

Qatar Economic Outlook 2013–2014

Update



وزارة التخطيط التنموي والإحصاء
Ministry of Development Planning and Statistics

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Foreword

This *Update* to the *Qatar Economic Outlook 2013–2014* of June 2013 revisits the analyses presented half a year ago.

The assessment in this *Update* broadly reaffirms the perspective offered in June of this year, in so far as the non-hydrocarbon sector continues to account for most of the economy's expansion. This pattern will be maintained for the foreseeable future.

Consumer price inflation picked up in 2013 and is expected to move a little higher during 2014. Despite lower global commodity prices, the expanding population will continue to exert pressure on local non-traded services, and particularly residential rents. It is expected that inflation will remain highly manageable and is unlikely to present any threat to macroeconomic stability in the near future. Furthermore, government measures to combat the abuse of market power in domestic markets are also expected to help keep the lid on price pressures.

On the fiscal side, the government has budgeted additional spending in the current fiscal year (April 2013 to March 2014), with the share of capital outlays in the total rising. Government expenditure realised in the first half suggests that the full-year outturn may exceed the budgeted amount, even though capital disbursements have so far been slower relative to the same period in the previous year.

As in 2012, the main risks to the short- and medium-term outlook come from outside the domestic economy—if geopolitics develop in a way to disrupt the free flow of gas and oil, the financial resources available to the state will be affected. Still, Qatar could mobilise its robust financial resources and reserves to shield the economy against any such impact.

I would like to thank the Statistics Directorate in the Ministry of Development Planning and Statistics, whose advice and provision of data were invaluable; Qatar Central Bank; Qatar Petroleum; the Ministry of Economy and Commerce; and the Ministry of Finance—for their continuous cooperation in providing us with the information and data required.

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Qatar—*Update* at a glance

In 2013 and 2014, economic growth in Qatar will pivot largely around its non-hydrocarbon economy. While the ups and downs of oil and gas production still reverberate through to aggregate outcomes, it is vigorous investment in infrastructure and real estate, sizeable fiscal spending and steep population growth that will provide momentum in 2013 and 2014—and possibly beyond.

Double-digit real growth is anticipated in the non-oil and gas economy both in 2013 and in 2014. This growth will be broad based.

Investment in infrastructure and real estate will drive much of the growth in the non-oil and gas economy. Construction activity will continue to accelerate through 2014, and will be the fastest growing sector in the economy. Its impact will be widely felt: in manufacturing, basic fabrication activity and cement production will get a boost, but banks too will benefit as contractors' needs for working capital and ancillary services grow.

Qatar's population in 2013 and 2014 is set to burgeon at an unparalleled pace, driven largely by the new employment opportunities created by the country's formidable pipeline of projects. And although the majority of new arrivals are lesser skilled and each has limited purchasing power, in combined terms their impact is likely to be significant. There will also be a sizeable influx of higher-income, professional and skilled workers, who will place demands on a broad range of local services.

But it is not just a swelling population that will drive services activity up. In areas such as financial services and communications, as well as transport and tourism, new market opportunities are being carved out. One upshot is that in 2013 and 2014, Qatar's services sector is expected to expand at double digits, and its share in aggregate output in the economy will rise.

Soaring domestic demand will continue to stoke pressure on consumer prices. However, as benign price conditions in global commodity markets and a subdued inflation outlook in trading partner countries will soften the impact of rising prices for local goods and services, inflation is likely to remain moderate, checked, too, by heightened regulatory vigilance aimed at curbing consumer abuses.

Despite the FY2013/14 budget's hefty planned increases in spending (current and capital), the fiscal outlook remains solid. In calendar 2013 and 2014, the overall fiscal balance is expected to be in surplus. Qatar's external payments position, too, will remain completely secure with substantial current account surpluses and robust reserves.

While the nation's economic outlook is unlikely to turn on global economic developments, it is possible that weaker demand growth in emerging economies could send oil prices lower. In circumstances where Qatar's spending commitments are continuing to rise, a lower price for oil (given limited flexibility on hydrocarbon supply) could unexpectedly squeeze the flow of resources available to the state. Looking farther out, the funding of budgetary operations through non-hydrocarbon revenue, a goal that has been set for 2020, will help to shield Qatar against adverse oil price shocks.

Qatar—*Update* at a glance, 2013 and 2014

	2013	2014
Real GDP growth (%)	6.0	4.6
Nominal GDP growth (%)	9.9	3.5
Consumer price inflation (%)	3.2	3.5
Fiscal surplus (% of nominal GDP)	6.1	3.8
Current account surplus (% of nominal GDP)	26.6	22.7

Source: Estimates from the Ministry of Development Planning and Statistics.

Part 1 Outlook for 2014

In 2014, the non-oil and gas economy is expected once again to grow apace (at over 10%), spurred by vigorous investment spending and population growth. However, as gas production flattens and oil output recedes, real GDP growth will moderate slightly to 4.6%.

Consumer price inflation is expected to edge up in 2014, averaging 3.5%, with a benign global inflation outlook helping to check domestic sources of inflationary pressure. Solid balance-of-payments surpluses are set to continue. While an overall fiscal surplus again seems assured in 2013, it is poised to narrow in 2014. Risks to the outlook include the possibility of significantly weaker oil prices reflecting weakening growth in emerging markets, and escalating domestic project costs that could cut into the fiscal surplus.

Update on the outlook

Broad-based expansion of the non-hydrocarbon economy (i.e. all economic activity aside from upstream oil and gas production) is expected to be the main driver of real GDP growth of 6.0% in 2013 with construction, services and manufacturing the main contributors. Vigorous investment spending, an expansionary fiscal stance and a continuing influx of workers will sustain strong domestic demand. Output in the hydrocarbon economy is also set to contribute to economic growth in 2013.

In 2014, real GDP growth is expected to taper off to 4.6%. Although the non-oil and gas economy will continue to grow robustly, output from maturing oil fields is likely to contract, and gas production is set to level out, exerting a drag on overall growth. Nominal GDP growth is also projected to moderate, in both 2013 and 2014, in line with the slower pace of volume expansion and with expected slippage in hydrocarbon prices, which will trim the GDP deflator.

Up from 1.9% in 2012, annual average consumer price inflation is pegged at 3.2% in 2013. A similar outcome is foreseen in 2014. Domestic inflationary pressures are expected to continue to gently simmer but these will be partly offset by an expected moderation in foreign inflation. Balance-of-payments and fiscal surpluses are set to remain healthy, but with higher programmed spending, estimates of the fiscal balance could be more sensitive to variations in forecast oil prices.

Table 1.1 provides a capsule summary of the forecasts of this *Qatar Economic Outlook (QEO)* for 2013 and 2014,

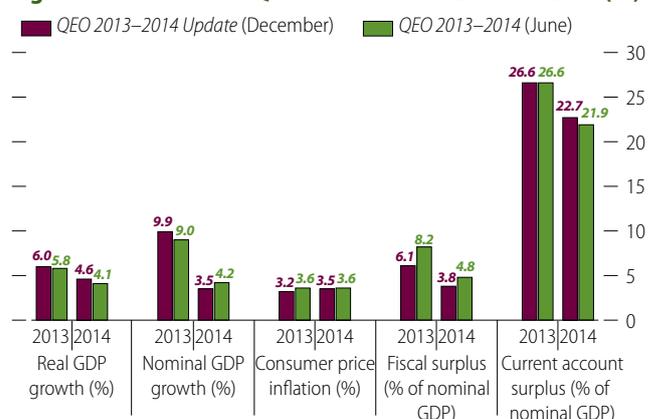
while figure 1.1 compares the current forecasts to those made in the *QEO 2013–2014* in June 2013. (Forecast assumptions and methodology are discussed in box 1.1.)

Table 1.1 Qatar—Update at a glance, 2013 and 2014

	2013	2014
Real GDP growth (%)	6.0	4.6
Nominal GDP growth (%)	9.9	3.5
Consumer price inflation (%)	3.2	3.5
Fiscal surplus (% of nominal GDP)	6.1	3.8
Current account surplus (% of nominal GDP)	26.6	22.7

Source: Estimates from the Ministry of Development Planning and Statistics (MDP&S).

Figure 1.1 Revisions to Qatar's outlook for 2013 and 2014 (%)



Note: The above data for June's QEO 2013–2014 vary from what was earlier published as they have been recalculated to reflect both GDP at market prices (rather than factor cost) and revisions made to the historical data series.

Source: MDP&S estimates.

[Click here for chart data](#)

Box 1.1 Forecast methodology and assumptions

The QEO's forecasts are derived from an internally consistent numerical representation of Qatar's economy, based on standard economic accounting and consistency checks.

This representation has been calibrated and updated with known outcomes for first-half 2013. The framework is based on a flow-of-funds model of the economy in which all sources of funds from the various sectors equal the total uses of funds.

Some technical changes have been made to the framework, to accommodate gaps in data, and all outputs are now expressed in market prices rather than factor costs, and reflect revisions made to the historical data series (discussed further in box 1.2).

The assumptions come from the best assessment of the future made by MDP&S and drawing on expert opinion as published in a wide range of sources. Those on Qatar's interest rates are based on the declared policy of the Qatar Central Bank (QCB).

Data on budgetary outcomes and prospects are founded on information obtained from the Ministry of Finance. Data for the years beyond the budget year are obtained by extrapolation of the trends in actual government revenue, expenditure and financing.

Assumptions about the external environment are anchored on International Monetary Fund (IMF) *World Economic Outlook (WEO)* forecasts and World Bank forecasts. The major assumptions are shown in the table.

Box table Forecast assumptions

	2012 ^a	2013	2014
Qatar			
QCB's overnight deposit rate (%)	0.75	0.75	0.75
Qatari riyal/\$ exchange rate	3.64	3.64	3.64
Total budget spending (QR billion)	198.1	219.6	245.1
Current spending (QR billion)	146.8	145.8	156.9
Capital spending (QR billion)	51.3	73.8	88.2
External environment			
Global growth (%)	3.2	2.9	3.6
US LIBOR, 6-month deposit (%)	0.7	0.4	0.6
Crude oil export price, \$ per barrel	105.0	104.7	103.5
Japanese LNG price, \$ per million British thermal units (mmbtu)	16.60	16.00	15.20

a Preliminary estimates or actual.

Source: Consolidated from various sources including QCB, Ministry of Finance, IMF and the World Bank.

Economic prospects

Real economic activity

Qatar's economy is projected to expand by 6.0% in 2013 (about half a percentage point higher than in 2012) and by 4.6% in 2014. The figures are up on those presented in June for 2013. However, these upward revisions partly reflect a change in the reporting mechanisms of the QEO as well as revisions that follow from revised forecast assumptions (box 1.2).

Box 1.2 GDP measurement and QEO forecasts

1. Change in the choice of GDP indicator: QEO previously presented an estimate of GDP at factor cost. There are many difficulties in separating market prices into factor costs and net tax given the lack of information on subsidies and indirect taxes. Hence the MDP&S now presents its forecasts at market prices (box table). (For a more detailed explanation of these and other terms, see the Glossary).

2. Base-year effect: The QEO's framework presents all real indicators in 2010 prices, but the national accounts are presented in 2004 prices. The use of a 2010 base attaches a large (price) weight to oil and gas production than would a 2004 base. Application of 2010 price weights increases the measured share of oil and gas in aggregate real output but it also lowers measured aggregate GDP growth in recent years because 2010 prices give more weight to the slower growing hydrocarbon sector. Had 2004 rather than 2010 price weights been used to estimate GDP growth in 2012, 0.8 percentage points would have been added to measured real GDP growth.

Box table Recalculated historical data

	2011 ^a	2011 ^b	2012 ^a	2012 ^b
Real GDP growth (%)	12.4	13.0	5.4	6.2
Nominal GDP growth (%)	37.0	37.1	12.2	12.2

a Recalculated on a market price basis using a 2010 base year. b Historical figures corresponding to the macro framework used in June 2013's QEO. Source: MDP&S estimates.

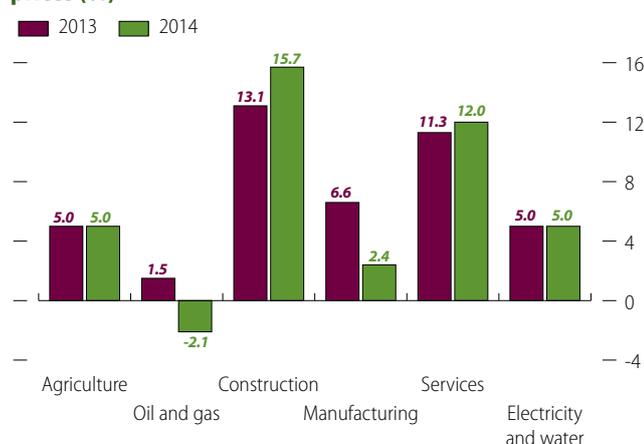
Beyond these technical changes, the upward revision for 2013 reflects higher than earlier anticipated growth in both hydrocarbon production and in non-oil and gas activity. Hydrocarbon sector growth in 2013 is set to benefit from higher gas output, which will more than offset the impact of a slight decline in oil production. But in 2014 a likely fall in hydrocarbon production is seen pulling growth down, despite solid expansion of the non-oil and gas economy. As population growth is set to outpace that of GDP, per capita GDP is expected to moderate in both years.

