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Introduction

The Planning and Statistics Authority (PSA) is pleased to issue Qatar's Economic Outlook Report 2020-2022 – Issue No. 12 - in which it reviews the developments of the national economy for the past two years 2018-2019, and analyzes the current situation in view of the spread of the Covid-19 pandemic during the first half of 2020. This issue also provides a foresight of future prospects for the period 2020-2022, according to consensual forecasts issued by the PSA, international research centers, institutions, and banks.

Three years have already passed since the start of the economic blockade on the State of Qatar in June 2017, during which the national economy demonstrated its resilience and ability to overcome the challenges of the blockade in a short period of time. Thanks to effective economic policies, the negative effects of a number of international variables were overcome, mainly: the volatility of global oil and gas prices, the repercussions of the trade war between the United States and China and the resulting slowdown in the growth of the economies of major industrial countries that led to a slowdown in demand for hydrocarbon products in those countries that have a commercial relationship with Qatar. The national economy has also adapted to the changes in its production structure, such as the low contribution of the construction sector in favor of increasing the contribution of the services sector, and the stability of the productivity of the oil and gas sector (hydrocarbons) as well as the manufacturing sector.

In 2018, the real GDP grew by 1.5%, and its growth rate stabilized by a negative 0.2% in 2019, due to a decrease in the production of the hydrocarbon sector by about negative 1.8%, which exceeded the positive growth achieved in (non-hydrocarbon) sectors by 1.3%. The contribution of the construction sector in the GDP growth decreased by 0.22 percentage point, as a result of the completion of most infrastructure projects, particularly those related to hosting the 2022 World Cup. It is clear that the spread of Covid-19 virus during the first half

of 2020 has led to a major economic recession all over the world. Its impact has been more severe on the oil and gas exporting countries as it coincides with the drop in global oil prices.

Despite the atmosphere of uncertainty regarding the depth and continuity of the influence of Covid-19 on the economies of the world, there are signs that its impact may diminish during the second half of 2020. Accordingly, a few research centers, institutions and international banks expect that the average rate of growth of Qatar's GDP will decline by the end of 2020 by approximately negative 3.1%, with a minimum negative of 2.2% and a maximum negative at 4.3%. That is, while the PSA expects that the growth rate will decline by about 2.6%, the worst possible scenario is the one projected by the IMF, i.e., that it will decline by as much as negative 4.3%. The International Monetary Fund expects that it is possible that economic activities by the end of 2020 will not yet return to the level that they were before Covid-19, even though measures to ease restrictions of containment of the virus in Qatar gradually started from mid-June and are scheduled to end in early September 2020.

The process of preparing this Economic Outlook Report is primarily based on official data issued by various government agencies. We would like to extend our sincere thanks to all those who contributed in providing statistical data and economic information, and anticipate that this report will provide additional information on the trajectory of the development of Qatar's economy. Thanks are also extended to the PSA preparation team.

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President
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PART 1: ECONOMIC OUTLOOK 2020 -2022

World and Regional Economic Outlook

The emergence and spread of the coronavirus (Covid-19) pandemic during the first half of 2020 caused a global economic recession affecting the supply and demand chains of the majority of developed, emerging and developing countries, mainly resulting from the preventive measures applied by all countries to combat the spread of the virus locally and across borders with the aim of curbing its health and economic repercussions; as elaborated in Box (1-1),

Taking these developments into account, a number of international research centers, institutions, and banks have revised their forecasts for the growth of the global economy, including the World Bank, which has revised its forecasts in its “Global Economic Prospects” report issued at the beginning of June 2020; (refer to Table (1-1)). The IMF has also revised its forecasts in its “World Economic Outlook” report, issued at the end of June 2020.

Box 1-1: The Economic Dimensions of Covid-19

The emergence and spread of the Sars-COV-2 virus with its worldwide COVID-19 pandemic has resulted in stringent measures to contain it, which in turn has caused the global economy to shrink simultaneously in both the factors of supply and demand, as shown in Table (1-1). Due to administrative restrictions imposed on the movement of populations and goods products throughout the world, the productions of agricultural, industrial, and service sectors have declined, leading to a decrease in overall worldwide supply. Furthermore, due to the restrictions imposed on travel and foreign trade because of the closing of the geographical borders of many countries, the air, sea, and land transport have disrupted, thus leading to lower consumer and capital expenditures and lower levels of foreign trade exchanges. This, in turn, contributed in lowering overall worldwide demand.

It can be seen that the economic and health impacts of the virus have differed from one country to another, perhaps due to the different economic structures of countries and different life styles of the population, as well as to the speed and depth of government intervention in adopting policies to contain the virus, and the compliance of the population with these restrictions. The economic and health impacts of the virus have also differed depending on the extent of openness of countries to the outside world, whether in terms of the volume of foreign trade exchange, or in terms of the volume of travel and tourism levels between

Table 1-1: World Economic Prospects, According to the World Bank

	January: forecast		June: forecast		Adjustment	
	2020	2021	2020	2021	2020	2021
World	2.5	2.6	-5.2	4.2	-7.7	1.6
Advanced economies	1.4	1.5	-7.0	3.9	-8.4	2.4
Emerging market economies	4.1	4.3	-2.5	4.6	-6.6	0.3
Middle East and North Africa	2.4	2.7	-4.2	2.3	-6.6	-0.4
Oil exporters	2.0	2.3	-5.0	2.1	-7.0	-0.2
Oil importers	4.4	4.6	-0.8	3.2	-5.2	-1.4
GCC countries	2.2	2.6	-4.1	2.2	-6.3	-0.4
Saudi Arabia	1.9	2.2	-3.8	2.5	-5.7	0.3
Kuwait	2.2	2.0	-5.4	1.1	-7.6	-0.9
Qatar	1.5	3.2	-3.5	3.6	-5.0	0.4
United Arab Emirates	2.6	3.0	-4.5	1.4	-7.1	-1.6

Source: World Bank, "Global Economic Prospects," June 2020

World Bank Prospects

The World Bank (WB) has already twice revised its forecasts for global economic prospects during the first half of 2020. As a result, it has predicted a reduced rate of growth of the global economy by about 7.7 percentage points from what it expected in January 2020, moving from positive 2.5% to negative 5.2% by June 2020. Most of the decline has come from lowering the growth rate forecasts for the economies of developed countries by 8.4 percentage points, and economies of emerging countries by 6.6 percentage points, as shown in Table (1-1).

Similarly, the WB reduced its expectations for the growth rate of the economies of the Middle East countries by 6.6 percentage points, to reach negative 4.2% by June 2020 after the metric showed positive growth of 2.4% in January 2020. Most of the decline has come from lowering the growth rates of the oil exporting countries by about 7.0 percentage points, specifically those of the GCC countries, whose growth rate was

reduced by about 6.3 percentage points, from a positive 2.2% in January 2020 to negative 4.1% by June 2020. Thus, Kuwait ranked first in the decline by about 7.6 percentage points, followed by the UAE at about 7.1 percentage points, and the lowest decline was the State of Qatar by about 5 percentage points.

International research centers, institutions, and banks, including the WB, often depend on the components of GDP by the expenditure approach rather than on components of GDP by the production approach to forecast the economies of the world countries. The Table (1-2) demonstrates the forecast of Middle East countries, which it is clear that the WB assumes that the growth and decline rates of exports and imports play a pivotal role in determining the rate of change of the GDP of the economies of Middle East countries, followed by the level of change in capital formation, and then the level of change in expenditure on private and public consumption.

Table 1-2: GDP for Middle Eastern Countries

	January-forecast		June-forecast		Adjustment	
	2020	2021	2020	2021	2020	2021
Middle East and North Africa	2.4	2.7	-4.2	2.3	-6.6	-0.4
Private consumption	1.9	2.2	-1.8	1.6	-3.7	-0.6
Public consumption	2.1	2.3	0	1.7	-2.1	-0.6
Fixed investment	5.2	5.7	-2	4.1	-7.2	-1.6
Exports, GNFS	3	3.6	-6.9	3.1	-9.9	-0.5
Imports, GNFS	3.4	4	-3.5	2.5	-6.9	-1.5

Source: World Bank, "Global Economic Prospects", June 2020

IMF Forecast

During the first half of 2020, the IMF also made three adjustments to its forecasts for global economic prospects, the last of which was at the end of June 2020, as it lowered the global economic growth rate for 2020 by 8.2 percentage points from what it had forecasted in January 2020, and by about 1.9 percentage points from what it had forecasted in April 2020, when the decline rate became a negative 4.9% compared to a positive 3.3% in January 2020. Most of the decline came from lowering expectations for the growth rate of the economies of developed countries by about 9.6 percentage points as well as a decline in the economies of emerging countries by about 7.4 percentage points, as show in Table (1-3).

Likewise, the IMF lowered its forecast for the growth rate of the economies of the Middle East countries by 7.5 percentage points to reach negative 4.7% by June 2020, after it has attained a positive 2.8% in January 2020. Through expectations of a decline in the growth of Saudi Arabia as one of the G20 (Group of 20) by about 8.7 percentage points, it seems that most of the decline in the Middle East region will come from the decline in the economies of the oil-exporting countries in the region

Qatar's Economic Outlook

Based on the foregoing, what applies to both the world and Middle East countries, in terms of the implications of the spread of the Covid-19 pandemic on public health and the economy, also applies to Qatar as well. Once the cases of Covid-19 infection appeared in some neighboring countries, Qatar issued a package of economic measures and policies to contain the virus and its negative repercussions on public health and the economy. The State's media capabilities were deployed to conduct awareness-raising campaigns for the population on the prevention of viral infection, as well as harnessing the State's infrastructure for healthcare services in conducting virus detection tests, providing quarantine locations, and treating those infected. In addition, the government has issued a number of fiscal and monetary policies as proactive measures to contain the repercussions of the economic shocks (refer to Box 1-3 at the end of Part 1).

Even though these preventive measures and economic policies contribute to mitigating the negative effects on the Qatari economy, it is possible that the supply and demand aspects of the Qatari economy have receded due to the restrictions imposed on the movements of the population.

Table 1-3: The World Economic Outlook, According to the IMF

	Preliminary	January-forecast		April-forecast		June-forecast		Adjustment	
	2019	2020	2021	2020	2021	2020	2021	2020	2021
World	3.6	3.3	3.4	-3.0	5.8	-4.9	5.4	-8.2	2.0
Advanced economies	2.2	1.6	1.6	-6.1	4.5	-8.0	4.8	-9.6	3.2
United States	2.9	2.0	1.7	-5.9	4.7	-8.0	4.5	-10.0	2.8
Emerging market economies	4.5	4.4	4.6	-1.1	6.6	-3.0	5.9	-7.4	1.3
Middle East and North Africa	1.8	2.8	3.2	-2.8	4.0	-4.7	3.3	-7.5	0.1
Saudi Arabia	2.4	1.9	2.2	-2.3	2.9	-6.8	3.1	-8.7	0.9

Source: IMF, "World Economic Outlook", June 2020

Among the most important economic activities affected by the measures of social distancing are the activities of the building and construction sector, the activities of the services sector such as public services, education, wholesale and retail trade, financial and real estate services, and the activities related to travel and tourism, such as hotel and catering services, transport, arts and entertainment. However, some service activities witnessed an expansion in their use and an increase in their production, such as distance education programs, healthcare, information and communications technology and e-commerce. The volume of trade and production of disinfectants, sterilizers, masks, gloves, and medicines has also increased.

In view of the decrease in production and consumption of the above-mentioned economic activities, the items of expenditure on Qatar's GDP, including consumption and public and private investment, may relatively decrease, leading in turn to a decrease in aggregate demand. This, in its turn, will lead to a decline in the rate of GDP growth and the contraction of the Consumer Price Index.

As for the impact on the Qatari economy of the implementation of international measures to contain the Covid-19 pandemic, these will affect the level of global demand for hydrocarbon products as well as the ensuing level of their prices. Any fluctuation in the levels of demand quantities and prices, especially by those countries that have a trade relationship with the State of Qatar, will inevitably cause fluctuations in the level of performance of several of the macroeconomic indicators. In regard to the measures to contain the pandemic locally, these will be limited to the performance of the hydrocarbon and manufacturing sectors.

An International Consensus Forecast for Qatar Economy

Many regional and international research centers and banks prepare forecasts for the performance of the economies of the world, of course including the economy of the State of Qatar, where such forecasts are issued and published on a large scale by international mega-companies such as Bloomberg and Refinitiv, labeled as a so-called Consensus Forecast. This forecast has become an information reference for researchers, academics, investors, policy makers, economic planners, and workers in local and international economic institutions.

Since the beginning of the current year 2020, a number of consensus forecasts have been issued for the performance of the Qatari economy, the most important of which are the forecasts of the Economist Intelligent Unit (EIU), the WB, and the IMF, as indicated in Table (1-4). These forecasts have been unanimous regarding the decline of the Qatari economy in 2020 by an average of negative 3.1%, its recovery in 2021 by an average of 3.3%, and its return to its natural trajectory in 2022 by an average of 1.6%.

By reviewing the rationale on which these forecasts were based, it was found that there is near-unanimity that the Qatari economy will decline due to a lower aggregated domestic demand for consumption and for public and private investment, as well as a projection of reduced Qatari exports of natural gas and oil due to the decline in global demand for these two commodities. Any decline in international oil and gas prices will precipitate a similar decline in the State's general revenues, which will then reduce government expenditures and thus decrease aggregated domestic demand.

Despite the climate of uncertainty about the extent of the continuity of the Covid-19 pandemic and the depth of the escalation of its impact on the economies of the world, there is almost unanimity that this impact will diminish during the second half of 2020, in the optimistic hope that the spread of the virus will recede, together with an anticipated increase in the rate of the acquisition of immunity among populations.

As for the predictions for 2021, the consensus forecasts indicate that Qatar will achieve an average growth of about 3.3% having a range between a maximum of 5% and a minimum of 1.5%, with a standard deviation of 1.1 percentage points, indicating that there is almost unanimity that the direct impact on the Qatari economy in terms of the contraction in volume and value of hydrocarbon exports will recover in 2021, which will

increase the achievement of financial returns that will commensurately improve the balance of the state budget and the balance of payments, and thus strengthen the government's ability to increase public expenditures. This, in turn, will revive the aggregated demand of investment and public and private consumption, and thereby achieve economic growth.

In regard to the international consensus forecasts for the 2020 Consumer Price Index (CPI), we again refer you to Table (1-4). Four sources forecast a decrease in the rate of growth of the index to enter negative territory, which corresponds to the analysis and publications of the Planning and Statistics Authority during the period January -July 2020. Together these indicate a decline of the index by an average of negative 2.2% with a maximum of negative 0.4% and a minimum of negative 3.4%,

Table 1-4: An International Consensus Forecast of Qatar Economy

	Issue Date	GDP			CPI		
		2020	2021	2022	2020	2021	2022
Economic Intelligence Unit	Jun-20	-2.5	1.5	3.9	-0.5	2.4	3.3
International Monetary Fund	Apr-20	-4.3	5.0	2.4	-1.2	2.4	2.0
Credit Agricole CIB	Jun-20	-3.0	4.2		1.0	1.5	
Standard Chartered	Jun-20	1.0	1.5	3.3	0.0	1.0	1.5
Fitch Ratings	Jun-20	-3.1	2.7		-1.0	0.0	
Citigroup	May-20	-4.3			-1.2		
Deutsche Bank	Apr-20	1.1	2.2		0.8	0.9	
BNP Paribas	Apr-20	-2.2	2.7		1.5		
Emirates NBD	Mar-20	0.4	3.2		1.5	2.2	
Fitch Ratings Ltd	Mar-20	0.9	0.8		1.0	1.5	
World Bank	Jun-20	-3.5	3.6	3.2	-0.5	0.0	
Consensus (Mean)		-1.8	2.7	3.2	0.1	1.3	2.3
Median		-2.5	2.7	3.3	0.0	1.5	2.0
High		1.1	5.0	3.9	1.5	2.4	3.3
Low		-4.3	0.8	2.4	-1.2	0.0	1.5
Standard Deviation		2.1	1.2	0.5	1.0	0.9	0.8
Coefficient of Variation (points)		-1.2	0.5	0.2	8.0	0.7	0.3

Source: Bloomberg and REFINITIV & Prepared by PSA

while having a deviation rate of 2.1 percentage points. The IMF forecasts that the CPI is to decline by about 1.2% in 2020, the WB and the EIU forecast that the CPI is to decrease by about 0.5%, and the credit rating agency Fitch forecasts that it will decline by about 1%.

Macroeconomic Indicators Forecasts for the State of Qatar

Against this background, and in light of the openness¹ of the Qatari economy to external economies by a magnitude of about 88%, it is possible to draw on several assumptions to forecast the trends for the level of macroeconomic indicators. Among the key assumptions are: the extent to which the production and service sectors are affected by the measures to contain Covid-19; the extent to which the activities of the hydrocarbon and industrial manufacturing sectors are affected by the fluctuating prices and volumes of the production of Qatar's oil and gas and their derivatives; the extent to which the state's public budget balances and its balance of payments accounts are affected by such fluctuating oil and gas revenues; the extent to which the current account of the balance of payments is affected by the fluctuating returns on Qatar's investments abroad and changes in the extent and magnitude of the nation's import bills; and the depth and level of inflow and outflow of foreign exchange.

Based on the available economic data and information derived from the aforementioned assumptions, a combination of qualitative and quantitative estimates as possible scenarios for the year 2020 have been prepared. Applied as these were to an economic model for the State of Qatar, results indicate that the rate of GDP growth will

decline by a negative 2.6% during 2020 and in addition, the state's general budget and the current account balance of the balance of payments will witness a deficit by 9.3% and 6.1% of GDP, respectively, as indicated in Table (1-5).

However, the GDP growth rate is expected to rebound in the two following years of 2021-2022, with an average growth rate of 1.85%. Moreover, the balance of the general budget and the current account are modeled to also improve during the same period. However, these positive results will depend on the effectiveness of the latest measures taken by the Ministry of Finance in May 2020 to reduce current expenditures (refer to Box (1-2)), and the extent of improvement in oil and gas prices to adjust to the break-even price, which is estimated for 2020 at about US\$ 76.8 per barrel to achieve parity in the fiscal balance, and at about US\$ 53.2 per barrel to achieve parity in the current account balance.

One of the most important qualitative assumptions that were used as a basis for predicting the path of development of macroeconomic indicators in 2020 is the extent of the impact of the Covid-19 pandemic on sub-economic activities. It has been assumed that the effect is to gradually diminish during the second half of 2020 because all economic activities will no longer resume at scale as before the pandemic, given that the lifting of restrictions will be gradual. In addition, the population's lifestyle has changed since mid-March 2020 due to the implications of Covid-19 containment measures and this is very likely to have affected the aggregated demand for goods and services. Therefore, it seems there will be a transitional period - extending up to the end of

¹ Average ratio of total foreign trade (exports + imports) to GDP 2016-2019

2021 - until the population adapts to new lifestyles, such as reduction of gatherings, whether in social, sporting, public, and religious events and reduction in going to markets and restaurants. Therefore, the aggregated demand will take time to return to the state it was before the onset of the pandemic.

In light of these qualitative assumptions, a combination of quantitative assumptions has been applied to understand how some activities of the services sector have evolved, especially wholesale and retail trade, financial and real estate services, as well as the activities related to travel and tourism such as hotel and restaurant services, transport, and arts and entertainment. It was found that the growth of the services sector will stabilize at around 0.3% in 2020, and it will recover by about 2.8% in 2021, and then further by about 4.3% in 2022, assuming that the national economy will reap economic benefits from the return of economic activities to complete preparations to host the FIFA 2022 World Cup.

Concerning the trajectory of expectations for both the hydrocarbon and manufacturing sectors, much depends on the increase in global demand for the products of these two sectors, as well as the stability of global oil and gas prices. Since many countries around the world have begun to ease restrictions on production and service activities, which are expected to be followed by an increase in demand for hydrocarbon products, there is a possibility that global prices for oil and gas and their derivatives from manufacturing industries will to an extent recover.

Accordingly, there are two possibilities in how the national economy can benefit from these assumptions, the worst of which is that the hydrocarbon demand volumes and prices will stabilize where they are until the end of the current year, with a gradual return to pre-pandemic levels during 2021; the second possibility is that the global demand volumes will increase gradually during the second half of 2020, but in light of global production capacity, this will result in prices

Table 1-5: Qatar's Macroeconomic Outlook 2020 - 2022

	Actual	Preliminary		Forecast			
	2016	2017	2018	2019	2020	2021	2022
Real GDP (growth at 2013 constant prices)	2.1	1.6	1.5	-0.2	-2.6	2.2	1.5
Hydrocarbon GDP (growth %)	-0.9	-0.7	-0.3	-1.8	-3.0	3.5	0.0
Non-Hydrocarbon GDP (Growth %)	5.3	3.8	3.2	1.3	-2.3	1.0	2.8
Nominal GDP (rate of change %)	-6.2	10.0	14.6	-4.1	-15.6	-1.2	9.0
Nominal Hydrocarbon GDP (%)	-25.8	19.5	31.1	-11.6	-34.0	-7.0	22.5
Nominal Non-Hydrocarbon GDP (%)	5.6	6.0	6.8	0.2	-6.1	0.9	4.5
Construction (real %)	28.5	17.5	4.5	-2.0	-9.4	-2.4	-0.2
Manufacturing (real %)	0.4	1.0	6.1	-1.9	-3.1	0.7	0.5
Services (real %)	2.2	2.0	2.1	3.5	0.3	2.8	4.3
Consumer price inflation (%)	2.3	0.3	0.1	-0.9	-1.3	2.1	2.1
Fiscal balance (% of GDP)	-6.5	-4.5	2.7	1.6	-9.3	-6.5	-0.1
Current account surplus (% of GDP)	-5.4	3.9	8.7	2.3	-6.1	-5.3	1.3
Crude oil export Price (\$/bbl)	42.2	53.4	68.6	64.4	34.9	39.5	49.7
LNG prices (\$/btu)	6.2	6.5	8.5	8.6	6.2	5.0	6.1

Source: Planning and Statistics Authority

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remaining low, with a possibility of increasing only in 2021.

By simulating these two possibilities in a model of the accounts of the hydrocarbons sector (mining and extractive industries) as well as the manufacturing sector, results indicate that the hydrocarbon sector will decline by a further 3% against the background of its initial decline during 2019 of about 1.8%. Similarly, the manufacturing sector will further decline by about 3.1% against the background of its initial decline during 2019 of about 1.9%. One of the key assumptions on which the two sectors show such a decline is predicated on what the first quarter GDP data for 2020 demonstrated, as the growth rate of the hydrocarbon sector stabilized below zero. Then, exports of hydrocarbon sector products as well as the manufacturing sector during the first half of 2020 both witnessed moderate fluctuations in their quantities between negative and positive values, with an average of negative 3.1%, and negative 10.6%, respectively, while the value of total exports for the same period decreased by about 32%.

As for the building and construction sector, it is due to, regardless, decline as a consequence of statistical and investment considerations. Among the statistical considerations is that the building and construction sector reached its production peak during the past four years (2016-2019) when a number of development projects were simultaneously planned and then implemented. Consequently, with the completion of the construction of a large part of these development projects, in addition to the corresponding infrastructure projects, however great the number of future large developments, including the expansion projects of North Field gas, Hamad International Airport, and Hamad Port, the value

added of these projects will at best only remain on par with the total value added over the past years. The building and construction sector will then witness, at best, merely stability in its growth; however, eventually, it must decline.

Accordingly, it is expected that the building and construction sector will decline during the years 2020-2021 by about 1.5%, due to the fact that the process of implementing future large projects, the most important of which is the North Field gas project, which is still undergoing preparation for implementation.

In the wake of the Covid-19 pandemic that has cast such a shadow over all economic activities, including building and construction activities, whether through diminishing oil and gas revenues, or through partial suspension of business due to social distancing measures, it has been assumed that in a worst-case scenario, investment expenditures for the economy will decrease by between 5% to 15%, which is likely to lead to a decline in the performance of the building and construction sector, on top of the previous decline at an average between 2.6% and 7.9% projected to take place in 2020. Therefore, the decline in the construction sector is expected to be, in the worst-case scenario, approximately negative 9.4% in 2020 but then improving to negative 2.4% in 2021, before it is expected to stabilize at negative 0.2% in 2022, as indicated in Table (1-5).

Fiscal Balance and the Current Account

During preparation of the 2020 budget, the Ministry of Finance directed government agencies to continue implementing programs aimed at enhancing the efficiency of public expenditures, diversifying sources of non-oil revenues, and facilitating the participation of the private sector in

implementing development projects, as well as undertaking a simplification of administrative procedures to attract domestic and foreign investments in various economic sectors.

In light of these instructions, the public finance balance for the year 2020 was estimated to be Qatari Riyal (QR) 0.5 billion, equivalent to US\$ 137 million, which represents 0.1% of the GDP. The data of the 2020 budget show that it was based on the two premises of (1) an increase in public expenditures for 2020 by 1.8% compared to the total allocated in the 2019 budget (now this will even exceed by 1% of what was actually spent in 2019); (2) the proposed government revenues for 2020 was matched with the 2019 budget proposal, or equal to QR 211 billion, under the assumption that the price of a barrel of crude oil will reach US\$ 55 in global markets, and that the volume of hydrocarbon production will be equal to that which was produced during 2019.

However, in view of the contraction in the economies of the world during the first half of 2020, due to the measures implemented for containing the spread of Covid-19 and the subsequent financial, economic and job losses, some of the estimates made before the fallout from COVID-19, it must be revised. For example, one of the most important economic repercussions at the global level that affect the Qatari economy are: (1) the decline in the global demand for goods, (2) the worsening of oil and gas prices, and (3) the accumulation of supplies of goods and services. Therefore, it is recognized that the public revenues of the State of Qatar will be lower than what was planned in the 2020 budget.

Therefore, it is only common sense to anticipate that the public revenues of the State of Qatar will

be less than what has been planned in the 2020 budget.

As for the impact of the repercussions of containing the Covid-19 pandemic on the level of public expenditures for the year 2020, much will depend on the nature of the financial policies in reducing current expenditures, as shown in Box (1-2) below, and allocating an additional amount within the 2020 budget of about QR 75 billion to support the private sector, which has been negatively affected by the repercussions of containing the virus.

Several measures adopted having economic significance include the control and rationalizing of expenditures, the laying-off of surplus workers, and the replacement of retired cadres with highly qualified and skilled cadres. However, these measures may, in the short term, spur the risks of seeing a reduction in economic growth for some economic activities associated with the government sector while also reducing household and government consumption spending, which together will affect aggregate demand. Lay-offs and enforced early retirement for skilled laborers may reduce the rate of immigrant-related population growth, and perhaps ultimately lead to a high risk of a shortage of skilled workers.

Against this background, the fiscal balance for 2020 is expected to witness a deficit in the same proportion as in 2016, when it reached negative 6.5% of GDP, mainly due to lower oil and gas prices. However, the events that have occurred in 2020 differ from those of 2016 in that the rate of decline in oil and gas prices has been greater, and moreover has coincided with the decline of the economies of most countries around the world due to the measures taken to contain the pandemic, and which have affected, directly and indirectly, the

overall activities of the Qatari economy. Thus, it is likely that the size of the deficit will expand in 2020 to reach negative 9.3%, with the anticipation that it can recover to an extent to reach negative 6.5% in 2021, before then stabilizing in 2022 at 0.1%, see Table .(1-5).

