February 25, 2020
Approval: 3/3/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/44-1

11:20 a.m., May 18, 2018

1. Qatar—2018 Article IV Consultation

Documents: SM/18/81 and Correction 1; and Correction 2, and Correction 3, and Supplement 1; SM/18/82, and Correction 1, and Correction 2

Staff: El Qorchi, MCD; Goodman, SPR

Length: 20 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	**Alternate Executive Directors**
	D. Mahlinza (AE)
	M. Raghani (AF)
	C. Moreno (AG), Temporary
	G. Johnston (AP)
	K. Eckhorst (BR), Temporary
	K. Lok (CC), Temporary
	J. Rojas (CE)
	M. Sylvester (CO), Temporary
	O. Bayar (EC)
	P. Chotard (FF), Temporary
	K. Merk (GR)
	P. Dhillon (IN), Temporary
	L. Cerami (IT), Temporary
	Y. Saito (JA)
J. Mojarrad (MD)	
H. Beblawi (MI)	
	T. Manchev (NE), Temporary
	K. Virolainen (NO)
	L. Palei (RU)
	F. Rawah (SA), Temporary
J. Agung (ST)	
	P. Inderbinen (SZ)
	R. Masood (UK), Temporary
	M. Svenstrup (US), Temporary

C. McDonald, Acting Secretary
H. Malothra, Summing Up Officer
D. Jiang, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Legal Department: C. Blair, A. El Murr. Middle East and Central Asia Department: O. Adedeji, J. Azour, M. El Qorchi, A. Guscina, A. Husain, I. Lukonga, A. Panagiotakopoulou, E. Roos. Monetary and Capital Markets Department: S. Shahid. Strategy, Policy, and Review Department: M. Goodman, A. Touna Mama.

Executive Director: M. Claver-Carone (US), M. Erbenova (EC). Senior Advisors to Executive Directors: W. Abdelati (MI), M. Choueiri (MI), C. Sassanpour (MD), M. Sidi Bouna (AF). Advisors to Executive Directors: P. Al-Riffai (MI), S. Ismail. (ST), R. Lopes Varela (AF), M. Merhi (MI), Y. Minoura (JA), G. Nadali (MD), W. Nakunyada (AE), A. Park (AP), S. Potapov (RU), A. Zaborovskiy (EC).

1. QATAR—2018 ARTICLE IV CONSULTATION

Mr. Beblawi and Ms. Al-Riffai submitted the following statement:

The Qatari authorities extend their appreciation to staff for the Article IV process, their engagement, and the helpful staff reports.

Qatar continues to adjust to lower hydrocarbon prices and the diplomatic rift with some countries in the region. Economic activity slowed down somewhat in the past year due to a moratorium on oil production related to OPEC+ deal and the ongoing fiscal consolidation. However, the authorities' rapid deployment of fiscal buffers and liquidity injections into the banking sector, coupled with the development of new trade routes, helped the Qatari economy absorb the impact of lower growth, including from the diplomatic rift. The authorities' actions are contributing to the acceleration of the diversification of the economy away from the hydrocarbon sector, while reinvigorating private sector engagement.

Going forward, the authorities concur with staff that the availability of significant external and fiscal buffers and the strong financial sector should enable Qatar to withstand downside risks, including lower-than-envisaged oil prices, tighter global conditions, and a possible escalation of the diplomatic rift.

Recent Developments

Though economic activity slowed slightly in 2017, it was led by growth in the non-hydrocarbon sector. Significant investment in infrastructure aims to help diversify the economy as well as prepare it for the FIFA 2022 World Cup. A self-imposed moratorium on new projects in the North Oil Field has been recently lifted and the authorities intend to increase liquified natural gas (LNG) production capacity by 30 percent. That, in addition to the ongoing efforts to increase domestic production of selected food items and encourage tourism, could lead to higher growth than anticipated by staff. At the same time, the authorities consider that inflation could be lower than staff's projection due to a lower estimate of the impact of the VAT introduction.

Qatar's banking sector remains healthy, reflecting high asset quality and strong capitalization, and macro-financial indicators are improving in 2018 compared to mid-2017. The CDS spreads have come down, the stock market has recovered, and non-resident deposits have started to flow back in.

Recently rising oil prices and lower imports have led to a current account surplus in 2017 compared to a large deficit in the previous year, and international reserves have been increasing. Overall, the economic and financial impacts of the diplomatic fallout have been contained and the authorities were able to maintain their policy priorities of achieving growth-friendly fiscal consolidation, preserving financial stability, and deepening structural reforms to enhance private sector-led growth.

Fiscal Policy and Reforms

The authorities have demonstrated their commitment to gradual and growth-friendly fiscal consolidation. Using a combination of expenditure rationalization and domestic resource mobilization, they are prioritizing pro-growth spending, including on infrastructure and on health and education. The pace of fiscal consolidation has been gradual to avoid slowing down growth and preserve infrastructure spending, in view of the significant fiscal and external buffers accumulated in the Sovereign Wealth Fund (SWF). The authorities are committed to preserving intergenerational equity. Qatar's accumulated savings made up 334 percent of the stock of government debt in 2017 and more than 112 times the projected fiscal deficit for 2018, giving the authorities room to go even slower, if necessary, in their fiscal consolidation efforts in the event of adverse shocks or if required by cyclical conditions.

The general government deficit narrowed to 6 percent of GDP in 2017 from 9.3 percent in the previous year, and is expected to narrow even further to 1.4 of GDP in 2018, largely due to restrained spending. The authorities intend to continue addressing underlying spending inefficiencies, including by limiting the growth of the public wage bill and expenditure on good and services. On the revenue side, they plan to further mobilize domestic resources to create the fiscal space for more growth-friendly expenditure. In addition to water and electricity rate reforms, higher domestic fuel prices (now adjusted regularly in line with movements in international prices), and other revenue generating measures initiated previously, the authorities plan to implement the VAT and excise tax on tobacco and carbonated drinks by the end of 2018. Utility companies will continue to focus on cost recovery and plan to achieve full market price commercialization over ten years.

Fiscal reforms rank high on the authorities' agenda. They have formulated their medium-term fiscal framework with key macroeconomic assumptions. They are keen to move to a medium-term budgetary framework and a performance-based budgeting system and would require capacity strengthening and technical assistance from the Fund. Important progress has also been made in establishing the Macro-Fiscal Unit and ensuring improved efficiency of public investment through the public investment unit.

Monetary and Financial Sector

The Qatari financial sector is sound, resilient, and liquid due to a robust regulatory framework and effective supervision. Liquidity injections by the QCB and deposits by Qatar Investment Authority, immediately following the rift, have significantly supported liquidity as well as depositor and investor confidence, and prevented negative feedback loops with the real economy. The decline in non-resident liabilities of banks has abated, obviating the need for further support of the authorities to the banking system, as banks mobilize funding from diversified sources. In mobilizing new funding, Qatari domestic banks went on roadshows to previously untapped regional markets to attract new investors and depositors.

QCB's ability to supervise and regulate the banking system is strong as evidenced by the early adoption of Basel III standards. NPLs remain low at 1.6 percent, the capital adequacy ratio is at 16.6 percent, and provisions to NPL ratios are at a comfortable level. Even under severe shock scenarios, Qatari banks meet the relevant regulatory standards. QCB's stress tests for December 2017 suggest that the banking system is resilient to severe shocks as is corroborated by staff's recent estimates of the resilience of the banking system to macroeconomic shocks. Tighter macro-prudential policies to further improve the liquidity profile of the banking system and its asset quality such as the recent loan-to-deposit ratio requirement of 100 percent (January 2018) underscore the authorities' vigilance to prevent and mitigate systemic risks.

The authorities are carefully monitoring developments in the real estate market and the related price movements. Their Second Strategic Plan for the Financial Sector focuses on developing financial markets, ensuring financial inclusion, and fostering financial innovation that seeks to reach out to a broader base through cost-effective technology. This focus is especially relevant as Qatar moves towards economic diversification and greater private sector engagement. The authorities are also cognizant of the challenges and risks that come with increased reliance on FinTech and stand ready to address them.

The authorities remain committed to strengthening the AML/CFT framework. They are putting in place a comprehensive mechanism to manage risks and giving priority to the combating of terrorist financing legal framework, as well as to the assessment of national risks.

Private Sector Development, Diversification, and Other Structural Reforms

The authorities are advancing their structural reform agenda to improve the business environment. Economic diversification and private sector development have been long standing-goals as highlighted in both Qatar's First National Development Strategy (NDS) for 2011-16 and the recently released Second NDS for 2018-22. Recently, due to low hydrocarbon prices and the diplomatic rift, economic diversification and increased private sector engagement have gained prominence in policy focus, evident in the strong growth in the non-hydrocarbon sector in 2017. Leading the non-hydrocarbon sectors are the construction and service sectors, including trade, financial services, and real estate. The tourism sector is a sector of interest due to its potential to significantly contribute to Qatar's economy. The authorities are relying on evidence-based research to inform their policy design, including to attract visitors from previously untapped regions of the world, as evidenced by the recently announced visa-free entry program for 80 nationalities.

The authorities are putting in place the infrastructure needed to encourage private sector involvement in economic activity. They are working towards ensuring majority foreign ownership of companies, approved a draft law to grant permanent residency to foreigners who provide "outstanding services to Qatar," and put in place a worker dispute settlement committee as well as a trust fund in case workers face bankruptcy. In addition, the authorities are considering establishing a minimum wage under the International Labor Organization framework and a new law to protect expatriate labor providing domestic help. They plan to set up special economic zones to further encourage FDI and promote diversification. They have launched privatization initiatives, such as in the health and education sectors, and are encouraging increased women's participation in the labor force and women economic empowerment more broadly.

Mr. Fachada and Mr. Eckhorst submitted the following statement:

We thank staff for the reports and Mr. Belbawi and Ms. Al-Riffai for their insightful statement. Notwithstanding the deceleration in non-energy growth, Qatar's economy has demonstrated resilience to the significant commodity price shock and the diplomatic rift with some countries in the region. Qatar's economic resilience is backed by large buffers and a strong macroeconomic policy framework, which have helped the economy cope with the exogenous shocks.

Qatar's medium-term prospects are positive, with risks broadly balanced. Although growth is expected to be lower than pre-commodity price shock levels, the current account, official reserves and fiscal balance are all anticipated to improve in the near to medium term. Against this backdrop and with government's net worth estimated above 150 percent of GDP in 2018, debt sustainability remains extremely comfortable. However, given the inherent uncertainty in the future path of energy prices and tightening global financial conditions, we encourage the authorities to continue their reform agenda aimed at diversifying the economy, while gradually rebuilding fiscal and external buffers.

Given Qatar's sizeable buffers, the on-going gradual approach towards fiscal consolidation is appropriate. We take positive note of the authorities' consolidation efforts to date, and the improved fiscal position in 2017 vis-à-vis 2016. We welcome the authorities' plans to further rationalize expenditures and reduce subsidies, while implementing measures that will increase non-hydrocarbon revenues, such as the introduction of a value added tax (VAT). Meanwhile, broader fiscal reforms such as the formulation of a medium-term fiscal framework, progress towards establishing a Macro-Fiscal Unit and improving the efficiency of public investment are commendable initiatives. Additionally, the authorities' plan to use future fiscal surpluses for both the accumulation of international reserves and increase asset holding of the Qatar Investment Agency (QIA) is prudent.

Supported by a strong regulatory framework, Qatar's financial system appears sound. We commend the Qatar Central Bank (QCB) for its decisive and swift actions to maintain healthy liquidity levels in the banking system in the aftermath of the diplomatic rift, and concur that the development of a liquidity forecasting framework could be beneficial. Ongoing efforts to strengthen macroprudential regulations and consolidated financial supervision should help the authorities detect and address potential risks from related party lending, the real estate sector and other external shocks. Meanwhile, efforts to increase financial inclusion, foster financial innovation and encourage debt market development, which can lower funding pressures in the domestic banking sector are also welcomed. We concur with staff that authorities should continue to strengthen their AML/CFT framework, and encourage the Fund to also continue to provide support and technical assistance in this regard.

