INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/175

QATAR

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2022

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 2022 Article IV consultation with Qatar, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 27, 2022 consideration of the staff report that concluded the Article IV consultation with Qatar.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 27, 2022, following discussions that ended on March 1, 2022, 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 May 13, 2022.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/213

IMF Executive Board Concludes 2022 Article IV Consultation with Qatar

FOR IMMEDIATE RELEASE

Washington, DC – **June 21, 2022:** On May 27, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Qatar.[1]

The authorities have responded swiftly and decisively to the COVID-19 crisis. Proactive containment measures, strong healthcare, fast vaccination rollout, and a comprehensive support package have helped to minimize the health and economic impact of the pandemic. The economic recovery is gaining strength, supported by the rebound in domestic demand, favorable hydrocarbon prices and the 2022 FIFA World Cup. Real GDP growth is expected to reach 3.4 percent in 2022, driven by non-hydrocarbon growth (at 4.1 percent). Medium-term growth outlook is buoyed by the North Field LNG expansion project. Headline inflation rose to 2.3 percent (period average) in 2021, driven by the strong recovery in domestic demand, especially for services, along with higher energy and food prices. As these trends continue, inflation is projected to increase to 3.5 percent in 2022, before declining over the medium term.

Higher hydrocarbon prices helped to strengthen both fiscal and current account positions from their 2020 troughs, bringing a fiscal surplus of 0.3 percent of GDP and a current account surplus of 14.7 percent of GDP in 2021. The fiscal and the current account surpluses are projected to widen further in 2022 to 5.4 percent and 20 percent of GDP, respectively. The LNG expansion project will support the fiscal and external balances over the medium term.

Banks remain well-capitalized and liquid, but financial risks have risen. By end-2021, Tier 1 capital ratio rose to 18 percent, while non-performing loans ratio inched up to 2.4 percent, although loans under moratoria were not subject to reclassification. The banking sector's reliance on foreign funding increased to 39 percent of total liabilities (110 percent of GDP) by end-2021, but with prudential measures in place, it declined recently.

Structural reforms have accelerated since the pandemic. Qatar abolished Kafala—a sponsorship system for expatriate workers which constrains labor mobility —supplemented by mandatory minimum wage and allowances for food and housing, a welcome first step to strengthen protection and flexibility for expatriate workers. A residency program has been introduced for real estate investment, full foreign ownership of Qatari companies allowed to attract foreign capital, and a new PPP law adopted to boost private investment. Qatar also announced a climate strategy to reduce 25 percent of greenhouse gas emissions by 2030 and is accelerating efforts to promote and regulate the fintech sector.

[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.

Risks to the outlook are broadly balanced in the short run but tilted to the downside over the medium term.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their swift and decisive policy response to the COVID-19 pandemic and strong vaccination efforts that helped alleviate the impact of the crisis and facilitate a speedy recovery. The economic outlook is favorable, including due to the recovery in domestic demand, the 2022 FIFA World Cup, high hydrocarbon prices, and the major LNG expansion project. Nonetheless, the uncertain path of the pandemic, volatile hydrocarbon prices, tighter global financial conditions, and geopolitical tensions pose significant risks. In this context, Directors concurred on the need to strike a balance between supporting the recovery and avoiding procyclical policies and buildup of financial sector vulnerabilities. Accelerating structural reforms will also be critical to foster a transformational recovery and build climate resilience.

Directors called for continued fiscal prudence amid high hydrocarbon prices and agreed on the need for a gradual, growth-friendly fiscal consolidation over the medium term. They encouraged the authorities to diversify revenues, introduce the VAT, enhance current spending efficiency—including public employment and subsidy reforms—and reorient public spending to ensure inter-generational equity and promote diversification and growth. Directors also highlighted the need for a well-designed and operational medium-term fiscal framework with greater fiscal transparency.

Directors agreed that the pegged exchange rate regime remains a credible monetary anchor and continues to serve Qatar well, and will be further supported by fiscal consolidation and competitiveness-enhancing reforms. Steps to improve liquidity management, strengthen monetary transmission channels, and contain balance sheet vulnerabilities from FX exposure could further enhance the monetary policy framework.

Directors welcomed the gradual unwinding of financial sector support measures and the move toward a more targeted approach. They called for continued diligence in banking supervision and implementation of prudential measures to ensure financial stability.

Directors stressed the importance of adopting an adequate bank resolution framework and enhanced insolvency regime, deepening domestic financial market, and reducing the sovereign-bank nexus. They also supported the authorities' efforts to develop an adequate fintech regulatory framework and further strengthen the AML/CFT framework.

Directors stressed the need to accelerate structural reforms and leverage global trends, such as digitalization and climate actions, to build a more inclusive, diversified, and greener economy. They welcomed reforms introduced during the pandemic, including to abolish the Kafala system, improve the business environment, and launch a comprehensive climate strategy. Directors encouraged further efforts to boost the mobility and safety nets for expatriates, incentivize private sector employment, enhance private sector competitiveness,

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

and accelerate climate mitigation and adaptation. Increasing female labor participation and taking advantage of the existing female human capital will also help boost productivity.

Qatar: Selected Economic and Financial Indicators, 2019–2023

(Quota: 735.1 million SDRs, 2021)
(Per capita income: U.S.$ 68,581, 2021)
(Life expectancy at birth: 80, 2020), (Population: 2.7 million, 2021)

				Projections	
	2019	2020	2021	2022	2023
Production and prices	(change in percent unless otherwise noted)				
Real GDP (2018 prices)	0.7	-3.6	1.5	3.4	2.5
Hydrocarbon 1/	-1.7	-2.0	-0.3	2.3	1.9
Nonhydrocarbon	2.2	-4.5	2.7	4.1	2.8
CPI inflation (average)	-0.7	-2.7	2.3	3.5	3.2
Public finances	(percent of GDP unless otherwise noted)				
Revenue	33.5	32.6	29.7	34.1	36.8
Expenditure	32.5	34.7	29.4	28.6	28.4
Current	19.3	22.0	18.3	19.2	19.2
Capital	13.1	12.7	11.1	9.4	9.2
Central government fiscal balance	1.0	-2.1	0.3	5.4	8.5
Money	(change in percent unless otherwise noted)				
Broad money	2.5	3.8	1.4	16.9	8.2
Credit to private sector	19.5	8.3	9.5	7.4	8.7
External sector	(percent of GDP unless otherwise noted)				
Exports	52.2	49.1	58.8	64.6	58.5
Imports	37.9	40.9	34.1	33.1	33.3
Current account balance (billions of U.S. dollars)	4.3	-2.9	26.4	44.9	34.5
in percent of GDP	2.4	-2.0	14.7	19.9	15.1
External debt	137.6	187.0	161.5	131.5	133.3
Central Bank's reserves	22.5	28.3	23.5	31.3	36.3
in months of next year's imports	8.0	8.0	6.6	10.9	12.1
Exchange rate	3.6	3.6	3.6	3.6	3.6
Real effective exchange rate (change in percent)	0.8	-5.7	1.7	…	…

Sources: Qatari authorities; and IMF staff estimates.
1/ Includes crude oil, natural gas, propane, butane, and condensates.

INTERNATIONAL MONETARY FUND

QATAR

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

May 13, 2022

KEY ISSUES

Context: Swift and decisive policy response to the Covid-19 pandemic has helped to mitigate the health and economic impact of the crisis. Fast vaccination rollout has also strengthened the economy's resilience to new pandemic waves, paving the way for a speedy recovery. As the economy rebounds, a gradual exit from pandemic support measures is underway.

Outlook and risks: Near-term growth is set to accelerate in the run up to the 2022 FIFA World Cup, supported by the revival in domestic demand and high hydrocarbon prices. A major LNG expansion project will boost medium-term prospects and strengthen fiscal and external positions. A more protracted pandemic, oil market volatility, tighter global financial conditions, and worsening geopolitical tensions are main downside risks.

Financial sector policy: The gradual exit strategy and the move toward more targeted support are steps in the right direction. Diligent banking supervision is key to safeguard financial stability. An enhanced insolvency regime and adequate bank resolution framework should be in place to strengthen resilience and facilitate resource reallocation. More forceful implementation of prudential measures, domestic financial deepening and a reduced public sector footprint in the banking system will help alleviate banks' exposure to foreign liabilities. Developing an adequate fintech regulatory framework would balance opportunities and risks.

Fiscal policy: Near-term priority is to maintain fiscal discipline amid high hydrocarbon prices. Favorable cyclical conditions also provide an opportunity to embark on a growth-friendly medium-term consolidation, including to: (i) diversify non-hydrocarbon revenues, especially to introduce the VAT, (ii) enhance the efficiency of current expenditure through public employment and subsidies reforms, and (iii) reorient public investment to promote diversification and growth. An enhanced medium-term fiscal framework and greater transparency would support policymaking and implementation.

Structural reforms: Accelerating structural reforms is critical to limit scarring from the pandemic and facilitate economic transformation. Reforms should focus on improving productivity and inclusion, enhancing private sector competitiveness, and leveraging global trends, such as digitalization and climate actions, to foster stronger and more diversified growth while addressing climate challenges.

Approved By
Zeine Zeidane and Andrea Schaechter

Discussions were held remotely during February 13–March 1, 2022. The staff team comprised Mmes. Bi (head) and Benmohamed, Mr. Bibolov (all MCD) and Mr. Vernon (FAD). Mmes. Al-Riffai and Merhi (OED) also joined mission meetings, and Mr. Mohieldin (ED) joined the concluding meetings. Ms. Zhang provided research assistance and Ms. George provided editorial support.

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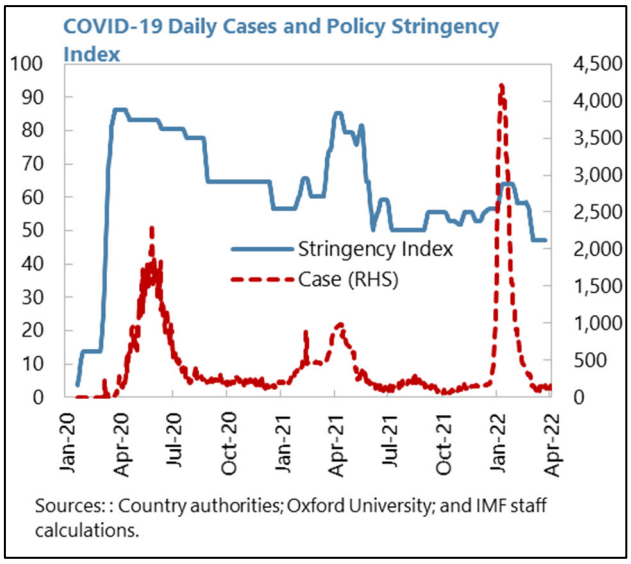
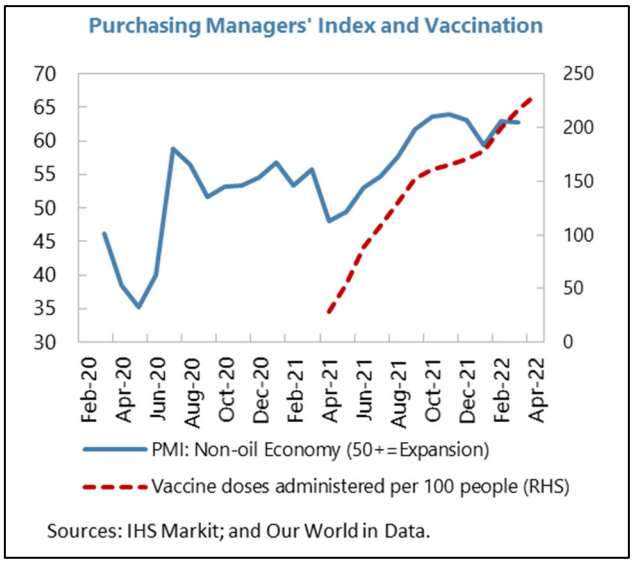
CONTEXT

1. Qatar has responded swiftly and decisively to the COVID-19 crisis. Proactive containment measures, massive testing and strong healthcare brought down daily infection cases rapidly in the summer of 2020, allowing the economy to re-open gradually. Fast vaccination rollout has helped minimize the health impact and economic disruptions of new pandemic waves (Figure 1). As of April 2022, 89 percent of the eligible population has been fully vaccinated, and more than half has received the booster shots. The authorities also adopted a comprehensive economic support package to provide relief to the most affected sectors, especially the small and medium enterprises (SMEs). The Qatar Central Bank's (QCB's) zero-interest repo facility has ensured sufficient bank liquidity, the National Guarantee Program (NGP) benefited more than 4,000 SMEs, and the loan repayment moratorium supported hard-hit borrowers.[1] The recovery of the economy has allowed most measures to end by September 2021, while the QCB has been gradually reducing the zero-interest repo facility, and the blanket loan moratorium is being replaced by more targeted support to hard-hit but viable borrowers.





2. Reform efforts have accelerated during the pandemic. Qatar became the first Gulf Cooperation Council (GCC) country to abolish Kafala—a sponsorship system for expatriate workers which constrains labor mobility[2]—supported by a mandatory minimum wage of QR1,000 (US$275 or 8.5 percent of average monthly wage in 2021) and allowances for food and housing, all in effect

[1] The pandemic support included: (i) additional public health spending (0.7 and 0.5 percent of GDP in 2020 and 2021, respectively), (ii) fiscal measures to support the private sector (e.g., rental support to SMEs, refund of custom fees on medical equipment, and electricity and water payments for private firms) with an estimated cost of 0.6 percent of GDP in 2020, (iii) stock market support of 0.3 percent of 2020 GDP, (iv) the National Guarantee Program for SME loans (with an outstanding amount of 0.6 percent of 2021 GDP), (v) the zero-interest repo facility (with an outstanding amount of 2.9 percent of 2021 GDP), and (vi) a blanket loan repayment moratorium for sectors affected by the pandemic, which covered a substantial part of bank loans.

[2] Under the Kafala system, expatriate workers were not allowed to change jobs without their employer's permission.

since March 2021. A residency program has been introduced for real estate investment, full foreign ownership of Qatari companies allowed to attract foreign capital, and a new PPP law adopted to boost private investment. The Qatar E-government Strategy, introduced in 2020, aims to enhance public services, and the Smart Qatar Program (TASMU) was launched in July 2021 to improve non-hydrocarbon sector competitiveness. The recently announced National Environment and Climate Change Strategy envisages a 25 percent reduction of trend greenhouse gas (GHG) emission by 2030. Implementation of the strategy will enhance Qatar's climate resilience and facilitate the long-term energy transition, even though near- to medium-term prospects of the hydrocarbon sector have improved following the war in Ukraine (see below).

RECENT MACROECONOMIC DEVELOPMENTS

3. The economic recovery is gaining strength (Figure 2). Real GDP growth rebounded from -3.6 percent (y/y) in 2020 to 1.5 percent in 2021 (non-hydrocarbon growth at 2.7 percent and hydrocarbon growth at -0.3 percent[3]), supported by the revival in domestic demand, buoyant private credit growth (9.5 percent), higher oil and gas prices, and the preparation for the 2022 FIFA World Cup. The PMI (at 62 in March 2022) pointed to continued expansion in 2022Q1. However, declined employment (by 6.9 percent y/y in 2021Q2), mainly among expatriates, remains a drag on the recovery. Pent-up demand for services, together with rising food and energy prices, pushed headline inflation to 6.5 percent (y/y) in December 2021, before moderating more recently. Pass-through from high global food and energy prices has been limited, likely due to administered food prices and remaining energy subsidies,[4] while supply chain pressures appear contained. The real effective exchange rate (REER) has been appreciating since early 2021.

4. The fiscal and external balances have strengthened significantly from their 2020 troughs, benefiting from higher hydrocarbon prices (Figures 3 and 4). Against sharp declines in hydrocarbon revenues in 2020, the authorities cut expenditure by 12 percent, mainly through postponing projects unrelated to the 2022 World Cup, containing the fiscal deficit at 2.1 percent of GDP. Higher hydrocarbon prices helped to end 2021 with a fiscal surplus of 0.3 percent of GDP. Central government debt declined from 73 percent at end-2020 to 58 percent of GDP at end-2021. The current account also returned to a surplus of 15 percent of GDP in 2021. Favorable financial conditions allowed the sovereign to issue a US$10 billion Eurobond in 2020, and Qatar Energy to borrow US$12.5 billion in 2021 to finance a major LNG expansion project. With sharp increases in hydrocarbon prices and a more gradual recovery in imports, the 2021 external position is assessed to be stronger than the level implied by fundamentals and desirable policies. However, as domestic

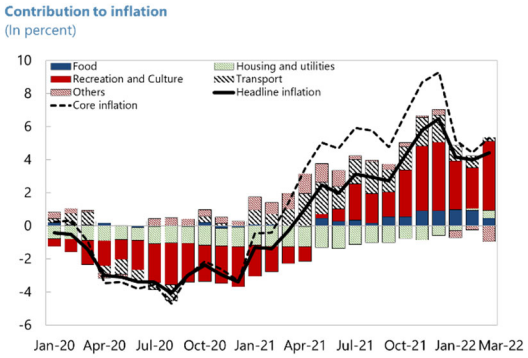
[3] Maintenance in early 2021 reduced hydrocarbon production, resulting in negative real growth of the sector. Qatar's hydrocarbon sector has benefited only partially from higher spot gas prices since mid-2021 as gas contracts are mostly long-term and there is no spare production capacity.

[4] In the 2016 energy subsidy reform, Qatar cut subsidies on gasoline and diesel to better align domestic prices with international ones.

demand continues to recover and hydrocarbon prices decline from the current level, Qatar's external balance is projected to fall below the level implied by fundamentals and desirable policies over the medium term (Annex II).[5]

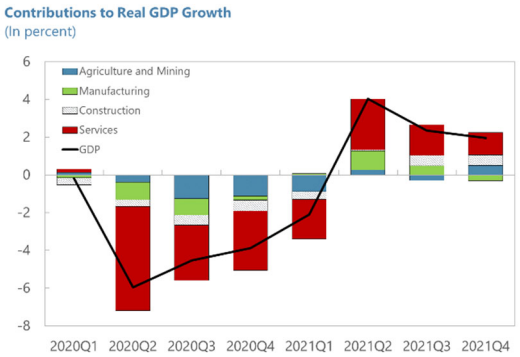
Inflation Dynamics

Inflation has increased rapidly, driven mainly by recreation and housing services inflation….



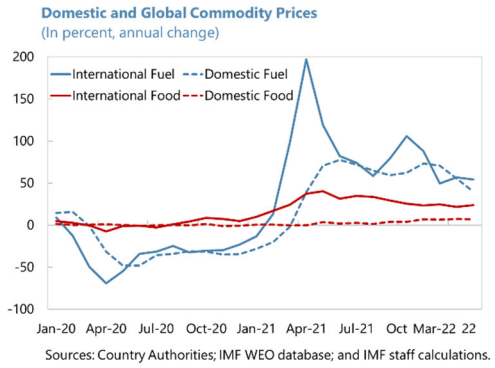
Sources: Country Authorities ; and IMF staff calculations.

…on the back of demand recovery, particularly in the services sectors.



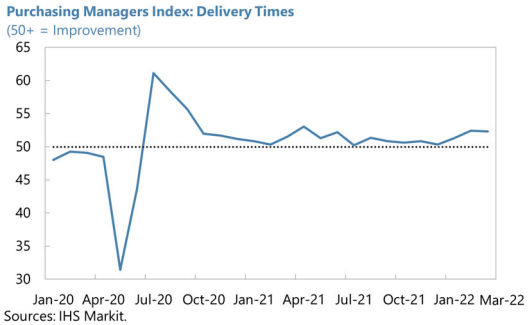
Sources: Authorities data; and IMF staff calculations.

The pass-through of global commodity prices has been muted…



Sources: Country Authorities; IMF WEO database; and IMF staff calculations.

…meanwhile, supply pressures remain contained after the spike at the peak of the pandemic.

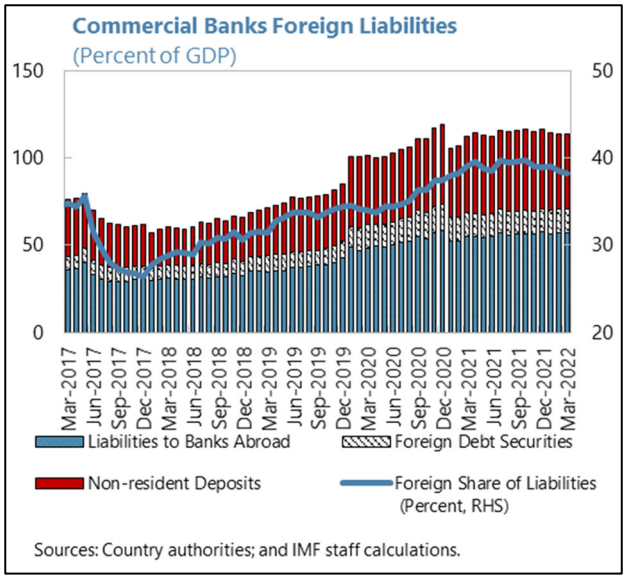


Sources: IHS Markit.
Note: This index captures supply chain delays in an economy. 50 indicates no change in delivery times compared to the prior month, more than 50 indicates an improvement in delivery times and less than 50 indicates a deterioration.

5. Banks remain well-capitalized and liquid, but financial risks have risen (Figure 5). By end-2021, Tier 1 capital ratio rose to 18 percent, liquidity was abundant supported by the QCB's zero-interest repo, and bank profitability remained stable. Non-performing loans (NPLs) ratio inched up to 2.4 percent, but loans under moratoria were not subject to reclassification yet. The system-wide loan-to-deposit (LTD) ratio reached 125 percent, reflecting sustained credit growth and further

[5] Qatar has used its SDR allocation to increase international reserves. The authorities are also considering options to contribute to SDR channeling initiatives.

increase in banks' already sizeable foreign liabilities (39 percent of total liabilities, or 110 percent of GDP).



OUTLOOK AND RISKS

6. Growth is expected to accelerate in 2022, with the medium-term outlook supported by the North Field (NF) LNG expansion project (Box 1). Continued recovery in domestic demand, buoyed by favorable hydrocarbon prices and the start of the NF expansion project, as well as the World Cup-induced buoyancy (Box 2), are expected to boost non-hydrocarbon growth to 4.1 percent this year. With hydrocarbon growth likely reaching 2.3 percent, real GDP growth in 2022 is expected at 3.4 percent. Strengthening domestic demand and higher energy and food prices are expected to push up inflation to 3.5 percent (period average) in 2022. The current account surplus will likely widen further to 20 percent of GDP in 2022 thanks to high hydrocarbon prices. Over the medium term, the NF expansion project is set to benefit the non-hydrocarbon sector during the construction phase and boost the hydrocarbon sector once production starts, but it will further increase Qatar's reliance on fossil fuel.

7. The war in Ukraine has spillovers to Qatar through its impact on global commodity prices and financial channels. The war has pushed up hydrocarbon prices further, bringing more windfalls to Qatar. Gas demand from European countries is also likely to increase over the medium term as they diversify away from Russian gas supply. On the other hand, higher food prices have contributed to higher inflation and could lead to higher food subsidies. While near-term food reserves are reportedly ample, Qatar may need to secure alternative food suppliers as it relied significantly on Russia and Ukraine for wheat and related food imports before the war.[6] Potential losses from Qatar's sizeable investments in Russia (through its sovereign wealth fund, Qatar Investment Authority, or the QIA) could also arise.

8. Risks to the outlook are broadly balanced in the short run but tilted to the downside over the medium term (Annex V). On the upside, higher-than-expected hydrocarbon prices could raise windfalls, but increased oil market volatility would hurt Qatar. The resolution of the diplomatic rift[7] could boost investment, trade and tourism and the World Cup could spur visitors' interest in Qatar, bringing benefits beyond the event itself. On the downside, the uncertain evolution of the

[6] In 2020, 48 percent of Qatar's grains imports were from Russia and Ukraine.

