February 2010
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Qatar: 2009 Article IV Consultation—Staff Report; and Public Information Notice

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 2009 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 22, 2009, with the officials of Qatar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 22, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board.

The document listed below will be separately released.

Statistical Annex/Appendix

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

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INTERNATIONAL MONETARY FUND

QATAR

Staff Report for the 2009 Article IV Consultation

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

Approved by Juan Carlos Di Tata and David Marston

January 22, 2010

- *Discussions:* November 10–23, 2009.
- *Team*: Messrs. Prasad (Head), Kumah, Williams, and Espinoza (all MCD). Mr. Senhadji (MCD) participated in the policy discussions.
- *Meetings*: The mission met with the Minister of Economy and Finance; the Governor of the Qatar Central Bank (QCB); the Chairman and Chief Executive Officer of the Qatar Financial Center (QFC); other senior government and central bank officials; and representatives of the private sector.
- *Exchange arrangement*: Peg to the U.S. dollar. Qatar is an Article VIII country, but maintains security-related exchange restrictions that have been notified to the Fund.
- *Past surveillance:* The authorities and the Fund have generally agreed on policy priorities. The 2008 Article IV consultation was concluded on January 21, 2009; PIN available at http://www.imf.org/external/np/sec/pn/2009/pn0909.htm.
- *Economic statistics:* Broadly adequate for surveillance; can improve data frequency, timeliness, and coverage. General Data Dissemination System (GDDS) participant since December 30, 2005.

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EXECUTIVE SUMMARY

There was a broad concurrence of views between the staff and the authorities on financial sector issues, the macroeconomic policy mix, and medium-term growth and risks.

Background

The underlying strength of the economy—derived from Qatar's hydrocarbon revenues—and timely and decisive intervention by the government in the banking system helped limit the impact of the global crisis and maintain financial stability.

The authorities:

- Are committed to preserving financial stability through further intervention in the banking system, if needed. The central bank has initiated a comprehensive review of its prudential regulations and monetary policy instruments.
- Indicated that the available fiscal space would be used prudently to limit potential aggregate demand pressures.
- Are monitoring the timing, issuance, duration and pricing of external debt through a high-level Ministerial Committee.
- Emphasized their commitment to establishing a single financial services regulator.
- Consider the peg to the U.S. dollar in the period leading up to the Gulf Cooperation Council (GCC) Monetary Union as appropriate.
- Indicated that Qatari banks' exposures to Dubai World are not significant and are manageable without causing any serious impact on banks' capital.

Staff recommendations:

- Implement sound risk management practices to ensure banks do not rebuild excessively risky asset portfolios.
- Ensure that government interventions do not unduly exacerbate the moral hazard problem or diminish incentives for improvements in risk management by banks.
- Rely on a prudent use of fiscal space and macro-prudential instruments, in the context of the peg, for limiting the risk of asset bubbles and inflation.
- Manage a potential overheating of the economy through a careful prioritization of investment projects.
- Monitor and manage external debt by the establishment of a formal debt entity.
- Strengthen capacity to provide comprehensive international investment position (IIP) data.

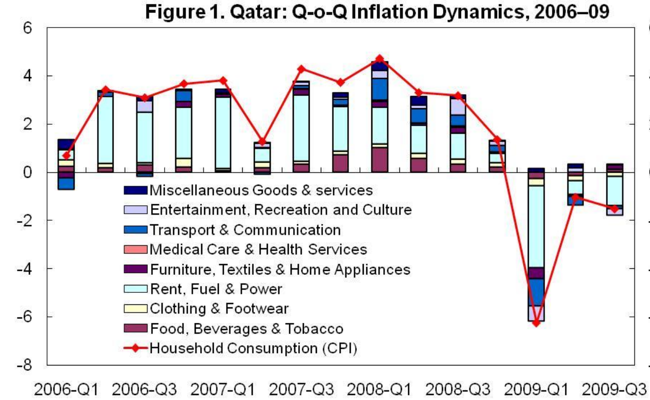
I. CURRENT ECONOMIC DEVELOPMENTS[1]

1. **Qatar's economy continued its impressive performance in 2009, despite the global financial crisis.**

- Overall real GDP is expected to grow by 9 percent in 2009, owing to a 10 percent growth in the hydrocarbon sector (despite technical delays in liquefied natural gas (LNG) production) and an 8 percent growth in the nonhydrocarbon sector underpinned by investment.

- A sharp fall in domestic rents has led to deflation in 2009. Consumer prices are projected to decline by 5½ percent in 2009, the sharpest deflation among the GCC countries.[2] This decline reflects a large decrease in domestic rents and falling international prices for food and raw materials. The sharp deflation is the result of both positive supply shocks (increase in housing supply; reduction in import prices) and slowing demand, although domestic activity is supporting prices of non-tradable goods.[3]

Figure 1. Qatar: Q-o-Q Inflation Dynamics, 2006–09



Source: Qatar authorities.

- Although broad money and credit growth decelerated sharply in 2009,[4] credit expanded between end–2008 and October 2009 across sectors—industry, real estate and construction, and consumption—and private sector deposits grew at an annualized rate of 30 percent during the same period.

- Fiscal policy continues to support growth, as development expenditures are projected to increase by 14.7 percent in FY 2009/10, notwithstanding re-prioritization of some government projects. The overall fiscal surplus is projected at 11.8 percent of GDP in FY 2009/10, mainly reflecting the transfer of high investment income earned by public enterprises in 2008. The external current account is expected to record a surplus of 15.7 percent of GDP in 2009.

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[1] See charts in Figures 1–3.

[2] The extent of deflation might be overestimated, as the measurement of rents (which account for approximately 30 percent of the consumption basket) is skewed towards new contracts. Since new contracts have witnessed sharp falls in rents at the beginning of the year, the fall in average rents is likely to be less pronounced.

[3] Recent information on credit growth, net inflows of immigrants, corporate profitability and investment activity suggests a pickup in demand, which may help dampen the price deflation.

[4] This includes the effects of the exchange of some real estate credit for cash and government bonds and the substitution of credit with bonds by one major bank.

- The banking system is well capitalized and profitable. Nonperforming loans (NPLs) are among the lowest in the GCC (2.0 percent at end-September 2009), reflecting both prudent regulation and government support to banks in the course of the year.

Banking Sector Performance

	Total Banking System			Conventional banks			Islamic Banks		
	Q3 2009	2008	2007	Q3 2009	2008	2007	Q3 2009	2008	2007
	(U.S. Dollar Billion)								
Assets	98.6	95.0	69.2	77.7	77.6	57.8	19.7	17.4	11.4
Net Interest Income	…	…	…	1.3	1.5	1.0	…	…	…
Income from Islamic Activities	…	…	…	…	…	…	0.7	0.5	0.4
Other income (including investment income)	…	…	…	1.0	1.5	1.1	0.3	0.7	0.7
Provisions	0.25	0.14	0.06	0.19	0.13	0.05	0.05	0.02	0.02
Net Profits	2.11	2.72	2.23	1.56	1.85	1.41	0.55	0.84	0.80

Sources: Zawya balance sheets; and Fund staff calculations.

II. Medium-Term Economic Outlook and Risks[5]

2. **The growth outlook remains strong.** A cornerstone of Qatar's strategy is a commitment to diversify the economy by building related industries around the full LNG value-chain and linking upstream, midstream, and downstream components (including by acquiring ships and building ports). Nonhydrocarbon real GDP is expected to record double-digit growth over the medium term, buoyed by continued strong activity in services and a pick up in manufacturing and construction. Hydrocarbon output is expected to grow at 25 percent in 2010 and 13 percent in 2011–12 as LNG production peaks at 78 million tonnes by 2012.[6] Staff expects average annual inflation of 4 percent over the medium term, assuming that the public and the private sectors implement their planned infrastructure investments.

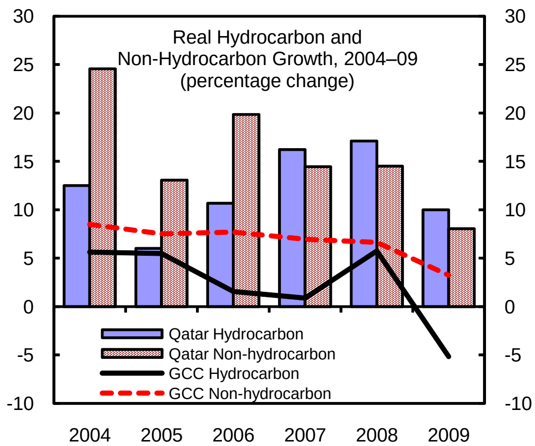
3. **The fiscal and external accounts will show surpluses over the medium term.** Strong revenue growth from the increase in LNG production to capacity will create additional fiscal space, with the annual average fiscal surplus estimated at around 12½ percent of GDP in 2010–14. Government expenditures are projected to increase in line with GDP, averaging 29 percent of GDP in 2010–14, with capital spending of around 11 percent of GDP. The nonhydrocarbon fiscal balance (as percent of nonhydrocarbon GDP) will decline over the medium term, mainly reflecting continued large transfers of investment income to the budget from public enterprises. The current account surplus is expected to stabilize at an annual average of 31 percent of GDP in 2010–14, as imports, which soared during the boom years, would grow at a more moderate rate.

[5] All projections are based on the IMF's August 31, 2009, *World Economic Outlook* (WEO) baseline.

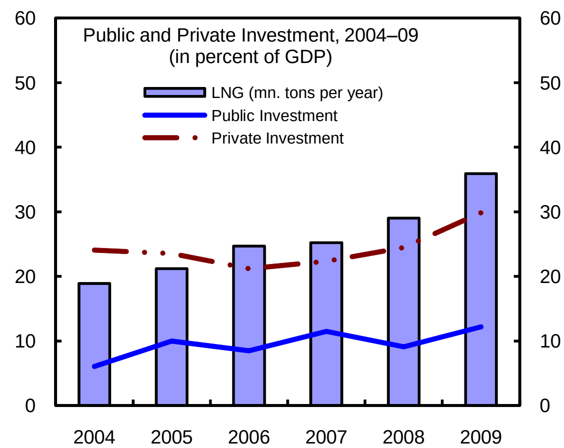
[6] Qatar's production of gas-related products—condensates, propane and butane—will also grow steadily as LNG production reaches full capacity and specific Gas-to-Liquid projects come on stream. By 2013, production of condensates will reach 750,000 barrels per day.

Figure 2. Qatar: Recent Economic Developments

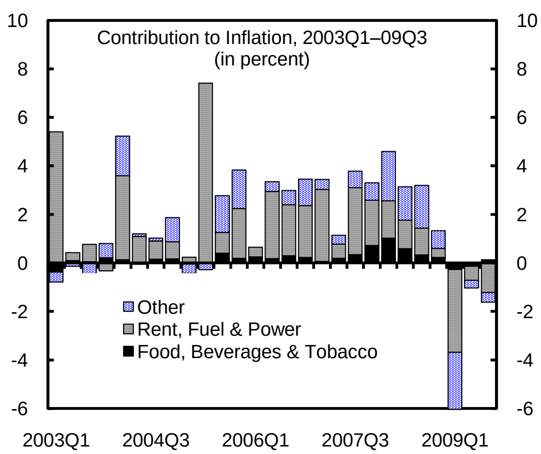
Real GDP growth was lower in 2009 but remains high...



