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QATAR

March 2015

2015 ARTICLE IV CONSULTATION—STAFF REPORT; AND PRESS RELEASE

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 2015 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on January 19, 2015, 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 6, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Staff Supplement** of March 18, 2015 updating information on recent developments.
- A **Press Release**

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

Selected Issues Paper

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

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QATAR

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

March 6, 2015

KEY ISSUES

Context. Qatar is implementing an ambitious diversification strategy through a large public investment program, while retaining its systemic role in the global natural gas market. The policy framework is being strengthened in a number of areas, including fiscal and financial policies. Growth is expected to remain strong this year, but will slow going forward. The recent large drop in oil prices will lead to a substantial deterioration of the fiscal and external balances.

Focus. This year's consultation focused on these key issues:

1. Living with cheap oil. Qatar's public finances remain sustainable at expected oil prices, but in contrast to the recent past, projected budget balances no longer appear consistent with intergenerational equity. Measures to improve the budget balance by 5 percent of non-hydrocarbon GDP should be implemented gradually over the medium term. Policymakers should specify clear medium-term fiscal objectives, make the annual budgets binding, and further increase transparency of fiscal accounts. The prospects of persistently low oil prices and slowing medium-term growth also call for intensification of diversification efforts through further improvements in the business environment, higher education quality, and labor market reforms, which would also make growth more inclusive.

2. Risks from public investments. The ongoing investment program is essential for economic development, but entails a risk of overheating the economy in the near term, while creating overcapacity over the medium term. Recent progress in improving public investment management to tackle these risks is welcome. Consideration should be given to raising the real estate transaction fees to deter speculators and further increasing land supply.

3. Financial sector. Banks remain sound and the financial regulatory agenda is moving ahead, but emerging risks and vulnerabilities need to be carefully monitored. These include rapidly growing credit to selected sectors and across the border. Further enhancements to the early warning system, including improving availability of real estate statistics, are needed.

Approved By
Juha Kähkönen and Taline Koranchelian

Discussions were held in Doha during January 7-19, 2015. The staff team comprised Mr. Sommer (head), Messrs. Behar and Shukurov (all MCD), and Mr. Warner (ICD). Ms. Choueiri (OED) joined the mission during January 13-19. Mr. Harris (FAD) attended some meetings. Mr. Flores and Ms. Knight (both MCD) provided support from the headquarters.

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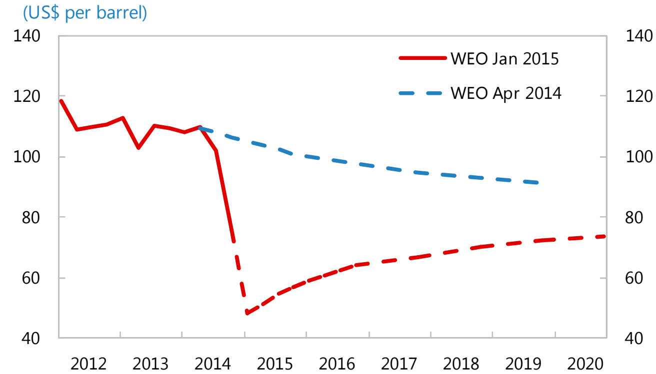
CONTEXT

1. Qatar is implementing an ambitious diversification strategy, while retaining its systemic role in the global natural gas market. Qatar accounts for one-third of global LNG trade and has emerged as an important global financial investor, labor importer, and donor.[1] The authorities are executing a $200 billion infrastructure program to advance economic diversification and prepare for the FIFA 2022 World Cup. Qatar ranks favorably in social and governance indicators in the GCC region. The policy framework is being strengthened in the areas of fiscal policy and institutions, financial regulation, macroprudential policies, and debt market development, consistent with IMF advice (Annex I).

2. The steep fall in oil prices provided a new context for this year's Article IV consultation. Having fluctuated in a narrow range of about $100-120 a barrel during the last several years, the Brent oil price benchmark unexpectedly fell to about $60 a barrel over the past six months. Futures markets suggest that a significant part of this decline is likely to persist over the medium term. Qatar is being affected since more than 90 percent of its budget revenues and exports are tied to activities of the hydrocarbon sector. Crucially, the price of Qatar's LNG is linked to the price of crude oil.

Brent Oil Price Assumptions, 2012–20
(US$ per barrel)



Source: IMF, World Economic Outlook.

RECENT MACRO-FINANCIAL DEVELOPMENTS AND SPILLOVERS

3. Qatar has maintained a strong growth momentum so far, with the recent oil price slump driving a stock market correction. Real GDP growth has been stable at about 6 percent over the past three years, mostly driven by a double-digit expansion of the non-hydrocarbon sector. This rapid growth rate has in turn reflected large public investments to diversify the economy and prepare for the FIFA 2022 World Cup (Figure 1). The strong growth performance notwithstanding, Qatar's financial markets have continued to be affected by spillovers from geopolitical events and, in particular, oil price volatility (Figure 2). The sharp drop in oil prices has triggered a stock market correction and a modest re-pricing in the Credit Default Swap (CDS)

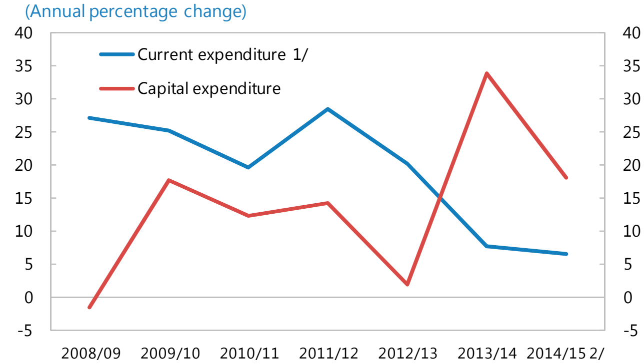
[1] Qatar's investments by its sovereign wealth fund are estimated at about $250 billion by the Sovereign Wealth Fund Institute. About 90 percent of Qatar's population are expatriate workers. Remittances by these workers amounted to an estimated $13 billion in 2014, about 6 percent of GDP. Qatar has also committed substantial financial aid, especially to countries in the Middle East and North Africa.

market. However, the yield on the long-term U.S. dollar-denominated Qatar sovereign bond has stayed broadly stable at around 3 percent.

4. Rapid growth has been accompanied by substantial changes in relative prices. With rents constituting over 30 percent of the CPI basket, a strong inflow of expatriate workers amid a diminishing housing market slack pushed up inflation to 3¾ percent in summer 2014. Headline inflation has eased to 2¾ percent in December 2014, assisted by falling global food and other commodity prices and a stronger U.S. dollar to which the Qatar Riyal is pegged. Meanwhile, growth in real estate prices accelerated to 35 percent year-on-year in December as new housing supply is slow to accommodate demand from expatriates and the government continues purchases of land for infrastructure projects. Anecdotal evidence also points to some speculative activity in the real estate market in anticipation of public investments. Real estate valuations appear on the upper end of a range consistent with fundamentals (Figure 1, Box 1).

5. The budget continues to post large surpluses (Figure 3). The central government budget surplus increased to 14 percent of GDP in fiscal year 2013/14 (the fiscal year ends March) due to strong revenues and expenditure restraint, especially on non-wage discretionary spending. The revenue strength partly reflected the transfer of all hydrocarbon profits from Qatar Petroleum—the key hydrocarbon company—to the budget, a welcome step toward greater transparency of fiscal accounts. Budget data for the first nine months of the current fiscal year point to continued restraint in current expenditures. Capital spending has slowed somewhat so far this year, but is expected to pick up again. Gross government debt fell to about 30 percent of GDP, with T-bills and T-bonds issued for financial market development and liquidity management purposes.[2] A rough estimate of the net financial worth of the government incorporating Qatar's sovereign wealth fund (Qatar Investment Authority, QIA) is 100 percent of GDP.

Central Government Expenditure, FY2008–14
(Annual percentage change)



Source: Country authorities.
1/ Excluding recapitalization transfer to the General Retirement and Social Insurance Authority in 2011 and 2012.
2/ First nine months of the fiscal year, year-on-year percent change.

6. Monetary and credit conditions remain accommodative in the context of the exchange rate peg to the U.S. dollar. Following volatility driven by external events during 2013, the Qatar Central Bank (QCB) has managed to keep banking system liquidity and T-bill rates generally stable (Figure 2). Domestic credit grew by 10 percent year-on-year in December 2014, with private sector credit growth accelerating to 20 percent, supported by robust demand from

[2] Gross government debt including contingent liabilities from the state-owned enterprises amounted to 50 percent of GDP in FY2013/14.

construction contractors, services, traders, and consumers (Figure 4). Real estate credit has generally grown in line with the non-hydrocarbon economy. In contrast, public sector credit has recently been contracting, owing partly to the close monitoring of public sector borrowing by the Ministry of Finance. Macroprudential policy setting has stayed broadly neutral, with the key levers such as the loan-to-value ratio in line with international norms.

7. Banks are well capitalized and liquid. As of September 2014, Tier 1 capital exceeds 15 percent of risk-weighted assets and non-performing loans (NPLs) remain below 2 percent. The banking system is highly profitable, with a return on assets at 2 percent. Liquidity buffers are strong. The aggregate loan-to-deposit ratio has remained at about 1 over the past year, with the foreign funding of commercial banks continuing to fall modestly as a share of total liabilities. Cross-border assets have grown to about 20 percent of banks' assets (Figure 4).

8. The authorities have made significant progress on financial regulation. Most Basel III regulations were introduced last year. The QCB issued instructions for the loan-to-deposit ratio in mid-2014. The authorities are implementing their December 2013 Strategic Plan for Financial Regulation, which laid out a broad agenda for moving to risk-based regulation, expanding macro-prudential oversight, strengthening market infrastructure, and enhancing consumer and investor protection. The QCB Governor chairs the Financial Stability and Risk Committee, providing a framework for common oversight by regulatory agencies.

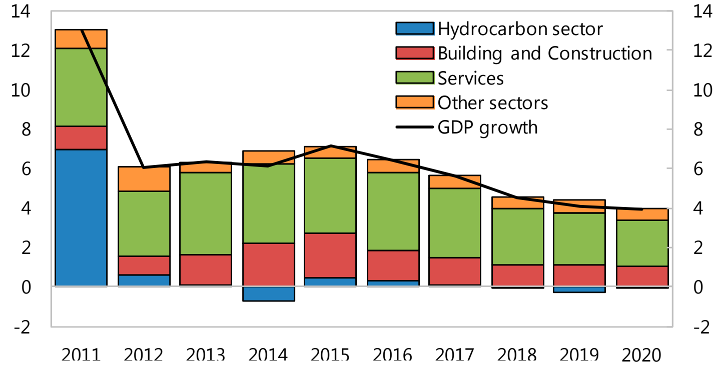
9. The fixed exchange rate regime remains appropriate for Qatar. The peg to the U.S. dollar has served Qatar well in periods of both high and low oil prices by anchoring prices of tradables and providing stability to income flows and financial wealth. Qatar also hosts a large number of expatriate workers whose wages are set internationally. The potential disadvantages of the fixed exchange rate regime in terms of the limited scope for independent monetary policy can be addressed through fiscal and macroprudential policies, while the peg's stability is underpinned by Qatar's large positive net foreign investment position. An assessment of the exchange rate level is complicated by the undiversified structure of Qatar's exports largely depended on hydrocarbons. That said, staff estimates do not find evidence of a current account gap using two alternative techniques (Annex II). In addition, staff analysis suggests that the global share of Qatar's non-hydrocarbon exports and the share of Qatar's imports in GDP have remained broadly stable in recent years. The composition of financial flows appears to have been relatively stable as well.

MACROECONOMIC OUTLOOK AND RISKS

10. Staff expects growth to remain robust in the near term, with inflationary pressures contained despite the tight real estate market.

- ***GDP growth.*** Despite the fall in oil prices—which will pass through to Qatar's LNG prices with a lag of up to a year—real growth could accelerate to about 7 percent this year as the Barzan field begins natural gas production. Non-hydrocarbon growth is expected to remain in double digits in 2015 as the path of public expenditures is unlikely to be affected by oil market developments in the near term. That said, expectations of permanently lower oil prices, higher uncertainty and, with a delay, likely U.S. monetary tightening will pose headwinds to growth going forward. Growth could slow to about 4 percent over the medium term as public investment growth tapers off and the private sector offsets only some of the decline.

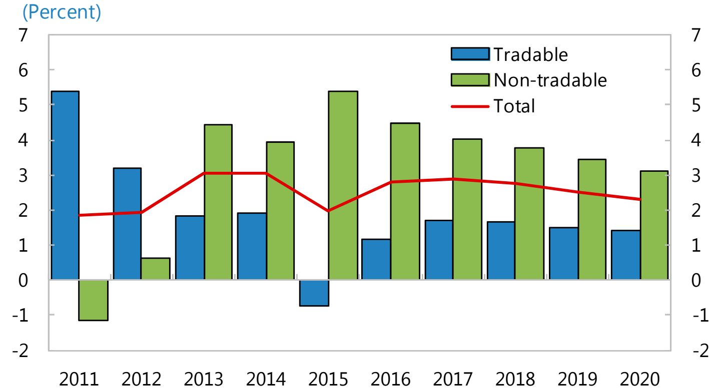
Real GDP Growth, 2011–20
(Percent)



Sources: Country authorities; and IMF staff estimates.

- ***Inflation and real estate prices.*** In the near term, inflation could decelerate to 2 percent given the large drop in international commodity prices, including for food, and an appreciating U.S. dollar, although the rental market is likely to continue putting upward pressure on inflation given strong expatriate labor inflows.[3] Over the medium term, the disinflationary pressures from abroad will dissipate and headline inflation is projected to increase modestly. Future real estate price developments are uncertain—real estate prices may remain supported by the public investment program but will also face headwinds from the large loss of hydrocarbon wealth and related uncertainties and could thus correct from current levels.

Consumer Price Inflation, 2011–20
(Percent)



Sources: Country authorities; and IMF staff estimates.

11. The authorities have not yet updated their quantitative macroeconomic framework but have similar qualitative views as staff. The official forecast prepared by the Ministry of Development Planning and Statistics last year was based on the crude oil price of $97 a barrel. This assumption reflected market prices at the time, but is now considerably higher than current oil prices. Back then, growth was projected at 7.7 percent and 7.5 percent during 2015-16, while consumer price inflation was forecast at about 3.5-3.7 percent. In February, the Minister of Finance indicated he expected growth at 7 percent and inflation at 3 percent in 2015, closer to the IMF forecasts. As for the medium-term outlook, the authorities agreed with staff that growth will likely slow from current levels. The authorities will unveil their updated

[3] Methodological changes in CPI calculations, including rebasing, planned for early 2015 could reduce reported inflation. This possible downward revision to inflation data is not incorporated in staff analysis.

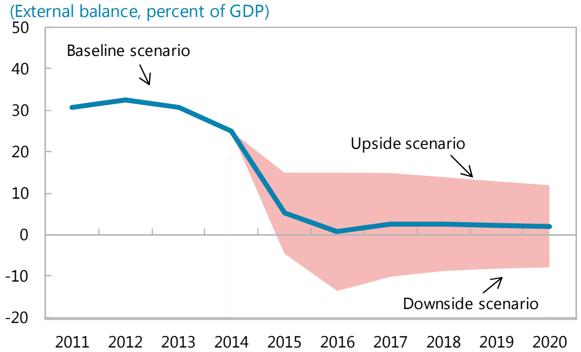
macroeconomic forecast in the next *Qatar Economic Outlook*, which is typically published around mid-year.

12. In staff's view, the large drop in oil prices will lead to a substantial deterioration in fiscal and external balances. The delayed impact of the recent oil price decline on hydrocarbon receipts will be increasingly felt over the course of this year. Despite the IMF staff's assumption of a gradual recovery in the Brent oil price to about $74 a barrel by the end of the decade—reflecting indications from the futures markets at the time of the consultation—the fiscal and external sectors will remain under pressure. The reasons are twofold: hydrocarbon exports will stagnate, reflecting a voluntary investment moratorium and maturing oil fields, and budget expenditures and imports will grow, albeit at a moderate pace. In sharp contrast to recent years, the government budget is projected to fall into a deficit from 2016 onwards. However, the authorities are projected to reduce public debt while accumulating net financial assets in the medium run, thanks partly to capital gains from the QIA's substantial investments. The current account surplus will drop from over 30 percent of GDP in 2013 to 2 percent of GDP in 2020. The authorities acknowledged that the sizeable budget and external surpluses recorded in recent years will shrink given the lower hydrocarbon prices. The authorities are currently assessing the implications of the oil price drop for Qatar Petroleum revenues.

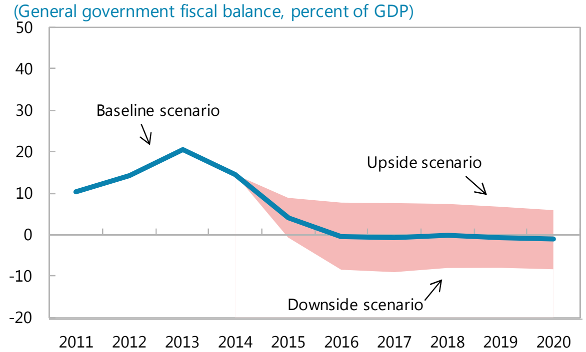
13. Staff noted that the main risks are related to the possibility of lower-than-expected oil and natural gas prices and the public investment program.

- ***External risks.*** The main external risk remains the possibility of lower-than-expected oil and natural gas prices given slow global growth, rising unconventional oil supplies and, over the long term, growing competition in the LNG market. Oil prices could also surprise on the upside if geopolitical risks escalate or if the effect of the recent oil price decline on unconventional producers exceeds expectations. Revenue losses from lower oil and natural gas exports would be the most significant spillover channel for Qatar. The non-hydrocarbon sector would be cushioned by the government's spending commitments. However, spillovers could be amplified by falling liquidity in the banking system if the government and hydrocarbon-exporting companies slow deposit growth, especially if this coincides with tighter U.S. monetary policy, mobilization of resources by participants in the infrastructure program, and the recently-introduced loan-to-deposit ratio. Qatar's external borrowing costs could increase if low oil prices persist, and there is scope for adverse regional spillovers if investors fail to differentiate between Qatar and less resilient oil-exporting countries. The financial channel could also become important in other circumstances, given Qatar's sizeable foreign assets and the increasing interconnectedness of local banks and financial markets with the global economy.

