FOR AGENDA

SM/09/1

January 5, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Qatar—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with Qatar, which is tentatively scheduled for discussion on **Wednesday, January 21, 2009**. 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. Prasad (ext. 37737) 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 Tuesday, January 13, 2009.

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 2008 Article IV Consultation

Prepared by Staff Representatives for the 2008 Consultation with Qatar

Approved by Juan Carlos Di Tata and David Marston

December 30, 2008

- **Discussions**: November 4–17, 2008.
- **Team**: Messrs. Leon (Head), Prasad, Kumah, Williams, and Espinoza (all MCD).
- **Meetings**: The mission met with the Minister of Economy and Finance; the Governor of the Qatar Central Bank (QCB); the Chairman and Chief Executive Officer of the Qatar Financial Center (QFC); other senior government and central bank officials; and representatives of the private sector.
- **Exchange arrangement**: Peg to the U.S. dollar. Qatar is an Article VIII country, but maintains security-related exchange restrictions that have been notified to the Fund.
- **Past surveillance:** The authorities and the Fund have generally agreed on policy priorities. The 2007 Article IV consultation was concluded on November 26, 2007; PIN available at http://www.imf.org/external/np/sec/pn/2007/pn07141.htm.
- **Economic statistics**: Broadly adequate for surveillance; can improve data frequency, timeliness, and coverage. General Data Dissemination System (GDDS) participant since December 30, 2005.

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Executive Summary

During the policy discussions, there was a broad concurrence of views between staff and the authorities on inflation, the financial sector, and exchange rate issues. Qatar's medium-term outlook is positive, with downside risks from a prolonged global financial crisis, persistently low oil prices, a large decline in real estate prices, and an escalation in geopolitical tensions.

The authorities

- Consider containing inflation as a high priority.
- Remain vigilant on financial sector developments and stand ready to take any action required to preserve financial stability.
- Are committed to the implementation of ongoing investment projects, and are willing to increase government capital spending, if needed, to maintain economic activity.
- Noted staff's assessment that the Qatari riyal might be slightly undervalued, and reiterated their commitment to maintaining a peg to the U.S. dollar in the period leading up to the Gulf Cooperation Council (GCC) Monetary Union.
- Indicated that the implementation of a unified financial services regulator in Qatar is likely to be more gradual than initially envisaged.

Staff recommendations

- Continue to proactively manage vulnerabilities and expectations arising from the global crisis.
- Build an early warning system to identify risks in the banking system. Also conduct stress tests for a combination of risks and publish results on a periodic basis.
- Continue to contain government current expenditure and phase the implementation of new investments as part of inflation management. The freeze on rent increases and price controls is distortionary and should be applied on a temporary basis.
- Maintain the peg to the U.S. dollar during the period leading up to the formation of the monetary union in 2010.
- Improve the quality of macroeconomic statistics and the provision of international investment position data to the Fund to strengthen the effectiveness of the surveillance process.

I. Recent Economic Developments

1. **Qatar's macroeconomic performance remains strong in 2008,** supported by an outward-oriented strategy aimed at developing the country's vast gas reserves.[1] Falling oil prices have not influenced ongoing hydrocarbon investments because of committed contracts for liquefied natural gas (LNG). Non-oil GDP growth has also remained buoyant because of ongoing projects for which financing has already been secured.

- Overall real GDP growth is estimated at 16 percent in 2008, driven by expansions in the production of oil, LNG, and condensates, and a strong performance in manufacturing, construction, and financial services. At 15 percent in 2008, Qatar's inflation rate is the highest among GCC countries, with rent and food prices being major contributors.

- Broad money is projected to increase by almost 40 percent in 2008, fueled by large foreign exchange inflows, large public outlays, and a rapid expansion in private sector credit. Credit growth has ballooned despite the implementation of a lower loan-deposit ratio and increases in reserve requirements.

- The overall fiscal surplus (12 percent of GDP in FY2007–08) reflects a strong increase in revenue and a slowdown in expenditure relative to FY2006–07, partly owing to improvements in cash management.[2]

- The external current account surplus (about 37 percent of GDP) mirrors a strong export performance that more than compensated for buoyant growth (47 percent) in imports (mainly capital goods) and in net services and transfers.

2. **The global financial crisis does not seem to have affected liquidity in Qatar**, as deposits and credit continued to grow at a rapid pace through October 2008. Interbank liquidity remains broadly comfortable, although the weighted-average interbank rates in one-month maturities rose (by about 350 basis points) between August and October. The

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[1] With the world's 3rd largest proven reserves of natural gas, Qatar is the largest exporter of liquefied natural gas.

[2] The Ministry of Economy and Finance now transfers funds to spending departments only after expenditures have actually been incurred, reducing the difference between actual expenditures and disbursed funds.

central bank has responded by introducing an overnight liquidity facility for banks, but use of this facility has been negligible.[3]

3. **Qatari banks are adequately capitalized and profitable, and recent assessments indicate that the banking system appears sound.** At the same time, weak sentiment weighed on shares and the equity market declined, although the underlying fundamentals remain strong. The direct impact on the banking system of the recent decline in equity prices has been minimal, owing in part to caps on exposure to the equity market. However, to strengthen confidence in the banking system, the government authorized the Qatar Investment Authority (QIA) to purchase up to 20 percent (about $5.3 billion) of the enhanced share capital of listed banks (except the government majority-owned Qatar National Bank) on the Doha Securities Market (DSM).

Banking Sector Performance and Soundness (2003–08)
(in percent)

	2005	2006	2007	2008 (Sept)1/
Capital adequacy	24.8	14.3	13.5	17.0
Return on assets	4.3	3.7	3.6	2.4
Gross NPLs to total loans	4.3	2.2	1.5	1.0
Provision for NPLs	84.3	94.0	90.7	91.0
Return on equity	28.5	27.2	30.4	21.7

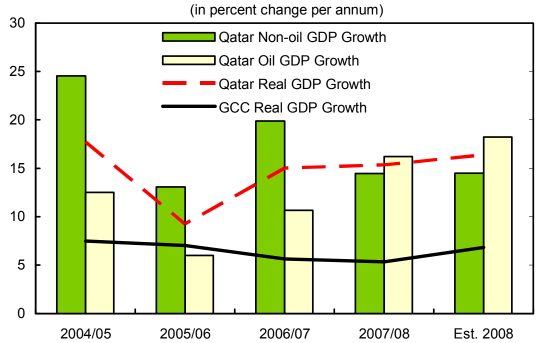
1/ Pertains to national conventional banks.
Sources: *Global Financial Stability Report* (GFSR); Qatari Authorities.

[3] Currently, commercial banks have $6 billion parked with the central bank in the form of reserve requirements, deposits, and Certificates of Deposit (CDs).

Qatar: Recent Economic Developments, 2004–08

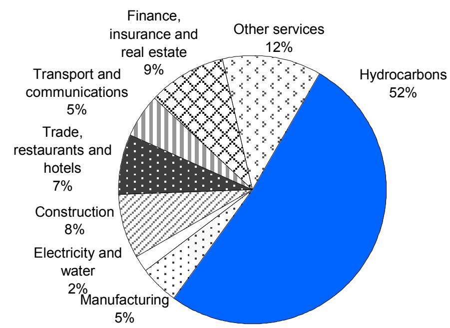
Qatar is the fastest growing economy in the GCC region...

GDP Growth
(in percent change per annum)



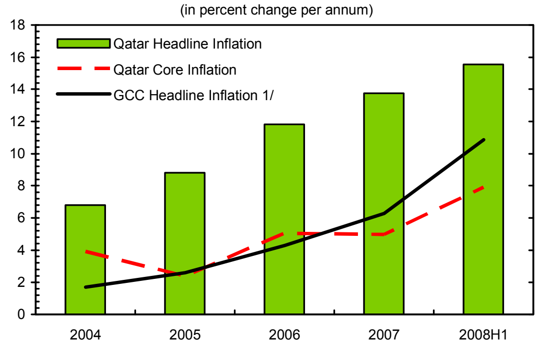
… dominated by the hydrocarbon sector.

Composition of Real GDP, 2008
(in percent of total)



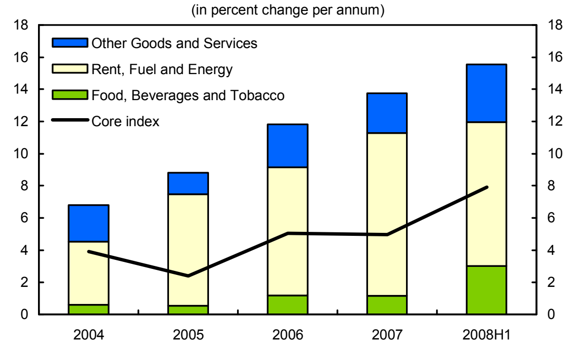
Inflation is the highest in the GCC...

Core and Headline Inflation
(in percent change per annum)



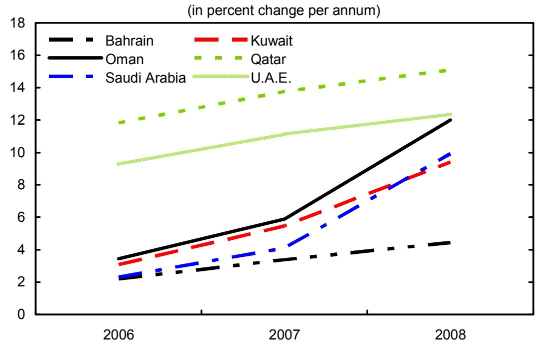
… with rent and food being highest contributors.

Contribution to Inflation
(in percent change per annum)



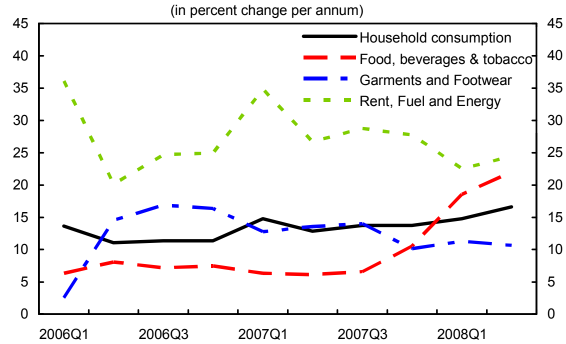
Inflation is leveling off, albeit at high levels...

GCC: Headline Inflation 1/
(in percent change per annum)



… as rent inflation seems to have slowed.

