienced notable growth, with credit balances increasing by 15.9% and 8.6%, respectively.

In 2023, the distribution of credit balances within the private sector was as follows: the services sector accounted for 43%, trade 31%, real estate 17%, contractors/construction 7%, and industry approximately 3%. Over time, there has been a notable shift in the relative shares of these sectors. The services sector's share has steadily increased since 2019, gaining at the expense of other sectors. Meanwhile, sectors such as contracting/construction and real estate have seen more pronounced declines in their relative shares of total private sector credit.

Private Sector Credit Facilities Breakdown (2019-2023)

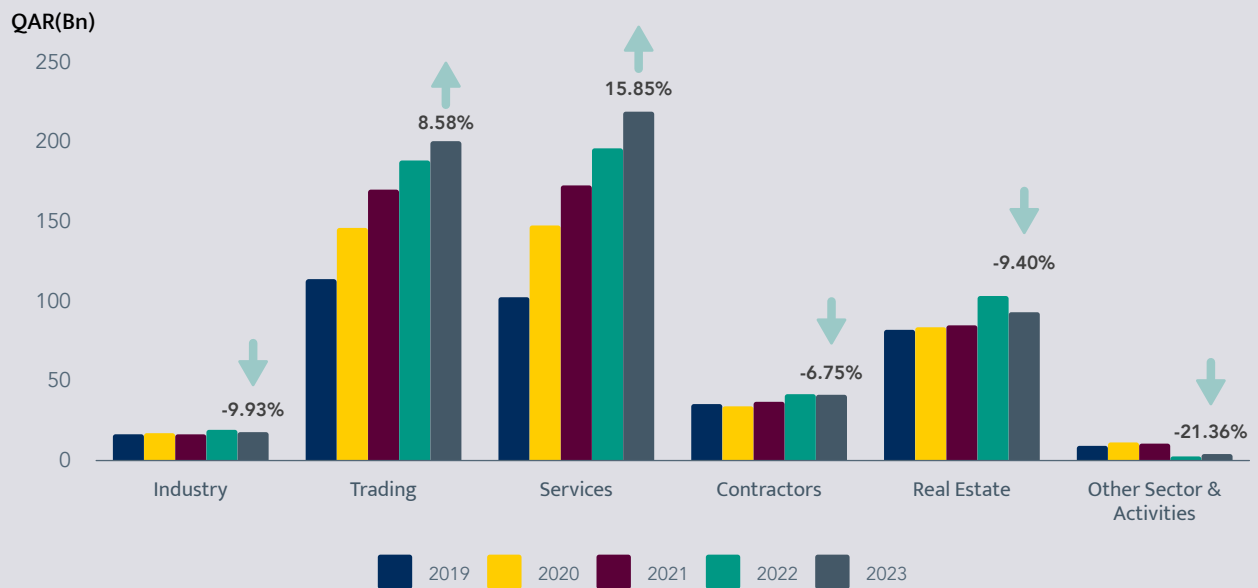


Figure 4: Private Sector Credit Facilities by Segment (2019-2023)

source: QCB, Team Analysis

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.

000' companies

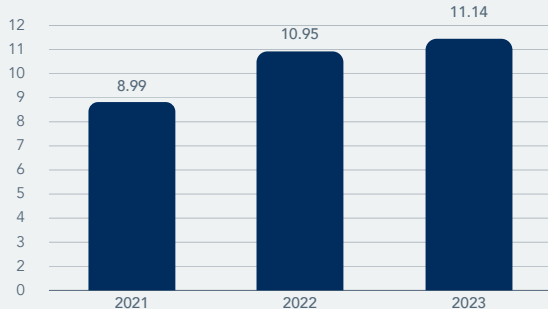


Figure 5: Banks' SME Clients Portfolio with Active Credit Facilities as of End of 2023

SMES AS CLIENTS IN BANKING SECTOR

This summary provides key findings derived from bank data on SME financing. In 2023, the number of SME bank clients with existing credit facilities amounted to around 11,145 SMEs, marking a 2% increase from the previous year (Figure 5).