Sensitivity of External Balances to Oil Prices, 2011–20
(External balance, percent of GDP)



Sensitivity of Fiscal Balances to Oil Prices, FY2011–20
(General government fiscal balance, percent of GDP)



Sources: IMF staff estimates.
Note: Upside/downside scenarios correspond to oil prices higher/lower by US$25 a barrel (one standard deviation in oil prices) from 2015 onwards.

- ***Domestic risks.*** The ongoing public investment program—while essential for further economic development and meeting FIFA-related commitments—entails the possibility of overheating the economy in the near term and low return and overcapacity in some sectors over the medium term.

14. The authorities agreed that hydrocarbon prices were the key channel for spillovers from the global economy, while taking note of Qatar's increasing interconnectedness with global financial markets. Both futures prices and analysis of the oil industry's cost structure suggest that medium-term oil prices should be above today's levels, but may not return to the previous highs. Despite the adverse impact on the budget and external balances, the authorities saw limited scope for spillovers from low oil prices to local non-hydrocarbon activity given the unchanged path of fiscal expenditures. The U.S. interest rate hike, if it materializes this year, would have minimal immediate effects, partly because Qatar's main policy rate remains almost ¾ percentage point above the prevailing Fed Funds Rate. The cross-border activities of Qatar banks have increased substantially in recent years—albeit from a fairly low level—and are closely monitored.

15. The authorities and staff agreed that Qatar has policy space to deal with unexpected circumstances in the short term. Fiscal buffers and Qatar's available natural resources are sizeable, and spending is unlikely to be affected by falling hydrocarbon prices or market volatility in the near term. The QCB can inject liquidity into the financial system through discount window and repo operations, and the government can provide additional liquidity, including in foreign currency, by managing portfolios of the QIA and public sector enterprises. The administration continually monitors risks from the public investment program.

Qatar: Risk Assessment Matrix[4]

Nature/source of main risks	Likelihood	Expected impact on the economy if risk is realized
Lower-than-expected oil and natural gas prices, triggered by protracted slow growth in advanced economies and emerging markets and higher supply	**Medium to High**	***Medium to High*** For illustrative purposes, an oil price drop of $10 a barrel would reduce fiscal and external balances by 2¼ and 4 percentage points of GDP, respectively, assuming no policy response. A permanent $10 drop in oil prices could reduce Qatar's GDP level by 2½ percentage points after 5 years assuming that the government fully offsets the revenue losses with expenditure cuts. The actual impact would likely be smaller since public expenditures would not be adjusted fully given 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 the government and oil-exporting companies slow deposit growth could amplify negative spillovers. *Policymakers should further intensify diversification efforts to partially offset potential negative spillovers from lower oil prices. The authorities should ensure adequate banking system liquidity.*
Geopolitical fragmentation leading to a sharp rise in oil prices	**Medium**	***Medium*** This is an inverse of the above scenario with lower hydrocarbon prices, caused by sustained tensions in Russia/Ukraine or fragmentation/state failure elsewhere in the Middle East. Oil prices could also rise unexpectedly if, in response to the recent fall in prices, unconventional and other high cost producers sharply reduce supply growth. *Qatar would likely accumulate fiscal and external surpluses.*
Risks related to large infrastructure investments	**Medium**	***Low to Medium*** Large infrastructure spending could lead to cost overruns and inflation in the short term, while delivering disappointing productivity gains over the medium term. In particular, if labor productivity growth does not pick up, non-hydrocarbon growth could be only 2.5 percent in 2020. Reputational risks associated with reports of poor labor standards of some expatriate workers could lead to difficulties with hiring. *Enhancements to the early warning system and a comprehensive public investment management framework would help manage macroeconomic risks. Macroprudential measures and liquidity withdrawal could address excessive credit growth while smoother public spending would help contain generalized inflation. Consideration should be given to increasing real estate transaction fees to deter speculators. Continued efforts to enhance labor protection and mobility would mitigate reputational risks and make growth more inclusive.*
Side-effects from global financial conditions: • **A surge in financial volatility** • **Persistent dollar strength**	 **High** **Medium**	***Low to Medium*** If the U.S. Fed tightens monetary policy sooner or by more than expected, the net global growth and oil price impact would be moderate and depend on whether tightening is in response to unexpectedly-fast growth or lower-than-expected spare capacity. Oil prices could fall by less than 5 percent (see the first scenario to infer implications for Qatar growth). The normalization of U.S. monetary policy would also tighten financial conditions in Qatar, although with a delay. If reassessments of sovereign risk or geopolitical tensions stoke capital flow volatility, the risks would be more significant. Tighter U.S. monetary policy could also prompt a surge in the value of the dollar and hence the riyal in effective terms. The price of imports would fall, leading to an improvement in the trade balance and lower inflation in the short term, while the trade balance would deteriorate marginally once volumes adjust. The U.S. dollar strength would have a minimal impact on growth given small non-hydrocarbon exports and limited substitutability between domestic production and imports. Portfolios holdings abroad in non-USD currencies would suffer moderate valuation losses. Banks should prove resilient as any open foreign exchange positions (subject to prudential limits) are largely in U.S. dollars. *Continued strong fundamentals would likely prevent excessive volatility in the Qatar financial markets, but banks' profit margins would shrink and some individual banks reliant on wholesale funding could face liquidity pressures. Large financial cushions and a policy framework are in place to mitigate the impact.*

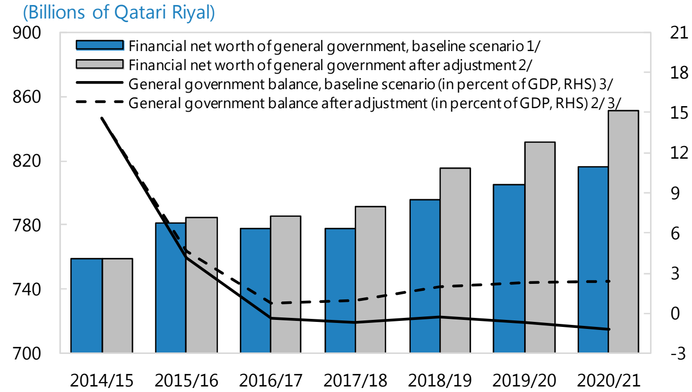
[4] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate 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.

POLICY CHALLENGES AND PRIORITIES

A. Living with Cheap Oil, while Maintaining Intergenerational Equity

16. Staff indicated that Qatar's public finances remain sustainable at projected oil prices, but in contrast to the recent past, projected budget balances no longer appear consistent with intergenerational equity. In the short run, staff projects a reduction in government financial assets due to fiscal deficits and debt repayments. The net financial assets will start growing again once oil prices recover above $68 a barrel—a ballpark estimate of the medium-term budget breakeven price taking into account revenue and expenditure trends as well as the returns and capital gains of the QIA. Despite Qatar's fiscal sustainability in the baseline scenario, calculations based on the permanent income model suggest that the government does not save sufficiently for future generations. The gap between projected fiscal balances and the optimal policy is about 5 percentage points of non-hydrocarbon GDP (Annex III). The situation in the oil market remains fluid and the current budget policies would be consistent with intergenerational equity if oil prices turned out to be higher than IMF assumptions by roughly $10 a barrel. However, assuming the oil market stabilizes around the IMF staff assumptions, additional measures to improve the budget balance worth 5 percent of non-hydrocarbon GDP should be phased in gradually over the medium term.[5] These could include further efforts to prioritize public investment while raising its efficiency, a gradual reduction in subsidies, additional savings in administrative expenses, and new non-hydrocarbon revenues (Box 2).

Baseline Projection and Recommended Fiscal Adjustment, FY2014–20
(Billions of Qatari Riyal)



Sources: Country authorities; and Fund staff estimates.
1/ Net debt of central government plus the estimated stock of QIA assets.
2/ A gradual improvement in the non-hydrocarbon primary fiscal balance (by 5 percentage points of non-hydrocarbon GDP by 2020).
3/ Central government balance plus estimated QIA investment income, excluding capital gains.

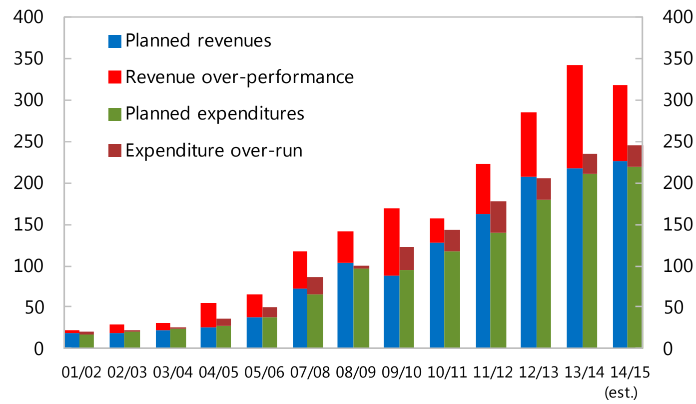
17. The authorities noted that fiscal policies became prudent well before the oil price drop and budget reforms remain on track. The administration appointed in mid-2013 has significantly slowed the growth of current spending, and restraint on current expenditure is expected to be maintained going forward (Figure 3). Capital expenditures and related operational spending are being reviewed, with the intention of establishing medium-term envelopes. Discussions with key stakeholders on appropriate revenue-raising options could start later this year. Policymakers have adopted a number of recommendations by staff to improve the

[5] Any net-present-value calculation is subject to caveats about sensitivity to assumptions such as interest rates and the assumed rate of return and the technical definition of intergenerational equity.

institutional framework, including establishing a macro-fiscal unit and a public investment management department. The Ministry of Finance is preparing a medium-term strategy, planned for completion by mid-2015, to inform the budget process starting next year—an important step toward establishing a binding medium-term budget framework.

18. Staff welcomed the ongoing budget reforms, reiterated the need for additional consolidation measures, and stressed that the oil price slump highlights the need for a clear medium-term fiscal framework, including contingency plans (see accompanying *Selected Issues Paper*). In staff's view, the strategy document should formulate clear medium-term fiscal objectives and communicate expectations about the future trajectory of budget expenditures and taxation. Annual budgeting should be aligned with this new medium-term framework so that frequent spending overruns relative to the official budget—which are now smaller than in the past—are eliminated. Since oil and natural gas prices can turn out to be lower than expected, contingency plans are crucial to address risks (see Debt Sustainability Analysis in Annex IV). With respect to possible tax policies, staff recommended broadening of the corporate income tax base and introducing a low-rate value-added tax (VAT), while cautioning against reliance on user fees and charges (Box 2). Further improvement in the transparency of fiscal accounts, including financial transactions of the government, would facilitate a more accurate assessment of Qatar's fiscal position in the context of low oil prices.

Revenue Over-Performance and Expenditure Over-Runs, FY2001–14
(Billions of Qatari Riyal)



Source: Ministry of Finance; and IMF staff calculations.

B. Managing Overheating Risks and Securing High Return from Public Projects

19. The authorities are mindful of the risks associated with the public investment program, including related financial sector vulnerabilities. Given Qatar's adverse experience with double-digit inflation during 2006-08, the Ministry of Finance has taken steps to smooth the time profile of investments. Additional land is being provided to priority sectors such as housing, logistics, and warehousing. The National Logistics Committee follows price trends and tries to address bottlenecks, including by taking pro-active measures to improve the supply chain. Exposures to the real estate sector are tightly monitored by the Qatar Central Bank, with total banking exposures limited as a share of capital and limits imposed on the borrower's loan-to-value (LTV) and debt-service-to-income (DSTI) ratios. QCB stress tests suggest that NPLs for real estate, construction contractors, and consumer loans would need to jump to nearly 30 percent before the banks' capital ratios fall below the regulatory minimum. In addition, the loans to state-owned enterprises (which account for about 40 percent of domestic credit) have traditionally been fully performing even during times of adverse macroeconomic conditions.

20. In staff's view, the recent sharp swings in relative prices warrant enhanced monitoring and some changes to the policy mix.

- Further enhancements to the policymakers' early warning system are needed to monitor emerging risks, in particular with respect to inflation and real estate sector risks (see accompanying *Selected Issues Paper*). There is scope for substantial improvement of the availability and quality of the real estate sector statistics including price indices, real estate vacancies, and characteristics of real estate transactions.

- Policymakers can take additional steps to ensure adequate supply of land and affordable housing. To reduce any speculative pressures by cash investors in the real estate market, consideration should be given to raising real estate transaction fees, which are at 0.25 percent low by international standards.[6] The fees could be differentiated so that first-time homebuyers pay very little, while short-term investors are penalized. Rent controls to manage inflationary pressures should be resisted since they would likely reduce the housing supply given rapidly rising land prices—the key construction cost—and could thus prove counterproductive. In case of excessive credit growth, further macroprudential measures (such as reducing the loan-to-value ratio or suitably calibrating the planned countercyclical buffers) and liquidity withdrawals should be deployed.[7] If inflation accelerates, policymakers should slow public sector spending.

21. The authorities' recent efforts to improve public investment management are welcome. The Ministry of Finance has been empowered to manage public investments, and established an approximately QAR 600 billion 10-year spending cap on new investment projects with yearly indicative targets. The MoF's public investment management (PIM) department has collated detailed data on the planned projects, is reviewing new major investment proposals, and is refining a PIM system in consultation with other stakeholders—including through a recently established inter-ministerial committee. In staff's view, additional progress can be made on deepening the cost-benefit analysis and conducting ex-post assessment of projects.

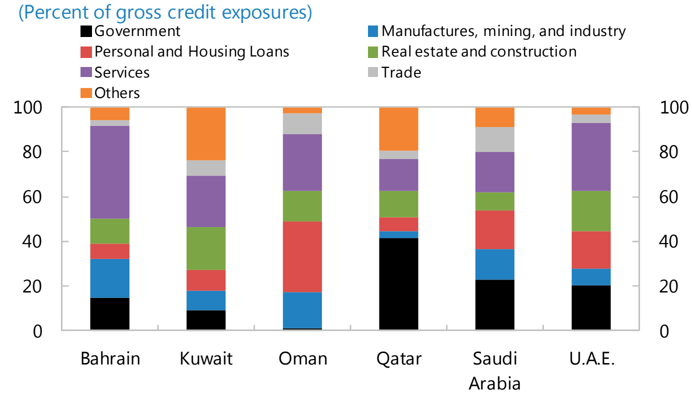
[6] For instance, Dubai increased its real estate transaction fee to 4 percent last year. See Shukurov, B., "The Real Estate Market and EXPO 2020 in U.A.E.: Avoiding Bubbles and Macro-Instability", Selected Issues Paper for the 2014 U.A.E. Article IV Consultation, June 2014, for additional cross-country examples of structuring real estate transaction fees.

[7] Currently employed macro-prudential measures include LTV and DSTI ratios, and limits on real estate exposures, lending concentration, FX lending, and open FX positions.

C. Maintaining Financial Stability

22. Staff emphasized that, while banks remain well capitalized and liquid, emerging risks and vulnerabilities need to be carefully monitored. Stress tests by the QCB show resilience to many plausible shocks due to high capital and liquidity buffers and the central bank's facilities. Despite broadly stable credit growth overall, potential emerging risks include falling liquidity due to the oil price drop and rapidly-growing credit to selected sectors and abroad, reflecting the domestic competitive landscape (Figure 4). Policymakers should continue to closely monitor lending standards, concentration risks, and cross-border transactions of banks:

Top GCC Banks: Gross Credit Exposures by Sector, End–2013
(Percent of gross credit exposures)



Source: Banks' 2013 annual reports, Pillar III disclosures, and IMF staff calculations.

- Credit provision to construction contractors, services, trade, and consumers grows quickly due to the large public investment program and associated population growth. This trend could over time lead to greater accumulation of non-performing loans.
- Although the banking system as a whole appears cushioned from real estate sector volatility, developments at weaker banks should be closely monitored.
- The largest Qatari banks have been boosting their presence in Middle Eastern and African countries, some of which face a difficult macroeconomic and geopolitical environment. This regional expansion could stretch banks' risk management capacity.[8] On the liability side, reliance on external funding could increase since low oil prices will largely eliminate the current account surplus.

23. Staff noted that, if low oil prices reduce financial sector liquidity, policymakers should take timely measures. Options include reallocating deposits of government-owned companies and the QIA from abroad and adjusting the size of T-bill and T-bond auctions. The authorities noted that sizeable capital, liquidity, and policy buffers would provide ample protection in case the risks materialize. They also noted the close coordination between the Qatar Central Bank and the Ministry of Finance in managing liquidity in the banking system.

24. The authorities highlighted that the financial sector regulatory agenda continues to move ahead. Progress is being made in implementing the Strategy Plan for

[8] The Qatar Central Bank is monitoring foreign lending, including country and currency exposures. There are ceilings on non-GCC exposures according to country riskiness.

Financial Sector Regulation and finalizing the Basel III agenda through the planned introduction of the net stable funding ratio, capital surcharges for the domestic systemically-important banks, and countercyclical buffers from 2016 (see Update on Basel III Implementation in Annex V). The banks are in the process of upgrading their risk assessment and management practices, and the Qatar Central Bank monitors loan-level details carefully. The Financial Stability and Risk Committee has started its work, including on developing the risk-based analysis of the financial system and assessing the impact of new policies and legislation. Staff welcomed this significant progress, while noting that the authorities should continue strengthening their framework for anti-money laundering and combating terrorism financing (AML/CFT). The authorities expressed interest in receiving further technical assistance in this area. Staff also appreciated the plans to establish an AML/CFT regional training center in Doha.