[7] The GCC countries and Egypt signed a reconciliation agreement at the GCC Annual Summit on January 5, 2021, to end the diplomatic rift that started in June 2017 between Qatar and Bahrain, Egypt, Saudi Arabia and the UAE.

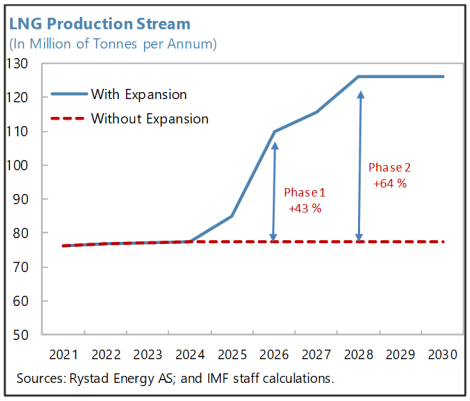
pandemic poses risks to global and domestic recovery—a more protracted pandemic could reduce the growth benefit from the World Cup. If geopolitical tensions, together with monetary policy normalization in advanced economies, lead to tighter-than-expected and more volatile global financial conditions, Qatari banks reliant on foreign funding could be negatively affected, potentially reducing credit supply and slowing the recovery. Domestic downside risks include a disorderly exit from remaining financial sector support measures, procyclical fiscal policy and delayed reforms. Over the medium and long term, worsening climate stressors, disruptions in expanding gas production, and the eventual decline in global hydrocarbon demand are main downside risks.

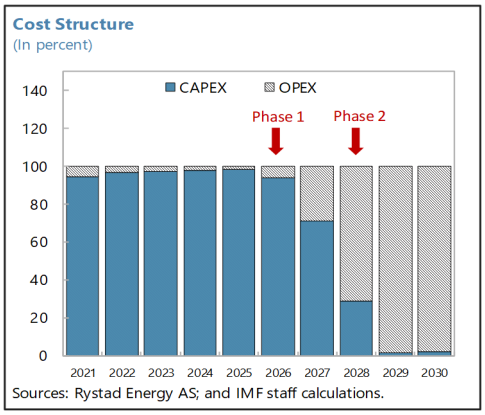
9. The authorities broadly agreed with staff's assessment of economic prospects and risks. They highlighted that a successful vaccination campaign has helped to keep the economy open during most of the pandemic, and the comprehensive support package was instrumental in limiting the economic fallout. They viewed the 2022 World Cup as a major growth driver in the near term, while the NF expansion would support activities over the medium term. The authorities shared staff's view that oil price volatility, emergence of new COVID strains and geopolitical developments could be major headwinds. On the spillover risks from the war in Ukraine, apart from the benefit of higher hydrocarbon prices, the authorities saw limited impact, highlighting sufficient food reserves for at least six months and active efforts to secure food supplies. For the medium- and long term, they saw the global energy transition as an opportunity for Qatar because LNG is considered a transitional source of energy.

Box 1. The North Field Expansion Project

Qatar is undertaking the largest single LNG expansion ever. The North Field (NF) project is expected to raise Qatar's LNG output from the current 77 million tons per annum (mtpa) to 110 mtpa by end-2027 (phase 1) and to 126 mtpa by 2028 (phase 2). Phase 1 is expected to cost around $28.7 billion, most of which will be capital spending financed by Qatar Energy (QE), making it one of the industry's largest investments in recent years and largest single LNG capacity ever built.

The expansion will be a main growth driver over the medium term and further increase Qatar's reliance on fossil fuel. The construction phase should benefit non-hydrocarbon activities, including in logistics, transportation and manufacturing, adding an average 0.3 percentage points (ppts) of GDP to non-hydrocarbon growth annually. By 2027, the NF expansion is expected to raise real GDP by 5.7 percent cumulatively and add around 3.5 percent of GDP in export receipts per year. Contribution of the hydrocarbon sector to real GDP and fiscal revenues are projected to increase by 2 ppts between 2021 and 2027.[1]

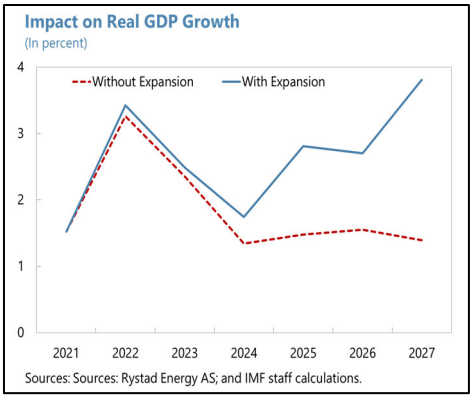




[1] QE is expected to retain part of the increase in receipts to pay off debt issued to finance the project, resulting in a more gradual increase in fiscal revenues.

Box 1. The North Field Expansion Project (Concluded)

The NF project also features several climate initiatives, including: (i) a carbon capture and storage technology to reduce carbon emissions from gas liquefaction and storage by about 25 percent, (ii) solar photovoltaic facilities to provide a share of the needed electricity for the project, and (iii) a new water recovery system to recover 75 percent of the plant's tertiary water, conserving 10.7 million cubic meters of water annually.



Box 2. Economic Impact of the 2022 FIFA World Cup and Spillovers to the GCC

Qatar will be the first Arab state to host a FIFA World Cup (WC). Massive investments have been made to prepare for the event, supporting Qatar's growth over the last decade. The event itself is expected to boost various service sectors in Qatar, with positive spillovers to the GCC region. The infrastructure built can be leveraged to promote diversification and benefit the economy for years to come.

Infrastructure investments. After winning the bid to host the 2022 WC in 2010, Qatar announced a $200 billion infrastructure program. The direct expenses to build eight stadiums have been reported to be between US$6.5 and US$10 billion, in line with the spending of previous hosting countries. Most of the announced investment was for general infrastructure projects, including to build an integrated railway and metro system, develop roads and utilities network, expand the airport, and build a brand new Lusail city where foreigners can buy properties. The projects are mostly completed and result in world-class quality infrastructure in Qatar.

Economic impact and spillovers. If the pandemic subsides as expected, the WC will be the first major sport event with a large number of spectators, likely to benefit from the pent-up demand. Reportedly, up to 1.2-1.5 million visitors are expected,[1] which could help bring the number of annual visitors closer to pre-pandemic levels of about 2 million, accelerating the recovery of tourism, transportation, hospitality, and catering sectors, which were hit the hardest by the pandemic. The potential contribution to non-hydrocarbon growth could thus reach the pre-pandemic (and pre-diplomatic rift) level of around 0.8 ppts, although the estimate is subject to significant global uncertainty. Given limited accommodation capacity in Qatar, many of the visitors will likely stay in neighboring countries within a short flight to Doha, such as Oman and the UAE. This will spur demand in these countries and could prompt visitors to stay longer either in Qatar or in neighboring countries for the winter holidays. Cities like Dubai with extensive hotel infrastructure are likely to benefit the most. Also, the end of the diplomatic rift could facilitate intra-regional travel, benefitting Qatar Airways and other airlines, especially those from the GCC. Visitors' spending during the event will increase revenues from excise taxes and VAT in countries that have implemented them.

A lasting legacy. The stadiums have been built with new technologies to increase sustainability. After the WC, the authorities will need to find productive ways to use the stadiums (e.g., Qatar will host the 2030 Asian Games). The WC will provide an opportunity to showcase Qatar's achievements to the world, potentially attracting more visitors and investors. The event also brought attention to conditions of expatriate workers and led to the abolishment of the Kafala system and other supplemental reforms (¶2)—a welcome first step in enhancing protection and labor market mobility of expatriate workers.

POLICIES TO ENSURE STABILITY AND PROMOTE ECONOMIC TRANSFORMATION

Qatar's successful management of the pandemic, the current economic upswing and favorable outlook of hydrocarbon prices provide a great opportunity to foster a transformational recovery through prudent macroeconomic policies and accelerated reform efforts. Policy priorities include to: (i) carefully manage the exit from remaining financial sector support to avoid further buildup of financial sector vulnerabilities, (ii) maintain fiscal discipline amid hydrocarbon revenue windfalls and embark on a growth-friendly fiscal consolidation, and (iii) advance the reform agenda to achieve Qatar National Vision 2030 and build a more diversified, knowledge-based, and greener economy.

A. Safeguarding Financial Stability amid a Gradual Exit

10. The QCB's gradual exit strategy and the recent move toward more targeted support are welcome—proper implementation is key. The QCB has undertaken an appropriately cautious approach in designing the exit strategy in consultation with banks in light of high uncertainty. While supporting the recovery, the exit plan should continue to be carefully calibrated to limit banking sector vulnerabilities. In this context, staff supported the gradual reduction in the zero-interest repo facility. The QCB's recent decision to replace the blanket loan moratorium with more targeted support is also a step in the right direction. Under the plan, banks will have three months to assess borrowers' repayment capacity and treat their loans accordingly: 1) borrowers with good repayment capacity will resume normal debt service, 2) viable but distressed (due to the impact of the pandemic) borrowers could restructure their loans once, and 3) unviable borrowers should resolve their debt. In implementing the strategy, it is critical to ensure banks' prudent assessment of asset quality and risks, proper restructuring of relevant loans, and prompt recognition of NPLs and losses. An enhanced insolvency framework could help shorten the resolution process and improve recovery rates. The QCB should monitor the exercise closely and provide guidelines to ensure evenhandedness in banks' bilateral discussions with borrowers.

11. Continued diligence in banking supervision is required to safeguard financial stability. While banking sector indicators appear healthy, potential asset quality problems could have been masked by pandemic support measures. Staff analysis suggests that NPL ratios could have been slightly higher in 2021 without the loan moratorium. The banking sector's sizeable exposure to government-related entities (GREs),[8] including those hit hard by the pandemic, adds to the risks and could increase contingent sovereign liabilities. The QCB should proactively monitor banks' compliance with provisioning and capital requirements, and require plans to deal with NPLs and restore capital buffers as needed. Continuing stress testing and information sharing among the financial supervisors could help identify vulnerabilities and guide regulatory actions.

[8] The share of GRE loans in total bank loans is around 19 percent.

12. Banks' large and increasing exposure to foreign liabilities poses risks. Banks have been increasingly reliant on foreign funding due to its longer tenor and lower cost. As a result, several banks have LTD ratios well above the 100 percent prudential limit and the Net Stable Funding Ratios (NSFR) below the required level, though they comply with the Liquidity Coverage Ratio (LCR) prudential limit. These banks could be vulnerable to a tightening in global financial conditions and potential investor sentiment swings, despite progress in lengthening the maturity of non-resident deposits and diversifying the investor base. Strong public support mitigates financial stability risks but could increase contingent sovereign liabilities. To address these concerns, the QCB has recently adjusted reserve requirements in foreign currencies for non-resident deposits and the calculation of LCR and NSFR ratios using more conservative assumptions of outflow run-off rates,[9] and modified the LTD calculation to include banks' borrowing with different maturities.

13. More forceful implementation of prudential regulations, development of domestic stable funding and a reduction of sovereign-bank nexus will help alleviate the risks. Time-bound plans and their strict implementation are needed to reduce banks' exposure to external financing and align their LTD and NSFR ratios with the prudential limits. Deepening financial markets could help increase domestic stable funding as well as promote term savings, widen borrowing and investment opportunities, and achieve greater financial inclusion. The authorities could consider issuing long-term capital instruments to create a benchmark yield curve to facilitate saving and lending in domestic currency. Fiscal prudence and less domestic borrowing by the public sector would alleviate the sovereign-bank nexus and avoid crowding out of private credit. It is also crucial to put in place an adequate bank resolution framework and financial safety nets, such as emergency liquidity assistance and deposit insurance scheme. An FSAP Update could be considered to strengthen these areas.

14. The authorities stressed the need for a gradual exit to avoid disrupting the recovery, and supported staff's call for diligent banking supervision. The QCB emphasized their proactive efforts in supervision. While the authorities recognized the potential vulnerabilities associated with banks' reliance on foreign funding, they highlighted the progress made in diversifying foreign investor base and lengthening maturity. The increase in banks' foreign borrowing was also attributed to the need to finance infrastructure investments in the run-up to the World Cup and was expected to subside after the event. The authorities cited their adequate prudential measures, good quality of loans to GREs especially under the current favorable economic environment, and history of strong state support to banks[10] as main risk mitigants.

[9] Under the IMF's Institutional View (IV) on the liberalization and management of capital flows, these measures would constitute both macroprudential and capital flow management measures (CFM/MPMs). The adjustments in the calculation of the LCR and NSFR ratios are in line with the Basel framework and fall under the special treatment of the IV, and hence their use will not be assessed. Staff is in the process of assessing the recently announced reserve requirements in FX for non-resident deposits (in effect since April 2022) against the backdrop of the recent review of the IV (March 2022).

[10] Following the diplomatic rift in June 2017, the state, and in particular the QIA, stepped in to replace a large portion of foreign liabilities.

15. Rising fintech activities since the pandemic have accelerated efforts in developing the fintech regulatory framework. E-commerce and online financial sector services have surged during the pandemic.[11] The QCB and the Qatar Development Bank (QDB) have also had initial success in their fintech incubator and accelerator programs, with the potential to increase financial inclusion. Staff welcomed the issuance of regulations on e-payments, electronic know-your-customer (e-KYC and e-signature), and electronic insurance aggregation. Strong efforts should continue to balance opportunities and risks, including ML/TF risks.

16. Qatar has taken major steps to strengthen the AML/CFT legal and regulatory framework, and should continue the efforts to ensure its effective implementation. New laws on combating ML/TF and terrorism, together with an implementing regulation, were enacted in 2019. The legal framework included the requirement to implement without delay the targeted financial sanctions related to terrorism and proliferation financing. The QCB has issued various guidance and instructions to facilitate the implementation of the new AML/CFT requirements, increased its outreach activities, and strengthened its risk-based AML/CFT supervision. In 2020, the Regulatory Authority for Charitable Activities (RACA) conducted a TF risk assessment on non-profit organizations to enhance risk understanding and inform its AML/CFT risk-based supervisory strategy. Qatar will undergo the comprehensive AML/CFT mutual evaluation by the MENAFATF in July 2022. Effective implementation of the supervisory strategies and activities will be critical to further strengthen Qatar's AML/CFT regime.

17. The authorities shared staff's assessment on fintech and highlighted progress in strengthening the AML/CFT framework. The authorities viewed fintech as a strategic area to focus on and sought the IMF's technical assistance in advancing the work. On the AML/CFT implementation, they emphasized the progress made, including efforts toward the upcoming MENAFATF mutual evaluation. The QCB is also in close cooperation with the relevant supervisory authorities to ensure full compliance with all the requirements.

B. Maintaining Fiscal Prudence and Embarking on a Growth-friendly Consolidation

18. Staff projections indicate a fiscal loosening in 2022, and the hydrocarbon windfalls increase the risk of fiscal procyclicality. Additional expenditures allocated to support the World Cup are projected to widen the non-hydrocarbon primary deficit, indicating a fiscal loosening. On the other hand, the 2022 budget envisages saving most of the revenue windfalls from favorable hydrocarbon prices, raising the overall fiscal surplus. Staff supported saving hydrocarbon windfalls and urged the authorities to resist potential spending pressures, including raising food and energy subsidies,[12]

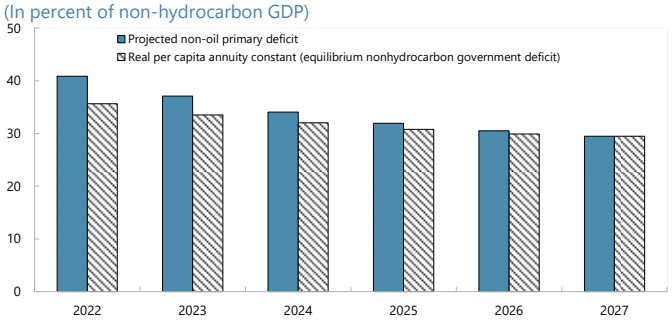
[11] Registered e-commerce websites grew by 416 in 2020. Banks launched mobile contactless payments, and digital banking transactions surged in 2020.

[12] Food importers have reportedly been absorbing the losses from food price controls, but their capacity to continue doing so is limited, increasing the likelihood of food subsidies. Similarly, energy subsidies could increase as a result of limiting pass-through from global to domestic energy prices.

and avoid procyclical fiscal policy, which could fuel macro-financial imbalances and erode fiscal space. Qatar has robust food safety support for its citizens and can protect the vulnerable population against rising food and energy prices with targeted transfers. With broadly prudent fiscal management in recent years and continued discipline, Qatar is projected to be close to achieving intergenerational equity (see below). A gradual fiscal consolidation is thus needed over the medium term, which would also help strengthen the external position.

19. The approved 2022-24 budget framework aims for an expenditure-based fiscal consolidation. The authorities envisage a flat public wage bill in real terms, and a sizeable reduction in public investment (by 4.5 ppts of GDP over the medium term), which could weigh on non-hydrocarbon growth in a largely public sector-driven economy. Therefore, despite the planned spending cuts, the Non-hydrocarbon Primary Balance (NHPB) is not expected to reach the Permanent Income Hypothesis (PIH) norm—a benchmark to ensure intergenerational equity—until around 2027. Staff projects the central government debt to decline from 58 percent of GDP in 2021 to 36 percent of GDP in 2027, with 51 percent of the debt consolidation being driven by the primary fiscal balance (Annex IV).

Non-hydrocarbon Primary Deficits and PIH-Based Benchmarks, 2022-27
(In percent of non-hydrocarbon GDP)



Source: IMF staff calculations.
Notes: Benchmark non-hydrocarbon primary deficit is calculated using the Permanent Income Hypothesis (PIH) under the assumption of constant real per capita annuity. Projections until 2027 use WEO assumptions. After 2027, we assume annual oil price growth of 2 percent, population growth of 1.5 percent, and real return on assets of 4 percent. Projected non-hydrocarbon primary deficit excludes portions of Qatar Energy investment income and corporate income tax (that come from hydrocarbon activities).

20. A more balanced and growth-friendly consolidation strategy could help achieve the dual objectives of intergenerational equity and diversification. The strategy consists of three pillars:

- ***Diversifying revenues**, and in particular, **accelerating the implementation of the VAT.*** Despite progress in economic diversification, Qatar remains highly dependent on hydrocarbon revenues.[13] Increasing non-hydrocarbon revenues would help reduce sensitivity to oil price shocks and pave the way for a modern and broad-based tax system. While the authorities decided not to introduce the VAT ahead of the World Cup,[14] staff suggested introducing a broad-based VAT as soon as possible in 2023, allowing for sufficient consultation and preparation ahead of the implementation.[15] Assuming an introductory rate of 5 percent as per

[13] While two-thirds of the GDP is generated in the non-oil economy, non-oil revenues account only for around 20 percent of total revenues.

[14] Qatar and Kuwait remain the only two countries in the GCC that have not introduced the VAT.

[15] VAT exemptions and reduced rates should be limited, as they increase administrative costs and revenue leakage risks. Key lessons from other GCC countries' experiences in implementing the VAT include to: (i) conduct public consultation on a draft VAT law; (ii) publish the final VAT law and regulations sufficiently in advance of the implementation to allow proper preparation and adjustments by businesses affected; (iii) ensure adequate human and IT capacity and resources in the tax administration to support taxpayers and administer the VAT; (iv) provide targeted

(continued)

the GCC agreement, the VAT could bring additional revenues of 1.2-1.5 percent of GDP annually. Favorable near-term outlook could mitigate the initial negative growth impact, which could be more than offset by gains from productive spending of the VAT revenue. The one-time increase in inflation is likely to be small, especially if the introductory rate is 5 percent.[16] The implementation of the VAT would also allow for comprehensive information gathering, facilitating Qatar's introduction and administration of other taxes as it modernizes its tax system. In this context, staff welcomed Qatar's acceptance of the international agreement on the minimum corporate income tax (CIT) and encouraged the authorities to accelerate the implementation.[17]

- ***Enhancing current spending efficiency through subsidy reforms and public wage bill rationalization.*** Thanks to previous subsidy reforms, Qatar has lower energy subsidies than other GCC countries, but there is scope to reduce utility subsidies further, while providing targeted support to those in need. This would not only generate fiscal savings, but also reduce energy consumption and support Qatar's own target in reducing GHG emissions, as well as to promote efficient water usage, especially by households.[18] Public wage bill rationalization, including tightening the eligibility for benefits and reducing staffing by natural attrition, would support the authorities' plan to contain the public wage bill and incentivize private sector employment.

- ***Reorienting spending to boost productivity, economic diversification, and green investment.*** Qatar has built top notch infrastructure over the last decade, which could be leveraged to generate new growth without continued significant public investment in traditional physical infrastructure. To boost long-term potential growth, some fiscal space can be deployed to: (i) support structural reforms and promote growth by investing in health, education/training, and innovation; and (ii) embrace emerging global trends, such as digitalization and green infrastructure, as well as to create an enabling environment to attract more private investment in these areas.

21. Scenario analysis shows how fiscal prudence could guard against external shocks and productive public spending could boost long-term growth (Annex VI). Hydrocarbon demand in line with limiting global warming to 2-degrees Celsius or a 1 ppt lower return of the QIA's financial

support to help small businesses to comply with the VAT; and (v) in the first year, potentially use a higher registration threshold so that small businesses are initially not required to register.

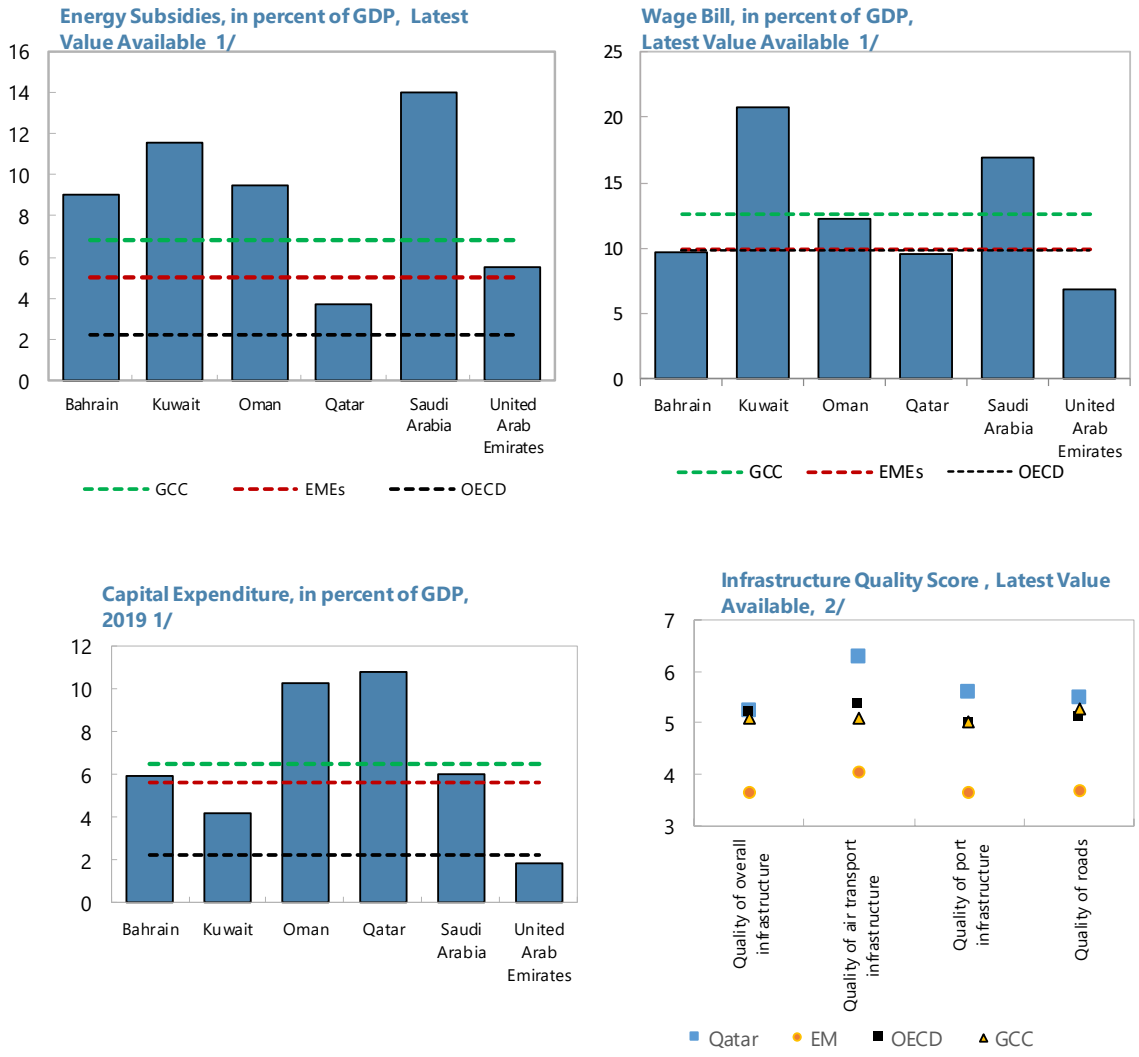
[16] The average increase in inflation at the time of VAT introduction in other GCC countries was around 1.7 ppts.