Brisk, double-digit, expansion in the non-oil and gas economy (defined as all economic activity other than

upstream oil and gas production) is expected in both 2013 and 2014. This growth will be broad based with contributions from construction, manufacturing and services. It will be primed by Qatar's large infrastructure spending program, investments in the wider economy and rapid population growth. MDP&S's calculations suggest that the population could grow at globally unparalleled rates from around 1.8 million at the start of 2012 to about 2.2 million by end-2014. New arrivals will boost demand for a raft of non-traded services.

Construction activity is now projected to expand by 13.1% in 2013, accelerating to 15.7% in 2014 (figure 1.2). The government is set to invest heavily in economic infrastructure over upcoming years, particularly local roads, expressways, the Doha metro and rail, and drains and sanitation. The construction of new health centres and education facilities will also entail heavy spending. Private construction activity centred on residential and commercial real estate development, including new malls, hotels and labour accommodation throughout Qatar, will also fuel growth.

Figure 1.2 Sectoral growth in the economy, constant 2010 prices (%)

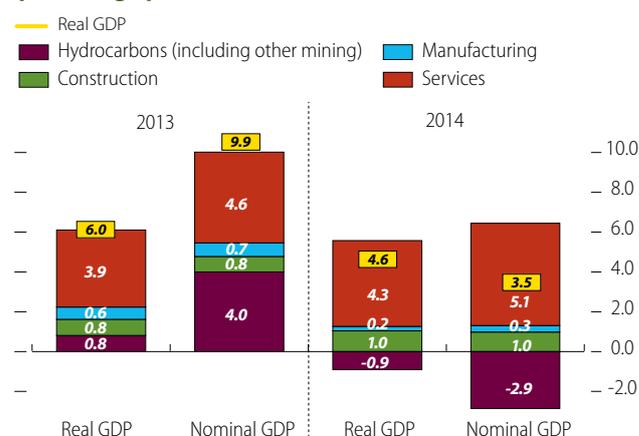


Source: MDP&S estimates.

[Click here for chart data](#)

The services sector is expected to be the largest contributor to growth in both 2013 and 2014, and its share in aggregate output will rise sharply (figures 1.3 and 1.4). Financial services are expected to carry on expanding as insurance and Islamic financial services continue to develop, while banking will benefit from the business generated by real estate development and infrastructure projects. Trade and hospitality are also expected to grow, with lively conference activity and an increase in tourist arrivals from within the region. The opening of Hamad International Airport (cargo facilities in late 2013 and passenger terminal in 2014) will provide a boost to a range of logistical and service-support activities.

Figure 1.3 Contributions to GDP growth, 2013 and 2014 (percentage points)

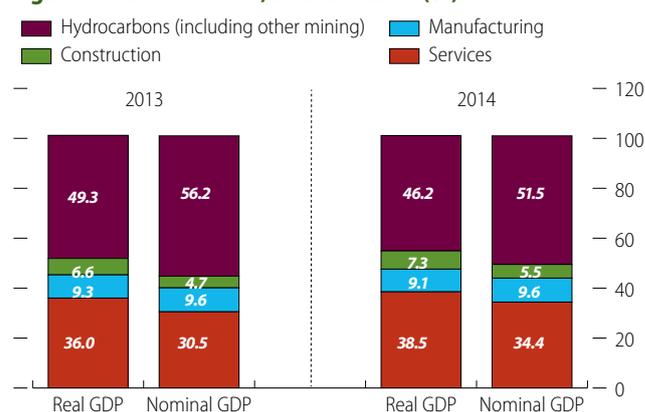


Note: Rounding errors are attributed to agriculture, imputed bank services, import duties and electricity and water, which are not shown.

Source: MDP&S estimates.

[Click here for chart data](#)

Figure 1.4 Share in GDP, 2013 and 2014 (%)



Note: Rounding errors are attributed to agriculture, imputed bank services, import duties and electricity and water, which are not shown.

Source: MDP&S estimates.

[Click here for chart data](#)

Manufacturing is also set to expand, but not at the pace of other parts of the non-oil and gas economy, mainly reflecting a projected decline in production of fertilisers, and a levelling-out in production of petrochemicals and refined products in 2014. It should record 6.6% growth in 2013, but may well dip to 2.4% in 2014 (see figure 1.2). The availability of additional hydrocarbon feedstock—released from other uses where it was excess to requirements—is expected to lift production of petrochemicals and refined products in 2013. But the impact on growth will be transitory, fading in 2014. Growing demand by construction for cement and metals related to the large investment projects is expected to sustain momentum in other manufacturing activities throughout the forecast period, albeit at a decelerating pace, owing to fast rates of growth in the last two years, and to constraints on expansion of production capacity in the short term.

Nominal GDP

Qatar's GDP deflator is susceptible to movements of hydrocarbon product prices, which are determined on international markets. Rising hydrocarbon prices tend to raise the growth rate of nominal GDP relative to that of real GDP, while falling hydrocarbon prices tend to do the opposite.

Nominal GDP growth of nearly 10.0% is expected in 2013, slowing in 2014 to 3.5%, reflecting both slower real GDP growth and an expected decline in hydrocarbon prices.

Inflation outlook

Inflation, as measured by the change in the consumer price index, is expected to average 3.2% in 2013, up from 2012's 1.9%. This pick-up is primarily due to rising rental costs, an index component that accounts for 32.1% of the consumer basket. Non-traded services, such as entertainment, recreation and culture, also saw accelerating upward price pressures.

Inflationary pressures are unlikely to subside in 2014, and consumer price inflation is forecast to average 3.5%. The inflationary impact of vigorous growth of domestic demand is expected to offset an expected moderation in global food and commodity prices and subdued inflation in trading-partner countries. A continuing influx of foreign labour for Qatar's large capital projects may push rental prices still higher, especially in affordable to middle-income housing, where availability is tighter.

Inflation could, though, pick up more quickly than these forecasts if imported inflation gathered pace (because of unexpected commodity price rises) or if the US dollar (to which the Qatari riyal is pegged) recorded a nominal effective depreciation.

Fiscal outlook

Qatar's budget for the current fiscal year (1 April 2013–31 March 2014) earmarks record expenditure, 17.9% above the budget for the previous fiscal year (FY2012/13). Large increases are programmed for both current and capital expenditure. For this *Update*, calendar rather than fiscal year forecasts are made for government revenue and spending.

Total government expenditure is projected to rise by 10.8% in 2013 against the latest preliminary outcomes for calendar year 2012, and by 11.6% in calendar 2014, reaching 30.7% of GDP. Despite spending rises, fiscal surpluses are expected to remain firm at 6.1% of nominal GDP in 2013 and 3.8% in 2014.

However, the non-hydrocarbon fiscal deficit (total expenditure minus non-hydrocarbon revenue) is forecast at 13.0% of GDP in 2013 and 14.0% in 2014. As a share of GDP in the non-hydrocarbon economy the figures are about twice as large. This non-hydrocarbon deficit is comfortably financed by revenue from hydrocarbons and in this sense fiscal policy is set to be expansionary. The government's longer-term objective is to finance its entire budgetary operations through non-hydrocarbon revenue by 2020.

Balance-of-payments outlook

The external current account surplus is expected to drift down in 2013 and 2014, but remain sizeable at 26.6% of GDP in 2013 and 22.7% in 2014. An expected decline in hydrocarbon export revenue, coupled with higher imports on the back of stronger domestic demand, will narrow the surplus.

As the bulk of current account surpluses are re-cycled abroad in the form of overseas investments funded by export earnings, the overall surplus on the balance of payments will be much smaller than the current account surplus, and is projected to decline to \$5.5 billion in 2013 and to \$1.5 billion in 2014. Foreign exchange cover of total imports of goods and services is expected to remain strong, equivalent to nearly 6 months.

Risks to the outlook

The economic outlook for the forecast period is generally favourable, but subject to low-probability, high-impact downside risks.

Qatar is susceptible to the effect of spillovers from the world economy through trade and financial channels. Its prosperity depends, self-evidently, on gas and oil production and exports. Any disruptions to liquefied natural gas (LNG) transport from regional political tensions could have major repercussions throughout the economy. The availability of large financial resources provides some cushion for Qatar to withstand such events, but protracted disruption could weaken its established competitive advantage in global gas markets.

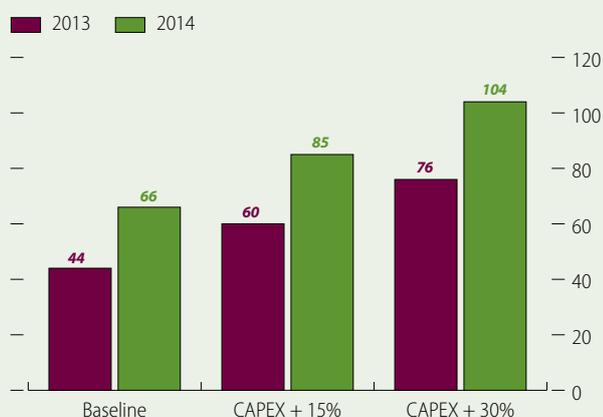
Another hydrocarbon-related risk is a significant decline in global hydrocarbon prices for any length of time, possibly triggered by a sharp drop in emerging-market growth (which has levelled off faster than expected). The damage to fiscal balances that would be caused by much lower oil prices is, in future, likely to be amplified by elevated spending commitments, which will narrow Qatar's fiscal buffers.

Rising capital commitments combined with stationary or declining oil and gas output render the fiscal “break-even” oil price (box 1.3) more susceptible to potential expenditure overshooting.

Box 1.3 Break-even oil price and capital expenditure scenarios

The “break-even” price is that price for oil which generates oil and gas revenues that match budgeted expenditures. The box figure shows both the rise expected in the break-even price between 2013 and 2014 and the sensitivity of this price to larger than currently foreseen capital expenditure.

Box figure Break-even oil price under different capital expenditure scenarios (\$ per barrel)



Source: MDP&S estimates.

[Click here for chart data](#)

These estimated break-even prices are based on an assumption that revenues from gas are completely insulated from oil price changes. But as the gas prices that Qatar receives are positively related to oil prices, the figure’s estimates are biased down, and in this sense they probably overstate Qatar’s fiscal tolerance to downside oil price risks. The more forcefully and faster oil price changes are transmitted to gas revenues and the larger the share of gas revenues in total hydrocarbon revenues, the less will be the tolerance of fiscal balances to downside oil price movements. But the flip-side of gas revenue dependency on oil prices is that break-even prices become (albeit from a higher base) less sensitive to assumed increases in expenditure.

As the commercial contracts under which gas is sold are confidential, one cannot be precise about the relationship between gas revenues and oil prices. The break-even prices in the figure should thus be interpreted as “lower-bound” price estimates.

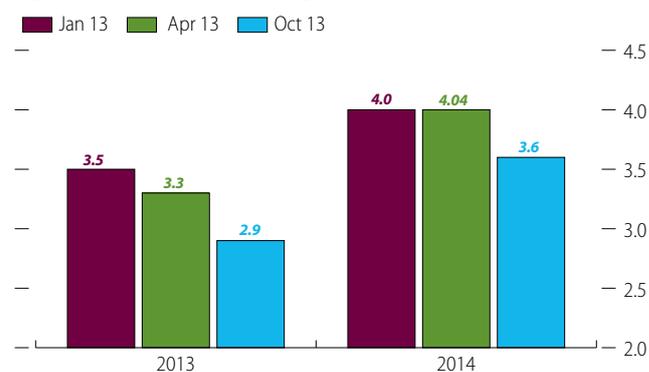
The final risk comes from the scale and complexity of Qatar’s planned infrastructure project portfolio, as it presents challenges for logistical management and coordination, especially within such a confined geographical area. Stresses could emerge that hit

businesses in other parts of the economy. Efforts to strengthen coordination and delivery of new assets are therefore important to ensure that the wider economy continues functioning with least disruption during a period of intense building.

Global economic prospects

The October 2013 release of the IMF’s *WEO* revealed yet another set of downward revisions of forecasts for global economic growth in 2013 and 2014. The IMF lowered projected global GDP growth by about 0.4 percentage points from its April prediction for both years (figure 1.5). A slowdown in emerging markets, and slower than expected economic recovery in advanced economies in the first half of 2013, have attenuated growth expectations.

Figure 1.5 Global real GDP growth projections, IMF (%)



Source: IMF, *WEO* October 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>), accessed 9 October 2013.

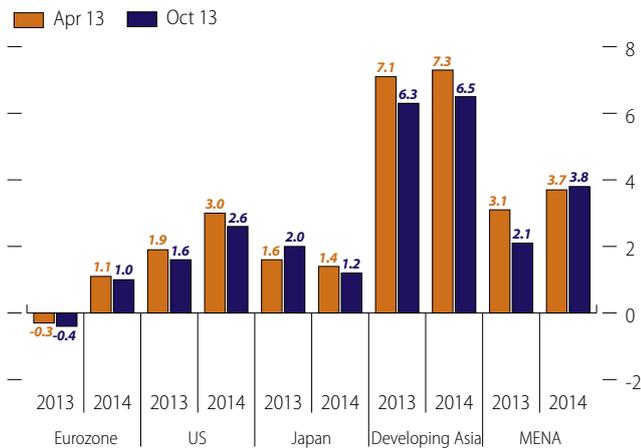
[Click here for chart data](#)

Within the global average, the IMF has revised down its projections for 2013 and 2014 for most major regions and countries. The most striking downgrades are for Developing Asia, where the forecast has been cut by 0.8 percentage points for both years, and the Middle East and North Africa region, where 2013’s growth is forecast 1 percentage point lower than in April, before recovering in 2014 (figure 1.6). The main changes to the global landscape since last June’s *QEO* are highlighted in box 1.4.

