



وزارة التخطيط التنموي والإحصاء
Ministry of Development Planning and Statistics

Business Confidence Index in the State of Qatar Q3 2015

September 2015

Development Indicators Series

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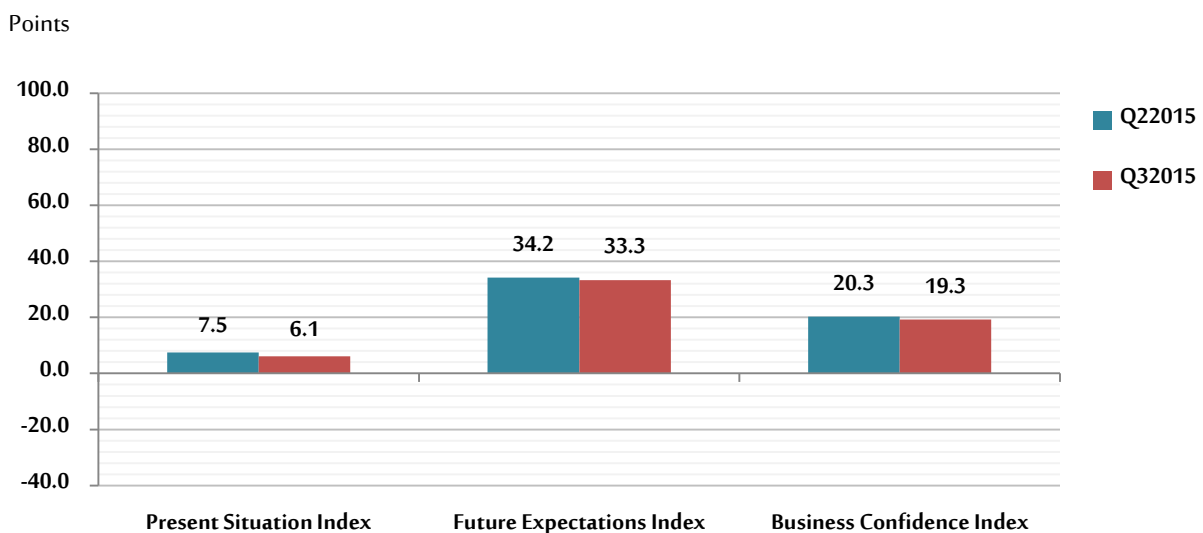
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Doha – September 2015: The business confidence levels showed a decrease during the 3rd quarter of 2015 compared to the 2nd quarter of 2015, amounting to (19.3) points and (20.3) points, respectively. This drop is attributed to the decreasing optimism of firms operating in oil activity. In spite of this decline, but it remains limited compared to drops in BCIs in many other countries all over the world at the same period, reflecting the continued optimistic outlook over the economic conditions of Qatar as we notice that it surpasses the neutrality (zero) limit when positive and negative views are equal as shown in Graph (1).

Such optimism demonstrates continued good performance of Qatar's economy despite the decline in oil prices. This indicates that the large financial reserves of the State of Qatar has secured a broad protection that led to the continuation of the optimistic outlook of economic establishments in the State.



Graph (1)
Business Confidence Index in the State of Qatar – Q2 and Q3-2015



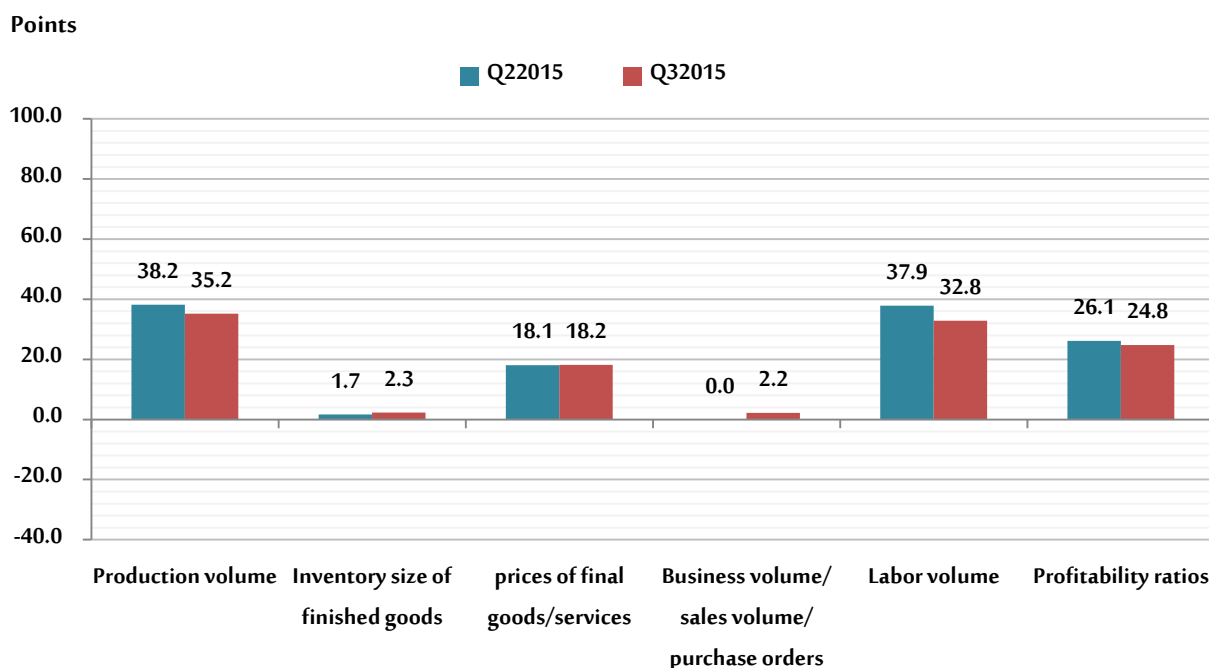
The survey results indicate a slight decline in optimism of economic establishments operating in Qatar towards the present expectations index compared to the future situation index, amounting to (- 1.4) and (- 0.9) points respectively.

