

**FOR  
AGENDA**

SM/07/356

November 7, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Qatar—Staff Report for the 2007 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2007 Article IV consultation with Qatar, which is tentatively scheduled for discussion on **Monday, November 26, 2007**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Qatar indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Leon (ext. 36115) and Mr. Gvenetadze (ext. 37359) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, November 15, 2007, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

QATAR

**Staff Report for the 2007 Article IV Consultation**

Prepared by Staff Representatives for the 2007 Consultation with Qatar

Approved by Juan Carlos Di Tata and Adnan Mazarei

November 6, 2007

- Discussions for the 2007 Article IV consultation were held in Doha during June 6–20, 2007 and August 4–5, 2007, and in Washington, DC at the time of the Annual Meetings. The staff team comprised Messrs. Leon (head), Gvenetadze, Puig, and Ms. Farahbaksh (all MCD). Mr. Khan (MCD) participated in the opening discussions. Mr. Stella (MCM) joined the mission to discuss the Financial Sector Assessment Program (FSAP) report with the authorities.
- The mission met with H.E. Yousef Hussain Kamal, Minister of Finance; The Honorable Sheikh Abdullah Bin Saud bin Abdulaziz Al-Thani, Governor of the Qatar Central Bank (QCB); other senior government officials, and representatives of the private sector.
- The previous consultation was concluded on March 14, 2005. Qatar has been on a 24-month consultation cycle.
- The Qatari riyal has been pegged to the U.S. dollar at QRls 3.64 per \$1 since July 2002.
- Qatar has accepted the obligations of Article VIII, Sections 2, 3, and 4(a) and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Qatar maintains exchange restrictions for security reasons that have been notified to the Fund for approval under Decision 144.
- The economic data are broadly adequate for surveillance purposes. Qatar began participating in the Fund's General Data Dissemination System (GDDS) on December 30, 2005.

Executive Summary .....	4
I. Background and Recent Developments.....	5
A. Introduction.....	5
B. Recent Economic Developments .....	6
C. Outlook and Risks .....	10
II. Policy Discussions.....	13
A. Inflation.....	14
B. Financial Sector Development .....	14
C. GCC Monetary Union .....	15
D. Monetary and Exchange Rate Issues .....	17
E. Other Structural Reforms .....	19
F. Economic Data and Transparency .....	19
III. Staff Appraisal .....	20
Boxes	
1. Hydrocarbon Sector Developments .....	12
2. Qatar's Real Effective Exchange Rate.....	18
Tables	
1. Selected Macroeconomic Indicators, 2001–07 .....	23
2. Summary of Government Finance, 2002/03–2007/08 .....	24
3. Monetary Survey, 2001–07.....	26
4. Balance of Payments, 2001–07.....	27
5. Vulnerability Indicators, 2001–06 .....	28
6. Medium-Term Baseline Scenario, 2002–12 .....	29
Figures	
1. World Natural Gas Reserves.....	5
2. Selected Countries GDP Per Capita in U.S. Dollars.....	5
3. Fiscal and External Balances .....	5
4. Hydrocarbon Dependency Ratios .....	6
5. Selected Economic Indicators.....	7
6. Public Finance.....	8
7a. Broad Money.....	9
7b. Credit to the Private Sector .....	9
8. Performance of Qatar Stock Market .....	10
9a. Current Account Balance and Overall Fiscal Balance .....	13
9b. Current Account Balance and GDP Growth.....	13
10. CPI Inflation Basket.....	14
11. Inflation in GCC Countries.....	16

12a. GCC Oil Dependency Ratios .....	17
12b. Overall Fiscal Balance .....	17
12c. Non-hydrocarbon Fiscal Deficit.....	17
12d. External Current Account Balance .....	17
Attachment	
1. Draft Public Information Notice .....	30

## **EXECUTIVE SUMMARY**

The 2007 consultation discussions with Qatar focused on policies to contain inflation, reforms to encourage financial sector development, progress on the proposed Gulf Cooperation Council (GCC) monetary union, and exchange rate issues in the period leading up to its establishment.

### **Background**

Qatar's economic performance has been very strong for the last several years, spurred by high oil and gas output and prices, and increased investment in infrastructure. However, high aggregate demand growth, escalating rents owing to housing shortages, and strong growth of monetary aggregates have contributed to double-digit inflation. A substantial correction in stock market prices in early 2006, following two years of unprecedented increase, does not appear to have impacted the banking system. The medium-term outlook remains very favorable, but high inflation is a concern.

### **Authorities' views**

- Inflation has been driven by supply bottlenecks, and should ease as the supply of housing catches up with demand, and the country's infrastructure improves.
- The authorities remain committed to joining the GCC monetary union by 2010, but they would like to see more discussion on issues relating to the common market, taxation agreements, tariff agreements, and labor policy and wage differences before the adoption of the union.
- The authorities are committed to maintaining the peg to the U.S. dollar in the period leading up to GCC monetary union. They also view a pegged regime as likely to be in the interest of the GCC in the post-monetary union period. As regards the level of the exchange rate, the authorities agreed with the staff's analysis and conclusion that the exchange rate is in line with fundamentals.
- The authorities have provided data on Qatar's International Investment Position (IIP) position to the staff.

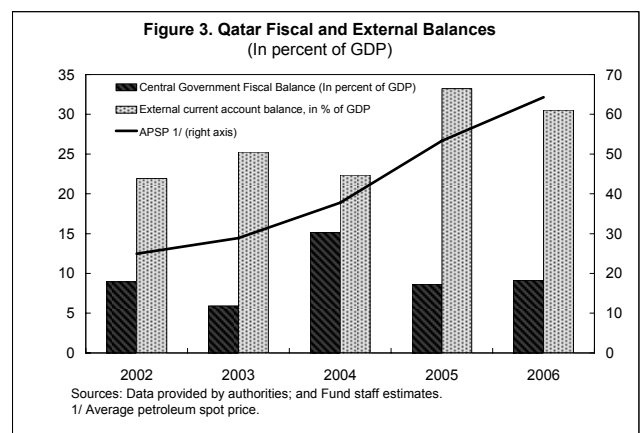
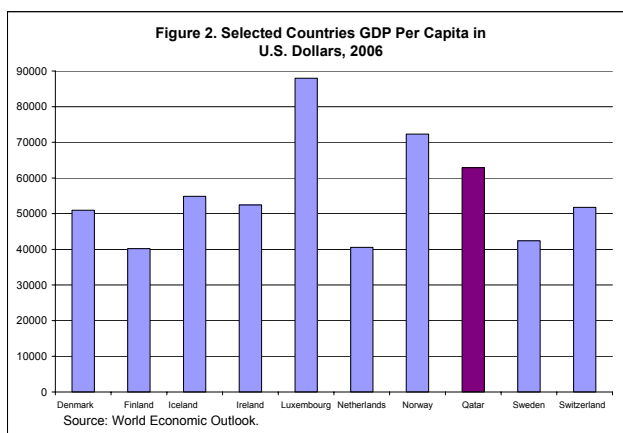
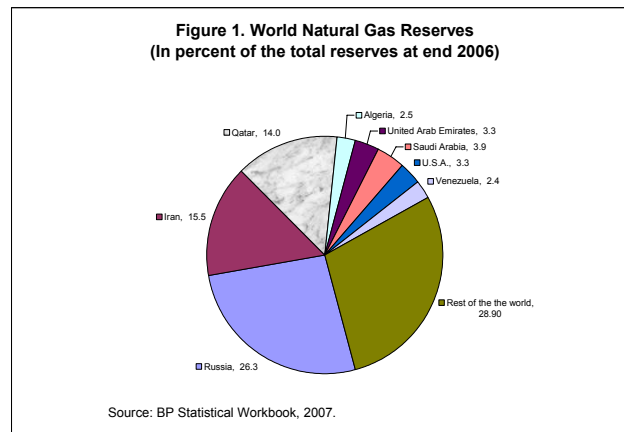
### **Staff's recommendations**

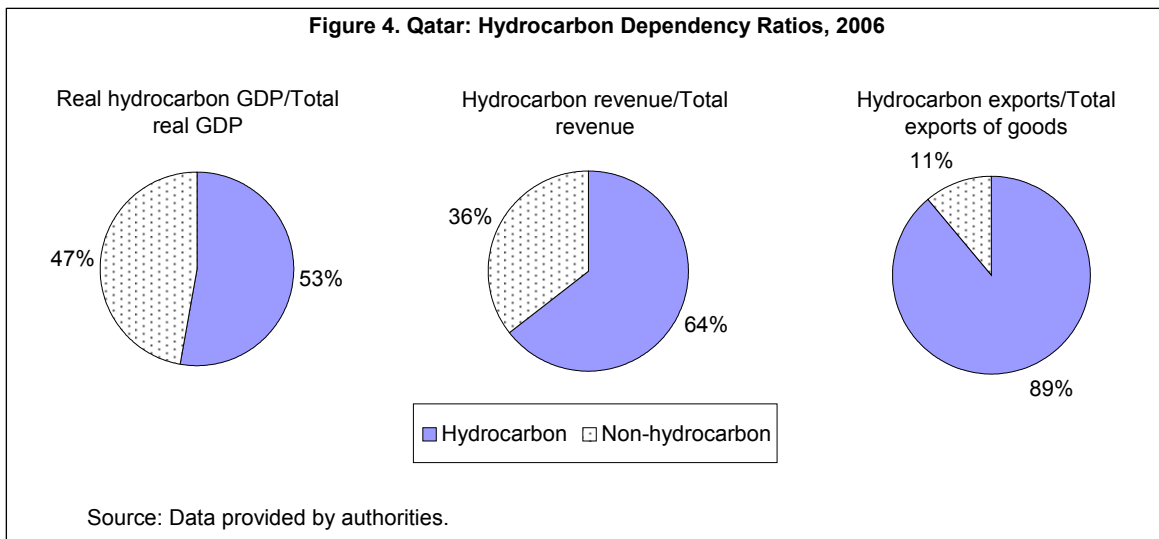
- Given the limited scope for monetary policy, the staff recommends that if inflation persists, the authorities should restrict increases in current outlays, including wages, and phase the implementation of large projects to ease aggregate demand pressures.
- The staff strongly supports a credible transition plan for implementing the single financial market, and a formal mechanism to require the Qatar Financial Center (QFC) to report to the Qatar Central Bank (QCB) on the financial statistics of the QFC-licensed institutions.
- A peg is appropriate in the period leading up to the proposed monetary union, but staff recommends a careful study for the period after the establishment of the monetary union.
- The staff recommended, and the authorities agreed, that Qatar move to a 12-month Article IV consultation cycle.

## I. BACKGROUND AND RECENT DEVELOPMENTS

### A. Introduction

1. **Qatar is a small, very affluent country that is developing rapidly.** Endowed with around 14 percent of the world's natural gas proven reserves (Figure 1) and a population of 0.8 million, Qatar has one of the highest per capita incomes in the world (Figure 2). The strong performance of the world economy and high oil and gas prices have spurred output growth and generated sizeable fiscal and large external current account surpluses over the last five years (Figure 3). To reduce vulnerabilities from high dependency on oil and gas (Figure 4), the government has stepped up investment expenditure to broaden economic diversification, particularly in oil and gas-related petrochemicals, education, financial services, and tourism. It is also creating an enabling environment for privatization and growth of small- and medium-size enterprises (SMEs).