The October 2013 *WEO* forecasts for global inflation mark a downward revision to those made in April. Inflationary pressures are receding given both sluggish demand growth in key emerging economies, particularly China, and softening non-energy commodity prices. Favourable agricultural prospects, if realised, should mean that food prices will come further off their 2011 peak and continue declining in 2013 and 2014.

Consumer price trends in the Middle East and North Africa are not expected to follow the wider pattern,

Figure 1.6 Regional real GDP growth projections, IMF (%)



MENA = Middle East and North Africa.

Source: IMF, *WEO* October 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>), accessed 9 October 2013.

[Click here for chart data](#)

Box 1.4 Major global developments since June 2013's QEO

As advanced economies have continued their timid recovery, growth in emerging economies has begun to slow. The United States remains in the spotlight, with political uncertainty clouding issues, alongside debates surrounding moves to end, or “taper,” quantitative easing keeping global markets on edge. Despite the job market surprising on the upside, with October data showing that the economy added 204,000 jobs (a 25% increase from September), the Federal Reserve remains apprehensive and any plans for tapering have been postponed, possibly until Q1 2014.

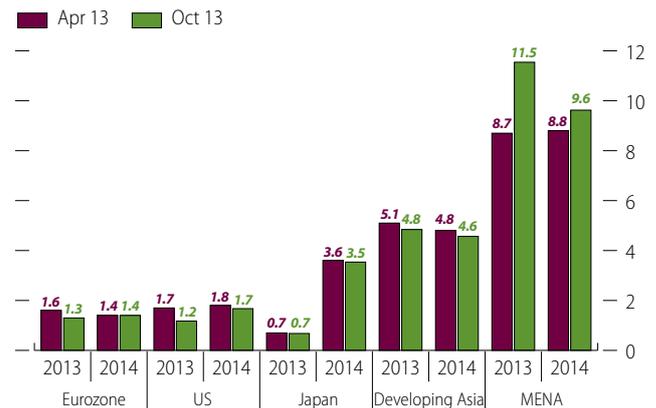
In Japan, “Abenomics”—the recent central bank policy shift involving aggressive quantitative easing, increased public investment and a softer yen—has resulted in a faster than anticipated economic recovery. However, sustaining this speed remains a challenge and will depend on achieving the right pace of fiscal consolidation and necessary structural reforms, which in the past have proved difficult and will require time, and political will, to take effect.

In the Eurozone, fiscal austerity measures, and inertia at the European Central Bank, which has been seen to implement policies too little, too late, have led to slow growth, high unemployment and low inflation of 1.3% year on year in September, much lower than its 2% target rate. A surprise rate cut by the central bank, which trimmed refinancing and marginal lending rates by 25 basis points each (to 0.25% and 0.75%) at its 7 November meeting, will have only a lagged impact, and doubts exist as to whether the cuts will be sufficient to give the needed fillip to demand.

The Middle East continues to suffer from political turmoil, including escalating conflict in Syria and further social unrest in Egypt, which has held back growth and job creation. Oil production has declined owing to lower global demand, stemming from slower growth in emerging markets in particular, but geopolitical tensions, too, have unexpectedly caused supply disruptions. These factors together prompted a downward revision to 2013's growth forecast in October's *WEO*.

however. Rising housing costs and higher services costs in Gulf Cooperation Council countries, and fast-rising prices in Iran given the large currency depreciation since 2012, have caused regional inflation to accelerate. The October *WEO* now projects a return to double digits in 2013, before inflation slips back into single-digit territory, although that is still 0.8 percentage points higher than the April 2013 *WEO* forecast (figure 1.7).

Figure 1.7 Regional annual inflation projections (%)



Source: IMF, *WEO* October 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>), accessed 9 October 2013.

[Click here for chart data](#)

Consensus forecasts

Table 1.2 presents a summary of publicly available economic forecasts for 2013 and 2014. A consensus—or representative—view of Qatar's prospects is obtained as the mean/median of all the projections polled. The table shows the latest forecasts for real and nominal GDP growth and consumer price inflation, the indicators mostly commonly reported for Qatar.

Revisions to the forecasts published in the June 2013 issue of the *QEO* reflect changes in the economic landscape both domestically and globally and factor in new information for the first half of 2013. A few sources have not revised their forecasts for some of the indicators, shown in red in the table.

The updated consensus mean forecast for Qatar's real GDP growth in 2013 is slightly higher at 5.7%, 0.3 percentage points up on June. The range of forecasts for 2013 is tighter than that presented in June, with a standard deviation of 0.8. Projections for 2014 have nudged lower to 5.6%, but the dispersion of forecasts has widened, with the coefficient of variation rising from 17.4% in June to 19.4%. The span between the highest and lowest estimates has also extended. Perhaps this dissonance mirrors recent mixed signals about global economic prospects: although the IMF and Organisation for Economic Co-operation and Development (OECD)

Table 1.2 Poll of economic forecasts for Qatar, 2013 and 2014 (%) *

Economic forecaster	Real GDP growth		Nominal GDP growth		Inflation	
	2013	2014	2013	2014	2013	2014
Bank of America Merrill Lynch (Nov 13)	5.0	4.9	4.1	5.5	2.0	2.5
Business Monitor International (Sep 13)	5.0	4.8	5.2	8.5	3.5	...
Citigroup (Sep 13)	8.3	7.2	10.1	13.3	3.0	3.0
Economist Intelligence Unit (Oct 13)	5.5	5.3	5.4	1.7	3.1	4.2
EFG Hermes (Sep 13)	6.3	7.8	6.2	12.9	3.5	4.2
Emirates NBD (Jul 13)	5.2	...	7.2	...	4.5	...
Fitch Ratings (Oct 13)	6.5	7.4	2.7	4.9	3.6	4.2
HSBC (Oct 13)	6.5	6.5	0.5	7.4	4.7	6.0
IHS Global Insight (Oct 13)	5.5	4.9	5.1	3.8	3.2	2.2
Institute of International Finance (Jun 13)	5.4	5.1	6.1	8.2	3.5	3.9
IMF (Nov 13)	5.1	5.0	3.9	5.0	3.7	4.0
JP Morgan Securities plc (Oct 13)	5.5	4.0	...	...	3.6	4.9
National Bank of Kuwait (Jul 13)	5.7	6.2	5.4	7.1	3.4	4.0
Oxford Economics (Oct 13)	5.8	6.0	9.6	4.5	3.2	4.0
Qatar National Bank (Oct 13)	6.5	6.8	4.0	-1.0	3.6	3.8
Roubini Global Economics (Oct 13)	5.0	4.5	...	...	2.0	3.4
SAMBA (Jun 13)	5.3	5.1	5.7	4.0	4.5	5.5
Standard and Poor's (May 13)	5.5	5.0	6.8	5.9	3.0	3.5
Standard Chartered (Oct 13)	5.0	5.0	...	...	2.9	2.5
Consensus (mean)	5.7	5.6	5.5	6.1	3.4	3.9
Median	5.5	5.1	5.4	5.5	3.5	4.0
High	8.3	7.8	10.1	13.3	4.7	6.0
Low	5.0	4.0	0.5	-1.0	2.0	2.2
Standard deviation	0.8	1.1	2.4	3.7	0.7	1.0
Coefficient of variation (%)	14.3	19.4	42.9	61.1	20.8	26.1
Memo items						
Consensus (mean) Jun 2013	5.4	5.7	6.0	5.9	3.5	4.0
MDP&S forecasts	6.0	4.6	9.9	3.5	3.2	3.5

* To include your institution's forecasts in future compilations of this table, please contact smaalouf@gsdp.gov.qa. ... = not available.

Note: The World Bank and other forecasters that quote *WEO* and other secondary sources have been removed from this table.

Source: Consolidated from various reports and news articles.

have trimmed their forecasts for global growth in recent months, oil prices (a key yardstick for Qatar's export earnings) seem set to remain firm, despite a robust supply outlook.

Nominal GDP forecasts present a much wider range than real GDP, with a coefficient of variation of 42.9% for 2013 and over 60% for 2014, and is likely to emanate from a wide variation in the oil price assumptions underlying the projections. Oil price movements have proven extremely difficult to predict (as seen in the figure in box 1.5 below).

For 2013, MDP&S has revised its expectations for real GDP growth to 6.0%, somewhat higher than the consensus estimate, owing mainly to assumptions about developments in the hydrocarbon sector. As for nominal GDP, MDP&S projects a higher growth rate than the consensus view, closer to the high range of forecasters, a result of the complexities in determining the expected realised price for Qatar's hydrocarbon export basket. For 2014, however, MDP&S forecasts for both real and nominal GDP are smaller than consensus values (see above), again mainly because of the underlying assumptions for volume and prices of hydrocarbon products.

On consumer price inflation, the consensus forecast mean for 2013 is 3.4%, and 3.9% in 2014, both a shade lower than in June. The expected acceleration of inflation reflects expectations of growing demand pressures in the domestic economy, which are most likely to be felt in the non-traded services sector.

MDP&S now expects inflation for 2013 to average 3.2%, lower than the consensus figure, based largely on the recent slowdown in rent inflation following its peak in April, and in part on subdued global non-energy commodity prices, particularly food.

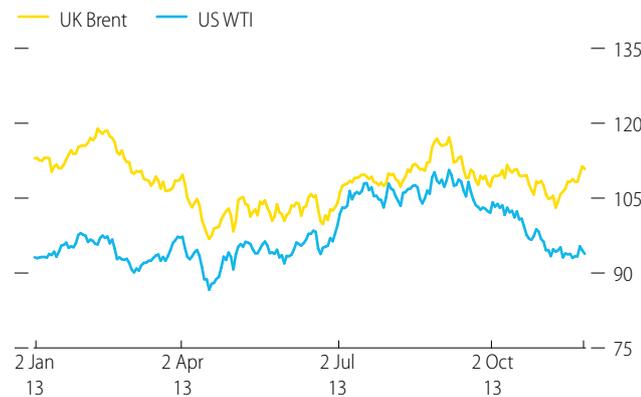
Prospects for energy and commodity markets

Oil prices

Global consumption of oil outpaced production volumes in the third quarter of 2013. These developments were not foreseen at the time of publication of the *QEO* in June 2013 and have led to an upward revision of expected average oil prices for the year. (The implications for Qatar of changes in oil and gas, as well as non-energy forecasts,

are analysed in box 1.6, below.) Further, renewed tensions in the Middle East and short-term supply disruptions have raised risk premiums and therefore pushed up United Kingdom Brent spot oil prices to over \$105 per barrel since July 2013 (figure 1.8).

Figure 1.8 Average daily crude oil spot price, \$ per barrel

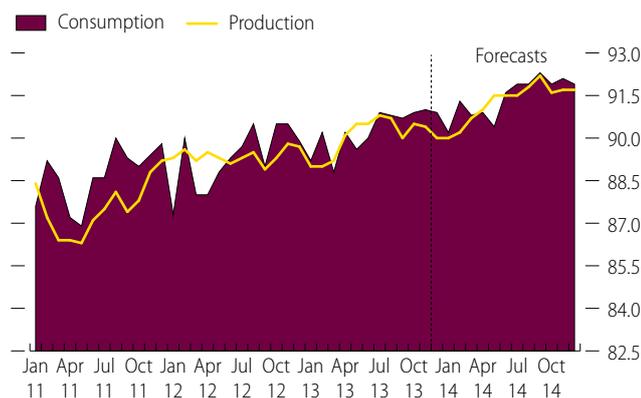


Source: US Energy Information Administration *Short-Term Energy Outlook* database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 28 November 2013.

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The US Energy Information Administration, in its November *Short-Term Energy Outlook*, predicts that this trend will begin to soften towards the end of 2013 (figure 1.9).

Figure 1.9 International crude oil and liquid fuels, global demand and supply (million barrels per day)

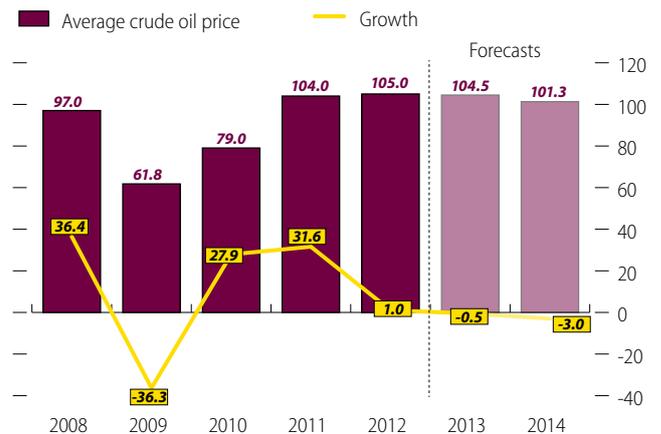


Source: US Energy Information Administration *Short-Term Energy Outlook* database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 28 November 2013.

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A trajectory of slowing growth in emerging economies (notably China), coupled with a robust supply outlook from non-OPEC oil exporters, has in fact led most forecasters to lower their projections for oil prices in 2014. The October 2013 *WEO* now expects crude oil to average \$104.5 in 2013 and to fall by 3% to 101.3 in 2014 (figure 1.10).

Figure 1.10 Average crude oil price (\$ per barrel)



Note: Simple average of three spot prices: Dated Brent, WTI and Dubai Fateh. Source: IMF, *WEO* October 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>), accessed 9 October 2013.