Such results reflect a greater sense that the economy of the State of Qatar may be affected by global economic events, especially in the case of continued decline in oil prices. However, the slight decline in levels of optimism about the current situation reflect establishments understanding of consistently good performance of the economy of Qatar during the first half of 2015, thanks to government investment spending.

In spite of this decline, the values of the two indices reflect the business community ongoing optimism over the country's economic position, as well as the situation of their enterprises.

The sample of respondents from the business community showed their optimism during Q3 of 2015 towards the production volume, available job opportunities, enterprises' profitability ratios prices of and inventory of finished goods and demand on sales in general compared to Q2 2015 as shown in Graph (2).

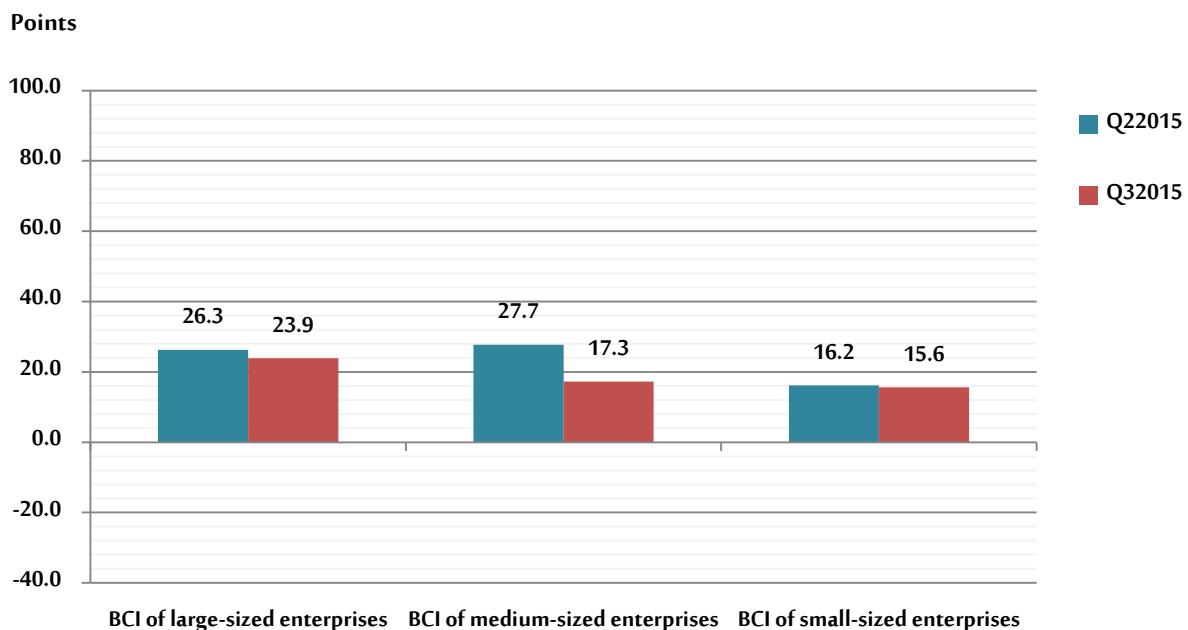
Graph (2)
Sub-indices of the Status of Enterprises Operating in Qatar – Q2 and Q3-2015



Large -sized enterprises are ranked first in expressing optimism about Qatar's economic conditions, followed by Medium -sized enterprises, and Small-sized enterprises respectively. We noticed a declining optimism levels of establishments operating in oil activity during the 3rd quarter which affected optimism levels of Large-sized enterprises, whereas the Medium -sized enterprises were affected by the decline in the manufacturing sector, as shown in Graph (3).