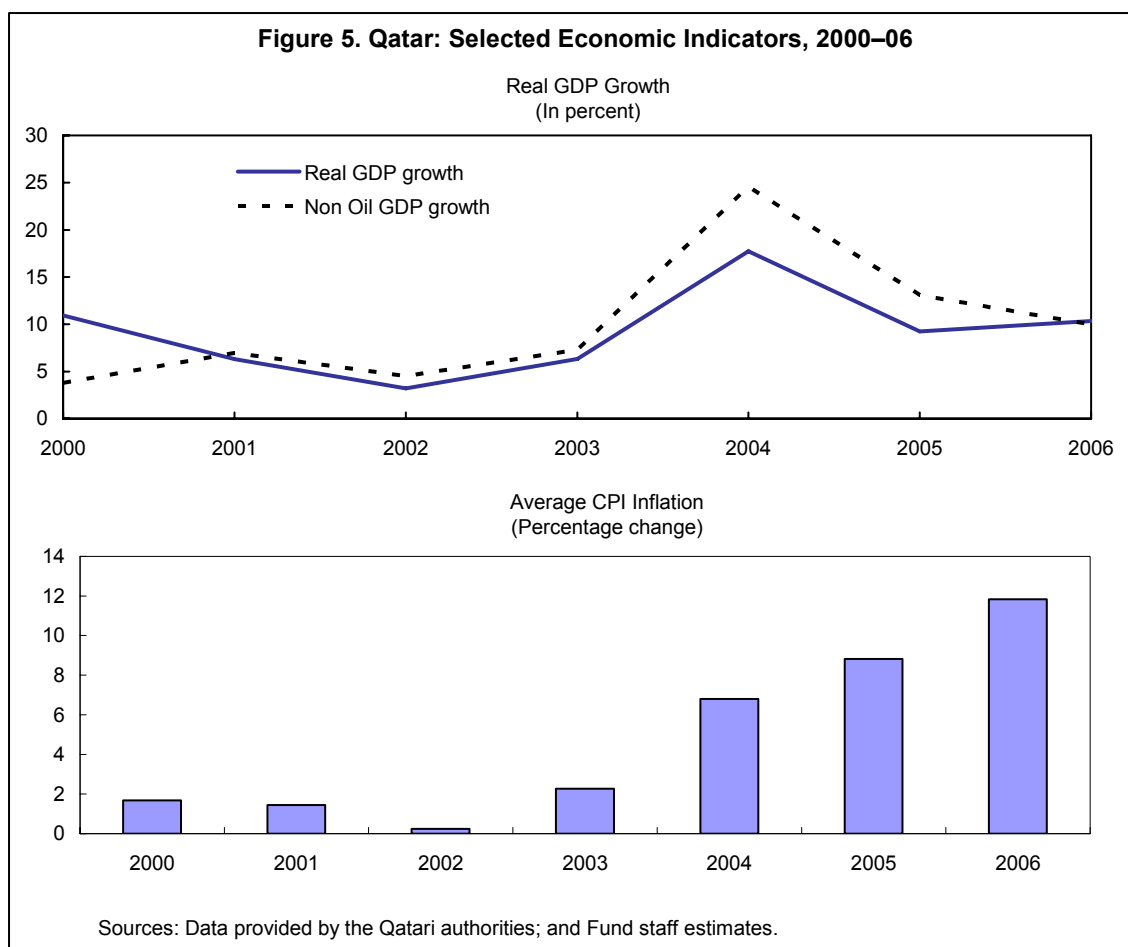
2. **Qatar's international profile is rising.** In this regard, Qatar's admission to the UN Security Council in 2006 as a non-permanent member has helped. Also, the government, through the Qatar Investment Authority, is pursuing strategic investments in international markets, and investor interest in the country is growing. Standard and Poors recently upgraded Qatar's long-term foreign sovereign rating to AA-, from BBB in 1996, citing strong economic prospects and acceleration of reforms. At home, the government, under the leadership of the Emir, Sheikh Hamad bin Khalifa Al-Thani, is also pursuing gradual political reform. Elections for 30 of the 45 members of the Majlis al-Shura (Consultative Council), are expected to take place by end-2007; professional associations have been licensed; unions are allowed; and a human rights committee has been in existence since 2002.

3. **Looking forward, Qatar faces the challenge of sustaining growth while maintaining macroeconomic and financial stability.** This requires appropriate policies for managing oil and gas revenues, deepening financial markets, and developing a competitive private sector.

## B. Recent Economic Developments

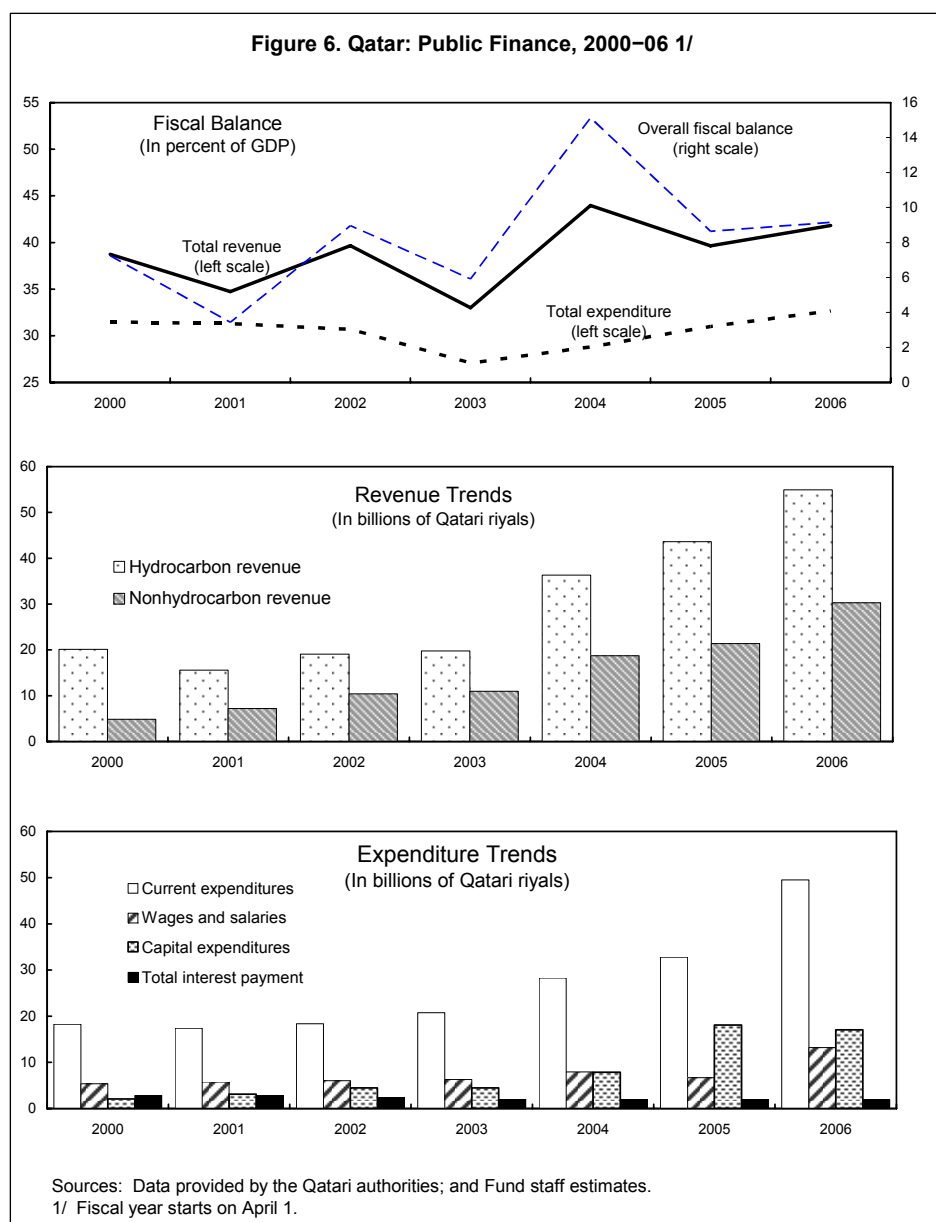
4. **Qatar grew by about 10 percent in 2006** (Figure 5), driven by a strong expansion in the production of liquefied natural gas (LNG), as well as in construction and financial services. Inflation reached 12 percent in 2006 and rose to an annualized rate of 13 percent by mid-2007, partly reflecting supply bottlenecks.





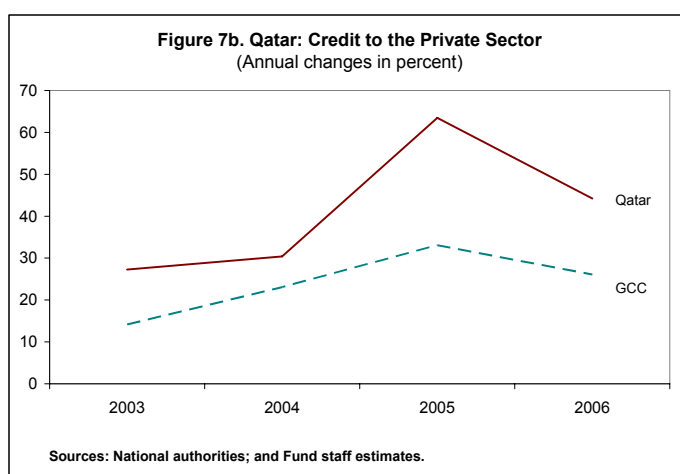
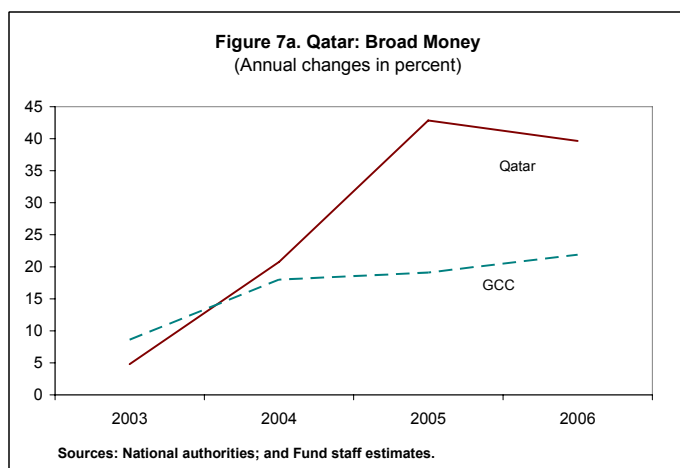
5. **Budget revenue in FY2006/07 amounted to 42 percent of GDP, with hydrocarbon revenue mirroring rising oil prices** (Figure 6). Despite a large increase in salaries and outlays on goods and services, the overall fiscal surplus rose from 8.6 percent to 9 percent of GDP, aided by a reduction in development expenditures, following a sharp increase in the previous year.<sup>1</sup> The nonhydrocarbon fiscal balance as a percent of nonhydrocarbon GDP rose marginally to 47 percent.

<sup>1</sup> In FY 2005/06, development expenditure increased by 130 percent.



6. **The current account recorded a surplus of about 31 percent of GDP in 2006.** With hydrocarbon exports growing rapidly, the trade surplus rose, despite a significant increase in imports arising from the start of large mega projects. Outflows rose significantly, reflecting the buildup of external assets by the government and the financial, corporate, and household sectors. Gross official reserves of the central bank (excluding the government's external assets) increased by about \$0.8 billion in 2006 to \$5.4 billion (2.4 months of next year's imports of goods and services).

7. **Monetary conditions were characterized by ample liquidity and strong credit growth** (Figures 7a and 7b). Broad money growth, which averaged 9 percent a year during 2001–03, jumped to about 40 percent a year in 2005–06, fueled by large foreign exchange inflows, high public outlays, and rapid credit to the private sector, particularly for housing and consumption purposes. As of end-June 2007, annualized credit growth had surged to 60 percent. This growth in credit has led to a marked increase in commercial banks' total assets and in their profitability, which was among the highest in the region. With the Qatari rial pegged to the U.S. dollar and complete capital mobility, nominal interest rates in the domestic market have tracked U.S. interest rates closely. However, stable U.S. rates and rising inflation have resulted in real interest rates becoming increasingly negative.



