INTERNATIONAL MONETARY FUND

Staff Country Reports

January 2009
IMF Country Report No. 09/28

Qatar: 2008 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

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 2008 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 17, 2008, with the officials of Qatar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 30, 2008. 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 January 21, 2009, updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 21, 2009 discussion of the staff report that concluded the Article IV consultation.

The documents listed below will be separately released.

Statistical Appendix

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 2008 Article IV Consultation

Prepared by Staff Representatives for the 2008 Consultation with Qatar

Approved by Juan Carlos Di Tata and David Marston

December 30, 2008

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

Contents Page

EXECUTIVE SUMMARY

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

The authorities

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

Staff recommendations

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

I. RECENT ECONOMIC DEVELOPMENTS

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

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

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

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

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

2. **The global financial crisis does not seem to have affected liquidity in Qatar**, as deposits and credit continued to grow at a rapid pace through October 2008. Interbank liquidity remains broadly comfortable, although the weighted-average interbank rates in one-month maturities rose (by about 350 basis points) between August and October. The central bank has responded by introducing an overnight liquidity facility for banks, but use of this facility has been negligible.[3]

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

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

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

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

Banking Sector Performance and Soundness (2003–08)

(in percent)

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

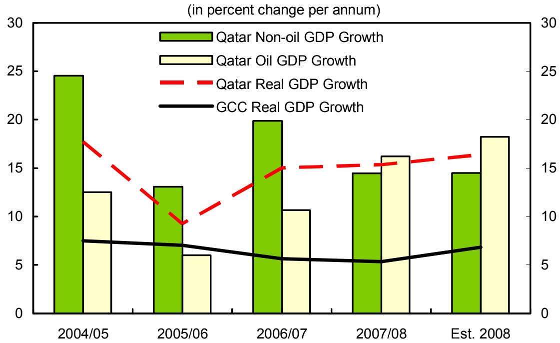
1/ Pertains to national conventional banks.

Sources: *Global Financial Stability Report* (GFSR); Qatari Authorities.

Qatar: Recent Economic Developments, 2004–08

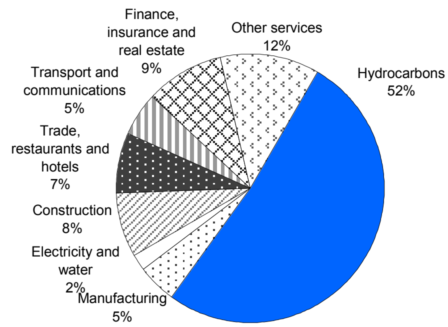
Qatar is the fastest growing economy in the GCC region...

GDP Growth
(in percent change per annum)



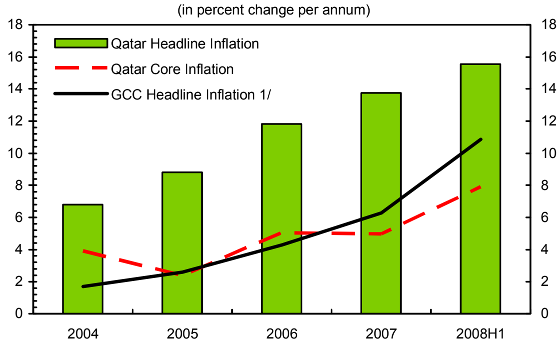
… dominated by the hydrocarbon sector.

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



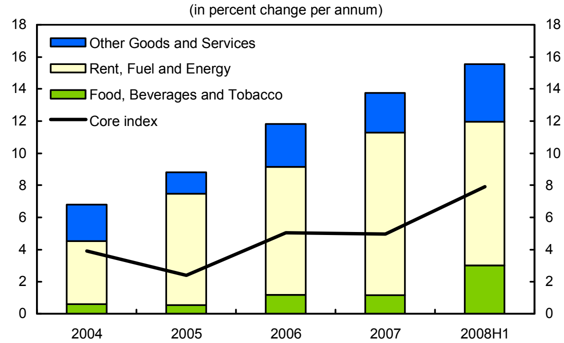
Inflation is the highest in the GCC...

Core and Headline Inflation
(in percent change per annum)



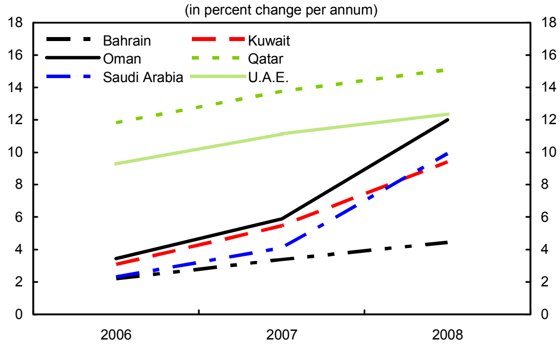
… with rent and food being highest contributors.

Contribution to Inflation
(in percent change per annum)



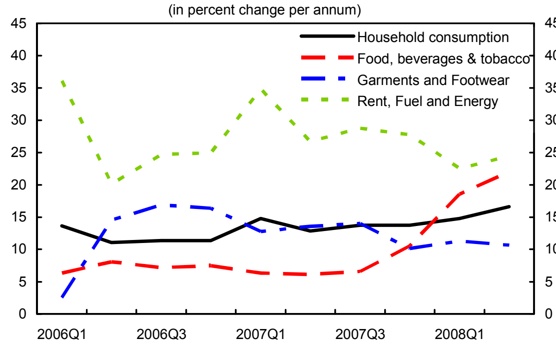
Inflation is leveling off, albeit at high levels...

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



… as rent inflation seems to have slowed.

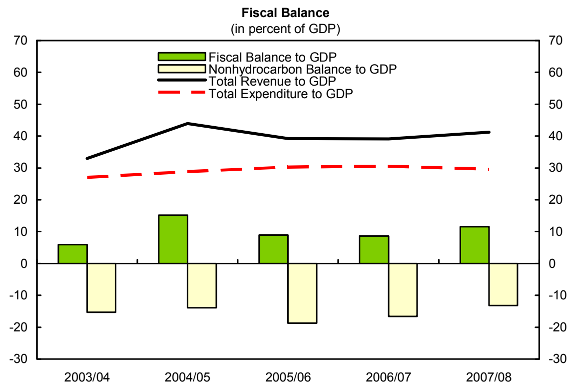
Quarterly Inflation, 2006 Q1–2008 Q2
(in percent change per annum)



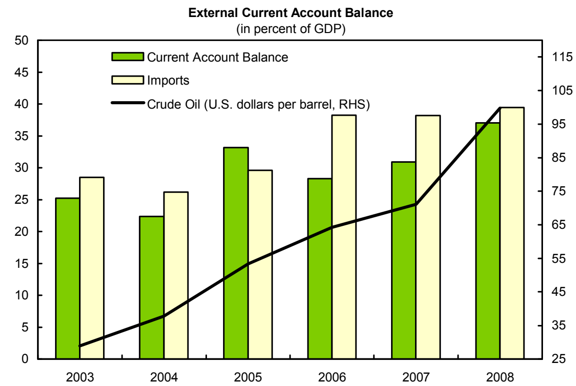
1/ The 2008 figure for the GCC is the projection for the whole year.

