March 2011
IMF Country Report No. 11/64

# Qatar: 2010 Article IV Consultation—Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Qatar

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 2010 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 9, 2010, 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 January 20, 2011. 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.
- A staff statement of February 16, 2011 updating information on recent developments.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 16, 2011 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Qatar.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

QATAR

**Staff Report for the 2010 Article IV Consultation**

Prepared by Staff Representatives for the 2010 Consultation with Qatar

Approved by Alfred Kammer and David Marston

January 20, 2011

- *Discussions:* October 26–November 9, 2010.
- *Team*: Messrs. Prasad (Head), Cevik, Cherif, and Roitman (all MCD). Mr. Kammer (MCD) participated in the policy discussions.
- *Meetings*: The mission met with the Minister of Economy and Finance; the Governor of Qatar Central Bank (QCB); other senior government and central bank officials; and representatives of commercial banks and the corporate sector.
- *Exchange arrangement*: Peg to the U.S. dollar. Qatar has accepted the obligations under Article VIII, Sections 2, 3 and 4. Qatar maintains security-related exchange restrictions notified to the Fund, but otherwise maintains a system free of restrictions on the making of payments and transfers for current international transactions.
- *Past surveillance:* The authorities and the Fund have generally agreed on policy priorities. The 2009 Article IV consultation was concluded on February 8, 2010; PIN available at http://www.imf.org/external/np/sec/pn/2010/pn1022.htm
- *Economic statistics:* Broadly adequate for surveillance; scope to improve data frequency, timeliness, and coverage. General Data Dissemination System (GDDS) participant since December 30, 2005.

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## EXECUTIVE SUMMARY


**Background**

**Qatar has weathered the global financial crisis exceptionally well, reflecting the swift and strong policy response by the authorities.** The sizeable enhancement of liquefied natural gas (LNG) capacity, large government support to the banking system, and increase in public spending helped sustain high growth rates through the global crisis. Growth has rebounded to 16 percent in 2010 and is projected to accelerate to 20 percent in 2011. Headline consumer price inflation is negative in 2010, reflecting a sharp fall in domestic rents, although non-rent prices have started to rise. The banking system remains sound. While bank credit for consumption and real estate stagnated after 2009, credit to public sector companies increased sharply. The economic outlook remains positive, with the main downside risk being a sharp decline in hydrocarbon prices.

**Policy discussions focused on** (i) the policy mix required for maintaining macroeconomic stability while sustaining high growth rates in the nonhydrocarbon sectors; (ii) the stance of fiscal policy in the medium term; (iii) strengthening the efficiency of the domestic financial system and regulatory arrangements; and (iv) assessing productivity performance to help design a diversification strategy.

**Staff's recommendations**

- **While the current expansive fiscal stance remains appropriate and monetary policy should remain geared towards supporting credit growth, aggregate demand needs to be carefully monitored in order to avoid the emergence of inflationary pressures.** Qatar Central Bank (QCB) will have to rely increasingly on macroprudential instruments to manage the credit cycle and to counter potential surges in capital inflows.

- **Preserving the policy of saving a share of hydrocarbon wealth is key to maintaining macroeconomic stability and intergenerational equity.** Improving productivity will be important to support self-sustaining long-term growth in the nonhydrocarbon sectors.

- **The exchange rate is broadly aligned with fundamentals.** The dollar peg has served as an effective nominal anchor. Nevertheless, it will be important to enhance the technical, institutional, and operational capacity, including development of a local debt market, in case an alternative exchange rate regime becomes desirable in the context of the Gulf Cooperation Council (GCC) monetary union.

- **Establishing a debt management office and setting up a macro-fiscal unit will constitute important institutional reforms to support policy making.**

- **Further improvements in statistics will be essential, and will require greater coordination between various agencies.**

**Authorities' views**

- **The authorities pointed out that the countercyclical fiscal stance and the government's support to the banking system ensured financial stability and helped sustain high growth rates through the global crisis.** They are mindful of the need to manage the risk of potential overheating arising from demand pressures. Over the medium term, the government budget would continue to allocate increased resources for infrastructure investment, while keeping current expenditure in check. Major infrastructure upgrades related to the FIFA World Cup 2022, such as the integrated metro/rail systems, roads, and airport, have already been taken into account in the medium-term expenditure profile, since they were planned notwithstanding the outcome of their bid to host the World Cup.[1] Additional expenditure to the government budget is not expected to be significant.

- **QCB has a range of instruments to manage liquidity.** It has further room to reduce interest rates, and can resort to prudential regulation by limiting credit ratios and sectoral exposures to manage both credit growth and potential surges in capital inflows. Inflation is not viewed as an issue of concern in the short term, mainly because of the current excess supply in real estate.

- **The authorities will continue to save part of the hydrocarbon revenues through their sovereign wealth fund, to facilitate intergenerational equity**. They expect nonhydrocarbon revenues to increase as a result of the recently introduced measures to rationalize and broaden the corporate tax base. The establishment of the value-added tax in the context of the GCC monetary union would broaden the tax base further. Current expenditure would be contained over the medium term by enhancing spending efficiencies, resisting increases in salaries, and shrinking the size of government to the extent possible. Their objective is to fully finance their budgets after 2020 from nonhydrocarbon revenues.

- **The authorities are committed to the exchange rate peg to the U.S. dollar.** They are, however, strengthening the institutional and operational capacity in financial markets, which would prove useful in case an alternative exchange rate system becomes desirable in the context of the GCC monetary union.

- **QCB is closely monitoring potential risks to the banking system.** The central bank published its first Financial Stability Review and intends making this an ongoing process. The authorities' commitment to establish a single financial regulatory authority under the umbrella of the central bank remains undiminished. They continue to align their supervisory and regulatory frameworks with best standards and practices, and plan to implement Basel III proposals early.

[1] On December 2, 2010, Qatar was chosen to host the FIFA World Cup in 2022.

- The authorities are making efforts to improve data quality and coverage, as they advance toward the GCC monetary union. They have sought technical assistance on improving Consumer Price Index (CPI) statistics.

## I. Background

**Qatar is one of the fastest growing economies in the world.** Its LNG capacity will reach a peak of 77 million tons per year (mtpy) in 2011 compared to 30 mtpy in 2008, and less than 5 mpty in 1997.[2] Hydrocarbon GDP grew at an average rate of about 11 percent between 1990 and 2009, while non-hydrocarbon GDP grew at an average rate of 9.5 percent.

## II. Current Economic Developments

*A doubling of natural gas production, timely intervention in the banking system, and continuing large public investment in infrastructure have kept growth rates high and resulted in the accumulation of large surpluses in the fiscal and external accounts. Headline inflation is negative, reflecting sharp declines in rents.*

1. **Real GDP growth in 2010 is projected to rebound to 16 percent, up from 8.6 percent in 2009.** Real hydrocarbon growth of 22.7 percent in 2010 is driven mainly by a 38 percent increase in LNG production in 2010. The nonhydrocarbon sector is expected to grow by 10 percent. Investments in hydrocarbon-related manufacturing industry (petrochemicals and fertilizers), large-scale infrastructure projects (airport, port, water systems, roads, housing and tourism), social infrastructure (health and education), and financial services (banks and the Qatar Financial Center) are the main drivers (Figure 1).

2. **Headline inflation is negative in 2010, but non-rental prices have started to rise.** Although average consumer prices are projected to decline by 2.6 percent in 2010, reflecting the slump in real estate, core inflation (excluding food and rents) will average 2.5 percent.[3] In September 2010, non-rent inflation increased by 4.1 percent year-on-year, of which food prices increased by 2.4 percent.

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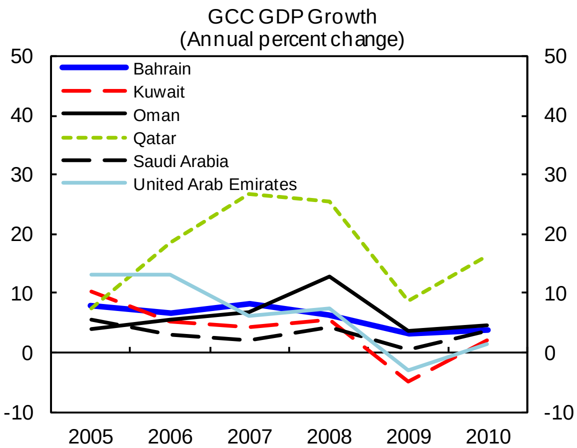
[2] Qatar's 20-year investment program, which focused on a strategy to commercialize its substantial natural gas resources, culminates in 2012. The State has placed a moratorium on development of new hydrocarbon projects until 2015 to give itself time to assess its production performance and carry out a comprehensive study of its North Field. Lifting the moratorium would depend on the results of a study into the North Field's long-term potential and expectations about the path of global demand.

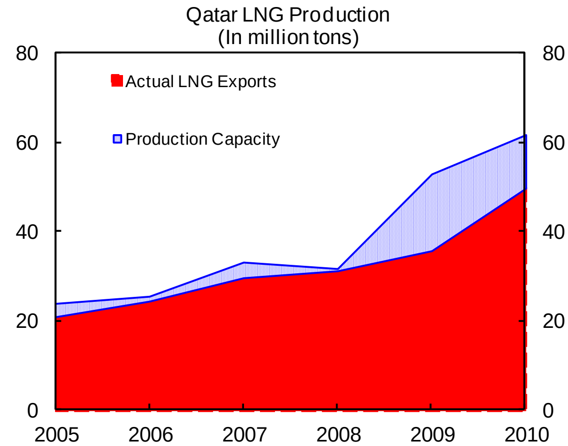
[3] There are measurement issues in the CPI. The sharp decline in rental inflation is overestimated to some extent as the monthly survey of rental prices is mainly confined to new contracts or those currently available for occupancy. As a result, the magnitude of decline in the overall CPI may actually be smaller than what is evident from the data.

## Figure 1. Qatar: Real Economy

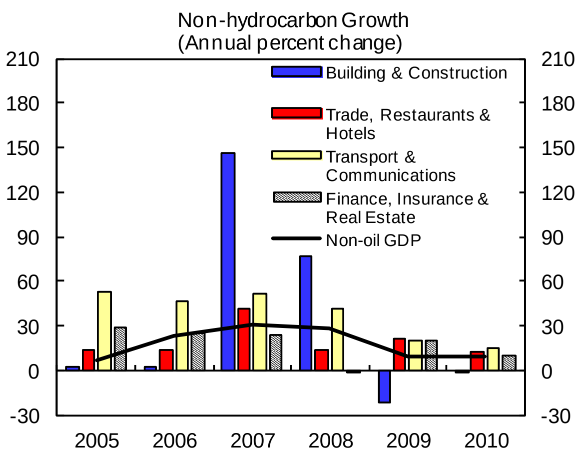
*Qatar continues to be the fastest growing economy in the GCC …*



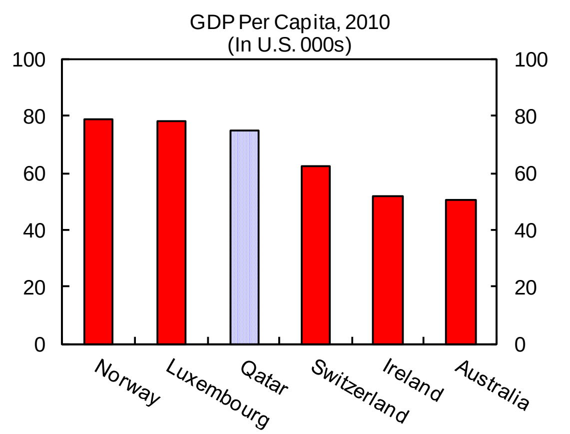

*… underpinned by increasing LNG capacity and exports …*



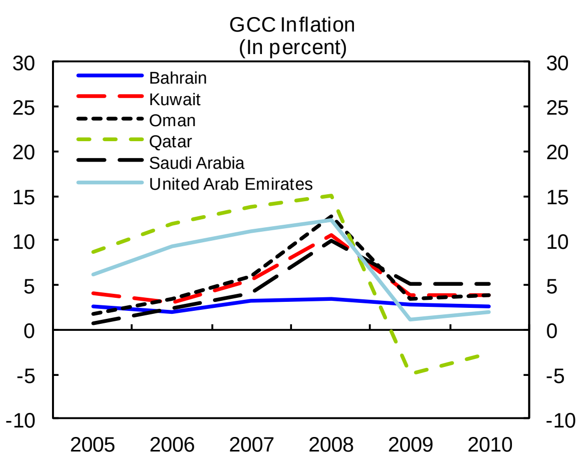

*… and strong growth in the non-hydrocarbon sector.*



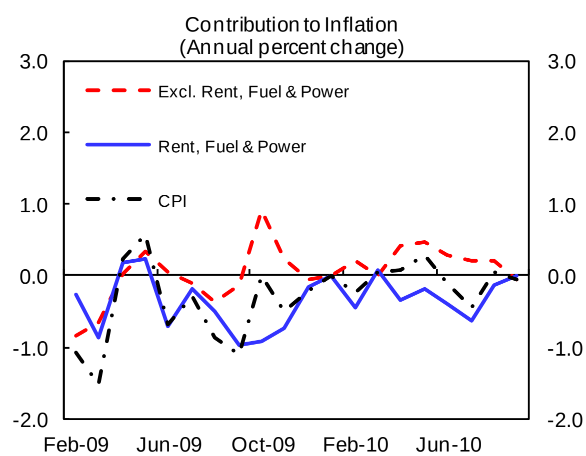

*GDP per capita is among the highest in the world.*




*Inflation has receded.*




*Falling rents are a key driver of deflation.*




Source: Country authorities; and Fund staff estimates.

3. **The overall fiscal surplus is projected to remain high in 2010/11.** Staff projects a surplus of 9.7 percent of GDP in 2010/11, compared to 14.2 percent of GDP in 2009/10. Revenues are projected to increase by 7 percent in 2010/11. The budget incorporates a 14.6 percent growth in development expenditure (albeit flat at 10 percent of GDP), while current spending is expected to be contained at 17.5 percent of GDP in 2010/11, down from 19.6 percent of GDP in the previous year (Figure 2).[4]

4. **External sector developments are favorable.** As hydrocarbon prices recovered in 2010 and volume of exports increased, the current account is estimated to record a surplus of $22 billion (17.3 percent of GDP) in 2010, compared to $10 billion (10 percent of GDP) in 2009. The overall balance of payments accumulated a large surplus, enhancing the net foreign assets (NFA) of the central bank by $6 billion at end-September 2010, and increasing reserve adequacy to nearly eight months of prospective imports of goods and services.

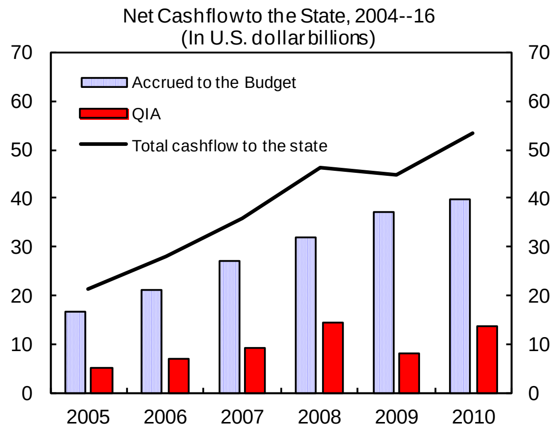
5. **Broad money growth is estimated at 21.3 percent in 2010.** Total domestic credit extended by the banking system would rise by 12 percent, mainly reflecting a 40 percent increase in credit to the public sector. Bank claims to the private sector, however, is projected to increase by 8.5 percent, as credit for consumption and real estate remained constant in 2010.[5] As private sector deposit growth accelerated to an estimated 26.5 percent in 2010—mainly due to a rise in corporate domestic deposits—commercial banks' liquidity position continued to be comfortable and their claims on the central bank increased (Figure 3).

[4] Development expenditure includes allocations of about $17 billion toward infrastructure (New Doha airport, New Doha port, roads, sewage, land reclamation, and expansion of electricity and water network), education, and healthcare.

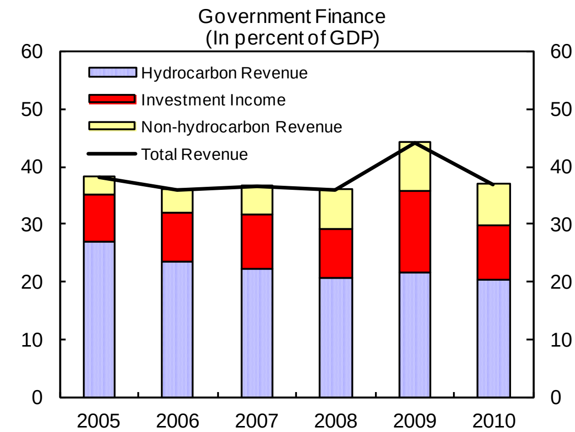
[5] In June 2009, QCB prohibited banks from financing customers' trading in securities.

## Figure 2. Qatar: Fiscal Developments

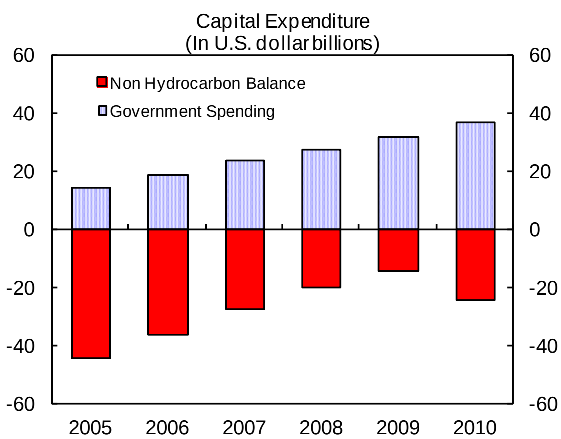
*Net cash flows to the State have increased …*



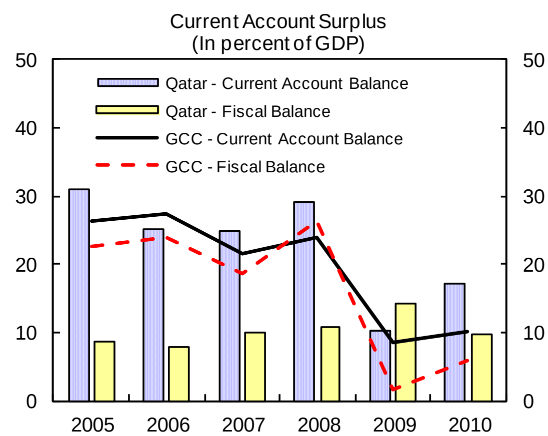

*…driven by sustained growth in hydrocarbon-related revenues…*



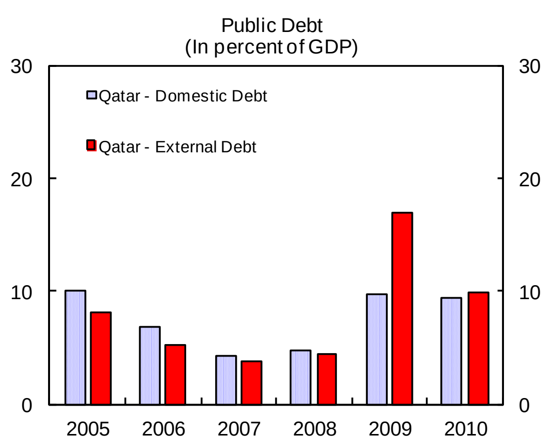

*… enabling the Government to maintain an expansionary fiscal stance.*



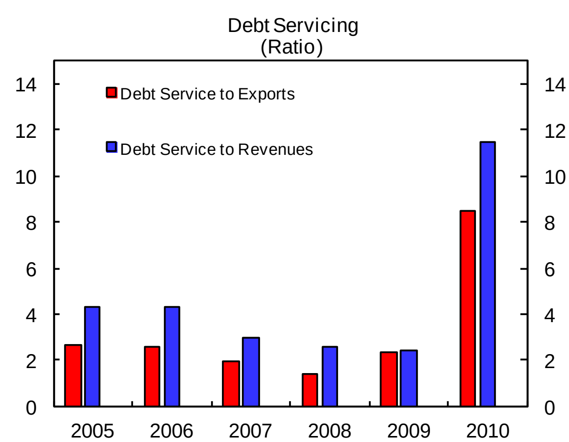

*Nevertheless, Qatar continues to maintain high external and current account surpluses.*




*Although total public debt has increased...*

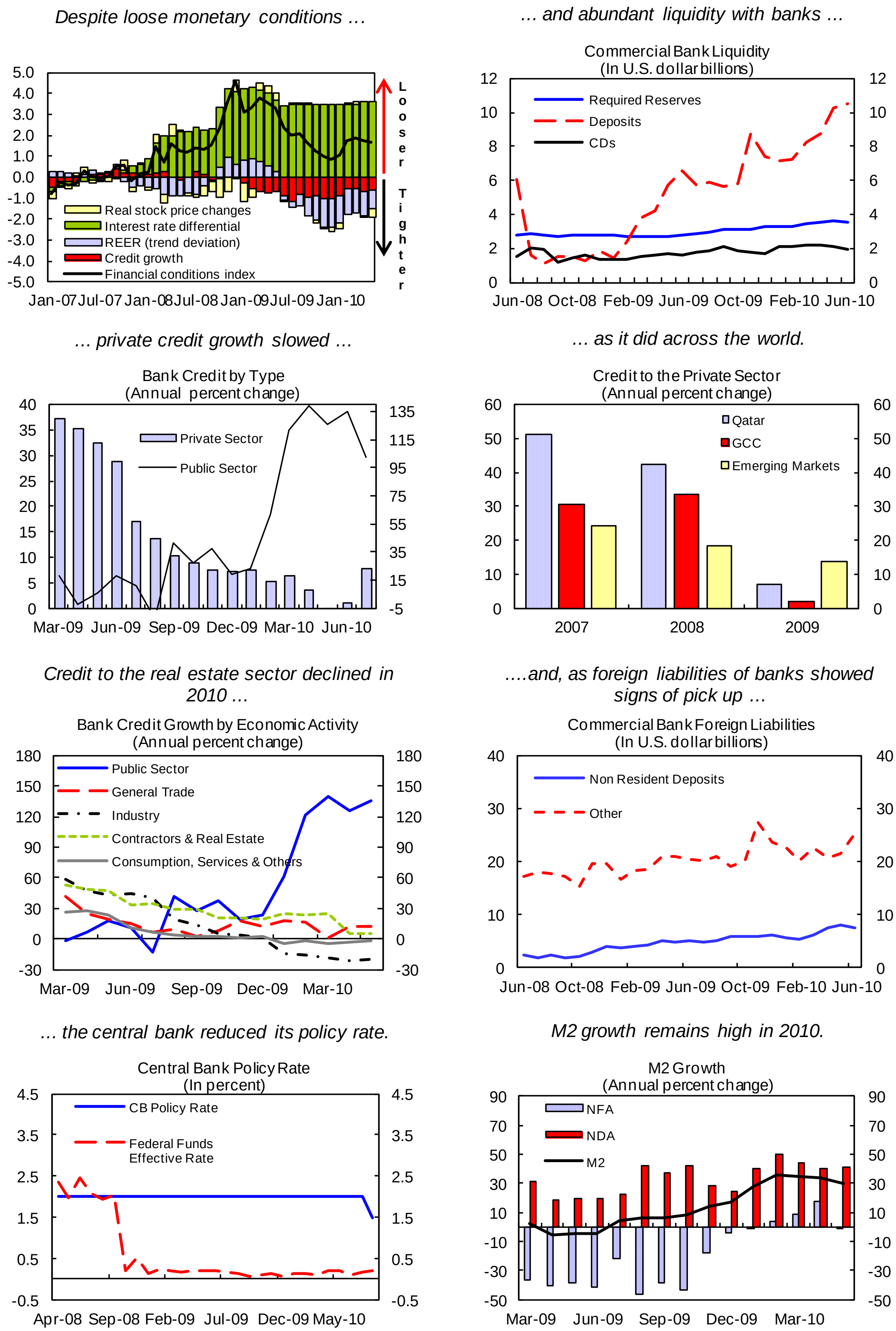



*...debt servicing ratios remain comfortable.*




Sources: Country authorities; and Fund staff estimates.