For the same aforementioned reasons, it is expected that the current account of the balance of payments for the year 2020 will witness a deficit of the same percentage that it underwent in 2016, when it reached negative 5.4% of GDP. However, it

is likely that the size of the deficit will expand in 2020 to negative 6.1%, with the anticipation that it can recover to an extent to reach negative 5.3%, before subsequently and optimistically achieving a growth of 1.3% in 2022.

Among the most important assumptions on which these results were based in order to calculate projections for the current account in 2020 is that the volume of imports will decline by about 10% before stabilizing in 2021 and 2022.

Box 1-2: Measures toward Prudent Fiscal Policy

To contend with the impact of the Covid-19 pandemic on the state budget, the Ministry of Finance issued international sovereign bonds in April 2020, which were sold on the United States' financial markets for about US\$10 billion.

The Ministry of Finance also issued a financial circular at the end of May 2020, instructing the government's ministries, institutions, and agencies funded from the government budget to reduce the monthly costs of non-Qatari employees by 30% as of July 1, 2020. This includes reducing salaries, laying off some surplus workers, or not extending those over the retirement age, except for exceptional cases; a two-month period has been granted for the layoff process that is to end by September 2020.

It is worth noting that the percentage of non-Qatari employees out of the total workforce in the government sector ranges broadly, from a low of 31% in institutions related to public administration, to a high of 86% in institutions related to public health, and including 76% in educational institutions as well as 82% in arts and entertainment establishments.

The circular also included instructions to suspend cash allowances for vacations and travel tickets for Non-Qatari employees, to suspend advances except in cases of marriage for Qataris, and to legalize the retirement age at 60 years, with the suspension of exceptional promotions.

The combination of these retrenchment measures with the social distancing measures that contributed to the partial suspension of some government services and projects will provide the Ministry of Finance a degree of flexibility in reallocating part of the budget previously allotted for wages and salaries (Chapter One), the budget allotted for goods and services (Chapter Two), and the budget allotted for capital expenditures (Chapter Four), in order to cover the unexpected pandemic-related expenditures and thus reduce the budget deficit.

Box 1-3: Preventive Measures and Economic Policies to Contain the Coronavirus Pandemic in Qatar

As soon as signs of cases of coronavirus infection appeared in the neighboring countries, the State of Qatar was quick to take all measures to combat its spread, harnessed the State's health and media awareness capabilities to reduce the pandemic's health consequences, and adopted financial and monetary policies to reduce its economic impact. At first, the Supreme Committee for Crisis Management, presided over by His Highness the Emir, issued a package of preventive measures on 15 March 2020, which can be summarized as follows:

1. Suspension of all inward flights to Doha starting from 18 March, except for air cargo and transit flights. This did not extend to embracing inbound Qatari citizens, including students, provided that they were quarantined for a period of 14 days. The entry from the air and sea ports was also restricted, including preventing the docking of all wooden and tourist ships at the various seaports.
2. Suspension of all internal public transport, including the Doha metro and Karwa buses.
3. Initially, employees over the age of 55 and those with vulnerable pre-conditions were allowed to work remotely. Later, a certain percentage of the workforce was allowed to work in-office, starting with 20% in the first phase (June 2020), then 50% (July 2020), and rising to 80% (August 2020).
4. Public and private schooling was also suspended at all levels, and distance learning was activated as of 22 March, 2020.
5. Gatherings were cancelled, whether for social, sports, public, or religious occasions.
6. Subsequent and gradual procedures were later issued to completely close all commercial activities, parks and resorts, as well as the imposition of wearing masks, and downloading of the Ehteraz public health app on mobile phones.
7. Ceasing provision of all medical services in both the private and public sectors, including postponing all appointments and surgeries for a mandated period, except for emergency cases

The financial and monetary policy package was as follows:

1. Support to and provision of financial and economic incentives of QR 75 billion to the private sector.
2. The Qatar Central Bank to establish a mechanism that encourages banks to postpone the payment of loan instalments and obligations of the private sector with a grace period of six months, while QCB provides additional liquidity to banks operating in the State.
3. Direct Qatar Development Bank to postpone instalment payments for all borrowers for a period of six months.
4. Direct government funds to increase their investments in the stock market by QR 10 billion.
5. Exempt food and medical goods from customs duties for a period of six months, provided that this is reflected in the retail sales price to the consumer.
6. Exempt the following sectors from electricity and water fees for a period of six months: hospitality and tourism sectors, the retail sector, the small and medium industries sector, and commercial complexes, in exchange for providing services and exemptions to tenants.
7. Exempt logistics areas and small and medium industries from rents for a period of six months.

Based on the foregoing, it is clear that the government's efforts focus from the beginning on educating the community about the dangers of the virus while dedicating health facilities and institutions to test the largest possible number of people, which reached by the end of August 2020 to about 620,128 positive tests, representing about 22.1% of the total population. Simultaneously, the government is paying attention to providing healthcare for those infected, especially those cases that need centralized care, with the highest standards of efficiency and quality, whether at the level of capabilities and medical devices, or at the level of human cadres, which has led to a reduction in the number of fatalities from the virus. By the grace of God, and the efforts of medical cadres and available capacities, the number of recovered persons reached about 97.3% of the total infected persons; while the death rate was only 0.2%. Hence, the State of Qatar is one of the countries in the world that has the highest rate of infection with the Cov-Sars-2 virus as a percentage of the population, while at the same time it is considered to be one of the countries in the world with the lowest death rate of the total infected case load.

	Total numbers	As % of total number of		
		Population	Tested	Infected
Population	2,807,805	100.0%	0.0%	0.0%
People tested for COVID-19	620,128	22.1%	100.0%	0.0%
Number of positive COVID-19	118,407	4.2%	19.1%	100.0%
Number of recovered patients	115,251	4.1%	18.6%	97.3%
Number of current active cases	2,960	0.1%	0.5%	2.5%
Currently under acute hospital care	413	0.0%	0.1%	0.3%
People currently in ICU	67	0.0%	0.0%	0.1%
Number of deaths	196	0.0%	0.0%	0.2%

Source: Ministry of Public health at <https://covid19.moph.gov.qa/AR/Pages/default.aspx> as of Aug 30th, 2020

PART 2: ECONOMIC PERFORMANCE 2018-2019

Summary

After Qatar's real GDP (at constant prices) achieved a growth rate of 1.5% in 2018, its growth rate stabilized at negative 0.2% in 2019, mainly due to a decrease in the growth rate of the hydrocarbon sector (oil and gas extraction), which declined by a negative 1.8%. This negativity exceeded the positive growth achieved in the non-oil (non-hydrocarbon) sectors, which climbed by 1.3%.

The growth of the non-hydrocarbon sectors derived mainly from the services sector's contribution of 1.2 percentage points as well as that from the electricity and water sector of 0.11 percentage points, while the contributions of the manufacturing sector and the construction sector decreased by 0.20 and 0.22 percentage points, respectively.

It should be noted that the contribution of the construction sector in the rate of GDP growth has been decreasing since 2018 compared to its

contribution during the past years, due to the completion of the construction of most of the large projects related to the necessary infrastructure for hosting the 2022 World Cup. As for the retreat of the hydrocarbon sector and the associated decline in several manufacturing activities, in particular those activities that are associated with oil and gas inputs, it was due to both to the required periodic maintenance as well as to the decrease in the global demand for crude oil and gas. Furthermore, there also occurred a decline in the demand for raw and semi-raw materials of manufacturing activities.

In regard to the performance of nominal GDP (at current prices), it decreased by 4.1% in 2019 compared to a positive growth rate of about 14.6% in 2018, due both to the decrease in production as mentioned earlier and to the decrease in the average price of crude oil in the global market as shown in Table (2-1).

As for the rate of change in the consumer price index (CPI) in 2019,² it reached about negative

Table 2-1: Qatar's Macroeconomic Indicators 2018 - 2019

	Actual	Preliminary		
	2016	2017	2018	2019
Real GDP (growth at 2013 constant prices)	2.13	1.58	1.49	-0.18
Hydrocarbon GDP (growth %)	-0.91	-0.72	-0.32	-1.85
Non-Hydrocarbon GDP (Growth %)	5.30	3.84	3.19	1.32
Nominal GDP (rate of change %)	-6.19	10.02	14.64	-4.13
Nominal Hydrocarbon GDP (rate of change %)	-25.81	19.51	31.13	-11.59
Nominal Non-Hydrocarbon GDP (rate of change %)	5.61	6.00	6.79	0.24
Consumer price inflation (%)	0.26	0.11	-0.89	-0.59
Fiscal balance (% of nominal GDP)	-6.46	-4.51	2.72	1.55
Current account surplus (% of nominal GDP)	-5.45	3.85	8.70	2.30
Crude oil export Price (\$/bbl)	42.16	53.39	68.61	64.39
LNG Prices (\$/btu)	6.24	6.53	8.48	8.64

Source: publications of PSA and QCB

² Base year have been changed from 2013 to 2018

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0.89% compared to the positive 0.11% of 2018, as a result of the continued decline in the cost of housing, rents, entertainment, and communications, and despite the increases in the costs of transportation, education, health, furniture, and clothing.

In addition, the precautionary administrative measures to confront the consequences of the COVID-19 pandemic, especially the economic and financial decisions taken to limit its economic effects, and when taken in conjunction with the significant decline in prices and the global demand for oil and gas products during the first half of 2020, it is not surprising that the CPI declined further to an average of 2.2% reaching a maximum decline of 3.4% by July 2020.

Moreover, at the local level there was a marked decline in the demand for transportation, entertainment, restaurant meals, hotel stays, and purchases of furniture and clothes, prompted by social distancing measures as imposed globally, which of course led to a decline in the general CPI.

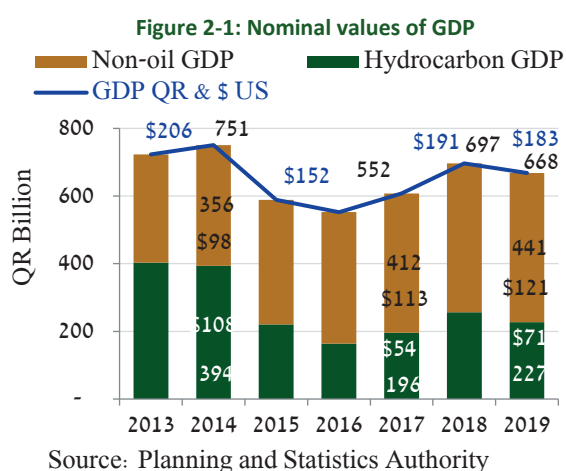
On the other hand, the producer price index (PPI) witnessed a significant decline in 2019 that reached a negative 9%, compared to a growth rate of about 26% in 2018, propelled by the high volatility of oil prices in world markets during 2019.

However, during the first quarter of 2020, the PPI maintained its decline to reach minus 13%, and it declined further during the second quarter of 2020 by about minus 44% because of the sharp deterioration of oil and gas prices due to the global downturn that resulted from the global struggle to containing the spread of the coronavirus, as well as the sharp difference of views between oil producers OPEC and the Russian Federation

Regarding the government's general budget and the current account of the balance of payments, they achieved fiscal surpluses as a percentage of the nominal GDP during 2018 and 2019, mainly due to the improvement in global oil and gas prices during the same period, as indicated in Table (2-1).

Economic Progress

Preliminary national accounts data suggest that the nominal value of the GDP at current prices in 2019 amounted to around Qatari Riyal (QR) 668 billion, equivalent to US\$ 183 billion. While the share of the hydrocarbon GDP is about 34% of total nominal GDP, this is equal to US\$ 71 billion, while the share of non-hydrocarbon (non-oil) GDP amounted to about 66% of total nominal GDP, equivalent to US\$ 121 billion as shown in Figure (2-1).



Regarding the rate of change of nominal and real GDP, Figure (2-2) shows how the nominal GDP declined by 4.1% in 2019 compared to about a 14.6% increase in 2018. The decline in nominal

GDP in 2019 can be attributed to the slowdown in the productivity of some activities of the non-hydrocarbon sectors, in addition to the decrease in the production quantities of some activities of the hydrocarbon sector, as well as the direct impact of fluctuating oil prices during 2019 on the global market compared to the steadier prices of 2018.

Putting aside the impact of price changes, it is evident that the growth rate of the (real) GDP (at constant prices where 2013 = 100) as shown in Figure (2-2), had fallen by just -0.2% in 2019 compared to growth rates of about 1.5% in 2017 and 2018, thus continuing its stability and moderate growth since 2016.

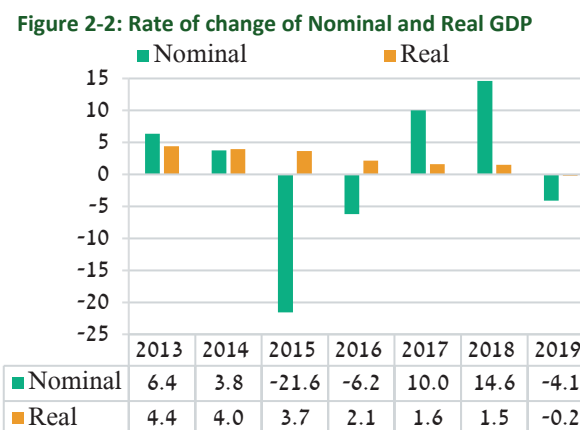


Table 2-2: GDP Deflators for the Main GDP Sectors

	2016	2017	2018	2019
Nominal GDP (QR billion)	552	608	697	668
Real GDP (QR billion)	796	809	821	819
GDP deflator (Index)	69	75	85	81
Mining and quarrying deflator	42	50	66	59
Non-Mining and quarrying deflator	97	99	102	101
Crude Oil price (\$/barrel)	42	53	69	64
GDP deflator (%)	-8	8	13	-4
Mining and quarrying deflator (%)	-25	20	32	-10
Non-Mining and quarrying deflator (%)	0	2	3	-1
Crude Oil price (%)	-15	27	29	-6

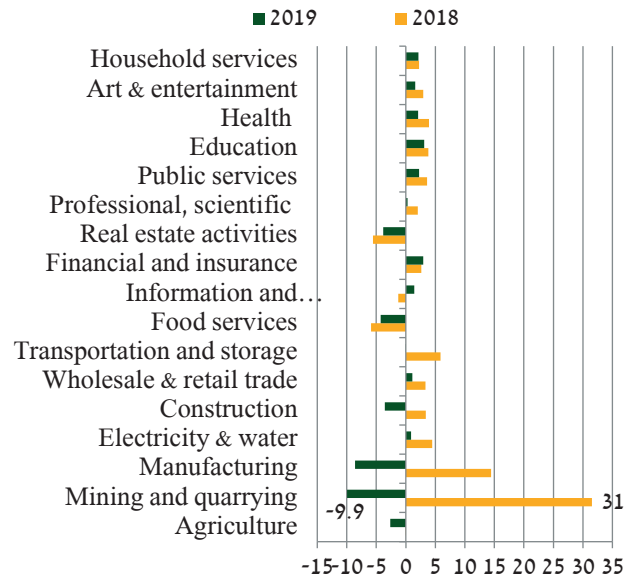
Source: Planning and Statistics Authority

It is noteworthy that the difference between the values of real GDP versus the value of nominal GDP over the past three years is dependent on the rate of change in the GDP deflator, which measures the overall price inflation or deflation in an economy. As shown in Table (2-2), the GDP deflator witnessed sharp fluctuations from minus 8.1% in 2016 to plus 8.3% in 2017, and then with another positive increase of 13% in 2018, before being reduced again at minus 3.9% in 2019.

These fluctuations narrowed the difference between nominal GDP and real GDP. The changes in the GDP deflator are mainly attributed to the effect of the hydrocarbon GDP deflator, which in turn has tracked the rate of change in crude oil prices since 2016. In addition, the hydrocarbon GDP deflator affects the manufacturing sector because 57% of its activities depend on inputs from the primary raw materials that derive from the hydrocarbon sector.

To assess how the twin factors of the increase in oil and gas prices and the implications of the blockade measures have impacted the course of growth or decline of the production and service sectors of Qatar economy during 2018 and 2019, the rate of change in the GDP deflator will be used herewith because it takes into account changes in prices and quantities alike. As exhibited in Figure (2-3), the rate of change in the GDP deflator for the hydrocarbon (mining and quarrying) sector decreased from plus 31.5% in 2018 to minus 9.9% in 2019. As well as this steep decline, the GDP deflator of the non-hydrocarbon economic activities has also exhibited fluctuating negative and positive rates of change for a number of reasons, the most important of which are: the decrease in global demand for manufacturing products, the completion of most infrastructure projects in Qatar, and the contraction of the services offered by the hotel, hospitality, and real estate sectors, which in their entirety led to the contraction of GDP deflator of the non-hydrocarbon from a value of plus 3.5% in 2018 to minus 1.1% in 2019.

Figure 2-3: Rate of change of the GDP deflators (%)



Source: Planning and Statistics Authority

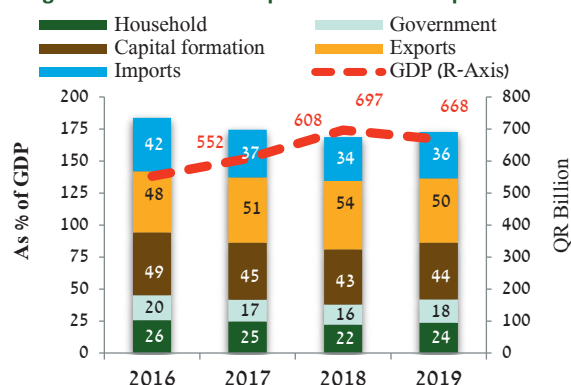
Despite the stability of the population growth rate at 1.4% during 2018 and 2019, the decline in the GDP deflator, and its impact on the total value of the real GDP in 2019, reduced the per capita GDP by negative 1.6% in 2019, compared to its stability at positive 0.2% in 2018. According to the World Bank's data on the real GDP as per the purchasing power parity (PPP), the value of real GDP per capita amounted to about US\$ 112,531. Thus, the State of Qatar is still ably defending its being ranked first globally in terms of countries' per-capita GDP.

GDP by the Expenditure Approach

Most of components of nominal GDP by expenditure for 2019 witnessed changes in their shares as percentage of the total GDP as indicated in Figure (2-4), except for exports that decreased from 54% in 2018 to 50% in 2019. However, imports increased to 36% compared to 34% in 2018. It is noted that the total exports and imports constitute about 88% of the GDP during (2016-2019), which reflects the degree of Qatari economy openness to the outside world and its dependence

on export revenues and imported goods due to the limited local production base.

Figure 2-4: Share of components of GDP expenditure



Source: Planning and Statistics Authority

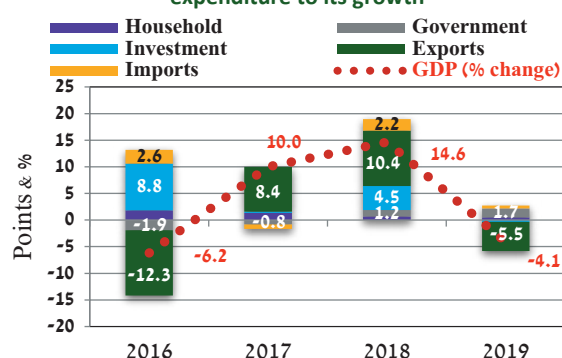
The component of capital formation (public and private investment) ranks second in the formation of GDP, achieving an increase of one percentage point. Such a rise mirrors the impact of the increase in public and private investments in the field of completing several economic and social infrastructure projects, in particular those projects related to hosting the 2022 FIFA World Cup, as well as policies that encourage the private sector to continue development of major construction projects; such as shopping centers and residential cities. This is accompanied by support of feedstock materials for downstream manufacturing facilities (products derived from the hydrocarbon sector, which are thereafter used in other production processes in the fields of manufacturing, electricity production, or fertilizers), as well as State's policy to support investment in the manufacturing industry, notably for the food industry.

In reference to the household consumption expenditure component (that is, private consumption), it reached about 24% of nominal GDP, achieving an increase of 1.5 percentage points, which indicates a modest increase in

aggregate demand in line with the magnitude of the increase in the rate of population growth.

According to an expenditure approach, the contribution of the GDP components to the total annual rate of change for the year 2019 oscillated between a positive and negative contribution, in marked contrast if compared to the previous year (2018) when all components contributed positively, as shown in Figure (2-5).

Figure 2-5: Contribution of components of GDP expenditure to its growth



Source: Planning and Statistics Authority

It is evident that the export component drives the change in the rate of change of nominal GDP: when its contribution increases, the rate of change moves up, and when it decreases, it moves downward. This export component is followed by capital formation in regard to ultimate impact on the rate of change of GDP; however, its contribution fluctuates because it is used as "residual" – that is, to absorb statistical computational differences so that the GDP by the production approach is equal to the GDP by the expenditure approach.

Moreover, the remaining components of GDP by the expenditure approach also contribute to its rate of change; however, it is subject to external factors. For example, government consumption expenditures contributed positively during 2018-

2019, after contributing negatively during 2016-2017. This reflects the role of the level of oil and gas revenues in increasing and reducing government consumption expenditures.

Upon using the Consumer Price Index and the hydrocarbon and non-hydrocarbon GDP deflators to remove the impact of prices from expenditure components on the current GDP, private consumption at constant prices has maintained its growth rate, reaching 7% in 2019 compared to 2% at current prices. This can be largely attributed to the spending on consumer and service goods. Also, the government’s consumption witnessed a growth rate of 16% at constant prices compared to 11% at current prices, assuredly because of the increased pace of spending on economic and social development services (such as current and capital expenditures).

Based on the interaction between the supply and demand forces in the economy, the gross savings rate in Qatar decreased by about 16% in 2019, bringing the total saving share to 51% of the nominal GDP compared to about 59% in 2018, as shown in Figure (2-6).

However, although the rate of savings as a percentage of nominal GDP declined during 2015-2017 as a result of lower oil revenues compared to the period 2011-2014, it remains among the highest saving rates in the world and always provides an indication of the magnitudes of the capital account, gross capital formation, and the current account.

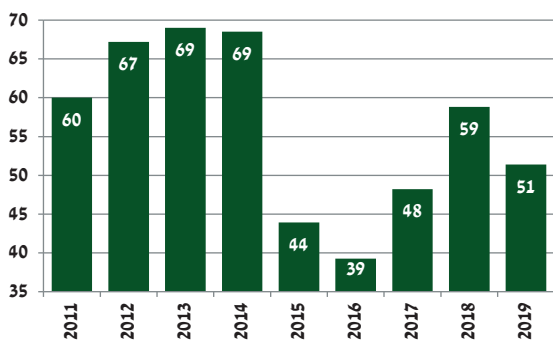
Although the above indicators are important, they should be used only as indicative metrics rather than as absolute figures and should therefore be treated with caution, since they may be subject to computational errors when estimating GDP by the expenditure approach.

Potential to Diversify Economic Activities

The economic and social development policies adopted by the State of Qatar during the period (2014-2016), whether those related to diversifying the economy, financing development projects related to hosting the FIFA World Cup 2022, or measures to confront the repercussions of the blockade³, have contributed to changing the relative share of each of the components in the GDP.

In order to comprehend the impact of these factors, which also coincide with price and demand fluctuations for oil and gas products and their derivatives from the manufacturing industry during the same period, the hydrocarbon GDP will be compared to the non-hydrocarbon GDP, both at constant prices (real GDP) or at current prices

Figure 2-6: Total savings as a percentage of GDP

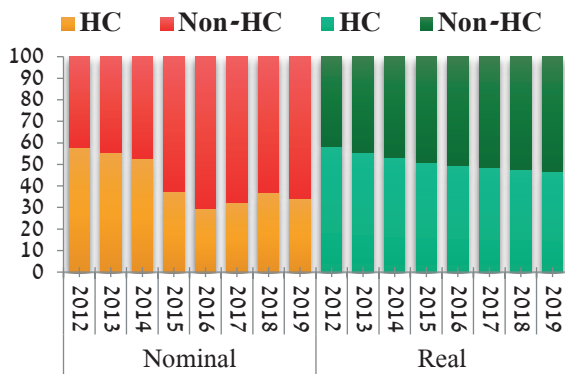


Source: Planning and Statistics Authority

³ Saudi Arabia, UAE, Bahrain, and Egypt have imposed an air, land and sea blockade on the State of Qatar since June 5, 2017.

(nominal GDP) as shown in Figure (2-7), where a slight decrease is observed across the period (2012 - 2019) in the share of the hydrocarbon sector in the composition of GDP at constant (real) prices in favor of the increase in the share of the non-hydrocarbon sectors.

Figure 2-7: Main economic sectors as a percentage of GDP



Source: Planning and Statistics Authority

On the other hand, it can be observed that the share of the hydrocarbon sector in the composition of the GDP at current (real) prices has fluctuated somewhat during this same period, simulating with these oscillations the volatility that occurred in the oil and gas markets during the same period (refer to the discussion of the producer price index).

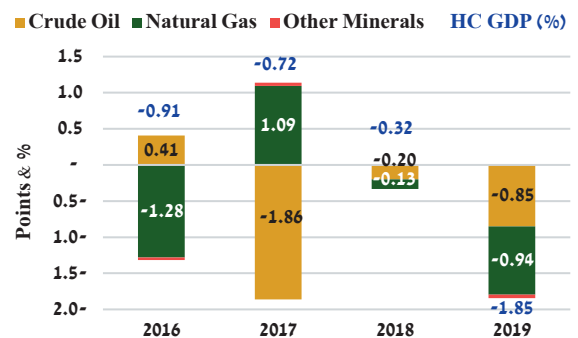
It should not be surprising that revenues play a pivotal role in shaping the output growth of the hydrocarbon sector as Figure (2-8) indicates, and the reason for this is that Qatar's exports of liquefied natural gas represent about 65% of its total hydrocarbon exports, which in turn constitute about 87% of total exports. For destinations, the Northeast Asian markets account for 75% of Qatar's gas exports, while the remainder is exported to the rest of the world, notably to Europe and Latin America.

Given that gas prices are geographical rather than global, prices in Northeast Asia are higher than prices on the European or American market, but they are also linked to crude oil prices (refer to the Appendix for economic and financial concepts and terms), and thus revenues from natural gas are subject to fluctuations, as are revenues from crude oil, albeit less sharply.

According to the 2019 annual report of the International Group of Liquefied Natural Gas Importers (GIIGNL), Qatar's exports of liquefied natural gas amounted to about 77.8 million tons, which constitute about 21.9% of the total imported globally in 2019 (354.7 million tons). Therefore, the State of Qatar still ranks ahead, but barely, of Australia for the first place in the export of gas, which for Australia amounted to approximately 21.3% of the total.

This simple comparison illustrates the extent to which the State of Qatar's economic growth path is strongly tied to, for better or worse, the market for hydrocarbon products. And so on the other hand, it strongly suggests the vital importance of increasing economic diversification opportunities and reducing dependence on the hydrocarbon sector, by taking advantage of the developments

Figure 2-8: Contribution of the hydrocarbon sectors' activities

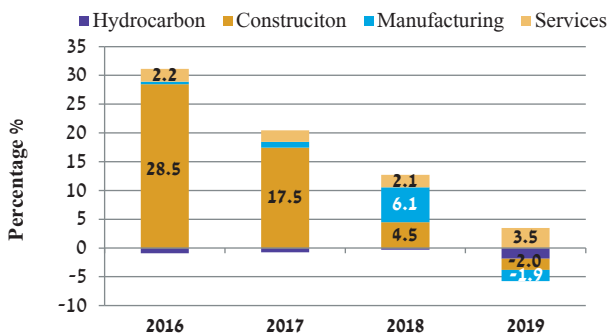


Source: Planning and Statistics Authority

experienced in many sub-activities of the non-hydrocarbon sectors, which have successfully led economic growth processes during the period (2016 - 2019). Notably, the non-hydrocarbon sector has shown an average annual growth of about 5.3 %, comparing vary favorably indeed to the minus 0.95% decline of the hydrocarbon sector.