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

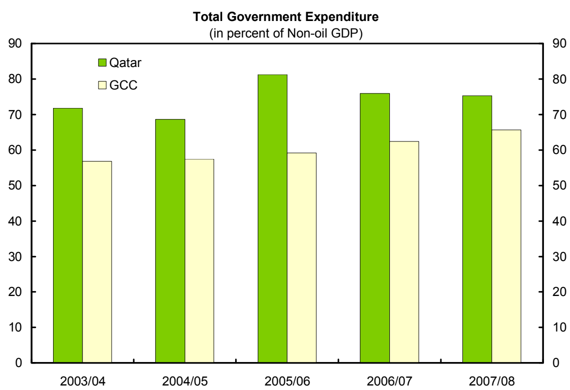
Fiscal surpluses continued owing to high oil and gas production...



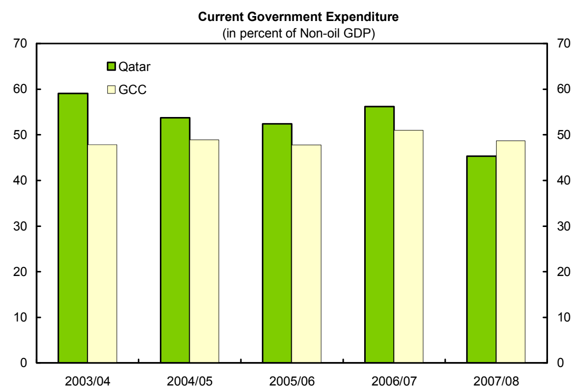
… and the current account surplus has increased to record levels.



Total government expenditure has declined...



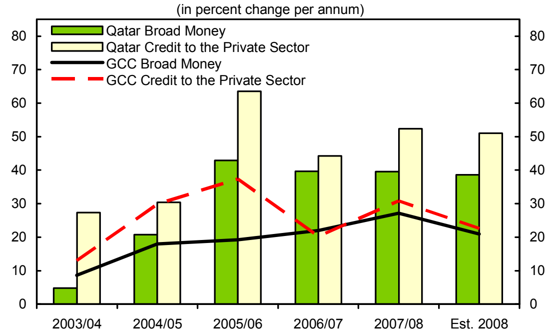
… as current expenditure fell, reflecting containment of wages.



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

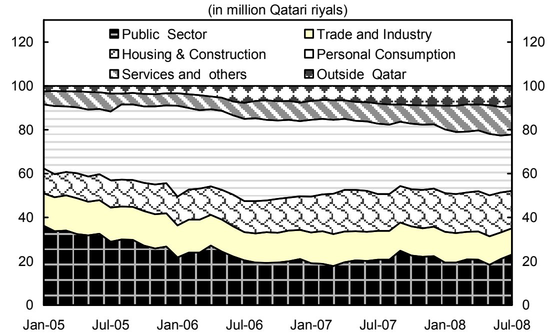
Broad money grew strongly...

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



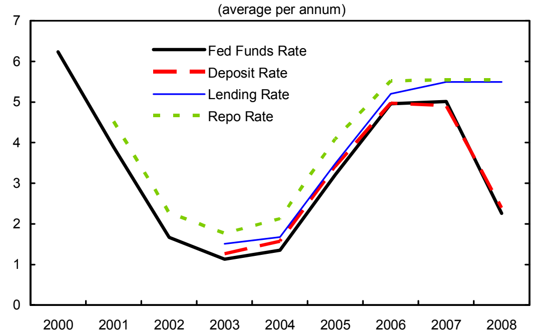
... and growth in credit to the public sector and for housing and real estate accelerated.

Distribution of Credit
(in million Qatari riyals)



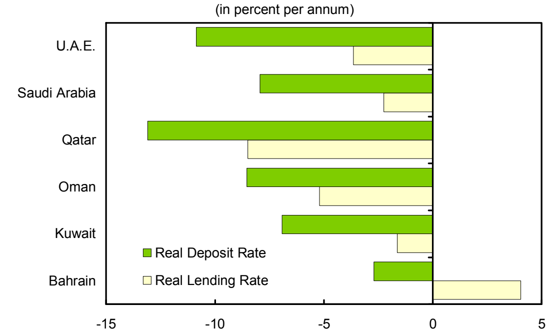
Interest rates remained broadly aligned to the Federal Funds rate...

Interest Rates
(average per annum)



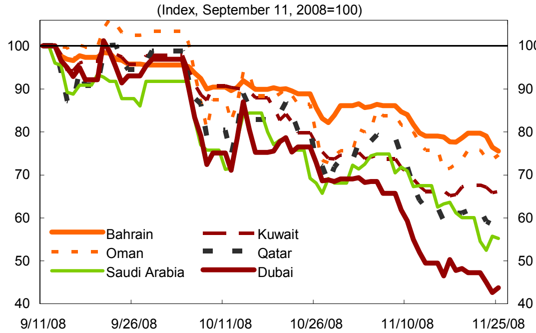
... and real deposit and lending rates remained negative.

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



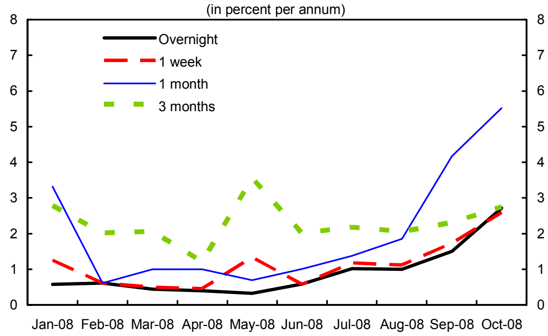
Equity prices declined sharply...

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



... and one-month interbank rates increased.

Interbank Rates
(in percent per annum)



Sources: Country authorities; and IMF staff estimates.

