Qatar Economic Outlook

2012-2013

الأمانة العامة للتخطيط التنموي
General Secretariat for Development Planning

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Foreword

The *Qatar Economic Outlook 2012–2013* (*QEO*) is the second publication from the General Secretariat for Development Planning (GSDP) that presents an in-depth analysis of Qatar's past economic performance and of forecasts for the future. As with the initial volume released in October 2011, its appeal is for those who want to know more about the workings of the economy and what the future may hold.

That future is bright. The last few years' fast pace of economic growth will ease as expected over the next couple of years, given the ending of the decade-long hydrocarbon investment programme. But robust fiscal and formidable balance-of-payments surpluses are set to continue in all but the most inauspicious of global environments, and inflation should stay subdued. Still, the world economy presents risks—particularly from the eurozone—which could weigh on these surpluses and affect private funding for the huge capital-project pipeline.

QEO was written with the close involvement of other agencies. I would like to thank the Qatar Statistics Authority, which advised on data; Qatar Central Bank; Qatar Petroleum; the Ministry of Economy and Finance; and the Ministry of Business and Trade for sharing their information and responding to GSDP inquiries.

The Department of Economic Development of GSDP produced the analysis and forecasts in *QEO*. I would like to thank all my colleagues in GSDP who made contributions.

H.E. Dr. Saleh Al Nabit

Secretary General

General Secretariat for Development Planning

Acknowledgements

The GSDP team was led by Dr. Frank Harrigan, Director of the Department of Economic Development. In the department, inputs were provided by Dr. Issa Ibrahim, Sylvie Maalouf, Eugene McQuaid, Habib Millwala, Dr. Osama Noujoum, Fidelis Sadicon and Ali Suleiman. Research and administrative support was provided by Abdul Hadi Al Shawi, Mona Al Dhneem, Moza Al Jasmi, Haya Al Semaiti and Jameela Hamad. Ali Suleiman coordinated the report's production.

Colleagues in the Department of Joint Services, led by Hamad Rashid Al-Athba, and the Public Relations and Communications Unit, led by Asma Nasrollah Mirzaei, facilitated the production and launch of the *Qatar Economic Outlook 2012–2013*. Jonathan Aspin copy edited the report and designed the layout. Ali Barazi translated the English version into Arabic, which Saleem Betar proofread.

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Qatar: Outlook at a glance

Real GDP growth will remain robust

The General Secretariat for Development Planning (GSDP) expects Qatar to post robust growth of real gross domestic product (GDP) of 6.2% in 2012. Although hydrocarbon growth will slow, growth outside the sector—including downstream processing and petrochemical industries—will continue at a fast clip.

In 2013, overall growth is expected to moderate to 4.5%. The non-hydrocarbon sector is seen maintaining momentum through to 2013, but oil and gas growth will taper off as yields from maturing oil fields resume their decline (after a slight pick-up in 2012).

Further out, with the start-up of the Barzan project (scheduled for 2014) and the completion of investments in enhanced and incremental recovery in older oil fields, upstream production will rally.

Qatar: Outlook at a glance

	2012	2013
Real GDP growth (%)	6.2	4.5
Nominal GDP growth (%)	11.2	4.7
Consumer price inflation (%)	2.0	2.5
Fiscal surplus (% of nominal GDP)	7.8	4.8
Current account surplus (% of nominal GDP)	22.0	20.6

Source: GSDP estimates.

Terms-of-trade changes are expected to be modest

October 2011's *Qatar Economic Outlook 2011–2012* noted that, historically, changes in hydrocarbon prices have had an important influence on the resources available to Qatar's economy. In 2012, average annual oil prices are forecast to advance from their levels in 2011, giving a modest boost to nominal GDP growth, which is projected at 11.2%. But with oil prices likely to stabilise or even drift down in 2013, forecast nominal GDP growth of 4.7% is unlikely to stray far from expected volume growth of 4.5%.

Construction activity is picking up

Between 2012 and 2019, Qatar has planned infrastructure investments in the region of $130 billion. In the near term—2012 and 2013—it may well spend some 10% of its GDP on infrastructure and total project disbursements, or about $39 billion.

The construction sector is expected to benefit and to record volume growth of about 10% in these two years. New project activity will no doubt make heavy demands on labour and require new workers, lifting Qatar's population in the near term but making the non-Qatari working population more transient, as many of the workers will probably leave when projects end. Knock-on effects of project spending on income and demand in the rest of the economy will be dampened by large leakages in the form of imports of materials and capital goods, as well as remittances of wage and other income.

Consumer price inflation is set to remain tame

Consumer price inflation has moderated in the first months of 2012 and annualised headline inflation dipped to 1.1% in April. Core inflation, though higher than the headline rate, has also been slowing, suggesting that underlying inflationary pressures are moderating. Rentals have continued to fall.

The inflation forecasts from *Qatar Economic Outlook 2012–2013* (*QEO*) show a modest pick-up over the rest of 2012, but range bound, with the outcome for 2012 likely to be unchanged from 2011 at close to 2%. With prospects of weaker commodity prices and a firmer US dollar, headline inflation is forecast to stay tame in 2013 but could edge up to 2.5%. Even with the expected rise in population, the excess supply in the residential property market will take time to work itself out.

Fiscal strength endures

Qatar will again post a sizeable fiscal surplus in 2012, despite large, planned increases in recurrent outlays on wages, salaries and pensions, as well as greater capital spending. A surplus of 7.8% of nominal GDP is expected in 2012 (based on *QEO*'s estimate of the price of the country's hydrocarbon basket). The fiscal surplus in 2013 is predicted to come down to 4.8% as hydrocarbon income stabilises and spending continues growing, along with the economy and population. As emphasised in Qatar's National Development Strategy 2011–2016, the challenge remains to broaden the revenue base and to shrink the non-hydrocarbon deficit (the overall surplus that remains when hydrocarbon revenue is removed).

External surpluses will remain formidable

Qatar's external surpluses on the current account of the balance of payments will stay in double digits. In 2012, the surplus is expected to be 22.0% of nominal GDP, edging down to 20.6% in 2013. Growth of export revenue will slow as production of oil and gas plateaus but import demand will keep rising, both to meet project needs and to support a larger population. Qatar's current account surpluses will continue adding to the net international investment position and supporting the accumulation of funds for the future.

Eurozone problems cast a widening shadow

The International Monetary Fund has revised down prospects for the global economy in 2012, largely on the basis of worse than expected outcomes in the eurozone. Recent statistical releases confirm that the bloc is now in recession and the Fund expects it to shrink in 2012, recovering somewhat in 2013.

However, in a scenario where downside ("tail") risks eventuate and stresses ratchet up (with disorderly defaults and possible exits from the eurozone), outcomes for the grouping could be much worse. Almost inevitably, impacts would reverberate in the wider global economy not only through trade linkages and commodity prices, but also through financial market channels as a general flight from risk would be likely.

For Qatar, the main impacts of such a scenario would flow through two main channels: lower commodity prices and funding challenges for banks and projects. Although a generalised reduction in commodity prices would help to contain domestic inflation, downward pressure on oil prices is also a possibility, which would affect the resources available to the country.

So, although Qatar has fiscal resilience and considerable financial strength, its ease in funding the heavy infrastructure pipeline and its other needs could be impaired by adverse global developments.

Part 1 Outlook for 2012 and 2013

Robust expansion of Qatar's economy is expected to continue over the forecast period. *Qatar Economic Outlook 2012–2013* (*QEO*) forecasts volume GDP growth of 6.2% in 2012 and 4.5% in 2013. The profile of growth in both years will depend heavily on activity outside (upstream) oil and gas. Construction is set to rebound, boosted by an impressive infrastructure investment pipeline. Oil prices are likely to keep supporting fiscal and external payments strength in the two years, despite sizeable planned increases in recurrent and capital outlays by the government. Consumer price inflation may edge up over the period, but given that global commodity prices are seen remaining soft, inflationary pressures stemming from the international economy will probably be mild. Uncertainties in advanced economies, particularly in Europe, cast a shadow over the global outlook.

Qatar's outlook for 2012–2013

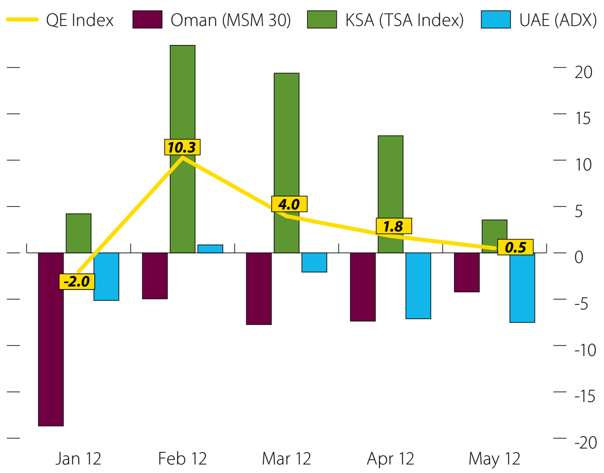
Economic developments in the period through to 1 June 2012 (the *QEO* data cut-off date) are summarised in box 1.1. Provisional GDP estimates for the first quarter of 2012 and first-half data for many other important variables will not become available till later in the year.

Through to end-May, the main developments in the economy were as follows: planned investments in the upstream oil and gas sector were completed with all major facilities now operating at full capacity; downstream expansion of production at the Pearl GTL (gas-to-liquids) facility and in petrochemicals was ongoing; consumer price inflation remained low and started to decelerate; credit and liquidity grew moderately; foreign exchange reserves once again started to expand, feeding base monetary growth; and, although the performance of Qatar Exchange was uninspiring, it fared better than some other regional bourses (figure 1.1).

The budget for FY2012/13, announced at end-May, sets a substantial increase in spending (28% over the FY2011/12 budgeted figure) and is planned on a conservative assumption of \$65 per barrel of oil (against \$55 for the previous two fiscal years' planning assumptions).

Qatar's resident population is once again on an upward trajectory, having broadly stabilised during 2009–2011.

Figure 1.1 Selected Gulf Cooperation Council stock price indices (year-on-year change, %)



Sources: Qatar Exchange (http://www.qe.com.qa/pps/qe/qe%20english%20 portal/Pages/Home/) and CEIC database, accessed 4 June 2012.

Click here for chart data

Box 1.1 Major economic developments in 2012

Liquidity and deposits. Growth of commercial banks' deposits continued on a downward trend in the early months of 2012, and total deposits dipped by 0.4% in April 2012 compared with a year earlier (box figure 1). The main culprit for the decline was corporate deposits, which retreated by 12.3%. Still, personal deposits stayed healthy, rising by 15.4%.

Credit. Credit growth continued to accelerate in the first months of 2012, expanding by 35.3% in the year through to April 2012. Credit to the personal sector climbed by 14.1% and that to the corporate sector jumped by 80.4% (box figure 2). Broad money supply (M2) increased by 12.1% year on year until end-March.

Budget. The government budget for FY2012/13 foresees a 28% increase in outlays compared with budget spending estimates for FY2011/12, though the increase is likely to be somewhat smaller set against realized expenditures. Programmed spending on major capital projects is to account for about 25% of total expenditure, rising by over 30% against actual outlays in FY2011/12. Sizeable increases in health and education expenditure are planned. The planning assumptions work on $65 per barrel of oil, up from $55.

Interest rates. Qatar Central Bank (QCB) has kept interest rates at the levels it set in its last reduction of August 2011. In a further move to boost the interbank market in Qatar, QCB and Bloomberg teamed up to launch the first Qatar Interbank Offered Rate (QIBOR), calculated by Bloomberg, based on rates quoted by nine panel banks. It became available on QCB's website on 6 May.

Consumer price inflation. Headline inflation and *QEO*'s measure of core inflation both decelerated over the first four months of the year. By end-April the annualised headline rate was 1.1% and the core measure had dipped to 3.7%.

Rentals. Rent, utilities and related housing services have continued to fall in the early months of 2012, slipping by 6.2% in April from the same month last year, according to consumer price index data from Qatar Statistics Authority (QSA). With additional units becoming available, the market is expected to remain oversupplied.

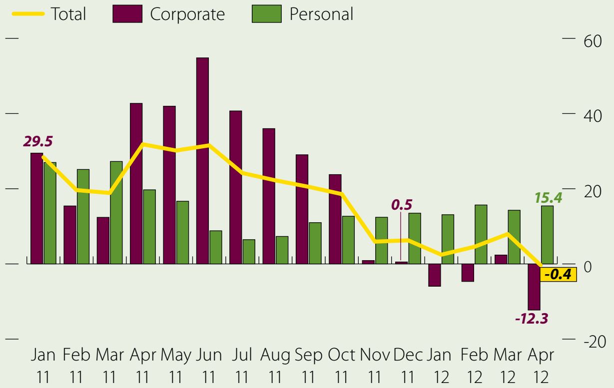
Foreign exchange reserves. Qatar's official foreign reserves were $23.1 billion at end-April 2012, down from a peak of $30.7 billion in December 2010 but 6.0% higher than the 12-month earlier level (box figure 3).

Treasury bill operations. In the 12 months through to end-April, the Ministry of Economy and Finance issued Treasury bills totalling QR26 billion, of which QR15.7 billion was outstanding. Treasury bills, the costs of which are borne by the ministry, are now the main instrument used for managing liquidity; QCB has suspended issuing certificates of deposit.

Qatar Exchange. In the period through to end-May 2012, growth of the QE Index decelerated, increasing by a mere 0.5% in May from the year before. The exchange also took steps to widen its appeal to smaller companies by moving to launch a junior bourse (box 1.2).

Population. According to Qatar Statistics Authority (QSA), the population at end-May stood at 1.8 million, up by 0.1 million from end-May 2011.

Box figure 1 Growth of private commercial bank deposits (year-on-year change, %)



Source: QCB *Quarterly Statistical Bulletin* and commercial banks' monthly statements, various data releases (http://www.qcb.gov.qa/ENGLISH/PUBLICATIONS/STATISTICS/Pages/MonthlyBulletin.aspx and http://www.qcb.gov.qa/english/publications/reportsandstatements/banksmonthlystatement/pages/bankmonthlystatement.aspx), accessed 24 May 2012.

