



QATAR

2012 ARTICLE IV CONSULTATION

January, 2013

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 14, 2012, with the officials of Qatar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 18, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice (PIN)** summarizing the views of the Executive Board as expressed during its January 11, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Qatar.

The document listed below has been or will be separately released.

Selected Issues Paper

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QATAR

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

December 18, 2012

KEY ISSUES

Economic prospects. After having successfully completed its 20-year investment program to commercialize its substantial natural gas resources in 2011, Qatar has embarked on an infrastructure investment program in the nonhydrocarbon sectors, advancing its ongoing diversification agenda. Real GDP growth is projected at 6.6 percent in 2012, driven mainly by nonhydrocarbon sector growth of 9 percent. Average inflation is expected to remain low at 2 percent in 2012. The overall fiscal surplus is projected to remain high at 8.1 percent of GDP in 2012/13, and the external current account is projected to record a surplus of 29.8 percent of GDP in 2012.

Risks to the outlook emanate from a sustained decline in hydrocarbon prices and a tightening of external financing. Despite adequate financial cushions to mitigate potential risks, it is crucial to have a contingency plan against external risks to ensure timely and full implementation of the large infrastructure investment program.

Addressing macroeconomic challenges. Headline inflation remains low, and the current monetary stance is expected to stay accommodative in the context of the dollar peg. The government's fiscal stance for 2012/13 is contractionary, which is appropriate. The central bank should (i) strengthen liquidity management to absorb the structural liquidity surplus, and (ii) use macroprudential measures to manage risks arising from excessive credit growth or risk-taking in specific sectors. Increasing fiscal savings in the medium term is important, given the government's objectives of fully financing the budget after 2020 from nonhydrocarbon revenues, building buffers against shocks, and saving for future generations. Strengthening the medium-term fiscal framework to help insulate spending from volatile hydrocarbon revenues requires efforts to increase the credibility of the annual budget, and to establish macroeconomic forecasting through a macro-fiscal unit.

Strengthening financial regulation and stability. The banking system remains resilient to shocks but there is a need to reduce foreign funding risks and contain exposure to the real estate sector before they become excessive and impose a strain on financial stability.

Financial deepening. Continuing to develop deep and liquid domestic debt markets can bring important benefits to Qatar, including raising funding for the large infrastructure investment program, enhancing the monetary transmission mechanism, and facilitating liquidity management.

Improving economic statistics. More needs to be done in the areas of national income, prices, fiscal, external debt, balance of payments, and international investment position statistics.

Approved By
**Alfred Kammer and
 Taline Koranchelian**

Discussions were held in Doha during October 30–November 14, 2012. The staff team comprised Ananthakrishnan Prasad (head), Ghada Fayad, Zsofia Arvai, and Niklas Westelius (all MCD).

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INTRODUCTION

1. **As the world's third largest producer of natural gas accounting for one-third of the world's proven reserves, and the largest exporter of liquefied natural gas (LNG), Qatar has successfully translated its natural resource wealth into advances in social and economic outcomes, and has emerged as an important donor and labor importer (Box 1).** Largely insulated from the global crisis thus far, Qatar's annual per capita income in 2011 was \$98,000 (averaging Qataris, and non-Qataris who constitute 85 percent of the population) with an unemployment rate at 0.6 percent in 2011 (Figure 1). Qatar ranks favorably in the GCC in social and governance indicators, but remains below advanced economy averages (Figures 2 and 3).

2. **The government has now shifted its focus to economic diversification and growth in nonhydrocarbon sectors through targeted infrastructure investments.** Qatar's 20-year investment program, which focused on a strategy to commercialize its substantial natural resources, culminated in 2011. The State has placed a moratorium on the development of new hydrocarbon projects until 2015 to give itself time to assess its production performance and carry out a comprehensive study of its North Field. As emphasized in the National Development Strategy (NDS) 2011–16, total investments are expected to average 27 percent of GDP per year during 2012–17, predominantly in the nonhydrocarbon sectors, compared to 31 percent of GDP per year during the previous five years. Such investments are expected to create financing and investment opportunities for the private sector and to have positive spillover effects on the domestic economy. This will also have global and regional spillover effects through expatriate workers' remittances.¹

3. **The authorities implemented important reforms in 2011–12 to strengthen the macroeconomic policy framework consistent with Fund Policy advice.**

- **Progress toward fully adopting a three-year budget framework** is a crucial development as the government embarks on a major infrastructure investment spending program.
- **Issuance of 3-, 6-, and 9-month Treasury Bills (T-bills) despite large fiscal surpluses,** is conducive to the development of financial markets and liquidity management.²
- **The newly established debt office in the Ministry of Economy and Finance (MoEF)** aims among others to modernize policies and strategies for cost-risk tradeoffs including those for

¹ Estimates in the NDS document suggest that one percentage point of additional public-sector capital spending would generate 0.1 percentage point short-run acceleration of growth in nonhydrocarbon output, with the dilution of the effect being attributed to leakages through imports and expatriate workers' high marginal propensity to remit their incomes to their home countries. Staff's independent studies for the GCC suggest that the long-run effect of capital spending on non-oil growth is significantly larger than the short-run effect due to relatively long gestation lags for capital formation.

² Furthermore, the Qatar Central Bank (QCB) partnered with Bloomberg to launch the Qatar Interbank Rate Offer Rate (QIBOR) in March 2012 in an effort to facilitate interbank activity in Qatar.

government agencies; and to manage debt servicing, interest rate, currency and liquidity risks for external debt.

- **Steps have been taken to strengthen the legal and institutional framework for financial stability.**

Status of Other Staff Recommendations Made in the 2011 Article IV Consultation

Pension reforms	The Pension Fund has been recapitalized. The General Retirement and Social Insurance Authority is working with the World Bank on other reforms to the pension system.
Reducing (and eventually eliminating) subsidies	The authorities reiterated that currently there are no plans to review any of the subsidies.
Developing macroprudential framework	The laws of the QCB, Qatar Financial Markets Authority (QFMA), and Qatar Financial Center Regulatory Authority (QFCRA) have been amended to give the mandate of financial stability to the QCB.
Collating and disseminating real estate data	The QCB in collaboration with the Ministry of Justice has started publishing a monthly real estate index, and the Ministry of Justice publishes a weekly newsletter on real estate transactions.

Source: IMF staff.

4. Ensuring timely and full implementation of the large infrastructure investment program in the face of international uncertainties is the key medium-term challenge.

The baseline scenario envisages that the government-executed part of the investment program of \$110 billion during 2012–17 (about 9 percent of GDP each year) will be fully financed through the budget while continuing to build fiscal buffers. This government investment program is being complemented by an estimated \$50 billion investment by Qatar Petroleum (QP) (wholly owned by the State), and about \$100 billion by other public enterprises and the private sector (about 16–18 percent of GDP each year). These public enterprises will finance their capital investments through a combination of retained earnings, cash surpluses, foreign borrowing, and to a lesser extent by domestic bank financing. In the baseline scenario, the medium-term risks of a buildup of foreign funding seem to be contained and manageable, given the government's available financial cushion. Nevertheless, it is crucial to have a contingency plan against external risks, the right domestic policy mix to avoid potential overheating, and to create an enabling environment for uninterrupted financing of investments.

Box 1: Macroeconomic and Financial Linkages and Spillovers

As the largest LNG exporter in the world, Qatar is playing a systemic role in the global gas market by ensuring adequate LNG supply. This role has helped stabilize the global gas market, benefiting Qatar and consumers.

In addition, Qatar has provided substantial assistance in recent years to Arab Countries in Transition. Official disbursements in the form of aid and investments have been \$3.2 billion since 2010. In addition, Qatar announced that it would invest \$18 billion in tourism and industry projects in Egypt.

Financial Support and Investments from Qatar to Arab Countries in Transition
(U.S. dollar millions)

	Egypt ¹	Jordan	Libya	Syria	Tunisia ²	Total
Cumulative financial support, 2010-2012	501.0	1.7	106.9	6.2	59.9	675.8
Investments, 2012	2000.0				500.0	2500.0

Source: Country authorities.

¹ Investments include deposits in Central Bank of Egypt in four \$500 million tranches.

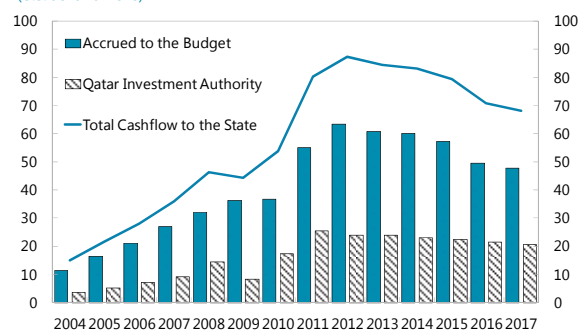
² Investments in Tunisian T-Bonds.

The policy of investing a share of the hydrocarbon wealth in global assets through the sovereign wealth fund (SWF) has benefitted global financial markets. According to staff's estimates, Qatar's investment abroad has been on average \$60 billion each year between 2008 and 2012, and given the projected benchmark oil prices, a similar magnitude of investment is expected during the next five years.

Qatar has made an important contribution to regional and global economies through remittances, which are important sources of income for many emerging market and developing countries. To overcome domestic constraints on labor supply, Qatar has relied on large inflows of expatriate workers, who now account for 90 percent of the labor force. Outward remittances from Qatar were over \$60 billion between 2006 and 2012—one of the highest shares in the world. Directionally, the main destinations were Asia (54 percent), Arab region (28 percent), US (8 percent) and Europe (7 percent). The top 10 receiving countries accounting for 72 percent of the remittances were India, Philippines, USA, Egypt, United Arab Emirates, Nepal, Bangladesh, UK, Pakistan, and Sri Lanka.

Net Cashflow to the State, 2004–17

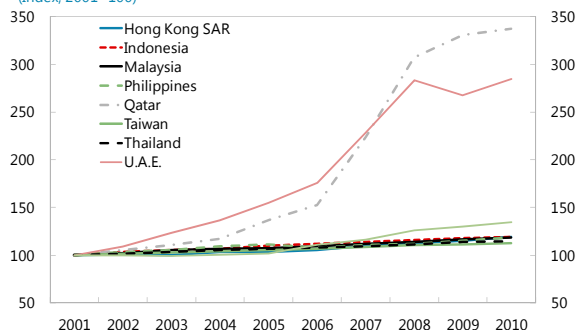
(U.S. dollar billions)



Sources: Country authorities; and IMF staff estimates.

Labor Force, 2001–10

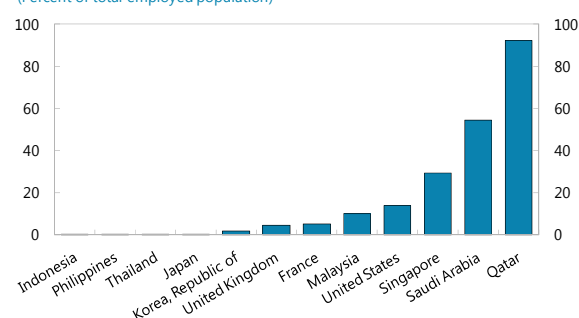
(Index, 2001=100)



Sources: Country authorities; and ILO.

Expatriate Workers¹

(Percent of total employed population)



Source: ILO.

¹ Latest available data.

Inward spillovers

Our alternative macroeconomic scenarios confirm the sensitivity of the fiscal accounts, and to a lesser degree, of external current accounts to oil price shocks. A downside scenario, consisting of a one standard deviation (\$28) drop in oil prices each year from 2013 onwards, suggests that the fiscal and current accounts will turn into deficit by 2014 and 2016, respectively.

Qatar's financial system has shown resilience to the global financial crisis, though it remains exposed to global financial conditions. The banking system remains well-capitalized and profitable. While moderately exposed to Europe, the authorities' and staff's stress tests show that the banking system has adequate liquidity and capital buffers to withstand substantial shocks. With regard to liquidity risks, the substantial reliance on wholesale funds from international banks points to some plausible risks (Third Financial Stability Report, QCB, 2012).

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

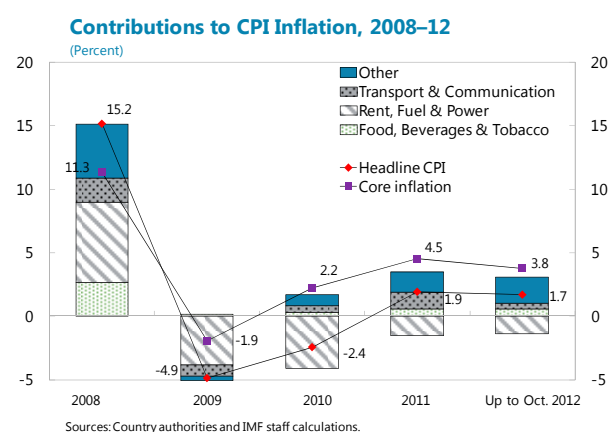
Qatar has benefitted from high oil and natural gas prices and production, with expansionary government spending and an accommodative monetary stance providing additional stimulus. Fiscal and external surpluses are large, and consumer price inflation (CPI) is low.

5. Growth rates are stabilizing in 2012 after strong increases in the past several years.

Following the construction boom in 2006–09 and hikes in hydrocarbon production to full capacity in 2011, which raised real GDP growth to 18 percent over 2006–11, real GDP growth is estimated to slow down to 6.6 percent in 2012. The nonhydrocarbon sector, which has been the fastest growing in the GCC region over the last decade, is projected to grow at a pace of 9 percent in 2012, driven by the construction, transport and communications, trade and hotels, and services sectors. Hydrocarbon sector growth will see a major reduction to 3.6 percent in 2012 (Figure 4).

6. Inflation remains low mainly due to depressed rents.

Headline and core (non-rent and non-food) CPI inflation have been on a downward trend thus far in 2012, with average headline inflation up to October at 1.7 percent and core inflation at 4.0 percent, largely on account of a significant slowdown in inflation for the transport and communication subcomponent, which has the second largest CPI weight after rent.



7. **The overall fiscal surplus of 8.2 percent of GDP in 2011/12 was higher than expected, reflecting strong hydrocarbon revenues, and is projected to remain high at 8.1 percent of GDP in 2012/13,** despite a 45 percent overrun in current expenditures in 2011/12 compared to the budget, primarily due to spending on goods and services. The surplus was also boosted by the underperformance of development expenditures. The projected surplus in 2012/13 will be driven by a marked rise in corporate taxes, as new companies start paying corporate tax, and by high investment income (profit transfer from QP), in addition to high hydrocarbon revenue. The external current account is projected to record a surplus of 29.8 percent of GDP in 2012 following a surplus of the same magnitude in 2011, reflecting continued high volumes and prices of crude oil, LNG and condensates exports.

8. **Monetary and credit conditions have remained accommodative as policy rates have stayed low.** Credit growth accelerated from 17 percent in 2010 to 28 percent in 2011, and to 32 percent in September 2012. Amid increased public spending on infrastructure-related activities, public-sector credit, primarily denominated in foreign currency, increased sixfold between end-2010 and mid-2012. Private sector credit grew by 19 percent in 2011—primarily driven by loans to the

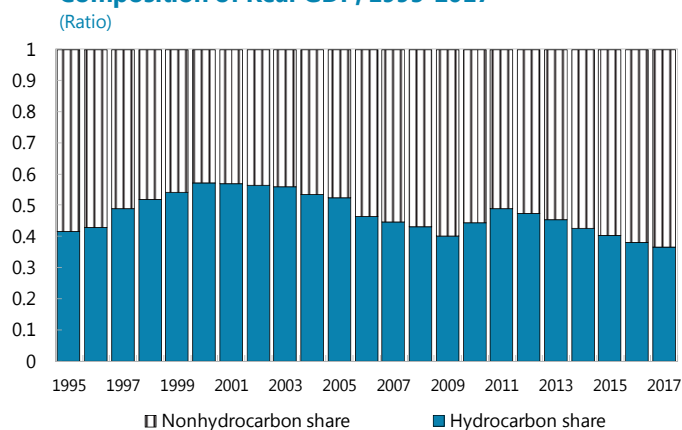
real estate sector—but the growth rate declined in the first nine months of 2012 to 12.5 percent (Figure 5).

MEDIUM-TERM OUTLOOK AND RISKS

9. The economic outlook remains strong with robust nonhydrocarbon growth and inflation only gradually rising over the medium term.

- Accommodative monetary conditions, continued high capital spending through the budget, and implementation of large projects by public enterprises will continue to support growth in the nonhydrocarbon sectors in the range of 9 to 10 percent over the medium term. However, declining crude oil production and constant LNG production due to the moratorium on further development of hydrocarbon projects will see the hydrocarbon sector grow between -1.1 percent and 3.5 percent over the medium term. The share of nonhydrocarbon GDP in overall GDP is expected to increase to 60 percent on average over 2012–17.

Composition of Real GDP, 1995-2017



Sources: Country authorities and IMF staff calculations.

- Inflation is projected between 3 to 5 percent in the medium term. Despite public-sector wage increases, inflation is expected to remain low at 3 to 4 percent in 2013–14 due to dampening effects of the supply overhang in the real estate sector. As infrastructure-related construction activities pick up, as the demand-supply situation in the real estate market converges, and as the expatriate population increases, inflation is projected to increase gradually increase to 5 percent in the following years.
- Fiscal and external surpluses are projected to taper off significantly, due to flat LNG production and a declining trend in crude oil production and exports, and higher fiscal expenditure.

10. **Despite the availability of large financial buffers to cushion even a sizeable shock, Qatar will need to actively manage risks.** The commitment to complete the infrastructure plan increases Qatar’s vulnerability to external risks and poses domestic macroeconomic management challenges. Qatar’s broad international linkages make it vulnerable to spillovers from the global economy through trade and financial channels, similar to those observed in 2008–09 (Appendix I Risk Assessment Matrix). The strongest link is through global oil and gas demand and prices, but external financing risks could also emerge as an important channel. Other downside risks include (i) potential disruptions to transportation of LNG as a result of the temporary closure of the Strait of

Hormuz; (ii) competition to Qatar's LNG exports towards the end of the decade from increases in unconventional gas production in the US, and the emergence of Australia as a leading producer of LNG; and (iii) price shifts in the LNG market (Appendix II).

11. Continued emphasis on reducing fiscal and financial sector vulnerabilities will be important alongside greater focus on strengthening the foundations for longer-term growth.

Although Qatar's external debt profile does not indicate any debt servicing or rollover problems (Appendix III), a worsening of the euro area debt crisis could lead to reduced access to foreign funding for GCC borrowers. These risks might materialize in a tightening of Qatar's current ample fiscal space and may test available external buffers. The authorities agreed with staff's characterization of the major risks, and added that a slowdown in China and India could affect the global demand for oil and gas.

POLICY DISCUSSIONS

A. Contingency Planning for Key Risks

The commitment to complete the infrastructure plan by 2020 underscores the importance of building contingencies in case risks materialize.³

12. Financing for the investment program under the baseline scenario is feasible. The government will fund its capital spending through the budget. To fund its investments, QP depends primarily on internal sources of financing along with loans from financial institutions and the export credit agencies of its trade partners. Many of the past projects undertaken by QP are through loans amortizing over 15 to 25 years, and repayment obligations are expected to be met through the cash flows. Investment outside the hydrocarbon sector is driven by other government-linked corporates in manufacturing, and in residential and business construction projects among others. Some of these corporates hold huge cash balances.⁴ The repayment profile of the current outstanding total external debt is

Main Budgeted Capital Projects: Total Costs until 2020
(U.S. dollar billions)

	Total Cost	2012	Balance until 2020
Railway	44.3	1.1	43.2
Public Works Authority (Ashghal)	27.8	1.9	19.7
Industry, Water, and Electricity (includes port)	11.1	1.9	9.2
Airport	7.4	3.3	4.1
Education (including Qatar Foundation)	7.1	1.6	5.1
Ministry of Interior and Interior Security Forces	3.9	0.4	3.5
FIFA-related	1.6	0.5	1.1
Health	1.5	0.3	0.7
Other	12.6	6.0	6.2
Total	117.5	17.1	92.9

Source: Ministry of Economy and Finance.

Qatar Petroleum Capital Investments by Business, 2012-2016¹
(U.S. dollar billions)

Crude Oil	7
North Field	8
NGL & Local Gas	2
Refined Producted	2
Petrochemicals	7
Industrial Cities	6
QP International	1
Other Businesses	18

¹ Includes investments by QP and its other companies

Sources: Qatar Petroleum; and Fund staff estimates.

³ The timeline assumes importance because of the FIFA World Cup in 2022.