**Figure 3. Qatar: Monetary Developments**




Source: Country authorities; and Fund staff estimates.

6. **The banking system is well capitalized and profitable.** Banks had a high capital adequacy ratio of 17.4 percent, low nonperforming loans ratio of 1.9 percent, and a comfortable provisioning coverage of 85 percent at end August 2010.[6] Profitability was 20 percent higher in the first three quarters of 2010, compared to the same period of 2009. The post-crisis recovery in the stock market remains relatively sluggish. The Qatar Exchange index has recovered 66 percent of its pre-crisis levels, compared to 97 percent by S&P 500 and 71 percent by MSCI GCC index. Overall global and regional events, including those in Europe have not resulted in a re-pricing of Qatar's sovereign risk (Figure 4).[7]

7. **Qatar has taken advantage of an improved external financing environment to raise external funds.** The government issued several tranches of bonds in 2009 to create a sovereign benchmark yield curve aimed at facilitating issuances by government-owned corporates and commercial banks. As a result, the external borrowings of the sovereign and corporates doubled to $70 billion between 2008 and 2010. Qatar's sovereign and guaranteed external debt is mostly long term and the debt servicing profile does not indicate potential refinancing difficulties in the foreseeable future. The table below, which presents five categories of sovereign vulnerability indicators, does not show any significant weakness that would expose Qatar to heightened downside risks from overburdened government finances.

**Sovereign Market and Vulnerability Indicators**

*(Percent of 2010 projected GDP, unless otherwise indicated)*

| | Fiscal and Debt Fundamentals[1] | | | Financing Needs | External Funding | Banking System Linkages | | Sovereign Credit Rating/Outlook |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Domestic Depository Institutions Claims on General Government[5] | | |
| | Gross Government Debt[2] | Net Government Debt[3] | Primary Balance | Gross Central Government Debt Maturing + Fiscal Balance (4Q2010-2011)[4] | Central Government External Debt | (percent of 2010 GDP) | (percent of depository institutions' consolidated assets) | |
| Qatar | 19.1 | -95.5 | 20.7 | -9.1 | 10.0 | 8.1 | 7.2 | Stable |

Sources: IMF staff estimates compiled from official data.

[1] Percent of projected 2010 fiscal year GDP.

[2] Gross central government debt.

[3] gross debt minus financial assets and deposits.

[4] Central government debt maturing from Oct. 2010 to Dec. 2011 as a proportion of projected 2011 GDP plus projected central government fiscal deficit for FY2011.

[5] Includes all claims of commercial banks on government.

Note 1/ Total external debt of the sovereign plus government-owned corporates is 55 percent of GDP. Net of external assets it is about -5 percent of GDP.

Note 2/ The Global Financial Stability Report, October 2010, presents cross country evidence of vulnerability indicators

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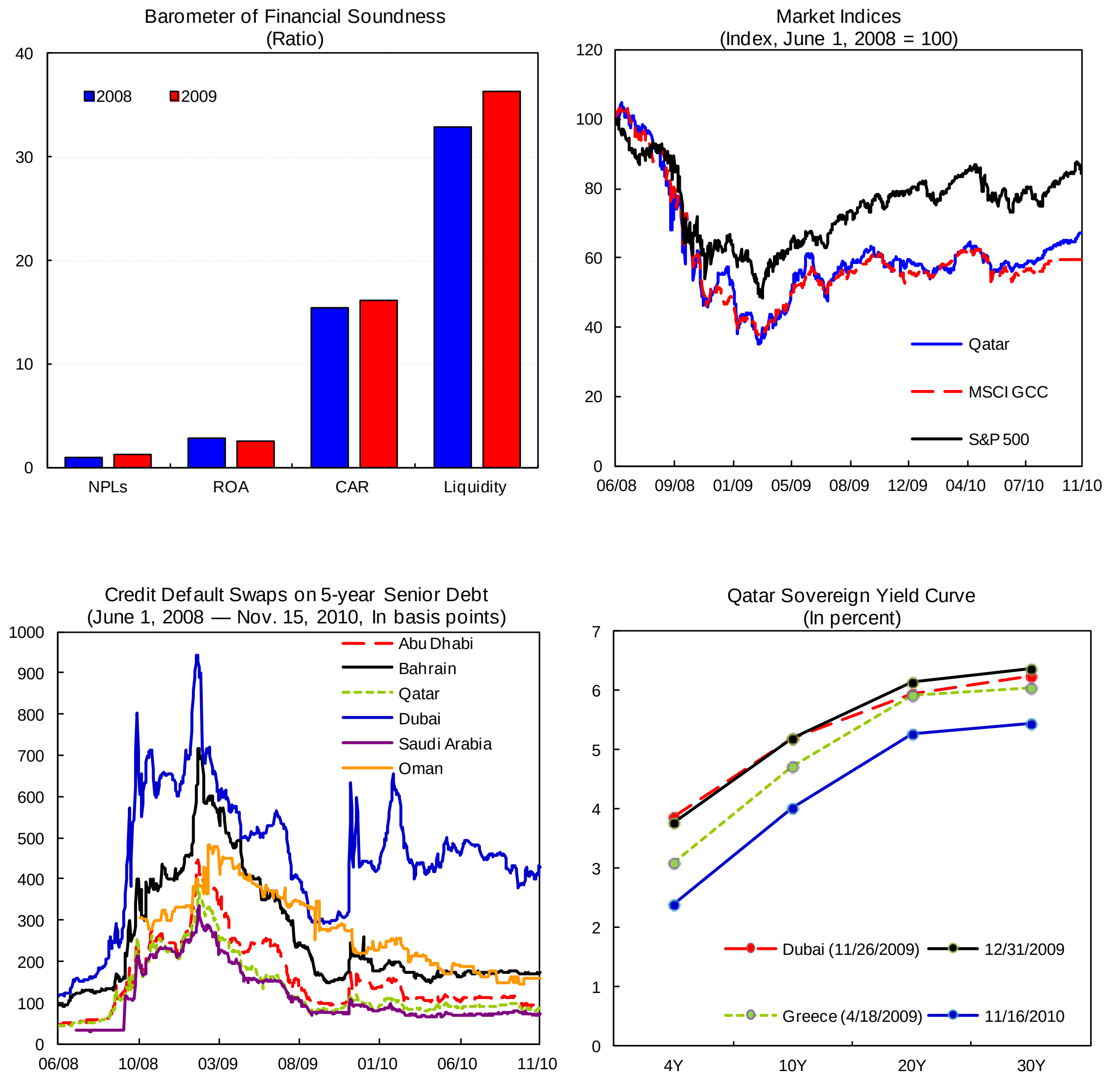
[6] The government increased the capital of local banks (except Qatar National Bank, which is majority owned by the government) on two occasions in 2009 by 5 percent each time.

[7] The credit default swap (CDS) spread is about 85 basis points currently, which is below the level at the announcement of the Dubai World restructuring, but marginally above the pre-Dubai announcement level of 80 basis points.

**Figure 4. Qatar: Financial Sector Indicators**




Source: Country authorities and IMF staff estimates.

## III. Outlook and Risks

*The economic outlook is favorable; the main downside risk to the outlook comes from lower oil and gas prices.*

8. **The economic outlook for 2011 remains strong.** A further expansion in LNG capacity, and activity in the nonhydrocarbon sectors will boost real GDP growth to 20 percent and further increase fiscal and external surpluses. Continued growth in the manufacturing sector, a pickup in the construction sector, and sustained activity in financial and government services, transportation and communication will drive the nonhydrocarbon sector growth of 9.5 percent. Nonetheless, headline inflation will remain subdued at 3.0 percent, as rents are expected to remain low. The fiscal and external balances are projected to post surpluses of $13 billion and $39 billion, respectively.

9. **Continued government investment will keep nonhydrocarbon growth high beyond 2011, although overall growth would decline due to constant LNG production.** While the self-imposed moratorium on increasing gas production after 2012 will lead to a sharp tapering off of growth in the hydrocarbon sector, government investments will support an average growth of 9 percent in the nonhydrocarbon sectors during 2012–15. Headline consumer price inflation is projected at 4 percent over the medium term, as rents stabilize due to a gradual narrowing of the current excess capacity in real estate. Non-rent inflation, however, could resurge as the recovery in international commodity prices affecting Qatar's import basket and growth in domestic demand continue. The fiscal and external balances are projected to remain in surplus through 2015.[8]

10. **A fall in natural gas prices poses the main risk to the outlook.** The tail risk of a collapse in hydrocarbon prices would also have adverse implications for hydrocarbon revenues, and could result in an uncertain outlook for investment, and consequently Qatar's nonhydrocarbon growth prospects. An assumption of oil prices of around $40 per barrel and no policy change points to a budget deficit from 2012 onwards.[9] The current account surplus would turn from a surplus of $39 billion to a deficit slightly lower than $4 billion in 2011 itself (Appendix I). Additionally, shocks in the global financial environment might affect Qatar's access to, and pricing of, international funding.

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[8] The success of Qatar's bid to host the FIFA World Cup in 2022 would not fundamentally alter staff's medium-term outlook.

[9] Oil price is assumed at $40 per barrel in 2011, and thereafter increases at the same rate at which oil prices increase in the benchmark scenario.

# IV. Policy Discussions

## A. Maintaining Macroeconomic Stability

*While the current expansive fiscal policy stance remains appropriate and monetary policy should remain geared towards supporting credit growth, aggregate demand should be carefully monitored in order to avoid the emergence of inflationary pressures. The central bank will have to rely increasingly on macroprudential instruments to manage the credit cycle and to counter potential surges in capital inflows. In the medium term, fiscal policy should focus on saving a share of hydrocarbon wealth for intergenerational equity.*

**Fiscal policy stance**

11. **The authorities noted that their countercyclical fiscal stance has been instrumental in maintaining high growth rates during the global crisis.** The government's focus on developing the physical and social infrastructure will continue over the medium-term. Large investments valued at about $100 billion between 2010 and 2015 are in various stages of planning and implementation. Although hydrocarbon revenues are projected to be lower on average at 52 percent of total revenues over the medium term, compared to 58 percent of total revenues over the last five years (2005/06 to 2009/10), the share of non-tax revenue will rise with investment income from public enterprises projected to remain stable around 26 percent of total revenues. This will enable the government to continue with its infrastructure investment plans.

12. **Nevertheless, the authorities agreed with staff that the projected high growth rates warrant careful monitoring of aggregate demand to ward off risks of inflation, going back to the high levels experienced before the global crisis.** The authorities recalled that the previous episode of high inflation was mainly due to supply bottlenecks and rising rents. The current situation of excess supply in real estate and the considerable easing of supply bottlenecks in raw materials—a result of increased investments in these sectors—have greatly reduced inflation risks in the short term. In this context, the authorities' are well aware of the importance of keeping current expenditure in check.

13. **Much of the infrastructure-related expenditures related to hosting the FIFA World Cup in 2022 had already been planned notwithstanding the success of their bid, or are under implementation.** The increase in expenditure related to this event, such as building stadiums, do not seem to have a significant impact on their surpluses in the benchmark scenario. Moreover, the government has 12 years to plan and manage any additional expenditure while avoiding an overheating of the economy.

14. **Staff supports the authorities' current fiscal expansionary stance in view of the existing fiscal space and the low probability of an oil price shock.**[10] The main challenge, however relates to the evolution of nonhydrocarbon revenues in view of the authorities' intentions to diversify the economy and develop the nonhydrocarbon sector. In this context, staff welcomed the recently introduced measures to rationalize and broaden the corporate tax base. The establishment of the value-added tax in the context of the GCC monetary union would broaden the tax base further.

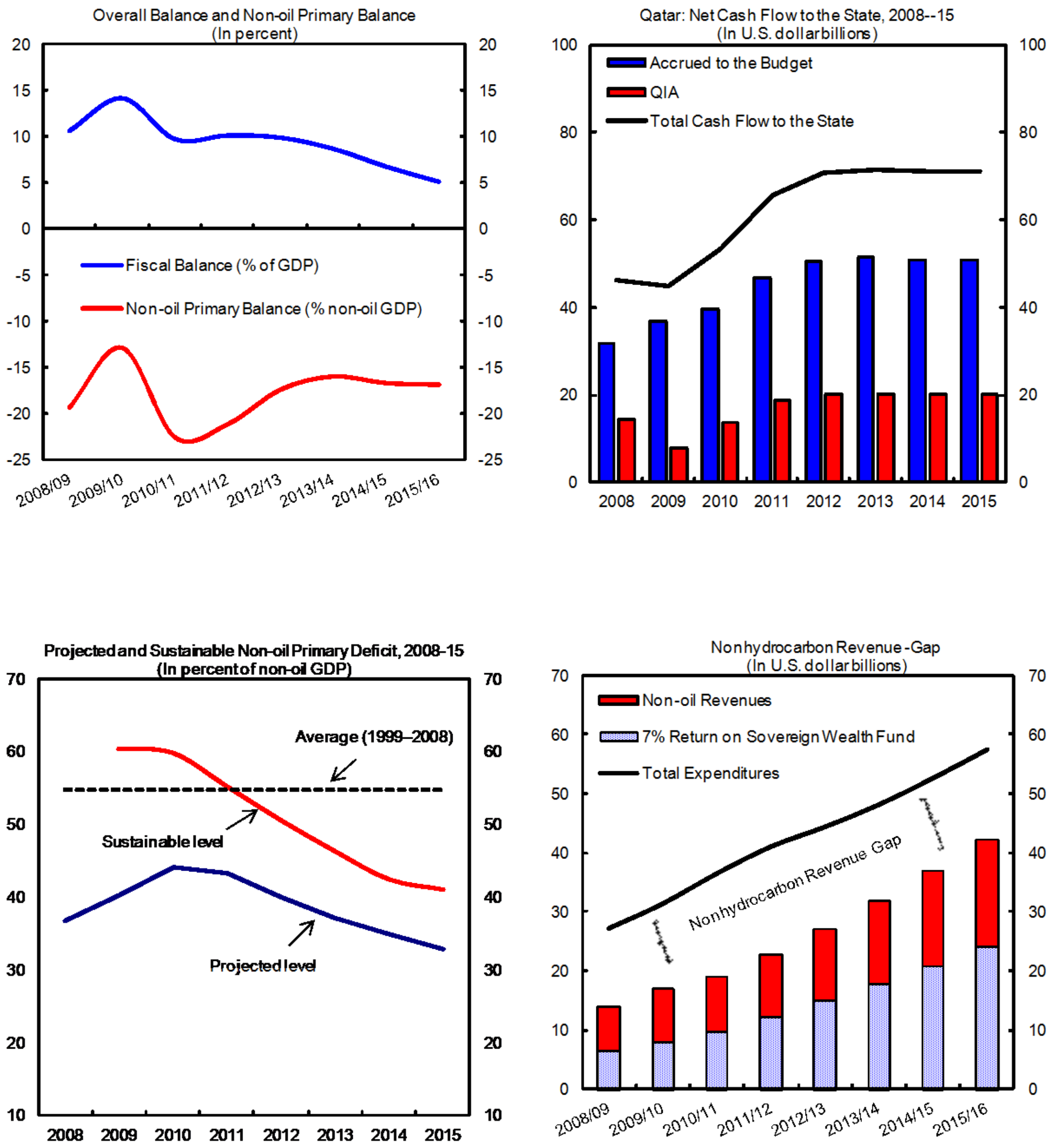
15. **Preserving macroeconomic stabilization and the government's policy of saving a share of hydrocarbon wealth is key to facilitating intergenerational equity.** The policy of saving a share of the hydrocarbon wealth through the sovereign wealth fund has served Qatar well. Apart from acting as a tool for sterilization, it created fiscal room for a large countercyclical response to the crisis. Fiscal policy will need to continue to maintain a careful balance between spending on infrastructure to sustain non-inflationary growth, and saving and investing part of hydrocarbon surpluses abroad in order to generate sufficient income to finance future budgets.

16. **Staff noted that pursuing fiscal consolidation in the medium term would mitigate the impact of any sharp fall in hydrocarbon prices and help attain the authorities' objective of fully financing the budget from 2020 onwards from its nonhydrocarbon revenues.** The current stance of fiscal policy goes in this direction. In the staff's baseline scenario, income earned from the sovereign wealth fund would cover capital expenditure, which is roughly about 40 percent of total expenditure in 2015/16. Combined with projected tax revenues, non hydrocarbon revenues are projected to cover about 73 percent of total expenditure in 2015/16 (Figure 5).[11] A careful reappraisal of future projects of government-owned companies, particularly in the real estate sector, rationalizing energy subsidies, and diversifying the revenue base would therefore be appropriate.

[10] Staff's fiscal sustainability exercise indicates space for further spending. The exercise targets a constant per capita annuity in real terms. The key parameters are calibrated as follows; (a) 27 billion barrels of oil reserves and 18.7 billion tons of gas reserves; (b) an initial government debt level of $36 billion; (c) annual population growth rate of 1.7 percent; and (e) a real interest rate of 4 percent.

[11] The calculations are based on the oil price assumptions of the latest World Economic Outlook for accumulation of SWF assets until 2015. A return on investment of 7 percent per annum has been assumed on the assets.

**Figure 5. Qatar: Medium-Term Fiscal Stance**




Source: Country authorities; and Fund staff estimates.

**Monetary policy**

17. **The slowdown in bank credit to the private sector reflects both demand and supply factors.** Following high domestic credit growth rates averaging over 50 percent a year in the pre-crisis period (2004–08), the dampening of credit growth is to some extent natural. Nevertheless, the slowdown in domestic credit has not dampened the nonhydrocarbon growth engines, which are mainly sustained by government and government-owned corporate investments.[12] Credit to the public sector has continued to increase. The stagnation in credit to consumption, and contractors and real estate sectors could be attributed in part to central bank regulation that halted consumption credit for equity investments, and the increased risk aversion of banks after the global crisis.[13] Notwithstanding this, a survey conducted by QCB of lending behavior of banks highlighted stricter credit assessments after the crisis.

18. **Staff concurs with the authorities' view that credit growth will accelerate, given the large ongoing government-led investments and the measures taken by the authorities to strengthen bank capitalization.** Moreover, continued growth in the nonoil sector will provide additional demand for credit. QCB reduced its policy deposit rate by 50 basis points in August 2010—for the first time since April 2008—attributing it among others to dissuade banks from placing deposits with the central bank and instead explore credit opportunities. Staff supports the reduction in the rate, given the room to reduce interest rate differentials compared to U.S. and other GCC countries' interest rates, the benign headline inflation, and the relatively low credit growth in the economy. The commencement of operations of the central bank's credit bureau will increase transparency, promote information sharing among banks, and help reduce investor risk aversion (Box 1).

19. **The main challenges for monetary policy will be to support credit growth without fuelling inflationary pressures or short-term capital inflows.** QCB is closely monitoring liquidity in the financial system and has a range of instruments, including certificates of deposit and reserve requirements, to manage it. Given the pegged exchange rate regime, the central bank will have to rely increasingly on macroprudential instruments to manage the credit cycle and to counter potential surges in capital flows, which it is ready to use when warranted.

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[12] Qatari Diar, a real estate subsidiary of Qatar Investment Authority raised $3.5 billion in 2010 through a government guaranteed bond issuance. Most of the proceeds from the issuance are meant to finance the development of large-scale real-estate projects in Qatar undertaken by Barwa, which is 45 percent owned by Qatari Diar, and also repay certain debts incurred by Barwa.

[13] The Government and Government-owned enterprises have ensured the completion of real estate projects by providing guarantees for financing, and by renting upcoming apartment buildings and purchasing office space directly from developers to alleviate their cash flow problems.

## Box 1. Credit Bureaus and Financial Intermediation

QCB is at an advanced stage of establishing a credit bureau.[1] Private credit bureaus or public credit registries exist already in other GCC countries.