As can be seen from Figure (2-9), it is clear that the construction sector had experienced an average annual rate of change of 12% during (2016 - 2019), followed by the services sector by 2.45%, and the manufacturing sector by 1.4%.

Figure 2-9: Rates of change of the GDP's sectors



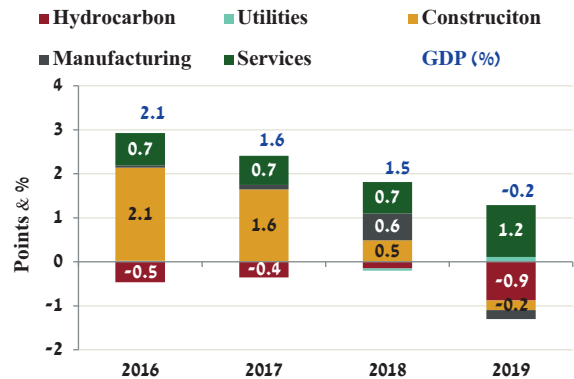
Source: Planning and Statistics Authority

As for the contribution of the main economic sectors to GDP growth, they witnessed shifts in the levels of their contribution to the real GDP growth rate during the period (2016 - 2019). As can be seen in Figure (2-10), the construction sector played the role of being the main driver of economic growth with an average annual contribution of 1.4 percentage points, having a maximum of 2.1 percentage point and with a minimum of 0.5 percentage points. However, its contribution declined in 2019 by 0.22 percentage points because most infrastructure projects had been completed. In contrast, the contribution of the services sector to real GDP growth rate stabilized at an average of 0.7 percentage points

during the same period, but its contribution jumped in the year 2019 by 1.2 percentage points. These contribution transformations during the period (2016-2018) are due to the transitions that the State of Qatar went through, in terms of a broad urban development movement in the arena of infrastructure, with both public and private investments, which promoted and stimulated the activities of the construction sector.

With the completion of most construction projects during the years 2018 and 2019, the percentage of the construction sector's contribution began to decline in favor of the services sector, such as transportation, financial transactions, logistic service, and trade. As the services sector strengthened to provide greater contributions to the growth rate of GDP in 2019, the contribution of the manufacturing and construction sectors concomitantly decreased by 0.2 and 0.22 percentage points, respectively.

Figure 2-10: Contributions of the GDP's sectors to its growth



Source: Planning and Statistics Authority

On the other hand, the negative contribution of the hydrocarbon sector (mining and quarrying) continued to form the basis of the rate of real GDP growth during the period (2016-2019), due to the relative stability of the quantities produced with limited variation to reflect the periodic

maintenance and modernization of many oil and gas fields.

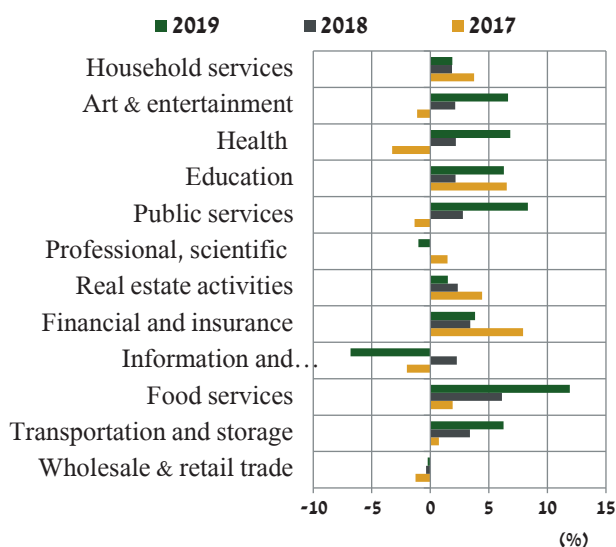
The Services Sector

The services sector, with its various administrative, commercial, economic, financial, and social components, is one of the most important sectors of the Qatar economy. During the period (2016-2019), its activities constituted an average of 46.8% of the overall nominal GDP and an average of 70% of the nominal non-hydrocarbon GDP. The services sector witnessed an average annual growth of 2.4% during this same period, and contributed to the total growth rate of real GDP by 0.82 percentage points; crucially, in addition it contributes by providing employment for about 44% of the labor force.

exported. However, the State of Qatar has worked diligently during the past several years to encourage the public and private sectors to invest in cross-border services such as financial services, insurance, telecommunications, and transportation, and therefore there may be prevailing external factors that can affect the level of development of several of the services sector’s activities.

By reviewing the rates of change (growth and decline) of the services sector components at constant prices during the period (2016-2017), which is shown in Figure (2-11), it can be seen that they fluctuated both horizontally and vertically. This indicates how the production levels of other sectors including mining, manufacturing, and the utilities of electricity and water, and construction impact on the production of the services sector’s components both positively and negatively.

Figure 2-11: Rates of change by sub-sector of the service sector



Source: Planning and Statistics Authority

Most of the services sector activities are not traded internationally and thus are primarily affected by local supply and demand factors, with the exception of the wholesale and retail trades, together with professional and educational logistics services, all of which can potentially be

The services sector’s activities also respond to the government’s policies, including the measures adopted to counter the repercussions of the economic blockade, in particular, adaptive policies to support the financial, banking, transportation, and trade sectors. Also, several procedures were eased to dissipate the barriers that retarded local and foreign investments, specifically improvements in governance as well as required administrative and economic reforms, from which all sectors benefitted and continue to benefit today, both directly and indirectly.

Since mid-2017, the blockade measures have affected only some sub-sectors of the service sector, which were represented in preventing Qatari means of transport from using the maritime navigation of the blockading countries and closing the only land port with Saudi Arabia. These measures initially led to an increase in import costs

and a decline in the activities of the transportation and storage sector.

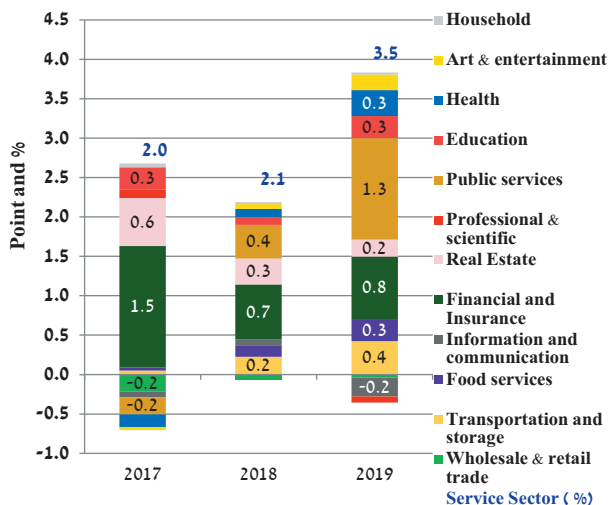
In addition, the ban on Qatar Airways from using the airspace of the blockading countries, or from going to their airports, has led to a reduction in the number of Qatar Airways destinations.

Furthermore, obstructing visitors from the countries of the Gulf Cooperation Council have contributed in reducing the number of visitors from an average of 116 thousand visitors, during the second half of 2016, to an average of 19 thousand visitors during the second half of 2017. The average number of visitors remained around 18 thousand during 2018 and 2019.

Financial services and insurance were also directly affected, due to the decrease in the deposits of non-residents in Qatari banks, and the decrease in banking services with the blockading countries.

The blockade’s measures also indirectly affected several of the services sector’s activities, especially arts and entertainment services, professional real estate and logistical services, and household business services as shown in Figure (2-12).

Figure 2-12: Contributions of sub-sectors of the service sector to its growth



Source: Planning and Statistics Authority

However, a number of activities witnessed counter-intuitive improvements, such as wholesale and retail trade, as well as hospitality and hotel activities.

Notwithstanding the aforementioned declines, all service sectors were able to adapt to the imposition of the blockade, and regained their growth during 2018 and 2019, with the sole exception of the wholesale and retail trade sector, which while witnessing a remarkable improvement, still managed only negative growth, most likely reflecting the relative decline in sales of high-priced durable goods such as cars, as well as major household appliances (refrigerators, washing machines, etc.).

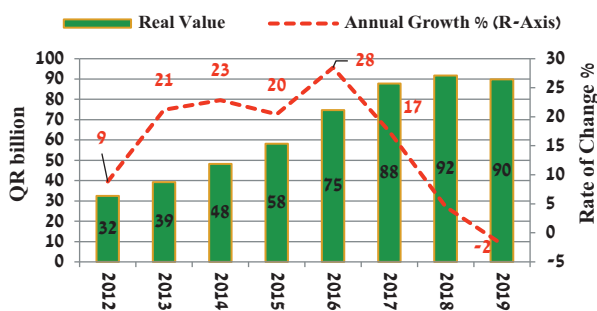
Based on the foregoing discussion, it can be concluded that the growth of aggregated domestic demand (consumption and investment) by about 2.3% in 2019, in addition to the precautionary and administrative measures taken by a number of sectors to contend with the repercussions of the blockade, had a prominent role in stabilizing the performance of the services sectors, especially the sub-sectors of transport and storage, hospitality, health and social work, education, arts and entertainment.

As for the contribution of the components of the services sector to its total growth in 2019 of 3.5%, as indicated in Figure (2-12), it derived from the positive contribution of public services activities, at a rate of 1.3 percentage points, and for financial services and insurance by about 0.8 percentage points, followed by transportation and storage services by 0.4 percentage points. There is also a relatively negligible negative contribution from the sub-sectors of the wholesale and retail trade, communications, and logistical activities.

Construction

In implementation of the national commitments made to establish advanced infrastructure projects that keep pace with the requirements of sustainable development, and respond to the needs of hosting the 2022 FIFA World Cup, Qatari cities underwent a relatively large-scale urban development process during the period (2012-2017), which resulted in the construction sector achieving high growth. The annual average in fact reached about 20%, as indicated in Figure (2-13), which enabled it to import and absorb more than 42% of the total workforce residing in the State of Qatar, or the equivalent of 882,534 workers.

Figure 2-13: Value and growth of construction sector



Source: Planning and Statistics Authority

In spite of the commencement and completion of a number of large development projects in 2018 and 2019, building and construction activities remained robust overall, especially in regard to the finalization of the remaining large construction projects, as well as to complete a number of medium- and smaller-scale projects, which resulted in the sector maintaining its share of the nominal GDP at 14%; this then equated to 21% of non-hydrocarbon output, but as some these projects successfully came to completion in 2019 it declined by about 2%, and it is expected to decline even further over the next few years.

Utilities of Electricity and Water

Despite the small contribution of the utilities sector (electricity and water) in the composition of the nominal GDP, which was equivalent to only 1.1%, with a value of QR 7.4 billion in 2019 compared to the total value of the nominal GDP of QR 667.8 billion, it is still one of the most important sectors driving economic and social development in Qatar over the past decade, and it will remain one of the most important sectors in the years to come.

The sector has achieved strong growth during the period (2014-2017), reaching an average of 21% at current prices and 5.8% at constant prices. This growth can be attributed to the importance of electricity and water services as irreplaceable commodities, as they are one of the most important inputs to production factors and a major lever to advance economic and social development.

Since the adoption of the Qatar National Vision 2030 in 2008, the State of Qatar has undergone an economic and development boom in all fields, accompanied by a horizontal and vertical expansion in the use of information technology and the spin-off of the automation of production process at all levels of the daily life of individuals and families, as well as, as can be anticipated, in industrial and service production. Of course, what this boom benefited from was the provision of the appropriate institutional infrastructure as well as improvements in the business environment, which together were conducive to encouraging the private sector to invest in the production of

electricity and water services in sufficient quantities (and quality, as regards water) to meet the burgeoning development needs (Box 2-1).

Real GDP data showed, during the period (2011-2016), that the electricity and water sector achieved strong growth, but it has experienced a downward trend since 2013 due to the horizontal and vertical expansion of the production and distribution of water and electricity to consumers. However, an expansion of transmission stations and distribution networks was made, which continued during the period (2017-2019). Nonetheless, the companies operating in the sub-sectors of both electricity and water production were unable to boost their production, and were limited to using their available production capacities to generate sufficient power and water to meet the local demand. Therefore, electricity and water production slowed down in 2018, and witnessed negative growth (Table 2-3). However, since mid-2019, electricity and water production activities have witnessed a remarkable growth of 36% and 23%, respectively.

Generally speaking, the fluctuation in electricity and water production during the past three years is due to a number of factors, the most important of which are: (1) the use of electricity and water during construction of large projects (Doha Metro, Hamad Port, and Hamad International Airport) has led to an increase in demand. But once the construction was completed for these projects, the demand for power and water naturally decreased, but it again increased when the Doha Metro system began operating, and the use of sports facilities and modern residential city facilities began. (2) The periodic maintenance of production facilities and the gradual completion of transmission stations and electrical distribution networks may have led to

Box 2-1: The Institutional Arrangements for Producing Electricity and Water

The Ministry of Electricity and Water was established in 1971, to manage facilities for producing electricity and water, and connecting them to residential cities, and industrial and service facilities. To keep pace with the economic and social development and urban expansion witnessed by the State of Qatar since 1997 after the export of the first shipment of LNG, the State has intensified its efforts to achieve water and electricity security by restructuring the electricity and water sector. Qatar has also established an integrated and advanced system for energy and water infrastructure through the use of the latest production technology and adherence to international standards, which require partnership with the domestic and foreign private sector in order to benefit from modern technology and global experience.

In order to improve performance and complete the restructuring mission, the electricity and water production utilities were separated from the task of developing and managing electricity and water transmission and distribution networks as follows:

First: With regard to electricity and water production, a global system called "IPWPs (Independent Power and Water Providers)" has been adopted, whereby the task of establishing electricity and water production utilities was assigned to independent companies that are established as public-private joint stock companies. Such a system would grant the private sector the opportunity to participate in investment in development projects that were previously monopolized by the government. Consequently, the process of generating electricity and producing water in Qatar is currently carried out in two phases:

- (1) Qatar Petroleum provides the independent power and water producers (IPWPs) with fuel suitable for production, especially LNG.
- (2) IPWPs produce both products. Most of the production comes from Qatar Electricity and Water Company, which was established in 1990 as a joint-stock company (62% of total electricity production and about 79% of water production). A group of independent companies owned by local and foreign investors provide the rest.

Second: The General Electricity and Water Corporation "Kahramaa" was established by Law No. 10 of 2000 as an independent public institution to manage the process of establishing and maintaining transmission and distribution networks and then manage the financial and administrative aspects of providing water and electricity services to consumers.

Up until 2017, the number of subscribers to electricity service reached 364.6 thousand, while for water services reached 317.2 thousand, in which the industrial purposes account for 24% of total consumption, while household consumption accounts for about 69%. About 6% of electricity consumption is used inside power generation and water desalination plants. The loss is about 6%.

a partial cut in production. (3) Continuous improvement in the efficiency of production, its transportation and distribution, using the latest technologies, especially if strong investment is made in distributed renewable energy, will lead to a reduction in waste. (4) Also, awareness efforts in rationalizing use is likely to help reduce overall demand.

According to the World Energy Statistical Review report, Qatar’s per capita annual consumption of primary energy in 2019 was about 116.7 barrels of oil equivalent (Barrels of oil equivalent), and thus it ranked first in the world, followed by the per capita share in South Korea with 99.9 barrels, and the UAE with 80.8 barrels, Kuwait with 63.6 barrels, and Saudi Arabia with 52.6 barrels, and the reason is

due to the uses of primary energy derivatives in the production of electricity and water desalination. This is anticipated to change in the years ahead as Qatar strives to meet its Nationally Determined Contributions to the Paris Agreement.

Table 2-3: Production and Output of Electricity & Water

	2016	2017	2018	2019
Water (million M3)	559.7	543.1	469.3	636.3
Electricity (Terawatt-hours)	42.4	43.9	39.5	48.6
Electricity and Water (Nominal QR bln)	6.0	6.2	5.8	7.4
Electricity and Water (Real QR bln)	3.7	3.7	3.4	4.3
Rate of Change %				
Water (million M3)	5%	-3%	-14%	36%
Electricity (Terawatt-hours)	3%	4%	-10%	23%
Electricity and Water (nominal)	51%	3%	-6%	28%
Electricity and Water (Real)	4%	1%	-10%	27%

Source: Kahramaa and prepared by PSA

Manufacturing

Since the adoption of the approach of economic diversification and private sector development in 2008 as one of the strategic goals of the Qatar National Vision 2030, the manufacturing sector has been, and still is, one of the most strategic options for achieving diversity, given the sector's promising potential and multiple opportunities to expand its production base horizontally and vertically. To this end, the government has taken a host of legislative, legal, and administrative measures to improve the business environment in the area of manufacturing, and has provided a number of financial and in-kind incentives that have led to the broadening of the productive base of the sector.

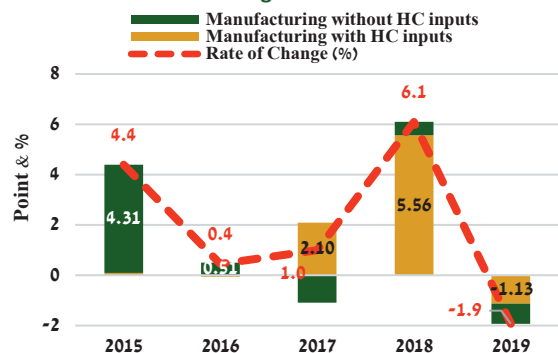
The activities of the manufacturing sector are divided into two groups: the group of industrial activities with hydrocarbon inputs, such as oil refining, petrochemicals, and fertilizers, accounting for 57% of the total activities of the sector. The group of industrial activities with non-hydrocarbon inputs such as the food industry and building materials, which together account for about 43% of the total sector.

As a result of the developments experienced by a number of activities of each group during the period 2015-2019, the contribution of each group in forming the GDP growth rate of the manufacturing sector showed a fluctuating performance with both a positive contribution or a negative contribution over the years, as indicated in Figure (2-14). For example, the introduction of Laffan Refinery 2 into the activities of the sub-group of hydrocarbon inputs contributed to achieving a high rate of growth for the sector overall. However, some activities in the sub-group of the petrochemical and fertilizer industry

underwent maintenance and modernization processes that led to only a moderate contribution in growth. Of course, also affecting growth has been the indirect impact of fluctuating global oil and gas prices, as well as fluctuating global demand for raw and semi-manufactured materials from Qatar.

Although the repercussions of the economic blockade have had a negative impact on some activities in the services sector, as mentioned in greater detail above, their impact on the activities of the manufacturing sector has been either non-existent or positive. The blockade has had no discernible impact on the sub-group of manufacturing activities with hydrocarbon inputs, due to the limited relationship with the blockading countries in this sub-group's activities. The sub-group of manufacturing activities with non-hydrocarbon inputs attained the positive impact. Some of which activities benefited from the government support for industrial and agricultural projects related to achieving self-sufficiency in a number of consumer goods, especially perishable (non-durable) ones, and those that can be established via rapid technology transfers, such as nutritional products from fresh foods and dairy

Figure 2-14: Contribution of manufacturing activities to its growth



Source: Planning and Statistics Authority

products. Thus, for example, the activities of the food industry achieved growth rates of about 7%, 6% and 1.1% during 2017, 2018, and 2019, respectively.

Economics of the Labor Force and Population

The population of the State of Qatar at the end of 2019 reached about 2.8 million, and the number of the workforce was about 2.1 million workers. The expatriate workforce accounts for about 94.9% of the total workforce. Given that the fluctuation in the size of the expatriate workforce is directly linked to the extent of how much it is required, the variables of economic growth play a pivotal role in the path of the annual rate of change of the population.

From the relative distribution of employment according to economic functions and their growth levels, as shown in Table (2-4).

Table 2-4: Relative Distribution of Expatriate Labor by Sector in 2019

Enabling sectors	Financial and insurance	0.5%
	Transportation and storage	3.1%
	IT	0.6%
	Electricity & Water	1.1%
Tradable	Mining and quarrying	4.5%
	Agriculture,	1.4%
	Manufacturing	7.6%
	Wholesale and retail trade	12.6%
	Professional activities	0.9%
Non-tradable	Construction	44.2%
	Govt & Social Services	5.0%
	Admin, real estate, food	8.8%
	Arts Entairtainment	1.1%
	Household	8.7%

Source: Planning and Statistics Authority

it is clear that the construction sector absorbs the bulk of imported labor, i.e., about 44.2% of the total expatriate workforce in 2019, followed by the wholesale and retail trade sectors at 12.6%, real estate and hotels and other accommodation at 8.8%, household services also at 8.7%,

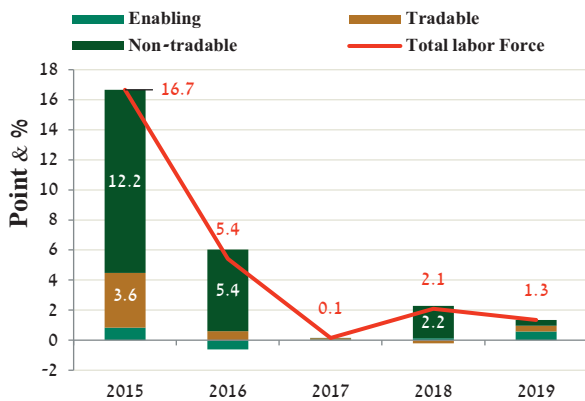
manufacturing at 7.6%, and public services including education and health at just 5% - although a crucial 5%, as obviously these people are well-educated. Therefore, and based on what is described by the data in the table, it can be postulated that the demand for expatriate workers will remain linked, to a large extent, with the level of performance of the various sectoral economies, in terms of shrinkage or growth of any of these sectors but perhaps especially the construction sector. It will also be subject to the level of size and skill of the work force required by the economic sectors, as well as in accordance with the nature of economic activities and the quality of the products, in terms of their tradability or not.

In order to identify the dimensions of the distribution of expatriate labor among the different economic activities, the economic sub-sectors of the GDP were classified according to the nature of their products, and the extent of their ability to be traded in international markets, as indicated in Table (2-4), assuming that the employees required to produce traded goods, which represents 27% of the total, will be better skilled, qualified, and experienced. Thus, the traded goods sector should have the ability to grow and retain jobs. Conversely, retaining the bulk of the labor force in the non-tradable sectors, which represent a massive 68% of the total labor force, will depend on the level of domestic demand, which in turn will be subject to economic cycles, and which may often lead to layoffs during a recession. On the other hand, the workforce in the enabling / supporting sectors that support the economy as a whole, including telecommunications, utilities, financial activities, insurance, and transportation, and which account for 6% of imported labor, are relatively stable in the face of fluctuations in economic cycles; however,

this does depend on the stability of the country's overall economy.

During the period (2015-2019), the expatriate workforce underwent varying growth rates as indicated in figure (2-15), reaching an average of 4.8%, and where it ranged between positive 16.7% at a maximum in 2015 while falling to minus 0.04% at a minimum in the year 2017, as a result of the sense of unease and great uncertainty triggered by the imposition of the economic blockade; subsequently, with the repercussions of the blockade being perceived as diminishing, the labor market returned to growth again at a rate of 2.1% and 1.3% during the years: 2018 and 2019, respectively.

Figure 2-15: Contribution of sectoral expatriate labor to the labor force



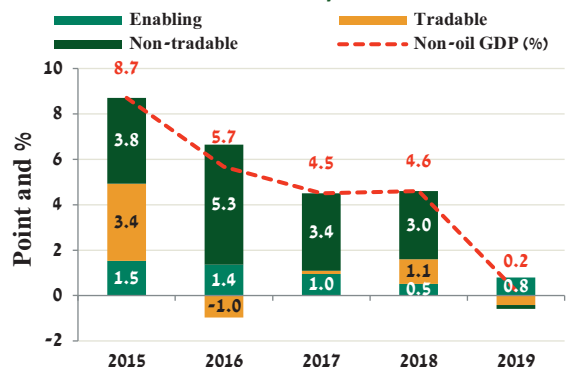
Source: PSA and *excluding labor force of Hydrocarbon sector

By analyzing the path of the contribution of activities in the production of traded goods and services, versus the activities of producing non-traded goods and services in forming the annual rate of change of the workforce, it becomes clear from Figure (2-15) that activities in the production of non-traded goods and services played a vital role during the years 2015 and 2016 in increasing the demand for labor, especially in the field of construction, in order to meet the implementation targets of the infrastructure projects necessary to

host the 2022 FIFA World Cup, reaching a rate of 12 percentage points of the total workforce growth of 16.7% in 2015. Notably, the rate of employment growth in 2017 is noticeably slower, due to the repercussions of the economic blockade; however, it quickly returned to moderate growth during the years 2018 and 2019.

In terms of contributing to the formation of the annual rate of change of the gross domestic product of the non-hydrocarbon (non-oil) sectors when analyzing the contribution of the activities of the production of traded goods and services versus the production of non-current goods and services, this is demonstrated in Figure (2-16). It can be noted that the non-tradable activities remained relatively constant with some minor fluctuations, while the contribution of traded activities decreased, due to the decline in oil and gas prices since mid-2014. As for the activities of the enabling sectors (aiding and supporting other sectors), these of course grow and flourish or decline and deteriorate according to the prosperity of any of the traded and non-traded activities, but are more affected by the course of activities of traded goods and services.

Figure 2-16: Tradable and non-tradable sectors' contribution to non-hydrocarbon GDP



Source: PSA *excluding FISM and Import Duty from non-Oil GDP

According to the results of the 2019 labor force survey, skilled and highly skilled workers are well represented in the labor market composition in the Qatari economy, reaching 609.9 thousand workers, which equates to 30.5% of total expatriate workers (2.0 million workers), as show in Figure (2-17). The skilled and highly skilled labors are distributed among the sub-sectors of non-tradable activities such as the construction sector at 55%. Then, among the sub-sectors with traded activities at 36%, which consists of the activities of the industrial sub-sector in the hydrocarbon and non-hydrocarbon sectors, then among sectors with supporting and enabling activities such as utilities, communications, and banks at 9%.

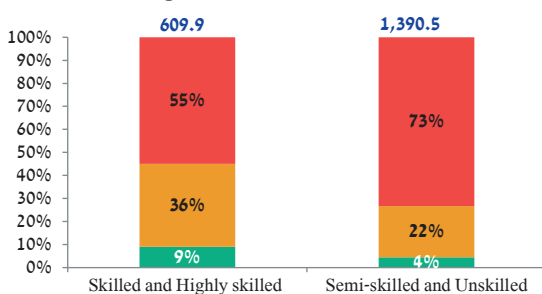
services at 73%, followed by sub- sectors producing trade goods and services at 22%, and followed by sub-sectors with supporting and enabling activities at 4% as show in Figure (2-17).

To the extent that the Qatari economy benefits from the services of unskilled and semi-skilled workers, countries that export such laborer also benefit through financial returns – the remittances – sent home by the workers, and their practical experience gained while working on Qatar's development projects. The total current transfers of expatriate workers (remittances) during the period (2011-2019) amounted to about US\$ 102 billion, with an annual average of US\$ 11.4 billion.

On the other hand, and in view of the development projects that are being implemented during the current period and planned for the future, it is expected that the need for the unskilled and semi-skilled workforce will continue. For example, the expected expansion of gas production from the North Field gas reservoir will require a high percentage of unskilled and semi-skilled laborers.