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Gas prices

The same *WEO* revised down its forecast for average natural gas prices—a weighted average of Japanese, US and European prices—by 1.4% relative to the *WEO* forecast of April 2013. The revision comes amid an expanding supply of gas in the US, and lower anticipated demand in emerging economies (figure 1.11).

Natural gas continues to be sold at prices that are below the energy equivalent parity with oil—in effect, at a discount to oil (figure 1.12). In recent months the discount has widened. In energy equivalent terms, the oil to natural gas price ratio is over 30, as of September 2013, higher than that reported in June’s *QEO*. The energy equivalent price ratio is about 6.

No globally integrated market for natural gas yet exists, and the natural gas market remains highly segmented along regional lines. Lower prices are seen in the US,

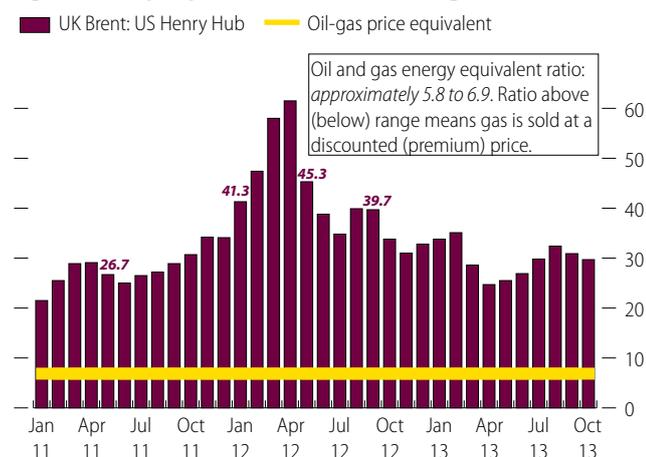
Figure 1.11 Natural gas price index (2005 = 100)



Note: Includes European, Japanese and American natural gas price indices. Source: IMF, *WEO* October 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>), accessed 9 October 2013.

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Figure 1.12 Spot price ratios: Crude oil to gas

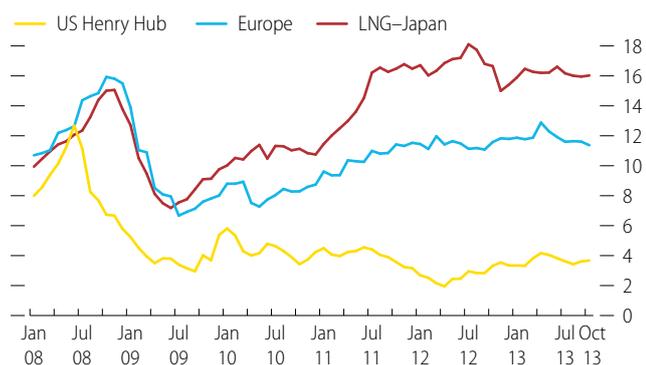


Source: World Bank Commodity Markets database (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPETS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>) and US Energy Information Administration *Short-Term Energy Outlook* database (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm), both accessed 28 November 2013.

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where most gas is sold on the spot market, and are highest in Japan, where gas is sold under long-term contracts linked to oil. In the US prices have fallen with significant production of shale gas. In Europe gas trades under a variety of arrangements and, although prices are higher than in the US, they are lower than in Japan (figure 1.13). The band separating US and Japanese natural gas prices has continued to widen, with a spread of over \$12 per million BTU in September 2013.

Figure 1.13 Natural gas prices (\$/mmbtu)



Source: World Bank Commodity Markets database (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPETS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>) accessed 28 November 2013.

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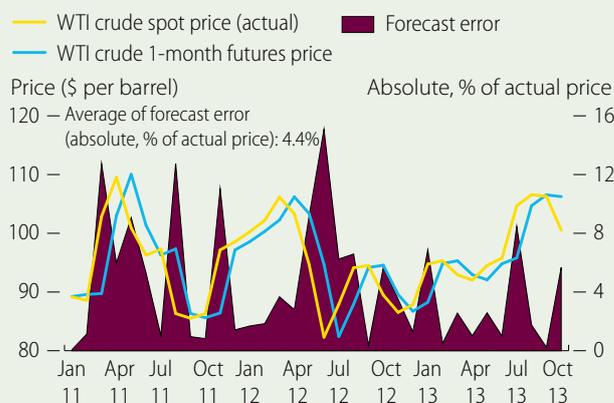
Expectations of global energy demand have been trimmed with downward revisions to economic growth forecasts for both advanced and emerging economies. As a consequence, major forecasting agencies such as the IMF and US Energy Information Administration now expect average global gas prices to soften in 2014 (box 1.5).

Box 1.5 Oil and gas consensus forecast

Consistently accurate forecasts of hydrocarbon prices remain elusive. Real demand factors, supply-side conditions and unanticipated shocks, and asset market influences (real interest rates and speculative demand) on prices all interact in complex and unpredictable ways.

Looking at a comparison of the historical one-month futures oil prices with their realised spot prices demonstrate that market expectations have been confounded by “surprises”, with predictions frequently missing major turning points. The average absolute error as a percentage of the average price was close to 4.4% between January 2011 and October 2013 (box figure).

Box figure Average monthly crude oil prices: Spot vs futures



Source: Estimates based on data from US Energy Information Administration *Short-Term Energy Outlook* database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 28 November 2013.

[Click here for chart data](#)

MDP&S bases its forecasts on the hydrocarbon price outlook of the IMF and World Bank. However, there is a wide range of institutions that publish views about the future trajectory of oil and gas prices.

The box table (below) collates publicly available forecasts of oil prices. Those forecasts shown in red identify predictions that have not been updated since June 2013, when the QEO last presented forecasts. It shows that there is still some degree of segmentation in oil markets (although far less than in gas), which is likely to mean that the WTI benchmark will be sold at a discount to Brent. Expected supply and demand conditions in the US may deviate from wider global influences.

The surge in oil prices that occurred in the second and third quarters of 2013 has prompted an upward revision in the consensus average. The most recent IMF and World Bank forecasts for 2013 (released in October 2013) are at the upper end of the range of outlooks. While the dispersion in forecast prices is a little larger than in June, these prices are still range bound, with only close to \$10 a barrel separating the highest and lowest forecasts for both WTI and UK Brent.

Looking ahead 12 months, there is a much larger degree of dissonance evident in the forecast prices. The range widens to over \$23 for both oil price forecasts, and conventional

Box 1.5 Oil and gas consensus forecast (continued)

measures of dispersion (standard deviation and coefficient of variation) double. IMF and World Bank price forecasts diverge somewhat, although in absolute price terms the differences are narrow.

For gas prices, this release of the *QEO* presents additional forecasts and widens the sample. The consensus is based on US

Henry Hub prices only, as US gas sales are made in a liquid spot market, as opposed to via long-term oil-linked contracts in most of Europe and Asia, making the latter more difficult to predict. For Henry Hub prices, the story is barely changed since mid-2013: the consensus view remains that these prices will average \$3.8 per mmbtu in 2013 and exceed \$4 per mmbtu in 2014.

Box table Poll of oil and gas prices, 2013 and 2014, as of 1 December 2013

Economic forecaster	Oil (\$/bbl)				Gas (\$/mmbtu)	
	WTI		UK Brent		2013	2014
	2013	2014	2013	2014		
ABN AMRO (Oct 13)	95.0	90.0	105.0	95.0	3.9	4.5
Bank of America Merrill Lynch (Oct 13)	90.0	94.0	103.0	107.0	3.9	
Barclay's (Oct 13)	99.0	104.0	108.0	110.0		
BNP Paribas (Oct 13)	100.0	102.0	110.0	110.0		
Business Monitor International (Jul 13)	99.0	101.0	106.0	103.0		
Citigroup (Oct 13)	100.9	105.3	109.5	107.5	3.7	3.8
Commerzbank (Oct 13)	100.0	112.0	109.0	115.0		
Credit Suisse (Oct 13)	96.7	100.0	107.7	110.0	3.7	4.2
Deutsche Bank (Sep 13)	95.1	96.0	107.0	107.0		
Deloitte (Sep 13)	100.0	95.0	102.0	105.0	3.8	4.0
Economist Intelligence Unit (Sep 13)	98.2	100.8	108.7	104.8		
Gain Capital Group (Sep 13)	99.5	98.0	107.0	102.0		
Goldman Sachs (Aug 13)			108.0	105.0	3.8	4.0
Institute of International Finance (Oct 13)			108.0	108.0		
JP Morgan Chase & Co. (Oct 13)	100.8	104.0	109.7	112.0	3.8	4.3
Morgan Stanley (Oct 13)	98.5	103.0	107.0	118.5	3.7	
Noreda (Jul 13)			109.0	111.0		
Oxford Economics (Oct 13)	98.7	95.2	107.8	102.6	3.7	3.9
Samba (Oct 13)			107.0	104.0		
Scotiabank (Oct 13)	100.0	102.0	109.0	109.0	3.8	4.0
Societe Generale (Oct 13)	99.7	103.0	109.2	110.0	3.7	
UBS (Oct 13)	93.5	89.0	100.0	95.0		
US Energy Information Administration (Oct 13)	98.7	96.2	108.0	102.2	3.7	4.0
Consensus (mean)	98.1	99.5	107.2	106.7	3.8	4.1
Median	99.0	100.8	108.0	107.0	3.7	4.0
High	100.9	112.0	110.0	118.5	3.9	4.5
Low	90.0	89.0	100.0	95.0	3.7	3.8
Standard deviation	2.8	5.6	2.5	5.5	0.1	0.2
Coefficient of variation (%)	2.9	5.6	2.4	5.2	2.0	5.4
Memo items			Crude oil^a		Gas (\$/mmbtu)	
					2013	2014
Consensus average (UK Brent and WTI)			102.6	103.1		
International Monetary Fund (Sep 13) ^a			104.5	101.3	3.7	3.9
World Bank (Oct 13) ^a			105.0	105.7	3.7	4.0
OPEC (Apr 13)			107.5			

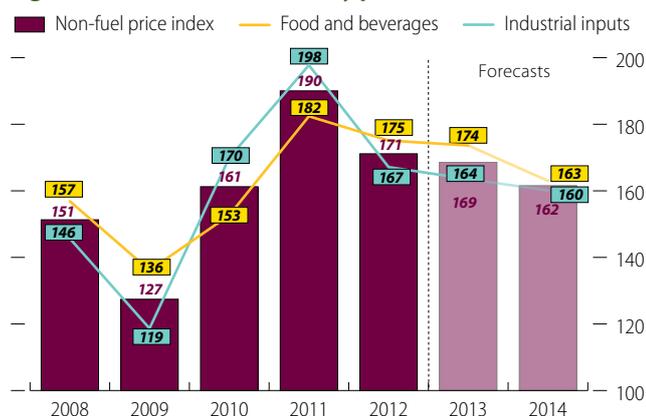
a Average of Brent, Dubai Fateh and WTI (West Texas Intermediate) spot prices. bbl = barrel.
Source: Consolidated from various reports and news articles.

Non-energy commodity markets

Global non-energy commodity continue their declining trend, as supply improves and demand growth softens on slowing growth in emerging economies, particularly China. According to the October 2013 *WEO*, the non-fuel commodity price index will decline by 1.5% in 2013 relative to 2012—steeper than foreseen in the *WEO* of

six months earlier. The index is forecast to fall further by 4.2% in 2014 (figure 1.14).

The lower prices are driven by a combination of improved supply, owing to better weather and higher cyclical crop yields, and anaemic demand growth from emerging economies, where expansion has fallen below trend, notably in China.

Figure 1.14 Non-fuel commodity price index (2005 = 100)

Note: Industrial inputs include agricultural raw material and metal price indices.

Source: IMF, *WEO* October 2013 database (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>), accessed 9 October 2013.

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Food prices are expected to decline by 1.0% in 2013 and by more than 6% in 2014. Industrial and raw material prices are also seen declining, by around 2% in both years, mainly because metal prices have plummeted as supply continues to rise, while demand appears to be tapering off after a slowdown in the Chinese real estate market.

Box 1.6 Implications for Qatar of changes in energy and commodity markets

As a small economy whose GDP growth heavily reflects hydrocarbon exports, Qatar is susceptible to changes in the global environment, most notably in energy prices.

Hydrocarbon exports are linked to oil prices. However, most of Qatar's gas sales contracts are of a fixed-long term nature, with prices anchored for at least six months to an agreed benchmark oil price. For this reason, changes in hydrocarbon prices have a lagged and less erratic effect on Qatar's revenue stream than one might expect. So although slower growth among its trading partners could eventually affect demand for energy and have knock-on effects for Qatar, the bulk of its gas is sold on contractual terms that provide guarantees on off-take.

On the inflation front, prospects for lower global non-energy commodity prices, including food prices, should help to ease domestic price pressures in Qatar over the outlook period. Global material costs are expected to fall, but conditions in local and regional markets may differ. The substantial demands placed on materials to support Qatar's major infrastructure programs are expected to generate inflation in construction costs that could affect overall costs of project delivery—although these rising construction and project costs, of some concern, are quite distinct from consumer price pressures and inflation. Project cost inflation could also be aggravated as activity in Dubai ramps up to deliver Expo 2020.

Part 2 Performance in 2013

The first half of 2013 saw robust real output growth, much as anticipated. Construction and services set the pace in the non-oil and gas economy, but performance in other sectors was also robust. There was also an unanticipated fillip to oil and gas production, for a revised projected outcome of 6.0% real GDP growth in 2013.

While consumer price inflation continued to accelerate, it remained well below some of the more pessimistic forecasts and is likely to average 3.2% for the year.