D. Pursuing Economic Diversification, Inclusive Growth, and Improving Statistics

25. Staff suggested that the prospects for persistently low oil prices and slowing medium-term growth call for intensification of diversification efforts. Staff analysis found that, while Qatar's overall growth rates have been high over the past 25 years, this was largely driven by labor and capital accumulation as opposed to productivity gains (Box 3 and accompanying *Selected Issues Paper*). Qatar scores favorably on business environment indicators in the GCC region, but there is scope for improvement relative to non-GCC peers (Figure 5). The authorities indicated that recent measures to improve the business environment and promote diversification include higher foreign ownership limits for companies listed on the stock exchange, a merger of the Qatar Development Bank and Enterprise Qatar to better support SMEs, a further expansion of e-government, and additional financial deepening through issuance of long-term T-bonds. In staff's view, further progress can be made to simplify business registration, improve enforcement of contracts, and enhance the quality of education, while aligning it with labor market needs. Privatization would also help stimulate private sector activity.

26. Staff noted that further progress can also be made in fostering the inclusiveness of growth. Boosting incentives of the Qatari citizens to work in the private sector would support diversification of the economy (Figure 6). Greater mobility for expatriates would help increase productivity by facilitating better matches between workers and vacancies, while reducing reputational risks. The authorities highlighted steps taken to address reports of inadequate working conditions of some expatriates. These include better enforcement of existing laws, timely payment of wages, and measures to improve living conditions, such as opening a dedicated Worker's City. Moreover, reforms of the exit visa system and greater flexibility in switching jobs are being considered.

27. Substantial further efforts are necessary to improve the macroeconomic statistics. The authorities started publishing quarterly GDP by expenditure and have finalized the Foreign Investment Survey, which should improve the IIP and BoP statistics. The Ministry of Finance plans to begin compilation of fiscal data according to the GFSM2001 methodology by end-2015. Further important steps are needed to improve the real estate sector statistics, and develop data on household, corporate, and government balance sheets. Collaboration with GCC Stat is reinforcing the authorities' efforts to enhance the national accounts and price statistics.

STAFF APPRAISAL

28. Qatar continues to implement an ambitious diversification strategy through a large public investment program, while retaining its systemic role in the global natural gas market. In support of this effort, the policy framework is being strengthened in a number of areas, including fiscal and financial policies.

29. However, the recent large drop in oil and natural gas prices will lead to a substantial deterioration of the fiscal and external balances, calling for intensification of diversification efforts and some fiscal consolidation in the medium term.

30. Qatar's growth will remain strong this year, but is expected to slow going forward. In the near term, growth will be propelled by the public investment program and a new natural gas field. Non-hydrocarbon growth should stay in double digits. Over the medium term, headline growth is expected to slow down significantly as the public investment program tapers off and the private sector offsets only some of the decline.

31. Consumer price inflation is contained, although real estate prices have grown quickly. CPI inflation has eased in recent months, as rent increases stabilized and tradables inflation fell. In the short run, lower international commodity prices, including for food, and a strong U.S. dollar should reduce headline inflation despite the tight rental market. That said, real estate prices—especially land prices—are increasing particularly fast, and valuations appear on the upper end of a range consistent with fundamentals. Consideration should be given to introducing a differentiated schedule of real estate transaction fees to deter speculators and taking further measures to increase land supply. Imposing rent controls could prove counterproductive. In case of excessive credit growth, further macroprudential measures and liquidity withdrawals should be deployed. If inflation accelerates, policymakers should slow public sector spending.

32. The large drop in oil prices will lead to a substantial deterioration in fiscal and external balances. In sharp contrast to previous years, the budget will be in deficit from 2016 onward and the current account surplus will largely be eliminated. While there is no immediate concern about fiscal sustainability under staff's oil price assumptions, additional spending and revenue measures worth about 5 percent of non-hydrocarbon GDP are warranted over the medium term to secure inter-generational equity in the context of low oil prices.

33. The ongoing budget reforms are welcome and should be deepened further. Significant progress has been made in setting up the macro-fiscal unit and public investment department, and current expenditure growth has been restrained. The oil price slump highlights the need for specifying a clear medium-term fiscal framework, including contingency plans. The strategy document currently prepared by the Ministry of Finance should formulate binding medium-term fiscal objectives and communicate expectations about the future trajectory of budget expenditures and taxation. Annual budgeting process should be aligned with this new medium-term framework so that spending overruns are eliminated. Further improvement in the transparency of fiscal accounts would facilitate a more accurate assessment of the Qatar's fiscal position in the context of low oil prices.

34. Banks remain sound and the financial sector regulatory agenda is moving forward, but emerging risks and vulnerabilities need to be carefully monitored. Despite broadly stable credit growth overall, potential emerging risks include the risk of falling liquidity due to the oil price drop, and rapidly-growing credit to selected sectors and across the border. Although the banking system as a whole appears cushioned from real estate sector volatility, developments at weaker banks need to be closely monitored. Policymakers should continue to closely monitor lending standards, concentration risks, and cross-border transactions of banks. If low oil prices reduce financial sector liquidity, policymakers should take timely measures. The continued progress in implementing Basel III and related regulations is welcome. Further advances are needed in enhancing the early warning system, including improving availability of the real estate market statistics and developing data on household, corporate, and government balance sheets.

35. The prospects of persistently low oil prices and slowing medium-term growth call for intensification of diversification efforts. There is scope for further improving the business environment and promoting diversification, including by simplifying business registration, improving enforcement of contracts, and enhancing the quality of educational curricula. Privatization would also help stimulate private sector activity. Growth would be made more inclusive through labor market reforms.

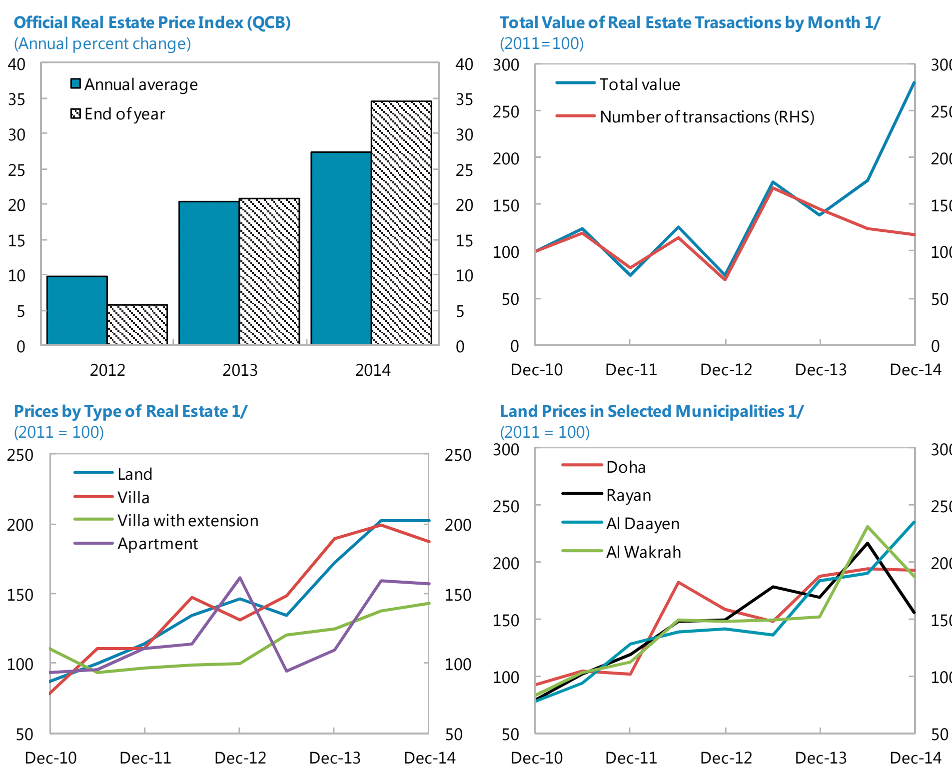
36. The fixed exchange rate regime remains appropriate for Qatar. The peg to the U.S. dollar has served Qatar well in periods of both high and low oil prices by anchoring prices of tradables and providing stability to income flows and financial wealth. An assessment of the exchange rate level is complicated by the undiversified structure of Qatar's exports, which are dominated by hydrocarbons, but staff estimates do not find evidence of a current account gap.

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

Box 1. Recent Trends in Qatar Real Estate Prices

Real estate prices accelerated last year, despite the sharp drop in oil prices. According to the QCB data, price growth gathered speed especially in the second half of 2014, with the December real estate values up by 35 percent year-on-year. Staff calculations based on transaction-level data from the Ministry of Justice point to the following broad trends:

- While the total number of real estate transactions has decreased from the 2013 peak, the total value of real estate transactions has dramatically increased, reflecting higher average prices and compositional changes.
- Land prices appear to have increased at the fastest pace, followed by villas where land is typically the most important cost component. Price increases have been slower for apartments and villas with extension (e.g., a guest house).
- While the Doha market experienced intermittent price hikes, price growth was recently strongest outside of Doha, given development projects and urbanization. For example, prices in Al Wakrah, a previously underdeveloped neighbor to Doha, have notably risen over the past year in light of its proximity to the new Hamad International Airport and the planned Doha Expressway route. Al Daayen has similarly experienced rapid price growth, due in part to its proximity to Lusail City and various 2022 World Cup projects.



Sources: Qatar Central Bank (first chart); and IMF staff calculations based on Qatar Ministry of Justice data (second, third, and fourth charts).
1/ IMF staff estimates based on Ministry of Justice data. Only June and December data for each year are reported. Data are not weighted, smoothed, or seasonally adjusted.

Box 2. Strengthening Fiscal Policy and Fiscal Frameworks in Qatar

Given low oil prices, measures to contain expenditures and increase revenues are needed to save sufficient financial resources for future generations. As detailed below, policymakers have a number of options to consider. Reforms should be accompanied by a communication strategy and targeted mitigating measures to reduce implementation risks.

- *Revenue options:* (i) broadening the corporate income tax base, as the current CIT does not apply to domestic and GCC investors in the non-hydrocarbon sector; and (ii) introducing a low-rate VAT (e.g. at 5 percent) that would raise new revenues efficiently, while helping to strengthen tax administration.

- *Expenditure options:* (i) freezing administrative expenses; and (ii) reducing subsidies, while protecting those in need. Prioritization of investment projects is also essential.

Illustrative Menu of Options for Fiscal Adjustment

	Estimated gains 1/	Comments
Revenues	3.5	
CIT	2.0	Applying the CIT of 10 percent to Qatari and GCC companies
VAT	1.5	Introducing a 5 percent VAT
Expenditures	4.5	
Administrative expenses	3.5	Freezing administrative expenses between 2016-2020
Water and electricity subsidies	1.0	Removal of water and electricity subsidies

1/ In percent of non-hydrocarbon GDP.
Source: Staff estimates.

Strong frameworks need to be in place to support fiscal reforms. The following sequencing of steps to strengthen medium-term budgeting could be considered in Qatar:

- *First phase (to be completed by mid-2015):* (i) formulate a medium-term fiscal framework (MTFF); and (ii) prepare a medium-term fiscal strategy document that would serve as the basis for annual budget preparation, translating the MTFF into a statement on fiscal policy priorities. The authorities are on track to complete this phase on time.

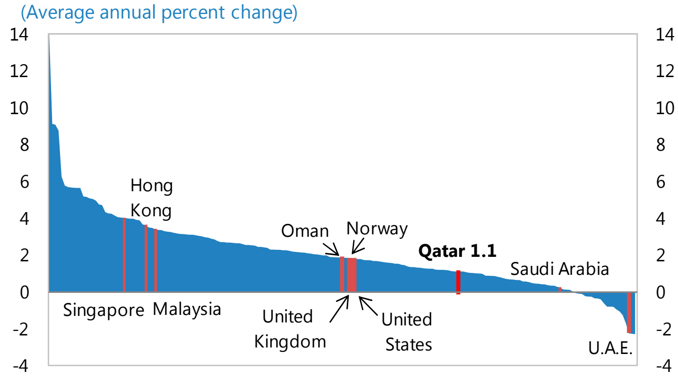
- *Second phase (to be completed by end-2016):* (i) prepare the medium-term budget framework (MTBF) by matching the MTFF with a bottom-up estimation of the costs of existing policy; (ii) integrate the MTBF in the annual budget process.

- *Third phase (to be completed by end-2017):* (i) gradually turn the MTBF into a performance-based medium-term expenditure framework (MTEF) by linking budget funding to results (i.e. shifting the focus from controlling inputs to controlling outcomes and allocating resources according to the results achieved by programs); (ii) continue developing competency in policy analysis and performance management in sectoral ministries and agencies.

Box 3. Lessons from Qatar's Growth Experience

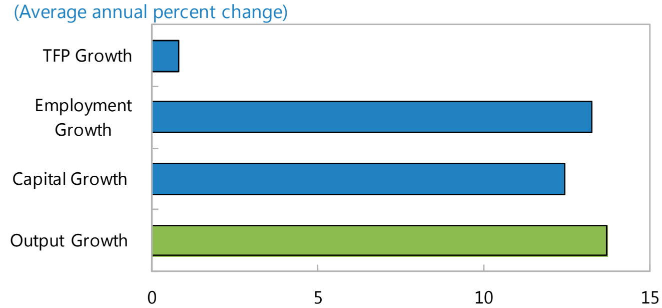
Qatar's growth has been consistently high, but not in per capita terms. Qatar is one of only 14 countries that, on average, have recorded annual real GDP growth of above 7 percent over a period of at least 25 years. However, with annual population growth of almost 7 percent, per capita GDP grew by a mere 1 percent annually over the same period, placing Qatar in the lowest third of all countries world-wide.

Real per Capita GDP in 189 Countries, 1984–2013
(Average annual percent change)



Sources: World Development Indicators, World Bank; and IMF staff calculations.

Contributions to Non-Hydrocarbon GDP Growth between 2006/7 and 2013[1]
(Average annual percent change)



Sources: Country authorities; and IMF staff calculations.
[1]2006/7 data refers to average of values in 2006 and 2007.

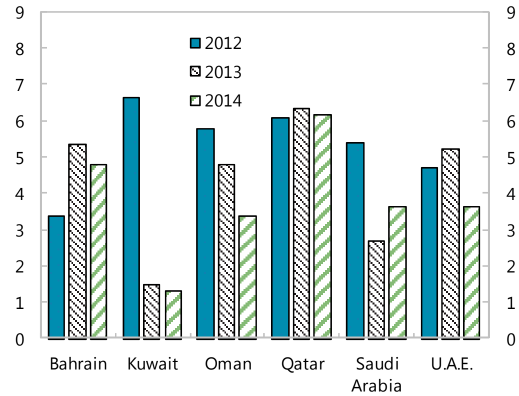
Growth has been attained through factor accumulation. High government spending, primarily on infrastructure, has led to a rapid inflow of workers, especially by construction firms. In parallel, the real estate market and other economic sectors have boomed in response to the rapid rise in immigration. Since 2006/7, labor and capital have each grown by about 13 percent annually, but output has risen at a similar pace. Thus, while higher spending on capital accumulation has raised GDP, the productivity effects have not yet materialized, and total factor productivity growth remains close to zero. For the non-hydrocarbon economy, the estimated growth was barely positive, while alternative calculations (see accompanying *Selected Issues Paper*) yield negative TFP growth.

Productivity would be improved by strengthening oversight of public investment projects and further lifting barriers to private sector development. As government investment will remain significant in the near future, improving capital productivity will be essential and should focus on strengthening public investment management. Qatar has launched important reforms by establishing a new public investment management department at the Ministry of Finance. The critical tasks of this department should include (a) obtaining objective information to better estimate the returns of the public investments, and (b) ensuring that expenditure decisions react to this information properly. Labor productivity will also be enhanced through improvements in the quality of education and training as well as by liberalizing the domestic mobility of the workforce and removing other regulatory constraints on the private sector development.

Figure 1. Recent Economic Developments

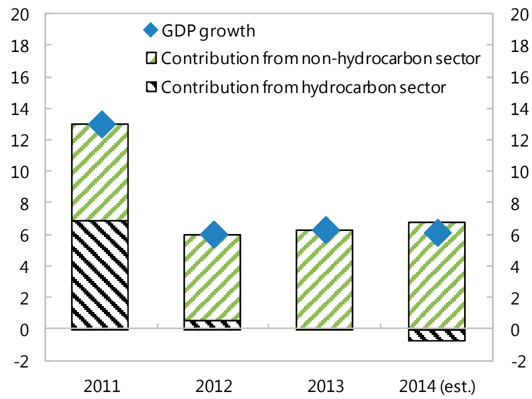
Qatar's GDP growth was the highest in the GCC region in 2014...

GCC Real GDP Growth, 2012–14
(Percent)



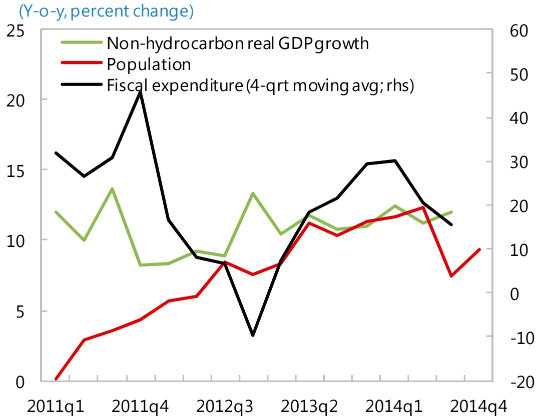
...driven by the non-hydrocarbon sector. Hydrocarbon output is steady given the investment moratorium.

Real GDP Growth, 2011–14
(Percent)



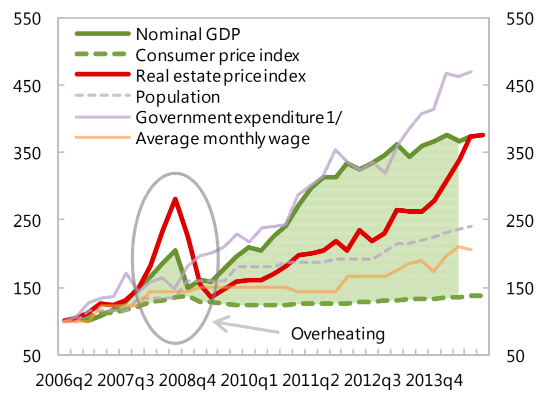
Strong non-hydrocarbon GDP growth is powered by public spending and population growth...