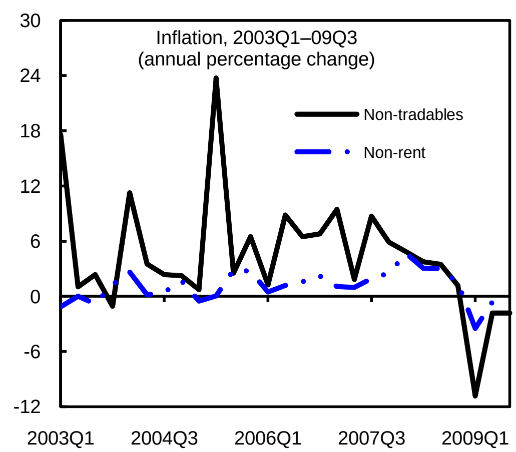
…driven by a combination of LNG production and public and private investment.



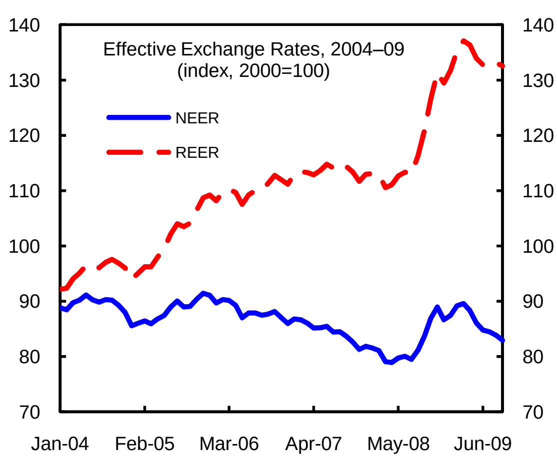
Falling rents have pulled inflation to negative territory...



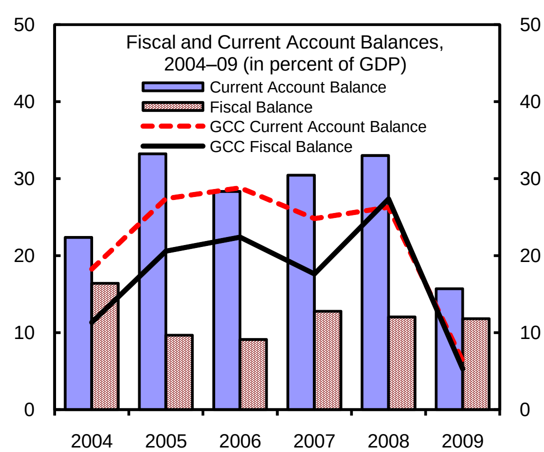
…however, decline in non-rent, non-tradable inflation since Q1 2009 has slowed.



There has been some recent depreciation of the REER.

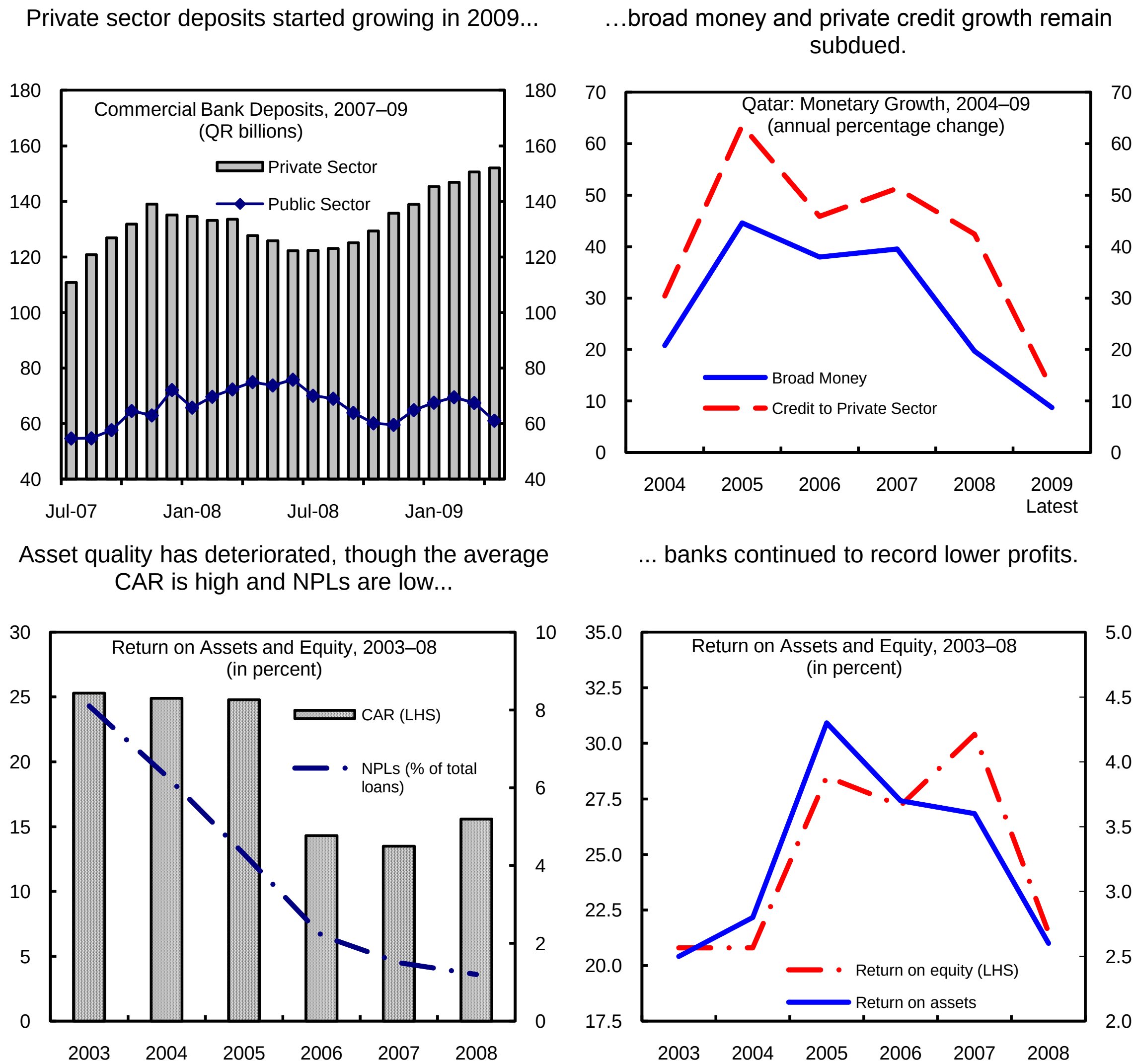


Fiscal and current account balances recorded lower surpluses.



Sources: National authorities; and Fund staff calculations and projections.

Figure 3. Qatar: Money and Banking Developments



Sources: National authorities; and Global Financial Stability Report (GFSR).

Risks to the Outlook. The main risks to the economic outlook include a disruption in Qatar Petroleum's supply of LNG due to unexpected delays in the construction of gas trains, a large negative demand shock from a prolonged global recession, persistent low hydrocarbon prices, and a further large decline in real estate prices.[7] A persistent downturn in the domestic economy could adversely affect the outlook for credit risk. Staff's analyses show that

[7] According to some private sector estimates, real estate prices in Qatar have fallen by 15 to 30 percent since the onset of the global financial crisis in August 2008. Although real estate prices in Qatar seem to have stabilized, loans to contractors and real estate constituted 22 percent of total domestic credit of banks at end-October 2009, posing some potential risks. Moreover, the building and construction sector contributes to 15 percent of real non-hydrocarbon growth.

worsening macroeconomic conditions (for instance, a fall by 5 percentage points in nonhydrocarbon growth and an increase in interest rates of 300 basis points, maintained over three years) could increase NPLs to the high levels observed in the early part of the decade (Box 2). Although corporate sector leverage is currently not a concern, the potential impact of future changes in international interest rates or country spreads on corporate balance sheets needs to be monitored closely. Additional unexpected adverse financial developments in the region, particularly in Dubai, could impact negatively on global investor sentiment toward GCC countries

III. Policy Discussions

The policy discussions focused on (i) the impact and policy implications of recent government intervention in the banking system; (ii) the macroeconomic policy mix (iii) medium-term growth prospects and their potential to cause overheating of the economy; and (iv) vulnerabilities that might arise from the accumulation of external debt.

A. Financial Sector Stability

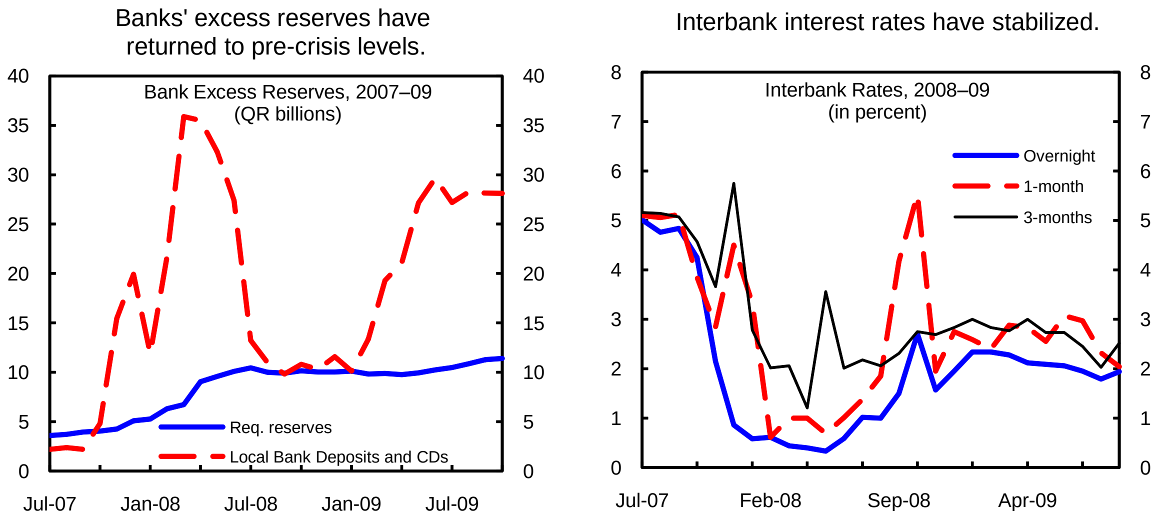
4. **The authorities' preemptive intervention in the banking sector was large.** Official intervention in 2009 reached about 6½ percent of GDP, mainly in the form of (i) capital injections in banks by the Qatar Investment Authority (QIA) at 5 percent of their enhanced share capital (around $1 billion);[8] (ii) purchase of the equity investment portfolio of banks (up to $2 billion) by the government;[9] (iii) purchase of the real estate portfolio of banks (up to $4 billion) by the government in the context of falling real estate prices.[10] The authorities intervened with the objectives of (i) providing liquidity to banks, restoring confidence, and signaling the government's commitment to support the banking system; and (ii) containing financial risks and maintaining the stability of the local banking system.

[8] A second round of capital injections of 5 percent is scheduled before end-December 2009, in line with earlier announcements.

[9] The investment portfolios were purchased at the marked-to-market values held by banks.

[10] The real estate portfolios were purchased at the values at which they were held in the books of banks net of provisions.

