IMF Country Report No. 17/88

QATAR

April 2017

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR QATAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 20, 2017 consideration of the staff report that concluded the Article IV consultation with Qatar.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 20, 2017, following discussions that ended on December 19, 2016, 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 March 3, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Qatar.

The documents listed below have been or will be separately released.

Selected Issues

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International Monetary Fund
Washington, D.C.

Press Release No. 17/125
FOR IMMEDIATE RELEASE
April 10, 2017

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

IMF Executive Board Concludes 2016 Article IV Consultation with Qatar

On March 20, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Qatar.

Qatar has been implementing an ambitious diversification strategy, while strengthening its policy framework.

Lower hydrocarbon prices have adversely impacted macroeconomic performance. Growth has slowed despite still resilient non-hydrocarbon activity. Real GDP growth of 2.7 percent is estimated for 2016. Inflation remained low despite subsidy cuts, averaging about 2.7 percent in 2016. Fiscal and external balances have deteriorated from large surpluses to deficits due to sustained lower energy prices. The authorities are adjusting by cutting current expenditures in 2016, undertaking energy pricing and labor reforms, and placing stronger emphasis on raising non-hydrocarbon revenues. While banking system liquidity has tightened and credit to the private sector has moderated, banks remain sound and well capitalized.

Macroeconomic performance is expected to remain resilient under the baseline. Real GDP growth is projected at 3.4 percent for 2017, reflecting still significant expansion in the non-hydrocarbon sector owing to public investment commitments, and supported by the added output from the new Barzan gas project. Growth is expected to slow in the medium term, as public investment growth tapers off and hydrocarbon output continues to slow down. Further subsidy cuts, a moderate recovery in global commodity prices, and the introduction of a VAT are expected to improve the fiscal and external balances gradually over the near to medium term. The main risks relate to the possibility of lower hydrocarbon prices compared to the baseline and to weaker expenditure efficiency and/or inflationary pressures from the large public investment program.

[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.

Executive Board Assessment[2]

Executive Directors noted the macroeconomic challenges brought by sustained lower hydrocarbon prices, but agreed that Qatar is well positioned to mitigate them given its substantial financial buffers. Directors welcomed the authorities' responsiveness to adjust to lower energy prices, and encouraged them to sustain their sound policies, which will help strengthen the fiscal position, maintain financial stability, and promote more diversified and sustainable growth.

Directors agreed that gradual fiscal consolidation over the medium term is key to ensuring the intergenerational equity of Qatar's exhaustible hydrocarbon wealth. They supported ongoing and envisaged revenue and expenditure measures, including subsidy reforms, containment of public-service benefits, lower spending on goods and services, and the introduction of a VAT and excise taxes. Directors agreed that additional revenue measures, including broadening the base of existing taxes, particularly for the corporate income tax, should be explored over the medium term to mobilize sufficient resources for the implementation of the second national development strategy while supporting further consolidation.

Directors commended the ongoing fiscal-structural reforms, particularly the progress being made in preparing a medium-term fiscal strategy and the introduction of a new tender law and public finance law. They encouraged further efforts to enhance the monitoring of public expenditures to improve efficiency and management of investment spending, as well as further improving transparency to facilitate a more robust assessment of the fiscal position.

Directors concurred that Qatar's fixed exchange rate regime remains appropriate. They noted that further strengthening the monetary policy framework as well as deepening domestic financial markets, particularly the domestic debt market, will prove helpful as the economy diversifies.

Directors agreed that banks remain sound and well capitalized, but noted that they could face risks from sustained low hydrocarbon prices or increasing interest rates. Noting the impact of government financing on banks, they recommended developing a more active liquidity forecasting framework. Directors welcomed the progress made with the implementation of Basel III and macro-prudential regulations, the elaboration of the new Strategic Plan for Financial Regulation, and the development of an early warning system. They also supported the efforts to enhance the framework for anti-money laundering and combating the financing of terrorism.

Directors supported the authorities' efforts to enhance economic diversification and promote private sector development. They encouraged additional measures to further improve the business environment, and noted that labor market and education reforms will help raise

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

productivity, increase potential output, and support inclusive growth. Directors welcomed the improvements in economic statistics, and underscored that further efforts are needed to address remaining gaps.

Qatar: Selected Economic and Financial Indicators, 2013–2018

	2013	2014	2015	Proj. 2016	Proj. 2017	Proj. 2018
Production and prices	(Annual change in percent)					
Real GDP (2013 prices)	4.4	4.0	3.6	2.7	3.4	2.8
Hydrocarbon 1/	0.1	-0.6	-0.5	-0.9	1.1	0.2
Nonhydrocarbon	10.4	9.8	8.2	6.5	5.7	5.3
CPI inflation (average)	3.1	3.4	1.8	2.7	2.6	5.7
Public finance	(Percent of GDP)					
Total revenue 2/	47.6	45.7	42.7	25.3	24.5	25.0
Expenditure	28.3	33.4	41.5	34.4	32.3	29.7
Current 3/	19.4	25.0	28.0	20.0	17.9	16.9
Capital	8.9	8.4	13.6	14.3	14.4	12.9
Central government fiscal balance	19.3	12.3	1.2	-9.0	-7.7	-4.8
Money	(Annual change in percent)					
Broad money	19.6	10.6	3.4	-2.0	5.0	6.5
Credit to private sector	13.5	20.3	19.7	6.5	10.8	12.3
External sector	(billions of U.S. dollars unless otherwise noted)					
Exports	133.3	126.7	77.3	58.8	69.9	73.8
Imports	-31.5	-31.1	-28.5	-29.2	-34.2	-35.8
Current account balance	60.5	49.4	13.8	-3.5	1.2	1.2
in percent GDP	30.4	24.0	8.4	-2.2	0.7	0.6
External debt (percent GDP)	81.4	80.7	110.6	142.1	139.0	131.5
Central bank reserves 4/	42.2	43.1	37.2	30.1	35.6	36.0
in months of imports	7.8	8.6	7.1	5.2	5.7	5.7
Exchange rate (Riyals/US$)	3.6	3.6	3.6	3.6	3.6	3.6
Real effective exchange rate (percentage change)	2.5	2.2	11.2	2.7	…	…

Sources: Qatari authorities; and IMF staff estimates.
1/ Includes crude oil, natural gas, propane, butane, and condensates.
(data from 2013 onwards reflect a full transfer of Qatar Petroleum profits to the budget).
2/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about
42 and 4 percent of GDP, respectively, in 2013.
3/ Includes transfers to the General Retirement and Social Insurance Authority in 2011 and 2012.
(excluding the portion of investment income and corporate income tax from hydrocarbon activities).
4/ Excluding QIA assets.

INTERNATIONAL MONETARY FUND

QATAR

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

March 3, 2017

KEY ISSUES

Context: With large financial wealth, Qatar is well positioned to weather lower hydrocarbon prices. Nonetheless, the substantial price decline and the on-going fiscal consolidation are dampening economic performance and the outlook.

Outlook and risks: Growth is expected to moderate in the medium term, as public investment growth tapers off and hydrocarbon output continues to slow down. Fiscal and external balances are to improve modestly in the near to medium term. Lower oil prices relative to the baseline would lead to weaker fiscal and current account balances. Nonetheless, Qatar has ample fiscal and external space to address such a downside risk.

Policy discussions focused on ensuring adequate saving of Qatar's exhaustible hydrocarbon wealth for future generations, addressing the lingering liquidity shortage, and achieving further economic diversification.

In view of Qatar's large buffers, there is space to pursue fiscal consolidation at a gradual pace. Ongoing consolidation efforts through cutting recurrent expenditure and mobilizing non-hydrocarbon revenues are appropriate. Additional revenue measures, including broadening the coverage of corporate income tax and further reforming energy subsidies, should be considered.

Banks remain sound and the financial regulatory agenda is moving ahead but potential risks, including liquidity pressures, should continue to be carefully monitored. Further development of the domestic bond market and enhancement of the early warning system would be welcome.

Though Qatar ranks favorably in competitiveness indicators, further progress in enhancing contract enforcement, education quality, and labor market efficiency would contribute to improving the business environment, and diversifying the economy.

Approved By
Aasim M. Husain and Daria Zakharova

Discussions were held in Doha during December 4-19, 2016. The staff team comprised Mr. El Qorchi (head), Messrs. Adedeji, Fouejieu and Ms. Garcia Martinez (all MCD). Ms. Choueiri (OED) joined the mission during December 13-19. Mr. Hiland provided research assistance. Mses. Kargbo-Sical and Radwan provided editorial support.

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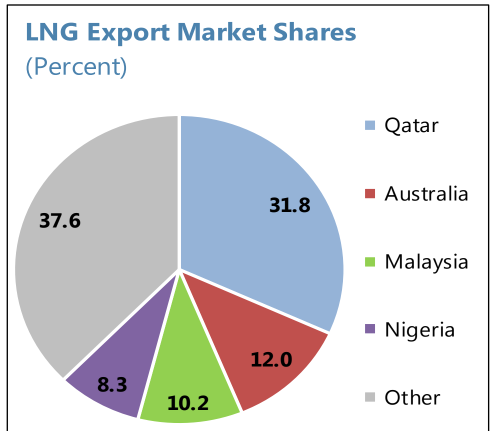
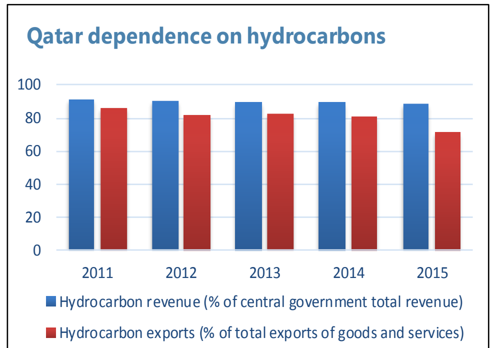
CONTEXT AND BACKGROUND



Sources: International Gas Union, 2016.



Sources: Country authorities; and IMF staff estimates.

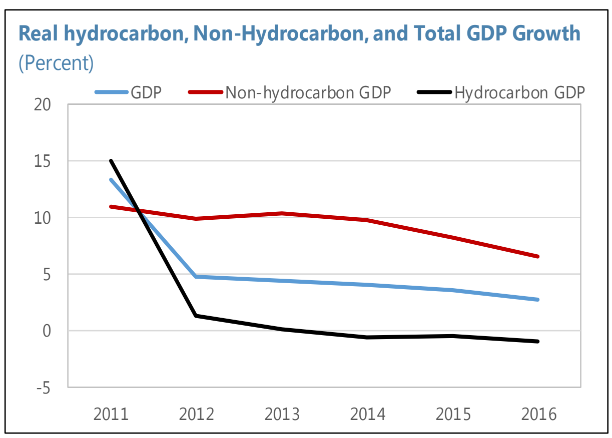
1. **The hydrocarbon sector is central to Qatar's economy although its share in GDP is declining**. Qatar accounts for one third of global LNG trade (text chart). On average over the past two decades, oil and gas accounted for around 80 percent of exports of goods and services, and revenues from the hydrocarbon sector represented almost 90 percent of total fiscal revenue (text chart).

2. **The authorities are adjusting to the new reality of sustained lower energy prices**. The main policy priorities are to implement fiscal consolidation of the appropriate size and pace, while addressing the lingering liquidity shortage in the financial system and boosting private sector growth. The authorities are confronting these challenges by cutting current expenditures in 2016, undertaking energy pricing and labor reforms, and placing stronger emphasis on raising non-hydrocarbon revenues.

3. **Qatar is implementing an ambitious diversification strategy, while strengthening its policy framework.** The authorities are executing an infrastructure program in the amount of US$200 billion (equivalent to 128 percent of 2016 GDP), with a view to diversifying the economy and preparing for the FIFA 2022 World Cup. The policy framework is being strengthened, including fiscal policy and institutions, financial regulation, and macro-prudential policies in line with IMF policy advice (Annex I).

RECENT MACRO-FINANCIAL DEVELOPMENTS

4. **Growth has slowed despite still resilient non-hydrocarbon activity.** Real GDP growth averaged about 4.2 percent during 2013-14 on the back of double-digit growth in the non-hydrocarbon sector. The latter was underpinned by a large public infrastructure investment program and rapid growth in the number of foreign workers. Real GDP growth was 3.6 percent in 2015, driven largely by non-hydrocarbon growth (Figure 1). Growth slowed further to 1.8 percent y-o-y during Q2 2016, reflecting a contraction of the



hydrocarbon sector[1] and the slowdown in non-hydrocarbon activity (to 5.1 percent), as significant fiscal consolidation emerged, liquidity tightened, and confidence waned in light of uncertainty about future developments in the international oil market. Some recovery took place during the third quarter of 2016, with a year-on-year growth of 3.7 percent. However, for the whole year, growth is estimated to have moderated to about 2.7 percent. Following a decline of about 15 percent in 2015, the stock market index was on average broadly stable in 2016. Qatar was included in the FTSE Emerging Market Index in August 2016.

5. Inflation remained low despite subsidy cuts. Inflation declined to 1.8 percent in 2015 due to lower global commodity prices. In 2016, however, there has been a slight uptick in inflation, averaging 2.7 percent owing primarily to higher energy costs associated with government's subsidy cuts. The growth of real estate prices moderated in 2016, as a result of increased supply of new properties.

6. Fiscal policy measures have been implemented to adjust to the new environment of sustained lower energy prices. The oil price shock has adversely affected the overall fiscal balance. The central government surplus fell from 12.3 percent of GDP in 2014 to 1.2 percent in 2015 (Figure 2).[2] The authorities took measures to weather a deteriorating fiscal situation, including curtailing current expenditures through reductions in the number of ministries and expatriate workers in the public sector. They also included increases in tariffs of some utilities and in domestic fuel prices. Water and electricity rates have been increased since October 2015. Gasoline prices were adjusted upwards by 30 percent in January 2016. The increase in domestic fuel prices was followed in May 2016 by the implementation of a regular price adjustment mechanism. The positive impact of these measures is reflected in the improvement of the non-hydrocarbon fiscal deficit from about 57 percent of non-hydrocarbon GDP in 2014 and 2015 to 38.4 percent in 2016. However, these measures were not sufficient to offset the sharp decline in oil revenues, leading to an overall fiscal deficit estimated at 9 percent of GDP for 2016.

7. Government borrowing is being increasingly used to finance the budget. The authorities have been financing the 2016 fiscal deficit mainly through domestic and foreign borrowing, without drawing down their sovereign wealth fund.[3] In 2016, Qatar raised a total of US$ 14.5 billion of external debt and issued US$ 2.6 billion of domestic bonds and *Sukuk* (Islamic bonds). However, public debt (projected at about 48 percent of GDP at end 2016) remains manageable, given the estimated size of Qatar's sovereign wealth fund.

8. The current account balance has sharply deteriorated. The decline in energy prices has deteriorated Qatar's current account balance, which fell to a deficit estimated at 2.2 percent of GDP in 2016, from a surplus of 8.4 percent in 2015. Imports have been broadly stable in dollar terms (at

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[1] Qatar has a self-imposed moratorium on new projects in the North Field in order to ensure sustainability of output in the long run. The Barzan project was the last North Field project approved prior to the introduction of the moratorium.

[2] The general government balance (defined as central government balance plus estimated QIA returns) fell from a surplus 5.6 percent of GDP in 2015, to a deficit of 4.1 percent in 2016.

[3] The Sovereign Wealth Fund Institute estimates the accumulated investments of Qatar Investment Authority (QIA) at US$335 billion at end-June 2016.

about US$ 30 billion), in view of sustained high public investment expenditure and non-hydrocarbon growth. Reserves-in-months of imports remained adequate. The deterioration of the current account balance has also been accompanied by reduced financial outflows (particularly public sector's accumulation of foreign assets).

9. Banking system liquidity has tightened and credit to the private sector has moderated. Liquidity pressures emerged as a result of lower hydrocarbon fiscal and external revenues amid lower oil prices. The banking sector is mainly reliant on deposits for its funding (deposits amount to about 58 percent of total liabilities of the banking sector). Resident deposits in the banking sector, particularly government deposits, have declined in 2016 (Figure 3). As a result, banks have increasingly sought to attract non-resident deposits and wholesale funding.[4] Meanwhile, bank credit to the public sector has increased and private sector credit growth slowed from 19.7 percent in 2015 to 6.5 percent in 2016.

10. The banking sector remains sound and well capitalized. The sector is large—banking assets are about 160 percent of GDP—and relatively concentrated; the top three banks constitute about two third of the total banking assets. The latest FSI data (end-September 2016) indicate that Tier 1 capital stands at 15 percent of risk-weighted assets, well above the regulatory minimum of 12.5 percent and NPL ratios are at 1.2 percent of total loans, the lowest in the GCC region. The coverage ratio of NPL provisioning reached 109.2 percent in September 2016, as the decline in NPLs was higher than the nominal decline in provisions. Return on assets has decreased to 1.3 percent, compared to 1.6 percent in September 2015, as funding costs have risen. Loan-to-deposit ratio reached a new high of 114.9 percent due to tightness in deposit mobilization.

MACROECONOMIC OUTLOOK AND RISKS

11. Macroeconomic performance is expected to remain resilient under the baseline:

- ***Growth.*** Real GDP growth is projected at 3.4 percent for 2017, reflecting still significant expansion in the non-hydrocarbon sector owing to public investment commitments, and supported by the added output from the new Barzan gas project. During 2018–21, growth is projected to average about 2.2 percent, as public investment growth tapers off and hydrocarbon output continues to slow down.

- ***Inflation.*** During 2017–18, further subsidy cuts, a moderate recovery in global commodity prices, and the introduction of a VAT will continue to drive the overall price level. In the medium term, it is envisaged that subdued growth prospects will keep inflation low.

- ***Fiscal and external balances*** are projected to improve only moderately in the near to medium term. In 2017, the central government deficit is expected to decline slightly to about 7.7 percent of GDP.[5] The fiscal deficit is expected to persist in the medium term, despite efforts to restrain spending as Qatar is implementing important investment projects. The

[4] In December 2016, foreign liabilities amounted to about 21.6 percent of total liabilities of commercial banks.

[5] The general government balance is projected to show a deficit of 3.1 percent in 2017.

non-hydrocarbon primary deficit is projected at 35 percent of non-hydrocarbon GDP in 2017, and is expected to continue to improve over the medium term. The current account deficit is projected at about 2.2 percent of GDP in 2016; the first deficit since 1998. Over the medium term, the current account position is expected to improve in line with improvement in hydrocarbon export receipts.