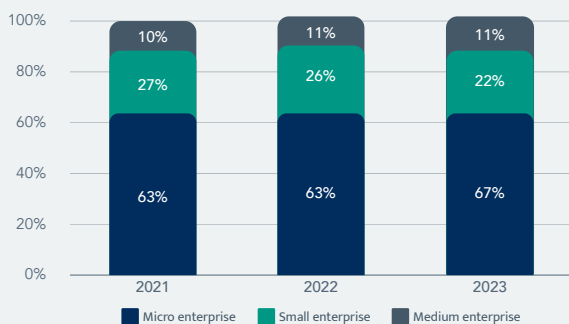


Figure 6: Relative Distribution of SMEs with Active Credit Facilities by Percentage (2021-2023)

Analyzing the distribution based on company size in 2023, it was observed that 67% of the companies were categorized as micro-enterprises, which was consistent with the previous year. Small enterprises accounted for 22% of the total, while medium-sized enterprises constituted approximately 11%. (Figure 6)



CREDIT APPLICATIONS IN 2023

QAR(Bn)

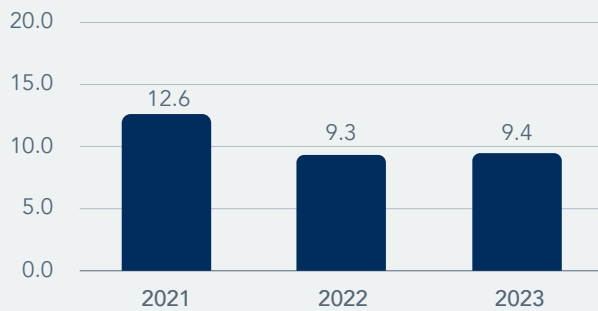


Figure 7: Evolution of the Value of Accepted Credit Applications for SMEs (2021-2023)

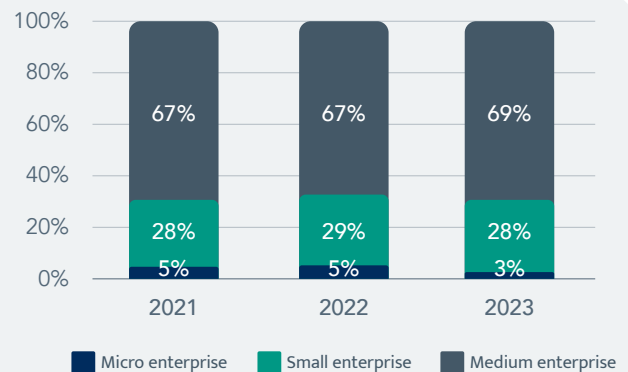


Figure 8: Distribution of SMEs' Share of Accepted Credit Applications by Company Size (2021-2023)

In 2023, the value of credit applications remained relatively stable compared to 2022 but was significantly lower than the levels observed in 2021. The total value of accepted credit applications in 2023 was approximately QAR 9.4 billion, reflecting a modest increase of 1.1% compared to the previous year. However, this represents a substantial decrease of 25% compared to 2021 (Figure 7).

The distribution of accepted credit applications shows that medium-sized companies continued to hold the largest portion at 69%, representing a small increase from the previous year. Small companies accounted for 28% of the total, while micro companies made up the remaining 3% (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 slight increase of 5% in the value of their credit applications between 2022 and 2023. Small companies decreased very marginally by 0.07%, and micro companies saw a decrease of around 43% (Figure 9).

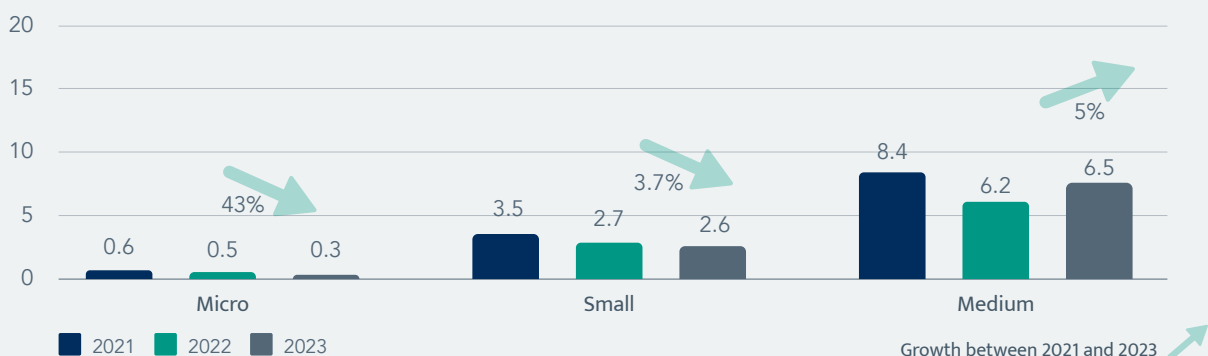


Figure 9: Evolution of the Value of Accepted Credit Applications by Company Size and YoY Growth Rate 2021 - 2023