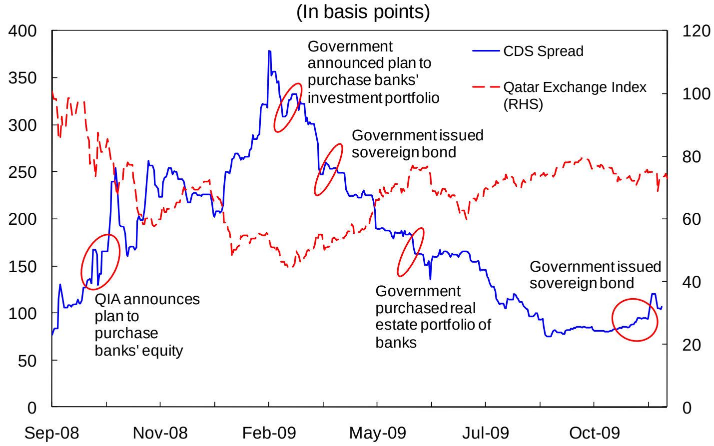
Figure 4 . Qatar: Financial Market Indicators



Sources: National authorities; and Fund staff calculations and projections.

5. **The equity injections and the asset purchases further improved the resilience of the banking system.** Market reaction to the intervention was favorable; tail risks have declined and banks now have room to lend. Staff's calculations show that the combined capital adequacy ratio (CAR) for the eight major listed banks improved from 16½ percent to 18½ percent after the intervention. Staff's stress tests (Box 1) confirmed the authorities' view that the interventions further strengthened the ability of the banking system to withstand future credit and market shocks.

Figure 5. Credit Default Swaps, Sept. 10, 2008–Dec. 8, 2009
(In basis points)



Sources: Bloomberg; and Markit.

6. **The authorities have announced a clear exit plan for the asset purchase from banks.** [11] The management of the purchased portfolio has been vested with the Governor of the Central Bank, assisted by a committee. Nevertheless, the option for banks to repurchase

[11] Banks can repurchase the investments within a period of 5 years at the same price at which they were sold, and the real estate loans at the original sale price after a period of 3 years.

the portfolio at a later stage created an implicit subsidy from the government.[12] The risks to the exit plan can come from contingent losses on the government that would be realized if the valuations fall further, but these losses do not appear likely. There are no immediate plans to unwind the QIA's equity holdings in banks.

7. **The authorities are monitoring closely other financial risks.** Post-intervention, QCB has restricted banks from taking on new exposures in equity and real estate, a measure supported by staff. Off-balance sheet risks seem contained as they are mostly in collateralized credit lines. The authorities indicated that the exposures of Qatari banks to Dubai World are insignificant and manageable, and would not cause any serious impact on banks' capital.[13] The central bank is monitoring cross-border and cross-sectoral exposures. Staff recommended updating and testing the resolution frameworks for financial institutions as well as the cross-border and cross-supervisory frameworks. Recent developments in Dubai underscore the need to review and clarify insolvency/arbitration frameworks as well as the enforceability of contracts and foreign judgments in local courts, particularly since Qatar is embarking on higher external borrowing.

[12] Staff estimates the value of the implicit subsidy for the investment portfolio to be in the range of $0.4 billion and $0.8 billion. The value of the subsidy for the real estate portfolio is estimated to be between $0.6 billion and $1.1 billion, depending on the assumptions of historical volatility and the discount rate.

[13] Available information indicates that Qatar National Bank (QNB) has a 23.8 percent stake in the U.A.E.-based Commercial Bank International ($0.3 billion) but has no direct exposure to Dubai World; Commercial Bank of Qatar has 40 percent stake in United Arab Bank ($0.2 billion), but has no exposure to Dubai World; Doha Bank has a branch in Dubai; Qatar Islamic Bank has a $15 million exposure to Dubai World through a Sukuk (0.7 percent of capital); and Qatar International Islamic Bank has no exposure to Dubai World.

Box 1. Banking Sector Stress Test

Assumptions: The assets of the eight Qatari listed banks are disaggregated into three components, viz., (i) risky loans (comprising loans to the private sector, including one-half of consumer loans); (ii) risky market portfolios (comprising all portfolio investments in the available-for-sale category); and (iii) all other assets (loans to the government, and one-half of consumer loans), which are not shocked in the stress test.[1]

Scenarios: The resilience of the banking system and the potential recapitalization needs are assessed in eight scenarios combining increasingly high NPLs and increasingly large market valuation losses. The different NPL calibrations can be matched with macroeconomic shocks using the NPL model presented in Box 2.

Results: Based on banks' balance sheets at end-December 2008 before the authorities' intervention, three banks would have suffered losses, pulling their respective CARs below the regulatory requirement of 10 percent as soon as NPLs reached 10 percent. Five banks out of 8 would have needed recapitalization in the worst case scenario. Recapitalization needs for the overall banking system would have ranged between $0.2 billion and $2.5 billion.

Capital Adequacy Ratio of the Banking System Before Intervention

	NPLs			
Initial CAR= 16.5	5 percent	10 percent	15 percent	20 percent
Market down by 25 percent				
New banking system CAR	14.1	12.7	11.2	9.7
Number of banks below regulatory CAR	1	3	3	4
Recapitalization needs (in billions of U.S. dollars)	0.0	0.2	0.9	1.7
Market down by 50 percent				
New banking system CAR	12.9	11.5	10.0	8.5
Number of banks below regulatory CAR	3	3	4	5
Recapitalization needs (in billions of U.S. dollars)	0.2	0.8	1.5	2.5

The total intervention of the authorities, including capital injections and purchases of assets up to September 2009 amounted to about $6.5 billion, which had the effect of increasing liquidity, decreasing risk-weighted assets, and providing a greater capital cushion against credit and market risks, as evidenced by the results of the stress test after intervention. A 10 percent increase in NPLs would now pull only one bank below the regulatory CAR. Recapitalization needs remain below $1 billion in the worst scenario, in which 3 banks would need additional capital.

Capital Adequacy Ratio of the Banking System After Intervention

	NPLs			
Initial CAR= 18.5	5 percent	10 percent	15 percent	20 percent
Market down by 25 percent				
New banking system CAR	16.5	15.2	13.8	12.4
Number of banks below regulatory CAR	0	1	2	3
Recapitalization needs (in billions of U.S. dollars)	0.0	0.1	0.2	0.6
Market down by 50 percent				
New banking system CAR	14.8	14.4	13.0	11.6
Number of banks below regulatory CAR	1	2	2	3
Recapitalization needs (in billions of U.S. dollars)	0.0	0.1	0.3	0.9

1/ Risky loans are assumed to suffer from NPLs, rising from 1 percentage point to 20 percentage points above the baseline (with a Loss Given Default ratio at 0.75), and the value of risky portfolio assets is shocked with losses up to 50 percent.

Box 2. The Effects of Macro-shocks on Credit Risk in GCC Banks

The global crisis exposed the vulnerabilities of the banks in the GCC countries to varying degrees, although at an aggregate level, the banking system had a sufficient capital cushion to absorb potential losses. NPLs are currently at healthy levels in the GCC banking system; Qatar's NPL ratio is among the lowest in the region. The positive macroeconomic environment in the years preceding the global crisis was conducive to favorable financial positions and lower NPLs of banks. Nevertheless, a downturn in the Gulf economies could adversely affect the outlook for credit risk.

NPL Ratios of Banks 1998–2008

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Number of Banks	26	15	16	9	20	32
NPL ratio in 2008 (unweighted)	2.9	5.5	1.2	1.7	1.4	2.4
NPL ratio (1995–2008)						
25th percentile	2.1	3.4	3.5	1.3	1.7	1.7
Median	5.9	6.7	6.5	3.1	3.1	4.3
75th percentile	14.8	12.5	11.3	11.5	7.3	9.6

Source: Bankscope and staff calculations

Risks remain for banks around the world as the second round feedback effects from the real sector materialize—the GCC banking system being no exception. Credit risk increases as macroeconomic conditions deteriorate and interest payments rise, a result found in many credit risk models (see for instance IMF, 2006).[1] The potential for changing macroeconomic conditions to impact adversely the credit portfolio of banks in the GCC, and particularly in Qatar, is therefore a relevant issue that deserves investigation.

In the GCC, according to a dynamic panel estimated for 1995–2008 using data on 113 banks, the NPL ratio worsens as economic growth becomes lower and interest rates increase, as specified by the following equation.[2]

$$\Delta NPL = \underset{(7.4)}{0.94}\ \Delta NPL_{-1} \underset{(-2.1)}{-\ 0.18}\ \Delta \text{ Non-oil real GDP growth} \underset{(2.5)}{+\ 0.3}\ \Delta \text{ interest rate on loans}_{-1}$$

No. obs. = 671; $R^2 = 0.64$

The model implies that the cumulative effect of macro-shocks over a three-year horizon could be significant. A slowdown in real non-hydrocarbon growth (for instance, from 9 percent to 4 percent for Qatar) maintained for three years would have the potential to increase the NPL ratio by 3 percentage points. Similarly, an increase in interest rates (by, say, 3 percentage points) sustained over three years would worsen the NPL ratio of banks by another 3 percentage points. Individual banks could suffer higher losses depending on their credit levels.

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[1] Spain: Financial Sector Assessment Program – Technical Note – Stress Testing Methodology and Results, IMF Country Report No. 06/216, June 2006.

[2] All variables are expressed in percentage points. The regression controls for the firm-level lagged expenses/asset ratio. The other firm-level variables were not found to be significant (logarithm of equity, total capital ratio, margin on interest, lagged credit growth).The model was estimated using System GMM (Blundell and Bond, 1998) and the number of instruments was limited using the Holtz-Eakin, Newey, and Rosen (1988) method and instrument lags limited to 4. The macroeconomic variables were considered as strictly exogenous, while the lagged bank-level variables were specified as predetermined. The usual specification tests (Arellano-Bond AR1 and AR2 and Sargan/Hansen tests) confirm that the instrumentation procedure is appropriate. The results were robust to changes in the sample size. Since GMM does not provide an R^2, the R^2 shown here is that of the very similar OLS estimate.

8. **The authorities are taking several steps to improve the regulatory framework for banks.** QCB has initiated a comprehensive review of its prudential regulations and monetary policy instruments, complementing ongoing global regulatory reforms. Setting up of a risk monitoring department in QCB is under consideration. The authorities are establishing a credit bureau, which should enhance credit monitoring by banks and the central bank.

9. **In the context of risk management, staff suggested that the authorities review the effectiveness of their crisis management measures.** A common challenge is how to design policy packages that enhance the stability of the financial system while minimizing moral hazard and ensuring a good risk management culture in banks. Staff recommended specifying rules for bank interventions triggered by objective criteria, i.e. a prompt corrective action framework. This would help avoid regulatory forbearance and ensure that banks address emerging problems quickly. The authorities agreed with staff that the instruments used for intervention should not be counterproductive to fostering a good risk management culture in banks.

B. Macroeconomic Policy Mix

Since monetary policy is constrained by the peg, the burden of macroeconomic management will fall on fiscal policy and macroprudential instruments.

10. **Monetary policy.** Although monetary policy independence is constrained by the peg, the authorities have been able to maintain high interest rates—predicated on the objectives of containing inflation and preventing the extension of bad loans—since September 2008, without attracting speculative inflows. Staff cautioned that as investors reevaluate global risks, Qatar could attract speculative inflows. QCB indicated that it was monitoring inflows carefully and was ready to adjust interest rates if needed, while managing credit growth with its macroprudential instruments. Staff indicated that there is scope for improving liquidity management through liquidity forecasting and fine-tuning of the operations of the Qatar Money Rates (QMR) facility.