Growth, Fiscal Expenditure, and Population, 2011-14
(Y-o-y, percent change)



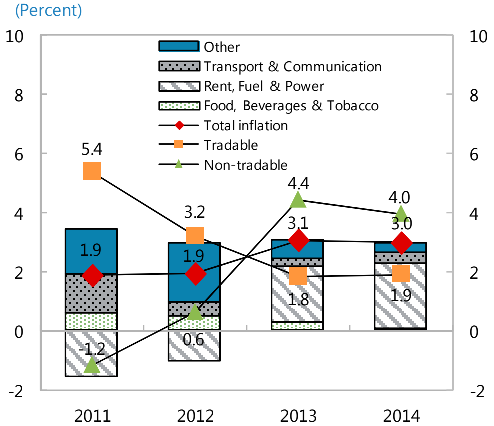
... which have contributed to rising real estate prices, and...

Real Estate Prices, 2006–14
(Index, 2006q2=100)



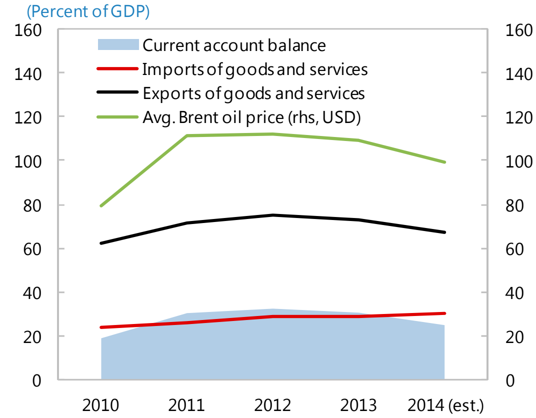
.... pressures in the rental market. Falling commodity prices have contained tradable inflation.

Contributions to CPI Inflation, 2011–14
(Percent)



Lower oil prices have started to trim the current account surplus.

Current Account Balance, 2010–2014
(Percent of GDP)

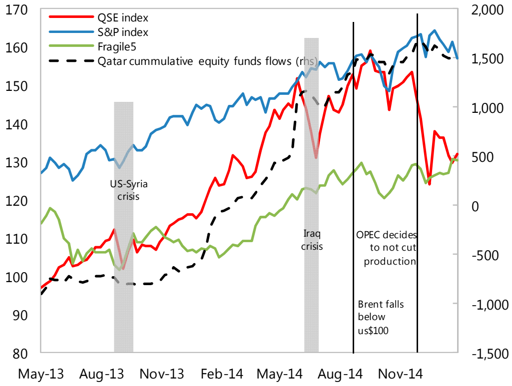


Sources: Country authorities; Bloomberg; and IMF staff calculations.
1/ Four-quarter moving average.

Figure 2. Spillovers from Global Events

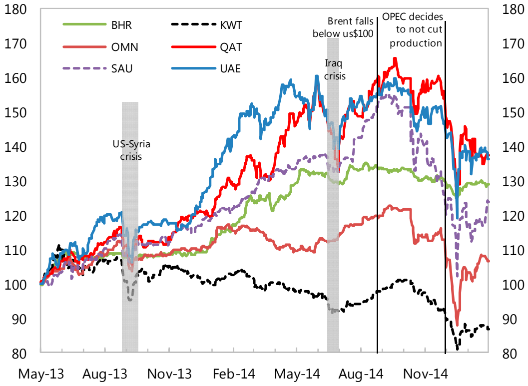
The Qatar stock market has corrected following the recent drop in oil prices…

Fund Flows and Stock Markets, May 2013- January 2015
(January 2011=0, in US$ millions; RHS January 2011=100)



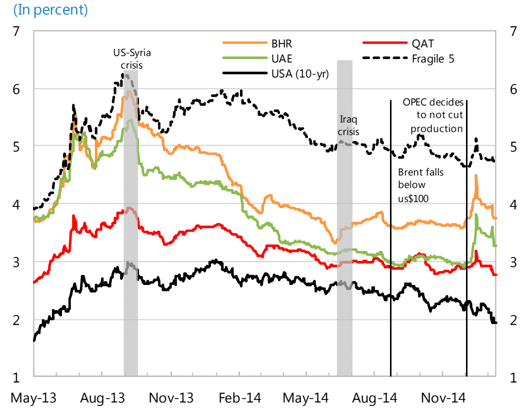
… but remains one of the best performing in the GCC region.

Stock Market Indices, May 2013 - January 2015
(Index, May 1, 2013 =100)



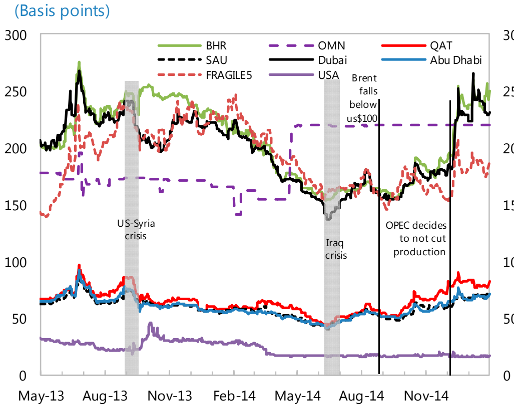
The long-term sovereign bond yield has remained broadly unchanged …

International Bond Yields, May 2013- Jan 2015
(In percent)



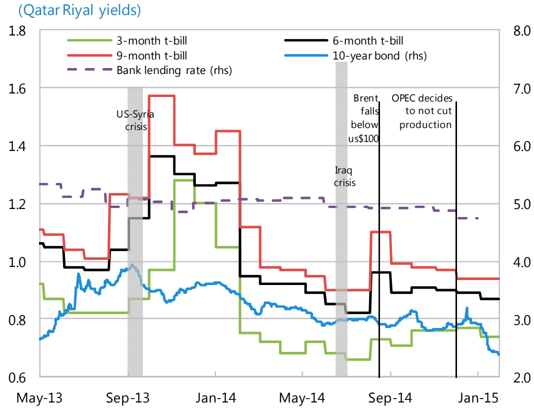
… with CDS spreads picking up modestly.

CDS Spreads, May 2013 - Jan 2015
(Basis points)



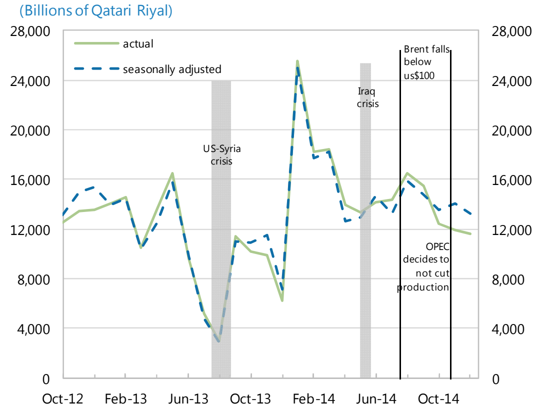
The domestic financial market is stable …

T-bill Auction Rates, May 2013 - Jan 2015
(Qatar Riyal yields)



… amid steady liquidity conditions so far.

Bank Sector Liquidity, Nov 2012 - Dec 2014 1/
(Billions of Qatari Riyal)

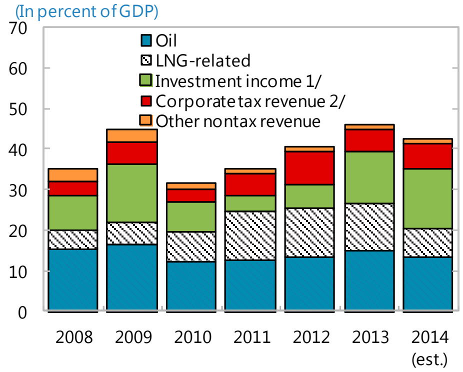


Sources: Bloomberg; Haver Analytics; and IMF staff calculations.
1/ Excess reserves and deposits in QMR facility at the Qatar Central Bank.

Figure 3. Fiscal Developments

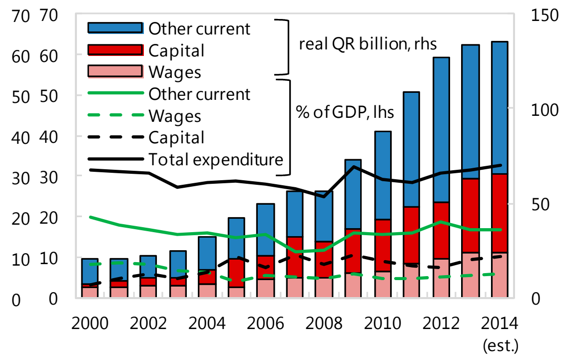
High hydrocarbon prices boosted revenues in recent years

Central Government Revenues
(In percent of GDP)



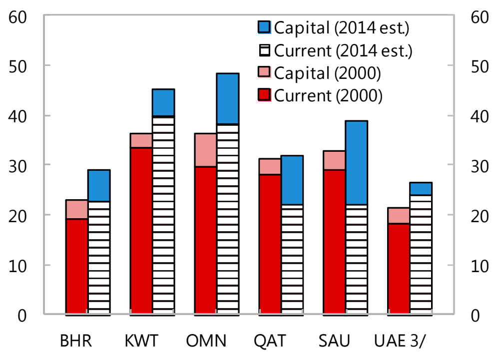
Government expenditures increased several-fold, but remained broadly unchanged as a share of GDP

Central Government Expenditure



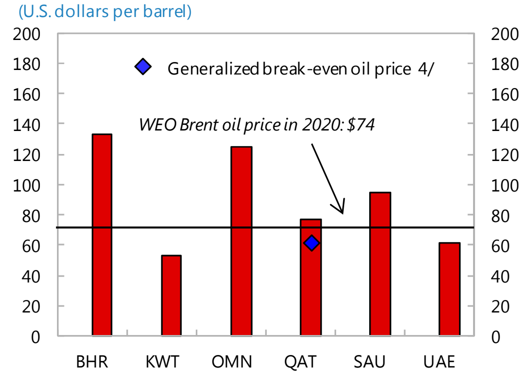
Similarly to other GCC countries, the authorities have increased capital spending

Government Expenditure, 2000 and 2014
(Percent of GDP)



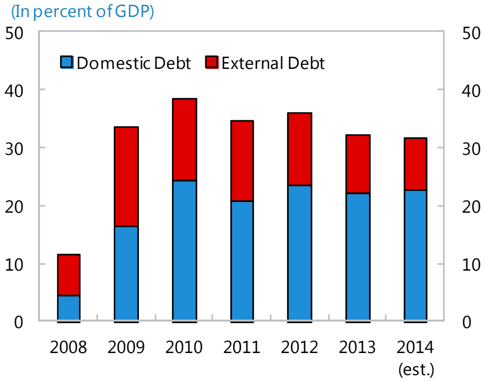
Qatar will accumulate financial assets in the medium term despite the rising budget breakeven prices

Fiscal Break-even Oil Prices, 2020
(U.S. dollars per barrel)



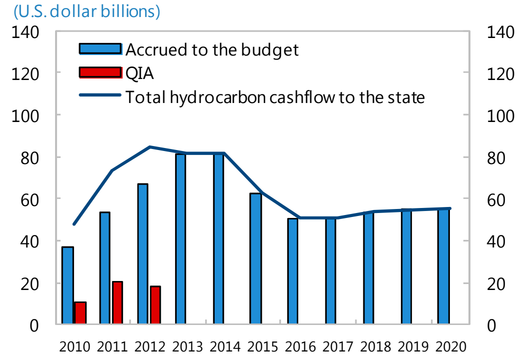
Despite large surpluses, the government has been issuing debt to help develop capital markets

Central Government Debt
(In percent of GDP)



Hydrocarbon cashflow to the state has increased substantially in recent years but is projected to decline going forward as oil prices fall

Total Hydrocarbon Cashflow to the State 5/ 6/
(U.S. dollar billions)

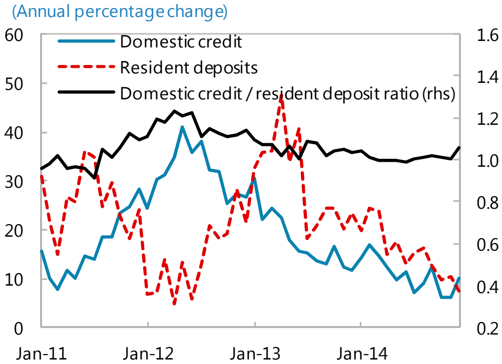


Sources: Country authorities; and Fund staff estimates.
1/ Dividends paid by Qatar Petroleum and other state-owned enterprises.
2/ About 85 percent of corporate income tax comes from Qatar Petroleum.
3/ Part of UAE capital spending is reflected in loans and equity in the official statistics, and thus is not included in this chart.
4/ Fiscal break-even oil price that keeps financial net worth of general government stable (based on staff estimates of hydrocarbon revenues and QIA investment income) equals $68 in 2020 (staff estimates).
5/ Cashflow to QIA is staff's estimate. Starting from 2013, these flows are accrued to the Budget.
6/ 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.

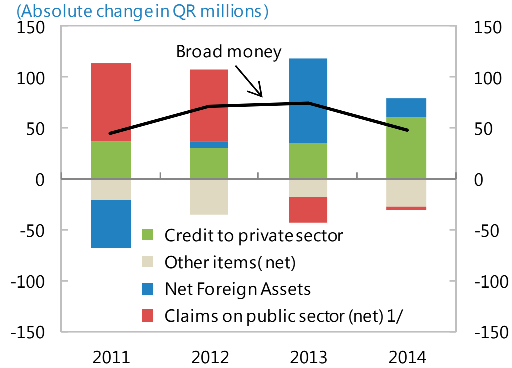
Figure 4. Financial Sector Developments

Slowing overall credit growth reflects reduced public sector borrowing that is partially compensated by lending abroad and to the domestic private sector.

Domestic Credit and Deposit Growth, 2011-14
(Annual percentage change)

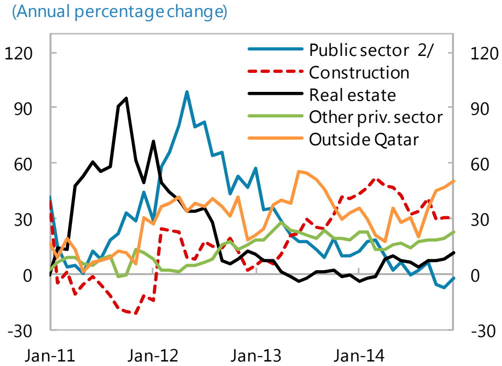


Factors Affecting Changes in Broad Money, 2011-14
(Absolute change in QR millions)

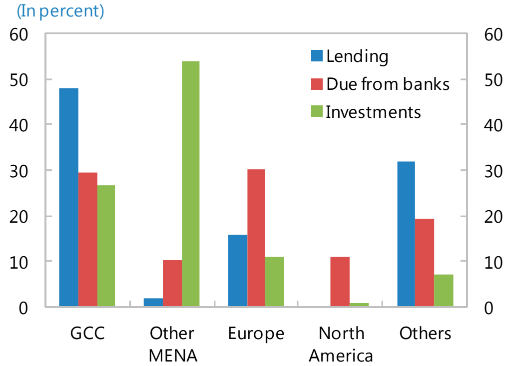


Real estate lending remains muted, while credit extended to construction, services and trade sectors, and across the border has accelerated.

Bank Credit Growth by Sector, 2011-14
(Annual percentage change)

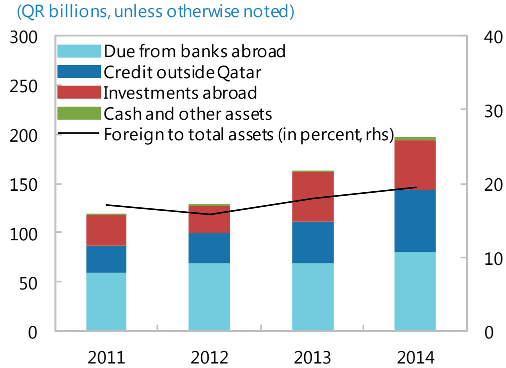


Major Component Distribution of Cross-border Assets, 2013
(In percent)

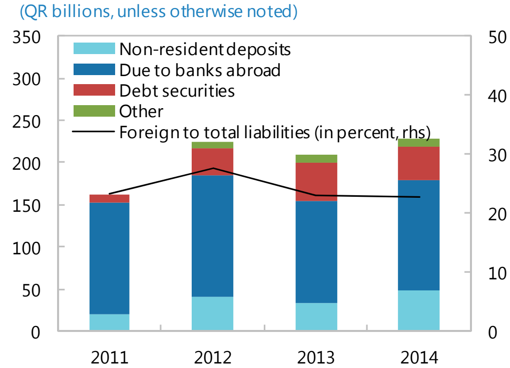


Banks are boosting their overseas presence through acquisitions and loans. Borrowing from abroad has remained broadly stable, but is falling as a share of total liabilities.

Qatari Banks: Foreign Assets Composition, 2011–14
(QR billions, unless otherwise noted)



Qatari Banks: Foreign Liabilities Composition, 2011–14
(QR billions, unless otherwise noted)



Sources: Country authorities; and Qatar Central Bank.

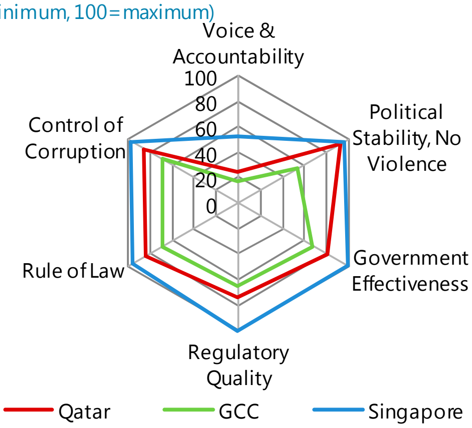
1/ Credit to government, government institutions, and semi-government institutions, as well as government financial securities; net of government deposits.

