

SM/09/1
Correction 1

January 30, 2009

To: Members of the Executive Board
From: The Acting Secretary
Subject: **Qatar—Staff Report for the 2008 Article IV Consultation**

The attached correction to SM/09/1 (1/5/09) has been provided by the staff:

Typographical Error

Page 9, para. 4, line 1: for “24 percent” read “29 percent”

Questions may be referred to Mr. Leon (ext. 36115) and Mr. Prasad (ext. 37737) in MCD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

I. MEDIUM-TERM ECONOMIC OUTLOOK AND RISKS⁴

4. **Qatar's medium-term outlook is positive.** Real GDP growth is projected at 29 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

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

⁵A 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.