PURPOSE OF CREDIT APPLICATIONS

The purpose for which SMEs seek credit provides valuable insights into market trends and business conditions. Like the previous years, working capital and growth and expansion remains the primary reason why SMEs avail credit, highlighting the significant number of SMEs that still require financial support to sustain their businesses. This year, there has been an increase in the share of "Growth and Expansion" from 24% in 2022 to 30% in 2023 (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. Additionally, this year we've specific reasons such as Loan Renewals, Debt Restructuring, and Importing goods, which together account for 20% that was earlier accounted under "Others".

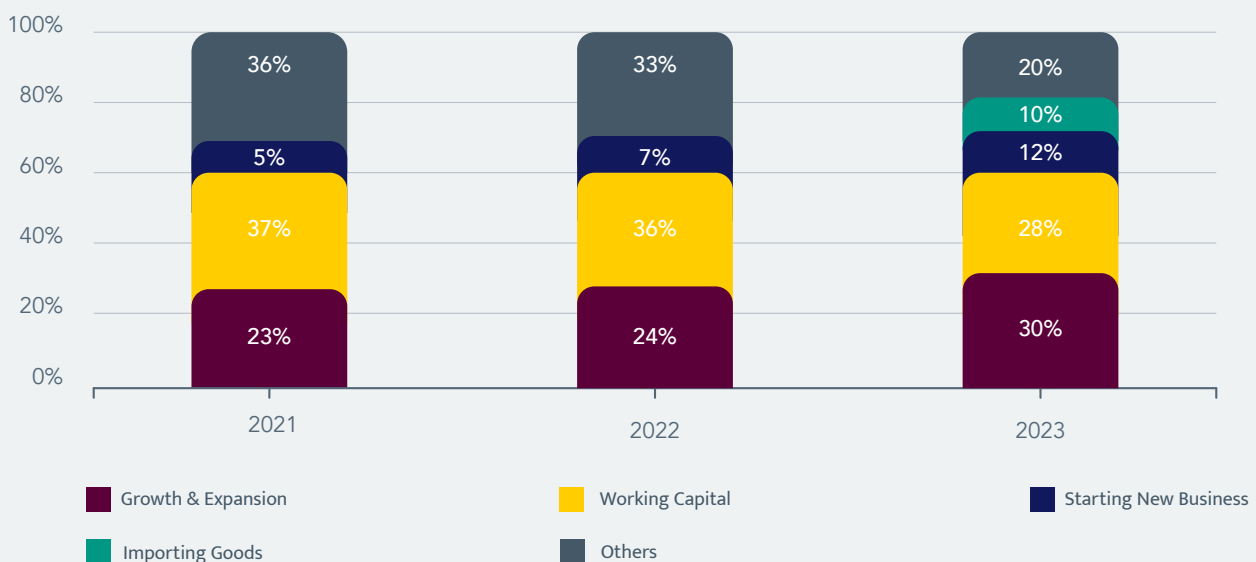


Figure 10: Distribution of SMEs' Credit Applications by Purpose (2021-2023)



CREDIT PRODUCTS

The distribution of credit applications by type of credit product in 2023 highlights a notable increase in products related to new financing—encompassing new facilities, renewal applications, and increase applications—which collectively accounted for approximately 70% of total applications, up from 66% in 2022.

In contrast, applications related to restructuring experienced a decline, decreasing from around 15% in 2022 to about 11% in 2023.