II. MEDIUM-TERM ECONOMIC OUTLOOK AND RISKS[4]

4. **Qatar's medium-term outlook is positive.** Real GDP growth is projected at 29 percent in 2009, as the production of LNG and gas products is expected to almost double with the commissioning by Rasgas (gas producer) of two trains, and construction, manufacturing, financial services, trade and transportation, and communications all projected to grow at a strong pace. Inflation is projected to fall to 10 percent in 2009, as a result of the passthrough of declining international prices for food and raw materials and a slower increase in domestic rents owing to a larger supply of low- and middle-income housing. The fiscal and external current accounts are projected to remain in surplus in 2009, despite the lower projected oil price of $54 a barrel. An expected deceleration in credit growth to the private sector would reflect the lingering effects of uncertainties from the global financial turmoil and wealth effects from depressed asset prices.

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

6. **Downside risks** include a prolonged crisis in the global financial system; persistently lower oil prices; a large decline in real estate prices;[5] and an escalation of geopolitical tensions. To estimate the extent of downside risks to the medium-term outlook, staff estimated two alternative scenarios: (a) one assuming a 5 percent reduction in LNG production in 2009 and 2010 (assuming a delay in the production capacity of one train), and (b) another assuming in addition to (a) an oil price of $45 dollar a barrel in 2009 and thereafter increasing proportionately with current futures prices. In both scenarios, the expenditure profile is assumed to be unchanged over the medium-term. The simulations show that Qatar could still maintain on average double-digit growth rates in

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

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

non-oil real GDP and continue to record fiscal and current account surpluses over the medium term, although at lower levels.

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

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

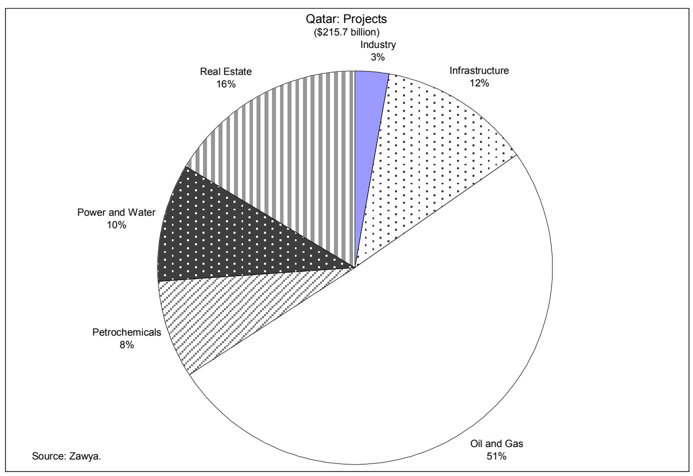
Rising wealth has facilitated the doubling of investment in both the hydrocarbon and non-hydrocarbon sectors in the GCC since 2007. Saudi Arabia and the U.A.E account for the lion's share (70 percent). Investments in oil and gas underscore the systemic role of GCC countries in global hydrocarbon markets.

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

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

Source: Zawya.

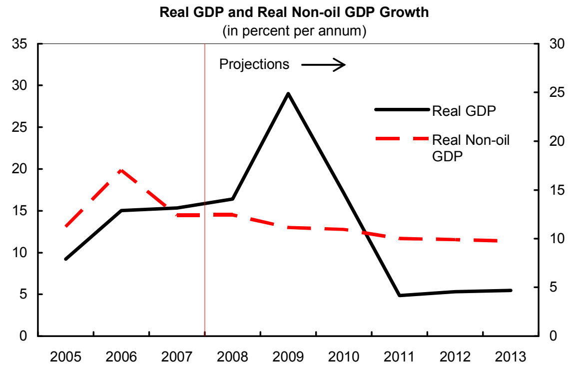
The investment profiles of GCC countries reflect country-specific diversification strategies, although projects are generally geared toward addressing supply bottlenecks, diversification, and employment generation. With the emergence of inflation as the main short-term macroeconomic challenge, large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



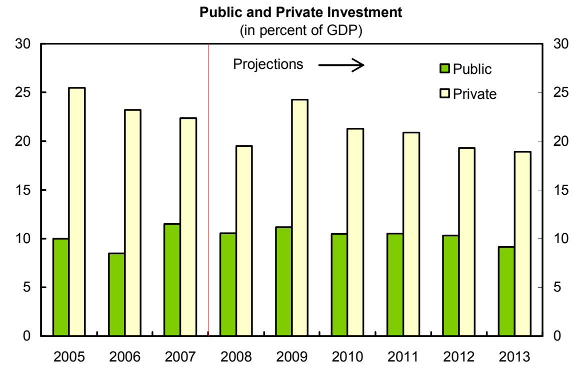
Qatar has committed investments of $150 billion that are expected to be completed by 2012, of which $100 billion are in the hydrocarbon and related manufacturing sectors. Other large projects include the new airport, a port, an aluminum plant, and housing projects.

Qatar: Medium-Term Outlook, 2005–13

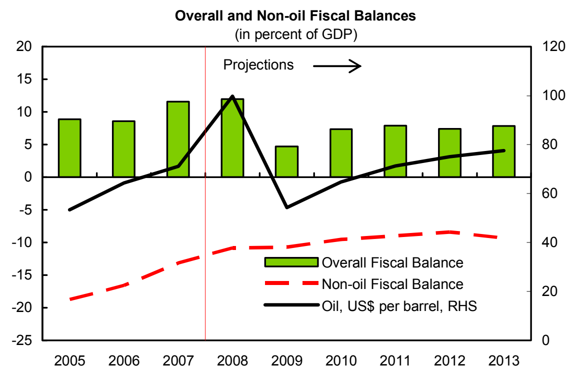
Growth outlook is favorable...



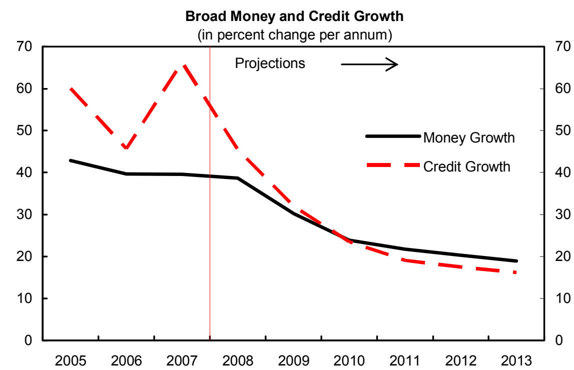
… with committed investments.