In addition to the less-skilled workforce, given that the Qatari economy is currently moving along a trajectory with the goal of having a digital economy based on knowledge, in particular with the current enactment of the country's strategy to enhance the role of research, development, and innovation activities, it can be expected that the highly skilled imported workforce will enlarge and flourish over the next decade.

Figure 2-17: The composition of expatriate skills
 ■ Enabling sectors ■ Tradable ■ Non-tradable



Source: Planning and Statistics Authority (various Labor Force Survey T.87)

The economic development witnessed by the national economy during the past years at all economic and social levels has provided job opportunities for hundreds of thousands of semi-skilled and unskilled workers, so that in 2019 their number reached to greater than 1.4 million workers, equivalent to 69.5% of the total expatriate workforce. This workforce is distributed among sub-sectors producing non-trade goods and

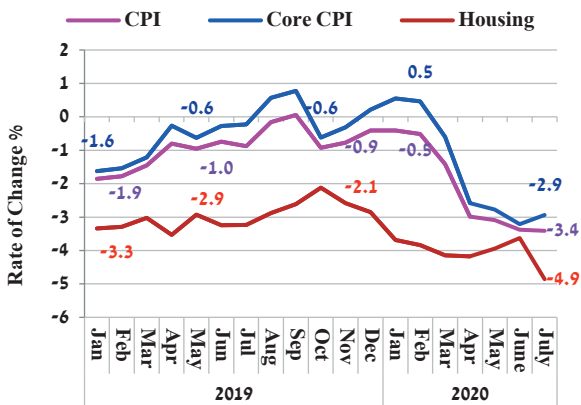
Prices

Consumer Price Index

The General Consumer Price Index (CPI)⁴ in Qatar witnessed a significant decrease in the rate of its monthly changes in 2019, causing the annual average to contract by an average of negative 0.89% compared to an annual average of positive 0.11% in 2018.

As for the period (Jan-July) of 2020, the deflationary intensity of the general index and core index increased to minus 2.2% and minus 1.6%, respectively as shown in Figure (2-18), mainly due to the measures taken by the government since March 2020 to counter the consequences of the Covid-19 pandemic.

Figure 2-18: Consumer Price Indices: general, core and housing



Source:PSA (base year 2018=100)

There are a number of factors that affect the CPIs to move it up or down. The most important of these are the dynamic factors related to the dynamic availability of goods and services, the level of supply and demand for goods, and whether the consumer goods involved in moving the index are produced locally or imported. In addition, it is possible for the price index to be affected by the

dynamics of economic policies, in particular fiscal and monetary policies, adopted by the State of Qatar as represented by the Ministry of Finance and the Qatar Central Bank, to counter the negative repercussions of the blockade, as well as the implications of procedures to contain the fallout from the Covid-19 virus.

It is worth noting that one of the most important groups of the consumer price basket that has been affected and is still being affected by the dynamics of supply and demand since 2016, is the housing group (rents and the cost of utility services). The Planning and Statistics Authority excludes the housing group from the CPI basket when calculating the Core CPI. But when taken separately, the housing group index also shows a steep decline, dropping from 3.9% in 2015 to negative 1% in March 2016, while continuing to fluctuate by negative values during the past three years. The average decline during the period (January 2019 - July 2020) was about 3.4%.

As for those CPI groups that were affected by the repercussions of the economic blockade, these transitioned through three stages, as indicated in Figure (2-19).

The first stage was in the immediate period after the blockade was imposed (May 2017 - May 2018), the transportation and food sectors acted as inflationary groups for the core indicator, increasing it from an average of 1.1% to an average of 2.0%, primarily a result of the higher transportation costs to import commodities. On the other hand, the groups of housing, and activities related to tourism, acted as reducers to the general index, decreasing it from an average of

⁴ Starting Jan, 2020, new base year (2018 instead of 2013)

0.5% to an average of 0.1%, then to an average of 0.3% during the same period. This is due to the decrease in the number of visitors from the Gulf Cooperation Council countries, who most often utilize hotel services and restaurants, as well as patronizing leisure and entertainment services, which led to an increase in the supply of tourism facilities (an oversupply) during this period of lower demand, which therefore motivated the service providers to reduce prices.

The second stage was during the period (May 2018 – December 2019) when the effects of the blockade was diminishing. The average of the two indicators, General and Core, witnessed a noticeable decline, as Figure 2-19 demonstrates.

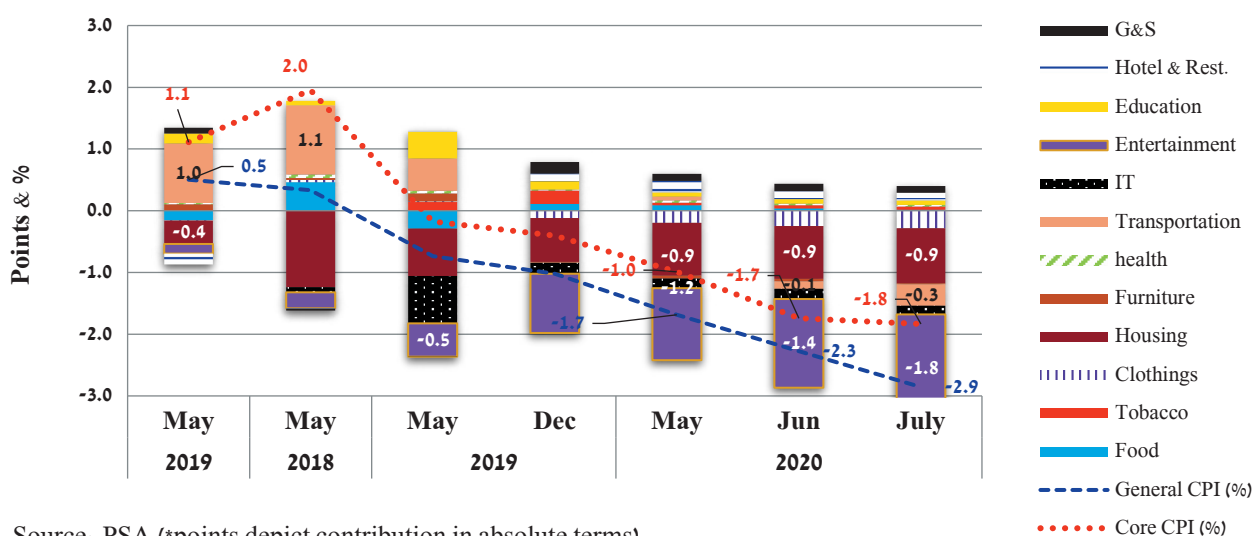
The third stage was during (Jan-July) of 2020 when the measures to contain the Covid-19 virus have intensified the decline of the General CPI since March 2020, attaining an average of negative 2.2%, while the core index similarly declined by an average of negative 1.6% during the same period.

The policy measures taken by the government to confront the effects of the blockade have contributed to reducing the general CPI since May 2018, the most important of which are: the expansion of food production activities, such as vegetables, fruits, dairy products, and white meat. The exploration of new shipping methods to international markets directly from Qatari ports - Doha, Ruwais, and Hamad Ports. In addition, government strengthened and further capacitated the administrative facilities provided to exporters and importers who supply the local markets with all food and non-food commodities, which reduced the costs of import.

Therefore, the above measures have made the food group contribute negatively to the CPI during the second year of the blockade (May 2019). Still, it positively contributed during the third year of the embargo (May 2020), which may be due to the higher prices of imported food.

It is worth noting that the official opening of Hamad Port in September 2017 had the greatest impact in overcoming all obstacles to importing

Figure 2-19: CPI by basket groups (points & %)



Source: PSA (*points depict contribution in absolute terms)

goods directly without a third-party intermediary, as a result of its capability to receive and provide services for various sizes of ships and vessels with a capacity of 2.5 million TEUs annually (20-foot containers). The port has facilitated the use of a number of maritime shipping routes that link Qatar to worldwide ports.

For further clarification of the contribution of the remainder of the components of the general consumer price index, it is clear from Figure (2-19) that the education price index has contributed positively since before the blockade (May 2017), but its contribution increased more during the second year (May 2018). This likely due to the increase in tuition fees. The application of the excise tax (selective tax) on harmful goods (such as tobacco and energy drinks) since the beginning of January 2019 has made a positive contribution to the general index. Moreover, the linkage of transportation costs with fuel prices locally and internationally made the transportation index contribute positively to the general index from prior to the blockade, but its contribution has diminished during the third year of the blockade (May 2020).

As for the entertainment index (arts and entertainment), which measures tourism activities. It reflects the dynamics of the prices of tourism goods and services in both domestic and international markets. Its contribution to CPI has remained negative since before the blockade, but the severity of its decline increased during the third year of the blockade (May 2020), undoubtedly because of the implications of the measures to contain the Covid-19 virus and the global cessation of travel.

Likewise, the telecommunications sector remained negative, and its intensity increased during the third year of the blockade (May 2020) due to promotional discounts, especially in international calls (competing as they do with free VOIP video calls over the internet) and the prices of telecommunications devices.

In the same context, the housing cost index - which mainly reflects the level of rents – has continued to pressure the general CPI since the beginning of 2016. Its significant impact can be observed by comparing the General Index to the Core Index; the difference between them before the blockade was 0.95 percentage points, while after the blockade was imposed, it rose to 1.6 percentage points.

Producer Price Index

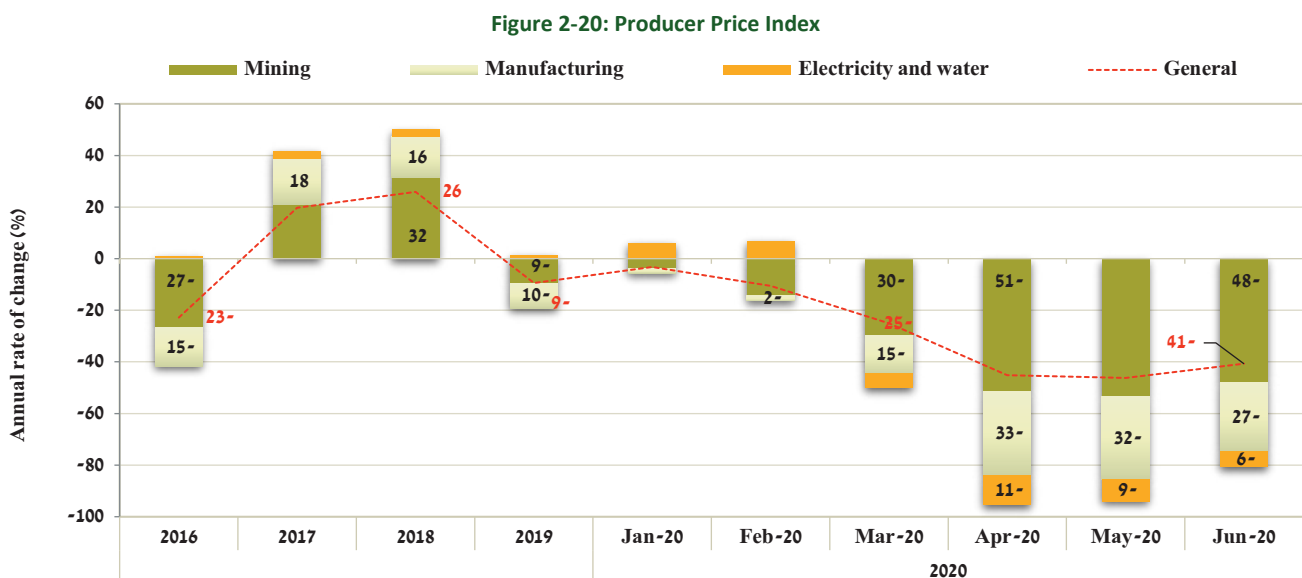
The Producer Price Index - PPI measures the average selling price of industrial goods exported or sold in the local market in Qatar. It consists of three industrial groups that is, mining (72.7%), manufacturing (26.8%), and utilities (0.5%), but excluding maintenance and repair costs from within the PPI groups.

In this context, Figure (2-20) indicates that the PPI rose from a negative 22.8% at the end of 2016 to a positive rate of 25.9% at the end of 2018. The global oil and gas prices play a pivotal role in forming the PPI, because 90% of it consists of the mining and manufacturing sector. Given that world oil and gas prices fluctuated during 2019 as shown in Box (2-2), the PPI witnessed a series of downward fluctuations, on average dropping below zero by the end of 2019.

However, despite their partial correlation with oil and gas prices, LNG prices remain subject to regional disparities (Refer to the Appendix). Therefore, as most of Qatar's exports are in fact

LNG, the PPI does not respond immediately to volatile crude oil prices but rather moves in accordance with the movement of LNG prices, especially those that are traded in the spot markets. On the other hand, the fluctuations in the hydrocarbon industry price index, because of fluctuating oil and gas prices, apply to the manufacturing sector price index, because about 57% of its activities contain hydrocarbon inputs, making it affected either negatively or positively by changes in oil and gas prices.

In regard to the prices of utilities services (electricity, water, and household gas), these have witnessed moderate growth rates since the beginning of the blockade in mid-2017, but after seeing low growth rates in January and February of 2020, they decreased during the second quarter of 2020. This may be due to the global downturn in economic activities, which have reduced demand for utilities in corporate offices, as well as in schools and colleges once the State imposed social distancing measures.



Source: Planning and Statistics Authority

Box 2-2: Historical Development of Oil and Gas Prices

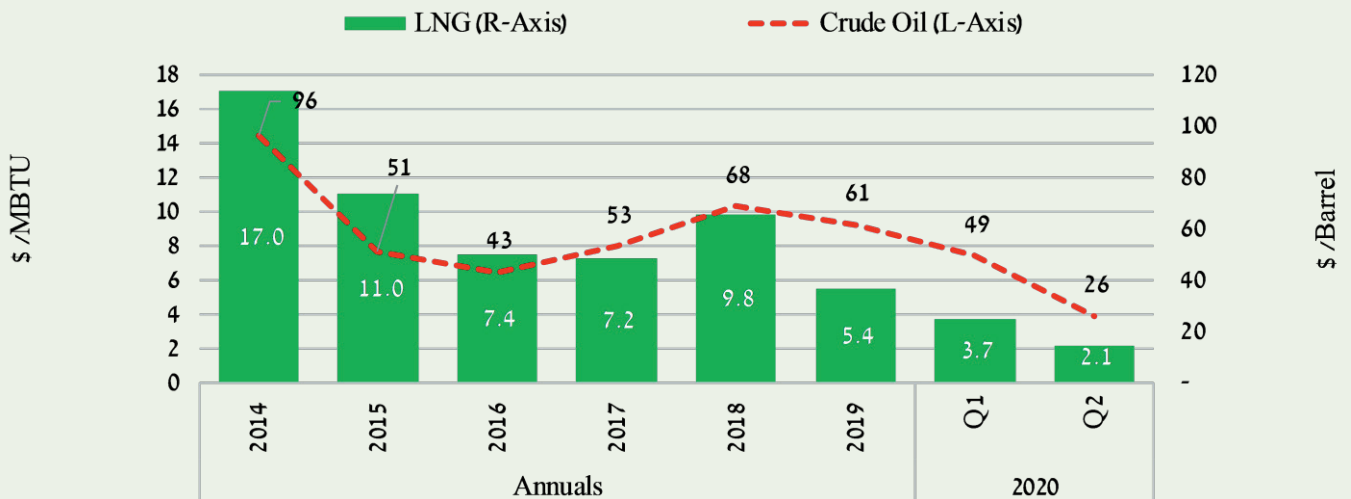
The oil and gas prices have witnessed several stages during (2014 – June 2020) as shown in the chart below. Crude oil prices have fluctuated between a maximum of US\$ 96 dollars a barrel and a minimum US\$ 26 dollars a barrel (when they fell during Q2 of 2020), as a result of oversupply spurred on by sharply reduced demand due to the global economic downturn caused by the COVID-19. Having a quarterly average of about \$56 dollars a barrel and with standard deviation of \$19 dollar, these statistics indicate the intensity of price volatility, which is due to a number of influencing factors, the most important of which are:

1. The fluctuation of the level of supply of world production.
2. The fluctuation in the level of demand by major industrial countries, perhaps especially the United States, China, and Japan.

Obviously, oil-importing countries benefit when prices decrease, while exporting countries are adversely affected as the decrease contributes to eroding their savings. This is particularly the case in those countries where the low-price is less than the “breakeven” price required to balance the state’s general budget and the Balance of Payment’s current account.

Similarly, fluctuations occurred in the gas and derivatives markets, in particular in the spot market. It has fluctuated in East Asia market based on prices in Japan, ranging between US\$ 17 dollars per BTU while plunging to US\$ 2 dollars per BTU at minimum, with a quarterly average of about US\$ 8 dollars per BTU with an average standard deviation of US\$ 4 dollars. However, there is a large proportion of gas sales that take place through futures contracts, which in turn are linked to terms that maintain contract price stability, making them less vulnerable to volatility.

Figure for Box (2-2): Average oil and LNG prices



Source: IMF - Primary Commodity Prices

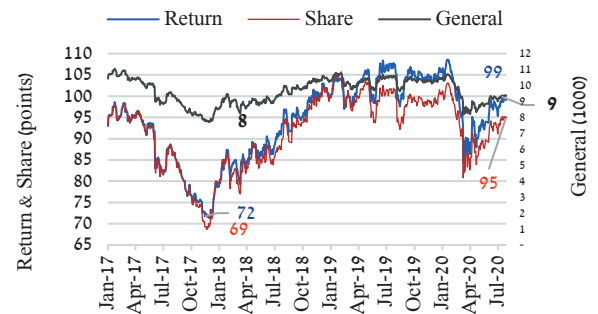
Asset Markets: Stocks and Real Estate

The state of investment in the State of Qatar can be monitored by tracking the course of development of the Qatar Stock Exchange indices, which consist of the General Index, the Total Return Index, and the All Share Index, as further discussed in Box (2-3). However, since the composition of the various indices differ in their measurement points; they were standardized by setting the date of August 22, 2016 as a base day, in order to facilitate comparison with the general index as well as to monitor their performance during the period (August 2016 - July 2020). These indices over the past 3.5 years are shown in Figure (2-21).

It is notable that due to the repercussions of the economic blockade on the State of Qatar imposed since the start of June 2017, the value of the General Index decreased from 11 thousand points

to 8 thousand points at the end of 2017. However, it recovered from the beginning of 2018 until the end of 2019, before once more retreating during the first half of 2020 due to the double shock on the global stock markets caused by low global oil and gas prices, and the ramifications of global measures to contain the Covid-19 pandemic.

Figure 2-21: Qatar Stock Exchange indices (points)



Sources: Refinitiv Eikon (Aug 2020)

Box 2-3: The Institutional Arrangement for the Qatar Stock Exchange

The Qatar Stock Exchange (QSE) plays a pivotal role in the economic development process by providing mechanisms to enhance economic stability at the micro level, which include:

- 1 Providing a mechanism for local companies to trade a variety of financial products in a transparent and fair manner
- 2 Providing means to attract foreign and domestic savings.
- 3 Providing opportunities to participate in the establishment of development projects by small local investors so that they can develop their cash assets and savings.
- 4 Issuing a number of daily indicators that monitor the investment situation in the State of Qatar, whether in terms of areas or trends, which will stimulate local companies to improve their performance and provide accurate information.

On the macro level, the stock market indirectly helps in absorbing liquidity and reducing consumption spending in favor of investment spending, as well as attracting foreign investment, which not only brings money but also brings knowledge and innovations. The Qatar Stock Exchange measures the level of performance of its activities with three main indicators and eight sub-indicators (refer to the Appendix). Moreover, the General Index, the Total Return Index, and the All Share Index enable investors to compare the QSE with the performance of the S&P index, and with the indices of the other GCC exchange markets. Confidence and credibility of the QSE in the global financial markets is at a high level, due to the reforms of its legislative and administrative systems made since 2012 that bring it to be in-line with international standards. The QSE has gradually joined the global rankings of emerging capital markets such as the Morgan Stanley Composite Index (MSCI), Russell's FTSE, and the S&P Dow Jones, which has helped to attract foreign investors.

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The developments of the Total Return Index and the All Share Index were similar to the course and development of the General Index in terms of volatility, as they declined during the immediate period after the blockade was imposed from an average of 98.6 points in May 2017 to an average of 70 points by the end of 2017 before recovering, in a pattern identical to that of the General Index.

But thanks to the measures taken by the State of Qatar to confront the repercussions of the blockade, and the improvement in oil and gas prices in global markets during the years: 2018 and 2019, the two indicators witnessed steady growth, exceeding an average of 102 points during the years 2018 and 2019, despite the fluctuations witnessed in the financial markets during 2019, as a result of the effects of the onset trade dispute between the United States and China, and the subsequent imposition of tariffs, has undermined investor confidence worldwide. The collapse of oil and gas prices during the first half of 2020, and the accompanying measures to contain the Covid-19 pandemic, have further diminished investor confidence and has thereby impacted the global stock market, as Figure (2-21) indicates.

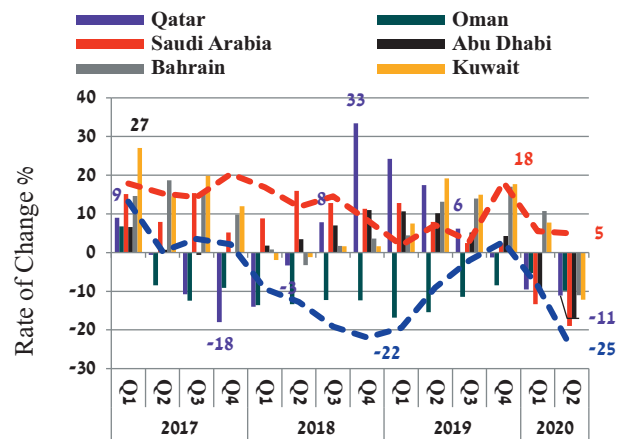
Comparison of the QSE to the GCC Stock Markets

As Qatar's All Share Index represents an overall standard of the stock market's performance for all companies listed on Qatar Stock Exchange, it will be used to perform a comparison with the level of performance of GCC stock market indices as well as the S&P Index (Standard & Poor's), as depicted in Figure 2-22. During 2019, the GCC stock market indices performed well with an annual growth rate of 10.6%, ranging between a maximum of 16.8% while falling to a minimum of 3.8%. Most of the growth came from the Qatar Exchange (24%), followed by Kuwait (17%), Bahrain (17%), Saudi Arabia (12.8%), and Abu Dhabi (10.7%), while the

rate of change for the Sultanate of Oman's market witnessed a decline. During the period (Jan-July) of 2020, most GCC stock indicators declined, having an average negative growth of 9.3%, fluctuating between minus 14.9% as a minimum and minus 2.8% as a maximum.

As for the average cost and earnings of shares in the Gulf Cooperation Council countries, Table (2-5) indicates that the ratio of the price of shares to profits on the Qatar Exchange has become competitive with Saudi Arabia, Kuwait, and Abu Dhabi, indicating higher investor expectations regarding earnings growth in Qatar.

Figure 2-22: Rates of change of GCC and S&P indices (%)



Sources: Refinitiv Eikon (Aug 2020) & prepared by PSA

Table 2-5: Performance Indicators of the GCC's Stock Markets

	.QEAS	.QSI	.ADI	.DFMGI	.TASI	.BAX	.KWSE	.MSI
	Qatar - All-Share	Qatar General	UAE ABU DHABI	UAE DUBAI	Saudi Arabia	Bahrian	Kuwait	Oman
Index Points	3,039	9,767	4,543	2,236	7,843	1,355	5,213	3,629
Price to earning ratio	14.8	15.0	13.0	7.0	18.1	9.1	17.4	8.6
Price to Book ratio	1.3	1.3	1.2	0.7	1.9	0.7	1.4	0.6
Dividend Yield (%)	3.9	4.1	5.4	4.3	NULL	NULL	3.5	7.5
Volatility - 200 days	20.3	20.1	31.3	30.3	25.5	13.7	25.4	12.1
Year to date performance(%)	2.0-	6.3-	11.3-	18.7-	6.5-	15.8-	17.2-	8.8-
Year on year performance(%)	4.0	1.1-	11.2-	19.4-	7.8-	11.7-	13.4-	7.6-

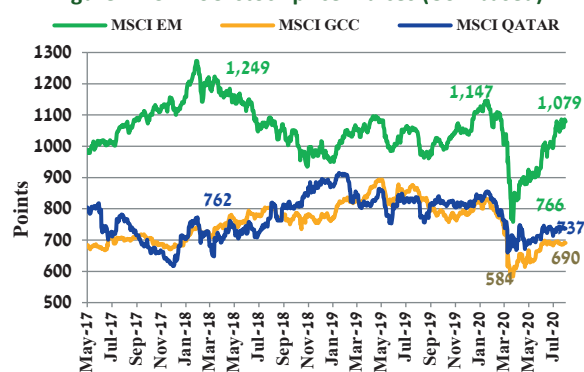
Sources: Refinitiv Eikon, downloaded on Aug 2020 and prepared by PSA

Meanwhile, in regard to the ratio of the share price in Qatar to its book value, this metric reached 1.3, which is lower than Saudi Arabia's and Kuwait's, but conversely is higher than across the rest of the GCC markets. In terms of distributed profits, this metric reached on average 4.1% in Qatar, which is higher than the returns in Kuwait, but less than the returns in the rest of the GCC markets.

Stock Markets in Emerging Countries

To measure the level of performance of the stock market in Qatar compared to global and regional markets, MSCI (formerly Morgan Stanley Capital International) indicators for emerging markets are used, as shown in Figure (2-23). It can be noted from the figure that when comparing the Qatari MSCI index to the GCC's MSCI index, in 2019 both have achieved an average growth of 7% and 8.1%, respectively. But correspondingly, both have declined during the first half of 2020 by negative 9.3% and negative 14.5% respectively, which reflected the fluctuation in the prices of crude oil and gas, which has taken place for several reasons, including the price war between OPEC's Saudi Arabia and the Russian Federation.

Figure 2-23: MSCI stock price indices (USD based)



Source: Refinitiv EIKON and prepared by PSA (downloaded Aug 2020)

Such price volatility directly affects the revenues of the exporting countries, which of course in the event of a deficit in the balance of both the state's general budget and the balance of payments will inevitably lead to a depletion of the domestic and foreign savings of the affected countries. This in turn would discourage potential investors from investing in stock markets, perhaps especially in the GCC stock markets.

At the level of the emerging countries index, the performance of the MSCI index has declined since 2019 due to weak global demand and the trade war between the United States of America and China.

Real Estate Markets

Three main indicators measure the level of development of real estate market activities in the State of Qatar: the real estate value index, the rental index, and the credit facilities index. All three of these have witnessed varying rates of change since the market began saturating with residential buildings, offices, and commercial spaces at the end of 2016, raising supply over demand (Figure 2-24 and Box 2-4).

When examining the quarterly average of the real estate value index, it witnessed a significant decrease during the period from January 2016 to June 2020, with a quarterly average of 256.3 points ranging between 304.4 points at a maximum and 218.4 points at a minimum, with a standard deviation of 24.59 points. It can therefore be inferred that the decline in real estate values has continued with a high degree of variance.