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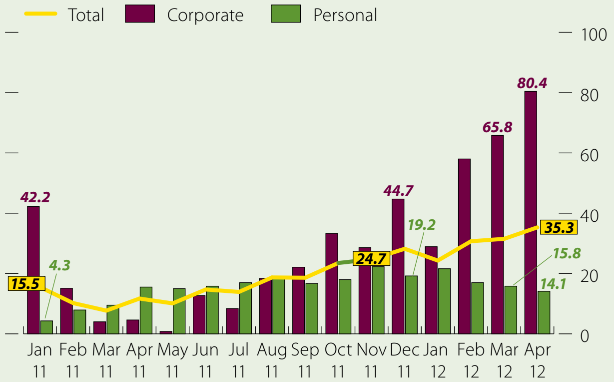
Box figure 2 Growth of credit (year-on-year change, %)



Source: QCB *Quarterly Statistical Bulletin* and commercial banks' monthly statements, various data releases (http://www.qcb.gov.qa/ENGLISH/PUBLICATIONS/STATISTICS/Pages/MonthlyBulletin.aspx and http://www.qcb.gov.qa/english/publications/reportsandstatements/banksmonthlystatement/pages/bankmonthlystatement.aspx), accessed 24 May 2012.

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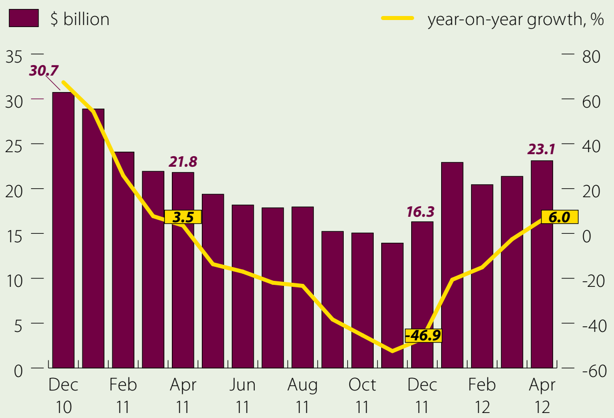
Box figure 3 QCB's net international reserves



Source: QCB *Quarterly Statistical Bulletin* and *Monthly Monetary Bulletin*, various data releases (http://www.qcb.gov.qa/English/Publications/Statistics/Pages/Statistics.aspx), accessed 6 June 2012.

Click here for chart data

Box 1.2 QE to introduce secondary market for smaller companies

QE is setting in place the required technical and regulatory infrastructure for a secondary market that will allow small and medium-sized enterprises (SMEs) from Qatar and countries in the Gulf Cooperation Council access to Doha's equity market.

The initiative is to be carried out with Qatar Development Bank, Silatech and Enterprise Qatar. It follows a decision of the Supreme Council of Economic Affairs and Investment in May 2011, and caters to supporting SME development, both to promote the private sector and to enhance Qatar's level of diversification—a key goal of Qatar's National Development Strategy 2011–2016.

QE held a workshop in late January 2012 where it provided banks, brokers, law firms, consultants, private equity firms and other advisors with details of the new platform. The new junior bourse—on which trading is expected to start by end-2012—will allow SME owners to list with lighter and more flexible regulations, and offer them wider financing options.

In January 2012, the Qatar Financial Markets Authority adopted new rules for listing on the secondary market, including those for launching a venture market segment.

Forecast methodology and assumptions

QEO's forecasts are derived from an internally consistent numerical representation of Qatar's economy. It has been calibrated on known 2011 outcomes and embodies standard economic accounting and consistency checks. The estimates depend on assumptions made about the paths of oil and gas prices; hydrocarbon production volumes (including downstream petrochemical volumes); the overall pace of activity in the global economy; the international value of the US dollar; the trajectory of domestic and US dollar interest rates; and budgeted government spending parameters. Major assumptions are in table 1.1.

Table 1.1 Forecast assumptions

	2012	2013
Qatar		
QCB's overnight deposit rate	0.75	0.75
Qatari riyal/$ exchange rate	3.64	3.64
Total budget spending	206.2	214.0
Current spending	142.1	145.0
Capital spending	64.1	76.7
External environment		
Global growth	3.5	4.1
US LIBOR, 1-year deposit	3.0	3.0
Crude oil export price, $ per barrel	111.3	106.7
Natural gas price, $ per million British thermal units	10.3	10.1

These assumptions represent the best assessment by the General Secretariat for Development Planning (GSDP) of the future and embody expert opinion drawn from a range of sources. In that realised outcomes will deviate from the assumptions made, *QEO*'s forecasts will be affected. However, there are too few data to permit "confidence intervals" to be constructed around the central forecasts.

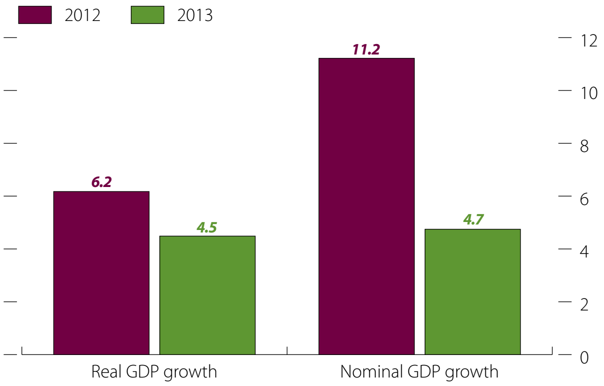
The impact of alternative assumptions for oil and gas prices on possible fiscal outcomes are in *Risks*, other forecasters' views are in *Consensus forecasts* and further details on the world economy are in *Global economic prospects*, all below. The annex provides more detail on sources and methods.

Table 1.2 Qatar: Outlook at a glance

	2012	2013
Real GDP growth (%)	6.2	4.5
Nominal GDP growth (%)	11.2	4.7
Consumer price inflation (%)	2.0	2.5
Fiscal surplus (% of nominal GDP)	7.8	4.8
Current account surplus (% of nominal GDP)	22.0	20.6

Source: GSDP estimates.

Figure 1.2 Outlook for real and nominal GDP growth, 2012 and 2013 (%)



Source: GSDP estimates.

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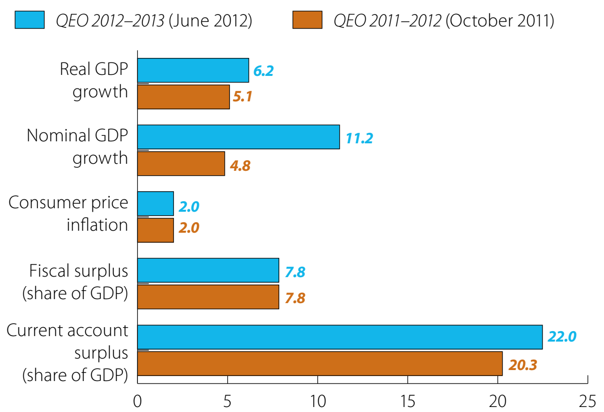
Figure 1.3 Revisions to Qatar's outlook for 2012 (%)



Source: GSDP estimates.

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Capsule summary

Table 1.2 provides a capsule summary of this *QEO*'s forecasts. Figure 1.2 presents the forecasts for real and nominal GDP for 2012 and 2013. Figure 1.3 shows the revisions to the forecasts made in *QEO 2011–2012* in October last year.

GDP growth

Volume GDP growth is expected to be 6.2% in 2012, moderating to 4.5% in 2013. Figure 1.4 shows the sector contributions to volume GDP growth and figure 1.5 shows the profile of output shares in the forecast period.

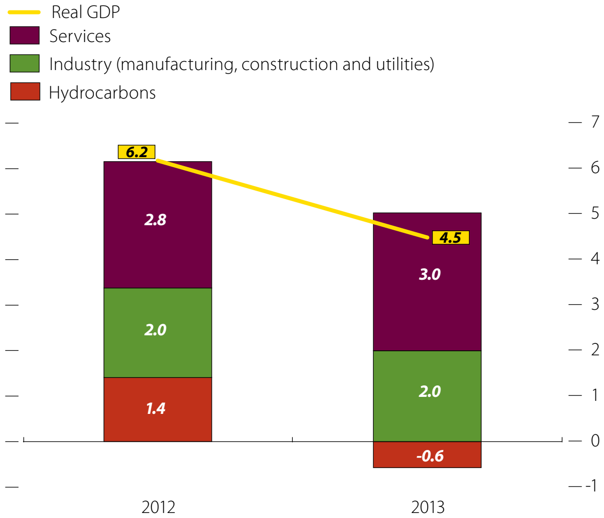
The estimate for 2012 represents an upward revision from the 5.1% forecast made in *QEO 2011–2012*. The explanation for the revision lies mainly in an overestimation of gas production (specifically condensates) in 2011. A delay in attaining higher gas output last year coupled with a marginal forecast increase in oil production estimates for this year adds 1.7 percentage points to estimated growth of hydrocarbon production because this year's levels are now compared with last year's lower base. The combined impact is to lift the estimated growth of aggregate GDP by 1.1 percentage points, which accounts for all the upward revision. The lower realised gas production in 2011 means that *QEO 2011–2012* overestimated GDP growth for that year by 0.9 percentage points. The overestimation of the "consensus" (the median of a poll of forecasts) was 2.9 percentage points.

In 2012, the non-hydrocarbon economy (defined as all activity other than upstream oil and gas production) is expected to grow by 9.2%.

Manufacturing—most of which is downstream hydrocarbon processing—is forecast to grow by 10.0% in 2012, somewhat below the recent trend. Increased production from the Pearl GTL facility will support growth in the sector, as will output added from "debottlenecking" of existing refineries. Ongoing expansion of petrochemical production will also add to manufacturing output. Qatar Fertiliser Company's QAFCO-6 project, set to start production by the third quarter of 2012, will increase urea production. Commissioning of Qatar Petrochemical Company's low-density polyethylene plant (LDPE3) is expected by the fourth quarter 2012. Further out, additional expansion of downstream processing will be limited by the feedstock availability, which follows upstream production.

Still in the non-hydrocarbon economy, construction especially is seen picking up in 2012. It will benefit as Qatar embarks on huge investments in new infrastructure—output growth in construction is

Figure 1.4 Contributions to real GDP growth (percentage points)



Source: GSDP estimates.

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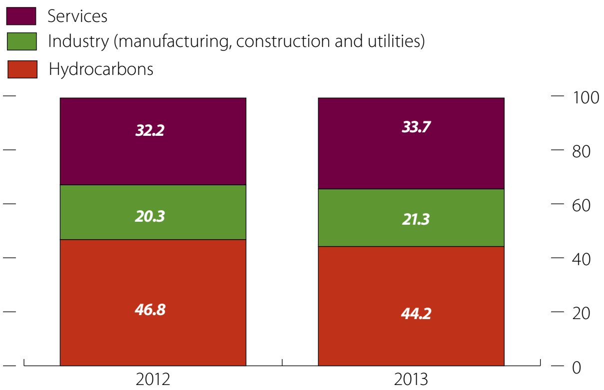
Figure 1.5 Share in real GDP (%)



Source: GSDP estimates.

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projected at 10.2% in 2012. Large investments are set for areas such as roads, rail, ports and water. Infrastructure investment may well average around 10% of GDP in 2012 and 2013, when direct cumulative disbursements could total about $39 billion. However, the direct and indirect impacts on local income of this activity are likely to be much smaller than the headline spending figures (box 1.3).

Other parts of the economy, including utilities and a range of service activities, will expand to support the needs of a rising population. Output from services is forecast to grow by 8.8% in 2012 and again by 9.4% in 2013. Latest QSA monthly estimates of the population show a pronounced upward trend, following two years when the population, other than for seasonal variations, remained more or less stable (figure 1.6). As project activity ramps up moving into the latter part of 2012 and beyond, stronger upward momentum in population growth is likely.

However, based on the occupational characteristics of those in construction (and its ancillary activities), perhaps as many as three out of four new arrivals will be comparatively low-skilled workers, as reported in the 2010 census. These (usually unmarried) workers place fewer demands on local services than professional and highly skilled workers, who are often accompanied by their families (see part 2, box 2.3). Outside construction, the start of operations at Qatar's new international airport—scheduled for late 2012—will create around 8,000 jobs, a figure climbing to perhaps as many

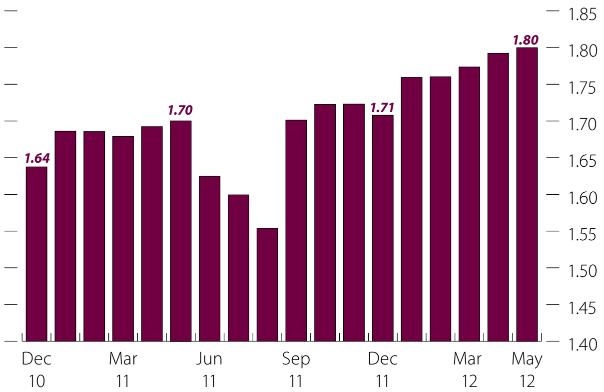
Box 1.3 Income impacts of investment spending

Total spending on new capital projects will be large in both absolute terms and relative to the size of the national economy, but the repercussions on domestic demand and income in other parts of the economy will be contained. Much of the additional spending will "leak" through imports of capital goods and materials and through the remittances of a large portion of the wage income created. Similarly, most of the profit income of the foreign companies working on new infrastructure projects will be remitted overseas.

GSDP estimates that for each QR1 billion of infrastructure spending, about QR200 million–300 million will stay in the domestic economy. The impact of this on domestic prices, output and income will depend on the ease with which supply can respond to local demand. Where supply is held in check, the impact on prices is likely to be more pronounced than on output and income; where it has some slack, the price impact will be contained and output and income will rise.

In the longer term, the economic benefit of new capital projects will depend on the influence that they exert on overall productivity and the opportunities that they create elsewhere in the economy.

Figure 1.6 Population (million)



Source: QSA Population Structure Archive (http://www.qsa.gov.qa/eng/PS-Archive.htm), accessed 5 June 2012.

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as 50,000 when all three phases of the airport are completed in 2016.

In 2013, the statistical boost given to 2012's GDP growth by the previous year's delay in additional hydrocarbon capacity coming on stream will have faded. Volume production in the oil and gas sector is expected to fall—explained by declining oil production as Qatar's oil fields age and by flat production of liquefied natural gas (LNG) and other gases—taking down overall oil and gas volume GDP by 1.2%.