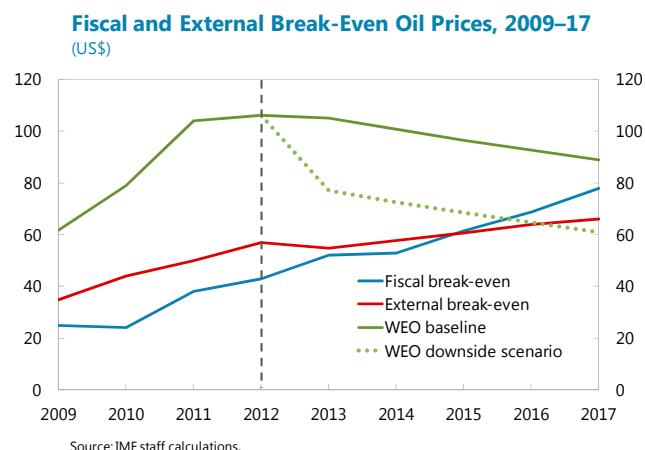
⁴ The combined cash balance of the listed corporates at end-December 2011 was close to \$12 billion.

spread out over the long term; and the government pursued a deliberate policy of building a sovereign U.S. dollar benchmark yield curve after the global crisis to help government-owned corporates to raise foreign debt through loans and bond issuances to finance their operations (Appendix 3). Recent foreign borrowings by the public enterprises have been for similar long maturities.

13. Nevertheless, managing external risks calls for building a contingency plan for prioritizing and sequencing capital projects, refraining from further ad hoc increases in current expenditures, and boosting fiscal buffers and international reserves when oil prices are high.

Qatar remains dependent on hydrocarbon revenues, and rising government spending has progressively raised breakeven oil prices. Increased spending would drive fiscal breakeven prices even higher in the medium term, to \$78 by 2017, higher than the current oil prices assumptions for the budget. This trend underlines the need to focus on containing current expenditures that are difficult to reverse, such as public-sector wages and administrative expenses. A

downside scenario, based on a one-standard-deviation (\$28) drop in oil prices, implies that from 2015 onwards fiscal breakeven prices would exceed oil prices.^{5,6} This scenario implies that the cumulative fiscal deficits over 2015–17 would amount to \$34 billion, constituting about 80 percent of the combined projected capital expenditures for FY 2016 and FY 2017. While feasible, financing this gap would compromise savings for intergenerational equity and asset diversification strategies.



14. The authorities are cognizant of the risks and have been building adequate financial cushions to withstand even strong shocks.

In addition to large reserves with the sovereign wealth fund (SWF) and the central bank, the government has other funds to mitigate the impact of fluctuations from oil price shocks and financial risks. Part of the risk mitigation effort is to fully finance the budget from 2020 onwards from nonhydrocarbon revenues. With regard to potential financing risks, the authorities pointed out that the government has been able to issue bonds abroad at favorable interest rates, reflecting a combination of good credit rating, considerable investor interest, and the safe haven status of Qatar. Since 2008, the government completed four bond issuances, including one sukuk at competitive rates. The government is also resorting to

⁵ Downside and upside scenarios of higher and lower oil prices from 2013 onwards are generated by using a band of one standard deviation (amounting to a \$28 change every year) compared to the benchmark WEO oil price assumptions of August 2012. The analysis assumes no change in the hydrocarbon production profile for the high and low price scenarios compared to the baseline scenario.

⁶ Alternative downside scenarios, calculated based on deviations of Brent futures contracts from their baseline according to 68 percent, 86 percent, and 95 percent confidence intervals, imply that from 2015, 2014, and as early as 2013, respectively, WEO (downside scenario) prices would fall below both current and fiscal breakeven prices.

strategic stockpiling of raw materials for construction, and also nonperishable commodities to mitigate inflationary risks.

15. **The authorities highlighted a number of factors that should continue to preserve Qatar's competitive position in the LNG market over the medium term.** First, the projected increase in global demand for natural gas during 2012–17 should absorb the emerging new supplies in the medium term.⁷ Second, Qatar's strategy has been to diversify into all major markets, adjusting the mix of destinations and contract types according to market needs. Moreover, a majority of its exports is in long-term contracts, which provides certainty of pricing and volume off-take, while the built-in diversion clauses in gas contracts provide additional flexibility to manage quantity and price risks. Third, Qatar will continue to have a cost advantage over many of the new projects. Since Qatar produces and exports significant quantities of condensate and natural gas liquids in association with natural gas, the effective average cost of producing LNG is much lower.

16. **The authorities shared their plans to contain expenditure pressures by line ministries and ensure efficient spending under the medium-term budgeting framework.** Line ministries and agencies will now receive allocations for capital spending based only on concrete proposals that are integrated with national priorities, and monitored through performance measures. With regard to current expenditures, the authorities explained that their aim is to maintain the wages and salaries at their current share of total expenditure. In the event of a sustained fall in oil prices, they would exercise flexibility by reducing other current expenditures and implement capital projects through public-private partnerships (PPP), instead of financing through the budget. To this end, the Ministry of Economy and Finance (MoEF) is working toward developing a model PPP legal framework.

17. **The authorities have also been taking steps to manage implementation risks of the government's large infrastructure investment program.** Current efforts are focused on prioritizing projects in the transportation sector, which accounts for a major part of total investments. A reprofiling exercise in the transportation sector aims to mitigate potential construction bottlenecks and wider congestion stresses. The coordination function of the Central Planning Office is a welcome development. The authorities have established a framework for coordination with the agencies responsible for the delivery of infrastructure projects for reporting on progress, identifying and implementing efficiencies, and providing for early warning to ensure timely implementation. The early passage of the draft procurement law that aims to bring greater transparency and decentralization in the tendering process would bring efficiency gains to the investment program. Staff is of the view that meeting development needs efficiently would be best served by an integrated public investment management process that covers all sectors and public enterprises, and which embeds within it processes to manage scrutiny, selection, delivery, and funding of major capital projects.

⁷ The International Energy Agency has projected a global demand increase of 17 percent during 2012 and 2017 for natural gas.

B. Addressing Macroeconomic Policy Challenges—Maintaining a Prudent Fiscal Stance, and Strengthening Monetary Operations and Liquidity Management

18. **The exchange rate peg has served Qatar well** by facilitating trade and investment in addition to providing a strong nominal anchor. While the macrobalance balance (MB) approach suggests a current account on the weaker side, the external sustainability (ES) approach – which emphasizes the intergenerational equity objective—indicates that the current account is more aligned with fundamentals. The equilibrium real exchange rate (ERER) estimation—a direct measure of potential real exchange rate misalignments—suggests that the Qatar Riyal is currently undervalued. However, with projected inflation rising (relative to major trading partners), the undervaluation is likely to narrow over the medium term (Appendix IV). Taken together, the evidence suggests that the real exchange rate is in line with fundamentals as the deviations of the real exchange rate and the current account from their benchmarks are moderate.

Results of CGER-type Analysis (In percent of GDP)				
	(A)	(B)		
	Projected CA	Norms		
		MB ¹	ES ²	ERER ³
2011	30.4	29.9	28.8	
2017	9.8	19.3	8.6	
Difference (A-B)				
2011		0.5	1.6	
2017		-9.5	1.2	
Percentage of ER overvaluation (-) / undervaluation (+)				
2011		0.9	2.6	7.3
2017		-15.0	1.9	n/a

Source: IMF staff estimates and projections.

¹ Follows specification III of Beidas-Strom and Cashin (2011).

² Follows a constant real per capita allocation rule similar to Bems and Carvalho Filho (2009).

³ Follows Cashin and Poghosyan (forthcoming).

19. **Headline inflation pressures remain muted, and the current monetary stance is expected to stay accommodative for the next few years in the context of the dollar peg.** Thus, any signs of overheating need to be managed through fiscal policy, in particular through restraining further increases in current expenditures to control aggregate demand, combined with liquidity management by the QCB to absorb the structural liquidity surplus, and through macroprudential measures to help smooth excessive credit growth and mitigate pressures from excessive leverage or risk-taking in specific sectors. The fiscal stance for 2012/13 is contractionary, which is appropriate.⁸ However, the ramp-up in expenditures by public enterprises could increase aggregate demand pressures in the economy. The authorities are confident of preventing overheating of the economy, and have taken several steps to avoid the high-inflation episode of 2008 (Box 2).

⁸ The government's fiscal stance is measured by the nonhydrocarbon deficit (excluding investment income) as a percent of nonhydrocarbon GDP. The stance is contractionary since the large increase in expenditures is more than compensated by increase in nonhydrocarbon revenues.

Box 2: Inflation Outlook: Pressures and Alleviating Channels

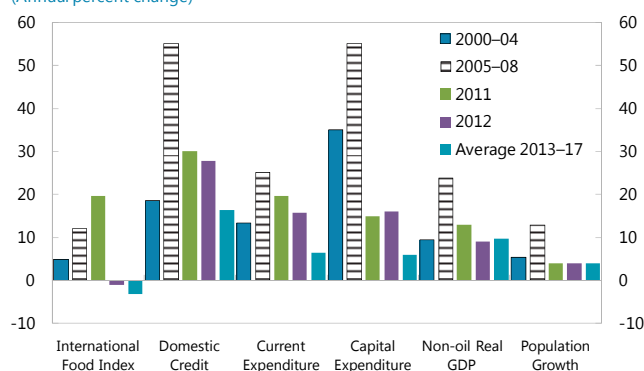
A question that emerges is whether inflation will increase again as it did in 2007–08, when average CPI inflation peaked to 15 percent in 2008, fueled mainly by infrastructure bottlenecks and real estate growth.

With the exception of international food price inflation, which has now turned into deflation, the macroeconomic drivers of inflation that were present in 2005–08—depreciation of the nominal effective exchange rate, credit expansion, rising government current expenditure, and population growth—are still present now, but the increases in these drivers are currently smaller and are projected to remain so over the medium term.

To quantify the historical response of inflation to its various exogenous and endogenous drivers, different specifications of a VAR model were estimated on annual data in Qatar over 1980–2008. The model found that the pass-through from food prices into the CPI is higher in deflationary times, suggesting that the expected deflation in food prices over the medium term will have a bigger alleviating impact on inflation in Qatar. The model also found current expenditure to be more inflationary than capital expenditure as expected, with the elasticity of inflation to capital spending only a fraction of the elasticity of inflation to current spending. With the shares of capital and current expenditures expected to remain about the same in the medium term compared to the earlier episode, and with phased-out and thus lower annual capital spending increases as

Drivers of Inflation: 2000–17

(Annual percent change)



Sources: Country authorities; World Economic Outlook; and IMF staff calculations.

Contributions of Current and Capital Expenditures to Total Expenditures, 2005–17

	2005–08	2012–17
Current/Total Expenditure	0.66	0.70
Capital/Total Expenditure	0.34	0.30
Current Expenditure Growth	25.0	8.0
Capital Expenditure Growth	55.0	7.9

Sources: Country authorities; and IMF staff calculations.

well as lower expected current spending growth over the medium term, increased government spending is expected to be less inflationary than in the 2005–08 episode. Moreover, the authorities are working on alleviating transportation bottlenecks, increasing storage capacity, and strategically stockpiling raw materials to prevent escalation of costs.

The lack of historical real estate data prevents its inclusion in our VAR model. Our inflation forecasts are, however, based on a gradual narrowing of the deflationary impact of the rent component of CPI. First, the real estate index, collated by the QCB, which had appreciated by 166 percent between Aug 2006 and Aug 2008, depreciated by about 50 percent by Aug 2009, and has been on an upward trend since then, appreciating by 45 percent between Aug 2009 and Aug 2011. Second, some private-sector real estate research observed a pick-up in rental rates in Q2 of 2012, and forecast that the market might experience a healthy supply and demand balance or might actually be undersupplied, depending on whether and when the assumed population increases in these forecasts will gain momentum. In the current situation, there is an oversupply in high-end luxury housing segments, and an undersupply in affordable housing. In that respect, satisfying the expected growing demand from a growing expatriate population will ensure that the low-to-middle-end segment of the real estate market does not overheat, and will also keep the high-end segment in check.

20. Macroprudential policy can support fiscal policy by managing financial risks.

Notwithstanding that about 70 percent of the increase in credit is to the public sector, past

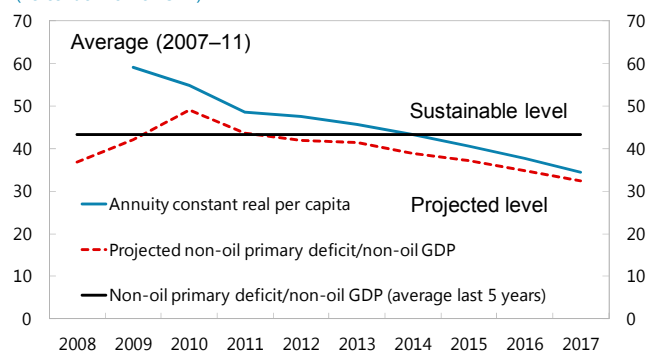
experience has shown that surplus liquidity and persistent foreign currency inflows can result in excessive credit growth and real estate booms. The central bank should closely monitor credit growth in order to distinguish credit going to infrastructure-related projects, in line with the overall growth strategy, from lending that may lead to excessive asset price increases or inflationary pressures. The QCB has a number of tools, including reserve requirements, credit ratio, sectoral credit exposure limits, liquidity ratio, and loan-to-value ratio, to address both generalized and sector-specific credit booms and capital flows, and it stands ready to contain excessive credit growth through a more proactive but judicious use of existing tools.

21. **With recent initiatives to develop domestic financial markets, the QCB is now moving toward a more active and market-based liquidity management framework.** However, with a shallow interbank market and the absence of an active secondary market for T-bills, the QCB acknowledged that its ability to engage in open market operations is currently limited. To this end, the authorities saw merit in strengthening the liquidity forecasting capabilities to better target the absorption of structural liquidity surplus through T-bills. Although for now the instruments available with the QCB are adequate to manage day-to-day liquidity, the authorities are exploring the possibility of using open market operations to actively keep the interbank rate close to a policy rate consistent with the exchange rate peg. To achieve this, it would be useful to have not only a repo instrument to inject liquidity but also a reverse repo instrument to absorb liquidity (see accompanying Selected Issues Paper).

22. **The government should continue to build robust buffers.** Staff's medium-term fiscal sustainability exercise shows that fiscal space is contracting, but still consistent with intergenerational equity.⁹ Surpluses are not excessive, and given the authorities' objectives of fully financing the budget from 2020 onwards, from nonhydrocarbon revenues, and building buffers against shocks, more saving in the medium-to-long term is warranted, mainly through a combination of containing current expenditures and prioritizing capital expenditure. In staff's benchmark scenario, projected nonhydrocarbon revenues would finance 75 percent of projected expenditure in 2017/18. The authorities are confident of achieving their self imposed target by 2020.

The authorities indicated that they would continue to formulate budgets based on conservative oil prices, which, given the baseline assumptions for oil prices in the medium-term, would in staff's estimation enable continued large savings of about \$50 billion each year until 2017 through the SWF.¹⁰

Projected and Sustainable Non-oil Primary Deficit, 2008–17
(Percent of non-oil GDP)



Sources: Country authorities; and IMF staff calculations.

⁹ The exercise targets a constant per capita annuity in real terms.

¹⁰ Total international reserves of Qatar (including SWF assets) are currently estimated at \$215 billion, which is projected to increase to \$485 billion, based on staff's calculations.

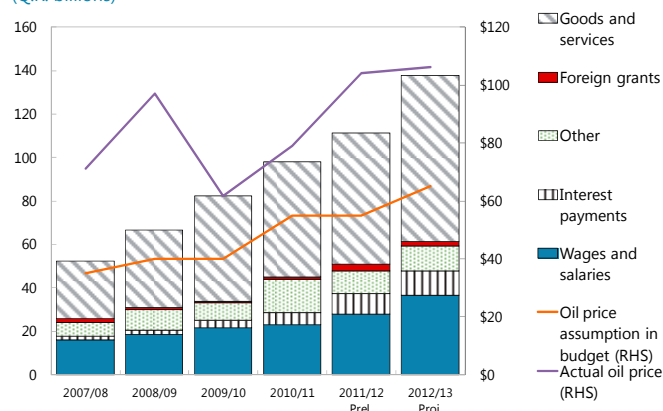
C. Strengthening Fiscal Policy and Institutions

23. **Qatar's adoption of a three-year budget framework in the 2012/13 budget is a key transformation enabling more efficient sectoral planning and better utilization of resources by ministries and government agencies.** The adoption of a medium-term budget framework

(MTBF) would help to ensure that government spending is smooth and shielded from revenue volatility. Spending and revenue outcomes typically have been far above the initial budget allocations. Actual oil prices have been consistently higher than budget assumptions, introducing ad-hoc elements into spending decisions. The MTBF needs to be complemented by a more detailed medium-term expenditure framework. In its second year of implementation, the authorities' aim is to obtain fuller coverage and better responses from line ministries. They are also focusing on continuous training and communication to achieve a better understanding of the MTBF by the implementing agencies.

Composition of Current Expenditure, 2007–12

(Q.R. billions)



Sources: Country authorities; and IMF staff calculations.

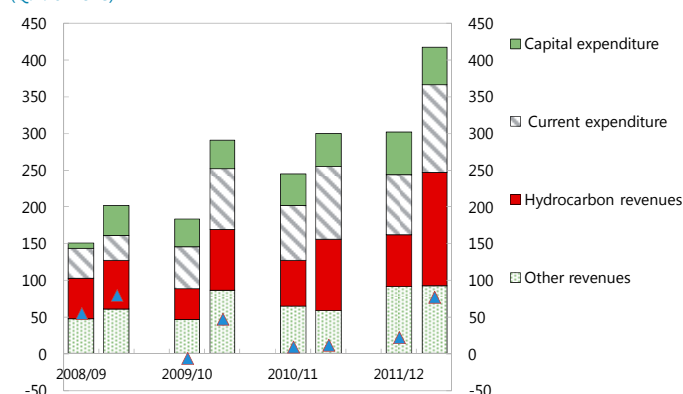
24. **Successful implementation of the medium-term fiscal framework requires parallel efforts to increase the credibility of the annual budget, build and enhance capacity, and establish macroeconomic forecasting through a macro-fiscal unit.**¹¹ Further progress is needed

in preparing credible annual budgets and reliable medium-term macroeconomic projections, which are among key preconditions for a successful MTBF. These reforms would enhance macroeconomic stability, facilitate long-term planning, and boost private-sector investment. A formal fiscal rule would be a way of reinforcing the fiscal framework. Given Qatar's significant exposure to hydrocarbon price movements, however, such rules would need a degree of flexibility and, at the same time, would need to be set to maintain consistency with long-term fiscal sustainability (see

accompanying Selected Issues Paper). The authorities agreed in principle with the above views, but are now concentrating on strengthening the medium-term budget reforms initiated last year. A macrofiscal unit has recently been set up in the MoEF but is not fully functional. The authorities expressed interest in Fund TA in this area.

Budgeted vs. Actual Outcomes, 2008–11

(Q.R. billions)



Sources: Country authorities and IMF staff calculations.

¹¹ Although a macro-fiscal unit exists, it is not yet functional due to capacity constraints.

D. Strengthening Financial Regulation to Maintain Financial Stability

25. **The banking system remains highly capitalized and profitable.** The capital adequacy ratio (CAR) of commercial banks rose from 16.1 percent in 2010 to 21.1 percent in June 2012, while nonperforming loans (NPLs) declined from 2.0 percent to 1.7 percent over the same time period. The banking system remains profitable with return on assets amounting to 2.5 percent in June 2012. Analysis pertaining to stressing to breaking point shows that the banking system will breach the minimum regulatory CAR of 10 percent only when NPLs rise to 27 percent and 39 percent for Islamic and conventional banks, respectively. However, strong credit growth has led to an increase in the loan-to-deposit ratio to 121 percent at end-June 2012, and the resulting funding gap has primarily been filled through foreign financing.

26. **Funding risks have increased, which warrant careful examination of implications on banks' balance sheet, an issue that the QCB is closely monitoring.** Wholesale interbank foreign liabilities, predominantly short-term in nature, have risen as domestic funding sources have been unable to keep up with rising credit demand. Funding from European banks is significant, but direct exposure to GIIPS banks is limited (see Appendix III). On the asset side, credit dollarization has risen noticeably, with the share of foreign currency-denominated credit to the public sector as high as 80 percent in mid-2012, leading to a buildup of currency and maturity mismatches (Figure 5). The authorities agreed with staff's assessment on the need to limit the buildup of liquidity risk related to short-term foreign borrowings channeled into funding medium- and long-term domestic lending, including through the use of additional prudential liquidity ratios.

27. **The banking system is exhibiting resilience in terms of credit risk, but there is a need to prevent buildup of excessive exposure of the banking system to the real estate sector.** Credit to real estate in the public and private sectors constitute 25 percent of total credit, of which about 56 percent is in foreign currency (including lending for projects outside Qatar). Since the credit concentration is not homogenous across the banking sector, individual banks' exposure needs to be monitored. Overall credit to real estate seems to have temporarily stabilized in 2012, but in case there are signs of a renewed pick-up of real estate credit, the QCB agreed to contain it through the use of macroprudential tools, for instance higher risk weights for real estate lending for the CAR. The authorities agreed with staff's assessment but pointed out that current regulations related to the classification of loans based on real estate collaterals tended to overestimate the banking system's exposure to real estate, and in that sense provided a built-in cushion against the buildup of risks.¹² Despite the cushion, since real estate risk tends to be procyclical, borrowers' repayment capacity is likely to fall in tandem with real estate prices. Staff and the authorities agreed on the importance of risk management and regular stress testing by banks to strengthen financial stability. In this context, staff reiterates that collating and disseminating detailed price and volume data on Qatar's real estate market segments would help enhance risk assessment.