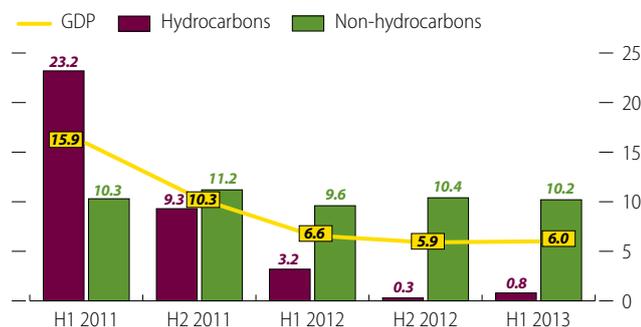
The government budget announced in April 2013 signals a further round of spending increases with the capital budget accounting for a larger share of total budgeted expenditure. The gap between spending and non-oil and gas revenues continues to be comfortably bridged by royalties and taxes from hydrocarbon production.

Economic growth

Real GDP

Qatar's economy expanded by 6% in real (volume) terms in the first half of 2013, measured year on year against the first half of 2012, according to quarterly estimates of real GDP from the Ministry of Development Planning and Statistics (MDP&S). As in 2012, growth was propelled largely by non-oil and gas activity (figure 2.1).

Figure 2.1 Real GDP growth, hydrocarbons and non-hydrocarbons (%)



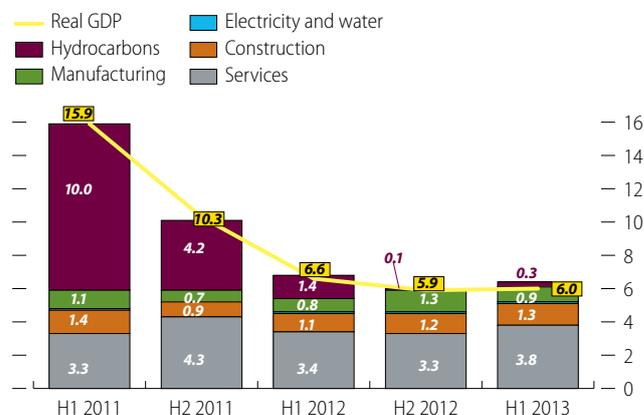
Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 1 October 2013.

[Click here for chart data](#)

Oil and gas output ticked up 0.8%, in effect capped by a moratorium on further exploitation of the North Field. Production from the new Barzan field is not expected to come on stream until late 2014.

Services, construction, manufacturing, and utilities components of output all grew quickly. By virtue of its large share in overall activity, services accounted for the bulk of overall GDP growth with a contribution of 3.8 percentage points (figure 2.2), led by finance and real estate. Tourism services improved in 2013 as Qatar not only raised average hotel occupancy to 57% in Q3 2013 but also increased room inventory by 4.7% and associated revenue per available room by 4.4% over Q3 2012. The gains can be partly attributed to Qatar's successful move into sports tourism, recently marked by the country winning the 2013 World's Leading Sports Tourism Destination award.

Figure 2.2 Contributions to real GDP growth (percentage points)



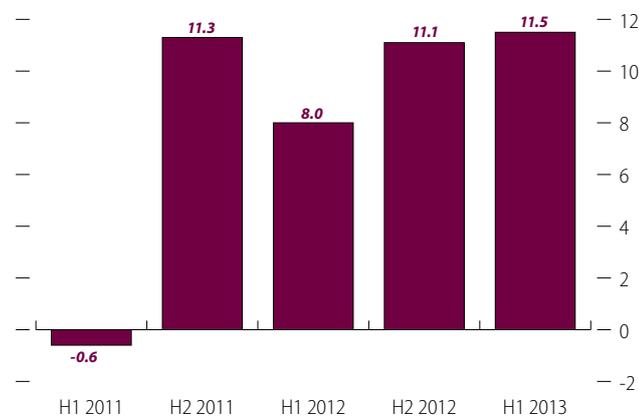
Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Services include transport and communications, trade and hospitality, financial, government, household and social services.
Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 1 October 2013.

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The main drivers of the 10.2% non-hydrocarbon growth remained strong investment in domestic infrastructure and a burgeoning population, attracted by fast job growth. Fiscal and monetary conditions (discussed below) were also supportive.

Construction maintained its rapid ascent in the first half of 2013, posting growth of 11.5% (figure 2.3). Qatar has an extensive portfolio of infrastructure and real estate projects being built, including a new international airport, a new seaport, Doha’s arterial road network, the Doha metro, drainage and sewage works, and large

Figure 2.3 Construction growth (%)

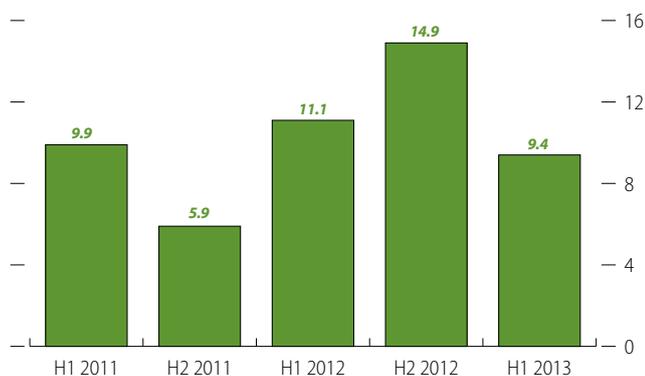


Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 1 October 2013.

[Click here for chart data](#)

real estate developments, such as Lusail, the Pearl and Heart of Doha. The pace is expected to continue as some projects break ground and others ramp up. Local manufacturing, particularly that fabricating raw and semi-finished materials, has benefited, growing by 9.4% in the first half of 2013 (figure 2.4). Petrochemicals and refining activity, which is classified under manufacturing, grew moderately in the first half of 2013 at 7.6%.

Figure 2.4 Manufacturing growth (%)

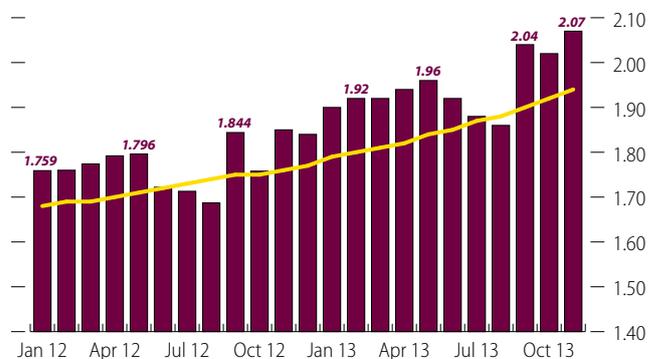


Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 1 October 2013.

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The population by November 2013 had risen to 2.07 million (figure 2.5), marking a rise of 12.1% in the 12 months. Such rates of growth have few global parallels.

Figure 2.5 Total population (million)



Note: The yellow trend line shows the 12-month moving average.

Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 3 December 2013.

[Click here for chart data](#)

The demands created by this continued upsurge are bolstering growth in the non-oil and gas economy. However, as many of Qatar’s newest residents are less skilled construction workers, the impulse to domestic spending is likely to be less pronounced than the rise in population numbers.

Other parts of the economy, too, have been lifted by the construction activity and population influx. Utilities (electricity and water) grew at 6.9% year on year. In services, finance and real estate, trade and hospitality, and transport and communications all posted solid growth. Government, household and social services expanded with the rest of the economy.

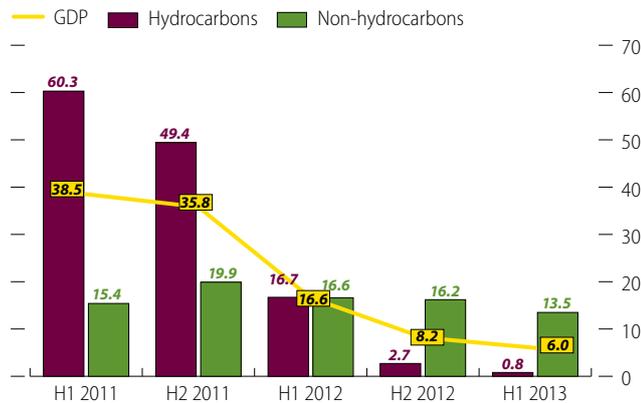
Nominal GDP

Measures of nominal income often provide a better picture of the resources available to Qatar when the terms of trade change significantly, particularly the prices received for its hydrocarbon export basket. These prices changed by a negligible amount, however, in the first half of 2013 year on year, and so growth of hydrocarbons in real and nominal terms was the same, at 0.8% (figure 2.6).

In the non-oil and gas sector, first-half nominal output growth of 13.5% outpaced real growth; the implied price (or deflator) of non-oil and gas value added increased by 3.3% year on year. The construction sector’s deflator rose by 9% in the first half of 2013 and lifted growth of nominal value added to over 20%.

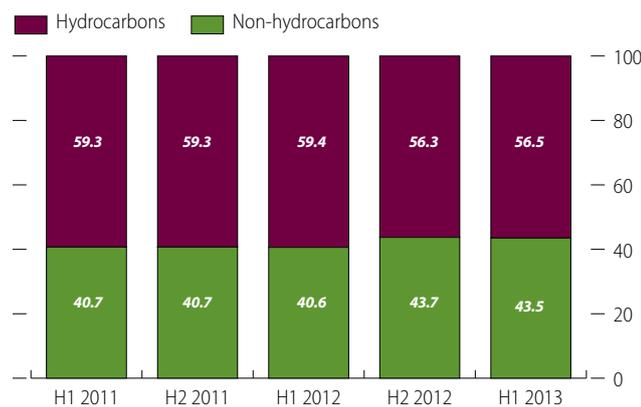
Although oil and gas output still accounted for over half the nation’s nominal GDP in the first half of 2013 at 56.5%, that share has edged down (figure 2.7), reflecting rapid nominal growth in non-oil and gas.

Figure 2.6 Nominal GDP growth, hydrocarbons and non-hydrocarbons (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
 Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 1 October 2013.
[Click here for chart data](#)

Figure 2.7 Share of nominal GDP, hydrocarbons and non-hydrocarbons (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
 Source: MDP&S estimates based on data available at <http://www.qsa.gov.qa/eng/index.htm>, accessed 1 October 2013.
[Click here for chart data](#)

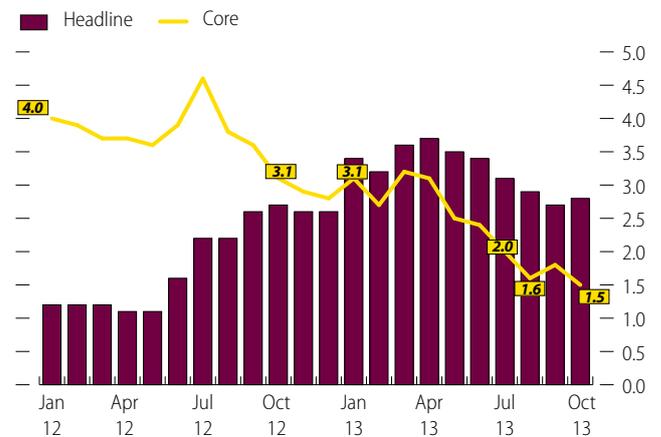
Prices and asset markets

Consumer prices

Headline consumer price inflation, measured as the year-on-year percentage change in the consumer price index, stood at 2.8% in October 2013 (figure 2.8). The narrower “core” measure, which excludes food, beverages and tobacco, as well as rent, utilities and related housing services—the most volatile components in the index basket—was 1.5%. Annual average inflation (i.e. over the 12 months to October 2013, and so picking up the faster inflation earlier in the year) stood at 3.1%.

Within the overall consumer price basket, inflationary trends through to October 2013 are mixed. Price

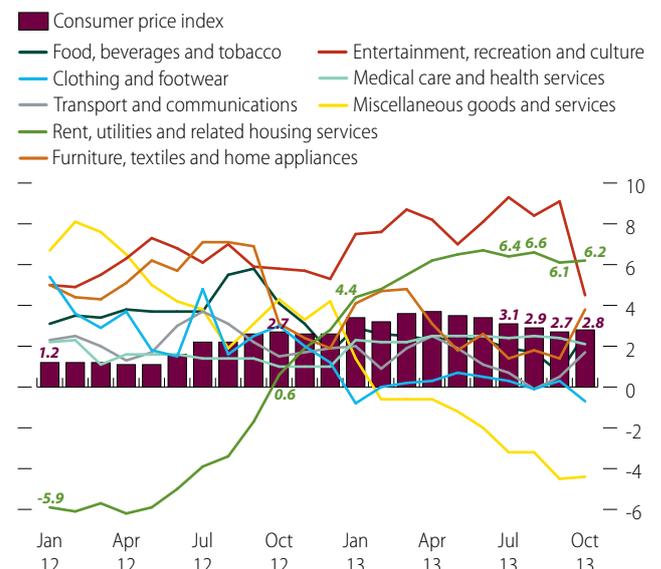
Figure 2.8 Monthly headline and core inflation growth (year on year, %)



Note: Core inflation is headline inflation less food, rent and utilities.
 Source: MDP&S estimates based on data available from Qatar Information Exchange database (<http://www.qix.gov.qa/>), accessed 25 November 2013.
[Click here for chart data](#)

inflation for rent, utilities and related housing services, as well as for entertainment, recreation and culture, has accelerated while that for transport and communications, clothing and footwear, and miscellaneous goods and services, has moderated or turned (more) negative (figure 2.9). While accelerating over the first half, rental inflation also showed signs of stabilising in the third quarter.

