



A REPORT ON
**SMEs' LENDING
STATUS IN QATAR
2021**





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Highlights



Introduction

In December 2015, Qatar Central Bank (QCB) issued a circular (No. 107/2015) on adopting a standardized definition for small and medium enterprises (SMEs) within the nation's banking sector. As a result, all banking information and statistics related to financial services and products issued by banks conform to this definition. Subsequently, in August 2016, QCB issued a circular (No. 46/2016) requesting banks to share their financial statistics relating to their transactions with SMEs to Qatar Development Bank (QDB) on a semi-annual basis.

This report presents a concise overview of the crucial information pertaining to the banking sector's financing of small and medium-sized enterprises (SMEs) in 2021. The objective of this document is to analyze the current bank financing situation for SMEs in Qatar, including their proportion of financing, credit application approval rates, the intended purpose of credit applications, and rates of nonperforming debts.

This year's report follows the outbreak of the COVID-19 pandemic, which had a noticeable impact on numerous economic sectors in Qatar and worldwide.

Nevertheless, the situation has improved following the increase in global and local vaccination rates, the easing of precautionary measures, and the reopening of many countries. The banking sector and small and medium-sized enterprises (SMEs) were also affected by the pandemic. However, the Government of Qatar supported the sector through various initiatives, including the "National Guarantee Program" managed by Qatar Development Bank. This program aimed to provide financing packages for companies to mitigate the repercussions of the pandemic. Despite the challenging situation, the bank maintained the availability of rescheduling for all customers and extended grace periods to enable them to protect their economic activity and human resources and help them recover. More than 4,000 companies and over 330,000 employees have benefited from this program.

The data presented in this report was gathered from banks in Qatar that provide credit services to small and medium-sized enterprises (SMEs). The Qatar Central Bank (QCB) mandated all relevant banks to complete a standard form that was used to collect the necessary data. Qatar Development Bank (QDB) facilitated the data collection process.

Disclaimer

This report is based on data received from various banks in Qatar, and on the circular issued by the Qatar Central Bank. In this context, we would like to emphasize that the accuracy of data contained in the report remains the sole responsibility of the respective bank. Qatar Development Bank has collected and analyzed that data according to its availability, taking into consideration the potential defects of certain data or the failure of one or more banks to submit a completed data collection form.



The Evolving Nature of SMEs as Banking Customers

This summary presents the key findings extracted from banks' data on SME financing, providing valuable insights into the status of small and medium-sized enterprises in Qatar's bank-lending sector.

Before delving into the key findings of this report, it is important to highlight information about SMEs as clients of the banking sector in 2021.

In 2021, more than 8,900 SMEs (as shown in Figure 1) held active credit facilities with banks in Qatar, indicating a 5% increase from the previous year.

When assessing the distribution of enterprises by size in 2021 (as shown in Figure 2), it was found that 63% of them were micro-enterprises, which had been increasing year by year. Small enterprises represented 27% of the total number of companies, while medium enterprises accounted for approximately 10%.

000' companies

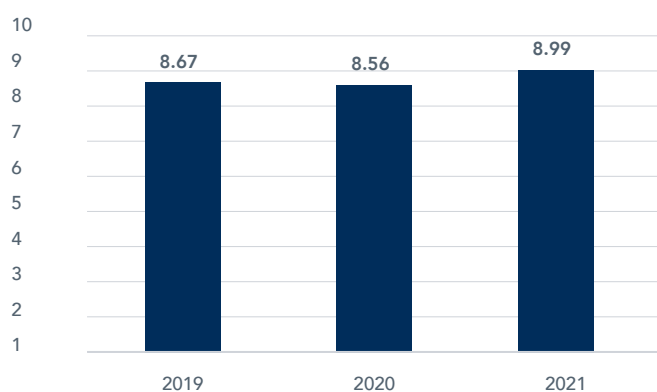


Figure 1

Banks' portfolio of SME clients which have existing credit facilities at the end of 2022