¹² For loans extended for purposes other than real estate, if the bank depends on real estate or real estate collaterals as source of repayments, they are classified as real estate credit.

28. **The steps taken to strengthen the legal and institutional framework for financial stability are welcome.** The new draft central bank law, when passed, will give the legal mandate of financial stability to the central bank, which would be operationalized through the establishment of a Financial Stability and Risk Control Committee (FSRCC). The planned FSRCC and the regulatory agencies responsible for implementing its recommendations (the QCB, QFMA, and QFCRA) should have clear roles and responsibilities and governance structure, consistent with the institutional mandates and coordination arrangements.

E. Deepening Financial Markets

29. **Current efforts to develop local debt markets are commendable and will enhance options for domestic financing and reduce reliance on foreign funding.** Although the government is running large fiscal surpluses, it has been issuing local currency–denominated government securities with the stated objective of domestic debt market development and liquidity management. T-bill issuance is a welcome first step in the process of deepening financial markets and building a robust yield curve. Current plans are to issue three- and five-year domestic bonds in 2013 to further extend the yield curve. Developing deep and liquid domestic debt markets can bring important benefits, including raising funding for the large infrastructure investment program as Qatar advances its diversification agenda, enhancing the monetary transmission mechanism, and facilitating liquidity management. Facilitating market participation of a diversified set of professional institutional investors would help secondary market development (see accompanying Selected Issues Paper). Plans to list government bonds on Qatar Exchange, and the lead taken by the QCB in setting up a domestic credit rating agency and a central securities depository are important steps toward developing a local debt market.

30. **Staff and the authorities agreed that there are several key conditions required to establish a liquid and well-functioning market for long-term government and corporate debt.** Staff recommends that the authorities' agenda include:

- **initially concentrating on developing the short end of the yield curve by enhancing liquidity in the T-bills market**, where issuance is backed by improved liquidity forecasting and a transparent public debt management strategy;
- **developing a well-diversified domestic and foreign institutional investor base** (including pension, insurance, and investment funds) that can help diversify financial intermediation to capital markets by increasing the demand for long-term financial assets;
- **creating a sound institutional infrastructure**—a credible rating system, high corporate governance standards, transparency in reporting requirements, and the adoption of international accounting standards— to foster market discipline; and
- **improving pricing transparency and microstructures**—effective trading mechanisms, and custody and settlement systems— that can play a crucial role in enhancing liquidity and efficiency, while reducing trading costs and volatility.

F. Longer-term Structural and Data Issues

31. **Developing the nascent small and medium-sized enterprise (SME) sector is a policy priority in Qatar's National Vision 2030's strategic goal to build a well-diversified economy.** While some steps have been initiated to promote this sector, a clear definition of the distinct and complementary roles of institutions supporting SMEs is warranted in order to remove a number of constraints in SME development, including issues related to access to finance, establishing a legal structure for speedy arbitration, providing capacity to conduct feasibility studies, and facilitating the use of movable collateral (Box 3).

Box 3: Promoting Small and Medium-Sized Enterprises in Qatar

Current efforts

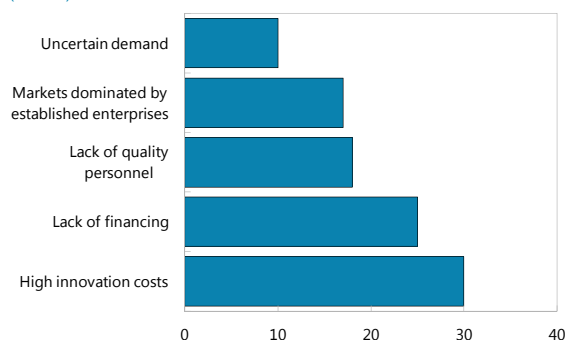
Recent programs to support SME development in Qatar have focused on the key objectives of promoting diversification and competitiveness, and building a knowledge-based economy. Two key complementary institutions are mandated to contribute to SME development in Qatar. Qatar Development Bank (QDB) is responsible for industrial and private-sector development with a strong recent focus on financing. Enterprise Qatar operates with a key emphasis on fostering entrepreneurship and innovation, and provides specialized services including business support, managerial and advisory services, training and development, and research on legislative and government policy issues.

Challenges

SMEs' current standing in the Qatar economy is weak by regional and global standards, with a total of 9011 SMEs contributing to about only 15 percent of non-oil GDP in 2010 and less than 20 percent of total employment in 2011. Challenges to SME development in Qatar have been identified in a recent study and are comparable to obstacles to

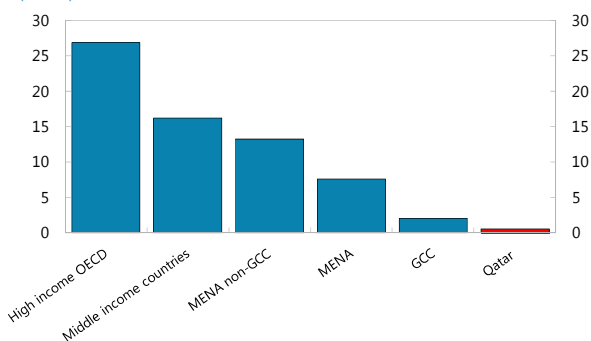
SME development globally. Financing obstacles persist, despite the credit guarantee scheme, as commercial banks are still reluctant to lend to SMEs, due to the small size of the market, its high risk and set-up costs, the absence of a legal structure for quick arbitration, and lack of SME-specific credit rating in the credit bureau. Bank lending to SMEs as a share of total lending is 0.5 percent, substantially lower than the GCC and MENA averages, which are already far below advanced country levels. Greater coordination and collaboration between the institutions responsible for promoting SMEs in Qatar are required to create synergies between providing access to finance and developing business support services, enhancing human capacity, promoting research and development, and entrepreneurship.

Challenges to SME Development in Qatar (Percent)



Source: Enterprise Qatar (2012).

SME Loans to Total Loans, 2005–09 (Percent)



Sources: Rocha et al. (2010)

32. **Despite significant improvements in statistics, which staff welcomes, much more needs to be done, requiring a step up in the collaboration between different agencies.** Data advances include national accounts statistics, and the Qatar Statistics Authority is now publishing a quarterly real GDP series. The QCB has developed a partial international investment position (IIP) statement at end-June 2012, which is expected to be enlarged based on the recent technical assistance provided by the Fund for conducting the 2012 Foreign Investment Survey. More needs to be done, however, in the areas of national income, prices, fiscal, external debt, balance of payments, and international investment position statistics.

33. **Staff welcomes the authorities' efforts in strengthening Qatar's Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) framework.** During 2010, Qatar enacted a new AML/CFT law (Law No.4, 2010) and established a Financial Supervisory Coordination Committee to harmonize rules and regulations, which were adopted by various financial sector supervisors. As a consequence of the AML/CFT system improvements, Qatar was removed from the Financial Action Task Force's International Cooperation Review Group monitoring process in October 2010. A new draft central bank law provides for the inclusion of insurance companies under the QCB's regulatory purview. Staff encourages the authorities to establish and develop a sound and effective risk-based approach to supervision, for both prudential (financial risks) and AML/CFT matters.

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34. **The government has now shifted its focus to economic diversification and growth in nonhydrocarbon sectors through targeted infrastructure investments.** Increased government capital expenditure for infrastructure investments and accommodative monetary conditions are expected to sustain nonhydrocarbon growth of 9 to 10 percent in the medium term.

35. **However, since growth hinges on the successful implementation of the infrastructure plan, it is crucial to have a contingency plan against external risks, and the right domestic policy mix to avoid potential overheating and to create an enabling environment for uninterrupted financing.** Managing the implementation of projects would be best served by an integrated public investment management process that covers all sectors and which embeds within it processes for scrutiny, selection, delivery and funding of major capital projects.

36. **While headline inflation remains low, if inflationary pressures were to emerge,** further increases in current expenditures should be restrained to control aggregate demand, combined with liquidity management by the QCB to absorb structural liquidity surplus, and macroprudential measures to help smooth excessive credit growth and mitigate pressures from excessive leverage in specific sectors.

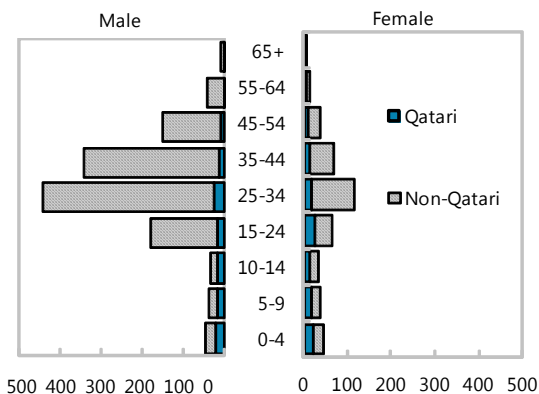
37. **Developing a liquidity forecasting framework will be imperative to enhance liquidity management.** Effective monitoring and reliable forecasts of liquidity conditions will help guide liquidity management operations, smooth interest rate volatility and encourage interbank trading. Greater transparency in the operational framework for T-bill issuance would allow banks to better anticipate liquidity conditions in the interbank market and would help market development.
38. **The banking system is exhibiting resilience in terms of credit risk.** However, it is essential to reduce the buildup of liquidity risk related to short-term foreign borrowings channeled into funding medium- and long-term domestic lending. Likewise, there is a need to prevent buildup of excessive exposure of the banking system to the real estate sector.
39. **In the medium term, the government should continue to build robust buffers.** Fiscal space is contracting but still consistent with intergenerational equity, according to staff's medium-term fiscal sustainability exercise. Surpluses are not excessive, and given the authorities' objective of fully financing the budget from 2020 onwards from nonhydrocarbon revenues, and to build buffers against shocks, more saving in the medium-to-long term is warranted, mainly through a combination of containing current expenditures and prioritizing capital expenditure.
40. **The recently taken steps to introduce a MTBF would help enhance the predictability of spending decisions and link its medium-term development plans to the budget.** Successfully implementing medium-term fiscal planning will require parallel efforts to enhance the credibility of the annual budget and of macroeconomic forecasting—through a macrofiscal unit—as well as to build and enhance capacity at the Ministry of Economy and Finance and line ministries.
41. **Staff supports the authorities' efforts to develop deep and liquid domestic debt market as they can bring important benefits,** including raising funding for the large infrastructure investment program as Qatar advances its diversification agenda, enhancing the monetary transmission mechanism, and facilitating liquidity management.
42. **Further improvements in statistics will be essential, which will require greater coordination across agencies.**
43. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Figure 1. Qatar: Labor Markets Indicators, 2006–11

Expatriates constituted 85% of the population in 2010.

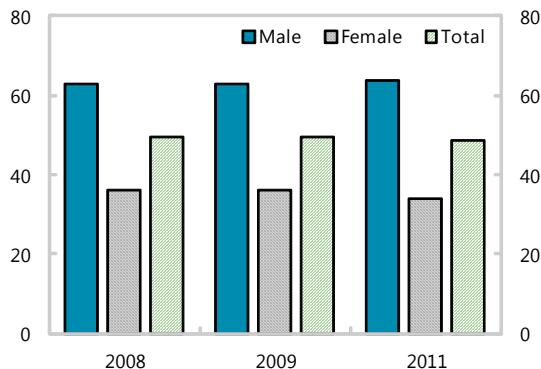
Constant labor force participation rates, with twice as high Qatari male than female participation rates.

Qatari and Non-Qatari Population, 2010



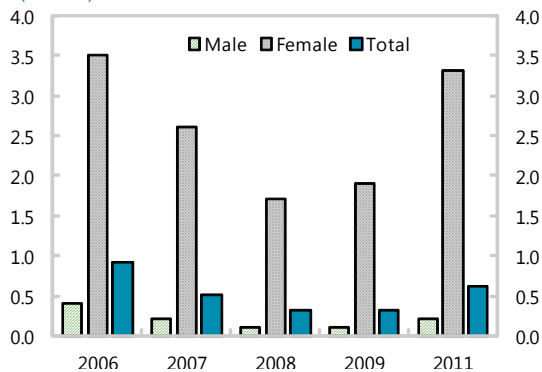
Unemployment is at record low levels, lower for non-Qataris, and much lower for females.

Labor Force Participation Rates for Qataris, 2008–11 (Percent)



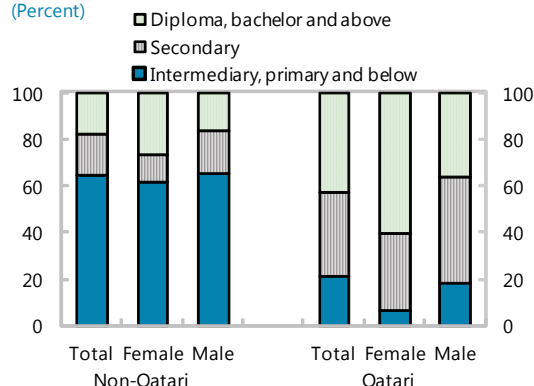
Qataris in the labor force are significantly better educated than non-Qataris.

Total Unemployment Rates, 2006–11 (Percent)



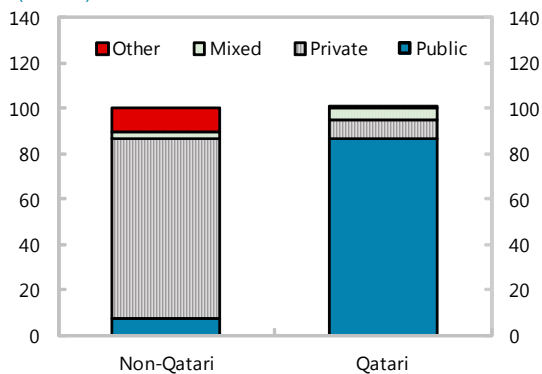
Most Qataris are employed in the public sector, and non-Qataris in the private sector.

Education of Qatari and Non-Qatari Labor Force, 2011 (Percent)

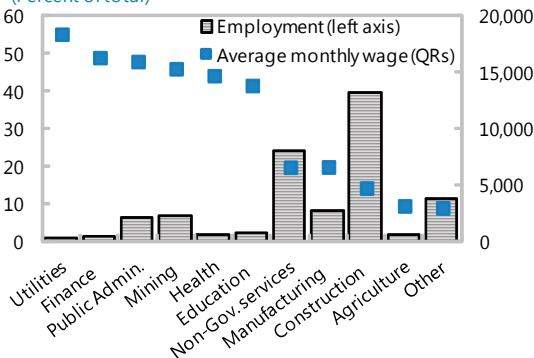


Job creation is concentrated in low-paying sectors dominated by expatriates.

Private vs. Public Sector Employment, 2011 (Percent)



Employment by Sector and Wages, 2011 (Percent of total)

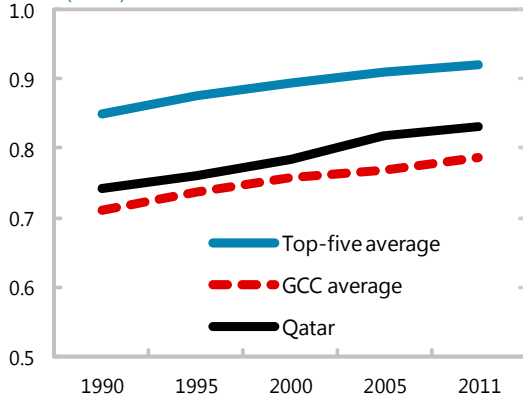


Source: Qatar Statistics Authority Labor Force Statistics Bulletin, 2011.

Figure 2. Qatar: Progress in Social Indicators, 1990–2011

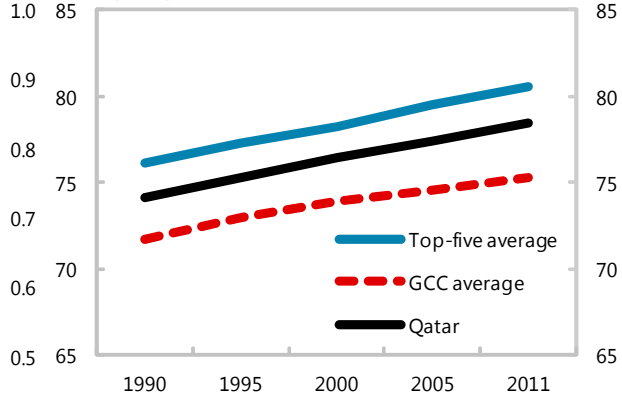
Qatar's Human Development Index and life expectancy indicators improved markedly over the past two decades, consistently exceeding the GCC average, but below global top-five average.

Human Development Index, 1990–2011
(Index)



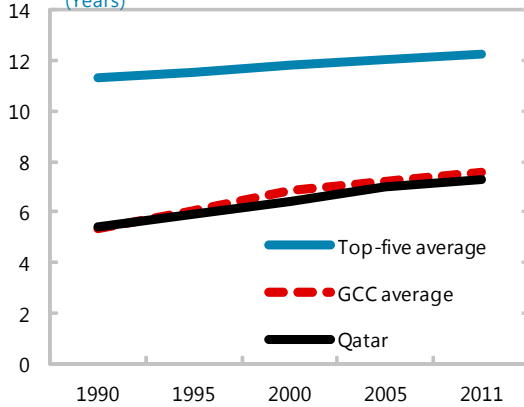
Despite improvements, mean years of schooling underperformed in Qatar as in other GCC countries, and remained well below top-five average.

Life Expectancy at Birth, 1990–2011
(Years)

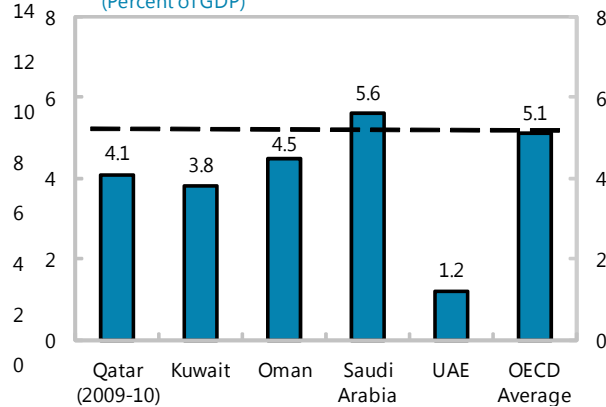


Currently, Qatar's expenditure on education as a percent of GDP is slightly below the OECD average, the latter increasing the share of education in total spending from 8 percent in 2006/07 to 13 percent in 2009/10.

Mean Years of Schooling [adults], 1990–2011
(Years)



Education Expenditure, 2010
(Percent of GDP)



Sources: UNESCO 2011; and Qatar Third National HDR 2012.

Figure 3. Qatar: Business Environment and Governance Indicators, 2011–12

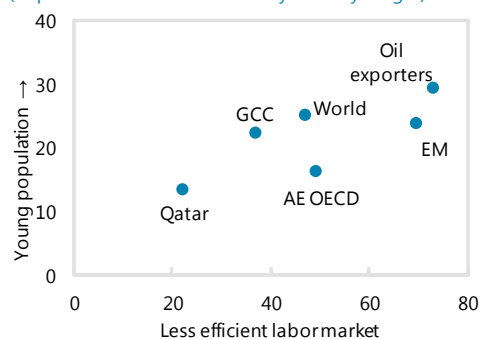
Due to its stable macroeconomic environment, business sophistication, high-quality institutional framework, and efficient goods market, Qatar ranked first in the region and 14th worldwide in the Global Competitiveness Index 2011–12. This is also due to its high performance in labor market efficiency, where it ranks well ahead of GCC, OECD, and emerging economies. Qatar also ranked highly on ease of doing business, slightly below the OECD average, and improved governance in the last decade to levels at par with the OECD, and well above emerging markets and oil exporters.

Global Competitiveness Index Ranks by Category, 2011–12

(Rank out of 142)



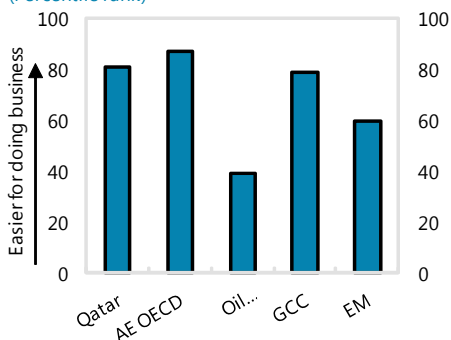
Labor Market Efficiency and Young Population Ratio
(Population ratio for those of 14 years or younger)



Note: Labor market efficiency computed without the female participation and brain drain subcomponents.