11. **Fiscal policy.** The authorities confirmed that while no ongoing government projects had been cancelled, they had re-assessed their development expenditure plans for the future, keeping in view the country's absorptive capacity as well as the cost and availability of raw materials and other inputs. They signaled their intention to contain spending at a moderate level to stave off demand pressures, even if hydrocarbon and nonhydrocarbon revenues increase rapidly. Staff emphasized that the government should continue investing in carefully prioritized and sequenced infrastructure projects in order to anticipate and prevent supply bottlenecks, and crowd in the private sector.[14]

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[14] Staff's fiscal sustainability exercise, which assumes a constant per capita consumption, indicates space for further spending. Although these findings are sensitive to the assumptions used, Qatar's vast oil and gas

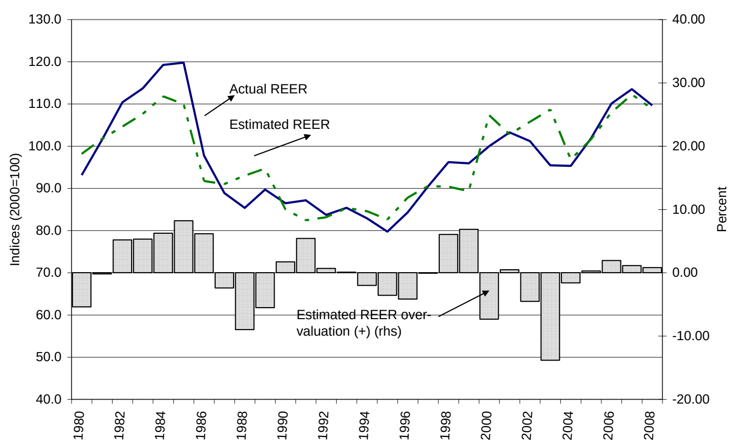
(Continued)

12. **Exchange rate policy.** The authorities reiterated that the Qatari riyal would continue to be pegged to the U.S. dollar for the time being, although various arrangements could be explored after the formation of the GCC monetary union. Staff supported the authorities' decision. The authorities concurred with the staff's exchange rate assessment (Box 3). Results from the equilibrium exchange rate approach suggest that the Qatari riyal is broadly in line with fundamentals. The other two CGER-type approaches suggest some undervaluation of the riyal, which—given the projected trajectory for oil prices and fiscal policies—is projected to narrow over the medium term.

Box 3. Exchange Rate Assessment

The equilibrium exchange rate approach suggests that the Qatari riyal is broadly in line with the economic fundamentals. Although high domestic inflation during 2003–08 appreciated the REER, high oil prices coupled with increasing government spending (as returns from the oil and gas revenues were invested) during the same period also appreciated the *equilibrium* REER.

Qatar—Equilibrium Real Exchange Rate Assessment, 1980–2008



An assessment based on the macroeconomic balance (MB) approach,[1] using panel estimators for the GCC countries, indicates that the current account surplus is above its "norm." The current futures market trajectory for oil prices and medium-term fiscal policies, however, indicate a projected narrowing of the gap over the medium term.[2]

Under the external sustainability approach (ESA), the projected current account surplus is above its "norm" based on a constant real per capita annuity, suggesting room for further spending.[3]

Results from the MB and ES Approaches
(In percent of GDP)

	Projected CA	Current Account Norms MB	Current Account Norms ES
2008	33	25	26
2014	28	23	15

Source: IMF staff estimates and projections.

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

[2] Oil prices rose from about $70 per barrel in August 2007 to $147 per barrel in July 2008, before falling to $90 per barrel in mid-September 2008 and further to under $60 per barrel in mid-November 2008; oil prices averaged $97.0 per barrel in 2008, compared with $71.1 in 2007. The summer 2009 vintage of the IMF's WEO projections foresee a decline to $61.5 per barrel in 2009 to be followed by a gradual rebound to just under $85 per barrel.

[3] Under the same assumptions used for the fiscal sustainability exercise.

reserves in the context of prudence in spending indicates that a contrary result would require a drastic swing in these assumptions. The key parameters were calibrated as follows: (a) 27 billion barrels of oil reserves and 18.7 billion tons of gas reserves; (b) an initial government debt level of $6.1 billion; (c) 1.5 percent decrease in oil production each year, and no growth in gas production each year, after 2013; (d) annual average per capita growth in real non-oil GDP of 3.5 percent in the long term; (e) an increase in the non-oil GDP deflator of 3.5 percent; and (f) a nominal rate of return on external assets at 8 percent per annum.

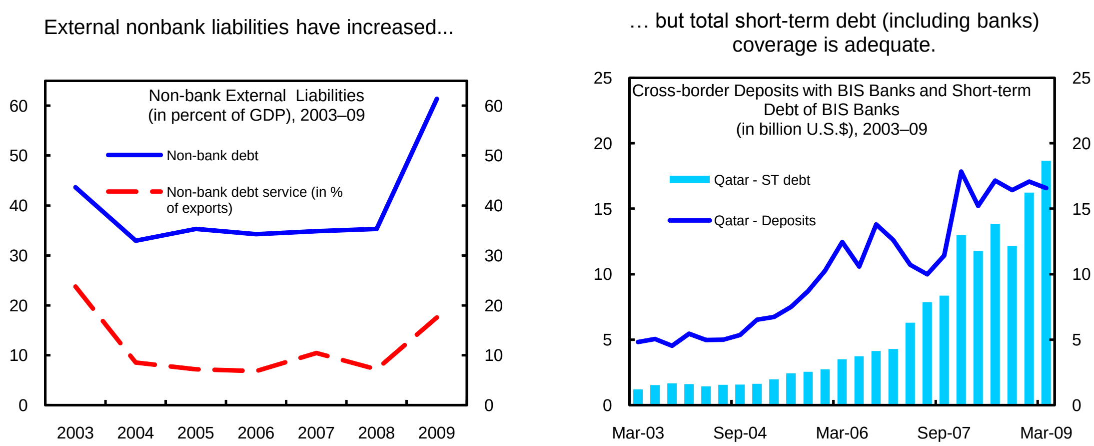
C. Potential Risks to the Growth Strategy

Potential risks to the growth strategy arise from overheating and from the possible impact of future increases in interest rates on the external debt, unless carefully managed.

13. **The authorities and staff agreed on the need to manage a potential overheating of the economy over the medium term.** The global financial crisis has mitigated the supply bottleneck problems that the country had been facing. The real estate sector (predominantly government-owned) is expected to face a situation of excess supply in both freehold and rentals until early 2011. Nevertheless, with increasing global commodity prices and a possible depreciation of the U.S. dollar, inflationary pressures could resume. In this context, a careful prioritization of infrastructure projects would mitigate the emergence of supply shortages and cost-push inflation. The authorities reiterated their intention to channel investments into ports, airports, education, and health.

14. **The rising external debt needs to be monitored and managed carefully.** The authorities have decided to increase external borrowing by $25 billion in 2009/10. In 2009, the government raised $10 billion through sovereign issuances, with the objectives of creating a sovereign benchmark yield curve and financing hydrocarbon investments, and toward meeting any contingency. A number of corporates also borrowed externally.[15] A ministerial-level committee decides the amount and conditions for external borrowing of the government and government-owned corporates. The committee has an informal limit of an external debt-to-GDP ratio of 30 percent for the government, and of 45 percent including government owned companies.

Figure 6. Qatar: External Liabilities



Sources: National authorities; BIS Consolidated Banking Statistics; and Fund staff calculations.

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[15] Ras Laffan, Qatar Airways, Qatar Petroleum and ExxonMobil, Qtel, Qatari Diar, and the Commercial Bank of Qatar raised nearly $12 billion in the form of syndicated loans and bond issuances.

15. **Since the growth strategy depends on investment financed through significant debt, any potential debt servicing problems could raise costs, dry up financing, impact banks, and slowdown growth.** Although debt servicing does not pose vulnerabilities at present for the major listed companies (Box 4), corporate balance sheets could face some stress if international interest rates or country spreads increase substantially before profits from large investments materialize. Staff conveyed its view that Qatar would benefit from establishing a formal institutional structure for the development of a medium-term debt management strategy.

Box 4. Qatar's Corporate Sector Debt Stress Test

The corporate financial link is important in Qatar. The total assets of the top 29 listed companies amounted to $67 billion (65½ percent of 2008 GDP and 60 percent of bank assets) at end-June 2009, with a total debt of $25 billion.[1] Corporate leverage is within reasonable limits, with a debt-equity ratio of less than 1.5. Nevertheless, debt concentration is high, with the top 5 corporates accounting for 90 percent of total corporate debt and the top 9 accounting for 96 percent.[2] Their combined RoA and RoE at end-2008 were 8 percent and 18 percent, respectively.

The current debt servicing capacity of the corporates is comfortable. The combined cash holdings of the corporates at end-June, 2009 were adequate to cover interest payments *in the short run*, even if interest rates were to increase abruptly. The interest coverage ratio (ICR)—defined as earnings before interest and taxes over interest expenses, which measures the debt servicing capacity for a firm *over the medium term* — for most firms, also remained well above the threshold of 1 considered as debt distressed.

Stress-Test Results on the Non-Financial Corporate Sector

	Baseline		Income Shock
	Jun-09	+300 bps	25 percent
Share of Debt with ICR < 1 in Total Debt of Companies	0.2	30.1	26
Share of number of companies with ICR < 1 in Total Debt of Companies	10	25	20

Source: Fund staff calculations based on corporate balance sheets from Zawya

The potential impact of future interest rate and income shocks on the health of Qatar's corporate sector balance sheets was assessed. The interest rate shock was calibrated as a 300 bps increase in the domestic interest rates, while the earnings shock was assumed at (-) 25 percent. The share of debt owed by companies with insufficient earnings for debt service could increase under a scenario of sustained increase in interest rates, assuming no increase in revenues, as shown in the Table above.

ICR does not necessarily account for all the resources that the corporates have to meet debt servicing. They could resort to borrowing outside the banking sector, sell assets, raise funds from shareholders, draw down reserves, or have other income. Corporates that have borrowed on fixed terms from Qatari banks would not be affected. Similarly, corporates that have hedged floating interest loans may not face debt distress.

[1] According to the Bank for International Settlements (BIS), total cross border loans from BIS reporting banks to nonbanks at end-June 2009 amounted to $36 billion.

[2] Much of this debt is to external creditors.

D. Financial Sector Development

16. **Further progress has been made in the transition to a single integrated financial regulator—the Financial Regulatory Authority.** Staff agreed that a single regulator for the financial system would be effective for Qatar and recommended close coordination between the existing regulators during the transition period in order to cover regulatory gaps. It also

reiterated the suggestion that a formal mechanism be put in place for the QFC to report during the transition to the QCB on the financial statistics of QFC-licensed institutions.

E. Monetary Union

17. **Qatar remains committed to participating in the GCC monetary union and has signed the monetary agreement.** Nevertheless, the authorities believe that it will be difficult to establish the GCC Monetary Union in 2010, in light of the preparations needed to adopt a common currency by year-end. The main tasks ahead include the development of an appropriate monetary policy framework and a common system of payments and settlements, as well as the establishment of mechanisms for cross-border payments and liquidity transfers in the common currency. On the fiscal side, setting up a common accounting framework and adequate budgetary procedures are the main priorities.

F. Other Structural Reforms

18. **The authorities are focusing on structural reforms to boost competitiveness.** They have amended the tax law to lower the corporate tax rate for foreign companies operating in the non hydrocarbon sectors from 35 percent to 10 percent with effect from January 1, 2010. They also continue to follow developments towards the introduction of a GCC-wide value-added tax (VAT). Following the recommendations of a study projecting an actuarial deficit in pensions by 2041, a high-level committee is also reviewing the social insurance law to strengthen its long-term sustainability.