**Credit Bureaus in the GCC**

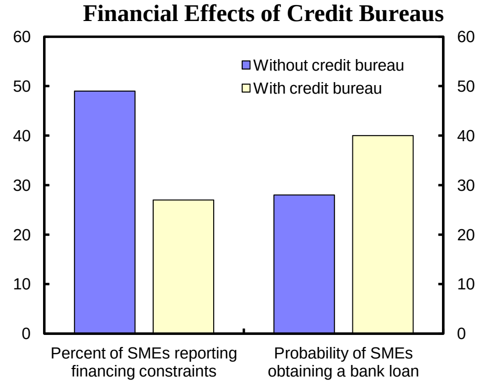
| | Bahrain | Kuwait | Oman | Saudi Arabia | UAE |
|---|---|---|---|---|---|
| Ownership of credit bureau | Private | Private | Public | Private | Public and Private |
| Are data on both firms and individuals distributed? | Individuals | Individuals | Both | Both | Both |
| Are both positive and negative data distributed? | Yes | Yes | No | Yes | Yes |
| Number of individuals | 200,000 | 634,474 | 301,036 | 2,228,010 | 494,877 |
| Number of firms | 0 | 0 | 18,849 | 740,000 | 225,144 |

Source: The World Bank, 2010, Doing Business in the Arab World

Cross country evidence points to the beneficial effects of credit bureaus on credit access to consumers and small and medium enterprises (SMEs).[2] Another study covering 129 countries found a 7 to 8 percentage point increase in private bank credit as a share of GDP over a five-year period following the introduction of public credit registries and private credit bureaus.[3]

Credit bureaus have continued to grow globally in 2008 and 2009. Several countries introduced regulations guaranteeing that borrowers can inspect data in credit information registries (Colombia, Guatemala, Serbia, and the Republic of Yemen); expanded set of information collected by credit registries (Egypt, Greece, Latvia, Turkey, and Zambia); or improved the regulatory framework for sharing credit information (Armenia, Honduras, Kenya, Mauritius, Nigeria, Philippines, and Tajikistan).

**Financial Effects of Credit Bureaus**




Source: Love and Mylenko (2003); IFC (2006)

The ability of credit bureaus to improve financial intermediation, however, depends on the extent of information coverage, particularly from non-bank sources. Key challenges are to create a legal structure that allows the sharing of credit information between various institutions, and to broaden the scope of credit information to capture both positive and negative aspects of creditworthiness.

[1]The credit bureau will be established and supervised under Article 5 of the Qatar Central Bank Law. Phase 1 would cover all banks, finance companies, commercial enterprises, including SMEs, and consumers. Phase 2 would include telecommunication and other utilities, and the final phase would include insurance companies.

[2]Love, I., and N. Mylenko, 2003, "Credit Reporting and Financing Constraints," *World Bank Policy Research Working Paper*, No. 3142.

[3]Djankov, S., C. McLiesh, and A. Shleifer (2007), "Private Credit in 129 Countries," Journal of Financial Economics, Vol. 84, pp. 299–329.

**Exchange rate policy and exchange rate assessment**

20. **Qatar's exchange rate appears broadly in line with fundamentals, although the results of the CGER-type analysis are somewhat mixed (Box 2).** Nevertheless, it will be important to enhance the technical, institutional, and operational capacity, in case an alternative exchange rate regime becomes desirable in the context of the GCC monetary union. In this context, the mission welcomes the authorities' intention to develop the domestic bond market. This entails addressing regulatory and market infrastructure to foster demand for instruments and build the supply of securities.

**Box 2. Exchange Rate Assessment**

**The equilibrium effective exchange rate approach** shows that the fall in oil prices (35 percent) and the deflation (4.9 percent) in 2009 contributed to reversing the gap between the equilibrium exchange rate and the real effective exchange rate that prevailed in 2008.[1] In 2009, the estimated equilibrium exchange rate showed a slight overvaluation of about 6 percent. The recovery of oil prices in 2010 along with the smaller deflation is likely to narrow the extent of overvaluation.

**The Macroeconomic Balance (MB) and External Sustainability (ES) approaches yield mixed results.** The MB analysis suggests that the current account surplus is below the norm in 2010, but is expected to converge by 2015.[2] Under the ES approach, the projected current account surplus in 2015 is slightly above its norm based on a constant per capita annuity, suggesting room for further spending, which is consistent with the results from the fiscal sustainability analysis.

**Results from the MB and ES Approaches**

(In percent of GDP)

| | Projected CA | Current Account Norms | |
|---|---|---|---|
| | | MB | ES |
| 2010 | 17 | 21 | 16 |
| 2015 | 15 | 15 | 8 |

Source: IMF staff estimates and projections.

[1] Countries where primary commodities dominate exports, fluctuations in world commodity prices should explain most of the movements in their terms of trade yielding a "commodity currency" (see Chen and Rogoff, 2002, and Cashin, Cespedes, and Sahay, 2002). Following this approach, a cointegration relationship between the logarithm of the REER, the logarithm of the real oil prices and the growth rate of government expenditure is found.

[2] Assumes a population growth of 1.7 percent and a real interest rate of 4.5 percent.

21. **The authorities are strongly committed to the dollar peg.** They hold the view that the current level of the exchange rate is appropriate. Staff is of the view that the dollar peg has served Qatar well as an effective nominal anchor. The authorities are not overly concerned about the reemergence of inflationary pressures in the near future, since they have excess capacity in real estate. Rent comprises a significant component of the consumer price basket.

## B. Financial Sector Issues

22. **Stress tests indicate that the banking system is resilient to credit and market risks.** The updated stress tests show a marginal increase in risk on bank capital of a combined credit and market stress at end-June 2010 (after Government support amounting to about 7 percent of GDP), compared to end-2008 (before the impact of the global crisis was fully felt).[14] The results show that recapitalization needs of the banking system would be about 2 to 3 percent of GDP even under a severe combined stress of an increase in NPLs to 20 percent and a drop in the value of investments by 50 percent. The authorities broadly agreed with this assessment as it was similar to the results of the stress tests conducted by QCB. The mission encouraged the central bank to widen the scope of the stress tests to cover cross border, contagion and concentration risks. Staff's analysis also suggests that Qatari corporates would appear to be well cushioned to withstand shocks.[15]

23. **QCB is closely monitoring potential risks to the banking system through its recently established Financial Stability Unit**. The central bank has a number of prudential regulations in place to reduce banks' exposure to risky assets. Such measures include, among others, a credit ratio that limits bank credit growth, limits on real estate financing by banks, a ban on bank financing for trading in securities, a limit on banks' proprietary investments in equity, and limit on foreign currency exposure of banks. The mission welcomed QCB's intention to pursue stress testing of banks on an ongoing basis.

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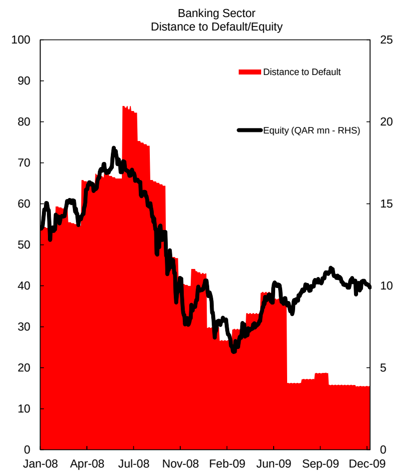
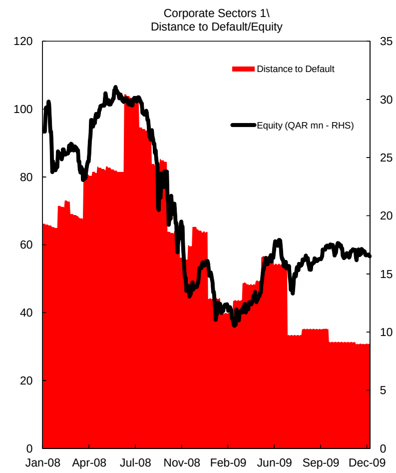
[14] To distinguish between banks that hold a relatively safe portfolio from that with riskier lending strategies, the balance sheets of the major eight Qatari listed banks were disaggregated into three components, viz., (i) risky loans (comprising loans to the private sector and one-half of the loans to consumers); (ii) risky market portfolios (all portfolio investments available for sale); (iii) all other assets (loans to the government, and one-half of consumer loans), which are not shocked in the stress test. The value of risky loans was assumed to suffer from NPLs, rising from 1 percentage point to 20 percentage points above the baseline (with a Loss Given Default (LGD) ratio at 0.75), and the value of risky portfolio assets was shocked with losses up to 50 percent.

[15] Distance-to-Default (DtD) indicators were calculated for the banking sector, and for the listed corporate sector comprising industrial, services and insurance companies. The results indicated that even though these sectors were affected by the global crisis, their risk of default was low. The charts in the text show the direct correlation between the DtD and the movement of equity in the market. As is expected, they move together (a high value of equity means that markets are assigning a strong probability that the future value of assets exceed its debt). The noticeable narrowing of DtD in June 2009 is due to market capitalization values dropping substantially compared to the previous year.




1\ Industry, Service and Insurance

24. **The authorities and staff agreed on the importance of reducing moral hazard and fostering a sound risk management culture in the banking system.** The authorities supported the banking system in 2009 through two rounds of capitalization, and purchase of local equity and real estate assets from banks. They have decided to deviate from the preannounced exit strategy of selling the portfolio back to banks within three to five years at the sale price, and instead transfer the equity portfolio to the Government pension fund at a future date. And they plan to retain the real estate portfolio, much of which is abroad. Staff is of the view that the ex post decision not to resell the equity assets to banks is desirable as this reduces moral hazard. The lessons learnt from the crisis underscore the importance of building banks' capacity to assess risks, greater information sharing among them, and improving corporate governance and transparency.

25. **Staff sees merit in complementing regulatory reforms at the national level with the implementation of global regulatory reforms.** QCB plans to implement Basel III early. Almost all banks are above the minimum threshold for the common equity requirement of 4.5 percent, and all banks have Tier 1 capital over the prescribed 6 percent under Basel III. The commitment to establish a single regulator for the financial system under the umbrella of the central bank is an appropriate response to addressing regulatory and supervisory gaps and strengthening financial sector reforms. Staff compliments the authorities for significant improvements to the AML/CFT regime and welcomes Qatar's delisting from the International Cooperation Review Group (ICRG).[16] Staff encourages the authorities to build upon progress accomplished and pursue their efforts in this area. [17]

[16] In 2006, the FATF adopted a new monitoring process - the International Cooperation Review Group–to identify, examine and engage with vulnerable jurisdictions that are failing to implement effective AML/CFT systems.

[17] The State enacted the new AML/CFT law on April 30, 2010. A Financial Supervisory Coordination Committee framed harmonized rules and regulations, which were adopted by the various financial sector supervisors between May and June 2010.

## C. Developing Institutions to Support Policy

26. **Staff supports the authorities' plan to create a macro-fiscal unit in the Ministry of Economy and Finance to help develop a medium-term budget framework**. The authorities' recognize that their National Development Strategy needs to be supported with institutional measures to better align the annual budgets with medium-term priorities. Staff encouraged the authorities to strengthen the public financial management framework, and to conduct a review of the efficiency of spending, particularly in view of the large capital expenditure program.

27. **The authorities and staff shared the view on the need for setting up an institutional framework for debt management**. Staff noted that the authorities have made some initial advances in preparing a framework for setting up a debt office along with efforts to collate and disseminate debt statistics. Staff also encouraged the authorities to proceed with their plans to develop the domestic bond market. The benefits of a well diversified financial system are well known. The government's objectives would be better achieved by consolidating debt management and development functions in a debt office (Appendix II).

## D. Enhancing Productivity to Sustain Long-term Growth

28. **The authorities agreed with staff's assessment that improving productivity would be key to self-sustaining long-term growth in the nonhydrocarbon sectors.** Staff's preliminary growth accounting exercise reveals that the rate of change in total factor productivity (TFP) in Qatar contributed negatively to real GDP growth over the period 2000–07 (Appendix III).[18] A plausible explanation is that labor is concentrated in sectors with low productivity gains, and in particular in construction. Since, Qatar's constant hydrocarbon production after 2012 would limit the government's overall capacity to finance investments, it would be crucial to improve productivity if sustainable growth is to be attained. The authorities feel that a share of the low productivity might be the natural outcome of the current phase of the development strategy of Qatar, which focuses on the building of physical infrastructure by using unskilled labor. They argued that as Qatar moves to higher value added sectors with skilled labor replacing unskilled labor, improvement in productivity would occur.

29. **The main challenge will be to move from low-skilled to high-skilled labor in the long term, and to ensure efficiency of expenditure to improve productivity.** Qatar's main challenge will be to provide the institutional framework to encourage investment in

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[18] Labor productivity in building and construction—which employed more than 37 percent of the labor force in 2007—declined at an average annual rate of 0.5 percent over the period 2001–07. In the manufacturing sector—the second largest sector in terms of employment—labor productivity declined at an average annual rate of 1.4 percent. The contribution of TFP gains to growth in Qatar compares with about 1 percent in advanced countries and higher than 3 percent in fast growing emerging economies.

innovation. They agreed that ensuring the efficiency of expenditure will also contribute to improving productivity. The authorities are focusing on private participation in the delivery of economic and social infrastructure to induce substantial efficiency gains to remain globally competitive. As part of this strategy, a recently issued Government decree established a Public Private Partnership (PPP) Department within the Ministry of Business and Trade.[19]

## V. MONETARY UNION

30. **Much progress has been achieved in establishing the GCC monetary union.** Qatar along with Bahrain, Kuwait and Saudi Arabia has ratified the charter establishing the GCC Monetary Council. Qatar also shifted the base year of the CPI from 2006 to 2007 with a view to standardizing the base year of CPI index for the GCC monetary union. In a step to improve the quality of macroeconomic statistics, the GCC monetary council recently agreed to establish a statistical center named GulfStat with the main objectives of standardizing data collection and dissemination. Nevertheless, important tasks remain, including the setting of the monetary policy framework, identifying a common payment and settlement systems, and unifying the banking supervision system in member countries. On the fiscal side, setting up a common accounting framework and adequate budgetary procedures is of high priority in the phase leading up to the introduction of a common currency.

## VI. STATISTICAL ISSUES

31. **While progress has been made in improving data quality and coverage, there is scope to improve timeliness, quality, and periodicity of all strands of economic data.** Staff underlined the need for greater coordination among the various ministries, QCB, Qatar Statistical Authority and the General Secretariat for Development Planning, among others, in this regard. Staff noted that the authorities are striving to improve the quality and coverage of general economic statistics. The authorities recognize the shortcomings in their national accounts and inflation data and sought IMF technical assistance (TA) in the area of compilation of the consumer price index. The authorities lack capacity in the compilation of the international investment position statistics. They recently received technical assistance on the financial account of the balance of payments, and are preparing a roadmap for the implementation of the recommendations of the TA mission.

## VII. STAFF APPRAISAL

32. **Qatar continues to be one of the fastest growing economies in the world.** A doubling of natural gas capacity, timely intervention by the authorities in the banking system, and

[19] The mandate of the PPP department is to advise on partnership polices, identify sectors where such partnerships can be developed, prepare samples or models of PPP contracts in accordance with local and international standards and recommend measures to support and stimulate PPP in Qatar.

ongoing large public investments across the supply chain have placed Qatar on a high growth trajectory.

33. **Staff supports the expansionary fiscal stance in 2010/11.** Although spending has increased substantially, fiscal buffers remain and fiscal sustainability is not at issue in the medium term. Nevertheless, non-rent inflation could reemerge, and hence aggregate demand should be carefully monitored in order to ward off inflation going back to the high levels experienced before the global crisis.

34. **The main challenge for monetary policy will be to support credit growth without fuelling inflationary pressures or short-term capital inflows.** QCB has room to further reduce interest rates, if warranted. Given the pegged exchange rate regime, the central bank will have to rely increasingly on macroprudential instruments to manage the credit cycle and to counter potential surges in capital flows.

35. **The authorities should continue to save and invest part of hydrocarbon surpluses abroad over the medium term**. This will help attain multiple objectives of containing domestic demand pressures and facilitating intergenerational equity, as well as mitigating the impact of any sharp fall in hydrocarbon prices. Staff supports the thrust of increasing spending for infrastructure investments. Containing current expenditures and increasing the tax base would form an integral part of the strategy of reducing their dependence on hydrocarbon revenues.

36. **Improving productivity is key to greater self-sustaining long-term growth in the nonhydrocarbon sectors.** Investing in higher education and entrepreneurship, identifying policies to encourage innovation, and ushering in a change of paradigm in the migrant labor market, would contribute to productivity gains. Ensuring the efficiency of expenditure will also contribute to improving productivity during the transition.

37. **Strengthening institutions to support policy should be part of the medium-term strategy.** The planned macro-fiscal unit in the Ministry of Economy and Finance should be pursued to help develop a medium-term budget framework and support macroeconomic policy formulation. The rising debt levels of sovereign and government-owned enterprises' underscore the need for setting up an institutional framework for debt management.

38. **Staff supports the authorities' decision to maintain the dollar peg,** but encourages the authorities to enhance the technical, institutional, and operational capacity, in case an alternative exchange rate regime becomes desirable in the context of the GCC monetary union. The assessment of the level of the exchange rate suggests that the riyal is broadly aligned with its fundamentals.

39. **Staff underscores the importance of reducing moral hazard and instituting a sound risk assessment culture in the banking system.** The lessons learnt from the global crisis highlight the importance of building capacity in banks to assess risks, encouraging greater

information sharing among them, and improving corporate governance and transparency. The commitment to establish a single regulator for the financial system under the umbrella of the central bank is an appropriate response to addressing regulatory and supervisory gaps and strengthening financial sector reforms.

40. **Further efforts are required to improve the statistical systems, including the quality, timeliness, and coverage.** There is a need for greater coordination among the various ministries, QCB, Qatar Statistical Authority and the General Secretariat for Development Planning in this regard.

41. **The next Article IV consultation is expected to take place on the standard 12-month cycle.**

**Table 1. Qatar: Selected Macroeconomic Indicators, 2005–11**

(Quota: SDR 263.80 million)
(Population: 1.7 million, 2010 estimate)
(Per capita income: $74,621, 2010 estimate)

| | 2005 | 2006 | 2007 | 2008 | 2009 | Proj. 2010 | Proj. 2011 |
|---|---|---|---|---|---|---|---|
| **National income, production, and prices** | (Percent change, unless otherwise indicated) | | | | | | |
| Nominal GDP (in million Qatari riyals) | 156,666 | 220,208 | 293,933 | 402,993 | 357,860 | 461,755 | 584,121 |
| Nominal hydrocarbon GDP (in million Qatari riyals) | 92,091 | 130,203 | 166,642 | 215,053 | 165,325 | 257,626 | 351,708 |
| Nominal GDP (in million U.S. dollars) | 43,040 | 60,497 | 80,751 | 110,712 | 98,313 | 126,856 | 160,473 |
| Nominal GDP per capita (in U.S. dollars) | 48,444 | 58,073 | 65,854 | 76,435 | 59,990 | 74,621 | 90,765 |
| Real GDP growth (in percent per annum) | 7.6 | 18.6 | 26.8 | 25.4 | 8.6 | 16.3 | 20.0 |
| Hydrocarbon 1/ | 7.7 | 14.3 | 23.3 | 23.1 | 7.7 | 22.7 | 29.5 |
| Nonhydrocarbon | 7.5 | 23.7 | 30.6 | 27.8 | 9.6 | 10.0 | 9.5 |
| Crude oil output (in thousand barrels per day) | 760 | 803 | 839 | 836 | 792 | 822 | 802 |
| LNG production (in million tons per year) | 21.2 | 24.7 | 29.9 | 31.5 | 36.0 | 50.0 | 70.0 |
| Oil export price (in U.S. dollars per barrel) | 51.7 | 62.9 | 70.0 | 96.9 | 62.6 | 77.2 | 79.8 |
| CPI period average | 8.8 | 11.8 | 13.8 | 15.0 | -4.9 | -2.6 | 3.0 |
| **Public finance** | (In percent of GDP on fiscal year basis) 2/ | | | | | | |
| Total revenue | 38.1 | 36.1 | 36.7 | 36.0 | 44.1 | 36.8 | 35.0 |
| Hydrocarbon revenue | 26.9 | 23.2 | 22.0 | 20.4 | 21.6 | 20.2 | 19.2 |
| Other revenue | 11.2 | 12.8 | 14.7 | 15.6 | 22.5 | 16.6 | 15.7 |
| Total expenditure and net lending | 29.4 | 28.1 | 26.9 | 25.3 | 29.9 | 27.0 | 24.8 |
| Current expenditure | 19.0 | 20.8 | 16.3 | 16.8 | 19.6 | 17.5 | 15.4 |
| Capital expenditure (including net lending) | 10.4 | 7.3 | 10.6 | 8.5 | 10.2 | 9.6 | 9.4 |
| Overall fiscal balance | 8.6 | 7.9 | 9.8 | 10.6 | 14.2 | 9.7 | 10.2 |
| Excluding hydrocarbon revenue | -18.2 | -15.3 | -12.2 | -9.8 | -7.4 | -10.5 | -9.1 |
| Nonhydrocarbon fiscal balance in percent of nonhydrocarbon GDP | -44.4 | -36.8 | -27.5 | -20.3 | -14.5 | -24.4 | -22.7 |
| **Money and credit** | (Annual change in percent) | | | | | | |
| Broad money | 44.6 | 38.0 | 39.5 | 19.7 | 16.9 | 21.3 | 12.0 |
| Net foreign assets | 50.3 | 28.1 | 0.3 | -20.5 | -4.2 | 4.5 | 27.5 |
| Net domestic assets | 36.8 | 52.8 | 88.6 | 47.0 | 24.0 | 26.0 | 8.5 |
| Domestic credit | 60.0 | 45.7 | 66.1 | 48.7 | 2.0 | 12.1 | 16.4 |
| Claims on public enterprises | 34.9 | 44.0 | 198.1 | 77.1 | -16.1 | 29.0 | 26.5 |
| Claims on private sector | 63.5 | 45.9 | 51.3 | 42.4 | 7.0 | 8.5 | 13.9 |
| **External sector** | (In million U.S. dollars, unless otherwise stated) | | | | | | |
| Trade balance | 17,058 | 20,272 | 24,318 | 42,077 | 24,476 | 39,999 | 57,859 |
| Exports | 26,122 | 35,083 | 44,142 | 67,212 | 46,928 | 65,375 | 86,751 |
| *Of which:* Crude oil and refined petroleum products | 14,122 | 17,840 | 21,083 | 29,438 | 18,384 | 25,566 | 27,993 |
| LNG and related exports | 8,738 | 13,360 | 18,710 | 32,267 | 23,947 | 33,272 | 50,907 |
| Other | 3,261 | 3,883 | 4,349 | 5,507 | 4,598 | 6,538 | 7,851 |
| Imports | -9,064 | -14,811 | -19,824 | -25,135 | -22,452 | -25,376 | -28,892 |
| Current account | 13,301 | 15,295 | 20,186 | 32,197 | 10,013 | 21,922 | 38,774 |
| In percent of GDP | 30.9 | 25.3 | 25.0 | 29.1 | 10.2 | 17.3 | 24.2 |
| Central bank reserves, gross | 4,572 | 5,416 | 9,753 | 9,837 | 18,352 | 26,786 | 30,706 |
| In months of imports of goods and services 3/ | 2.5 | 2.4 | 3.3 | 3.9 | 6.2 | 8.1 | 8.5 |
| | (In million U.S. dollars, unless otherwise stated) | | | | | | |
| Total external debt (excluding banks) | 14,989 | 19,486 | 24,762 | 33,452 | 53,969 | 69,539 | 78,412 |
| In percent of GDP | 34.8 | 32.2 | 30.7 | 30.2 | 54.9 | 54.8 | 48.9 |
| Government external debt | 3,743 | 3,333 | 2,871 | 3,867 | 16,470 | 17,434 | 16,396 |
| In percent of GDP | 8.7 | 5.5 | 3.6 | 3.5 | 16.8 | 13.7 | 10.2 |
| Debt service (excluding banks, in percent of GDP) | 4.8 | 4.4 | 4.2 | 2.9 | 3.3 | 6.4 | 2.9 |
| *Memorandum Items:* | | | | | | | |
| Exchange rates (riyal/U.S. dollars) | 3.64 | 3.64 | 3.64 | 3.64 | 3.64 | 3.64 | 3.64 |
| Real effective exchange rate (percent change, 2000=100) | 7.0 | 8.1 | 3.1 | 3.6 | 13.5 | ... | ... |
| Credit rating (Moody's investor services) | A1 | Aa2 | Aa2 | Aa2 | Aa3 | ... | ... |
| Stock market index (cumulative growth, 2001=100) | 653 | 422 | 566 | 407 | 411 | ... | |

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.