Figure 2.9 Monthly inflation (year on year, %)

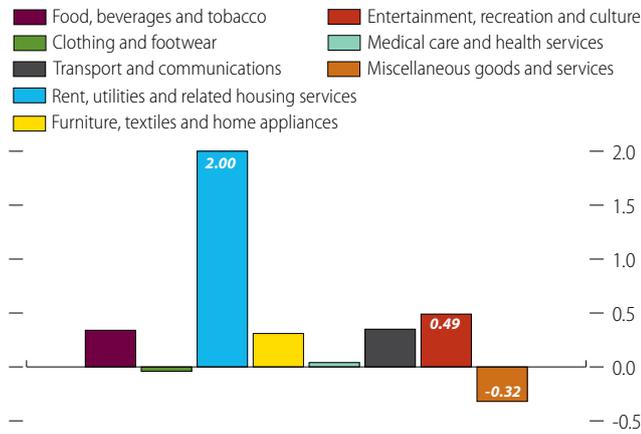


Source: MDP&S estimates based on data available from Qatar Information Exchange database (<http://www.qix.gov.qa/>), accessed 25 November 2013.
[Click here for chart data](#)

Partly given its large weight (32.1% of the overall basket), movements in the rent, utilities and related housing services component has had a decisive influence on the overall path of inflation (figure 2.10), although in recent

months the rate of increase has tapered off, helping to pull down consumer price inflation from its most recent peak in April 2013 (see figure 2.8).

Figure 2.10 Contributors to growth in consumer price index, October 2013



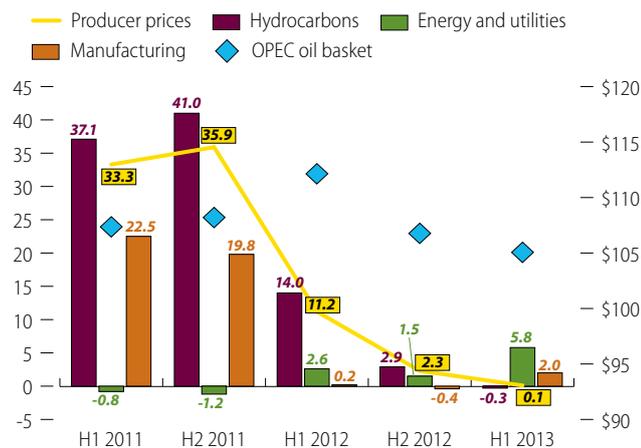
Source: MDP&S, accessed 25 November 2013.

[Click here for chart data](#)

Producer prices

The aggregate producer price index increased by just 0.1% in the first half of 2013 (figure 2.11). On the back of rising crude oil prices, producer prices rose in the first quarter, but reversed in the second. Changes in hydrocarbon prices, which have a weight of 77.1% in the produce price index, dominate aggregate movements. MDP&S is updating the basket originally created in 2007 to a more reflective measure.

Figure 2.11 Producer price index growth (%)



Source: MDP&S, updated 4 November 2013.

[Click here for chart data](#)

Asset markets: Equities and real estate

Qatar Exchange

The Qatar Exchange (QE) Index is a benchmark index of the 20 largest and most liquid stocks in Qatar. It

closed at 10,375 at end-November 2013, or 5.5% higher than end-October and 24.1% higher year to date (figure 2.12). The gains generally trailed those of the S&P100 throughout the first three quarters of 2013. Most regional bourses performed well in 2013 (figure 2.13), and at end-November 2013, all Gulf Cooperation Council stock market indices were above their year-earlier levels by double digits.

By end-November 2013, total market capitalisation of the QE Index reached QR555 billion, equivalent to 76.3% of Qatar’s GDP. This compares with ratios of 62.9% in Saudi Arabia, 59.3% in Kuwait, and 46.4% in the United Arab Emirates (UAE). In May 2014, Qatar (and the UAE) will graduate as an “emerging market” under MSCI’s classification.

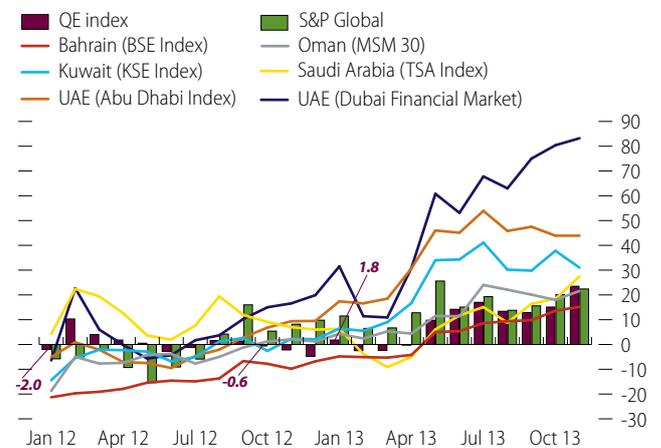
Figure 2.12 QE Index and S&P Global 100 (year-on-year change, %)



Source: MDP&S estimates based on data available from CEIC database, accessed 2 December 2013.

[Click here for chart data](#)

Figure 2.13 Gulf Cooperation Council stock price indices and S&P Global (year-on-year change, %)



Source: MDP&S estimates based on data available from CEIC database, accessed 2 December 2013.

[Click here for chart data](#)

Real estate

The real estate market has exhibited upward price momentum for over three years, following the setbacks associated with the global financial crisis. Most of the price inflation is concentrated in the residential segment (see above), especially in the premium tier.

The Real Estate Price Index of Qatar Central Bank (QCB) tracks real estate sales data, on villas, land and residential estates, as supplied by the Ministry of Justice.

The index registered strong gains through the first half of 2013, dipped, then recovered in August and September (figure 2.14). Commercial real estate revived with vacancy rates dropping to 10% in the sought-after Diplomatic District and reflecting net take-ups of prime office accommodation, which grew at 2.5 times the five-year average during the first nine months of 2013.

Figure 2.14 Real Estate Price Index



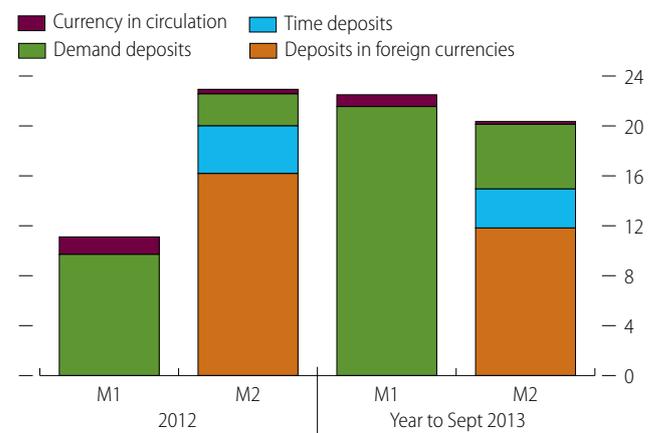
Note: Index base = 100, 2009/10 (April–March).
Source: QCB, accessed 4 November 2013.
[Click here for chart data](#)

The majority of prime retail mall space is fully occupied and headline rental rates have held steady in 2013. But with numerous shopping malls under construction, the supply of retail space is expected to soon increase, and this has curbed rising rents.

Money supply, credit and interest rates

The supply of money in the economy, based on its broad definition (M2) (see Glossary for definitions), grew by 20.4% during the 12 months to September 2013, moderating slightly from 2012’s full-year growth (figure 2.15). (The overlapping 3 months between the two years should not affect the validity of comparison in the context of stock data that are measured at the end of period.) While all components of the money stock expanded, expansion of demand deposits lifted M1 by nearly 22.5%, or more than double 2012’s growth. Slower growth of foreign currency deposits than in 2012 checked expansion of “quasi-money” (time deposits plus deposits in foreign currency).

Figure 2.15 Contribution to money supply growth (percentage points)

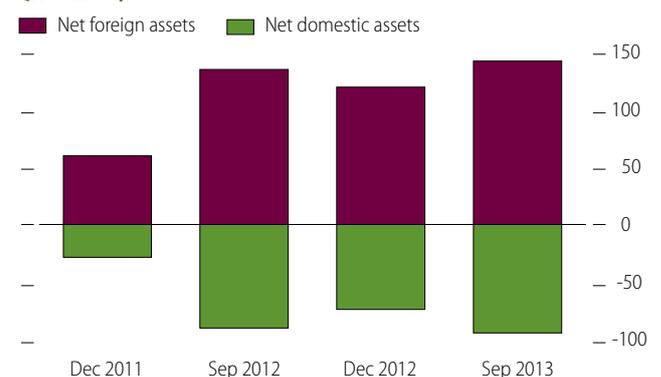


Source: QCB Quarterly Statistical Bulletin.
[Click here for chart data](#)

Slower growth of foreign currency deposits in the domestic banking system mirrored movements in public sector foreign currency deposits, which dominate this component of the money supply and whose slower accumulation may have been influenced by a levelling-off in the growth of oil and gas receipts, and by an already substantial deposit base. These public sector foreign currency deposits provide a useful source of funding for banks’ onshore and offshore transactions, and their slower growth suggests a possible rebalancing of the public sector’s asset portfolio and greater placement of deposits overseas.

Growth of M1 was largely driven by a strong pick-up in private sector demand deposits, although public sector demand deposits also expanded. Receipts from issuance of government securities may have been deposited in the banking system. Deposits are also likely to have been funded through the conversion of hydrocarbon receipts into domestic currency, adding to QCB’s foreign exchange reserves and net foreign assets (figure 2.16).

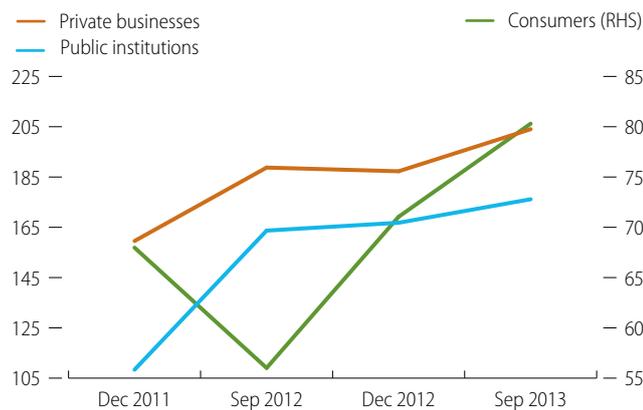
Figure 2.16 QCB reserve money M0 (end of period, QR billion)



Source: QCB Quarterly Statistical Bulletin.
[Click here for chart data](#)

On the asset side of the commercial banking system's consolidated balance sheet, the counterpart to strong monetary growth was an expansion of net domestic assets by 14.4% in the 12 months to September 2013. Bank credit grew by 12.7% to about QR460.5 billion (figure 2.17), with consumer credit accounting for the largest part of the expansion. Lower interest charges on credit cards, which declined by over 3 percentage points in the 12 months, helped to stimulate consumer credit.

Figure 2.17 Bank credit by type of borrower (end of period, QR billion)

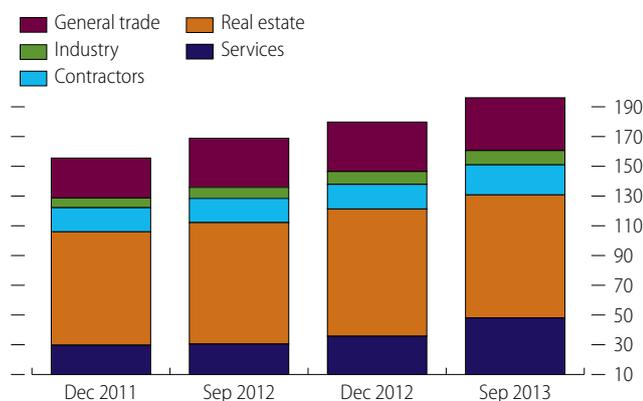


Source: QCB Quarterly Statistical Bulletin.

[Click here for chart data](#)

Credit growth to private businesses also grew strongly, in part stimulated by contracting businesses' need for working capital to take part in the major public investment projects. However, credit to real estate remained the largest component of private sector credit (figure 2.18).

Figure 2.18 Private business credit by main sector



Source: QCB Quarterly Statistical Bulletin.

[Click here for chart data](#)

The claims of the commercial banking sector on government (excluding government owned and linked entities) largely represent the purchase of government securities by banks. The government issues these securities

to support the development of the domestic bond market rather than to meet its funding needs. In net terms, claims on government (gross claims minus deposits) declined during the 12 months to September 2013, reflecting large government deposits in the banking system, including receipts from issuance of government securities.

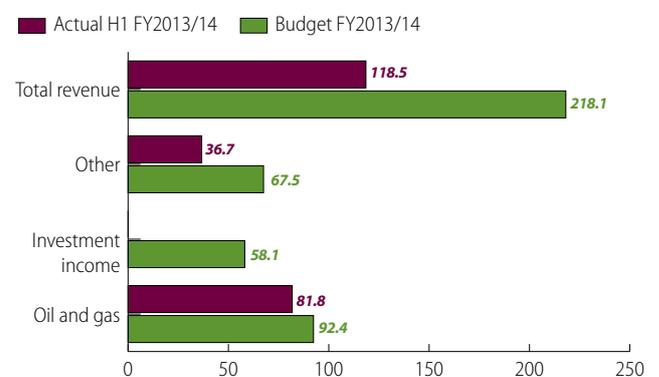
Fiscal accounts

Government revenue

The fiscal year (FY) 2013/14 budget, which runs from 1 April 2013 to 31 March 2014, programmed a moderate 5.7% revenue increase over the previous year's budget. It foresees revenue increases of 2% in oil and gas, 7.9% growth in "other" and 9.4% in investment.