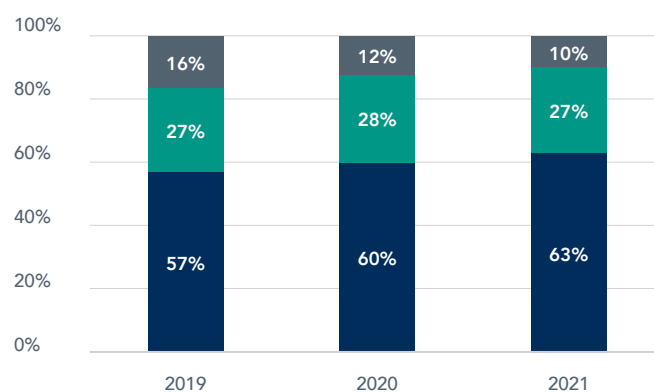


Figure 2

Relative distribution of the number of SMEs that have existing credit facilities.



Credit Applications in 2021

In 2021, there was a decrease in the total number of credit applications compared to the previous year (2020). The value of accepted credit applications in 2021 was approximately 12.6 Billion Riyals, which is a 20% decrease from the previous year's value of around 15.8 Billion Riyals (as shown in Figure 3).

The decline in credit applications was mainly due to a decrease in applications from medium-sized companies and partially from micro-enterprises, while small enterprises maintained a relatively similar proportion.

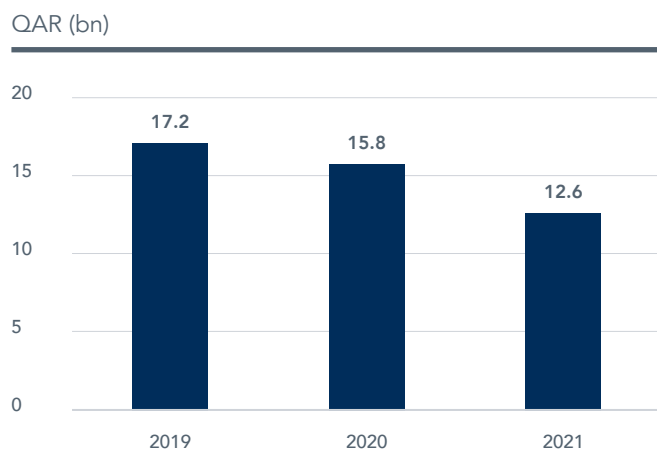


Figure 3

Evolution of the value of accepted credit applications for SMEs (2021-2022?)

*Note: Credit applications comprise various types, including new loan applications, loan restructuring, overdrafts, etc.

Regarding the distribution of accepted credit applications, medium-sized companies accounted for the largest share at 67%, followed by small companies at 28%, while micro-companies were 5% (as shown in Figure 4).

Among different corporate sizes, micro-companies experienced the highest percentage decline in the value of their credit applications between 2020 and 2021 (53%), followed by medium-sized companies with a decrease of 25%, and small companies with a reduction of 3% (as shown in Figure 5).

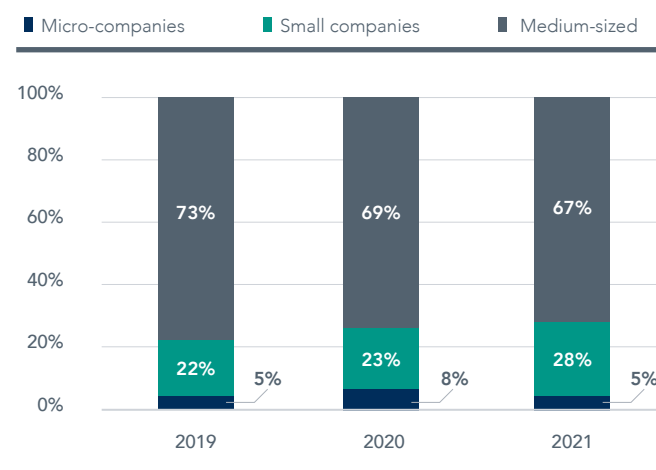


Figure 4

Relative distribution of SME share of the value of accepted credit applications according to the size of the company