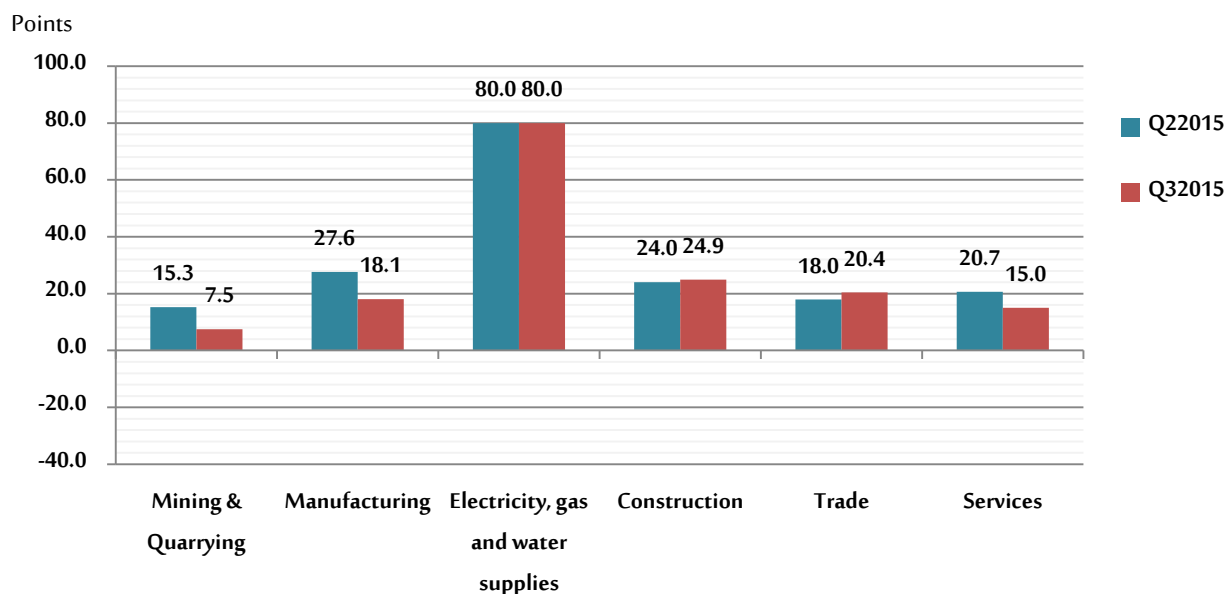
The results show a continuous slump in activity volume in all economic enterprises; Large, medium and small -sized enterprises. The largest slump was that of the small-sized enterprises. The value of the production volume sub-index of small, medium and large-sized enterprises in Q3 2015 (the present situation) amounted to (-11.9) points, (-11.0) points and (- 2.4) points, respectively. Results also indicated a decline in the profitability ratios of small and medium-sized enterprises.

Graph (3)
Qatar's Business Confidence Index by Enterprise Size – Q2 and Q3-2015



As for BCI by activity, the results indicate that enterprises engaged in "electricity, gas and water supplies" are the most optimistic over the country's economic conditions in general and the development of their own businesses in particular. In second place came "Construction", followed by enterprises operating in "Trade" activity, whereas the enterprises engaging in "Mining and Quarrying" activities are the least optimistic for the second time in a row ; (7.5) Points, as shown in Graph (4).

Graph (4)
Qatar's Business Confidence Index by Economic Activity – Q2 and Q3- 2015



The results indicate the stability of optimism levels within enterprises engaged in "Electricity, Gas and Water Supplies" since the 3rd of 2014 as the index value recorded (80) points which reflected that this activity was not affected by declines in oil prices compared to other activities, such as enterprises engaged in "Mining and Quarrying" that recorded a slump of (7.8) points compared to Q2 of 2015. As for optimism levels of the enterprises engaged in "Manufacturing" and "Services", they declined by (9.5) and (5.7) points, respectively.

Furthermore, results reflect an increasing optimistic outlook amongst respondents from the “Construction” and “trade” activities during Q3 of 2015 compared to Q2 of 2015, as a result of improved prices of sales that contributed to increasing profits.

Economic Enterprises and Bank Financing:

Survey results reveal that about (81.4%) of economic enterprises did not receive bank financing during Q3 of 2015 compared to (86.2%) in Q2 of 2015. This is due to a variety of reasons topped by the fact that (85.5%) of enterprises had sufficient internal balances, and therefore did not receive bank financing in Q3 of 2015 compared to (83.8%) in Q2 of 2015. It is consequently a sign reflecting the financial stability of such enterprises. The second reason lies in that enterprises consider bank financing as extra financial commitments and burdens that may overload the establishment according to (9.2%) of enterprises, compared to (13.7%) of enterprises in Q2 of 2015, as listed in the following table (1).