[17] The global minimum corporate income tax of 15 percent under Pillar Two is higher than the general rate of 10 percent in Qatar currently.

[18] Qatar has the fourth highest energy consumption per capita and the highest carbon emission per capita worldwide. Qatar relies heavily on costly desalination for water, but Qatari citizens do not pay for water in their primary residences.

investment is estimated to reduce permanent per capita income by around 34 and 19 percent, respectively, from the baseline level. It is thus important to save hydrocarbon windfalls when prices are high to strengthen buffers against future shocks. When fiscal prudence is complemented by efficient and productive public spending, the potential growth gains could be significant. Reforms to implement the VAT, remove energy subsidies, and contain the wage bill are estimated to generate an additional fiscal space of 3½ percent of GDP over the medium term. These reforms, together with the efficient spending of the fiscal space created, could increase annual potential non-hydrocarbon GDP growth by 1.2 ppts, more than offsetting the impact of the above downside shocks.

Expenditures and Infrastructure Quality



Source: IMF FAD Expenditure Assessment Tool (EAT), World Economic Outlook Global Competitiveness Index.
1/ Dashes are the average for the countries in regional bechmark group.
2/ The infrastructure quality scores are in part based on executive opinion surveys which are perception based and thus can be more subjective than other economic indicators.

22. Developing a credible and operational medium-term fiscal framework (MTFF) is crucial in implementing the consolidation strategy. The current 3-year budget framework with binding spending envelopes for government entities is a welcome first step to de-link spending from oil price volatility. The next step is to develop a full-fledged MTFF, informed by credible macroeconomic projections and with clear medium-term fiscal anchors to ensure intergenerational equity and priority spending. The MTFF should guide and be integrated into the annual budget process, complemented by a fiscal risk statement. Accelerating the transition toward a performance-based medium-term expenditure framework would improve allocative efficiency. To facilitate the mapping of the 5-year National Development Plan into medium-term fiscal policy making, the authorities could also consider the option of extending into a 5-year fiscal framework with interim targets. In addition, a comprehensive sovereign asset-liability management framework encompassing the general government, the QIA and the GREs would allow better risk assessment and management of the public sector balance sheet.

23. Greater fiscal transparency and enhanced governance and coordination in policy making are needed. Publication of annual budget documents and quarterly budget performance reports for the central government is welcome, and should be broadened to include the general government, with more detailed information on fiscal operations and budget plans. Improving transparency in public procurement would enhance fiscal management and assist the government's anti-corruption efforts. More transparency on the QIA's operations and flows with the central government would strengthen governance and policy making.

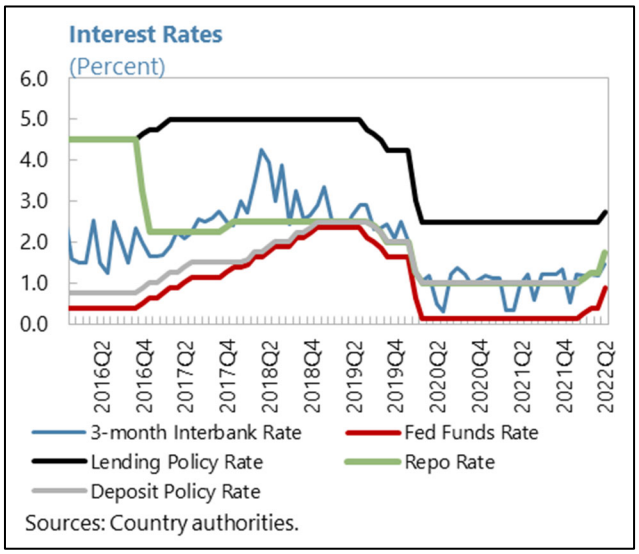
24. The authorities underscored their commitment to fiscal discipline and broadly shared staff's view on the three pillars underpinning the medium- to long-term fiscal strategy. They noted the plans to limit increases in the public wage bill and current expenditures, while transferring surpluses to the QCB and the QIA. After the World Cup, the focus of spending is expected to shift towards developing a high-value, knowledge-based economy. While the government is working to diversify sources of non-hydrocarbon revenues, near-term inflationary pressures could deter the introduction of the VAT. Nonetheless, the long-term goal is to raise sufficient non-hydrocarbon revenues to cover government operations. The authorities emphasized the ongoing work on a long-term fiscal program to guide their fiscal policymaking and the plan to extend the 3-year budget framework to 5 years.

C. Strengthening the Monetary Policy Framework

25. The exchange rate peg continues to serve Qatar well. Staff assesses the peg to remain a credible monetary anchor,[19] which will be further supported by fiscal consolidation and competitiveness-enhancing reforms. Given the robust recovery and abundant liquidity, staff

[19] A more flexible exchange rate regime would have limited effect on external competitiveness (87 percent of Qatar's exports are hydrocarbon) and could generate significant uncertainty and negative balance-sheet effects (FX accounts for 17 percent and 32 percent of banks assets and liabilities, respectively).

supported increases in the QCB's policy rates[20] following the U.S. Federal Reserve's moves, which, together with the gradual reduction in the zero-interest repo facility, should help to reduce excess liquidity and strengthen monetary policy transmission. To pave the way for a more independent monetary policy when it becomes appropriate in the long run, staff advises to: i) strengthen liquidity management via improved liquidity forecasting and coordination among the fiscal authorities, the QIA and the QCB; ii) deepen financial markets to enhance monetary transmission; and iii) contain balance sheet vulnerabilities from FX exposure.



26. The authorities agreed with staff's assessment on the exchange rate regime. They highlighted the large central bank reserves and QIA assets that would reinforce the peg. The QCB also noted their work to establish liquidity forecasting in coordination with related government agencies to promote a proactive liquidity management framework and strengthen monetary policy.

D. Advancing Structural Reforms to Reduce Economic Scarring and Promote Diversification

27. Structural reforms are critical to limit scarring and accelerate the economic transformation. The pandemic could leave long-lasting scars on Qatar's hospitality, transportation, retail and manufacturing sectors.[21] Staff projects that the medium-term real non-hydrocarbon GDP would remain 8 percent below the pre-pandemic projection. On the other hand, opportunities have emerged since the pandemic for economic transformation—digitalization and green investment, for example, have the potential to accelerate diversification and a greener recovery. To seize these opportunities, reforms should focus on: (i) increasing productivity and inclusiveness; (ii) enhancing private sector competitiveness, and (iii) leveraging global trends for future growth.

28. Labor market reforms are key to improve productivity and promote inclusive growth:

- ***Enhance labor mobility and safety nets for expatriates.*** Staff welcomed the expatriate labor reforms introduced during the pandemic—important steps to improve protection and flexibility for expatriates—and called for their full implementation, which would also help facilitate post-COVID labor reallocation. In the current context of rising food and energy prices, targeted transfers could be considered to complement the existing food and housing

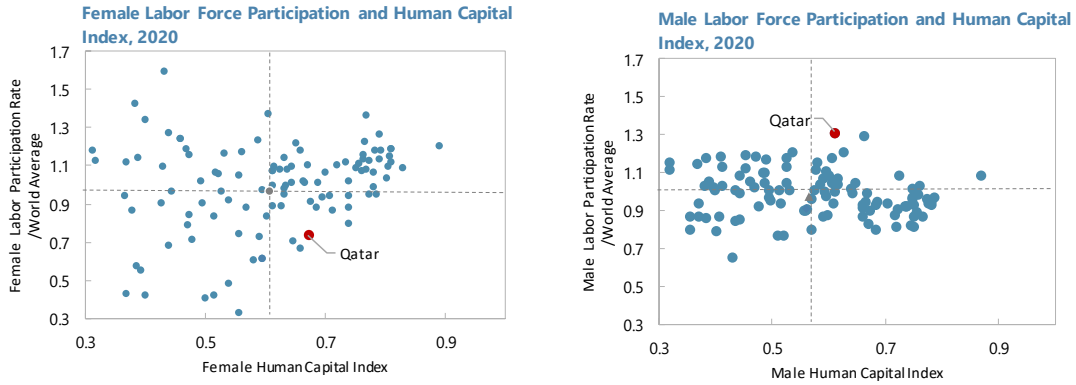
[20] Since March 2022, QCB increased the deposit rate by 50 bps, lending rate by 25bps, and the repo rate by 75 bps.

[21] Persistent output losses could occur through several channels, including a protracted recovery in contact-intensive sectors, persistent labor market weakness, stretched corporate balance sheets, and a loss in human capital.

allowances. Providing an enabling environment, appropriate pension schemes and sufficient social safety nets for expatriate workers could help attract and retain skilled professionals.

- ***Increase female labor participation.*** Qatar's female labor participation rate is among the lowest in the world, but its female human capital is relatively high, suggesting the potential to boost labor productivity through higher female labor participation. Regulatory reforms are needed to ensure equal remuneration, protection in the workplace, paid parental leave and equal retirement age and pension. Increasing female representation in decision making bodies,[22] providing special entrepreneurship programs and allowing equal access to finance would also be helpful.

Labor Force Participation Rates and Human Capital Index



Source: World Bank Human Capital Index, WEO, and IMF staff calculations.
Note: The dash line represents the median. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographic coverage, and standardized assumptions on business constraints, and information availability. They may also not reflect more recent important structural transformations. The Human Capital Index is based on expected years of schooling, performance on international student tests (TIMSS), and the health environment of youth.

- ***Incentivize private sector employment.*** 95 percent of the employed Qataris work for the public sector, which offers favorable salaries, working hours and job security. Post school entrepreneurial education, public employment reforms and incentive schemes[23] to encourage Qataris to join the private sector will facilitate the transition toward a private sector-led growth. Reducing the persistent public-private wage gap will serve to reinvigorate employment in the private sector. Reforms to attract and retain skilled expatriates would also help.

[22] The share of women in managerial positions reached 14 percent in 2019 against an average of 16 percent in the GCC and 27 in EMDEs, while only 7 percent of ministerial positions were occupied by women in 2020 against an average of 10 percent in the GCC and 20 percent in EMDEs.

[23] Qatar launched the Entrepreneurship Leave Program (ELP) in 2019 which allows Qatari nationals working for the government to obtain paid leave while developing their own projects. In addition, the recent labor market reforms would help reduce the wage gap between nationals and expatriates, which should encourage nationals' shift to the private sector.

- ***Reform the education system and active labor market policies to improve human capital.*** Education spending per student in Qatar is among the highest in the world and their academic performance has improved, but lags remain compared to economies in the same income group. Staff advised reforms to focus on enhancing the efficiency of education spending. Adapting education curricula to the evolving needs of the labor market and more focus on on-the-job training would help to build a knowledge-based economy.

29. Reforms should continue to improve the business environment and attract private investment. The PPP projects need to be properly monitored and their risks managed. Further measures to support SMEs through improved access to finance (e.g., by domestic financial deepening and enhancing financial infrastructure)[24] and strengthened insolvency procedures would facilitate their post-COVID adjustment and recovery.

30. Embracing emerging global trends could generate new growth and address climate challenges.

- ***Accelerate digitalization.*** The strong digital infrastructure in Qatar ensured the provision of financial, government, education, health, and e-commerce services during the pandemic.[25] The fintech sector has been growing rapidly since the announcement of the National Fintech Strategy and the launch of the Qatar FinTech Hub (QFTH) in 2019. Efforts should continue in promoting digitalization; regulation and supervision of fintech need to advance further to balance risks and opportunities.

- ***Foster greener growth (Annex VII).*** Qatar's ecosystem is highly vulnerable to climate change risks—climate stressors have already had a significant impact on water, temperature, and sea level. Moreover, the economy's dependence on LNG—although relatively cleaner than other fossil fuels—makes it susceptible to global mitigation actions in the long term. Qatar has adopted a number of climate mitigation and adaptation initiatives, and efforts should accelerate. Gradually phasing out energy subsidies is critical in meeting Qatar's mitigation pledge, [26] which should be complemented by increasing green investment, including from private investors, enhancing interagency coordination, and upgrading regulatory framework.

31. The authorities underscored their commitment to structural reforms. They noted that the removal of the Kafala system should help boost productivity and enhance competitiveness.

[24] Personal savings and net worth remain the main source of finance for SMEs. It accounts for 76 percent in 2020, while bank loans and equity investment represent only 13 percent and 5 percent, respectively.

[25] Qatar is among the leaders in adopting Information and Communication Technology according to the World Economic Forum's Global Competitiveness Report and received a high development Index by the UN E-government Survey. During the pandemic, Qatar developed new COVID-related digital platforms to facilitate case diagnosis and tracking, e-learning, teleworking, and e-shopping. Schools adopted a blended learning policy that combined online and in-person classes. 74 percent of Qatari companies have a remote work policy according to a Microsoft survey.

[26] Simulations in Annex VII show that gradually aligning natural gas and electricity prices with supply costs by 2030 and installing 800 MW of solar power in 2022 as planned could allow Qatar to meet its mitigation pledge.

Efforts are ongoing to improve working conditions for women by offering flexible working hours and a welcoming workspace. The authorities aim to increase private sector employment among nationals through better education and incentive measures. The QDB highlighted progress in supporting the SMEs (e.g., access to finance and digitalization), including under the NGP. The authorities highlighted that the newly-launched climate strategy will provide a robust policy framework to safeguard Qatar's environment and noted their ongoing work to establish the environmental, social, and governance (ESG) framework.

32. Improving macroeconomic statistics will enhance surveillance. Qatar publishes essential macroeconomic data through a National Summary Data Page (NSDP) as a General Data Dissemination System (GDDS) subscriber. While data coverage is adequate for surveillance, further efforts are needed to improve coverage and granularity of central/general government operations, debt statistics, and the International Investment Position. Such progress will also help Qatar to subscribe to the Special Data Dissemination Standard. The authorities noted their progress in establishing a robust NSDP portal, improving data quality and publishing partial data on Qatar's International Investment Position by the QCB.

STAFF APPRAISAL

33. Qatar has managed the Covid-19 pandemic well and a robust recovery is underway. The authorities' strong health response and fast vaccination rollout have allowed Qatar to remain largely open during the pandemic, minimizing disruptions to economic activities. The comprehensive economic support package has provided needed relief to hard-hit households and sectors and supported banking sector resilience. Accelerated reform efforts during the pandemic will help facilitate Qatar's economic transformation. The recovery is gaining momentum and near-term risks appear broadly balanced. Medium- to long-term risks, however, are tilted to the downside, calling for continued policy prudence and strengthened efforts to advance the reform agenda.

34. Diligent banking supervision is critical during the gradual exit from pandemic support measures. As the economy recovers, most pandemic support measures have ended by 2021Q3. The exit from remaining financial sector support measures is appropriately phased. The QCB's gradual reduction in the zero-interest repo facility is welcome, and the move toward more targeted support to distressed but viable borrowers is also a step in the right direction. While the banking sector remains healthy, vulnerabilities could surface during the exit, calling for continued diligence in supervision. The QCB should request banks to promptly recognize NPLs and losses from loan restructuring, proactively monitor banks' compliance with provision and capital requirements and require plans to address NPLs and restore capital buffers as needed. An adequate bank resolution framework and enhanced insolvency regime should be in place to strengthen resilience and facilitate resource reallocation. The banking sector's large and increasing reliance on foreign liabilities poses risks—more forceful implementation of prudential regulations, domestic financial deepening and a reduction in sovereign-bank nexus could help alleviate the vulnerability. Progress in developing the fintech regulatory framework is encouraging; efforts should continue to balance risks and opportunities.

35. Fiscal prudence in the near term and a growth-friendly adjustment over the medium term will support intergenerational equity and promote diversification. Revenue windfalls from the current favorable hydrocarbon prices should be saved to avoid procyclicality and strengthen fiscal buffers. The economic upswing also provides an opportunity to embark on a growth-friendly medium-term fiscal consolidation, through diversifying non-hydrocarbon revenues, especially to accelerate the delayed VAT introduction, enhancing efficiency of current expenditure via subsidy and public employment reforms, and productive public investment to promote economic diversification. Gains from these reforms could mitigate impact from future external shocks and ensure prosperity and equity for the generations to come. A credible and operational MTFF, underpinned by enhanced fiscal transparency and governance, could support the implementation of the consolidation strategy.

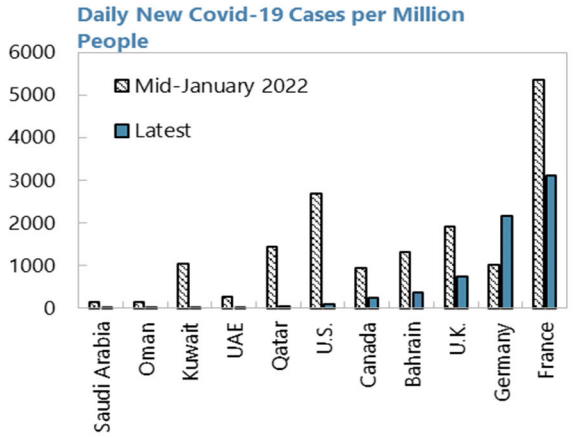
36. The exchange rate peg remains a credible monetary anchor. The peg has served Qatar well and will be further supported by fiscal consolidation and competitiveness-enhancing reforms. Liquidity management can be strengthened through improved liquidity forecasting and coordination among the fiscal and monetary authorities. Containing banks' exposure to foreign liabilities and financial market deepening would help reduce vulnerabilities and enhance monetary transmission.

37. Structural reforms should be accelerated to promote a more inclusive, diversified and greener economy. The pandemic could leave long-lasting scars on the economy, but it also presents opportunities for a transformational recovery. To limit scarring and seize the opportunity for transformation, labor market reforms should accelerate to boost productivity and inclusion, as well as to encourage more private sector employment—full implementation of recently introduced reforms for expatriate workers is a critical first step; upgrading the business environment could attract more private investment and improve competitiveness; leveraging global trends, such as digitalization and climate adaptation and mitigation, could generate new growth, alleviate Qatar's vulnerability to climate risks and help smooth the eventual energy transition toward renewables.

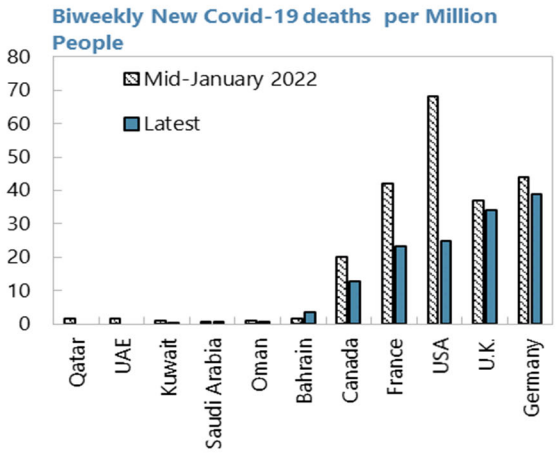
38. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Qatar: COVID-19 Pandemic Selected Indicators

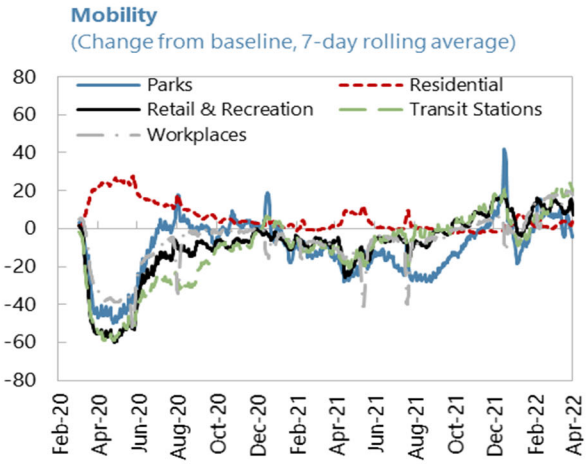
The surge of Omicron cases subsided...



... and mortality remained low thanks to high vaccination rate.



Activity recovered to pre-Covid level ...

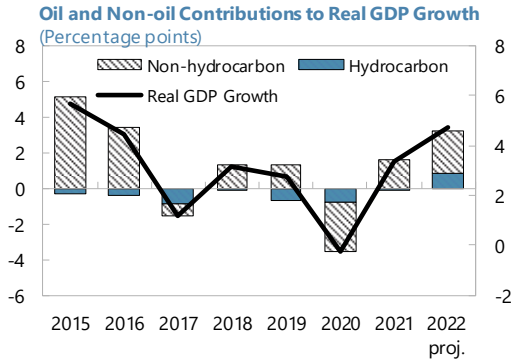


...as well as international travel.

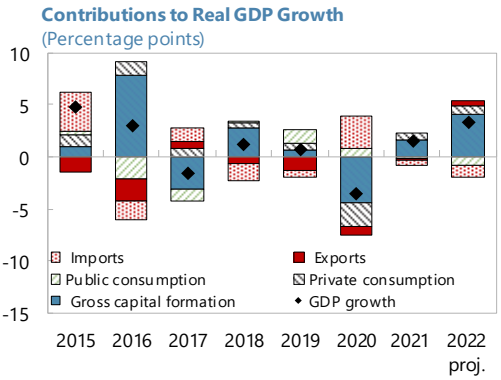
Sources: Johns Hopkins University CSSE COVID-19 Data; Google, and country authorities.

Figure 2. Qatar: Real Sector Developments

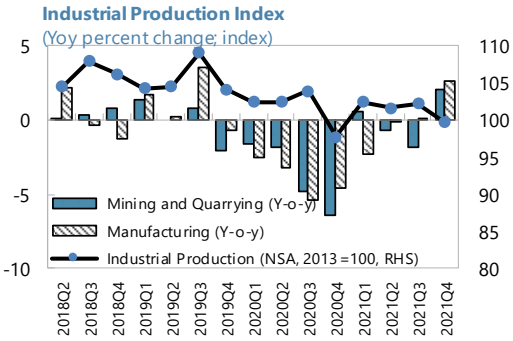
Economic recovery is gaining strength…



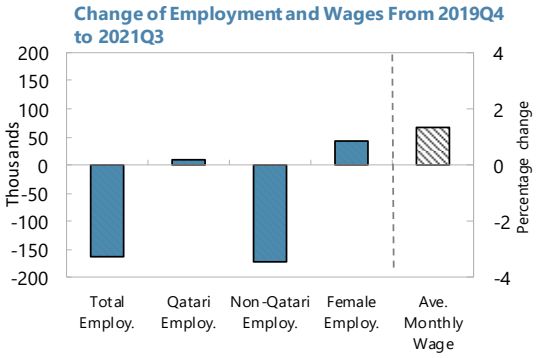
… supported by strong gross capital formation and private consumption.