19. **Staff commended the authorities' policy of progressively phasing out energy subsidies in the manufacturing sector.** Pricing of inputs at market prices should provide incentives to the manufacturing sector to focus on the most profitable areas, while maximizing energy sales receipts for Qatar Petroleum.

20. **Regarding financial markets, the authorities could benefit from developing a domestic sovereign benchmark yield curve.** This would facilitate long-term borrowing by banks in domestic currency and improve efficiency in the pricing of financial products, thereby diversifying overall financial risks.

G. Data Compilation and Transparency

21. **Given the increasing integration with the global economy and the proposed GCC Monetary Union, efforts to improve the quality of macroeconomic statistics should be intensified.** Staff underscored the need to start publishing official real GDP data as soon as possible. Building on the progress made since joining the GDDS in 2005, priority should also be given to enhancing the timeliness and availability of data on public sector operations, and to improving coordination across agencies. Staff welcomed the progress made regarding provision of elements of the IIP data, and encouraged the authorities to compile and provide comprehensive IIP data to the Fund, an important element to improve the effectiveness of the

surveillance process.[16] The authorities recognize the difficulties involved and have signaled their interest in Technical Assistance (TA) to improve the balance of payments financial account, which will form the basis for providing comprehensive IIP data to the Fund.

IV. Staff Appraisal

22. **The impact of the global crisis on Qatar has been limited,** owing in part to the underlying strength of the economy, and supportive macroeconomic and macro-prudential policies, and timely and decisive intervention in the banking system. Moreover, the impact of the recent events in Dubai on Qatar's banking system appears to be limited at this point.

23. **Qatar continues to be the fastest growing economy in the GCC.** Looking forward, the economy is expected to continue growing at a rapid pace in the near future, driven by a strong expansion in LNG production (and related industries) and by investments aimed at economic diversification. Potential risks to the growth strategy arising from overheating would need to be monitored through careful sequencing and prioritization of investments. The possible impact of future increases in interest rates on external debt would need to be closely monitored and managed. A prudent use of the available fiscal space should also be an integral part of the authorities' strategy to contain aggregate demand.

24. **Staff supports the authorities' timely intervention in the financial sector.** The government's intervention in the banking system has improved liquidity, provided room for lending, and increased the system's resilience. Going forward, it is important to prevent banks from rebuilding excessively risky asset portfolios by ensuring that government interventions do not unduly exacerbate the moral hazard problem or diminish incentives for improvements in risk management in banks. A balanced portfolio needs to be achieved through sound risk management practices and adequate supervision. The QCB should continue to build-up capacity in this area.

25. **The evolving regional and global financial risks should continue to be monitored closely.** To evaluate any potential weaknesses and ensure timely responses, the central bank should continue to conduct regular stress tests of commercial banks. Establishing a prompt corrective action framework would also help avoid regulatory forbearance and ensure that banks address emerging problems quickly. It is also important to periodically update the resolution frameworks for financial institutions as well as the cross-border and cross-supervisory frameworks.

26. **An adequate monetary-fiscal policy mix is critical in ensuring macroeconomic stability, and could be combined with macro-prudential tools to manage credit growth.** In this connection, a resurgence of capital inflows could present policy challenges in the

[16] Staff's estimate suggests that Qatar's net IIP, excluding unknown foreign financial claims and liabilities of the private sector is of the order of $70 billion.

future. With limited policy flexibility in the context of the peg to the U.S. dollar, and the need to continue to invest in infrastructure to support sustainable growth, macro-prudential instruments will remain the main tool for limiting the risk of asset bubbles.

27. **The authorities' intention to establish a unified regulator of financial services in the near future is welcomed.** An effective monitoring is needed to close regulatory gaps during the transition period and establish appropriate procedures to deal promptly with the issues that may arise as a result of increased market competition.

28. **The authorities could consider establishing a debt management entity** to develop a debt strategy in the context of the overall economic policy. They should also press ahead with their plans to develop a domestic sovereign benchmark yield curve. This would facilitate long-term borrowing by banks and corporates in domestic currency and improve the efficiency in pricing of financial products, which would contribute to diversifying overall financial risks.

29. **Staff supports the authorities' decision to maintain the peg to the U.S. dollar until the establishment of the GCC monetary union.** Staff's assessment shows that the real effective exchange rate is broadly in line with fundamentals.

30. It is recommended that Qatar remain on the standard 12-month Article IV consultation cycle.

Table 1. Qatar: Selected Macroeconomic Indicators, 2005–10

(Quota: SDR 263.80 million)
(Population: 1.2 million, mid-2009 estimate)
(Per capita income: $76,000, 2009 estimates)

	2005	2006	2007	Est. 2008	Proj. 2009	Proj. 2010
National income, production, and prices						
Nominal GDP (in million Qatari riyals)	154,565	207,183	258,590	365,482	301,599	396,545
Nominal hydrocarbon GDP (in million Qatari riyals)	92,071	118,707	146,143	222,127	150,490	227,951
Nominal GDP (in million U.S. dollars)	42,463	56,918	71,041	100,407	82,857	108,941
Nominal GDP per capita (in U.S. dollars)	53,333	67,922	76,374	91,478	68,008	80,556
Nominal GDP growth (in percent per annum)	33.8	34.0	24.8	41.3	-17.5	31.5
Real GDP growth (in percent per annum)	9.2	15.0	13.7	15.8	9.0	18.5
Hydrocarbon 1/	6.0	10.7	12.9	17.1	10.0	25.2
Nonhydrocarbon	13.1	19.9	14.5	14.5	8.0	11.5
Crude oil output (in thousand barrels per day)	760	803	839	855	800	824
LNG production (in million tons per year)	21.2	24.7	25.2	31.5	39.0	58.1
Oil export price (in U.S. dollars per barrel)	51.69	62.93	70.02	95.52	60.57	75.31
CPI period average	8.8	11.8	13.8	15.0	-5.5	1.0
Public finance	(In percent of GDP on fiscal year basis) 2/					
Total revenue	39.2	39.1	41.3	40.3	46.1	39.7
Hydrocarbon revenue	27.7	25.2	24.8	22.9	19.5	21.6
Other revenue	11.5	13.9	16.5	17.4	26.6	18.2
Total expenditure and net lending	30.3	30.5	29.7	28.3	34.3	31.0
Current expenditure	19.5	22.6	17.8	18.8	22.6	19.3
Capital expenditure (including net lending)	10.7	7.9	11.8	9.5	11.7	11.7
Overall fiscal balance	8.9	8.6	11.6	12.0	11.8	8.8
Excluding hydrocarbon revenue	-18.8	-16.6	-13.2	-10.8	-7.7	-12.8
Nonhydrocarbon fiscal balance in percent of nonhydrocarbon GDP	-45.6	-38.7	-31.4	-26.1	-16.1	-30.2
Money and credit	(Annual change in percent)					
Broad money	44.6	38.0	39.5	19.7	16.4	11.6
Net foreign assets	50.3	28.1	0.3	-20.5	-8.3	51.4
Net domestic assets	36.8	52.8	88.6	47.0	24.8	1.0
Domestic credit	60.0	45.7	66.1	48.7	-0.5	14.7
Claims on public enterprises	34.9	44.0	198.1	77.1	-28.0	31.5
Claims on private sector	63.5	45.9	51.3	42.4	7.0	11.6
External sector	(In million U.S. dollars, unless otherwise stated)					
Trade balance	17,058	20,272	24,413	39,272	21,625	35,419
Exports	26,122	35,083	44,237	64,407	45,355	67,131
Of which: Crude oil and refined petroleum products	14,122	17,840	21,178	28,092	17,202	25,182
LNG and related exports	8,738	13,360	18,710	30,808	23,615	35,503
Other	3,261	3,883	4,349	5,507	4,538	6,445
Imports	-9,064	-14,811	-19,824	-25,135	-23,729	-31,712
Current account	14,100	16,113	21,823	33,138	12,997	24,726
In percent of GDP	33.2	28.3	30.7	33.0	15.7	22.7
Central bank reserves, gross	4,572	5,416	9,753	9,837	19,244	20,847
In months of imports of goods and services 3/	2.5	2.4	3.4	3.4	5.1	4.9
	(In million U.S. dollars, unless otherwise stated)					
Total external debt (excluding banks)	14,989	19,486	24,771	35,430	50,863	67,424
In percent of GDP	35.3	34.2	34.9	35.3	61.4	61.9
Government external debt	3,743	3,333	2,871	6,126	13,734	15,737
In percent of GDP	8.8	5.9	4.0	6.1	16.6	14.4
Debt service (excluding banks, in percent of GDP)	4.9	4.7	7.6	5.1	11.0	4.9
Memorandum Items:						
Exchange rates (riyal/U.S. dollars)	3.64	3.64	3.64	3.64	3.64	3.64
Real effective exchange rate (percent change, 2000=100)	6.9	8.1	3.1	3.6	13.5	...
Credit rating (Moody's investor services)	A1	Aa2	Aa2	Aa2	Aa3	...
Stock market index (cumulative growth, 2001=100)	653	422	566	407	411	...

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

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

Table 2a. Qatar: Summary of Government Finance, 2005/06–2009/10 1/

(In million Qatari riyals)

				Est.	Budget	Proj.
	2005/06	2006/07	2007/08	2008/09	2009/10	
Total revenue	65,685	86,062	117,790	140,947	88,694	149,885
Hydrocarbon revenue	46,381	55,429	70,748	80,009	42,235	63,412
Oil related	40,235	48,181	60,050	61,245	28,719	50,326
LNG related revenue	6,146	7,248	10,698	18,764	13,516	13,087
LNG (royalties)	6,146	7,248	10,698	18,764	13,516	13,087
Contingency	0	0	0	0	0	0
Other revenue	19,304	30,634	47,042	60,938	46,459	86,473
Investment income from public enterprises 2/	14,234	20,702	30,343	33,271	25,820	53,740
Corporate tax revenue	434	4,562	8,939	14,629	9,052	20,218
Other nontax revenue	4,636	5,370	7,760	13,038	11,587	12,516
Total expenditure	50,768	67,147	84,728	98,855	94,499	111,486
Current	32,755	49,751	50,923	65,721	56,573	73,486
Wages and salaries	6,657	12,993	14,875	18,779	21,957	21,957
Total interest payments	1,898	2,006	1,850	1,579	2,460	2,460
Interest on domestic debt	835	865	765	455	744	744
Interest on foreign debt	1,063	1,141	1,085	1,124	1,716	1,716
Foreign grants	449	1,978	1,448	354	378	378
Goods and services /3	22,738	31,661	26,368	39,738	27,623	42,051
Other current expenditures 4/	1,013	1,113	6,382	5,271	4,155	6,641
Development expenditure	18,013	17,396	33,805	33,134	37,926	38,000
Overall balance	14,917	18,915	33,062	42,092	-5,805	38,399
Nonhydrocarbon fiscal balance	-31,464	-36,514	-37,686	-37,917	-61,556	-25,013
Financing	-14,917	-18,915	-33,062	-42,092	5,805	-38,399
Domestic financing (net) 5/	-4,420	-5,143	-3,982	12,017	...	42,449
Central bank (net)	137	-376	0	0	...	0
Transfer to QCB	-1,820	0	-1,000	-1,000	...	-1,000
Commercial banks (net) 5/	-2,736	-4,767	-2,982	13,017	...	43,449
Claims on government	-2,438	-2,501	1,433	15,634	...	37,967
Government deposits	299	2,265	4,415	2,618	...	-5,482
Domestic non-banks	0	0	0	0	...	0
Foreign financing (net)	-10,497	-13,772	-29,080	-54,109	...	-80,848
Government foreign assets (increase -) 6/	-9,582	-12,087	-27,395	-70,470	...	-112,320
External borrowing (net)	-915	-1,685	-1,685	16,362	...	31,472
Drawing	0	0	0	17,909	...	36,400
Repayment	915	1,685	1,685	1,547	...	4,928
Memorandum items:						
Current balance 7/	32,930	36,311	66,867	75,226	32,121	76,399
Current nonhydrocarbon balance 8/	-13,451	-19,118	-3,881	-4,783	-10,114	12,987
Total government debt	29,850	27,398	24,238	56,234	...	125,673
Government external debt	12,699	11,014	9,330	25,691	...	57,163
Government gross domestic debt	17,151	16,384	14,909	30,543	...	68,510
Government net domestic debt (net of deposits)	8,902	7,973	3,856	15,075	...	50,425
External debt service/total revenue (in percent)	3.0	3.3	2.4	1.9	...	4.4
Nominal GDP (on a fiscal year basis)	167,719	220,035	285,313	349,511	325,336	325,336