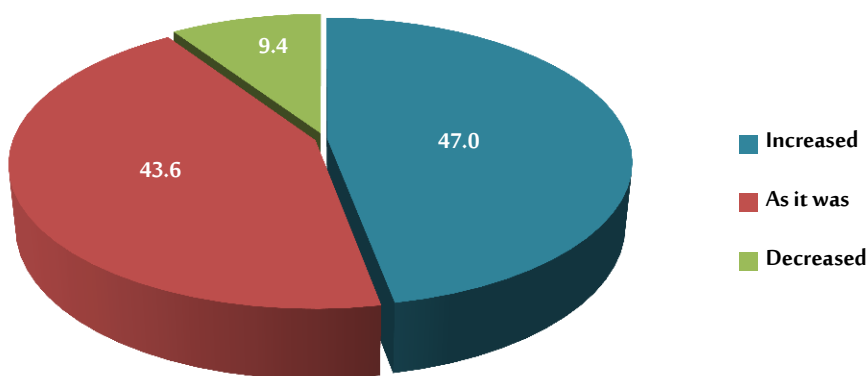
Table 1
Enterprises' reasons not to use bank financing in Q3, 2015

Reasons	Number of enterprises	Percentage of total number of Enterprises that did not use bank financing
Sufficient internal balances	438	% 85.5
Considering bank financing as an extra burden / commitment	47	% 9.2
Banks do not lend companies operating in such sector / industry	16	% 3.1
Enterprise's financial position does not allow it to borrow from banks	12	% 2.3
Inability to pay fees	8	% 1.6
Others	11	% 2.1

Such results indicate the stability of the situation of economic enterprises and their ability to withstand the financial burdens and to cover their commitments without resorting to borrowing. The main other reasons for not borrowing can be summed up in that its association with future plans for expansion at some enterprises, following certain work plans at other enterprises, or change in their own situation.

On the other hand, about (18.6%) of economic enterprises used bank financing during Q3, 2015 compared to about (13.8%) during Q2, 2015. When asked, (47.0%) of such enterprises reported that the cost of financing increased in Q3 of 2015 compared to (41.0%) during Q2, as shown in Graph (5).

Graph (5)
Enterprises Assessment of Finance Cost in Q3-2015

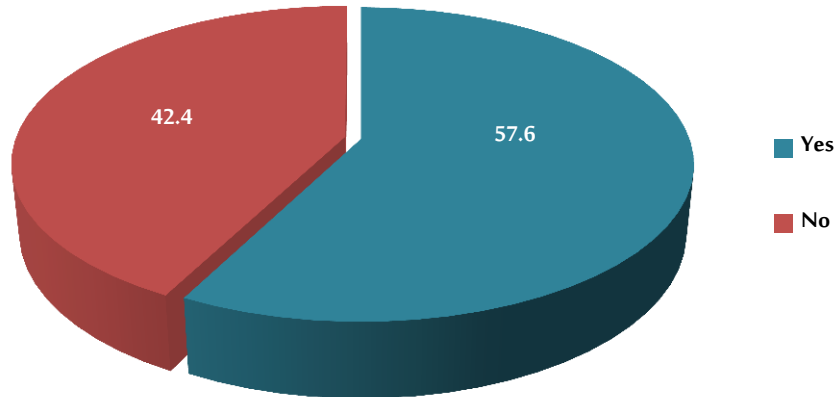


Production Capacity and Enterprise Future Plan:

The Q3 results indicate that (57.6%) of enterprises have future plans to expand their business' production capacity, compared to (60.6%) in Q2 of 2015, as shown in Graph (6).

Graph (6)

The percentage of enterprises planning to expand their production capacity, Q3-2015



According to survey results, high percentage of enterprises plan to expand their business. For example, (47.0%) of enterprises, which have an expansion future plan, intend to enlarge their current premises. Similarly, (43.6%) of enterprises plan to open new subsidiaries either in Qatar or GCC countries in general. Some enterprises' plans are represented in increasing investment in their assets such as machinery or stores capacity, increasing production lines. Some enterprises said they plan to raise production volume and employees number or they will change activity, as shown in table (2).

According to Q3 survey results, the main reasons preventing some enterprises (45.7%) from expanding their business' production capacity are the instability of markets or they have already expanded in previous periods.