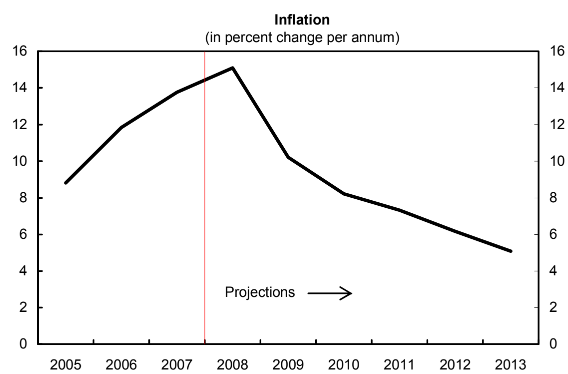
Fiscal surpluses decline...



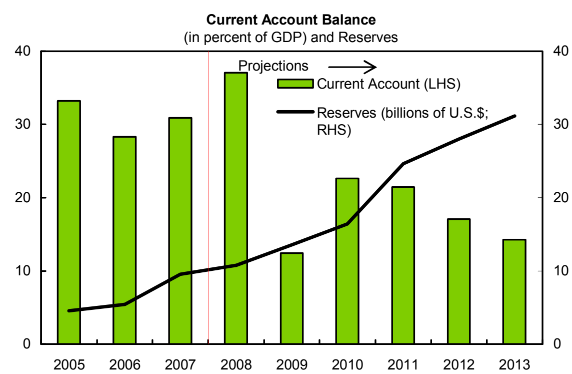
… and broad money and credit growth remain moderate.



Inflation declines gradually...



… current account surpluses narrow, but still remain high.



Source: IMF staff estimates.

III. Policy Discussions

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

A. Impact of the Global Financial Crisis

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

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

11. **The authorities have been proactive in managing market expectations.** In addition to the introduction of an overnight liquidity window at 3 percent, the central bank is currently preparing a list of acceptable instruments to facilitate collateralized lending to banks. The authorities are also closely monitoring conditions in the money market and have used moral suasion to urge public entities to increase deposits in commercial banks without demanding higher interest rates.

Box 2. Qatar's Banking System

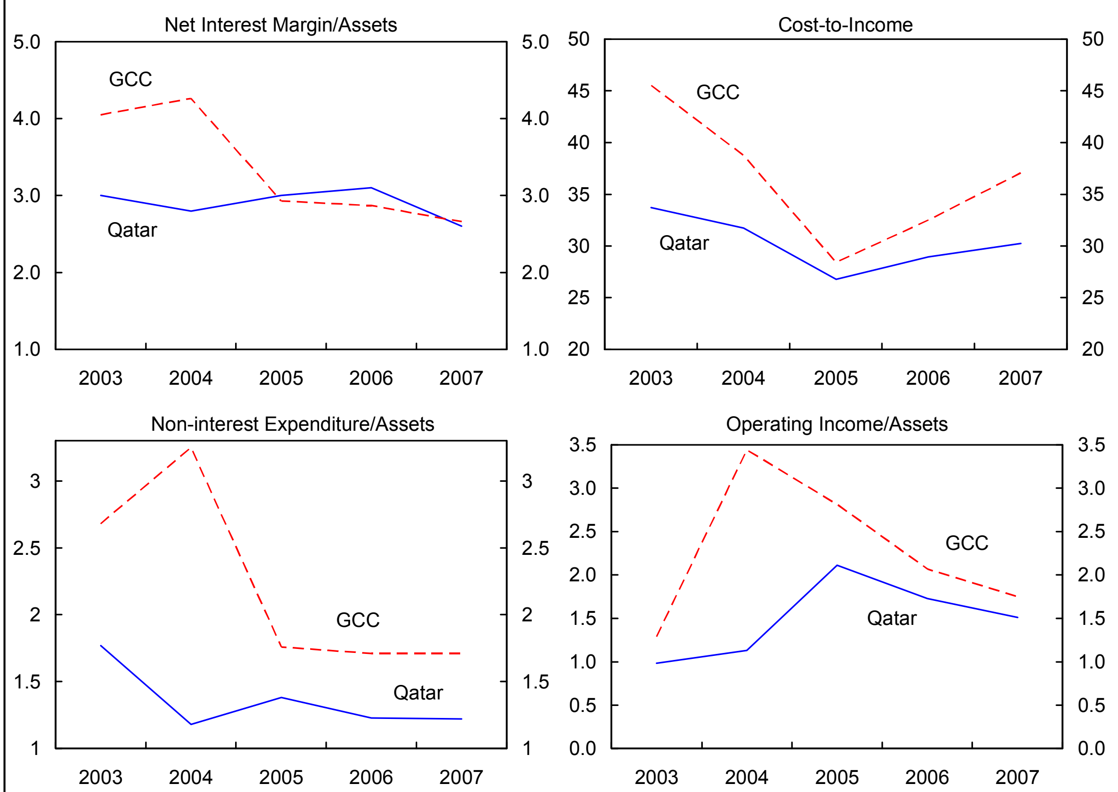
Qatar's banking system is dominated by national banks. The system comprises 16 banks—6 conventional, 3 Islamic, and 7 foreign. Conventional banks assets constitute 80 percent of total bank assets; Islamic and foreign banks account for 10 percent each. The regulatory capital adequacy requirement is 10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

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

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

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

Qatar's Banking System (continued)



Source: Bank Scope.

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

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

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

B. Inflation

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

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

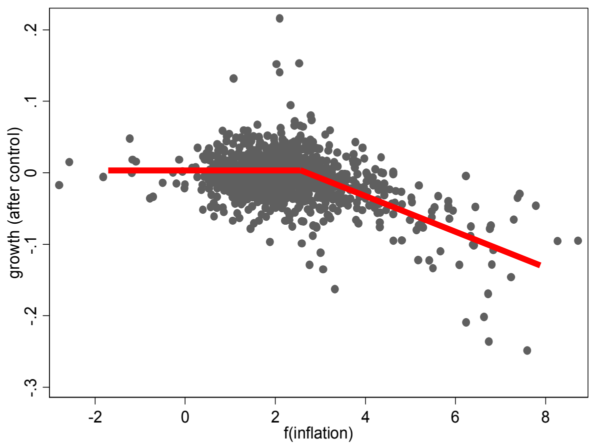
Box 3. Economic Growth and Inflation Trade-off