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

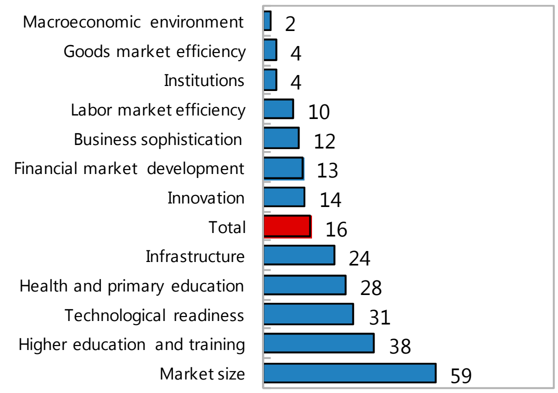
Figure 5. Business Environment and Governance Indicators

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, 2013
(0=minimum, 100=maximum)

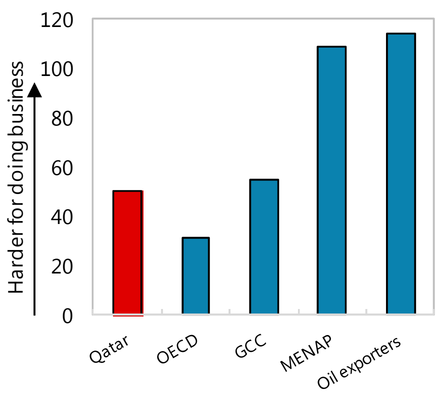


Global Competitiveness Index Ranks by Category, 2014-15
(Rank out of 144)

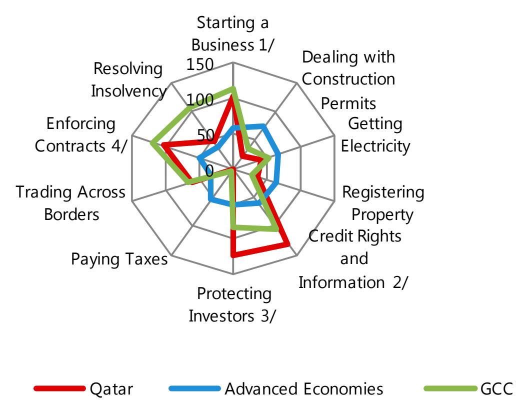


Further progress in easing business start-ups, contract enforcement, and enhancing investor protection would be particularly helpful.

World Bank Doing Business, 2014
(Rank out of 189)



World Bank Doing Business, 2014: Details for Qatar
(Rank out of 189)

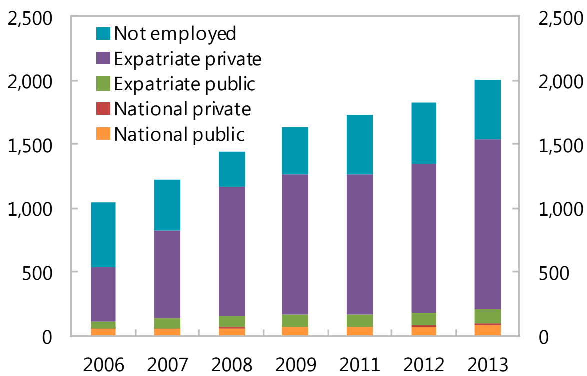


Sources: Global Competitiveness Report (2014–15); World Bank Doing Business Report (2015), World Governance Indicators (2013); and IMF staff estimates.
1/ Starting a business encompasses the procedures, time, and cost (including minimum capital requirement) required for an entrepreneur to start and operate 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 6. Labor Market Indicators

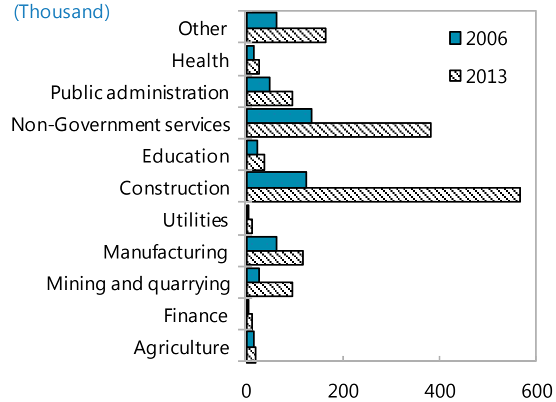
Fast population growth has been driven by inflows of expatriate workers…

Population Distribution, 2006–13
(Thousand)



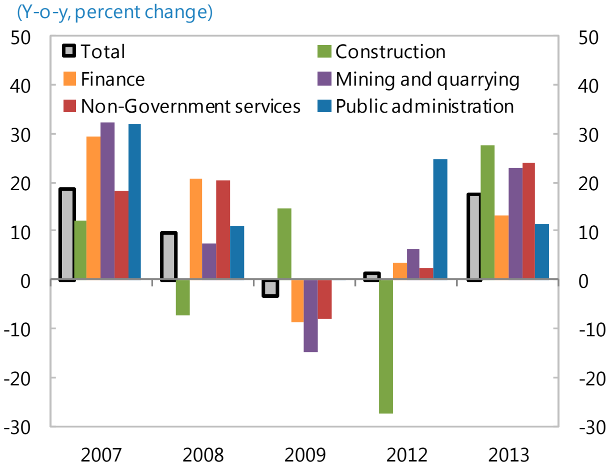
… into construction and other low-productivity sectors.

Workers in Paid Employment, 2006 and 2013
(Thousand)



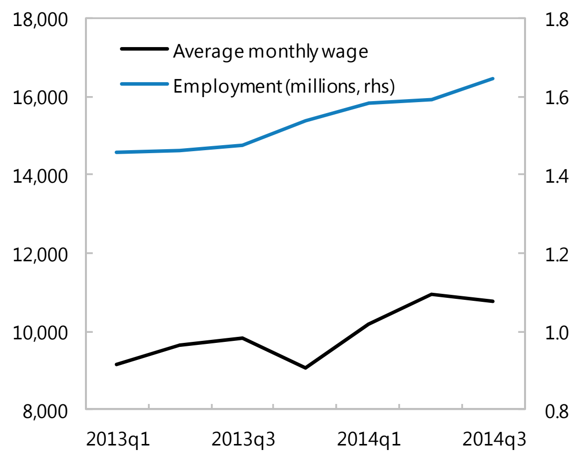
After a hike in public sector pay in 2012, broad-based rises led to an overall acceleration in 2013.

Real Monthly Average Wage, 2007–2013
(Y-o-y, percent change)



Wages and employment have continued to rise in 2014 as the public investment program gathers pace.

Wages and Employment, 2013–14
(Qatar Riyals unless otherwise noted)



Sources: Qatar Statistics Authority's Labor Force Statistics Bulletin, 2013; Haver; and IMF staff calculations.

Table 1. Qatar: Selected Macroeconomic Indicators, 2011-20

	2011	2012	2013	Est. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
Real economy (change in percent unless otherwise noted)										
Nominal GDP (billions of Qatari Riyals)	618.1	692.7	739.8	764.4	696.3	717.3	795.0	859.8	916.1	968.6
Nominal hydrocarbon GDP (billions of Qatari Riyals)	359.2	394.5	402.3	378.5	262.1	234.3	259.0	275.0	282.7	289.0
Nominal nonhydrocarbon GDP (share of overall GDP, percent)	41.9	43.0	45.6	50.5	62.4	67.3	67.4	68.0	69.1	70.2
Real GDP	13.0	6.0	6.3	6.1	7.1	6.4	5.6	4.5	4.1	3.9
Hydrocarbon 1/	15.6	1.3	0.2	-1.7	1.2	0.9	0.3	-0.2	-0.8	-0.1
Nonhydrocarbon	10.9	10.0	11.0	11.6	10.7	9.5	8.3	6.7	6.3	5.6
Per capita	8.4	-1.4	-4.5	-2.9	-0.8	-0.5	1.1	2.5	3.1	3.9
Deflator	20.1	5.7	0.5	-2.7	-15.0	-3.2	4.9	3.5	2.4	1.7
CPI inflation (average)	1.9	1.9	3.1	3.0	2.0	2.8	2.9	2.7	2.5	2.3
Tradable	5.4	3.2	1.8	1.9	-0.7	1.2	1.7	1.6	1.5	1.4
Non-tradable	-1.2	0.6	4.4	4.0	5.4	4.5	4.0	3.8	3.5	3.1
Hydrocarbon sector										
Exports (billions of U.S. dollars) 1/	110.2	125.8	128.6	118.4	77.8	69.2	75.7	79.3	81.2	82.3
Brent crude oil price (U.S. dollars per barrel)	111.0	112.0	108.8	98.9	52.8	61.6	66.9	70.2	72.3	73.7
Crude oil production (thousands of barrels per day)	744.7	732.1	697.8	670.0	655.0	640.0	625.0	592.6	557.3	529.4
Natural Gas production (millions of tons per year)	89.1	89.8	92.4	92.0	94.0	97.5	98.5	100.1	100.1	101.0
of which LNG	76.5	77.0	78.1	77.8	77.8	77.8	77.8	77.8	77.8	77.8
Central government finances (percent GDP) 2/										
Revenue 3/	35.0	40.4	45.8	42.4	35.9	30.6	28.5	27.9	27.1	26.2
Expenditure	28.5	30.8	31.4	32.7	35.6	34.6	32.5	31.3	30.6	30.1
Current 4/	20.5	23.5	22.2	22.7	24.7	24.2	23.3	22.9	22.8	22.8
Capital	7.9	7.3	9.3	10.1	10.9	10.5	9.3	8.4	7.8	7.3
Central government fiscal balance	6.5	9.5	14.4	9.7	0.3	-4.1	-4.0	-3.3	-3.5	-3.9
Adjusted non-hydrocarbon primary balance (pct of non-hydrocarbon GDP) 5/	-56.6	-58.3	-56.7	-51.5	-46.4	-42.1	-39.0	-36.8	-35.2	-33.5
Estimated general government balance 6/	10.2	14.2	20.5	14.6	4.1	-0.3	-0.7	-0.3	-0.6	-1.2
Central government debt, gross	34.5	36.0	32.1	31.7	29.8	27.0	23.0	18.3	15.2	12.9
Monetary and financial sector (change in percent)										
Broad money	17.1	22.9	19.6	10.6	10.4	8.5	8.3	6.5	5.8	4.9
Domestic claims on public sector 7/	79.3	30.3	10.2	-8.1	0.4	0.8	1.1	0.3	0.1	1.4
Domestic credit to private sector 8/	19.2	13.5	13.5	20.3	12.5	11.2	11.0	9.1	8.3	7.3
3-month T-bill rate (Qatar Riyal, percent, eop)	…	0.9	1.2	0.8	…	…	…	…	…	…
CDS (bps, eop)	130.2	77.8	65.3	83.2	…	…	…	…	…	…
External sector (billions of U.S. dollars unless otherwise noted)										
Exports	114.3	133.0	136.9	128.8	85.2	77.3	84.2	88.0	90.1	91.3
Imports	-26.9	-30.8	-31.5	-32.4	-32.7	-34.1	-35.6	-37.1	-38.3	-39.6
Current account balance	52.0	62.0	62.6	52.8	10.0	1.4	5.2	6.1	5.9	5.5
in percent GDP	30.6	32.6	30.8	25.1	5.2	0.7	2.4	2.6	2.3	2.0
External debt (percent GDP)	76.9	84.8	80.4	79.5	80.6	79.9	77.1	75.0	74.5	74.2
Official reserves 9/	16.4	32.8	41.8	42.9	43.4	43.5	46.2	47.8	50.7	52.3
Social indicators										
Per capita GDP (2014): $93,044;										
Life expectancy at birth (2011): 77.4 (male), 79.2 (female); Population (2014): 2.23 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)	-5.0	3.0	2.5	2.2	…	…	…	…	…	…
Credit rating (Moody's investor services)	Aa2	Aa2	Aa2	Aa2	…	…	…	…	…	…
Population growth (percent)	4.3	7.5	11.4	9.3	8.0	7.0	4.5	2.0	1.0	0.0

Sources: Qatari authorities; and IMF staff estimates.
1/ Includes crude oil, natural gas, propane, butane, and condensates.
2/ GFSM 1986; fiscal year begins in April; the upcoming change to the timing of the fiscal year from 2016 is not reflected.
(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, 2011-20

(Billions of U.S. dollars unless otherwise noted)

	2011	2012	2013	Est. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
Current account	52.0	62.0	62.6	52.8	10.0	1.4	5.2	6.1	5.9	5.5
In percent of GDP	30.6	32.6	30.8	25.1	5.2	0.7	2.4	2.6	2.3	2.0
Trade balance	87.4	102.2	105.5	96.5	52.5	43.2	48.6	51.0	51.8	51.8
Exports	114.3	133.0	136.9	128.8	85.2	77.3	84.2	88.0	90.1	91.3
Hydrocarbon	110.2	125.8	128.6	118.4	77.8	69.2	75.7	79.3	81.2	82.3
Crude oil	25.0	26.1	24.7	21.6	11.3	12.8	13.6	13.6	13.1	12.7
LNG	42.4	52.3	56.9	55.4	44.7	31.6	35.3	37.8	39.4	40.4
Propane, butane	8.3	8.7	8.5	7.7	4.1	4.8	5.2	5.5	5.6	5.7
Condensates	25.9	27.1	26.5	22.8	11.5	12.2	13.2	13.7	14.0	14.3
Refined petroleum products	8.6	11.6	11.9	10.8	6.2	7.7	8.4	8.8	9.0	9.2
Non-hydrocarbon	4.1	7.2	8.3	10.5	7.4	8.1	8.5	8.8	8.9	9.0
Petrochemicals	3.7	4.9	5.5	5.0	2.7	3.2	3.5	3.7	3.7	3.8
Others	0.4	2.3	2.8	5.5	4.7	4.9	5.0	5.1	5.1	5.2
Imports	-26.9	-30.8	-31.5	-32.4	-32.7	-34.1	-35.6	-37.1	-38.3	-39.6
Services (net)	-9.5	-14.0	-16.3	-18.0	-17.3	-16.3	-16.4	-15.9	-15.0	-13.7
Income (net)	-13.3	-12.1	-11.3	-8.5	-6.1	-4.5	-3.9	-4.0	-3.9	-3.8
Receipts	6.2	6.5	6.4	9.0	7.9	8.7	9.0	9.9	10.9	12.0
Payments	-19.4	-18.6	-17.7	-17.5	-14.0	-13.1	-12.9	-13.9	-14.9	-15.8
Transfers (net)	-12.7	-14.1	-15.2	-17.2	-19.1	-21.0	-23.1	-25.0	-26.9	-28.8
Of which: workers remittances	-10.3	-10.3	-11.1	-12.8	-14.4	-16.0	-17.8	-19.4	-21.0	-22.6
Capital account	-3.6	-6.1	-4.8	-5.5	-6.2	-6.8	-7.2	-7.3	-7.4	-7.3
Financial account	-59.0	-38.3	-49.7	-48.5	-3.3	5.5	4.7	2.9	4.3	3.4
Direct Investment, net	-6.1	-1.5	-8.9	-6.0	-5.9	-5.7	-5.9	-6.2	-6.9	-7.6
Portfolio borrowing, net	-18.9	2.8	-14.3	-12.3	-2.8	-2.5	-2.8	-3.1	-3.4	-3.7
Assets	-17.2	-7.6	-16.4	-10.4	-1.3	-1.2	-1.3	-1.4	-1.5	-1.7
Liabilities	-1.8	10.4	2.1	-1.9	-1.5	-1.4	-1.5	-1.7	-1.8	-2.0
Other investment (net)	-35.5	-38.0	-23.3	-38.7	-1.2	9.2	10.9	9.1	11.0	10.3
Assets	-41.3	-36.9	-13.4	-37.2	-0.9	5.5	7.5	6.5	6.3	4.3
Liabilities	5.8	-1.1	-9.9	-1.5	-0.3	3.7	3.4	2.6	4.8	6.0
Commercial banks, net	0.0	0.0	-4.0	8.8	5.0	3.0	1.0	1.5	2.0	3.0
Other capital, net	1.6	-1.5	0.7	2.0	1.5	1.5	1.5	1.5	1.5	1.5
Errors and omissions	-3.7	-1.6	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-14.3	16.1	9.1	1.1	0.5	0.0	2.7	1.6	2.8	1.6
Change in QCB net foreign assets	14.3	-16.1	-9.1	-1.1	-0.5	0.0	-2.7	-1.6	-2.8	-1.6
Memorandum items										
Nominal GDP	169.8	190.3	203.2	210.0	191.3	197.0	218.4	236.2	251.7	266.1
Central bank reserves, net	16.4	32.8	41.8	42.9	43.4	43.5	46.2	47.8	50.7	52.3
In months of next year's imports of goods and services	3.6	6.7	7.9	8.1	7.9	7.5	7.6	7.6	7.8	7.5
Volume of exports (percent change)	-4.7	5.6	2.5	-1.0	-0.3	-0.8	-0.3	-0.9	-0.8	-0.5
Volume of imports (percent change)	19.4	15.3	4.2	4.4	4.1	4.3	4.0	3.6	2.9	2.8

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

Table 3a. Qatar: Summary of Central Government Finance, 2011/12-2016/17 1/

(Billions of Qatar Riyals unless otherwise noted)