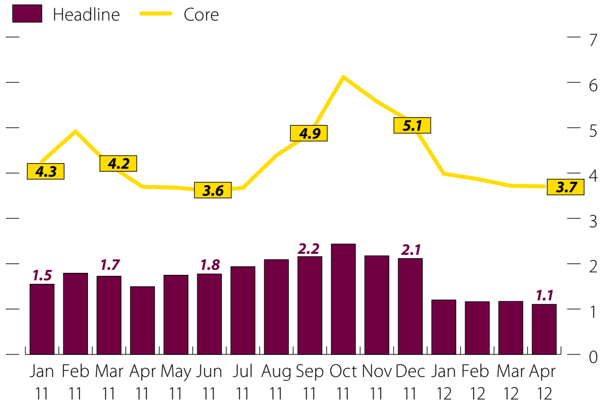
Further out, current investments in enhanced and incremental oil recovery are expected to yield gains in oil production, but this is unlikely to register in greater production until 2018. Reservoir and field-wide studies are under way at three oil fields (Bul Hanine, Dukhan and Maydan Mahzam). It is reported that the Bul Hanine study indicates significant additions to reserves. That field is in the pre-FEED (front-end engineering and design) development phase. The impact of the Barzan project on the production of lean gas (gas that contains few or no liquefiable liquid hydrocarbons) will not be felt until 2014–2015.

Unlike hydrocarbons, the non-oil and gas sector should maintain its momentum in 2013. Output growth is forecast to stay healthy at 9.5%, with construction posting 10.0% expansion. Growth in manufacturing, utilities and services is also likely to be robust. By end-2013, the Pearl GTL facility will probably be operating at close to full capacity, achieving full output in early 2014. Similarly, work to ease bottlenecks in older refineries (Ras Laffan Condensate 1 refinery and Oryx GTL plant) will also contribute to overall manufacturing growth.

Beyond the outlook period, Ras Laffan Condensate 2 refinery will begin construction in 2014, and is expected to be operating by 2016. And a mixed feed cracker petrochemical plant, with construction starting by 2013, will be commissioned by 2016. Feed for these projects is available and has been committed.

Nominal GDP growth, which with terms-of-trade changes, as in Qatar, can be a more accurate barometer of the resources available to the nation (see *QEO 2011–2012*, box 2.1) is poised to outpace volume GDP growth in 2012, rising by 11.2%. Upwardly revised oil price forecasts explain the *QEO's* uprated view on nominal GDP growth in 2012 (from 4.8% in *QEO 2011–2012*). The difference between nominal and volume growth comes mainly from forecast gains in the prices that Qatar receives for its hydrocarbon output. In 2013, however, these and other output prices are expected to be broadly flat, and so that difference will be minimal.

Figure 1.7 Monthly headline and core inflation (year on year, %)



Note: Core inflation is headline inflation less food, rent and utilities.
Source: GSDP estimates based on data from QSA Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 24 May 2012.

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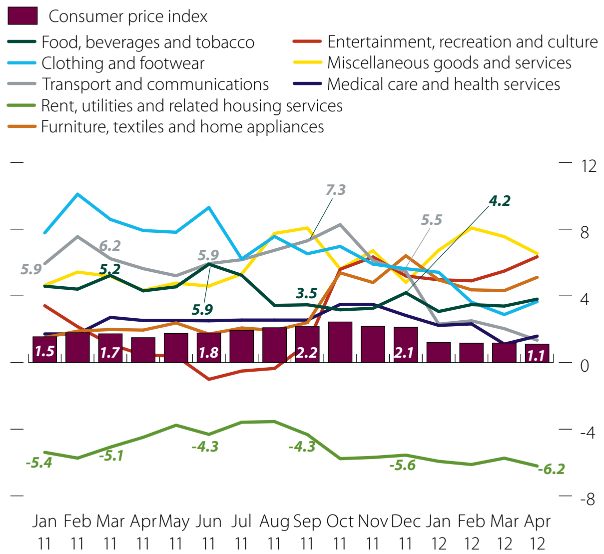
Figure 1.8 Monthly inflation (year on year, %)



Source: QSA Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 24 May 2012.

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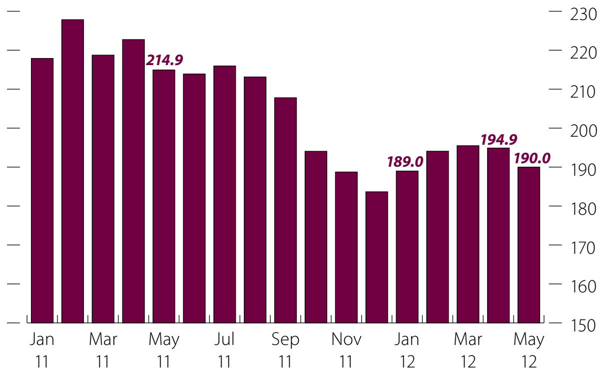
Figure 1.9 Monthly price index for non-fuel commodities (2005 = 100)



Note: Non-fuel index includes food and beverages, industrial and agricultural raw materials, and metals.
Source: World Bank Commodity Markets Prospects database (http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html), accessed 6 June 2012.

Click here for chart data

Prices

The outlook for consumer price inflation in 2012 and 2013 is comparatively benign. Headline inflation, after accelerating slightly in the latter part of 2011, slowed in the first quarter of 2012 (figure 1.7), reflecting a broad pattern of weakening inflation in most components of the consumption basket. GSDP's core inflation measure decelerated even more sharply than the headline rate, suggesting that underlying inflationary pressures are mild.

The outlook for rental price inflation, which has a 32% weight in the consumer price index, is weak, given the substantial supply overhang. In the early months of 2012, rents continued declining at an annualised rate of close to 6% (figure 1.8). Further additions to the stock of residential properties, scheduled to be released on the market in 2012 and 2013, will—despite an anticipated increase in demand by new arrivals—limit opportunities for rental price rises and could put further downward pressure on rents, particularly in lower market segments.

Inflationary pressures coming from abroad (through imports of consumption goods) are also expected to be weak. A hesitant and uncertain global recovery, which has seen growth in major commodity-consuming countries such as China and India slacken, has dampened prices of major commodities: although they began rising at the start of 2012, renewed weakening is suggested by data for April and May (figure 1.9). Soft commodity prices, alongside a stable outlook for the US dollar to which the Qatari riyal is pegged, suggest that Qatar is unlikely to import much inflation in the forecast period.

Despite this generally auspicious inflationary outlook, *QEO* expects a slight uptick in the headline consumer price index over the remainder of 2012 and into 2013. A growing population and strengthening consumer demand may register in price rises for some services with inelastic supply, such as school places. Credit growth is also accelerating, suggesting potential for inflation to pick up. In 2012, consumer price inflation is expected to average 2.0%—implying higher rates of inflation in the second half of 2012—climbing to about 2.5% in 2013.

Fiscal and balance-of-payments outlook

Qatar's overall fiscal position (revenue less recurrent and capital spending) will remain robust in the forecast period. The estimated fiscal surplus for FY2012/13 is 7.8% of nominal GDP, declining to 4.8% in FY2013/14. The expected narrowing stems both from slower growth of revenue—as no large additions will accrue from hydrocarbons—and faster growth of government spending. The latter reflects commitments on higher salaries and pensions for citizens working in the public sector and armed forces, and capital outlays on new infrastructure projects, as well as health and education.

The non-hydrocarbon fiscal balance (which subtracts direct contributions of hydrocarbon income to revenue from the overall balance) will remain in deficit. Tax revenue—most of which comes from companies—is the government's primary non-hydrocarbon income source. It is forecast to grow in line with the trend of the non-hydrocarbon sector, but to remain small relative to oil and gas income.

The current account surplus on the balance of payments will remain formidable throughout the forecast period. A surplus of 22.0% of nominal GDP is expected in 2012, declining to a still hefty 20.6% in 2013. Higher investment spending during the period will create considerable demand for imported capital and materials in circumstances where declining hydrocarbon production will weigh on export revenue growth.

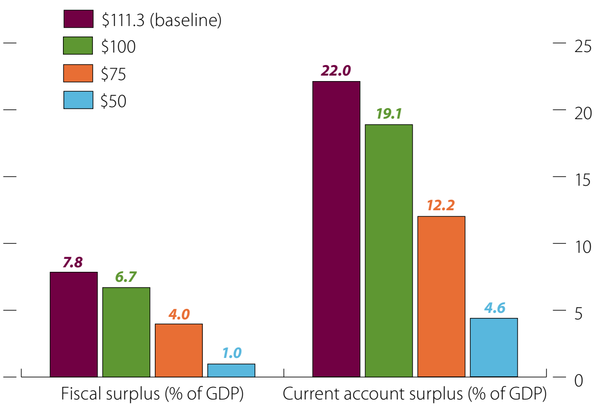
Risks

Risks to the outlook emanate mainly from the international economy (discussed in *Global economic prospects*). The outlook is one of fragile growth and delicate financial stability—and the eurozone's sovereign debt crisis appears to be deepening. Much could yet go wrong in the world and impacts would be felt in Qatar through adverse movements in oil prices or through financial channels—or both.

Estimated fiscal and current surpluses in *QEO*'s baseline rest on an assumption that oil prices will stay above $100 per barrel. The average oil price in 2012 through to end-May was still elevated at about $111. But with the global economy facing considerable uncertainty, another dip in growth worldwide could slash oil prices (as happened when the global economy lurched towards crisis in 2008–2009). In May, the average oil price declined to $104 per barrel, down 8.4% from April.

Various possible impacts on Qatar's fiscal and current account balances could play out. If oil prices (to which the price of Qatar's hydrocarbon basket is tightly linked) fell from current levels to $50 per barrel—$15 below the conservative budget planning assumptions—*QEO*'s estimates suggest that Qatar would still maintain fiscal and current account surpluses in 2012 (all other baseline assumptions, including planned budget expenditure, unchanged) (figure 1.10). But if oil prices stayed low in 2013, the fiscal balance would be in deficit, with the

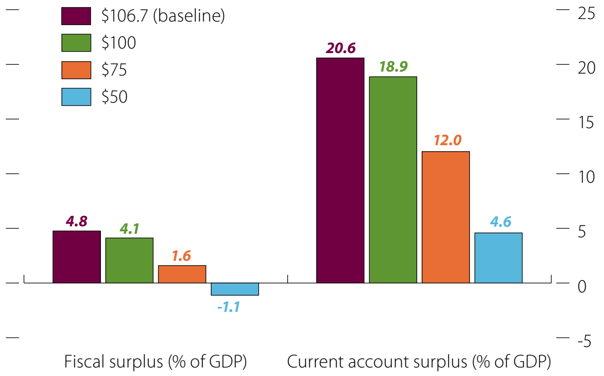
Figure 1.10 Fiscal and current account balances, 2012 (various oil price scenarios, per barrel)



Source: GSDP estimates.

Click here for chart data

Figure 1.11 Fiscal and current account balances, 2013 (various oil price scenarios, per barrel)



Source: GSDP estimates.

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current account surplus remaining unchanged as a share of GDP (figure 1.11). Less extreme assumptions, say oil at $75 per barrel over the two years, present better outturns.

Any interference with Qatar's ability to ship its cargoes caused by geopolitical tensions could likewise have adverse fiscal and balance-of-payments repercussions. Although Qatar has the financial bedrock to cope with such quantity or price shocks, they would still take a toll on the local earnings outlook and dim prospects for domestic real estate.

Global economic turbulence—linked to the eurozone crisis—as well as heightened risk aversion could equally hit Qatar's economy through worsening global liquidity and financing conditions. The International Monetary Fund (IMF) has drawn attention to the difficulties that this would create for some local commercial banks that depend on large wholesale funding of their operations. If liquidity were to dry up, QCB would have to provide support.

Worldwide financial upheaval would also probably undermine financing conditions for local projects, making it harder for domestic and international banks to take part in the opportunities created by Qatar's infrastructure investment plans. Projects might therefore be deferred, clouding the outlook for construction specifically and for growth in the non-oil and gas economy generally.

For the domestic economy, a major challenge is to execute and successfully deliver planned, new infrastructure assets. Qatar has an infrastructure project pipeline valued at close to $130 billion scheduled for roll-out in 2012–2019. Much of this spending is essential and will help Qatar to close gaps in critical areas such as roads and municipal wastewater. Some of it is tied to FIFA 2022 commitments. But there are challenges in planning and synchronising such a massive investment program in a way that will minimise stresses on government institutions, the local economy and everyday life.

Meeting these challenges will be crucial to ensure that the assets are delivered and that their costs do not escalate. With many projects scheduled to get under way later in 2012 and in 2013, these issues are now attracting urgent attention at the newly created Central Planning Office of the Ministry of Municipalities and Urban Planning.

Consensus forecasts

To provide a broader context for the outlook, GSDP has polled forecasts in an attempt to obtain as large a sample of views as possible. These forecasts are for real and nominal GDP growth as well as inflation in 2012 and 2013 (table 1.3). Very few sources regularly report data on other indicators of interest. Some of the sources cited are yet to revise the estimates that were reported in *QEO 2011–2012* (October 2011), and are shown in red.

To reduce the weight of outliers, the sample median values as well as sample averages (means) are shown. The broad consensus is that Qatar's real GDP growth in 2012 will slow from its double-digit trend, coming off further in 2013, and that consumer price inflation is set to pick up in 2012 and marginally in 2013. But around these generally accepted trends the dispersion of estimates (as measured by the coefficient of variation) is quite large. *QEO* forecasts somewhat slower growth in both 2012 and 2013 than does the "consensus", and anticipates that consumer price inflation will stay more or less flat.