Structural reforms should foster further transformation and diversification of the Qatari economy. We agree with staff that laws that promote equal pay and women inclusion in the labor force would contribute to inclusive growth. The introduction of special economic zones (SEZ) together with the enhancement of contract enforcement could help improve competitiveness and encourage further development of non-hydrocarbon industries.

Mr. Doornbosch, Ms. Kalezic and Mr. Manchev submitted the following statement:

We thank the staff for the comprehensive set of papers and Mr. Beblawi and Ms. Al-Riffai for their informative buff statement. Qatar's economy demonstrated commendable resilience to the lower hydrocarbon prices since 2015 and the political uncertainty last year. Macro-financial implications of these sizable external shocks were successfully contained by robust fiscal and external buffers, leveraged by prudent fiscal consolidation measures and ample support to the financial system amidst a decline in non-resident liabilities. As the political and commodity prices related risks remain elevated, further efforts aimed at diversifying the economy, strengthening financial stability and improving the country's growth potential remain highly warranted. Since we broadly agree with staff's appraisal, the comments below are provided for emphasis.

Qatar's comfortable fiscal stance allows for gradual consolidation to preserve long-term sustainability of the public finances. We welcome the authorities' strategy to mobilize tax revenues through a VAT introduction that will broaden the government revenue structure and build a stable tax revenue base. This, together with the reduction of the recurrent expenditures, underpins the authorities' efforts to achieve intergenerational equity. The authorities' efforts seem to produce tangible results. Qatar's fiscal deficit has been narrowing since 2015, while the comfortable level of public debt and sizeable reserves of Qatar's Investment Authority (QIA) sets the scene for further gradual consolidation efforts. We especially support staff's view on the importance of closing the large public to private wage gap by tightening the eligibility for allowances that would pave the way to public sector employment reforms. Similarly, we are supportive of the authorities' intentions to press ahead with the water and energy price reforms. Given that staff recommends a decrease of the wage bill, what is the estimate of the desired level of fiscal savings based on this recommendation?

The banking sector remains sound amidst a sizable decline in the non-resident liabilities following the Gulf Cooperation Council's diplomatic rift. We note the timely liquidity support provided by the central bank and the QIA, as well as the ability of banks to mobilize funding from other (non-GCC) sources. We welcome the fact that the decline in non-resident liabilities eased, thus alleviating pressure on the central bank reserves and QIA. The macro-financial risks stemming from the nonfinancial corporate sector are well-contained, as the sector remains resilient to earnings and interest rate shocks. Yet, careful monitoring of the risks related to the unfavorable real estate market trends is warranted. Credit risks related to real estate activities, widespread connected lending and the impact of the normalization of the interest rates on lending should be closely monitored. To this end, we support the authorities' efforts to strengthen macro-prudential regulation and consolidated supervision.

Economic diversification supported by enabling the business environment are pivotal to increase Qatar's long-term growth potential. Further progress with the structural reforms is necessary to continue improving competitiveness, private sector development and the overall business climate. Enhancement of the contract enforcement procedures, allowing majority foreign ownership are welcome steps in that regard. We also take note of the increasing support of the government towards educational and economic empowerment of women and their leadership while the participation of the female labor force is still low. The staff should analyze more thoroughly the impact of the potential rise in the participation of female labor force on growth potential in Qatar and the other GCC countries.

Finally, we support the authorities' efforts to enhance macroeconomic statistics and encourage subscription to the Fund's Special Data Dissemination Standard.

Mr. Merk and Mr. Rosenberger submitted the following statement:

We thank staff for their comprehensive set of papers and Mr. Beblawi and Ms. Al-Riffai for their concise buff statement. We broadly concur with the thrust of staff's appraisal. The Qatari authorities have been faced with two main challenges, the low level of hydrocarbon prices and the June 2017 diplomatic rift with some countries in the region, which have significant trade and financial ties to Qatar. The fiscal deficits resulting from low hydrocarbon prices have already been partly contained by cutting subsidies and increasing non-oil revenues. The rechanneling of trade as well as liquidity injections from the Qatar Central Bank (QCB) and increased deposits from the sovereign wealth fund, Qatar Investment Authority (QIA), have cushioned the immediate economic impact due to the diplomatic rift. However, there are still major downward risks to the outlook that call for further adjustments to support resilience and inclusive growth.

Fiscal consolidation is underway, yet recent increases in public debt have been striking, and more action is needed to reduce dependency on hydrocarbon prices. Lower government revenues from the hydrocarbon sector have been met with significant increases in public debt. While staff's analysis shows a sustainable debt trajectory in the baseline DSA scenario, the scenario assuming a constant primary balance projects a worrisome increase from roughly 54 percent to more than 140 percent of GDP in the next five years. We thus welcome the authorities' ongoing efforts to further reduce fiscal deficits inter alia through the envisaged introduction of a VAT in the second half of 2018. Such diversification of government revenues is crucial given that—although improvements have taken place—the non-hydrocarbon primary deficit has still been estimated 31.4 percent of non-hydrocarbon GDP in 2017. We also share staff's appraisal regarding the possibilities to curb spending by eliminating remaining subsidies and reducing the wage bill to further advance fiscal consolidation. Lastly, we would highlight the need to ensure improved efficiency of public investment. In this context, could staff provide additional comments on the costs and longer-term benefits of the infrastructure program to prepare for the FIFA 2022 World Cup?

QCB's use of reserves to stabilize the banking system has led to a sharp decline in official reserves to less than three months of imports. The substantial assets accumulated by QIA can provide an additional buffer, but they may be invested in less liquid assets and should not be relied on for reasons of intergenerational equity. While some progress has been made in rebuilding QCB reserves in early 2018, we thus share staff's emphasis on the need to further increase reserves in a timely manner.

We support staff's call for the authorities to proactively close gaps in Qatar's AML/CFT framework, including in preparation for the forthcoming FATF assessment scheduled for 2019. We take note of staff's assessment that a sound regulatory and supervisory framework has contributed to the resilience of the banking sector. Ensuring transparency and full compliance with AML/CFT standards is a crucial aspect in this regard.

Finally, we encourage the authorities to consent to the publication of the staff report.

Mr. Mojarrad and Mr. Nadali submitted the following statement:

We thank staff for a well-written set of papers, and Mr. Beblawi and Ms. Al-Riffai for their helpful buff statement.

Sound policies and ample buffers have helped Qatar's economy to successfully absorb the shocks from lower hydrocarbon prices and the diplomatic rift with some countries in the region, aided by the recent recovery in world prices. In 2017, growth remained resilient and inflation subdued; the fiscal deficit narrowed; the current account balance moved to a surplus; and reserves, while declining on account of the liquidity support to banks following the diplomatic rift, were adequate, particularly given the size of the sovereign wealth fund. While the outlook is broadly positive, downside risks from lower hydrocarbon prices, tighter global financial conditions, and exacerbation of the diplomatic rift warrant continued efforts to entrench fiscal consolidation, preserve financial sector soundness and resilience, and deepen structural reforms. We concur with the thrust of staff appraisal.

Continued gradual fiscal retrenchment remains appropriate to balance adjustment and growth objectives and help ensure adequate hydrocarbons wealth for future generations. Despite the remaining fiscal gap associated with intergenerational equity considerations, we agree that consolidation could even decelerate if adverse shocks or cyclical conditions so require. We look forward to introduction of a simplified VAT and excises later this year, and appreciate staff elaboration on planned charges for the use of government services. Work should continue to contain the wage bill, gradually reduce energy subsidies while protecting the most vulnerable, and improve efficiency of public investment. We are pleased to learn from Mr. Beblawi and Ms. Al-Riffai that the authorities are prioritizing pro-growth spending, including on infrastructure, health, and education. We encourage the authorities to proceed with formulation and early introduction of a medium-term budget framework and eventual performance-based budgeting, as well as with improving the reporting of fiscal accounts and enhancing asset-liability management framework.

The fixed exchange rate regime continues to serve Qatar well, provides a clear and credible monetary anchor, and has simplified the conduct of macroeconomic policy. While we note staff indication that the external position is moderately weaker than necessary from intergenerational equity considerations, we agree that ongoing fiscal consolidation should help close this gap. We, however, see merit in periodic reviews of the exchange rate regime to ensure its continued relevance as the economy diversifies.

The banking system is well capitalized and profitable, with low and adequately provisioned NPLs. Stress tests conducted by the authorities corroborate the system's resilience to severe and protracted adverse shocks. However, sizable loan concentration in the real estate sector amid declining property prices, and connected lending pose risks and warrant close vigilance. We welcome the central bank's efforts to enhance liquidity management and forecasting and bolster macroprudential regulations, as well as the authorities' efforts to deepen domestic financial markets, including by developing a reliable yield curve, and enhance financial inclusion. Could staff indicate if the authorities' second strategic plan for the financial sector envisions publishing a medium-term debt strategy and issuance plans?

Structural reforms to improve the business climate and enhance the efficiency and functioning of the labor market are essential to promote economic diversification, encourage FDI, and achieve private sector-led inclusive growth. Privatization initiatives in health and education should help increase efficiency and improve outcomes. We agree that plans to set up special economic zones should be accompanied by carefully designed tax incentives and labor policies to avert market distortions. Further progress is needed in easing start-ups, enforcing contracts, and protecting investors. We note ongoing work to ensure majority foreign ownership of companies, as well as plans to establish a minimum wage and enact a new law to protect expatriate labor, and welcome staff elaboration, including on the expected timeline of such measures. Further increasing participation of women in economic activity, as foreseen in National Vision 2030, is also welcome and bodes well for sustained and inclusive growth.

We wish the authorities continued success in their endeavors.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the insightful reports and Mr. Beblawi and Ms. Al-Riffai for the helpful buff statement. Backed by substantial fiscal and external buffers and a sound financial sector, Qatar's economy continues to adjust smoothly to lower hydrocarbon prices. Going forward, it is important for Qatar to continue its prudent fiscal stance, maintain a robust financial regulatory and supervisory framework, and press forward with structural reforms to sustain the economy's resilience. We broadly agree with the thrust of staff's appraisal and would like to limit our comments to the following.

A gradual approach to fiscal consolidation is appropriate for Qatar's efforts in achieving intergenerational equity. With ample fiscal and external buffers in place, the authorities can afford a gradual, well-sequenced approach to fiscal consolidation that focuses on reducing inefficiencies and promoting growth-enhancing expenditures. We look forward to further progress in the implementation of ongoing measures, including the introduction of the VAT by the second half of this year, public sector wage reforms, and reduction in energy subsidies. Like staff, we welcome the formulation of a medium-term fiscal framework by the authorities. As a next step, we encourage the Fund to provide technical assistance where needed for moving towards a medium-term budget framework and a performance-based budgeting system. Could staff elaborate on the progress of the Macro-Fiscal Unit since the last Article IV consultation?

While the financial sector remains resilient, the authorities should stay vigilant of potential risks that may arise. We take comfort from staff's assessment in the selected issues paper that banks in Qatar can withstand severe macroeconomic shocks. Nevertheless, a number of risks deserve close monitoring. These include, for example, developments in the real estate market, given the large exposure of the banking system to this sector. We welcome the authorities' ongoing efforts in strengthening financial sector resilience, such as enhancing Qatar Central Bank's (QCB) liquidity management and forecasting, and further bolstering the regulatory and supervisory framework. In view of various external and domestic factors that could potentially lead to system-wide pressures, it would be helpful for the authorities to periodically review their macroprudential toolkit to ensure measures remain adequate for mitigating systemic risks. Could staff elaborate on the development of fintech in Qatar, including the relevant benefits and risks?