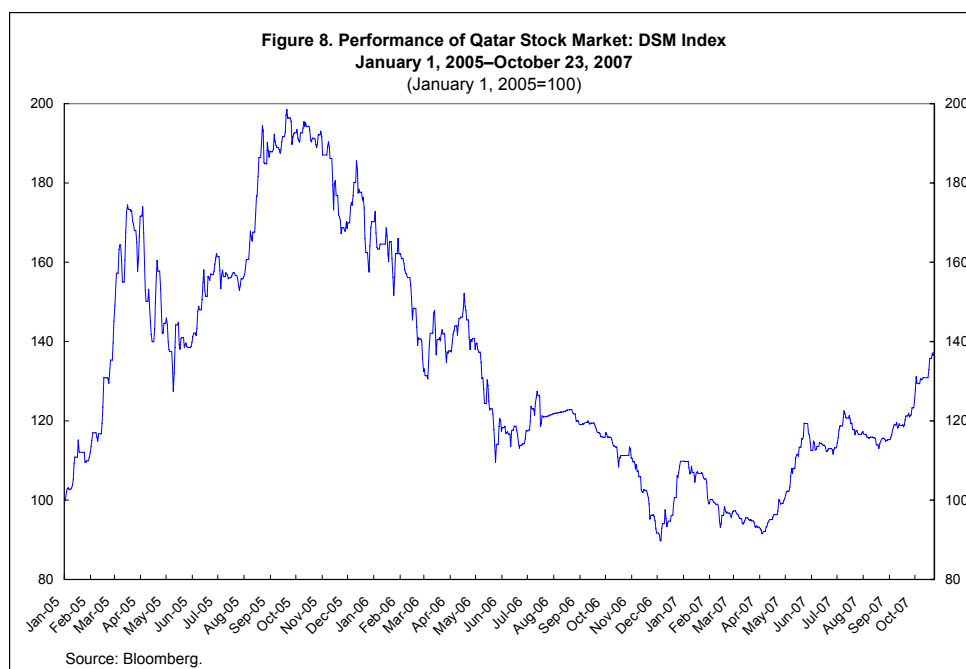
8. **The banking sector's prudential indicators remain strong.** The average capital-assets ratio (CAR) of commercial banks remained adequate at 15 percent as of end-2006;<sup>2</sup> the gross nonperforming loan ratio declined to 2.2 percent, from 4.3 percent at end-2005, and the ratio of loan loss reserves to nonperforming loans amounted to about 94 percent by end-2006. Maturity mismatches may have grown, however, because lending for infrastructure and construction projects is of a long-term nature, while the average maturity of deposits is only 3 months. At the same time, banks have been putting into place risk management frameworks to implement Basle II during 2007.

Qatari Banking Sector Selected Indicators as of End-2006					
	2002	2003	2004	2005	2006
Regulatory capital/risk-weighted assets	25.1	25.3	24.9	24.8	15.0
Non-performing loans/total loans	11.1	8.1	6.3	4.3	2.2
Net profits/average shareholders' equity	18.1	20.8	20.8	28.5	27.2
Liquid assets/liquid liabilities	51.1	50.9	54.8	55.4	53.2
Total assets in foreign currencies/ Total liabilities in foreign currencies	150.6	168.3	159.3	153.1	141.4

Source: Qatar Central Bank.

<sup>2</sup> The large drop in 2006 reflects a change in the calculation-methodology and a sharp increase in assets.

9. **Equity markets remained volatile** (Figure 8). The Doha Securities Market (DSM) index experienced a significant correction in 2006, partially reversing a 70 percent increase experienced in 2005. By October 23, 2007, the index had increased by 25 percent compared with end-December 2006. Recent developments in global financial markets have had limited impact on the equity market (or broader financial system), reflecting strong economic fundamentals, enhanced regulation, and little exposure to the U.S. subprime instruments.



### C. Outlook and Risks

10. **Qatar's macroeconomic performance is estimated to have been strong in 2007**, supported by high oil and gas prices and ongoing investments, but inflation remains high at about 12 percent. The external current account surplus is projected at 33 percent of GDP, despite strong import growth (30 percent), mainly for investment projects. Both the government and commercial banks are expected to continue accumulating external assets, and the gross reserves of the QCB are projected to increase further by \$1.1 billion, to \$6.5 billion by year's end.

11. **The FY2007/08 budget<sup>3</sup> envisages a surplus of QR 6.7 billion** (2.6 percent of staff-estimated GDP), based on a conservative oil price assumption of \$40 per barrel (pb), and a 1.3 percent decline in expenditure relative to the FY2006/07 outcome. Assuming an oil price

<sup>3</sup> Fiscal year starts April 1.

of \$67 pb<sup>4</sup> and higher-than-budgeted expenditure (by 7 percent of GDP), staff projects that the fiscal surplus would increase further to 11.5 percent of GDP in FY2007/08. The authorities view the conservative oil price used in the budget as helping to moderate expenditure requests during the budget preparation stage; however, they have typically allowed actual expenditure to be higher than budgeted when revenue exceeds the initial forecast.<sup>5</sup>

12. **Broad money is projected to grow by about 43 percent in 2007**, reflecting large increases in net foreign assets of the banking system and increased credit to finance private and public investments. The banking system is well-capitalized, but could be vulnerable to real estate price corrections in light of the continuing growth in credit to the private sector (estimated at 50 percent in 2007).

13. **Qatar's medium-term (2008–12) outlook is very favorable.** Real GDP growth is projected to average over 12 percent a year through 2012, but the outcome depends on maintaining financial and macroeconomic stability. The main drivers of growth are expected to be oil and gas, petrochemicals, other petroleum products (such as gas-to-liquids (GTLs)) (Box 1), and financial and education services. Strong revenue growth from sharply increasing hydrocarbon receipts will help maintain fiscal surpluses of 15 percent of GDP, on average. Under this scenario, the nonhydrocarbon fiscal deficit as a percent of nonhydrocarbon GDP is projected to decline gradually to 15 percent by FY2012/2013.<sup>6</sup> However, the total external debt, which had declined to 57 percent of GDP in 2006, is projected to increase to 77 percent of GDP by 2012, owing to increased borrowing associated with investment projects.

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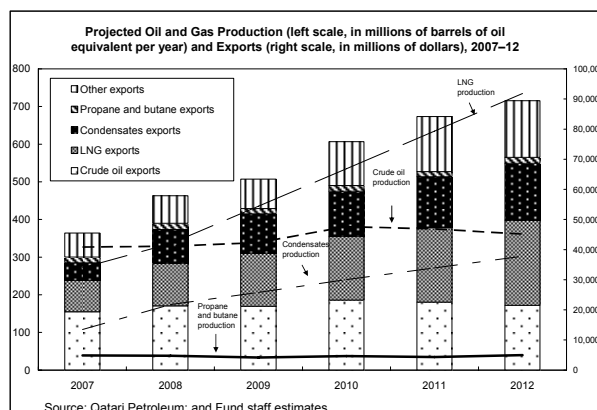
<sup>4</sup> September 2007 World Economic Outlook projections adjusted for Qatar's pricing differential.

<sup>5</sup> The actual outcome for FY2006/07 exceeded budgeted expenditures by about 6 percent of GDP.

<sup>6</sup> The corresponding ratio to GDP is 6 percent.

### Box. 1. Hydrocarbon Sector Developments

1. **Endowed with 14 percent of the world's reserves, Qatar has the third largest reserves of natural gas in the world, after Russia and Iran.** While some natural gas is used domestically to generate electricity and as feedstock for the petrochemical industry, most of Qatar's natural gas is exported in the form of LNG.



2. **Production of LNG started in the late 1990s, and by 2006 Qatar had overtaken Indonesia as the largest exporter in the world.** Most of Qatar's current exports of LNG are destined to China, India, Korea, and Japan. State-owned Qatar Petroleum (QP), through its subsidiaries QatarGas and RasGas, has firm investment plans to further develop the offshore North field, where almost all of Qatar's gas reserves are located. Total investments of over \$80 billion in the gas sector will result in a tripling of LNG exports over the next five years, with most of the additional export capacity aimed at servicing the European and U.S. markets.

3. **Qatar is a mature producer of oil.** All areas of the country have already been explored and the known fields (one onshore and eight offshore) are under production. Three of the nine oil fields are operated by QP while the rest are partner-operated by international oil companies. Oil production capacity is expected to peak at over 1.1 million barrels per day toward the end of the decade, after additional investments of \$5 billion in the Al-Shaheen field.

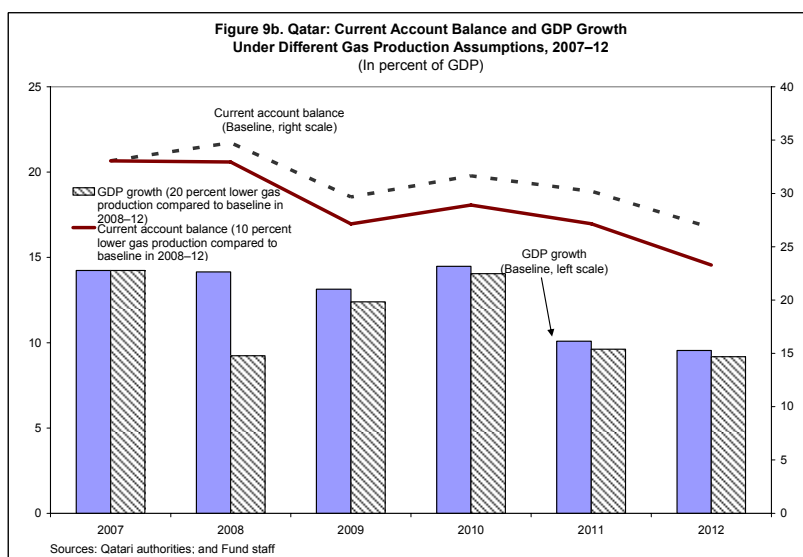
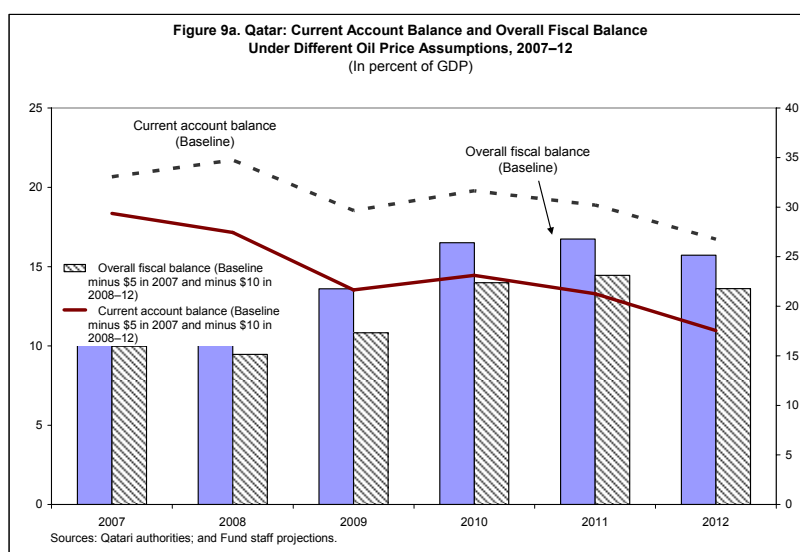
4. **In addition to LNG, other products extracted from gas fields include butane, propane, and condensates.** Exports of condensates are projected to increase sharply, further reducing the reliance of exports on crude oil. QP is also investing into higher value-added downstream and petrochemical projects. Production of low-sulfur diesels through GTLs technology started in 2007. Qatar concentrates the bulk of planned global investments in this area.

**Expected Investment Projects in Hydrocarbon Sector, 2007-12**

	Total cost (\$ bln)	Expected completion
<b>Gas</b>	<b>82.5</b>	
Qatargas 2 (LNG)	12.8	2008 (Q2)
Qatargas 3 (LNG)	7.8	2009 (Q2)
Qatargas 4 (LNG)	7.8	2010 (Q4)
Rasgas, North field development (LNG)	32.2	
Dolphin gas project	2.9	2008-09
Pearl GTL	18.0	2011
Oryx GTL	1.0	2007
<b>Oil</b>	<b>7.7</b>	
New Laffan refinery	0.7	2008
Al Shaheen field EPSA	5.0	2009
Al-Shaheen refining project	2.0	
<b>Petrochemicals</b>	<b>32.1</b>	
Qatofin	1.2	2008
Complex with Honam Petrochemical	4.0	2010-11
Qafco	15.0	2010
QChem2	2.2	2008
Qapco	0.5	2009-10
Exxon-Moblie petrochemicals	3.8	2012
Shell petrochemicals	3.4	
GE petrochemicals	2.0	

Source: Qatar Petroleum.

14. **Downside risks to this outlook** include lower oil prices (resulting in lower current account surpluses) and shortfalls in gas production (leading to lower growth) (Figures 9a and 9b), continued high inflation, and a deterioration of the security situation in the Gulf region. Containing inflation over the medium term calls for restraint in current expenditures and the phasing of development expenditures as part of a well-designed fiscal policy, and for continuing efforts to address problems related to supply-side bottlenecks, especially housing shortages.