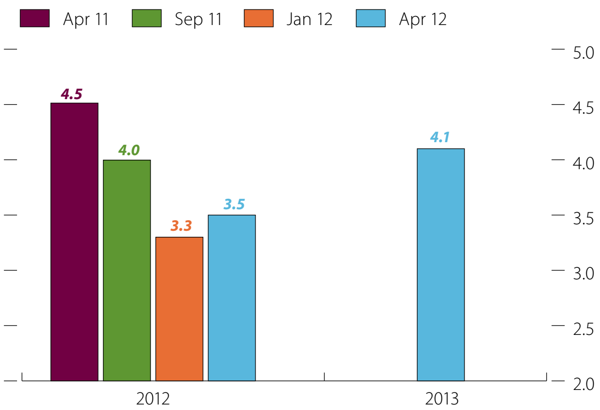
Table 1.3 Poll of economic forecasts for Qatar, 2012 and 2013 (%)

Economic forecaster	Real GDP growth		Nominal GDP growth		Inflation	
	2012	2013	2012	2013	2012	2013
Bank of America Merril Lynch (Jan 2012)	7.5	…	10.8	…	3.5	3.5
Business Monitor International (Apr 2012)	8.1	5.8	10.9	9.1	3.8	3.8
Citigroup (Aug 2011)	9.4	…	…	…	…	…
Deutsche Bank (Jun 2011)	6.0	…	…	…	…	…
Economist Intelligence Unit (Feb 2012)	7.6	6.2	5.1	6.6	3.6	3.6
EFG Hermes (Mar 2011)	5.7	…	…	…	2.0	2.0
Emirates NBD (Jan 2012)	7.1	..	6.2	…	3.5	…
Export Development Canada (Mar 2012)	7.6	…	…	…	3.6	3.6
Global Insight (Apr 2011)	7.9	…	…	…	6.2	6.2
IBQ-NBK Joint report (Feb 2012)	9.8	…	…	…	2.0	2.0
Institute of International Finance (Apr 2012)	8.3	5.2	7.0	0.6	1.9	1.9
IMF (Jan 2012)	6.0	4.6	4.0	4.0	4.0	4.0
KAMCO Research (Sep 2011)	7.1	…	7.1	…	4.1	4.1
Moody's (Apr 2012)	6.0	…	…	…	…	…
Oxford Economics (Feb 2012)	7.0	7.0	11.0	7.2	2.8	2.8
Qatar National Bank (Apr 2012)	6.7	6.7	4.0	7.2	2.4	2.4
Roubini Global Economics (Feb 2012)	8.0	6.0	…	…	…	…
SAMBA (Apr 2012)	6.0	4.6	7.4	10.0	3.0	3.0
Shuaa Capital (Jan 2012)	8.3	…	11.2	…	4.0	4.0
Standard Chartered (Apr 2012)	5.9	5.6	…	…	3.3	3.3
TAIB Securities (Mar 2012)	6.8	4.5	…	…	4.1	4.1
World Bank (Sep 2011)	9.2	…	…	…	…	…
Consensus (mean)	7.4	5.6	7.7	6.4	3.4	3.4
Median	7.3	5.7	7.1	7.2	3.5	3.6
High	9.8	7.0	11.2	10.0	6.2	6.2
Low	5.7	4.5	4.0	0.6	1.9	1.9
Standard deviation	1.2	0.9	2.8	3.2	1.0	1.1
Coefficient of variation (%)	16	16	37	50	31	32

... = not available.

Source: Consolidated from various reports and news articles.

Figure 1.12 Global real GDP growth projections (%)



Source: IMF, *WEO* April 2012 database (http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx), accessed 8 April 2012.

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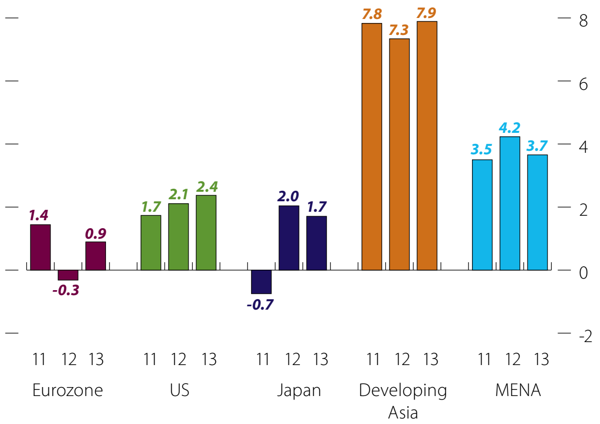
Figure 1.13 Regional real GDP growth projections (%)



Source: IMF, *WEO* April 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx), accessed 8 April 2012.

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Global economic prospects

In its *World Economic Outlook* (*WEO*) of April 2012, the IMF downgraded its forecast for 2012's global economic growth to 3.5% from its September 2011 prediction, which itself was much lower than the forecast made in April 2011 (figure 1.12). Still, the latest IMF forecast is a little more optimistic than the interim projection released in January 2012.

The main reason for the latest downward revision to growth is that events in the eurozone have turned out much less favourably than previously expected. Despite progress in several areas—reinforcing the "firewall", alleviating liquidity problems through measures by the European Central Bank, pursuing fiscal adjustments and structural reform measures in heavily indebted eurozone countries—the eurozone slowed through the last part of 2011 and into 2012.

Eurozone banks' deleveraging continues and risk spreads have widened. The challenge of supporting demand in the near term, while signalling credible longer-term adjustment, is yet to be successfully met. New policy and institutional mechanisms to guide economic governance within the eurozone are starting to take shape but are still to be agreed and applied.

Against this backdrop, the IMF is forecasting the bloc to shrink by 0.3% in 2012 (figure 1.13). Recent data releases on manufacturing output in core and peripheral countries seem to bear out these concerns. Unemployment in the eurozone stood at 11.0% as of April 2012. By 2013, however, the IMF expects growth to resume, at 0.9%. European countries outside the eurozone are expected to fare a little better, and should avoid contraction in 2012.

Within the global average, the IMF has for all major regions revised growth downward, other than for the US and Canada (North America) and Japan. Spurred by reconstruction efforts, Japan is expected to see its growth accelerate in 2012 as activity recovers from the dislocation caused by the devastating tsunami and earthquake of early 2011.

In the latter part of 2011, economic developments in North America surprised on the upside. The IMF (April's *WEO*) expects that momentum there could build through the remainder of 2012 and into 2013. However, the upward revision to the region's growth forecasts in the April 2012 *WEO* follows on the heels of a sharp downward revision in September 2011. But while economic conditions have improved since 2011, the US recovery is still tentative: job data for May suggest that gains in the labour market are running out of steam, and signals from surveys of regional manufacturing activity are mixed. The US housing market also remains very weak, and household debt remains high, although down from earlier peaks.

Finally, the possibility of sharp US fiscal tightening in 2013—at a time when easing may be needed to support growth—adds uncertainty to the outlook. The IMF expects US growth to be 2.1% in 2012, picking up marginally to 2.4% in 2013.

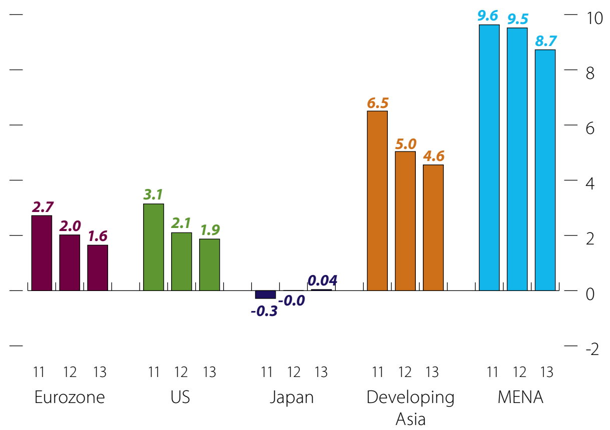
Downward revisions to growth forecasts for other regions are correlated with the intensity of their export ties to the eurozone. Both the IMF and the Asian Development Bank expect growth in "developing Asia" to moderate in 2012. Weak demand in Europe, Japan and the US has hit Asia's exports, exerting a drag along regional supply chains and narrowing current account surpluses in the region.

Although private consumption has taken up some of the slack, investment demand has greatly weakened in some countries, including China and the Republic of Korea. Recent data confirm slowing in China and India but both are still expected to achieve a soft landing this year, with growth picking up in 2013. Growth in developing Asia is forecast at 7.3% in 2012, nudging up to 7.9% in 2013.

Closer to home, the IMF's forecast for 2012 has also been revised down for the Middle East and North Africa (MENA) region. Still, growth is expected to be faster than the 3.5% achieved in 2011, reaching 4.2% (see figure 1.13). In part, the bounce in 2012 reflects a reversion to trend after a range of country-specific factors—including social unrest in some countries and a bad harvest in Iran—held growth in check in 2011. In 2013, growth in the MENA region is expected to slow to 3.7%, largely because prospects for oil-exporting countries are seen weakening with lower oil prices in 2013. The MENA region also faces the risks of fallout from further political instability, and would be adversely affected (through trade and remittance flows) if conditions in the eurozone deteriorated relative to the baseline forecast.

The *WEO* expects global inflation to decelerate to 4.0% in 2012 from 4.8% in 2011, reflecting lower commodity prices, significant output gaps in advanced economies, and slower growth in other major regions. In 2013, it foresees global inflation declining further to 3.7%. The comparatively high levels of inflation observed in the MENA region (figure 1.14) emanate primarily from Iran and Egypt.

Figure 1.14 Annual inflation projections (%)



Source: IMF, *WEO* April 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx), accessed 8 April 2012.

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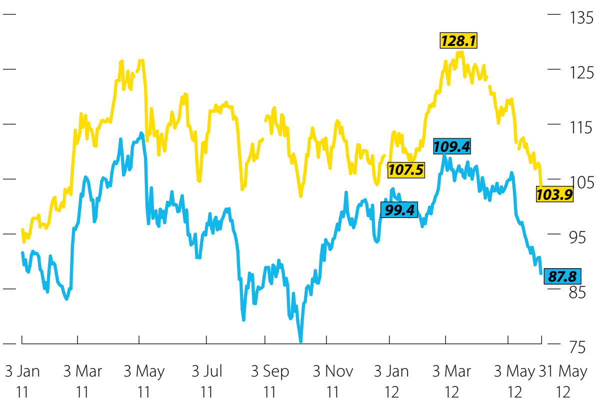
Figure 1.15 Average daily crude oil spot price ($ per barrel)



Source: US Energy Information Administration, Short-Term Energy Outlook database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 1 June 2012.

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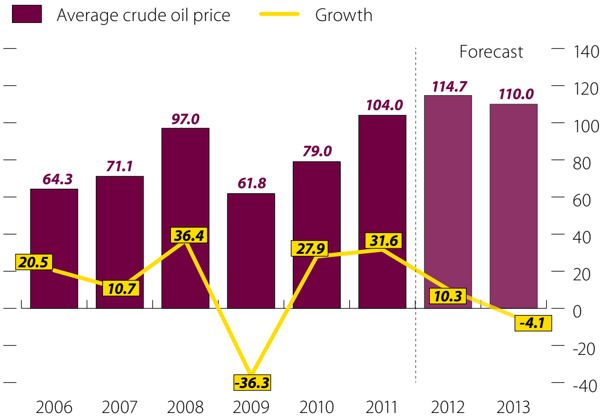
Figure 1.16 Average crude oil price ($ per barrel)



Note: Average crude oil price is the simple average of three spot prices: dated Brent, West Texas Intermediate and Dubai Fateh.
Source: IMF, *WEO* April 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx), accessed 19 April 2012.

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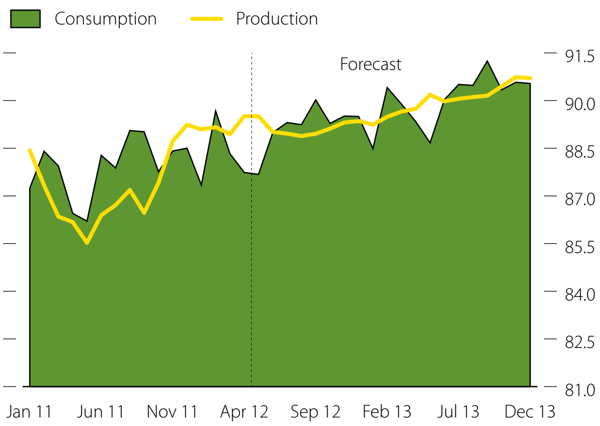
Figure 1.17 Crude oil and liquid fuels global demand and supply (million barrels per day)



Source: US Energy Information Administration, Short-Term Energy Outlook database (http://www.eia.doe.gov/steo/cf_query/index.cfm), accessed 27 May 2012.

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Prospects for energy and commodity markets

Oil prices

The rise of crude oil prices since mid-2010 continued into early 2012. Global oil demand is expected to grow by a modest 1.5% in 2012 with all the growth coming from outside the Organisation for Economic Co-operation and Development (OECD), as OECD consumption is poised to decline owing to a sharp contraction in eurozone demand. Given downward-tilting risks to the global economy, a surge in oil demand is unlikely.

On the supply side, geopolitical tensions in the Middle East are weighing on sentiment and raising concerns of a disruption to supply. This has created a risk premium that has kept oil prices at an elevated level. UK Brent crude reached $128 per barrel in the last week of March 2012, but has since come off that recent peak (figure 1.15) primarily sparked by concerns about prospects for future global growth.

The April 2012 *WEO* and futures markets, on which *WEO* forecasts draw, expect the oil price to ease through 2012 but to remain above the 2011 average (figure 1.16), at close to $114.70. (However, prices as of late May 2012 are already below these levels.) Prices are seen coming down in 2013 to average $110. While low interest rates, a strengthening US dollar, and a stable outlook for commercial crude oil and liquid fuel supply and demand balances should keep prices in check (figure 1.17), price volatility is likely to stay a feature of the market given lingering geopolitical uncertainties.

Gas prices

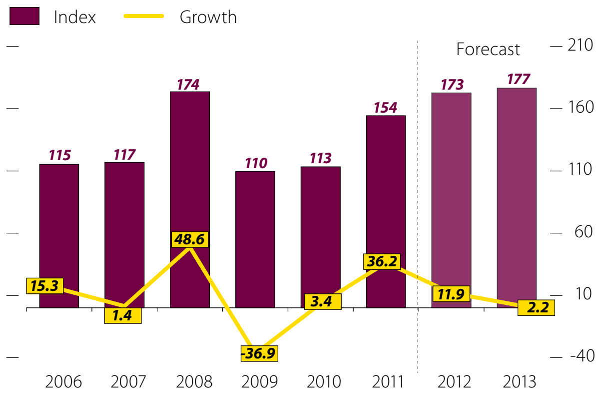
The global market for gas is geographically segmented, with different demand and supply factors driving prices in the US, Europe and Japan.

Spot gas prices in Asia are expected to climb in the forecast period, buttressed by growing demand, particularly from emerging markets such as China, India and by additional demand for LNG from Japan as it seeks to replace nuclear energy with gas-fired power generation. Some other countries, such as Pakistan, Bangladesh, Vietnam, Thailand and the Philippines, are adding to their LNG import capacity with new terminals.

Further out, new sources of supply, particularly from Australia and eventually from North America, could change price dynamics in Asian markets.

Prices of gas in the US are expected to remain weak in the face of expanding supply from "unconventional" sources. The US is soon expected to become a net

Figure 1.18 Natural gas price index (2005 = 100)



Note: Natural gas price index includes European, Japanese and US natural gas price indices.
Source: IMF, *WEO* April 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx), accessed 19 April 2012.