We encourage structural reforms to improve the business environment and reduce reliance on hydrocarbons through diversifying the economy. While Qatar fares well in terms of competitiveness, there is room for improvement. In this regard, we welcome the authorities' efforts to improve efficiency such as privatization initiatives in the health and education sectors, as well as plans to set up special economic zones. At the same time, it is important to remain mindful of potential social implications and market distortions that may arise in the process, and put in place mitigating measures where needed. At 98 percent, the female literacy rate of Qatar is impressive, and we look forward to further efforts to promote female labor force participation such that the economy can fully unlock this potential. Finally, riding on the notable progress already made, the authorities should continue to enhance Qatar's macroeconomic statistics and address remaining data gaps to ensure subscription to the Special Data Dissemination Standard (SDDS).

With these remarks, we wish the authorities every success in their policy endeavors.

Ms. Horsman and Mr. Feerick submitted the following statement:

We thank staff for the well-written report and selected issues papers. Qatar has dealt well with recent shocks—the diplomatic rift and fall in hydrocarbon prices. This is due in part to the significant buffers in place, coupled with well targeted policy action. Additionally, as outlined in Mr. Beblawi and Ms. Al-Riffai's useful buff statement, the authorities appear well aware of the necessity to continue with a suite of structural and fiscal reforms to place the economy on a stronger footing going forward. We support staff's analysis and recommendations and add the following brief comments for emphasis.

Echoing the lines from the recent flagship documents, the availability of buffers built up during the good times has allowed a gradual fiscal consolidation in the downturn, which has protected growth. The underlying fiscal position continues to improve while debt is forecast to decline over the medium term. In terms of specific policies, targeting a reduction in current expenditures and subsidies appears to be appropriate at this juncture. At the same time, we consider that establishing robust mechanisms to protect the most vulnerable sections of society is an important complement to fiscal consolidation measures, which will also help achieve wider public buy-in for necessary adjustments.

Noting the aforementioned shocks, acceleration of structural reforms will be important to ensure that the economy remains competitive and attractive for investment. In this regard, we note that despite literacy rates of 98 percent, female participation rates remain low, at about 37 percent. We agree with staff that laws that mandate equal remuneration and discourage gender based discrimination would enhance equality. Qatar's National Vision 2030 emphasizes increased participation of women in economic activity to facilitate more sustained and inclusive development. We look forward to monitoring progress in forthcoming Article IV consultations.

Mr. Agung and Mr. Ismail submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Beblawi and Ms. Al-Riffai for their insightful buff statement. While overall growth has moderated, the Qatari economy has shown resilience in the face of continued lower hydrocarbon prices and the diplomatic rift with some neighboring GCC countries. We positively note that sizeable fiscal consolidation has been achieved and the favorable medium-term outlook will continue to support improvements to the underlying fiscal and external balances. The availability of significant financial buffers and its strong financial sector should enable the country to withstand downside risks. At this current juncture, maintaining steady progress in the growth-friendly fiscal consolidation program, continuing to safeguard financial sector stability and accelerating economic transformation are key. We broadly concur with staff's assessment and would like to make the following remarks for emphasis.

Notwithstanding the importance of effective prioritization and sequencing of the outline measures, the timely implementation of these critical policy priorities and its durability will help entrench fiscal consolidation, preserve inter-generational equity and enhance preparedness against future shocks. We fully concur on the need to achieve gradual but sustained fiscal consolidation. In this regard, the authorities' plan to undertake a balanced composition of adjustment towards pro-growth spending through a combination of expenditure rationalization and domestic resource mobilization, is appropriate. We are heartened with the generation of the non-hydrocarbon revenue and we look forward to the implementation of VAT as planned. We agree that undertaking wage reform in phases could also help the authorities address underlying spending inefficiencies. The authorities' assessment of the optimization of public sector activities should be a basis for guiding public-sector employment reforms. Advancing the medium-term fiscal framework with well-defined objectives would further help underpin fiscal consolidation going forward.

We welcome the positive assessment that the banking system remains resilient to various scenarios of macroeconomic shocks. Given the sizeable exposure to the real estate sector and the highly concentrated non-financial corporate sector, we agree on the need of the authorities to remain vigilant against emerging pressures and we support the initiatives to strengthen financial sector surveillance. We also agree with staff that the effectiveness of existing macroprudential measures in managing vulnerabilities from macro-financial linkages, should continue to be reviewed. We look forward to further progress in the development of the financial sector including efforts to deepen domestic financial markets and the enhancements to the AML/CFT framework.

Diversification away from dependence on hydrocarbon remains a key priority to support stronger, sustainable, and inclusive growth. We welcome the second national development strategy which emphasizes private sector development through improving the business and investment climate. Could staff share its assessment of the previous NDP, in terms of the achievement of national development objectives? Labor market reform is also a priority which should entail addressing market distortions, providing adequate protection and promoting gender equality. Given the high female literacy in Qatar and encouraging female labor force participation, we would strongly support staff's recommendation in fostering women's economic empowerment. We support the authorities' initiative to enhance domestic food production with a view to pursue greater levels of food self-sufficiency and dependence on selected food items. We believe this could also help spur investment, job opportunities and productivity in non-traditional sectors of the economy.

Mr. Leipold and Ms. Cerami submitted the following statement:

We thank staff for the insightful reports and Mr. Beblawi and Ms. Al-Riffai for their buff statement.

Qatar's economy is successfully adjusting to lower hydrocarbon prices despite the ongoing diplomatic rift, thanks to substantial financial buffers, prudent fiscal policies, and a sound financial sector. There remain however notable downside risks stemming particularly from an escalation of the diplomatic rift, delays in the implementation of key fiscal measures, and tighter global financial conditions.

Against this backdrop, we broadly agree with the thrust of the staff's appraisal and welcome the authorities' commitment to continue with fiscal consolidation and advance structural reforms to develop a larger private sector, a more diversified economy, and a broader export base. In view of the latter medium term goal, we also highlight the need to prepare in a timely manner for a gradual transition to a flexible exchange rate regime.

The recent lifting of OPEC crude oil production caps and the envisaged investments to increase the production capacity of liquified natural gas bode well for the recovery of the hydrocarbon sector, which contributes substantially to the fiscal budget. We agree with staff's assessment that fiscal policy should be directed to pursuing gradual fiscal consolidation through expenditure restraint and revenue diversification. These policies would help reduce the reliance on hydrocarbon revenues and close the gap of the non-hydrocarbon primary balance consistent with intergenerational equity – the appropriate anchor for assessing the fiscal position in Qatar. On the spending side, priority should be given to measures to reduce public wages, which could be accompanied by a broader public sector employment reform with potential positive spillovers for the development of the private sector. On the revenue side, while we welcome the upcoming introduction of the VAT, we would also highlight the need for additional measures, as according to staff's projections the VAT will not be sufficient to raise non-oil revenues in line with nominal GDP growth.

We welcome the authorities' announcement of a medium-term fiscal framework and support their request for Fund's technical assistance to strengthen Qatar's capacity to implement the framework.

The diplomatic tensions with other GCC countries have mostly affected the non-hydrocarbon sector, particularly trade, tourism and real estate, where foreign participants play a major role. While trade has been successfully rerouted through other countries and the blockade has promoted closer economic ties with countries beyond the geographical neighborhood – a positive development for the resilience of the economy – further tensions within the region may still pose a significant threat to the much needed growth of the non-hydrocarbon sector. As shown in a selected issues report, operating revenues and profits in the non-financial corporate sector have been declining since before the fall in hydrocarbon prices and the blockade imposed by other GCC countries has accelerated the downward trend. It is encouraging that staff's analysis finds that despite its declining profitability the non-financial sector remains resilient to funding and earnings shocks. However, staff's analysis also shows that the median interest cover ratio is well above the average ratio, suggesting a few large firms may be financially vulnerable. The staff's comments are welcome.

Foreign financing has also sharply declined in the aftermath of the economic blockade, with the shortfall in inflows being offset by the central bank's liquidity injections and public sector deposits from the Qatar Investment Authority (QIA). We encourage measures to further strengthen liquidity management within the public and the banking sector and to develop financial markets, including the government and the corporate securities markets. In this regard, we would welcome more information about the measures included in the Strategic Plan for the Financial Sector.

On the monetary policy front, while we agree with staff that the current fixed exchange regime remains appropriate, we would encourage timely study and preparation for gradually transitioning to a more flexible exchange regime as exports become more diversified. A proactive approach, in our opinion, would be more consistent with the staff's recommendation to swiftly enact policies to enhance economic diversification. Moreover, we note that the peg to the U.S. dollar has already forced the central bank to raise the domestic policy rate in line with the U.S. Federal Reserve, and we wonder whether further monetary policy tightening would be appropriate going forward in the face of the current low inflation. The staff's views are welcome.

Finally, we note that, at the time of the paper's circulation, the authorities had not notified their consent for publication. We hope that this is forthcoming, and that the paper will be published, especially at a time of heightened international interest in developments in the region.

Mr. Gokarn and Mrs. Dhillon submitted the following statement:

We thank staff for the informative reports and Mr. Beblawi and Ms. Al-Riffai for the informative buff statement.

Qatar's dynamic economy has adjusted well to lower hydrocarbon prices backed by solid fundamentals of fiscal and external buffers, a prudent fiscal policy and a healthy financial sector. The diplomatic rift between Qatar and some regional countries has been managed effectively. However, the impact of this, with the ongoing fiscal consolidation, has dampened the non-hydrocarbon real GDP growth. Overall, the policy responses of the authorities for accelerating growth, private sector-led progress and the diversification boost to the economy—all deserve praise. Broadly, the near-term growth outlook is positive with a projected GDP growth of 2.6 percent for 2018. Downside risks, of lower-than-envisaged oil prices, tighter global conditions and an escalated diplomatic rift may play spoilers. However, we positively note that both staff and the authorities have expressed confidence in the management of macroeconomic and financial outcomes through available fiscal and external buffers. We concur with the thrust of the staff report and limit ourselves to a few points for emphasis.

On the fiscal side, gradual and growth-friendly fiscal consolidation has been done with expenditure rationalization, domestic resource mobilization and a balanced growth driven spending on infrastructure, health and education. The fiscal deficit is estimated to have narrowed to about 6 percent of GDP in 2017 from 9.2 percent in 2016. The fiscal reform agenda could therefore target a sequenced and sustained implementation of staff recommendations, including a simplified VAT and expenditure control on containing wages and other public service benefits. Beyond this, staff have recommended further improvement in the reporting of fiscal accounts to strengthen accountability, transparency, and fiscal policy effectiveness. Could staff offer more information on the perceived gaps and specific suggestions for addressing these?

Qatar's banking sector exhibits many positives—high asset quality, strong capitalization and a sound regulatory and supervisory framework. We welcome the second Strategic Plan for the Financial Sector and its focus on financial markets, financial inclusion, and financial innovation through cost-effective technology. The authorities must in parallel remain alert to the developments in the real estate sector and its exposure to the banking system. On strengthening the AML/CFT framework, we note the authorities' efforts for a comprehensive mechanism to manage risks and on giving priority to the combating of terrorist financing legal framework. The staff has urged the authorities for a proactive implementation of gaps identified in the AML/CFT framework. However, information on gaps or present implementation is cursory in the report and we would have welcomed greater attention to this.

From a structural reform standpoint, continued economic diversification with an eye on inclusive growth and competitiveness are paramount. The authorities have articulated a significant menu of areas being targeted for diversification and for making it easier to navigate business in Qatar. Some are in line with staff advice, while others may be swayed by regional geopolitics. We look forward to updates on this in the next report. The staff has touched upon some areas. Could staff offer more details on the timelines of the priority areas? Also, could staff provide an assessment on the accomplishments of these priorities and their impact on GDP?

We particularly appreciated the selected issues paper discussion on performance and vulnerabilities of Qatar's non-financial corporate sector and assessing resilience of banking system. We found the staff's analysis to be insightful and informative.

With these comments, we wish the authorities the best in their endeavor.

Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for a set of informative papers and Mr. Beblawi and Ms. Al-Riffai for their insightful buff statement. The Qatari economy has shown resilience to lower hydrocarbon prices. In their response to the large external shock, the authorities relied on prudent fiscal policy and sizable financial buffers. So far, the impact of the recent diplomatic rift in the region has been broadly contained by the authorities' effective policy response. Over the medium term, staff project improvements in the fiscal and external positions and see the risks to the outlook as broadly balanced. At the same time, a prolongation or any escalation of diplomatic tensions can have a negative impact on confidence and growth. The report is rightly focused on necessary measures aimed at maintaining macroeconomic stability and supporting the authorities' diversification strategy. We broadly concur with the thrust of staff's appraisal.

We welcome the authorities' progress in strengthening public finances over the recent years and their plans for further gradual fiscal consolidation to bring fiscal balance to the levels consistent with intergenerational equity considerations. The authorities deserve credit for their efforts aimed at increasing non-oil revenues, reining in current expenditure, and reducing subsidies. At the same time, the Qatari authorities have largely protected the level of public investment over the past few years, thus, contributing to economic growth. Ongoing fiscal structural reforms to strengthen the medium-term fiscal framework would enhance the efficiency of the budget process and improve the transparency of fiscal accounts. We encourage the authorities to seek the Fund's technical assistance in this area. As a related matter, could staff elaborate on any impact of fiscal adjustment on social spending and on the efficiency of health and education spending compared to Qatar's peers?

We agree with staff and the authorities that financing the fiscal deficit should be guided by a comprehensive asset/liability management framework. It is also important to avoid crowding out private sector credit and aim at catalyzing private sector initiatives. Could staff elaborate on the risks and benefits of various options for a financing mix under the current country-specific circumstances?

According to staff, the exchange rate peg to the U.S. dollar has served Qatar well and has contributed to financial stability and economic development. At the same time, we find it useful to review the exchange rate policy periodically with the aim to support economic transformation and mitigate possible adverse shocks in the region. We also support staff's recommendations aimed at strengthening the framework for liquidity management and forecasting, as well as further developing domestic debt market.

Overall, the banking sector is profitable, well-regulated, and well-capitalized. Public sector deposits and liquidity injections by the QCB have helped mitigate the negative effects of outflows of nonresident funding associated with the diplomatic rift. We find the selected issues paper to be particularly helpful in demonstrating resilience of the banking sector to both actual and hypothetical stress tests. At the same time, we agree with staff that the ongoing softening of real estate prices should be closely monitored to address any significant financial stability risks.

Advancing the structural reform agenda is critical for strengthening private sector development and improving the business environment. Although there is significant progress in structural reforms area, Qatar is still ranked 83 in the 2018 Doing Business Database, which points to scope for further improvements. We welcome the ambitious plans to reduce fiscal dependence on hydrocarbons, enhance domestic food production, and set up special economic zones. At the same time, we agree with staff that the design of these zones should reflect the best global practices in this area. Could staff elaborate on the main elements of the second national development strategy?

Mr. Johnston and Ms. Park submitted the following statement:

We thank staff for their comprehensive report and Mr. Beblawi and Ms. Al-Riffai for their helpful buff statement. Qatar has shown resilience to the 2014 oil price shock and the immediate impact of the 2017 diplomatic rift with some of its neighbors, reflecting considerable fiscal and external buffers, prudent fiscal policy and a sound financial system. We broadly agree with the staff assessment and recommendations, with their focus on strengthening frameworks to enhance resilience and drive more inclusive growth.

We welcome the authorities' commitment to fiscal consolidation and ongoing fiscal reforms. Continuing consolidation will help ensure adequate saving of Qatar's exhaustible hydrocarbon wealth for future generations, and a gradual approach is appropriate to avoid a more pronounced slowdown in growth. We agree with staff that boosting non-oil revenue and addressing spending and revenue inefficiencies are needed to make space for growth-friendly expenditure. Given the large public to private sector wage gap, wage reform is an important priority.

While the financial sector is sound, with high asset quality and strong capitalization, additional steps could be taken to manage emerging risks. Given the significant exposure of the banking system to the real estate sector, careful monitoring of property prices and the effectiveness of prudential policy settings is needed. While noting the success of measures taken to support liquidity, the central bank's liquidity management and forecasting could be strengthened further. Authorities should continue to strengthen their AML/CFT framework, and proactively address any identified gaps.

Continued structural reforms will be necessary to achieve further economic diversification and bolster the role of the private sector in the economy. We agree with staff that policies to increase self-reliance in food production should not lead to excessive inefficient import substitution. We welcome initiatives to encourage increased labor force participation by women, including laws to mandate equal remuneration and discourage gender-based discrimination. What proportion of the Qatari workforce is employed in the public sector and does this currently limit room for growth in private sector employment? Is there a need for public service reforms to aim for greater participation of Qatari nationals in the private sector, thereby bringing diversity to the economy?

Given Qatar's greater reliance on trade via Iran due to the blockade, does the U.S. government's decision to withdraw from the Iran nuclear deal present a downside risk to the outlook for Qatar?

Mr. Inderbinen and Mr. Ahmadov submitted the following statement:

We thank staff for the well-written reports and Mr. Beblawi and Ms. Al-Riffai for their informative buff statement. Sound policies and ample buffers have helped Qatar's economy to successfully adjust to lower hydrocarbon prices and absorb the shocks from the severance of diplomatic and economic ties with some of the countries in the region. Further diversification of the economy and continued development of non-hydrocarbon sectors is essential for increasing productivity and ensuring sustainable growth. We concur with the thrust of the staff appraisal and offer the following comments for emphasis.

Continued consolidation of the non-hydrocarbon fiscal position is needed. We commend the authorities for the substantial reduction of the non-oil primary deficit achieved since 2014. We concur with staff that further consolidation can be achieved by reducing current expenditures and cuts in subsidies, while implementing measures that will increase non-hydrocarbon revenues. We welcome the authorities' commitment to introduce an effective tax system through introduction of a VAT and excises in the second half of 2018.

On monetary policy, the fixed exchange rate regime continues to serve Qatar well and effectively anchors monetary policy. We do, however, agree with staff that the regime merits periodic review, also given the authorities' ambition to diversify the economy. The banking sector has retained its soundness, and NPLs remain low, despite the substantial non-resident deposit withdrawals. We note the measures taken to alleviate funding pressures in the banking system, including by the Qatar Investment Authority. Can staff elaborate on the nature of this assistance; can staff quantify the quasi-fiscal costs incurred? Does staff assess the assistance to be in line with international best practice? Also, we note that staff recommends improved clarity of the transactions of the QIA, also to facilitate effective liquidity operations by the central bank. Could staff elaborate on their engagement with the authorities in this respect?

We agree with staff that the authorities should close any identified gaps and continue to strengthen their AML/CFT framework. We take note from the buff statement of the authorities' current focus on developing a national risk assessment and on CFT legislation. We encourage continued technical assistance by LEG.

On structural reforms, further progress is necessary to continue improving the overall business climate, increasing competitiveness and facilitating private sector development. We also welcome the increased participation of women in economic activity, as envisaged in Qatar's National Vision 2030. Also, we encourage the authorities to follow through on the legislation to enhance the protection of foreign workers that is currently under consideration.

Finally, we support the authorities' efforts to enhance macroeconomic statistics and encourage subscription to the Fund's Special Data Dissemination Standard. Could staff report on progress toward graduating to SDDS since the 2016 Assessment Mission by STA? Lastly, we call on the authorities to consent to the publication of the staff report.

Mr. Raghani, Mr. Sidi Bouna and Mr. Lopes Varela submitted the following statement:

We thank staff for an informative set of papers and Mr. Beblawi and Ms. Al-Riffai for their insightful buff statement.

The Qatari economy has shown strong resilience to cope with the challenges posed by the decline of hydrocarbon prices and the impact of the diplomatic rift on the outlook. The adjustment to these shocks has been greatly favored by strong fiscal and external buffers, a cautious fiscal policy, mainly consistent with the staff's previous recommendations, and a strong domestic financial sector. Over the medium term, growth will be boosted by the infrastructure program and planned expansion of LNG production capacity. We encourage the authorities to continue to focus their policy priorities on preserving adequate fiscal and external buffers and pursuing gradual reforms that enhance the country's resilience to shocks and promotes economic diversification.

On the fiscal sector, we note that the prudent policies during the period of global decline in oil prices created ample room to support Qatar's adjustments efforts. In this context, we agree that gradual fiscal consolidation through the implementation of simplified VAT and excises taxes, restraint on expenditures, particularly on the wage bill and goods and services, and further energy and water reforms should be considered. These efforts would support the authorities' move towards revenue diversification and spending efficiency while safeguarding adequate savings for future generation. Could staff comment on the involvement of the domestic private sector in the large public investment projects underway, and on the authorities' efforts to promote economic diversification? We take note of the progress being made on enhancing public financial management and concur that a medium-term framework is needed to support consolidating these gains. Furthermore, the authorities' focus on addressing remaining fiscal reporting issues and better monitoring public expenditures will help improve the transparency of fiscal accounts and spending efficiency.

On monetary and financial sector policies, we take positive note of the fact that the banking sector remains healthy, with high asset quality and strong capitalization, and improved macro-financial indicators, as indicated in Mr. Beblawi and Ms. Al-Riffai's buff statement. Nevertheless, the exposure to real estate market adds risks to the sector and warrants close monitoring through appropriate macroprudential measures. In addition, we encourage the authorities to evaluate the impact of introducing Basel IV, as recommended by staff, as well as to enhance the liquidity monitoring and forecasting framework to better strengthen financial stability.

Regarding structural reforms, we welcome the authorities' continued efforts to promote economic diversification and their focus on private sector development, notably through reforms of the labor law privatization and increased foreign ownership. To help improve the business environment, we encourage the authorities to consider reforms that enhance the insolvency mechanism, promote equal remuneration and gender employment.

Mr. Saito and Mr. Minoura submitted the following statement:

We thank staff for the comprehensive report and Mr. Beblawi and Ms. Al-Riffai for their informative statement. We welcome that Qatar's economy continues to successfully adjust to lower hydrocarbon prices, despite the diplomatic rift. As we agree with the thrust of the staff appraisal, we will limit our comments to the following:

Fiscal Policy

While noting ample fiscal and external buffers, Qatar still has sufficient space to continue with gradual fiscal consolidation to ensure adequate savings of the hydrocarbon wealth for the future generation. The introduction of the VAT planed during the second half of 2018 is a welcomed step. We would also like to know how staff see additional measures for broadening the tax base going forward, in addition to the introduction of the VAT. On the expenditure side, while we commend the authorities' ongoing efforts to streamline the current spending, further reduction of the wage bill is essential given the large public to private wage gap in Qatar. Gradual reduction of energy subsidies should be pursued together with protecting the most vulnerable segments of the population. At the same time, these efforts need to be complemented with enhancing the medium term fiscal framework with a clear medium-term objective and introducing a medium-term budget framework and an eventual performance-based budgeting system. Improvement in the reporting of fiscal accounts is important to help enhancing accountability, transparency and effectiveness.

Financial Sector Policy

While it is encouraging that Qatari banking sector remains healthy with high asset quality and strong capitalization, continued efforts to establish a robust regulatory framework and effective supervision would help ensure the resilience of the financial system further. Although banks have substantial loss absorption capacity in terms of capital and loan loss provisioning, a sharper decline in property prices presents a risk to the banking system given its sizable exposure to the real estate sector. In this regard, the authorities should pay attention to developments of the real estate market and banking sector's asset quality. While the Qatar Central bank (QCB) has already introduced a new loan-to-deposit requirement of 100 percent in January 2018, we would appreciate it if staff could share the views on appropriate macroprudential policy responses, in light of the recent decline of the real estate prices. Further efforts to develop financial markets and enhance AML/CFT effectiveness are also encouraged.