	2011/12	2012/13	2013/14	Proj. 2014/15	Proj. 2015/16	Proj. 2015 1/	Proj. 2016/17	Proj. 2016 1/
Revenue 2/	222.6	284.3	341.4	317.1	252.0	189.0	225.3	232.0
Oil	79.0	92.4	109.2	97.9	62.3	46.7	71.5	69.2
LNG-related	76.3	85.2	86.1	51.3	37.0	27.8	32.2	33.4
Investment income from public enterprises	25.8	41.8	98.1	111.9	99.3	74.4	74.8	80.9
Corporate tax revenue	32.9	55.5	39.1	46.7	43.4	32.5	35.9	37.8
Other nontax revenue	8.7	9.4	9.0	9.3	10.0	7.5	10.9	10.7
Expenditure	181.4	217.0	234.3	244.8	249.9	187.4	255.2	253.9
Expense	130.8	165.5	165.3	169.4	173.6	130.2	178.0	176.9
Compensation of employees	29.7	34.8	41.8	43.5	44.4	33.3	45.7	45.4
Goods and services	20.2	17.3	14.6	15.4	16.1	12.1	17.0	16.8
Interest payments	9.9	9.8	7.5	7.4	6.5	4.9	6.2	6.3
Foreign grants	3.4	3.8	7.1	7.1	7.1	5.3	7.1	7.1
Other expense 3/	67.7	99.8	94.2	96.0	99.5	74.6	102.1	101.4
Net acquisition of nonfinancial assets	50.6	51.6	69.0	75.4	76.3	57.2	77.2	77.0
Gross operating balance	91.8	118.8	176.2	147.7	78.4	58.8	47.3	55.0
Net lending (+)/borrowing (-)	41.2	67.3	107.2	72.4	2.1	1.6	-29.9	-21.9
Nonhydrocarbon fiscal balance	-114.0	-110.3	-88.1	-76.8	-97.2	-72.9	-133.6	-124.5
Adjusted nonhydrocarbon primary fiscal balance 4/	-152.0	-179.7	-198.2	-205.1	-207.2	-155.4	-208.8	-208.4
Total government debt	219.8	253.3	239.6	237.0	209.3	209.3	199.3	201.8
o/w total net debt 5/	171.1	193.4	130.3	140.4	134.4	134.4	128.6	130.0
o/w external debt	87.8	87.0	74.3	67.0	54.3	54.3	54.3	54.3
o/w domestic debt	132.1	166.3	165.3	170.0	155.0	155.0	145.0	147.5
o/w net domestic debt 5/	83.3	106.5	56.0	73.4	80.1	80.1	74.3	75.7
External debt service/total revenue (percent)	1.3	6.7	4.7	3.0	5.8	5.8	0.8	2.0
Memorandum items								
Nominal GDP	636.7	704.4	745.9	747.4	701.5	526.1	736.7	727.9
Estimated general government balance 6/	64.8	100.0	152.8	109.4	29.1	21.8	-2.5	5.4
Estimated financial net worth of general government 7/	265.9	415.4	609.9	758.9	780.9	780.9	777.5	778.3

Table 3b. Qatar: Summary of Central Governance Finance, 2011/12-2016/17 1/

(Percent of GDP unless otherwise noted)

	2011/12	2012/13	2013/14	Proj. 2014/15	Proj. 2015/16	Proj. 2015 1/	Proj. 2016/17	Proj. 2016 1/
Revenue 2/	35.0	40.4	45.8	42.4	35.9	26.9	30.6	32.3
Oil	12.4	13.1	14.6	13.1	8.9	6.7	9.7	9.6
LNG-related royalties	12.0	12.1	11.5	6.9	5.3	4.0	4.4	4.7
Investment income from public enterprises	4.1	5.9	13.1	15.0	14.1	10.6	10.2	11.3
Corporate tax revenue	5.2	7.9	5.2	6.3	6.2	4.6	4.9	5.3
Other nontax revenue	1.4	1.3	1.2	1.2	1.4	1.1	1.5	1.5
Expenditure	28.5	30.8	31.4	32.7	35.6	26.7	34.6	35.4
Expense	20.5	23.5	22.2	22.7	24.7	18.6	24.2	24.7
Compensation of employees	4.7	4.9	5.6	5.8	6.3	4.7	6.2	6.3
Goods and services	3.2	2.5	2.0	2.1	2.3	1.7	2.3	2.3
Interest payments	1.6	1.4	1.0	1.0	0.9	0.7	0.8	0.9
Foreign grants	0.5	0.5	1.0	0.9	1.0	0.8	1.0	1.0
Other expense 3/	10.6	14.2	12.6	12.9	14.2	10.6	13.9	14.1
Net acquisition of nonfinancial assets	7.9	7.3	9.3	10.1	10.9	8.2	10.5	10.7
Gross operating balance	14.4	16.9	23.6	19.8	11.2	8.4	6.4	7.7
Net lending (+)/borrowing (-)	6.5	9.5	14.4	9.7	0.3	0.2	-4.1	-3.1
Nonhydrocarbon fiscal balance	-17.9	-15.7	-11.8	-10.3	-13.9	-10.4	-18.1	-17.4
Adjusted nonhydrocarbon primary fiscal balance, in pct of nonhydrocarbon GDP 4/	-56.6	-58.3	-56.7	-51.5	-46.4	-34.8	-42.1	-43.2
Memorandum items:								
Total government debt	34.5	36.0	32.1	31.7	29.8	29.8	27.0	28.1
o/w total net debt 5/	26.9	27.5	17.5	18.8	19.2	19.2	17.5	18.1
o/w external debt	13.8	12.3	10.0	9.0	7.7	7.7	7.4	7.6
o/w domestic debt	20.7	23.6	22.2	22.7	22.1	22.1	19.7	20.6
o/w net domestic debt 5/	13.1	15.1	7.5	9.8	11.4	11.4	10.1	10.6
Estimated general government balance 6/	10.2	14.2	20.5	14.6	4.1	3.1	-0.3	0.8
Estimated financial net worth of general government 7/	41.8	59.0	81.8	101.5	111.3	111.3	105.5	108.5

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

1/ GFSM 2001 based on staff estimates. Fiscal year begins in April; starting from 2016, fiscal year will be 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 income tax from hydrocarbon activities).

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.

Table 4. Qatar: Vulnerability Indicators, 2010-14
(Percent unless otherwise noted)

	2010	2011	2012	2013	Est. 2014
External solvency indicators					
REER (change in percent, 2010=100)	-5.5	-5.0	3.0	2.5	2.2
Total debt (billion US$, including commercial banks)	109.3	130.5	161.3	163.4	166.9
Of which: LNG-related	20.4	22.3	23.1	23.1	23.0
Total debt (percent of GDP)	87.4	76.9	84.8	80.4	79.5
Public sector solvency indicators 1/					
Government gross domestic debt/GDP	24.2	20.7	23.6	22.2	22.7
Government net domestic debt/GDP 2/	19.6	13.1	15.1	7.5	9.8
Government external debt/GDP	14.2	13.8	12.3	10.0	9.0
Interest payments/total revenue	3.7	4.4	3.5	2.2	2.3
External liquidity indicators (billion US$)					
Central bank net reserves	30.8	16.4	32.8	41.8	42.9
In months of imports	8.4	3.6	6.7	7.9	8.1
Commercial banks net foreign assets (US$b)	-13.2	-11.6	-26.4	-12.5	-8.5
Foreign assets (US$b)	25.0	32.8	35.3	44.9	54.0
Foreign liabilities (US$b)	38.3	44.4	61.7	57.3	62.5
Hydrocarbon exports/total exports	95.0	96.4	94.6	93.9	91.9
Financial sector indicators					
Foreign currency deposits/total deposits	11.4	19.6	29.3	31.7	31.7
Net domestic credit (percent change)	18.6	30.4	26.6	12.1	9.5
Private sector credit (percent change)	7.6	19.2	13.5	13.5	20.3
Net domestic credit/GDP	56.6	54.3	61.4	64.4	68.3
Private credit/total assets of banks	33.6	32.8	31.6	32.2	35.1
Market assessment/financial market indicators					
Stock market index (end of period)	8,682	8,779	8,359	10,380	12,286
Moody's investor services 3/	Aa2	Aa2	Aa2	Aa2	Aa2
Standard and Poor's 3/	AA	AA	AA	AA	AA

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

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

Table 5. Qatar: Financial Soundness Indicators, 2009-14

(Percent unless otherwise noted)

	2009	2010	2011	2012	2013	2014 1/
Capital adequacy						
Regulatory Tier 1 capital to risk-weighted assets 2/	15.0	15.0	19.9	18.2	15.3	15.4
Regulatory Tier 1 capital to total assets	11.5	11.1	12.6	12.8	9.2	9.9
Regulatory capital to risk weighted assets 2/	16.1	16.1	20.6	18.9	16.0	15.8
Asset quality						
Nonperforming loans	1.7	2.0	1.7	1.7	1.9	1.7
Bank provisions to nonperforming loans 3/	84.5	85.1	87.2	97.5	96.8	100.2
Bank provisions to total loans	1.4	1.7	1.5	1.7	1.9	1.7
Foreign assets to total assets	18.9	16.1	17.2	15.7	17.9	19.6
Earnings and profitability						
Return on assets	2.6	2.6	2.7	2.4	2.1	2.0
Return on equity	19.3	19.9	18.6	17.7	16.5	14.9
Net Interest to average total assets	2.7	2.9	2.8	2.6	2.5	2.1
Non-interest expenses to gross income	26.5	24.6	28.2	25.4	26.5	27.2
Wages and salaries to other non-interest expenses	30.8	33.5	31.9	48.5	47.6	48.4
Liquidity						
Liquid assets to total assets	36.3	38.5	36.3	38.1	33.6	32.9
Liquid assets to short-term liabilities	47.0	50.7	47.2	58.5	50.9	50.4
Domestic credit-to-resident deposit ratio (commercial banks)	112.0	106.1	109.6	114.3	103.5	106.1
Other						
Private sector loans (in percent total loans)	72.4	67.0	62.8	56.6	57.8	63.3
Foreign currency assets to liabilities	98.7	97.2	114.6	109.1	76.4	84.0

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

1/ Capital adequacy ratios are as of September 2014. Other data are as of November 2014 except for the foreign assets to total assets and the domestic credit to deposits' ratios that correspond to December 2014.

2/ In 2014, Basel III capital adequacy is applied for national banks only. Basel II is applied in earlier years.

3/ In 2014, bank provisions to nonperforming loans include provisions for some performing loans under the special category.

Table 6. Qatar: Monetary Survey, 2011-15

(Billions of Qatari Riyals unless otherwise noted)

	2011	2012	2013	Est. 2014	Proj. 2015
Total					
Net foreign assets	17.6	23.2	106.6	125.3	156.5
Net domestic assets	292.4	357.9	349.1	378.8	400.1
Claims on government (net)	91.0	102.9	60.7	72.8	75.1
Domestic credit	335.9	425.1	476.5	521.8	582.4
Other items (net)	-134.5	-170.1	-188.1	-215.8	-257.4
Broad Money	310.0	381.1	455.7	504.0	556.6
Money	81.8	90.9	105.9	124.3	129.3
Quasi Money	228.1	290.1	349.8	379.8	427.3
Qatar Central Bank					
Net foreign assets	59.7	119.2	152.0	156.1	158.1
Foreign assets	61.1	120.7	153.4	157.5	159.5
Foreign liabilities	1.5	1.4	1.5	1.4	1.4
Claims on commercial banks	5.1	40.3	59.2	55.9	55.9
Net claims on government	-13.9	-17.0	-52.8	-34.6	-34.6
Claims on government	0.0	0.0	0.0	0.0	0.0
Government deposits	13.9	17.0	52.8	34.6	34.6
Reserve Money	31.3	45.6	44.0	54.2	56.8
Currency issued	9.1	11.0	12.3	14.1	12.6
Deposits of local banks	22.2	34.6	31.7	40.1	44.2
Other items (net)	19.5	97.0	114.3	123.2	122.6
Other Depository Corporations					
Net foreign assets	-42.1	-96.1	-45.4	-30.9	-1.6
Foreign assets	119.4	128.5	163.3	196.5	220.1
Foreign liabilities	161.5	224.5	208.7	227.4	221.7
Claims on Central Bank	23.9	37.1	34.5	43.6	48.2
Currency	2.1	2.8	3.1	3.8	4.1
Reserve Deposits	21.8	34.3	31.4	39.9	44.2
Claims on public sector	254.2	331.1	365.0	335.5	336.9
Credit to government	40.8	51.7	56.5	64.7	58.9
Government financial securities	105.0	112.5	125.2	102.0	92.8
Credit to public enterprises	108.4	166.8	183.2	168.8	185.2
Credit to private sector	227.5	258.3	293.3	353.0	397.1
Deposits	343.8	417.3	514.8	553.0	596.8
Private sector	217.9	236.6	284.7	324.8	369.1
Public enterprises	85.1	136.3	161.8	168.9	185.8
Government	40.8	44.4	68.3	59.3	41.9
Liabilities to the central bank	4.9	2.2	4.6	6.7	7.7
Other items, net	114.8	110.9	128.1	141.6	176.2
Memorandum items					
Broad money growth (M2)	17.1	22.9	19.6	10.6	10.4
Velocity (M2 to non-oil GDP)	0.8	0.8	0.7	0.8	0.8
Net foreign assets growth	-72.5	31.9	360.2	17.5	24.9
Net domestic assets growth	45.6	22.4	-2.5	8.5	5.6
Domestic claims on public sector growth	79.3	30.3	10.2	-8.1	0.4
Domestic claims on private sector growth	19.2	13.5	13.5	20.3	12.5
3-month T-bill rate (Qatar Riyal, percent, eop)	…	0.9	1.2	0.8	…
10-year bond yield (USD, percent, eop)	4.0	2.6	3.6	2.9	…
CDS (bps, eop)	130.2	77.8	65.3	83.2	…

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

Annex I. Status of Staff Recommendations Made in the 2014 Article IV Consultation

Remain vigilant about overheating pressures	Consumer price inflation remains subdued and national logistics committee monitors price developments and supply chain bottlenecks. However, real estate price growth accelerated despite the large drop in oil prices.
Improve public investment management	The Ministry of Finance set up a Public Investment Management department; has established a 10-year cap on new investment projects; is reviewing projects' operational expenditures; liaises with a number of stakeholders, including through a recently-established inter-ministerial committee.
Continue fiscal reforms, including strengthening medium-term budgeting	The Ministry of Finance is planning to strengthen its medium-term revenue and expenditure focus by preparing a medium-term strategy document. The authorities contained growth in current spending in FY2013/14; increased transparency of revenue accounting; made the Macro-Fiscal Unit operational; work on GFSM2001 data compilation is in progress.
Implement financial regulatory reforms	The Basel III circular was issued in January 2014; the remaining Basel III agenda will be phased-in from 2016 through introduction of the net stable funding ratio, capital surcharges for the domestic systemically-important banks, and countercyclical buffers. The Financial Stability and Risk Committee is developing the risk-based analysis of the financial system and assessing the impact of new policies and legislation.
Pursue diversification	Recent measures to improve the business environment and promote diversification include higher foreign ownership limits for companies listed on the stock exchange, an integration of the Qatar Development Bank and Enterprise Qatar to support SMEs, further expansion of the e-government, and additional financial deepening through issuance of long-term T-bonds.

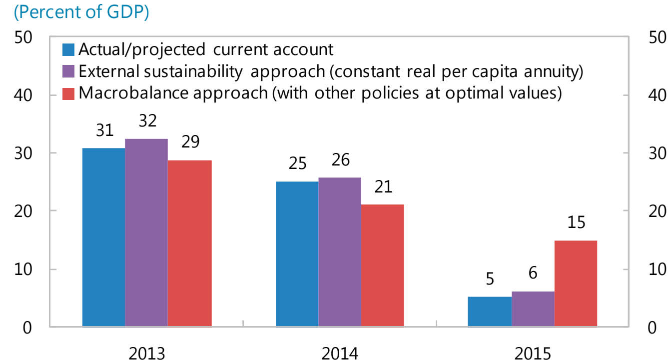
Annex II. External Sector Assessment

According to the external sustainability and macrobalance approaches, the current account balance appears close to fundamentals.

Qatar's exchange rate has recently appreciated in line with the U.S. dollar. The riyal is estimated to have appreciated by 2 percent in real effective terms in 2014, with stronger appreciation during the second half of the year. This is helping to reduce inflationary pressures, while limited import substitution, reliance on hydrocarbon exports priced in dollars, and use of foreign workers paid wages that (analogous to intermediate goods imports) are set internationally limit the scope for the exchange rate to affect trade volumes.

The permanent income model indicates the current account is not misaligned. The permanent income model ("External Sustainability (ES) approach") is the preferred method for Qatar because, rather than reflecting traditional competitiveness issues, a current account gap would reflect suboptimal saving of hydrocarbon revenues. The approach calculates the current account required for the net present value (NPV) of hydrocarbon and investment income to equal the NPV of imports net of non-hydrocarbon exports. For 2014, the current account required to provide a constant real income per capita exceeds the preliminary current account balance estimate by only 1 percent of GDP. The model permits consumption smoothing and thus reduces the required norm in line with projected oil prices in 2015, leaving the gap unchanged (the 2020 gap is also about 1 percent). The gaps are too small to indicate misalignment, but the findings are qualitatively consistent with the need to increase fiscal saving due to intergenerational equity considerations.

Current Account Norms vs. Projection, 2013–15
(Percent of GDP)



Source: IMF staff estimates.

The macrobalance approach also implies the current account balance has broadly been in line with norms. This approach uses regression analysis for a large cross section of countries to predict the equilibrium current account consistent with a range of structural and policy factors, and estimates the impact of changes in these factors on the norm.[1] The model's predicted value for 2014 is 20 percent of GDP based on actual policies. Imposing Qatar's fiscal policy consistent with intergenerational equity raises the norm by almost 2 percent, while also allowing for the 2014 estimates of global policy gaps results in a norm of 21 percent. The norms based on 2015 values do

[1] This approach employs the IMF's External Balance Assessment–Lite (EBA-Lite) model. This model has the advantage of multilateral consistency but does not accurately capture all features of undiversified commodity exporters such as Qatar, despite the inclusion of some hydrocarbon-related variables. When generating the norms, Qatar's exceptionally high income per capita is replaced with non-oil income per capita.

not fall by as much as the ES norms or current account forecasts. This is likely because Qatar's current account is more sensitive to oil price declines than implied by the model's predictions for an average country, and the model thus overestimates the current account gap during an oil price slump.