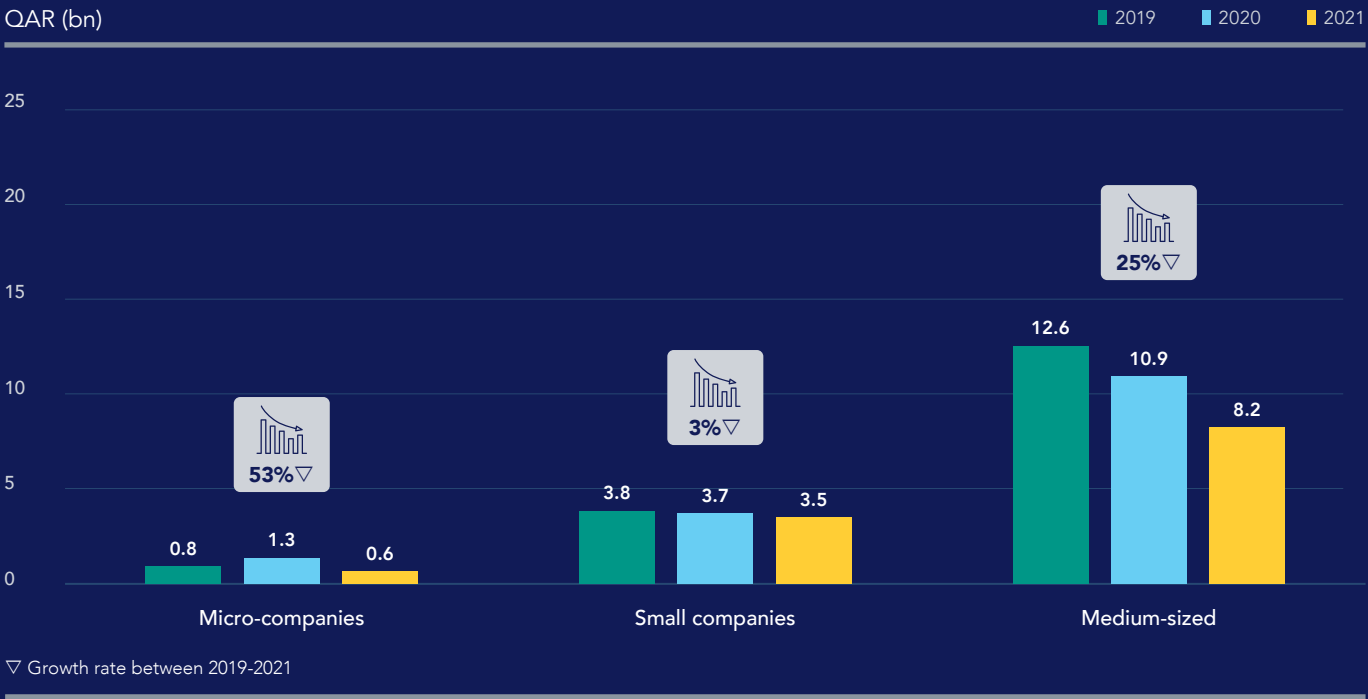


Figure 5
Evolution of the value of accepted credit applications by company size and growth rate between 2021 and 2022



Purpose of Credit Applications

The purposes for which small and medium-sized companies request credit from banks vary. Despite the decrease in the number of credit requests in general compared to 2020 and 2021, their relative distribution varied between the different purposes.

In recent years (2016-2019), the data showed that a large percentage of those requests were for growth and expansion. However, by the years 2020 and 2021, and with the repercussions of the Coronavirus, the share of credit applications for the purpose of growth and expansion decreased significantly (from about 35% in 2019 to 12% in 2020). Despite the decrease in the number of credit applications for expansion and growth, its relative share among "other purposes" has improved in 2021 to reach 21% (Figure 6).

Regarding the relative share of credit applications for the purpose of financing working capital, it maintained a relatively large percentage (although the absolute number of applications decreased). It increased during the last two years (2020 and 2021), although it was relatively less in 2021. It reached 47% in 2020 and approximately 37% in 2021, indicating that many companies still require financing to sustain their operations in the market.

After analyzing the available data, it appears that there is a convergence among companies regarding the reasons for requesting credit. The purpose of "working capital" ranked first as the most important reason for credit demand among micro-enterprises, small and medium enterprises, although it was relatively higher among micro-enterprises.

