

رقم	اسم	الفتح	الغلق	التغير	الحد الأقصى	الحد الأدنى	الحد الأقصى	الحد الأدنى
105	QNBK	202.00	202.00	0.00	202.00	202.00	202.00	202.00
106	QIBK	89.60	89.60	0.00	89.60	89.60	89.60	89.60
107	CBQK	92.50	92.50	0.00	92.50	92.50	92.50	92.50
108	DBBK	65.80	65.80	0.00	65.80	65.80	65.80	65.80
109	ABOK	61.40	61.40	0.00	61.40	61.40	61.40	61.40
110	OIHK	53.50	53.50	0.00	53.50	53.50	53.50	53.50
111	MARK	20.40	20.40	0.00	20.40	20.40	20.40	20.40
112	KCBK	18.00	18.00	0.00	18.00	18.00	18.00	18.00
113	FFCK	0.00	0.00	0.00	0.00	0.00	0.00	0.00
114	OATH	91.50	91.50	0.00	91.50	91.50	91.50	91.50
115	DOHI	30.80	30.80	0.00	30.80	30.80	30.80	30.80
116	QISI	50.20	50.20	0.00	50.20	50.20	50.20	50.20



Qatar Economic Outlook 2011–2012



General Secretariat for Development Planning

Qatar Economic Outlook 2011–2012



الأمانة العامة للتخطيط التنموي
General Secretariat for Development Planning

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Foreword

It gives me great pleasure to introduce the *Qatar Economic Outlook 2011–2012*. This is the first time the General Secretariat for Development Planning (GSDP) has published an in-depth analysis of Qatar's economic performance and outlook. The *Outlook's* contents will interest all those in both the public and private sectors who want to know what makes Qatar's economy tick, likely future trends, and the risks that could affect those expected trends. Qatar's ability to deliver the goals set out in its National Development Strategy 2011–2016 will hinge on its ability to navigate a steady economic course.

GSDP expects that double-digit economic growth in 2011 will be followed by more moderate expansion in 2012, as the stimulus provided by hydrocarbons tapers off. The *Outlook* anticipates that robust fiscal and balance-of-payments surpluses will continue and that inflation will be contained. However, the *Outlook* also points to risks in the global economy, which could trim expected surpluses and squeeze private funding for projects.

The contents of the *Outlook* have been developed by the Department of Economic Development (DED) of GSDP. I would like to thank all my GSDP colleagues who contributed. Valuable comments were provided by colleagues in the Departments of Institutional Development and Social Development.

The *Outlook* could not have been developed without the close cooperation of other agencies. I would like to thank the Qatar Statistics Authority, who advised on all data issues and prepared the text box on the new producer price index; Qatar Central Bank; Qatar Petroleum; the Ministry of Economy and Finance; and the Ministry of Business and Trade for sharing information and being so responsive to GSDP inquiries.

Finally, I would like to thank H.E. Dr. Ibrahim Ibrahim for his personal interest and encouragement in the preparation of the *Outlook*.

H.E. Dr. Saleh Al Nabit

Secretary General

General Secretariat for Development Planning

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Highlights

Qatar: Outlook at a glance

	2011	2012
Real GDP growth (%)	15.0	5.1
Nominal GDP growth (%)	32.3	4.8
Consumer price inflation (%)	2.0	2.0
Fiscal surplus (% of nominal GDP)	12.6	7.8
Current account surplus (% of nominal GDP)	23.6	20.3

Source: GSDP estimates based on the National Development Strategy macro framework.

Real GDP will grow fast in 2011, moderating in 2012

The General Secretariat for Development Planning (GSDP) expects Qatar to post growth of real gross domestic product (GDP) of 15.0% in 2011, propelled by further expansion of national hydrocarbon capacity. But it anticipates that growth will slow to 5.1% in 2012. Qatar, having successfully completed a two-decade long programme of hydrocarbon investments in 2011, will see its hydrocarbon output plateau and the impulse that the programme has given to growth in the past decade fade. Significant, new investments must await the results of a technical study on the North Field.

Future growth will start to depend on the non-hydrocarbon economy

In 2012 and for the foreseeable future, overall economic growth will hinge on the performance of the non-hydrocarbon sector, as growth in downstream hydrocarbon-processing industries will also be constrained by feedstock availability (until the Barzan project starts in 2014). Qatar's ability to diversify its wider economy will therefore be essential to growth. Although some diversification has occurred in the past decade, activity remains highly concentrated.

In recent years, productivity has been declining in many sectors. Lifting productivity will be a critical first step in promoting growth on a wider front. Spending linked to the 2022 FIFA World Cup is unlikely to ramp up until after 2012, and so will not register on the immediate outlook.

Terms-of-trade changes have a decisive influence on the resources available to the economy

With large changes in hydrocarbon prices, volume measures of GDP may not capture well the resources available to the economy. Even if hydrocarbon production is fixed, higher prices for hydrocarbon exports translate into domestic income expansion for given import prices. Unfortunately, the data required to calculate real gross domestic income, which can account for terms-of-trade changes, are not yet available for Qatar. Still, the trajectory of nominal GDP gives some clues.

The *Qatar Economic Outlook 2011–2012* projects that nominal GDP will grow by 32.3% in 2011, buoyed by expanding volumes and higher prices for hydrocarbon outputs. But as prices are expected to stay more or less flat and volume growth to be small, nominal GDP growth should slow alongside real GDP growth in 2012.

Consumer price inflation is expected to remain tame

Consumer prices have picked up in 2011, to 2.1% in August. Higher import prices for commodities, a hike in domestic fuel prices and a weak US dollar have all contributed, their impact offset somewhat by a subdued rental market. Overall, average headline inflation in 2011 is expected to be just 2.0%, though a core measure of inflation (which strips out transitory influences, including rentals) is put at 4.0%.

With an outlook that takes in weaker commodity prices and a firmer US dollar, headline inflation is forecast to remain tame in 2012. In the domestic property market, excess supply will take time to work itself out.

Fiscal strength will persist

Qatar will post a double-digit fiscal surplus in 2011—boosted by a large increase in revenue from hydrocarbons—followed by another large surplus in 2012. The share of hydrocarbon income in total government revenue will climb, and the ratio of debt to GDP, which has risen in recent years, should flatten. The challenge for the long run is to broaden the revenue base and shrink the non-hydrocarbon deficit (the overall surplus less hydrocarbon revenue). Qatar, with other countries in the Gulf Cooperation Council, is now studying the possibility of a value-added tax.

Surpluses on the balance of payments will stay formidable

Qatar's external surpluses will remain formidable. Current account surpluses in both 2011 and 2012 will be above 20% of nominal GDP. The investments that its balance-of-payments surpluses finance provide an important avenue of income diversification for the economy, even if output diversification is proceeding on a slower track.

Risks are to the downside

The global economy faces multiple challenges. Advanced economies are at risk of slipping back into recession, banks in the eurozone are exposed to the danger of a sovereign debt crisis spreading from Europe's periphery to its core, and, as the private sector in many industrial countries tries to rebuild its wealth, demand is sluggish. With interest rates at historically low levels and debt levels rising, advanced countries' policy options are narrowing.

Emerging-market economies, also set to slow, have been unable to fill the gap in demand. These factors are already conspiring to push commodity prices down.

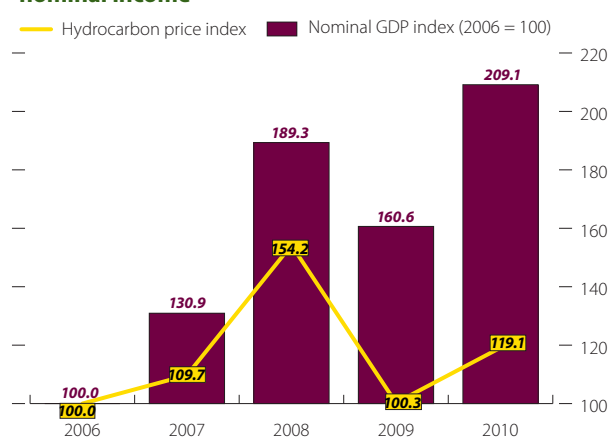
Although Qatar's robust fiscal position and its banks' capital strength should—if needed—cushion it against the external down-draught, the resources available to the economy could be materially affected if oil prices sagged, as they did in 2008.

Conservative fiscal planning assumptions provide another layer of protection, but as oil prices fall, the fixed costs of production consume a greater share of hydrocarbon revenue. And if the sovereign debt crisis spreads to banks and global credit markets seize up, capital funding for Qatar's projects could become more difficult.

Part 1 Outlook in 2011 and 2012

Qatar's successful 20-year investment programme in hydrocarbons will culminate in 2011. Expanded capacity and production of liquefied natural gas (LNG) will support growth of real GDP in 2011 of 15.0% and, bolstered by higher oil prices, of nominal GDP of 32.3%. The fiscal and current account balances will remain formidable. Yet the economy's dynamics and growth profile will change: hydrocarbons' strong impulse to growth will fade, and the non-hydrocarbon economy will need to take up the reins of growth. In 2012, aggregate real and nominal GDP growth are projected to moderate to 5.1% and 4.8%, respectively. Headline consumer price inflation, after picking up recently, is expected to be contained owing to softer non-energy commodity prices. But the global outlook carries risks, and the impact of broader external events may not be so benign.

Figure 1.1 Hydrocarbon price index and nominal income



Note: Hydrocarbon component of Qatar's producer price index (2006 = 100) includes crude oil, condensate and natural gas (LNG and pipeline gas).
Source: Qatar Statistics Authority (QSA), various data releases (<http://www.qsa.gov.qa/eng/index.htm>).

Linkages to the global economy

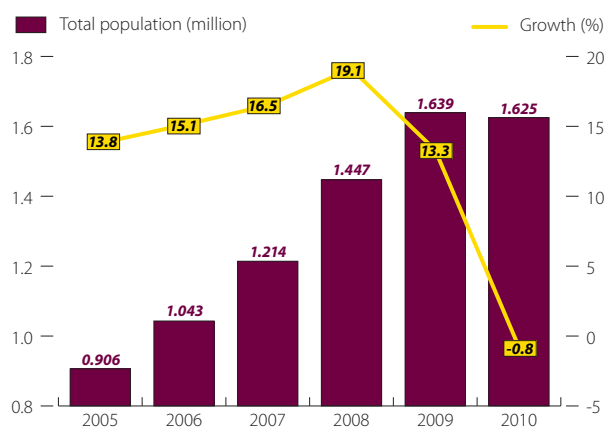
Qatar is a small and highly open economy. It depends heavily on hydrocarbon export revenue, and imports most of its consumption, raw material and capital goods. The peg of the local currency (the riyal) to the United States dollar and an open capital account reinforce the local economy's integration with global markets.

But despite these close linkages, Qatar's economy displayed considerable resilience when, in late 2008 and 2009, the global economy sank into its worst slump since the great depression of three quarters of a century ago. It posted double-digit expansion of real GDP in both years. Continuing expansion of hydrocarbon activity supported the nation's growth, and its huge financial resources—mobilised to fortify its banks' balance sheets—sheltered it from the full force of the external down-draught.

Qatar was not, though, completely cushioned from global economic dislocation. A steep drop in hydrocarbon prices (and an ensuing terms-of-trade reversal, discussed in part 2) slashed Qatar's nominal income (figure 1.1) as well as its hydrocarbon revenue take. As project finance facilities dried up in the wake of the broader seizure in global credit markets, many of Qatar's capital projects were cancelled, deferred or put on a slower track. And the surge in population seen from 2005 to 2009 had stopped by 2010 (figure 1.2). On a more benign note, tumbling non-energy commodity prices in global markets helped to dampen domestic inflationary pressures.

The global economic recovery that began in 2010 also reverberated through Qatar (see part 2). Rising hydrocarbon prices helped to boost nominal income

Figure 1.2 Population



Note: Mid-year (June) estimates.

Source: QSA's Qatar Information Exchange database (http://www.qix.gov.qa/portal/page/portal/qix/subject_area/Statistics?subject_area=177), accessed 25 September 2011.

growth and fiscal revenue, with vigour returning to most of the non-hydrocarbon economy. Though a pick-up in global commodity prices began to seep through to retail inflation, sharp falls in residential rentals kept overall consumer price inflation in negative territory until the latter part of 2010.

These and more recent trends confirm that Qatar is not quite immune to the vicissitudes of the global economy, but they also testify that Qatar's substantial domestic resources provide the leeway to help it keep its domestic economy on track.

Looking ahead, the key question is how the faltering global recovery and heightened risks of a double-dip recession in some advanced economies might affect Qatar in the rest of 2011 and 2012. This is an important question as the sizeable impulse given to domestic growth by rapidly expanding hydrocarbons will begin to fade in 2012. A lesson from previous global downturns is that events can easily move faster (and further) than originally expected. Close and continuous monitoring of external developments will be required so that Qatar can calibrate timely and effective responses.

The following sections examine the immediate economic prospects for Qatar. Consensus forecasts are presented first, followed by the outlook of the General Secretariat for Development Planning (GSDP). Later sections provide context for developments in the global economy, canvassing prospects for growth and commodity prices as well as identifying significant risk factors.

Pooling forecasts: the "consensus" perspective for Qatar

GSDP's own forecasts for 2011–2012 are presented and explained separately below. This scan of third-party forecasts provides a perspective on the outlook, which GSDP does not necessarily endorse.

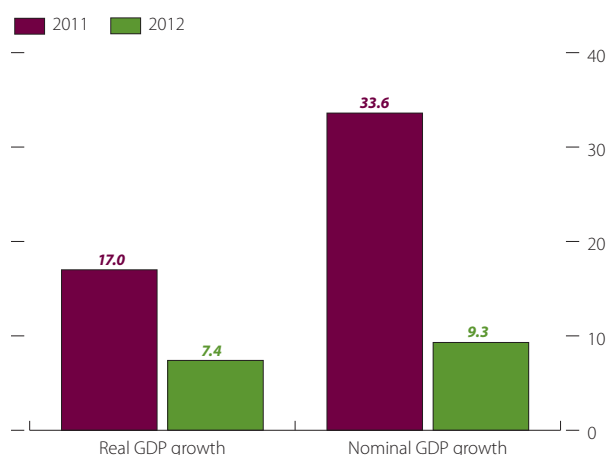
Some evidence indicates that pooling the views of different experts, or "consensus forecasting", can improve the accuracy of economic forecasts. Taken over a number of years, the pooled average may more accurately predict future outcomes than a single source. At any point in time, the dispersion of the forecasts can provide clues about the confidence that others might have in expert views.

Two main features emerge from the economic growth forecasts for Qatar pooled in table 1.1 (and see box 1.1). First, the consensus holds that economic momentum will be maintained through 2011, but that both real and nominal GDP growth will decelerate sharply in 2012.

Box 1.1 The pool of economic forecasts

Table 1.1 has point forecasts with their date of release. Very little information is available on most of these forecasts—method of generation, definitions or assumptions.

The most transparent projections are perhaps those of the International Monetary Fund and the World Bank. These forecasts are disciplined by internal consistency checks in the form of economic accounting identities and are based on explicit assumptions about the trajectory of important economic drivers, such as the price of oil and projected government spending.

Figure 1.3 Consensus estimates of GDP growth (%)

Source: Staff estimates based on forecasts consolidated from various reports and news articles.

Second, despite agreement on this general point, the dispersion of forecasts is substantial around the central estimates.

Pooling and averaging the growth data of table 1.1 give a consensus estimate (the mean) of real GDP growth in 2011 of 17.0% (figure 1.3). But the forecasts exhibit a low level of concordance around this average, in a range of a full 8.8 percentage points (12.2% to 21.0%). The coefficient of variation, another measure of dispersion, is large at 15.9%, indicating a low “signal-to-noise” ratio. Though the majority of GDP forecasts are around 16–20%, a good minority are in the orbit of 11–15%.

Generally, projections released later in 2011 are more bullish than those made earlier. In the first-quarter, and prior to the release of full-year GDP estimates for 2010, predicted growth for 2011 was 14.3%, whereas in the third quarter the average growth projection had ratcheted up to 17.4%. A strong outcome in 2010 and robust numbers for nominal GDP in the first quarter of 2011 are likely to have influenced views.