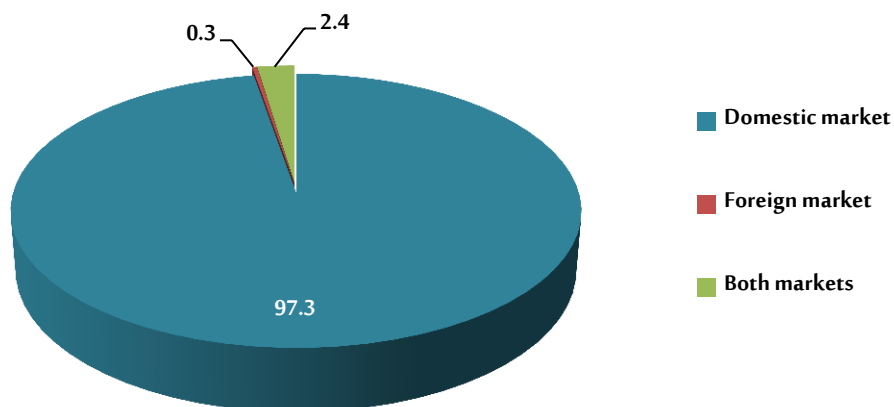
Table 2
Enterprise plans to expand its business' production capacity
Q3-2015

Enterprise future plan	No. of enterprises	Percent of total enterprises having a future expansion plan
Expansion of present premises	170	% 47.0
Opening new subsidiaries in Qatar or GCC	158	% 43.6
Investment in business assets (factories, stores and machinery)	63	% 17.4
Others	38	% 10.5

Economic Enterprises and Access to Markets:

Generally, (97.3%) of enterprises targeted domestic market, whereas only (0.3%) of enterprises targeted foreign markets and (2.4%) of enterprises targeted both markets, as shown in Graph (7).

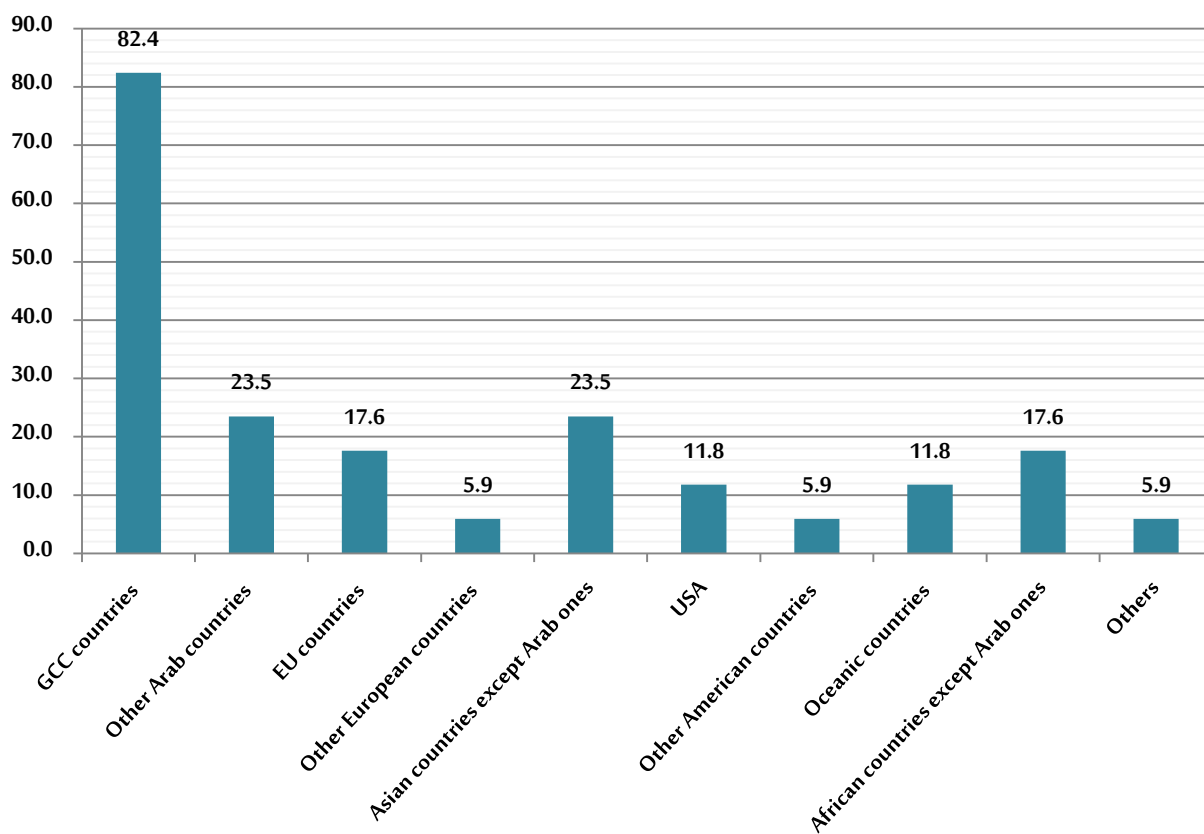
Graph (7)
Types of markets targeted by enterprises, Q3- 2015



The percentage of production exported by enterprises targeting foreign markets in Q3 of 2015 amounted to 28.1% of total production, compared with (35.5%) in Q2 of 2015.