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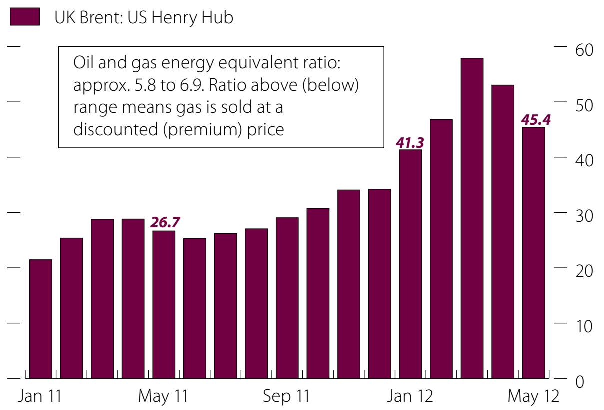
Figure 1.19 Spot price ratios: Crude oil to gas



Sources: 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 6 June 2012.

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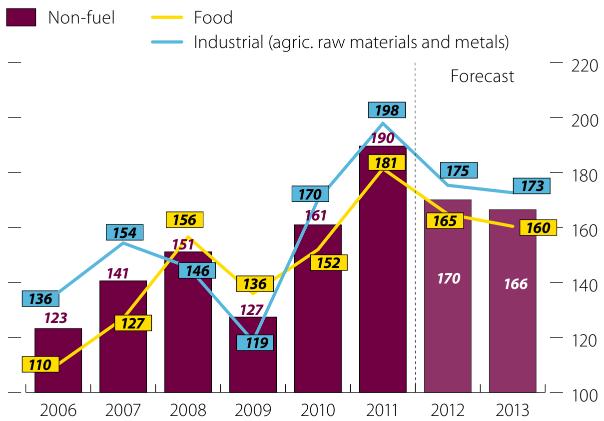
Figure 1.20 Non-fuel commodity price index (2005 = 100)



Source: IMF, *WEO* April 2012 database (http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx), accessed 19 April 2012.

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exporter of LNG. In Europe, the spot gas price declined in the latter part of May, reflecting heightened uncertainty in the European market.

The *WEO* expects average natural gas prices—a weighted average of European, Japanese and US prices—to increase by 11.9% in 2011 and 2.2% in 2012 (figure 1.18). Gas continues to sell at prices far below its energy equivalent parity with oil (figure 1.19)—in effect, at a discount to oil—and little change is expected in this relationship in the immediate future.

Non-energy commodity markets

The *WEO* of April 2012 expects non-fuel commodity prices to weaken in 2012 and again in 2013. It identifies slower than forecast growth, in both developing and industrial economies, as major factors in setting the brakes on future commodity price hikes. China and India account for a sizeable part of the incremental demand for raw materials and commodities in global markets, and their economies are slowing. Comfortable inventories and positive supply responses to elevated historical prices are also expected to contribute to this weakening (figure 1.20).

Commodity prices could fall further still if global growth turns out weaker than forecast or if fuel prices fall from their current, still elevated, levels, as fuel and energy are important cost elements in the production of many commodities. Indeed, in an apparent response to mounting anxieties about growth slipping in the US and to eurozone worries, commodity spot prices in New York trading on 1 June 2012 fell to their lowest since October 2011.

Annex: Baseline assumptions

Assumptions about the global economy draw on the IMF's *World Economic Outlook* of April 2012. Projections for oil prices in 2012 and 2013 come from that publication's database, adjusted to align with Qatar's oil export price (estimated to be 3% lower than the forecast price). Gas prices for three markets—Europe, Japan and the US—are taken from the World Bank's April 2012 commodity price forecasts and used to produce a trade-weighted average gas price, with Qatar's 2010 export volumes as the weights.

The most recent data from official national sources are used to construct Qatar's macroeconomic accounts. They include data on the national income accounts from QSA (released in April 2012) and on the balance of payments from QCB (released in May 2012), as well as preliminary budget estimates from the Ministry of Economy and Finance (MOEF) (released on 29 May 2012). Base-year accounts for 2010 and 2011 are aligned with actual data and then projected to 2012 and 2013.

Definitions of economic activity are further refined to follow QSA. Output is measured using the value-added approach as recommended by the United Nations System of National Accounts. Value-added ratios of economic sectors align with QSA's.

Data on the path of output volumes in the hydrocarbon economy come from Qatar Petroleum. They include upstream (crude oil, LNG, condensates and natural gas liquids) and downstream (refined petroleum products, GTLs, fertilisers and other petrochemicals) sectors. These data anchor export estimates.

The investment profiles for 2012 and 2013 are estimated using sources of information on project costs and assumptions about disbursement profiles. The estimates factor in project budgets of Ashghal, Barwa, the Civil Aviation Authority, Kahramaa, and the Qatar Olympics Committee. Adjustments are made for other projects in train or expected to start in the two years using data from the project database of the Middle East Economic Digest (MEED). The profiles include the capital spending plans of Qatar Petroleum and its subsidiaries.

Estimated fiscal outcomes reflect spending information from MOEF's preliminary budget estimates for FY2012/13; MOEF's estimates of non-oil and gas revenue; and GSDP's estimates of oil and gas revenue based on expected oil price outcomes (rather than the price used in budget planning assumptions).

Estimates of consumer price inflation are anchored on, among others, trends in global commodity prices, expected movements of nominal effective exchange rates, prospects for population growth, and conditions in the local housing rental market.

Part 2 Performance in 2011

Qatar's rapid economic ascent continued in 2011. Aggregate output grew at double digits, spurred by additions to hydrocarbon capacity. But economic performance outside oil and gas was more mixed—construction activity remained subdued while utilities and services recorded strong growth. Headline consumer price inflation was tame in 2011, though a measure of core inflation signalled emerging pressures, which have since abated. Qatar's current account surplus widened, as did its fiscal surplus, the latter despite a sizeable increase in recurrent outlays on the wages and salaries of citizens in the public sector and armed forces towards the end of the year. Reflecting broader global and regional patterns, Qatar's bourse made little headway, yielding only a marginal gain.

Figure 2.1 GDP growth, nominal and real (%)

Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

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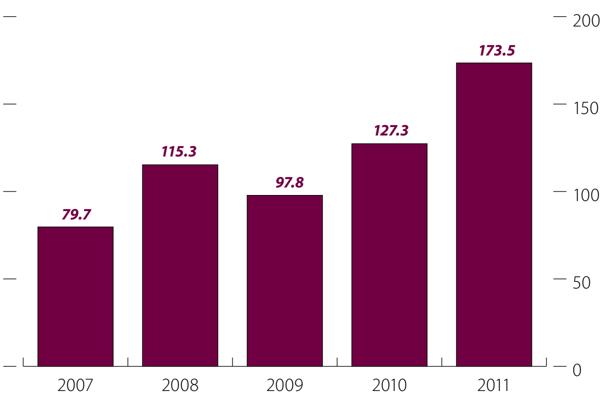
Figure 2.2 Nominal GDP ($ billion)



Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

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Aggregate GDP growth

Provisional estimates of real GDP from Qatar Statistics Authority (QSA) indicate that in 2011 Qatar's economy expanded by 14.1% in volume terms (figure 2.1). Measured in nominal or value terms, GDP expanded by 36.3%. The divergence between the volume and nominal expansion is explained by the rise in the price of Qatar's aggregate output basket. In particular, gains in hydrocarbon output prices primed expansion of nominal income and of resources available to the country. By the close of 2011, the size of Qatar's economy stood at $173.5 billion (in current prices) (figure 2.2).

In 2011, the share of hydrocarbon output in real and nominal GDP rose, confirming the reversal of a recent declining trend (figure 2.3).

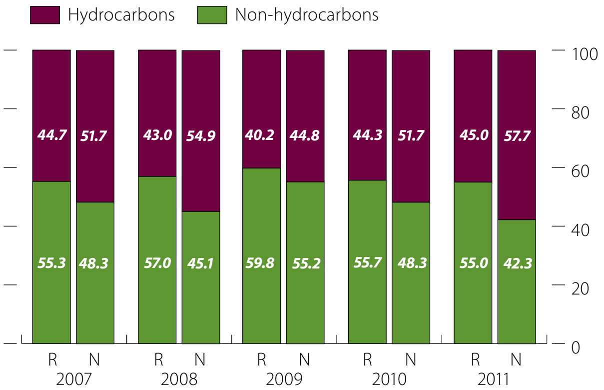
The volume expansion was a direct result of additions to capacity for liquefied natural gas (LNG) exports (Qatargas trains 6 and 7). Oil production was marginally lower in

Box 2.1 National income growth accounting

In accounting terms, overall growth of GDP (volume or value) can be apportioned among economic sectors using a simple accounting identity. This identity measures each sector's contribution to overall growth as the product of its share in GDP, lagged by one period (typically a year), and the rate of growth of its own output.

The sum of such contributions is necessarily identical to overall or aggregate GDP growth. It follows that the larger a sector's share in overall GDP, the larger its contribution to overall GDP growth in accounting terms, other things equal.

Figure 2.3 Hydrocarbons and non-hydrocarbons, share of real and nominal GDP (%)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. R = real; N = nominal.
Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).
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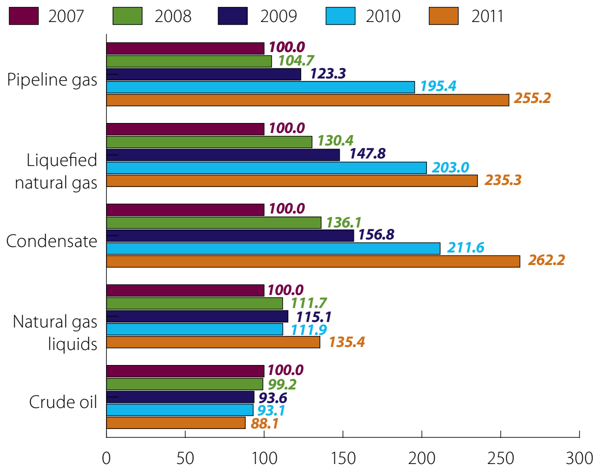
Figure 2.4 Hydrocarbon production volumes (indices, 2007 = 100)



Source: GSDP estimates based on data from QSA.
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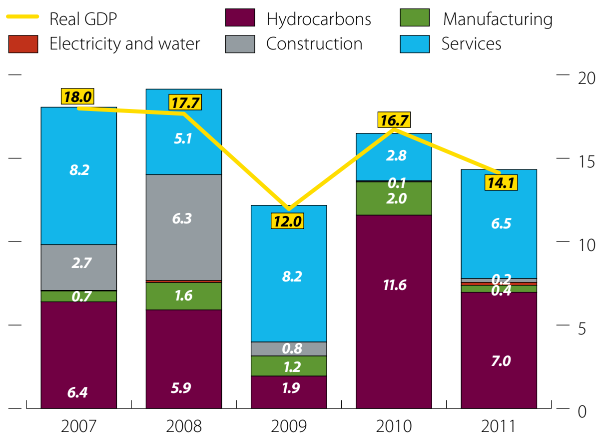
Figure 2.5 Contributions to real GDP growth (percentage points)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Services include transport and communications, trade and hospitality, financial, government, household and social services.
Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).
Click here for chart data

2011 and condensates grew alongside gas (figure 2.4). In nominal terms, strong advances in hydrocarbon producer prices in 2011 (below), lifted the share of hydrocarbons (see figure 2.3).

In accounting terms (box 2.1 above), the hydrocarbon sector (which excludes downstream processing activities) was responsible for much of 2011's aggregate economic growth, contributing half of the volume expansion (figure 2.5). Vigorous services activity accounted for much of the remaining growth.

In 2011, manufacturing output grew by 4.5%. In June, the Pearl gas-to-liquids (GTL) plant shipped its first cargoes (box 2.2). As manufacturing's share in aggregate output remains modest (9.3% in volume terms), the sector accounted for just 0.4 percentage points of overall growth of 14.1% (that is, 4.5% x 0.093).

Box 2.2 Pearl GTL

The Pearl GTL plant, which cost $18 billion–19 billion to build and employed 52,000 workers at the peak of construction, is the world's largest GTL plant.

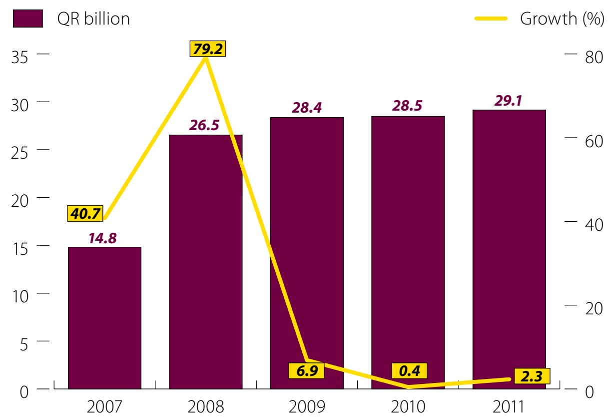
Pearl is set to process 1.6 billion cubic feet of gas from the North Field. This will deliver around 140,000 barrels of high-quality GTL products a day, as well as 120,000 barrels of oil equivalent a day of natural gas liquids and ethane.

Caught in the downdraft caused by the global financial crisis of 2008–2009, Qatar's construction output experienced a sharp slowdown (figure 2.6). In volume terms, activity has barely advanced; in nominal terms, it remains below the peak of 2008. Anaemic demand has acted as a drag on residential and commercial property development, slowing the completion of some projects. Infrastructure, however, has seen modest growth in capital spending. From an economy-wide perspective, construction contributed a little less than 0.2 percentage points to aggregate growth in 2011.

Services activity expanded sharply in 2011. Growth accelerated to 17.5%, from less than 10% in 2010 (figure 2.7), contributing 6.5 percentage points to overall growth. Services cover a broad spectrum of activities ranging from communications and transport, media services, air transport, health and education, and financial services, through to low value-added and labour-intensive domestic services.