The consensus forecast for 2012 anticipates a sharp reduction in real GDP growth to 7.4%. This expectation is unanimous, almost certainly reflecting the fact that major hydrocarbon projects will be largely completed by end-2011, removing the large boost to growth

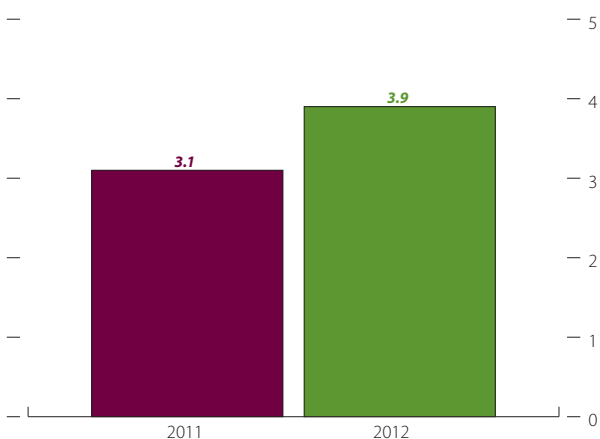
Table 1.1 Pool of economic forecasts for Qatar, 2011 and 2012

Economic forecaster	Real GDP growth		Nominal GDP growth		Inflation	
	2011	2012	2011	2012	2011	2012
Business Monitor International (Sep)	17.2	7.8	19.4	11.2	1.5	3.0
Citigroup (Aug)	12.8	9.4	...	...	3.0	3.0
Credit Suisse (Jan)	12.8	...	32.9	...	3.3	...
Deutsche Bank (Jun)	20.0	6.0	...	...	...	...
Economist Intelligence Unit (Sep)	15.8	5.9	40.5	6.6	3.3	3.7
EFG Hermes (Mar)	12.2	5.7	...	...	1.0	2.0
Export Development Canada (Aug)	18.5	8.0	...	...	4.5	5.0
Global Insight (Apr)	16.6	7.9	...	...	4.1	6.2
IBQ-NBK Joint report (Apr)	14.8	6.2	22.0	12.7	4.0	6.5
Institute of International Finance (Apr)	18.9	6.1	42.7	5.2	4.0	4.5
International Monetary Fund (Sep)	18.7	6.0	36.0	4.3	2.3	4.1
KAMCO Research (Sep)	20.0	7.1	52.7	7.1	4.2	4.1
Merrill Lynch (Jul)	13.0	7.5	...	...	2.5	3.5
Oxford Economics (Aug)	15.0	...	...	...	5.0	...
Pharos Holding (Apr)	18.0	...	...	...	4.0	...
Qatar National Bank (Sep)	21.0	10.0	35.9	13.7	2.4	2.8
Roubini Global Economics (Sep)	17.0	9.0	31.0	10.0	1.5	2.0
SAMBA (Aug)	20.5	6.0	...	...	1.8	4.5
Shuaa Capital (Jan)	17.9	8.3	22.7	13.2	...	...
Standard Chartered (Sep)	18.7	...	...	...	...	...
World Bank (Sep)	18.6	9.2	...	...	...	...
Consensus (mean)	17.0	7.4	33.6	9.3	3.1	3.9
Median	17.9	7.5	34.4	10.0	3.3	3.9
High	21.0	10.0	52.7	13.7	5.0	6.5
Low	12.2	5.7	19.4	4.3	1.0	2.0
Standard deviation	2.7	1.4	10.4	3.6	1.2	1.4
Coefficient of variation (%)	15.9	19.2	30.9	38.7	38.8	34.9

... = not available.

Source: Consolidated from various reports and news articles.

Figure 1.4 Consensus estimates of consumer price inflation (%)



Source: Staff estimates based on forecasts consolidated from various reports and news articles.

that hydrocarbon expansion has given in past years. Worsening global economic news has done little to alter beliefs about prospects for Qatar in 2012, with growth projections made in the third quarter of the year gaining 0.8 percentage points on those made in the first.

All forecasts for real GDP growth for 2012 lie in an interval of 5–10%, with a relatively uniform spread. Still, despite the tighter range than for 2011, the signal-to-noise ratio remains low with a coefficient of variation of 19.2%. Differences among the forecast growth rates are ubiquitous and large (relative to the forecast mean).

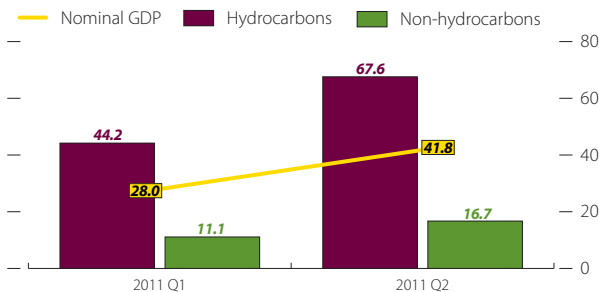
Although real GDP is a traditional barometer of economic activity, it may not always accurately reflect movements in Qatar’s real income (box 2.1 in part 2, and box 1.2 below). This is because hydrocarbon price changes are felt in real income even when production volumes do not change. GSDP has shown that, historically, changes in nominal GDP are likely to have tracked terms of trade–adjusted measures of real national income somewhat better than conventional real GDP measures (see part 2).

Forecasts of nominal GDP growth require a forecast of the GDP deflator (a measure of the price of all goods and services produced in the economy) as well as a forecast of real GDP. The factors that might influence the future trajectory of Qatar’s GDP deflator are hard to pin down, and many originate outside Qatar. For example, a forecast of the deflator must implicitly rest on conjectures about the price of Qatar’s hydrocarbon output basket, which in turn will be influenced by views on future oil and gas prices. Taking these additional unknowns into account might reasonably be expected to lead to greater divergence in forecasts. And indeed table 1.1 shows this—the forecasts of nominal GDP growth mark greater dispersion than the real GDP projections.

Most of the forecasters in table 1.1 also project consumer price inflation for Qatar, which is of particular interest for monetary and liquidity management. The consensus view is that it is set to pick up in 2011, and will accelerate again in 2012 (figure 1.4). These forecasts most probably (as said, information is scarce on how the forecasters work) build on the earlier expectation that commodity supply would be unable to meet surging commodity demand, continuing to push global prices up. These views have now been subject to heavy revisions (box 1.8, below).

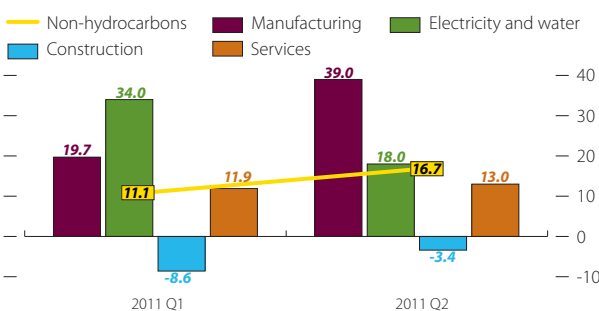
Finally, a word of caution is required about consensus forecasts. Although they are widely used in the public and private sectors for planning and decisionmaking, and will be updated and reported in future editions of

Figure 1.5 Nominal GDP growth: Hydrocarbons and non-hydrocarbons (year on year, %)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
 Source: GSDP estimates based on QSA data release of 2 October 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 1.6 Nominal non-hydrocarbon GDP growth (year on year, %)



Note: Non-hydrocarbons exclude crude oil and gas extraction under mining and quarrying. Services include transport and communications, trade and hospitality, financial services, and government, household, and social services.
 Source: GSDP estimates based on QSA data release of 2 October 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

the *Qatar Economic Outlook*, recent evidence suggests that they may not capture all relevant information. In particular, experience in a wide range of countries suggests that the consensus view adjusts only sluggishly to news.

Developments in 2011

Nominal GDP advanced by 28.0% in the first quarter of 2011 relative to the same period a year earlier, and by 41.8% in the second (figure 1.5), according to provisional estimates from the Qatar Statistics Authority (QSA). (QSA has yet to release comparable estimates for real GDP for 2011). Nominal first-half GDP was therefore 34.8% higher than the previous year. This first-half estimate is a shade higher than the consensus estimate for the full year (33.6%—table 1.1 above). As the volume expansion of hydrocarbons has almost run its course—LNG production reached full capacity in March 2011—the full-year outcome (only known in early 2012), may come in a bit below the consensus forecast.

At an aggregate level, fast nominal income growth is mainly a result of hydrocarbon growth and a significant ramp-up in oil prices in the first half of 2011. Still, other sectors such as manufacturing also posted strong growth (figure 1.6). Much of this acceleration stemmed from downstream industries processing the larger volumes of feedstock produced upstream. Aluminium production also climbed. Services saw healthy growth in the first half of 2011, but construction remained in the doldrums.

Real GDP is generally used as a measure of economic health, but have several weaknesses (box 1.2). The point bears underlining that for Qatar, where swings in the

Box 1.2 Drawbacks of real GDP measures for Qatar

Volume, or real, measures of GDP do not adequately capture changes in the aggregate resources of the Qatari economy.

A better measure would take account of income flows that leave and enter the country; depreciation of man-made capital and of natural capital; and gains in the value of human capital. Such statistical adjustments, though far from straightforward, would be important in assessing whether Qatar's development trajectory is "sustainable".

Another important influence on the level of aggregate resources is the "terms of trade"—the price that Qatar receives for its exports relative to the price that it pays for its imports. This ratio has shown high volatility historically, tracking the ups and downs of hydrocarbon prices and other global commodities.

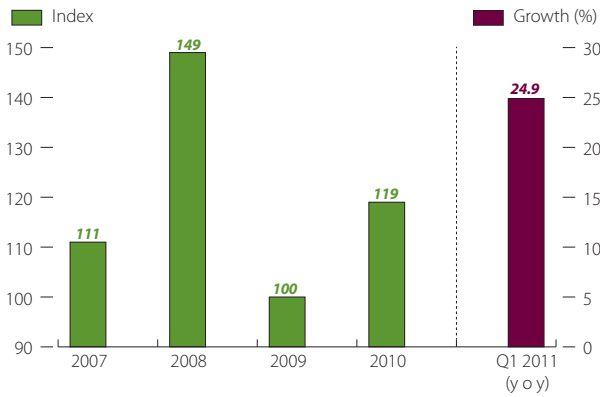
A relevant and more informative measure for Qatar is "real gross domestic income", which measures the purchasing power of the total incomes generated by domestic production (including the impact on those incomes of changes in the terms of trade). Algebraically,

$$RGDI = GDP + (Px/Pm - 1) \cdot X$$

where *RGDI* is real gross domestic income, *GDP* is real GDP, *Px* is the price index for exports, *Pm* is the price index for imports and *X* is the volume of exports.

This indicator takes volume GDP, adds exports of goods and services at current prices deflated by the implicit price deflator for imports of goods and services, and deducts the volume of exports. At this time, the absence of the required data on import and export volumes and prices prevents calculation of real gross domestic income (see box 2.1 in part 2).

Figure 1.7 Producer price index



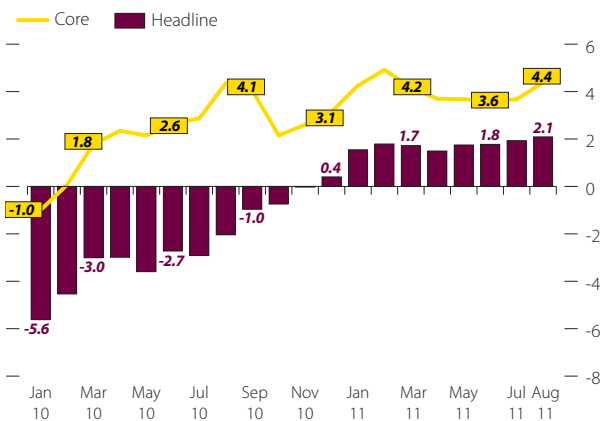
Source: QSA data release of 17 August 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

terms of trade are frequent and sizeable and with the current data constraints, nominal GDP may actually be a better (though still highly imperfect) measure of the real resources available to the nation.

Given estimates of nominal GDP, real GDP estimates would follow from the application of output price deflators, specifically “value-added price deflators”. But these deflators do not yet exist for 2011. Producer price data, however (box 2.4 in part 2) are available and these show gains in the prices of Qatar’s output, particularly hydrocarbons in the first quarter of 2011 (figure 1.7). Second quarter estimates were released after the data cut-off.

Consumer prices tracked up in 2011, in line with global non-energy commodity price trends (figure 1.8). Retail prices for domestic fuel were increased in January 2011. This had a direct impact on price inflation in the transport and communication sub-index as well as an indirect impact, as higher costs fed through to other prices (figure 1.9). A core inflation measure for Qatar—which strips out transitory influences on inflation coming from rentals, utility prices and food—rose to 4.4% by August 2011, accelerating from 2.2% in 2010. Subdued rental prices kept headline inflation in check at 2.1% in the same month.

Figure 1.8 Monthly headline and core inflation rates (year on year, %)



Note: Excludes food, rent and utilities.

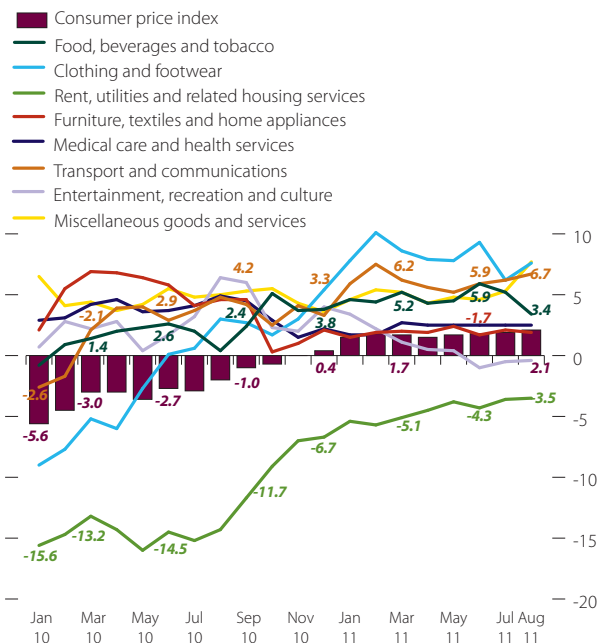
Source: GSDP estimates based on data from QSA’s Qatar Information Exchange database (<http://www.qix.gov.qa/>) accessed 28 September 2011 and data release of 2 October 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Pressures on inflation towards the close of 2011 are likely to moderate, as global commodity prices are softening. Also, Qatar’s nominal effective exchange rate is appreciating with the US dollar, and slack remains in the local rental market.

The September pay rise for Qatari public servants (box 1.3) is unlikely to make much of an impression on aggregate domestic demand: leakages through imports and other channels could be large. GSDP estimates that the additional wage and salary disbursements in the public sector might amount to just 0.5% of nominal GDP or slightly less than 1% of the broad money supply in 2011—very small in macro-economic terms. Impacts from any knock-on effects on wages in the semi-government and private sectors are also likely to be small, given the few citizens they employ.

Monopolistic trading practices remain a source of upward price pressures, driving a significant wedge between the prices of some goods on international markets and those for consumers in Qatar. Following on the heels of the public sector wage rise for citizens, there is the risk that traders enjoying market power could raise prices opportunistically. The government is alert to this risk and has set up a high-level committee to detect and act on unwarranted price rises.

Figure 1.9 Monthly inflation rate (year on year, %)



Source: GSDP estimates based on data from QSA's Qatar Information Exchange database (<http://www.qix.gov.qa/>) accessed 28 September 2011 and data release of 2 October 2011.

Box 1.3 Major economic developments and events in Qatar, 2011

January. The Qatar Investment Authority procured an additional 10% stake in Qatari banks, through the issue of new shares by the banks. The move follows the government's announcement in 2008 that it would take a 20% stake in the banks. The government issued QR50 billion of bonds to domestic commercial banks. Roughly two thirds went to Islamic banks, and the rest to conventional banks.

February. Qatar Central Bank (QCB) issued instructions to conventional banks to wind up their Islamic banking operations by end-2011, to ensure better regulation and risk management in Islamic and conventional segments of the market.

March. The Qatar Credit Bureau became operational.

April. QCB cut its policy lending rate by 50 basis points to boost private credit growth, lowering the cost of borrowing to 5.0%. It limited the deposits that commercial banks can place with it, encouraging them to look for other revenue-creating uses of their funds.

The Credit Bureau started providing analytical data and supporting banks' implementation of advanced techniques in risk management, as outlined in the Basel II accord.

Qatar's stock market, the Qatar Exchange (QE) launched the first phase of the delivery versus payment system, which removes the need for a dual account structure for securities. The move was part of QE reforms to be upgraded to Emerging Market status and join the MSCI Emerging Markets Index.

May. QCB managed the first auctions of 3-month Treasuries, on behalf of the Ministry of Economy and Finance.

QE implemented the full delivery versus payment post-trading mechanism.

June. MSCI postponed until December 2011 a decision to upgrade Qatar to Emerging Market status, to allow it to better assess QE's reforms.

Switzerland-based IMD ranked Qatar number eight in its 2011 *World Competitiveness Yearbook*, seven places above its 2010 rank and number one in the region.

July. Dun & Bradstreet's business optimism index for the non-hydrocarbon sector in Qatar for the third quarter dropped to 27 from 42 the previous quarter, on a weak global outlook.

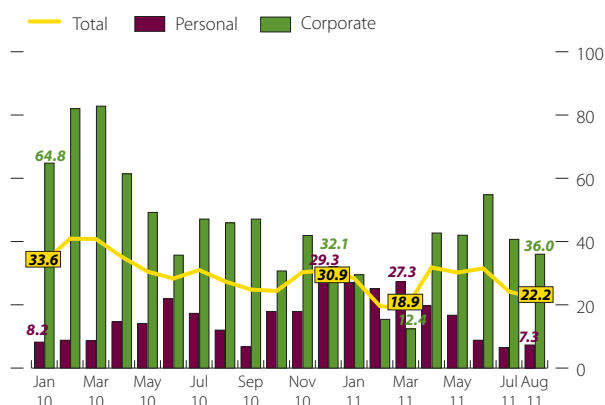
August. QCB announced measures to lower its key policy rate by 25–50 basis points, bringing down its key lending rate to 4.5%. (The US Federal Reserve maintained the target range for its Federal Funds rate of 0–0.25%.)