On the other hand, the quarterly average of the annual rate of change of the real estate rental index, measured by the CPI for housing, witnessed a gradual decrease during the period from January 2016 to June 2020, with an average of negative 1.99%, ranging between 5.6% at a maximum and

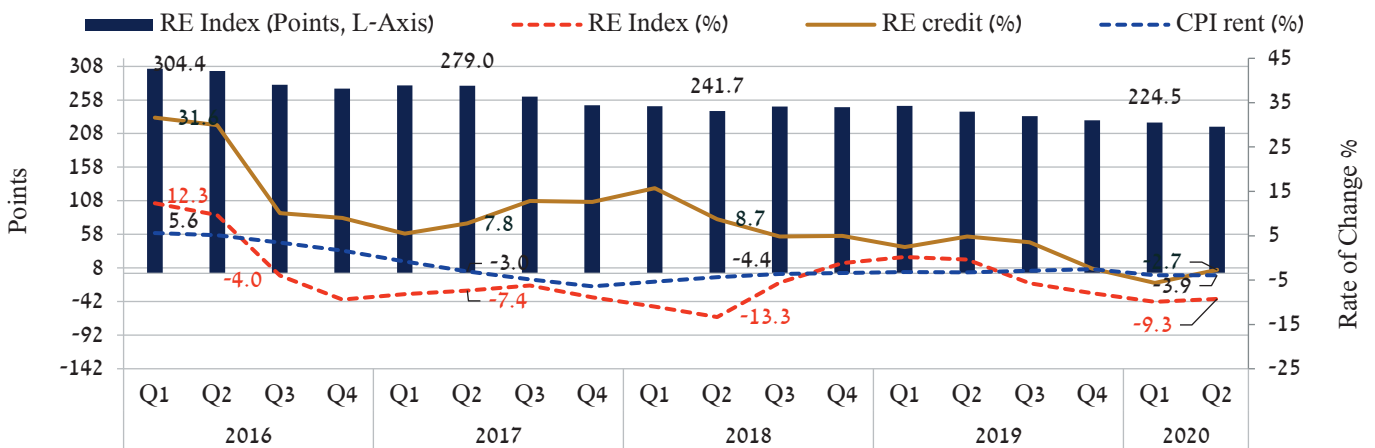
minus 6.4% at a minimum, with a standard deviation of 3.45%. This indicates that the decline has continued at a moderate pace, but is close to being constant.

Box 2-4: Indicators Related to Real Estate Activities

The real estate market in Qatar has experienced, both in terms of the market value of real estates and in terms of rents, sharp fluctuations during the past two decades, mainly due to an imbalance between the forces of supply and demand, as is the case in the rest of the real estate markets at the global and regional levels. Given that real estate credit accounts for about 38% of the total domestic credit of Qatari local banks, the Qatar Central Bank (supervising the financing process), in cooperation with the Qatari Ministry of Justice (responsible for recording real estate transactions), established a real estate price index in 2011. The purpose of this index is to provide an indicator to monitor the real estate market, thus to take measures to contain any issues related to monetary liquidity. (Refer to the Appendix for economic and financial concepts and terms.)

As for credit facilities for real estate activities, these have recorded an average growth of 8.54%,

Figure 2-24: Real estate value, rent, and credit



Source: QCB & PSA & Base year (April 2019- Mar 2010)

ranging between 31.63% at a maximum, and minus 5.65% at a minimum, and with a standard deviation of 9.54%. This indicates that the pattern of change in the credit facilities of the real estate business has a moderate positive correlation with the rates of change of property values and rents by 66% and 61%, respectively.

The course of the development of these indicators indicates that the real estate market is experiencing self-corrections of price imbalances, whether in the level of rents or in the level of the value of real estate, resulting from the speculation processes that impacted the global economy at large, especially in the real estate industry and certainly including the economy of the State of Qatar.

Without a doubt that subjecting the real estate market to the forces of supply and demand will be a challenge for credit providers, and thus it will require commercial banks with mortgages to adapt to these changes.

Financial and Monetary Sector

Development Role of the Banking System

The financial and monetary sector, with its banking and insurance activities, is one of the key sectors of the Qatari economy. It is managed, organized, and supervised by three executive authorities, namely the Qatar Central Bank, the QFC Regulatory Authority, and the Qatar Financial Markets Authority, all operating under laws issued by the State of Qatar (refer to the Appendix & Box (2-5)).

During the period 2011-2019, the financial and monetary sector contributed to an annual average of about 7% of GDP, and to about 12.4% of non-oil GDP. The sector further recorded an average annual growth rate of 9.5%, and contributed by about 0.52 percentage point to the average growth of GDP, which reached to 2.7% during the same period. It also contributes to the employment of the Qatari workforce, however a mere 1% or so. But despite the low contribution of this sector to the employment statistics of the Qatari workforce, the real productivity rate of the labor force in this

Box 2-5: The Size of the Qatari Banking System

The banking sector in the State of Qatar consists of 18 commercial, specialized and development banks, comprising six conventional banks, four Islamic banks, seven branches of foreign banks, and one specialized development bank that finances small and medium enterprises. In terms of ownership, the State owns the development bank in its entirety, while the ownership shares of traditional and Islamic banks are distributed among local financial and non-financial groups at more than 85%. The rest of the shares are held by foreign partners, including GCC investors.

The Islamic banks operate according to the provisions of Islamic Sharia law when earning profits from the activities they finance. The profits are distributed proportionately to depositors, instead of imposing interest on loans and deposits.

In terms of the size of the banking sector, five banks held 83.3% of the capital, and 90% of total assets of the banking system in May 2019 at about QR 1,426.5 billion, equivalent to US\$ 391.8 billion. The largest of these is the Qatar National Bank, which accounts for more than 56% of total assets, followed by Qatar Islamic Bank and Qatar Commercial Bank with 10% each, and Doha Bank and Masraf Al Rayan at about 7% each, while the rest of the banks are classified as very small.

sector was the highest in the national economy as a consequence of the high added value it generates.

As indicated previously in Table (2-4), the financial and monetary sector has been classified among the enabling / supporting sectors of the country's economy, a category that includes the transportation, information, telecommunications, electricity, and water sectors. Per the arrangements of the Second National Development Strategy for the State of Qatar 2018-2022, the sub-economic sectors of the GDP are classified according to the nature of their production of goods and services, whether they are traded internationally or non-traded, that is, they are consumed locally.

According to these rankings, the financial and monetary sector accounts for 61% of the total added value of this enabling / supporting sector group. Furthermore, it also provided employment opportunities to 13% of the total workforce of this same group, ranking second only after the transportation sector, which provided employment opportunities to 52% of the group's total workforce during the same period. However, the productivity of the transportation sector to the productivity of the enabling / support group is lower than the productivity of the financial and monetary sector by a ratio of 1:10.

The financial and monetary sector also plays important indirect roles in the field of non-banking businesses through insurance companies, stock exchanges, and the activities of funds, institutions, and financing companies, as well as via its crucial partnership with the Ministry of Finance in shaping economic policies and facilitating integrated economic and social development, which makes it

as one of the most important sectors supporting the stability of macroeconomic indicators.

Given the sensitivity of the financial and monetary sector to local, regional, and international variables, a significant part of the Qatar Economic Outlook has traditionally been devoted to conducting a descriptive analysis of financial and banking data on a regular basis.

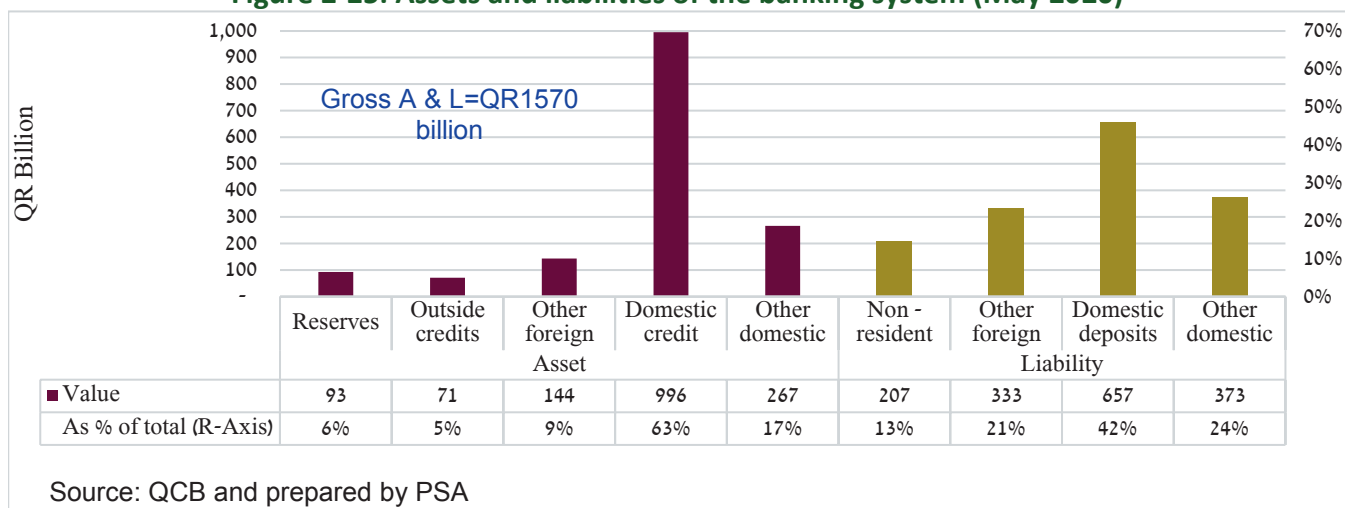
Distribution of Banks' Assets & Liabilities

The entire assets (A) and liabilities (B) of the banking sector amounted to around QR 1570 billion as of May 2020, equivalent to US\$ 431 billion, compared to about US\$ 360.9 billion in May 2017, an increase of 19.5%. Local liabilities account for 66% of total liabilities, with the balance of 34% as foreign liabilities, as shown in Figure (2-25).

Local liabilities consist of residents' deposits with 42% of the total, and other liabilities represents 24%, the most important of which are the balances of the Qatar Central Bank, balances for banks in Qatar, then provisions, insurance, capital accounts, and other miscellaneous liabilities – account for all Qatari liabilities. As for the sources of foreign liabilities, they consist of deposits of non-residents at 13%, and other foreign liabilities by 21%, the most important of which are balances of foreign banks in Qatari banks, debit securities, and other miscellaneous foreign liabilities.

On the flip side of the ledger, that is, in regard to the distribution of assets from various sources, domestic assets account for 80% of total assets, foreign assets for 14%, and reserves for 6%, as indicated in Figure (2-25). As for the distribution of domestic assets by their usage, domestic credit holds 63% of the total domestic assets, with other domestic assets consisting of local investments,

Figure 2-25: Assets and liabilities of the banking system (May 2020)



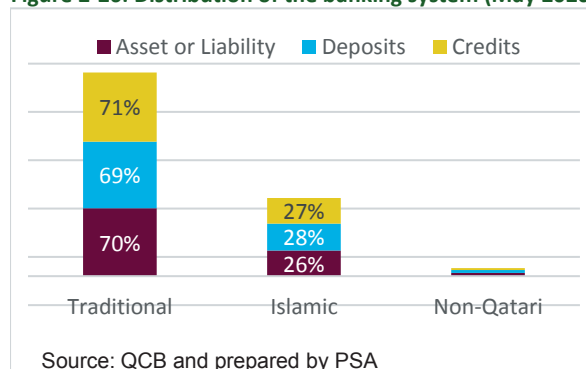
balances with banks in Qatar, and other liquid and fixed assets accounting for 17%. In reference to foreign assets, they are distributed either as credit outside Qatar at 5%, balances with banks abroad or as foreign investments abroad, and additionally as foreign currency exchange balances with 9%. As for the reserves, they are the balances of commercial banks at Qatar Central Bank as well as the currency in circulation with 6%.

Qatar’s banking system’s assets are distributed according to the nature of their banking systems, whether traditional banking systems, Islamic Murabaha systems, branches of foreign banks, or according to the requirements of social and economic development, such as those undertaken by the Qatar Development Bank. Traditional banks in Qatar in May 2020 account for 70.4% of the entire assets 69% of the entire deposits, and 71% of the entire credit facilities, as indicated in (Figure 2-26), followed by Islamic banks with 26% of assets 28% of deposits, and 27% of credits. Then it is followed by non-Qatari (foreign) banks, which varies across years to lie between 1.5% and 2.8% of the entirety of deposits and credit. As for the

specialized banks, they constitute less than 1% of the total assets and credits.

Concerning the distribution of all deposits by ownership, which amounting to QR 864 billion in May 2020: the private sector’s deposits account for 45%, followed by public sector deposits at 31%, while non-resident deposits constitute about 24%. Similarly, the total credit facilities reached QR 1,067 billion in May 2020, where the private sector accounts for 64%, followed by the public sector with 29%, then customers of Qatari banks abroad being accountable for 7% of total credit facilities.

Figure 2-26: Distribution of the banking system (May 2020)



Monetary Policy

Monetary Policy Tools

In line with the policy of the State of Qatar for keeping pace with all global developments in the field of banking, during the past three years the QCB utilized a set of monetary policy tools to achieve economic stability, most notably: (1) the monetary instrument represented in interest rates on deposits and overnight lending, better known as the Qatar Money Market Rate (QMR); (2) a lending mechanism for commercial banks at the REPO⁵ (repurchase agreement) rate; (3) the mandatory reserve rate; (4) the purchase and sale of treasury bonds, equity, and *sukuk* (the Arabic name for financial certificates, also referred to as "Sharia-compliant" bonds), in order to increase the liquidity of local banks in what is known as the open market; and (5) to monitor the exchange rate market as well as consumer and producer price indices.

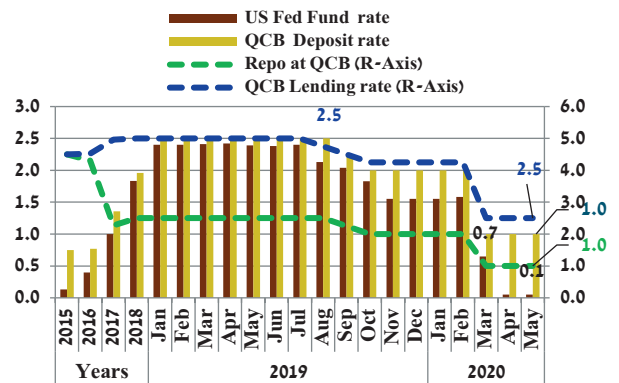
The Central Bank – via QMR – attaches special importance to the Qatari riyal's relationship to the US dollar by conducting a periodic review of the developments of monetary policies of the US Federal Reserve, in order to be cautious and wary of any negative repercussions at the local level, especially those concerning inflow or outflow from the Qatari banking system.

With this in mind, and as can be seen from Figure (2-27), the overnight deposit rate has witnessed successive adjustments during the years (2017-2020), as follows: from an average of 1.35% in 2017 (oscillating between 1% and 1.5%), it rose to reach an average of 1.96% in 2018 (oscillating between 1.5% and 2.5%) prior to rising again to reach an average of 2.35% in 2019 (fluctuating between 2%

and 2.5%). However, during the first five months of 2020, it had fallen to 1% by March of this year, compared to an average of 0.1% for the US Federal Reserve rate, as one of the measures implemented to contain the economic downturn caused by the Covid-19 pandemic on the economies of the world.

As for the overnight interest rate, the ratio remained stable at 5% during the period March 2017 - July 2019, until it was reduced in August 2019 by 25 basis points from 5% to 4.75%, and then followed by another reduction of about 50 basis points in September and October 2019, respectively, to reach 4.25%, so that the ratio is in line with the deposit interest rate adjustments caused by the US Federal Reserve's monetary policy adjustments. However, it was further reduced in March 2020 by 175 basis points to become 2.5%, due to the implications of containing COVID-19 on the economies of all countries of the world.

Figure 2-27: QMR & REPO operations (%)



Source: QCB and US Federal Reserve website (<https://fred.stlouisfed.org/series/FEDFUNDS>), June 2020

Likewise, the REPO rate witnessed several changes during the period (2016-2020). However, it was less frequent: it was reduced in November 2016 by 225

⁵ purchases of assets by QCB from commercial banks under a contract providing for their resale at specified price on a given future date (limited to two weeks or one month)

basis points from 4.5% to 2.25%, and subsequently this ratio remained constant during the period (December 2016 - November 2017), until it was raised in December 2017, by 25 basis points, to become 2.5% during the period (December 2017 - August 2019). Because of the US Federal Reserve's retreat from tight monetary policy in August 2019, the repurchase rate was reduced by 25 basis points, to become 2% during the period (September 2019 - February 2020). Then, in March 2020, as one of the measures to contain COVID-19, it was reduced by 100 basis points, to become 1%.

The aim of repeating the REPO rate adjustment is to allow commercial banks to obtain liquidity from QCB when needed. Commercial banks benefited from this measure during the immediate period after the blockade by borrowing about QR 413.9 billion in 2017, and then about QR 270.6 billion in 2018. Moreover, thanks to improved domestic liquidity in 2019, only QR 74.4 billion had to be borrowed.

However, as one of the measures to contain Covid-19 taken in March 2020, the Qatar Central Bank allocated QR 50 billion to provide liquidity to local banks so that they could facilitate the procedures for deferring loan installments or granting new loans to the private sector. Therefore, the total repurchase borrowing increased from QR 74.4 billion in 2019 to about QR 124.8 billion during the first five months of 2020.

Inter-Bank Interest Rates

The Federal Reserve rate cut in the United States of America during the second half of 2019 eased the pressure on global monetary conditions, which contributed to stopping the 10-year low interest rate on US Treasury bonds, as it decreased from an

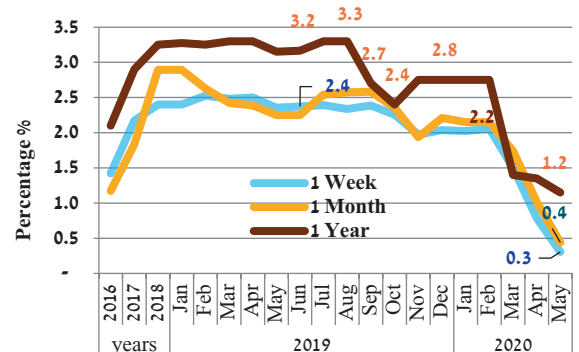
average of 2.71% in January 2019 to average 1.63% in August 2019.

However, as soon as the US Federal Reserve lowered the federal interest rate at the beginning of August 2019 it began gradually rising again, such that the interest rate on US treasury bonds rebounded and reached an average of 1.86% in December 2019. Thereafter, the implications of having to contend with the Covid-19 pandemic in March 2020 led the US Federal Reserve to reduce the federal interest rate to zero limits (0%), which had a knock-on effect of contributing to reducing the price of the US Treasury bonds to an average of 0.73% by the beginning of June 2020.

Because of the overlap in the activities of Qatari commercial banks with the activities of commercial banks worldwide, the Interbank interest rates and other interest rates were directly as well as indirectly affected by the monetary policy tools discussed above, in addition to being affected by the levels of interest rates in various banks around the world that also have a commercial relationship with the State of Qatar.

From this standpoint, the monthly interbank interest rates changed between 1.9% and 2.47%

Figure 2-28: Interbank interest rates (weighted average)



Source: QCB and prepared by PSA

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during 2018-2019, with an average of 2.2% and a standard deviation of 0.17 points, as indicated in Figure (2-28). Meanwhile, the weekly interbank interest rates fluctuated between 1.9% and 2.5% during the same period, with an average of 2.3% and at a standard deviation of 0.16 point, which is lower than the monthly interest rates. Concomitantly, and in regard to the interest rates of annual transactions, these remained almost constant during the same period. However, it is striking that it suddenly decreased by about 100 basis points in October and November 2018, while repeating the same decline during September and October 2019.

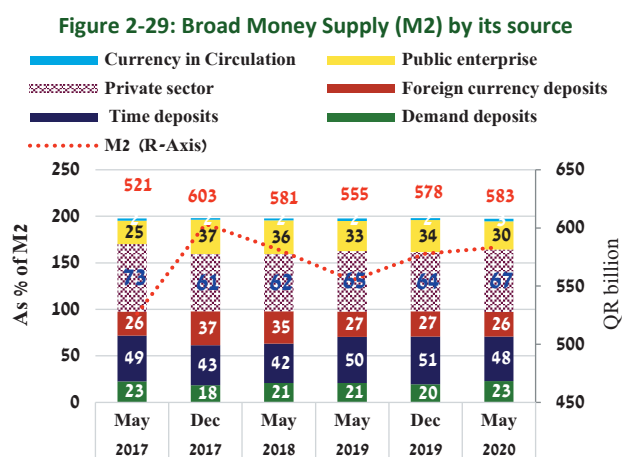
Regarding the effect of measures containing COVID-19's effect on all the interest rates, the impact can be noted as depicted in (Figure 2-28): that once the Qatar Central Bank adjusted rates associated with QMR in March 2020, it prompted other interest rates to also be adjusted, whether annual, semi-annual, monthly, or weekly. Weekly borrowing interest rates dipped from 2.1% in February 2020 to 0.3% by May 2020. Likewise, the monthly borrowing rate edged down from 2.2% to 0.4%, while the annual loan interest rates decreased from 2.8% to 1.2% during the same period.

Liquidity and Factors Affecting It

Sources of Domestic Liquidity

The total money supply as a measure of local liquidity in May 2020 was about QR 583 billion, equivalent to US\$ 160.3 billion, which represents about 88% of GDP. The sources of money supply consist of private sector deposits at 67%, public sector deposits at 30% (represented only by public enterprises / governmental and semi-governmental), and cash in circulation at 3%.

As for the distribution of these sources (deposits) according to their economic function in forming the money supply, time deposits represent 48%, followed by foreign-currency deposits at 26%, and demand deposits at 23% as shown in Figure (2-29). As for cash-in-circulation, it plays the role of the common factor: it counts as one of the sources, and at the same time as one of the usages of domestic liquidity.



Source: QCB and prepared by PSA

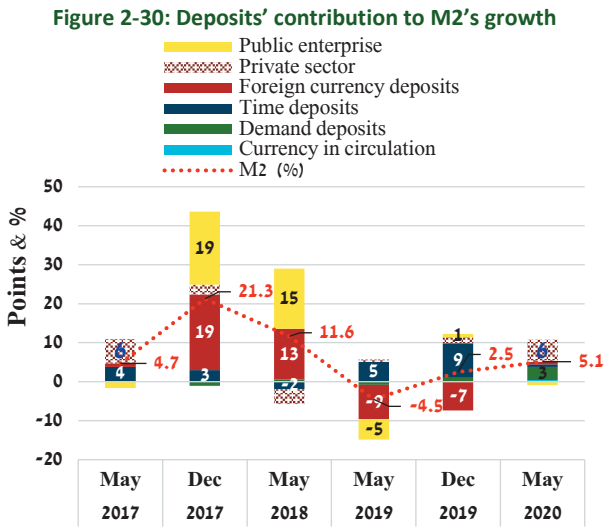
The money supply witnessed an annual rate of change in May 2020 of positive 5.1%, compared to a negative rate of decline of 4.5% in May 2019. Most of the growth came from an increase in the contribution of private sector deposits by 5.6 percentage points (in the form of demand deposits,

term deposits, and foreign currency deposits). As indicated in Figure (2-30), foreign currencies deposits contributed modestly by 0.1 percentage points, after seeing a significant drop in their contribution in May and December of 2019 by negative 8.8 and 7.4 percentage points, respectively. This drop was due to the withdrawal of a portion of the foreign currency deposits from local banks to invest it in foreign treasury bonds and bills.

The developments outlined above indicate the fact that Qatari banks have overcome two important effects of the economic blockade, namely stopping the financial outflow to abroad and increasing the inflow inward, the most important of which is the flow of deposits of non-residents.

Non-resident deposits contributed to the total growth of deposits in 2019 by 4.8 percentage points, compared to a decrease of 6.3 percentage points during the immediate period after the imposition of the blockade (December 2017). However, it should be noted that the higher the non-resident deposits, the more the public institutions withdraw part of their deposits in foreign currencies in Qatari banks, whether to invest abroad or to increase term deposits in local banks.

As for the contribution of the component of domestic liquidity to the formation of the annual change rate of the money supply, it is evident in Figure (2-30) that there is a correlation between the course of development of deposits of public institutions and foreign currency deposits in terms



Source: QCB and prepared by PSA

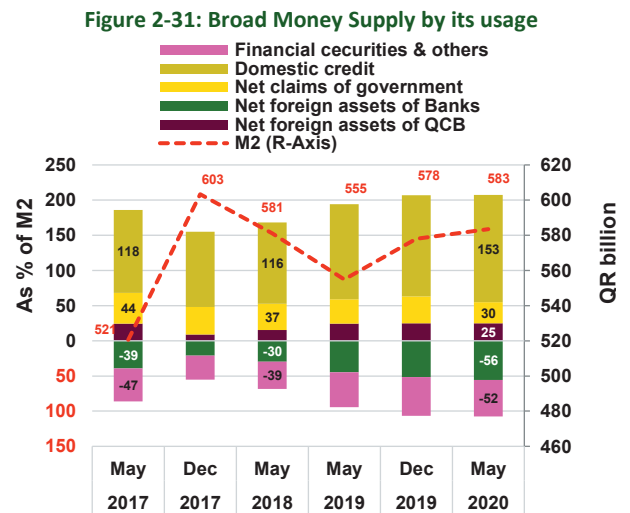
of their impact on the annual rate of change of money supply. This indicates the important role of public institutions in providing the banking system with foreign currencies, mainly led by the Qatar Investment Authority and the Qatar Petroleum (QP) company.

Uses of Domestic Liquidity

Credit facilities to the public and private sectors are among the most important uses of domestic liquidity, which together influence the development of the money supply. Since the provision of credit facilities depends on the availability of liquidity with local banks in the form of total assets and liabilities (as discussed previously), and not at the level of the size of the money supply. Nevertheless, in this part of the report, the path of credit facilities will be analyzed

as a percentage of the total money supply rather than as a percentage of the total assets, with the aim of better understanding how it affects the rate of money supply change.

As shown in Figure (2-31), the volume of domestic credit for public and private institutions, as a percentage of the total money supply, always reaches more than 100%. In May 2020, it reached about 153% of the total money supply, while the net claims on the government represents 30% and the net foreign assets of the central bank represents 25%.



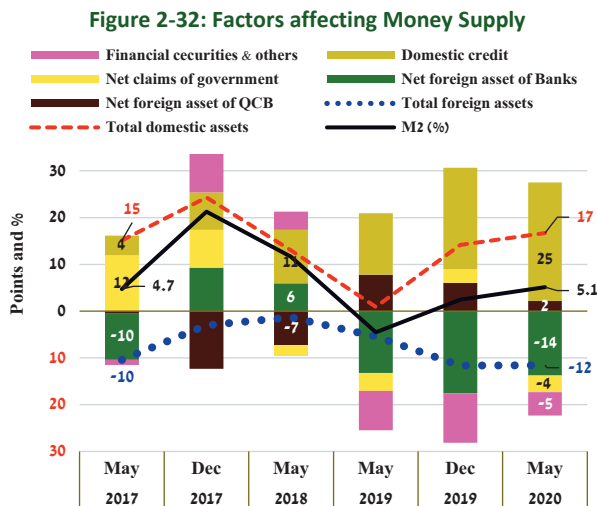
Source: QCB and prepared by PSA

Regardless of the negative sign, the net foreign assets of commercial banks constitute about negative 19.7% of the total money supply, because the balances of foreign liabilities in Qatari commercial banks are higher than the balances of foreign assets, and this is considered normal because Qatari banks attract foreign savings as deposits for non-residents.

The other net items, including all securities, constitute about negative 52% of the total money supply because specialists of monetary statistics

use them as a residual – that is, to absorb statistical discrepancies when calculating the money supply.