Within services, the utilities sub-sector (electricity and water) grew by 23.9% and the transport and telecommunications sub-sector by 16.5%. Some of the growth in these sub-sectors is likely to have been stimulated by linkages to higher hydrocarbon

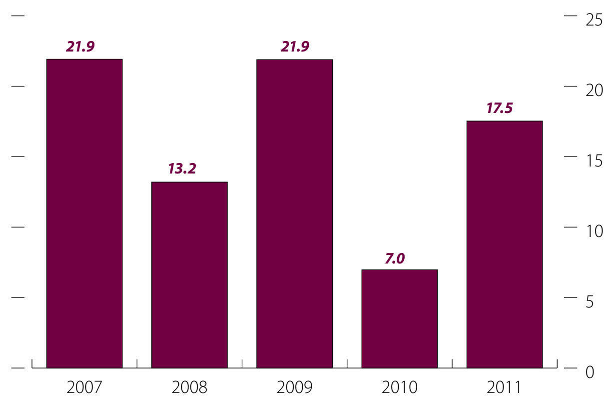
Figure 2.6 Construction output and growth



Note: Output is measured in constant prices.
Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

Click here for chart data

Figure 2.7 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 release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

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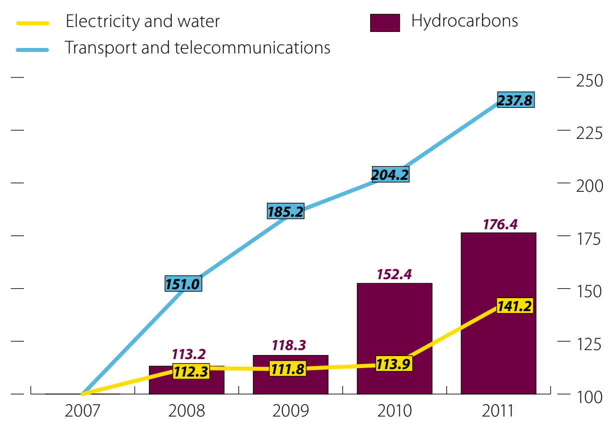
Figure 2.8 Sectoral output indices (2007 = 100)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Output is measured in constant prices.
Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

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production. Such production makes heavy demands on power and water, and shipments of LNG and other cargoes add to transport margins (figure 2.8). Dynamic expansion by Qatar Airways, the national air carrier, also boosted growth of transport and telecommunications in 2011, although domestic tourism was more subdued.

The trade and hospitality component of the wider services sector index expanded by 6.0% last year. The number of foreign visitors from the Gulf region increased by 50% from 2010, making 2011 one of Qatar's strongest years for tourism, according to the Qatar Tourism Authority. Visitors on business travel accounted for about 72% of the total, pushing hotel occupancy rates to an average of 48% for the year according to QSA data.

In nominal terms, hydrocarbons made an even larger impression on growth in 2011, accounting for over 70% of the total (figure 2.9). Higher prices for oil and gas output amplified the volume contribution.

Prices

Consumer prices

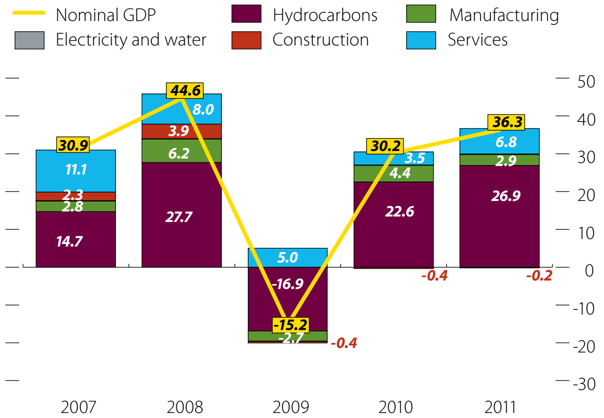
Measured by the average annualised percentage difference in QSA's consumer price index, headline inflation accelerated to 1.9% in 2011. Though modest, this rise marked a departure from both 2009 and 2010 when consumer prices fell (figure 2.10).

A narrower measure—core inflation—averaged 4.6% in 2011, suggesting that the headline rate may have masked emerging inflationary pressure. (This measure excludes the price of food and utilities and residential rent, as they are the most volatile components of the consumer price basket.)

During 2011, sharp increases occurred in the prices of transport and communications services (6.4%), food, beverages and tobacco (4.4%) and clothing and footwear (7.7%).

In September 2011, Qatari citizens working in the public sector and armed forces received sizeable increases in the wage component of their overall compensation packages. Wages were increased by 60% for civil servants, and by 120% for officers and 50% for military personnel of other ranks in the armed forces, at an estimated recurrent cost of QR10 billion a year. Pension entitlements, which will be disbursed only when eligible workers retire, were raised by the same amounts and are expected to involve a one-off cost of about QR20 billion in 2011 prices.

Figure 2.9 Contributions to nominal GDP growth (percentage points)



Note: Hydrocarbons include crude oil and gas extraction under mining and quarrying. Services include transport and communications, trade and hospitality, financial, government, household and social services.
Source: GSDP estimates based on QSA release dated 12 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

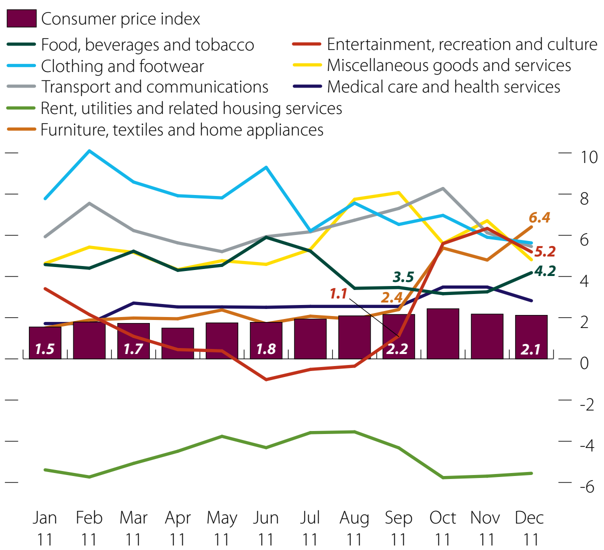
Click here for chart data

Figure 2.10 Annual headline and core inflation (%)

Note: Core inflation is headline inflation less food, rent and utilities.
Source: GSDP estimates based on data from QSA Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 19 March 2012.

Click here for chart data

Figure 2.11 Monthly inflation (year on year, %)



Source: QSA Qatar Information Exchange database (http://www.qix.gov.qa/), accessed 19 March 2012.

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These adjustments could add 4.7% of nominal GDP to government budget outlays annually. Many non-government entities raised wages for citizens in line with the government award. Although any impacts on prices of additional government spending and higher take-home pay will take time to register (box 2.3), the overall path of consumer price inflation over the last quarter of 2011 showed no noticeable divergence from the trend in the earlier part of 2011. Some components such as food accelerated, but others such as clothing slowed, and rentals continued to fall (figure 2.11).

Box 2.3 Inflationary impact of public wage increases

In theory, a temporary acceleration in consumer price inflation should follow from additional government outlays on public servants' wages. This impact may yet be seen during 2012, but is still difficult to detect in monthly inflation data for the first four months of the year. Several factors may be disguising or dampening the impact of the additional fiscal outlays on wages.

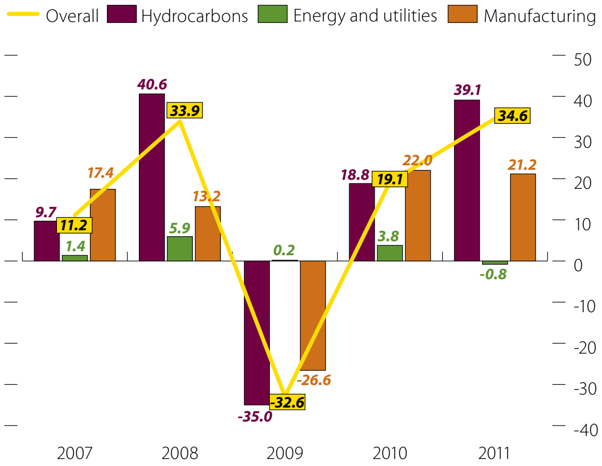
One possibility is that not all of the additional income received by public servants will be added to local demand. Some will be saved and some portion spent on imported goods or outside the local economy. And when wage increases are used to pay off debts, they will also "leak" from demand.

In the wake of the wage rise and mindful of the risk that higher wages could encourage abuse of market power by domestic traders, the Ministry of Business and Trade tightened regulation of prices in the latter part of 2011. Such vigilance may have blunted or slowed the transmission to prices of the wage increases. Tighter controls on salary-based credit introduced in 2011 may also have contained demand impacts.

Producer prices

QSA released a producer price index for the first time in 2010. These producer prices reflect what domestic producers receive for their output (net of taxes plus subsidies). In 2011, aggregate producer prices rose strongly, by 34.6%. Much of this increase was attributable to rising output prices in the oil and gas sector (which carries a weight of 77% in the index basket). Manufacturing output prices, which are dominated by refined petroleum products, petrochemicals and metals, also rose appreciably (figure 2.12).

Figure 2.12 Producer price index growth (%)



Source: GSDP estimates based on QSA release dated 1 April 2012 (http://www.qsa.gov.qa/eng/index.htm).

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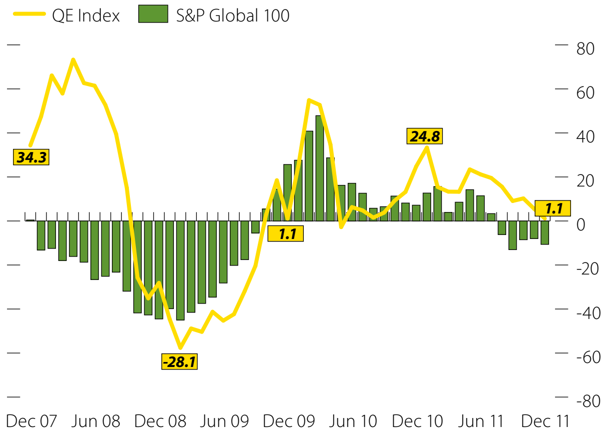
Figure 2.13 QE Index and S&P Global 100 (year-on-year change, %)



Sources: Qatar Exchange (http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/) and CEIC database, accessed 21 March 2012.

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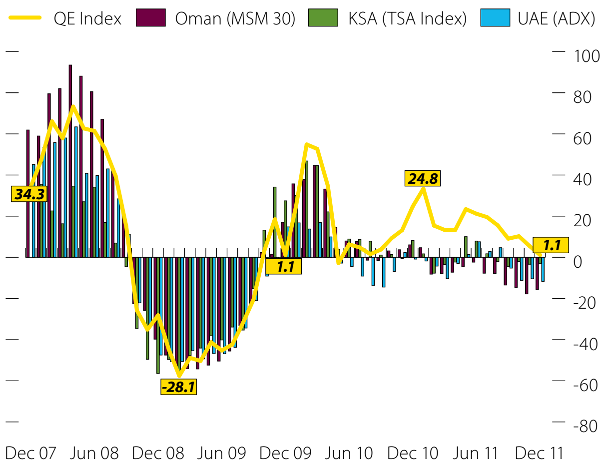
Figure 2.14 Selected Gulf Cooperation Council stock price indices (year-on-year change, %)



Sources: Qatar Exchange (http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Home/) and CEIC database, accessed 21 March 2012.

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Asset markets: Equities and property

Qatar Exchange. Qatar Exchange (QE) is the domestic trading platform for equities. The QE Index, a benchmark index of 20 stocks, ended 2011 at 97.38 points, an increase of just 1.1% for the year. Gains through to May were followed by declines (figure 2.13). The QE Index tracked the S&P Global 100 reasonably closely in 2011 and, though it also mirrored wider regional trends (figure 2.14), it performed slightly better that its regional peers.

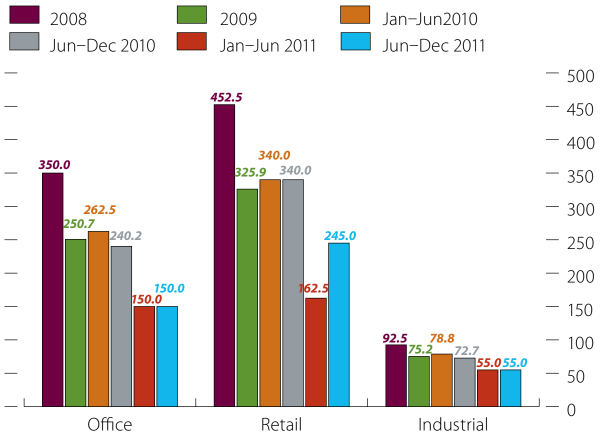
In 2011, trading on the QE platform rose in value by 22.8%. Services led trading value with a 41.8% jump, followed by banking and finance at 39.9% and industry at 16.5%. Services were also ahead on the number of traded transactions in 2011, recording 55.9% of the total. Banking and finance accounted for 33.6% followed by industry with 9.5%. Unchanged from the previous year, 43 companies were listed on QE at year-end, when total market capitalisation of the index hit QR457.4 billion, up 1.6% from December 2010.

QE intends to expand and widen trading opportunities in the local bourse. It is seeking to upgrade its status to that of an emerging market from its current pioneer status. Such a reclassification by MSCI, a leading provider of investment indices, would allow it to attract international institutional investors, opening new avenues of funding to domestic entities. MSCI's next scheduled review is in June 2012.

In May 2011, QE, announced that it would establish a secondary market for small and medium-sized businesses, in order to provide access to funding and offer investors more choice. Trading on this junior market will probably begin by end-2012. Late in 2011, QE announced its readiness to start trading debt instruments, and government-issued, short-term Treasury bills were listed on 29 December. This move helps to pave the way for the eventual development of a corporate debt market.

Real estate. Data for 2011 suggest that excess supply continued across major market segments. Rents for office, retail and industrial space all fell from end-2010, but with evidence of a rebound in retail rentals in the second half the year (figure 2.15). For the full year, the rental component of the consumer price index, which captures rental costs in the residential market, declined by 4.9%. Despite some moderate growth in population during 2011 (box 2.4), an overhang of residential units remained. In response, developers slowed some real estate projects, deferring release of property on to the market.

Figure 2.15 Real estate rental rates (QR per square metre per month), Doha



Note: Rental rates are average of minimum and maximum. The index captures new market transactions, making no allowance for the quality and location of the underlying real estate assets, nor incorporating the price of the underlying stock.

Source: Business Monitor International *Qatar Real Estate Report*, various issues.

Click here for chart data

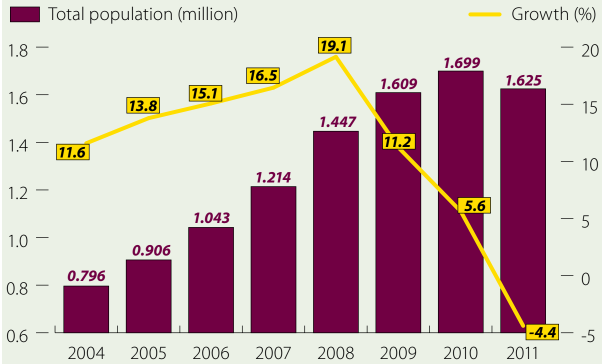
Box 2.4 Population trends in Qatar

At end-year 2011, Qatar's population was 1.708 million, an increase from 1.637 million 12 months earlier. The mid-year figure, however, showed a slight decline from the previous year (box figure 1). It is likely, however, that the mid-year estimate for June 2012 will show renewed population growth (part 1).