Results indicate that the most significant foreign markets are GCC countries (82.4%), while markets of other Arab countries and Asian countries except Arab ones recorded equal rates of (23.5%), as shown in Graph (8).

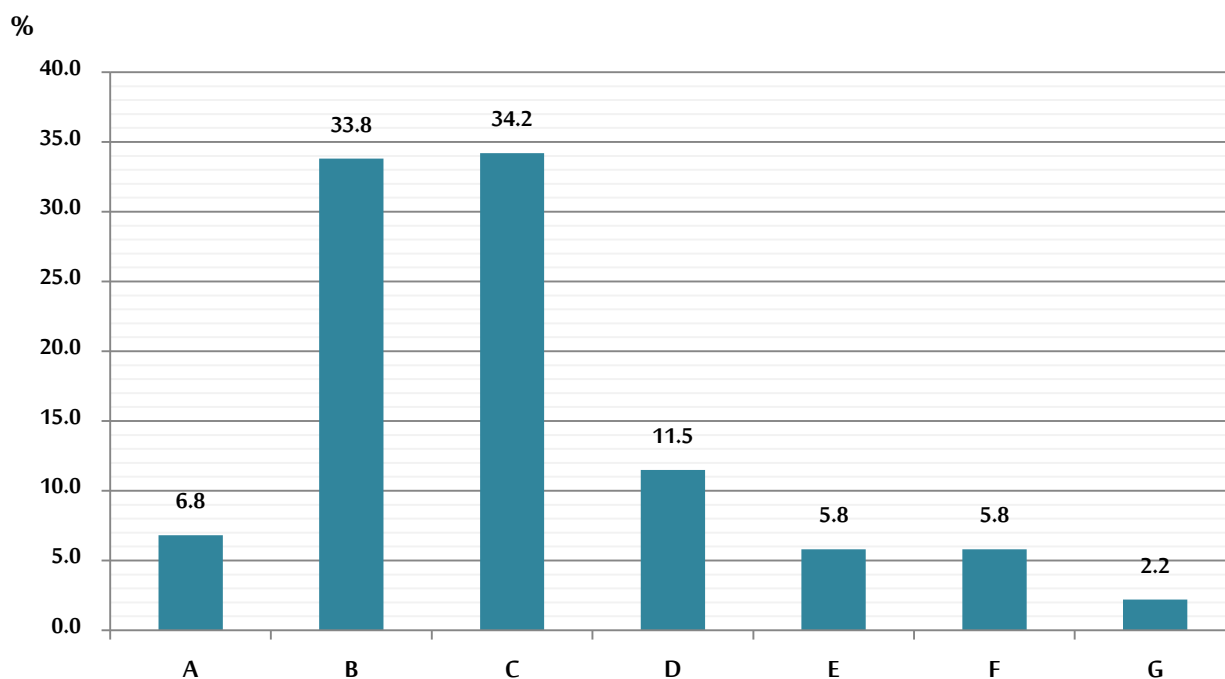
Graph (8)
Types of Markets Targeted by Enterprises, Q3- 2015



The results of Q3 of 2015 mirrored that (44.2%) of economic enterprises continued to face a group of challenges hindering Qatari products' access to foreign markets; including: increasing demand for product in domestic market; Lack of factories; and high cost of Qatari products compared to those of other countries, especially GCC countries. The high cost of Qatari products is due to high cost of raw

materials and customs tariffs, as well as rising rentals. Whereas others believe that the products' low quality is one of the main reasons behind the lack of products competitiveness. In addition, other said that there are no obstacles and some products are exported, as highlighted in Graph (9).

Graph (9)
Obstacles facing Qatari products access to foreign markets, Q3- 2015

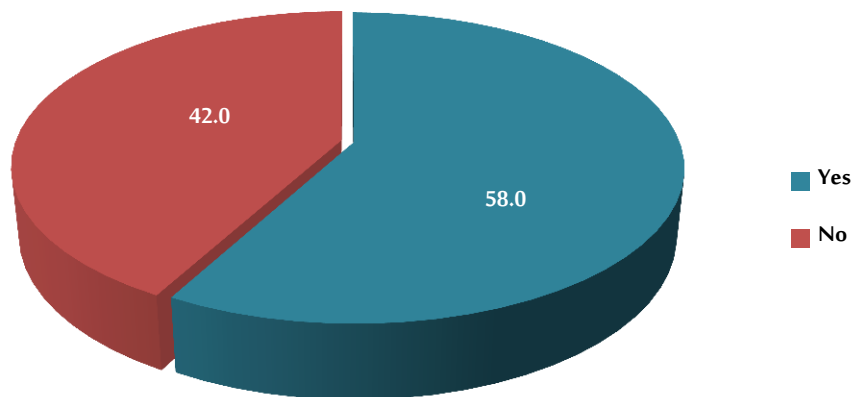


- A Poor marketing
- B High cost of production
- C Increasing demand for product in domestic market
- D Less competitive product
- E Poor material and human potential
- F Weak government support
- G Others