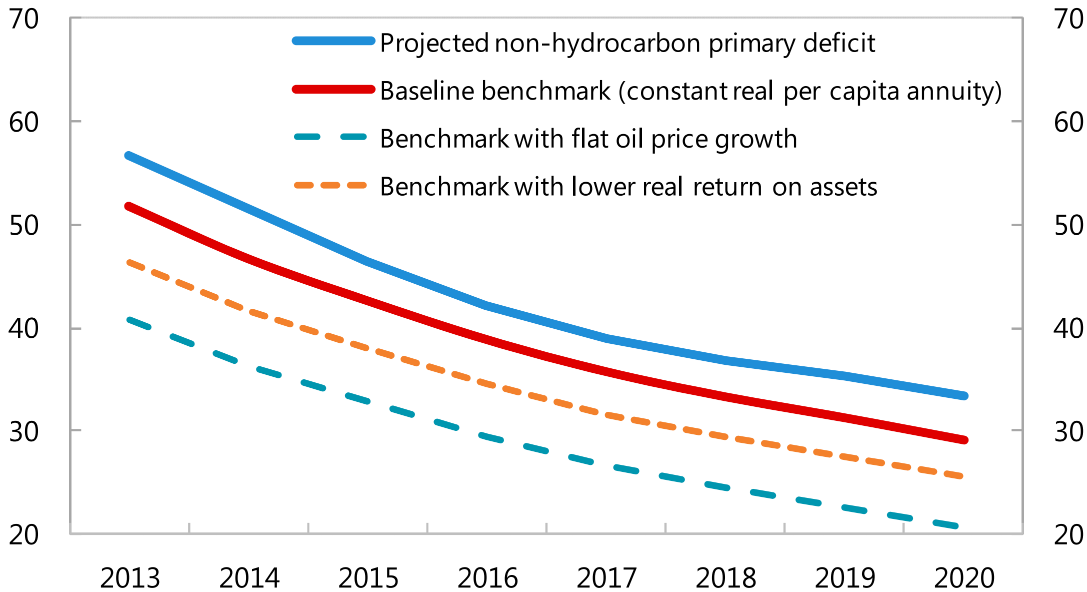
Annex III. Fiscal Position and Permanent Income Hypothesis

Staff analysis based on the permanent income hypothesis suggests that the government does not save sufficiently for future generations. The gap between the projected deficits and the deficits consistent with a constant real per capita annuity is about 5 percent of non-hydrocarbon GDP (see chart).[1] These calculations are based on the following assumptions:

- Projections until 2020 are based on staff's macroframework, including the WEO assumptions about the oil price. After 2020, the baseline scenario assumes flat hydrocarbon production and annual oil price growth of 2 percent, population growth of 0.5 percent (this includes a departure of construction and other workers after the investment projects are completed, followed by population growth of 1 percent), and real return on assets of 4 percent.

- Alternative scenarios assume either constant nominal oil prices or lower real return on assets by 1 percentage point.

Non-hydrocarbon Primary Deficits and PIH-Based Benchmarks, FY2013-20
(In percent of non-hydrocarbon GDP)



Source: IMF staff calculations.

[1] The fiscal deficits are measured by the non-hydrocarbon primary deficits that exclude portions of QP investment income and corporate income tax (from hydrocarbon activities).

Annex IV. Public Sector and External Sustainability Analyses

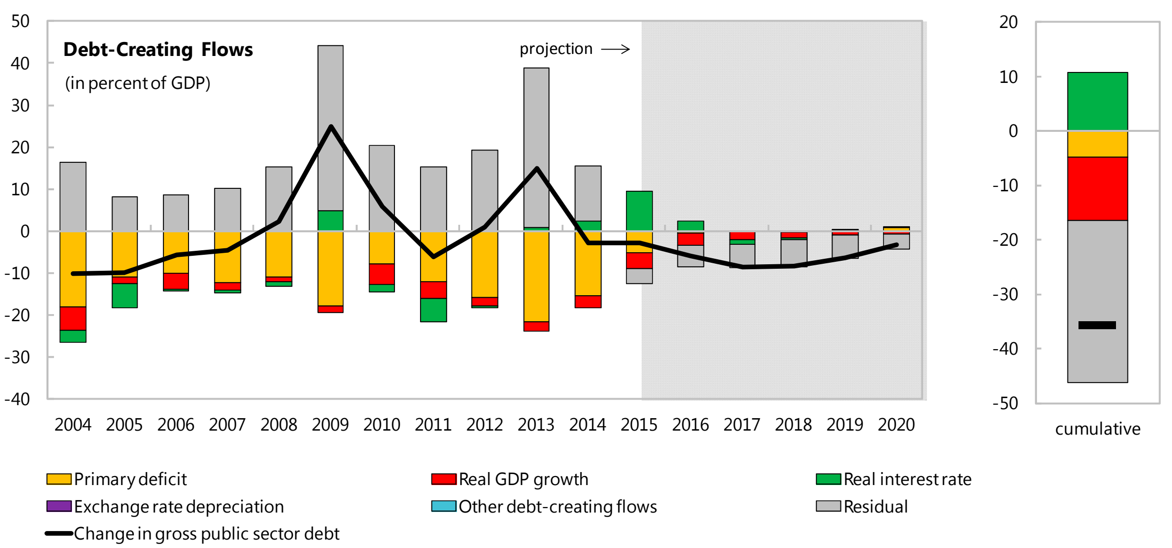
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross government debt	25.7	51.5	48.8	45.9	39.9	31.2	22.7	16.4	13.1
Government gross financing needs	-10.3	-10.2	-7.5	10.1	10.3	10.7	11.8	10.4	7.4
Real GDP growth (in percent)	15.1	6.3	6.1	7.1	6.4	5.6	4.5	4.1	3.9
Inflation (GDP deflator, in percent)	10.8	0.5	-2.7	-15.0	-3.2	4.9	3.5	2.4	1.7
Nominal GDP growth (in percent)	27.6	6.8	3.3	-8.9	3.0	10.8	8.1	6.6	5.7
Effective interest rate (in percent) [4/]	6.2	3.0	1.9	1.9	2.0	2.1	2.2	2.5	2.7

As of February 01, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		82
5Y CDS (bp)		66
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	n.a.	n.a.

Contribution to Changes in Government Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross government debt	-0.3	15.0	-2.7	-2.9	-6.0	-8.7	-8.5	-6.3	-3.3	-35.7	
Identified debt-creating flows	-17.3	-23.0	-16.0	0.7	-1.0	-3.2	-2.0	-0.7	0.4	-5.8	
Primary deficit	-12.9	-21.7	-15.3	-5.1	-0.5	0.0	-0.3	0.2	0.8	-5.0	-0.5
Primary (noninterest) revenue and grants	42.1	52.3	46.3	40.1	35.2	32.5	31.5	30.4	29.4	199.1	
Primary (noninterest) expenditure	29.2	30.7	31.1	35.0	34.7	32.5	31.2	30.6	30.2	194.1	
Automatic debt dynamics [5/]	-4.4	-1.3	-0.7	5.8	-0.4	-3.2	-1.7	-0.9	-0.5	-0.9	
Interest rate/growth differential [6/]	-4.4	-1.3	-0.7	5.8	-0.4	-3.2	-1.7	-0.9	-0.5	-0.9	
Of which: real interest rate	-1.6	0.8	2.4	9.6	2.4	-1.1	-0.4	0.0	0.1	10.6	
Of which: real GDP growth	-2.9	-2.2	-3.1	-3.8	-2.9	-2.0	-1.3	-0.9	-0.6	-11.5	
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/]	17.0	37.9	13.2	-3.6	-5.1	-5.5	-6.5	-5.6	-3.7	-29.9	



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).

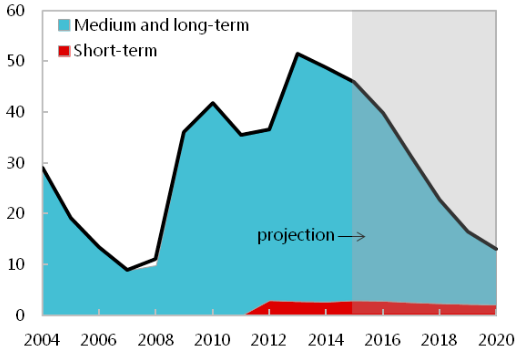
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. Also indicates that public debt was increasing by more than the borrowing requirement.

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.

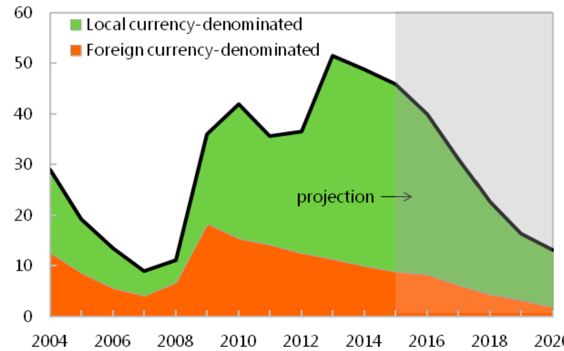
Qatar Central Government DSA - Composition of Government Debt and Alternative Scenarios

Composition of Government Debt

By Maturity
(in percent of GDP)



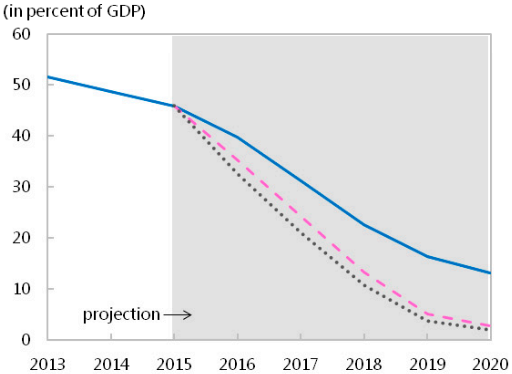
By Currency
(in percent of GDP)



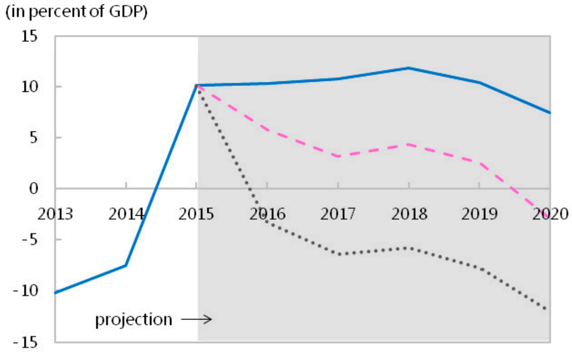
Alternative Scenarios

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)

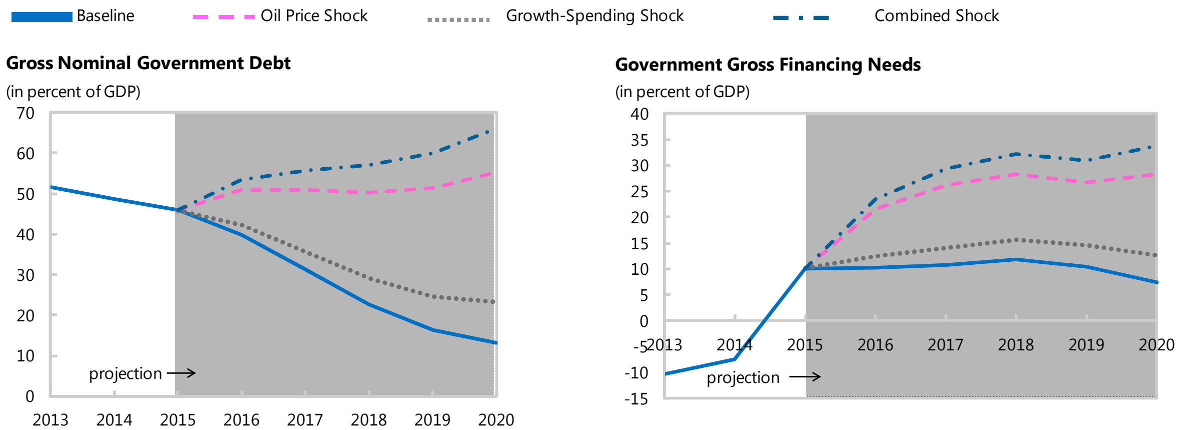
Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	7.1	6.4	5.6	4.5	4.1	3.9
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	0.5	0.0	0.3	-0.2	-0.8
Effective interest rate	1.9	2.0	2.1	2.2	2.5	2.7
Constant Primary Balance Scenario 1/						
Real GDP growth	7.1	6.4	5.6	4.5	4.1	3.9
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	5.1	5.1	5.1	5.1	5.1
Effective interest rate	1.9	2.0	2.1	2.2	2.4	2.7

Historical Scenario 1/	2015	2016	2017	2018	2019	2020
Real GDP growth	7.1	13.0	13.0	13.0	13.0	13.0
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	13.5	13.5	13.5	13.5	13.5
Effective interest rate	1.9	2.0	2.1	2.2	2.4	2.7

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

Qatar Central Government DSA - Alternative Scenarios

Alternative Scenarios



Underlying Assumptions
(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	7.1	6.4	5.6	4.5	4.1	3.9
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	0.5	0.0	0.3	-0.2	-0.8
Effective interest rate	1.9	2.0	2.1	2.2	2.5	2.7
Growth-Spending Scenario 2/						
Real GDP growth	7.1	5.4	4.6	3.5	3.1	2.9
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	-1.5	-2.0	-1.7	-2.2	-2.8
Effective interest rate	1.9	2.0	2.1	2.3	2.5	2.7

Oil Price Scenario 1/	2015	2016	2017	2018	2019	2020
Real GDP growth	7.1	6.4	5.6	4.5	4.1	3.9
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	-10.7	-9.5	-8.6	-8.5	-8.7
Effective interest rate	1.9	2.0	2.1	2.3	2.5	2.7
Combined Scenario 3/						
Real GDP growth	7.1	5.4	4.6	3.5	3.1	2.9
Inflation	-15.0	-3.2	4.9	3.5	2.4	1.7
Primary Balance	5.1	-12.7	-11.5	-10.6	-10.5	-10.7
Effective interest rate	1.9	2.0	2.1	2.3	2.5	2.7

1/ Oil price is lower by $25 in 2016-20.
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 2016-20.
3/ This scenario combines the oil price and the growth-spending scenarios.

Source: IMF staff calculations.

Qatar: External Debt Sustainability Framework, 2010-2020

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	**87.4**	**76.9**	**84.8**	**80.4**	**79.5**	**80.6**	**79.9**	**77.1**	**75.0**	**74.5**	**74.2**	**1.0**
2 Change in external debt	5.4	-10.5	7.9	-4.4	-1.0	1.2	-0.7	-2.8	-2.1	-0.5	-0.2	
3 Identified external debt-creating flows (4+8+9)	-35.4	-50.0	-40.1	-31.8	-27.0	-8.4	-2.9	-3.7	-3.2	-2.5	-2.0	
4 Current account deficit, excluding interest payments	-20.1	-31.3	-33.4	-31.8	-26.2	-7.1	-2.7	-4.5	-5.0	-4.4	-4.3	
5 Deficit in balance of goods and services	-38.6	-45.9	-46.4	-43.9	-37.4	-18.4	-13.6	-14.7	-14.9	-14.6	-14.3	
6 Exports	62.3	71.7	75.1	72.9	67.4	51.8	47.1	46.6	45.7	44.6	43.6	
7 Imports	23.8	25.8	28.7	29.0	30.1	33.3	33.4	31.9	30.8	30.0	29.3	
8 Net non-debt creating capital inflows (negative)	1.7	3.6	0.8	4.4	2.9	3.1	2.9	2.7	2.6	2.7	2.9	
9 Automatic debt dynamics 1/	-17.0	-22.3	-7.5	-4.4	-3.8	-4.3	-3.0	-1.9	-0.8	-0.8	-0.5	
10 Contribution from nominal interest rate	0.9	0.7	0.8	1.0	1.0	1.9	2.0	2.1	2.4	2.1	2.2	
11 Contribution from real GDP growth	-10.7	-8.4	-4.1	-5.0	-4.8	-6.2	-5.0	-4.1	-3.2	-2.9	-2.8	
12 Contribution from price and exchange rate changes 2/	-7.2	-14.6	-4.1	-0.4	...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	40.8	39.5	48.0	27.5	26.1	9.6	2.2	0.9	1.1	2.0	1.7	
External debt-to-exports ratio (in percent)	140.2	107.3	112.9	110.3	117.9	155.8	169.8	165.3	164.1	166.9	170.2	
Gross external financing need (in billions of US dollars) 4/	7.8	-11.0	-14.9	13.5	10.3	56.9	64.4	62.7	67.7	74.2	79.5	
in percent of GDP	6.2	-6.5	-7.8	6.7	4.9	29.8	32.7	28.7	28.7	29.5	29.9	
A: Scenario with key variables at their historical averages 5/						**39.9**	**10.0**	**0.0**	**0.0**	**0.0**	**0.0**	
B: Bound tests												
Nominal interest rate is 100 bps above baseline from 2015-20						**81.5**	**81.6**	**79.4**	**77.9**	**78.0**	**78.4**	
Oil price $25 below baseline from 2015-2020						**99.9**	**113.3**	**121.1**	**129.0**	**137.8**	**146.5**	
Combination of oil price and interest rate shock						**100.7**	**115.2**	**123.8**	**132.8**	**142.7**	**152.7**	
One time 30 percent real depreciation in 2015						**94.9**	**94.1**	**90.7**	**88.2**	**87.7**	**87.4**	
Real GDP growth is at baseline minus one-half standard deviations						**83.4**	**85.6**	**85.7**	**86.7**	**89.7**	**93.2**	

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.