**Table 2a. Qatar: Summary of Government Finance, 2008/09–2011/12 1/**

(In million Qatari riyals)

| | 2008/09 | 2009/10 | 2010/11 Budget | 2010/11 Prel. | 2011/2012 |
|---|---|---|---|---|---|
| Total revenue | 140,993 | 169,095 | 127,547 | 181,099 | 210,865 |
| Hydrocarbon revenue | 80,009 | 82,807 | 62,194 | 99,538 | 116,038 |
| Oil related | 61,245 | 61,742 | 33,365 | 69,333 | 74,090 |
| LNG related revenue | 18,764 | 21,065 | 28,829 | 30,205 | 41,948 |
| Other revenue | 60,984 | 86,288 | 65,353 | 81,561 | 94,827 |
| Investment income from public enterprises 2/ | 33,271 | 53,879 | 47,264 | 47,264 | 55,695 |
| Corporate tax revenue | 14,629 | 21,575 | 10,251 | 22,316 | 25,465 |
| Other nontax revenue | 13,084 | 10,834 | 7,838 | 11,981 | 13,667 |
| Total expenditure | 99,294 | 114,575 | 117,873 | 133,113 | 149,615 |
| Current | 65,817 | 75,334 | 74,387 | 85,963 | 93,003 |
| Wages and salaries | 18,661 | 21,617 | 22,877 | 25,789 | 27,901 |
| Total interest payments | 2,100 | 3,598 | 5,050 | 5,700 | 5,860 |
| Interest on domestic debt | 721 | 1,597 | 2,550 | 3,200 | 3,360 |
| Interest on foreign debt | 1,379 | 2,001 | 2,500 | 2,500 | 2,500 |
| Foreign grants | 1,115 | 592 | 525 | 952 | 1,167 |
| Goods and services /3 | 34,788 | 41,455 | 39,918 | 44,799 | 48,121 |
| Other current expenditures 4/ | 9,153 | 8,072 | 6,017 | 8,723 | 9,954 |
| Development expenditure | 33,477 | 39,241 | 43,486 | 47,149 | 56,612 |
| Net lending | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 41,699 | 54,520 | 9,674 | 47,986 | 61,249 |
| Nonhydrocarbon fiscal balance | -38,310 | -28,287 | -81,349 | -51,552 | -54,788 |
| Financing | -41,699 | -54,520 | -9,674 | -47,986 | -61,249 |
| Domestic financing (net) 5/ | 1,825 | 12,131 | ... | 4,694 | -1,694 |
| Central bank (net) | 0 | -420 | ... | 420 | -420 |
| Transfer to QCB | -1,000 | -1,000 | ... | -1,000 | 0 |
| Commercial banks (net) 5/ | 2,825 | 13,551 | ... | 5,274 | -1,274 |
| Claims on government | 5,333 | 13,713 | ... | 8,456 | 2,290 |
| Government deposits | 2,508 | 162 | ... | 3,182 | 3,565 |
| Foreign financing (net) | -43,524 | -66,651 | ... | -52,680 | -59,555 |
| Government foreign assets (increase -) 6/ | -48,924 | -126,015 | ... | -37,569 | -59,555 |
| External borrowing (net) | 5,400 | 59,364 | ... | -15,111 | 0 |
| Drawing | 6,952 | 59,875 | ... | 0 | 0 |
| Repayment | 1,552 | 511 | ... | 15,111 | 0 |
| Memorandum items: | | | | | |
| Current balance 7/ | 75,176 | 93,761 | 53,160 | 95,136 | 117,861 |
| Current nonhydrocarbon balance 8/ | -4,833 | 10,954 | -9,034 | -4,402 | 1,823 |
| Total government debt | 36,052 | 102,671 | ... | 94,237 | 96,528 |
| Government external debt | 17,467 | 65,318 | ... | 48,429 | 48,429 |
| Government gross domestic debt | 18,585 | 37,353 | ... | 45,809 | 48,099 |
| Government net domestic debt (net of deposits) | 4,715 | 20,974 | ... | 29,268 | 28,377 |
| External debt service/total revenue (in percent) | 2.1 | 1.5 | ... | 9.7 | 1.2 |
| Nominal GDP (on a fiscal year basis) | 391,710 | 383,833 | 492,347 | 492,347 | 603,223 |

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

1/ On a fiscal year basis, April–March. GDP is also converted to a fiscal year basis.
2/ Includes investment income of state-owned hydrocarbon enterprises.
3/ Includes transfers to ministries and public enterprises less interest payments and grants.
4/ Corresponds to Chapter III "Minor capital expenses" in the budget.
5/ Information based on depository corporations survey.
6/ Excludes direct transfers made to State Reserve Fund and Stabilization Fund from oil and gas revenue.
7/ Total revenue minus current expenditure.
8/ Total nonhydrocarbon revenue minus current expenditure.

### Table 2b. Qatar: Summary of Government Finance, 2008/09–2011/12 1/

(In percent of GDP)

| | 2008/09 | Budget 2009/10 | 2009/10 | Budget 2010/11 | Prel. 2010/11 | 2011/12 |
|---|---|---|---|---|---|---|
| Total revenue | 36.0 | 23.1 | 44.1 | 25.9 | 36.8 | 35.0 |
| Hydrocarbon revenue | 20.4 | 11.0 | 21.6 | 12.6 | 20.2 | 19.2 |
| Oil and gas (excluding LNG-related royalties) | 15.6 | 7.5 | 16.1 | 6.8 | 14.1 | 12.3 |
| LNG-related royalties | 4.8 | 3.5 | 5.5 | 5.9 | 6.1 | 7.0 |
| Other revenue | 15.6 | 12.1 | 22.5 | 13.3 | 16.6 | 15.7 |
| Investment income from public enterprises 2/ | 8.5 | 6.7 | 14.0 | 9.6 | 9.6 | 9.2 |
| Corporate tax revenue | 3.7 | 2.4 | 5.6 | 2.1 | 4.5 | 4.2 |
| Other nontax revenue | 3.3 | 3.0 | 2.8 | 1.6 | 2.4 | 2.3 |
| Total expenditure | 25.3 | 24.6 | 29.9 | 23.9 | 27.0 | 24.8 |
| Current | 16.8 | 14.7 | 19.6 | 15.1 | 17.5 | 15.4 |
| Wages and salaries | 4.8 | 5.7 | 5.6 | 4.6 | 5.2 | 4.6 |
| Total interest payments | 0.5 | 0.6 | 0.9 | 1.0 | 1.2 | 1.0 |
| Interest on domestic debt | 0.2 | 0.2 | 0.4 | 0.5 | 0.6 | 0.6 |
| Interest on foreign debt | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 |
| Foreign grants | 0.3 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 |
| Goods and services 3/ | 8.9 | 7.2 | 10.8 | 8.1 | 9.1 | 8.0 |
| Other current expenditures 4/ | 2.3 | 1.1 | 2.1 | 1.2 | 1.8 | 1.7 |
| Development expenditure | 8.5 | 9.9 | 10.2 | 8.8 | 9.6 | 9.4 |
| Net lending | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 10.6 | -1.5 | 14.2 | 2.0 | 9.7 | 10.2 |
| Nonhydrocarbon fiscal balance | -9.8 | -16.0 | -7.4 | -16.5 | -10.5 | -9.1 |
| Nonhydrocarbon fiscal balance (in percent of nonhydrocarbon GDP) | -20.3 | ... | -14.5 | ... | -24.4 | -22.7 |
| Financing | -10.6 | 1.5 | -14.2 | -2.0 | -9.7 | -10.2 |
| Domestic financing (net) 5/ | 0.5 | ... | 3.2 | ... | 1.0 | -0.3 |
| Central bank (net) | 0.0 | ... | -0.1 | ... | 0.1 | -0.1 |
| Transfer to QCB | -0.3 | ... | -0.3 | ... | -0.2 | 0.0 |
| Commercial banks (net) 5/ | 0.7 | ... | 3.5 | ... | 1.1 | -0.2 |
| Claims on government | 1.4 | ... | 3.6 | ... | 1.7 | 0.4 |
| Government deposits | 0.6 | ... | 0.0 | ... | 0.6 | 0.6 |
| Foreign financing (net) | -11.1 | ... | -17.4 | ... | -10.7 | -9.9 |
| Government foreign assets (increase -) 6/ | -12.5 | ... | -32.8 | ... | -7.6 | -9.9 |
| External borrowing (net) | 1.4 | ... | 15.5 | ... | -3.1 | 0.0 |
| Memorandum items: | | | | | | |
| Current balance 7/ | 19.2 | 8.4 | 24.4 | 10.8 | 19.3 | 19.5 |
| Current nonhydrocarbon balance 8/ | -1.2 | -2.6 | 2.9 | -1.8 | -0.9 | 0.3 |
| Total government debt | 9.2 | ... | 26.7 | ... | 19.1 | 16.0 |
| Government external debt | 4.5 | ... | 17.0 | ... | 9.8 | 8.0 |
| Government gross domestic debt | 4.7 | ... | 9.7 | ... | 9.3 | 8.0 |
| Government net domestic debt (net of deposits) | 1.2 | ... | 5.5 | ... | 5.9 | 4.7 |

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

1/ On a fiscal year basis, April–March. GDP is also converted to a fiscal year basis.
2/ Includes investment income of state-owned hydrocarbon enterprises.
3/ Includes transfers to ministries and public enterprises less interest payments and grants.
4/ Corresponds to Chapter III "Minor capital expenses" in the budget.
5/ Information based on depository corporations survey.
6/ Excludes direct transfers made to State Reserve Fund and Stabilization Fund from oil and gas revenue.
7/ Total revenue minus current expenditure.
8/ Total nonhydrocarbon revenue minus current expenditure.

## Table 3. Qatar: Depository Corporations Survey, 2005–11

| | 2005 | 2006 | 2007 | 2008 | 2009 | Proj. 2010 | Proj. 2011 |
|---|---|---|---|---|---|---|---|
| | (In million Qatari riyals) | | | | | | |
| Net foreign assets | 47,820 | 61,250 | 61,444 | 48,869 | 46,835 | 48,925 | 62,402 |
| QCB | 16,580 | 19,694 | 34,747 | 35,790 | 66,800 | 97,500 | 111,769 |
| Assets 1/ | 16,643 | 19,715 | 35,500 | 35,808 | 68,252 | 98,961 | 113,230 |
| Liabilities | 63 | 21 | 753 | 18 | 1,452 | 1,461 | 1,461 |
| Commercial banks | 31,240 | 41,557 | 26,696 | 13,079 | -19,965 | -48,575 | -49,367 |
| Assets | 41,648 | 66,311 | 88,961 | 99,169 | 88,495 | 76,371 | 96,609 |
| Liabilities | 10,407 | 24,754 | 62,265 | 86,089 | 108,460 | 124,946 | 145,976 |
| Net domestic assets | 32,026 | 48,923 | 92,292 | 135,631 | 168,247 | 211,955 | 229,878 |
| Claims on government (net) | 8,265 | 3,728 | -207 | -7,223 | 18,843 | 26,225 | 25,036 |
| Claims 2/ | 17,122 | 17,238 | 13,822 | 13,206 | 34,722 | 45,243 | 47,505 |
| Deposits 3/ | 8,857 | 13,510 | 14,029 | 20,429 | 15,880 | 19,018 | 22,469 |
| Domestic credit | 61,079 | 88,986 | 147,840 | 219,823 | 224,305 | 251,529 | 292,863 |
| Claims on public enterprises 4/ | 6,231 | 8,974 | 26,752 | 47,384 | 39,735 | 51,271 | 64,858 |
| Claims on private sector | 54,847 | 80,012 | 121,088 | 172,439 | 184,570 | 200,258 | 228,006 |
| Other items (net) | -37,317 | -43,791 | -55,341 | -76,970 | -74,900 | -65,799 | -88,021 |
| Broad money | 79,847 | 110,173 | 153,735 | 184,005 | 215,082 | 260,880 | 292,281 |
| Money | 25,657 | 33,492 | 40,737 | 50,870 | 53,116 | 67,609 | 77,230 |
| Currency in circulation | 2,866 | 3,959 | 4,487 | 5,368 | 5,653 | 6,107 | 12,059 |
| Demand deposits | 22,791 | 29,533 | 36,250 | 45,501 | 47,463 | 61,502 | 65,172 |
| Quasi-money | 54,190 | 76,681 | 112,999 | 133,136 | 161,966 | 193,271 | 215,050 |
| Savings and time deposits | 29,354 | 39,622 | 64,349 | 85,676 | 133,193 | 162,898 | 184,384 |
| Foreign currency deposits | 24,836 | 37,059 | 48,650 | 47,459 | 28,773 | 30,373 | 30,666 |
| | (Annual percent changes) | | | | | | |
| Net foreign assets | 50.3 | 28.1 | 0.3 | -20.5 | -4.2 | 4.5 | 27.5 |
| Net domestic assets | 36.8 | 52.8 | 88.6 | 47.0 | 24.0 | 26.0 | 8.5 |
| Domestic credit | 60.0 | 45.7 | 66.1 | 48.7 | 2.0 | 12.1 | 16.4 |
| Claims on public enterprises | 34.9 | 44.0 | 198.1 | 77.1 | -16.1 | 29.0 | 26.5 |
| Claims on private sector | 63.5 | 45.9 | 51.3 | 42.4 | 7.0 | 8.5 | 13.9 |
| Broad money | 44.6 | 38.0 | 39.5 | 19.7 | 16.9 | 21.3 | 12.0 |
| Savings and time deposits | 28.6 | 35.0 | 62.4 | 33.1 | 55.5 | 22.3 | 13.2 |
| Memorandum items: | | | | | | | |
| Net claims on public enterprises | -17,874 | -20,834 | -9,350 | -9,038 | -13,031 | 8,849 | 11,194 |
| Velocity of broad money (to nonhydrocarbon GI | 0.81 | 0.82 | 0.83 | 1.02 | 0.90 | 0.83 | 0.80 |

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

1/ Excludes QCB's foreign currency deposits with local commercial banks.
2/ Includes government borrowing on behalf of public enterprises in 2001.
3/ Includes foreign and local currency deposits.
4/ Nonfinancial enterprises with government share.

## Table 4. Qatar: Balance of Payments, 2005–11

(In million U.S. dollars)

| | 2005 | 2006 | 2007 | 2008 | 2009 | Proj. 2010 | Proj. 2011 |
|---|---|---|---|---|---|---|---|
| Current account | 13,301 | 15,295 | 20,186 | 32,197 | 10,013 | 21,922 | 38,774 |
| In percent of GDP | 30.9 | 25.3 | 25.0 | 29.1 | 10.2 | 17.3 | 24.2 |
| Trade balance | 17,058 | 20,272 | 24,318 | 42,077 | 24,476 | 39,999 | 57,859 |
| Exports | 26,122 | 35,083 | 44,142 | 67,212 | 46,928 | 65,375 | 86,751 |
| Hydrocarbon | 22,861 | 31,200 | 39,793 | 61,705 | 42,331 | 58,837 | 78,900 |
| Crude oil | 12,843 | 16,299 | 19,181 | 26,270 | 16,217 | 20,723 | 20,896 |
| LNG | 5,200 | 8,471 | 10,524 | 17,640 | 13,074 | 21,042 | 30,445 |
| Propane, butane | 781 | 1,156 | 1,617 | 3,607 | 2,887 | 4,245 | 5,433 |
| Condensates | 2,757 | 3,733 | 6,569 | 11,020 | 7,986 | 7,984 | 15,029 |
| Refined petroleum products | 1,279 | 1,541 | 1,902 | 3,168 | 2,167 | 4,842 | 7,097 |
| Non-hydrocarbon | 3,261 | 3,883 | 4,349 | 5,507 | 4,598 | 6,538 | 7,851 |
| Petrochemicals | 1,958 | 2,265 | 2,385 | 2,908 | 2,141 | 4,146 | 5,237 |
| Others | 1,303 | 1,618 | 1,964 | 2,599 | 2,457 | 2,391 | 2,615 |
| Imports | -9,064 | -14,811 | -19,824 | -25,135 | -22,452 | -25,376 | -28,892 |
| Non-LNG/QP goods | -5,457 | -7,606 | -10,756 | -15,881 | -14,887 | -15,784 | -17,971 |
| LNG related | -880 | -2,956 | -3,577 | -4,364 | -4,052 | -2,805 | -1,247 |
| QP project-related imports | -2,727 | -4,249 | -5,491 | -4,890 | -3,513 | -6,787 | -9,675 |
| Services (net) | -924 | -2,763 | -983 | -4,760 | -6,288 | -8,535 | -8,482 |
| Income (net) | 542 | 2,341 | 1,297 | 1,681 | -451 | -1,369 | -1,117 |
| Receipts 1/ | 1,302 | 3,402 | 3,740 | 4,079 | 1,672 | 1,660 | 2,015 |
| Payments 2/ | -760 | -1,061 | -2,443 | -2,398 | -2,123 | -3,029 | -3,132 |
| Transfers (net) | -3,375 | -4,555 | -4,446 | -6,801 | -7,724 | -8,173 | -9,487 |
| *Of which:* workers remittances | -3,805 | -4,733 | -3,827 | -4,348 | -8,848 | -9,381 | -10,696 |
| Capital account | -753 | -991 | -1,131 | -1,360 | -1,796 | -1,904 | -2,168 |
| Financial account | -6,582 | -9,563 | -16,148 | -28,757 | -97 | -4,315 | -29,939 |
| Direct Investment, net | 2,500 | 3,500 | 4,700 | 3,725 | 4,950 | 3,742 | 2,094 |
| Portfolio borrowing, net | 1,225 | 234 | 794 | -137 | 254 | 1,066 | 1,084 |
| Assets | -769 | -784 | -780 | -1,248 | -1,248 | -1,248 | -1,248 |
| Liabilities | 1,994 | 1,018 | 1,574 | 1,111 | 1,502 | 2,314 | 2,332 |
| Other investment (net) | -5,182 | -8,251 | -12,361 | -15,672 | -2,803 | -6,921 | -21,148 |
| Assets | -9,721 | -12,747 | -17,637 | -24,362 | -23,320 | -22,491 | -30,021 |
| Trade credits | 382 | 428 | 567 | 2,019 | -1,026 | 2,418 | 3,947 |
| Government external assets 3/ | -10,102 | -13,175 | -18,204 | -26,381 | -22,294 | -24,909 | -33,968 |
| Liabilities | 4,539 | 4,496 | 5,276 | 8,690 | 20,517 | 15,569 | 8,873 |
| Commercial banks, net | -3,201 | -2,834 | 4,083 | 3,741 | 9,078 | 7,860 | 218 |
| Other capital, net | -1,924 | -2,212 | -13,363 | -20,414 | -11,576 | -10,062 | -12,186 |
| Errors and omissions | -4,769 | -3,885 | 1,229 | -1,794 | 0 | 0 | 0 |
| Overall balance | 1,196 | 855 | 4,136 | 286 | 8,120 | 15,702 | 6,667 |
| Change in QCB net foreign assets | -1,196 | -855 | -4,136 | -286 | -8,120 | -15,702 | -6,667 |

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

1/ Includes staff estimates for QIA.
2/ Includes staff estimates for commercial banks.
3/ Estimates.