Movement in the size of the non-Qatari population largely drives the overall trend. Census records for 2004 and 2010 show changes in the structure of non-Qatari employment, in a period when employment of foreign workers expanded at a compound annual 20.7%.

In 2010, workers in construction accounted for 42.2% of non-Qatari workers, up from 30.2% in 2004. Construction's dominance generated notable shifts in the non-Qatari occupational structure: the share of workers in crafts and related trades increased by around 13 percentage points, while those of all other categories shrank (box figure 2). As most employment in construction is tied to specific projects, with workers' residency expiring on the project's completion, these changes in the composition of employment suggest a larger transient component in the non-Qatari population.

Box figure 1 Total population



Note: Mid-year (June) estimates. For 2010, census population data are used. The data show the number of persons (Qataris and non-Qataris) within the boundaries of the State of Qatar.

Sources: QSA Population Structure Archive (http://www.qsa.gov.qa/eng/PS-Archive.htm) and Qatar Information Exchange database (http://www.qix.gov.qa/portal/page/portal/qix/subject_area/Statistics?subject_area=177).

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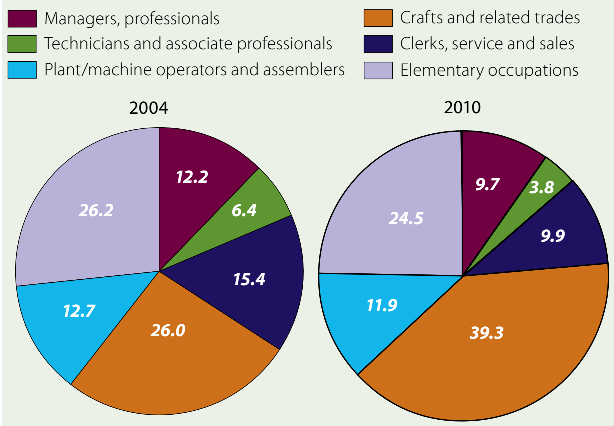
Box figure 2 Occupational structure, non-Qataris



Source: Qatar Statistics Census 2004 and 2010 (http://www.qsa.gov.qa/eng/index.htm).

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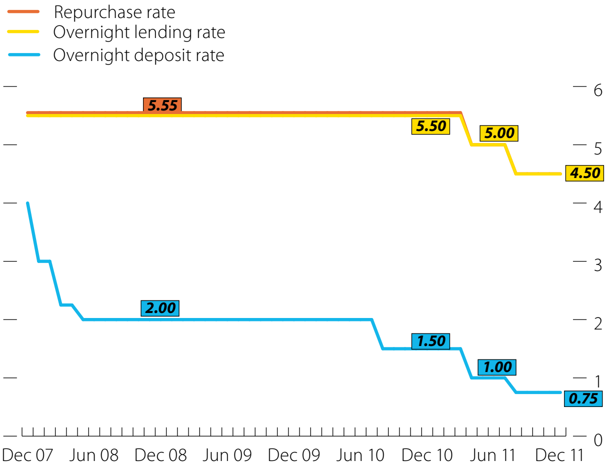
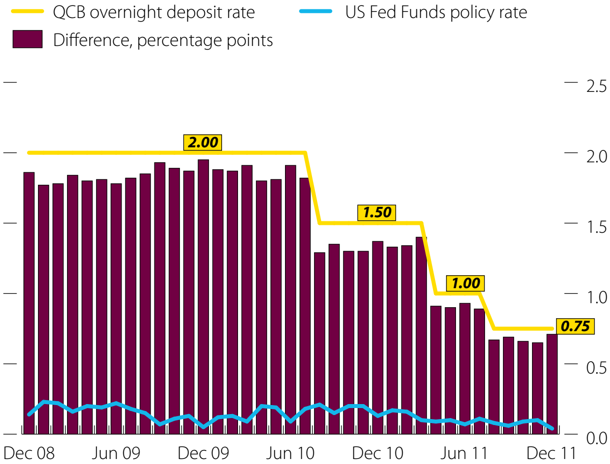
Figure 2.16 Policy rates (% per year)



Source: QCB *Quarterly Statistical Bulletin* March 2012.

Click here for chart data

Figure 2.17 QCB overnight deposit rate and US Fed Funds policy rate (% per year)



Sources: QCB *Quarterly Statistical Bulletin* March 2012, US Federal Reserve database (http://www.federalreserve.gov/datadownload/) and CEIC database, accessed 21 March 2012.

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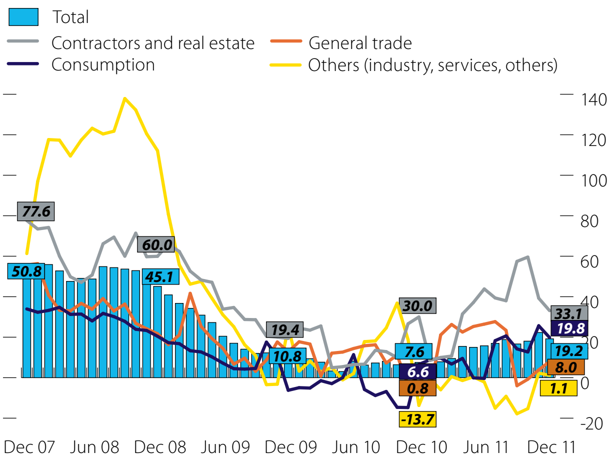
Figure 2.18 Growth of commercial banks' private sector credit (year on year, %)



Sources: QCB *Quarterly Statistical Bulletin* March 2012 and CEIC database, accessed 21 March 2012.

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Interest rates, money supply and credit

In April 2011, Qatar Central Bank (QCB) cut its overnight policy-lending rate by 50 basis points to 5.0% (figure 2.16). It also put limits on the deposits that commercial banks could place with it, encouraging them to look for other revenue-creating uses of their funds. At the same time it cut its overnight deposit rate by 50 basis points and its repurchase rate by 55 basis points.

In a second round of cuts in August 2011, the central bank again reduced its key rates. In closing the gap between US dollar and Qatari riyal interest rates (figure 2.17), the "carry trade" (interest rate arbitrage) in riyals became less attractive. Lower deposit rates also encouraged commercial banks to look for profitable market outlets for their excess funds rather than depositing them with QCB.

After anaemic growth in 2010, credit to the private sector expanded by 19.2% in 2011, year on year (figure 2.18). The acceleration was broad based. Credit to contractors and the real estate sector climbed rapidly by 33.1%. Consumer lending, which had dipped in 2010, rebounded, growing by 19.8%. Credit to industry continued to contract for most of the year, although it managed marginal growth of 1.1% by year-end.

Credit to the public sector (which includes government, government institutions and semi-government bodies) shot up in 2011, by 44.7% year on year (figure 2.19). Much of this investment was linked to hydrocarbon projects that moved towards completion as 2011 came to a close.

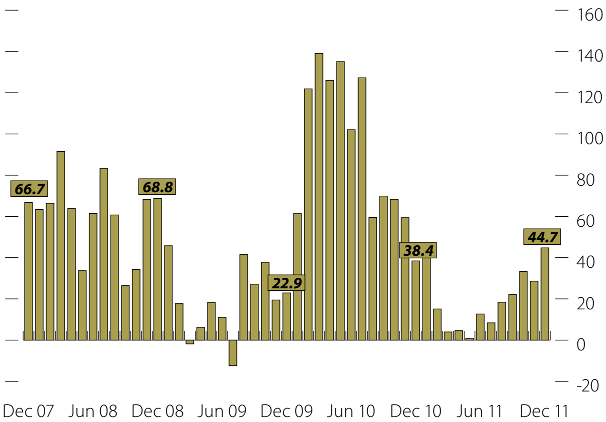
In December 2011, Qatar Petroleum and its partners completed financing arrangements for the $10.4 billion Barzan project, which will supply gas to the domestic market with an expected start-up in 2014. The funding arrangements include a $3.34 billion commercial banking facility with domestic bank participation. All local Islamic banks took part in an $850 million Islamic tranche for these arrangements, the largest such facility in Qatar Petroleum's financing history.

In other financial developments, Qatar's Credit Bureau started providing analytical data and supporting banks' use of advanced techniques in risk management, as outlined in the Basel II accord (box 2.5).

Fiscal accounts

Qatar's fiscal year (FY) 2011/12 has been extended to June 2012. The fiscal year, which normally closes on 31 March, was lengthened to allow full deployment of newly introduced accounting systems and budget preparation procedures at the Ministry of Economy and Finance (MOEF).

Figure 2.19 Growth of commercial banks' public sector credit (year on year, %)



Note: Public sector includes government, government institutions (companies fully owned by government) and semi-government bodies (companies with 50% government ownership).

Sources: QCB *Quarterly Statistical Bulletin* March 2012 and CEIC database, accessed 21 March 2012

Click here for chart data

Box 2.5 Summary of monetary, financial and institutional developments, 2011

January. Qatar Investment Authority (QIA) procured an additional 10% stake in Qatari domestic banks, through the issue of new shares by these banks. The move follows the government's announcement in 2008 that it would take a 20% stake in domestic banks. The QIA had acquired a 5% stake in January 2009 for QR2.6 billion ($714 million), and 5% in January 2010 for QR2.7 billion.

The government issued QR50 billion ($13.7 billion) of bonds to domestic commercial banks. Around two thirds went to Islamic banks, the rest to conventional banks. The *Global Sukuk Review* announced that the QR33 billion ($9 billion) Qatar Sovereign Sukuk sold in the domestic market was one of the largest sukuks of 2011.

February. QCB presented instructions to conventional banks to wind up their Islamic banking operations by end-2011. The intention was to ensure better regulation and risk management in Islamic and conventional segments of the market. The move was primarily motivated by supervisory and monetary policy considerations.

March. Qatar Credit Bureau started operations in March, and from the second half began to produce credit scores and reports on retail bank customers to domestic banks.

April. QCB cut its overnight policy-lending rate by 50 basis points to 5.0%. It also cut the repurchase rate by 55 points to 5.0% and the overnight deposit rate by 50 points to 1.0%.

QE announced that it had finished introducing the full delivery versus payment cash settlement mechanism, which simplifies securities trading on the exchange.

May. In an effort to reduce household debt and moderate banks' balance sheet risks, QCB brought in new restrictions and imposed quantitative and price ceilings on individual borrowers' loan threshold.

June. Local Qatari banks' cross-border exposures (loans and investments) to the European banking sector was around $3.3 billion at end-June, equivalent to 2% of 2011 GDP or of banking system assets.[1]

July. From March through to June, Enterprise Qatar, Carnegie Mellon University and a Qatar-based consortium of higher education institutions ran workshops, seminars and advisory sessions on the Al Fikra—the National Business Plan Competition. This has a financial education segment as part of its wider program for identifying and nurturing entrepreneurial talent in Qatar.

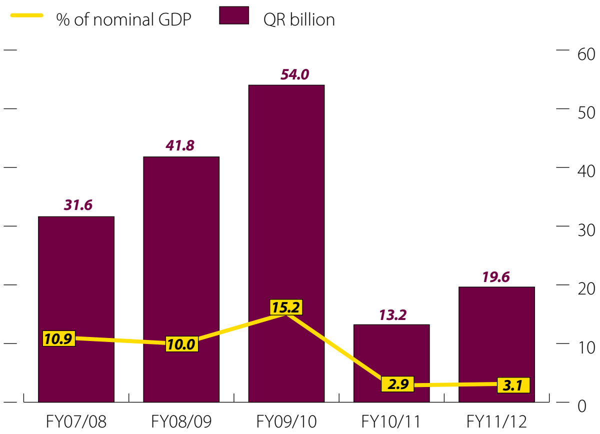
August. QCB further cut its lending and repurchase rates to 4.5%, and its deposit rate to 0.75%.

October. QCB announced that it had no plans to raise the monthly issuance of Treasury bills from the QR2 billion ($550 million) that it had set in May 2011. QCB had been issuing Treasury bills since May 2011 with the objective of managing banks' liquidity, creating a domestic yield curve (paying an average 2.0% return) and establishing sound infrastructure for developing Qatar's financial sector.

December. On 29 December, QE announced full operational and regulatory readiness to launch the debt-instruments market, starting with Treasury bills. This is the first step in launching secondary market trading in bonds on QE, to diversify investment instruments in the market.

1. International Monetary Fund. 2012. Qatar, 2012 Article IV Consultation. *IMF Country Report No. 12/18*. January.

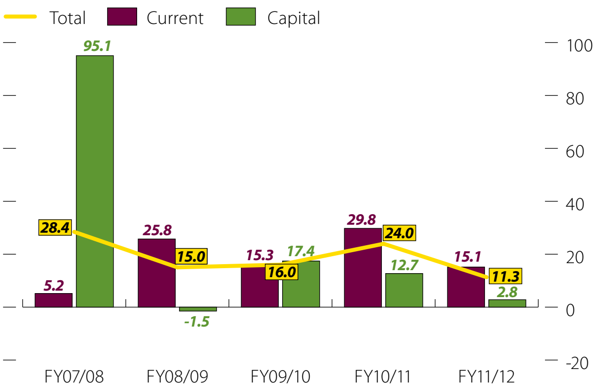
Figure 2.20 Overall fiscal balance



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary.
Source: MOEF.

Click here for chart data

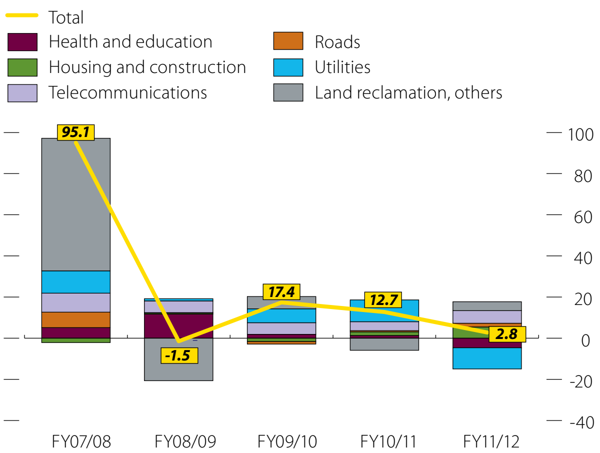
Figure 2.21 Fiscal expenditure growth (%)



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary.
Source: MOEF.