September. The government raised salaries and pensions for citizens working in the public sector by 60%, military officers 120% and other military personnel 50%.

Credit-rating agency Standard and Poor's reaffirmed its AA/A-1+ sovereign rating for Qatar, citing its strong balance sheet and stable outlook.

The *Global Competitiveness Report 2011–2012* of the World Economic Forum ranked Qatar as the most competitive Arab state and number 14 among 142 countries worldwide.

Figure 1.10 Growth of private commercial banks' deposits (year on year, %)



Source: Qatar Central Bank Monthly Statistical Bulletin, various data releases (<http://www.qcb.gov.qa/ENGLISH/PUBLICATIONS/STATISTICS/Pages/MonthlyBulletin.aspx>).

Table 1.2 Outlook for Qatar

	2011	2012
Real GDP growth (%)	15.0	5.1
Nominal GDP growth (%)	32.3	4.8
Consumer price inflation (%)	2.0	2.0
Fiscal surplus (% of nominal GDP)	12.6	7.8
Current account surplus (% of nominal GDP)	23.6	20.3

Source: GSDP estimates based on the National Development Strategy macro framework.

Box 1.4 Aggregating hydrocarbon output

To aggregate within the hydrocarbon sector, GSDP uses estimates of base-year value-added prices as recommended by the United Nations System of National Accounts method.

The IMF, in contrast, applies weights that convert all outputs into their energy equivalent, measured in millions of barrels of oil equivalent. The disadvantage of this approach is that it concentrates the importance of basket components whose actual prices are lower than would be implied by converting the oil price using the relevant energy equivalent conversion factor. (Equally, it dilutes that importance if the prices are higher than would be implied by such conversion.)

As the price of LNG is below its energy equivalent price (see *Prospects for energy and commodity markets*, below), the recent, rapid LNG volume expansion attracts a higher weight in the IMF than the GSDP calculation, boosting the estimate of total growth. When hydrocarbon output flattens—as it does in 2012—the impact of this difference between IMF and GSDP projections recedes.

The government budget surplus remains solid: revised estimates for fiscal year (FY) 2010/11 (1 April 2010 to 31 March 2011) give a surplus of QR19 billion, or about 4.1% of nominal GDP. Revenue declined in FY2009/10, but recurrent and capital spending grew. The budget for FY2011/12 programmes in further increases in investment spending on economic infrastructure, housing and education. The revenue projection for that fiscal year is likely to have been made on a conservative estimate of oil prices significantly below market prices at that time. In “oil equivalent” terms, estimates by GSDP suggest that the price of Qatar’s hydrocarbon output basket stood at \$79 per barrel in September 2011.

Although Qatar’s fiscal surpluses remain robust, they depend on large inflows of hydrocarbon income. As pointed out in the National Development Strategy 2011–2016, when hydrocarbon revenue is subtracted, a wide “non-hydrocarbon” fiscal deficit exists.

In moves intended to stimulate domestic credit, QCB reduced its key interest rates in April and then again in August.

Commercial banks’ liquidity was bolstered in 2011 as private deposits surged by 22.2% in August compared with the same month in 2010. Corporate deposits jumped by 36.0% (figure 1.10). Bank credit to the private sector increased less fast, at 18.8%, driven by real estate and general trade.

Credit to the public sector rose by 18.4% in the same period. Broad money supply (M2) accelerated by 22.6% year on year till end-August 2011.

Qatar’s official foreign exchange reserves stood at \$18.4 billion at end-August, a 40% drop from end-December 2010. The decline in reserves probably stems from their use to finance longer-term investments and from new regulations that reduced deposits that the commercial banking sector could place with the central bank.

Outlook for 2011–2012

GSDP’s estimate of real GDP growth for Qatar is 15.0% in 2011 (table 1.2). This compares with an estimate of 18.7% by the International Monetary Fund (IMF) in its September *World Economic Outlook*, though the actual gap is very small once one allows for differences in the way that GSDP and the IMF aggregate output within hydrocarbons (box 1.4). Recalculating the IMF growth numbers using the United Nations System of National Accounts approach would also yield a forecast close to 15% for 2011.

Box 1.5 Treatment of oil and gas prices

The price that Qatar receives for its gas exports is an amalgam of long- and short-term contract prices. About 50–60% are long term (usually about 25 years), and slightly less than half are short term (usually about three years). A very small amount is sold spot.

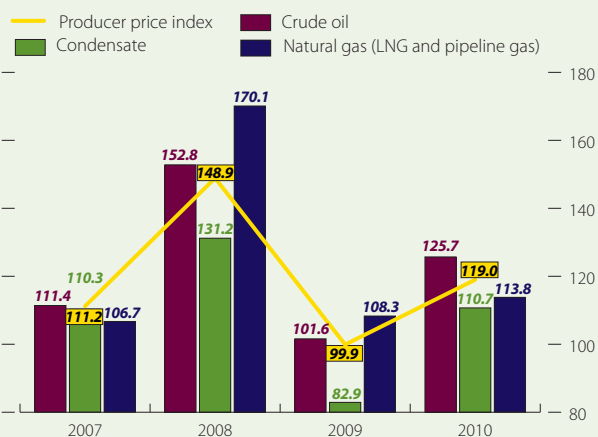
Sales and purchase agreements are negotiated individually and have their own pricing terms. Long-term contracts to customers in the Pacific basin, for example, usually have price clauses linked to a benchmark crude price. Short-term contracts to Europe tend to be linked to reference Natural Balancing Point spot prices.

The box figure shows co-movement among Qatar's crude oil and gas price indices, largely LNG, as measured by the Qatar Statistics Authority's new series on producer prices, released in June 2010. Although price movements are distinct, they show a pattern in which oil, gas and condensate price changes are positively correlated.

Global gas markets are still geographically segmented to a large degree, and Qatar's gas export revenues have been insulated from the downward pressure that substantial finds of shale gas have exerted on spot (Henry Hub) prices in the United States. But over the longer term, large additions to supplies from unconventional or other sources that weaken spot prices could influence the terms on which Qatar contracts.

In the forecasts for Qatar, it is assumed that IMF and World Bank forecasts for changes in oil and gas prices are applied to observed prices in Qatar's hydrocarbon basket for 2010, assuming also that about 60% of gas prices are linked to oil.

Producer price index: Hydrocarbons (2006 = 100)



Source: QSA, various data releases (<http://www.qsa.gov.qa/eng/index.htm>).

GSDP's economic outlook draws on a number of assumptions (annex). Naturally, altering these assumptions would change GSDP's central projections. An alternative downside scenario, in which out-turn energy prices are lower than in the baseline, appears at the end of this section (*The impact of lower oil prices: An alternative scenario*). The treatment of oil and gas prices in the macro framework also warrants mention (box 1.5) as they exercise a substantial influence on the resources that accrue to the country.

Given much higher oil prices in 2011 than 2010, alongside robust volume growth, GSDP expects Qatar's nominal GDP to surge by 32.3% in 2011. This implies slower second-half growth than the expansion of 34.8% reported by QSA for the first. As LNG production was already at full capacity in March, volume expansion is forecast to slow in the second half. Oil prices have also come off their first-half peaks, and this too will be transmitted to slower growth.

Outside hydrocarbons, GSDP expects industrial and services volume growth of 13.4% in 2011. Expansion of downstream hydrocarbon-processing activity supports growth, as does vigorous expansion of services. Historically, economic outcomes in hydrocarbons and the rest of the economy have been quite closely correlated.

GSDP expects that a surge in hydrocarbon revenue will lift the overall fiscal surplus for 2011 to 12.6% of nominal GDP. This calculation assumes that the take of hydrocarbon revenue by the Ministry of Economy and Finance (MOEF) is unchanged from historical averages and that revenue accrues on realised prices, not those that might have been used for budget planning purposes. Non-hydrocarbon revenue is also expected to grow.

Recurrent and capital spending will expand at a pace commensurate with the overall growth in the economy, but less quickly than the rate of expansion of government income. The impact of the wage award to citizens working in the public sector on government finances is factored in, but is expected to be small in 2011.

Qatar's exports, propelled by LNG expansion and higher oil prices, are forecast to jump by a blistering 62.0% in 2011. This is seen lifting the current account surplus to 23.6% of nominal GDP, but will concentrate the export base still further. Though capital imports associated with hydrocarbon projects will now quickly drop back (the \$8.6 billion Barzan project will be the only large hydrocarbon investment in the outlook period), other imports are expected to expand steadily.

Finally for 2011, headline inflation is projected to come in at 2.0% as depressed rentals offset larger increases in other components of the index.

Looking to 2012, GSDP forecasts that real GDP will expand by 5.1%, nominal GDP by 4.8%. Nominal growth moves broadly in step with real growth, but the overall GDP deflator is expected to fall with lower prices for oil in 2012.

The rapid deceleration in volume (or real) growth follows from the removal of the impulse given by hydrocarbon expansion (upstream and downstream) in earlier years. In 2012, upstream hydrocarbon volume growth of 1.2% is expected, a far remove from the steady double-digit expansion of recent years. But this growth is of course measured from a much larger output base than in previous years.

An expected decline in oil output in 2012 plays a small role in the slowing volume growth, and although possible investments in enhanced and incremental oil recovery may stem or reverse the decline in future years, this outcome is uncertain.

GSDP forecasts non-hydrocarbon growth of 8.8% in 2012. Although fast by international standards (China, for example, is seen growing at around the same rate), it is slower than in the recent past. Maturation of hydrocarbon production activity is expected to

Box 1.6 The economic impact of the 2022 FIFA World Cup

Qatar's economic trajectory over the next decade will be profoundly influenced by the investments and other activities linked to hosting the FIFA World Cup in 2022.

The scale of planned spending relative to the size of the host economy and population is unprecedented for a global sporting event. The actual profile of impacts will depend on decisions about the design, sequencing, synchronisation and management of projects.

Until end-2012, however, tournament-related spending is expected to make little economic impression, and most of the 2022 projects, such as new stadiums or other facilities, are unlikely to move far from the drawing board.

Over the longer term, and well beyond 2022, hosting the World Cup will leave an indelible imprint on Qatar's economy and its broader development. Total investment spending tied to the event will make significant claims not just on public financial resources but also on Qatar's scarce land, its environmental resources, and its institutions and people.

Estimates of planned spending vary enormously. Base outlays on stadiums and facilities is put at \$9 billion. Including broader development projects within the scope of activities generates much larger spending numbers, ranging from \$45 billion upward. These broader projects, including Lusail City development and the Doha Metro, were conceived independently of the World Cup and would have proceeded in any case.

Few global sporting events or mega investment projects come close to costing what the plans outlined initially. Data from the National Audit Office of the United Kingdom suggest that actual spending on the London Olympics in 2012 may be at least three times the value of the bid made in Singapore in 2005—partly due to an expanded project scope. Elsewhere, mega sporting events have left costly debt in their wake, with no obvious legacy benefits, such as Athens' hosting of the Olympics in 2004.

In contrast, Barcelona's hosting of the Olympic Games in 1988 is widely seen as catalysing a beneficial transformation of that city.

The impact of the 2022 World Cup on Qatar cannot—and should not—be reduced to a single statistic, such as the expected change in real GDP over a given period. Impacts will be multi-dimensional and differentiated over time. Critically, outcomes are not predetermined. The choices that Qatar makes about how to deliver its commitments and the way in which it leverages new opportunities will matter.

In economic terms, the impacts of the World Cup will register at three important levels.

Macro-economic. In the short and medium run (that is, during the building phase of projects) impacts on output and income will be felt primarily through the "multiplier impacts" of project spending and of induced changes in other components of demand. The stimulus retained within Qatar's economy will,

have knock-on effects on other parts of the domestic economy, too. Slower forecast growth reflects limits on the expansion of downstream hydrocarbon-processing industries as demand for feedstock absorbs available supply. Although some spending linked to the 2022 FIFA World Cup may push through in 2012, the major outlays are expected only later (box 1.6).

Fiscal and current account surpluses in 2012 will remain strong. As a share of nominal GDP, however, they will come down from the temporary high set in 2011. Larger recurrent government spending in 2012, partly reflecting disbursements of salary and pension awards, as well as programmed increases in capital spending, will trim the overall fiscal surplus. On the balance of payments, export revenue may slip as oil production falls.

If global commodity prices trend down, as seems likely, headline inflation will remain low, little changed from 2011's expected 2.0%.

The impact of lower oil prices: An alternative scenario

The baseline projections rest on several important assumptions, in particular a robust outlook for oil prices. A weighted benchmark price of \$100 per barrel of crude is assumed for 2012, only slightly below the price for 2011.

Box 1.6 The economic impact of the 2022 FIFA World Cup (continued)

however, be diluted by the high import content of materials and capital equipment, and by high levels of outward remittances of workers' wages and company profits. GSDP's estimates suggest that, in the short run—notwithstanding the stream of benefits that would flow from assets in the long term—an additional dollar of investment may generate only 30–50 cents of additional income that will stay in the economy.

Chokepoints in infrastructure, as in the past in Qatar, could spur inflation, as could the effect of spill-over demands (from the influx of workers induced by the preparations for the World Cup) on the non-traded goods and services sector, where supply responses might be slow. And, in that funding of new investments expands domestic liquidity, it will add to upward pressures on prices.

Fiscal impacts will depend on the share of investments funded directly by the state, and on the structure of that funding. Given the size of programmed spending relative to the economy—as well as the transitory nature of the event and linked development activities—careful investment coordination, fiscal planning and coherent debt and liquidity management will be needed to attenuate macro-economic stresses and risks.

Structural. Almost all economic activity linked to the event will be outside the hydrocarbon sector and will thus present opportunities for diversifying and developing private activity. But outcomes will depend on how successfully

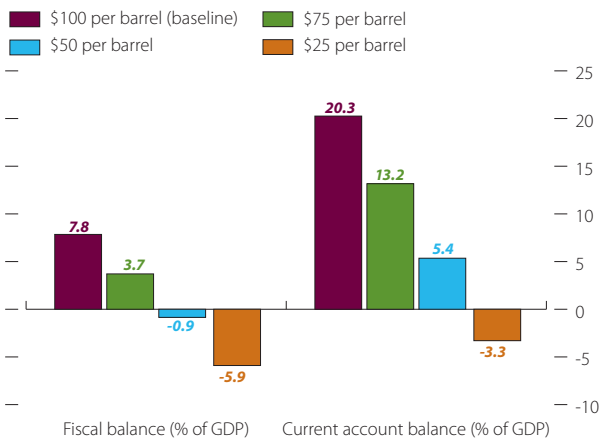
Qatar leverages its advantages and acquires new capabilities. Areas of opportunity include engineering, construction, leisure services and media, as well as urban services such as transport.

Mechanisms to capture and enlarge the benefits could include strategic joint ventures of local entities with foreign partners; procurement policies that favour small domestic enterprises; focused training and secondment programmes for Qatari citizens; and direct investment in and acquisition of promising technologies, such as solar cooling systems.

Institutional and human. As well as the hardware investments, a successful World Cup will require Qatar to strengthen its institutional and human capabilities—public and private. Planning and delivering new infrastructure in ways that provide value for money and that contribute to the long-run development of the nation will require tighter coordination within and between sectors, improved tools for regulation and decisionmaking as well as the removal of barriers to business investment. The World Cup presents myriad opportunities to help strengthen Qatar's embryonic small and medium-sized enterprise sector.

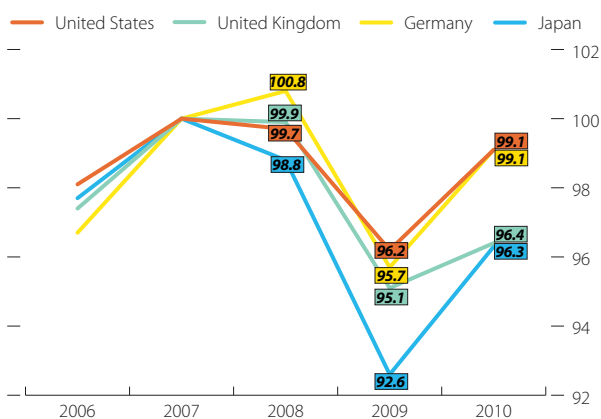
Wrap-up. Qatar's commitment to deliver a successful FIFA World Cup in 2022 will entail challenges on multiple fronts but will also create many opportunities. A durable legacy requires Qatar to use the event to catalyse new areas of economic strength that will create durable value and wealth.

Figure 1.11 Fiscal and current account balances in 2012 (different oil price scenarios)



Source: GSDP estimates based on the National Development Strategy macro framework.

Figure 1.12 Real GDP index (2007 = 100)



Source: International Monetary Fund, *World Economic Outlook* database (<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>), accessed 21 September 2011.

But if the advanced economies tilt into recession, the outcome could be much lower than \$100.

What if the price of oil were to fall to \$75 per barrel in 2012, retaining all other assumptions? Though substantial, this assumed decline in oil prices is much more modest than in 2008 (figure 1.16, below). The National Development Strategy 2011–2016 has also examined the impact of hypothetical oil price reductions on major economic aggregates.