**Table 5. Qatar: Vulnerability Indicators, 2005–09**

(In percent; unless otherwise indicated)

| | 2005 | 2006 | 2007 | 2008 | Est. 2009 |
|---|---|---|---|---|---|
| External solvency indicators | | | | | |
| REER (CPI based - end of period) | 7.0 | 8.1 | 3.1 | 3.6 | 13.5 |
| Total debt (in billion U.S. dollars, including commercial banks) | 17.8 | 26.3 | 41.9 | 57.1 | 83.8 |
| *Of which:* LNG-related | 6.7 | 10.9 | 14.1 | 17.1 | 19.7 |
| Total debt (in percent of GDP) | 41.5 | 43.5 | 51.8 | 51.6 | 85.2 |
| Debt service/exports of goods and services | 15.3 | 14.8 | 19.9 | 27.6 | 54.8 |
| Public sector solvency indicators | | | | | |
| Government gross domestic debt/GDP | 9.9 | 6.9 | 4.3 | 4.7 | 9.7 |
| Government net domestic debt/GDP 1/ | 5.2 | 3.3 | 0.8 | 1.2 | 5.5 |
| Government external debt/GDP 2/ | 8.1 | 5.2 | 3.8 | 4.5 | 17.0 |
| Total debt service/total revenue | 8.0 | 7.2 | 3.0 | 2.6 | 2.4 |
| Interest payments/total revenue | 2.9 | 2.3 | 1.6 | 1.5 | 2.1 |
| Hydrocarbon revenue/total revenue | 70.6 | 64.4 | 60.0 | 56.7 | 49.0 |
| External liquidity indicators (in million U.S. dollars) | | | | | |
| Central bank net reserves | 4,555 | 5,410 | 9,546 | 9,832 | 18,352 |
| In months of imports | 2.5 | 2.4 | 3.2 | 3.9 | 6.2 |
| Commercial banks net foreign assets (in million U.S. dollars) | 8,583 | 11,417 | 7,334 | 3,593 | -5,485 |
| Foreign assets | 11,442 | 18,217 | 24,440 | 27,244 | 24,312 |
| Foreign liabilities | 2,859 | 6,801 | 17,106 | 23,651 | 29,797 |
| Crude oil exports/total exports | 54.1 | 50.9 | 47.8 | 43.8 | 39.2 |
| Financial sector indicators | | | | | |
| Foreign currency deposits/total deposits | 32.3 | 34.9 | 32.6 | 26.6 | 13.7 |
| Net domestic credit (percent change) | 40.5 | 33.7 | 59.2 | 44.0 | 14.4 |
| Private sector credit (percent change) | 63.5 | 45.9 | 51.3 | 42.4 | 7.0 |
| Net domestic credit/GDP | 44.3 | 42.1 | 50.2 | 52.8 | 67.9 |
| Private credit/total assets of banks | 42.1 | 42.2 | 41.1 | 42.9 | 39.4 |
| Market assessment/financial market indicators | | | | | |
| Stock market index (end of period) | 11,053 | 7,133 | 9,580 | 6,886 | 6,959 |
| Moody's investor services | A1 | Aa2 | Aa2 | Aa2 | Aa3 |
| Standard and Poor's 3/ | A+ | AA- | AA- | AA- | AA- |

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

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

**Table 6. Qatar: Medium-Term Baseline Scenario, 2007–15**

(In million Qatari riyals, unless otherwise indicated)

| | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| | | | (Percent change, unless otherwise indicated) | | | | | | |
| **National income, production, and prices** | | | | | | | | | |
| Nominal GDP (in million Qatari riyals) | 293,933 | 402,993 | 357,860 | 461,755 | 584,121 | 660,526 | 711,807 | 759,046 | 816,120 |
| Real GDP | 26.8 | 25.4 | 8.6 | 16.3 | 20.0 | 7.1 | 3.9 | 4.1 | 4.3 |
| Hydrocarbon 1/ | 23.3 | 23.1 | 7.7 | 22.7 | 29.5 | 5.7 | 0.0 | 0.0 | 0.0 |
| Nonhydrocarbon GDP | 30.6 | 27.8 | 9.6 | 10.0 | 9.5 | 9.0 | 9.0 | 8.8 | 8.8 |
| Crude oil production, in thousand barrels per day | 839 | 836 | 792 | 822 | 802 | 767 | 717 | 671 | 598 |
| LNG Production (in million tons) | 29.9 | 31.5 | 36.0 | 50.0 | 70.0 | 77.9 | 77.9 | 77.9 | 77.9 |
| Qatar oil export price (in U.S. dollars per barrel) | 70.0 | 96.9 | 62.6 | 77.2 | 79.8 | 83.3 | 85.9 | 87.1 | 88.9 |
| CPI period average | 13.8 | 15.0 | -4.9 | -2.6 | 3.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Terms of trade | -6.0 | 24.6 | -21.6 | 7.8 | 2.2 | 4.4 | 2.5 | 1.0 | 1.8 |
| | | | (In million Qatari Riyals) | | | | | | |
| **Central government finances** 2/ | | | | | | | | | |
| Total revenue | 117,865 | 140,993 | 169,095 | 181,099 | 210,865 | 228,462 | 238,392 | 243,929 | 251,688 |
| Hydrocarbon revenue | 70,748 | 80,009 | 82,807 | 99,538 | 116,038 | 118,956 | 117,861 | 116,928 | 116,555 |
| Other revenue | 47,117 | 60,984 | 86,288 | 81,561 | 94,827 | 109,506 | 120,531 | 127,001 | 135,133 |
| Total expenditure | 86,249 | 99,294 | 114,575 | 133,113 | 149,615 | 161,754 | 175,424 | 191,755 | 209,264 |
| Current | 52,316 | 65,817 | 75,334 | 85,963 | 93,003 | 98,561 | 106,155 | 116,248 | 127,286 |
| Capital | 33,933 | 33,477 | 39,241 | 47,149 | 56,612 | 63,193 | 69,269 | 75,507 | 81,978 |
| Overall balance | 31,616 | 41,699 | 54,520 | 47,986 | 61,249 | 66,708 | 62,968 | 52,174 | 42,424 |
| In percent of GDP | 9.8 | 10.6 | 14.2 | 9.7 | 10.2 | 9.9 | 8.7 | 6.7 | 5.1 |
| Nonhydrocarbon balance | -39,132 | -38,310 | -28,287 | -51,552 | -54,788 | -52,248 | -54,893 | -64,754 | -74,131 |
| In percent of GDP | -12.2 | -9.8 | -7.4 | -10.5 | -9.1 | -7.8 | -7.6 | -8.4 | -8.9 |
| In percent of nonhydrocarbon GDP | -27.5 | -20.3 | -14.5 | -24.4 | -22.7 | -18.9 | -17.3 | -17.8 | -17.8 |
| Government net debt 3/ | 14,697 | 22,181 | 86,292 | 77,697 | 76,805 | 75,646 | 76,389 | 79,178 | 81,895 |
| In percent of GDP | 5.0 | 5.5 | 24.1 | 16.8 | 13.1 | 11.5 | 10.7 | 10.4 | 10.0 |
| External debt service (percent of total revenue) | 2.4 | 2.1 | 1.5 | 9.7 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 |
| | | | (In million U.S. dollars, unless otherwise indicated) | | | | | | |
| **External sector** | | | | | | | | | |
| Current account | 20,186 | 32,197 | 10,013 | 21,922 | 38,774 | 40,991 | 37,176 | 35,207 | 34,328 |
| In percent of GDP | 25.0 | 29.1 | 10.2 | 17.3 | 24.2 | 22.6 | 19.0 | 16.9 | 15.3 |
| Trade balance | 24,318 | 42,077 | 24,476 | 39,999 | 57,859 | 60,944 | 57,214 | 54,726 | 52,053 |
| Exports | 44,142 | 67,212 | 46,928 | 65,375 | 86,751 | 93,531 | 93,637 | 95,030 | 94,966 |
| Crude oil | 21,083 | 29,438 | 18,384 | 25,566 | 27,993 | 27,894 | 27,638 | 27,075 | 26,548 |
| LNG | 18,710 | 32,267 | 23,947 | 33,272 | 50,907 | 56,596 | 55,916 | 56,893 | 56,632 |
| Other exports | 4,349 | 5,507 | 4,598 | 6,538 | 7,851 | 9,041 | 10,083 | 11,062 | 11,786 |
| Imports | -19,824 | -25,135 | -22,452 | -25,376 | -28,892 | -32,587 | -36,423 | -40,304 | -42,912 |
| LNG related | -3,577 | -4,364 | -4,052 | -2,805 | -1,247 | -935 | -623 | -623 | -623 |
| Project related imports | -5,491 | -4,890 | -3,513 | -6,787 | -9,675 | -11,024 | -12,124 | -12,535 | -11,160 |
| Other imports | -10,756 | -15,881 | -14,887 | -15,784 | -17,971 | -20,629 | -23,676 | -27,145 | -31,129 |
| Volume of exports (percent change) | 21.2 | 14.6 | 4.1 | 14.9 | 28.8 | 3.7 | -2.6 | 0.1 | -1.7 |
| Volume of imports (percent change) | 21.2 | 18.9 | 4.4 | 0.5 | 12.9 | 13.3 | 11.5 | 10.2 | 6.6 |
| Services, net | -983 | -4,760 | -6,288 | -8,535 | -8,482 | -8,585 | -8,955 | -9,151 | -9,182 |
| Income, net | 1,297 | 1,681 | -451 | -1,369 | -1,117 | -217 | 1,994 | 4,913 | 9,277 |
| Current transfers, net | -4,446 | -6,801 | -7,724 | -8,173 | -9,487 | -11,150 | -13,076 | -15,280 | -17,821 |
| Overall balance | 4,136 | 286 | 8,120 | 15,702 | 6,667 | 3,470 | 1,700 | 980 | 1,081 |
| Central bank reserves, net | 9,546 | 9,832 | 18,352 | 26,786 | 30,706 | 34,176 | 35,877 | 36,857 | 37,938 |
| In months of imports of goods and services 4/ | 3.2 | 3.9 | 6.2 | 8.1 | 8.5 | 8.6 | 8.3 | 8.1 | 8.2 |
| Total external debt (excluding banks) | 24,762 | 33,452 | 53,969 | 69,539 | 78,412 | 85,890 | 92,668 | 97,387 | 100,025 |
| Total external debt (excluding banks, in percent of GDP) | 30.7 | 30.2 | 54.9 | 54.8 | 48.9 | 47.3 | 47.4 | 46.7 | 44.6 |
| Total external debt service (excluding banks) | 2,686 | 3,249 | 3,205 | 8,077 | 4,638 | 4,986 | 5,353 | 6,737 | 6,737 |
| In percent of exports of goods and services | 6.8 | 4.5 | 6.6 | 12.0 | 5.2 | 5.2 | 5.6 | 6.9 | 6.9 |
| In percent of GDP | 4.4 | 2.9 | 3.3 | 6.4 | 2.9 | 2.7 | 2.7 | 3.2 | 3.0 |
| **Saving-investment balance** | | | | | | | | | |
| Gross investment | 33.2 | 30.5 | 35.7 | 30.7 | 27.9 | 26.9 | 26.9 | 27.1 | 27.1 |
| Nongovernment sectors | 23.1 | 22.2 | 25.1 | 20.9 | 18.6 | 17.5 | 17.4 | 17.4 | 17.3 |
| Gross national saving | 58.2 | 59.6 | 45.9 | 47.9 | 52.1 | 49.4 | 45.9 | 44.0 | 42.5 |
| Nongovernment sectors | 35.6 | 39.1 | 17.2 | 23.5 | 29.6 | 27.4 | 24.9 | 24.9 | 25.7 |

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

1/ Includes crude oil, LNG, propane, butane, and condensate.
2/ Fiscal year basis, April–March.
3/ Net of deposits in resident banks.
4/ Next 12 months.

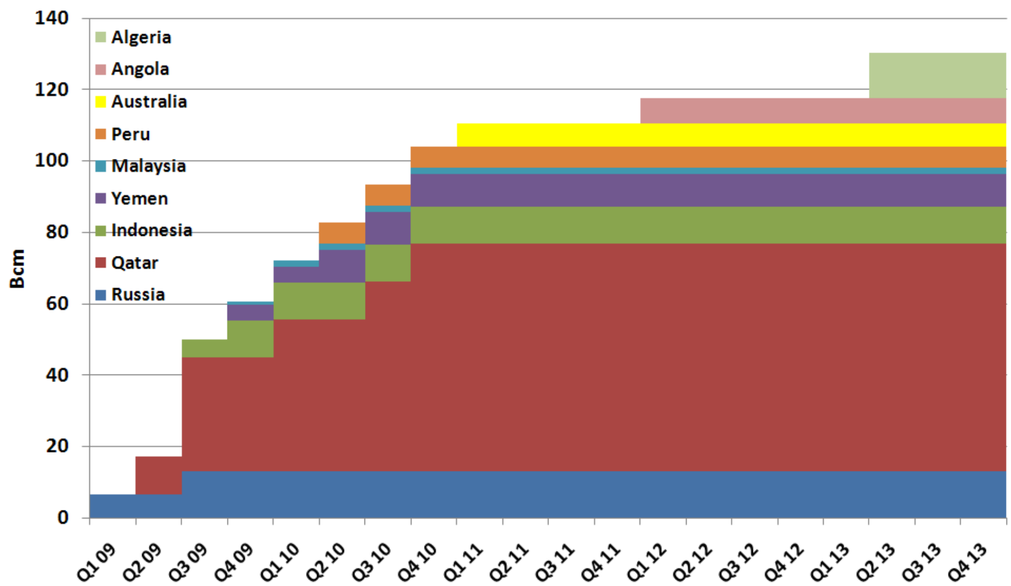
## APPENDIX I. MEDIUM-TERM PROSPECTS IN QATAR'S LNG SECTOR[1]

*The projected glut in global gas supply and reduced need for imports by the U.S. could see some shift in the way conventional gas is priced and traded. In the medium term, there could be pressures from Europe and Asia to move away from oil-linked long-term contracts to spot prices. The downside risk to the medium-term economic outlook of Qatar is tilted toward lower gas prices vis-à-vis a contraction of demand for gas.*

### I. Qatar's LNG Strategy

1. **Qatar is leading the massive worldwide increase in LNG production.** Qatar accounts for the bulk of the increase, which is likely to alter the LNG market. [2]

**Figure 1: Additional LNG in the Medium-Term**




Source: IEA, MOTOGM 2010

[1] Prepared by Reda Cherif and A. Prasad.

[2] Qatar holds the third largest reserves of natural gas in the world, concentrated in the North Gas field, the largest non-associated gas reservoir in the world. 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 fertilizer of gas-to-liquid projects (GTL) in partnership with oil companies (ExxonMobil, Shell, and Total, ConocoPhillips). Qatar Gas Transport Company Ltd. (Nakilat), handles all the shipping of Qatari LNG.

2. **Unlike the global oil market, the global natural gas market is still segmented.** There exist large differences in natural gas prices and contract arrangements across continents. About one-third of global gas consumption is priced on a spot basis, one-fifth is indexed to crude oil, around 40 percent is subject to direct price regulation, and the remaining is sold at subsidized prices (IEA 2009). Contracts on Asian and European markets tend to be indexed to oil prices, while the more integrated U.S. market follows the spot price (gas-to-gas competition). Thus, the low U.S. gas prices ($4–6 per million British Thermal Unit (MBTU)) and the fall in the expected U.S. LNG imports for 2009–10, in particular from Qatar, did not dramatically affect LNG exporters' revenue. Qatar was able to redirect its production destined for the U.S. market toward Asian, European and even Latin American markets at higher prices ($10–12 per MBTU) due to diversion clauses in the contracts.

## II. DEVELOPMENTS IN SHALE GAS

3. **Nonconventional gas resources have started to alter market conditions.** Nonconventional gas accounts for less than 5 percent of global natural gas reserves, but 12 percent of global production. An increase in shale gas production in the U.S. combined with the global contraction of demand depressed global gas prices in 2009. The potential reserves (and resources) are large and many other countries have started exploring shale gas resources. In the past decade, shale gas has emerged as a major new source of gas supply in the U.S., accounting for about 46 percent of total U.S. production (Energy Information Agency, 2010). The U.S. became the largest 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.[3] The potential reserves are large and well spread over the world.[4]

4. **The projected glut in global gas supply and reduced need for imports by the U.S. could see some shift in the way conventional gas is priced and traded globally.** Considerable increase in LNG production in the next few years, accompanied with the sharp increase in LNG tankers, and an increase in production from shale gas in the U.S. are likely to affect conventional gas producers that rely on oil indexed long-term contracts and pipeline transportation. Countries in Asia, including China and India, Europe and Latin America have filled in the space vacated by U.S. imports, particularly with regard to LNG. The effect of shale gas supply on the U.S. market could be linked to the recent "decoupling" of natural gas prices. The energy equivalence parity of oil and gas is such that natural gas price per MBTU

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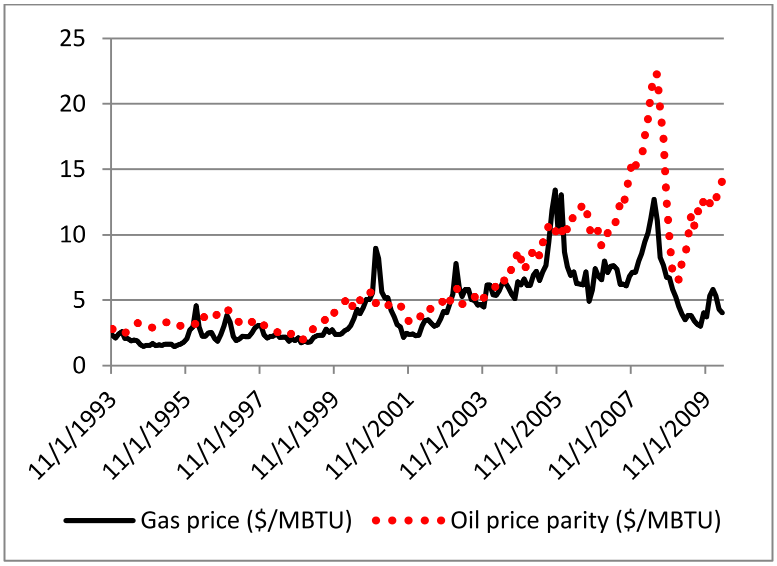
[3] The Future of Natural Gas: An Interdisciplinary MIT Study, *interim report*, 2010.

[4] There is growing interest in exploiting unconventional sources of gas, using new techniques at lower costs. Many other countries have started exploring potentially large shale gas resources including Canada, India, China, Australia, Germany, Hungary, Poland and the United Kingdom. Two factors have made shale gas production economically viable: advances in horizontal drilling and hydraulic fracturing (creating fractures in the rock and injecting a fluid to increase permeability).

should be a sixth of the oil price per barrel. The figure below shows that parity was fairly respected in the U.S. market until late 2005 and large divergences appeared thereafter.

**Figure 2: Natural Gas Henry Hub Spot Prices vs. Equivalent NYMEX WTI**



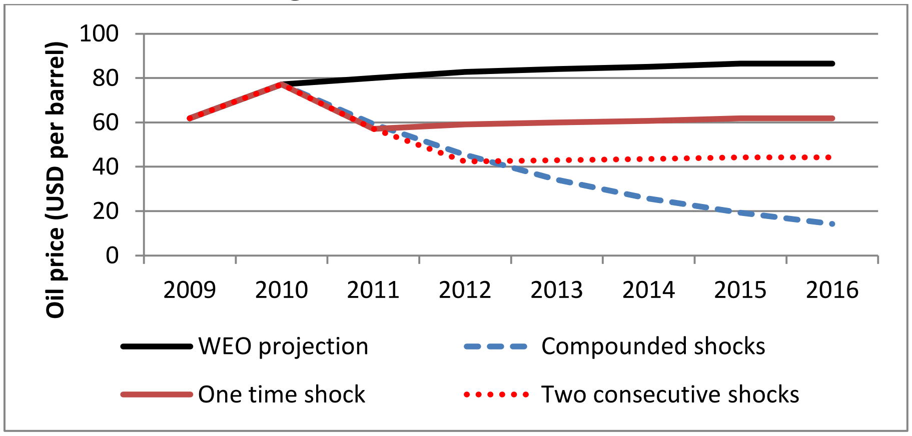

**There are potential obstacles to shale gas drilling.** The cost of exploitation, and therefore the true potential, is difficult to estimate given the high variability of production rates between shale plays and between wells within the same shale play.[5] The main limitations include the physical access to resources, the requirement of large volumes of water, and environmental regulations, particularly relating to the contamination of water resources with fracture fluids. Lack of adequate capacity in the vicinity of shale gas play may also deter investments.

## III. Impact on Qatar

5. **The above developments indicate heightening tail risks for natural gas prices.** Although we keep our baseline scenario of gas prices anchored to the WEO projection of oil prices in the medium term, we study scenarios where the reference hydrocarbon price we use falls substantially. In the first scenario, a -30 percent shock takes place in 2011, then the growth rate of the WEO oil price projections is retained; in the second scenario, two -30 percent shocks are compounded over the first two years.