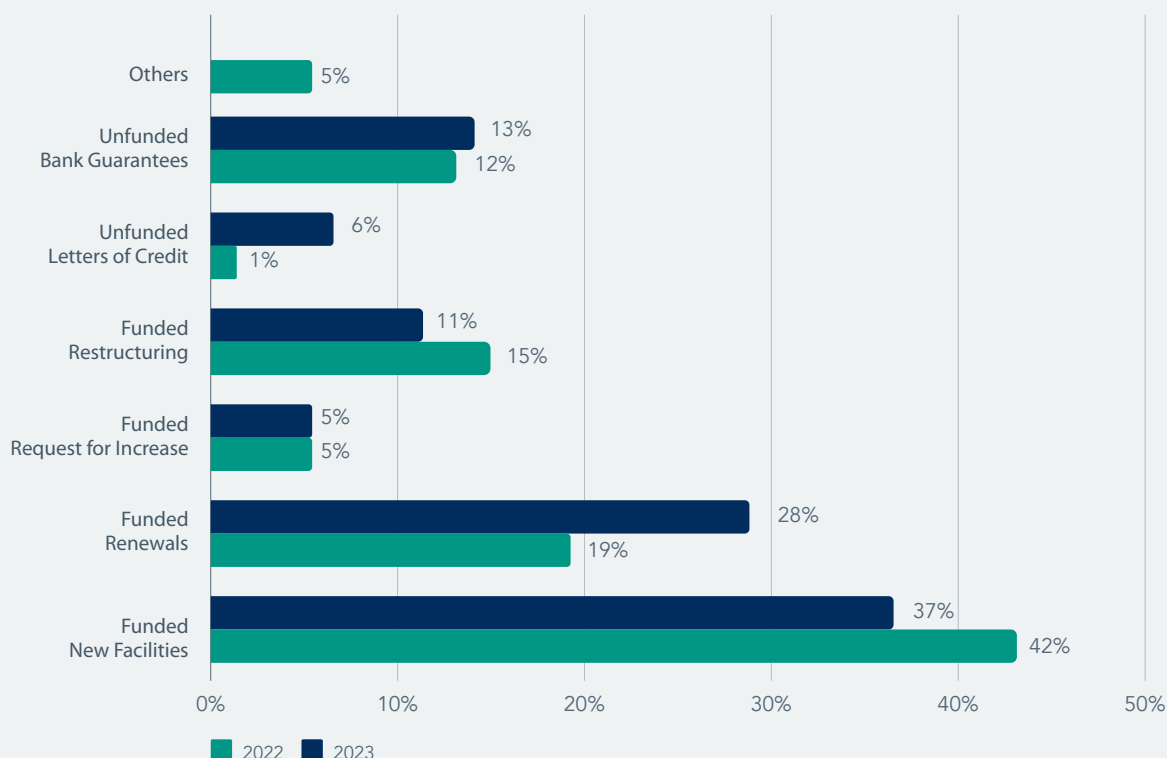


Figure 11: % Breakdown of Credit Products in Demand by SMEs (2021 - 2023)

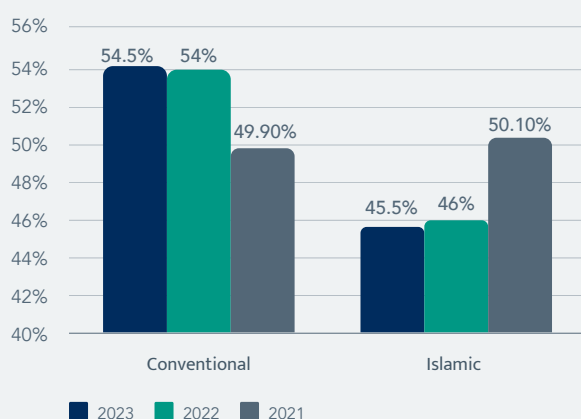


Figure 12: Relative Distribution of Accepted Credit Applications Value between Conventional and Islamic Banks (2021-2023)