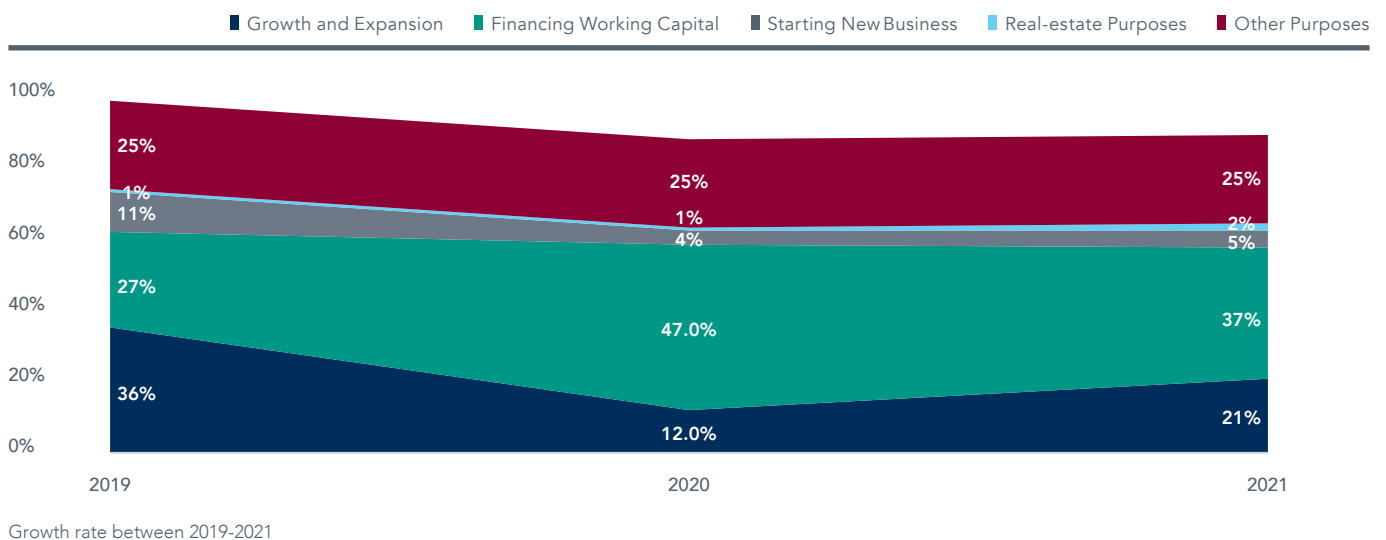


Figure 6

Distribution of SMEs' credit applications by purpose



Credit Products

In 2021, credit products saw a significant percentage of "Loan Renewal/Structuring" applications, accounting for approximately 33% of the total number of credit applications (Figure 7). This trend reflects the economic conditions faced by companies during the year. Additionally, the rise in non-performing loans during the same period is indicative of these challenges, as will be discussed later. Products such as Murabaha and letters of guarantee ranked lower in comparison, with rates of approximately 18.3% and 12.6%, respectively.

Furthermore, the share of the "Invoice Discounting" product increased from 2.8% in 2020 to 5.3% in 2021. This uptick could be attributed to the gradual resumption of economic and commercial activity among companies. It is worth noting that conventional banks saw an increase in their share of the value of accepted credit applications from approximately 46% to around 50%. Conversely, the share of Islamic banks decreased to 50% in 2021 (Figure 8).