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

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

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

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



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

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

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

C. Financial Sector Development

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

D. Exchange Rate Issues

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

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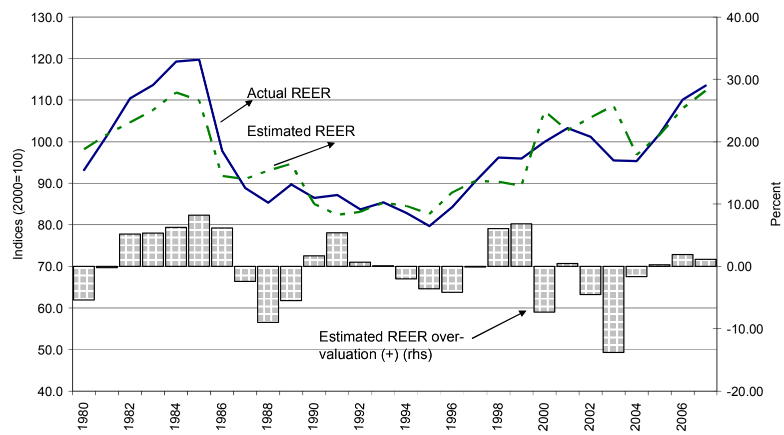
[6] The parliamentary legislation proposing the creation of a Financial Regulatory Authority (FRA) in Qatar has already been submitted to parliament.

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

Box 4. Qatar—Real Exchange Rate Assessment

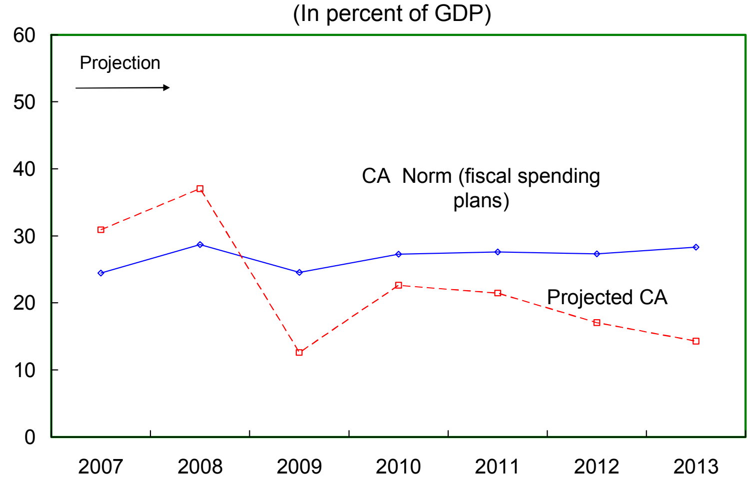
Qatar's real effective exchange rate (REER) has appreciated by 15 percent since 2004, reversing the 8 percent depreciation experienced during 2001–03. The depreciation until 2003 reflected relatively low domestic inflation, together with the depreciation of the U.S. dollar against the Euro. Since then,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

Qatar—Equilibrium Real Exchange Rate Assessment, 1980–2007



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

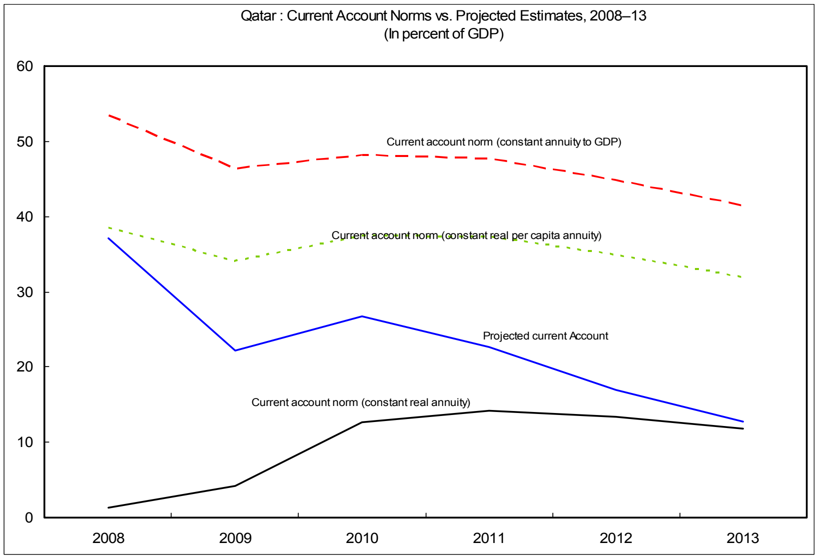
Qatar–Current Account Norms
(In percent of GDP)



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

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

Qatar—Real Exchange Rate Assessment (continued)



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

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

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

E. GCC Monetary Union

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

IV. Structural Reforms and Statistics

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

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

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

Investment Position (IIP),[9] excluding unknown foreign financial claims and liabilities of the private sector, is of the order of $70 billion. The authorities have indicated that they will provide an oral statement on QIA foreign assets to the Board, a similar approach to that followed under the 2007 Article IV consultation.

V. Staff Appraisal

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

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

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

22. **Regarding the financial sector, recent global events have demonstrated that market sentiment can change**—even if banks are sound and profitable. In this context, safeguarding the soundness of the banking system is crucial. Staff welcomes the monthly stress testing of the banking system by the central bank, and encourages the authorities to consider publishing them on a

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

regular basis in the future. Although tests so far show that the measured risks are manageable and unlikely to derail the banking system, care must be taken to closely monitor and assess (a) various combinations of risks, including credit, equity, and real estate shocks, and (b) economic risks from oil price shocks. Also, it would be advisable to build an early warning system—the starting point being better and more inclusive efforts at gathering data for assessing risk.

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

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

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

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[10] The pros and cons of alternative exchange rate regimes once the monetary union is established are examined in an Middle East and Central Asia Department (MCD) paper recently issued to the Executive Board http://www.imf.org/external/pp/longres.aspx?id=4303

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

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

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

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

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

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

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

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

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

(In million Qatari riyals)

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

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

(In percent of GDP)

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

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

1/ On a fiscal year basis, April–March. GDP is also converted into fiscal year basis.
2/ Includes investment income of state-owned hydrocarbon enterprises. The outcome from 2003/04 includes the privatization receipts of Industries Qatar, shares of which were formerly owned by Qatar Petroleum.
3/ Includes transfers to ministries and public enterprises less interest payments and grants.
4/ Corresponds to Chapter III "Minor capital expenses" in the budget.
5/ Information based on depository corporations survey.
6/ Excludes direct transfers made to State Reserve Fund and Stabilization Fund from oil and gas revenue.
7/ Total revenue minus current expenditure.
8/ Total nonhydrocarbon revenue minus current expenditure.