Concerning the role of each of these components in forming the annual rate of change of the money supply, it is evident from Figure (2-32) that the domestic credit and the net foreign assets of QCB together constitute the actual drivers of the rising



Source: QCB and prepared by PSA

level of money supply. Notwithstanding the net foreign assets of commercial banks, net claims on the government, as well as other components to do with securities, have varying roles, namely representing factors either reducing or increasing the money supply.

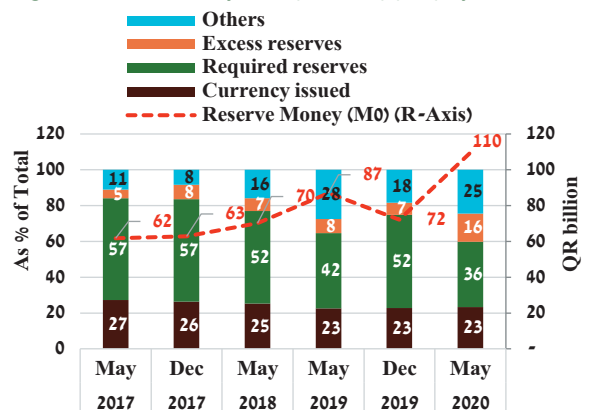
For instance, in May 2020, the domestic credit and net foreign assets of QCB contributed positively to the formation of the annual rate of change of the money supply by 27.5 percentage points, while the net foreign assets of banks, net claims on the government, and other components contributed by 22.3 percentage points. Thus, the outcome became one where the annual rate of change of the money supply in May 2020 was about 5.1%, resulting mainly from the increase in domestic assets by about 16.7 percentage points and the

decrease in foreign assets by 11.6 percentage points.

The Monetary Base (Reserves)

The monetary base in the State of Qatar consists of preliminary liquidity (surplus reserves and other reserves), mandatory reserves, and the issued currency. The total monetary base in 2019 amounted to about QR 72 billion, equivalent to US\$ 19.8 billion, which represents about 12.5% of the total money supply (domestic liquidity). Its mathematical inverse represents a money multiplier of 8.02 points, i.e., when depositing QR 100 in local banks, this will create about QR 802, which indicates the ability of the banking system to grant credit facilities and thus of creating wealth (see the Appendix).

Figure 2-33: Monetary Base (Reserve) (M0) by its source



Source: QCB and prepared by PSA

Given the negative consequences of the COVID-19 pandemic on both the domestic and international financial systems, the percentage of balances in the surplus reserves and other reserves increased, compared to a decline in the mandatory reserves ratio during the first five months of 2020, which raised the total monetary base to QR 109.6 billion, equivalent to US\$ 30.1 billion.

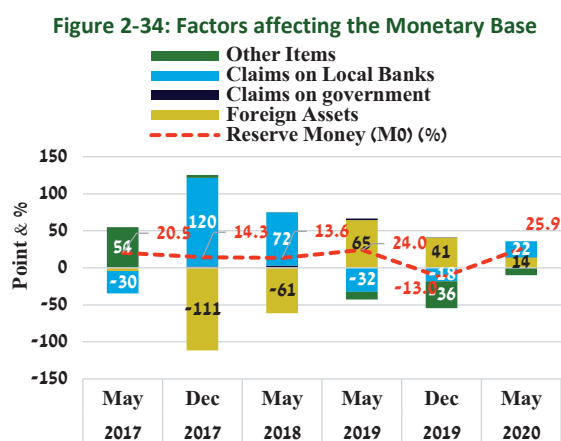
The percentages of monetary base components have changed during the past three years (2017-

2019), as indicated in Figure (2-33), reflecting the impact of monetary policies on its levels. The mandatory reserves constitute 49.4% of the total monetary base, reaching a maximum of 57% at the beginning of the blockade (May 2017) and falling to a minimum of 36% in May 2020. Likewise, the preliminary liquidity constitutes on average about 26% of the total monetary base with a maximum of 40% at the end of the third year of the blockade (May 2020) and a minimum of 16% during the immediate period following the imposition of the blockade (December 2017), indicating the decline of the preliminary liquidity as a consequence of the blockade.

The monetary base components from its usage side are net foreign assets, net local assets, and their sub-components (net claims on the government, other items, claims on local banks, and bank balances with local banks.). Concerning the role of each of these components in forming the annual rate of change of the monetary base, it is evident from Figure (2-34) that the changes in the net foreign assets made it to contribute negatively to the annual rate of change of the monetary base during the first year of the blockade (May 2018). Then, it contributed positively within the subsequent years of the blockade (May 2019 and May 2020). On the other hand, it is noted that the changes in QCB balances with local banks made it

contribute positively during the first year of the blockade (May 2018) and then negatively during the second year of the blockade (May 2019), which then continued until December 2019 but returned to a positive contribution by May 2020.

Consequently, the bottom line has been that the annual rate of change of the monetary base has undergone overall growth during the past three years. However, it declined in December 2019 by negative 13%, before resuming its growth rate in May 2020, due to the Central Bank resorting to increasing its balances with local banks to supplement the banking system with the liquidity needed to contend with the economic consequences of Covid-19.



Source: QCB and prepared by PSA

The QCB's Role in Confronting the Blockade

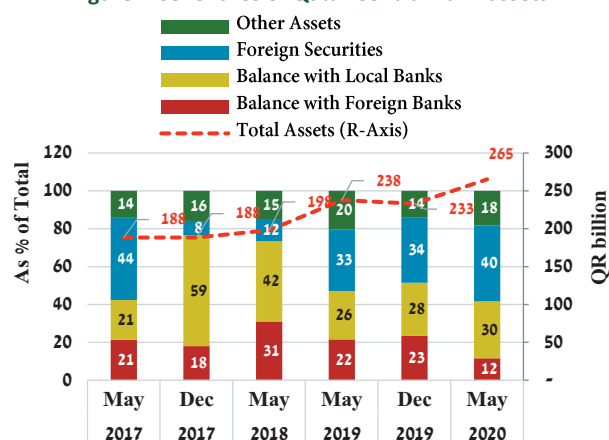
From the foregoing, it is clear how the monetary policy measures adopted by the Qatar Central Bank during the past three years (2017 – 2019) to counter the blockade measures and to contain the Covid-19 pandemic's economic consequences contributed to variability in the rates of change of money supply as well as the monetary base. The measures taken have revolved around reducing or increasing the bank's balance levels with local or foreign banks, or purchasing and selling foreign bonds and treasury bills. Initially, the aim of the application of these procedures was to mitigate the repercussions of cash outflows by generating inflows through withdrawing part of the liquid investments abroad, whether in international bonds, foreign treasury bills, or liquid deposits in foreign banks, and subsequently depositing these in local banks.

QCB assets surged from QR 188 billion in (May 2017) to QR 265 billion in (May 2020). The components of the QCB assets witnessed tangible changes that reflected the impact of monetary policies that the bank pursued during the same period as shown in Figure (2-35). It is clear that the proportion of foreign treasury bonds and bills dove against the increase in the bank's balances ratio with local banks during the first year of the blockade (May 2017 - May 2018), and then that they were transformed and adjusted during the subsequent years of the blockade in (May 2019 and May 2020)

The QCB's assets consist of many of those items, which are contained in the monetary base, and international reserves and liquidity in foreign currencies (this will be discussed later), and therefore the factors that affect the annual rate of change of QCB assets also affect the annual rate of

change of the monetary base as well as international reserves.

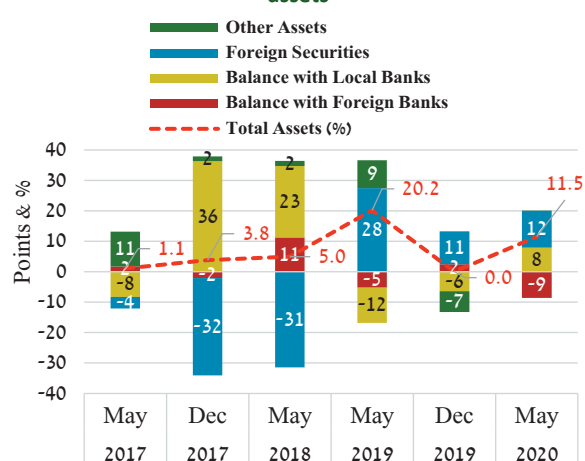
Figure 2-35: Shares of Qatar Central Bank assets



Source: QCB and prepared by PSA

It is evident from Figure (2-36) that the changes that occurred at the levels and ratios of foreign treasury bonds and bills made them to contribute negatively to the annual rate of change of the QCB's assets during the first year of the blockade (May 2018), and then positively during the subsequent years of the blockade (May 2019 and May 2020).

Figure 2-36: Contributions of the Qatar Central Bank's assets



Source: QCB and prepared by PSA

On the other hand, it can be noted that the changes in the QCB's balances with local banks made it contribute positively during the first year of the

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blockade (May 2018), and then negatively during the second year of the blockade (May 2019). Its negative contribution continued until December 2019 before contributing positively by May 2020, which reflects the increase of QCB's balances with local banks to contend with the economic buffeting of the Covid 19 crisis.

As regards foreign treasury bonds and bills, these too were positive during the first year of the blockade (May 2018) and then switched to become negative during the subsequent years of the blockade (May 2019 and May 2020).

As for the track of the contribution of the QCB's balances with foreign banks, the QCB's contribution can be seen to be the opposite of the

contribution of foreign treasury bonds and bills, as it was positive during the first year of the blockade (May 2018) and then changed to become negative during the subsequent years of the blockade (May 2019 and May 2020).

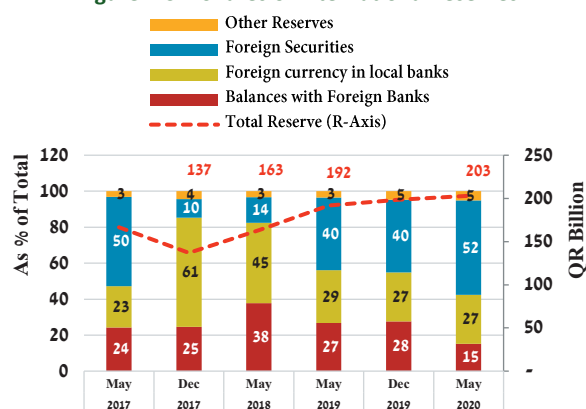
The result has been that the annual rate of change of QCB's assets has demonstrated a growth rate during the past three years (2017 – 2019), albeit it witnessed a zero growth rate in December 2019. Later, it achieved a growth rate of about 12% in (May 2020), resulting from QCB's action to increase its balances with local banks to provide the banking system with the liquidity needed to cope with the consequences of the Covid-19 pandemic.

Foreign Currency Reserves and Liquidity

As mentioned above, given the great similarity between the components of QCB's assets and the components of international reserves and foreign currency liquidity, the components' proportion from the total and their annual rates of change are relatively similarly affected by the same factors that affect the annual change rate of QCB's assets.

The total international reserves and foreign currency liquidity rose from QR 137 billion in December 2017 to QR 203 billion in May 2020, equivalent to US\$ 56 billion. They consist of 27% as deposits in foreign currencies with local banks and 73% as official reserves deposits, which in turn consist of 52% as investments in foreign treasury bonds and bills, as well as gold reserves and balances in foreign banks, including the balance of Qatar's share with the International Monetary Fund at 20% as shown in Figure (2-37).

Figure 2-37: Shares of international reserves



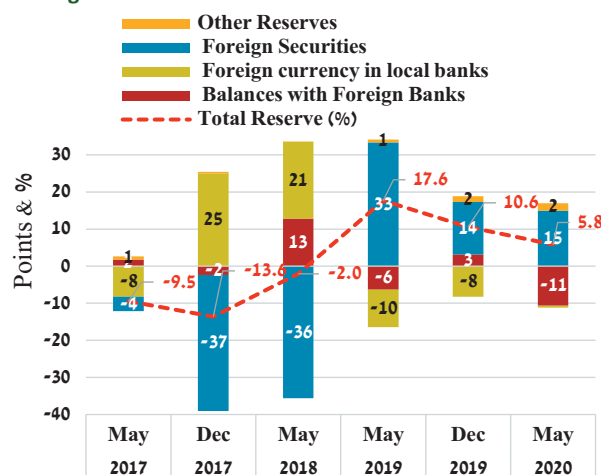
Source: QCB and prepared by PSA

The percentage of components of total international reserves and foreign currency liquidity witnessed tangible changes that mirrored the impact of the monetary policies pursued by QCB during the same period. Such changes include a reduction in the proportion of foreign treasury bonds and bills compared to an increase in the percentage of reserve deposits in local banks,

together with an increase in the percentage of bank balances with foreign banks during the first year of the blockade (May 2017-May 2018). However, the opposite took place during the subsequent years of the blockade (May 2019 and May 2020) in terms of the rise in the percentage of foreign treasury bonds and bills compared to a gradual reduction in the percentage of reserve deposits in local banks and QCB's balances with foreign banks.

As indicated in Figure (2-38), such shifts led foreign treasury bonds and bills to contribute negatively to the annual rate of change in international reserves during the first year of the blockade (May 2018), and then positively during the subsequent years of the blockade (May 2019 and May 2020). In contrast, it can be noted that the shifts in QCB's balances from the reserve deposits with local banks and its balances with foreign banks made it contribute positively during the first year of the blockade (May 2018), but then contributing negatively during the subsequent years of the blockade of (May 2019 and May 2020).

Figure 2-38: Contributions to international reserves



Source: QCB and prepared by PSA

The net result of these interactions has been that the annual rate of change in international reserves witnessed a negative rate of decline during the first

year of the blockade (May 2017 to May 2018), but it soon achieved a positive rate of growth during the subsequent years of the blockade, in May 2019 and May 2020.

According to the provisions of the Qatar Central Bank Law, the international reserves must be calculated as a percentage of the currency issued, which in sum must be equal to 100%. Thus, when calculating the adequacy of international reserves according to this standard in May 2020, it amounted to 576% of the currency issued, which provides the inference that the reserves are about six times greater than what is required by law.

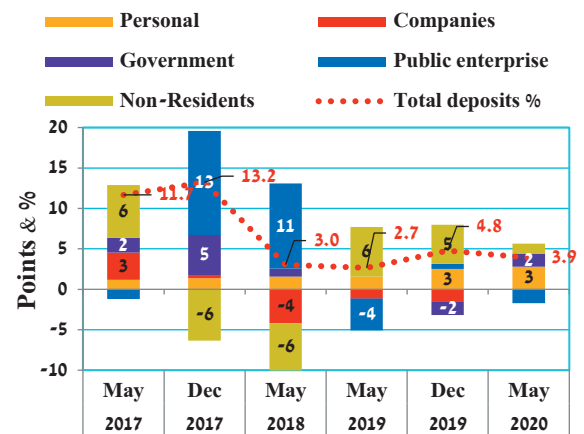
On the other hand, the QCB uses the total deposits "surplus reserves" and "other reserves" as an indicator to measure the preliminary liquidity. This is because commercial banks consider these to be current or demand deposits with the QCB that can be used as a method of payment. Therefore, when their balances are large, it indicates that a high level of liquidity exists, while their decline indicates a scarcity of liquidity.

Trend of Deposits Development

Commercial bank deposits in Qatar derive from the deposits of two sectors, the public and private, as well as the deposits of non-residents. By May 2020, deposits reached about QR 864 billion, equivalent to US\$ 237 billion. Private sector deposits represent about 45% of the total, distributed between personal deposits of 25% and private companies' deposits of 20%, while public sector deposits represent about 30.7% of total deposits, distributed at 10.4% for government deposits and 20.3% for public enterprises (government and semi-government institutions), while non-residents' deposits account for 24% of the total deposits.

Since the first half of 2018, total deposits have witnessed moderate growth rates ranging between 2.7% and 3.0% before rising to 3.9% in May 2020. As shown in Figure (2-39), the sources of growth have shifted from one source to another. One example of those shifts is that non-resident deposits contributed negatively to the growth of deposits during the immediate period following the imposition of the blockade. However, since May 2019, non-resident deposits started to again contribute positively, indicating that the effects of the blockade had waned.

Figure 2-39: Contributions of deposits' components to its total growth

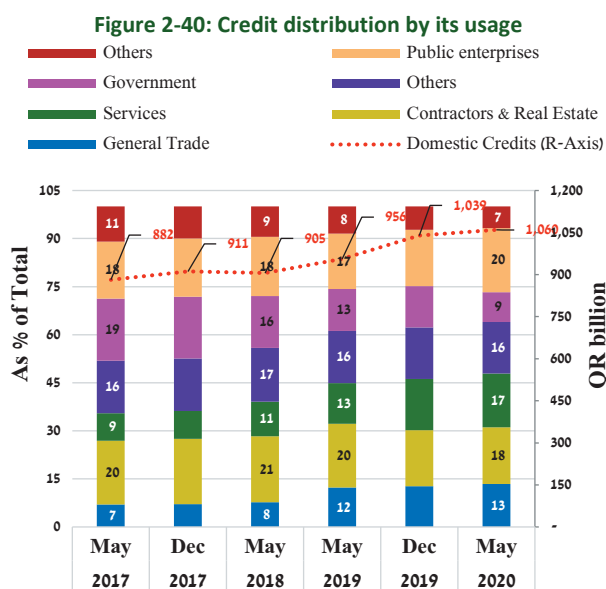


Source: QCB and prepared by PSA staff

Trend of Credits Development

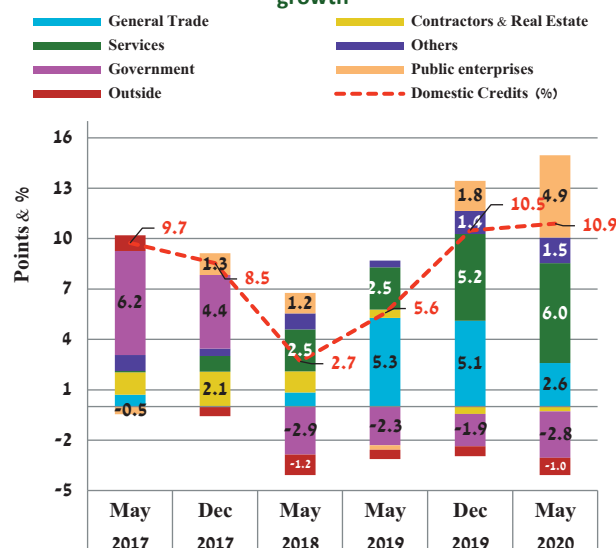
Credit facilities consist of public credit and private credit, in addition to external lending. In May 2020, the total domestic credit reached about QR 1,060 billion, which is equivalent to US\$ 291 billion dollars, as shown in figure (2-40). The vast majority of credit facilities are used for real estate development, contracting, services, and trade, as well as those credits directed to finance the public sector of both government and public enterprises. The loans for clients abroad accounted for a scant 7% of the total credits.

Since the first half of 2018, as indicated in Figure (2-41), total credit has witnessed reasonable growth, ranging between 2.7% and 11%. Most of this derives from growth in loans to the services sector followed by loans to the commercial sector, while loans to public enterprises witnessed growth in 2019 that again increased in May 2020. As for credit offered to contractors and real estate developments, this has shown a decline since May 2018, while lending to the government as well as for customers outside Qatar has also declined.



Source: QCB and prepared by PSA

Figure 2-41: Contributions of credit's components to its total growth



Source: QCB and prepared by PSA

Public and Private Sectors Accounts

The trends of credit facilities by commercial banks granted to the two sectors, public and private, against their deposits with the banking system, show the extent of pressure on domestic liquidity, as it is noted from figures (2-42) and (2-43). Either an increase in the private sector’s lending, or a relative increase in the public sector’s borrowing causes a dissimilarity in the financial pressures (limited liquidity). The credit facilities can be provided in two forms, direct loans or overdraft (short-term) loans, to cover the financing required to implement development projects.

In light of the foregoing, Figure (2-42) shows the trend of public sector’s net account with the banking system since the beginning of the blockade (May 2017), where it is noted that after the net account receded during the first year of the blockade (May 2018), it expanded further during the second year of the blockade (May 2019) until it had reached QR 45 billion by the third year of the blockade (May 2020).

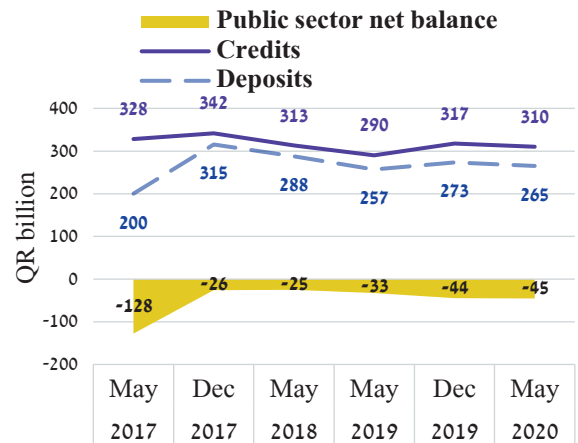
As for its development on the monthly level, the average monthly deficit reached about QR 39 billion during the period (May 2017 - May 2020), ranging between a maximum deficit of QR 59.7 billion and a minimum deficit of QR 17.4 billion, with a monthly standard deviation of about QR 11.9 billion. This reflects a resource gap to meet the demand for credit by the government and its institutions, as it is the banking system that funds this gap.

It worth mentioning that the credit directed to the public sector has witnessed a gradual decrease accompanied by a similar decline in the public sector deposits at local banks. The decrease in the demand for credit by the public sector is due to the fact that most of the government-funded

infrastructure projects are about to end, having been successfully completed or being very close to completion at the time of writing this report.

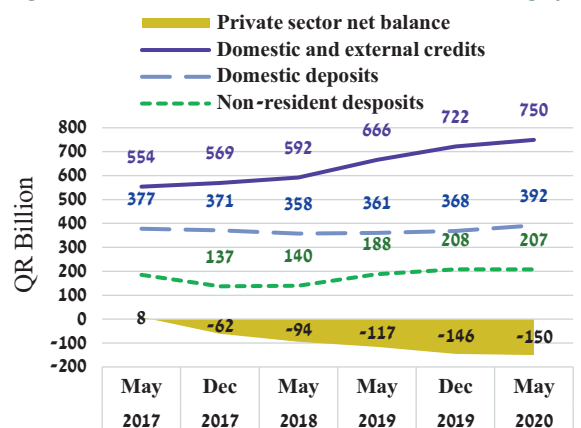
As for the net private sector account with the banking system, and as indicated in Figure (2-43), it has expanded since the beginning of the blockade with an average monthly deficit of QR 103.8 billion, registering a maximum deficit of QR 154 billion and a minimum deficit of QR 56 billion. The monthly standard deviation was about QR 31 billion. The high demand for credit derives from an increase in the demand for credit by the private

Figure 2-42: Public sector accounts with the banking system



Source: QCB and prepared by PSA

Figure 2-43: Private sector accounts with the banking system



Source: QCB and prepared by PSA

sector compared to available resources, while knowing too that the increase in non-resident deposits contributed to financing the demand for credit.

The Economic Role of the Finance and Insurance Sector

Qatar is proud to possess an advanced financial and insurance system, and in accordance with the latest international standards it plays a pivotal role in the construction and development process as a financial intermediary in providing a safe environment to attract deposits, stimulate savings for individuals and companies, facilitate commercial transactions locally and internationally and encourage investments, as well as financing the implementation of investment projects through short-term loans or through the purchase of shares in the local and international financial markets. The financial sector also contributes to financing government purchases and projects through the purchase of sovereign bonds and the provision of medium-term loans. It also provides long-term credit facilities to finance major projects for all economic and social sectors, either by financing infrastructure projects or by financing fixed assets such as buildings and machinery, as well as the purchase of raw materials.

Mutual relations between capital sources and their uses lead to the optimal use of financial resources, maintaining the sustainability of economic development and achieving financial and monetary stability for the country. The services provided by

the associated insurance activities contribute to preserving financial and non-financial resources and securing commercial transactions, thus enhancing confidence in the sustainability of the Qatari economy and creating a favorable investment environment. In order to expand the use of banking and financial services, and to ensure their coverage across all segments of society, the government has permitted access for foreign banks and financial companies, as well as allowing the establishment of Islamic (Sharia) and conventional banks that can open branches to provide credit facilities in accordance with Islamic terms.

To ensure the provision of banking services to small investors and to encourage local industries and services, the government has also established a development bank with government capital to grant loans on simplified and accessible terms to entrepreneurs in small- and medium-scale enterprises.

In order for the financial and insurance sector to meet the requirements of openness to the outside world, accelerate the process of merging with the global economy, and obtain the confidence of foreign capital, the government has established the Qatar Financial Center, which operates in accordance with the latest laws and regulations of international financial markets and businesses, including litigation systems, international courts, and the rules and regulations in place to enhance foreign investors' confidence and hence award further trust in the system.

Public Debt

The loans of the State of Qatar come from four sources: (i) external loans deriving primarily from the sale of sovereign bonds in international stock markets, most of which are denominated in dollars; (ii) there are loans from foreign financial institutions under the LIBOR⁶ interest rate arrangement; (iii) domestic loans are made through issuing public debt instruments such as bonds, Sukuk, and treasury bills; (iv) and finally, there is direct borrowing from local banks, either as medium-term loans or as overdraft⁷ loans.

The annual inflow of domestic debt (Government) from public debt instruments in 2019 was about QR 48.4 billion (\$ 13.3 billion). This resulted from the issuance of QR 7.1 billion in treasury bills, QR 30.3 billion in bonds, and QR 11 billion in the Sukuk instrument. The government repaid about QR 17 billion of the debt installments that were due in 2019. About QR 14.9 billion is expected to be repaid during the year 2020.

As for the issuance of public debt instruments during Jan-Aug of 2020, only QR 4.8 billion in the form of the treasury bills were issued (Figure 2-44).

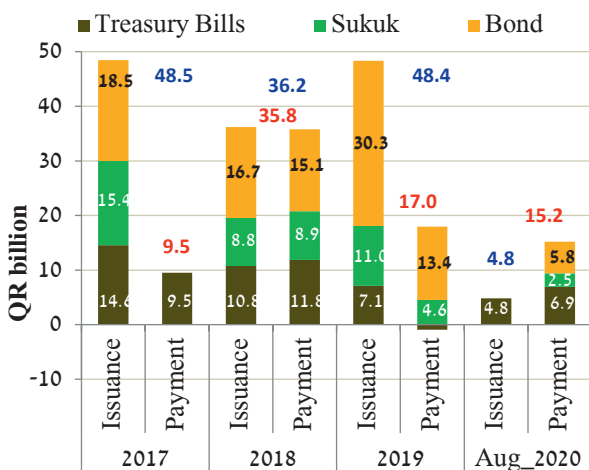
Due to the payment of local debt installments, as mentioned earlier, it is estimated that the total government domestic debt is to reach QR 167.4 billion by Aug 2020, as shown in Figure (2-45).

As for the status of external debt by Aug 2020, it increased by 35% from what it was in 2018 (QR 164.2 billion), mainly coming from the issuance of international sovereignty bonds and borrowing from international financial institutions at LIBOR rate terms. However, part of the external debt is planned to be repaid during the year 2020.

Based on the preceding, it is expected that the government's total indebtedness, both domestic and foreign, is set to reach about QR 389 billion, equivalent to \$ 107 billion, Figure (2-45).