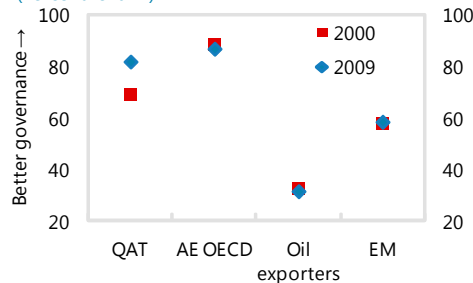
Ease of Doing Business

(Percentile rank)



Changes in WGI-4

(Percentile rank)

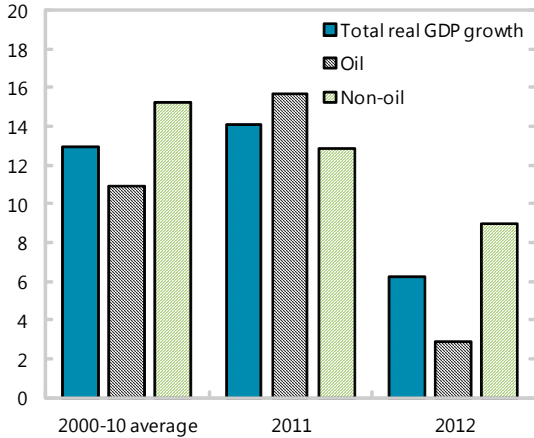


Note: Data consists of government effectiveness, regulatory quality, rule of law and control of corruption.

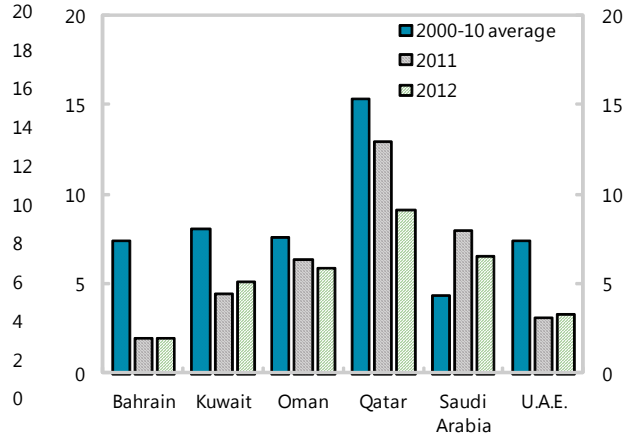
Sources: Global Competitiveness Report (2011–12); World Development Indicators (2011); Doing Business Report (2012), World Governance Indicators (2009); and IMF staff estimates.

Figure 4. Qatar: Recent Economic Developments

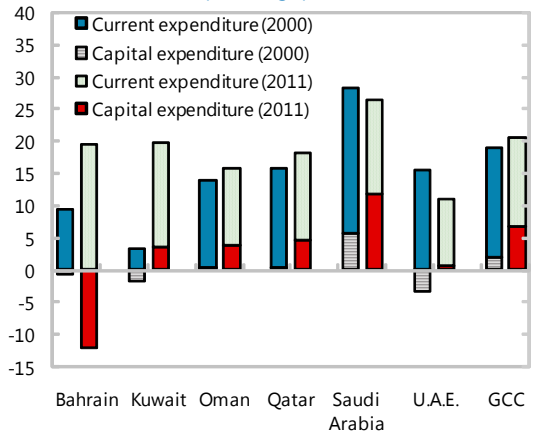
Qatar Total Real GDP Growth, 2000–12
(Percent)



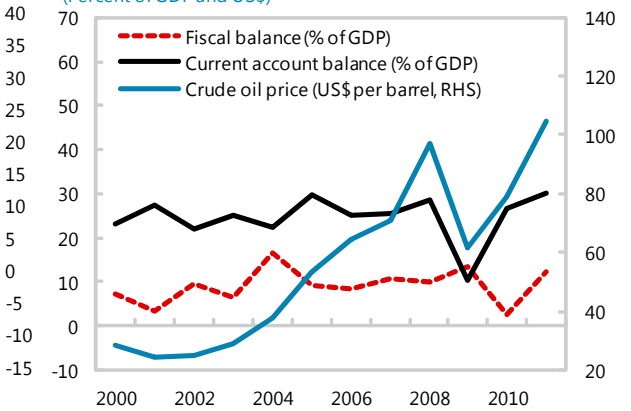
GCC Non-oil Real GDP Growth, 2000–12
(Percent)



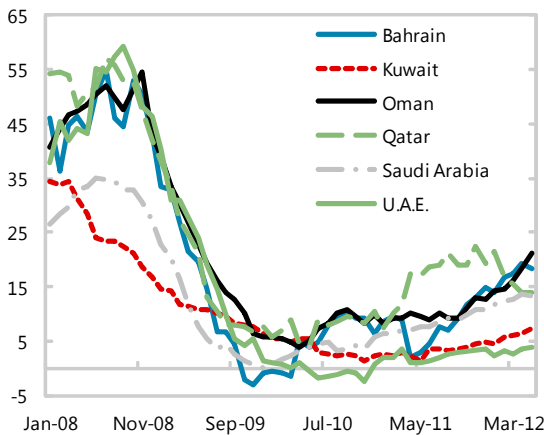
Government Expenditure Growth, 2000 and 2011
(Contributions to total, percentage points, U.S. dollar terms)



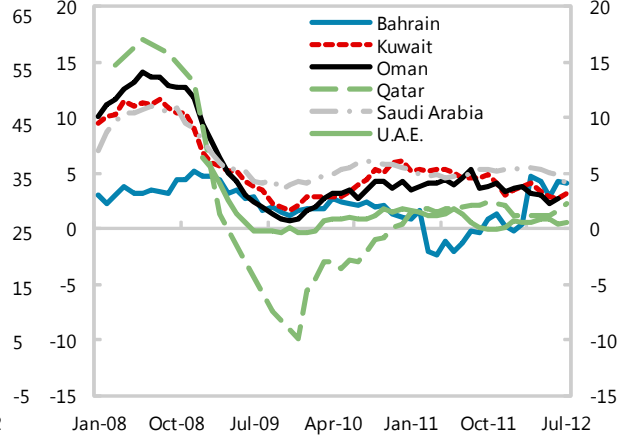
Oil Prices and Main Balances, 2000–11
(Percent of GDP and US\$)



Private Sector Credit Growth, 2008–Latest
(Percent)



CPI Inflation, 2008–Latest
(Percent)

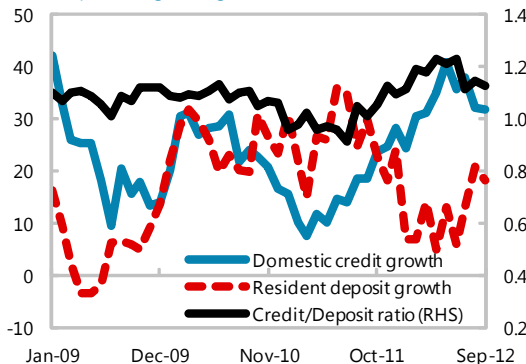


Sources: Country authorities; Bloomberg; and IMF staff calculations.

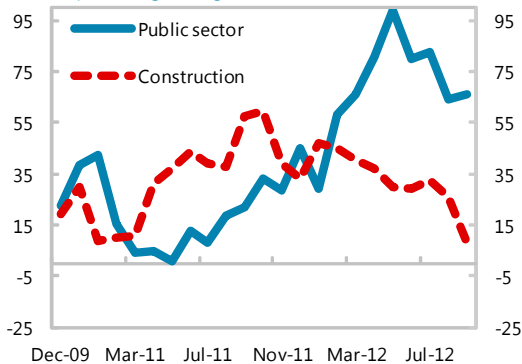
Figure 5. Qatar: Liquidity and Credit Developments, 2009–12

Credit has increased sharply since Q3 2011, even as domestic resident deposit growth slowed down. The increase in credit growth was mainly due to the public sector.

Domestic Credit and Deposit Growth
(Annual percentage change)

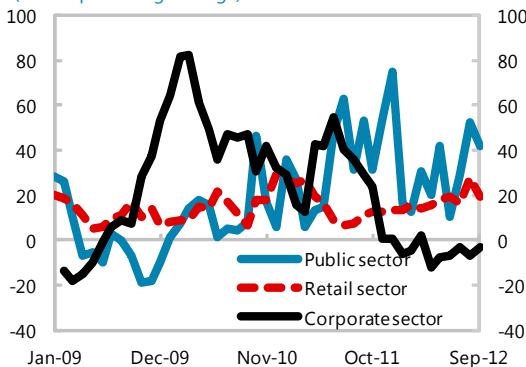


Domestic Credit Growth
(Annual percentage change)

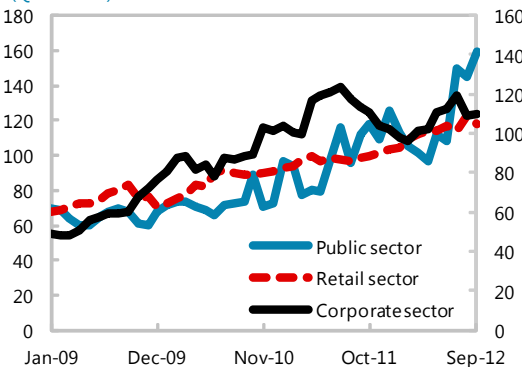


Slowdown in deposit growth was due to the public sector and corporates.

Commercial Bank Deposits
(Annual percentage change)

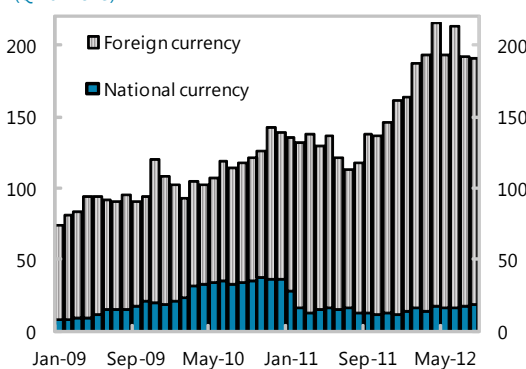


Commercial Bank Deposits
(QR billions)

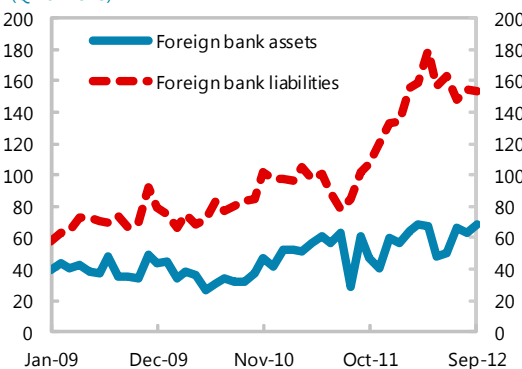


The funding gap was partially filled by borrowing from abroad...

Borrowing from Nonresidents
(QR billions)



Borrowing from Foreign Banks
(QR billions)

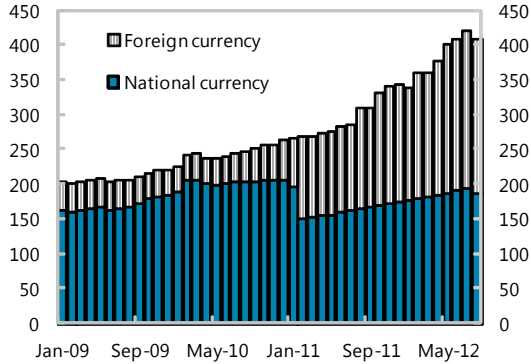


Sources: Country authorities; and Qatar Central Bank.

Figure 5. Qatar: Liquidity and Credit Developments, 2009–12 (Concluded)

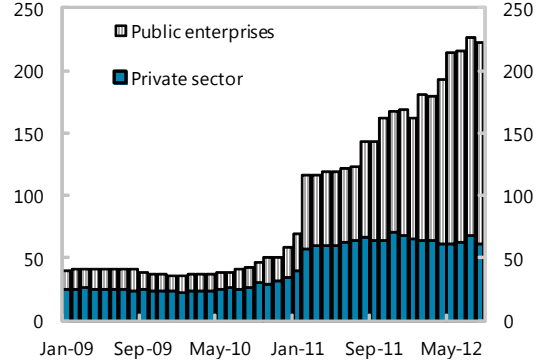
...which was on-lent to residents in foreign currency...

Lending to Residents
(QR billions)



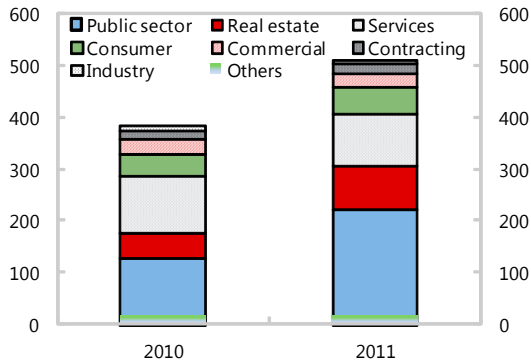
...mostly to the public sector.

Lending to Residents in Foreign Currency
(QR billions)



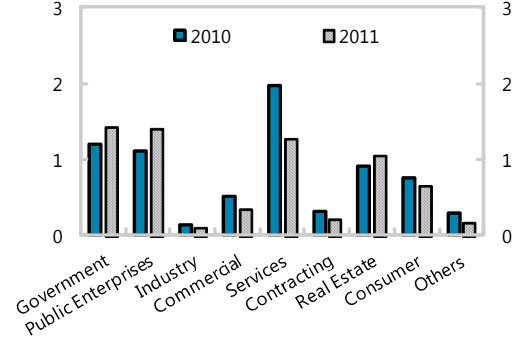
The share of public sector and real estate credit increased in total credit...

Qatari Banks: Credit Exposure by Sector, 2010–11
(QR billions)



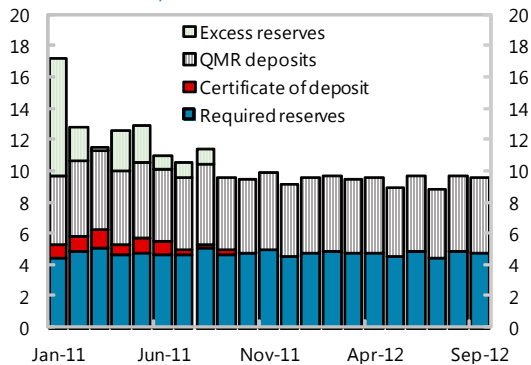
...increasing the risk to Tier 1 capital.

Qatari Banks: Credit to Tier 1 by Sector, 2010–11
(Ratio)



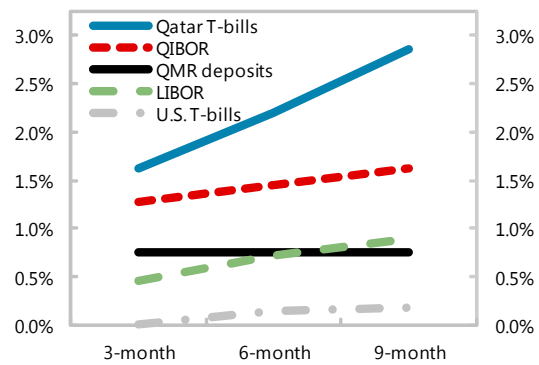
Banks also reduced excess liquidity at QCB...

Banks' Liquidity at QCB
(Share of total deposits)



...which was partially absorbed by issuance of government securities offering attractive yields.

Interest Rate Yield Curves
(Percent)



Sources: Country authorities; and Bloomberg.

Table 1. Qatar: Selected Macroeconomic Indicators, 2008–13

(Quota: SDR 302.6 million)
 (Population: 1.7 million, mid-2011 estimate)
 (Per capita income: \$98,000, 2011 estimate)

	2008	2009	2010	2011	Proj. 2012	Proj. 2013
National income, production, and prices						
	(Percent change, unless otherwise indicated)					
Nominal GDP (billion Qatari Riyals)	419.6	356.0	463.5	630.9	672.4	697.1
Nominal hydrocarbon GDP (billion Qatari Riyals)	230.3	159.5	239.7	364.5	384.4	381.2
Nominal GDP (billion U.S. dollars)	115.3	97.8	127.3	173.3	184.7	191.5
Nominal GDP per capita (US\$)	79,582	59,676	74,901	98,031	100,466	100,146
Real GDP growth (percent per annum)	17.7	12.0	16.7	13.0	6.6	5.2
Hydrocarbon 1/	13.2	4.5	28.8	15.7	3.6	0.4
Nonhydrocarbon	21.3	17.6	8.6	10.8	9.0	9.0
Crude oil output (thousand barrels per day)	836	792	789	745	749	730
LNG production (million tons per year)	31.5	36.0	57.7	74.8	77.0	77.0
Oil export price (US\$ per barrel)	96.9	62.6	77.4	101.9	104.0	102.9
CPI period average	15.0	-4.9	-2.4	1.9	2.0	3.0
Public finance 2/						
	(In percent of GDP on fiscal year basis, unless otherwise stated)					
Total revenue	34.9	44.2	30.9	38.6	43.3	40.6
Hydrocarbon revenue	19.8	21.6	19.2	24.2	21.8	20.6
Other revenue	15.1	22.6	11.7	14.4	21.5	20.0
Total expenditure (including loans and equity, net)	24.8	31.8	28.5	30.4	35.2	30.0
Current expenditure	16.5	21.5	19.7	18.6	20.3	20.8
Capital expenditure (including loans and equity, net)	8.3	10.3	8.8	11.8	14.8	9.2
Overall fiscal balance	10.2	12.4	2.4	8.2	8.1	10.6
Excluding hydrocarbon revenue	-9.7	-9.2	-16.8	-16.0	-13.6	-10.0
Nonhydrocarbon fiscal balance in percent of nonhydrocarbon GDP	-20.5	-17.4	-36.1	-37.7	-31.3	-21.7
Excluding investment income and loans and equity, net	-38.0	-43.9	-51.5	-47.2	-45.4	-44.4
Money and credit						
	(Annual change in percent)					
Broad money	19.7	16.9	23.1	17.1	20.7	13.9
Net foreign assets	-20.5	-4.2	35.9	-72.9	427.9	65.0
Net domestic assets	47.0	24.0	19.5	45.6	-3.3	-2.6
Domestic credit	48.7	2.0	20.8	30.0	27.8	16.4
Claims on private sector	42.4	7.0	10.6	19.5	10.3	12.9
External sector						
	(In billion U.S. dollars, unless otherwise stated)					
Trade balance	42.1	24.5	51.9	82.1	85.7	82.5
Exports	67.2	46.9	79.1	114.4	120.6	121.5
Of which: Crude oil and refined petroleum products	29.4	18.4	29.1	35.1	38.2	37.7
LNG and related exports	32.3	23.9	43.5	70.3	71.8	71.8
Other	5.5	4.6	6.4	9.0	10.7	11.9
Imports	-25.1	-22.5	-27.1	-32.3	-34.9	-39.0
Current account	33.0	10.0	34.1	52.8	55.0	57.1
In percent of GDP	28.7	10.2	26.8	30.4	29.8	29.8
Central bank reserves, gross	9.8	18.4	30.7	16.3	46.3	57.8
In months of imports of goods and services 3/	3.9	5.8	7.7	3.9	10.1	11.8
	(In billion U.S. dollars, unless otherwise stated)					
Total external debt (excluding banks)	33.5	50.3	70.8	87.5	102.0	108.5
In percent of GDP	29.0	51.4	55.6	50.5	55.2	56.7
Government external debt	3.9	12.8	17.0	19.7	23.5	20.8
In percent of GDP	3.4	13.0	13.3	11.4	12.7	10.9
Debt service (excluding banks, in percent of GDP)	2.8	3.3	4.6	3.8	2.8	4.9
Memorandum Items:						
Exchange rates (Riyal/US\$)	3.64	3.64	3.64	3.64	...	...
Real effective exchange rate (percent change, 2000=100)	6.3	-1.7	-5.6	-5.2	...	...
Credit rating (Moody's investor services)	Aa2	Aa3	Aa2	Aa2	...	...
Stock market index (cumulative growth, 2001=100)	407	411	513	519	...	...

Sources: Country authorities; and IMF staff estimates and projections.

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

2/ Fiscal year begins in April. GFSM 1986 concept.

3/ Next 12 months.