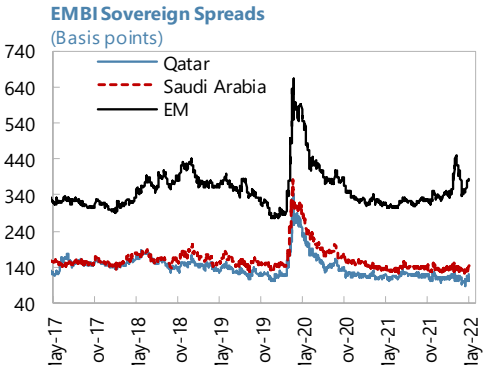
Industrial production remained below pre-Covid level as maintenances reduced hydrocarbon production in 2021.



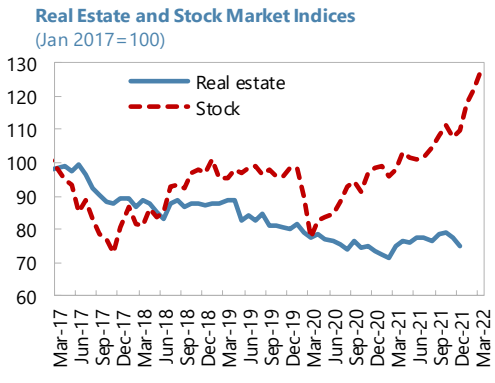
Employment remained significantly below pre-pandemic level driven by expatriates' departure; wages increased mildly.



Sovereign Spread remains flat despite the uptick of EM overall risk premium.



The stock market index has risen beyond pre-COVID levels while the real estate index has recovered modestly.

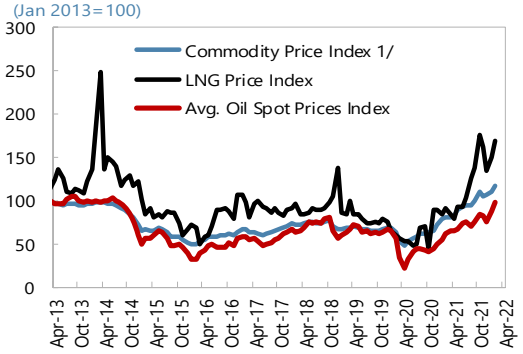


Sources: Country authorities; Bloomberg; and IMF staff calculations.

Figure 3. Qatar: External Sector Developments

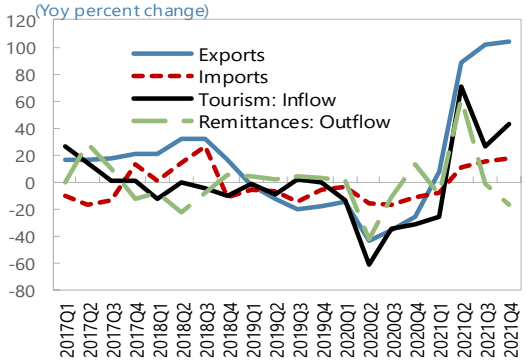
Oil and gas prices have continued rising in 2022...

Commodity Price Indices
(Jan 2013=100)



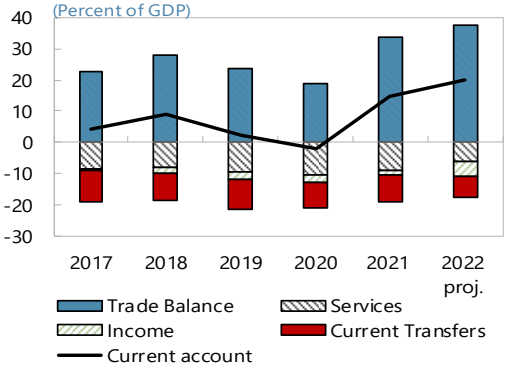
... driving up exports faster than imports. Tourism is recovering, while remittances dropped.

Selected Components of Current Account
(Yoy percent change)



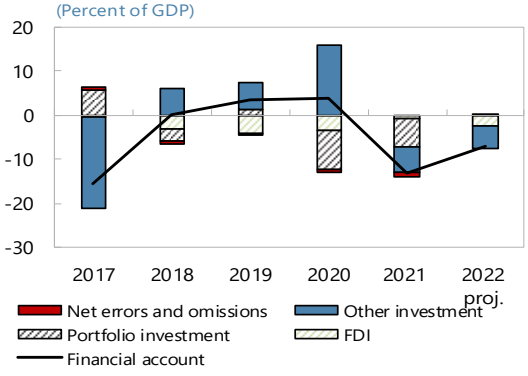
The current account surplus has returned thanks to a widening trade surplus, which is expected to continue.

Current Account Balance
(Percent of GDP)



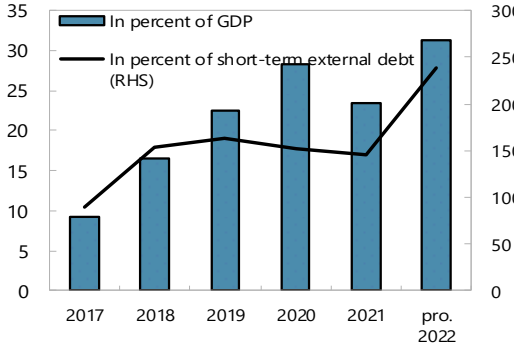
Resumption of other investment abroad has driven the financial account into a deficit in 2021.

Financial Account Balance
(Percent of GDP)



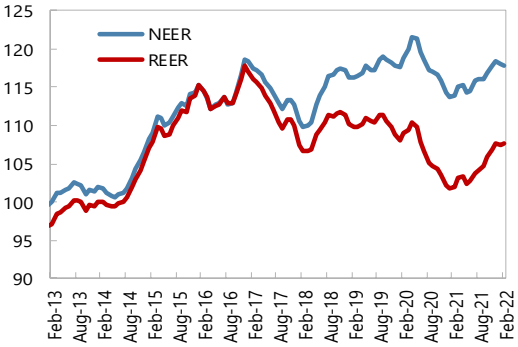
Central bank reserves remained broadly adequate and expected to rise further.

Central Bank Reserves



Real and nominal effective exchange rates have been appreciating since 2021.

Real and Nominal Effective Exchange Rates
(Index, 2010=100, increase = appreciation)



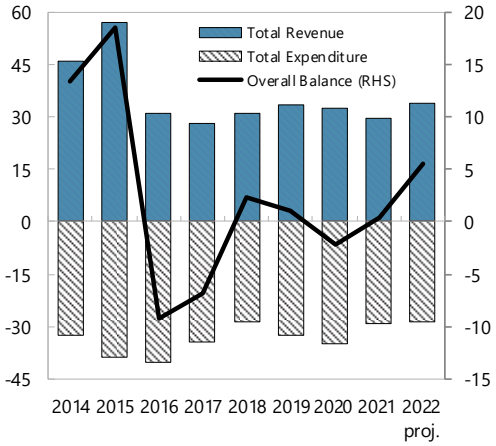
Sources: Country authorities; Bloomberg; and IMF staff calculations.

1/ Including both fuel and non-fuel price indices.

Figure 4. Qatar: Fiscal Sector Developments

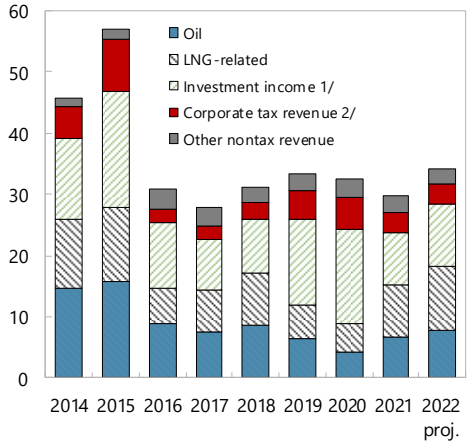
The fiscal balance turned positive in 2021…

Central Government Fiscal Balance



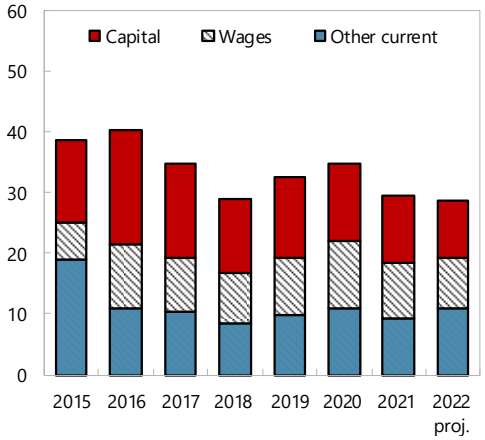
…as higher hydrocarbon prices boosted fiscal revenues.

Central Government Revenues



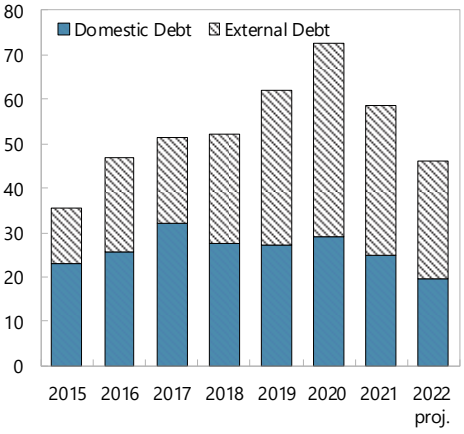
Relative to the economy, public spending decreased.

Central Government Expenditure



Gross public debt (relative to nominal GDP) declined from its 2020 peak.

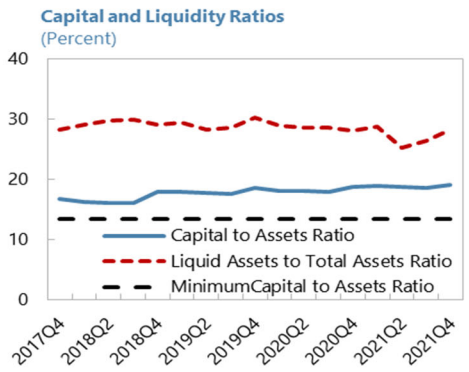
Central Government Debt



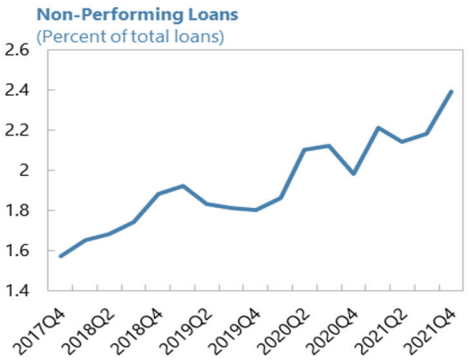
Sources: Country authorities; and IMF staff estimates.
1/ Dividends paid by Qatar Energy and other state-owned enterprises.
2/ About 85 percent of corporate income tax comes from Qatar Energy.

Figure 5. Qatar: Financial Sector Developments

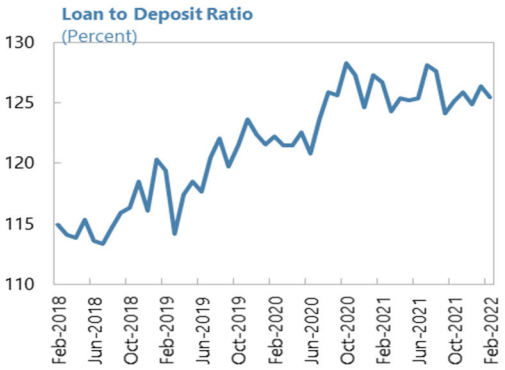
Banks remain liquid and well capitalized.



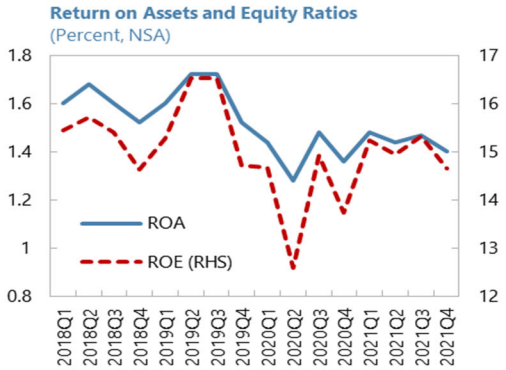
The NPL ratio inched up but remained low, partly due to the loan moratorium.



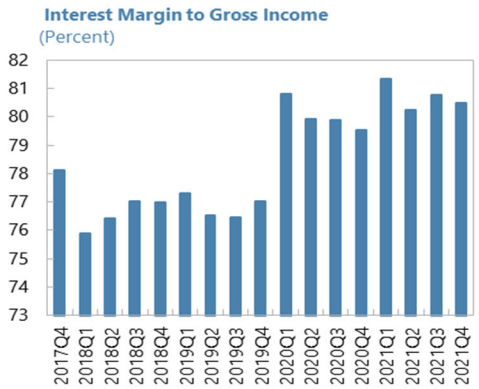
The loan-to-deposit ratio remains elevated.



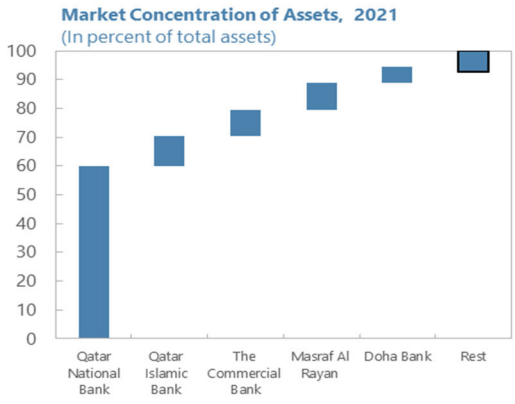
Return on assets and equity recovered somewhat.



Interest margins improved, helped by a lower funding cost.



The banking system remains highly concentrated.



Sources: Country authorities; S&P IQ; and IMF staff calculations.

Table 1. Qatar: Selected Macroeconomic Indicators, 2019-27

(Quota: 735.1 million SDRs, 2021)
(Per capita income: U.S.$ 68,581, 2021)
(Life expectancy at birth: 80, 2020), (Population: 2.7 million, 2021)

				Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
National Account	(change in percent unless otherwise noted)								
Nominal GDP (billions of Qatari Riyals)	642.0	525.7	653.6	821.6	831.2	839.8	866.4	899.7	935.1
Nominal hydrocarbon GDP (billions of Qatari Riyals)	229.3	152.3	240.8	376.1	344.8	316.2	305.3	304.8	313.2
Nominal nonhydrocarbon GDP (billions of Qatari Riyals)	412.7	373.3	412.9	445.5	486.4	523.7	561.1	594.9	622.0
Nominal nonhydrocarbon GDP (share of overall GDP, percent)	64.3	71.0	63.2	54.2	58.5	62.4	64.8	66.1	66.5
Real GDP (2018 prices)	0.7	-3.6	1.5	3.4	2.5	1.7	2.8	2.7	3.8
Hydrocarbon 1/	-1.7	-2.0	-0.3	2.3	1.9	0.4	4.1	4.0	6.8
Nonhydrocarbon	2.2	-4.5	2.7	4.1	2.8	2.5	2.0	2.0	2.0
Per capita	-0.7	0.6	4.1	1.4	4.6	2.8	3.8	3.7	4.9
Deflator	-4.5	-15.1	22.5	21.5	-1.3	-0.7	0.3	1.1	0.1
CPI inflation (average)	-0.7	-2.7	2.3	3.5	3.2	2.1	1.5	1.5	1.5
Hydrocarbon sector									
Exports (billions of U.S. dollars) 1/	62.9	47.2	76.5	108.0	99.8	90.9	89.3	91.3	98.1
Brent crude oil price (U.S. dollars per barrel)	64.0	42.3	70.4	110.8	96.1	87.2	81.4	77.6	74.9
Crude oil production (thousands of barrels per day)	579.2	554.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0
Natural Gas exports (millions of tons per year)	92.3	91.5	90.7	91.4	91.8	92.1	100.1	108.1	124.1
of which Liquefied natural gas (LNG)	77.3	77.0	76.3	76.7	77.1	77.5	85.5	93.5	109.5
Central Government Finances	(percent of GDP unless otherwise noted)								
Revenue	33.5	32.6	29.7	34.1	36.8	34.0	31.6	30.9	31.3
Expenditure	32.5	34.7	29.4	28.6	28.4	28.2	27.7	27.2	25.8
Current	19.3	22.0	18.3	19.2	19.2	19.2	19.2	19.2	19.2
Capital	13.1	12.7	11.1	9.4	9.2	9.0	8.5	8.0	6.6
Central government fiscal balance	1.0	-2.1	0.3	5.4	8.5	5.8	4.0	3.7	5.4
Non-hydrocarbon primary balance (percent of non-hydrocarbon GDP) 2/	-37.0	-35.4	-34.6	-40.9	-37.1	-34.1	-31.9	-30.5	-28.5
Central government debt	62.1	72.6	58.4	46.0	44.5	42.7	41.0	38.6	36.2
Monetary and Financial Sector (change in percent)	(change in percent unless otherwise noted)								
Broad money	2.5	3.8	1.4	16.9	8.2	7.7	7.1	6.0	4.6
Domestic claims on public sector 3/	4.2	6.2	9.1	2.1	1.2	0.6	0.3	0.2	0.1
Domestic credit to private sector 4/	19.5	8.3	9.5	7.4	8.7	7.7	7.1	6.0	4.6
3-month T-bill rate (Qatar Riyal, percent, eop)	1.7	0.1	0.2	...	...	...	...	...	...
CDS (bps, eop)	41.9	38.5	44.5	...	...	...	...	...	...
External Sector	(percent of GDP unless otherwise noted)								
Exports	52.2	49.1	58.8	64.6	58.5	53.5	51.6	50.7	51.5
Imports	37.9	40.9	34.1	33.1	33.3	35.1	36.3	37.5	38.9
Current account balance	2.4	-2.0	14.7	19.9	15.1	9.7	6.8	5.1	4.8
Terms of trade (2013=100)	84.0	59.0	79.7	104.5	93.4	84.8	79.3	76.2	72.9
External debt	137.6	187.0	161.5	131.5	133.3	134.7	134.1	131.7	128.5
Central Bank's official reserves	22.5	28.3	23.5	31.3	36.3	39.9	42.6	44.6	40.7
Memorandum Items									
Local currency per U.S. dollar (period average)	3.6	3.6	3.6	...	...	...	...	...	...
Real effective exchange rate (change in percent)	0.8	-5.7	1.7	...	...	...	...	...	...
Credit rating (Moody's investor services)	Aa3	Aa3	Aa3	...	...	...	...	...	...

Sources: Qatari authorities; and IMF staff estimates.

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

2/ Non-hydrocarbon central government balance refers to the central government balance excluding investment income and corporate income tax from hydrocarbon activities.

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

4/ Excludes financial securities.

Table 2. Qatar: Balance of Payments, 2018-27

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

					Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current Account	16.7	4.3	-2.9	26.4	44.9	34.5	22.4	16.1	12.6	12.4
Trade (net)	51.0	41.6	27.1	60.3	85.1	74.5	62.3	56.2	55.6	59.6
Exports	84.3	72.9	51.5	87.2	122.3	112.2	101.9	99.4	100.5	106.7
Hydrocarbon	72.8	62.9	47.2	76.5	108.0	99.8	90.9	89.3	91.3	98.1
o/w: LNG	36.4	37.9	25.8	35.6	50.4	49.9	46.2	47.9	51.9	59.9
Crude oil	13.2	12.2	6.9	11.7	19.0	17.0	15.4	14.4	13.9	13.7
Propane, butane	5.9	6.0	4.1	6.8	10.6	9.2	8.4	7.8	7.5	7.2
Condensates	7.5	3.5	1.8	5.6	11.3	9.2	7.7	6.9	6.4	6.0
Refined petroleum products	11.0	9.1	6.4	10.6	16.7	14.5	13.2	12.3	11.7	11.3
Non-hydrocarbon	11.5	10.1	4.4	10.7	14.3	12.5	11.0	10.0	9.2	8.6
o/w: Petrochemicals	5.6	6.0	3.5	6.6	10.7	9.5	8.6	8.4	8.3	8.6
Others	6.8	5.0	4.6	4.1	3.6	3.0	2.4	1.7	0.9	0.0
Imports	-33.3	-31.4	-24.4	-26.9	-37.3	-37.7	-39.6	-43.2	-44.9	-47.1
Services (net)	-14.2	-16.3	-15.3	-16.0	-14.0	-17.1	-19.8	-19.5	-23.2	-27.1
o/w: Transportation	-1.4	-3.3	-4.3	-1.9	-3.5	-3.1	-4.1	-3.6	-5.9	-8.3
o/w: Travel	-3.7	-4.0	-3.2	-5.8	-3.8	-7.8	-8.5	-8.4	-8.0	-7.7
Income (net)	-3.7	-4.4	-2.9	-2.6	-10.4	-6.8	-3.4	-3.7	-3.1	-3.3
Credit	8.0	8.9	10.5	10.4	9.0	11.3	13.1	12.5	13.4	14.3
Debit	-11.6	-13.2	-13.4	-13.0	-19.4	-18.0	-16.5	-16.2	-16.5	-17.6
Transfers (net)	-16.4	-16.6	-11.8	-15.3	-15.8	-16.2	-16.7	-16.8	-16.8	-16.8
o/w: workers remittances	-11.4	-11.8	-10.0	-10.9	-11.0	-11.1	-11.3	-11.0	-10.7	-10.3
Capital Account	-0.2	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Financial Account	0.5	6.1	5.6	-23.4	-16.2	-22.2	-12.9	-6.7	-3.6	-17.9
Direct Investment (net)	-5.7	-7.3	-5.2	-1.3	-5.5	-5.9	-6.3	-6.7	-7.1	-7.6
Net acquisition of financial assets	-3.5	-4.5	-2.7	-0.2	-2.8	-2.8	-2.9	-3.0	-3.0	-3.1
Net incurrence of liabilities	-2.2	-2.8	-2.4	-1.1	-2.7	-3.1	-3.4	-3.7	-4.1	-4.5
Portfolio borrowing (net)	-5.1	2.2	-12.3	-11.8	0.7	1.2	2.0	2.8	3.4	3.9
Net acquisition of financial assets	-18.2	-10.5	-14.6	-10.0	-1.6	-1.3	-0.6	0.2	0.8	1.3
Net incurrence of liabilities	13.2	12.7	2.3	-1.5	2.3	2.5	2.5	2.6	2.6	2.6
Other investment (net)	11.3	11.2	23.1	-10.3	-11.4	-17.5	-8.6	-2.8	0.2	-14.2
Net acquisition of financial assets	-4.7	-9.8	1.1	-27.0	-18.1	-25.0	-15.0	-11.2	-6.4	-18.6
Net incurrence of liabilities	16.0	21.0	22.0	16.7	6.7	7.5	6.4	8.3	6.5	4.4
Commercial banks, net	19.6	27.3	28.6	12.9	6.3	8.3	7.9	7.9	7.0	5.2
Net Errors and Omissions	-1.1	-0.9	-1.3	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	15.9	9.4	0.6	1.2	28.6	12.1	9.3	9.2	8.8	-5.7
Change in QCB Net Foreign Assets (- increase)	-15.9	-9.4	-0.6	-1.2	-28.6	-12.1	-9.3	-9.2	-8.8	5.7
Memorandum Items:										
Nominal GDP	183.3	176.4	144.4	179.6	225.7	228.4	230.7	238.0	247.2	256.9
Current account balance (percent of GDP)	9.1	2.4	-2.0	14.7	19.9	15.1	9.7	6.8	5.1	4.8
Trade balance (percent of GDP)	27.8	23.6	18.8	33.6	37.7	32.6	27.0	23.6	22.5	23.2
Financial account balance (percent of GDP)	0.3	3.5	3.9	-13.0	-7.2	-9.7	-5.6	-2.8	-1.4	-7.0
Central bank reserves 1/	30.5	39.7	40.9	42.2	70.7	82.9	92.2	101.4	110.1	104.4
In months of next year's imports	5.4	8.0	8.0	6.6	10.9	12.1	12.6	12.9	13.1	12.4
In percent of short-term external debt	153.6	163.8	151.5	145.4	238.4	272.4	296.6	317.7	338.2	316.5
In terms of the ARA metric	69.8	76.3	79.9	86.9	95.6	98.0	100.5	104.3	107.9	111.3

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

1/ For projections, CA surpluses are equally split between transfers to QIA and building official reserves.