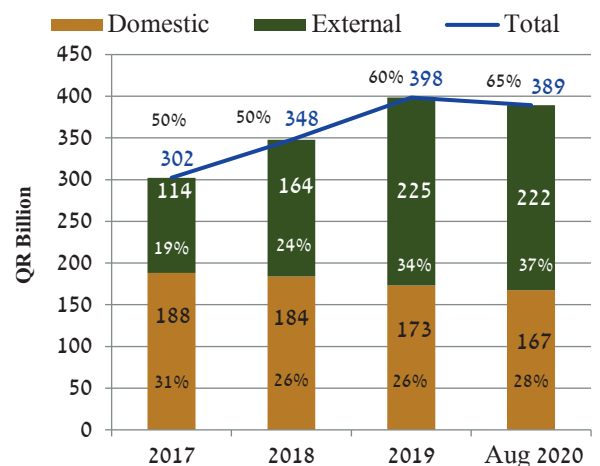
These total debts of government do not include the loans of government-related institutions and companies.

Figure 2-44: Qatari public debt tools



Source: QCB website and prepared by PSA

Figure 2-45: Government debt (value & as % of GDP)



Source: MOF (Prospectus report), and prepared by PSA

⁶ Stand for the London Inter-Bank Offered Rate (refer to the Appendix)

⁷ It is an arrangement of credit facility offered by banks to public and private sectors, rather than overdrafts.

Thanks to the excellent management of the State of Qatar over its local and foreign public debt, it gained the confidence of local and international investors in the field of global stock markets. Consequently, it obtained the highest credit rating as shown in Box (2-6). This high creditworthiness enabled the Qatari government to issue international sovereign bonds for the US financial market during 2018, 2019, and 2020.

Creditworthiness is not only limited to the government, but also encompasses many of Qatar's private and public companies, including banks and financial institutions that meet well-known international standards such as solvency, guaranteeing the rights of creditors and shareholders, making profits, and paying debt services on time.

Box 2-6: Qatar's Credit Rating

The three credit rating agencies, Fitch, Moody's, and Standard & Poor's, have completed the 2019 assessment of the Qatari economy and assessed the country to have a stable outlook. The three agencies praised the economy's resilience in the face of short-term external shocks and the increase of international foreign reserves. These positive ratings contributed to a decline in the Credit Default Swap - CDS index, which represents the cost of insuring against external sovereign debt burdens. This index decreased from an average of 64 points in May 2017 to 43.7 points in November 2019, notably reaching a peak in the immediate period after the blockade was imposed in August 2017 when it attained an average of 108 points. Furthermore, due to the implications of implementing measures to contain the COVID-19 globally in conjunction with the collapse of global oil and gas prices, CD rates rose from 36 points in January 2020 to 129 points in April 2020, before dropping to 56 points in June 2020.

Figure for (Box 2-5): Qatar's credit default swap index (CDS points)



Source: Refinitiv EIKON and PSA

Public Finance

To strengthen the Qatari economy's openness to global economies and to protect it from global financial shocks, a number of institutional and legislative reforms have been implemented to improve public financial management during 2019, the most important of which are: restructuring of the Ministry of Finance (MOF) to enhance its economic management, establishing an independent General Tax Authority (GTA), and completing the technical arrangements necessary to implement the VAT Law, as elaborated in Box (2-7).

The reforms mentioned above are part of the MOF's strategy to achieve the highest degree of

financial stability for the State of Qatar, both in terms of developing non-hydrocarbon financial resources, and ensuring their sustainability over time, as well as in aspects of developing mechanisms for implementing fiscal and monetary policies in the medium and long term. Concomitantly, the MOF had strengthened financial control over revenue collection, establishing a prudent system for controlling expenditures, and improving the performance of the relevant entities within the MOF to keep pace with economic development in accordance with the pillars of the Qatar National Vision 2030, as set out in the plan of the Second National Development Strategy (2018-2022).

Box 2-7: Institutional and Legislative Reforms in Public Finance

At the end of 2018, a package of institutional and legislative reforms was issued to enhance the performance of public finance, the most important of which are: the establishment of the General Tax Authority according to Emiri Resolution No. (77) of 2018, and Law No. (24) of 2018 on income tax, and finally the law No. (25) of 2018 on Excise Tax (the selective tax).

On the legislative front, the government was keen to modernize and unify the direct tax system by issuing Law No. (24) of 2018 on income tax, which replaced previous laws (Income Tax Law No. (21) of 2009), and Law No. (17) of 2014 concerning exempting non-Qatari investors from income tax on their profits earned from their investments in Qatari companies and investment funds. It is worth noting that the new income tax law maintains the same categories of activities exempt from income tax, and will continue to use the same tax rate of 10% for the incomes of companies subject to income tax.

The Excise Tax Law No. (25) of 2018 has been implemented since January 2019, and is designed to abide by one of the tax agreements among the Gulf Cooperation Council (GCC) states. A 100% tax was applied to the import, production, and storing of goods related to tobacco and tobacco derivatives, carbonated and energy drinks, as well as special purpose goods.

On the institutional level, The General Tax Authority (GTA) has been established as an autonomous body, under the supervision of the Ministry of Finance. It will be in charge of the implementation of all taxes in Qatar, including Excise Tax, prospective Valued Added Tax (VAT), and Income Tax on corporations, with the exception of those companies that have been established in accordance with the rules and regulations of the Qatar Financial Center.

Institutional and legislative reforms aim to improve administrative procedures in order to facilitate the implementation of laws related to public finance to raise the proportion of domestic revenues and reduce the dependence on oil and gas revenues. At the same time, these reforms endeavor to facilitate the participation of both domestic and foreign private sectors in the implementation of development projects by defining an encouraging tax base and codifying tax exemptions.

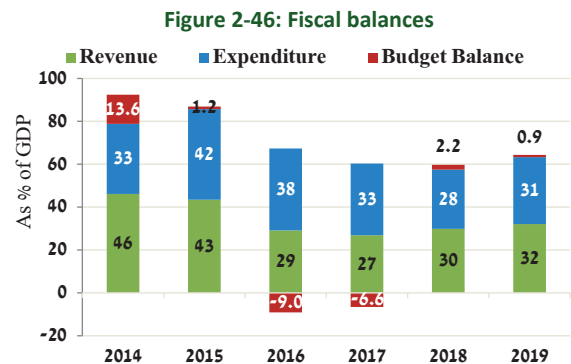
In the context of partnership with the private sector and in cooperation with the Chamber of Commerce, the GTA held bilateral meetings, seminars and workshops with the aim of listening to the views of the service and production institutions and companies in charge, in order to ascertain (i) how best to avoid emergent problems in applying the new tax system, (ii) educating those charged with the functions and procedures of the GTA in the process of determining tax bases, implementing tax systems and regulations, and defining the requirements of tax compliance, and (iii) how to obtain exemptions and calculate taxable income with the identification of taxable goods.

Fiscal Balance

Despite the increase in public expenditures from QR 192.8 billion in 2018 to QR 208.4 billion in 2019, the fiscal balance⁸ in 2019 achieved a surplus of 0.9% of GDP. The main reason for attaining this surplus is due to the increase in public revenues from QR 207.9 billion in 2018 to QR 214.7 billion in 2019, mostly thanks to the stability of oil and gas prices during that same year, Figure (2-46).

During the preparation of the 2020 budget, the Ministry of Finance directed government agencies to continue implementing programs that enhance the efficiency of public spending, diversifying non-

oil revenue sources, and facilitating the participation of the private sector in implementing development projects, as well as simplifying administrative procedures, in order to attract both domestic and foreign investments in various economic sectors.



Source: MOF and prepared by PSA

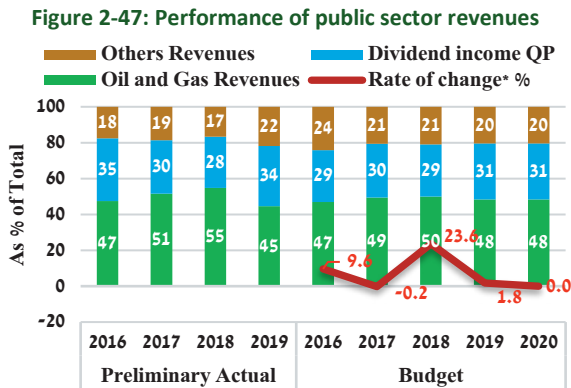
Public Revenues

Total public revenues in 2019 amounted to about QR 214.7 billion, which is equivalent to US\$ 59 billion. It constitutes about 32.2% of GDP, and derives primarily from oil and gas revenues at 45%, and from investment income of Qatar Petroleum (QP) at 34%, and other revenues provide about 22%, as shown in Figure (2-47).

As for the growth rate of actual revenue collected in 2019, it increased by 1.8% compared to what was proposed in the 2019 budget, but when compared to what was actually collected in 2018, the increase reached 3.3%, mainly due to the rise in the contribution of investment revenues from QP by 6.3 percentage points and other non-oil revenues by 5.8 percentage points. However, oil and gas revenues contributed negatively, as they reduced

⁸ Net Lending/Net Borrowing

the growth rate by about 8.8 percentage points, as shown in Figure (2-47).



Source: MOF and analysis of PSA (*budgets compared)

In regard to the estimation of public revenues in the 2020 budget, it was proposed at QR 211 billion, similar to what was proposed in the 2019 budget. However, it is 1.7% less than what was already collected in 2019, mainly due to cautious assumptions, including conservative expectations of export quantities and prices of hydrocarbon products.

Indeed, due to the impact of COVID-19 on the global economy, as well as the collapse of global hydrocarbon prices, during the first half of 2020 these factors will assuredly prevent the achievement of the planned revenues.

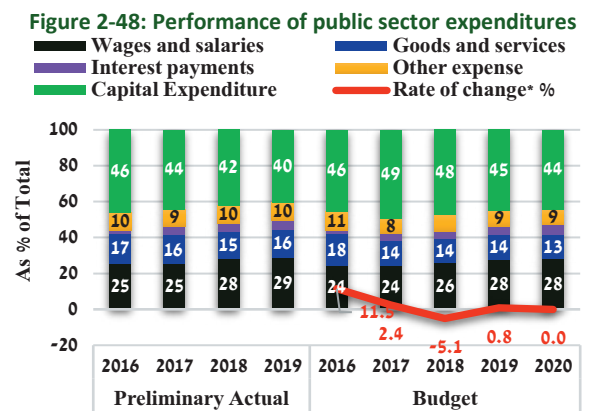
Public Expenditures

Total actual public expenditures in 2019 amounted to about QR 208.4 billion, equivalent to US\$ 57.3 billion. This constitutes about 31.2% of GDP, distributed as expenses for capital formation at 40%, expenses of wages and salaries (W&S) at 29%, expenses of goods and services (G&S) at 16%, expenses of interest payment at 5%, and other expenses at 10%, as shown in Figure (2-48)

As for the growth rate of actual expenditure in 2019, it shows an increase of 0.8% compared to what was proposed in the 2019 budget, but when compared to what was actually spent in 2018, the increase reached 8.1%, mainly due to the rise in the contribution of W&S expenses by 2.8 percentage points, G&S expenses by 1.9 percentage points, interest payments expenses by 1.3 percentage points, and the capital formation expenses by 1.4 percentage points.

Moving on to the estimation of public expenditures in the 2020 budget, it has been proposed to be at a level of QR 210.5 billion, an increase of 1.9% over the amount recommended in the 2019 budget. This increase mainly comes from the rise in the expenses of W&S as well as G&S, but specifically the costs of debt services for local and foreign debts (interest payment) have increased by 15%, while the level of capital formation expenditures is assumed to be stable at 0.1%.

As regards the distribution of total expenditures in 2019 according to the functional classification, this is indicated in Table (7-2): expenditures on public services accounted for 42.9% of the total, followed by expenditures on services related to economic and environmental affairs by 24.2%. At lower levels,



Source: MOF and analysis of PSA (*budgets compared to)

Table 2-6: Public Expenditures by Economic and Functional Classification

	2018					2019				
	As % of Total Expenditure	As % of Economic classification		As % of Functional classification		As % of Total Expenditure	As % of Economic classification		As % of Functional classification	
		Current	Capital	Current	Capital		Current	Capital	Current	Capital
Public services	39.0	47.9	26.9	70.8	29.2	42.9	48.8	34.2	67.8	32.2
Economic affairs	26.9	9.3	50.8	19.9	80.1	24.2	8.1	47.8	20.0	80.0
Education	9.3	13.5	3.6	83.5	16.5	8.7	12.4	3.2	85.1	14.9
Health	10.4	15.6	3.3	86.4	13.6	10.7	15.4	3.8	85.5	14.5
Recreation and culture	9.9	10.7	8.8	62.5	37.5	10.9	12.7	8.2	69.7	30.3
Housing amenities	4.4	2.9	6.5	37.9	62.1	2.7	2.5	2.9	56.7	43.3
Total	100.0	100.0	100	58	42	100.0	100.0	100	60	40

Source: MOF and prepared by PSA

expenditures on education and health services together accounted for 19.4%, followed by entertainment, culture, and housing services at 13.5%.

The capital formation expenditures in 2019 accounted for 40.2% of total public expenditures, a drop when compared to the 42.4% of 2018. This decrease was in favor of increasing the proportion

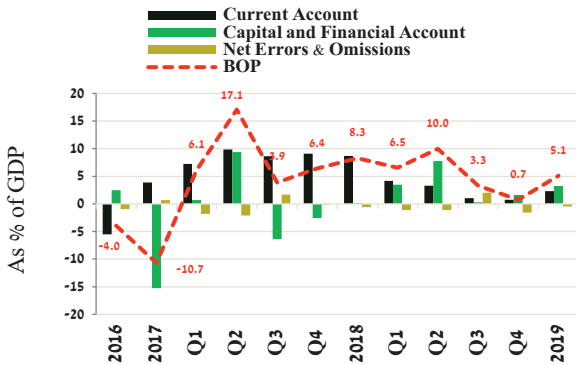
of current expenditure, which mainly came from the increase in operating expenses for the services of housing and hospitality, art and entertainment, education, and economic/environment. The operating costs for public and health services have slightly declined, which in general reflects the nature of fiscal policies in directing government spending.

Balance of Payments and Foreign Trade

Overall BOP

The overall level of the balance of payments (BOP) in 2019 achieved a surplus of 5.1% of GDP as shown in Figure (2-49), with a total value of QR 34.1 billion, equivalent to US\$ 9.3 billion, which concomitantly means that the total foreign reserves of the State of Qatar have also increased by the same amount and proportion. Most of this positivity derives from the current account surplus, and to some extent is due to the stability of Qatar’s financial account, as will be discussed later.

Figure 2-49: The Balance of Payments



Source: QCB and prepared by PSA

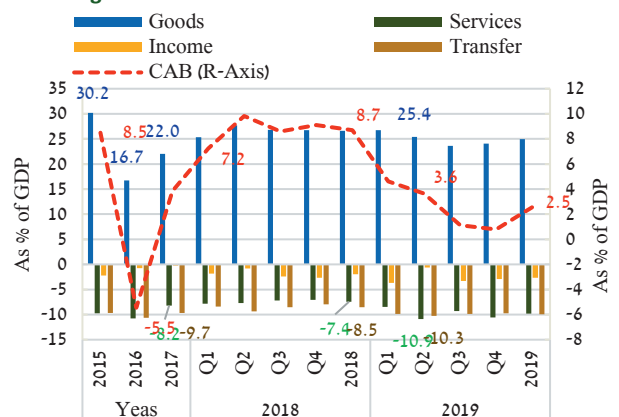
Current Account

The current account consists of the merchandise trade balance⁹, plus the balances of service, income, and current transfers. The merchandise trade balance has taken the role of being the primary driver for making current account balance (CAB) to achieve a surplus or a deficit, as shown in Figure (2-50). For example, when its share as a percentage of GDP decreased from 30% in 2015 to 17% in 2016, the CAB suffered from a deficit of 5% of GDP.

The impact of the remaining balances (services, income, and current transfers) on CAB is neutral, mainly because the net of these balances suffers from chronic deficits since their outflows are routinely higher than Qatar’s inflows. For example, during the period (2017-2019), the average net balance of current transfers was about negative 9.4% of GDP, followed by net services balance by negative 8.5%, and a net income balance of negative 1.6%.

The balance of services records estimates of the value of services provided by residents of Qatar to non-residents abroad, and vice versa. It mainly corresponds with transactions relating to the trade balance in terms of services required for export and import; and in addition, it records transactions related to transportation, insurance, tourism and travel services, as well as communications. Thus, on a global level there is a semi-direct correlation between the trade balance and the services balance. In the case of Qatar in particular, this correlation is stronger because the proportion of hydrocarbon exports represents on average about 81.6% of the total value of merchandise exports during the period (2014-2019), therefore, the

Figure 2-50: Performance of the Current Account



Source: QCB and prepared by PSA

⁹ The difference between goods exports and imports

factors that affect the oil and gas market also affect the level of development of the merchandise trade and service balance.

The inflow of merchandise trade balance in 2019 represented by receipts for Qatar's exports from abroad reached QR 265.5 billion, which constitutes 71.3% of the country's entire inflows, while outflows, represented by payments for Qatar's imports to abroad in 2019, amounted to QR 114.1 billion, which constitutes 32% of the country's entire outflows. This shows how the Qatari economy benefits from its exports, and how the world economy benefits from Qatar's imports.

Concerning the service balance in 2019, the inflow from abroad to Qatar is estimated to be QR 69.4 billion, which represents 18.7% of the country's entire inflows, while outflow from Qatar to abroad is estimated to be QR 128.9 billion, which represent 36.1% of the country's entire outflows. This indicates the magnitude of the costs that the Qatar economy incurs for logistical services obtained from abroad.

The balance of income records the earnings on foreign investments minus the payments made to foreign investors in terms of interest payments or net business profits. The earnings of Qatari investments abroad in 2019 amounted to about QR 32 billion, which represents 8.7% of the country's entire inflows, while interest payments on Qatar's external loans, as well as payments made to foreign investors, reached about QR 48.6 billion, which represents 13.6% of the country's entire outflows. The difference between these two percentages represents the cost of what Qatar's economy pays for debt services and for attracting foreign investments.

In theory, the current transfers balance records transfer transactions, where a resident of a country sends to a non-resident living abroad anything of economic value, whether in cash or commodity, without receiving anything of economic significance in return.

The expatriate workers in Qatar constitute on average about 95.5% of the total workforce during (2014 – 2019). For example, the total remittances of expatriate workers to their countries of origin in 2019 reached about QR 43 billion, equivalent to US\$ 11.8 billion, which constitutes about 12% of Qatar's entire outflows in 2019.

On the other hand, the total current transfers from abroad to Qatar in 2019 amounted to about QR 4.9 billion or 1.3% of the country's entire inflows in 2019.

Furthermore, it is worthwhile to mention that expatriate transfers represent approximately 65.7% of the overall balance of current transfers flowing abroad, amounting to QR 65.35 billion, of which QR 62.4 billion are private transfers, while QR 2.9 billion are government transfers.

Based on the preceding performance of net balances (trade of goods, services, income, and current transfers) in 2019, the current account recorded a surplus of 2.5% of GDP, with a total value of QR 15.4 billion, equivalent to US\$ 4.2 billion, as shown in Figure (2-50).

Financial Account

The financial account records the business transactions related to the acquisition of investment assets (A) and incurrence of financial liabilities (L) between a resident of a country and a non-resident from abroad, either in the form of

foreign direct investment (FDI), foreign portfolio investment, or other foreign investment (refer to the Appendix).

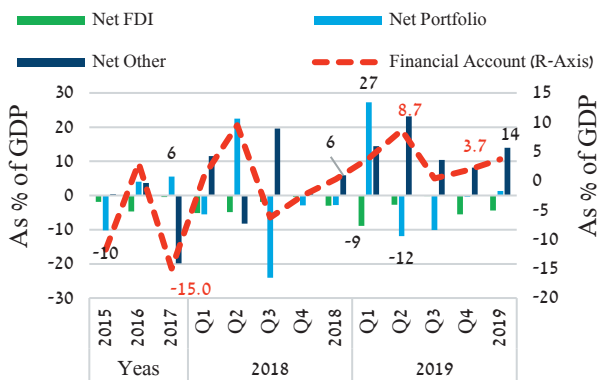
As shown in Figure (2-51), the financial account witnessed noticeable fluctuations during the period (2017-2019), which reflected changes among the transactions of its components resulting from the issuance of international sovereign bonds, as well as borrowing from abroad, payment of loan installments, or banks’ operations related to currencies and deposits between Qatari banks and foreign banks. These transactions in 2017 caused the financial account to have a deficit of 15% of GDP.

small percentage, leading to the total financial account achieving a surplus of 0.3% of GDP. The same scenario occurred once more during 2019, but during this year net investments and other investment portfolios achieved positive values, leading the total financial account to achieve a surplus of 3.7% of GDP, primarily because the assets are greater than the liabilities, as will be discussed later.

Foreign Direct Investments

Foreign direct investment (FDI) is an investment made by a company or individual in one country for business interests located in another country. It is distinguished from portfolio investments since the investor obtains foreign assets in an international company, rather than buying shares from financial market transactions. Thus, an investor in FDI participates in managing investments and making decisions about them

Figure 2-51: Performance of the Financial Account



Source: QCB and prepared by PSA

However, at the end of 2018, the opposite happened as other net investments improved, while net investment portfolios decreased by a

Since the outflows of investors residing in Qatar to obtain foreign investment assets abroad during the period (2017 - 2019), are higher than the inflows from non-resident investors abroad to acquire domestic assets in national companies in Qatar, the net foreign direct investment account has achieved a deficit during the same period, as shown in Figure (2-51).

Foreign Portfolio Investments

Participating in foreign portfolio investments requires a number of transactions on the international financial markets that are related to equity markets or to the debt securities market.

For example, an investor acquires stocks, bonds, or other assets in the stock markets for the purpose of obtaining dividends and profits, or in the hope that their value will increase over time. Portfolio investments differ from direct purchase of assets as with FDI, since the investor does not play any role in managing stocks or bonds, or making decisions about them.

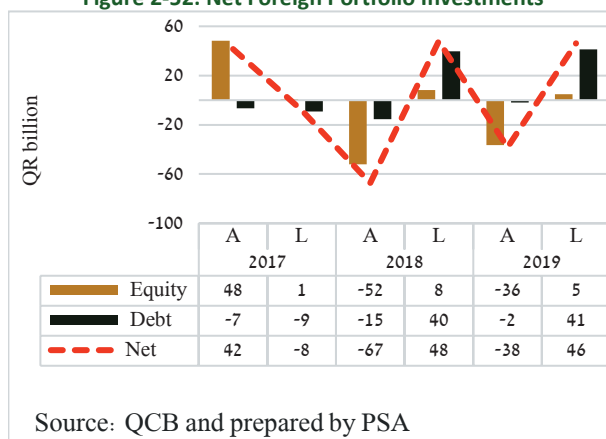
Figure (2-52) shows that net portfolio account witnessed both surpluses and deficits during the period (2017-2019), resulting from policy and business measures taken by the government, commercial banks, and other economic sectors to counter the blockade's repercussions and to support Qatari banks' domestic liquidity. The government and other economic sectors in 2017 sold part of their foreign investments in foreign bonds, which contributed to increasing Qatari assets by QR 48.2 billion.

However, after overcoming the blockade's repercussions during the period (2018-2019), the government and other economic sectors participated in a reverse process by purchasing foreign bonds for investment purposes, which led to a decrease in Qatar's assets by about QR 52 billion in 2018 and about QR 36 billion in 2019.

On the other hand, foreign investment in the Qatar Stock Exchange (QSE) increased during the same period, which in turn increased Qatar's foreign liabilities by about QR 1.1 billion in 2017, QR 8.3 billion in 2018, and by about QR 5 billion in 2019.

In terms of transactions related to bond securities market, this can be achieved by either investing in it, borrowing from it, or amortizing its liabilities. The government, commercial banks, and other economic sectors during the period (2017-2019) purchased foreign debt securities for investment purposes, which led to a decrease in Qatar's assets by QR 6.6 billion in 2017, QR 15.3 billion in 2018, and QR 2 billion in 2019. Foreign debt bond dues were paid in 2017, which reduced Qatar's liabilities by about QR 9.2 billion. Also, sovereign bonds were issued for sale in order to borrow from the US financial market, which led to an increase in Qatar's liabilities abroad by QR 40 billion in 2018, and by QR 41 billion in 2019.

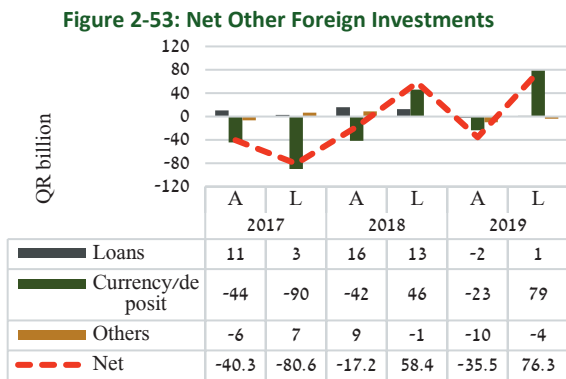
Figure 2-52: Net Foreign Portfolio Investments



Other Foreign Investments

Other investments consist of business transactions related to commercial credit facilities, short-term loans, currencies and deposits, and other short- and long-term investments that are taking place between a resident of a country and a non-resident from abroad.

Figure (2-53) shows that net other investments witnessed both surpluses and deficits during the period (2017-2019), resulting from policy and



Source: QCB and prepared by PSA

business measures taken by the government, commercial banks, and other economic sectors to counter the blockade’s effects and to support domestic banks’ liquidity. It is apparent that banking operations of currency exchanges and deposits, as well as the provision of short-term loans, were the main drivers for the changes in the curve of net other investments. The government and other economic sectors deposited abroad in 2017, in exchange for commercial banks withdrawing part of their deposits abroad in favor of increasing their assets at home. These two operations led to a decrease in total assets by QR 44.4 billion in 2017. The transactions of depositing and withdrawing local assets abroad were repeated during the period (2018 – 2019), as the total assets decreased by about QR 41.7 billion in 2018 and QR

23.5 billion in 2019, because of outward remittances.

If we now focus on claims or liabilities, the year 2017 witnessed a decrease in deposits of foreign investors (non-resident deposits) and consequently a reduction in liabilities of about QR 90 billion. However, this trend reversed once non-resident deposits started to increase in Qatari banks, by about QR 46.4 billion in 2018, and QR 78.5 billion in 2019, as a result of attracting foreign deposits in local banks.

Foreign Merchandise Trade

Foreign merchandise trade is represented by the export and imports of goods, and plays a pivotal role in the economic and social development of the State of Qatar. Export of goods represent, on average, 40% of GDP and provide 81.3% of the State’s total revenues. On the other hand, import of goods provides the Qatari market with consumer, intermediate, and capital goods, in order both to meet and to prime the requirements for socio-economic development.

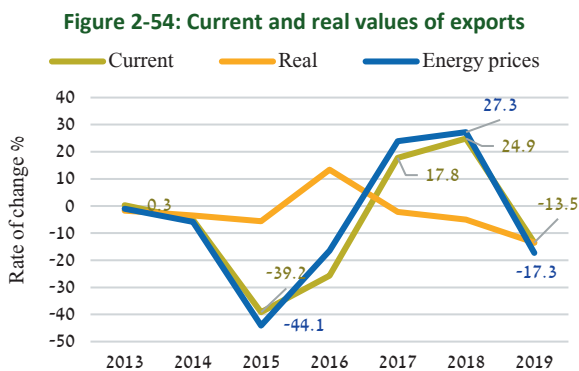
According to the statistics of the World Trade Organization and the World Fact Book 2018, Qatar ranked 47th in terms of total exports in the list of exporting countries in the world, and ranked 64th among the world's importing countries. It is worth noting that the number of Qatar's trade partners in 2018 sums to 144 countries for import and 156 countries for export.