Table 2. Qatar: Summary of Government Finance, 2007/08–2012/13, GFSM 2001 1/

(Billion Qatari Riyals)

	2007/08	2008/09	2009/10	2010/11	<u>Prel.</u> 2011/2012	<u>Proi.</u> 2012/2013
Revenue	117.9	141.0	169.3	156.0	247.5	294.0
Hydrocarbon	70.7	80.0	82.8	96.9	155.3	147.7
Oil	60.1	61.2	61.7	58.7	79.0	78.3
LNG-related	10.7	18.8	21.1	38.2	76.3	69.4
LNG (royalties)	10.7	18.8	21.1	38.2	76.3	69.4
Non-hydrocarbon	47.1	61.0	86.5	59.1	92.2	146.3
Investment income from public enterprises 2/	30.3	33.3	53.9	36.1	50.8	83.7
Corporate tax revenue	8.9	14.6	21.6	14.5	32.9	54.5
Other nontax revenue	7.8	13.1	11.0	8.5	8.6	8.1
Expenditure 3/	86.2	100.0	121.6	143.8	170.0	197.0
Expense	52.3	66.5	82.4	99.5	119.2	138.0
Compensation of employees	16.0	18.7	21.6	23.1	27.9	36.7
Interest payments	1.9	2.1	3.6	5.6	9.6	10.3
Interest on domestic debt	0.8	0.7	1.6	2.6	6.3	6.8
Interest on foreign debt	1.1	1.4	2.0	3.0	3.3	3.5
Foreign grants	1.5	1.1	0.6	1.1	3.1	2.4
Goods and services 4/	26.6	35.5	48.5	54.6	68.1	77.3
Other expense 5/	6.4	9.2	8.1	15.2	10.4	11.3
Net acquisition of nonfinancial assets	33.9	33.4	39.3	44.2	50.8	59.0
Gross operating balance	65.5	74.4	86.9	56.5	128.3	156.0
Net lending (+)/borrowing (-)	31.6	41.0	47.6	12.2	77.5	97.0
<i>Nonhydrocarbon fiscal balance</i>	-39.1	-39.0	-35.2	-84.7	-102.8	-92.5
Net acquisition of financial assets	34.8	51.8	110.1	66.9	144.2	121.7
Net incurrence of liabilities	3.1	10.7	62.5	54.7	66.7	24.7
Total government debt	23.9	38.4	124.3	195.6	236.8	254.3
Government external debt	12.1	28.4	65.3	70.3	88.3	95.6
Government gross domestic debt	11.8	10.1	59.0	125.3	148.5	158.7
Government net domestic debt (net of deposits)	0.8	-3.8	42.6	108.7	124.0	119.9
External debt service/total revenue (percent)	0.9	1.0	1.2	1.9	1.3	1.2
Nominal GDP (on a fiscal year basis)	322.5	403.7	382.9	505.3	641.4	679.0

Table 2. Qatar: Summary of Government Finance, 2007/08–2012/13, GFSM 2001 1/ (Concluded)

	(Percent of GDP)					
	2007/08	2008/09	2009/10	2010/11	<u>Prel.</u> 2011/12	<u>Proj.</u> 2012/13
Revenue	36.5	34.9	44.2	30.9	38.6	43.3
Hydrocarbon	21.9	19.8	21.6	19.2	24.2	21.8
Oil	18.6	15.2	16.1	11.6	12.3	11.5
LNG-related royalties	3.3	4.6	5.5	7.6	11.9	10.2
Non-hydrocarbon	14.6	15.1	22.6	11.7	14.4	21.5
Investment income from public enterprises 2/	9.4	8.2	14.1	7.1	7.9	12.3
Corporate tax revenue	2.8	3.6	5.6	2.9	5.1	8.0
Other nontax revenue	2.4	3.2	2.9	1.7	1.3	1.2
Expenditure 3/	26.7	24.8	31.8	28.5	26.5	29.0
Expense	16.2	16.5	21.5	19.7	18.6	20.3
Compensation of employees	5.0	4.6	5.6	4.6	4.3	5.4
Interest payments	0.6	0.5	0.9	1.1	1.5	1.5
Interest on domestic debt	0.2	0.2	0.4	0.5	1.0	1.0
Interest on foreign debt	0.3	0.3	0.5	0.6	0.5	0.5
Foreign grants	0.5	0.3	0.2	0.2	0.5	0.4
Goods and services 4/	8.2	8.8	12.7	10.8	10.6	11.4
Other expense 5/	2.0	2.3	2.1	3.0	1.6	1.7
Net acquisition of nonfinancial assets	10.5	8.3	10.3	8.8	7.9	8.7
Gross operating balance	20.3	18.4	22.7	11.2	20.0	23.0
Net lending (+)/borrowing (-)	9.8	10.2	12.4	2.4	12.1	14.3
<i>Nonhydrocarbon fiscal balance</i>	-12.1	-9.7	-9.2	-16.8	-16.0	-13.6
<i>Nonhydrocarbon fiscal balance (percent of nonhydrocarbon GDP)</i>	-25.8	-20.5	-17.4	-36.1	-37.7	-31.3
<i>Nonhydrocarbon fiscal balance excl. investment income (percent of nonhydrocarbon GDP)</i>	-45.8	-38.0	-43.9	-51.5	-47.2	-45.4
Net acquisition of financial assets	10.8	12.8	28.8	13.2	22.5	17.9
Net incurrence of liabilities	1.0	2.7	16.3	10.8	10.4	3.6
Memorandum items:						
Total government debt	7.4	9.5	32.5	38.7	36.9	37.4
Government external debt	3.7	7.0	17.1	13.9	13.8	14.1
Government gross domestic debt	3.7	2.5	15.4	24.8	23.2	23.4
Government net domestic debt (net of deposits)	0.2	-0.9	11.1	21.5	19.3	17.7

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

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

2/ Includes investment income of state-owned hydrocarbon enterprises.

3/ Expenditure does not include loans and equity, net. In 2011/12 and 2012/13 state-owned Qatar Petroleum increased its capital by QR25 billion and QR41.8 billion, respectively, accounted under net acquisition of financial assets.

4/ Includes transfers to ministries and public enterprises less interest payments and grants.

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

Table 3. Qatar: Depository Corporations Survey, 2008–13

	2008	2009	2010	2011	Proj. 2012	Proj. 2013
	(Billion Qatari Riyals)					
Net foreign assets	48.9	46.8	63.6	17.3	91.1	150.3
QCB	35.8	66.8	111.8	59.3	168.7	210.4
Assets	35.8	68.3	113.3	60.8	170.1	211.8
Liabilities	0.0	1.5	1.4	1.5	1.5	1.5
Commercial banks	13.1	-20.0	-48.2	-42.1	-77.6	-60.1
Assets	99.2	88.5	91.1	119.4	124.5	130.4
Liabilities	86.1	108.5	139.3	161.5	202.1	190.5
Net domestic assets	135.6	168.2	201.1	292.7	283.1	275.7
Claims on government (net)	-7.2	18.8	55.8	91.0	122.4	130.6
Claims	13.2	34.7	75.0	145.8	156.7	164.6
Deposits 1/	20.4	15.9	19.2	54.7	34.3	33.9
Domestic credit	219.8	224.3	271.0	352.3	450.2	524.0
Claims on public sector (net)	40.2	58.6	122.6	199.4	303.6	350.7
Claims on public enterprises 2/	47.4	39.7	66.8	108.4	181.2	220.1
Claims on private sector	172.4	184.6	204.2	244.0	269.0	303.8
Other items (net)	-77.0	-74.9	-125.7	-150.7	-289.5	-378.9
Broad money	184.0	215.1	264.7	310.0	374.2	426.0
Money	50.9	53.1	68.3	81.8	92.6	108.8
Currency in circulation	5.4	5.7	6.1	7.0	8.3	8.6
Demand deposits	45.5	47.5	62.2	74.8	84.4	100.1
Quasi-money	133.1	162.0	196.4	228.1	281.6	317.3
Savings and time deposits	85.7	133.2	167.0	168.9	183.5	209.4
Foreign currency deposits	47.5	28.8	29.4	59.3	98.1	107.9
	(Annual percent changes)					
Net foreign assets	-20.5	-4.2	35.9	-72.9	427.9	65.0
Net domestic assets	47.0	24.0	19.5	45.6	-3.3	-2.6
Domestic credit	48.7	2.0	20.8	30.0	27.8	16.4
Claims on public enterprises	77.1	-16.1	68.0	62.3	67.2	21.5
Claims on private sector	42.4	7.0	10.6	19.5	10.3	12.9
Broad money	19.7	16.9	23.1	17.1	20.7	13.9
Memorandum items:						
Net claims on public enterprises	-9.0	-13.0	13.2	23.3	64.9	99.6
Velocity of broad money (to nonhydrocarbon GDP)	1.03	0.91	0.84	0.73	0.83	0.79

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

1/ Includes foreign and local currency deposits.

2/ Nonfinancial enterprises with government share.

Table 4. Qatar: Balance of Payments, 2008–13

(Billion US\$)

	2008	2009	2010	2011	Proj. 1/ 2012	Proj. 1/ 2013
Current account	33.0	10.0	34.1	52.8	55.0	57.1
In percent of GDP	28.7	10.2	26.8	30.4	29.8	29.8
Trade balance	42.1	24.5	51.9	82.1	85.7	82.5
Exports	67.2	46.9	79.1	114.4	120.6	121.5
Hydrocarbon	61.7	42.3	72.6	105.5	109.9	109.5
Crude oil	26.3	16.2	22.0	26.4	25.4	24.5
LNG	17.6	13.1	23.4	41.5	43.7	43.2
Propane, butane	3.6	2.9	5.3	8.5	7.2	7.1
Condensates	11.0	8.0	14.9	20.3	20.9	21.6
Refined petroleum products	3.2	2.2	7.1	8.7	12.7	13.1
Non-hydrocarbon	5.5	4.6	6.4	9.0	10.7	11.9
Petrochemicals	2.9	2.1	4.0	6.4	7.7	8.5
Others	2.6	2.5	2.4	2.6	3.0	3.4
Imports	-25.1	-22.5	-27.1	-32.3	-34.9	-39.0
Non-LNG/QP goods	-16.0	-16.9	-18.5	-22.0	-23.8	-26.1
LNG related	-4.4	-4.1	-2.8	-1.2	-2.9	-4.0
QP project-related imports	-4.8	-1.5	-5.8	-9.0	-8.2	-8.9
Services (net)	-4.1	-6.3	-8.1	-10.2	-10.3	-10.3
Income (net)	1.8	-0.5	-1.2	-3.1	-3.0	3.8
Receipts 2/	4.2	1.7	1.6	8.2	9.1	9.4
Payments 3/	-2.5	-2.1	-2.8	-11.3	-12.1	-5.6
Transfers (net)	-6.7	-7.7	-8.5	-16.1	-17.3	-18.9
Of which: workers remittances	-4.3	-8.8	-9.7	-11.6	-12.5	-13.8
Capital account	-1.4	-1.8	-2.0	-2.3	-2.5	-2.8
Financial account	-28.9	3.6	-7.5	-64.8	-22.5	-42.9
Direct Investment, net	3.5	4.9	-0.9	-0.1	0.3	-0.5
Portfolio borrowing, net	-0.1	0.3	1.1	-8.1	-8.7	-10.7
Assets	-1.2	-1.2	-1.2	-10.4	-11.1	-13.0
Liabilities	1.1	1.5	2.3	2.3	2.4	2.4
Other investment (net)	-15.6	-5.0	2.8	3.0	-2.7	-15.9
Assets	-24.3	-21.9	-17.8	-13.8	-17.3	-22.4
Trade credits	2.0	-1.0	4.1	6.3	4.0	2.6
Other government external assets 4/	-26.4	-20.8	-21.9	-20.1	-21.3	-25.1
Liabilities	8.7	16.8	20.5	16.8	14.5	6.5
Commercial banks, net	3.7	9.1	7.8	-1.7	9.7	-4.8
Other capital, net	-20.4	-5.6	-18.2	-58.0	-21.1	-11.0
Errors and omissions	-2.4	-3.7	-12.3	0.0	0.0	0.0
Overall balance	0.3	8.1	12.4	-14.4	30.0	11.5
Change in QCB net foreign assets	-0.3	-8.1	-12.4	14.4	-30.0	-11.5

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

1/ Data related to income, transfers, services and capital and financial accounts reflect improved coverage; hence they may not be strictly comparable with previous years

2/ Includes staff estimates for QIA.

3/ Includes staff estimates for commercial banks.

4/ IMF staff estimates.

Table 5. Qatar: Vulnerability Indicators, 2007–12

(Percent, unless otherwise indicated)

	2007	2008	2009	2010	Est. 2011	Proj. 2012
External solvency indicators						
REER (CPI based - end of period)	5.1	6.3	-1.7	-5.6	-5.2	-
Total debt (billion US\$, including commercial banks)	41.9	57.1	80.1	109.0	131.9	157.6
<i>Of which: LNG-related</i>	14.1	17.1	19.7	20.4	22.3	22.6
Total debt (percent of GDP)	52.5	49.5	81.9	85.6	76.1	85.3
Debt service/exports of goods and services	19.9	27.6	54.8	40.2	35.3	38.8
Public sector solvency indicators						
Government gross domestic debt/GDP	3.7	2.5	15.4	24.8	23.2	23.4
Government net domestic debt/GDP 1/	0.2	-0.9	11.1	21.5	19.3	17.7
Government external debt/GDP 2/	3.7	7.0	17.1	13.9	13.8	14.1
Total debt service/total revenue	3.0	2.6	2.4	8.6	6.8	3.5
Interest payments/total revenue	1.6	1.5	2.1	3.6	3.9	3.5
Hydrocarbon revenue/total revenue	60.0	56.8	48.9	62.1	62.7	50.2
External liquidity indicators (billion US\$)						
Central bank net reserves	9.5	9.8	18.4	30.7	16.3	46.3
In months of imports	3.3	3.9	5.8	7.7	3.9	10.1
Commercial banks net foreign assets	7	4	-5	-13	-12	-21
Foreign assets	24.4	27.2	24.3	25.0	32.8	34.2
Foreign liabilities	17.1	23.7	29.8	38.3	44.4	55.5
Crude oil exports/total exports	47.8	43.8	39.2	36.8	30.7	31.7
Financial sector indicators						
Foreign currency deposits/total deposits	32.6	26.6	13.7	11.4	19.6	26.8
Net domestic credit (percent change)	59.2	44.0	14.4	34.4	35.7	29.2
Private sector credit (percent change)	51.3	42.4	7.0	10.6	19.5	10.3
Net domestic credit/GDP	50.9	50.7	68.3	70.5	70.3	85.2
Private credit/total assets of banks	41.1	42.9	39.4	36.0	35.1	34.4
Market assessment/financial market indicators						
Stock market index (end of period)	9,580	6,886	6,959	8,682	8,779	...
Moody's investor services	Aa2	Aa2	Aa3	Aa2	Aa2	...
Standard and Poor's 3/	AA-	AA-	AA-	AA-	AA-	...

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

1/ Net of government deposits with resident banks.

2/ Fiscal year basis.

3/ Long-term foreign currency rating.

Table 6. Qatar: Medium-Term Baseline Scenario, 2009–17

(Billion Qatari Riyals, unless otherwise indicated)									
	2009	2010	2011	Projections					
				2012	2013	2014	2015	2016	2017
(Percent change, unless otherwise indicated)									
National income, production, and prices									
Nominal GDP (billion Qatari Riyals)	356.0	463.5	630.9	672.4	697.1	727.8	772.7	824.9	895.9
Real GDP	12.0	16.7	13.0	6.6	5.2	5.0	6.6	6.2	7.7
Hydrocarbon 1/	4.5	28.8	15.7	3.6	0.4	-1.1	1.4	0.0	3.5
Nonhydrocarbon GDP	17.6	8.6	10.8	9.0	9.0	9.5	10.0	10.0	10.0
Crude oil production, in thousand barrels per day	792	789	745	749	730	691	656	607	559
LNG Production (million tons)	36.0	57.7	74.8	77.0	77.0	77.0	77.0	77.0	77.0
Qatar oil export price (US\$ per barrel)	62.6	77.4	101.9	104.0	102.9	98.5	94.4	90.8	87.1
CPI period average	-4.9	-2.4	1.9	2.0	3.0	4.0	4.0	5.0	5.0
Terms of trade	-26.2	15.5	19.2	1.7	-3.7	-1.8	-2.1	-2.4	-2.6
(Billion Qatari Riyals, unless otherwise indicated)									
Central government finances 2/									
Total revenue	169.3	156.0	247.5	294.0	285.7	288.8	282.9	276.6	276.9
Hydrocarbon revenue	82.8	96.9	155.3	147.7	145.0	137.4	130.3	122.7	120.3
Other revenue	86.5	59.1	92.2	146.3	140.7	151.4	152.5	153.9	156.6
Total expenditure (including loans and equity, net)	121.6	143.8	195.0	238.8	211.3	220.4	235.1	249.2	267.9
Current expenditure	82.4	99.5	119.2	138.0	146.5	155.8	166.1	176.7	188.2
Capital expenditure (including loans and equity, net)	39.3	44.2	75.8	100.8	64.8	64.5	69.1	72.5	79.8
Overall fiscal balance	47.6	12.2	52.5	55.2	74.4	68.5	47.7	27.3	9.0
In percent of GDP	12.4	2.4	8.2	8.1	10.6	9.3	6.1	3.3	1.0
Nonhydrocarbon balance	-35	-85	-103	-93	-71	-69	-83	-95	-111
In percent of GDP	-9.2	-16.8	-16.0	-13.6	-10.0	-9.4	-10.6	-11.4	-12.4
In percent of nonhydrocarbon GDP	-17.4	-36.1	-37.7	-31.3	-21.7	-19.2	-20.5	-20.9	-21.3
Excluding investment income and loans and equity, net, in percent of nonhydrocarbon GDP	-43.9	-51.5	-47.2	-45.4	-44.4	-41.5	-39.5	-36.9	-34.4
Government net debt 3/	108.0	179.0	212.3	215.5	211.0	199.7	205.8	208.7	219.5
In percent of GDP	30.3	38.6	33.7	32.0	30.3	27.4	26.6	25.3	24.5
External debt service (percent of total revenue)	1.5	6.9	4.3	1.2	7.2	7.7	2.0	3.3	0.6
(Billion US\$, unless otherwise indicated)									
External sector									
Current account	10.0	34.1	52.8	55.0	57.1	49.3	41.6	33.6	24.2
In percent of GDP	10.2	26.8	30.4	29.8	29.8	24.7	19.6	14.8	9.8
Trade balance	24.5	51.9	82.1	85.7	82.5	76.0	68.3	59.9	50.4
Exports	46.9	79.1	114.4	120.6	121.5	118.1	115.1	111.3	107.7
Crude oil and refined petroleum products	18.4	29.1	35.1	38.2	37.7	34.0	30.7	27.4	25.0
LNG and related exports	23.9	43.5	70.3	71.8	71.8	71.8	71.6	70.4	68.7
Other exports	4.6	6.4	9.0	10.7	11.9	12.4	12.8	13.5	14.0
Imports	-22.5	-27.1	-32.3	-34.9	-39.0	-42.1	-46.8	-51.4	-57.2
LNG related	-4.1	-2.8	-1.2	-2.9	-4.0	-5.0	-6.0	-6.0	-6.0
Project related imports	-1.5	-5.8	-9.0	-8.2	-8.9	-8.0	-8.1	-8.2	-8.3
Other imports	-16.9	-18.5	-22.0	-23.8	-26.1	-29.2	-32.8	-37.2	-43.0
Volume of exports (percent change)	5.4	33.6	11.7	7.1	6.0	-0.2	-0.3	-1.2	-1.4
Volume of imports (percent change)	-0.5	10.6	9.6	11.7	13.2	8.8	11.2	9.5	10.6
Services, net	-6.3	-8.1	-10.2	-10.3	-10.3	-10.3	-9.4	-8.7	-8.7
Income, net	-0.5	-1.2	-3.1	-3.0	3.8	4.5	4.8	5.9	7.9
Current transfers, net	-7.7	-8.5	-16.1	-17.3	-18.9	-20.8	-22.1	-23.5	-25.4
Overall balance	8.1	12.4	-14.4	30.0	11.5	2.6	1.0	1.2	-0.3
Central bank reserves, net	18.4	30.7	16.3	46.3	57.8	60.4	61.3	62.5	62.3
In months of imports of goods and services 4/	5.8	7.7	3.9	10.1	11.8	11.4	10.8	9.9	9.8
Total external debt (excluding banks)	50	71	88	102	109	109	109	108	107
Total external debt (excluding banks, in percent of GDP)	51.4	55.6	50.5	55.2	56.7	54.3	51.2	47.7	43.4
Total external debt service (excluding banks)	3.2	5.9	6.6	5.1	9.4	11.0	6.5	7.4	5.4
In percent of exports of goods and services	6.6	7.2	5.6	4.0	7.4	8.8	5.3	6.2	4.6
In percent of GDP	3.3	4.6	3.8	2.8	4.9	5.5	3.0	3.3	2.2
(Percent of GDP)									
Saving-investment balance									
Gross investment	35.9	30.4	25.4	25.7	26.6	26.9	27.2	27.5	27.7
Nongovernment sectors	25.3	21.2	17.6	17.2	17.6	18.1	18.4	18.9	19.0
Gross national saving	46.1	57.2	55.8	55.5	56.5	51.6	46.8	42.4	37.4
Nongovernment sectors	19.4	39.8	34.8	29.8	32.6	30.2	28.5	27.4	25.1

Sources: Country authorities; and IMF staff estimates and projections.

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

2/ Fiscal year basis, April–March. GFSM 1986 concept.

3/ Net of deposits in resident banks.

4/ Next 12 months.