Table 2b. Qatar: Summary of Government Finance, 2005/06–2009/10 1/

(In percent of GDP)

	2005/06	2006/07	2007/08	Est. 2008/09	Budget 2009/10	Proj. 2009/10
Total revenue	39.2	39.1	41.3	40.3	27.3	46.1
Hydrocarbon revenue	27.7	25.2	24.8	22.9	13.0	19.5
Oil and gas (excluding LNG-related royalties)	24.0	28.7	35.8	36.5	17.1	30.0
LNG-related royalties	3.7	4.3	6.4	11.2	8.1	7.8
Other revenue	11.5	13.9	16.5	17.4	14.3	26.6
Investment income from public enterprises 2/	8.5	9.4	10.6	9.5	7.9	16.5
Corporate tax revenue	0.3	2.1	3.1	4.2	2.8	6.2
Other nontax revenue	2.8	2.4	2.7	3.7	3.6	3.8
Total expenditure	30.3	30.5	29.7	28.3	29.0	34.3
Current	19.5	22.6	17.8	18.8	17.4	22.6
Wages and salaries	4.0	5.9	5.2	5.4	6.7	6.7
Total interest payments	1.1	0.9	0.6	0.5	0.8	0.8
Interest on domestic debt	0.5	0.4	0.3	0.1	0.2	0.2
Interest on foreign debt	0.6	0.5	0.4	0.3	0.5	0.5
Foreign grants	0.3	0.9	0.5	0.1	0.1	0.1
Goods and services 3/	13.6	14.4	9.2	11.4	8.5	12.9
Other current expenditures 4/	0.6	0.5	2.2	1.5	1.3	2.0
Development expenditure	10.7	7.9	11.8	9.5	11.7	11.7
Overall balance	8.9	8.6	11.6	12.0	-1.8	11.8
Nonhydrocarbon fiscal balance	-18.8	-16.6	-13.2	-10.8	-18.9	-7.7
Nonhydrocarbon fiscal balance (in percent of nonhydrocarbon GDP)	-45.6	-38.7	-31.4	-26.1	...	-16.1
Financing	-8.9	-8.6	-11.6	-12.0	1.8	-11.8
Domestic financing (net) 5/	-2.6	-2.3	-1.4	3.4	...	13.0
Central bank (net)	0.1	-0.2	0.0	0.0	...	0.0
Transfer to QCB	-1.1	0.0	-0.4	-0.3	...	-0.3
Commercial banks (net) 5/	-1.6	-2.2	-1.0	3.7	...	13.4
Claims on government	-1.5	-1.1	0.5	4.5	...	11.7
Government deposits	0.2	1.0	1.5	0.7	...	-1.7
Foreign financing (net)	-6.3	-6.3	-10.2	-15.5	...	-24.9
Government foreign assets (increase -) 6/	-5.7	-5.5	-9.6	-20.2	...	-34.5
External borrowing (net)	-0.5	-0.8	-0.6	4.7	...	9.7
Memorandum items:						
Current balance 7/	19.6	16.5	23.4	21.5	9.9	23.5
Current nonhydrocarbon balance 8/	-8.0	-8.7	-1.4	-1.4	-3.1	4.0
Total government debt	17.8	12.5	8.5	16.1	...	38.6
Government external debt	7.6	5.0	3.3	7.4	...	17.6
Government gross domestic debt	10.2	7.4	5.2	8.7	...	21.1
Government net domestic debt (net of deposits)	5.3	3.6	1.4	4.3	...	15.5

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

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

Table 3. Qatar: Depository Corporations Survey, 2005–10

	2005	2006	2007	2008	Proj. 2009	Proj. 2010
	(In million Qatari riyals)					
Net foreign assets	47,820	61,250	61,444	48,869	44,827	67,864
QCB	16,580	19,694	34,747	35,790	70,028	75,864
Assets 1/	16,643	19,715	35,500	35,808	70,046	75,882
Liabilities	63	21	753	18	18	18
Commercial banks	31,240	41,557	26,696	13,079	-25,201	-8,000
Assets	41,648	66,311	88,961	99,169	71,363	89,000
Liabilities	10,407	24,754	62,265	86,089	96,564	97,000
Net domestic assets	32,026	48,923	92,292	135,630	169,329	171,071
Claims on government (net)	8,265	3,728	-207	-2,259	54,679	59,579
Claims 2/	17,122	17,238	13,822	18,169	67,664	71,048
Deposits 3/	8,857	13,510	14,029	20,429	12,986	11,469
Domestic credit	61,079	88,986	147,840	219,823	218,631	250,721
Claims on public sector (net)	14,496	12,702	26,545	45,124	88,793	104,432
Claims on public enterprises 4/	6,231	8,974	26,752	47,384	34,114	44,854
Claims on private sector	54,847	80,012	121,088	172,439	184,517	205,867
Other items (net)	-37,317	-43,791	-55,341	-81,933	-103,981	-139,228
Broad money	79,847	110,173	153,735	184,005	214,156	238,935
Money	25,657	33,492	40,737	50,869	53,636	59,842
Currency in circulation	2,866	3,959	4,487	5,368	5,826	9,237
Demand deposits	22,791	29,533	36,250	45,501	47,810	50,605
Quasi-money	54,190	76,681	112,999	133,136	160,520	179,093
Savings and time deposits	29,354	39,622	64,349	85,676	136,379	164,431
Foreign currency deposits	24,836	37,059	48,650	47,459	24,141	14,662
	(Annual percent changes)					
Net foreign assets	50.3	28.1	0.3	-20.5	-8.3	51.4
Net domestic assets	36.8	52.8	88.6	47.0	24.8	1.0
Domestic credit	60.0	45.7	66.1	48.7	-0.5	14.7
Claims on public enterprises	34.9	44.0	198.1	77.1	-28.0	31.5
Claims on private sector	63.5	45.9	51.3	42.4	7.0	11.6
Broad money	44.6	38.0	39.5	19.7	16.4	11.6
Savings and time deposits	28.6	35.0	62.4	33.1	59.2	20.6
Memorandum items:						
Net claims on public enterprises	-17,874	-20,834	-9,350	-9,038	-15,072	-19,816
Velocity of broad money (to nonhydrocarbon GDP)	0.78	0.80	0.73	0.78	0.71	0.71

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

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

Table 4. Qatar: Balance of Payments, 2005–10

(In million U.S. dollars)

	2005	2006	2007	Est. 2008	Proj. 2009	Proj. 2010
Current account	14,100	16,113	21,823	33,138	12,997	24,728
In percent of GDP	33.2	28.3	30.7	33.0	15.7	22.7
Trade balance	17,058	20,272	24,413	39,272	21,625	35,419
Exports	26,122	35,083	44,237	64,407	45,355	67,131
Hydrocarbon	22,861	31,200	39,888	58,900	40,817	60,685
Crude oil	12,843	16,299	19,181	26,270	15,821	20,260
LNG	5,200	8,471	10,524	17,640	13,213	24,663
Propane, butane	781	1,156	1,617	2,148	1,563	2,842
Condensates	2,757	3,733	6,569	11,020	8,839	7,998
Refined petroleum products	1,279	1,541	1,997	1,822	1,381	4,922
Non-hydrocarbon	3,261	3,883	4,349	5,507	4,538	6,445
Petrochemicals	1,958	2,265	2,385	2,908	2,081	4,054
Others	1,303	1,618	1,964	2,599	2,457	2,391
Imports	-9,064	-14,811	-19,824	-25,135	-23,729	-31,712
Non-LNG/QP goods	-5,281	-7,476	-9,502	-12,114	-11,436	-12,759
LNG related	-880	-2,956	-3,577	-4,364	-4,052	-2,494
QP project-related imports	-2,903	-4,378	-6,745	-8,658	-8,241	-16,459
Services (net)	-924	-2,763	-103	-2,926	-3,715	-4,691
Income (net)	542	2,341	1,298	1,805	404	-494
Receipts 1/	1,302	3,402	3,740	4,091	2,356	2,161
Payments 2/	-760	-1,061	-2,442	-2,286	-1,952	-2,656
Transfers (net)	-2,576	-3,736	-3,785	-5,013	-5,318	-5,506
Of which: workers remittances	-3,006	-3,914	-3,165	-4,348	-3,906	-3,973
Capital account	-753	-991	-1,131	-1,360	-1,522	-1,698
Financial account	-6,582	-9,563	-16,448	-25,799	-2,069	-22,012
Direct Investment, net	2,500	3,500	4,700	4,107	8,722	6,334
Portfolio borrowing, net	1,225	234	794	-137	254	1,066
Assets	-769	-784	-780	-1,248	-1,248	-1,248
Liabilities	1,994	1,018	1,574	1,111	1,502	2,314
Other investment (net)	-5,182	-8,251	-12,661	-13,096	-3,486	-8,365
Assets	-9,721	-12,747	-17,946	-23,756	-18,919	-24,926
Trade credits	382	428	575	1,730	-1,116	2,147
Government external assets 3/	-10,102	-13,175	-18,521	-25,486	-17,803	-27,073
Liabilities	4,539	4,496	5,285	10,660	15,433	16,561
Commercial banks, net	-3,201	-2,834	4,083	3,741	10,517	-4,726
Other capital, net	-1,924	-2,212	-13,363	-20,414	-18,076	-16,321
Errors and omissions	-5,568	-4,703	-108	-5,694	0	0
Overall balance	1,196	855	4,136	286	9,406	1,019
Change in QCB net foreign assets	-1,196	-855	-4,136	-286	-9,406	-1,019

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

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

Table 5. Qatar: Vulnerability Indicators, 2003–08

(In percent; unless otherwise indicated)