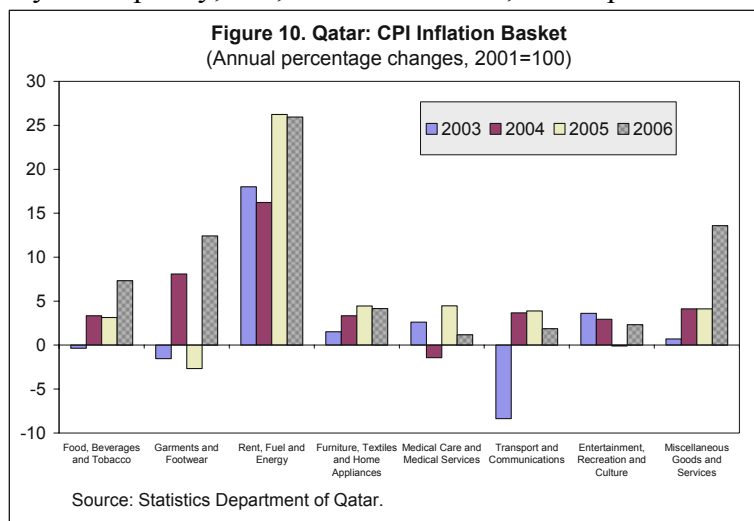


## II. POLICY DISCUSSIONS

15. The consultation discussions focused on (a) policies to contain inflation while keeping growth at a sustainable level; (b) reforms to encourage financial sector development while ensuring adequate risk management and regulatory oversight; (c) progress on the proposed GCC monetary union; (d) exchange rate issues in the period leading up to the monetary union; and (e) provision of IIP data to the Fund.

## A. Inflation

16. **As of June 2007, annualized inflation was estimated to have risen to 13 percent, compared with 12 percent during 2006.** Contributing factors in 2006 included high aggregate demand growth and sharp increases in rents (Figure 10) associated with the growing population (mainly expatriates to implement investment projects),<sup>7</sup> increases in domestic fuel prices, the expansionary fiscal policy, and, to a lesser extent, the depreciation of the U.S. dollar against the currencies of Qatar's major trading partners (EU and Japan). Annual inflation, excluding house rents, fuels, and other energy products, increased to almost 6 percent in 2006, from about 4 percent in 2005. Concerned about the jump in headline inflation, the authorities introduced a cap of 10 percent on annual rent increases for a 2-year period.



17. **The authorities view the increase in inflation as temporary, and driven by supply bottlenecks.** They expect it to subside as the supply of the housing increases. Further, the authorities see an increase in fiscal expenditure on infrastructure and housing as necessary to build capacity and reduce inflation in the future.

## B. Financial Sector Development

18. **The May 2007 FSAP mission noted that the authorities had taken steps to develop the financial services industry and its regulatory structure.** In 2005, the authorities created an on-shore parallel financial system—the QFC—with its own legal framework, to offer global financial institutions a familiar regulatory and supervisory environment to conduct the full range of financial services needed in a fast-growing economy. The view was that the financial system needed to develop in order to accommodate the financing needs required to increase infrastructure investment over the medium term.

19. **In the Spring of 2007, the authorities adopted a vision of a single financial market with a unified financial services regulatory authority, capable of providing accessible and harmonized financial products and services.** A unified independent

<sup>7</sup> Population grew at an average rate of 5.4 percent a year during 2000–06, compared to 2.4 percent a year in 1991–99.



financial services regulatory body, which will consist of the QFC Regulatory Authority (QFCRA), the QCB's banking supervision department, and the Doha Stock Market (DSM) regulator, is scheduled to begin operations as of early 2008. This regulatory body will have a broad range of powers to authorize, supervise, and discipline all regulated financial institutions, firms, and individuals.

**20. Designing a credible transition plan to implement the vision of a single financial market will be challenging.** The convergence of the two legal and regulatory systems is expected to provide jurisdictional clarity and increase regulatory efficiency. However, addressing the needs of the QFC and the local institutions, including capacity building for operational convergence, could create uncertainty and risks. The authorities have embarked on a multiyear implementation plan, setting up steering committees and contracting experienced expatriate experts.

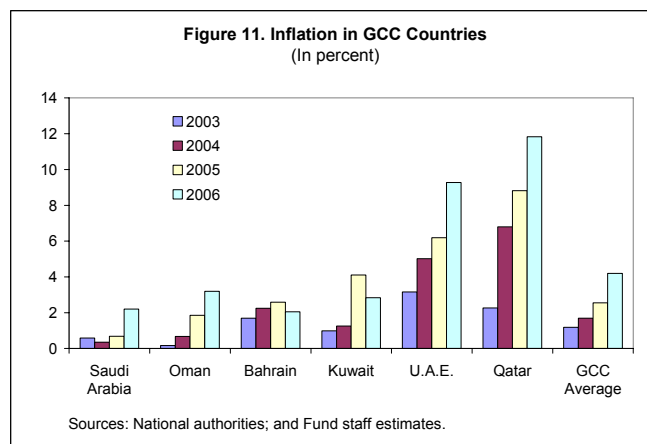
**21. Financial intermediation is growing, including in Islamic banking services.** Bank assets totaled 100 percent of GDP at end-2006, and credit to the private sector amounted to 41 percent of GDP at end-2006, compared with 29 percent at end-2002. At the same time, the DSM continues to grow. At the end of 2006, 36 companies were listed on the exchange, market capitalization was over 100 percent of GDP, and trading volume was just short of two billion shares. The authorities are cognizant of the need to deepen the stock market further by encouraging more listings and developing more financial instruments.

**22. An anti-money laundering and combating the financing of terrorism (AML/CFT) assessment was initiated by the IMF's Legal Department in February 2007.** A draft mutual evaluation report is expected to be considered for adoption by the MENAFATF and FATF Plenaries in April 2008 and June 2008, respectively. Preliminary findings of the assessment suggest that Qatar has accomplished notable progress in its AML efforts since it underwent a FATF/GCC mutual evaluation in 2002. However, further considerable efforts will be needed to bring Qatar in line with the revised FATF standards. Once the report is adopted, a ROSC will be circulated to the IMF and WB Boards for information.

### **C. GCC Monetary Union**

**23. Following the establishment of the Common External Tariff in 2003, the GCC governments agreed to form a monetary union by 2010.** A number of factors supported monetary integration: common business cycles (high oil dependency and currencies pegged to the U.S. dollar); exposure to similar external shocks; growing intra-regional trade and factor mobility; and common socio-cultural characteristics. In May 2007, GCC leaders reached agreement on the proposed convergence criteria for the monetary union, and set a target date of 2008 for the full-fledged establishment of the customs union and the common market.

24. **GCC countries have met most of the convergence criteria.** However, as of end-2006, inflation rates in Qatar and the U.A.E. had risen to well above the GCC average (Figure 11). The Qatar authorities have proposed using a measure of core inflation (excluding rents) for purposes of the inflation convergence criterion for the proposed monetary union, arguing that temporary supply-side factors that are mainly outside their control have been the main drivers of inflation. The U.A.E. is also of the same view, and the issue is being discussed by the GCC members.



GCC Countries: Convergence Criteria as of end-2006 1/					
Convergence criteria	Budget deficit lower than 3 percent of the GDP, or 5 percent when oil prices are weak	Public debt-to-GDP ratio lower than 60 percent	Foreign exchange reserves in excess of four months' imports	Interest rates not higher than two percentage points above the average of the lowest three countries' rate	Inflation not higher than 2 percent above the average rate of the six states 2/
Bahrain	✓	✓	-	✓	✓
Kuwait	✓	✓	✓	✓	✓
Oman	✓	✓	✓	✓	✓
Qatar	✓	✓	✓	✓	-
Saudi Arabia	✓	✓	✓	✓	✓
U.A.E.	✓	✓	✓	✓	-

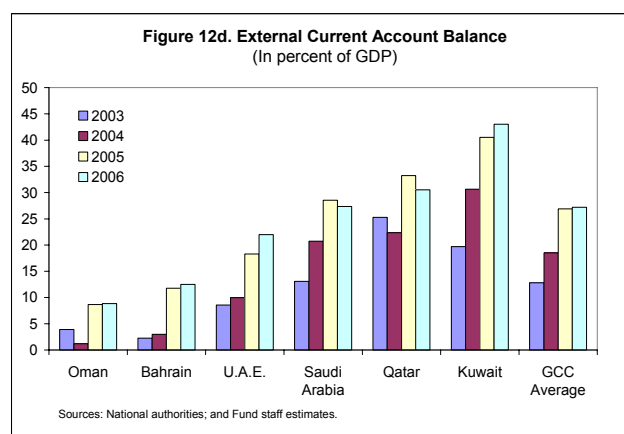
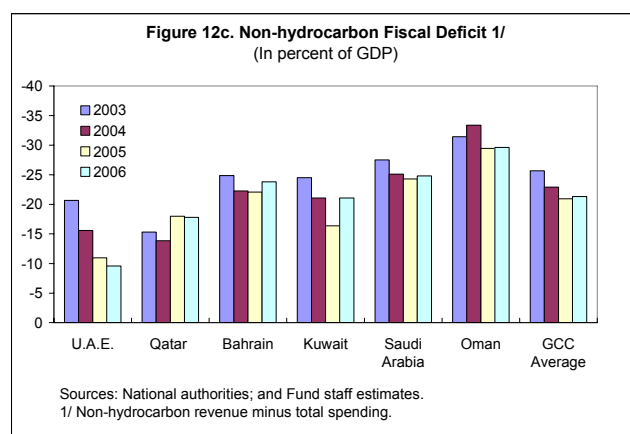
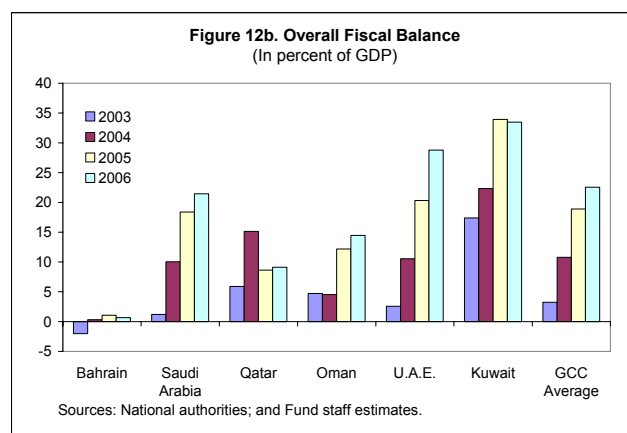
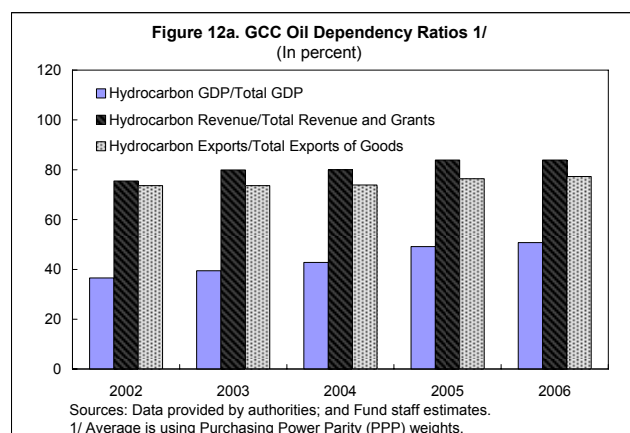
Source: GCC national authorities; and Fund staff estimates.

1/ "✓" - criterion has been met; "-" - criterion has not been met.

2/ A weighted average based on U.S. dollar nominal GDP of the six states.

25. **Qatar remains committed to achieving a monetary union with the rest of the GCC countries by 2010, but a number of challenges remain** (Figures 12a–12d). In addition to the inflation issue, differing oil and gas reserves and other structural characteristics pose challenges for the use of common fiscal criteria under a monetary union. The member countries are aware of the need to step up progress on the coordination of monetary, exchange rate, and reserves policies; on integrating clearing and settlement systems and common supervisory and regulatory standards; on issues relating to the transition to a new currency (including seignorage); and on harmonizing statistical methodologies and the collection, compilation, and dissemination of economic data.<sup>8</sup> However, a consensus seems to be emerging that the process toward monetary union should not be rushed, and that the target date should be extended, if necessary. In particular, the Qatari authorities would like to see more discussion on issues relating to the common market, taxation agreements, tariff agreements, and labor policy and wage differences before the establishment of the monetary union.

<sup>8</sup> The establishment of Gulfstat is under consideration.



## D. Monetary and Exchange Rate Issues

26. **The authorities reiterated their commitment to maintaining a peg to the U.S. dollar in the period leading up to the GCC monetary union.** They also argued that a pegged regime is likely to be in the interest of the GCC in the post-monetary union period, mainly because the familiarity and credibility of the regime are important to investors. As regards the 2007 Surveillance Decision, the authorities agreed with the staff's analysis on the level of the exchange rate and its conclusion that, despite large current account surpluses, the Qatari rial is broadly in line with its equilibrium level (Box 2).