Table 3a. Qatar: Summary of Central Government Finance, 2018-27 1/

(billions of Qatari Riyals unless otherwise noted))

	2018	2019	2020	2021	Projections 2022	2023	2024	2025	2026	2027
Revenue	207.9	214.7	171.2	194.2	280.0	306.3	285.5	274.1	277.9	292.2
Oil	56.7	41.0	22.9	43.1	63.5	54.0	49.1	45.8	44.1	43.5
LNG	57.3	35.4	24.6	57.1	87.0	73.3	65.0	65.3	70.5	80.9
Investment income from public enterprises	59.1	90.3	80.6	55.5	82.3	121.4	114.0	106.1	105.4	108.3
Corporate tax revenue	17.6	29.7	27.5	20.9	27.9	37.7	36.8	35.8	36.5	37.9
Other revenue	17.2	18.4	15.6	17.7	19.3	19.9	20.5	21.2	21.5	21.6
Expenditure	192.8	208.4	182.4	192.1	235.3	236.0	236.4	239.7	244.3	241.5
Expense	111.2	124.1	115.9	119.6	157.7	159.6	161.2	166.3	172.7	179.5
Compensation of employees	55.7	61.4	58.3	58.7	69.0	69.8	68.9	71.0	72.0	74.8
Goods and services	15.9	16.7	17.9	19.0	20.1	21.3	22.6	23.9	25.4	26.9
Interest payments	9.8	11.0	12.2	11.6	11.7	11.6	11.4	11.1	11.0	10.8
Other expense	29.7	35.0	27.5	30.4	57.0	56.9	58.4	60.3	64.4	67.1
Net acquisition of nonfinancial assets	81.7	84.3	66.5	72.5	77.6	76.4	75.2	73.3	71.6	61.9
Gross operating balance	96.8	90.6	55.3	74.6	122.2	146.7	124.2	107.7	105.2	112.7
Net lending (+)/borrowing (-)	15.1	6.3	-11.2	2.1	44.6	70.3	49.1	34.4	33.6	50.8
Financing										
Domestic financing (net)										
- Bank loans	-23.7	-18.1	3.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0
- Domestic securities	-14.5	20.4	-5.7	19.4	0.0	0.0	0.0	0.0	0.0	0.0
- Domestic deposits	5.3	14.3	-0.4	-27.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign borrowing	36.4	40.0	3.3	-9.5	-3.6	-8.2	-10.9	-4.0	-7.3	-8.9
Other 2/	-18.6	-62.9	11.1	1.7	-41.0	-62.1	-38.1	-30.4	-26.4	-41.9
Nonhydrocarbon Primary Fiscal Balance, in pct of nonhydrocarbon GDP 3/	-148.4	-152.7	-132.3	-142.7	-182.1	-180.4	-178.3	-179.1	-181.6	-177.0
Memorandum items										
Total debt	348.2	398.6	381.7	381.7	378.1	369.9	358.9	354.9	347.7	338.8
External debt	164.2	225.3	228.9	219.5	215.9	207.7	196.7	192.7	185.5	176.6
Domestic debt	184.0	173.3	152.8	162.2	162.2	162.2	162.2	162.2	162.2	162.2
Total net debt 4/	259.0	323.7	306.4	279.3	275.7	267.5	256.6	252.6	245.3	236.4
o/w net domestic debt 4/	94.8	98.4	77.5	59.9	59.9	59.9	59.9	59.9	59.9	59.9
External debt service/total revenue (percent)	5.0	3.7	22.9	9.9	4.7	5.7	7.0	4.7	5.8	4.7
Total hydrocarbon revenue 5/	173.3	170.0	131.0	156.3	238.4	262.3	238.7	224.6	226.1	238.5
as a share of total revenues (in percent)	83.4	79.2	76.5	80.5	85.1	85.6	83.6	82.0	81.4	81.6

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

1/ GFSM 2001 based on staff estimates.

2/ Accumulation of foreign assets by the government.

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

4/ Government domestic debt less government domestic deposits.

5/ Include corporate income taxes and investment income from hydrocarbon activities.

Table 3b. Qatar: Summary of Central Government Finance, 2018-27 1/

(percent of GDP unless otherwise noted))

	2018	2019	2020	2021	Projections 2022	2023	2024	2025	2026	2027
	(Percent of GDP unless otherwise noted))									
Revenue	31.2	33.5	32.6	29.7	34.1	36.8	34.0	31.6	30.9	31.3
Oil	8.5	6.4	4.4	6.6	7.7	6.5	5.8	5.3	4.9	4.7
LNG	8.6	5.5	4.7	8.7	10.6	8.8	7.7	7.5	7.8	8.7
Investment income from public enterprises	8.9	14.1	15.3	8.5	10.0	14.6	13.6	12.2	11.7	11.6
Corporate tax revenue	2.6	4.6	5.2	3.2	3.4	4.5	4.4	4.1	4.1	4.0
Other revenue	2.6	2.9	3.0	2.7	2.3	2.4	2.4	2.4	2.4	2.3
Expenditure	28.9	32.5	34.7	29.4	28.6	28.4	28.2	27.7	27.2	25.8
Expense	16.7	19.3	22.0	18.3	19.2	19.2	19.2	19.2	19.2	19.2
Compensation of employees	8.3	9.6	11.1	9.0	8.4	8.4	8.2	8.2	8.0	8.0
Goods and services	2.4	2.6	3.4	2.9	2.4	2.6	2.7	2.8	2.8	2.9
Interest payments	1.5	1.7	2.3	1.8	1.4	1.4	1.4	1.3	1.2	1.2
Other expense	4.5	5.5	5.2	4.6	6.9	6.8	7.0	7.0	7.2	7.2
Net acquisition of nonfinancial assets	12.2	13.1	12.7	11.1	9.4	9.2	9.0	8.5	8.0	6.6
Gross operating balance	14.5	14.1	10.5	11.4	14.9	17.6	14.8	12.4	11.7	12.1
Net Lending (+)/Borrowing (-)	2.3	1.0	-2.1	0.3	5.4	8.5	5.8	4.0	3.7	5.4
Financing										
Domestic financing (net)										
- Bank loans	-3.5	-2.8	0.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0
- Domestic securities	-2.2	3.2	-1.1	3.0	0.0	0.0	0.0	0.0	0.0	0.0
- Domestic deposits	0.8	2.2	-0.1	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign borrowing	5.5	6.2	0.6	-1.4	-0.4	-1.0	-1.3	-0.5	-0.8	-0.9
Other 2/	-2.8	-9.8	2.1	0.3	-5.0	-7.5	-4.5	-3.5	-2.9	-4.5
Nonhydrocarbon Primary Fiscal Balance,										
in pct of nonhydrocarbon GDP 3/	-36.5	-37.0	-35.4	-34.6	-40.9	-37.1	-34.1	-31.9	-30.5	-28.5
Memorandum Items:										
Total debt	52.2	62.1	72.6	58.4	46.0	44.5	42.7	41.0	38.6	36.2
External debt	24.6	35.1	43.5	33.6	26.3	25.0	23.4	22.2	20.6	18.9
Domestic debt	27.6	27.0	29.1	24.8	19.7	19.5	19.3	18.7	18.0	17.3
Total net debt 4/	38.8	50.4	58.3	42.7	33.6	32.2	30.6	29.2	27.3	25.3
o/w net domestic debt 4/	14.2	15.3	14.8	9.2	7.3	7.2	7.1	6.9	6.7	6.4
Primary fiscal balance	3.7	2.7	0.2	2.1	6.9	9.9	7.2	5.2	5.0	6.6
Total hydrocarbon revenue 5/	26.0	26.5	24.9	23.9	29.0	31.6	28.4	25.9	25.1	25.5
Nonhydrocarbon tax revenues as percent of nonhydrocarbon (	1.9	4.1	3.8	3.2	3.5	3.4	3.4	3.5	3.5	3.5

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

1/ GFSM 2001 based on staff estimates.

2/ Accumulation of foreign assets by the government.

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

4/ Government domestic debt less government domestic deposits.

5/ Include corporate income taxes and investment income from hydrocarbon activities.

Table 4. Qatar: Monetary Survey, 2018-27

(billions of Qatari Riyals unless otherwise noted)

					Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total										
Net foreign assets	-89.4	-155.0	-254.7	-300.8	-219.6	-205.6	-200.4	-195.7	-189.0	-228.7
Net domestic assets	653.4	733.0	854.6	909.3	931.2	975.2	1029.0	1083.4	1130.4	1212.9
Claims on government (net)	204.8	221.3	218.2	216.0	216.0	216.0	216.0	216.0	216.0	216.0
Domestic credit	708.0	830.4	916.5	1004.2	1072.1	1150.0	1221.8	1292.6	1355.9	1406.1
Other items (net)	-259.4	-318.7	-280.1	-310.9	-356.9	-390.7	-408.8	-425.1	-441.5	-409.1
Broad Money	564.0	578.0	599.9	608.5	711.6	769.7	828.6	887.8	941.3	984.1
Money	119.1	124.7	146.5	148.3	173.5	187.6	202.0	216.4	229.4	239.9
Quasi Money	444.9	453.3	453.4	460.2	538.2	582.1	626.6	671.4	711.9	744.3
Qatar Central Bank										
Net foreign assets	109.5	143.4	147.7	148.6	252.6	296.8	330.6	364.0	396.0	375.2
Foreign assets	110.8	144.7	149.0	153.5	257.5	301.7	335.5	368.9	400.9	380.1
Foreign liabilities	1.3	1.3	1.3	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Claims on commercial banks	80.2	65.3	76.8	74.9	73.9	72.9	71.9	70.9	69.9	68.9
Net claims on government	-0.7	-0.3	-1.0	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Claims on government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits	0.7	0.3	1.0	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Reserve Money	82.9	72.1	101.2	102.5	111.8	116.9	122.2	128.0	134.2	140.8
Cash in vault	16.2	16.4	26.3	24.6	26.6	27.4	28.2	29.3	30.6	32.0
Deposits of local banks	66.7	55.7	74.9	77.9	85.3	89.5	94.0	98.7	103.6	108.8
Other items (net)	106.2	136.3	122.3	116.3	210.0	248.1	275.6	302.2	326.9	298.7
Other Depository Corporations										
Net foreign assets	-198.9	-298.4	-402.3	-449.3	-472.2	-502.3	-531.0	-559.7	-585.0	-604.0
Foreign assets	239.1	240.1	232.7	267.6	272.9	278.4	284.0	289.6	295.4	301.3
Foreign liabilities	438.0	538.5	635.0	716.9	745.1	780.7	814.9	849.3	880.4	905.3
Claims on Central Bank	71.3	60.2	87.2	93.1	97.7	102.6	107.8	113.1	118.8	124.7
Currency	5.0	4.8	12.5	11.9	12.5	13.1	13.8	14.4	15.2	15.9
Reserve Deposits	66.3	55.4	74.7	81.2	85.3	89.5	94.0	98.7	103.6	108.8
Claims on public sector	460.7	479.9	509.5	555.7	567.2	573.9	577.3	579.2	580.3	580.7
Credit to government	151.9	133.8	136.8	142.3	142.3	142.3	142.3	142.3	142.3	142.3
Government financial securities	142.0	162.4	156.7	176.1	176.1	176.1	176.1	176.1	176.1	176.1
Credit to public enterprises	166.8	183.7	216.1	237.4	248.9	255.6	259.0	260.9	262.0	262.4
Credit to private sector	541.2	646.7	700.4	766.8	823.2	894.4	962.9	1031.6	1093.9	1143.6
Deposits	641.3	640.9	660.4	693.4	726.3	767.5	804.9	842.6	876.7	904.2
Private sector	359.3	367.8	397.1	404.8	436.7	476.9	513.4	550.0	583.2	609.7
Public enterprises	193.5	198.6	189.0	191.0	192.0	192.9	193.9	194.9	195.9	196.8
Government	88.5	74.5	74.3	97.6	97.6	97.6	97.6	97.6	97.6	97.6
Liabilities to the central bank	21.8	14.0	31.3	32.7	31.7	30.7	29.7	28.7	27.7	26.7
Other items, net	211.2	233.5	203.2	240.1	257.9	270.4	282.3	293.1	303.6	314.2
Memorandum items										
Broad money growth (M2)	-6.5	2.5	3.8	1.4	16.9	8.2	7.7	7.1	6.0	4.6
Velocity (M2 to non-oil GDP)	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Net foreign assets (change)	-14.9	-65.6	-99.7	-46.1	81.2	14.0	5.1	4.7	6.6	-39.7
Net domestic assets (percent of GDP)	97.9	114.2	162.6	139.1	113.3	117.3	122.5	125.1	125.6	129.7
o/w: Domestic claims on public sector	-1.1	0.6	1.2	1.4	0.3	0.1	0.1	0.0	0.0	0.0
o/w: Domestic claims on private sector	1.9	3.0	1.6	1.5	0.9	1.0	0.9	0.8	0.7	0.5

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

Table 5. Qatar: Financial Soundness Indicators, 2016-21

(in percent)

	2016	2017	2018	2019	2020	2021
Capital Adequacy						
Regulatory Tier 1 capital to risk-weighted assets	15.7	16.5	17.0	17.5	17.6	18.0
Regulatory Tier 1 capital to total assets	10.7	10.7	10.1	9.9	9.6	9.3
Regulatory capital to risk weighted assets	16.1	16.8	18.0	18.6	18.8	19.1
Asset Quality						
Nonperforming loans to total loans	1.3	1.6	1.9	1.8	2.0	2.4
Nonperforming loans net of provisions to capital	1.7	1.7	3.0	2.2	2.3	
Bank provisions to nonperforming loans	79.9	83.2	75.8	81.9	83.8	85.0
Bank provisions to total loans	1.3	1.5	2.3	2.5	2.8	
Total provisions to total assets	0.9	1.1	1.6	1.7	1.9	
Earnings and Profitability						
Return on assets	1.7	1.5	1.6	1.6	1.4	1.4
Return on equity	14.5	13.9	15.3	15.8	13.7	14.7
Net interest to gross income	75.1	78.1	77.0	77.0	79.5	80.5
Net Interest to average total assets	1.9	1.9	1.9	1.9	2.0	
Non-interest expenses to gross income	28.8	26.8	25.9	24.4	21.2	21.1
Wages and salaries to other non-interest expenses	49.8	49.4	49.7	50.0	49.5	
Liquidity						
Liquid assets to total assets	29.6	28.2	29.1	30.2	28.1	28.2
Liquid assets to short-term liabilities	54.7	54.2	62.7	69.7	67.0	66.9
Domestic credit-to-deposits ratio	136.8	119.6	134.1	150.4	159.5	165.3
Loans as a percentage of customers deposits	115.5	110.7	116.1	122.4	124.6	124.9

Sources: Qatar Central Bank, and Haver Analytics.

Table 6. Qatar: Vulnerability Indicators, 2016-21

	2016	2017	2018	2019	2020	2021
External Solvency Indicators						
REER (change in percent, 2010=100)	3.4	-1.0	-3.0	0.8	-3.9	1.7
Total debt (billion US$, including commercial banks)	193.0	166.3	198.2	242.6	270.1	290.0
Of which: LNG-related	5.5	4.7	5.2	5.2	5.0	5.1
Total debt (percent of GDP)	127.2	103.2	108.1	137.6	187.0	161.5
Public Sector Solvency Indicators						
Government gross domestic debt/GDP	25.7	32.1	27.6	27.0	29.1	24.8
Government net domestic debt/GDP 1/	14.9	16.0	14.2	15.3	14.8	9.2
Government external debt/GDP	14.1	13.7	19.6	26.0	25.4	23.5
Interest payments/total revenue	4.8	5.0	4.7	5.1	7.1	6.0
External Liquidity Indicators						
Central bank net reserves (US$b)	31.4	14.5	30.1	39.4	40.6	40.8
In months of next year's imports	6.1	2.7	5.4	8.0	8.0	6.6
Commercial banks net foreign assets (US$b)	-47.7	-35.0	-54.6	-82.0	-110.5	-123.4
Foreign assets (US$b)	75.1	64.4	65.7	66.0	63.9	73.5
Foreign liabilities (US$b)	122.8	99.4	120.3	147.9	174.5	197.0
Hydrocarbon exports/total exports	83.5	84.5	86.4	86.2	91.5	87.7
Financial Sector Indicators						
Foreign currency deposits/total deposits	25.6	37.3	36.1	27.9	28.2	29.8
Net domestic credit (percent change)	3.7	6.6	9.8	17.3	10.4	9.6
Private sector credit (percent change)	6.5	6.4	13.0	19.5	8.3	9.5
Net domestic credit/GDP	109.6	110.0	106.1	129.3	174.4	153.6
Private credit/total assets of banks	35.6	35.1	38.2	41.7	41.6	42.0
Market Assessment/Financial Market Indicators						
Stock market index (end of period)	10436.8	8523.4	10299.0	10425.5	10436.0	11625.8
Moody's investor services 2/	Aa2	Aa3	Aa3	Aa3	Aa3	Aa3
Standard and Poor's 2/	AA	AA-	AA-	AA-	AA-	AA-

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

1/ Net of government deposits with resident banks.

2/ Long-term foreign currency rating.

Annex I. Implementation of the 2019 Article IV Recommendations

Recommendations	Status
Fiscal Policy	
Limit current spending, including by containing public wage bill and reducing utility subsidies.	The pandemic derailed efforts to contain current spending, which increased by 1.6 ppts of GDP between 2018 and 2021. Public wage bill decreased by 0.6 ppts of GDP in 2019-21. In response to the pandemic, allowances eligibility was tightened, and the authorities supported utility payment.
Reduce public investment to a more sustainable level.	Public investment declined to 11 percent of GDP in 2021 and is projected to decline further to 9 percent of GDP by 2023.
Introduce VAT and increase non-hydrocarbon revenues.	VAT was not introduced. Non-hydrocarbon (NHC) revenues increased by 1.8 percent of NHC GDP from 2018 to 2021.
Cost recovery of utility companies; a 10-year plan to achieve full market-price commercialization.	The authorities are working on reducing water and electricity consumption and increasing efficiency of their use.
Strengthen monitoring of public expenditures and improve the efficiency of public investment. Turn the MT budget framework into a performance- based MT expenditure framework.	The central government is preparing a long-term fiscal plan for internal use.
Enhance fiscal reporting. Publish government's transfers in and out of the QIA.	Quarterly fiscal reports and a more detailed budget were published in 2021, but the 2022 budget publication was more limited in scope. Transfers between the QIA and public institutions are not made public.
Introduce a comprehensive asset/liability management framework to guide borrowing and investment decisions.	Authorities focused efforts on improving central government debt management.
Increase coordination and information sharing between the central government, QCB, and QIA.	The Supreme Committee for Crisis Management (SCCM) enhanced the inter-agency coordination to respond to the Covid-19 pandemic.
Monetary and Financial Sector Policy	
Enhance QCB's liquidity management operations.	Liquidity operations were enhanced during the pandemic.
Improve macro-prudential regulations, enhance real estate statistics, and strengthen consolidated supervision.	Authorities run banking sector stress tests, publish their results in the financial stability review, and publish the real estate index.
Deepen domestic capital markets, support financial inclusion, and foster financial innovation.	The authorities continued issuing T-bills and introduced zero-interest repo facility as part of the pandemic response to support banking sector liquidity. Qatar launched a national fintech hub in 2021.
Implement targeted financial sanctions and manage risks posed by non-profit organizations; develop the legal framework to combat terrorist financing.	The Law No. 20/2019 on Combating ML and TF was enacted in June 2019 followed by the issuance of the Executive Regulation in December 2020. The Law No. 27/2019 on Combatting Terrorism was enacted in December 2019. Implementing regulations on targeted financial sanctions (TFS) for TF and proliferation financing have also been issued. QCB has issued AML/CFT Instructions for financial institutions with revision made in May 2020, as well as several guidance papers. The Regulatory Authority for Charitable Activities (RACA), the AML/CFT supervisor for NPOs, conducted a risk assessment on TF of the NPO sector in 2020 to better understand risks and inform its risk-based supervisory approach.

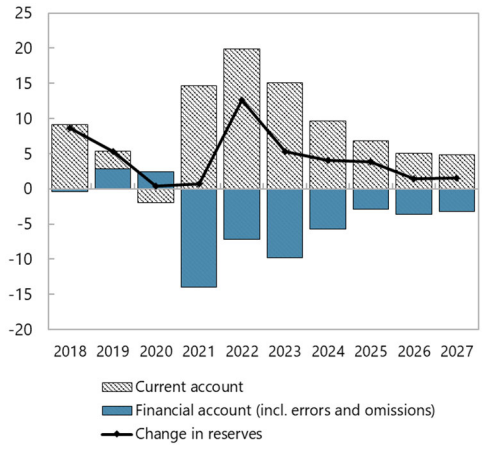
Recommendations	Status
Structural Reforms and Statistics	
Improve the business environment. Allow majority foreign ownership of companies.	New legislation on PPPs and FDI have been approved in 2020-21. Limits on foreign ownership of public companies was removed in 2021.
Establish a minimum wage under the ILO framework and adopt a new law to protect expatriate domestic help.	A minimum wage has been in place from 2021 with complements for housing and food.
Enact laws that mandate equal remuneration and discourage gender-based discrimination.	Limited progress.
Enhance macroeconomic statistics.	Quarterly GDP has been published since 2013.

Annex II. External Sector Assessment

With strong hydrocarbon exports and nascent recovery in domestic demand, Qatar's external position in 2021 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. As domestic demand continues to recover over the medium term and hydrocarbon prices decline from the current level, Qatar's saving of exhaustible hydrocarbon wealth is projected to fall below the estimated level that would achieve intergenerational equity. Therefore, implementing credible and growth-friendly fiscal consolidation as well as advancing structural reforms to accelerate economic diversification would help sustain the current account at a level consistent with fundamentals.

1. The current account (CA) position strengthened in 2021. The current account moved into a surplus of 14.7 percent of GDP in 2021 as hydrocarbon exports increased on the back of higher oil prices. Imports increased as domestic demand started recovering. Investment income remained robust thanks to a strong performance of the QIA's investments. The CA balance is projected to reach a surplus of 19.9 percent of GDP in 2022 driven by higher hydrocarbon exports, and strengthen further over the medium-term as the LNG production expansion materializes.

Current and Financial Account Balances
(Percent of GDP)

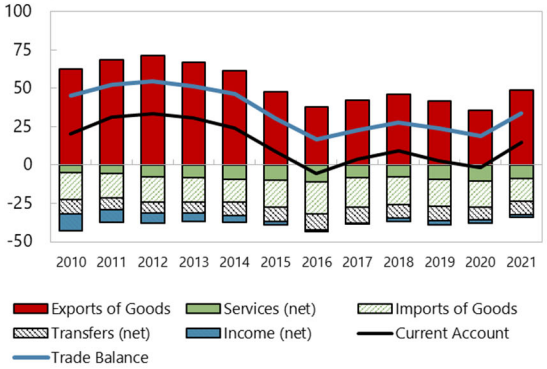


Sources: Qatar Central Bank; and IMF staff calculations.