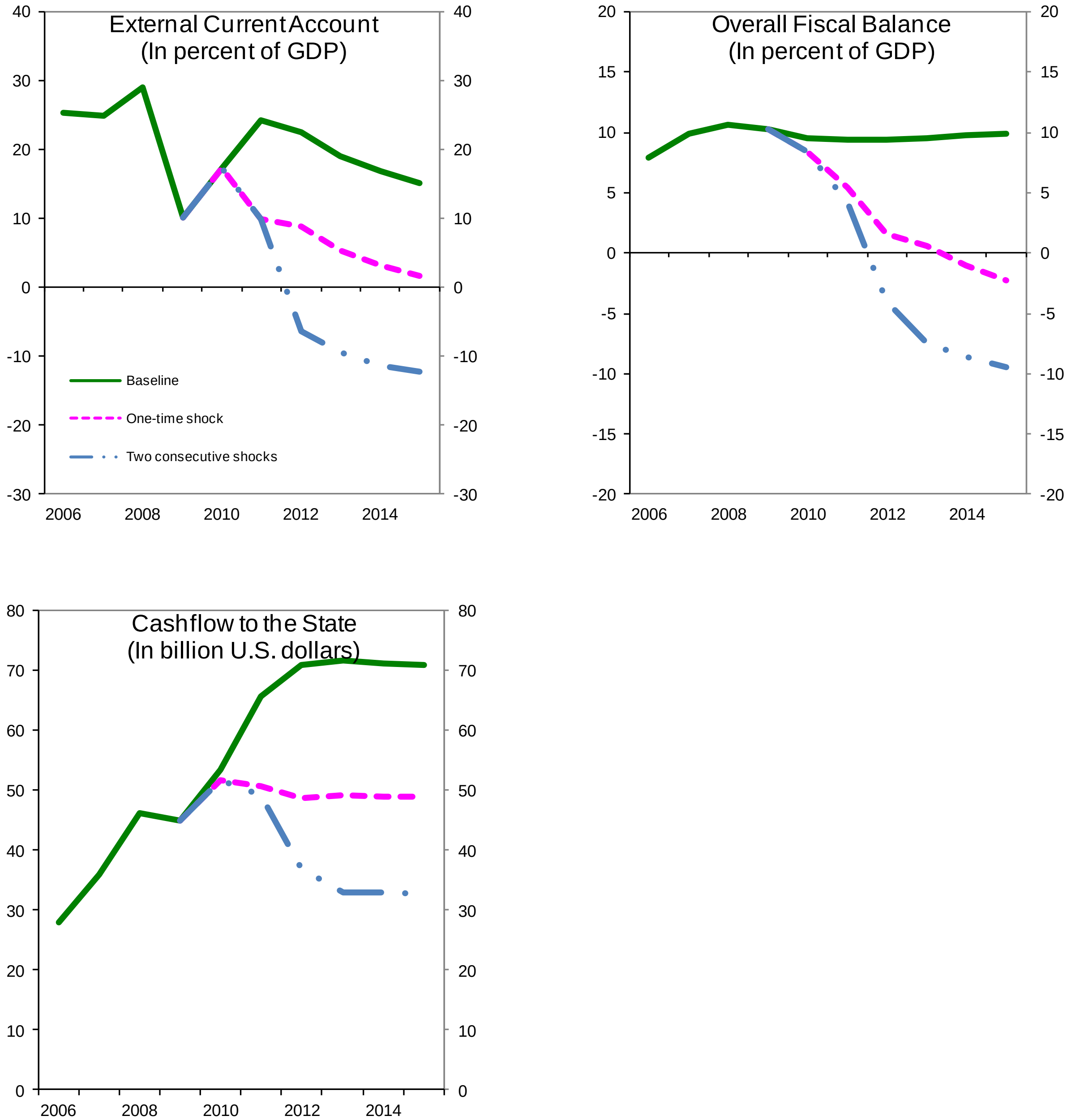
[5] At 2007 cost, M.I.T. (2010) estimates that the break-even price for the exploitation of shale gas is in the range of $4 to 8 per million cubic feet. The Henry Hub spot price for 2009/10 has been moving within the break-even range explaining the persistence of production growth after the price collapse in 2009.

**Figure 3: Oil Price Scenarios**




6. **Our macroeconomic scenarios in the face of a drop in hydrocarbon prices emphasize the sensitivity of the fiscal and external current accounts.** Alternative macroeconomic frameworks based on the two alternative scenarios, indicate the following (Figure 4): (i) the average medium-term external current account surplus declines sharply from 20 percent of GDP per year during 2011–15 to 5.8 percent under the first scenario of a one-time shock to oil prices of -30 percent; in the case of two-consecutive declines at a rate of -30 percent in oil prices, the current account shows deficits as early as 2012 and the average medium-term current account surplus turns into a deficit of 6 percent of GDP a year; and (ii) reflecting the decline in the current account balance, the flow of cash to the state (which averaged some $70 billion per year under the baseline scenario) shrinks correspondingly—by 30 percent under the first scenario to $49 billion and by 47 percent to $37 billion per year in the event of two consecutive declines in oil prices.

Figure 4. Qatar: Macroeconomic Scenarios, 2006--2015



## APPENDIX II. SOVEREIGN DEBT MANAGEMENT IN QATAR—NEED FOR A FORMAL INSTITUTIONAL FRAMEWORK[1]

*Qatar's external borrowings increased sharply after the crisis. The sovereign issued several tranches of bonds with a view to creating a sovereign benchmark yield curve, followed by issuances by government-owned corporates. Absence of reliable debt statistics and lack of a formal institutional framework to evaluate the cost-risk tradeoffs could pose risks to macromanagement—notwithstanding Qatar's large external assets—as events in the region have shown. The authorities are also keen to develop the domestic bond market. The benefits of a well diversified financial system are well known. The government's objectives would be better achieved by consolidating debt management and development functions in a debt office.*

### I. QATAR'S DEBT PROFILE

1. **Qatar's external borrowings increased sharply after the crisis.** Led by the government, which issued sovereign bonds in April and November 2009, there was a flurry of external borrowings by corporates.[2] Total external debt increased by 80 percent between 2008 and 2010.

External Debt
(In U.S. dollar billions)

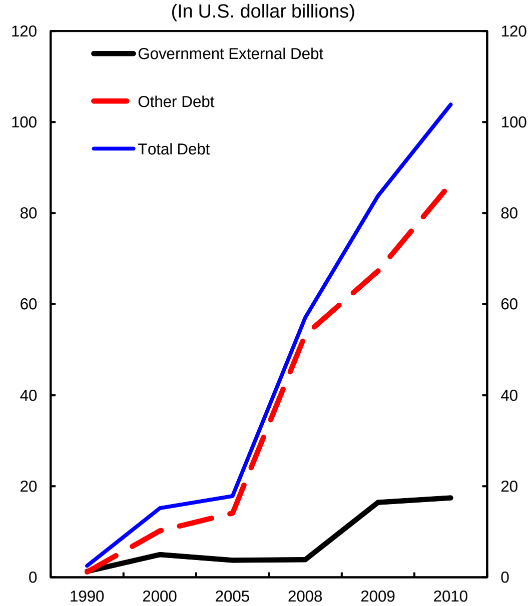
| | 1990 | 2000 | 2005 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Total External Debt | 2.5 | 15.2 | 17.8 | 57.1 | 83.8 | 103.9 |
| Commercial Bank Liabilities | 0.6 | 0.6 | 2.9 | 23.7 | 29.8 | 34.3 |
| Government External Debt | 1.3 | 5.0 | 3.7 | 3.9 | 16.5 | 17.4 |
| Government Owned Corporates | 0.6 | 9.4 | 10.1 | 25.4 | 34.3 | 46.5 |
| LNG Related | 0.0 | 5.7 | 6.7 | 17.1 | 19.7 | 20.4 |
| Non-LNG related | 0.6 | 3.6 | 3.4 | 8.3 | 14.6 | 26.1 |
| Others | 0.0 | 0.2 | 1.2 | 4.2 | 3.2 | 5.6 |

Source: Country authorities; and IMF Staff calculations.

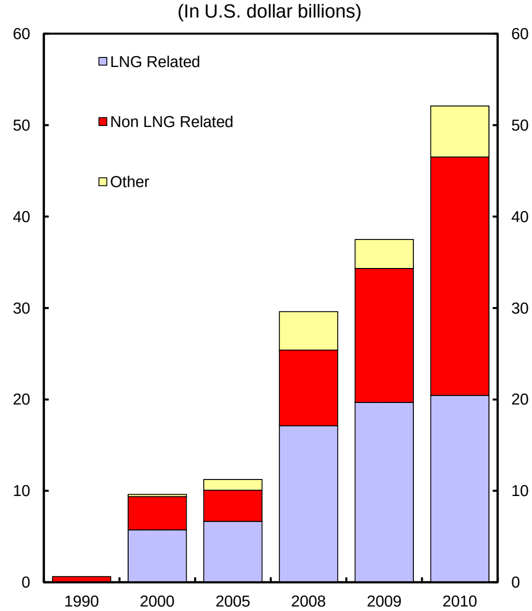
[1] Prepared by A. Prasad

[2] The debt profile includes government guaranteed debt, which are included in non-LNG related and other debt. Data on external debt is not available in one place and staff have depended on a combination of internal and external sources to arrive at an estimate (Statements 1 and 2).

Total External Debt
(In U.S. dollar billions)




Composition of Government Owned Corporate Debt
(In U.S. dollar billions)




Source: Country authorities; and IMF Staff calculations.

2. **Qatar is also trying to build a domestic sovereign bond yield curve.** Although the government is running large fiscal surpluses, it has issued a number of conventional and Islamic bonds in 2009–10, with a view to facilitating the development of a domestic bond market.

**Government Domestic Debt by Creditor Type**

(In U.S. dollar billions)

| | As at end March | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 4/ |
| Total domestic debt | 2.7 | 3.1 | 2.9 | 2.4 | 17.0 |
| Medium-term government bonds 1/ | 0.8 | 1.1 | 1.4 | 1.4 | 11.0 |
| Medium-term commercial bank debt 2/ | 1.7 | 1.6 | 1.2 | 0.9 | 5.6 |
| Islamic Murabaha 3/ | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Other | - | 0.3 | 0.3 | - | - |

Source: Country authorities

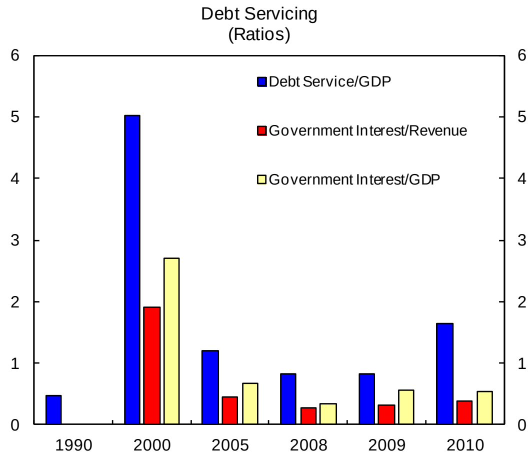
1/ Issued by Qatar Commercial Bank

2/ Bank loan facilities from Qatar National Bank

3/ Six-month renwable facility with Qatar International Islamic Bank

4/ At end June.

3. **Debt and debt service ratios are at comfortable levels.** External debt primarily consists of long term bonds and borrowings. There are no immediate rollover risks. The nonavailability of comprehensive information on the total external debt, however, limits a full assessment of potential risks.




**Maturity Profile of Government External Debt 1/**
(In U.S. dollar billions)

| Year | Amount |
|---|---|
| 2013 | 2.0 |
| 2014 | 2.0 |
| 2015 | 3.5 |
| 2019 | 1.0 |
| 2030 | 3.9 |
| 2040 | 1.0 |

1/ Relates to debt contracted up to March 2010

**Amortization Schedule of LNG-related Non-Guaranteed Debt**
(In percent)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Debt Service | 1.7 | 2.3 | 2.8 | 2.7 | 3.5 | 2.4 |
| Amortization | 0.6 | 1.3 | 1.9 | 1.8 | 2.7 | 1.7 |
| Interest payments | 1.0 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 |

Source: Country authorities; and IMF Staff calculations.

## II. Current Policy and Legal Framework for Sovereign Debt

4. **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.

5. **The legal framework in Qatar is, however, narrowly focused on borrowing type rather than analytical aspects of strategy development and evaluation.** The law 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 the instrument type for each internal and external debt (conventional and Islamic) must be determined by the Minister after consulting with the central bank. There is, however, no mandate to develop a debt management strategy taking into account total public sector debt and analyzing the same through rigorous cost-risk tradeoffs of the debt portfolio. Such elements, including evaluation by parliament, are found in Sweden, New Zealand, United Kingdom, Australia, Denmark, Finland, and France.

6. **Inter-agency coordination is fostered to some extent by the State Finance Policy Committee, but there is no institutionalized debt management structure.** The Committee comprises the minister as chairman, a representative of QCB as deputy chairman, and representatives of the Qatar Investment Authority and Qatar Petroleum. The role of the Committee is to (a) provide guidance to all government related entities that seek access to the international capital markets, and (b) coordinate debt offerings by Qatari issuers in order to increase liquidity and optimize borrowing costs. A clear division between the political level that sets the overall long term debt management objectives and strategy, and entities responsible for implementing the strategy does not exist. The advantages of having a clear institutional approach are that it leaves major decisions regarding the overall size of debt with political decision makers, while allowing technical professionals to seek the optimum risk-adjusted outcome within those parameters.

## III. Need for a Formal Institutional Framework for Debt Management

7. **A design of a comprehensive debt strategy and a clearer distinction between the formation of high-level policy objectives and the day-to-day implementation of those objectives is appropriate for Qatar at this juncture.** Taking a more strategic approach to evaluating financing choices requires greater integration of debt management strategy formulation and broader macroeconomic management. A medium term debt management strategy would be useful for illustrating the government's cost and risk tradeoffs and for managing the risk exposure embedded in a debt portfolio, in particular the potential variation in debt servicing costs due to exogenous developments and their budgetary impact. These aims are best met by consolidating debt management functions into one operating unit.[3]

8. **Developed and emerging countries operate through formal debt management strategies** (e.g., Denmark, Sweden, New Zealand, Brazil, Colombia, Poland). Although each government's goals are unique, common among them are the development of the capacity to raise the required amount of funding within the government's risk and cost parameters, as well the development and maintenance of an efficient market for government debt securities.[4]

9. **Qatar could benefit from the formulation of clear guidelines for:** establishing a legal framework (that specifies clear borrowing purposes and a mandate to develop a debt management strategy), a managerial structure (that establishes division of responsibility

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[3] IMF and World Bank, March 2001, Guidelines for Public Debt Management define sovereign debt management as the process of establishing and executing a strategy for managing the government's debt in order to meet its borrowing requirements within its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.

[4] IMF and World Bank, 2003, Guidelines for Public Debt Management. Washington.

between policy formulation and implementation), a strategy (that is based on the longer-term debt management objectives and set within the context of the government's fiscal policy and budget framework), an audit evaluation (for fixing accountability), coordination with macroeconomic policies (monetary and fiscal), evolving limits for guarantees, setting procedures and a framework for cash management, operational risk, and debt recording systems.

**Statement 1**
**Bond Issuance**

| Date | Issuer Name | Industry Group | Size (U.S. dollar millions) | Maturity Date | Coupon | Issuer Rating |
|---|---|---|---|---|---|---|
| 02-Apr-09 | State of Qatar | Government | 2,000.00 | 09-Apr-14 | 5.15 | Aa2 |
| 02-Apr-09 | State of Qatar | Government | 1,000.00 | 09-Apr-19 | 6.55 | Aa2 |
| 02-Jun-09 | Qtel International Finance Ltd | Telecommunications-Services | 900.00 | 10-Jun-14 | 6.50 | A2 |
| 02-Jun-09 | Qtel International Finance Ltd | Telecommunications-Services | 600.00 | 10-Jun-19 | 7.85 | A2 |
| 16-Jul-09 | Ras Laffan Liquefied Natural Gas Co Ltd 3 - RasGas 3 | Oil & Gas-Diversified | 500.00 | 30-Sep-12 | 4.50 | |
| 16-Jul-09 | Ras Laffan Liquefied Natural Gas Co Ltd 3 - RasGas 3 | Oil & Gas-Diversified | 1,115.00 | 30-Sep-14 | 5.50 | |
| 16-Jul-09 | Ras Laffan Liquefied Natural Gas Co Ltd 3 - RasGas 3 | Oil & Gas-Diversified | 615.00 | 30-Sep-19 | 6.75 | |
| 11-Nov-09 | Commercial Bank Qatar Finance Ltd | Finance-Commercial & Savings Banks | 1,000.00 | 18-Nov-15 | 5.00 | A1 |
| 11-Nov-09 | Commercial Bank Qatar Finance Ltd | Finance-Commercial & Savings Banks | 600.00 | 18-Nov-19 | 7.50 | A1 |
| 11-Nov-09 | State of Qatar | Government | 3,500.00 | 20-Jan-15 | 4.00 | Aa2 |
| 11-Nov-09 | State of Qatar | Government | 2,500.00 | 20-Jan-20 | 5.25 | Aa2 |
| 11-Nov-09 | State of Qatar | Government | 1,000.00 | 20-Jan-40 | 6.40 | Aa2 |
| 14-Jul-10 | Qatari Diar Finance QSC | Finance-Special Purpose Vehicles | 1,000.00 | 21-Jul-15 | 3.50 | Aa2 |
| 14-Jul-10 | Qatari Diar Finance QSC | Finance-Special Purpose Vehicles | 2,500.00 | 21-Jul-20 | 5.00 | Aa2 |
| 30-Sep-10 | Qatar Islamic Bank Sukuk | Banking - Finanancial Services | 750.00 | 7-Oct-15 | 3.86 | |
| 07-Oct-10 | Qatar Telecom | Government | 500.00 | 14-Oct-16 | 3.38 | A2 |
| 07-Oct-10 | Qatar Telecom | Government | 1,000.00 | 16-Feb-21 | 4.75 | A2 |
| 13-Oct-10 | Qatar Telecom | Government | 750.00 | 19-Oct-25 | 5.00 | A2 |
| 13-Oct-10 | Qatar Telecom | Government | 500.00 | 16-Oct-16 | 3.38 | A2 |
| 10-Nov-10 | Qatar National Bank Finance Ltd | Banking - Finanancial Services | 1,500.00 | 16-Nov-15 | 3.13 | Aa3 |
| 11-Nov-10 | Commercial Bank Qatar Finance Ltd | Finance-Commercial & Savings Banks | 600.00 | 7-Dec-20 | 7.50 | |
| 11-Nov-10 | Commercial Bank Qatar Finance Ltd | Finance-Commercial & Savings Banks | 1,000.00 | 7-Dec-15 | 5.00 | |

Source: Deologic.

**Statement 2**
**Loan Issuance**

| Date | Borrower Name | Industry Group | Size (U.S dollar millions) | Maturity Date | Deal Margin (bp.) | Issuer Rating |
|---|---|---|---|---|---|---|
| 01-Jan-08 | Qatar Airways Co | Industrial | 100.00 | 01-Jan-20 | | |
| 01-Jan-08 | Qatar Airways Co | Industrial | 15.00 | 01-Jan-20 | | |
| 31-Jan-08 | Qatari Diar Real Estate Investment Co | Finance | 2,365.00 | 30-Jun-11 | LIBOR 105 bp | |
| 13-Mar-08 | Ras Abu Fontas A1 | Industrial | 288.20 | 13-Mar-28 | LIBOR 55 bp;LIBOR 55 bp | |
| 13-Mar-08 | Ras Abu Fontas A1 | Industrial | 144.00 | 13-Mar-28 | LIBOR 55 bp;LIBOR 55 bp | |
| 10-Apr-08 | Qatar Airways Co | Industrial | 105.00 | 10-Apr-20 | | |
| 10-Apr-08 | Qatar Airways Co | Industrial | 18.50 | 10-Apr-20 | | |
| 19-Aug-08 | Qatar Airways Co | Industrial | 314.00 | 00-Jan-00 | | AA |
| 31-Aug-08 | Medina Centrale Co STC | Special Purpose Vehicle | 285.65 | 31-Aug-17 | | |
| 21-Oct-08 | Qatar National Bank | Bank | 1.48 | 21-Oct-11 | | A+ |
| 03-Nov-08 | Qatar Airways Co | Industrial | 500.00 | 03-Nov-20 | | |
| 10-Nov-08 | Qatar Airways Co | Industrial | 500.00 | 10-Nov-20 | | |
| 26-Feb-09 | Qatar Telecom QSC - Qtel | Industrial | 2,000.00 | 30-Mar-12 | LIBOR 250 bp | A |
| 19-Mar-09 | Qatari Diar Real Estate Investment Co | Finance | 833.82 | 31-Oct-09 | EURIBOR 135 bp | |
| 01-Jun-09 | Qatar Airways Co | Industrial | 48.00 | 23-Nov-15 | | |
| 01-Jun-09 | Qatar Airways Co | Industrial | 112.00 | 23-Nov-15 | | |
| 29-Sep-09 | Qatar Airways Co | Industrial | 350.00 | 29-Sep-21 | | |
| 29-Sep-09 | Qatar Airways Co | Industrial | 350.00 | 29-Sep-21 | | |
| 23-Nov-09 | Qatar Airways Co | Industrial | 48.00 | 23-Nov-15 | | |
| 23-Nov-09 | Qatar Airways Co | Industrial | 112.00 | 23-Nov-15 | | |
| 22-Jan-10 | Qatar Aviation Lease Company QJSC | Finance | 650.00 | 22-Jan-13 | LIBOR 250 bp | AA |
| 10-Feb-10 | Qatari Diar Real Estate Investment Co | Finance | 1,500.00 | 10-Feb-11 | | AA |
| 15-Apr-10 | Qatari Diar Real Estate Investment Co | Finance | 300.00 | 15-Apr-13 | | |
| 14-May-10 | Qatar Telecom QSC - Qtel | Industrial | 1,250.00 | 14-May-13 | LIBOR 115 bp;LIBOR 145 bp | A |
| 14-May-10 | Qatar Telecom QSC - Qtel | Industrial | 750.00 | 14-May-15 | LIBOR 115 bp;LIBOR 145 bp | A |

Source: Deologic.