■ 2019 ■ 2020 ■ 2021

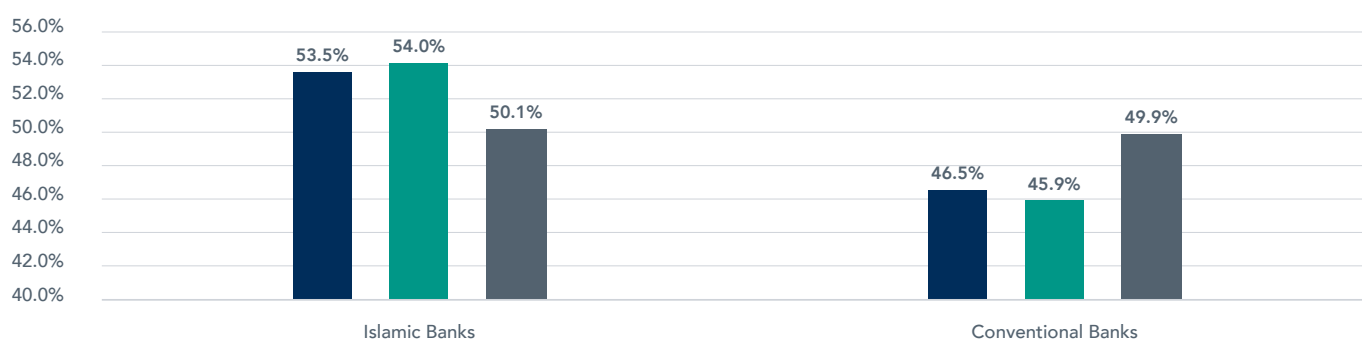
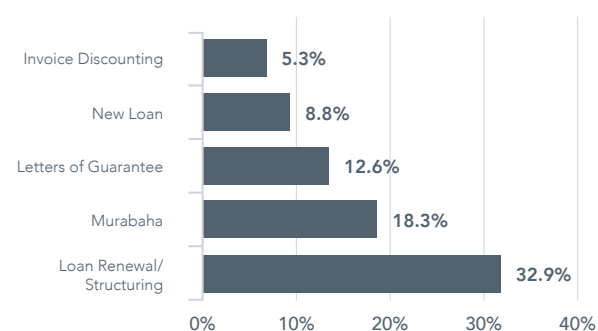


Figure 8

Relative shares of SMEs' most demanded credit products (2019-2021).

2021



2020

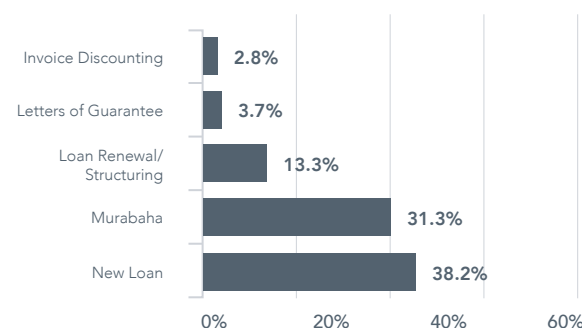


Figure 7

Relative shares of SMEs' most demanded credit products (2020-2021).



SMEs' Share in the Credit Market

Despite the private sector companies as a whole experiencing an increase of approximately 10.8%¹ in their credit balance from 2020 to 2021, small and medium-sized enterprises (SMEs) recorded a decline of 10.6% during the same period.

According to Figure 9, the outstanding credit of small and medium-sized companies decreased from approximately 22.7 Billion Riyals in 2020 to around 20.3 Billion Riyals in 2021. The credit balance of small and medium-sized enterprises represented about 4% of the total credit value of the private sector as a whole (companies), decreasing from the previous year (2020), in which it recorded 4.8% (Figure 9).

Small and medium-sized enterprises (SMEs) operating in the services sector hold the largest share of around 42% of the total credit for SMEs at the sectoral level, as indicated by Figure 10.

This is followed by the trade and construction sectors, which account for shares of approximately 33% and 14%, respectively.

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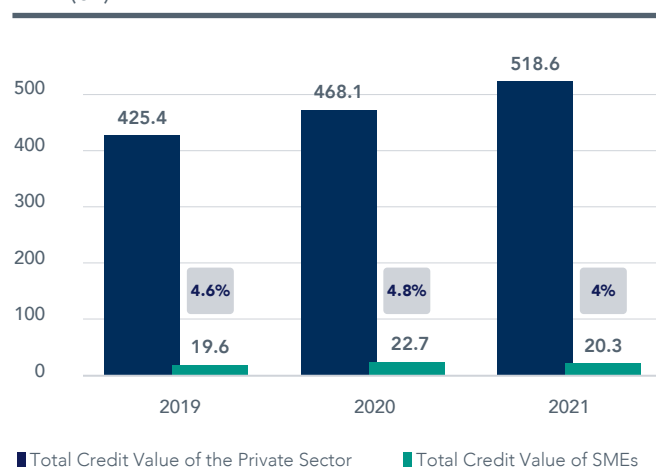


Figure 9

The growth of credit for both "private sector companies" and "SMEs" (2019-2021).

*Note: Qatar Development Bank has collected and analyzed that data according to its availability, taking into consideration the potential defects of certain data or the failure of one or more banks to submit a completed data collection form.