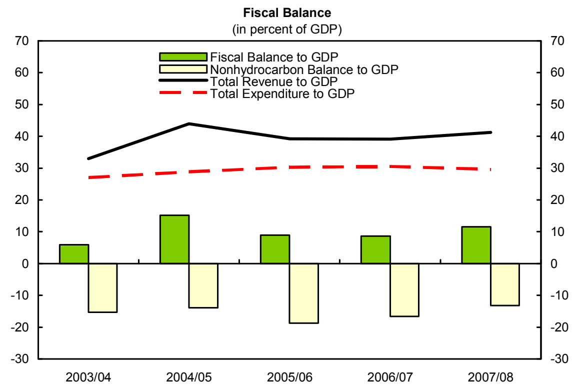
Quarterly Inflation, 2006 Q1–2008 Q2
(in percent change per annum)



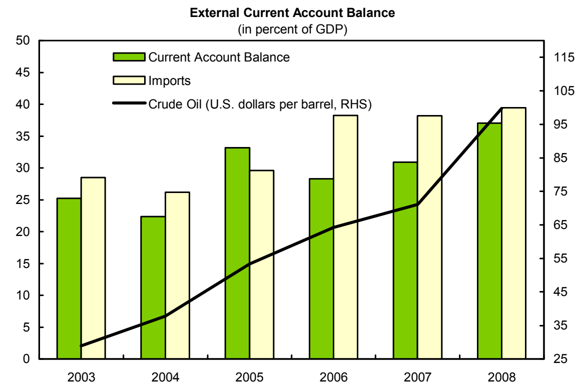
1/ The 2008 figure for the GCC is the projection for the whole year.

Qatar: Recent Economic Developments, 2004–08 (continued)

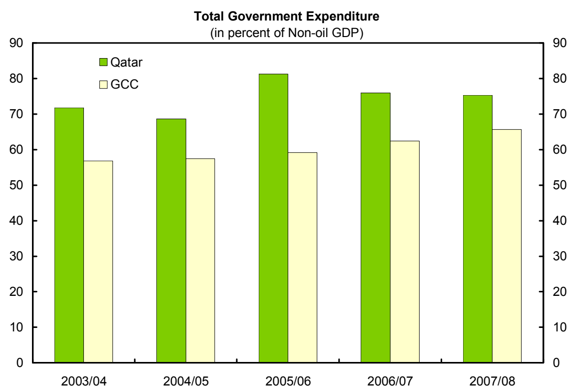
Fiscal surpluses continued owing to high oil and gas production...



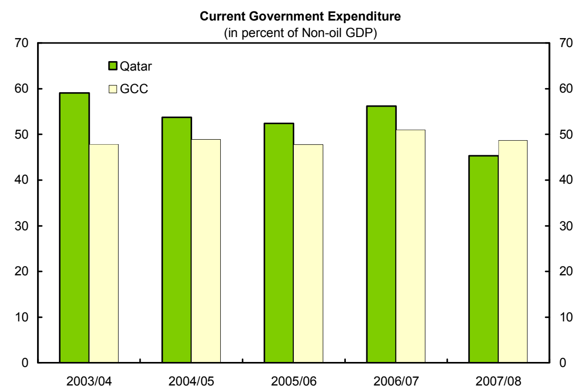
… and the current account surplus has increased to record levels.



Total government expenditure has declined...



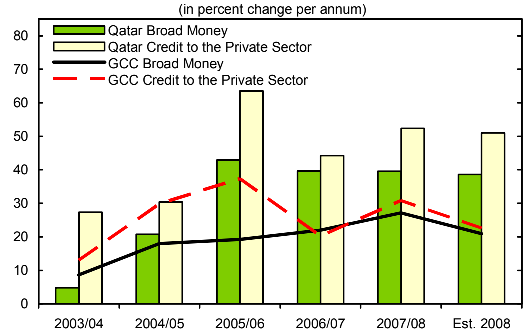
… as current expenditure fell, reflecting containment of wages.



Qatar: Recent Economic Developments, 2004–08 (continued)

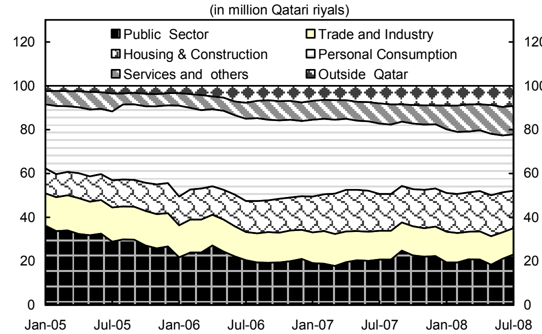
Broad money grew strongly...

Broad Money and Credit Growth
(in percent change per annum)



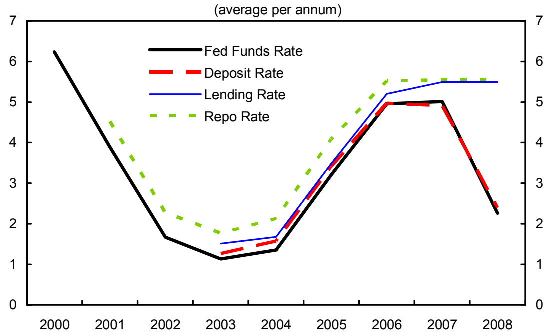
… and growth in credit to the public sector and for housing and real estate accelerated.

Distribution of Credit
(in million Qatari riyals)



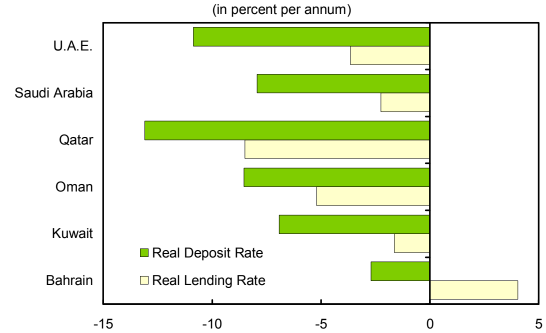
Interest rates remained broadly aligned to the Federal Funds rate...

Interest Rates
(average per annum)



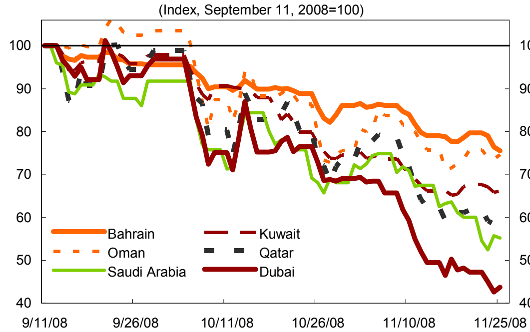
… and real deposit and lending rates remained negative.

GCC: Real Interest Rate (Latest Available)
(in percent per annum)



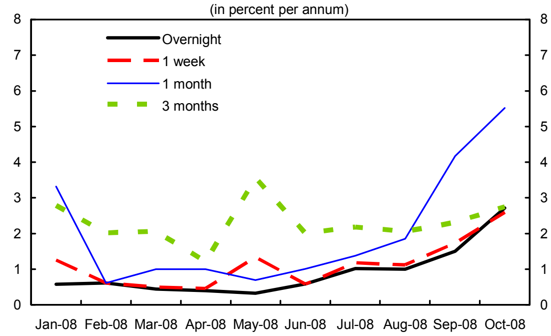
Equity prices declined sharply...

GCC Stock Market Developments
(Index, September 11, 2008=100)



… and one-month interbank rates increased.

Interbank Rates
(in percent per annum)



Sources: Country authorities; and IMF staff estimates.

II. Medium-Term Economic Outlook and Risks[4]

4. **Qatar's medium-term outlook is positive.** Real GDP growth is projected at 24 percent in 2009, as the production of LNG and gas products is expected to almost double with the commissioning by Rasgas (gas producer) of two trains, and construction, manufacturing, financial services, trade and transportation, and communications all projected to grow at a strong pace. Inflation is projected to fall to 10 percent in 2009, as a result of the passthrough of declining international prices for food and raw materials and a slower increase in domestic rents owing to a larger supply of low- and middle-income housing. The fiscal and external current accounts are projected to remain in surplus in 2009, despite the lower projected oil price of $54 a barrel. An expected deceleration in credit growth to the private sector would reflect the lingering effects of uncertainties from the global financial turmoil and wealth effects from depressed asset prices.

5. **Output growth is projected to average 12 percent a year through 2013.** Contributing factors include further increases in the production of LNG, gas-to-liquid (GTLs) and petrochemicals, an expansion in financial services as the single financial market and integrated regulator is implemented, and increases in knowledge-based and related services associated with the Qatar Foundation (Box 1). Strong revenue growth from the doubling of LNG exports and a stable expenditure profile will help maintain overall fiscal surpluses, with the non-hydrocarbon fiscal balance relative to GDP projected to decline gradually. The external current account surplus is expected to narrow reflecting the peaking in production of oil and LNG in 2011, lower oil prices than recent record-highs, and a steady increase in imports. Reserves of the QCB and other official foreign assets would continue to rise.

6. **Downside risks** include a prolonged crisis in the global financial system; persistently lower oil prices; a large decline in real estate prices;[5] and an escalation of geopolitical tensions. To estimate the extent of downside risks to the medium-term outlook, staff estimated two alternative scenarios: (a) one assuming a 5 percent reduction in LNG production in 2009 and 2010 (assuming a delay in the production capacity of one train), and

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[4] All projections are based on the IMF's December 2, 2008, *World Economic Outlook* (WEO) baseline.

[5] A possible trigger could be a mismatch in current supply plans and future demand, arising from an outflow of foreign workers/expatriates and a decline in demand.

(b) another assuming in addition to (a) an oil price of $45 dollar a barrel in 2009 and thereafter increasing proportionately with current futures prices. In both scenarios, the expenditure profile is assumed to be unchanged over the medium-term. The simulations show that Qatar could still maintain on average double-digit growth rates in non-oil real GDP and continue to record fiscal and current account surpluses over the medium term, although at lower levels.

7. **The price of oil would continue to determine the pace at which investment plans can be implemented,** as well as the rate of accumulating external assets through the QIA. A further worsening of the global crisis could dampen external demand for hydrocarbon and related products, pose liquidity and financing risks, delay the implementation of future investment projects, and adversely affect growth in the nonhydrocarbon sector. However, potential stresses appear manageable, because the banking sector is well capitalized, and the QIA can diversify its portfolio by investing in local projects.

Box 1. GCC and Qatar Projects: A Medium-Term Outlook

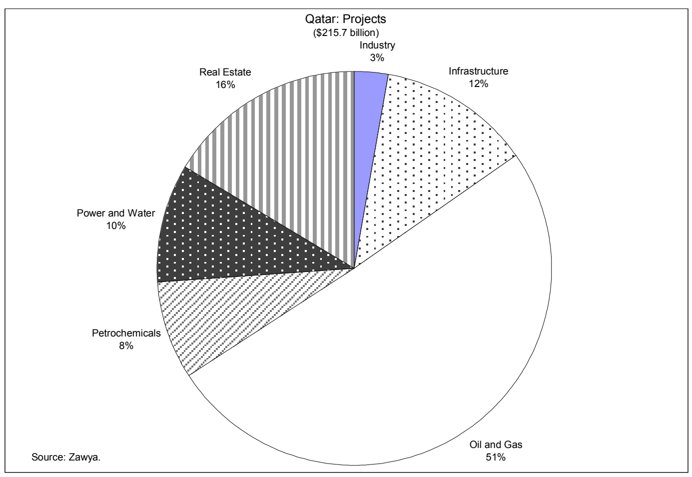
Rising wealth has facilitated the doubling of investment in both the hydrocarbon and non-hydrocarbon sectors in the GCC since 2007. Saudi Arabia and the U.A.E account for the lion's share (70 percent). Investments in oil and gas underscore the systemic role of GCC countries in global hydrocarbon markets.