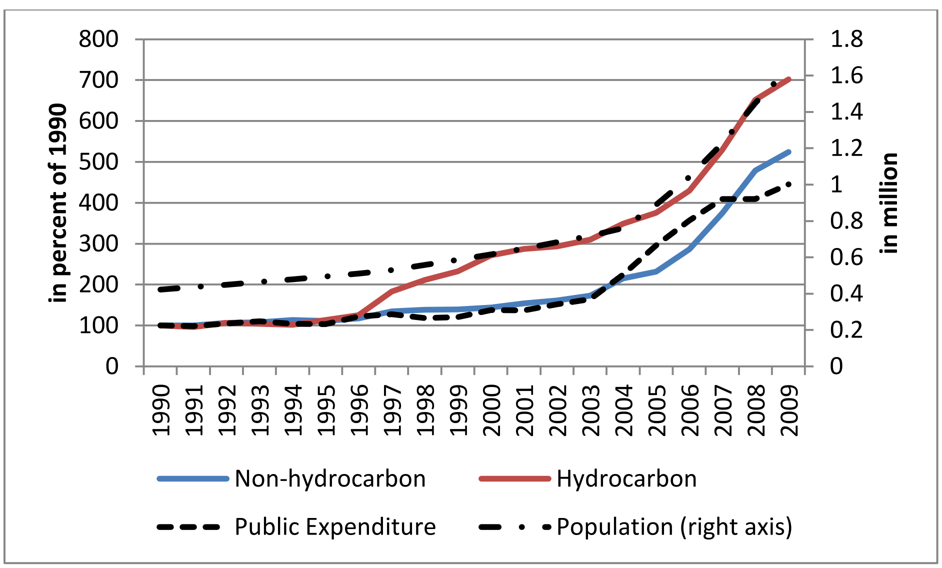
## APPENDIX III. WHY SHOULD QATAR FOCUS ON PRODUCTIVITY GAINS?[1]

*Hydrocarbon production is projected to reach a plateau in 2012, emphasizing the importance of productivity gains to achieve sustainable non-hydrocarbon growth in the medium term. A growth accounting analysis shows that Qatar's productivity growth was on average negative over 2000–07, emphasizing the need for structural reforms to improve the efficiency of spending. The main challenge facing Qatar will be to manage the transition from its economic model based on short term unskilled workers mainly employed in construction to longer term skilled workers employed in innovative firms.*

### I. SECTORAL GROWTH PROFILE

1. **Qatar's growth engines have been powered by public expenditure supported by immigrant labor.** The economy started growing at a strong pace in the mid-nineties when the LNG sector started its spectacular expansion, unfettering large resources for the government. The hydrocarbon GDP grew at an average rate of about 11 percent between 1990 and 2009, as public spending grew at an average rate of about 9 percent while non-hydrocarbon grew at an average rate of 9.5 percent. Qatar's population increased to 1.6 million at end-August 2010, recording an average 7.5 percent growth rate during this period.

**Figure 1: Real GDP, Public Expenditure and Population**

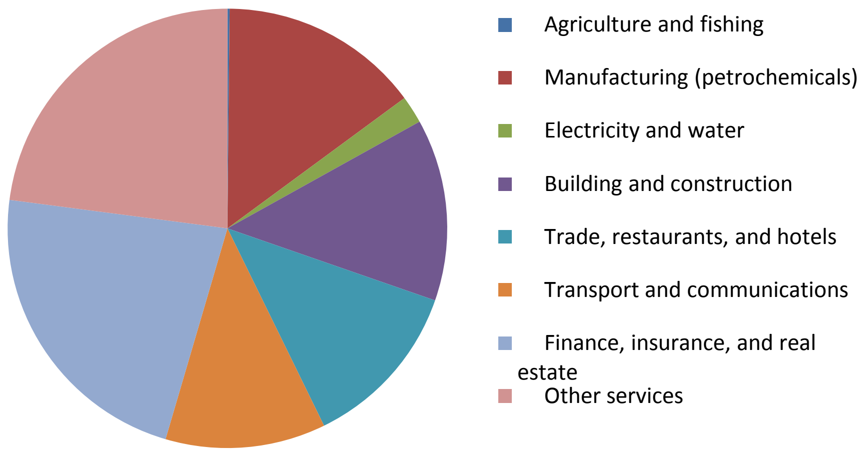



[1] Prepared by Reda Cherif

2. **The services sector dominates the nonhydrocarbon economy.** Although building and construction is relatively smaller, and constitutes 13 percent of the non hydrocarbon sector, it is the main employer in the economy and also one of the fastest growing.

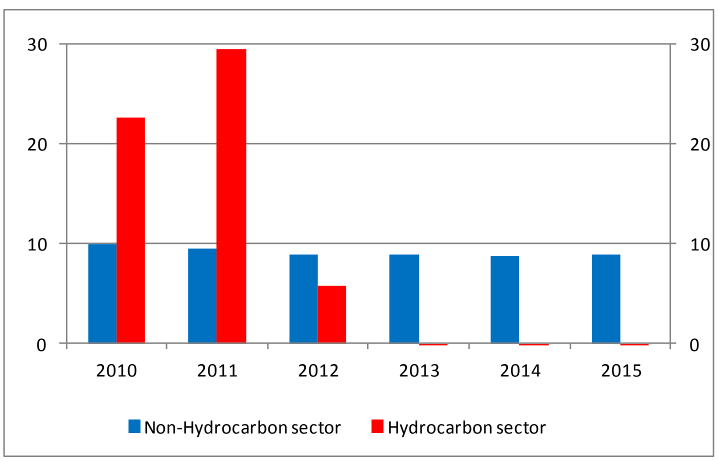
**Figure 2: Composition of the Non-Hydrocarbon Sector**

(as a share of non-hydrocarbon GDP in 2009)




3. **Beyond 2012, the non-hydrocarbon sector will drive real GDP growth.** As a result of a self-imposed moratorium on exploration in the North field, hydrocarbon production will reach a plateau in 2012, as will the fiscal space for spending.

**Figure 3: Real GDP Growth Projections 2010–15**




4. **Sustainable growth will have to come from productivity gains in the future**. Diversification is even more important in this context, as a fall in oil prices cannot be mitigated by an increase in hydrocarbon production after 2012. To perpetuate the same model while drawing down the net foreign assets is not sustainable, as shown by the experience of the oil bust of the 1980s.

5. **Diversification and productivity are interlinked through two channels**. To make a sustained entry in a new industry requires productivity gains. On the other hand, to counter the Dutch disease effect, productivity in the tradable sector should be increased to compete with the non-tradable sector for resources.[2]

## II. Growth Accounting

6. **Methodology**

In this section, we describe the methodology and data used to conduct growth accounting.[3] Following Hall and Jones (1999), we adopt a benchmark Cobb-Douglas technology such that:

$$Y = AK^{\alpha}(Lh)1-\alpha \quad ,$$

where $Y$ is GDP, $A$ is TFP, $K$ is the aggregate capital stock, $L$ is the number of workers, $h$ is the average human capital such that $Lh$ represents the "quality adjusted" workforce. $\alpha$ is a constant in [0,1].

Output growth can be decomposed as follows:

$$g_Y = g_A + \alpha g_K + (1-\alpha)(g_L + g_h),$$

where
$g_x$ represents the growth rate of variable $x$. The goal of the exercise is to determine $g_A$ or the residual of how much of the variation in income is driven by variation in the factors of production on an annual basis between 1970 and 2000. The cross-country data requirement to conduct growth accounting for each country is the following: a measure of output; a measure of the stock of physical capital; and a measure of the "quality adjusted" workforce. We also need a value for $\alpha$.

7. **Data**

Following Caselli (2005), we construct a measure of the stock of physical capital, output, and the number of workers from version 6.3 of the Penn World Tables [PWT63]. From Barro and Lee (2010), we obtain educational attainment data.

We measure $y$ (real GDP per worker) in PPP terms. To compute the stock of capital, $K$, at each point in time, we use the perpetual inventory equation:

---

[2] Cherif (2008) shows that in a model of bilateral trade, the marginal crowding out effect of international transfers (interpreted as oil revenue) on the tradable sector will depend on the productivity differential vis-a-vis the trading partner.

[3] It is taken from Arezki and Cherif (2010) with updated data and adding to it GCC countries.

$$K_t = I_t + (1-\delta)K_{t-1},$$

where

$I_t$ is real aggregate investment in PPP terms and $\delta$ is the depreciation rate set to 6 percent.[4] We assume that the initial capital stock $K0$ is equal to $I0\ /(g+\ \delta\ )$, where $I_0$ is investment in the first year it is available, and $g$ is the geometric average growth rate of investment between the first year the series is available and 1970.[5] We include countries with data availability since 1960. We append the method to include GCC countries based on the assumption that initial capital in 1950 in all GCC countries is zero and the growth rate of investment is 10 percent.

Following Hall and Jones (1999), we compute a measure of human capital $h$ using the formula:

$$h = e^{\Phi(s)},$$

where $s$ is the average years of schooling in the population over 25 years of age, taken from Barro and Lee (2001) and the function $\Phi(s)$ is piecewise linear.[6] The goal of using this functional form is to produce a log-linear relationship between years of schooling and wage given the production function chosen and under perfect competition both in factor and goods markets. In addition, Hall and Jones choose $\Phi(s)$ to be consistent with differences in the return to schooling across countries found in Psacharopoulos (1994).[7]

We assume $\alpha$ to be 1/3 for all countries, which is consistent with U.S. time-series data, except for the GCC countries, where we assume $\alpha$ to be ½, translating the high share of capital in total payment. As a result, we construct an annual series for physical capital stock, output, and education for a large number of countries between 1970 and 2007.[8]

## 8. Results

**Productivity growth in Qatar is negative**. Figure 4 shows the average TFP growth over the period 2000–07 against logarithm of average GDP per capita over the same period for a group of advanced countries with similar wealth to the GCC countries. Figure 5 shows the

---

[4] Both GDP and investment are measured using the chain method.

[5] This method is a standard practice in the literature (see, for example, Hall and Jones, 1999, and Caselli, 2005); The intuition behind it is that $I\ /(g+\ \delta)$ corresponds to capital stock in the steady state of the Solow growth model.

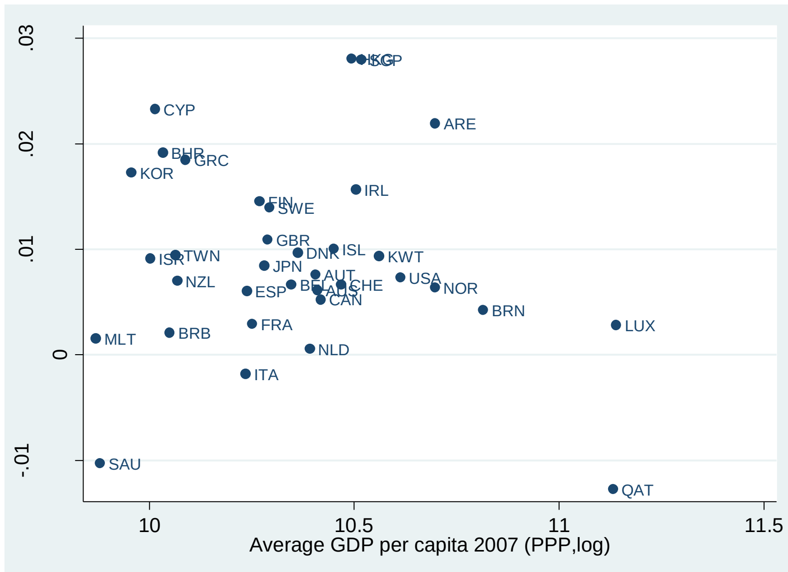
[6] $\Phi(s)=0.134*s$ if $s\leq 4$, $\Phi(s)=0.134*4 +0.101*(s-4)$ if $4<s\leq 8$, $\Phi(s)=0.134.4+0.101*4+0.068*(s-8)$ if $8<s$.

[7] Estimated by Mincerian wage regressions, see Mincer (1974).

[8] Schooling data from Barro and Lee (2010) are available only every five years so we use linear interpolation in between.

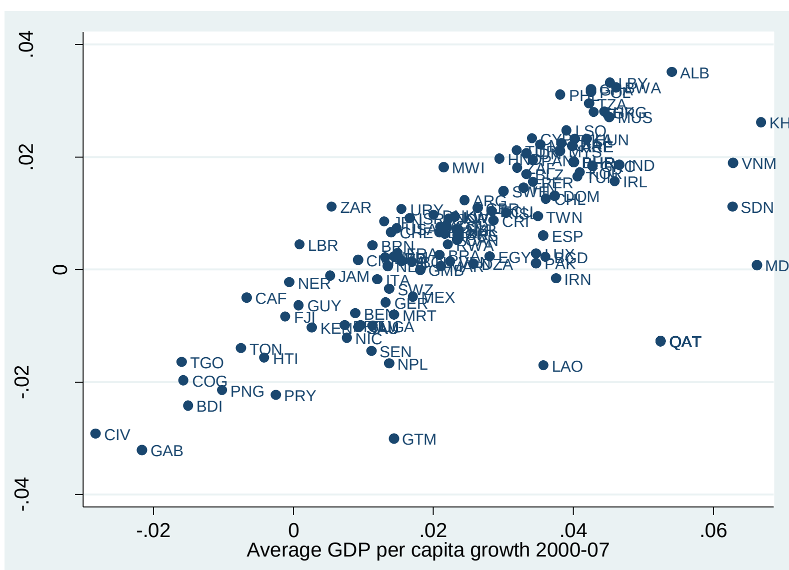
average TFP growth against the average growth rate of per capita real GDP over 2000–07 for all countries in the sample. There is a strong positive correlation between the average growth rate of per capita GDP and average TFP growth. Qatar is again an outlier as it has a relatively high growth rate while its average productivity growth is exceptionally low.

**Figure 4: Average TFP Growth Rates 2000–07 in Percent vs. Income Level**




Source: Staff estimates

**Figure 5: Average TFP Growth Rates 2000–07 in Percent vs. Income Growth**




Source: Staff estimates

Table 1 shows the results of the growth accounting of GCC countries over 2000–07 compared with selected advanced countries. As a reference, we choose a major oil exporter (Norway), a fast growing non resource-rich country (Singapore), and the United States. GCC countries have higher growth overall, mainly explained by capital expansion. Growth in both labor and physical capital are higher in GCC countries while human capital contributions are similar. On the other hand, TFP growth is negative in Qatar. In comparison, Norway and the U.S. have relatively small but positive TFP growths with 0.6 and 0.7 percent respectively. In both cases, capital growth is the biggest contributor to growth. However, Singapore's growth is mainly explained by its productivity gains with a TFP growth of 2.8 percent.

**Table 1: Average Growth Rates 2000–07 in Percent**

| | | Contribution to GDP growth | | | |
|---|---|---|---|---|---|
| Countries | GDP | Capital | Labor | Human capital | TFP |
| *GCC* | | | | | |
| Bahrain | 5.6 | 2.4 | 0.9 | 0.4 | 1.9 |
| Kuwait | 5.8 | 3.0 | 1.8 | 0.1 | 0.9 |
| Oman[1] | 4.4 | 3.3 | 1.8 | 0.4 | -1.1 |
| Qatar | 9.2 | 7.2 | 2.8 | 0.5 | -1.3 |
| Saudi Arabia | 3.5 | 2.0 | 1.9 | 0.7 | -1.0 |
| UAE | 8.8 | 2.7 | 3.0 | 0.9 | 2.2 |
| *Selected advanced countries* | | | | | |
| Norway | 2.6 | 0.9 | 0.5 | 0.7 | 0.6 |
| Singapore | 6.0 | 1.1 | 1.6 | 0.5 | 2.8 |
| United States | 2.4 | 1.2 | 0.7 | -0.3 | 0.7 |

[1] Human capital growth is imputed from the average in the GCC.

Table 2 shows the growth accounting decomposition for GCC countries for the periods 1970–79, 1980–89 and 1990–99. Qatar's average TFP growth is positive in the 1970s (1.2 percent), negative in the 1980s (-2.3 percent) and positive again in the 90s (2.6 percent). The growth of the labor force is particularly high during the same period reflecting the decrease in the infant mortality rates in the two previous decades.

**Table 2: Average Growth Rates in Percent**

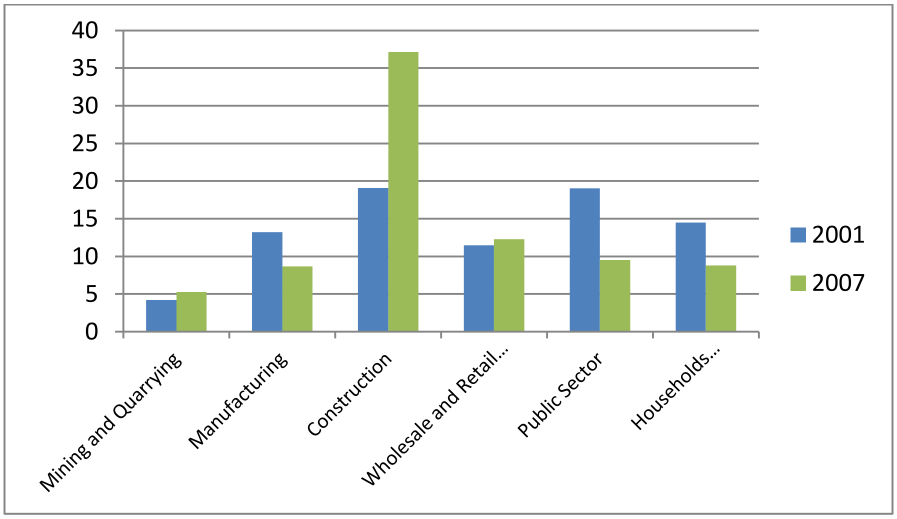
| Countries | GDP | Contribution to GDP growth: Capital | Labor | Human capital | TFP |
|---|---|---|---|---|---|
| | | | *1990-99* | | |
| Bahrain | 3.4 | 0.5 | 1.5 | 1.0 | 0.4 |
| Kuwait[2] | -7.8 | 0.9 | -2.2 | 0.0 | -6.5 |
| Oman[1] | 5.6 | 1.7 | 2.8 | 0.5 | 0.6 |
| Qatar | 6.6 | 2.0 | 1.5 | 0.5 | 2.6 |
| Saudi Arabia | 3.2 | 0.8 | 2.1 | 0.6 | -0.2 |
| UAE | 5.9 | 2.1 | 3.6 | 1.2 | -1.0 |
| | | | *1980-89* | | |
| Bahrain | 1.3 | 1.4 | 2.7 | 0.8 | -3.6 |
| Kuwait | -0.7 | 2.4 | 3.3 | 0.7 | -7.1 |
| Oman[1] | 6.4 | 4.9 | 2.6 | 0.7 | -1.7 |
| Qatar | 2.6 | 0.0 | 4.4 | 0.4 | -2.3 |
| Saudi Arabia | -1.0 | 1.4 | 3.9 | 0.8 | -7.1 |
| UAE | 1.4 | 3.6 | 3.3 | 0.9 | -6.4 |
| | | | *1970-79* | | |
| Bahrain | 6.5 | 1.8 | 4.5 | 1.1 | -0.8 |
| Kuwait | 1.2 | 3.1 | 3.6 | 0.8 | -6.3 |
| Oman[1] | 10.6 | 4.6 | 2.5 | 0.8 | 2.8 |
| Qatar | 6.8 | 1.1 | 4.0 | 0.5 | 1.2 |
| Saudi Arabia | 13.6 | 2.8 | 2.8 | 0.7 | 7.3 |
| UAE | - | - | - | - | - |

[1] Human capital growth is imputed from the average in the GCC.
[2] Average excluding 1992–95 because of missing data.

## III. Why is Productivity Low?

9. **Labor is concentrated in sectors with low productivity gains.** Building and construction is the fastest growing sector and employs the largest share of employment with more than 37 percent of the labor force in 2007 (Figure 6). Labor productivity (growth of output per worker) in construction decreased at an average annual rate of 0.5 percent over the period 2001–07. The second largest sector in terms of employment, excluding the public sector and households' employment, is manufacturing. Labor productivity in manufacturing decreased at an average annual rate of 1.4 percent. In contrast, labor productivity in services grew at a rate of 2.8 percent in trade restaurants and hotels and 6.1 percent in finance, insurance and real estate. The relatively big share of the public sector and household employment also contributes to the low level of productivity growth.

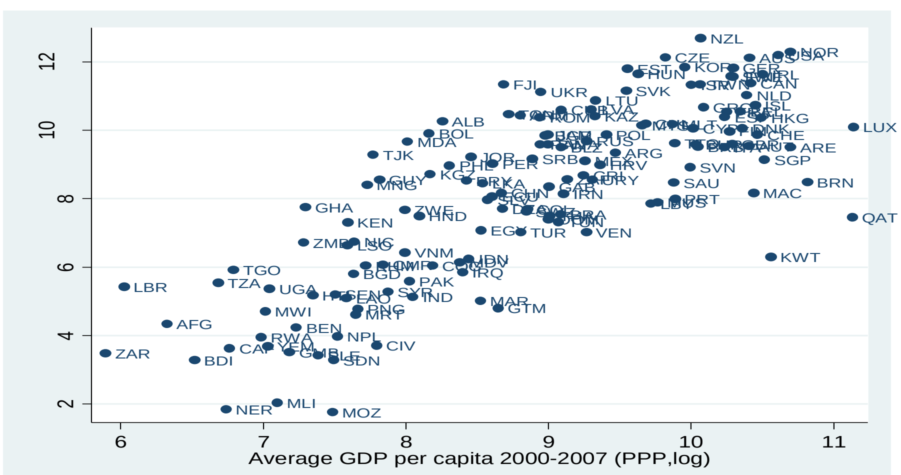
**Figure 6: Employment per Sector (share of labor force)**




Source: ILO

10. **Qatar's human capital is low relative to its wealth.** Figure 7 shows the average years of schooling in the population over 15 against average GDP over the period 2000–07. While there is a strong positive correlation, Qatar and Kuwait are outliers with high GDP per capita and relatively low average years of schooling. The concentration of activity in construction and household employment, which are unskilled labor intensive, explains in part the low level of average human capital.

**Figure 7: Average Years of Schooling 2010**




Source: Barro and Lee (2010)

## IV. How to Improve Productivity?

11. **Improving the efficiency of fiscal spending could help improve productivity during the transition.** Qatar witnessed a rapid transformation in the last 15 years, with a massive investment in infrastructure as part of its long term strategy. While the concentration of activity in construction is not conducive to productivity gains, the magnitude of productivity losses hints at inefficiencies in spending. The improvement of the public finance management framework should be pursued as sizeable investment projects are planned in the medium term.

12. **Qatar’s strategy will require a change of paradigm in the migrant labor market.** Qatar’s vision is to complete its infrastructure and subsequently move into high value added sectors, which in turn require highly skilled workers. While Qatar relied on temporary and low skilled migrant labor to build its infrastructure, it faces the challenge of attracting, training and retaining talents in a context of heightened competition for migrant workers while creating job opportunities in new sectors. Continued progress with the reform of education sector, training, and improving the business environment are key to raising productivity.