This downside scenario emphasises the importance of considering nominal as well as real GDP in Qatar. Under the baseline assumptions, lower oil prices leave real GDP unchanged. This is because hydrocarbon volumes are held at their baseline level as is government spending (in nominal terms). (In reality, effects would be felt in the real economy if lower oil prices were to set in, but these complications are ignored in this alternative scenario.)

In the \$75 per barrel scenario, nominal GDP growth comes to a standstill, with no change in nominal income levels in 2012 over 2011. Qatar experienced steady volume growth but negative income growth when oil prices collapsed in 2008. Shrinking hydrocarbon income hurts both fiscal and current account balances relative to the baseline: the fiscal surplus falls by more than half, to 3.7% of nominal GDP, and the current account surplus tumbles by a third, to 13.2% of nominal GDP. Still lower oil prices have even greater impacts (figure 1.11).

Although these calculations suggest that Qatar could absorb a significant negative oil price shock, substantially and persistently lower prices than the baseline’s average of \$100 in 2012 would weaken the fiscal and balance-of-payments outlook.

Other external risks could be felt in Qatar. Perhaps the most serious is that, if sovereign debt problems were to amplify and spread, global credit markets could seize. This would hit the outlook for investment and project financing globally, and, although the country’s strong fundamentals would certainly help, it would not be completely spared.

Global developments, 2010–2011

During 2010, advanced economies continued to recover from the crisis (figure 1.12). But as 2011 has progressed, evidence has accumulated that the global economic recovery is stalling (box 1.7 tracks the main developments). What were initially thought to be temporary setbacks now seem to have acquired a more permanent character. Each bout of bad economic news sees economic pundits scurrying to revise down their 2011 and 2012 forecasts for growth.

Box 1.7 Global economic developments, 2011

United States

Recent US economic data point to an anaemic and possibly faltering recovery. Job numbers in August remained unchanged from July's levels, falling below market expectations, and were widely interpreted as signalling weakness in the economy. In addition, a double-dip in housing prices and sluggish manufacturing point to a hesitant and bumpy recovery over the outlook period. Also in August, the Institute for Supply Management's Purchasing Managers Index was down to 50.6, from 50.9 in July. Further, key regional manufacturing indices, such as Empire, Philly Fed, and Richmond, were also weaker.

As the US economy continues to underperform, the output gap (the difference between actual and potential output) as measured by September's *World Economic Outlook* (WEO), remains large at about 5.5% of potential GDP in 2011 and about double that when measured as a percentage of the pre-crisis trend.

Monetary policy continues to be supportive of economic growth. The Federal Reserve announced in August that it would continue to target a Federal Funds rate of 0–0.25%, as it has since December 2008, until at least mid-2013.

European Union

The bloc remains in the grip of a fast-moving sovereign debt crisis and lingering solvency problems in peripheral countries, and is vulnerable to unsettling political or economic news. The adjustment programme to which the "troika" (the EU, IMF and European Central Bank) agreed for Greece in July 2011 is off track as that economy continues to contract and civil unrest makes it difficult for authorities to implement the required fiscal austerity measures. Speculation is mounting of a Greek default and even of possible exit from the eurozone.

Italy and Spain, whose debt has come under scrutiny, risk losing access to the debt markets. And on 14 September, Moody's downgraded two of France's largest banks, citing their exposure to Greek debt. The IMF has commented on the inadequacy of stress testing of eurozone banks' balance sheets.

Worse, growth in Germany and France which, supported by improving exports, provided the backbone for overall EU expansion in the first half of 2011, is expected to slow.

Monetary policy in the eurozone remains focused on price stability, as seen in the announcement by the European Central Bank in September that it was keeping its key policy rate unchanged at 1.5%. This follows previous 25 basis point increases in both April and July. Nonetheless, given the tight credit conditions and debt problems in the eurozone, it will probably shift to a more accommodative stance before end-2011.

Asia

The rapid growth enjoyed by developing Asia in the first half of 2011 is likely to moderate in the forecast period. According to September's WEO, China's economy is expected to grow by 9.5% and India's by 7.8% in 2011 (both slight reductions from April's WEO). The IMF believes that the output gap for both countries is in positive territory in 2011.

Signs of overheating have led policymakers in China and India to continue a series of interest rate hikes to put a brake on their economies. On 16 September, the Central Bank of India raised its key lending rate by 25 basis points to 8.25%. But given recent deteriorating global conditions, a policy shift may take place in the outlook period, particularly in China, where rates have remained unchanged since July.

Japan is likely to record a contraction of real GDP in 2011, after the devastating effects of the March Tohoku earthquake and tsunami. The damage to Japanese infrastructure has reverberated along global supply chains, and a return to normalcy may take some time. After the United States, Japan has the second-largest negative output gap (with potential above actual) in 2011 as measured by the WEO. Yet the recent pressure for appreciation of the Japanese yen as the global economy searches for safe-haven investments could make recovery all the harder. As a response, in August the Bank of Japan conducted currency interventions and expanded its asset-purchase programme.

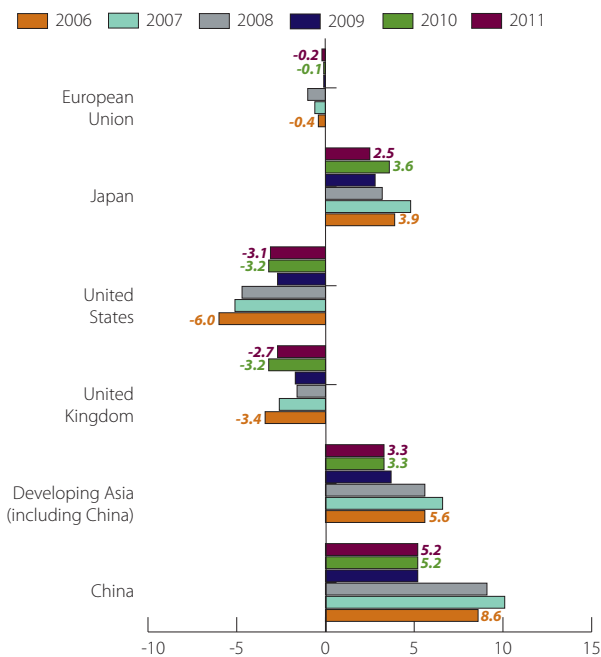
Korea's economy is expected to remain strong, fuelled by exports and domestic demand. Real GDP growth is expected to be 3.9% in 2011, according to the WEO. Inflation may prove to be a concern, though, and policymakers will face a trade-off between curbing inflation via interest rate hikes and allowing the won to appreciate. At its August meeting, the Bank of Korea opted to keep its policy rate steady at 3.25%, taking a more cautious stand in light of worsening global conditions.

Middle East and North Africa

Political unrest in Egypt, Tunisia, Bahrain, Yemen, Syria, and, most notably, Libya has dampened the outlook for the region as a whole.

Yet despite the regional slowdown, members of the Gulf Cooperation Council and oil-exporting countries will continue to register strong income growth on higher oil prices and increases in government spending financed by expanded hydrocarbon revenues. Average GDP growth for oil-exporting nations in the region is projected by September's WEO to be 4.9% in 2011. Expansionary fiscal policy and expanding liquidity will, however, aggravate inflation, although falling commodity prices could work in the other direction in the final months of the year.

Figure 1.13 Current account balance (% of nominal GDP)



Source: International Monetary Fund, *World Economic Outlook* database (<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>), accessed 29 September 2011.

However, the circumstances of the autumn of 2011 differ from those of 2008 in three main areas. First, the 2008 collapse originated in the private sector and unruly financial markets, forcing decisive policy intervention to support liquidity and demand. The current difficulties are primarily sovereign, and threaten to enmesh banks that hold the securities of those governments facing liquidity and solvency challenges.

Second, the earlier policy consensus that coalesced on how to ward off economic threats has now all but dissolved. A policy stalemate drives action—or rather, inaction—in both the United States and Europe. In the United States, Congress and the Executive are at loggerheads on how to reduce burgeoning debt yet rekindle growth. In the eurozone, divergent national interests have stymied solutions to an emerging currency and debt crisis that has now spread from the bloc’s periphery to threaten the much larger economies of Italy and Spain.

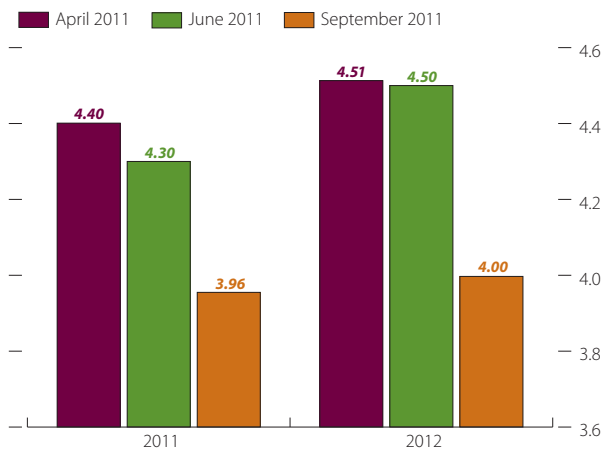
The policy indecision on both sides of the Atlantic has unnerved investors, and risk premiums have scaled upward. Worryingly, the private sector is yet to pick up the slack in demand in these advanced economies as the impacts of earlier stimulus packages peter out. Indeed, fiscal policies have now shifted to braking demand in high-income countries.

A third difference is that although current fiscal reticence forces monetary policy to carry a heavier burden than in 2008, monetary actions now have less scope to head off difficulties. This is because the aggressive monetary easing that helped to assuage the paralysis in credit markets in 2008–2009 has driven short-term nominal interest rates down to historic lows, and in some countries close to their zero interest rate floor. But despite this narrowed scope—and negative real interest rates in many countries—private demand has been largely unresponsive.

In the eurozone, though, rates have some room to fall (after rises earlier in 2011). In the United States, further quantitative easing and market operations intended to bolster liquidity and bring down longer-term interest rates (which would help mortgage borrowers) seem likely.

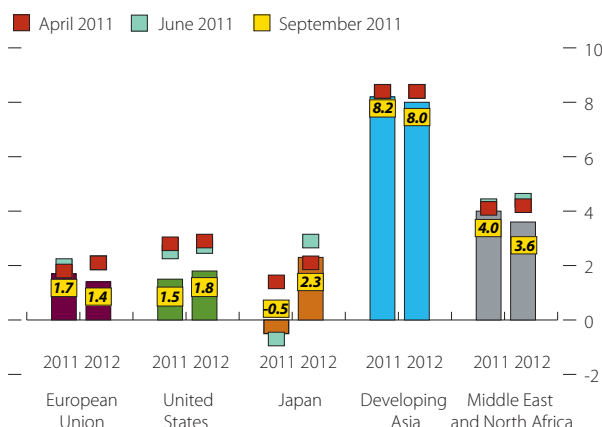
In this difficult and highly uncertain environment, investors’ nerves are on edge. Markets are showing high volatility, pulled in two directions. They want debt down and growth up—but it is impossible to resolve this dissonance now—so what reassures them about debt and solvency scares them about demand and growth. External demand is doing little to fill the void as emerging-market economies are not adding much to their domestic spending and continue to run large external surpluses (figure 1.13). The critical challenge

Figure 1.14 Global real GDP growth projections, IMF (%)



Source: International Monetary Fund, *World Economic Outlook* database (<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>), accessed 21 September 2011.

Figure 1.15 Real GDP growth projections, selected regions and countries, IMF (%)



Source: International Monetary Fund, *World Economic Outlook* database (<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>), accessed 21 September 2011.

ahead in the advanced economies is to combine support for demand in the short and medium term with credible commitments to longer-run fiscal solvency.

In its September 2011 *World Economic Outlook*, the IMF warned of the hazards posed by languid demand. The danger is that continued sluggish demand will aggravate public debt problems, add to uncertainty, and pull down growth outcomes further below potential. A prolonged period in which output stagnates could then spell lower long-run potential output, through a conjunction of lower investment, higher structural unemployment, a weakened financial sector and diminished productivity growth. In those countries where fiscal positions allow (such as Germany and the United Kingdom), the IMF has advocated additional fiscal spending if evidence emerges of growth dipping below expectations.

Global economic prospects

The IMF's *World Economic Outlook* of September 2011 downgraded its forecasts for the global economy. This is its second set of downgrades in six months. In April 2011, the Fund expected global growth of 4.4% in 2011 and 4.5% in 2012, but in June it revised down its 2011 projection to 4.3%, holding steady its 2012 forecast. Its latest, September forecast trims these growth projections to 3.96% in 2011 and 4.00% in 2012 (figure 1.14).

Within these global averages, the IMF has made steep downward revisions for growth in the United States and the eurozone (figure 1.15). It sees growth moderating in developing Asia too, pinched both by tightening monetary policy and weaker global demand. The expected pick-up of growth in Japan in 2012 is attributable to the forecast recovery from March's tsunami.

These IMF downgrades to forecast growth follow similar, recent downgrades by the Organisation for Economic Co-operation and Development (OECD), the Asian Development Bank and a variety of private forecasting agencies.

In April 2011, the IMF saw the probability of such steep downgrades as quite low, but changed its view largely on two considerations.

First, the expected recovery in private demand in advanced economies has generally failed to materialise, and emerging markets have generated little demand for advanced-country exports. Second, policy indecision and uncertainty has spooked markets: in the eurozone, spreading trouble from peripheral to core economies and creating renewed concerns over the health of

Box 1.8 Optimism bias and growth forecast errors

A recent IMF study (Loungani et al. 2011) has shown that forecasts of economic growth adjust tardily to new realities, and more so for advanced economies than emerging markets.

Although forecasters tend to restate their outlooks for recessions and the impacts of banking crises faster than those they make in more tranquil periods, mistakes in their forecasts made in turbulent times are also much larger, seriously understating the retreat in output growth.

An earlier study (Timmerman 2006) had shown that the IMF and “consensus” forecasts of economic growth were quite similar, and that the IMF forecasts consistently over-estimated outcomes.

This evidence suggests that the current crop of forecasts need to be interpreted with caution. If the balance of risks is tilted to the downside, as it is now, there is a strong chance that outcomes will be worse than most now expect.

Sources:

P. Loungani, H. Stekler and N. Tamarisa. 2011 “Information Rigidity in Growth Forecasts: Some Cross Country Evidence”. IMF Working Paper WP/11/125, May.

A. Timmerman. 2006. “An Evaluation of World Economic Outlook Forecasts”. IMF Working Paper WP/06/59, March.

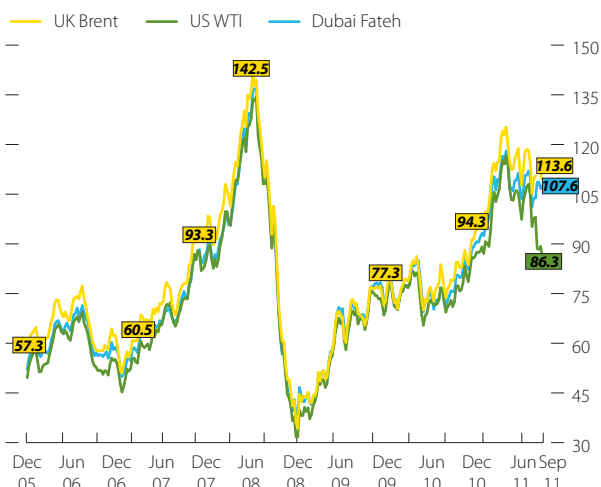
banking systems; and in the US, placing a reliance on monetary policy to support demand, a job that fiscal policy would do much better—if the political deadlock could be broken.

Yet despite these revisions to its earlier expectations, with lower baseline projections tinged by greater downside risks, the IMF’s central scenario still presupposes that policymakers in advanced countries successfully contend with the twin financial and fiscal challenges on the horizon.

Its separate “downside scenario” is much gloomier. If a debt crisis were to engulf the eurozone, for example (the scenario assumes it destroys 10% of eurozone bank capital), the IMF speculates that this could cut GDP levels over the next 12 months by over 3% in the eurozone and by almost 2% in the United States. This would be enough to tip both regions back into recession in 2012. No part of the global economy would escape—plunging commodity prices would drag down prospects in exporting countries.

The IMF sees the chances of this scenario happening as low. But is it correct to be so sanguine? Economic forecasters do not have a particularly distinguished track record, and their beliefs generally respond sluggishly to new information. Perhaps of more concern right now is that economic forecasts also tend to suffer from “optimism bias” (box 1.8), and correcting for this bias would shift the range of expected growth outcomes down.

Figure 1.16 Average weekly 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 21 September 2011.

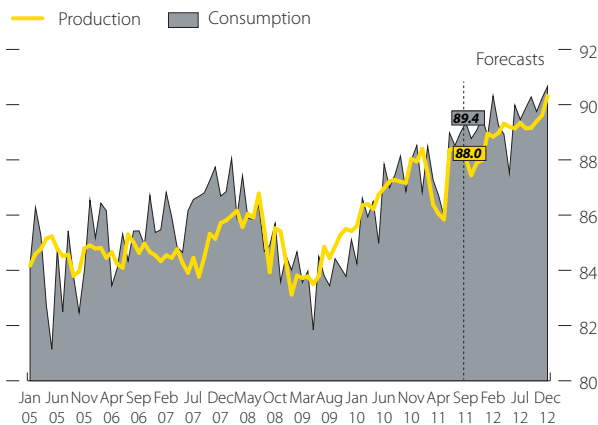
Prospects for energy and commodity markets

Oil prices

Oil prices plummeted in 2008 with the onset of the global recession. The Brent benchmark fell to a low of \$34.30 per barrel in January 2009 (figure 1.16). Only six months earlier, in July 2008, oil prices had peaked with Brent at \$142.50. The futures markets had not foreseen this brutal collapse. From this floor, though, oil prices started to track back up, even ahead of global economic recovery, reflecting in part the cutback by the Organization of the Petroleum Exporting Countries (OPEC) on supplies from January 2009.