	2003	2004	2005	2006	2007	Est. 2008
External solvency indicators						
REER (CPI based - end of period)	-5.7	-0.2	6.9	8.1	3.1	3.6
Total debt (in billion U.S. dollars, including commercial banks)	11.4	12.7	17.8	26.3	41.9	59.1
Of which: LNG-related	2.6	2.4	6.7	10.9	14.1	17.1
Total debt (in percent of GDP)	48.4	40.0	42.0	46.2	58.9	58.8
Debt service/exports of goods and services	28.3	14.1	15.3	14.8	19.5	28.2
Public sector solvency indicators						
Government gross domestic debt/GDP	22.3	14.8	10.2	7.4	5.2	8.7
Government net domestic debt/GDP 1/	32.9	20.6	14.0	9.2	5.1	11.2
Government external debt/GDP 2/	15.9	10.9	7.6	5.0	3.3	7.4
Total debt service/total revenue	11.9	8.7	8.0	7.2	3.0	2.2
Interest payments/total revenue	6.3	3.4	2.9	2.3	1.6	1.1
Hydrocarbon revenue/total revenue	64.3	66.0	70.6	64.4	60.1	56.8
External liquidity indicators (in million U.S. dollars)						
Central bank net reserves	2,873	3,358	4,555	5,410	9,546	9,832
In months of imports	4.1	3.2	2.5	2.4	3.3	3.4
Commercial banks net foreign assets (in million U.S. dollars)	4,220	5,381	8,583	11,417	7,334	3,593
Foreign assets	5,348	7,625	11,442	18,217	24,440	27,244
Foreign liabilities	1,127	2,244	2,859	6,801	17,106	23,651
Crude oil exports/total exports	55.4	51.2	54.1	50.9	47.9	43.6
Financial sector indicators						
Foreign currency deposits/total deposits	26.8	30.5	32.3	34.9	32.6	26.6
Net domestic credit (percent change)	5.3	18.5	40.5	33.7	59.2	47.4
Private sector credit (percent change)	27.3	30.4	63.5	45.9	51.3	42.4
Net domestic credit/GDP	48.6	42.7	44.9	44.7	57.1	59.5
Private credit/total assets of banks	33.8	36.5	42.1	42.2	41.1	42.9
Market assessment/financial market indicators						
Stock market index (end of period)	3,947	6,494	11,053	7,133	9,580	6,886
Moody's investor services	A3	A3	A1	Aa2	Aa2	Aa2
Standard and Poor's 3/	A+	A+	A+	AA-	AA-	AA-

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

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

Table 6. Qatar: Medium-Term Baseline Scenario, 2006–14

(In million Qatari riyals, unless otherwise indicated)

			Est.	Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
	(Percent change, unless otherwise indicated)								
National income, production, and prices									
Nominal GDP (in million Qatari riyals)	207,183	258,590	365,482	301,599	396,545	470,340	525,107	566,825	609,930
Real GDP	15.0	13.7	15.8	9.0	18.5	14.3	9.2	4.7	4.9
Hydrocarbon 1/	10.7	12.9	17.1	10.0	25.2	17.2	8.2	0.4	0.4
Nonhydrocarbon GDP	19.9	14.5	14.5	8.0	11.5	11.0	10.5	10.0	10.0
Crude oil production, in thousand barrels per day	803	839	855	800	824	900	881	844	844
LNG Production (in million tons)	24.7	25.2	31.5	39.0	58.1	67.8	77.9	77.9	77.9
Qatar oil export price (in U.S. dollars per barrel)	62.9	70.0	95.5	60.6	75.3	78.3	79.7	81.7	83.4
CPI period average	11.8	13.8	15.0	-5.5	1.0	3.0	4.0	4.0	4.0
Terms of trade	4.3	-1.3	24.6	-23.8	17.9	0.6	0.6	1.3	1.1
	(In million Qatari Riyals)								
Central government finances 2/									
Total revenue	86,062	117,790	140,947	149,885	165,309	206,983	231,989	243,765	254,250
Hydrocarbon revenue	55,429	70,748	80,009	63,412	89,550	107,826	108,673	110,255	110,916
Other revenue	30,634	47,042	60,938	86,473	75,759	99,157	123,316	133,510	143,333
Total expenditure	67,147	84,728	98,855	111,486	128,557	142,626	153,460	164,429	176,208
Current	49,751	50,923	65,721	73,486	80,085	87,220	93,385	100,932	109,081
Capital	17,396	33,805	33,134	38,000	48,472	55,405	60,075	63,498	67,127
Overall balance	18,915	33,062	42,092	38,399	36,752	64,357	78,529	79,335	78,042
In percent of GDP	8.6	11.6	12.0	11.8	8.9	13.3	14.7	13.7	12.5
Nonhydrocarbon balance	-36,514	-37,686	-37,917	-25,013	-52,798	-43,469	-30,143	-30,919	-32,874
In percent of GDP	-16.6	-13.2	-10.8	-7.7	-12.7	-9.0	-5.6	-5.4	-5.3
In percent of nonhydrocarbon GDP	-38.7	-31.4	-26.1	-16.1	-30.2	-21.7	-13.1	-11.7	-10.9
Government net debt 3/	18,987	13,186	40,766	107,587	115,726	119,475	121,466	123,996	127,721
In percent of GDP	9.2	5.1	11.2	35.7	29.2	25.4	23.1	21.9	20.9
External debt service (percent of total revenue)	3.3	2.4	1.9	4.4	1.5	0.8	0.7	0.7	0.7
	(In million U.S. dollars, unless otherwise indicated)								
External sector									
Current account	16,113	21,823	33,138	12,997	24,728	49,038	50,298	50,403	47,076
In percent of GDP	28.3	30.7	33.0	15.7	22.7	38.0	34.9	32.4	28.1
Trade balance	20,272	24,413	39,272	21,625	35,419	55,224	53,159	51,021	46,039
Exports	35,083	44,237	64,407	45,355	67,131	91,456	94,931	98,956	101,062
Crude oil	17,840	21,178	28,092	17,202	25,182	31,362	31,013	31,367	31,106
LNG	13,360	18,710	30,808	23,615	35,503	51,827	54,498	57,055	57,971
Other exports	3,883	4,349	5,507	4,538	6,445	8,266	9,420	10,534	11,985
Imports	-14,811	-19,824	-25,135	-23,729	-31,712	-36,231	-41,772	-47,935	-55,022
LNG related	-2,956	-3,577	-4,364	-4,052	-2,494	-1,247	-935	-623	-623
Project related imports	-4,378	-6,745	-8,658	-8,241	-16,459	-20,407	-24,030	-28,025	-32,261
Other imports	-7,476	-9,502	-12,114	-11,436	-12,759	-14,578	-16,807	-19,287	-22,138
Volume of exports (percent change)	15.3	15.7	9.6	5.8	21.6	31.3	1.9	1.9	0.1
Volume of imports (percent change)	46.3	21.2	18.9	8.0	29.4	10.7	13.9	13.6	13.8
Services, net	-2,763	-103	-2,926	-3,715	-4,691	-2,694	-2,291	-2,070	-1,409
Income, net	2,341	1,298	1,805	404	-494	2,531	6,376	8,662	11,057
Current transfers, net	-3,736	-3,785	-5,013	-5,318	-5,506	-6,023	-6,947	-7,211	-8,611
Overall balance	855	4,136	286	9,406	1,019	1,261	1,122	1,567	2,004
Central bank reserves, net	5,410	9,546	9,832	19,238	20,257	21,518	22,640	24,206	26,211
In months of imports of goods and services 4/	2.4	3.3	3.4	5.1	4.7	4.5	4.1	3.9	3.7
Total external debt (excluding banks)	19,486	24,771	35,430	50,863	67,424	76,859	81,938	87,469	91,260
Total external debt (excluding banks, in percent of GDP)	34.2	34.9	35.3	61.4	61.9	59.5	56.8	56.2	54.5
Total external debt service (excluding banks)	2,686	5,370	5,117	9,167	5,350	6,030	6,610	6,370	7,585
In percent of exports of goods and services	6.8	10.4	7.2	17.6	7.0	5.8	6.1	5.6	6.4
In percent of GDP	4.7	7.6	5.1	11.1	4.9	4.7	4.6	4.1	4.5
	(In percent of GDP)								
Saving-investment balance									
Gross investment	36.5	37.7	33.6	42.0	37.1	36.1	35.1	34.8	34.7
Nongovernment sectors	28.0	26.3	24.5	29.8	25.6	24.6	23.8	23.8	23.9
Gross national saving	64.8	68.5	66.6	57.7	59.8	74.0	69.9	67.2	62.8
Nongovernment sectors	44.1	42.4	44.0	29.1	36.6	48.6	43.0	41.0	38.3

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

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

INTERNATIONAL MONETARY FUND

QATAR

2009 Article IV Consultation

Informational Annex

Prepared by the Middle East and Central Asia Department

January 22, 2010

Contents Page

Annex I. Qatar: Fund Relations

(As of November 30, 2009)

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

II. General Resources Account:

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

III. SDR Department:

	SDR million	Percent Allocation
Net cumulative allocation	251.40	100.00
Holdings	268.11	106.65

IV. Outstanding Purchases and Loans: None

V. Projected Obligations to the Fund:

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

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					
Charges/Interest		0.02	0.02	0.02	0.02
Total		**0.02**	**0.02**	**0.02**	**0.02**

VI. Implementation of HIPC Initiative: Not applicable

VII. Safeguards Assessments: Not applicable

VIII. Exchange Arrangements:

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

IX. Article IV Consultation:

The discussions for the previous Article IV consultation took place in Doha in November 2008. The Staff Report and its supplement were discussed by the Executive Board on January 21, 2009. Qatar moved to a 12-month Article IV consultation cycle in 2007.

X. FSAP Participation, ROSCs, and OFC Assessments:

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

XI. Technical Assistance:

STA	November/December 1994	Multisector Statistics Mission
MAE	June 1995	Financial Sector Reform
MAE	April 1997	Reform of the Qatar Central Bank's legal framework
MAE	September 1998/January 1999	Introducing government bonds and treasury bills
STA	April 2000	Real Sector Statistics
STA	May 2001	Balance of Payments Statistics
STA	January 2005	Multisector Statistics
STA	April 2006	Government Finance Statistics
LEG	November 2006	AML/CFT Pre-assessment
STA	April 2007	GDDS Assessment
LEG	October 2009 (ongoing)	AML/CFT Long-Term Advisor Providing TA.

XII. Resident Representative: None

ANNEX II. QATAR: RELATIONS WITH THE WORLD BANK GROUP

(As of December 7, 2009)

Strategic Cooperation Program (SCP)

The program of cooperation with Qatar is relatively recent and is based on ad hoc requests from the government for advisory services addressing strategic development issues. The first formal technical cooperation agreement was signed in April 2003 for a Public Transport Sector Reform study. A manpower planning exercise launched in 2003 with the support of the World Bank evolved in 2004 into a Labor Market Strategy for Qatar. The study was completed in June 2005 and could serve as a model for the GCC countries with similar labor issues. The project made a significant impact in Qatar and was widely publicized by the government.

Ongoing Projects

- Labor Market Strategy (LMS) Implementation

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

- Economic Diversification and Development in the GCC: Meeting the Challenges

The World Bank is assisting the Government of Qatar to plan, prepare and conduct an international economic forum on economic diversification.

Completed Projects

- Knowledge Economy Strategy and Implementation Assistance (FY09)
- Workshop on "Partnering for Value, Innovation and Job Creation: PPPs in the GCC" (FY06)
- A macroeconomic modeling workshop (FY06)
- Evaluation of Qatar's Payments System (FY05)
- Labor Market Strategy (FY04)
- Investment Climate Workshop (FY04)
- Public Transport Sector Study (FY03)

ANNEX III. QATAR: STATISTICAL ISSUES
(As of December 9, 2009)

I. ASSESSMENT OF DATA ADEQUACY FOR SURVEILLANCE

General: Economic data are broadly adequate for surveillance but there is substantial scope for improving their frequency, timeliness and coverage. The most affected areas are the real gross domestic product (GDP), financial accounts of the balance of payment, and external debt statistics.