Challenges Facing Economic Enterprises' Performance in Q3, 2015:

Results indicate that (58.0%) of enterprises face some challenges hindering their performance, compared with (53.6%) in Q2 of 2015, as shown in Graph (10).

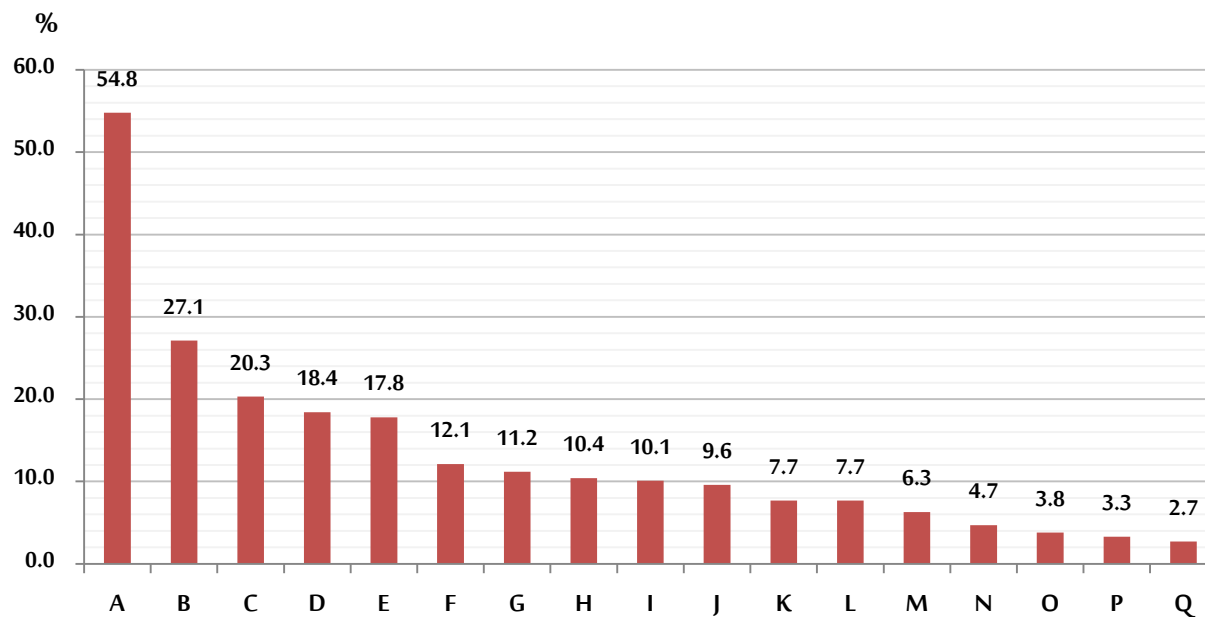
Graph (10)
Percentage of enterprises suffering from challenges hindering performance



Results show that the main challenges are the high rent costs, intense competitiveness, Delay in collection of due payments and labor force shortage, as well as other challenges as shown in Graph (11)

Graph (11)

Main challenges hindering enterprises' performance, Q3-2015



- A Cost of rent
- B Competitiveness
- C Low demand
- D Legislative restrictions and obstacles
- E Delay in collection of due payments
- F Bureaucratic procedures
- G Cost of obtaining raw materials
- H Cost of services (facilities)
- I Financial restrictions
- J Labor force shortage
- K Government fees
- L Cost of transport, shipping and storage
- M Customs burdens
- N Difficulty to obtain raw materials
- O Insufficient materials and / or equipment
- P Land procurement, property registration and taxes
- Q Others

Appendix

First: Overall Index and Sub-Indices of Business Confidence, Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	6.1	33.3	19.3
Volume of production	16.1	56.0	35.2
Inventory Size of finished products	-5.9	10.9	2.3
Final products price, i.e. goods/services prices	8.4	28.4	18.2
Business volume/ sales volume/ purchase orders	-10.0	15.2	2.2
Labor force volume	24.6	41.2	32.8
Profitability Ratios	3.5	48.4	24.8