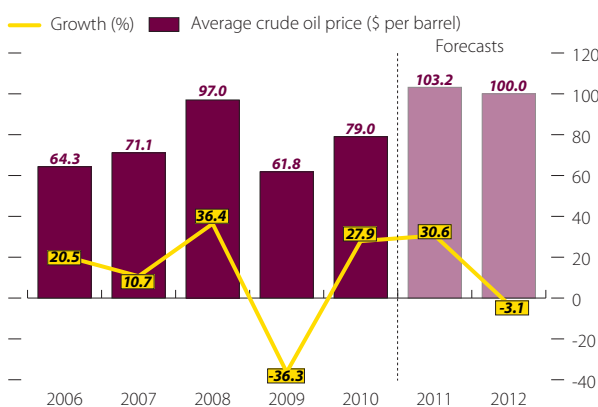
Continuing their advance through that year, prices flattened in the first half of 2010, picking up momentum again in the second half, supported by economic recovery and lower than forecast output from OPEC. Concerns about potential supply disruptions, triggered by events in Libya and other parts of the Middle East,

Figure 1.17 International crude oil and liquid fuels, global production and consumption (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 25 September 2011.

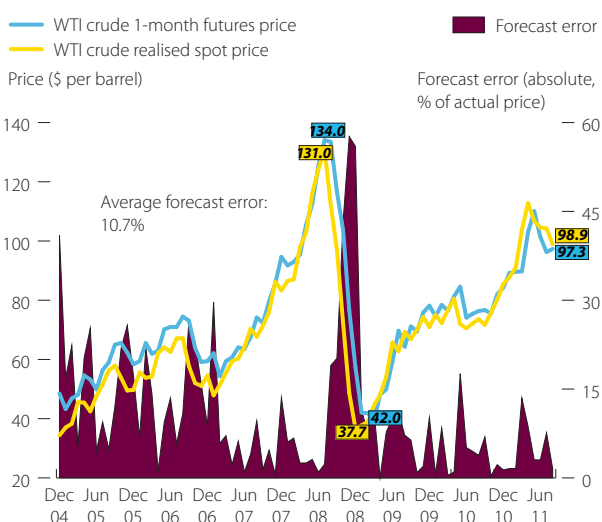
Figure 1.18 Average crude oil price



Note: Simple average of three spot prices: Dated Brent, West Texas Intermediate and Dubai Fateh.

Source: International Monetary Fund, *World Economic Outlook* database (<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>), accessed 21 September 2011.

Figure 1.19 Monthly crude oil prices, realised 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 21 September 2011.

created a significant risk premium and pushed Brent to a 2011 high of \$125.30 in April, not far shy of its July 2008 peak. Through to the middle of 2011, a drawdown in inventories maintained a rough balance in oil markets.

In the second half of 2011, oil prices have begun to drift back down. In June 2011, the surprise release of reserves on to the market by members of the International Energy Agency (IEA) (which consists mainly of OECD countries) marked a turning point. But although the impact of this boost to supply can only be temporary—reserves will have to be rebuilt at some point—the downward price trend has persisted.

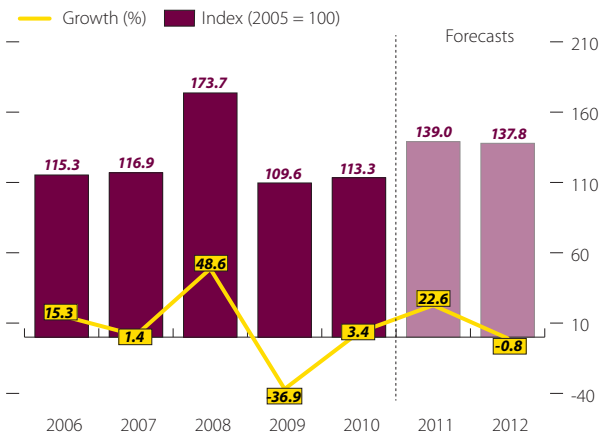
Two other influences are likely to have contributed to softening prices. The risk premium on the oil price may have subsided as events in Libya unfolded less dangerously than earlier feared. And prospects for demand have waned with downward revisions to global growth forecasts—fuel oil demand is already moderating in China. (Investors have also trimmed their net long positions in oil.)

In September, the IEA moderated its forecasts for global oil demand growth to 1.0% in 2011 and 1.4% in 2012. These revised forecasts assume that the absolute declines of 2008 and 2009 will not be repeated in this slowdown. But over the medium term, the IEA is expecting slower growth of supply (figure 1.17). Existing oil fields are maturing and yielding lower output, and a protracted period of little exploration in the past (when oil prices were low) will limit future additions to supply.

For the more immediate future, the *World Economic Outlook* in April projected an average oil price of \$107.20 a barrel in 2011, nudging up to \$108 in 2012. The *World Economic Outlook* in September cut these forecasts, expecting oil to trade at \$103 in 2011 and \$100 in 2012 (figure 1.18). (These revisions are incorporated in the economic projections for Qatar presented earlier in this part.)

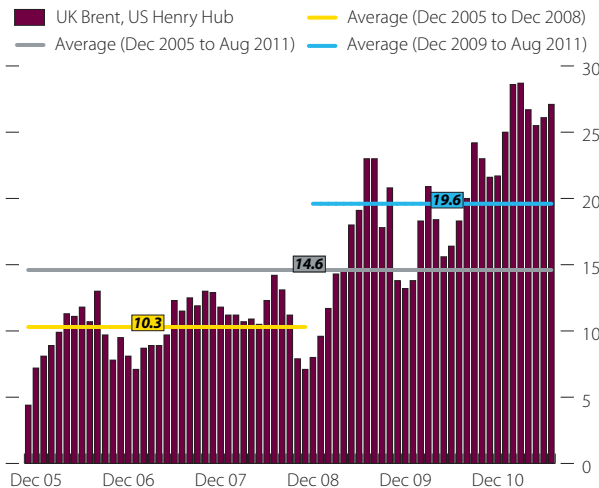
Oil inventories remain comfortable, presenting some possible downside risks to these price forecasts. Yet oil prices are notoriously difficult to forecast, with frequent episodes of prices moving in large, unpredicted swings. This creates a very wide range of plausible future prices. Futures markets do not provide a particularly reliable guide. Even over the span of just one month forward, for example, futures prices have missed realised prices by nearly 11% on average over the last few years (figure 1.19). Futures also show a tendency to consistently over- or under-predict realised prices, responding after the fact to turning points.

Figure 1.20 Natural gas price index



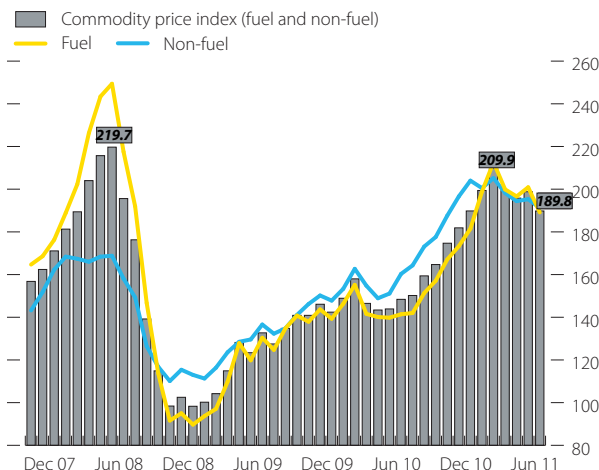
Note: Includes European, Japanese and US natural gas price indices.
 Source: Estimates based on data from US Energy Information Administration, Short-Term Energy Outlook database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 21 September 2011.

Figure 1.21 Spot price ratios: Crude oil and gas



Source: World Bank Commodity Markets database (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,menuPK:476941~pagePK:51084723~piPK:51084722~theSitePK:476883,00.html>) and US Energy Information Administration, Short-Term Energy Outlook database (http://www.eia.doe.gov/steo/cf_query/index.cfm), both accessed 21 September 2011.

Figure 1.22 Monthly commodity price index (2005 = 100)



Source: International Monetary Fund, Primary Commodity Price database (<http://www.imf.org/external/np/res/commod/index.aspx>), accessed 26 September 2011.

Gas prices

Spot gas prices are expected to edge up in the forecast period, supported by rising demand. This mainly reflects upward revisions in Russian sales to Germany and Indonesian sales to Japan, both of which followed the shutdown of nuclear reactors and larger demand for gas (figure 1.20). The September *World Economic Outlook* expects average natural gas prices to increase by 22.6% in 2011 and then fall by 0.8% in 2012. For reasons explained above (*Outlook for 2011–2012*), Qatar’s gas price is more likely to have moved in sync with global oil prices.

For a variety of reasons, spot oil prices have climbed far above their “energy equivalent” ratio. Energy equivalence would imply a price ratio of 6.9 with oil prices measured per barrel and gas priced per million British thermal units. Figure 1. 21 shows how recent historical trends have taken the realised price ratio sharply above the energy equivalent parity.

Indeed, the average price ratio in 2009–2011 is almost double that of the recent historical average of about 10.3 and three times that of the energy equivalent price. An increase in supplies of unconventional gas (specifically shale gas from the United States) and factors that limit short-term substitution of gas for oil (gas is used mainly for energy production, oil for transport) help to explain the persistence of this divergence.

Non-energy commodity markets

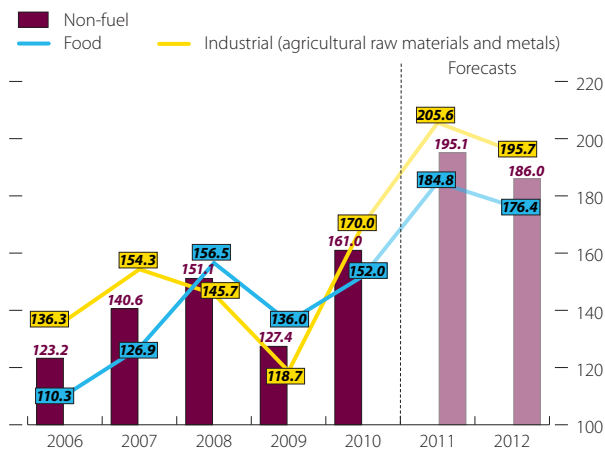
Non-energy commodity prices rose through the first half of 2011, underpinned by a raft of factors.

The imprint of China on demand for many commodities is unmistakable, accounting for a sizeable part of the incremental demand globally. The country is fast industrialising and urbanising, shifts that are propelling demand for fuel and metals. Changing dietary patterns, particularly a switch to meat as a principal source of protein, is driving demand for grain feedstock for cattle. The strength of the Chinese economy through 2010 and into 2011 supported robust prices.

Globally, supply constraints (emanating from low stocks at the start of 2011) and adverse events (such as bad weather that destroyed food crops) have also supported their high prices. As the production of metals and foods is energy intensive, rising fuel costs too were passed through to prices.

Having soared to the highest since July 2008 in April 2011, the IMF’s commodity price index (which includes oil) reversed (figure 1.22). Declining prices continued through to August 2011, falling back by just over 10%. Other commodity price indices, such as Standard

Figure 1.23 Non-fuel commodity price index (2005 = 100)



Source: International Monetary Fund, *World Economic Outlook* database (<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>), accessed 21 September 2011.

and Poor's GCSI commodity index, have registered further falls of about 10% from August through to late September. According to September's *World Economic Outlook*, commodity assets under management declined in May and June, the latest months for which data are available. While the jury is out on the longer-term impact of financial investment behaviour on commodity prices, investment plays can undoubtedly have a strong short-term influence.

Moderating GDP growth in China and mounting pessimism over global economic prospects have weighed heavily on demand. Increased risk aversion and expectations of an appreciating US dollar may also have reduced demand for commodities.

The September *World Economic Outlook* revised down its forecast for non-fuel commodity price growth in 2011 to 21.2% and predicted a 4.7% decline in 2012 (figure 1.23). In addition to the developments noted above, the IMF observes that moderating growth in emerging markets, which in recent times have provided the source of added demand for commodities, will soften the outlook. Factors on the supply side, including recent bountiful food harvests, may also support supply. Risks of supply-side disruptions that could take prices back up remain, however.

Annex: Framework assumptions and data

The main assumptions, sources of data and definitions are as follows.

GSDP's framework generates an internally consistent representation of the economy for 2010, replicating QSA's revised national accounts estimates and other key information, including the fiscal and balance-of-payments accounts. GSDP's projections draw on the second quarter's release of GDP, balance-of-payments data from the QCB of August 2011, and the July 2011 budget estimates from the MOEF. Given an internally consistent set of base-year accounts, these are then projected to 2011 and 2012.

GSDP has adjusted the MOEF's numbers to reflect estimated salary and wage disbursements following September's wage award to citizens working in the public sector. These numbers incorporate GSDP assumptions about likely oil price outcomes in 2011 and 2012. FY2012/13 revenue estimates are based on assumptions about the fiscal take from hydrocarbon income streams, and trends for non-hydrocarbon income. Expenditure estimates are extrapolated from the FY2011/12 estimates using historical trends and assumptions about disbursements on capital projects.

Sector definitions follow those of QSA. In QSA's revised national accounts estimates, some activities previously counted as gas have been moved to oil, and some to downstream manufacturing. QSA now classifies any activity involving significant processing of hydrocarbon feedstock as manufacturing.

Projections for oil prices and non-fuel commodities in 2011 and 2012 come from the IMF's *World Economic Outlook* database for September 2011. Gas prices are taken from the World Bank's September estimate of prices. These price forecasts are combined with producer price information about Qatar's hydrocarbon output basket.

Data on the trajectory of output volumes in the hydrocarbon economy come from Qatar Petroleum. GSDP aggregates detailed product estimates into oil and gas totals using base-year value-added price weights.

A variety of sources contributes to the assumptions for future investment spending, including government budget estimates, Qatar Petroleum capital spending plans, and data on project awards and completion dates from the Middle East Economic Digest Project database, combined with assumptions about disbursement profiles. GSDP assumes that there will be no significant new projects commissioned over the outlook period

directly linked to the 2022 FIFA World Cup (box 1.6, above). The Supreme Committee for 2022 has announced that the ground may be broken for one new stadium in 2012.

GSDP also assumes that volume growth of exports is tightly linked to hydrocarbon production capacity. Less than 2% of Qatar's exports emanates from outside hydrocarbons. Volume import growth depends on upstream and downstream investment activities in hydrocarbons, as well as the level of economic activity in the domestic economy.

Population estimates follow those of the National Development Strategy 2011–2016.

GSDP estimates consumer price inflation not via the macro framework, but by looking at trends in global commodity prices, the US dollar nominal effective exchange rate, prospects for population growth in Qatar and conditions in the local housing rental market.

The Qatari riyal to US dollar conversion rate is $QR3.64 = \$1.00$.

Part 2 Performance in 2009 and 2010

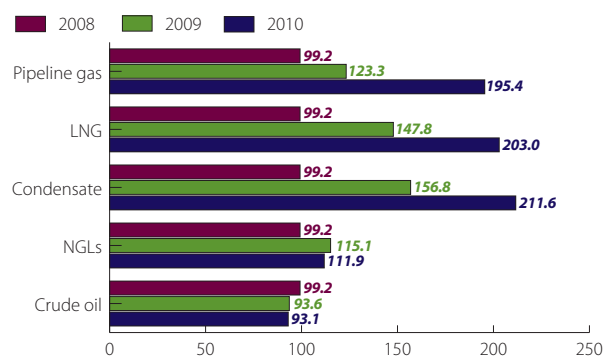
Qatar's economy bounced back in 2010 from the effects of the global recession, which crimped its growth in 2009. The recovery was aided by the expansion of capacity in the hydrocarbon sector and higher oil prices. Downstream processing in industry also fared well in 2010, as did some services. Construction activity, however, remained subdued, and its output remained broadly unchanged after a sharp slowdown in 2009. Although economic activity outside hydrocarbons has grown steadily in recent years, hydrocarbons still command Qatar's economic heights. When downstream industrial activity is counted as hydrocarbons, the dependence remains quite pronounced. Fiscal and balance-of-payments positions in both years were robust. Consumer prices ticked up in 2010 on the back of rising global commodity prices, following a general retreat in 2009.

Figure 2.1 GDP growth, nominal and real (%)



Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 2.2 Hydrocarbon production volume (indices, 2007 = 100)



Source: GSDP estimates based on QSA release dated 3 April 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

GDP growth

Qatar's nominal gross domestic product (GDP) growth rebounded in 2010 from the sharp contraction of 2009. Data from the Qatar Statistics Authority (QSA) point to strong growth of 30.2% in 2010, after the 15.2% contraction in 2009 (figure 2.1). Expansion of hydrocarbon output and higher hydrocarbon prices contributed greatly to the 2010 recovery in Qatar's nominal income growth.