12. The main risks relate to the possibility of lower hydrocarbon prices compared to the baseline and to the public investment program, though Qatar's large buffers will help weather the risks should they materialize (see Risk Assessment Matrix, Annex II):

- ***External risks:***

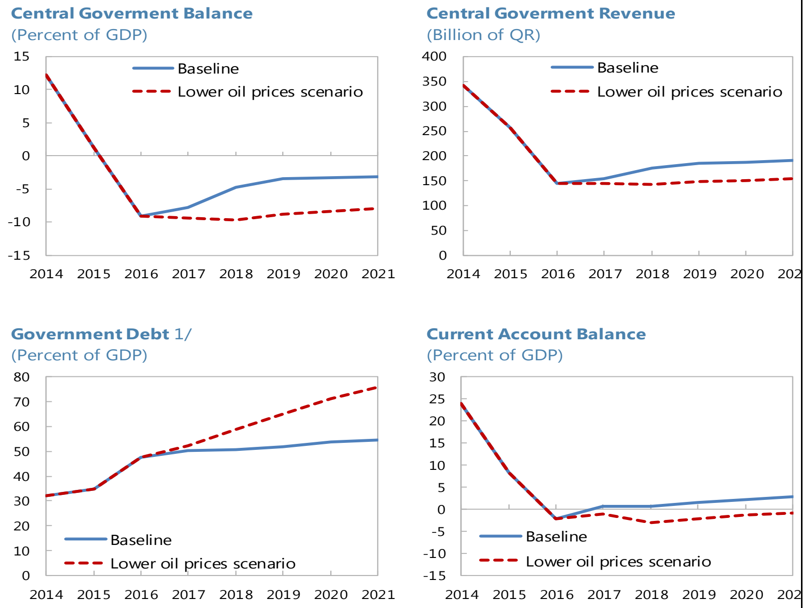
  - The main external risk remains the possibility of persistently lower energy prices. Should oil prices fall back to around the 2016 average and stay at that level over the near and medium term, the fiscal and the current account balances would deteriorate significantly compared with staff baseline (text chart), though net government debt (gross debt less estimated government financial assets of QIA) and the official reserves would remain very comfortable. Spillovers to the non-oil sector would be transmitted through slower government spending and declining liquidity in the banking system, as oil-exporting companies reduce their deposits.

  - In addition, Qatar's external borrowing costs could increase in the context of volatile global financial market developments. Significant dollar appreciation and higher interest rates in the U.S would entail tighter monetary conditions in Qatar, given the fixed exchange rate regime.

- ***Domestic risks.*** The ongoing public investment program—while crucial for further economic development and diversification—could bring about increased inflation in the near term due to higher aggregate demand and weaken expenditure efficiency associated with the scale-up in public investment. However, the authorities' ongoing efforts to improve the efficiency of public investment could help prevent the materialization of these risks. Overall, financial risks in the banking sector are moderate as banks' balance sheets remain strong. However, the loan-to-deposit ratio has risen, possibly implying increased funding risk. The cross-border activities of Qatar banks have increased substantially in recent years, potentially increasing downside risks for their asset quality, and are closely monitored by the QCB.

13. The authorities broadly shared staff's assessment of the outlook and risks. Their own preliminary quantitative macroeconomic framework is broadly in line with staff's projections. They agreed that hydrocarbon prices are the main channel through which developments in the global economy affect Qatar, while recognizing Qatar's increasing linkage with global financial markets. Nonetheless, they felt that spillovers to the non-hydrocarbon sector would be contained because public investment expenditure would be sustained. They also believe there is some scope for fiscal retrenchment without a major impact on growth. They also pointed to an additional risk—that a more rapid than presently anticipated normalization of monetary policy in the U.S. could bring about higher interest rates in Qatar, with potential adverse—but manageable—effects on growth.

Fiscal, Current Account Positions and Debt Under Different Oil Prices Scenarios



Sources: National authorities; and IMF staff estimates.
1/ It is assumed that the central government deficit is entirely financed through borrowing. The government net debt position would remain comfortable given large available financial assets.

14. The authorities and staff agreed that Qatar has sufficient fiscal and external buffers to address the potential macroeconomic and financial implications of downside risks. Qatar's fiscal buffers and available natural resources are sufficient to insulate public investment spending from the negative impact of lower hydrocarbon prices, particularly in the short term. The QCB has the capacity and instruments to inject needed liquidity into the financial system through the discount window and repo operations. The government can provide additional liquidity, including in foreign currency, by managing portfolios of the QIA and public sector enterprises. As to the banking sector, the authorities are confident that continued close monitoring by the QCB would keep the risks at bay.

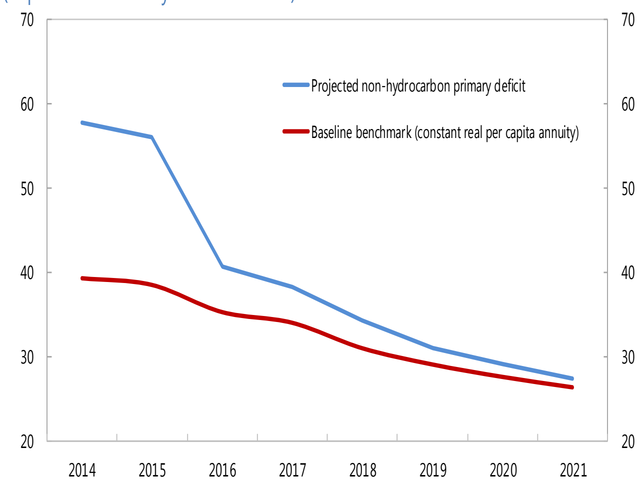
POLICY DISCUSSIONS

A. Strengthening Macroeconomic Stability and Ensuring Intergenerational Equity Amid Low Oil Prices

15. Gradual fiscal consolidation over the medium term is key to ensuring adequate saving of Qatar's exhaustible hydrocarbon wealth for future generations. An appropriate long-term fiscal anchor is the non-hydrocarbon primary fiscal balance consistent with intergenerational equity.[6] Staff analysis based on the Permanent Income Hypothesis model (PIH) suggests that the gap between the projected non-hydrocarbon primary fiscal balance and the estimated PIH-based benchmark was about 6 percentage points of non-hydrocarbon GDP in 2016 (text chart and Annex III). In view of Qatar's ample fiscal space, as evidenced by the large fiscal and external buffers accumulated in the SWF and favorable terms of external borrowing,[7] it would be appropriate to use this space to reduce gradually the fiscal gap and achieve the optimal non-hydrocarbon primary fiscal balance (estimated at about 26 percent of non-hydrocarbon GDP in 2021) over the medium term.

Non-hydrocarbon Primary Deficits and PIH-Based Benchmarks, 2014-21

(In percent of non-hydrocarbon GDP)



Source: IMF staff calculations.

Notes: Benchmark non-hydrocarbon primary deficit is calculated using the Permanent Income Hypothesis (PIH) under the assumption of constant real per capita annuity. Projections until 2021 use WEO assumptions. After 2021, the baseline scenario assumes flat hydrocarbon production and annual oil price growth of 2 percent, population growth of 1 percent (this includes a departure of construction and other workers after the investment projects are completed), and real return on assets of 4 percent. Projected non-hydrocarbon primary deficit excludes portions of QP investment income and corporate income tax (that come from hydrocarbon activities).

16. The authorities' fiscal policy direction, which is reflected in the baseline fiscal projection, is appropriate. A central government deficit of 3.1 percent of GDP—implying an adjustment over the medium term of about 15 percentage points in the non-hydrocarbon primary deficit ratio to non-hydrocarbon GDP—is projected for 2021. This baseline incorporates an increase in non-hydrocarbon revenues of about 2 percentage points of non-hydrocarbon GDP, in line with the authorities' policy intentions. The GCC agreement on the introduction of VAT in 2018 is a welcome development, and Qatar has started to take actions to ensure its smooth and timely implementation. These include establishing a separate and independent tax authority, and recruiting experts to help with the design and implementation of the VAT. According to staff estimates, revenue from VAT at a rate of 5 percent could help generate additional revenue of about

[6] The non-hydrocarbon primary fiscal balance that would permit maintaining government spending constant in real per capita terms even after hydrocarbon wealth is exhausted.

[7] Qatar's estimated accumulated savings represent around 450 percent of the stock of government debt in 2016, and cover more than 4 times the accumulated projected fiscal deficit over the next five years. The borrowing conditions are favorable (e.g., the yield on 10-year government bonds is presently about 3.5 percent).

1.5 percentage points of non-hydrocarbon GDP per year. The authorities also plan to implement excises on tobacco and sugary drinks, starting in 2017 in line with a GCC-wide agreement. This measure is estimated to yield about 0.2 percent of non-hydrocarbon GDP in revenue. On the expenditure side, controlling public service benefits and spending on goods and services, while preserving key public investment projects, would contribute to reducing total public spending by 13 percentage points of non-hydrocarbon GDP by 2021, with some impact on growth.[8] Some of these proposed measures have already been incorporated in the 2017 budget, including on-going rationalization of current expenditure.

17. Additional revenue measures should be explored to support fiscal consolidation and to mobilize resources to support the second national development strategy. Staff indicated that there is room for increasing and broadening the base of existing taxes, especially the corporate income tax.[9] There is also room for further increases in domestic fuel prices, as Qatar's fuel and gas prices remain low compared to international prices (and to some GCC peers) (text chart). According to staff estimates, if domestic fuel prices were to be set at the level in the UAE (which has the highest average prices among the GCC countries) or the U.S., additional fiscal revenue could range from 0.4 to 1.1 percent of non-hydrocarbon GDP. [10] For excises on tobacco and sugary drinks to be implemented in 2017, it is important that excise bases are carefully designed and that high rates do not encourage undesirable substitution across similar products.

18. Deficit financing should remain supportive of private sector credit growth without jeopardizing external debt sustainability (Annex III). The choice of how to finance the fiscal deficit, which is expected to persist over the coming years, deserves attention. The authorities should be mindful of emerging signs of liquidity pressures in the financial system and related consequences for the private sector. Hence, financing the deficit mainly through external borrowing and foreign asset drawdown seems appropriate, taking account of the risk-return tradeoff between the cost of external borrowing versus the return on accumulated assets. Nonetheless, future financing decisions should continue to take into account any changes in the risk-return tradeoff between the cost of external borrowing versus the return on accumulated assets. Over time, and in light of developments in global financial markets, borrowing and investment decisions should increasingly be underpinned by a comprehensive asset-liability management framework that takes into consideration macro-financial implications, including risks associated with the build-up of external debt and the effect of domestic borrowing on liquidity and credit as well as growth. The authorities reiterated their policy commitment, under the current circumstances, to not using the accumulated savings in the SWF to finance the fiscal deficit so that existing buffers are maintained. Hence, they expect to rely largely on issuing domestic and external debt to finance the deficit.

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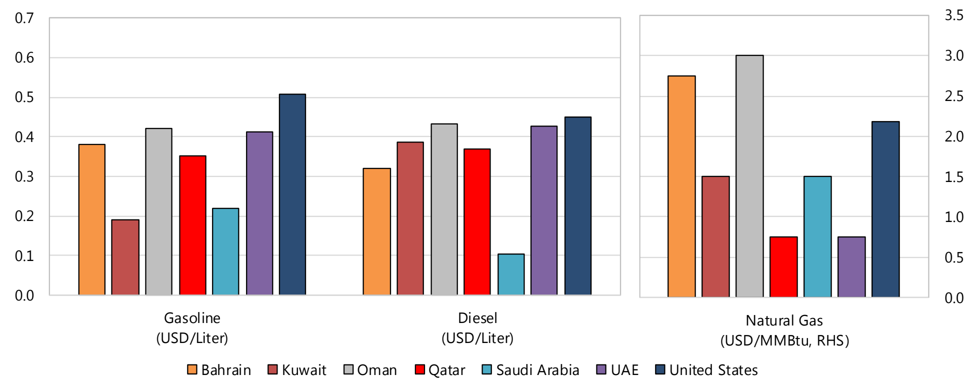
[8] The fiscal consolidation in the baseline is estimated to dampen non-hydrocarbon GDP growth by about 0.3-0.5 percentage point per annum over 2017-2021. Fiscal multipliers for the GCC countries suggest a limited impact of current spending on growth (see GCC Growth Paper, 2016: "More Bang for the Buck in the GCC: Structural Reform Priorities to Power Growth in a Low Oil Price Environment").

[9] There is no personal income taxation in Qatar, and the corporate income tax does not apply to Qatari and GCC companies.

[10] In line with a recent paper on energy price reform in Arab countries, removal of subsidies on electricity and gas would yield even more revenue (estimated at about 4 percent of non-hydrocarbon GDP).

Prices for Energy Products: GCC and the United States
(Average January–July 2016 or latest available)



Source: Prices for GCC countries come from country authorities and are averages for 90 and 95 octanes gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from the EIA and are adjusted for taxes, Natural gas price is the Henry Hub spot price.

19. The authorities noted that fiscal policies had become prudent well before the oil price drop and that fiscal consolidation has commenced and budget reforms remain on track. The cabinet appointed in mid-2013 has focused on anchoring fiscal consolidation on cuts in current expenditure. Restraint of current expenditure is expected to be maintained going forward. The authorities agreed that fiscal adjustment should be gradual, and envisaged further fiscal adjustment in 2017, underpinned by improved revenues and rationalization of expenditures.

20. Staff welcomed the ongoing budget reforms and emphasized the importance of rooting fiscal efforts in a medium-term fiscal framework. The authorities agreed, highlighting the progress being made in strengthening the medium-term budget framework, including the establishment of a Macro-Fiscal Unit within the Ministry of Finance and initiatives to ensure that budget execution is in line with the budget. Capital expenditures and related operational spending are being reviewed and medium-term envelopes have been established. The public investment management unit of the ministry of finance is making good progress, with emphasis on improving the efficiency of public investment. A new tender law and public finance law were recently approved. Building on these reforms, staff recommended that further efforts to enhance the monitoring of public expenditures, through the institutional frameworks noted above, would help improve efficiency and management of investment spending. Further improvement in the transparency of fiscal accounts, including financial transactions of the government, would facilitate a more robust assessment of Qatar's fiscal position.

21. The fixed exchange rate regime remains appropriate. The peg to the U.S. dollar continues to serve Qatar well. The peg has simplified the conduct of macroeconomic policy and provided a credible anchor for economic stability. Further strengthening the monetary framework, including enhancing liquidity forecasting, will enable the central bank to smooth sharp liquidity fluctuations, particularly in the present context of tighter liquidity; it will also prove helpful as the economy aspires to further diversification. The current account posted a deficit in 2016, and staff's assessment suggests that the external position is weaker than the level that would be consistent with sufficient saving of Qatar's exhaustible resource revenue (Annex IV). However, with gradual fiscal adjustment, the estimated current account gap could be closed in the medium term. The authorities believe that the fixed exchange regime continues to be a source of stability for the Qatari economy. They agreed with staff that gradual fiscal adjustment is appropriate. They underscored that efforts to safeguard Qatar's wealth for intergenerational equity had started before the recent decline in oil prices.

B. Deepening Financial Markets and Safeguarding Financial Stability

22. Deepening domestic financial markets will promote saving and offer borrowing and investment opportunities. Qatar has a long history of issuing foreign currency denominated sovereign and corporate debt. External financing played a major role in funding the country's investment program. The continued investment in infrastructure and other developmental projects increase the need for diverse sources of funding with long-term maturities and low cost of borrowing. As part of the 2013–16 Strategic Plan, financial market infrastructure was strengthened, including the development of an active debt market. The establishment of a private debt market needs to be supported by the development of a risk-free yield curve. Further progressive extension of maturities to cover the 9-months-3-year gap and lengthen maturities of bonds beyond 10-years could be considered. This would help in the pricing of other financial instruments. The authorities concurred with staff that further efforts are needed to strengthen market infrastructure and, in particular, develop a domestic corporate debt market.

23. The banking sector is sound but could face risks from sustained low oil prices and increasing interest rates. Potential financial stability risks include continued liquidity pressures, credit risks related to real estate activities, concentration risks, cross-border lending, and foreign currency exposure (see Box 1).[11] Liquidity pressures could intensify if the government continues to withdraw its banking deposits to finance the deficit. Given lower government deposits, banks reacted by attracting nonresident deposits and increasing wholesale funding to sustain robust private sector credit growth. However, these sources of wholesale funding are costlier and more volatile, and could further affect bank profitability. Staff observed that the ratio of liquid assets to total assets has continued to decrease (See Table 5). Staff recommended careful management of liquidity pressures by, among others, more active liquidity forecasting. A well-defined and transparent government debt issuance strategy would encourage market participants to increase secondary market trading (See Box 1). The authorities viewed banking system liquidity as adequate and noted that the QCB has been actively managing liquidity by adjusting their T-Bill auctions to the evolving liquidity conditions.

24. The authorities have significantly advanced the regulatory reform agenda. Most of the Strategic Plan for Financial Regulation 2013-16 has been implemented, including Basel III and macro-prudential regulation. The authorities are elaborating a new 2017-2022 Strategic Plan and are in the process of identifying new priorities. Progress has also been made in implementing Basel III and related regulation, including liquidity ratios, counter-cyclical buffers, and buffers for domestic systemically important banks. However, the new loan-to-deposit requirement, to be set at 100 percent by end-2017, is being questioned by some banks, who are pushing to change the loan-to-deposit formula so that it includes long-term wholesale funds in the denominator. Staff emphasized that the introduction of liquidity tools should avoid creating pro-cyclical effects. If

[11] Biggest Qatari banks have been boosting their presence in Middle-Eastern and African countries. The Qatar National Bank, the largest commercial bank half-owned by the government, has about half of its consolidated assets in foreign activities.

liquidity conditions become tighter for cyclical reasons, consideration should be given to suspending or postponing the implementation of the new loan-to-deposit ratio requirement. An Early Warning System is being developed. Efforts to enhance the AML/CFT framework are underway with TA from the Fund.

C. Diversifying Growth and Improving Statistics

25. Qatar ranks favorably in terms of competitiveness indicators, though there is scope for improvement (Figure 4).[12] Staff underscored the importance of economic diversification and private sector development, in the context of low oil prices. The authorities noted the progress that had been made in gaining a foothold in a number of new sectors, including air transportation, media and financial services, and investment in foreign assets. These are being complemented with increased access of SMEs to financing, and developing clusters (particularly sports business cluster to make Qatar the preferred global sports hub). A new public private partnership framework is being developed to further allow for increased participation of the private sector in economic activity. Staff advised, and the authorities agreed, that the design and implementation of such a framework should be predicated on clear risk-sharing arrangement principles, transparent and competitive tender mechanisms, and sound fiscal risk control policies. The government has also been improving logistics and transportation facilities, which will help to reduce the overall costs of production and raise productivity. Efforts have also been made toward simplifying business registration, especially the newly introduced single-window that provides centralized registration for new businesses. All these initiatives are expected to help improve productivity and further stimulate private sector activity, which in turn would reduce the economy's dependence on the hydrocarbon sector and enhance its resilience to shocks.