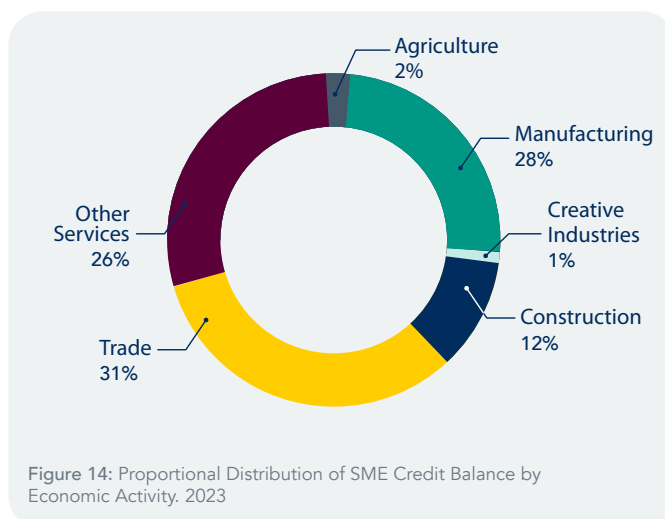
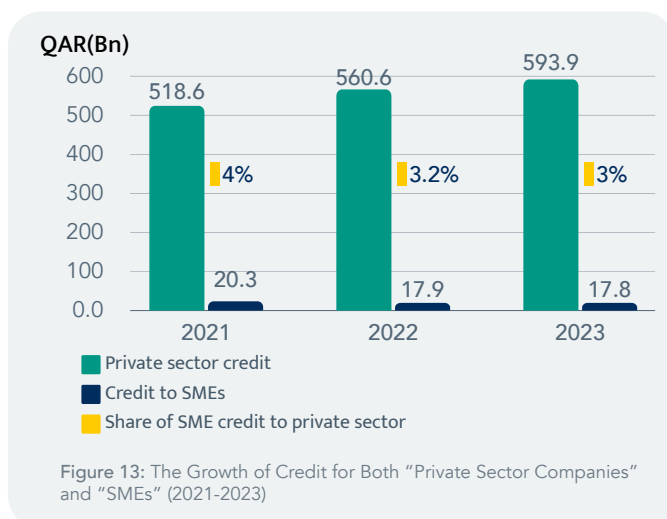
In 2023, conventional banks held a higher share of the value of accepted credit applications', accounting for 54.5%, while Islamic banks accounted for 45.5% (Figure 12).

SMES' SHARE IN THE CREDIT MARKET

The total credit balance granted to private sector companies grew by approximately 6% between 2022 and 2023. However, this represents the lowest growth rate in recent years, compared to 8% in 2022, 10.8% in 2021, and 10.1% in 2020. This deceleration is primarily attributed to declines in credit extended to certain sectors, most notably the construction sector (-6% in 2023), the real estate sector (-9.4% in 2023), and the industrial sector (-9.9% in 2023).

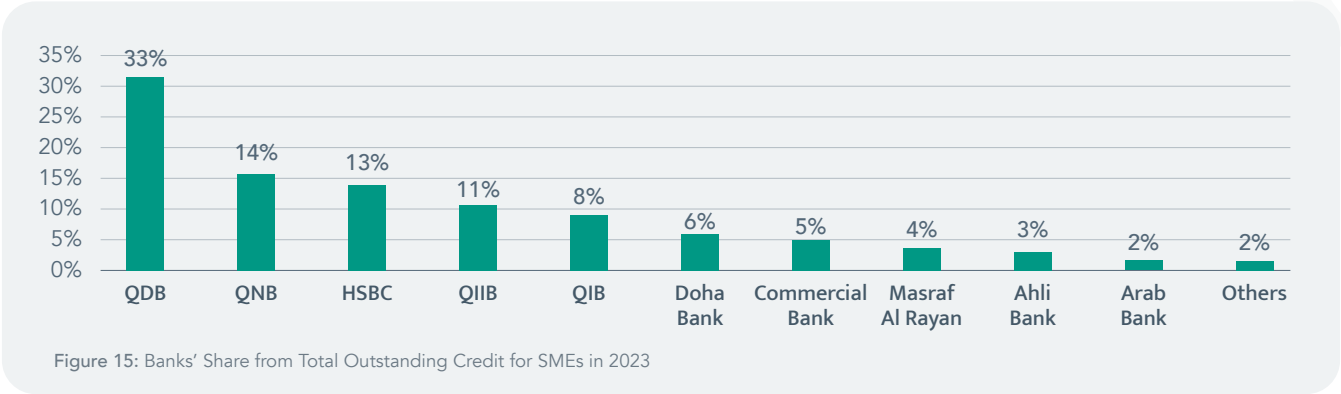
In the SME segment, the credit granted has remained relatively stable, with a slight decrease of 1% between 2022 and 2023. The total credit balance for SMEs stood at QAR 17.9 billion in 2022, compared to QAR 17.8 billion in 2023 (Figure 13).

This amount represents approximately 3% of the total credit extended to the private sector, a marginal decline from 3.2% in 2022 (Figure 13).



Analyzing the distribution of SME credit across sectors reveals notable shifts compared to 2022. The manufacturing sector's share of SME credit increased from 25% in 2022 to nearly 28% in 2023, even though credit to the manufacturing sector within the broader private sector declined, as previously mentioned. This increase is largely attributed to a reduction in the services sector's share, which fell from 29% in 2022 to 26% in 2023. Similarly, the trade sector experienced a decline in its credit share, dropping from 34% in 2022 to 31% in 2023 (see 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 33%. 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 have defaulted or are at high risk of default, indicating borrowers' challenges in meeting their payment obligations.