Second: Overall Index and Sub-Indices of Business Confidence by Enterprise Size

1- Small-Sized Enterprises , Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	2.9	29.4	15.6
Volume of production	16.6	54.3	34.7
Inventory Size of finished products	-9.0	6.0	-1.6
Final products price, i.e. goods/services prices	6.6	26.6	16.4
Business volume/ sales volume/ purchase orders	-11.9	10.5	-1.0
Labor force volume	19.9	32.9	26.3
Profitability Ratios	-4.8	46.1	19.2

2- Medium-Sized Enterprises , Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	5.8	29.6	17.3
Volume of production	30.3	54.1	41.9
Inventory Size of finished products	-7.6	7.3	-0.3
Final products price, i.e. goods/services prices	6.4	26.6	16.3
Business volume/ sales volume/ purchase orders	-11.0	10.3	-0.6
Labor force volume	21.0	32.7	26.8
Profitability Ratios	-4.3	46.3	19.6

3- Large-Sized Enterprises, Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	8.0	41.4	23.9
Volume of production	1.0	62.6	29.7
Inventory Size of finished products	-4.3	9.0	2.2
Final products price, i.e. goods/services prices	6.1	28.6	17.0
Business volume/ sales volume/ purchase orders	-2.4	28.9	12.7
Labor force volume	25.8	61.1	42.8
Profitability Ratios	21.7	58.0	39.2

Third: Overall Index and Sub-Indices of Business Confidence by Enterprise Activity

1- Mining and Quarrying, Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	-17.6	38.1	7.5
Volume of production	-70.3	44.6	-21.9
Inventory Size of finished products	0.0	50.0	23.6
Final products price, i.e. goods/services prices	20.3	32.4	26.3
Business volume/ sales volume/ purchase orders	-32.4	27.0	-5.0
Labor force volume	47.3	79.7	63.0
Profitability Ratios	-70.3	-5.4	-41.1

2- Manufacturing , Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	5.5	31.6	18.1
Volume of production	18.0	55.1	35.9
Inventory Size of finished products	3.8	13.9	8.8
Final products price, i.e. goods/services prices	2.1	28.9	15.1
Business volume/ sales volume/ purchase orders	-5.8	14.1	4.0
Labor force volume	18.3	32.0	25.1
Profitability Ratios	-3.4	45.2	19.6

3- Electricity, Gas, and Water Supply, Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	80.0	80.0	80.0
Volume of production	100.0	100.0	100.0
Inventory Size of finished products	-	-	-
Final products price, i.e. goods/services prices	0.0	0.0	0.0
Business volume/ sales volume/ purchase orders	100.0	100.0	100.0
Labor force volume	100.0	100.0	100.0
Profitability Ratios	100.0	100.0	100.0

4- Construction, Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	9.8	41.1	24.9
Volume of production	22.6	61.3	41.2
Inventory Size of finished products	-0.4	22.0	10.5
Final products price, i.e. goods/services prices	15.1	40.1	27.3
Business volume/ sales volume/ purchase orders	-14.2	17.4	1.0
Labor force volume	21.9	54.8	37.8
Profitability Ratios	13.8	51.0	31.6

5- Trading , Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	8.3	33.3	20.4
Volume of production	16.5	55.2	35.1
Inventory Size of finished products	-8.0	5.6	-1.3
Final products price, i.e. goods/services prices	11.1	30.8	20.7
Business volume/ sales volume/ purchase orders	-5.7	13.6	3.7
Labor force volume	32.1	42.4	37.2
Profitability Ratios	3.9	52.2	26.7

6- Services , Q3-2015

Index	Present Situation Index	Expectations Index	Overall Index
<u>Overall index</u>	1.6	29.3	15.0
Volume of production	12.6	54.4	32.6
Inventory Size of finished products	-14.3	7.9	-3.5
Final products price, i.e. goods/services prices	4.0	18.5	11.2
Business volume/ sales volume/ purchase orders	-13.6	15.6	0.4
Labor force volume	20.2	34.8	27.4
Profitability Ratios	0.9	44.9	21.8

Methodology

The Business Confidence Index was based on international methodologies, especially the European Commission Methodology and the CESifo Group Munich Methodology.

The index measurement is based on (6) questions from which two sub-indices emerge (present situation index and future expectations index).

These (6) questions that make up the sub-indices are centered on the following:

- Volume of production.
- Inventory volume of finished products
- Final products price, i.e. goods/services prices
- Business volume/ sales volume/ purchase orders.
- Labour force volume.
- Profitability Ratios

Index Value

The index value ranges between (-100) and (+100) points. It reaches its maximum (+100) if the views of all surveyed enterprises are positive, whereas it reaches neutrality (zero) when positive and negative views are equal. If the index value is below (zero), this indicates a negative assessment of enterprises situation in the State of Qatar.

For further information on methodology, please refer to issue No. 1.