Structural Reform

Given the high dependence on the hydrocarbon sector, we emphasize the importance of economic diversification and private sector development. The authorities' ongoing reform efforts relating to labor law, privatization initiatives, special economic zones, and increased foreign ownership limits are welcomed steps to improve the business environment. Going forward, further progress in enhancing contract enforcement and raising the female labor force participation are keys to achieve a more inclusive growth and development. In this regard, could staff elaborate more on the specific measures to increase the female labor force participation and its estimated impacts on the potential output?

Mr. Bayar and Mr. Zaborovskiy submitted the following statement:

We thank staff for the informative set of papers, and Mr. Beblawi and Ms. Al-Riffai for their helpful buff statement. Accumulated substantial financial buffers and the rebound in hydrocarbon prices provide comfortable policy space to further advance the diversification agenda of the Qatari economy. We share the thrust of the staff appraisal and commend the authorities' commitments to the ambitious fiscal and structural reforms, notwithstanding the recent uptick in oil and gas prices and the positive mid-term economic outlook. Since there is a broad concordance between staff and the authorities, we limit ourselves to a few points for emphasis.

A gradual and growth-friendly fiscal consolidation is instrumental for achieving the long-term fiscal targets and maintaining the reform momentum. We welcome the authorities' efforts to enhance non-oil revenue, including the introduction of a VAT and excises; the plans to strengthen public financial management through formulating a medium-term fiscal framework and performance-based budgeting system; and reducing energy subsidies. Fiscal prudence and continued progress in reform implementation are vital to maintain investors’ confidence in this challenging geopolitical environment. We note that according to staff, the financial impact of the diplomatic rift has been managed effectively. In this vein, we welcome additional comments on whether the authorities have any plans to support state-owned enterprises in tourism, aviation, and other affected sectors, and also on the estimated fiscal costs of the authorities’ policy package. Enhanced fiscal reporting (frequency, timeliness, and analysis), including of government financial transactions and the sovereign wealth fund, would help improve fiscal accountability and transparency.

Further strengthening the monetary policy framework and maintaining financial stability play an important role as the Qatari economy diversifies. Monetary conditions have tightened, but private sector credit growth has kept its pace. The authorities should facilitate financial sector development and lending to the private sector, as these are vital to sustainable growth. We also agree that enhancing financial sector surveillance to detect emerging pressures in a timely fashion—including those related to liquidity, the real estate sector, the impact of U.S. monetary policy normalization, and the on-going diplomatic rift—would help in planning for and addressing potential system-wide pressures. We note staff’s conclusion that the fixed exchange rate regime remains appropriate for Qatar. Nevertheless, periodic reviews are warranted to ensure that it continues to be appropriate, as the economy moves towards a more diversified export structure. Considering that the Qatar Central Bank’s foreign exchange reserves have not met the Fund’s reserve metric for an extended period of time, and in view of the Qatar Investment Authority’s special role, we would like staff to clarify their policy advice on reserve management and its design.

Comprehensive and consistent structural reforms remain critical for advancing economic diversification. We welcome the authorities’ plans to speed up structural reforms, including regulations for the ease of doing business; further opening the economy to foreign investors; enhancing contract enforcement; and strengthening the insolvency mechanism. Well-designed and gradually implemented public sector employment reforms need to be approached in tandem with education and labor market transformations, including expatriate worker protections. Positively noting the authorities’ efforts to enhance the AML/CFT framework and the IMF’s technical assistance on this issue conducted last year, we welcome staff’s comments on the most significant developments in the area.

Mr. Virolainen and Ms. Sand submitted the following statement:

We thank staff for the well written reports and Mr. Beblawi and Ms. Al-Riffai for their informative buff statement. We broadly agree with staff's appraisal and would like to offer the following comments for emphasis.

Qatar's economy has shown resilience despite being hit by two major shocks over recent years; the lower hydrocarbon prices and the diplomatic rift with some of the countries in the region to which Qatar have significant trade ties. The quick policy response and ample fiscal buffers have enabled the country to adjust to these exogenous shocks. However, going forward there are still downside risks to the outlook that call for further policy adjustments to support continued sustainable, and more inclusive growth.

The economic outlook is positive, with GDP growth projected to remain resilient, supported by ongoing large infrastructure projects in connection with the upcoming FIFA 2022 World Cup and the expected increase in liquified natural gas production. However, we agree that despite the favorable outlook and ample fiscal buffers, continued gradual fiscal consolidation over the medium term will help ensure adequate savings of the exhaustible hydrocarbon wealth for future generations. Gradual fiscal consolidation and structural reforms should also help ensure that Qatar remains competitive and attractive for investment. We agree with the emphasis on the need to reduce the public-sector wage bill and welcome the planned implementation of the VAT later this year. Similarly, we welcome the authorities' plan to gradually reduce energy subsidies, and echo staff's advice to ensure mechanisms are put in place to protect the most vulnerable segments of the population so that subsidies can be phased out smoothly.

We welcome that fiscal reforms rank high on the agenda, and encourage the authorities to further enhance the medium-term fiscal framework with clear objectives and move to a medium-term budgetary framework. We note the helpful role the Fund's technical assistance could play in this regard.

The banking sector remains healthy overall. We note the contribution of a robust regulatory and supervisory framework, and that banks are assessed to be well capitalized with having adequate liquidity. Nonetheless, we also note staff's concern about the downward trend in real estate prices as lending to contractors and real estate represents about a quarter of total domestic credit. We welcome staff's recommendation to close any identified gaps in the AML/CFT framework, and we welcome the authorities' commitment to work on the combating of terrorist financing legal framework, as well as to the assessment of national risks.

To conclude, we welcome the authorities' structural reform agenda to improve the business environment. We particularly encourage increased efforts to raise female labor force participation.

Mr. de Villeroché, Mr. Castets and Mr. Chotard submitted the following statement:

We thank staff for a very clear and comprehensive set of reports, as well as Mr. Beblawi and Ms. Al-Riffai for their insightful buff statement. We share the thrust of the staff report and make the following comments for emphasis:

Recent Macroeconomic Developments and Outlook

The economy proved resilient in the context of the diplomatic rift, and economic prospects remain favorable. We commend the authorities for successfully pursuing their adjustment to structurally lower oil prices. GDP growth proved robust in 2017 at 2.1 percent, partly thanks to the significant infrastructure program, whereas the current account went back in positive territory. In particular, we positively note the dynamic growth of the non-oil sector and the progress in the diversification of the economy. However, while noting that staff considers that the diplomatic rift only had temporary repercussions on trade and on the banking system, one could wonder whether this would not have more permanent repercussions on other sectors (e.g. tourism, air transport). The staff's comments are welcome.

Fiscal Policy

We welcome that Qatar's fiscal position is improving, and we agree with staff that a gradual, growth-friendly consolidation strategy would be appropriate, so as to ensure for future generations while preserving short-term growth. In 2018, Qatar is expected to be one of the few GCC countries to experience a budgetary surplus, allowing for the public debt to stabilize at around 53 percent of GDP. We however are a bit surprised by the magnitude of the upwards revision of the fiscal forecasts since last October, which are more important than for other GCC countries whereas no significant fiscal measure was taken since. The staff's comments are welcome. Going forward, we commend the authorities for their intention to progressively remove energy subsidies and introduce a VAT tax, and invite them to expedite their implementation, which is essential to adapt to lower oil prices. Furthermore, we invite them to consider better realigning public and private wages, as it would free some fiscal space while crucially helping private sector development. Could staff elaborate on the magnitude of the necessary alignment of public wages and on the means to achieve this?

Monetary Policy and Financial Sector

We agree with staff that the peg to the dollar remains an important anchor for the economy, and we positively note that the financial sector remains solid and well capitalized. Some vigilance is however warranted regarding banks' exposures to the real estate sector, in the context of declining prices. We encourage staff in their future works to keep assessing the possible consequences of continued lower real estate prices, and to detail recommendations on the macro-prudential framework as necessary.

Structural Reforms

We welcome the authorities for their efforts to diversify the economy, which should however be deepened. We agree with staff that the diversification strategy relying on already competitive business companies is pertinent and should be pursued. We wonder to which extent this strategy could be deployed in agriculture and agribusiness in Qatar. The staff's comments are welcome. In addition, in order for this strategy to be successful, labor market reforms are instrumental, and should focus on the need to improve education and skills, strengthen women participation and reduce the segmentation between foreign and domestic workers. Better alignment of public and private wages will also be crucial to boost private sector development. Lastly, we encourage authorities to deepen reforms aiming at improving business climate (notably contract law, competition law and bankruptcy law) and facilitating foreign investments in Qatar.

Mr. Rojas Ramirez submitted the following statement:

Qatar's economy is resilient after been impacted by external hydrocarbon shock. The authorities have followed conservative, adequate and efficient policies that have permitted to maintain economic stability and growth, coping with the impact of hydrocarbon prices and preserving the benefits of hydrocarbon rent for future generations. We thank staff for the report and Messrs. Beblawi and Al-Riffai for their candid statement on the 2018 Article IV consultation

The authorities have implemented sound and conservative fiscal policy. Qatar has built intergenerational funds from hydrocarbon rent as well as buffers against volatility of oil and gas prices. These instruments are strong anchors of fiscal stance and grant economic stability and inclusive growth. As a fact, the fiscal position continues to improve within a significant reduction of the deficit over 2018. We commend the Qatari authorities on implementing expenditure control and the medium-term fiscal framework. Implementation of VAT and fiscal consolidation will assure stability during adverse external shocks and cyclical conditions.

On the monetary stance, Qatar Central Bank (QCB) has implemented appropriate policy, tightening monetary conditions and increasing domestic policy rates along with U.S federal reserve and interbank rates. Inflation is expected to peak but we concur with staff that it should be lower than projections if further efforts are done to enhance domestic production and tourism. The external balance is improving due to higher oil prices and a reduction in non-oil imports. The exchange rate regime based on the currency peg is pertinent in providing stability.

The banking sector is sound and well capitalized. Qatar's financial system presents a solid regulatory and supervisory framework for capital, liquidity, and leverage under Basel III standards. Non-performing loans are low. We note the banking concentration on real state. We welcome QCB measures on new loans, deposit requirements, and those for improving liquidity and assets profile. We agree with staff on the need for further deepening and diversification of Qatar's financial markets and for adopting measures to strengthen surveillance of the financial sector through Basel IV and AML/CFT framework.

Finally, we encourage Qatari authorities to continue with the structural reform agenda to improve the business environment, economic diversification strategy and women inclusion.

Mr. Lopetegui and Ms. Moreno submitted the following statement:

We thank staff for the informative set of papers and Mr. Beblawi and Ms. Al-Riffai for their comprehensive buff statement. The economy was resilient to lower hydrocarbon prices and so far, the consequences of the diplomatic rift have been contained. This is because of rechanneling of trade routes, an increase in growth of non-hydrocarbon sectors, and liquidity injections of the Qatar Central Bank, as well higher deposits from the Qatar Investment Authority. From the buff statement, we note some evident discrepancies with the authorities' views, like higher growth and lower inflation projections than what staff estimates. But overall, the authorities agree with staff's appraisal, as do we. Qatar is an economy that is expected to recover, whose fiscal and external positions are projected to improve, while its financial and monetary sector remains sound. Risks are concentrated in the fiscal consolidation process and in diplomatic complications. In any case, risks remain broadly balanced. Our comments below are only for emphasis.

Regarding fiscal consolidation, we welcome the strategy to mobilize tax revenues through the introduction of the VAT. The implementation is expected to be ready by the second half of 2018, but there might be potential technical challenges. Could staff explain to what extent these challenges could put the consolidation at risk, or at least, in what magnitude will it be affected? We welcome the agreement to enhance the asset-liability management framework, particularly enhancing the reserves of the Qatar Central Bank that have been reduced to half their 2016 level. We note the staff's assessment that the fixed exchange rate regime remains appropriate for Qatar, and agree with its suggestion that the exchange regime should be reviewed periodically to ensure that it remains appropriate.