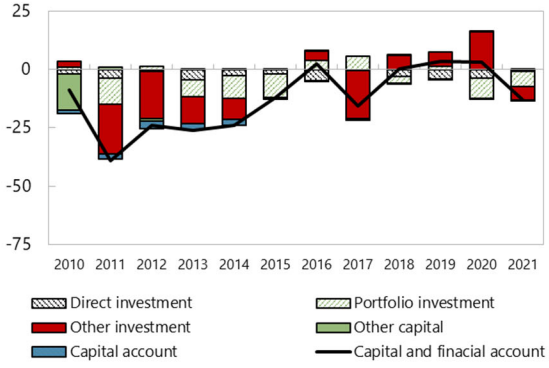
2. The capital and financial account deteriorated in 2021. The increase in net portfolio outflows (totaling 6.8 percent of GDP)—driven mainly by the resumption of portfolio investments abroad (5.8 percent of GDP) and the reversal of

Contributions to Current and Financial Accounts

Contribution to the Current Account
(In percent of GDP)



Contribution to Capital and Financial Account
(In percent of GDP)



Sources: Qatar Central Bank; and IMF staff calculations.

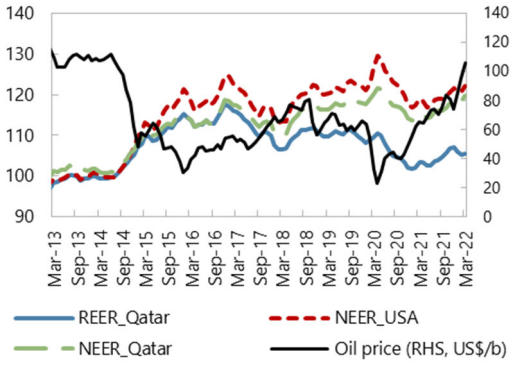
inward portfolio flows (1percent of GDP) — was exacerbated by increasing external assets holding by commercial banks and QIA (15 percent of GDP). This resulted in a deficit of 13.1 percent of GDP against a surplus of 3.3 percent of GDP in 2020.

3. Qatar's FX reserves remained adequate in 2021. Qatar Central Bank (QCB) foreign reserves reached $42 billion (23.5 percent of GDP, 6.6 months of prospective imports, 25 percent of broad money, and 145 percent of short-term external debt) at end-2021 or equivalent to an estimated 49 percent of the IMF's reserve adequacy metric (ARA) against 51 percent in 2020.[1] The QCB reserves are complemented by large foreign assets held by the QIA that are estimated to have reached 213 percent of GDP at end-2021. Altogether they account for 489 percent of the ARA metric, largely exceeding the required 100 percent floor for broad adequacy.

4. The real effective exchange rate (REER) appreciated gradually in 2021. The Riyal has been pegged to the U.S. dollar at 3.64 since July 2001. Since then, the peg has provided a credible nominal anchor. After some depreciation in 2020, the REER has been gradually appreciating in 2021 (by 5.4 percent in December 2021, y/y). However, on average the REER was still more depreciated in 2021 than in 2020 (by 2.5 percent), in line with the movement of the U.S. dollar. With heavy reliance on hydrocarbon exports and elastic supply of expatriate labor, the impact of the REER depreciation on competitiveness remains limited.

NEER and REER, and Oil Prices, 2013–2021

(Index, 2010=100 , increase = appreciation)



Sources: Bloomberg; and IMF staff calculations.

5. Staff assesses the 2021 external position to be stronger than the level implied by fundamentals and desirable policies. 2021 has seen sharp increases in oil prices and hence strong hydrocarbon exports. Imports, on the other hand, remained subdued as domestic demand recovered only gradually. These have led to a significant improvement in the external position. While the External Balance Assessment (EBA-Lite) regression model continues to suggest a negative CA gap (-8 percent of GDP), the other external sector assessment approaches point to a small positive CA gap (the REER regression model suggests a slight undervaluation of 0.26 percent) (see text table). Staff's view is that the consumption-based rule model is more adequate for the case of a large commodity exporter such as Qatar since it takes into account both the exhaustible nature of hydrocarbon revenues and the need for intergenerational equity.[2] The Consumption Allocation

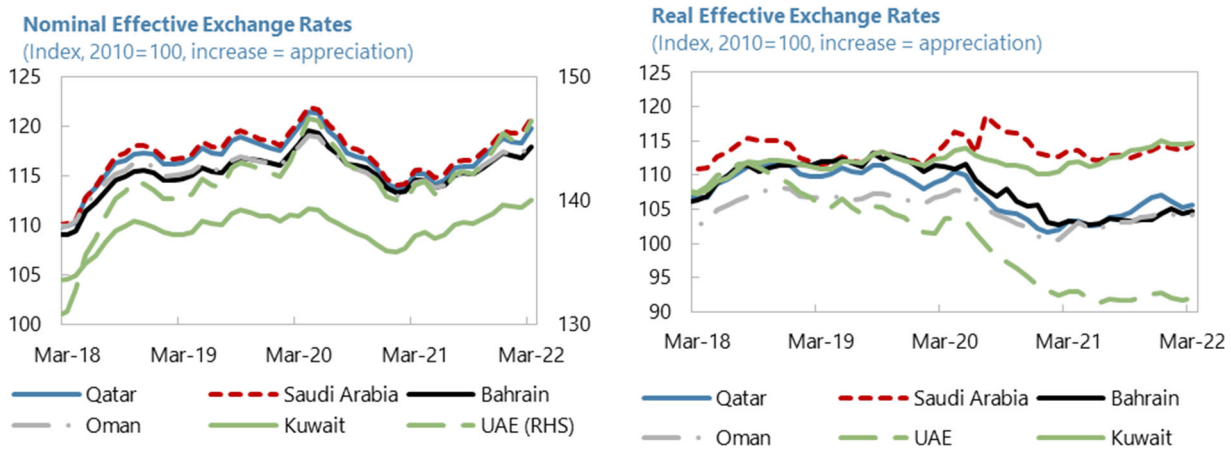
[1] The ARA is a composite metric that measures the adequacy of precautionary reserves. It is based on the relative risk weights for each source of foreign exchange drain drawing on the 10th percentile of observed outflows from Emerging Markets (EMs) during exchange market pressure episodes. Reserves in the range of 100-150 percent of the composite metric are considered broadly adequate for precautionary purposes.

[2] The EBA-lite methodology is not well suited for an undiversified hydrocarbon exporter such as Qatar. Qatar's reliance on oil/gas complicates the application of standard external assessment methodologies given the large

(continued)

Rules suggest a positive CA gap of 2.9 percent of GDP and of 7.3 percent of GDP for the constant real annuity and constant real per capita annuity allocations rules, respectively.[3] As the constant real per capita annuity allocations rule can be affected by the decline in the population due to expatriate layoffs in the wake of the pandemic—a conjunctural rather than structural change—staff thus gives the most weight to the constant real annuity rule and assesses the external position to be "*stronger than the level implied by fundamentals and desirable policies*". Over the medium term, however, with projected oil prices returning to the long-term level and continued recovery in domestic demand, Qatar's CA is projected to again fall below the estimated level needed to achieve intergenerational equity.

GCC: Nominal and Real Effective Exchange Rates



Sources: IMF staff calculations.

swings of oil/gas prices in 2020-21. The EBA-lite CA regression approach suffers from a large residual (9.5 percent of GDP), reflecting a poor statistical fit of the regression. The REER regression model based on EBA-lite methodology suggests an undervaluation of 0.26 percent, based on an elasticity of 0.35. Exchange rate movements, however, have a limited impact on competitiveness in the short term as most exports are commodity-related products and there is limited substitutability between imports and domestic products.

[3] The Consumption Allocation Rules assume that the sustainability of the CA trajectory requires that the net present value (NPV) of all future hydrocarbon and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports.

Qatar: Model Estimates for 2021

(Percent of GDP, unless otherwise specified)

	CA model	REER model	Consumption Allocation Rules	
			Annuity constant in real terms	Annuity constant in real per capita terms
CA-Actual	**14.7**	**14.7**	**14.7**	**14.7**
Cyclical contributions (from model) (-)	3.7			
COVID-19 adjustor (+) 1/	0.1			
Natural disasters and conflicts (-)	-0.1			
Adjusted CA 2/	**11.2**		**14.9**	**14.9**
CA Norm (from model) 3/	**19.1**			
Adjustments to the norm (+)	0.0			
Adjusted CA Norm	**19.1**		**12.0**	**7.7**
CA Gap	**-8.0**	**0.09**	**2.9**	**7.3**
o/w Relative policy gap	2.0			
Elasticity	-0.35			
REER Gap (in percent, + overvaluation)	**22.9**	**-0.26**		

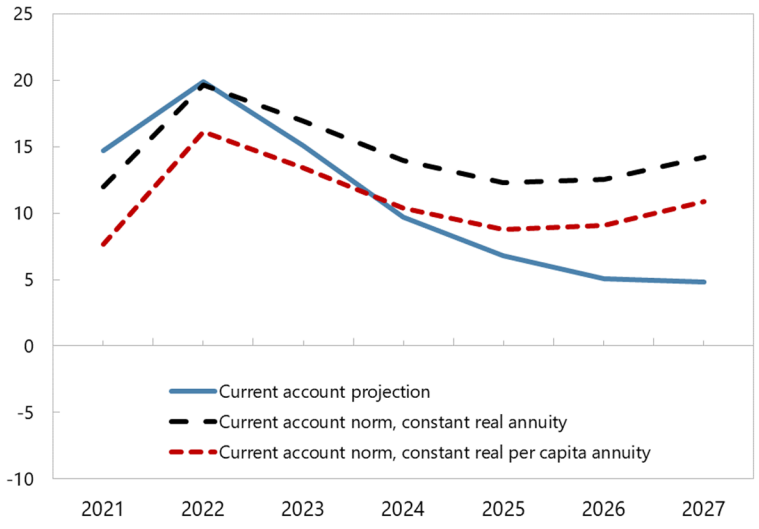
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (-0.25 percent of GDP) and on remittances (0.36 percent of GDP).

2/ For the Consumption Allocation Rules, the actual current account is adjusted to account for the temporary impact of the pandemic on tourism (-0.25 percent of GDP), on remittances (0.36 percent of GDP) and for natural disasters and conflicts.

3/ Cyclically adjusted, including multilateral consistency adjustments.

Projected and Actual Current Account vs Norms

(Percent of GDP)



Annex III. External Debt Sustainability Analysis

1. **While Qatar's gross external debt remains sizable, it is projected to decline over the medium-term (Table 1).** Gross external debt declined from 187 percent of GDP at end-2020 to 161.5 percent of GDP at end-2021—of which public debt accounts for 51.8 percent of GDP. This mainly reflects the recovery in nominal GDP, which more than offset new external borrowing by Qatar Energy (QE) and higher external liabilities of commercial banks. Gross external debt has increased by 104 percent of GDP since 2013 and is projected to fall to nearly 128.5 percent of GDP in 2027.

2. **Large external assets provide a buffer.** Absent official data on sovereign external assets, the DSA analysis does not incorporate those in the debt sustainability exercise. However, large external assets held by the QIA and the banking sector are estimated at 213 percent of GDP and 41 percent of GDP in 2021, respectively. Such sizable assets would be able to mitigate potential risks posed by gross external liabilities, as Qatar holds a large positive net external position.

3. **Standard stress tests used to examine external risks show the strongest impact from an adverse current account shock (Figure 1).** The impact of adverse shocks on the external debt is estimated as follows:

- *An interest rate shock*, which increases the average nominal external interest rate by 36 basis points over 2022–27 on average relative to the baseline, would increase external debt by 2.8 percent of GDP by 2027.
- *A negative growth shock*, which lowers real GDP growth by 1.5 percentage points on average over 2022–27, would raise external debt by about 13.2 percent of GDP by 2027 compared to the baseline.
- *A negative non-interest current account shock*, which worsens the current account by 6.6 percentage points of GDP on average over 2022–27, would increase external debt by about 38.8 percent of GDP by 2027 relative to the baseline.
- *A real depreciation shock of the exchange rate*—a one-time nominal depreciation of 30 percent in 2023—would raise external debt by about 35.2 percent of GDP by 2027.

Table 1. Qatar: External Debt Sustainability Framework, 2017–27

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	103.2	108.1	137.6	187.0	161.5			**131.5**	**133.3**	**134.7**	**134.1**	**131.7**	**128.5**	**8.1**
Change in external debt	-24.0	4.9	29.4	49.5	-25.5			-30.0	1.8	1.4	-0.6	-2.3	-3.3	
Identified external debt-creating flows (4+8+9)	-10.9	-18.5	6.0	36.0	-50.6			-21.9	-15.7	-9.3	-7.6	-5.7	-6.7	
Current account deficit, excluding interest payments	-5.5	-10.5	-3.6	1.6	-15.6			-21.1	-17.2	-12.2	-10.0	-8.4	-8.1	
Deficit in balance of goods and services	-14.3	-20.0	-14.3	-8.2	-24.7			-31.5	-25.1	-18.4	-15.4	-13.1	-12.6	
Exports	52.9	55.9	52.2	49.1	58.8			64.6	58.5	53.5	51.6	50.7	51.5	
Imports	38.6	35.9	37.9	40.9	34.1			33.1	33.3	35.1	36.3	37.5	38.9	
Net non-debt creating capital inflows (negative)	0.4	3.1	4.1	3.6	0.7			2.4	2.6	2.7	2.8	2.9	3.0	
Automatic debt dynamics 1/	-5.9	-11.1	5.4	30.8	-35.8			-3.2	-1.2	0.3	-0.5	-0.2	-1.6	
Contribution from nominal interest rate	1.5	1.5	1.1	0.3	0.8			1.2	2.1	2.5	3.2	3.3	3.2	
Contribution from real GDP growth	1.8	-1.1	-0.8	6.0	-2.3			-4.4	-3.2	-2.3	-3.7	-3.5	-4.8	
Contribution from price and exchange rate changes 2/	-9.2	-11.4	5.0	24.5	-34.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-13.0	23.4	23.5	13.5	25.1			-8.2	17.5	10.7	7.0	3.4	3.4	
External debt-to-exports ratio (in percent)	195.1	193.3	263.6	380.8	274.8			203.6	227.8	251.8	259.5	260.0	249.5	
Gross external financing need (in billions of US dollars) 4/	18.1	4.9	21.2	34.2	7.1			-9.4	1.4	14.4	20.9	25.3	26.1	
in percent of GDP	11.2	2.7	12.0	23.7	3.9			-4.2	0.6	6.3	8.8	10.3	10.2	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**167.1**	**167.4**	**161.6**	**153.7**	**143.5**	**132.5**	**-1.0**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal GDP (US dollars)	161.1	183.3	176.4	144.4	179.6			225.7	228.4	230.7	238.0	247.2	256.9	
Real GDP growth (in percent)	-1.5	1.2	0.7	-3.6	1.5	2.2	3.1	3.4	2.5	1.7	2.8	2.7	3.8	
GDP deflator in US dollars (change in percent)	7.8	12.4	-4.5	-15.1	22.5	2.0	10.8	21.5	-1.3	-0.7	0.3	1.1	0.1	
Nominal external interest rate (in percent)	1.3	1.6	1.0	0.2	0.6	1.3	0.7	0.9	1.6	1.9	2.4	2.5	2.6	
Growth of exports (US dollar terms, in percent)	17.5	20.4	-10.3	-22.9	48.8	1.3	25.1	38.1	-8.4	-7.6	-0.4	1.9	5.6	
Growth of imports (US dollar terms, in percent)	-2.0	5.8	1.5	-11.5	3.6	3.8	10.0	22.0	2.0	6.2	6.7	7.5	7.6	
Current account balance, excluding interest payments	5.5	10.5	3.6	-1.6	15.6	13.0	13.2	21.1	17.2	12.2	10.0	8.4	8.1	
Net non-debt creating capital inflows	-0.4	-3.1	-4.1	-3.6	-0.7	-2.7	1.6	-2.4	-2.6	-2.7	-2.8	-2.9	-3.0	

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).

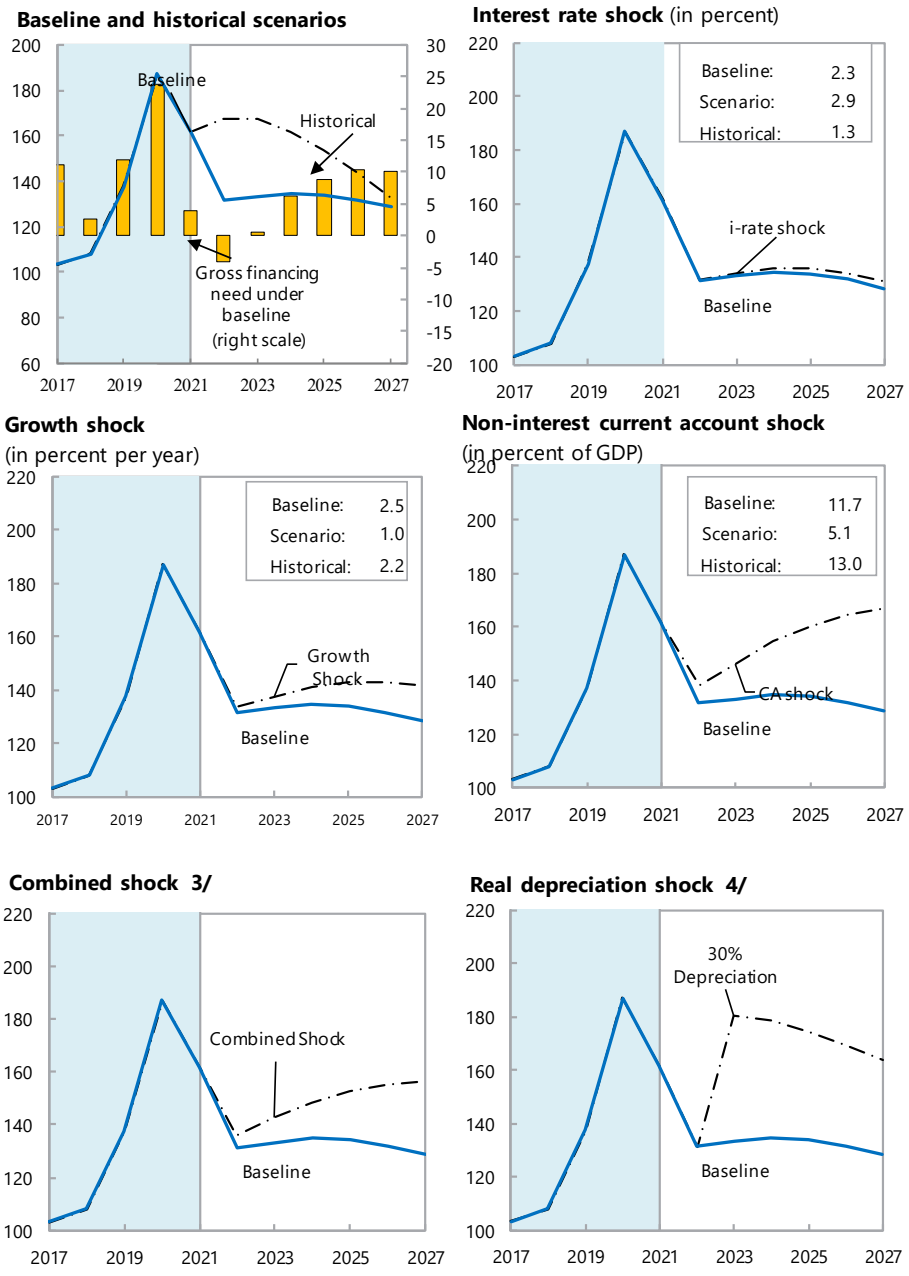
3/ For projection, line includes the impact of price and exchange rate changes.

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.

Figure 1. Qatar: External Debt Sustainability: Bound Tests 1/ 2/(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2023.

Annex IV. Public Sector Debt Sustainability Analysis

Figure 1. Qatar: Public Sector Debt Sustainability Analysis – Baseline Scenario

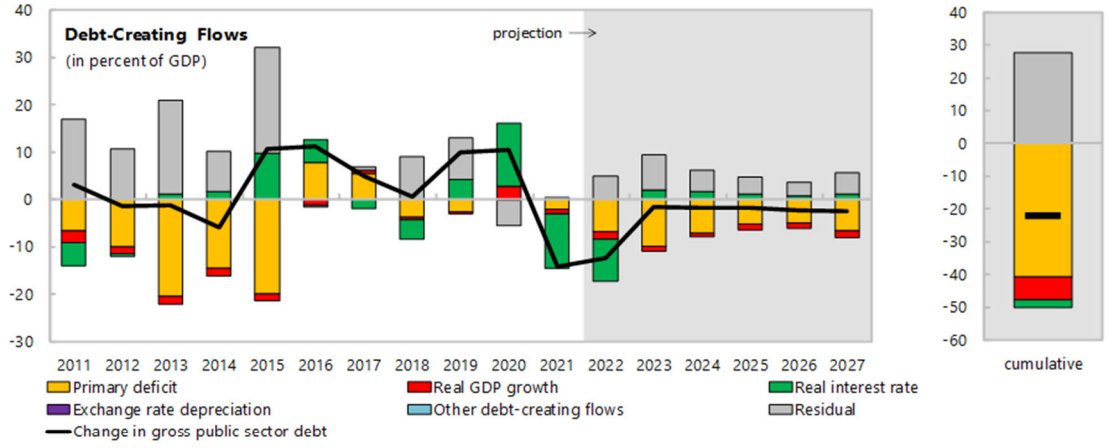
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of May 06, 2022		
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads		
Nominal gross public debt	41.1	72.6	58.4	46.0	44.5	42.7	41.0	38.6	36.2	EMBIG (bp) 3/		114
Public gross financing needs	-1.5	10.7	3.7	-3.8	-6.4	-3.5	-2.5	-1.9	-3.9	5Y CDS (bp)		64
Real GDP growth (in percent)	3.9	-3.6	1.5	3.4	2.5	1.7	2.8	2.7	3.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.5	-15.1	22.5	21.5	-1.3	-0.7	0.3	1.1	0.1	Moody's	Aa3	Aa3
Nominal GDP growth (in percent)	5.6	-18.1	24.3	25.7	1.2	1.0	3.2	3.9	3.9	S&Ps	AA-	AA-
Effective interest rate (in percent) [4/]	4.2	3.1	3.0	3.3	3.1	3.1	3.1	3.1	3.1	Fitch	AA-	AA-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.5	10.5	-14.2	-12.4	-1.5	-1.8	-1.8	-2.3	-2.4	-22.2	
Identified debt-creating flows	-7.2	15.9	-14.5	-17.3	-9.0	-6.3	-5.3	-5.3	-6.9	-50.0	
Primary deficit	-7.2	-0.2	-2.1	-6.9	-9.9	-7.2	-5.2	-5.0	-6.6	-40.7	-0.3
Primary (noninterest) revenue and grants	38.5	32.6	29.7	34.1	36.8	34.0	31.6	30.9	31.3	198.7	
Primary (noninterest) expenditure	31.3	32.4	27.6	27.2	27.0	26.8	26.4	25.9	24.7	158.0	
Automatic debt dynamics [5/]	0.0	16.1	-12.4	-10.4	0.9	0.9	0.0	-0.3	-0.3	-9.3	
Interest rate/growth differential [6/]	0.0	16.1	-12.4	-10.4	0.9	0.9	0.0	-0.3	-0.3	-9.3	
Of which: real interest rate	1.1	13.4	-11.6	-8.8	2.0	1.7	1.1	0.8	1.1	-2.2	
Of which: real GDP growth	-1.1	2.7	-0.9	-1.6	-1.1	-0.8	-1.2	-1.1	-1.4	-7.1	
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	
Pre-Funding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/10/]	10.7	-5.4	0.3	4.9	7.5	4.5	3.5	2.9	4.5	27.8	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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.