GCC: Medium-Term Large Investment Projects
(In million U.S. dollars)

	Industry	Infrastructure	Oil and Gas	Petrochemicals	Power and Water	Real Estate	Total
Bahrain	2,175	1,876	1,097	2,700	4,078	32,354	44,280
Kuwait	150	32,786	73,717	7,815	14,481	141,658	270,607
Oman	3,307	10,304	21,438	7,412	5,938	66,000	114,399
Qatar	6,271	26,520	109,255	17,365	20,863	35,453	215,726
Saudi Arabia	33,210	221,835	143,199	93,569	62,928	78,095	632,836
U.A.E.	20,512	137,554	72,357	13,597	66,835	607,425	918,279
Total	65,625	430,874	421,062	142,459	175,122	960,984	2,196,126

Source: Zawya.

The investment profiles of GCC countries reflect country-specific diversification strategies, although projects are generally geared toward addressing supply bottlenecks, diversification, and employment generation. With the emergence of inflation as the main short-term macroeconomic challenge, large investments are being channeled to the housing and infrastructure sectors to reduce supply bottlenecks and expand capacity. Although accounting for a smaller share, projects in electricity and water are critical to meet the needs of the growing local population and a large expatriate labor force. Broadly speaking, Bahrain and Oman are focusing on attracting more tourism; the U.A.E is concentrating on real estate and services; Saudi Arabia on infrastructure developments; and Kuwait, Qatar, and Saudi Arabia are maximizing synergies through hydrocarbon-related investments in manufacturing.

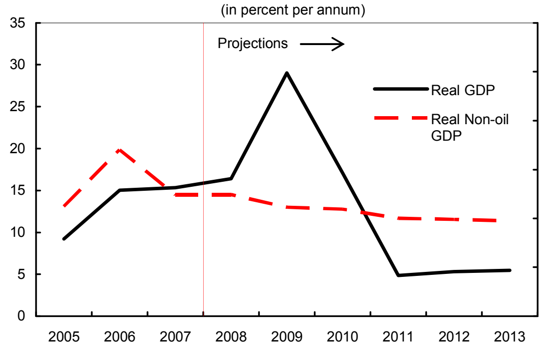


Qatar has committed investments of $150 billion that are expected to be completed by 2012, of which $100 billion are in the hydrocarbon and related manufacturing sectors. Other large projects include the new airport, a port, an aluminum plant, and housing projects.

Qatar: Medium-Term Outlook, 2005–13

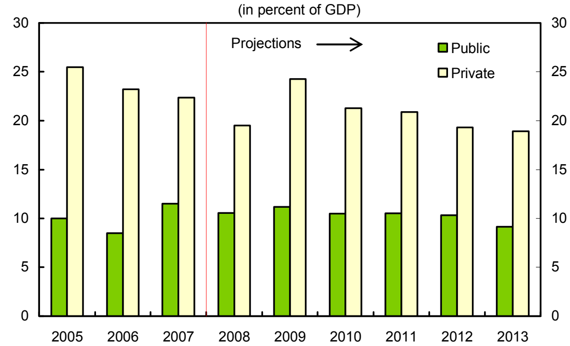
Growth outlook is favorable...

Real GDP and Real Non-oil GDP Growth
(in percent per annum)



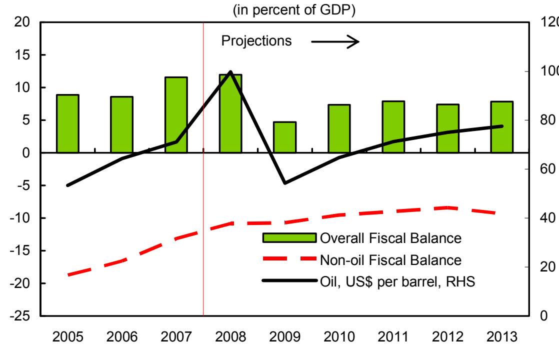
… with committed investments.

Public and Private Investment
(in percent of GDP)



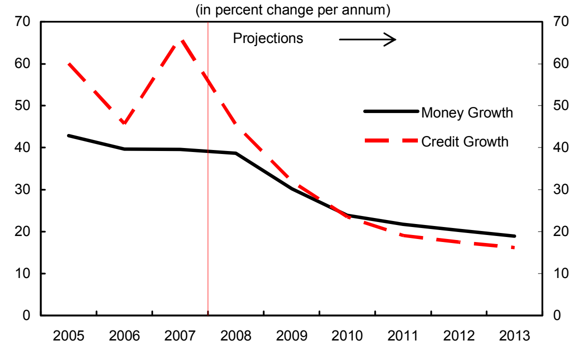
Fiscal surpluses decline...

Overall and Non-oil Fiscal Balances
(in percent of GDP)



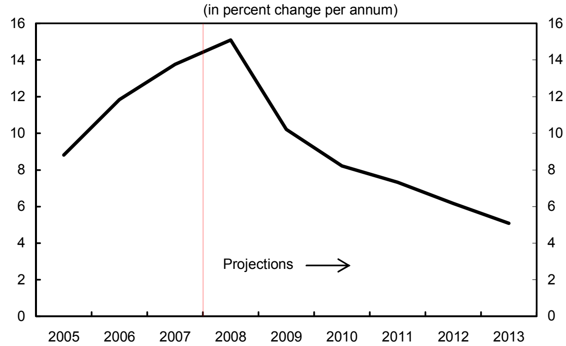
… and broad money and credit growth remain moderate.

Broad Money and Credit Growth
(in percent change per annum)



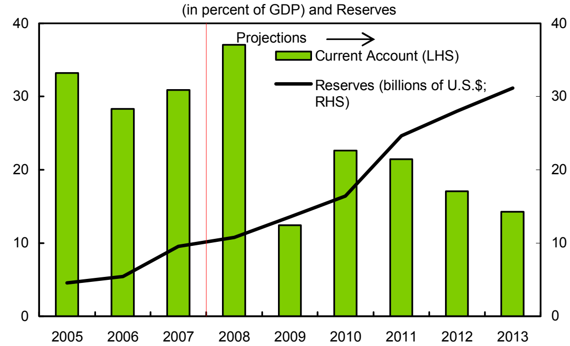
Inflation declines gradually...

Inflation
(in percent change per annum)



… current account surpluses narrow, but still remain high.

Current Account Balance
(in percent of GDP) and Reserves



Source: IMF staff estimates.

III. Policy Discussions

8. **The policy discussions focused on** (a) the impact of the global financial crisis on growth and financial stability; (b) domestic inflation management; (c) progress in establishing a unified financial services regulator in Qatar; (d) exchange rate issues; and (e) the GCC monetary union.

A. Impact of the Global Financial Crisis

9. **The authorities do not anticipate a strong impact of the global financial crisis on Qatar.** Although equity prices have fallen, credit default swap spreads have widened (150 basis points), and interbank rates have increased moderately, domestic and foreign investor sentiment about the economy remain strong. The global economic slowdown and the sharp decline in oil prices could weaken somewhat overall economic activity in Qatar, but the authorities pointed out that most of the hydrocarbon investments are firm and at various stages of implementation, and are unlikely to be affected because the LNG has been committed under long-term contracts. Also, investments in the non-hydrocarbon sector—manufacturing (aluminum, steel, power, water, petrochemicals), transportation (airways), building and construction (Lusail, Pearl, Barwa), and other infrastructure (ports and airport)—for which financing has already been secured would continue. In FY 2009/10, the cost of maintaining public spending would be about 3 percent of GDP, assuming an additional OPEC cut (10 percent) and a $45 a barrel price of oil in 2009. The authorities also indicated their intention to increase government capital spending beyond ongoing projects, if needed, to sustain economic activity.

10. **The authorities remain vigilant on financial sector developments**. The central bank is conducting monthly stress testing of banks, which so far shows that the measured risks are manageable (Box 2). The authorities plan to publish the results through an annual financial stability report. Notwithstanding their assessment that the banking system remains sound and the liquidity position comfortable, financial developments are being closely monitored by a central bank Financial Crisis Committee that meets daily; a coordination committee (including the central bank governor and the Minister of Economy and Finance) that meets weekly; and a high level committee involving the prime minister. The central bank stands ready to provide liquidity in case there is a run on any bank and to implement appropriate crisis resolution measures, if the need arises, including through bank mergers. At the regional level, GCC countries are in agreement that they should support their respective financial systems.

11. **The authorities have been proactive in managing market expectations.** In addition to the introduction of an overnight liquidity window at 3 percent, the central bank is

currently preparing a list of acceptable instruments to facilitate collateralized lending to banks. The authorities are also closely monitoring conditions in the money market and have used moral suasion to urge public entities to increase deposits in commercial banks without demanding higher interest rates.

Box 2. Qatar's Banking System

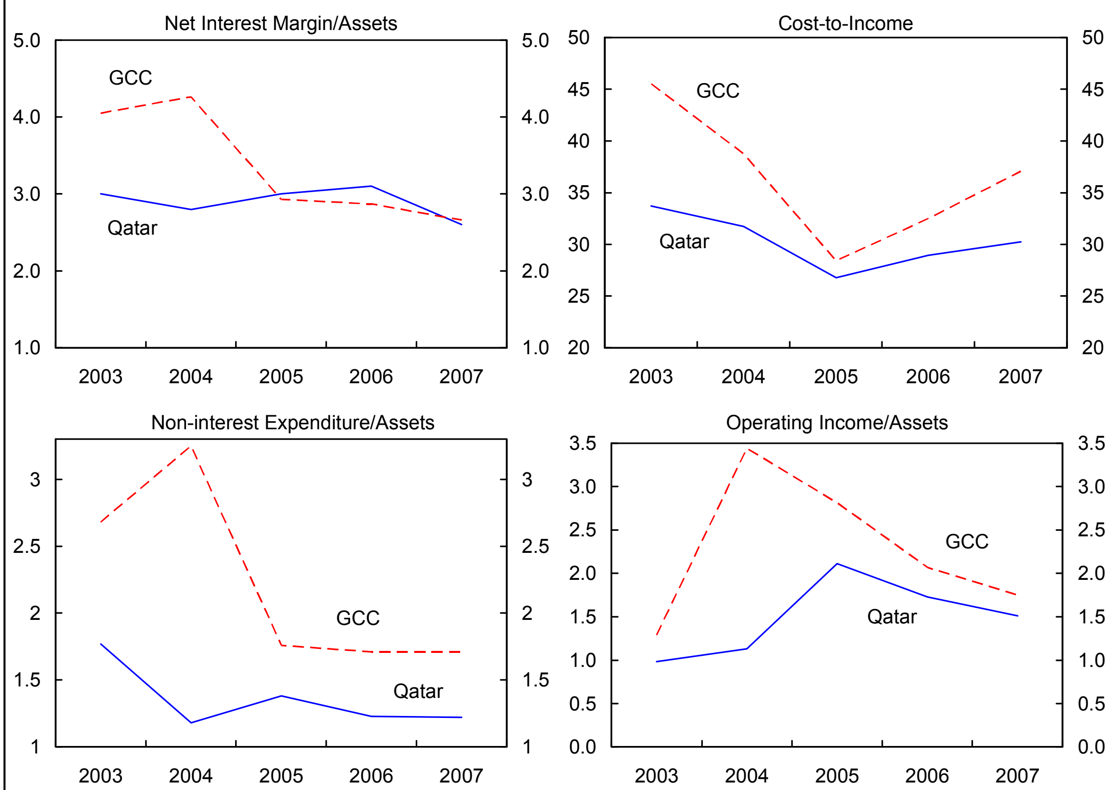
Qatar's banking system is dominated by national banks. The system comprises 16 banks—6 conventional, 3 Islamic, and 7 foreign. Conventional banks assets constitute 80 percent of total bank assets; Islamic and foreign banks account for 10 percent each. The regulatory capital adequacy requirement is 10 percent. National banks are under Basel II guidelines for capital adequacy requirements, but the risk-weighted capital requirements of foreign banks are based on home-country provisions.