26. Additional measures are needed to further strengthen the business environment. These would entail enhanced contract enforcement by reducing the time and cost associated with settling commercial disputes, improved education quality with a focus on entrepreneurship and innovation, and strengthened insolvency mechanisms. Preliminary discussions on the second national development strategy indicate that the focus will be on improving the quality of education, fiscal management, and the institutional framework for the conduct of fiscal policy to create further room for private sector involvement in economic activity. The strategy will explore inter-sectoral linkages, and incorporate more robust monitoring and evaluation mechanisms.

27. Labor market and education reforms would broaden the inclusiveness of economic prosperity in Qatar. The vast infrastructure spending has put a spotlight on working conditions for expatriates. Committed to improving the situation, the authorities have introduced a new labor law with reforms to the "Kafala"—employment sponsorship—system in October 2015, which came into effect in December 2016 (Box 2). Building on this reform, addressing the uncertainty about

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[12] Qatar has fallen to 18th place (out of 140) in the World Economic Forum's Global Competitiveness Index (2016-17). Qatar's latest ranking drops four places from last year, though it still ranks ahead of most emerging markets. However, World Bank Doing Business indicators indicate that Qatar performs less favorably compared to other GCC countries in terms of getting electricity, access to credit, enforcing contracts and protecting minority investors. These indicators should be interpreted with caution due to a limited number of respondents, limited geographical coverage, and standardized assumptions on business constraints and information availability

permanent residency would help retain high skilled workers to support expansion of investment into higher productivity sectors. More broadly, labor market and civil service reforms should focus on improving incentives for nationals to work in the private sector, particularly in the context of on-going fiscal consolidation (figure 5). Labor productivity will also be enhanced through improvements in the quality of education and training.

28. Efforts are needed to further improve macroeconomic statistics. The authorities have started publishing quarterly GDP by expenditure and finalized the compilation of the Foreign Investment Survey. While IIP source data for the government and financial sector are available, the non-financial sector's foreign assets and liabilities are collected on the basis of an annual survey. The authorities plan to enhance this survey and conduct it quarterly. In this regard, the quarterly survey should cover the foreign assets and liabilities (with a breakdown by maturity and instrument) of the non-financial sector that would put QCB in a position to compile NIIP on a quarterly basis. Progress is being made in compiling fiscal data according to the GFSM 2001, preparing for the subscription to the SDDS, and improving real estate sector statistics. Additional efforts are still required to develop data on household, corporate and government balance sheets. Collaboration with GCC Stat is reinforcing the authorities' efforts to enhance the compilation of national accounts and price statistics.

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29. Qatar is well positioned to mitigate the adverse effects of sustained lower hydrocarbon prices, considering its substantial financial buffers. However, the sharp oil price decline has weakened its fiscal and external positions and moderated growth. Qatar has appropriately commenced gradual fiscal consolidation, while executing an ambitious diversification strategy and strengthening its policy framework.

30. Real GDP growth is expected to regain strength this year, albeit at a moderate rate going forward. Growth in the non-hydrocarbon sector nurtured by a vast public investment program and supported by the output from a new gas field will help propel growth this year. In the medium term, growth is envisaged to slow due to lower public investment and the drag in hydrocarbon output continues. Inflation is expected to remain low.

31. Fiscal and external deficits would remain in the near to medium time on account of low oil and gas prices. The budget will still be in deficit in 2017 as the planned expenditure and revenue measures are not sufficient to compensate for lower hydrocarbon revenues. While Qatar's fiscal position is comfortable, achieving intergenerational equity would entail implementing fiscal measures that focus on cutting recurrent expenditure and mobilizing non-hydrocarbon revenues. Over the medium term, the current account position is projected to improve in line with the moderate improvement in hydrocarbon export prices.

32. The ongoing and envisaged fiscal reforms are welcome. Enhancing the efficiency of public investment has become crucial in the context of expenditure restraint associated with lower oil prices. It is also important that fiscal consolidation is underpinned by a medium-term fiscal framework with a clear medium-term objective. The authorities are making good progress in these areas, including with the preparation of a medium-term fiscal strategy and the introduction of a new tender law and public finance law. However, further efforts to enhance the monitoring of public expenditures would help to further improve efficiency and management of investment spending. Similarly, further improvement in the transparency of fiscal accounts, including government financial transactions, would facilitate a more robust assessment of Qatar's fiscal position.

33. Banks remain sound and well capitalized, but could face risks from sustained low oil prices and increasing interest rates. Despite moderate credit growth overall, potential risks include further liquidity pressures, increase in bank funding costs due to uncertain global financial market conditions and concentration exposures, including real sector. The authorities need to continue to carefully manage liquidity pressures by developing more active liquidity forecasting. A well-defined and transparent government debt issuance strategy would help to further develop the domestic debt market. Progress with the implementation of Basel III and related regulations, and Strategic Plan for Financial Regulation is welcome. Further extending and strengthening the early warning indicators should be a priority.

34. Diversification and private sector development, particularly in the context of low oil prices, remain important. Additional measures are needed to further strengthen the business environment, including enhanced contract enforcement, and strengthened competition through reformed insolvency mechanism. Labor market and education reforms would further help to increase potential output and support the inclusiveness of economic prosperity in Qatar. In this regard**,** effective implementation of the new labor law would be important and permanent residency deserves consideration in order to retain high skilled workers to support expansion of investments into higher productivity sectors.

35. The fixed exchange rate regime remains appropriate for Qatar. The peg to the U.S. dollar continues to serve Qatar well. The peg has anchored the price of tradables and reduced transaction costs, while providing stability to income flows and financial wealth. Further strengthening the monetary framework, will also prove helpful as Qatar's economy diversifies. While external position is assessed to be weaker than the level consistent with sufficient saving of Qatar's exhaustible resource revenue, gradual fiscal adjustment would help to narrow the estimated current account gap in the medium term.

36. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Box 1. Local Currency Government Securities Market Developments in Qatar

Developing the local currency debt market is an important policy priority for Qatar. Among other benefits, further development of the domestic market can help reduce Qatar's reliance on foreign funding as Qatar advances its diversification agenda and prepares for the FIFA 2022 World Cup.

The responsibility for domestic debt management is de facto assigned to the QCB. The institutional framework for domestic debt management between the Ministry of Finance (MoF) and the QCB is formalized. The QCB, in consultation with the MoF, is responsible for the design of the issuance plan and execution of the transactions.

Local currency government debt includes Treasury bonds and Treasury bills (T-bills). The issuance of Treasury bonds predates T-bills. T-bills were introduced in 2011 for management of short-term liquidity with communication on the upcoming tenders. This has been supplemented by the introduction of quarterly auction of T-bonds since 2013 for managing structural liquidity of more enduring nature as well as to help in the formation of a yield curve for longer maturities and thereby to provide a major boost to the development of the domestic debt market. Treasury bonds have been issued domestically since 1999 for investment funding, liquidity management, and market development. They are used with medium (3 years) to long-term maturities (10-years) (see Table 3.1). Currently, both conventional and Shariah-compliant securities are issued. Rates are fixed by the QCB. Both T-bills and T-bonds (except Sukuk) are listed at Qatar Exchange (QE) for secondary market trading. However, the secondary market is not very active. Currently, limited information is publicly available beyond the basic results for the T-bill auctions. The legal basis for debt management strategy and operations as well as the division of responsibilities between the QCB and the ministry of finance should be publicly disclosed to enhance good governance, transparency, and accountability. In addition to debt strategy, disclosure regarding debt management goals and instruments tends to strengthen its effectiveness and credibility. Transparency and simplicity also help to reduce uncertainty among investors and lower transaction cost. It is best practice to publish an annual report in which the results of issuances are presented in light of the stated strategies and targets.

Domestic Government Bond Issuances

Domestic Government Bond Issuances and Outstanding Amount (as of end Dec 2016)

Treasury Bonds issued in 2016 (QR Million)					
	3-year	**5-year**	**7-year**	**10-year**	**Total**
Conventional	2,550	1,925	6,125	875	11,475
Sukuks	1,450	1,200	1,100	1,975	5,725
Total	4,000	3,125	7,225	2,850	17,200
Treasury Bonds issued in 2015 (QR Million)					
	3-year	**5-year**	**7-year**	**10-year**	**Total**
Conventional	5,550	5,575	1,750	1,100	13,975
Sukuks	1,900	2,150	1,950	2,025	8,025
Total	7,450	7,725	3,700	3,125	22,000
Treasury Bonds issued in 2014 (QR Million)					
	3-year	**5-year**	**7-year**	**10-year**	**Total**
Conventional	10,100	5,950	950		17,000
Sukuks	9,100	4,950	950		15,000
Total	19,200	10,900	1,900		32,000
Treasury Bonds issued in 2013 (QR Million)					
	3-year	**5-year**	**7-year**	**10-year**	**Total**
Conventional	6,000	6,000			12,000
Sukuks	2,000	2,000			4,000
Total	8,000	8,000			16,000
Outstanding from pre-2013 issuances					**24,276**
Maturity of bonds issued since 2013					**8,000**
Outstanding as at end December 2016					**103,476**

Note: Outstanding as at end December 2016 is derived as outstanding from pre-2013 issuances plus issuances since 2013 minus maturities since 2013

Source: Qatar Central Bank

Box 1. Local Currency Government Securities Market Developments in Qatar (concluded)

Auctions of zero-coupon T-bills started in May 2011 for the three month (91 days) maturity and in August 2011 for the six-and-nine-month (182 and 273 days) maturities. The auctions are generally held on the first working Tuesday of each month. The total current outstanding stock (as at end-December 2016) was QR 5.6 billion (around US$1.5 billion). Initially, at each auction, QR 2 billion is on offer for the three-month maturity and QR1 billion for the six- and nine-month maturity. Subsequently, these amounts have been subject to adjustments based on evolving liquidity conditions. All banks in Qatar are eligible to bid at the auctions and each bank can submit one bid for each maturity. The auction is organized as a multiple price auction. There is no limit on the size of a bid by a single bank. Results are posted on the QCB's website.

Secondary market trading has so far been negligible. Since December 2011, all T-bills have to be listed at the Qatar Exchange (QE) and secondary trading has to take place on QE, thus over-the-counter trading is not allowed. The three-six-nine-month T-bills issued to Islamic banks are not tradable, but can be used as collateral with the QCB for repo transactions. Foreign investors are eligible to buy T-bills in the secondary market, via registered brokerage firms at the QE. However, so far, trading by foreign investors appears negligible. QE has established trading platforms for both T-bills and government bonds. The secondary market is regulated and supervised by the Qatar Financial Market Authority.

Qatar has made significant efforts to develop its domestic government securities market but further progress is still needed. An independent debt office, the Office for Management of Credit Policies and Debt has been set up, however a transparent debt management strategy is not still in place. The lengthening of the maturity profile of debt issuance will also help the emergence of a risk-free yield curve across the term structure which would serve as a reference for pricing other financial instruments.

Box 2. The Main Elements of the New Labor Law

In line with the practice in the GCC region, Qatar's employment of migrant workers was based on a framework called the "*Kafala*" (sponsorship) system. Under this arrangement, the residency visas of employees were linked to a sponsoring firm (or a family member). A number of criticisms were levied against the use of this employment framework in Qatar, including difficult labor conditions for expatriate workers, particularly in the construction sector, and the requirement of employer's consent for exit visas to leave Qatar. It has also been argued that the limited flexibility in changing jobs tends to negatively impact on efficient allocation of human capital.

Following the award of the hosting of the 2022 FIFA World Cup and the ensuing construction activities, the "*Kafala*" system faced significant opposition from trade unions and international non-governmental organizations. In response, Qatar initiated labor reforms in 2014; the Emir issued a new labor law at the end of October 2015 and its implementation came into effect in December 2016.

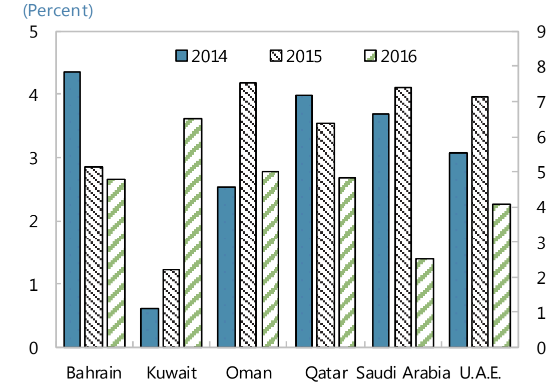
The main change introduced by the new law entails enhanced focus on contracts, allowing workers to change jobs at the end of the contracted term or after five years. The new law replaced the "*Kafala*" system which has been abolished. The new law applies to all workers and the hours of work are established in the contract (approved by Minister of Interior). The contracts between employers and employees have to be officially registered, ensuring that the agreed terms are bindings. The law makes it easier for workers to switch jobs and travel abroad, and implementation of the law has commenced. The new law, according to the authorities, is the latest step towards improving and protecting the rights of every expatriate worker in Qatar. The new law has the following specific provisions:

- The reforms establish the creation of government-backed "grievance committees" to which workers can appeal. Before, workers could only travel with the approval of employer. Now, the worker needs to inform the employer in writing. If employer does not approve, a committee will decide in 3 days (in case of urgency in 1 day).
- The new system establishes contracts of 5 years (instead of 2 years before). Beyond this, the employer and the employee can agree to renew. In the absence of a new contract, the employee can stay in the country for 3 more months to find a new job. For a new job, the person needs a new contract and new approval (given by the Minister of Interior).
- The 2-year cooling off period has been cancelled.
- The penalty for passport confiscation is decided by the court not by the committee. An awareness campaign has been launched.

Figure 1. Recent Economic Developments

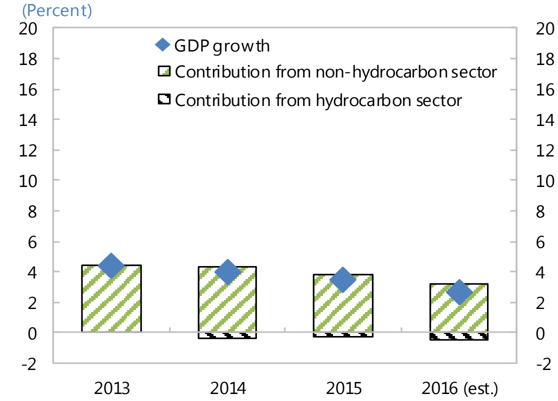
Qatar's GDP growth is moderating, as in the GCC region in 2016...

GCC Real GDP Growth, 2014–2016
(Percent)



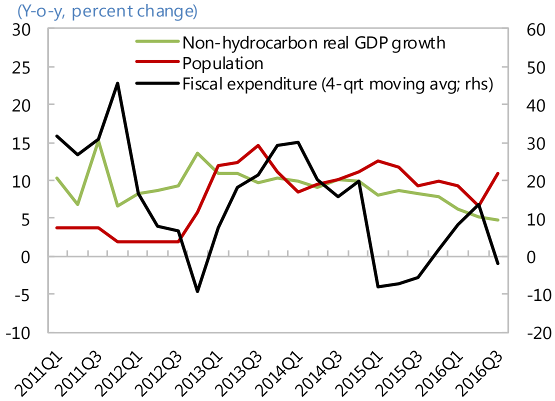
..driven by lower hydrocarbon output and declining trend of non-hydrocarbon sector

Real GDP Growth, 2013–2016
(Percent)



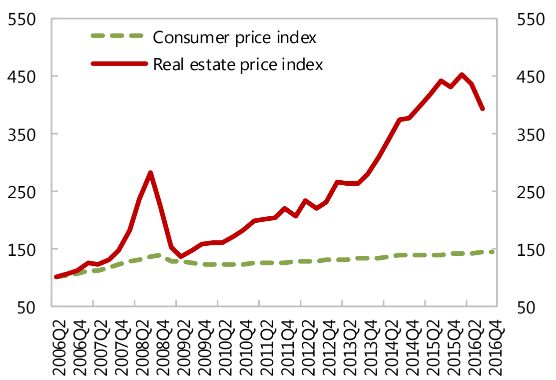
Still resilient non-hydrocarbon GDP growth is underpinned by public spending and population

Growth, Fiscal Expenditure, and Population, 2011–2016
(Y-o-y, percent change)



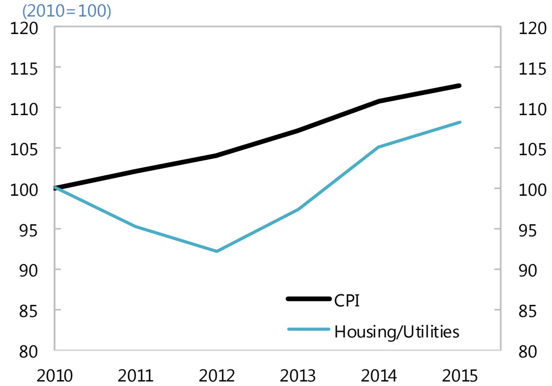
... which have contributed to increased real estate prices, though moderating and...

Real Estate Prices, 2006–2016
(Index, 2006q2=100)



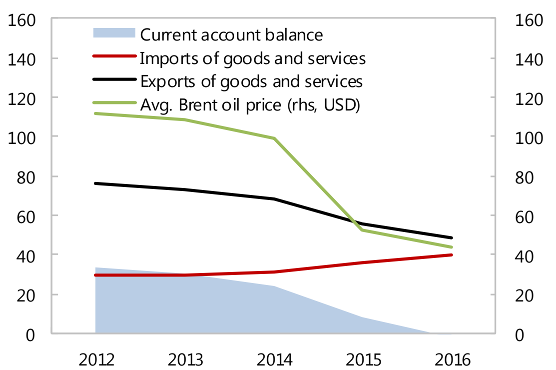
.... inflation pressures persist in the context of subsidy cuts.