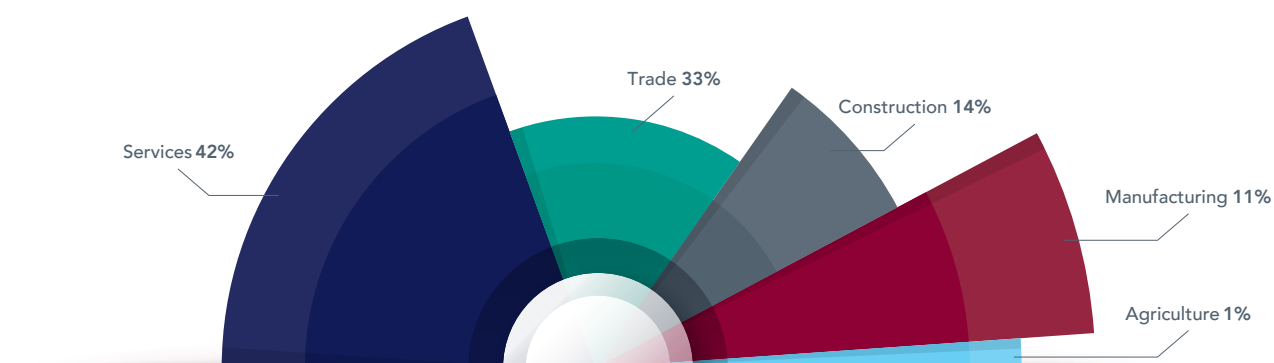


Figure 10

Proportional distribution of SME credit balance by economic activity.

¹ Private sector credit growth was calculated using published QCB data.

Figure 11 provides a breakdown of the relative share of each bank in the total credit balance of SMEs in 2021. QDB holds the largest share of approximately 25%, followed by HSBC, QNB, Dukhan Bank, and Al Khaliji.

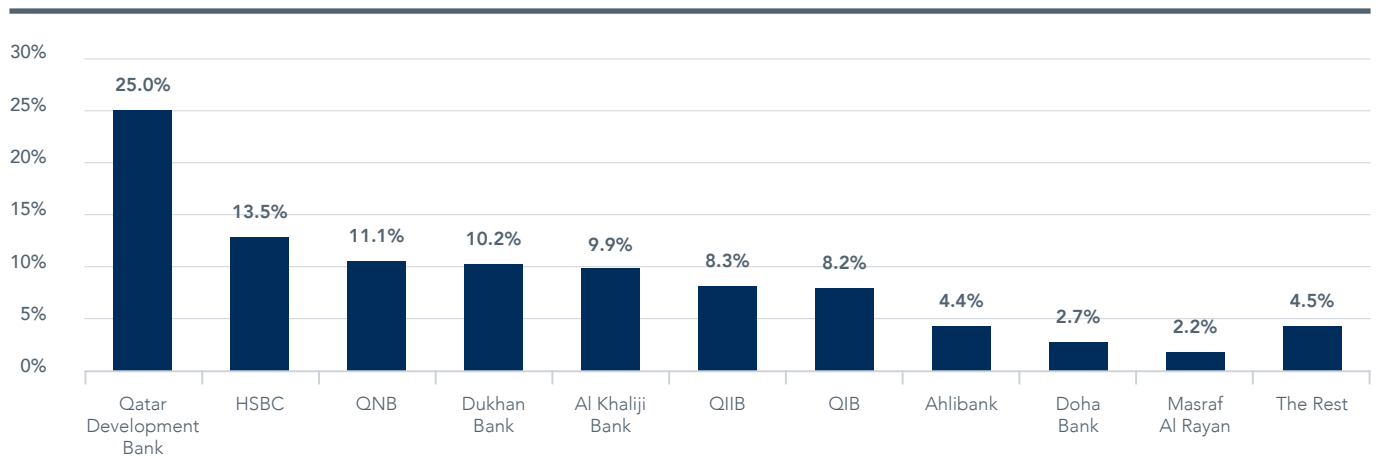


Figure 11

Banks' share from the total accepted credits applications for SMEs (2021).

*Note: Other banks include Arab Bank, Bank Saderat Iran, United Bank, Mashreq, and Commercial Bank.