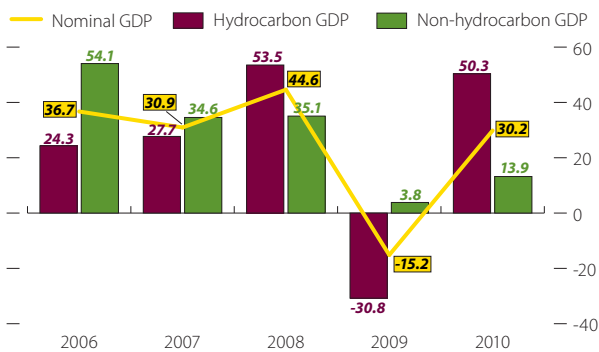
With the expansion of hydrocarbon output, real GDP rose in 2010 by 16.6%. In 2009, real GDP expanded as well despite the reversal in nominal GDP that year. The divergence between nominal and volume estimates of GDP growth in 2009 is explained by that year's sharp fall in hydrocarbon prices. (See box 2.1 below for an explanation of the significance of differences between nominal and real GDP measures for Qatar.) The dip in output prices more than offset a moderate expansion in volumes. The prices of other commodities that Qatar produces, such as fertilisers, also fell.

All told, real GDP growth in 2009 and 2010 fell below the trend rate in 2006–2008 of 17.8% average annual growth.

Sector components of GDP and GDP growth

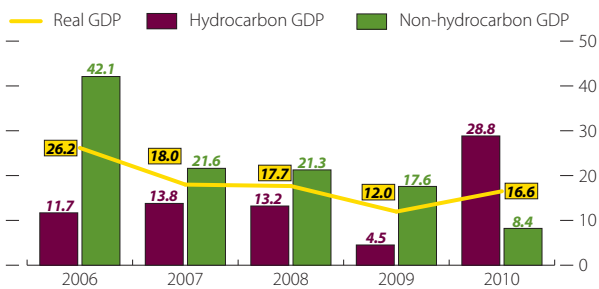
Hydrocarbons dominate Qatar's economic landscape. Crude oil, once the mainstay of the sector, has now ceded prominence to liquefied natural gas (LNG). Pipeline gas and condensates also make large contributions to the hydrocarbon output basket (figure 2.2). Qatar's national

Figure 2.3 Nominal GDP growth: Hydrocarbons and non-hydrocarbons (%)



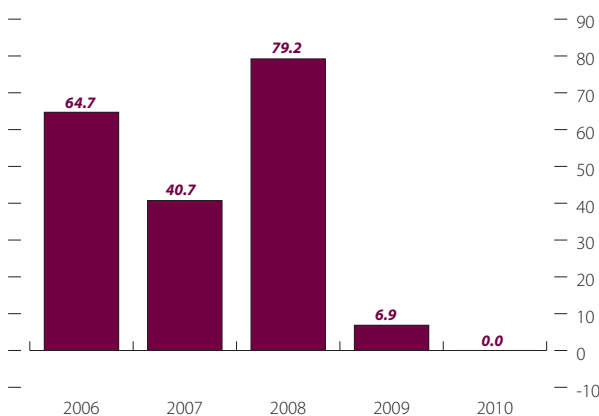
Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 2.4 Real GDP growth: Hydrocarbons and non-hydrocarbons (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying.
Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 2.5 Construction growth (%)



Note: Output is measured in constant prices.
Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Box 2.1 Terms-of-trade changes and movements of Qatar’s domestic income

Although real (or constant price) GDP is the normal yardstick of economic activity, it has some limitations in measuring movements of domestic income in Qatar.

Changes in the price of Qatar’s exports (which are strongly correlated with the price of oil) relative to movements in the price of its import basket can generate significant income effects. For given trade export and import volumes, a rise in the price of Qatar’s exports relative to the price of what it imports, creates gains in domestic income. (Similarly, a fall generates losses.) In an economy where combined imports and exports account for over 77% of nominal GDP, such “terms-of-trade” gains or losses can be substantial.

GSDP estimates suggest that favourable terms-of-trade movements dominated other sources of income expansion from 2006 to mid-2008, but that some of these gains were surrendered in 2009. In 2010, terms of trade again improved with rising oil prices.

accounts data draw the boundary of hydrocarbon activity around the production of these primary products and their immediate processing. In statistical terms, “hydrocarbons” excludes downstream activities that use hydrocarbon feedstock and vertically integrated services such as transport.

The contributions of the hydrocarbon and non-hydrocarbon sectors to nominal and real GDP growth are summarised in figures 2.3–2.4.

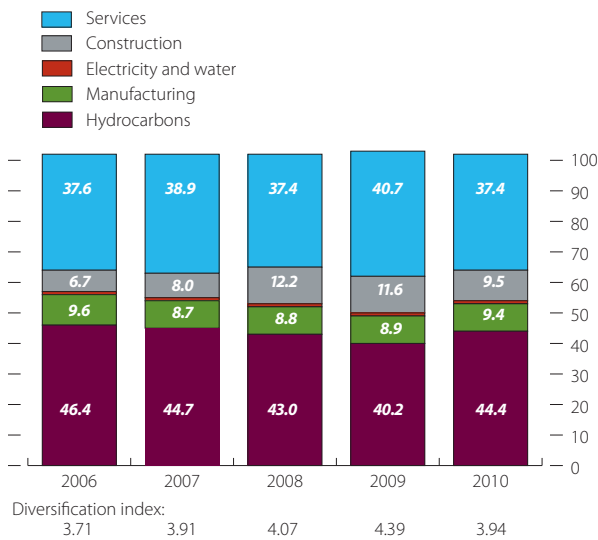
Outside hydrocarbons, construction figures prominently in explaining the pace and pattern of growth during the 2008–2009 slowdown (figure 2.5). Qatar’s substantial investments in infrastructure (including property) had propelled construction activity through to 2008, but as projects were cancelled or delayed during the global recession, the vigour of earlier years retreated, and 2010 saw zero growth (box 2.2).

Manufacturing is centred on activities that use hydrocarbon feedstock or that are energy intensive and economically advantaged by Qatar’s low-cost power. Its impact on the overall pace of economic activity is muted, given its modest contribution to aggregate output that averaged 9.1% in 2006–2010 (figure 2.6).

Still, in 2010 manufacturing benefited from improving conditions in the global economy as well as from additional capacity. Its output expanded by 22.4%, compared with an annual average of 15.3% in 2006–2010 (figure 2.7).

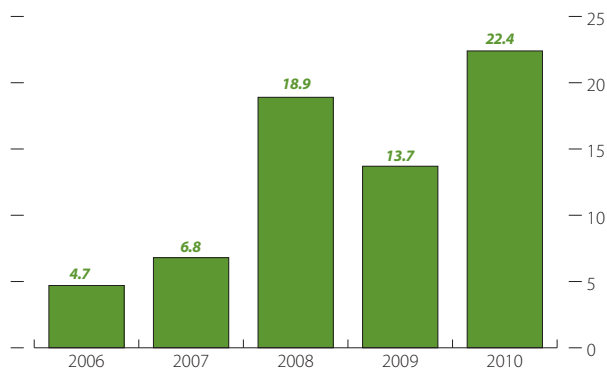
The service sector is still quite small for a high-income economy like Qatar, accounting for 37.4% of real GDP in 2010. Services cover a spectrum of activities ranging from

Figure 2.6 Output composition: Share of real GDP (%)



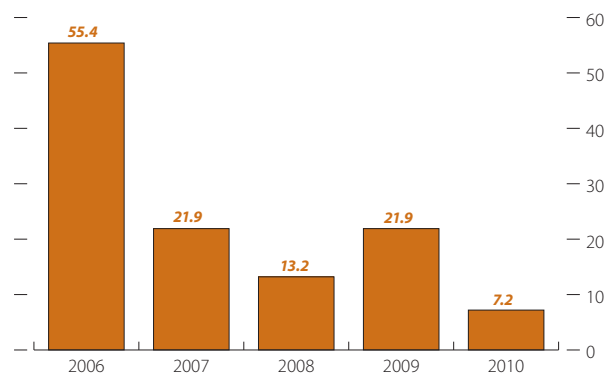
Notes: The diversification index is the inverse of Herfindahl-Hirschman concentration index. Hydrocarbons include crude oil and gas extraction under mining and quarrying. Electricity and water together are roughly 1%. Figures do not add up to 100% as financial intermediation services, indirectly measured, have a small negative share. Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 2.7 Manufacturing growth (%)



Note: Manufacturing includes downstream hydrocarbon processing activity. Output is measured in constant prices. Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 2.8 Services growth (%)



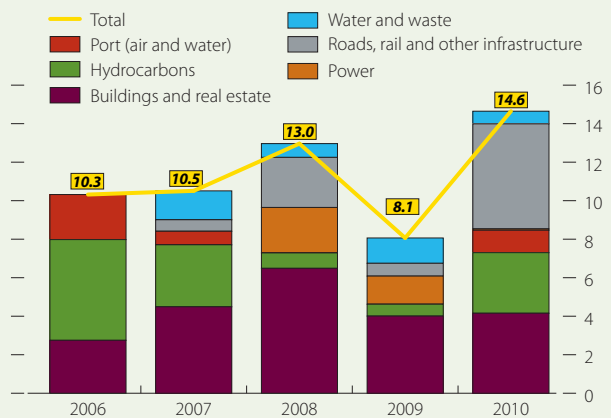
Note: Services include transport and communications, trade and hospitality, financial, government, household and social services. Output is measured in constant prices. Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Box 2.2 Infrastructure investment

The government invested hugely in infrastructure in 2006–2010. Cumulative spending accounted for 12.3% of nominal GDP—more than double the 5% of GDP spent by a sample of 69 countries worldwide, according to the National Development Strategy 2011–2016.

Cumulative infrastructure spending in the period, based on awarded projects, is estimated at \$56.5 billion. In 2010 alone, newly awarded projects amounted to \$14.6 billion, almost twice the previous year's (box figure).

Investment spending (\$ billion)



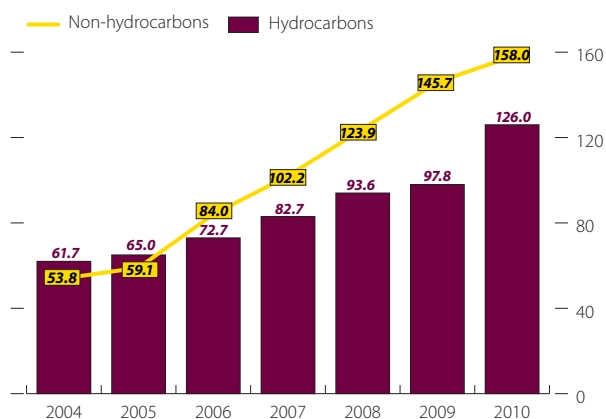
Note: Based on awarded projects per year with a total budget of more than \$50 million over the execution period. Source: MEED Project database (<http://www.meedprojects.com/>), accessed 15 May 2011.

transport of LNG on Qatar's "Qmax" and "Qflex" cryogenic LNG carriers, to media services, air transport, health and education, and financial services, through to low value-added and labour-intensive domestic services. Growth in this sector (figure 2.8) thus reflects the ebb and flow of a diverse range of factors, many not linked to hydrocarbons.

In a longer perspective, the overall structure of output has seen modest change over the past decade. Qatar has been quite successful in moving into new areas of economic activity outside hydrocarbons (box 2.3). However, measured diversification, which has seen the share of hydrocarbons shrink from 46.4% of real GDP in 2006 to 44.4% of GDP in 2010, is to some extent an artefact.

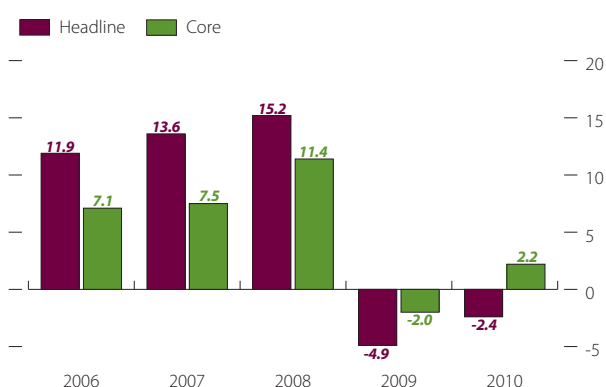
First, downstream activity that depends on hydrocarbons is classified as either manufacturing (such as ethylene production) or services (transport of LNG, for example). A tight correlation between movements of output in both the hydrocarbon and non-hydrocarbon sectors reflects this dependence (figure 2.9). Second, indirect linkages are also important. The fiscal spending that lubricates much of the domestic economy still depends heavily

Figure 2.9 Linked output trajectories (index)



Note: Output is measured in constant prices.
 Source: GSDP estimates based on QSA releases dated 17 and 18 July 2011 (<http://www.qsa.gov.qa/eng/index.htm>).

Figure 2.10 Annual headline and core inflation (%)



Note: Core inflation is headline inflation less food, rent and utilities.
 Sources: GSDP estimates based on data from QSA's Qatar Information Exchange (<http://www.qix.gov.qa/>), accessed 1 May 2011.

Box 2.3 Diversifying the economy

Qatar faces a single, immutable fact: its hydrocarbon assets are exhaustible. It has no option but to diversify.

New sources of income and wealth must eventually replace those from hydrocarbons so that the country can meet its future needs, sustainably. The choices that it makes about the character of diversification will have a defining influence on its development path.

The nation has already made steady progress on diversifying its sources of income. The investments of the Qatar Investment Authority and other state-linked entities in overseas assets will provide a flow of income that in years ahead can be used to support the economy's fiscal and foreign exchange needs. The extent to which these investments will meet these needs will depend both on the amount of income that is set aside today and saved, and the returns on the portfolio of assets that Qatar acquires.

Beyond income, Qatar National Vision 2030 and the National Development Strategy 2011–2016 refer to economic diversification in wider terms. Qatar's ambitions to become a creative, innovative, and entrepreneurial society will require it to acquire new capabilities, rebalance the roles of the state and private sectors, and create incentives and governance structures that will spawn a dynamic and agile economy.

An immediate challenge is to reverse recently declining trends in productivity and to eliminate inefficiencies and other barriers to doing business. The National Development Strategy sets out programmes to tackle these constraints and provides indicative targets to guide reforms. Although the 2022 FIFA World Cup may accentuate some challenges, it will also provide the focus and discipline that will be needed to confront and overcome them, as well as providing new opportunities for investment outside hydrocarbons.

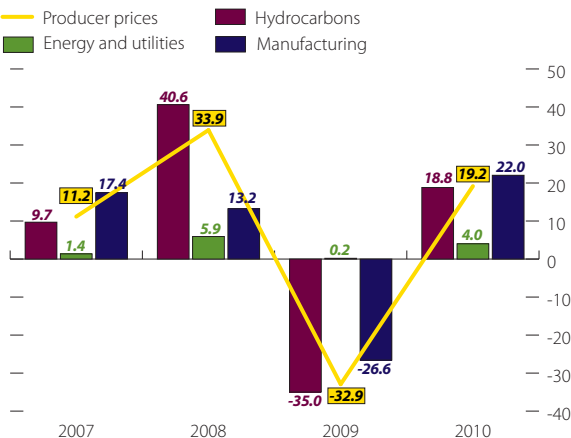
on hydrocarbon funding (see *Fiscal accounts*, below). Third, Qatar's formidable investments in hydrocarbon production as well as in the economic infrastructure needed to support a larger economy and population explain the rising profile of construction activity.

Prices

Consumer prices

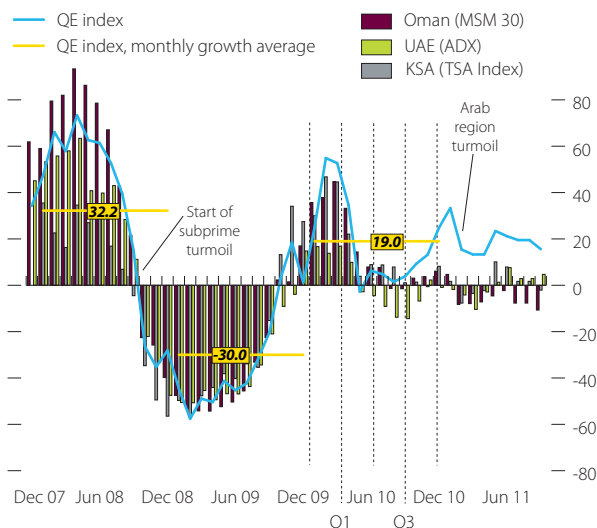
Annual consumer prices fell by 2.4% in 2010 relative to 2009 (figure 2.10), largely on the back of weakening residential property rents, in turn reflecting both a rapid build-up in property supply and muted demand. The price decline in the property subcomponent of the consumer price index outweighed rises in other sub-components: food prices, for example, rose by 2.0%,

Figure 2.11 Changes in producer prices and components (%)



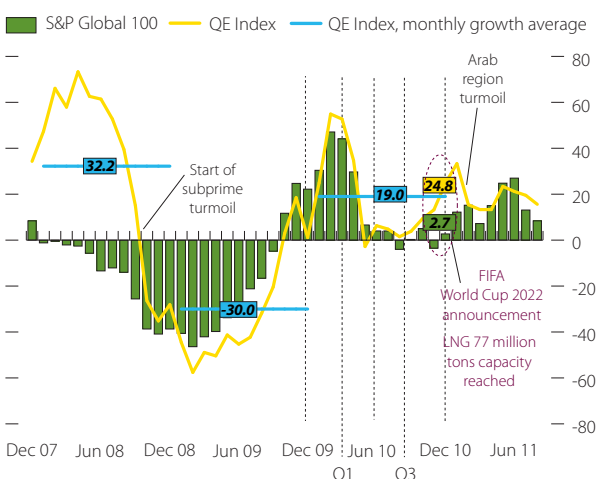
Source: GSDP estimates based on QSA release dated 20 April 2011.