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

(In million Qatari riyals)

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

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

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

Table 4. Qatar: Balance of Payments, 2005–09

(In million U.S. dollars)

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

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

1/ Includes staff estimates for QIA.
2/ Includes staff estimates for commercial banks.
3/ Added to the national presentation for alignment with accepted BOP norms.
4/ Estimates.
5/ Primarily bank borrowing by Qatar Petroleum and affiliates.

Table 5. Qatar: Vulnerability Indicators, 2003–07

(In percent; unless otherwise indicated)

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

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

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

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

(In million Qatari riyals, unless otherwise indicated)

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

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

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

INTERNATIONAL MONETARY FUND

QATAR

2008 Article IV Consultation

Informational Annex

Prepared by the Middle East and Central Asia Department

December 30, 2008

Contents Page

ANNEX I. QATAR: FUND RELATIONS

(As of November 30, 2008)

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	230.48	87.37
Reserve position in Fund	33.32	12.63

III. SDR Department:

	SDR million	Percent Allocation
Net cumulative allocation	12.82	100.00
Holdings	29.33	228.76

IV. Outstanding Purchases and Loans: None

V. Projected Obligations to the Fund: None

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 June 2007 and August 2007 and in Washington DC at the time of the Annual Meetings in October 2007. The Staff Report and its supplement were discussed by the Executive Board on November 6, 2007. Qatar moved to a 12-month Article IV consultation cycle in 2007. Subsequently, a staff visit was conducted in May 2008.

X. FSAP Participation, ROSCs, and OFC Assessments:

FSAP missions were conducted in January and May 2007. An Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) assessment was initiated by the Fund's Legal Department during a mission to Qatar in February 2007. A Report on the Observance of Standards and Codes (ROSC) for the Financial Action Task Force (FATF) recommendations for AML and Special recommendations on CFT was prepared and circulated to the Board for information.

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

XII. Resident Representative:

None

ANNEX II. QATAR: RELATIONS WITH THE WORLD BANK GROUP

(As of December 15, 2008)

Strategic Cooperation Program (SCP)

The program of strategic cooperation with Qatar is recent and is based on ad hoc requests from the government. Currently, the Bank is holding a series of consultations with the Government of Qatar on developing a long-term program in the areas of strategic planning, pension system review, small- and medium-enterprise support, and capital markets development. The Bank's main counterpart is the General Secretariat for Development Planning (GSDP), but there is an ongoing dialog with other entities including the Qatar Central Bank and the Qatar Foundation.

Ongoing Projects

- Labor Market Strategy (LMS) Implementation

The World Bank conducted a labor market survey to help identify the main characteristics of the labor market in Qatar, and prepared an LMS that included an assessment and analysis of the labor force and a review of labor laws, regulations, and other institutional factors affecting labor allocation and utilization. The results of the LMS study were presented at a national symposium in April 9, 2006. Currently, the Bank is assisting the government in the implementation of the study's action plan.

- Moving Qatar Toward a Knowledge-Based Economy

In 2007, the World Bank Institute (WBI) conducted a study on Knowledge Economy (KE) Development in Qatar; the results of the study were discussed at several high-level workshops and were well received by the government. Currently, the Bank is supporting implementation of the KE strategy, in the form of the proposed Knowledge-Based Economy Campaign (KBEC).

Completed Projects

- Public Transport Sector Study (FY03)
- Evaluation of Qatar's Payments System (FY05)
- A macroeconomic modeling workshop (November 16–17, 2005)
- Workshop on "Partnering for Value, Innovation and Job Creation: PPPs in the GCC" (May 16–17, 2006)
- Investment Climate Workshop (February 2004)

ANNEX III. QATAR: STATISTICAL ISSUES

Data reporting

Data provision has some shortcomings, but is broadly adequate for surveillance. There remains substantial scope for improving the frequency, timeliness, and coverage of economic data. Recently, the Qatar Statistics Authority (QSA) was formed, to spearhead the development of statistics in Qatar.

Following technical assistance from the Fund, the timeliness and quality of monetary statistics have improved. The improvements include a better classification of the government sector and regular publication of analytical accounts of banks. Some steps have been taken to strengthen the external current account data, particularly data on trade and services, and there has been an improvement in the estimation of workers' remittances. On national accounts, steps have been taken to publish a wider range of aggregates, including private consumption expenditure and national saving. In addition, detailed data on oil, gas, and medium- and long-term external debt have been provided to staff missions.

While monetary data are reported to the Fund's Statistics Department (STA) on a regular basis, there are long lags in the reporting of price indices and other real sector statistics for publication in the *International Financial Statistics (IFS).* Furthermore, international trade details are reported only sporadically for publication in the *Direction of Trade Statistics*. Public finance data were reported for publication in the *2008 GFS Yearbook*, but are not reported for publication in *IFS*. The April/May 2007 General Data Dissemination System (GDDS) assessment mission was provided with 2005 balance of payments data; however the data was not sufficiently detailed to present in the format of the *Balance of Payments Manual,* 5/e (BPM5) for inclusion in *IFS* and the *Balance of Payments Statistics Yearbook*.

Data dissemination

Qatar has been a participant of the GDDS since December 2005. A 2007 GDDS mission 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 in order to graduate to the SDDS. To enhance data dissemination practices, the mission assisted the authorities in developing a National Summary Data Page (NSDP) and an Advance Release Calendar (ARC). Overall, the mission found that significant progress had been made since 2005. Nevertheless, significant gaps in certain datasets still remain to be addressed.

Sectoral data issues

Real sector statistics

National accounts statistics are compiled broadly in line with the concepts and definitions of the *System of National Accounts 1993* (*1993 SNA)*. However, key aggregates are limited to annual GDP estimates by economic activity and by expenditure at current and constant prices, and quarterly estimates of GDP at current prices. The base year for constant price data is 2001. The accuracy of the GDP estimates in current prices is undermined by the lack of comprehensive source data. The constant price estimates do not follow sound deflation techniques, mostly due to the lack of reliable price indices and volume indicators. Informal activities in the construction sector are estimated and included in the GDP estimates. Apart from this, no adjustments are made for non-observed and/or illegal activities.