27. **With the exchange rate pegged and open capital mobility, the role of monetary policy is mainly limited to steering short term interest rates to sustain the peg and to manage short-term liquidity.** The QCB uses the Qatar Money Market Rates (QMR) overnight corridor to guide the average overnight interbank rate, thereby controlling interday liquidity in the system; it also has established restrictions on bank credit and personal loans. To help the QCB absorb liquidity more effectively, the Ministry of Finance (MoF) intends to issue treasury securities of different maturities.

## Box 2. Qatar's Real Effective Exchange Rate

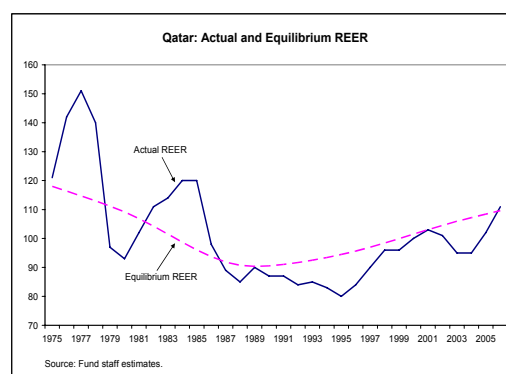
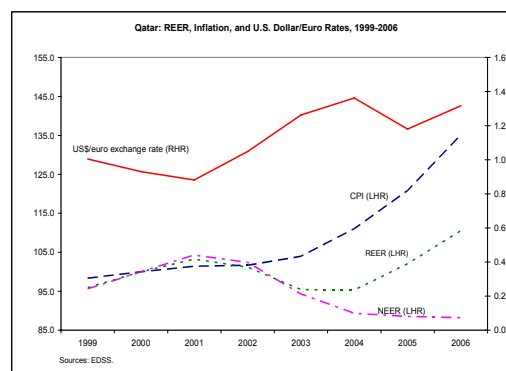
1. **Following a short period of depreciation, Qatar's real effective exchange rate (REER) appreciated by 16 percent during 2004–06.** The depreciation during 2001–04 reflected relatively low domestic inflation and the depreciation of the U.S. dollar against the Euro. Since then, the appreciation of the REER has been mainly owing to rising inflation fuelled by strong domestic demand. Since 2003, oil prices have doubled, with the sharp improvement in Qatar's terms-of-trade (TOT) suggesting that the underlying equilibrium real

exchange rate should be more appreciated than that before the oil price increase. The question is whether the observed real appreciation is in line with the appreciation of the equilibrium exchange rate resulting from the improvement in the TOT.

2. **The equilibrium exchange rate approach suggests that the Qatari rial is in line with fundamentals.** The long-run real equilibrium exchange rate, based on economic fundamentals (fiscal balance), indicates that in 2006 the Qatari rial was broadly in line with its equilibrium level, with the recent appreciation correcting a moderate undervaluation.

3. **The application of the macroeconomic balance approach also points to no over- or undervaluation of the exchange rate.** The external current account norm for Qatar in 2012, based on panel data estimates<sup>1</sup> for the GCC countries is estimated at 31 percent of GDP, which is about the same as the observed current account surplus in 2006 (31 percent of GDP). Countries dependent on exhaustible resources generally have positive current account norms since they need to sustain large savings for future generations and as insurance against oil price fluctuations. However, the large surplus in Qatar is a transitional phenomenon since it is envisaged to fall below the estimated norm beginning in 2009, due to an acceleration of imports associated with firm investment plans. However, these results should be interpreted cautiously, given that estimates of current account norms are subject to large margins of error, especially in oil-producing countries. Moreover, the estimates are sensitive to prospective developments in oil prices and other variables, and, as such, the norm can change significantly over time.

4. **The large and prolonged current account surpluses in Qatar reflect historically high oil prices and the transformation of assets under the ground into financial assets, as Qatar responds to producing oil and gas in support of orderly growth in the global economy.** The government's medium-term policies and the current pegged exchange regime are sustainable.



Current Account Norm and Elasticity Indicators	
	Qatar
Current Account (in percent of GDP)	
Observed (2006)	31
Projected (2012)	27
Current account norm (2012)	31
Current account norm (2012)	GCC
Fiscal balance elasticity 1/	24
	0.9

Source: Fund Staff estimates.

1/ Estimate based on panel data for the six GCC countries during the period 1980–2005.

<sup>1</sup> The variables used in the estimation of the equilibrium current account include the fiscal balance, net foreign assets, net oil exports, real per capita GDP growth, and population growth.

28. **The QCB has been enhancing prudential regulation and supervision of the banking system.** Banking regulation conforms broadly with the Basel Committee's Core Principles; and the payments and securities settlement systems are being upgraded. In addition, improvements to the QCB's capacity to assess banks' risk management practices are ongoing, and the authorities are working on legislation on governance and transparency (fit and proper criteria).

#### **E. Other Structural Reforms**

29. **The authorities are of the view that broadening the non-oil revenue base is important to reduce the economy's heavy dependence on the hydrocarbon sector.** The existing tax system of Qatar is characterized by a narrow income tax base and the absence of a consumption tax. The authorities are planning to lower the corporate income tax rate for foreign companies from 35 to 12 percent to attract foreign investors. At the same time, they are considering introducing a corporate income tax rate for national companies at a lower rate, with a view to unifying these rates in the future and creating a level playing-field. Other planned changes in tax legislation include introduction of a VAT, a hotel service tax, a municipality property tax, and a reduction of exemptions under the tax holiday policy.

30. **The government is considering extending the pension plan to noncivil servants and providing a separate plan for military personnel.** The GRPA estimates that for the current system to remain fully funded, its investment income portfolio should have a yield of 8 percent and the salaries of participants should not increase by more than 5 percent a year, on average. While actuarial projections do not show any immediate weaknesses at this time, a review of the current generous benefits may be needed if funding pressures emerge.

#### **F. Economic Data and Transparency**

31. **The provision of IIP data to the Fund is important to strengthen the effectiveness of the surveillance process.** In many oil exporting countries, sovereign wealth funds (SWF) provide a channel for investing their large export receipts. Information on these transactions could help determine how much foreign inflows are being sterilized through outward investment of the SWF and the extent of liquidity being managed. The authorities view the role of data in surveillance positively, and provided the requested data on Qatar's IIP to the staff. Qatar's Executive Director will make the information available to the Executive Board at the time of the Board Meeting for the 2007 Article IV Consultation.

32. **The authorities are committed to improving the quality of economic data provided to the Fund and the general public.** They recognize that a number of the recommendations of the 2005 Multisector Statistics and General Data Dissemination Standards (GDDS) mission, which provided a framework for the development of macroeconomic statistics in Qatar, remain to be implemented. The authorities intend to request further technical assistance from the Fund's Statistics department to help formulate a

strategy to strengthen statistical capacity, including the compilation of the external financial account and the development of early warning indicators.

### III. STAFF APPRAISAL

33. **Historically high oil and gas prices have allowed Qatar to expand its economy at a fast pace.** The authorities have encouraged foreign investments in the oil and gas sector to take full advantage of the favorable external environment, while at the same time contributing to world oil market stability through increased production. Qatar's prospects of becoming a world leader in exports of LNG and ultra-clear fuels will facilitate the authorities' economic diversification objectives, creating a unique opportunity for the expansion of the petrochemicals sector and contributing to the development of private sector activities. Against this background, macroeconomic stability and the development of the nonhydrocarbon sector will be crucial for maintaining the momentum for sustainable economic growth.

34. **Containing inflation should be a priority.** The authorities believe that inflationary pressures from the shortage of housing units will ease, but the recent large increase in public sector wages and ongoing investments in public and private sector projects suggest that inflationary pressures are likely to remain high in 2007–08. However, the nonhydrocarbon fiscal balance as a percent of nonhydrocarbon GDP is projected to decline over the medium term, helping to reduce inflationary pressures. If inflation persists, the authorities should make every effort to restrain other current outlays and phase the implementation of large projects—in line with the absorptive capacity of the economy and medium-term priorities. At the same time, evidence suggests that the effectiveness of a cap on housing rents is limited, and that it should at best be viewed as a short-term temporary measure. Staff is also skeptical about the use of a measure of (core) inflation tailored to a country's specific circumstances. While recent inflationary developments have been driven mainly by supply-side factors, the choice of an appropriate measure of core inflation ought to be studied carefully, and from a GCC-wide perspective.

35. **The authorities have already started implementing a number of the recommendations from the 2007 FSAP.** In particular, they are moving ahead with refinements to licensing criteria, rules on ownership and control of banks, and assessments of country and operational risk. As regards their plans to establish a single financial market and a unified regulator, it is important for the QCB, the MoF, and the new regulator to agree on a tri-partite memorandum of understanding on their respective responsibilities for financial monitoring and oversight, crisis resolution, and payment systems regulation and operation. Challenges for the new united regulator include establishing its independence and fostering cooperation with other institutions.

36. **While stress tests in the 2007 FSAP indicate that the financial system is robust, the rapid rise in real estate-related lending, and bank exposure to new IPO lending**

**should continue to be monitored closely.** The authorities should take advantage of the current strong market conditions to establish procedures to address promptly any issue that may arise as a result of increased competition in the future. Consideration may also be given to introducing a deposit insurance scheme, with an explicit cap and risk-based premiums.

**37. Staff recommends the monitoring of total debt, possibly through a debt monitoring unit, by collecting data and maintaining adequate regulatory oversight.**

Although external borrowing by financial institutions and large corporations has picked up significantly, external vulnerability associated with such borrowing is not at stake, given Qatar's large net creditor position, its borrowing for export-related activity, and the increasing use of secured debt instruments.

**38. Appropriate conditions should be set up for developing the capital market, including a vibrant corporate bond market.** The authorities' plans to issue treasury securities for developing a secondary market and creating a yield curve are welcome. In this regard, there is a need for a coordinated debt management strategy to facilitate the forecasting and management of liquidity at the QCB. Consideration should also be given to broaden the QCB's market instruments by issuing central bank bills in Qatari rials for liquidity management purposes. The availability of corporate bonds would add depth to the financial market, allow banks to better manage their liquidity, and provide corporations with additional instruments to match their maturities.

**39. As regards the exchange rate, the staff shares the authorities' view that the peg to the U.S. dollar has served Qatar well** by reducing trade and financial transaction costs, encouraging investment activities and providing a credible nominal anchor, and that it should be maintained in the transition to the GCC monetary union. Nonetheless, the exchange rate regime (and the exchange rate level at which Qatar enters the single currency arrangement) should be reviewed carefully at the time of establishing the monetary union. Diversification away from oil and shifts in the distribution of international financial assets may lessen the need for a continuing focus on the U.S. dollar. Also, tightening labor markets from increased competition among GCC states, varying fiscal policy needs, and greater integration with international capital markets will make managing a common peg more challenging.

**40. The QCB is working toward developing its capacity for financial stability analysis and reporting,** taking into account its evolving role in a future environment where bank supervision will be the responsibility of the single unified regulator. In this connection, the staff welcomes the QCB's plans to establish a statistical database to inform policy making, develop leading macroeconomic indicators, and design early warning systems. The Fund could provide technical assistance in this area.

**41. In the interim, a formal mechanism should be put in place for the QFC to report to the QCB on the financial situation of QFC-licensed institutions.** Moreover, as the

scope of financial transactions increases, it will be necessary to incorporate data from all relevant institutions into Qatar's monetary and financial statistics.

**42. As discussed with the authorities, it is recommended that the next Article IV discussions with Qatar take place within a 12-month cycle, instead of 24 months.**

Reasons for shortening the Article IV cycle include (a) the strategic importance of Qatar's gas reserves; (b) the benefits derived from a more frequent policy dialogue; (c) more synchronized discussions on GCC monetary union issues (especially in the period leading to 2010); and (d) a better monitoring of financial sector developments, particularly in view of the establishment of new financial centers in the region.