Competition is creating pressures on banks' return on assets (RoA). Bank profitability is still high owing to strong private sector demand, but increasing competition and rising costs have eroded the RoA as well as the return on equity (ROE). Consistent with lower profitability, risk taking by banks, as measured by the Z-index, was low during 2003–07.[1]

Higher interest rates on customer deposits and lower interest rates on credit facilities have reduced net interest margins since 2005.[2] Higher cost-to-income ratios and lower operating income as a proportion of assets also added to the pressures on banks' profitability. Although non-interest expenditure as a proportion of assets declined, this reflected the rapid increase in assets rather than efficiency gains.

The continued above-trend growth rate of assets in 2008 and the preponderance of customer deposits (which represented 64 percent of non-equity funding in 2007) can pose some vulnerabilities to the banking system in the future. However, so far the rapid credit growth does not seem to have affected credit quality. Although the high Funding Volatility Ratio (FVR) of banks points to potential liquidity problems in difficult times, this does not seem to be an issue now.[3] However, the central bank needs to continue monitoring proactively the performance of banks through periodic stress tests.

Qatar's Banking System (continued)



Source: Bank Scope.

[1] A proxy measure of bank's risk taking can be observed by an estimate of a bank's probability of failure, called the Z-index. The index is calculated using (a) profitability, measured by the average return on assets (RoA); (b) leverage, measured by the period average equity-to-asset ratio (K); and (c) return volatility VR, measured by the period standard deviation of RoA. Thus Z = (R +K) / VR. Z increases with profitability and equity capital as percent of assets, and decreases with return volatility. Thus, a larger value of the Z-index indicates a lower risk profile for a bank (De Nicolo, G., P. Bartholomew, J. Zaman, and M. Zephirin, 2003, "Bank Consolidation, Internationalization, and Conglomeration: Trends and Implications for Financial Risk," IMF Working Paper 03/158 (Washington: International Monetary Fund); Loukoianova, E., 2008, "Analysis of the Efficiency and Profitability of the Japanese Banking System," IMF Working Paper 08/63 (Washington: International Monetary Fund). In the case of Qatar, the Z-index increased marginally between 2002 and 2007, from 2.6 to 3.8.

[2] The average one-year weighted deposit rates of banks rose from 3.2 percent to 4.8 percent during 2004–07, while the average 1 to 3 year-weighted lending rate declined from 9.8 percent to 8.9 percent over the same period.

[3] The FVR is calculated as (volatile liabilities–liquid assets) / (total assets–liquid assets). The lower the ratio, the better the banks' liquidity profile.

B. Inflation

12. **The authorities agreed with the staff that inflationary pressures are likely to ease in 2009**, with international food and raw material prices projected to decline and domestic rents to stabilize. As investments come on stream, supply bottlenecks will also ease and inflation, which is expected to remain elevated in the near term, would decline gradually.

13. **Monetary policy will be managed to achieve a gradual reduction in inflation (Box 3).** The central bank intends to carefully calibrate its interest rate and liquidity instruments to ensure that inflation is reduced and that the growth of assets, credit, and deposits of the banking system is not choked off. To balance this trade-off, the QCB did not reduce its policy rates on the last two occasions (since September 2008) when the Federal Reserve cut its rates. At the same time, however, reserve requirements have been increased by 2 percentage points in 2008, and the QCB is issuing CDs for maturities of one-, three-, six-, and nine-months, and is also planning to issue 14-day fixed rate CDs. Also, central bank regulation has progressively reduced the proportion of consumer credit. Although the central bank does not see a need to modify its monetary policy stance at this time, it intends to maintain the current prudential norms, such as the limits to real estate lending, the loan-deposit ratio, and the liquidity ratio, which have served the system well by discouraging excessive risk exposure. The authorities are in consultation with the government on the issuance of government bonds to improve debt management and gain greater flexibility in money market operations.

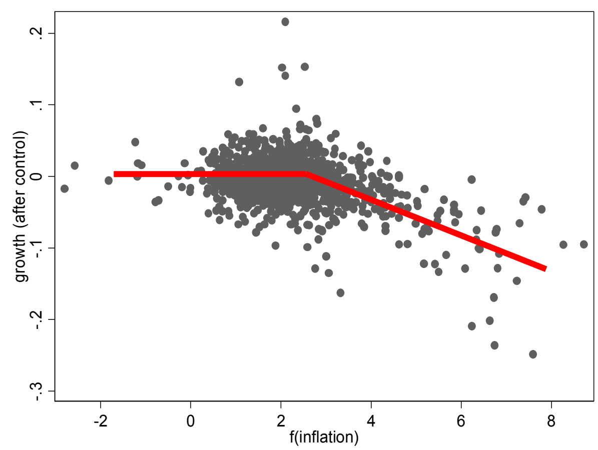
Box 3. Economic Growth and Inflation Trade-off

A surge in inflation can have a negative impact on investment and growth. In general, inflation is not costly at low levels, but when it reaches some threshold level further increases are likely to be harmful to growth.[1] Qatar is at about the threshold where if inflation persists, it could begin to have an adverse impact on growth. Consequently, efforts should continue to both monitor and contain inflationary pressures.

Our analysis identifies a threshold inflation level of 12 percent for a sample of 165 countries, above which a doubling of inflation would decrease real GDP by 1.5 percent per year.[2] The results are very similar when applied to both developing and emerging economies groups (column a), although the estimated threshold is much lower for advanced economies (about 1% - not shown in the table). For oil exporters, the threshold inflation level is estimated at 10 percent (column b). Above that threshold, a doubling of inflation would reduce real GDP growth by about 1.5 percent per year. Similar results are obtained if non-oil GDP data is used (column c): a doubling of inflation from above the estimated threshold (also 12 percent) decreases non-oil real GDP by about 1.5 percent per year.

	Emerging and developing economies (a)	Oil Producer s (effect on real GDP) (b)	Effect on non-oil real GDP(c)
No obs.	1068	204	322
No. countries	136	26	65
threshol d	12%	10%	12%
β^{low}	0.000	0.007	0.000
β^{high}	-0.022***	-0.022***	-0.023***

Note: The coefficient β^{high}, (significant at the 1 percent level in all estimations), corresponds to the effect of ln(1+inflation) on growth for levels of inflation higher than the estimated threshold.



Note: Threshold estimate for the whole sample (165 countries). A threshold of 12 percent corresponds to f(inflation)= ln(1+inflation)=2.6

[1] Fischer, S., 1993, "The Role of Macroeconomic Factors in Economic Growth," *Journal of Monetary Economics*, Vol. 32, pp. 485–512, shows that high inflation reduces investment and productivity; and Khan, M.S. and A. S. Senhadji, 2001, "Threshold Effects in the Relationship Between Inflation and Growth," *IMF Staff Papers*, Vol. 48, pp. 1–21, found that the threshold for advanced economies was much lower than that for developing countries.

[2] The model, based on Khan and Senhadji (2001), is estimated on 5-year averages and controlled for individual country effects, the business cycle, the ratio of investment to GDP, population growth, initial GDP, the rate of change in the terms of trade, and the variability of the terms of trade.

C. Financial Sector Development

14. **The authorities remain fully committed to having a unified financial regulator for Qatar.** In 2007, the government took a strategic decision to establish a single financial services regulator that would bring together the functions of Qatar's three regulators—the QCB, which supervises banks; the Qatar Financial Markets Authority, which oversees the Doha Securities Market; and the Qatar Financial Center Regulatory Authority (QFCRA), which regulates the activities of institutions licensed by the QFC. When the new regulatory authority—the Financial Regulatory Authority (FRA)—is created, Qatar will be the second country in the GCC region (the other is Bahrain) with a single regulator model. Although steady progress is being made, including on the proposed policy and legal framework,[6] information sharing among the three regulators, and the convergence of rulebooks into a unified set of standards, full implementation is likely to be more gradual than initially envisaged.[7] The Fund's Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) assessment was adopted by both Financial Action Task Force (FATF) and MENAFATF in 2008 as an AML/CFT mutual evaluation. The authorities are determined to make improvements in their legal framework, in line with the recommendations of the report.

D. Exchange Rate Issues

15. **The authorities reiterated their commitment to maintaining the peg to the U.S. dollar in the period leading up to the GCC Monetary Union**. They argued that the peg remains appropriate under the current circumstances, given that 90 percent of Qatar's exports are invoiced in U.S. dollars. Further, changing the peg from the U.S. dollar to (preferably) a basket of currencies would require choosing the appropriate composition and weights of the currencies—a challenging task, particularly in light of the uncertainties arising from the global economic turmoil. Also, the authorities do not believe that the depreciation of the U.S. dollar was a major contributor to inflation in Qatar, and they are not convinced that a revaluation would solve the inflation problem. In any event, the authorities argued that the recent appreciation of the dollar against major reserve currencies has weakened the argument for a regime change. The authorities noted the staff's assessment that the exchange rate may be somewhat undervalued (Box 4).

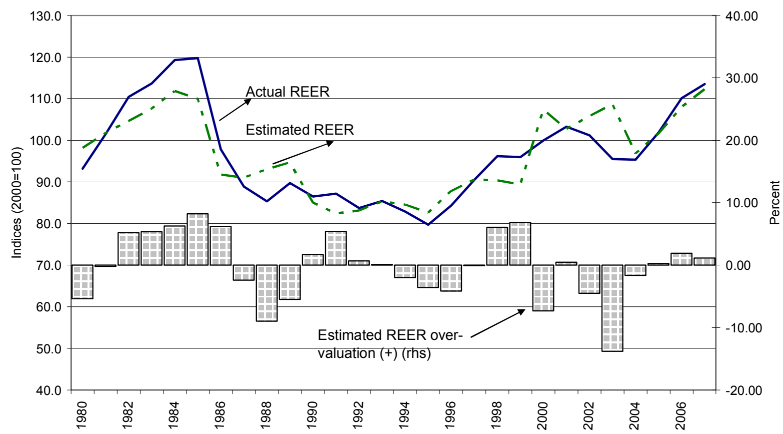
[6] The parliamentary legislation proposing the creation of a Financial Regulatory Authority (FRA) in Qatar has already been submitted to parliament.

[7] The authorities had planned on completing the transition to the single financial regulator by 2010.