Since 2002, the Department of Statistics (now QSA) has compiled a quarterly consumer price index (CPI), which broadly follows international methodological standards. The index measures price changes for goods and services consumed by all households in the country. The CPI list of representative goods and services covers about 1100 items for which prices are collected; the frequency of price collection depends on the item. Prices for vegetables, fruit, and fish are collected at least once a week, but most prices are collected quarterly. The eights have been derived from a household budget survey (HBS) that was undertaken during October 2000–September 2001. Prices are collected from about 400 outlets, with the selection of outlets based on purposive sampling. The CPI is usually completed about one month after the end of the reference quarter. No explicit adjustments are made for quality changes; however, when a new product replaces an old one, the method of overlapping is applied. Missing prices are replaced with prices for the preceding quarter. The elementary indices are calculated using geometric means, in accordance with current international recommendations.

Employment statistics are compiled and disseminated annually and whenever a census is conducted. The last two censuses were conducted in 1997 and in 2004, and the next census is expected to be conducted in 2010. The annual data are disseminated within six months after the end of the reference year. Preliminary census-based employment data are first published within 9 months after the census.

Hydrocarbon sector

Detailed oil and gas sector data are provided to staff by the Ministry of Energy and Petroleum and Qatar Petroleum (QP)[1] at the time of the Article IV consultation discussions. In addition, the authorities also present information about medium-term plans for oil and gas, liquefied natural gas (LNG), financing, and other QP-related industrial activities.

[1] Formerly Qatar General Petroleum Corporation.

Government finance statistics

Government budget data should be presented according to *Government Finance Statistics Manual 2001 (GFSM)* guidelines, including greater detail on major expenditure and non-oil revenue categories. In addition, the data on financing items should be consistent with the data on the public sector in the depository corporations survey and the balance of payments. The country has a number of—largely commercial—public sector entities that should not be mixed with the central government accounts. The authorities have reported annual data for 2004–07 for publication in the *Government Finance Statistics Yearbook*. Monthly and quarterly data are not reported for publication in *IFS*.

The 2007 GDDS mission found that the Ministry of Finance (now Ministry of Economy and Finance) was giving priority to the implementation of the recommendations of the *GFSM,* with the objective of starting the dissemination of complete annual government finance tables. A preliminary set of fiscal data in *GFSM* format was provided to the 2008 Article IV mission.

Monetary and financial statistics

Data for the Qatar Central Bank (QCB) and commercial banks are generally timely and of high quality. The QCB uses the Standardized Reporting Forms to report monthly monetary data to STA for publication in *IFS* and the *IFS* Supplement. Monthly and quarterly data are also published in the *Quarterly Statistics Bulletin*.

External sector statistics

The 2007 GDDS assessment mission found that the QCB had made some progress in the compilation of balance of payments statistics. International Transactions Reporting System collection forms have been expanded and reporting forms introduced to collect data on current account and financial account transactions for the major oil and gas companies and affiliates. The results from these new report forms are being reviewed to assess the quality of the data collected.

However, serious omissions remain in the balance of payments (BOP) statistics, owing to the absence of timely and reliable source data. 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. 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 estimate the level of investment income with any degree of confidence.

In addition, there is an inconsistency in coverage in flows and stocks of official reserves.
In the BOP, flows of official reserves include changes in the stock of QCB reserves and an

estimate for the change in stock of the external assets of the government. However, the stock of official reserves published in *IFS* includes only the stock of QCB reserves. Progress in implementing recommendations of technical assistance missions has been steady but slow. The authorities have been working with STA to report their BOP data in *BPM5* format, but there has been insufficient detailed information available to complete this process.

No official information is published on the amount or breakdown of external debt. However, detailed data on the country's medium- and long-term external debt are provided to missions during the Article IV consultation discussions. In recent years, Qatar has issued several international bonds and some of the proceeds were used to retire other external debt. It is, therefore, important to improve the flow of information on external debt and its maturity profile.

Qatar: Table of Common Indicators Required for Surveillance
(As of December 11, 2008)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Nov. 2008	Dec. 2008	M	M	M
International Reserve Assets of the Monetary Authorities[1]	Oct. 2008	Nov. 2008	M	M	M
Reserve/Base Money	Oct. 2008	Nov. 2008	M	M	M
Broad Money	Oct. 2008	Nov. 2008	M	M	M
Central Bank Balance Sheet	Oct. 2008	Nov. 2008	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2008	Nov. 2008	M	M	M
Interest Rates[2]	Oct. 2008	Nov. 2008	M	-	Q
Consumer Price Index	2008 (Q3)	Dec. 2008	Q	I	Q
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	...	...	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	2007/08	May 2008	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2007	June 2008	A	I	I
External Current Account Balance	2007	March 2008	A	A	Q
Exports and Imports of Goods and Services	2007	March 2008	A	A	Q
GDP/GNP	2008 (Q2)	Sept. 2008	Q	I	I
Gross External Debt	2007	June 2008	A	I	I
International Investment Position[7]	Sept. 2007	Oct. 2007	A	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 on Qatar
January 21, 2009

1. This statement provides information on recent developments in Qatar that has become available since the staff report was circulated to the Board on January 5, 2009. This information does not change the thrust of the staff appraisal.

2. The oil price baseline assumption for the *World Economic Outlook* (WEO) was revised downward in January 2009 to $50 a barrel for 2009 (from $54 a barrel assumed in the staff report). The Organization for Petroleum Exporting Countries (OPEC) announced a further cut in its crude oil production ceiling by 2.2 million barrels a day (mbd), with effect from January 1, 2009 (in addition to a cut of 1.5 mbd in September 2008). Assuming that Qatar fully implements its share of the cut in production and an unchanged expenditure profile, real gross domestic product (GDP) growth would decline by 1 percentage point in 2009 to 28 percent; the fiscal surplus would decline by 1 percentage point to 3.6 percent of GDP; and the current account surplus, at 9.4 of GDP, would be 3 percentage points of GDP lower than envisaged, all compared with the baseline scenario presented in the report.[1] Over the medium-term, Qatar will still maintain on average double-digit growth rates in non-oil real GDP and will continue to record fiscal and current account surpluses, although at lower levels.

3. Financial conditions remain stable. Monetary data through November 2008 show comfortable levels of liquidity in the interbank market, deposits and lending by the banking system have continued to grow moderately, and interbank rates have moved back to below 2 percent—near the level before the global crisis. However, the weak sentiment in the stock market continues, with the market declining by more than 30 percent since September 10, 2008. On the policy front, the central bank did not reduce its policy rates when the U.S. Federal Reserve lowered rates in December 2008.

4. The potential for a sharp drop in real estate prices is of less concern in Qatar since the real estate market is characterized by excess demand, which has been the main cause for rental inflation. New units are being completed and, following the introduction of the cap on rents, rent inflation is beginning to decline.