Size of Foreign Trade

The volume of trade exchanges between the Qatar and its trade partners varied in terms of values and quantities during the period (2015 - 2019), which reflect the effects of several factors. The most

important of these factors are: the changes in energy prices, in import prices (other than energy), and in the level of global demand for Qatar's exports of hydrocarbons and manufactured products, as well as in domestic aggregate demand.

Figure (2-54) shows the effect of changes in energy prices on the nominal value of exports. The decrease in the rate of change in energy prices by 44% in 2015 led to a decrease in the rate of change in the value of exports by 39%. Conversely, when the average rate of change of prices increased during 2016 - 2018, the rate of change in the value of exports also increased, with this volatility being mirrored by opposite declines in 2019.



Source: PSA and IMF April 2020

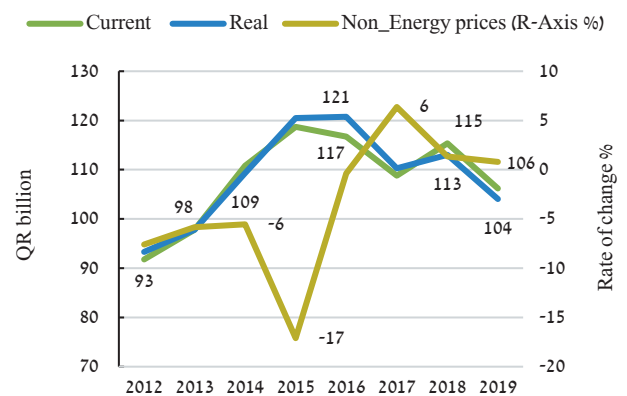
As for the changes in quantities of exports, the deflator for the hydrocarbon GDP was used to calculate the real value of exports in order to remove the effect of prices on the nominal value of exports. The volume of exports in real terms witnessed a widespread rate of change, with a maximum rate of negative 13.5% in 2019, and with a minimum rate of negative 2.2% in 2017. This indicates that the quantities of exports are not only subject to the changes in price but also respond to other factors, such as Qatar's adherence to OPEC regulations regarding crude oil production or the shutdown procedures necessary for periodic routine maintenance of oil fields and gas pipelines.

It should be noted here that Qatar withdrew from OPEC at the beginning of 2019.

Figure (2-55) shows the relationship between prices (other than energy) and the value and size of Qatari imports, and it can be seen from the figure that there is a quasi-inverse relationship – that is, the lower the price, the greater the quantity of imports.

However, this does not necessarily have to be true

Figure 2-55: Current and real values of imports



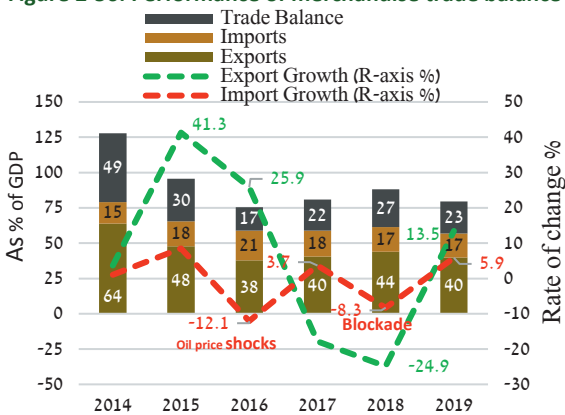
Source: PSA and IMF April 2020

at all times, because the quantity of imports is subject to the concurrent need to import consumer, capital, and intermediate goods to satisfy the social and economic development. For example, when the State of Qatar witnessed a development renaissance during the period (2013-2016), imports rose in terms of values and quantities.

As for the change in imports as quantities, the deflator for the non-hydrocarbon GDP was used to calculate the real value of imports, after removing the effect of prices on the nominal value of imports; it was found that the effect of prices on the volume of imports was limited.

Regarding the trade balance for goods, which represents the difference between the value of merchandise exports at Free on Board (FOB) points and the value of merchandise imports after excluding Cost, Insurance, and Freight (CIF), it has achieved surpluses during the period 2014-2019 at an annual average of 28% of GDP, reflecting that on average the export value represents 46% of GDP, while import value constitutes about 18%, as indicated in Figure (2-56).

Figure 2-56: Performance of merchandise trade balance



Source: QCB and prepared by PSA

It worth noting here that the rate of change of exports during the same period has witnessed sharp fluctuations, with a positive average of 7% reflecting the fluctuation in oil and gas prices.

Concerning the pattern of the rate of change for imports during the same period, it has witnessed both a rise and a fall with an average of less than zero. This is accounted for by a number of variables acting in concert, the most important of which is the impact of the repercussions of the blockade on the import of goods, together with a decline in the import of some heavy-weight goods such as machinery and transport equipment, as well as manufactured and semi-manufactured goods, prompted by the local market being satisfied with building and construction materials once a large

part of the planned infrastructure projects had been completed.

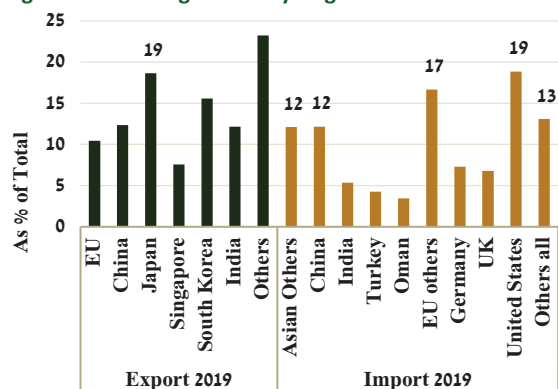
The value of imported goods in 2019 amounted to about QR 106 billion, compared to about QR 115 billion in 2018, a decrease of about 8%. Most of the decrease came from lower import volumes. However, the weakness of global commodity markets in conjunction with the decline in the unit value of imported goods (non-energy prices (as shown in Figure (2-55), probably contributed to reducing the import bill. In addition, due to the increase in the purchasing power of the effective real exchange rate of the Qatari riyal in relation to its peg to the US dollar, as discussed in Box (2-8), there is a possibility that the cost of importing goods in currencies other than the dollar has decreased

Trade Partners

The United States of America is the largest trading partner of the State of Qatar in terms of being the source of Qatari imports with 19% of the total, followed by China with 12%, then Germany, Britain, India, Turkey, and Oman with a total of 27%. The remainder of the other countries is actually quite large, accounting for 42% of imports; among these are other European countries with 17%, other Latin American countries with 13%, and other Asian countries with 12%; as shown in Figure (2-57). The preliminary foreign trade data for the first half of 2020 showed the same proportional distribution, the most important of which is: the United States and China account for about a third of Qatar's total imports.

As for the trade partners in terms of the destination for Qatari exports, Japan and South Korea were the dominant export destinations in 2019, accounting for 35% of Qatar's total exports, followed by India and China with 24%, then Singapore with 8%, and

Figure 2-57: Foreign trade by originators and destination



Source: Planning and Statistical Authority

the group of European Union countries with 10%. The remainder of 23% was distributed among the Qatar's traditional and nearby trading partners, including the Gulf Cooperation Council countries and the rest of the Arab countries. The data for the first half of 2020 showed the same proportional distribution, as Japan, China, India, South Korea, and Singapore accounted for two-thirds of the total exports.

As for the distribution of exports and imports, according to the Broad Economic Categories (BEC) as shown in Figure (2-58), the suite of hydrocarbon goods represents the most important export of the State of Qatar and leads with a rate of up to 86%, followed by chemical substances at about 8%, manufactured goods and others at about 6%. In regard to the most important imported goods, the grouping of machines and equipment came in first place with 40%, followed by the group of manufactured goods at 14%, then the cluster of food commodities at 11%, while the combined group of chemical and hydrocarbon products accounted for 16%, and the remainder of the groups at about 19%.

Figure 2-58: Foreign trade by commodity groups



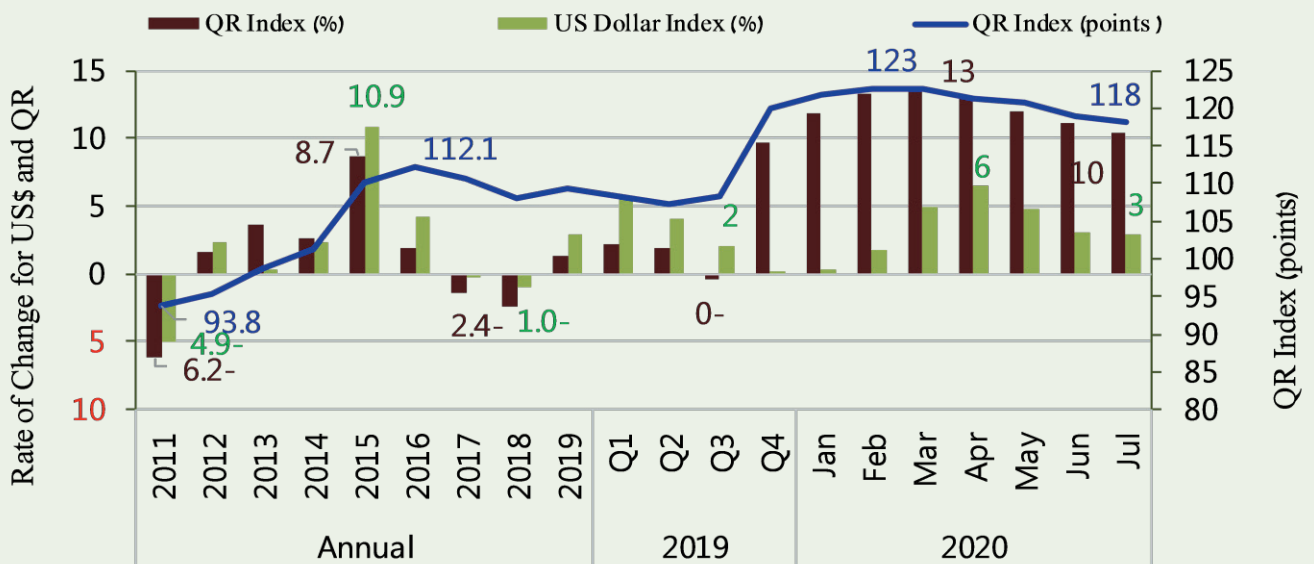
Source: Planning and Statistical Authority

Box 2-8: Qatar Riyal’s Real Effective Exchange Rate

The nominal effective exchange rate index (NEER) of the Qatari Riyal (QR), which measures the changes in bilateral exchange rates between the State of Qatar and its trading partners, is estimated by the volume of trade weights of exports and imports during 2018 and 2019. The average share of the Asian group accounts for 63.6% of the total foreign trade of the State of Qatar during 2014 - 2019, followed by the European Community with 18% including the Eurozone, the Arab group with 10% including the GCC, and the group of the American, Oceanic, and African countries including the United States with 9.3%.

However, in order to measure the competitiveness of Qatari products in international markets, the real effective exchange rate (REER) of the QR was calculated using: (1) the dollar value of (2010=100) as a base year for all trade partners, (2) taking into account price changes between Qatar and its trading partners using the consumer price index (CPI). The CPI was used rather than the producer price index (PPI) since the latter is not available in all countries in a consistent time series for all partners. In theory, the REER provides a rough estimate for the purchasing power of a transaction in international markets, depending on the volume of trade weights. However, thanks to the peg of the QR to the US dollar, its purchasing power is influenced by the movement of the real effective exchange rate of the US dollar as shown in the Figure for Box 2-8 below. It indicates that the QR was moving in line with the rise and fall of the dollar index during the period 2011-2019, but the annual rate of change of the QR index was less than the rate of change of the US dollar index, perhaps because of the difference in the volume of trade weights with the countries in various economic zones. For example, the US dollar index is affected by 57% of the European market group variables, while the QR will only be affected by about 18% of the European market variables because the Asian market is the main partner of Qatar by more than 63%. Thus, if the QR index rises, it will increase the purchasing power for imported goods, but at the same time will discourage the export situation of Qatari products. On the other hand, a decline in the QR index would of course increase the competitiveness of Qatari products. In terms of the impact of the contraction of the Qatar CPI during Oct 2019 - July 2020 compared to its trade partners, it is clear that this results in Qatar’s REER becoming stronger.

Figure for Box 2-8: Real Effective Exchange Rate Index for Qatari Riyals and US Dollars (2010 = 100)



Source: Estimated by PSA staff using data from EIKON Refinitiv, US\$ dollar is from <https://fred.stlouisfed.org>

Appendix: Economic and Financial Terms

Gross Domestic Product

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

What is GDP?

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

How is GDP measured?

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

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

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

GDP at factor cost is the sum of all factors-of-production incomes generated from the production process (such as wages, profits, rents and interest), while GDP valued at market prices is GDP at factor cost plus indirect output taxes, less subsidies to businesses, which creates a wedge between the incomes earned by factors of production and the price paid for output in the market.

What is the difference between nominal and real GDP?

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

What is the GDP deflator?

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

What is GDP per capita?

This is total GDP divided by the resident population of the country. While it is commonly used as a proxy for the standard of living, GDP per capita is neither a measure of personal income nor is it usually even loosely approximating a representative well-being index of a country's population.

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

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

What is final consumption?

This consists of goods and services used by the household and government sectors to satisfy their current needs or wants.

What is gross and net investment?

Gross investment is equivalent to the economy's acquisition of fixed assets (or gross fixed capital formation) plus the value of inventory changes. Net investment is equal to gross investment less the consumption of fixed capital (i.e., depreciation) and is equal to the addition to the physical stock of capital in the economy between two periods.

What is national savings?

National savings is the sum national disposable income less final consumption expenditure.

What is national income?

National income is equal to the GDP plus the factor of income receivable from non-residents less the factor of income payable to non-residents.

What is national disposable income?

This equals national income plus the sum of all current transfers in cash or in kind receivable by resident institutional units from non-resident units and subtracting all current transfers in cash or in kind payable by resident institutional units to non-resident units.

Fiscal concepts

What is the fiscal year?

The State of Qatar first changed its accounting methodology to start a calendar-based (January 1st - December 31st) fiscal year only in 2016. The previous fiscal period FY2014/15, which ran from 1 April 2014 to 31 March 2015, was extended to 31 December 2015, i.e., a period of 12 months. All revenue and expenditure as budgeted for 1 April 2014 to 31 March 2015 were then prorated to 31 December 2015.

What is the overall fiscal balance?

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

What is the primary balance?

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

What is the non-hydrocarbon (primary) fiscal balance?

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

What is cash accounting?

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

What is accrual accounting?

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

What is "quasi-fiscal" spending?

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

What is the difference between the narrow and the broad definitions of the non-hydrocarbon fiscal balance?

The narrow definition is the overall fiscal balance, and interest payments, less revenue received directly from oil and gas (tax revenues and royalties on production). Under a broader definition, it includes investment income (dividends to the government from QP) and corporate income taxes paid by hydrocarbon entities. The non-

hydrocarbon primary fiscal balance is an indicator of the stimulus that government spending provides to the non-oil and gas economy. Cyclically adjusted measures can be used to gauge the fiscal stance of government. A non-hydrocarbon fiscal deficit (inclusive of interest charges) larger than the budgetary resources that oil and gas resources can yield implies future charges on fiscal resources.

Monetary Concepts

What is reserve money, or M0?

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

What is narrow money, or M1?

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

What is quasi money?

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

What is broad money, or M2?

This is the sum of quasi-money and M1.

What is the monetary multiplier?

The monetary multiplier is the ratio of the broad money supply to the monetary base. In practice, it is the amount of money generated by the Qatari banking system from each Qatari Riyal deposited with the banking system. It measures the ability of the economy to create money from deposits available in the banking system, reflecting the level of economic activity. However, the calculation of the multiplier depends mainly on the mandatory required reserve ratio set from time to time by the Qatar Central Bank, made in light of developments in the economy such as inflation rates and the level of aggregated demand, which reached 4.5% in August 2018. This required reserve ratio obliges the commercial banks not to lend 4.5% of their total deposits and instead to save it as reserves in their vaults or at the Qatar Central Bank. Its implication is that if the ratio increases, the ability of banks to create credit decreases, but if this ratio decreases, the ability of banks to offer credit increases. The money multiplier of Qatar has increased from 5.5 points in 2009 to about 9 points in June 2018, which means that depositing QR100 in local banks would create about QR 550 in 2009 or QR 900 in June 2018, indicating the increasing role of banking deposits to generate credits, and thus the formation of wealth.

What are official foreign reserves?

These are the central bank's liquid foreign assets that can be used to secure the country's external payments at any moment. Reserves include gold, foreign exchange, and the reserve position at the

International Monetary Fund. Reserves are usually presented in net terms by excluding the central bank's foreign liabilities from the gross official foreign reserves.

Financial market concepts

What is a secondary market?

A secondary market is one where investors can trade assets or securities with others, as opposed to simply purchasing them from the issuing entities themselves.

What are second-lien debt offerings?

Second-lien debts are subordinate to the rights of other, more senior debts issued against the same collateral, or a portion of the same collateral. In the event of a default, second-lien debts stand behind higher-lien debts in terms of rights to collect proceeds from the debt's underlying collateral. For this reason, second-lien debt is usually considered riskier than higher-lien debt and often comes with a higher interest rate. Issuing such securities usually points to financing difficulties, meaning the issuer is unable to obtain funds via traditionally established avenues.

What is "credit"?

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

What is the trailing price-to-earnings ratio?

This is calculated by taking the current stock price and dividing it by a company's trailing earnings per share for the past 12 months. This measure differs from the forward price-to-earnings ratio, which uses earnings estimates for the next four quarters.

What is the price-to-book ratio?

This ratio compares a stock's market value to its book value, calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

What is the LIBOR rate?

LIBOR stands for the London Inter-Bank Offered Rate. It is the interest rate that banks in London use to borrow between themselves. It was approved in 1986 as a reference rate for lending to each other. The daily rate of LIBOR is determined for international currencies, whether those that are loaned or borrowed by a group of major banks in the London Money Market, chosen by the British Bankers Association. Each bank in the group displays the interest rate that it pays for the loans it borrows, as well as the interest rate that it can pay to borrow from other banks.

This price is calculated for fifteen types of borrowing and for periods from one day to 12 months, meaning that there are 150 LIBOR interest rates for the ten major currencies under this system, including dollars, yen, euros, pounds sterling, and the rest of the basket of currencies. However, the British LIBOR is the largest worldwide, due to the sheer size of the money market in London's financial district.

LIBOR interest rate rise when risks rise and liquidity decreases and vice versa; it has reached importance as it has become a standard for all global markets.

Balance of payment concepts

What is the trade balance?

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

What is the free-on-board (f.o.b.) price?

The f.o.b. price of exports and imports of goods is the market value of the goods at the point of uniform valuation (the customs frontier of the economy from which they are exported). It is equal to the cost, insurance, freight (c.i.f.) price less the costs of transport and insurance charges, between the customs frontier of the exporting (importing) country and that of the importing (exporting) country.

What is the cost, insurance, and freight (c.i.f.) price?

The c.i.f. price is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country.

What is the income and services balance?

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

What is the current account balance?

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

How is merchandise trade balance calculated?

Due to the different methods of collecting merchandise import data and the extent of their coverage by the General Customs Authority and the Qatar Central Bank, there exists about a 6% difference between the value of imports published in balance of payments reports and the value of imports published in foreign trade reports issued by the Planning and Statistics Authority. The difference in data is due to a number of reasons, the most important of which are:

The value of merchandise imports recorded by the General Customs Authority includes costs, insurance, and freight (CIF-cost of freight insurance), while the value of merchandise imports, according to the scale of payments, is the value on board (FOB - free on board) in the exporting country.

There are also data on some import transactions carried out by banks, which do not necessarily pass through customs outlets.

The General Customs Authority also does not record data on the activities of Qatar Airways that are classified as exports and imports, such as: sales of on-board food and drinks, and especially fuel, including fuel sales to international airlines. Further, there is no monitoring of fuel sales to ships and tankers.

What is the capital and financial account balance?

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

Components of financial accounting:

It is understood that the components of financial accounts consist of foreign direct investment, portfolio investment, and other foreign investment. Foreign direct investments are those shares in foreign and national companies in which foreigners own more than 10% while also having an influence in their management. On the other hand, portfolio investments are those investments that are made either by trading in shares of national or foreign companies that amount to less than 10% of the companies' value or through stock exchange transactions, issuance, and purchase of sovereign and private bonds. As for other foreign investments, they often consist of commercial credit facilities, investment loans that are either short or long-term, as well as currency deposits in investment accounts in commercial banks.

What is an international investment position?

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

What is external debt?

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

Exchange rate concepts

What is the bilateral exchange rate?

This is the price of one currency measured in units of another. The nominal US dollar exchange rate for the Qatari riyal is pegged at QR3.64 = US\$ 1.00.

What is the nominal effective exchange rate (NEER)?

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

What is the real effective exchange rate (REER)?

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

Qatar Stock Exchange Concepts

What is the methodology of measuring the performance of the Qatar Stock Exchange?

The QSE measures the performance of its portfolio using three benchmark indices and eight sub-indices. There are three primary indices normally used, as follows:

The General Index: This contains the top 20 largest and most liquid stocks, assigning a maximum weight for each share of 15%; hence the General Index is used to measure the performance of the price of shares comprising the index.

The Index of Total Return (yield) of stocks is similar to the General Index regarding its composition, but it measures the income from the earnings of shares (i.e., the dividends).

The Third index is the All-Shares Index, which as its name suggests, is comprised of all the shares listed on the stock exchange (about 44 companies) and which does not have an absolute ceiling for the weight of the shares. One caveat for this index is that its shares should have a movement of at least 1%, which is the ratio of the number of shares transferred from one person to another during the year. The All-Shares Index measures both prices and the movement of income from dividends. Note that the All-Shares Index is the average of the sub-indices of the leading economic sectors (banking and finance, industry, insurance, real estate, consumption, communication, and transportation). It provides a mechanism for potential investors to analyze the performance of each economic sector concerning their prices and income from dividends. It also enables investors to compare the QSE with the performance of the S & P index.

What is the methodology of measuring the performance of the Real Estate Index?

During the past two decades, the real estate market in Qatar has witnessed sharp fluctuations because of imbalances between the forces of supply and demand, as was the case in the rest of the real estate markets at both global and GCC levels. In order to monitor the trajectory of the real estate market in terms of market value of real estate and to maintain the liquidity of the banking sector, given that real estate activities constitute about 38% of the local banks' credit, in 2011 the Qatar Central Bank (the entity supervising the financing process) in cooperation with the Ministry of Justice (responsible for the real estate documentation process), prepared an index of prices of real estate in Qatari cities. The Qatari real estate index is based on data of real estate sales deals (including land, residential villas, and residential real estate) that are collected by the Ministry of Justice with the exception of deals that are unusual or performed independently, such as the transfer of ownership within a family. The period April 2009 - March 2010 was selected as the baseline year for computing price changes. For more details on the index calculation methodology, kindly refer to the third financial stability report of the Qatar Central Bank (pages 85-86).

There are also two additional indices that are directly related to real estate activities. The first one relates to rents, while the second one relates to credit facilities for real estate, where the average change in the rental price is measured through the consumer price index of housing costs (as shown in the price section, which is prepared by the Planning and Statistics Authority). The data of credit facilities for real estate activities issued by the Qatar Central Bank in its monthly Monetary Bulletin and quarterly Statistical Bulletin provide an indication of the trajectory of real estate activities.

What is the methodology for pricing natural gas and LNG?

For the State of Qatar, liquefied natural gas (LNG) prices are more important than the price of crude oil, owing to LNG's high relative importance compared against total oil exports.

The methodology for pricing natural gas and LNG is different from that of crude oil pricing. These are not priced at a global level, but instead geographically at a regional level. The price of natural gas in the United States is often lower than the prices of LNG in Northeast Asia, while prices in Europe generally range between the US and Asian prices. Gas transfer from the producing country to the consumer country is an essential determinant of prices. Gas transported by pipelines is cheaper than LNG transported by carriers, which involves both the high costs of liquefaction as well as incurring the cost of transportation to consumption areas.

LNG prices are subject to multiple mechanisms and methods. LNG transported by pipelines is priced in different ways from one country to another. In the United States, pricing is determined by the Henry Hub Center for Gas Trading. Among the European countries importing Russian gas, the price is determined according to bilateral agreements, which is also the case between Qatar and the UAE. On the other hand, LNG is priced either at spot prices, which are subject to supply and demand factors, or by futures contracts, which are mostly linked to the expectations of oil prices in the international market. Each barrel of oil contains 5.8 million British thermal units (MBTU), so assuming that the price of a barrel of oil is \$100, then the price of one MBTU of LNG will be \$17, which is then termed the Barrel of Oil Equivalent (BOE).

Qatar's Monetary and Banking System

In view of the importance of the financial and monetary sector with its banking and insurance dimensions, which is one of the key sectors in the Qatari economy, it is managed, organized and supervised by three executive authorities, namely the Qatar Central Bank (QCB), the Qatar Financial Center Regulatory Authority (QFCRA), and the Qatar Financial Markets Authority (QFMA), all operating under laws issued by the State of Qatar.

The Qatar Central Bank

The Qatar Central Bank (QCB) operates under Law No. 13 of 2012 to formulate and implement monetary policies as reviewed in QEO Issue No. (11)/ Box (2-1), published in December 2018. QCB manages the local liquidity of the economy to achieve price stability and full deployment of human and natural resources in a manner that serves economic and social development. QCB also plays a supervisory, monitoring, and administrative role for the banking system and non-banking financial institutions, as it is authorized to issue licenses and approvals to establish banking and financial service companies operating in Qatar.

The Qatar Financial Markets Authority

The Qatar Financial Markets Authority (QFMA) was established pursuant to Law No. 8 of 2012, with the aim of preserving confidence in the system of dealing in financial markets, thereby protecting the owners and dealers of securities in a manner that guarantees stability for financial markets and reduces the risks that they may be exposed to. In order to achieve this in particular, the QFMA is tasked with the following:

- Regulating, supervising, and controlling financial markets.
- Organizing dealing in securities activities in a manner that is fair, competitive, and transparent.

- Making the public aware of the securities activities, encouraging investment in them, and further developing them.
- Monitoring the rules of dealing between dealers in securities trading and other activities.
- Implementing the disclosure policy in a manner that achieves justice and transparency, and which prevents conflicts of interests and the exploitation of internal information.
- Fighting the causes and instigators of crimes related to financial markets.
- Supporting linkages to, and exchanging information with external financial markets as well as regional and international bodies, institutions, and organizations, to benefit from the methods of dealing in them, in a way that helps in developing financial markets within the country.
- Carrying out studies, as well as collecting information and compiling statistics on financial market activities, and thereafter publishing their reports.

The Qatar Financial Center

The Qatari government established the Qatar Financial Center (QFC) in 2005 to attract international companies specialized in banking, insurance, and other financial services, with the aim of developing the financial services sector in Qatar and the region. The QFC provides an opportunity for local and international companies to establish a wide range of banking, asset management, and insurance businesses under a legal and regulatory system based on global best practices. The QFC Regulatory Authority (QFCRA) is the independent regulatory body for the QFC, and was established with the aim of authorizing individuals and companies that perform financial services at or through the QFC, and concomitantly regulating and monitoring these companies and individuals. It

also has a supervisory system based on principles that are compatible with the common law generally adopted, and in its work combines transparency, proactivity, and accountability. The QFCRA's objectives also include enhancing and maintaining the effectiveness, transparency, integrity and trust in the QFC itself, as well as maintaining financial stability and mitigating systemic risks. The QFCRA also works to build awareness and financial protection among clients and investors.