Box 4. Qatar—Real Exchange Rate Assessment

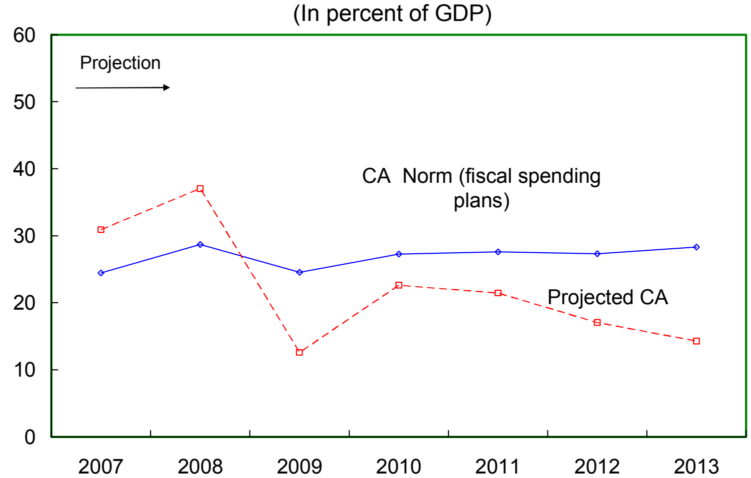
Qatar's real effective exchange rate (REER) has appreciated by 15 percent since 2004, reversing the 8 percent depreciation experienced during 2001–03. The depreciation until 2003 reflected relatively low domestic inflation, together with the depreciation of the U.S. dollar against the Euro. Since then, the appreciation of the REER has been mainly due to rising domestic inflation. Oil prices spiked between 2003 and mid-2008, with the sharp improvement in Qatar's terms-of-trade (TOT) suggesting that the underlying equilibrium real effective exchange rate should be more appreciated than before the oil price increase.

Qatar—Equilibrium Real Exchange Rate Assessment, 1980–2007



The equilibrium exchange rate approach suggests that the level of the Qatari riyal is broadly in line with the fundamentals. Low domestic inflation coupled with U.S. dollar depreciation during 2000–04 led to undervaluation (averaging 5½ percent) of the riyal. However, continued dollar appreciation and high domestic inflation during 2003–07, which coincided with high oil prices, saw a gradual real appreciation.

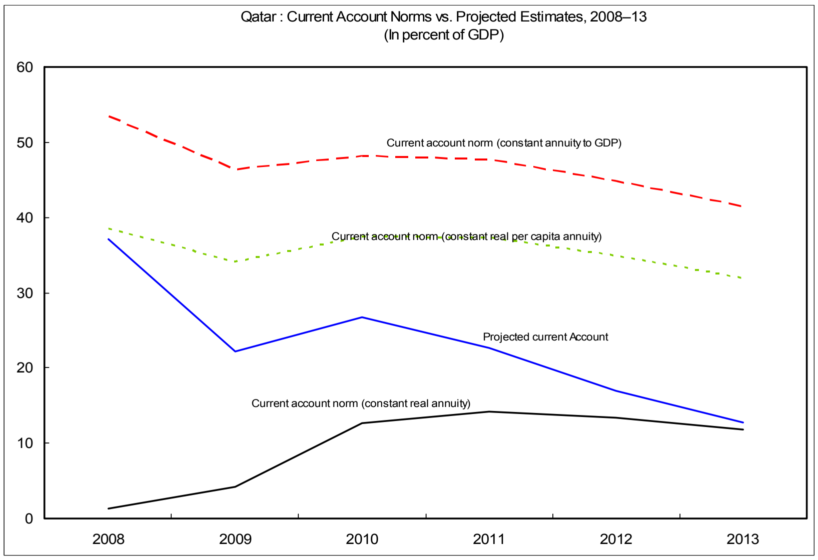
Qatar–Current Account Norms
(In percent of GDP)



The macroeconomic balance approach[1] based on panel data for the GCC countries, suggest some undervaluation. Qatar's average external current account norm for 2013 is estimated at 28 percent of GDP, which is lower than the observed current account surplus of 31 percent of GDP in 2007. Given the current futures market trajectory for oil prices over the medium term,[2] the surplus is projected to decline by 2013 to below the level of the norm for 2013.

Under the external sustainability approach (ESA), Qatar will have to run sizeable but declining budget and current account surpluses over the medium-to-long term to transform a sufficient amount of oil wealth into financial assets, suggesting some overvaluation.[3] The ESA provides an intergenerational approach to the use of expected resources, based on the net present value of future wealth. Annuities are calculated under three different policy objectives: (a) a constant share-of-GDP annuity; (b) a constant real per capita annuity; and (c) constant real annuity.

Qatar—Real Exchange Rate Assessment (continued)



[1] The variables used include the fiscal balance, the initial level of net foreign assets, gross foreign direct investment, oil prices, income relative to trading partners, real per capita GDP growth, population growth, and age dependency.

[2] Oil prices rose from about \$70 a barrel in August 2007 to \$147 a barrel in July 2008, before falling to \$90 a barrel in mid-September 2008 and further to under \$60 a barrel in mid-November 2008.

[3] The preliminary calculations assume (a) 27 billion barrel of oil reserves and 18.7 billion tons of gas reserves; (b) 1.5 percent decrease in oil production each year, and no growth in gas production each year after 2013; (c) annual average growth in real GDP of 3.5 percent; (d) an increase in the non-oil GDP deflator of 3.5 percent; and (e) a rate of return on external assets at 8 percent.

E. GCC Monetary Union

16. **Qatar remains committed to moving toward a monetary union with the rest of the GCC countries, but implementation may take longer than initially planned.**[8] The member countries are aware of the need to step up progress in the various areas necessary for the monetary union, including on the coordination of monetary, exchange rate, and reserves policy; the integration of clearing and settlement systems and common supervisory and regulatory standards; issues relating to the transition to a new currency; and the harmonization and compilation of regional economic statistics. However, a number of challenges need to be addressed, including the use of common fiscal criteria, given differing oil and gas reserves. Progress has been made, in operationalizing the common market, an important milestone in the process toward economic integration. The authorities are of the view that the global financial crisis would not have an adverse impact on the decision to establish a GCC Monetary Union.

IV. Structural Reforms and Statistics

17. **The authorities believe that an expansion of the non-oil revenue base is important** to reduce the economy's dependence on the hydrocarbon sector. In this regard, they are considering amending the current tax law in order to lower the corporate tax rate for foreign companies from 35 percent to 10 percent while implementing an initial low rate for national companies, with a view to unifying the tax rates in the future. The authorities are also studying the introduction of a value-added tax (VAT) as part of a GCC-wide initiative, and a revision of the existing tax holiday policy to significantly reduce benefits.

18. **Data provision is broadly adequate for surveillance purposes.** The authorities are considering several measures aimed at improving the quality of economic data provided to the Fund and the general public. They are now compiling and publishing quarterly nominal GDP data, plan to publish a monthly consumer price index (CPI), are in the process of updating the weights and items in the CPI basket, and introducing an international transactions reporting system (ITRS) that will provide more comprehensive data on external positions of reporting financial corporations. However, the central bank's plans to improve the coverage and compilation of balance of payments statistics are not progressing as quickly as envisaged and the central bank is currently assessing its technical assistance needs in this area. The QIA does not disclose financial information on its activities. The authorities have indicated that their investment strategy is long-term and driven by risk-return considerations,

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[8] Following the establishment of the Common External Tariff in 2003, the GCC governments agreed to form a common market by 2007 and a monetary union by 2010.

with a distinct bias toward foreign opportunities. Staff's estimate based on balance of payments and fiscal accounts data suggest that Qatar's net public International Investment Position (IIP),[9] excluding unknown foreign financial claims and liabilities of the private sector, is of the order of $70 billion. The authorities have indicated that they will provide an oral statement on QIA foreign assets to the Board, a similar approach to that followed under the 2007 Article IV consultation.

V. Staff Appraisal

19. **Qatar is the fastest growing economy in the GCC region and has so far managed well the impact of the global financial crisis.** The economy is expected to continue growing at a rapid pace in the near future, driven by a rapid expansion in LNG production (and related industries) and in investments aimed at economic diversification. The fiscal and external current accounts are projected to remain in surplus; however, the extent of the global financial crisis and the trend in oil prices will determine the medium-term policy mix and the accumulation of reserves in the QIA. Looking forward, the main risks relate to the financial sector if the fall in equity prices continues, and to the construction sector if some of the projects cannot be completed because of reduced availability of financing. In this regard, the authorities should continue to proactively manage expectations and vulnerabilities arising from the global crisis.

20. **Staff supports the authorities' strategy to build capacity and ease supply bottlenecks to contain inflation**, but underscores the need to continue containing government current expenditure and to phase the implementation of new investment projects, if needed, to slow the growth in aggregate demand. Although the freeze on rent increases and the price controls introduced recently on some commodities and raw materials could help contain short-term inflationary pressures, they are likely to generate costly distortions and should be applied as temporary measures.

21. **Fiscal expansion is projected to moderate over the medium term,** particularly through a decline in current expenditures relative to non-hydrocarbon GDP. This decline reflects the containment of wage increases and spending on other goods and services. However, the authorities are committed to completing committed investments in both hydrocarbon and non-hydrocarbon sectors, which could sustain fiscal expansion. Staff agrees that if the global crisis persists, government may need to resort to fiscal stimulus by

[9] Items comprising the IIP position at the end of a reference period typically include financial claims on and liabilities to nonresidents, equity assets and liabilities, financial derivative instruments, monetary gold, and SDRs.

increasing spending further on infrastructure projects to support demand and reduce negative feedback between the real and financial sectors.

22. **Regarding the financial sector, recent global events have demonstrated that market sentiment can change**—even if banks are sound and profitable. In this context, safeguarding the soundness of the banking system is crucial. Staff welcomes the monthly stress testing of the banking system by the central bank, and encourages the authorities to consider publishing them on a regular basis in the future. Although tests so far show that the measured risks are manageable and unlikely to derail the banking system, care must be taken to closely monitor and assess (a) various combinations of risks, including credit, equity, and real estate shocks, and (b) economic risks from oil price shocks. Also, it would be advisable to build an early warning system—the starting point being better and more inclusive efforts at gathering data for assessing risk.

23. **In light of the current global crisis and the authorities' commitment to establish a unified regulator for financial services, it would be more appropriate to implement this after the proposals for strengthening the international financial regulatory framework have been agreed upon.** In the interim, it is necessary for the QCB, the Ministry of Economy and Finance, and the new regulator to agree on a tri-partite memorandum of understanding spelling out their respective responsibilities, and to resolve the issue of access to the payments system by QFC-licensed institutions. Effective monitoring is also needed to close regulatory gaps during the transition period and to establish appropriate procedures to deal promptly with the issues that may arise with increased market competition. Staff also suggests that a formal mechanism be put in place for the QFC to report (during the transition period) to the QCB the financial statistics of QFC-licensed institutions.

24. **Staff supports the current commitment of Qatar to maintain the peg to the U.S. dollar during the period leading up to the formation of the GCC Monetary Union in 2010**. Although the peg has facilitated growth and macroeconomic stability and anchored monetary policy, the inflationary experience of the last two to three years has highlighted the complications for macroeconomic management when economic cycles and policy needs differ from that of the anchor country.[10] Recently, the argument for a revaluation of the riyal has been significantly reduced as international prices for food and raw materials have declined, and the U.S. dollar has appreciated against major currencies. Staff is of the view that if inflation persists in the period leading up to the monetary union, and the value of the

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[10] The pros and cons of alternative exchange rate regimes once the monetary union is established are examined in an Middle East and Central Asia Department (MCD) paper recently issued to the Executive Board (SM/08/284).