Click here for chart data

Figure 2.22 Contributions to capital expenditure growth (percentage points)



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary.
Source: MOEF.

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In its budget circular to government ministries and agencies of June 2011, the ministry signalled its intention to move towards a forward-looking, medium-term budget preparation framework in which stronger performance features—linked to and aligned with Qatar's National Development Strategy 2011–2016—would be embedded. As fiscal outcomes through to end-June 2012 are not yet known, this section provides MOEF estimates for the year ended 31 March 2012. These data are preliminary and may be revised.

Through to 31 March 2012, provisional estimates put the government's overall surplus (government revenue less the sum of current and capital expenditure) at QR19.6 billion (figure 2.20), marginally up on the FY2010/11 outcome. Higher revenue outweighed additional current expenditure (on wages and salaries) and capital spending.

Government expenditure

Total government spending climbed by 11.3% in the year to end-March 2012 (figure 2.21). Current expenditure grew by 15.1%: the wage increases accounted for 34% of this rise, interest payment of government debt 26% and other recurring expense items—including foreign grants, development aid abroad and spending on goods and services—the rest.

Total capital spending rose by 2.8%, primarily reflecting investments in infrastructure such as housing, construction, roads, land reclamation and telecommunications (figure 2.22).

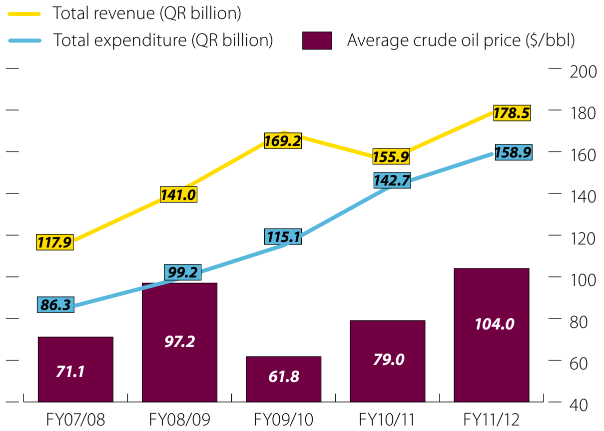
Although capital spending consumes a large and expanding volume of resources, the FY2011/12 budget still allocated the bulk of resources to recurrent needs—QR113.4 billion versus QR45.5 billion.

Government revenue

Government revenue generally tracks movements in the price and export volume of hydrocarbons (figure 2.23). Stronger prices and a rise in volumes buoyed revenue in FY2011/12.

Total revenue accruing to government rose by 14.5% from the previous fiscal year (figure 2.24). Additions to LNG production generated substantial income, expanding oil and gas revenue by 18.1%. Following a retreat in tax income in FY2010/11, tax revenue soared in FY2011/12, boosting income from other sources by 66.8% from the previous year. Investment revenue (which comes largely in the form of profits transferred by Qatar Petroleum to MOEF) contracted for the second year running.

Figure 2.23 Government spending, revenue and oil price



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary. The crude oil price is the average of UK Brent, US WTI and Dubai Fateh.
Sources: MOEF and World Bank's Commodity Markets Prospects database (http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html), accessed 8 April 2012.
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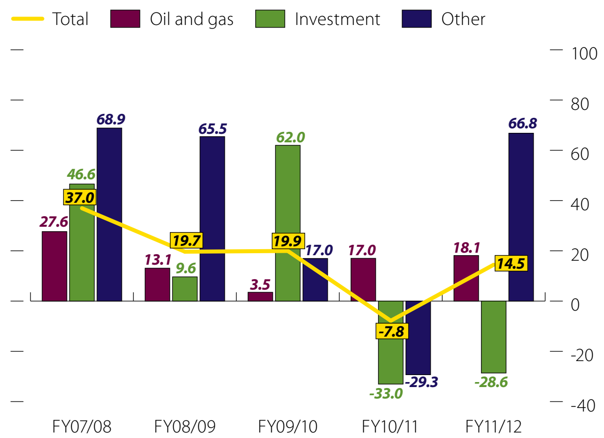
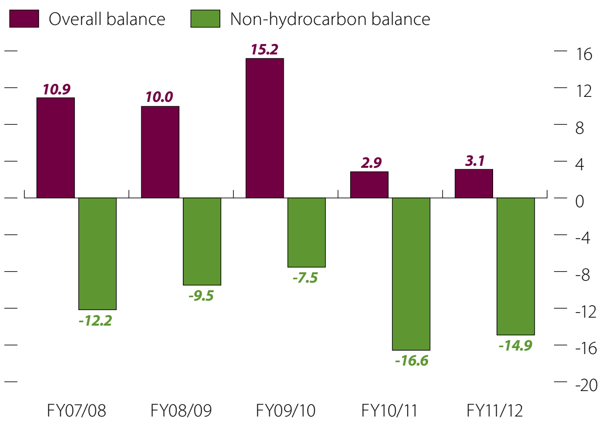
Figure 2.24 Fiscal revenue growth (%)



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary.
Source: MOEF
Click here for chart data

Figure 2.25 Fiscal balance (% of GDP)



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary.
Source: MOEF.
Click here for chart data

Non-hydrocarbon fiscal balance

Although Qatar's overall fiscal balance has consistently been in surplus over the past decade, the balance on the non-hydrocarbon account has been in persistent deficit (figure 2.25). The latter balance is calculated by removing direct oil and gas revenue from the sources of government income. The non-hydrocarbon balance shows why it is important to diversify revenue sources, as it highlights the gap between total spending and fiscal revenue that is not linked to oil and gas production.

FY2011/12 saw a deficit on this account equivalent to 14.9% of GDP. A stricter measure, which excludes investment income that accrues to the budget directly from hydrocarbon activity, posted a deficit of nearly 20% of GDP that fiscal year. The government relies heavily on oil and gas revenue (figure 2.26), a dependence that it aims to cut by 2020, as well as narrowing the non-hydrocarbon fiscal balance.

Debt

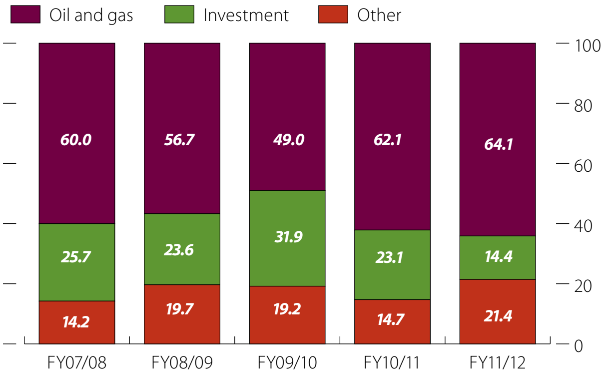
Government debt rose in FY2011/12 (as it did the previous fiscal year), reaching QR209.3 billion excluding guarantees, or equivalent to an estimated 33.1% of nominal GDP (figure 2.27).

The increase stems from a rise in external borrowing. External debt includes medium- to long-term foreign currency sovereign bond issuance and loans from foreign banks. The government sold $5 billion of such bonds in November 2011—the first global issue since it tapped the international market in November 2009—to help finance the Barzan gas project. In US dollars, external debt climbed to $24.1 billion in FY2011/12, equivalent to 13.9% of GDP. External borrowing has also been used to meet obligations falling due on oil and gas investments. The terms of payment and maturity of external debt are broadly long term, ranging from four to 30 years.

The government's outstanding domestic debt remained stable at the end of FY2011/12 at an estimated QR121.5 billion, or 19.2% of GDP. Domestic debt consists of medium- to long-term riyal-denominated sovereign bonds issued by the government, medium-term loans from local commercial banks and Islamic Murabaha (a six-month renewable facility with Qatar International Islamic Bank). Treasury bills are also included in the local currency debt estimates. To develop the capital market further, the government again issued local currency bonds to banks in January 2011 (following a successful issuance in June 2010).

Total government debt does not include guaranteed borrowings of semi-government institutions and

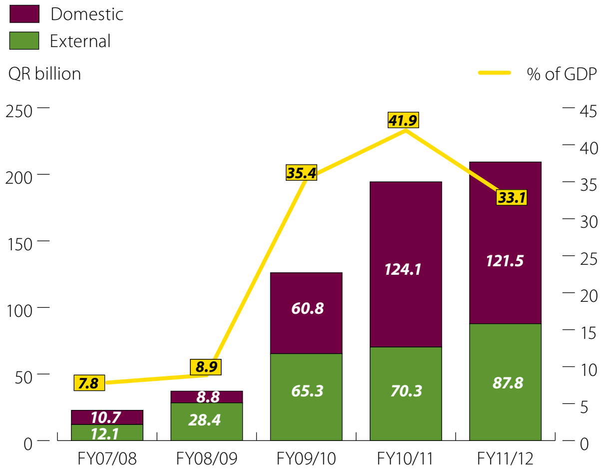
Figure 2.26 Fiscal revenue (% of total)



Note: The fiscal year runs from 1 April to 31 March. FY2011/12 data are preliminary.
Source: MOEF.

Click here for chart data

Figure 2.27 Total government debt



Note: The fiscal year runs from 1 April to 31 March. FY11/12 data are preliminary. Data exclude guarantees.
Sources: MOEF and International Monetary Fund *Qatar Article IV Country Report* No.12/18, January 2012.

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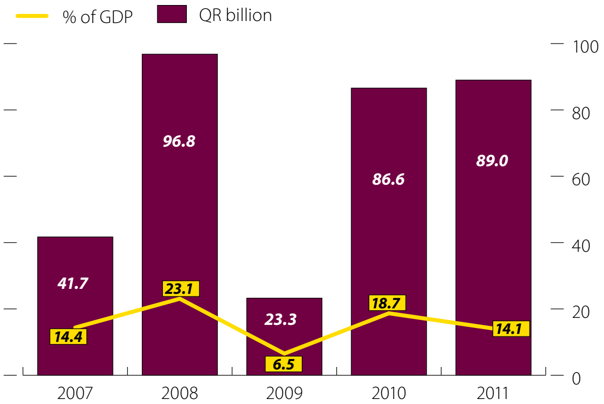
Figure 2.28 Current account



Note: 2011 data are preliminary.
Source: QCB *Quarterly Statistical Bulletin* March 2012.

Click here for chart data

enterprises, information on which is hard to secure. However, data from the Bank for International Settlements show that international debt securities issued by financial institutions and corporations in Qatar have steadily increased in the last five years (box 2.6).

Trade and foreign currency reserves

Qatar once more recorded a considerable trade surplus in 2011, of 30.5% of nominal GDP. Sales of additional LNG production boosted exports, which rose by 9.8% year on year from 2010. Imports also climbed, by 15.9%.

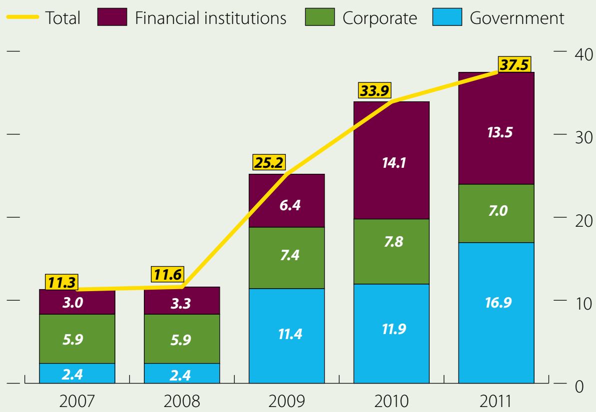
The country posted another large current account surplus in 2011 (figure 2.28), up by QR2.41 billion on 2010. As in earlier years, the trade surplus offset a deficit on the services (QR34.5 billion) and income (QR30.2 billion) accounts. The deficit on the services and income accounts combined is primarily due to large remittance outflows (profits and wages). An estimate of the dividend income accruing to the Qatar Investment Authority provides a partial offset to these outflows.

Box 2.6 Qatar's international debt securities

Qatar's issuance of foreign debt securities has steadily increased in the last five years, with much of the rise seen since 2009. By end-2011, the government, Qatari financial institutions and Qatar corporates had issued $37.5 billion-worth (box figure). These securities, as recorded by the Bank for International Settlements, are entirely long-term bonds and notes.

Corporations accounted for much of the share before 2009, but government has since become prominent. In 2011, it accounted for 45.3%, followed by Qatari financial institutions, with 36.0%. In early 2012, many local banks announced plans to tap the international capital markets later in the year.

Qatar's debt securities, amount outstanding ($ billion)



Source: Bank for International Statistics *Quarterly Review* March 2012 (http://www.bis.org/statistics/secstats.htm).

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Total investment income receipts are estimated at QR22.4 billion in 2011.

QCB's foreign currency reserves stood at $16.7 billion at end-2011, down from $31.0 billion the previous year. The fall is probably due to fewer inflows seeking arbitrage (carry-trade) opportunities following QCB restrictions on deposits that commercial banks could place with it.

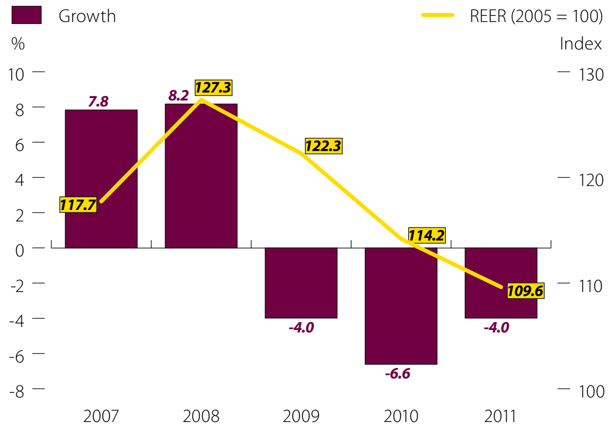
Terms of trade and the real effective exchange rate

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 between Qatar and its trading partners.

QEO estimates suggest that Qatar's REER depreciated by 4.0% in 2011 (figure 2.29). This occurred largely because the US dollar (to which the riyal is pegged) lost value against the currencies of Qatar's major trading partners. Lower inflation in Qatar in 2011 than in these countries also contributed to the REER's depreciation.

Viewed over a longer period, the REER in 2011 was almost 10% above its 2005 level, with some depreciation in recent years cutting into gains in value made through to 2008.

Figure 2.29 Real effective exchange rate index



Source: GSDP estimates.

Click here for chart data