Consumer Price Index, 2010–2015
(2010=100)



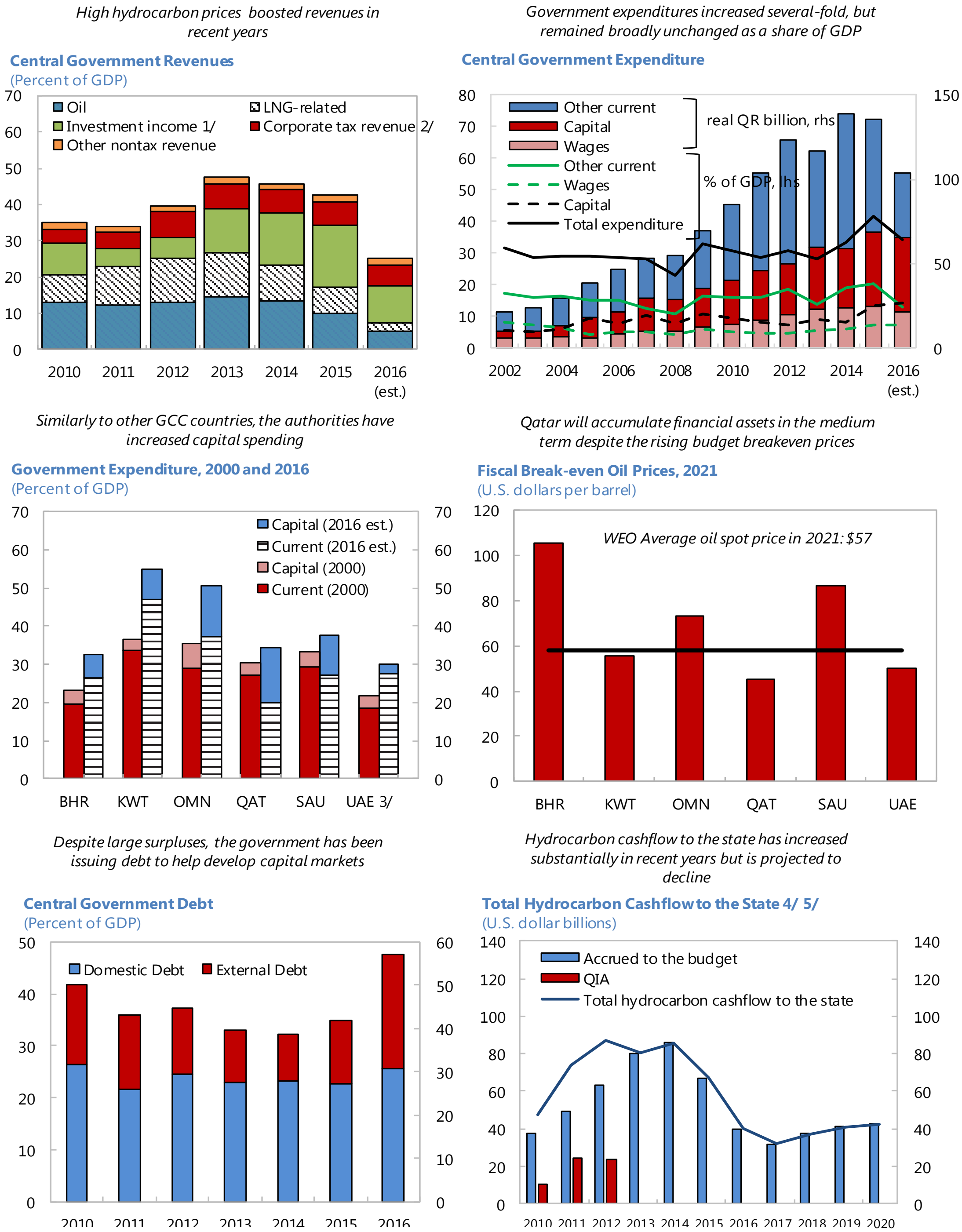
Lower oil prices have trimmed current account surplus.

Current Account Balance, 2012–2016



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

Figure 2. Fiscal Developments

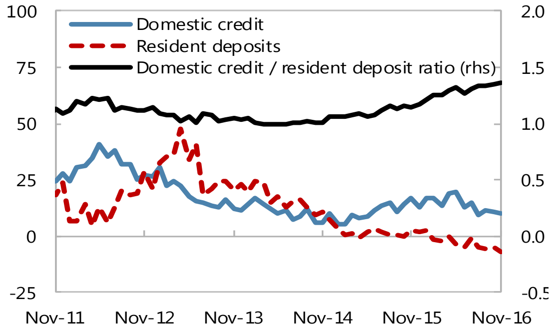


Sources: Country authorities; and Fund staff estimates.
1/ Dividends paid by Qatar Petroleum and other state-owned enterprises.
2/ About 85 percent of corporate income tax comes from Qatar Petroleum.
3/ Part of UAE capital spending is reflected in loans and equity in the official statistics, and thus is not included in this chart.
4/ Cashflow to QIA is staff's estimate. Starting from 2013, these flows are accrued to the Budget.
5/ Hydrocarbon revenues include portions of investment income and corporate tax revenue from companies operating in the hydrocarbon sector; these revenues are classified as nonhydrocarbon receipts in the budget.

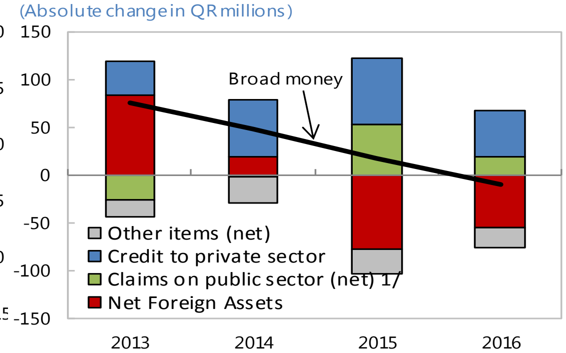
Figure 3. Financial Sector Developments

Slowing public sector deposit has been accompanied by tight liquidity.

Domestic Credit and Deposit Growth, 2011–16
(Annual percentage change)

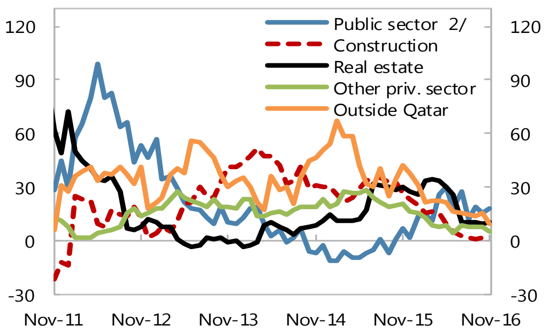


Factors Affecting Changes in Broad Money, 2013–16
(Absolute change in QR millions)

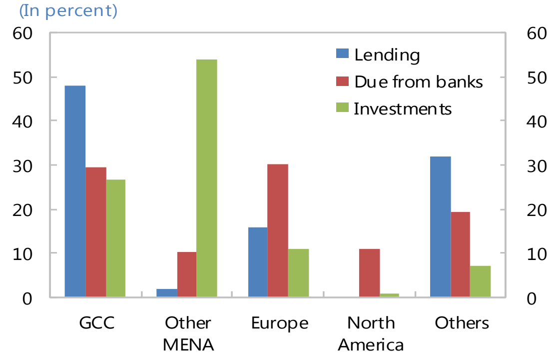


Lending to various sectors has moderated.

Bank Credit Growth by Sector, 2011–16
(Annual percentage change)

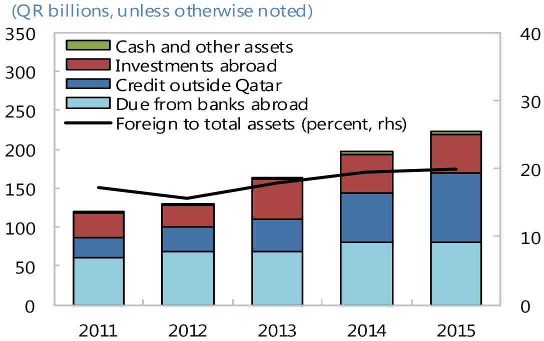


Major Component Distribution of Cross-border Assets, 2013
(In percent)

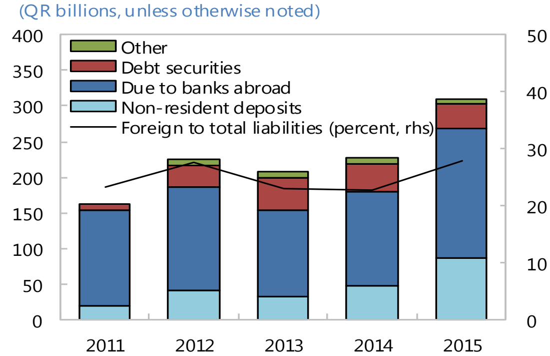


Banks are boosting their overseas presence through acquisitions and loans. Borrowing from abroad as a ratio of total assets has increased.

Qatari Banks: Foreign Assets Composition, 2011–15
(QR billions, unless otherwise noted)



Qatari Banks: Foreign Liabilities Composition, 2011–15
(QR billions, unless otherwise noted)



Sources: Country authorities; and Qatar Central Bank.

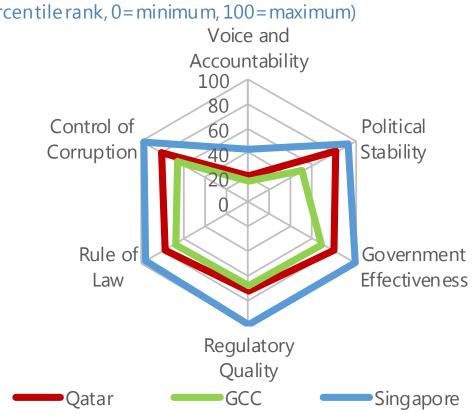
1/ Credit to government, government institutions, and semi-government institutions, as well as government financial securities; net of government deposits.

2/ Credit to government, government institutions, and semi-government institutions; excludes government financial securities.

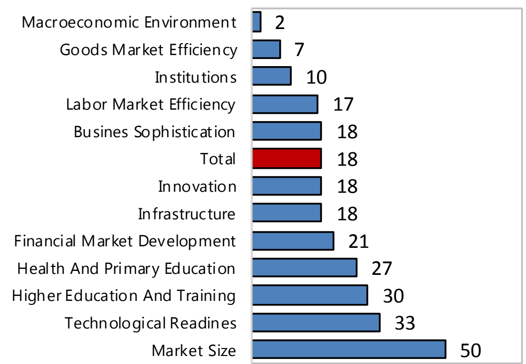
Figure 4. Business Environment and Governance Indicators

Qatar ranks favorably on a number of governance and competitiveness indicators, but there is scope for improvement, especially relative to non-GCC peers.

World Governance Indicators, 2016
(Percentile rank, 0=minimum, 100=maximum)

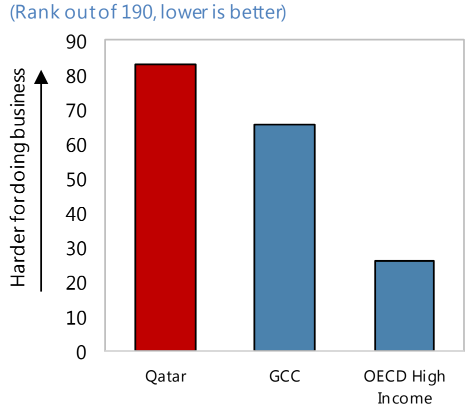


Global Competitiveness Index Ranks by Category, 2016–17
(Rank out of 138)

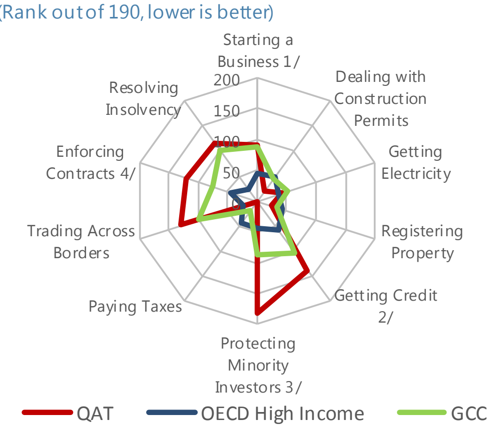


Further progress in easing business start-ups, contract enforcement, and enhancing investor protection would be particularly helpful.

World Bank Doing Business, 2017
(Rank out of 190, lower is better)



World Bank Doing Business, 2017: Details for Qatar
(Rank out of 190, lower is better)

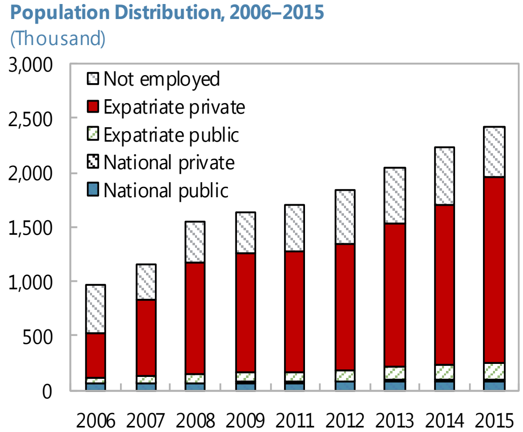


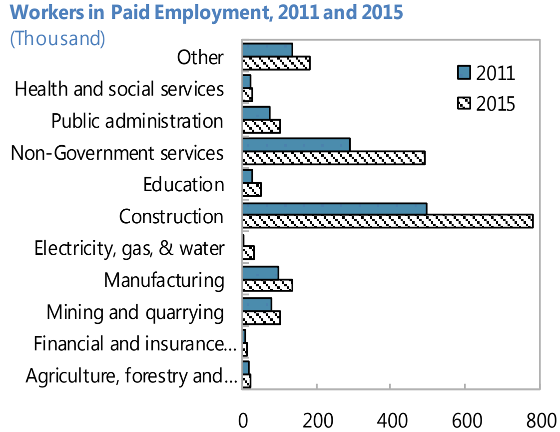
Sources: Global Competitiveness Report (2016–17); World Bank Doing Business Report (2017), World Governance Indicators (2016); and IMF staff estimates.
1/ Starting a business encompasses the procedures, time, and cost (including minimum capital requirement) required for an entrepreneur to start and operate a business.
2/ Getting credit is a combination of (i) the legal rights of borrowers and lenders that facilitate lending; and (ii) the coverage, scope, and accessibility of credit information via public credit registries and private credit bureaus. Qatar scores better in the latter but scores poorly by GCC standards in both cases.
3/ Protecting investors measures the strength of minority shareholder protection against directors' misuse of corporate assets for personal gain.
4/ Enforcing contracts measures the procedures, time, and cost involved in resolving a standardized commercial lawsuit between domestic businesses through the local first-instance court.

Figure 5. Labor Market Indicators

Fast population growth has been underpinned by acceleration in the inflows of expatriate workers...

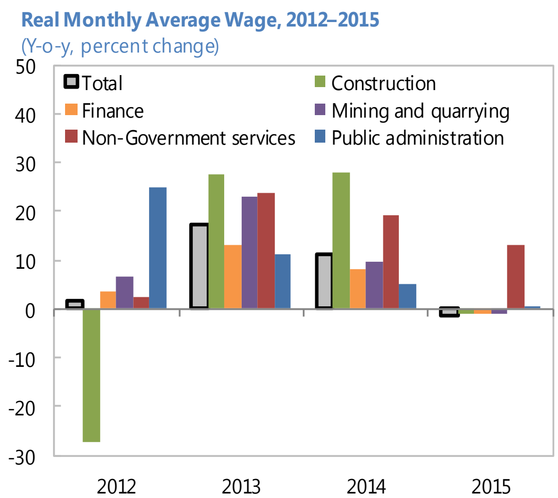
... into construction and non-government service sectors.

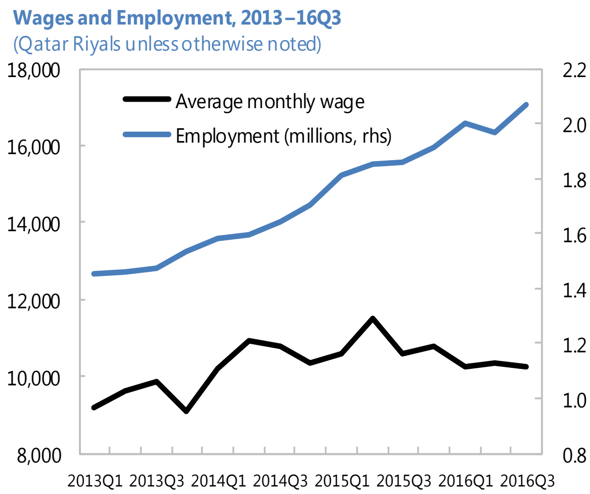




Public sector pay increased during 2012-14, and non-government services sector continue to experience real wage growth.

Employment has continued to rise as the public investment program gathers pace, while wage has moderated.





Sources: Qatar Statistics Authority's Labor Force Statistics Bulletin, 2015; Haver; and IMF staff calculations.

Table 1. Qatar: Selected Macroeconomic Indicators, 2012–21

	2012	2013	2014	2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
Real economy (change in percent unless otherwise noted)										
Nominal GDP (billions of Qatari Riyals)	680.1	723.4	750.7	599.3	570.5	632.1	704.8	745.4	782.4	819.0
Nominal hydrocarbon GDP (billions of Qatari Riyals)	394.7	403.0	394.2	231.3	162.6	197.4	219.1	218.4	218.2	218.7
Nominal nonhydrocarbon GDP (share of overall GDP, percent)	42.0	44.3	47.5	61.4	71.5	68.8	68.9	70.7	72.1	73.3
Real GDP (2013 prices)	4.7	4.4	4.0	3.6	2.7	3.4	2.8	2.3	2.0	1.6
Hydrocarbon 1/	1.2	0.1	-0.6	-0.5	-0.9	1.1	0.2	-0.4	-0.6	-1.0
Nonhydrocarbon	9.9	10.4	9.8	8.2	6.5	5.7	5.3	4.8	4.2	3.8
Per capita	-2.7	-6.2	-4.9	-4.4	-3.6	-1.0	1.3	1.0	1.8	1.6
Deflator	6.4	1.9	-0.2	-22.9	-7.3	7.1	8.4	3.4	2.9	3.0
CPI inflation (average)	1.9	3.1	3.4	1.8	2.7	2.6	5.7	3.0	2.2	2.1
Tradable	3.2	1.8	1.9	1.6	0.9	4.7	5.1	2.4	1.7	1.5
Non-tradable	0.6	4.4	3.9	2.0	4.1	0.9	6.2	3.6	2.7	2.5
Hydrocarbon sector										
Exports (billions of U.S. dollars) 1/	117.0	120.0	113.9	65.5	47.8	58.2	62.3	62.3	62.1	62.4
Brent crude oil price (U.S. dollars per barrel)	112.0	108.8	98.9	52.4	44.0	56.3	56.8	56.6	56.9	57.5
Crude oil production (thousands of barrels per day)	732.1	697.8	673.1	636.4	651.2	620.0	583.6	581.4	563.8	557.6
Natural Gas production (millions of tons per year)	90.8	91.8	91.3	94.0	91.2	94.5	97.5	98.5	100.1	100.1
of which LNG	77.0	78.1	77.5	79.7	76.9	77.7	77.7	77.7	77.7	77.7
Central government finances (percent GDP) 2/										
Revenue 3/	39.5	47.6	45.7	42.7	25.3	24.5	25.0	24.9	24.0	23.4
Expenditure	31.0	28.3	33.4	41.5	34.4	32.3	29.7	28.3	27.3	26.5
Current 4/	23.4	19.4	25.0	28.0	20.0	17.9	16.9	16.9	16.7	16.6
Capital	7.5	8.9	8.4	13.6	14.3	14.4	12.9	11.4	10.6	9.9
Central government fiscal balance	8.6	19.3	12.3	1.2	-9.0	-7.7	-4.8	-3.4	-3.3	-3.1
Adjusted non-hydrocarbon primary balance (pct of non-hydrocarbon GDP) 5/	-61.4	-50.6	-57.8	-57.2	-38.4	-34.9	-31.3	-27.9	-25.8	-24.0
Estimated general government balance 6/	11.2	22.6	15.3	5.6	-4.1	-3.0	-0.5	0.7	0.6	0.7
Central government debt, gross	37.2	33.1	32.3	34.9	47.6	50.2	50.8	51.9	53.8	54.5
Monetary and financial sector (change in percent)										
Broad money	22.9	19.6	10.6	3.4	-2.0	5.0	6.5	7.2	8.3	7.7
Domestic claims on public sector 7/	30.3	10.2	-8.1	5.8	16.1	0.7	3.6	3.0	3.1	2.9
Domestic credit to private sector 8/	13.5	13.5	20.3	19.7	6.5	10.8	12.3	11.8	10.8	10.7
3-month T-bill rate (Qatar Riyal, percent, eop)	0.9	1.2	0.8	1.5	1.7	...	...	...	...	...
CDS (bps, eop)	77.8	65.3	83.2	88.0	83.3	...	...	...	...	...
External sector (billions of U.S. dollars unless otherwise noted)										
Exports	133.0	133.3	126.7	77.3	58.8	69.9	73.8	73.7	73.4	73.5
Imports	-30.8	-31.5	-31.1	-28.5	-29.2	-34.2	-35.8	-35.1	-34.9	-35.4
Current account balance	62.0	60.5	49.4	13.8	-3.5	1.2	1.2	3.1	4.7	6.3
in percent GDP	33.2	30.4	24.0	8.4	-2.2	0.7	0.6	1.5	2.2	2.8
External debt (percent GDP)	86.4	81.4	80.7	110.6	142.1	139.0	131.5	129.9	129.4	129.6
Official reserves 9/	33.1	42.2	43.1	37.2	30.1	35.6	36.0	36.4	38.2	37.9
Social indicators										
Per capita GDP (2015): $68,940;										
Life expectancy at birth (2013): 78.4; Population (December 2015): 2.4 million										
Memorandum items										
Local currency per U.S. dollar (period average)	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Real effective exchange rate (change in percent)	2.97	2.53	2.25	11.23	2.69	...	...	...	...	...
Credit rating (Moody's investor services)	Aa2	Aa2	Aa2	Aa2	Aa2	...	...	...	...	...
Population growth (percent)	7.5	11.4	9.3	8.3	6.5	4.5	1.5	1.3	0.3	0.0

Sources: Qatari authorities; and IMF staff estimates.