U.S. dollar reverses course (depreciates) for a sustained period, the authorities may need then to consider other options, such as pegging to a basket of currencies.

25. **External borrowing by financial institutions and large corporations needs to be monitored closely.** Presently there are no signs of vulnerability associated with external borrowing, given Qatar's large net creditor position, but the level of external debt has been rising sharply, and the authorities need to monitor the situation by collecting data and maintaining an adequate regulatory oversight.

26. **The authorities should move ahead with their plans to develop a government bond market.** The availability of government bonds would add depth to the financial market, permit the development of a benchmark yield curve, allow banks to better manage their liquidity, and eventually pave the way for the establishment of a corporate bond market.

27. **Given the increasing integration with the global economy and the proposed GCC Monetary Union, the authorities should continue to improve the quality of macroeconomic statistics.** Building on progress made through participation in the GDDS, priority should be given to improving the balance of payments financial account data, enhancing the timeliness and availability of data on public sector operations, and improving coordination across government agencies. Staff also urges the authorities to improve the provision of IIP data to the Fund. In particular, high priority should be given to expanding the reporting requirements for financial and other corporations, as well as government agencies in order to facilitate the compilation of IIP statistics.

28. It is proposed that Qatar remains on the standard 12-month Article IV consultation cycle.

Table 1. Qatar: Selected Macroeconomic Indicators, 2004–09

(Quota: SDR 263.80 million)
(Population: 0.9 million, 2007 estimate)
(Per capita income: $76,000, 2007 estimates)

	2004	2005	2006	Est. 2007	Proj. 2008	Proj. 2009
National income, production, and prices						
Nominal GDP (in million Qatari riyals)	115,512	154,565	207,183	258,590	367,957	408,554
Nominal hydrocarbon GDP (in million Qatari riyals)	62,922	92,071	118,707	146,143	219,760	223,967
Nominal GDP (in million U.S. dollars)	31,734	42,463	56,918	71,041	101,087	112,240
Nominal GDP per capita (in U.S. dollars)	41,949	53,333	67,922	76,374	92,097	92,125
Nominal GDP growth (in percent per annum)	34.8	33.8	34.0	24.8	42.3	11.0
Real GDP growth (in percent per annum)	17.7	9.2	15.0	15.3	16.4	29.0
Hydrocarbon 1/	12.5	6.0	10.7	16.2	18.2	43.9
Nonhydrocarbon	24.6	13.1	19.9	14.5	14.5	13.0
Crude oil output (in thousand barrels per day)	753	760	803	839	855	855
LNG production (in million tons per year)	18.9	21.2	24.7	27.4	34.9	65.0
Oil export price (in U.S. dollars per barrel)	35.19	51.69	62.93	70.02	98.19	53.40
CPI period average	6.8	8.8	11.8	13.8	15.1	10
Public finance	(In percent of GDP on fiscal year basis) 2/					
Total revenue	44.0	39.2	39.1	41.2	37.4	30.2
Hydrocarbon revenue	29.0	27.7	25.2	24.7	22.8	15.4
Other revenue	15.0	11.5	13.9	16.5	14.6	14.7
Total expenditure and net lending	28.8	30.3	30.5	29.6	25.4	25.4
Current expenditure	22.6	19.5	22.6	17.8	14.7	14.7
Capital expenditure (including net lending)	6.3	10.7	7.9	11.8	10.7	10.7
Overall fiscal balance	15.1	8.9	8.6	11.6	12.0	4.7
Excluding hydrocarbon revenue	-13.9	-18.8	-16.6	-13.2	-10.8	-10.7
Nonhydrocarbon fiscal balance in percent of nonhydrocarbon GDP	-31.5	-45.6	-38.7	-31.0	-26.1	-24.4
Excluding investment	-56.4	-66.2	-60.6	-56.0	-45.3	-42.6
Money and credit	(Annual change in percent)					
Broad money	20.8	42.9	39.6	39.5	38.7	30.2
Net foreign assets	23.2	50.3	28.1	0.3	20.4	8.9
Net domestic assets	17.6	32.7	57.4	88.6	50.8	41.5
Domestic credit	30.1	60.0	45.7	66.3	45.4	31.9
Claims on public enterprises	28.3	34.9	58.6	177.8	20.9	6.6
Claims on private sector	30.4	63.5	44.2	52.3	51.0	36.6
External sector	(In million U.S. dollars, unless otherwise stated)					
Trade balance	13,540	17,058	20,272	24,754	42,573	20,073
Exports	18,950	26,122	35,083	44,578	72,931	59,539
Of which: Crude oil and refined petroleum products	9,702	14,122	17,840	21,178	30,668	16,919
LNG and related exports	6,554	8,738	13,360	18,710	35,617	37,424
Other	2,694	3,261	3,883	4,690	6,646	5,196
Imports	-5,410	-9,064	-14,811	-19,824	-30,358	-39,466
Current account	7,100	14,100	16,113	21,951	37,457	13,964
In percent of GDP	22.4	33.2	28.3	30.9	37.1	12.4
Central bank reserves, gross	3,361	4,572	5,416	9,753	10,775	13,566
In months of imports of goods and services 3/	3.2	2.5	2.4	2.9	2.5	2.6
	(In million U.S. dollars, unless otherwise stated)					
Total external debt 4/	15,011	20,422	29,824	47,162	60,680	62,043
In percent of GDP	47.3	48.1	52.4	66.4	60.0	55.3
Government external debt	4,017	3,743	3,333	2,871	2,436	1,261
In percent of GDP	12.7	8.8	5.9	4.0	2.4	1.1
Debt service (in percent of exports of goods and services)	8.7	7.5	7.5	5.9	3.9	6.4
Government-guaranteed debt (in percent of GDP)	0.8	0.5	0.3	0.3	0.8	1.1
Memorandum Items:						
Exchange rates (riyal/U.S. dollars)	3.64	3.64	3.64	3.64	3.64	3.64
Real effective exchange rate (percent change, 2000=100)	-0.1	7.1	8.3	3.2	...	...
Credit rating (Moody's investor services)	A3	A1	Aa2	Aa2	...	...
Stock market index (cumulative growth, 2001=100)	384	653	422	566	...	

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

1/ Staff estimates; include crude oil, LNG, propane, butane, and condensate.
2/ Fiscal year begins in April.
3/ Next 12 months.
4/ Including commercial banks.

Table 2a. Qatar: Summary of Government Finance, 2004/05–2008/09 1/

(In million Qatari riyals)

	2004/05	2005/06	2006/07	Budget 2007/08	Est. 2007/08	Proj. 2008/09
Total revenue	55,065	65,685	86,062	72,457	117,790	141,352
Hydrocarbon revenue	36,319	46,381	55,429	42,095	70,748	86,257
Oil related	33,192	40,235	48,181	31,313	60,050	69,434
LNG related revenue	3,127	6,146	7,248	10,782	10,698	16,823
LNG (royalties)	3,127	6,146	7,248	10,782	10,698	16,823
Contingency	0	0	0	0	0	0
Other revenue	18,745	19,304	30,634	30,361	47,042	55,095
Investment income from public enterprises 2/	13,711	14,234	20,702	17,867	30,343	30,343
Corporate tax revenue	1,554	434	4,562	7,431	8,939	14,322
Other nontax revenue	3,480	4,636	5,370	5,063	7,760	10,430
Total expenditure	36,103	50,768	67,147	65,713	84,727	96,083
Current	28,270	32,755	49,751	44,733	50,923	55,609
Wages and salaries	7,940	6,657	12,993	15,627	14,875	18,779
Total interest payments	1,880	1,898	2,006	2,099	1,850	1,579
Interest on domestic debt	814	835	865	585	765	455
Interest on foreign debt	1,065	1,063	1,141	1,514	1,085	1,124
Foreign grants	324	449	1,978	364	1,448	354
Goods and services /3	16,555	22,738	31,661	21,971	26,368	29,626
Other current expenditures 4/	1,572	1,013	1,113	4,672	6,382	5,271
Development expenditure	7,833	18,013	17,396	20,980	33,804	40,474
Net lending	0	0	0	0	0	0
Overall balance	18,962	14,917	18,915	6,744	33,063	45,269
Nonhydrocarbon fiscal balance	-17,358	-31,464	-36,514	-46,134	-37,685	-40,988
Financing	-18,962	-14,917	-18,915	-6,744	-33,063	-45,269
Domestic financing (net) 5/	-1,622	-4,420	-5,143	...	-4,303	-1,791
Central bank (net)	-179	137	-376	...	0	0
Transfer to QCB	0	-1,820	0	...	-1,000	-1,000
Commercial banks (net) 5/	-1,443	-2,736	-4,767	...	-3,303	-791
Claims on government	-1,695	-2,438	-2,501	...	1,037	2,488
Government deposits	-252	299	2,265	...	4,340	3,279
Domestic non-banks	0	0	0	...	0	0
Foreign financing (net)	-17,340	-10,497	-13,772	...	-28,760	-43,477
Government foreign assets (increase -) 6/	-16,101	-9,582	-12,087	...	-27,075	-41,930
External borrowing (net)	-1,239	-915	-1,685	...	-1,685	-1,547
Drawing	0	0	0	...	0	0
Repayment	1,239	915	1,685	...	1,685	1,547
Memorandum items:						
Current balance 7/	26,795	32,930	36,311	27,724	66,867	85,743
Current nonhydrocarbon balance 8/	-9,525	-13,451	-19,118	-14,372	-3,881	-514
Total government debt	32,120	29,850	27,398	...	23,843	24,783
Government external debt	13,614	12,699	11,014	...	9,330	7,782
Government gross domestic debt	18,506	17,151	16,384	...	14,513	17,001
Government net domestic debt (net of deposits)	10,184	8,902	7,973	...	3,460	1,608
External debt service/total revenue (in percent)	4.2	3.0	3.3	...	2.4	1.9
Nominal GDP (on a fiscal year basis)	125,275	167,719	220,035	285,932	285,932	378,106

Table 2b. Qatar: Summary of Government Finance, 2004/05–2008/09 1/ (Continued)

(In percent of GDP)