Appendix I. Risk Assessment Matrix

Nature/Source of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized
<p>Protracted period of slow European growth/Further slowdown in emerging markets</p>	<p>Staff assessment: Medium to Low</p> <ul style="list-style-type: none"> • Slowdown in growth could impact oil and LNG exports from Qatar. 	<p>Staff assessment: Low to Medium</p> <ul style="list-style-type: none"> • Qatar's nonhydrocarbon exports are negligible, the country remains overwhelmingly dependent on the LNG sector. • It would lead to lower external current account surpluses and SWF asset accumulation, and affect public expenditures, with negative spillover on nonhydrocarbon growth. • It would affect financial resources available for Qatar's large infrastructure investment program. • Low cost of LNG production, long-term gas contracts at high prices, and built-in diversion clauses in the gas contracts reduce price and quantity risks, to the extent transportation is not affected. • Adequate financial cushions are available and a policy framework is in place to mitigate the impact.
<p>Strong intensification of the Eurozone crisis</p>	<p>Staff assessment: Medium</p> <ul style="list-style-type: none"> • A tightening of global liquidity has occurred in the past, and necessitated the central bank to open a liquidity window. • The contagion from adverse global and regional events has adversely affected Qatar's equity markets and CDS spreads in the past, albeit temporarily. 	<p>Staff assessment: Low to Medium</p> <ul style="list-style-type: none"> • Increase in spreads for public enterprises and banks that plan to issue international bonds. • Drying up of liquidity could necessitate adjustment to and/or downscaling of the infrastructure investment program. • Individual banks, especially those that rely on large wholesale funding, might face liquidity pressures and may have to resort to the central bank for dollar funding or deleverage. • It would result in lower foreign reserves of the central bank and lower valuation of Qatar's external assets portfolio.
<p>Prolonged disruption of transportation of LNG</p>	<p>Staff assessment: Low</p> <ul style="list-style-type: none"> • Even a temporary closure of Strait of Hormuz would imply disruption of LNG transportation. 	<p>Staff assessment: Medium</p> <ul style="list-style-type: none"> • Would lead to lower external current account surpluses and SWF asset accumulation, and affect public expenditures, with negative spillover on nonhydrocarbon growth. • Would affect financial resources available for Qatar's large infrastructure investment program. • Adequate financial cushions are available and a policy framework is in place to mitigate the impact.
<p>Implementation risks related to infrastructure investments</p>	<p>Staff assessment: Low to Medium</p> <ul style="list-style-type: none"> • Currently, there are coordination mechanisms in some sectors, but there is no comprehensive public investment management system in place to provide procedures for project selection, appraisal and monitoring. This could result in cost overruns and delays. 	<p>Staff assessment: Low</p> <ul style="list-style-type: none"> • Delays and inadequate execution of the investment program entail significant reputational risk for Qatar. • Setting up an integrated public investment management program would reduce these risks, and the passage of the draft public procurement law can bring efficiency gains.

¹The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

Appendix II. Outlook for Qatar’s Liquefied Natural Gas Market¹

This note discusses the latest developments in the global Liquefied Natural Gas (LNG) market and the outlook for Qatar’s LNG exports. Qatar’s export strategy has been to reach all major markets, adjusting the mix of destinations and contract types. Currently, the bulk of Qatar’s LNG exports are directed to Asia Pacific and to Europe, including in the spot market. With a global demand increase of 17 percent between 2012 and 2017 projected by the International Energy Agency, Qatar’s LNG export outlook remains positive in the medium term. Competition to Qatar’s exports could emerge toward the end of this decade from increases in unconventional gas production in the United States, the emergence of Australia as a leading LNG producer, and price shifts in the LNG market. Despite some cost advantages in production and transportation infrastructure, and certainty of volume off-take from current long-term contracts derived from its competitive position as a low-cost producer, Qatar’s LNG exports are likely to face competition beyond 2017.

A. Qatar’s Current Dominance

1. **Qatar holds the third largest reserves of natural gas in the world.** Proven global gas reserves at the end of 2011 were estimated at 7,361 trillion cubic feet (tcf) globally.² Qatar holds 12 percent of these reserves, concentrated in the North Field, the largest non-associated gas reservoir in the world, with a reserve to production ratio of more than 100 years.³ It is an off-shore field discovered in 1971 on the border with Iran’s South Pars field.

Qatar Petroleum (QP) plays a dominant role in the natural gas sector in both upstream and downstream production. Qatar’s strategy is focused on “mega-projects” and vertical integration including downstream natural gas intensive industries like fertilizers, and gas-to-liquid projects (GTL) in partnership with oil companies (ExxonMobil, Shell, Total, and ConocoPhillips). Qatar Gas Transport Company, a.k.a. “Nakilat,” handles all the shipping of Qatari LNG.

Strategic Overview - Expected Reserves

Hydrocarbon Reserves, January 1, 2011

	Proven	Expected
Natural gas (trillion cubic feet)	883.2	884.1
Crude oil (billion barrels)	2.3	3.3
Condensate (billion barrels)	22.1	22.1
Total barrels of oil equivalent (billion barrels)	181.3	182.3

Sources: Qatar Petroleum; and British Petroleum.

Note: Conversion to barrels of oil equivalent using BP Statistical Review methodology, which converts gas to barrels of oil equivalent according to a conversion factor of one billion cubic feet of gas to 0.18 million barrels of oil equivalent.

¹ Prepared by Ananthakrishnan Prasad.

² At current global production rates, today’s worldwide proven reserves (conventional and unconventional) could sustain current production for 58 years (IEA, World Energy Outlook, 2009), whereas the combined resources—for which there is more uncertainty about its recoverability—equal 250 years of current production.

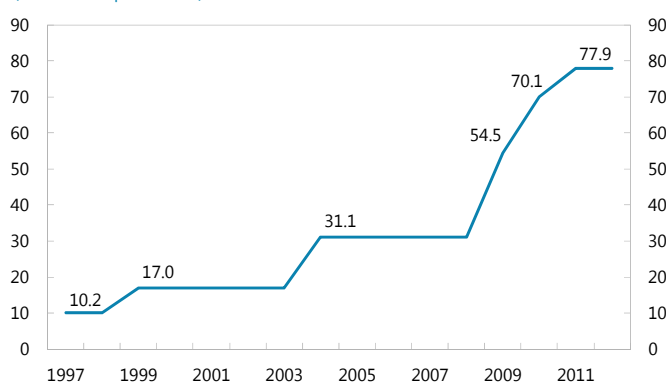
³ Reserve to production ratio is the remaining amount of a nonrenewable resource, expressed in years.

2. **Qatar's innovations created a new LNG business model, and unconventional gas production and trade have transformed natural gas markets in the past few years.** Global LNG

trade, constituting 32 percent of all traded gas, grew by nearly 10 percent in 2011, and about two-thirds of the increase came from Qatar.⁴ A quarter of total LNG trade was in the spot and short-term market, representing an increase of 50 percent in 2011. Qatar has led the massive increase in LNG production worldwide, from less than 17 million tons per annum (mpta) in 2000 to 77 mpta by 2011. In 2011, Qatar represented 30 percent of global LNG trade and 28 percent of global LNG export capacity.

Cumulative LNG Production Capacity, 1997–2012

(Million tons per annum)

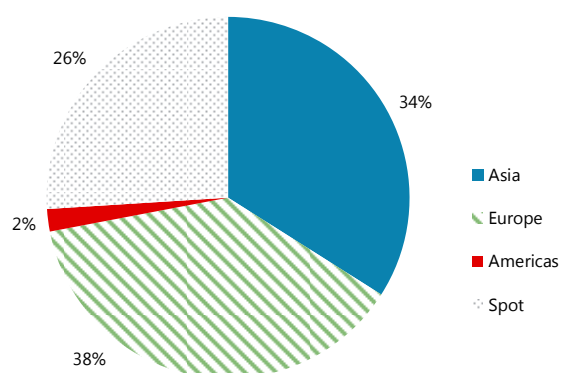


Source: Qatar Petroleum.

3. **A substantial portion of Qatar's LNG exports are derived from long-term sale and purchase agreements that provide certainty of volume off-take and pricing.** Qatar's export market is well diversified. It exports LNG to 15 countries around the world: Europe (United Kingdom,

the Netherlands, Belgium, Italy, France, Spain), East Asia (China, South Korea, Taiwan, Japan), South Asia (India), the Middle East (Kuwait, United Arab Emirates), and North America (Mexico, U.S.). Most of the recent contracts include clauses whereby Qatar would be able to divert its sales to other markets based on certain circumstances. These clauses have enabled Qatar to adjust to changing demand patterns. In particular, the LNG that Qatar was exporting to the United States is now being diverted to Europe, Asia and sold through spot markets.

Qatar: LNG Exports, 2011



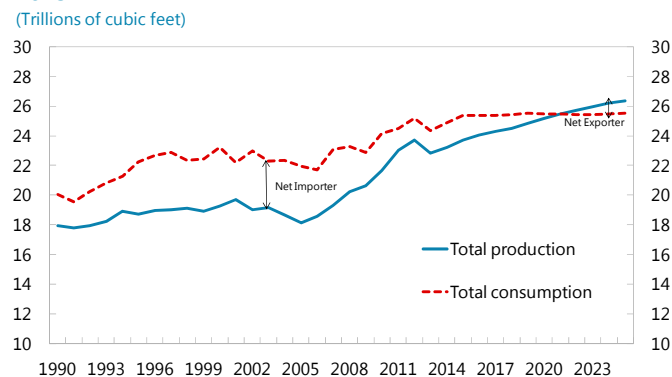
Source: Qatar Petroleum.

⁴ International Group of Liquefied Natural Gas Importers (GIIGNL), 2011 and International Energy Agency (IEA), 2012.

B. Future Challenges

4. **Unconventional gas resources and production have also started to alter market conditions.** Unconventional gas represented 16 percent of global gas production as of 2011, half of which was tight gas and only one-third shale gas. The potential reserves (and resources) are large, and many other countries have started exploring shale gas resources, including Australia, Austria, Canada, China, Germany, Hungary, India, Poland, Saudi Arabia, and the United Kingdom (Cherif and Prasad, IMF, WEO April 2011). In the past decade, shale gas has emerged as a major new source of gas supply in the United States, accounting for about 46 percent of total U.S. production (Energy Information Agency, 2010). The United States became the largest natural gas producer in 2009, and accounts for three-quarters of global nonconventional output. A recent report estimates U.S. recoverable reserves at 650 trillion cubic feet, equivalent to about 30 years of 2009 consumption.⁵ However, the United States is only expected to become a net exporter of natural gas by around 2022 (Annual Energy Outlook 2012). More specifically, the United States is projected to become a net exporter of LNG in 2016, a net pipeline exporter in 2025, and an overall net exporter of natural gas by 2022. These developments have brought down prices for LNG in the U.S. spot market.

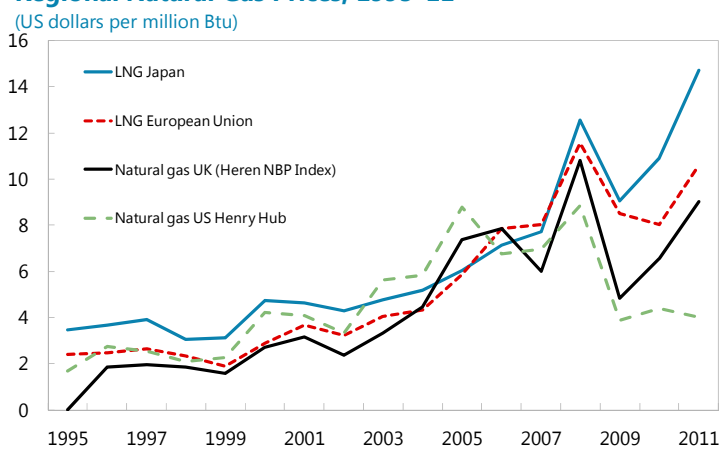
Total U.S. Natural Gas Production, Consumption, 1990–2025
(Trillions of cubic feet)



Source: EIA, 2012.

5. **Qatari exports have been subject to price fluctuations because many of the prices set in export contracts are indexed to oil prices.** International prices of natural gas have been fluctuating in the recent past, particularly as the development of fracking technology in the United States increased its reserves and production. North American gas prices continued on a declining trend, with Henry Hub (HH) U.S. prices falling below \$2 per million British thermal units (MBtu), the lowest prices in a decade, during the second half of 2011. Since 2009, the gap between oil and

Regional Natural Gas Prices, 1995–11
(US dollars per million Btu)



Source: BP Statistical Review of World Energy, June 2012.

⁵ The Future of Natural Gas: An Interdisciplinary MIT Study, *interim report*, 2010.

gas prices has significantly increased, with the oil price parity reaching a 20-year high of 40 in February 2012. However, U.S. gas production is landlocked and U.S. prices are disconnected from the rest of the world. Average Japanese import prices strongly recovered in 2010 and 2011, reaching \$17 MBtu during the second half of 2011. Similarly, European gas price recovery averaged between \$8 and \$10 per MBtu.⁶ Qatar has also benefited from high Asian prices for gas at upward of \$15 per MBtu.

6. Qatar's ability to benefit from higher Asian and European gas prices may face competition from a number of LNG projects that are coming onstream in the next several years.

Australia is expected to become the largest LNG producer by the end of the decade (IEA 2012). If these projects proceed as planned, Australia's LNG exports are likely to increase more than threefold over the next five years (Christie et al. 2011), with the added advantage that some of these projects are close to the Asian market. While Qatar has been able to balance the decline in gas prices with increased production so far, the current moratorium limits the prospects of large-scale increase in production in the immediate future. Nevertheless, Qatar has the technology to increase its production by another 10 percent at short notice through debottlenecking process.⁷

LNG Projects Under Construction				
Country	Project	Capacity (bcm)	Online date	
Australia	Pluto LNG	5.9	May-12	
Angola	Angola LNG	7.1	Mid-2012	
Algeria	Skikda new train	6.1	End-2012	
Algeria	Glassi Touil LNG	6.4	2013	
Australia	Gorgon LNG	20.4	2014-15	
Papua New Guinea	PNG LNG	9	2014-15	
Australia	Queensland Curtis LNG	11.6	2014-15	
Indonesia	Donggi Senoro LNG	2.7	2014	
Australia	Gladstone LNG	10.6	2015-16	
Australia	Australia Pacific LNG	6.1	2015	
Australia	Wheatstone LNG	12.1	2016-17	
Australia	Prelude LNG	4.9	2017	
Australia	Ichthys LNG	11.4	2017-18	
Total		114.3		

Source: IEA, 2012.

7. There are however, many uncertainties that might delay new production by competitors, which augurs well for Qatar. These uncertainties relate mainly to Australia's capacity to complete its projects in time, as there is farmers' opposition in Australia. China has yet to start shale gas production, although it is believed to hold 25 tcm of recoverable shale gas reserves. In addition, China's challenges include mastering of drilling technologies. The outlook for unconventional gas production in Europe is doubtful. There has been opposition to hydro fracking in France and moratoriums have been imposed in France, Switzerland, Germany, Northern Ireland and Bulgaria. Poland, Hungary, and Romania are advancing with caution, while the United Kingdom is neutral to unconventional gas production. The United States is the only country producing unconventional gas, despite the current adverse factors, which include increases in material and labor costs. But, U.S. gas production is currently driven by unconventional oil production, which

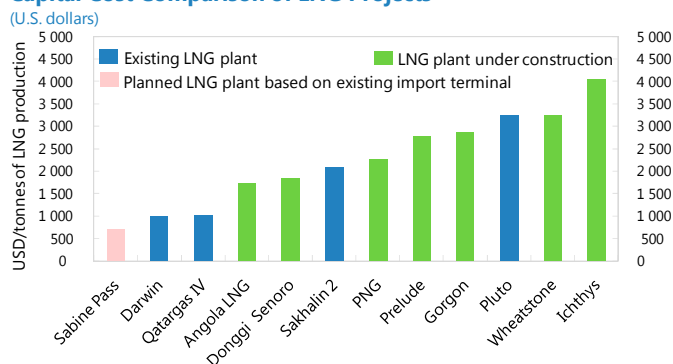
⁶ LNG prices have tended to be higher than for gas traded through pipelines because of its higher production costs and since it can be shipped to the highest bidder.

⁷ Debottlenecking is the process of increasing the production capacity of existing facilities through the modification of existing equipment.

produces associated gas that cannot all be moved to market through the existing infrastructure. Significant import infrastructure would also be needed to meet additional import requirements.

8. **Qatar will continue to have a cost advantage because many of the new projects tend to be more expensive.** According to the IEA, LNG development costs have more than doubled since 2003. The capital costs per ton of LNG of some of the recent Australian LNG projects are between \$2,778 and \$4,048 compared to \$1,000 to \$2,000 for Qatargas. Moreover, because Qatar produces and exports significant quantities of condensate and natural gas liquids in association with natural gas, the effective average cost of producing LNG is much lower. Finally, Qatar has equity interests in 54 vessels in which it exports its LNG, thereby reducing its transportation costs and risks.

Capital Cost Comparison of LNG Projects



Sources: IEA; and Projects website.

Appendix III. External Debt of Qatar¹

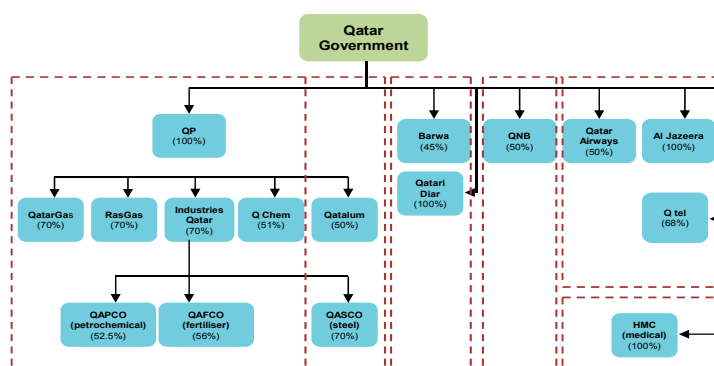
Qatar pursued a deliberate policy of building a sovereign U.S. dollar benchmark yield curve after the global crisis. Government-owned corporates also raised foreign debt through loans and bond issuances to finance their operations. Available data show little evidence of immediate rollover risks or debt servicing difficulties. Despite improved data availability, the absence of comprehensive data constrains a full evaluation of the cost-risk tradeoffs and risks to macro-management.

A. Ownership Structure of Major Corporates

1. **Qatar holds the third largest reserves of natural gas in the world, concentrated in the North Field, the largest non-associated gas reservoir in the world.** Qatar Petroleum (QP) plays a

dominant role in the natural gas sector in both upstream and downstream production. Qatar's strategy is focused on "mega-projects" and vertical integration including downstream natural gas-intensive industries like fertilizer and gas-to-liquid projects (GTL). Qatar Gas Transport Company Ltd. (Nakilat) handles all the shipping of Qatari liquefied natural gas (LNG).

Government ownership prevails across the natural gas value chain. The state is also the main driver of growth in the non-hydrocarbon sector, through the large investment programs of public enterprises. Qatar saves a large part of its hydrocarbon revenues through Qatar Investment Authority (QIA), its sovereign wealth fund, which owns Qatari Diar, a major real estate development company active both domestically and abroad. The government has majority ownership in the country's largest bank, Qatar National Bank (QNB).



Source: Zawya; Company websites; GIB investment research; prime investment research; and BCG analysis.
Note: (%) Net government share, accounting for cross-holding.

B. Current Policy and Legal Framework for Sovereign Debt

2. **Qatar has a legal framework to undertake sovereign borrowings, issue Islamic notes and extend guarantees.** The ability of the Qatari government to borrow and provide guarantees is addressed by Law No. (2) of 1962, as amended by Decree Law No. 19 of 1996 (the "Financial Policy Law"), and the Constitution. Law No. (18) of 2002 on Public Debt and Islamic Finance Notes, as amended by Law No. 22 of 2009, (the "Public Debt Law") authorizes the State to borrow and issue public debt and Islamic Finance notes.

¹ Prepared by Ananthkrishnan Prasad and Renas Sidahmed.

3. **The legal framework in Qatar is, however, narrowly focused on borrowing type.** The analytical aspects of strategy development and evaluation are not established. It provides a clear authorization to the Minister of Economy and Finance to borrow and issue new debt and loan guarantees. It further elaborates that the purposes, objectives, amount, maturity, and instrument type for each internal and external debt (conventional and Islamic) must be determined by the Minister in collaboration with the central bank. So far, inter-agency coordination is fostered to some extent by the State Finance Policy Committee. The Committee comprises the Minister as chairman, a representative of Qatar Central Bank (QCB) as deputy chairman, and representatives of the Qatar Investment authority (QIA) and QP. The role of the Committee is to provide guidance to all government related entities that seek access to the international capital markets, and coordinate debt offerings by Qatari issuers in order to increase liquidity and optimize borrowing costs.