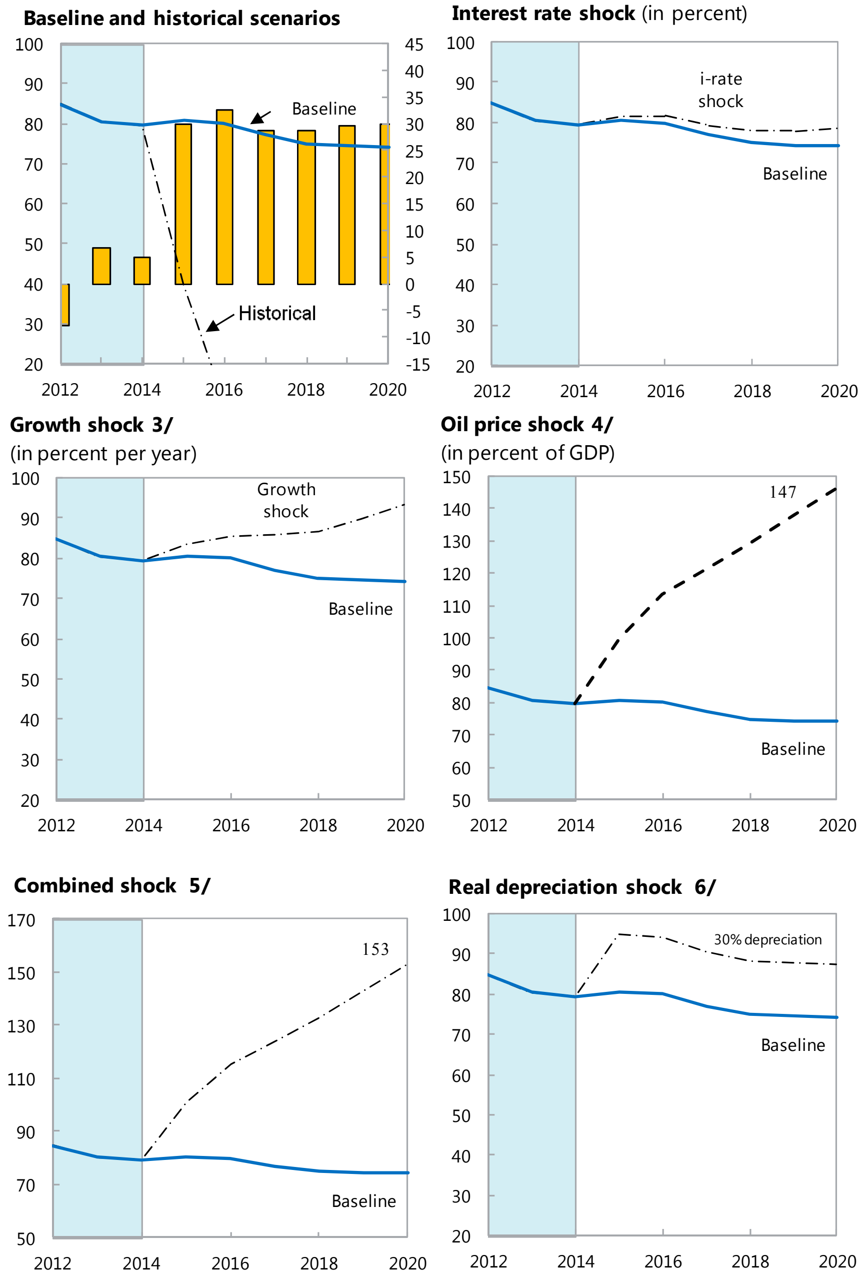
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

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.
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 one-half standard deviation shocks.
4/ A sustained $25 a barrel decline in oil prices applied to WEO crude oil prices over 2015-20.
5/ Combination of interest rate and oil price shocks.
6/ One-time real depreciation of 30 percent occurs in 2015.

Annex V. Update on Basel III Implementation

Capital	Capital Adequacy (as a share of risk-weighted assets): ▪ 10% minimum (of which 8% tier 1, of which 6% common equity tier 1), effective January 2014 ▪ Plus 2.5% capital conservation buffer, effective January 2014 ▪ Plus 0.5-3.5% for 5 Domestic Systemically Important Banks (banks already identified and notified, highest buffer currently 2.5%, to be phased in during 2016-2019) ▪ Plus 0-2.5% countercyclical buffer (trial period is planned to start in 2016, the initial buffer has not yet been finalized) ▪ Plus additional capital requirements identified by Banks Internal Capital Adequacy Assessment Process as part of Pillar 2 framework, effective from 2014 Leverage (as a share of total consolidated assets, not risk weighted): ▪ Tier 1 leverage ratio 3% minimum (circular issued July 2014, effective September 2014)
Liquidity[1]	Stable funding: ▪ Net stable funding ratio: 100% minimum (supervisory observation only; implementation circular to be issued shortly) Short term liquidity: ▪ Liquidity Coverage Ratio: 60% minimum high quality liquid assets as a share of 30 days' net cash outflows in 2014, rising to 100% in 2018 (amended circular May 2014)

Source: Qatar Central Bank.

[1]The authorities also require a maximum loan to deposit ratio of 100%; banks exceeding this ratio need to reduce it on a pro rata basis over a period of three years or face a penalty. A 90% credit ratio will operate in parallel for a period of three years with immediate penalties for exceeding the limit.

INTERNATIONAL MONETARY FUND

March 6, 2015

QATAR

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2015)

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

General Resources Account

	SDR Million	Percent Quota
Quota	302.60	100.00
Fund holdings of currency	199.60	65.96
Reserve position in Fund	103.00	34.04

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	251.40	100.00
Holdings	271.24	107.89

Outstanding Purchases and Loans: None

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

	Forthcoming				
	2015	**2016**	**2017**	**2018**	**2019**
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessments: Not Applicable

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

Last Article IV Consultation:

The discussions for the previous Article IV consultation took place in Doha in February 2014. The 2014 Article IV consultation was concluded by the Executive Board on April 18, 2014.

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
LEG	April-May 2015 (forthcoming)	AML/CFT follow up

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of February 2015)

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 National Development Strategy (NDS) 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.

Dialogue is underway with the Ministry of Finance for possible assistance to enhance the regulatory environment, with the Central Bank to enhance institutional capacity in the domains of payment systems and banking sector stress test, and with the Ministry of Development Planning and Statistics for assistance to prepare the National Development Strategy 2017-22. The World Bank stands ready to help the authorities enhance the efficiency and effectiveness of public spending in health and education.

STATISTICAL ISSUES

As of March 2015

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).

Qatar—Table of Common Indicators Required for Surveillance

(As of February 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Jan. 2015	Feb.2015	M	M	M
International Reserve Assets of the Monetary Authorities[1]	Jan. 2015	Feb.2015	M	M	M
Reserve/Base Money	Jan. 2015	Feb.2015	M	M	M
Broad Money	Jan. 2015	Feb.2015	M	M	M
Central Bank Balance Sheet	Jan. 2015	Feb.2015	M	M	M
Consolidated Balance Sheet of the Banking System	Jan. 2015	Feb.2015	M	M	M
Interest Rates[2]	Jan. 2015	Feb.2015	M	M	M
Consumer Price Index	Jan. 2015	Feb. 2015	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	2014/15 (up to Dec 2014)	Jan 2015	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2014/5 (up to Dec 2014)	Jan 2015	A	I	I
External Current Account Balance	2014 Q3	Jan. 2015	Q	Q	Q
Exports and Imports of Goods and Services	2014 Q3	Jan. 2015	Q	Q	Q
GDP/GNP	2014 Q3	Jan. 2015	Q	Q	Q
Gross External Debt	2014	Jan. 2015	A	I	I
International Investment Position[7]	Jun. 2014	Jan. 2015	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

INTERNATIONAL MONETARY FUND

QATAR

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

March 18, 2015

Approved By

Aasim Husain

This supplement provides information that has become available since the staff report (SM/15/53) was issued. It does not alter the staff appraisal.

The authorities started compiling CPI data according to a new methodology, as anticipated in the staff report. The new index shifts the basket weights from year 2007 to 2013 and implements other methodological changes. The main implication is a drop in the weight of housing, electricity, water, and gas from 32 percent to 22 percent. The main offsetting item is recreation and culture, whose weight increased from 4 to 13 percent. As a result of these methodological changes, recent inflation figures are expected to drop modestly. Full analysis of implications is not possible at present, since year-on-year inflation data are not yet available.

The Qatar Central Bank shared with staff updated financial sector indicators as of December 2014. Under the Basel III standard, the Tier I capital was 15.8 percent of risk-weighted assets, somewhat higher than the partial-year figure in the staff report. Non-performing loans stayed low at 1.7 percent, and earnings and liquidity buffers remained strong.

Press Release No. 15/151
FOR IMMEDIATE RELEASE
April 2, 2015

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

IMF Executive Board Concludes 2015 Article IV Consultation with Qatar

On March 23, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Qatar[1] and considered and endorsed the staff appraisal without a meeting.[2]

Qatar is implementing an ambitious diversification strategy, while retaining its systemic role in the global natural gas market. Qatar accounts for one-third of global liquefied natural gas (LNG) trade and has emerged as an important global financial investor, labor importer, and donor. The authorities are executing a large public infrastructure program to advance economic diversification and prepare for the FIFA 2022 World Cup.

The economy has maintained strong growth momentum so far despite the large drop in oil prices since summer 2014. Real GDP growth has been stable at about 6 percent over the past three years, mostly driven by a double-digit expansion of the non-hydrocarbon sector. Falling global commodity prices have helped reduce inflation below 3 percent, despite a tight real estate market.

The short-term growth outlook is positive, but lower oil prices will lead to a substantial deterioration of the fiscal and external balances. Growth is expected to increase to about 7 percent in 2015 as the Barzan natural gas field starts production and the authorities continue implementing the public investment program. Falling import prices should continue keeping inflationary

[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

pressures in check. However, the government budget could fall into a deficit from 2016 onwards and external surpluses will shrink substantially. Growth is expected to slow over the medium term as public investment growth tapers and the private sector offsets the decline only partially. The main risks to the macroeconomic outlook are the possibility of lower-than-expected oil and natural gas prices and the possible side effects of public investments in the form over short-term overheating and medium-term excess capacity.

Executive Board Assessment

In concluding the 2015 Article IV Consultation with Qatar, Executive Directors endorsed staff's appraisal, as follows:

Qatar continues to implement an ambitious diversification strategy through a large public investment program, while retaining its systemic role in the global natural gas market. In support of this effort, the policy framework is being strengthened in a number of areas, including fiscal and financial policies.

However, the recent large drop in oil and natural gas prices will lead to a substantial deterioration of the fiscal and external balances, calling for intensification of diversification efforts and some fiscal consolidation in the medium term.

Qatar's growth will remain strong this year, but is expected to slow going forward. In the near term, growth will be propelled by the public investment program and a new natural gas field. Non-hydrocarbon growth should stay in double digits. Over the medium term, headline growth is expected to slow down significantly as the public investment program tapers off and the private sector offsets only some of the decline.

Consumer price inflation is contained, although real estate prices have grown quickly. CPI inflation has eased in recent months, as rent increases stabilized and tradables inflation fell. In the short run, lower international commodity prices, including for food, and a strong U.S. dollar should reduce headline inflation despite the tight rental market. That said, real estate prices—especially land prices—are increasing particularly fast, and valuations appear on the upper end of a range consistent with fundamentals. Consideration should be given to introducing a differentiated schedule of real estate transaction fees to deter speculators and taking further measures to increase land supply. Imposing rent controls could prove counterproductive. In case

of excessive credit growth, further macroprudential measures and liquidity withdrawals should be deployed. If inflation accelerates, policymakers should slow public sector spending.
The large drop in oil prices will lead to a substantial deterioration in fiscal and external balances. In sharp contrast to previous years, the budget will be in deficit from 2016 onward and the current account surplus will largely be eliminated. While there is no immediate concern about fiscal sustainability under staff's oil price assumptions, additional spending and revenue measures worth about 5 percent of non-hydrocarbon GDP are warranted over the medium term to secure inter-generational equity in the context of low oil prices.

The ongoing budget reforms are welcome and should be deepened further. Significant progress has been made in setting up the macro-fiscal unit and public investment department, and current expenditure growth has been restrained. The oil price slump highlights the need for specifying a clear medium-term fiscal framework, including contingency plans. The strategy document currently prepared by the Ministry of Finance should formulate binding medium-term fiscal objectives and communicate expectations about the future trajectory of budget expenditures and taxation. Annual budgeting process should be aligned with this new medium-term framework so that spending overruns are eliminated. Further improvement in the transparency of fiscal accounts would facilitate a more accurate assessment of the Qatar's fiscal position in the context of low oil prices.

Banks remain sound and the financial sector regulatory agenda is moving forward, but emerging risks and vulnerabilities need to be carefully monitored. Despite broadly stable credit growth overall, potential emerging risks include the risk of falling liquidity due to the oil price drop, and rapidly-growing credit to selected sectors and across the border. Although the banking system as a whole appears cushioned from real estate sector volatility, developments at weaker banks need to be closely monitored. Policymakers should continue to closely monitor lending standards, concentration risks, and cross-border transactions of banks. If low oil prices reduce financial sector liquidity, policymakers should take timely measures. The continued progress in implementing Basel III and related regulations is welcome. Further advances are needed in enhancing the early warning system, including improving availability of the real estate market statistics and developing data on household, corporate, and government balance sheets.

The prospects of persistently low oil prices and slowing medium-term growth call for intensification of diversification efforts. There is scope for further improving the business environment and promoting diversification, including by simplifying business registration, improving enforcement of contracts, and enhancing the quality of educational curricula.

Privatization would also help stimulate private sector activity. Growth would be made more inclusive through labor market reforms.

The fixed exchange rate regime remains appropriate for Qatar. The peg to the U.S. dollar has served Qatar well in periods of both high and low oil prices by anchoring prices of tradables and providing stability to income flows and financial wealth. An assessment of the exchange rate level is complicated by the undiversified structure of Qatar's exports, which are dominated by hydrocarbons, but staff estimates do not find evidence of a current account gap.

Qatar: Selected Macroeconomic Indicators, 2011-16

	2011	2012	2013	Est. 2014	Proj. 2015	Proj. 2016
Real economy (change in percent unless otherwise noted)						
Nominal GDP (billions of Qatari Riyals)	618.1	692.7	739.8	764.4	696.3	717.3
Nominal hydrocarbon GDP (billions of Qatari Riyals)	359.2	394.5	402.3	378.5	262.1	234.3
Nominal nonhydrocarbon GDP (share of overall GDP, percent)	41.9	43.0	45.6	50.5	62.4	67.3
Real GDP	13.0	6.0	6.3	6.1	7.1	6.4
Hydrocarbon 1/	15.6	1.3	0.2	-1.7	1.2	0.9
Nonhydrocarbon	10.9	10.0	11.0	11.6	10.7	9.5
Per capita	8.4	-1.4	-4.5	-2.9	-0.8	-0.5
Deflator	20.1	5.7	0.5	-2.7	-15.0	-3.2
CPI inflation (average)	1.9	1.9	3.1	3.0	2.0	2.8
Tradable	5.4	3.2	1.8	1.9	-0.7	1.2
Non-tradable	-1.2	0.6	4.4	4.0	5.4	4.5
Hydrocarbon sector						
Exports (billions of U.S. dollars) 1/	110.2	125.8	128.6	118.4	77.8	69.2
Brent crude oil price (U.S. dollars per barrel)	111.0	112.0	108.8	98.9	52.8	61.6
Crude oil production (thousands of barrels per day)	744.7	732.1	697.8	670.0	655.0	640.0
Natural Gas production (millions of tons per year)	89.1	89.8	92.4	92.0	94.0	97.5
of which LNG	76.5	77.0	78.1	77.8	77.8	77.8
Central government finances (percent GDP) 2/						
Revenue 3/	35.0	40.4	45.8	42.4	35.9	30.6
Expenditure	28.5	30.8	31.4	32.7	35.6	34.6
Current 4/	20.5	23.5	22.2	22.7	24.7	24.2
Capital	7.9	7.3	9.3	10.1	10.9	10.5
Central government fiscal balance	6.5	9.5	14.4	9.7	0.3	-4.1
Adjusted non-hydrocardbon primary balance (pct of non-hydrocarbon GDP) 5/	-56.6	-58.3	-56.7	-51.5	-46.4	-42.1
Estimated general government balance 6/	10.2	14.2	20.5	14.6	4.1	-0.3
Central government debt, gross	34.5	36.0	32.1	31.7	29.8	27.0
Monetary and financial sector (change in percent)						
Broad money	17.1	22.9	19.6	10.6	10.4	8.5
Domestic claims on public sector 7/	79.3	30.3	10.2	-8.1	0.4	0.8
Domestic credit to private sector 8/	19.2	13.5	13.5	20.3	12.5	11.2
3-month T-bill rate (Qatar Riyal, percent, eop)	…	0.9	1.2	0.8	…	…
CDS (bps, eop)	130.2	77.8	65.3	83.2	…	…
External sector (billions of U.S. dollars unless otherwise noted)						
Exports	114.3	133.0	136.9	128.8	85.2	77.3
Imports	-26.9	-30.8	-31.5	-32.4	-32.7	-34.1
Current account balance	52.0	62.0	62.6	52.8	10.0	1.4
in percent GDP	30.6	32.6	30.8	25.1	5.2	0.7
External debt (percent GDP)	76.9	84.8	80.4	79.5	80.6	79.9
Official reserves 9/	16.4	32.8	41.8	42.9	43.4	43.5
Social indicators						
Per capita GDP (2014): $93,044;						
Life expectancy at birth (2011): 77.4 (male), 79.2 (female); Population (2014): 2.23 million						
Memorandum items						
Local currency per U.S. dollar (period average)	3.64	3.64	3.64	3.64	3.64	3.64
Real effective exchange rate (change in percent)	-5.0	3.0	2.5	2.2	…	…
Credit rating (Moody's investor services)	Aa2	Aa2	Aa2	Aa2	…	…
Population growth (percent)	4.3	7.5	11.4	9.3	8.0	7.0

Sources: Qatari authorities; and IMF staff estimates.

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

2/ GFSM 1986; fiscal year begins in April; the upcoming change to the timing of the fiscal year from 2016 is not reflected. (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.