	2004/05	2005/06	2006/07	Budget 2007/08	Est. 2007/08	Proj. 2008/09
Total revenue	44.0	39.2	39.1	25.3	41.2	37.4
Hydrocarbon revenue	29.0	27.7	25.2	14.7	24.7	22.8
Oil and gas (excluding LNG-related royalties)	26.5	24.0	28.7	18.7	35.8	41.4
LNG-related royalties	2.5	3.7	4.3	6.4	6.4	10.0
Other revenue	15.0	11.5	13.9	10.6	16.5	14.6
Investment income from public enterprises 2/	10.9	8.5	9.4	6.2	10.6	8.0
Corporate tax revenue	1.2	0.3	2.1	2.6	3.1	3.8
Other nontax revenue	2.8	2.8	2.4	1.8	2.7	2.8
Total expenditure	28.8	30.3	30.5	23.0	29.6	25.4
Current	22.6	19.5	22.6	15.6	17.8	14.7
Wages and salaries	6.3	4.0	5.9	5.5	5.2	5.0
Total interest payments	1.5	1.1	0.9	0.7	0.6	0.4
Interest on domestic debt	0.7	0.5	0.4	0.2	0.3	0.1
Interest on foreign debt	0.9	0.6	0.5	0.5	0.4	0.3
Foreign grants	0.3	0.3	0.9	0.1	0.5	0.1
Goods and services 3/	13.2	13.6	14.4	7.7	9.2	7.8
Other current expenditures 4/	1.3	0.6	0.5	1.6	2.2	1.4
Development expenditure	6.3	10.7	7.9	7.3	11.8	10.7
Net lending	0	0	0	0	0	0
Overall balance	15.1	8.9	8.6	2.4	11.6	12.0
Nonhydrocarbon fiscal balance	-13.9	-18.8	-16.6	-16.1	-13.2	-10.8
Nonhydrocarbon fiscal balance (in percent of nonhydrocarbon GDP)	-31.5	-45.6	-38.7	...	-31.0	-26.1
Financing	-15.1	-8.9	-8.6	-2.4	-11.6	-12.0
Domestic financing (net) 5/	-1.3	-2.6	-2.3	...	-1.5	-0.5
Central bank (net)	-0.1	0.1	-0.2	...	0.0	0.0
Transfer to QCB	0.0	-1.1	0.0	...	-0.3	-0.3
Commercial banks (net) 5/	-1.2	-1.6	-2.2	...	-1.2	-0.2
Claims on government	-1.4	-1.5	-1.1	...	0.4	0.7
Government deposits	-0.2	0.2	1.0	...	1.5	0.9
Foreign financing (net)	-13.8	-6.3	-6.3	...	-10.1	-11.5
Government foreign assets (increase -) 6/	-12.9	-5.7	-5.5	...	-9.5	-11.1
External borrowing (net)	-1.0	-0.5	-0.8	...	-0.6	-0.4
Memorandum items:						
Current balance 7/	21.4	19.6	16.5	9.7	23.4	22.7
Current nonhydrocarbon balance 8/	-7.6	-8.0	-8.7	-5.0	-1.4	-0.1
Total government debt	25.6	17.8	12.5	...	8.3	6.6
Government external debt	10.9	7.6	5.0	...	3.3	2.1
Government gross domestic debt	14.8	10.2	7.4	...	5.1	4.5
Government net domestic debt (net of deposits)	8.1	5.3	3.6	...	1.2	0.4

Sources: Ministry of Economy and Finance; and IMF 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/ Includes transfers to ministries and public enterprises less interest payments and grants.
4/ Corresponds to Chapter III "Minor capital expenses" in the budget.
5/ Information based on depository corporations survey.
6/ Excludes direct transfers made to State Reserve Fund and Stabilization Fund from oil and gas revenue.
7/ Total revenue minus current expenditure.
8/ Total nonhydrocarbon revenue minus current expenditure.

Table 3. Qatar: Depository Corporations Survey, 2005–09

(In million Qatari riyals)

	2004	2005	2006	Sep-07	2007	Sep-08	Proj. 2008	Proj. 2009
Net foreign assets	31,812	47,820	61,250	53,856	61,444	79,696	73,964	80,538
QCB	12,225	16,580	19,694	22,592	34,747	39,154	39,154	49,315
Assets 1/	12,233	16,643	19,715	22,787	35,500	39,221	39,221	49,382
Liabilities	8	63	21	195	753	67	67	67
Commercial banks	19,587	31,240	41,557	31,264	26,696	40,542	34,810	31,223
Assets	27,756	41,648	66,311	78,389	88,961	109,847	97,587	104,047
Liabilities	8,169	10,407	24,754	47,125	62,265	69,305	62,776	72,823
Net domestic assets	23,419	31,081	48,923	83,779	92,292	115,977	139,200	196,943
Claims on government (net)	11,172	8,265	3,728	2,714	-207	2,644	-2,527	2,575
Claims 2/	18,967	17,122	17,238	14,905	13,822	19,135	16,586	18,245
Deposits 3/	7,796	8,857	13,510	12,192	14,029	16,490	19,113	15,670
Domestic credit	38,170	61,079	88,986	135,647	147,944	199,686	215,136	283,840
Claims on public sector (net)	15,791	14,496	13,612	30,517	27,253	35,849	30,678	37,978
Claims on public enterprises 4/	4,619	6,231	9,884	27,804	27,460	33,205	33,205	35,403
Claims on private sector	33,551	54,847	79,102	107,843	120,485	166,482	181,932	248,437
Other items (net)	-25,923	-38,262	-43,791	-54,581	-55,446	-86,354	-73,410	-89,472
Broad money	55,231	78,901	110,173	137,635	153,735	195,672	213,164	277,480
Money	16,373	25,657	33,492	38,947	43,499	61,265	67,881	96,523
Currency in circulation	2,594	2,866	3,959	4,251	4,487	5,755	6,177	7,979
Demand deposits	13,779	22,791	29,533	34,696	39,012	55,510	61,704	88,544
Quasi-money	38,858	53,244	76,681	98,688	110,237	134,408	145,283	180,958
Savings and time deposits	22,822	28,409	39,622	53,345	69,508	84,010	100,767	131,202
Foreign currency deposits	16,036	24,836	37,059	45,344	40,729	50,398	44,517	49,756
Net foreign assets	23.2	50.3	28.1	...	0.3	48.0	20.4	8.9
Net domestic assets	17.6	32.7	57.4	...	88.6	38.4	50.8	41.5
Domestic credit	30.1	60.0	45.7	...	66.3	47.2	45.4	31.9
Claims on public enterprises	28.3	34.9	58.6	...	177.8	19.4	20.9	6.6
Claims on private sector	30.4	63.5	44.2	...	52.3	54.4	51.0	36.6
Broad money	20.8	42.9	39.6	...	39.5	42.2	38.7	30.2
Savings and time deposits	4.2	24.5	39.5	...	75.4	57.5	45.0	30.2
Memorandum items:								
Net claims on public enterprises	-5,747	-8,399	-11,630	...	-8,642	-10,195	-13,659	-14,563
Velocity of broad money (to total GDP)	2.09	1.96	1.88	...	1.68	1.88	1.73	1.47
Velocity of broad money (to nonhydrocarbon GDP)	0.95	0.79	0.80	...	0.80	0.76	0.70	0.67

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

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, 2005–09

(In million U.S. dollars)

	2005	2006	Est. 2007	Proj. 2008	Proj. 2009
Current account	14,100	16,113	21,951	37,457	13,964
In percent of GDP	33.2	28.3	30.9	37.1	12.4
Trade balance	17,058	20,272	24,754	42,573	20,073
Exports	26,122	35,083	44,578	72,931	59,539
Hydrocarbon	22,861	31,200	39,888	66,285	54,342
Crude oil	12,843	16,299	19,181	27,412	14,908
LNG	5,200	8,471	10,524	14,719	22,968
Propane, butane	781	1,156	1,617	4,951	3,804
Condensates	2,757	3,733	6,569	15,946	10,651
Refined petroleum products	1,279	1,541	1,997	3,256	2,011
Non-hydrocarbon	3,261	3,883	4,690	6,646	5,196
Petrochemicals	1,958	2,265	2,632	4,399	2,739
Others	1,303	1,618	2,058	2,247	2,457
Imports	-9,064	-14,811	-19,824	-30,358	-39,466
Non-LNG/QP goods	-7,349	-5,773	-12,912	-21,560	-28,901
LNG related	-880	-2,956	-3,577	-4,364	-5,280
QP project-related imports	-835	-2,635	-3,335	-4,435	-5,285
Services (net)	-924	-2,763	-542	-1,314	-541
Income (net)	542	2,341	1,524	1,856	2,171
Receipts 1/	1,302	3,402	3,740	4,072	4,537
Payments 2/	-760	-1,061	-2,216	-2,216	-2,366
Transfers (net)	-2,576	-3,736	-3,785	-5,658	-7,738
Of which: workers remittances	-3,006	-3,914	-3,165	-4,548	-5,954
Capital account	-753	-991	-1,131	-1,491	-1,857
Financial account	-6,325	-8,598	-14,670	-34,756	-9,316
Direct Investment, net 3/	2,500	3,500	4,700	6,700	7,200
Portfolio borrowing, net 3/	1,225	234	794	-137	254
Assets	-769	-784	-780	-1,248	-1,248
Liabilities	1,994	1,018	1,574	1,111	1,502
Government bonds	-157	-297	-219	-283	-1,283
Public enterprise bonds	2,151	1,315	1,792	1,394	-219
Other investment (net)	-4,925	-7,286	-10,883	-18,227	-18,865
Assets	-9,721	-12,747	-17,915	-25,903	-23,170
Trade credits	382	428	606	2,029	-1,648
Government external assets 4/	-10,102	-13,175	-18,521	-27,932	-21,522
Liabilities 5/	4,795	5,461	7,032	7,675	4,305
Commercial banks, net	-3,201	-2,834	4,083	-2,229	985
Other capital, net	-1,924	-2,212	-13,363	-20,863	1,110
Errors and omissions	-5,825	-5,668	-2,015	0	0
Overall balance	1,196	855	4,136	1,211	2,791
Change in QCB net foreign assets	-1,196	-855	-4,136	-1,211	-2,791

Sources: Qatar Central Bank; and IMF 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, 2003–07

(In percent; unless otherwise indicated)

	2003	2004	2005	2006	Est. 2007
External solvency indicators					
REER (CPI based - end of period)	-5.7	-0.1	7.1	8.3	3.2
Total debt (in billion U.S. dollars, including commercial banks)	13.4	15.0	20.4	29.8	47.2
Of which: LNG-related	2.6	2.4	6.7	10.9	15.8
Total debt (in percent of GDP)	56.7	47.3	48.1	52.4	66.4
Debt service/exports of goods and services	23.8	8.7	7.5	7.5	5.9
Public sector solvency indicators					
Government gross domestic debt/GDP	22.3	14.8	10.2	7.4	5.1
Government net domestic debt/GDP 1/	32.9	20.6	14.0	9.2	4.9
Government external debt/GDP 2/	15.9	10.9	7.6	5.0	3.3
Total debt service/total revenue	11.9	8.7	8.0	7.2	3.0
Interest payments/total revenue	6.3	3.4	2.9	2.3	1.6
Hydrocarbon revenue/total revenue	64.3	66.0	70.6	64.4	60.1
External liquidity indicators (in million U.S. dollars)					
Central bank net reserves	2,873	3,358	4,555	5,410	9,546
In months of imports	4.1	3.2	2.5	2.4	2.9
Commercial banks net foreign assets (in million U.S. dollars)	4,220	5,381	8,583	11,417	7,334
Foreign assets	5,348	7,625	11,442	18,217	24,440
Foreign liabilities	1,127	2,244	2,859	6,801	17,106
Crude oil exports/total exports	55.4	51.2	54.1	50.9	47.5
Financial sector indicators					
Foreign currency deposits/total deposits	26.8	30.5	32.7	34.9	27.3
Net domestic credit (percent change)	5.3	18.5	40.5	33.7	59.3
Private sector credit (percent change)	27.3	30.4	63.5	44.2	52.3
Net domestic credit/GDP	48.6	42.7	44.9	44.7	57.1
Private credit/total assets of banks	33.8	36.5	42.1	41.7	40.9
Market assessment/financial market indicators					
Stock market index (end of period)	3,947	6,494	11,053	7,133	9,580
Moody's investor services	A3	A3	A1	Aa2	Aa2
Standard and Poor's 3/	A+	A+	A+	AA-	AA-

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

1/ Net of government deposits with resident banks.
2/ Fiscal year basis.
3/ Long-term foreign currency rating.