1/ Includes crude oil, natural gas, propane, butane, and condensates.

2/ GFSM 1986; all years presented on a calendar year basis following the change of the timing of the fiscal year from 2016. (data from 2013 onwards reflect a full transfer of Qatar Petroleum profits to the budget).

3/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about 42 and 4 percent of GDP, respectively, in 2013.

4/ Includes transfers to the General Retirement and Social Insurance Authority in 2011 and 2012.

5/ Nonhydrocarbon balance of central government. (excluding the portion of investment income and corporate income tax from hydrocarbon activities).

6/ Central government balance plus estimated QIA returns, excluding capital gains.

7/ Credit to the government, government institutions, and semi-government institutions, as well as holdings of government securities.

8/ Excludes financial securities.

9/ Excluding QIA assets.

Table 2. Qatar: Balance of Payments, 2012–21
(Billions of U.S. dollars unless otherwise noted)

	2012	2013	2014	2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
Current account	62.0	60.5	49.4	13.8	-3.5	1.2	1.2	3.1	4.7	6.3
In percent of GDP	33.2	30.4	24.0	8.4	-2.2	0.7	0.6	1.5	2.2	2.8
Trade balance	102.2	101.9	95.6	48.8	29.6	35.6	38.1	38.7	38.5	38.1
Exports	133.0	133.3	126.7	77.3	58.8	69.9	73.8	73.7	73.4	73.5
Hydrocarbon	117.0	120.0	113.9	65.5	47.8	58.2	62.3	62.3	62.1	62.4
Crude oil	26.1	24.7	21.4	10.2	8.8	10.7	10.1	10.1	9.8	9.8
LNG	52.3	56.9	56.6	36.1	21.4	22.4	27.6	27.8	27.7	27.8
Propane, butane	9.4	9.2	8.5	4.2	3.5	4.4	4.5	4.5	4.5	4.5
Condensates	31.4	30.9	28.9	13.9	14.5	17.8	17.7	17.6	17.7	17.9
Refined petroleum products	10.7	10.3	9.8	8.4	4.4	8.4	8.5	8.4	8.4	8.4
Non-hydrocarbon	15.9	13.4	12.8	11.7	11.0	11.7	11.6	11.4	11.3	11.2
Petrochemicals	4.9	5.5	5.2	4.3	3.6	4.7	4.8	4.8	4.8	4.8
Others	11.1	7.9	7.6	7.0	6.6	6.9	6.9	6.8	6.7	6.6
Imports	-30.8	-31.5	-31.1	-28.5	-29.2	-34.2	-35.8	-35.1	-34.9	-35.4
Services (net)	-14.0	-16.3	-19.3	-15.8	-15.8	-15.2	-15.9	-15.6	-15.0	-14.3
Income (net)	-12.1	-10.4	-9.3	-3.6	-0.4	-1.4	-1.7	0.6	2.7	5.2
Receipts	6.5	6.4	7.4	7.8	7.9	8.2	9.0	11.7	14.1	16.9
Payments	-18.6	-16.8	-16.7	-11.4	-8.3	-9.6	-10.7	-11.1	-11.4	-11.7
Transfers (net)	-14.1	-14.7	-17.5	-15.7	-16.9	-17.8	-19.3	-20.5	-21.6	-22.7
Of which: workers remittances	-10.3	-11.1	-11.1	-12.0	-13.0	-13.7	-14.9	-15.8	-16.7	-17.5
Capital account	-6.1	-4.8	-5.5	-0.7	-0.8	-0.9	-1.0	-1.1	-1.1	-1.2
Financial account	-38.3	-47.4	-43.6	-18.9	-2.9	5.1	0.2	-1.7	-1.8	-5.4
Direct Investment, net	-1.5	-8.9	-5.7	-3.0	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4
Portfolio borrowing, net	2.8	-14.3	-19.9	-16.5	-15.0	-13.8	-10.5	-11.0	-10.6	-11.7
Assets	-7.6	-16.4	-16.7	-11.6	-9.6	-8.1	-4.5	-4.7	-3.9	-4.7
Liabilities	10.4	2.1	-3.2	-4.9	-5.4	-5.7	-6.0	-6.3	-6.6	-6.9
Other investment (net)	-38.0	-23.3	-18.3	0.7	4.4	22.3	14.4	13.5	12.0	9.5
Assets	-36.9	-13.4	-22.5	-19.0	-11.9	7.4	1.9	0.2	0.0	-4.8
Liabilities	-1.1	-9.9	4.2	19.6	16.3	14.9	12.6	13.2	11.9	14.3
Commercial banks, net	0.0	-1.7	0.0	0.0	11.0	0.0	-0.4	-0.8	0.1	0.1
Other capital, net	-1.5	0.7	0.3	-0.1	0.1	0.0	0.1	0.0	0.1	0.0
Errors and omissions	-1.5	0.8	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	16.1	9.1	1.3	-5.5	-7.2	5.5	0.5	0.4	1.7	-0.3
Change in QCB net foreign assets	-16.1	-9.1	-1.3	5.5	7.2	-5.5	-0.5	-0.4	-1.7	0.3
Memorandum items										
Nominal GDP	186.8	198.7	206.2	164.6	156.7	173.6	193.6	204.8	214.9	225.0
Central bank reserves	33.1	42.2	43.1	37.2	30.1	35.6	36.0	36.4	38.2	37.9
In months of next year's imports of goods and services	6.7	7.8	8.6	7.1	5.2	5.7	5.7	5.6	5.7	5.5
Real goods and services exports (percent change)	11.1	1.3	0.4	-1.4	3.5	3.4	0.0	1.2	0.8	0.9
Real goods and services imports (percent change)	21.5	8.7	6.4	-9.2	6.9	8.1	4.6	0.0	0.9	1.9

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

Table 3a. Qatar: Summary of Central Government Finance, 2012–2021

(Billions of Qatar Riyals unless otherwise noted)

	2012	2013	2014	2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
Revenue 2/	268.9	344.1	343.0	256.1	144.5	155.1	176.0	185.4	187.9	191.6
Oil	89.0	105.0	100.7	60.3	29.7	36.0	34.0	33.7	32.8	32.7
LNG-related	83.0	87.8	73.9	42.6	11.6	24.6	33.5	34.2	33.9	34.3
LNG (royalties)	83.0	87.8	73.9	42.6	11.6	24.6	33.5	34.2	33.9	34.3
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income from public enterprises	37.8	89.0	108.5	102.0	59.9	47.7	55.9	60.6	61.9	62.9
Corporate tax revenue	49.8	49.2	46.8	38.2	31.6	27.6	31.4	34.4	35.8	37.0
Other nontax revenue	9.3	13.1	13.0	13.1	11.7	19.2	21.2	22.4	23.5	24.7
Expenditure	210.7	204.7	250.7	248.8	196.1	203.9	209.6	210.7	213.8	217.0
Expense	159.4	140.0	187.8	167.6	114.3	113.1	118.8	125.9	131.0	136.2
Compensation of employees	33.5	40.1	44.1	45.0	41.0	42.7	44.4	46.2	48.0	49.9
Goods and services	18.0	15.3	17.7	18.6	13.9	13.5	13.1	12.7	12.3	11.9
Interest payments	9.9	8.1	9.1	9.2	4.1	6.4	8.2	9.6	10.6	11.9
Foreign grants	3.7	2.8	4.7	4.7	1.2	1.2	1.2	1.2	1.2	1.2
Other expense 3/	94.3	73.8	112.2	90.1	54.0	49.4	51.9	56.2	58.8	61.2
Net acquisition of nonfinancial assets	51.3	64.6	62.9	81.3	81.8	90.8	90.8	84.8	82.8	80.8
Gross operating balance	109.5	204.0	155.2	88.6	30.2	42.0	57.2	59.4	57.0	55.4
Net lending (+)/borrowing (-)	58.2	139.4	92.3	7.3	-51.6	-48.8	-33.6	-25.4	-25.8	-25.4
Nonhydrocarbon fiscal balance	-185.2	-170.2	-215.0	-219.6	-160.5	-158.3	-160.2	-156.9	-156.1	-155.8
Adjusted nonhydrocarbon primary fiscal balance 4/	-175.4	-162.1	-205.9	-210.5	-156.5	-151.9	-152.0	-147.2	-145.5	-143.9
Total government debt	253.3	239.6	242.3	209.3	271.6	317.0	357.9	386.9	420.9	446.3
o/w total net debt 5/	161.7	147.7	147.4	155.6	229.8	270.7	311.5	340.8	374.7	400.1
o/w external debt	87.0	74.3	67.0	73.4	126.2	170.1	202.6	225.3	252.8	271.9
o/w domestic debt	166.3	165.3	175.3	135.9	145.4	146.9	155.3	161.6	168.1	174.4
o/w net domestic debt 5/	74.7	73.4	80.4	82.1	103.7	100.6	108.9	115.5	121.9	128.2
External debt service/total revenue (percent)	7.0	4.8	3.0	1.1	9.1	8.1	8.2	6.6	9.4	5.5
Memorandum items										
Nominal GDP	680.1	723.4	750.7	599.3	570.5	632.1	704.8	745.4	782.4	819.0
Estimated general government balance 6/	76.2	163.3	114.8	33.6	-23.2	-19.1	-3.6	5.3	5.1	5.8
Estimated financial net worth of general government 7/	400.3	602.6	729.8	790.5	1,089.7	985.1	945.9	926.0	902.3	1,086.5
Estimated total hydrocarbon revenue 8/	259.6	330.8	329.8	242.9	132.7	135.7	154.6	162.8	164.2	166.7

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

1/ GFSM 2001 based on staff estimates; presented on a calendar year basis.
In 2015, budget will be based on a 9-month period (April-December).

2/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about 42 and 4 percent of GDP, respectively, in 2013. Investment income includes dividends from state-owned enterprises, including Qatar Petroleum.

3/ Includes transfer to the General Retirement and Social Insurance Authority in 2011 and 2012.

4/ Nonhydrocarbon balance of central government (excluding the portion of investment income and corp

5/ Excludes government deposits with resident banks.

6/ Central government balance plus estimated QIA investment income, excluding capital gains.

7/ Net debt of central government plus the estimated stock of QIA assets.

8/ Include corporate income taxe and investment income from hydrocarbon actvities.

Table 3b. Qatar: Summary of Central Governance Finance, 2013–2021
(Percent of GDP unless otherwise noted)

	2013	2014	2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
Revenue 2/	47.6	45.7	42.7	25.3	24.5	25.0	24.9	24.0	23.4
Oil	14.5	13.4	10.1	5.2	5.7	4.8	4.5	4.2	4.0
LNG-related royalties	12.1	9.8	7.1	2.0	3.9	4.7	4.6	4.3	4.2
Investment income from public enterprises	12.3	14.5	17.0	10.5	7.6	7.9	8.1	7.9	7.7
Corporate tax revenue	6.8	6.2	6.4	5.5	4.4	4.5	4.6	4.6	4.5
Other nontax revenue	1.8	1.7	2.2	2.0	3.0	3.0	3.0	3.0	3.0
Expenditure	28.3	33.4	41.5	34.4	32.3	29.7	28.3	27.3	26.5
Expense	19.4	25.0	28.0	20.0	17.9	16.9	16.9	16.7	16.6
Compensation of employees	5.5	5.9	7.5	7.2	6.8	6.3	6.2	6.1	6.1
Goods and services	2.1	2.4	3.1	2.4	2.1	1.9	1.7	1.6	1.5
Interest payments	1.1	1.2	1.5	0.7	1.0	1.2	1.3	1.4	1.4
Foreign grants	0.4	0.6	0.8	0.2	0.2	0.2	0.2	0.2	0.2
Other expense 3/	10.2	14.9	15.0	9.5	7.8	7.4	7.5	7.5	7.5
Net acquisition of nonfinancial assets	8.9	8.4	13.6	14.3	14.4	12.9	11.4	10.6	9.9
Gross operating balance	28.2	20.7	14.8	5.3	6.6	8.1	8.0	7.3	6.8
Net lending (+)/borrowing (-)	19.3	12.3	1.2	-9.0	-7.7	-4.8	-3.4	-3.3	-3.1
Nonhydrocarbon fiscal balance	-23.5	-28.6	-36.7	-28.1	-25.0	-22.7	-21.0	-20.0	-19.0
Adjusted nonhydrocarbon primary fiscal balance, in pct of nonhydrocarbon GDP 4/	-50.6	-57.8	-57.2	-38.4	-34.9	-31.3	-27.9	-25.8	-24.0
Memorandum items:									
Total government debt	33.1	32.3	34.9	47.6	50.2	50.8	51.9	53.8	54.5
o/w total net debt 5/	20.4	19.6	26.0	40.3	42.8	44.2	45.7	47.9	48.9
o/w external debt	10.3	8.9	12.2	22.1	26.9	28.7	30.2	32.3	33.2
o/w domestic debt	22.8	23.3	22.7	25.5	23.2	22.0	21.7	21.5	21.3
o/w net domestic debt 5/	10.1	10.7	13.7	18.2	15.9	15.4	15.5	15.6	15.7
Estimated general government balance 6/	22.6	15.3	5.6	-4.1	-3.0	-0.5	0.7	0.6	0.7
Estimated financial net worth of general government 7/	83.3	97.2	131.9	191.0	155.9	134.2	124.2	115.3	132.7
Estimated total hydrocarbon revenue 8/	45.7	43.9	40.5	23.3	21.5	21.9	21.8	21.0	20.4

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

1/ GFSM 2001 based on staff estimates; presented on a calendar year basis.
In 2015, budget will be based on a 9-month period (April-December).
2/ According to staff estimates, budget revenues related to hydrocarbon and non-hydrocarbon activities amounted to about 42 and 4 percent of GDP, respectively, in 2013. Investment income includes dividends from state-owned enterprises, including Qatar Petroleum.
3/ Includes transfer to the General Retirement and Social Insurance Authority in 2011 and 2012.
4/ Nonhydrocarbon balance of central government (excluding the portion of investment income and corporate in
5/ Excludes government deposits with resident banks.
6/ Central government balance plus estimated QIA investment income, excluding capital gains.
7/ Net debt of central government plus the estimated stock of QIA assets.
8/ Include corporate income taxe and investment income from hydrocarbon actvities.

Table 4. Qatar: Vulnerability Indicators, 2011–16
(Percent unless otherwise noted)

	2011	2012	2013	2014	2015	Proj. 2016
External solvency indicators						
REER (change in percent, 2010=100)	-5.0	3.0	2.5	2.2	11.2	2.7
Total debt (billion US$, including commercial banks)	130.8	161.5	161.8	166.3	182.1	222.7
Of which: LNG-related	22.3	23.1	23.1	23.0	21.3	20.5
Total debt (percent of GDP)	77.9	86.4	81.4	80.7	110.6	142.1
Public sector solvency indicators						
Government gross domestic debt/GDP	21.6	24.4	22.8	23.3	22.7	25.5
Government net domestic debt/GDP 1/	11.5	11.0	10.1	10.7	13.7	18.2
Government external debt/GDP	14.4	12.8	10.3	8.9	12.2	22.1
Interest payments/total revenue	4.3	3.7	2.3	2.7	3.6	2.8
External liquidity indicators (billion US$)						
Central bank net reserves	16.4	32.8	41.8	42.7	36.9	29.7
In months of imports	3.6	6.7	7.8	8.6	7.1	5.2
Commercial banks net foreign assets (US$b)	-11.6	-26.4	-12.5	-8.5	-24.0	-40.0
Foreign assets (US$b)	32.8	35.3	44.9	54.0	61.2	74.0
Foreign liabilities (US$b)	44.4	61.7	57.3	62.5	85.2	114.1
Hydrocarbon exports/total exports	91.8	88.0	90.0	89.9	84.8	81.2
Financial sector indicators						
Foreign currency deposits/total deposits	19.6	29.3	31.7	31.7	29.8	27.0
Net domestic credit (percent change)	30.4	26.6	12.1	9.5	11.9	3.7
Private sector credit (percent change)	19.2	13.5	13.5	20.3	19.7	6.5
Net domestic credit/GDP	55.0	62.5	65.9	69.5	97.4	106.1
Private credit/total assets of banks	32.8	31.6	32.2	35.1	38.0	35.6
Market assessment/financial market indicators						
Stock market index (end of period)	8,779	8,359	10,380	12,286	10,429	10,437
Moody's investor services 2/	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2
Standard and Poor's 2/	AA	AA	AA	AA	AA	AA

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

1/ Net of government deposits with resident banks.