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.

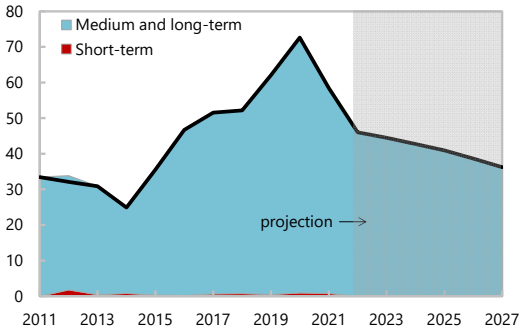
10/ Assumes that about two-thirds of the surplus is transferred to the sovereign wealth fund.

Figure 2. Qatar: Public Debt Sustainability Analysis - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

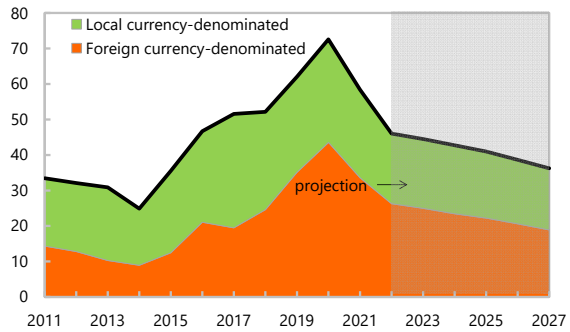
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

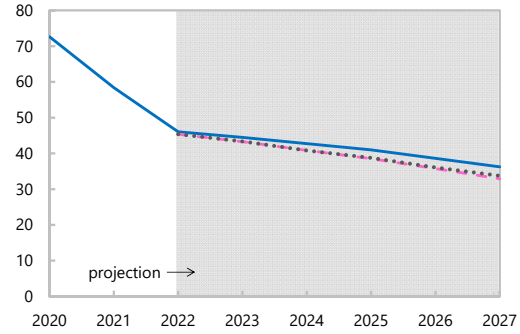


Alternative Scenarios

Baseline — Historical — Constant Primary Balance

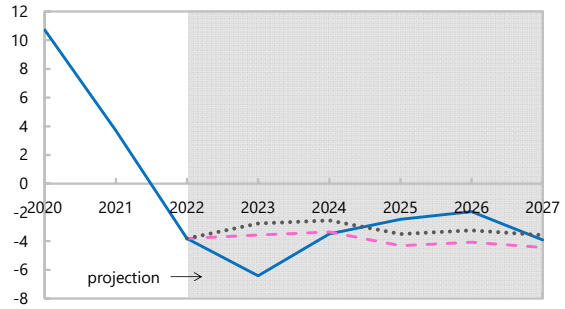
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.4	2.5	1.7	2.8	2.7	3.8
Inflation	21.5	-1.3	-0.7	0.3	1.1	0.1
Primary Balance	6.9	9.9	7.2	5.2	5.0	6.6
Effective interest rate	3.3	3.1	3.1	3.1	3.1	3.1
Constant Primary Balance Scenario						
Real GDP growth	3.4	2.5	1.7	2.8	2.7	3.8
Inflation	21.5	-1.3	-0.7	0.3	1.1	0.1
Primary Balance	6.9	6.9	6.9	6.9	6.9	6.9
Effective interest rate	3.3	2.7	2.7	2.7	2.7	2.6

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.4	2.2	2.2	2.2	2.2	2.2
Inflation	21.5	-1.3	-0.7	0.3	1.1	0.1
Primary Balance	6.9	6.1	6.1	6.1	6.1	6.1
Effective interest rate	3.3	2.7	2.7	2.7	2.7	2.6

Source: IMF staff.

Annex V. Risk Assessment Matrix[1]

Source of Risk and Relative Likelihood	Expected Impact if Risk is Realized	Policy Responses
Medium	**High**	
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Shifts in the pandemic would likely affect Qatar through the global oil market (demand) and through the domestic economy. Lower (higher) oil prices will deteriorate (improve) external and fiscal balances and private sector activity. New containment measures would decrease growth as consumption and investment will be withheld, with demand in contact-intensive services subdued for longer and expatriate employment likely declining. The World Cup could have reduced participation, weighing on near-term growth.	Under a resurgent pandemic scenario, the authorities should continue providing support to the health response, including via large-scale testing, accelerated vaccination and booster campaign; and use existing buffers for short-term support to help households and businesses overcome liquidity needs while encouraging the needed reallocation of resources by accelerating structural reforms to diversify.
Medium	**Medium**	
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia. A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	Tighter financial conditions could result in higher debt service and financing risks and pose a liquidity risk for Qatari banks given their growing reliance on foreign funding.	Given strong fundamentals, the impact on Qatar's financial markets would be limited. Qatar's Central Bank could provide liquidity support to banks and continue proactively monitoring and managing financial stability risks. Large financial buffers will help mitigate the adverse impact on the economy.
Medium	**High**	
Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	Qatar's planned LNG production expansion will make the economy more sensitive to energy price swings as gas prices would likely remain linked to oil benchmarks. A higher-than-projected oil price could result in stronger fiscal and external positions and higher non-hydrocarbon growth as positive private-sector confidence would drive up consumption and investment. Pressures to increase public spending could also rise. A decline in oil prices, on the other hand, would deteriorate the external and fiscal balances and hurt growth.	The authorities should implement a transparent medium-term fiscal and debt management framework that delinks public spending from oil price volatility, assesses fiscal risks, support spending efficacy, and enhance fiscal policy credibility and market confidence. Non-hydrocarbon revenues should increase to reduce reliance on hydrocarbon revenues. Accelerating structural reforms would advance diversification efforts and reduce Qatar's economic reliance on the hydrocarbon sector.
High	**Medium**	
Intensified geopolitical tensions and security risks. Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.	The impact would depend on the nature of the event. If the shock translates into higher global oil prices, the impact will be positive for the Qatari economy. This effect could however be offset by weaker investor confidence and disruptions to supply, trade, and capital flows. The Al-Ula reconciliation declaration has reduced political tensions in the GCC.	The needed policy response would depend on the nature of the shock. Qatar has fiscal space to respond to a negative shock, with the central bank providing adequate liquidity in the banking system if needed.

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

Annex VI. A Fiscal Strategy to Promote Intergenerational Equity and Diversification

Currently, Qatar is in a favorable fiscal position due to positive outlook of hydrocarbon prices, its low-cost, ample natural gas reserves with a major expansion in production capacity underway, and a sizable sovereign wealth fund (SWF). Sustaining this wealth for future generations, however, faces potential risks, including reduced long-term hydrocarbon prices, lower returns on SWF assets, less fiscal prudence and slow progress in economic diversification. A growth-friendly fiscal consolidation strategy, supported by robust fiscal policymaking processes and institutions, can guide policy design and implementation to guard against external shocks and promote a stronger and more diversified economy to ensure intergenerational equity.[1]

Introduction

1. Qatar has dual objectives to achieve intergenerational equity and economic diversification.[2] Fiscal policy and institutions are central to both objectives as intergenerational equity is realized through adequate saving of exhaustible hydrocarbon revenue and SWF returns (Qatar Investment Authority, QIA), and robust non-hydrocarbon growth, which can be supported by the productive use of fiscal resources. Therefore, the key related fiscal policy questions are: (i) how much resource revenue and QIA returns to save, and (ii) how to use fiscal resources productively to promote diversification and sustainable economic growth.

2. A growth-friendly medium-term fiscal consolidation can support both objectives. As discussed below, the current non-hydrocarbon fiscal deficits are assessed to be above levels needed to achieve intergenerational equity and, therefore, medium-term consolidation is needed. Both revenue and expenditure measures can be deployed to achieve the consolidation, while efficient and productive use of fiscal resources can help foster stronger growth in the non-hydrocarbon sector.

3. This annex analyzes both topics to help guide medium- to long-term fiscal policymaking. First, the level of hydrocarbon wealth is evaluated under various downside scenarios to better understand how to manage potential risks via fiscal prudence—this also provides a potential target (i.e., anchor) to guide medium- to long-term fiscal policy. Second, the gains from fiscal reforms underpinning the growth-friendly fiscal consolidation are estimated and compared against losses from realistic external downside scenarios to illustrate how growth-enhancing reforms under the overarching consolidation objective can guard against external shocks and promote stronger growth. Lastly, institutions to monitor risks and support fiscal policy improvements are discussed.

[1] See a discussion in the 2019 Selected Issues Paper.

[2] "The National Vision 2030 strategy aims at transforming Qatar into an advanced country, capable of sustaining its own development and providing for a high standard of living for all of its people for generations to come." (Page 2, National Vision 2030)

Fiscal Anchors and Intergenerational Equity

4. The non-hydrocarbon primary balance (NHPB) is a common fiscal anchor for resource-rich countries. [3] It is generally expressed as a percentage of non-hydrocarbon GDP and intended to be met over a medium-term budget cycle. A NHPB anchor has two key advantages: (i) it delinks spending from hydrocarbon price volatility since the NHBP should not be impacted by hydrocarbon prices, and (ii) aligning the NHBP with a target level consistent with intergenerational equity can promote sustainable and equitable spending of resource wealth over time.

5. The Permanent Income Hypothesis (PIH) provides guidance on the target NHPB level to ensure intergenerational equity. Under simplifying assumptions, annual per capita expenditure of national wealth (from both hydrocarbon resources and financial returns of QIA investment) can be calibrated to maintain a constant income level over time (i.e., an individual receives equal annual benefits from Qatar's national wealth regardless of when the individual is born).[4]

6. Under baseline assumptions, Qatar's fiscal policy aligns with intergenerational equity by 2027 (Figure 1.a.). This assumes spending discipline, long-term hydrocarbon prices in line with futures markets, robust QIA returns, and constant non-hydrocarbon revenue as a share of non-hydrocarbon GDP. Permanent real per capita income is equal to QR 59,000 in 2027.

Table 1. Qatar: Scenarios to Assess Intergenerational Equity

Variable	Baseline	Downside oil/gas prices	Downside QIA returns	Delayed fiscal discipline
Rate of return on QIA	4% real	4% real	3% real	4% real
Long-term oil price	USD 65 / BBL[1]	USD 50 / BBL[2]	USD 65 / BBL[1]	USD 65 / BBL[1]
Long-term gas price	USD 440 / ton[1]	USD 332 / ton[2]	USD 440 / ton[1]	USD 440 / ton[1]
Long-term expenditure growth	1% in real terms			2.5% in real terms[3]
Long-term non-oil/gas GDP growth	2% real	2% real	2% real	2% real
Non-oil revenue (% non-oil GDP)	10%	10%	10%	10%

1/ These are long-run prices and, therefore, not impacted by the current price upswing, which futures markets see as temporary.
2/ Derived under the International Energy Agency Sustainable Development Scenario (IEA WEO 2021) that results in warming of between 1.5 and 1.8 Celsius, aligned with the Paris Agreement's objective of holding "warming well below 2-degrees Celsius."
3/ Results in a spending increase of 1 percent per capita in constant prices.

7. External factors, however, could significantly reduce wealth available for future generations and delay achieving intergenerational equity (Table 1 and Figure 1.b.). For example, hydrocarbon prices in line with the International Energy Agency's (IEA) scenario, which limits global warming to below 2-degrees Celsius, could lower permanent per capita income by 34 percent since natural gas that will be extracted in the future is less valuable in USD terms. In another downside scenario, a 1 percentage point lower real return on QIA assets would reduce permanent per capita

[3] Fiscal anchors are quantitative targets that help many countries decide how much to spend and save. The NHPB measures the difference between total expenditure and non-hydrocarbon revenue, effectively determining how much resource revenue and QIA assets/income are needed to finance the non-hydrocarbon deficit each year.

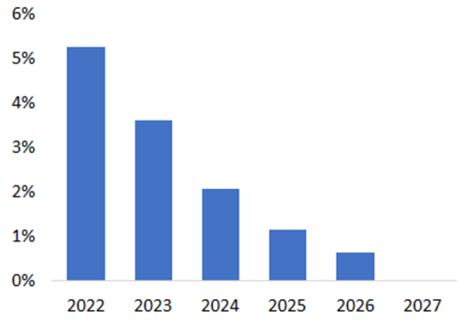
[4] See IMF, 2019 and Baunsgaard et al., 2012 for more details.

income by 19 percent, with the large impact due to compounded interest.[5] Moreover, under these downside scenarios, even with sustained fiscal discipline (assuming annual real expenditure growth at 1 percent), NHPB consistent with intergenerational equity is not met until 2050 (with lower hydrocarbon prices) and 2043 (with lower financial returns). These results, though illustrative, highlight the importance of proactively monitoring external risks, continued sound management of the QIA with enhanced transparency, and strengthening fiscal buffers at times with high hydrocarbon prices to prepare for potential future "rainy" days.

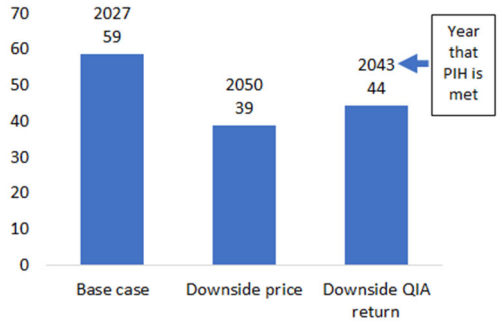
8. Domestic policy risks, such as insufficient fiscal discipline, could also erode national wealth and lead to a sharp and growth-damaging consolidation later. As an illustrative example, if spending grows at 2.5 percent in real terms until 2045 (compared to a gradual reduction under the baseline), then a much sharper adjustment is needed to align the NHPB with that consistent with intergenerational equity (Figure 1.c.), and even with that painful adjustment, permanent income per capita would be more than 20 percent lower than that under the baseline scenario (Figure 1.d.). Additionally, under this scenario, hydrocarbon revenue cannot fully finance the non-hydrocarbon deficit by 2035 so other financing sources, such as the QIA assets and/or increasing public debt, would be required.

Figure 1. Simulations under Various Scenarios

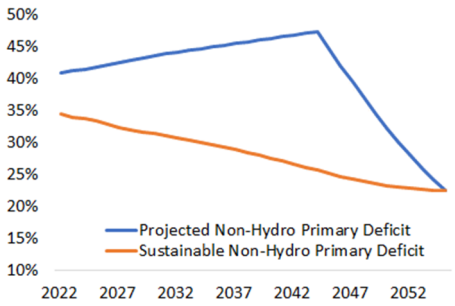
a. Distance to sustainable spending under baseline, percent of non-hydrocarbon GDP



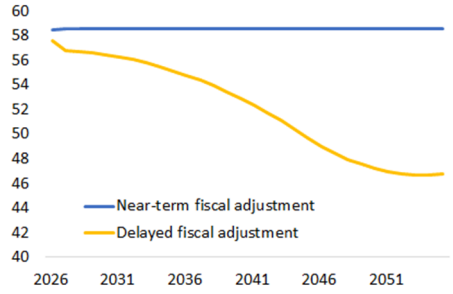
b. Permanent income under baseline and external shocks, QR thousands per capita real



c. Consolidation under delayed fiscal adjustment, percent of non-hydrocarbon GDP



d. Permanent income under delayed fiscal adjustment, QR thousands per capita real



Source: IMF staff calculations

[5] Since the majority of QIA's returns are reinvested, a lower return results in reduced investment in the following year, with the impact growing over the long-term.

The Impact of Diversification

9. Fiscal prudence should be supported by a proper mix of revenue and expenditure measures to achieve a growth-friendly adjustment and guard against external risks. For the purpose of the annex, we assess the impact of three specific reforms—introducing the VAT in 2023, gradually removing energy subsidies by 2030, and containing the wage bill from now on—and productive use of fiscal resources to promote diversification, under the overarching objective of aligning the NHPB with the level consistent with intergenerational equity by 2027. The positive impact of these reforms is then compared with the losses under the aforementioned external downside risks to illustrate how such reforms could help mitigate the effect from exogenous external shocks.

10. The specific reforms combined are estimated to boost the non-hydrocarbon fiscal balance by almost four percent of GDP and increase non-hydrocarbon growth by 1.2 percentage points over the long term (Table 2).[6] The transitory negative growth impact of introducing the VAT is expected to be limited under the current cyclical upswing and can be further mitigated through recycling the revenue for productive use. Similarly, savings from removing energy subsidies provide space for more productive public spending.

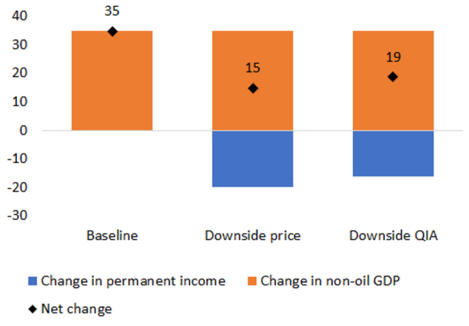
11. The increase in non-hydrocarbon GDP far outweighs the impact of reduced hydrocarbon prices and QIA returns under the illustrative downside scenarios above (Figure 2). Under the reform scenario, 2040 non-hydrocarbon GDP per capita in constant prices is estimated to be QR 35,000 higher than under the baseline, as compared to a QR 15,000 to 19,000 reduction in permanent income under the above external shock scenarios without reforms. This highlights that diversification facilitated by efficient fiscal policy can help protect Qatar against external risks and promote intergenerational equity.[7]

Table 2. Fiscal and Growth Impact of Fiscal Policy Reforms

Measure	Fiscal Balance Impact (% GDP)	Long-term Growth Impact
Value-Added Tax introduction	1.2% to 1.5%	0.5%
Energy subsidies removal[1]	2.2%	0.5%
Wage bill containment[2]	0.5%	0.2%
Cumulative Impact	**3.5% to 3.8%**	**1.2%**

1/ The revenue gain is less than the current subsidy estimate because natural gas consumption-to-GDP falls due to improving energy efficiency and economic diversification by 2030 (when the subsidy is assumed to be fully phased out).
2/ Wage bill remains constant in real terms.

Figure 2. Per Capita Income with Productive Use of Revenue in 2040



Source: IMF staff calculations

[6] The impact of growth is estimated by assuming fiscal multipliers specific to the Value-Added Tax and energy subsidies based on a literature review, while a relatively low multiplier is assumed for the wage bill. The positive long-term growth impact assumes that a relatively high spending multiplier applies to the use of the associated fiscal space.

[7] The welfare impacts of an increase in non-hydrocarbon GDP per capita and sustainable per capita spending may not be one-to-one, depending on the spending multiplier and distributional effects.

Institutions

12. Strong fiscal institutions are key to operationalizing fiscal anchors, increasing spending efficiency, and (more generally) undertaking fiscal consolidation. Without robust institutions and processes, reforms are difficult to maintain (especially at times of high hydrocarbon prices) and may be seen as less credible. Ideally, legislation to formalize related responsibilities, with the Ministry of Finance in the lead, and processes would underpin the framework. A clear plan would support the gradual move towards aligning medium-term spending aggregates with levels consistent with intergenerational equity (preferably, using a NHPB target) and a performance-based expenditure framework that regularly prioritizes spending to improve allocative efficiency. Increasing transparency of fiscal accounts and QIA operations will strengthen public accountability and buy-in into policy decisions.

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Annex VII. Climate Risks and Actions in Qatar

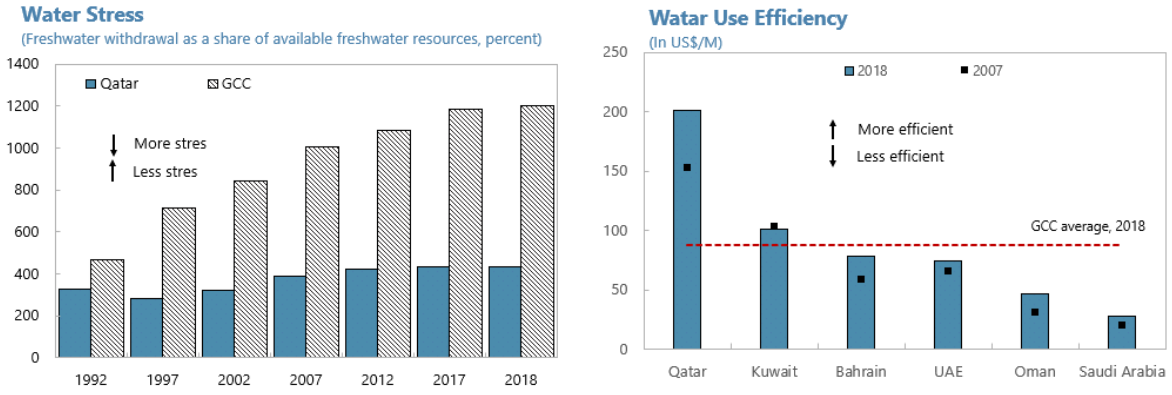
Qatar's ecosystem is highly vulnerable to climate change. Climate stressors have a significant impact on water, temperature, and sea level. Moreover, the economy's dependence on LNG—although a relatively cleaner source of energy—makes it vulnerable to global mitigation actions. The government has implemented a range of actions to adapt to and mitigate the impact of climate change, and efforts should accelerate given Qatar's climate vulnerabilities. In particular, phasing-out energy subsidies would help reduce greenhouse gas (GHG) emissions, incentivize energy efficiency, and support Qatar's efforts to promote a green economy.

Background and Climate Risks

1. Qatar is prone to climate change risks and shows significant vulnerabilities to climate shocks. Qatar is a peninsula located in the Arabian Gulf, with the desert accounting for 82 percent of the total surface—despite the rapid urbanization since 2008—and the majority of the population resides on the coast. Climatic conditions are very harsh characterized by semi- to hyper-aridity—rainfall is unpredictable, averaging between 50 and 80 mm/year—scarcity in drinkable water and local food and high temperature ranging from 20° C to 50° C. Qatar depends highly on the desalination of the seawater as the main water source in addition to the ground water.

2. Climate stressors have a significant adverse impact on water, temperature, and sea level.

Figure 1. Qatar: Water Use Efficiency and Stress



Sources: FAO and IMF staff calculations.

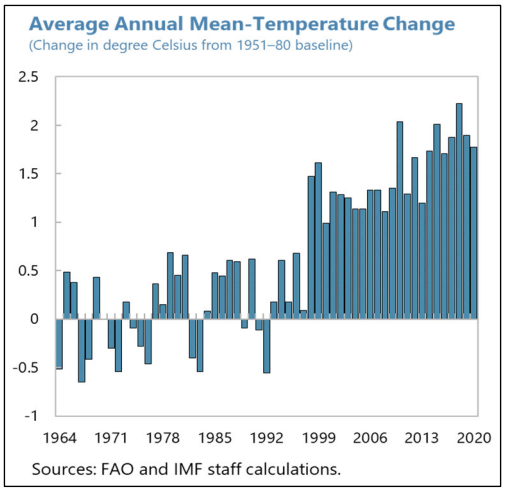
Note: Water Use Efficiency is measured as the value added per unit of water used expressed in USD/m3.

(i) *Water stress in Qatar is very high* due to the scarcity of natural renewable water resources. Although Qatar has one of the highest domestic water consumption rates in the world[1], its water use is overall more efficient than that in other GCC countries (Figure 1) thanks to more productive

[1] The average daily water consumption by households amounts to 430 liters.

water use in the industrial sector. Qatar's main sources of freshwater are desalination (61 percent), groundwater (24 percent) and reuse of treated sewage effluent (15 percent).