Banks appear to be sound, well capitalized and able to withstand severe macroeconomic shocks. Nevertheless, risks on the real estate market warrant vigilance. The extent to which banks are exposed to this sector will demand close monitoring. The government is also active in fostering financial innovation. Fintech brings benefits but also incubates risks that can reach the banking sector. Therefore, it also needs close monitoring. Finally, the deterioration of non-financial corporate firms is a worrying trend described in Box 2. Could staff elaborate on how strong the link is of these firms to the domestic banking sector? Or do these firms issue bonds to finance their operations?

We concur with staff that the authorities should continue to strengthen their AML/CFT framework. The Fund could provide support and technical assistance in this regard.

Regarding private sector development, we welcome the vision that the women's economic empowerment is macrocritical. Having a very high literacy rate, there is ample room to increase female labor participation (FLP). We welcome the 2030 National Vision that considers the goal of increasing FLP.

As Mr. Doornbosch and Mr. Botel, we support the authorities' efforts to enhance macroeconomic statistics and encourage subscription to the Fund's Special Data Dissemination Standard.

Finally, we support Mr. Merk and Mr. Rosenberger in encouraging the authorities to consent to the publication of the staff report.

The staff representative from the Middle East and Central Asia Department (Mr. El Qorchi) made the following statement:[1]

I have three updates. Today the Qatari authorities consented to publish the staff report. Data recently released by the authorities show a good macroeconomic performance. In 2017, the non-hydrocarbon sector grew by 4.2 percent, while hydrocarbon growth fell by 1.1 percent, leading to overall growth of 1.6 percent, less than what was reported to the mission in February.

CPI inflation remained subdued at 0.4 percent year-on-year in March 2018. Qatar recorded a current account surplus of 3.8 percent of GDP in 2017, higher than initially reported. Finally, Qatar raised US$12 billion in a bond issuance in early April, and the sale was heavily oversubscribed. Qatar issued a triple tranche of U.S. dollar-denominated bonds with 5-, 10-, and 30-year maturities, with orders estimated to have been about US$53 billion with demand coming from Asia, Europe, and the United States. Qatar placed US$3 billion of 5-year notes priced to yield 135 basis points over U.S. Treasuries with a similar maturity.

It also placed US$3 billion of 10-year bonds at a spread of 170 basis points and US$6 billion of 30-year securities at 205 basis points above the U.S. Treasuries.

Mr. Beblawi made the following statement:

I thank Directors for their thorough statements. I will relay their recommendations and advice to the authorities, who value the constructive engagement with the Fund. As highlighted in the staff report and by many Directors, Qatar has continued to adjust well to lower hydrocarbon prices, as well as to the diplomatic misunderstanding with some countries in the region. The authorities remain committed to proceeding with fiscal reforms and consolidation, accelerating the diversification of the economy, and

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

reinvigorating private-sector engagement, while preserving intergenerational equity.

I wish to add two comments to the buff statement on fiscal policy and economic diversification. The authorities are committed to pursuing their fiscal consolidation efforts. On the expenditure side, they have prioritized pro-growth spending and are addressing spending inefficiencies, including limiting the growth of the public wage bill. The wage bill as a percent of GDP has been reduced remarkably in 2017. Moreover, the authorities are enhancing their efforts to undertake a comprehensive assessment of workforce requirements in the public sector, which they expect to deliver results in line with the staff's recommendations.

On the revenue side, in addition to the reform already undertaken to increase water and electricity tariffs, as well as domestic fuel prices, the authorities are making progress in implementing the VAT and excise tax by the second half of 2018. According to the staff's estimates, proceeds from the VAT would bring additional revenue of about 1.2 percentage points of GDP per year.

Economic diversification and private-sector development have been longstanding goals, as highlighted in both the First National Development Strategy, and the recently released Second National Development Strategy for 2018-22. Lower hydrocarbon prices in 2014 and the recent diplomatic misunderstanding has strengthened the authorities' resolve to accelerate reforms toward these goals. The authorities are attentive to the importance of promoting gender balance in the labor force and fostering women's economic empowerment.

With these remarks, I thank Directors for their support and their constructive suggestions and Mr. El Qorchi and his team for their valuable engagement with Qatar.

Ms. Svenstrup made the following statement:

We thank the staff for the comprehensive set of reports and Mr. Beblawi and Ms. Al-Riffai for their helpful buff statement. We agree with the staff that Qatar is successfully engineering a soft landing from lower energy prices, thanks to substantial buffers, prudent fiscal policy, and a healthy financial sector. We broadly agree with the staff's assessment and limit our comments to three points.

First, we welcome the staff's focus on the development of local currency bond markets. While the authorities have made progress, it will be important to continue developing the short end of the curve to complete the project and allow both the government and the private sector to diversify funding sources.

Second, we commend the authorities' work on the liberalization of energy prices and on reforms to government tenders and public investments. We concur with the staff that there is room for further transparency in fiscal accounts and government financial transactions, and we urge the authorities to take action on this front.

Finally, like many other Directors, we welcome the authorities' commitment to increase participation of women in the workforce. We agree with the staff that laws to mandate equal remuneration and discourage gender-based discrimination could help increase participation of women in economic activity. We ask the staff to comment on whether they discussed these proposals with the authorities and what the authorities' views were on these specific proposals.

Ms. Cerami made the following statement:

As clearly indicated in the report and emphasized in Mr. Beblawi's remarks, Qatar's authorities shared the staff's appraisal and are committed to continue fiscal consolidation and advance a comprehensive structural reform agenda broadly in line with the staff's recommendations. Against this generally positive background, I would like to add a few points that we have not addressed specifically in our gray statement.

First, in addition to the widely shared concern about the ongoing diplomatic rift, we would also caution against possible spillovers from the uncertainties related to the implementation of the Joint Comprehensive Plan of Action and the nuclear program of Iran. Trade with Iran is not particularly large, but there are important economic ties within the two countries. The immediate stock market reaction to the announcement of the U.S. withdrawal from the agreement was fortunately short-lived, but we believe it may be considered an early warning signal.

Second, we appreciate the staff's emphasis on women's empowerment. While we welcome the authorities' structural reform agenda, we would call for greater efforts and concrete measures to enhance female labor force participation, which remains very low despite the high literacy rate among the female population. The untapped female labor force clearly represents a missed opportunity to achieve more vast and inclusive growth.

Third, the financial sector is well capitalized, and the staff's analysis finds it resilient to severe macroeconomic shocks. Still, we join the staff and many other Directors in calling for close monitoring of developments in the real estate market. Because of the importance of the sector for the economy and the high exposure of the banking system to the sector, a strengthening of the macroprudential measures seems in order.

The staff representative from the Middle East and Central Asia Department (Mr. El Qorchi) remarked that the issue of women's empowerment had been discussed with the authorities and that they were supportive and receptive to the discussion. In addition, the Managing Director visited Qatar during the mission and reinforced the message with the authorities and by meeting with women leaders. He noted that although the authorities did not produce official data on this topic, the staff observed some anecdotal progress in this regard, as their counterparts included more women than in the past.

Mr. Beblawi, in a brief concluding statement, remarked that the situation in the region was not an easy one, but that the authorities' actions had demonstrated their moderation. He noted that the authorities were aware of the importance of stabilizing real estate prices.

The Acting Chair (Mr. Zhang) noted that Qatar is an Article VIII member, and no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They noted that considerable buffers and sound macroeconomic policies have helped Qatar successfully absorb shocks from lower hydrocarbon prices and the diplomatic rift with some countries in the region. Directors noted that while the economic outlook is broadly favorable, risks remain. They welcomed the authorities' continued commitment to prudent economic and financial policies, which are important to sustain the economy's resilience and promote diversified and inclusive growth.

Directors concurred that Qatar has ample fiscal space to continue with gradual fiscal consolidation to ensure sufficient saving of the hydrocarbon wealth for future generations. They supported efforts to enhance non-oil revenue, including putting in place a VAT and excises. Directors noted that strengthened expenditure control, with emphasis on further public-service reform and accelerated reform of the public utility companies, would help to improve economic efficiency. They also emphasized the importance of wage reform to reduce the public to private wage gap. Directors recommended that further enhancing the medium-term fiscal framework with a clear medium-term objective would help guide fiscal efforts. In addition, further improvement in the reporting of fiscal accounts would strengthen accountability, transparency, and policy effectiveness.

Directors noted that the banking sector is healthy with high asset quality and strong capitalization. However, they observed that the loan concentration in the real estate sector amid softening property prices warrants vigilance. Directors also highlighted that FinTech, which will likely create new challenges and opportunities, will require additional regulatory capacity. They supported the authorities' efforts to strengthen macro prudential regulation and consolidated supervision, and agreed that further progress in improving liquidity monitoring and forecasting would help in anticipating and planning for potential system-wide pressures. Directors encouraged the authorities to continue to strengthen the AML/CFT framework and address the identified gaps.

Directors concurred that the currency peg to the U.S. dollar continues to serve Qatar well, providing a clear and credible monetary anchor. They underscored that the exchange rate regime should be reviewed periodically to ensure that it remains appropriate as the economy moves toward a more diversified export structure.

Directors supported the authorities' efforts to enhance economic diversification and promote private sector development. They welcomed reform efforts related to the labor law, privatization, special economic zones, and increased foreign ownership limits. They cautioned, however, that these efforts should avoid import-substitution strategies, and special tax incentives or labor policies that might result in market distortions. Directors considered that additional measures to improve the business environment, including contract enforcement and reform of the insolvency mechanism, will boost private sector growth prospects. They noted that laws promoting equal remuneration and discouraging gender-based discrimination would help contribute to inclusive growth. Directors encouraged the authorities to continue to enhance macroeconomic statistics.

It is expected that the next Article IV consultation with Qatar will be held on the standard 12-month cycle.

APPROVAL: March 3, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Staff's responses to technical and factual questions are below.[2]

Growth Outlook and Public Investment

1. ***We would highlight the need to ensure improved efficiency of public investment. In this context, could staff provide additional comments on the costs and longer-term benefits of the infrastructure program to prepare for the FIFA 2022 World Cup?***

- Qatar has maintained a higher level of public investment during the past few years, and this has been an important source of economic growth. The staff expect ongoing investment projects to continue to support non-oil economic activity.

- The authorities have emphasized that a large share of infrastructure projects (including roads and train for example) being built in preparation for hosting the soccer World Cup was actually needed to enhance infrastructure development in the country. These projects will help improve the traffic in Doha, while improving connections with other cities in Qatar.

- The authorities did not provide a breakdown of World Cup-related and other investment spending. This reflects the understanding that while some of those projects will serve the preparation for the World Cup, they are also considered important for Qatar's sectoral development.

2. ***It is encouraging that staff's analysis finds that despite its declining profitability the non-financial sector remains resilient to funding and earnings shocks. However, staff's analysis also shows that the median interest cover ratio is well above the average ratio, suggesting a few large firms may be financially vulnerable. The staff's comments are welcome.***

- Indeed, the median interest coverage ratio (ICR) is above the average ICR. However, this does not necessarily suggest that a few large firms may be financially vulnerable due to the following reasons:

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[2] EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention in the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may also indicate specifically in this document which questions they intend to address orally.

- The ICR is a ratio which does not tell us about the size of the firms.

- A lower average ICR than the median means that there are more firms that have an ICR lower than the median ICR, compared to firms that have an ICR that is greater than the median. This is not a cause for concern because the average ICR is still around 5 which is five times the ICR threshold of 1.

- We only have 36 firms in our sample, therefore, a few firms with a low ICR creates a longer left-tail for the distribution of the firms in the sample. Therefore, the small sample also plays a role in pushing the average to be below the median.

3. ***Given Qatar's greater reliance on trade via Iran due to the blockade, does the U.S. government's decision to withdraw from the Iran nuclear deal present a downside risk to the outlook for Qatar?***

- Qatar does not heavily depend on Iran for its trade. Most of Qatar's trade is with European and Asian countries.