2/ Long-term foreign currency rating.

Table 5. Qatar: Financial Soundness Indicators, 2010–16

(Percent unless otherwise noted)

	2010	2011	2012	2013	2014	2015	Sep. 2016
Capital adequacy							
Regulatory Tier 1 capital to risk-weighted assets 1/	15.0	19.9	18.2	15.3	16.0	15.0	15.0
Regulatory Tier 1 capital to total assets	11.1	12.6	12.8	12.5	12.0	11.3	9.5
Regulatory capital to risk weighted assets 1/	16.1	20.6	18.9	16.0	15.6	14.7	14.8
Asset quality							
Nonperforming loans to total loans	2.0	1.7	1.7	1.9	1.7	1.6	1.2
Nonperforming loans to capital	1.3	1.0	1.7	1.9	2.0	1.9	1.2
Bank provisions to nonperforming loans 2/	85.1	87.2	97.5	96.8	99.1	101.1	109.2
Bank provisions to total loans	1.7	1.5	1.7	1.9	1.7	1.6	1.4
Foreign assets to total assets	16.1	17.2	15.7	17.9	19.6	20.0	20.3
Earnings and profitability							
Return on assets	2.6	2.7	2.4	2.1	2.1	2.0	1.3
Return on equity	19.9	18.6	17.7	16.5	16.5	16.2	11.4
Net interest to gross income	48.2	53.0	71.4	74.6	72.4	74.6	74.5
Net Interest to average total assets	2.9	2.8	2.6	2.5	2.3	2.2	1.5
Non-interest expenses to gross income	24.6	28.2	25.4	26.5	26.9	28.0	28.9
Wages and salaries to other non-interest expenses	33.5	31.9	48.5	47.6	48.0	49.5	50.0
Liquidity							
Liquid assets to total assets	38.5	36.3	38.1	33.6	30.8	28.5	27.8
Liquid assets to short-term liabilities	50.7	47.2	58.5	50.9	50.9	47.1	n.a.
Domestic credit-to-deposits ratio	120.0	109.6	114.3	103.5	106.1	116.9	115.5
Loans as a percentage of customers deposits	102.5	111.0	109.0	103.1	105.9	112.4	114.9
Other							
Private sector loans (in percent total loans)	67.0	62.8	56.6	57.8	62.9	67.2	65.5
Foreign currency assets to liabilities	97.2	114.6	109.1	76.4	79.7	81.0	81.6

Sources: Qatar Central Bank, and Haver Analytics.
1/ In 2014 onwards, Basel III capital adequacy is applied for national banks only. Basel II is applied in earlier years.
2/ In 2014 onwards, bank provisions to nonperforming loans include provisions for some performing loans under the special category.

Table 6. Qatar: Monetary Survey, 2012–17

(Billions of Qatari Riyals unless otherwise noted)

	2012	2013	2014	Est. 2015	Proj. 2016	Proj. 2017
Total						
Net foreign assets	23.2	106.6	124.6	46.9	-9.4	12.3
Net domestic assets	357.9	349.1	379.4	474.5	520.5	514.5
Claims on government (net)	102.9	60.7	72.8	132.2	144.5	137.2
Domestic credit	425.1	476.5	521.8	583.9	637.9	700.1
Other items (net)	-170.1	-188.1	-215.2	-241.6	-261.9	-322.8
Broad Money	381.1	455.7	504.0	521.4	511.1	526.9
Money	90.9	105.9	124.3	126.9	124.4	128.3
Quasi Money	290.1	349.8	379.8	394.5	386.7	398.6
Qatar Central Bank						
Net foreign assets	119.2	152.0	155.5	134.2	120.6	142.5
Foreign assets	120.7	153.4	156.8	135.5	121.9	143.8
Foreign liabilities	1.4	1.5	1.4	1.3	1.3	1.3
Claims on commercial banks	40.3	59.2	55.9	56.0	61.0	66.0
Net claims on government	-17.0	-52.8	-34.6	-7.9	-28.0	-28.0
Claims on government	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits	17.0	52.8	34.6	7.9	28.0	28.0
Reserve Money	45.6	44.0	54.2	48.7	56.3	55.0
Currency issued	11.0	12.3	14.1	15.0	15.7	14.4
Deposits of local banks	34.6	31.7	40.1	33.7	40.6	40.6
Other items (net)	97.0	114.3	122.5	133.6	97.3	125.5
Other Depository Corporations						
Net foreign assets	-96.1	-45.4	-30.9	-87.3	-129.9	-130.1
Foreign assets	128.5	163.3	196.5	222.7	229.4	236.2
Foreign liabilities	224.5	208.7	227.4	310.0	359.3	366.4
Claims on Central Bank	37.1	34.5	43.6	37.4	44.4	44.2
Currency	2.8	3.1	3.8	4.0	3.8	3.6
Reserve Deposits	34.3	31.4	39.9	33.5	40.6	40.6
Claims on public sector	331.1	365.0	335.5	354.9	374.5	377.6
Credit to government	51.7	56.5	64.7	75.1	…	…
Government financial securities	112.5	125.2	102.0	118.3	…	…
Credit to public enterprises	166.8	183.2	168.8	161.5	168.2	172.1
Credit to private sector	258.3	293.3	353.0	422.5	469.7	528.0
Deposits	417.3	514.8	553.0	563.6	572.7	602.0
Private sector	236.6	284.7	324.8	354.5	386.2	410.4
Public enterprises	136.3	161.8	168.9	155.8	152.7	151.2
Government	44.4	68.3	59.3	53.3	33.8	40.4
Liabilities to the central bank	2.2	4.6	6.7	7.0	12.0	17.0
Other items, net	110.9	128.1	141.6	156.8	173.9	200.7
Memorandum items						
Broad money growth (M2)	22.9	19.6	10.6	3.4	-2.0	3.1
Velocity (M2 to non-oil GDP)	0.7	0.7	0.7	0.7	0.8	0.8
Net foreign assets growth	31.9	360.2	16.9	-62.4	-120.0	231.6
Net domestic assets growth	22.4	-2.5	8.7	25.1	9.7	-1.1
Domestic claims on public sector growth	30.3	10.2	-8.1	5.8	5.5	0.9
Domestic claims on private sector growth	13.5	13.5	20.3	19.7	11.2	12.4
3-month T-bill rate (Qatar Riyal, percent, eop)	0.9	1.2	0.8	1.5	…	…
10-year bond yield (USD, percent, eop)	2.6	3.6	2.9	…	…	…
CDS (bps, eop)	77.8	65.3	83.2	88.0	…	…

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

Annex I. Status of Staff Recommendations Made in the 2015 Article IV Consultation

Recommendations	Current Status
Macroeconomic policy mix	
Remain vigilant about overheating pressures	Progress. Consumer price inflation remains low despite subsidy cuts. Real estate price growth moderated in 2016.
Implement additional fiscal consolidation measures	*Progress*. Significant fiscal measures have been implemented in 2016, and the authorities plan to maintain a prudent fiscal policy in the medium term.
Improve public investment management	*Progress*. The public investment management unit of the ministry of finance is making good progress, with enhanced emphasis on improving the efficiency of public investment and bringing about higher value for money via cost bench-marking. There has been an improvement in collaboration among the line ministries, public investment management department of the ministry of finance and the public procurement agency. A new tender law and public finance law were recently approved.
Continue fiscal reforms, including strengthening medium-term budgeting	*Progress*. Capital expenditures and related operational spending are being reviewed and medium-term envelopes have been established. Policy makers have adopted a number of recommendations by staff to improve the institutional framework, including establishing a macro-fiscal unit and a public investment management department. The Ministry of Finance has put in place a medium term strategy to inform the budget process
Financial stability	
Careful monitor financial stability risks	Progress. The Early Warning System continues to be strengthened
Move ahead with the financial sector regulatory agenda	*Progress*. The Strategic Plan for the Financial Sector 2013-2016 has been extensively implemented. Progress has been made in implementing Basel III and related regulation, including liquidity ratios, counter-cyclical buffers, and buffers for domestically systemically important banks.
Monitor liquidity developments and take timely measures	*Progress*. The QCB is managing liquidity pressures by adjusting issuance of T-bill and T-bond auctions in coordination with the Ministry of Finance.
Economic diversification and statistics	
Continue to diversify the economy	*Progress*. The government has restated its vision to further diversify its economy away from oil, and is proactively pursuing the implementation of its plans in this regard.
Improve macroeconomic statistics	*Progress*. The authorities have started publishing quarterly GDP by expenditure and finalized the compilation of the Foreign Investment Survey. They are contemplating a new investment survey with a view to addressing the remaining gaps and improving the IIP and BOP statistics

Annex II. Risk Assessment Matrix

Risk Assessment Matrix[1]		
Nature/source of main risks	**Expected impact on the economy if risk is realized**	**Policy Response**
Persistently lower energy prices, production cuts by OPEC and other major producers may not materialize as agreed while other sources of supply could increase production. (Low)	***Medium to High*** Persistently lower oil prices would weaken fiscal and external balances. However, the growth impact would be contained given the available fiscal buffers and FIFA-related commitments. That said, adverse confidence effects in the private sector and drying up of liquidity in the banking system as oil-exporting companies slow deposit growth could amplify negative spillovers to the non-oil sector.	*A successful diversification program would help mitigate the impact of oil price volatility. The authorities should ensure adequate banking system liquidity.*
Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa and Europe, leading to sharp rise in migrant flows, with negative global spillovers (High)	***Medium*** Dislocations could cause a spike in hydrocarbon prices, which would improve fiscal and external balances, but could be more than offset by the impact of weaker investor confidence and possible supply, trade and capital flows disruptions.	Maintain prudent policies.
Risks related to real estate sector and large infrastructure investments (Medium)	***Low to Medium*** Rapidly-growing real estate credit and infrastructure spending could lead to cost overruns and inflationary pressures in the short term, while delivering disappointing productivity gains over the medium term. Moreover, reputational risks associated with reports of poor labor standards could lead to difficulties with hiring expatriate workers.	*Enhancements to the early warning system and a comprehensive public investment management framework would help manage macroeconomic risks. Overheating pressures could be relieved by smoothing capital spending over time and better prioritization, and in case of excessive risk taking and speculative activity also through liquidity withdrawal and macro prudential measures. Continued efforts to enhance labor protection and mobility would mitigate reputational risks and make growth more inclusive.*
Structurally weak growth in key advanced (Euro Area, US, and Japan) and emerging economies (China and India) (High/Medium)	***Low*** This would lower Qatar's fiscal and external surpluses. The spillover channels to the non-oil sector would be similar to those in the oil price drop scenario.	*Policymakers should further intensify diversification efforts to partially offset these potential negative spillovers.*
Significant further strengthening of the US dollar and/or high rates, as investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies(High)	***Low to Medium*** Reversal of capital flows, higher risk, premiums and possible valuation losses in sovereign wealth fund portfolios. Rollover risks and liquidity strains can have an impact on the banking sector. If reassessments of sovereign risk or geopolitical tensions stoke capital flow volatility, the risks would be more significant. Individual banks reliant on wholesale funding could face liquidity pressures and banks' profit margin could shrink. Borrowing costs for Qatar could increase.	*In addition to strong macroeconomic fundamentals, large financial cushions and a policy framework are in place to mitigate the impact.*

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of the IMF staff). The relatively likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Public Sector and External Debt Sustainability Analysis

Figure 1. Qatar Central Government Debt Sustainability Analysis DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

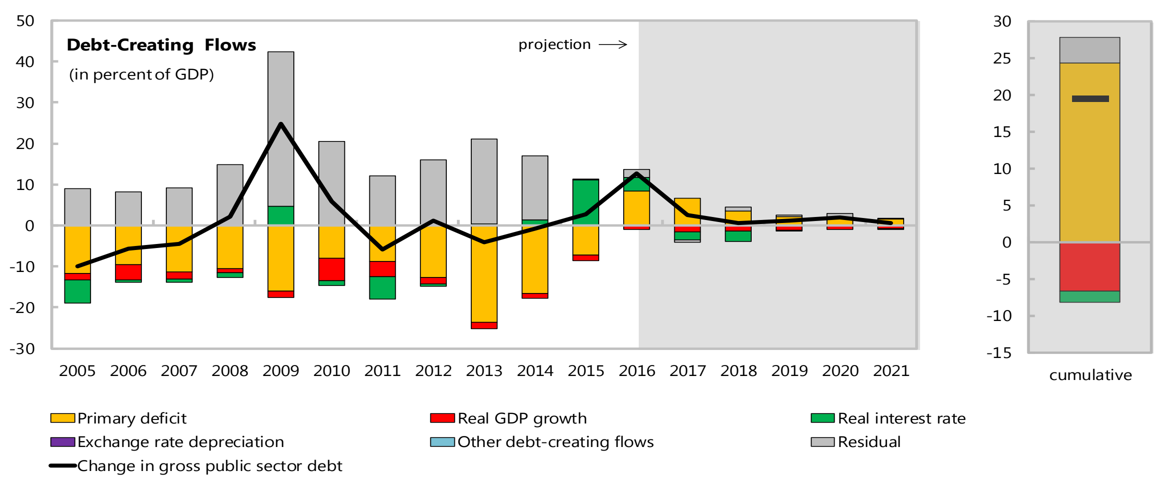
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross government debt	26.3	32.3	34.9	47.6	50.2	50.8	51.9	53.8	54.5
Government gross financing needs	-6.5	-7.8	8.9	10.8	8.9	8.5	6.5	6.9	9.7
Real GDP growth (in percent)	13.5	4.0	3.6	2.7	3.4	2.8	2.3	2.0	1.6
Inflation (GDP deflator, in percent)	9.3	-0.2	-22.9	-7.3	7.1	8.4	3.4	2.9	3.0
Nominal GDP growth (in percent)	24.1	3.8	-20.2	-4.8	10.8	11.5	5.8	5.0	4.7
Effective interest rate (in percent) [4/]	5.7	3.8	3.8	2.0	2.4	2.7	2.9	3.0	3.1

As of October 10, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		120
5Y CDS (bp)		62
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Government Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross government debt	0.5	-0.8	2.7	12.7	2.6	0.6	1.1	1.9	0.7	19.6	
Identified debt-creating flows	-16.1	-16.5	2.5	10.8	3.1	-0.4	0.7	1.0	0.8	16.1	
Primary deficit	-12.5	-16.5	-7.1	8.3	6.7	3.6	2.1	1.9	1.6	24.3	-0.8
Primary (noninterest) revenue and grants	40.3	48.7	47.1	25.3	24.5	25.0	24.9	24.0	23.4	147.1	
Primary (noninterest) expenditure	27.8	32.2	40.0	33.7	31.3	28.6	27.0	26.0	25.0	171.5	
Automatic debt dynamics [5/]	-3.6	0.0	9.6	2.5	-3.6	-4.0	-1.4	-1.0	-0.8	-8.2	
Interest rate/growth differential [6/]	-3.6	0.0	9.6	2.5	-3.6	-4.0	-1.4	-1.0	-0.8	-8.2	
Of which: real interest rate	-1.1	1.3	11.1	3.5	-2.1	-2.7	-0.3	0.0	0.0	-1.5	
Of which: real GDP growth	-2.4	-1.3	-1.4	-1.0	-1.5	-1.3	-1.1	-1.0	-0.8	-6.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of deposits (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Prefunding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	16.5	15.6	0.2	1.8	-0.6	1.0	0.4	0.9	-0.1	3.4	



Source: IMF staff.

1/ Central government debt, including contingent liabilities that amount to about 50 percent of SOEs' debt.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

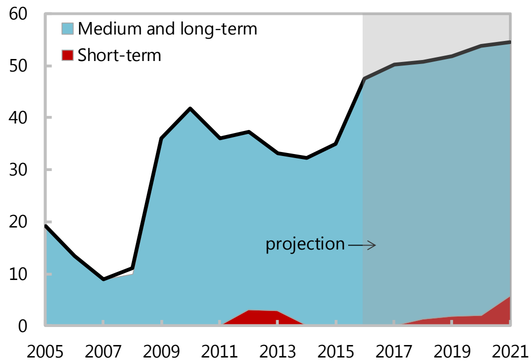
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. Also indicates that public debt was increasing by more than the borrowing requirement.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

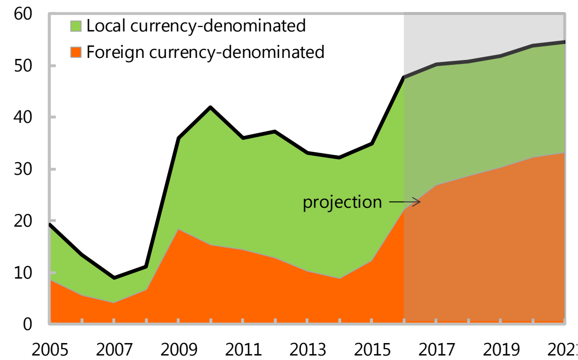
Figure 2. Qatar Central Government DSA – Composition of Government Debt Alternative Scenarios

Composition of Government Debt

By Maturity
(in percent of GDP)



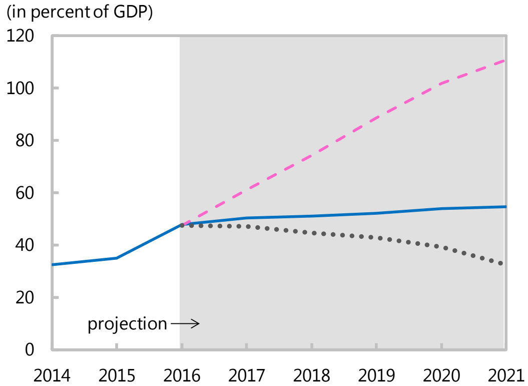
By Currency
(in percent of GDP)



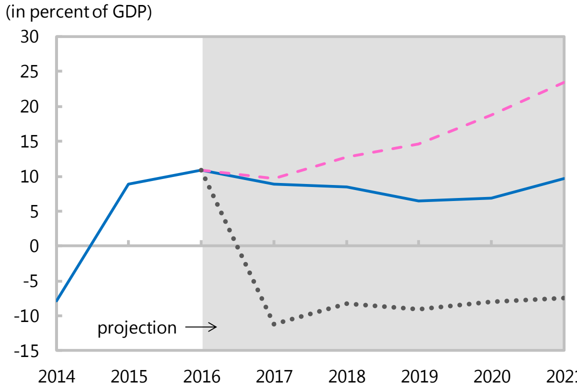
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Government Debt
(in percent of GDP)



Government Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

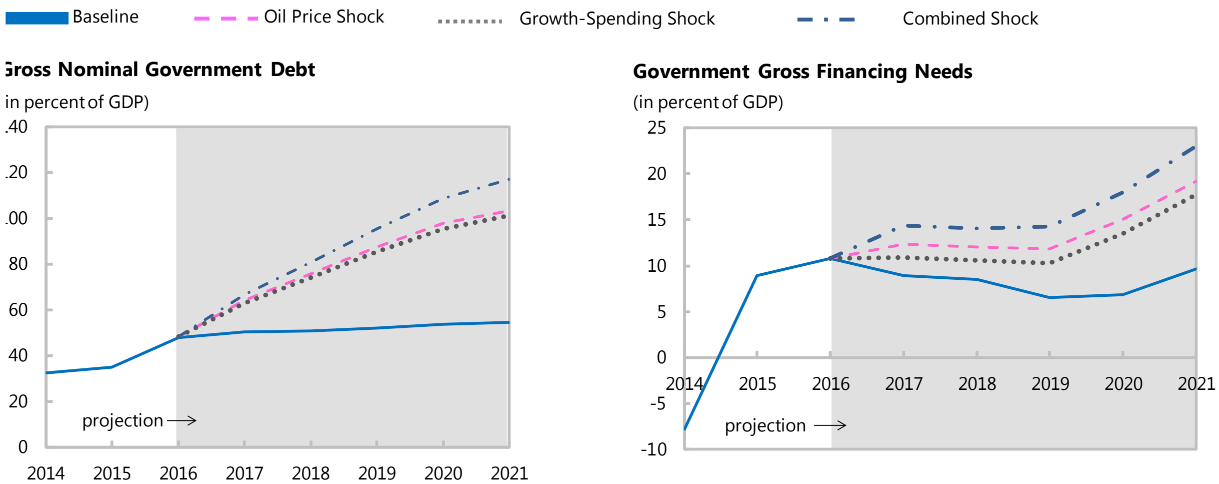
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.7	3.4	2.8	2.3	2.0	1.6
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	-6.7	-3.6	-2.1	-1.9	-1.6
Effective interest rate	2.0	2.4	2.7	2.9	3.0	3.1
Constant Primary Balance Scenario 1/						
Real GDP growth	2.7	3.4	2.8	2.3	2.0	1.6
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	-8.3	-8.3	-8.3	-8.3	-8.3
Effective interest rate	2.0	2.2	2.1	1.9	1.7	1.6

Historical Scenario 1/	2016	2017	2018	2019	2020	2021
Real GDP growth	2.7	12.2	12.2	12.2	12.2	12.2
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	12.4	12.4	12.4	12.4	12.4
Effective interest rate	2.0	2.2	2.4	2.5	2.4	2.5

1/ The scenario assumes that no new debt is issued if the gross financing needs are negative.
Source: IMF staff.