[1] In estimating the downside risks to the medium-term outlook, the staff report assumed (i) an oil price of $45 a barrel in 2009; (ii) a larger cut in oil production than was subsequently agreed by OPEC; and (iii) a 5 percent reduction in liquefied gas production (LNG) relative to the baseline (para 6 of the staff report).

5. On December 30, 2008, the Heads of the Gulf Cooperation Council (GCC) approved a draft accord for the monetary union and a system governing the monetary council. The agreement must now be signed by the countries' heads of state for final approval, and is expected to come into force by the end of 2009. The GCC countries continue to meet all the convergence criteria, except for Qatar where the inflation rate is higher than the benchmark.[2,3]

[2] Fiscal deficits not to exceed 3 percent of GDP; public debt to GDP ratios not to exceed 60 percent; inflation rates not to exceed the GCC weighted average of inflation rates plus two percentage points; short-term interest rates not to exceed the average of the lowest three interest rates amongst the member countries plus two percentage points; and foreign exchange reserves to cover at least 4 months of imports.

[3] Data for September 2008 show that the average inflation rate for the first three quarters of 2008 was about 15.5 percent.

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

IMF Executive Board Concludes 2008 Article IV Consultation with Qatar

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

Background

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

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

Qatar is expected to perform at least as strong in 2009, driven by a rapid expansion in LNG production (and related industries) and in investments aimed at economic diversification.

[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.

Inflation is projected to fall in 2009, as a result of the passthrough of declining international prices for food and raw materials and a slower increase in domestic rents owing to a larger supply of low- and middle-income housing. The fiscal and external current accounts are projected to remain in surplus in 2009, despite the lower oil prices.

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

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the Qatari authorities for the impressive macroeconomic performance in recent years, which has strengthened the economy's resilience to the current global financial crisis and economic downturn. They noted that prudent macroeconomic policies have contributed to booming investment and exports, resulting in double-digit growth in both the hydrocarbon and non-hydrocarbon sectors and in sizeable external and fiscal surpluses, which leave Qatar's economy well placed to withstand shocks.

Directors considered the medium-term outlook favorable, and noted that the key challenges facing the authorities are to lower Qatar's high rate of inflation, continue to shield the economy from the global financial crisis, ensure that rapid credit growth does not undermine bank soundness, and diversify the economy to reduce the dependence on hydrocarbon production and exports. They welcomed the authorities' continued commitment to sound macroeconomic management to achieve these objectives. Directors agreed with the assessment that inflationary pressures should ease gradually because of lower food and raw material prices and an increase in the supply of residential and commercial properties. They encouraged the authorities to avoid the distortionary effects of price and rent controls, noting that these measures should at best be temporary.

Directors welcomed the authorities' intention to moderate fiscal expansion and broaden the non-oil revenue base over the medium term. They supported the emphasis on building capacity in infrastructure and, easing supply bottlenecks, while containing government current expenditure to reduce inflation. Directors agreed that, should the global crisis persist or external financing difficulties arise, a temporary increase in government investment spending would be warranted to support demand without undermining the effort to contain inflation.

Directors noted that Qatar's banking system is well-capitalized, liquid, and profitable. They welcomed the central bank's proactive stance to maintain confidence in the financial system and encouraged the authorities to continue to monitor closely financial sector developments, implement international standards against money laundering and terrorism financing, and upgrade financial sector surveillance capabilities. Directors supported the central bank's use of stress testing of financial institutions and endorsed the development of an early warning system to identify financial sector vulnerabilities. They also welcomed the consultation between the central bank and the government on the issuance of government bonds to improve liquidity forecasting and debt management.

Executive Directors welcomed the progress made so far in establishing a unified regulator for financial services. They agreed on implementing the unified regulator gradually, preferably after proposals for improving the international financial regulatory framework have been agreed upon. In the interim, coordination should be enhanced among existing regulators and further improvements to the regulatory framework should be continued.

Directors agreed that the peg to the U.S. dollar continues to provide a credible anchor for monetary policy and maintain external stability. They noted the staff's finding that the level of the Qatari riyal appears to be in line with economic fundamentals. They welcomed the authorities' commitment to the GCC Monetary Union, and the decision to launch the Monetary Council by the end of 2009.

Directors commended the establishment of the Qatar Statistics Authority. They urged the authorities to continue improving the quality of economic statistics, particularly data on national income, the balance of payments, and the international investment position.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Qatar: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006	2007	2008
Production and Prices					
Real GDP (in percent per annum)	17.7	9.2	15.0	15.3	16.4
Hydrocarbon 1/	12.5	6.0	10.7	16.2	18.2
Nonhydrocarbon GDP	24.6	13.1	19.9	25.7	30.6
Nominal GDP (in billion U.S. dollars	31.7	42.5	56.9	71.0	101.1
Consumer price index (period average)	6.8	8.8	11.8	13.8	15.1
	(In percent of GDP on fiscal year basis) 2/				
Public Finance					
Total revenue	44.0	39.2	39.1	41.2	37.4
Hydrocarbon revenue	29.0	27.7	25.2	24.7	22.8
Other revenue	15.0	11.5	13.9	16.5	14.6
Total expenditure and net landing	28.8	30.3	30.5	29.6	25.4
Current expenditure, *of which:*	22.6	19.5	22.6	17.8	14.7
Wages and salaries	6.3	4.0	5.9	5.2	5.0
Capital expenditure	6.3	10.7	7.9	11.8	10.7
Overall fiscal balance (deficit -)	15.1	8.9	8.6	11.6	12.0
	(Annual change in percent)				
Money					
Broad money	20.8	42.9	39.6	39.5	38.7
Claims on private sector	30.4	63.5	44.2	52.3	51.0
	(In million U.S. dollars, unless otherwise stated)				
External Sector					
Exports of goods and services, *of which:*	20,658	28,709	39,276	51,340	81,117
Crude oil and refined petroleum products	9,702	14,122	17,840	21,178	30,668
LNG and related exports	6,554	8,738	13,360	18,710	35,617
Imports of goods and services	-8,316	-12,575	-21,767	-27,128	-39,858
Current account	7,100	14,100	16,113	21,951	37,457
In percent of GDP	22.4	33.2	28.3	30.9	37.1
Central Bank reserves, net	3,358	4,555	5,410	9,546	10,757
In months of imports of goods and services 3/	3.2	2.5	2.4	2.9	2.5
Exchange rates (riyals/U.S. dollars	3.64	3.64	3.64	3.64	3.64
Real effective exchange rate (percent change)	-01	7.1	8.3	3.2	…

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

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