Table 1. Qatar: Selected Macroeconomic Indicators, 2001–07  
 (Quota: SDR 263.80 million)  
 (Population: 0.8 million, 2006 estimate)  
 (Per capita income: US\$ 62,914, 2006 estimates)

	2001	2002	2003	2004	2005	Est. 2006	Proj. 2007
<b>National income, production, and prices</b>							
Nominal GDP (in millions of Qatari riyals)	63,839	70,483	85,663	115,512	154,565	191,909	239,564
Nominal hydrocarbon GDP (in millions of Qatari riyals)	36,812	40,717	50,551	62,922	92,071	118,707	149,376
Nominal GDP (in millions of U.S. dollars)	17,538	19,363	23,534	31,734	42,463	52,722	65,814
Nominal GDP per capita (in U.S. dollars)	27,030	28,355	32,788	41,949	53,333	62,914	70,754
Nominal GDP growth (in percent per annum)	-1.2	10.4	21.5	34.8	33.8	24.2	24.8
Real GDP growth (in percent per annum)	6.3	3.2	6.3	17.7	9.2	10.3	14.2
Hydrocarbon 1/	5.8	2.2	5.6	12.5	6.0	10.7	18.0
Nonhydrocarbon	7.0	4.5	7.3	24.6	13.1	10.0	10.0
Crude oil output (thousand barrels per day)	680	694	721	753	760	803	896
LNG production (million tons per year)	12.7	13.7	14.4	18.9	21.2	24.7	28.6
Oil export price (U.S. dollars per barrel)	23.60	24.52	27.95	35.19	51.69	62.93	67.08
CPI period average	1.4	0.2	2.3	6.8	8.8	11.8	12.0
<b>Public finance</b> (In percent of GDP on fiscal year basis) 2/							
Total revenue	34.7	39.7	33.0	44.0	39.6	41.8	44.5
Hydrocarbon revenue	23.8	25.7	21.2	29.0	26.6	26.9	28.9
Other revenue	11.0	14.0	11.8	15.0	13.0	14.9	15.6
Total expenditure and net lending	31.3	30.7	27.1	28.8	31.0	32.7	33.0
Current expenditure	26.5	24.7	22.3	22.6	20.0	24.3	22.2
Capital expenditure (including net lending)	4.8	6.0	4.8	6.3	11.0	8.4	10.7
Overall fiscal balance	3.4	9.0	5.9	15.1	8.6	9.1	11.5
Excluding hydrocarbon revenue	-20.3	-16.7	-15.3	-13.9	-18.0	-17.8	-17.4
Nonhydrocarbon fiscal balance in percent of nonhydrocarbon GDP	-48.0	-39.9	-36.1	-31.5	-45.2	-46.8	-46.7
<b>Money and credit</b> (Annual change in percent)							
Broad money	14.0	7.6	4.8	20.8	42.9	39.6	43.3
Net foreign assets	2.6	27.8	43.3	23.2	50.3	28.1	20.7
Net domestic assets	21.2	-3.2	-22.3	17.6	32.7	57.4	71.6
Claims on government (net)	32.3	-13.8	-25.2	-9.2	-26.0	-54.9	-83.2
Domestic credit	7.3	17.8	27.0	30.1	60.0	45.7	51.1
Claims on public enterprises	141.0	101.2	24.8	28.3	34.9	58.6	43.6
Claims on private sector	2.8	11.3	27.3	30.4	63.5	44.2	52.0
<b>External sector</b> (In millions of U.S. dollars, unless otherwise stated)							
Trade balance	8,126	7,771	9,224	13,540	17,058	20,272	26,374
Exports	11,511	11,421	13,582	18,950	26,122	35,083	45,480
Of which: Crude oil	5,825	6,222	7,520	9,702	14,122	17,840	22,553
LNG and related exports	4,081	3,734	4,632	6,554	8,738	13,360	18,178
Other	1,605	1,466	1,431	2,694	3,261	3,883	4,750
Imports	-3,386	-3,650	-4,359	-5,410	-9,064	-14,811	-19,106
Current account	4,792	4,248	5,946	7,100	14,107	16,102	21,757
In percent of GDP	27.3	21.9	25.3	22.4	33.2	30.5	33.1
Central bank reserves, gross	1,298	1,504	2,876	3,361	4,572	5,416	6,499
In months of imports of goods and services 3/	2.9	2.7	4.2	3.0	2.6	2.4	2.3
(In millions of U.S. dollars, unless otherwise stated)							
Total external debt 4/	14,328	13,893	13,355	15,011	20,422	29,878	40,243
In percent of GDP	81.7	71.7	56.7	47.3	48.1	56.7	61.1
Government external debt	4,500	4,038	4,322	4,017	3,743	3,387	3,049
In percent of GDP	25.7	20.9	18.4	12.7	8.8	6.4	4.6
Debt service (in percent of exports of goods and services)	25.1	23.6	23.8	8.7	7.4	7.4	5.4
Government-guaranteed debt (in percent of GDP)	2.1	1.7	1.3	0.8	0.5	0.3	0.2
Exchange rates (Qatari riyal/U.S. dollar)	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Real effective exchange rate (percent change, 2000=100)	3.3	-2.0	-5.7	-0.1	7.1	8.3	...
Credit rating (Moody's investor services)	Baa2	A3	A3	A3	A1	Aa2	...
Stock market index (cumulative, 2001=100)	100	137	233	384	653	422	...

Sources: Data provided by the authorities; and Fund staff estimates and projections.

1/ Staff estimates; include crude oil, LNG, propane, butane, and condensate.

2/ Fiscal year beginning in April.

3/ Next 12 months.

4/ Including commercial banks.

Table 2. Qatar: Summary of Government Finance, 2002/03–2007/08 1/

	2002/03	2003/04	2004/05	2005/06	Budget 2006/07	<u>Prel.</u> 2006/07	Budget 2007/08	<u>Proj.</u> 2007/08
(In millions of Qatari riyals, unless otherwise indicated)								
Total revenue	29,453	30,717	55,064	64,984	56,902	85,225	72,457	113,365
Hydrocarbon revenue	19,059	19,759	36,319	43,616	31,051	54,919	42,095	73,640
Oil related	19,059	19,759	33,192	38,144	25,961	48,597	31,313	62,858
LNG related revenue	0	0	3,127	5,472	5,090	6,322	10,782	10,782
Other revenue	10,394	10,958	18,745	21,368	25,851	30,306	30,361	39,724
Investment income from public enterprises 2/	8,618	8,062	13,711	14,233	17,817	20,652	17,867	25,841
Corporate tax revenue	179	1,064	1,554	2,525	4,152	4,562	7,431	7,431
Other nontax revenue	1,597	1,832	3,480	4,610	3,882	5,092	5,063	6,452
Total expenditure	22,799	25,212	36,103	50,820	54,569	66,588	65,713	84,053
Current	18,344	20,730	28,270	32,761	34,669	49,550	44,733	56,743
Wages and salaries	5,997	6,294	7,940	6,657	7,167	13,204	15,627	17,864
Total interest payments	2,236	1,942	1,880	1,922	2,463	1,938	2,099	1,873
Interest on domestic debt	764	469	814	847	1,004	833	585	882
Interest on foreign debt	1,472	1,473	1,065	1,076	1,459	1,105	1,514	991
Foreign grants	227	515	324	447	360	1,944	364	1,983
Goods and services	8,269	10,038	16,555	22,727	23,339	30,940	21,971	30,351
Other current expenditures 3/	1,615	1,941	1,572	1,008	1,340	1,524	4,672	4,672
Development expenditure	4,455	4,482	7,833	18,059	19,900	17,038	20,980	27,310
Net lending	0	0	0	0	0	0	0	0
Overall balance	6,654	5,505	18,961	14,164	2,333	18,637	6,744	29,312
Nonhydrocarbon fiscal balance	-12,405	-14,254	-17,358	-29,452	-33,808	-36,282	-46,134	-44,328
Financing	-6,654	-5,505	-18,961	-14,164	-2,333	-18,637	-6,744	-29,312
Domestic financing (net) 4/	-5,453	-5,489	-1,622	-4,420	...	-5,143	...	-3,247
Central bank (net)	-153	-44	-179	137	...	-376	...	0
Transfer to QCB	0	-3,640	0	-1,820	...	0	...	-1,000
Commercial banks (net) 4/	-5,300	-1,805	-1,443	-2,736	...	-4,767	...	-2,247
Claims on government	-1,780	-978	-1,695	-2,438	...	-2,501	...	5,413
Government deposits	3,520	827	-252	299	...	2,265	...	7,660
Domestic non-banks	0	0	0	0	...	0	...	0
Foreign financing (net)	-1,201	-16	-17,339	-9,744	...	-13,494	...	-26,065
Government foreign assets (increase -) 5/	685	-1,842	-16,100	-8,829	...	-12,069	...	-24,900
External borrowing (net)	-1,886	1,826	-1,239	-915	...	-1,425	...	-1,165
Drawing	2,002	2,548	0	0	...	0	...	0
Repayment	3,888	722	1,239	915	...	1,425	...	1,165
Memorandum items:								
Current balance 6/	11,109	9,987	26,794	32,223	22,233	35,675	27,724	56,622
Current nonhydrocarbon balance 7/	-7,950	-9,772	-9,525	-11,393	-8,818	-19,244	-14,372	-17,018
Total government debt	33,769	35,654	32,120	29,850	...	28,771	...	28,999
Government external debt	13,028	14,853	13,614	12,699	...	11,274	...	10,110
Government gross domestic debt	20,741	20,801	18,506	17,151	...	17,496	...	18,889
Government net domestic debt (net of deposits)	16,767	13,307	10,184	8,902	...	9,085	...	7,836
External debt service/total Revenue (in percent)	18.2	7.1	4.2	3.1	...	3.0	...	1.9
Nominal GDP (on a fiscal year basis)	74,278	93,125	125,275	163,901	203,823	203,823	255,037	255,037

Table 2. Qatar: Summary of Government Finance, 2002/03–2007/08 1/ (Concluded)

	2002/03	2003/04	2004/05	2005/06	Budget 2006/07	Est. 2006/07	Budget 2007/08	Proj. 2007/08
(In percent of GDP)								
Total revenue	39.7	33.0	44.0	39.6	27.9	41.8	28.4	44.5
Hydrocarbon revenue	25.7	21.2	29.0	26.6	15.2	26.9	16.5	28.9
Other revenue	14.0	11.8	15.0	13.0	12.7	14.9	11.9	15.6
Investment income from public enterprises 2/	11.6	8.7	10.9	8.7	8.7	10.1	7.0	10.1
Corporate tax revenue	0.2	1.1	1.2	1.5	2.0	2.2	2.9	2.9
Other nontax revenue	2.2	2.0	2.8	2.8	1.9	2.5	2.0	2.5
Total expenditure	30.7	27.1	28.8	31.0	26.8	32.7	25.8	33.0
Current	24.7	22.3	22.6	20.0	17.0	24.3	17.5	22.2
Wages and salaries	8.1	6.8	6.3	4.1	3.5	6.5	6.1	7.0
Total interest payments	3.0	2.1	1.5	1.2	1.2	1.0	0.8	0.7
Interest on domestic debt	1.0	0.5	0.7	0.5	0.5	0.4	0.2	0.3
Interest on foreign debt	2.0	1.6	0.9	0.7	0.7	0.5	0.6	0.4
Foreign grants	0.3	0.6	0.3	0.3	0.2	1.0	0.1	0.8
Goods and services	11.1	10.8	13.2	13.9	11.5	15.2	8.6	11.9
Other capital expenditures 3/	2.2	2.1	1.3	0.6	0.7	0.7	1.8	1.8
Development expenditure	6.0	4.8	6.3	11.0	9.8	8.4	8.2	10.7
Net lending	0	0	0	0	0	0	0	0
Overall balance	9.0	5.9	15.1	8.6	1.1	9.1	2.6	11.5
Nonhydrocarbon fiscal balance	-16.7	-15.3	-13.9	-18.0	-16.6	-17.8	-18.1	-17.4
Nonhydrocarbon fiscal balance (in percent of nonhydrocarbon GDP)	-39.9	-36.1	-31.5	-45.2	...	-46.8	...	-46.7
Financing	-9.0	-5.9	-15.1	-8.6	-1.1	-9.1	-2.6	-11.5
Domestic financing (net) 4/	-7.3	-5.9	-1.3	-2.7	...	-2.5	...	-1.3
Central bank (net)	-0.2	0.0	-0.1	0.1	...	-0.2	...	0.0
Transfer to QCB	0.0	-3.9	0.0	-1.1	...	0.0	...	-0.4
Commercial banks (net) 4/	-7.1	-1.9	-1.2	-1.7	...	-2.3	...	-0.9
Claims on government	-2.4	-1.1	-1.4	-1.5	...	-1.2	...	2.1
Government deposits	4.7	0.9	-0.2	0.2	...	1.1	...	3.0
Foreign financing (net)	-1.6	0.0	-13.8	-5.9	...	-6.6	...	-10.2
Government foreign assets (increase -) 5/	0.9	-2.0	-12.9	-5.4	...	-5.9	...	-9.8
External borrowing (net)	-2.5	2.0	-1.0	-0.6	...	-0.7	...	-0.5
Drawing	2.7	2.7	0.0	0.0	...	0.0	...	0.0
Repayment	5.2	0.8	1.0	0.6	...	0.7	...	0.5
Memorandum items:								
Current balance 6/	15.0	10.7	21.4	19.7	10.9	17.5	10.9	22.2
Current nonhydrocarbon balance 7/	-10.7	-10.5	-7.6	-7.0	-4.3	-9.4	-5.6	-6.7
Total government debt	45.5	38.3	25.6	18.2	...	14.1	...	11.4
Government external debt	17.5	15.9	10.9	7.7	...	5.5	...	4.0
Government gross domestic debt	27.9	22.3	14.8	10.5	...	8.6	...	7.4
Government net domestic debt (net of deposits)	22.6	14.3	8.1	5.4	...	4.5	...	3.1

Sources: Ministry of Finance and Economy; and Fund staff estimates and projections.