C. Qatar's External Debt Profile

4. **Qatar's external debt more than doubled since 2008.** Led by the government, which first issued sovereign bonds in April and November 2009, there was a flurry of external borrowing by corporates, mainly government-owned.² Since 2008, the government completed four bond issuances, including one sukuk in two tranches.³ At end-December 2011, the government's total outstanding debt stood at \$21.4 billion, constituting 12 percent of GDP and 24 percent of external nonbank liabilities.

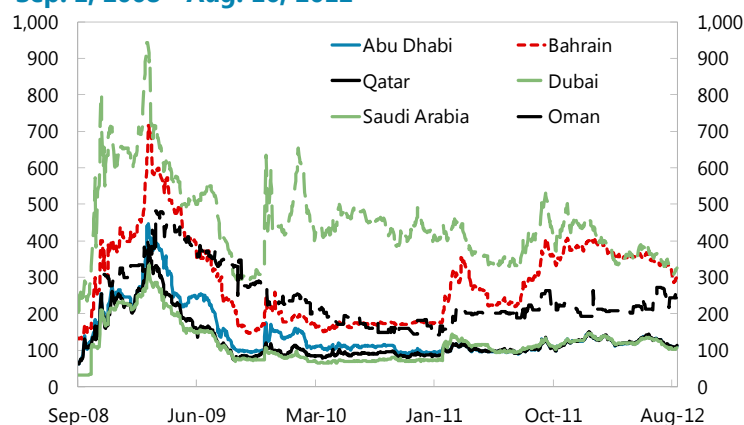
	1990	2000	2005	2008	2009	2010	2011
Total External Debt (excluding banks)	1.9	14.6	15.0	33.5	50.3	70.8	89.2
Government	1.3	5.0	3.7	3.9	12.8	17.0	21.4
Government Owned Corporates	0.6	9.4	10.1	25.4	34.3	46.5	54.3
LNG Related	0.0	5.7	6.7	17.1	19.7	20.4	22.3
Non-LNG related	0.6	3.6	3.4	8.3	14.6	26.1	32.0
Other Corporates	0.0	0.2	1.2	4.2	3.2	7.3	13.5
Memorandum:							
Commercial Bank Liabilities	0.6	0.6	2.9	23.7	29.8	38.3	44.4

Sources: Country authorities; and IMF Staff calculations.
Note: Data is based on the calendar year.

5. **The government has been able to issue bonds at favorable interest rates, reflecting a combination of good credit rating, considerable investor interest, and the safe haven status of Qatar.**

Overall credit ratings have improved over the past decade thanks to favorable economic conditions and a

Credit Default Swaps on 5-year Senior, Sep. 1, 2008—Aug. 16, 2012



Source: Markit.

² The debt profile includes government guaranteed debt, which are included in non-LNG related and other debt. Data on external debt are not available in one place, and staff has depended on a combination of internal and external sources to arrive at an estimate

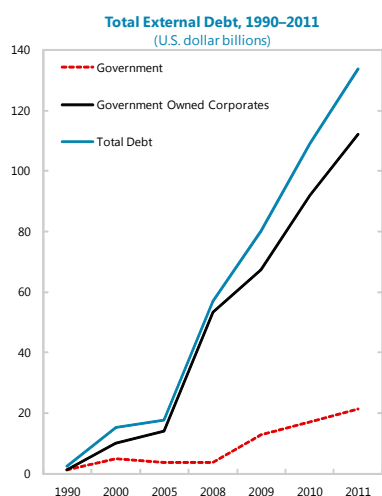
³ Two tranches of 6- and 11-year sukuk for \$2 billion each were issued in July 2012.

strong sovereign balance sheet. Foreign and local currency bond ratings by Moody's improved from Baa2 in September 1999 to Aa2 in December 2008, where they have remained constant through September 2012 as indicated in the latest rating report. Moody's predicts a stable outlook for Qatar's sovereign ratings.

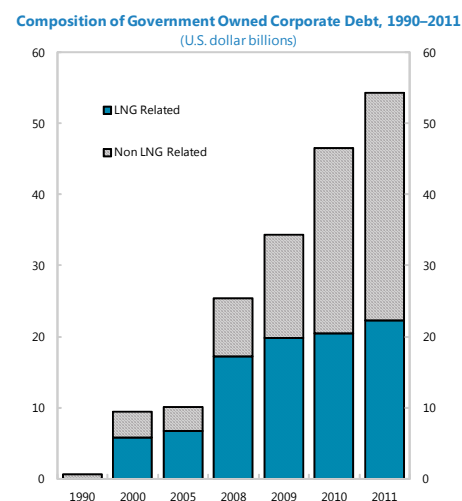
Qatar Government Bond Issuances				
Year of Issuance	Amount issued (USD million)	Coupon (%)	Maturity	Yield (%)
Feb. 2009 (5 years)	2,000	5.150	2014	1.29
Nov. 2009 (6 years)	3,500	4.000	2015	1.51
Nov. 2011 (6 years)	2,000	3.125	2017	1.97
July 2012 (6 years)	2,000	2.099	2018	2.02
Feb. 2009 (10 years)	1,000	6.550	2019	2.45
Nov. 2009 (11 years)	2,500	5.250	2020	2.67
Nov. 2011 (11 years)	2,000	4.500	2022	3.03
July 2012 (11 years)	2,000	3.241	2023	3.01
June 2000 (30 years)	1,400	9.750	2030	3.87
Nov. 2009 (31 years)	1,000	6.400	2040	4.35
Nov. 2011 (31 years)	1,000	5.750	2042	4.28

Source: Bloomberg.

6. **Total non-government debt constitutes three-quarters of total external debt.** At end-December 2011, QP's debt (\$22.3 billion) represented 25 percent of Qatar's external debt.⁴ Most of its subsidiaries and joint venture companies have incurred significant debt to finance LNG and power projects. Non-government direct non-petroleum related debt is also significant. Data on the external debt of other government-owned corporates are not fully available, and based on non-official sources, staff estimate that this component constituted 36 percent of total outstanding debt. Official data place Qatar Airways' external debt at \$6.3 billion (of which



Sources: Country authorities; and IMF Staff calculations.



\$3.7 billion has been guaranteed by the government), and the external debt of Qatari Diar—a 100 percent owned subsidiary of Qatar's sovereign wealth fund—at \$3.5 billion. The financial

⁴ QP issued a \$1.28 billion Samurai Bond in August 2012.

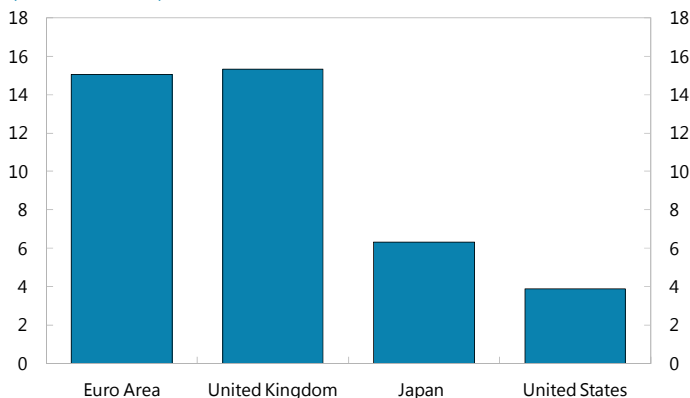
accounts of these two companies are not published. Among the corporate debt outstanding Nakilat, Qatar's shipping arm, is responsible for \$6.7 billion and Qatar Telecom (Qtel) for \$6.3 billion.

7. European banks account for a large share of outstanding claims on Qatar, but reliance on bank finance from European periphery countries is marginal.

According to BIS's consolidated banking data for the first quarter of 2012, European banks accounted for \$38 billion of Qatar's external debt. U.K. and euro area banks provided financing of \$16 billion each—with GIIPS (Greece, Ireland, Italy and Portugal) only accounting for \$3 billion. Other major sources of external financing were Japan (\$6 billion) and the United States (\$4 billion).

Foreign Bank Claims on Qatar, 2012 Q1

(U.S. dollar billions)



Source: BIS consolidated data.

D. Maturity Profile of External debt

8. Debt and debt service ratios of the government are at comfortable levels. A major part

of the amortization of the Government's external debt falls due after 2017. Moreover, staff estimates the value of QIA's assets at \$175 billion. Based on available information there are no immediate rollover risks, and the government is running a primary budget surplus.

Maturity Profile of Government External Debt¹
(U.S. dollar billions)

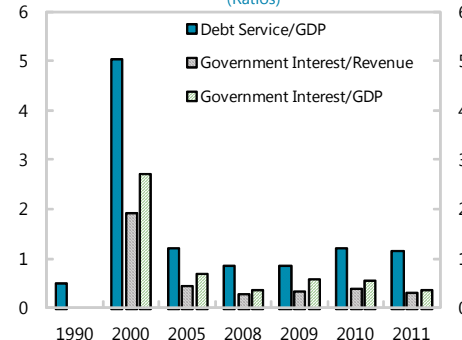
Year	Amount
2014	2.0
2015	3.5
2016	0.0
2017-20	7.5
2021-42	7.4

¹Relates to debt contracted up to July 2012

Sources: Country authorities; and IMF Staff calculations.

Government Debt Servicing, 1990–2011

(Ratios)



9. Similarly, the debt service profile of QP does not indicate signs of stress in the medium term. QP,

which is wholly owned by the government, is responsible for all phases of the oil and gas industry in Qatar, and is the primary source of the revenues for the State. QP's annual budget is approved by the Ministry of Economy and Finance (MoEF), the Council of

Financial Information of Qatar Petroleum

(U.S. dollar billions)

	2009	2010	2011
Total assets	77.6	84.9	101.0
Non-current assets	63.9	69.4	71.6
Current assets	13.7	15.5	29.3
Cash and cash equivalents	7.0	8.0	13.5
Other current assets	6.6	7.5	15.9
Income			
Total operating revenue	34.2	54.2	82.5
Net operating income	26.2	43.9	70.0
Net income	9.7	15.0	24.4

Source: Country authorities.

Ministers, and the Emir. While all the proceeds from exports of crude oil, gas and refined products, and condensates are paid directly to the MoEF, QP can request the MoEF to deposit cash into its accounts, if needed. The financial statements of QP indicate a large cash balance and a high net income at end-2011.

Amortization Schedule of LNG-related Debt
(In percent)

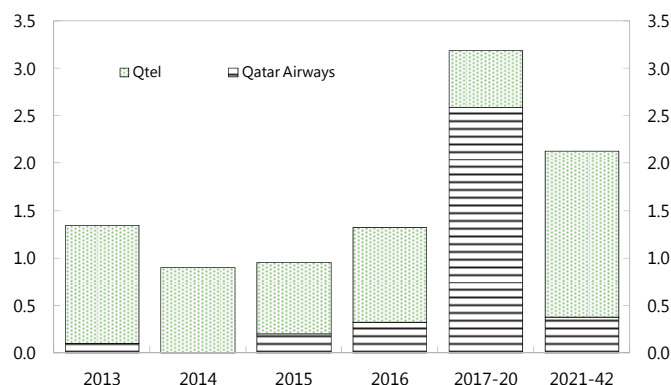
	2010	2011	2012	2013	2014	2015	2016	2017	Beyond
Total Debt Service	1.3	2.1	2.9	2.5	3.6	2.6	3.0	3.2	18.4
Amortization	0.7	1.4	2.0	1.7	2.6	1.6	2.0	2.3	14.9
Interest payments	0.6	0.7	0.8	0.9	0.9	1.0	0.9	0.9	3.5

Source: Country authorities; and IMF Staff calculations.

10. The repayment profile of non-petroleum debt is also spread out over the long term.

Nakilat has a fleet of 54 marine carriers and a total investment of \$11 billion. Nakilat's financial performance for 2011 was strong, with profits at \$229 million compared to \$183 million in 2010. It is a dividend-paying company. Qatar Telecom's financial performance has been increasingly lucrative, with 2011 profits at \$1.6 billion up from \$1.4 billion in 2010. With cash in hand at over \$6 billion, Qtel had an adequate cushion to retire their \$3 billion facility that was due in August 2012. There is further refinancing expected to occur in 2013. The majority of their facilities are for corporate purposes and telecommunications equipment.

Government Owned Corporate Debt Maturity Profile, 2013–42
(U.S. dollar billions)

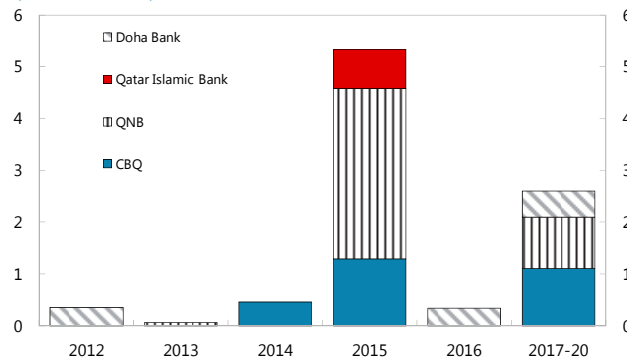


Sources: Dealogic; and IMF Staff calculations.

11. The size of commercial bank foreign liabilities was \$44 billion at end-2011. These

liabilities included nonresident deposits (\$5.4 billion), interbank liabilities (\$36.6 billion), and debt securities (\$2.3 billion). Cash, foreign interbank assets, and foreign investments correspond to about 70 percent of foreign interbank liabilities of the banking system. The remainder constitutes retail domestic deposits that are normally rolled over and long-term debt securities that are maturing between 2015 and 2020.

Bank Debt Maturity Profile, 2013–20
(U.S. dollar billions)



Sources: Dealogic; and IMF Staff calculations.

E. Establishment of Debt Office

12. The decision to establish an independent debt office is in line with staff's advice during the last two Article IV Missions. The independent debt office, titled the Office for Management of Credit Policies and Debt, will be vested with the following functions.

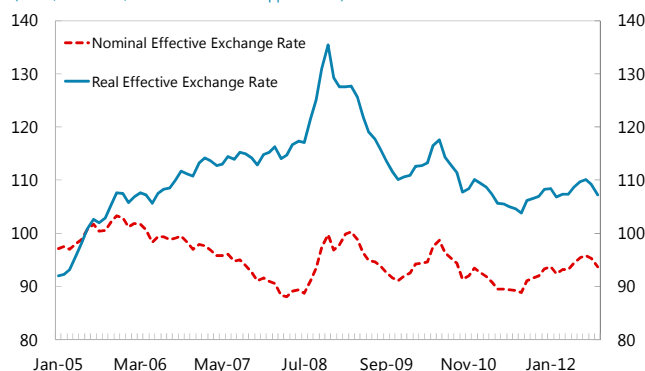
- Modernize policies and strategies for financing, with the objectives of achieving lower costs of funding and increased diversification in the local and international markets.
- Execute financial policies and strategies for government agencies.
- Analyze cash flows and liquidity of government agencies and entities, with a view to managing debt servicing.
- Adhere to the standards of creditors, investors, and credit rating agencies.
- Manage interest rate, currency, and liquidity risks.
- Improve the overall debt structure (direct and indirect).
- Improve overall credit ratings for Qatar.

Appendix IV. Exchange Rate Assessment¹

Estimates from an application of three different CGER-type methodologies broadly indicate that the Qatari Riyal was undervalued in 2011, but show mixed results over the medium term with one approach indicating an overvaluation of 15 percent and thus the need to accumulate larger current account surpluses, and the other indicating an undervaluation of 2.0 percent.

1. **Since end-2008, a depreciation trend is observed for both nominal and real effective exchange rates.** Following a strong appreciation in 2005–08, the trade-weighted real effective exchange rate (REER) depreciated by 17 percent between end 2008 and Sept 2012. The nominal effective exchange rate (NEER) has been more stable relatively, following a mild depreciation trend over 2005–12.

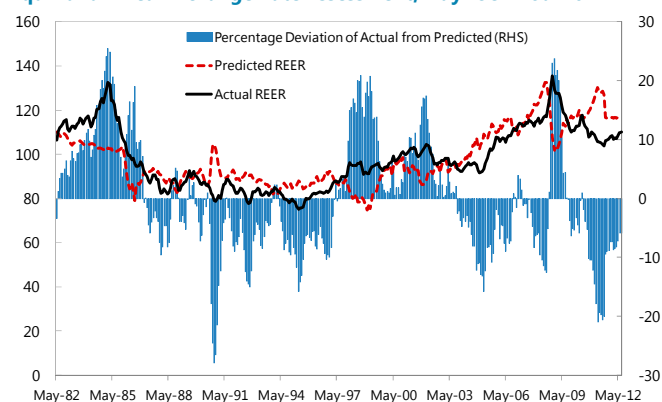
Nominal and Real Effective Exchange Rates, Jan 2005– Sept 2012
(Index, 2005=100; Increase means an appreciation)



Source: Country authorities.

2. **The equilibrium real exchange rate approach indicates undervaluation in 2011–12. This approach directly estimates the equilibrium real exchange rate (ERER) as a function of its** underlying price-based fundamentals such as the terms of trade and relative productivity differentials between tradable and nontradable sectors. For the purpose of forming the exchange rate assessment, the adjustment to bring the exchange rate to the level consistent with these medium-term fundamentals is calculated as the difference between the estimated ERER and its current value. Absent data on the relative productivity differentials between tradable and nontradable sectors, the real effective exchange rate (REER) is estimated from monthly oil prices employing monthly data going back to 1982. Following this approach (Cashin, Ouliaris, and Poghosyan, forthcoming), a co-integration relationship between the logarithm of the REER and the logarithm of the real oil prices is found. A novel and robust band pass filter methodology (IBPF) for unit root testing indicates a statistically significant long-run co-integrating relationship between Qatar's REER and the real oil price, with an elasticity coefficient of 0.23. It suggests that the Qatari Riyal is currently undervalued by 6 percent, given trends in oil (and gas) prices.

Equilibrium Real Exchange Rate Assessment, May 1982—Jul 2012



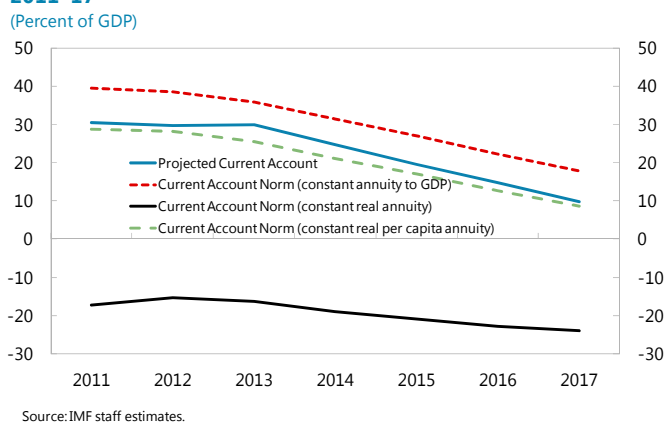
Source: IMF staff estimates.

¹ Prepared by Ghada Fayad.

3. **The macroeconomic balance approach indicates overvaluation of the Riyal.** The estimation employs the generalized method of moments' (GMM) in a dynamic panel setting, controlling for potential endogeneity of regressors by applying GMM-IV system estimator of Blundell and Bond (1998). This method tests with the addition of underground oil and gas wealth and a proxy for accumulated financial assets at sovereign wealth funds or underreported international investment positions. In Qatar's case, as with several commodity-exporters, only a modest amount of NFA is held at the central bank, and hence the choice of the preferred specification. This yields an average current account norm surplus of 19.3 percent of GDP in 2017. Contrasting the norm to the projected "underlying" current account position in 2017 (9.8 percent of GDP) suggests an overvalued Riyal; with the implication being that Qatar should accumulate larger current account surpluses, given its fundamentals.

4. **The external sustainability approach indicates an undervaluation.** The underpinning of this approach is that the sustainability of the current account trajectory requires that the net present value (NPV) of all future oil and financial or investment income (wealth) be equal to the NPV of imports of goods and services, net of non-oil exports. Subject to this constraint, the economy would choose a path for imports, and hence a current account norm, that would support intergenerational equity, given volatile oil prices and exhaustible oil reserves—through an appropriate pace of accumulation of net foreign assets.² Import trajectories ("annuities/income or allocation rules") are calculated under three different policy scenarios: a constant share of GDP annuity (red line); constant real per capita annuity (green line); and constant real annuity (black line) (Figure 3). All three types of annuities are used in the literature, and can be derived from the optimization of plausible utility functions. Choosing the middle ground rule in terms of generosity (the constant real per capita annuity, green line) as a benchmark indicates an ER undervaluation of 1.9 percent, as the implied current account norm (8.6 percent of GDP in 2017) is smaller than the projected current account (9.8 percent of GDP in 2017), with the implication that Qatar could save less. Naturally, changing the oil production and price path, population growth, or initial NFA, could have a significant impact of the implied current accounts of each allocation rule, as they are sensitive to parameter assumptions.

External Sustainability's Current Account Norms vs. Projection, 2011–17



² Assuming for illustrative purposes 864 billion barrels of reserves and a 4 percent recovery rate, oil and gas production would grow gradually (by 2 percent). Oil prices and the GDP deflator increase by about 2 percent after 2017, and real non-oil GDP grows by 5 percent. Future oil revenues are nominally discounted at 6 percent, the assumed rate of return on externally held financial wealth/NFA.