4. ***Could staff comment on the involvement of the domestic private sector in the large public investment projects underway, and on the authorities' efforts to promote economic diversification?***

- The public sector has been at the center of infrastructure projects in Qatar. The role of the private sector has been limited to the execution of projects (contractors) and provision of financing through conventional and Sukuk bonds to the budget.

- Private sector capital is expected to play a bigger role in the infrastructure sector in the medium to long term, possibly through Public-Private Partnerships (PPPs) sector projects. A public-private partnership framework is being developed to further allow for participation of the private sector in economic activity. The staff recommended that the design and implementation of such a framework should be predicated on clear risk-sharing arrangement principles, transparent and competitive tender mechanisms, and sound fiscal risk control policies.

- Qatar has made progress in gaining a foothold in a number of new sectors, including air transportation, media and financial services, and investment in foreign assets. These are being complemented with increased access of SMEs to financing, and developing clusters (particularly sports business cluster). The government continues to improve logistics and transportation facilities, which will help to reduce the overall costs of production and raise productivity. Efforts have also been made to simplify business registration, especially the introduction of single-window that provides centralized/simplified registration for new businesses. These are being complemented with plans to set up special economic zones to encourage FDI, to ensure majority foreign ownership of companies, and to further reform the labor law.

5. ***We note that according to staff, the financial impact of the diplomatic rift has been managed effectively. In this vein, we welcome additional comments on whether the authorities have any plans to support state-owned enterprises in tourism, aviation, and other affected sectors, and also on the estimated fiscal costs of the authorities' policy package.***

- In staff's discussion with the authorities during a staff visit mission in August 2017 and 2018 Article IV mission in February, the authorities indicated their intention not to provide financial support to state-owned enterprises. While some amount of money was spent at the beginning of the diplomatic rift to contain higher food and transportation costs, this was considered by the authorities to be small. The authorities' position is that the economy has adjusted to the diplomatic rift. The staff will continue to engage the authorities on this issue.

6. ***While noting that staff considers that the diplomatic rift only had temporary repercussions on trade and on the banking system, one could wonder whether this would not have more permanent repercussions on other sectors (e.g. tourism, air transport). The staff's comments are welcome.***

- Though most sectors were only impacted temporarily, the tourism sector has suffered a significant decline in activity. A substantial proportion of tourism to Qatar originated in GCC countries, especially Saudi Arabia. If the rift persists, Qatar's tourism and hotel management sector would continue to suffer losses, unless alternative markets are tapped. However, since the rift, Qatar's tourism authority has taken active steps to do outreach in other countries to mitigate this impact, including the removal of visa requirement for 80 nationalities.

Fiscal Policy and Debt Sustainability

7. ***Given that staff recommends a decrease of the wage bill, what is the estimate of the desired level of fiscal savings based on this recommendation***?

8. ***Could staff elaborate on the magnitude of the necessary alignment of public wages and on the means to achieve this?***

- The high wage bill in Qatar and other GCC countries reflects a combination of higher public-sector employment as well as more generous compensation. It is also important to mention that each country's optimal wage bill level depends essentially on its specific circumstances, particularly preferences for the size of government, fiscal position, demographic structure, and resource constraints. In Qatar, wages and salaries as a ratio of GDP fell from 10.3 percent of GDP in 2016 to 8.7 percent of GDP in 2017. The staff projects further decline by about 1.5 percent of GDP in the medium term.

- The public to private wage gap in Qatar is estimated at about 171 percent, consistent with the large wage gaps in other GCC countries. The wage bill in the public sector can be reduced by tightening eligibility for allowances and using natural attrition to reduce the staff size.

9. ***We look forward to introduction of a simplified VAT and excises later this year, and appreciate staff elaboration on planned charges for the use of government services***.

- The authorities have introduced a number of measures to ensure payments for the services offered by the public sector to the population. A Passenger Facility Charge for the use of Hamad International Airport has been introduced. Car owners now have to pay for requesting for more than one tag for a car, etc. We do not have information on additional revenue from each of these measures as well as planned charges for the use of government services.

10. ***We would also like to know how staff see additional measures for broadening the tax base going forward, in addition to the introduction of the VAT.***

- Sequencing of the design and implementation of tax policy measures in a country like Qatar is extremely important, given capacity constraint.

- There is room for broadening the corporate income tax, as the existing framework does not apply to domestic and GCC investors in the non-hydrocarbon sector. Consideration could also be given to introducing personal income tax.

11. ***Could staff explain to what extent these challenges could put the consolidation at risk, or at least, in what magnitude will it be affected***?

- Potential technical challenges, including lack of implementing regulations and integration of IT processes for the revenue authority and customs could delay the introduction of a VAT (targeted for mid-2018).

- The implementation of a VAT is expected to yield additional revenue of about 0.5 percent of GDP in 2018 and subsequently, 1 percent of GDP per year.

12. ***Could staff elaborate on the progress of the Macro-Fiscal Unit since the last Article IV consultation.***

- The Macro-Financial Unit has been staffed. The unit provides input into the budget preparation process and internal fiscal reporting. It also coordinates with other ministries and economic institutions such as Qatar Central Bank. The unit is focusing on enhancing macro-forecasting, and the authorities are interested in hands-on training in financial programming for the staff in the unit.

13. ***The staff have recommended further improvement in the reporting of fiscal accounts to strengthen accountability, transparency, and fiscal policy effectiveness. Could staff offer more information on the perceived gaps and specific suggestions for addressing these?***

- More comprehensive reporting on the composition of revenue and expenditure would help enhance fiscal analysis. Finalizing on-going work on Government Financial Management Information System would make this possible.

- Fiscal policy transparency and measurement of performance can be further improved by publishing quarterly budget performance report and presenting the links between the budget and government-related entities.

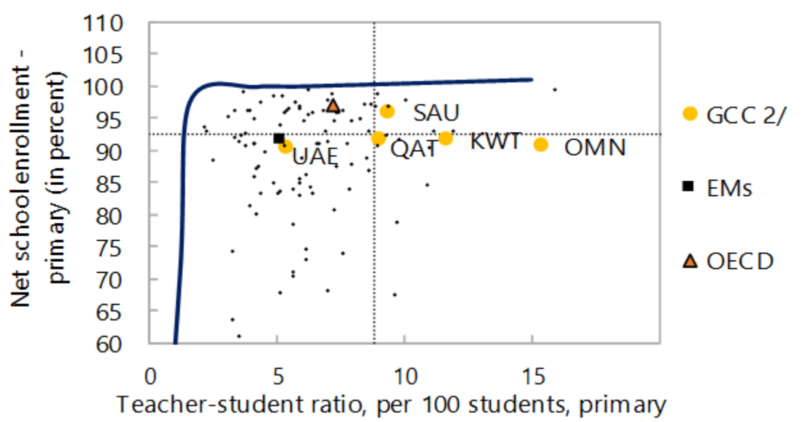
14. ***Could staff elaborate on any impact of fiscal adjustment on social spending and on the efficiency of health and education spending compared to Qatar's peers?***

- Fiscal consolidation has been anchored mainly on reducing current expenditures, including merger of ministries and cuts in subsidies.

- Qatar as well as other GCC countries have invested considerable resources in public education and have made significant progress in raising literacy and enrollment rates in recent decades. Education spending in Qatar (3.6 percent of GDP) is in line with the average for GCC countries (4.0 percent), but lower than the average for OECD (5.3 percent of GDP). Nonetheless, education spending in the GCC countries per student is higher than the levels in OECD and emerging market countries.

- While education outcomes, using various indicators, compare favorably with other GCC countries, there is scope for improvement in comparison with emerging market and developed countries.

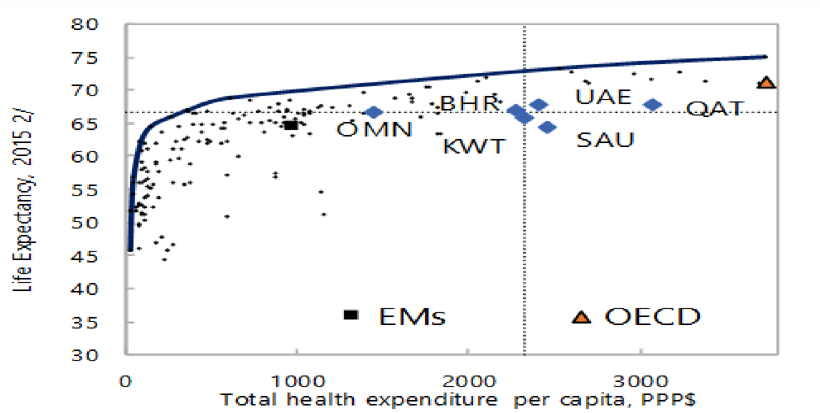
Teachers and Outcome, primary, Latest Value Available 1/



Source: IMF FAD Expenditure Assessment Tool (EAT); and World Bank.
1/ Vertical dash lines and horizontal dash lines are the average of the GCC.
2/ There is no data on net school enrollment for Bahrain.

- Qatar has achieved substantial improvement in health outcomes during recent decade. An increase has been recorded in life expectancy and infant mortality rate has fallen significantly. Improvements in major health outcomes have been accompanied by increased health spending. Qatar as well as other GCC countries appear to have non-negligible health spending inefficiencies. Their distance to frontier suggests scope for potential savings without compromising health outcomes.

Health Efficiency Frontier, Latest Value Available



Source: IMF FAD Expenditure Assessment Tool (EAT); World Bank; and World Health Organization.

- There are potential gains from reforms aimed at enhancing spending efficiency in areas such as education and health. In this regard, authorities' privatization initiatives in health and education are a good step and will enhance efficiency in these sectors.

15. ***Could staff elaborate on the risks and benefits of various options for a financing mix under the current country-specific circumstances?***

- Although Qatar Investment Authority (QIA) does not disclose information on its assets, anecdotal evidence suggests that the average returns on its assets exceeded sovereign borrowing costs. This implies that the recent international borrowing was appropriate not only from the cost perspective, but also from broader macroeconomic perspective, such as avoiding crowding out of domestic private credit, building reserves, and providing a reference curve for international borrowing by corporates. Going forward, the optimal mix will of course depend on all these factors and how they evolve.

16. ***In 2018, Qatar is expected to be one of the few GCC countries to experience a budgetary surplus, allowing for the public debt to stabilize at around 53 percent of GDP. We however are a bit surprised by the magnitude of the upwards revision of the fiscal forecasts since last October, which are more important than for other GCC countries whereas no significant fiscal measure was taken since. The staff's comments are welcome.***

- General government overall fiscal balance in 2018 has been revised from 0.5 percent of GDP (last October) to 2.8 percent of GDP. This change reflects upward revision to average oil prices from about $49 a barrel to $62. In addition, staff has incorporated a slight downward revision to aggregate spending, in view of the authorities' success in containing recurrent expenditures**.**

Financial, Monetary and Exchange Rate Policies

17. ***Could staff indicate if the authorities' second strategic plan for the financial sector envisions publishing a medium-term debt strategy and issuance plans?***

- Although the authorities' second strategic plan for the financial sector does not explicitly refer to the publication of a medium-term debt strategy and issuance plans, it emphasizes broadening and enhancing financial markets, including by developing more liquid local bond market, as a key priority.

- The staff's position on this issue is that any issuance should be guided by a comprehensive asset-liability management strategy that considers both costs and risks of any funding strategy, as well as broader macroeconomic context and strategic objective to develop more liquid domestic debt markets. Publication of a medium-term debt management strategy and issuance plans is important to guide the reform efforts. Even though Qatar's debt strategy is the prerogative of the Supreme Economic Council, the authorities seem to be receptive to the idea.

18. ***We encourage measures to further strengthen liquidity management within the public and the banking sector and to develop financial markets, including the government and the corporate securities markets*. *In this regard, we would welcome more information about the measures included in the Strategic Plan for the Financial Sector.***

- The Strategic Plan for the Financial Sector includes measures to enhance cooperation and communication with ministries and other government entities for policy formulation and interchange of data. This is key for strengthening liquidity management and forecasting framework.