In the first half of FY2013/14 (April–September), government-collected revenue amounted to 54% (QR118.5 billion) of the overall budget target, and almost 90% of the oil and gas revenue target (figure 2.19). This high rate is due to the conservative base-oil price assumption used for budgetary planning, which is substantially lower than the market price.

Figure 2.19 Fiscal revenue, actual and budget, FY2013/14 (QR billion)



Note: The fiscal year runs from 1 April to 31 March. FY2013/14 data are preliminary, covering 1 April to 30 September.

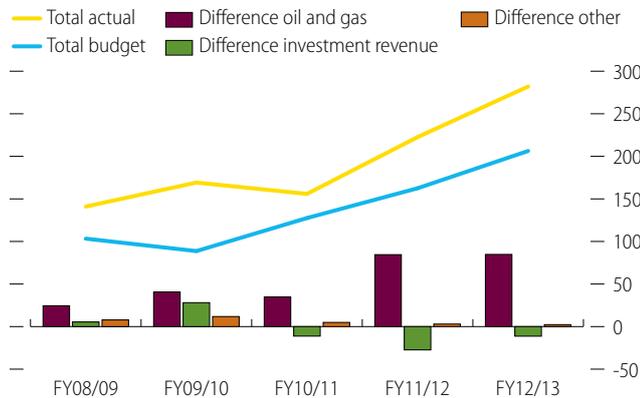
Source: Ministry of Finance.

[Click here for chart data](#)

Other revenue came to QR36.7 billion (31% of the full-year budget). Corporate income tax accounts for much of this source of revenue (80–85%), with far smaller contributions from customs duties and fees from public utilities. These first-half figures consolidate a rising trend of corporate income tax revenues.

The pattern for revenue collection for the first half and trends in earlier years (figure 2.20) suggest that realised revenues at the close of the fiscal year will be much higher than budgeted.

Figure 2.20 Difference between actual and budget government revenue, FY2008/09–2012/13



Note: The fiscal year runs from 1 April to 31 March. FY2013/14 data are preliminary, covering 1 April to 30 September.
Source: Ministry of Finance.

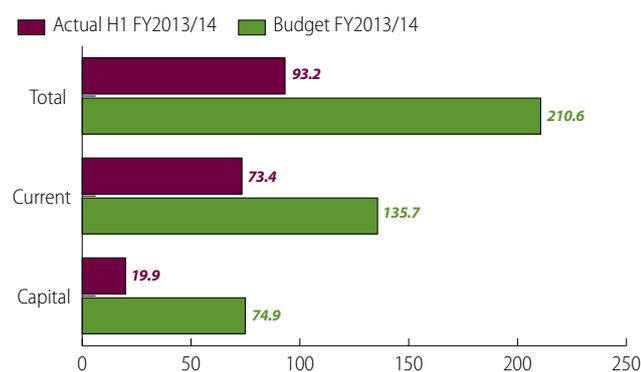
[Click here for chart data](#)

Government expenditure

The budget for FY2013/14 allocates an increase in spending of 17.9% over the previous year's budget—16.5% for current expenditure and 20% for capital programmes.

In September 2013 (mid-point FY2013/14) government expenditure stood at 44% (QR93.2 billion) of the full-year budget amount (figure 2.21). While current expenditure was markedly higher than that reported in September 2012 for the first half of FY2012/13 (figure 2.22), at 54% of the full-year budget, capital disbursements stood at only 26.5%.

Figure 2.21 Fiscal expenditure, actual and budget, FY2013/14 (QR billion)

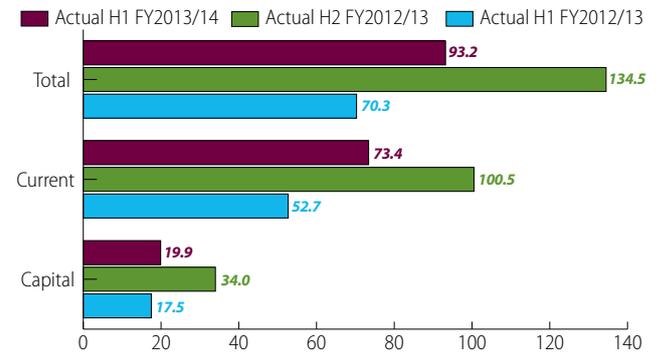


Note: The fiscal year runs from 1 April to 31 March. FY2013/14 data are preliminary, covering 1 April to 30 September.
Source: Ministry of Finance.

[Click here for chart data](#)

In the first half, capital spending slipped to 21.3% of total government spending, down from around 25% in both halves of FY2012/13 (figure 2.23). Although a ramp-up of capital spending could occur in the second half, full-year disbursements have also fallen short of budgeted amounts in the past two years (figure 2.24).

Figure 2.22 Fiscal expenditure, actual, FY2012/13 and FY2013/14 (QR billion)

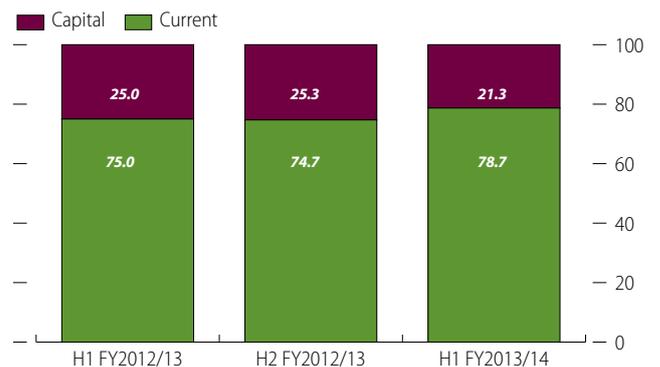


Note: The fiscal year runs from 1 April to 31 March. FY2013/14 data are preliminary, covering 1 April to 30 September.

Source: Ministry of Finance.

[Click here for chart data](#)

Figure 2.23 Fiscal expenditure, actual, FY2012/13 and FY2013/14 (% of total)

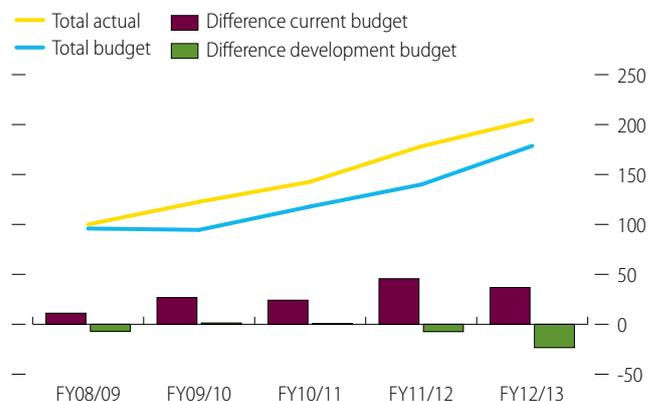


Note: The fiscal year runs from 1 April to 31 March. FY2012/13 data are preliminary, covering 1 April to 30 September.

Source: Ministry of Finance; QCB Quarterly Statistical Bulletin September 2012.

[Click here for chart data](#)

Figure 2.24 Difference between actual and budget government expenditure, FY2008/09–2012/13



Note: The fiscal year runs from 1 April to 31 March. FY2013/14 data are preliminary, covering 1 April to 30 September.

Source: Ministry of Finance.

[Click here for chart data](#)

On balance, total government spending in FY2013/14 is set to be higher than budgeted, given the fiscal year's first-half expenditure outturn, and a pattern in which current expenditure tends to rise in the second half.

The Ministry of Finance is continuing its calibrated modernisation of budgetary and debt management. In October 2013, it issued instructions that government owned and linked entities must now obtain permission from it to issue new debt. In November, it signalled its intention to move towards a medium-term framework for planning its revenues and expenditures.

Consistent with these directions, the “budget circular” for FY2014/15 requires ministries and agencies to provide indicative budget estimates through to FY2016/17 and to share performance information about the execution of their programmes (box 2.1).

Box 2.1 Modernising budgetary and debt management

Sound public financial management is core to enhanced public sector service delivery. For this reason, approaches to the preparation and monitoring of the budget are being modernised.

For example, budget estimates for FY2014/15 now have to be made for three years. The budget classification system is being changed to record more accurately the functions supported by expenditure. An improved government financial information and management system is under development.

The impact of these fiscal and budgetary reform measures will take time to be felt, as they entail complex institutional transformations. Evidence from, among others, the Organisation for Economic Co-operation and Development (OECD), World Bank and International Monetary Fund demonstrates that they cannot be made to happen “with the stroke of a pen”.

Yet in time the country will experience their benefits, such as a better alignment of national and sector development needs and priorities; more focused allocation of public financial resources; improved performance and efficiency in delivery of services throughout government; strengthened macroeconomic resilience; continued robust credit ratings; and the preservation of resources for future generations.

Source: Ministry of Finance; Qatar National Development Strategy 2011–16.

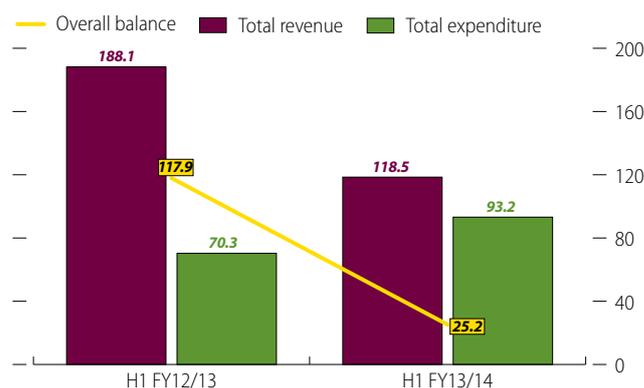
Fiscal balance and debt

An overall budget surplus of QR7.5 billion is projected for FY2013/14, far below the prior-year outcome of QR77.2 billion, reflecting the combination of moderate projected revenue growth (5.7%) and high expenditure growth (17.9%). Since realised and budgeted numbers

will differ, and as spending by government owned and linked entities are outside the central government budget, the overall fiscal balance does not necessarily provide a good indication of the effective fiscal stimulus to aggregate demand.

The first two quarters of FY2013/14 show a fiscal surplus of QR25.2 billion (figure 2.25), according to preliminary data from the Ministry of Finance. This estimate is lower than that reported in September 2012 for first half FY2012/13, mainly due to lower reported revenues (investment income transferred to government by Qatar Petroleum). It is made on a cash basis, reflecting when spending is actually made and revenues received, and not when financial resources are committed or earnings accrue (an “accrual basis”—see Glossary). An assessment of the underlying financial position of government on an accrual basis is unavailable.

Figure 2.25 Fiscal balance, actual, first half FY2012/13 and first half FY2013/14 (QR billion)



Note: The fiscal year runs from 1 April to 31 March. FY2013/14 data are preliminary, covering 1 April to 30 September.

Source: Ministry of Finance.

[Click here for chart data](#)

The budget projects the non-hydrocarbon fiscal deficit (box 2.2) of QR85 billion (against an outcome of QR98.2 billion in FY2012/13). This estimate is based on a broad definition of non-hydrocarbon income as it includes investment income from oil and gas ventures.

For the first half of FY2013/14 the outcome on this balance was a deficit of QR57 billion. The non-hydrocarbon fiscal deficit suggests that government spending is likely to add to overall demand in the non-oil and gas economy. The implications of non-hydrocarbon fiscal deficits for longer-term fiscal sustainability is difficult to assess.

Data on government debt for the current fiscal year are not yet available. At the close of FY2012/13 such debt reached QR215.9 billion, equivalent to 30.4% of nominal GDP, an increase of QR69.2 billion during the fiscal year.

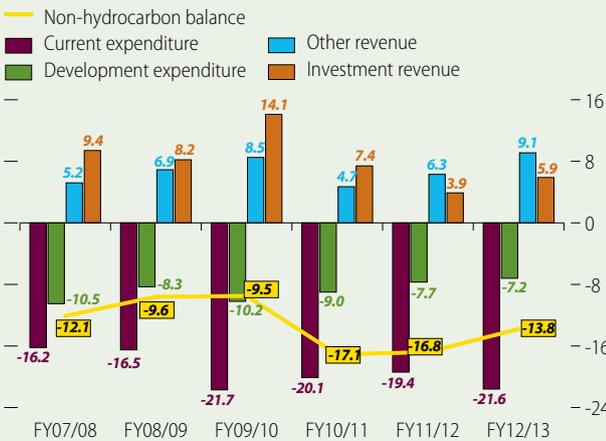
Box 2.2 Non-hydrocarbon fiscal balance

The non-hydrocarbon fiscal balance is defined as the total fiscal balance less income coming directly from oil and gas. In Qatar, such income largely comprises royalties from hydrocarbon output and income taxes on hydrocarbon production (which is received with a lag and often booked in the next fiscal year). Qatar's measure of the non-hydrocarbon fiscal balance still counts investment income from oil and gas activities as revenue.

As hydrocarbon income will eventually be exhausted, it cannot perpetually fund the gap between spending and non-oil and gas income (comprehensively measured). But non-hydrocarbon fiscal deficits that mirror investments in human capital (primarily health and education) and that expand future economic opportunities through provision of infrastructure capital assets need not warrant near-term "correction".