Table 6. Qatar: Medium-Term Baseline Scenario, 2005–13

(In million Qatari riyals, unless otherwise indicated)

			Est.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
				(Percent change, unless otherwise indicated)					
National income, production, and prices									
Nominal GDP (in million Qatari riyals)	154,565	207,183	258,590	367,957	408,554	546,477	623,957	693,708	761,943
Real GDP	9.2	15.0	15.3	16.4	29.0	17.1	4.9	5.3	5.5
Hydrocarbon 1/	6.0	10.7	16.2	18.2	43.9	20.2	0.2	0.5	0.4
Nonhydrocarbon GDP	13.1	19.9	14.5	14.5	13.0	12.8	11.7	11.5	11.4
Crude oil production, in thousand barrels per day	760	803	839	855	855	1,000	967	931	931
LNG Production (in million tons)	21.2	24.7	27.4	34.9	65.0	78.0	78.0	78.0	78.0
Qatar oil export price (in U.S. dollars per barrel)	51.7	62.9	70.0	98.2	53.4	63.7	70.1	73.8	76.3
CPI period average	8.8	11.8	13.8	15	10.2	8.2	7.3	6.2	5.1
Terms of trade	28.7	9.1	0.7	34.9	2.8	0.2	-0.7	-0.5	-0.8
				(In million Qatari Riyals)					
Central government finances 2/									
Total revenue	65,685	86,062	117,790	141,352	133,611	178,858	203,567	218,701	223,020
Hydrocarbon revenue	46,381	55,429	70,748	86,257	68,409	95,781	108,464	112,478	116,670
Other revenue	19,304	30,634	47,042	55,095	65,202	83,077	95,103	106,222	106,350
Total expenditure	50,768	67,147	84,727	96,083	112,639	137,120	152,768	165,875	169,763
Current	32,755	49,751	50,923	55,609	65,216	76,551	85,485	92,807	101,343
Capital	18,013	17,396	33,804	40,474	47,423	60,569	67,283	73,069	68,420
Overall balance	14,917	18,915	33,063	45,269	20,972	41,738	50,799	52,825	53,257
In percent of GDP	8.9	8.6	11.6	12.0	4.7	7.4	7.9	7.4	7.8
Nonhydrocarbon balance	-31,464	-36,514	-37,685	-40,988	-47,437	-54,042	-57,665	-59,653	-63,413
In percent of GDP	-18.8	-16.6	-13.2	-10.8	-10.7	-9.6	-9.0	-8.4	-9.3
In percent of nonhydrocarbon GDP	-45.6	-38.7	-31.0	-26.1	-24.4	-22.9	-20.4	-17.9	-16.3
Government net debt 3/	21,601	18,987	12,790	9,390	2,624	4,461	40	-1,268	-2,049
In percent of GDP	14.0	9.2	4.9	2.6	0.6	0.8	0.0	-0.2	-0.3
External debt service (percent of total revenue)	3.0	3.3	2.4	1.9	4.2	0.6	0.1	0.1	0.1
				(In million U.S. dollars, unless otherwise indicated)					
External sector									
Current account	14,100	16,113	21,951	37,457	13,964	33,951	36,783	32,503	29,912
In percent of GDP	33.2	28.3	30.9	37.1	12.4	22.6	21.5	17.1	14.3
Trade balance	17,058	20,272	24,754	42,573	20,073	38,154	40,388	35,735	31,459
Exports	26,122	35,083	44,578	72,931	59,539	87,486	102,054	109,734	115,501
Crude oil	14,122	17,840	21,178	30,668	16,919	26,184	30,824	31,105	32,718
LNG	8,738	13,360	18,710	35,617	37,424	53,786	62,121	68,243	70,886
Other exports	3,261	3,883	4,690	6,646	5,196	7,516	9,109	10,386	11,897
Imports	-9,064	-14,811	-19,824	-30,358	-39,466	-49,332	-61,665	-73,999	-84,042
LNG related	-880	-2,956	-3,577	-4,364	-5,280	-6,389	-7,794	-9,587	-11,792
Project related imports	-835	-6,082	-3,335	-4,435	-5,285	-6,185	-7,305	-8,425	-9,545
Other imports	-7,349	-5,773	-12,912	-21,560	-28,901	-36,759	-46,566	-55,986	-62,705
Volume of exports	0.7	13.0	15.0	6.5	-21.9	46.6	17.0	7.6	5.3
Volume of imports	57.6	49.9	22.0	34.4	27.8	24.9	24.4	19.5	12.8
Services, net	-924	-2,763	-542	-1,314	-541	1,112	2,277	3,280	4,141
Income, net	542	2,341	1,524	1,856	2,171	4,681	6,260	7,962	9,816
Current transfers, net	-2,576	-3,736	-3,785	-5,658	-7,738	-9,996	-12,143	-14,474	-15,503
Overall balance	1,196	855	4,136	1,211	2,791	2,878	8,222	3,366	3,148
Central bank reserves, net	4,555	5,410	9,546	10,757	13,548	16,426	24,648	27,996	31,144
In months of imports of goods and services 4/	2.5	2.4	2.9	2.5	2.6	2.6	3.3	3.3	3.4
Total external debt (excluding banks)	17,563	23,024	30,056	37,732	42,037	54,980	68,773	82,082	95,285
Total external debt (excluding banks, in percent of GDP)	41.4	40.5	42.3	37.3	37.5	36.6	40.1	43.1	45.5
Total external debt (including banks, in percent of GDP)	48.1	52.4	66.4	60.0	55.3	54.4	57.9	60.9	63.3
Official external debt	3,743	3,333	2,871	2,436	1,261	746	694	694	694
Total external debt service	2,161	2,941	3,051	3,160	4,473	5,475	6,320	6,900	7,785
In percent of exports of goods and services	7.5	7.5	5.9	3.9	6.4	5.4	5.3	5.3	5.7
In percent of GDP	5.1	5.2	4.3	3.1	4.0	3.6	3.7	3.6	3.7
				(In percent of GDP)					
Saving-investment balance									
Gross investment	35.5	31.7	33.8	30	35	32	31	30	28
Nongovernment sectors	25.5	23.2	22.4	19	24	21	21	19	19
Gross national saving	68.7	60.0	64.7	67	48	54	53	47	42
Nongovernment sectors	44.4	39.3	38.7	43	29	36	34	28	26

Sources: Qatari authorities; and IMF 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.

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IMF Executive Board Concludes 2008 Article IV Consultation with Qatar

On January 21, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar.[1]

Background

Qatar's macroeconomic performance was strong in 2008, notwithstanding the global financial crisis. Overall real gross domestic product (GDP) growth is estimated at 16 percent in 2008, driven by expansions in the production of oil, liquefied natural gas (LNG), and condensates, and a strong performance in manufacturing, construction, and financial services. However, inflation remained high at 15 percent, reflecting high rent and food prices, as well as large public outlays and a rapid expansion in private sector credit. The overall fiscal surplus (12 percent of GDP in FY2007–08) reflected a large increase in oil revenue and a slowdown in expenditure relative to FY2006–07. The external current account recorded a large surplus (about 37 percent of GDP) despite the almost 50 percent growth in imports (mainly capital goods).

The global turmoil has had a limited impact so far on the banking system. Recent assessments indicate that potential stresses are manageable. At the same time, weak sentiment has weighed on shares and the equity market declined (30 percent), although the underlying fundamentals remain strong.

[1] 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.

Qatar is expected to perform at least as strong in 2009, driven by a rapid expansion in LNG production (and related industries) and in investments aimed at economic diversification. Inflation is projected to fall in 2009, as a result of the passthrough of declining international prices for food and raw materials and a slower increase in domestic rents owing to a larger supply of low- and middle-income housing. The fiscal and external current accounts are projected to remain in surplus in 2009, despite the lower oil prices.

Qatar's medium-term outlook is positive, with continuing strong growth, gradually declining inflation, and fiscal and external current account surpluses. The main risks to this outlook include a prolonged global financial crisis, persistently low oil prices, a large decline in real estate prices, reduced availability of financing for projects, and an escalation in geopolitical tensions.

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, 2004–08

	2004	2005	2006	2007	2008
Production and Prices					
Real GDP (in percent per annum)	17.7	9.2	15.0	15.3	16.4
Hydrocarbon 1/	12.5	6.0	10.7	16.2	18.2
Nonhydrocarbon GDP	24.6	13.1	19.9	25.7	30.6
Nominal GDP (in billion U.S dollars)	31.7	42.5	56.9	71.0	101.1
Consumer price index (period average)	6.8	8.8	11.8	13.8	15
	(In percent of GDP on fiscal year basis) 2/				
Public Finance					
Total revenue	44.0	39.2	39.1	41.2	37.4
Hydrocarbon revenue	29.0	27.7	25.2	24.7	22.8
Other revenue	15.0	11.5	13.9	16.5	14.6
Total expenditure and net landing	28.8	30.3	30.5	29.6	25.4
Current expenditure, *of which:*	22.6	19.5	22.6	17.8	14.7
Wages and salaries	6.3	4.0	5.9	5.2	5.0
Capital expenditure	6.3	10.7	7.9	11.8	10.7
Overall fiscal balance (deficit -)	15.1	8.9	8.6	11.6	12.0
	(Annual change in percent)				
Money					
Broad money	20.8	42.9	39.6	39.5	38.7
Claims on private sector	30.4	63.5	44.2	52.3	51.0
	(In million U.S. dollars, unless otherwise stated)				
External Sector					
Exports of goods and services, *of which:*	20,658	28,709	39,276	51,340	81,117
Crude oil and refined petroleum products	9,702	14,122	17,840	21,178	30,668
LNG and related exports	6,554	8,738	13,360	18,710	35,617
Imports of goods and services	-8,316	-12,575	-21,767	-27,128	-39,858
Current account	7,100	14,100	16,113	21,951	37,457
In percent of GDP	22.4	33.2	28.3	30.9	37.1
Central Bank reserves, net	3,358	4,555	5,410	9,546	10,757
In months of imports of goods and services 3/	3.2	2.5	2.4	2.9	2.5
Exchange rates (riyals/U.S. dollars)	3.64	3.64	3.64	3.64	4.64
Real effective exchange rate (percent change)	-0.1	7.1	8.3	3.2	...

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

1/ Staff estimates; include crude oil, LNG, propane, butane, and condensate.
2/ Fiscal year begins in April.
3/ Next 12 months.