Figure 2.12 Selected Gulf Cooperation Council stock price indices (year-on-year change, %)



Sources: Qatar Exchange (<http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/>) and CEIC database, accessed 29 September 2011.

Figure 2.13 QE Index versus S&P Global 100 (year-on-year change, %)



Sources: Qatar Exchange (<http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/>) and CEIC database, accessed 29 September 2011.

and those of transport and communications, household goods, and medical health services also rose slightly.

In looking at inflation, it can be helpful to separate shorter-run supply influences from underlying, long-run demand influences—stripping out “non-core” from “core” inflation. The prices of food, utilities and residential rent are among the most volatile components of the consumer price basket, and excluding them gives an estimate of core inflation of 2.2% in 2010.

As the Qatari riyal is pegged to the US dollar (box 2.6 below), US dollar exchange rate movements also influence the trajectory of domestic prices in Qatar. A 4.4% depreciation of the effective US dollar exchange rate in 2010 contributed to the uptick in core inflation. Muted domestic demand helped keep domestic price rises in check, however.

Producer prices

For the first time, in June 2010, QSA released an index of producer prices. These reflect what domestic producers receive for their output (net of taxes plus subsidies) (box 2.4). Unlike consumer prices, producer prices rose strongly in 2010 (figure 2.11). Trends in the prices of the traded goods that Qatar produces are largely dictated by conditions in global markets. A rebound in the global demand for commodities, propelled by strong growth in emerging markets, saw soaring global commodity prices in 2010.

Asset markets: Equity and property

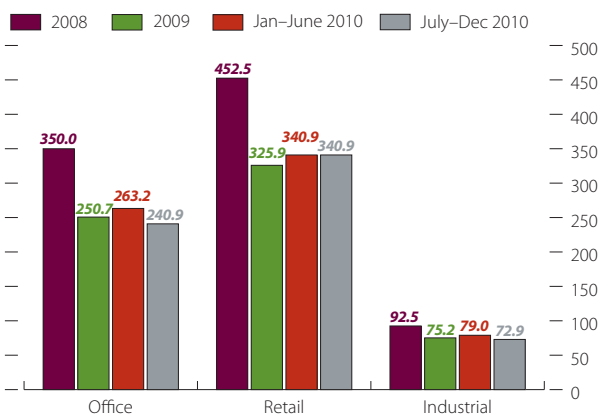
Qatar Exchange. Qatar Exchange (QE) is the trading platform for domestic equities. The QE Index, the benchmark index of 20 stocks (box 2.5) rose by 19.0% during 2010, making it the best performer in the region (figure 2.12). The strong showing partly reflected a large share of Qatari banks in the index, which benefited from government support that bolstered their balance sheets.

The QE index tracked the S&P Global 100 quite closely in 2010. Robust gains in the first half of 2010 were followed by a more sedate performance in the second half (figure 2.13). Globally, equity prices in 2010 were supported by historically low interest rates.

MSCI currently classifies the QE a “pioneer market”. QE aims to be classified an “emerging market,” to help develop the domestic capital market, and in particular to attract stable, longer-term institutional funds.

To support this goal, QE continues to make technical improvements. These include switching to a new trading engine (the Universal Trading Platform) and revising the

Figure 2.14 Real estate rental rates (QR per square metre per month), Doha



Note: Rental rates are average of minimum and maximum.
Source: Business Monitor International *Qatar Real Estate Report*, various issues.

Box 2.4 Producer price index

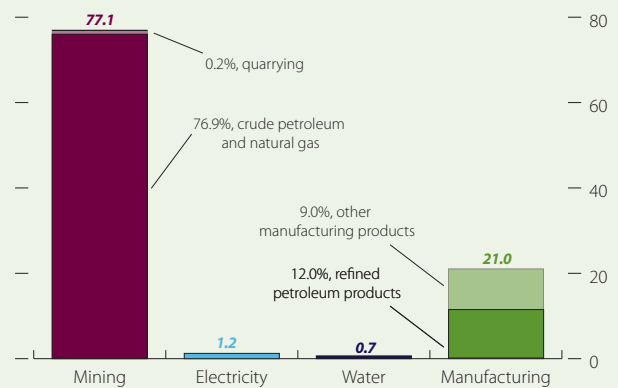
QSA's producer price index (PPI) is a new quarterly index of output prices of mining, electricity, water and manufacturing (box figure). Since June 2010, QSA has collected data on these prices quarterly, through a survey of establishments in these sectors.

In principle, the PPI measures the prices of all goods and services bought and sold by producers, for export or the local market. It captures prices of the first commercial transaction, including finished and intermediate goods as well as raw materials and commodities.

Qatar's PPI is an output-based index, measuring the prices of goods sold. It is different from the consumer price index, which measures the prices paid by final consumers.

The base period for the comparison of prices is the average price of 2006, and the weights reflect the relative importance of each product group and each type of industry that year. As the pattern of output has shown some changes since then, the QSA plans to review these weights soon.

Producer price index: Industry group weights (%)



Source: QSA (<http://www.qsa.gov.qa/eng/index.htm>).

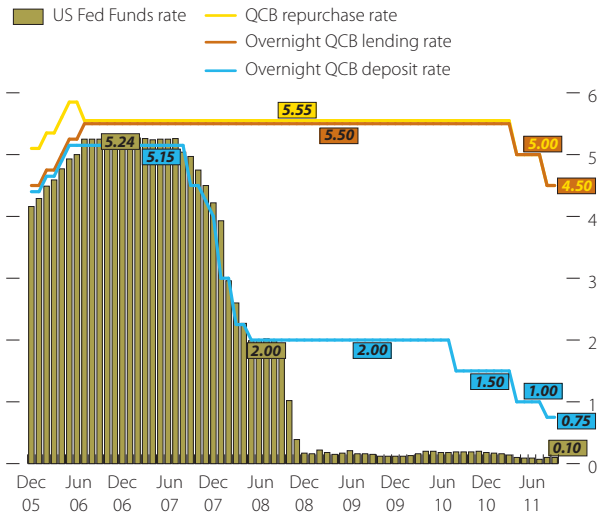
inclusion criteria for the QE Index. Ways to relax foreign ownership limits (now 25% under the 2002 Companies Law) are also being explored.

Real estate. Weakness in the domestic real estate market surfaced in 2009. Excess supply continued across major market segments in 2010 (figure 2.14). The rent sub-index of the consumer price index (which captures movements in the residential market) also declined in 2010.

Interest rates, money supply and credit

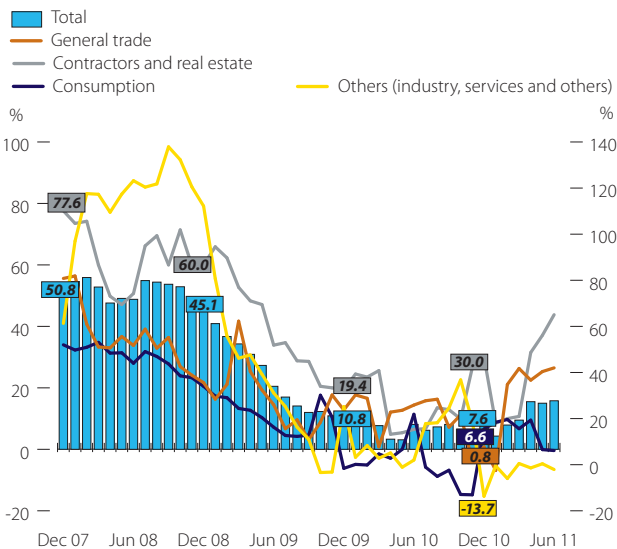
With weakening domestic credit growth and subdued inflation, QCB reduced its deposit rate, from 2% to 1.5% in September 2010 (figure 2.15). The cut made it less attractive for commercial banks to place their surplus funds with QCB, encouraging them to seek alternative uses, including expanding private sector credit. In

Figure 2.15 Policy rates (% per year)



Sources: Qatar Central Bank *Quarterly Statistical Bulletin* March 2011, US Federal Reserve database (<http://www.federalreserve.gov/datadownload/>) and CEIC database, accessed 29 September 2011.

Figure 2.16 Growth of commercial banks' private sector credit (year on year, %)



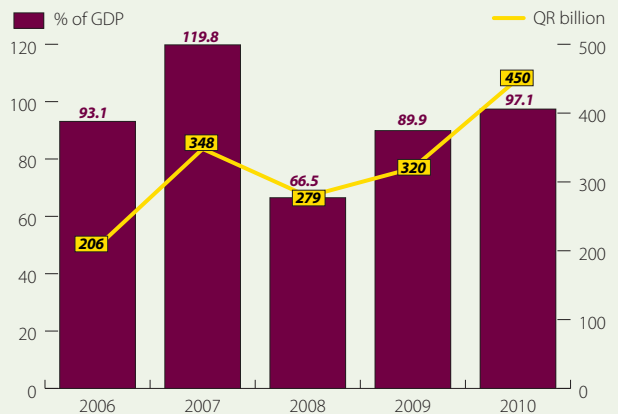
Sources: Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011 and CEIC database, accessed 29 September 2011.

Box 2.5 The QE Index

The total market capitalisation of the Qatar Exchange had reached QR450 billion by 30 December 2010, equivalent to 97.1% of nominal GDP (box figure). One new company was listed during the year, taking the total to 43, up from 36 in 2006. Twenty companies are in the QE Index, in which banks have the largest weight (48%), followed by service-related companies (39.7%).

Companies are grouped into four categories: Services (22 companies), Banking and Financial (9), Industrial (7) and Insurance (5).

Market capitalisation (% of GDP), year-end



Source: Qatar Exchange (<http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/>) and CEIC database, accessed 28 June 2011.

a further move to stimulate domestic credit, QCB reduced both its lending and deposit rates in May 2011. This narrowed the wedge between US dollar and Qatari riyal interest rates that had opened up in 2008–2009 (box 2.6).

Commercial banks' liquidity positions remained strong in 2010 as private deposit growth accelerated to 30.9%. Corporate deposits rose by 32.1%. By contrast, growth of commercial bank credit to the private sector was lacklustre in 2010, expanding by a meagre 7.6% (year on year) (figure 2.16).

Anaemic growth of credit reflected both supply and demand influences. Stricter lending regulations, tighter credit risk management controls and efforts to comply with Basel II capital standards capped lending. Demand for credit may also have been subdued by prevailing economic uncertainties.

Still, credit to real estate grew by 30.0% (year on year) in 2010. That to the rest of the private sector was much more sluggish—credit to industry and services even declined, by 13.7%. Credit to the public sector remained strong, however, climbing by 38.4%.

Box 2.6 Monetary and interest rate policy, 2008–2009

The key central bank policy rate is the overnight QCB lending rate. Commercial banks are obliged to use this as the reference in pricing their lending products, but have greater latitude in setting their deposit rates. The central bank also uses the overnight QCB deposit rate, its repurchase window, certificates of deposit and a variety of regulatory measures (including reserve-ratio requirements on deposits with QCB and regulations on loan-to-deposit ratios) to influence domestic liquidity and credit conditions.

The riyal's peg to the US dollar and an open capital account limit Qatar's ability to pursue an independent monetary policy. Decisions on interest rates must cede precedence to the need to maintain the rate set between the riyal and the US dollar in 1980 (QR3.64:\$1.00). In normal market conditions, therefore, Qatari riyal interest rates must closely track the key policy lending rate in the US—the Federal Funds rate—to ensure stability in the foreign exchange market (figure 2.15, above).

In 2007 and 2008, the Federal Reserve cut that rate to historic lows in an attempt to contain financial and economic upheaval in the US economy. Consumer price inflation in Qatar was running in double digits, which meant that QCB, in setting interest rates, had to balance twin goals of supporting the currency peg and holding down domestic inflationary pressures.

Throughout 2008, QCB cut its deposit rate, tracking the Federal Funds rate down, thus helping to stabilise the foreign exchange market. It kept the QCB lending rate unchanged (until April 2011), which helped to contain domestic credit growth and inflation. Widening margins supported domestic banks' profits. Against a background of fast-falling inflation, real interest rates for borrowing began to rise sharply.

The Federal Reserve cut the Federal Funds rate further in 2009, but QCB maintained its deposit rate at 2.0%. By that time, the risks that an interest rate differential favouring Qatari riyal deposits would attract sizeable capital inflows via the "carry trade" (financial arbitrage) had largely dissipated: the international banks and other financial institutions were minimising their risk exposures, in effect choking off credit to finance arbitrage activities aimed at exploiting interest-rate differentials.

Non-performing loan ratios in the banking sector remain low, and have been adequately provisioned. Qatar's bank's capital position remains robust (tables 2.1 and 2.2).

Fiscal accounts

In fiscal year (FY) 2010/11 (1 April 2010–31 March 2011), the government posted an overall surplus (government revenue less the sum of current and capital expenditure) of QR19.1 billion (figure 2.17), equivalent to 4.1% of nominal GDP. Pressures on government revenue,

Table 2.1 Banks' performance indicators, asset quality (%)

	2007	2008	2009	2010
Non-performing loans/Total loans	1.5	1.2	1.7	2.0
Loans provisions/Non-performing loans	90.7	83.2	84.5	85.1
Loans provision/Total loans	1.4	1.0	1.4	1.7
Total provisions/Total assets	1.1	1.1	1.3	1.3

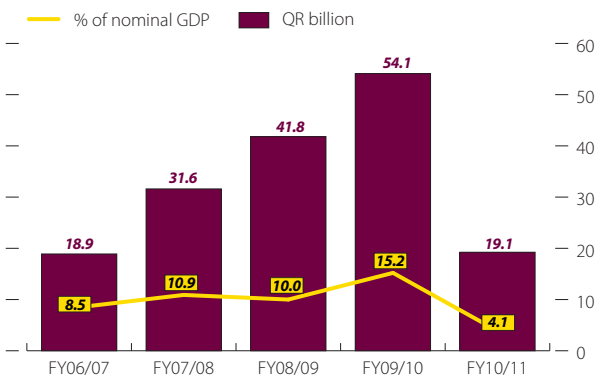
Source: Qatar Central Bank website (<http://www.qcb.gov.qa/English/Pages/BanksPerformanceIndicators.aspx>), accessed 4 August 2011.

Table 2.2 Banks' performance indicators, capital adequacy (%)

	2007	2008	2009	2010
Regulatory tier I capital/Total assets	11.5	11.0	11.5	11.1
Regulatory tier I capital/Risk-weighted assets	12.2	15.1	15.0	15.0
Regulatory capital/Risk-weighted assets	13.5	15.5	16.1	16.1
Nonperforming loans/Capital	0.6	1.0	1.2	1.3

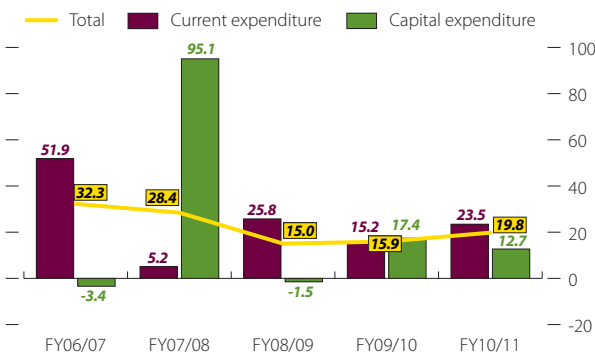
Source: Qatar Central Bank website (<http://www.qcb.gov.qa/English/Pages/BanksPerformanceIndicators.aspx>), accessed 4 August 2011.

Figure 2.17 Overall fiscal balance



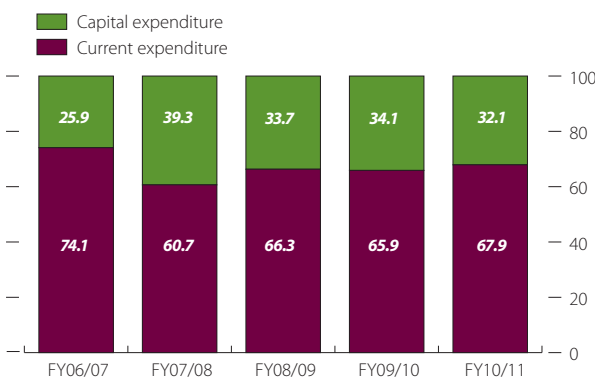
Note: FY2010/11 data are preliminary.
Sources: Ministry of Economy and Finance and Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

Figure 2.18 Fiscal expenditure growth (%)



Note: FY2010/11 data are preliminary.
Sources: Ministry of Economy and Finance and Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

Figure 2.19 Fiscal expenditure (% of total)



Note: FY2010/11 data are preliminary.
Sources: Ministry of Economy and Finance and Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

coupled with an expansion in spending, reduced the surplus from recent years' double-digit levels (as a proportion of GDP).