Nevertheless, longer-term measures for meeting spending obligations from non-oil and gas income would be part of a forward-looking fiscal strategy. With this aim in mind, Qatar has stated that its objective is to meet its budgetary needs from non-hydrocarbon sources from 2020.

Box figure Fiscal balance (as % of GDP)



Note: The fiscal year runs from 1 April to 31 March.

Source: Ministry of Finance.

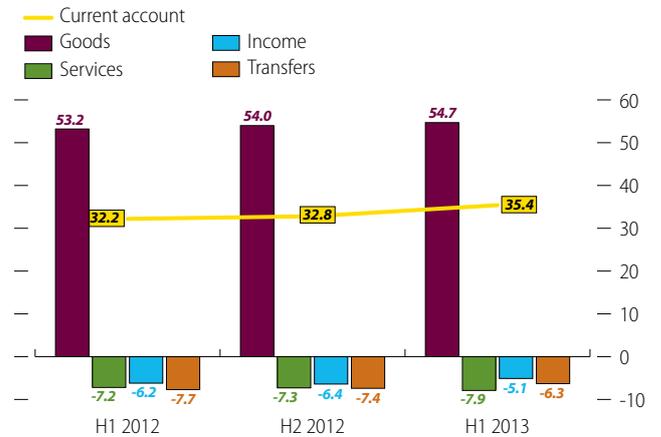
[Click here for chart data](#)

Trade and balance of payments

Qatar posted a trade surplus in the first half of 2013 of QR200.3 billion, equivalent to 54.7% of nominal GDP over the period (figure 2.26).

In contrast to the sharp import growth in 2011 and the first half of 2012, QCB's estimate of imports (measured on a free on board basis) fell in the second half of 2012 and continued to decline, by 9.4% (against the corresponding period of the previous year), in the first half of 2013. The decline may reflect a strong base effect as a consequence of sizeable imports of machinery

Figure 2.26 Current account components (% of nominal GDP)



Source: MDP&S estimates based on data available from QCB (<http://www.qcb.gov.qa/English/Publications/Statistics/BalanceofPayments/Pages/default.aspx>), accessed 1 October 2013.

[Click here for chart data](#)

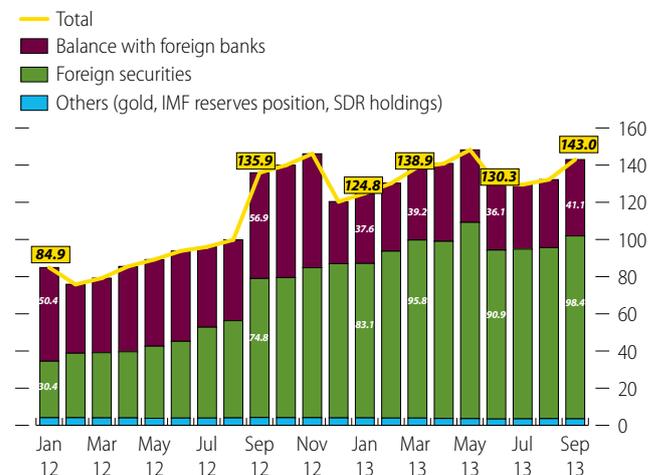
and materials in 2011 and 2012, although it could be a reflection of short-run or seasonal influences that will dissipate.

During the first half of 2013, export revenues rose by 4.4%, mainly on oil and gas, as non-hydrocarbon exports are still very small, accounting for just 12.2% of the total.

A large trade surplus underpinned a substantial current account surplus in the first half of 2013. Deficits on the income and services accounts and large outward remittances amounted to 19.3% of nominal GDP, yielding a stout current account surplus of 35.4%.

QCB's foreign currency reserves stood at QR143 billion at end-September 2013, up by QR7 billion on one year earlier (figure 2.27). Qatar's foreign reserves provide

Figure 2.27 Foreign reserves (QR billion)



Source: MDP&S estimates based on data available from CEIC database, accessed 27 November 2013.

[Click here for chart data](#)

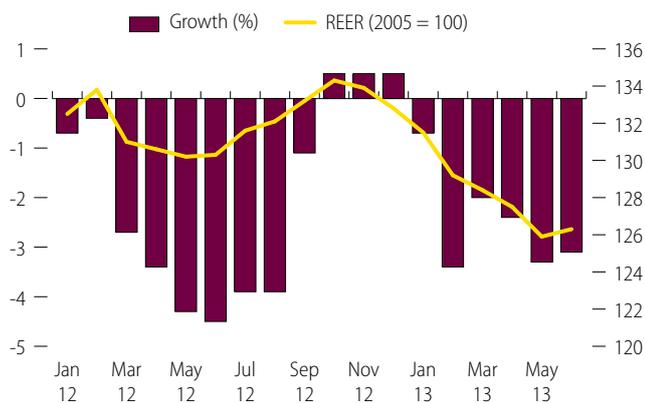
ample coverage for import needs. The increase in reserves partly reflects the use of hydrocarbon receipts to fund investment projects domestically.

Terms of trade and the real effective exchange rate

The real effective exchange rate (REER) traditionally provides a measure of competitiveness for a country’s output in the global market place. In Qatar, where exports outside oil and gas are still very small, the measure gives a sense of the cost circumstances faced by potential non-oil and gas exporters relative to those in other countries.

Qatar’s REER was 3.1% lower in June 2013 than 12 months earlier (figure 2.28), according to estimates from MDP&S. This was largely because the US dollar (to which the riyal is pegged) lost value against the currencies of Qatar’s major trading partners.

Figure 2.28 Real effective exchange rate index



Source: MDP&S estimates based on data available from CEIC database, accessed 1 October 2013.

[Click here for chart data](#)

Glossary—Key economic concepts

Gross domestic product

Gross domestic product (GDP) is a fundamental macroeconomic aggregate that plays a central role in macroeconomic analysis, although it has limitations (see below).

What is GDP?

GDP is widely used as a measure of economic output, as it represents the value of final goods and services produced in a given period of time, usually one year. Another way of looking at it is as the sum of value added across all sectors in the economy over a period.

How is GDP measured?

There are three main approaches to measure GDP, which should give the same results.

- **Production approach:** GDP is equal to the sum of value added across all sectors i.e. the gross output minus the value of intermediate consumption of goods and services summed across all sectors.
- **Expenditure approach:** GDP is the sum of final consumption of goods and services by the government and private sector; of gross investment (additions to physical stock of capital in the economy, including changes in inventories); and of net exports of goods and non-factor services (exports minus imports).
- **Income approach:** GDP is the sum of all income generated from the production process. This includes compensation of employees, and the gross operating surplus of enterprises such as profits, rents and interest.

What is the difference between GDP valued at factor cost and at market prices?

GDP at factor cost is the sum of all factor-of-production incomes generated from the production process (such as wages, profits, rents and interest), while GDP valued

at market prices is GDP at factor cost plus indirect output taxes, less subsidies to businesses, which creates a wedge between the incomes earned by factors of production and the price paid for output in the market.

What is the difference between nominal and real GDP?

Nominal GDP values economic output using current prices, the prices prevailing over the period during which GDP is measured. Accordingly, changes in nominal GDP will reflect changes in prices as well as changes in the volume of output. Real GDP values output at constant prices by using the prices of a selected year called the “base year”. When relative prices change, the choice of the base year can influence measured real GDP growth.

What is the GDP deflator?

This is simply the ratio of nominal and real GDP, and hence it can be considered a measure of the aggregate price level of all domestically produced goods and services in the economy.

What is GDP per capita?

This is total GDP divided by the resident population of the country. While it is commonly used as a proxy for standard of living, GDP per capita is not a measure of personal income nor necessarily of the representative well-being of the population.

What are the limitations of GDP as a measure for economic output and income?

GDP measures do not normally capture the value of goods and services that are not traded in the market, such as volunteer and charitable services and goods and services produced for own use. Similarly, the existence of a large underground economy or black-market activities (which are not that important in Qatar) would result in a GDP measure that underestimates the true size of the economy.

Fiscal concepts

What is the overall fiscal balance?

This is the difference in a given period between total government revenues (including grants) and total government expenditures (current and capital) plus net lending.

What is the primary balance?

This is the overall fiscal balance net of all interest payments and receipts by government. The primary balance provides an indicator of the current fiscal support for aggregate demand since interest payments are linked to stocks of liabilities and assets of the previous period.

What is the non-hydrocarbon fiscal balance?

This is the overall fiscal balance less oil and gas revenues, which in Qatar is defined in terms of direct revenues (royalties and taxes) received from hydrocarbon production. Investment income from government companies and government-linked companies, which may accrue from hydrocarbons-related activities, is not included in the definition of oil and gas revenues. The non-hydrocarbon fiscal balance provides an indication of the fiscal stimulus to the local economy funded by oil and gas revenues.

What is the fiscal year?

The annual budget and accounting period for which revenue and expenditure provisions are made, and for which accounts are presented. The fiscal year for Qatar runs from 1 April to 31 March.

What is cash accounting?

Cash accounts record revenue when cash is received and expenses when they are paid in cash, irrespective of when the income fell due or the expenditure commitments were made. Although they are important for understanding what the government contributes to liquidity in the economy and for managing cash, cash accounts may not provide a true picture of the government's financial position.

What is accrual accounting?

Accrual accounts record transactions when the underlying event or commitment occurs, regardless of the timing of the related cash settlement. Revenues are recorded when income is earned, and expenses are recorded when liabilities are incurred or resources consumed. In principle, the difference between cash-based balances and those calculated on an accrual basis should equal "changes in arrears".

What is "quasi-fiscal" spending?

This is expenditure executed by state-owned (financial and non-financial) enterprises. It is in character similar to expenditure normally executed by the government, but is not included in the government budget (or listed under "contingent liabilities" in the budget). Central bank operations that entail implicit subsidies or taxes are also quasi-fiscal in nature.

Monetary concepts

What is reserve money or M0?

Reserve money is a liability of the central bank. It is the sum of (i) currency issued by and held outside the central bank; (ii) banks' deposits at the central bank to satisfy reserve requirements and for clearing purposes; and (iii) other liabilities including, in the case of Qatar, bank deposits at the central bank in excess of requirements. Reserve money can also be expressed in terms of the central bank's counterpart assets, which fall into two main categories: net foreign assets, which comprise the net official international reserves plus any other net foreign assets that are less liquid and hence are not included in the net official international reserves; and net domestic assets, which include central bank net claims on government (claims minus deposits) and claims on other sectors.

What is narrow money or M1?

This is currency in circulation plus demand deposits. Narrow money is considered "liquid". Narrow money typically pays zero or relatively low rates of interest.

What is "quasi money"?

This is the less liquid part of the money supply and includes savings deposits and all deposits denominated in foreign currency.

What is "broad money" or M2?

This is the sum of quasi-money and M1.

What are official foreign reserves?

These are the central bank's liquid foreign assets that can be used to secure the country's external payments at any moment. Reserves include gold, foreign exchange, and the reserve position at the International Monetary Fund. Reserves are usually presented in net terms by excluding from the gross official foreign reserves the central bank's foreign liabilities.

What is “credit”?

Credit creation involves the provision of resources by the lender (such as banks or any other financial institution) to the borrower. In this way the lender acquires a financial claim and the borrower incurs a liability to repay in the future. Credit to non-financial sectors (such as government, private businesses and households) is mainly used to finance production, consumption and capital formation.

Balance-of-payments concepts***What is the trade balance?***

This is the difference between a nation’s imports and exports of merchandise measured over a specified period (normally a calendar year). The trade balance is part of the wider current account balance.

What is the income and services balance?

This is the sum of net income received from non-residents and the balance in services trade measured over a specified period. The income account comprises flows derived from labour (wages paid to non-resident employees) and from net investment income. The services balance consists mainly of payments for travel, transport, communications, construction, housing rentals and financial services.

What is the current account balance?

This is the sum of the trade, income and services balances, plus net current transfers, which include cash transfers, gifts in kind and remittances (which are sizeable in Qatar) sent by foreign workers to families back home. It is termed the current account because goods and services are generally consumed in the current period.

What is the capital and financial account balance?

This records purchases or sales of financial assets or transactions related to international borrowing and lending. It also includes capital transfers.

What is the international investment position and the capital account

The international investment position of a country is a financial statement presenting both the composition and value of a country’s external financial assets and liabilities. The difference between these assets and liabilities is its net international investment position.

What is external debt?

This is the stock of outstanding contractual liabilities, issued by the public and private sector to non-residents, that have been disbursed.

Exchange rate concepts***What is the bilateral exchange rate?***

This is the price of one currency measured in units of another. The nominal US dollar exchange rate for the Qatari riyal is pegged at QR3.64 = \$1.

What is the nominal effective exchange rate (NEER)?

Unlike the bilateral exchange rate, the NEER is not a market price but an index number that measures the weighted average of the country’s bilateral exchange rate against a basket of trading partners’ currencies over a given period. The size of the weights normally reflects their relative importance in the country’s international trade or in its overall foreign transactions, including external financial transactions. Movement of the NEER provides an indication of changes in the value of the domestic currency against the currencies in the basket. An appreciation occurs when a domestic currency unit can buy more of the basket of currencies.

What is the real effective exchange rate (REER)?

This is the NEER adjusted for differential inflation rates between a home country (Qatar, for example) and its trading partners. An appreciation of the REER can occur either because the NEER is appreciating or because domestic inflation in the home country (Qatar) is higher than that in its trading partners. Changes in the REER provide a measure of the change in the currency’s purchasing power and of the price competitiveness of the country’s tradable goods and services against trading partners’ goods and services.