Figure 3. Qatar Central Government DSA – Alternative Scenarios

Alternative Scenarios



Underlying Assumptions

(in percent)

Baseline Scenario

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.7	3.4	2.8	2.3	2.0	1.6
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	-6.7	-3.6	-2.1	-1.9	-1.6
Effective interest rate	2.0	2.4	2.7	2.9	3.0	3.1

Oil Price Scenario 1/

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.7	3.4	2.8	2.3	2.0	1.6
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	-10.2	-7.1	-5.6	-5.3	-4.9
Effective interest rate	2.0	2.3	2.0	1.8	1.7	1.6

Growth-Spending Scenario 2/

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.7	2.4	1.8	1.3	1.0	0.6
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	-8.7	-5.6	-4.1	-3.9	-3.6
Effective interest rate	2.0	2.3	2.0	1.9	1.8	1.7

Combined Scenario 3/

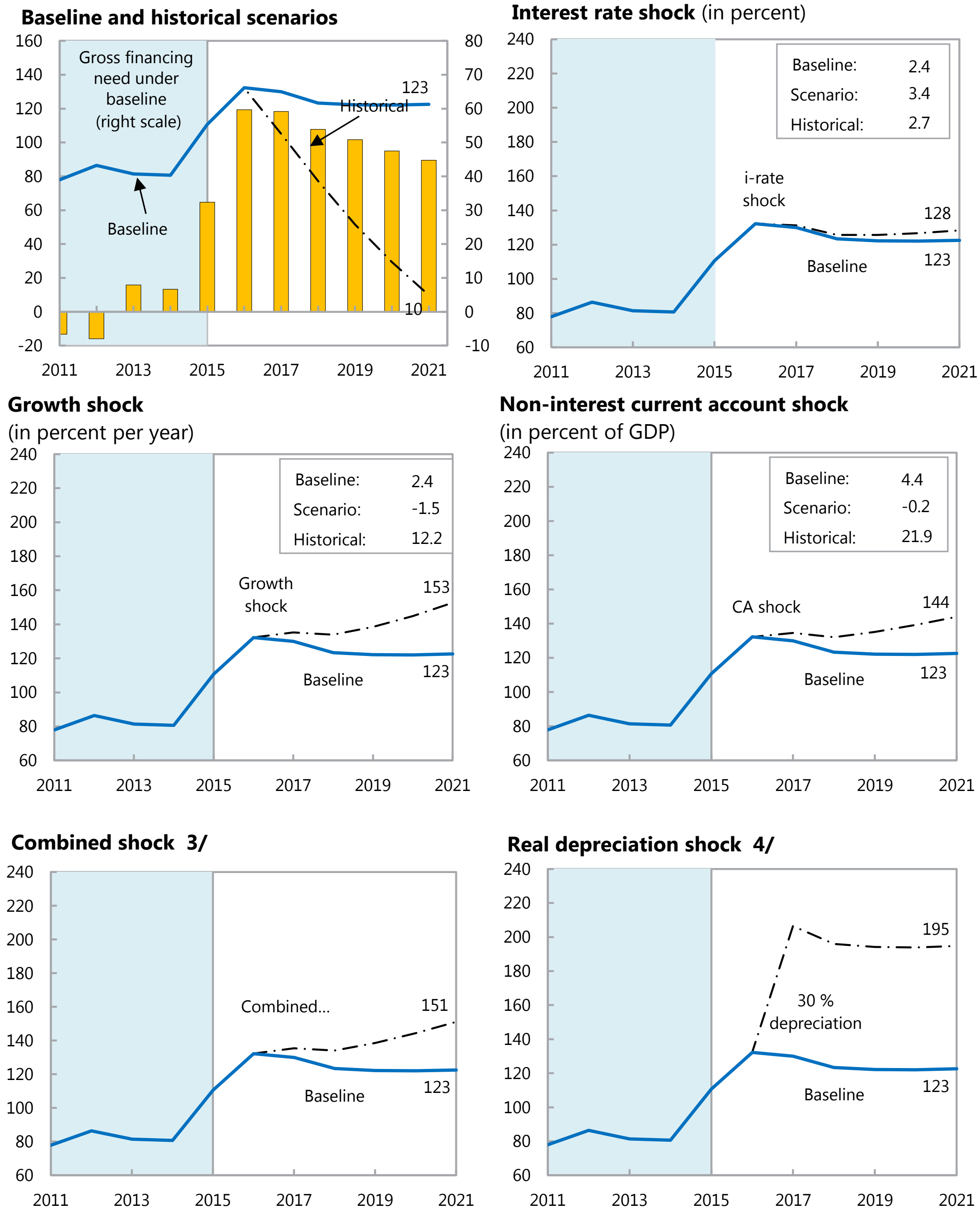
	2016	2017	2018	2019	2020	2021
Real GDP growth	2.7	2.4	1.8	1.3	1.0	0.6
Inflation	-7.3	7.1	8.4	3.4	2.9	3.0
Primary Balance	-8.3	-12.2	-9.1	-7.6	-7.3	-6.9
Effective interest rate	2.0	2.3	1.9	1.8	1.6	1.6

1/ Oil price is lower by $10 in 2016-21.
2/ Real GDP growth is lower by 1 percentage point and the non-interest expenditure-to-GDP ratio is higher by 2 percentage points than in the baseline in 2016-21.
3/ This scenario combines the oil price and the growth-spending scenarios.

Source: IMF staff calculations.

Figure 4. Qatar: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 1. Qatar: External Debt Sustainability Framework, 2011–2021

(In percent of GDP, unless otherwise indicated)

	Actual 2011	2012	2013	2014	2015	10-Year Historical Average	10-Year Standard Deviation	Projections 2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	77.9	86.4	81.4	80.7	110.6			**142.1**	**139.0**	**131.5**	**129.9**	**129.4**	**129.6**	**-1.2**
2 Change in external debt	-10.0	8.5	-5.0	-0.8	30.0			31.5	-3.1	-7.5	-1.6	-0.5	0.2	
3 Identified external debt-creating flows (4+8+9)	-49.8	-40.3	-31.1	-24.2	13.8			1.3	-3.1	-2.4	-2.8	-3.1	-3.4	
4 Current account deficit, excluding interest payments	-31.8	-34.0	-31.5	-25.0	-10.5			-0.2	-3.3	-3.7	-4.6	-5.4	-5.9	
5 Deficit in balance of goods and services	-46.5	-47.2	-43.1	-37.0	-20.1			-8.8	-11.8	-11.5	-11.2	-11.0	-10.6	
6 Exports	72.6	76.5	72.7	68.0	56.1			48.4	51.4	49.5	48.0	46.9	46.2	
7 Imports	26.1	29.3	29.7	31.0	36.0			39.6	39.6	38.0	36.8	36.0	35.6	
8 Net non-debt creating capital inflows (negative)	3.6	0.8	4.5	2.8	1.8			2.2	2.0	1.8	1.7	1.6	1.5	
9 Automatic debt dynamics 1/	-21.6	-7.1	-4.1	-1.9	22.5			-0.7	-1.8	-0.4	0.2	0.7	1.1	
10 Contribution from nominal interest rate	0.7	0.8	1.1	1.0	2.2			2.5	2.6	3.1	3.1	3.2	3.1	
11 Contribution from real GDP growth	-7.9	-3.3	-3.6	-3.1	-3.6			-3.1	-4.4	-3.5	-2.9	-2.5	-2.0	
12 Contribution from price and exchange rate changes 2/	-14.5	-4.7	-1.6	0.2	24.0			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	39.8	48.8	26.1	23.4	16.1			30.2	0.0	-5.1	1.1	2.7	3.5	
External debt-to-exports ratio (in percent)	107.3	113.0	112.0	118.6	197.4			293.4	270.3	265.9	270.4	275.8	280.8	
Gross external financing need (in billions of US dollars) 4/	-11.1	-14.8	15.7	13.7	53.2			93.5	118.0	120.0	119.9	117.8	116.5	
in percent of GDP	-6.6	-7.9	7.9	6.6	32.3			59.7	68.0	62.0	58.6	54.8	51.8	
Scenario with key variables at their historical averages 5/								**142.1**	**113.9**	**85.1**	**58.7**	**35.6**	**15.3**	**-1.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	12.0	4.7	4.4	4.0	3.6	12.2	8.0	2.7	3.4	2.8	2.3	2.0	1.6	
GDP deflator in US dollars (change in percent)	19.7	6.4	1.9	-0.2	-22.9	3.0	15.7	-7.3	7.1	8.4	3.4	2.9	3.0	
Nominal external interest rate (in percent)	1.1	1.2	1.3	1.3	2.2	2.7	2.1	2.1	2.0	2.5	2.5	2.6	2.5	
Growth of exports (US dollar terms, in percent)	56.3	17.3	1.1	-3.0	-34.2	16.9	32.8	-17.8	17.6	7.2	2.7	2.5	3.0	
Growth of imports (US dollar terms, in percent)	47.4	24.9	7.8	8.6	-7.4	18.3	24.1	4.7	10.9	6.9	2.4	2.6	3.5	
Current account balance, excluding interest payments	31.8	34.0	31.5	25.0	10.5	21.9	9.1	0.2	3.3	3.7	4.6	5.4	5.9	
Net non-debt creating capital inflows	-3.6	-0.8	-4.5	-2.8	-1.8	-0.4	3.2	-2.2	-2.0	-1.8	-1.7	-1.6	-1.5	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

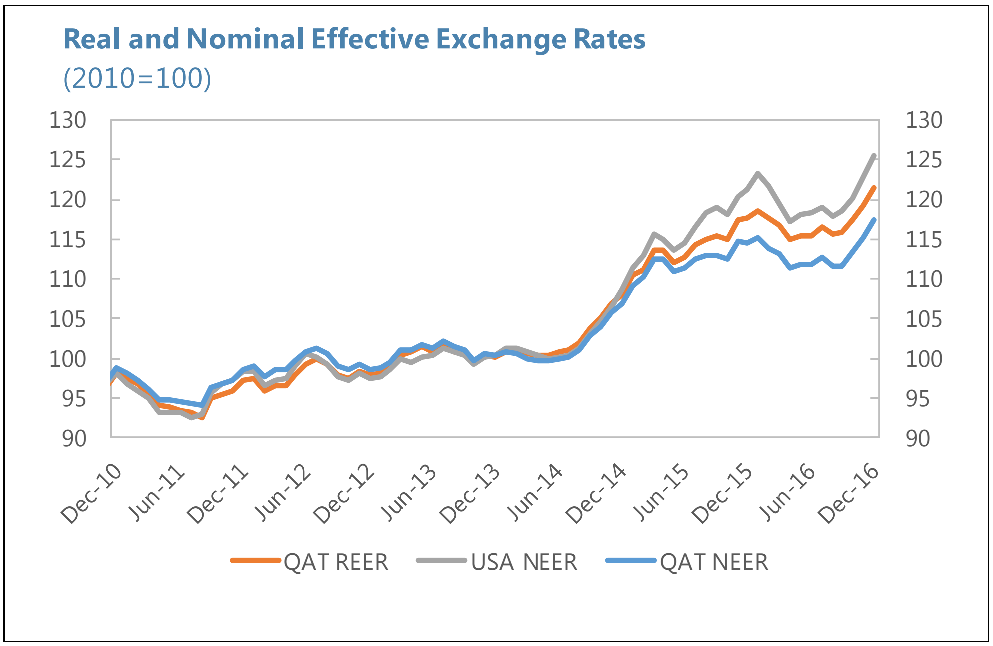
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

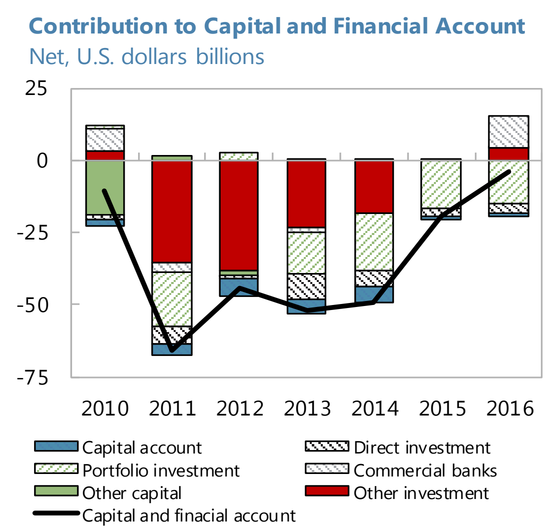
Annex IV. External Stability Assessment

Qatar's current account deteriorated in 2016 due to the sharp decline in global oil prices. The permanent income model and the current account model approach indicate that the external position is weaker than the level that would be consistent with sufficient saving of Qatar's exhaustible resource revenue. However, with gradual fiscal adjustment over the medium, the estimated current account gap could be closed.

Qatar's real effective exchange rate has been appreciating broadly in line with the U.S. dollar. The Riyal appreciated by 11 percent on average during 2015 and by close to 2 percent in 2016. Limited import substitution, reliance on hydrocarbon exports, and the use of elastically supplied foreign workers limit the scope for the exchange rate to affect the current account.



The current account balance has deteriorated, while the capital and financial accounts have improved, as outflows eased substantially in the past two years. Qatar's current account balance fell to a deficit estimated at 2.2 percent of GDP in 2016, from a surplus of 8.4 percent in 2015. This reflected the decline in oil prices, whereas imports have been broadly stable in dollar terms, in view of sustained high public investment expenditure and non-hydrocarbon growth. The sharp decline in oil prices and the related lower government revenue has also slowed the pace of accumulation of financial assets by the public sector. In the banking system, the

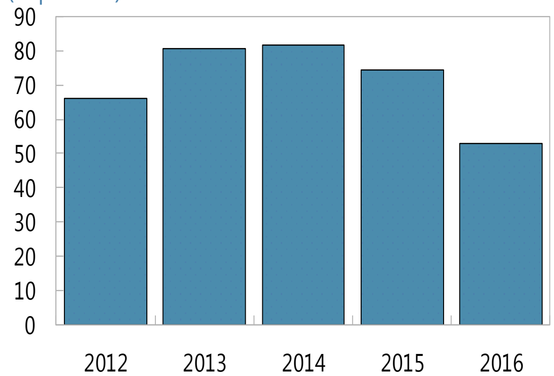


change in the financing model reflected through an increased resort to external financing (wholesale funding and foreign deposits) has led to higher capital inflows.

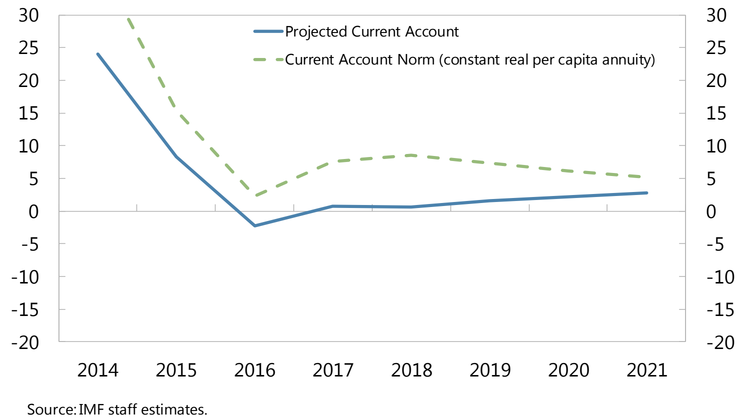
Central bank foreign exchange reserves have remained adequate. Despite a slight decline from $37 billion in 2015 to $30 billion in 2016, reserves at the QCB represent around 24 percent of broad money and cover 5 months of imports of goods and services. While the total amount of foreign exchange reserves held by QCB only covers 53 percent of the Fund's reserve metric, the stock of assets at the Qatar Investment Authority (estimated at about $335 billion in 2016) provides a large additional buffer.

Foreign Reserves as a Percentage of the ARA Metric

(in percent)



The permanent income model approach indicates that the current account balance deviates from the norm. The permanent income model ("External Sustainability approach" (ES)) assesses external imbalances by focusing on optimal savings. The ES approach determines the current account balance needed to equalize the net present value (NPV) of hydrocarbon and investment income and the NPV of imports net of non-hydrocarbon exports. A current account gap would signal suboptimal saving of hydrocarbon revenues. Applying this framework, the gap with the current account required to provide a constant real income per capita is estimated at about 4.6 percentage points of GDP in 2016, and narrows to around 2.5 percentage points over the medium term in the baseline scenario. This implies that even though Qatar's external position is projected to turn into surplus, it would be weaker than the level needed to preserve intergenerational equity.