QATAR

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 18, 2012

Prepared By

Middle East and Central Asia Department
(In Consultation with Other Departments)

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RELATIONS WITH THE FUND

(As of October 31, 2012)

Membership Status

Joined: 09/08/72; Article VIII, 06/04/73

General Resources Account

	SDR Million	Percent Quota
Quota	302.6	100.00
Fund holdings of currency	204.18	67.48
Reserve position in Fund	98.42	32.52

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	251.40	100.00
Holdings	268.61	106.92

Outstanding Purchases and Loans: None

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessments: Not applicable

Exchange Rate Arrangement:

The Qatari riyal has been pegged to the U.S. dollar at QR 3.64 = \$1.00 since July 2002, following an unofficial peg that was in effect since June 1980. Qatar has accepted the obligations under Article VIII, Sections 2, 3, and 4(a) and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Qatar maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval under the procedures set forth in Executive Board Decision No. 144-(52/51).

Last Article IV Consultation:

The discussions for the previous Article IV consultation took place in Doha in November 2011. The Staff Report and its supplement were approved by the Executive Board on lapse of time basis on January 30, 2012. Qatar moved to a 12-month Article IV consultation cycle in 2007.

FSAP and ROSC Participation:

FSAP missions were conducted in January and May 2007. LEG conducted a detailed assessment of the Qatari anti-money laundering and combating the financing of terrorism (AML/CFT) framework against the Financial Action Task Force (FATF) 40+9 Recommendations, in February 2007. The report was also presented to the Middle East & North Africa Financial Action Task Force (MENAFATF) and the FATF and adopted by these organizations as their own mutual evaluation at their respective plenary meetings of April 2008 and June 2008. The final report was published on the Fund website and a ROSC was circulated to the Executive Board for information in September 2008.

Technical Assistance:

STA	November/December 1994	Multisector Statistics Mission
MAE	June 1995	Financial Sector Reform
MAE	April 1997	Reform of the Qatar Central Bank's Legal Framework
MAE	September 1998/January 1999	Introducing Government Bonds and Treasury Bills
STA	April 2000	Real Sector Statistics
STA	May 2001	Balance of Payments Statistics
STA	January 2005	Multisector Statistics
STA	April 2006	Government Finance Statistics
LEG	November 2006	AML/CFT Pre-assessment
STA	April 2007	GDDS Assessment
LEG	October 2009	AML/CFT Long-Term Advisor Providing TA.
STA	October 2010	Balance of Payments Statistics
STA	September 2012	Coordinated Portfolio Investment Survey

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of November 2012)

The program of cooperation with Qatar is relatively recent. It began in April 2003 with a Public Transport Sector Reform study. A manpower planning exercise launched in 2003 with the support of the World Bank evolved in 2004 into a Labor Market Strategy for Qatar which could serve as a model for the GCC countries with similar labor issues. In 2005, the World Bank provided technical assistance on payment systems to the Qatar Central Bank, in the context of supporting the development of payment and securities clearance and settlement systems in the Arab region through the Arab Payments and Securities Settlement Initiative, led jointly by the World Bank, the Arab Monetary Fund and the International Monetary Fund. In 2007, the Bank conducted a study on the Knowledge Economy (KE) Development in Qatar the results of which were discussed at several high-level workshops.

More recently, the Government, represented by the Minister of Economy and Finance, signed the Framework Agreement for Advisory Services with the Bank in order to further develop of the cooperation program. The Bank provided technical support to the government on a number of strategic issues including strategic planning, public-private partnerships, and macroeconomic modeling. A recently completed program with the Ministry of Business and Trade addressed the issues of improving business environment.

The Bank currently supports the Ministry of Environment to strengthen environmental policies and procedures consistent with the regional Gulf Environment Program and Action Plan (GEPAP), and expects to help develop a National Climate Change Strategy and Action Plan. The Bank also expects to support the General Retirement and Social Insurance Agency to enhance institutional capacity, sustainability of existing programs, and asset management.

The Bank has been helping the authorities prepare for and deliver the Convention of the Parties (COP 18) to the United Nations Framework Convention on Climate Change (UNFCCC) taking place in Qatar on November 26–December 7, 2012 and will continue to assist the authorities in this regard focusing on dryland agriculture and food security.

Completed Projects

- Linking Qatar's Medium-Term Development Strategy to the Annual Budget (FY10 and FY 11)
- Economic Diversification Forum (FY10)
- Support to Labor Market Strategy Action Plan: Implementation (FY10)
- Knowledge Economy Strategy and Implementation Assistance (FY09)
- Workshop on "Partnering for Value, Innovation and Job Creation: PPPs in the GCC" (FY06)
- A macroeconomic modeling workshop (FY06)
- Evaluation of Qatar's Payments System (FY05)
- Labor Market Strategy (FY04)
- Investment Climate Workshop (FY04)
- Public Transport Sector Study (FY03)

STATISTICAL ISSUES

As of November, 2012

I. Assessment of Data Adequacy for Surveillance
<p>General: Economic data are broadly adequate for surveillance but there is substantial scope for improving their frequency, timeliness and coverage. The most affected areas are the real gross domestic product (GDP), financial accounts of the balance of payments, and external debt statistics.</p>
<p>National Accounts: Qatar publishes quarterly estimates of GDP at current and constant prices. The accuracy of data in the nonhydrocarbon sector is undermined by the lack of comprehensive source data. In July 2011, Qatar Statistics Authority (QSA) published the final annual series of nominal and real GDP data for 2004 and 2009.</p>
<p>Price statistics: There have been some improvements in the compilation of the consumer price index (CPI). The authorities are now publishing monthly CPI data based on a reweighted and rebased (2007=100) basket, but the index remains deficient. The information related to domestic rents—which form a sizeable share of the basket—is based on field visits by QSA staff in Doha and nearby areas. In that respect, there are plans to rebase the CPI to the year 2012, after the full response of the latest household survey is received, and the newly based CPI is likely to place a lower weight on the rent component.</p>
<p>Government Finance Statistics: The authorities presented to the mission, Government budget and outcomes data according to <i>Government Finance Statistics Manual 2001</i> (GFSM) guidelines. However, budget data should be rendered consistent with the data on public sector in the monetary survey and the balance of payments. Data on financing items in the budget are not up to date. Access to this information along with data on the budget outcome for previous fiscal years would enhance the basis for analysis.</p>
<p>Monetary statistic: Monetary data for Qatar Central Bank (QCB) and commercial banks are generally timely and of high quality. The QCB reports monetary data regularly to STA for publication in <i>International Financial Statistics</i> (IFS) on a monthly basis with a lag of about three weeks. Monthly and quarterly data are also published in the <i>Monthly and Quarterly Statistics Bulletin</i>.</p>
<p>Financial stability: Qatar Central Bank published and disseminated its third Financial Stability Report in 2012, and plans to make it an ongoing process.</p>
<p>Balance of Payments: Since the 2010 technical assistance mission on balance of payments statistics, as well as the participation of STA staff in the 2011 Article IV Consultation, the authorities are publishing quarterly BoP data in the <i>International Financial Statistics</i> (IFS). The financial account has been developed and coverage improved for major public corporations, the Qatar Financial Center Authority, and the Qatar Exchange. Continuing efforts are needed to further develop data sources, particularly for the private sector. To this end, close collaboration with the QSA in the development of surveys is strongly encouraged. In addition, close monitoring of investment income is needed, particularly for foreign investments in the hydrocarbon sector. The authorities presented the mission with a partial compilation of an International Investment Position (IIP) statement for the period June 2012. They need to continue their efforts to develop their external sector statistics by working towards a comprehensive IIP. The 2012 TA mission on CPIS will facilitate the process.</p>

External debt: Detailed data on the country's medium- and long-term external debt are provided to missions during the Article IV consultation discussions. In the recent period, Qatar has issued several international bonds. The authorities are disseminating data on external debt through the QCB website. It is important to improve the information flow on external debt and its maturity profile. The MoEF is according priority to the collation and dissemination of complete data on external debt (including government, government enterprises, and non-government corporates).

II. Data Standards and Quality

Qatar is a General Data Dissemination System (GDDS) participant since December 2005. The GDDS mission of April 2007 updated the GDDS Summary Table II *Data Coverage, Periodicity, and Timeliness*; assessed dissemination practices relative to the requirements of the Special Data Dissemination Standard (SDDS) for coverage, periodicity, and timeliness; and identified major milestones that Qatar would have to reach to graduate from the GDDS to the SDDS. To enhance data dissemination practices, staff *assisted* the authorities in developing a National Summary Data Page (NSDP) and an Advance Release Calendar (ARC).

Qatar—Table of Common Indicators Required for Surveillance

(As of November 30, 2012)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	Nov. 2012	Nov. 2012	M	M	M
International Reserve Assets of the Monetary Authorities ¹	Sep. 2012	Nov. 2012	M	M	M
Reserve/Base Money	Sep. 2012	Nov. 2012	M	M	M
Broad Money	Sep. 2011	Nov. 2012	M	M	M
Central Bank Balance Sheet	Sep. 2012	Nov. 2012	M	M	M
Consolidated Balance Sheet of the Banking System	Sep. 2012	Nov. 2012	M	M	M
Interest Rates ²	Sep. 2012	Nov. 2012	M	M	M
Consumer Price Index	Oct. 2012	Nov. 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	...	...	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2012/13 (upto Oct)	Nov 2012	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2012	Nov 2012	A	I	I
External Current Account Balance	2012 Q 2	Nov 2012	Q	Q	Q
Exports and Imports of Goods and Services	2012 Q2	Nov 2012	Q	Q	Q
GDP/GNP	2012 (Q2)	Oct. 2012	Q	Q	Q
Gross External Debt	2012	Nov 2012	A	I	I
International Investment Position ⁷	June. 2012 (incomplete)	Nov. 2012	I	I	NA

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

⁷Includes external gross financial asset and liability positions vis-a-vis nonresidents.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/05
FOR IMMEDIATE RELEASE
January 16, 2013

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with Qatar

On January 11, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar.¹

Background

Qatar has benefitted from high oil and natural gas prices and production, with expansionary government spending and an accommodative monetary stance providing additional stimulus. The government has now shifted its focus to economic diversification and growth in nonhydrocarbon sectors through targeted infrastructure investments. Growth rates are stabilizing in 2012, mainly due to a slowdown in hydrocarbon sector growth, as the self-imposed moratorium on increasing liquefied natural gas (LNG) capacity kicks in. The nonhydrocarbon sector is projected to grow at a pace of 9 percent in 2012, driven by the construction, transport and communications, trade and hotels, and services sectors. For the second year in a row, average CPI inflation is expected to average around 2 percent in 2012, mainly due to depressed rents.

The banking system remains highly capitalized and profitable. The capital adequacy ratio of commercial banks rose from 16.1 percent in 2010 to 21.1 percent in June 2012, while nonperforming loans declined from 2.0 to 1.7 over the same time period, and the return on assets recording 2.5 percent in June 2012.

The economic outlook remains strong with robust nonhydrocarbon growth, and inflation rising only gradually over the medium term. The main downside risks are lower hydrocarbon prices,

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

tightening of external financing conditions, and potential disruption in transportation of LNG due to increased geopolitical tensions. Growth in the nonhydrocarbon sectors will range between 9 and 10 percent over the medium term, while the hydrocarbon sector is projected to grow between -1.1 percent and 3.5 percent over the medium term. As infrastructure-related construction activities pick up, as the demand-supply situation in the real estate market converges, and as the expatriate population increases, inflation will gradually increase from 3 percent in 2013 to 5 percent by 2016. Fiscal and external surpluses are projected to taper down significantly, due to flat LNG and a declining trend in crude oil production and exports, and due to higher fiscal expenditure.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Qatar's continued strong macroeconomic performance, underpinned by sound policies and growth in the nonhydrocarbon sector. Fiscal and external surpluses are high, consumer price inflation is low, and the medium-term outlook for the economy remains favorable. Directors noted the positive regional spillover effects of Qatar's high growth, public spending, and increased financial assistance.

Directors commended the authorities' focus on advancing economic diversification and growth in nonhydrocarbon sectors. To ensure the smooth implementation of the large infrastructure investment program, Directors saw merit in developing a contingency plan against potential risks from fluctuations in hydrocarbon prices and a tightening of external financing. Directors also underscored the importance of an integrated public investment management process to manage implementation risks.

Directors welcomed the adoption of a three-year budget framework to help shield government spending from revenue volatility and enable better utilization of resources. They underscored the need to enhance the credibility of the annual budget and initiate macroeconomic forecasting through a macrofiscal unit. A formal fiscal rule could reinforce the fiscal framework.

Directors encouraged the authorities to persevere in their efforts to contain current expenditures and prioritize capital spending. They welcomed the authorities' commitment to increasing fiscal savings in the medium term for building buffers against shocks, saving for future generations and fully financing the budget after 2020 from nonhydrocarbon revenues.

Directors noted that inflation remains subdued. However, they advised the authorities to remain vigilant of any emerging inflationary pressures and stand ready to restrain current expenditures to control aggregate demand, and to manage liquidity by absorbing the structural liquidity surplus. Directors encouraged development of a liquidity forecasting framework and macroprudential measures for effective policymaking, especially to smooth excessive credit growth. They welcomed the measures to boost financial oversight further, by providing the legal mandate of financial stability to the central bank and establishing the Financial Stability and Risk Control Committee to provide a formal structure for coordination among the regulatory bodies.

Directors noted that the banking system is resilient and remains well capitalized. They underscored the need to reduce the buildup of liquidity and currency mismatch risks and to prevent accumulation of excessive exposure to the real estate sector. Directors welcomed the authorities' efforts to develop a deep and liquid domestic debt market, which will bring important benefits in financing, monetary transmission and liquidity management.

Directors recognized the improvement in statistics, and looked forward to continued efforts in this area, particularly through greater coordination across agencies.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The [staff report](#) (use the free [Adobe Acrobat Reader](#) to view this pdf file) for the 2012 Article IV Consultation with Qatar is also available.

Qatar: Selected Economic and Financial Indicators, 2008–13

	2008	2009	2010	2011	2012	2013
Production and prices						
Real GDP (percent per annum)	17.7	12.0	16.7	13.0	6.6	5.2
Hydrocarbon ¹	13.2	4.5	28.8	15.7	3.6	0.4
Nonhydrocarbon GDP	21.3	17.6	8.6	10.8	9.0	9.0
Nominal GDP (US\$ billions)	115.3	97.8	127.3	173.3	184.7	191.5
Consumer price index (period average)	15	-4.9	-2.4	1.9	2.0	3.0
(Percent of GDP on fiscal year basis) ²						
Public finance						
Total revenue	34.9	44.2	30.9	38.6	43.3	40.6
Hydrocarbon revenue	19.8	21.6	19.2	24.2	21.8	20.6
Other revenue	15.1	22.6	11.7	14.4	21.5	20.0
Total expenditure and net lending	24.8	31.8	28.5	30.4	35.2	30.0
Current expenditure, <i>of which</i> :	16.5	21.5	19.7	18.6	20.3	20.8
Wages and salaries	4.6	5.6	4.6	4.3	5.4	5.3
Capital expenditure	8.3	10.3	8.8	7.9	8.7	9.2
Overall fiscal balance (deficit -)	10.2	12.4	2.4	8.2	8.1	10.6
(Annual change in percent)						
Money						
Broad money	19.7	16.9	23.1	17.1	20.7	13.9
Claims on private sector	42.4	7.0	10.6	19.5	10.3	12.9
(US\$ millions, unless otherwise stated)						
External sector						
Exports of goods and services, <i>of which</i> :	73,024	48,280	81,722	119,609	125,965	127,356
Crude oil and refined petroleum products	29,438	18,384	29,099	35,137	38,175	37,680
LNG and related exports	32,267	23,947	43,535	70,318	71,755	71,844
Imports of goods and services	-35,047	-30,118	-37,889	-47,667	-50,579	-55,148
Current account	33,032	9,987	34,099	52,757	55,042	57,128
In percent of GDP	28.7	10.2	26.8	30.4	29.8	29.8
Central Bank reserves, net	9,832	18,352	30,720	16,305	46,337	57,794
In months of imports of goods and services ³	3.9	5.8	7.7	3.9	10.1	11.8
Exchange rates (riyals/US\$)	3.64	3.64	3.64	3.64	...	...
Real effective exchange rate (percent change)	6.3	-1.7	-5.6	-5.2	...	...

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

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

² Fiscal year begins in April.

³ Next 12 months.

Statement by Mr. Shaalan, Executive Director for Qatar
January 11, 2013

1. On behalf of the Qatari authorities, I thank staff for their comprehensive papers and the constructive Article IV Consultation discussions. The authorities value the views of the Fund on Qatar's economic and financial policies.

Recent Economic Developments and Outlook

2. Qatar's economic performance remained strong over the past two years, mainly on account of prudent policies and buoyant activity in the non-hydrocarbon sector. In 2011, Qatar completed a large 20-year investment program in the hydrocarbon sector. It has since shifted its focus to economic diversification and growth in the non-hydrocarbon sectors through targeted infrastructure investments, as part of its National Development Strategy. These actions are expected to maintain Qatar's medium-term growth outlook strong on account of robust growth in the non-hydrocarbon sector, in spite of the moratorium on the development of new hydrocarbon projects until 2015.

3. The authorities are aware of the potential risks to the outlook emanating from fluctuations in oil prices and tightening external financing. In addition to large reserves with the sovereign wealth fund and the central bank, they aim at mitigating these risks by fully financing the budget from 2020 onwards from non-hydrocarbon revenues. With regard to potential financing risks, it is well to recall that the government has built a sovereign U.S. dollar benchmark yield curve after the global crisis and has been able to issue bonds abroad at favorable interest rates. This reflects a combination of good credit rating, considerable investor interest, and the safe haven status of Qatar. The authorities are also taking steps to mitigate implementation risks of the large infrastructure investment program, and have assigned the Central Planning Office the task of coordinating among agencies.

Fiscal Policy and Reforms

4. The authorities attach great importance to increasing fiscal savings in the medium term, given their objectives of fully financing the budget after 2020 from non-hydrocarbon revenues, building buffers against shocks, and saving for future generations.

5. The fiscal stance for 2012/13 is contractionary and the overall fiscal surplus is projected to remain high at about 8 percent of GDP. This is due to a marked increase in corporate taxes—as new companies start paying corporate taxes—high investment income, and hydrocarbon revenue. The authorities also aim at maintaining wages and salaries at their current share of total expenditure while containing expenditures by line ministries. In this connection, they see that the adoption of a three-year budget framework in the 2012/13 budget would enable more efficient sectoral planning and better utilization of resources by ministries and government agencies. Should oil prices sustainably fall below target, other current expenditures would be reduced and investment projects would be financed through public-private partnerships (PPP) instead of the budget. To this end, the Ministry of Economy and Finance (MoEF) is working on developing a model PPP legal framework.

6. The authorities see merit in staff's recommendations to enhance the annual budget procedure and eventually adopt a formal fiscal rule. They are, however, currently focused on strengthening the medium-term budget reforms initiated last year.

Monetary, Exchange Rate, and Financial Sector Policies

7. The price level is expected to remain low at 2 percent in 2012, mainly due to depressed rents. The current monetary stance is expected to stay accommodative, although the authorities are careful to prevent overheating of the economy and are taking steps in this regard as detailed in Box 2.

8. With recent initiatives to develop domestic financial markets, the Qatar Central Bank (QCB) is now moving toward a more active and market-based liquidity management framework. In this regard, the authorities agreed to continue to absorb liquidity surplus through Treasury-bills.

9. The banking system remains well capitalized and profitable, and it is showing resilience to credit risk. The authorities agreed with staff on the need to limit the buildup of liquidity risk related to short-term foreign borrowings channeled into funding medium- and long-term domestic lending. Additional prudential liquidity ratios could be used to that end. Credit to the real estate sector appears to have stabilized in 2012. QCB has adequate macroprudential tools to contain any resumption in real estate credit growth, including by employing higher risk weights for real estate lending for the capital adequacy ratio. As part of its continuous efforts to improve the resiliency of the banking sector, QCB has advised banks to increase the risk reserve balance to 2.0 percent effective from the financial year ending 2012 and subsequently to 2.5 percent, effective from the financial year ending 2013. The central bank laws have also been amended to give the legal mandate of financial stability to the QCB.

10. The authorities recognize that developing deep and liquid domestic debt markets can bring important benefits by raising financing and enhancing monetary transmission. They are facilitating market development through regular issuances of Treasury-bills and have plans to issue Treasury bonds. QCB is also taking the lead in setting up a domestic credit rating agency and a central securities depository.

Statistical Issues

11. The authorities are committed to further improve statistics in order to assist decision making and improve macroeconomic management. They wish to express their appreciation for the provision of Fund technical assistance in this regard. Considerable progress has been made in improving the timeliness and quality of national accounts statistics, and the Qatar Statistics Authority is now publishing a quarterly real GDP series. QCB has also developed a partial international investment position statement at end-June 2012.