- Measures to develop financial markets include: (i) strengthening market infrastructure and payment system to improve safekeeping, management, ownership, clearing and settlement of securities and other financial instruments; (ii) developing policies to further support growth in Islamic finance; (iii) developing the regulatory framework to support capital market renminbi (RMB) products and Islamic RMB products; (iv) facilitating issuance of green bonds; and (v) further developing the sovereign yield curve to serve as a reliable benchmark for corporate issuances.

19. ***We note the measures taken to alleviate funding pressures in the banking system, including by the Qatar Investment Authority. Can staff elaborate on the nature of this assistance; can staff quantify the quasi-fiscal costs incurred? Does staff assess the assistance to be in line with international best practice?***

20. ***We note that staff recommends improved clarity of the transactions of the QIA, also to facilitate effective liquidity operations by the central bank. Could staff elaborate on their engagement with the authorities in this respect?***

- Liquidity support provided by the authorities to the banking sector in the wake of the diplomatic rift was in line with international best practices, although the case is somewhat unusual, as the withdrawal of foreign deposits was not based on deteriorating financial stability indicators. All financial institutions that received liquidity support were solvent, viable, and well-supervised. Hence, liquidity support from the government has not created a moral hazard or wasted public money on propping unviable institutions. Rather, it helped restore confidence in the banking system and avoided repercussions on the real sector. The magnitude of support from the government, central bank and QIA is provided in Box 1.

- As far as interactions with QIA, this was mentioned in the context of day-to-day normal monetary policy operations. Being able to project the cash flows of both the

MOF and QIA would help QCB increase the reliability and duration of its liquidity forecasts, thereby helping it improve liquidity management.

21. ***Considering that the Qatar Central Bank's foreign exchange reserves have not met the Fund's reserve metric for an extended period of time, and in view of the Qatar Investment Authority's special role, we would like staff to clarify their policy advice on reserve management and its design.***

- The large stock of QIA assets act as a buffer in Qatar's reserve management and design. For example, following the diplomatic rift, foreign financing and resident private sector deposits fell by about US$ 40 billion. This decline was offset by both QIA and QCB. The support from QIA reduced the pressure on QCB to use additional reserves. QCB's reserves have since been climbing up—QCB foreign exchange reserves increased from US$15 billion as at end-2017 to US$18 billion as at end-March 2018. While recognizing that QIA has substantial assets, staff emphasized the importance of building QCB's reserves. The liquid component of QIA has not been made public. Therefore, making public the liquid component of QIA assets would enhance transparency. In this regard, staff also emphasized the importance of greater coordination and information sharing between QIA, QCB, and the government.

22. ***Could staff elaborate on the development of fintech in Qatar, including the relevant benefits and risks?***

- Fostering financial innovation, while ensuring that the financial institutions and markets are resilient, is the overarching objective of the authorities' approach to FinTech. With the expected boom in e-commerce and increasing focus on cost-efficient delivery, it is expected that FinTech will play an important role in driving financial services in the future.

- Managing potential risks arising from FinTech, however, requires reforming the regulatory framework to ensure consumer protection, as well improving cyber governance and ensuring trust infrastructure (e.g., using complete trusted transactions such as blockchain technologies). Qatar has been proactive in improving its cyber-defense mechanisms and Qatar Financial Sector Information Security Strategy has been published by Qatar Central Bank (QCB) in 2017. As the regulatory approach to FinTech is still developing, the authorities expressed interest in Fund technical assistance on the subject.

23. ***We note that the peg to the U.S. dollar has already forced the central bank to raise the domestic policy rate in line with the U.S. Federal Reserve, and we wonder***

whether further monetary policy tightening would be appropriate going forward in the face of the current low inflation. The staff's views are welcome.

- The dollar peg provides a credible anchor for QCB's monetary policy and has allowed it to import low inflation from the United States. It does however impose constraints on monetary policy and imply that policy rate has to increase in tandem with U.S. monetary policy tightening.

24. ***While the Qatar Central bank (QCB) has already introduced a new loan-to-deposit requirement of 100 percent in January 2018, we would appreciate it if staff could share the views on appropriate macroprudential policy responses, in light of the recent decline of the real estate prices.***

- Given the level of exposure of the financial sector and households to real estate, staff encouraged the authorities to constantly monitor housing prices as well as the number of real estate transactions, and recalibrate various macro-prudential measures if warranted. Loan-to-deposit ratio is also used to contain liquidity risk and reliance on wholesale funding.

25. ***Positively noting the authorities' efforts to enhance the AML/CFT framework and the IMF's technical assistance on this issue conducted last year, we welcome staff's comments on the most significant developments in the area.***

- Among the most significant developments in the AML/CFT area since early 2018, the authorities have been upgrading the legal framework (the AML/CFT Law and the regime for freezing terrorist related assets) and initiated a national risk assessment. Going forward further efforts are needed in relation to (i) understanding ML/TF risks; (ii) freezing terrorist assets (iii) implementing preventive measures and supervision; and (iv) enforcing criminal justice measures.

- Qatar has also developed a comprehensive framework for mitigating AML/CFT risks by outlining policies and procedures to prevent ML/TF in all financial institutions (FI), such as customer due diligence measures and on-going monitoring, record keeping, internal and external reporting obligations, and high-quality and ongoing training of staff in FIs on AML/CFT matters.

- Over the past two years, the authorities conducted onsite examinations of all banks, exchange houses, investment companies, and insurance companies. Penalties and fines were imposed on institutions with poor AML/CFT systems or those not applying the RBA, not updating customer information data under KYC, not reporting on the regular basis to the FIU, and not sufficiently training their staff in AML/CFT areas.

26. ***The deterioration of non-financial corporate firms is a worrying trend described in Box 2. Could staff elaborate on how strong the link is of these firms to the domestic banking sector? Or do these firms issue bonds to finance their operations?***

- The data used for this analysis for Qatar does not distinguish between the modes of financing i.e., whether corporate leverage happened through banks or bond issuances. Regardless of the mode of financing, the analysis in the selected issues paper shows that, albeit profit has been declining, Qatari non-financial corporates remain on sound footing.

Structural Reforms

27. ***We note ongoing work to ensure majority foreign ownership of companies, as well as plans to establish a minimum wage and enact a new law to protect expatriate labor, and welcome staff elaboration, including on the expected timeline of such measures.***

- Qatar is undertaking several structural reforms in the backdrop of low hydrocarbon prices and the ongoing diplomatic rift with some GCC countries.

- One of the reforms is that of a draft law allowing majority foreign ownership of companies. Overseas investors will be allowed 100 percent ownership of businesses in almost all economic sectors. Currently, foreign investors can only own a minority stake (49 percent at most). It is unclear when the draft law will come into force.

- A temporary minimum wage for expatriate workers worth US$ 207 (QR 750) was announced in November 2017. However, this figure is likely to be revised upwards by end-2018. The minimum wage package includes migrant workers also receiving free accommodation, food, and healthcare plans covered by their employers. The introduction of a minimum wage is part of a three-year program of technical cooperation with the International Labor Organization (ILO).

- A law to protect expatriate workers has already been ratified (August 2017). The law grants labor protection for the first time to Qatar's expatriate workers. The law guarantees domestic workers a maximum 10-hour workday, a weekly rest day, three weeks of annual leave, and an end-of-service payment, and healthcare benefits.

28. ***The authorities have articulated a significant menu of areas being targeted for diversification and for making it easier to navigate business in Qatar. Some are in line with staff advice, while others may be swayed by regional geopolitics. We look forward to updates on this in the next report. The staff has touched upon some***

areas. Could staff offer more details on the timelines of the priority areas? Also, could staff provide an assessment on the accomplishments of these priorities and their impact on GDP?

- Authorities are advancing a structural reform agenda to improve the business environment. However, the fine print of many of these reforms has still not been made public. Therefore, it is difficult to share the details on the timelines of the priority areas. The diplomatic rift provided an impetus to these reforms; Qatar has already started relying more on domestic food production and Qatar's privatization initiatives in some sectors, for example health and education, are already underway. The setting up of special economic zones is also underway. It is premature to measure the impact of these measures on GDP; however empirical evidence from other countries has shown that structural reforms reduce supply-side bottlenecks and are growth-enhancing.

29. ***We agree with staff that the diversification strategy relying on already competitive business companies is pertinent and should be pursued. We wonder to which extent this strategy could be deployed in agriculture and agribusiness in Qatar. The staff's comments are welcome.***

- Given the lack of fertile land and to some extent natural water, it is difficult for Qatar to fully develop agriculture or form agribusiness value chain domestically. However, Qatar can become part of the downstream component of agriculture and agribusiness value chains, for example, processing, packaging, marketing. As part of reducing its reliance on other countries, Qatar has recently taken active measures to enhance domestic production of selected food items and aims to be self-sufficient in the short run in products such as dairy, poultry, and fisheries sector.

30. ***We welcome the second national development strategy which emphasizes private sector development through improving the business and investment climate. Could staff share its assessment of the previous NDP, in terms of the achievement of national development objectives?***

- The first National Development Strategy (NDS) (2011-2016) helped Qatar make considerable progress in different areas, including social protection, health, education, infrastructure, natural resources, energy, economic diversification, environmental protection, partnerships, international cooperation, development and relief assistance, and others. The first NDS preceded the Qatar National Vision 2030 and formed a key component of the latter.

31. ***Could staff elaborate on the main elements of the second national development strategy?***

- The main elements of the second national development strategy (2018-2022) include policies, reforms, and commitments related to:

- achieving the goals of, and continuing support towards implementing Qatar National Vision 2030, in addition to economic performance and prospects.
- institutional development, service provision and financial management
- Sustainability of economic prosperity
- Human development strengthening
- Proper social development
- Sustainable development that preserves the environment
- Strategic performance management

- The new strategy includes an additional chapter dealing with global partnerships for development, which aims to strengthen Qatar's role at regional and international levels, raise the level of international partnerships and contribute effectively to regional and international peace and security. The strategy also includes a new chapter on strategic performance management, which is also considered as a compass to monitor implementation, ensure smooth and efficient follow-up, know obstacles, and work to overcome them in a timely manner.

32. ***What proportion of the Qatari workforce is employed in the public sector and does this currently limit room for growth in private sector employment? Is there a need for public service reforms to aim for greater participation of Qatari nationals in the private sector, thereby bringing diversity to the economy?***

- A large majority of Qatari nationals work in the public sector. There are several reasons that limit growth in private sector employment of Qatari nationals. These include, inter-alia, the large public-private wage gap, greater number of hours worked in the private sector, and a higher number of calendar days worked. Additionally, given the relatively easy supply of expatriate labor to Qatar, there is little incentive for Qatari employers to employ Qatari nationals who demand higher wages. It may be noted that unlike some other GCC countries who have much larger population of nationals, Qatari nationals are only nine percent of the total population (approximately 200,000 Qatari citizens), which allows the public sector to easily absorb the small number of Qataris.

33. ***Could staff elaborate more on the specific measures to increase the female labor force participation and its estimated impacts on the potential output?***

- Qatar's National Vision 2030 emphasizes increased participation of women in economic activity to achieve more sustained and inclusive economic growth. Qatar's labor law provided equality in working rights to women, stating that women "have the right to equal pay for equal work, equal access to training and promotion opportunities." Qatari female workers get maternity leave and retirement benefits, and regulations protect all working women in all sectors from work-related hazards. To support work-life balance for women, the first NDS (2011-2016) included initiatives related to the establishment of childcare centers at work places, flexible working hours, and more part times jobs. Regarding potential output, an increase in female labor force participation would increase the total labor force participation rate which in turn would increase potential output.

Other Issues

34. ***Could staff report on progress toward graduating to SDDS since the 2016 Assessment Mission by STA?***

- The authorities confirmed their interest in subscribing to the SDDS, and are still working on implementing the requirements discussed with the most recent SDDS mission.