13. **Building the adequate institutional framework and identifying policies to encourage innovation should be pursued.** Qatari citizens are highly concentrated in the public sector. Qatar should therefore encourage entrepreneurs to enter new industries and spur innovation through an enabling environment.

# ANNEX I. QATAR: FUND RELATIONS

(As of November 30, 2010)

**I. Membership Status:** Joined 09/08/72; Article VIII, 06/04/73

**II. General Resources Account:**

| | SDR million | Percent Quota |
|---|---|---|
| Quota | 263.80 | 100.00 |
| Fund holdings of currency | 212.48 | 80.55 |
| Reserve position in Fund | 51.32 | 19.45 |

**III. SDR Department:**

| | SDR million | Percent Allocation |
|---|---|---|
| Net cumulative allocation | 251.40 | 100.00 |
| Holdings | 268.32 | 106.73 |

**IV. Outstanding Purchases and Loans:** None

**V. Projected Obligations to the Fund:**

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

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Principal | | | | | |
| Charges/Interest | | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | | **0.00** | **0.00** | **0.00** | **0.00** |

**VI. Implementation of HIPC Initiative:** Not applicable

**VII. Safeguards Assessments:** Not applicable

**VIII. Exchange Arrangements:**

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).

## IX. Article IV Consultation:

The discussions for the previous Article IV consultation took place in Doha in November 2009. The Staff Report and its supplement were approved by the Executive Board on lapse of time basis on February 8, 2010. Qatar moved to a 12-month Article IV consultation cycle in 2007.

## X. FSAP Participation, ROSCs, and OFC Assessments:

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.

## XI. 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 (ongoing) | AML/CFT Long-Term Advisor providing TA. |
| STA | October 2010 | Balance of Payments Statistics |

## XII. Resident Representative: None

## ANNEX II. QATAR: RELATIONS WITH THE WORLD BANK GROUP

(As of November 22, 2010)

### Strategic Cooperation Program (SCP)

The program of cooperation with Qatar is relatively recent and is based on ad hoc requests from the government for advisory services addressing strategic development issues. The first formal technical cooperation agreement was signed in April 2003 for 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. The study was completed in June 2005 and could serve as a model for the GCC countries with similar labor issues. The project made a significant impact in Qatar and was widely publicized by the government. In 2007, WBI conducted a study on the Knowledge Economy (KE) development in Qatar, the results of which were discussed at several high-level workshops. During 2008 and the first half of 2009, the Bank continued to support the implementation of the strategy; recently, the government decided to take over further implementation of this program but expected the Bank to continue its support in certain areas of the KE development. In February 2010, Government, represented by the Minister of Economy and Finance, signed the Framework Agreement for Advisory Services with the Bank.
Moving forward, the government expressed a strong interest in further collaboration with the World Bank on a number of strategic issues, i.e., public-private partnerships, fiscal management, and macroeconomic modeling (RMSM-X). A new program has been initiated by the Ministry of Business and Trade to address the issues of improving business environment.

### Ongoing Projects

- Business and Trade Development

The project objective is to develop specific policy measures and interventions for trade facilitation and export development to support high quality investments in Qatar. It aims to identify opportunities to (i) expand the range of markets into which existing export products are sold; (ii) upgrade the quality and value added of existing export products and (iii) expand exports of services.

- PPP Development

The Ministry of Business and Trade (MBT) has developed a partnership between its PPP department and the World Bank. The objectives of the recently established partnership are to strengthen the capacity of the PPP department and develop a world-class PPP framework in Qatar. The program starts with the diagnostic report and moves on to the action plan design and implementation support.

- Macro Capacity Development

GSDP requested the Bank's urgent assistance with developing macroeconomic capacity, in particular, using RMSM-X modeling. The Bank retained a macroeconomist who developed the flow-of-funds model and trained several GSDP staff. Follow-up is currently under discussion.

**Completed Projects**

- Linking Qatar's Medium-Term Development Strategy to the Annual Budget (FY10)
- Economic Diversification Forum (FY10)
- Support to Labor Market Strategy Action Plan: Implementation (FY09)
- 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 (FY 03)

## ANNEX III. QATAR: STATISTICAL ISSUES

(As of November 2010)

### I. ASSESSMENT OF DATA ADEQUACY FOR SURVEILLANCE

**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 payment, and external debt statistics.

**National Accounts:** Despite recent improvements, key aggregates are limited to quarterly estimates of GDP at current prices. The accuracy of data in the nonhydrocarbon sector is undermined by the lack of comprehensive source data. In 2010, Qatar Statistics Authority published annual series of real GDP data beginning 2004.

**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—reflects only new contracts, leading to an overestimation of the current deflation.

**Government finance statistics:** The authorities presented to the mission, Government budget and outcomes data according to *Government Finance Statistics Manual 2001* (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.

**Monetary statistics:** Monetary data for Qatar Central Bank (QCB) and commercial banks are generally timely and of high quality. The QCB reports monetary data regularly to IMF Statistics Department (STA) for publication in *International Financial Statistics* (IFS) on a monthly basis with a lag of about three weeks. Monthly and quarterly data are also published in the *Quarterly Statistics Bulletin.*

**Financial Stability:** QCB published and disseminated its first Financial Stability Report in 2010, and plans to make it an ongoing process.

**Balance of Payments:** The International Transactions Reporting System (ITRS) has not yet stabilized. The recent TA mission observed that there was a general misunderstanding of the concepts and classifications needed to reliably use the ITRS as a main data source for the BOP compilation. The mission recommended that a study be carried out on the feasibility of improving the ITRS system to make it more robust and reliable. This would involve IT resources, training of commercial bank staff, and increased resources from commercial banks. There are significant data gaps in all components of the financial account. There is no compilation for inward or outward direct investment, there are no portfolio investment data compiled for the nonbank sector, and errors and omissions remain large. Moreover, official statistics seem to underestimate total imports. Source data for government external assets are not provided to the QCB for BOP compilation. Although an estimate for flows of government external assets based on the budget data is included in the balance of payments, no information is provided on the government's stock of external assets, which makes it difficult to appraise the level of investment income with any degree of confidence. The TA mission found that there is potential for new data sources (such as the Qatar Investment Authority, Qatar Statistics Authority, Qatar Financial Center, and Qatar Exchange) to provide data regularly to the QCB. Although the QCB does not currently compile international investment position (IIP) statistics, most new data sources are designed to also provide the data required for the development of an IIP statement. The mission recommended that QCB staff rigorously follow-up with the agencies that have agreed to provide the information to fill important data gaps. The authorities have worked with STA in an attempt to report their BOP data in *Balance of Payments Manual 5/e* (BPM5) format, however there has been insufficient detailed information available to complete this process.

**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. It is, therefore, important to improve the information flow on external debt and its maturity profile. The Ministry of Economy and Finance is giving 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 January 2011)

| | Date of latest observation | Date received | Frequency of Data[6] | Frequency of Reporting[6] | Frequency of Publication[6] |
|---|---|---|---|---|---|
| Exchange Rates | Dec. 2010 | Jan. 2011 | M | M | M |
| International Reserve Assets of the Monetary Authorities[1] | Nov. 2010 | Dec. 2010 | M | M | M |
| Reserve/Base Money | Nov. 2010 | Dec. 2010 | M | M | M |
| Broad Money | Nov. 2010 | Dec. 2010 | M | M | M |
| Central Bank Balance Sheet | Nov. 2010 | Dec. 2010 | M | M | M |
| Consolidated Balance Sheet of the Banking System | Nov. 2010 | Dec. 2010 | M | M | M |
| Interest Rates[2] | Nov. 2010 | Dec. 2010 | M | M | M |
| Consumer Price Index | Nov. 2010 | Jan. 2011 | 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 | 2009/10 | May 2010 | Q | I | I |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2010 | Nov 2010 | A | I | I |
| External Current Account Balance | 2009 | March 2010 | A | A | Q |
| Exports and Imports of Goods and Services | 2009 | March 2010 | A | A | Q |
| GDP/GNP | 2010 (Q3) | Jan. 2011 | Q | I | I |
| Gross External Debt | 2010 | Nov 2010 | A | I | I |
| International Investment Position[7] | Sep. 2010 (incomplete) | Nov. 2010 | I | I | NA |

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).
[7] Includes external gross financial asset and liability positions vis-avis nonresidents.

**Statement by the IMF Staff Representative**
**February 16, 2011**

1. This statement provides information on recent developments in Qatar that has become available since the staff report was circulated to the Executive Board on January 21, 2011. The new information does not change the thrust of staff appraisal.

2. Official data released by the authorities show that average headline CPI inflation was -2.5 percent in 2010. In January 2011, the authorities increased local fuel prices on average by 25 percent. Staff estimates that the effect of this measure on inflation will be about 0.9 percent.

3. Bank credit to the private sector rose by 10.6 percent in 2010, while broad money increased by 23 percent. Qatar Central Bank issued 3-year government bonds (Islamic and conventional) for a face value of $13.7 billion to local banks at 5.0 percent coupon rate to absorb excess liquidity.

4. The authorities announced that the Qatar Investment Authority (QIA) plans to infuse 10 percent equity in local banks during the first quarter of 2011, to complete the third tranche of the decision taken during the global crisis of 2008 to increase the capital of local banks by 20 percent.

5. There have not been any significant spillovers from financial markets re-pricing of political and sovereign risks in the region to Qatar. Since January 10, sovereign spreads have widened by 10 basis points (from 86 bps to 96 bps) and Qatar Exchange lost less than 1 percent of its value.

INTERNATIONAL MONETARY FUND

**Public Information Notice**

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 11/32
FOR IMMEDIATE RELEASE
March 8, 2011

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

# IMF Executive Board Concludes 2010 Article IV Consultation with Qatar

On February 16, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar.[1]

**Background**

Qatar has weathered the global financial crisis exceptionally well, reflecting the quick and strong policy response by the authorities. The sizeable enhancement of liquefied natural gas (LNG) capacity, large government support to the banking system, and increase in public spending helped sustain high growth rates through the global crisis. Real gross domestic product (GDP) growth has rebounded to 16 percent in 2010 and is projected to accelerate to 20 percent in 2011. Headline consumer price inflation is negative in 2010, reflecting a sharp fall in domestic rents, although non-rent prices have started to rise. While bank credit for consumption and real estate stagnated after 2009, credit to public sector companies increased sharply.

The banking system is well capitalized and profitable. Banks had a high capital adequacy ratio of 17.4 percent, low nonperforming loans ratio of 1.9 percent, and a comfortable provisioning coverage of 85 percent at end August 2010. Profitability was 20 percent higher in the first three quarters of 2010, compared to the same period of 2009.

[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.

Continued government investment will keep growth high beyond 2011. While the self-imposed moratorium on increasing gas production after 2012 will lead to a sharp tapering off of growth in the hydrocarbon sector, government investments will support an average growth of 9 percent in the nonhydrocarbon sectors during 2012–15.

Headline consumer price inflation is projected at 4 percent over the medium term, as rents stabilize due to a gradual narrowing of the current excess capacity in real estate. Non-rent inflation, however, could resurge as the recovery in international commodity prices affecting Qatar's import basket and growth in domestic demand continue. The fiscal and external balances are projected to remain in surplus through 2015.

The economic outlook remains positive, with the main downside risk being a sharp decline in hydrocarbon prices.

**Executive Board Assessment**

Executive Directors commended the authorities for the prudent policies during the global economic crisis which, coupled with an increase in gas production, have contributed to maintaining strong economic growth while safeguarding financial stability. Directors considered that the economic outlook is favorable, despite vulnerabilities to gyrations in hydrocarbon prices and global financial shocks. They stressed the need, however, to carefully monitor aggregate demand to prevent the resurgence of inflationary pressures. In the medium term, increasing productivity in the nonhydrocarbon sector will be key to promoting economic diversification.

Directors agreed that the current expansionary fiscal stance is broadly appropriate in view of the infrastructure investment needs and the comfortable fiscal position, but recommended the authorities stand ready to adjust policies if demand pressures reemerge. Directors encouraged the authorities to continue saving their hydrocarbon surpluses over the medium term to facilitate intergenerational equity. They stressed that containing current expenditures and broadening the tax base will be critical to reducing the budget's dependence on hydrocarbon revenues. Directors underlined the importance of strengthening fiscal institutions to support these goals and welcomed the authorities' intention to establish a macrofiscal unit and a debt office.

Directors considered that the main challenge for the central bank will be to manage the credit cycle without fuelling inflation. Given the pegged exchange rate, they recommended the central bank rely on macroprudential instruments to help contain credit growth and potential surges in capital inflows. Directors noted the staff's assessment that the Qatari riyal is in line with fundamentals and agreed that the peg to the U.S. dollar remains appropriate. They encouraged the authorities to develop their technical and operational capacity in the event of a switch to an alternative exchange rate regime in the context of the monetary union.

Directors stressed that safeguarding financial stability remains essential. They welcomed the creation of the Financial Stability Unit and the results of the recent stress tests, which show the banking system's resilience to market and credit risks. Directors also supported the authorities' plans for establishing a single financial regulator to ensure harmonization of regulation and close regulatory gaps.

Directors noted that achieving strong and sustainable growth in the nonhydrocarbon sectors requires further efforts on structural reforms. They underscored that modernizing and strengthening the financial sector, including by further developing the local debt market, will be vital for supporting private sector diversification efforts. They also stressed the importance of improving the efficiency of public spending, more effective reforms in education and training, and greater encouragement to innovation for increasing Qatar's competitiveness and productivity.

Directors acknowledged the efforts by the authorities to improve statistics, and noted that there is scope for improving the frequency, timeliness, and coverage of economic data. They underlined the need for greater coordination among data providers and welcomed the authorities' intention to seek technical assistance in the compilation of the consumer price index.

## Qatar: Selected Economic and Financial Indicators, 2006–11

| | 2006 | 2007 | 2008 | 2009 | Proj. 2010 | Proj. 2011 |
|---|---|---|---|---|---|---|
| **Production and prices** | | | | | | |
| Real GDP (in percent per annum) | 18.6 | 26.8 | 25.4 | 8.6 | 16.3 | 20.0 |
| Hydrocarbon 1/ | 14.3 | 23.3 | 23.1 | 7.7 | 22.7 | 29.5 |
| Nonhydrocarbon GDP | 23.7 | 30.6 | 27.8 | 9.6 | 10.0 | 9.5 |
| Nominal GDP (in billion U.S dollars) | 60.5 | 80.8 | 110.7 | 98.3 | 126.9 | 160.5 |
| Consumer price index (period average) | 11.8 | 13.8 | 15 | -4.9 | -2.6 | 3.0 |
| | (In percent of GDP on fiscal year basis) 2/ | | | | | |
| **Public finance** | | | | | | |
| Total revenue | 36.1 | 36.7 | 36.0 | 44.1 | 36.8 | 35.0 |
| Hydrocarbon revenue | 23.2 | 22.0 | 20.4 | 21.6 | 20.2 | 19.2 |
| Other revenue | 12.8 | 14.7 | 15.6 | 22.5 | 16.6 | 15.7 |
| Total expenditure and net landing | 28.1 | 26.9 | 25.3 | 29.9 | 27.0 | 24.8 |
| Current expenditure, *of which:* | 20.8 | 16.3 | 16.8 | 19.6 | 17.5 | 15.4 |
| Wages and salaries | 5.4 | 5.0 | 4.8 | 5.6 | 5.2 | 4.6 |
| Capital expenditure | 7.3 | 10.6 | 8.5 | 10.2 | 9.6 | 9.4 |
| Overall fiscal balance (deficit -) | 7.9 | 9.8 | 10.6 | 14.2 | 9.7 | 10.2 |
| | (Annual change in percent) | | | | | |
| **Money** | | | | | | |
| Broad money | 38.0 | 39.5 | 19.7 | 16.9 | 21.3 | 12.0 |
| Claims on private sector | 45.9 | 51.3 | 42.4 | 7.0 | 8.5 | 13.9 |
| | (In million U.S. dollars, unless otherwise stated) | | | | | |
| **External sector** | | | | | | |
| Exports of goods and services, *of which:* | 39,276 | 50,508 | 72,695 | 48,280 | 67,183 | 88,930 |
| Crude oil and refined petroleum products | 17,840 | 21,083 | 29,438 | 18,384 | 25,566 | 27,993 |
| LNG and related exports | 13,360 | 18,710 | 32,267 | 23,947 | 33,272 | 50,907 |
| Imports of goods and services | -21,767 | -27,172 | -35,378 | -30,092 | -35,719 | -39,552 |
| Current account | 15,295 | 20,186 | 32,197 | 10,013 | 21,922 | 38,774 |
| In percent of GDP | 25.3 | 25.0 | 29.1 | 10.2 | 17.3 | 24.2 |
| Central Bank reserves, net | 5,410 | 9,546 | 9,832 | 18,352 | 26,786 | 30,706 |
| In months of imports of goods and services 3/ | 2.4 | 3.2 | 3.9 | 6.2 | 8.1 | 8.5 |
| Exchange rates (riyals/U.S. dollars) | 3.64 | 3.64 | 3.64 | 3.64 | 3.64 | 3.64 |
| Real effective exchange rate (percent change) | 8.1 | 3.1 | 3.6 | 13.5 | ... | ... |

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 Shakour Shaalan, Executive Director for Qatar**
**February 16, 2011**

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

2. Qatar has weathered the global economic and financial crisis remarkably well, on account of strong fundamentals as well as a timely policy response. Prudent policies that have been followed in past years, coupled with a considerable increase in gas production, have enabled the authorities to sustain large public investments in social and physical infrastructure and to provide timely support to the banking sector. These actions have helped maintain high growth rates throughout the crisis as well as strong fiscal and external accounts. Headline inflation was negative in 2010, reflecting a sharp decline in domestic rents, although non-rent inflation has started to rise. The Qatari banking system remained sound, well-capitalized and profitable. In the period ahead, the authorities remain committed to policies aimed at sustaining growth and diversifying the economy, while maintaining macroeconomic and financial stability. They acknowledge that improving productivity would be key to sustaining long-term growth in the non-hydrocarbon sector.

**Fiscal Policies and Reforms**

3. Countercyclical fiscal policy, supported by sustained growth in hydrocarbon-related revenues, has provided a strong response to the global crisis. The authorities implemented an adequate fiscal stimulus package in 2009 aimed at developing social and physical infrastructure. The 2010/11 budget includes a significant increase in development expenditure, while containing current spending. The social and infrastructure spending effort will be pursued in the medium term, within a $100 billion investment program to be implemented over a five-year period.

4. Looking ahead, the authorities attach great importance to ensuring long-term fiscal sustainability. To achieve this objective, they will continue to save a share of the hydrocarbon revenues through their sovereign wealth fund, to facilitate intergenerational equity. Moreover, the authorities remain committed to reducing their dependence on the hydrocarbon sector, particularly in view of the self-imposed moratorium on developing new hydrocarbon projects until 2015. In this connection, several measures have been carried out to expand the non-oil revenue base, including rationalizing and broadening the corporate tax base. Introducing a value-added tax in the context of a GCC-wide initiative would broaden the tax base further. Current expenditure would be contained over the medium term by enhancing spending efficiencies, resisting increases in salaries, and shrinking the size of

government to the extent possible. Over the medium term, these measures would result in a substantial reduction in the non-oil primary deficit compared to past years and to the sustainable level as calculated by staff. The authorities' objective is to fully finance their budgets after 2020 from non-hydrocarbon revenues.

5. Notwithstanding the large fiscal surpluses, the government has issued a number of conventional and Islamic bonds in 2009–10. The objective is to create a sovereign benchmark yield curve aimed at facilitating issuances by government-owned corporates and commercial banks. These measures would contribute to the development of a domestic bond market. The authorities see merit in developing an institutional framework for debt management and have expressed interest in Fund technical assistance (TA) to that effect.

**Monetary, Exchange Rate, and Financial Sector Policies**

6. In view of the interest rate differentials against the U.S. dollar and other GCC currencies, negative headline inflation, and the slowdown in bank credit to the private sector, Qatar Central Bank (QCB) reduced its policy rate by 50 basis points last August, and would react to the evolving economic conditions as warranted. QCB is closely monitoring liquidity in the financial system. It stands ready to use the instruments at its disposal, including certificates of deposits and prudential regulation—namely limits on credit ratios and sectoral exposures—to manage credit growth and potential surges in capital inflows. QCB shares staff's assessment that the establishment and operation of a credit bureau would help increase transparency, promote information among banks, and help reduce investor risk aversion.

7. The authorities are closely monitoring aggregate demand to avoid the re-emergence of inflationary pressures, though inflation is not a concern in the near term. It is well to recall that the high inflation levels experienced before the global crisis were mainly due to supply bottlenecks and rising rents. The current situation of excess supply in real estate and the considerable easing of supply bottlenecks in raw materials—a result of increased investments in these sectors—have greatly reduced inflation risks in the short term.

8. The authorities reaffirm their commitment to the U.S. dollar peg, which has provided an effective nominal anchor. Nonetheless, they are strengthening the institutional and operational capacity in financial markets, which would prove useful in case an alternative exchange rate system becomes desirable in the context of the GCC monetary union.

9. The authorities remain vigilant to financial sector developments. They supported the banking system in 2009 and 2010, respectively, through two rounds of capitalization, and purchase of local equity and real estate assets from banks. They agree with staff that the lessons learnt from the crisis underscore the importance of building banks' capacity to assess

risks, greater information sharing among them, and improving corporate governance and transparency. QCB is conducting regular stress testing of banks, which point to the system's resilience to credit and market risks; a result similar to that reached by staff. The QCB also published its first Financial Stability Review. The authorities are committed to establishing a single financial regulatory authority to address regulatory and supervisory gaps and strengthen financial sector reforms. They aim to align their supervisory and regulatory frameworks with best standards and practices, and plan to implement Basel III proposals shortly.

**Statistical Issues**

10. Considerable progress has been made in improving the quality and dissemination of economic data. Nonetheless, shortcomings remain in the national accounts and inflation statistics, and the authorities have requested Fund TA in compiling the consumer price index. Recent TA on the financial account of the balance of payments pointed to lack of capacity in the compilation of the international investment position statistics. The authorities are preparing a roadmap for the implementation of the recommendations of the TA mission.