The macro-balance model also indicates that the current account is below its optimal level. The macro-balance model builds on the External Balance Assessment-Lite (EBA-Lite) approach which provides regression-based estimates of current account and real effective exchange rate norms and gaps for countries. Norms are the estimated levels of the current account based on underlying fundamentals, while gaps are the deviations of observed values from the norms. For Qatar, the EBA-Lite model implies an implausibly high current account norm of about 18 percent of GDP surplus, and a current account gap of 20 percent of GDP. However, this divergence appears to be entirely explained by the residual and not by any policy gap, suggesting a poor predictive power of the standard EBA-Lite approach in the case of Qatar. As an alternative method, the EBA-Oil model (an adapted version of the EBA-Lite which takes account of specific characteristics of oil-dependent oil exporting countries) is used.[1] The results from this alternative approach suggest a current account norm (consistent with optimal fiscal policy, i.e. fiscal balance in line with intergenerational equity) of 2.3 percent of GDP surplus in 2016, compared to the actual deficit of 2.2 percent. This approach also highlights the key role of fiscal policy to ensure external sustainability. While the magnitude of the estimated current account gap should be seen as only illustrative given the high

Qatar. Macrobalance Approach, 2016

EBA-Lite			
CA-Actual	-2.2%	CA-Fitted	16.5%
CA-Norm	17.8%	Residual	-18.7%
CA-Gap	-20.0%	Policy gap	-1.3%
EBA-Oil			
CA-Actual	-2.2%	CA-Fitted	-3.0%
CA-Norm	2.3%	Residual	0.8%
CA-Gap	-4.5%	Policy gap	-5.3%

[1] Behar & Fouejieu (2016) "External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate", IMF Working Paper 16/107. The EBA-Oil uses regression analysis for a sample of undiversified oil exporters to predict the equilibrium current account consistent with a range of structural and policy factors. It reflects the much higher impact of fiscal policy on the current account for this group of countries, compared to that implied by the EBA-Lite. We use the EBA-Oil model III, which is based on a regression specification with a restricted set of control variables

sensitivity to the approach used, the analysis suggests that the current account gap is largely driven by suboptimal fiscal savings.

compared to the EBA-Lite, and keeping only those that are statically significant. This specification also minimizes the residual. It may be noted that because this methodology is only applied to a subset of countries—oil exporters—the results do not account for a distortion due to the sample selection bias.

INTERNATIONAL MONETARY FUND

March 3, 2017

QATAR

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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RELATIONS WITH THE FUND

(As of December 31, 2016)

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

General Resources Account

	SDR Million	Percent Quota
Quota	735.10	100.00
Fund holdings of currency	541.50	73.66
Reserve position in Fund	193.60	26.34

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	251.40	100.00
Holdings	271.24	107.95

Outstanding Purchases and Loans: None

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

	Forthcoming				
	2017	**2018**	**2019**	**2020**	**2021**
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessments: Not Applicable

Exchange Rate Arrangement:
The Qatari riyal has been pegged to the U.S. dollar at QR 3.64 = $1.00 since July 2001, 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 under the procedures set forth in Executive Board Decision No. 144- (52/51).

Last Article IV Consultation:

The discussions for the previous Article IV consultation took place in Doha in January 2015. The 2015 Article IV consultation was concluded in March 2015 by the preparation of the Staff Report for the Board's consideration on a lapse- of- time basis.

FSAP and ROSC Participation:

FSAP missions were conducted in 2007. LEG conducted a detailed assessment of the Qatari anti-money laundering and combating the financing of terrorism (AML/CFT) framework against the Financial Action Task Force (FATF) 40+9 Recommendations during 2006-7. The report was also presented to the Middle East & North Africa Financial Action Task Force (MENAFATF) and the FATF and adopted by these organizations as their own mutual evaluation at their respective plenary meetings in 2008. The final report was published on the Fund website and a ROSC was circulated to the Executive Board for information in September 2008.

Technical Assistance:

STA	April 2000	Real Sector Statistics
STA	May 2001	Balance of Payments Statistics
STA	January 2005	Multisector Statistics
STA	April 2006	Government Finance Statistics
LEG	November 2006	AML/CFT Pre-assessment
STA	April 2007	GDDS Assessment
LEG	October 2009	AML/CFT Long-Term Advisor Providing TA.
STA	October 2010	Balance of Payments Statistics
STA	September 2012	Coordinated Direct Investment Survey
LEG	March 2014	AML/CFT follow up
FAD	April 2014	Macro-fiscal unit
LEG	November 2014	Risk-based approach to AML/CFT
STA	November 2016	SDDS Assessment Mission

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of January 2017)

Cooperation with Qatar began in 2003 with a Public Transport Sector Reform study. A manpower planning exercise launched in 2003 evolved to a Labor Market Strategy in 2004. In 2005, the World Bank provided technical assistance on payment systems to the Qatar Central Bank, in the context of supporting the development of payment and securities clearance and settlement systems in the Arab region through the Arab Payments and Securities Settlement Initiative, led jointly by the World Bank, the Arab Monetary Fund and the International Monetary Fund. In 2007, the Bank conducted a study on the Knowledge Economy (KE) the results of which informed several high-level workshops.

The Government, represented by the Ministry of Finance, signed in 2010 the Framework Agreement for Advisory Services with the Bank in order to enhance Qatar's benefit from available services. The Bank has since provided technical support in a number of areas including a midterm review of the first National Development Strategy (NDS-1) 2011-16 focused on institutional development, human development, and infrastructure, enhancement of environmental regulations and economic management, and development of the pension system. The Bank also helped the authorities prepare for and deliver the Convention of the Parties (COP 18) to the United Nations Framework Convention on Climate Change (UNFCCC) that Qatar hosted in December 2012, facilitating dialogue among various stakeholders on issues of climate change, dry-land agriculture, and food security.

The World Bank is currently providing technical assistance to the Central Bank to enhance institutional capacity in the domains of macro-prudential oversight and financial sector stress testing. Following a revision of the Framework Agreement signed at the beginning of 2016 between the Government, again represented by the Ministry of Finance, and The World Bank, the latter is supporting the Ministry of Development Planning and Statistics rand associated government task teams with the preparation of the second National Development Strategy (NDS-2) 2017-22, with a focus on a number of cross-cutting (population, labor and sustainable development; fiscal management, service delivery and institutional development) and sectoral challenges and priorities (economic diversification and private sector development; environmental sustainability, natural resources and built capital; education, health care and social protection). It is also providing technical assistance with regard to designing a monitoring and evaluation framework for NDS-2.

STATISTICAL ISSUES

As of January 2017

I. Assessment of Data Adequacy for Surveillance
General: Economic data are broadly adequate for surveillance but there is substantial scope for improving their frequency, timeliness and coverage. The most affected areas are the real gross domestic product (GDP), real estate sector statistics, financial accounts of the balance of payments, international investment position, and external debt statistics.
National Accounts: Qatar publishes quarterly estimates of GDP at current and constant prices. The accuracy of data in the non-hydrocarbon sector is undermined by the lack of comprehensive source data. The Ministry for Development Planning and Statistics (MDPS) has begun to publish the quarterly Sequence of National Accounts including current GDP by expenditure from summer 2014. Changing the base year (currently 2004) is also under consideration.
Price statistics: Qatar has been publishing monthly CPI data based on a basket with a significant share of rents. However, the rent component has limited geographic coverage and only reflects new contracts. The household income and expenditure survey 2012-13, which covers all municipalities, forms the basis for updated weights in a new CPI basket (2013 base year) introduced for measuring inflation in early 2015. The rental share is expected to fall due to the removal of imputed rent costs.
Real estate statistics: The Ministry of Justice records real estate data at the transactions level, including some basic details about the type of transactions, and makes it available to the public in Arabic in PDF format. The QCB uses this data to produce an aggregate residential real estate monthly price index, which it publishes quarterly. The index covers only transactions made between private parties. Disaggregated indices are not available. The authorities are working on a measure of housing vacancies.
Government Finance Statistics: The authorities are implementing the Government Financial Management Information System (GFMIS) which will enable compilation of accrual fiscal accounts according to the *Government Finance Statistics Manual 2001* (GFSM) guidelines. At the moment, the GFSM2001 figures are estimated by staff on the basis of modified cash data provided by the authorities.
Monetary statistics: Monetary data for Qatar Central Bank (QCB) and commercial banks are generally timely and of high quality. The QCB reports monetary data regularly to STA for publication in *International Financial Statistics* (IFS) on a monthly basis with a lag of about three weeks. Monthly and quarterly data are also published in the *Monthly* and *Quarterly Statistics Bulletin*.
Financial stability: Qatar Central Bank published and disseminated its fifth Financial Stability Report in 2014, and plans to prepare a risk-based analysis of the entire financial system in cooperation with the Qatar Financial Center Regulatory Authority and Qatar Financial Market Authority.
Balance of Payments: Since the 2010 technical assistance mission on balance of payments statistics, as well as the participation of STA staff in the 2011 Article IV Consultation, the authorities are publishing quarterly BoP data in the *International Financial Statistics (IFS)*. The financial account has been developed and coverage improved for major public

corporations, the Qatar Financial Center Authority, and the Qatar Exchange. Continuing efforts are needed to further develop data sources, particularly for the private sector. The 2012 TA mission on CDIS has facilitated the Foreign Investment Survey for 2010-12. Although it excludes public entities, this data will assist with compilation of comprehensive data on Qatar's International Investment Position (IIP). The authorities presented the mission with partial mid-year IIP data for 2012, 2013, and 2014.
External debt: Detailed data on the country's medium- and long-term external debt are provided to missions during the Article IV consultation discussions. The debt office at the Ministry of Finance is collating information about public debt and debt of public sector enterprises. The authorities are publishing data on public external debt on the QCB website.
II. Data Standards and Quality
Qatar is a General Data Dissemination System (GDDS) participant since December 2005. The GDDS mission of April 2007 updated the GDDS Summary Table II *Data Coverage, Periodicity, and Timeliness;* assessed dissemination practices relative to the requirements of the Special Data Dissemination Standard (SDDS) for coverage, periodicity, and timeliness; and identified major milestones that Qatar would have to reach to graduate from the GDDS to the SDDS. To enhance data dissemination practices, staff assisted the authorities in developing a National Summary Data Page (NSDP) and an Advance Release Calendar (ARC). The November 2016 mission conducted the Statistical Department of the IMF found that eleven data categories meet the SDDS requirements for coverage, periodicity, and timeliness, thus putting Qatar in a steady path towards SDDS subscription.

Qatar—Table of Common Indicators Required for Surveillance

(As of January 2017)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Nov. 2016	Dec.2016	M	M	M
International Reserve Assets of the Monetary Authorities[1]	Nov. 2016	Dec.2016	M	M	M
Reserve/Base Money	Nov. 2016	Dec.2016	M	M	M
Broad Money	Nov. 2016	Dec.2016	M	M	M
Central Bank Balance Sheet	Nov. 2016	Dec.2016	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2016	Dec.2016	M	M	M
Interest Rates[2]	Nov. 2016	Dec.2016	M	M	M
Consumer Price Index	Nov. 2016	Dec. 2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	...	...	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2016 Q3	Dec 2016	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2015	Dec 2016	A	I	I
External Current Account Balance	2016 Q3	Dec 2016	Q	Q	Q
Exports and Imports of Goods and Services	2016 Q3	Dec 2016	Q	Q	Q
GDP/GNP	2016 Q3	Dec 2016	Q	Q	Q
Gross External Debt	2015	Dec 2016	A	I	I
International Investment Position[7]	Dec. 2016	Feb. 2017	I	I	NA

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

Statement by Hazem Beblawi, Executive Director of Qatar,
Fouad Al-Kohlany, Alternate Executive Director, and
Maya Choueiri, Advisor to Executive Director
March 20, 2017

The Qatari authorities appreciate the engagement with staff during the Article IV consultation and consider that the staff report and selected issues paper offer a fair assessment of recent economic developments in Qatar and of the country's wide-ranging diversification strategy.

Growth slowed down in 2016 despite still resilient non-hydrocarbon activity, and fiscal and external balances deteriorated due to lower hydrocarbon prices. Nonetheless, inflation was low in spite of subsidy cuts and the banking system remained sound and well-capitalized. The authorities have been adjusting by cutting current expenditure, placing stronger emphasis on raising non-hydrocarbon revenues, and undertaking energy pricing and labor reforms.

Qatar is facing the decline in oil and natural gas prices from a position of strength. The authorities have been fiscally prudent over the past years, as reflected in expenditure restraint even before hydrocarbon prices fell. Moreover, they have significantly strengthened the policy framework, including fiscal policy and institutions, financial regulation, and macro-prudential policies. These positive developments, combined with improvements in economic diversification guided by the National Development Strategy 2011-16, have helped build large buffers and reinforce the resilience of the economy.

The authorities are cognizant of the fact that more remains to be done to ensure adequate savings for future generations, while achieving further economic diversification. They remain vigilant about potential risks of lower hydrocarbon prices, lower expenditure efficiency and/or inflationary pressures from their large public investment program, and faster than anticipated normalization of U.S. monetary policy. Qatar's large fiscal and external buffers provide ample policy space to mitigate these risks, as noted by staff. To manage risks related to the infrastructure program, the authorities have been actively prioritizing investment projects and have strengthened the Public Investment Management unit at the Ministry of Finance. Finally, Qatar Central Bank (QCB) has the capacity and the instruments to inject liquidity into the financial system, as needed.

Fiscal Policy and Reforms

The authorities are committed to achieving fiscal efficiency, building stronger buffers against shocks, and saving for future generations. This is reflected in their medium-term deficit objective of 3.1 percent of GDP, which implies an adjustment of about 15 percentage points in the non-hydrocarbon primary deficit ratio to non-hydrocarbon GDP by 2021. They welcome staff's assessment that the direction of their fiscal policy is appropriate. They plan to reach their target by increasing government revenues, continuously rationalizing current expenditure, and preserving prioritized capital spending in support of Qatar's preparation for the World Cup and its economic diversification objectives.

On the revenue side, the authorities increased water and electricity rates, raised domestic gasoline prices, doubled fines for wasting water, and increased the cost of Qatar's postal services for the first time in eight years. They plan to introduce excises on tobacco and sugary drinks in 2017 as well as VAT in 2018, both GCC-wide initiatives. Preparations for introducing the VAT are well underway in Qatar, as evidenced by the planned establishment of a separate and independent tax authority, and the recruitment of experts to help with the design and implementation of the VAT. On the expenditure side, ongoing efforts aim at rationalizing current spending. Past cuts included non-priority funding to state-owned institutions such as Qatar Museums, Al Jazeera, Qatar Foundation, and Education City. Going forward, the authorities intend to control public service benefits and spending on goods and services, while preserving key public investment projects, which would help reduce total public spending by 13 percentage points of non-hydrocarbon GDP by 2021. The 2017 budget already incorporates several of the aforementioned measures.

Taking due consideration of the risk-return tradeoff between the cost of borrowing and the return on accumulated assets, the authorities have opted not to draw down their sovereign wealth fund to finance the deficit in 2016, and have resorted instead to domestic and foreign borrowing. They share staff's view that public debt is manageable at about 48 percent of GDP, given the large size of Qatar's sovereign wealth fund. The authorities concur with staff that deficit financing should remain supportive of private credit growth and are monitoring the effect of domestic borrowing on liquidity and credit.

Fiscal reforms rank high on the authorities' agenda. Good progress has been made in strengthening the medium-term budget framework, including the establishment of a Macro-Fiscal Unit within the Ministry of Finance and initiatives to ensure that budget execution is in line with the budget. Capital expenditures and related operational spending are being reviewed and medium-term envelopes have been established. The authorities see merit in adopting an integrated approach to public investment management. The Public Investment Management unit of the Ministry of Finance is making good progress and has particularly focused on improving the efficiency of public investment. A new tender law was recently approved to further enhance public investment management. A new public finance law has also been enacted, with the aim of updating prior legislation and creating a framework for more transparent and accountable fiscal management.

Monetary and Financial Sector Policies and Reforms

Qatar's banking sector remains sound and well-capitalized, and non-performing loans are the lowest in the region. The authorities have been carefully monitoring liquidity developments. They are of the view that banking system liquidity is adequate and QCB has been actively managing liquidity by adjusting their T-Bill auctions to the evolving liquidity conditions. The authorities believe that developing deep and liquid domestic debt markets can bring important benefits by facilitating liquidity management and reducing reliance on foreign funding. Significant efforts were made to develop the domestic government securities market, including the establishment of an independent debt office, and the Office for Management of Credit Policies and Debt.

The authorities made considerable progress with regards to the financial sector regulatory agenda. The Strategic Plan for Financial Regulation 2013-16 has been largely implemented, including Basel III and macro-prudential regulation. The authorities are elaborating a new 2017-22 Strategic Plan and are in the process of identifying new priorities. Progress has also been made in implementing Basel III and related regulation, including liquidity ratios, counter-cyclical buffers, and buffers for domestic systemically important banks. Progress is made in developing an Early Warning System based on earlier Fund technical assistance. Efforts to enhance the AML/CFT framework are also underway with technical assistance from the Fund.

Economic Diversification and Other Structural Reforms

Thanks to its stable macroeconomic environment, business sophistication, high-quality institutional framework, efficient labor and goods markets, and ease of doing business, Qatar ranks high in terms of regional and global competitiveness indicators. The authorities attach high priority to economic diversification and private sector participation in the economy. They made considerable progress in diversifying the economy in new sectors, including air transportation, media and financial services, investment in foreign assets, and development of business clusters, notably in competitive sports. Initiatives to support small and medium-sized enterprises resulted in increased access to financing. A number of initiatives were also launched to help improve productivity and further stimulate private sector activity. These include the adoption of a new improved labor law effective December 2016, the development of a new public private partnership framework, the enhancement of logistics and transportation facilities to help reduce production costs and raise productivity, and the simplification of business registration, especially through the newly introduced single-window. An arbitration law was also adopted, largely in line with the United Nations Commission on International Trade Law's model law.

The Ministry of Development Planning and Statistics is currently developing Qatar's second National Development Strategy 2017-22, with a preliminary focus on improving the quality of education, fiscal management, and the institutional framework for the conduct of fiscal policy to create further room for private sector involvement in economic activity.

The authorities are working on improving statistics to assist with decision-making, data availability, macroeconomic management, and to prepare for their subscription to the SDDS. They have started publishing quarterly GDP by expenditure and finalized the compilation of the Foreign Investment Survey. They plan to enhance the survey that collects non-financial sector’s foreign assets and to conduct it quarterly. Progress is also being made in compiling fiscal data according to the GFSM 2001 and improving real estate sector statistics.