National Accounts: Key aggregates are limited to quarterly estimates of GDP at current prices. The accuracy of data in the nonhydrocarbon sector is undermined by the lack of comprehensive source data. Qatar does not publish GDP at real prices.

Price statistics: There have been some improvements in the compilation of the consumer price index (CPI). The authorities are now publishing monthly CPI data based on a reweighted and rebased (2006=100) basket, but the index remains deficient. The information related to domestic rents— which form a sizeable share of the basket—constitutes only new rents, leading to overshooting of the index.

Government finance statistics: Government budget and outcomes data should be presented according to *Government Finance Statistics Manual 2001* (GFSM) guidelines, including greater detail on major expenditure and non-oil revenue categories. In addition, budget data should be rendered consistent with the data on public sector in the monetary survey and the balance of payments. Data on financing items in the budget are not up to date. Access to this information along with data on the budget outcome for previous fiscal years would enhance the basis for analysis. The country has a number of—largely commercial—public sector entities that should not be mixed with the central government accounts.

The MOF is giving priority to the implementation of the recommendations of the GFSM with the objective of starting the dissemination of complete annual government finance tables.

Monetary statistics: Monetary data for the 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 *Quarterly Statistics Bulletin.*

Balance of Payments: QCB has made some progress in the compilation of balance of payments statistics. International Transactions Reporting System (ITRS) collection forms have been expanded and reporting forms for the major oil and gas companies and affiliates introduced to collect data on current account and financial account transactions. This system however has not yet stabilized. Glaring omissions remain in the balance of payments statistics, relating to the financial accounts. There is no compilation for inward or outward direct investment, there are no portfolio investment data compiled for the nonbank sector, and errors and omissions remain large. Moreover, official statistics seem to underestimate total imports. Source data for government external assets are not provided to the QCB for BOP compilation. Although an estimate for flows of government external assets based on the budget data is included in the balance of payments, no information is provided on the government's stock of external assets, which makes it difficult to appraise the level of investment income with any degree of confidence. In addition, there is an inconsistency in coverage in flows and stocks of official reserves. In the balance of payments, flows of official reserves include changes in the stock of QCB reserves and an estimate for the change in stock of the external assets of the government. However the stock of official reserves published in *IFS* includes only the stock of the QCB. The authorities have worked with STA in an attempt to report their BOP data in *Balance of Payments Manual 5/e* (BPM5) format, however there has been insufficient detailed information available to complete this process.

External debt

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

II. Data Standards and Quality

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

Qatar: Table of Common Indicators Required for Surveillance
(As of January 4, 2010)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Nov. 2009	Dec. 2009	M	M	M
International Reserve Assets of the Monetary Authorities[1]	Nov. 2009	Dec. 2009	M	M	M
Reserve/Base Money	Nov. 2009	Dec. 2009	M	M	M
Broad Money	Nov. 2009	Dec. 2009	M	M	M
Central Bank Balance Sheet	Nov. 2009	Dec. 2009	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2009	Dec. 2009	M	M	M
Interest Rates[2]	Nov. 2009	Dec. 2009	M	M	M
Consumer Price Index	Oct 2009	Nov. 2009	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	2008/09	May 2009	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2009	Nov 2009	A	I	I
External Current Account Balance	2008	March 2009	A	A	Q
Exports and Imports of Goods and Services	2008	March 2009	A	A	Q
GDP/GNP	2009 (Q3)	Dec. 2009	Q	I	I
Gross External Debt	2009	Nov 2009	A	I	I
International Investment Position[7]	Oct. 2009 (incomplete)	Nov. 2009	I	I	NA

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

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International Monetary Fund
700 19th Street, NW
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IMF Executive Board Concludes 2009 Article IV Consultation with Qatar

On February 8, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar on a lapse of time basis.[1]

Background

Qatar continued to deliver an impressive economic performance in 2009, despite the global slowdown. Overall real GDP growth is estimated at 9 percent, following a 16 percent growth in 2008, underpinned by expansions in the production of liquefied natural gas (LNG) and condensates, and a strong performance in the nonhydrocarbon sector. A sharp fall in domestic house rents has led to deflation in 2009—the sharpest among the countries of the Gulf Cooperation Council (GCC). Fiscal policy continued to support growth through continued development spending, albeit with re-prioritization of a few government projects. The external current account is estimated to have recorded a large surplus (about 15.7 percent of GDP) on account of the rebound in the prices of oil and gas, and the central bank's gross reserves strengthened further to around 5 months of imports of goods and services.

The global turmoil and the recent developments in Dubai have had a limited impact on the banking system. Recent preemptive equity injections and asset purchases by the authorities have helped to further improve the resilience of the system. Although the underlying fundamentals remain strong, weak sentiment stemming from the global

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

financial crisis and the recent Dubai restructuring have weighed on share prices, with the equity market rebounding only marginally in 2009.

Qatar's growth performance is expected to be even stronger in 2010, driven by a rapid expansion in LNG production (and related industries) and a pick up in manufacturing and construction. Following the deflation experienced in 2009, inflation is expected at around 1 percent in 2010, on account of increases in international prices for food and raw materials and the impact on domestic prices of planned infrastructure investments. The fiscal and external current accounts are projected to remain in surplus in 2010, mainly reflecting favorable oil prices.

Qatar's medium-term outlook remains positive, with continuing strong growth, moderate inflation, and fiscal and external current account surpluses. The main risks to this outlook include a slow global recovery, a large further decline in real estate prices, reduced availability of financing for projects, and additional unexpected adverse financial developments in the region. The projected high medium-term growth rates have the potential of overheating the economy unless the government continues to prioritize and sequence its spending towards infrastructure projects.

Executive Board Assessment

Executive Directors commended the Qatari authorities for successfully steering the economy through the global financial crisis and enhancing the growth prospects and financial stability of the Qatari economy. They noted that supportive macroeconomic policies have helped maintain investment, which contributed to strong growth, and to sizeable fiscal and external surpluses. The central bank's macro-prudential policies, as well as timely and decisive intervention helped moderate the impact of the global crisis on the domestic banking system.

Directors considered the medium-term outlook to be favorable, but noted that a key challenge facing the authorities is to dampen the potential risk of overheating stemming from their growth strategy and gradual recovery of international commodity prices. In this regard, Directors encouraged the authorities to prioritize infrastructure projects carefully in order to mitigate the emergence of supply bottlenecks and cost-push inflation. Directors also underscored the need for sustained efforts to increase absorptive capacity and diversify the economy away from hydrocarbon production and exports. Directors also agreed that Qatar's growth strategy—which depends on investments financed through debt—could benefit from the establishment of a formal institutional structure to develop a medium-term debt management strategy.

Directors welcomed the authorities' intention to use the available fiscal space prudently, and to enhance implementation capacity and uphold intergenerational equity in resource revenue use. They supported the emphasis on building capacity in infrastructure and easing supply bottlenecks through project prioritization. Directors concurred that the fiscal stance is appropriate and urged the authorities to maintain their capital spending—particularly since there are no fiscal sustainability concerns—until private sector activity becomes firmly entrenched.

Directors commended the authorities for their timely intervention in the financial sector, which improved liquidity and provided room for lending by banks. Nevertheless, they underscored the importance of ensuring that banks do not rebuild excessively risky asset portfolios. In this context, they encouraged the authorities to strengthen their risk management practices and the overall supervision of the banking system. Directors were encouraged by the authorities' commitment to establishing a single regulator of financial services in the near future, and reiterated the need to close any regulatory gaps in the transition period.

Directors noted the resilience of the banking system, particularly in the face of the global crisis, as evidenced by the high capital, liquidity, and profitability levels. They welcomed the authorities' commitment to preserving financial stability, and urged them to continue to monitor closely the evolving regional and global financial risks. In this context, Directors noted that the central bank had initiated a comprehensive review of its prudential regulations and monetary policy instruments.

Directors agreed that the Qatari riyal is in line with fundamentals and that the peg to the U.S. dollar remains appropriate. They welcomed the commitment of the Qatari authorities to the GCC Monetary Union, and commended the authorities on the recent launching of the Monetary Council.

Directors urged the authorities to continue to improve the quality of statistics, particularly in light of Qatar's increasing integration with the global economy and the envisaged GCC monetary union. In this regard, they encouraged the authorities to build on the progress made since joining the General Data Dissemination Standards in 2005, in particular, by improving the compilation of national income and balance of payments data. They also welcomed the authorities' intention to seek technical assistance to strengthen the balance of payments statistics and compile comprehensive data on the international investment position.

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

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2009 Article IV Consultation with Qatar is also available.

Qatar: Selected Economic and Financial Indicators, 2005–10

	2005	2006	2007	2008	Proj. 2009	Proj. 2010
Production and Prices						
Real GDP (in percent per annum)	9.2	15.0	13.7	15.8	9.0	18.5
Hydrocarbon 1/	6.0	10.7	12.9	17.1	10.0	25.2
Nonhydrocarbon GDP	13.1	19.9	14.5	14.5	8.0	11.5
Nominal GDP (in billion U.S dollars)	42.5	56.9	71.0	100.4	82.9	108.9
Consumer price index (period average)	8.8	11.8	13.8	15.0	-5.5	1.0
	(In percent of GDP on fiscal year basis) 2/					
Public Finance						
Total revenue	39.2	39.1	41.3	40.3	46.1	39.8
Hydrocarbon revenue	27.7	25.2	24.8	22.9	19.5	21.6
Other revenue	11.5	13.9	16.5	17.4	26.6	18.3
Total expenditure and net landing	30.3	30.5	29.7	28.3	34.3	31.0
Current expenditure, *of which:*	19.5	22.6	17.8	18.8	22.6	19.3
Wages and salaries	4.0	5.9	5.2	5.4	6.7	5.4
Capital expenditure	10.7	7.9	11.8	9.5	11.7	11.7
Overall fiscal balance (deficit -)	8.9	8.6	11.6	12.0	11.8	8.9
	(Annual change in percent)					
Money						
Broad money	44.6	38.0	39.5	19.7	16.4	11.6
Claims on private sector	63.5	45.9	51.3	42.4	7.0	11.6
	(In million U.S. dollars, unless otherwise stated)					
External Sector						
Exports of goods and services, *of which:*	28,709	39,276	51,482	71,193	52,171	76,415
Crude oil and refined petroleum products	14,122	17,840	21,178	28,092	17,202	25,182
LNG and related exports	8,738	13,360	18,710	30,808	23,615	35,503
Imports of goods and services	-12,575	-21,767	-27,172	-34,848	-34,260	-45,687
Current account	14,100	16,113	21,823	33,138	12,997	24,728
In percent of GDP	33.2	28.3	30.7	33.0	15.7	22.7
Central Bank reserves, net	4,555	5,410	9,546	9,832	19,238	20,257
In months of imports of goods and services 3/	2.5	2.4	3.3	3.4	5.1	4.7
Exchange rates (riyals/U.S. dollars)	3.64	3.64	3.64	3.64	3.64	...
Real effective exchange rate (percent change)	6.9	8.1	3.1	3.6	13.5	...

Sources: Data provided by the authorities; and IMF staff estimates and projections.
1/ Staff estimates; include crude oil, LNG, propane, butane, and condensate.
2/ Fiscal year begins in April.
3/ Next 12 months.