1/ On a fiscal year basis, April–March. GDP is also converted into fiscal year basis.

2/ Includes investment income of state-owned hydrocarbon enterprises. The outcome from 2003/04 includes the privatization receipts of Industries Qatar, shares of which were formerly owned by Qatar Petroleum.

3/ Corresponds to Chapter III "Minor capital expenses" in the budget.

4/ Information based on monetary survey.

5/ Excludes direct transfers made to State Reserve Fund and Stabilization Fund from oil and gas revenue.

6/ Total revenue minus current expenditure.

7/ Total nonhydrocarbon revenue minus current expenditure.

Table 3. Qatar: Monetary Survey, 2001–07

	2001	2002	2003	2004	2005	Jun-06 2006	Prel. 2006	Jun-07 2007	Proj. 2007
(In millions of Qatari riyals)									
Net foreign assets	14,098	18,017	25,819	31,812	47,820	57,495	61,250	51,104	73,957
QCB	4,719	5,467	10,458	12,225	16,580	19,459	19,694	21,368	23,647
Assets 1/	4,724	5,474	10,469	12,233	16,643	19,469	19,715	21,379	23,657
Liabilities	5	7	11	8	63	10	21	11	11
Commercial banks	9,379	12,550	15,361	19,587	31,240	38,036	41,557	29,736	50,310
Assets	11,515	14,934	19,465	27,756	41,648	51,680	66,311	62,670	86,204
Liabilities	2,136	2,384	4,104	8,169	10,407	13,643	24,754	32,934	35,893
Net domestic assets	26,449	25,611	19,910	23,419	31,081	39,749	48,923	71,353	83,942
Claims on government (net)	19,096	16,454	12,308	11,172	8,265	5,557	3,728	7,748	627
Claims 2/	22,808	20,517	21,412	18,967	17,122	16,013	17,238	17,284	18,272
Deposits 3/	3,712	4,063	9,104	7,796	8,857	10,456	13,510	9,536	17,645
Domestic credit	19,603	23,100	29,330	38,170	61,079	71,128	88,986	115,637	134,433
Claims on public enterprises 4/	1,434	2,885	3,601	4,619	6,231	7,829	9,884	14,412	14,198
Claims on private sector	18,169	20,215	25,729	33,551	54,847	63,299	79,102	101,225	120,235
Other items (net)	-12,250	-13,943	-21,728	-25,923	-38,262	-36,936	-43,791	-52,032	-51,118
Broad money	40,547	43,628	45,729	55,231	78,901	97,244	110,173	122,457	157,899
Money	5,306	6,384	12,136	16,373	25,657	31,400	33,492	37,944	54,662
Currency in circulation	1,741	1,921	2,148	2,594	2,866	3,355	3,959	4,238	5,865
Demand deposits	3,565	4,462	9,988	13,779	22,791	28,044	29,533	33,706	48,797
Quasi-money	35,241	37,244	33,593	38,858	53,244	65,845	76,681	84,513	103,237
Savings and time deposits	21,105	21,511	21,911	22,822	28,409	37,791	39,622	49,912	52,658
Foreign currency deposits	14,137	15,734	11,682	16,036	24,836	28,054	37,059	34,601	50,579
(Annual changes in percent)									
Net foreign assets	2.6	27.8	43.3	23.2	50.3	...	28.1	-11.1	20.7
Net domestic assets	21.2	-3.2	-22.3	17.6	32.7	...	57.4	79.5	71.6
Claims on government (net)	32.3	-13.8	-25.2	-9.2	-26.0	...	-54.9	39.4	-83.2
Domestic credit	7.3	17.8	27.0	30.1	60.0	...	45.7	62.6	51.1
Claims on public enterprises	141.0	101.2	24.8	28.3	34.9	...	58.6	84.1	43.6
Claims on private sector	2.8	11.3	27.3	30.4	63.5	...	44.2	59.9	52.0
Broad money	14.0	7.6	4.8	20.8	42.9	...	39.6	25.9	43.3
Savings and time deposits	17.9	1.9	1.9	4.2	24.5	...	39.5	32.1	32.9
Memorandum items:									
Net claims on public enterprises	-10,359	-8,596	-4,905	-5,747	-8,399	-11,581	-11,630	-7,297	-15,481
Velocity of broad money (to total GDP)	1.57	1.62	1.87	2.09	1.96	1.97	1.74	1.96	1.52
Velocity of broad money (to nonhydrocarbon GDP)	0.67	0.68	0.77	0.95	0.79	0.75	0.66	0.74	0.66

Sources: Qatar Central Bank (QCB); and Fund staff estimates.

1/ Excludes QCB's foreign currency deposits with local commercial banks.

2/ Includes government borrowing on behalf of public enterprises in 2001.

3/ Includes foreign and local currency deposits.

4/ Nonfinancial enterprises with government share.

Table 4. Qatar: Balance of Payments, 2001–07

(In millions of U.S. dollars)

	2001	2002	2003	2004	2005	<u>Est.</u> 2006	<u>Proj.</u> 2007
Current account	4,792	4,248	5,946	7,100	14,107	16,102	21,757
In percent of GDP	27.3	21.9	25.3	22.4	33.2	30.5	33.1
Trade balance	8,126	7,771	9,224	13,540	17,058	20,272	26,374
Exports	11,511	11,421	13,582	18,950	26,122	35,083	45,480
Hydrocarbon	9,906	9,955	12,152	16,256	22,861	31,200	40,731
Crude oil	5,610	5,628	6,716	8,528	12,843	16,299	19,370
LNG	2,632	2,588	3,120	4,201	5,200	8,471	10,461
Propane, butane	294	230	414	563	781	1,156	1,949
Condensates	1,155	916	1,098	1,790	2,757	3,733	5,768
Refined petroleum products	215	594	804	1,174	1,279	1,541	3,183
Non-hydrocarbon	1,605	1,466	1,431	2,694	3,261	3,883	4,750
Petrochemicals	727	924	1,107	1,615	1,958	2,265	2,692
Others	878	542	324	1,079	1,303	1,618	2,058
Imports	-3,386	-3,650	-4,359	-5,410	-9,064	-14,811	-19,106
Services (net)	-1,028	-1,090	-1,195	-1,198	-924	-2,763	-2,570
Income (net)	-704	-916	-432	-2,988	549	2,331	2,352
Receipts 1/	888	709	1,354	554	1,311	3,383	3,742
Payments 2/	-1,591	-1,625	-1,786	-3,543	-762	-1,052	-1,391
Transfers (net)	-1,601	-1,517	-1,650	-2,254	-2,576	-3,738	-4,399
Of which: workers remittances	-1,506	-1,482	-1,593	-2,175	-3,006	-3,914	-4,071
Capital account	0	-373	-319	-551	-753	-934	-1,046
Financial account	-2,482	-2,639	-2,996	-8,571	-5,710	-8,827	-19,625
Direct Investment, net 3/	400	500	500	1,500	2,500	3,500	4,700
Portfolio borrowing, net 3/	77	433	591	-275	1,225	234	633
Assets	0	0	0	0	-769	-784	-940
Liabilities	77	433	591	-275	1,994	1,018	1,574
Other investment (net)	-1,865	-1,436	-1,860	-6,962	-4,310	-7,514	-10,359
Assets	-1,003	-933	-850	-7,501	-9,105	-13,029	-17,663
Trade credits	-3	67	150	351	382	428	752
Government external assets 4/	-1,000	-1,000	-1,000	-7,853	-9,487	-13,457	-18,415
Liabilities 5/	-1,146	-527	-1,010	539	4,795	5,515	7,304
Commercial banks, net	5	-871	-772	-1,161	-3,201	-2,834	-2,405
Other capital, net	-1,100	-1,265	-1,455	-1,673	-1,924	-2,212	-12,195
Errors and omissions	-2,205	-1,031	-1,260	2,508	-6,447	-5,486	0
Overall balance	104	205	1,371	485	1,196	855	1,086
Change in QCB net foreign assets	-104	-205	-1,371	-485	-1,196	-855	-1,086

Sources: Qatar Central Bank; and Fund staff estimates and projections.

1/ Includes staff estimates for QIA.

2/ Includes staff estimates for commercial banks.

3/ Added to the national presentation for alignment with accepted BOP norms.

4/ Estimates.

5/ Primarily bank borrowing by Qatar Petroleum and affiliates.

Table 5. Qatar: Vulnerability Indicators, 2001–06

(In percent; unless otherwise indicated)

	2001	2002	2003	2004	2005	Est. 2006
External solvency indicators						
REER (CPI based - end of period)	3.3	-2.0	-5.7	-0.1	7.1	8.3
Total debt (in billions of U.S. dollars, including commercial banks)	14.3	13.9	13.4	15.0	20.4	29.9
Of which: LNG-related	5.3	4.7	2.6	2.4	6.7	10.9
Total debt (in percent of GDP)	81.7	71.7	56.7	47.3	48.1	56.7
Debt service/exports of goods and services	25.1	23.6	23.8	8.7	7.4	7.4
Public sector solvency indicators						
Government gross domestic debt/GDP	33.9	27.9	22.3	14.8	10.5	8.6
Government net domestic debt/GDP 1/	52.4	42.3	32.9	20.6	14.0	10.6
Government external debt/GDP 2/	22.8	17.5	15.9	10.9	7.7	5.5
Total debt service/total revenue	25.7	26.8	11.9	8.7	8.1	6.9
Interest payments/total revenue	12.1	7.6	6.3	3.4	3.0	2.3
Hydrocarbon revenue/total revenue	68.4	64.7	64.3	66.0	67.1	64.4
External liquidity indicators (in millions of U.S. dollars)						
Central bank net reserves	1,296	1,502	2,873	3,358	4,555	5,410
In months of imports	2.9	2.7	4.1	3.0	2.6	2.4
Commercial banks net foreign assets	2,577	3,448	4,220	5,381	8,583	11,417
Foreign assets	3,164	4,103	5,348	7,625	11,442	18,217
Foreign liabilities	587	655	1,127	2,244	2,859	6,801
Crude oil exports/total exports	50.6	54.5	55.4	51.2	54.1	50.9
Financial sector indicators						
Foreign currency deposits/total deposits	36.4	37.7	26.8	30.5	32.7	34.9
Net domestic credit (percent change)	18.4	2.2	5.3	18.5	40.5	33.7
Private sector credit (percent change)	2.8	11.3	27.3	30.4	63.5	44.2
Net domestic credit/GDP	60.6	56.1	48.6	42.7	44.9	48.3
Private credit/total assets of banks	31.7	32.3	33.8	36.5	42.1	41.7
Market assessment/financial market indicators						
Stock market index (end of period)	1,692	2,324	3,947	6,494	11,053	7,133
Stock market index (percent change) 3/	100.0	137.3	233.2	383.7	653.2	421.5
Country risk (basis points, end of period) 4/	270.9	264.2	130.9	131.8	115.8	104.5
Moody's investor services	Baa2	A3	A3	A3	A1	Aa2
Standard and Poor's 5/	BBB+	A-	A+	A+	A+	AA-

Sources: Qatari authorities; Bloomberg; and Fund staff estimates and projections.