Non-Performing Loan (NPL) Ratio

The data for 2021 reveals that the percentage of non-performing loans for small and medium enterprises in Qatar increased to 6.9% of the credit portfolio, compared to 5.05% in 2020. The breakdown by company size shows that medium-sized companies had the lowest non-performing loan ratio at 5.2%, while small and micro companies recorded higher ratios of 9.8% and 7.2%, respectively. These findings are illustrated in Figure 12.

It is important to note that the increase in non-performing loans was not unique to Qatar but was also observed in many countries around the world. This trend is largely attributed to the credit facilitation packages launched by countries to combat the impact of the COVID-19 pandemic, which led to an expansion of credit amid some restrictions on production and global trade. For instance, the rates of non-performing loans in other countries varied considerably, with Italy recording 25%, Greece recording 28%, Ireland recording 8%, Mexico recording 6%, the Netherlands recording 8.7%, Poland recording 12.1%, Turkey recording 6.4%, Malaysia recording 4.4%, Georgia recording 9.8%, Portugal recording 3.8%, and Thailand recording 7%.²

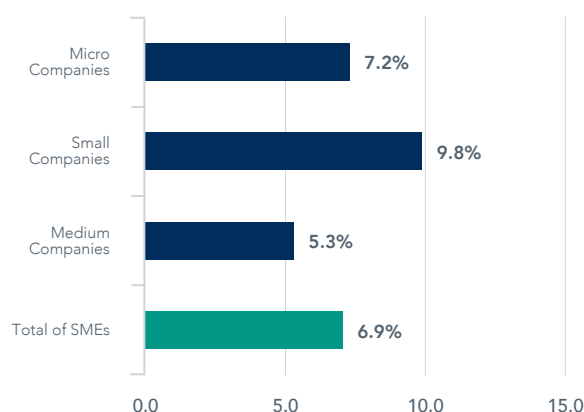
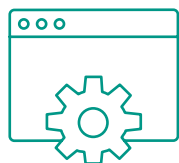


Figure 12

NPL ratios by company size (2021).

² OECD, Financing SMEs and Entrepreneurs: An OECD Scoreboard.



Highlights

Based on the information presented previously, we can outline the main conclusions as:

1. In terms of bank clients with existing credit facilities among SMEs in Qatar, micro-enterprises represented the largest proportion at approximately **63%**. This was followed by small-sized companies, which comprised around **27%** of bank clients, while medium-sized companies accounted for 10% of the total.
2. Regarding the value of credit applications submitted by SMEs in Qatar, medium-sized companies held the largest share, accounting for approximately **67%** of the total value. Small companies followed with a share of **28%**.
3. The value of accepted credit applications for all categories of SMEs in Qatar decreased in **2021** compared to the previous year, although the extent of the decline varied by company size. Medium-sized companies experienced a decrease of around **25%**, while small companies recorded a slight reduction of **3%**. In contrast, micro companies saw a significant decline of **53%**.
4. In **2021**, the majority of credit requests made by small and medium-sized companies in Qatar were for the purpose of working capital, accounting for **37%** of all requests. Additionally, requests for the purpose of growth and expansion represented 21% of the total, which represented an increase compared to the previous year when it was **12%**.
5. In **2021**, the outstanding credit of SMEs in Qatar was approximately **20.3** Billion Riyals. This accounted for around **4%** of the total value of credit in the private sector, representing a decrease from the previous two years. Specifically, in **2020** and **2019**, the credit balance of SMEs represented **4.8%** and **4.6%** of the total value of credit in the private sector, respectively.
6. At the sectoral level, there were no significant changes in the shares of economic sectors in Qatar in **2021**. The services sector continued to hold the largest share of outstanding credit balance for SMEs, accounting for around **42%** of the total. The trade sector followed with a share of approximately **33%**, while the construction sector held approximately **14%** of the total credit balance for SMEs.
7. In Qatar, the rate of non-performing loans (NPL) for SMEs reached **6.9%** in **2021**. Notably, medium-sized companies had the lowest rate of non-performing loans at **5.2%**, while small and micro companies had higher rates of **9.8%** and **7.2%**, respectively. These high rates are consistent with those seen in many countries worldwide due to the financial easing programs implemented in response to the COVID-19 crisis.

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