Government expenditure

Preliminary data for FY2010/11 show a 19.8% rise in total government spending relative to the previous fiscal year (figure 2.18). Current expenditure grew by 23.5%, reflecting increased outlays on salaries and wages (before the September 2011 pay award for citizens) and on other current expenditure, which includes spending on civil defence, grants to foreign institutions and development aid abroad.

Capital spending rose by 12.7% in FY2010/11, propelling the government's investments in infrastructure—primarily housing, utilities, communications, health and education. Although this item consumes a large volume of resources, the budget allocates the bulk of its resources to current expenditure (figure 2.19).

Government revenue

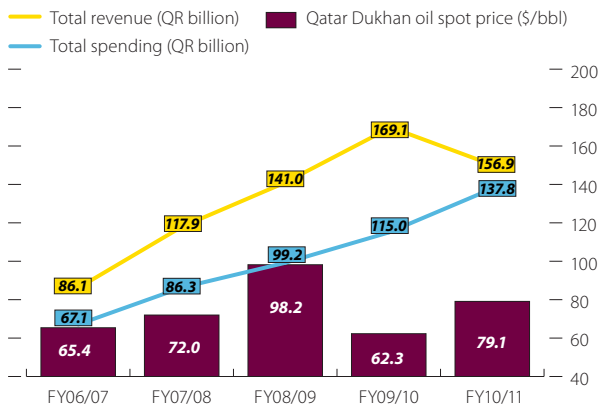
Government revenue generally tracks movements in the price and export volume of hydrocarbons (figure 2.20). FY2010/11 saw a deceleration in government revenue growth relative to FY2009/10 (figure 2.21). Investment income (largely profits transferred by Qatar Petroleum) fell by 33.0%. Tax revenue declined: corporate income tax—paid by foreign companies and a major tax component—fell by 29.2%. (In early 2010, Qatar simplified its corporate tax regulations, and foreign investors are now subject to a flat rate of 10% on profits.)

Oil and gas (hydrocarbon) revenue, still the main source of government income (figure 2.22), grew by 18.2% in FY2010/11 from the previous fiscal year, buoyed by expanding volumes and higher prices. Hydrocarbon activity has separate tax arrangements from the rest of the economy.

Although Qatar's overall fiscal balance was in surplus during the five fiscal years to FY2010/11, the balance on the non-hydrocarbon account was in persistent deficit (figure 2.23). (The latter balance is calculated by removing direct oil and gas revenue from the sources of government income.)

The non-hydrocarbon balance provides a perspective on why it is important to diversify revenue sources. In FY2010/11, it recorded a deficit equivalent to 17.0% of GDP. A stricter measure, which excludes investment income that accrues to the budget directly from hydrocarbon activity, posted a deficit of nearly 25% of GDP in 2010.

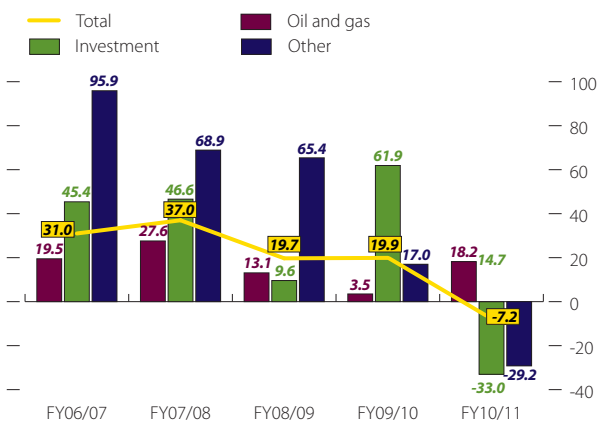
Figure 2.20 Government spending, revenue and oil price



Note: FY2010/11 data are preliminary.

Sources: Ministry of Economy and Finance and US Energy Information Agency Weekly Petroleum Status Report (http://www.eia.gov/oil_gas/petroleum/data_publications/weekly_petroleum_status_report/wpsr.html), accessed 15 June 2011.

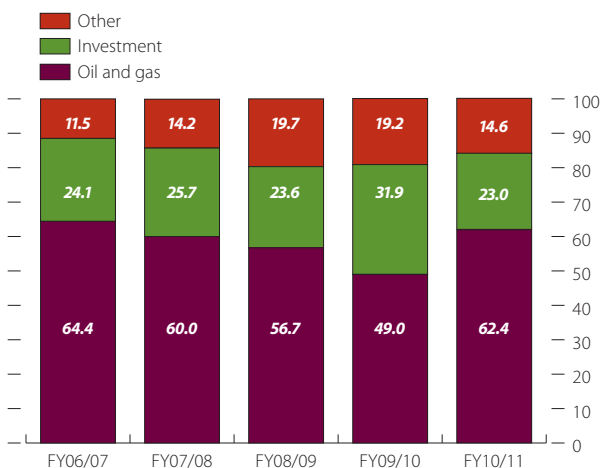
Figure 2.21 Fiscal revenue growth (%)



Note: FY2010/11 data are preliminary.

Sources: Ministry of Economy and Finance and Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

Figure 2.22 Fiscal revenue (% of total)



Note: FY2010/11 data are preliminary.

Sources: Ministry of Economy and Finance and Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

Debt

Total government debt rose sharply in FY2009/10, following substantial issuance of local-currency bonds. It continued to climb in FY2010/11 on additional domestic bond issuance in June 2010 and January 2011 (box 2.7). External debt also increased (figure 2.24). The currency structure and composition of government debt also shifted over the year, and domestic currency debt now accounts for the bulk of the government's obligations.

The terms of payment and maturity of the government's domestic debt now ranges from three to 10 years. Over the period 2012–2015, 77% of domestic debt will mature, as will 59% of external debt.

Moody's rating agency upgraded Qatar's sovereign credit rating in July 2010. Macro-prudential vulnerability indicators, as the International Monetary Fund reported in its Article IV Staff Report—a regular and comprehensive assessment of Qatar's economy—of March 2011, did not reveal any significant downside fiscal or credit risks.

Balance of trade, exports and imports

Trade

Qatar recorded a trade surplus of QR177.7 billion or 38.3% of GDP in 2010. Widening trade surpluses during 2006–2010 reflect a conjunction of increases in Qatar's hydrocarbon output and an upward trend in hydrocarbon prices.

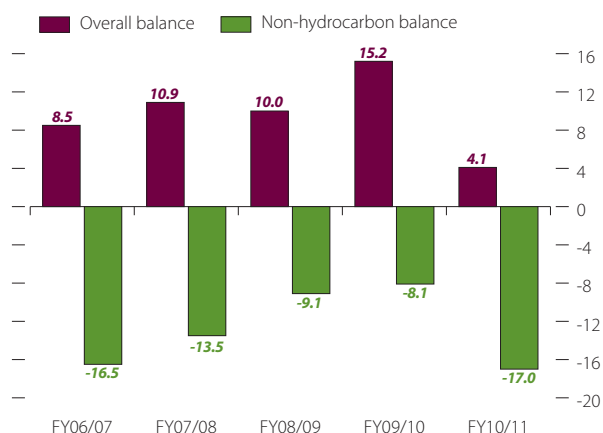
Building on a robust surplus on the trade account, Qatar posted a substantial current account surplus in 2010 (figure 2.25). The trade surplus more than offset the deficit on the service (QR21.0 billion) and income (QR47.1 billion) accounts. The deficit on these two accounts is largely due to remittance outflows (profits and wages).

QCB's foreign currency reserves stood at \$31.0 billion at end-2010, up from \$18.7 billion a year earlier. Both the current account surplus (16.8% of nominal GDP) and external borrowing helped to lift reserves.

Exports

In 2010, the value of hydrocarbon exports rose by 49.2% from 2009 (figure 2.26). Crude oil and natural gas exports expanded by 48.1%. Export revenue was also boosted by higher prices. Under long-term purchase and sales agreements for LNG shipped to major markets, particularly in Asia, the price of Qatar's LNG exports is linked to movements in benchmark oil prices, helping to

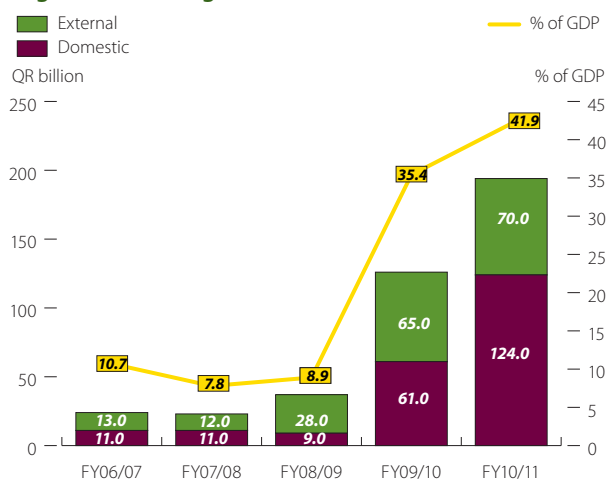
Figure 2.23 Fiscal balance (% of GDP)



Note: FY2010/11 data are preliminary.

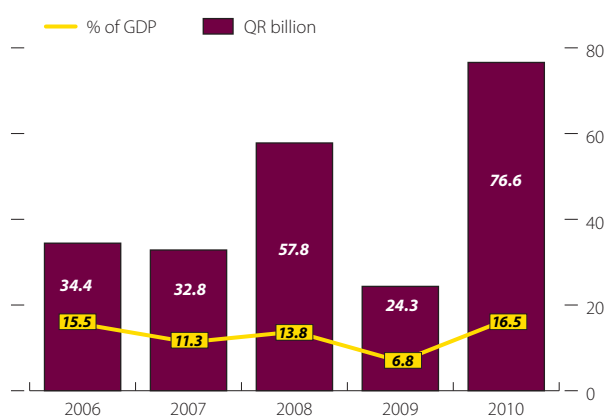
Sources: Ministry of Economy and Finance and Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

Figure 2.24 Total government debt



Source: Ministry of Economy and Finance.

Figure 2.25 Current account



Note: 2010 export data are preliminary.

Source: Qatar Central Bank *Quarterly Statistical Bulletin*, March 2011.

Box 2.7 Monetary, financial and institutional developments, 2010

January. The Qatar Investment Authority bought a 5% equity stake in local banks worth \$2 billion, the fourth government support package, to shield local banks from the impact of the global financial crisis.

February. The Qatar Financial Centre (QFC) announced that it had undertaken a major internal review that will see it shift towards a more developmental role in promoting capital market expansion, with a more selective focus on its activities in asset management, reinsurance and captive insurance.

March. QCB announced preparations to launch Qatar's first Credit Bureau (it opened for business in March 2011). It will capture, consolidate and share important credit information on prospective borrowers, so as to improve access to credit markets and reduce risks. The Qatar Financial Markets Authority (QFMA)—the stock market regulator—and QCB authorised national banks to buy and sell shares at the Qatar Exchange (QE) to bolster liquidity there.

May. QE amended the criteria for including companies in the benchmark index in a bid to boost liquidity and ensure transparency in share trading. The new index is based on stock weightings determined by each company's free-float market capitalisation and their average daily traded value.

June. The government issued local-currency bonds worth QR10 billion, with QR5 billion offered to five conventional commercial banks and QR5 billion to four Islamic banks as Islamic bonds. Later in the month it issued another QR2 billion in local-currency bonds.

August. QCB cut its overnight deposit rate by 50 basis points, to 1.5%, marking the first change in over two years. Other key rates—the overnight lending rate and repo (repurchase) rate—remain unchanged at 5.5% and 5.55%, respectively. This was the first time since May 2008 that QCB had changed its interest rate.

September. QE switched over to a new trading engine, the Universal Trading Platform.

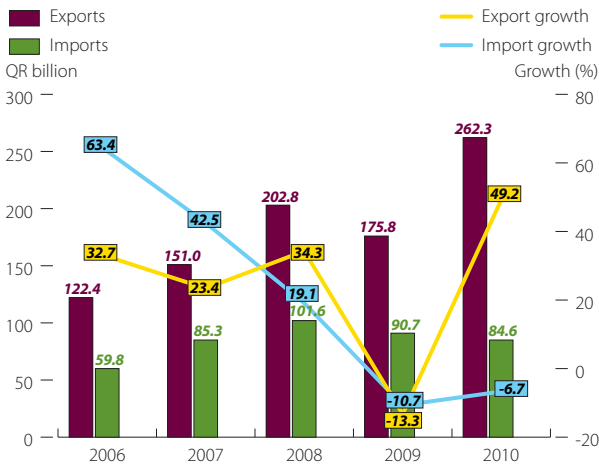
shield Qatar from weak spot market prices for natural gas in 2010 (see box 1.5 in part 1).

Export revenue from activities that are not linked directly or indirectly to hydrocarbons remained very small.

Imports

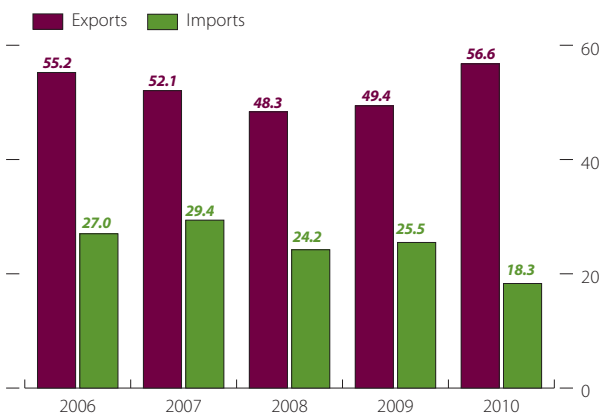
Qatar imports almost all its consumer products and many industrial products. The import bill was QR84.6 billion in 2010 (about 18.3% of nominal GDP), sustained by demand for materials and equipment required for infrastructure development and hydrocarbon projects, as well as to meet consumption needs (figure 2.27).

Figure 2.26 Total trade



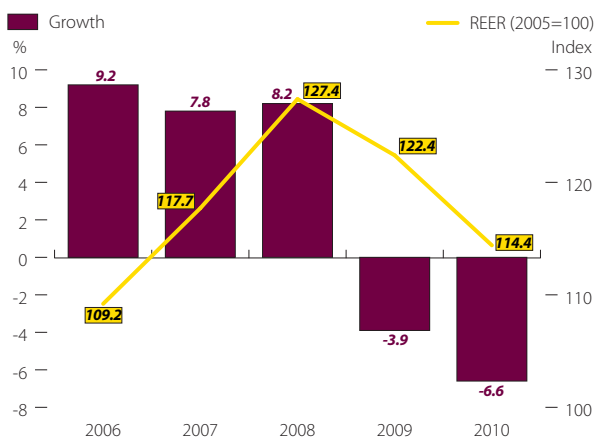
Note: 2010 export data are preliminary.
Sources: GSDP estimates based on data from QSA's Qatar Information Exchange (<http://www.qix.gov.qa/>), accessed 25 May 2011 and *Qatar Central Bank Quarterly Statistical Bulletin*, March 2011.

Figure 2.27 Total trade (% of nominal GDP)



Note: 2010 export data are preliminary.
Source: GSDP estimates based on data from QSA's Qatar Information Exchange (<http://www.qix.gov.qa/>), accessed 25 May 2011 and *Qatar Central Bank Quarterly Statistical Bulletin*, March 2011.

Figure 2.28 Real effective exchange rate index (2005 = 100)



Source: GSDP staff estimates.

Terms of trade and the real effective exchange rate

The real effective exchange rate (REER) provides a measure of competitiveness for a country's output in the global market place. It captures movements in the nominal effective exchange rate and adjusts for differential inflation among countries. GSDP calculations suggest that Qatar's REER depreciated by 6.6% in 2010, because the US dollar (to which the riyal is pegged), lost value against the currencies of Qatar's major trading partners (figure 2.28). Falling consumer price levels in 2010 also contributed to the depreciation of the REER.

Viewed over a longer period (2005–2010), the riyal's REER has appreciated by an annual average of 2.2%, accompanied by continuing rises in the prices of non-traded goods. In 2010 the real exchange rate was some 14% above its 2005 level. A sustained REER appreciation would hamper attempts to make the economy more competitive and to diversify it (box 2.8).

Box 2.8 Dutch Disease

The pathology of "Dutch Disease," which triggered a rapid decline of manufacturing in the Netherlands after natural gas reserves were found in the 1960s, had two main elements.

First, resources were diverted from manufacturing to support expansion of the thriving gas sector. Second, and more important, manufacturing lost competitiveness as the costs of non-traded inputs rose in the wake of the growth of spending financed by gas revenue. As manufacturing sold its output at prices determined on international markets, rising input costs squeezed its profits, harming investment.

Technically, an appreciation of the real exchange rate (the ratio of the price of non-traded to traded goods) induced a reallocation of resources favouring the non-traded goods sector (largely services). This shift was damaging as manufacturing had been the principal source of productivity gains in the Netherlands, and its retreat would harm long-term affluence after the gas ran out.

The disease is not confined to the Netherlands: other countries that are heavily dependent on exporting natural resources have to contend with similar challenges.