1/ Net of government deposits with resident banks.

2/ Fiscal year basis.

3/ General index (cumulative, 2001=100)

4/ Measured by the difference in end-of-period interest rates on 30-year government debt compared with those on U.S. debt. For 2004 and 2005 uses interest rates on secondary market for U.S. treasury 30-year bond.

5/ Long-term foreign currency rating.

Table 6. Qatar: Medium-Term Baseline Scenario, 2002–12

	2002	2003	2004	2005	Est. 2006	Projections					
						2007	2008	2009	2010	2011	2012
(Percent change, unless otherwise indicated)											
<b>National income, production, and prices</b>											
Nominal GDP (in millions of Qatar riyals)	70,483	85,663	115,512	154,565	191,909	239,564	301,458	343,828	397,429	442,082	488,836
Real GDP	3.2	6.3	17.7	9.2	10.3	14.2	14.1	13.1	14.5	10.1	9.5
Hydrocarbon 1/	2.2	5.6	12.5	6.0	10.7	18.0	17.6	15.6	17.8	10.2	9.3
Nonhydrocarbon GDP	4.5	7.3	24.6	13.1	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Crude oil production, th. barrels per day	694	721	753	760	803	896	901	928	1,044	1,027	989
LNG Production, millions of tons	13.7	14.4	18.9	21.2	24.7	28.6	35.3	45.8	56.3	66.8	77.3
Qatar oil export price (In U.S. dollar per barrel)	24.52	27.95	35.19	51.69	62.93	67.08	73.43	70.74	69.03	68.05	67.31
CPI period average	0.2	2.3	6.8	8.8	11.8	12.0	10.0	8.0	6.0	5.0	4.0
Terms of trade	0.6	2.0	13.9	28.7	7.1	-2.1	7.9	-1.9	-1.0	-1.0	-1.5
(In millions of Qatari Riyals)											
<b>Central government finances 2/</b>											
Total revenue	29,453	30,717	55,064	64,984	85,225	113,365	131,078	144,383	167,435	180,750	187,823
Hydrocarbon revenue	19,059	19,759	36,319	43,616	54,919	73,640	82,355	88,206	102,924	108,761	108,585
Other revenue	10,394	10,958	18,745	21,368	30,306	39,724	48,723	56,177	64,511	71,989	79,238
Total expenditure	22,799	25,212	36,103	50,820	66,588	84,053	92,132	95,803	99,990	104,783	109,394
Current	18,344	20,730	28,270	32,761	49,550	56,743	61,132	64,803	68,990	73,783	78,394
Capital	4,455	4,482	7,833	18,059	17,038	27,310	31,000	31,000	31,000	31,000	31,000
Overall balance	6,654	5,505	18,961	14,164	18,637	29,312	38,946	48,580	67,445	75,967	78,430
In percent of GDP	9.0	5.9	15.1	8.6	9.1	11.5	12.5	13.6	16.5	16.7	15.7
Nonhydrocarbon balance	-12,405	-14,254	-17,358	-29,452	-36,282	-44,328	-43,409	-39,626	-35,479	-32,794	-30,155
In percent of GDP	-16.7	-15.3	-13.9	-18.0	-17.8	-17.4	-13.9	-11.1	-8.7	-7.2	-6.0
In percent of nonhydrocarbon GDP	-39.9	-36.1	-31.5	-45.2	-46.8	-46.7	-38.0	-29.3	-22.6	-18.1	-14.6
Government net debt 3/	29,795	28,160	23,798	21,601	20,359	17,946	11,601	4,636	3,894	1,714	1,631
In percent of GDP	42.3	32.9	20.6	14.0	10.6	7.5	3.8	1.3	1.0	0.4	0.3
External debt service (percent of total revenue)	18.2	7.1	4.2	3.1	3.0	1.9	1.3	3.4	0.6	0.2	0.2
(In millions of U.S. dollars, unless otherwise indicated)											
<b>External sector</b>											
Current account	4,248	5,946	7,100	14,107	16,102	21,757	28,779	28,022	34,563	36,682	35,944
In percent of GDP	21.9	25.3	22.4	33.2	30.5	33.1	34.7	29.7	31.7	30.2	26.8
Trade balance	7,771	9,224	13,540	17,058	20,272	26,374	33,828	33,244	39,669	41,822	40,767
Exports	11,421	13,582	18,950	26,122	35,083	45,480	57,902	63,384	75,837	84,138	89,431
Of which:											
Crude oil	6,222	7,520	9,702	14,122	17,840	22,553	24,770	24,585	29,749	31,635	30,335
LNG	3,734	4,632	6,554	8,738	13,360	18,178	27,442	32,469	38,034	43,390	49,175
Other exports	1,466	1,431	2,694	3,261	3,883	4,750	5,690	6,329	8,053	9,114	9,921
Imports	-3,650	-4,359	-5,410	-9,064	-14,811	-19,106	-24,073	-30,140	-36,168	-42,316	-48,664
Services, net	-1,090	-1,195	-1,198	-924	-2,763	-2,570	-3,216	-4,515	-5,369	-6,565	-7,985
Income, net	-916	-432	-2,988	549	2,331	2,352	2,798	4,170	5,397	6,829	8,848
Current transfers, net	-1,517	-1,650	-2,254	-2,576	-3,738	-4,399	-4,632	-4,877	-5,133	-5,403	-5,687
Central bank reserves, net	1,502	2,873	3,358	4,555	5,410	6,496	8,121	10,152	12,691	15,864	19,831
In months of imports of goods and services 4/	2.7	4.1	3.0	2.6	2.4	2.3	2.4	2.5	2.7	2.9	3.4
Total external debt (excluding banks, inpercent of GDP)	68.4	52.0	40.2	41.4	43.8	46.2	44.9	46.9	51.2	57.3	62.4
Total external debt (including banks, inpercent of GDP)	71.7	56.7	47.3	48.1	56.7	61.1	59.9	61.9	66.1	72.3	77.4
Official external debt	4,038	4,322	4,017	3,743	3,387	3,049	2,797	1,819	1,373	1,327	1,327
Total external debt service	2,856	3,507	1,793	2,164	2,881	2,703	2,958	4,347	5,007	5,965	6,252
In percent of exports of goods and services	23.6	23.8	8.7	7.4	7.4	5.4	4.6	6.2	6.0	6.5	6.4
In percent of GDP	14.8	14.9	5.7	5.1	5.5	4.1	3.6	4.6	4.6	4.9	4.7
(In percent of GDP)											
<b>Saving-investment balance</b>											
Gross investment	32.6	34.9	33.4	35.5	34.2	32.5	34.3	40.2	39.7	40.1	44.8
Nongovernment sectors	26.8	29.6	27.3	25.4	25.2	22.1	24.3	31.2	31.9	33.1	38.5
Gross national saving	54.6	60.1	55.8	68.7	64.7	65.5	69.0	69.9	71.3	70.4	71.6
Nongovernment sectors	37.0	45.2	32.1	44.8	42.8	40.3	44.0	45.2	46.1	45.5	48.6

Sources: Qatari authorities; and Fund staff estimates and projections.

1/ Includes crude oil, LNG, propane, butane, and condensate.

2/ Fiscal year basis, April–March.

3/ Net of deposits in resident banks.

4/ Next 12 months.

## ATTACHMENT I. QATAR: DRAFT PUBLIC INFORMATION NOTICE



INTERNATIONAL MONETARY FUND

*Public Information Notice*EXTERNAL  
RELATIONS  
DEPARTMENTPublic Information Notice (PIN) No.  
FOR IMMEDIATE RELEASEInternational Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA**IMF Executive Board Concludes 2007 Article IV Consultation with Qatar**

On [Month, dd, yyyy], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar.<sup>9</sup>

**Background**

Qatar's economic performance was strong in 2006, with real GDP growing by about 10 percent driven by increased production of liquefied natural gas, and strong activity in the construction and financial services sectors. Inflation reached close to 12 percent in 2006, partly reflecting supply bottlenecks. The external current account recorded a surplus of about 31 percent of GDP, as the increase in hydrocarbon exports offset a rise in imports owing to the initiation of large mega projects. The financial account showed large outflows, reflecting a buildup of external assets by the government, and the financial, corporate, and household sectors. Gross official reserves of the central bank (excluding government's external assets) increased by about \$0.8 billion in 2006, to \$5.4 billion by year's end.

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<sup>9</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.



Notwithstanding large increases in salaries and outlays on goods and services, the overall fiscal surplus remained at about 9 percent of GDP, as hydrocarbon revenue surged in line with oil prices. Broad money growth was about 40 percent in both 2005 and 2006, fueled by large foreign exchange inflows, public expenditure, and strong growth in credit to the private sector. While the macro-prudential indicators of the banking sector remain strong, maturity mismatches may have grown given the long-term nature of loans for infrastructure and construction projects. Banks have been putting into place risk management frameworks to implement Basle II during 2007. Equity markets remained volatile in 2006, with the Doha Securities Market index experiencing a significant correction that partially reversed the 70 percent increase experienced in 2005.

Qatar is expected to continue to perform strongly in 2007, supported by high oil and gas prices and ongoing investments in the gas sector. Inflation is projected to remain high at about 12 percent. The external current account surplus would be about 33 percent of GDP, and the gross reserves of the Qatar Central Bank (QCB) and the external assets of the government and commercial banks are expected to increase further. At about 12 percent of GDP, the fiscal surplus would be considerably higher than budgeted, as the budget is based on conservative assumptions of oil and gas prices. Money growth is expected to continue at a strong pace in 2007, reflecting large increases in the net foreign assets of the banking system and increased credit to finance private and public investments.

Qatar's medium-term outlook is very favorable, with continued strong growth expected to be driven by the hydrocarbon sector, as well as by diversification into higher value-added petrochemicals and financial and education services. The fiscal and external positions are expected to remain very comfortable. Downside risks to the outlook include lower oil prices and shortfalls in gas production, continued high inflation, and a deterioration of the security situation in the Gulf region.

#### **Executive Board Assessment**

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**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

### Qatar: Selected Economic and Financial Indicators, 2003–06

	2003	2004	2005	<u>Prel.</u> 2006
<hr/>				
	(Annual change in percent)			
<b>Production and Prices</b>				
Real GDP	6.3	17.7	9.2	10.3
Hydrocarbon 1/	5.6	12.5	6.0	10.7
Nonhydrocarbon GDP	7.3	24.6	13.1	10.0
Nominal GDP (in millions of U.S. dollars)	23,534	31,734	42,463	52,722
Consumer price index (period average)	2.3	6.8	8.8	11.8
<hr/>				
	(In percent of GDP on fiscal year basis) 2/			
<b>Public Finance</b>				
Total revenue	33.0	44.0	39.6	41.8
Hydrocarbon revenue	21.2	29.0	26.6	26.9
Other revenue	11.8	15.0	13.0	14.9
Total expenditure	27.1	28.8	31.0	32.7
Current expenditure, of which:	22.3	22.6	20.0	24.3
Wages and salaries	6.8	6.3	4.1	6.5
Capital expenditure	4.8	6.3	11.0	8.4
Overall fiscal balance (deficit -)	5.9	15.1	8.6	9.1
<hr/>				
	(Annual change in percent)			
<b>Money</b>				
Broad money	4.8	20.8	42.9	39.6
Credit to private sector	27.3	30.4	63.5	44.2
<hr/>				
	(In millions of U.S. dollars, unless otherwise stated)			
<b>External Sector</b>				
Exports of goods and services, of which:	14,728	20,658	29,416	38,803
Crude oil	7,520	9,702	14,122	17,840
LNG and related exports	4,632	6,554	8,738	13,360
Imports of goods and services	-6,699	-8,316	-13,282	-21,294
Current account	5,946	7,100	14,107	16,102
In percent of GDP	25.3	22.4	33.2	30.5
Central Bank reserves, net	2,873	3,358	4,555	5,410
In months of imports of goods and services 3/	4.1	3.0	2.6	2.4
Exchange rates (riyals/US\$)	3.64	3.64	3.64	3.64
Real effective exchange rate (percent change)	-5.7	-0.1	7.1	8.3

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Staff estimates; include crude oil, LNG, propane, butane, and condensate.

2/ Fiscal year beginning in April.

3/ Next 12 months.