SMEs tend to have relatively higher NPL rates than larger firms. This can be explained by various factors, such as limited financial resources, sensitivity to economic shocks, higher risk profiles, operational difficulties, and a possible lack of financial literacy among SME owners and managers. These factors together result in the relatively higher occurrence of NPLs in the SME sector.

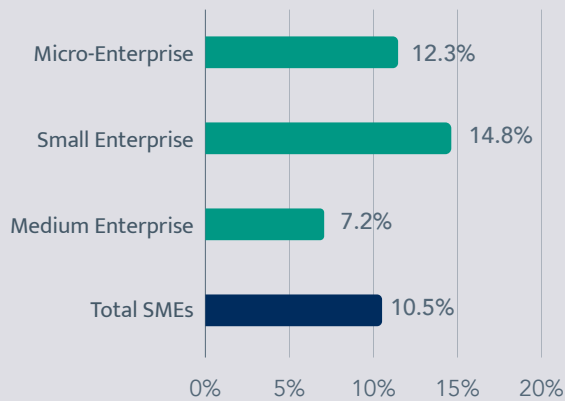


Figure 16: NPL Ratios Among SMEs (2023)

Non-Performing Loans/Total Loans

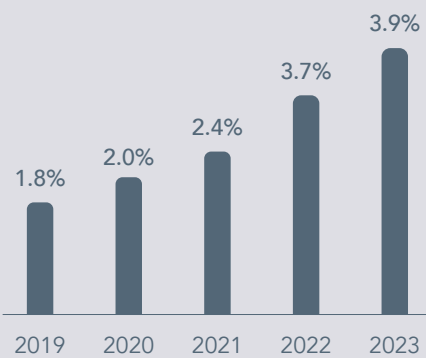


Figure 17: Private Sector NPL in Qatar (2019-2023)

Source: QCB

In 2023, SMEs in Qatar experienced a decline in their non-performing loan (NPL) ratio to 10.5% from 14.9% in 2022 (Figure 16). The data shows that medium enterprises had the lowest NPL ratio at 7.2%, while small enterprises and micro enterprises had higher ratios of 14.8% and 12.3% respectively.

Looking at the private sector NPL, we can see a slight increase to 3.9% from 3.7% in 2022.





HIGHLIGHTS

1

The Qatari economy has demonstrated consistent improvement, with a real GDP growth rate of approximately 4.3% in 2022, driven primarily by the robust performance of the non-oil sector, which grew by 5.9%. However, in 2023, the GDP growth rate slowed to 1.1%, reflecting a deceleration in the non-oil sector's growth. Looking ahead, projections for the next two years indicate a recovery, with growth rates expected to reach 2.4% in 2024 and 2.0% in 2025.

2

Inflation rates in Qatar showed a downward trend during 2023 and 2024, averaging approximately 2% in 2024. This level is expected to persist over the next two years, reflecting a period of relative price stability.

3

Credit granted to the private sector in Qatar maintained positive growth rates between 2019 and 2023. However, the pace of growth slowed in the last two years (2022 and 2023), largely due to a decline in credit extended to specific sectors, including construction and real estate.

4

The amount of SMEs that had active credit facilities in Qatar in 2022 rose from the year before, with almost 11.1 thousand SMEs, with micro-enterprises comprising 67%, small enterprises accounting for 22%, and medium enterprises making up approximately 11%.

5

The value of SMEs credit applications in 2023 stood at QAR 9.4 billion, with a slight rise from QAR 9.3 billion in 2022.

6

In 2023, credit applications for purposes related to "growth and expansion" emerged as the primary reason for SMEs seeking credit, accounting for approximately 30% of total applications.

7

The data indicates a notable rise in credit products related to new financing—including new facilities, renewal requests, and increase requests—which collectively accounted for approximately 70% of total credit products in 2023, up from 66% in 2022.

8

The share of small and medium-sized enterprises (SMEs) in the total credit granted to the private sector remained relatively stable, at 3% in 2023, slightly down from 3.2% in 2022.

9

SMEs experienced a decline in non-performing loans in 2023 to 10.5% from 14.9% in 2022, indicating an improvement in the quality of SMEs loans and improvement in their conditions.



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