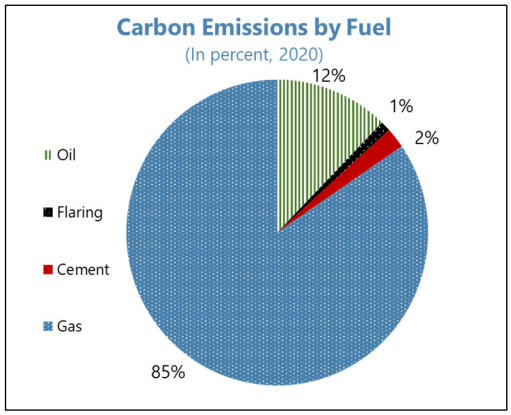
(ii) ***The temperature has increased significantly during the past two decades***. It has increased by 1.5 °C on average since 2000—ranging from 20°C—50°C per year. In urban areas of Qatar, increasing temperatures could be exacerbated by heat island effect with larger impact in built-up areas (particularly roads), inland areas compared with coastal areas and areas with higher population densities. This can result in important human health complications, adverse impact on biodiversity, increase in GHG emissions due to increased power demand, rising underground water salinity and falling freshwater levels—threatening water security and reducing the efficiency of the desalination plants.



Sources: FAO and IMF staff calculations.

(iii) ***The sea level in Qatar has already been increasing*** at approximately 3 mm per year at Mina Sulman and 1.5 mm/year at Doha primarily due to global warming, thermal expansion of the water and the melting of glaciers and ice sheets. Qatar is the most vulnerable country in the MENA region to sea level rise and associated flooding[2] as the major population and most of the planned urban expansions (in particular the tourism sector) lie on the coast. The flooding would have economic, social and environmental consequences, including affecting critical infrastructure, emergency and health services, afflicting coastlines and marine life, deteriorating land and freshwater levels.

3. Qatar's economy depends highly on gas and oil production, amid increasing GHG emissions. Hydrocarbon resources, dominated by Liquified Natural Gas (LNG) production, account for around 80 percent of the total budget revenue, 85 percent of total exports and 40 percent of the GDP. Intensive hydrocarbon production leads to increasing GHG emissions, with carbon dioxide and methane emissions having increased by more than 10 and 4 times since 2010, respectively (Figure 2). Although per capita emissions have been declining since 2005, they remain among the highest in the World—mainly from electricity, transportation and heat sectors, which account for 67 percent of total Qatar GHG emissions. If no action is taken, GHG emissions would increase by 33 percent by 2030 as a

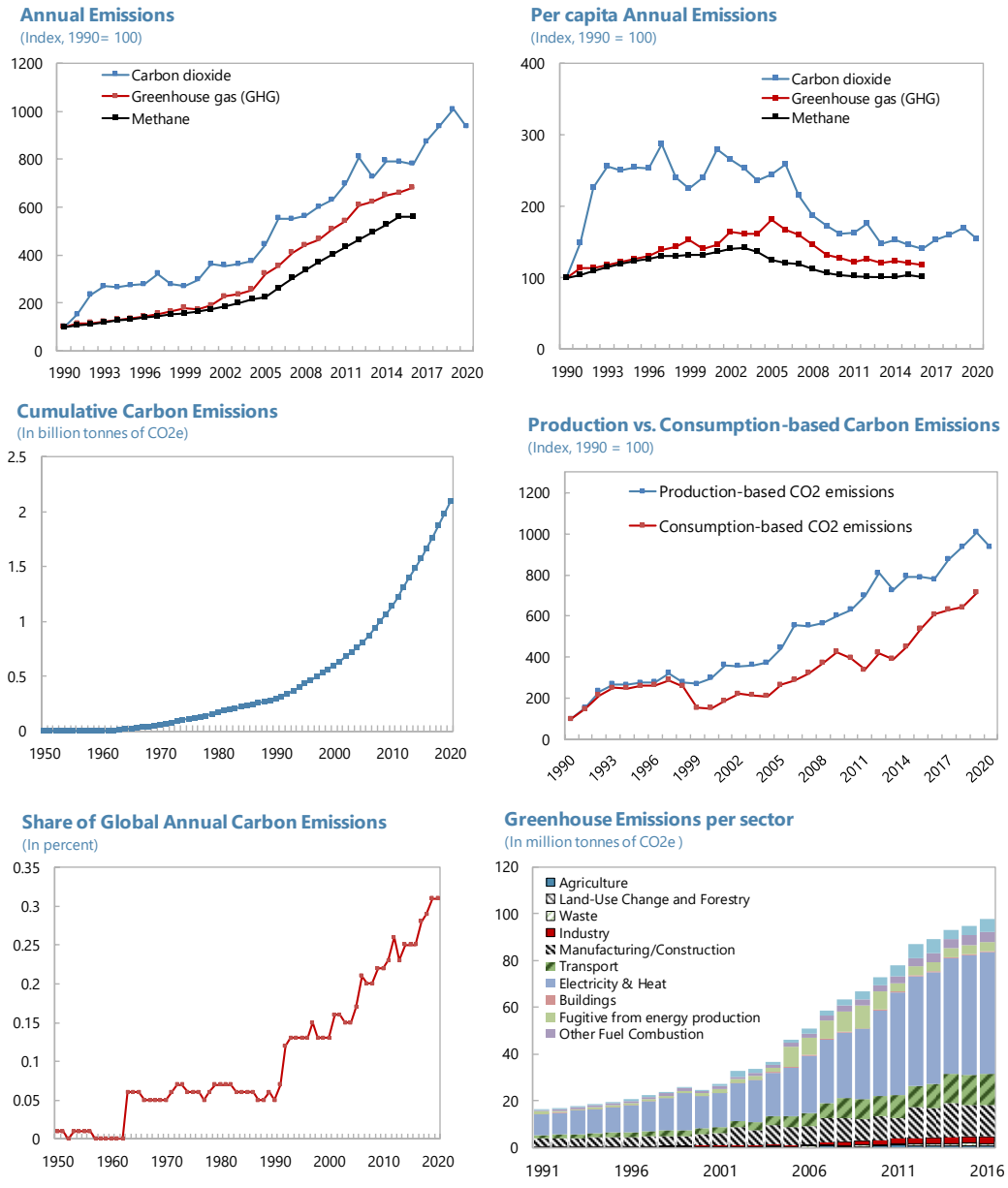


Sources: Our World in Data (in collaboration with Oxford University); and IMF staff calculations.

[2] A 1-meter rise in sea level (predicted for 2100) would affect about 3 percent of its area, while a 3-meter rise would affect 8 percent (UNDP, 2010).

result of increased global demand for LNG, rising population, expansion of LNG capacities in Qatar, power generation, water desalination and transportation.

Figure 2. Qatar: Greenhouse Emissions



Sources: Our World in Data (in collaboration with Oxford University); and IMF staff calculations.

Note: Carbon dioxide (CO_2) emissions are the production-based emissions from the burning of fossil fuels for energy and cement production only. Land use change is not included. Annual consumption-based emissions are domestic emissions adjusted for trade. If a country imports goods, the CO_2 emissions needed to produce such goods are added to its domestic emissions; if it exports goods then this is subtracted. All quantities are converted into carbon dioxide equivalent (CO2e).

4. Qatar is estimated to have explicit and implicit energy subsidies of 3.7 and 6.4 percent of GDP, respectively (Figure 3b).[3] Explicit subsidies reflect undercharging for the supply cost of a fuel and are a measure of public sector financial support (e.g., electricity retail prices for households that are below the cost-recovery prices for electricity generators). Implicit subsidies reflect undercharging for social/environmental costs associated with using a fuel (e.g., not taxing the local health damage caused by particles emitted when diesel is used for transportation or natural gas for power generation). Qatar's explicit energy subsidies have fallen since 2016 due to the removal of explicit subsidies for gasoline and diesel. Currently natural gas makes up around 85 percent of explicit subsidies due to its significant share of energy consumption (90 percent of primary energy use) and its retail price being far below the estimated supply cost (retail price of USD 0.50 per GJ compared to a supply cost of USD 2.7) (Figure 3a). The remainder of explicit energy subsidies come from undercharging consumers for electricity, which is estimated to equal 0.9 percent of GDP in 2021. Implicit subsidies are more sizeable than explicit ones and mostly come from natural gas consumption.

Figure 3a. Price Gap by Fuel Type in 2021[1]

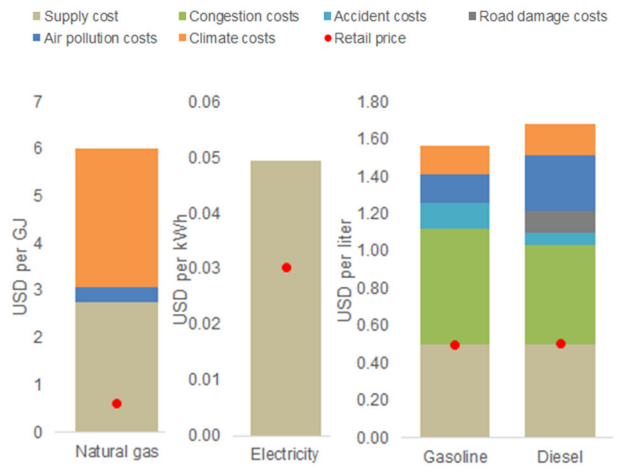
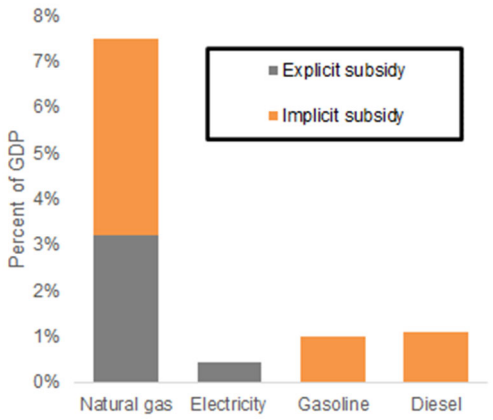


Figure 3b. Subsidies by Fuel Type in 2021



Sources: Country authorities; and IMF calculations.

[1]The natural gas supply cost is assumed to be equal to the per-unit production cost over the life of the North Field expansion with a margin for processing and distribution. Electricity's supply cost assumes the subsidized natural gas price plus amortized per-unit capital cost, transmission, and distribution costs. Since natural gas retail prices were not available, they were estimated using data from KAHRAMAA on natural gas purchase quantity and cost.

[3] See the IMF working paper titled *Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies* for details.

Climate Actions and Progress

5. Qatar has recently launched the National Environment and Climate Change Strategy (NECCS). The Climate Change Action Plan (CCAP) has been established to ensure the strategy's implementation and the achievement of specific goals including reducing GHG emissions by 25 percent by 2030—particularly in oil and gas, electricity and water, transportation and construction sectors—the establishment of 30 air quality monitoring stations by 2023 and the increase in the number of biosphere reserves. The CCAP identifies 36 mitigation measures and over 300 adaptation measures across various sectors such as healthcare, biodiversity, water management and infrastructure.

6. A range of climate actions has been implemented across sectors since the announcement of the Qatar National Vision 2030 and the National Development Strategy.

(i) ***Decarbonization and renewable energy.*** The government is committed to organize the first carbon-neutral FIFA World Cup in 2022 through the use of solar-powered stadiums and water and energy-saving cooling and lighting technologies. In addition, Qatar has developed the largest carbon storage plant in the region in 2019 to capture over 5 million tons of carbon per year from Qatar's LNG industry; and introduced the first 800 MW solar power plant—with a goal of installing 10 gigawatts (GW) of solar power capacity and producing 20 percent of electricity from solar energy by 2030. The development of the integrated electric transport system, the Doha Metro and Lusail Tram would help reduce carbon emissions caused by conventional transportation.

(ii) ***Electricity and water consumption rationalization.*** The General Electricity and Water Corporation (KAHRAMAA) recently launched its new initiative to reduce water and electricity consumption by 5 percent in the residential sector by end-2022. Other energy-efficiency measures such as district cooling, energy labeling for electronic devices and upgrading sewage treatment plants have been implemented to reduce energy intensity, reduce subsidies, improve water management and curb GHG emissions.

(iii) ***Green infrastructure.*** Qatar has adopted the Global Sustainability Assessment System (GSAS) standards to certify and rate green buildings including Qatar integrated rail project, expressway program, roads and drainage program, sustainable residential complexes, parking bays and hotels.

(iv) ***Biodiversity.*** Qatar announced an initiative in 2019 to plant 1 million trees before the FIFA World Cup in 2022 and 10 million trees by 2030, in line with the Middle East Green Initiative launched in Saudi Arabia, in order to enhance biological diversity, improve air quality and reduce the country's carbon footprint. Qatar is currently restoring marine habitats, particularly growing mangrove trees, and planting indigenous trees in urban areas and hence increasing the potential for carbon sequestration.

(v) ***Education, Research and Development.*** Qatar Foundation (QF) is playing an important role in integrating climate-related issues in the education system while transforming the country into a

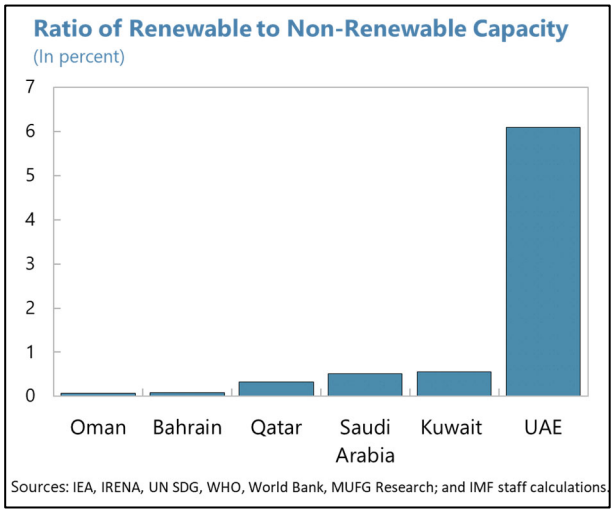
knowledge-based economy. It has set up the Qatar Environment and Energy Research Institute (QEERI) with a mandate of assisting Qatar to address its energy and water security challenges through research, innovation and technology development.

Policy Recommendations

7. The scope for further actions remains large and challenges persist:

(i) ***Further interagency coordination is needed.*** Most of the infrastructure projects have been located in proximity to low-lying coastline, which may impede the implementation of adaptation and mitigation measures to counter sea level rise. Coordinated actions among responsible entities could help mitigate flooding risks and reduce potential costs.

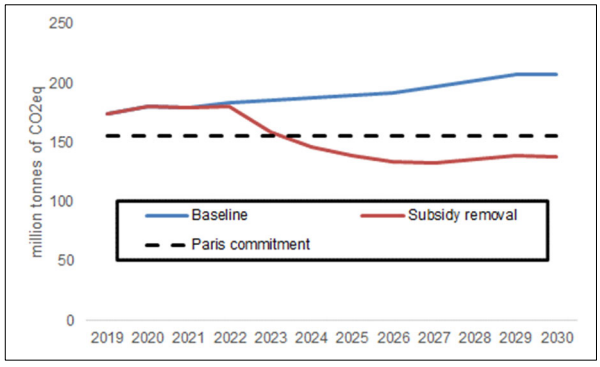
(ii) ***Enhancing green energy auctioning design.*** Leverage experience from the successful 800 MW tender in 2020 to develop a long-term solar power competitive auctioning strategy, and integrate the strategy into broader electricity market plans. A credible long-term strategy would provide stakeholders with increased certainty and impetus to enter the market.



(iii) ***Upgrading regulatory frameworks and strengthening governance.*** Further actions to upgrade the regulatory framework for green financing and renewable energy are warranted. Higher institutional quality should help embrace energy transition and boost diversification. Governance-related measures should be incorporated in climate investment programs to ensure transparency, accountability and integrity.

(iv) ***Removing explicit energy subsidies could be a cost-effective way to meet Qatar's emissions reduction goal of 25 percent below business-as-usual levels by 2030.*** Assuming no additional policies after 2019, emissions are estimated to increase from 174 million ton of CO2 equivalent in 2019 to 207 in 2030. Simulations show that gradually aligning natural gas and electricity prices with supply costs over the next eight years and installing 800 MW of solar power in 2022 could allow Qatar to meet its mitigation pledge, largely

Figure 4. Emissions Projections



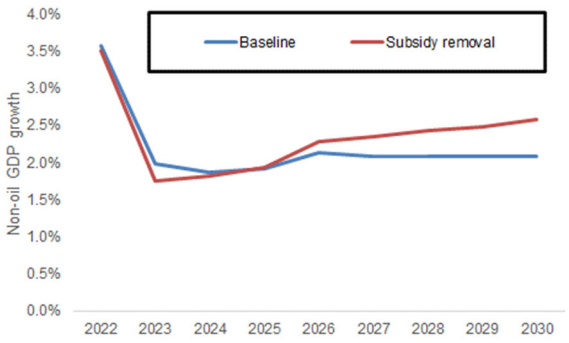
Sources: IMF staff calculations.

due to falling natural gas use in industry and power generation (Figure 4).[4]

(v) ***The removal of natural gas and electricity subsidies also provides public health and fiscal benefits.*** When natural gas is used, it emits nitric oxide (NOx), which interacts with the atmosphere to form small particulates that cause heart disease and a range of other adverse health outcomes. It is estimated that the reduction in natural gas consumption from removing subsidies would save around 200 lives by 2030. Subsidy removal would also result in fiscal savings of roughly 2 percent of GDP annually by 2030, supporting the authorities' fiscal consolidation efforts.[5]

(vi) ***Energy pricing reform can support growth if the savings are used productively.*** Reform is expected to be growth positive in the medium-term if the fiscal savings from subsidy removal are spent efficiently (Figure 5). A small, negative impact may occur in the short-term as the economy adjusts to higher energy prices, but this dissipates as firms and households increase energy efficiency, renewable energy investment increases (solar power is more cost-competitive after reform), and productive spending boosts human and physical capital. Authorities could consider measures to support impacted industries and vulnerable households. The economic costs of immediate subsidy removal (rather than phasing out subsidies over several years) would be higher and is recommended against.

Figure 5. Non-Hydrocarbon Growth Impact of Subsidy Removal



Sources: IMF staff calculations.

[4] The simulation includes the additional emissions from the North Field LNG expansion project.

[5] The exact mechanism through which industrial and power generation users of natural gas receive subsidized natural gas prices is not known but it ultimately provides a fiscal benefit since the main natural gas provider is owned by the government.

INTERNATIONAL MONETARY FUND

QATAR

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 13, 2022

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2022)

Membership Status: Joined on September 8, 1972, Article VIII on June 4, 1973

General Resources Account	SDR Million	Percent Quota
Quota	735.10	100.00
Fund holdings of currency	532.54	72.44
Reserve position in Fund	202.56	27.56

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	955.96	100.00
Holdings	981.77	102.70

Outstanding Purchases and Loans: None

Projected Payments to Fund

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		**0.01**	**0.01**	**0.01**	**0.01**

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessments: Not Applicable

Exchange Rate Arrangement

Qatar has a conventional pegged arrangement and the Qatari riyal has been pegged to the U.S. dollar at QR 3.64 = US$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 and multiple currency practices. 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 during February 24-March 10, 2019. The staff report was considered by the Executive Board on May 15, 2019, and published on June 3, 2019.

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

Department	Date	Activity
STA	April 2000	Real Sector Statistics
STA	May 2001	Balance of Payments Statistics
STA	January 2005	Multisector Statistics
STA	April 2006	Government Finance Statistics
LEG	November 2006	AML/CFT Pre-assessment
STA	April 2007	GDDS Assessment
LEG	October 2009	AML/CFT Long-Term Advisor Providing TA
STA	October 2010	Balance of Payments Statistics
STA	September 2012	Coordinated Direct Investment Survey
LEG	March 2014	AML/CFT follow up
FAD	April 2014	Macro-fiscal unit
LEG	November 2014	Risk-based approach to AML/CFT
STA	November 2016	SDDS Assessment Mission
STA	May 2017	External Sector Statistics
LEG	June 2017	AML/CFT Legislative Mission
STA	March 2018	National Accounts Statistics
STA	May 2019	E-GDDS
STA	May 2019	Government Finance Statistics

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of April 30, 2022)

World Bank Country Page:

https://www.worldbank.org/en/country/gcc/brief/qatar-country-program

STATISTICAL ISSUES

(As of April 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. There is substantial scope for improving data frequency, timeliness and coverage. The most affected areas are fiscal statistics, international investment position and external debt statistics.
National Accounts: Qatar publishes quarterly estimates of GDP at current and constant prices compiled based on limited source data. Procedures used to benchmark the quarterly estimates to the annual estimates need improvements to be consistent with international best practice. The Planning and Statistics Authority (PSA) is in the process of producing new supply and use tables that can be used to improve the consistency of GDP estimates.
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.
Real estate statistics: The QCB publishes an aggregate residential real estate monthly price index. 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. Detailed annual budget documents and quarterly budget performance reports for the central government were published in 2020-21, but limited information was provided on the 2022 budget. The fiscal coverage should be broadened to cover the general government and Qatar Investment Authority.
Monetary statistics: The QCB submits the monetary and financial statistics (MFS) for the Central bank and other depository corporations based on the Standardized Report Forms (SRFs). The MFS data are published in the International Financial Statistics on a timely basis. Qatar also reports data on some key series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.
Financial Sector Surveillance: The QCB reports the Financial Soundness Indicators as part of the National Summary Data Page.
External Sector Statistics (ESS): The QCB reports quarterly balance of payments data with quarterly timeliness to STA, following the fifth edition of the balance of payments manual (BPM5). The financial account has been developed and coverage improved for major public corporations, the Qatar Financial Center Authority, and the Qatar Exchange. The last TA mission on ESS, conducted in 2017, assisted the PSA in developing a quarterly survey to collect data from the nonfinancial sector in order to produce a quarterly IIP statement and improve the coverage of the primary income and the financial account of the balance of payments. More work is required to ensure comprehensive coverage. Qatar does not participate in the Coordinated Direct Investment Survey.

External debt: 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. It would be useful to obtain financial statements of the public sector enterprises. The authorities are publishing data on public external debt on the QCB's website.
II. Data Standards and Quality
Qatar has been a General Data Dissemination System (GDDS) participant since December 2005 and has implemented the e-GDDS reporting data via the National Summary Data Page. A SDDS assessment mission was conducted in 2016 by the Statistical Department of the IMF, which found that while eleven (out of 15) data categories met the SDDS requirements for coverage, periodicity, and timeliness, thus putting Qatar in a steady path towards SDDS subscription, further efforts were needed to meet the SDDS requirements.

Table of Common Indicators Required for Surveillance
(As of April 2022)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Mar 2022	Apr. 2022	M	M	M
International Reserve Assets of the Monetary Authorities[1]	Mar. 2022	Apr. 2022	M	M	M
Reserve/Base Money	Mar. 2022	Apr. 2022	M	M	M
Broad Money	Mar 2022	Apr. 2022	M	M	M
Central Bank Balance Sheet	Mar. 2022	Apr. 2022	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2022	Apr. 2022	M	M	M
Interest Rates[2]	Mar. 2022	Apr. 2022	M	M	M
Consumer Price Index	Mar. 2022	Apr. 2022	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	Dec. 2021	Feb. 2022	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2020 Q4	Dec. 2021	A	I	I
External Current Account Balance	2021 Q4	Mar. 2022	Q	Q	Q
Exports and Imports of Goods and Services	2021 Q4	Mar. 2022	M	M	Q
Exports and Imports of Goods and Services	2021 Q4	Mar. 2022	Q	Q	Q
GDP/GNP	2021 Q4	Mar. 2022	Q	Q	Q
Gross External Debt	2021 Q4	Mar. 2022	A	I	I
International Investment Position[7]	...	...	NA	NA	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.